2008
Annual Report
PUBLIC DEBT IN POLAND

MINISTERSTWO FINANSÓW

CONTENS

1 INTRODUCTION

INTRODUCTION

Ladies and Gentlemen,

As in previous years, we would like to present to you the 2008 Annual Report on Public Debt in Poland, which contains basic information on debt management in Poland in 2008 in the context of macroeconomic background and in comparison to previous years.

The year 2008 witnessed an escalation of the crisis in global financial market and its consequences, including economic slowdown, especially visible in the fourth quarter. This situation had a direct impact on the public debt management, in particular via sharp increase of investors' risk aversion and investment horizon.

Public debt increased in 2008 by PLN 70.4bn, to PLN 597.8bn, equivalent to 47.0% of GDP (an increase by 2.2 percentage point). General government debt increased by PLN 70.8bn, to PLN 598.4bn, equivalent to 47.1% of GDP (an increase by 2.3 percentage point).

In 2008, despite the global economic slowdown, real GDP in Poland grew by 4.9% yoy (and was one of the highest in the European Union) amid the CPI yearly average inflation rate of 4.0%. The State budget deficit was PLN 24.3bn, approximately 90% of the amount projected in the Budget Act. The general government deficit amounted to PLN 49.6 bn accounting for 3.9% of GDP.

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

Net borrowing requirements in 2008 were equal to PLN 39.2bn, PLN 5.4bn lower than anticipated. The issuing policy was conducted accordingly to "Public Sector Debt Management Strategy for 2008-2010" and its update for 2009-2011. The executed sale of Treasury securities was a result of assessment of current market conditions and a comparison of long-term financing costs and risk evaluation.

On the domestic market 72 Treasury securities auctions were held, including 41 Treasury bond auctions (24 auctions, 7 non-competitive auctions and 10 switching auctions). The bid-to-cover ratio at Treasury bond auctions was 204%, with the average sale amounting to PLN 1.5 bn.

On foreign markets in 2008 Poland issued bonds with a total face value equivalent to EUR 2.4bn, including: 10-year bonds with a face value of EUR 2bn on the euro market, two tranches of bonds on the Swiss franc market: a reopening of 5-year bond with a face value of CHF 225 million (equivalent to ca. EUR 140 million), a 9-year tranche with a face value of 250 million (equivalent to ca. EUR 156 million) and 30-year bonds denominated in Japanese Yen with a face value of JPY 25 bn (equivalent to ca. EUR 150 million).

At the end of 2008 the average maturity of the State Treasury debt remained practically unchanged from 2007 at 5.3 years (domestic debt average maturity was 4.2 years) and duration equalled to 3.6 years (domestic debt duration was 2.9 years).

The situation on global financial markets resulted in decrease in foreign investors holdings of domestic Treasury securities by PLN 18.6bn, to PLN 55.9bn. At the same time, holdings of domestic non-banking sector increased by PLN 10.1bn to PLN 227.9bn and holdings of domestic banks increased by PLN 47.8bn, to PLN 135.3bn.

The financial turmoil has also impacted the secondary market trading – the value of transactions in 2008 on domestic Treasury securities market decreased by 14.0% to PLN 6,386.2bn. However, the liquidity of the secondary bond market still enabled investors investing large sums of money to enter and to exit the market. The ratio of the average value of transactions to the average outstanding level of 5-year benchmark was 342%.

We do hope that this Report will bring you closer to the issues concerning public debt, debt management, and the Treasury securities market in 2008. We invite you also to visit our website, www.mf.gov.pl, where you can find additional information on Treasury securities and the issuing policy, including a detailed statistical annex to this publication.

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2 CHAPTER

MACROECONOMIC ENVIRONMENT OF PUBLIC DEBT MANAGEMENT

High but weakening Gross Domestic Product growth rate

The real rate of GDP growth in Poland was 4.9% in 2008 (compared to 6.7% in 2007), and nominal GDP was PLN 1,271.7 bn.

The components of the GDP growth rate were as follows:

a) domestic demand +5.6 pp, including:
- general consumption +4.6 pp,
- gross accumulation +1.0 pp, including:
  - investments +1.7 pp,
  - change in current assets -0.7 pp,

b) net exports -0.7 pp.

Domestic demand grew in real terms by 5.5% (8.6% in 2007). Weakening growth of the domestic demand was the result of a lower growth rate of investments (4.2% as compared to 23.7% in 2007), and higher growth rate of general consumption (5.9% as compared to 4.7% in 2007).

The high growth rate of investments was the result of:

a) relatively high inflow of capital to Poland in the form of foreign direct investment (FDI) (EUR 11.0 bn in 2008, 16.7 bn in 2007),

b) utilizing the European Union funds,

c) sustained domestic consumption demand,

d) weakening foreign demand for export goods.

Household consumption grew in real terms by 5.4% (5.0% in 2007). The growth rate acceleration in household consumption was mainly the result of:

a) favourable labour market situation resulting in a fall of the unemployment rate in the economy to 9.5% at the end of 2008 (11.2% at the end of 2007),

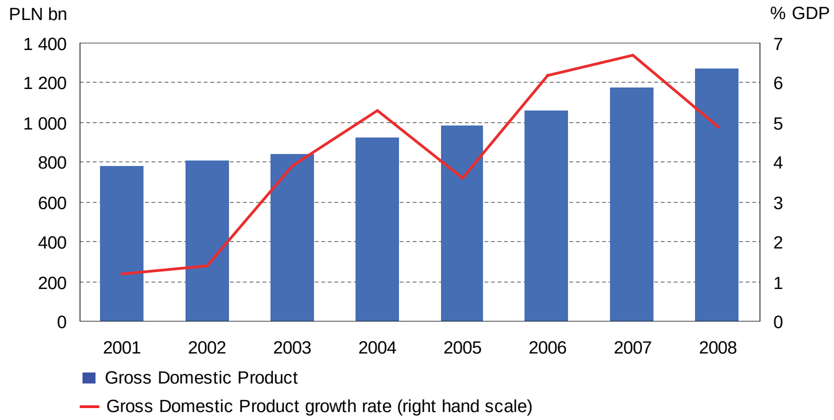
b) growing wages in the economy,

c) growth in household sector debt,

d) transfers of the European Union funds to farmers,

e) transfers of income from working abroad.

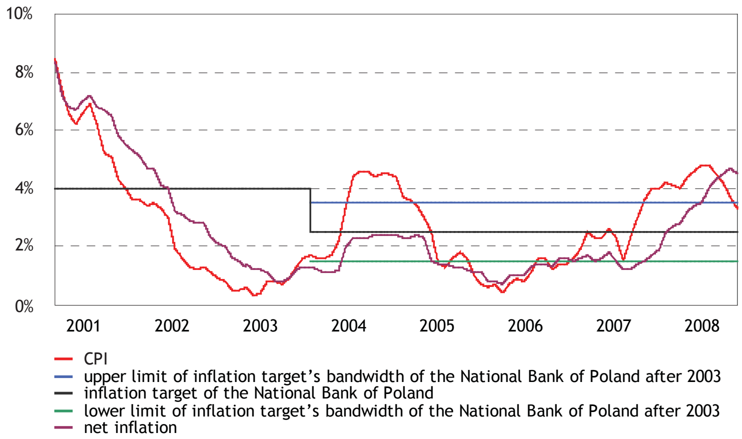
Chart 2.1
Nominal GDP and real GDP growth in 2001-2008



CPI returning to the target bandwidth of the National Bank of Poland

The yearly average consumer price index (CPI) of goods and services rose from 4.0% YoY in December 2007 to 4.8% YoY in August 2008 and then decreased to 3.3% YoY in December 2008, which mant a return below the upper limit of the inflation target bandwidth of the National Bank of Poland (2.5% ± 1 pp). For the same period, inflation in the European Union was 2.2% YoY. Net inflation, i.e. base inflation index with excludes food and oil price indices, rose in 2008 from 1.7% YoY to 4.5% YoY, which means that the decrease in inflation during the last 4 quarters of the year was mainly the result of falling oils prices and slowing food prices growth.

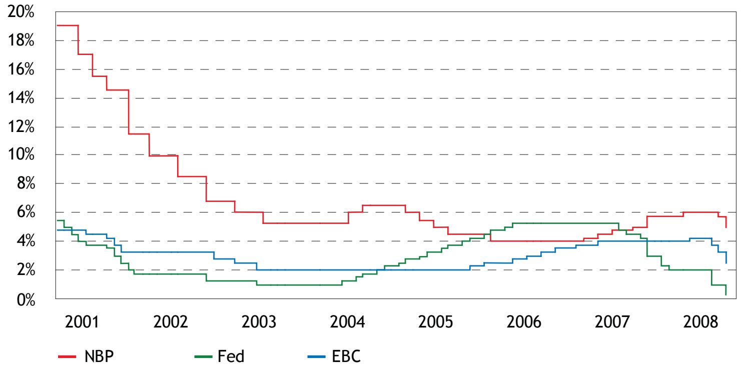
Chart 2.2
CPI inflation and net price index in 2001-2008 (corresponding month of previous year = 100)



NBP interest rates

In the first half of 2008 the NBP reference rate was increased by 1.0 pp, from 5.0% at the end of 2007 to 5.0% at the end of June 2008, which resulted from high current and expected inflation. In November 2008 NBP started the monetary policy easing cycle dictated by fears of economic slowdown and the reference rate came back to 5.0% at the end of the year. In 2008 both Fed and ECB cut their interest rates significantly, from 4.25% to 0.0-0.25% and from 4.0% to 2.5% respectively.

Chart 2.3
Key reference rates in 2001-2008



Increase in the general government deficit

In 2008 the general government deficit to GDP ratio rose by 2.0 pp. to 3.9% (PLN -49.6 bn). The deficit was the result of:

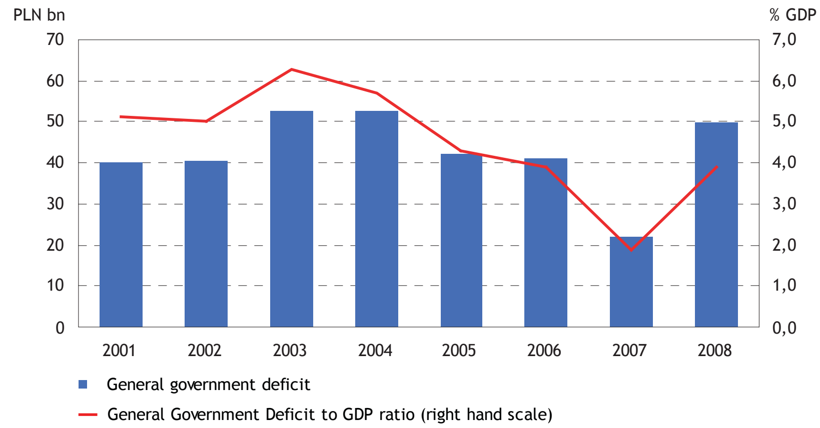
a) negative balance of central government sector amounting 4,2% of GDP (PLN -53.0 bn),

b) negative balance of local government sector amounting 0.2% of GDP (PLN -2.4 bn),

c) positive balance of social security funds sector amounting 0.5% of GDP (PLN +5.9 bn).

The main reason of a rise of general government deficit was weakening economic activity in the last quarter of the year that influenced a decrease in revenues of the State budget and local government budgets. At the same time revenues of the social security system decreased as a result of a reduction in disability contribution.

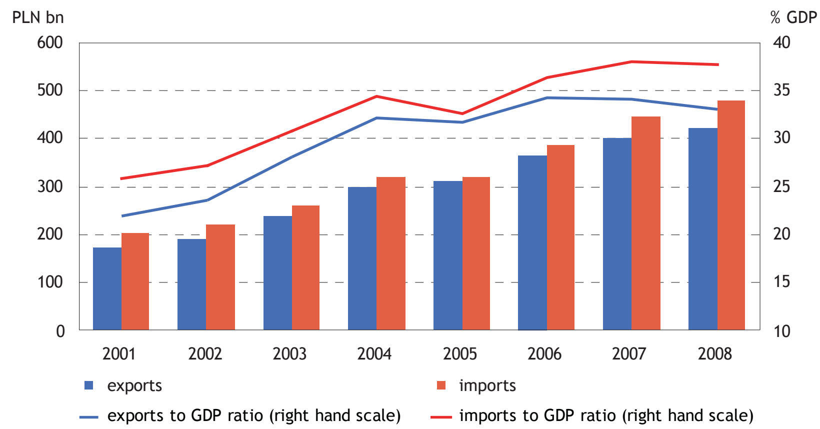
Chart 2.4
General government deficit in 2001-2008



Weakening growth rate of exports and imports

In 2008 under conditions of deteriorating economies in the European Union a significant slowdown in growth rate of exports and imports occurred - the growth rates of exports and imports was 5.2% (10.0% in 2007) and 7.3% (15.9% in 2007) respectively. As a result, the foreign trade to GDP ratios decreased: the exports to GDP ratio fell by 1.0 pp to 33.1%, and imports to GDP by 0.3 pp to 37.7% respectively.

Chart 2.5
Exports and imports in 2001-2008 (according to NBP data)

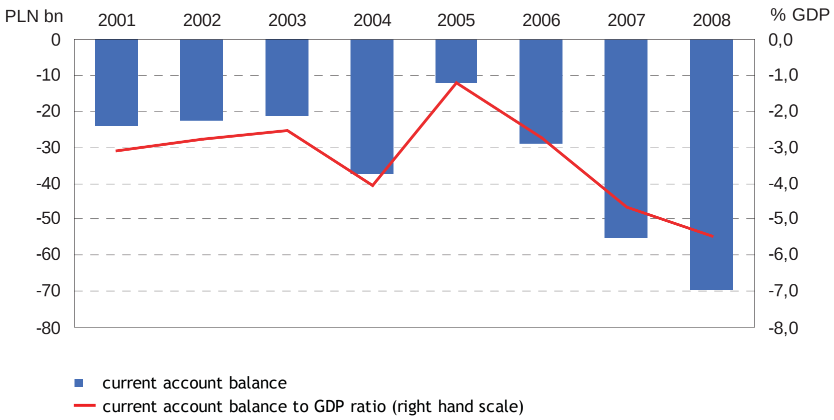


Deterioration of current account balance

The negative current account balance in 2008 amounted to 5.5% of GDP (a 0.8 pp increase as compared to 2007). The change in the current account was mainly the result of the negative impact of the balance of goods and, to a lesser extent, of other current transfers.

The current account deficit in 2008 was in over 50% financed by the inflow of FDI and the remaining part mainly by financial transfers in the form of capital injections to commercial banks by their foreign owners.

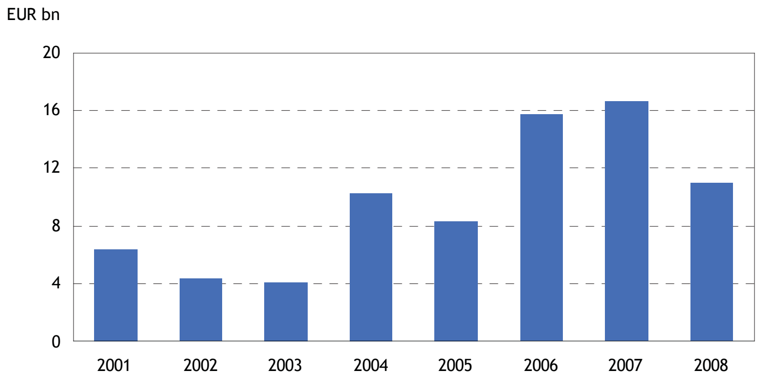
Chart 2.6
Current account balance in 2001-2008



Relatively high FDI inflow

The value of foreign financial resources invested in Poland in the form of FDI in 2008 reached EUR 11.0 bn. It was 34.2% lower than in 2007, when it reached the record high at EUR 16.7 bn. The main components of FDI inflow, as in 2007, were reinvested earnings (40.2%) and investor loans (34.0%). Lower FDI inflow was mainly a result of lower net inflow of funds increasing equity of direct investing enterprises and of reinvested profits.

