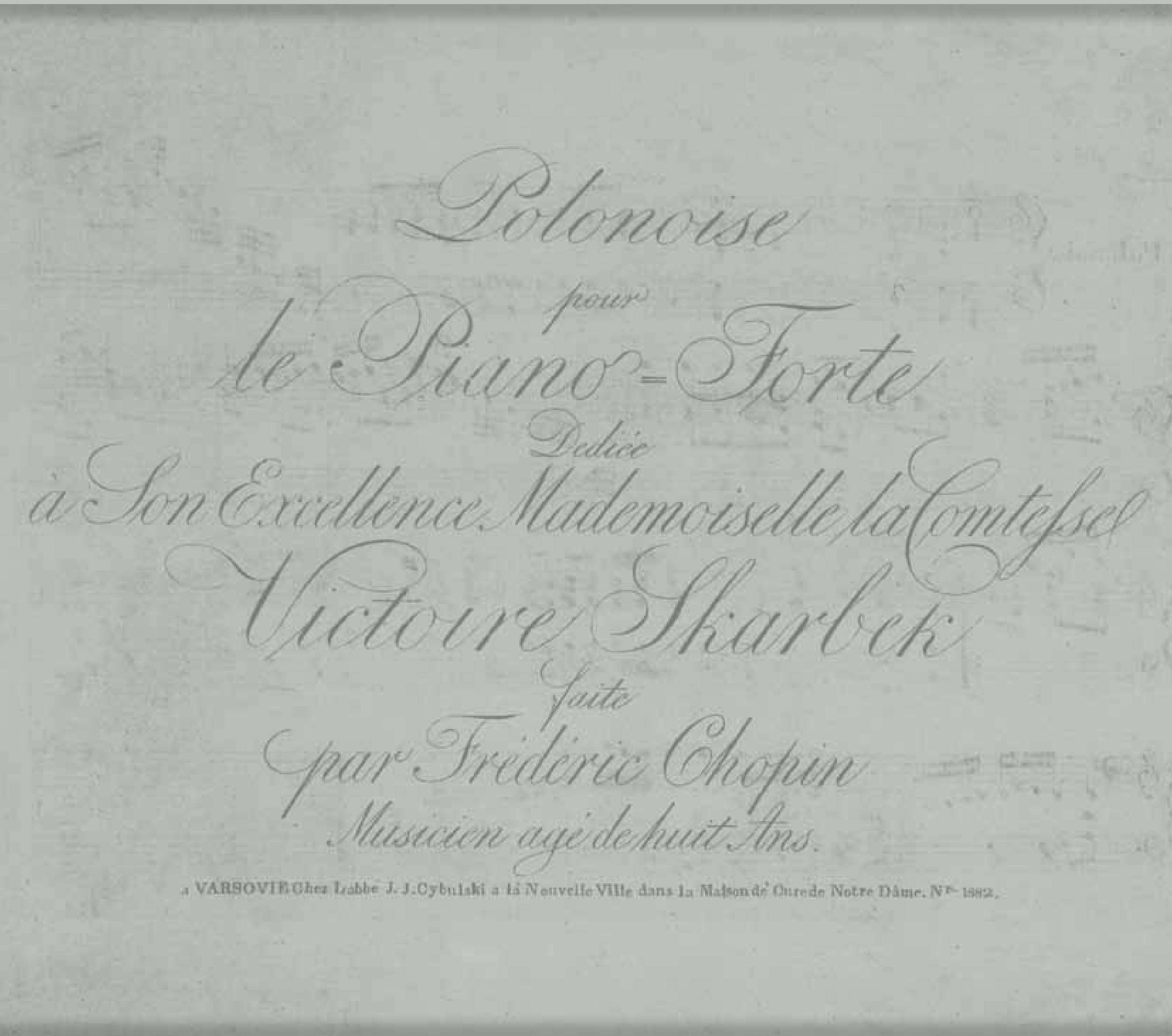
PUBLIC DEBT IN POLAND
2009 ANNUAL REPORT


Polonoise
pour
le Piano-Forte
Dediée
à Son Excellence Mademoiselle la Comtesse
Victoire Skarbek
faite
par Fréderic Chopin
Musicien agé de huit Ans.
a VARSOVIE Chez Labbe J. J. Cybulski a la Nouvelle Ville dans la Maison de Curé de Notre Dâme. Nr. 1882.

MINISTERSTWO FINANSÓW

Diese Polonaise hat
[illegible]

Polonaise.

CONTENTS

Polo

pou

le Piano

Dedi

à Son Excellence Mad

Victoire

fait

par Frédéri

Musicien agé d

a VARSOVIE Chez L'abbe J. J. Cybulski a la Nouvelle Vi

CHAPTER I
INTRODUCTION

INTRODUCTION

Ladies and Gentleman,

We are providing you with the “2009 Annual Report” on Public Debt in Poland. It contains information on Polish debt management including macroeconomic background and convergence criteria fulfilment, which is the condition of Polish accession to the Economic and Monetary Union.

The year 2009 was a year of severe global economic slowdown. Among European countries, only Poland has managed to keep a positive growth rate (1.8% of GDP YoY). It was mainly due to public investments, private consumption and exports. The positive situation of the economy was reflected among others in stable ratings (A-, A-, A2 according to: Standard & Poor’s, Fitch and Moody’s respectively) in the context of a tide of ratings’ downgrades of many countries.

The global crisis had its implications also in Poland. It appeared evidently in lower volume of trade exchange, fall of the industrial production and the labour market. Faster decrease in import compared to export contributed to improvement of the trade balance, the situation on the labour market has substantially worsened – the unemployment rate in December 2009 amounted to 11.9% (2.4 pp above the December 2008 level).

Financial markets’ tensions were reflected in worsening of public finance standing. The Excessive Deficit Procedure was imposed on Poland (the general government deficit was 7.1% of GDP in 2009) which, according to the European Commission’s recommendations, is required to decrease within two proceeding years.

Public debt amounted to PLN 669.9bn in 2009 and was higher by PLN 72.1bn (10.8%) than in the previous year, equivalent to 49.8% of GDP (46.9% of GDP in 2008). General government debt reached the value of PLN 684.4bn (compared with PLN 600.8bn in 2008) what constituted 50.9% of GDP (47.2% of GDP in the previous year) and was below the reference value of 60%.

Net borrowing requirements were equal to PLN 57.8bn which were PLN 1.1bn lower than anticipated in the budget act. The issuing policy was conducted accordingly to “Public Sector Debt Management Strategy for 2009-2011” and its update for 2010-2012. The final structure of the sale of Treasury securities was a result of assessment of current market conditions and long-term financing costs and risk evaluation.

Financing of the borrowing requirements was done in a highly volatile environment of the demand for Treasury securities throughout the year. As a result there was a need to adjust the supply structure to the current market situation. For that reason in the period from February till July a higher volume of T-bills was issued and indebtedness in T-bills increased. Demand for T-bonds has been gradually increasing since the second quarter and the issuance of T-bonds grew on both domestic and external markets. It was connected with the improvement of general financial market sentiment, relatively good economic situation of Poland, significant interest from foreign investors and increase in banking sector liquidity which was a result of operations conducted by NBP. A rise in bond sales and increased financing from international financial institutions enabled a decrease in T-bills’ stock in the last months of 2009.

On the domestic market 96 Treasury securities auctions were held, including 50 bond auctions (25 auctions, 15 non-competitive auctions and 10 switching auctions). The bid-to-cover ratio at Treasury bond auctions was 202% with the average sale amounting to PLN 2.4bn.

On foreign markets in 2009 Poland issued bonds with a total face value equivalent to EUR 5.7bn, including three tranches of bonds on the euro market: 5-year (including reopening), 10-year and 15-year bonds with a face value of EUR 2.66bn, bonds on the Swiss franc market: reopening of 5-year bond with a face value of CHF 750m (equivalent to ca. EUR 495m) and two tranches of bonds denominated in Japanese Yen with a face value of 44.8bn (equivalent to ca. EUR 334m). Additionally, the Ministry of Finance issued two tranches of US dollar denominated bonds with total nominal value of USD 3.5bn (including reopening; total equivalent of ca. EUR 3.1bn). One of the transactions denominated in euro was the debut issue in a new market segment – registered bonds – attracting a new group of international institutional investors and broadening the investor base for Polish Treasury bonds.

In uncertain and volatile market situation the value of loans received from international financial institutions increased significantly. In 2009 Poland borrowed PLN 8.3bn from the World Bank, PLN 2.5bn from the European Investment Bank and PLN 22.4m from the Council of Europe Development Bank.

At the end of 2009 the average maturity of the State Treasury debt amounted to 5.22 years and remained at the slightly lower level than in 2008 (domestic debt average maturity was 4.1 years and foreign debt was 8.3 years). Duration equalled to 3.59 (domestic debt duration was 2.9), a similar level as in the previous year.

In the beginning of 2009 the situation in the global financial markets was characterised by a flight to quality and a clear preference of safe financial instruments. During the year a slow decrease in risk aversion occurred, accompanied by increasing interest in emerging economies. Among them it was undoubtedly Poland which attracted a significant investors' attention. It was ultimately translated into increase of foreign investors' holdings of domestic Treasury securities by PLN 25.9bn to PLN 81.8bn. Simultaneously holdings of domestic non-banking sector rose by PLN 6.4bn to PLN 235.1bn and holdings of domestic banks by PLN 10.4bn to PLN 146.0bn.

It is also worth mentioning that in May 2009 Poland received an access to SDR 13.69bn (equivalent of ca. USD 20.58bn) of Flexible Credit Line provided by the International Monetary Fund. By receiving this important precaution against worsening of the economic situation, simultaneously Poland was classified among countries with very strong macroeconomic fundamentals.

We invite you to visit the Ministry of Finance's website: www.mf.gov.pl, where you can find much more detailed information about the public debt management issues (including a statistical annex to this publication). At the same time we do hope that this Report will introduce you to the Ministry's activities in the field of public debt management, which you may find useful in your professional life.

Dominik Radziwiłł

Undersecretary of State
Ministry of Finance

Piotr Marczak

Director
Public Debt Department
Ministry of Finance

CHAPTER II

MACROECONOMIC ENVIRONMENT OF PUBLIC DEBT MANAGEMENT

MACROECONOMIC ENVIRONMENT OF PUBLIC DEBT MANAGEMENT

Further GDP growth in 2001-2009

Poland was the only growing economy in the European Union. The real growth rate of GDP in Poland was 1.8% in 2009 (compared to 5% in 2008) and the nominal GDP was PLN 1,344.0bn.

Despite positive GDP growth, the world crisis has significantly influenced the Polish economy. International trade exchange, inventories and industrial production were particularly affected.

The components of the GDP growth in 2009 were as follows:

1. domestic demand -1.1 pp, including:
   - general consumption +1.8 pp,
   - gross accumulation -2.9 pp, including:

     - investments -0.2 pp,

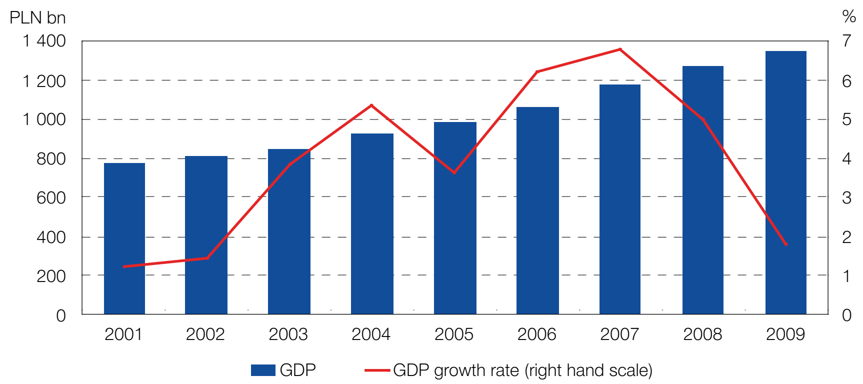
     - change in current assets -2.7 pp,
2. net exports +2.9 pp.

Domestic demand fell in real terms by 1.1% (vs. 5.7% increase in 2008). This decrease was mainly caused by a fall in accumulation by 11.6% which was a result of decrease in current assets. High public investments limited a decrease in investments in 2009 (fall by 0.8% compared to 9.6% increase in 2008). The positive net export contribution had a significant effect on maintaining positive GDP growth, which was however achieved by greater decrease in imports than in exports.

In 2009 household consumption grew in real terms by 2.3% (5.7% in 2008). The deceleration of growth rate in household consumption was mainly the result of worsening in labour market - unemployment rate was 11.9% at the end of 2009 (compared to 9.5% at the end of 2008). On the other hand private consumption was supported by lower income tax rates, liquidation of the second personal income tax threshold and high pension transfers valorisation (6.1%).

Chart 2.1

Nominal GDP and real GDP growth rate in 2001-2009.

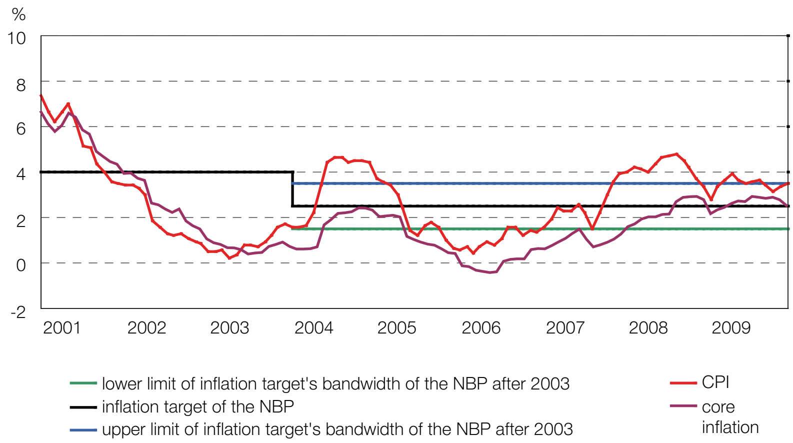


CPI inflation

For most of the year the consumer price index (CPI) of goods and services was close to the upper limit of the inflation target band of the National Bank of Poland (2.5% ± 1 pp). Polish CPI of 2009 was relatively high in comparison with other European countries. That was among others caused by weakness of zloty at the turn of 2008 and 2009, high increase in food and fuel prices in the first half of the year and also energy price increase. Additional the higher inflation was driven by the effects of increase in excise duty rates on tobacco and alcohol. The yearly average CPI increase in 2009 was 3.5% (YoY). The core inflation- excluding food and energy prices amounted to 2.2% (YoY) in January and increased to 2.9% (YoY) in the period of July- October. In December it decreased to 2.6% (YoY). The decrease in the last two months of the year reflects weakening in inflationary pressure.

Chart 2.2

CPI inflation in 2001-2009 (corresponding month of previous year = 100).

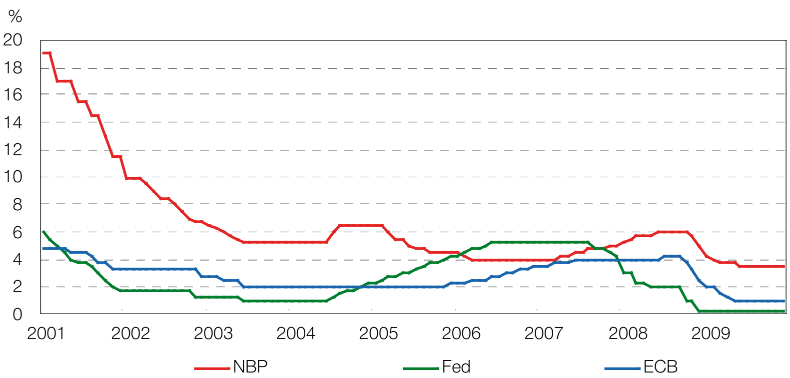


NBP interest rates

Economic slowdown and worsening situation in Polish labour market were the reasons of expansive monetary policy led by the Monetary Policy Council in the first half of 2009. The basic rates were decreased by 1.5 pp at the time. As a result the main interest rate- the reference rate- dropped to the historical lowest level of 3.5% at the end of June 2009. Relatively high core inflation value and symptoms of gradual improvement of economic activity in the following months determined the rates at the unaffected level.

Chart 2.3

Key reference rates in 2001-2009.



Increase in the general government deficit

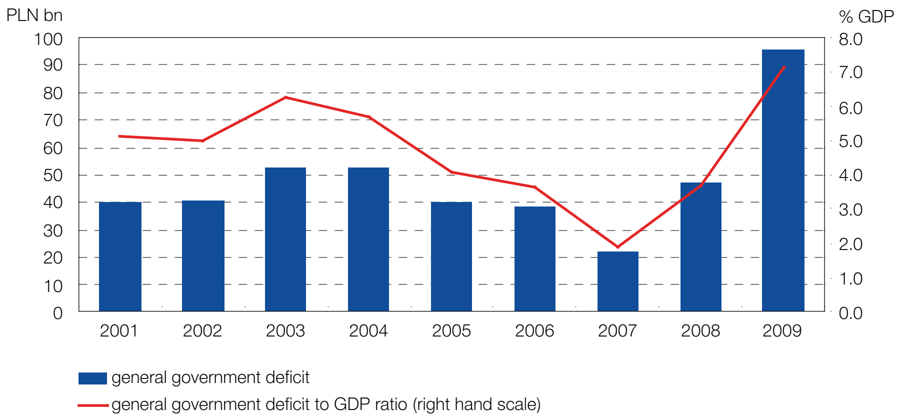
In 2009 the general government deficit to GDP ratio rose by 3.4 pp to 7.1% (PLN -95.7bn). The deficit was the result of:

- negative balance of central government sector amounting 5.0% of GDP (PLN -67.4bn),
- negative balance of local government sector amounting 1.2% of GDP (PLN -15.8bn),
- negative of social security funds sector amounting 0.9% of GDP (PLN -12.6bn).

The main reason of a rise of general government deficit was weakening economic activity that influenced a decrease in revenues of both the State budget and local government budgets. At the same time revenues of the social security system decreased as a function of wages.

Chart 2.4

General government deficit in 2001-2009.

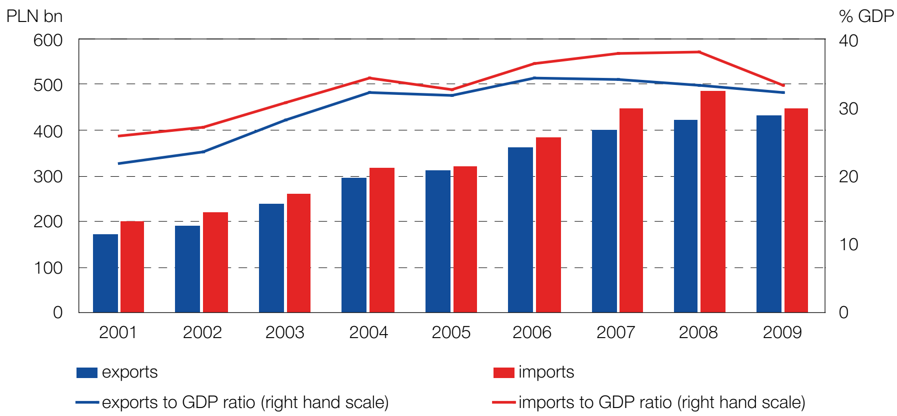


Decrease in trade exchange value

The global financial crisis resulted in decrease in GDP of Polish major trading partners in 2009. Connected with that lower external demand was translated into the decrease in exports expressed in euros (by 17.1%) and much greater fall in imports (by 25.4%). As a result, the foreign trade to GDP ratios deteriorated - exports to GDP ratio fell by 1.0 pp to 32.2% and imports to GDP ratio by 4.9 pp to 33.2%.

Chart 2.5

Exports and imports in 2001-2009 (according to NBP data).

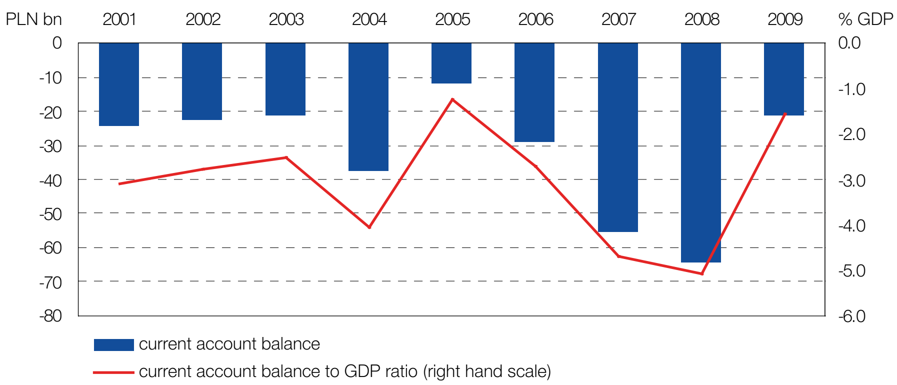


Substantial decrease in current account balance

In 2009 the current account deficit was EUR 5bn which constituted 1.6% of GDP, what was a significant decrease in the external imbalance comparing to 2008 (by 3.5 pp). Moreover the deficit was completely financed by the capital account surplus where majority of European structural funds resources are classified. The improvement in the current account balance was mainly the result of substantial trade deficit decrease accompanied by stabilization of services balance and a slight current transfers balance deterioration at the time.

Chart 2.6

Current account balance in 2001-2009.

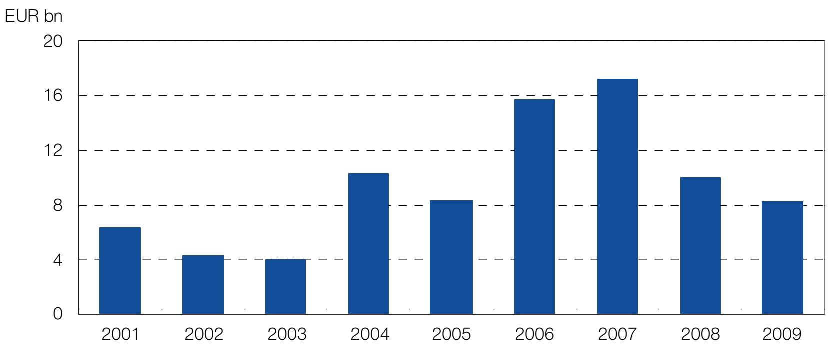


Relatively high FDI inflow

The value of foreign financial resources invested in Poland in the form of FDI in 2009 reached EUR 8.3bn. It was 17.7% lower than in 2008. The main components of FDI inflow were reinvested earnings (51.8%). Lower FDI inflow was mainly the result of lower net inflow of funds which increased equity of direct investing enterprises and of investors' loans.

Chart 2.7

Foreign Direct Investments in Poland in 2001-2009.

