

PROSPECTUS



THE STATE TREASURY
of
THE REPUBLIC OF POLAND
Represented by
The Minister of Finance

Debt Securities

The State Treasury of the Republic of Poland may offer up to \$2,000,000,000 of its debt securities for sale from time to time based on information contained in this prospectus and various prospectus supplements. The securities will be unconditional, unsecured and general obligations of the Republic of Poland. The securities will rank equally in right of payment with all other unsecured and unsubordinated obligations of the Republic of Poland and will be backed by the full faith and credit of the Republic of Poland.

The State Treasury of the Republic of Poland will provide specific terms of these securities in supplements to this prospectus. You should read this prospectus and any supplement carefully before you invest. This prospectus may not be used to make offers or sales of securities unless accompanied by a supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

June 18, 2002

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This prospectus is part of a registration statement that the State Treasury of the Republic of Poland, known as the State Treasury, filed with the Securities and Exchange Commission, or SEC, under a “shelf” registration process. Under this shelf process, the State Treasury may sell, from time to time, any of the debt securities described in this prospectus in one or more offerings up to a total U.S. dollar equivalent amount of \$2,000,000,000. This prospectus provides you with basic information about the Republic of Poland, or Poland, and a general description of the debt securities the State Treasury may offer. Each time the State Treasury sells debt securities under this shelf process, it will provide a prospectus supplement that will contain updated information about Poland, if necessary, and specific information about the terms of that offering. Before you invest, you should read both this prospectus and any prospectus supplement. References herein to the prospectus are also to the prospectus supplement.

Any information in this prospectus may be updated or changed in a prospectus supplement, in which case the more recent information will apply.

All references to “dollars” or “\$” in this prospectus are to United States dollars and all references to “złoty” or “PLN” are to Polish zlotys. All currency conversions in this prospectus are at the National Bank of Poland’s official middle rate of exchange on a particular date or calculated at the average of the middle rates of exchange for a particular period. For your convenience, the State Treasury has converted certain amounts from zloty into U.S. dollars at the average exchange rate for each relevant period or the exchange rate in effect on a given date.

The following table sets forth the złoty/U.S. dollar exchange rates for the last day of the periods indicated and the average exchange rates during the periods indicated.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
			<i>(PLN per \$)</i>		
Year end	3.5180	3.5040	4.1483	4.1432	3.9863
<u>Average for year</u>	<u>3.2808</u>	<u>3.4937</u>	<u>3.9675</u>	<u>4.3464</u>	<u>4.0939</u>

Source: National Bank of Poland

On June 10, 2002, the official (middle) exchange rate was PLN 4.0264 = \$1.00. For information on the convertibility of the złoty, see “Monetary and Financial System—Exchange Rate Policy”.

Totals in certain tables in this prospectus may differ from the sum of the individual items in such tables due to rounding. In addition, certain figures contained in this prospectus are estimates prepared in accordance with procedures customarily used in Poland for the reporting of data. Certain other figures are preliminary in nature. In each case, the actual figures may vary from the estimated or preliminary figures set forth in this prospectus.

This prospectus includes forward-looking statements. All statements other than statements of historical fact included in this prospectus regarding (among other things) Poland’s economy, fiscal condition, politics, debt or prospects, may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “continue”, “could”, “should”, “would” or similar terminology. Although the State Treasury believes that expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that such expectations will prove to have been correct.

USE OF PROCEEDS

Unless otherwise indicated in the relevant prospectus supplement, the net proceeds from the sale of securities will be used by the Ministry of Finance in accordance with the state budget for the relevant year's part of the state budget borrowing requirements, which include financing any state budget deficit and managing State Treasury obligations. See "Public Finance".



THE REPUBLIC OF POLAND

Overview

Poland is one of the largest countries in Central Europe with a total land area of 322,577 square kilometers. Situated on the Baltic Sea, Poland has a coastline of 788 kilometers and is bordered by Germany, the Czech Republic, the Slovak Republic, Ukraine, Belarus, Lithuania and the Russian Federation. Poland's terrain is comprised largely of lowlands, traversed by its main river, the Vistula, with lakes, rivers and marshes throughout the northern and central regions and several mountain ranges, including the Tatras, in the south. Poland has approximately 90,000 square kilometers of forest (approximately 27.9 per cent. of Poland's total land area) and 185,000 square kilometers of arable land (approximately 57.4 per cent. of Poland's total land area).

Poland is also one of the most populous countries in Central Europe having a population of approximately 38.7 million. Population density is estimated at approximately 124 persons per square kilometer, with approximately 62 per cent. of the population living in urban areas. Warsaw, the capital of Poland and its largest city, has an estimated population of over 1.6 million. Twenty other urban centers each have populations in excess of 200,000.

In Poland, education is compulsory and free for children between the ages of seven and 18. At present, approximately 97 per cent. of children continue their education at the secondary school level. The adult literacy rate is estimated to exceed 98 per cent.

Poland is an ethnically and religiously homogeneous country. Approximately 98 per cent. of the population are ethnically Polish and speak Polish as a first language. Germans constitute the largest minority group, numbering approximately 350,000 persons and concentrated in Silesia. Smaller ethnic and national groups have cultural ties to such neighboring states as Ukraine, Belarus and Lithuania. It is estimated that approximately 90 per cent. of the population are Roman Catholic.

Constitution, Government and Political Parties

Background

After being partitioned by Russia, Prussia and the Austro-Hungarian Empire from the late eighteenth century to the early twentieth century, Poland re-emerged as an independent and democratic state after World War I. In September 1939, the German and Soviet invasions of Poland commenced six years of military, social and economic devastation. At the conclusion of World War II, the Yalta and Potsdam Agreements resulted in the subordination of Poland to the Soviet Union.

For the next 45 years, the Communist Party dominated the Government. Government policy during this period was guided by a program of nationalization of industry, expropriation of large landholdings, central planning of the economy and the suppression of political dissent. In 1952, Poland adopted a constitution that institutionalized a Stalinist system of de facto one-party rule by the Communist Party. Frequent political and economic crises occurred in the 1960s and 1970s.

Solidarity, the first independent trade union in the Soviet bloc, was formed in 1980 and soon consolidated the growing popular discontent with the communist Government. On December 13, 1981, in reaction to the threat of general strikes, the Government declared martial law and outlawed Solidarity. Martial law continued for 18 months until July 1983. In the following years, the Government attempted to implement incremental political liberalization (although Solidarity remained banned) and economic austerity, but the economy continued to falter.

In April 1989, the communist Government and the democratic opposition led by Solidarity agreed to a power sharing arrangement and competitive elections to a bicameral Parliament. In June 1989, the overwhelming victory

of Solidarity candidates in elections for available seats in the Parliament signaled the end of the political monopoly of the Communist Party. In May 1990, local elections were held in which Solidarity achieved a similar victory. In November 1990, the first free national election for President in the post World War II era resulted in the election of Lech Wałęsa, who had played a historic role in the formation and leadership of Solidarity. In October 1991, the first free election for the entire Parliament was held. The last Russian troops, units of which had been stationed in Poland since the end of World War II, were withdrawn in 1993.

The Constitution and Political System

A new constitution was approved by Parliament and by a national referendum in 1997. Under the constitution, a bicameral Parliament (comprising an upper chamber, known as the Senate, and a lower chamber, known as the Sejm) is elected by general proportional election for a four-year term. The Sejm consists of 460 members and the Senate consists of 100 members. Generally, electoral rules for the Sejm stipulate that a minimum five per cent. share of the popular vote must be gained by a party (eight per cent. for party coalitions) to gain seats. All legislation must be approved by the Sejm and the Senate and signed by the President. The Sejm also has the power to overrule the Senate by a simple majority vote and to overrule the President by a 60 per cent. majority vote achieved in the presence of at least half of the total number of deputies. The President (with the approval of the Senate) or the Sejm may call a referendum on matters of extreme importance to the country.

Under the constitution, fascist, communist and racist political parties are banned. The constitution also confirms the independence of the National Bank of Poland, or NBP, Poland's central bank, which is charged with the responsibility of maintaining the value of the national currency, and grants to the NBP the exclusive power of setting and implementing monetary policy. Under the constitution, the Government is prohibited from incurring loans or issuing guarantees or sureties as a result of which public debt would exceed 60 per cent. of annual gross domestic product, or GDP, and there are certain budget-related requirements that apply if public debt exceeds 50 per cent. of GDP in accordance with the Public Finance Act of 1998. In addition, under the constitution a budget act cannot provide for financing of the budget deficit by the NBP after the 1999 budget. These limitations are intended to safeguard the fiscal health of the economy.

Under the constitution, the President is elected by direct vote for a five-year term and may be re-elected only once. Presidential powers include the right to initiate legislation, to veto certain legislative acts and, in certain instances, to dissolve Parliament. The President's power to dissolve Parliament is limited to instances where (i) the Sejm fails to present the annual budget act for the President's signature within four months of receipt thereof from the Government, or (ii) the Sejm fails to pass a vote of confidence in the Government following attempts to nominate a government in the manner provided under the constitution. The President commands the armed forces, represents the state in its foreign relations, appoints the first and other presidents of the Supreme Court and nominates the Prime Minister and the president of the NBP, subject to approval by the Parliament. The current President, Aleksander Kwaśniewski, was elected in November 1995 and re-elected in 2000. The next Presidential election will take place during the second half of 2005.

The Prime Minister is the head of the Council of Ministers and, subject to confirmation by the President, is responsible for forming the Government, which must then receive a vote of confidence from the Sejm.

In January 1999, regional administration in Poland underwent major reform. Poland was divided into 16 (previously 49) provinces, known as *voivodships*, with self governing powers. Each *voivodship* is represented by a provincial governor, or voivode, appointed by the Government, who represents the Government at a local level. A new intermediate level of local government, in the form of 308 counties, known as *poviats*, was also introduced in the local government reforms. The basic units of locally elected government, however, are the 2,489 *gminas*, (including 65 cities with *poviat* status), which are financially autonomous. The *gminas* are established pursuant to a special law, and are entitled under the Constitution to exercise such powers that are not designated as powers of other public authorities. The *gminas* are financed by a share of national taxes and by their own revenues, such as local taxes and fees. The *gminas* are independent of the Government and the Prime Minister may limit their activities only to the extent that their actions conflict with national law.

Judicial authority is vested in the Supreme Court and appellate, regional and lower courts. A separate Constitutional Tribunal has jurisdiction over all matters relating to the interpretation of the provisions of the Constitution.

Current Government and Politics

The most recent parliamentary elections were held on September 23, 2001. As a result of such elections a coalition Government, led by Leszek Miller, was formed by an electoral coalition of the Democratic Left Alliance, or SLD, Labor Union, or UP, and the Polish Peasants' Party, or PSL, all left-of-center, popular parties. The SLD-UP received 41.04 per cent. of the votes in the elections, whereas PSL received 8.98 per cent. The SLD-UP and PSL won 46.9 and 9.1 per cent. of the seats in the Sejm respectively (and 75 and four per cent. of seats in the Senate, respectively). SLD is a social-democrat party of communist descent, with a significant number of leaders (including Prime Minister Leszek Miller) who played a part in the pre-1989 political scene. PSL is a party which largely represents rural interests. SLD and PSL have previously governed together, between 1993 and 1997. The main opposition party, Civic Platform, or PO, which won 14.1 per cent. of seats, comprises mainly market-oriented, liberal groups of businessmen and professional persons. These elections also saw, for the first time, a strongly anti-European party, the Polish Families League, or LPR, win seats in the Parliament. Eurosceptic groups are also present in PSL and the populist Samoobrona "Self-Defense" party. The main goals of the governing coalition are economic reform, privatization and Poland's accession to the European Union.

The following table shows a breakdown of the distribution of seats in the Sejm (by party) and the Senate (by caucus) as at May 31, 2002:

	<u>Seats</u>
Democratic Left Alliance (SLD)	198
Labor Union (UP)	16
Civic Platform (PO)	57
Self-Defense (Samoobrona)	50
Law and Justice (PiS)	43
Polish Peasants' Party (PSL)	41
Polish Families League (LPR)	37
Popular Conservative Party (SKL)	8
Unaffiliated	7
Popular Democratic Party	3
Total	<u>460</u>
	<u>Seats</u>
Democratic Left Alliance and Labor Union Parliamentary Group (SLD-UP)	75
Senat 2001	14
Peasants' and Independent Parliamentarians Group	5
Unaffiliated	6
Total	<u>100</u>

The next parliamentary elections are scheduled to be held in September 2005. Local elections are scheduled for the second half of 2002.

International Relations

Poland is a founding member of the United Nations, belongs to most international organizations and maintains diplomatic relations with 173 countries. In 1967, Poland joined the General Agreement on Tariffs and

Trade, or GATT, and is a member of the World Trade Organization, or WTO, the successor to GATT. In 1986, Poland rejoined the International Bank for Reconstruction and Development, known as the World Bank, and the International Monetary Fund, known as the IMF, having withdrawn its original memberships in 1950. Poland is also a member of the International Finance Corporation, or IFC, and was a founding member of the European Bank for Reconstruction and Development, or EBRD. In 1996, Poland was accepted for full membership in the Organization for Economic Co-operation and Development, known as the OECD.

In November 1992, Poland signed an agreement on free trade with the member countries of the European Free Trade Association, known as EFTA. By 2001, and in accordance with the terms of this agreement, Poland had removed tariff barriers for almost all industrial goods from EFTA Countries.

In March 1993, Poland was among the founding members of the Central European Free Trade Association, or CEFTA, which currently includes Poland, Bulgaria, Hungary, the Czech Republic, Romania, Slovenia and Slovakia. The underlying Central European Free Trade Agreement consists of a series of bilateral trade agreements and provides for the establishment of a free trade zone among CEFTA member countries by 2001. A free trade zone with CEFTA member countries for industrial products had been established from January 1, 2002.

On March 12, 1999, Poland became a member of the North Atlantic Treaty Organization.

European Union Accession

In December 1991, Poland signed a "Europe Agreement" with the European Communities, now the European Union, or EU, establishing a trade and political association between Poland and the EU. The Europe Agreement became fully effective in 1994, and on April 8, 1994, Poland submitted a formal application for full EU membership.

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

At present, accession negotiations have been provisionally closed in 25 chapters out of the total number of 30 that have been opened, including chapters on the free movement of persons and capital, the environment and taxation. Poland intends to make further substantial progress in closing all remaining chapters and conclude negotiations before the end of 2002. At the European Summit in Gothenburg in June 2001, members considered that the first wave of enlargement of the EU (which includes Poland as a candidate country) could occur prior to the European Parliamentary election in 2004, which would allow citizens of those new member states to vote in such elections. This view was confirmed at the Summit in Laeken in December 2001.

The last three chapters that Poland expects to close, namely agriculture, regional policy and co-ordination of structural instruments and financial and budgetary provisions, have already entailed significant discussion with the EU Commission, although sensitive negotiations remain to be held as these key chapters are crucial to Poland's position within the enlarged EU. Ultimately, the 2002 annual report of the EU Commission which will be published in November 2002, will signify whether Poland has met the accession requirements at that time.

On January 30, 2002, the European Commission published an information note containing its proposals on the common financial framework for the forthcoming enlargement of the EU. The document sets out ceilings for financial means that may be transferred from the EU to new member states in the first three years following the accession of such member states to the EU (i.e. 2004-2006). Both the Government and the EU member states are discussing the impact of the proposals.

The economic criteria for EU accession are that, by the time of accession, a country be a functioning market economy, and that it be able to cope with competitive pressure and market forces within the EU. Accession is currently not conditional on meeting quantitative targets on specific economic variables, and in its latest regular report, the European Commission stated that the existing criteria will remain necessary and sufficient conditions for accession. The 2001 annual report of the EU Commission published in November 2001 re-confirmed Poland as being a functioning market economy that, if Poland continues to implement the measures specified in the report, should soon be able to cope with competitive pressure and market forces within the EU. The EU report emphasizes that 2001 had seen intensive work with significant progress on the adoption of the *acquis communautaire*.

The economic dialogue between Poland and the EU has recently been significantly strengthened, due to the Pre-Accession Economic Program, or PEP. The aim of the PEP, which is prepared by the Polish authorities and evaluated by the European Commission, and the overall Pre-Accession fiscal surveillance procedure, is to bring Poland closer to the economic policy co-ordination procedures that it will follow when it becomes a member state of the EU. It is discussed at meetings between the Economic & Financial Committee and candidate countries. The European Commission then reports its assessment of the PEP estimations, fiscal notifications and conclusions of the meeting to the ECOFIN Council and the final opinion on the PEP is eventually communicated. As a member state, Poland will be obliged to comply with a Convergence Program (preparing a member state with a derogation for the adoption of the euro, to achieve a high standard of sustainable convergence and meet the Maastricht criteria) and the Stability Program (helping a member state which meets the Maastricht criteria and has adopted the euro to maintain a high degree of sustainable convergence). Poland expects to update the PEP by mid-August 2002.

THE ECONOMY

Background

On January 1, 1990, the first post-communist Government introduced the economic reform program known as the “Economic Transformation Program” or the “Balcerowicz Plan”, named after the first post-communist Deputy Prime Minister and Minister of Finance. This radical economic reform program was designed to stabilize the economy and promote structural reforms. Key elements included drastic reductions of state subsidies to state enterprises, elimination of administrative controls on most prices, introduction of partial convertibility of the zloty and opening the economy to external competition.

After the implementation of the Balcerowicz Plan and throughout the mid 1990s, average GDP growth rate exceeded five per cent., although in 1998, GDP fell to 4.8 per cent. (primarily as a result of the Russian economic crisis in August of that year which is estimated to have reduced the GDP growth rate by 1.5 to 2 per cent.). GDP continued to grow in 1999 and 2000, albeit at reduced levels, reaching 4.1 per cent. and 4.0 per cent. respectively. A slowdown of the Polish economy in the first half of 1999 was, to a certain extent, offset by the revival of the economy in the second half of 1999, although this was accompanied by a surge in inflation, where headline inflation reached 9.8 per cent. in December 1999. The annual average rate of inflation for 1999 was 7.3 per cent. The growth in GDP in the second half of 1999 was maintained until the second half of 2000, when domestic demand slowed significantly. However, the fall in domestic demand was compensated by an increase in exports.

Preliminary estimates for 2001 indicate that the growth of the economy has continued to decelerate in 2001, with preliminary data showing that the growth rate for the year amounted to 1.0 per cent. Domestic demand continued to remain slow in 2001, primarily as a result of stronger than predicted effects of restrictive monetary policy.

Twelve years of post-communist reforms have resulted in deep structural changes in the economy, the most significant change being the development of the private sector. Since 1990, the contribution of the private sector to production and employment has significantly increased, due to the growth of newly established private enterprises and privatization of state-owned assets and enterprises. Prior to 1990, the private sector accounted for less than one quarter of total GDP and was largely concentrated in agriculture, services and small-scale manufacturing. Since then, the private sector has grown substantially. In 2000, 73 per cent. of the Polish workforce was working in the private sector, producing approximately two-thirds of GDP.

Between 1998 and mid-2000, Poland experienced a volatile rate of inflation, reaching its peak year-on-year inflation rate, measured by the consumer price index, or CPI, of 11.6 per cent. in the third quarter of 2000. However, since then, inflationary pressure eased and inflation dropped to 8.5 per cent. at the end of December 2000. Restrictive monetary policy in the course of 2001 resulted in a continued lowering of inflation to 3.6 per cent. in December of that year.

As a general principle, the Government considers it to be inappropriate for it to own and manage businesses. The primary goal of the privatization of state and local government properties is, therefore, to reduce the role of the Government in the Polish economy and to create a favorable environment for private sector development.

In late January 2002, the Government approved a four-year economic plan, entitled “Entrepreneurship—Development—Labor”, known as the EDL Plan, to lower unemployment, develop infrastructure and restore economic growth to 5 per cent. per year by 2005. The EDL Plan also includes proposals for the amendment of Poland’s restrictive labor code, the reduction of bureaucratic obstacles to business (by reducing the number of approvals and permits required to conduct business), the mobilization of new financing for Poland’s infrastructure (by using state guarantees to generate private financing) and the encouragement of employers to hire new graduates (by subsidizing employers’ social security contributions and supporting volunteer jobs in local administration). To improve the quality of housing and to increase activity in the housing construction sector, the Government plans to implement a program of long-term fixed rate mortgage loans. The EDL Plan also provides

for an annual public expenditure growth rate of one percentage point above the forecasted rate of inflation. As a result, potential increases in public revenues will not be used to increase public spending. The structure of expenditures in the budget will be reorganized by redirecting spending away from social transfers to infrastructure modernization projects. The EDL Plan also assumes that Poland will accede to the EU in 2004 and, therefore, aims to prepare the economy for the absorption of pre-accession and structural funds.

Recent Economic Performance

GDP

Real GDP grew by 4.1 per cent. in 1999, compared to 4.8 per cent. in 1998 and 6.8 per cent. in 1997. The deceleration of the growth rate of real GDP in 1998 and 1999 was primarily caused by the Russian economic crisis in August of 1998. In 2000, despite very tight monetary conditions, the growth remained relatively constant at 4.0 per cent. In the first half of 2001, a slump in domestic demand continued due to stronger than expected effects of the restrictive monetary policy implemented in September 1999. Over the course of 2001, notwithstanding positive export performance and an increase in consumer demand (by 1.8 per cent. as compared to the year 2000), aggregated domestic demand contracted by 1.9 per cent. owing to lower investment demand and a decrease in the stock of inventories, resulting in GDP growth of 1.0 per cent. in 2001.

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Nominal GDP (in PLN billions)	472.4	553.6	615.1	685.0	721.6 ⁽¹⁾
\$ equivalent (in billions)	144.0	158.4	155.0	157.6	176.3
Real GDP growth (per cent.)	6.8	4.8	4.1	4.0	1.0 ⁽¹⁾
Nominal per capita GDP (in PLN billions)	12,221	14,316	15,914	17,725	18,674 ⁽¹⁾
\$ equivalent (in billions)	3,725	4,098	4,011	4,078	4,561
% change (year-on-year)	0.0	10.0	-2.1	1.7	11.8 ⁽¹⁾
złoty/\$ Exchange Rate (average)	3.2808	3.4937	3.9675	4.3464	4.0939
% change (year-on-year)	21.7	6.5	13.6	9.6	-5.8

(1) Preliminary data.

Source: GUS—Central Statistical Office

Inflation

Since 1990, the year-on-year CPI inflation rate has been gradually declining, from almost 250 per cent. at the end of 1990 to 3.6 per cent. in 2001. The only exception to this trend was in 1999, when inflation rose from 8.6 per cent. at the end of 1998 to 11.6 per cent. in August 2000. Since then, the CPI rate has continued to decrease steadily as a result of a high level of supply of agricultural products (which caused inflation in food prices to fall), declining global crude oil prices and the appreciation of the złoty against other currencies. As at the end of December 2000, the inflation rate was 8.5 per cent. (10.1 per cent. yearly average) and as at December 31, 2001, it had declined to 3.6 per cent. (5.5 per cent. yearly average).

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

The year-on-year annual increase in the producer price index, or PPI, has fallen from nearly 193 per cent. at the end of 1990 to 5.6 per cent. at the end of 2000. Over the course of 2001, annual growth in the PPI contracted further and in December 2001, producer prices were 0.4 per cent. lower compared with December 2000.

The following table shows the year-on-year rates of CPI and PPI for the years ended December 31, 1997 to 2001:

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Consumer Prices (CPI)	13.2	8.6	9.8	8.5	3.6
CPI (yearly average)	14.9	11.8	7.3	10.1	5.5
Producer Prices (PPI)	11.5	4.8	8.1	5.6	-0.4

Source: GUS—Central Statistical Office

Wages

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

	<u>1997</u>	<u>1998</u>	<u>1999⁽¹⁾</u>	<u>2000</u>	<u>2001</u>
			(%)		
All Sectors:					
Nominal Wages	23.5	17.0	12.5	11.1	8.9
Real Wages	7.3	4.5	4.7	1.0	3.3
Enterprise Sector: ⁽²⁾					
Nominal Wages	22.9	17.4	10.6	11.4	7.1
Real Wages	6.8	4.8	3.0	1.3	1.5

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

(2) Includes forestry, logging and related service activities, sea fishing, mining, quarrying, manufacturing, electricity, gas, steam and hot water supply, construction, wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, hotels and restaurants, transport, storage and communication, real estate activities, renting and business activities, sewage and refuse disposal, sanitation and similar activities, recreational, cultural and sporting activities and other service activities.

Source: GUS—Central Statistical Office

Under Polish law, wage levels for employees are determined by negotiations between employees and management, guided by indicative norms set by a tripartite commission of representatives of the Government, employees and employers. This commission sets annual limits for permissible increases in nominal wages for employees of state-owned enterprises. These limits were 17 per cent. in 1997, 12.5 per cent. in 1998, 10.5 per cent. in 1999, 6.8 per cent. in 2000 and 9.2 per cent. in 2001. For 2002, the limit has been set at 5.6 per cent.

Employment

Before 1989, unemployment was not officially recognized in Poland for political reasons, and overemployment was evident in many enterprises. Having reached a peak of 16.4 per cent. in 1993, the unemployment rate fell to 10.4 per cent. at the end of 1998 before rising to 15.1 per cent. in 2000 and 17.4 per cent. in 2001. The rises in 2000 and 2001 were mainly attributed to slower growth, demographic effects, ongoing restructuring of industry and an increase in the number of people registering as unemployed as a result of the increased benefits due to the health system reforms implemented at the beginning of 1999 (see “Public Finance—Social Expenditure—Health Service Reform”).

The following table shows the unemployment rate in Poland for the years ended December 31, 1997 to 2001:

<u>1997</u>	<u>1998</u>	<u>1999</u> (%)	<u>2000</u>	<u>2001</u>
10.3	10.4	13.1	15.1	17.4

Source: GUS—Central Statistical Office

The following table shows the number of persons employed in Poland by major sector (excluding budgetary entities involved in national defense and public safety) for the years 1997 to 2001:

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2000⁽¹⁾</u>	<u>2001⁽¹⁾</u>
	(thousands)					
Agriculture, hunting and forestry	4,365	4,344	4,322	4,304	141	128
Fishing	13	12	12	10	7	5
Industry	3,761	3,650	3,427	3,134	2,741	2,570
Construction	948	939	915	815	577	491
Trade and repair	2,061	2,106	2,094	2,074	871	855
Hotels and restaurants	202	222	216	226	106	104
Transport, storage and communication	865	859	838	779	598	551
Financial intermediation	305	327	389	299	247	233
Real estate and business activities	688	752	776	823	516	526
Public administration and defense	432	431	440	493	475	521
Education	902	908	908	903	900	875
Health and social work	1,029	1,021	967	908	838	774
Other community, social and personal service activities . .	371	350	388	391	196	184
Total Employed Persons	<u>15,941</u>	<u>15,921</u>	<u>15,692</u>	<u>15,159</u>	<u>8,181</u>	<u>7,817</u>

(1) As from 2000, data covers non-complete statistical population, excluding private farmers and economic entities employing up to 9 persons.

Source: GUS—Central Statistical Office

Strikes, a frequent form of political and economic protest in the 1980s, have changed in nature and frequency during recent years. The number of strikes in Poland decreased from 6,351 in 1992 to 44 in 2000. The number of working days lost through strikes also declined from 2,360,392 in 1992 to 74,266 in 2000. The sharp decline in the number of strikes during this period was, among other things, a consequence of the overall improved performance of the economy. Whilst no firm data is available for 2001, preliminary indications show that the number of days lost through strikes in 2001 was lower than in 2000.