Chart 2.7
Foreign Direct Investments in 2001-2008

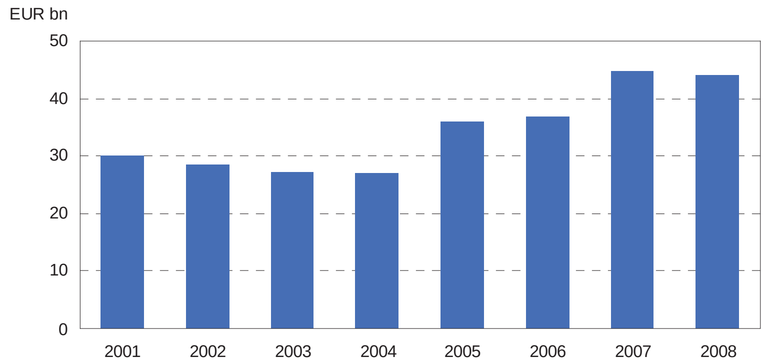


High official reserve assets

In 2008 the balance of official reserve assets was close to the 2007 levels and amounted to EUR 44.1 bn (14.5% of GDP). A relative stabilization of the level of official reserve assets was a result of the inflow of European Union funds and transfers of income from working abroad of outflow of foreign portfolio investments.

From the beginning of 2001 through the end of 2008, the value of official reserve assets denominated in EUR rose by 14.6 bn. The highest growth took place in 2005, which was connected with the inflow of EU funds, when the growth rate was 33.3%.

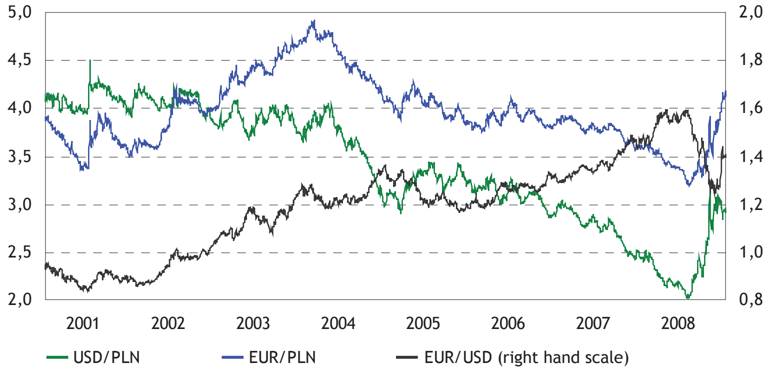
Chart 2.8
Official reserve assets in 2001-2008



The zloty's depreciation

In 2008 the zloty fell 21.6% against the dollar and 16.5% against the euro. In the first half of the year the zloty gained significantly and the EUR/PLN rate reached record low of 3.2022 PLN in July. The zloty's appreciation resulted from the strong Polish macroeconomic indicators and the NBP interest rates increases. However, during the last few months of 2008 the zloty slumped sharply as the result of global financial markets turmoil (global recession fears, high risk aversion), domestic companies' demand for the euro (closing positions in forex derivatives) and worsening economic outlook. At the end of the year the USD/PLN and the EUR/PLN exchange rates were 2.9618 PLN and 4.1724 PLN respectively, compared to 2.4350 PLN and 3.5820 PLN respectively at the end of 2007.

Chart 2.9
USD/PLN, EUR/PLN and EUR/USD rates in 2001-2008



Outflow of funds from investment funds, increase of assets of insurance companies

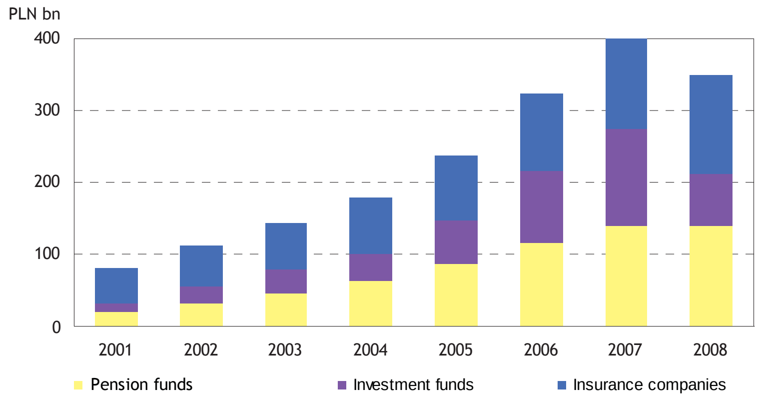
In 2008 net assets of the domestic non-banking financial sector decreased significantly. The decrease was registered in two out of three of its main groups:

a) investment funds - decrease by 45.0%, to PLN 73.7bn,

b) pension funds - decrease by 1.3%, to PLN 138.3bn.

The third group - insurance companies – registered an increase of 8.7%, to PLN 138.0bn. Total net assets of these three groups of entities decreased by 12.7%, to PLN 349.9bn.

Chart 2.10
Net assets of pension funds, insurance companies and investment funds in 2001-2008



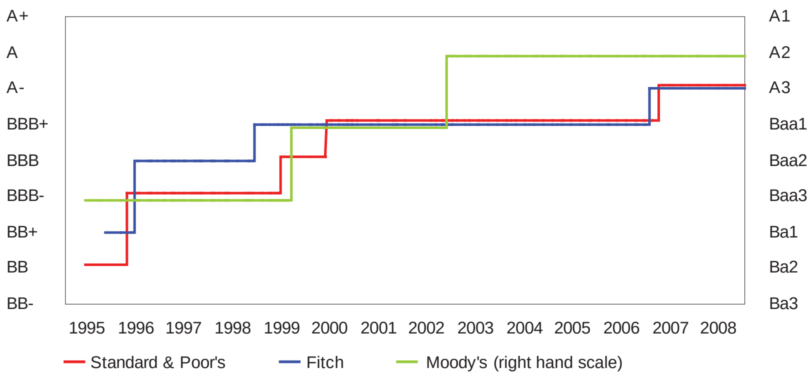
Poland's ratings unchanged, stable outlook confirmed

Poland's rating

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

[1] not rated
[2] country ceiling rating

Chart 2.11
Poland's rating on issues in foreign currency in 1995 - 2008



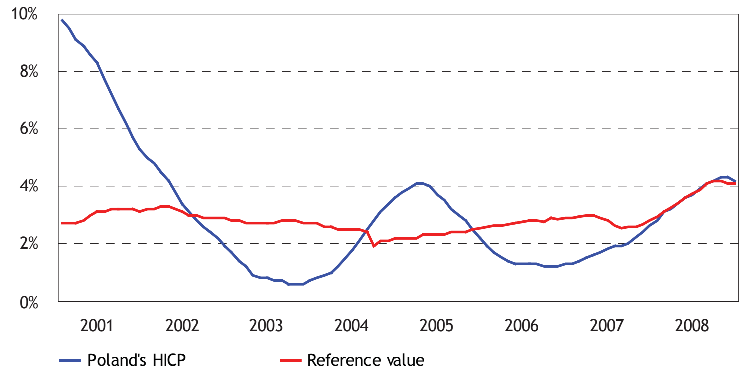
3 CHAPTER

CONVERGENCE CRITERIA FULFILMENT

Price stability criterion

A reference value is determined by the average inflation (Harmonized Indices of Consumer Prices) in the three countries with the lowest inflation, plus 1.5 pp. Until January 2008 Poland has met this criterion. From February till September 2008 HICP level in Poland oscillated around the reference value and from October till December was higher than the reference value by 0.1-0.2 p.p. Hence, at the end of 2008 Poland did not meet inflation criterion.

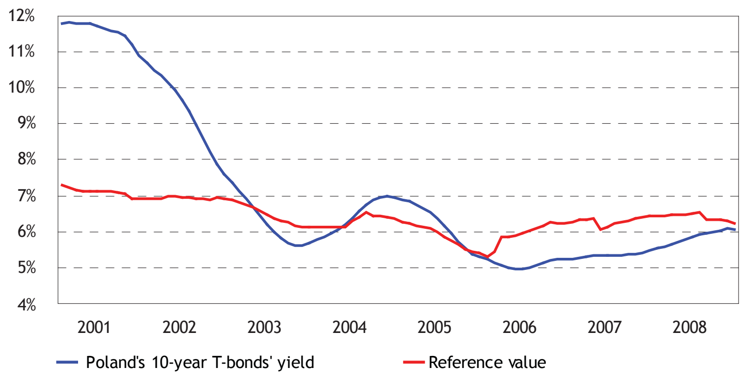
Chart 3.1
HICP inflation in 2001-2008



Interest rates criterion

A reference value is determined by the average yield of long-term treasury bonds or other securities with maturity of around 10 years, for which the secondary market provides enough liquidity, in the three countries with the lowest inflation, plus 2 pp. Since November 2005 Poland has met this criterion on a constant basis.

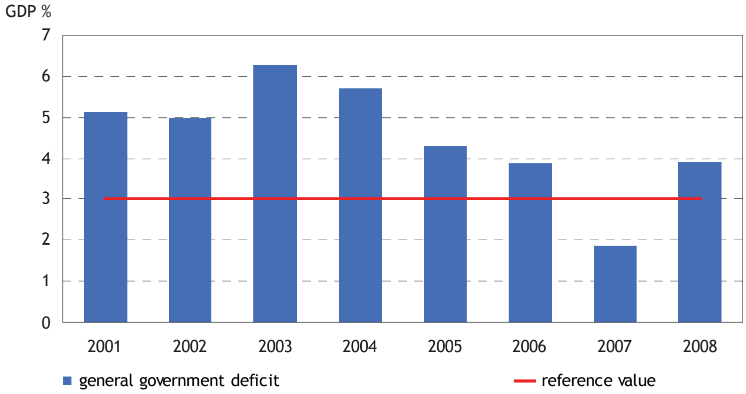
Chart 3.2
Interest rate in 2001-2008



Fiscal criterion

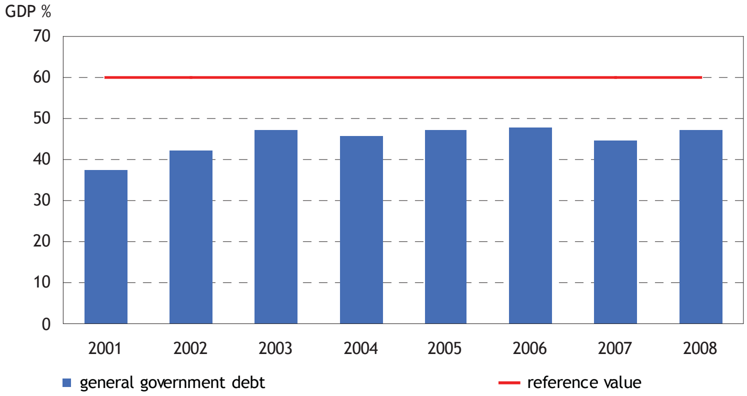
General government deficit. As a result of substantial decrease of general government deficit to below 3% in 2007 and positive outlook for its stabilization in following years the ECOFIN decided in July 2008 to remove the Excessive Deficit Procedure towards Poland. In 2008 the general government deficit amounted to 3.9% (1.9% in 2007), exceeding the 3% reference value.

Chart 3.3
General government deficit to GDP ratio in 2001-2008



General government debt. The general government debt remains at a stable and safe level, significantly below the reference value of 60% of GDP. In 2008 the ratio was 47.1%.

Chart 3.4
General government debt to GDP ratio in 2001-2008



Exchange rate criterion

For at least 2 consecutive years the movements of national currency exchange rate versus euro should remain within a band around the central parity rate, set by the ERM II. Since Poland has not joined ERM II yet, the exchange rate criterion has not been fulfilled.

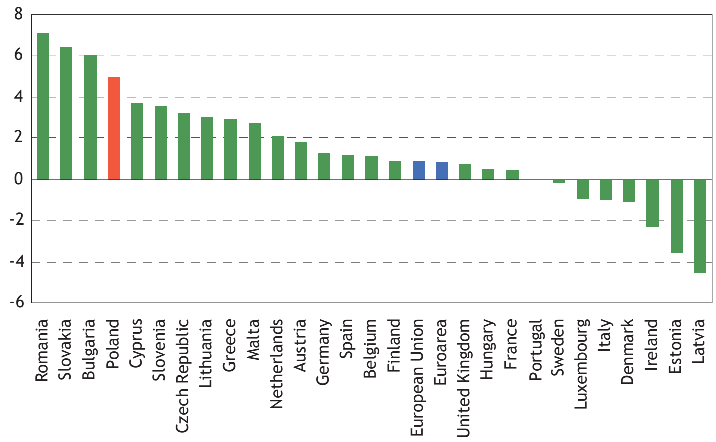
4
CHAPTER

POLAND IN COMPARISON WITH OTHER EUROPEAN COUNTRIES

GDP growth rate in Poland outperforming most of EU countries

Real GDP growth in Poland in 2008 of 4.9% was one of the highest in European Union, significantly outperforming overall EU growth rate (0.9%), as well as Eurozone growth rate (0.8%). As a result, further real convergence with Eurozone took place in 2008.

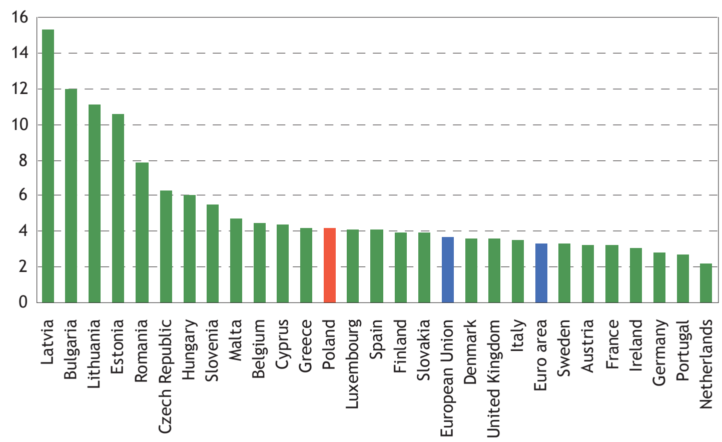
Chart 4.1
Real GDP growth rate in 2008 in European Union countries.



Moderate inflation

Inflation (HICP) in 2008 in Poland of 4.2% was above average inflation in European Union and Eurozone. However, out of 12 countries that joined EU after 1 May 2004, only in Slovakia inflation (HICP) was lower. In other countries it ranged from 4.4% to 15.3%.

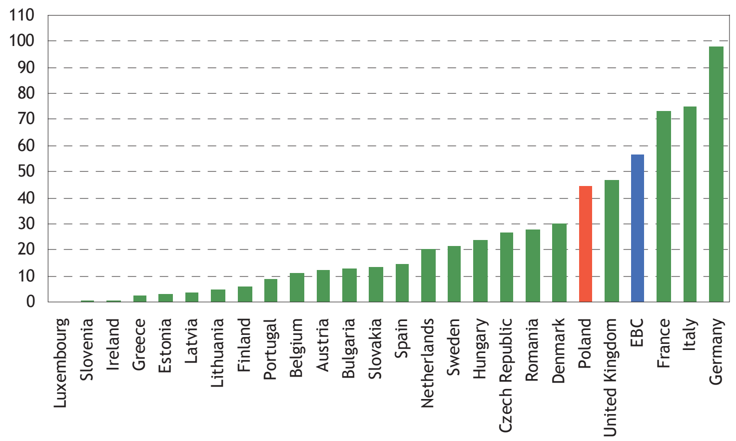
Chart 4.2
Inflation rate (HICP) in 2008 in European Union countries.



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

The level of official reserve assets in Poland at the end of 2008 was the highest among the EU countries. It stood above the levels for all countries that entered the EU since May 1, 2004, and below the level for only the biggest four economies.

