POLISH TREASURY SECURITIES

ANNUAL REPORT 2000

MINISTRY OF FINANCE
POLAND

ANNUAL REPORT 2000

POLISH TREASURY SECURITIES

LADIES AND GENTLEMEN,

The Treasury Securities Annual Report has been prepared with a view to acquainting you with the issues related to the functioning of the Treasury Securities market, consequences arising from the issue of such securities in the form of public debt and the costs of its servicing as well as to the management of existing debt. Moreover you will have the opportunity to learn more about treasury instruments design, sales methods as well as the rules governing the Treasury Securities market. The Report includes, apart from the characteristics of the debt instruments currently offered by the Ministry of Finance, information on Treasury Securities (TS) available on the market in previous years.

The current issue of the Treasury Securities Annual Report is its fifth edition. In comparison to the earlier publications from this series, the layout of the presented material has been partially changed, the data for previous periods updated and new elements, that emerged in 2000 in the area of public debt recording and methodology, i.e. the application of the break-down debt structure according to the resident category, have been introduced. The 2000 Report consists of four main parts and an annex.

Part One of the Report includes a short outline of the economic situation of Poland in 2000 and the fundamental macroeconomic data respective to their 1999 levels.

In Part Two, the main emphasis is placed on the background of the Treasury Securities issue. It discusses The Public Finance Sector Debt Management Strategy, the document specifying in a complex way the goals, tasks and instruments for the implementation of the adopted goals of debt management over a three-year horizon. The Strategy constitutes a realisation of the provisions of the Public Finance Act, obliging the Minister of Finance to develop a strategy of public finance sector debt management. Owing to the importance of the level, structure and the service costs of the State Treasury debt, for the management of debt and for the issue of different types of Treasury Securities, Part Two presents the related key data.

Part Three of the Report has been devised to present the legal background related to the issue and the acquisition of Treasury Securities offered by the Ministry of Finance. It also includes a short outline of the debt instruments offered both on the domestic and foreign markets.

Part Four of the Treasury Securities Annual Report focuses on the events in the area of sales, issue and the secondary market of Treasury Securities that took place in 2000. This is the main Part of the Report. Owing to the scale and scope of changes that unfolded in 2000 on the treasury debt instruments market, the Report presents only the most essential phenomena taking place in this area of Public Finance.

The Annex to the Report includes basic information on the institutional structure of the Treasury Securities market and a short outline of the methods of sale of these instruments.

In addition, each Part of the Report includes detailed data presented in tables and illustrated in charts. An Appendix listing the countries with which Poland has signed a treaty on the avoidance of double taxation as well as a list of useful addresses have also been added.

We hope that the presented Report will prove to be a useful and interesting compendium of information on Treasury Securities and will meet your expectations in this respect. We thank in advance for all comments on the form and scope of the presented material and assure that they will be taken into consideration in the preparation of the next edition of the Report.

Krzysztof J. Ners
Deputy Finance Minister

Arkadiusz Kamiński
Director
Department of Public Debt

TABLE OF CONTENTS

ECONOMIC SITUATION OF POLAND IN 2000

The year 2000 saw yet another step on the way of social and economic transformation and the integration with the European Union.

There was a continuation of the growth trend in the economic life, however its dynamics – measured in GDP growth – was slowed down; the growth rate for 2000 amounted to 4.0 % (within the previous three years – it stood respectively at: 4.8%, 4.8%, 4.1%). The reason for this slow-down was the necessity to undertake stabilising actions with respect to macroeconomics. These concerned mainly:

1) inflation level, that for much of the year exceeded 10% (rising even up to 11.6%); the inflation level exceeded substantially both the upper limit of the central bank's inflation target (6.8%), as well as the postulates of the 2000 Budget Act (the year-average indicator according to the budget postulates was to stand at 5.7%);
2) growth tendency in the negative balance of the current account, that in case of further aggravation could lead to a currency system crisis.

Under such circumstances the basic therapy measure for the economy was the raising of the central bank's interest rates (two times within 2000). These raises yielded the intended effect: inflation dropped to 8.5% at the end of year and this tendency was upheld in the first months of 2001 (7.4% in January, 6.6% in February, 6.2% in March), and the growth tendency in the negative balance of the current account was reversed (5.9% in relation to the GDP in December 2000) – mainly as a result of the upturn in the exports dynamics. This therapy brought about various negative side-effects however. They were reflected among others in:

a) the declining GDP dynamics in consecutive quarters of the year (e.g. in the 2nd half-year the GDP growth amounted only – in comparison to the same period from the previous year – to 2.8%, twice less than in the 1st half-year), the downward tendency made itself especially visible in case of the industrial production;
b) the fall of the personal income dynamics, that caused the shrinking of domestic demand, as well as the increase in social tensions among the least-earning social groups;
c) incomplete realisation of the state budget revenues – mainly as a result of the phenomena mentioned in points a) and b), which caused an incomplete realisation of the expenditures in some areas of the budget sector;
d) deterioration of the situation on the labour market, reflected in a substantial increase in the unemployment level (from 13% at the end of 1999 up to 15% - at the end of 2000), with a tendency for further aggravation. One must not forget however, that the increase in the unemployment rate was not only a consequence of the lower economic activity, but also, mainly for demographic reasons, it referred to the entering into the production age by the persons born in the demographic high of the 80-ties.

Counteracting these unfavourable phenomena, and in particular the continuing growth of unemployment, is among the fundamental goals and tasks of the social and economic policy for the near future. It needs to be added, that the scale of these phenomena induces a need to modify the Draft Budget Act (Government's amendment aimed at the adjustment of some indicators to the actual and projected development of the situation) – in the process of its preparation. These adaptations concerned among others the inflation level and the GDP dynamics. It is worth noting that the reasons behind the increase in inflation in 2000 were also an outcome – in some periods – of external factors, i.e. the high level of crude oil prices on the international market (the effects of this growth were only visible with some time-delay).

High inflation level and high interest rates also influenced the actual amount of domestic debt service costs in a negative way. The total domestic and foreign debt service costs did not exceed the amounts allotted under the budget act, nevertheless some shifts – during the budget realisation – of a part of the funds allotted to the servicing of foreign debt to the servicing of domestic debt were necessary.

The level of public finance sector deficit remained at a considerably high level (2% of GDP), however this result was more favourable than previously projected (among other things due to a better situation at ZUS (Polish Social Security Agency) as well as to a lower deficit of the local authorities and health insurance institutions (kasy chorych)). There were mixed results within the structural policy. Progress was recorded in the privatisation of the energy and telecommunications sectors, and on the other hand – delays in the steel industry, agriculture and environmental protection reforms.

The cropping-up of the above mentioned unfavourable phenomena does not give any basis for a pessimistic evaluation of the fundamentals of the Polish economy and its development perspectives, both in the internal as well as in the external context. It can be expected that the inflation rate slow-down recorded at the beginning of 2001 will enable the lowering of interest rates – and consequently – trigger a boost to the economic growth, and that at the same time the business cycle on the global market will not be in a period of recession (especially the US economy), which will make it possible to keep up the favourable situation in the exports. The positive monetary situation forged at the turn of 2000 and 2001 as well as its forecast are also worth noting – especially with respect to money supply and the consumption loans levels. The progress in the process of integration with the European Union will also be a factor facilitating stabilisation and economic development. The macroeconomic postulates adopted in the 2001 Budget Act and the actions of the country's economic authorities expressed, among other things, in the fiscal policy goals, place an emphasis on the creation of sound fundamentals for further stable growth of the economy, reduction of unemployment, as well as the alleviation of tensions in the public finance sector.

The situation in the area of public debt in 2000 can be judged favourably in comparison to previous years. The growth in the State Treasury debt totalled 2,467.4 million PLN, whereas the domestic debt rose by 11,326.4 billion PLN and at the same time the foreign debt shrank by 8,858.9 billion PLN. The debt of the public finance sector fetched up to (according to preliminary data) 280,494.7 million PLN, which constitutes 40.9% of GDP. The relation of this debt to GDP falls below the lower bound of the prudence bands (50%) defined in the Public Finance Act, as well as below the European Union convergence criterion for this category (60%). The level of public debt can be considered safe judging by the above-mentioned criteria since the growth dynamics of the public finance sector debt will be – according to expectations – lower than GDP growth dynamics. The debt service costs remain however a huge burden for the state budget, as they are among the so-called fixed expenditures. In 2000 they amounted to 18.0 billion PLN, which accounted for ca. 11.9% of the budget expenditures and ca. 2.6% of GDP.

Positive qualitative and quantitative changes unfolded also on the domestic financial market – there were further developments in the infrastructure (which results in improved liquidity) and depth (absorption) as well as in the links with the international market. These are the changes that have a significant impact on debt management as they facilitate the lowering of service costs as well as of the related risk.

Table 1. Economic performance in years 1999-2000

Item	1999	2000
GDP growth in constant prices (%)	4.1	4.0
GDP in current prices	615.1 b. PLN	685.6 b. PLN*
Year-average CPI (December to December) (%)	7.3 (9.8)	10.1 (8.5)
Unemployment rate (%)	13.0	15.0
State budget balance	-12 479.0 m. PLN	-15 391.0 m. PLN
Exports	26 347.0 m. USD	28 256.0 m. USD
Imports	40 727.0 m. USD	41 421.0 m. USD
Gross official reserves	27 313.7 m. USD	27 463.9 m. USD
Direct investments	6 348.0 m. USD	9 338.0 m. USD*
Current account deficit	11 569.0 m. USD	9 978.0 m. USD*

* Preliminary data.

BACKGROUND OF THE ISSUE OF TREASURY SECURITIES

CHAPTER 1.
PUBLIC DEBT MANAGEMENT STRATEGY

The development of a public debt management strategy arises from the following premises:

a) the Public Finance Act obliges the Minister of Finance to develop a three-year strategy of public finance sector debt management. At the same time, the Minister of Finance presents a strategy for influencing public sector debt. The need for the above regulations was a consequence of the provisions of the Constitution of the Republic of Poland;
b) debt influences directly the situation of the state budget (principle repayments, debt service costs) and indirectly a series of other macroeconomic variables (inflation and interest rate levels, level of lending for the economy, country's balance of payments);
c) rational debt management, because of distant maturities of some liabilities requires targeted actions with a time-horizon that would exceed the current budget year;
d) debt level in relation to the GDP is one of the criteria for the participation in the European Monetary Union, and also influences the assessment of a country's credit rating.

Public Finance Sector Debt Management Strategy for the years 2001-2003, forming an addendum to the justification of the 2001 Budget Act is a continuation of the first Strategy that was devised in the previous year. Both the Strategies formulate a thesis, that both the current, and the projected public finance situation with respect to debt does not constitute any danger for the violation of the provisions of the Act, and even more so of the Constitution [1].

Owing to the fact that the Report deals with Treasury Securities issued by the Minister of Finance, the discussion below focuses on the budget debt of the State that can be actively managed by the issuer.

PART II

1.1. GOALS OF DEBT MANAGEMENT STRATEGY

Establishment of constitutional and statutory provisions concerning the volume of debt and its management were both a token of legislator's pursuit of the maintenance of public finance security and macroeconomic stability of the economy, as well as an expression of the awareness of threats resulting from excessive indebtedness. Both the 1999 Strategy, as well as the 2000 Strategy already formulated goals directly linked to the debt management. The goals presented in the first Strategy in 2000 were modified owing to the conditions that arose in relation to the need to lay greater emphasis on the minimisation of the burden of debt service costs for the public finance in the period of the next 2-3 years. Assuming the continuing economic growth, declining interest rates and Poland's entry into the EU, the current burden of debt service costs is substantially higher than the one projected for the period 3-4 years from now. Results of analyses indicate that the debt service costs to GDP ratio will reach its highest level in years 2001-2002.

Given the above situation, the limitation of service costs in the next 2-3 years, through the shifting of a part of the service costs on to the following years, is well founded. Such an approach is that much more viable, as under the current circumstances the minimisation of the service costs in the period of the coming 2-3 years is convergent with the majority of the remaining debt management goals (in particular with the limitation of the refinancing and interest rate risks).

Strategy goals:

1) minimisation of the debt service costs over the adopted horizon – understood as:

a) minimisation of the burden of debt service costs for public finance in years 2001-2003 – mainly through the rising share of the fixed-rate bonds in total debt and the limitation of the share of T-bills and floating-rate bonds;
b) costs minimisation over a time limit determined by the maturities of debt management instrument with the longest maturity and with the pre-set parameters (including the ones arising from the need to minimise the costs in the period between 2001-2003) – through an optimal selection of debt management instruments, their structure and issue dates;
c) minimisation of the service costs as an action consisting of the elimination of the reasons causing the fixing of the debt interest rates at a level higher then the minimal one, that can be attained on the market – through increased liquidity and

---

[1] Art. 216 of the Constitution of the Republic of Poland forbids to take loans and grant guarantees and sureties, as a result of which the relation between public debt augmented by the amount of the anticipated disbursements on sureties and guarantees to GDP would exceed 60%. A provision of similar content was included in Art. 37 of the Public Finance Act, and reinforced in Art. 45 by the definition of the so-called prudence and recovery procedures after the 50% threshold were exceeded.

depth of the secondary market for Treasury Securities, increase in the transparency and safety of trade in debt instruments, actions aimed at elimination of the technical hindrances in the trade in Treasury Securities (fees, settlement system, etc.);
2) limitation of the exchange rate risk and the risk of refinancing in foreign currencies – as a result of the lowering of the foreign debt share;
3) limitation of the refinancing risk – mainly through the rise in the average maturity of domestic debt;
4) limitation of the interest rate risk – through an increase in the share of medium and long-term fixed-rate instruments in total debt;
5) increasing flexibility of debt structure – as a result of the conversion of non-marketable debt into marketable instruments;
6) decrease in the debt monetisation – through increased share of non-banking sector in total debt;
7) optimisation of the foreign debt amortisation schedule for payments due in years 2004-2009;
8) optimisation of state budget liquidity management.

The achievement of positive results in the realisation of the mentioned goals is not mutually contradictory on the general level. The current circumstances (inverted yield curve, cash basis of the budget accounting and an increase in the potential of the non-banking sector) make it possible to minimise the burden of the debt service costs for the public finance with a simultaneous prolongation of the average domestic debt maturity (lowering of the refinancing risk), rise in the share of fixed-rate instruments in domestic debt (lowering of the interest rate risk) as well as an increase in the role of the domestic non-banking sector (reduction of debt monetisation). The only contradiction can arise between the minimisation of the service costs and the limitation of the share of foreign debt (at pre-determined exchange rate levels). The implementation of this goal introduces however restrictions on the minimisation of debt service costs due to a substantial refinancing risk in foreign currencies and rising exchange rates in emergency situations.

1.2. STRATEGY IMPLEMENTATION IN 2000

Both Debt Management Strategies voiced the stance that the current situation of public finance with respect to debt does not constitute any threat for exceeding the statutory provisions, and even more so the constitutional provisions. The State Budget debt to GDP ratio fell from 42.9% to 38.8% in 2000, whereas the relation of sovereign public debt augmented by assumed repayments on guarantees fell from 45.8% to 42.3% in 2000.

Positive results have been attained within the realisation of the quantitative goals of the strategy and they were concerned with [2]:

a) limitation of the foreign exchange risk and the risk of refinancing in foreign currencies – the basic measure of these two types of risk is the share of foreign debt in total debt. The year 2000 brought about a substantial decline in this variable (from 49.1% to 45.3). This was a result of a fall in the foreign debt level, disregarding the effect of the appreciation of the USD to other currencies, on which the Ministry had no influence nonetheless. The above situation is mainly a result of the early redemption of the Brady Bonds with a simultaneous increase in the domestic debt level. Three essential moves were recorded within the area of foreign debt management in 2000. These were the above mentioned early redemption of the Brady Bonds in the amount of 0.9 billion USD, an issue of Eurobonds in the face value amount of 600 million EURO as well as the creation of a foreign currency account on which the foreign currency inflows mainly from privatisation as well as from other sources, e.g. issues of Eurobonds, are deposited.
b) limitation of the refinancing risk – the refinancing risk is most often measured by the average term to maturity. The year 2000 saw a slight increase in the average term to maturity of Treasury Securities within the domestic debt: from 2.61 years at the end of 1999 to 2.63 years at the end of 2000. Considering the marketable debt there was a gradual increase in the average term to maturity in 2000 from 2.47 years at the end of 1999 to 2.58 years at the end of 2000. This was an effect of the redemption of some T-bills and of a simultaneous increase in the bond sales.
The time structure of the future redemptions can also be used for the assessment of the refinancing risk. The policy of reduction of debt in T-bills in favour of increased debt in medium to long-term bonds results in the smoothing of a redemption profile, i.e. a reduction of redemptions in the next few years (increasing simultaneously the redemptions in the following years). And only the redemption of bonds arising from the conversion (mainly in 2002) introduces some distortions in this distribution.

The distribution of foreign debt repayment instalments is considerably more favourable, as the repayments of principle increase gradually, and the average term to maturity of foreign debt (at the end of 2000 it stood at ca. 7 years) is significantly longer from the one of domestic debt. To a large extent this is an outcome of previously concluded agreements concerning the restructuring of debt owed to the London Club and the Paris Club. Implementation of a strategy of this kind consists not of the extension of the average maturity of the debt, but of the issue of debt with such maturity so as to avoid the years with the highest burdens.

[2] Data concern State Treasury debt according to the place of issue.

c) limitation of the interest rate risk – limitation of this risk followed as an effect of the growth of debt in fixed-rate bonds and a decline of the one in T-bills. The share of fixed-rate bonds in the domestic debt of the State Treasury grew from 39.5% in 1999 to 52.7% at the end of 2000 and was mainly a result of increased sales and the effects of conversion of the non-marketable State Budget debt into this type of securities. There was a concurrent fall in debt in T-bills (by 3.5 billion PLN) and a decline in the share of bills in the domestic debt (from 20.0% in 1999 to 16.0% in 2000).

A consequence of these changes is a decreased sensitivity of the debt service costs to the fluctuations of interest rates on the financial market as well as an increase in the rate of predictability of these costs, both in the current year as well as in the future years.

On the part of the foreign debt, there was a decline in the share of floating-rate debt in total foreign debt. The following actions were of essential influence here: early redemption of all floating-rate Brady Bonds in the amount of ca. 943 million USD as well as the issue of new debt mainly with fixed interest rate.

d) making the debt structure more flexible – measured by the share of marketable debt in total debt. In 2000 the share of marketable debt in total domestic debt rose from 72.4% in 1999 to 80.5%. This was an effect of an increased amount of debt in marketable instruments and a drop in non-marketable debt by 10.1 billion PLN, which was mainly a consequence of:

- conversion of the debt of health care units into Treasury Bonds,
- redemption of some of that debt in cash,
- commencement of disbursements of the so-called compensations, i.e. repayment of debt for failed increase of remuneration in the budget sector in years 1991-1992,
- early redemption of the 2nd tranche of the bonds issued for BGŻ SA.

As far as the foreign debt is concerned, which is dominated by non-marketable liabilities (ca. 81.3% of foreign debt of State Treasury), no improvement in the realisation of this goal was recorded. This is caused by the formal and legal background being an outcome of the reduction and restructuring of the foreign debt from the beginning of the 90-ties.

e) reduction in the debt monetisation – expressed in the growing share of the domestic non-banking sector in the domestic debt. The year 2000 saw the share of the non-banking sector grow from 37.6% to 42.2%. The rise in the share of the non-banking sector in domestic debt was affected thanks to the increased debt in Treasury Securities (by 14.7 billion PLN) and despite a fall of debt in the other debt item (decline by 3.8 billion PLN). An upturn in the share of the non-banking sector in the domestic debt reflects the changes that take place on the Polish financial market – the emergence of pension funds and the expansion of the insurance and investment funds sector. These are the groups that gain more and more importance on the financial market, generating a substantial part of the demand for Treasury Securities.

1.3. TASKS OF THE DEBT MANAGEMENT STRATEGY IN YEARS 2001-2003

The following are among the most important tasks of the strategy aimed at the implementation of the goals:

1) increase in the liquidity, effectiveness and transparency of the Treasury Securities market.

A key issue for the increase in the liquidity of the Treasury Securities market is the elimination or limitation to its minimal possible level of the elements hindering the flow of Treasury Securities on the secondary market. These elements include all types of transaction fees concerning the trading of Treasury Securities and the like. In the current situation it is necessary also to make the depository-settlement system for Treasury Bonds more efficient and to reduce the fees and commissions paid by the institutions participating in the trading of bonds.

Minimisation of inconveniencies in the trading of securities on the secondary market constitutes a preliminary condition for boosting the liquidity of the Treasury Securities market. A necessary condition for the attaining of such liquidity is proper infrastructure, functioning of many entities interested in investing in Treasury Securities on the market as well as the adequate characteristics of such securities.

The infrastructure of the secondary market should ensure fast processing and settlement of transactions, their security, and equal access to the market for all participants and market transparency. Such a role could be played by an electronic trading platform for debt instruments, allowing for its smooth incorporation into the registration and settlement system.

The emergence of pension funds was of crucial importance to the development of the structure of market players in Poland. These funds together with the evolving investment funds and insurance companies have substantially increased the volume of the securities market.

The Ministry of Finance, as the issuer of Treasury Securities, will be backing the increase in liquidity of the secondary market through the continuation of the policy to increase the depth of the Treasury Securities market, i.e. through sizeable issues of different series of Treasury Securities. Such issues spell a fall in the number of maturity dates for different types of Treasury Securities and an increase in the value of Treasury Securities of homogenous characteristics;

2) development and implementation of Primary Dealers System.

The Primary Dealers System means the creation of a group of entities, that in return for certain privileges (mainly the exclusive access to the primary market, opportunity to purchase Treasury Securities after auctions at the average price, prestige arising from the holding of a dealer status) will be discharging certain duties.

The Primary Dealers System is supposed to ensure mainly the functioning of an effective, liquid and transparent secondary market for Treasury Securities. Thus this is a goal that is included among the tasks of the strategy specified in the previous point.

The implementation of this system will be dependent on the elimination of the hindrances in the trading of Treasury Securities on the secondary market and on the achievement of a consensus among the main participants of this system, securing the interests of all the parties and minimising the emergence of possible negative effects;

3) continuation of the conversion of non-marketable debt into marketable instruments.

After the conversion of the majority of the State Treasury debt to the NBP and the definite majority of the debt of health care units into marketable bonds, the conversion of the non-marketable debt into the marketable one will mainly concern:

a) remaining part of the State Treasury debt arising from the debt incurred by health care units;
b) debt to the trade unions and social organisations arising from the compensations for possessions lost due to the imposition of the martial law;
c) non-marketable bonds issued on the domestic market.

4) implementation and improvement of the new system of management of the State Budget liquidity.

The new system of liquidity management is being gradually introduced from 2000 onwards and covers mainly the prolongation of the horizon for projecting the budget flows, making the monitoring of the budget accounts more efficient, and creating the adequate technical and organisational infrastructure as well as expanding the catalogue of the instruments for the acquisition and depositing of the budget funds;

5) development of a retail instruments sales system.

The retail instruments are supposed to back up the sales of wholesale instruments and promote the propensity for saving. The tasks within this area will include the diversification of instruments offer and the increasing of their accessibility to potential investors through the implementation of the new IT technologies;

6) preparation of the foreign debt refinancing concept for the period of peak payments in the Paris Club in years 2004 -2009.

PART II

Owing to the very strong dependency of the debt repayment manner on Poland's political and economic situation, the actions undertaken should be geared to the current situation. Poland's entry into the European Union and the possibility of joining in the Monetary Union will be of special importance, as this will mean a substantial diminishment of the foreign debt repayment problem. The strategy of establishing and maintaining access to the most important segments of the international capital market is continued due to the possible necessity to refinance most or all of the maturing foreign debt in the discussed period. This is conducted through the placement, in the key market segments, of at least a single issue of Treasury Securities. Moreover, in order to upgrade its credit rating, the State Treasury conducts operations – within its current capabilities – of early repayment of some debt, aimed at the lowering of the foreign debt, shrinking of the service costs and the diminishment of principle repayments in years 2004-2008.

1.4. STRATEGY IMPLEMENTATION INSTRUMENTS

The basic instruments of the implementation of the goals and tasks of the strategy cover: decision-making procedures, debt instruments, operations on the components of the debt and legal and organisational instruments. Within the range of these instruments the following are among the new items:

1) a new IT system that ensures:
   a) realisation of the information needs connected to the debt management,
   b) upport of the decision-making process,
   c) upport of the basic functions within the management and servicing of the debt.

2) debt structure optimisation and simulation methods and techniques that take into account the inherent risks.

3) legal and organisational solutions, included mostly in the proposed amendment of the Public Finance Act (as well as the administrative acts), and also in the concept of Primary Dealers System.

4) application of derivatives – introduction of these instruments will depend on the market situation, level of the debt service costs and the solving of the technical and legal procedures. In the first place, it is assumed that the interest rate swap transactions will be brought into use.

5) new debt instruments (scheduled for introduction in the previous Strategy, but yet to be used):
   a) bonds with maturity exceeding 10 years – their introduction will be made dependent on the development of the financial market in Poland, fall in the interest rates and the emergence of demand for this type of instruments,
   b) retail instruments of new design arising from the investors' demand and the goals of debt management.

