

PROSPECTUS SUPPLEMENT
(To Prospectus Dated September 29, 2005)



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

\$1,000,000,000 5.000 per cent. Notes due 2015
\$100,000,000 5.408 per cent. Notes due 2035

The 5.000 per cent. Notes due 2015 (the “2015 Notes”) and the 5.408 per cent. Notes due 2035 (the “2035 Notes”, and together with the 2015 Notes, the “Notes”) will pay interest on April 19 and October 19 of each year, beginning on April 19, 2006. The 2015 Notes will mature on October 19, 2015, and the 2035 Notes will mature on October 19, 2035. The Notes are not redeemable prior to maturity. Interest on the Notes will accrue from October 19, 2005 to the date of delivery.

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

The Notes contain provisions regarding future modifications to their terms that differ from those applicable to the Republic of Poland’s outstanding securities which have been previously registered with the Securities and Exchange Commission other than the 5¼% Notes due 2014 issued in October 2003. These provisions are described on pages 52 to 54 of the accompanying Prospectus. Under these provisions, Poland may amend payment and other key provisions of the Notes, including the principal amount and interest rate, with the approval of less than all the holders of the Notes.

Application has been made to list and trade the Notes on the regulated market of the Luxembourg Stock Exchange. In this Prospectus Supplement, references to “regulated market” shall mean a regulated market for the purposes of European Parliament and Council Directive 2004/39/EC.

	Per 2015 Note	Total	Per 2035 Note	Total
Public Offering Price.....	99.899 per cent.	\$ 998,990,000	100.000 per cent.	\$ 100,000,000
Underwriting Discount	0.100 per cent.	\$ 1,000,000	0.150 per cent.	\$ 150,000
Proceeds to the State Treasury	99.799 per cent.	\$ 997,990,000	99.850 per cent.	\$ 99,850,000

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters are offering the Notes subject to various conditions. The underwriters expect to deliver the Notes to purchasers on or about October 19, 2005, through the book-entry facilities of The Depository Trust Company, the Euroclear Operator or Clearstream, Luxembourg.

LEHMAN BROTHERS

BANK PEKAO S.A.

October 12, 2005

JPMORGAN

DEPFA BANK

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

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

The distribution of this Prospectus Supplement and the accompanying Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. In particular, offers and sales of the Notes are subject to restrictions in the United Kingdom, details of which are set out in “Underwriting” on page S-13.

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

This Prospectus Supplement and the accompanying Prospectus will be available free of charge at the principal office of Dexia Banque Internationale à Luxembourg, société anonyme, the listing agent.

The State Treasury accepts responsibility for the information contained in this Prospectus Supplement and in the accompanying Prospectus. To the knowledge and belief of the State Treasury (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus Supplement and in the accompanying Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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SUMMARY OF THE OFFERING

Issuer	The State Treasury of the Republic of Poland, represented by the Minister of Finance.
Securities Offered	U.S.\$1,000,000,000 principal amount of 5.000 per cent. Notes due 2015. U.S.\$100,000,000 principal amount of 5.408 per cent. Notes due 2035.
Maturity Date.....	October 19, 2015 for the 2015 Notes and October 19, 2035 for the 2035 Notes.
Redemption Basis	At par on maturity.
Ranking.....	The Notes will rank equally in right of payment with all other unsubordinated obligations of the Republic of Poland and the full faith and credit of the Republic of Poland will be pledged for the due and punctual payment of all principal and interest on the Notes.
Interest Rate.....	The 2015 Notes will bear interest at the rate of 5.000 per cent. per annum and the 2035 Notes will bear interest at the rate of 5.408 per cent. per annum.
Interest Payment Dates.....	April 19 and October 19 of each year commencing April 19, 2006 for the period commencing from and including October 19, 2005, as described herein.
Markets	The Notes are offered for sale in those jurisdictions both within and outside of the United States where it is legal to make such offers. See "Underwriting".
Further Issues	The State Treasury reserves the right from time to time without the consent of the holders of the Notes to issue further securities having identical terms and conditions (except for the issue date and public offering price), so that such securities may be consolidated with, form a single series with and increase the aggregate principal amount of, the Notes.
Listing.....	Application has been made to list the Notes on the regulated market of the Luxembourg Stock Exchange.
Form and Settlement.....	The Notes will be issued in the form of one or more global notes, or the Global Notes, in fully registered form, without coupons, which will be deposited on or about October 19, 2005, the Closing Date, with Citibank, N.A., London as custodian for, and registered in the name of Cede & Co., as nominee of, the Depository Trust Company, or DTC. Except as described in this Prospectus Supplement, beneficial interests in the Global Notes will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Global Notes either through DTC in the United States or outside of the United States through Euroclear Bank S.A./N.V. as operator of the Euroclear System, and Clearstream Banking, société anonyme, if they are participants in such systems, or indirectly through organizations that are participants in such systems.

Except as described in this Prospectus Supplement, owners of beneficial interests in the Global Notes will not be entitled to have the Notes registered in their names, will not receive or be entitled to

receive physical delivery of the Notes in definitive form and will not be considered holders of the Notes under the Notes or the fiscal agency agreement governing the Notes. See “Description of the Notes—Form, Denomination and Registration”. It is expected that delivery of the Notes will be made, against payment therefor in same-day funds, on or about October 19, 2005.

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

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

Collective Action ClausesThe Notes will contain provisions regarding voting on amendments, modifications and waivers. These provisions are commonly referred to as collective action clauses and are described more fully on pages 52 to 54 of the accompanying Prospectus. Under these provisions, the State Treasury may amend certain key terms of the Notes, including the maturity date, interest rate and other payment terms, with the consent of the holders of 75% of the aggregate principal amount of the outstanding Notes. These provisions differ from those applicable to the Republic of Poland’s outstanding securities which have been previously registered with the U.S. Securities and Exchange Commission, other than the 5¼% Notes due 2014 issued in October 2003.

USE OF PROCEEDS

The net proceeds from the sale of the Notes will be used to finance Poland's State budget borrowing requirements. The State Treasury estimates the net proceeds will be approximately \$1,097,840,000.

RECENT DEVELOPMENTS

Presidential elections were held on October 9, 2005. Donald Tusk of the Civic Platform party (*Platforma Obywatelska*) received the most votes in the first round of the presidential elections, having received 36.33% of the vote. Lech Kaczynski of the Law and Justice party (*Prawo i Sprawiedliwość*) received the second most votes with 33.10% of the vote. Since the Polish constitution requires a presidential candidate to win a majority of votes to become president, Mr. Tusk will face Mr. Kaczynski in the second round of presidential elections scheduled for October 23, 2005. For information on the results of Poland's recent parliamentary elections, see "The Republic of Poland - Constitution, Government and Political Parties - Current Government and Politics".

DESCRIPTION OF THE NOTES

The Notes are issued under the Fiscal Agency Agreement, known as the Agency Agreement, dated as of October 19, 2005, among the State Treasury, Citibank N.A., London, known as the Fiscal Agent, and Dexia Banque Internationale à Luxembourg, société anonyme, known as the Luxembourg Agent, and, together with the Fiscal Agent, known as the Agents, the form of which has been filed as an exhibit to the Registration Statement under Schedule B declared effective on October 5, 2005.

The following description briefly summarizes some of the provisions of the Notes and the Agency Agreement. You should not assume this summary is complete. You should read the Registration Statement, including the exhibits, and in particular "Description of the Securities" in the attached Prospectus.

General

The 2015 Notes and the 2035 Notes:

- Mature on October 19, 2015 and October 19, 2035, respectively.
- Bear interest at a rate of 5.000 per cent. per annum and 5.408 per cent. per annum, respectively.
- Are to be issued pursuant to the Agency Agreement.
- Will be issued without coupons in denominations of \$1,000 and integral multiples thereof.
- Will rank at least equally in right of payment with all other unsecured and unsubordinated payment obligations of Poland, except for such obligations as may be preferred by mandatory provisions of applicable law. Poland will give no preference to one obligation over another on the basis of priority of issue date or currency of payment.
- Will not be redeemable prior to maturity at the option of the State Treasury or of the registered holders thereof.
- Will not be subject to any sinking fund provided by the State Treasury for the amortization of the Notes.

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

Interest:

- Will be payable on the dates set forth on the cover of this Prospectus Supplement in lawful money of the United States of America to the registered holders of the Notes at the close of business on April 19 and October 19, as the case may be, prior to the payment date, each a Record Date.
- Will be calculated on the basis of a 360-day year of twelve 30-day months.
- Will accrue from October 19, 2005.
- Payments begin on April 19, 2006.

Yield:

- 5.013 per cent. per annum and 5.408 per cent. per annum on the 2015 Notes and the 2035 Notes, respectively, calculated based on the issue price on the issue date. These are not an indication of future yield for any period.

Fiscal Agent

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

Citibank N.A., London, is the Fiscal Agent of the Notes under the Agency Agreement.

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

Form and Registration

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

The Clearing Systems

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

The Euroclear Operator advises that it was created in 1968 to hold securities for its participants, or Euroclear Participants, and to clear and settle transactions between Euroclear Participants through simultaneous

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

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

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

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

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

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

Definitive Notes

Individual certificates in respect of the Notes will not be issued in exchange for the Global Notes, except in very limited circumstances. If DTC or each of the Euroclear Operator and Clearstream, Luxembourg notifies the State Treasury that it is unwilling or unable to continue as a clearing system in connection with the Global Notes or, in the case of DTC only, DTC ceases to be a clearing agency registered under the Exchange Act, and in each case a successor clearing system is not appointed by the State Treasury within 90 days after receiving such

notice from the Euroclear Operator, Clearstream, Luxembourg or DTC or on becoming aware that DTC is no longer so registered, the State Treasury will issue or cause to be issued individual certificates in registered form on registration of transfer of, or in exchange for, book-entry interests in the Notes represented by such Global Notes upon delivery or such Global Notes for cancellation.

If such certificates are issued and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange require, the Luxembourg Agent will act as paying agent and transfer agent in Luxembourg and the holders of the Notes will be able to receive payments thereon and effect transfers thereof at the offices of the Luxembourg Agent, 69 route d'Esch, L-2953 Luxembourg. For as long as the Notes are listed on the Luxembourg Stock Exchange and such stock exchange so requires, the State Treasury will publish any changes as to the identity or location of the Luxembourg Agent in a leading daily newspaper in Luxembourg, which is expected to be the *d'Wort*, or on the website of the Luxembourg Stock Exchange.

Payments on the Global Notes

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

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

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

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

Notices

As long as any Notes are listed and admitted to trading on the regulated market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, all notices regarding the Notes shall be published in a leading newspaper of general circulation in Luxembourg or on the internet site of the Luxembourg Stock Exchange at www.bourse.lu.

Other Terms

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

TAXATION

Republic of Poland

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

European Union Directive on the Taxation of Savings Income

The European Union has adopted a Directive (2003/48/EC) regarding the taxation of savings income. From 1 July 2005 Member States are required to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person to an individual resident in another Member State except that Austria, Belgium and Luxembourg instead impose a withholding system for a transitional period (unless during such period they elect otherwise). A number of non-EU countries and territories (referred to in that Directive) have adopted equivalent measures from the same date.

United States Federal Income Taxation

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

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

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

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

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

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

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

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

Interest

If you are a U.S. Holder, interest paid to you on a Note, including any additional amounts, will be includible in your gross income as ordinary interest income in accordance with your usual method of tax accounting. In addition, interest on the Notes will be treated as foreign source income for your U.S. federal income tax purposes. For U.S. foreign tax credit limitation purposes, interest on the Notes generally will constitute passive income, or, in the case of certain U.S. Holders, financial services income. U.S. Holders should note, however, that recently enacted legislation eliminates the “financial services income” category for taxable years beginning after December 31, 2006. Under the recently enacted legislation, the foreign tax credit limitation categories are limited to “passive category income” and “general category income.”

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

Sale, Exchange or Retirement

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

Subject to the discussion below under the caption “U.S. Backup Withholding Tax and Information Reporting,” if you are a Non-U.S. Holder, any gain realized by you upon the sale, exchange or retirement of a Note, other than accrued but unpaid interest which will be subject to the rules discussed above under the caption “Interest”, generally will not be subject to U.S. federal income tax, unless

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

U.S. Backup Withholding Tax and Information Reporting

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

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

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

UNDERWRITING

Under the terms and subject to the conditions stated in the Underwriting Agreement dated the date of this Prospectus Supplement each Underwriter named below has severally agreed to purchase, and the State Treasury has agreed to sell to each Underwriter, the principal amount of Notes set forth opposite the Underwriter's name.

Underwriter	Principal Amount of 2015 Notes	Principal Amount of 2035 Notes
Lehman Brothers Inc.	\$ 490,000,000	\$ 50,000,000
J.P. Morgan Securities Inc.	\$ 490,000,000	\$ 50,000,000
Bank Polska Kasa Opieki Spółka Akcyjna.....	\$ 10,000,000	—
Depfa Bank plc	\$ 10,000,000	—
Total	\$ 1,000,000,000	\$ 100,000,000

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

The Underwriters initially propose to offer some of the Notes directly to the public at the public offering price set forth on the cover page of this Prospectus Supplement and may offer some of the Notes to certain dealers at the public offering price. After the initial offering of the Notes to the public, the public offering price and other selling terms may from time to time be varied by the Underwriters.

Application has been made to list and trade the Notes on the regulated market of the Luxembourg Stock Exchange. The State Treasury cannot guarantee that the application to the Luxembourg Stock Exchange will be approved and settlement of the Notes is not conditioned on obtaining the listing. The State Treasury has been advised by the Underwriters that they intend to make a market in the Notes, as permitted by applicable laws and regulations. The Underwriters, however, are not obligated to make a market in the Notes and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes.

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

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

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

The State Treasury estimates that its share of the total expenses of the offering of the Notes, excluding underwriting discounts and commissions, will be approximately \$200,000.

In order to facilitate the offering of the Notes, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Underwriters may over-allot in connection with any offering of the Notes, creating a short position in the Notes for their own accounts, provided that the aggregate principal amount of the Notes allotted does not exceed 105 percent of the aggregate principal amount of the Notes, or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. In addition, to cover over-allotments or to stabilize the price of the Notes, the Underwriters may bid for, and purchase, the Notes in the open market. Finally, in any offering of the Notes through a syndicate of underwriters, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the Notes in the offering if the syndicate repurchases previously distributed Notes in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that would exist in the open market in the absence of these transactions. The Underwriters are not required to engage in these transactions, and if

commenced, the Underwriters may discontinue them at any time. However, there is no assurance that the Underwriters or persons acting on behalf of the Underwriters will take any stabilization action. Stabilization action may begin on or after the date on which adequate public disclosure of the final terms of the offer is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of allotment of the Notes.

In the ordinary course of their respective businesses, the Underwriters and their affiliates have in the past and may in the future engage in investment banking and commercial banking transactions with Poland. Citibank N.A., London, is the Fiscal Agent of the Notes under the Agency Agreement.

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

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

GENERAL INFORMATION

Listing and Clearance

Application has been made to list and trade the Notes on the regulated market of the Luxembourg Stock Exchange. Copies of this Prospectus Supplement, the accompanying Prospectus and the Agency Agreement, so long as any of the Notes are outstanding, will be made available free of charge at the main office of the listing agent. So long as the Notes remain in global form, the listing agent will act as intermediary between the Luxembourg Stock Exchange and Poland and the holders of the Notes.

The 2015 Notes have been assigned Common Code No. 023305933, International Security Identification No. (ISIN) US731011AP73 and CUSIP No. 1PL392796.

The 2035 Notes have been assigned Common Code No. 023304929, International Security Identification No. (ISIN) US731011AQ56 and CUSIP No. 1PL392812.

Authorization

The terms of the Notes are to be approved by the Minister of Finance of Poland, acting on behalf of the State Treasury of the Republic of Poland, pursuant to the order of the Minister of Finance of September 7, 1999 and the Letters of Issue No. 48/2005 and No. 49/2005 for the 2015 Notes and 2035 Notes, respectively, to be dated October 19, 2005.

Paying Agent

Dexia Banque Internationale à Luxembourg, société anonyme has been appointed by the State Treasury as the Luxembourg Agent with respect to the Notes.

The Notes will be issued under the Fiscal Agency Agreement, known as the Agency Agreement, dated as of October 19, 2005, among the State Treasury, Citibank N.A., London, known as the Fiscal Agent, and Dexia Banque Internationale à Luxembourg, société anonyme, known as the Luxembourg Agent, and, together with the Fiscal Agent, known as the Agents, the form of which has been filed as an exhibit to the Registration Statement under Schedule B declared effective on October 5, 2005.

Documents

Copies of the following documents are available for inspection at the specified office of Dexia Banque Internationale à Luxembourg, société anonyme:

- an English translation of the Republic of Poland's Budget Act 2005; and
- the Agency Agreement executed by the State Treasury, Citibank N.A., London and Dexia Banque Internationale à Luxembourg, société anonyme.

Litigation

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

Material Adverse Change

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

Freely Transferable

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

LEGAL MATTERS

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

OFFICIAL STATEMENTS AND DOCUMENTS

Information included herein which is identified as being derived from a publication of, or supplied by Poland or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Poland. All other information herein other than included under the caption “Underwriting” herein, is included as a public official statement made on the authority of Mirosław Gronicki, Minister of Finance, Ministry of Finance, Republic of Poland.

PROSPECTUS



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

Debt Securities

The State Treasury of the Republic of Poland may offer up to \$4,600,000,000 of its debt securities for sale from time to time based on information contained in this prospectus and various prospectus supplements. The securities will be unconditional, unsecured and general obligations of the Republic of Poland. The securities will rank equally in right of payment with all other unsecured and unsubordinated obligations of the Republic of Poland and will be backed by the full faith and credit of the Republic of Poland.

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

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

September 29, 2005

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This prospectus is part of a registration statement that the State Treasury of the Republic of Poland, known as the State Treasury, filed with the Securities and Exchange Commission, or the SEC, under a “shelf” registration process. Under this shelf process, the State Treasury may sell, from time to time, any of the debt securities described in this prospectus in one or more offerings up to a total U.S. dollar equivalent amount of \$4,600,000,000. This prospectus provides you with basic information about the Republic of Poland, or Poland, and a general description of the debt securities the State Treasury may offer. Each time the State Treasury sells debt securities under this shelf process, it will provide a prospectus supplement that will contain updated information about Poland, if necessary, and specific information about the terms of that offering. Before you invest, you should read both this prospectus and any prospectus supplement. References herein to the prospectus are also to the relevant prospectus supplement.