The Privatization Process

After 12 years of implementation, the sweeping process of ownership transformations in Poland brought the number of state enterprises significantly down from the original figure of 8,453 in 1990. Revenue from privatization amounted to PLN 70.3 billion between 1990 and 2001, of which 94 per cent. has been derived from capital privatization. See “—Capital Privatization”. Poland has utilized several methods to facilitate the transfer of assets from state control to private ownership, including privatization, liquidation, bankruptcy and transfers to municipalities.

The privatization process accelerated in the mid-1990s with the passing of the law on commercialization and privatization of state enterprises in 1996. Whilst privatization proceeds accounted for only PLN 800 million in 1993, revenues were PLN 13.3 billion in 1999 and reached PLN 27 billion in 2000 when receipts were increased by the privatization of the incumbent telecommunications operator, TP S.A. for about PLN 18 billion.

However, since 2000 revenues from privatization have fallen, amounting to PLN 6.8 billion in 2001, and are forecast to be PLN 6.8 billion in 2002, although by the end of May, only some PLN 660 million had been realized. The Government has planned privatization receipts of between PLN 6–7 billion for each fiscal year from 2003 until 2006. The Government does not expect any substantial increase in these revenues in the short term as the general decrease in capital markets activity since 2000 has led to a fall in asset prices and its current policy is to use privatization primarily as a means of restructuring particular sectors rather than as a means of financing the budget deficit.

Under the EDL Plan, the Government has provided that the bulk of the privatization process should be completed by 2005, leaving Poland's ownership structure similar to those of EU member states. Poland will, however, continue to exercise full state control in infrastructure and network companies, including air and sea ports, railway infrastructure, the electricity grid and the gas transmission pipelines. In addition, Poland will continue to exercise state control over public utilities and certain other state monopolies (including gambling and lottery).

The primary methods for the transfer of state owned enterprises and assets to private ownership are direct privatization and capital privatization.

Direct Privatization

Direct privatization involves the sale of the assets of a state enterprise or the entering into a joint venture or leasing arrangement with a potential investor. As at the end of March 2002, out of 2,095 projects approved by the Minister of the State Treasury for direct privatization, 1,946 entities (92.9 per cent.) had been completed and such entities were removed from the register of state-owned companies. Between 1990 and the end of 2001, direct privatization accounted for PLN 4.2 billion of privatization revenue receipts.

Capital Privatization

Capital (or indirect) privatization involves the commercialization of a state enterprise prior to sale. The state entity is first converted into a joint stock company owned and operated by the Ministry of the State Treasury, the process known as "commercialization", and, thereafter, the shares in such company are sold, either as part of a public offer or directly to a strategic investor.

As at the end of March 2002, of the 1,523 entities converted into state-owned joint stock companies, shares or stakes of 982 of such companies had been sold, including:

- 326 companies by way of indirect privatization (of which 126 were acquired, in whole or in part, by foreign investors); and
- 512 companies, the shares of which were transferred to National Investment Funds, or NIFs, under the National Investment Fund Program, known as the NIF Program.

The remaining 144 companies were commercialized through other methods of privatization.

The NIF Program, which was established in 1993, was developed with the intention of facilitating the privatization process and, at the same time, reducing administration costs. All eligible adult citizens were entitled to participate in the NIF Program by purchasing a universal share certificate entitling them to one share in each of the NIFs for a nominal amount of PLN 20. Approximately 90 per cent. (25.8 million) of those eligible purchased a universal share certificate. As at the end of 2001, 27 companies in the NIF Program were listed on the Warsaw Stock Exchange, or WSE, and a further 14 companies were listed on the CeTO market, a regulated, secondary, public over-the-counter market. In addition, 95 companies had either been liquidated or were undergoing bankruptcy proceedings.

Other than in one NIF, the State Treasury's ownership does not exceed 15 per cent. of the shares of any NIF. The State Treasury owns 16.2 per cent. of the shares of NIF Piast. In addition, the state's ownership of the portfolio of NIF companies within the NIF Program does not exceed 25 per cent. in any individual company.

As at December 31, 2001, the State Treasury held stakes in 1,762 companies, including 485 wholly-owned companies, 103 companies with a controlling holding of more than 50 per cent. and 1,174 companies in which it held between 25 and 50 per cent. of the outstanding shares.

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

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

Privatization by Sector

Since the privatization process began in 1990, privatization has been completed in a number of sectors in the economy, including banking, food processing, tobacco, cement production, construction, electro-engineering, wood, cosmetics, home appliances, trade, automotive industry, shipbuilding, furniture manufacture and paper production. In addition, the privatization process is well advanced in sectors including telecoms, insurance, transport, pharmaceutical, oil, sugar, spirits and health resorts. The privatization of the electricity, energy, gas, mining, chemical, defense and steel industries has commenced, although significant restructuring and deregulation is required in these sectors before the privatization process can be meaningfully advanced.

Banking

As at the end of 2001, 61.3 per cent. of banking sector equity in Poland belongs to foreign holders. Since October 1992, the following 10 banks have been privatized: BRE Bank S.A., Wielkopolski Bank Kredytowy S.A. (now Bank Zachodni WBK S.A. as a result of a merger between WBK S.A. and Bank Zachodni S.A.), Bank Śląski S.A. (in September 2001 Bank Śląski S.A. became a member of the ING Group and began operations under the name of ING Bank Śląski S.A.), Bank Gdański S.A. (now BIG Bank Gdański S.A. as a result of a merger through transfer of BG assets to BIG S.A.), Bank Handlowy w Warszawie S.A. (a member of Citigroup), BPH PBK S.A. (formerly Powszechny Bank Kredytowy S.A. and Bank Przemysłowo-Handlowy S.A.), Polski Bank Rozwoju S.A., Bank Pekao S.A., and Bank Zachodni S.A. (now Bank Zachodni WBK S.A. after a merger with WBK S.A.).

Out of 65 commercial banks currently operating in the banking sector, the State Treasury indirectly controls four banks (Bank Rozwoju Budownictwa Mieszkaniowego S.A., Bank Pocztowy S.A., Bank Ochrony Środowiska S.A., Wschodni Bank Cukrownictwa S.A.), and maintains direct control over three banks (Bank Gospodarstwa Krajowego, or BGK, Powszechna Kasa Oszczędności Bank Polski S.A., known as PKO BP S.A., and Bank Gospodarki Żywnościowej S.A.). In accordance with the current plans for further privatization of the banking sector, the State Treasury will sell a portion of those banks' shares (other than BGK) through their listing on the WSE, although the State Treasury intends to maintain control of such banks.

Telecoms

The first stage of the privatization of Telekomunikacja Polska S.A., or TP S.A., was carried out in 1998 with the sale of 15 per cent. of TP S.A.'s shares by a public offer.

In 2000, a further 35 per cent. of TP S.A.'s shares were sold to a consortium of France Telecom and a Polish company Kulczyk Holding. In September 2001, the consortium signed a contract to purchase an additional 12.5 per cent. of TP S.A. shares. At present, the State Treasury owns 17.5 per cent. of shares, France Telecom and Kulczyk Holding 47.5 per cent., and small investors 29.9 per cent. France Telecom and Kulczyk Holding also have an option to purchase an additional 2.5 per cent. of the shares (and one further share) by the end of 2002, which would give the consortium a controlling shareholding. The third stage of TP S.A.'s privatization is still pending, although it is possible that 10 per cent. of the shares of TP S.A. may be sold by way of a public offer.

Insurance

In March 1999, the Council of Ministers approved the privatization strategy for the largest Polish insurance company, Powszechny Zakład Ubezpieczeń S.A., known as PZU S.A., and in November 1999 an agreement was signed for the sale of 30 per cent. of PZU S.A.'s shares to the consortium of Eureko B.V. and BIG Bank Gdański S.A. In April 2001, a supplementary agreement was signed to the 1999 agreement under which 21 per cent. of PZU S.A. shares would be offered to Eureko. By the end of 2001, the required permission for the sale from the Minister of Internal Affairs and Administration had not been obtained. At the same time, the Minister of the State Treasury offered the consortium conditions for further privatization which would be based on a so-called partnership in privatization. In April 2002, the Council of Ministers decided that the State Treasury should maintain control over PZU S.A. and approved the Minister of the State Treasury's right to renunciation of the second supplementary agreement. In addition, the Council of Ministers approved the sale of 21 per cent. of PZU S.A.'s shares to Eureko B.V. through a public offer which is planned for 2003.

Oil and Gas

To date, the Government has been implementing a privatization program in the oil sector based on the market model popular in other European countries, namely one large entity (25–50 per cent. market share), several medium size entities (15–25 per cent. market share) and several small entities. By the end of March 2002, Nafta Polska S.A. (a State Treasury company established in 1996 to participate in the restructuring and privatization process of the Polish oil sector) had implemented the following principal steps:

- Sale of the first and second tranches of shares in Polski Koncern Naftowy Orlen S.A., known as PKN ORLEN S.A. (the largest Polish company in the fuel sector in November 1999 and June 2000, respectively). At present, negotiations are being conducted to place the 17.6 per cent. block of shares in PKN ORLEN S.A. held by Nafta Polska S.A. with strategic investors, although this process is not expected to be completed until later this year;
- Sale of Dyrekcja Eksploatacji Cystern Sp. z o.o. (company specializing in railway transport of liquid fuels—one of the largest cistern fleets in Europe) in March 2001;
- Sale of 75 per cent. of shares in Rafineria Jedlicze S.A. in 1998 and Rafineria Trzebinia S.A. refineries in 1997; and
- Negotiations are being carried out regarding the sale of Rafineria Gdańska S.A.'s shares to a consortium consisting of Rotch Energy Ltd. and Lukoil. Another option which is also being considered is to merge Rafineria Gdańska S.A. with PKN ORLEN S.A. (if the transaction with Rotch Energy Ltd. and Lukoil does not materialize).

Restructuring activities in Polskie Górnictwo Naftowe i Gazownictwo S.A., or PGNiG, initiated in 1999, have not led to substantial changes in the organizational, legal and economic structure of the company. Since

January 2002, an inter-ministerial team has been working on a new gas sector privatization program, which is to be completed by the end of July 2002. In order to create a competitive gas market in Poland, gradual modification of the role fulfilled by PGNiG and the entire gas sector has been envisaged through the following activities:

- separation of PGNiG subsidiaries which will be responsible for gas transmission in low- and medium-pressure networks as well as development and maintenance of infrastructure, and then independent sale of stakes in regional distribution companies (distribution sub-sector);
- separation of PGNiG subsidiaries responsible for gas trading which will be the first privatized entities in the sector (the trading sub-sector);
- separation from PGNiG of a company responsible for oil and gas exploration and production;
- creation of a framework for the establishment of PGNiG as the operator of the gas transmission networks.

Full liberalization and deregulation of the Polish gas market will be possible after problems relating to certain long-term contracts based on the “take or pay” principles have been resolved.

Electricity

Privatization of the electric energy sector has been implemented pursuant to the *Integrated Program for Privatization of the Electric Energy Sector and Introduction of the Energy Market*, adopted by the Council of Ministers in May 2000 and updated in June 2001. The sector comprises 69 entities in three sub-sectors: generation, distribution and trade, and the transmission system.

By the end of March 2002, privatization had been completed in four of the 17 power plants, seven of the 19 heat and power plants and one of the 33 distribution companies.

Currently, activities are being conducted aimed at the privatization of the following eight energy distributors (Grupa Północ, or G-8): ZE Koszalin S.A., ZE Słupsk S.A., ZE Energa Gdańsk S.A., ZE Elbląg S.A., ZE Olsztyn S.A., ZE Toruń S.A., ZE Płock S.A. and Energetyka Kaliska S.A. which, together, control 16 per cent. of the energy distribution market. At the end of March 2002, the Minister of the State Treasury decided to conduct simultaneous negotiations with two potential investors.

Advanced privatization activities have also been conducted with respect to the Warsaw-area energy distribution company STOEN S.A. (5.5 per cent. of the market), and in March 2002, an investor short list was finalized. It is expected that the privatization will be completed by the end of September 2002.

On April 2, 2002, the Council of Ministers adopted the plan on *Implementation estimate and correction of assumptions of Polish energy policy until 2020*. The plan envisages that transformation in that sector will be aimed at the establishment of stable energy prices, which would be beneficial for the domestic economy and provide competition with prices of energy generated abroad.

Under the framework of consolidation, the following is anticipated:

Generation:

- merging lignite mines with lignite-fuelled power plants;
- grouping of power plants: Bełchatów, Opole and Turów, or BOT, as the strategic energy resource of the State Treasury subject to limited privatization in the future;
- gradual privatization of the remaining power plants (sale of majority stakes, with the exception of BOT).

Trade and Distribution:

- continuation of privatization processes in the G-8 group and STOEN;
- separation of energy trading companies and infrastructure companies (distribution of electric energy, development and utilization of electric energy transmission infrastructure) and their subsequent privatization.

Transmission:

- separation of electric energy trade from Polskie Sieci Elektroenergetyczne S.A., known as PSE, (Polish Power Grid—the entity currently responsible for transmission of electric energy) while retaining its function of balancing the national energy system;
- establishment of basic functions for the PSE as the operator of the transmission system and inter-system links, as well as the separation of entities whose operational profile differs from the basic functions of PSE (including the separation of commercial activities from public obligations as the transmission operator);
- gradual privatization of the transmission system operator after 2005.

Steel

The privatization of the steel sector was identified as a goal in *Restructuring and privatization program of the steel sector*, adopted by the Council of Ministers in 2001 and later updated in March 2002. In accordance with the assumptions of that program, a decision was made to restructure and consolidate the Polish steel sector prior to privatization. In accordance with the ordinance of the Ministry of Economy of November 2001 *On the list of steel plants subject to restructuring*, 20 steel plants (including 12 privatized entities) were included in the restructuring process. The State Treasury holds all the shares in seven steel plants, a majority stake in two entities and a minority stake in ten. In March 2002, the Council of Ministers approved the establishment of a steel concern under the name of Polskie Huty Stali S.A. (Polish Steel) and the potential non-public sale of an 85 per cent. block of shares in Huta Cedler S.A., Huta Florian S.A., Huta Katowice S.A. and Huta im. Tadeusza Sendzimira S.A., through the transfer of those assets to that newly established concern. At the same time negotiations are being conducted with international sector investors on the issue of the future privatization of steel plants which will be carried out by sending non-public offers to selected investors.

Hard Coal

The privatization process has begun in two companies, although, in both cases, it has not progressed its initial stage from Privatization of the remaining entities from the hard coal sector, in accordance with the document adopted by the Council of Ministers on April 2, 2002 entitled, *Implementation estimate and correction of assumptions of the Polish energy policy until 2020*, will begin with the restructuring and consolidation of the sector enterprises. The primary objectives are to achieve profitability in production of hard coal and systematically to reduce the sector's liabilities. Initially, the following steps have been considered:

- restructuring the mines into groups of three to four companies (being two or three energy coal and one coking coal company);
- establishment of a coke production company on the basis of coking coal mines, Zdzeszowice and Przyjaźń coking plants and the Polski Koks (Polish Coke) company.

During the first stage of privatization, the Ministry of the State Treasury plans to make available at least majority blocks of shares in all mines scheduled for sale. The ultimate goal of the State Treasury is to sell the remaining stakes and withdraw from ownership within the coal industry.

Air Transport

In November 1999, an agreement was signed for the sale of 10 per cent. of the shares of Polskie Linie Lotnicze LOT S.A., or PLL LOT S.A., to a Swiss carrier, SairGroup (the parent company of Swissair). In January 2000, SairGroup increased its holding to 37.6 per cent. After Swissair's bankruptcy in November 2001, the State Treasury increased its share of equity in the company from 52 per cent. to 67.9 per cent. by means of a capital injection. At the beginning of April 2002, PLL LOT S.A. signed a co-operation agreement with Lufthansa, the first stage in the process which should lead to PLL LOT S.A. becoming a member of the Star Alliance in due course.

Pharmaceutical

So far, ten of Poland's 14 pharmaceutical sector enterprises have been privatized. Direct privatization was applied in three cases. Shares of two companies were made available in a public offer and majority blocks of shares in four companies were made available to strategic investors by tender. One entity was included in the NIF Program and later sold to a German investor.

Work continues on the preparation of a restructuring program for the pharmaceutical sector. In April 2002, the establishment of a pharmaceutical holding company was approved for the remaining enterprises. Ultimately, the holding company would be privatized through a public offer.

Bulk Chemicals

The first privatizations in the bulk chemicals sector were carried out in 1995 and 1996. In 2000, preparations for further privatizations were initiated among Poland's four largest bulk chemicals companies, Zakłady Chemiczne Police S.A. chemical plant, Zakłady Azotowe Kędzierzyn S.A. nitrogen plant, Zakłady Azotowe Puławy S.A. nitrogen plant and Zakłady Azotowe in Tarnów S.A.– Mościce nitrogen plant, although no strategic investors could be found at that time. The Government is currently revising its strategy for privatization in this sector and intends to divest certain product-specific plants pursuant to the Program on Privatization and Restructuring of the Bulk Chemicals Sector.

Sugar

As of the end of 2001, Poland had 76 sugar plants. The majority of such sugar plants (62 entities) was consolidated under the framework of four Sugar Companies (Lubelsko-Malopolska Spółka Cukrowa S.A., Mazowiecko-Kujawska Spółka Cukrowa S.A., Poznańsko-Pomorska Spółka Cukrowa S.A. and Śląska Spółka Cukrowa S.A.). In June 2001, the Government approved the concept of the establishment of Krajowa Spółka Cukrowa S.A., a National Sugar Company, relating to the sugar plants which had not yet been privatized. Due to certain legal obstacles faced by the State Treasury relating to the privatization of these companies, this process is currently under review.

Spirits

The spirits sector consists of 21 state-owned enterprises. By the end of 1999, the Ministry of the State Treasury had completed the commercialization of 16 such enterprises. The remaining five entities have been scheduled for direct privatization.

By the end of April 2002, shares of four entities had been sold, and five enterprises had been directly privatized. By the end of 2002, it is envisaged that privatization agreements regarding the sale of shares in distilleries in Białystok, Siedlce, Łańcut, Toruń and Wrocław will have been reached. The offer documentation for the sale of shares in the distillery in Leszno has also been prepared.

Restitution

Prior to 1990, many individuals and businesses were deprived of their property under post-war communist nationalization or expropriation laws. Under current law, restitution claims may only be enforced if the property was nationalized illegally. Claims for restitution have been successful in cases where both administrative and civil procedures have been used by the plaintiffs. Between 1989 and 1997, approximately 10,000 claims were filed of which approximately 4,500 were adjudicated (70 per cent. being decided in favor of the claimants). Property owned by the religious communities continues to be returned under current restitution proceedings contained in the Administrative Code.

In an action commenced in June 1999 in the United States District Court for the Eastern District of New York on behalf of eleven named plaintiffs, Poland and the Ministry of the Treasury of Poland were named as defendants. Plaintiffs claim to represent a world-wide class of Jews whose property was expropriated during or after World War II. On December 22, 1999, the defendants filed a motion to dismiss the actions for lack of jurisdiction. At the date of this prospectus, the court has not yet ruled on this matter.

The restitution law prepared by the previous Government and passed by the Parliament in January 2001 was vetoed by the President and did not come into force. After the new Government had been formed in September 2001, work on a new law commenced. As it would not, in many cases, be possible to make direct restitution of property to former owners and so as to respect the constitutional principle of property protection, the draft law envisages the following:

- Persons entitled to compensation will be former owners of real property which is currently within the Polish territory who, at the moment when the loss of property occurred, were Polish citizens, irrespectively of their current citizenship and nationality (including heirs);
- Claims will be examined by way of administrative procedure and decisions in those matters will be issued by relevant province governors;
- Compensation will be paid in vouchers, with the reservation that the total amount of such vouchers will depend on the balanced value of the estimated number of claims and economic potential for their fulfillment.

It is estimated that the value of State Treasury assets allocated to the implementation of the law will amount to approximately PLN 22 billion.

Foreign Direct Investment

According to estimates by the Polish Agency for Foreign Investment, or PAIZ,* the cumulative aggregate of foreign direct investment, or FDI, transactions in Poland between 1990 and 2001 was \$56.8 billion. The inflow of FDI in 1998 was \$9.6 billion, compared to \$7.9 billion in 1999 and \$10.6 billion in 2000 (including \$4.5 billion privatization receipts from the sale of a further block of TP S.A. shares). In 2001, FDI fell to \$7.1 billion.

* Statistics prepared by PAIZ are calculated on a different basis from those prepared by NBP. PAIZ obtains statistical information from an external source entity, unlike NBP which collects data directly. PAIZ looks at total investment contemplated in investment agreements, rather than the amount of money which moves through the Polish banking system. In addition, where payments are made by installments, PAIZ will calculate the amount of overall investment (forward looking), while NBP will only include the amount of the then current installment. Finally, PAIZ follows the OECD definition of "direct investment", which includes funds paid by a foreign entity on behalf of a Polish entity to serve such Polish entity's foreign commitments. NBP estimates FDI by reference only to money related to a foreign direct investment that passes directly through the banking system.

In March 2002, a new law on Financial Support for Investment was passed. According to the new law, investment grants covering up to 25 per cent. of investment outlays, subject to reductions in certain regions, employment grants of euro 4,000 per employee (for two years) and training grants are among the incentives provided under the law.

Subject to certain restrictions, the Polish Foreign Investment Law generally allows for full repatriation of capital, dividends and profits by foreign investors. Generally, foreign investors are not required to obtain any special permits to invest in Polish companies, although there are restrictions on the maximum shareholdings by foreign investors in certain sectors, such as TV networks and newspaper groups.

The following table shows a breakdown of total FDI by country of origin from 1990 to and as at the end of 2001:

	<u>Capital Invested</u>	<u>Planned Investment</u>	<u>Number of investors</u>
		<i>(millions of \$)</i>	
France	10,220.8	1,707.8	87
USA	7,806.0	1,916.8	125
Germany	7,138.3	1,201.2	207
Netherlands	4,584.6	518.3	74
Italy	3,501.4	1,163.4	61
Great Britain	2,667.0	290.9	40
International	2,465.7	763.5	18
Sweden	2,312.1	350.5	57
Korea	1,618.7	20.0	4
Russia	1,286.4	301.0	2
Belgium	1,162.1	71.8	22
Ireland	1,041.2	1.5	3
Denmark	915.0	180.9	38
Cyprus	914.8	—	2
Switzerland	904.8	320.7	22
Austria	818.7	80.8	38
Norway	546.3	173.9	15
Japan	517.5	111.0	12
Greece	501.5	4.0	2
Portugal	493.1	66.6	4
Finland	424.1	50.8	18
Spain	308.2	—	9
Canada	250.2	37.4	13
Croatia	173.0	16.0	2
Turkey	100.1	58.0	4
Luxembourg	77.8	4.0	6
Australia	67.0	4.0	2
Czech Republic	55.8	—	4
Israel	55.4	20.0	4
China	45.0	45.0	2
Slovenia	35.0	15.0	2
South Africa	35.0	95.5	2
Lichtenstein	31.9	27.0	4
Taiwan	5.7	200.0	1
Total value of FDI over \$1 million	53,152.2	9,817.3	906
Estimated value of FDI below \$1 million	3,681.3		
Total FDI in Poland	<u>56,833.5</u>		

Source: PAIZ

The following table shows a breakdown of total FDI in Poland by sector (classified using the European Classification of Activities) from 1990 to and as at the end of 2001:

	<u>Capital Invested</u>	<u>Planned Investment</u>
	<i>(millions of \$)</i>	
Manufacturing:	21,881.7	4,171.7
Food, drinks and tobacco products	5,505.7	526.9
Transport equipment	5,395.0	313.9
Other non-metal goods	3,060.0	820.3
Pulp and paper, publishing and printing	1,567.3	341.4
Electrical machinery and apparatus	1,683.2	291.6
Chemicals and chemical products	1,304.6	372.4
Rubber and plastics	612.0	230.5
Furniture and consumer goods	479.2	292.9
Metals and metal product	447.7	782.7
Wood and wooden products	1,290.7	38.2
Machinery and equipment	271.7	113.9
Fabrics and textiles	248.3	46.1
Leather and leather products	16.3	0.9
Financial intermediation	12,251.9	152.6
Transport, storage and communication	5,710.6	493.9
Trade and repairs	6,054.3	973.5
Construction	2,764.8	982.7
Community, social and personal services	1,624.1	581.0
Power, gas and water supply	1,419.8	580.7
Hotels and restaurants	617.8	232.2
Real estate and business activities	627.8	1,636.1
Mining and quarrying	87.0	—
Agriculture, hunting and forestry	40.4	12.9
Total value of FDI over \$1 million	53,152.2	9,817.3
Estimated value of FDI below \$1 million	3,681.3	
Total FDI in Poland	56,833.5	

Source: PAIZ

Principal Sectors of the Economy

Until the end of 1995, net exports and investment were the principal factors behind Poland's GDP growth, but since the end of 1995, GDP growth has increasingly come from private domestic consumption as well as investment.

The following table illustrates the composition of GDP (as a percentage of total GDP) by sector for the years 1997 to 2001:

	1997	1998	1999	2000	2001 ⁽¹⁾
			(%)		
Agriculture, hunting and forestry	4.8	4.1	3.4	3.2	2.9
Industry	25.7	24.2	23.7	23.3	22.3
Mining and quarrying	3.1	2.5	2.3	2.3	2.2
Manufacturing	19.6	18.9	18.4	18.1	16.9
Energy; gas; water supply	3.0	2.8	3.0	2.9	3.2
Construction	6.9	7.6	7.7	7.4	6.6
Trade and repair	18.4	18.1	18.0	18.4	19.4
Hotels and restaurants	0.9	1.0	1.1	1.2	1.2
Transport, storage and communication	5.7	5.6	5.9	6.0	6.0
Financial intermediation	1.2	1.4	1.9	2.0	2.1
Real estate and business activities	8.5	10.2	10.3	11.1	12.2
Public administration and defense	4.7	4.7	4.4	4.7	11.8 ⁽²⁾
Education	3.7	3.7	3.9	4.0	—
Health and social work	3.6	3.5	3.3	3.0	—
Other community, social and personal service activities	3.3	3.5	3.5	3.6	3.8

(1) Preliminary data.

(2) As from 2001, data relating to public administration and defense, education and health and social work are included as one sector.

Source: GUS—Central Statistical Office

The following table illustrates the growth of GDP (as a percentage of total GDP) by selected sectors for the years 1997 to 2001:

	1997	1998	1999	2000	2001 ⁽¹⁾
			(%)		
Agriculture hunting and forestry	1.1	5.9	(0.6)	(8.2)	(7.7)
Fishing	(10.5)	(25.6)	66.3	(1.9)	(35.7)
Industry:					
Mining and quarrying	(4.3)	(10.8)	(1.6)	(1.7)	(4.7)
Manufacturing	14.4	7.5	4.2	7.0	(0.8)
Energy; gas; water supply	0.6	(1.2)	(1.5)	6.7	4.2
Total industry	10.3	4.3	3.0	6.5	(0.6)
Construction	13.6	9.3	3.5	0.0	(7.6)
Trade and repair	8.1	5.0	7.1	3.9	4.7
Hotels and restaurants	7.2	12.7	17.0	7.1	3.4
Transportation, storage and communication	5.6	6.3	10.5	3.5	(0.8)
Financial intermediation	2.9	9.2	36.3	13.8	4.5
Real estate and business activities	(0.7)	3.4	(2.6)	3.5	4.6
Public administration and defense	5.9	1.6	6.2	6.1	0.7 ⁽²⁾
Education	0.9	4.9	3.3	0.0	—
Health and social work	0.7	0.5	(13.8)	(0.3)	—
Other community, social and personal service activities	(6.1)	1.3	2.8	2.5	4.9
Private households with employed person	8.8	4.8	2.2	2.1	7.8

(1) Preliminary data.