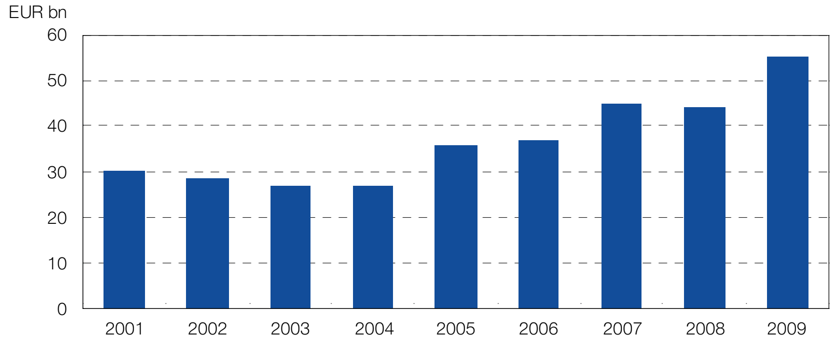


Increase in official reserve assets

The balance of official reserve assets at the end of 2009 was higher by EUR 11.1bn than at the end of 2008 and amounted to EUR 55.2bn, which constituted 16.9% of GDP. In comparison with 2008 its substantial growth was mainly the result of EU funds inflow, relatively high value of FDI, transfers of income earned abroad and the highest inflow of foreign portfolio investments since 2005. From the beginning of 2001 through the end of 2009 official reserve assets increased by nearly EUR 25bn.

Chart 2.8

Official reserve assets in 2001-2009.

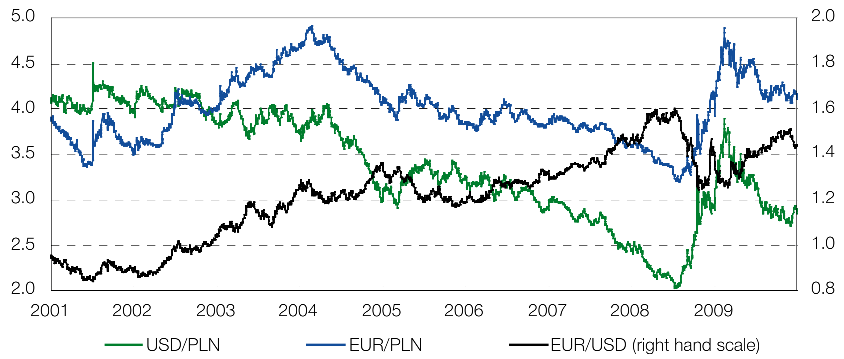


The zloty's appreciation

In 2009 the zloty gained 3.8% against the dollar and 1.5% against the euro. High global risk aversion (global recession fears), falling stock prices and foreign investors' outflow resulted in the zloty's sharp depreciation in the beginning of the year. The Polish currency gained in the periods of growing risk appetite, while the zloty weakened when investors' mood darkened. Sharp appreciation of the Polish currency took place between July and August due to hopes for near end of global recession which were supported by better-then-expected macroeconomic indicators and companies' financial results in the US. At the end of the year the USD/PLN and the EUR/PLN exchange rates were 2.8503 PLN and 4.1082 PLN respectively compared to 2.9618 PLN and 4.1724 PLN respectively at the end of 2008.

Chart 2.9

USD/PLN, EUR/PLN and EUR/USD rates in 2001-2009.



Increase of assets of the domestic non-banking financial sector

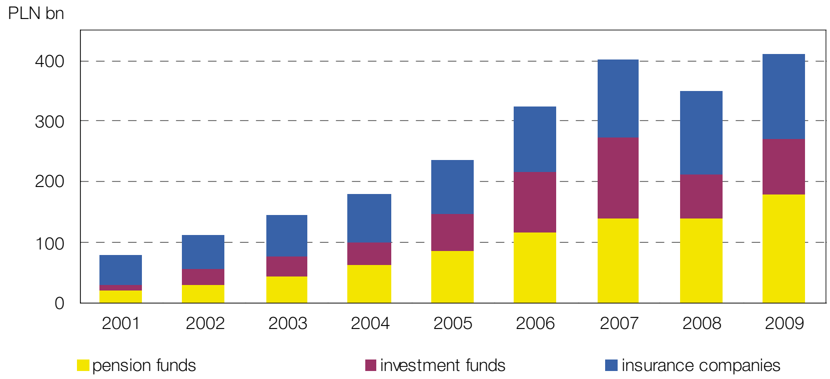
After the decrease in previous year, 2009 was the year of increase of domestic non-banking financial sector. The increase in net assets was noted in all the main segments:

- investment funds - increase by 25.8%, to PLN 93.0bn,
- pension funds - increase by 29.2%, to PLN 178.6bn,
- insurance companies - increase of 0.6%, to PLN 138.8bn.

Total net assets of these three groups of entities increased by 17.2%, to PLN 410.4bn.

Chart 2.10

Net assets of pension funds, insurance companies and investment funds in 2001-2009.



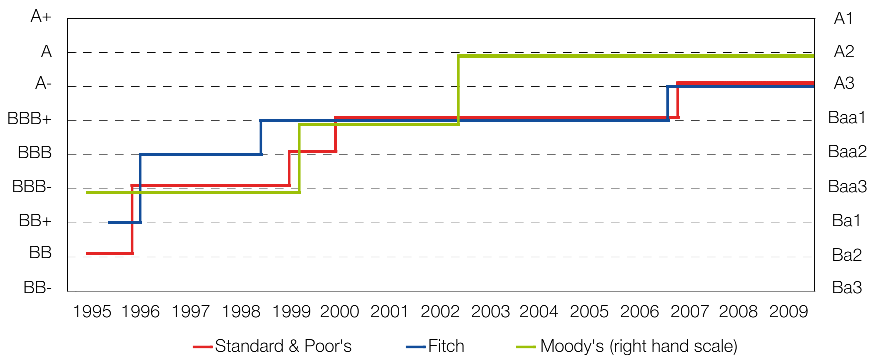
Poland's ratings unchanged, stable outlook confirmed

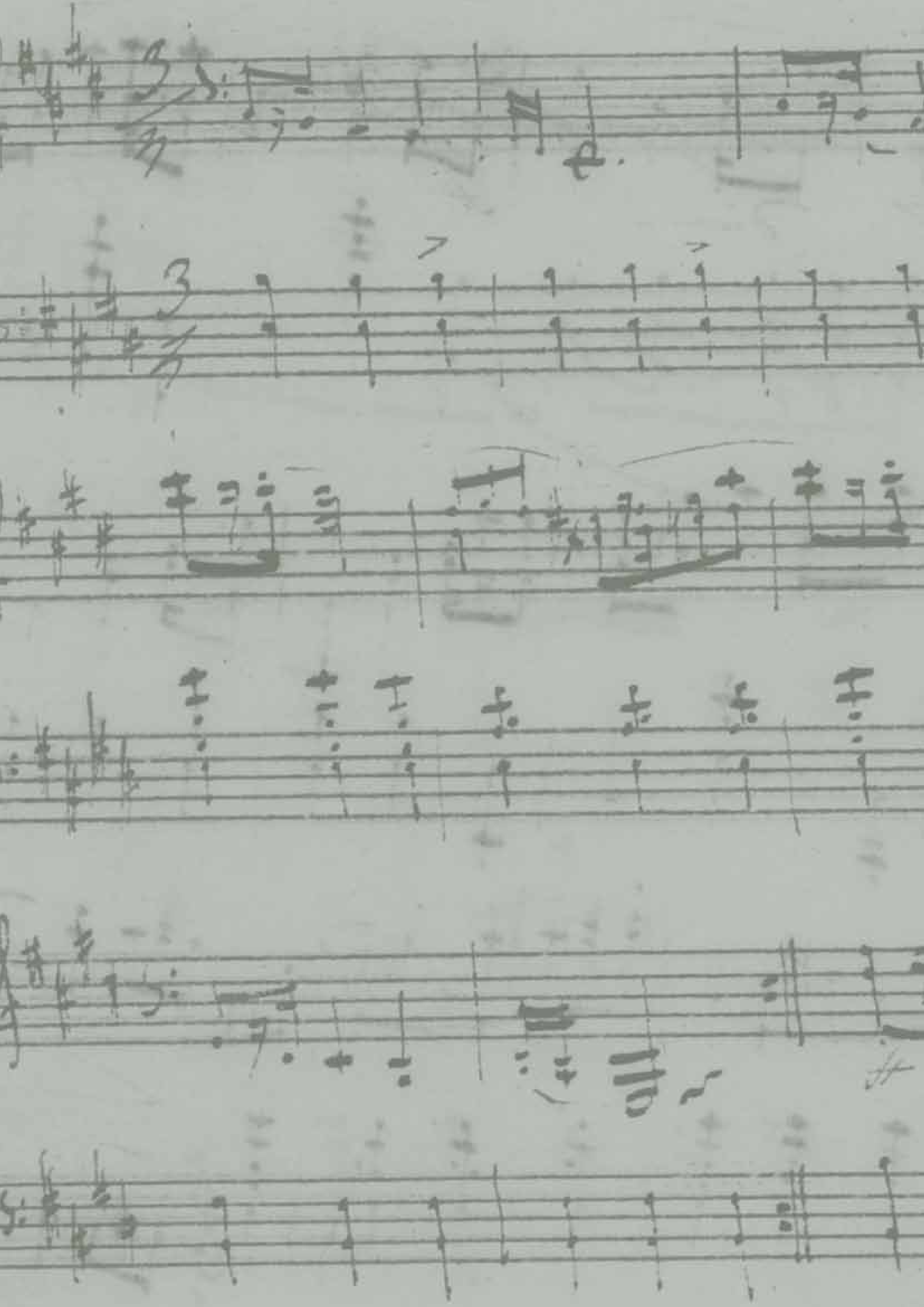
	Foreign currency		Local currency		Outlook
	Long term	Short term	Long term	Short term	
Standard & Poor's	**A-**	**A-2**	**A**	**A-1**	stable
Fitch	**A-**	**F2**	**A**	**nr** [1]	stable
Moody's	**A2**	**P-1** [2]	**A2**	**nr** [1]	stable

[1] not rated
[2] country ceiling rating

Chart 2.11

Poland's rating on issues in foreign currency in 1995 – 2009.





CHAPTER III

CONVERGENCE CRITERIA FULFILMENT

CONVERGENCE CRITERIA FULFILMENT

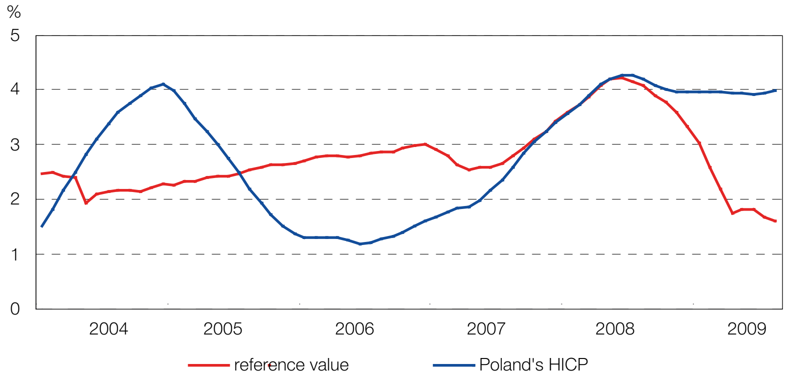
HICP inflation criterion (Harmonized Indices of Consumer Prices)

The criterion requires the average inflation in a particular country not to exceed a reference value determined by the average HICP value of the three EU countries with the most stable prices, plus 1.5 pp, in the preceding year. HICP is measured by 12-month moving average.

Through the whole 2009 the HICP value for Poland was exceeding the reference value, hence not fulfilling the criterion.

Chart 3.1

HICP inflation from May 2004 to December 2009.



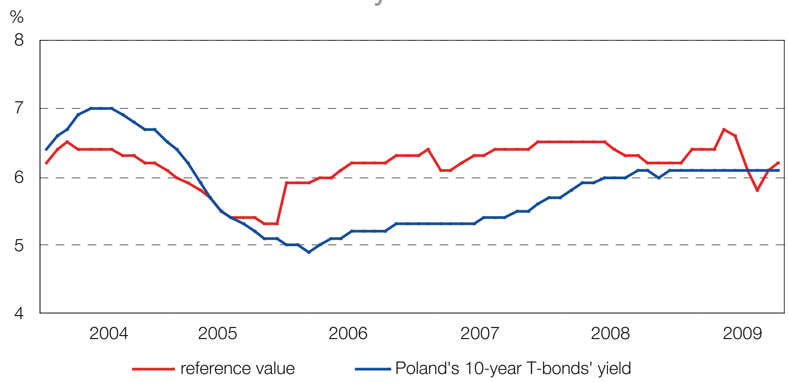
Interest rates criterion

This criterion requires the 12-month average nominal long-term interest rate not to exceed by more than 2 pp the average of similar interest rates in the three countries with the most stable prices. The interest rates are calculated as yields of long-term government bonds or comparable securities with maturities close to ten years, for which the secondary market provides enough liquidity.

In 2009 Polish 10-year Treasury bonds yield was stable and amounted to 6.1% (with the exception of January when it reached 6%). In comparison with the reference value it meant that Poland has met the interest rates criterion in the period of January-September and November-December of 2009. In October the reference value has decreased to the level of 5.8% and the criterion has not been fulfilled.

Chart 3.2

Interest rate from May 2004 to December 2009.



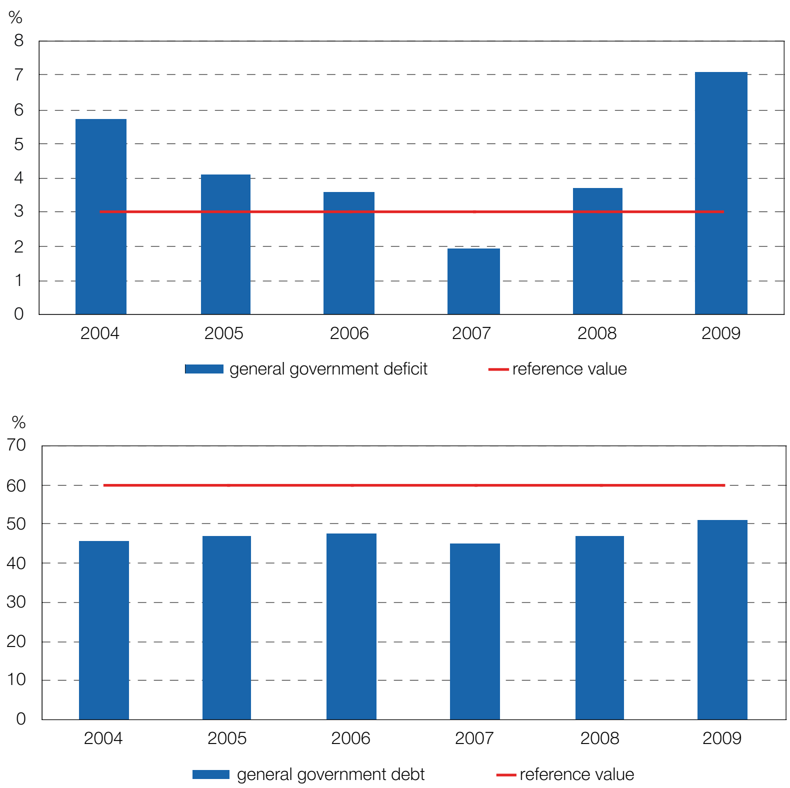
Fiscal criterion

The fiscal criterion states that a particular member cannot be included in the ECOFIN decision on the Excessive Deficit Procedure as understood in art. 126 of Treaty on European Union. The procedure may be imposed by the ECOFIN when general government deficit (planned or real) exceeds the reference value of 3% of GDP unless, according to the Council, the deficit has declined substantially and sustainably and reached a level close to the reference value or the excess over the reference value is exceptional and temporary and the ratio remains close to the reference value. The other argument for imposing the Excessive Deficit Procedure may be a situation when general government debt exceeds 60% of GDP unless the ratio, despite high value, is sufficiently diminishing and approaching the reference value at a satisfactory pace.

In the first half of 2009 Poland fulfilled the fiscal criterion. However because of the forecasted general government deficit growth in 2009 which finally amounted to 7.1 of GDP and government debt which was 50.9 of GDP the excessive deficit procedure has been imposed on Poland by the ECOFIN decision of 7 July 2009 (which was preceded by European Commission report of 13 May 2009). According to it Polish authorities were obliged to constrain the deficit below 3% of GDP until 2012 which was reflected in the Convergence Programme Update.

Chart 3.3

General government deficit and general debt to GDP ratios from May 2004 to December 2009.



Exchange rate criterion

The Exchange rate criterion impose on a Member State an obligation to maintain the country's currency exchange rate for at least two years within the normal fluctuation margins provided by the Exchange Rate Mechanism (ERM II) without severe tensions and without unilaterally devaluing its currency against the euro. Since zloty has not been included in the ERM II yet, the criterion has not been fulfilled.

CHAPTER IV

POLAND IN COMPARISON WITH OTHER EUROPEAN COUNTRIES

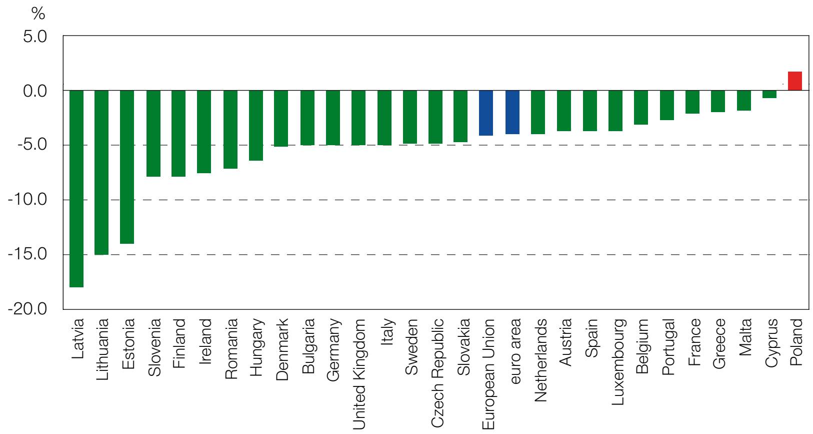
POLAND IN COMPARISON WITH OTHER EUROPEAN COUNTRIES

Poland - the leader of the European Union as regards GDP growth rate

Recent turbulent events of 2008 has had a severe impact on GDP growth rates world-wide. In 2009 Poland was the only country in the European Union with positive growth rate. The overall EU growth rate was -4.2% and for the Eurozone -4.1%.That situation accelerated further the real convergence with Eurozone.

Chart 4.1

Real GDP growth rate in 2009 in European Union countries.

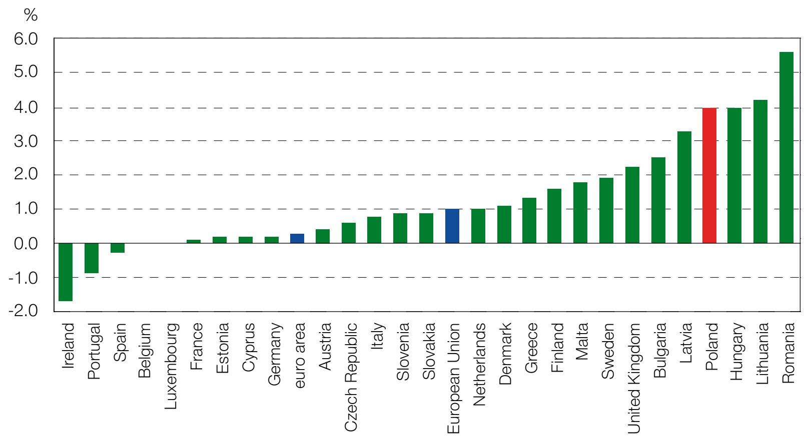


Moderate inflation

Inflation (HICP) in 2009 in Poland of 4.0% (4.2% in the previous year) was considerably above average inflation in the European Union (1.0%) and the Eurozone (0.3%).

Chart 4.2

Inflation rate (HICP) in 2009 in European Union countries.

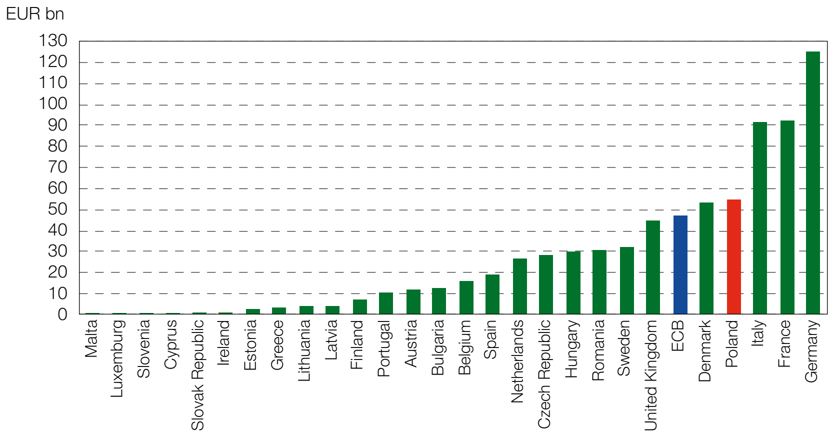


High level of official reserve assets in Poland in comparison to other EU countries

The level of official reserve assets in Poland at the end of 2009 was one of the highest among the EU countries. It stood above the levels for all countries that entered the EU since May 1, 2004, and below the level for only the biggest three EU economies.

Chart 4.3

Official foreign reserves of EU countries and ECB* in 2009.



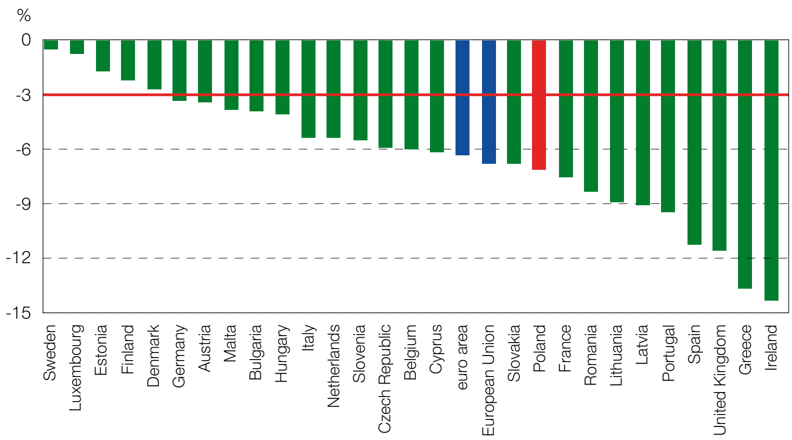
**) Presented official reserve assets of European Central Bank do not cover reserves of central banks belonging to Euro system, the level of official reserve assets of Euro system, including ECB, at the end of 2009, amounted to EUR 462.4bn.*

General Government outcome in EU countries

Poland was among 22 EU member countries whose general government deficit in 2009 exceeded the reference value of the Maastricht criteria. The general government deficit to GDP ratio in Poland amounted to 7.1%, which was slightly higher than the average for the EU and Eurozone (6.8% and 6.3%, respectively).

Chart 4.4

General government balance to GDP ratio in EU countries in 2009.