CHAPTRER 2.
POLISH STATE TREASURY DEBT

2.1. STATE TREASURY DEBT IN 2000 [3]

As at the end of 2000 the State Treasury (ST) debt amounted to, in nominal terms 4, 266 837.8 million PLN (expressed in USD terms at the exchange rate on December 31st, 2000: 4.1432 PLN/1USD - ca. 64.4 billion USD) and grew in comparison to the end of 1999 by 2 467.4 million PLN, i.e. by 0.9%.

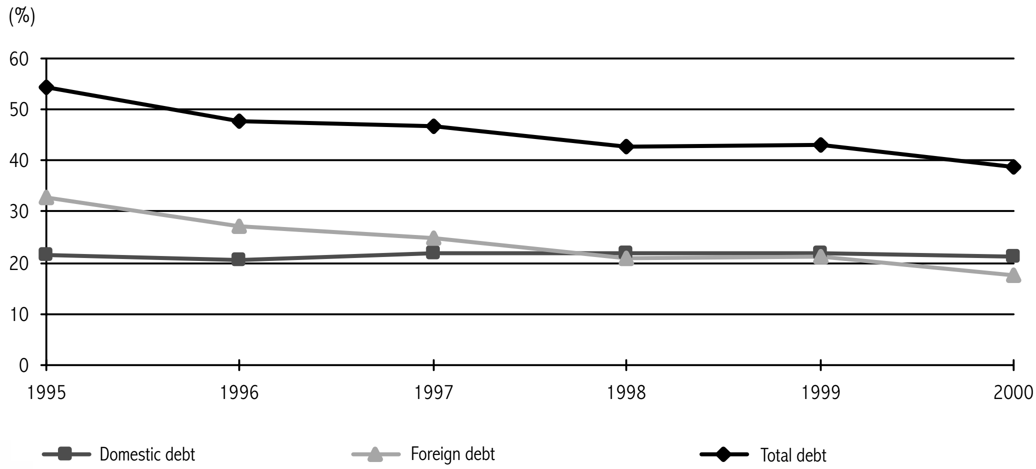
At the same time there was a fall of the debt to GDP 5 ratio from 42.9% at the end of 1999 to 38.9% at the end of December 2000.

Three fundamental elements can be identified within the ST debt:

1) treasury Securities (TS) issued domestically and abroad – their share in the ST debt at the end of December 2000 amounted to 52.5%;
2) foreign loans – accounting for 36.8% of the ST debt at the end of December 2000;
3) other domestic ST debt (among other things the debt arising from the non-indexation of wages in the public sector, debt due from the budget-financed units) – accounting for 4.9% of total ST debt at the end of December 2000.

PART
II

Chart 1. State Treasury debt in relation to GDP in years 1995-2000



---
[3] State Treasury debt data as of May 11th, 2001. Under 'other domestic debt' item the final data on State Treasury debt may change owing to the delays in transfer of data and adjustments with respect to previous periods. Total State Treasury debt means total State Treasury debt to domestic and foreign entities with respect to loans raised from financial institutions and directly from governments – the members of the Paris Club, or loans that have been guaranteed or insured by these governments or their agencies, as well as debt related to outstanding Treasury Securities issued on the domestic and foreign market since 1989 and other registered liabilities of the State Treasury, e.g. debt due from budget-financed entities or settlements of current accounts with banks.

[4] Presentation of debt according to its face value is compliant with the requirements under Art. 9 of the Public Finance Act.

[5] GDP in current prices according to preliminary estimations of GUS (Central Statistical Office) in 2000 amounted to 685.6 billion PLN.

Table 2. State Treasury debt in years 1995-2000 at nominal value (in PLN terms, million) and respective to GDP*

	1995	1996	1997	1998	1999	2000
Total debt in m. PLN	167 266.7	185 602.8	221 649.6	237 399.9	264 370.3	266 837.8
Incremental growth in m. PLN	15 029.0	18 336.1	36 046.8	15 750.3	26 970.4	2 467.4
previous year = 100	109.9	111.0	119.4	107.1	111.4	100.9
in relation to GDP (%)	54.3	47.9	46.9	42.9	43.0	38.9
Domestic debt	66 160.1	79 608.8	104 058.1	121 182.2	134 676.2	146 002.6
Incremental growth in m. PLN	10 283.7	13 448.7	24 449.3	17 124.1	13 494.0	11 326.4
previous year = 100	118.4	120.3	130.7	116.5	111.1	108.4
in relation to GDP (%)	21.6	20.5	22.0	21.9	21.9	21.3
Foreign debt	101 106.6	105 994.0	117 591.6	116 217.7	129 694.1	120 835.2
Incremental growth in m. PLN	4 745.3	4 887.4	11 597.6	-1 373.9	13 476.4	-8 858.9
previous year = 100	104.9	104.8	110.9	98.8	111.6	93.2
in relation to GDP (%)	32.8	27.3	24.9	21.0	21.1	17.6
GDP	308 103.7	387 826.6	472 350.4	553 560.1	615 115.3	685 596.7

* GDP figure is quoted acc. to the new GUS methodology, capturing - the „hidden" economy.

2.2. STATE TREASURY DEBT ACCORDING TO THE PLACE OF ISSUE

2.2.1. DOMESTIC DEBT OF THE STATE TREASURY

Level and structure of domestic debt in 2000

The following items could be identified within the domestic debt of the State Treasury at the end of 2000:

1) debt in Treasury Securities (TS) - 132 984.4 million PLN (ca. 91.1% of domestic debt), of which:
   a) debt in marketable TS - 117 505.2 million PLN (80.5% of domestic debt),
   b) debt in Savings Bonds - 1 953.4 million PLN (1.3% of domestic debt),
   c) debt in non-marketable TS - 13 525.8 million PLN (9.3% of domestic debt),
2) other debt - 13 018.2 million PLN (ca. 8.9 % of domestic debt).

The dominant position within the **State Treasury domestic debt in TS** was occupied by *marketable fixed-rate bonds*. At the end of 2000 the State Treasury debt in these instruments amounted to 75 411.8 million PLN. At the same time the debt in *Treasury Bills* in the amount of 23 442.3 million PLN accounted for 16.1% of the total domestic debt. The debt in *marketable floating-rate bonds* amounted to 18 651.1 million PLN. Almost 75% of the debt in *Savings Bonds* was the debt issued in two-year Savings Bonds. The debt *in non-marketable TS* at the end of 2000 was made up of: restructuring bonds (47.3% of this debt), bonds issued to increase the shareholders' funds of BGŻ (5.8% of this debt) as well as USD-denominated bonds from 1991 (46.8% of this debt).

The debt arising from the non-indexation of wages in the public sector 6 as well as debt due from the budget-financed units 7 accounted for a sizeable share of the **other domestic debt of the State Treasury item.** At the end of 2000 their share in the total amount of the other domestic debt by ST amounted to: 73.5% and 19.2% respectively. The following elements also contributed to the other debt item: settlement of current accounts with banks 8, debt of the Labour Fund arising from the loan raised, debt to trade unions 9 as well as advance payments on cars 10.

6 These are the compensations for: 1) non-indexation of wages in the public sector due to the non-application in the period from July 1st 1991 to June 28th 1992 of the provisions on the structuring of funds for wages and remuneration in this sector and 2) loss of certain increases and additions to the retirement and disability pensions for work under special conditions or of a special nature. The debt calculation method is laid down in the Act on the compensation for temporary freeze on wages in the public sector and loss of certain increases and additions to retirement and disability pensions, adopted as a result of a verdict made by the Constitutional Tribunal. Under this Act the disbursement of compensation started in 2000 and will be finished in 2004.

7 They mainly consist of outstanding liabilities of the health service, education and finance sectors.

8 Liabilities concerning loans and operations of extraordinary nature (among others the payments of guarantee premiums, interest on housing loans, interest on preferential loans for agriculture, interest on loans for central level investments).

9 Debt to trade unions and social organisations arising from the compensations for possessions lost as a result of the imposition of the martial law.

10 Liabilities for the advance payments on cars that are covered from the state budget funds.

Table 3. Domestic debt of the State Treasury according to the place of issue in years 1995-2000

	XII 1995	XII 1996	XII 1997	XII 1998	XII 1999	XII 2000
Domestic debt of the State Treasury	66 160.1	79 608.8	104 058.1	121 182.2	134 676.2	146 002.6
1. Debt from issue of TSs	61 442.9	74 042.2	87 966.2	101 564.6	113 275.2	132 984.4
1.1. Marketable TSs	41 245.8	52 377.2	60 146.6	73 427.0	97 557.1	117 505.2
T-bills	28 848.3	29 337.0	32 259.7	28 913.9	26 980.2	23 442.3
Marketable bonds	12 397.5	23 040.3	27 886.9	44 513.2	70 577.0	94 062.8
Marketable fixed-rate bonds	5 730.5	10 525.1	16 430.0	27 779.2	52 681.1	75 411.8
1-year fixed-rate bonds	-	-	-	2 986.0	1 669.3	-
2-year fixed-rate bonds	2 096.9	5 249.3	6 746.3	8 785.3	-	-
2-year -zero-coupon bonds	-	-	-	-	1 681.2	11 711.7
fixed-rate bonds of maturity up to 5 years [1]	3 633.6	5 275.7	9 683.7	16 007.9	31 515.8	42 111.6
10-year fixed-rate bonds	-	-	-	-	1 375.7	5 149.5
bonds 60% of internal government loan [2]	0.1	0.1	0.1	0.1	0.1	-
2-year zero-coupon bonds - converted [3]	-	-	-	-	4 133.9	4 133.9
3-year fixed-rate bonds - converted [3]	-	-	-	-	3 076.3	3 076.3
4-year fixed-rate bonds - converted [3]	-	-	-	-	3 076.3	3 076.3
5-year fixed-rate bonds - converted [3]	-	-	-	-	3 076.3	3 076.3
10-year fixed-rate bonds - converted [3]	-	-	-	-	3 076.3	3 076.3
Marketable floating-rate bonds	6 667.0	12 515.2	11 456.9	16 733.9	17 895.9	18 651.1
1-year floating-rate bonds	2 924.3	3 789.7	1 635.9	2 316.7	263.9	-
3-year floating-rate bonds	3 240.5	6 216.7	7 030.9	10 318.3	10 918.4	10 684.9
floating-rate bonds of maturity up to 10 years	500.0	2 507.1	2 788.6	4 097.6	6 712.3	7 966.1
convertible bonds [4]	2.2	1.7	1.5	1.3	1.2	0.1
1.2. Savings bonds	-	-	-	-	494.0	1 953.4
2-year savings bonds	-	-	-	-	471.2	1 460.9
4-year savings bonds	-	-	-	-	22.7	492.6
1.3. Non-marketable TSs	20 197.1	21 665.0	27 819.5	28 137.6	15 224.0	13 525.8
restructuring bonds	5 671.7	6 303.9	6 895.7	6 358.6	6 161.1	6 402.6
bonds for increasing BGŻ shareholders' funds [5]	-	700.0	863.2	904.3	911.6	788.3
bonds denominated in USD	9 153.8	9 411.5	9 980.6	8 413.1	8 151.4	6 335.0
bond denominated in USD for redemption of Brady '97	-	-	4 952.5	4 905.6	-	-
bond denominated in USD for redemption of Brady '98	-	-	-	2 550.4	-	-
bonds for the implementation of agreement with London Club	3 055.3	3 055.3	3 055.3	1 950.3	-	-
Conversion bond	2 316.3	2 194.3	2 072.3	3 055.3	-	-
2. Other domestic debt of the State Treasury	4 717.3	5 566.6	16 091.9	19 617.6	21 401.0	13 018.2
long-term NBP settlements with state budget	1 738.9	1 738.9	1 738.9	1 738.9	-	-
current settlements with banks	470.8	350.3	403.4	218.0	582.1	41.4
advances on cars [6]	127.5	111.2	55.4	22.9	4.2	3.7
debt due from the health care units	2 323.9	3 152.7	3 050.2	6 955.6	9 144.2	2 505.0
Flood loan	-	-	1 000.0	-	-	-
debt from World Bank loans	56.1	56.3	62.3	-	-	-
Infrastructure loans	-	157.2	-	-	-	-
debt from non-indexation of wages in public sector	-	-	9 781.7	10 682.2	11 670.4	9 564.5
debt to trade unions [7]	-	-	-	-	-	158.4
Labour Fund debt [8]	-	-	-	-	-	745.1

1 2-year fixed-rate bonds assimilated in to 5-year bonds were counted in the fixed-rate bonds of maturity up to 5 years category.

2 On June 30th 2000 service of 60% bonds was finished.

3 On September 30th and December 29 1999 conversion of the conversion bonds was effected, bonds in USD for redemption of Brady '97 and '98 bonds, long-term liabilities to NBP and bonds for the implementation of agreement with London Club into marketable bonds

4 On December 31th 2000 service of convertible bonds was finished.

5 On October 31st 2000 2nd tranche of these bonds was fully redeemed.

6 For advances on personal cars paid from the state budget (data change quarterly).

7 Debt to trade unions and social organisations arising from compensation of possessions lost due to imposition of martial law.

8 For loan raised with commercial banks.

PART II

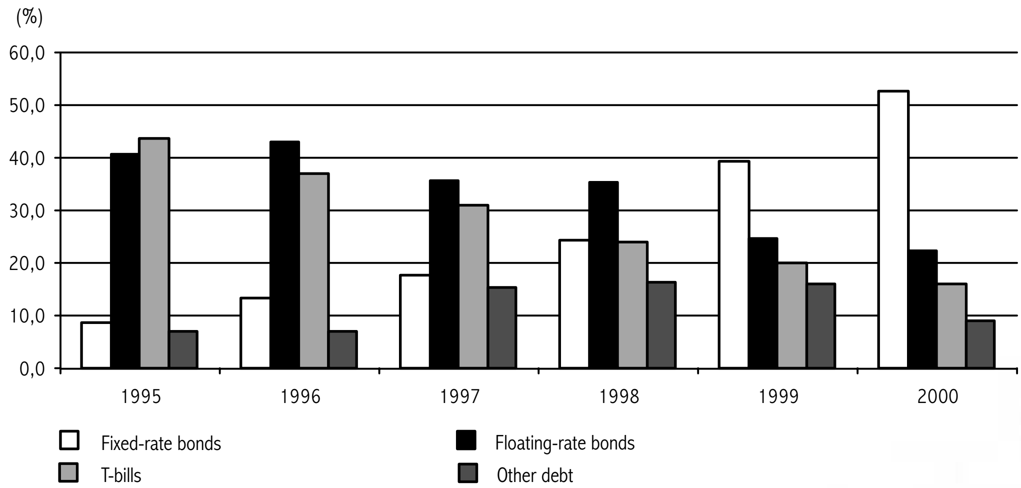
2.2.1.1. CHANGES IN THE DOMESTIC DEBT IN 2000

In the structure of domestic debt by instrument

The following significant changes concerning the instrumental structure of the State Treasury debt in 2000 are noteworthy:

1) **significant increase in the debt in fixed-rate bonds**, total increase by 23 720.3 million PLN, which brought about the growth of the share of these bonds in total domestic debt from 39.5% at the end of 1999 to 52.7% at the end of 2000,
2) **minor drop in the debt in floating-rate bonds** (i.e. 3-year and 10-year bonds, 4-year Savings Bonds, convertible bonds and non-marketable bonds) totalling 473.2 million PLN, with a simultaneous drop in the share of these bonds in the total domestic debt from 24.6% at the end of 1999 to 22.4 % at the end of 2000,
3) **drop of debt in T-bills** by 3 537.9 million PLN, which lead to a decrease in the share of these instruments in total domestic debt from 20.0% at the end of 1999 to 16.1% at the end of 2000,
4) **drop of the other domestic debt of the State Treasury by 8 382.9 million PLN** with a simultaneous decrease of the share of this item in total domestic debt from 15.9% in 1999 to 8.6% at the end of 2000. This drop was mainly a consequence of the following:
   a) fall of debt arising from liabilities due from the budget-financed units by 6 639.2 million PLN, which was mainly a result of the conversion of the health care debt taken over by the State Treasury into marketable bonds and of the cash redemption of a part of this debt,
   b) decline in the amount of debt arising from the non-indexation of wages in the public sector by 2 105.9 million PLN; this decline was an outcome of the commencement of the compensation payments that began in March 2000 and of the indexation of the nominal value of the amount of compensation owing.
   c) fall in the debt arising from the settlement of current accounts with banks by an amount of 540.8 million PLN.

Chart 2. Structure of domestic debt of the State Treasury by instrument in years 1995-2000



PART II

Table 4. Domestic debt of the State Treasury by instrument in years 1999-2000

	XII 1999	structure XII 1999 in %	XII 2000	structure XII 2000 in %	change XII 00-XII 99 in m. PLN	change XII 00-XII 99 in %
Domestic debt of State Treasury	134 676.2	100.0	146 002.6	100.0	11 326.4	8.4
1. Debt from issue of TSs	113 275.2	84.1	132 984.4	91.1	19 709.2	17.4
1.1. Marketable TSs	97 557.1	72.4	117 505.2	80.5	19 948.0	20.4
T-bills	26 980.2	20.0	23 442.3	16.1	-3 537.9	-13.1
Marketable bonds	70 577.0	52.4	94 062.8	64.4	23 485.9	33.3
Marketable fixed-rate bonds	52 681.1	39.1	75 411.8	51.7	22 730.7	43.1
1-year fixed-rate bonds	1 669.3	1.2	-	-	-1 669.3	-
2-year zero-coupon bonds	1 681.2	1.2	11 711.7	8.0	10 030.5	596.6
fixed-rate bonds of maturity up to 5 years	31 515.8	23.4	42 111.6	28.8	10 595.9	33.6
10-year fixed-rate bonds	1 375.7	1.0	5 149.5	3.5	3 773.7	274.3
bonds 60% of internal government loan	0.1	-	-	-	-	-
2-year zero-coupon bonds - converted	4 133.9	3.1	4 133.9	2.8	-	-
3-year fixed-rate bonds - converted	3 076.3	2.3	3 076.3	2.1	-	-
4-year fixed-rate bonds - converted	3 076.3	2.3	3 076.3	2.1	-	-
5-year fixed-rate bonds - converted	3 076.3	2.3	3 076.3	2.1	-	-
10-year fixed-rate bonds - converted	3 076.3	2.3	3 076.3	2.1	-	-
Marketable floating-rate bonds	17 895.9	13.3	18 651.1	12.8	755.2	4.2
1-year floating-rate bonds	263.9	0.2	-	-	-	-
3-year floating-rate bonds	10 918.4	8.1	10 684.9	7.3	-233.5	-2.1
floating-rate bonds of maturity up to 10 years	6 712.3	5.0	7 966.1	5.5	1 253.8	18.7
convertible bond	1.2	-	0.1	-	-1.1	-93.6
1. 2. Savings bonds	494.0	0.4	1 953.4	1.3	1 459.5	295.5
2-year savings bonds	471.2	0.3	1 460.9	1.0	989.6	210.0
4-year savings bonds	22.7	-	492.6	0.3	469.9	2067.3
1.3. Non-marketable TSs	15 224.0	11.3	13 525.8	9.3	-1 698.2	-11.2
restructuring bonds	6 161.1	4.6	6 402.6	4.4	241.5	3.9
bonds for increasing BGŻ shareholders' funds	911.6	0.7	788.3	0.5	-123.3	-13.5
bonds denominated in USD	8 151.4	6.1	6 335.0	4.3	-1 816.5	-22.3
2. Other domestic debt of State Treasury	21 401.0	15.9	13 018.2	8.9	-8 382.8	-39.2
current settlements with banks	582.1	0.4	41.4	-	-540.7	-92.9
advances on cars	4.2	-	3.7	-	-0.5	-12.2
debt due from health care units	9 144.2	6.8	2 505.0	1.7	-6 639.2	-72.6
debt from non-indexation of wages in public sector	11 670.4	8.7	9 564.5	6.6	-2 105.9	-18.0
debt to trade unions	-	-	158.4	0.1	158.4	-
Labour Fund debt	-	-	745.1	0.5	745.1	-

PART II

In the structure of domestic debt holder [11]

The following changes are worth noting in the structure of entities participating in the domestic debt of the State Treasury in 2000:

1) **drop in debt to commercial banks** by 7 298.5 million PLN, i.e. by 12.7% in comparison to 1999. This was mainly a result of the decline of the debt in the other domestic debt item by 4 576.8 million PLN (i.e. 74.9%) – impact of the conversion of the liabilities of the health care units taken over by the State Treasury. The level of State Treasury debt to this sector issued in TS was also reduced. There was also a significant reduction of debt in T-bills as well as in marketable floating-rate

[11] In the year 2000 the methodology for the holder-based classification of the domestic debt of the State Treasury was changed. Until 2000 the data concerning the Treasury Bonds and the so-called other domestic debt of the State Treasury were not adjusted for the financial flows between the sectors. From 2000 onwards, the structure of entities involved in the domestic debt of the State Treasury takes into account this kind of flows. The structure of the State Treasury debt at the end of 1999 was estimated according to the new rules.

bonds and in non-marketable bonds with a simultaneous increase in the share of marketable fixed-rate bonds. The share of debt to commercial banks in total domestic debt in 2000 fell significantly from 42.7% to 34.4%.

2) **rise in debt to the non-banking sector** in 2000 by 10 879.3 million PLN, i.e. by 21.5% in comparison to the end of 1999. The State Treasury debt in TS grew by 14 685.4 million PLN, whereas the remaining debt dropped by 3 806.1 million PLN. The fall in debt under the 'other debt' item was mainly caused by the decline in the debt due from the health care units (an effect of the conversion of the health service debt taken over by the State Treasury) as well as by the drop of liabilities arising from the non-indexation of wages in the public sector (as a result of compensation payments commenced in March 2000 with a simultaneous indexation of the still outstanding liabilities). The share of the non-banking sector in total domestic debt of the State Treasury increased from 37.6% at the end of 1999 to 42.2% at the end of 2000.
3) **drop in the debt to the National Bank of Poland** in 2000 by 2 805.6 million PLN, i.e. by 14.5% in relation to the end of 1999. This was caused by the decline in debt both in the marketable instruments (decline by 2,222.0 million PLN), as well as in the non-marketable instruments (decline by 583.6 million PLN). The decline in debt in marketable instruments was an outcome of the sale of converted fixed-rate bonds[12] to the commercial banks by the NBP through the open market operations.
4) **rise in domestic debt issued in TS acquired by foreign investors** in 2000 by 10 551.3 million PLN, i.e. by 146.5% to a level of 17 752.0 million PLN. At the end of 2000 the share of debt in TS acquired by foreign investors in total domestic debt amounted to 12.2% against 5.3% at the end of 1999.

Table 5. Domestic debt of the State Treasury by holder in years 1999-2000*

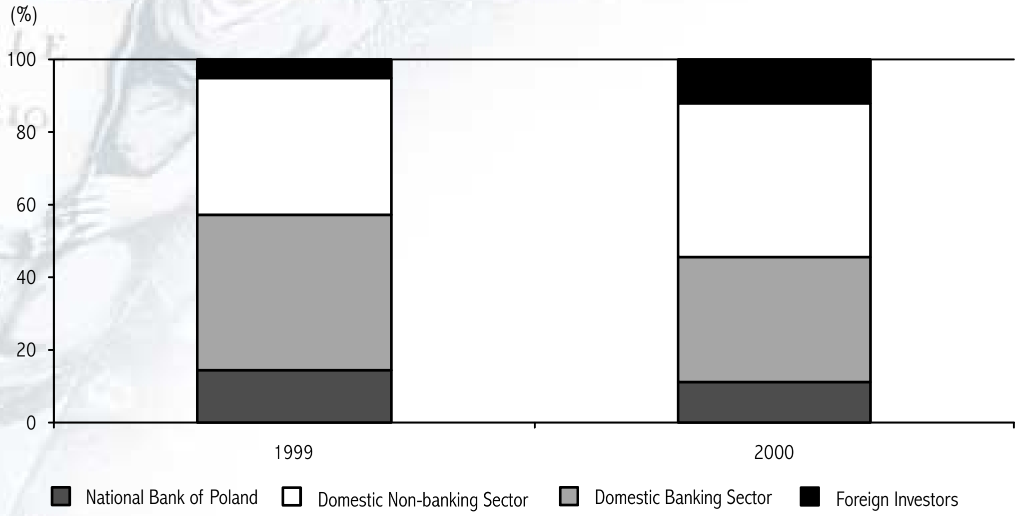
	XII 1999	structure XII 1999 in %	XII 2000	structure XII 2000 in %	change XII 00-XII 99 in m. PLN	in %
Domestic debt of State Treasury	**134 676.2**	**100.0**	**146 002.6**	**100.0**	**11 326.4**	**8.4**
NATIONAL BANK OF POLAND	19 330.3	**14.4**	16 524.7	**11.3**	-2 805.6	-14.5
TREASURY SECURITIES	19 330.3	14.4	16 524.7	11.3	-2 805.6	-14.5
Marketable instruments	16 439.0	12.2	14 217.0	9.7	-2 222.0	-13.5
Non-marketable instruments	2 891.4	2.1	2 307.8	1.6	-583.6	-20.2
DOMESTIC COMMERCIAL BANKS	57 457.2	**42.7**	50 158.7	**34.4**	-7 298.5	-12.7
TREASURY SECURITIES	51 349.9	38.1	48 628.2	33.3	-2 721.7	-5.3
Marketable instruments	39 017.2	29.0	37 410.1	25.6	-1 607.1	-4.1
Non-marketable instruments	12 332.7	9.2	11 218.1	7.7	-1 114.6	-9.0
OTHER DEBT	6 107.3	4.5	1 530.6	1.0	-4 576.7	-74.9
DOMESTIC NON-BANKING SECTOR	50 687.8	**37.6**	61 567.1	**42.2**	10 879.3	21.5
TREASURY SECURITIES	35 394.1	26.3	50 079.6	34.3	14 685.5	41.5
Marketable instruments	34 900.2	25.9	48 126.1	33.0	13 225.9	37.9
Savings bonds	494.0	0.4	1 953.4	1.3	1 459.5	295.5
OTHER DEBT	15 293.7	11.4	11 487.6	7.9	-3 806.1	-24.9
TSs with FOREIGN INVESTORS	7 200.7	**5.3**	17 752.0	**12.2**	10 551.3	146.5
Marketable instruments	7 200.7	5.3	17 752.0	12.2	10 551.3	146.5

* Data captures financial flows between sectors.