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

All references to “dollars” or “\$” in this prospectus are to United States dollars, all references to “złoty” or “PLN” are to Polish złoty, all references to “€” are to the euro, the currency of the adopting member states of the European Union, or the EU. All currency conversions in this prospectus are at the National Bank of Poland’s official middle rate of exchange on a particular date or calculated at the average of the middle rates of exchange for a particular period. For your convenience, the State Treasury has converted certain amounts from złoty into dollars at the average exchange rate for each relevant period or the exchange rate in effect on a given date. The following table sets forth the złoty : dollar exchange rates for the last day of the periods indicated and the average exchange rates during the periods indicated.

	2000	2001	2002	2003	2004
			<i>(PLN per \$)</i>		
Year end	4.1432	3.9863	3.8388	3.7405	2.9904
Average for year	4.3464	4.0939	4.0795	3.8889	3.6540

Source: National Bank of Poland

For information on the convertibility of the złoty, see “Monetary and Financial System—Exchange Rate Policy”.

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

Unless otherwise stated, all references to increases or decreases in gross domestic product, or GDP, are to increases or decreases in real GDP, that is, to increases or decreases in nominal GDP adjusted to reflect the rate of inflation over the relevant period. References to the inflation rate are, unless otherwise stated, to the annual percentage change calculated by comparing the consumer price index, or CPI, of a specific month against the index for the same month in the immediately preceding year.

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

USE OF PROCEEDS

Unless otherwise indicated in the relevant prospectus supplement, the net proceeds from the sale of securities will be used to finance Poland's State budget borrowing requirements. See "Public Finance".



THE REPUBLIC OF POLAND

Overview

Poland is one of the largest countries in Central Europe with a total territory (land area, internal waters and territorial sea) of 322,577 square kilometers. Situated on the Baltic Sea, Poland has a coastline of 788 kilometers and is bordered by Germany, the Czech Republic, the Slovak Republic, Ukraine, Belarus, Lithuania and the Russian Federation. Poland's terrain is comprised largely of lowlands, traversed by its main river, the Vistula, with lakes, rivers and marshes throughout the northern and central regions and several mountain ranges, including the Tatras, in the south. Poland has approximately 90,000 square kilometers of forest (approximately 27.9 percent of Poland's total land area) and 141,000 square kilometers of arable land (approximately 43.7 percent of Poland's total territory).

Poland is also one of the most populated countries in Central Europe having a population of approximately 38.2 million. Population density is estimated at approximately 122 persons per square kilometer, with approximately 62 percent of the population living in urban areas. Warsaw, the capital of Poland and its largest city, has an estimated population of 1.7 million. Eighteen other urban centers each have populations in excess of 200,000.

Poland is an ethnically and religiously homogeneous country. Approximately 98 percent of the population are ethnically Polish and speak Polish as a first language. Germans constitute the largest minority group, numbering approximately 152,000 persons and concentrated principally in Silesia. Smaller ethnic and national groups have cultural ties to such neighboring states as Ukraine, Belarus and Lithuania. It is estimated that approximately 90 percent of the population is Roman Catholic.

Constitution, Government and Political Parties

Background

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

For the next 45 years, the Communist Party dominated the Government. Government policy during this period was guided by a program of nationalization of industry, expropriation of large landholdings, central planning of the economy and the suppression of political dissent. In 1952, Poland adopted a constitution that institutionalized a Stalinist system of de facto one-party rule by the Communist Party. Political and economic crises occurred in the 1950s, 1960s and 1970s.

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

In April 1989, the communist Government and the democratic opposition led by Solidarity agreed to a power sharing arrangement and competitive elections to a bicameral Parliament. In June 1989, the overwhelming victory of Solidarity candidates in elections for available seats in the Parliament signaled the end of the political monopoly of the Communist Party. In May 1990, local elections were held in which Solidarity achieved a similar victory. In November 1990, the first free national election for President in the post World War II era resulted in the election of Lech Wałęsa, who had played an historic role in the formation and leadership of Solidarity. In October 1991, the first free election for the entire Parliament was held. The last Russian troops, units of which had been stationed in Poland since the end of World War II, were withdrawn in 1993.

The Constitution and Political System

Under the Constitution adopted in 1997, a bicameral Parliament (comprising an upper chamber, known as the Senate, and a lower chamber, known as the Sejm) is elected for a four-year term in general elections according to a system of proportional representation. The Sejm consists of 460 members and the Senate consists of 100

members. Generally, electoral rules for the Sejm stipulate that a minimum five percent share of the popular vote must be gained by a party (eight percent for party coalitions) to gain seats. All legislation must be approved by the Sejm and the Senate and signed by the President. The Sejm also has the power to overrule the Senate by a absolute majority vote and to overrule the President by a 60 percent majority vote achieved in the presence of at least half of the total number of deputies. The President (with the approval of the Senate) or the Sejm may call a referendum on matters of extreme importance to the country.

Under the Constitution, fascist, communist and racist political parties are banned. The Constitution also confirms the independence of the National Bank of Poland, or the NBP, Poland's central bank, which is charged with the responsibility of maintaining the value of the national currency, and grants to the NBP the exclusive power of setting and implementing monetary policy. Under the Constitution, the Government is prohibited from incurring loans or issuing guarantees or sureties if, as a result, public debt would exceed 60 percent of GDP. There are also certain budget-related requirements that apply if public debt exceeds 50 percent of GDP. See "Public Debt—Debt Management". In addition, under the Constitution, since 1999 a budget act may not provide for financing of the budget deficit by the NBP. These limitations are intended to safeguard the fiscal health of the economy.

Under the Constitution, the President is elected by direct vote for a five-year term and may be re-elected only once. Presidential powers include the right to initiate legislation, to veto certain legislative acts and, in certain instances, to dissolve Parliament. The President's power to dissolve Parliament is limited to instances where the Sejm fails to present the annual budget act for the President's signature within four months of receipt thereof from the Government or the Sejm fails to pass a vote of confidence in the Government following attempts to nominate a government in the manner provided in the Constitution. The President commands the armed forces, represents the State in its foreign relations, appoints the Supreme Court and nominates the Prime Minister and the president of the NBP, subject to approval by the Parliament. The current President, Aleksander Kwasniewski, was elected in November 1995 and re-elected in 2000. The next Presidential election will take place on October 9, 2005.

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

Poland is divided into 16 provinces, known as voivodships. Each voivodship is represented by a provincial governor, or voivode, appointed by the Government, who represents the Government at the voivodship level. There are also three levels of independent territorial self-government: voivodships, counties and gminas. There are 16 voivodship at the top level (where self-government authorities are located alongside government-appointed voivods), 314 counties, known as poviats, at the intermediate level and 2,478 basic units of locally elected government known as gminas (including 66 cities with poviat status). Self-government authorities are elected by popular vote. All of the self-government entities are financially autonomous and independent of each other and the Government. The Prime Minister may limit their activities only to the extent that their actions conflict with national law. The self-government entities are financed by a share of national taxes and by their own revenues, such as local taxes and fees. The gminas are entitled under the Constitution to exercise such powers that are not designated as powers of other public authorities.

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

Current Government and Politics

The most recent Parliamentary elections were held on September 25, 2005. Following these elections, the Law and Justice (PiS) party and the Civic Platform (PO) party, both right-of-center parties, received 26.99% and 24.14% of the vote, respectively. PiS has declared their intention to form a coalition government with PO, however, the process of coalition building will likely not be completed before the results of presidential elections in late October 2005. PiS and PO respectively won 33.7 and 28.9 percent of the seats in the Sejm and 49.0 and 34.0 percent of seats in the Senate. PiS is a conservative party which favors tax breaks and greater investment in welfare services. PO is a party of mainly market-oriented, liberal groups of businessmen and other professionals.

The main opposition parties are the populist Samoobrona "Self-Defense" party and the left-wing Democratic Left Alliance (SLD). They respectively won 12.2 and 12.0 percent of the seats in the Sejm. Eurosceptic groups are represented in the Polish Families League (LPR) and the Polish Peasants' Party (PSL).

The following table shows a breakdown of the distribution of seats in the Sejm (by party) and the Senate (by caucus) as of September 28, 2005:

Sejm	Seats
Law and Justice (PiS)	155
Civic Platform (PO)	133
Self-Defense (Samoobrona)	56
Democratic Left Alliance (SLD)	55
Polish Families League (LPR)	34
Polish Peasants' Party (PSL)	25
German Minority	2
Total	460

Senate	Seats
Law and Justice (PiS)	49
Civic Platform (PO)	34
Polish Families League (LPR)	7
Self Defense (Samoobrona)	3
Polish Peasants' Party (PSL)	2
New Senate 2005	1
Independent candidates	4
Total	100

Local elections are scheduled for the second half of 2006, and the next presidential election is scheduled for October 9, 2005.

International Relations

Poland is a founding member of the United Nations, belongs to most international organizations and maintains diplomatic relations with 179 countries. In 1967, Poland joined the General Agreement on Tariffs and Trade, or GATT, and is a member of the World Trade Organization, or WTO, the successor to GATT. In 1986, Poland rejoined the International Bank for Reconstruction and Development, known as the World Bank, and the International Monetary Fund, known as the IMF, having withdrawn its original memberships in 1950. Poland is also a member of the International Finance Corporation, or IFC, and was a founding member of the European Bank for Reconstruction and Development, or EBRD. In 1996, Poland was accepted for full membership in the Organization for Economic Co-operation and Development, known as the OECD.

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

In March 1993, Poland was among the founding members of the Central European Free Trade Association, or CEFTA, which currently includes Bulgaria, Croatia and Romania. The underlying Central European Free Trade Agreement consists of a series of bilateral trade agreements which have established a free trade zone among CEFTA member countries for industrial products from January 1, 2002. However, from May 2004, as part of Poland's accession to the EU, all previous bilateral trade agreements between Poland and other CEFTA countries were cancelled. Consequently, Poland, as well as other CEFTA members who acceded to the EU ceased to be members of CEFTA.

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

European Union Accession

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

The accession negotiations between Poland and the EU lasted for more than four years, being officially launched on March 31, 1998 and finalized at the Copenhagen summit on December 13, 2002. The negotiations were split into 31 chapters, including one relating to the financial framework for the forthcoming EU enlargement. The outstanding issues were Poland’s net budgetary position in relation to the EU budget, the level of financial assistance from the EU structural funds and direct payments for the Polish farmers, were eventually agreed in Copenhagen. This agreement paved the way for the admission of Poland to the EU and the resulting EU enlargement on May 1, 2004.

In accordance with the timetable drawn up at the Copenhagen summit in December 2002, Poland and nine other candidate countries signed the Accession Treaty with the European Union at a ceremony on April 16, 2003 in Athens. Furthermore, the Polish membership finally required the consent of its citizens in a referendum, which was held on June 7-8, 2003.

As membership in the Economic and Monetary Union and the adoption of the single currency are both required by the Accession Treaty and have been set as objectives of the Polish government, Poland is carrying on a continuing dialogue with the EU. As a member state, Poland is obliged to comply with a Convergence Program which prepares a member state, with some derogations, for the adoption of the euro, the achievement of a high standard of sustainable convergence and meet the Maastricht criteria.

One of the most important issues for the first years of Poland’s membership in the EU is to implement effectively projects financed by the EU in accordance with the Accession Treaty. That is in line with the principle of European solidarity which aims at helping the less developed EU countries to bridge the gap in the economic and social development with the more affluent member states.

An assessment of the financial outcome of Poland’s accession has to take into account EU transfers to Poland from Structural Funds, Common Agricultural Policy transfers and other items (such as pre-accession funds, Transition Facility Instrument, Schengen Instrument and lump-sum cash flow facility transferred directly to the State budget) as well as Poland’s contributions to the general budget of the European Union due to its participation in the European Communities Own Resources system.

Currently, there is a vigorous debate taking place in Poland regarding the planned referendum on Poland’s acceptance of the proposed EU Constitutional Treaty. The date for this referendum has not yet been set.

THE ECONOMY

Background

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

After the implementation of the Balcerowicz Plan and throughout the mid 1990s, Poland’s average GDP growth rate exceeded 5 percent, decreasing between 1998 and 2000 to approximately four percent. In 2001, GDP growth slowed to 1.0 percent and in 2002, GDP growth was 1.4 percent. The slowdown was mainly driven by a decrease in domestic demand primarily as a result of the greater than predicted effects of a restrictive monetary policy as well as a general slow-down in world-wide economic conditions. In 2003, GDP growth was 3.8 percent and in 2004, it is estimated at 5.4 percent.

Between 1999 and mid-2000, Poland experienced a period of volatile inflation rates, with inflation reaching a peak year on year CPI rate of 11.6 percent in July 2000. However, since then, inflationary pressure have eased. Restrictive monetary policy and low domestic demand in 2001, 2002 and 2003 resulted in a continued decrease in CPI inflation to 3.6 percent in December 2001, 0.8 percent in December 2002 and 1.7 percent in December 2003. In 2004, the inflation rate rose steadily due to high food prices, increases in VAT and transport prices (especially fuel prices). In December 2004, the annual rate of CPI inflation was 4.4 percent. Since the beginning of 2005 the CPI inflation rate has declined steadily. In March 2005, the annual rate of inflation was 3.4 percent (3.6 percent yearly average). In June 2005, the annual rate of inflation was 1.4 percent (2.9 percent yearly average).

Twelve years of post-communist reforms have resulted in deep structural changes in the economy, the most significant being the development of the private sector. Prior to 1990, the private sector accounted for less than one quarter of total GDP and was largely concentrated in agriculture, services and small-scale manufacturing. Since then, the private sector has grown substantially and its contribution to production and employment has significantly increased, due to the growth of newly established private enterprises and privatization of state-owned assets and enterprises. In 2003, 68.5 percent of the Polish workforce was working in the private sector, producing 72.4 percent of total value added. In 2004, the percentage of the Polish workforce working in the private sector increased to 70.3 percent.

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

In late January 2002, the Government approved a four-year economic plan, entitled “Entrepreneurship—Development—Labor”, known as the EDL Plan, to lower unemployment, develop infrastructure and restore economic growth to 5 percent per year by 2005. The EDL Plan also includes proposals for the amendment of Poland’s restrictive labor code, the reduction of bureaucratic obstacles to business (by reducing the number of approvals and permits required to conduct business), the mobilization of new financing for Poland’s infrastructure (by using State guarantees to generate private financing) and the encouragement of employers to hire new graduates (by subsidizing employers’ social security contributions and supporting volunteer jobs in local administration).

These economic efforts are currently continuing under the National Development Plan 2004 – 2006. The strategic goal of the National Development Plan is to develop a competitive economy capable of long-term harmonized development, in order to ensure employment growth and improve social and economic integration with the European Union at regional and national levels. A new National Development Plan for 2007 – 2013 is currently in the consultation process.

Recent Economic Performance

GDP

GDP growth slowed in the late 1990s primarily as a result of the Russian economic crisis in August 1998, but by 2000, despite very tight monetary conditions, GDP growth had stabilized at 4.0 percent. However, in 2001,

domestic demand fell in response to the restrictive monetary policy implemented in September 1999. As a result, in 2001, notwithstanding positive export performance and an increase in consumer demand (by 1.7 percent as compared to the year 2000), aggregated domestic demand contracted by 1.6 percent due to a lower investment demand and a decrease in inventories, resulting in GDP growth of only 1.0 percent. In 2002, GDP grew 1.4 percent, with real growth of domestic demand being 0.8 percent. The slight increase in GDP growth resulted from relatively high individual consumption (up 3.8 percent in real terms) and increasing government consumption (up 0.4 percent in real terms) due to lower than previously forecast inflation. In 2003, GDP growth amounted to 3.8 percent. For the first three quarters of 2004, GDP growth was 5.9 percent.

The following table sets out information relating to nominal and real GDP during the years 2000 to 2004:

	2000	2001	2002	2003	2004
Nominal GDP (in PLN billions)	723.9	760.6	781.1	814.9	883.7
\$ equivalent (in billions)	166.6	185.8	191.5	209.5	241.8
Real GDP growth (percent)	4.0	1.0	1.4	3.8	5.4
Nominal per capita GDP (in PLN)	18,922	19,884	20,431	21,336	23,134
\$ equivalent	4,353	4,857	5,008	5,486	6,331
% change (year on year)	1.3	11.6	3.1	9.5	15.4
złoty/\$ exchange rate (average)	4.3464	4.0939	4.0795	3.8889	3.6540
% change (year on year)	9.6	(5.8)	(0.4)	(4.7)	(6.0)

Source: GUS—Central Statistical Office, National Bank of Poland

In 2004, Poland's economic situation showed a marked improvement after a two and a half year slowdown, and it appears that since the second half of 2003 Poland has had relatively fast economic growth. Gross domestic product rose by 4.5 percent year-over-year in the second half of 2003, with GDP growth in 2003 of 3.8 percent. Growth accelerated further in the first half of 2004, being in annualized terms 7.0 percent in the first quarter of 2004 and at 6.1 percent in the second quarter of 2004.

Poland's economic recovery in 2003 was driven to a large extent by dynamic exports and the improved competitiveness of Polish enterprises which, until recently, had been encouraged by the favorable exchange rate. Net exports' contribution to GDP growth in the first and second quarters of 2004 amounted to 0.7 and 0.1 percentage points, respectively. Exports contributed to GDP growth at the level of 5.0 percentage points in the first quarter of 2004 and was the main factor driving the growth. The gradual recovery of domestic demand also contributed to GDP growth. Contribution of gross fixed capital formation to the GDP growth reached 0.6 percentage points in the first half of 2004, as compared to the period from the second quarter of 2001 to the first half of 2003 when it was negative.

Since the second quarter of 2003, Poland has maintained a high growth rate of private consumer demand of at least 3.5 percent. In the first half of 2004, private consumption amounted to 4.0 percentage points of GDP growth. The rate of economic growth in 2004 was 5.4 percent.

