ANNUAL REPORT

Polish Treasury Securities

1999

MINISTRY OF FINANCE
POLAND

LADIES AND GENTLEMEN,

The Treasury Securities Annual Report has been prepared with a view to acquainting you with instrument design, sale methods, and rules governing the Treasury securities market. Beside a description of the debt securities currently offered by the Minister of Finance, the Report contains information on the Treasury securities available on the market in the previous years.

This issue of the Treasury Securities Annual Report is its fourth edition. Compared with the earlier publications of the series, the layout of the text has been partly modified, as well as data for previous periods have been updated and new elements have been included, which emerged in 1999, related to the functioning of Treasury securities, such as new legislation and debt instruments.

The 1999 report consists of four parts and an annex. Part One of the Report contains an outline of Poland's economic situation in 1999 and essential macroeconomic data relative to those of 1998.

In Part Two, main emphasis is placed on the background of the issue of Treasury securities. It discusses the *Strategy of Public Finance Sector Debt Management*, the first document to lay down a comprehensive set of debt management objectives, tasks, and implementation instruments over both the short-term (3-year) and the long-term (10-year) horizons. The Strategy is the fulfilment of the provisions of the Public Finance Act, which made the Minister of Finance responsible for developing the State Treasury debt and public debt management strategy. Owing to the importance of the debt level and structure, and the servicing costs of State Treasury debt, for the management of debt and also for the issue of the different types of government securities, Part Two presents the related key data.

The purpose of Part Three of the Report is to present the legal background of the issue and acquisition of the securities offered by the Minister of Finance. It also contains a brief description of the debt securities offered both on the domestic and foreign markets.

Part Four of the Treasury Securities Annual Report is focused on the events that took place in 1999, involving the sale, issue and the secondary market of Treasury securities. It forms a central part of the Report. Due to the scale and scope of the changes taking place on the State Treasury debt securities market in 1999, the Report presents only those of the developments reported in this area of public finance that the authors believe to be of primary importance.

The final part of the Report contains basic information on the institutional structure of the Treasury securities market and an outline of the methods of selling those instruments.

In addition, each part of the Report contains detailed data, summarised in tables and visualised in graphs. An appendix is also provided, containing a list of countries with which Poland has double tax treaties, and a list of useful addresses.
We hope this Report will prove to be a useful and interesting compendium of information on Treasury securities and that it will meet your expectations.

We thank you in advance for any comments you may wish to provide on the formula or the contents of this Report and assure you they will be taken into consideration in preparing the next edition of the Report.

Jarosław Bauc
Secretary of State
First Deputy Minister of Finance

Arkadiusz Kamiński
Director
Department of Public Debt

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POLAND'S ECONOMIC SITUATION IN 1999

1999 marked the close of a decade of the economic and political transformation in Poland. The experience of the period provides, on the one hand, a basis for in-depth evaluation of the achievements, difficulties and problems encountered and, on the other hand, a starting point for devising programmes of further development in all major areas of activity in Poland, mainly in the economy, public finance, internal and external security, the education system, scientific research, culture and social security.

1999 was a breakthrough year in many of those areas. Reforms of the administration, the pension system, health care, and the education system were implemented, and decentralisation of public finance started. As of 1 January 1999, the Public Finance Act came into force, introducing considerable changes in state finance.
In 1999, Poland became member of the North Atlantic Treaty Organisation (NATO), and significant progress was achieved in negotiations on Poland's full membership of the European Union.

Official documents were also prepared during the period concerned, setting forth the country's short, medium and long-term development strategy. The key ones are the *Concept of Medium-term Economic Development of the Country to the Year 2002* (prepared by the Ministry of Economy), *Public Finance and Economic Development Strategy. Poland 2000-2010* (prepared by the Ministry of Finance) and *the Long-term Strategy Poland 2015* (prepared by the Government Centre for Strategic Studies).
The following priorities have been adopted for Poland's further **economic development:**

- improve the living standard of the population, in particular reduce the gap between the per capita national income in Poland and that prevailing in the EU countries,
- accelerate civilisation development in compliance with the principle of sustainable growth,
- reduce poverty areas.

To achieve those priorities, it is necessary for Poland to reach a high average growth rate and to provide, within the new few years, conditions conducive to the creation of a large number (approx. 3 - 4 million) of new, productive jobs. At the same time, efforts should be continued, aimed at Poland's becoming full member of the European Union and, subsequently, also the Economic and Monetary Union.

In the area of **public finance**, main emphasis should be placed on efforts aimed to reduce the degree of fiscalism, increase the share of growth-stimulating expenditure and expenditure on the basic functions of the state in total expenditure, and on completion of the tax system reform started in 1999 in order to ensure its stability and transparency. The extent to which the public finance sector meets the requirements of the EU convergence criteria should also be taken into consideration.

The changes in Poland's social and economic situation in 1999 indicate the difficulties and problems faced in the realisation of the above objectives of the economic nature (resulting, to a great extent, from the external situation), social nature (caused by extensive areas of poverty and unemployment, as well as the age and occupation structure of the population), and political nature (ensuing from the evolution and further development of the democratic system in Poland).

The basic indicators describing Poland's economic development in 1999 form a favourable view of the country's primary directions of development, despite the decline of the GDP growth rate compared with 1998, and the developments that call for corrective action, involving, among other things, the unemployment level, foreign trade, and monetary policy.

According to preliminary estimates from GUS[1], in 1999 the global measure of economic growth - the Gross Domestic Product - reached PLN 617.0 bn in current prices, which means a growth of 4.1% in real terms against 1998. It should be noted that it was the eighth consecutive year to see this rising tendency. However, the rate of growth was lower than in the previous year (4.8%), and lower than planned in the 1999 Budget Act (5.1%).
The December to December inflation level (consumer price index) was also worse than planned in the Budget Act (8.1%), reaching 9.8%. Yet it should be borne in mind that the 1999 average annual inflation rate was lower than planned (8.5% - Budget Act vs. 7.3% - actual).

The increase of inflation, growing deficit on current account, increase in lending (including, in particular, consumer loans) in the latter half of the year, were the main reasons why the Monetary Policy Council increased the base rates, which resulted, among other things, in a rise of the servicing costs

[1] Central Statistical Office in Poland

of internal debt of the State Treasury. Nevertheless, the total servicing costs did not exceed the limits adopted in the Budget Act. Also the state budget deficit reached a relatively high level (2.02% of GDP), as did the deficit of the entire public finance sector (3.23% of GDP). It is noteworthy that the budget deficit (PLN 12.5 bn) was lower than the State Treasury debt servicing costs (PLN 18.8bn), which means a primary budget surplus was achieved.

In 1999, adverse tendencies were observed, as already mentioned, in foreign trade and in the area of unemployment.

As regards foreign trade, the value of exports dropped (reaching USD 27,407.4 m and being 2.9% lower - in dollar terms - than in 1998, when it reached USD 28,228.9 m). Despite a decline in the rate of growth of imports compared with the previous year (2.4% according to preliminary data), 1999 saw an adverse trade balance, estimated at USD 18,503.8 m. The main reasons of such a situation were the low competitiveness of Polish exports (resulting, among other things, from their structure - a high share of low value added products), exports to Russia which were much lower than before the Russian crisis, and demand for Polish products, which was much lower than expected, due to a lower rate of economic growth generated by Poland's main economic partners.

The unemployment rate reached 13%, exceeding both the previous year's level (10.4%) and the assumptions of the Budget Act (9.4%).

The adverse tendencies reported in the Polish economy in 1999 call for corrective measures. It should be noted, however, that in terms of and economic development indicators, Poland is in one of the leaders among the countries undergoing transformation.

Table 1: *Economic performance in 1998 - 1999*

Description	1998	1999
GDP in constant prices	4,8%	4,1%
GDP in current prices	PLZ 549,5 bn	PLZ 617,0 bn*
Average annual CPI (December to December)	11,8% (8,6%)	7,3% (9,8%)
Unemployment rate	10,4%	13,0%
National budget balance	PLZ - 13 191,6 m	PLZ - 12 479,0 m
Exports	USD 28 228,9 m	USD 27 407,4 m
Imports	USD 47 053,6 m	USD 45 911,2 m
Gross official reserves	USD 27 382,0 m	USD 25 494 m
Foreign Direct Investments	USD 4 966 m	USD 6 630,0 m*
Current Account Balance	USD - 6 858 m	USD - 11 628,0 m*

* preliminary data

BACKGROUND OF THE ISSUE OF POLISH TREASURY SECURITIES

1. STRATEGY OF DEBT MANAGEMENT

The term debt management strategy can have a broad or narrow meaning; in its broader sense it means the control of debt as one of the basic, interrelated macroeconomic categories; in the narrower sense it is the control of debt only, assuming that the other macroeconomic factors are defined. In the Report the narrow meaning is taken into consideration.

The need to develop a debt management strategy results from the following prerequisites:

- debt has an essential impact on the situation of the state budget, mainly owing to debt servicing costs, and it has a direct or indirect influence on a number of other aspects of the country's economy, including the inflation rate, interest rates, level of credit for the economy, balance of payments, and credit rating;
- the State Treasury debt is, owing to a distant maturity (2024) - a long-term management category, and therefore it requires an operation strategy to be defined, covering an appropriate period of time;
- under the existing legislation, the Minister of Finance is obliged to develop a three-year strategy of State Treasury debt management and control of the public finance sector's debt[2], and the executive agencies are required to take specific recovery measures if the ratio of the government's public debt to GDP exceeds the limits of the so-called prudential bands of 50% and 55%, and the 60% ceiling[3];

the debt to GDP ratio is one of the convergence criteria which are of considerable importance for the membership of the European Union and the Economic and Monetary Union.

The *Strategy of Debt Management* was for the first time prepared in 1999, as a document submitted to Parliament together with justification of the draft Budget Act.

The *Strategy covers*:

1) principal management objectives over a long-term (ten-year) and short-term (three-year) horizon;
2) considerations resulting from the existing debt situation and the country's social and economic development strategy;
3) instruments of implementation of the objectives adopted;
4) strategy implementation risks .

1.1. OBJECTIVES OF THE STRATEGY OF DEBT MANAGEMENT

The paramount objective of debt management is to prevent the accretion of debt in the public finance sector to a level that may pose a threat to macroeconomic stability of the economy and its ability to develop, and to the safety of public finance.

Beside the above paramount objective, the *Strategy* also lays down a more detailed set of objectives of State Treasury debt management over three-year and ten-year horizons, taking into account the current knowledge of the country's social and economic situation, and its development.

LONG-TERM OBJECTIVES

The long-term horizon of the *Strategy* corresponds to the maturity profile of most of Poland's external debt (to the Paris Club), and it coincides with the horizon adopted in preparing the *Public Finance and Economic Development Strategy. Poland 2000-2010.*

The primary objectives of the *Strategy of Debt Management* for the period are as follows:

1. Reduce the share of external debt in total debt by refinancing part of the debt due with internal debt and by early redemption of certain external liabilities.

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[2] Article 38 of the Public Finance Act provides that the Minister of Finance develops a three-year strategy of control of the public finance sector's debt. The Minister of Finance determines the strategy of State Treasury debt and state debt management, including in particular: macroeconomic stability of the economy and its development ability; the safety of financing the borrowing needs of the national budget; the State Treasury debt servicing costs; determining the debt structure; the impact of debt-related operations on the domestic financial market.

[3] Article 216 of the Constitution of the Republic of Poland prohibits raising loans and granting guarantees, in consequence of which the ratio of the general government debt plus the amount of expected payments resulting from guarantees to GDP exceeds the value of 3/5. A similar provision is contained (Article 37) and reinforced (Article 45) in the Public Finance Act, by laying down the so-called prudential and recovery procedures aimed to reduce the ratio after the 50% threshold is exceeded

2. Achieve the desirable value of the indicators describing the debt maturity structure: average maturity, duration, and the ratio of debt due in a given year to total debt.

3. Ensure even distribution of debt repayments and debt servicing costs over time, in particular to eliminate congestion of payments.

4. Reduce the risk related to variability of debt servicing costs (increase their predictability) by increasing the share of fixed income instruments in total debt.

5. Make the external debt structure more flexible.

SHORT-TERM OBJECTIVES

The following objectives were set in the *Strategy* for the three-year horizon:

1. Minimise the debt servicing costs under constraints on:

- the borrowing needs of the state budget (net cash requirements);
- the level of risk involved in debt financing, including: exchange risk, refinancing risk, interest rate risk;
- the ability of the domestic market to absorb medium and long-term instruments (given that the national budget does not „displace" credit for the economy);
- the conditions prevailing on the international financial market, related to a country credit rating;
- compliance with the monetary policy of the central bank.

2. Develop an optimum schedule of external debt payments for the years 2004-2009 (i.e. during the period of high intensity of the payments).

3. Reduce the degree of debt monetisation by increasing the non-banking sector's share in total debt.

1.2. TASKS OF THE STRATEGY OF DEBT MANAGEMENT OVER A THREE-YEAR HORIZON

The above-mentioned short-term objectives are reflected by more detailed tasks. They include:

1) the definition of parameters and the development of calculation procedures necessary to determine the optimal structure of debt, minimising its servicing costs within the limitations adopted;

2) restructuring of debt in respect of non-marketable instruments through conversion into market instruments (the restructuring of the State Treasury debt to the NBP in 1999 resulted in a reduced volume of open market operations and improved effectiveness of the transmission of monetary policy impulses);

3) elimination of all barriers and obstacles to trading in debt instruments on the secondary market (leading, among other things, to an increase in transaction costs) and improvement of the transaction closing and settlement system;

4) elaboration and implementation of procedures for optimal management of liquidity of the national budget;

5) development of a technical and methodological base for debt management purposes, especially involving IT systems and decision-making support systems;

6) preparation of a detailed concept of eliminating the problems involved in the refinancing of external debt during the period of intensive payments under the Paris Club agreement, i.e. in 2004 - 2009.

Some of the above tasks have already been completed (restructuring of the State Treasury non-marketable debt to the NBP), while other tasks are in progress (development of the methods of optimising the national budget debt structure and liquidity management) or under intensive processing (improvement of liquidity of the secondary market of debt instruments, development of the methodology of debt management, external debt management over the 2004 - 2009 period).

1.3. STRATEGY IMPLEMENTATION INSTRUMENTS

To implement the objectives of the Strategy, it is necessary to provide appropriate instruments, including mainly: decision-making procedures, debt instruments, operations on debt components, and legal/organisational instruments.

DECISION-MAKING PROCEDURES

The basic decisions taken within the framework of the *Strategy of Debt Management* concern:

- the sources of funding (domestic market, international market, international financial institutions);
- the category-specific structure of the instruments issued (i.e. mainly those bearing fixed and variable income);
- the maturity profile of each debt component;
- the sector-specific structure of internal debt;
- the formulation and fulfilment of limiting conditions concerning the admissible risk level, compliance with the country's monetary policy, balance of payments situation, etc.;
- the use of financial instruments to manage the existing debt, in particular external debt.

BACKGROUND OF THE ISSUE OF TREASURY SECURITIES

The procedures providing a basis for such decisions must ensure optimisation of the resulting measures. The development and improvement of such procedures is the basic task in the development of the debt management methodology.

DEBT INSTRUMENTS

The main components of debt are Treasury securities issued on the domestic and foreign markets. Appropriate design of debt instruments and their sale policies are of key importance to effective debt management.
In 1999, the following Treasury securities were issued on the domestic market:

- **fixed-income bonds** (with maturities of 2, 5 and 10 years) - the bonds will be the basic instrument of generating funds for the borrowing needs of the national budget. 10-year bonds will be of considerable importance in this respect, the interest they carry being one of the convergence criteria listed in the supplementary documents to the Treaty on European Union (Maastricht Treaty);

- **variable-income bonds** (3 and 10-year) - the interest on the bonds is based on the yield on treasury bills, i.e. it is a function of current interest rates. The proportion of variable-income bonds in the debt structure should be much lower than that of fixed-income bonds, yet by no means negligible, owing to the existing demand for the instruments, e.g. from non-banking entities[4];

- **savings bonds** (a fixed-rate 2-year bond and a 4-year inflation indexed bond), designed for sale solely to individual buyers (natural persons), with an early redemption option. The interest on those instruments is based on the assumption that their overall servicing costs should not exceed the servicing costs of corresponding instruments designed for institutional (wholesale) investors;

- **treasury bills** (with maturities of up to 52 weeks) - their main function is to finance the current budget deficit, the T-bill issue volume being dependent on the needs of the national budget liquidity management.

In 1999, no debt instruments were issued on the international market.

The development of financial markets, changes in the debt management methodology, and growing requirements of the investors necessitate the issue of new debt instruments. During the period covered by the *Strategy*, the possibility of issuing the following new instruments is envisaged:

- bonds with maturities of over 10 years (intended e.g. for pension funds),

- new bond types (not used in Poland so far) - e.g. bonds that allow for separating principal from interest - "strips" (such instruments may be preferable to certain investor groups),

- savings instruments sold through a modern and effective distribution system (including telephone and Internet sale),

- debt instruments issued on foreign markets - the design of such instruments, their issue and sale methods are determined by the standards prevailing in the market on which the instrument is to be placed.

The *Strategy* also provides for the use of derivative instruments - such instruments make it possible to change the profile of the existing debt portfolio in order to reduce the risk or cut the debt servicing costs related to those instruments. The use of derivatives will mainly involve external debt. Their use will result from market conditions and meeting the requirement not to increase the risk involved in debt management.

OPERATIONS ON DEBT COMPONENTS

Operations performed on existing debt are aimed to achieve goals concerning mainly the minimisation of debt servicing costs under constraint of risks involved. They may concern:

- early repayment or conversion of liabilities with unfavourable characteristics in order to reduce the risk or servicing costs (e.g. in respect of debt resulting from the liabilities of former budget-financed entities taken over by the State Treasury);

- current management of national budget liquidity (buying and selling securities, early redemption of specific components of debt),

[4] As of the year 2000 the issue of 3-year bonds at auctions was discontinued.

- conversion, based on market rules, of existing securities into new instruments in order to improve liquidity of the secondary market.

The operations involving debt components, used in countries with developed financial markets, have a wider scope than those currently used in Poland. They include e.g. various types of derivatives (mainly currency and interest rate swaps). Such transactions make it possible to reduce the servicing costs or the risk related to the existing debt structure. What needs a solution is the implementation and optimal utilisation of such operations in the debt management process in Poland.

LEGAL AND ORGANISATIONAL INSTRUMENTS

The social and economic transformation period is characterised by high probability of occurrence of critical situations that may have adverse effect on the debt balance of the public finance sector. This concerns, among other things, the debt of the social insurance system and the debt of a number of state-owned economic entities (e.g. the national railways PKP, coal mines, the armaments industry). It is therefore advisable to create legal instruments preventing such threats.
They should be aimed at achieving the following effect:

- make the financial system, both at the central and local government levels, leak-proof in order to eliminate the risk of uncontrolled accretion of the debt and liabilities in respect of high-risk guarantees;

- implementation of an „early warning" system that makes it possible to monitor and predict (sufficiently in advance) the occurrence of critical situations. Within such a system, it is necessary to develop a system of indicators providing a synthetic view of the situation of the different administrative units forming the public finance sector as well as recovery procedures.

1.4. STRATEGY IMPLEMENTATION RISKS

Under the present circumstances, the following sources of risks related to the *Debt Management Strategy* implementation can be identified for the horizons discussed:

1) unfavourable development of the country's macroeconomic situation, including a drop of the rate of growth of the GDP, increase in inflation and increase of interest rates, weakening of the zloty in relation to foreign currencies, leading to increase of foreign currency debt. Such developments resulted in a higher ratio of national debt to the GDP;

2) increased level of budgetary deficit, e.g. in consequence of the failure of satisfying the principles of budgetary discipline, increased debt servicing costs (e.g. due to an increased level of market interest rates, privatisation slow-down, deteriorated rating of debt instruments), consequently resulting in a higher public debt;

3) unfavourable balance of payments situation, limiting the ability to contract debt in the international market, especially in periods of high intensity of external debt servicing;

4) downturn in the world's economy (having a global or regional impact), preventing the achievement of the planned macroeconomic objectives.

It is difficult to precisely estimate the probability of those threats becoming real to an extent having a material effect on the debt level in Poland, but it does not seem to be high within the horizons adopted. What is more probable is the occurrence of events leading to a temporary increase in debt servicing costs.

1.5. RESULTS OF THE IMPLEMENTATION OF THE STRATEGY

The objectives laid down in the *Strategy* are considered realistic and fully compliant with the objectives of Poland's social and economic development, as well as the monetary and fiscal policy. Their implementation will ensure, among other things, the reduction of debt servicing costs and an optimum structure of debt, and it will make it possible to minimise the adverse impact of debt on public finance and on the Polish financial market.

The following prerequisites must be met to achieve the objectives laid down in the *Strategy*:

- implement the *active* (or similar) option of the country's development, which means among others economic growth of over 5% on average[5];

- achieve a further progress in the development of debt management methods and instruments, in particular: issue debt instruments meeting the requirements of a broad investor community, expand the technical and methodological base of debt management (mainly information systems and decision support methods), promote the development of the secondary market of debt instruments, in particular its effectiveness, liquidity and transparency, and minimise transaction costs;

- take into account, in debt management, the consequences of the implementation of the Economic and Monetary Union in the EU member states, and the prospects of Poland's accession to those structures.

The debt forecasts provided as part of the *Strategy* justify the expectation that unless critical developments occur with a significant strength or duration of impact within the horizon covered by the *Strategy*:

[5] Cf. Public Finance and Economic Development Strategy. Poland 2000 - 2010, Ministry of Finance, June 1999.

BACKGROUND OF THE ISSUE OF TREASURY SECURITIES

1) the ratio of State Treasury debt to GDP and the public finance sector's debt to GDP will decrease considerably. Along with the drop of the debt to GDP ratio, the ratio of State Treasury debt servicing costs to GDP will also decline. The debt level and servicing costs should reach values that do not impose significant burdens on public finance and the Polish economy.

2) the following targets of State Treasury debt are expected to be achieved:

- a significant decline in the share of external debt in total debt (to approx. 44% in 2002 and under 1/3 in 2009);
- non-marketable debt will be replaced with marketable debt (this mainly concerns the internal debt);
- the targets will be achieved concerning debt maturity distribution, e.g. the average maturity profile of domestic (market) securities will be extended to approx. 4.5 years;
- the proportion of fixed-income bonds in internal debt will reach approx. 2/3;
- payments related to redemption of debt and debt servicing costs will be spread more evenly over time,
- the banking sector's share in the structure of the internal debt of the State Treasury will be reduced significantly.

2. POLISH STATE TREASURY DEBT

2.1. DEBT OF THE POLISH STATE TREASURY IN 1999[6]

As at the end of 1999, the State Treasury (ST) debt amounted to PLN 264,370.3 m nominal[7] (in USD terms, at the exchange rate of 31 Dec 1999: PLN 4.1483 / 1USD - approx. USD 63.7 bn) and it increased by PLN 26,970.4 m, i.e. 11.4% from 1998 year-end. The internal debt of the State Treasury reached PLN 134,676.2 m (50.9% of total debt), and external debt[8] reached PLN 129,694.1 m (49.1% of total debt).
In 1999, the ratio of the State Treasury debt to the GDP[9] reached 42,8% in comparison to 43,2% in 1999.