Chart 4.3
Official foreign reserves to GDP ratio of EU countries non-belonging to euro area in 2008

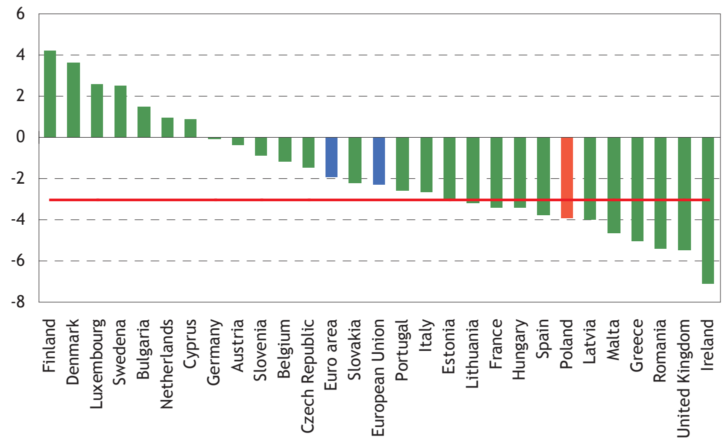


*) Presented official reserve assests of European Central Bank do not cover reserves of central banks belonging to euro system, the level of official reserve assets of Euro system, including ECB, at the end of 2008, amounted to EUR 373.9 bn.

General Government balance in EU countries

Poland was among 11 EU memeber countries whose general government deficit in 2008 exceeded the reference value of the Maastricht criteria. The general government deficit to GDP ratio for the EU and Euro zone amounted to 2.3% and 1.9%, respectively.

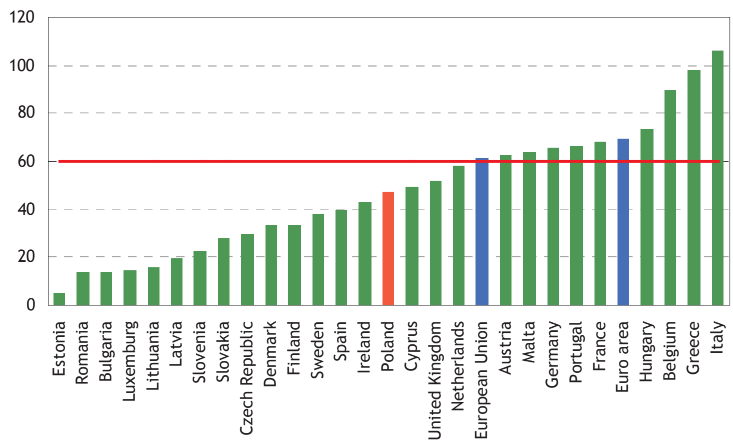
Chart 4.4
General government balance to GDP ratio in EU countries in 2008



General Government debt in the EU countries

Poland, according to the general government debt criterion, was among 17 EU member countries with a low level of debt. The general government debt to GDP ratio for these EU member countries stood substantially below the Maastricht convergence criterion. The debt to GDP ratio for the EU and the Euro zone amounted to 58.7% and 66.3%, respectively.

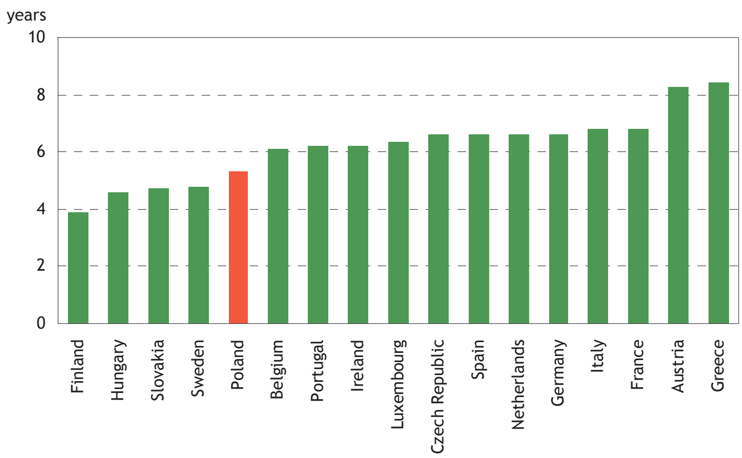
Chart 4.5
General government debt to GDP ratio in EU countries in 2008



Average term to maturity of debt in selected EU countries

At the end of 2008 Poland was among those EU member countries, whose refinancing risk remained at a safe level. The average term to maturity, which is the measure of refinancing risk, for selected EU member countries ranged from 3.90 to 8.40 years (5.27 years in Poland). The refinancing risk was lower mainly in the Euro zone countries.

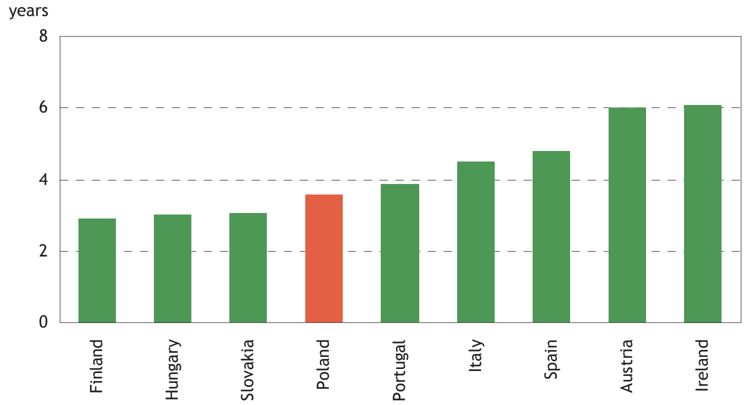
Chart 4.6
Average maturity of debt in selected EU countries 2008



Duration of debt in selected EU countries

At the end of 2008 Poland was among those EU member countries whose interest rate risk stood at a safe level. Duration of debt for selected EU member countries ranged from 2.90 to 6.07 years (3.58 years in Poland). The interest rate risk was lower mainly in the Euro zone countries.

Chart 4.7
Duration of debt in selected EU countries 2008



Ratings' changes in CEE countries in 2008

In the face of a deepening crisis on international markets in the course of 2008, which affected the CEE countries mostly in October 2008, rating agencies revised credit ratings of many countries from the region.

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

a) Hungary – to BBB (S&P and Fitch) and A3 (Moody's),

b) Bulgaria – to BBB (S&P) and BBB- (Fitch),

c) Romania – to BB+ (S&P and Fitch),

d) Estonia – to A- (Fitch),

e) Lithuania – two revisions in 2008, finally to BBB+ (S&P and Fitch),

f) Latvia – two revisions in 2008, finally to BBB- (S&P and Fitch) and A3 (Moody's).

The credit rating of Poland as one of few countries in the region was not decreased. Rating agencies assessed favourably activities implemented by the government and financial institutions which are aimed at early responding to arising indications of the economic crisis.

As a result of worsening the global economic and financial environment and its possible future influence on Polish economy, the Standard&Poor's rating agency revised Poland's rating outlook to stable in October 2008. Thereby, Standard&Poor's having examined the fiscal and macroeconomic situation confirmed stable fundamentals of Polish economy.

5
CHAPTER

LEGAL FRAMEWORK OF PUBLIC DEBT

Legal framework of debt

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

The Constitution of the Republic of Poland includes:

a) ban on incurring loans and granting financial guarantees which would cause public debt to exceed 60% of GDP,

b) ban on financing budget deficit by central bank. The Public Finance Act includes:

a) detailed prudential and remedial procedures if public debt to GDP ratio exceeds 50%, 55% and 60%,

b) obligation by Minister of Finance to present 3-year public finance sector debt management strategy.

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

a) objectives and tasks,

b) forecasts of macroeconomic indicators for Poland and international considerations in the time horizon covered by the strategy,

c) analysis of risk factors connected with public debt,

d) expected effects of implementing the strategy,

e) threats to the Strategy implementation.

In 2008 debt management was carried out on the basis of the Public Sector Debt Management Strategy for the years 2008-2010 and its update for the years 2009-2011.

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

a) refinancing risk,

b) exchange rate risk,

c) interest rate risk,

d) State budget liquidity risk,

e) other types of risks, particularly credit risk and operational risk,

f) debt servicing cost over time.

In the Strategy for the years 2008-2010 tasks resulting from the strategy objective were:

a) increasing liquidity, efficiency and transparency of the Treasury securities market,

b) development of the Primary Dealers system,

c) effective communication with financial markets participants.

In the Strategy for the years 2009-2011 tasks were formulated as follows:

a) increasing liquidity of the TS market,

b) increasing efficiency of the TS market,

c) increasing transparency of the TS market.

6 CHAPTER

FINANCING OF STATE BUDGET BORROWING REQUIREMENTS

Issuance policy

The debt issuance policy in 2008 was implementation of the “Public Sector Debt Management Strategy for 2008-2010” as updated for 2009-2011 taking market and budget situation into account. The executed sale of Treasury securities was a result of current market conditions and a comparison of long-term financing costs and risk evaluation. The most important factors which affected the debt issuance policy were the following:

a) increase of uncertainty on the domestic and foreign debt markets leading to increase of risk aversion and high volatility,

b) increase of base interest rates on the domestic market in the first half of the year,

c) decrease of the liquidity of the secondary domestic bond market,

d) lower than projected level of net borrowing requirements of the State budget.

As a result of such conditions an opportunity to issue Treasury bonds on the domestic and foreign markets in 2008 was significantly reduced.

Lower than projected in the Budget Act net borrowing requirements

The net borrowing requirements of the State budget increased in 2008 by PLN 5.2 bn, to PLN 39.2 bn (PLN 5.4 bn lower than projected in the Budget Act). The executed level was a result of:

a) lower requirements:

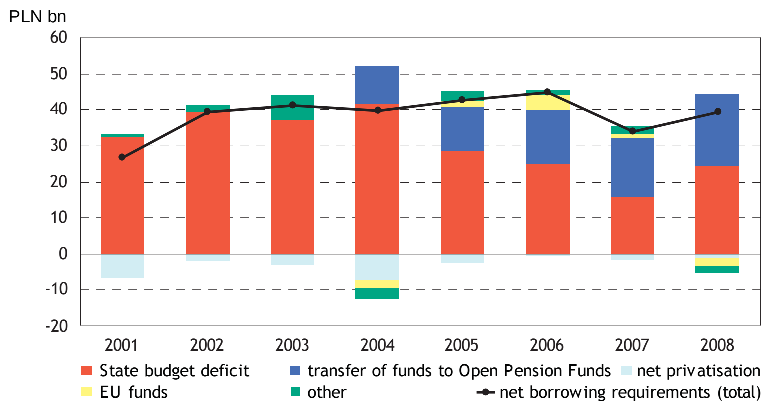
- State budget deficit (PLN 24.3 bn, as against projected level of PLN 27.1 bn),
- balance of EU funds (PLN -2.4 bn, as against projected level of PLN 0.1 bn).

b) and higher requirements:

- transfer of funds to Open Pension Funds (PLN 19.9 bn, as against projected level of PLN 18.0 bn),
- loans balance (PLN 1.6 bn, as against projected level of PLN 0.01 bn).

Net budget proceeds from privatization amounted to PLN 1.0 bn, as against PLN 1.2 bn projected in the Budget Act.

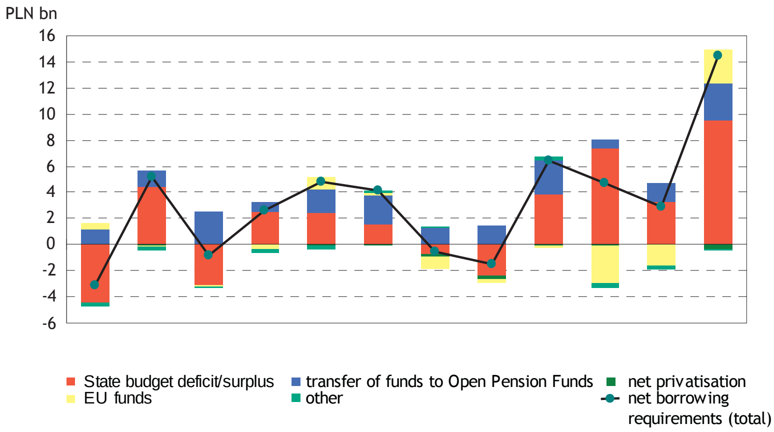
Chart 6.1
Net borrowing requirements of the State budget in 2001-2008



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

The level of net borrowing requirements of the State budget during the year was significantly varied, which was mainly determined by State budget deficit performance: the highest requirements were met in the second and fourth quarter. In four months (January, March, July, August) the budget recorded surplus, the highest deficit was recorded in December.

Chart 6.2
Monthly net borrowing requirements of the State budget in 2008



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

Fall in gross borrowing requirements

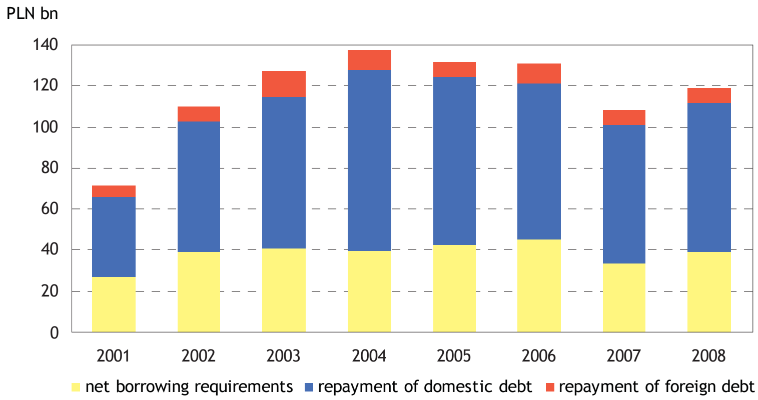
The gross borrowing requirements of the State budget increased in 2008 by PLN 10.8 bn to PLN 119.0 bn, of which:
The structure of gross borrowing requirements was as follows:

a) net borrowing requirements – increase by PLN 5.3 bn to PLN 39.2 bn,

b) domestic debt repayment – increase by PLN 5.4 bn to PLN 72.4 bn,

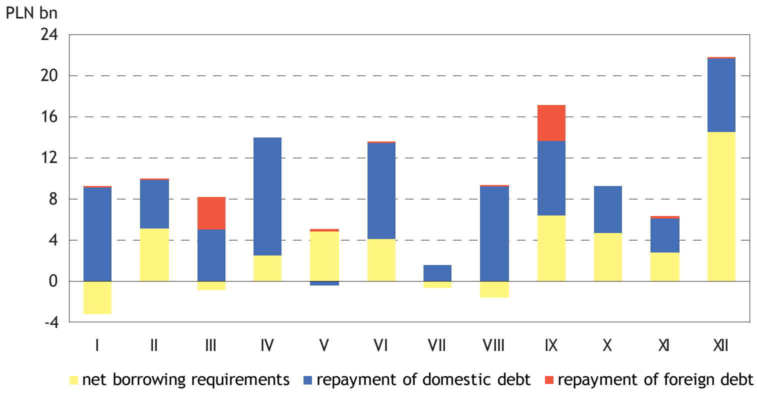
c) foreign debt repayment – increase by PLN 0.2 bn to PLN 7.4 bn.

Chart 6.3
Gross borrowing requirements of the State budget in 2001-2008



The monthly distribution of gross borrowing requirements of the State budget in 2008 varied significantly. This resulted from unequal distribution of both net requirements and repayment of debt, mainly domestic one. A factor reducing the variability of domestic debt repayment were switching auctions of Treasury bonds which led to decrease redemptions in original date-to-maturity.

Chart 6.4
Monthly gross borrowing requirements of the State budget in 2008



Dominant share of domestic market in the borrowing requirements financing

In the financing structure of both net and gross requirements, domestic market was dominant, similarly as in the previous years. The share of domestic market amounted to 91.7% (84.5% in 2007) for the net financing borrowing requirements and 91.1% (88.5%) for the gross financing. The share of foreign financing was 8.3% against 15.5% in 2007 (gross requirements 8.9% and 11.5% respectively).