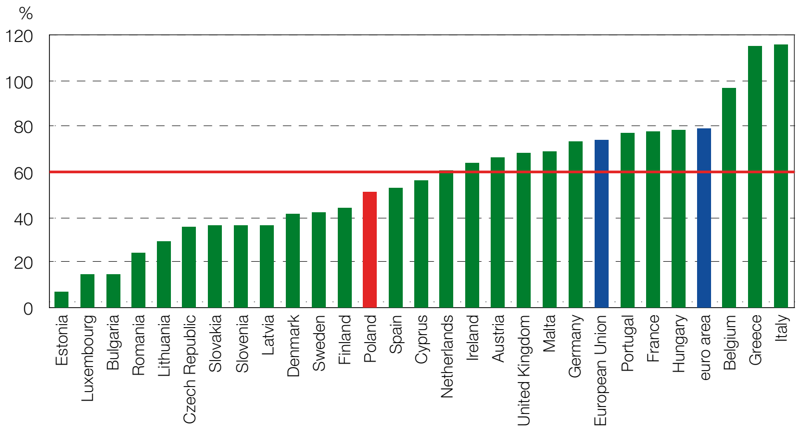


General Government debt in the EU countries

Poland, according to the general government debt criterion, was among 15 EU member countries with a low level of debt. The general government debt to GDP ratio for these EU member countries stood substantially below the Maastricht convergence criterion. The debt to GDP ratio in Poland amounted to 50.9%, which was significantly lower than average for the EU and the Euro zone (73.6% and 78.7%, respectively).

Chart 4.5

General government debt to GDP ratio in EU countries in 2009.



Ratings' changes in CEE countries in 2009

In the face of a crisis on international markets in the course of 2009 rating agencies revised credit ratings of many countries from the CEE region and Western Europe.

The ratings were decreased in the following CEE and Baltic countries:

- Hungary – to BBB- (S&P) and Baa1 (Moody's),
- Estonia – to A- (S&P) and BBB+ (Fitch),
- Lithuania – two revisions in 2009, finally to Baa1 (Moody's) as well as one revision to BBB (S&P and Fitch),
- Latvia – two revisions in 2009, finally to BB (S&P) and Baa3 (Moody's) as well as one revision to BB+ (Fitch),
- Greece - two revisions in 2009, finally to BBB+ (S&P and Fitch) as well as one revision to A2 (Moody's),
- Portugal – to A+ (S&P),
- Spain – to AA+ (S&P),
- Ireland - two revisions in 2009, finally to AA (S&P) and AA- (Fitch) as well as one revision to Aa1 (Moody's),

The credit rating of Poland as one of few countries in the region was not decreased in 2009 like in 2008. Rating agencies assessed favourably Polish economy as well as reminds stable outlook for Poland.


poco
con forza

CHAPTER V

LEGAL FRAMEWORK OF PUBLIC DEBT

LEGAL FRAMEWORK OF PUBLIC DEBT

Legal framework of debt

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

The Constitution of the Republic of Poland includes:
- ban on incurring loans and granting financial guarantees which would cause public debt to exceed 60% of GDP,
- ban on financing budget deficit by the central bank.

The Public Finance Act includes:
- detailed prudential and remedial procedures if public debt to GDP ratio exceeds 50%, 55% and 60%,
- obligation by Minister of Finance to present a 3-year public finance sector debt management strategy.

The public finance sector debt management strategy is prepared each year by the Minister of Finance, submitted for approval by the Council of Ministers and presented to the Parliament together with the justification of the Budget Act. This document covers a three-year horizon and contains the State Treasury debt management strategy and the strategy of influencing other public finance sector debt. It includes, among other items:
- objectives and tasks,
- forecasts of macroeconomic indicators for Poland and international considerations in the time horizon covered by the strategy,
- analysis of risk factors connected with public debt,
- expected effects of implementing the strategy,
- threats to the Strategy implementation.

In 2009 debt management was carried out on the basis of the Public Sector Debt Management Strategy for the years 2009-2011 and its update for the years 2010-2012.

The goal of the strategy was minimizing long-term costs of debt service in terms of adopted constraints with respect to the level of:
- refinancing risk,
- exchange rate risk,
- interest rate risk,
- State budget liquidity risk,
- other types of risks, particularly credit risk and operational risk,
- debt servicing cost over time.

The tasks of the strategy were formulated as follows:
- increasing liquidity of the TS market,
- increasing efficiency of the TS market,
- increasing transparency of the TS market.


espr.

CHAPTER VI

FINANCING OF STATE BUDGET BORROWING REQUIREMENTS

FINANCING OF STATE BUDGET BORROWING REQUIREMENTS

Issuance policy

The debt issuance policy in 2009 was implementation of the "Public Sector Debt Management Strategy for 2009-2011" as updated for 2010-2012 taking market and budget situation into account. The executed sale of Treasury securities was a result of current market conditions and a comparison of long-term financing costs and risk evaluation. The most important factors which affected the debt issuance policy were the following:

- continuation of the global economic crisis in the first quarter of the year - uncertainty on the domestic and foreign debt markets leading to increase of risk aversion, high volatility and the strong zloty's depreciation and lower demand for Treasury bonds,
- gradual improvement situation on the financial markets in the latter part of the year - increase of demand for domestic Treasury bonds, inflow of foreign investors, the gradual zloty's appreciation and increase of demand for Treasury bonds issued on foreign markets,
- measures adopted by the central bank to improve financial market liquidity – repo transactions, cut of the level of required reserve and key interest rates, buy-back of the NBP bonds before their original date-to-maturity,
- amendment of the Budget Act at mid-year – increase of net borrowing requirements of the State budget.

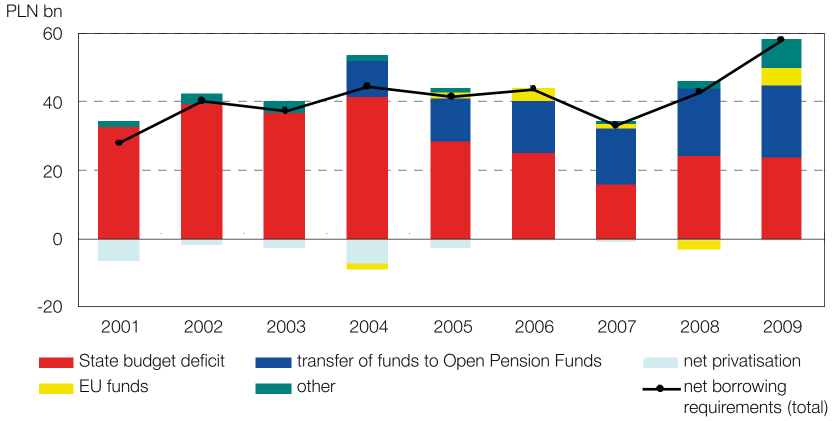
Increase of net borrowing requirements

The net borrowing requirements of the State budget increased in 2009 by PLN 15.0bn to PLN 57.8bn (PLN 1.1bn higher than projected in the amended Budget Act). The executed level was a result of:

- lower requirements:
  - State budget deficit (PLN 23.8bn, as against projected level of PLN 27.2bn),
  - balance of EU funds (PLN 5.3bn, as against projected level of PLN 7.5bn),
  - transfer of funds to Open Pension Funds (PLN 21.1bn, as against projected level of PLN 22.3bn)
- and higher requirements:
  - loans balance (PLN 7.8bn, as against projected level of PLN 1.6bn),
- lower net budget proceeds from privatization (PLN 0.6bn, as against PLN 2.7bn projected in the amended Budget Act).

Chart 6.1

Net borrowing requirements of the State budget in 2001-2009.

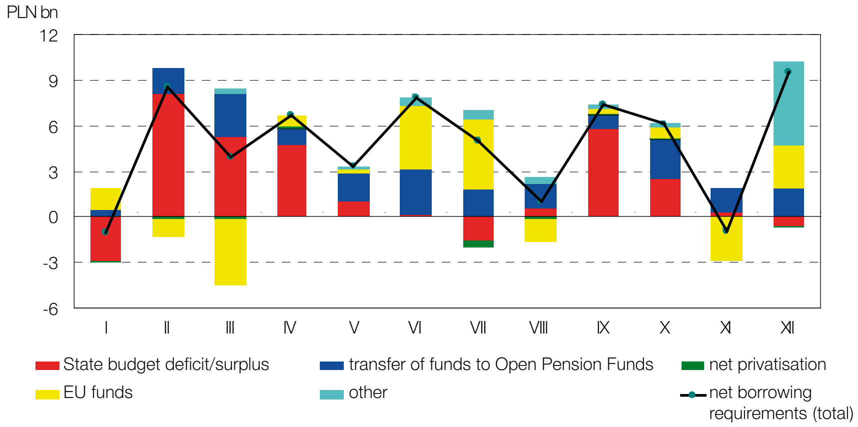


EU funds = prefinancing balance + funds transferred from European Commission
other = domestic and foreign granted loans balance + participation in international organizations + compensations

The level of net borrowing requirements of the State budget during the year was significantly varied, which was mainly determined by State budget deficit performance and balance of EU funds. The highest level of requirements was recorded in December when the State budget gave a loan to Social Insurance Fund (PLN 5.5bn).

Chart 6.2

Monthly net borrowing requirements of the State budget in 2009.



EU funds = prefinancing balance + funds transferred from European Commission
other = domestic and foreign granted loans balance + participation in international organizations + compensations

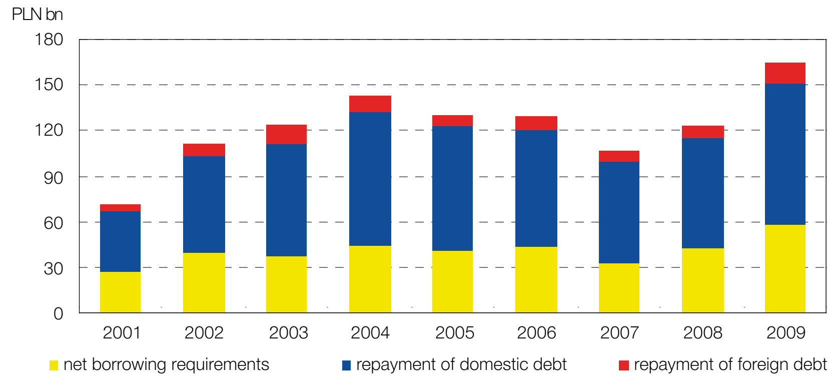
Increase of gross borrowing requirements

The gross borrowing requirements of the State budget increased in 2009 by PLN 41.8 bn to PLN 164.3 bn. The structure of gross borrowing requirements was as follows:

- net borrowing requirements 35.2%,
- domestic debt repayment 56.8%,
- foreign debt repayment 8.1%.

Chart 6.3

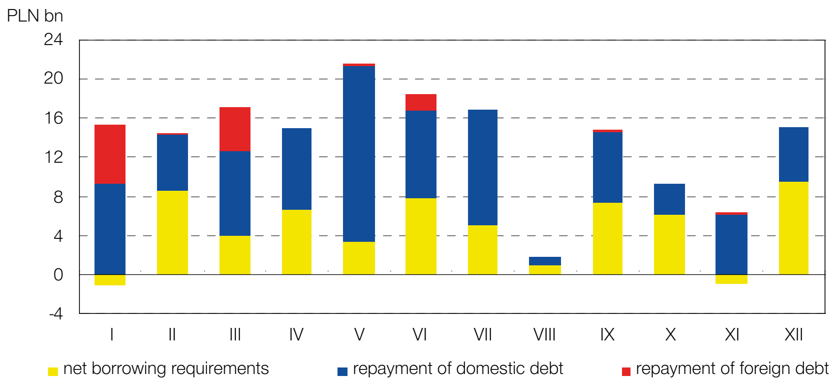
Gross borrowing requirements of the State budget in 2001-2009.



The monthly distribution of gross borrowing requirements of the State budget in 2009 varied significantly. This resulted from unequal distribution of both net requirements and repayments of debt, mainly domestic one (especially in May and July). A factor reducing the variability of domestic debt repayments were switching auctions of Treasury bonds which led to decreased redemptions in original date-to-maturity.

Chart 6.4

Monthly gross borrowing requirements of the State budget in 2009.



Dominant share of domestic market in borrowing requirements financing

In the financing structure of both net and gross requirements, domestic market was dominant, similarly as in the previous years. The share of domestic market amounted to 63.5% (91.7% in 2008) for the net financing borrowing requirements and 78.6% (91.1%) for the gross financing. The share of foreign financing was 36.5% against 8.3% in 2008 (gross requirements 21.4% and 8.9% respectively).

Chart 6.5

Financing of net borrowing requirements of the State budget and liquid funds balance in 2001-2009.

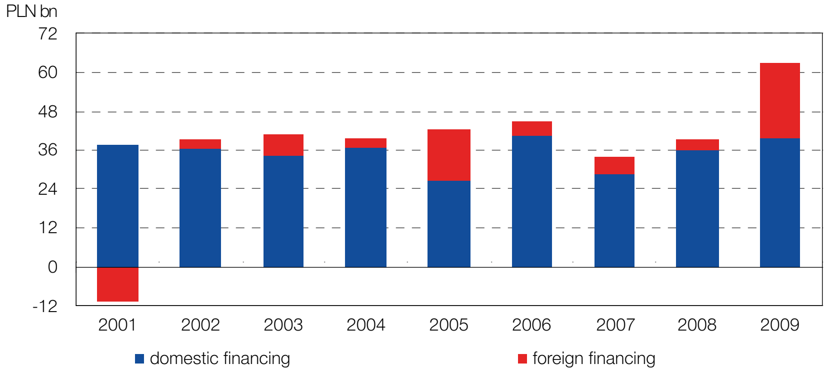
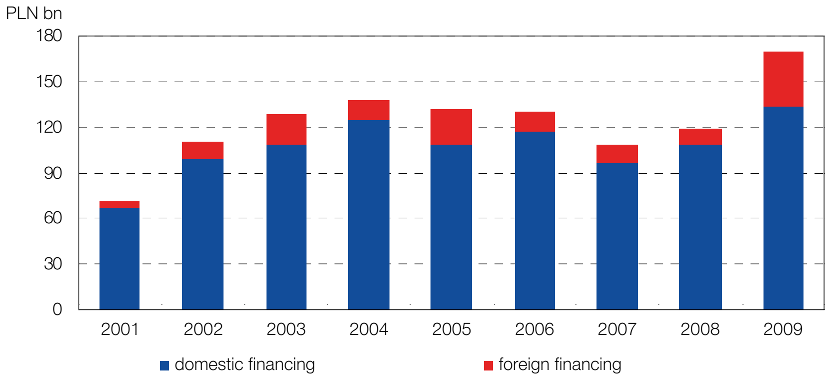


Chart 6.6

Financing of gross borrowing requirements of the State budget and liquid funds balance in 2001-2009.



Dominant share of domestic Treasury bonds in sale of Treasury securities

In 2009 the State Treasury debt increased by PLN 59.1bn as a result of issuing Treasury securities. The increase of debt in Treasury bonds issued on the domestic market amounted to PLN 45.6bn and in Treasury bonds issued on foreign markets amounted to PLN 16.4bn against the decrease of debt in Treasury bills by PLN 2.9bn.

Chart 6.7

Change of State Treasury debt
(issued Treasury securities) in 2001-2009.

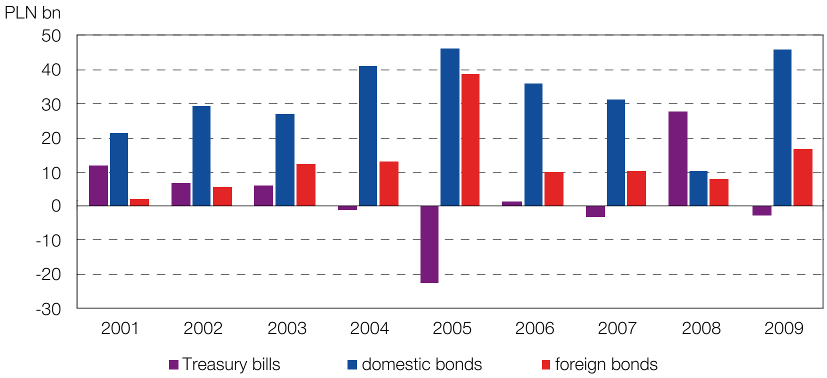
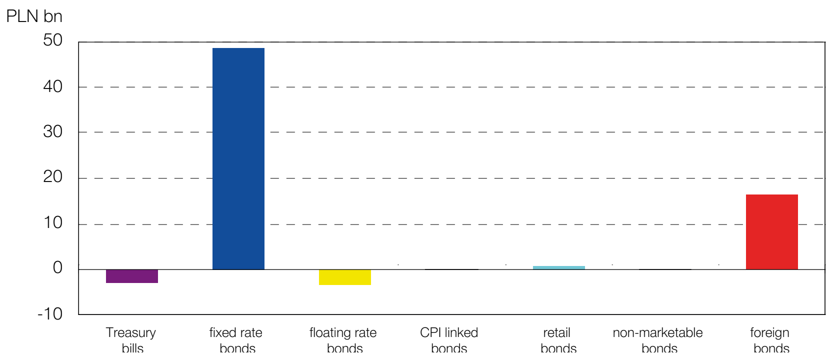


Chart 6.8

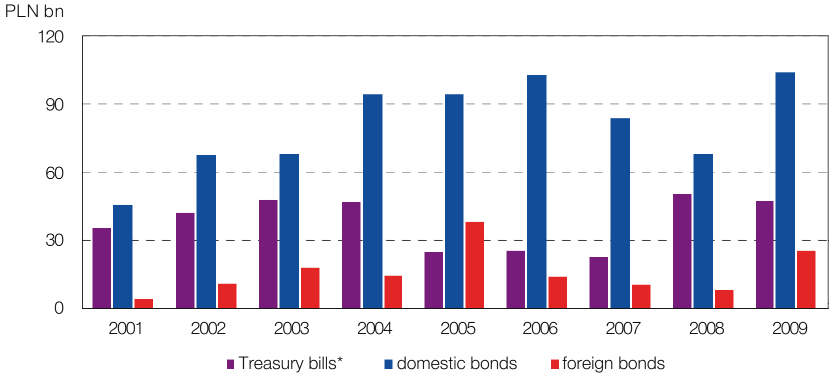
Change of State Treasury debt
(issued Treasury securities) in 2009.



In the structure of sold Treasury securities in 2009 dominated Treasury bonds offered on the domestic market - 58.7%. The amount of foreign bond issues was mainly determined by the level of foreign currencies requirements and market situation and increased to 14.4% (6.5% in 2008).

Chart 6.9

Sale of Treasury securities on domestic and foreign markets in 2001-2009.



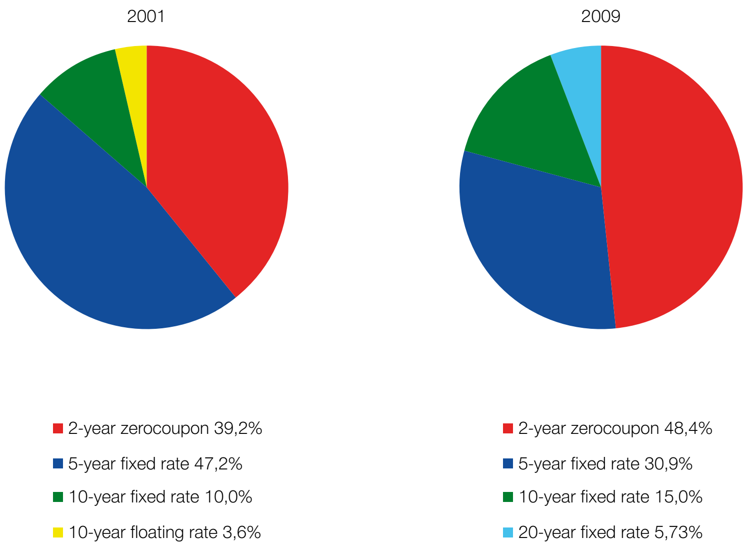
**excluding liquidity bills*

Increase in sale of domestic long-term maturity bonds

In the structure of wholesale domestic bonds sales offered at auctions in 2009, compared to 2001, there was an increase in the proportion of sale of 2-year bonds and long-term instruments. In 2009 the share of 2-year bonds reached 48.4% (39.2%in 2001) while total share of 10- and 20-year bonds in the structure of sales was equal to 20.7% (in 2001 the share of 10-year bonds reached 10.0% - 20-year bonds were not sold). On the other hand there was a decrease in sales of 5-year bonds from 39.2% in 2001 to 30.9% in 2009.

Chart 6.10

Structure of sales of domestic Treasury bonds sold at auctions in 2001 and 2009.



Sale of domestic Treasury bonds offered in the retail network

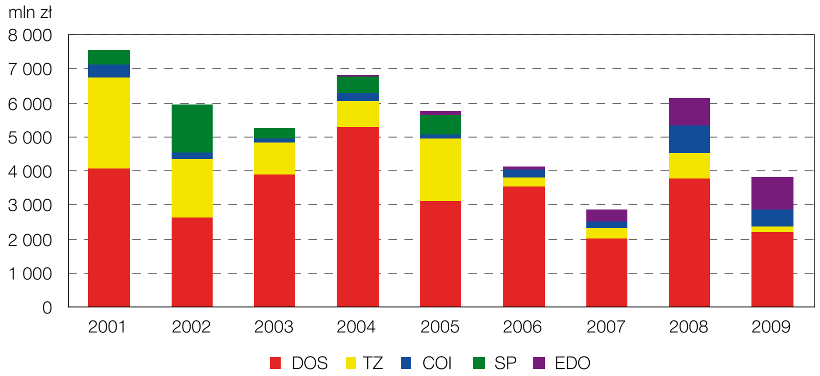
In 2009 the proceeds from the sale of retail bonds amounted to PLN 3,833m. This accounted for 3.8% of the value of all bonds sold by the Minister of Finance.

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

- 2-year savings bonds (DOS) – PLN 2,183m (in nominal terms),
- 3-year bonds (TZ) – PLN 183m (in nominal terms),
- 4-year savings bonds (COI) - PLN 495m (in nominal terms),
- 10-year savings bonds (EDO) – PLN 972m (in nominal terms).

Chart 6.11

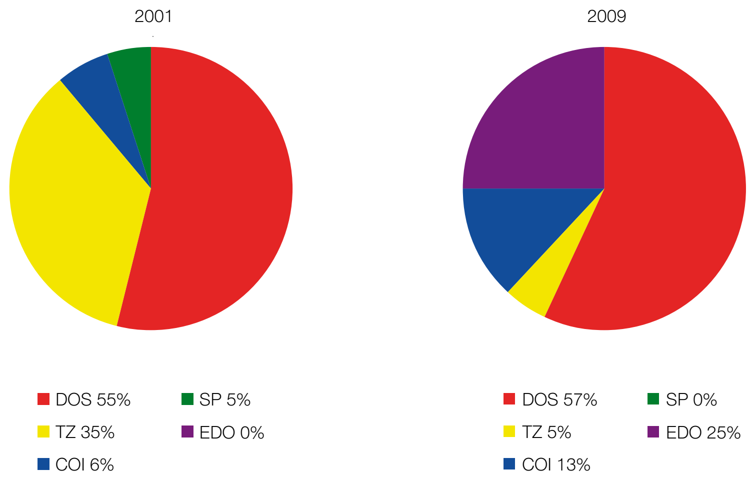
Sale of Treasury domestic bonds in 2009.



In the structure of domestic bonds offered in the retail network in 2009, 2-year savings bonds made up the greatest share – 57%, compared in 2001. In 2009 sale of 3-year bonds reached 5% of total amount of issuing retail bonds, 10-year savings bonds - 25%. However, there was decrease of 4-year savings bonds share, from 5% in 2001 to 13% in 2009.

Chart 6.12

Structure of sales of domestic Treasury bonds in 2001 and 2009.