(2) As from 2001, data relating to public administration and defense, education and health and social work are included as one sector.

Source: GUS—Central Statistical Office

Service Industries

The service industries sector (including real estate, business activities and financial intermediation) is the fastest growing and largest sector in Poland. In 1997, the service industries sector accounted for 37.9 per cent. of GDP, whilst in 2001, preliminary data indicates that the service industries sector accounted for 44.7 per cent. of GDP.

Industry

The effect of economic reforms in the mid-1990s resulted in a steady increase in domestic demand, which stimulated a recovery initially in the food industry, and later in other sectors. This trend was steady until 1998, when the Russian crisis resulted in sold industrial production decreasing to a growth rate of 3.6 per cent. in 1999 (compared to 11.5 per cent. in 1997). The growth in sold industrial production rose to 6.7 per cent. in 2000, and is estimated to remain at this level in 2001.

Mining and Quarrying

Poland has substantial mineral resources. Poland is a large producer of refined copper and silver and, at the present level of output, workable copper reserves in Poland are predicted to last for almost 100 years. Poland is also a large producer of sulfur and has significant resources of zinc, lead, salt and other minerals. Since 1996, mining and quarrying (as a percentage of total GDP) has continued to fall, accounting for 2.3 per cent. of total GDP in 2000 compared to 3.3 per cent. in 1996, as a result of the significant decline in domestic demand for coal and the high cost of Polish coal mining. Preliminary data indicates that mining and quarrying accounted for 2.1 per cent. of GDP in 2001.

Coal

The Polish economy relies heavily upon coal as a fuel source, and is expected to remain coal intensive for the foreseeable future.

In June 1998, the Government approved a long-term restructuring program for the coal-mining sector intended to reduce the number of mines and the level of employment in the sector, as well as improving the efficiency of coal production in Poland. Of the 57 mines in Poland in 1998, nine have been closed. Another 15 are expected to be closed or partially closed in the near future. According to the program, employment in the sector will be reduced by 115,000 employees, from 243,300 employees at the end of 1997 to 128,300 in 2002. At the end of 2001, there were 146,000 people working in the sector. Production has fallen from 137 million tons per year in 1997 to approximately 102.8 million tons in 2001. Once the program is completed, the State Treasury expects the mining sector to become profitable. Workers leaving the mines are given special incentives. In 1998, the Government offered miners a retirement package. The package included early retirement schemes, superannuation benefits and a dismissal package of a lump sum worth 24 times the relevant monthly wages. This resulted in a significant number of miners opting for redundancy. The program is financed by subsidies from the state budget (amounting to PLN 1.4 billion in 2001 and a one time debt write-off in that year), the Labor Fund and the Social Insurance Fund. The net losses made by the coal-mining sector were reduced significantly from PLN 3.2 billion in 1999 to PLN 189 million in 2001.

Steel

Restructuring of the steel sector in Poland started at the beginning of the 1990s, in compliance with the guidelines of the Government program accepted in 1992 and then amended by the *Polish Steel Industry Restructuring Program* in mid-1998. The report on restructuring developments and further guidelines to the process, adopted in September 1999, reflected the acceleration of restructuring due to developments in the steel market both in Poland and elsewhere as well as the latest results and future capabilities of the Polish steel sector.

Employment in the steel sector was reduced from over 78,000 employees at the end of 1998 to 37,000 by the end of 2001. The program aims to reduce the workforce in the steel sector to 30,000 employees by the end of 2003 and to make the steel plants self-sustainable by 2005. All the steel plants are in the process of being privatized. See “—Privatization by Sector”. The restructuring program is being financed by the state budget (PLN 200 million for the years 1999 to 2003, the European Union’s PHARE support program which provides funding for projects in Central European countries (the same amount) and the plants’ own means.

Oil and Gas

Poland’s oil and gas sector is dominated by the state-owned PGNiG and PKN ORLEN (in which the State Treasury owns a 28 per cent. share). PGNiG is responsible for the exploration and production of oil and gas and the import, transmission, storage and distribution of gas. PKN ORLEN is the largest Polish company in the oil sector and was created from the merger in 1999 of PKN (formerly Petrochemia Płock S.A.), the largest crude oil refiner and manufacturer of petrochemical products in Poland, and CPN (Centrala Produktów Naftowych), the leading distributor of motor fuels in Poland. Both PGNiG and PKN ORLEN are scheduled to be privatized, although the privatization of PGNiG is at an early stage. See “—Privatization by Sector”.

Poland’s oil reserves are small, covering less than 4 per cent. of consumption in 2000. Poland currently has seven oil refineries, which require modernization in order to enable them to raise the quality of their products and to meet increasingly stringent environmental standards.

In 2000, 27 per cent. of natural gas consumption in Poland was obtained from domestic sources, with imports providing the remainder. Historically, all gas imports have come from the Russian Federation and EU member states. Domestic production of gas consists of indigenous high methane natural gas, low methane natural gas, coke oven gas and manufactured gas.

Electricity

Total electricity generation in Poland in 2001 was 145.7 terawatt-hours, which exceeded domestic consumption requirements. Electricity consumption increased from 1993 through 2000, primarily as a result of the growth in industrial production. Electricity generation in Poland relies heavily on coal fired power plants. Poland’s electricity industry is primarily organized into three tiers, consisting of companies divided into generation, high voltage transmission and distribution sectors. All such companies have been organized into financially independent joint stock companies. The state-owned Polish Power Grid Company PSE operates the electricity grid and is responsible for ensuring that supply meets demand. The Polish electricity system is linked to the Western European electricity grid, allowing for the export or import of electricity to meet excess demand or generation. Privatization or consolidation of companies in the electricity sector was spurred by the enactment of new energy legislation in May 1997.

Automotive

Until the beginning of the 1990s, the Polish automotive industry was dominated by a few state-owned companies. Since 1990, the number of cars produced and the investment by foreign automotive companies has increased significantly. Car sales in Poland increased from 266,000 units in 1995 to 650,000 units in 1999. However, the number of new cars sold decreased to 479,000 in 2000 and further decreased to 327,000 in 2001 due to lower demand caused by the economic slow-down. The leading car manufacturers in Poland are FIAT, Daewoo and General Motors with combined investment commitments of \$5.4 billion since 1990 and future investment commitments of \$0.3 billion, according to PAIZ.

Construction

Since 1990, the system of public subsidies in the state, communal and co-operatives construction sectors has been dismantled. As a result, growth in the construction industry has come mostly from the private sector. From

the beginning of 1997, there was an increase in construction activity in large cities, with significant investment coming from foreign capital. As a result of a general slow-down in the economy in 2000, construction as a total percentage of GDP fell from 7.7 per cent. to 7.4 per cent. Preliminary data for 2001 indicates that construction accounted for 6.6 per cent. of GDP in 2001.

Agriculture

While agriculture accounted for approximately 4.1 per cent. of GDP at the end of 1998, it employed more than 19 per cent. of the Polish workforce. By the end of 2000, agriculture as a percentage of GDP had fallen further to 3.2 per cent. Preliminary data for 2001 indicates that agriculture accounted for 2.9 per cent. of GDP in 2001. There is substantial fragmentation of ownership within the agricultural sector, which is characterized by numerous private farms each occupying a small average area of land. The private sector manages approximately 90 per cent. of agricultural land in Poland, while the remaining 10 per cent. belong to the public sector. Grains, such as wheat and rye, and potatoes dominate arable production, although production of industrial crops, such as sugar beets, is also significant. Other agricultural production largely comprises cattle and pig farms. The Russian crisis of 1998 severely affected Polish food exports, which forced domestic food prices down. Lower food prices substantially decreased farmers' profits leading to social unrest and a slowing of the trade liberalization process.

Infrastructure

Polskie Koleje Państwowe S.A., or PKP, the Polish state railway company, operates suburban railways in all major cities and, by the end of 2001, operated approximately 22,650 kilometers of rail track, of which approximately 11,826 kilometers was electrified. The Government has begun to restructure PKP in an effort to improve operational efficiency. Under this restructuring plan, separate passenger, freight and infrastructure companies have been established from PKP's assets, under a new PKP holding company. The privatization is expected to be completed by 2005. By the year 2005, the 210,000 workforce will be reduced by approximately 50,000.

Poland has over 250,000 kilometers of hard-surfaced public roads. The first privately financed motorway development, to be financed primarily through private funding, is to be the 255-kilometre stretch of the A2 between the German border (Świecko) via Poznań to Konin. The first 149-kilometer installment will be completed by 2005 and will cost an estimated euro 875 million. The first privately operated toll motorway, the 60 kilometer A4 between Kraków and Katowice, was opened in 2000. A new act on motorway construction is currently being put into force by the Government. According to this new law and as contemplated in part by the EDL Plan, the Government will be involved to a larger extent in co-financing road infrastructure programs through the Agency for Motorway Construction.

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

The telecommunications network in Poland is primarily operated by TP S.A., the joint stock company created from the former telecommunication operations of the Polish Post, Telephone and Telegraph state monopoly. Recently there has been a significant increase in demand for telecommunications services in Poland. By the end of 2000, the number of telephone lines had grown to over 11 million, an increase of nearly 260 per cent. since 1990. By December 31, 2001, the number of telephone lines per 100 inhabitants had grown to nearly 29. The Ministry of Telecommunication opened a public tender for three long-distance fixed-line licenses in October 1999. As a result, four licenses were issued and all operators are currently providing services. There are a number of local independent operators. TP S.A. has exclusive rights to provide international public telephone services in Poland until December 31, 2002.

The Polish mobile telephone market has three companies with operating licenses: PTK Centertel S.A., PTC Era S.A. and Polkomtel S.A., each consisting of consortia of Polish and various foreign companies. By the end of 1999, approximately four million subscriptions for mobile telephone services had been recorded and rapid growth in this sector continued in subsequent years leading to around 9.6 million users at the end of 2001. In December 2000, the Ministry of Telecommunication assigned three universal mobile telecommunication system, or UMTS, licenses to three existing domestic mobile operators.

Poland is a net energy importer on an oil equivalent basis. Poland's energy policy has evolved considerably over recent years to support the country's transition to a market economy. New energy legislation implemented in 1997 introduced third party access (limited to domestic energy producers) to the energy distribution network, providing for gradual liberalization of energy prices and established a central regulatory agency charged with regulating and overseeing the energy industry.

Since 1990, the Government has introduced policies designed to create or improve incentives to industry to become more efficient, reduce costs and direct the attention of industry towards environmental issues. Although Poland's industrial sectors already meet a number of EU industrial environmental standards, additional legislative changes will be necessary to fully comply with applicable EU environmental directives. There are currently no estimates available for the total cost of bringing all industrial sectors into compliance with these rules.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Poland's current account has been in deficit since 1997. This deficit has continued to increase annually, until reaching a peak in December 1999 (with a monthly deficit of \$1.7 billion). Since then, the current account has gradually improved, declining to \$9.9 billion in 2000. The current account deficit has further reduced to \$7.1 billion in 2001.

Measured by the official balance of payments statistics, the trade deficit reached \$14.4 billion in 1999, \$13.2 billion in 2000 and \$11.7 billion in 2001. Poland's merchandise exports in dollar terms grew from approximately \$10.9 billion in 1990 to \$28.3 billion in 2000 and \$30.3 billion in 2001.

During 2001, notwithstanding significantly lower economic growth amongst Poland's major trading partners and the relatively strong Polish currency, Polish exports continued to grow.

In 2001, 69.2 per cent. of Polish exports were to EU countries, with Germany being the main trade partner (34.4 per cent. of Polish exports). The pace in the growth in exports has increased at a higher rate than imports, which have remained relatively stable, since 1999.

Since 1995, capital inflows from privatization receipts and external borrowings have increased. Together with unrecorded trade, these capital flows have more than covered the official trade deficit. Foreign direct investments have been increasing steadily from \$542 million in 1994 to \$8.3 billion in 2000, according to NBP figures. However, this tendency reversed in 2001, when foreign direct investments amounted to \$7.0 billion. Due to the different calculation methods used by the NBP, these figures differ from those prepared by PAIZ (see "The Economy—Foreign Direct Investment" above). In 1999, portfolio inflows represented approximately one fifth of direct investments. Portfolio inflows increased from \$1.4 billion in 1999 to \$2.7 billion in 2000, but decreased to \$1.1 billion in 2001. Portfolio inflows now represent 15.2 per cent. of direct investments.

The strengthening dollar and the worsening current account balance in 1999 and early 2000, despite increased foreign direct investment and portfolio inflows, resulted in the decrease of official reserve assets from \$29.4 billion in January 1999 to \$27.5 billion in December 2000. Since then, reserves have gradually increased, reaching \$28.0 billion in October 2001. Official reserve assets fell to \$26.6 billion in December 2001 as a result of a loan that the NBP granted to the Ministry of Finance in November 2001 to prepay Poland's debt owed to Brazil. The loan is to be repaid by the Ministry of Finance in foreign currency in four installments over the next two years.

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

	1997	1998	1999	2000	2001
			(\$ millions)		
A. CURRENT ACCOUNT	-4,309	-6,841	-11,553	-9,952	-7,166
Trade balance	-11,320	-13,720	-14,379	-13,168	-11,675
Goods: exports	27,229	30,120	26,349	28,255	30,275
Goods: imports	38,549	43,840	40,728	41,423	41,950
Services: net	305	-488	-1,631	-1,686	-976
Services: credit	3,724	3,683	3,298	3,505	3,988
Transportation	1,089	975	724	868	1,038
Travel	590	665	665	816	920
Other	2,045	2,043	1,909	1,821	2,030
Services: debit	3,419	4,171	4,929	5,191	4,964
Transportation	408	531	546	644	664
Travel	679	769	821	907	937
Other	2,332	2,871	3,562	3,640	3,363
Income: net	-455	-569	-795	-759	-896
Income: credit	1,439	2,649	1,877	2,248	2,652
Income: debit	1,894	3,218	2,672	3,007	3,548
of which: due and paid	1,889	3,211	2,663	2,999	3,539
Current transfers: net	1,150	1,941	1,614	1,681	1,986
General government	102	412	222	259	276
Other sector	1,048	1,529	1,392	1,422	1,710
Current transfer: credit	1,845	2,538	2,209	2,159	2,644
General government	102	429	269	316	401
Other sectors	1,743	2,109	1,940	1,843	2,243
Current transfer: debit	695	597	595	478	658
General government	0	17	47	57	125
Other sectors	695	580	548	421	533
Unclassified transactions on current account: net	6,011	5,995	3,638	3,980	4,395
B. CAPITAL AND FINANCIAL ACCOUNT	4,864	10,991	8,241	7,660	2,980
Capital account	90	72	50	13	-1
Financial account	4,774	10,919	8,191	7,647	2,981
Direct investment: net	3,041	4,969	6,352	8,169	6,928
Polish direct investment abroad	-36	-161	-122	-124	-67
Foreign direct investment in Poland	3,077	5,130	6,474	8,293	6,995
Portfolio investment: net	1,531	1,694	867	2,591	1,109
Polish portfolio investment abroad (assets)	248	-130	-547	-85	43
Equity securities	56	-41	-172	-21	-67
Debt securities	192	-89	-375	-64	110
Foreign portfolio investment in Poland (liabilities)	1,283	1,824	1,414	2,676	1,066
Equity securities	599	951	882	866	-306
Debt securities	684	873	532	1,810	1,372
Other investment: net	-362	4,618	400	-3,382	-4,715
Polish assets	-872	2,168	-2,698	-2,920	-3,500
Long-term credits extended	82	-88	-9	126	-21
Drawings	227	263	195	169	233
Repayments	145	175	186	295	212
Short-term credits extended	-60	-14	11	26	16
Drawings	189	145	54	169	107
Repayments	129	131	65	195	123
Other assets	-730	2,270	-2,700	-3,072	-3,495
Currency and deposits	-825	2,259	-2,717	-3,094	-3,496
Other	95	11	17	22	1
Polish liabilities	510	2,450	3,098	-462	-1,215
Long-term credits received	416	1,669	2,057	1,250	-1,567
Drawings	1,189	3,238	4,407	4,574	5,913
Repayments	773	1,569	2,350	3,324	7,480
of which: due and paid	711	1,510	2,298	3,296	7,464
Short-term credits received	592	-43	441	143	-91
Drawings	1,201	337	935	551	653
Repayments	609	380	494	408	744
Other liabilities	-498	824	600	-1,855	443
Currency and deposits ⁽¹⁾	-449	826	601	-1,852	443
Other	-49	-2	-1	-3	0
Financial derivatives net	564	-362	572	269	-341
C. NET ERRORS AND OMISSIONS	2,488	1,787	3,479	2,968	3,763
OVERALL BALANCE	3,043	5,937	167	676	-423
D. FINANCING OF OVERALL BALANCE	-3,043	-5,937	-167	-676	423
Official Reserve Assets ⁽¹⁾	-3,044	-5,928	-158	-621	440
Credits from IMF	0	0	0	0	0
Exceptional financing	1	-9	-9	-55	-17

(1) In May 2000, the National Bank of Poland introduced a new category "Official Reserve Assets", which replaced the category "Gross Official Reserves". The latter differed from the former in relation to the treatment of repurchase transactions. Gross Official Reserves included the value of net repurchase transactions (namely the difference between the assets and the liabilities side of repurchase transactions). The category of Official Reserve Assets, introduced from May 31, 2000, comprises only the assets side of repurchase transactions. This treatment is in line with the corresponding IMF definition. For comparison, Official Reserve Assets from 1997 to 2000 were adjusted accordingly.

Source: National Bank of Poland

Foreign Trade

Notable developments in Poland's foreign trade policy in the early 1990s have been the elimination of the state monopoly in foreign trade, a general lowering of tariffs and the effective removal of most currency conversion restrictions and repatriation of profits. This occurred alongside the dissolution of the COMECON in 1991 and a more general move towards exports to western markets and the EU, in particular.

Direction of Trade

In the late 1980s, trade with COMECON countries accounted for almost half of Poland's total trade. In contrast, in 2001, trade with former COMECON members accounted for less than 18 per cent. of total foreign trade, whereas trade with EU members accounted for approximately 65 per cent. of total foreign trade, with Germany being Poland's largest trading partner (accounting for 34.4 per cent. of Polish exports and 24.0 per cent. of imports in 2001).

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

	1997		1998		1999		2000		2001	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
	(%)									
Developed Countries:										
Germany	32.9	24.1	36.3	26.4	36.1	25.2	34.9	23.9	34.4	24.0
Other EU countries	31.1	39.7	32.0	39.2	34.4	39.7	35.0	37.3	34.8	37.4
Other developed countries	5.0	9.7	5.3	9.1	5.8	9.2	6.4	9.7	5.9	8.5
Total developed countries	69.0	73.5	73.6	74.7	76.3	74.1	76.3	70.9	75.1	69.9
Central and Eastern Europe:										
CEFTA	6.8	6.3	7.2	6.4	8.2	6.7	8.4	7.1	8.7	7.4
Russian Federation	8.4	6.3	5.7	5.1	2.6	5.9	2.7	9.4	2.9	8.8
Other Central and Eastern Europe ⁽¹⁾ ..	8.4	2.0	7.5	1.6	6.2	1.6	6.2	2.0	6.7	2.0
Total Central and Eastern Europe ...	23.6	14.6	20.4	13.1	17.0	14.2	17.3	18.5	18.3	18.2
Developing Countries	7.4	11.9	6.0	12.2	6.7	11.7	6.4	10.6	6.6	11.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Since January 1, 1999 and in accordance with applicable Eurostat categorization, "Other Central and Eastern Europe" includes European countries of the former USSR.

Source: GUS—Central Statistical Office

Composition of Trade

The most significant export items in 2001 were transportation equipment and products (automobiles and automobile parts, boats and shipping vessels), machinery, appliances and their parts, steel and steel products, wood and wooden products, mineral products and agricultural products (meat products, fresh and frozen fruits and dairy products). Imports have increasingly comprised investment-related products such as machinery and transport equipment.

The following table sets out the composition of Poland's exports (based on customs data and the Standard International Trade Classification) for the years 1997 to 2001:

	1997		1998		1999		2000		2001	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Natural Resource-Based Goods:										
Food and Live Animals	3,026	11.8	2,840	10.1	2,328	8.5	2,366	7.5	2,669	7.4
Beverages and Tobacco	103	0.4	96	0.3	101	0.4	120	0.4	140	0.4
Non-Food Raw Materials										
(excluding fuel)	820	3.2	804	2.9	839	3.0	894	2.8	915	2.5
Mineral Fuels, Lubricants and										
Related Materials	1,719	6.7	1,546	5.5	1,377	5.0	1,610	5.1	2,043	5.6
Animal and Vegetable Oil	42	0.2	38	0.1	46	0.2	23	0.1	17	0.1
Subtotal	<u>5,710</u>	<u>22.3</u>	<u>5,324</u>	<u>18.9</u>	<u>4,691</u>	<u>17.1</u>	<u>5,013</u>	<u>15.9</u>	<u>5,784</u>	<u>16.0</u>
Manufactured Goods:										
Chemical and Related Products	2,027	7.9	1,899	6.7	1,696	6.2	2,151	6.8	2,278	6.3
Manufactured Goods classified										
chiefly by material	6,830	26.5	7,116	25.2	6,986	25.5	7,856	24.8	8,614	23.9
Machinery and Transport Equipment . .	5,560	21.6	8,022	28.4	8,278	30.3	10,820	34.2	13,056	36.2
Miscellaneous Manufactured articles . .	5,611	21.7	5,861	20.8	5,750	20.9	5,804	18.3	6,355	17.6
Non-classified	13	0.0	7	0.0	6	0.0	7	0.0	5	0.0
Subtotal	<u>20,041</u>	<u>77.7</u>	<u>22,905</u>	<u>81.1</u>	<u>22,716</u>	<u>82.9</u>	<u>26,638</u>	<u>84.1</u>	<u>30,308</u>	<u>84.0</u>
Total	<u>25,751</u>	<u>100.0</u>	<u>28,229</u>	<u>100.0</u>	<u>27,407</u>	<u>100.0</u>	<u>31,651</u>	<u>100.0</u>	<u>36,092</u>	<u>100.0</u>

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

The following table sets out the composition of Poland's imports (based on customs data and the Standard International Trade Classification) for the years 1997 to 2001:

	1997		1998		1999		2000		2001	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Natural Resource-Based Goods:										
Food and Live Animals	2,894	6.8	2,968	6.4	2,537	5.5	2,558	5.2	2,723	5.4
Beverages and Tobacco	299	0.7	302	0.6	368	0.8	198	0.4	233	0.5
Non-Food Raw Materials										
(excluding fuel)	1,762	4.2	1,655	3.5	1,419	3.1	1,643	3.4	1,578	3.1
Mineral Fuels, Lubricants and										
Related materials	3,710	8.7	2,964	6.4	3,281	7.2	5,297	0.8	5,082	10.1
Animal and vegetable oil	239	0.6	282	0.6	190	0.4	164	0.3	174	0.3
Subtotal	8,904	21.0	8,171	17.5	7,795	17.0	9,860	20.1	9,790	19.4
Manufactured Goods:										
Chemical and Related Product	5,839	13.8	6,405	13.7	6,584	14.3	6,881	14.1	7,337	14.6
Manufactured Goods classified										
chiefly by material	8,283	19.6	9,711	20.8	9,526	20.7	9,789	20.0	10,333	20.6
Machinery and Transport Equipment . .	15,228	36.0	18,273	38.3	17,544	38.2	18,114	37.0	18,324	36.4
Miscellaneous Manufactured articles . .	3,950	9.4	4,411	9.5	4,380	9.6	4,218	8.6	4,416	8.8
Non-classified	104	0.2	83	0.2	82	0.2	78	0.2	75	0.2
Subtotal	33,404	79.0	38,883	82.5	38,116	83.0	39,080	79.9	40,465	80.6
Total	42,308	100.0	47,054	100.0	45,911	100.0	48,940	100.0	50,275	100.0

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

Trade Policy

In 2000, the average effective tariff rate was 2.98 per cent. compared to 2.56 per cent. in 2001. Tariffs are scheduled to decrease further over the next several years as a result of multilateral agreements with the EU, EFTA and CEFTA, covering approximately 75 per cent. of Poland's trade, as well as pursuant to Poland's membership of the WTO. However, in February 1997, Poland reimposed a temporarily suspended 10 per cent. tariff on grain and grain products as a result of its concern over the import of subsidized foodstuffs from EU countries. The Government also introduced further import tariffs on certain foodstuffs in late 1999 in an attempt to support local farmers and producers.

Foreign Exchange and Gold Reserves

The following table sets out Poland's official reserve assets at the end of each of the years 1997 to 2001:

	Official Reserve Assets ⁽²⁾		Total Official Reserve Assets	Months of Import Coverage ⁽³⁾ in
	excluding Gold	Gold		Total Official Reserve Assets
				(\$ millions)
1997	21,140.8	262.4	21,403.2	6.7
1998	27,325.1	950.0	28,275.1	7.7
1999	26,354.3	959.4	27,313.7	8.0
2000 ⁽¹⁾	26,564.3	901.4	27,465.7	8.0
2001	25,650.5	914.7	26,565.2	7.6

(1) In May 2000, the National Bank of Poland introduced a new category "Official Reserve Assets", which replaced the category "Gross Official Reserves". The latter differed from the former in relation to the treatment of repurchase transactions. Gross Official Reserves included the value of net repurchase transactions (namely the difference between the assets and the liabilities side of repurchase transactions). The category of Official Reserve Assets, introduced from May 31, 2000, comprises only the assets side of repurchase transactions. This treatment is in line with the corresponding IMF definition. For comparison, Official Reserve Assets from 1997 to 2000 were adjusted accordingly.

(2) Including Poland's reserve position in IMF.

(3) Average imports of goods.

Source: National Bank of Poland

MONETARY AND FINANCIAL SYSTEM

Structure and Development of the Polish Banking System

Until 1989, the Polish banking system was controlled by the state with business decisions being subordinated to the political priorities of the state. The banking sector until 1989 was composed of the NBP, four state-owned specialist banks, two state controlled banks and co-operative banks. The nature of this system reduced the role of banks within the banking system to a minimum. To remedy this, a two-tier banking system was established, with the NBP as the central bank and a range of private banks competing in the market.

The reform of the Polish banking system began in 1989, when about 400 branches of the NBP were transformed into nine regional commercial banks. In 1989 Parliament adopted a new Banking Law and an Act on the NBP. As a result of these changes in legislation and administrative procedures, a relatively large number of new private banks were opened.

Polish banks are generally relatively small in terms of equity and have limited branch coverage. As a consequence, many of them have consolidated as a means of further development. In December 2001, there were 69 commercial banks in Poland, of which 23 were banks with majority Polish-held equity and 46 were banks with majority foreign-held equity. Overall, 61.3 per cent. of the commercial banks' equity was then held by foreign investors. There were also 642 co-operative banks.

The National Bank of Poland

The NBP is the central bank of Poland. The NBP is governed by legislation, the Act on the National Bank of Poland of August 29, 1997, known as the NBP Act, and the Banking Law of August 29, 1997, known as the Banking Law, consistent with EU standards. The NBP is headed by three governing bodies: the President, the Management Board (consisting of six to eight Members (including two Deputy Presidents)) and the MPC (see below). The President of the NBP is appointed by Parliament, after nomination by the President of the Republic of Poland, for a six-year term, with strictly limited rights of removal.

The principal responsibilities of the NBP are monetary, credit and exchange rate policy and bank regulation and supervision. The NBP is specifically responsible for issuing banknotes and coins, acting as banker to the Government and to other banks in the banking system, acting as custodian of the country's gold and foreign exchange reserves and acting as a bank of rediscount and lender to other banks.