Chart 6.5
Financing of net borrowing requirements of the State budget in 2001-2007

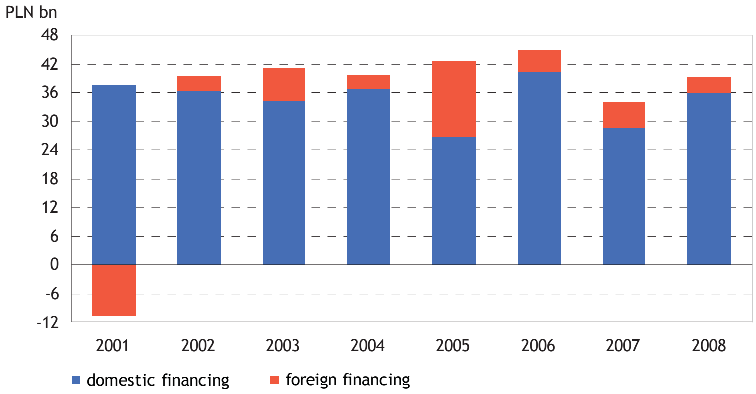
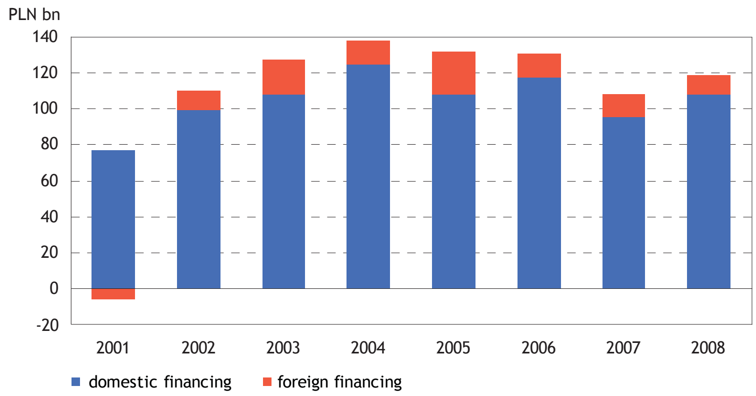


Chart 6.6
Financing of gross borrowing requirements of the State budget in 2001-2008



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

In 2008 the State Treasury debt increased by PLN 45.6 bn as a result of issuing Treasury securities with decline by PLN 4.2 bn in loans drawn from international financial institutions. The increase of debt in Treasury bills amounted to PLN 27.8 bn, in Treasury bonds issued on the domestic market amounted to PLN 10.0 bn and in Treasury bonds issued on foreign markets amounted to PLN 7.8 bn.

Chart 6.7
Change of State Treasury debt (issued Treasury securities) in 2001-2008

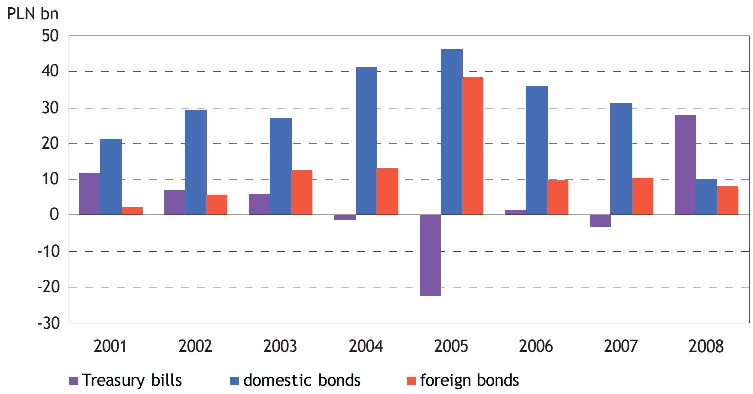
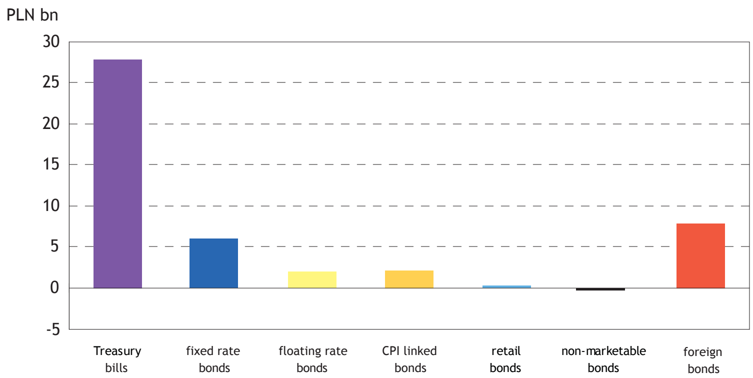
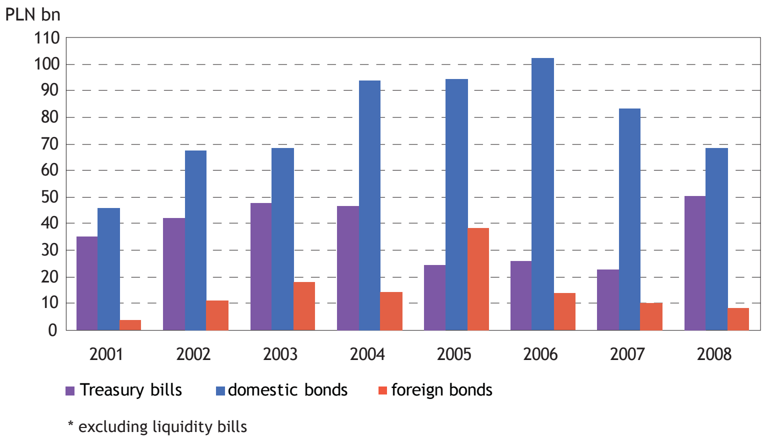


Chart 6.8
Net financing from Treasury securities on the domestic and foreign market in 2008 (in PLN bn)
Change of State Treasury debt (issued Treasury securities) in 2008



In the structure of sold Treasury securities in 2008 dominated Treasury bonds offered on the domestic market and they constituted 53.8%. The amount of foreign bond issues was mainly determined by the level of requirements in foreign currencies and market situation and decreased to 6.5% (8.9% in 2007).

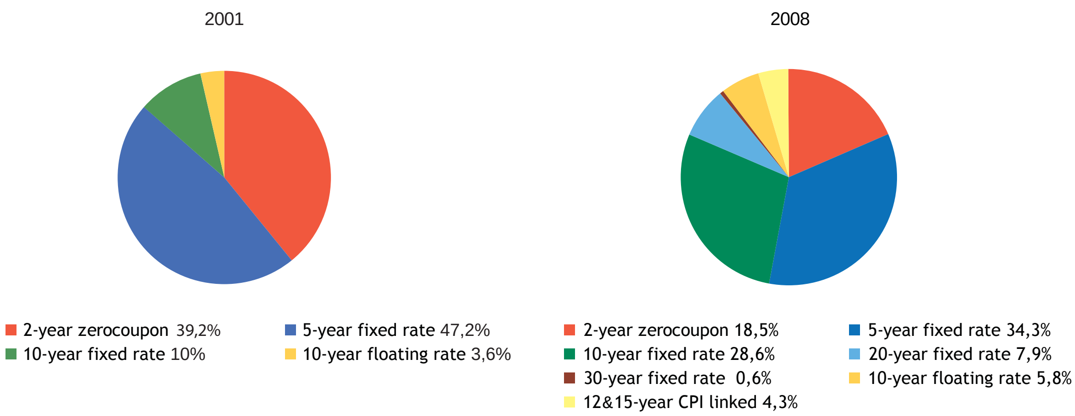
Chart 6.9
Gross financing from Treasury securities on the domestic and foreign market in 2002-2008 (in PLN bn)
Sale of Treasury securities on domestic and foreign markets in 2002-2008



Increase in sale of domestic long-term maturity bonds

In the structure of wholesale domestic bonds sales offered at auctions in 2008 there was an increase in the proportion of long-term maturity instruments, compared to 2001. In 2008 the total share 10-, 20- and 30-year bonds in the structure of sales reached 37.1% (in 2001 the share of 10-year bonds reached 10.0%, 20- and 30-year bonds were not sold).
On the other hand there was a decrease in sales of 2-year bonds, from 39.2% in 2001 to 18.5% in 2008.

Chart 6.10
Structure of sales of domestic Treasury bonds sold at auctions in 2001 and 2008



Increase in sale of domestic Treasury bonds offered in the retail network

In 2008, the proceeds from the sale of retail bonds amounted to PLN 6,175 mn. This accounted for 9,0% of the value of all bonds sold by the Minister of Finance.

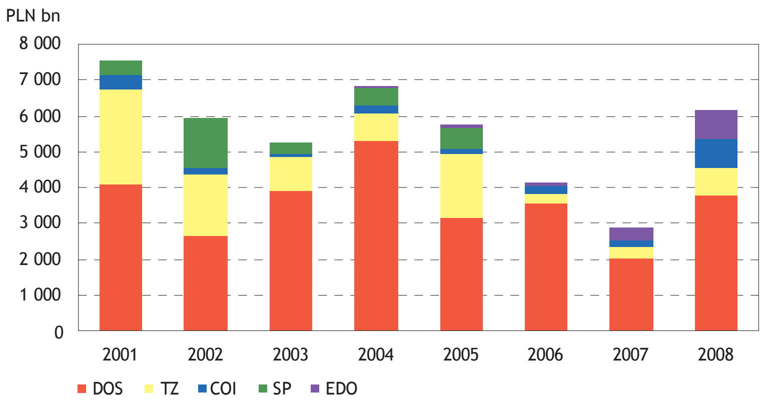
The amount obtained consisted of proceeds from the sale of the following bond types:

a) 2-year savings bonds (DOS) – PLN 3,791 mn (in nominal terms),
b) 3-year bonds (TZ) – PLN 744 mn (in nominal terms),
c) 4-year savings bonds (COI) - PLN 791 mn (in nominal terms),
d) 10-year savings bonds (EDO) – PLN 849 mn (in nominal terms).

The sale of Treasury retail bonds in 2008 was twice higher than a year earlier (PLN 2,868 mn in nominal terms), which was caused, among other things, by the following factors:

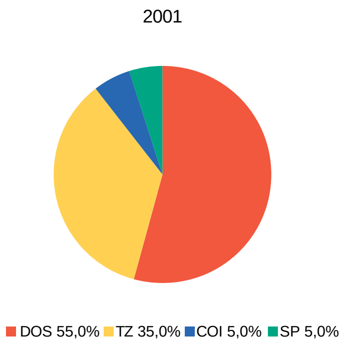
a) significant rise in the level of interest rates,
b) unstable situation on the financial market,
c) appearance of the informations about financial crisis to cause decrease confidence of individual investors in risk investments, increase interest of safe instruments.

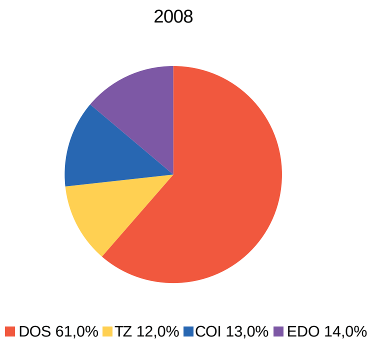
Chart 6.11
Sale of Treasury domestic bonds in 2008



In the structure of domestic bonds offered in the retail network in 2008, 2-year savings bonds made up the greatest share – 61%, compared in 2001. In 2008 sale of 3-year bonds reached 12% of total amount of issuing retail bonds, 10-year savings bonds -14%. However, there was decrease of 4-year savings bonds share, from 5% in 2001 to 13% in 2008.

Chart 6.12
Structure of sales of domestic Treasury bonds in 2001 and 2008





Foreign bond issues

In 2008 Poland launched the following bonds on foreign markets:

a) a two-tranche issue of fixed coupon bonds denominated in Swiss franc – a 9-year bond with a face value of CHF 250 million and a reopening of the 5-year bond originally issued in 2007 with a face value of CHF 225 million,

b) a 30-year fixed coupon bond denominated in Japanese with a face value of JPY 25 bn, issued as a private placement bond,

c) a 10-year fixed coupon bond denominated in euro with a face value of EUR 2 bn.

The transactions were lead-managed:

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

b) in the case of the yen-denominated bond, by:
- Daiwa SMBC.

c) in the case of the euro-denominated bond, by:
- ABN Amro,
- Citigroup,
- HSBC.

All transactions were launched under the Euro Medium Term Note Programme (EMTN).

Foreign bond issues in 2008

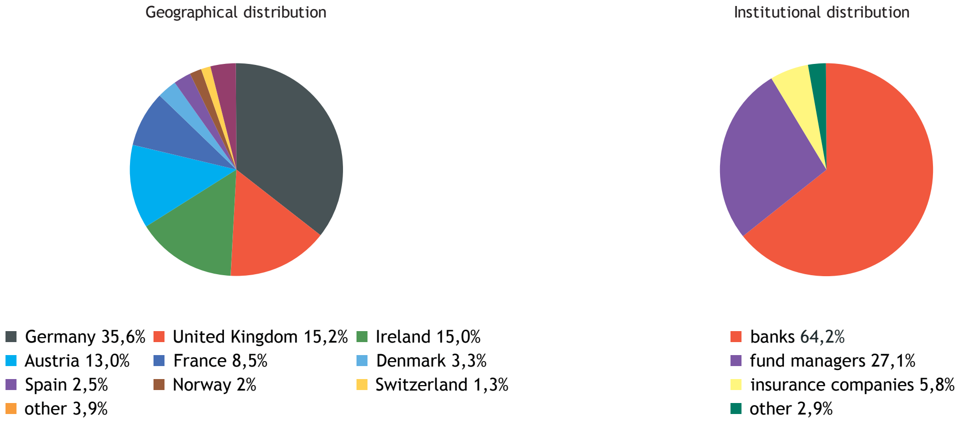
Issue date	Currency	Nominal amount (in millions)	Maturity date	Yield
21 Apr 2008	CHF	225	15 May 2012	3,189%
21 Apr 2008	CHF	250	21 Apr 2017	3,690%
16 Jun 2008	JPY	25 000	16 Jun 2038	3,300%
20 Jun 2008	EUR	2 000	20 Jun 2018	5,643%

The Japanese yen bond was awarded by the EMEA Finance Awards for the best yen bond. As a result of difficult market conditions in 2008 there were no Samurai bond offerings among issuers from the EMEA region.

Diversified geographical distribution of euro issue

The geographical distribution of euro-denominated bonds issued in 2008 was well diversified, with orders submitted by investors from 18 countries. The share of traditional buyers of Polish securities, i.e. investors from Germany, Austria and Ireland, was 63.5%. There was a substantial share of UK investors who were allocated with 15% of the issue. Institutional distribution was dominated by banks as in the case of previous bond issues on the euro market. This euro bond issue aroused wide interest of fund managers who bought nearly 30% of the bonds.

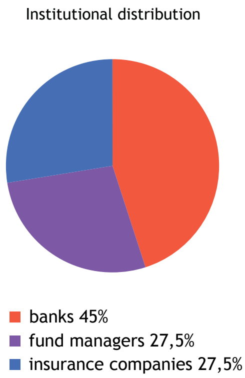
Chart 6.13
Geographical and institutional distribution of euro-denominated bonds issued in 2008



Swiss investors' strong appetite for Polish bonds

The geographical distribution of State Treasury bonds issued in the Swiss franc market was fully allocated to Swiss investors who were a sole group of buyers of both tranches – the reopening of the 5-year bond as well as a new issue of the 9-year bond.
The issue aroused wide interest among non-banking institutions with their final share amounting to 55%.