PART II

[12] In 1999 part of the non-marketable debt of the State Treasury to NBP was converted into marketable bonds. They are the so-called converted fixed-rate bonds.

Chart 3. Structure of domestic debt of the State Treasury by holder in years 1999-2000



2.2.1.2. MATURITY PROFILE OF THE DOMESTIC TREASURY SECURITIES

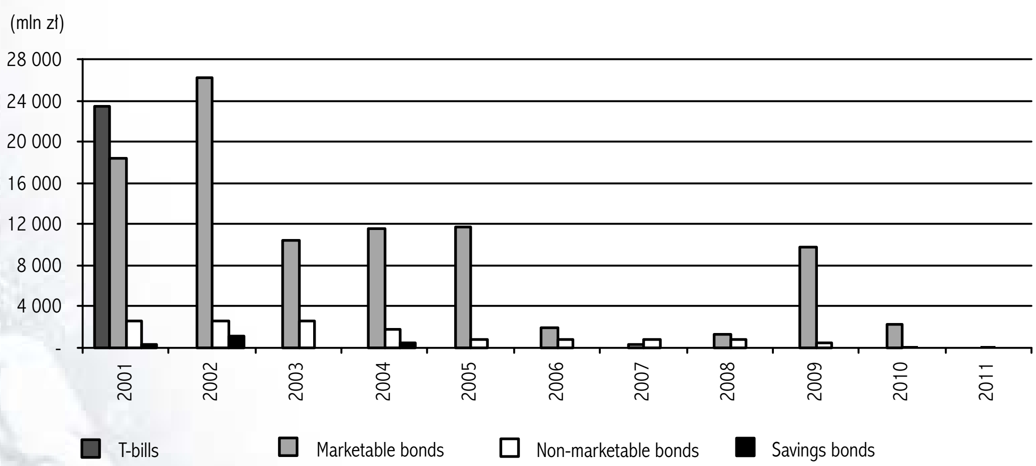
The average term to maturity for domestic Treasury Securities grew from 2.61 years at the end of 1999 to 2.63 at the end of 2000. For the different types of Treasury Securities the average term to maturity equalled (in years):

1)marketable instruments - 2.58 (2.47 in 1999);
   a) treasury Bills - 0.34 (0.36 in 1999);
   b) treasury Bonds- 3.13 (3.27 in 1999);
2) savings Bonds - 1.94 (1.70 in 1999);
3) non-marketable instruments - 3.23 (3.56 in 1999).

There was **an increase in the average term to maturity of marketable instruments** (from 2.47 in 1999 to 2.58 in 2000) despite a decline in the average term to maturity both for the T-bills as well as Savings Bonds. This was a result of a considerable drop in debt in Treasury Bills with the shortest average term to maturity. The decrease in the average term to maturity of marketable bonds was mainly a consequence of the operation of conversion of the health care units' debt into marketable bonds (demand from the banks focused mainly on the bonds with redemption in 2002 and 2003, as a result of which the average term to maturity of bonds turned over to banks amounted to 2.6 years in 2000).

The decline in the average term to maturity of the non-marketable instruments (from 3.56 years in 1999 to 3.23 years) was a result of the shortening of the redemption deadlines of all types of the non-marketable bonds (ensuing successively with time) with a rise in debt in these bonds arising form the accretion of a part of the interest. The drop in the average term to maturity of the non-marketable bonds will be a constant phenomenon, whose dynamics will be additionally dependent on the PLN/USD exchange rate (for the bonds denominated in USD).

Chart 4. Maturity profile of TS issued on domestic market



PART II

2.2.2. FOREIGN DEBT OF THE STATE TREASURY

The foreign debt serviced by the State Treasury in years 1995-2000 included the debt in convertible currencies and in non-convertible currencies expressed in transfer ruble terms (until 1995) as well as the debt arising from the settlement of the clearing balances (until 1996), and starting from the beginning of 1997 the debt denominated exclusively in convertible currencies.

Table 6. Foreign debt of the State Treasury (in PLN terms, millions) as at the end of year

	1995	1996	1997	1998	1999	2000
Foreign Debt	101 106.6	105 994.0	117 591.6	116 217.7	129 694.1	120 835.2
1. TS issued abroad	19 718.6	23 436.8	24 074.4	21 391.5	25 239.1	22 536.9
Foreign Bonds	617.0	1 181.4	2 777.5	2 800.5	3 229.5	4 462.6
Brady Bonds	19 101.6	22 255.4	21 296.9	18 591.1	22 009.6	18 074.3
2. Loans received	81 231.0	82 549.8	93 517.2	94 826.2	104 455.0	98 298.2
in convertible currencies	80 242.1	82 549.8	93 517.2	94 826.2	104 455.0	98 298.2
in non-convertible currencies	988.9	-	-	-	-	-
3. Clearing balances	157.0	7.4	-	-	-	-
PLN/USD	2.4680	2.8755	3.5180	3.5040	4.1483	4.1432

Table 7. Foreign debt of the State Treasury denominated in convertible currencies*
(in USD terms, millions) as at the end of year

	1995	1996	1997	1998	1999	2000
Foreign Debt	40 502.7	36 858.5	33 425.7	33 167.2	31 264.3	29 164.7
1. TS issued abroad	7 989.7	8 150.5	6 843.2	6 104.9	6 084.1	5 439.5
Foreign Bonds	250.0	410.8	789.5	799.2	778.5	1 077.1
Brady Bonds	7 739.7	7 739.7	6 053.7	5 305.7	5 305.7	4 362.4
2. Loans received	32 513.0	28 708.0	26 582.5	27 062.3	25 180.2	23 725.2
Paris Club	27 903.6	26 462.9	24 246.6	24 808.2	22 799.6	21 173.2
IFI**	1 515.7	1 732.9	1 687.4	1 883.7	2 060.6	2 310.5
of which: the World Bank	1 432.2	1 637.9	1 558.9	1 632.4	1 655.5	1 752.3
Russia	2 358.6	-	-	-	-	-
Other creditors	735.0	512.2	648.5	370.3	320.0	241.5

* i.e. without the 'loans received in non-convertible currencies' item and without the clearing balances (denominated in transfer rubles)
** International Financial Institutions (World Bank, European Investment Bank, European Bank for Reconstruction and Development, Council of Europe Development Bank)

Foreign debt of the State Treasury in years 1995-2000 fell in USD terms from 40.5 billion USD to 29.2 billion USD, i.e. by ca. 27.9%. This resulted from the following factors:

1) complex currency structure of the debt (at the end of 2000 it was expressed in 9 currencies, whereas the debt denominated in US dollars accounted for ca. 44% of total foreign debt of the State Treasury), balance of the debt in USD terms is subject to relatively high fluctuations, as it reflects to a large extent the changes of the exchange rates of the original denomination currencies of the debt in relation to USD;
2) since 1996 the foreign financing balance has been negative;
3) towards the end of 1996 there was a mutual netting of the receivables between Russia and Poland;
4) in years 1997 and 1998 there was a partial exchange of foreign debt into domestic debt through the buy back on the secondary market and the redemption of the Brady Bonds amounting to nominal values of: 1 686 million USD and 748 million USD respectively, financed through special bonds issued by the State Treasury and purchased by the NBP;
5) in 2000 the Ministry of Finance carried out the operation of early redemption of the Discount and New Money Brady Bonds in the amount of 943 million USD, financed through part of the proceeds from the sale of TP S.A.

2.2.2.1. FOREIGN DEBT OF THE STATE TREASURY DEBT IN 2000

In the year 2000 foreign debt of the State Treasury, expressed in USD terms, shrank by 2 099.6 million USD (a decline of 6.7%), from 31 264.3 million USD in 1999 to 29 164.7 million USD. The change in debt level is a combination of the repayment of a part of foreign debt, contracting new debt as well as the change of the USD exchange rate in relation to other currencies, in which a part of the foreign debt of the State Treasury is denominated.

Table 8. Foreign debt of the State Treasury (in PLN terms, millions according to the PLN/USD exchange rate at the end of year)

	as of December 31st		change in 2000	
	1999	2000	in m. PLN	in %
Foreign debt of the State Treasury	129 694.1	120 835.2	- 8 858.9	- 6.8
1. TS issued abroad	25 239.1	22 536.9	- 2 702.2	- 10.7
Foreign Bonds	3 229.5	4 462.6	1 233.2	38.2
Brady Bonds	22 009.6	18 074.3	- 3 935.3	- 17.9
2. Loans in convertible currencies	104 455.0	98 298.2	- 6 156.8	- 5.9
PLN/USD	4.1483	4.1432		

Table 9. Foreign debt of the State Treasury (in USD terms, millions according to the exchange rates at the end of year)

	as of December 31st		change in 2000	
	1999	2000	in m. USD	in %
Foreign debt of the State Treasury	31 264.3	29 164.7	-2 099.6	-6.7
1. TS issued abroad	6 084.1	5 439.5	-644.6	-10.6
Foreign Bonds	778.5	1 077.1	298.6	38.4
Brady Bonds	5 305.7	4 362.4	-943.2	-17.8
2. Loans in convertible currencies	25 180.2	23 725.2	-1 455.0	-5.8
Paris Club	22 799.6	21 173.2	-1 626.4	-7.1
IFI	2 060.6	2 310.5	249.9	12.1
of which: the World Bank	1 655.5	1 752.3	96.8	5.8
other creditors	320.0	241.5	-78.5	-24.5

Two main items made up the foreign debt of the State Treasury in 2000:

1) debt from the issue of TS - 5 439.5 million USD (22 536.9 million PLN);

2) debt from the loans received - 23 725.2 million USD (98 298.2 million PLN).

Debt from the issue of Treasury Securities included the debt arising from the so-called Brady Bonds as well as the debt from Foreign Bonds.

The Polish Brady Bonds were issued in 1994 within the implementation of the agreement on the reduction and restructuring of Polish debt to commercial banks associated in the so-called London Club. Owing to the operation of an early redemption of a part of these bonds carried out in 2000 and financed with funds coming from the privatisation of TP S.A., the nominal amount of debt in these instruments was reduced within a single year by 943.2 million USD to 4 362, 4 million USD (decline of 10.6%).

At the end of 2000 the amount of debt arising from the issue of bonds on the international capital market totalled 1 077.1 million USD. Debt in these instruments increased in comparison to the previous year by 298.6 million USD (i.e. by 38.4%). The above change is a combination of: the issue of 10-year bonds in nominal value of 600 million EUR in March 2000, redemption of the 5-year bonds in nominal value of 250 million USD issued in 1995 as well as of the change in the EUR/USD exchange rate. The following instruments comprise the total amount of the above type of debt at the end of 2000: bonds denominated in DEM issued in 1996, two tranches of bonds denominated in USD issued in 1997 as well as bonds denominated in EUR issued in 2000.

The average term to maturity for all Treasury Bonds issued for the international markets amounted to 13 years and 4 months at the end of 2000.

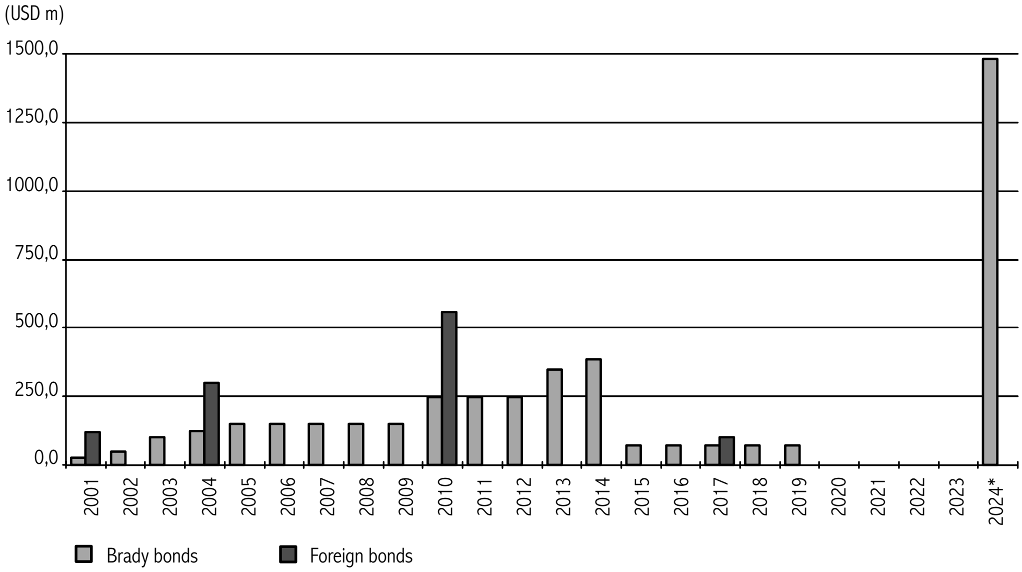
State Treasury debt arising from the foreign currency loans raised includes the liabilities to the creditors associated within the Paris Club, loans raised from international financial institutions as well as loans grouped under the ‘other’ item.

The largest part of the debt raised in loans was the debt to creditors associated within the Paris Club. This debt has been serviced on a day-to-day basis since 1991. It amounted to 21 173.2 million USD at the end of 2000 and accounted for 72.6% of the total foreign debt of the State Treasury. The drop in this type of debt throughout the year amounted to ca. 1 626.4 million USD, i.e. 7.1%, whereas in this period the State Treasury repaid principal in the amount of 568.1 million USD, and the remaining part of that balance was a result of the appreciation of the USD in relation to other currencies, in which a part of the debt is denominated (in case of the Paris Club only 37% of total debt is denominated in USD).

The debt to International Financial Institutions amounted to 2 310.5 million USD at the end of 2000 and was higher than the 1999 figure by 249.9 million USD, i.e. by 12.1%. The growth of this type of debt was a combination of three factors: contracting of new debt in the amount of 510.1 million USD, repayment of earlier debt in the amount of 149.7 million USD as well as the changes in the USD exchange rate in relation to the remaining currencies in which the debt to these institutions is denominated.

At the end of the discussed period, the debt to creditors grouped under the ‘other’ item, which includes minor loans together with the loans raised for the purpose of financing investments in the health service and construction sector, as well as for the Polish Banks Privatisation Fund, totalled 241.5 million USD and recorded a drop of 78.5 million USD, i.e. by 24.5% within a year. This decline is in particular an outcome of the successive repayment of debt included in this item.

Chart 5. Maturity profile of TS issued on international capital market



* Principal repayment of bonds maturing in 2024 secured with zero-cupon US Gove

2.3. STATE TREASURY DEBT ACCORDING TO THE RESIDENT

Starting from December 2000 the data on the State Treasury debt level is also presented according to the resident in a breakdown by domestic debt (to residents) and foreign debt (to non-residents).

The terms resident and non-resident were defined in the Foreign Currency Act of December 18th, 1998 (Journal of the Laws of 1998, No. 160, item 1063, as subsequently amended). According to Art. 2 of the Act the term:

1) resident is understood to mean:
   a) a private person with a place of residency within the country as well as a legal entity with a seat within the country, and also other entities with a seat within the country and able to contract liabilities and acquire rights on theirs own behalf;
   b) Polish diplomatic representative offices, consular offices and other Polish representative offices as well as special purpose missions enjoying diplomatic and consular immunity and privileges;

2) non-resident is understood to mean:

a) a private person without a place of residency within the country as well as a legal entity without a seat within the country, and also other entities without a seat within the country, able to contract liabilities and acquire rights on their own behalf,
b) a person specified in point 1, sub-point a), within the scope, in which it runs business activities abroad through its enterprise, branch or representative office with its seat abroad,
c) branches and representative offices seated in Poland of persons and entities, specified in sub-points a) and b), established based on international treaties concluded by the Government of the Republic of Poland, unless the treaties state otherwise,
d) foreign diplomatic representative offices, consular offices, special purpose missions and international organisations as well as other foreign representative offices enjoying diplomatic and consular immunity and privileges based on agreements, acts and commonly defined international customs.

The State Treasury domestic debt (to residents) amounted to 130 334.8 million PLN at the end of December 2000 and was lower by 1 990.1 million PLN in comparison to December 1999. At the same time the State Treasury foreign debt (to non-residents) grew by 3 457.6 million PLN, totalling 136 503.0 million PLN.

The foreign debt share in total ST debt amounted to 51.2% against 50.3% at the end of 1999. Debt in foreign loans accounted for a dominant share in total foreign debt (72%). The remaining 28% was debt in TS.

Debt in marketable TS had a major share (78.1%) in total domestic debt. Treasury Bonds issued for the foreign market and the Brady Bonds held in residents' portfolios (domestic commercial banks) accounted for a mere 1.6% of total domestic debt.

The differences in the share of foreign debt in debt according to resident criterion and according to the place of issue criterion result from the fact that debt to foreign investors (non-residents) in the form of TS issued for the domestic market was higher than debt to domestic investors (residents) in the form of TS issued for the foreign market.

PART II

Table 10. State Treasury debt by resident and non-resident

	XII 1999 in m. PLN	structure XII 1999 in %	XII 2000 in m. PLN	structure XII 2000 in %
State Treasury debt	264 370.3	100.0	266 837.8	100.0
I. Domestic debt of State Treaury (to residents)	131 324.9	49.7	130 334.8	48.8
1. Debt from TSs	109 923.9	41.6	117 316.6	44.0
1.1. Marketable TSs	94 205.9	35.6	101 837.4	38.2
t-bills	26 380.5	10.0	22 786.2	8.5
treasury bonds issued on the domestic market	63 975.9	24.2	76 966.9	28.8
treasury Brady bonds and bonds issued on the foreign market	3 849.5	1.5	2 084.2	0.8
1.2. Savings bonds	494.0	0.2	1 953.4	0.7
1.3. Non-marketable bonds	15 224.0	5.8	13 525.8	5.1
2. Other State Treasury debt	21 401.0	8.1	13 018.2	4.9
II. Foreign debt of State Treasury (to non-residents)	133 045.4	50.3	136 503.0	51.2
1. Debt from TSs	28 590.4	10.8	38 204.7	14.3
1.1. Marketable TSs	28 590.4	10.8	38 204.7	14.3
t-bills	599.6	0.2	656.1	0.2
treasury bonds issuef on the domestic market	6 601.1	2.5	17 095.9	6.4
treasury Brady bonds and bonds issued on the foreign market	21 389.6	8.1	20 452.7	7.7
2. Debt from loans	104 455.0	39.5	98 298.2	36.7
Exchange rate used in calculation (1PLN/1USD)	4.1483		4.1432	

2.4. SIGNIFICANT EVENTS IN THE STATE TREASURY DEBT IN 2000

The following have to be considered the most important events within the State Treasury debt that took place in 2000:

1) continuation of the conversion, initiated in September 2000, of the health care units debt taken over by the State Treasury. The aim of this operation is mainly the regulation of the problem of the debt taken over and, thanks to the conversion of non-marketable debt to marketable debt, increased transparency and effectiveness in State Treasury debt management;
2) issue of Eurobonds. After a two-year absence, Poland returned on to the international capital markets by issuing bonds denominated in EURO for the first time ever thus entering a new Euro segment of the market. Among other things this issue was aimed at reinforcing the image of Poland as a country entering into the European Union in the first stage (transition from the emerging markets to converging markets category);
3) redemption of Brady Bonds. In October 2000, the State Treasury redeemed prematurely the total of the outstanding Discount and New Money Bonds in the total amount of ca. 943 million USD. The redemption was execution of the call option. The source of financing was part of the proceeds from the privatisation of TP S.A.;
4) preparation of The Public Finance Sector Debt Management Strategy in years 2001-2003, the strategy being a continuation of the document formulated for the first time in 1999. The strategy is a basic document regulating in a complex way the most important issues with respect to State Treasury debt management and to influencing the public finance sector debt.

CHAPTER 3.
STATE TREASURY DEBT SERVICE COSTS [13]

State Treasury debt is a consequence of earlier liabilities of the State Treasury, occurrence of budget deficits in previous years as well as of current borrowing requirements of the state budget.

The main factors determining the level of spending on State Treasury debt service are:

1) debt level,
2) debt structure according to instruments;
3) level of interest on different instruments (development of interest rate levels on the domestic and foreign markets);
4) exchange rate levels and relations between cross-currency rates;
5) amount of payment on domestic and foreign guarantees, which is dependent on the financial standing of borrowers and their possibility to service their liabilities.

PART II

Table 11. State Treasury debt service costs

Debt service costs	1998 (m. PLN)	1998 structure (%)	1999 (m. PLN)	1999 structure (%)	2000 (m. PLN)	2000 structure (%)
Total	17 910.6	100.0	18 777.5	100.0	18 023.1	100.0
domestic	14 140.7	79.0	14 893.5	79.3	13 726.5	76.2
foreign	3 769.9	21.0	3 884.0	20.7	4 296.6	23.8
memo:						
ST foreign debt service costs in million USD	1085.0		963.8		982.0	

Table 12. State Treasury debt service costs in relation to budget expenditures and to GDP

Debt service costs in relation to:	1998	1999	2000
Budget expenditures (%)	12.8	13.6	11.9
GDP (%)	3.2	3.0	2.6*

* Preliminary data.

[13] These costs include: interest and payments on guarantees.

In 2000 as opposed to 1999, total debt service costs in relation to GDP continued to fall from 3.0% to 2.6%. The downward tendency of this relation was upheld. A similar tendency has been established in the relation of domestic debt service costs to GDP – in 2000 it continued to fall to a level of 2.0%. The foreign debt service costs to GDP ratio stabilised at ca. 0.6% in the discussed period.

Table 13. Cost Dynamics of State Treasury debt in years 1998-2000

Cost dynamics (previous year = 100)	1998	1999	2000
Total debt service, of which: (%)	110.1	104.8	96.0
domestic (%)	114.5	105.3	92.2
foreign (%)	102.4	103.0	110.6

In 2000 both domestic debt service costs and total debt service costs decreased. The dynamics of foreign debt service costs was higher than in 1999 (110.6%). At the same time the lowering of the share of total debt service costs in total budget expenditures was recorded. The share of total debt service costs in budget expenditures fell from 13.6% in 1999 to 11.9% in 2000, while the share of domestic debt service costs fell from 10.8% to 9.1%. The foreign debt service costs to budget expenditures ratio remained at the constant level of 2.8%.

A rise (to 23.8%) in the share of foreign debt service costs in total debt service costs was observed in 2000 in comparison to 1999. At the same time there was a drop in the share of domestic debt service costs in total debt service costs (to 76.2%). This was mainly caused by weakening of the PLN to foreign currencies, in which the foreign debt is denominated as well as a rise in interest rates on the foreign markets.

Table 14. State Treasury domestic debt service costs and its breakdown according to instruments

	1998		1999		2000	
	(m. PLN)	structure (%)	(m. PLN)	structure (%)	(m. PLN)	structure (%)
Domestic debt service costs	14 140.7	100.0	14 893.5	100.0	13 726.5	100.0
1. Treasury Securities	14 010.1	99.1	14 596.9	98.0	13 415.7	97.7
treasury Bills	5 804.0	41.0	4 854.2	32.6	3 088.7	22.5
marketable bonds	5 905.8	41.8	7 526.4	50.5	8 514.7	62.0
non-marketable bonds	2 261.5	16.0	2 216.3	14.9	958.1	7.0
bonds after the conversion of debt to NBP					854.2	6.2
Infrastructure loans	4.6	0.1	-	-	-	
flood loan	34.2	0.2	-	-	-	
2. Payments on guarantees	130.5	0.9	296.7	2.0	310.8	2.3

A constant rise in the share of interest and discount on marketable bonds is noticeable in the structure of domestic debt service costs. This is connected with the implemented debt management strategy, that takes into account among other things the change in the structure of financing of the state budget borrowing requirements, increase of financing security and increase in predictability of service costs levels in coming years.

In 2000 the service costs of marketable bonds grew considerably and accounted for 62.0% of total domestic debt service costs, while the Treasury Bills discount costs fell to 22.5%. The dynamics of marketable bonds service costs was significantly higher than the service costs dynamics for other instruments, which had to do with high sales of Treasury Bonds at auctions, issue of new marketable instruments (conversion bonds for NBP) and substantial redemptions of the OS series bonds due in this year.