The Constitution of the Republic of Poland and the NBP Act confirmed the NBP's independence which is essential for the credibility of, and a prerequisite for, Poland's participation in European Economic and Monetary Union, or EMU. The legislation also established the Monetary Policy Council, which is part of the NBP.

The role of the MPC is to draw up annual monetary policy guidelines and submit these to the Sejm for its information, at the same time as the Council of Ministers submits the draft budget. The MPC determines monetary policy guidelines for each year and on the basis of those guidelines, makes decisions concerning use of central bank's key policy instruments: interest rates, required reserves ratios, open market operations, the NBP loan and credit facilities and the exchange rate policy. The MPC is also required to present a report to the Sejm on the performance of the monetary policy guidelines within five months of the end of each fiscal year. Under the NBP Act, the powers of the President are separated from those of the MPC and the Management Board of the NBP. The MPC consists of ten members, namely the President of the NBP as Chairman, and nine other members drawn from outside the NBP. Members are appointed for a tenure of six years. The tenure of all of the current members began in February 1998. Three members of the MPC are appointed by the Sejm, three by the Senate, and three by the President of the Republic of Poland. The MPC meets at least once a month. The MPC makes decisions by a majority vote, in the presence of at least five members, including the Chairman. In the event of a tied vote, the Chairman has a casting vote. The positions taken by MPC members during votes are published in official publications.

While general exchange rate policies are established by the Council of Ministers after consultation with the MPC, implementation of exchange rate and monetary policy is within the sole authority of the NBP.

Under the NBP Act, the activities of banks are supervised by the Commission for Banking Supervision; see—“Bank Regulation and Prudential Standards”. The Commission is responsible for issuing banking licenses and overseeing insolvency and liquidation proceedings in the banking sector. The decisions of the Commission, together with the responsibilities it assigns, are carried out and co-ordinated by the General Inspectorate of Banking Supervision which is a separate organizational unit within the structure of the NBP.

Monetary Policy

The ultimate goal of the MPC’s monetary policy is to reduce the rate of inflation and, over time, attain price stability as a foundation for sustainable economic growth. In September 1998, the MPC published its medium-term strategy for monetary policy of which, apart from documenting this policy, also emphasized the strategic goal of Poland to integrate the economy with the EU, and thereafter with EMU. The policy states that Poland must reduce inflation to a level not exceeding four per cent. annually by 2003. The NBP adopted a direct inflation targeting strategy in compliance with that strategy.

Along with the growing integration of the Polish economy with the global economy, and given the need to break inflationary expectations, primary monetary policy for the years 1999 through 2003 is based upon a strategy directed against inflation.

The strategy of direct inflation targeting assumes abandoning intermediate targets. The NBP aims to react to available information on factors which could jeopardize achievement of the inflation target set for a given year. In pursuing this target, the NBP utilizes available monetary policy instruments.

The direct inflation targeting strategy is accompanied by exchange rate flexibility. As of April 12, 2000, a fully floating exchange rate regime for the zloty was introduced, which constituted the final stage in the consistent policy of exchange rate flexibility. One of the conditions for Poland’s accession to EMU will be the inclusion of the zloty in the second stage of the exchange rate mechanism system for at least two years, which should be preceded by a period of a floating exchange rate. In the two years prior to the introduction of the floating rate, the zloty exchange rate had been relatively flexible within a crawling band, which was gradually widened to +/- 15 per cent.

Money Supply

In 2001, the broad money supply expanded by 13.7 per cent. in nominal terms, or by 9.8 per cent. in inflation-adjusted terms. The following table sets out information regarding selected monetary aggregates for the years 1997 to 2001:

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
			<i>(PLN millions)⁽¹⁾</i>		
Cash in circulation	27,255.9	30,225.3	38,082.7	34,112.7	38,212.6
Demand deposits (złoty)	34,430.4	41,444.4	50,108.2	48,409.3	52,060.3
Demand deposits (foreign exchange)	10,433.4	9,814.4	11,188.1	11,236.1	13,757.8
Narrow Money (M1)	<u>72,119.7</u>	<u>81,484.0</u>	<u>99,379.5</u>	<u>93,758.1</u>	<u>104,030.7</u>
Time deposits (złoty)	83,863.5	115,464.6	135,559.4	168,892.7	191,487.6
Time deposits (foreign exchange)	20,387.1	23,828.1	28,516.4	31,734.5	39,233.9
Repurchase agreements	21.4	3.1	2.7	2.6	0.9
Broad Money (M2)	<u>176,391.7</u>	<u>220,779.8</u>	<u>263,458.1</u>	<u>294,387.2</u>	<u>334,753.1</u>
Annual Changes (per cent.)					
Broad Money (nominal)	29.1	25.2	19.3	11.7	13.7
Broad Money (deflated by CPI)	14.0	15.3	8.7	3.0	9.8
Consumer Price Index Dec/Dec	113.2	108.6	109.8	108.5	103.6

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

Source: National Bank of Poland

Interest Rate

Within the framework of its adopted strategy, the NBP applies a mix of monetary policy instruments to reach the pre-determined inflationary target. Until 1998, the NBP primarily influenced certain monetary aggregates by setting two official interest rates: the rediscount rate and the lombard rate.

Since 1998, the predominantly influential rate has been the minimum rate at which the NBP has been prepared to reverse repurchase 28-day NBP bills and set a floor for the yield on 28-day NBP bills, the main securities used in the NBP's open market operations to manage market liquidity.

The lombard rate is the basic interest rate of the NBP and sets an upper limit on inter-bank market interest rates. It reflects the general direction of monetary policy adjustments. The rediscount rate is the rate at which the NBP accepts bills of exchange from commercial banks extending the rediscount credit of such bills. The rediscount rate is not widely used.

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

The following table sets out details of interest rates set by the NBP and changes in them since 1997:

<i>Effective Date</i>	Lombard Rate (%)	Rediscount Rate (%)	Minimum 28-day NBP bill reverse repo rate (%)	Deposit Rate (%)
August 4, 1997	27	24.5		
February 26, 1998			24	
April 23, 1998			23	
May 21, 1998	26	23.5	21.5	
July 17, 1998	24	21.5	19	
September 10, 1998			18	
October 29, 1998	22	20	17	
December 10, 1998	20	18.25	15.5	
January 21, 1999	17	15.5	13	
September 23, 1999	17	15.5	14	
November 18, 1999	20.5	19	16.5	
February 24, 2000	21.5	20	17.5	
August 31, 2000	23.0	21.5	19.0	
March 1, 2001	22.0	20.5	18.0	
March 29, 2001	21.0	19.5	17.0	
June 28, 2001	19.5	18.0	15.5	
August 23, 2001	18.5	17.0	14.5	
October 26, 2001	17.0	15.5	13.0	
November 29, 2001	15.5	14.0	11.5	7.5
January 31, 2002	13.5	12.0	10.0	6.5
May 31, 2002	12.0	10.5	9.0	6.0

Source: National Bank of Poland

Mandatory Reserves

In recent years, there has been sustained excess liquidity in Poland's banking system, and reserve requirements historically have been an important instrument used by the NBP in attempting to limit the excess. In periods of rising excess liquidity, the NBP used to increase the ratio of the mandatory reserves. However, since September 1999, the rate of required reserves were set at 5 per cent., whether for demand deposits, time deposits or foreign currency deposits and the NBP has managed banking sector liquidity through the issuance to banks of its own long-term bonds which banks have been required to purchase. At the end of 2001, the MPC reduced the reserve requirements ratio to 4.5 per cent. and other technical changes have been made which bring the Polish mandatory reserve system closer to the system adopted by the European Central Bank.

Open Market Operations

Open market operations are the NBP's main instrument for adjusting the banking system reserves supply and are a function of prevailing market conditions. The goal of the MPC is to encourage an environment where long-term interest rates are determined by the market. As a result, the NBP generally concentrates on short-term operations using its 28-day bills.

Foreign Exchange Regulations

On June 1, 1995, Poland formally acceded to the obligations imposed by Article VIII of the IMF Articles of Agreement and providing for full current account convertibility of the zloty. Since then, although the majority of capital flows between Poland and abroad have been liberalized, some degree of restriction still exists on direct investment in non-OECD countries or countries with which Poland does not have agreements on bilateral protection of investments, real estate acquisitions and short term financial transactions.

However, the zloty is fully convertible in all types of current account transactions, and foreign investors are able to purchase foreign exchange with zlotys for the transfer of profits and repatriation of capital without a special foreign exchange permit from the president of the NBP. A number of other foreign exchange transactions are generally permitted to be undertaken without the necessity of obtaining a special foreign exchange permit from the president of the NBP.

Exchange Rate Policy

For several years prior to April 2000, Poland used a “crawling peg” system according to which a central exchange rate was devalued against a basket of currencies at a fixed rate, and the NBP intervened to restrict fluctuations around this central rate. Since April 12, 2000, the zloty has floated.

The following table sets out the central PLN /\$ rate set by the NBP under the crawling peg and, as applicable, the “fixing” PLN /\$ exchange rate as at the ends of the periods indicated:

	Period ended December 31,				
	1997	1998	1999	2000	2001
End of period	3.5180	3.5040	4.1483	4.1432	3.9863
Average	3.2808	3.4937	3.9675	4.3464	4.0939

Source: National Bank of Poland

Bank Regulation and Prudential Standards

The Commission for Banking Supervision supervises the activities of banks in Poland, including developing guidelines for all Polish banks. Since 1992, the NBP’s supervisory powers have been augmented by a strengthening of the powers of the NBP’s General Inspectorate of Banking Supervision, the role of which is to enforce banking regulation and to ensure compliance with banking laws.

The current prudential standards include (i) implementation of capital adequacy principles, consistent with EU Directives, being a minimum eight per cent. risk weighted capital ratio (accounting for credit and market risk) calculated substantially in accordance with international standards, and (ii) classification of the quality of bank assets, and application of specific provisions with respect to problem loans (100 per cent. for non-performing or “loss” loans, 50 per cent. for doubtful loans, 20 per cent. for substandard loans and 1.5 per cent. for the loans in the “special watch” category). The NBP also produces a quarterly bulletin which analyses the performance of banks generally within the Polish sector. Each bank is required to provide a monthly balance sheet and quarterly profit and loss account to the NBP to produce this report. In addition, every ten days banks are required to report to the NBP their foreign exchange positions as at closing on each of the previous ten days.

The NBP has assisted banks in the implementation of the new regulatory framework through on-site supervision and has endeavored to facilitate mergers with larger Polish banks and foreign institutions where this promotes financial stability.

The NBP Act established the Commission for Banking Supervision composed of the President of the NBP, the Director of the General Inspectorate of Banking Supervision, along with representatives of the President of the Republic of Poland, the Minister of Finance, the Chairperson of the SEC and the President of the Bank Guarantee Fund. The Banking Law also provided the rules and procedures for the establishment and the organization of state banks, co-operative banks and joint-stock banks as well as a requirement of the approval of the Commission for Banking Supervision for any purchase exceeding 10 per cent. (and specified percentage figures thereafter) of a bank’s shares.

The Law on the Bank Guarantee Fund provides for bank-funded deposit insurance for all banks through the creation of a guarantee fund, or the Guarantee Fund. The Guarantee Fund operations are financed by mandatory bank contributions. The Guarantee Fund provides the following coverage:

- 100 per cent. of funds deposited in Polish banks in zloty and foreign currencies (irrespective of the number of accounts opened by a depositor), or Funds, up to the equivalent of euro 1,000;
- from January 1, 2002, 90 per cent. of Funds within the range of euro 1,000 to euro 18,000; and
- from January 1, 2003, 90 per cent. of Funds within the range of euro 1,000 to euro 22,500.

Capital Markets

Warsaw Stock Exchange

In 1991, Poland enacted legislation regarding public trading in securities and the establishment of the WSE. In 1994, the WSE was admitted to the International Federation of Stock Exchanges as a full member. The WSE consists of a “main”, a “parallel” and a “free” market with the main market requiring a larger market capitalization and stricter disclosure requirements than the remaining markets.

Current securities legislation, known as the Law on the Public Trading of Securities, regulates the public offering of securities and the operations of securities brokers, and under it, the Securities Commission, equipped with enforcement powers, supervises the securities and commodities markets. The Securities Commission has authority over all public offerings and establishes reporting requirements and operating practices. Its authority has been further expanded by its ability to enforce punitive charges for misconduct or misinformation. The Law on the Public Trading of Securities also provides a definition of securities (to include derivatives—see below), the rules and procedures for introducing shares to public trading, regulates the activities of brokerage houses, securities lending and short sales. Polish securities regulations are generally harmonized with the rules and regulations of the OECD and EU. The Law on the Public Trading of Securities also provides for comprehensive regulations in the area of capital markets in Poland and the derivatives sector. On 16 January 1998, futures contracts based on the stock market index—WIG 20—were quoted for the first time. Warrants were first introduced on the WSE in March 1998. Currently, warrants are based on stocks of major companies and indices.

Settlement in Poland is conducted on a delivery-versus-payment basis. Each investor is required to hold a securities account and a cash account with a local broker or custodian and each broker and custodian is required to hold a securities account in the National Securities Depository and maintain a cash account with a clearing bank. The process of accounting, and the preparation of data for settlement and registration, are fully computerized.

All securities admitted for public trading are required to be deposited in the form of a global certificate with the National Securities Depository and are traded in book-entry form only. Shareholders are supplied with depository receipts and accounts statements from the broker or custodian with whom they hold an account.

At the end of December 2001, there were 29 member brokerage houses operating on the WSE. Out of the total number of 41 brokerage houses operating in Poland, five were owned by banks and 36 were operating as independent entities. There were also 12 asset management firms operating in Poland. Furthermore, 18 banks provided investment accounts. There were 1,818 licensed brokers and 195 investment advisors.

At the end of December 2001, the securities listed on the WSE comprised equity shares of 216 companies (and 14 NIFs), 50 state treasury bond issues, one corporate bond issue, one investment certificate issue and certain warrants and futures contracts.

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

The following table sets forth selected indicators relating to the equity component of the WSE for the periods indicated:

	Year ended December 31,				
	1997	1998	1999	2000	2001
Market capitalization ⁽¹⁾ :					
(in PLN millions)	43,766	72,442	123,411	130,000	103,370
(in \$ millions)	12,441	20,674	29,750	31,707	25,931
(% of GDP)	9.3	13.2	20.2	19.0	14.18
Turnover in PLN millions ⁽²⁾	52,342	62,305	95,026	181,000	91,300
WIG index	14,668	12,795	18,083	17,847	13,922
Average P/E ratio ⁽³⁾	14.9	12.6	36.2	15.9	58.4
Dividend Yield	1.5	0.9	0.6	0.8	1.3
Listed companies	143	198	221	212	230

(1) Includes both the main and parallel markets.

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

(3) Excludes the parallel market.

Source: Warsaw Stock Exchange and Ministry of Finance

In addition to the WSE, there is also a regulated, secondary, public over-the-counter, or OTC, market called Centralna Tabela Ofert S.A., or CeTO. CeTO is responsible for providing the infrastructure for securities trading on the regulated off-exchange market. CeTO was founded in 1996 and is owned by the largest Polish banks, brokerage houses and the WSE. In April 2002, the Ministry of Finance launched the Primary Dealers System under which CeTO is responsible for organizing the Electronic Treasury Securities Market (ETSM), a wholesale Government securities market. In the second half of 2002, a range of CeTO traded products is expected to increase, including Treasury bills and interest-rate derivatives.

Investment funds

Investment funds are regulated under the Act on Investment Funds of August 28, 1997, which enables the creation of open-end investment funds, specialized open-end investment funds, closed-end investment funds and mixed investment funds. The Act has since been amended to enable the creation of a new kind of investment fund—the specialized closed-end fund—which will be a venture capital fund, and to simplify the procedures concerning the creation of funds and fund corporations.

As of December 31, 2001, the Securities Commission had granted permits to 19 fund corporations managing 108 investment funds.

Pension funds

At the end of December 2001, there were 17 pension funds operating in Poland which had the total assets of PLN 19.4 billion and a two-year average annual rate of return of 21.5 per cent.

Treasury securities

Trading of Treasury bonds on the secondary market can be conducted through the WSE. However, most Treasury bond trading is being concentrated on the OTC market with the total value of annual transactions accounting for over 90 per cent. of the total value of transactions executed in all markets. This is due to lower transaction charges in the OTC market in comparison with the cost of transactions executed on the WSE. It is anticipated that the ETSM operated by CeTO will become the main trading market for Government securities, once fully operational.

Insurance market

The Polish insurance market is dominated by four insurance companies, which have the largest market share by amount of gross premiums written. According to data as at December 31, 2001, the largest market share is held by PZU S.A. (33.6 per cent.), followed by Powszechny Zakład Ubezpieczeń na Życie S.A. (21.0 per cent.), then TUiRWarta S.A. (7.8 per cent.) and Commercial Union Polska—TU Życie S.A. (7.8 per cent.). In 2001, the number of insurance companies with a majority of foreign equity rose to 48, compared to 41 in December 2000. At the end of December 2001, FDI reached PLN 2.5 billion, compared to PLN 1.8 billion in 2000. Foreign capital accounted for 69 per cent. (compared to 62.5 per cent. in 2000) of total equity capital of the insurance companies. At the end of December 2001, the cumulative amount of FDI in the life assurance sector reached PLN 1,239 million and PLN 1,303 million in the non-life insurance sector.

According to data as of December 31, 2001, investments by insurance companies rose to PLN 41.6 billion, an increase of 37 per cent. in the period January to December 2001. In the life assurance market, investment totaled around PLN 24.8 billion by the end of December 2001, compared to PLN 19 billion by the end of 2000, an increase of 31 per cent. In the non-life insurance market, investments reached PLN 16.8 billion, compared to PLN 13.7 billion by the end of 2000, an increase of 22.3 per cent. The investments of insurance companies were primarily concentrated in debt securities (77.5 per cent.) followed by equities, other variable-income securities and units in investment funds (6.8 per cent.) and bank deposits (6.6 per cent.).

At the beginning of 2002, there were 71 licensed insurance companies operating in Poland. Of these, 37 were life assurance and 34 were non-life insurance companies.

PUBLIC FINANCE

In Poland, the public finance sector is treated as consisting of the state budget, local budgets, extra-budgetary funds and units and agencies.

Fiscal policy from 1990 to 2001 was shaped by a desire to reduce inflation and to keep the state budget deficit consistent with the monetary policy objectives. Under the Constitution, the NBP could not provide for financing of the budget deficit after 1999. In the years 1993 to 2000, the state budget deficit remained below 4 per cent. of GDP as well as below the target set out in the applicable state budget. General state budget deficit amounted to 4.5 per cent. of GDP in 2001. The 2002 Budget Act provides for a state budget deficit of 5.4 per cent. of GDP.

In order to properly monitor the impact of public spending on domestic savings, the Government uses an economic deficit indicator. The economic deficit takes into account the state budget deficit, local government balances, extra-budgetary fund balances, transfers to pension funds and one-time revenues, for example, the sale proceeds of UMTS licenses. The increase in the estimated economic deficit level up to approximately 4.8 per cent. of GDP in 2001 and around 5.0 per cent. in 2002 is primarily the result of increases in the state budget deficit. However, under the EDL Plan, the annual increase in state budget expenditures may not be higher than one percentage point over inflation and revenues projections must be in line with macroeconomic forecasts.

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

Total general Government spending as a percentage of GDP decreased from 47.5 per cent. in 1994 to 45.3 per cent. in 2001. According to Ministry of Finance estimates, this is expected to increase to 47.1 per cent. in 2002. However, the structure of general Government spending changed significantly during that period. A steep decline in subsidies to state-owned enterprises has been matched by a steep increase in payments to individuals, particularly unemployment benefits and pension payments.

The following table sets out certain fiscal trends in Poland's public finances for the years 1997 to 2001, and the 2002 Budget Act:

	<u>1997⁽¹⁾</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁽²⁾</u>
	<i>(PLN millions)</i>					
State Budget Balance	-12,441	-13,192	-12,479	-15,391	-32,358	-40,000
Revenues	113,234	126,560	125,922	135,664	140,527	145,102
Expenditures	125,675	139,752	138,401	151,055	172,885	185,102
General Government Balance	-13,560	-14,301	-19,893	-21,288	-38,009	-46,024
Revenues ⁽³⁾	200,025	227,284	253,970	271,249	289,208	304,747
Expenditures ⁽³⁾	213,585	241,585	273,863	292,537	327,217	350,771
<i>(as a % of GDP)</i>						
State Budget Balance	-2.6	-2.4	-2.0	-2.2	-4.5	-5.4
R evenues	24.0	22.9	20.5	19.8	19.5	19.5
Expenditures	26.6	25.2	22.5	22.1	24.0	24.9
General Government Balance	-2.9	-2.6	-3.2	-3.1	-5.3	-6.2
R evenues	42.3	41.1	41.3	39.6	40.1	40.9
Expenditures	45.2	43.6	44.5	42.7	45.3	47.1
Primary State Budget Balance ⁽⁴⁾	0.8	0.9	1.0	0.4	-1.5	-1.7
GDP (PLN millions)	472,350	553,560	615,115	684,926	721,575	744,817

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

(2) Forecast (Budget Act 2002).

(3) Excluding intra Government transfers.

(4) Excluding interest payments calculated on cash basis.

Source: Ministry of Finance

The following tables set out Poland's economic deficit (in PLN billions and as a percentage of GDP) for the years 1998 to 2001 and as specified in the 2002 Budget Act:

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁽¹⁾</u>
	<i>(PLN billions)</i>				
State budget balance	-13.2	-12.5	-15.4	-32.4	-40.0
Local budgets balance	-1.4	-1.0	-3.1	-3.1	-4.9
Health-care sector balance (since 1999 Health Funds)	-3.3	-0.8	0.7	0.5	0.0
Funds balance	0.3	-6.1	-0.6	-3.6	-1.1
State and local extra budgetary units balance	-0.1	0.4	0.3	-0.4	0.5
Other elements balance				1.0	-0.4
Compensation			-3.4	-2.5	-2.8
Transfers to pension funds		2.3	7.6	8.6	11.5
Demographic Reserve Fund					0.2
UMTS license revenue				-2.7	
State Treasury special fund payment			-0.4		
Economic deficit	-17.7	-17.7	-14.3	-36.2	-37.0
	<i>(as a % of GDP)</i>				
State budget balance	-2.4	-2.0	-2.2	-4.5	-5.4
Local budget balance	-0.3	-0.2	-0.5	-0.4	-0.7
Health-care sector balance (since 1999 Health Funds)	-0.6	-0.1	0.1	0.1	0.0
Funds balance	0.1	-1.0	-0.1	-0.5	-0.1
State and local extra budgetary units balance	-0.0	0.1	0.0	-0.1	0.1
Other elements balance				0.1	-0.1
Compensation			-0.5	-0.3	-0.4
Transfers to pension funds		0.4	1.1	1.2	1.6
Demographic Reserve Fund					0.0
UMTS license revenue				-0.4	
State Treasury special fund payment			-0.0		
Economic deficit	-3.2	-2.8	-2.1	-4.8	-5.0

(1) Forecast (Budget Act 2002).

Source: Ministry of Finance

The following table sets out local government budgets for 1997 to 2001, and the Budget Act of 2002:

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁽¹⁾</u>
	<i>(PLN millions)</i>					
Total Revenues	39,497	46,119	64,878	72,610	79,596	82,944
Total Expenditure	40,504	47,495	65,846	75,747	82,735	87,867
Balance	-1,007	-1,376	-968	-3,137	-3,139	-4,923
As Percentage of GDP	-0.2	-0.2	-0.2	-0.5	-0.4	-0.7
GDP	472,350	553,560	615,560	684,982	721,575	744,817

(1) Forecast (Budget Act 2002).

Source: Ministry of Finance

The following table sets out selected extra budgetary funds for 1997 to 2001, and the Budget Act for 2002:

	1997	1998	1999	2000	2001	2002 ⁽¹⁾
	<i>(PLN millions)</i>					
Social Insurance Fund Balance	-1,199	-818	-6,493	-3,603	-3,711	-1,595
Revenues	62,636	71,960	73,910	81,285	91,664	97,986
Budget Transfers	13,172	14,472	11,248	17,499	23,774	29,824
Expenditures	63,835	72,778	80,403	84,888	95,375	99,581
Agricultural Social Insurance Fund Balance	14	5	-4	-280	-2	5
Revenues	10,069	11,316	13,638	14,014	15,787	16,286
Budget Transfers	9,444	10,652	12,891	13,213	14,881	15,392
Expenditures	10,055	11,311	13,642	14,294	15,789	16,281
Labor Fund Balance	426	303	-98	-1,068	-27	19
Revenues	7,011	5,119	5,481	6,092	8,317	9,824
Budget Transfers	3,800	1,263	819	1,000	2,840	3,847
Expenditures	6,585	4,816	5,579	7,160	8,344	9,805
Health Fund Balance	—	—	-827	698	497	0
Revenues	—	—	21,540	23,928	26,378	27,114
Budget Transfers	—	—	2,501	176	200	133
Expenditures	—	—	22,367	23,230	25,881	27,114

(1) Forecast (Budget Act 2002).

Source: Ministry of Finance

The State Budget

The Budget Process

The fiscal year for the Government is the calendar year. Under the Constitution, the Council of Ministers must present a draft budget to the Sejm at least three months prior to the next fiscal year. The budget then proceeds through the regular legislative process. If a budget has not been approved by the Sejm and the Senate before the beginning of the new fiscal year, the Government is empowered by law to manage public finances on the basis of the draft budget until a budget is adopted. If no budget has been agreed by Parliament and presented to the President for signing within four months of the Council of Ministers submitting the draft to the Sejm, the President may dissolve Parliament.

In 2000, the Government postponed the presentation of the draft 2001 budget by six weeks due to unexpected changes in the legal and macroeconomic environments, namely the rejection by the Parliament of certain proposed amendments to the VAT Act, which cut a significant proportion of projected revenues and much weaker than expected inflation and GDP figures for 2000. It was presented on 15 November 2000 and in following months the Government made an amendment, which takes into account effects of certain revised macroeconomic assumptions (such as lower GDP growth) as well as the result of UMTS license auctions.

In 2001, the Government presented a draft 2002 budget act to Parliament before the end of September, as required by law. However, after the elections the new Government introduced substantial amendments to this draft. In February 2002, the Sejm passed the 2002 budget, conditionally increasing the revenues projection and expenditures by PLN 1.2 billion, as compared to the draft budget presented by the Government. The budget was approved by the Senate and signed by the President in March 2002.