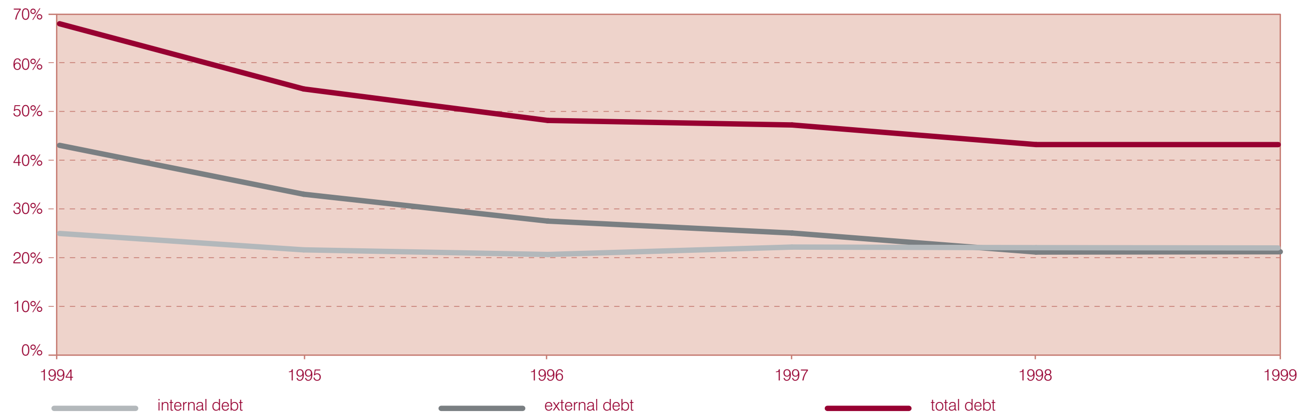
Table 2: *State Treasury debt in 1994 - 1999 at nominal value (in PLZ terms, millions) and relative to GDP**

	1994	1995	1996	1997	1998	1999
Total debt	**152 237,7**	**167 266,7**	**185 602,8**	**221 649,6**	**237 399,9**	**264 370,3**
increase in PLZ m	14 086,9	15 029,0	18 336,1	36 046,9	15 750,3	26 970,4
previous year=100	110,2	109,9	111,0	119,1	107,1	111,4
relative to GDP	67,9%	54,6%	48,1%	47,2%	43,2%	42,8%
Internal debt	**55 876,4**	**66 160,1**	**79 608,8**	**104 058,1**	**121 182,2**	**134 676,2**
increase in PLZ m	15 795,5	10 283,7	13 448,7	24 449,3	17 124,1	13 494,0
previous year=100	139,4	118,4	120,3	131,7	116,5	111,1
relative to GDP	24,9%	21,6%	20,6%	22,2%	22,0%	21,8%
External debt	**96 361,3**	**101 106,6**	**105 994,0**	**117 591,6**	**116 217,7**	**129 694,1**
increase in PLZ m	-1 708,7	4 745,3	4 887,4	11 597,6	-1 373,8	13 476,4
previous year=100	98,3	104,9	104,8	111,1	98,8	111,6
relative to GDP	43,0%	33,0%	27,5%	25,0%	21,2%	21,0%

* The GDP value is stated in accordance with the new methodology adopted by GUS, allowing for the "grey zone" of the economy.

[6] State Treasury debt data as on 30 April 2000. Under „Other internal debt", the final data on State Treasury debt may change owing to delay in data delivery and adjustments for previous periods.
Total State Treasury debt means the State Treasury's total debt to domestic and foreign entities in respect of loans raised from financial institutions and directly from governments - members of the Paris Club, or loans that were guaranteed or insured by those governments or their agencies, as well as debt related to outstanding government securities issued in the domestic and international markets from 1989, and other booked liabilities of the State Treasury, e.g. debt due from budget-financed entities or settlement of current accounts with banks.
[7] The presentation of debt at nominal value meets the requirements of Article 9 of the Public Finance Act.
[8] The value of foreign liabilities of the State Treasury as at the end of 1999 is based on external debt data translated into zlotys at the exchange rate of 31 Dec 1999: PLN 4.1483/1 USD.
[9] According to preliminary estimates of GUS, in 1999 the GDP reached PLN 617.0 bn at current prices.

Chart 1: *State Treasury debt relative to GDP*



2.2. INTERNAL DEBT OF THE STATE TREASURY

2.2.1. LEVEL AND STRUCTURE OF THE INTERNAL DEBT IN 1999

Two basic items are noteworthy in the structure of the internal debt of the State Treasury in 1999:

1) debt in respect of treasury securities (TSs) - PLZ 113,275.2 m (84.1% of internal debt), including:

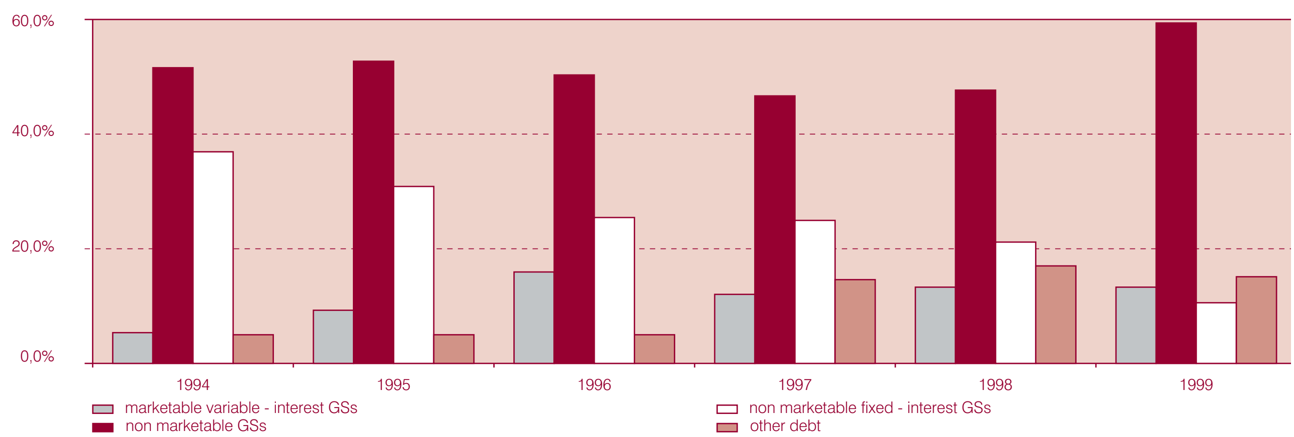
- debt in respect of marketable TSs - PLZ 98,051.1 m (72.8% of internal debt),
- debt in respect of non-marketable TSs - PLZ 15,224.0 m (11.3% of internal debt)

2) other debt - PLZ 21,401.0 m (15.9% of internal debt).

The predominating part of the **State Treasury's internal debt in respect of TSs** consisted of nonmarketable fixed-income bonds. As at the end of 1999, the State Treasury debt in those instruments amounted to PLZ 53,152.3 m. More than half of the amount (59.3%) represented the debt in respect of fixed-income 2 and 5-year bonds (16.4% and 42.9% respectively). The debt in respect of marketable variable-income bonds as at the end of December 1999 amounted to PLZ 17,918.6 m. The largest proportion of the debt, i.e. 98.4%, consisted of 3 and 10-year floating-rate bonds (60.9% and 37.5% respectively). The debt in respect of non-marketable TSs as at the end of December 1999 consisted of restructuring bonds (representing 40.5% of the debt), bonds issued for BGŻ to increase its capital (representing 6.0% of the debt), and a USD-denominated bond of 1991 (representing 53.5% of the debt).

A significant proportion of **other internal debt of the State Treasury** consisted of liabilities in respect of the freeze on wages in the public sector[10] and debts due from budget-financed entities[11], which represented 54.5% and 42.7% respectively of the total amount of that debt as at the end of 1999.

Chart 2: *Structure of domestic debt of the ST by instument*



[10] These are compensation charges in respect of: (1) non-indexation of wages in the public sector due to non-application during the period from 1 July 1991 to 28 June 1992 of the provisions on the structuring of funds for wages and remuneration in the sector and (2) loss of certain increases and additions to 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 or additions to pensions, adopted pursuant to decisions of the Constitutional Tribunal. The compensation payments under the Act will be made during the 2000 - 2004 period.

[11] They mainly consist of outstanding liabilities of the health service, education and finance sectors.

BACKGROUND OF THE ISSUE OF TREASURY SECURITIES

2.2.2. CHANGES IN THE INTERNAL DEBT IN 1999

CHANGES IN INTERNAL DEBT STRUCTURE
BY INSTRUMENT

It is worth noting the following changes that affected the category-specific structure of the State Treasury debt in 1999:

1) **Significant increase of debt in fixed-income bonds**, by a total of PLZ 25.373,1 m, which resulted in an increase of the share of the bonds in internal debt by 16.6 pp, from 22.9% at the end of 1998 to 39.5 % at the end of 1999.

2) **Slight increase of debt in variable-income bonds**, i.e. mainly 3-year and 10-year floating-rate bonds, by a total of PLZ 1,184.7 m, with a simultaneous decrease in the share of the bonds in internal debt by 0.5 pp, from 13.8% at the end of 1998 to 13.3% at the end of 1999.

3) **Decrease in internal debt in T-bills** by PLZ 1,933.7 m, which resulted in a decrease of the share of the instruments in internal debt by 3.9 pp, from 23.9% in 1998 to 20.0% at the end of 1999.

4) **Significant decrease of debt in non-marketable TSs** by the amount of PLZ 12,913.5 m, leading to the reduction of the share of the instruments in internal debt by 11.9 pp, from 23.2% in 1998 to 11.3% in 1999. The decrease of debt in respect of those instruments was mainly affected by the conversion of the State Treasury's non-marketable debt to the NBP into marketable securities[12]. In consequence of the conversion, 1999 saw a decrease in internal debt in respect of non-marketable TSs by PLZ 12,461.6 m, which represented 96.5 % of the decrease in the total debt of the ST in respect of non-marketable TSs. The other non-marketable securities were affected only slightly.

5) **Increase of PLN 1,783.5 m in other internal debt of the State Treasury**, with a simultaneous reduction of the share of this item in internal debt by 0.3 pp, form 16.2% in 1998 to 15.9% at the end of 1999.

The increase was the outcome of the following developments:

- increase in debt in respect of due liabilities of budget-financed entities by PLZ 2,188.7 m. The incremental debt under this heading resulted mainly from the increase in the amount of interest on the debt owing to the ST, arising from outstanding liabilities of the health service. The increase occurred despite the conversion of the debt into marketable bonds, which started in September of 1999 (in 1999 the debt was converted with a nominal value of PLZ 223.4 m)[13].

- increase in debt arising from non-indexation of wages in the budgetary sphere in the early 1990s by PLZ 988.2 m. The increase in the debt results mainly from quarterly indexation of the nominal value of compensation.

CHANGES IN DEBT STRUCTURE BY HOLDER[14]

In 1999, the following changes should be noted in the holder-specific structure of the State Treasury debt :

1) **Increase in debt to commercial banks** in 1999 by PLZ 5,052.6 m, i.e. by 10.5% against 1998. The increase resulted from the increase in debt in respect of TSs by PLZ 4,688.5 m (i.e. 9.8%). In 1999, the share of ST debt to commercial banks in total debt reached 39.4%. By comparison, at the end of 1998 the share was 39.6%.

   What materially affected the increase in debt to commercial banks in 1999 was the increase in debt in respect of 5-year fixed-income bonds (PLZ 3,215.6 m increase) and 10-year floating-rate bonds (PLZ 1,260.3 m increase).

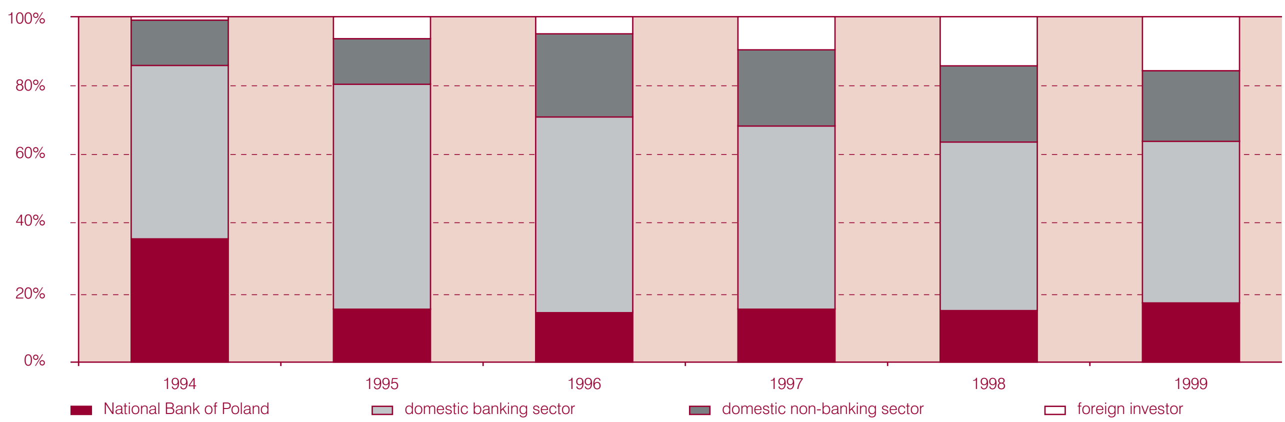
2) **Increase in debt to the non-banking sector** in 1999 by PLZ 4,235.2 m, i.e. by 9.5% from the end of 1998. The State Treasury debt in respect of TSs increased by PLZ 1,077.0 m while other due liabilities increased by PLZ 3,158.2 m. The share of the non-banking sector in the internal debt of the State Treasury dropped slightly, from 36.8% at the end of 1998 to 36.2% at the end of 1999.

[12] The conversion is discussed in Chapter IV, section 3 of this Raport.
[13] op. cit.
[14] Breakdown according to primary market data

Table 3: *Internal debt of the State Treasury in 1994-1999*

	Dec 1994	Dec 1995	Dec 1996	Dec 1997	Dec 1998	Dec 1999
INTERNAL DEBT OF STATE TREASURY	55 876,6	66 160,2	79 608,9	104 058,1	121 182,2	134 676,2
Treasury Securities	**52 186,1**	**61 443,0**	**74 042,3**	**87 966,2**	**101 564,6**	**113 275,2**
1. Marketable TSs	31 945,9	41 245,9	52 377,3	60 146,6	73 427,0	98 051,1
treasury bills	*27 248,9*	*28 848,3*	*29 337,0*	*32 259,7*	*28 913,9*	*26 980,2*
marketable bonds	*4 697,0*	*12 397,6*	*23 040,3*	*27 886,9*	*44 513,2*	*71 070,9*
Marketable fixed rate bonds	1 210,1	5 730,6	10 525,1	16 430,0	27 779,2	53 152,3
1-year fixed rate bonds	-	-	-	-	*2 986,0*	*1 669,3*
2-year fixed rate bonds	*576,5*	*2 096,9*	*5 249,3*	*6 746,3*	*8 785,3*	*8 686,9*
2-year zero-coupon bonds	-	-	-	-	-	*1 681,2*
2-year zero-coupon bonds - converted	-	-	-	-	-	*4 133,9*
2-year savings bonds	-	-	-	-	-	*471,2*
3-year fixed rate bonds - converted	-	-	-	-	-	*3 076,3*
4-year fixed rate bonds - converted	-	-	-	-	-	*3 076,3*
5-year fixed rate bonds	*633,5*	*3 633,6*	*5 275,7*	*9 683,7*	*16 007,9*	*22 828,9*
5-year fixed rate bonds - converted	-	-	-	-	-	*3 076,3*
10-year fixed rate bonds	-	-	-	-	-	*1 375,7*
10-year fixed rate bonds - converted	-	-	-	-	-	*3 076,3*
60% Bonds of 1989	*0,1*	*0,1*	*0,1*	*0,1*	*0,1*	*0,1*
Marketable variable-income rate bonds	3 486,9	6 667,0	12 515,2	11 456,9	16 733,9	17 918,6
1-year indexed-linked bonds	*1 849,8*	*2 924,3*	*3 789,7*	*1 635,9*	*2 316,7*	*263,9*
3-year floating rate bonds	*1 627,7*	*3 240,5*	*6 216,7*	*7 030,9*	*10 318,3*	*10 918,4*
4-year savings bonds	-	-	-	-	-	*22,7*
10-year floating rate bonds	-	*500,0*	*2 507,1*	*2 788,6*	*4 097,6*	*6 712,3*
1989 convertible bonds	*9,4*	*2,2*	*1,7*	*1,5*	*1,3*	*1,2*
2. Nonmarketable TSs	20 240,2	20 197,1	21 665,0	27 819,5	28 137,6	15 224,0
restructuring bonds	*4 644,4*	*5 671,7*	*6 303,9*	*6 895,7*	*6 358,6*	*6 161,1*
bonds issued to increase BGŻ equity	-	-	*700,0*	*863,2*	*904,3*	*911,6*
USD-denominated bonds (1991)	*10 102,2*	*9 153,8*	*9 411,5*	*9 980,6*	*8 413,1*	*8 151,4*
USD-denominated bonds for buy-back of Brady '97	-	-	-	*4 952,5*	*4 905,6*	-
USD-denominated bonds for buy-back of Brady '98	-	-	-	-	*2 550,4*	-
Bonds issued for implementation of the agreement with London Club	*3 055,3*	*3 055,3*	*3 055,3*	*3 055,3*	*3 055,3*	-
conversion bond	*2 438,3*	*2 316,3*	*2 194,3*	*2 072,3*	*1 950,3*	-
Other internal debt of State Treasury	**3 690,5**	**4 717,2**	**5 566,6**	**16 091,9**	**19 617,6**	**21 401,0**

Chart 3: *Structure of the State Treasury debt in Treasury Securities by holder*



BACKGROUND OF THE ISSUE OF TREASURY SECURITIES

Table 4: *Internal debt of The State Treasury by instrument*

	Dec 1998	structure Dec 1998 in %	Dec 1999	structure Dec 1999 in %	change Dec '99 – Dec '98	
					in PLZ m	in %
Internal debt of the State Treasury	121 182,2	100,0%	134 676,2	100,0%	13 494,0	11,1%
Treasury Securities	101 564,6	83,8%	113,275,2	84,1%	11 710,6	11,5%
1. Marketable TSs	73 427,1	60,6%	98 051,1	72,8%	24 624,1	33,5%
treasury bills	28 913,9	23,9%	26 980,2	20,0%	-1 933,7	-6,7%
marketable bonds	44 513,2	36,7%	71 070,9	52,8%	26 557,8	59,7%
Marketable fixed rate bonds	27 779,2	22,9%	53 152,3	39,5%	25 373,1	91,3%
1-year fixed rate bonds	2 986,0	2,5%	1 669,3	1,2%	-1 316,7	-44,1%
2-year fixed rate bonds	8 785,3	7,2%	8 686,9	6,5%	-98,4	-1,1%
2-year zero-coupon bonds	-	-	1 681,2	1,2%	1 681,2	100,0%
2-year zero-coupon bonds - converted	-	-	4 133,9	3,1%	4 133,9	100,0%
2-year savings bonds	-	-	471,2	0,3%	471,2	100,0%
3-year fixed rate bonds - converted	-	-	3 076,3	2,3%	3 076,3	100,0%
4-year fixed rate bonds - converted	-	-	3 076,3	2,3%	3 076,3	100,0%
5-year fixed rate bonds	16 007,9	13,2%	22 828,9	17,0%	6 821,1	42,6%
5-year fixed rate bonds - converted	-	-	3 076,3	2,3%	3 076,3	100,0%
10-year fixed rate bonds	-	-	1 375,7	1,0%	1 375,7	100,0%
10-year fixed rate bonds - converted	-	-	3 076,3	2,3%	3 076,3	100,0%
60% Bonds of 1989	0,1	0,0%	0,1	0,0%	0,0	0,0%
Marketable variable-income bonds	16 733,9	13,8%	17 918,6	13,3%	1 184,7	7,1%
1-year indexed-linked bonds	2 316,7	1,9%	263,9	0,2%	-2 052,8	-88,6%
3-year floating rate bonds	10 318,3	8,5%	10 918,4	8,1%	600,1	5,8%
4-year savings bonds	-	-	22,7	0,0%	22,7	100,0%
10-year floating rate bonds	4 097,6	3,4%	6 712,3	5,0%	2 614,7	63,8%
1989 convertible bonds	1,3	0,0%	1,2	0,0%	-0,1%	-7,0%
2. Nonmarketable TSs	28 137,6	23,2%	15 224,0	11,3%	-12 913,5	-45,9%
restructuring bonds	6 358,6	5,2%	6 161,1	4,6%	-197,6	-3,1%
bonds issued to increase BGŻ equity	904,3	0,7%	911,6	0,7%	7,3	0,8%
USD-denominated bonds (1991)	8 413,1	6,9%	8 151,4	6,1%	-261,7	-3,1%
USD-denominated bonds for buy-back of Brady '97	4 905,6	4,0%	-	-	-4 905,6	-100,0%
USD-denominated bonds for buy-back of Brady '98	2 550,4	2,1%	-	-	-2 550,4	-100,0%
Bonds issued for implementation of the agreement with London Club	3 055	2,5%	-	-	-3 055,3%	-100,0%
conversion bond for NBP	1 950,3	1,6%	-	-	-1 950,3	-100,0%
Other internal debt of State Treasury	19 617,6	16,2%	21 401,0	15,9%	1 783,5	9,1%
Long-term accounts between NBP and national budget	1 738,9	1,4%	0,0	0,0%	-1 738,9	-100,0%
Current settlements with banks	218,0	0,2%	582,1	0,4%	364,1	167,0%
Advances for cars	22,9	0,0%	4,2	0,0%	-18,7	-81,5%
Liabilities of budgetary units	6 955,6	5,7%	9 144,2	6,8%	2 188,7	31,5%
Liabilities of budgetary sphere for non-indexation of wages in the early 1990s	10 682,2	8,8%	11 670,4	8,7%	988,2	9,3%

The increase in State Treasury debt in respect of TSs resulted mainly from an increase in debt arising from 5-year fixed-income bonds (by PLZ 1,509.5 m) and 10-year floating-rate bonds (by PLZ 1,354.4 m) and decrease in debt in respect of one-year indexed-linked bonds (by PLZ 1,957.4 m) and one-year fixed-rate bonds (by 1 350.0).

The increase in debt in the non-banking sector arising from other liabilities was mainly due to an increase in due debts of budget-financed entities (by PLZ 2,188.7 m and an increase in liabilities arising from the freeze on wages in the public sector (by PLZ 988.2 m).

3) **Increase in the debt to the National Bank of Poland** by PLZ 2,204.0 m, i.e. 12.9% compared with the end of 1998. Debt in respect of TSs increased by PLZ 3,943.0 m, while debt in respect of long-term accounts between the NBP and the State Treasury decreased by PLZ 1,738.9 m. The share of debt to the NBP in total debt as at the end of 1999 reached 14.4%, compared with 14.1% in 1998. The increase in debt in respect of TSs resulted from:

- conversion of bonds into 2-year zero-coupon bonds in implementation of the agreement with the London Club banks

- appreciation of US dollar relative to PLZ.

In consequence of the conversion, the item „other liabilities of State Treasury to NBP“ as at 31 Dec 1999 was equal to zero. As at the end of 1999, 85% of the debt to the NBP was of the marketable type, the only non-marketable item being a USD denominated bond issued in 1991.

4) **Increase in internal debt in respect of TSs purchased by foreign investors** in 1999 by PLZ 2,002.2 m, i.e. 17.4% from the end of 1998 - to PLZ 13,536.9 m. The amount repesented 10.1% of the internal debt copared with 9,5% on1998 year-end.

In the last quarters, the share of T-bills in the foreign investors' portfolio structure dropped significantly - to 4.4% at the end of 1999 (while in 1998 the share was 11.2%). Foreign investors are gradually replacing T-bills with (2 and 5-year) fixed-income treasury bonds.