Inflation

Since the end of 1990, the year on year CPI inflation rate has been gradually declining, from almost 250 percent in December 1990 to 0.8 percent at the end of 2002. The long-term deviation in this trend was in the period 1999-2000, when the CPI rose from 6.2 percent in March 1999 to 11.6 percent in July 2000. Since then, the CPI inflation rate has decreased steadily as a result of an anti-inflation monetary policy, a high level of supply of agricultural products (which caused inflation in food prices to fall), low domestic demand as a result of high interest rates, declining global crude oil prices and the appreciation of the złoty against other currencies. In December 2000, the annualized CPI inflation rate was 8.5 percent (10.1 percent yearly) and December 2001 it had declined to 3.6 percent (5.5 percent yearly average). In 2002, CPI inflation continued to decline, mainly due to low domestic demand and low food prices. At the end of 2002, the annualized CPI inflation rate was 0.8 percent year-on-year (1.9 percent yearly average). At the end of 2003 the inflation rate was 1.7 percent (0.8 percent yearly average and has increased to 4.6 percent in July 2004). In 2004, inflation increased mainly due to high food prices, increases in VAT and transport prices (especially fuel prices). In December 2004, the annualized CPI inflation rate was 4.4 percent (3.5 percent yearly average). In March 2005, the annualized CPI

inflation rate has decreased to 3.4 percent (3.6 percent yearly average) and to 1.4 percent in June 2004 (2.9 percent yearly average).

An anti-inflation policy has always been at the core of the stabilization program in Poland. In September 1998, the Monetary Policy Council, or MPC, adopted a strategy which aimed to reduce the inflation rate to below 4 percent by 2003. Although the inflation targets set by the MPC for the years 1999 to 2003 were not met; overall inflation decreased steadily. In February 2003, the MPC adopted a new strategy for the period after 2003 which aims to stabilize inflation at the level of 2.5 percent (+/- 1.0 percentage point).

The year-on-year annual increase in the producer price index, or PPI, fell from nearly 193 percent at the end of 1990 to 5.6 percent at the end of 2000. During 2001, growth in the PPI slowed further and in December 2001 producer prices were 0.4 percent lower than in December 2000. Producer prices increased 2.2 percent by December 2002 due primarily to the increase in prices of crude oil products. Producer prices in December 2003 were 3.7 percent higher than in 2002. In 2004 producer prices increased considerably by 5.2 percent.

The following table shows the year-on-year rates of change in the CPI and PPI for the years 2000 to 2004:

	2000	2001	2002	2003	2004	2005
				(%)		
Consumer prices (CPI year end, annualized)	8.5	3.6	0.8	1.7	4.4	0.6 ⁽¹⁾
CPI (yearly average)	10.1	5.5	1.9	0.8	3.5	2.9 ⁽²⁾
Producer prices (PPI year end, annualized)	5.6	(0.4)	2.2	3.7	5.2	0.7 ⁽³⁾
PPI (yearly average)	7.8	1.6	1.0	2.6	7.0	2.0 ⁽⁴⁾

Source: GUS—Central Statistical Office

⁽¹⁾ June 2005 compared with December 2004

⁽²⁾ January-June 2005 compared with January-June 2004

⁽³⁾ May 2005 (December of previous year = 100)

⁽⁴⁾ January-May 2005 compared with January-May 2004

Wages

The following table shows the percentage change in gross nominal and gross real wages during the years 2000 to 2004 and the first three months of 2005:

	2000	2001	2002	2003	2004 ⁽²⁾	2005 ⁽³⁾
				(%)		
All Sectors						
Nominal wages	11.1	8.0	2.6	4.2	4.8	3.6
Real wages	1.0	2.5	0.7	3.4	1.5	0.3
Enterprise Sector: ⁽¹⁾						
Nominal wages	11.4	7.1	3.4	2.8	4.1	2.0
Real wages	1.3	1.6	1.5	2.0	0.8	(1.3)

Source: GUS—Central Statistical Office

⁽¹⁾ Includes forestry, logging and related service activities, sea fishing, mining, quarrying, manufacturing, electricity, gas, steam and hot water supply, construction, wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods, hotels and restaurants, transport, storage and communication, real estate activities, renting and business activities, sewage and refuse disposal, sanitation and similar activities, recreational, cultural and sporting activities and other service activities.

⁽²⁾ Preliminary data

⁽³⁾ Preliminary data for January 2005 to March 2005

Under Polish law, wage levels are determined through negotiations between employees and management with guidelines set by a tripartite commission including representatives of the Government, employees and employers. This commission sets annual limits for permissible increases in nominal wages for employees of state-owned enterprises. These limits were 6.8 percent in 2000, 9.2 percent in 2001, 5.6 percent in 2002, 3.0 percent in 2003 and 3.2 percent in 2004.

Employment

Before 1989, unemployment was not officially recognized in Poland for political reasons, and over-employment was evident in many enterprises. The registered unemployment rate was 10.4 percent at the end of 1998, rising to 15.1 percent at the end of 2000, 19.4 percent at the end of 2001, 18.0 percent at the end of 2002 and 2003 (20.0 percent – considering persons employed on private farms in agriculture as a part of economically active civilian population – in case of calculating of the unemployment rate; on the basis of the results of Population and Housing Census of 2002 and Agricultural Census of 2002) and 19.1 percent at the end of 2004. The increase in unemployment through 2003 is mainly attributable to slower growth, demographic effects, ongoing restructuring of industry and an increase in the number of people registering as unemployed as a result of the increased benefits due to the health system reforms implemented at the beginning of 1999 (see “Public Finance—Social Expenditure—Health System Reform”). Since January 2005, the unemployment rate has slowly fallen from 19.5 percent to 18.0 percent in June 2005 out of a total available workforce of some 15.7 million people, which is approximately 41 percent of Poland’s population.

The unemployment rate is defined as the proportion of unemployed persons in Poland’s civilian economically active population. Persons between the ages of 15 and 74 are regarded as economically active and a person is treated as unemployed if he or she is not working and is available for work and is actively seeking work or has been offered a job and is waiting to take it up.

Unemployment is particularly high among younger people, in some economic sectors and in certain regions of Poland, mainly in the northwest and east. Although plans aimed at stimulating economic growth and reducing bureaucratic obstacles to business may lead to a slight decrease in unemployment rates, the Government does not expect unemployment to decrease significantly in the next few years. This is mainly due to unfavorable demographic trends resulting in an increase in young people entering the workforce, poor economic conditions in some regions and continued restructuring of enterprises which leads to lower employment.

The following table shows the unemployment rate in Poland for the years ended December 31, 2000 to 2004 and as of June 30, 2005:

	2000	2001	2002⁽¹⁾	2003⁽¹⁾	2004	June 30, 2005
Unemployment Rate	15.1	17.5	18.0 20.0	18.0 20.0	19.1	18.0

(1) Data for 2002 and 2003 are compiled using two different methods: the first figure above for each year includes persons employed on private farms in agriculture (as a part of the economically active civilian population when calculating the unemployment rate) and the second figure above for each year uses the Agricultural Census of 1996 and Population and Housing Census of 2002 and Agricultural Census of 2002.

Source: GUS—Central Statistical Office

The following table shows the number of persons employed in Poland by major sector (including budgetary entities involved in national defense and public safety) for the years 2000 to 2004 and the first three months of 2005:

	2000	2001	2002 ⁽¹⁾	2003	2004 ⁽²⁾	2005 ⁽³⁾
			(thousands)			
Agriculture, hunting and forestry	4,305	4,290	4,282 2,161	2,138	2,144	98
Fishing	10	7	6	6	6	2
Industry	3,134	2,964	2,888	2,872	2,902	2,490
Construction	815	737	676	617	610	342
Trade and repair	2,075	1,969	1,998	2,004	2,032	901
Hotels and restaurants	226	217	211	214	221	106
Transport, storage and communication	779	714	725	706	701	508
Financial intermediation	299	287	290	261	270	233
Real estate and business activities	823	842	897	926	928	561
Public administration and defense	822	851	839	843	851	549
Education	903	908	894	978	999	1,019
Health and social work	908	869	852	705	698	612
Other community, social and personal service activities	391	341	366	371	375	185
Total employed persons	15,490	14,996	14,924 12,803	12,641	12,737	7,606

(1) Data for 2002 are compiled using two different methods: the first figure above for each year includes persons employed on private farms in agriculture (as a part of the economically active civilian population when calculating the unemployment rate), and the second figure above for 2002 uses of the Agricultural Census of 1996 and Population and Housing Census of 2002 and Agricultural Census of 2002.

(2) Preliminary Data

(3) Data concern entities of national economy employing more than nine persons, excluding individual agriculture and budgetary entities involved in national defense and public safety.

Source: GUS—Central Statistical Office

During the last several years, union membership in Poland has been declining, in line with the trend in Europe generally; the degree of unionization in Poland is now very low as compared to other OECD countries. Consequently, the influence of trade unions on Poland's economy is diminishing. Around 30% of all trade union members belong to either NSZZ Solidarność or OPZZ, the two biggest trade unions in Poland. In 1995, 33% of all employees were members of a trade union, whereas by 2002 this figure had fallen to 14.8%.

Most current trade union members are employed in large, mainly state-owned, companies and only a minority of trade unionists work in the private sector. In 2002, 76.7 % of all trade union members were employed in the public sector, with 7.1% in the private sector and the remaining 16.2% in mixed capital (i.e., partially privatized) companies.

Since 1994, trade unions, employers' organizations and representatives of the government have made up the *Tripartite Commission for Socio-Economic Affairs* – a forum for social dialogue, with the aim of discussing salaries and social benefits, reconciling the interests of employees and employers and discussing economic and social policies, but whose recommendations are not binding on the government. By participating in this commission, trade unions have some influence on the development of economic policies.

The Privatization Process

After 14 years, the process of privatization in Poland has significantly reduced the number of state enterprises from the original figure of 8,453 in 1990. Revenue from privatization between 1990 and December 2004 amounted to PLN 87.6 billion, of which about 95 percent was from capital privatization (See "Capital Privatization" below). Poland has utilized several methods to facilitate the transfer of assets from State control to private ownership, including privatization, liquidation, bankruptcy and transfers to municipalities.

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

However, since 2000 revenues from privatization have decreased, totaling PLN 2.9 billion in 2002 and PLN 4.1 billion in 2003. In 2004, privatization revenues were PLN 10.2 billion. The primary reason for the decrease in privatization revenues from previous years is the slowdown in the capital markets since 2000 which has led to a fall in asset prices and subsequently less demand for privatized companies.

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

Direct Privatization

Direct privatization involves the sale of the assets of a State enterprise or the entering into a joint venture or leasing arrangement with a potential investor. As at the end of 2004, out of 2,216 entities approved by the Minister of the Treasury for direct privatization, transactions in respect of 2,119 (95.6 percent) had been completed and such entities were removed from the register of state enterprises. Between 1990 and December 2004, direct privatization accounted for approximately PLN 5 billion of privatization revenues.

Capital (or Indirect) Privatization

Capital (or indirect) privatization involves the commercialization of a state enterprise prior to sale. The state enterprise is first converted into a joint stock company owned and operated by the Ministry of the Treasury (a process known as “commercialization”) and, thereafter, shares in the relevant company are sold either as part of a public offering or directly to a strategic investor. As at the end of December 2004, of the 1,562 entities which had been converted into state-owned joint stock companies, shares or stakes in 1,008 of such companies had been sold, including:

- 352 companies by way of indirect privatization (of which 133 were acquired, in whole or in part, by foreign investors);
- 512 companies, through transfers of their shares to National Investment Funds under the National Investment Fund Program, known as the NIF Program; and
- 144 companies through other methods of privatization.

Between 1990 and the end of December 2004, indirect privatization accounted for approximately PLN 82.6 billion in privatization revenue receipts.

As a result of privatization, the State Treasury was the owner of only 385 operating state enterprises (another type of corporate business entity in Poland based on the Act on State Enterprises of 1981). As at the end of December 2004, the State Treasury held shares in about 1,545 commercial code companies. In approximately one-third of these companies the State Treasury was the holder of a majority stake (in most cases, these companies are currently being prepared for privatization).

Poland, is open to foreign investment and allows foreign investors access to the privatization of state property on the same basis as domestic investors, based on transparent procedures. Disputes occasionally arise due to the complicated and long-term nature of agreements in a privatization process. The main disputes between the State Treasury and investors concern the failure to fulfill payment obligations or investment and social obligations. To prevent such disputes arising, the Ministry of the Treasury monitors the performance by investors of their respective obligations. In cases where the obligations are not performed, relevant legal remedies are sought, including the imposition of contractual penalties. However, disputes involving foreign investors are relatively few when compared to the total number of concluded privatization agreements.

The most significant dispute over a privatization agreement concerns the privatization of Powszechny Zakład Ubezpieczeń S.A., or PZU, Poland’s largest insurance company. Since 1999, a consortium of Eureko B.V. and BIG Bank Gdański S.A. (later renamed Bank Millenium S.A.) has held 30 percent of PZU’s shares. Pursuant to an agreement dated April 3, 2001, Eureko B.V. was entitled to purchase further 21 percent of PZU’s shares as a

part of an envisaged public offering, giving it majority control of PZU. On October 23, 2002, Eureko B.V. initiated arbitration proceedings before an international tribunal against the State Treasury, claiming that the Polish Government had repeatedly delayed the implementation of the agreement and had also refused to allow a public offering of PZU's shares, 55 percent of which are still owned by the State. Eureko claims damages, however, the State Treasury does not regard the potential liability of the State in connection with any dispute involving foreign investors to be material. A decision of the arbitration tribunal was handed down in favor of Eureko, however, a final agreement on the issue is still pending.

It is currently envisaged that the core privatization programs will be completed by the end of 2006. During this period, Poland aims to achieve a State ownership structure similar to that which exists in other Member States of the European Union.

Privatization in Poland has, to date, been completed in the following sectors: trade and services, automotive industry, household appliances, construction, electrical engineering, cement, timber and furniture, food processing and tobacco. Additionally, the following sectors are in advanced stages of the privatization process: banking, insurance, pharmaceuticals, sugar, spirits, shipbuilding, transport, oil, electrical energy, steel making and publishing and printing. Privatization has only recently been initiated in the mining, gas, heavy chemicals and defense sectors. The successful completion of privatization in these sectors depends to a great extent on the completion of the restructurings currently underway.

The State does not currently intend to privatize strategically significant sectors and enterprises such as airports, seaports, railway networks, electricity grids, gas and oil transmission pipelines, backbone telecommunications networks or strategic gas and oil storage bases. The sectors which will remain state-owned are those in which full deregulation of the market cannot be implemented at present. This includes certain public utilities, various scientific institutions, core educational institutions and postal services. The State Treasury will retain ownership of public television and radio facilities. The State will also retain control over companies in certain specially regulated industries, such as horserace betting and national lottery monopolies.

The primary goals of privatization in 2005 will be to provide income to the State budget, increase the efficiency of privatized entities, improve the competitiveness of such entities, support restructuring processes and work on the development of the capital markets. Detailed objectives for 2005 include:

- further development of the Polish capital markets through privatizations by way of public offers;
- further steps towards the privatization of strategic and infrastructure sectors such as energy, oil and gas, bulk chemicals, pharmaceuticals and sugar;
- support for restructuring in certain sensitive sectors, especially to the competitive EU single market, such as hard coal and defense; and
- continuation of privatization in the insurance, transport, alcoholic beverages and energy sectors.

Restitution

Prior to 1990, many individuals and businesses were deprived of their property under post-war communist nationalization or expropriation laws. Under current law, restitution claims may only be enforced if the property was nationalized illegally. Claims for restitution have been successful in cases where both administrative and civil procedures have been used by the claimants. Between 1989 and 2003, approximately 12,000 claims were filed and adjudicated and 5,000 were resolved in favor of the claimants. As a result, the illegally seized property was returned to former owners or compensation was paid corresponding to the value of confiscated property (40 percent being decided in favor of the claimants). Property owned by the religious communities is being returned under current restitution proceedings contained in the Administrative Code.

As it would not, in many cases, be possible to make direct restitution of property to former owners and while respecting the constitutional principle of property protection, a draft Restitution Act envisages that persons entitled to compensation must be former owners of real property which is currently within Polish territory who, at the time the loss of property occurred, were Polish citizens, irrespective of their current citizenship or nationality including that of their heirs. Citizens of those States with which Poland concluded agreements after World War II compensating such States for the value of property lost due to takeover by the State Treasury will not be able to

benefit from the law. Those countries are the United States, France, Denmark, Sweden, the United Kingdom, Belgium, Luxembourg, Greece, The Netherlands, Austria, Canada, Switzerland and Norway.

The draft Restitution Act applies not only to persons whose rights were violated as a result of nationalization laws or regulations but also those who were unjustly deprived of property in terms of principles of social justice. Persons who lost their real estate as a result of nationalization laws enacted in the period from 1944 to 1962 are entitled to compensation, as are their statutory heirs.

One proposal under the draft Restitution Act would compensate people whose land and property were nationalized by the communists. The State would pay 15 percent of the value of such nationalized property, and the Treasury Ministry estimates the total compensation cost at PLN 11.5 billion. These proposed State payments would come from a fund which currently only totals PLN 1.5 billion. To make up for the shortfall, the government plans to sell off the partial holdings it owns in privatized companies.

At the Ministry of the Treasury, further work is being conducted with regard to the draft. The Council of Ministers examined and approved the assumptions underlying the draft in March 2004. On the basis of these assumptions, detailed mechanisms were being incorporated into the draft Restitution Act, which was approved by the Council of Ministers on March 2, 2005 and sent to the Parliament.

Foreign Direct Investment

According to estimates by the Polish Information and Foreign Investment Agency¹ (or the PAIiIZ), the accumulated value of foreign direct investment, or FDI, in Poland between 1993 and 2004 was \$84.45 billion. In 2004 FDI in Poland amounted to \$7.86 billion, an increase of \$1.44 billion from 2003. This is the highest FDI value since 2000.

Since March 2002, investment grants covering up to 25 percent of each investment (subject to reductions in certain regions) creating new jobs (up to €4,000) and training grants (both specialist and general) of up to €1,150 per employee have been available in relation to FDI.