The following table sets out the state revenues and their percentage of GDP for the years 1997 to 2001, and the envisaged revenues in the 2002 Budget Act:

	1997	1998	1999	2000	2001	2002 ⁽¹⁾
	<i>(PLN millions)</i>					
Total Revenues	113,234.4	126,559.9	125,922.2	135,663.9	140,526.9	145,101.6
Tax Revenues	105,725.8	120,026.0	118,342.9	124,724.2	123,161.8	135,177.7
Indirect Taxes (Excise, VAT)	55,252.4	64,432.3	74,567.1	79,670.5	82,422.9	91,324.5
Corporate Income Tax	13,264.0	14,809.0	15,060.4	16,867.7	13,219.7	13,833.8
Personal Income Tax	29,941.5	34,664.0	23,115.2	23,088.6	23,444.2	26,540.4
Custom Duties	7,037.3	6,076.5	5,566.0	5,080.3	4,060.5	3,479.0
Abolished Taxes	230.6	44.2	34.1	17.1	14.5	—
Non-tax Revenue	7,034.5	6,526.3	7,514.0	10,805.8	16,192.2	9,857.9
Dividends	1,167.1	1,000.8	596.5	929.7	888.8	600.0
Central Bank Profits	1,135.1	321.9	502.4	2,205.6	4,868.8	1,961.8
Revenue of Budgetary Units	3,518.5	4,105.6	5,393.7	6,523.3	9,154.5	6,009.8
Revenue from UMTS license					2,719.8	
Other Revenue	1,213.9	1,098.0	1,021.4	1,147.3	1,280.1	1,286.3
Foreign Revenues	474.1	7.7	65.4	133.8	1,172.9	66.1
Revenues as a Percentage of GDP						
Total Revenues	24.0	22.9	20.5	19.8	19.5	19.5
Tax Revenues	22.4	21.7	19.2	18.2	17.1	18.1
Indirect Taxes (Excise, VAT)	11.7	11.6	12.1	11.6	11.4	12.3
Corporate Income Tax	2.8	2.7	2.4	2.5	1.8	1.9
Personal Income Tax	6.3	6.3	3.8	3.4	3.2	3.6
Custom Duties	1.5	1.1	0.9	0.7	0.6	0.5
Abolished Taxes	0.0	0.0	0.0	0.0	0.0	—
Non-Tax Revenue	1.5	1.2	1.2	1.6	2.2	1.3
Dividends	0.2	0.2	0.1	0.1	0.1	0.1
Central Bank Profits	0.2	0.1	0.1	0.3	0.7	0.3
Revenue of Budgetary Units	0.7	0.7	0.9	1.0	1.3	0.8
Revenue from UMTS license					0.4	—
Other Revenue	0.3	0.2	0.2	0.2	0.2	0.2
Foreign Revenues	0.1	0.0	0.0	0.0	0.2	0.0
GDP	472,350	553,560	615,115	685,596.7	721,575.3	744,905.4

(1) Forecast (Budget Act 2002).

Source: Ministry of Finance

The following table sets out the state budget expenditures and their percentages of GDP for the years 1997 to 2001, and the envisaged expenditure in 2002 pursuant to the 2002 Budget Act:

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁽⁵⁾</u>
	<i>(PLN millions)</i>					
Total State Budget Expenditures⁽¹⁾	125,675	139,752	138,401	151,477	173,846	189,411
<i>of which</i>						
Subsidies ⁽²⁾	2,695	2,589	2,425	2,482	2,513	1,513
Foreign Debt Service	3,683	3,770	3,884	4,297	3,794	4,380
Social Insurance	21,228	25,219	29,436	36,699	46,066	52,999
Current Expenditures of the Budget Sphere	65,806	70,258	56,566	58,954	65,234	70,846
Settlements with Banks, Domestic Debt, Service and Guaranties	14,840	16,743	16,579	15,757	20,385	23,346
Capital Expenditures ⁽³⁾	7,701	9,436	7,389	7,428	6,420	6,327
Subsidies to Local Authorities ⁽⁴⁾	9,722	11,737	22,122	25,860	29,434	30,000
Expenditures as a Percentage of GDP						
Total State Budget Expenditures	26.6	25.2	22.5	22.1	24.1	25.4
<i>of which</i>						
Subsidies ⁽²⁾	0.6	0.5	0.4	0.4	0.3	0.2
Foreign Debt Service	0.8	0.7	0.6	0.6	0.5	0.6
Social Insurance	4.5	4.6	4.8	5.4	6.4	7.1
Current Expenditures of the Budget Sphere	13.9	12.7	9.2	8.6	9.0	9.5
Settlements with Banks, Domestic Debt, Service and Guaranties	3.1	3.0	2.7	2.3	2.8	3.1
Capital Expenditures ⁽³⁾	1.6	1.7	1.2	1.1	0.9	0.8
Subsidies to Local Authorities ⁽⁴⁾	2.1	2.1	3.6	3.8	4.1	4.0
GDP	472,350	553,560	615,115	684,982	721,575	744,817

(1) Excluding intra State budget transfers

(2) Subsidies to enterprises.

(3) Capital expenditures include investments and equity contributions.

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

(5) Forecast (Budget Act 2002).

Source: Ministry of Finance

The 2002 Budget Act

The 2002 Budget Act provides for budget revenues of PLN 145.1 billion, an increase of 3.3 per cent. over 2001 revenues, and expenditures of PLN 185.1 billion, an increase of 7.1 per cent. over 2001 expenditures. The Government expects all tax-based revenues to increase by 9.8 per cent. in 2002. Indirect taxes are expected to account for 62.9 per cent. of total revenues, rising from 58.7 per cent. in 2001. In the 2002 Budget Act, budgeted corporate and personal income taxes are expected to account for 9.5 per cent. and 18.3 per cent., respectively, of total revenues, as compared to 9.4 per cent. and 16.7 per cent. of total revenues in 2001.

Non-tax revenues in 2002 are expected to decrease by 42.9 per cent. This is mainly as a result of extraordinary revenues in 2001, such as inflows from the UMTS license sales and foreign revenues (which include proceeds from the sale of U.S. Treasury securities, which served as collateral for Polish Brady Bonds and were released after executing call options on some of those collateralized bonds and interest paid on loans granted by Poland to external borrowers). The share of non-tax revenues in total budget revenues expected for 2002 is 6.8 per cent. of total revenues compared to 12.4 per cent. in 2001.

The state budget deficit is projected to be at the level of PLN 40 billion or 5.4 per cent. of GDP (compared to 4.5 per cent. in 2001).

Financing the State Budget Deficit

The Ministry of Finance expects that in 2002, the estimated state budget deficit of PLN 40 billion or 5.4 per cent. of estimated GDP will be financed principally through the issuance of medium-term (two and five-year maturities) and longer term (ten-year) treasury securities to domestic financial and non-financial institutions and individuals, as well as to foreign investors, with the remainder financed by privatization receipts.

Taxation

The principal taxes forming the Polish tax system are, tax on goods and services, or VAT, corporate income tax, or CIT, personal income tax, or PIT, and excise tax. There are also local taxes collected directly by the local authorities or tax offices acting on behalf of such authorities. Local taxes include agricultural tax, forest tax and real estate tax.

The Government is seeking to harmonize taxation in line with taxation in EU countries by increasing indirect taxation. However, due to falling tax revenues certain modifications to PIT direct taxes were introduced in 2002.

Corporate Income Tax

In November 1999, CIT and VAT tax reforms were introduced, providing for reduction of the CIT rate from 34 per cent. to 30 per cent. in 2000, 28 per cent. in 2001 and 2002, 24 per cent. in 2003 and 22 per cent. in 2004. Since January 1, 2001, dividends have been subject to a 15 per cent. flat withholding tax rate. The amount withheld from the dividends paid to a corporate taxpayer is deducted from the amount of the CIT calculated at the regular rate. Such deduction may be made in a given fiscal year or in the following fiscal years, thus resulting in an economic tax exemption of domestic inter-company dividends. Cross-border payments of dividends are subject to 15 per cent. withholding tax, interest and royalties are subject to a 20 per cent. withholding, unless the relevant double taxation treaty provides otherwise.

Personal Income Tax

PIT is levied at progressive tax rates, which are currently 19 per cent., 30 per cent. and 40 per cent. In 2000, the Government submitted, and Parliament accepted, with some minor modifications, PIT tax reforms including limiting the number of tax reliefs available. In 2002, further changes were introduced, the major ones being the taxation of incomes from interest on savings, bonds and investment funds (at a rate of 20 per cent.) and restructuring reliefs on purchasing apartments and houses.

Value Added Tax

In general, except for some specific services, all business activity in Poland is subject to VAT at a rate of 22 per cent. VAT is levied on all goods sold in, or imported into, Poland, as well as on services rendered in Poland. Polish VAT is similar in its operation to the current VAT levied in the member states of the EU. The VAT Law provides for tax rates of 22 per cent. (standard rate), reduced tax rates of 7 per cent. (for unprocessed agricultural products), and 0 per cent. (for production means for agriculture, exported goods and services and some other specifically listed services). In accordance with the VAT reform of November 1999, VAT rates will be subject to further adjustments in order to fall in line with EU VAT directives in 2002 and following years. Since 2002, VAT rates have been increased on childrens' goods (from seven per cent. to 12 per cent.) and to seven per cent. on flats in certain housing developments (which had previously been zero rated for VAT purposes). In addition, the VAT rate for certain services has risen from 7 per cent. to 22 per cent.

Excise Tax

Excise tax is levied on, among other products, alcohol, tobacco, fuel, automobiles, some electronic appliances, cosmetic products, yachts, salt, gambling machines and fur clothing. In 2002, an excise tax of PLN 0.02 per kilowatt was introduced in respect of power consumption. The Government estimates that such a tax will raise about PLN 2 billion per annum.

Social Expenditures

Four social security and pension funds are administered by the state and are partially or wholly financed by contributions from employers and employees. The revenues of these funds are not shown as revenues in the state budget. Two of these funds do, however, receive significant transfers from the state budget and such transfers are shown as expenditures in the 2002 Budget Act.

The social insurance fund and the labor fund are the largest extra-budgetary funds and rely on state budget transfers to supplement their own off-budget revenues. For example, in 1999, 16 per cent. of the revenues of the social insurance fund and 14.7 per cent. of the revenues of the labor fund came from state budget transfers.

Direct Budgetary Social Expenditures

The growth of social expenditures paid directly from the state budget or paid as transfers from the state budget to extra-budgetary funds, and their projected continued growth based on current legal entitlements and demographic trends, represent a significant threat to Poland's ability to limit the budget deficit in the medium term. Prior to 1996, social security benefits were indexed to average wages in the economy, and since then they have been indexed to inflation projected by respective budget acts. As a result of the rapid increase in average wages from 1994 through 1996, social security benefits increased at an accelerated rate during this period. The growth in social expenditures is attributable to a combination of adverse demographic trends, early retirement, higher unemployment, and the linkage of benefits to prices. Such expenditures have increased from 4.5 per cent. of GDP in 1991 to 5.4 per cent. of GDP in 1995, but decreased to 4.9 per cent. of GDP in 1996. The increase of funds transferred into the second pillar of the pension system (see below) amounted to PLN 8.7 billion in 2001, compared to PLN 7.6 billion in 2000 and PLN 2.3 billion in 1999 is reflected in the budgetary expenditures in macroeconomic terms representing a long-term saving for the whole economy and reducing the negative impact of the budget deficit on national savings by 1.2 per cent. of GDP in 2001. The 2002 Budget Act anticipates that PLN 11.5 billion will be transferred in 2002, which is expected to reduce the budget deficit on national savings by 1.6 per cent. of GDP in 2002.

Pension System Reform

On January 1, 1999, the "pay-as-you-go" pension system in Poland was replaced with a multipillar system. The multipillar system is divided into three pillars; the first is an improved version of the mandatory pay-as-you-go system; the second involves private pension funds managed by private institutions and pension institutions; and the third is a voluntary capitalized fund, such as an employee pension scheme and individual pension insurance policies. The two latter pillars are supervised by the Committee for Supervision of Insurance and Pension Funds. As of January 1, 1999, for persons below the age of 30, participation in the first two pillars has become mandatory. Persons between the age of 30 and 50 had to decide by the end of 1999 whether they would pay into a private pension scheme, or remain in the pay-as-you-go scheme. Persons over 50 remained in the pay-as-you-go scheme. As of December 31, 2001, there were 17 second pillar pension funds with a membership of more than 10.6 million people accounting for PLN 19.4 billion of pension funds' assets. The investment strategy of pension funds is regulated by law (for example there are restrictions on the type of assets held in the portfolio). As of December 31, 2001, Treasury Securities and stocks listed on the WSE constituted the majority of total assets held by such funds (accounting for 66 and 28 per cent. respectively).

Pension reform aimed at reducing state budgetary liabilities to the social security system and in turn provide more liquidity in domestic markets as a result of the significant flow of funds into privately managed pension funds. The funds are only allowed to invest five per cent. of their funds in foreign currencies or foreign assets. Due to a shortfall in the system upon its implementation, only part of the state collected pension funds have been transferred to private pension funds. In addition, as the reforms gained public approval, more people than previously expected decided to join the second pillar, which resulted in higher transfers from the state budget in 2000.

Health System Reform

At the same time as the pension system reforms were introduced, the management and funding of the health service was overhauled. The main reform was the introduction of the Kasa Chorych (healthcare fund) through which employers are required to make a mandatory payment of 7.75 per cent. of each individual employee's wages into the fund. There are 16 regional and one branch health care authorities responsible for purchasing medical services directly from suppliers within budgetary constraints. The organization of the health system is under review by the current Government.

Local Budgets

In Poland, local governments are largely self-financing, having their own separate budgets and revenue base (consisting mainly of property taxes and an allocated share of income taxes collected by the central government).

The following table sets out the local government revenues and expenditures for the years 1997 to 2002:

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁽¹⁾</u>
	<i>(PLN millions)</i>					
Revenues:						
Own Revenues	15,390	17,214	21,753	24,127	39,821	41,879
General/Subsidies/ and Educational Subsidies . .	9,722	11,737	22,122	25,860	29,434	30,000
Transfers for Own Tasks	1,844	2,307	4,227	5,927	— ⁽²⁾	— ⁽²⁾
Transfers for Ordered Tasks	2,972	3,418	6,666	6,700	— ⁽²⁾	— ⁽²⁾
Other Revenues	9,569	11,443	10,110	9,996	10,341	11,065
Total Revenues	39,497	46,119	64,878	72,610	79,596	82,944
Expenditure:						
Wages	9,633	11,220	22,364	27,700	29,654	— ⁽²⁾
Wage Related Expenses	4,505	5,260	4,332	5,096	5,509	— ⁽²⁾
Local Government Subsidies	4,448	5,173	6,072	5,460	6,609	— ⁽²⁾
Investments	9,681	10,937	12,581	13,298	14,071	16,124
Other Expenditures	12,237	14,905	20,497	24,193	26,892	71,743
Total Expenditures	40,504	47,495	65,846	75,747	82,735	87,867
Balance:	-1,007	-1,376	-968	-3,137	-3,139	-4,923

(1) Forecast.

(2) Data not available.

Source: Ministry of Finance

PUBLIC DEBT

Overview

For reporting purposes relating to external and internal debt, Poland classifies as public debt only debt incurred directly by the state, or State Treasury debt, by the local governments and by entities belonging to the public finance sector (as defined by the public finance law). It does not include debt incurred by state-owned financial institutions, other state owned enterprises and the NBP. The Ministry of Finance started to collect data on public sector debt in 1999 after a new law on public finance obliged it to do so. In addition, the State Treasury provides certain state guarantees (and sureties) to cover liabilities of Polish entities. As at December 31, 2001, the amount of such guarantees (including expected interest payments) was PLN 23.2 billion, of which PLN 11.2 billion related to guarantees provided to cover liabilities of Polish entities indebted to foreign entities. In addition, following the terrorist attacks in America on September 11, 2001, the State Treasury provided a guarantee for all Polish airlines amounting to a further PLN 4 billion.

The following table shows total public sector debt for 1999 to 2001:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
		<i>(PLN millions)</i>	
Public finance sector debt	273,383	280,474	302,084
Government sector debt, of which:	267,196	271,097	291,920
State Treasury debt	263,541	265,888	282,617
Local government debt	6,187	9,377	10,769

Source: Ministry of Finance

State Treasury Debt

The Ministry of Finance classifies debt as internal or external according to two criteria—place of issue and residency. In the former, all instruments issued for the domestic market regardless of the status of their holder (domestic or foreign) are classified as internal debt. In the latter, all instruments, regardless of the market they are issued for, are classified as external or internal by the residency status of the holder.

In the section of this prospectus entitled “Public Debt”, debt is referred to as internal or external based on the place of issue criterion.

In nominal terms, Poland’s total State Treasury debt has grown from PLN 152.2 billion at the end of 1994 to PLN 283.9 billion at the end of December 2001. This nominal growth came primarily from growth in internal State Treasury debt used to finance budget deficits and to make payments to external creditors. However, total debt has steadily decreased in proportion to Poland’s growing GDP (except for 2001 when a slight increase occurred).

Poland intends to reduce its stake of foreign debt. For example, by December 2001, Poland had repurchased more than \$3.3 billion of its outstanding bonds issued by the State Treasury in 1994 to its creditors in connection with its commercial debt restructuring, or Brady Bonds, and all so called Paris Club debt owed to Brazil (\$3.3 billion). See “State Treasury External Debt.”

In 1991 and 1994 respectively, Poland concluded significant debt reduction and restructuring agreements with 17 creditor countries, known as the Paris Club, and more than 500 commercial bank creditors, known as the London Club, restructuring the equivalent of \$33 billion and \$14 billion of external indebtedness, respectively. See “External Debt—Paris Club and London Club Agreements” below.

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

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

	At December 31,				
	1997	1998	1999	2000	2001
	<i>(PLN millions except for percentages)</i>				
Internal State Treasury Debt	104,058	121,182	134,676	145,982	185,028
As a percentage of GDP	22.0	21.9	21.9	21.3	25.6
External State Treasury Debt	117,592	116,218	129,694	120,835	98,909
As a percentage of GDP	24.9	21.0	21.1	17.6	13.7
Total State Treasury Debt	221,650	237,400	264,370	266,817	283,937
As a percentage of GDP	46.9	42.9	43.0	39.0	39.3
GDP	472,350	553,560	615,115	684,926	721,576

Source: Ministry of Finance

Debt Management

Under Polish law, the Minister of Finance must specifically approve the terms of all direct internal debt and external debt incurred by the state. Under the Constitution, the Government is prohibited from incurring loans or issuing guarantees or sureties as a result of which the public debt (after giving effect to any exchange rate fluctuations for non-PLN debt) would exceed 60 per cent. of the annual GDP. In addition, under the Public Finance Act of 1998, if public debt exceeds 50 per cent. of GDP, the Government is required to introduce prudential measures in order to reduce the level of public debt, including providing a budget for the following year in which the forecasted deficit will not exceed the current deficit amount. Thereafter, if such prudential measures do not reduce the levels of public debt as a percentage of GDP and the total figure reaches 55 per cent., the Government has to present a budget act which ensures that the level of public debt as a percentage of GDP will not increase.

The Act on Public Finance of 1998 requires an official debt management strategy to be prepared and attached to the Budget Act annually. The debt management strategy for 2002–2004 was approved by the Parliament in November 2001. The strategy objectives provide for the further limiting of foreign debt as a percentage of the total public debt, an increase in average maturity, an improvement in the amortization profile and the limiting of other components of risk associated with debt management.

The Government continues to restrict the issuance of State guarantees primarily to major investment projects, in the areas of infrastructure and environment, together with certain guarantees relating to the restructuring of certain sectors.

Internal State Treasury Debt

Poland's internal State Treasury debt has increased from PLN 66.1 billion (21.5 per cent. of GDP) at the end of 1995 to PLN 185.0 billion (25.6 per cent. of GDP) at the end of December 2001. This increase reflects the Government's policy of borrowing internally to finance the annual budget deficit and to make payments and repayments to external creditors.

Internal public debt comprises three categories:

- Marketable Treasury securities, including short-term Treasury bills, as well as fixed and floating rate Treasury bonds with maturities from two years to 20 years, both issued at market prices to financial and non-financial institutions and to individuals;
- Securities not freely marketable, issued on a registered basis and transferred to certain domestic state-owned financial institutions; and certain other state debt in the form of long-term liabilities issued in connection with the restructuring of the state banking system and other debt; non-marketable debt is being gradually exchanged for marketable debt; and
- Savings bonds, which are sold to private persons exclusively and are not freely marketable.

As of the end of December 2001 the proportion of the various types of securities in the total amount of internal debt was as follows: Treasury bills—19.1 per cent.; Treasury bonds—66.7 per cent.; non-marketable bonds— 6.1 per cent.; and savings bonds— 3.3 per cent.

The Ministry of Finance auctions Treasury bills at a discount from face value with maturities from one to 52 weeks. In December 2001, the percentage of total internal Treasury securities outstanding constituted by Treasury bills was 21 per cent., a significant decrease from 52.2 per cent. in 1994. Issues of marketable Treasury bonds currently outstanding include fixed rate and floating rate instruments with two, three, five, ten and 20 year maturities, as well as saving bonds with two and four year maturities. Such bonds constituted 70.1 per cent. of total outstanding Treasury securities in December 2001.

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

In the second half of 1999, PLN 16.5 billion of “non-marketable” bonds held by the NBP were converted into market-based Treasury securities, to prevent and reduce any excess liquidity in the banking sector. In the year 2000, the debt incurred by the health care system was also exchanged for marketable Treasury securities. The intention of the Government is to exchange all “non-marketable” debt into “marketable” debt.

External State Treasury Debt

As of the end of December 2001, Poland had PLN 98.9 billion (\$24.8 billion) of State Treasury external debt outstanding, which was a modest increase in nominal zloty terms since 1995, but a significant decrease as a proportion of GDP (from 32.8 per cent. in 1995 to 13.7 per cent. at the end of December 2001). The repayment and prepayment of external debt is in line with the Government’s debt management policies.

Consistent with this policy, the Ministry of Finance repurchased in 1997 and 1998 \$2.4 billion of Brady Bonds. To finance the repurchase, the Minister of Finance issued and sold to the NBP bonds maturing on October 27, 2024. The NBP funded the purchase of the bonds from its international reserves. In October 2000, the State Treasury executed the call option on Discount and New Money Brady Bonds amounting to \$943 million. The call was funded by proceeds from the privatization of TP S.A. In April 2001, the State Treasury repurchased \$289.5 million Revolving Short Term Trade Related Agreement, or RSTA, bonds. As a result of such repurchases and call exercises, the total outstanding principal amount of Brady Bonds was reduced to \$4.07 billion.

In November 2001, the State Treasury prepaid its debt owed to Brazil, its largest creditor in the Paris Club (see—“London and Paris Club Agreements”). The nominal amount of \$3.3 billion was prepaid for \$2.46 billion. The transaction was funded by a loan from the NBP’s international reserves and will be repaid in foreign currency in four installments during 2002–2003.

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(\$ millions)				
Medium- and Long-Term State Treasury					
External Debt					
Loans					
Paris Club	24,247	24,808	22,800	21,173	16,303
Multilateral	1,687	1,884	2,061	2,311	2,457
The World Bank	1,559	1,632	1,656	1,752	1,739
European Investment Bank	93	209	333	462	518
European Bank for Reconstruction and Development ..	36	42	34	25	23
Council of Europe Development Bank	0	0	38	68	177
Other Loans	432	370	320	241	190
Total Loans	26,366	27,062	25,180	23,725	18,951
Bonds					
Brady Bonds	6,054	5,306	5,306	4,362	4,048
Foreign Bonds	790	799	778	1,077	1,814
Total Bonds	6,843	6,105	6,084	5,440	5,862
Total Medium- and Long-Term State Treasury					
External Debt	33,209	33,167	31,265	29,165	24,812
Short-Term State Treasury External Debt	217	0	0	0	0
Total State Treasury External Debt	33,426	33,167	31,264	29,165	24,812

Source: Ministry of Finance

The following table sets out the State Treasury's external debt by currency composition as at December 31, 2001:

	<u>Equivalent in \$ millions</u>	<u>%</u>
EUR	10,680.4	43.0
USD	9,057.0	36.5
JPY	1,180.7	4.8
Pool ⁽¹⁾	1,020.0	4.1
CAD	968.6	3.9
GBP	869.1	3.5
CHF	816.1	3.3
NOK	181.0	0.7
SEK	39.4	0.2
Total	24,812.3	100.0

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

Source: Ministry of Finance

The following table sets out debt service projections for the State Treasury's medium- and long-term external debt by type of creditor for the years 2002 to 2011 and beyond. The data contained in the table does not assume any refinancing of existing debt.

	<u>2002⁽¹⁾</u>	<u>2003⁽²⁾</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>>2011</u>
	(\$ millions)									
PRINCIPAL PAYMENTS										
Loans	1,288	1,512	1,919	2,341	2,694	3,105	3,463	1,906	166	667
Paris Club	1,046	1,290	1,666	2,082	2,437	2,837	3,237	1,701	16	63
Multilateral	184	206	237	249	247	258	216	196	140	558
Other	57	15	16	11	9	9	9	9	9	46
Bonds	50	99	424	149	149	149	149	149	779	3,763
Brady bonds	50	99	124	149	149	149	149	149	249	2,780
Foreign bonds	0	0	300	0	0	0	0	0	530	984
Total Principal Payments .	1,337	1,611	2,343	2,490	2,843	3,254	3,612	2,055	944	4,430
INTEREST PAYMENTS										
Loans	554	462	430	373	318	250	157	64	34	101
Paris Club	399	350	325	286	243	185	107	24	3	5
Multilateral	151	107	102	84	73	62	49	39	30	92
Other	4	4	3	3	3	2	2	2	2	4
Bonds	373	348	348	319	309	300	287	278	265	1,298
Brady bonds	219	238	239	231	221	211	199	189	177	1,195
Foreign bonds	154	110	110	88	88	88	88	88	88	103
Total Interest Payments . .	926	809	778	692	627	549	444	342	299	1,399
DEBT SERVICE										
Loans	1,841	1,974	2,349	2,714	3,012	3,354	3,620	1,970	200	768
Paris Club	1,445	1,640	1,992	2,368	2,680	3,022	3,344	1,724	19	67
Multilateral	335	314	338	333	320	321	265	235	171	650
Other	61	20	19	14	12	12	11	11	11	50
Bonds	422	447	773	468	458	449	436	427	1,044	5,061
Brady bonds	268	338	363	380	370	361	348	339	426	3,975
Foreign bonds	154	110	410	88	88	88	88	88	618	1,086
Total Debt Service	2,264	2,421	3,122	3,183	3,470	3,803	4,057	2,397	1,244	5,829

(1) 2002 Budget Act.

(2) Figures for 2003 and beyond are based on preliminary data as of December 31, 2001.

Source: Ministry of Finance

Poland is not in default in relation to any of its external creditors.

Paris Club and London Club Agreements

At December 31, 1990, the total external debt of Poland was approximately \$48.5 billion. Most of this debt was incurred in the 1970s under central planning when foreign credits, both official and commercial, were used to finance Poland's foreign trade deficit and as a means to postpone needed economic reforms. Despite the rationing of foreign exchange and goods during the period, and by the second half of the 1970s, official reserves were exhausted. During the 1980s, Poland concluded multiple rescheduling agreements with its governmental creditors in the Paris Club and its commercial bank creditors in the London Club, the first being that with the Paris Club in April 1981. Following the imposition of martial law in Poland in December 1981, Poland suspended its repayments of Paris Club debt until 1984 when negotiations for a second rescheduling with the Paris Club resumed. By the late 1980s, Poland had concluded several rescheduling agreements with the Paris Club, the last one in February 1990 providing for the creation of a special task force to investigate the possibility of comprehensive debt relief for Poland. Poland concluded rescheduling agreements with the London Club twice in 1982 and once in each of 1983 and 1984 and during the period from 1981 through 1994, Poland was in default in the payment of principal and arrears with respect to certain of its contractual payment obligations to its Paris Club

and/or London Club creditors. However, in 1991, Poland and the Paris Club signed an agreement, known as the Paris Club Agreement, encompassing all of Poland's medium and long-term official credits granted by Paris Club members before January 1984. When consolidated as of April 1, 1991, these credits amounted to approximately \$33 billion. The Paris Club Agreement was designed to give Poland a two-stage 50 per cent. debt reduction in net present value terms. The first stage, which took effect in 1991, involved a 30 per cent. reduction in net present value terms. The second stage came into effect in 1994, following implementation of an economic stabilization and reform program under the supervision of the IMF, and Poland's having obtained a "comparable" debt reduction agreement with its London Club commercial creditors. The Paris Club Agreement was implemented through various bilateral agreements pursuant to which official creditors could choose among various options for principal or interest rate reduction in order to achieve the stated reduction. The total forgiveness of principal owed to Paris Club creditors was \$6.2 billion.