Table 5: *Internal debt of the State Treasury by holder*

	Dec 1998	structure Dec 1998	Dec 1999	structure Dec 1999	change Dec '99 – Dec '98	
		in %		in %	in PLZ m	in %
INTERNAL DEBT OF THE STATE TREASURY	**121 182,2**	**100,0%**	**134 676,2**	**100,0%**	**13 494,0**	**11,1%**
NATIONAL BANK OF POLAND	**17 126,3**	**14,1%**	**19 330,3**	**14,4%**	**2 204,0**	**12,9%**
TREASURY SECURITIES	15 387,4	12,7%	19 330,3	14,4%	3 943,0	25,6%
Marketable instruments	*-*	*-*	*16 439,0*	*12,2%*	*16 439,0*	*100,0%*
Non-marketable instruments	*15 387,4*	*12,7%*	*2 891,4*	*2,2%*	*-12 496,0*	*-81,2%*
OTHER DEBT	1 738,9	1,4%	-	-	-1 738,9	-100,0 %
DOMESTIC COMMERCIAL BANKS	**47 960,0**	**39,6%**	**53 012,6**	**39,4%**	**5 052,6**	**10, 5%**
TREASURY SECURITIES	47 742,0	39,4%	52 430,4	39,0%	4 688,4	9,8%
Marketable instruments	*34 991,8*	*28,9%*	*40 097,7*	*29,8%*	*5 106,0*	*14,6%*
Non-marketable instruments	*12 750,2*	*10,5%*	*12 332,7*	*9,2%*	*-417,5*	*-3,3%*
OTHER DEBT	218,0	0,2%	582,1	0,4%	364,1	167,0%
DOMESTIC NON-BANKING SECTOR	**44 561,2**	**36,8%**	**48 796,4**	**36,2%**	**4 235,2**	**9,5%**
TREASURY SECURITIES	26 900,5	22,2%	27 977,5	20,8%	1 077,0	4,0%
Marketable instruments	*26 900,5*	*22,2%*	*27 977,5*	*20,8%*	*-26 900,5*	*-100,0%*
OTHER DEBT	17 660,7	14,6%	20 818,9	15,5%	-17 660,7	-100,0%
TSs HELD BY FOREIGN INVESTORS	**11 534,8**	**9,5%**	**13 536,9**	**10,1%**	**2 002,2**	**17,4%**
Marketable instruments	*11 534,8*	*9,5%*	*13 536,9*	*10,1%*	*2 002,2*	*17,4%*

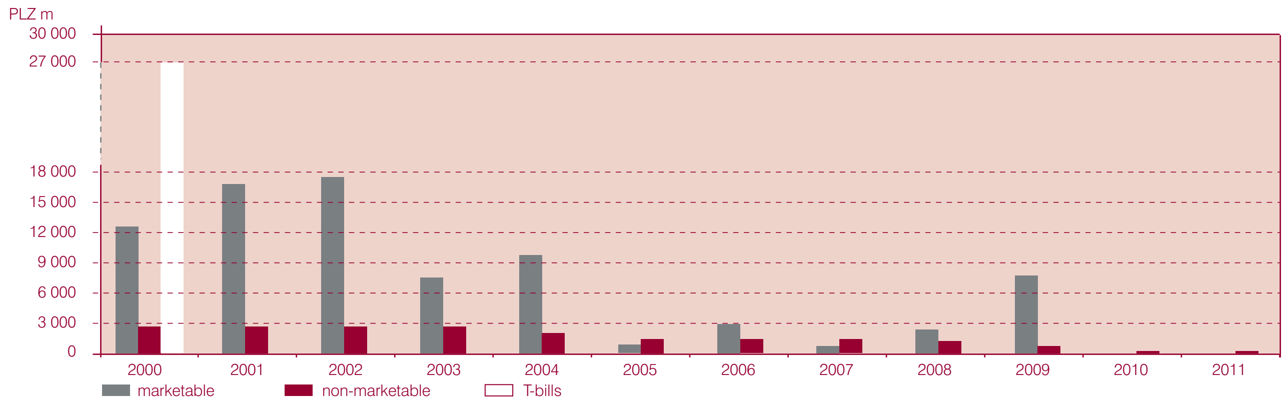
2.2.3. MATURITY PROFILE OF TREASURY SECURITIES ISSUED ON THE DOMESTIC MARKET

Compared with 1998, the average maturity of treasury securities was reduced in 1999 by 721 days. This resulted mainly from the reduction of the average maturity of non-marketable bonds - from 4,260 days to 1,298 days, in consequence of the conversion of non-marketable debt into marketable securities characterised by a shorter average maturity (bonds with maturities of 2 to 10 years). Another factor affecting the decrease of the average maturity of internal debt in TSs in 1999 was the reduction of the maturity of T-bill debt, being a consequence of higher sales of bills with maturities shorter than 13 weeks in the last quarter of 1999 and the reduction, compared with 1998, of the issue volume of bills will longer maturities.

On the other hand, the average maturity of debt in marketable bonds was extended by 263 days. This was caused, among other factors, by the abandoning of the sale of 1-year indexed bonds in favour of savings instruments with 2 and 4-year maturities, and starting the sale of the 10-year fixed-income bond (May 1999).

BACKGROUND OF THE ISSUE OF TREASURY SECURITIES

Chart 4: *Maturity profile of TSs issued on domestic market*



2.3. FOREIGN DEBT OF THE POLISH STATE TREASURY

The foreign debt serviced from the national budget in 1994-1999 consisted of debt in convertible currencies, non-convertible currencies (denominated in transfer roubles), debt in respect of clearing balances and since 1997, only of convertible currency debt.

The foreign debt of the State Treasury decreased, in dollar terms, over the 1994-1999 period from USD 39.0 bn to USD 31.3 bn, i.e. by approx. 19.9%. This resulted from the following factors:

1) owing to a complex currency structure of debt (as at 1999 year-end it was denominated in 12 currencies, the debt denominated in US dollars representing only about 46%), the value of debt denominated in USD reflects, to a significant extent, the changes in exchange rates of the underlying currencies in relation to the USD.

2) at the end of 1996 Poland and Russia set off their debts.

Table 6: *Foreign debt of the State Treasury (in PLZ terms, millions) at year-end*

	1994	1995	1996	1997	1998	1999
Foreign debt	96 361,4	101 106,6	105 994,0	117 591,6	116 217,7	129 694,1
1. Bonds	19 468,4	19 718,6	23 436,8	24 074,4	21 391,5	25 239,1
– foreign bonds	–	617,0	1 181,4	2 777,6	2 800,5	3 229,5
– Brady bonds	19 468,4	19 101,6	22 255,4	21 296,8	18 591,1	22 009,6
2. Loans	76 684,4	81 231,0	82 549,8	93 517,2	94 826,2	104 455,0
– in convertible currencies	75 695,5	80 242,1	82 549,8	93 517,2	94 826,2	104 455,0
– in non-convertible currencies	988,9	988,9	0,0	0,0	0,0	0,0
3. Clearing balances	208,4	157,0	7,4	0,0	0,0	0,0
PLZ/USD	2,4372	2,4680	2,8755	3,5180	3,5040	4,1483

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

	1994	1995	1996	1997	1998	1999
Foreign debt	39 046,5	40 502,7	36 858,5	33 425,7	33 167,2	31 264,4
1. Bonds	7 988,0	7 989,7	8 150,5	6 843,2	6 104,9	6 084,2
– Foreign bonds	-	250,0	410,8	789,5	799,2	778,5
– Brady bonds*	7 988,0	7 739,7	7 739,7	6 053,7	5 305,7	5 305,7
2. Loans	31 058,4	32 513,0	28 708,0	26 582,5	27 062,3	25 180,2
– Paris Club	26 818,3	27 903,6	26 462,9	24 246,6	24 808,2	22 799,6
– World Bank	1 228,6	1 432,2	1 637,9	1 558,9	1 632,4	1 655,5
– Russia and former COMECON banks **	2 395,3	2 358,6	0,0	0,0	0,0	0,0
– Other creditors	616,2	818,6	607,2	777,0	621,6	725,1

* in 1994 the debt to commercial banks was converted into Brady bonds;
** from 1995 only Russia

Table 8: *Foreign debt of the State Treasury in convertible currencies (in USD terms, millions) at year-end*

	As at 31 December		1999 increase	
	1998	1999	in USD m	in %
Foreign debt	33 167,2	31 264,4	-1 902,7	-5,7
1. Bonds	6 104,9	6084,2	-20,7	-0,3
– Foreign bonds	799,2	778,5	-20,7	-2,6
– Brady bonds	5 305,7	5 305,7	0,0	0,0
2. Loans	27 062,3	25 180,2	-1 882,0	-7,0
– Paris Club	24 808,2	22 799,6	-2 008,6	-8,1
– guaranteed outside PC	29,8	0,0	-29,8	-100
– World Bank	1 632,4	1 655,5	23,1	1,4
– Other creditors	591,8	725,1	133,3	22,5

Table 9: *Foreign debt of the State Treasury (in PLZ terms, millions) at year-end*

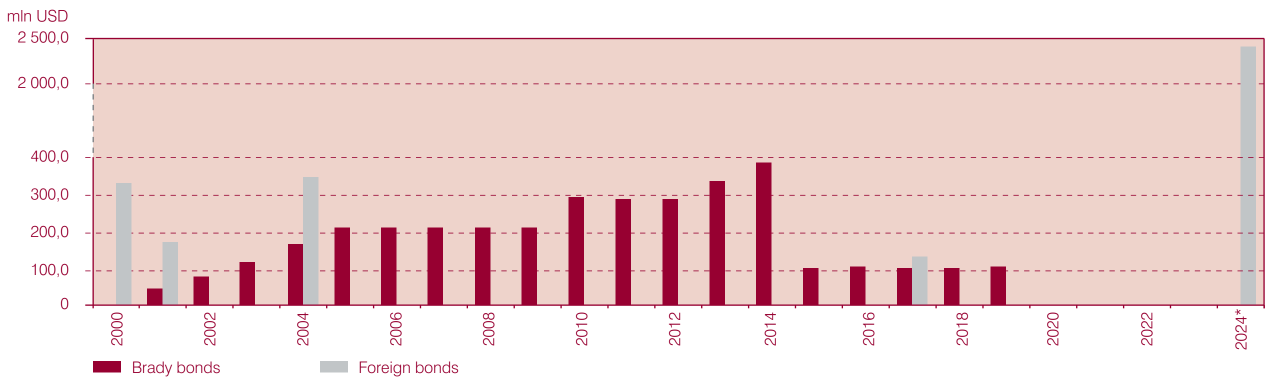
	As at 31 December		1999	Increase
	1998	1999	increase	in %
Foreign debt	116 217,7	129 694,1	13 476,4	11,6
1. Bonds	21 391,5	25 239,1	3 847,6	18,0
– Foreign bonds	2 800,5	3 229,5	429,0	15,3
– Brady bonds	18 591,1	22 009,6	3 418,6	18,4
2. Loans	94 826,2	104 455,0	9 628,8	10,2
PLZ/USD	3,5040	4,1483		

BACKGROUND OF THE ISSUE OF TREASURY SECURITIES

3) during the 1994-1999 period the foreign financing balance was negative, with the exception of 1995.

4) in 1997 and 1998 foreign debt was partly replaced by domestic debt through buy-back in the secondary market and cancellation of Brady bonds with a nominal value of USD 1,686 m and USD 748 m respectively, financed by special bonds issued by the State Treasury and taken up by the NBP.

Chart 5: *Maturity profile of TSs issued on international market*



2.3.1. FOREIGN DEBT OF THE POLISH STATE TREASURY IN 1999

In 1999, the USD-denominated foreign debt of the State Treasury decreased by USD 1,902.8 m, from USD 33,167.2 m in 1998 to USD 31,264.4 m. The decrease in debt resulted from the repayment of part of foreign debt, contracting new debt and change in the USD rate relative to other currencies in which part of the State Treasury's external debt is denominated.
In 1999, the external debt of the State Treasury consisted of two main items:

1) bonds - USD 6,084.2 m (PLN 25,239.1 m),

2) loans - USD 25,180.2 m (PLN 104,455.0 m).

Treasury bonds consisted of Brady bonds and foreign bonds.

Poland's debt to commercial creditors was reduced in part following the signature of the agreement with the London Club in 1994, while the remaining portion was partly converted into Brady bonds. As at end of 1999, the Brady bond debt totalled USD 5.305.7 m.

At 1999 year-end, the amount of debt arising from the issue of foreign bonds reached USD 778.5 m. The debt in those instruments decreased by USD 20.7 m from previous year. The change resulted solely from the change in the DEM/USD rate. The total amount of this debt consists of the following instruments: bonds denominated in USD, issued in June 1995, bonds denominated in DEM, issued in July 1996, and two tranches of bonds denominated in USD, issued in 1997. At the end of 1999, the average maturity for all treasury bonds issued in international markets was 15 years and 7 months.

State Treasury loans amounted, at 1999 year-end, to USD 25,180.2 m. The largest part of the liability consisted of the debt to the Paris Club creditors, totalling USD 22,799.6 m, i.e. 69% of the State Treasury's external debt. The debt owing to the Paris Club has been serviced on a current basis since 1991. In 1995, the first payment of principal was made to the members of the club - USD 188 m of principal was repaid. In the subsequent years, payments were made as follows: 1996 - USD 138.4 m, 1997 - USD 219.2 m, 1998 - USD 627.3 m, 1999 - USD 392.2 m.

At the end of 1999, the debt to the World Bank reached USD 1,655.5 m - USD 23.1 m (i.e. 1.4%) up from 1998. The increase in the indebtedness resulted from a combination of three factors: contracting new debts of USD 175 m, repayment of previous debts to the World Bank in the amount of USD 135.6 m, and changes in exchange rates.

2.4. MAJOR ACHIVEMENTS RELATED TO THE STATE TREASURY DEBT IN 1999

The major developments related to the State Treasury debt, which took place during 1999, included:

1) The issue of the 10-year fixed-interest bond, which made it possible to extend the average maturity of marketable domestic bonds. The interest the bonds carry also provides a basis for fixing the medium and long-term interest rate in a given country in accordance with the convergence criteria concerning interest rates.

2) The issue of 2-year zero-coupon bonds which replaced 2-year fixed-interest bonds. This made it possible to meet the market demand for zero-coupon instruments.

3) The issue of savings bonds intended for individual investors: 2-year fixed-rate and 4-year inflation-indexed bonds. The savings bonds (to ultimately consist of a diversified portfolio of instruments) are designed as safe medium-term savings vehicles for retail investors.

4) The conversion of State Treasury debt to the NBP. The basic goals of the conversion of non-marketable debt into marketable debt was to reduce non-marketable debt in order to deep domestic marketable debt market, and to enable the NBP to use them for open market operations and to reduce the mandatory reserve rates. As a result of the conversion, the NBP now holds a portfolio of treasury bonds with parameters similar to the marketable ones.

5) The commencement of the conversion of debt incurred by health service establishments, taken over by the Treasury, into treasury bonds (September 1999). The operation is intended to regulate the debt.

6) Modification of the treasury bond and treasury bill issue systems, and the treasury bill registration system.

   In 1999, the Minister of Finance issued four ordinances governing the general conditions of issuing treasury bonds, namely: bonds offered in the retail network, bonds offered at auctions, bonds offered in foreign markets, and bonds used for conversion of State Treasury liabilities. The treasury bond issue system is modified and the issue takes place at the moment of publication of the information memorandum describing detailed conditions of the issue concerned. The changes speed up and simplify the issue procedure.

On 1 October, the Ordinance of the Minister of Finance came into force on the conditions of issuing treasury bills. The changes will improve the transparency and liquidity of the treasury bill market, and they will ensure greater flexibility in the issuer's management of a treasury bill issue.

7) The *Strategy of Public Sector Debt Management* was developed (in implementation of the provisions of the Public Finance Act). The *Strategy* makes it possible to take rational measures related to public debt management, spanning a time period extending far beyond the horizon of the next Budget Act.

3. COSTS OF SERVICING OF THE STATE TREASURY DEBT[15]

The State Treasury debt is a consequence of previous liabilities of the State Treasury, the deficits reported in the previous years, and current borrowing needs of the national budget.

The primary factors that determine the level of expenditure on the servicing of State Treasury debt include:

- the amount of debt existing in a given year,
- structure of debt by instrument,
- level of interest on each type of instrument (interest rates prevailing in the domestic and international markets),
- exchange rate levels and cross rates between currencies,
- the amount of payments in respect of domestic and foreign guarantees, which is conditional on the financial situation of the borrowers and payment of their liabilities.

In 1999, the total debt servicing costs relative to GDP changed slightly against 1998, from 3.2% to 3.0%. The declining tendency of the relation was maintained. The same tendency was witnessed in the internal debt servicing costs as percentage of GDP - in 1999 it dropped to 2.4%. The ratio of the foreign debt servicing cost to GDP ranged at 0.6%.

[15] the costs of servising of TSs and loans and payments under guarantees granted

BACKGROUND OF THE ISSUE OF TREASURY SECURITIES

In 1999, the increase rate of internal debt servicing costs and the total debt servicing costs was lower than in 1998. At the same time, an increase of the costs was reported in absolute terms as well as increase of their share in total budget expenditure. The share of the total debt servicing costs in budget expenditure increased from 12.7% in 1998 to 13.6% in 1999. The external debt servicing costs as percentage of budget expenditure remained at the similar level of 2.8%.

In 1999, a slight increase was reported in the external debt servicing costs in zloty terms, compared with 1998, despite a further decrease (to 20.7%) of their share in the total debt servicing costs. At the same time, the tendency was maintained of a steady increase of the share of the internal debt servicing costs in the total debt servicing costs. In 1999 the percentage rose to 79.3%.

The internal debt servicing structure shows a steady increase of the proportion of interest and discount on marketable treasury bonds. This is related to the changes in the structure of financing the borrowing needs of the national budget, improvement of financing safety, and improvement of predictability of the servicing cost levels in the subsequent years.

Table 10: *Servicing costs of the State Treasury debt*

	1997		1998		1999	
Servicing costs of debt	amount (PLZ m)	structure (%)	amount (PLZ)	structure (%)	amount (PLZ)	structure (%)
Total	16 271,0	100,0%	17 780,0	100,0%	18 777,5	100,0%
– internal	12 587,8	77,4%	14 010,1	78,8%	14 893,5	79,3%
– external	3 683,2	22,6%	3 769,9	21,2%	3 884,0	20,7%

memo:

	1997	1998	1999
ST servicing costs of external debt in USD m terms	1 129,3	1 085,0	963,8
exchange rate PLZ/USD (average)	3,2808	3,4937	3,9675

Table 11: *ST costs of debt servicing vs. the State budget expediture and GDP*

Debt servicing costs relative to:	1997	1998	1999
Budget expenditure	12,9%	12,7%	13,6%
GDP	3,5%	3,2%	3,0%*

* preliminary data

In 1999, marketable bond servicing costs increased considerably and accounted for 50.5% of the total internal debt servicing costs, while the treasury bill discount costs dropped to 32.6%. The rate of increase of marketable bond servicing costs is much higher than the rate of increase of the servicing costs of other instruments, which is attributable, among other things, to the issue and servicing of new marketable instruments.

Table 12: *State Treasury debt servicing cost increase rate in 1997-1999*

	1997	1998	1999
Cost increase rate (previous year=100)	113,1%	110,1%	105,6%
– internal debt	114,2%	112,3%	106,3%
– external debt*	109,3%	102,4%	103,0%

* in USD terms

Table 13: *Amount and category-specific structure of servicing costs of ST internal debt*

	1997		1998		1999	
	amount (PLZ m)	structure (%)	amount (PLZ m)	structure (%)	amount (PLZ m)	structure (%)
Internal debt servicing costs	12 587,8	100,0	14 140,7	100,0	14 893,5	100,0
1. Treasury securities and loans	12 390,9	98,4	14 010,1	99,1	14 596,9	98,0
– treasury bills	5 656,2	44,9	5 804,0	41,0	4 854,2	32,6
– marketable bonds	4 667,8	37,1	5 905,8	41,8	7 526,4	50,5
– non-marketable treasury bonds	1 927,8	15,3	2 261,5	16,0	2 216,3	14,9
– infrastructural loans	57,7	0,5	4,6	0,1	–	–
– flood loan	81,5	0,6	34,2	0,2	–	–
2. Guarantee accounts	196,9	1,6	130,5	0,9	296,7	2,0

Table 14: *Amount and category - specific structure of servicing costs of ST external debt*

	1997		1998		1999	
	amount (PLZ m)	structure (%)	amount (PLZ m)	structure (%)	amount (PLZ m)	structure (%)
External debt servicing costs	3 683,2	100,0%	3 769,9	100,0%	3 884,0	100,0%
1. Interest on foreign loans and on Polish Treasury bonds issued abroad	3 682,9	99,99%	3 769,3	99,98%	3 883,4	99,98%
of which						
– Paris Club	2 076,7	56,38%	2 190,9	58,12%	2 156,5	55,52%
– guaranteed outside Paris Club	7,7	0,21%	5,1	0,14%	2,9	0,07%
– World Bank	315,1	8,56%	309,3	8,20%	383,8	9,88%
– Brady bonds	1 077,4	29,25%	993,5	26,35%	1 045,8	26,93%
– classic foreign bonds	139,6	3,79%	199,7	5,30%	221,1	5,69%
– other loans	66,4	1,80%	70,8	1,87%	73,3	1,89%
2. Payments in respect of guarantees for foreign loans	0,3	0,01%	0,6	0,02%	0,6	0,02%

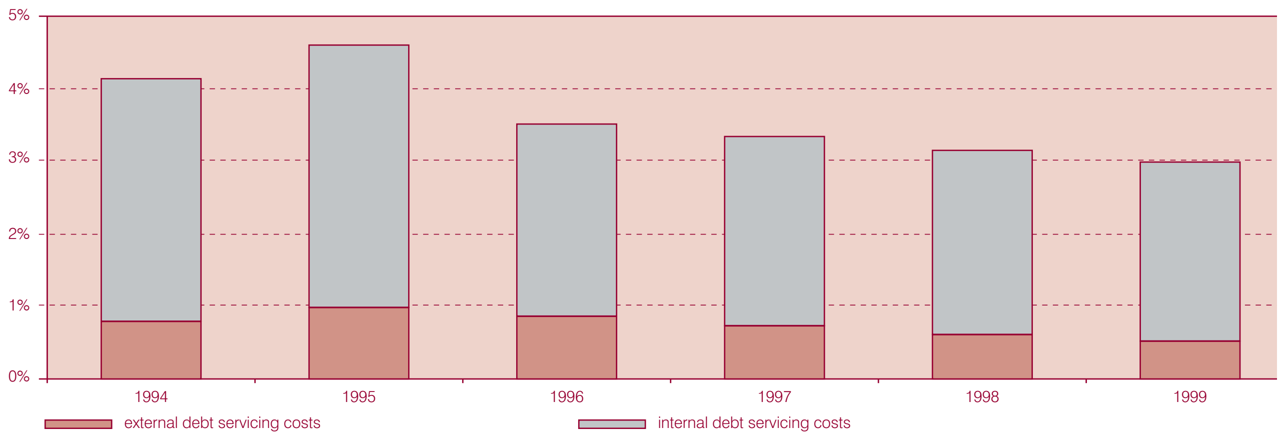
The costs of servicing non-marketable bonds dropped slightly in 1999 compared with 1998, to 14.9%, which is connected with early redemption of Series A restructuring bonds and conversion of State Treasury debt to the NBP.

Domestic guarantee accounts still represent a small proportion (from 0.9 to 2.0%).

The external debt servicing structure is predominated by interest on foreign loans (mainly Paris Club) and on Polish Treasury bonds issued abroad. Payments in respect of guarantees for foreign loans account for only 0.02% of the servicing costs of Polish external debt.

BACKGROUND OF THE ISSUE OF TREASURY SECURITIES

Chart 6: *State Treasury servicing costs relative to GDP*



The proportions of interest on the different debt categories remained at a very similar level during the years under review. In the case of the Paris Club, the change in the share of debt to the creditors - members of the Club in total costs of servicing external debt was mainly affected by variable interest rates and cross rates between the currencies in which the State Treasury's external debt is repayable.

In the case of Brady bonds, the amount of repayments was affected in 1999 by variable interest rates on the two new bond types - Discount Bonds and New Money Bonds. A slightly greater share of the World Bank in the foreign debt servicing cost structure in 1999 (by 1.68%) results from higher utilisation of the Bank's loans, compared with 1998. A greater share of interest on treasury bonds issued abroad, starting from 1998, resulted from the issue of treasury bonds issued abroad in 1997. In general, the volume of interest paid on all the above debt categories is affected by the PLZ/USD rate of exchange.

3.1. COSTS OF SERVICING OF THE STATE TREASURY DEBT IN 1999 AND THE 1999 STATE BUDGET ACT REGULATIONS

Servicing costs of The State Treasury debt planned in the 1999 Budget Act amount to PLZ 20,673.1 m, and consist of:

- servicing costs of internal debt of PLZ 15,658.1 m,
- servicing costs of external debt of PLZ 5,015.0 m.

Pursuant to decisions of the Minister of Finance, expenditure on the servicing of internal debt was reduced during the year by PLZ 282.4 m - to PLN 15,375.7 m, and expenditure on the servicing of external debt was reduced by PLZ 353.7 m - to PLZ 4,661.3 m. In consequence of the decisions, the total amount appropriated for the servicing of State Treasury debt amounted to PLZ 20,037 m.
Finally, in 1999 the total expenditure on State Treasury debt servicing amounted to PLZ 18,777.5 m, which represented 93.7% of the total amended plan.

1. Expenditure on internal debt servicing in 1999 amounted to PLZ 14,893.5 m, i.e. 96.9% of the amended plan. It consisted of:

1) Expenditure in respect of the servicing of treasury securities - PLZ 14,596.9 m, i.e. 98.5% of the amended plan, broken down as follows:

- discount on treasury bills - PLZ 4,854.2 m,
- interest and discount on marketable bonds - PLZ 7,526.4 m,
- interest on non-marketable bonds - PLZ 2,216.3 m.

2) Expenditure in respect of repayment of domestic guarantees - PLZ 296.7 m, i.e. 53 % of the amended plan. The accounts result from commitments made by the State Treasury which fall due for payment when the borrowers whose debt the State Treasury has guaranteed fail to repay the principal and/or interest.