Foreign bond issues

In 2009 Poland launched the following bonds on foreign markets:

- a 5-year fixed coupon bond with a total face value of EUR 1.75bn,
- a 10-year fixed coupon bond denominated in US dollars with a total face value of USD 3.5bn,
- a 5-year bond fixed coupon bond denominated in Swiss franc with a face value of CHF 750m,
- a 10-year fixed coupon bond denominated in euro with a face value of EUR 500m, issued as a private placement bond,
- a 15-year fixed coupon registered bond denominated in euro with a face value of EUR 410m,
- a 3-year fixed coupon bond denominated in Japanese yen with a face value of JPY 23.3bn,
- a 5-year fixed coupon bond denominated in Japanese yen with a face value of JPY 21.5bn.

The transactions were lead-managed:

- in the case of the euro-denominated bonds, by:
  - Citigroup
  - ING
  - Societe Generale
  - Deutsche Bank
- in the case of the US dollar-denominated bonds, by:
  - Barclays
  - Citigroup
  - HSBC
- in the case of the Swiss franc denominated bond, by:
  - Credit Suisse
  - UBS
- in the case of the yen-denominated bond, by:
  - Daiwa SMBC
  - Mizuho Securities
  - Nomura Securities

The transactions were launched under existing issuance programmes:

- the Euro Medium Term Note Programme (EMTN) on euro and Swiss franc market,
- Shelf on American market,
- Shelf on Japanese market.

Foreign bond issues in 2009 r.

Issue date	Currency	Nominal amount (in millions)	Maturity date	Yield	Remarks
02 Feb 2009	EUR	1 000	03 Feb 2014	5,940%	
14 May 2009	EUR	750	03 Feb 2014	5,552%	reopening of February 2009 issue
15 Jul 2009	USD	2 000	15 Jul 2019	6,404%	
27 Jul 2009	USD	1 500	15 Jul 2019	6,404%	reopening of July 2009 issue
23 Sep 2009	CHF	750	23 Sep 2014	3,010%	
15 Oct 2009	EUR	500	15 Oct 2019	4,813%	private placement
15 Oct 2009	EUR	410	15 Oct 2019	5,313%	registered bond
13 Nov 2009	JPY	23 300	13 Nov 2012	1,920%	
13 Nov 2009	JPY	21 500	13 Nov 2014	2,340%	

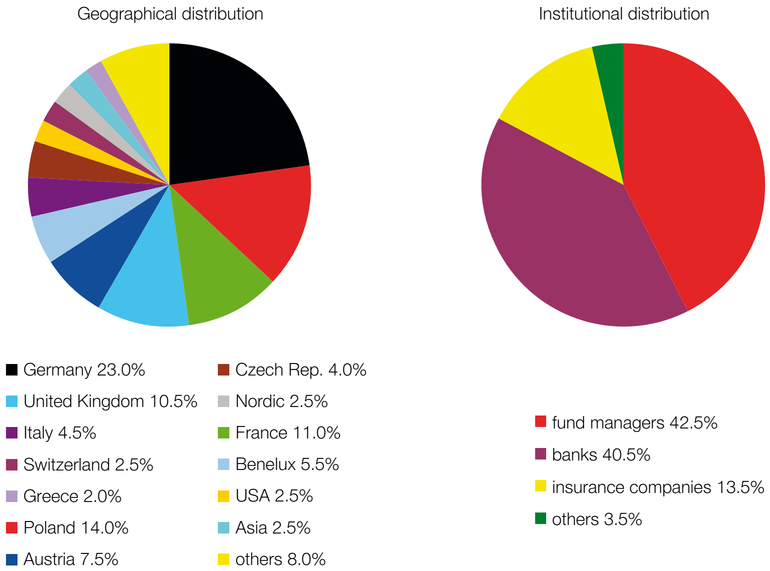
The 10-year US dollar denominated bonds were awarded by: Euromoney Emerging Markets - *Best Deal of the Year 2009 in Emerging Europe* and bne (businessneweurope) - *Best Sovereign Bond 2009.*

Diversified geographical distribution of euro issue

The geographical distribution of euro-denominated bonds issued in 2009 was well diversified, with orders submitted by investors from 29 countries. The share of traditional buyers of Polish securities, i.e. investors from Germany and Austria, was 30.5%. There was also a substantial share of Polish, French and UK investors who were allocated with respectively 14%, 11% and 10.5% of the issue. Institutional distribution was dominated by fund managers (42.5%) and banks (40.5%). This euro bond issue aroused wide interest of insurance companies which bought 13.5% of the bonds.

Chart 6.13

Geographical and institutional distribution of euro-denominated bonds issued in 2009.



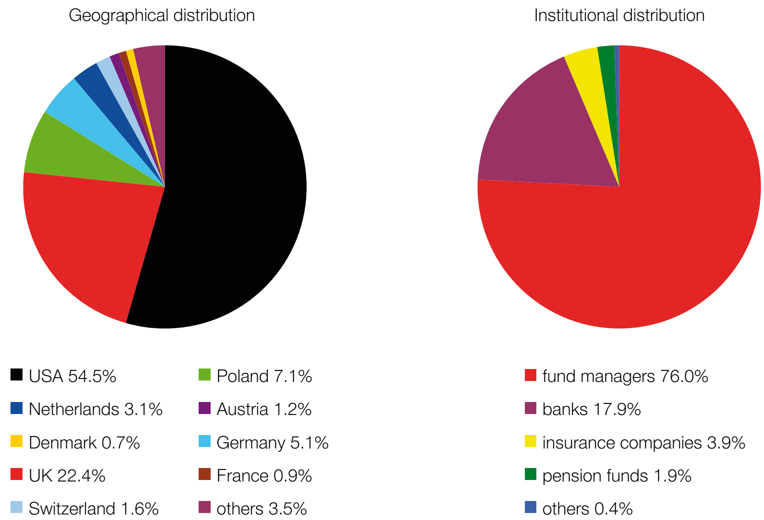
Huge demand of American investors for Polish bonds

After a 4-year break Poland has come back to the USD market with a huge success. In the middle of July 2009 Poland launched on that market a 10-year USD denominated benchmark bond for a nominal amount of USD 2 billion. As a result of big demand less than two weeks after the Ministry of Finance reopened the issue and sold the USD 1.5 billion of the bonds. As a result of this operation Poland launched bonds of a total amount of USD 3.5 billion reaching the largest ever amount issued by the State Treasury on the USD market.

In the geographical distribution of USD denominated bonds issued in 2009 dominant share had investors from the United States (54.5% of a total issue). The share of UK investors was also substantial, at 22.4%. Polish investors were allocated with 7.1% of the issue. Institutional distribution was dominated by fund managers which bought 76.0% of the bonds. The share of banks amounted to 17.9%.

Chart 6.14

Geographical and institutional distribution of USD denominated bonds issued in 2009.



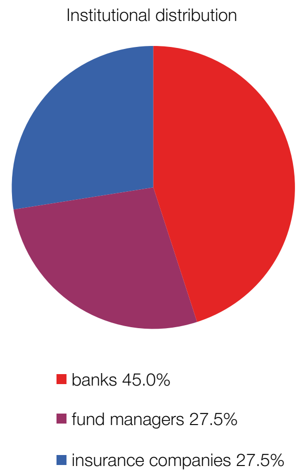
Swiss investors' strong appetite for Polish bonds

The geographical distribution of State Treasury bonds issued in the Swiss franc market was fully allocated to Swiss investors who were a sole group of buyers.

The issue aroused wide interest among non-banking institutions which bought almost a half of the issue.

Chart 6.15

Institutional distribution of Swiss franc-denominated bonds issued in 2009.



Japanese investors as the main buyers of yen-denominated bonds

JPY-denominated bonds issued in 2009 were traditionally purchased mainly by Japanese investors. The issue was allocated chiefly among banks, insurance companies and fund managers.

LIABILITIES INCURRED BEFORE 1989

Redemption of indebtedness towards the Paris Club creditors

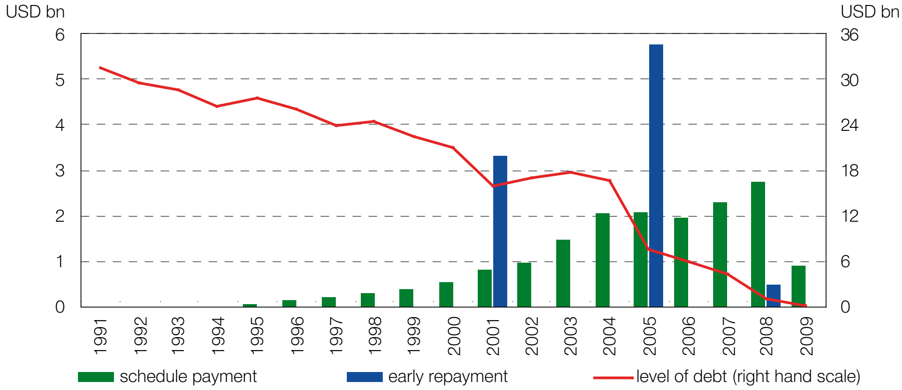
As a result of the agreement reached in April 1991 with seventeen creditor countries on restructuring and reduction of debt, Poland obtained a 50% reduction of the total debt in net present value terms. This meant a decrease in outstanding principal to USD 26.4bn in 1994. Those liabilities, except the ones to Japan, were repaid in increasing semi-annual instalments on 31 March 2009.

From 2001 Poland began making early repayments to Paris Club creditors. The first transaction in 2001 concerned Brazil (USD 3.3bn). In 2005 Poland declared its readiness to repay all remaining indebtedness. Some countries agreed and as a result in 2005 early repayments were made in the equivalent of USD 5.8bn in total. In 2008 this process was continued – 30 September Poland repaid obligations to France (USD 0.5bn). At the end of 2008 the Polish debt to the six countries amounted USD 1.0bn. The last installment of USD 866m was paid on March 31, 2009[1].

[1]There is still a small portion of debt towards Japan outstanding (ca. USD 118million), according to so-called option C of restructuring agreement, which shall be repaid until 2014.

Chart 6.16

Liabilities to Paris Club in 1991-2009 (recalculated to USD as of the end of the year).



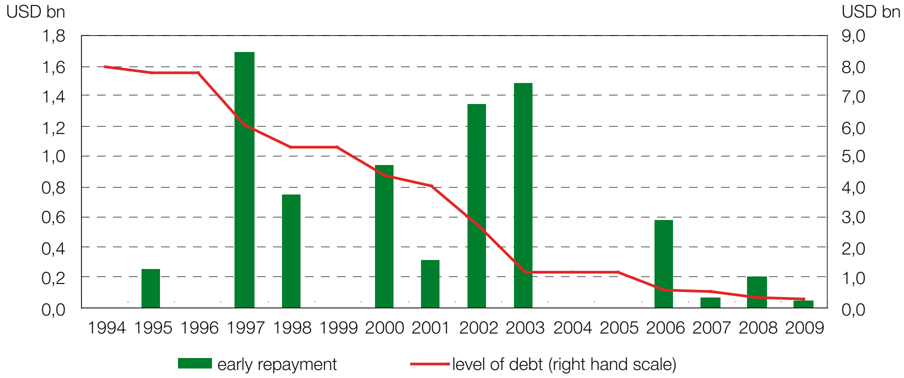
Continuation of early repayment of Brady Bonds

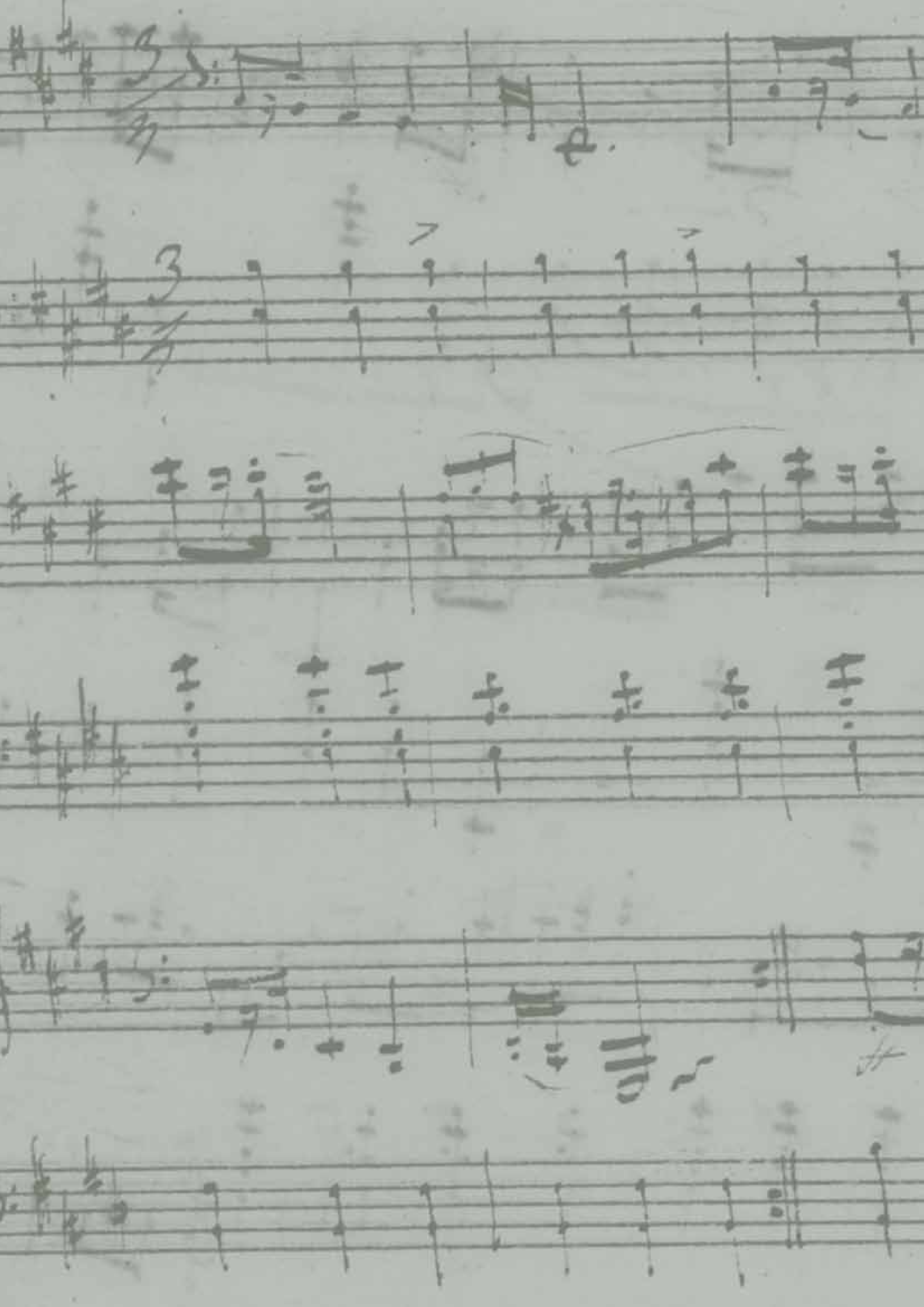
In March 1994 Poland signed an agreement with representatives of commercial banks that are creditors of Poland (London Club) on reduction of its debt. The agreement reduced this debt from USD 13.2bn to USD 8bn, and converted the remaining debt into USD-denominated bonds (Brady Bonds).

From 1995, taking advantage of the favourable market situation, Poland began early repayment of those liabilities. In 2009 Poland continued this operations and redeemed bonds amounting to USD 43.5m. As of the end of 2009, debt in Brady Bonds was USD 297m . This means that since 1995, Poland has repaid USD 7.7bn ahead of schedule.

Chart 6.17

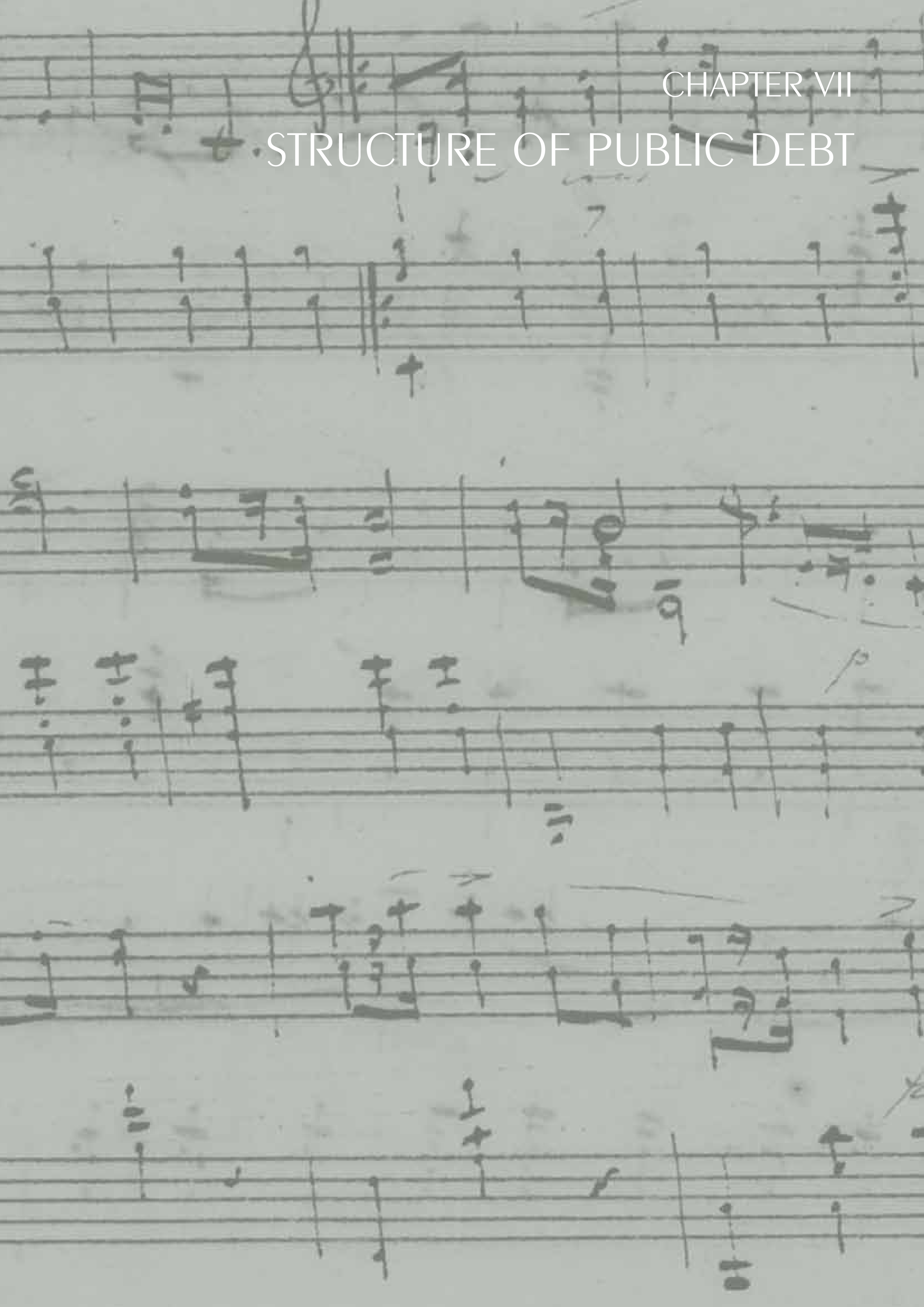
Brady Bonds in 1994-2009.





CHAPTER VII

STRUCTURE OF PUBLIC DEBT



STRUCTURE OF PUBLIC DEBT

Changes in the level and structure of the public debt in 2009 resulted mainly from the financial situation of the public sector entities (mainly borrowing requirements of the State budget), the macroeconomic situation (i.e. GDP growth, level of exchange rate and interest rates) and debt management decisions (concerning the profile of State Treasury debt).

Debt-to-GDP ratio increase

During 2009 public debt rose by PLN 72.1 bn, to PLN 669.9 bn, of which:

- domestic debt - according to place of issue criterion - of PLN 493.8bn, increase of PLN 50.2bn and according to the residency criterion of PLN 420.0bn, increase of PLN 23.1bn,
- foreign debt - according to place of issue criterion - of PLN 176.1bn, increase of PLN 21.9bn. and according to residency criterion of PLN 249.9bn, increase of PLN 49.1bn.

The debt-to-GDP ratio rose to 49.8% at the end of 2009, from 46.9% at the end 2008, with:

- domestic debt - according to place of issue criterion - at 36.7% of GDP (increase of 2.0 pp) and according to residency criterion at 31.3% of GDP (increase of 0.1 pp),
- foreign debt - according to place of issue criterion - at 13.1% of GDP (increase of 1.0 pp) and according to residency criterion at 18.6% of GDP (increase of 2.8 pp).

General government debt (GGD) is the definition used for comparative purposes within the European Union. GGD of Poland came to PLN 684.3bn (50.9% of GDP) at the end of 2009, compared to PLN 600.8bn (47.1% of GDP) at the end of 2008.

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

1. Scope of the public finance sector:

- Research and development units were part of the Polish public finance sector system until the end of 2009, and are excluded from general government sector.
- the National Road Fund (KFD) and the Rail Fund are outside the Polish public finance sector system, but are included in the general government sector.

2. Debt categories:

- Treatment of matured payables. Unlike GGD, public debt includes matured payables (i.e. obligations whose payment deadline has passed and which have not been time-barred or written off). This results from different accounting rules used in both cases (cash vs. accrual). In accordance with EU methodology, mature payables are an expenditure on the accrual basis and thus are included in net borrowing/net lending, and not in debt.

3. Treatment of contingent debt:

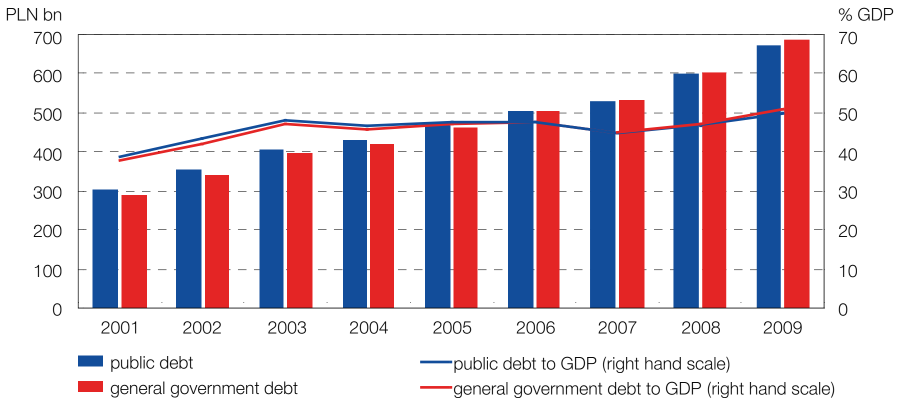
- Unlike public debt, GGD may include contingent debt. When specified requirements or criteria are met, contingent debt becomes a debt of the entity issuing a surety or guarantee (debt assumption operation).

4. Sector classification of infrastructure projects:

- In compliance with Eurostat guidelines on sector classification of some motorway projects, general government debt figures include capital expenditures of the projects in question.

Chart 7.1

Public Debt and General Government Debt in 2001-2009.