During the period from 1981 through 1994, Poland was in default in the payment of principal and arrears with respect to certain of its contractual payment obligations to its Paris Club and London Club creditors. The amounts of total payments in arrears varied from \$25 million to \$2.2 billion in the case of interest and \$76 million to \$4.1 billion in the case of principal.

In March 1994, after more than four years of negotiations, Poland and the London Club agreed to the terms of a comprehensive reduction and restructuring of the external debt owed to London Club commercial creditors including all associated interest in arrears. This agreement reduced these liabilities by 49.2 per cent. in net present value terms, through forgiveness of interest arrears, debt buy-backs and bond exchanges.

Following buy-backs, the remaining London Club debt was converted into \$2.97 billion in Discount Bonds, \$0.93 billion in Par Bonds, \$0.39 billion in Debt Conversion Bonds, \$2.67 billion in PDI Bonds (interest arrears bonds), \$0.89 billion in RSTA Bonds (trade line bonds) and \$0.138 billion of New Money Bonds. The principal of the Discount Bonds, Par Bonds and RSTA Bonds is collateralized by zero-coupon U.S. Treasury bonds.

POLAND'S TOTAL EXTERNAL DEBT

The following table gives details of Poland's gross external debt, by creditor and by credit type, as at the ends of the periods indicated. For this purpose, gross external debt refers to the amount, at any given time, of disbursed and outstanding contractual liabilities of Polish residents to repay non-residents principal, with or without interest, or to pay interest, with or without principal.

External debt includes intercompany loans, current accounts and time deposits held by non-residents with Polish banks, debt securities held by non-resident portfolio investors, trade credits and other loans and credits (including financial leases), irrespective of currency.

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
			(\$ millions)		
Monetary authorities	791	925	1,844	436	428
Loans	58	32	23	15	8
Currency and deposits ⁽¹⁾	733	893	1,821	421	420
Central and local government⁽²⁾	34,402	34,098	32,121	32,980	29,362
Debt securities⁽³⁾⁽⁴⁾	7,818	7,037	6,922	9,231	10,373
Bonds and notes	7,343	6,672	6,777	9,073	10,139
Money-market instruments	475	365	145	158	234
Other investment	26,584	27,061	25,199	23,749	18,989
Loans	26,557	27,059	25,197	23,747	18,987
Other liabilities	27	2	2	2	2
Banks	3,683	5,131	6,548	6,122	6,699
Loans from direct investors					
(Intercompany loans)	141	160	134	200	231
Debt securities	488	236	10	110	166
Bonds and notes	306	215	10	110	166
Money-market instruments	182	21	0	0	0
Other investment	3,054	4,735	6,404	5,812	6,302
Loans	1,104	2,084	3,681	3,595	3,679
Currency and deposits	1,950	2,651	2,723	2,217	2,623
Other liabilities	0	0	0	0	0
Other sectors	10,771	18,981	24,884	30,072	33,671
Loans from direct investors					
(Intercompany loans)	4,326	6,218	7,080	8,852	9,355
Debt securities	347	1,416	2,705	3,487	4,230
Bonds and notes	325	1,328	2,682	3,386	4,217
Money-market instruments	22	88	23	101	13
Other investment	6,098	11,347	15,099	17,733	20,086
Trade credits	1,862	3,560	5,225	5,612	5,774
Loans	4,236	7,787	9,758	11,899	14,124
Other liabilities			116	222	188
TOTAL EXTERNAL DEBT	49,647	59,135	65,397	69,610	70,160
of which:					
Long-term	44,514	50,720	54,182	60,062	60,154
Short-term⁽⁵⁾	5,133	8,415	11,215	9,548	10,006

(1) In May 2000, the National Bank of Poland introduced a new category "Official Reserve Assets", which replaced the category "Gross Official Reserves". The latter differed from the former in relation to the treatment of repurchase transactions. Gross Official Reserves included the value of net repurchase transactions (namely the difference between the assets and the liabilities side of repurchase transactions). The category of Official Reserve Assets, introduced from May 31, 2000, comprises only the assets side of repurchase transactions. This treatment is in line with the corresponding IMF definition. For comparison, Official Reserve Assets from 1997 to 2000 were adjusted accordingly. As a consequence of this change, net liabilities under repurchase agreements are presented under "Currency and deposits".

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

(3) For 1999—the securities issued in the domestic market (Treasury bonds and Treasury bills)—according to Ministry of Finance information "Zadłużenie Skarbu Państwa" (State Treasury Indebtedness).

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

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

(6) In March 1999, regulations imposing reporting obligations on non-residents with regard to information for the balance of payments and international investment position purposes were changed. The scope of reporting units was extended, and penalties for non-compliance introduced. In this context, the NBP has received data from units not covered by the reporting obligations in the past. Accordingly, the figure for outstanding trade credits for 1998–1999 has changed. Since it was not possible to adjust data for 1996–1997, adjusted trade credits are presented for 1998–1999.

Relationship with Multilateral Financial Institutions

Since 1990, Poland has received substantial financial and technical support from various multilateral financial institutions including the World Bank, the European Investment Bank, known as the EIB, the EBRD and the IMF. As at December 31, 2001, Poland's liabilities to multilateral financial institutions amounted to \$2.46 billion, or 9.9 per cent. of the Polish State Treasury's total external debt.

International Bank for Reconstruction and Development

The World Bank has provided significant financial support to Polish structural reforms as well as to the development of the Polish financial, transport and energy sectors. As of December 31, 2001, World Bank had committed a total of approximately \$4.04 billion in credits to Poland, approximately \$3.51 billion of which had already been disbursed.

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

European Investment Bank

Poland began cooperation with the EIB in 1990 when the first framework agreement was signed. The last framework agreement between the EIB and Poland signed in 1997 is valid until Poland joins the EU. The framework agreement determines the main issues of cooperation between the EIB and Poland, including co-financing investment projects in transportation, power and energy, health and education and telecommunications sectors. In addition, the EIB provides commercial-based loans to private enterprises and municipalities.

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

European Bank for Reconstruction and Development

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

International Monetary Fund

In 1995, Poland repaid all outstanding amounts drawn from the IMF.

Currently the IMF performs standard Article IV consultations with Poland on a 12-month cycle, however Poland invites the IMF in mid-year to review its fiscal and monetary policies.

Poland is a member of IMF's Special Data Dissemination System and provides to the public information about its practices and standards in disseminating economic and financial data.

In 1999, Poland was invited to participate in the financial transactions plan of the IMF. Under the financial transactions plan, Poland contributes to the funding of IMF investments, based on Poland's quota which is met by the IMF as the upper limit of any one country's obligation to make resources available to the IMF for its financial transactions.

International Development Association

Since 1988, Poland has been a member and contributor to the International Development Association, known as the IDA, which grants preferential long-term loans to the world's poorest countries. As of December 31, 2001, the Polish contribution to the IDA amounted to special drawing rights of 13.5 million (out of which special drawing rights of 11.1 million had already been paid in).

Nordic Investment Bank

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

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

Council of Europe Development Bank

Poland is a member of the Council of Europe Development Bank, or CEDB, since 1998. The total value of loans granted by the CEDB amounts to PLN 1.02 billion, PLN 765.6 million of which has already been disbursed.

DESCRIPTION OF THE SECURITIES

The debt securities, or Securities, will be issued under a Fiscal Agency Agreement between the State Treasury, represented by the Minister of Finance, and a selected fiscal agent.

The following is a summary of certain terms of the Securities. The State Treasury will describe the particular terms of any Securities in the prospectus supplement relating to those Securities. Those terms may include:

- the principal amount of the Securities;
- the price of the Securities;
- the stated maturity date on which the State Treasury must repay the Securities;
- the rate of interest the Securities will bear and, if variable, the method by which the interest rate will be calculated;
- the dates when any interest payments will be made;
- whether and in what circumstances the State Treasury may redeem the Securities before maturity; _ the currency in which the State Treasury may pay the Securities and any interest; and _ any other terms of the Securities.

Status of the Securities and Negative Pledge

The Securities will constitute general and unsecured obligations of Poland, and the full faith and credit of Poland will be pledged for the due and punctual payment of the principal of, and interest on, the Securities and for the performance of all obligations of Poland with respect thereto. The Securities will rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of Poland, except for such obligations as may be preferred by mandatory provisions of applicable law.

So long as any of the Securities remain outstanding, Poland will not create or permit the creation of any Security Interest on any of its present or future assets or revenues, or any part thereof, to secure any Public External Indebtedness of Poland, unless Poland shall procure that all amounts payable under the Securities are secured equally and ratably.

Notwithstanding the above, Poland may create or permit the creation of:

- (a) any Security Interest which secures Poland's \$934.67 million Collateralized Par Bonds due 2024 and \$891.07 million Collateralized RSTA Bonds due 2024 each issued (in part) on October 27, 1994 and which is either existing on the date hereof or contemplated by the terms of such bonds; or
- (b) any Security Interest upon property to secure Public External Indebtedness incurred for the purpose of financing the acquisition of such property (or property which forms part of a class of assets of a similar nature where the Security Interest is by reference to the constituents of such class from time to time);
or
- (c) any Security Interest existing on property at the time of its acquisition; or
- (d) any Security Interest arising by operation of law which has not been foreclosed or otherwise enforced against the assets to which it applies; or

- (e) any Security Interest securing or providing for the payment of Public External Indebtedness incurred in connection with any Project Financing provided that such Security Interest applies only to (i) properties which are the subject of such Project Financing or (ii) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or failure to complete, or damage to, such properties; or
- (f) the renewal or extension of any Security Interest described in subparagraphs (a) to (e) above, provided that the principal amount of the Public External Indebtedness secured thereby is not increased.

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organization, trust or any other jurisdiction or entity, including without limitation, a state or an agency of a state or other entity, whether or not having separate legal personality.

“Project Financing” means any arrangement for the provision of funds which are to be used solely to finance a project for the acquisition, construction, development or exploitation of any property pursuant to which the persons providing such funds agree that the principal source of repayment of such funds will be the project and the revenues (including insurance proceeds) generated by such project.

“Public External Indebtedness” means any obligation for borrowed money (a) evidenced by bonds, notes or other securities which are or may be quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market and (b) denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of Poland.

“Security Interest” means any mortgage, charge, pledge, lien, security interest or other encumbrance securing any obligation of Poland or any other type of preferential arrangement having similar effect over any assets or revenues of Poland.

Payment of Additional Amounts

All payments made in respect of a Security, including payments of principal and interest, to a holder of a Security that is not a resident of Poland, will be made by the State Treasury without withholding or deducting for or on account of any present or future taxes, duties, levies or other governmental charges of whatever nature imposed or levied by Poland or any political subdivision or taxing authority within Poland. In the event the State Treasury is required by law to deduct or withhold any such taxes from your payments, the State Treasury will pay to you such additional amounts as may be necessary so that the net amount that you receive (including any deduction or withholding with respect to additional amounts) is equal to the amount provided for in the Security to be paid to you in the absence of such deduction or withholding. You will not be paid any additional amounts, however, if the tax is:

- a tax that would not have been imposed but for your present or former connection (or a connection of your fiduciary, settlor, beneficiary, member, shareholder or other related party) with Poland, including your (or your fiduciary, settlor, beneficiary, member, shareholder or other related party) being or having been a citizen or resident of Poland or being or having been engaged in a trade or business or present in Poland or having, or having had, a permanent establishment in Poland;
- imposed because you present a Security in definitive form for payment more than 30 days after the date on which the payment became due and payable;
- an estate, inheritance, gift, sales, transfer or personal property tax or any similar tax, assessment or governmental charge;
- a tax, assessment or other governmental charge which is payable other than by withholding;

- a tax that would not have been imposed but for the failure to comply with certification, information or other reporting requirements concerning your nationality, residence or identity (or the nationality, residence or identity of the beneficial owner of the Security), if your compliance is required by the laws of Poland or of any political subdivision or taxing authority of Poland to avoid or reduce such tax;
- required to be withheld by any paying agent from a payment on the Security to the extent that such payment can be made without withholding by another paying agent;
- a tax, assessment or other governmental charge which is required to be withheld or deducted where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council meeting of December 13, 2001, known as “COM(2001) 400”, or any law implementing or complying with, or introduced in order to conform to, such directive; or
- imposed as a result of any combination of the items listed above.

Furthermore, no additional amounts will be paid with respect to any Security to a holder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent that the settlors with respect to such fiduciary, partner or beneficial owner, as the case may be, would not have been entitled to payment of such additional amounts if they held the Security themselves.

In the event that such deduction or withholding is required, the State Treasury will make such deduction or withholding and remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The State Treasury will furnish you, upon request, within a reasonable period of time after the date of the payment of any taxes due pursuant to applicable law, certified copies of tax receipts evidencing such payment by the State Treasury.

Any reference herein to principal or interest on the Securities includes any additional amounts which may be payable on those Securities.

General

Any monies held by the fiscal agent in respect of any Securities and remaining unclaimed for two years after those amounts have become due and payable will be returned by the fiscal agent to the State Treasury. The holders of those Securities may thereafter look only to the State Treasury for any payment. Securities will become void unless holders present them payment within five years after their maturity date.

The State Treasury may replace the fiscal agent at any time, subject to the appointment of a replacement fiscal agent. The fiscal agent will not be a trustee for the holders of the Securities and will not have the same responsibilities or duties to act for such holders as would a trustee. The State Treasury may maintain deposit accounts and conduct other banking transactions in the ordinary course of business with the fiscal agent.

Default; Acceleration of Maturity

If one or more of the following events shall have occurred and be continuing:

- (a) the State Treasury fails to pay the principal of or any interest on any Securities when due and such failure continues for a period of 30 days from the date due for payment thereof;
- (b) the State Treasury fails duly to perform or observe any of its other material obligations under or in respect of the Securities which failure continues unremedied for 45 days after written notice thereof has been delivered by any Securityholder to the State Treasury at the specified office of the fiscal agent;

- (c) Poland ceases to be a member of the International Monetary Fund, or IMF, or to be eligible to use the general resources of the IMF, and such situation continues unremedied for 45 days after written notice thereof has been delivered by any Securityholder to the State Treasury at the specified office of the fiscal agent;
- (d) (i) the acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any Public External Indebtedness of Poland, (ii) Poland defaults in the payment of any principal of or interest on any of its Public External Indebtedness when and as the same shall become due and payable, and such default continues for more than the period of grace, if any, originally applicable thereto, or (iii) Poland defaults in the payment when due and called upon (after the expiry of the period of grace, if any, originally applicable thereto) of any guarantee or indemnity of Poland in respect of any Public External Indebtedness of any other Person; provided that the aggregate amount of the relevant Public External Indebtedness in respect of which one or more of the events mentioned in this paragraph (d) have occurred equals or exceeds \$50,000,000 or its equivalent;
- (e) a moratorium on the payment of principal of, or interest on, the Public External Indebtedness of Poland is declared by Poland; or
- (f) the validity of the Securities is contested by Poland or Poland shall deny any of its obligations under the Securities (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or it shall be or become unlawful for the State Treasury to perform or comply with all or any of its obligations set out in the Securities or any such obligations shall be or become unenforceable or invalid, in each case as a result of any law or regulation in Poland or any ruling of any court in Poland whose decision is final and unappealable;

then (1) in the case of an event referred to in (a) or (e) above, any Securityholder may, by notice in writing to the State Treasury at the specified office of the fiscal agent, declare such Security to be immediately due and payable and (2) in the case of any event referred to in (b), (c), (d) or (f) above, the fiscal agent shall, upon receipt of written requests to the State Treasury at the specified office of the fiscal agent from holders of not less than 25 per cent. in aggregate outstanding principal amount of the Securities, declare the Securities due and payable, in each case at their principal amount together with accrued interest without further formality. Upon such declaration by the fiscal agent, the fiscal agent shall give notice thereof in the manner provided in the Fiscal Agency Agreement to the State Treasury and to the holders of the Securities in accordance with such Agreement. After such declaration, if all amounts then due with respect to the Securities are paid (other than amounts due solely because of such declaration) and all other defaults with respect to the Securities are cured, such declaration may be annulled and rescinded by holders of not less than 50 per cent. in aggregate outstanding principal amount of the Securities, the Required Percentage, by a written notice thereof to the State Treasury at the specified office of the fiscal agent or by the passing of a resolution by the holders of not less than the Required Percentage.

Modification

With the written consent of the holders of more than 50 per cent. in aggregate principal amount of the outstanding Securities of a series, the State Treasury and the fiscal agent may modify, amend or supplement the terms of the Securities of that series or, insofar as affects the Securities of that series, the Fiscal Agency Agreement, in any way. Holders of more than 50 per cent. of the aggregate principal amount of any series may, at a meeting of holders or by written consent, make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the Securities of that series to be made, given or taken by holders of Securities of that series. No such action may, without the consent of the holder of each Security of a series:

- change the due date for the payment of the principal of, or any installment or interest on, any Security of that series;
- reduce the principal amount of any Security of that series;

- reduce the portion of the principal amount that is payable in the event of an acceleration of the maturity of any Security of that series;
- reduce the interest rate on any Security of that series;
- change the currency in which any amount in respect of the Securities of that series is payable;
- reduce the proportion of the principal amount of the Securities of that series that is required for any request, demand, authorization, direction, notice, consent, waiver or other action; or
- change the obligation of the State Treasury to pay additional amounts on Securities of that series.

Any modification, amendment or supplement made in accordance with the terms of the Securities will be binding on all holders of Securities of that series.

The State Treasury and the fiscal agent may, without the consent of any holder of the Securities of a series, modify, amend or supplement the Fiscal Agency Agreement or the Securities of that series for the purpose of:

- adding to the covenants of the State Treasury;
- surrendering any right or power conferred upon the State Treasury;
- securing the Securities of that series;
- curing any ambiguity, or curing, correcting or supplementing any defective provision contained in the Fiscal Agency Agreement or in the Securities of any series; or
- amending the Fiscal Agency Agreement or the Securities of that series in any manner that the State Treasury and the fiscal agent may determine and that does not adversely affect the interest of any holder of Securities of that series in any material respect.

The State Treasury may from time to time, without notice to or the consent of the registered holders of any series of Securities, issue further Securities which will form a single series of Securities, provided the further Securities are fungible with the Securities for U.S. federal income tax purposes. These further Securities will have the same terms as to status, redemption or otherwise as the Securities of the existing series and will rank equally with the Securities of the existing series in all respects, except for the payment of interest accruing prior to the issue date of these further Securities or except for the first payment of interest following the issue date of these further Securities.

Purchase of Securities by the State Treasury

The State Treasury may at any time purchase any Securities through the market or by tender at any price. If purchases are made by tender, tenders must be available to all holders of Securities of the same series. Any Securities purchased by or on behalf of the State Treasury may be held, resold or cancelled.

Form and Settlement

If specified in a prospectus supplement, the State Treasury will issue the Securities of each series as one or more fully registered global securities, each a Global Security, which will be deposited with, or on behalf of, The Depository Trust Company, New York, New York, or DTC, its nominee and/or one or more depositories named in the prospectus supplement, such as the Euroclear System, known as Euroclear, or Clearstream Banking, société anonyme, known as Clearstream. Except as set forth below, the Global Securities may be transferred, in whole and not in part, only to DTC or its nominee.

DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds

securities of its participants and facilitates the clearance and settlement of securities transactions through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to DTC's book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules that apply to DTC are on file with the SEC and the DTC agrees and represents to its participants that it will administer its book-entry system in accordance with its rules and requirements of law.

Upon the issuance of the Global Securities, the State Treasury expects that the depository or nominee will credit, on its book-entry registration and transfer system, the respective principal amounts of the Securities represented by the Global Securities to the accounts of institutions that have accounts with the depository or nominee, known as the participants. Ownership of beneficial interests in a Global Security will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in a Global Security will be shown on, and the transfer of that ownership will be effected only through, records maintained by the depository or its nominee (with respect to interests of participants) and on the records of participants (with respect to interests of persons other than participants). The laws of some states require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limitations may impair the ability to own, transfer or pledge beneficial interests in a Global Security.

The State Treasury will provide the fiscal agent with any payment of principal or interest due on the Securities on any interest payment date or at maturity. As soon as possible thereafter, the fiscal agent will make such payments to the depository or nominee that is the registered owner of the Global Security representing such Securities in accordance with arrangements between the fiscal agent and the depository. The State Treasury expects that the depository or nominee, upon receipt of any payment of principal or interest, will credit immediately participants accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Security as shown on the relevant records. The State Treasury also expects that payments by participants to owners of beneficial interests in the Global Security will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participants. Neither the State Treasury nor the fiscal agent will have any responsibility or liability for payments made on account of beneficial ownership interests of a Global Security or for maintaining, supervising or reviewing any records.

So long as a depository or nominee is the registered owner of a Global Security, it will be considered the sole owner and holder of the Securities represented by such Global Security. Except as provided below or in a prospectus supplement, owners of beneficial interests in a Global Security:

- will not be entitled to have the Securities represented by such Global Security registered in their names;
- will not receive or be entitled to receive physical delivery of Securities in definitive form upon exchange or otherwise; and
- will not be considered the owners or holders of any Securities represented by such Global Security.

Accordingly, such person owning a beneficial interest in a Global Security must rely on the procedures of the depository and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a holder of Securities. Under existing industry practice, an owner of a beneficial interest in a Global Security desires to take any action that the depository or its nominee, as the holder of the Global Security, would be entitled to take, the depository would authorize the participants to take such action, and the participants would authorize beneficial owners to take such action or would otherwise act upon the instructions of beneficial owners.

Unless stated otherwise in a prospectus supplement, a Global Security may only be transferred as a whole in the following manner:

- by the related depository to a nominee of such depository or by a nominee of such depository to such depository or any other nominee of such depository; or
- by such depository or any such nominee to another depository for such Securities or its nominee or to a successor of the depository or a nominee of such successor.

Securities represented by a Global Security are exchangeable for Securities in definitive form in denominations specified in the applicable prospectus supplement if:

- the depository, or each of Euroclear and Clearstream, notifies the State Treasury that it is unwilling or unable to continue as depository for such Global Security or if the depository ceases to be a clearing agency registered under applicable law and a replacement depository is not appointed within 90 days;
- the State Treasury decides not to have all of the related Securities represented by such Global Security;
- an event of default has occurred and is continuing;
- such other events occur as may be specified in a prospectus supplement.

Any Security that is exchangeable pursuant to the preceding sentence is exchangeable for Securities in definitive form registered in such names as the depository shall direct. Securities in definitive form may be presented for registration of transfer or exchange at the office of the fiscal agent in The City of New York and principal thereof and interest thereon will be payable at such office of the fiscal agent, provided that interest thereon may be paid by check mailed to the registered holders of the Securities. Subject to the foregoing, a Global Security is not exchangeable, except for a Global Security or Global Securities of the same aggregate denominations to be registered in the name of the depository or its nominee.

Prescription

The Securities will be subject to the limitation periods relating to claims for principal and interest as provided by Article 118 of the Polish Civil Code, dated April 23, 1964, as amended, which provides a ten year limitation period on claims for principal and a three year limitation period on claims for interest.

Judgment Currency

The State Treasury agrees that if a judgment or order given or made by any court for the payment of any amount in respect of any Security is expressed in a currency, the judgment currency, other than the U.S. dollar, the denomination currency, the State Treasury will pay any deficiency arising or resulting from any variation in rates of exchange between the date as of which the amount in the denomination currency is notionally converted into the amount in the judgment currency for the purposes of such judgment or order and the date of actual payment thereof. This obligation will constitute a separate and independent obligation from the other obligations under the Securities, will give rise to a separate and independent cause of action, will apply irrespective of any waiver or extension granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due in respect of the relevant Security or under any such judgment or order for a liquidated sum or sums in respect of amounts due in respect of the relevant Security or under any such judgment or order.

Governing Law; Consent to Service; Sovereign Immunity

The Fiscal Agency Agreement and the Securities will be governed by and interpreted in accordance with the laws of the State of New York without regard to any conflicts of laws principles thereof that would require the application of the laws of a jurisdiction other than the State of New York, except that all matters governing the authorization and execution of the Securities by the State Treasury will be governed by the laws of Poland. The State Treasury will appoint CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York as its authorized agent upon which process may be served in any action arising out of or based on the Securities which may be instituted in any State or federal court in New York City by any holder of a Security. Poland will irrevocably waive to the fullest extent permitted by law any immunity from jurisdiction to which it might otherwise be entitled in any action arising out of or based on the Securities which may be instituted by any holder of a Security in any State or federal court in New York City or in any competent court in Poland. Such waiver of immunities constitutes only a limited and specific waiver for the purposes of the Securities and under no circumstances shall it be interpreted as a general waiver by Poland or a waiver with respect to proceedings unrelated to the Securities. However, the United States Foreign Sovereign Immunities Act of 1975, or the Immunities Act, may provide an effective means of service and preclude granting sovereign immunity in such actions.

The Immunities Act may also provide a means for limited execution upon such property of Poland in the United States as is related to the service or administration of the Securities. Under the laws of Poland, subject to certain exceptions, assets of Poland are immune from attachment or other forms of execution whether before or after judgment. Poland does not waive any immunity in respect of property which is ambassadorial or consular property or buildings or the contents thereof, in each case situated outside Poland, or any bank accounts of such embassies or consulates, in each case necessary for proper ambassadorial and consular functions, or any military property or assets of Poland nor does it waive immunity from execution or attachment or process in the nature thereof.

Poland reserves the right to plead sovereign immunity under the Immunities Act with respect to actions brought against it under U.S. federal securities laws or any state securities laws. In the absence of a waiver of immunity by Poland with respect to such actions, it would not be possible to obtain a U.S. judgment in such an action against Poland unless a court were to determine that Poland is not entitled under the Immunities Act to sovereign immunity with respect to such action. The State Treasury has been advised by White & Case W. Daniłowicz, W. Jurcewicz i Wspólnicy - Kancelaria Prawna Spółka Komandytowa, Polish counsel for the State Treasury, that enforceability in Poland of final judgments of U.S. courts, including those obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws, will be subject to the rules governing enforcement in Poland of civil judgments of foreign courts specified in the Polish Code of Civil Procedure. Such rules provide for enforcement of foreign judgments on the basis of reciprocity if (a) such judgment is enforceable in the country where it has been rendered; and (b) the requirements set forth in Article 1146 §1, Points 1 to 6 of the Polish Code of Civil Procedure have been satisfied. The additional requirements referred to under (b) above provide that (i) the matter must have been finally adjudicated in the country where the judgment for which enforcement is sought has been rendered; (ii) the subject matter of the judgment does not fall under the exclusive jurisdiction of Polish courts or the courts of a third country; (iii) all due process requirements have been complied with; (iv) the judgment is not inconsistent with the basic principles of Poland's legal order; (v) the matter has not already been finally adjudicated in Poland; and (vi) in rendering the judgment in a case in which Polish law should have been applied, such law has been actually applied, unless the foreign law applied in the case does not materially differ from applicable Polish law. Subject to the above, in general, the enforceability in Poland of final judgments of U.S. courts obtained other than by default generally would not require retrial in Poland. In addition, the Polish Code of Civil Procedure contains specific rules regarding execution of judgments against assets of Poland.

In original actions brought before Polish courts, there is doubt as to the enforceability of liabilities based on the U.S. federal securities laws. Polish courts may enter and enforce judgments in foreign currencies.

ENFORCEABILITY OF JUDGMENTS

Poland is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realize upon judgments of courts in the United States against Poland. The State Treasury will irrevocably submit to the jurisdiction of the Federal and State courts in The City of New York, and will irrevocably waive any immunity from the jurisdiction (including sovereign immunity but not all immunity from execution or attachment or process in the nature thereof) of such courts and any objection to venue, in connection with any action arising out of or based upon the Notes brought by any holder of Notes.