2. Expenditure in respect of State Treasury external debt servicing amounted in 1999 to PLZ 3,884.0 m, i.e. 83.3% of the amended plan, including:

1) Interest on foreign loans and Polish Treasury bonds issued abroad, in the amount of PLZ 3,883.4 m, of which:

- Paris Club: PLZ 2,156.5 m,
- guaranteed outside Paris Club: PLZ 2.9 m,
- World Bank: PLZ 383.8 m,
- Brady bonds (previously London Club): PLZ 1,045.8 m,
- classic foreign bonds: PLZ 221.1 m,
- other loans: PLZ 73.3 m.

2) Payments in respect of guarantees for repayment of foreign loans, amounting to PLZ 0.6 m.

POLISH TREASURY SECURITIES

1. LEGAL FRAMEWORK

The underlying piece of legislation governing the conditions of issuing treasury securities is the Public Finance Act of 26 November 1998 (Journal of Laws No. 155, item 1014, as subsequently amended). Under the Act, only the Minister of Finance is authorised to issue treasury securities providing monetary benefit (i.e. treasury debt securities).

The treasury securities, which the Minister of Finance is authorised to issue, are classified in terms of maturity as follows:

- short-term securities- treasury bills offered for sale in the domestic primary market at a discount and redeemed at face value. Maturity up to 364 days (inclusive).

- long-term securities - treasury bonds offered for sale in the domestic or foreign markets, carrying a discount or interest. Maturity of not less than one year (above 365 days).

The entry into force of the Public Finance Act significantly altered the issue procedure. The general issue conditions are laid down in applicable ordinances, while detailed conditions are stated in information memoranda made available to the public by the Minister of Finance. The making of the information memorandum available to the public is prerequisite for the issue to become effective. An information memorandum is deemed to be made available to the public if published in national newspapers and on the Ministry of Finance website (www.mofnet.gov.pl).

This means a complete change compared with the previous period, when each issue was carried out by ordinance, and earlier by order, of the Minister of Finance, and it set rigid conditions of the issue of several series over a long horizon. At the same time, the lengthy legal procedures involved in the adoption and publication of such legislation, prevented flexible response and quick adaptation of issue conditions to the situation prevailing in financial markets. Such a solution hindered effective management of State Treasury debt and frequently gave rise to situations where the issuer responded late to changed external conditions.

Under the delegation laid down in Article 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 26 April 1999 on the general conditions of issuing treasury bonds offered at auctions (Journal of Laws No. 38, item 368),

2. Ordinance of the Minister of Finance dated 26 April 1999 on the general conditions of issuing treasury bonds offered in the retail network (Journal of Laws 1999, No. 38, item 369),

3. Ordinance of the Minister of Finance dated 26 August 1999 on the conditions of issuing treasury bills (Journal of Laws 1999, No. 74, item 831),

4. Ordinance of the Minister of Finance dated 7 September 1999 on the conditions of issuing treasury bonds in foreign markets (Journal of Laws 1999, No. 75, item 845),

5. Ordinance of the Minister of Finance dated 7 September 1999 on the conditions of issuing treasury bonds designed for conversion of State Treasury debts (Journal of Laws 1999, No. 74, item 834).

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, sale procedures, investor groups to whom treasury securities are offered, servicing and redemption rules (including buy-back and early redemption).

The above ordinances (1-5) contain the following main solutions compared to those previously in force:

1) regulations on limits of the amounts of the bonds offered, which were defined generally by indicating the amount ceilings specified in the Budget Acts for the given year, while the face value of the bonds offered is stated in each case in the information memorandum (re. 1, 2, 4, 5);

2) the possibility to establish the so-called primary market dealers in treasury securities; the ordinances provide for the possibility of entering into agreements with entities specialised in public trading in treasury securities, which will make it possible to improve the organisation of the primary and secondary bond markets and their liquidity situation (re. 1 and 2);

3) changes in subscription and conversion mechanisms in the case of bonds offered for sale in the retail network, making them similar to those functioning in the capital market involving 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 and for the holder of bonds (e.g. the account of the participant of the auction process is debited and the national budget account is credited on the same day) (re. 1);

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

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

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

8) provision of the Minister of Finance with the option to indicate in the information memorandum concerning bonds offered for sale in retail network that the declaration of will submitted in connection with the a bond purchase or redemption transaction may by made by the bond holder by means of electronic information carriers (re. 2).

Owing to the fact that treasury securities are a form of borrowing, they are sold on the primary market on a paid basis, against payment by the investor of the amount fixed on the basis of the selling price and the number of the treasury securities purchased. The issue of treasury securities is effected at the date of payment for the securities subscribed for. Before 1 January 1999, the rule applied only to treasury bills, while bonds were issued at the date of entry into force of an ordinance or, previously, order of the Minister of Finance, which made it necessary to cancel unsold bonds which were deposited with the National Depository for Securities. Currently the number of treasury securities issued equals the number of TSs sold.

Pursuant to the provisions of the Act, redeemed bonds are cancelled. Only the TSs purchased by the State Treasury for the purposes of ST debt management are not subject to cancellation.

The Act also introduced a new category of instruments, namely savings treasury securities, i.e. TSs that are offered for sale solely to „natural persons". They can also be excluded from trading in the secondary market or they can be traded only between natural persons. This facilitated the segmentation of the market between wholesale investors and retail investors limited to natural persons.

2. RULES OF TAXATION ON THE POLISH MARKET OF TREASURY SECURITIES

2.1. TAXATION OF RESIDENTS

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 in 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 amount spent on purchase of a security in the primary or secondary market and the amount obtained by selling the security in the secondary market.

BODIES CORPORATE

Interest and discount income as well as income from the sale of securities is subject to income tax under general principles, i.e. at rate of income tax applicable to income derived by bodies corporate in the year in which the income was obtained (in 1999 the rate amounted to 34%).

NATURAL PERSONS

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

Income derived from the sale of treasury bonds issued after 1 January 1989 to 31 December 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 is subject to personal income tax. Taxpayers earning such income are required to pay advance tax at the rate of 19% (in 1999) of the income derived from such sale by the 20th day of the month following the month in which the income was derived.

2.2. TAXATION OF NON-RESIDENTS

Persons deriving income from treasury securities purchased in the domestic market are subject to the provisions of double tax treaties between Poland and the country of residence or domicile of the non-resident earning income in Poland[16]. Where no such agreement exists, the following principles apply:

[16]The list of countries with which Poland has such agreements forms an appendix to this Report.

POLISH TREASURY SECURITIES

BODIES CORPORATE

Interest and discount are subject to withholding tax of 20%. Income from the sale of treasury bonds or bills is subject to income tax under general principles, i.e. at rate of income tax applicable to income derived by bodies corporate in the year in which the income was obtained (in 1999 the rate amoun ted to 34%).

Income derived by bodies corporate based abroad from the sale, conversion or another legal transaction transferring rights in bonds issued by the State Treasury of the Republic of Poland in foreign markets in 1995 - 1997 is exempt from tax.

NATURAL PERSONS

Foreign natural 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) are 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 derived in Poland.

Interest and discount on securities issued by the State Treasury in the domestic market are free from income tax. Income from the sale of domestic treasury bonds, derived by 31 December 2000 is not liable to income tax unless such sale is the object of business activity. Income from the sale of other domestic securities issued by the State Treasury is liable to personal income tax. Taxpayers earning such income are required to pay advance tax at the rate of 19% (in 1999) of the income derived from such sale by the 20th day of the month following the month in which the income was derived.

Income derived by foreign natural 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 in foreign markets 1995 - 1997 is exempt from tax.

3. TREASURY SECURITIES ISSUED ON THE DOMESTIC MARKET

3.1. ISSUES OF TREASURY SECURITIES

The treasury securities (TSs) issued in the domestic market in 1999 include the following instruments:

- 2, 3, 6, 8, 13, 26, 39, 52-week treasury bills;
- treasury bonds offered at auctions (referred to as wholesale bonds): 2-year fixed-income (OS), 2-year zero-coupon (OK), 3-year floating rate (TP), 5-year fixed-income (OS, PS), 10-year fixed-income (DS), 10-year floating rate (DZ) bonds;
- treasury bonds offered in the retail network (referred to as retail bonds): one-year indexed (IR), one-year fixed-rate interest (RS), two-year savings bonds (DOS), three-year floating rate (TZ), and four-year savings (COI) bonds.

The Minister of Finance, as issuer of treasury securities, takes regular measures to adapt the offer of the securities issued to market requirements and to diversify it in terms of its design and distribution methods. In consequence, changes were introduced in 1999 both in the wholesale and retail instrument segments.

In 1999, the offer was continued of the fixed-income (2 and 5-year) and variable-income (3 and 10-year) bonds already known in the market. New instruments were also offered, adapted to the needs of the institutional investor segment.
The most important event in the securities market was the issue of ten-year fixed-income bonds (DS), the first long-term instruments to be issued in post-war Poland. The offer was addressed mainly to pension funds, new institutions in the Polish market, whose investment horizon is of the long-term type. The issue of fixed-rate ten-year bonds made it possible to lengthen the yield curve of first-class securities (benchmark).

The offer of the Ministry of Finance was also enhanced by adding zero-coupon bonds with a 2-year maturity. At the same time, the issue of fixed-interest coupon bonds with a similar maturity was discontinued.

Table 15: *Marketable Treasury securities offered at auctions in 1999*

	Treasury bills	3-year floating rate bonds	Fixed rate bonds	10-year floating rate bonds	2-year zero-coupon bonds	10-year fixed rate bonds
Issue agent organiser of auctions	NBP	NBP	NBP	NBP	NBP	NBP
Auction frequency	weekly, on first buisness day of the week, usually Monday	monthly	monthly	monthly	monthly (since October 99)	monthly (since May 99)
Secondary market	about 15 banks organizing decentralised secondary market	WSE + non-regulated market	WSE + non-regulated market	WSE + non-regulated market	WSE + non-regulated market	WSE + non-regulated market
Abbreviated name of bond series*	-	TPmmyy	Asmmyy, Osmmyy i Psmmyy	DZmmyy	OKmmyy	DSmmyy
Face value per bill or bond	PLZ 10 000	PLZ 100	PLZ 1 000	PLZ 1 000	PLZ 1 000	PLZ 1 000
Maturity	from 1 up to 52 weeks	3 years	2 and 5 years, and for fungible bonds above 2 and less than 5 years	10 years	2 years	10 years
Frequency of interest payment	at redemption	every 3 months	annually, except the first and interest period**	annually	at redemption	annually
Interest rate	discount	floating rate, 104% of weighted average yield of 13-week T-bills	fixed, for 2 -year bonds issued in 1999 - 13% and 12%; for 5 -year bonds issued in 1999-12%, 10% and 8,5%	floating rate, weighted average yield of 52-week T-bills + 1 pp (100 bp)	discount	fixed 6%
Outstanding debt (nominal) at 1999 year-end	PLZ 27,0 bn	PLZ 5,2 bn	PLZ 31,5 bn	PLZ 6,7 bn	PLZ 1,5 bn	PLZ 1,4 bn
Nominal sale value in 1999	PLZ 45,5 bn	PLZ 1,8 bn	PLZ 10,1 bn, of which: 2-year-PLZ 2,8 bn, 5-year-PLZ 5,4 bn, fungible bonds - PLZ 1,9 bn	PLZ 2,6 bn	PLZ 1,5 bn	PLZ 1,3 bn
Nominal redemption value in 1999	PLZ 47,1 bn	-	PLZ `3,4 bn	-	-	-

* mmyy means the redemption date of the given bonds series, mm – month, yy – two last digits of redemption year
**for issues executed since Oct. 1999 annually

POLISH TREASURY SECURITIES

As part of the issue of treasury bills, the offer was expanded by new instruments. As from October 1999, the Minister of Finance may offer bills with maturity of 1 to 52 weeks. In addition, the principle was adopted of automatic assimilation of bills with the same redemption date, thus making treasury bills homogeneous instruments.

The bonds on offer in the retail network was expanded by two instruments addressed only to natural persons. In line with the policy of developing a segmented market, savings bonds are not listed in the secondary market and instead they carry the early redemption option. They may also be traded between natural persons under civil-law contracts (non-regulated market). Two-year fixed-interest savings bonds have been on sale since June 1999 through a network of customer service outlets (CSOs) operated by the issue agent. Since October 1999, individual investors can buy 4-year indexed savings bonds that carry interest based on the 12-month inflation rate.

At the same time, in line with the policy of extending the maturity of the instruments issued, in May 1999 the Ministry of Finance ended the sale of one-year indexed bonds (IR). In the latter part of the year, one-year fixed-interest (RS)

Table 16: *Treasury Securities offered in retail network in 1999*

	One-year indexed linked bonds*	One-year fixed-income bonds*	Two-year fixed-income savings bonds	Three-year floating-rate bonds	Four-year indexed-linked savings bonds
Issue agent	CDM Pekao SA	CDM Pekao SA	CDM Pekao SA	CDM Pekao SA	CDM Pekao SA
Frequency of retail sale	sale periods: Dec 98-Feb 99, March - May 99	two issues for rolling over of redeemed bonds	monthly	series: Feb-Apr, May-July, Aug-Oct, Nov-Jan	monthly
Secondary market	WSE+non-regulated market	CeTO+non-regulated market	none	WSE+non-regulated market	none
Abbreviated name of bond series**	IRmmyy	RSmmyy	DOSmmyy	TZmmyy	COImmyy
Face value per bond in PLZ	100	100	100	100	100
Maturity	1 year	1 year	2 years	3 years	4 years
Frequency of interest payment	at redemption	at redemption	at redemption	every 3 months	at redemption
Interest rate	indexed-linked, annual inflation rate	fixed: 10.5% and 11.0%	fixed:10%,10,5%,11%, 12%,13%	floating rate, 105% or 104% of weighted average vield on 13-week T - bills	indexed-linked, annual inflation rate+fixed spread of 4.5 pp
Outstanding debt (nominal) at 1999 year-end	PLZ 0.3 bn	PLZ 1.7 bn	PLZ 0.5 bn	PLZ 5.7 bn	PLZ 0.02 bn`
Nominal sale value in 1999	PLZ 0.5 bn	PLZ 1.7 bn	PLZ 0.5 bn	PLZ 1.9 bn	PLZ 0.02 bn
Nominal redemption value in 1999	PLZ 2.5 bn	PLZ 3.0 bn	PLZ 0.04 bn	PLZ 3.1 bn	-

* bonds withdrawn from Ministry of Finance offer in 1999
** mmyy means the redemption date of the given bond series, mm - month, yy - two last digits of redemption year

bonds were available by way of conversion only to the holders of the RS0799 and RS1099 bonds. As extension of investment, they were offered two new series of one-year fixed-rate bonds (RS0700 and RS1000).
The three-year floating rate (TZ) bonds sold from 1992 remained unchanged. They were available through the CSOs network.

3.2. 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 by primary allocation of bonds.

Table 17: *Non-marketable* Treasury Securities issued on domestic market* *part 1*

	Bond denominated in USD- issued in 1991	Conversion bond	Restructuring bonds, Series A, B, C, D	Bonds issued to increase BGŻ SA equity	Bonds issued for implementation of agreement with London Club member banks	USD - denominated bond - issued in 1997****	USD - denominated bond - issued in 1998****
Issue date	1/01/1991	31/12/1993	Series A, B and C on 30/07, 16/12 and 29/12/1993, and D - 21/11/1994	Tranche I - 23/09/1996 and tranche II - 19/12/1996	Series I - 24/06/1994, series II - 1/08/1994 and series III - 6/12/1994	7/05/1997	17/12/1998
Nominal value of issue	USD 5.453 m	PLZ 2438.3 m	PLZ 4000 m in 4 series: A - PLZ 1100 m, B - PLZ 573.4 m; C - PLZ 426.6 m and D - PLZ 1900 m; each series consists of 28 principial instalments	PLZ 700 m, of which: tranche I - PLZ 600 m, tranche II - PLZ 100 m; each tranche consists of 28 principial instalments	PLZ 3055.3 m, or which: Series I - PLZ 1126.8 m, II - PLZ 451.4 m, III - PLZ 1477.4 m (total issue price was a zloty equivalent of USD 1237 m)	USD 1,407.8 m	USD 727.8 m
Face value per bond	USD 1 m and USD 10 m, in 25 series	whole-issue multiple bond divided into 80 principial and interest coupons	PLZ 1000	PLZ 1000	I - 10 principal coupons of PLZ 112.6835 m each; II -coupons of PLZ 451.1 m, III - 10 coupons of PLZ 147.7376 m each	whole-issue multiple bond in two instalments: I - USD 1400 m and II - the balance representing the difference between issue value and the first instalement	the bond consisted of 1 principal coupon of USD 727.8 bn
Maturity	from 1 year to 13 years, depending on series number	from 1 and 1/8 years to 21 years, depending on coupon number	from 1.5 year to 15.5 years, depending on instalment number	from 1.5 year to 15.5 years, depending on instalment number	25 years each series	1 st instalment - about 27.5 years , 2nd instalment (balance) - 27/10/1998	25 years
Redemption date	1/04/2004	16/11/2014	A – 31/07/2008; B – 17/12/2008; C – 30/12/2008; D – 22/11/2009	tranche I - 24/09/2011; tranche II - 20/12/2011	I - 18/05/2019; II - 24/06/2019; III - 25/10/2019	1st instalment - 27/10/2024, 2nd instalment (balance) - 27/10/1998	27/10/2024

POLISH TREASURY SECURITIES

part 2

	Bond denominated in USD-issued in 1991	Conversion bond	Restructuring bonds, Series A, B, C, D	Bonds issued to increase BGŻ SA equity	Bonds issued for implementation of agreement with London Club member banks	USD - denominated bond - issued in 1997****	USD - denominated bond - issued in 1998****
Frequency of interest payment	semi-annually	quartely	semi-annually	semi-annually	annually	semi-annually	semi-annually
Interest rate	variable: reference rate (arithmetic average 6-monthly USD LIBOR in given semi-annual interest period) =spread (2pp in 1991-1995 and 0,5 pp from 1996)	fixed, according to payment schelue set in information memorandum	variable: arithmetic average of NBP's rediscount rate for half-year interest period; interest payable: 5% of accrued interest, remaining amount of accrued interest increases the amount of capital to redemption (capitalisation of 95% of accrued interest)	variable: arithmetic average of NBP's rediscount rate for half-year interest period; interest payable: 50% of accrued interest, remaining amount of accrued interest increases the amount of capital to redemption (capitalisation of 50% of accrued interest	variable,NBP's lombard rate	variable: 6-month USD LIBOR+13/16% spread	variable: 6-month USD LIBOR=13/16% spread
Access to secondary market investors	without limitations, secondary market does not virtually exist	without limitations, secondary market does not virtually exist	available for purchase only to domestic banks, domestic financial institutions , and the State Treasury; secondary market does not virtually exist	available for purchase only to domestic banks, domestic financial institutions , and the State Treasury; secondary market does not virtually exist	owing to the formal limitation making NBP the only possible buyer, no secondary market exist	owing to the formal limitation requiring issuer's consent to sell bonds, no secondary market exist	owing to the formal limitation requiring issuer's consent to sell bonds, no secondary market exist
Nominal value of debt at 1999 year-end	USD 1 965 m (PLZ 8 151,4)	conversion September '99**	PLZ 6 161,1 m	PLZ 911,6 m	conversion December '99***	conversion September '99**	conversion December '99***

* non-marketable TSs (special or dedicated issues) mean instruments issued in order to pay existing debts converted into TSs or in order to provide for new liabilities, e.g.inject capital into the banking system
** On 30 Sept. 99, pursuant to the agreement between NBP and MoF, debt to NBP in respect of conversion bond, denominated in USD-97 and in 98 issues, and in respect of purchase of units of account, were converted into marketable fixed-income bonds
*** On 29 Dec 99, pursuant the agreement between NBP and Mof, debt to NBP in respect of bonds issued in implementation of the agreement with the London Club member banks were converted into two-year zero-coupon bonds
**** bonds issued due to buy-back of some Brady bonds

Table 18: *Marketable Treasury Securities issued in 1999 for conversion of non-marketable debt to the NBP*

	Fixed rate Treasury bonds redeemable on 22.12.2002	Fixed rate Treasury bonds redeemable on 22.04.2003	Fixed rate Treasury bonds redeemable on 22.07.2004	Fixed rate Treasury bonds redeemable on 22.08.2009	Zero-coupon Treasury Bonds redeemable on 29.04.2002
Abbreviated name of bond	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 PLZ m	3 076,3	3 076,3	3 076,3	3 076,3	4 133,9
Face value per bond PLZ	1 000	1 000	1 000	1 000	1 000
Maturity	3 years	4 years	5 years	10 years	28 months
Redemption date	22/12/2002	22/04/2003	22/07/2004	22/08/2009	29/04/2002
Frequency of interest/discount payment	annually	annually	annually	annually	at redemption date
Interest rate	fixed 10%	fixed 10%	fixed 8,5%	fixed 6%	discount
Access to secondary market investors	for residents only	for residents only	for residents only	for residents only	for residents only
Nominal value of debt at 1999 year-end PLZ m	3 076,3	3 076,3	3 076,3	3 076,3	4 133,9

4. TREASURY BONDS ISSUED ON FOREIGN MARKET

The cumulative nominal amount of treasury bonds issued in international markets by 1999 reached approx. USD 8.8 bn. The bonds consist of two groups: Brady bonds and classic foreign bonds.

A vast majority of the bonds remaining in the market (about 97.9%) is denominated in US dollars (USD). Before the end of 1999 only one issue was denominated in another currency - German marks (DEM). As at 1999 year-end, the nominal value of all bonds issued in the international markets, in dollar terms, amounted to approx. USD 6.1 bn.

In 1995, Poland signed credit rating agreements with three rating agencies - Fitch IBCA, Moody's Investors Services, and Standard&Poor's. In 1995, Poland, as the first country to have reduced and restructured its debt to private creditors, was rated at investment level of Baa3 by Moody's Investors Services. The ratings from the other two agencies represented the sub-investment level: BB (positive outlook) from S&P and BB+ from Fitch IBCA.

As at the end of 1999, the creditworthiness of Poland as issuer in the international markets was rated as follows: Standard&Poor's: *BBB (Positive outlook)*, Moody's Investors Service: *Baa1 (Positive outlook)*, and Fitch IBCA: BBB+.

4.1. CLASSIC ISSUES OF TREASURY SECURITIES FOR THE INTERNATIONAL FINANCIAL MARKET

The basic objectives of the issue of foreign bonds are as follows:

- consolidate Poland's position as a reliable issuer in foreign capital markets,
- provide access to large groups of institutional investors with considerable financial resources,
- enable non-governmental Polish issuers (e.g. banks or companies) to select a foreign market sector and provide them with a convenient benchmark,
- diversify foreign sources of meeting the borrowing needs of the national budget.

Issues are effected within the limits specified in Budget Acts. In selecting the issue market and currency, the issuer's decision concerning treasury bonds addressed to foreign markets was based the results of the analysis of expected servicing costs and the extent to which the above objectives were met. The bonds issued so far by the State Treasury in foreign markets have been typical fixed-interest bonds (with no additional options).

POLISH TREASURY SECURITIES

By the end of 1999, three classic issues of government debt securities had been issued, intended 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:

- 1995 - issue of Eurobonds denominated in USD, maturing in 2000,
- 1996 - issue of Eurobonds denominated in DEM, maturing in 2001,
- 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)).

4.2. 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 27 October 1994 and it included six instruments types of different design. The total value of the issue reached approx. USD 8 bn. At the end of 1999, the debt in respect of the bonds amounted to USD 5,305.7 m.

Of the six instruments issued, only four are actively traded in 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 nominal value and as spread above the return on corresponding US treasury bonds). For the other bonds, the issue amount is too low to ensure sufficient liquidity in the secondary market.