Dominant share of State Treasury debt in the public debt

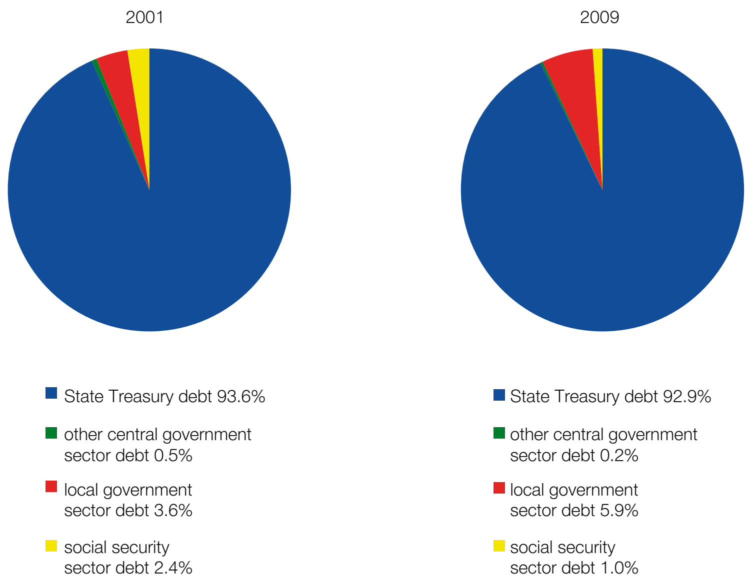
In 2009 State Treasury debt had a dominant share in the structure of public debt, at 92.9%. The share of local sector debt was 5.9%. Nevertheless, the rate of debt growth of local governmental units and their unions in the years 2001-2009 was far more greater than the growth rate of State Treasury debt (264.6% and 120.2% respectively).

Public debt as of the end of 2009, after consolidation, comprised the following elements:

- central government sector debt, PLN 623.6bn increase of PLN 56.7bn,
- local government sector debt, PLN 39.3bn increase of PLN 11.2bn,
- social security sector debt, PLN 7.0bn increase of PLN 4.2bn.

Chart 7.2

Public debt by sub-sectors in 2001 and 2009.



Dominant share of domestic debt in the total State Treasury debt

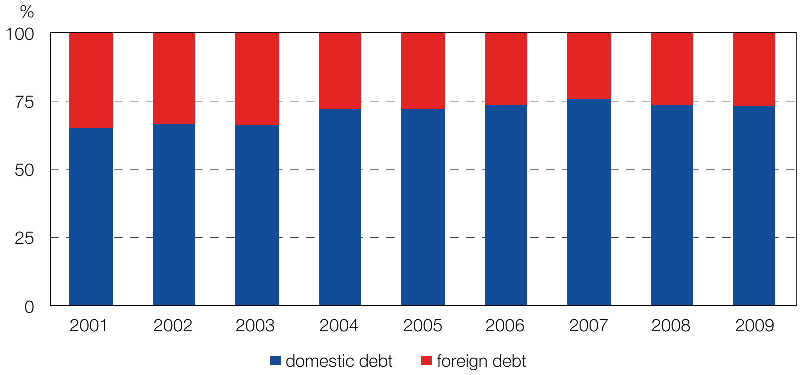
State Treasury debt (before consolidation) in 2009 was PLN 631.5bn (an increase of approximately PLN 61.6bn), of which:

- domestic debt was PLN 462.7bn (increase of PLN 42.5bn),
- foreign debt was PLN 168.8bn (increase of PLN 19.0bn).

The dominant factor which caused an increase of the State Treasury debt was the change in debt as a result of State budget financing requirements (PLN 57.8bn).

Chart 7.3

Structure of State Treasury debt according to the place of issue criterion in 2001-2009.

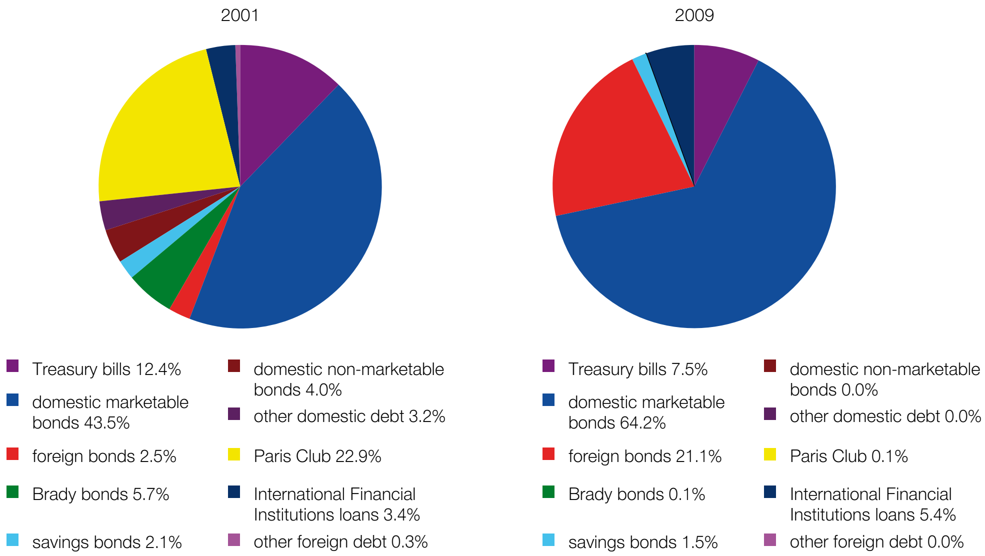


Substantial increase of marketable debt share in the domestic State Treasury debt

In the years 2001-2009 a significant change was observed in the structure of the State Treasury debt instruments in favor of marketable bonds, with a substantial increase of the share of these securities from 64.1% at the end of 2001 to 93.0% at the end of 2009. This was mainly the result of intensified issuance of marketable bonds on domestic and foreign financial markets and the decline of Paris Club debt share (mainly due to prepayments of these liabilities during this period).

Chart 7.4

Structure of State Treasury debt by instrument in 2001 and 2009.



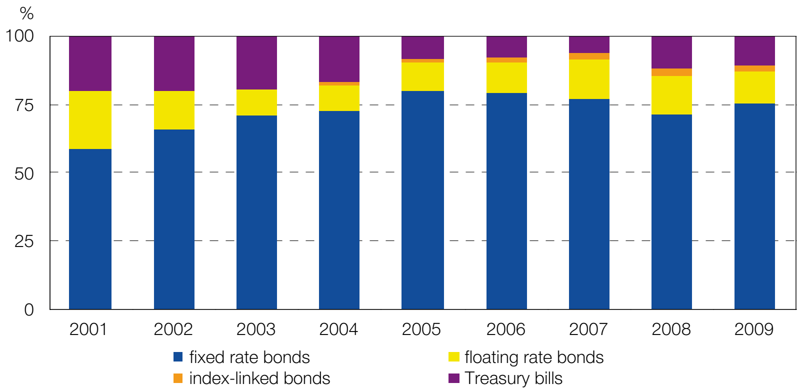
Major share of fixed rate bonds in the structure of the domestic State Treasury debt

State Treasury debt in domestic bonds was PLN 462.5bn in 2009, including:

- Treasury bills, PLN 47.5bn (10.3%),
- fixed rate bonds, PLN 348.6bn (75.4%),
- floating rate bonds, PLN 55.4bn (12.0%),
- index-linked bonds, PLN 10.9bn (2.4%).

Chart 7.5

Structure of domestic State Treasury debt in Treasury securities in 2001-2009.



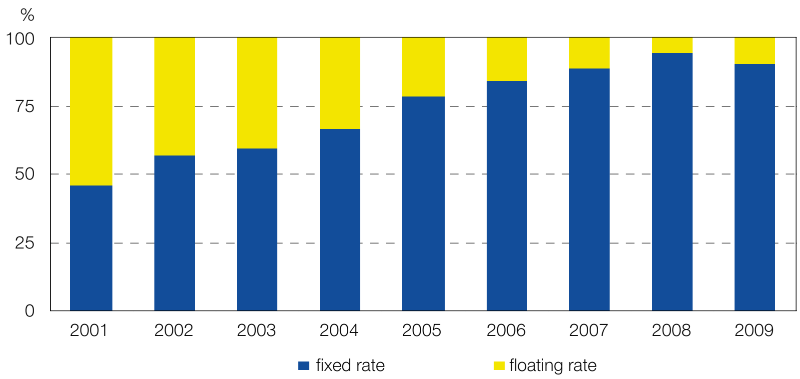
Major share of fixed rate debt in the structure of State Treasury foreign debt by instruments

State Treasury foreign debt (according to the place of issue criterion) in 2009 was PLN 168.8bn, of which:

- fixed rate, PLN 152.5bn (90.4%),
- floating rate, PLN 16.2bn (9.6%).

Chart 7.6

Structure of foreign State Treasury debt in 2001-2009.



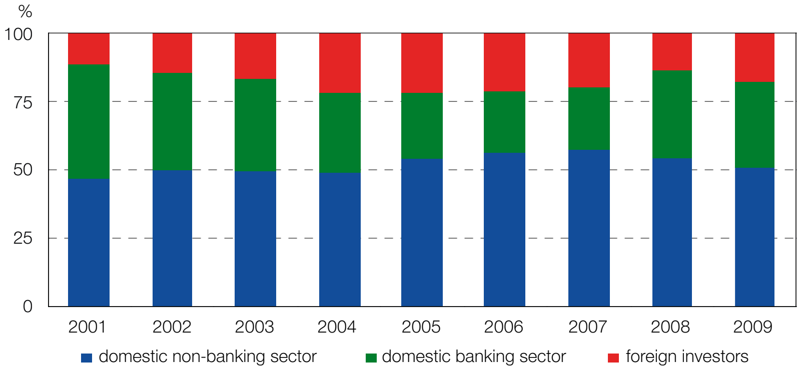
Major share of domestic non-banking sector debt in the structure of domestic State Treasury debt

The creditor structure of domestic State Treasury debt at the end of 2009 was as follows:

- domestic non-banking sector, PLN 234.9bn (increase of PLN 6.2bn in comparison to the end of 2008),
- domestic banking sector, PLN 146.0bn (increase of PLN 10.4bn),
- foreign investors, PLN 81.8bn (increase of PLN 25.9bn).

Chart 7.7

Structure of domestic State Treasury debt by holders in 2001-2009.

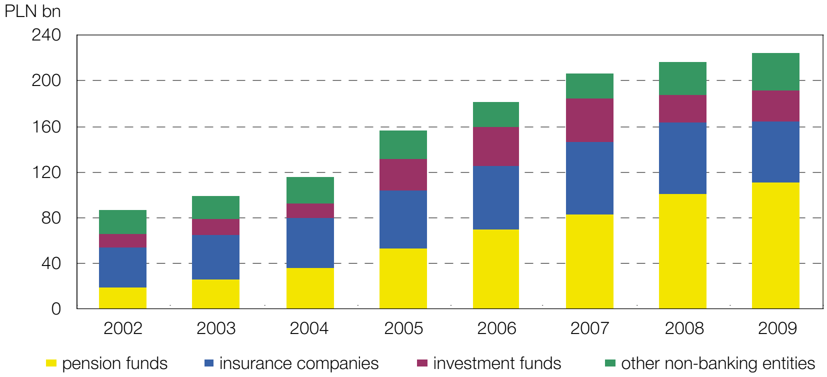


The structure of Treasury bonds issued on the domestic market held by domestic non-banking sector creditors as of the end of 2009 was:

- pension funds, PLN 111.0bn (increase of PLN 10.4bn),
- insurance companies, PLN 53.8bn (decrease of PLN 9.9bn),
- investment funds, PLN 26.8bn (increase of PLN 2.8bn),
- other non-banking entities, PLN 32.5bn (increase of PLN 4.5bn).

Chart 7.8

Domestic non-banking investors' portfolio of Treasury bonds issued on the domestic market in 2002-2009.



State Treasury debt service costs

The 2009 Budget Act assumed total expenditures for the debt service in the amount PLN 32.8bn, of which:

- foreign debt service PLN 6.2bn,
- domestic debt service PLN 26.6bn.

The amendment to the Budget Act on 17 July 2009 the State Treasury decreased debt service expenditures by PLN 2.1bn to PLN 30.7bn. A decrease concerned domestic debt service costs.

Due to the Minister of Finance's decision, in the period of September – December of 2009 the transfer of financial resources from domestic debt servicing to foreign debt servicing part was made. The total amount was PLN 0.5bn and was intended for foreign loans and bonds' interest payments. Resources within both parts (domestic debt servicing and foreign debt servicing) were reallocated among particular chapters, paragraphs and instruments. Simultaneously in connection with the positive opinion of the Parliamentary Commission of Public Finance the limit of expenses for domestic debt servicing was increased. It was done via a transfer of PLN 1.6bn from a new-made purpose reserve for servicing domestic treasury securities and other financial instruments on the domestic market.

As a result of the Budget Act amendment and the Minister's decision the limitation of State debt servicing expenses was decreased by PLN 0.5bn (in comparison with initially projected amounts in the Budget Act) and reached the value of PLN 32.3bn.

Final expenditures execution of Treasury State debt servicing costs was PLN 32.3bn which was equivalent to 98.4% of initially planned value and 100% of amended plan after changes, of which PLN 6.7bn of foreign debt servicing and PLN 25.6bn of the domestic part.

In 2009 debt servicing expenditures execution was higher by PLN 7.1bn, i.e. 28.3%, in comparison with 2008. It was mainly a result of a higher debt stock due to financing operations in 2008-2009, zloty depreciation, redemption of long-term bonds issued in 1999-2004 with a high discount and a lower scale of swap transactions affecting the debt servicing expenditures in a given year by spreading them over the following years.

In 2009, comparing to 2008, the ratio of debt servicing costs to GDP increased from 2.0 to 2.4%. The ratio of debt servicing costs to total budgetary expenditures increased from 9.0% to 10.8%.

Chart 7.9

State Treasury domestic debt service costs in 2009.

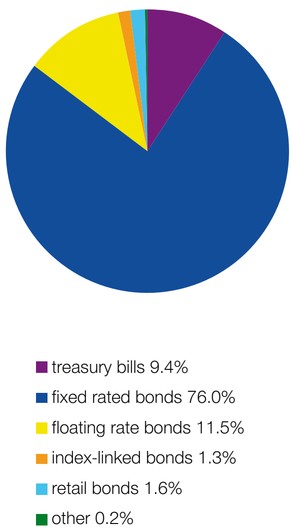


Chart 7.10

State Treasury foreign debt service costs in 2009.

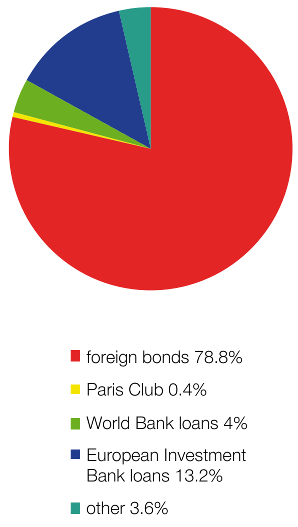
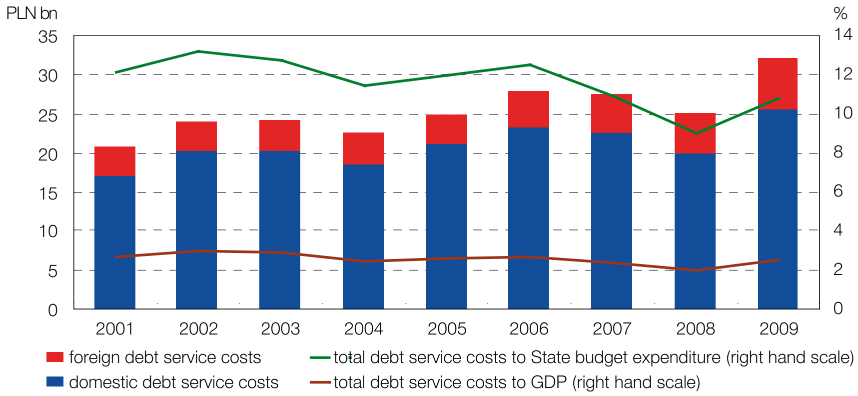


Chart 7.11

State Treasury debt service costs in 2001-2009.



Derivatives transactions

Derivatives transactions are in use for public debt management in majority of countries.

In 2009 the Ministry of Finance was concluding two types of SWAP transactions:

- Interest Rate Swaps (IRS) in domestic currency,
- Foreign Exchange Swap (FX swap).

In 2009 the Ministry of Finance concluded interest rate swap transactions on financial market with the nominal value of PLN 4.8bn. The aim of these transactions was to distribute debt servicing costs over the time. As a result servicing costs decreased by PLN 0.3bn in 2009 and increased in 2010. Settlement of transactions was undertaken according to Eurostat's guidelines and methodology and included in a fiscal notification which was delivered to the European Commission. Above described transactions distributing debt servicing expenditures over time were concluded in previous years as well.

In December 2009 the Ministry of Finance has introduced the new facility to exchange foreign currency for Polish zloty - FX swap - for the first time. FX swap transactions consist of simultaneous exchange of one currency for another for a specific period of time with exchange rate set up at the moment of conclusion. This new liquidity management instrument allowed for temporal usage of foreign currencies in order to borrow zloty. Maturities of particular transactions were established to satisfy borrowing requirements of State budget at specified terms and currencies. The total nominal value of these transactions concluded in 2009 amounted to EUR 1.5bn and USD 0.2bn, equivalent to acquiring PLN 6.8bn. Due to the fact that these transactions included funds only, and not liabilities, they had (according to Eurostat's guidelines) no impact on the public debt level as well as on the budget deficit reported to the European Commission.

CHAPTER VIII

RISK MANAGEMENT

RISK MANAGEMENT

In 2009 the issuance policy and operations involving debt components made it possible, despite unfavourable external environment connected with the global financial crisis, to sustain comparable risk levels with 2008 associated with the structure of the State Treasury debt, especially of the refinancing risk, exchange rate risk and interest rate risk.

Stabilization of the refinancing risk

In 2009 the refinancing risk of the State Treasury debt was maintained at a stable level. The average time to maturity (ATM) of when the total State Treasury debt needs to be refinanced, slightly decreased from 5.27 to 5.22 years.

The ATM of domestic marketable debt decreased from 4.23 to 4.08 years. The main factors influencing this change were:

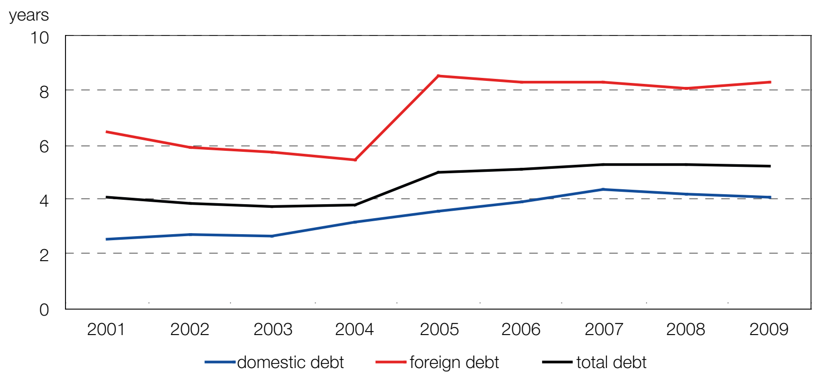
- significant increase in the role of Treasury bills in financing the borrowing requirements in the first three quarters of the year and net decrease in T-bills outstanding in the fourth quarter.
- limited sales of mid- and long-term Treasury bonds,
- bigger scale of switching auctions.

The ATM of foreign debt increased from 8.11 to 8.27 years. High average maturity meant low level of refinancing risk of foreign debt. The main factors that made possible to sustain the level of ATM were:

- new foreign issuance on the euro and US dollar markets,
- incurrence of loans from international financial institutions,
- shortening maturity and redemption of existing debt.

Chart 8.1

Average maturity of State Treasury debt in 2001-2009.



Efforts to smooth the State Treasury debt maturity profile

At the end of 2009 the total value of the State Treasury debt due for repayment in 2010 was PLN 119.3bn, i.e. 18.9% of the total debt, including:

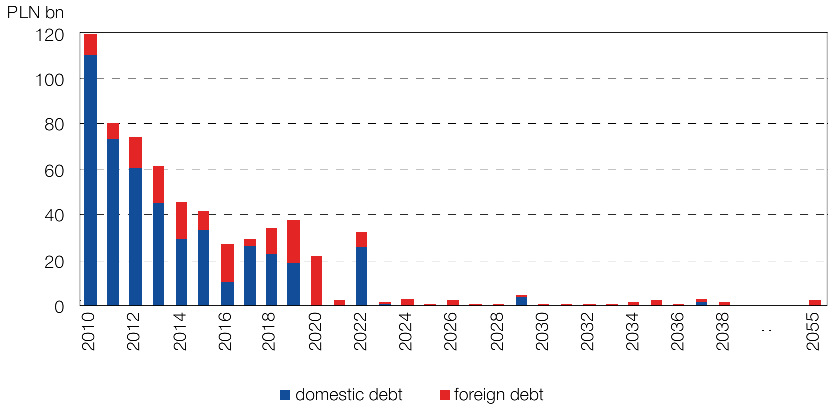
- domestic debt of PLN 110.7bn,
- foreign debt of PLN 8.6bn.

Smoothing the maturity profile was achieved by:

- proper selection of maturity of new bond issues,
- early redemption of bonds with approaching maturity dates on switching auctions.

Chart 8.2

State Treasury debt maturity profile.

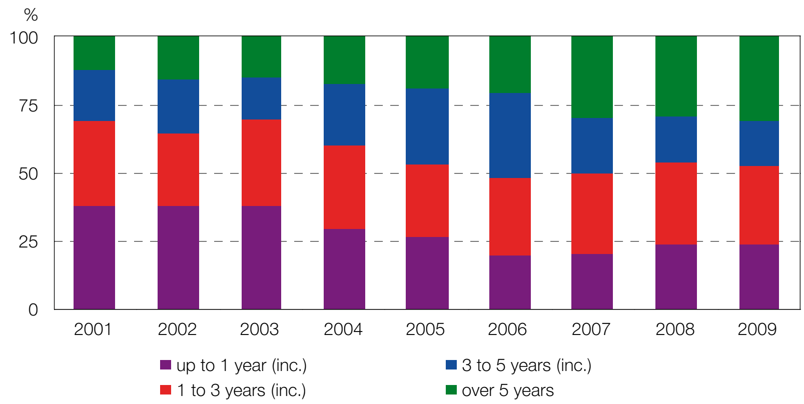


Stabilization of Treasury securities with residual maturity above 5 years share in domestic State Treasury debt

In 2009 the share of Treasury securities with residual maturity below 1 year in the domestic Treasury securities debt outstanding increased from 23.6% to 23.9% (Treasury bills - decrease from 12.0% to 10.3%). At the same time the share of Treasury securities with residual maturity between 1 and 3 years has decreased from 30.3% to 29.0% and the share of securities with residual maturity between 3 and 5 years has decreased from 16.9% to 16.3%. The share of Treasury securities with residual maturity above 5 years increased from 29.1% to 30.9%.

Chart 8.3

Residual maturity of Treasury Securities issued on the domestic market in 2001-2009.