Chart 6.14
Institutional distribution of Swiss franc-denominated bonds issued in 2008 (both tranches altogether)



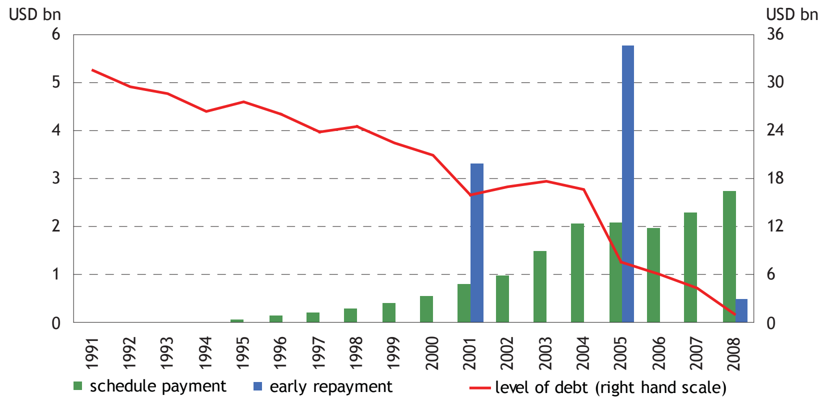
Liabilities incurred before 1989

Further decrease of indebtedness towards the Paris Club creditors

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

From 2001 Poland began making early repayments to Paris Club creditors. The first transaction in 2001 concerned Brazil (USD 3.3 bn). In 2005 Poland declared its readiness to repay all remaining indebtedness. Some countries consented to that transaction and as a result in 2005 total early repayments were made in the equivalent of USD 5.8 bn. In 2008 this process was continued – 30 September Poland repaid obligations to France (USD 0.5 bn). As of the end of 2008 debt to the six countries was USD 1.0 bn.

Chart 6.15
Liabilities to Paris Club in 1991-2008 (recalculated to USD as of the end of the year)



Continuation of early repayment of Brady Bonds

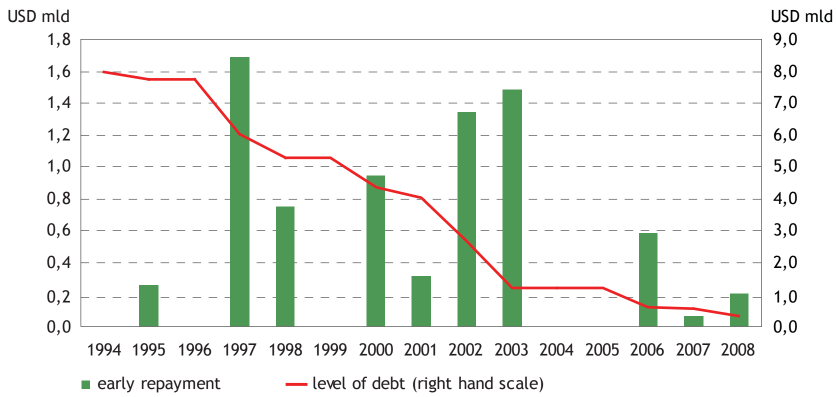
In March 1994 Poland signed an agreement with representatives of commercial banks that are creditors of Poland (London Club) on reduction of its debt. The agreement reduced this debt from USD 13.2 bn, to USD 8 bn, and converted the remaining debt into USD-denominated bonds (Brady Bonds).

From 1995, taking advantage of the favourable market situation, Poland began early repayment of those liabilities.

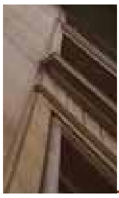
In 2008 Poland continued this operations and redeemed bonds amounting to USD 0.2 bn.

As of the end of 2008, debt in Brady Bonds was USD 0.3 bn. This means that since 1995, Poland has repaid USD 7.6 bn ahead of schedule, i.e. 94.5% of the original debt.

Chart 6.16
Brady Bonds in 1994-2008



7 CHAPTER



STRUCTURE OF PUBLIC DEBT

Changes in the level and structure of the public debt in 2008 resulted mainly from the financial situation of the public sector entities (mainly borrowing requirements of the State budget), the macroeconomic situation (i.e. GDP growth, exchange rates and interest rates) and debt management decisions (concerning the profile of State Treasury debt).

Debt-to-GDP ratio increase

During 2008 public debt rose by PLN 70.4 bn, to PLN 597.8 bn, of which:

a) domestic debt - according to place of issue criterion - of PLN 443.7 bn, increase of PLN 40.4 bn and according to the residency criterion of PLN 397.0 bn, increase of PLN 62.0 bn,

b) foreign debt - according to place of issue criterion - of PLN 154.1 bn, increase of PLN 30.0 bn. and according to residency criterion of PLN 200.8 bn, increase of PLN 8.4 bn.

The debt-to-GDP ratio rose to 47.0% at the end 2008, from 44.8% at the end 2007, with:

a) domestic debt - according to place of issue criterion at 34,9% of GDP (increase of 0.6 pp) and according to residency criterion at 31,2% of GDP (increase of 2.7 pp),

b) foreign debt - according to place of issue criterion at 12.1% of GDP (increase of 1.6 pp) and according to residency criterion at 15.8% of GDP (decrease of 0.6 pp).

General government debt (GGD) is the definition used for comparative purposes within the European Union. GGD of Poland came to PLN 598.4 bn (47.1% of GDP) at the end of 2008, compared to PLN 527.6 bn (44.8% of GDP) at the end of 2007.

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

a) Scope of the public sector:

- Research and development units are excluded from general government sector, but
- National Road Fund (KFD) is included.

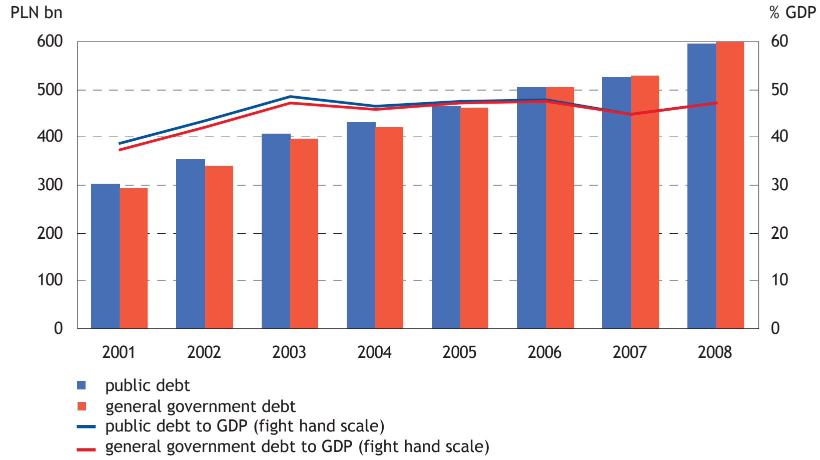
b) Debt categories:

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

c) Treatment of contingent debt:

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

Chart 7.1
Public Debt and General Government Debt in 2001-2008



Dominant share of State Treasury debt in the public debt

In 2008 State Treasury debt had a dominant share in the structure of public debt, at 94.6%. The share of local sector debt was 4.7%. Nevertheless, the rate of debt growth of local governmental units and their unions in the years 2001-2008 was far more greater than the growth rate of State Treasury debt (177.1% and 100.1%, respectively).

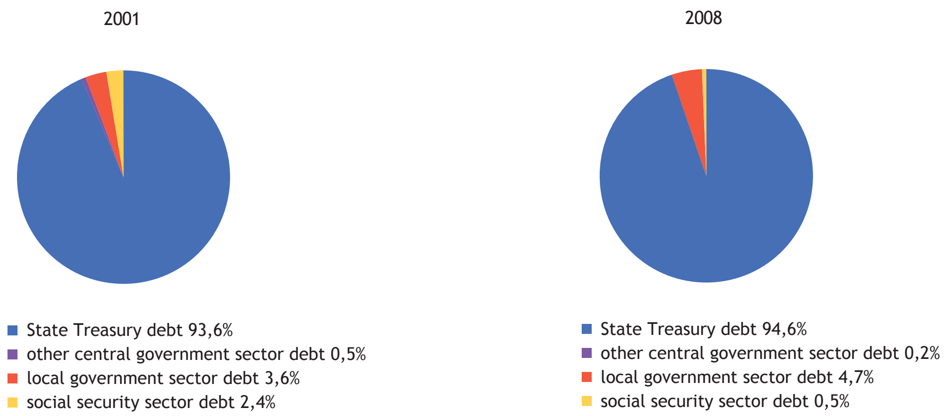
Public debt as of the end of 2008, after consolidation, comprised the following elements:

a) central government sector debt, PLN 566.9 bn increase of PLN 66.7 bn,

b) local government sector debt, PLN 28.1 bn increase of PLN 3.6 bn,

c) social security sector debt, PLN 2.8 bn increase of PLN 29.8 mn.

Chart 7.2
Public debt by sub-sectors in 2001 and 2008



Dominant share of domestic debt in the total State Treasury debt

State Treasury debt (before consolidation) in 2008 was PLN 569.9 bn (an increase of approximately PLN 68.4 bn), of which:

a) domestic debt was PLN 420.2 bn (increase of PLN 39.8 bn),

b) foreign debt was PLN 149.7 bn (increase of PLN 28.6 bn).

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

a) change in debt as a result of State budget financing requirements (PLN 39.2 bn),

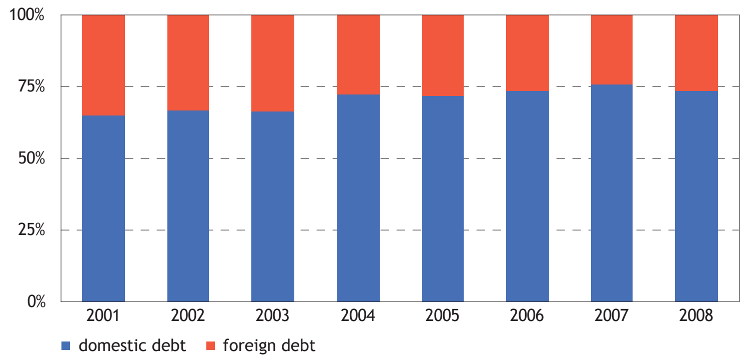
b) domestic currency depreciation in relation to foreign currencies in which some elements of State Treasury debt are denominated (PLN 25.3 bn),

c) conversion of Social Security Fund (ZUS) liabilities to Open Pension Funds (OFE) – PLN 0.9 bn,

d) indexation - IZ0816 and IZ0823 bonds (PLN 536.6 million),

e) capitalization of interest – bonds issued for Bank Gospodarki Żywnościowej SA (PLN 10.4 million)

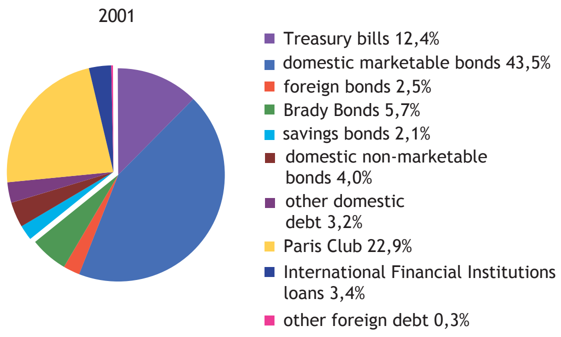
Chart 7.3
Structure of State Treasury debt according to the place of issue criterion in 2001-2008

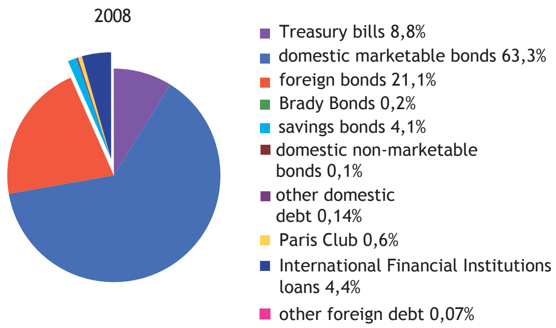


Substantial Increase of marketable debt share in the domestic State Treasury debt

In the years 2001-2008 a significant change was observed in the structure of the State Treasury debt instruments' in favor of marketable bonds. With a substantial increase of the share of these securities from 64.1% at the end of 2001 to 93.4% at the end of 2008. This was mainly the result of intensified issuance of marketable bonds on domestic and foreign financial markets and the decline of Paris Club debt share (mainly due to prepayments of these liabilities in this period).

Chart 7.4
Structure of State Treasury debt by instrument in 2001 and 2008





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

State Treasury debt in marketable bonds was PLN 419.4 bn in 2008, of which:

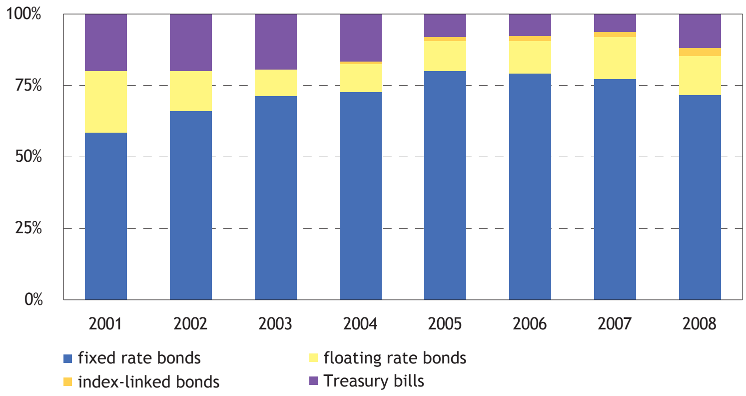
a) treasury bills – PLN 50.4 bn (12.0%),

b) fixed rate bonds – PLN 300.4 bn (71.6%),

c) floating rate bonds – PLN 57.8 bn (13.8%);

d) index-linked bonds – PLN 10.8 bn (2.6%).

Chart 7.5
Structure of domestic State Treasury debt in Treasury securities in 2001-2008



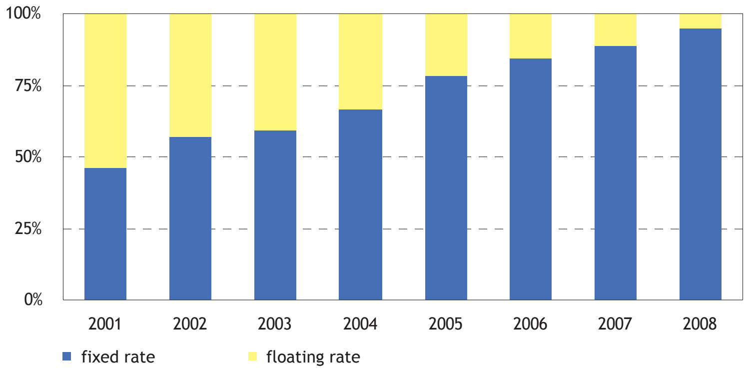
Major share of fixed rate debt in the structure of State Treasury foreign debt by instruments

State Treasury foreign debt (according to the place of issue criterion) in 2008 was PLN 149.7 bn, of which:

a) fixed rate, PLN 141.7 bn (94.6%),

b) floating rate, PLN 8.1 bn (5.4%).

Chart 7.6
Structure of foreign State Treasury debt in 2001-2008



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

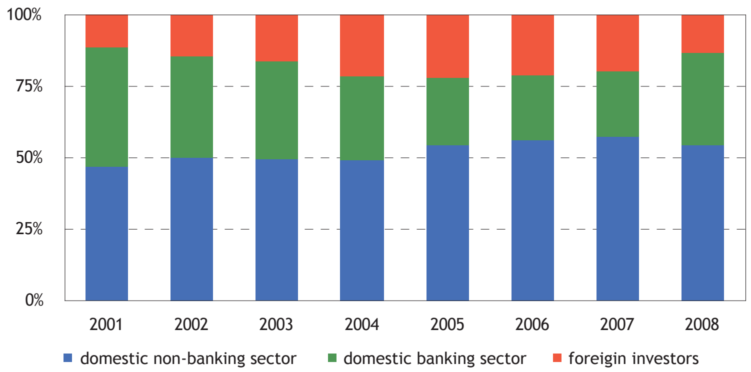
The creditor structure of domestic State Treasury debt in 2008 was as follows:

a) domestic non-banking sector – PLN 228.7 bn (increase of PLN 10.7 bn),

b) domestic banking sector – PLN 135.6 bn (increase of PLN 47.7 bn),

c) foreign investors – PLN 55.9 bn (decrease of PLN 18.6 bn).