The non-marketable bonds service costs in 2000 fell sharply in relation to 1999 (to 7.0%), which is mainly connected with the performed conversion of State Treasury debt to NBP. Service costs of bonds given over to NBP after the conversion accounted for 6.2% of total domestic debt service costs in 2000.

Payments on domestic guarantees remained still at a low level (2.3%) in the discussed period.

Table 15. State Treasury foreign debt service costs and its breakdown according to instruments

Items	1998 (m. PLN)	1998 structure (%)	1999 (m. PLN)	1999 structure (%)	2000 (m. PLN)	2000 structure (%)
Foreign debt service costs	3 769.9	100.00	3 884.0	100.00	4 296.6	100.00
1. Interest on foreign loans received and on Treasury Bonds issued abroad	3 769.3	99.98	3 883.4	99.98	4 296.0	99.99
of which:						
Paris Club	2 190.9	58.12	2 156.5	55.52	2 281.5	53.10
guaranteed outside the Paris Club	5.1	0.14	2.9	0.07	-	-
World Bank	309.3	8.20	383.8	9.88	384.5	8.95
Brady Bonds	993.5	26.35	1 045.8	26.93	1 338.6	31.16
foreign Bonds	199.7	5.30	221.1	5.69	176.2	4.10
other loans	70.8	1.87	73.3	1.89	115.2	2.68
2. Payments on guarantees of foreign loans repayment	0.6	0.02	0.6	0.02	0.6	0.01

The share of interest on loans received and on Polish Treasury Bonds issued abroad is dominant in the structure of foreign debt service costs. Payments on guarantees of foreign loans repayment account for only 0.01% - 0.02% of foreign debt service costs. The share of interest on specific types of debt developed at approximately the same level in the analysed period.

In case of the Paris Club floating interest rates and cross-rates between currencies, in which the State Treasury foreign debt is serviced, as well as repayment of principal had the main impact on the change in the share of interest in total foreign debt service costs.

In case of Brady Bonds the change in service costs in 2000 was influenced by floating interest rates on two types of bonds - Discount Bonds and New Money Bonds as well as the rise in the coupon on PAR and PDI bonds.

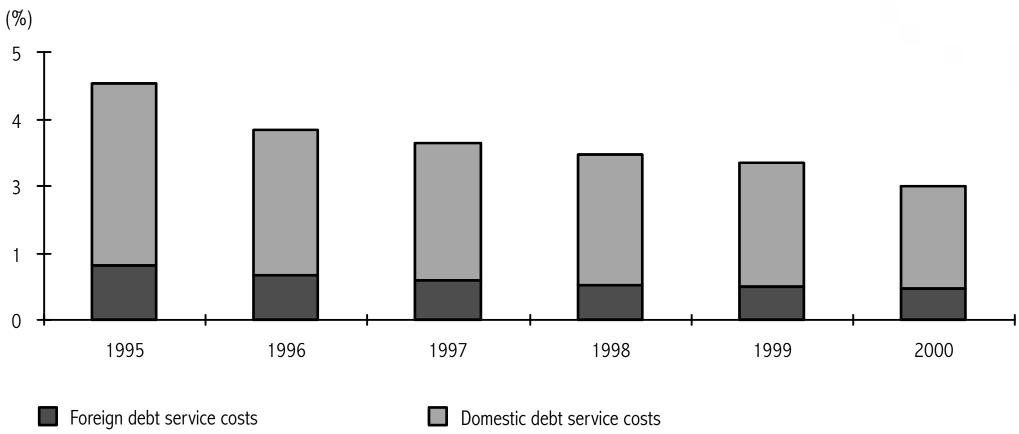
The World Bank's share in the structure of the foreign debt service costs in 2000 was slightly lower (by 0.93%) than its 1999 figure.

The use of funds in the Ministry of Finance foreign currency account on the actual date of payment, i.e. January 2nd, 2001 caused the lowering of the share of interest on the Treasury Bonds issued abroad, as well as interest paid to the Paris Club in 2000 in comparison to previous years. In previous years, according to the spot currency date effective in the transactions, the realisation of the debt repayment due on January 2nd of the following year, took place in December of the previous year due to the currency purchase date.

The weakening of PLN against foreign currencies influenced an increase in the foreign debt service costs in PLN terms in 2000 as opposed to 1999.

PART II

Chart 6. State Treasury debt service cost in relation to GDP in years 1995-2000



3.1. PLAN AND EXECUTION OF THE 2000 BUDGET ACT

18 994.0 million PLN were planned under the 2000 Budget Act for the State Treasury debt service costs, of which:

a) 13 626.5 million PLN for domestic debt service;
b) 5 367.5 million PLN for foreign debt service.

During the year, following a decision from the Minister of Finance, the expenditures on the domestic debt service were increased by 118.0 million PLN – to 13 744.5 million PLN, while in the case of the foreign debt service they were lowered by 218 million PLN – to 5 149.5 million PLN.

Finally a total amount of 18 023.1 million PLN was spent on State Treasury debt service in 2000, which accounted for 94.9% of the amount planned after revisions.

1. Expenditures on domestic debt service amounted in 2000 to 13 726.5 million PLN, i.e. 99.9% of the plan after revisions. They were comprised of:

1) expenditures on the service of Treasury Securities – in the amount of 13 415.7 million PLN, i.e. 100.0% of the plan after revisions, of which:

a) discount of Treasury Bills - 3 088.7 million PLN;
b) interest on and discount of marketable bonds - 8 514.7 million PLN;
c) interest on non-marketable bonds - 958.1 million PLN;
d) interest on the converted NBP bonds - 854.2 million PLN.

2) expenditures on domestic guarantees payment - in the amount of 310.8 million PLN, i.e. 95.4% of the plan after revisions. These paymants are a result of the liabilities undertaken by the State Treasury, that become due and payable, when borrowers, for whom the State Treasury has vouched, do not repay the received loans and interest on it.

2. Expenditures on State Treasury foreign debt service in 2000 amounted to 4 296.6 million PLN, i.e. 83.4% of the plan after revisions. They were comprised of:

1) interest on foreign loans received and on Polish Treasury Bonds issued abroad, in the amount of 4 296.0 million PLN, i.e. 88.4% of the plan after revisions, of which:

a) Paris Club: 2 281.5 million PLN;
b) World Bank: 384.5 million PLN;
c) Brady Bonds (London Club): 1 338.6 million PLN;
d) Polish Treasury Bonds issued abroad: 176.2 million PLN;
e) Other loans: 115.2 million PLN.

2) payments on guarantees granted with respect to foreign debt repayment in the amount of 0.6 million PLN, i.e. 0.2% of the plan after revisions.

CHARACTERISTICS OF THE TREASURY SECURITIES

CHAPTER 4.
LEGAL FRAMEWORK

The underlying piece of legislation governing the conditions of issuing Treasury Securities is the Public Finance Act of November 26th, 1998 (Journal of the Laws No. 155, item 1014 as subsequently amended). Under this Act, only the Minister of Finance is authorised to issue Treasury Securities providing cash benefits. Other Treasury Securities are issued by the Minister of Treasury in consultation with the Minister of Finance (Art. 53, section 3 and 4 of the Act).

Treasury Securities, which the Minister of Finance is authorised to issue, are classified according to their maturity as follows:

a) short-term securities – Treasury Bills offered for sale on the domestic primary market at a discount and redeemed at their face value. Maturity up to 364 days (inclusive);
b) long-term securities – Treasury Bonds as securities offered for sale on the domestic and foreign markets, carrying a discount or/ and interest. Maturity not shorter than one year (365 days).

The general conditions of the Treasury Securities issue have been laid down in applicable ordinances, and the specific ones are detailed in the information memoranda published by the Minister of Finance. The making of an information memorandum available to the public is a prerequisite for the issue to become effective. An information memorandum is deemed to have been made available to the public if published in national newspapers and on the Ministry of Finance website (www.mofnet.gov.pl).

Under the delegation laid down in Art. 55 of The Public Finance Act, the Minister of Finance issued five ordinances in 1999, governing the general conditions of issuing specific instrument groups:

1) Ordinance of the Minister of Finance dated April 26th, 1999 on the general conditions of issuing Treasury Bonds offered at auctions (Journal of the Laws No.38, item 368 as subsequently amended);
2) Ordinance of the Minister of Finance dated April 26th, 1999 on the general conditions of issuing Treasury Bonds offered in the retail network (Journal of the Laws No. 38, item 369 as subsequently amended);
3) Ordinance of the Minister of Finance dated August 26th, 1999 on the conditions of issuing Treasury Bills (Journal of the Laws No.74, item 831);
4) Ordinance of the Minister of Finance dated September 7th, 1999 on the conditions of issuing Treasury Bonds on the foreign markets (Journal of the Laws No. 75, item 845);
5) Ordinance of the Minister of Finance dated September 7th, 1999 on the conditions of issuing Treasury Securities designated for the conversion of State Treasury debt (Journal of the Laws No.74, item 834 as subsequently amended).

The ordinances specify the options available to the Minister of Finance in determining detailed conditions of issue. They set forth the general conditions of instrument design, sales procedures, investor groups to which the Treasury Securities are offered, terms of service and redemption (including buy-back and early redemption).

The above ordinances include solutions concerning mainly the following:

1) limits of amounts of bonds offered, which were generally specified by pointing at the ceiling amount, the ceiling amount being amount limits laid down in Budget Acts for the given year; while the face value of the bonds offered is indicated each time in the issuing letter (re. 1,2,4,5);

2) possibility to establish the so-called Primary Market Dealers in Treasury Securities; the ordinances pointed to a possibility of concluding agreements with entities specialising in the public trading of Treasury Securities, which will allow to improve the organisation of the primary and secondary bond markets and their liquidity (re. 1 and 2);

3) changes in subscription and conversion mechanisms in the case of bonds offered in the retail network, thanks to which their design is more similar to the one functioning on the capital market with respect to other securities (re. 2);

4) changes concerning settlements related to bonds offered at auctions, which make them faster and more effective both for the issuer as well as for the bond holder (e.g. the auction participant's account is debited and the state treasury account credited on the same day) (re. 1);

5) introduction of the issuer's right to call on bond holders to submit the bonds for redemption or buy-back with a specified time limit and on specified conditions (re. 1, 2, 5);

6) introduction of bond holder's right to call unconditionally on the issuer for early redemption (re. 1, 2, 5);

7) introduction of issuer's right to call unconditionally on bond holders to submit bonds for early redemption (re. 1, 2, 5);

8) provision of the Minister of Finance with an option to specify in the issuing letter concerning bonds offered for sale in the retail network, that the declaration of will made in connection with a bond purchase or redemption transaction can be expressed by the bond holder by means of electronic information carriers (re. 2).

Owing to the fact that Treasury Securities are a form of borrowing, their disposal on the primary market is performed against a fee, after the payment by the investor of an amount determined based on the sale price and number of Treasury Securities purchased. The issue of Treasury Securities is effected at a date of payment for the securities subscribed for. The number of Treasury Securities issued is equal to the number of TS sold.

Under the Act, redeemed bonds are cancelled. Only the TS purchased by the State Treasury for the purpose of State Treasury debt management are not subject to cancellation.

The Act also introduced a new category of instruments, which are Savings Treasury Securities, i.e. such TS that are offered for sale only to domestic private persons. Moreover they can be excluded from trading on the secondary market or be subject to trading only between domestic private persons. This facilitated the introduction of segmentation of the market for wholesale investors and retail investors, who are limited to domestic private persons only. A domestic private person means at current a resident who is a private person.

CHAPTER 5.
RULES OF TAXATION ON THE POLISH TREASURY SECURITIES MARKET

5.1. TAXATION OF RESIDENTS

PART III

Interest income means the income arising from the amount obtained from the issuer as interest on securities accrued on the face value at the rate resulting from issue conditions.

Discount income means income arising from the difference between the amount spent on the purchase of securities on the primary or secondary market and the amount equal to the face value of the securities, obtained on redemption by the issuer.

Income from sale of Treasury Securities means income arising from the difference between the amounts spent on purchase of a security on the primary or secondary market and the amount obtained by selling the security in the secondary market.

Legal entities

Interest and discount income as well as income from the sale of Treasury Securities were subject to income tax under general principles, i.e. at rate of income tax applicable to income realised by legal entities in the year in which the income was obtained (in 2000 the rate amounted to 30%).

Private person

Interest or discount on securities issued by the State Treasury was exempt from tax.

Income realised from the sale of Treasury Bonds issued after January 1st, 1989 and until December 31st, 2000 is not subject to income tax unless the sale is the object of business activity.

Income from the sale of securities other than bonds issued by the State Treasury was subject to personal income tax. Taxpayers earning such income in 2000 were required to pay advance tax at the rate of 19% of the income realised from such sale by the 20th day of the month following the month in which the income was realised.

5.2. TAXATION OF NON-RESIDENTS

Persons realising income from Treasury Securities purchased on the domestic market were subject to the provisions of treaties on the avoidance of double taxation between Poland and the country of residence or domicile of the non-resident earning income in Poland[14]. Where no such treaty existed, the following principles applied:

Legal entities

Interest and discount were subject to withholding tax of 20%. Income from the sale of Treasury Bonds or bills was subject to income tax under general principles, i.e. at rate of income tax applicable to income realised by legal entities in the year in which the income was obtained (in 2000 the rate amounted to 30%).

Income realised by legal entities based abroad from the sale, conversion or another legal transaction transferring rights in bonds issued by the State Treasury of the Republic of Poland on foreign markets in years 1995 -2000 was exempt from tax.

Private person

Foreign private persons with domicile other than the Republic of Poland or those with no right of permanent or temporary residence in the territory of the Republic of Poland (temporary residence being a sojourn with a duration of not more than 183 days in a tax year) were liable to tax only on income from work performed in the territory of the Republic of Poland under service based relationship or employment relationship, irrespective of where the remuneration is paid, and on other income realised in Poland.

Interest and discount on securities issued by the State Treasury in the domestic market were free from income tax. Income from the sale of domestic Treasury Bonds, realised by December 31st, 2000 was not liable to income tax unless such sale was the object of business activity. Income from the sale of other domestic securities issued by the State Treasury was liable to personal income tax. Taxpayers earning such income in 2000 were required to pay advance tax at the rate of 19% of the income realised from such sale by the 20th day of the month following the month in which the income was realised.

Income realised by foreign private persons having their domicile abroad from the sale, conversion or another legal transaction transferring rights in bonds issued by the State Treasury of the Republic of Poland 0n foreign markets in years 1995 -2000 was exempt from tax.

PART III

CHAPTER 6.
TREASURY SECURITIES ISSUED ON THE DOMESTIC MARKET

6.1. ISSUES OF MARKETABLE TREASURY SECURITIES

Marketable and savings Treasury Securities issued on the domestic market in 2000 included the following instruments:

a) treasury bills: maturities ranging from 1 to 52 weeks;
b) treasury bonds offered at auctions (referred to as the so-called wholesale bonds): 2-year zero-coupon bonds (OK), 5-year fixed income bonds (PS), 10-year fixed income bonds (DS), 10-year floating-rate bonds (DZ);
c) treasury bonds offered in the retail network (referred to as the so-called retail bonds): 2-year fixed-rate savings bonds (DOS), 3-year floating-rate bonds (TZ) and 4-year indexed bonds (COI).

In 2000, the issuer did not decide to introduce any new instrument neither in the segment of wholesale bonds nor in the retail one. However the sale of 3-year floating-rate bonds at auctions offered in the retail network was discontinued, the reason for this being low demand for these instruments from investors and their high service costs.

There were no changes in the offer of treasury bills either: similar as in previous year, instruments with maturities ranging from 1 to 52 weeks were offered at weekly auctions.

---

[14] The list of countries with which such a treaty is in force constitutes an Annex to this Report.

Table 16. Marketable Treasury Securities offered at auctions in 2000

	t-bills	Zero-coupon bonds	5-year fixed-rate bonds	10-year floating-rate bonds	10-year fixed-rate bonds
Issuing agent/ auction organiser	NBP	NBP	NBP	NBP	NBP
Freauency of auctions/ retail sale	weekly, first businessday of week, usually Monday	monthly	monthly	each second month	each second month
Secondary market listings	ca. 15 banks organising a decentralised secondary market	WSE + non-regulated market	WSE + non-regulated market	WSE + non-regulated market	WSE + non-regulated market
Abbreviated name of bond series*	-	OKmmyy	PSmmyy	DZmmyy	DSmmyy
Face value per bill or bond in PLN	10 000	1 000	1 000	1 000	1 000
Maturity	1 - 52 weeks	2 years	5 years	10 years	10 years
Frequency of interest payments	on redemption	on redemption	annually except for the first interest period	annually	annually
Interest rate	-	-	fixed; 8.5%	floating, weighted average yield of 52-week T-bills + 1 pp (100 bp)	fixed 6%
Value of debt (nominal) at end of 2000	23.4 b. PLN	11.7 b. PLN	42.1 b. PLN**	8 b. PLN	5.1 b. PLN
Nominal Value of Sales in 2000	46.8 b. PLN	10.0 b. PLN	9.3 b. PLN	1.1 b. PLN	2.7 b. PLN
Nominal value of redemption in 2000	49.8 b. PLN	-	5.9 b. PLN	-	-

* Means the redemption date of a given series of bonds, where: mm - month, yy - two last digits of redemption year

** Includes value of debt in PS and OS bonds

Table 17. Marketable and savings Treasury Securities offered in retail network in 2000

	2-year fixed-rate savings bonds	3-year floating-rate bonds	4-year indexed savings bonds
Issue agent	CDM Pekao SA	CDM Pekao SA	CDM Pekao SA
Frequency of retail sale	monthly issues	periods: February-April, May-July, August-October, November-January	monthly issues
Secondary market listings	none	WSE + non-regulated market	none
Abbreviated bond name*	DOSmmyy	TZmmyy	COImmyy
Face value per bond in PLN	100	100	100
Maturity	2 years	3 years	4 years
Interest payments frequency	on redemption	every third month	on redemption
Interet rate	fixed:13%,14%, 15% and 16%	floating, 104% or 100% of weighted average yield on 13-week T-bills	indexed -annual inflation rate + permanent mark-up of 4.5%, 5.5% or 7%
(Nominal) debt value at the end of 2000	1.5 b. PLN	6.1 b. PLN	0.49 b. PLN
Nominal sale value in 2000	1.1 b. PLN	1.8 b. PLN	0.48 b. PLN
Nominal redemption value in 2000	0.16 b. PLN	1.3 b. PLN	0.01 b. PLN

* mmyy means the redemption date of a given series of bonds, where: mm - month, yy - two last digits of redemption year.

Table 18. Marketable Treasury Securities issued until 2000 for the purpose of conversion of the State Treasury debt to NBP

	Fixed-rate Treasury bonds maturing on 22.12.2002	Fixed-rate Treasury bonds maturing on 22.04.2002	Fixed-rate Treasury bonds maturing on 22.07.2002	Fixed-rate Treasury bonds maturing on 22.08.2009	Zero-coupon Treasury bonds maturing on 29.04.2002
Abbreviated bond name	TK1202	CK0403	PK0704	DK0809	KO0402
Issue date	30.09.1999	30.09.1999	30.09.1999	30.09.1999	29.12.1999
Nominal value of issue	3 076 265 000	3 076 265 000	3 076 265 000	3 076 265 000	4 133 911 000
Face value per bond	1 000	1 000	1 000	1 000	1 000
Primary maturity	three years	four years	five years	ten years	28 months
Redemption date	22.12.2002	22.04.2003	22.07.2004	22.08.2009	29.04.2002
Frequency of interest/ discount payments	annually	annually	annually	annually	on redemption
Interest rate (%)	fixed 10	fixed 10	fixed 8.5	fixed 6	discount
Issue form	bearer	bearer	bearer	bearer	bearer
Accessibility to secondary market investors	only for residents	only for residents	only for residents	only for residents	only for residents
(Nominal) value of debt at the end of 2000	3 076.3	3 076.3	3 076.3	3 076.3	4 133.9

6.2. ISSUES OF NON-MARKETABLE TREASURY SECURITIES

The issues of non-marketable Treasury Securities are issues designed to support specific objectives of the Government's economic policy, i.e. those employed to pay the existing debt of the State Treasury or to enable the State Treasury to raise new debt outside the financial market. Such issues are characterised by the non-existence of a primary market, which is substituted to primary allocation of bonds.

Table 19. Non-marketable* Treasury Securities serviced on the domestic market in 2000

	USD-denominated bonds - issued in 1991	Restructuring bonds, series A, B, C, D	Bonds for increasing BGŻ S.A. Shareholders' funds**
Issue date	1.01.1991	Series A, B and C on: 30.07, 16.12 i 29.12.1993 and D - 21.11.1994	I tranche 23.09.1996 II tranche 19.12.1996
Nominal issue value	5 453 m. USD	4 000 m. PLN in 4 series: A - 1 100 m. PLN, B - 573.4 m. PLN; C - 426.6 m. PLN and D - 1 900 m. PLN. Each series is made up of 28 principal instalments	700 m. PLN of which: I tranche: 600 m. PLN; II tranche: 100 m. PLN. Each tranche is made up of 28 principal instalments
Nominal value per bond	1 m and 10 m USD, in 25 series	1 000 PLN	1 000 PLN
Maturity	from 1 to13 years depending on series no.	from 1.5 to 15.5 years depending on the principle instalment number	from 1.5 to 15.5 years depending on the principle instalment number
Redemption date	from 1.04.1992 to 1.04.2004	A - from 31.01.1995 to 31.07.2008; B - from 17.06.1995 to 17.12.2008; C - from 30.06.1995 to 30.12.2008; D - from 22.05.1996 to 22.11.2009	I tranche from 24.03.1998 do 24.09.2011; II tranche from 20.06.1998 to 20.12.2011
Frequency of principal and interest repayment	semi-annually	semi-annually	semi-annually
Interest rate	floating: reference rate (arithmetic average 6-month USD LIBOR in given semi-annual interest period + margin (2pp in1991-1995 and 0.5 pp from 1996)	floating: arithmetic average of NBP's rediscount rate forhalf-year interest period interest payable: 5% of accrued interest, remaining amount of accrued interest increases the amount of capital to redemption (capitalisation of interest)	floating: arithmetic average of NBP's rediscount rate forhalf-year interest period interest payable: 5% of accrued interest, remaining amount of accrued interest increases the amount of capital to redemption (capitalisation of interest)
Issue form	paper (material) form, bearer	batch slip for an issue of a given series; registered within first 3 years after issue later - bearer	batch slip for an issue of a given series; registered within first 3 years after issue later - bearer,
Accessibility to secondary market investors	without limitations, there is virtually no secondary market	available for purchase only to domestic banks and domestic financial institutions and the State Treasury; there is virtually no secondary market	available for purchase only to domestic banks and domestic financial institutions and the State Treasury; there is virtually no secondary market
(Nominal) debt value at the end of 2000	1 529 m. USD (6 335 m. PLN)	6 402.6 m. PLN	788.3 m. PLN

* Non-marketable TS (special or dedicated issues) mean instruments issued in order to pay existing debt converted into TS or in order to provide for new liabillities,e.g.inject capital into the banking system

** In October 2000 second tranche of bonds was fully repaid.

CHAPTER 7.
TREASURY BONDS ISSUED ON FOREIGN MARKETS

The total nominal amount of Treasury Bonds issued on international markets by 2000 reached ca. 9.3 billion USD (according to the exchange rates on December 29th, 2000). The bonds consist of two groups: Brady Bonds and classic Foreign Bonds.

A vast majority of the outstanding bonds (ca. 87.6%) is denominated in USD. By the end of 2000 only one issue was denominated in German Marks (DEM) and one in Euro (EUR). As at 2000 year-end, the face value of all the (outstanding) bonds issued on the international markets, in dollar terms, amounted to ca. 5.4 billion USD.

In 1995, Poland signed credit rating agreements with three rating agencies - Fitch IBCA, Moody 's Investors Services, and Standard&Poor's.

At the end of 2000, the creditworthiness of Poland as an issuer on the international markets was rated as follows: Standard&Poor's: BBB+ (Stable outlook), Moody's Investors Service: Baa1 (Stable outlook) and Fitch IBCA: BBB+.

7.1. CLASSIC ISSUES OF POLISH TREASURY SECURITIES FOR THE INTERNATIONAL FINANCIAL MARKET

The basic objectives of the issue of Foreign Bonds are as follows:

a) consolidate Poland's position as a reliable issuer on foreign capital markets;
b) provide access to large groups of institutional investors with considerable financial resources;
c) enable Polish non-government issuers (e.g. banks or companies) to select a foreign market segment and provide them with a convenient benchmark;
d) diversify foreign sources of meeting the borrowing needs of the state budget.

Bonds are issued within the limits specified in Budget Acts. In selecting the issue market and currency, the issuer's decision concerning Treasury Bonds directed on to foreign markets was based on the results of the analysis of expected service costs and the assessment of the extent to which the above objectives, set out for the issues directed on to foreign markets, were accomplished. The bonds issued so far by the State Treasury on foreign markets have been typical fixed-rate bonds (with no additional options).