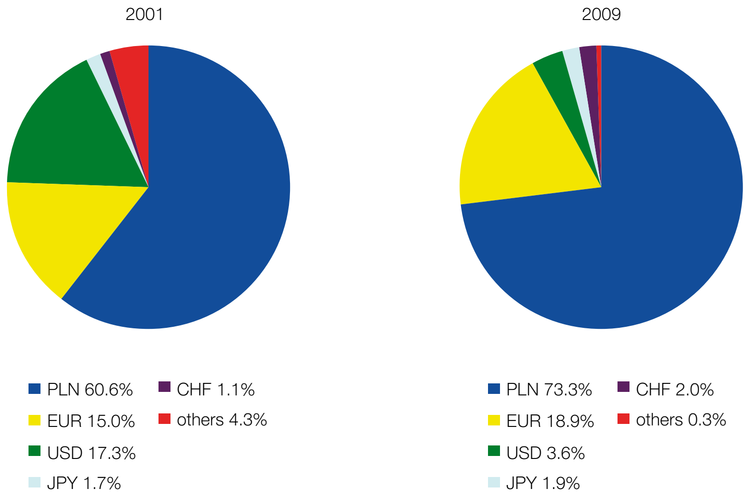


Decrease of exchange rate risk

The State Treasury debt in domestic currency at the end of 2009 was PLN 462.7bn. What stands for 73.3% of total State Treasury debt (73.7% in 2008), compared to 60.6% in 2001. This means the exchange rate risk has been significantly limited.

Chart 8.4

Currency profile of State Treasury debt in 2001 and 2009.

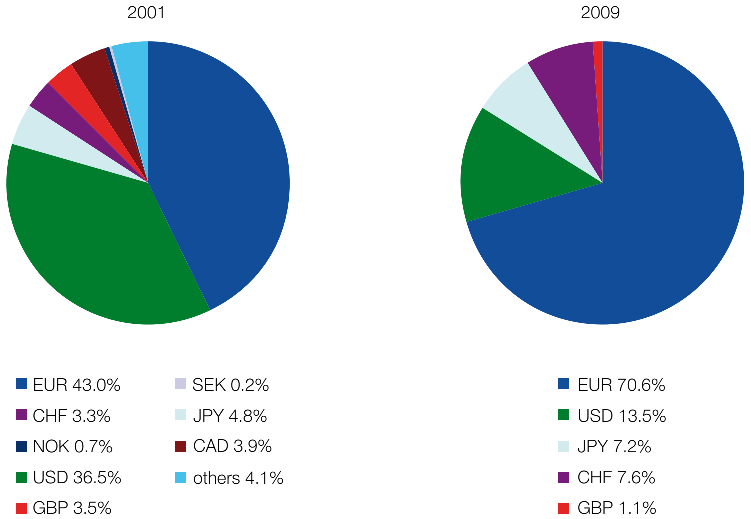


Strategic role of the euro market in foreign financing

The prevailing amount of the foreign State Treasury debt is denominated in euro. This share rose steadily from 43.0% in 2001 up to 70.6% at the end of 2009. As for debt in other currencies, there was a significant decrease of the U.S. dollar share (from 36.5% in 2001 eop to 13.5% - 2009 eop) and a rise of Japanese yen (from 4.8% to 7.2%) and the Swiss franc (from 3.3% to 7.6%) shares.

Chart 8.5

Currency structure of foreign State Treasury debt in 2001 and 2009.



Safe level of the interest rate risk

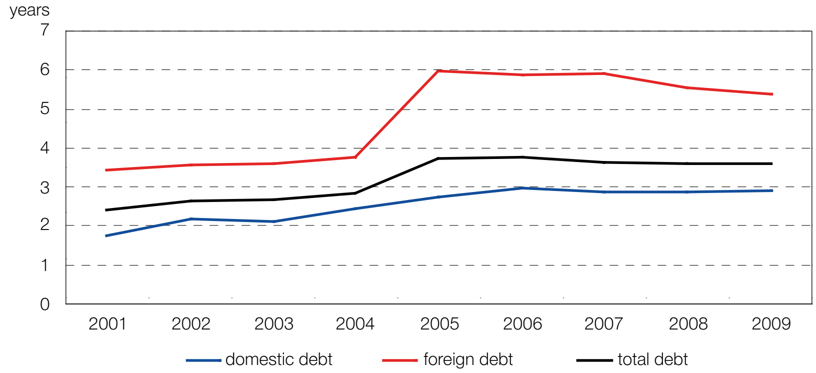
In 2009 duration of the State Treasury debt, which measures the average time of adjustment of the debt servicing costs to changes in interest rates, slightly increased from 3.58 to 3.59 years. Increase of duration meant a decrease of the interest rate risk for the State Treasury debt.

The duration of domestic State Treasury debt slightly increased from 2.86 to 2.88 years. This was the result of a decrease in the average time to maturity of debt from 4.23 to 4.08 years, limited sales of Treasury bills at the end of the year and a decrease in the share of marketable instruments with a floating interest rate from 15.7% to 13.5%.

The duration of foreign debt decreased from 5.55 to 5.39 years. It was the result of new loans from international financial institutions with floating interest rates (in the amount of PLN 2.6bn). High duration meant low level of interest rate risk of foreign debt.

Chart 8.6

Duration of State Treasury debt in 2001-2009.

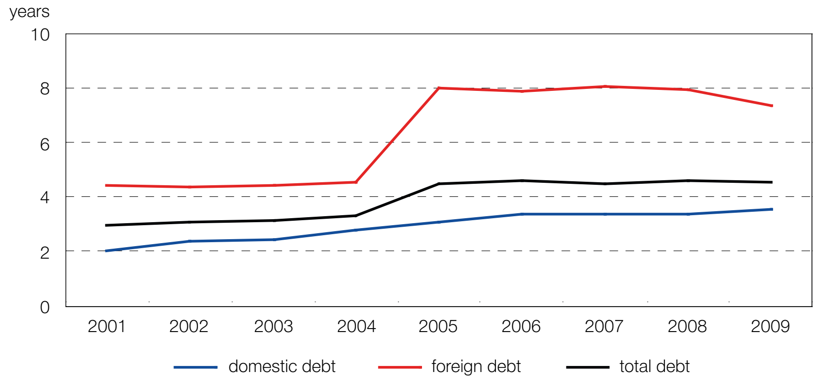


An additional measure of interest rate risk is an average time to refixing (ATR). ATR is expressed as the average time of fixing the debt servicing costs. Unlike duration, ATR includes inflation-linked bonds and does not depend on the levels of market interest rates.

In 2009 ATR of State Treasury debt increased from 4.60 to 4.57 years, while ATR of domestic debt increased from 3.38 to 3.53 years and ATR of foreign debt decreased from 7.96 to 7.37 years. ATR increase for total debt was mainly the result of a substantial decrease of ATR of foreign debt.

Chart 8.7

ATR (Average Time to Refixing) of State Treasury debt in 2001-2009.



Level of public funds in State budget accounts

In 2009 the level of domestic and foreign currency resources enabled safe financing of the budget borrowing requirements.

The level of foreign currency resources which were in disposal of the Minister of Finance resulted from issuances of bonds on foreign markets, loans drawn from international financial institutions (the European Investment Bank and the World Bank) and from funds transferred from the European Commission.

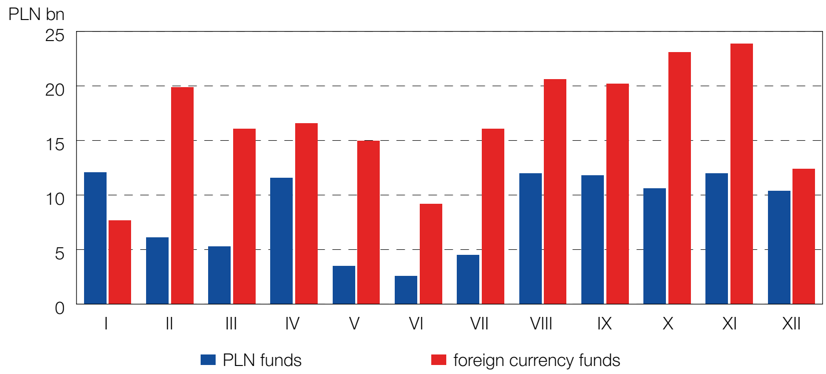
The level of domestic currency funds resulted mainly from:

- irregular distribution of borrowing requirements within the year (significant redemptions of treasury bonds, especially in May and July for amount of PLN 18bn in nominal value),
- tendency to maintain balanced supply of treasury securities in following months, considering financial markets seasonality.

Funds in PLN were accumulated in the form of deposits at the National Bank of Poland and through the Bank Gospodarstwa Krajowego in interbank sector (buy-sell-back transactions and interbank deposits). Foreign currency funds were accumulated at the National Bank Poland and at the Bank Gospodarstwa Krajowego in the form of deposits.

Chart 8.8

Level of PLN and foreign currency funds in disposal of the Minister of Finance in 2009, end of period.



Loans from commercial banks

In 2008 Poland introduced new instrument of state budget liquidity management – loans from commercial banks. The total amount of loans from this source in 2009 was equal to PLN 0.4bn.

Foreign exchange operation

In 2009 the Ministry of Finance concluded foreign exchange transactions deriving from European Commission funds which, due to Polish membership in the European Union, were transferred regularly into its accounts. These funds can be exchanged into zloty in two ways: at the National Bank of Poland or through the foreign exchange market.

Since February 2009 the Ministry of Finance has exchanged foreign currencies on the market – this exchange created an opportunity to obtain favorable exchange rate, simultaneously stabilizing market behaviour and Polish zloty. The announcement on foreign currencies exchange on the market was issued on 18th February and followed the Prime Minister's declaration allowing that activity. Transactions on Polish zloty stopped a process of its rapid depreciation, favorably influencing exchange rate stability.

poco
con forza

CHAPTER IX

TREASURY SECURITIES SECONDARY MARKET

TREASURY SECURITIES SECONDARY MARKET

Trading on the secondary market for Treasury bills and bonds denominated in PLN is performed on the non-regulated OTC market and the Treasury BondSpot Poland electronic platform (former MTS Poland) operated by BondSpot S.A. (former MTS-CeTO S.A.). Additionally, trading on the secondary market for Treasury bonds is also conducted on the regulated markets of the Warsaw Stock Exchange and BondSpot S.A.

Registration and settlement of transactions are handled by the NBP Registry of Securities - RPW (T-bills) and the National Depository for Securities - KDPW S.A. (T-bonds denominated in PLN).

Trading on the secondary market for Treasury bonds denominated in foreign currencies issued after 1995 and Brady's bonds is conducted on the non-regulated OTC market. Furthermore, trading in the euro-denominated T-bonds with amounts outstanding above EUR 0.5 bln is conducted on the NewEuroMTS market operated by EuroMTS Ltd.

Settlement of transactions in Treasury bonds denominated in foreign currencies is handled by Euroclear, Clearstream and the Depository Trust Company as well as the Japan Securities Depository Centre.

Decrease in transactions value for Treasury bonds denominated in PLN

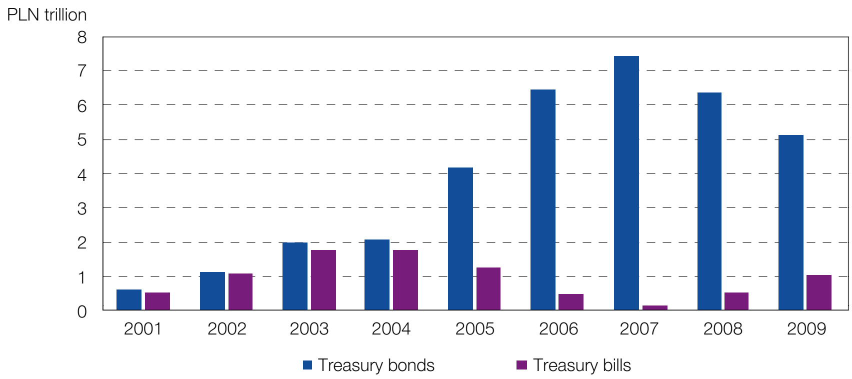
In 2009 PLN 6,160.8bn worth of transactions were concluded on the secondary market for Treasury securities denominated in PLN, including:

- Treasury bonds transactions of PLN 5,105.5bn (82.9%),
- Treasury bills transactions of PLN 1,055.3bn (17.1%).

The value of Treasury bonds transactions fell by PLN 1,280.7bn (20.1%) in comparison to 2008, while the value of Treasury bills transactions rose by PLN 507.6bn (92.7%). Sharp surge in turnover of Treasury bills resulted from the increase in the amount of issues on the primary market from January until July 2009.

Chart 9.1

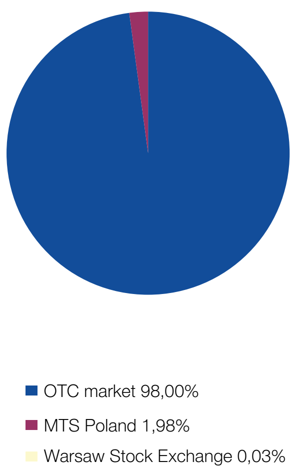
Value of transactions for Treasury securities denominated in PLN in 2001-2009.



In 2009 the trading in Treasury bonds denominated in PLN was focused on the non-regulated OTC market (98.0%). Turnover on MTS Poland (currently Treasury BondSpot Poland) amounted to 2.0%, while trading at the Warsaw Stock Exchange did not exceed 0.1%.

Chart 9.2

Domestic Treasury bonds turnover structure in 2009.

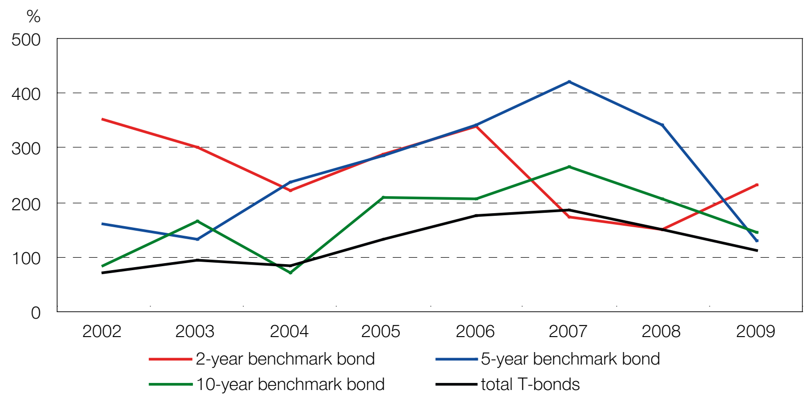


Liquidity of the secondary market for domestic Treasury bonds

In 2009 the liquidity of the secondary market (calculated as the ratio of average value of transactions to average amount outstanding) decreased. The liquidity ratio for the whole domestic secondary market fell from 149.3% to 111.2% which resulted from slump in transactions value and increase in the amount outstanding. The ratios for 5-year and 10-year benchmark bonds fell from 342.4% to 128.4% and from 205.2% to 145.5% respectively. However, the ratio for 2-year benchmark bond rose from 149.7% to 230.7%.

Chart 9.3

Secondary market liquidity ratios for domestic benchmark Treasury bonds in 2002-2009.



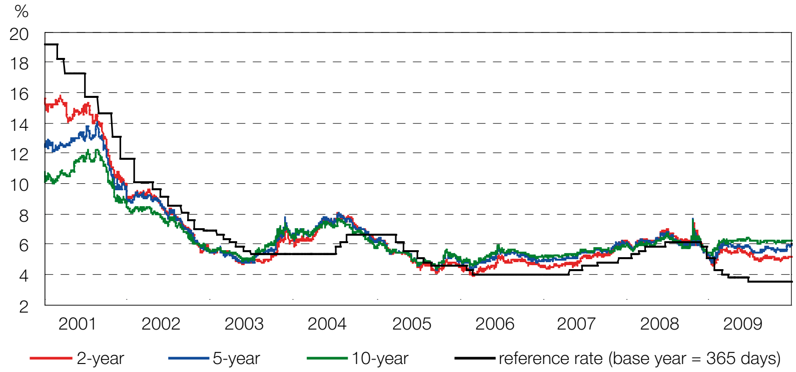
Yields of Treasury bonds issued on the domestic market

In 2001-2009 yields of Treasury bonds issued on the domestic market decreased significantly. The yields of 2-, 5- and 10-year T-bonds on the secondary market dropped by 10.45 pp, 6.74 pp and 4.60 pp respectively. This mainly resulted from:

- decrease of the NBP reference rate by 15.5 pp,
- improvement of Polish macroeconomic indicators,
- decrease of investment risk (rise in ratings),
- entry of Poland into the European Union and prospects of adopting the euro.

Chart 9.4

Yields of domestic Treasury bonds in 2001-2009.

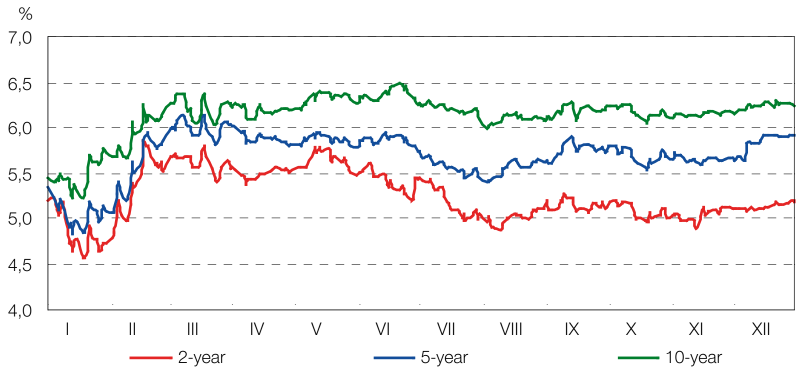


Increase in yields of 5- and 10-year Treasury bonds issued on the domestic market in 2009

In 2009 yields of 5- and 10-year Treasury bonds rose by 59 bp and 81 bp, to 5.91% and 6.24% respectively, while the 2-year bond yield slightly fell by 9 bp to 5.19%. Treasury securities market in 2009 was strongly influenced by the changes in the PLN exchange rate and global risk aversion. In the periods of the zloty's appreciation and higher risk appetite Treasury securities prices were rising, while the zloty's depreciation and rise in global risk aversion resulted in slump of Treasury securities prices. However, short-term bonds in 2009 were supported by the NBP interest rates cuts in the first half of the year and banking system excess liquidity in the following months.

Chart 9.5

Yields of Treasury bonds issued on the domestic market in 2009.

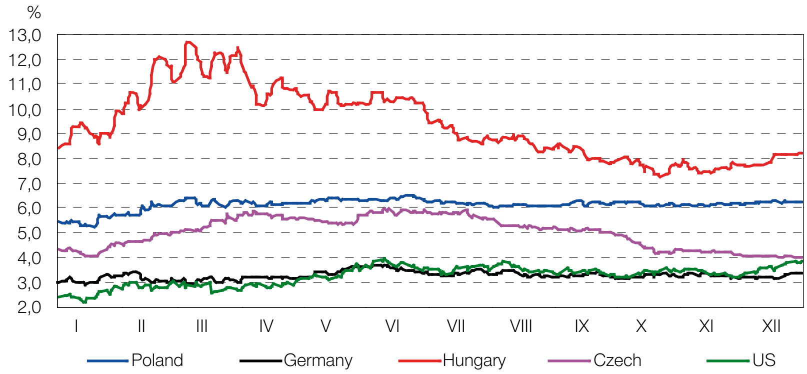


Spreads between long-term Treasury bond yields in Poland and the core markets

In 2009 the long-term bond yields in Poland, Germany and the US rose 81 bp, 44 bp and 161 bp respectively. These changes resulted in broadening of spread between the long-term bond yields in Poland and Germany from 249 bp to 285 bp and in tightening of spread between Poland and the US from 321 bp to 240 bp at the end of 2009.

Chart 9.6

Yields of 10-year Treasury bonds in 2009.



Yields of 10-year euro-denominated Treasury bonds

The trust crisis which started in 2008 and intensified in February and March 2009 contributed to a significant increase of yields and asset swap spreads of securities issued by many European issuers. Investors became more interested in high liquidity bond offerings launched by the highest rated issuers. Generally it resulted in closing of primary market for other issuers. In consequence it reflected also quotations on secondary market. However since the second quarter of 2009, according to trends on the main markets, yields of Polish euro-denominated bonds has decreased. The yield of 10-year euro-denominated bonds decreased in the course of 2009 by 100 bp. During the same period, the yield of 10-year Bunds considered as the safest securities among European issuers increased by 26 bp, the 10-year Greek GGB yield by 39 bp and the 10-year Irish bonds yield by 29 bp, whereas the 10-year Italian BTP yield decreased by 61 bp.

The difference between yields of long-term euro-denominated bonds issued by Poland and Germany narrowed to 137 bp (between Poland and Italy, the difference dropped to 79 bp) at the end of 2009. At the beginning of 2009 10-year Polish bonds were quoted 39 bp over Greek bonds, whereas at the end of 2009 the tendency turned over and the 10-year Greek GGB yield was higher than Polish by as many as 105 bp (a change in Poland's favour by 144 bp). The similar situation was in case of the 10-year Irish bonds quotations - at the beginning of 2009 the yield on the 10-year Polish bonds was 117 bp over Irish yield, whereas at the end of 2009 the 10-year Irish bonds yield was higher than Polish by 16 bp (a change in Poland's favour by 133 bp)

In asset swap terms, the spread of Polish Treasury securities decreased in comparison with the asset swap spread of Bunds by 127 bp (the difference between both spreads at the end of 2009 was 135 bp). Similarly, the difference between asset swap spreads of Polish and Italian and Irish Treasury securities narrowed by 37 bp and 117 bp (to 84 bp and 5 bp) respectively. At the beginning of 2009 an asset swap spread of Greek Treasury securities was lower than Polish by 43 bp, whereas at the end of 2009 they were quoted higher than Polish bonds by 84 bp (a change in Poland's favour by 127 bp).

Chart 9.7

Yields of 10-year euro-denominated Treasury bonds in 2009.

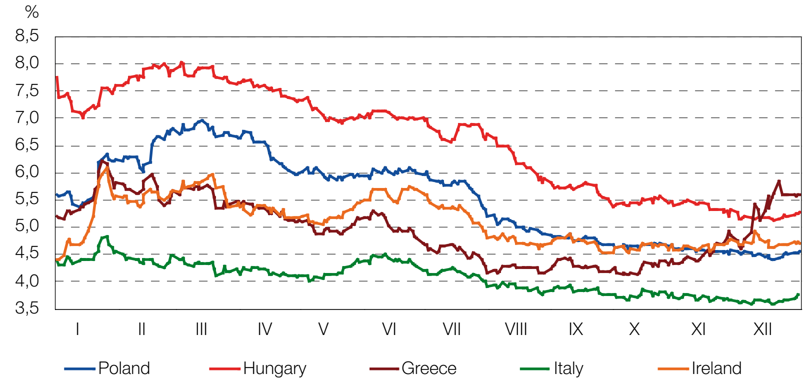
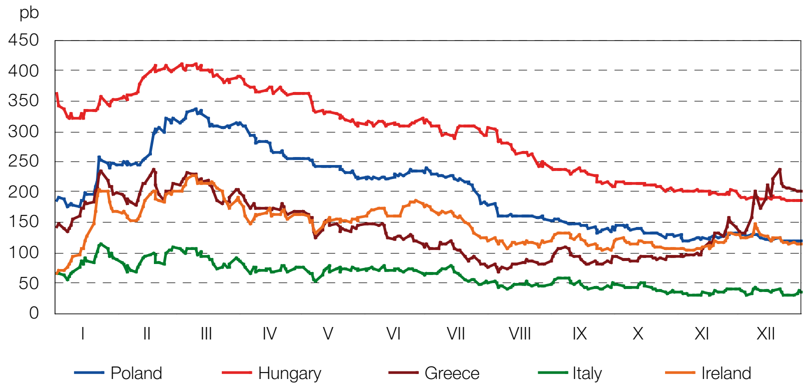


Chart 9.8

Mid asset swap spreads of 10-year euro-denominated Treasury bonds in 2009.