Tablica 19: *Foreign bonds of the Republic of Poland issued on international market up to 1999.*

	7.75% bond denominated in USD, redeemable in 2000	6.125% bond denominated in DEM, redeemable in 2001	7.125% bond denominated in USD, redeemable in 2004	7.75% bond denominated in USD, redeemable in 2017
Issue date	13/07/1995	31/07/1996	1/07/1997	1/07/1997
Issue consortium manager	JP Morgan	Deutsche Morgan Grenfell, Credit Suisse First Boston	J.P. Morgan	J.P. Morgan
Issue value/value of debt at 1999 year-end	USD 250 m	DEM 250 m	USD 300 m	USD 100 m
Interest rate	fixed; 7,75%	fixed; 6,125%	fixed; 7,125%	fixed; 7,75%
Maturity	5 years	5 years	7 years	20 years
Launch spread	185 bp	65 bp	75 bp	100 bp
Issue price	99,967%	101,777%	99,491%	99,299%
Redemption date	13/07/2000	31/07/2001	1/07/2004	1/07/2017
Frequency of interest paid	semi-annually, 13/01 and 13/07	annually, 31/07	semi-annually, 1/01 and 1/07	semi-annually, 1/01 and 1/07
Placement market	Euro+144a	Euro	Yankee	Yankee
Spread above base instrument prices quoted at 1999 year-end	**76 bp**	**101 bp**	**109 pb**	**186 bp**
Registration	-	-	US Securities and Exchange Commission	US Securities and Exchange Commission
Listing on the secondary market	Luxembourg Stock Exchange	Frankfurt Stock Exchange	-	-

Table 20: *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	USD 2968.2 m	USD 934.7 m	USD 894.4 m	USD 2673.6 m	USD 393.0 m	USD 137.6 m
Abbreviated bond name	Discount	Par	RSTA	PDI	DCB	NMB
Coupon rate	6-month LIBOR + 13/16% spread	increasing from 2,75% to 5% currently 3,5%	increasing from 2,75% to 5% currently 4%	increasing from 3,25% to 7% currently 6%	increasing from 4,5% to 7,5% currently 6%	6-month LIBOR + 13/16% spread
Maturity	30 years	30 years	30 years	20 years	25 years	15 years
Spread over US Treasuries, as at 1999 year-end	**272 bp**	**223 bp**	**262 bp**	**199 bp**	**	**
Principal repayments	bullet at maturity	bullet at maturity	bullet at maturity	in 27 step-up instal-ments, with 7-year grace period	in 11 step-up instal-ments, with 20-year grace period	in 11 equal instal-ments, with 10-year grace period
Redemption date	27/10/2024	27/10/2024	27/10/2024	27/10/2014	27/10/2019	27/10/2009
Interest payments	semi-annually, on 27/04 and 27/10	semi-annually, on 27/04 and 27/10	semi-annually, on 27/04 and 27/10	semi-annually, on 27/04 and 27/10	semi-annually, on 27/04 and 27/10	semi-annually, on 27/04 and 27/10
Principal collateral	zero-coupon US Treasury Strips deposited at Federal Reserve Bank in New York	zero-coupon US Treasury Strips deposited at Federal Reserve Bank in New York	zero-coupon US Treasury Strips deposited at Federal Reserve Bank in New York	—	—	—
Outstanding debt at 1999 year-end	USD 805.7 m	USD 744.7 m	USD 738,1 m	USD 2486.7 m	USD 393.0 m	USD 137.6 m
Listing on the secondary market	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Luxembourg Stock Exchange	Luxembourg Stock Exchange

* instruments issued in1994 in implementation of agreement on reduction and restructuring of Polish debt to commercial banks - members of the London Club
** no quotations on the secondary market; owing to low issue amounts the market is completely not liquid

SALE AND ISSUE OF TREASURY SECURITIES IN 1999

1. THE 1999 STATE BUDGET ACT

The 1999 Budget Act provided for revenue of PLZ 63,635 m from the sale of treasury securities. It was expected that PLZ 22,400 m would be derived from the sale of treasury bonds, and the balance of PLZ 41,235 m from the sale of treasury bills. The funds generated, together with privatisation revenue planned at PLZ 6,900 m and favourable foreign financing balance of PLZ 5 m, were to finance the budget deficit of PLZ 12,812 m, redemption of TSs in the amount of PLZ 57,424 m (including PLZ 16,908 m in bonds and PLZ 40,516 m in treasury bills), domestic loans granted (of PLZ 54 m net), and the balance of funds brought forward (PLZ 250 m).

The provisions of the Budget Act introduced a number of limits and restrictions concerning the scale of TSs issue and debt increase. They included:

- the limit of increase in nominal debt in respect of short-term TSs (with maturities of up to one year), designed for sale within the country, set at PLZ 6,000 m,
- the limit of permissible increase in nominal debt in respect of foreign borrowings, including TSs intended for sale abroad, set at PLZ 5,800 m,
- the limit of the total nominal value of long-term TSs issued (with maturity of at least one year), intended for sale at home and abroad, set at PLZ 60,000 m, including the limit of TSs intended for sale abroad, irrespective of denomination, set at PLZ 2,650 m.

At the same time, the Budget Act authorised the Minister of Finance to raise loans or issue TSs intended to finance early redemption or conversion of the existing debt of the State Treasury up to the amount of PLZ 65,000 m. The above-mentioned limits did not refer to loans raised or TSs issued for this purpose.

As in previous years, in 1999 the restrictions arising from the statutory limits were not exceeded:

- debt in T-bills was reported to have deceased by PLZ 1,934 m (short-term TSs with maturities of up to one year),
- increase in nominal debt in respect of foreign borrowings amounted to PLZ 1,563.0 m,
- the total value of the bond issued, intended for the domestic market (long-term TSs with maturities of more than one year) reached PLZ 30,477 m, with the limit of PLZ 57,350 m. Owing to a adverse macro-economic situation and no such need from the point of view of the national budget, no TSs were issued in 1999 in foreign markets.

In 1999, revenue of PLZ 63,225 m was earned from the sale of treasury securities. PLZ 20,909 m of that amount came from the sale of treasury bonds, and the balance of PLZ 42,316 m from the sale of treasury bills. The funds, together with privatisation revenue, financed the budget deficit of PLZ 12,479 m, redemption of TSs in the amount of PLZ 56,787 m (bonds - PLZ 14,252 m, treasury bills - PLZ 42,535 m), domestic loans granted (of PLZ 4.841 m net), the balance of funds brought forward and deposits (PLZ 1,318 m), and the foreign financing account (PLZ 1,148 m).

2. SALE OF TREASURY SECURITIES

2.1. SALE OF TREASURY SECURITIES OFFERED AT AUCTIONS

In 1999, the total revenue from the sale of treasury securities offered at auctions, i.e. treasury bonds and bills, amounted to PLZ 58,659.4 m in principal. The total nominal value of the above TSs sold in 1999 reached PLZ 62,704.5 m.

TREASURY BILLS

In 1999, 54 treasury bill auctions were held, with the total nominal value of the securities offered amounting to PLZ 49,650.0 m. The bids totalled PLZ 89,131 m, and the sales reached PLZ 45,462 m in nominal value.

The total revenue from the sale of treasury bills reached PLZ 42,316 m. The different bill types sold as follows:

- 2-week bills - PLZ 2,213 m (PLZ 2,225 m nominal),
- 3-week bills - PLZ 2,155 m (PLZ 2,173 m nominal),
- 6-week bills - PLZ 2,523 m (PLZ 2,570 m nominal),
- 8-week bills - PLZ 2,334 m (PLZ 2,384 m nominal),

- 13-week bills - PLZ 9,163 m (PLZ 9,463 m nominal),
- 26-week bills - PLZ 6,001 m (PLZ 6,416 m nominal),
- 39-week bills - PLZ 1,037 m (PLZ 1,154 m nominal),
- 52-week bills - PLZ 16,891 m (PLZ 19,076 m nominal).

The nominal value of 1999 treasury bill sales was 7.6% higher than a year earlier, and revenue from the sale of the instruments increased by 15% during the period.

Chart 7: *Supply, demand and sale of T-bills at auctions in 19994 - 1999, at par value*

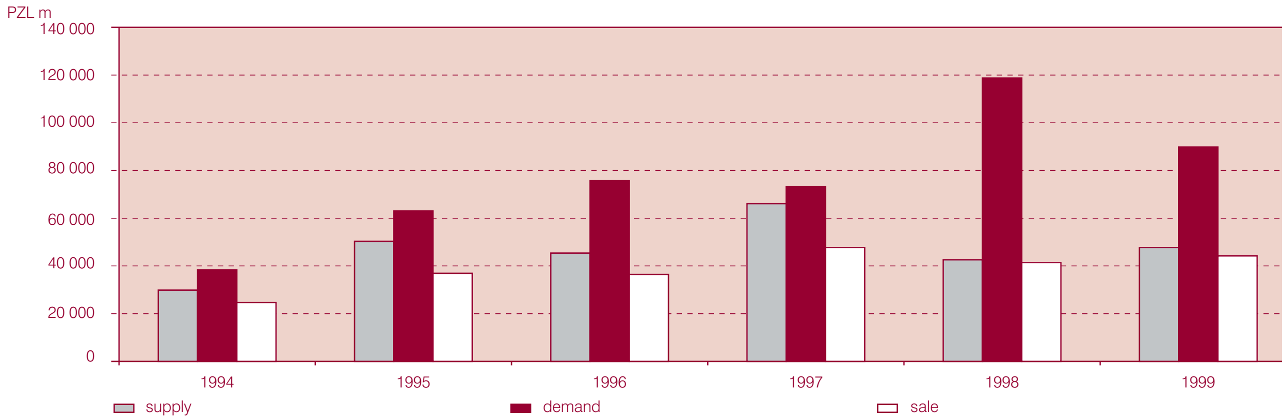


Chart 8: *Sale of T-bills by instrument in 1994 - 1999, at par value*

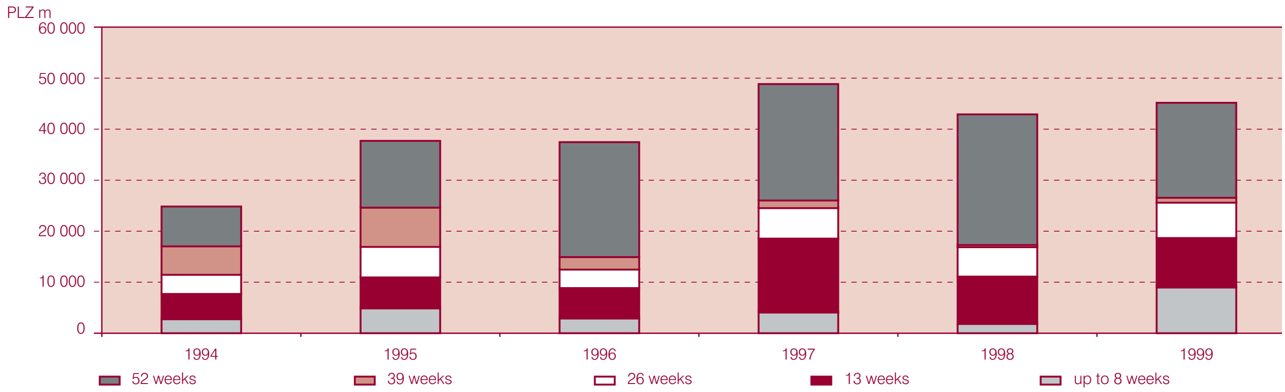
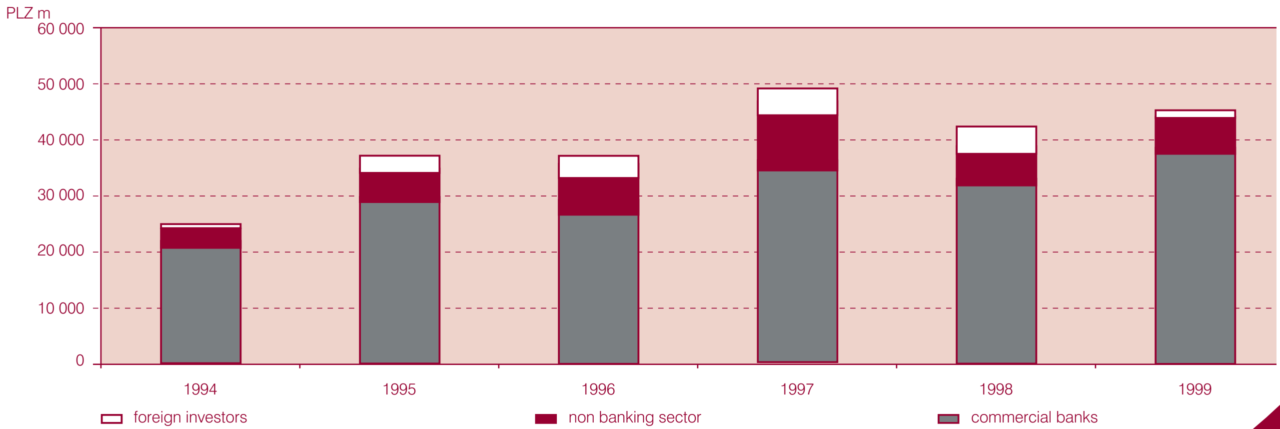


Chart 9: *Sale of T-bills at auctions by holder in 1994 - 1999, at par value*



SALE AND ISSUE OF TREASURY SECURITIES IN 1999

Table 21: *Sale of Treasury bills at auctions in 1999 (PLZ m)* *part 1*

Auction date	Type of T-bill	Settlement date	Maturity date	Amount offered	Demand	Sale at par value	Sale at cash value	Minimum price	Average price	Average yield	Maximum yield
04-01-1999	13	06-01-1999	07-04-1999	300	282,95	279,95	270,45	96,57	96,61	13,88%	14,05%
	26		07-07-1999	200	376,10	200,00	187,22	93,57	93,61	13,50%	13,59%
	52		05-01-2000	600	1 373,08	621,12	550,91	88,65	88,70	12,60%	12,66%
11-01-1999	13	13-01-1999	14-04-1999	300	448,60	300,00	289,88	96,60	96,63	13,80%	13,92%
	26		14-07-1999	200	398,44	200,00	187,48	93,70	93,74	13,21%	13,30%
	52		12-01-2000	600	2 124,29	600,00	535,68	89,28	89,28	11,88%	11,88%
18-01-1999	13	20-01-1999	21-04-1999	100	259,14	100,00	96,66	96,65	96,66	13,67%	13,71%
	26		21-07-1999	100	460,01	100,00	93,79	93,74	93,79	13,10%	13,21%
	52		19-01-2000	500	1 438,66	500,00	446,74	89,30	89,35	11,79%	11,85%
25-01-1999	13	27-01-1999	28-04-1999	100	445,62	100,00	97,06	97,06	97,06	11,98%	11,98%
	26		28-07-1999	100	305,60	100,00	94,37	94,37	94,37	11,80%	11,80%
	52		26-01-2000	500	1 406,46	500,00	450,19	89,83	90,04	10,94%	11,20%
01-02-1999	8	03-02-1999	31-03-1999	200	382,36	200,00	196,40	98,13	98,20	11,78%	12,25%
	52		02-02-2000	400	788,30	399,80	359,37	89,81	89,89	11,12%	11,22%
08-02-1999	13	10-02-1999	12-05-1999	200	353,70	210,65	204,48	97,05	97,07	11,94%	12,03%
	26		11-08--1999	100	230,28	103,38	97,55	94,35	94,36	11,82%	11,85%
	52		09-02-2000	300	658,74	300,00	269,49	89,79	89,83	11,20%	11,25%
15-02-1999	13	17-02-1999	19-05-1999	100	226,45	100,00	97,05	97,04	97,05	12,03%	12,07%
	26		18-08-1999	100	239,86	92,96	87,71	94,30	94,35	11,85%	11,96%
	52		16-02-2000	500	981,74	500,00	448,57	89,62	89,71	11,34%	11,45%
22-02-1999	13	24-02-1999	26-05-1999	200	365,61	200,00	194,08	97,03	97,04	12,07%	12,11%
	52		23-02-2000	500	1 016,16	500,00	448,21	89,58	89,64	11,43%	11,50%
01-03-1999	13	03-03-1999	02-06-1999	300	492,45	300,00	291,07	97,01	97,02	12,15%	12,19%
	26		01-09-1999	200	220,00	180,00	169,64	94,10	94,24	12,09%	12,40%
	52		01-03-2000	700	986,66	771,66	690,50	89,42	89,48	11,63%	11,70%
08-03-1999	8	10-03-1999	05-05-1999	200	233,90	200,00	196,18	98,06	98,09	12,52%	12,72%
	13		09-06-1999	200	359,96	200,00	193,99	96,94	96,99	12,28%	12,49%
	26		08-09-1999	200	265,23	200,00	188,15	94,00	94,08	12,45%	12,63%
	52		08-03-2000	800	1 19,66	800,00	712,96	89,02	89,12	12,07%	12,20%
15-03-1999	13	17-03-1999	16-06-1999	300	500,62	300,00	290,75	96,89	96,92	12,57%	12,70%
	26		15-09-1999	300	425,23	300,00	281,90	93,90	93,97	12,69%	12,85%
	52		15-03-2000	800	2 076,05	800,00	711,02	88,82	88,88	12,37%	12,45%
22-03-1999	13	24-03-1999	23-06-1999	300	631,94	300,00	290,80	96,91	96,93	12,53%	12,61%
	26		22-09-1999	300	810,16	295,33	277,64	93,98	94,01	12,60%	12,67%
	52		22-03-2000	800	2 041,81	780,84	695,40	88,98	89,06	12,15%	12,25%
29-03-1999	8	31-03-1999	26-05-1999	200	357,67	200,00	196,17	98,07	98,08	12,58%	12,65%
	13		30-06-1999	100	431,03	100,00	96,97	96,96	96,97	12,36%	12,40%
	26		29-09-1999	200	699,24	200,00	188,15	94,05	94,07	12,47%	12,51%
	52		29-03-2000	800	1 800,78	800,00	713,07	89,08	89,13	12,06%	12,12%
01-04-1999	13	03-04-1999	03-07-1999	300	347,12	248,62	241,07	96,93	96,96	12,40%	12,53%
	26		02-10-1999	100	350,38	87,58	82,42	94,09	94,11	12,38%	12,42%
	52		01-04-2000	800	1 335,38	800,00	712,38	89,01	89,05	12,16%	12,21%
12-04-1999	13	14-04-1999	14-07-1999	300	494,85	200,00	193,93	96,95	96,96	12,40%	12,45%
	26		13-10-1999	100	661,21	98,79	93,03	94,15	94,17	12,25%	12,29%
	52		12-04-2000	700	2 240,63	700,00	624,38	89,15	89,20	11,97%	12,04%
19-04-1999	13	21-04-1999	21-07-1999	200	510,16	200,00	193,95	96,96	96,98	12,32%	12,40%
	26		20-10-1999	100	292,11	100,00	94,20	94,19	94,20	12,18%	12,20%
	52		19-04-2000	600	1 385,83	600,00	535,30	89,17	89,22	11,95%	12,01%
26-04-1999	13	28-04-1999	28-07-1999	200	601,59	200,00	193,97	96,98	96,98	12,32%	12,32%
	26		27-10-1999	200	295,80	168,70	158,92	94,15	94,20	12,18%	12,29%
	52		26-04-2000	500	1 272,16	414,16	369,22	89,11	89,15	12,04%	12,09%
04-05-1999	13	06-05-1999	05-08-1999	200	344,96	193,76	187,91	96,97	96,98	12,32%	12,36%
	26		04-11-1999	200	333,89	173,89	163,71	94,11	94,14	12,31%	12,38%
	52		04-05-2000	300	703,35	288,78	257,38	89,11	89,13	12,06%	12,09%
10-05-1999	13	12-05-1999	11-08-1999	200	490,34	200,00	193,95	96,97	96,97	12,36%	12,36%
	26		10-11-1999	200	400,28	155,78	146,62	94,11	94,12	12,36%	12,38%
	52		10-05-2000	500	844,06	488,46	435,09	89,02	89,07	12,14%	12,20%
17-05-1999	13	19-05-1999	18-08-1999	200	449,19	200,00	194,04	96,97	97,02	12,15%	12,36%
	26		17-11-1999	200	200,90	200,00	188,23	94,10	94,11	12,38%	12,40%
	52		17-05-2000	400	1 025,95	361,33	321,63	89,00	89,01	12,21%	12,22%
24-05-1999	13	26-05-1999	25-08-1999	200	424,27	200,00	194,06	96,97	97,03	12,11%	12,36%
	26		24-11-1999	100	227,52	100,00	94,13	94,10	94,13	12,34%	12,40%
	52		24-05-2000	400	789,05	368,95	328,39	88,96	89,01	12,21%	12,27%
31-05-1999	13	02-06-1999	01-09-1999	200	307,20	200,00	193,97	96,98	96,99	12,28%	12,32%
	26		01-12-1999	100	223,17	100,00	94,11	94,10	94,11	12,38%	12,40%
	52		31-05-2000	400	684,40	400,00	355,85	88,94	88,96	12,27%	12,30%
07-06-1999	13	09-06-1999	08-09-1999	200	462,80	200,00	193,98	96,98	96,99	12,28%	12,32%
	26		08-12-1999	200	328,79	196,29	184,72	94,10	94,11	12,38%	12,40%