By the end of 2000 four classic issues of Treasury Debt Securities were issued, designated for the international market (the Eurobond segment of the international capital market and the Yankee market -that of securities issued by foreign issuers in the US), namely:

a) 1995 - issue of Eurobonds denominated in USD, maturing in 2000;
b) 1996 - issue of Eurobonds denominated in DEM, maturing in 2001;
c) 1997 - issue of two tranches of USD-denominated bonds in the Yankee market, maturing in 2004 and 2017 (registered with the US Securities &Exchange Commission (SEC));
d) 2000 - issue of Eurobonds denominated in EUR, maturing in 2010.

Table 20. Polish Foreign Bonds issued on the international market until 2000

	7.75% USD-denominated bond maturing in 2000	6.125% DEM-denominated bond maturing in 2001	7.125% USD-denominated bond maturing in 2004	7.75% USD-denominated bond maturing in 2017	6% EUR-denominated bond maturing in 2010
Issue date	13.07.1995	31.07.1996	1.07.1997	1.07.1997	22.03.2000
Lead manager	JP Morgan	Deutsche Morgan Grenfell, Credit Suisse First Boston	J.P. Morgan	J.P. Morgan	BNP Paribas, Credit Suisse First Boston
Issue value / debt value at the end of 2000	250 m. USD/ redeemed in July 2000	250 m. DEM	300 m. USD	100 m. USD	600 m. EUR
Per annum Interest (%)	fixed; 7.75	fixed; 6.125	fixed; 7.125	fixed; 7.75	fixed; 6
Maturity	5 years	5 years	7 years	20 years	10 years
Spread over underlying asset's quotation as of issue date	185 pb	65 pb	75 pb	100 pb	82 pb
Issue price (%)	99.967	101.777	99.491	99.299	98.300
Redemption date	13.07.2000	31.07.2001	1.07.2004	1.07.2017	22.03.2010
Frequency of interest payments	semiannually, on 13.01 and 13.07	annually, on 31.07	semiannually, on 1.01 i 1.07	semiannually, on 1.01 i 1.07	annually, on 22.03
Placement market	Euro+144a	Euro	Yankee	Yankee	Euro
Spread over underlying asset's quotation as of 2000 year-end	-	89pb	200pb	117pb	88,5pb
Registration	-	-	US Securities and Exchange Commission	US Securities and Exchange Commission	-
Listing on the secondary market	Luxembourg Stock Exchange	Frankfurt Stock Exchange	-	-	Luxembourg Stock Exchange

7.2. POLISH BRADY BONDS

The Polish Brady Bonds were issued under an agreement with commercial banks represented by the London Club. The issue of the bonds took place on October 27th, 1994 and it included six instrument types of different design. The total value of the issue reached ca. 8 billion USD. At the end of 2000, the debt in respect of the bonds amounted to 4 362.4 million USD.

Of the six instruments issued, only four were actively traded on the secondary (OTC) market: Par Bonds, Discount Bonds, PDI Bonds, and RSTA Bonds, and market price changes can be presented only for these bonds (both as a percentage of the face value and as a spread above the return on corresponding US Treasury Bonds). For the other bonds, the issue amount is too low to ensure sufficient liquidity on the secondary market. Following the redemption of all Discount and New Money Bonds in 2000, there are now only four issues of the Polish Brady Bonds still outstanding.

Table 21. Polish Brady Bonds*

	Collateralized Discount Bonds	Collateralized Par Bonds	Collateralized RSTA Bonds	PDI Bonds	DCB Bonds	New Money Bonds
Issue date	27.10.1994	27.10.1994	27.10.1994	27.10.1994	27.10.1994	27.10.1994
Issue value	2 968.2 m. USD	934.7 m. USD	894.4 m. USD	2 673.6 m. USD	393.0 m. USD	137.6 m. USD
Abbreviated bond name	Discount	Par	RSTA	PDI	DCB	NMB
Coupon rate	6-month LIBOR + 13/16% spread	increasing from 2.75% to 5% at the end of 2000 3.75%	increasing from 2.75% to 5% at the end of 2000 4.25%	increasing from 3.25% to 7%; at the end of 2000 6%	increasing from 4.5% to 7.5%; at the end of 2000 6%	6-month LIBOR 13/16% spread
Maturity	30 years	30 years	30 years	20 years	25 years	15 years
Spread over the US Governement Bonds as of the end of 2000	-	283pb**	282pb**	198pb**	***	-
Principal repayment	bullet on maturity przy wykupie	bullet on maturity przy wykupie	bullet on maturity przy wykupie	in 27 step-up instalments, with 7-year grace period	in 11 step-up instalments, with 20-year grace period	in 11 step-up instalments, with 10-year grace period
Redemption date	27.10.2024	27.10.2024	27.10.2024	27.10.2014 (last instalment)	27.10.2019 (last instalment)	27.10.2009 (last instalment)
Frequency of interest payments	semiannually, on 27.04 and 27.10	semiannually, on 27.04 and 27.10	semiannually, on 27.04 and 27.10	semiannually, on 27.04 and 27.10	semiannually, on 27.04 and 27.10	semiannually, on 27.04 and 27.10
Collateral	Zero-coupon US Treasury Strips deposited at the Federal Reserve Bank in New York	Zero-coupon US Treasury Strips deposited at the Federal Reserve Bank in New York	Zero-coupon US Treasury Strips deposited at the Federal Reserve Bank in New York	-	-	-
Outstanding debt at the end of 2000	0****	744.7 m. USD	738.1 m. USD	2486.7 m. USD	393.0 m. USD	0****
Listing on secondary market	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Luxembourg Stock Exchange

* IInstruments issued in 1994 in implementation of the agreement on reduction and restructuring of Polish debt to commercial banks - members of the London Club.

** Stripped spread - adjusted for the effect of US Strips collateral.

*** No quotations on the secondary market, owing to low issue amounts the market is completely illiquid.

**** Early redemption of the notes.

SALE AND ISSUE OF TREASURY SECURITIES IN 2000

CHAPTER 8.
PLAN AND EXECUTION OF THE 2000 BUDGET ACT

The 2000 Budget Act provided for revenue of 53 438 million PLN from the sale of Treasury Securities. It was expected that 22 500 million PLN would be derived from the sale of Treasury Bonds, and the remaining balance of 30 938 million PLN from the sale of Treasury Bills. The funds generated, together with privatisation proceeds planned at 20 100 million PLN and a negative foreign financing balance of 2 088 million PLN, were to finance: the budget deficit of 15 400 million PLN, redemption of TS in the amount of 41 460 million PLN (including 10 688 million PLN in bonds and 30 772 million PLN in T-bills), domestic loans granted (totalling a net amount of 3 122 million PLN), and the balance of funds brought forward (4 600 million PLN).

The provisions of the Budget Act introduced the following limits and restrictions concerning the scale of TS issue and debt increase:

a) the limit of increase in debt arising from the domestic issue and redemption of TS, according to the nominal value it was set at 30 000 million PLN;

b) the limit of increase in nominal debt in respect of loans raised, foreign borrowings and the issues of TS was set at 5 970 million PLN, of which the limit for the issue of TS was set at 2 985 million PLN.

At the same time, the Budget Act authorised the Minister of Finance to raise foreign loans and issue TS on the domestic and foreign markets intended to finance the redemption, including early redemption, or conversion of the existing debt of the State Treasury, limiting the amount of new debt raised for the above purposes to the amount of 24 000 million PLN. The above-mentioned limits did not refer to loans raised or TS issued for this purpose.

As in previous years, in 2000 the increase in debt in TS remained within the statutory limits laid down in the Budget Act:

a) increase in nominal debt arising from the domestic issue and redemption of TS amounted to 19 948 million PLN (this amount was a combination of the decline in debt in T-bills by 3 537.9 million PLN and the rise in debt in T-bonds by 23 485.9 million PLN);

b) increase in debt in loans, foreign borrowings granted and the issue of TS was negative and amounted to 5 020 million PLN.

In 2000, proceeds of 65 719 million PLN were earned from the sale of Treasury Securities. 23 348 million PLN of that amount came from the sale of Treasury Bonds, and the remaining balance of 42 371 million PLN from the sale of Treasury Bills. The funds, together with privatisation proceeds (totalling 26 746 million PLN), the funds brought forward from 1999 and deposits (4 228 million PLN) and proceeds from repayment of loans by health insurance institutions (108 million PLN) financed:

a) the budget deficit in the amount of 15 391 million PLN;
b) redemption of TS in the amount of 60 041 million PLN (T-bonds - 13 341 million PLN, T-bills - 46 700 million PLN);
c) domestic loans granted (in the amount of 3 000 million PLN);
d) the funds brought forward to 2001 and deposits: 9 157 million PLN (of which foreign currency deposits 3 562 million PLN);
e) compensations for the public sector employees/pensioners (3 392.7 millions PLN);
f) other proceeds and expenditures (cash redemption of the health care units liabilities amounted to 800 million PLN) and a negative foreign financing balance (5 020 million PLN).

CHAPTER 9.
SALE OF TREASURY SECURITIES

9.1. SALE OF TREASURY SECURITIES OFFERED AT AUCTIONS

In 2000, the total revenue from the sale of Treasury Securities offered at auctions, i.e. Treasury Bonds and Treasury Bills, amounted to 62 311.15 million PLN in cash. The total nominal value of both the above types of TS sold in 2000 reached 71 943.055 million PLN.

Treasury bills

In 2000, 57 Treasury Bills auctions were held, with the total nominal value of the securities offered amounting to 47 200.0 million PLN. The bids from investors totalled 115 831.9 million PLN, and the sales reached 46 253.04 million PLN in nominal value.

The total revenue from the sale of Treasury Bills reached 42 371.37 million PLN – in the breakdown according to the different bill types sold, the above figure was split as follows:

a) 2-week bills - 6 256.0 million PLN (6 300.0 million PLN in nominal terms);
b) 3-week bills - 8 265.1 million PLN (8 350.0 million PLN in nominal terms);
c) 6-week bills - 1 971.2 million PLN (2 011.2 million PLN in nominal terms);
d) 8-week bills - 292.4 million PLN (300.0 million PLN in nominal terms);
e) 13-week bills - 4 491.4 million PLN (4 680.1 million PLN in nominal terms);
f) 26-week bills - 2 084.5 million PLN (2 265.6 million PLN in nominal terms);
g) 52-week bills - 19 010.8 million PLN (22 346.2 million PLN in nominal terms).

The nominal value of the 2000 Treasury Bills sales was 1.7% higher than a year earlier, and revenues from the sale of the instruments increased by 0.1% during the discussed period.

Table 22. Sale of Treasury Bills at auctions in 2000

auction date	bill type	payment date	redemption date	amount offered (m. PLN)	demand (m. PLN)	sale at par value (m. PLN)	sale at (cash value) (m. PLN)	minimum price* (PLN)	average price* (PLN)	average yield (%)	maximum yield (%)
03.01.00	13	05.01.00	05.04.00	100	458.88	100.00	96.06	9 604.28	9 605.87	16.23	16.30
	52	05.01.00	03.01.01	1 100	1 889.39	1 140.25	981.38	8 600.00	8 606.68	16.01	16.10
10.01.00	13	12.01.00	12.04.00	100	734.58	100.00	96.13	9 611.28	9 613.02	15.93	16.00
	52	12.01.00	10.01.01	1 000	2 457.52	1 000.00	860.48	8 600.01	8 604.83	16.04	16.10
17.01.00	13	19.01.00	19.04.00	100	539.20	100.00	96.19	9 615.30	9 618.61	15.69	15.83
	52	19.01.00	17.01.01	1 000	1 886.12	1 000.00	859.32	8 588.81	8 593.24	16.19	16.25
24.01.00	13	26.01.00	26.04.00	100	455.43	100.00	96.21	9 618.50	9 621.20	15.58	15.69
	26	26.01.00	26.07.00	100	310.86	100.00	92.45	9 241.00	9 245.05	16.15	16.25
	52	26.01.00	24.01.01	800	1 845.56	800.00	687.26	8 586.57	8 590.79	16.22	16.28
31.01.00	26	02.02.00	02.08.00	200	471.88	200.00	184.86	9 237.00	9 242.84	16.20	16.34
	52	02.02.00	31.01.01	700	1 272.05	700.00	600.56	8 574.00	8 579.49	16.38	16.45
07.02.00	13	09.02.00	10.05.00	100	331.25	100.00	96.19	9 617.12	9 619.31	15.66	15.75
	26	09.02.00	09.08.00	100	241.43	100.00	92.38	9 234.00	9 237.76	16.32	16.41
	52	09.02.00	07.02.01	700	1 300.11	700.00	599.41	8 557.50	8 563.06	16.60	16.67
14.02.00	13	16.02.00	17.05.00	100	261.42	100.00	96.17	9 613.61	9 616.67	15.77	15.90
	26	16.02.00	16.08.00	200	195.31	133.31	123.02	9 219.30	9 228.24	16.54	16.75
	52	16.02.00	14.02.01	700	1 100.37	700.00	597.43	8 529.55	8 534.74	16.98	17.05
21.02.00	13	23.02.00	24.05.00	100	266.28	100.00	96.16	9 614.08	9 616.13	15.79	15.88
	26	23.02.00	23.08.00	200	275.51	200.00	184.35	9 212.86	9 217.68	16.79	16.90
	52	23.02.00	21.02.01	800	1 451.29	800.00	682.66	8 529.60	8 533.21	17.00	17.05
28.02.00	13	01.03.00	31.05.00	100	298.83	98.18	94.29	9 596.12	9 603.85	16.32	16.65
	26	01.03.00	30.08.00	100	165.71	98.59	90.66	9 185.00	9 195.88	17.30	17.55
	52	01.03.00	28.02.01	800	1 048.61	798.95	677.69	8 467.00	8 482.24	17.70	17.91
06.03.00	13	08.03.00	07.06.00	100	311.95	100.00	96.01	9 598.45	9 600.69	16.45	16.55
	26	08.03.00	06.09.00	100	207.37	96.67	88.79	9 175.26	9 184.76	17.56	17.78
	52	08.03.00	07.03.01	800	1 136.28	800.00	676.49	8 449.40	8 456.13	18.06	18.15
13.03.00	13	15.03.00	14.06.00	100	247.91	98.55	94.62	9 600.70	9 601.42	16.42	16.45
	26	15.03.00	13.09.00	100	270.70	89.23	81.96	9 180.79	9 185.36	17.54	17.65
	52	15.03.00	14.03.01	800	2 672.01	800.00	676.91	8 460.24	8 461.35	17.99	18.00
20.03.00	13	22.03.00	21.06.00	100	275.61	100.00	96.04	9 602.00	9 603.52	16.33	16.40
	26	22.03.00	20.09.00	100	385.78	94.74	87.08	9 189.00	9 191.76	17.39	17.46

auction date	bill type	payment date	redemption date	amount offered (m. PLN)	demand (m. PLN)	sale at par value (m. PLN)	sale at (cash value) (m. PLN)	minimum price* (PLN)	average price* (PLN)	average yield (%)	maximum yield (%)
	52	22.03.00	21.03.01	600	3 030.35	600.00	510.30	8 504.00	8 504.93	17.39	17.40
27.03.00	13	29.03.00	28.06.00	100	200.85	100.00	96.06	9 603.50	9 605.96	16.23	16.33
	26	29.03.00	27.09.00	100	607.78	93.99	86.58	9 204.29	9 211.41	16.93	17.10
	52	29.03.00	28.03.01	600	1 983.35	600.00	511.80	8 524.41	8 530.07	17.04	17.12
03.04.00	13	05.04.00	05.07.00	100	180.32	100.00	96.06	9 599.63	9 605.82	16.23	16.50
	26	05.04.00	04.10.00	100	382.97	99.57	91.66	9 202.15	9 206.01	17.06	17.15
	52	00.04.05	04.04.01	600	1 570.85	600.00	511.50	8 522.50	8 524.92	17.11	17.15
10.04.00	13	12.04.00	12.07.00	100	181.98	100.00	96.03	9 599.70	9 603.32	16.34	16.50
	52	12.04.00	11.04.01	500	1 351.18	500.00	426.13	8 517.07	8 522.67	17.14	17.22
17.04.00	13	19.04.00	19.07.00	100	187.77	100.00	96.06	9 600.78	9 605.53	16.25	16.45
	26	19.04.00	18.10.00	200	343.75	200.00	184.12	9 200.01	9 206.10	17.06	17.20
	52	19.04.00	18.04.01	400	943.09	390.21	332.43	8 507.54	8 519.31	17.19	17.35
20.04.00	13	26.04.00	26.07.00	100	123.12	100.00	96.01	9 592.63	9 600.51	16.46	16.80
	26	26.04.00	25.10.00	200	284.04	200.00	183.97	9 193.60	9 198.27	17.24	17.35
	52	26.04.00	25.04.01	300	829.62	300.00	255.17	8 496.58	8 505.82	17.37	17.50
08.05.00	13	10.05.00	09.08.00	200	150.09	124.09	119.04	9 582.20	9 592.67	16.80	17.25
	26	10.05.00	08.11.00	200	97.57	63.33	58.13	9 170.15	9 178.90	17.69	17.90
	52	10.05.00	09.05.01	300	594.70	291.14	246.70	8 460.24	8 473.42	17.82	18.00
15.05.00	13	17.05.00	16.08.00	200	268.07	184.04	176.42	9 583.34	9 586.07	17.08	17.20
	26	17.05.00	15.11.00	100	332.06	100.00	91.79	9 176.50	9 179.26	17.69	17.75
	52	17.05.00	16.05.01	400	896.02	400.00	338.96	8 467.50	8 473.98	17.81	17.90
22.05.00	13	24.05.00	23.08.00	100	476.27	100.00	95.93	9 590.33	9 592.56	16.80	16.90
	52	24.05.00	23.05.01	400	1 060.23	400.00	338.70	8 462.02	8 467.49	17.90	17.98
29.05.00	13	31.05.00	30.08.00	100	377.29	100.00	95.97	9 595.11	9 597.15	16.61	16.69
	52	31.05.00	30.05.01	400	1 738.39	400.00	338.47	8 460.25	8 461.65	17.98	18.00
05.06.00	13	07.06.00	06.09.00	100	408.82	100.00	96.00	9 598.90	9 600.45	16.46	16.53
	52	07.06.00	06.06.01	500	1 956.88	500.00	423.93	8 474.74	8 478.56	17.75	17.80
06.06.00	3	08.06.00	29.06.00	2 000	4 356.18	2 000.00	1 979.84	9 897.80	9 899.18	17.46	17.70
12.06.00	13	14.06.00	13.09.00	100	225.65	100.00	96.02	9 600.46	9 601.98	16.40	16.46
	52	14.06.00	13.06.01	500	1 978.35	654.21	554.43	8 471.10	8 474.74	17.80	17.85
19.06.00	13	21.06.00	20.09.00	100	329.53	100.00	96.03	9 602.00	9 602.88	16.36	16.40
	52	21.06.00	20.06.01	500	1 465.91	500.00	423.23	8 460.24	8 464.56	17.94	18.00
26.06.00	13	28.06.00	27.09.00	100	268.05	100.00	96.04	9 603.11	9 603.71	16.32	16.35
	52	26.06.00	27.06.01	500	1 131.10	491.25	415.71	8 460.24	8 462.31	17.97	18.00
03.07.00	13	05.07.00	04.10.00	100	434.26	100.00	96.10	9 609.20	9 609.79	16.06	16.09
	52	05.07.00	04.07.01	500	1 460.27	500.00	424.00	8 474.74	8 479.96	17.73	17.80
04.07.00	3	06.07.00	27.07.00	2 000	5 476.28	2 663.86	2 636.93	9 898.38	9 898.90	17.51	17.60
07.07.00	2	11.07.00	25.07.00	1 500	3 432.93	1 500.00	1 489.83	9 932.04	9 932.20	17.55	17.60
10.07.00	13	12.07.00	11.10.00	200	208.75	200.00	192.13	9 599.62	9 606.58	16.20	16.50
	52	12.07.00	01.07.01	400	1 334.14	400.00	339.27	8 478.37	8 481.72	17.70	17.75
17.07.00	13	19.07.00	18.10.00	200	188.60	163.60	157.09	9 593.80	9 601.85	16.40	16.75
	52	19.07.00	18.07.01	400	1 193.03	400.00	339.23	8 474.74	8 480.75	17.72	17.80
24.07.00	13	26.07.00	25.10.00	200	153.06	140.96	135.26	9 590.00	9 595.31	16.69	16.91
	52	26.07.00	25.07.01	400	1 268.86	400.00	339.20	8 478.37	8 479.90	17.73	17.75
31.07.00	8	02.08.00	27.09.00	300	962.56	300.00	292.35	9 742.38	9 745.05	16.82	17.00
	52	02.08.00	01.08.01	300	957.76	300.00	254.42	8 478.37	8 480.50	17.72	17.75
01.08.00	3	02.08.00	23.08.00	2 500	5 646.79	2 500.00	2 474.69	9 898.49	9 898.76	17.53	17.58
07.08.00	13	09.08.00	08.11.00	100	248.25	100.00	95.97	9 593.90	9 597.19	16.60	16.75
	52	09.08.00	08.08.01	300	775.06	300.00	254.43	8 478.37	8 480.96	17.71	17.75
11.08.00	6	16.08.00	27.09.00	700	1 375.91	700.00	686.31	9 802.78	9 804.42	17.10	17.25
16.08.00	6	18.08.00	29.09.00	2 000	1 401.24	1 311.24	1 284.88	9 796.23	9 798.94	17.59	17.83

auction date	bill type	payment date	redemption date	amount offered (m. PLN)	demand (m. PLN)	sale at par value (m. PLN)	sale at (cash value) (m. PLN)	minimum price* (PLN)	average price* (PLN)	average yield (%)	maximum yield (%)
21.08.00	13	23.08.00	22.11.00	100	259.36	88.12	84.40	9 565.00	9 577.79	17.44	17.99
	26	23.08.00	21.02.01	100	124.08	99.08	90.36	9 105.00	9 119.64	19.10	19.44
	52	23.08.00	22.08.01	300	727.04	300.00	252.50	8 399.17	8 416.67	18.61	18.85
28.08.00	13	30.08.00	29.11.00	100	332.23	98.62	94.44	9 570.60	9 575.98	17.52	17.75
	26	30.08.00	28.02.01	100	970.57	97.07	88.76	9 140.50	9 144.41	18.51	18.60
	52	30.08.00	29.08.01	300	931.10	300.00	252.35	8 409.88	8 411.56	18.68	18.70
04.09.00	13	06.09.00	06.12.00	200	478.66	200.00	191.44	9 567.10	9 572.17	17.68	17.90
	52	06.09.00	05.09.01	200	1 062.64	192.39	162.18	8 427.50	8 429.96	18.42	18.45
05.09.00	3	07.09.00	28.09.00	1 200	3 983.14	1 186.11	1 173.60	9 893.80	9 894.51	18.28	18.40
11.09.00	13	13.09.00	13.12.00	200	434.65	183.92	176.00	9 566.19	9 569.44	17.80	17.94
	52	13.09.00	12.09.01	200	983.10	190.84	161.00	8 431.39	8 436.34	18.33	18.40
18.09.00	13	20.09.00	20.12.00	100	415.27	100.00	95.72	9 570.82	9 572.41	17.67	17.74
	52	20.09.00	19.09.01	200	786.57	200.00	168.87	8 435.00	8 443.54	18.23	18.35
25.09.00	13	27.09.00	27.12.00	100	628.97	100.00	95.81	9 578.75	9 580.77	17.31	17.40
	52	27.09.00	26.09.01	200	836.59	196.93	166.40	8 442.18	8 449.54	18.15	18.25
26.09.00	2	28.09.00	12.10.00	4 800	6 322.97	4 800.00	4 766.25	9 928.57	9 929.68	18.21	18.50
02.10.00	13	04.10.00	03.01.01	100	311.51	100.00	95.87	9 585.66	9 586.98	17.04	17.10
	52	04.10.00	03.10.01	200	498.84	200.00	169.07	8 449.39	8 453.41	18.09	18.15
09.10.00	13	11.10.00	10.01.01	100	228.76	100.00	95.88	9 584.50	9 587.65	17.01	17.15
	52	11.10.00	10.10.01	200	783.73	200.00	169.08	8 449.11	8 454.19	18.08	18.15
16.10.00	13	18.10.00	17.01.01	100	371.88	100.00	95.89	9 587.98	9 589.18	16.95	17.00
	52	18.10.00	17.10.01	200	952.06	200.00	169.10	8 453.00	8 454.86	18.07	18.10
23.10.00	13	25.10.00	24.01.01	100	281.20	100.00	95.90	9 588.91	9 590.35	16.90	16.96
	52	25.10.00	24.10.01	200	614.19	200.00	169.13	8 454.00	8 456.48	18.05	18.09
06.11.00	13	08.11.00	07.02.01	100	218.69	100.00	95.92	9 590.50	9 591.78	16.84	16.89
	52	08.11.00	07.11.01	200	963.08	200.00	169.24	8 460.20	8 461.76	17.98	18.00
13.11.00	52	15.11.00	14.11.01	300	1 044.58	300.00	253.89	8 460.96	8 463.07	17.96	17.99
20.11.00	26	22.11.00	23.05.01	100	220.45	100.00	91.80	9 172.28	9 179.92	17.67	17.85
	52	22.11.00	21.11.01	300	956.40	300.00	253.91	8 460.96	8 463.59	17.95	17.99
27.11.00	26	29.11.00	30.05.01	100	357.97	100.00	91.78	9 172.83	9 177.63	17.72	17.84
	52	29.11.00	28.11.01	300	875.43	300.00	253.91	8 461.00	8 463.59	17.95	17.99
04.12.00	52	06.12.00	05.12.01	300	1 189.32	300.00	253.94	8 463.13	8 464.62	17.94	17.96
11.12.00	13	13.12.00	14.03.01	100	315.96	100.00	95.92	9 584.86	9 591.93	16.83	17.13
	52	13.12.00	12.12.01	300	1 154.55	300.00	254.09	8 467.49	8 469.81	17.87	17.90
18.12.00	13	20.12.00	21.03.01	100	198.07	100.00	95.92	9 590.00	9 591.77	16.84	16.91
	52	20.12.00	19.12.01	300	1 133.39	300.00	254.58	8 480.00	8 486.15	17.64	17.73
28.12.00**	13	03.01.01	04.04.01	100	98.41	62.64	60.10	9 590.00	9 593.72	16.75	16.91
	26	03.01.01	04.07.01	100	325.32	89.24	82.11	9 185.26	9 200.63	17.19	17.55
	52	03.01.01	02.01.02	400	1 866.06	400.00	340.55	8 504.12	8 513.80	17.27	17.40
Total T-bills 2-week				6 300.00	9 755.90	6 300.00	6 256.08				
Total T-bills 3-week				7 700.00	19 462.39	8 349.97	8 265.05				
Total T-bills 6-week				2 700.00	2 777.15	2 011.24	1 971.18				
Total T-bills 8-week				300.00	962.56	300.00	292.35				
Total T-bills 13-week				5 000.00	13 365.69	4 680.08	4 491.37				
Total T-bills 26-week				2 600.00	6 571.11	2 265.58	2 084.51				
Total T-bills 52-week				22 600.00	62 937.12	22 346.17	19 010.82				

* Per nominal value of one T-bill 10 000 PLN.