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

¹ Statistics prepared by the PAIiIZ are calculated on a basis different from those prepared by the NBP. The PAIiIZ obtains statistical information from an external source entity, unlike the NBP which collects data directly. The PAIiIZ looks at total investment contemplated in investment agreements rather than the amount of money which moves through the Polish banking system. In addition, where payments are made by installments, the PAIiIZ will calculate the amount of overall investment (forward-looking), while the NBP will only include the amount of the current installment. Finally, the PAIiIZ follows the OECD definition of “direct investment”, which includes funds paid by a foreign entity on behalf of a Polish entity to serve such Polish entity’s foreign commitments. The NBP estimates FDI by reference only to money related to a foreign direct investment that passes directly through the banking system.

The following table sets forth certain information regarding the cumulative value of FDI in Poland by the country of origin of investors as of December 31, 2004:

Country of origin	Number of investors	Capital invested (\$ millions)
France	101	16,026.1
The Netherlands	126	11,154.2
United States	118	10,163.7
Germany	258	10,149.5
International	14	4,648.7
United Kingdom	56	4,337.2
Italy	67	4,089.3
Sweden	60	3,715.2
Belgium	27	2,902.6
Denmark	50	2,096.2
Switzerland	28	1,617.9
Austria	40	1,223.7
The Republic of Korea	6	1,167.9
Cyprus	4	1,110.5
Ireland	6	1,026.2
Portugal	4	678.4
Luxembourg	19	673.0
Finland	20	578.5
Greece	4	561.6
Spain	11	486.3
Russia	3	409.1
Japan	18	362.3
Norway	14	345.2
Croatia	2	219.0
Canada	13	210.9
Australia	3	159.5
Turkey	4	100.1
Czech Republic	5	75.0
Israel	4	70.4
Slovenia	2	70.3
South Africa	1	57.2
Hungary	4	55.8
China	2	45.0
Philippines	1	40.0
Lichtenstein	5	16.9
Monaco	1	6.8
TOTAL		84,477.6
Investments exceeding \$1 million		80,649.8
Estimated investments not exceeding \$1 million		3,827.8

Source: PAIIZ

The following table gives certain information regarding the cumulative value of FDI in Poland by sector as of December 31, 2004:

Sector ⁽¹⁾	Capital invested (\$ millions)	Share
Manufacturing		
Transport equipment	6,663.6	8.3%
Food processing	6,624.8	8.2%
Other non-metal goods	4,205.5	5.2%
Electrical machinery and apparatus	3,250.0	4.0%
Chemicals and chemical products	3,245.2	4.0%
Pulp and paper	2,086.0	2.6%
Wood and wooden products	1,692.1	2.1%
Rubber and plastics	1,459.0	1.8%
Metals and metal products	1,278.3	1.6%
Machinery and equipment	1,023.7	1.3%
Furniture production	349.7	0.4%
Fabrics and textiles	290.5	0.4%
Leather and leather products	31.4	0.0%
Total	32,199.9	39.9%
Other		
Financial intermediation	18,878.5	23.4%
Trade and repairs	9,517.4	11.8%
Transport, storage and communication	7,861.4	9.7%
Power, gas and water supply	3,207.6	4.0%
Real estate renting and business activities	2,952.7	3.7%
Community, social and personal services	2,732.2	3.4%
Construction	2,110.1	2.6%
Hotels and restaurants	885.3	1.1%
Mining and quarrying	228.6	0.3%
Agriculture	76.3	0.1%
TOTAL	84,477.6	
Investments exceeding \$1 million	80,649.8	100.0%
Estimated investments not exceeding \$1 million	3,827.8	

(1) According to the Polish Classification of Activities (PKD)

Source: PAfiIZ

Principal Sectors of the Economy

GDP growth has increasingly come from private domestic consumption as well as investment. In 2003, GDP growth was positively affected by increasing exports as a result of a favorable zloty exchange rate.

The following table illustrates the composition of GDP (as a percentage of total GDP) by sector for the years 2000 to 2004:

	2000	2001	2002	2003	2004 ⁽¹⁾
Agriculture, hunting and forestry	3.1	3.2	2.7	2.6	2.9
Industry, of which	22.1	20.8	20.7	21.7	23.7
Mining and quarrying	2.2	2.1	2.0	1.9	2.5
Manufacturing	17.2	15.5	15.3	16.2	18.0
Energy, gas and water supply	2.7	3.2	3.4	3.6	3.2
Construction	7.1	6.3	5.8	5.3	4.9
Trade and repair	17.5	17.8	18.2	17.2	17.1
Hotels and restaurants	1.1	1.1	1.1	1.0	1.0
Transport, storage and communication	5.9	6.3	6.8	6.8	6.6
Financial intermediation	2.0	1.9	1.5	1.8	2.0
Real estate renting and business activities	11.6	12.2	12.4	12.3	11.9
Public administration and defense	6.0	6.4	6.3	6.3	13.8
Education	4.0	4.4	4.5	4.6	
Health and social work	3.6	3.6	3.5	3.3	
Other community, social and personal service activities	3.5	3.7	3.9	4.0	3.8

(1) Preliminary data.

Source: GUS—Central Statistical Office

The following table illustrates the contribution to growth of GDP by selected sectors for the years 2000 to 2004:

	2000	2001	2002	2003	2004 ⁽¹⁾
Agriculture, hunting and forestry	(8.0)	9.4	2.1	8	6.8
Fishing	(2.3)	(14.2)	(7.4)	(10.7)	
Industry, of which	6.5	(0.3)	(0.2)	7.9	9.7
Mining and quarrying	1.8	(7.0)	(6.0)	2.1	2.5
Manufacturing	7.0	(0.8)	1.6	10.6	12.9
Energy, gas and water supply	6.6	7.9	(5.0)	2.0	1.0
Construction	0.3	(7.9)	(6.8)	(2.9)	(1.3)
Trade and repair	4.1	3.9	5.7	0.5	6.3
Hotels and restaurants	6.2	(0.8)	(5.4)	(0.1)	1.3
Transportation, storage and communication	3.4	3.4	8.3	3.5	3.7
Financial intermediation	13.8	(1.9)	(19.6)	10.6	12.1
Real estate renting and business activities	3.0	3.5	2.8	3.8	2.8
Public administration and defense	6.1	4.2	(0.3)	3.8	2.1
Education	0.0	(3.0)	0.9	10.8	
Health and social work	(0.4)	0.0	(2.7)	(9.0)	
Other community, social and personal service activities	2.6	(1.6)	3.2	4.5	1.4
Private households with employed person	2.1	3.2	2.4	4.1	(6.7)

(1) Preliminary data.

Source: GUS—Central Statistical Office

Service Industries

The service industries sector (including real estate renting and business activities and financial intermediation) has in recent years been the fastest growing and largest sector in Poland. In 1997, the service industries sector accounted for 38.1 percent of GDP, in 2003 it accounted for 43.4 percent of GDP and in 2004 it is expected to account for 43.0 percent of GDP.

Industry

The economic reforms in the mid-1990s resulted in a steady increase in domestic demand which stimulated a recovery in industrial output, initially in the food industry, and later in other sectors. This trend was steady until the Russian crisis resulted in a dramatic decrease in the growth rate. However, by 2000 growth in sold industrial production rose to 6.7 percent although it slowed to 0.6 percent. Since then industry has steadily grown showing growth of sold production of 1.1 percent in 2002, 8.3 percent in 2003 and 11.7 percent in 2004. Since 1990, the Government has introduced policies designed to create or improve incentives for industry to become more efficient, reduce costs and address environmental issues. Although Poland's industrial sectors already meet a number of EU industrial environmental standards, additional legislative changes will be necessary fully to comply with applicable EU environmental directives. The total cost of bringing all industrial sectors into compliance with EU environmental standards is estimated at €40 billion. The process is expected to be completed over several transitional periods lasting a number of years.

Mining and Quarrying. Poland has substantial mineral resources and is a large producer of refined copper and silver. At the end of 2001, Poland had reserves of 45,890 million tons of hard coal and 2,447 million tons of copper ore. At the present level of output, workable copper reserves in Poland are predicted to last for almost 100 years. Poland also has significant resources of zinc, lead, salt and other minerals. Since 1996, mining and quarrying (as a percentage of total GDP) has declined, accounting for 1.9 percent of total GDP in 2003 compared to 3.1 percent in 1996, as a result of the significant decline in domestic demand for coal and the high cost of Polish coal. Mining and quarrying accounted for 2.1 percent of GDP in 2001 and 2.0 percent in 2002. However, both the output and revenues from mining and quarrying rose markedly in 2004 as a result of a substantial increase in world prices of coal, copper and other mineral resources.

Coal. Since 1998, Poland's coal industry has been in a long-term restructuring program. Production capacity has been reduced by over 32 million tons per year over the period 1998-2002. Over the same period, 23 mines have been wholly or partially closed and employment in the sector has been reduced from 243,300 employees at the end of 1997 to 127,100 employees at the end of 2004. Production has fallen from 138 million tons in 1997 to approximately 101 million tons in 2004. Miners have been given special incentives to accept redundancy including early retirement schemes, superannuation benefits and a lump sum dismissal package of 24 times the relevant monthly wage. The program has been financed by the Labor Fund and the Social Insurance Fund.

The program envisages further reductions of output and employment, debt write-offs and consolidation of five coal corporations into one. The restructuring program is aimed at making the sector more profitable and limiting negative social consequences of the redundancies. The cost of completing the program, which will be borne by the State budget, is estimated at PLN 6.2 billion.

Steel. Under a restructuring program which began in the 1990s, employment in the steel sector has reduced from over 78,000 employees at the end of 1998 to 17,500 employees at the end of 2004. The program is being financed by the State budget (PLN 200 million for the years 1999 to 2003), the EU's pre-accession PHARE support program and the plants' own means.

The State Treasury holds all the shares in nine steel plants, a majority stake in one steel plant and a minority stake in 19 other plants. Bankruptcy proceedings are underway with respect to six steel plants. The current restructuring program, which has been approved by the EU, provides for the substantial financial restructuring of steel mills, as well as consolidation of steel mills on a product basis and their privatization in the near future. Four state-owned companies have been consolidated to form PHS S.A. At the end of October 2003, PHS S.A. was sold to Mittal Steel (the former LMN Group). The privatization process was completed in March 2004 and the current name of the company is Mittal Steel Poland S.A. The state-owned Huta Częstochowa steel mill was sold to the Ukrainian Industrial Union of Donbas in July 2005.

Oil and Gas. Poland's oil reserves are insignificant. Poland currently has seven oil refineries which in 2004 processed 18.1 million tons of crude oil. Most refineries require modernization in order to enable them to raise the quality of their products and to meet increasingly stringent environmental standards but two leading refineries,

Grupa Lotos S.A. and PKN ORLEN S.A., have been fully modernized and are capable of producing fuels which meet current stringent EU standards. Their combined current processing capacity is 22.3 million tons of crude oil per year. The State Treasury directly owns 28 percent of PKN ORLEN S.A. and 85 percent of Grupa Lotos S.A. Both are scheduled to be further privatized.

Russia is the main source of Poland's oil imports, accounting for more than 90 percent of oil imports in 2004, although the existing oil infrastructure (pipelines and a sea terminal) is capable of handling imports from other overseas sources.

Poland has natural gas reserves of 139 billion cubic meters. In 2004, approximately 32 percent of natural gas consumed in Poland was obtained from domestic sources, with imports providing the remainder. Gas is imported primarily from Russia and Ukraine, which, in 2004, provided 42 percent and 20 percent of domestic consumption, respectively.

The gas sector is dominated by the state-owned Polskie Górnictwo Naftowe i Gazownictwo S.A., or PGNiG. PGNiG is responsible for the exploration for and production of oil and gas and the import, transmission, storage and distribution of gas. Pursuant to a restructuring program, PGNiG has been sub-divided into six regional distribution companies. PGNiG has begun the process of privatization by way of an initial public offering in mid-2005.

Electricity. Poland's energy policy has evolved considerably over recent years to support the country's transition to a market economy. New energy legislation implemented in 1997 introduced third party access (limited to domestic energy producers) to the energy distribution network, provided for gradual liberalization of energy prices and established a central regulatory agency to oversee the energy industry. Reforms in the energy sector have focused on the establishment of stable energy prices, which the Government believes will be beneficial for the domestic economy and provide price competition with energy generated abroad. Plans for full price liberalization of electricity are currently in progress. In addition, further consolidation and privatization is being planned for this sector.

In 2004 154 terawatt-hours (TWh) of electricity were generated in Poland, which exceeded domestic consumption requirements of 130 terawatt-hours. Electricity consumption increased by approximately 2 percent from 2003 to 2004. Poland's electricity sector comprises 59 enterprises within three sub-sectors: generation, high voltage transmission and distribution.

Electricity generation in Poland relies heavily on coal fired power plants. By the end of June 2004, privatization had been completed in four of the 17 power plants, ten of the 19 heat and power plants and two of the 33 distribution companies.

The state-owned Polish power grid company, PSE, operates the electricity grid and is responsible for high voltage transmission (220 and 400 KV) and ensuring that the supply of electricity meets demand. The Polish grid is linked to the Western European grid, allowing for limited export or import of electricity to meet excess demand or supply.

The privatization of ENEA S.A. energy group (formed as a merger of five electricity distributors), PKE S.A. (power and CHP plants) and a few heat and power plants is currently being prepared.

Manufacturing. Manufacturing accounted for 16.2 percent of GDP and 16.5 percent of employed persons in 2003, as compared to 17.2 percent of GDP in 2000 and 18.9 percent of employed persons in 2000. Manufacturing consists primarily of the manufacture of food products and beverages, machinery, chemicals and chemical products, metals and refined petroleum products as well as motor vehicles.

Automotive. Until the beginning of the 1990s, the Polish motor vehicle industry was dominated by a few state-owned companies. Since 1990, the number of cars produced in Poland and the investment by foreign companies has increased significantly. Car sales in Poland increased from 266,000 units in 1995 to 650,000 units in 1999. However, the number of new cars sold decreased to 308,200 in 2002, increased to 353,635 in 2003 and decreased again to 318,111 in 2004 due to lower demand caused by the economic slow-down. The leading car manufacturers in Poland are FIAT, Daewoo-FSO and General Motors. According to information from the PAIIZ, these car manufacturers have a combined investment of \$6.2 billion since 1990 and future investment commitments of \$0.9 billion. See "Economy—Foreign Direct Investment." Partly due to the bankruptcy of

Daewoo-FSO's Korean parent company, Daewoo Motor Co, Daewoo-FSO Motor S.A. is insolvent. At the end of 2003 an agreement was reached between the Government and Daewoo Motor Co according to which Daewoo Motor Co sold its shares in Daewoo-FSO Motor S.A. to the State Treasury, which owns 20.36 percent of Daewoo-FSO. The current name of the Polish company is FSO S.A.

Construction

The previous system of public subsidies in the State, communal and co-operative construction sectors has been dismantled. As a result, growth in the construction industry has come mostly from the private sector. From the beginning of 1997, there was an increase in construction activity in large cities, with significant investment coming from foreign capital. Construction as a total percentage of GDP decreased from 7.1 percent in 2000 to 5.3 percent in 2003.

Agriculture

Agriculture, hunting and forestry accounted for approximately 3.9 percent of GDP in 1998 and 26.7 percent of total employed persons worked in agriculture. By the end of 2003, agriculture, hunting and forestry as a percentage of GDP had fallen to 2.6 percent, although the percentage of people employed in this sector was 29 percent. In 2004, the percentage of people employed in this sector was 16.8 percent. There is substantial fragmentation of ownership within the agricultural sector, which is characterized by numerous small private farms. In 2004 the share of the private sector farms amounted to 95.5 percent of agricultural land in Poland, as compared to 94.8 percent in 2003, while the remaining 4.5 and 5.2 percent, respectively, was publicly owned. Crops such as wheat and rye, as well as potatoes, dominate arable production, although production of industrial crops such as sugar beet is also significant. Other agricultural production largely comprises beef and pork. The Russian economic crisis of 1998 severely affected Polish food exports, which forced domestic food prices down. Lower food prices substantially decreased farmers' profits leading to social unrest and a slowing of the trade liberalization process. Following Poland's accession to the EU, subsidies provided by the EU Common Agricultural Policy should provide a source of additional income for farmers.

The EU direct payments system in Poland consists of single area payments which are fully financed by EU funds, and additional direct payments which are financed partly from the State budget and partly from EU funds. The single area payment system will operate for the first three years of Poland's EU membership with the possibility of extending it for an additional two years. This system envisages that direct payments will be paid for all agricultural land kept in good agricultural condition (and meeting environmental protection requirements) and will amount to 25%, 30% and 35% of the present payment rate in the non-accession EU Member States in 2004, 2005 and 2006, respectively. Presently, single area payments amount to an equivalent of €44.46 per hectare. Additional direct payments are allocated to the Rural Development Plan. Poland's EU accession treaty envisaged the possibility of increasing the level of direct payments to 55%, 60% and 65% of the rates applicable in the non-accession EU Member States during 2004 – 2006 with respect to relevant agricultural areas within the framework of EU regulations. After 2007, the payments may be topped up to 30% only from national budget funds.

As part of transitional arrangements with the EU, foreign investors are not permitted to invest in agricultural or forest land in Poland for a period of 12 years, subject to certain exceptions.

Infrastructure

Polskie Koleje Państwowe S.A., or PKP, the Polish state railway company, operates suburban railways in all major cities and, at the end of 2002, operated approximately 21,000 kilometers of track, of which approximately 12,207 kilometers was electrified. In 2003, PKP operated approximately 20,665 kilometers of rail track, of which 12,160 kilometers was electrified. The Government has begun to restructure PKP in an effort to improve operational efficiency and prepare the company for privatization. Under this restructuring plan, separate passenger, freight and infrastructure companies have been created under a new PKP holding company.

Poland has over 248,000 kilometers of hard-surfaced public roads. The first motorway development to be financed primarily through private funding is the 255-kilometer stretch of the A2 between the German border (at Swiecko) via Poznan to Konin, of which the first 149-kilometer installment had been completed and was opened in October 2004. The first privately operated toll motorway, the 60 kilometer A4 between Kraków and Katowice, was opened in 2000. The Government intends to co-finance further road infrastructure programs through the Agency for Motorway Construction.