part 2

Auction date	Type of T-bill	Settlement date	Maturity date	Amount offered	Demand	Sale at par value	Sale at cash value	Minimum price	Average price	Average yield	Maximum yield
	52		07-06-2000	400	1 020,72	400,00	355,84	88,94	88,96	12,27%	12,30%
14-06-1999	13	16-06-1999	15-09-1999	200	284,22	200,00	194,00	96,99	97,00	12,24%	12,28%
	26		15-12-1999	100	338,24	100,00	94,19	94,18	94,19	12,20%	12,22%
	52		14-06-2000	300	822,83	300,00	267,36	89,07	89,12	12,07%	12,14%
21-06-1999	13	23-06-1999	22-09-1999	200	245,82	200,00	193,99	96,98	97,00	12,24%	12,32%
	26		22-12-1999	100	181,16	100,00	94,19	94,17	94,19	12,20%	12,25%
	52		21-06-2000	300	826,81	300,00	267,30	89,09	89,10	12,10%	12,11%
28-06-1999	13	30-06-1999	29-09-1999	100	228,21	100,00	97,00	96,99	97,00	12,24%	12,28%
	26		29-12-1999	200	144,33	119,33	112,33	94,11	94,13	12,34%	12,38%
	52		28-06-2000	300	839,38	332,16	295,94	89,08	89,10	12,10%	12,12%
05-07-1999	8	07-07-1999	01-09-1999	100,00	245,83	100,00	98,12	98,12	98,12	12,32%	12,32%
	13	07-07-1999	06-10-1999	200,00	285,22	200,00	193,99	96,98	97,00	12,28%	12,32%
	26	07-07-1999	05-01-2000	200,00	208,69	200,00	188,21	94,06	94,10	12,40%	12,49%
	52	07-07-1999	05-07-2000	200,00	370,76	200,00	178,21	89,09	89,10	12,10%	12,11%
12-07-1999	8	14-07-1999	08-09-1999	200,00	178,10	154,30	151,38	98,10	98,11	12,38%	12,45%
	13	14-07-1999	13-10-1999	100,00	217,56	100,00	96,99	96,97	97,00	12,28%	12,36%
	26	14-07-1999	12-01-2000	200,00	137,62	120,62	113,48	93,99	94,08	12,45%	12,65%
	52	14-07-1999	12-07-2000	200,00	292,23	274,23	243,95	88,92	88,96	12,27%	12,32%
19-07-1999	13	21-07-1999	20-10-1999	200,00	338,76	270,98	262,81	96,97	96,98	12,32%	12,36%
	26	21-07-1999	19-01-2000	100,00	213,42	100,00	94,01	93,99	94,01	12,60%	12,65%
	52	21-07-1999	19-07-200	200,00	132,51	16,76	14,91	88,92	88,93	12,31%	12,32%
26-07-1999	13	28-07-1999	12-10-1999	300,00	275,01	237,45	230,22	96,94	96,96	12,40%	12,49%
	26	28-07-1999	26-01-2000	100,00	134,56	84,46	79,38	93,94	93,99	12,65%	12,76%
	52	28-07-1999	26-07-2000	100,00	137,06	86,56	76,96	88,86	88,90	12,35%	12,40%
02-08-1999	8	04-08-1999	29-09-1999	200,00	242,55	213,15	209,08	98,08	98,09	12,52%	12,58%
	13	04-08-1999	03-11-1999	200,00	171,37	143,87	139,45	96,91	96,93	12,53%	12,61%
	26	04-08-1999	02-02-2000	100,00	145,31	107,61	101,10	93,94	93,95	12,74%	12,76%
	52	04-08-1999	02-08-2000	200,00	42,90	18,80	16,71	88,86	88,88	12,37%	12,40%
09-08-1999	8	11-08-1999	06-10-1999	100,00	168,61	100,00	98,08	98,07	98,08	12,58%	12,65%
	13	11-08-1999	10-11-1999	200,00	164,84	144,02	139,57	96,89	96,91	12,61%	12,70%
	52	11-08-1999	09-08-2000	100,00	112,05	28,65	25,46	88,86	88,87	12,39%	12,40%
16-08-1999	8	18-08-1999	13-10-1999	100,00	392,45	100,00	98,09	98,09	98,09	12,52%	12,52%
	13	18-08-1999	17-11-1999	100,00	207,08	100,00	96,91	96,90	96,91	12,61%	12,66%
	26	18-08-1999	16-02-2000	100,00	148,25	26,97	25,34	93,96	93,97	12,69%	12,72%
	52	18-08-1999	16-08-2000	100,00	113,83	23,26	20,67	88,86	88,87	12,39%	12,40%
23-08-1999	13	25-08-1999	24-11-1999	200,00	548,75	200,00	193,86	96,92	96,93	12,53%	12,57%
	52	25-08-1999	23-08-2000	100,00	159,47	65,05	57,82	88,87	88,88	12,37%	12,39%
30-08-1999	13	01-09-1999	01-12-1999	200,00	805,93	200,00	193,89	96,94	96,94	12,49%	12,49%
	52	01-09-1999	30-08-2000	100,00	135,94	100,00	88,90	88,88	88,90	12,35%	12,37%
06-09-1999	13	08-09-1999	08-12-1999	200,00	828,74	200,00	193,96	96,97	96,98	12,32%	12,36%
	52	08-09-1999	06-09-2000	200,00	176,98	161,34	143,45	88,88	88,91	12,34%	12,37%
13-09-1999	13	15-09-1999	15-12-1999	200,00	763,15	200,00	194,02	97,01	97,01	12,19%	12,19%
	52	15-09-1999	13-09-2000	300,00	144,01	144,01	127,96	88,78	88,86	12,40%	12,50%
20-09-1999	13	22-09-1999	22-12-1999	200,00	311,32	200,00	194,01	96,97	97,01	12,19%	12,36%
	52	22-09-1999	20-09-2000	300,00	211,35	44,63	39,66	88,84	88,86	12,40%	12,42%
27-09-1999	13	29-09-1999	29-12-1999	200,00	509,99	259,56	251,48	96,85	96,89	12,70%	12,87%
	52	29-09-1999	27-09-2000	300,00	225,18	138,17	121,80	87,83	88,15	13,30%	13,70%
04-10-1999	8	06-10-1999	01-12-1999	300,00	205,80	205,60	201,48	9791,34	9799,51	13,152%	13,700%
	13	06-10-1999	05-01-2000	100,00	134,70	103,00	99,76	9679,50	9685,31	12,854%	13,099%
	39	06-10-1999	05-07-2000	500,00	67,18	36,08	32,57	9009,00	9027,40	14,207%	14,506%
	52	06-10-1999	04-10-2000	100,00	192,26	136,56	119,60	8744,50	8757,86	14,027%	14,200%
05-10-1999	2	07-10-1999	21-10-1999	1 500,00	3 397,03	2 225,33	2 213,31	9945,59	9945,97	13,969%	14,068%
11-10-1999	6	13-10-1999	24-11-1999	300,00	662,45	300,00	295,30	9841,00	9843,23	13,651%	13,849%
	13	13-10-1999	12-01-2000	100,00	157,78	100,00	96,76	9670,01	9676,00	13,247%	13,500%
	39	13-10-1999	12-07-2000	500,00	342,86	255,86	230,56	9003,20	9011,05	14,472%	14,600%
	52	13-10-1999	11-10-2000	100,00	218,53	98,71	86,33	8737,00	8745,91	14,182%	14,297%
18-10-1999	8	20-10-1999	15-12-1999	300,00	611,98	300,00	293,66	9786,00	9788,58	13,885%	14,058%
	39	20-10-1999	19-07-2000	500,00	322,94	109,04	98,16	8978,68	9002,59	14,610%	15,000%
	52	20-10-1999	18-10-2000	100,00	50,14	10,64	9,30	8702,17	8739,26	14,268%	14,750%
25-10-1999	13	27-10-1999	26-01-2000	300,00	694,51	340,24	328,78	9660,57	9663,30	13,784%	13,900%
	39	27-10-1999	26-07-2000	500,00	487,05	463,22	416,22	8972,57	8985,47	14,889%	15,100%
	52	27-10-1999	25-10-2000	100,00	171,27	100,00	87,05	8697,99	8705,18	14,711%	14,805%
29-10-1999	13	31-10-1999	30-01-2000	300,00	265,80	250,80	242,24	9654,00	9658,84	13,973%	14,178%
	39	31-10-1999	30-07-2000	500,00	383,53	289,38	259,33	8954,29	8961,61	15,280%	15,400%
	52	31-10-1999	29-10-2000	100,00	83,96	78,06	67,75	8672,30	8679,35	15,049%	15,141%
02-11-1999	3	04-11-1999	25-11-1999	2 800,00	2 204,72	2 173,12	2 155,01	9915,27	9916,66	14,407%	14,649%
08-11-1999	6	10-11-1999	22-12-1999	200,00	739,89	552,20	543,15	9832,52	9836,05	14,287%	14,600%
	26	10-11-1999	10-05-2000	300,00	221,94	174,44	161,81	9262,48	9276,16	15,435%	15,750%
	52	10-11-1999	08-11-2000	500,00	545,96	446,74	386,44	8622,51	8650,29	15,432%	15,800%
15-11-1999	6	17-11-1999	29-12-1999	200,00	296,47	200,00	196,57	9826,00	9828,70	14,939%	15,178%
	13	17-11-1999	16-02-2000	100,00	189,40	100,00	96,34	9627,65	9633,50	15,051%	15,300%
	26	17-11-1999	17-05-2000	300,00	116,81	75,81	70,21	9243,00	9261,27	15,778%	16,200%
	52	17-11-1999	15-11-2000	500,00	255,30	216,20	186,12	8592,54	8608,66	15,984%	16,200%
22-11-1999	13	24-11-1999	23-02-2000	300,00	423,20	300,00	288,58	9611,28	9619,22	15,660%	16,000%
	26	24-11-1999	24-05-2000	300,00	329,99	300,00	277,40	9238,68	9246,58	16,117%	16,300%
	52	24-11-1999	22-11-2000	500,00	1 689,86	509,86	439,51	8608,25	8620,17	15,831%	15,990%
29-11-1999	13	01-12-1999	01-03-2000	300,00	355,91	300,00	288,40	9607,79	9613,46	15,907%	16,149%
	26	01-12-1999	31-05-2000	300,00	355,65	300,00	277,11	9230,06	9236,98	16,339%	16,500%
	52	01-12-1999	29-11-2000	700,00	831,92	700,00	601,16	8577,50	8588,00	16,261%	16,402%
06-12-1999	6	08-12-1999	19-01-2000	600,00	354,97	317,17	311,22	9807,00	9812,51	16,378%	16,868%

SALE AND ISSUE OF TREASURY SECURITIES IN 1999

part 3

Auction date	Type of T-bill	Settlement date	Maturity date	Amount offered	Demand	Sale at par value	Sale at cash value	Minimum price	Average price	Average yield	Maximum yield
	13	08-12-1999	08-03-2000	300,00	279,81	203,25	195,29	9605,44	9608,55	16,117%	16,250%
	26	08-12-1999	07-06-2000	150,00	324,58	153,07	141,35	9230,49	9234,11	16,406%	16,490%
	52	08-12-1999	06-12-2000	500,00	1 327,12	606,05	520,01	8578,38	8580,28	16,364%	16,390%
13-12-1999	6	15-12-1999	26-01-2000	600,00	502,50	488,80	479,39	9801,00	9807,45	16,828%	17,403%
	13	15-12-1999	15-03-2000	400,00	220,11	158,06	151,84	9604,28	9606,29	16,214%	16,300%
	26	15-12-1999	14-06-2000	300,00	550,28	332,12	306,78	9232,19	9237,07	16,337%	16,451%
	52	15-12-1999	13-12-2000	400,00	1 692,82	438,12	377,58	8611,25	8618,15	15,858%	15,950%
20-12-1999	6	22-12-1999	02-02-2000	600,00	762,92	711,92	697,76	9795,44	9801,12	17,393%	17,900%
	13	22-12-1999	22-03-2000	400,00	174,21	119,21	114,48	9599,62	9602,92	16,358%	16,500%
	26	22-12-1999	21-06-2000	300,00	503,31	369,71	341,46	9232,21	9235,99	16,362%	16,450%
	52	22-12-1999	20-12-2000	400,00	1 340,87	406,28	350,23	8613,00	8620,39	15,828%	15,927%
27-12-1999	8	29-12-1999	23-02-2000	600,00	760,35	610,95	595,12	9734,25	9740,88	17,101%	17,550%
	26	29-12-1999	28-06-2000	400,00	429,52	399,52	368,83	9225,75	9231,80	16,460%	16,600%
	52	29-12-1999	27-12-2000	400,00	1 429,45	400,00	344,80	8615,00	8620,10	15,832%	15,900%
Total	2 - weeks bills			1 500,00	3 397,03	2 225,33	2 213,31		9945,97	13 968%	
Total	3 - weeks bills			2 800,00	2 204,72	2 173,12	2 155,01		9916,66	14,408%	
Total	6 - weeks bills			2 500,00	3 319,20	2 570,09	2 523,39		9818,29	15,863%	
Total	8 - weeks bills			2 500,00	3 779,60	2 570,09	2 523,39		9818,29	15,863%	
Total	13 - weeks bills			10 300,00	18 311,95	9 463,42	9 162,70		9682,23	12,985%	
Total	26 - weeks bills			7 050,00	12 227,86	6 416,36	6 000,87		9352,44	13,712%	
Total	39 - weeks bills			2 500,00	1 603,56	1 153,58	1 036,85		8988,09	14,846%	
Total	52 - weeks bills			20 500,00	44 286,67	19 075,94	16,890,49		8854,34	12,780%	
Total all T				**49 650,00**	**89 130,59**	**45 461,84**	**42 316,37**				

TREASURY BONDS SOLD AT AUCTIONS

In 1999, 61 treasury bond auctions were held, with instruments offered for sale totalling PLZ 30,373 m nominal.
The total demand reached PLZ 41,022 m, while the sales reached the nominal value of PLZ 17,244 m. In 1999, the revenue from the sale of treasury bonds at auctions amounted to PLZ 16,343 m. The total amount acquired consisted of the following sums:

Fixed-income bonds:

- 2-year bonds - PLZ 2,790 m (PLZ 2,790 m nominal),
- 2-year zero-coupon bonds - PLZ 1,121 m (PLZ 1,500 m nominal),
- 5-year and fungible bonds - PLZ 7,066 m (PLZ 7,293 m nominal),
- 10-year bonds - PLZ 1,002 m (PLZ 1,261 m nominal),

Variable-income bonds:

- 3-year bonds - PLZ 1,770 m (PLZ 1,784 m nominal),
- 10-year bonds - PLZ 2,593 m (PLZ 2,615 m nominal).

In 1999, the revenue from the sale of treasury bonds at auctions was 17.6% higher than in 1998, while sales by nominal value increased by 11.2%.

YIELD ON WHOLESALE TREASURY SECURITIES IN 1999

1999 saw an increase of yield on Treasury securities in the primary market.

In the case of treasury bills the average yield on 52-week instruments was 15.83% as at 31 December 1999, up 3.24 pp during the year. For 26-week bills, the yield as at 1999 year-end was reported at 16.46 % - an increase of 3.0 pp, the yield on 13-week bills at the last auction held in 1999 reached 16.35%, i.e. 2.81 pp more than a year earlier.

A similar situation was witnessed in the case of Treasury bonds. Yield on 2-year bonds (of the zero-coupon type - sold from October 1999 instead of fixed-income paper) reached 14.80% at the end of 1999 and was 2.66 pp higher than the yield on 2-year fixed-income bonds at the last auction in 1998. Return on 5-year fixed rate bonds at the last auction held in 1999 was reported at 11.99%, which meant an increase of 1.03 pp compared with December 1998.

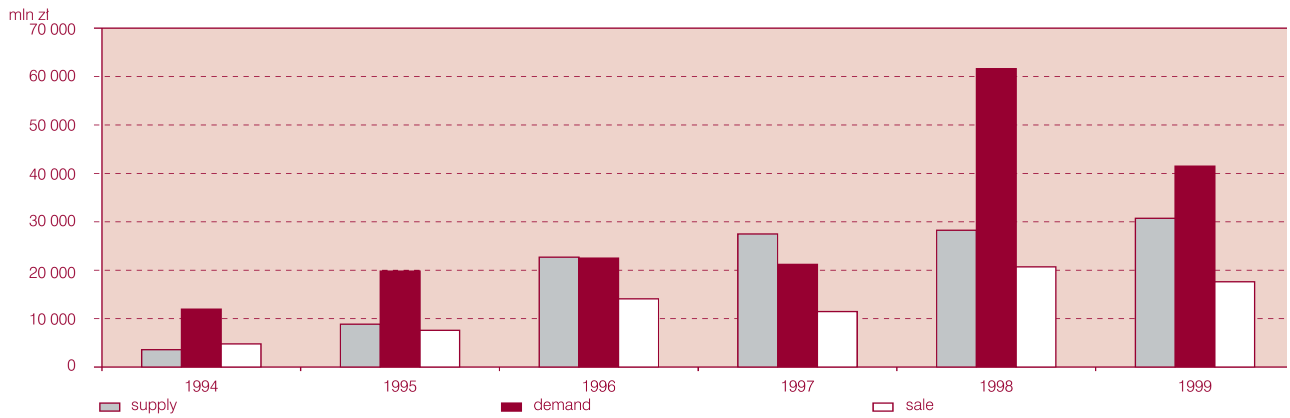
The increase in yield on TSs resulted from gradual tightening of the monetary policy by the Monetary Policy Council (MPC) during 1999. Following the January reduction of base rates (repo rate by 250 bp; the rediscount rate by 275 bp and the lombard rate by 300 bp), the MPC announced two more rate rises: in September (repo rate by 100 bp) and in November (repo rate by 250 bp; rediscount rate and lombard rate by 350 bp). In line with time schedule adopted, 2-year and 5-year fixed-income bonds were redeemed maturing in February, June and October of 1999, for the total amount of PLZ 3,360.8 m nominal (i.e. PLZ 2,951.1 m without discount).

Table 22: *Auction results of fixed rate Treasury bonds in 1999 (PLZ m)*

Auction date	Series offered	Settlement date	Maturity date	Amount offered	Demand	Sale at par value	Average price	Minimum price	Average yield	Maximum yield
06-01-1999	AS0201	12-01-1999	12-02-2001	1 300,00	1 224,42	323,50	104,49	104,40	10,49%	10,54%
06-01-1999	OS0204	12-01-1999	12-02-2004		3 641,82	976,50	101,13	100,80	9,71%	9,79%
06-01-1999	OS0602 (A)	12-01-1999	12-06-2002	335,36	1 797,29	335,36	104,84	104,70	10,19%	10,24%
03-02-1999	AS0601	12-02-1999	12-06-2001	1 300,00	1 002,50	708,50	102,09	101,83	10,99%	11,12%
03-02-1999	OS0604``	12-02-1999	12-06-2004		1 761,10	585,50	100,42	100,15	9,91%	9,98%
03-02-1999	OS1002 (A)	12-02-1999	12-10-2002	700,00	790,50	412,50	104,45	104,10	10,42%	10,54%
03-03-1999	AS0601	12-03-1999	12-06-2001	1 000,00	500,36	444,36	100,96	100,63	11,53%	11,70%
03-03-1999	OS0604	12-03-1999	12-06-2004		621,00	534,00	98,47	98,00	10,40%	10,52%
03-03-1999	OS1002 (A)	12-03-1999	12-10-2002	500,00	433,40	415,40	102,89	102,50	10,92%	11,05%
07-04-1999	AS0601	12-04-1999	12-06-2001	900,00	1 210,00	280,00	101,80	101,75	11,03%	11,06%
07-04-1999	OS0604	12-04-1999	12-06-2004		1 594,75	620,00	99,65	99,33	10,09%	10,17%
07-04-1999	OS1002 (A)	12-04-1999	12-10-2002	300,00	779,00	300,00	103,88	103,70	10,55%	10,62%
05-05-1999	AS0601	12-05-1999	12-06-2001	900,00	770,90	508,99	101,30	101,10	11,26%	11,37%
05-05-1999	OS0604	12-05-1999	12-06-2004		1 525,71	391,01	99,47	99,35	10,13%	10,16%
05-05-1999	OS0203 (A)	12-05-1999	12-02-2003	238,10	570,10	238,10	103,90	103,75	10,64%	10,69%
19-05-1999	DS0509	24-05-1999	24-05-2009	200,00	1 766,80	200,00	829,46	823,00	8,61%	8,72%
02-06-1999	AS1001	12-06-1999	12-10-2001	900,00	719,00	403,00	100,88	100,69	11,61%	11,70%
02-06-1999	OS1004	12-06-1999	12-10-2004		938,00	114,00	98,42	98,32	10,42%	10,44%
02-06-1999	OS0603 (A)	12-06-1999	12-06-2003	200,00	435,35	200,00	103,29	103,12	10,94%	10,99%
16-06-1999	DS0509	24-06-1999	24-05-2009	300,00	693,95	300,00	820,69	813,70	8,77%	8,90%
07-07-1999	AS1001	12-07-1999	12-10-2001	700,00	661,50	72,00	100,34	100,29	11,85%	11,88%
07-07-1999	OS1004	12-07-1999	12-10-2004		715,00	628,00	98,01	97,70	10,52%	10,60%
21-07-1999	DS0509	24-07-1999	24-05-2009	200,00	476,32	200,00	802,01	802,01	9,12%	9,12%
04-08-1999	AS1001	12-08-1999	12-10-2001	700,00	622,00	0,00	-	-	-	-
04-08-1999	OS1004	12-08-1999	12-10-2004		463,00	0,00	-	-	-	-
18-08-1999	DS0509	24-08-1999	24-05-2009	200,00	558,77	200,00	797,44	797,01	9,22%	9,23%
01-09-1999	AS1001	12-09-1999	12-10-2001	700,00	451,64	50,00	99,30	99,30	12,40%	12,40%
01-09-1999	OS1004	12-09-1999	12-10-2004		362,00	114,00	95,77	95,68	11,15%	11,02%
15-09-1999	DS0509	24-09-1999	24-05-2009	200,00	161,21	161,21	782,27	760,00	9,53%	9,96%
06-10-1999	OK1201	12-10-1999	21-12-2001	500,00	685,09	500,00	747,04	743,50	14,21%	14,46%
06-10-1999	PS1004	12-10-1999	12-10-2004	900,00	571,00	435,00	861,71	857,00	12,36%	12,50%
20-10-1999	DS0509	24-10-1999	24-05-2009	100,00	472,70	100,00	722,07	720,20	10,77%	10,81%
03-11-1999	OK1201	12-11-1999	21-12-2001	500,00	882,80	500,00	739,40	737,00	15,39%	15,56%
03-11-1999	PS1004	12-11-1999	12-10-2004	600,00	390,70	294,00	835,61	830,10	13,23%	13,41%
17-11-1999	DS1109	24-11-1999	24-11-2009	100,00	482,00	100,00	718,58	713,20	10,71%	10,83%
01-12-1999	OK1201	12-12-1999	21-12-2001	500,00	2 115,98	500,00	755,99	754,00	14,80%	14,94%
01-12-1999	PS1004	12-12-1999	12-10-2004	700,00	1 118,50	699,70	876,31	867,81	11,99%	12,25%
			Total	**15 673,00**	**33 966,00**	**12 845,00**				

(A) – fungible bonds

Chart 10: *Supply, demand and sale of treasury bonds at auctions in 1994 - 1999, at par value*



SALE AND ISSUE OF TREASURY SECURITIES IN 1999

Table 23: *Auction results of floating rate Treasury bonds in 1999 (PLZ m)*

Auction date	Series of	Settlement date	Maturity date	Amount offered	Demand	Sale at par value	Average price	Minimum price
13-01-1999	DZ0109	17-01-1999	18-01-2009	300	341,6	300	997,66	991,00
27-01-1999	TP0202	02-02-1999	06-02-2002	300	527,111	300	99,82	99,65
10-02-1999	DZ0109	17-02-1999	18-01-2009	300	733,723	300	1000,76	1000,00
17-02-1999	TP0202	23-02-1999	06-02-2002	300	513,151	300	99,80	99,70
10-03-1999	DZ0109	17-03-1999	18-01-2009	500	455,598	431,648	998,84	993,00
17-03-1999	TP0202	23-03-1999	06-02-2002	300	490,98	300	99,55	99,40
14-04-1999	DZ0109	17-04-1999	18-01-2009	500	476,913	230,09	997,24	996,50
28-04-1999	TP0502	04-05-1999	06-05-2002	300	299,7	146,2	99,55	99,45
12-05-1999	DZ0109	17-05-1999	18-01-2009	400	389,535	358,535	995,58	993,10
19-05-1999	TP0502	25-05-1999	06-05-2002	300	154,2	150,2	99,41	99,21
09-06-1999	DZ0109	17-06-1999	18-01-2009	300	406,177	300	992,86	991,10
16-06-1999	TP0502	22-06-1999	06-05-2002	300	116,075	90,055	99,25	99,18
14-07-1999	DZ0709	17-07-1999	18-07-2009	300	301,74	103,08	992,02	990,70
28-07-1999	TP0802	05-08-1999	05-08-2002	200	197,068	104,068	98,89	98,65
11-08-1999	DZ0709	17-08-1999	18-07-2009	300	212,256	97,3	989,95	988,50
25-08-1999	TP0802	05-09-1999	05-08-2002	200	185,123	39,723	98,87	98,75
08-09-1999	DZ0709	17-09-1999	18-07-2009	300	276,26	231,26	988,63	987,61
29-09-1999	TP0802	05-10-1999	05-08-2002	100	214,38	100	98,79	98,55
13-10-1999	DZ0709	17-10-1999	18-07-2009	250	50	32	975,05	970,50
27-10-1999	TP1102	05-11-1999	05-11-2002	100	99,5	54	97,60	97,45
10-11-1999	DZ0709	17-11-1999	18-07-2009	100	84,78	80,78	961,34	956,00
24-11-1999	TP1102	05-12-1999	05-11-2002	100	201,3	100	97,46	97,21
08-12-1999	DZ0709	17-12-1999	18-07-2009	150	164,36	150	949,14	943,00
15-12-1999	TP1102	21-12-1999	05-11-2002	100	164,49	99,99	97,16	96,87
			Total	6300	7 056,02	4 398,929		

Chart 11: *Sale of Treasury bonds at auctions by instrument in 1994-1999, at par value*

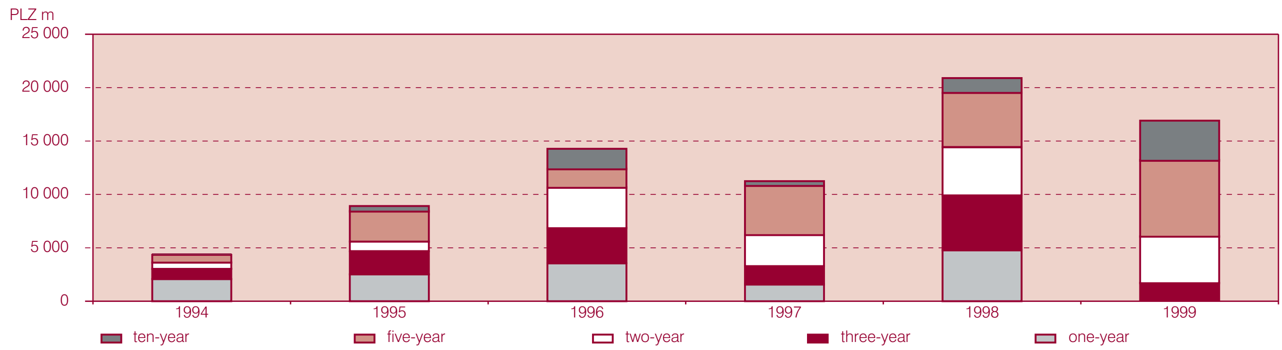
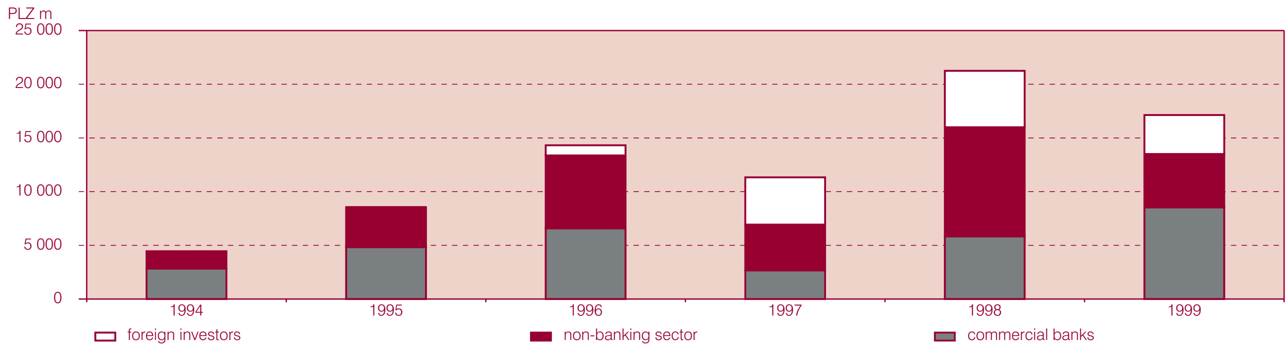


Chart 12: *Sale of Treasury bonds at auctions by holder in 1994-1999, at par value*



Assuming that investors purchased the above-mentioned 2-year bonds in the primary market in 1997 and held them to the redemption date in 1999, they realised the following rates of return:

- 20.0% to 20.5% for bonds maturing in February,
- 29.6% to 31.6% for bonds maturing in June,
- 27.5% to 27.9% for bonds maturing in October.