** Date of payment for bills sold at the auction on December 28th, 2000 was January 3rd, 2001, the sale from this auction is not calculated into the sales in 2000.

Chart 7. Supply, demand and sale of T-bills at auctions in years 1995-2000, at par value

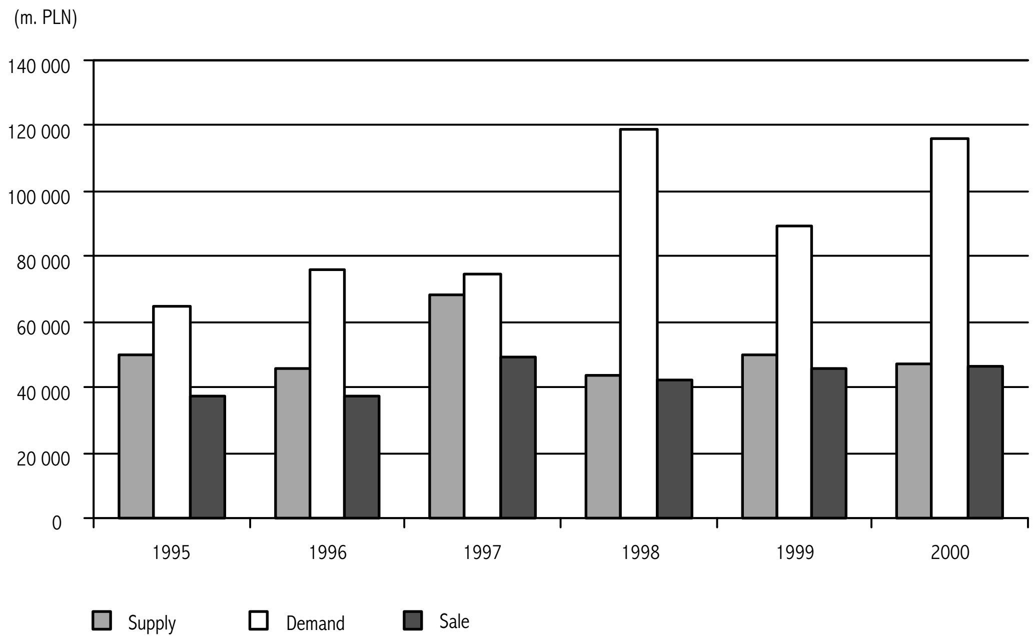


Chart 8. Sale of T-bills at auctions by instrument in years 1995-2000, at par value

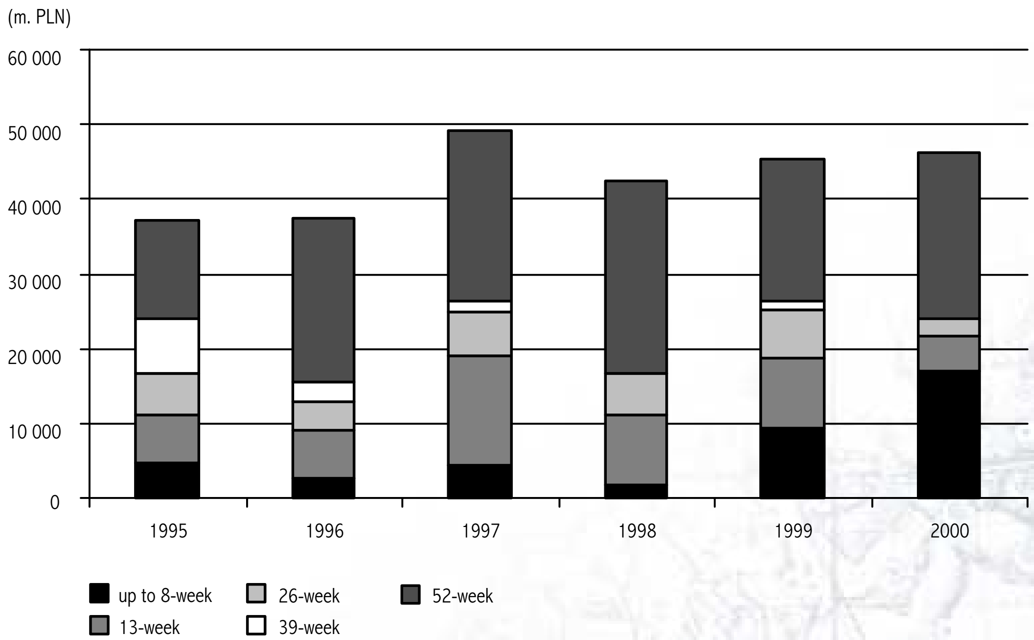
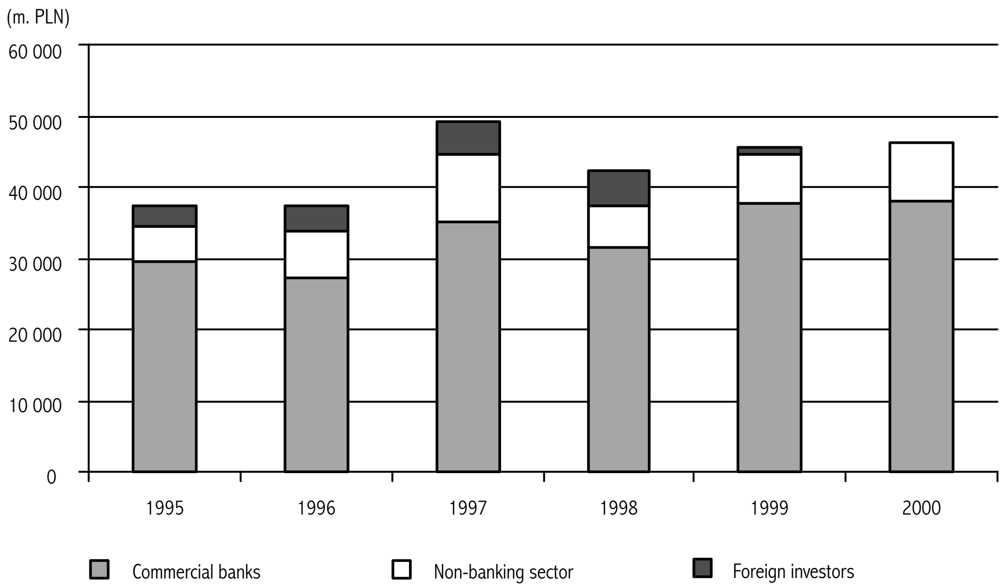


Chart 9. Sale of T-bills at auctions by holder in years 1995-2000, at par value



Treasury bonds sold at auctions

In 2000, 36 Treasury Bonds auctions were held, with instruments offered for sale totalling 26 807 million PLN in nominal terms.

The total demand reached 78 129 million PLN, while the sales reached the nominal value of 25 690 million PLN. In 2000, the proceeds from the sales of Treasury Bonds at auctions amounted to 19 939 million PLN. The total amount acquired consisted of the following sums:

Fixed-rate bonds:

a) 2-year zero-coupon bonds - 7 440 million PLN (10 030 million PLN in nominal terms);
b) 5-year bonds - 8 927 million PLN (10 906 million PLN in nominal terms);
c) 10-year bonds - 2 341 million PLN (3 500 million PLN in nominal terms).

Floating-rate bonds:

a) 10-year bonds - 1 232 million PLN (1 254 million PLN in nominal terms).

In 2000, the proceeds from the sale of Treasury Bonds at auctions were 22% higher than in 1999, while sales in nominal terms increased by almost 49%.

Table 23. Sale of fixed-rate Treasury Bonds at auctions in 2000

auction date	series sold	payment date	redemption date	amount offered (m. PLN)	demand (m. PLN)	sales nominal (m. PLN)	average price* (PLN)	minimum price* (PLN)	average yield (%)	maximum yield (%)
05.01.00	OK1201	12.01.00	21.12.01	1 200.00	1 229.70	1 033.95	758.89	754.00	15.26	15.65
05.01.00	PS1004	12.01.00	12.10.04	800.00	1 737.95	748.75	867.32	864.00	12.32	12.42
19.01.00	DS1109	24.01.00	24.11.09	400.00	1 250.25	400.00	727.87	723.00	10.57	10.67
02.02.00	OK1201	12.02.00	21.12.01	1 000.00	2 072.06	1 000.00	757.50	755.20	16.13	16.32
02.02.00	PS0205	12.02.00	12.02.05	1 500.00	2 899.14	1 495.89	839.24	832.70	13.06	13.28
01.03.00	OK1201	12.03.00	21.12.01	1 200.00	4 320.58	1 200.00	753.65	752.60	17.24	17.33
01.03.00	PS0205	12.03.00	12.02.05	1 600.00	4 524.35	1 600.00	821.05	818.50	13.71	13.80
15.03.00	DS1109	24.03.00	24.11.09	500.00	1 772.61	500.00	726.17	723.85	10.66	10.70
05.04.00	OK0402	12.04.00	21.04.02	1 000.00	2 432.84	1 000.00	731.50	729.80	16.70	16.83
05.04.00	PS0205	12.04.00	12.02.05	1 200.00	6 029.16	1 200.00	841.41	840.40	13.10	13.13
04.05.00	OK0402	12.05.00	21.04.02	800.00	1 804.10	800.00	732.89	732.00	17.35	17.42

PART IV

auction date	series sold	payment date	redemption date	amount offered (m. PLN)	demand (m. PLN)	sales nominal (m. PLN)	average price* (PLN)	minimum price* (PLN)	average yield (%)	maximum yield (%)
04.05.00	PS0205	12.05.00	12.02.05	900.00	2 644.32	361.10	817.93	816.50	13.95	14.00
17.05.00	DS1109	24.05.00	24.11.09	1 000.00	1 441.55	792.85	673.43	661.50	11.90	12.18
07.06.00	OK0402	12.06.00	21.04.02	900.00	2 538.00	900.00	739.82	738.90	17.61	17.69
07.06.00	PS0605	12.60.00	12.06.05	1 300.00	4 475.80	1 300.00	793.08	791.00	14.61	14.68
05.07.00	OK0402	12.07.00	21.04.02	800.00	4 483.19	800.00	752.49	751.90	17.37	17.42
05.07.00	PS0605	12.07.00	12.06.05	600.00	2 396.93	600.00	819.35	818.00	13.78	13.82
19.07.00	DS1109	24.07.00	24.11.09	800.00	1 436.50	800.00	634.89	632.10	12.94	13.01
02.08.00	OK0802	12.08.00	21.08.02	800.00	3 317.91	800.00	722.82	717.06	17.39	17.85
02.08.00	PS0605	12.08.00	12.06.05	800.00	3 886.50	800.00	805.30	803.50	14.32	14.39
06.09.00	OK0802	12.09.00	21.08.02	600.00	2 105.65	596.50	729.48	728.20	17.66	17.77
06.09.00	PS0605	12.09.00	12.06.05	600.00	2 846.00	600.00	819.28	815.70	13.91	14.04
20.09.00	DS1109	24.09.00	24.11.09	407.15	1 335.90	407.15	661.66	660.00	12.35	12.40
04.10.00	OK0802	12.10.00	21.08.02	600.00	901.60	600.00	733.09	731.60	18.19	18.32
04.10.00	PS1005	12.10.00	12.10.05	1 000.00	2 810.50	1 000.00	778.60	775.20	15.12	15.24
08.11.00	OK0802	12.11.00	21.08.02	600.00	1 747.68	600.00	745.60	744.90	18.01	18.07
08.11.00	PS1005	12.11.00	12.10.05	500.00	1 967.00	500.00	790.99	790.50	14.75	14.77
15.11.00	DS1110	24.1.00	24.11.10	600.00	1 277.05	600.00	625.18	622.60	12.87	12.93
06.12.00	OK1202	12.12.00	21.12.02	700.00	1 774.00	700.00	724.93	723.70	17.22	17.32
06.12.00	PS1005	12.12.00	12.10.05	700.00	1 898.00	700.00	815.02	814.00	13.99	14.02
			Total	25407.15	75356.81	24436.19				

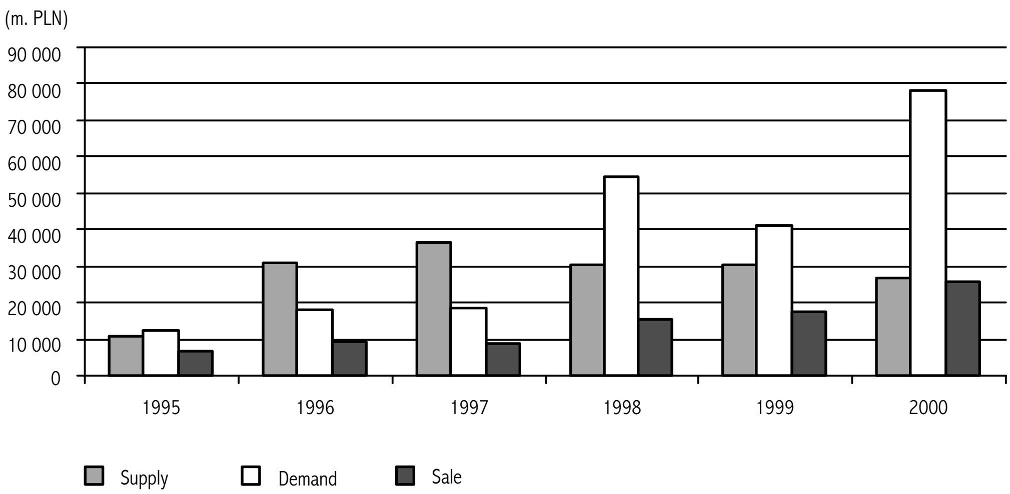
* Per nominal value of one T-bond 1 000 PLN.

Table 24. Sale of floating-rate Treasury Bonds at auctions in 2000

auction date	series	payment date	redemption date	amount offered (m. PLN)	demand (m. PLN)	sales (m. PLN)	average price* (PLN)	minimum price* (PLN)
09.02.00	DZ0110	18.02.00	18.01.10	400.0	429.7	329.7	979.09	974.30
12.04.00	DZ0110	18.04.00	18.01.10	200.0	647.4	200.0	974.59	974.40
14.06.00	DZ0110	18.06.00	18.01.10	200.0	630.2	200.0	980.00	980.00
09.08.00	DZ0110	18.08.00	18.01.10	200.0	568.4	200.0	983.96	982.15
11.10.00	DZ0110	18.10.00	18.01.10	200.0	311.3	200.0	993.67	990.10
12.12.00	DZ0110	18.12.00	18.01.10	200.0	185.1	124.1	992.26	990.11
			Total	1 400.0	2 772.1	1 253.8		

* Per nominal value of one T-bond 1 000 PLN.

Chart 10. Supply, demand and sale of Treasury Bonds at auctions in years 1995-2000, at par value



PART IV

Chart 11. Sale of Treasury Bonds at auctions by instrument in years 1995-2000, at par value

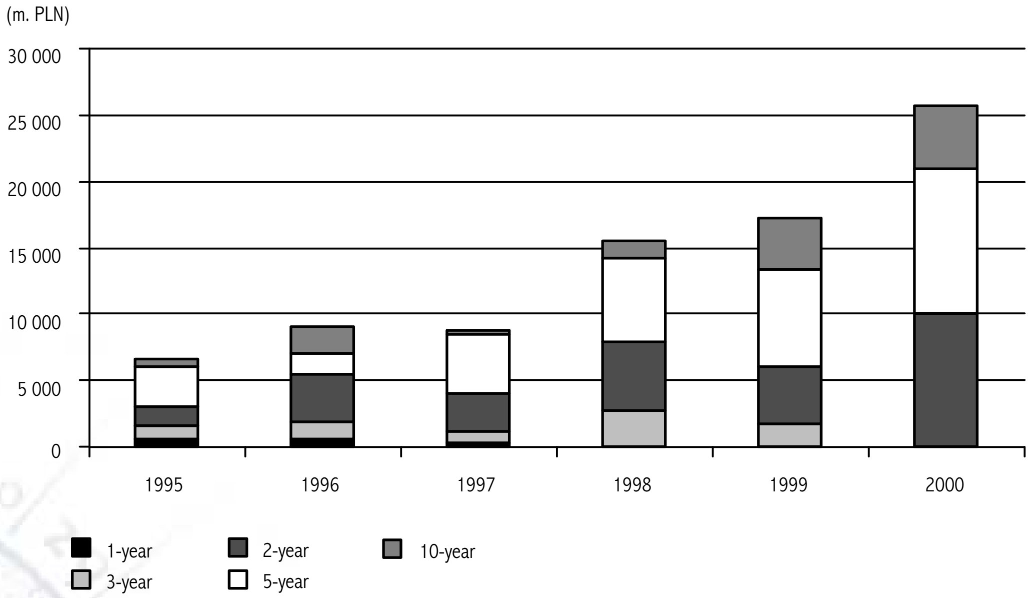
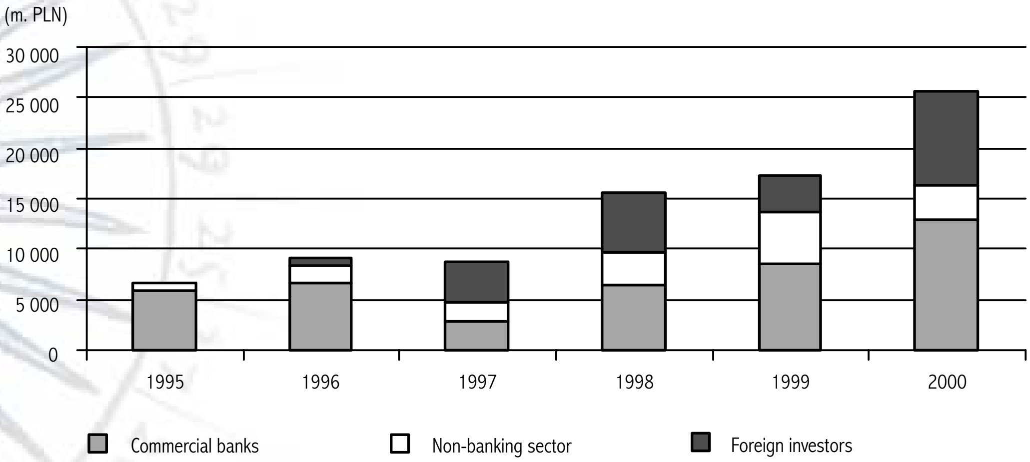


Chart 12. Sale of Treasury Bonds at auctions by holder in years 1995-2000, at par value



PART IV

Yield on wholesale treasury securities in 2000

2000 saw a permanent increase of yield on instruments offered on the primary market for Treasury Securities.

In the case of T-bills the average yield on 52-week instruments at the last auction in 2000 fetched up to 17.27%, up 1.43 pp during the year. For 26-week bills, the yield as at the end of 2000 was reported at 17.19% - an increase of 0.73 pp, while the yield on 13-week bills reached 16.75%, i.e. 0.40 pp more than a year earlier.

A similar situation was witnessed in the case of T-bonds. Yield on 2-year zero-coupon bonds amounted to 17.22% at the end of 2000 and was 2.43 pp higher in comparison to the situation at the last auction in 1999. Yield on 5-year bonds at the last auction held in 2000 amounted to 13.99%, which meant an increase of 2.00 pp compared with December 1999. Yield on 10-year fixed-rate bonds was reported at the end of 2000 at the level of 12.87% and was 2.15 pp higher than at the end of the previous year.

The increase in yields of TS in 2000 was caused mainly by the inflation that kept growing from the beginning of the year and current account deficit figure worsening on a monthly basis – both of the mentioned factors inclined the Monetary Policy Council (MPC) to tighten the monetary policy. During the year, the MPC raised the basic central bank interest rates twice: in February - by 100 basis points and in August - by 150 basis points.

In 2000, the State Treasury redeemed 2- and 5-year fixed-rate bonds maturing in February, June, July, August, and October. The total nominal value of the redeemed securities reached 7 882 million PLN (6 470.8 million PLN in principal).

Assuming that the investors who purchased the 2-year bonds in 1998 on the primary market held them until maturity in 2000, they realised the following rates of return:

a) from 22.4% to 24.2% for bonds maturing in February;
b) from 20.2% to 23.9% for bonds maturing in June;
c) from 13.9% to 20.2% for bonds maturing in October.

Similarly, the yield of the 5-year bonds redeemed in 2000 (sold in 1995) amounted to:

a) from 25.4% to 26.3% for bonds maturing in February;
b) 24.9% for bonds maturing in June;
c) 25.0% for bonds maturing in July;
d) from 22.4% to 23.6% for bonds maturing in August;
e) from 21.4% to 22.4% for bonds maturing in October.

Chart 13. Yield curve of T-bills on the primary market in 2000 according to primary maturity (%)

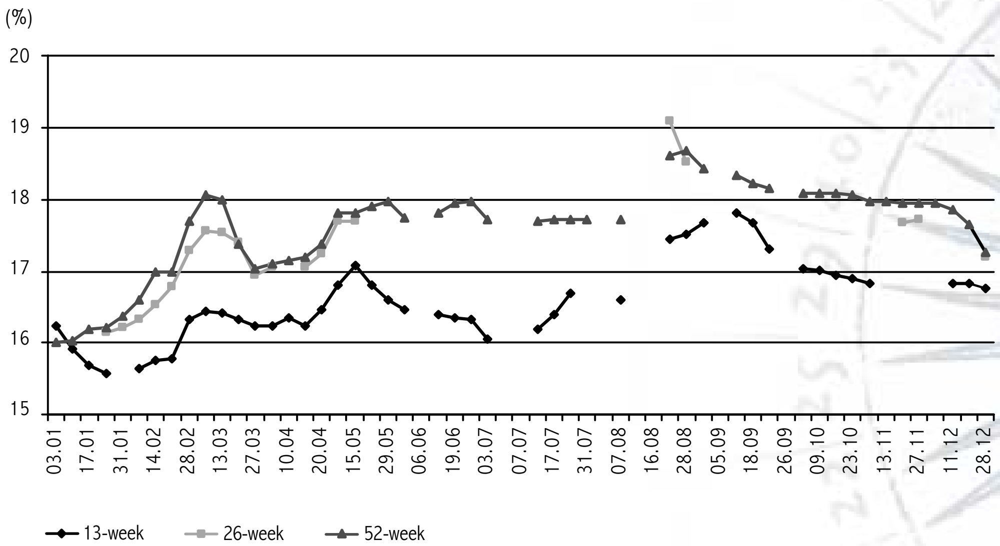
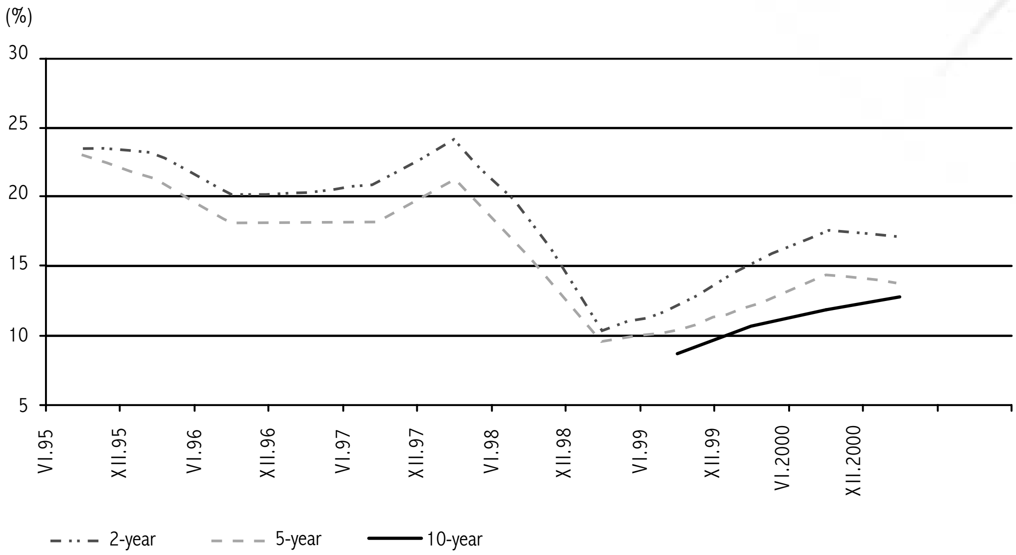


Chart 14. Yield curve of fixed-rate instruments on the primary market in years 1995-2000 according to primary maturity (%)



PART IV

9.2. SALE OF TREASURY BONDS ARISING FROM THE CONVERSION OF STATE TREASURY DEBT TO NBP

Following the 1999 conversion of the State Treasury debt to NBP, five new types of Treasury Bonds totalling a nominal amount of 16 439 million PLN and with parameters similar to the ones existing in the market for these securities were included in the central bank's portfolio.