In 2004, Poland's merchant shipping fleet consisted of 118 vessels with a total capacity of 2.4 million tons. Poland has several ports equipped to service ocean-going vessels. Poland has 19 airports which handle international air traffic. In 2004, scheduled flights were maintained with 48 airports worldwide. The major airline, Polskie Linie Lotnicze LOT S.A., or LOT, is 68.0 percent owned by the State Treasury. LOT is a member of the international Star Alliance.

Poland's telecommunications network is primarily operated by TP S.A., a joint stock company created from the former telecommunication operations of the Polish Post, Telephone and Telegraph State monopoly. There has been a significant increase in demand for telecommunications services in Poland and by the end of 2004, the number of telephone lines had grown to nearly 12.5 million, an increase of about 381 percent since 1990 and the number of telephone lines per 100 inhabitants had increased to 31.9. As a result of a public tender for long-distance fixed-line licenses conducted by the Government in 1999, there are currently four long distance operators in Poland. International services remained a TP S.A. monopoly until January 2003; since then other service providers have entered the market, although TP S.A. remains the dominant player.

Three companies have mobile telephone operating licenses in Poland - PTK Centertel Sp. z.o.o., PTC Era Sp. z.o.o. and Polkomtel S.A. Each of these companies is a consortium of Polish and foreign companies. Rapid growth in this sector resulted in approximately 17.4 million users by the end of 2003.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

Poland's current account has been in deficit since 1996. The deficit reached a peak in 1999 of \$12.5 billion. Since 1999, the current account has gradually improved, declining to an annual deficit of \$10.0 billion in 2000, \$5.4 billion in 2001, \$5.0 billion in 2002, \$4.6 billion in 2003 and \$3.6 billion in 2004.

Measured by official balance of payments statistics, the trade deficit was \$15.1 billion in 1999 and decreased to \$12.3 billion in 2000, \$7.6 billion in 2001, \$7.2 billion in 2002, \$5.7 billion in 2003 and \$5.6 billion in 2004. Poland's exports of goods in dollar terms have grown from approximately \$18.4 billion in 1994 to \$81.6 billion in 2004.

The recent improvement in the balance of trade was a result of exports growing faster than imports. In 2004, the value of exports increased by 33.7 percent while the value of imports rose by 30.6 percent. The growth of Polish exports can be attributed to a much higher growth in demand in Poland's main export markets, as well as improvement in price competitiveness of and demand for Polish goods. Much of the rise in exports stemmed from significant growth in sales of machinery and transport equipment (*e.g.*, cars, vehicles, ships, boats and parts and accessories for motor vehicles).

FDI inflows have financed a substantial portion of the current account deficit. According to the NBP's calculation methods, net FDI increased steadily from 1995 to 2000, reaching \$9.3 billion in 2000. In 2001, net FDI decreased to \$5.7 billion, decreased further to \$3.9 billion in 2002 and 2003 and increased to \$4.0 billion in 2004. In the first two quarters of 2004, net FDI amounted to \$1.9 billion. In 2000, net FDI covered 93 percent of the current account deficit, increasing to 107 percent in 2001, decreasing to 78 percent in 2002 and increasing to 87 percent in 2003. In 2004, FDI financed 218 percent of the current account deficit. The general trend in foreign investment over the last three years was an increase in investment in debt instruments and an outflow of foreign capital investing in equity.

The following table sets out Poland's balance of payments and related statistics for the years 2000 to 2004:

	2000	2001	2002	2003	2004
Current Account	-9,981	-5,376	-5,011	-4,599	-3,585
Balance on Goods	-12,307	-7,661	-7,249	-5,725	-5,584
Goods: exports f.o.b.	35,902	41,663	46,742	61,007	81,596
Goods: imports f.o.b.	48,209	49,324	53,991	66,732	87,108
Balance on Services	1,405	786	849	527	893
Services: Credit	10,399	9,753	10,035	11,174	13,364
Services: Debit	8,994	8,967	9,186	10,647	12,471
Balance on Income	-1,459	-1,390	-1,889	-3,637	-4,556
Income: Credit	2,250	2,625	1,948	2,108	2,113
Income: Debit	3,709	4,015	3,837	5,745	6,669
Balance on Current Transfers	2,380	2,889	3,278	4,236	5,662
Current transfers: Credit	3,008	3,737	4,181	5,316	8,276
Current transfers: Debit	628	848	903	1,080	2,614
Capital Account	34	76	-7	-46	998
Capital account: Credit	110	113	46	60	1,144
Capital account: Debit	76	37	53	106	146
Financial Account	10,221	3,173	7,180	3,550	478
Direct investment abroad	-16	90	-230	-196	-806
Direct investment in Poland	9,343	5,714	4,131	4,123	6,159
Portfolio investment assets	-84	48	-1,157	-1,296	-1,250
Equity securities	-20	-67	-268	183	-88
Debt securities	-64	115	-889	-1,479	-1,162
Portfolio investment liabilities	3,423	1,067	3,051	3,740	10,885
Equity securities	447	-307	-545	-837	1,918
Debt securities	2,976	1,374	3,596	4,577	8,967
Other investment assets	-3,870	-4,072	1,887	-1,249	-11,913
Monetary authorities	2	3	0	0	-27
Central and local government	-48	-38	-37	-47	-39
MFI (excluding Central Bank)	-3,015	-3,398	3,107	351	-10,577
Other sectors	-809	-639	-1,183	-1,553	-1,270
Other investment liabilities	1,156	662	396	-702	-2,851
Monetary authorities	-1,393	118	-473	-68	-107
Central and local government	-290	-3,047	-503	-1,236	-2,560
MFI (excluding Central Bank)	-474	283	-550	2,063	266
Other sectors	3,313	3,308	1,922	-1,461	-450
Financial derivatives	269	-336	-898	-870	254
Net errors and omissions	343	1,691	-1,527	2,290	2,899
Overall Balance	617	-436	635	1195	790
Official Reserve Assets	-617	436	-635	-1,195	-790

Source: NBP

Foreign Trade

Economic liberalization in Poland has led to a gradual opening of the economy. In 2003 exports accounted for 33.6 percent of GDP while imports accounted for 36.9 percent of GDP. According to the World Trade Organization, Poland is the 32nd biggest exporter and the 26th biggest importer.

Direction of Trade

As the economic transformation in Poland has proceeded, the direction of trade has changed substantially from central and eastern European countries towards EU countries. In 2003, trade with EU countries accounted for 68.8 percent of Poland's exports and 61.1 percent of its imports. Germany is Poland's largest trading partner, accounting for 32.3 percent of exports and 24.4 percent of imports in 2003. Poland was already well integrated with the EU market on its accession in May 2004. In 2004, trade with other EU countries accounted for 85.3 percent of exports and 75.9 percent of imports.

The following table sets out the geographic distribution of Poland's exports and imports for the years 2000 to 2004 and the first five months of 2005:

	2000		2001		2002		2003		2004		2005 ⁽⁴⁾	
	(%)											
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
Developed Countries:												
Germany	34.9	23.9	34.4	24.0	32.3	24.3	32.3	24.4	30.1	24.4	29.0	24.6
Other EU countries	35.0	37.3	34.8	37.4	36.4	37.4	36.5	36.7	49.1	43.7	49.8	42.7
Other developed countries	6.4	9.7	5.9	8.5	6.4	8.5	6.0	8.2	6.1	7.9	6.7	8.2
Total developed countries	76.3	70.9	75.1	69.9	75.1	70.2	74.8	69.3	85.2	75.9	85.5	75.5
Central and Eastern Europe:												
CEFTA ⁽²⁾	8.4	7.1	8.7	7.4	8.9	7.3	9.5	7.8	1.2	0.6	1.7	0.6
Russian Federation	2.7	9.4	2.9	8.8	3.2	8.0	2.8	7.7	3.8	7.2	4.0	7.3
Other Central and Eastern Europe ⁽³⁾	6.2	2.0	6.7	2.0	6.9	1.8	7.3	2.2	3.7	2.0	3.1	2.2
Total Central and Eastern Europe ⁽¹⁾	17.3	18.5	18.3	18.2	19.0	17.1	19.6	17.7	9.0	9.9	8.8	10.1
Developing countries	6.4	10.6	6.6	11.9	5.9	12.7	5.6	13.0	5.8	14.2	5.7	14.4
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Preliminary data.

(2) Since May 1, 2004, CEFTA consists of Bulgaria, Romania and Croatia.

(3) "Other Central and Eastern Europe" includes European countries of the former USSR.

(4) Preliminary data for January 2005 to May 2005.

Source: GUS—Central Statistical Office

Composition of Trade

Poland's external trade is dominated by intra-industry trade (*i.e.*, exports and imports of commodities in the same industry or production group in a given period). The most significant export items in 2003 were machinery and transport equipment (*e.g.*, cars, vehicles, ships, boats, parts and accessories for motor vehicles), manufactured goods and miscellaneous manufactured articles (*e.g.*, other consumer goods). The most significant imported items are similar to those which dominate exports, with chemicals and related products playing a relatively more important role than in the case of exports. Imports consist mostly of investment-related products.

The following table sets out the composition of Poland's exports (based on customs data and the Standard International Trade Classification) for the years 2000 to 2004 and the first five months of 2005:

	2000		2001		2002		2003		2004		2005 ^{(1) (2)}	
	(\$ millions)	%	(\$ millions)	%	(\$ millions)	%	(\$ millions)	%	(\$ millions)	%	(\$ millions)	%
Natural Resource-Based Goods:												
Food and Live Animals	2,366	7.5	2,669	7.4	2,968	7.2	4,069	7.6	5,717	7.7	2,930	8.1
Beverages and Tobacco	120	0.4	140	0.4	126	0.3	177	0.3	347	0.5	199	0.5
Non-Food Raw Materials (excluding fuel)	894	2.8	915	2.5	1,011	2.5	1,383	2.6	1,909	2.6	848	2.3
Mineral Fuels, Lubricants and Related Materials	1,610	5.1	2,043	5.6	2,040	5.0	2,312	4.3	4,030	5.5	1,795	5.0
Animal and Vegetable Oils	23	0.1	17	0.1	14	0.0	18	0.0	50	0.0	36	0.1
Subtotal	5,013	15.9	5,784	16.0	6,159	15.0	7,959	14.8	12,053	16.3	5,808	16.0
Manufactured Goods:												
Chemicals and Related Products	2,151	6.8	2,278	6.3	2,608	6.4	3,493	6.5	4,754	6.4	2,362	6.5
Manufactured Goods Classified Chiefly by Material	7,856	24.8	8,614	23.9	9,753	23.8	12,719	23.8	17,217	23.4	8,277	22.9
Machinery and Transport Equipment	10,820	34.2	13,056	36.2	15,411	37.6	20,240	37.8	28,611	38.8	14,362	39.7
Miscellaneous Manufactured Articles	5,804	18.3	6,355	17.6	7,071	17.2	9,157	17.1	11,131	15.1	5,380	14.9
Non-Classified	7	0.0	5	0.0	8	0.0	9	0.0	15	0.0	7	0.0
Subtotal	26,638	84.1	30,308	84.0	34,851	85.0	45,619	85.2	61,728	83.7	30,388	84.0
TOTAL	31,651	100.0	36,092	100.0	41,010	100.0	53,577	100.0	73,781	100.0	36,196	100.0

(1) Preliminary data

(2) Preliminary data for January 2005 to May 2005

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

The following table sets out the composition of Poland's imports (based on customs data and the Standard International Trade Classification) for the years 2000 to 2004 and the first five months of 2005:

	2000		2001		2002		2003		2004 ⁽¹⁾		2005 ^{(1) (2)}	
	(\$ millions)	%	(\$ millions)	%	(\$ millions)	%	(\$ millions)	%	(\$ millions)	%	(\$ millions)	%
Natural Resource-Based Goods:												
Food and Live Animals	2,558	5.2	2,723	5.4	2,754	5.0	3,148	4.6	4,233	4.8	2,107	5.2
Beverages and Tobacco	198	0.4	233	0.5	313	0.6	219	0.3	377	0.4	151	0.4
Non-Food Raw Materials (excluding fuel)	1,643	3.4	1,578	3.1	1,636	3.0	2,038	3.0	2,982	3.4	1,362	3.4
Mineral Fuels, Lubricants and Related Materials	5,297	10.8	5,082	10.1	5,039	9.1	6,203	9.1	8,126	9.2	3,941	9.7
Animal and Vegetable Oils	164	0.3	174	0.3	206	0.4	259	0.4	336	0.4	138	0.3
Subtotal	9,860	20.1	9,790	19.4	9,948	18.1	11,867	17.4	16,054	18.2	7,699	19.0
Manufactured Goods:												
Chemicals and Related Products	6,881	14.1	7,337	14.6	8,184	14.9	10,029	14.8	12,475	14.2	6,101	15.1
Manufactured Goods Classified Chiefly by Material	9,788	20.0	10,333	20.6	11,362	20.6	14,297	21.0	18,288	20.8	8,498	21.0
Machinery and Transport Equipment	18,114	37.0	18,324	36.4	20,699	37.5	25,860	38.0	34,057	38.6	14,885	36.7
Miscellaneous Manufactured Articles	4,218	8.6	4,416	8.8	4,868	8.8	5,899	8.7	7,262	8.3	3,309	8.2
Non-Classified	78	0.2	75	0.2	52	0.1	52	0.1	20	0.0	12	0.0
Subtotal	39,080	79.9	40,485	80.6	45,165	81.9	56,137	82.6	72,102	81.8	32,805	81.0
TOTAL	48,940	100.0	50,275	100.0	55,113	100.0	68,004	100.0	88,156	100.0	40,504	100.0

(1) Preliminary data

(2) Preliminary data for January 2005 to May 2005

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

Trade Policy

In 2004, the average effective rate of tariff imposed by Poland on imports was 1.59 percent compared to 1.77 percent in 2003. Tariffs are scheduled to decrease further over the next several years as a result of multilateral agreements with the EU and EFTA, as well as pursuant to Poland's membership of the WTO. On January 1, 2002 all remaining customs barriers for industrial exports from EU member states to Poland were lifted. Since accession to the EU on May 1, 2004, Poland has applied the EU's trade policy.

Foreign Exchange and Gold Reserves

Despite increased FDI and portfolio inflows, the strengthening U.S. dollar and the worsening current account balance in 1999 and early 2000 resulted in a decrease in official reserves from \$28.3 billion in December 1998 to \$27.3 billion in December 1999. In December 2000, the level of reserves remained stable at \$27.5 billion. Reserves decreased to \$26.6 billion by December 2001 as a result of a loan that the NBP granted to the Ministry of Finance in November 2001 to prepay Poland's debt owed to Brazil. The reserves increased to \$29.8 billion in 2002 and \$34.2 billion in 2003. By the end of 2004, Poland's reserves had risen to \$36.8 billion. The increases were mainly a result of the weakening dollar.

The following table sets out certain information regarding Poland's official reserve assets at the end of the years 2001, 2002 and 2003 and the end of each of the twelve months in 2004:

	Official Reserve Assets⁽¹⁾ excluding gold	Official Reserve Assets of Gold	Total Official Reserve Assets	Months of Import Coverage⁽²⁾ in total Official Reserves Assets
	<i>(\$ millions)</i>			
2001	25,650.5	914.7	26,565.2	6.5
2002	28,660.2	1,134.0	29,794.1	6.6
2003	32,787.4	1,380.5	34,167.9	6.1
2004	35,334.5	1,448.8	36,783.3	5.1
January 2005	39,566.6	1,401.7	40,698.3	5.6
February 2005	41,091.9	1,443.9	42,535.8	5.8
March 2005	36,806.8	1,414.0	38,220.8	4.9
April 2005	39,340.8	1,432.8	40,773.6	5.2
May 2005	39,259.1	1,378.9	40,638.0	5.1
June 2005	39,792.4	1,444.8	41,237.2	5.2
July 2005	39,388.5	1,412.9	40,801.4	*

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

(2) Based on average imports of goods.

* Data not yet available.

Source: National Bank of Poland

MONETARY AND FINANCIAL SYSTEM

Structure and Development of the Polish Banking System

Until 1989, the Polish banking system was controlled by the State with business decisions being subordinated to political priorities. The reform of the Polish banking system began in 1989 when the Parliament adopted a new Banking Law and the NBP Act. As a result of these changes in legislation and administrative procedures, a relatively large number of new private banks were established.

Generally, Polish banks have been relatively small in terms of equity and have limited branch coverage. As a consequence, many of them have consolidated as a means of further development. In December 2004, there were 54 commercial banks in Poland, of which 13 were banks with majority Polish-held equity and 41 were banks with majority foreign-held equity. Overall, 75.9 percent of the commercial banks' equity was held by foreign investors as at December 31, 2004. There were also 596 co-operative banks as at June 30, 2004.

The Polish banking sector is stable and well capitalized. The high degree of foreign ownership in the financial sector is an important factor underpinning soundness and stability. Systemic threats are also limited in view of the fact that the financial sector is still small. Pre-tax earnings in 2004 were approximately 47.1 percent higher compared to those in 2003, and net earnings were approximately 69.4 percent higher for the same comparative period. The increase in net earnings was due to a reduction in the corporate income tax rate to 8 percent on January 1, 2004. The spread between average lending and deposit rates increased in 2004 to 7.1 percent compared with 6.7 percent at the end of 2003. The banking sector's net interest margin therefore increased and contributed to higher profits. Another important factor contributing to banks' improved earnings in 2004 was the introduction of a new regulation on the principles of establishing specific provisions, which reduced net charges on specific provisions against non-performing loans. An increase in interest income as a result of a reduction in reserve requirements from October 2003 also contributed to increased earnings during 2004. In 2004, the classified loan ratio (defined as the ratio of total loans to non-performing loans) in the banking sector decreased as compared to the end of 2003. At the end of June 2004, the classified loan ratio was 14.8 percent.¹

The improvement in the quality of banks' loan portfolios is primarily due to economic factors such as rapid economic growth, improved conditions of many industries and low interest rates. Recently, there has been little growth in loans to commercial enterprises whereas there has been substantial growth in loans to households, especially property loans.

The regulatory and supervisory framework for Poland's financial sector has been continuously improved in recent years and is now close to achieving international standards and best practices. The last amendment to the Banking Law in the middle of 2004 addressed several shortcomings, including adopting a more precise definition of holdings, the structure of the banks' core capital and the supervision of the Polish institution in the EU. The amendment of the Banking Law also regulated outsourcing, securitization and electronic signature issues.