Similarly, the yield on 5-year bonds redeemed in 1999 (sold in 1994) was as follows:

- 20.5% to 21.2% for bonds maturing in June,
- 21.1% to 24.1% for bonds maturing in October.

Chart 13: *Yield curve of T-bills on the primary market in 1999 (%)*

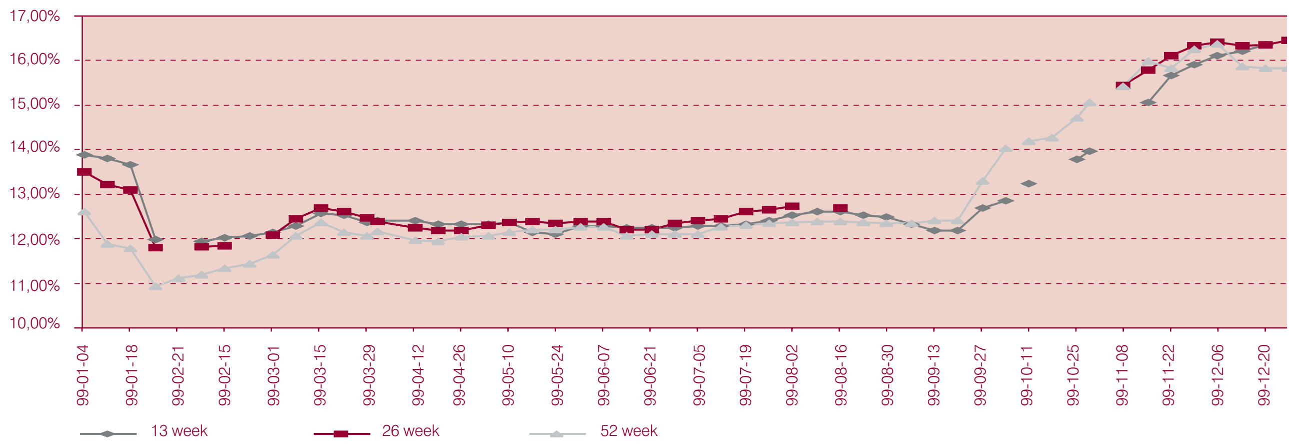
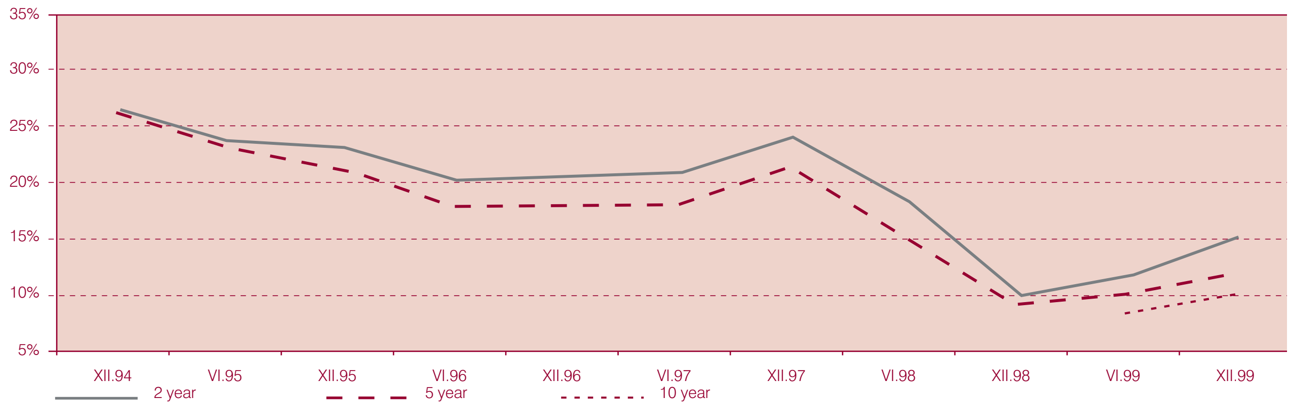


Chart 14: *Yield curve of fixed - rate Treasury bonds on the primary market (%)*



2.2. BONDS OFFERED IN THE RETAIL NETWORK

PROCEEDS FROM THE SALE OF TREASURY SECURITIES

In 1999, the proceeds from the sale of retail bonds amounted to PLZ 4,549 m. This represented PLZ 4,565 m nominal and accounted for 20.9% of the value of all bonds sold by the Minister of Finance.

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

- one-year indexed (IR) bonds - PLZ 464 m (PLZ 478 m nominal),
- one-year fixed-rate (RS) bonds - PLZ 1,669 m (PLZ 1.669 m nominal),
- three-year floating rate (TZ) bonds - PLZ 1,883 m (PLZ 1,885 m nominal),
- two-year savings (DOS) bonds - PLZ 509 m (PLZ 509 m nominal),
- four-year savings (COI) bonds - PLZ 23 m (PLZ 23 m nominal).

SALE AND ISSUE OF TREASURY SECURITIES IN 1999

The sale of retail bonds in 1999 was lower than in previous year (PLZ 7,816 m nominal). This was determined, among other things, by the following factors:

- discontinuing, as from June, the issue of the one-year inflation-indexed bond (in 1998, PLZ 2,307 m worth was sold, at nominal value),
- the issue of the one-year fixed-rate bond only to replace previously issued, maturing series,
- reduction of 3-year bond sales by approx. PLZ 600 m.

1999 saw the commencement of sale of two new types of retail bonds representing the savings category:

- 2-year fixed-rate (DOS) bonds from 1 June 1999,
- 4-year indexed-linked (COI) bonds from October 1999.

The sales of the DOS bonds were lower than expected due to inflation rise and the confirmed expectations of interest rate increase. The revenue from the sale of the COI bonds was low (PLZ 23 m) owing to the short period of sale (3 months). Besides, it takes time for individual investors to become trustful in a new instrument with such a long maturity.

YIELD ON BONDS OFFERED IN THE RETAIL NETWORK IN 1999

The yield and interest on retail instruments varied in 1999 in accordance with the country's macro-economic situation and the situation in the wholesale bond market.

In the case of fixed-rate bonds, yield increased steadily, simultaneously with the increase in interest rates, reported in the latter part of the year. Interest rate on 2-year bonds increased from 10% in June to 13% in December. The interest rate for one-year fixed-interest bonds increased from 10.5% to 11%.

The interest on variable-income instruments resulted from Poland's macro-economic situation and changed in line with the tendencies prevailing in the financial markets.
In the case of redeemed one-year indexed bonds, the interest rate ranged from 8.40% to 9.66% (9.07% on average), and yield ranged between 14.16% and 21.11% (17.99% on average).

For 3-year floating rate bonds, the interest for interest periods ending in 1999 ranged between 12.77% and 17.90% (14.73% on average). It is worth noting that, starting with the August issue, the issuer reduced (from 1.05 to 1.04) the spread above the yield on 13-week T-bills, which is a basis for fixing the level of interest. The return on investment in 3-year bonds redeemed in 1999 ranged from 21.24% to 22.89% (21.90% on average). This meant a drop of 4.1 pp compared with bonds redeemed in 1998.

Yield on 4-year indexed savings bonds will be known after 3 years of bond life, 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 spread fixed for each issue. In 1999, the spread amounted to 4.5% for all issues. This means that in the first interest period the rate ranged between 11.7% and 13.2%, depending on issue.

Table 24: *Retail sale of floating-rate Treasury bonds in 1999*

Series offered	Sale period		Offer	Sale (PLZ m)		Price (PLZ)	
	from	up to	PLZ m	by rolling	at CSOs	at rolling	issue
IR1299*	01-12-1998	26-02-1999	900	-	214,2	-	95,90
IR0300	01-03-1999	31-05-1999	1 100	172,5	91,5	97,50	98,80
TZ1101*	03-11-1998	31-01-1999	700		81,28		99,90
TZ0202	02-02-1999	30-04-1999	800	30,05	477,49	99,70	100,00
TZ0502	04-05-1999	31-05-1999	900	43,88	401,76	99,90	100,00
TZ0802	05-08-1999	29-10-19990	1 000	91,65	428,28	99,40	99,80
TZ1102*	05-11-1999	31-01-2000	1 150	65,60	264,77	99,80	100,00
COI1003	01-10-1999	29-10-1999	100	-	8,61	-	100,00
COI1103	02-11-1999	30-11-1999	150	-	6,68		100,00
COI1203	01-12-1999	24-12-1999	100	-	7,44		100,00

* sale only in 1999

Table 25: *Retail sale of fixed-rate Treasury bonds in 1999*

Series offered	Sale period		Offer	Sale (PLZ m)		Price (PLZ)		Interest rate (p.a.)
	from	up to	PLZ m	by rolling	at CSOs	at rolling	issue	
RS0700*	99-07-01	-	2 397	1 322,15	-	100,00	-	10,5%
RS1000**	99-10-01	-	1 180	347,14	-	100,00	-	11,0%
DOS0601	99-06-01	99-06-30	200	-	200,00	-	100,00	10,0%
DOS0701	99-07-01	99-07-31	250	-	92,91	-	100,00	10,0%
DOS0801	99-08-02	99-08-31	300	-	17,18	-	100,00	10,0%
DOS0901	99-09-01	99-09-30	400	-	58,36	-	100,00	10,5%
DOS1001	99-10-01	99-10-29	200	-	16,83	-	100,00	11,0%
DOS1101	99-11-02	99-11-30	300	-	28,75	-	100,00	12,0%
DOS1201	99-12-01	99-12-24	150	-	95,60	-	100,00	13,0%

* bonds were available to holders of RS0799 bonds only by rolling over
** bonds were available to holders of RS1099 bonds only by rolling over

3. SPECIAL ISSUES

3.1. BONDS FOR CONVERSION OF THE STATE TREASURY DEBT TO THE NBP

The conversion of non-marketable debt into marketable government securities was effected under the agreement of 19 June 1999 between the National Bank of Poland and the Minister of Finance. It took place in connection with the NBP's planned reduction of mandatory reserve rates, and was aimed, among other things, to mop up excess liquidity in the banking system and to improve competitiveness and effectiveness of the banking sector.

The conversion was effected at two dates:

- 30 September 1999
- 29 December 1999

At the first date, the following non-marketable debts were converted:

- conversion bond issued pursuant to Ordinance No. 45 of the Minister of Finance, dated 17 June 1993, intended to cover the national budget debt to the NBP, created during the 1989-91 period. The debt in respect of the bond amounted to PLZ 1,858.8 m as at conversion date;
- debts purchased in 1990 and after 31 December 1990 by Bank Handlowy w Warszawie S.A. and units of account repurchased by the NBP, specified in the agreement of 22 March 1995. Debt as at conversion date: PLZ 1,738.9 m;
- bonds for redemption of Brady bonds '97, issued pursuant to Ordinance No. 27 of the Minister of Finance, dated 5 May 1997, on the issue of the government loan bond denominated in US dollars to finance early redemption of long-term government debt. As at conversion date and at the rate of exchange applicable on 20 September the debt amounted to USD 1,400 m, i.e. PLZ 5,728.9 m;
- bonds for redemption of Brady bonds '98, issued pursuant to Ordinance of the Minister of Finance dated 15 December 1998 on the issue of the second government loan bond denominated in US dollars to finance early redemption of long-term government debt. As at conversion date and at the rate of exchange applicable on 20 September the debt amounted to USD 727.8 m, i.e. PLZ 2,978.4 m.;
- long-term accounts between the NBP and the national budget in respect of transfer roubles purchased by Bank Handlowy w Warszawie S.A. and repurchased by the NBP. As at conversion date, the resulting debt amounted to PLZ 1,738.9 m.

The above non-marketable debt was converted by novation of the debt at the 1:1 ratio, which means that the nominal value of the new bonds was equal to the total value of the liabilities arising from the non-marketable debt converted on 30 September. The value of the liabilities denominated in US dollars was translated into the Polish currency at the NBP average rate applicable on 20 September 1999 - 4.0921 PLZ/USD.

In consequence of the conversion, four new bonds were included in the NBP portfolio, each of them representing 1/4 of the value of old debt. The bonds have the following parameters:

- TK1202 - maturing on 22 Dec 2002; 10% annual coupon
- CK0403 - maturing on 22 Apr 2003; 10% annual coupon
- PK0704 - maturing on 22 July 2004; 8.5% annual coupon,
- DK0809 - maturing on 22 August 2009; 6% annual coupon

On 29 December 1999, the bonds issued in implementation of the agreement with the London Club banks were converted, that had been issued pursuant to Ordinances of the

SALE AND ISSUE OF TREASURY SECURITIES IN 1999

Minister of Finance No. 40, 55, 97 of 24 June 1994, 1 August 1994, and 6 December 1994 respectively, on the issue of Series I, II and III bonds for the acquisition by the NBP of funds for the implementation of the agreement with the commercial banks. Debt as at conversion date: PLZ 3,055.291 m

The above-mentioned non-marketable bonds were converted into zero-coupon bonds maturing on 29 April 2002 and designated as KO0402. The nominal value of the new bonds was set at the value of the liabilities arising from the bonds in implementation of the agreement with the London Club as at 29 December 1999, increased by an amount dependent on the average yield on Treasury bonds with similar features, sold at a auction in December 1999 (i.e. PLZ 4,133.911 m in total). The principal amount of the new bonds is equal to the value of debt in respect of old debts.

3.2. BONDS FOR CONVERSION OF THE STATE TREASURY DEBT ARISING FROM DEBT OF HEALTH CARE ESTABLISHMENTS

1999 marked the beginning of the operation of servicing the State Treasury's debts, resulting from outstanding liabilities of the health service. The process involves the State Treasury's due liabilities in respect of health care, incurred before 31 December 1998 by voivodship authorities, national budget-financed entities and establishments, and public health care establishments (before they became self-sustained entities), with certain exceptions.

On 1 April 1999 the Minister of Finance and Bank Handlowy w Warszawie S.A. signed an agreement, on the strength of which the bank became an agent performing debt recording and verification operations, and then conversion of debt into treasury bonds, or organising repurchase of debt for cash.

In September 1999, the servicing of the debt started. The operation was limited to the repurchase of health service debt for cash, handled by the agent. In exchange for debts purchased in this manner, Bank Handlowy received bonds issued by the Minister of Finance.

In 1999, two bond types were issued for this purpose: 10-year fixed-interest bonds and 2-year zero-coupon bonds:

- DK0509 maturing on 24 May 2009, with a 6% annual coupon - the total nominal value amounted to PLZ 114.5 m,
- KO1201 maturing on 21 December 2001, zero-coupon, with the nominal value of PLZ 181.2 m.

Tablica 26: *Treasury bonds issued for debt conversion of health care units (PLZ m)*

Convertion date	Series offered	Maturity date	Face value
24-09-1999	DS0509	24-05-2009	34,01
24-10-1999	DS0509	24-05-2009	80,54
24-11-1999	OK1201	21-12-2001	100,83
12-12-1999	OK1201	21-12-2001	80,41
Total			295,78

4. THE SECONDARY MARKET OF TREASURY SECURITIES

The secondary TS market consists of three separate segments: treasury bills and treasury bonds offered in the domestic market, and treasury bonds offered in foreign markets. All domestic and foreign parties have unlimited access to the domestic secondary TS market.

4.1. THE SECONDARY MARKET OF TREASURY SECURITIES ISSUED FOR THE DOMESTIC MARKET

4.1.1. The Secondary Market of Treasury Bills

Secondary market trading in Treasury bills takes place in the non-regulated OTC market. Transactions are executed without any limitations and do not require any approvals. Transaction records and accounts are kept by the NBP's Central Register of Treasury Bills (CRTB), ensuring efficient and smooth operation of the secondary market of treasury bills; it is a liquid and well-developed segment of the financial market in Poland.

As of 1 October 1999, new legislation entered into force, governing the issue and registration of treasury bills: the new Ordinance of the Minister of Finance on the conditions of issuing treasury bills and the new regulations of the Central Register of Treasury Bills (CRTB).

The main changes related the issue of Treasury bills, affecting secondary market trading the securities, were:

- the introduction of bill registration by maturity, instead of previous registration by maturity and by bill type,
- flexible appointment of dates of payment for bills, along with the rule that the redemption period runs from the date of payment.

The amendments to the CRTB regulations made it possible, among other things, to distinguish different types of conditional transactions („repos“ and „sell-buy-backs“) made in the secondary market of treasury bills.

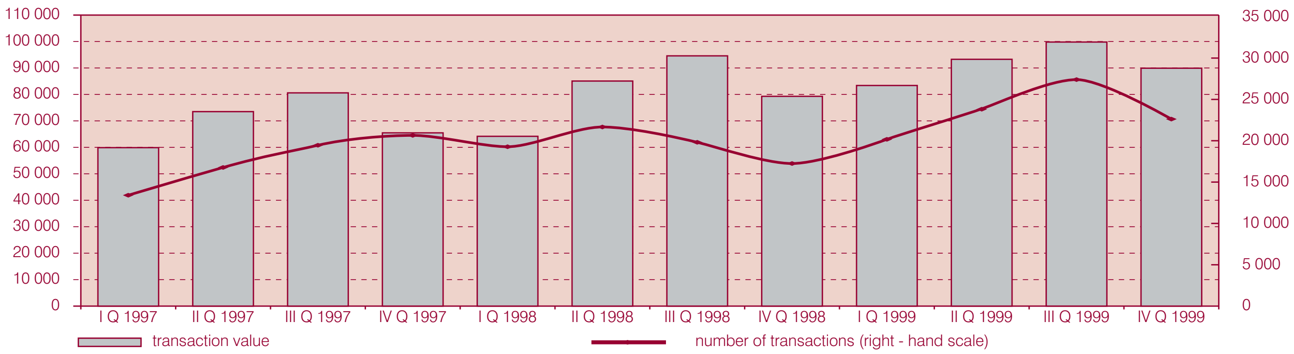
The new provisions improved the transparency and liquidity of the secondary market of treasury bills. During the whole year 1999 investors made 94,994 transactions with a nominal value totalling PLZ 371,336 m, which means a 13% increase from previous year. On average, 7,916 contracts were executed monthly, with a value of PLZ 30,945 m, the average transaction volume being PLZ 3,91 m.

Separate records of the repo and sell-buy-back transactions kept from the fourth quarter of 1999 confirmed earlier expectations that such transactions predominate the secondary market of treasury bills. In 4Q99 alone they accounted for more than half of the total value of transactions made in that period. Conditional transactions are made mostly between domestic banks and domestic non-banking entities. Transactions between these two investor groups represented in the year 1999 as much as 75% of the total value of the transactions made.

The secondary market of treasury bills was also characterised by a significant decline of foreign investor commitment in the market, which was reflected in the decrease of indebtedness, as at 1999 year-end, to this investor group to PLZ 0.6 bn (at the end of 1998 the indebtedness amounted to PLZ 1.3 bn), the lowest level from the time treasury bill trading was dematerialised.

The tendencies witnessed in 1999 in the secondary market of treasury bills, in particular the dynamic growth of conditional transactions, are indicative of an increasing importance of treasury bills as an instrument of liquidity management by domestic entities, both banks and non-banking investors.

Chart 15: *Value of transactions on T-bills secondary market in 1997 - 1999 (PLZ m)*



4.1.2. The Secondary market of Treasury bonds

In 1999, secondary market trading in treasury bonds took place in the non-regulated (OTC) market and in the regulated market, as in the previous year. The regulated market consisted of the Warsaw Stock Exchange (WSE) (including single-price auctions, the continuous trading system, and block trades) and the Central Table of Quotations (CeTO) (only one-year fixed-interest bonds). The value of transactions made in 1999 in the secondary market of treasury bonds amounted to PLZ 128,906 m[17], 36% more than in the previous year. The increase in trading in bonds resulted mainly from high sales in the primary market, high interest among foreign investors, and the entry of pension funds to the market.

The non-regulated market accounts for most secondary market trading in Treasury bonds, representing 98% of total turnover in 1999, which means transaction value of PLZ 126,351 m. In 1999, the value of transactions made in the market increased by 23% compared with the previous year. Stock exchange trading accounted for 1.8% of secondary market trading in treasury bonds in 1999, and the Central Table of Quotations (CeTO) trading only for 0.2%.

[17] This figure does not include transactions made by natural persons under civil-law contracts, the value of which reached PLZ 1.07 m in 1999.

SALE AND ISSUE OF TREASURY SECURITIES IN 1999

The concentration of trading in the non-regulated market was determined by lower transaction costs compared with the WSE (where the investor incurs the costs of the NDS, WSE and brokerage house fees) and the ability to execute transactions using the one-day transaction settlement procedure („unsettled transactions“). The use of the above settlement formula made it also possible to avoid the NDS charge, which obviously improved the return on the investment itself. This was reflected by the growing share of transactions not settled by the NDS in total trading in the non-regulated market. The transactions accounted for 35% of total trading in this segment of the market. During the whole year 1999 their value more than quadrupled against the previous year (from PLZ 10.5 bn to PLZ 44.0 bn).

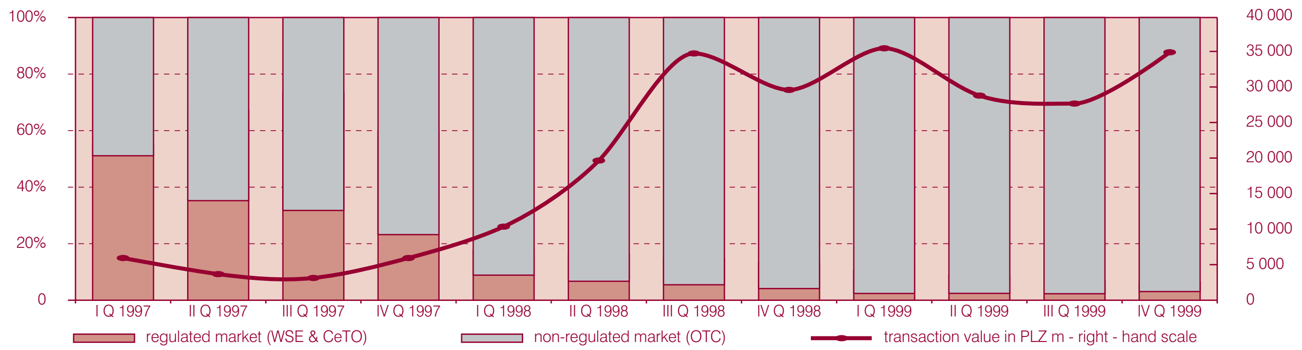
The most liquid segment of the non-regulated market (and also the entire secondary market) was the fixed-interest bond market (AS, OS, PS, DS and OK). In the whole year, the bonds accounted for 90.8% of the total turnover in the non-regulated market, which means transaction value of PLZ 114,709 m. On the other hand, among fixed-interest bonds, the most popular ones were the 5-year bonds (OS and PS), and zero-coupon bonds (OK) issued from October 1999. In 1999, 10-year variable-interest bonds accounted for 4.9% of the total turnover in the non-regulated market, 3-year variable-interest bonds represented 4.2%, and one year bonds (both fixed and variable-interest) just over 0.1%.

The value of transactions made on the WSE in 1999 amounted to PLZ 2,587 m, a drop of 52% from the previous year, which confirms the thesis that institutional investors avoid the market because of higher transaction costs. Secondary market trading on the stock exchange concentrated on 3-year variable-interest bonds (65.1%), followed by one-year indexed bonds (13.8%), 10-year variable-interest bonds (11.3%), and fixed-interest bonds, i.e. AS, OS, PS, DS, OK (9.8%). The structure of transactions made on the WSE, combined with the transaction structure witnessed in the non-regulated market, indicates that the stock market has specialised in transactions with individual customers (who are the main buyers of three-year variable-interest bonds), while the non-regulated market is used mainly for transactions executed by institutional investors (banks, investment funds, pension funds, insurance companies, etc.).