Poland reserves the right to plead sovereign immunity under the Immunities Act with respect to actions brought against it under U.S. federal securities laws or any state securities laws. In the absence of a waiver of immunity by Poland with respect to such actions, it would not be possible to obtain a U.S. judgment in such an action against Poland unless a court were to determine that Poland is not entitled under the Immunities Act to sovereign immunity with respect to such action. The State Treasury has been advised by White & Case, W. Daniłowicz, W. Jurcewicz i Wspólnicy - Kancelaria Prawna Spółka Komandytowa, Polish counsel for the State Treasury, that enforceability in Poland of final judgments of U.S. courts, including those obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws, will be subject to the rules governing enforcement in Poland of civil judgments of foreign courts specified in the Polish Code of Civil Procedure. Such rules provide for enforcement of foreign judgments on the basis of reciprocity if (a) such judgment is enforceable in the country where it has been rendered; and (b) the requirements set forth in Article 1146 § 1, Points 1 to 6 of the Polish Code of Civil Procedure have been satisfied. The additional requirements referred to under (b) above provide that (i) the matter must have been finally adjudicated in the country where the judgment for which enforcement is sought has been rendered; (ii) the subject matter of the judgment does not fall under the exclusive jurisdiction of Polish courts or the courts of a third country; (iii) all due process requirements have been complied with; (iv) the judgment is not inconsistent with the basic principles of Poland's legal order; (v) the matter has not already been finally adjudicated in Poland; and (vi) in rendering the judgment in a case in which Polish law should have been applied, such law has been actually applied, unless the foreign law applied in the case does not materially differ from applicable Polish law. Subject to the above, in general, the enforceability in Poland of final judgments of U.S. courts obtained other than by default generally would not require retrial in Poland. In addition, the Polish Code of Civil Procedure contains specific rules regarding execution of judgments against assets of Poland.

In original actions brought before Polish courts, there is doubt as to the enforceability of liabilities based on the U.S. federal securities laws. Polish courts may enter and enforce judgments in foreign currencies.

The State Treasury has appointed an authorized agent in The City of New York upon which service of process can be made. As a result of the State Treasury's appointment of such agent in New York, investors will be able to effect service of process upon Poland in original actions in Federal and State courts in The City of New York (subject to the preceding paragraphs). Regardless of the validity of such service of process under New York law, enforceability in Poland of final judgments of New York courts remains subject as described above. To commence original actions in Polish courts, service of process upon the State Treasury's New York agent will not suffice, and valid service of process must be made under Polish law. Under Polish law, service of process is effected by delivery of the claim to the circuit court (*Sąd Okręgowy*), and such court is responsible for service upon the defendant.

TAXATION

Information regarding Polish, United States federal income and certain other taxation matters will be included in the relevant Prospectus Supplement.

PLAN OF DISTRIBUTION

This summary plan of distribution will be supplemented by a description of the particular offering and its terms and conditions in a prospectus supplement issued for each series of Securities.

The State Treasury may sell Securities to or through underwriters. The State Treasury may also sell Securities directly to other purchasers or through agents. These firms may also act as agents. Only agents or underwriters named in the prospectus supplement are deemed to be agents or underwriters in connection with the Securities offered by the prospectus supplement.

The Securities may be distributed from time to time in one or more transactions:

- At a fixed price or prices which we may change;
- At market prices prevailing at the time of sale;
- At prices related to prevailing market prices; or
- At negotiated prices.

In connection with the sale of Securities, the State Treasury may pay compensation to underwriters. Underwriters who act as agents for purchasers of securities may also receive compensation from the purchasers in the form of discounts, concessions or commissions. Underwriters may sell securities to or through dealers. The dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of Securities may be deemed to be underwriters under the U.S. Securities Act of 1933. Any discount or commissions received by underwriters, dealers and agents from the State Treasury and any profit on the resale of Securities by them may be deemed to be underwriting discounts and commissions. The State Treasury will identify any underwriter or agent, and describe any compensation received from us in the prospectus supplement.

The Securities will be a new issue of Securities with no established trading market. Underwriters and agents that the State Treasury sells Securities to for public offering and sale may make a market in the Securities. However, the underwriters and agents will not be obligated to make a market in the securities and may discontinue any market making at any time without notice. The State Treasury cannot assure you that there will be a liquid trading market for the securities.

The State Treasury may enter into agreements with underwriters, dealers and agents who participate in the distribution of Securities. These agreements may entitle the underwriters, dealers and agents to indemnification by the State Treasury against certain liabilities, including liabilities under the Securities Act.

The State Treasury may authorize underwriters or other persons acting as their agents to solicit offers by institutions to purchase Securities from the State Treasury under contracts which provide for payment and delivery on a future date. The State Treasury will describe these arrangements in the prospectus supplement. The underwriters may enter into these contracts with commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and other institutions. The State Treasury must approve the institutions in all cases. The obligations of any purchaser under any of these contracts will be subject to the condition that the purchase of the Securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and other agents will not have any responsibility in connection with the validity or performance of these contracts.

VALIDITY OF THE SECURITIES

Except as may otherwise be indicated in any prospectus supplement, the validity of each series of securities will be passed upon on behalf of the State Treasury by or on behalf of the Director of the Legal Department, Ministry of Finance, ul. Świętokrzyska 12, Warsaw, Poland and, as to U.S. and New York State law, by White & Case, 7-11 Moorgate, London, England, United States counsel for the State Treasury and, as to Polish law, by White & Case W. Daniłowicz, W. Jurcewicz i Wspólnicy - Kancelaria Prawna Spółka Komandytowa, ul. Bagatela 12, Warsaw, Poland, Polish counsel for the State Treasury. Certain legal matters will be passed upon for the underwriters by Cravath, Swaine & Moore, CityPoint, One Ropemaker Street, London, England, United States counsel for the underwriters. In rendering its opinion, Cravath, Swaine & Moore will rely as to all matters of Polish law upon the opinions of such Polish counsel. All statements in this Prospectus with respect to matters of Polish law have been passed upon by the Director of the Legal Department, Ministry of Finance, Poland and are made upon his authority.

AUTHORIZED AGENT IN THE UNITED STATES

The authorized agent of the State Treasury in the United States is CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, NY 10011.

OFFICIAL STATEMENTS AND DOCUMENTS

Information included herein which is identified as being derived from a publication of, or supplied by Poland or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Poland. All other information herein and in the Registration Statement of which this Prospectus is a part, other than included under the caption "Plan of Distribution" herein, is included as a public official statement made on the authority of Andrzej Raczko, Undersecretary of State in the Ministry of Finance.

FURTHER INFORMATION

The information set forth herein relating to Poland has been reviewed by Andrzej Raczko in his official capacity as Undersecretary of State and Deputy Minister of Finance and is included herein on his authority.

The information for which the National Bank of Poland has been cited as the source was provided by the National Bank of Poland. The information for which the Central Statistical Office is cited as the source was provided by the Central Statistical Office of Poland and the information for which the Polish Agency for Foreign Investment is cited as the source was provided by the Polish Agency for Foreign Investment of Poland.

A registration statement as it may be amended from time to time, relating to the securities on file at the SEC, contains further information.

INDEX TO TABLES AND SUPPLEMENTARY INFORMATION

	<u>Page</u>
State Treasury Internal Debt as at December 31, 2001	
Non-Marketable Treasury bonds with a maturity at issuance of more than a year	T-1
Marketable Treasury bonds with a maturity at issuance of more than a year	T-2
Savings and Retail bonds with a maturity at issuance of more than a year	T-3
State Treasury External Debt as at December 31, 2001 with a maturity at issuance of more than a year	T-5
State Guarantees and Sureties with a maturity at issuance of more than a year	T-7

State Treasury Internal Debt

Non-Marketable Treasury bonds with a maturity at issuance of more than one year
as at December 31, 2001

<u>Issue</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Principal Amount</u>		<u>Interest Rate</u>
			<u>Issued</u>	<u>Outstanding</u>	
			<i>(PLN millions)</i>		<i>(%)</i>
Restructuring Bond "A"	30/07/93	31/07/08	1,100.0	585.9 ⁽¹⁾	Floating
Restructuring Bond "B"	16/12/93	17/12/08	573.0	1,209.8 ⁽¹⁾	Floating
Restructuring Bond "C"	29/12/93	30/12/08	427.0	890.9 ⁽¹⁾	Floating
Restructuring Bond "D"	21/11/94	22/11/09	1,900.0	3,461.4 ⁽¹⁾	Floating
Bonds allocated to increasing the capital of BGZ S.A.	23/09/96	24/09/11	600.0	795.2 ⁽¹⁾	Floating
Subtotal			4,600.0	6,943.2	
Bond Issue denominated in US Dollars ..	23/09/91	01/04/04	US\$ 5,453	US\$ 1,093 ⁽²⁾	Floating
Bond Issue denominated in US Dollars 2001 NBP	13/11/01	13/11/03	US\$ 2,140	US\$ 2,140 ⁽³⁾	Floating
Subtotal			US\$ 7,593	US\$ 3,233	
TK 1202	29/09/99	22/12/02	3,076.3	3,076.3	10
CK 0403	29/09/99	22/04/03	3,076.3	3,076.3	10
PK 0704	29/09/99	22/07/04	3,076.3	3,076.3	8.5
DK 0809	29/09/99	22/08/09	3,076.3	3,076.3	6.0
KO 0402	23/12/99	29/04/02	4,133.9	1,877.1	Zero coupon
Subtotal			16,439.1	14,182.3	

(1) Payable in semi-annual instalments over the life of the issue.

(2) Payable in semi-annual instalments of \$218 million each.

(3) Payable in semi-annual instalments of \$535 million each.

Source: Ministry of Finance

State Treasury Internal Debt

Marketable Treasury bonds with a maturity at issuance of more than one year

as at December 31, 2001

Series No.	Issue Date	Maturity Date	Principal Amount		Interest Rate
			Issued	Outstanding	
			<i>(PLN millions)</i>		<i>(%)</i>
DZ1205	12/13/95	12/14/05	500.00	500.00	Floating
DZ0406	03/20/96	04/18/06	767.70	767.70	Floating
DZ0706	06/19/96	07/18/06	935.62	935.62	Floating
DZ1006	09/18/96	10/18/06	313.55	313.55	Floating
DZ0107	12/18/96	01/18/07	193.26	193.26	Floating
DZ0407	03/19/97	04/18/07	3.50	3.50	Floating
DZ0707	07/17/97	07/18/07	75.00	75.00	Floating
DZ0108	01/17/98	01/18/08	279.00	279.00	Floating
DZ0708	07/17/98	07/18/08	1,029.97	1,029.97	Floating
DZ0109	01/17/99	01/18/09	1,920.27	1,920.27	Floating
DZ0709	07/17/99	07/18/09	694.42	694.42	Floating
DZ0110	01/18/00	01/18/10	1,853.83	1,853.83	Floating
DZ0811	08/18/01	08/18/11	790.00	790.00	Floating
			9,356.12	9,356.12	
OK0402	04/12/00	04/21/02	3,500.00	3,458.45	Zero coupon
OK0802	08/12/00	08/21/02	2,596.50	2,596.50	Zero coupon
OK1202	12/12/00	12/21/02	2,800.00	2,800.00	Zero coupon
OK0403	04/12/01	04/21/03	5,200.00	5,200.00	Zero coupon
OK0803	08/12/01	08/21/03	6,718.88	6,718.88	Zero coupon
OK1203	12/12/01	12/21/03	1,200.00	1,200.00	Zero coupon
			22,015.38	21,973.83	
OS0202	11/12/96	02/12/02	4,166.25	3,853.75	12.00
OS0602	02/12/97	06/12/02	2,819.33	2,819.33	12.00
OS1002	06/12/97	10/12/02	1,583.90	1,583.90	12.00
OS0203	10/12/97	02/12/03	1,590.25	1,590.25	12.00
OS0603	02/12/98	06/12/03	2,653.27	2,653.27	12.00
OS1003	06/12/98	10/12/03	1,403.62	1,403.62	12.00
OS0204	10/12/98	02/12/04	2,376.12	2,376.12	10.00
OS0604	02/12/99	06/12/04	3,021.13	3,021.13	10.00
OS1004	06/12/99	10/12/04	856.00	856.00	10.00
PS1004	10/12/99	10/12/04	2,177.45	2,177.45	8.50
PS0205	02/12/00	02/12/05	4,860.04	4,860.04	8.50
PS0605	06/12/00	06/12/05	3,796.94	3,796.94	8.50
PS1005	10/12/00	10/12/05	4,329.88	4,329.88	8.50
PS0206	02/12/01	02/12/06	5,509.13	5,509.13	8.50
PS0506	05/12/01	05/12/06	5,286.87	5,286.87	8.50
PS1106	11/12/01	11/12/06	3,997.36	3,997.36	8.50
DS0509	05/24/99	05/24/09	1,275.75	1,275.75	6.00
DS1109	11/24/99	11/24/09	3,273.72	3,273.72	6.00
DS1110	11/24/00	11/24/10	45,500.00	4,500.00	6.00
			59,477.00	59,164.50	

Source: Ministry of Finance

State Treasury Internal Debt

Savings and Retail bonds with a maturity at issuance of more than one year
as at December 31, 2001

Series No.	Issue Date	Maturity Date ⁽¹⁾	Principal Amount		Interest Rate
			Issued	Outstanding	
			<i>(PLN millions)</i>		<i>(%)</i>
TZ0202	02/02/99	06/02/02	800.0	477.5	Floating
TZ0502	04/05/99	06/02/02	900.0	401.8	Floating
TZ0802	05/08/99	05/08/02	1,000.0	428.3	Floating
TZ1102	05/11/99	05/11/02	1,150.0	306.8	Floating
TZ0203	07/02/00	05/02/03	500.0	471.6	Floating
TZ0503	05/05/00	05/05/03	500.0	448.1	Floating
TZ0803	04/08/00	05/08/03	400.0	338.4	Floating
TZ1103	02/11/00	05/11/03	400.0	317.7	Floating
TZ0204	01/02/01	05/02/04	400.0	243.6	Floating
TZ0504	04/05/01	05/05/04	400.0	161.9	Floating
TZ0804	01/08/01	05/08/04	1,000.0	553.2	Floating
TZ1104	02/11/01	05/11/04	1,000.0	740.1	Floating
COI1003	01/10/99	4 years from day of purchase	100.0	8.6	Floating
COI1103	02/11/99	4 years from day of purchase	100.0	6.7	Floating
COI1203	01/12/99	4 years from day of purchase	100.0	7.4	Floating
COI0104	03/01/00	4 years from day of purchase	100.0	6.6	Floating
COI0204	01/02/00	4 years from day of purchase	100.0	6.3	Floating
COI0304	01/03/00	4 years from day of purchase	100.0	8.1	Floating
COI0404	03/04/00	4 years from day of purchase	100.0	4.2	Floating
COI0504	04/05/00	4 years from day of purchase	100.0	7.8	Floating
COI0604	01/06/00	4 years from day of purchase	100.0	3.7	Floating
COI0704	03/07/00	4 years from day of purchase	100.0	92.7	Floating
COI0804	01/08/00	4 years from day of purchase	150.0	55.7	Floating
COI0904	01/09/00	4 years from day of purchase	150.0	145.1	Floating
COI1104	02/11/00	4 years from day of purchase	150.0	48.7	Floating
COI1004	02/10/00	4 years from day of purchase	150.0	75.6	Floating
COI1204	01/12/00	4 years from day of purchase	150.0	26.4	Floating
COI0105	02/01/01	4 years from day of purchase	150.0	24.0	Floating
COI0205	01/02/01	4 years from day of purchase	150.0	10.5	Floating
COI0305	01/03/01	4 years from day of purchase	150.0	10.0	Floating
COI0405	02/04/01	4 years from day of purchase	150.0	10.8	Floating
COI0505	04/05/01	4 years from day of purchase	150.0	9.6	Floating
COI0605	01/06/01	4 years from day of purchase	150.0	6.9	Floating
COI0705	02/07/01	4 years from day of purchase	150.0	7.7	Floating
COI0805	01/08/01	4 years from day of purchase	150.0	24.1	Floating
COI0905	03/09/01	4 years from day of purchase	150.0	28.6	Floating
COI1005	01/10/01	4 years from day of purchase	150.0	112.1	Floating
COI1105	02/11/01	4 years from day of purchase	150.0	150.0	Floating
COI1205	03/12/01	4 years from day of purchase	150.0	16.7	Floating
			12,000.0	5,803.6	

(1) A series with a maturity date expressed as being a date falling a specified time after the "date of purchase" will be sold to purchasers within the month following its stated issue date.

Source: Ministry of Finance

State Treasury Internal Debt

Savings and Retail bonds with a maturity at issuance of more than one year

as at December 31, 2001

<u>Series No.</u>	<u>Issue Date</u>	<u>Maturity Date⁽¹⁾</u>	<u>Principal Amount</u>		<u>Interest Rate</u>
			<u>Issued</u>	<u>Outstanding</u>	
			<i>(PLN millions)</i>		<i>(%)</i>
DOS0102	03/01/00	2 years from day of purchase	150.0	65.2	13
DOS0202	01/02/00	2 years from day of purchase	150.0	26.8	13
DOS0302	01/03/00	2 years from day of purchase	150.0	83.1	14
DOS0402	03/04/00	2 years from day of purchase	150.0	22.6	14
DOS0502	04/05/00	2 years from day of purchase	150.0	54.3	15
DOS0602	01/06/00	2 years from day of purchase	150.0	31.6	15
DOS0702	03/07/00	2 years from day of purchase	300.0	300.0	16
DOS0802	01/08/00	2 years from day of purchase	500.0	225.4	16
DOS0902	01/09/00	2 years from day of purchase	300.0	53.0	16
DOS1002	02/10/00	2 years from day of purchase	300.0	101.2	16
DOS1102	02/11/00	2 years from day of purchase	300.0	79.5	16
DOS1202	01/12/00	2 years from day of purchase	300.0	102.3	16
DOS0103	02/01/01	2 years from day of purchase	300.0	215.7	16
DOS0203	01/02/01	2 years from day of purchase	300.0	289.6	16
DOS0303	01/03/01	2 years from day of purchase	300.0	137.0	15
DOS0403	02/04/01	2 years from day of purchase	300.0	220.0	15
DOS0503	04/05/01	2 years from day of purchase	300.0	275.0	15
DOS0603	01/06/01	2 years from day of purchase	500.0	335.7	15
DOS0703	02/07/01	2 years from day of purchase	500.0	491.6	15
DOS0803	01/08/01	2 years from day of purchase	500.0	500.0	15
DOS0903	03/09/01	2 years from day of purchase	500.0	500.0	14.5
DOS1003	01/10/01	2 years from day of purchase	500.0	500.0	13.5
DOS1103	02/11/01	2 years from day of purchase	500.0	500.0	12
DOS1203	03/12/01	2 years from day of purchase	500.0	125.3	10
SP1206	03/12/01	03/12/06	500.0	500.0	8
			8,400.00	5,734.9	

(1) A series with a maturity date expressed as being a date falling a specified time after the "date of purchase" will be sold to purchasers within the month following its stated issue date.

Source: Ministry of Finance

State Treasury External Debt

With a maturity at issuance of more than one year

as at December 31, 2001

	Currency	Year of Issue	Year of Maturity	Principal Amount Outstanding		Interest Rate ⁽¹⁾
				Fixed Rate	Floating Rate	(%)
(\$ millions)						
Paris Club Creditors⁽²⁾	EUR	1991	2009	2,636.3	5,531.4	4.63 / Floating
	USD	1991	2009	2,506.6	1,692.3	4.91 / Floating
	JPY	1991	2009	897.7	0.0	2.22
	JPY	1991	2014	164.3	0.0	3.90
	CAD	1991	2009	0.0	968.6	Floating
	GBP	1991	2009	0.0	869.1	Floating
	CHF	1991	2009	514.8	301.3	1.97 / Floating
	Other	1991	2009	181.0	39.4	4.63 / Floating
				6,900.7	9,402.1	
Other External Creditors⁽³⁾						
Collateralized Par Bonds	USD	1994	2024	744.7	0.0	3.75(4)
Collateralized RSTA Bonds	USD	1994	2024	448.6	0.0	4.50(4)
Past Due Interest Bonds ⁽⁵⁾	USD	1994	2014	2,461.8	0.0	6.00(6)
Debt Conversion Bonds ⁽⁷⁾	USD	1994	2019	393.0	0.0	6.00(8)
\$300 million 71/8% Notes (Yankee) . .	USD	1997	2004	300.0	0.0	7.125
\$100 million 73/4% Bonds (Yankee) . .	USD	1997	2017	100.0	0.0	7.75
€600 million 6% Notes (Eurobonds) . .	EUR	2000	2010	530.1	0.0	6.00
€1 billion 51/2% Notes (Eurobonds) ⁽⁹⁾ . .	EUR	2001	2011	883.5	0.0	5.50
World Bank	Various ⁽¹⁰⁾	1990	2007	0.0	142.3	Floating
World Bank	Various ⁽¹⁰⁾	1991	2008	0.0	211.4	Floating
World Bank	USD ⁽¹¹⁾	1991	2008	0.0	9.4	Floating
World Bank	Various ⁽¹⁰⁾	1992	2009	0.0	32.8	Floating
World Bank	USD ⁽¹¹⁾	1992	2009	0.0	18.2	Floating
World Bank	Various ⁽¹⁰⁾	1993	2010	0.0	514.0	Floating
World Bank	USD ⁽¹¹⁾	1993	2010	0.0	14.4	Floating
World Bank	Various ⁽¹⁰⁾	1994	2012	0.0	119.5	Floating
World Bank	USD	1996	2013	0.0	26.0	Floating
World Bank	EUR	1996	2013	0.0	13.2	Floating
World Bank	USD	1997	2012	0.0	255.2	Floating
World Bank	EUR	1997	2012	0.0	27.8	Floating
World Bank	EUR	1999	2014	0.0	247.5	Floating
World Bank	EUR	2000	2015	0.0	6.7	Floating
World Bank	EUR	2000	2016	0.0	1.5	Floating
World Bank	EUR	2001	2011	0.0	99.7	Floating
European Investment Bank	USD	1993	2013	15.1	0.0	7.50
European Investment Bank	EUR	1994	2014	95.7	0.0	5.25
European Investment Bank	EUR	1996	2016	88.4	0.0	5.77
European Investment Bank	EUR	1997	2022	188.3	0.0	5.45
European Investment Bank	EUR	1998	2018	102.1	0.0	5.61
European Investment Bank	EUR	2000	2019	23.0	0.0	5.68

	Currency	Year of Issue	Year of Maturity	Principal Amount Outstanding		Interest Rate ⁽¹⁾
				Fixed Rate	Floating Rate	(%)
				(\$ millions)		
European Investment Bank	EUR	2000	2020	5.3	0.0	5.23
European Bank of Reconstruction and Development	EUR	1993	2008	0.0	23.5	Floating
Council of Europe Development Bank	EUR	1999	2014	33.7	0.0	5.32
Council of Europe Development Bank	EUR	2000	2015	30.4	0.0	5.80
Council of Europe Development Bank	EUR	2001	2016	112.5	0.0	5.34
Other	USD	1993–98	2003–23	61.7	10.0	4.55 / Floating
	JPY	1990	2015	118.7	0.0	2.90
				6,736.5	1,773.0	

- (1) The interest rate on floating rate external debt is reset periodically by reference to a number of different bases.
- (2) T-5The instalments payable to Paris Club creditors increase from \$1 billion in 2002 to \$3.2 billion in 2008. In 2009, an instalment of \$1.7 billion is due and between 2010-2014 the remaining Paris Club debt is repaid in instalments of between \$9 million and \$18 million.
- (3) External debt payable to international finance institutions is generally payable in instalments over the life of the loans.
- (4) Increasing in stages to 5.00% in 2015.
- (5) Payable in semi-annual instalments increasing from \$24.9 million in 2002 to \$174.1 million in 2014.
- (6) Increasing in stages to 7.00% in 2003.
- (7) Payable in semi-annual instalments of \$35.7 million each between 2014 and 2019.
- (8) Increasing in stages to 7.50% in 2005.
- (9) €750 million issued in February 2001 and increased by €250 million in December.
- (10) Credits from the World Bank denominated in “currency pool”.
- (11) Originally denominated in currency pool, in 1998 converted to US dollars.

Source: Ministry of Finance

State Guarantees and Sureties

With a maturity at issuance of more than one year

as at December 31, 2001

	Maturities						
	2002 ⁽¹⁾	2003	2004	2005	2006	2007	Total
				(in PLN)			
Foreign guarantees . . .	1,766,067,563	911,166,523	1,018,154,001	996,810,637	1,004,599,768	5,525,592,614	11,222,391,106
Domestic sureties	2,010,346,035	1,467,807,542	1,169,069,949	1,073,358,568	1,033,972,937	5,269,143,487	12,023,698,518
Total	3,776,413,598	2,378,974,065	2,187,223,950	2,070,169,205	2,038,572,705	10,794,736,101	23,246,089,624

(1) In addition, state insurance guarantees in an aggregate amount of PLN 3,986,300,000 mature in 2002.

Source: Ministry of Finance

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ISSUER

**The State Treasury of
The Republic of Poland**
Ministry of Finance
ul.Świętokrzyska 12
00-916 Warsaw

FISCAL AGENT

JPMorgan Chase Bank
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New York NY 10001

LEGAL ADVISERS

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To Poland as to Polish law:

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*To the Underwriters
as to United States law:*

Cravath, Swaine & Moore
CityPoint, One Ropemaker Street
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LUXEMBOURG LISTING AND PAYING AGENT

J.P. Morgan Bank Luxembourg S.A.
5 rue Plaetis
L-2338 Luxembourg

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\$1,000,000,000



THE STATE TREASURY
of
THE REPUBLIC OF POLAND
Represented by
The Minister of Finance
6.25% Notes due 2012

The notes will bear interest at the rate of 6.25% per year. Interest on the notes is payable on January 3 and July 3 of each year, beginning on January 3, 2003. The notes will mature on July 3, 2012. The notes are not redeemable prior to maturity.

The notes will rank equally in right of payment with all other unsubordinated obligations of the Republic of Poland and the full faith and credit of the Republic of Poland will be pledged for the due and punctual payment of all principal and interest on the notes.

The Listing Agent, on behalf of the State Treasury of the Republic of Poland, has applied to have the notes listed on the Luxembourg Stock Exchange.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the related prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	<u>Per Note</u>	<u>Total</u>
Public Offering Price	99.209%	\$992,090,000
Underwriting Discount	0.275%	\$2,750,000
Proceeds to the State Treasury	98.934%	\$989,340,000

Interest on the notes will accrue from July 2, 2002 to date of delivery.

The underwriters are offering the notes subject to various conditions. The underwriters expect to deliver the notes to purchasers on or about July 2, 2002, through the book-entry facilities of The Depository Trust Company, the Euroclear Operator or Clearstream, Luxembourg.

JPMorgan
Credit Suisse First Boston

Salomon Smith Barney
Merrill Lynch & Co.

Morgan Stanley

The activities of the underwriters in connection with this transaction are led jointly by J.P. Morgan Securities Inc. and Salomon Smith Barney Inc.

June 27, 2002

You should rely only on the information contained or incorporated by reference in this Prospectus Supplement or the attached Prospectus. The State Treasury has not authorized anyone to provide you with different information. The State Treasury is not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this Prospectus Supplement or the attached Prospectus is accurate as of any date other than the date on the front of the document.

The Luxembourg Stock Exchange takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document and the Prospectus.

The distribution of this Prospectus Supplement and accompanying Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. In particular, offers and sales of Notes are subject to restrictions in the United Kingdom, details of which are set out in “Underwriting” below.