The bonds are characterised by the following features:
a) KO0402 - maturing on April 29th, 2002; annual coupon of 0%;
b) TK1202 - maturing on December 22nd, 2002; annual coupon of 10%;
c) CK0403 - maturing on April 22nd, 2003; annual coupon 10%;
d) PK0704 - maturing on July 22nd, 2004; annual coupon 8.5%;
e) DK0809 - maturing on August 22, 2009; annual coupon of 6%.

As a result, the central bank became a holder of a large pool of negotiable instruments, which can be used in the open market operations. The sale of these securities by NBP within the open market operations started at the end of September 2000. The aim of these operations is a permanent limitation of the structural excess liquidity of the banking sector in a long term, which should improve the efficiency of the monetary policy conducted and mechanisms of transmission of the monetary policy impulses. Under the condition of poor liquidity the banks would be much quicker at reacting to the changes in interest rate on the lombard and rediscount loans as one of the sources of funding their activities.

Until the end of 2000, the central bank held a total of 15 auctions of Treasury Bonds (outright sale within the open market operations), during which it sold to banks bonds in the nominal amount of 2 222 million PLN. This accounted for 13.5% of the total value of the bonds portfolio held by the NBP. The average yield of bonds sold at NBP auctions ranged from a dozen to several tens basis points higher than the yield of T-bonds with a similar maturity profile on the secondary market on the day of the auction. Higher yields were, among other things, an outcome of the fact that these securities cannot be subject to trading among foreign investors and thus enjoy lower liquidity.

PART IV

Table 25. Results of the outright sale auctions of Treasury Bonds arising from the conversion of the State Treasury debt to NBP

auction date	bond type (series)	supply (m. PLN)	demand (m. PLN)	sale (m. PLN)	average yield (%)
19.09.00	KO0402	100.0	280.0	100.0	18.65
19.09.00	TK1202	100.0	295.0	100.0	17.95
19.09.00	CK0403	100.0	243.0	100.0	17.62
19.09.00	PK0704	100.0	130.0	10.0	16.27
19.09.00	DK0809	100.0	322.0	100.0	12.58
27.09.00	KO0402	100.0	408.0	100.0	18.59
27.09.00	TK1202	100.0	300.0	75.0	18.04
27.09.00	CK0403	100.0	203.0	-	-
27.09.00	PK0704	100.0	121.0	16.0	16.52
27.09.00	DK0809	100.0	194.0	17.0	12.98
05.10.00	KO0402	300.0	861.0	295.0	18.59
12.10.00	TK1202	300.0	603.0	19.0	18.56
19.10.00	CK0403	300.0	486.0	109.0	18.08
26.10.00	DK0809	300.0	414.0	21.0	13.49
02.11.00	KO0402	300.0	657.0	58.0	18.66
09.11.00	TK1202	300.0	361.0	160.0	18.26
16.11.00	CK0403	300.0	502.0	44.0	17.59
23.11.00	PK0704	300.0	175.0	50.0	16.31
30.11.00	DK0809	300.0	485.0	260.0	12.61
07.12.00	KO0402	300.0	502.0	300.0	18.14
14.12.00	CK0403	300.0	285.0	90.0	16.78
20.12.00	PK0704	300.0	422.0	95.0	14.88
27.12.00	DK0809	300.0	223.0	103.0	11.48
Total	**-**	**4 900.0**	**8 472.0**	**2 222.0**	**-**

9.3. BONDS OFFERED IN THE RETAIL NETWORK

Proceeds from the sale of treasury securities

In 2000, the proceeds from the sale of retail bonds amounted to 3 434 million PLN. This represented 3 434 million PLN in nominal terms and accounted for 13.4% of the value of all bonds sold by the Minister of Finance.

The amount obtained consisted of proceeds from the sale of the following bond types:

a) 3-year bonds (TZ) - 1 808 million PLN;
b) 2-year savings bonds (DOS) - 1 145 million PLN;
c) 4-year savings bonds (COI) - 481 million PLN.

The sale of retail bonds in 2000 was lower than a year earlier (4 565 million PLN nominal), which was caused, among other things, by the following factors:

a) discontinuation of the issue of 1-year fixed-rate bonds;
b) significant rise in the level of interest rates on bank deposits, which constitute competition to retail bonds;
c) unstable situation on the financial market.

Table 26. Sale of floating-rate retail bonds in 2000

bond	sales period		amount offered	sale (m. PLN)		price* (PLN)	
	start	finish	(m. PLN)	conversion	network	conversion	issue
TZ1102**	05.11.99	31.01.00	1 150		42.07	99.80	100.00
TZ0203	07.02.00	28.04.00	500	26.87	444.68	99.80	100.00
TZ0503	05.05.00	28.07.00	500	51.86	396.29	99.80	100.00
TZ0803	04.08.00	28.10.00	400	29.55	308.87	99.80	100.00
TZ1103***	02.11.00	25.01.01	400	82.27	317.73	99.80	100.00
COI0104	03.01.00	31.01.00	100	-	6.64	-	100.00
COI0204	01.02.00	28.02.00	100	-	6.25	-	100.00
COI0304	01.03.00	31.03.00	100	-	8.06	-	100.00
COI0404	03.04.00	28.04.00	100	-	4.23	-	100.00
COI0504	04.05.00	31.05.00	100	-	7.79	-	100.00
COI0604	01.06.00	30.06.00	100	-	3.74	-	100.00
COI0704	03.07.00	31.07.00	100	-	92.71	-	100.00
COI0804	01.08.00	31.08.00	150	-	55.65	-	100.00
COI0904	01.09.00	29.09.00	150	-	145.12	-	100.00
COI1004	02.10.00	31.10.00	150	-	75.62	-	100.00
COI1104	02.11.00	30.11.00	150	-	48.65	-	100.00
COI1204	01.12.00	29.12.00	150	-	26.38	-	100.00

* Per nominal value of one T-bond 100 PLN.
** Sale only in 2000.
*** Sale was terminated in 2000.

PART IV

Table 27. Sale of fixed-rate retail bonds in 2000

bond	sale period		amount offered (m. PLN)	sale (m. PLN)	price issue (PLN)	interest rate (%)
	start	finish				
DOS0102	03.01.00	31.01.00	150	65.18	100.00	13.0
DOS0202	01.02.00	28.02.00	150	26.77	100.00	13.0
DOS0302	01.03.00	31.03.00	150	83.14	100.00	14.0
DOS0402	03.04.00	28.04.00	150	22.63	100.00	14.0
DOS0502	04.05.00	31.05.00	150	54.30	100.00	15.0
DOS0602	01.06.00	30.06.00	150	31.55	100.00	15.0
DOS0702	03.07.00	31.07.00	300	300.00	100.00	16.0
DOS0802	01.08.00	31.08.00	500	225.37	100.00	16.0
DOS0902	01.09.00	29.09.00	300	53.01	100.00	16.0
DOS1002	02.10.00	31.10.00	300	101.15	100.00	16.0
DOS1102	02.11.00	30.11.00	300	79.51	100.00	16.0
DOS1202	01.12.00	29.12.00	300	102.32	100.00	16.0

Yield on bonds offered in the retail network in 2000

The yield and interest on retail instruments varied in 2000 in accordance with the country's macroeconomic situation and the situation on the wholesale bond market.

In the case of fixed-rate bonds, yield increased steadily, simultaneously with the increase in interest rates. Interest rate on 2-year bonds increased from 13% in January to 16% in July.

In the case of 3-year bonds the interest, for interest periods ending in 2000, ranged from 13.26% to 17.14% (16.06% on average). It is worth noting that, starting with the August issue, the issuer abandoned the margin above the yield on 13-week T-bills, which is the basis for fixing the level of interest rate on 3-year bonds. The yield on 3-year bonds redeemed in 2000 fit in the bracket of 20.68-21.74% (21.25% on average). This meant a drop of 6.5 pp compared with bonds redeemed in 1999.

Yield on 4-year indexed savings bonds will be known after 3 years of life of the bond, as the interest rate they carry is known only with reference to the current interest period (i.e. one year). The interest rate is based, in each interest period, on the sum of annual inflation and the additive margin fixed at a pre-determined level for each issue. The January-April issues were characterised by a margin in the amount of 4.5%, May-June 5.5%, and starting from July the amount of margin was fixed at 7.0%. This means that the rate of return in the first interest period, depending on each issue, ranged from 13.7% to 18.6%.

CHAPTER 10.
SPECIAL ISSUES

10.1. BONDS FOR THE CONVERSION OF STATE TREASURY DEBT ARISING FROM THE DEBT INCURRED BY THE HEALTH CARE UNITS

2000 saw a continuation of the operation of the service of the State Treasury debt arising from the unpaid health care debt. State Treasury debt incurred before December 31st, 1998 by voivod offices, budget-financed units and enterprises, and also by public health care units before they became independent, were all subject to conversion.

Bank Handlowy w Warszawie S.A. (BH) was the agent, acting on behalf of the Minister of Finance and responsible for the record-keeping and verification of debt and its conversion into Treasury Bonds, running in addition the cash operations of debt redemption. The basis for BH activities in this field was the agreement concluded with the Minister of Finance on April 1st, 1999.

The conversion of different debt types was carried out using three methods:

a) by way of direct redemption against cash of debt held by direct suppliers of commodities and services to the health care units;

b) by way of auctions for the redemption of cash debt held by direct suppliers of commodities and services to the health care units;

c) by way of holding auctions for the conversion of debt held by banking sector into Treasury Securities.

In the case of the two first conversion methods, the issuing agent engaged its own funds in debt redemption, in exchange for which he then received Treasury Bonds.

On the other hand, in the case of auctions for the conversion of debt held by the banking sector, the State Treasury debt was subject to direct conversion into Treasury Bonds.

During the operations concerning the conversion of debt owed to the State Treasury carried out in years 1999-2000, resulting from the unpaid health service debt, the claims of nearly 11 thousand direct suppliers, over 500 independent public health care units and 34 banks were satisfied.

Until the end of 2000, health care units debt taken over by the State Treasury and totalling 8.1 billion PLN was paid for (including the banking sector debt totalling 0.8 billion PLN paid for in September 2000 from budget funds). Total nominal value of the Treasury Bonds issued for the above purpose in years 1999-2000 amounted to 8.1 billion PLN.

Table 28. Treasury Bonds for conversion of the debt of health care units issued in years 1999-2000 (million PLN)

conversion data	bond series	redemption date	nominal value
24.09.99	DS0509	24.05.09	34.01
24.10.99	DS0509	24.05.09	80.54
24.11.99	OK1201	21.12.01	100.83
12.12.99	OK1201	21.12.01	80.41
24.01.00	DS1109	24.11.09	123.86
15.02.00	OS0202	12.02.02	251.45
15.02.00	OS0203	12.02.03	65.56
15.02.00	OS0204	12.02.04	15.87
21.02.00	PS0205	12.02.05	59.31
16.03.00	PS0205	12.02.05	73.53
31.03.00	OS0202	12.02.02	732.27
31.03.00	OS0203	12.02.03	140.06
31.03.00	OS0204	12.02.04	411.19
18.04.00	PS0205	12.02.05	70.22
28.04.00	OS0202	12.02.02	314.02
28.04.00	OS0204	12.02.04	113.19
24.05.00	DS0509	24.05.09	149.85
31.05.00	OS0202	12.02.02	1 226.05
31.05.00	OS0203	12.02.03	32.21
31.05.00	OS0204	12.02.04	94.34
21.06.00	PS0605	12.06.05	92.46
30.06.00	OS0602	12.06.02	184.49
30.06.00	OS0603	12.06.03	42.09
21.07.00	PS0605	12.06.05	197.02
31.07.00	OS0602	12.06.02	331.24
31.07.00	OS0603	12.06.03	419.32
22.08.00	PS0605	12.06.05	109.10
31.08.00	OS0602	12.06.02	41.31
31.08.00	OS0603	12.06.03	383.02
19.09.00	PS0605	12.06.05	98.37
29.09.00	OS0602	12.06.02	286.38
29.09.00	OS0603	12.06.03	457.62
29.09.00	OS0604	12.06.04	889.86
17.10.00	PS1005	12.12.05	153.48
21.11.00	PS1005	12.12.05	153.04
15.12.00	PS1005	12.12.05	134.06
	total in 1999		**295.78**
	total in 2000		**7 845.85**
	Total:		**8 141.62**

PART IV

CHAPTER 11.
SECONDARY MARKET FOR TREASURY SECURITIES

The secondary TS market is made up of three separate segments, including the market for T-bills and T-bonds offered on the domestic market as well as the market for T-bonds offered on the foreign markets. All domestic and foreign entities enjoy an unlimited access to the domestic secondary TS market.

11.1. SECONDARY MARKET FOR TREASURY SECURITIES ISSUED FOR THE DOMESTIC MARKET

11.1.1. SECONDARY MARKET FOR TREASURY BILLS

Secondary trading of Treasury Bills is effected on the non-regulated OTC market. The transactions take place without any limits and do not require any authorisations. Transaction records and accounts are handled by the NBP's Central Registry of Treasury Bills (CRTB), thanks to which the secondary market for bills operates efficiently and unhindered; it is a well-developed segment of the financial market in Poland.

On June 13th, 2000, the Council of Ministers adopted the Ordinance amending the ordinance on specific principles of valuation of assets and liabilities of pension funds (Journal of the Laws No. 49, item 566). The change to the valuation principles concerned among other things the debt securities admitted to public trading but not listed on the regulated market (thus it also concerned Treasury Bills). According to the new valuation principles the discount on T-bills accrues linearly and thus increases the value of the securities held in the portfolios of the pension funds. Up till then, the Treasury Bills were valued according to their purchase price, disregarding the accrued discount, in relation to which the profit made on T-bills purchase was only recorded at the moment of their sale or redemption. The change in the principles of valuation of the Treasury Bills can have a significant impact on the further development of the secondary market, thanks to an increased activity of such substantial market participants as pension funds.

PART IV

2000 recorded a further growth in trading volume on the secondary market of Treasury Bills. Investors concluded 89 903 transactions reaching a total nominal value of 423 255 million PLN, which accounts for a growth in comparison to previous year of 14% (a total of 371 336 million PLN was transacted in 1999). 7 492 contracts totalling 35 271 million PLN in value were executed on the average in a month, and the average transaction volume amounted to 4.71 million PLN.

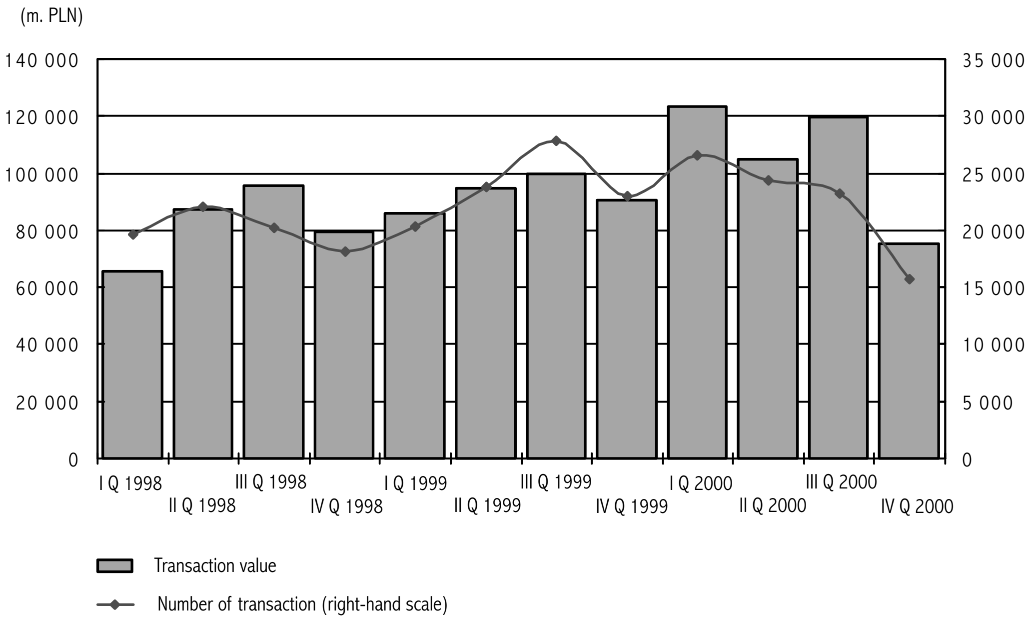
Despite increased trading volume, the secondary market of Treasury Bills remains a very shallow segment of the financial market. This is borne out by the structure of the transactions concluded. The dominant type of transactions on the secondary market are the "sell-buy-back" transactions, which are composed of a sale of bills and – executed based on a separate agreement, the so-called forward purchase agreement – a repurchase of the bills in the future by the seller, at the price determined in advance on the date of the sale of T-bills. The value of these transactions reached 316 807 million PLN in 2000, which accounted for 75% of the total value of transactions concluded. The large interest in "sell-buy-back" transactions results from the fact, that conversely to the repo transactions, they are not subject to the regulations on the required reserves deposited by the banks. That is why they are concluded mainly by domestic banks and domestic non-banking investors.

The remaining part of the transactions are the "repo" [15] transactions and outright purchase transitions, whose value in 2000 totalled 19 045 million PLN and 87 403 million PLN respectively (their share in the whole market reached 4% and 21% respectively). The "repo" transactions are concluded in their vast majority (99%) between banks.

Considering the fact that the majority of outright purchase transactions are transactions resulting from the realisation of orders from the non-banking entities in the primary market, it has to be concluded that the liquidity of the secondary market of T-bills is considerably limited. This is also borne out by the amount of spreads, which for the 52-week bills amounted to ca. 25 bp on the average during the year, while for the other types this figure amounted to an average of 45-50 bp. During periods of uncertainty as to the future development of the market situation (e.g. during periods of expected raising of the interest rates by the MPC) the spreads fetched as much as 170 bp.

[15] It is a transaction under an agreement, based on which the ownership of the bills is transferred by the disposer on to the purchaser combined, or not, with the blocking of the bills on his account, or the bills are merely blocked, in favour of the purchaser, on the disposer's account with no transfer of the property right to them on to the purchaser – in exchange for the acceptance by the disposer of a cash amount agreed upon by the disposer and the purchaser with a simultaneous obligation by the purchaser to transfer back the ownership of the bills on to the disposer – in the case of transactions involving a change of ownership of the bills (source: Regulations for the maintenance of Treasury Bills accounts and deposits by the National Bank of Poland).

Chart 15. Value of transactions on the secondary market for T-bills by quarter in years 1998-2000



11.1.2. SECONDARY MARKET FOR TREASURY BONDS

PART IV

In 2000 the trading on the secondary market for Treasury Bonds, similarly to the situation in previous year, was held on the regulated market (WSE and CeTO) as well as on the OTC market. During the twelve months, there was a dynamic development of the secondary market, which was reflected in the rise in the value of transactions concluded on this market from a level of 128 906 million PLN to 306 915 million PLN [16] (i.e. by 138%).

The concentration of trading on the OTC market was dictated by lower transactions costs in comparison to the WSE (the issue of fees charged by the NDS, WSE and brokerage houses gained a new aspect of importance with the introduction of Warset) and the possibility of concluding transactions using the one-day transaction settlement procedure (the so-called uncleared transactions), which are partially cleared by the NDS (securities), and partially by the transaction participants (liquid funds). The use of the above settlement procedure allowed to avoid at least some of the fees paid to the NDS (concerning cash settlement), which was unanimous with the increased yield of the investment itself. This was reflected in the growing share of transactions uncleared by the NDS in the total trading volume on the OTC market. These transactions accounted for 36.8% of the total turnover in this market segment (34.8% in 1999). The value of transactions, whose cash settlement is effected omitting the NDS, amounted in 2000 to 112 083 million PLN (43 963 million PLN), which translates into a growth of 154%.

One of the essential events that took place on the regulated market in 2000 was the introduction of Warset, a new trading system (November 17th), as a result of which the trading rules underwent a substantial change. It saw the disappearance of the traditional bond market division into two quotation systems (single-price and continuous trading systems) and now the Treasury Bonds are traded only in the continuous trading system. The WSE also abandoned the requirements concerning the volume of bond transactions (under the old system, only the bonds of at least 10 000 in value could be subject to block trading), which meant that the transaction unit was a single bond. The new bonds trading system at the WSE, besides an undoubted benefit of making the continuous trading market accessible to minor investors, brings about also a risk of a substantial increase in costs in the case of realisation of orders from investors in more than one transaction. Since the NDS fee system does not provide for charging fees on an order execution, but on the settlement of individual transactions. Despite a lowering of rates for the settlement of one transaction (from 2.8 PLN to 1.9 PLN), this considerably raises the operating costs of brokerage houses, and thus directly influences the level of fees charged from the clients by the brokers. This is precisely the aspect that has to be considered the reason for the lack of a considerable increase in the value of the transactions concluded after the introduction of Warset.

[16] This figure does not take into account the transactions concluded between private persons based on civil law agreements (454.3 million PLN throughout 2000).

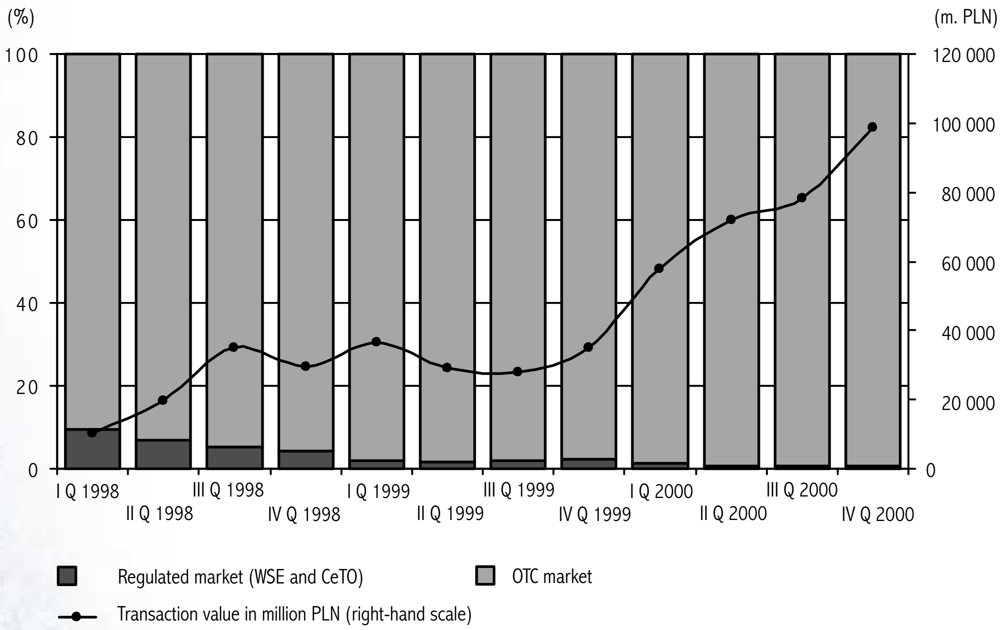
In 2000, transactions in the amount of 2 318 million PLN, of which 2 263 million PLN was generated by the WSE, and 55 million PLN by CeTO (the trading at CeTO was effected only until September 18th, i.e. the last day of quotation for the RS1000 bonds redeemed in October) were concluded on the regulated market. The value of transactions concluded on the regulated market in 2000 was lower by 10.4% when compared to the 1999 figure. The floating-rate bonds confirmed their dominant position on the stock market, as they attracted 86.3% (65.1% in 1999) of the total trading volume (of which 73% was accounted for by the 3-year bonds). The trading in fixed-rate bonds accounted for 13.5% of the total trading volume (9.8% in previous year). The fourth quarter made a vast contribution to the rise in the share of the fixed-coupon bonds, as it saw the value of transactions concluded on these papers grow twice as high as the average level for the remaining months of the year.