Chart 7.7
Structure of domestic State Treasury debt by holders in 2001-2008



The structure of Treasury bonds issued on the domestic market held by domestic non-banking sector creditors as of the end of 2008 was:

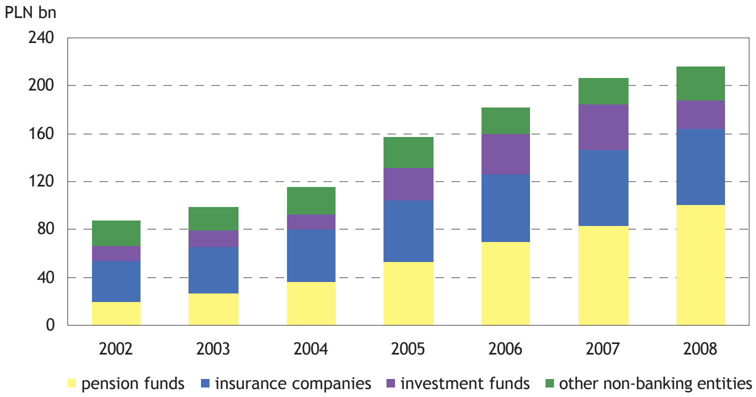
a) pension funds, PLN 100.6 bn (increase of PLN 17.7 bn),

b) insurance companies, PLN 63.7 bn (decrease of PLN 0.1 bn),

c) investment funds, PLN 24.0 bn (decrease of PLN 13.5 bn),

d) other non-banking entities, PLN 27.9 bn (increase of PLN 5.5 bn).

Chart 7.8
domestic non-banking investors' portfolio of domestic Treasury bonds in 2002-2008



State Treasury debt service costs

The 2008 Budget Act assumed total expenditures for the debt service in the amount PLN 27.8bn, of which:

a) foreign debt service PLN 5.9bn,

b) domestic debt service PLN 21.9bn.

During the year the Minister of Finance decided to decrease the limit assigned for foreign debt servicing by PLN 0.1bn, limiting expenditures for settlements of guarantees granted by the State Treasury. At the same time, reclassification of expenditures within domestic debt part was done. There was also a decision taken to use any potential savings in debt servicing costs to finance derivatives transactions that enabled debt servicing payments scheduled for 2009 to be done in 2008. However, due to unstable situation in financial markets, unfavourable conditions and increase of swap transactions' counterparty credit risk, the amount of executed transactions was smaller than the amount of generated savings. In consequence, the Minister of Finance decided to freeze the savings in debt servicing expenditures amounting to PLN 2.2bn, of which PLN 0.6bn in foreign debt part and PLN 1.6bn in domestic debt part.

The final amount of debt service expenditures in 2008 was PLN 25.1bn, i.e. 90.6% of the amended plan, of which PLN 5.1bn of foreign debt service and PLN 20.0bn of domestic debt service.

Lower than projected costs of the State Treasury debt service was the result of:

a) stronger than assumed PLN exchange rate versus USD and EUR for payments done in the period from April to August,

b) change of financing structure in domestic market, lower share of bonds serviced in 2008 and higher share of bills serviced in 2009, what was caused by the unfavorable situation in financial markets,

c) higher amount of swap transactions executed in 2007 that lowered the expenditures in 2008 and limited amount of similar transactions affecting domestic debt payments in 2008 and 2009,

d) borrowers repayment of some liabilities guaranteed by the State Treasury.

In comparison with 2007, total amount of expenditures resulting from debt servicing in 2008 was lower by PLN 2.5bn (8.9%). It was mainly a result of the aforementioned swap transactions executed in 2007 and 2008 that increased the expenditures in 2007 and lowered in 2008.
The ratio of debt servicing costs to GDP decreased from 2.3% in 2007 to 2.0% in 2008. The ratio of debt servicing costs to total budgetary expenditures decreased from 10.9% in 2007 to 9.0% in 2008.

Chart 7.9
State Treasury domestic debt service costs in 2008

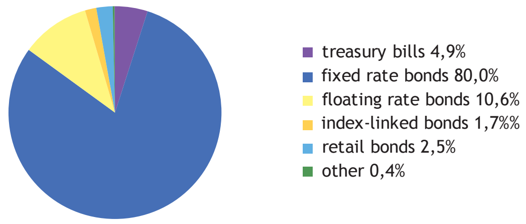


Chart 7.10
State Treasury foreign debt service costs in 2008

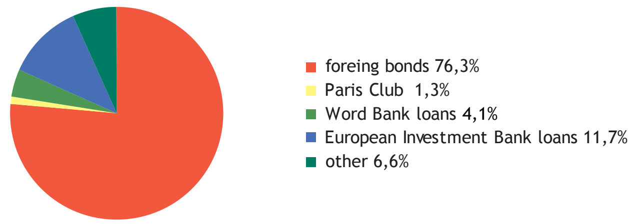
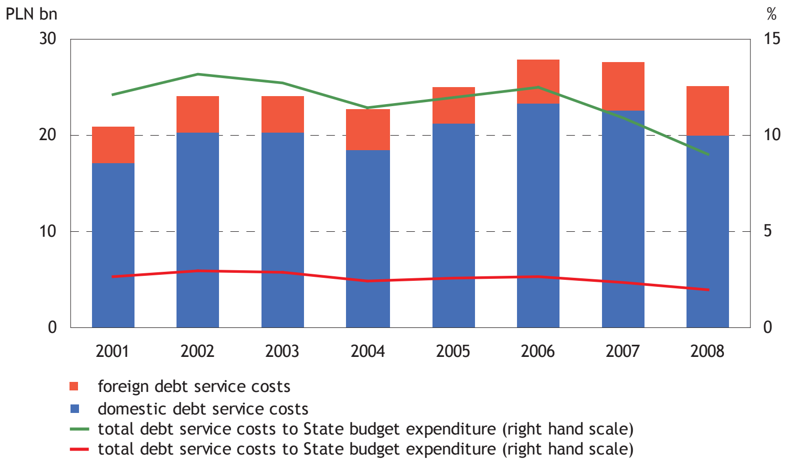


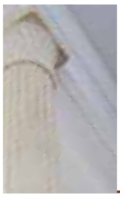
Chart 7.11
State Treasury debt service costs in 2001-2008



Derivatives transactions

In 2008 the Ministry of Finance concluded interest rate swaps transactions on financial market with the nominal value of PLN 12 bn. The aim of this transactions was to spread over the time the spending connected with the cost of borrowing in 2009. As a result the costs paid in 2008 amounted to PLN 0.88 bn and the net costs in 2009 will be reduced by PLN 0.92 bn.

8
CHAPTER



RISK MANAGEMENT

In 2008 the issuance policy and operations involving debt components made it possible, despite unfavourable external environment connected with the global financial crisis, to sustain comparable risk levels with 2007 associated with the structure of State Treasury debt, especially of the refinancing risk, exchange rate risk and interest rate risk.

Stabilization of the refinancing risk

In 2008 the refinancing risk of the State Treasury debt was maintained at a steady level. The average time to maturity (ATM) of when the total State Treasury debt needs to be refinanced, slightly decreased from 5.30 to 5.27 years in 2008.

The ATM of domestic marketable debt decreased from 4.33 to 4.23 years. The main factors influencing this change were:

a) doubling of Treasury bills outstanding in second half of the year,

b) stabilization of debt in mid- and long-term Treasury bonds,

c) smaller scale of switching auctions.

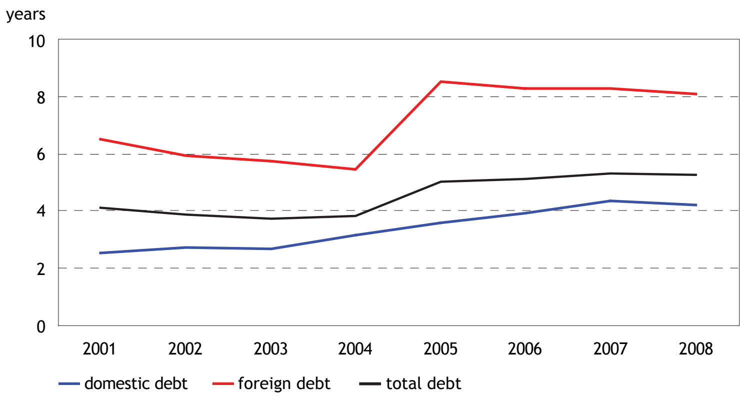
The ATM of foreign debt decreased from 8.28 to 8.11 years. High average maturity meant low level of refinancing risk of foreign debt. The main factors that made possible to sustain the level of ATM were:

a) shortening maturity of existing debt,

b) early redemption of debt towards France within Paris Club,

c) new foreign issuance on the euro, yen and Swiss franc markets.

Chart 8.1
Average maturity of State Treasury debt in 2001-2008



Efforts to smooth the State Treasury debt maturity profile

At the end of 2008 the total value of State Treasury debt due for payment in 2009 was PLN 112.1bn, i.e. 19.7% of the total debt, including:

a) domestic debt of PLN 99.0bn,

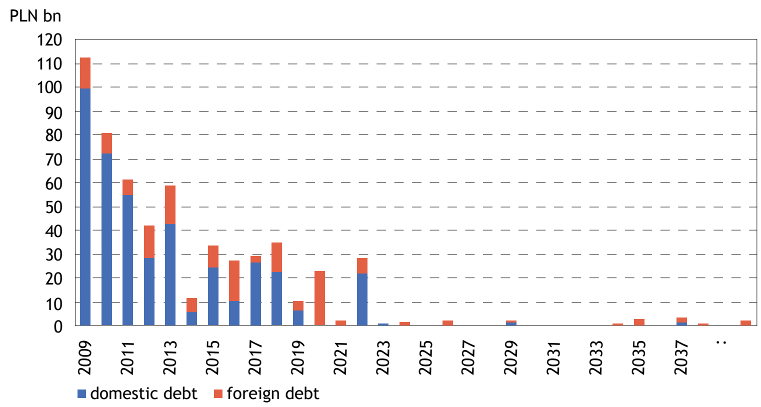
b) foreign debt of PLN 13.0 bn.

Smoothing the maturity profile was achieved by:

a) proper selection of maturity of new bond issues,

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

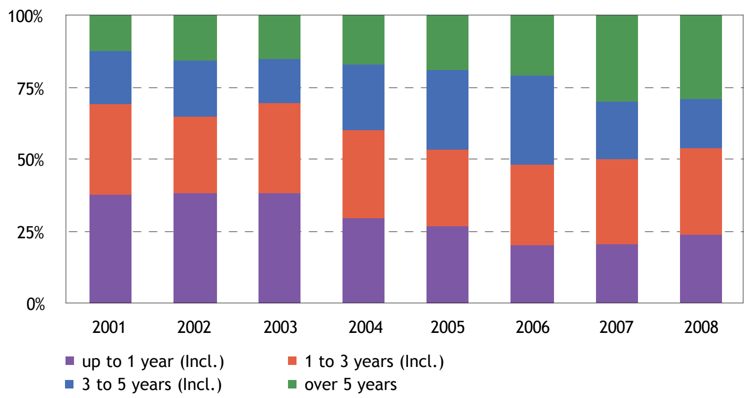
Chart 8.2
State Treasury debt maturity profile



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

In 2008 the share of Treasury securities with residual maturity below 1 year in the domestic State Treasury debt increased from 20.4% to 23.6%, of which Treasury bills - increased from 5.9% to 12.0%. At the same time the share of Treasury securities with residual maturity between 1 and 3 years has increased from 29.3% to 30.3%. The share of securities with residual maturity between 3 and 5 years has decreased from 20.3% to 16.9% and with maturity above 5 years decreased from 29.9% to 29.1%.

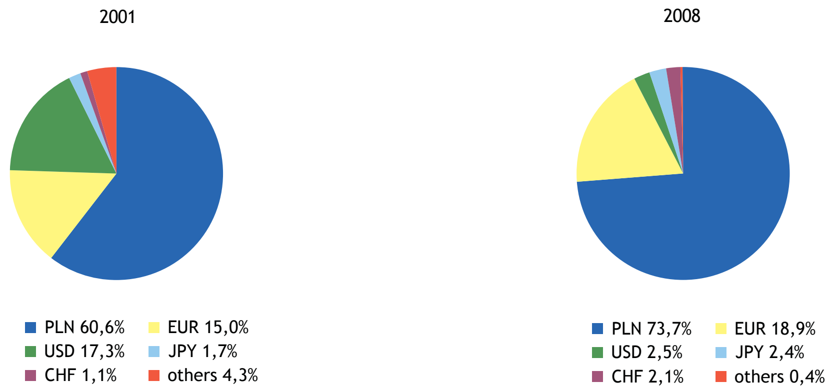
Chart 8.3
Residual maturity of Treasury Securities issued on the domestic market in 2001-2008



Decrease of exchange rate risk

State Treasury debt in domestic currency at the end of 2008 was PLN 420.2 bn. What stands for 73.7% of total State Treasury debt, compared to 75.8% in 2007 and 60.6% in 2001. This means the exchange rate risk has been a significantly limited.

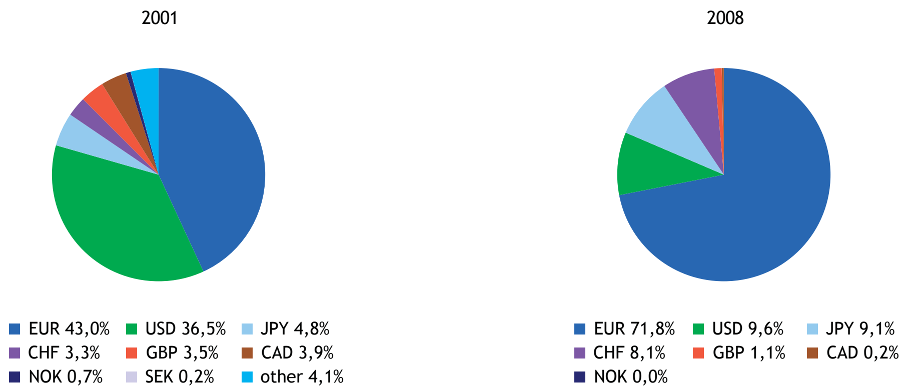
Chart 8.4
Currency profile of State Treasury debt in 2001 and 2008



Strategic role of the euro market in foreign financing

The prevailing part of the foreign State Treasury debt was denominated in euro. This share share rose steadily from 43.0% in 2001 to 71.8 % at the end of 2008. As for debt in other currencies, there was a significant decrease of the U.S. dollar share (from 36.5% to 9.6%) and a rise of Japanese yen (from 4.8% to 9.1%) and the Swiss franc (from 3.3% to 8.1%) shares.

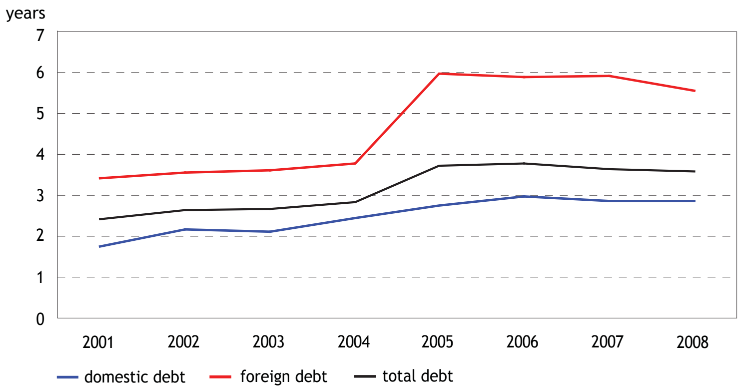
Chart 8.5
Currency structure of external State Treasury debt in 2001 and 2008



Safe level of the interest rate risk

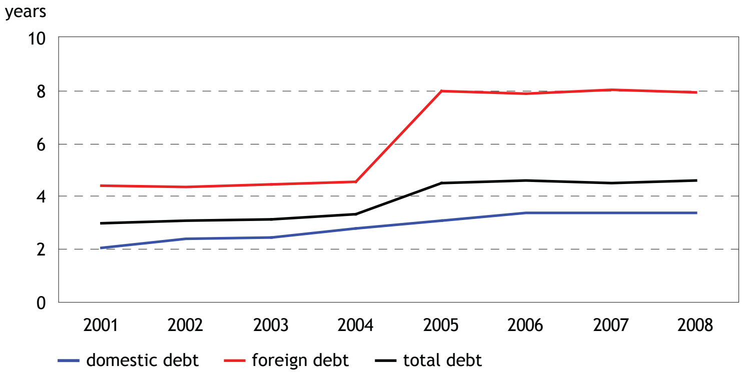
In 2008, duration, which measures the average time of adjustment of the debt servicing costs to changes in interest rates, decreased from 3.63 to 3.58 years for the State Treasury debt. Fall in the duration level means an increase of the interest rate risk for the State Treasury debt.
The duration of domestic State Treasury debt slightly rose from 2.85 to 2.86 years. This was the result of a slight decrease in the average time to maturity of debt from 4.33 to 4.23 years and a decrease in the share of marketable instruments with a floating interest rate from 14.0% to 13.1%.
The duration of foreign debt decreased from 5.92 to 5.55 years, it was the result of a decrease in ATM and an increase of financing costs on foreign markets. High duration meant low level of interest rate risk of foreign debt.