The value of transactions made on CeTO reached PLZ 206 m in 1999, compared with PLZ 1,807 m in 1998. The marginal share of CeTO in the secondary market of treasury bonds was caused by a considerable decrease of the share of one-year fixed-interest bonds (traded in that market) in financing the borrowing needs of the national budget.

According to an agreement of 26 July 1999 between the NBP and NDS, payments resulting from transactions made by the participants of the Depositary are made via current accounts of „payer banks“ with the NBP. „Payer banks“ keep cash accounts for the participants of the NDS. The arrangement is in conformity with the recommendations of the European Central Bank and the standards adopted in developed capital markets. The transfer of settlements to the NBP required relevant provisions in the *Law on Public Trading in Securities* of 21 August 1997, enabling the NDS to participate in clearing operations performed by the NBP on terms similar to interbank clearing terms, and to change the share-

Chart 16: *Turnover sructure on Treasury bonds secondary market in 1997 - 1999*



holding structure of the NDS, by including the National Bank of Poland beside the existing shareholders, i.e. the WSE and the Ministry of Treasury. The transfer of settlements to the central bank helped eliminate the inconvenience caused by the need to transfer cash to a special account with a commercial bank (Bank Śląski S.A.) and provided the participants of the NDS with more convenient conditions for asset management.

4.2. THE SECONDARY MARKET OF TREASURY SECURITIES ISSUED FOR THE INTERNATIONAL MARKET

Owing to formal reasons, foreign bonds issued by the State Treasury in 1995 and 1996 and Brady bonds were registered on foreign stock exchanges. However, unlike domestic bonds, the instruments intended for foreign markets are basically not traded on those exchanges, but on non-regulated OTC markets.

Foreign bonds issued by Poland are traded in the OTC market. The market is characterised by a high degree of deregulation and decentralisation, and a large number of participating parties. Therefore the market is very difficult to monitor and virtually the only parameter to describe the behaviour of the bonds is the spread above the base rate - yield on bonds considered to be most secure. The charts illustrating the spread are provided in the part describing each bond category.

Only 8 of 10 instruments present in the market were basically traded in 1999 (4 types of Brady bonds, 2 Eurobonds, and 2 tranches of bonds issued on the US market). Two Brady bond types, i.e. New Money Bonds and Debt Conversion Bonds, were not liquid owing to the fact that the issue amount was too low. Therefore quotations were available in global information bulletins for 8 instruments only.

Bond transaction settlements s are basically effected using two systems. For US investors, they are operated by the specialised US financial institution Depository Trust Company (DTC), and for other investors - by two European clearing houses - Euroclear and Clearstream (former Cedel).

SUMMARY

1. 1999 saw a continued process of system changes in the area of public debt. The process included mainly:

- Development of the *Debt Management Strategy*, which was submitted for the first time to Parliament together with the justification of the draft Budget Act for the year 2000.

- Issue of the 10-year fixed-interest bond, which made it possible to extend the average maturity of domestic marketable bonds. The yield on the bonds also provides a benchmark for fixing the average long-term interest rate in the country in accordance with the convergence requirements for interest rates.

- Issue of 2-year zero-coupon bonds that substituted 2-year fixed-interest bonds. This made it possible to meet market demand for zero-coupon instruments, spread proceeds from the sale of bonds over time and spread redemption dates so as to match cash flow requirements during the fiscal year and improve the accuracy of cost determination over a 2-year horizon.

- Issue of savings bonds intended for individual investors: 2-year fixed-interest and 4-year inflation-indexed bonds. The savings bonds (to ultimately consist of a diversified portfolio of instruments) are designed as safe medium-term savings vehicles for retail investors. The new savings bonds replaced one-year bonds issued for natural persons.

- Conversion of State Treasury debt to the NBP. The basic goals of the conversion of non-marketable debt into marketable debt was to reduce the public sector's debt to the National Bank of Poland, and to enable the central bank to reduce the mandatory reserve rates. As a result of the conversion, the NBP now holds a portfolio of Treasury bonds with parameters similar to the marketable ones.

- Commencement of the conversion of debt incurred by health service establishments, taken over by the Treasury, into treasury bonds (September 1999). The operation is intended to regulate the debt taken over from health service establishment.

- Modification of the Treasury bond and treasury bill issue system, as well as the Treasury bill registration system.

2. In consequence of the measures continued during 1999, aimed to ensure a desirable composition of debt, i.e. its structure by maturity, instrument category and sector, as well as the internal to external debt ratio, the following results were achieved:

- Considerable decline in debt in the form of non-marketable TSs (by PLZ 12.9 bn), and consequently reduction of the proportion of those instruments in ST domestic debt from 23.2% in 1998 to 11.3% in 1999. The reduction of debt arising from the instruments was mainly affected by conversion of non-marketable debt of the State Treasury to the NBP into marketable bonds.

- Considerable increase of debt in fixed-income bonds (by PLZ 25.4 bn), which resulted in a higher proportion of those bonds in ST domestic debt from 22.9% at 1998 year-end to 39.5 % at the end of 1999.

- Decline of debt in T-bills (by PLZ 1.9 bn), which resulted in a lower proportion of the instruments in ST domestic debt from 23.9% in 1998 to 20.0% at 1999 year-end.

- Extension of the average maturity of debt in marketable bonds (by 263 days). This was helped, among other things, by abandoning the sale of one-year indexed bonds in favour of savings instruments with 2 and 4-year maturities, initiation of the sale of 10-year fixed-interest bonds (May 1999) and conversion of ST debt to the NBP into marketable bonds. Nevertheless, the average maturity of all TSs issued for the domestic market dropped (by 721 days). This resulted mainly from:

- decline in average maturity of non-marketable bonds (by 2962 days) - a result of conversion of non-marketable ST debt to the NBP into marketable instruments characterised by a lower average maturity;

- reduction of the maturity of T-bills - a consequence of increasing the sale of bills shorter than 13 weeks in the last quarter of 1999 instead of limiting the sale of bills with longest maturities.

The above developments were of a one-off or temporary nature.

- Increase in domestic ST debt in the non-banking sector in 1999 (by PLZ 4.0 bn). The increase was mainly due to an increase in debt arising from higher liabilities due for payment by national budget financed entities (PLZ 2.0 bn) and an increase in liabilities resulting from the freeze on wages in the public sector (by PLZ 1.0 bn). The increase of debt

SUMMARY

in respect of the sale of TSs reached only PLZ 1.1 bn, which was caused, to a large extent, by discontinuing the issue of short-term bonds sold to individuals. Consequently, the share of the non-banking sector in the ST internal debt dropped slightly (from 36.8% at the end 1998 to 36.1% at the end of 1999).

- Then proportion of external debt in total debt did not decline in 1999 (the share of the debt in total debt increased slightly from 49.0% at the end of 1998 to 49.1% at 1999 year-end). The fact that the proportion of external debt did not decline resulted mainly from the increase in the value of foreign currencies relative to the zloty (e.g. the USD rate was 18.4% higher at the end of 1999 than a year before.

3. The tasks scheduled for execution this year and in the subsequent years include:

1) Implementation of the three-year *Debt Management Strategy* which provides for:

- minimisation of debt servicing costs while meeting the limitations adopted,
- development of an optimal programme for external debt payments falling due during the 2004-2009 period (i.e. in the period of high intensity of those payments),
- reduction of the degree of debt monetisation by increasing the share of the non-banking sector in total debt,

2) completion of the restructuring of the debt originally incurred by health service establishments, arising from the taking over of that debt by the State Treasury through conversion or buy-back,

3) efforts aimed to improve and increase the liquidity of the secondary market of TSs,

4) reduction of the share of external debt in total debt,

5) extending the average maturity of domestic TSs,

6) increase in the proportion of fixed interest bonds in internal debt.

ANNEX

1. INSTITUTIONAL STRUCTURE OF THE TREASURY SECURITIES MARKET

The legal basis for the operation of the main institutions of the capital market in Poland is the Law on Public Trading in Securities effective since January 1998[18]. It regulates public trading in securities, including the rules of establishment, organisation and supervision of entities carrying on the business of trading in securities.

The following entities are the main participants of the Polish securities market:

1. The Minister of Finance - the issuer of government securities,
2. The Polish Securities and Exchange Commission (PSEC) - responsible for control and supervision of the securities market,
3. The National Bank of Poland (NBP) - the issue agent, also serving as the depositary and settlement institution in the treasury bill market and organiser of treasury bond auctions,
4. The Central Brokerage House (Centralny Dom Maklerski Pekao S.A. - CDM Pekao S.A.) - issue agent for retail bonds issued through a network of customer service outlets,
5. Bank Handlowy w Warszawie S.A. (BH)- payment agent managing and keeping the accounts of the external debt of the State Treasury and servicing foreign receivables of the State Treasury and, under an agreement with the Minister of Finance, agent managing State Treasury debt resulting from outstanding liabilities of health service.
6. Institutions participating in foreign bond issues,
7. The National Depository for Securities (NDS) - depositary and settlement institution,
8. The Warsaw Stock Exchange (WSE) - institution organising the secondary market,
9. Brokerage houses - entities acting as intermediaries in trading in the primary and secondary securities markets,
10. Central Table of Offers (CeTO) - institution organising the secondary market and forming, together with the WSE, the regulated market.
11. Polish Financial Exchange (PFE) - organiser of the secondary non-regulated market including trading in fixed-interest treasury bills and treasury bonds.

THE MINISTER OF FINANCE - ISSUER OF TREASURY SECURITIES

Under the provisions of the Public Finance Act, the Minister of Finance is authorised to contract financial obligations on behalf of the State Treasury, in particular by issuing securities, to provide for the borrowing needs of the national budget and for State Treasury debt management purposes. The Minister of Finance is the sole party authorised to issue government securities providing monetary benefits. The responsibilities of the Minister of Finance include the definition, by issuing an information memorandum, of detailed conditions of an issue of government securities, concerning the benefits arising from a security and the ways of realising them. It is necessary for the Minister of Finance to provide detailed conditions of each issue to make the issue effective.

Government securities offered by the Minister of Finance in the domestic financial market are available through the following distribution arrangements: auction, issue agent's retail network, and conversion. In addition, the Minister of Finance issues treasury bonds destined for international financial markets in accordance with rules applicable to the different segments of the markets.

THE POLISH SECURITIES AND EXCHANGE COMMISSION

The Polish Securities and Exchange Commission is responsible for supervising compliance with the principles of fair trade and competition in public trading in securities and for ensuring public access to reliable information on the securities market. In addition, the responsibilities of the PSEC include, among other things, initiating, organising and taking measures with a view to ensuring efficient functioning of the securities market and protection of investors' interest. PSEC works with government administration agencies, the NBP, and the institutions and participants of public trading in developing the economic policy of the state, ensuring the development of the securities market.

[18] Journal of Laws of 3 October 1997, as subsequently amended.

ANNEX

THE NATIONAL BANK OF POLAND

The National Bank of Poland, as the central bank, is responsible for monetary, credit and foreign exchange policy of the country. It supervises the Polish banking system.

The NBP acts as the issue agent and depositary and settlement institution for treasury bills, keeping the Central Register of Treasury Bills. It also organises and holds treasury bond auctions.

ISSUE AGENT - CENTRAL BROKERAGE HOUSE (CDM Pekao S.A.)

Bank Pekao S.A., and then Centralny Dom Maklerski Pekao S.A. (the Central Brokerage House), as successor of Bank Pekao SA, has acted, since 1992, as issue agent for on-year indexed and 3-year floating-rate bonds, and since 1999 also savings bonds (2 and 4-year) offered in the retail network under an agreement with the Minister of Finance. As issue agent, it organises consortia of institutions for the sale, servicing, and redemption of the above-mentioned instruments sold by subscription and at the customer service outlets (CSOs).

BANK HANDLOWY W WARSZAWIE S.A.

Bank Handlowy w Warszawie S.A. is responsible for financial management and keeping the accounts of foreign payables and receivables of the national budget since 1993. The services for the Ministry of Finance are provided by a dedicated and autonomous Department of Agency Services. They include the following tasks: business related to the ST debt in convertible currencies, entrusted to BH for management; business related to ST receivables in convertible currencies and in units of account, entrusted to BH for management, business related to settlements in units of account under clearing and barter agreements and on special accounts, entrusted to BH for management. On 1 April 1999 a agreement was signed between the Minister of Finance and Bank Handlowy w Warszawie S.A., by which the bank was appointed agent managing State Treasury arising from outstanding liabilities of the health service.

INSTITUTIONS PARTICIPATING IN FOREIGN BOND ISSUES

For each issue of bonds intended for international markets, the Minister of Finance selects the institutions to participate in bond placing. They are mainly the manager and members of the consortium selling bonds in the primary market and underwriting the issue, the payment agent, and the depositary.

In the issues organised so far, the consortium manager function was entrusted to the following institutions: the investment bank JP Morgan (issue of Eurodollar bonds in 1995, issue of bonds in the Yankee market in 1995, and issue of bonds in the Yankee market in 1997), Deutsche Morgan Grenfell and Credit Suisse First Boston (DEM-denominated issue in 1996).

THE NATIONAL DEPOSITARY FOR SECURITIES

The National Depositary for Securities is an independent depositary institution responsible for capital market settlements in Poland. The NDS performs all depositary and settlement functions for securities in public trading. The NDS also handles trading in securities that are not admitted to public trading.
Only direct participants of the NDS may submit bids on their own or their customers' behalf at Treasury bond auctions. Currently the NDS holds on deposit all series of treasury bonds issued for the domestic market.

THE WARSAW STOCK EXCHANGE

Transactions in securities are made in three systems: (i) single-price auctions, (ii) continuous trading and (iii) block trades. Transactions on the WSE may only be executed by its members, i.e. brokerage houses licensed by the WSE and approved by the Stock Exchange Council. They are represented by stockbrokers who draw up orders in their name for their own or the customer's account.

BROKERAGE HOUSES

Domestic and foreign brokerage houses are authorised to carry on brokerage activities in the territory of Poland under authorisations issued by the PSEC and on the terms laid down in the Law on Public Trading in Securities. Brokerage business may be taken up by banks that have obtained the authorisation from the PSEC, provided that they separate the business of public trading in securities from other business in organisational and financial terms.

ANNEX

CENTRAL TABLE OF QUOTATIONS (CeTO)

CeTO is a joint-stock company established in February 1996 by 42 brokerage houses to enable all firms, irrespective of their size, equity resources and number of shareholders to be present in the financial market. Settlement procedures are basically the same as on the WSE. Since July 1998, CeTO has been used for secondary market trading in one-year fixed-interest bonds (RS). Owing to the fact that the last series of the bonds (RS1000) matures in October 2000, it should be expected that at the end of 2000 the role of CeTO in TSs trading will be reduced to nil.

POLISH FINANCIAL EXCHANGE

On 23 January 1997, a fully computerised T-Bill Cash Market was initiated on the PFE. In July 1999, 2, 5, and 10-year fixed-interest treasury bonds were placed on the market. In 1999, the value of TSs trading on the Polish Financial Exchange reached PLZ 522.2 m in 1999, including PLZ 470.0 m in treasury bills and PLZ 52.3 m in treasury bonds. The sessions in the TSs market are held in the continuous trading system on banking business days from 9:30 to 15:00 hours.

2. METHODS OF SELLING OF TREASURY SECURITIES

2.1. METHODS OF SELLING 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 1 January 1999, of the Public Finance Act, resulted in a change of the legal basis of the issue of government 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, since 6 May 1991, at weekly auctions, usually held on Mondays. As from July 1995, bills have been issued in the dematerialised form in the single denomination of PLZ 10,000, and owing to the wholesale nature of the market, the condition was imposed of a minimum value of purchase in the primary market in the quarter, the meeting of which makes the party eligible for participation in the auction.

In April 1999, the first treasury bill repurchase auction was held. Repurchase of treasury bills by the issuer before maturity is intended to support the liquidity management of the national budget as well as cost saving in servicing treasury bills.

On 26 August 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 information memoranda appearing monthly[19]. In addition, the ordinance introduced a number of changes in the treasury bill offering procedure, the main ones being:

- 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,
- possibility of selling treasury bills with maturities of 1 to 52 weeks,
- introduction of the auction price per 10,000 of nominal value of the treasury bill accurate to one grosz,
- elimination of the obligation to participate in a T-bill auction at least once a month,
- allowing flexibility in the fixing by Minister of Finance of the date of payment for bills purchased at a auction.

TREASURY BILLS AUCTIONS

Since 1991, the **National Bank of Poland** has been the sole issue agent, organising and handling the accounts of treasury bills sale at auctions, i.e. in the primary market, and in the secondary market. Treasury bills are sold at a discount, at auctions held regularly on each first working day of the week (i.e. usually on Mondays)[20]. An announcement of a forthcoming auction is published in the daily *Rzeczpospolita* seven days before the auction date, and in the Reuters bulletin. The announcement states the type and date of redemption of the instrument offered, the nominal value of the bills offered and the time and place for bid submission.

[19]made available to general public by publication in national newspapers and on the Ministry of Finance website at www.mofnet.gov.pl

[20] The Minister of Finance may hold additional auctions at other dates.

The eligible direct participants of auctions are the entities that purchased at least 0.2% of all bill 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 PLZ 100,000. 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 bill at the proposed price. The NBP notifies the investors of whether their bids have been accepted of 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. on Wednesdays) through current accounts maintained by the NBP Payment System Department.

TREASURY BONDS OFFERED AT AUCTIONS as 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 entities. A 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 26 April 1999 on the conditions of issuing treasury bonds offered at auctions, while the characteristics of the different instruments and offer details are provided in information memoranda issued by the Minister of Finance. The memoranda are made available to the public by publishing them in national newspapers and on the Ministry of Finance website.

The treasury bonds offered at auctions, issued by the State Treasury represented by the Minister of Finance, include fixed and variable-interest treasury bonds. The bonds are bearer securities. Bonds are issued in the denomination of PLZ 100 or a multiple of the amount. The denomination of the given issue is specified in the information memorandum. In 1999, 3-year and 10-year variable-income bonds were offered, as well as 2-year, 5-year, and 10-year fixed-income bonds and 2-year zero-coupon bonds.

TREASURY BOND AUCTIONS

Bonds are offered for sale in the primary market at auctions held by the National Bank of Poland. The entities allowed to auction are direct participants of the NDS, and other interested parties represented by them. Treasury bond auctions are held at dates stated in information memoranda depend on the type of instrument sold[21].

The proposed auction is announced in the daily *Rzeczpospolita* seven days before the auction and in Reuters bulletins. 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 bidding.

The participants of the auction submit bond purchase offers directly at a auction at the NBP by 11:00 hours on the auction date. The face value of a single price bid may not be lower than PLZ 1m. 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 a 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. As from 1999 cash settlements related to bond 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 (CSOs)

The sale and management of retail bonds intended for small investors were handled from 1992 by Bank Pekao S.A., and then the Central Brokerage House (CDM Pekao SA), as the Bank's successor, under agreements signed with the Minister of Finance. CDM Pekao SA is the issue agent, and also the organiser of a consortium of the largest banking and non-banking brokerage houses (21 in total).

Bonds are offered through a network of customer service outlets (CSOs), consisting of approx. 580 units throughout the country (as at beginning of 2000). In 1999, the number of CSOs dropped from over 600 to approx. 580 as a result of consolidation of financial institutions, including banks and brokerage houses. A list of consortium participants and retail outlets is contained in the prospectus and information memorandum for each issue of bonds.

Bonds are sold at the issue price published prior to the commencement of sale. For one-year and three-year bonds, the selling 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 PLZ 100 (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

[21]Tender dates for bonds issued in 1999: for 2 and 5-year fixed-interest and zero-coupon bonds - the first Wednesday of the month; for ten-year variable interest bonds - second Wednesday; for ten-year fixed-interest bonds - third Wednesday; for three-year bonds - fourth Wednesday.

transfer to the indicated bank account. One-year and three-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 the early redemption 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 CSOs and a fixed handling fee (of PLZ 2.5 for one DOS bond and PLZ 3.0 for one COI bond), which is deducted from the interest accrued to the early redemption date.

SALE OF BONDS THROUGH CONVERSION

Holders of fixed-interest one-year bonds and three-year bonds with a forthcoming maturity could extend their investments in 1999 through conversion into bonds of another series. For this purpose, a new bond purchase declaration should be submitted. The declarations are received at each CSOs and brokerage house where the bonds of the redeemed series are deposited. Conversion dates are published in announcements of the Minister of Finance.

In order to encourage investors to extend their investments through conversion into new issue bonds, the Minister of Finance decided that conversion price cannot be higher than the issue price. At the same time, the value of converted bonds cannot exceed the value of redemption receivables, including accrued interest.

SALE OF BONDS THROUGH SUBSCRIPTION

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

2.2. METHODS OF SELLING OF TREASURY SECURITIES ON INTERNATIONAL MARKETS

Bonds destined for foreign investors in 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.

In the case of bonds issued in 1995, the syndicate was the American investment bank JP Morgan. The syndicate selling Polish Eurobonds consisted of 16 other banks (including two foreign branches of Polish banks).
The 1996 issue of bonds denominated in German marks was managed jointly by the banks Deutsche Morgan Grenfell and CS First Boston. Beside them, the syndicate consisted of 23 investment banks.

In 1997, the syndicate selling Polish bonds was composed of three banks: J.P. Morgan - as lead-manager, Merrill Lynch, and Salomon Brothers.

Consortium members guarantee 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[22]. The spread reflects the premium investors wish to obtain for the risk of investing in the issuer's paper, and it informs of the current situation in the market.

In 1998 and 1999 no new treasury bonds were issued in foreign markets.

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[22]These are usually the bonds issued by the Treasury of the State in the currency of which they are issued. If denominated in USD, they are US government bonds, and if in DEM, they are German government bonds.

APPENDIX

1. List of states with which Poland has a double tax treaty

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

2. List of useful addresses

Ministerstwo Finansów (Ministry of Finance)
12, Świętokrzyska St.
00 - 916 Warszawa
tel: 694-51-51

Narodowy Bank Polski (National Bank of Poland)
11/2, Świętokrzyska St.
00 - 049 Warszawa
tel: (4822) 653-10-00
fax: (4822) 826-99-55

Komisja Papierów Wartościowych i Giełd (Polish Securities and Exchange Commission)
1, Powstanców Warszawy Square
00 - 009 Warszawa
tel: (4822) 826-10-31
fax: (4822) 826-81-00

Warszawska Giełda Papierów Wartoociowych S.A. (Warsaw Stock Exchange)
6/12, Nowy Świat St.
00 - 497 Warszawa
tel: (4822) 628-32-32
fax: (4822) 628-17-54

Krajowy Depozyt Papierów Wartościowych (National Depositary for Securities)
132/134, Chmielna St.
00 - 805 Warszawa
tel: (4822) 656-23-43
fax: (4822) 620-02-56

CDM Pekao S.A.
18, Wołoska St.
02 - 675 Warszawa
tel: (4822) 640-28-40, 640-26-40
fax: (4822) 640-28-00, 640-26-00

Ministry of Finance page in Reuters bulletin:
<PLMINFIN>
Reuters Polska
00 - 695 Warszawa
tel: (4822) 625- 63-03
fax: (4822) 625-75-01

Ministry of Finance website
www.mofnet.gov.pl

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LIST OF ABBREVIATIONS

m	- million
PLZ	- Polish Zloty
grosz	- 0.01 PLZ
USD	- US Dollar
DEM	- German Mark
TSs	- Treasury Securities
ST	- State Treasury
GUS	- Central Statistical Office in Poland
pp	- percentage points
bp	- basis points
CSOs	- Customer Service Outlets
IR	- One-year indexed T-bonds sold in retail network
RS	- One-year fixed-rate T-bonds sold in retail network
TZ	- Three-year floating-rate T-bonds sold in retail network
OS, PS	- Five-year fixed-rate T-bonds sold at auctions
DS	- Ten-year fixed-rate T-bonds sold at auctions
DZ	- Ten-year floating-rate T-bonds sold at auctions
DOS	- Two-year savings T-bonds sold in retail network for individuals
COI	- Four-year savings T-bonds sold in retail network for individuals
NBP	- National Bank of Poland
WSE	- Warsaw Stock Exchange
NDS	- National Depositary for Securities
CeTO	- Central Table of Quotations
PFE	- Polish Financial Exchange
PSEC	- Polish Securities and Exchange Commission

Report prepared by the Public Debt
Department,
Ministry of Finance

ISSN 1640-1344

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