The structure of trading on the stock market confirms the tendency, recorded also in previous periods, to limitation of the role of this market to the servicing of private persons who hold in their portfolios, as a rule, only the 3-year floating-rate bonds, which are now sold only in the retail network.

2000 was a very successful year for the OTC market. The total value of transactions concluded on this market reached 304 597 million PLN, which translates into a growth of 141% in comparison to the previous year (99.2% of all bond transactions on the secondary market). This was primarily an effect of large issues of bonds (mainly the 2-year zero-coupon bonds and 5-year bonds) on the primary market (19.4 billion PLN). This thesis is supported by the structure of trading on the secondary market: almost 73% of the total value of transactions concluded on the OTC market was accounted for by the transactions on the OK and PS bonds. There was also sizeable activity recorded on the part of the investors in the case of OS bonds (14.3% of total transactions). In total the volume traded in fixed-coupon bonds (OK, OS, PS and DS) accounted for no less than 92.5% of the total turnover (90.9% in 1999).

2000 was the starting year for the operation of the non-regulated Treasury Securities Market (TSM) created and governed by WSE. The inventors' intention was for this market to become a competitive market to the traditional OTC market. Only the direct and indirect participants (following a permission granted by a participant's representative) of the National Depositary for Securities, who concluded an agreement on the access to the TSM, can participate in the market. The symbolic value of transactions (6.8 million PLN) forces a sceptical outlook on to the TSM chances of gaining investors' acceptance (the WSE itself seems to be doubtful of the success of the undertaking, assuming the possibility of abolishing the TSM).

Chart 16. Structure of turnover on the secondary market for Treasury Bonds by quarter in years 1998-2000



11.2. SECONDARY MAREKT FOR TREASURY SECURITIES ISSUED FOR THE INTERNATIONAL MARKET

Owing to formal considerations, the Foreign Bonds issued by the State Treasury in years 1995, 1996 and 2000 as well as the Brady Bonds were registered at the foreign stock exchanges. However, unlike the domestic bonds, the instruments intended for the foreign markets are in fact subject to trading not on the stock exchanges but on the non-regulated OTC markets.

The trading of Foreign Bonds issued by Poland takes place on the OTC market. This market is characterised by a high level of deregulation and decentralisation as well as by a high number of participants. That is why it is very difficult to monitor this market and in fact there is only one parameter describing the bonds' performance, which is the spread above the basis rate – the yield of bonds considered to be the safest.

Only 9 out of the 11 instruments present on the market were in fact subject to trading in 2000 (4 types of Brady Bonds, 3 Eurobonds and 2 tranches of bonds issued for the US market). Two types of Brady Bonds, i.e. New Money Bonds and Debt Conversion Bonds, owing to a too small issue size, were illiquid. That is why there were only quotations of 9 instruments available in the global information services. In July 2000, there was a timely redemption of the bonds issued in 1995. Moreover in October 2000, an early redemption of two types of Brady Bonds (Discount and New Money) was effected. Thus at the end of 2000, 3 types of Brady Bonds, 2 Eurobonds and 2 tranches of bonds issued for the US market were subject to trading.

The settlements of bond transactions are generally performed in two ways. In the case of the US investors, they are run by a specialist American financial institution – The Depositary Trust Company (DTC), and in the case of investors from outside the US – by two European clearing institutions - Euroclear and Clearstream (the former Cedel).

SUMMARY

In 2000 the tasks related to State Treasury debt management were realised on the basis of the document entitled The Public Finance Sector Debt Management Strategy in years 2000-2002, prepared in accordance with the requirements of the Public Finance Act, taking into consideration the actual and projected macroeconomic and budget background, and also the situation on the financial market. The principal theses of the Strategy were presented in the 1999 Report. The following are the most important goals of this document that were realised in 2000:

1) keeping the debt to GDP ratio at a safe level - from the vantage point of Polish legislature and the EU requirements; it amounted to 40.9%, i.e. significantly below the boundary of the so-called prudence bands laid down in the Public Finance Act (50%), as well as the constitutional norm (60%) and the EU convergence criterion;
2) accomplishment of favourable changes in the State Treasury debt structure, and in particular:
   a) the lowering of the share of foreign debt and debt denominated in foreign currencies in total State Treasury debt, which results in the limitation of the exchange rate risk and the refinancing risk in foreign currencies. This was an outcome of the buy-back of the Brady Bonds with a simultaneous increase in domestic debt and of the appreciation of the USD in relation to other currencies, in which a part of the foreign debt is denominated;
   b) rise in the share of debt in fixed-rate instruments in total domestic debt and a decline of debt in Treasury Bills; these changes imply the lowering of the level of risk arising from the possible future rise of interest rates;
   c) reduction of the share of non-marketable debt in total domestic debt, mainly through the conversion of health service debt and early redemption of some non-marketable bonds, which increases the level of flexibility in debt management;
   d) increase in the share of debt to the domestic non-banking sector, bringing about the reduction of debt monetisation, which facilitates among other things the realisation of the country's monetary policy.
3) issue of Foreign Bonds after a two-year pause, for the first time on the Euro market, consolidating Poland's image as a country entering into the EU in the first stage of the enlargement process. Moreover a foreign currency account was set up, and the proceeds from privatisation are deposited on this account, which facilitates foreign debt management.
4) development of the debt management methodology, especially in the field of the optimisation approach, which is based on mathematical optimisation methods and allows minimising debt service costs – under boundary conditions assumed.
5) further adaptation of the methodology of debt recording and presentation to the international standards, and in particular the classification of domestic and foreign debt by residents and non-residents.

A series of strategic debt management goals formulated in the 1999 Strategy and in the Strategy prepared in 2000 for the years 2001-2003, remain to be realised in the following years. The most significant ones include:

1) further development of the domestic market for Treasury Securities, and in particular:
   a) increase in its liquidity, effectiveness, transparency and depth, among other things through the elimination or limitation of factors hindering the trading in Treasury instruments on the secondary market, i.e. transaction fees and shortcomings of the settlement system;
   b) development of its infrastructure, among other things through the creation of an electronic trading platform combined with a registration and settlement system.
2) preparation and implementation of Primary Dealers System for Treasury Securities in order to boost the effectiveness of the secondary market, which also favours the lowering of debt service costs; such systems operate in the majority of EU countries.
3) continuation of activities aimed at the elaboration of a foreign debt refinancing concept for the period of peak payments to the Paris Club in years 2004-2009. This task will be carried out after Poland's accession to the EU, probably partially – after joining in the Monetary Union. In this respect it is vital to maintain access to the Euro market.
4) continuation of the conversion of domestic non-marketable debt into marketable instruments, especially with respect to the debt of health care units and non-marketable bonds issued in earlier years as well as to the compensations to trade unions and social organisation for possessions lost as a result of the imposition of the martial law.
5) implementation of a new state budget liquidity management system covering among others: the extension of the planning horizon and monitoring improvement, creation of adequate technical and organisation structure as well as the widening of the spectrum of management instruments.
6) further development of the retail instruments sales system aimed at supplementing the sales of wholesale instruments and promotion of propensity for saving in the society. Main directions of actions in this field include: extension of instrument offer and improved efficiency of distribution channels.
7) progress in debt management methodology – mainly in the implementation of solutions, used in countries, which are leaders in this field, among other things, a debt management information system (within the Phare'2000 programme) and the optimisation approach currently being developed in Poland.

ANNEX

1. INSTITUTIONAL STRUCTURE OF THE TREASURY SECURITIES MARKET

The legal basis for the operation of the main institutions of the public capital market, mainly of the regulated market, in Poland is the Law on Public Trading in Securities effective since 1998 [17]. It regulates public trading in securities and other instruments admitted to public trading, and also the rules of establishment, organisation and supervision of entities carrying out the business of trading in securities. In the case of OTC Market the standards generally acknowledged by the institutions creating this market are in force.

The following entities are involved in, mainly from the organisational perspective, the Polish Treasury Securities market:

1) The Minister of Finance, on behalf of the State Treasury - the issuer of Treasury Securities;
2) The National Bank of Poland (NBP) - the issue agent of the Treasury Securities offered on the domestic wholesale market, also performing the cash service of the state budget;
3) The Polish Securities and Exchange Commission (PSEC) – institution responsible for control and supervision of the public securities market and its institutions;
4) The National Depositary for Securities (NDS) - depositary and settlement institution for securities, Treasury Bonds included;
5) The Central Brokerage House (Centralny Dom Maklerski Pekao S.A. - CDM Pekao S.A.) - issue agent for retail bonds sold in the retail network;
6) Bank Handlowy w Warszawie S.A.(BH) - payment agent of a part of State Treasury foreign debt (among other Treasury Bonds) and agent managing State Treasury debt resulting from outstanding liabilities of health service;
7) Domestic banks – main participants of the Treasury Securities market;
8) Brokerage houses - entities acting as intermediaries in trading in the primary and secondary securities markets;
9) Institutions participating in foreign bond issues;
10) The Warsaw Stock Exchange (WSE) - institution organising the secondary regulated market for Treasury Bonds;
11) Polish Financial Exchange (PFE) - organiser of the OTC secondary market including trading in fixed-rate Treasury Bills and Treasury Bonds of selected series.

2. METHODS OF SALE OF TREASURY SECURITIES

2.1. METHODS OF SALE OF TREASURY SECURITIES ON THE DOMESTIC MARKET

2.1.1. TREASURY SECURITIES OFFERED AT AUCTIONS

The basic methods of selling Treasury Securities on the domestic market assumed shape already in the initial years of offering the different types of the instruments, and did not change significantly over the 90s. The entry into force, as of January 1st, 1999, of the Public Finance Act, resulted in a change of the legal basis of the issue of Treasury Securities. Pursuant to the Act, the procedure and formula of the issue of Treasury Bills and bonds were modified.

TREASURY BILLS have been sold regularly, starting from May 6th, 1991, at weekly auctions. As from July 1995, the bills have been issued in the dematerialised form in the single denomination of 10 000 PLN, and owing to the wholesale nature of the market, the condition was imposed - a minimum value of purchase in the primary market within a quarter - the meeting of which makes the party eligible for participation in the auction.

[17] The Law of August 21st, 1997 (Journal of the Laws of October 3rd, 1997 as subsequently amended).

On August 26th, 1999, the Minister of Finance issued a new ordinance on the conditions of offering Treasury Bills. It lays down the basic rules of issuing Treasury Bills, while details of the specific issues are provided in issuing letters [18] appearing monthly. In addition, the ordinance introduced a number of changes in the T-bills offering procedure, the main ones being:

a) modification of the bill registration system: double registration of bills (by type and by maturity) was replaced with registration by maturity only, bills being sold at auctions under the previous terms, i.e. bills are offered with a stated number of weeks to maturity,
b) possibility of selling Treasury Bills with maturities of 1 to 52 weeks,
c) introduction of the auction price per 10 000 of nominal value of the treasury bill accurate to one grosz,
d) elimination of the obligation to participate in a T-bill auction at least once a month,
e) allowing flexibility in the fixing by Minister of Finance of the date of payment for bills purchased at an auction.

Treasury bills auctions

Since 1991, the National Bank of Poland has been the issue agent, organising and handling the accounts of Treasury Bills sale at auctions (the primary market), and in the secondary market. Treasury Bills are sold at a discount, at auctions held regularly on each first business day of the week (i.e. usually on Mondays) [19]. An announcement of a forthcoming auction is published in the daily Rzeczpospolita seven days before the auction date, and in the Reuters service. The announcement states the type and date of redemption of the instrument offered, the face value of the bills offered and the time and place for bid submission.

The eligible direct participants of auctions are the entities that purchased at least 0.2% of all bills sold in the primary market in the last quarter. The eligible entities are verified every quarter based on this criterion.

Bids are submitted to the NBP by 11:00 hours on the auction day. The minimum value of the bid is 100 000 PLN. Upon receipt of a bid summary; the Minister of Finance takes a decision on the minimum price of bills with a given maturity.

Bids containing prices higher than the minimum price are accepted in whole, while bids with an accepted minimum price can be accepted with a reduction or in whole. Each bidder buys bills at the proposed price. The NBP notifies the investors of whether their bids have been accepted or rejected on the auction day. Payment for bills purchased and redemption of maturing bills are usually effected on the second day after the auction (i.e. usually on Wednesdays) through banks' current accounts maintained by the NBP Payment System Department.

TREASURY BONDS OFFERED AT AUCTIONS from June 1992 are issued in the dematerialised form. As from 1994, entities having the status of direct participant of the National Depositary for Securities are eligible for participation in auctions, and, through them, also other private persons and legal entities, both domestic and foreign. An auction is held by the issue agent, i.e. the NBP, while accounting and safekeeping of bonds is the responsibility of the NDS. The basic rules of issuing Treasury Bonds are laid down in the Ordinance of the Minister of Finance dated April 26th, 1999 on the conditions of issuing Treasury Bonds offered at auctions, while the characteristics of the different instruments and offer details are provided in issuing letters issued by the Minister of Finance. The issuing letters are made available to the public by publishing them in national newspapers and on the Ministry of Finance website and in the Reuters bulletins.

The Treasury Bonds offered at auctions, issued by the State Treasury represented by the Minister of Finance, include fixed-rate and floating-rate Treasury Bonds. The bonds are bearer securities. Bonds are issued in the denomination of 100 PLN or a multiple of this amount (usually it is 1 000 PLN). The denomination of the given issue is specified in the issuing letters.

Treasury bonds auctions

Bonds are offered for sale in the primary market at auctions organised and held by the National Bank of Poland. The entities allowed to auction are direct participants of the NDS, and other interested parties can participate through their intermediation. Treasury Bonds auctions are held at dates stated in issuing letters and depend on the type of instruments sold [20].

---

18 Made available to the public by publication in national newspapers, and also on the Ministry of Finance website.

19 Minister of Finance can hold extra auctions on other days.

20 Auction dates for bonds issued in 2000: for 2- and 5-year fixed-rate and zero-coupon bonds - first Wednesday of the month; for 10-year floating-rate bonds - second Wednesday of the even months; for 10-year fixed-rate bonds – third Wednesday of the odd months.

The proposed auction is announced in the daily Rzeczpospolita seven days before the auction and in the Reuters service. The announcement states the type and maturity of the instrument offered, as well as issue conditions, the face value of the bonds offered for sale, the amount of redeemed interest, and the time and place of bid submission.

The participants of the auction submit bond purchase bids directly at the auction in the NBP by 11:00 hours on the auction day. The face value of a single price bid may not be lower than 1 million PLN. After receipt of a bid summary, the Minister of Finance takes a decision on the minimum price of instruments with a specified maturity. Bids containing prices that are higher than or equal to the minimum price are accepted in whole, while bids with the minimum price can be reduced or accepted in whole, each bidder buying the bonds at the price auctioned on the bid form. The bidders are notified of the acceptance or rejection of their bids on the next day after the auction at the latest. Auctions are settled in cash and in securities through the NDS, whereas since July 1999 cash settlements of bonds auctions are handled directly by the NDS through its account with the NBP.

2.1.2. TREASURY SECURITIES OFFERED IN THE RETAIL NETWORK

Sale of bonds at customer service outlets ALE OF BONDS AT CUSTOMER SERVICE OUTLETS (CSOs)

The sale and management of retail bonds intended for small investors were handled since 1992 by Bank Pekao S.A., and then the Central Brokerage House Pekao S.A. Group (CDM Pekao SA), as the Bank's legal successor, under agreements signed with the Minister of Finance. CDM Pekao SA is the issue agent, and also the organiser of a syndicate of the largest banking and non-banking brokerage houses (ca. 20).

Bonds are offered through a network of customer service outlets (CSOs), consisting of ca. 550 units throughout the country.

3-year bonds are sold at the issue price published prior to the commencement of sale. The sales price contains, in addition to the issue price, interest accrued from the sale commencement date to the purchase date. Savings Bonds are sold every day at 100 PLN (issue price being equal to face value). All retail bonds sold at the CSOs are destined for individual buyers. Interest is paid and bonds are redeemed in cash at the point of purchase, or by transfer to the indicated bank account. The 3-year bonds can also be deposited on an investment account with any brokerage house - and then the servicing and redemption of bonds are effected through that account.

Savings Bonds feature a put option. However, it may be exercised not earlier than 3 months after the purchase date and not later than 2 months before the redemption date. For this purpose, an appropriate declaration should be submitted to any CSO and a fixed handling fee (of 2.5 PLN for one DOS bond and 3.0 PLN for one COI bond) paid, which is deducted from the interest accrued to the early redemption date.

Holders of 3-year bonds with a forthcoming maturity could extend their investments in 2000 by rolling over on to the next series of these bonds. For this purpose, a new bond purchase declaration should be submitted. The declarations are received at each CSO and brokerage house where the bonds of the redeemed series have been deposited. Roll-over dates are published in announcements of the Minister of Finance. In order to encourage investors to extend their investments through rolling-over on to new bonds issues, the Minister of Finance decided that the roll-over price couldn't be higher than the issue price. At the same time, the value of rolled-over bonds cannot exceed the value of redemption receivables, including accrued interest.

The Ordinance of the Minister of Finance dated April 26th, 1999 on the conditions of issuing Treasury Bonds offered in the retail network provided for the possibility of selling bonds through subscription. In 2000, the Minister of Finance did not exercise his right to sell bonds using this method.

2.2. METHODS OF SALE OF TREASURY SECURITIES ON THE INTERNATIONAL MARKET

Bonds destined for foreign investors on the international market are sold by syndicates of foreign financial institutions (investment banks). The Minister of Finance appoints, in a merit-based competitive process, the lead manager placing bonds on the market.

Syndicate members underwrite the sale of bonds and collect orders for bonds, communicating directly with the investors. On that basis, the bonds are then priced, i.e. the spread is fixed above the benchmark yield of the bonds that are deemed to bear the least risk[21]. The spread reflects the premium investors wish to obtain for the risk of investing in the issuer's paper, and moreover it informs of the current situation in the market.

In 2000 the lead managers of the issuing syndicate were BNP Paribas and Credit Suisse First Boston. The syndicate was made up of 8 banks.

[21] These are usually bonds issued by the Treasury of the State, in whose currency the issue is effected. In the case of bonds denominated in USD, these are US Government Treasury Bonds, and in DEM – the German Government Bonds (Bunds).

APPENDIX

1. LIST OF COUNTRIES WITH WHICH POLAND HAS SIGNED A TREATY ON THE AVOIDANCE OF DOUBLE TAXATION

1. Albania
2. Australia
3. Austria
4. Belarus
5. Belgium
6. Bulgaria
7. Canada
8. Chile
9. China
10. Croatia
11. Cyprus
12. Czech Republic
13. Denmark
14. Estonia
15. Finland
16. France
17. Germany
18. Greece
19. Hungary
20. India
21. Indonesia
22. Ireland
23. Island
24. Israel
25. Italy
26. Japan
27. Jordan
28. Kazakhstan
29. Latvia
30. Lebanon
31. Lithuania
32. Luxembourg
33. Malaysia
34. Malta
35. Moldavia
36. Morocco
37. Netherlands
38. Norway
39. Pakistan
40. Philippines
41. Portugal
42. Romania
43. Russia
44. Singapore
45. Slovakia
46. Slovenia
47. South Africa
48. South Korea
49. Spain
50. Sri Lanka
51. Sweden
52. Switzerland
53. Thailand
54. Tunisia
55. Turkey
56. Ukraine
57. United Arab Emirates
58. United Kingdom
59. United States of America
60. Uzbekistan
61. Vietnam
62. Yugoslavia
63. Zimbabwe

2. LIST OF USEFUL ADDRESSES

Ministerstwo Finansów (Ministry of Finance)
No. 12 Świętokrzyska St., 00 - 916 Warszawa, tel.: 694-55-55

Narodowy Bank Polski (National Bank of Poland)
No. 11/21 Świętokrzyska St., 00 - 049 Warszawa, tel.: (48 22) 653-10-00, fax: (48 22) 826-99-55

Komisja Papierów Wartościowych i Giełd (Polish Securities and Exchange Commission)
No. 1 Plac Powstańców Warszawy Square, 00 - 009 Warszawa, tel.: (48 22) 826-10-31, fax: (48 22) 826-81-00

Warszawska Giełda Papierów Wartościowych S.A. (Warsaw Stock Exchange)
No. 4 Książęca St., 00 - 498 Warszawa, tel.: (48 22) 628-32-32, fax: (48 22) 628-17-54

CDM Pekao S.A.
No. 18 Wołoska St., 02 - 675 Warszawa, tel.: (4822) 640-28-40, 640-26-40, fax: (4822) 640-28-00, 640-26-00

Krajowy Depozyt Papierów Wartościowych (National Depositary for Securities)
No. 4 Książęca St., 00-498 Warszawa, tel.: (48 22) 537-95-88, fax: (48 22) 627-31-11

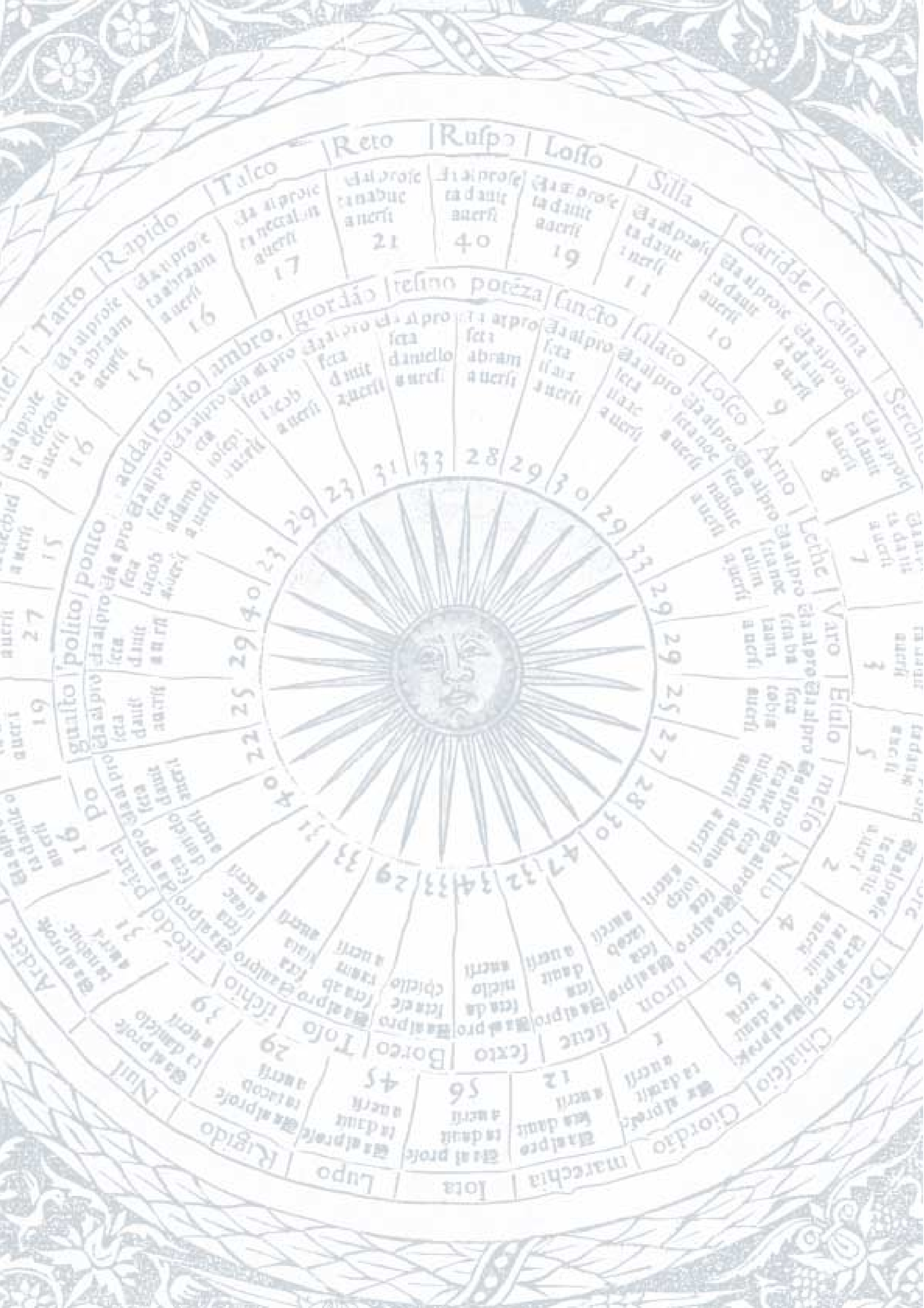
Ministry of Finance page in Reuters bulletin:
<PLMINFIN> Reuters Polska
00 - 695 Warszawa, tel. (48 22) 625- 63-03, fax (48 22) 625-75-01

Ministry of Finance website, www.mofnet.gov.pl

LIST OF TABLES

LIST OF CHARTS

Report prepared by Public Debt Department Ministry of Finance
Further information available from the Ministry of Finance website: www.mofnet.gov.pl
and from REUTERS on PLMINFIN or from Public Debt Department
tel.: (4822) 694-57-97,
tel./fax: (4822) 827-27-21,
e-mail: asu@mofnet.gov.pl, ebs@mofnet.gov.pl


Reto
Lusso
Talco
Rapido
Silla
Caridde
Tarto
Arno
Lethe
Varo
melfo
Po
Tolo
Boreo
sexto
Lupo
Rigido
marcechia