The National Bank of Poland

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

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

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

¹ A new and more lenient regulation on the classification of loans into risk categories and the principles of establishing specific provisions in effect since the beginning of 2004, which reduced net charges on specific provisions against non-performing loans, has caused some non-performing loans to be reclassified as satisfactory. This regulation applies to consumer loans with delinquency periods not longer than six months and to loans to corporations with suitable security as defined in the relevant regulation. Certain loans have also been reclassified due to a re-evaluation of collateral values.

The role of the MPC is to draw up annual monetary policy guidelines and submit these to the Sejm for its information at the same time as the Council of Ministers submits the draft budget. The MPC determines monetary policy guidelines for each year and, on the basis of those guidelines, makes decisions concerning use of the central bank's key policy instruments, namely interest rates, required reserve ratios, open market operations, NBP loan and credit facilities and the exchange rate policy. The MPC is also required to present a report to the Sejm on the performance of the monetary policy guidelines within five months of the end of each fiscal year.

Under the NBP Act, the powers of the President are separated from those of the MPC and the Management Board of the NBP. The MPC consists of ten members, namely the President of the NBP as Chairman, and nine other members drawn from outside the NBP. Members are appointed for a tenure of six years. The tenure of all of the current members except for the Chairman began in February 2004. The current Chairman, Leszek Balcerowicz, was appointed in January 2001. Three members of the MPC are appointed by the Sejm, three by the Senate and three by the President of the Republic of Poland. The MPC meets at least once a month. The MPC makes decisions by a majority vote and has a quorum of at least five members, including the Chairman. In the event of a tied vote, the Chairman has a deciding vote. The positions taken by MPC members during votes are published in official publications.

While general exchange rate policies are established by the Council of Ministers after consultation with the MPC, the NBP has sole authority to implement exchange rate and monetary policies.

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

Monetary Policy

The ultimate goal of the MPC's monetary policy is price stabilization (*i.e.*, a low inflation rate), which provides a sound foundation for strong and balanced economic growth over the long term. In order to achieve this, taking into consideration the increased integration of the Polish economy with the global economy and given the need to stabilize low inflation expectations, the MPC's strategy is based on direct inflation targeting ("DIT"). The NBP focuses on factors that could jeopardize achievement of the inflation target which is 2.5 percent year on year in terms of CPI inflation. The NBP utilizes its monetary policy instruments to achieve this objective.

The current MPC retained the policy guidelines adopted in February 2003 by the previous MPC. These guidelines confirm the DIT strategy as the best method to stabilize the inflation rate at a low level and enable Poland to participate in EMU. The permanent inflation target was set at 2.5 percent with a deviation of ± 1 percentage point. The monetary policy guidelines for 2005 published by the MPC in September 2004 remain consistent with the principles set forth in the February 2003 MPC policy guidelines. The MPC aims to bring the inflation level back to the target range by the end of 2005, after a temporary deviation as a result of post EU-accession economic changes. The MPC will also pursue a policy to ensure Poland's accession to EMU as soon as possible.

The MPC introduced a fully floating exchange rate regime for the zloty on April 12, 2000, which constituted the final stage in the MPC's flexible exchange rate policy. One of the conditions for Poland's accession to the EMU is the inclusion of the zloty in the second stage of the exchange rate mechanism system (ERM2) for at least two years. In the two years prior to the introduction of the floating rate, the zloty exchange rate had been relatively flexible within a band which was gradually widened to ± 15 percent.

One of the MPC's strategic goals is the integration of Poland with the EMU. Therefore, the MPC is focused on meeting the Maastricht convergence criteria.

Money Supply

In 2004, broad money supply contracted by 8.7 percent in nominal terms, or by 4.3 percent in real terms. In March 2002, the methodology for calculating monetary statistics was changed to comply with the ECB's requirements. This resulted in new definitions of broad and narrow money aggregates, M3 and M1. The following table sets out certain information regarding monetary aggregates as at the end of each of the years 2001 to 2003 and for the first ten months of 2004:

	2001	2002	2003	2004
		<i>(PLN millions)</i>		
Cash in circulation	38,213.5	42,192.8	49,417.0	50,775.5
Demand deposits	80,083.5	94,418.5	108,646.0	125,004.9
Narrow Money (M1)	118,297.0	136,611.2	158,063.0	175,780.4
Time deposits	209,901.2	183,518.0	179,665.0	186,723.0
Deposits redeemable at notice up to 3 months	0.0	53.5	36.4	20.0
Repurchase agreements	0.9	0.0	0.0	5,746.1
Debt securities with maturity below 2 years	234.7	1,778.5	2,284.6	1,200.6
Broad Money (M3)	328,433.8	321,961.2	340,048.9	369,470.1
Annual Changes (%)				
Broad Money (nominal)	9.2	-2.0	5.6	8.7
Broad Money (CPI deflated)	5.4	-2.7	3.9	4.3

Source: National Bank of Poland

Since Polish monetary statistics are maintained in accordance with the ECB's requirements they are directly comparable to the statistics provided by other states applying the same methodology.

Monetary Policy Implementation

The NBP applies a combination of monetary policy instruments to reach the predetermined inflation target. Control over short-term money market rates is exercised through open market operations at a rate determined by the MPC known as the reference rate. The reference rate reflects the general direction of monetary policy adjustments by the NBP. The Lombard rate sets an upper limit on inter bank market interest rates. In December 2001, the NBP introduced a new official rate for standing deposit facilities, the deposit rate. The deposit rate sets a floor for fluctuations in overnight rates. The rediscount rate is the rate at which the NBP accepts bills of exchange from commercial banks, although it is not widely used. The NBP is willing to lend to commercial banks at the Lombard rate provided the banks have eligible collateral. The NBP is also willing to accept deposits from commercial banks at the deposit rate.

The main objective of the mandatory reserves system is to limit fluctuations of overnight money market interest rates. Currently, the mandatory reserves ratio is set at 3.5 percent of the commercial banks' deposit base.

The commercial banking sector in Poland has been in a position of surplus liquidity in recent years as a result of massive NBP interventions against the appreciation of the zloty in the second half of the 1990s. Consequently, open market operations conducted by the NBP are liquidity-absorbing operations. Open market operations are the NBP's main instrument for adjusting liquidity in the banking system and reflect prevailing market conditions. The MPC allows long term interest rates to be determined by the market. As a result, the NBP generally concentrates on short-term operations using its bills which since 2003 have had a maturity of 14 days, in accordance with the open market operation rules of the ECB. The maturity of the NBP's bills is scheduled to be reduced to seven days in 2006 to comply fully with EMU monetary policy implementation standards.

The following table sets out details of interest rates set by the NBP and changes in them since 2000:

	Lombard Rate	Reference Rate	Deposit Rate
	<i>(percent)</i>		
Effective Date			
February 24, 2000	21.5	17.5	—
August 31, 2000	23.0	19.0	—
March 1, 2001	22.0	18.0	—
March 29, 2001	21.0	17.0	—
June 28, 2001	19.5	15.5	—
August 23, 2001	18.5	14.5	—
October 26, 2001	17.0	13.0	—
November 29, 2001	15.5	11.5	—
December 1, 2001	15.5	11.5	7.5
January 31, 2002	13.5	10.0	6.5
April 26, 2002	12.5	9.5	6.5
May 30, 2002	12.0	9.0	6.0
June 27, 2002	11.5	8.5	5.5
August 29, 2002	10.5	8.0	6.5
September 26, 2002	10.0	7.5	5.0
October 24, 2002	9.0	7.0	5.0
November 28, 2002	8.75	6.75	4.75
January 30, 2003	8.5	6.5	4.5
February 27, 2003	8.0	6.25	4.5
March 27, 2003	7.75	6.0	4.25
April 25, 2003	7.25	5.75	4.25
May 29, 2003	7.0	5.5	4.0
June 26, 2003	6.75	5.25	3.75
July 1, 2004	7.25	5.75	4.25
July 29, 2004	7.5	6.0	4.5
August 26, 2004	8.0	6.5	5.0
March 31, 2005	7.5	6.0	4.5
April 28, 2005	7.0	5.5	4.0
June 30, 2005	6.5	5.0	3.5
July 28, 2005	6.25	4.75	3.25
September 1, 2005	6.0	4.5	3.0

Source: National Bank of Poland

Foreign Exchange Regulations

In June 1995, Poland liberalized its current account according to Article VIII of the IMF Articles of Agreement. Some degree of restrictions still exist on direct investment in non-OECD countries or countries with which Poland did not conclude agreements on bilateral protection of investments and on real estate, acquisitions and the short-term capital movement transactions (as listed in the OECD Code of Liberalization of Capital Movements).

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

Further liberalization of foreign exchange transactions with EU and OECD countries followed after the adoption of the new Foreign Exchange Law in 2002 whereby nearly all prior restrictions were abolished.

Exchange Rate Policy

For several years prior to April 2000, Poland used a crawling peg with a fluctuating band system according to which a central exchange rate was established against a basket of currencies and was devalued at a fixed rate,

with the NBP intervening to restrict fluctuations around this central rate. Since April 2000, the zloty has floated freely. The NBP has the right to intervene in foreign exchange markets but since the zloty floated has not done so.

The following table sets out the official NBP exchange rate between the zloty and the dollar for years 2000 to 2004:

	2000	2001	2002	2003	2004
End of period	4.1432	3.9863	3.8388	3.7405	2.9904
Average	4.3464	4.0939	4.0795	3,8889	3.6540

Source: National Bank of Poland

Bank Regulation

The NBP Act established the Commission for Banking Supervision, composed of the President of the NBP, the Director of the General Inspectorate of Banking Supervision, along with the representatives of the President of the Republic of Poland, the Minister of Finance, the chairperson of the Polish Securities and Exchange Commission and the President of the Bank Guarantee Fund.

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

The current prudential standards include: (i) implementation of capital adequacy principles, consistent with EU Directives, being a minimum 8 percent risk weighted capital ratio calculated in accordance with international standards, (ii) classification of banks' assets and application of specific provisions with respect to problem loans (ranging from 100 percent for "loss", 50 percent for "doubtful", 20 percent for "substandard", and 15 percent for "watch" loans), and (iii) large exposure limits, consistent with EU Directives, including 20/25 percent of capital for individual exposures and 800 percent for aggregate large exposures.

The NBP also produces a quarterly report which summarizes the performance of banks in general and a semi-annual Financial Stability Report comprising an assessment of the resilience of the domestic financial system (especially the banking sector) to real and potential shocks and disruptions. Each bank is required to provide a monthly balance sheet and quarterly profit and loss account to the NBP for the compilation of this report. In addition, every ten days, banks are required to report to the NBP their foreign exchange positions as at closing of each of the previous ten days.

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

The Banking Law also provided rules and procedures for the establishment and the organization of state banks, co-operative banks and joint-stock banks as well as establishing a requirement of the approval of the Commission for Banking Supervision for any purchase exceeding 10 percent (and specified percentage figures thereafter) of a bank's shares.

The Bank Guarantee Fund is a bank-funded deposit insurance scheme for all banks. The Guarantee Fund covers:

- deposits with Polish banks in zloty and foreign currencies (irrespective of the number of accounts opened by a depositor) up to the equivalent of €1,000; and
- from January 1, 2003, 90 percent of deposits from €1,000 to €22,500.

Capital Markets

Warsaw Stock Exchange

In 1991, Poland enacted legislation regarding public trading in securities and the establishment of the Warsaw Stock Exchange (the "WSE"). In 1994, the WSE was admitted to the International Federation of Stock

Exchanges as a full member. The WSE consists of the main market and the parallel market, the main market requiring a larger market capitalization and stricter disclosure requirements.

Current securities legislation regulates the public offering of securities and the operations of securities brokers. The Polish Securities and Exchange Commission (the “Polish SEC”) has enforcement powers and supervises the securities and commodities markets. The Polish SEC has authority over all public offerings and establishes reporting requirements and operating practices. Its authority has been further expanded by its ability to initiate criminal proceedings for misconduct or misinformation. The current law on public securities trading also provides comprehensive regulations of capital markets and derivatives, provides rules and procedures for the admission of securities to public trading and regulates the activities of brokerage houses, securities lending and short sales. Polish securities regulations are harmonized with the rules and regulations of the OECD and the EU.

Since 1998, futures contracts based on the stock market index—the WIG 20—have been quoted on the WSE. Warrants were first introduced on the WSE in March 1998. Currently, warrants are based on stocks of major companies and indices.

Settlement in Poland is conducted on a delivery-versus-payment basis. Each investor is required to hold a securities account and a cash account with a local broker or custodian and each broker and custodian is required to hold a securities account in the National Securities Depository and maintain a cash account with a clearing bank. The system is fully computerized.

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

As at December 31, 2004, there were 25 member brokerage houses operating on the WSE. Out of the total of 41 brokerage houses operating in Poland, eight were owned by banks and 33 were independent entities. There were also 16 banks providing investment accounts, 1,782 licensed brokers of securities, 95 commodities brokers and 223 licensed investment advisors as at December 31, 2004.

As at December 31, 2004, the securities listed on the WSE comprised equity shares of 230 companies (including 13 NIFs), 61 State Treasury bond issues, 16 corporate bond issues, 16 investment certificate issues and certain warrants and futures contracts.

Foreign investors may trade on the WSE on the same terms as domestic investors and may freely repatriate trading profits in a foreign currency.

The following table sets forth selected indicators relating to the equity component of the WSE for the years 2000 to 2004:

	2000	2001	2002	2003	2004
Market capitalization					
(in PLN millions)	130,085	103,370	110,565	167,716	291,697
(in \$ millions)	31,707	25,931	24,163	44,838	97,544
(% of GDP)	18.2	13.8	14.4	20.84	32.9
Turnover in PLN millions ⁽¹⁾	186,407	91,281	71,686	99,376	118,660
WIG Index	17,847	13,922	14,366	20,820	26,636
Average P/E ratio ⁽²⁾	28.5	31.3	70.3	146.2	24.4
Dividend yield	0.8	1.3	1.3	1.6	1.5
Listed companies	225	230	216	203	230

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

(2) Excludes the parallel and OTC markets.

Source: National Bank of Poland, Warsaw Stock Exchange

In addition to the WSE, there is also a secondary regulated over-the-counter (or OTC) market called Centralna Tabela Ofert S.A., or CeTO. CeTO is responsible for providing the infrastructure for securities trading on the regulated off-exchange market. CeTO was founded in 1996 and is owned by the largest Polish banks, brokerage houses and the WSE. In April 2002, the Ministry of Finance launched the Primary Dealers System under which

CeTO is responsible for organizing the Electronic Treasury Securities Market (ETSM), a wholesale Government securities market. The ETSM turnover amounted to PLN 200 billion in 2003 and PLN 476 billion for the period January to June 2004. In May 2004, MTS S.A. became a new shareholder in CeTO. The initiative will promote liquidity and the integration of the Polish debt market with markets in Western Europe. See “—Treasury Securities.”

Investment funds

In May 2004 a new law on investment funds was introduced to replace the 1997 Act on Investment Funds. In addition to enabling the creation of open-end investment funds, specialized open-end investment funds and closed-end investment funds, the new law significantly broadened the range of investment funds by the addition of new products such as umbrella funds, money-market funds, securitization funds and non-public asset funds, the latter being created to foster the growth of the venture capital sector in Poland. As at August 1, 2005, the Polish SEC had granted permits to 22 fund managers which manage 175 investment funds.

Pension funds

At the end of December 2004, there were 16 pension funds in Poland with total assets of PLN 63 billion and a two-year weighted average rate of return of 27.9 percent (calculated for the period March 29, 2002 to March 31, 2004).

Treasury securities

Trading of Treasury bonds on the secondary market can be conducted through the WSE. However, most Treasury bond trading takes place on the ETSM where in 2004 the total value of transactions accounted for over 90 percent of the total value of transactions executed in all markets. This is due to lower transaction charges in ETSM in comparison with the WSE. It is anticipated that the ETSM will become the main trading market for Government securities once it is fully operational.

Insurance market

As of December 2004, the assets of Poland's insurance companies amounted to PLN 57.3 billion. In the life insurance sector, assets amounted to approximately PLN 30.7 billion in December 2004 as compared to PLN 24.8 billion at the end of 2001. In the non-life insurance sector, assets reached PLN 26.6 billion in December 2004 as compared to PLN 16.8 billion at the end of 2001. The investments of insurance companies were primarily in debt securities (74.4 percent) followed by equity securities, other variable-income securities and units in investment funds (8.6 percent) and bank deposits (4.9 percent).

The Polish insurance market is dominated by four companies which have the largest market share by amount of gross premiums written. According to industry data, as at December 31, 2004, the largest market share was held by PZU S.A. (27.1 percent), followed by Powszechny Zakład Ubezpieczeń na Życie S.A. (19.8 percent), Commercial Union Polska—TU Życie S.A. (6.4 percent) and TUiRWarta S.A. (6.3 percent). In December 2004, there were 48 insurance companies with a majority of foreign equity, as compared to 48 companies in December 2001 and 56 companies in December 2002. At the end of December 2004, FDI in the insurance market reached PLN 3.4 billion, as compared to PLN 2.85 billion in 2002 and PLN 3.1 billion in 2003. Foreign capital accounted for 72 percent of total equity capital of the insurance companies as at December 2004, as compared to 67.81 percent in 2001 and 70.35 percent in 2002. At the end of December 2004, the cumulative amount of FDI in the life insurance sector reached PLN 1.5 billion and PLN 1.8 billion in the non-life insurance sector.

At the end of December 2004, there were 71 licensed insurance companies operating in Poland. Of these, 34 were life insurance and 37 were non-life insurance companies.

PUBLIC FINANCE

In Poland, the components of public finance are primarily the State budget, local budgets, health funds, extra-budgetary funds and State and local extra-budgetary units, agencies and other elements.

Fiscal policy from 1990 to 2001 was shaped by a desire to reduce inflation and to keep the State budget deficit consistent with monetary policy objectives. Under the Constitution, the NBP may not finance the budget deficit. From 1993 to 2000, the State budget deficit remained below 4 percent of GDP as well as below the target set out in the applicable State budget. The State budget deficit was 4.3 percent of GDP in 2001, 5.0 percent of GDP in 2002, 4.5 percent of GDP in 2003 and 4.9 percent of GDP in 2004 (the 2004 Budget Act provided for 5.3 percent of GDP). The 2005 Budget Act provides for State budget deficit of 3.7 percent of GDP.