The State Treasury cannot guarantee that the application to the Luxembourg Stock Exchange will be approved and settlement of the Notes is not conditioned on obtaining this listing.

This Prospectus Supplement and accompanying Prospectus will be available free of charge at the principal office of J.P. Morgan Bank Luxembourg S.A., the Listing Agent.

TABLE OF CONTENTS

	Page
Prospectus Supplement	
Summary of the Offering	S-4
Recent Developments	S-6
Use of Proceeds	S-6
Description of the Notes	S-7
Taxation	S-11
Underwriting	S-14
General Information	S-15
Legal Matters	S-16

Prospectus

Use of Proceeds	2
The Republic of Poland	3
The Economy	8
Balance of Payments and Foreign Trade	26
Monetary and Financial System	32
Public Finance	40
Public Debt	49
Poland's Total External Debt	55
Description of the Securities	58
Enforceability of Judgments	66
Taxation	67
Plan of Distribution	68
Validity of the Securities	69
Authorized Agent in the United States	69
Official Statements and Documents	69
Further Information	69
Index to Tables and Supplementary Information	70

SUMMARY OF THE OFFERING

Issuer	The State Treasury of the Republic of Poland, represented by the Minister of Finance.
Securities Offered	\$1,000,000,000 principal amount of Notes due July 3, 2012.
Maturity Date	July 3, 2012.
Redemption Basis	At par on maturity.
Ranking	The Notes will rank equally in right of payment with all other unsubordinated obligations of the Republic of Poland and the full faith and credit of the Republic of Poland will be pledged for the due and punctual payment of all principal and interest on the Notes.
Interest Rate	The Notes will bear interest at the rate of 6.25 per cent. per annum.
Interest Payment Dates	January 3 and July 3 of each year commencing January 3, 2003 for the period commencing from and including July 2, 2002, as described herein. In respect of the first interest period only, interest accrues from and including July 2, 2002 to but excluding January 3, 2003.
Markets	The Notes are offered for sale in those jurisdictions in the United States, Europe and Asia where it is legal to make such offers. See “Underwriting”.
Further Issues	The State Treasury reserves the right from time to time without the consent of the holders of the Notes to issue further securities having identical terms and conditions, so that such securities may be consolidated with, form a single series with and increase the aggregate principal amount of, the Notes.
Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange.
Form and Settlement	The Notes will be issued in the form of one or more global notes, or the Global Notes, in fully registered form, without coupons, which will be deposited on or about July 2, 2002, the Closing Date, with JPMorgan Chase Bank as custodian for, and registered in the name of Cede & Co., as nominee of, the Depository Trust Company, or DTC. Except as described in this Prospectus Supplement, beneficial interests in the Global Notes will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Global Notes either through DTC in the United States or in Europe through Euroclear Bank S.A./N.V. as operator of the Euroclear System, and Clearstream Banking, société anonyme, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Except as described in this Prospectus Supplement, owners of beneficial interests in the Global Notes will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered holders of the Notes under the Notes or the fiscal agency agreement governing the Notes. See “Description of the Notes—Form, Denomination and Registration”. It is expected that delivery of the Notes will be made, against payment therefor in same-day funds, on or about July 2, 2002.

Withholding Tax Principal of and interest on the Notes are payable by the State Treasury without withholding or deduction for Polish withholding taxes subject to certain exceptions, including withholding taxes that may be imposed pursuant to any European Union Directive on the taxation of savings, to the extent set forth in this Prospectus Supplement and in the Prospectus under the heading “Description of the Securities—Payment of Additional Amounts”.

Governing Law The Notes shall be governed by, and interpreted in accordance with, the laws of the State of New York.

RECENT DEVELOPMENTS

During the first quarter of 2002, the Polish economy continued to exhibit the broad trends shown towards the end of 2001, with the year-on-year rate of consumer price inflation at the end of the period further declining to 3.3%. During this period, the weakness of the West European economy restrained exports and, although there has been some growth in domestic demand, unemployment has risen slightly over the period to 18.1% as at the end of March, being particularly high among young people, with a record number of them entering the labor market for the first time in 2002. The budgetary situation during this period was stable with taxation revenues at the planned level, although the continued economic slowdown could mean that the budget deficit will widen as the year unfolds. At the end of the period the złoty/U.S. dollar exchange rate was PLN 4.1321: U.S.\$1.00.

Future developments in the Polish economy will depend upon a number of factors, including the state of the Western European economies, the timing of Poland's EU accession, Polish domestic fiscal and monetary policies and the effect of the EDL Plan, but the Government does not expect any material change in the short term in the rate of growth of real GDP. Continued economic slowdown in Poland could negatively affect the pace of reform.

Negotiations on EU membership continue in accordance with the announced timetable and by the end of June 2002 Poland had provisionally closed 25 out of 30 negotiation topics or "chapters." Poland's negotiating team has stated that it anticipates closing a further two chapters during the early Danish presidency of the EU, leaving open the remaining and important topics of agriculture, regional aid and budget. Poland hopes to close these chapters by the end of 2002. Completion of the membership application process may then be dependent upon the EU also satisfactorily concluding negotiations with other applicants and upon certain EU member states ratifying the relevant treaty and otherwise taking actions to permit EU enlargement. Failure to achieve any of these could lead to a delay in Poland's accession to the EU.

In order to limit the negative impact which the bankruptcy of the shipyard in Szczecin (Stocznia Szczecińska) might have on the ship building industry in Poland, the Polish banking sector and the local economy, the Government put forward proposals for the support of the company by granting it new credits in the amount of PLN 8.5 million and issuing further guarantees. The Government also announced that it might acquire a majority stake in the company. These proposals were, however, conditional upon the shipyard's lenders agreeing to write off part of their outstanding loans to the company, which they have refused to do. The company's management filed for bankruptcy on June 17, 2002. The Government's position as regards the shipyard is now under consideration, but, in any event, any action taken by the Government relating to the shipyard will be in accordance with applicable EU rules regarding state aid to private undertakings and, accordingly, will not impact the EU integration process.

There are currently three draft bills before the Sejm, the lower house of Parliament, which contemplate certain changes to the legislation governing the National Bank of Poland. The first bill presented by the Government proposed changes aimed at adjusting provisions of the legislation to harmonize it with EU banking regulations. A second bill, presented by the Law and Justice Party, or PiS, proposed extending the mandate of the Monetary Policy Council to include targeting economic growth as well as inflation and to require the MPC to consult with the Government prior to revising any policy guidelines. The third draft bill, proposed by the Polish Peasants' Party, or PSL, the Labor Union, or UP, and certain unaffiliated members of Parliament, envisaged giving the National Bank the responsibility of maintaining the value of the złoty, supporting economic activity and targeting unemployment. In addition, it proposed that the board of the MPC be increased from its current nine members to 15. PiS and PSL/UP do not have a majority in Parliament (although PSL and UP form part of the governing coalition) and it is uncertain whether the requisite majority could be found in Parliament to pass either of them. Further, the President (who has a right of veto over legislation) has publicly expressed support for the independence of the National Bank in relation to monetary policy.

On June 24, 2002, the United States District Court of the Eastern District of New York dismissed the action commenced in June 1999 against Poland and the Ministry of Treasury of Poland relating to property expropriated during or after World War II. The claim was dismissed on the grounds that a United States court did not have jurisdiction to hear an action commenced against a foreign government where the lawsuit is based upon events which pre-date the 1976 Foreign Sovereign Immunities Act of the United States. The decision may be appealed by the plaintiffs.

On June 26, 2002, the National Bank of Poland reduced each of the interest rates set by it by half a percentage point, effective June 27, 2002. The revised Lombard rate was reduced to 11.5 per cent., the Rediscount rate to 10.0 per cent., the 28-day NBP bill reverse repo rate to 8.5 per cent. and the Deposit rate to 5.5 per cent.

USE OF PROCEEDS

The net proceeds from the sale of the Notes will be used by the Ministry of Finance, as part of its general revenues, in accordance with the 2002 state budget as part of the state budget borrowing requirements which include financing the current state budget deficit and managing State Treasury obligations. The State Treasury estimates the net proceeds will be approximately \$989,340,000.

DESCRIPTION OF THE NOTES

The following description briefly summarizes some of the provisions of the Notes and the Fiscal Agency Agreement, known as the Agency Agreement, to be dated as of July 2, 2002, among the State Treasury, JPMorgan Chase Bank, known as the Fiscal Agent, and J.P. Morgan Bank Luxembourg S.A., known as the Luxembourg Paying Agent, and, together with the Fiscal Agent, known as the Agents, the forms of which have been filed as exhibits to the Registration Statement under Schedule B declared effective on June 18, 2002, of which this Prospectus Supplement and the Prospectus form part. You should not assume this summary is complete. You should read the Registration Statement, including the exhibits, and in particular “Description of the Securities” in the Prospectus.

General

The Notes:

- Mature on July 3, 2012.
- Bear interest at a rate of 6.25 per cent. per annum.
- Are to be issued pursuant to the Agency Agreement.
- Will be issued without coupons in lawful money of the United States of America in denominations of \$1,000 and integral multiples thereof.
- Will rank at least equally in right of payment with all other unsecured and unsubordinated payment obligations of Poland, except for such obligations as may be preferred by mandatory provisions of applicable law. Poland will give no preference to one obligation over another on the basis of priority of issue date or currency of payment.
- Will not be redeemable prior to maturity at the option of the State Treasury or of the registered holders thereof.
- Will not be subject to any sinking fund provided by the State Treasury for the amortization of the Notes.

At maturity, you will receive 100 per cent. of the principal amount of your Notes, plus accrued interest to the maturity date. The State Treasury may, without the consent of the holders of the Notes, issue additional Notes having the same ranking and the same interest rate, maturity and other terms as the Notes. Any additional notes, together with the Notes, may constitute a single series of Notes under the Agency Agreement.

Interest:

- Will be payable on the dates set forth on the cover of this Prospectus Supplement in lawful money of the United States of America to the registered holders of the Notes at the close of business on June 19 and December 20, as the case may be, prior to the payment date, each a Record Date.
- Will be calculated on the basis of a 360-day year of twelve 30-day months.
- Begins to accrue on July 2, 2002.
- Payments begin on January 3, 2003.

Fiscal Agent

The Agency Agreement will govern the duties of the Agents. The State Treasury may maintain deposit accounts and conduct other banking transactions in the ordinary course of business with the Agents.

Please note that the Fiscal Agent is an agent of the State Treasury, and is not a trustee for the holders of the Notes, and does not have the responsibility or duty to act for the holders as would a trustee.

Form and Registration

The Notes will be issued in the form of one or more fully registered global notes, or the Global Notes, which will be deposited with, or on behalf of, The Depository Trust Company, New York, New York, the Depository or DTC, and registered in the name of Cede & Co., the Depository's nominee. Beneficial interests in the Global Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in the Depository. Investors may elect to hold interests in the Global Notes through either the Depository (in the United States) or Euroclear Bank S.A./N.V., as operator of the Euroclear System, known as the Euroclear Operator, or Clearstream Banking, société anonyme, known as Clearstream, Luxembourg, (in Europe), if they are participants of such systems, or indirectly through organizations which are participants in such systems. Euroclear and Clearstream, Luxembourg will hold interests on behalf of their participants through customers' securities accounts in Euroclear's and Clearstream, Luxembourg's names on the books of their respective depositories, which in turn will hold such interests in customers' securities accounts in the depositories' names on the books of the Depository.

The Clearing Systems

The Depository advises that it is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, or the Exchange Act. The Depository holds securities deposited with it by its participants and facilitates the settlement of transactions among its participants in such securities through electronic computerized book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The Depository's participants include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations and certain other organizations, some of which (and/or their representatives) own the Depository. Access to the Depository's book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

The Euroclear Operator advises that it was created in 1968 to hold securities for its participants, or Euroclear Participants, and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear Operator provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. All operations are conducted by the Euroclear Bank, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Bank, not the cooperative. The cooperative establishes policy for the Euroclear Operator on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries any may include the Underwriters, together the Euroclear participants. Indirect access to the Euroclear Operator is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with Euroclear Bank are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law, collectively, the Euroclear Terms and Conditions. The Euroclear Terms and Conditions govern transfers of securities and cash within the Euroclear Operator, withdrawals of securities and cash from the Euroclear Operator and receipts of payments with respect to securities in the Euroclear Operator. All securities in the Euroclear Operator are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. Euroclear Bank acts under the Euroclear Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to Notes held beneficially through the Euroclear Operator will be credited to the cash accounts of Euroclear Participants in accordance with the Euroclear Terms and Conditions, to the extent received by the Euroclear Bank and the Euroclear Operator.

Clearstream, Luxembourg advises that it is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its participating organizations, or Clearstream Participants, and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in several countries. As a professional depository, Clearstream, Luxembourg is subject to regulation by the Luxembourg Monetary Institute. Clearstream Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations any may include the underwriters. Indirect access to Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Distributions with respect to the Notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, to the extent received by Clearstream, Luxembourg.

Title to book-entry interests in the Notes will pass by book-entry registration of the transfer within the records of the Euroclear Operator, Clearstream, Luxembourg or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Notes may be transferred within the Euroclear Operator and within Clearstream, Luxembourg and between the Euroclear Operator and Clearstream, Luxembourg in accordance with procedures established for these purposes by the Euroclear Operator and Clearstream, Luxembourg. Book-entry interests in the Notes may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfers of book-entry interests in the Notes between the Euroclear Operator and Clearstream, Luxembourg and DTC may be effected in accordance with procedures established for this purpose by the Euroclear Operator, Clearstream, Luxembourg and DTC.

Definitive Notes

Individual certificates in respect of Notes will not be issued in exchange for the Global Notes, except in very limited circumstances. If DTC or each of the Euroclear Operator and Clearstream, Luxembourg notifies the State Treasury that it is unwilling or unable to continue as a clearing system in connection with a Global Notes or, in the case of DTC only, DTC ceases to be a clearing agency registered under the Exchange Act, and in each case a successor clearing system is not appointed by the State Treasury within 90 days after receiving such notice from the Euroclear Operator, Clearstream, Luxembourg or DTC or on becoming aware that DTC is no longer so registered, the State Treasury will issue or cause to be issued individual certificates in registered form on registration of transfer of, or in exchange for, book-entry interests in the Notes represented by such Global Notes upon delivery or such Global Notes for cancellation.

If such certificates are issued and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange require, the Luxembourg Paying Agent will act as paying agent and transfer agent in Luxembourg and the holders of the Notes will be able to receive payments thereon and effect transfers thereof at the offices of the Luxembourg Paying Agent, 5 rue Plaetis L-2338 Luxembourg. For as long as the Notes are listed on the Luxembourg Stock Exchange and such Stock Exchange so requires, the State Treasury will publish any changes as to the identity or location of the Luxembourg Paying Agent in a leading daily newspaper in Luxembourg, which is expected to be the *Luxemburger Wort*.

Global Payments

Initial settlement for the Notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with the Depository's rules and will be settled in immediately available funds using the Depository's Same-Day Funds Settlement System. Secondary market trading between Euroclear Participants and/or Clearstream Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of the Euroclear Operator and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through the Depository on the one hand, and directly or indirectly through Euroclear or Clearstream Participants, on the other, will be effected in the Depository in accordance with the Depository's rules on behalf of the relevant European international clearing system in the U.S. Depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing systems by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depository to take action to effect final settlement on its behalf by delivering or receiving Notes in the Depository, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to the Depository. Euroclear Participants and Clearstream Participants may not deliver instructions directly to their respective U.S. Depositaries.

Because of time-zone differences, credits of Notes received in the Euroclear Operator or Clearstream, Luxembourg as a result of a transaction with a DTC Participant will be made during subsequent securities settlement processing and dated the business day following the Depository settlement date. Such credits or any transactions in such Notes settled during such proceeding will be reported to the relevant Euroclear or Clearstream Participants on such business day. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of Notes by or through a Euroclear Participant or a Clearstream Participant to a DTC Participant will be received with value on the Depository settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day following settlement in the Depository.

Although the Depository, the Euroclear Operator and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of Notes among participants of the Depository, the Euroclear Operator and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures and such procedures may be changed or discontinued at any time.

Other Terms

For other terms of the Notes, including the negative pledge covenant and events of default, see "Description of the Securities" in the Prospectus.

TAXATION

Republic of Poland

The Ministry of Finance has issued an Order regarding taxation of debt securities issued by the State Treasury, including the Notes. Pursuant to this Order, if you are a non-resident of the Republic of Poland or a legal entity that has neither its seat nor its management in, nor maintains a permanent establishment in, Poland, payments of principal of and interest on the Notes will not be subject to taxation in the Republic of Poland, and no withholding of any Polish tax will be required on any such payments. In addition, if you are a non-resident of the Republic of Poland or a legal entity that has neither its seat nor its management in, nor maintains a permanent establishment in, Poland, gains realised by you derived from the sale or exchange of the Notes by you will not be subject to Polish income tax and no Polish stamp duty will apply to transfers of Notes from or to you to other such non-Polish holders.

Proposed European Union Directive on the Taxation of Savings Income

The European Union is currently considering proposals for a new directive regarding the taxation of savings income, known as “COM(2001) 400”. Subject to a number of important conditions being met, it is proposed that a Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of Austria, Belgium and Luxembourg to opt instead for a withholding system for a transitional period.

United States Federal Income Taxation

In the opinion of White & Case LLP, special tax counsel to the State Treasury, the following is a description of the material U.S. federal income tax consequences of the acquisition, ownership and retirement of Notes by a holder thereof. This description only applies to Notes held as capital assets and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as

- financial institutions,
- insurance companies,
- real estate investment trusts,
- regulated investment companies,
- grantor trusts,
- tax-exempt organizations,
- dealers or traders in securities or currencies, or
- those who hold a Note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes or have a functional currency other than the U.S. dollar.

Moreover, this description does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership or retirement of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at their initial issue price. Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of Notes.

This description is based on the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, administrative pronouncements and judicial decisions, each as available and in effect on the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein.

For purposes of this description, a U.S. Holder is a beneficial owner of Notes who for U.S. federal income tax purposes is

- a citizen or resident of the United States
- a corporation or partnership organized in or under the laws of the United States or any State thereof, including the District of Columbia
- an estate the income of which is subject to U.S. federal income taxation regardless of its source or
- a trust (1) that validly elects to be treated as a United States person for U.S. federal income tax purposes or (2)(a) over the administration of which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

A Non-U.S. Holder is a beneficial owner of Notes other than a U.S. Holder.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences.

Interest

If you are a U.S. Holder, interest paid to you on a Note, including any additional amounts, will be includible in your gross income as ordinary interest income in accordance with your usual method of tax accounting. In addition, interest on the Notes will be treated as foreign source income for your U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the Notes generally will constitute passive income, or, in the case of certain U.S. Holders, financial services income.

Subject to the discussion below under the caption “U.S. Backup Withholding Tax and Information Reporting,” if you are a Non-U.S. Holder, payments to you of interest on a Note generally will not be subject to U.S. federal income tax unless the income is effectively connected with your conduct of a trade or business in the United States.

Sale, Exchange or Retirement

If you are a U.S. Holder, upon the sale, exchange or retirement of a Note you will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or retirement, other than accrued but unpaid interest which will be taxable as such, and your adjusted tax basis in the Note. Your adjusted tax basis in a Note generally will equal the cost of the Note to you. Any such gain or loss will be capital gain or loss. If you are a noncorporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to the gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if your holding period for the Notes exceeds one year, and will be further reduced if your holding period exceeds five years. Any gain or loss realized on the sale, exchange or retirement of a Note generally will be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations.

Subject to the discussion below under the caption “U.S. Backup Withholding Tax and Information Reporting,” if you are a Non-U.S. Holder, any gain realized by you upon the sale, exchange or retirement of a

Note, other than accrued but unpaid interest which will be subject to the rules discussed above under the caption “Interest”, generally will not be subject to U.S. federal income tax, unless

- the gain is effectively connected with your conduct of a trade or business in the United States or
- if you are an individual Non-U.S. Holder, you are present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met.

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain noncorporate holders of Notes that are United States persons. The payor will be required to make an information report with respect to payments within the United States on a Note to a holder of a Note that is a United States person, other than an exempt recipient, such as a corporation. In addition, the payor will be required to withhold backup withholding tax with respect to payments within the United States on a Note to a holder of a Note that is a United States person, other than an exempt recipient, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States of principal and interest to a holder of a Note that is not a United States person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding tax rate is 30 per cent. for years 2002 and 2003, 29 per cent. for years 2004 and 2005 and 28 per cent. for years 2006 through 2010.

In the case of payments to a foreign simple trust, a foreign grantor trust or a foreign partnership, other than payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that qualifies as a withholding foreign trust or a withholding foreign partnership within the meaning of the applicable U.S. Treasury Regulations and payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that are effectively connected with the conduct of a trade or business in the United States, the beneficiaries of the foreign simple trust, the persons treated as the owners of the foreign grantor trust or the partners of the foreign partnership, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements. In the case of payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that qualifies as a withholding foreign trust or a withholding foreign partnership within the meaning of the applicable U.S. Treasury Regulations, such foreign simple trust, foreign grantor trust or foreign partnership will be required to provide the certification discussed above based on certifications it has received from the beneficiaries of the foreign simple trust, the persons treated as the owners of the foreign grantor trust or the partners of the foreign partnership, as the case may be, in order to establish an exemption from backup withholding tax and information reporting requirements. In the case of payments to a foreign simple trust, a foreign grantor trust or a foreign partnership that are effectively connected with the conduct of a trade or business in the United States, certain other reporting requirements will apply. Moreover, a payor may rely on a certification provided by a payee that is not a United States person only if the payor does not have actual knowledge or a reason to know that any information or certification stated in the certificate is incorrect.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of Notes. Prospective purchasers of Notes should consult their own tax advisors concerning the tax consequences of their particular situations.

UNDERWRITING

Subject to the terms and conditions stated in the Underwriting Agreement dated June 27, 2002, between the State Treasury and the Underwriters named below, each Underwriter has severally agreed to purchase, and the State Treasury has agreed to sell to each Underwriter, the principal amount of Notes set forth opposite the name of that Underwriter.

<u>Underwriter</u>	<u>Principal Amount</u>
J.P. Morgan Securities Inc. 270 Park Avenue, New York, NY 10017	\$485,000,000
Salomon Smith Barney Inc. 388 Greenwich Street, New York, NY 10013	\$485,000,000
Credit Suisse First Boston Corporation Eleven Madison Avenue, New York, NY 10010-3629	\$10,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated 4 World Financial Centre, New York, NY 10080	\$10,000,000
Morgan Stanley & Co. International Limited 25 Cabot Square, Canary Wharf, London E14 4QA	\$10,000,000
Total	\$1,000,000,000

The Underwriting Agreement provides that the obligations of the several Underwriters to purchase the Notes are subject to approval of certain legal matters by counsel and to certain other conditions. The Underwriters are obligated to purchase all the Notes if they purchase any of the Notes.

The Underwriters propose to offer some of the Notes directly to the public at the public offering price set forth on the cover page of this Prospectus Supplement and some of the Notes to certain dealers at the public offering price less a concession not in excess of 0.1375 per cent. of the principal amount of the Notes. The Underwriters may allow, and such dealers may reallocate, a concession not in excess of 0.1375 per cent. of the principal amount of the Notes on sales to certain other dealers. After the initial offering of the Notes to the public, the Underwriters may change the public offering price and the concessions.

The Notes are a new issue of securities with no established trading market. The Listing Agent, on behalf of the State Treasury, has applied for listing of the Notes on the Luxembourg Stock Exchange. The State Treasury cannot guarantee that the application to the Luxembourg Stock Exchange will be approved and settlement of the Notes is not conditioned on obtaining the listing. The State Treasury has been advised by the Underwriters that they intend to make a market in the Notes but the Underwriters are not obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes.

The Notes are offered for sale in the United States and elsewhere where such offer and sale is permitted.

Each Underwriter has represented and agreed that it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000, with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Notes have not been, and will not be, registered under the Polish Law on Public Trading in Securities dated August 21, 1997, as amended, and may not be offered or sold by the Underwriters as part of their initial distribution to any resident thereof.

Purchasers of the Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price set forth on the cover page hereof.

In connection with the offering, the Underwriters may over-allot, or engage in syndicate covering transactions, stabilizing transactions and penalty bids. Over-allotment involves syndicate sales of Notes in excess of the amount to be purchased by the Underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involves purchases of Notes in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of Notes while the offering is in progress. Penalty bids permit the Underwriters to reclaim a selling concession from a syndicate member when the syndicate repurchases Notes originally sold by that syndicate member in covering syndicate short positions. These activities may cause the price of the Notes to be higher than it would otherwise be in the open market in the absence of such transactions. The Underwriters are not required to engage in these transactions, and if commenced, the Underwriters may discontinue them at any time.

In the ordinary course of their respective businesses, the Underwriters and their affiliates have in the past and may in the future engage in investment banking and commercial banking transactions with Poland.

The State Treasury has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the U.S. Securities Act of 1933, or to contribute to payments the Underwriters may be required to make in respect of any of those liabilities.

GENERAL INFORMATION

Application has been made by the Listing Agent to list the Notes on the Luxembourg Stock Exchange. In connection with the listing application, a legal notice relating to the issuance of the Notes will be deposited prior to listing with *Greffier en Chef du Tribunal d'Arrondissement de et à Luxembourg*, where copies thereof may be obtained upon request. Copies of this Prospectus Supplement, the accompanying Prospectus and the Agency Agreement, so long as any of the Notes are outstanding, will be made available at the main office of J.P. Morgan Bank Luxembourg S.A. in Luxembourg. So long as the Notes remain in global form, the Listing Agent will act as intermediary between the Luxembourg Stock Exchange and Poland and the holders of the Notes.

The Notes have been assigned Euroclear and Clearstream Common Code No. 015090189, International Security Identification No. (ISIN) US731011AM43 and CUSIP No. 731011AM4.

Authorization

The terms of the Notes have been approved by the Minister of Finance of Poland acting on behalf of the State Treasury of the Republic of Poland.

Listing

Application has been made to list the Notes on the Luxembourg Stock Exchange.

Paying Agent

J.P. Morgan Bank Luxembourg S.A. has been appointed by the State Treasury as the Luxembourg paying agent with respect to the Notes.

Documents

A copy of the fiscal agency agreement executed by the State Treasury and JPMorgan Chase Bank will be available for inspection at the specified office of J.P. Morgan Bank Luxembourg S.A.

Litigation

Except as disclosed or incorporated by reference in this Prospectus Supplement or in the Prospectus, the State Treasury is not involved in any litigation or arbitration proceedings which are material in the context of the issue of the Notes nor so far as it is aware are any such proceedings pending or threatened.

Material Adverse Change

Except as disclosed or incorporated by reference in this Prospectus Supplement or in the Prospectus, there has been no adverse change in the financial condition of Poland which is material in the context of the issue of the Notes.

Freely Transferable

In accordance with the Rules and Regulations of the Luxembourg Stock Exchange, no transaction, once effected on the Exchange, may be canceled.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon on behalf of Poland by or on behalf of the Director of the Legal Department at the Ministry of Finance, Warsaw, Poland, by White & Case LLP, special United States counsel for the State Treasury, and by White & Case W. Daniłowicz, W. Jurcewicz i Wspólnicy—Kancelaria Prawna Spółka Komandytowa, Polish counsel for the State Treasury. Certain legal matters will be passed upon for the Underwriters by Cravath, Swaine & Moore, special United States counsel for the Underwriters. In rendering its opinion, Cravath, Swaine & Moore will rely as to all matters of Polish law upon the opinions of such Polish counsel. All statements with respect to matters of Polish law included in this Prospectus Supplement or the Prospectus have been passed upon by the Director of the Legal Department of the Ministry of Finance and are made upon his authority.