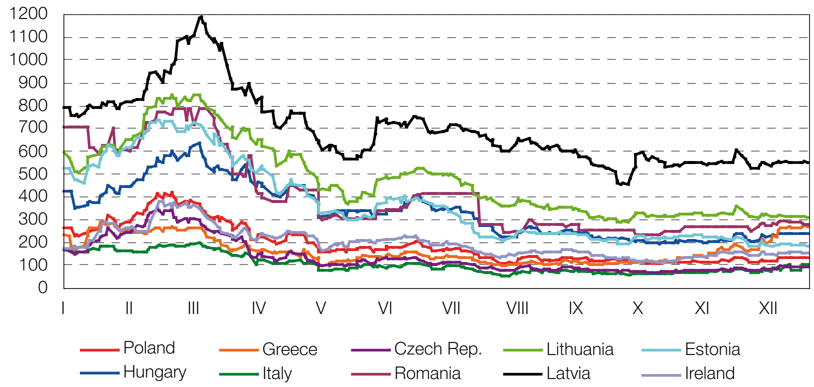


CDS in 2009

Quotations of the Credit Default Swap (CDS), i.e. a tool providing the assurance if an issuer defaults on a particular kind of debt, declined in the course of 2009. As a result of relatively good fiscal and macroeconomic situation, in the context of financial crisis, Poland distanced itself from the Central and Eastern European countries. At the end of 2009 the 5-year Poland's CDS amounted to 132 bp and increase during the year by 132 bp, whereas the Hungary's CDS amounted to 238 bp (dropped by 188 bp), the Estonia's CDS to 186 bp (dropped by 344 bp), the Lithuania's CDS to 307 bp (dropped by 289 bp) bp and the Latvia's CDS to 548 bp (dropped by 247 bp). In comparison the Ireland's and the Italy's CDS amounted to respectively 154 bp (falled by 21 bp) and 104 bp (falled by 63 bp). In the course of 2009 Greece's CDS rose by 37 bp and amounted to 270 bp.

Chart 9.9

5-year CDS in 2009.



CHAPTER X

INVESTOR RELATIONS POLICY

INVESTOR RELATIONS POLICY

Publication of financing schedules of State budget borrowing requirements

The Minister of Finance regularly announces:
- amount and structure of annual financing of State budget borrowing requirements,
- annual calendar of domestic Treasury security auctions,
- quarterly financing schedule of State budget borrowing requirements,
- monthly supply schedules of domestic Treasury securities.

Meetings and consultations with investors

- on domestic market

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

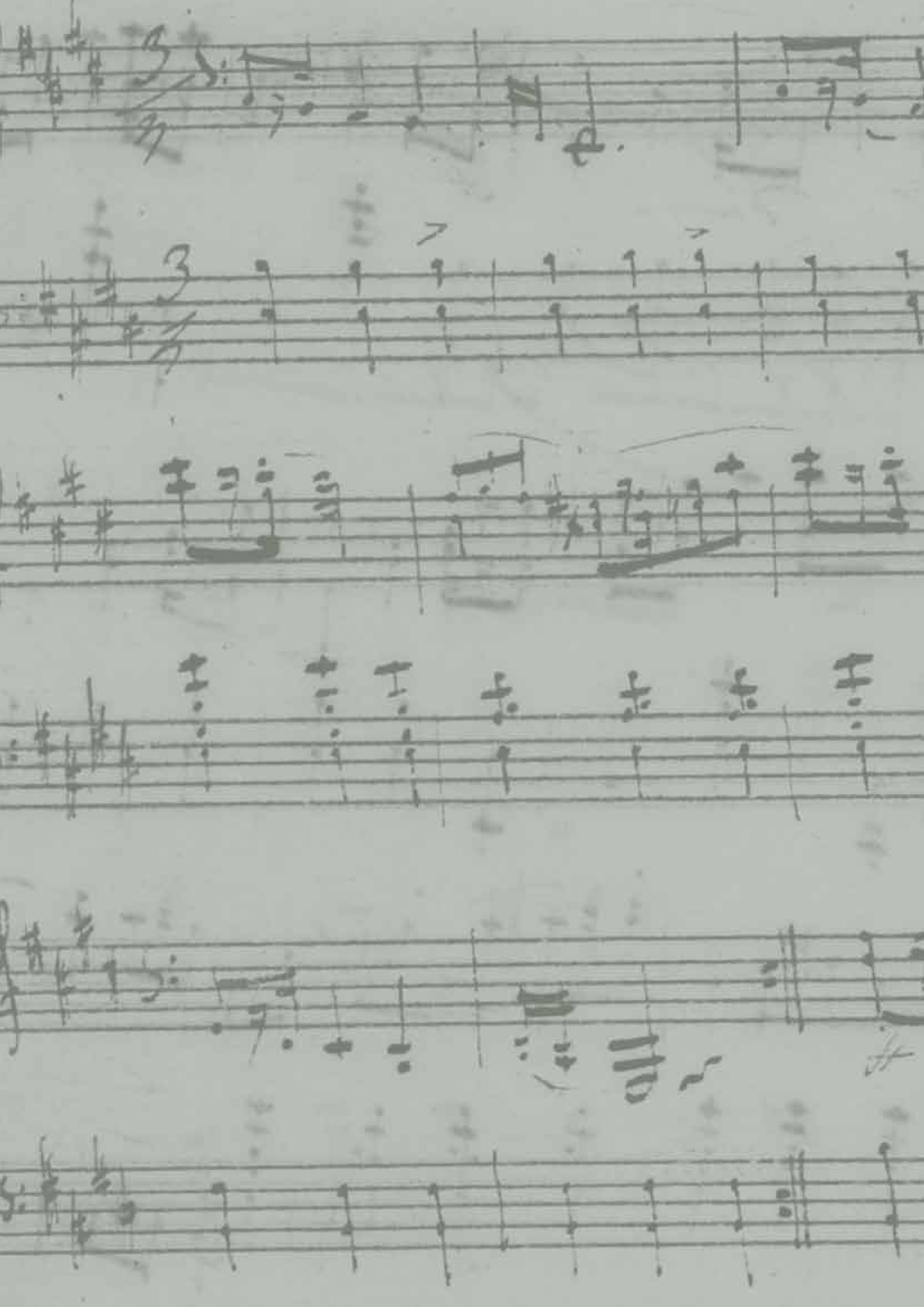
- on international market – non-deal roadshows

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

Websites in Reuters, Bloomberg and Internet

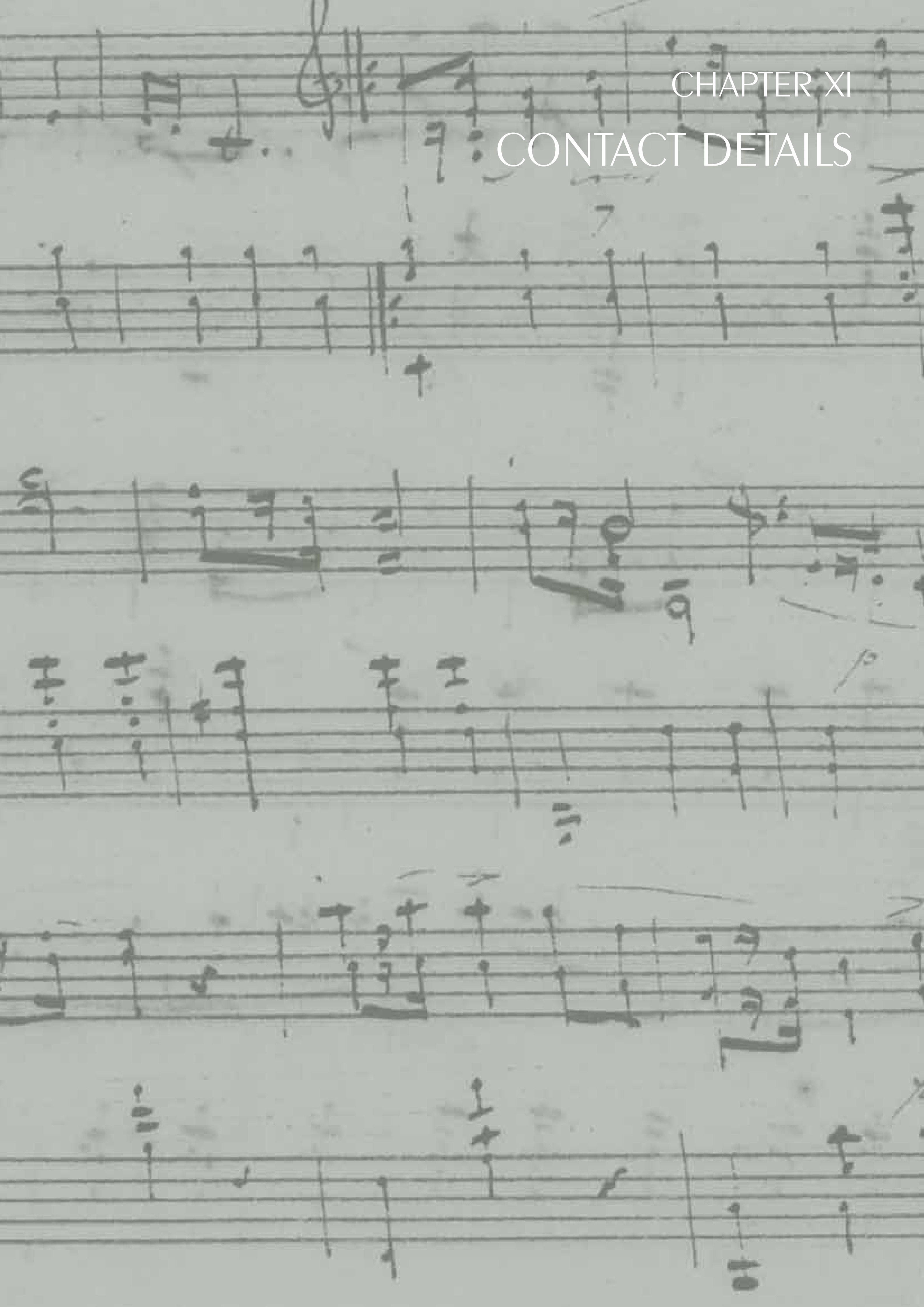
Websites at www.mf.gov.pl, and at Reuters [PLMINFIN] and Bloomberg [PLMF], provide:
- constantly updated results of Treasury bonds auctions,
- current level of debt,
- current coupons and indexation indicators,
- information on Primary Dealers.

The website www.mf.gov.pl also publishes additional information, including:
- legal acts establishing rules for issuance of Treasury securities (decrees of Minister of Finance, lists of issues of Treasury bonds and bills, regulations for acting as Primary Dealer),
- information on international bond issuance,
- publications (Public Finance Sector Debt Management Strategy, information on State Treasury debt, public debt, and data from Treasury securities secondary market).



CHAPTER XI

CONTACT DETAILS



CONTACT DETAILS

Ministry of Finance

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

OTHER CONTACTS

National Bank of Poland

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

Polish Financial Supervision Authority

Plac Powstańców Warszawy 1
00-950 Warszawa
tel.: +48 22 33 26 600
fax: +48 22 33 26 793 (602)
http://www.knf.gov.pl

National Depository for Securities

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

BondSpot S.A.

al. Armii Ludowej 26
00-609 Warszawa
tel.: +48 22 579 81 00
fax: +48 22 579 81 01
e mail: bondspot@bondspot.pl
http://www.bondspot.pl

Warsaw Stock Exchange

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

TREASURY SECURITIES DEALERS IN 2010

1. Bank Handlowy w Warszawie S.A.
2. Bank Millennium S.A.
3. Bank Pekao S.A.
4. Barclays Bank plc
5. BRE Bank S.A.
6. HSBC Bank plc
7. ING Bank Śląski S.A.
8. Kredyt Bank S.A.
9. PKO Bank Polski S.A.
10. Raiffeisen Bank Polska S.A.
11. Société Générale S.A. Oddział w Polsce
12. The Royal Bank of Scotland plc

APPENDIX 1

RULES OF TAXATION ON TREASURY SECURITIES

APPENDIX 1 – RULES OF TAXATION ON TREASURY SECURITIES

Treasury securities may be acquired by residents and non-residents as defined in the Act on foreign exchange law dated 27 July 2002 (OJ No 141, item 1178, as amended) who are natural persons or legal persons or commercial companies without legal personality, except Treasury savings securities which in general may be acquired by natural person.

The Treasury savings securities may be acquired also by associations, other non-profit organizations, foundation entered in the court register, in case of non residents, also in other official register, unless specifically provided in the condition of issue of securities.

According to article 2 paragraph 1 subparagraph 1 of the Act on foreign exchange law the term "residents" means:

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

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

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

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

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

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

According to Article 3 paragraph 1 of the Act on Personal Income Tax, natural person with the domicile on the territory of the Republic of Poland means any person who:

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

According to article 30a paragraph 1 subparagraph 2 of the Act on Personal Income Tax, the income received from interest and discount on securities (include Treasury securities) are subject to a final withholding tax at a rate of 19%.

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

In case of bonds with interest capitalization the income is subject of tax at the time of payment or when it has been left at the disposal of the taxpayer. The rule also applies to redemption of bonds. When the bonds are prematurely redeemed only the actual income left at the bond holder's disposal (accrued interest minus early redemption fee) is subject to tax.

The income derived from sale of securities (including Treasury securities) is subject to a 19% tax rate.

According to article 19 of the Act dated 12 November 2003 amending the Act on PIT and other acts (OJ Nr 202, item 1956, as amended), the income from sale of securities acquired before 1 January 2001 are exempt from income tax.

The income derived from sale of securities is not aggregated with the taxpayer's other income and should be shown in a separate form (PIT 38).

In case of natural persons having limited tax liability, defined in Article 3 paragraph 2a of the Act on Personal Income Tax, the income received from securities issued on domestic market also shall apply to agreements for the avoidance of double taxation between Republic of Poland and country of seat or domicile of non resident. Nevertheless, the rate tax from a relevant agreement for the avoidance of double taxation or any failure to pay the income tax shall apply in the case when a residency certificate of the taxpayer for tax purposes has been delivered.

In accordance with Article 3 paragraph 1 of the Act on Corporate Income Tax, if taxpayers have their seat or place of management within the territory of the Republic of Poland their worldwide income (total income) is taxable in Poland.

The income of legal persons from interest, discount and sale of securities (including Treasury securities) are pooled with other incomes and are taxable according to general rules.

According to Article 19 paragraph 1 of the Act on Corporate Income Tax the tax shall amount to 19 per cent of the tax base.

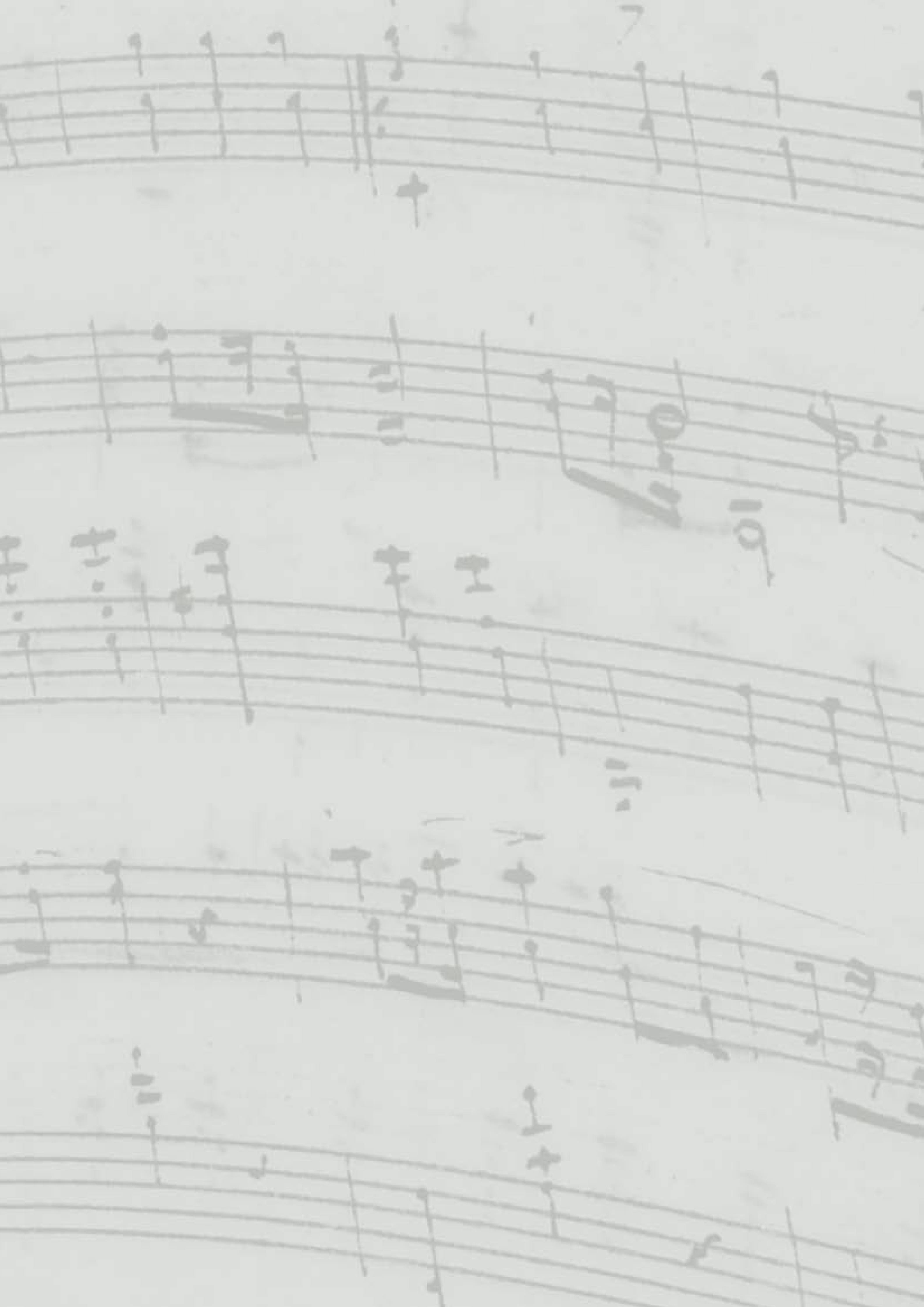
In accordance with Article 3 paragraph 2 of the Act on Corporate Income Tax, taxpayers (legal persons) not having their seat or place of management in Poland, are subject to Polish tax only on the income derived from Poland.

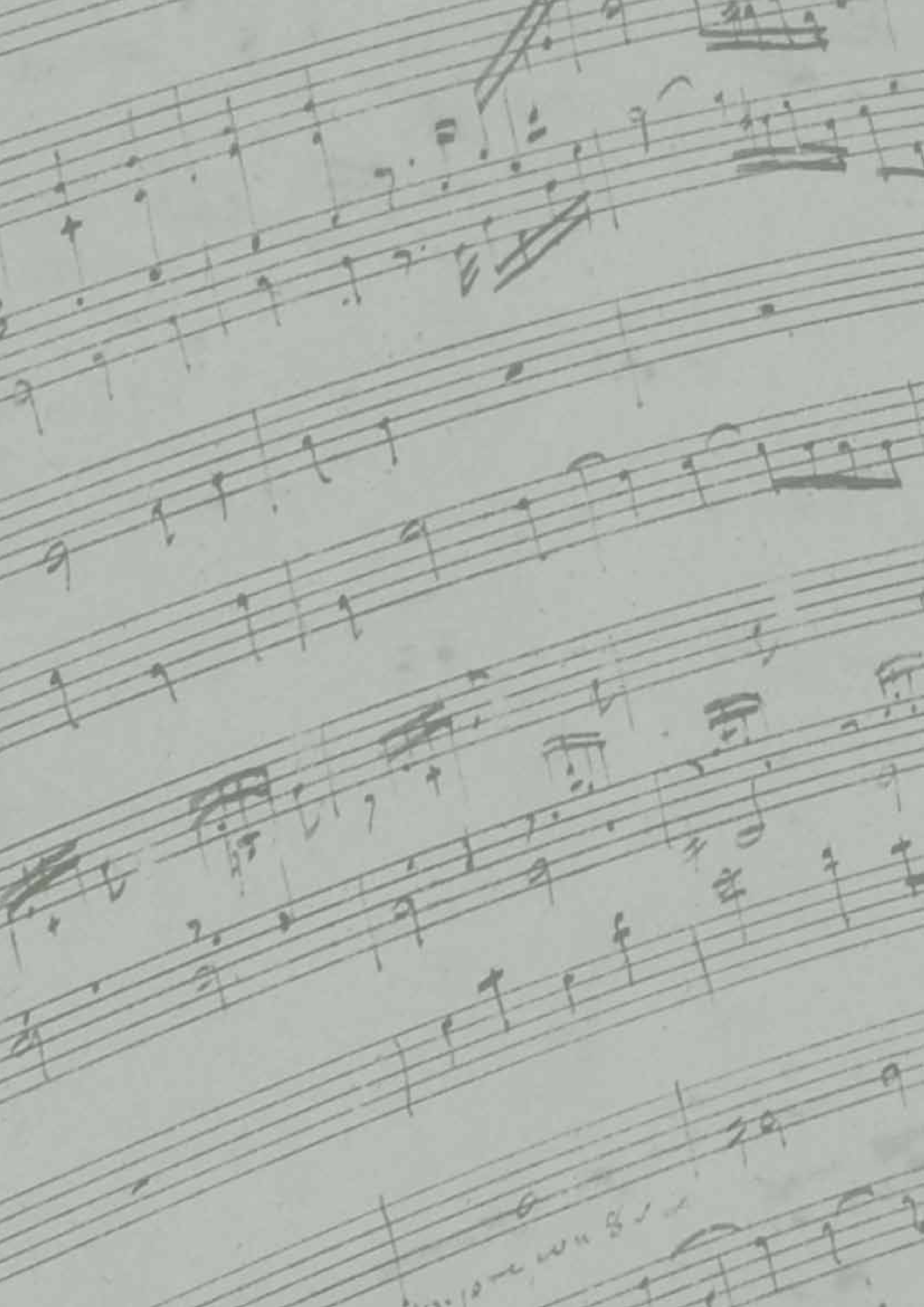
The rules of taxation on interest received by legal persons not having their seat or place of management within the territory of the Republic of Poland are regulated in Article 21 of Act on Corporate Income Tax. According to Article 21 paragraph 1 subparagraph 1 of the Act on Corporate Income Tax, income tax on revenues interest received within the territory of the Republic of Poland by the taxpayers from interest shall be assessed in the amount of 20 per cent of revenues.