The general government deficit to GDP ratio under the Maastricht Treaty criteria was 3.8 percent in 2001, 3.6 percent of GDP in 2002 and 3.9 percent of GDP in 2003. Total general Government spending as percentage of GDP amounted to 44.4 percent in 2002 and 45.3 percent in 2003 compared to 44.4 percent in 1994. According to Ministry of Finance estimates, total Government spending will amount to 45.5 percent of GDP in 2004 and expected to decrease to 45.0 percent in 2005. However, the structure of general Government spending has changed significantly over the last few years as a steep decline in subsidies to state-owned enterprises has been matched by a steep increase in payments to individuals, particularly unemployment benefits and pension payments.

The following table sets out certain fiscal trends in Poland's public finances for the years 2001 to 2005:

	2001	2002	2003	2004 ⁽¹⁾	2005 ⁽²⁾
	<i>(PLN millions)</i>				
State budget balance*	(32,358.3)	(39,402.6)	(37,043.0)	(43,729.4)	(35,000.0)
Revenues	140,526.9	143,519.8	152,110.6	156,122.4	173,741.6
Expenditures	172,885.2	182,922.4	189,153.6	199,853.6	208,741.6
General Government balance	(38,191.5)	(45,952)	44,611.5	(56,106)	(42,455.5)
Revenues ⁽³⁾	291,491.1	300,623.7	317,174.2	345,973.3	386,682.1
Expenditures ⁽⁴⁾	329,682.6	346,575.7	361,785.7	402,079.3	429,137.5
	<i>(as a % of GDP)</i>				
State budget balance	(4.3)	(5.0)	(4.5)	(4.9)	(3.7)
Revenues	18.5	18.4	18.7	17.6	18.2
Expenditures	22.7	23.4	23.2	22.6	21.9
General Government balance	(5.0)	(5.9)	(5.5)	(6.3)	(4.5)
Revenues	38.3	38.5	38.9	39.1	40.6
Expenditures	43.3	44.4	44.3	45.5	45.0
GDP (PLN millions)	760,595.3	781,112.4	814,922.4	884,609.6	953,129.6

* The figures for 2001-2005 are not comparable due to the different classification in the state budget of transfers compensating for the lessening contributions to the Social Security Fund (FUS). Since the pension reform, contributions paid by the insured covered by the reform have been transferred to the FUS and to open pension funds (OFE). The shrinkage of contributions to the FUS, which is the cost of the reform, was financed by 2003 in the form of government subsidies. However, statutory provisions allow the financing of the costs of the reform from the receipts from privatization. Therefore, starting in 2004, the amount compensating for the shrinkage of contributions was booked on the side of outlays from the state budget. The government subsidies to the FUS were accordingly decreased by this amount. This, in turn, has had a direct impact on the level of expenditures from the state budget calculated in accordance with the Polish methodology and, thus, also the level of the deficit. At the same time, a new item appeared on the side of the FUS income, namely, income which compensates for the amounts transferred to the OFE.

(1) Preliminary data (comprising gmina budgets, powiat budgets and voivodship budgets)

(2) Based on the 2005 Budget Act

(3) Including non-returnable resources from the EU.

(4) Including expenditures financed by non-returnable resources from the EU

Note: Polish budget figures are presented on a cash basis. Funds derived from non-returnable foreign sources are not included in State budget figures but are included in the general Government balance.

Source: Ministry of Finance

The following table sets out certain information regarding local government budgets for 2001 to 2005⁽¹⁾:

	2001	2002	2003	2004	2005 ⁽¹⁾
	<i>(PLN millions, except for percentages)</i>				
Total revenues	79,595	80,034	79,140	91,504	99,529
Total expenditures	82,734	83,182	80,954	91,387	104,349
Balance	(3,140)	(3,148)	(1,814)	117	(4,820)
As a percentage of GDP	(0.4)	(0.4)	(0.2)	0.01	(0.5)
GDP	760,595	781,112	814,922	884,609	952,600

(1) Based on the 2005 Budget Act and the prognosis of the Ministry of Finance

Source: Ministry of Finance, GUS – Central Statistical Office

The following table sets out certain information regarding selected extra budgetary funds for 2001 to 2005:

	2001	2002	2003	2004 ⁽¹⁾	2005 ⁽²⁾
	<i>(PLN millions)</i>				
Social Insurance Fund Balance	(4,381.0)	(3,085.3)	3,785.0	(2,739.3)	54.6
Revenues*	91,564.0	95,530.5	98,600.0	105,278.2	110,657.8
Budget Transfers	23,774.0	29,611.6	30,778.0	23,503.0	21,453.2
Expenditures	95,945.0	98,615.8	102,385.0	108,017.5	110,603.2
Agricultural Social Insurance Fund					
Balance	(2.0)	427.0	(128.0)	(310.6)	(115.3)
Revenues	15,787.0	16,378.5	16,067.0	16,148.8	16,302.7
Budget Transfers	14,881.0	15,390.0	15,041.1	15,065.7	14,250.0
Expenditures	15,789.0	15,951.5	16,195.0	16,459.4	16,418.0
Labor Fund Balance	(27.0)	(531.0)	(511.0)	(2,101.0)	355.0
Revenues	8,317.0	9,267.0	9,812.0	7,304.0	6,410.0
Budget Transfers	2,840.0	3,844.1	4,173.0	1,386.7	265.0
Expenditures	8,344.0	9,807.0	10,323.0	9,405.0	6,055.0
Health Fund Balance	522.0	(1,968.8)	(641.0)	(749.9)	(806.6)
Revenues	27,322.0	25,629.5	29,018.0	30,766.6	33,199.2
Budget Transfers	200.0	166.2	228.0	250.6	272.9
Expenditures	26,801.0	27,598.3	29,659.0	31,516.5	34,005.8

* The figures for 2001-2005 are not comparable due to the different classification in the state budget of transfers compensating for the lessening contributions to the Social Security Fund (FUS). Since the pension reform, contributions paid by the insured covered by the reform have been transferred to the FUS and to open pension funds (OFE). The shrinkage of contributions to the FUS, which is the cost of the reform, was financed by 2003 in the form of government subsidies. However, statutory provisions allow the financing of the costs of the reform from the receipts from privatization. Therefore, starting in 2004, the amount compensating for the shrinkage of contributions was booked on the side of outlays from the state budget. The government subsidies to the FUS were accordingly decreased by this amount. This, in turn, has had a direct impact on the level of expenditures from the state budget calculated in accordance with the Polish methodology and, thus, also the level of the deficit. At the same time, a new item appeared on the side of the FUS income, namely, income which compensates for the amounts transferred to the OFE.

(1) Preliminary Data

(2) Based on the 2005 Budget Act

Source: Ministry of Finance

The State Budget

The Budget Process

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

Historical Data

In December 2004, the Council of Ministers approved the draft 2005 Budget Act which was submitted to Parliament. On December 23, 2004 the President signed the 2005 Budget Act.

The following table sets out State revenues in nominal terms and as a percentage of GDP for the years 2001 to 2005:

	Actual				Budget	
	2001	2002	2003	2004	2004 ⁽¹⁾	2005 ⁽²⁾
	<i>(PLN millions)</i>					
<i>Nominal Revenues</i>						
Total Revenue	140,526.9	143,519.8	152,110.6	156,281.2	154,552.6	174,703.7
Tax Revenue	123,147.4	132,557.1	138,977.5	137,850.5	137,246.4	155,285.9
VAT and other Indirect taxes	82,422.9	89,603.9	95,443.3	100,991.5	103,676.7	116,980.7
Corporate Income Tax	13,219.7	15,008.4	14,108.0	13,071.7	9,585.9	14,690.6
Personal Income Tax	23,444.2	24,139.0	25,674.9	21,506.2	22,059.8	23,614.6
Custom Duties	4,060.5	3,805.8	3,751.3	2,281.1	1,924.0	1,557.8
Non-tax Revenue	16,206.6	10,465.0	13,000.2	15,659.1	14,691.4	16,641.5
Dividends	888.8	637.1	958.4	1,810.4	700.0	961.7
Transfers from the Central Bank	4,868.8	2,582.2	4,680.9	4,056.8	4,212.7	4,626.1
Revenue of Budgetary Units	9,154.5	6,637.7	6,615.6	8,197.3	7,753.2	7,705.6
Other Non-tax Revenue	1,294.6	608.0	511.7	1,594.6	2,025.5	583.0
Restructuring fee	0.0	0.0	233.6	0.0	0.0	0.0
Foreign Revenue	1,172.9	497.7	132.9	183.9	68.6	71.1
Contributions to state budget from EU	0.0	0.0	0.0	2,587.7	2,546.2	2,705.2
<i>Revenues as a percentage of GDP</i>						
Total Revenue	18.5%	18.4%	18.7%	17.7%	17.5%	18.3%
Tax Revenue	16.2%	17.0%	17.1%	15.6%	15.5%	16.5%
VAT and other Indirect taxes	10.8%	11.5%	11.7%	11.4%	11.7%	12.3%
Corporate Income Tax	1.7%	1.9%	1.7%	1.5%	1.1%	1.5%
Personal Income Tax	3.1%	3.1%	3.2%	2.4%	2.5%	2.5%
Custom Duties	0.5%	0.5%	0.5%	0.3%	0.2%	0.2%
Non-tax Revenue	2.1%	1.3%	1.6%	1.8%	1.7%	1.7%
Dividends	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%
Transfers from the Central Bank	0.6%	0.3%	0.6%	0.5%	0.5%	0.5%
Revenue of Budgetary Units	1.2%	0.8%	0.8%	0.9%	0.9%	0.8%
Other Non-tax Revenue	0.2%	0.1%	0.1%	0.2%	0.2%	0.2%
Restructuring fee	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Foreign Revenue	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%
Contributions to state budget from EU	0.0%	0.0%	0.0%	0.3%	0.3%	0.3%
GDP (PLN billions)	760,595	781,112	814,922	885,337	884,026	952,600

(1) Based on the 2004 Budget Act

(2) Based on the 2005 Budget Act

Source: Ministry of Finance

The following table sets out certain information regarding State budget expenditures in nominal terms and as percentages of GDP for the years 2001 to 2005:

	2001	2002	2003	2004	2005 ⁽¹⁾
	<i>(PLN millions)</i>				
<i>Nominal Expenditure</i>					
Total State Budget Expenditures	172,885	182,922	189,154	197,698	209,704
Subsidies ⁽²⁾	2,513	1,668	1,579	1,849	1,548
Foreign Debt Service	3,794	3,757	3,751	4,179	5,695
Social Insurance	46,066	52,860	54,242	48,483 ⁽⁵⁾	42,976
Current Expenditures of the Budget Sphere	64,273	64,932	72,844	81,584	94,841
Settlements with Banks, Domestic Debt, Service and Guaranties	20,385	22,192	21,734	19,722	22,088
Capital Expenditures ⁽³⁾	6,420	7,811	8,525	11,080	10,199
Subsidies to Local Authorities ⁽⁴⁾	29,434	29,702	31,731	30,801	32,357
<i>Expenditures as a percentage of GDP</i>					
	<i>(as a % of GDP)</i>				
Total State Budget Expenditures	22.7	23.4	23.2	22.3	22.0
Subsidies ⁽²⁾	0.3	0.2	0.2	0.2	0.2
Foreign Debt Service	0.5	0.5	0.5	0.5	0.6
Social Insurance	6.1	6.8	6.6	5.5 ⁽⁵⁾	4.5
Current Expenditures of the Budget Sphere	8.5	8.3	8.9	9.2	10.0
Settlements with Banks, Domestic Debt, Service and Guaranties	2.7	2.8	2.7	2.2	2.3
Capital Expenditures ⁽³⁾	0.8	1.0	1.0	1.3	1.1
Subsidies to Local Authorities ⁽⁴⁾	3.9	3.8	3.9	3.5	3.4
GDP (PLN millions)	760,595	781,112	814,922	884,609	952,600

(1) Based on the 2005 Budget Act.

(2) Subsidies to enterprises.

(3) Capital expenditures include investments and equity contributions.

(4) General subsidies to local governments.

(5) Due to a change in methodology a transfer to open pension funds of PLN 11.399 million is treated as financing item and not as expenditure.

Source: Ministry of Finance

The 2005 Budget Act

The 2005 Budget Act provides for revenues of PLN 174.7 billion, an increase of 11.8 percent over 2004 and expenditures of PLN 209.7 billion, an increase of 6.1 percent over 2004.

Financing the State Budget Deficit

The Ministry of Finance expects that in 2005 the estimated State budget deficit of PLN 35.0 billion, or 3.7 percent of estimated GDP, will be financed principally through the issuance of medium-term (two to five-year maturities) and longer term (ten-year and twelve-year CPI-linked) treasury securities to domestic financial and non-financial institutions and individuals, as well as to foreign investors, with the remainder financed by privatization receipts and foreign financing.

Revenues

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

The Government is seeking to harmonize taxation in line with taxation in the rest of the EU by increasing indirect taxation. At the end of 2002, the Government also introduced fiscal and economic tools to encourage economic growth, such as the cancellation of certain debts owed by companies to the State Treasury and the introduction of

higher depreciation rates for new capital assets. From January 1, 2004, the CIT rate and the PIT tax rate for the self-employed has been 19 percent.

Corporate Income Tax. In November 1999, CIT and VAT reforms were introduced, providing for reduction of the CIT rate from 34 percent to 30 percent in 2000, 28 percent in 2001 and 2002 and 27 percent in 2003. In 2004, the CIT rate decreased to 19 percent. The aim of the tax cut is to increase the competitiveness of Polish companies and encourage FDI.

Since January 1, 2001, dividends have been subject to a 15 percent withholding tax rate. The amount withheld from the dividends paid to a corporate taxpayer is deducted from the amount of the CIT payable by that taxpayer, calculated at the regular rate. Such deduction may be made in a given fiscal year or in the following fiscal years, thus resulting in an effective tax exemption of domestic inter-company dividends. Cross-border payments of dividends are subject to a 15 percent withholding tax and interest and royalties are subject to a 20 percent withholding tax, unless a relevant double taxation treaty provides otherwise. Since September 2002, the Government has introduced higher depreciation rates for new capital assets in order to encourage investment.

Personal Income Tax. PIT is levied at progressive tax rates, which are currently 19 percent, 30 percent and 40 percent. In 2000, the Government submitted, and Parliament accepted with some minor modifications, PIT reforms including limiting the number of tax reliefs available. In 2002, further changes were introduced, namely taxation of income from interest on savings, bonds and investment funds (at a rate of 19 percent since 2004) and restructuring reliefs on purchasing apartments and houses.

Value Added Tax. In general, all business activity in Poland is subject to VAT at a rate of 22 percent except for some specific services. VAT is levied on all goods sold in, or imported into, Poland as well as on services rendered in Poland. Polish VAT is similar in its operation to the current VAT levied in the other member states of the EU. VAT is levied at rates of 22 percent (standard rate), 7 percent (for unprocessed agricultural products) and 0 percent (exported goods and services and some other specifically listed services). Since 2002, VAT rates have been increased on children's goods (from 7 percent to 12 percent in 2002 and from 12 percent to 22 percent in 2003) and on apartments in certain housing developments (from a zero rate to 7 percent). In addition, the VAT rate for certain services has risen from 7 percent to 22 percent. VAT rates will be subject to further adjustments in order to fall in line with EU VAT directives.

Excise Tax. Excise tax is levied on, among other products, alcohol, tobacco, fuel, automobiles, some electronic appliances, cosmetic products, yachts, salt, gambling machines and fur clothing. In 2002, an excise tax of PLN 0.02 per kilowatt was introduced in respect of power consumption and the excise tax on alcohol was decreased by 30 percent.

Expenditures. A major component of State expenditures is social expenditure. Four social security and pension funds are administered by the State and are partially or wholly financed by contributions from employers and employees. The revenues of these funds are not shown as revenues in the State budget. Two of these funds do, however, receive significant transfers from the State budget and such transfers are shown as expenditures in the tables above. The Social Insurance Fund and the Labor Fund are the largest extra-budgetary funds and rely on State budget transfers to supplement their own off-budget revenues.

Direct Budgetary Social Expenditures. The growth of social expenditures paid directly from the State budget or paid as transfers from the State budget to extra-budgetary funds and their projected continued growth based on current legal entitlements and demographic trends, represent a significant threat to Poland's ability to limit its State budget deficit in the medium term. Early retirement and higher unemployment also put a strain on social expenditures. In 2003, social expenditures including social insurance amounted to 8.7 percent of GDP, decreasing from 8.9 percent of GDP in 2002.

The pension system consumed approximately 28 percent of total State budget expenditures in 2003 and no significant decrease is forecast for the short or medium term. Any decrease resulting from pension reform is expected to be offset by an increase resulting from an ageing population. The increase of funds transferred into the second pillar of the pension system amounted to PLN 9.9 billion in 2003, compared to PLN 9.5 billion in 2002. The transfers are reflected in the budgetary expenditures in macroeconomic terms representing a long-term saving for the whole economy and reducing the negative impact of the budget deficit on national savings by 1.2 percent of GDP in 2002. The transfers in 2003 amounted PLN 9.9 billion and PLN 10.3 billion in 2004, and it is projected that PLN 11.3 billion will be transferred in 2005.

PUBLIC DEBT

Overview

For reporting purposes relating to external and internal debt, Poland classifies as public debt only debt incurred directly by the State (State Treasury debt), by local governments and by entities within the public finance sector. It does not include debt incurred by state-owned financial institutions, other state-owned enterprises or the NBP.

In addition, the State Treasury provides certain State guarantees and sureties to cover liabilities of Polish entities. As at December 31, 2004, the amount of such guarantees (including expected interest payments) was PLN 30 billion, of which PLN 15.6 billion related to guarantees provided to cover liabilities of Polish entities indebted to foreign entities.