Chart 8.6
Duration of State Treasury debt in 2001-2008



An additional measure of interest rate risk is an average time to refixing (ATR). ATR is expressed as the average time of fixing the debt servicing costs. Unlike duration, ATR includes inflation-linked bonds and does not depend on the levels of market interest rates.
In 2008 the ATR of State Treasury debt increased from 4.53 to 4.60 years, while the ATR of domestic debt decreased slightly from 3.39 to 3.38 years and the ATR of foreign debt decreased from 8.05 to 7.96 years. ATR increase for total debt was the result of a rise the share of foreign debt (with significant higher level of ATR) in total debt, resulting from PLN depreciation towards main foreign currencies.

Chart 8.7
ATR (Average Time to Refixing) of State Treasury debt in 2001-2008



Level of public funds in State budget accounts

In spite of the crisis in financial market the level of domestic and foreign currency resources enabled safe financing of the budget borrowing requirements in 2008.

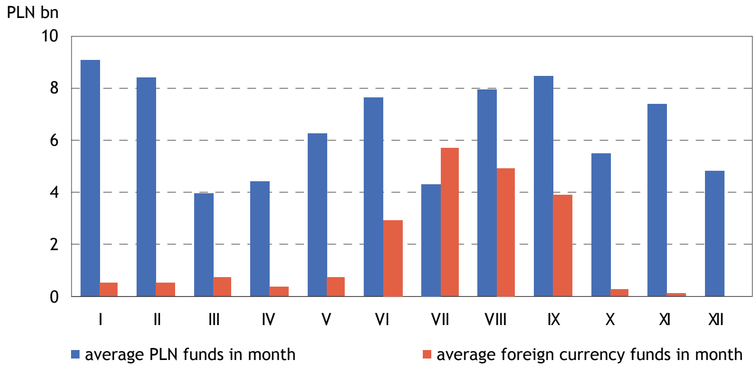
The level of foreign currency resources resulted from foreign markets issuances of bonds denominated in the following currencies: Euro, Swiss frank and Japanese yen and loans incurred from the European Investment Bank.

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

a) irregular distribution of borrowing requirements within the year (significant redemptions of treasury bonds, especially in June for amount of PLN 12.3 bn in nominal value),
b) the real level of budget borrowing requirements in relation to the forecasts,
c) variable and difficult to foresee market situation and therefore different possibilities of financing borrowing requirements (reduction in demand for domestic and foreign treasury Bonds)

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

Chart 8.8
Average level of PLN and foreign currency funds in State budget accounts by month in 2008



Loans from the commercial banks

In 2008 Poland introduced new instrument of state budget liquidity management – loans from the commercial banks. In December 2008 there were concluded two one-day loans from the commercial banks for the total amount of PLN 0.15bn.

9
CHAPTER

TREASURY SECURITIES SECONDARY MARKET

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

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

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

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

Decrease in transactions value for Treasury bonds denominated in PLN

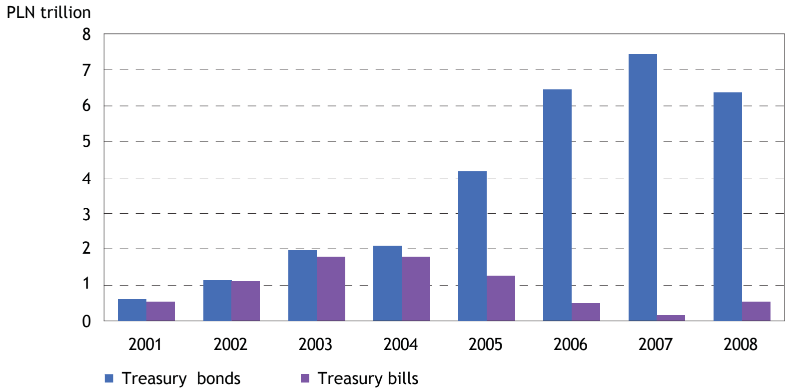
In 2008 PLN 6,933.9 bn worth of transactions were concluded on the secondary market for Treasury securities denominated in PLN, including:

a) treasury bonds transactions of PLN 6,386.2 bn (92.1%),

b) treasury bills transactions of PLN 547.7 bn (7.9%).

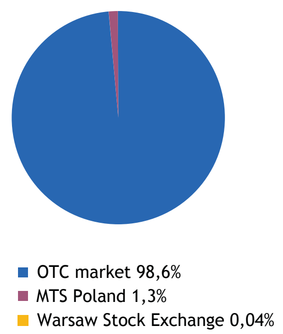
The value of Treasury bonds transactions fell by PLN 1,039.7 bn (14.0%) in comparison to 2007, while the value of Treasury bills transactions surged by PLN 389.5 bn (246.2%). The decrease in turnover of Treasury bonds denominated in PLN was mainly the result of the situation on the global financial markets (strong risk aversion and sale of assets with higher risk profile).

Chart 9.1
Value of transactions in Treasury securities denominated in PLN in 2001-2008



In 2008 the trading in Treasury bonds denominated in PLN was focused on the non-regulated OTC market (98.6%). Turnover on MTS Poland amounted to about 1.3%, while trading at the Warsaw Stock Exchange did not exceed 0.1%.

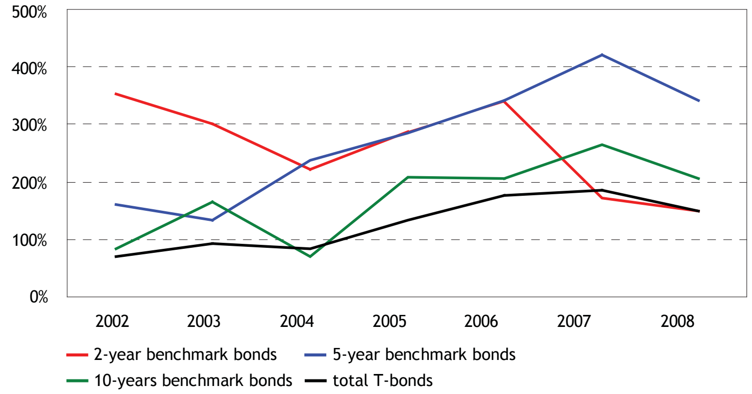
Chart 9.2
Domestic Treasury bonds turnover structure in 2008



Liquidity of the secondary market for domestic Treasury bonds

In 2008 the liquidity of the secondary market (calculated as the ratio of average value of transactions to average amount outstanding) decreased for all main benchmark T-bonds denominated in PLN. Liquidity ratios for 2-year, 5-year and 10-year bechmark bonds fell from 170.9% to 149.7%, from 419.7% to 342.4% and from 264.2% to 205.2% respectively. The liquidity ratio for the whole domestic secondary market decreased from 185.4% to 149.3%. The decrease of the ratios resulted from slump in transactions value and increase in the amount outstanding.

Chart 9.3
Secondary market liquidity ratio for domestic benchmark Treasury bonds



Yields of Treasury bonds issued on the domestic market

In 2001-2008 yields of Treasury bonds issued on the domestic market decreased significantly. The yields of 2-, 5- and 10-year T-bonds on the secondary market dropped by 10.20 pp, 7.24 pp and 5.40 pp respectively. This mainly resulted from:

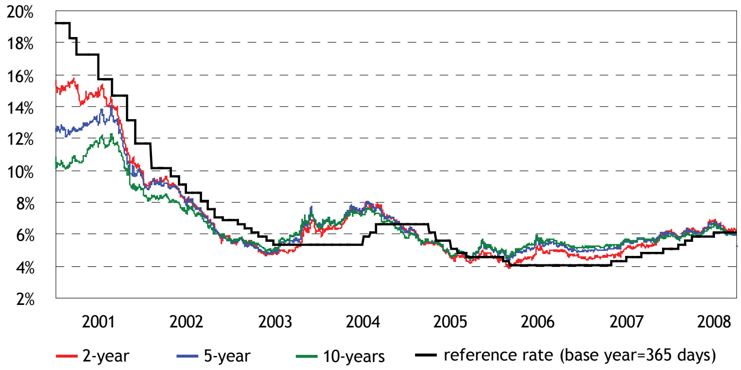
a) decrease of the NBP reference rate by 14.0 pp,

b) improvement of Polish macroeconomic indicators,

c) decrease of investment risk (rise in ratings),

d) entry of Poland into European Union and prospects of adopting the euro.

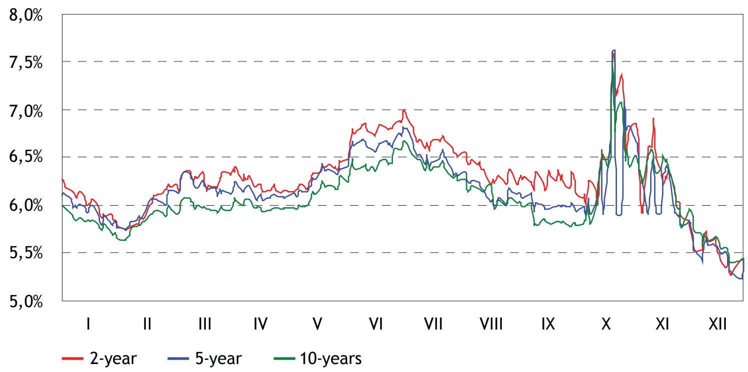
Chart 9.4
Yields of domestic Treasury bonds in 2001-2008



Decrease in yields of Treasury bonds issued on the domestic market in 2008

In 2008 yields of 2-, 5- and 10-year Treasury bonds fell by 75 bp, 65 bp and 48 bp respectively, to 5.44%, 5.41% and 5.43% respectively. In the first half of the year the yields were rising mainly due to NBP interest rates hikes and expectations for further tightening of the monetary policy. After the short period of falling yields (hopes for near end of monetary policy tightening cycle), in October the yields surged sharply (global financial markets turmoil, high risk aversion, liquidity crunch, foreign investors' outflow). However, during the last two months of 2008 the yields fell significantly which resulted from expectations of economic slowdown and NBP interest rates cuts.

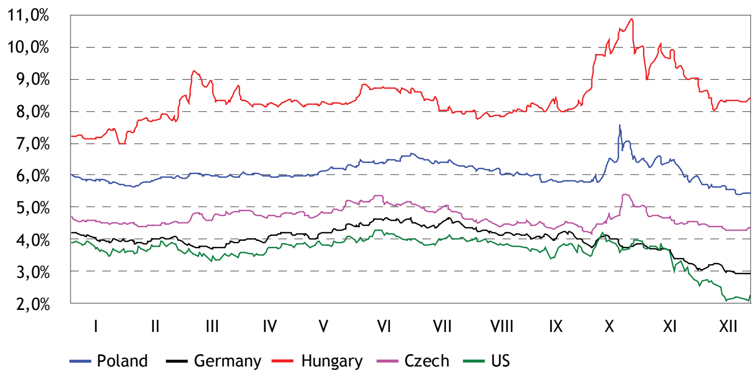
Chart 9.5
Yields of Treasury bonds issued on the domestic market in 2008



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

In 2008 the long-term bond yields in Poland, Germany, the US and the Czech Republic fell by 48 bp, 139 bp, 181 bp and 35 bp respectively, while the yields in Hungary rose by 118 bp. These changes resulted in broadening of spreads between the long-term bond yields in Poland and Germany from 157 bp to 249 bp and between Poland and the US from 187 bp to 321 bp at the end of 2008.

Chart 9.6
Yields of 10-year Treasury bonds in 2008



Yields of 10-year euro-denominated Treasury bonds

The trust crisis which expanded mostly in October 2008 contributed to a significant increase of yields and asset swap spreads of securities issued by many European issuers. Investors became more interested in high liquidity bond offerings launched by the highest rated issuers. Generally it resulted in closing a primary market for other issuers. In consequence it reflected also quotations on a secondary market.
The yield of 10-year euro-denominated bonds increased in the course of 2008 by 84 bp. During the same period, the yield of 10-year Bunds considered as the safest securities among European issuers dropped by 141 bp whereas the 10-year Greek GGB yield increased by 68 bp and the 10-year Italian BTP yield having been increasing during 2008 was finally quoted in December at a comparable level like in January.

Consequently, the difference between yields of long-term euro-denominated bonds issued by Poland and Germany widened to 268 bp (between Poland and Italy, the difference grew to 128 bp, and between Poland and Greece to 37 bp) at the end of 2008.
In asset swap terms, the spread of Polish Treasury securities increased in comparison with the asset swap spread of Bunds by 217 bp (the difference between both spreads at the end of 2008 was 263 bp). Similarly, the difference between asset swap spreads of Polish and Italian and Greek Treasury securities widened by 96 bp and 20 bp (to 121 bp and 43 bp), respectively.