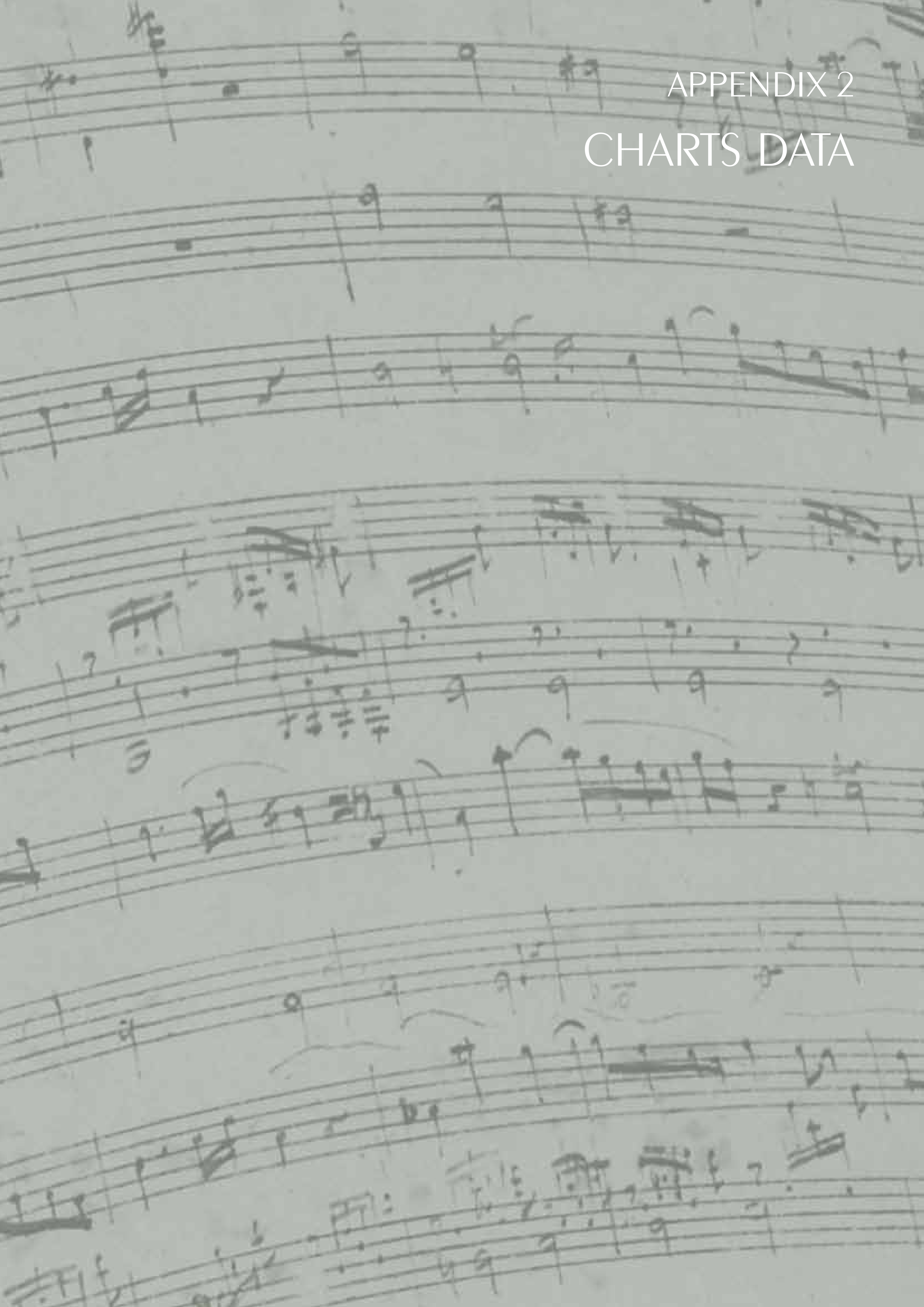
Whereas the income from sale of securities (including Treasury securities) received within Poland by legal persons having their seat or place of management in Poland or abroad, are subject to tax at 19% rate.

However taxation of the income realized within the territory of the Republic of Poland by taxpayer not having their seat or management office within the territory of Poland, from indicated above titles, also shall apply with referred to agreements for the avoidance of double taxation between Poland and another country of seat or domicile of non resident. In such cases the rate tax from a relevant agreement for the avoidance of double taxation or any exemption to pay the income tax shall apply in the case when a residency certificate of the taxpayer for tax purposes has been delivered.

Additionally the Minister of Finance, according to its Orders, decided to withhold the collection of income tax on income received by non residents from bonds issued on foreign markets in 1995-2008. Since 1- January 2009 according to the Act dated 6 November 2008 amending the Act on PIT and other acts (OJ Nr 209, item 1316, as amended), the income received by non residents from bonds issued on foreign markets from sale of securities from income tax.







APPENDIX 2

CHARTS DATA

APPENDIX 2 – CHARTS DATA

Chart 2.1

Nominal Gross Domestic Product and real Gross Domestic Product growth in 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Nominal Gross Domestic Product, PLN bn	779.6	808.6	843.2	924.5	983.3	1060.0	1176.7	1275.4	1344.0
Real Gross Domestic Product, % GDP	1.2%	1.4%	3.9%	5.3%	3.6%	6.2%	6.8%	5.1%	1.8%

Chart 2.2

CPI inflation in 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Inflation as of the end of December (December previous year = 100)	3.6%	0.8%	1.7%	4.4%	0.7%	1.4%	4.0%	3.3%	3.5%
Inflation yearly average	5.5%	1.9%	0.8%	3.3%	2.1%	1.0%	2.5%	4.2%	3.5%

Chart 2.4

General government deficit in 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
General government deficit, PLN bn	40.0	40.5	52.8	52.7	40.1	38.5	22.1	46.9	95.7
General government deficit to GDP ratio	5.1%	5.0%	6.3%	5.7%	4.1%	3.6%	1.9%	3.7%	7.1%

Chart 2.5

Exports and imports in 2001-2009 (according to NBP data)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Exports, PLN bn	170.6	190.5	237.3	297.7	312.0	363.8	400.2	423.7	433.1
Exports to GDP ratio	21.9%	23.6%	28.1%	32.2%	31.7%	34.3%	34.0%	33.3%	32.3%
Imports, PLN bn	201.9	220.1	259.5	318.4	321.0	385.4	446.8	486.1	446.8
Imports to GDP ratio	25.9%	27.2%	30.8%	34.4%	32.6%	36.4%	38.0%	38.2%	33.3%

Chart 2.6

Current account balance in 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Current account balance, PLN bn	-24.1	-22.5	-21.3	-37.4	-12.1	-28.9	-55.4	-64.5	-21.2
Current account balance to GDP ratio	-3.1%	-2.8%	-2.5%	-4.0%	-1.2%	-2.7%	-4.7%	-5.1%	-1.6%

Chart 2.7

Foreign Direct Investments in 2001-2009

EUR bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Foreign Direct Investments in Poland	6.4	4.4	4.1	10.2	8.3	15.7	17.2	10.0	8.3

Chart 2.8

Official reserve assets in 2001-2009

EUR bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Official reserve assets	30.1	28.5	27.1	27.0	36.0	36.8	44.7	44.1	55.2

Chart 2.9

USD/PLN, EUR/PLN and EUR/USD rates in 2001-2009

as of the end of a year	2001	2002	2003	2004	2005	2006	2007	2008	2009
USD/PLN	3.9863	3.8388	3.7405	2.9904	3.2613	2.9105	2.4350	2.9618	2.8503
EUR/PLN	3.5219	4.0202	4.7170	4.0790	3.8598	3.8312	3.5820	4.1724	4.1082
EUR/USD	0.8904	1.0496	1.2578	1.3559	1.1845	1.3202	1.4592	1.3982	1.4413
yearly average	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
USD/PLN	4.0939	4.0795	3.8889	3.6540	3.2348	3.1025	2.7667	2.4061	3.1181
EUR/PLN	3.6685	3.8557	4.3978	4.5340	4.0254	3.8951	3.7829	3.5129	4.3282
EUR/USD	0.8959	0.9456	1.1315	1.2430	1.2459	1.2566	1.3705	1.4719	1.3944

Chart 2.10

Net assets of pension funds, insurance companies and investment funds in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Pension funds	19.4	31.6	44.8	62.6	86.1	116.6	140.0	138.3	178.6
Investment funds	12.1	22.8	33.2	37.5	61.3	98.8	134.0	73.9	93.0
Insurance companies	48.0	57.6	65.7	77.9	89.6	108.3	126.9	138.0	138.8
Total	79.5	112.0	143.7	178.0	237.0	323.6	401.0	350.2	410.4

Charts 3.3 i 3.4

General government deficit to GDP ratio and general government debt to GDP ratio in 2004-2009

GDP %	2004	2005	2006	2007	2008	2009
General government deficit	5.7%	4.1%	3.6%	1.9%	3.7%	7.1%
General governemnt debt	45.7%	47.1%	47.7%	45.0%	47.1%	50.9%

Chart 6.1

Net borrowing requirements of the State budget in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
State budget deficit	32.4	39.4	37.0	41.4	28.4	25.1	16.0	24.3	23.8
Transfer of funds to Open Pension Funds	0.0	0.0	0.0	10.6	12.6	14.9	16.2	19.9	21.1
Net privatisation	-6.5	-2.0	-3.0	-7.4	-2.8	-0.4	-1.4	-1.0	-0.6
UE funds	0.0	0.0	0.0	-2.1	1.9	4.2	1.2	-2.4	5.3
Other	1.7	2.6	3.1	1.8	1.3	-0.1	0.9	1.9	8.1
Net borrowing requirements total	27.6	40.1	37.2	44.3	41.3	43.6	32.8	42.8	57.8

EU funds = prefinancing balance + funds transferred from European Commission

Other = domestic and foreign granted loans balance + participation in international organizations + compensations

Chart 6.2

Monthly net borrowing requirements of the State budget in 2009

PLN bn	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
State budget deficit/surplus	-2.9	8.2	5.3	4.7	1.1	0.2	-1.6	0.6	5.8	2.6	0.4	-0.6
Transfer of funds to Open Pension Funds	0.6	1.6	2.8	1.1	1.8	2.9	1.9	1.6	0.9	2.6	1.5	1.9
Net privatisation	0.0	-0.1	-0.1	0.2	0.0	0.0	-0.4	-0.1	0.1	0.1	0.1	-0.1
EU funds	1.4	-1.1	-4.4	0.8	0.3	4.2	4.6	-1.5	0.3	0.6	-2.8	2.9
Other	0.0	0.0	0.3	0.0	0.2	0.6	0.6	0.4	0.3	0.3	0.0	5.5
Net borrowing requirements total	-1.0	8.5	4.0	6.7	3.4	7.9	5.1	1.0	7.4	6.2	-0.9	9.6

EU funds = prefinancing balance + funds transferred from European Commission

Other = domestic and foreign granted loans balance + participation in international organizations + compensations

Chart 6.3

Gross borrowing requirements of the State budget in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net borrowing requirements	27.6	40.1	37.2	44.3	41.3	43.6	32.8	42.8	57.8
Repayment of domestic debt	39.5	63.2	74.0	88.0	81.5	76.7	67.0	72.4	93.3
Repayment of foreign debt	4.9	7.5	12.5	10.0	7.7	9.1	7.1	7.4	13.2
Gross borrowing requirements total	72.0	110.8	123.6	142.4	130.5	129.4	107.0	122.5	164.3

Chart 6.4

Monthly gross borrowing requirements of the State budget in 2009

PLN bn	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Net borrowing requirements	-1.0	8.5	4.0	6.7	3.4	7.9	5.1	1.0	7.4	6.2	-0.9	9.6
Repayment of domestic debt	9.3	5.8	8.7	8.2	17.9	8.9	11.8	0.8	7.1	3.2	6.1	5.5
Repayment of foreign debt	6.1	0.1	4.5	0.0	0.3	1.7	0.1	0.1	0.2	0.0	0.3	0.0
Gross borrowing requirements total	14.4	14.4	17.2	15.0	21.6	18.4	16.9	1.9	14.7	9.3	5.5	15.1

Chart 6.5

Financing of net borrowing requirements of the State budget and liquid funds balance in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Domestic financing	37.6	36.4	34.3	36.9	26.7	40.4	28.7	35.9	39.9
Foreign financing	-10.8	2.9	6.7	2.8	15.8	4.5	5.3	3.3	23.0
Total	26.9	39.3	41.0	39.7	42.5	44.9	34.0	39.2	62.9

Chart 6.6

Financing of gross borrowing requirements of the State budget and the State budget liquid funds balance in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Domestic financing	67.1	99.5	108.3	124.9	108.3	117.1	95.8	108.3	133.2
Foreign financing	4.2	10.5	19.2	12.8	23.5	13.6	12.4	10.6	36.2
Total	71.3	110.0	127.5	137.8	131.7	130.7	108.2	119.0	169.5

Chart 6.7

Change of State Treasury debt (issued Treasury securities) in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Treasury bills	11.8	6.8	6.0	-1.2	-22.5	1.4	-3.2	27.8	-2.9
Domestic bonds	21.4	29.0	27.0	41.2	46.1	35.9	31.2	10.0	45.6
Foreign bonds	2.0	5.4	12.3	13.0	38.3	9.8	10.2	7.8	16.4
Total	35.2	41.3	45.3	53.0	61.9	47.2	38.1	45.6	59.1

Chart 6.9

Sale of Treasury securities on domestic and foreign markets in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Treasury bills*	35.2	42.0	48.1	46.9	24.4	25.8	22.6	50.4	47.5
Domestic bonds	45.8	67.6	68.4	93.8	94.1	102.4	83.3	68.4	104.0
Foreign bonds	3.8	10.9	18.2	14.1	38.3	13.6	10.4	8.3	25.6
Total	98.1	126.5	143.6	156.6	159.4	145.0	116.2	127.1	177.1

**excluding liquidity bills*

Chart 6.16

Liabilities to Paris Club in 1991-2009 (recalculated to USD as of the end of the year)

USD bn	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Schedule payment	0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.4	0.5	0.8	1.0	1.5	2.1	2.1	2.0	2.3	2.7	0.9
Early repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.3	0.0	0.0	0.0	5.8	0.0	0.0	0.5	0.0
Level of debt	31.5	29.6	28.7	26.4	27.5	26.1	23.9	24.4	22.5	20.9	16.0	16.9	17.7	16.6	7.6	6.0	4.2	1.0	0.2

Chart 6.17

Brady Bonds in 1994-2009

USD bn	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Early repayment	0.0	0.3	0.0	1.7	0.7	0.0	0.9	0.3	1.3	1.5	0.0	0.0	0.6	0.1	0.2	0.0
Level of debt	8.0	7.7	7.7	6.1	5.3	5.3	4.4	4.0	2.7	1.2	1.2	1.2	0.6	0.5	0.3	0.3

Chart 7.1

Public debt and general government debt in 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Public debt, PLN bn	302.1	352.4	408.3	431.4	466.6	506.3	527.4	597.8	669.9
Public debt to GDP ratio	38.8%	43.6%	48.4%	46.7%	47.5%	47.8%	44.8%	46.9%	49.8%
General government debt, PLN bn	292.8	340.9	396.7	422.4	463.0	506.0	529.4	600.8	684.3
General government debt to GDP ratio	37.6%	42.2%	47.1%	45.7%	47.1%	47.7%	45.0%	47.1%	50.9%

Chart 7.3

Structure of State Treasury debt according to the place of issue criterion in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Domestic debt	185.0	219.3	251.2	291.7	315.5	352.3	380.4	420.2	462.7
Foreign debt	98.9	108.6	127.8	111.2	124.7	126.2	121.1	149.7	168.8
Total	283.9	327.9	378.9	402.9	440.2	478.5	501.5	569.9	631.5

Chart 7.5

Structure of domestic State Treasury debt in Treasury securities in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Treasury bills	35.2	42.0	48.1	46.9	24.4	25.8	22.6	50.4	47.5
Treasury bonds	140.8	170.3	197.9	240.0	287.6	324.7	357.6	369.0	414.9
fixed rate bonds	102.7	140.4	175.3	209.1	249.7	278.2	294.6	300.4	348.6
floating rate bonds	38.1	29.9	22.6	28.3	33.2	40.1	54.8	57.8	55.4
index-linked bonds	0.0	0.0	0.0	2.6	4.7	6.5	8.2	10.8	10.9
Total	176.0	212.4	246.0	286.9	312.0	350.5	380.2	419.4	462.5

Chart 7.6

Structure of foreign State Treasury debt in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Fixed rate	45.7	61.9	75.8	73.9	97.5	106.2	107.7	141.7	152.5
Floating rate	53.2	46.7	52.0	37.3	27.1	20.0	13.4	8.1	16.2
Total	98.9	108.6	127.8	111.2	124.7	126.2	121.1	149.7	168.8

Chart 7.7

Structure of domestic State Treasury debt by holders in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
Domestic non-banking sector	87.0	109.4	123.9	143.6	171.5	197.3	218.1	228.7	234.9
Domestic banking sector	77.3	78.6	86.1	85.8	75.0	80.6	87.9	135.6	146.0
Foreign investors	20.7	31.4	41.1	62.3	68.9	74.4	74.5	55.9	81.8
Total	185.0	219.3	251.2	291.7	315.5	352.3	380.4	420.2	462.7

Chart 7.8

Domestic non-banking investors' portfolio of domestic Treasury bonds in 2002-2009

PLN bn	2002	2003	2004	2005	2006	2007	2008	2009
Pension funds	19.2	26.1	36.1	52.8	69.4	83.0	100.6	111.0
Insurance companies	34.9	39.2	43.9	51.4	56.4	63.7	63.7	53.8
Investment funds	11.9	13.8	12.3	27.1	34.2	37.5	24.0	26.8
Other non-banking entitites	20.9	19.4	23.6	25.6	22.1	22.5	27.9	32.5
Total	86.9	98.5	115.9	156.9	182.1	206.7	216.3	224.1

Chart 7.11

State Treasury debt service costs in 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total debt service costs, PLN bn	20.9	24.0	24.1	22.7	25.0	27.8	27.6	25.1	32.2
domestic, PLN bn	17.1	20.3	20.4	18.5	21.3	23.3	22.6	20.0	25.6
foreign, PLN bn	3.8	3.7	3.8	4.2	3.7	4.5	5.0	5.1	6.7
Total debt service costs to GDP ratio	2.7%	3.0%	2.9%	2.5%	2.5%	2.6%	2.4%	2.0%	2.4%
Total debt service costs to State budget expenditure ratio	12.1%	13.1%	12.8%	11.5%	12.0%	12.5%	10.9%	9.0%	10.8%

Chart 8.1

Average maturity of State Treasury debt in 2001-2009

years	2001	2002	2003	2004	2005	2006	2007	2008	2009
Domestic debt	2.51	2.73	2.66	3.15	3.57	3.94	4.33	4.23	4.08
Foreign debt	6.50	5.96	5.72	5.46	8.51	8.28	8.28	8.11	8.27
Total debt	4.09	3.90	3.75	3.82	5.01	5.11	5.30	5.27	5.22

Chart 8.3

Residual maturity of Treasury Securities issued on the domestic market in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
up to 1 year (inc.)	66.5	80.8	93.2	84.8	83.3	70.0	77.8	99.0	110.7
1 to 3 years (inc.)	55.3	57.1	77.3	87.3	82.5	98.5	111.4	127.2	133.9
3 to 5 years (inc.)	32.9	41.2	38.2	65.6	86.2	108.6	77.3	71.0	75.2
over 5 years	21.4	33.2	37.2	49.1	60.0	73.4	113.6	122.2	142.7
Total	176.0	212.4	246.0	286.9	312.0	350.5	380.2	419.4	462.5

Chart 8.4

Currency structure of State Treasury debt in 2001-2009

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008	2009
PLN	172.1	212.7	250.4	291.7	315.5	352.3	380.4	420.2	462.7
EUR	42.6	50.7	72.2	69.5	81.8	89.4	87.3	107.5	119.1
USD	49.0	41.9	32.8	22.9	22.7	17.3	13.3	14.4	22.8
JPY	4.7	4.7	5.6	6.3	9.0	9.5	9.0	13.6	12.2
CHF	3.3	3.6	3.5	3.8	6.2	5.8	8.4	12.1	12.8
Other	12.3	14.3	14.5	8.7	5.0	4.1	3.1	2.1	1.8
Total	283.9	327.9	378.9	402.9	440.2	478.5	501.5	569.9	631.5

Chart 8.6

Duration of State Treasury debt in 2001-2009

years	2001	2002	2003	2004	2005	2006	2007	2008	2009
Domestic debt	1.75	2.16	2.12	2.44	2.76	2.99	2.85	2.86	2.88
Foreign debt	3.43	3.56	3.62	3.77	5.98	5.90	5.92	5.55	5.39
Total debt	2.41	2.65	2.66	2.84	3.73	3.78	3.63	3.58	3.59

Chart 8.7

ATR (Average Time to Refixing) of State Treasury debt in 2001-2009

years	2001	2002	2003	2004	2005	2006	2007	2008	2009
Domestic debt	2.05	2.41	2.44	2.80	3.07	3.40	3.39	3.38	3.53
Foreign debt	4.43	4.35	4.45	4.55	7.99	7.91	8.05	7.96	7.37
Total debt	2.99	3.11	3.15	3.31	4.51	4.61	4.53	4.60	4.57

Chart 8.8

Level of PLN and foreign currency funds in disposal of the Minister of Finance in 2009, end of period

PLN bn	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Average PLN funds	12.1	6.1	5.3	11.6	3.5	2.6	4.5	12.0	11.8	10.6	12.0	10.4
Average foreign currency funds	7.7	19.9	16.1	16.6	15.0	9.2	16.1	20.6	20.2	23.1	23.9	12.4
Total	19.8	25.9	21.3	28.2	18.5	11.8	20.6	32.6	31.9	33.7	35.9	22.9

Chart 9.1

Value of transactions in domestic Treasury securities in 2001-2009

PLN trillion	2001	2002	2003	2004	2005	2006	2007	2008	2009
Treasury bonds	0.6	1.1	2.0	2.1	4.2	6.5	7.4	6.4	5.1
Treasury bills	0.5	1.1	1.8	1.8	1.2	0.5	0.2	0.5	1.1
Total	1.1	2.2	3.8	3.9	5.4	6.9	7.6	6.9	6.2

Wykres 9.3

Secondary market liquidity ratio for domestic benchmark Treasury bonds*

	2002	2003	2004	2005	2006	2007	2008	2009
2-year benchmark bond	353.6%	300.6%	221.5%	286.7%	339.1%	170.9%	149.7%	230.7%
5-year benchmark bond	160.5%	134.0%	237.7%	285.0%	341.6%	419.7%	342.4%	128.4%
10-year benchmark bond	84.8%	165.0%	71.0%	208.5%	206.1%	264.2%	205.2%	145.5%
total T-bonds	70.1%	93.8%	83.8%	134.0%	176.2%	185.4%	149.3%	111.2%

** ratio of average value of transactions to average amount outstanding*

The photographs of Fryderyk Chopin's manuscripts come from the collections of the Chopin Museum in Warsaw and their owner is the Fryderyk Chopin Society.

Ministry of Finance
Public Debt Department
ul. Świętokrzyska 12, 00-916 Warsaw, Poland
tel.: +48 22 694 50 00, 694 50 31
faks: +48 22 694 50 08
e mail: sekretariat.dp@mf.gov.pl
http://www.mf.gov.pl
http://www.obligacjeskarbowe.pl
Reuters: PLMINFIN
Bloomberg: PLMF<GO>