Chart 9.7
Yields of 10-year euro-denominated Treasury bonds in 2008

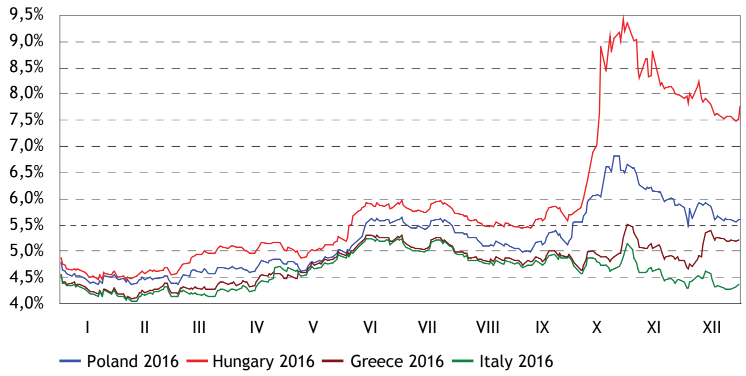
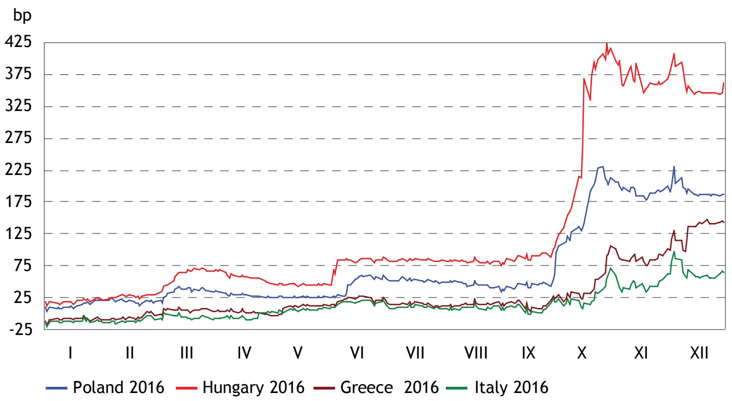


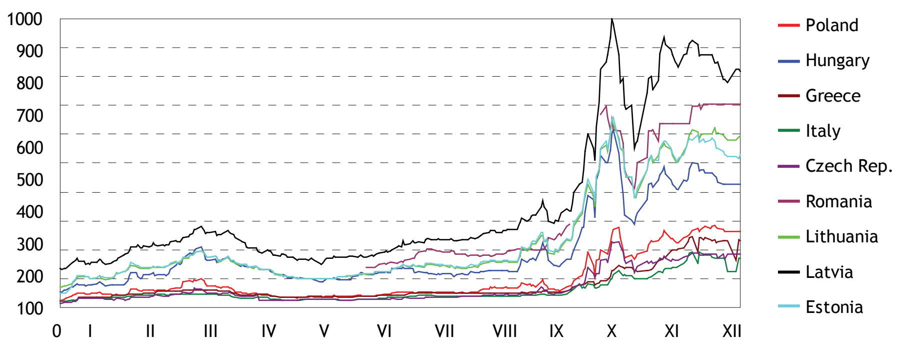
Chart 9.8
Mid asset swap spreads of 10-year euro-denominated Treasury bonds in 2008



CDS in 2008

Quotations of the Credit Default Swap (CDS), i.e. a tool providing the assurance if an issuer defaults on a particular kind of debt, rose significantly in the course of 2008. As a result of deepening market crisis, worsening the fiscal and macroeconomic situation and negative revisions of some countries' credit ratings the most significant increase of CDS quotations appeared in the last quarter of 2008. In line with market trends the Poland's CDS also increased but not as much as in a case of CEE countries exposed to a default risk. The 5-year Poland's CDS rose by 237 bp, whereas the Hungary's CDS rose by 371 bp, the Estonia's CDS by 481 bp, the Lithuania's CDS by 524 bp and the Latvia's CDS by 685 bp

Chart 9.9
5-year CDS in 2008



10
CHAPTER

INVESTOR RELATIONS POLICY

Publication of financing schedules of State budget borrowing requirements

The Minister of Finance regularly announces:

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

Meetings and consultations with investors

a) On domestic market

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

b) On international market – non-deal roadshows

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

Websites in Reuters, Bloomberg and Internet

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

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

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

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

11 CHAPTER

CONTACT DETAILS

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e-mail: sekretariat.dp@mf.gov.pl
http://www.mf.gov.pl
http://www.obligacjeskarbowe.pl
Reuters: PLMINFIN
Bloomberg: PLMF<GO>

Other contacts:

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Primary Dealers in 2009

1. Société Générale S.A. Oddział w Polsce
2. Bank Polska Kasa Opieki S.A.
3. BRE Bank S.A.
4. Powszechna Kasa Oszczędności Bank Polski S.A.
5. Bank Millennium S.A.
6. ING Bank Śląski S.A.
7. Bank Handlowy w Warszawie S.A.
8. Kredyt Bank S.A.
9. Barclays Bank plc.
10. HSBC Bank plc.
11. Deutsche Bank AG

APPENDIX 1 – RULES OF TAXATION ON TREASURY SECURITIES

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

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

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

a) natural persons with a place of residence in the country, legal persons with a registered seat in the country, as well as other entities, with a registered seat in the country, capable of assuming obligations and acquiring rights in their own name and on their own behalf; branch offices, representative offices and enterprises established by non-residents in the country are also residents,

b) Polish diplomatic missions, consular offices, other Polish representative offices and special missions entitled to diplomatic or consular immunities and privileges;

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

a) natural persons with a place of residence abroad, legal persons with a registered seat abroad, as well as other entities with a registered seat abroad, capable of assuming obligations and acquiring rights in their own name and on their own behalf; non-residents are also those branch offices, representative offices and enterprises located abroad which have been established by residents,

b) foreign diplomatic missions, consular offices, other foreign representative offices and special missions as well as international organisations entitled to diplomatic or consular immunities and privileges;

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

a) 26 July 1991 on Personal Income Tax (OJ of 2000 No 14, item 176 as amended),

b) 15 February 1992 on Corporate Income Tax (OJ of 2000 No 54, item 654 as amended).

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

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

a) within the territory of the Republic of Poland has centre of personal and economic interests (centre of vital interests);

b) is present within the territory of the Republic of Poland for a period longer than 183 days in fiscal year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Additionally the Minister of Finance, according to its Orders, decided to withhold the collection of income tax on income received by non residents from bonds issued on foreign markets in 1995-2007.

APPENDIX 2 - CHARTS DATA

Chart 2.1
NOMINAL GROSS DOMESTIC PRODUCT AND GROSS DOMESTIC PRODUCT GROWTH IN 2001-2008

	2001	2002	2003	2004	2005	2006	2007	2008
Nominal Gross Domestic Product, PLN bn	779.6	808.6	843.2	924.5	983.3	1060.2	1175.3	1271.7
Real Gross Domestic Product, % GDP	1.2%	1.4%	3.9%	5.3%	3.6%	6.2%	6.7%	4.9%

Chart 2.2
CPI INFLATION IN 2001-2008

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

Chart 2.4
GENERAL GOVERNMENT DEFICIT IN 2001-2008

	2001	2002	2003	2004	2005	2006	2007	2008
General government deficit. PLN bn	40.0	40.5	52.8	52.6	42.4	41.1	22.1	49.6
General government deficit to GDP ratio	5.1%	5.0%	6.3%	5.7%	4.3%	3.9%	1.9%	3.9%

Chart 2.5
EXPORTS AND IMPORTS IN 2001-2008 (ACCORDING TO NBP DATA)

	2001	2002	2003	2004	2005	2006	2007	2008
Exports. PLN bn	170.6	190.5	237.3	297.7	312.0	363.8	400.2	420.8
Exports to GDP ratio	21.9%	23.6%	28.1%	32.2%	31.7%	34.3%	34.1%	33.1%
Imports, PLN bn	201.9	220.1	259.5	318.4	321.0	385.4	446.8	479.4
Imports to GDP ratio	25.9%	27.2%	30.8%	34.4%	32.6%	36.4%	38.0%	37.7%

Chart 2.6
CURRENT ACCOUNT BALANCE IN 2001-2008

	2001	2002	2003	2004	2005	2006	2007	2008
Current account balance. PLN bn	-24.8	-22.5	-21.3	-37.4	-12.1	-28.9	-55.0	-69.5
Current account balance to GDP ratio	-3.1%	-2.8%	-2.5%	-4.0%	-1.2%	-2.7%	-4.7%	-5.5%

Chart 2.7
FOREIGN DIRECT INVESTMENTS IN 2001-2008

EUR bn	2001	2002	2003	2004	2005	2006	2007	2008
Foreign Direct Investments in Poland	6.4	4.4	4.1	10.2	8.3	15.7	16.7	11.0

Chart 2.8
OFFICIAL RESERVE ASSETS IN 2001-2008

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

Chart 2.9
USD/PLN. EUR/PLN AND EUR/USD RATES IN 2001-2008

as of the end of a year	2001	2002	2003	2004	2005	2006	2007	2008
USD/PLN	3.9863	3.8388	3.7405	2.9904	3.2613	2.9105	2.4350	2.9618
EUR/PLN	3.5219	4.0202	4.7170	4.0790	3.8598	3.8312	3.5820	4.1724
EUR/USD	0.8904	1.0496	1.2578	1.3559	1.1845	1.3202	1.4592	1.3982

yearly average	2001	2002	2003	2004	2005	2006	2007	2008
USD/PLN	4.0939	4.0795	3.8889	3.6540	3.2348	3.1025	2.7667	2.4061
EUR/PLN	3.6685	3.8557	4.3978	4.5340	4.0254	3.8951	3.7829	3.5129
EUR/USD	0.8959	0.9456	1.1315	1.2430	1.2459	1.2566	1.3705	1.4719

Chart 2.10
NET ASSETS OF PENSION FUNDS. INVESTMENT FUNDS AND INSURANCE COMPANIES IN 2001-2008

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008
Pension funds	19.4	31.6	44.8	62.6	86.1	116.6	140.0	138.3
Investment funds	12.1	22.8	33.2	37.5	61.3	98.8	134.0	73.7
Insurance companies	48.0	57.6	65.7	77.9	89.6	108.3	126.9	138.0
Total	79.5	112.0	143.7	178.0	237.0	323.6	401.0	350.0

Chart 3.3 i 3.4
GENERAL GOVERNMENT DEFICIT TO GDP RATIO AND GENERAL GOVERNMENT DEBT TO GDP RATIO IN 2001-2008

% GDP	2001	2002	2003	2004	2005	2006	2007	2008
General government deficit	5.1	5.0	6.3	5.7	4.3	3.8	1.9	3.9
General government debt	37.6	42.2	47.1	45.7	47.1	47.7	44.8	47.1

Chart 6.1
NET BORROWING REQUIREMENTS OF THE STATE BUDGET IN 2001-2008

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008
State budget deficit	32.4	39.4	37.0	41.4	28.4	25.1	16.0	24.3
Transfer of funds to Open Pension Funds	0.0	0.0	0.0	10.6	12.6	14.9	16.2	19.9
Net privatisation	-6.5	-2.0	-3.0	-7.4	-2.8	-0.4	-1.4	-1.0
UE funds*	0.0	0.0	0.0	-2.1	1.9	4.2	1.2	-2.4
Other**	1.0	1.9	7.00	-2.9	2.5	1.2	2.0	-1.7
Net borrowing requirements total	26.9	39.3	41.0	39.7	42.5	44.9	33.9	39.2

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

Chart 6.2
MONTHLY NET BORROWING REQUIREMENTS OF THE STATE BUDGET IN 2008

PLN bn	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
State budget deficit/surplus	-4.4	4.4	-3.1	2.5	2.5	1.6	-0.8	-2.4	3.9	7.6	3.2	9.5
Transfer of funds to Open Pension Funds	1.2	1.2	2.5	0.8	1.8	2.1	1.3	1.4	2.6	0.7	1.5	2.8
Net privatisation	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.3	-0.1	0.0	0.0	-0.4
EU funds*	0.5	-0.1	-0.2	-0.3	0.9	0.2	-1.0	-0.4	-0.2	-2.9	-1.6	2.6
Other**	-0.3	-0.3	0.0	-0.4	-0.3	0.2	0.0	0.0	0.3	-0.3	-0.3	-0.1
Net borrowing requirements total	-3.1	5.2	-0.8	2.6	4.8	4.1	-0.6	-1.5	6.5	4.7	2.9	14.5

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

Chart 6.3
GROSS BORROWING REQUIREMENTS OF STATE BUDGET IN 2001-2008

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008
Net borrowing requirements	26.9	39.3	41.0	39.7	42.5	44.9	33.9	39.2
Repayment of domestic debt	39.5	63.2	74.0	88.0	81.5	76.7	67.0	72.4
Repayment of foreign debt	63.2	7.5	12.5	10.0	7.7	9.1	7.1	7.4
Gross borrowing requirements total	74.0	110.0	127.5	137.8	131.7	130.7	108.1	119.0

Chart 6.4
MONTHLY GROSS BORROWING REQUIREMENTS OF THE STATE BUDGET IN 2008

PLN bn	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Net borrowing requirements	-3.1	5.2	-0.8	2.6	4.8	4.1	-0.6	-1.5	6.5	4.7	2.9	14.5
Repayment of domestic debt	9.2	4.7	5.1	11.4	-0.5	9.4	1.6	9.3	7.2	4.6	3.2	7.2
Repayment of foreign debt	0.0	0.0	3.1	0.0	0.2	0.0	0.0	0.0	3.5	0.0	0.2	0.0
Gross borrowing requirements total	6.1	10.0	7.4	14.0	4.6	13.6	1.0	7.8	17.2	9.3	6.3	21.8

Chart 6.5
FINANCING OF NET BORROWING REQUIREMENTS OF THE STATE BUDGET IN 2001-2008

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

Wykres 6.6
FINANCING OF GROSS BORROWING REQUIREMENTS OF THE STATE BUDGET IN 2001-2008

PLN bn	2001	2002	2003	2004	2005	2006	2007	2008
Domestic financing	77.1	99.5	108.3	124.9	108.3	117.1	95.8	108.3
Foreign financing	10.5	10.5	19.2	12.8	23.5	13.6	12.4	10.6
Total	87.6	110.0	127.5	137.8	131.7	130.7	108.2	119.0

CHart 6.7
CHANGE OF STATE TREASURY DEBT (ISSUED TREASURY SECURITIES) IN 2001-2008

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

Chart 6.9
SALE OF TREASURY SECURITIES ON DOMESTIC AND FOREIGN MARKETS IN 2001-2008

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

* excluding liquidity bills

Chart 6.15
LIABILITIES TO PARIS CLUB (EXCLUDING ECOFUND) IN 1991-2008 (RECALCULATED TO USD AS OF THE END OF THE YEAR)

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

Chart 6.16
BRADY BONDS IN 1994-2008

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

Chart 7.1
PUBLIC DEBT AND GENERAL GOVERNMENT DEBT IN 2001-2008

	2001	2002	2003	2004	2005	2006	2007	2008
Public debt. PLN bn	302.1	352.4	408.3	431.4	466.6	506.3	527.4	597.8
Public debt to GDP ratio	38.8%	43.6%	48.4%	46.7%	47.5%	47.8%	45.2%	47.0%
General government debt, PLN bn	292.8	340.9	396.7	422.4	462.7	505.1	527.6	598.4
General government debt to GDP ratio	37.6%	42.2%	47.1%	45.7%	47.1%	47.7%	45.2%	47.1%

Chart 7.3
STRUCTURE OF STATE TREASURY DEBT ACCORDING TO THE PLACE OF ISSUE CRITERION IN 2001-2008

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

Chart 7.5
STRUCTURE OF DOMESTIC STATE TREASURY DEBT IN TREASURY SERURITIES IN 2001-2008

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

Chart 7.6
STRUCTURE OF FOREIGN STATE TREASURY DEBT IN 2001-2008

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

Chart 7.7
STRUCTURE OF DOMESTIC STATE TREASURY DEBT BY HOLDERS IN 2001-2008

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

Chart 7.8
DOMESTIC NON-BANKING INVESTORS PORTFOLIO OF DOMESTIC TREASURY BONDS IN 2002-2008

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

Chart 7.11
STATE TREASURY DEBT SERVICE COSTS IN 2001-2008

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

Chart 8.1
AVERAGE MATURITY OF STATE TREASURY DEBT IN 2001-2008

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

Chart 8.3
RESIDUAL MATURITY OF DOMESTIC TREASURY SECURITIES IN 2001-2008

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

Chart 8.4
CURRENCY STRUCTURE OF STATE TREASURY DEBT IN 2001-2008

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

Chart 8.6
DURATION OF STATE TREASURY DEBT IN 2001-2008

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

Chart 8.7
ATR (AVERAGE TIME TO REFIXING) OF STATE TREASURY DEBT IN 2001-2008

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

Chart 8.8

AVERAGE LEVEL OF PLN AND FOREIGN CURRENCY FUNDS IN STATE BUDGET ACCOUNTS IN 2008

PLN bn	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Average PLN funds	9.1	8.4	4.0	4.4	6.3	7.6	4.3	8.0	8.4	5.5	7.4	4.8
Average foreign currency funds	0.5	0.5	0.7	0.3	0.7	2.9	5.7	4.9	3.9	0.3	0.1	0.0
Total	9.6	8.9	4.7	4.7	7.0	10.5	10.0	12.9	12.3	5.7	7.5	4.8

Chart 9.1

VALUE OF TRANSACTIONS IN DOMESTIC TREASURY SECURITIES IN 2001-2008

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

Chart 9.3

SECONDARY MARKET LIQUIDITY RATIO FOR DOMESTIC BENCHMARK TREASURY BONDS IN 2002-2008*

	2002	2003	2004	2005	2006	2007	2008
2-year benchmark bond	353.59%	300.64%	221.53%	286.7%	339.1%	170.9%	149.7%
5-year benchmark bond	160.50%	134.01%	237.65%	285.0%	341.6%	419.7%	342.4%
10-year benchmark bond	84.75%	164.96%	70.98%	208.5%	206.1%	264.2%	205.2%
Total T-bonds	70.11%	93.77%	83.75%	134.0%	176.2%	185.4%	149.3%

* ratio of average value of transactions to average amount outstanding