The following table sets out total public sector debt as at the end of each of the years 2001 to 2004:

	2001	2002	2003	2004
		<i>(PLN millions)</i>		
Public finance sector debt	302,107	352,611	408,631	432,282
Central Government sector debt				
<i>of which:</i>	291,321	338,552	392,083	413,887
State Treasury debt	282,617	326,750	378,505	402,233
Local Government sector debt	10,786	14,058	16,548	18,395

Source: Ministry of Finance

State Treasury Debt

The Ministry of Finance classifies debt as internal or external according to one of two criteria: the place of issue and the residence of the targeted investors. On the basis of the first of these criteria, all instruments issued in the domestic market regardless of the status of their holder (domestic or foreign) are classified as internal debt and on the basis of the second, all instruments, regardless of the market in which they are issued, are classified as external or internal by the residence of the holder. In this section of this prospectus, debt is classified to as internal or external based on the place of issue criterion. In “Total External Debt”, Poland’s gross external debt is classified on the basis of the residence of the creditor.

In nominal terms, Poland’s total State Treasury debt has grown from PLN 284 billion at the end of 2001 to PLN 403 billion at the end of December 2004. This nominal growth came primarily from growth in internal State Treasury debt used to finance budget deficits and to make payments to external creditors.

By the end of 2003, Poland had repurchased the majority of the outstanding bonds, or Brady Bonds, issued by the State Treasury in 1994 to Poland’s creditors in connection with its commercial debt restructuring and all so called Paris Club debt owed to Brazil (\$3.3 billion). See “—External State Treasury Debt”.

As a result of these measures, the ratio of Poland’s State Treasury indebtedness to GDP grew from 37.3 percent at the end of 2001 to 45.5 percent at the end of 2004.

The following table sets out certain information regarding the State Treasury’s debt as at the end of each of the years 2001 to 2004, both as aggregate amounts and as percentages of nominal GDP:

	2001	2002	2003	2004
		<i>(PLN millions except for percentages)</i>		
Internal State Treasury debt	185,028	219,347	251,166	291,658
As a percentage of GDP	24.3	28.1	30.8	32.9
External State Treasury debt	98,909	108,557	127,778	111,202
As a percentage of GDP	13.0	13.9	15.7	12.6
Total State Treasury debt	283,937	327,904	378,944	402,860
As a percentage of GDP	37.3	42.0	46.5	45.5
GDP	760,595	781,112	814,922	885,337

Debt Management

Under Polish law, the Minister of Finance must specifically approve the terms of all direct internal debt and external debt incurred by the State.

Under the Constitution, the Government is prohibited from incurring loans or issuing guarantees or sureties which would result in the złoty equivalent amount of public debt exceeding 60 percent of GDP. In addition, under the 1998 Public Finance Act, if public debt (including risk weighted guarantees and sureties granted) exceeds 50 percent of GDP, the Government is required to introduce measures to reduce it, including providing a budget for the following year in which the forecasted deficit or revenues ratio will not exceed the stated limit. If such measures do not reduce the level of public debt and it continues to exceed 55 percent of GDP, the Government is required to present a budget act to ensure that the public debt to GDP ratio will not increase.

The Public Finance Act of 1998 requires an official debt management strategy to be prepared and included with each annual Budget Act.

The Council of Ministers approved the debt management strategy for 2005-2007 and submitted it to Parliament for final approval together with the 2005 Budget Act. The strategy evaluated the implementation of debt management objectives in 2003 and in the first half of 2004.

The debt management strategy for 2005-2007 remain unchanged from the strategy for 2004-2006 and defines tasks and implementation methods, forecasts debt levels, structure and servicing costs and analyzes the risks associated with the forecasted debt and its structure.

The strategy for 2005-2007 envisages maintaining the volume of public debt at safe levels and minimizing debt servicing costs over a longer period as well as limiting the growth of public debt through legislative changes to limit the borrowing needs of the State budget and ensure more efficient allocation of funds; systemic reforms such as the introduction of independent public healthcare units and policies encouraging economic growth.

Internal State Treasury Debt

Poland's internal State Treasury debt has increased from PLN 185.0 billion (24.3 percent of GDP) at the end of 2001 to PLN 292 billion (32.9 percent of GDP) at the end of 2004. This increase reflects the Government's policy of borrowing internally to finance the annual budget deficit and to fund payments and repayments to external creditors.

Internal public debt comprises three categories:

- marketable Treasury securities with maturities of up to 20 years, including short-term Treasury bills, as well as fixed, floating rate and CPI-linked securities with maturities of up to 20 years, offered on the domestic primary market through auctions at the market prices to Treasury securities dealers and, fixed and floating rate bonds sold through the national network of Customer Service Outlets (CSO) to individuals at prices fixed by the issuer;
- securities not freely marketable, issued to certain domestic state-owned financial institutions; and certain other state debt in the form of long-term liabilities issued in connection with the restructuring of the State banking system and other debt; and
- savings bonds, which are sold through the CSOs to individuals at nominal value and are not freely marketable and currently have maturities of up to ten years.

At the end of October 2004 marketable Treasury securities constituted more than 95 percent of internal State Treasury debt.

The Ministry of Finance auctions Treasury bills at a discount from face value with maturities of up to a year.

External State Treasury Debt

As at the end of December 2004, Poland had PLN 111.2 billion (\$37.2 billion) of State Treasury external debt outstanding, which is 12.6% of GDP and is in line with the Government's debt management strategy.

Consistent with this strategy, during the period from 1997 to 2004, the Ministry of Finance executed a number of transactions to redeem its Brady Bonds. As a result of repurchases and call exercises, the total outstanding principal amount of Brady Bonds was reduced to approximately \$1.2 billion as at the end of December 2004.

In November 2001, the State Treasury prepaid the debt owed to Brazil, its largest creditor in the Paris Club (see —“Paris Club and London Club Agreements”). The nominal amount of \$3.3 billion was prepaid for \$2.5 billion.

The following table sets out the outstanding principal amount of the State Treasury’s external debt as at the end of the years 2001 to 2004:

	2001	2002	2003	2004
	(\$ millions)			
Medium- and Long-Term Loans				
Paris Club	16,303	17,183	17,945	16,805
Multilateral institutions	2,457	3,006	4,085	4,024
The World Bank	1,739	1,880	1,999	1,468
European Investment Bank	518	822	1,693	2,136
European Bank for Reconstruction and Development	23	24	23	20
Council of Europe Development Bank	177	281	370	400
Other loans	190	212	297	151
Total loans	18,951	20,401	22,326	20,980
Bonds:				
Brady Bonds	4,048	2,698	1,193	1,193
Foreign bonds	1,814	4,905	10,641	15,013
Total bonds	5,862	7,603	11,835	16,206
Short-Term Debt	0	275	0	0
Total State Treasury External Debt	24,812	28,279	34,161	37,186

Source: Ministry of Finance

The following table sets out the composition by currency of the State Treasury’s external debt as of December 31, 2004:

	In millions of original currency	Equivalent in US millions	Share
Euros	17,038.4	23,240.9	62.5%
U.S. dollars	7,659.8	7,659.8	20.6%
Japanese yen	216,730.4	2,114.0	5.7%
British pound	890.0	1,717.3	4.6%
Swiss francs	1,424.3	1,258.4	3.4%
Canadian dollars	1,140.8	947.1	2.5%
Norwegian kroner	1,193.3	197.5	0.5%
Swedish kroner	338.8	51.2	0.1%
TOTAL		37,186.2	100.0%

Source: Ministry of Finance

The following table sets out debt service projections for the State Treasury's medium and long-term external debt by type of creditor for the years 2005 to 2014 and beyond. The data contained in the table does not assume any refinancing of existing debt.

Projected State Treasury External Debt Service Requirements
(in \$ millions)

	2005 ⁽¹⁾	2006 ⁽²⁾	2007	2008	2009	2010	2011	2012	2013	2014 and beyond
Principal Payments	2,794	4,227	4,107	4,669	5,474	2,536	1,844	2,724	4,372	4,154
Loans	2,794	3,545	4,107	4,669	2,587	302	480	301	279	1,631
Paris Club	2,597	3,315	3,851	4,393	2,310	21	22	23	24	13
Multilateral	184	218	245	265	266	270	447	266	244	1,602
Other	12	11	11	11	11	11	11	11	11	17
Bonds	0	682	0	0	2,887	2,234	1,364	2,423	4,092	2,523
Brady bonds	0	0	0	0	0	0	0	0	0	1 193
Foreign bonds	0	682	0	0	2,887	2,234	1,364	2,423	4,092	1,330
Interest Payments	1,452	1,249	1,163	1,066	960	844	736	735	659	1,192
Loans	608	517	443	346	242	216	215	214	213	341
Paris Club	421	303	230	133	29	3	3	2	1	0
Multilateral	183	211	211	211	211	211	211	211	211	340
Other	4	3	3	2	2	2	1	1	1	0
Bonds	845	732	720	720	718	628	521	521	446	852
Brady bonds	60	51	51	51	51	51	51	51	51	648
Foreign bonds	785	681	669	669	666	577	470	470	395	204
Total Debt Service	4,246	5,476	5,270	5,735	6,433	3,380	2,580	3,459	5,030	5,347
Loans	3,402	4,062	4,550	5,015	2,829	518	695	514	492	1,972
Paris Club	3,018	3,619	4,080	4,526	2,339	24	25	25	25	13
Multilateral	367	429	456	476	476	481	658	477	454	1,941
Other	16	14	14	14	13	13	13	12	12	17
Bonds	845	1,414	720	720	3,605	2,862	1,885	2,944	4,538	3,375
Brady bonds	60	51	51	51	51	51	51	51	51	1,841
Foreign bonds	785	1,363	669	669	3,554	2,811	1,834	2,893	4,487	1,534

(1) Figures for 2005 are based on the 2005 Budget Act.

(2) For 2006 and the years after, the estimates are based on data as of December 31, 2004.

Source: Ministry of Finance

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

Paris Club and London Club Agreements

In 1990, the total external debt of Poland was approximately \$48.5 billion. Most of this debt was incurred in the 1970s under central planning when foreign credits, both official and commercial, were used to finance Poland's foreign trade deficit and as a means to postpone needed economic reforms. During the period from 1981 though 1994, Poland was in default with respect to certain debts to 17 creditor countries, known as the Paris Club, and more than 500 commercial bank creditors, known as the London Club. The arrears varied from \$25 million to \$2.2 billion in the case of interest and \$76 million to \$4.1 billion in the case of principal. In 1991, Poland signed a Paris Club Agreement, encompassing all of Poland's medium and long-term official credits granted by Paris Club members before January 1984 and amounting to approximately \$33 billion. The agreement gave Poland a two-stage 50 percent debt reduction in net present value terms. The total forgiveness of principal owed to Paris Club creditors was \$6.2 billion. In February 2005, Poland obtained the agreement of the Paris Club creditors for the early repayment of €12.3 billion (approximately \$16.2 billion) of this debt, subject to a bilateral agreement with each respective creditor nation. Through August 2005, Poland has prepaid €4.5 billion in total.

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

TOTAL EXTERNAL DEBT

The following table (based on data available in March 2005) gives details of Poland's gross external debt, by creditor and by credit type, as at the ends of the periods indicated. For this purpose, gross external debt refers to the amount, at any given time, of disbursed and outstanding contractual liabilities of Polish residents to repay non-residents principal, with or without interest, or to pay interest, with or without principal, irrespective of the currency in which the liability is denominated.

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

The National Bank of Poland compiles data on external debt, which it defines as the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principal, with or without interest, or to pay interest, with or without principal. The definition refers to gross debt, *i.e.*, it comprises external liabilities without regard to external assets. The term "contractual liabilities to repay principal or to repay interest" excludes equity participations. The term "principal with or without interest" means that external debt also includes non-interest-bearing liabilities since they result in a contractual obligation to repay. The term "interest with or without principal" means that the external debt includes liabilities with no maturity and the term "disbursed and outstanding" excludes potential liabilities, *i.e.*, undisbursed portions of existing loans.

External debt includes intercompany loans, current accounts and time deposits held by non-residents with Polish banks, debt securities held by non-resident portfolio investors, trade credits, and other loans and credits (including financial leases). The following table shows Poland's external debt down by obligor as at the end of each of the years 2001 to 2004:

Poland's Total External Debt

	2001	2002	2003	2004
	<i>(US dollar millions)</i>			
Monetary authorities	428	110	199	103
Other investment	428	110	199	103
Loans	8	6	4	1
Currency and deposits	420	104	195	102
Central and local government⁽¹⁾	29,254	35,732	43,994	57,809
Debt securities^(2, 3)	10,248	14,957	21,522	36,335
Bonds and notes	10,014	14,680	21,307	36,245
Money-market instruments	234	277	215	90
Other obligations	19,006	20,775	22,472	21,474
Loans	18,989	20,766	22,463	21,467
Other liabilities	17	9	9	7
Banks	6,733	7,534	11,868	14,280
Intercompany loans from direct investors	129	219	250	318
Debt securities	167	433	647	1,216
Bonds and notes	167	433	646	1,125
Money-market instruments	0	0	1	91
Other obligations	6,437	6,882	10,971	12,746
Loans	3,679	3,752	4,822	6,463
Currency and deposits ⁽⁴⁾	2,758	3,130	6,149	6,283
Other liabilities	0	0	0	0
Other sectors	35,556	41,500	50,637	55,251
Intercompany Loans from direct investors	10,262	12,247	18,979	20,785
Trade credits	0	0	5,069	6,199
Loans	10,262	12,247	13,910	14,586
Debt securities	4,179	4,253	4,556	5,315
Bonds and notes	4,166	4,137	4,477	5,109
Money-market instruments	13	116	79	206
Other obligations	21,115	25,000	27,102	29,151
Trade credits ^(4,5)	6,530	8,590	7,319	9,033
Loans	14,216	15,995	19,256	20,001
Other liabilities	369	415	527	117
TOTAL EXTERNAL DEBT	71,971	84,876	106,698	127,443
of which:				
– long-term⁽⁶⁾	60,834	70,997	86,289	103,842
– short-term⁽⁴⁾	11,137	13,879	20,409	23,601

Compiled in compliance with the requirements of international organizations (IMF, OECD, World Bank).

(1) From 1999, data were adjusted to include external debt of local government.

(2) From 1999 this includes securities issued on domestic market (Treasury bonds and Treasury bills).

(3) Net of the stock of such securities held by Polish residents.

(4) Since information on the breakdown by maturity of trade credits (up to the end of 2002) and currency and deposits is not available, the total amount was included in short-term debt.

(5) In March 1999, there were changes to the regulations imposing reporting obligations on non-residents with regard to information for the balance of payments and internal investment. The scope of reporting units was extended, and penalties for noncompliance were introduced. As a result, the NBP has received data from units not covered by the reporting obligation before March 1999. Accordingly, the figure for outstanding trade credits for 1998-1999 has changed. Since it was not possible to adjust data for 1996-1997, adjusted time series are presented for 1998-2002.

(6) Since 2003 trade credits with a maturity of over one year have been included in long-term debt.

Source: National Bank of Poland

Relationship with Multilateral Financial Institutions

Since 1990, Poland has received substantial financial and technical support from various multilateral financial institutions including the International Bank for Reconstruction and Development, known as the World Bank, the European Investment Bank, known as the EIB, the European Bank for Reconstruction and Development, known as the EBRD, and the International Monetary Fund, known as the IMF. As of December 31, 2004, Poland's liabilities to multilateral financial institutions amounted to \$4.0 billion, or 10.8 percent of the State Treasury's total external debt.

International Bank for Reconstruction and Development

The World Bank has provided significant financial support for Polish structural reforms as well as for the development of the Polish financial, infrastructure, health, environmental and energy sectors. As of March 31, 2005, the World Bank had authorized a total of \$5.81 billion in loans to Poland, approximately \$4.44 billion of which had already been disbursed. Those amounts apply to both governmental and commercial loans guaranteed by the Polish Treasury.

European Investment Bank

Poland signed its first framework agreement with the EIB in 1990. The last framework agreement between the EIB and Poland signed in 1997 was still valid when Poland entered the EU. The framework agreement sets out the main areas of co-operation between the EIB and Poland, including co-financing investment projects in the transportation, power and energy, health and education and telecommunications sectors. In addition, the EIB provides commercial-based loans to private enterprises and municipalities.

As of March 31, 2005, the EIB had committed €9.033 billion to Polish borrowers, of which €5.504 billion had already been disbursed.

European Bank for Reconstruction and Development

As of December 31, 2004, the EBRD had signed direct investment and regional projects worth €3.1 billion (with a total project value of €10.9 billion), of which approximately 62.4 percent is debt, 34.3 percent is equity participation and 3.3 percent is EBRD guarantees. The EBRD commitment includes state budget loans of €44.9 million which have been fully disbursed.

International Monetary Fund

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

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

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

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

International Development Association

Since 1988, Poland has been a member and contributor to the International Development Association, known as the IDA, which grants preferential long-term loans to the world's poorest countries. As of March 31, 2005, the Polish contribution to the IDA amounted to 16.52 million of the IMF's special drawing rights, or SDRs, (out of which 14.02 million SDRs had already been paid in).

Nordic Investment Bank

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

As of December 31, 2004, the NIB had committed loans of approximately \$269.74 million to Poland, of which approximately \$225.19 million is outstanding.

Council of Europe Development Bank

Poland has been a member of the Council of Europe Development Bank, or CEB, since 1998. As at December 31, 2004, the total value of loans granted by the CEB to the Government of the Republic of Poland amounts to approximately €293 million, all of which has been disbursed.

DESCRIPTION OF THE SECURITIES

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

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

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

Status of the Securities and Negative Pledge

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

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

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

- (a) any Security Interest which secures Poland's \$934.67 million Collateralized Par Bonds due 2024 and \$891.07 million Collateralized RSTA Bonds due 2024 each issued (in part) on October 27, 1994 and which is either existing on the date hereof in relation to, or contemplated by the terms of, such bonds; or
- (b) any Security Interest upon property to secure Public External Indebtedness incurred for the purpose of financing the acquisition of such property (or property which forms part of a class of assets of a similar nature where the Security Interest is by reference to the constituents of such class from time to time); or
- (c) any Security Interest existing on property at the time of its acquisition; or
- (d) any Security Interest arising by operation of law which has not been foreclosed or otherwise enforced against the assets to which it applies; or
- (e) any Security Interest securing or providing for the payment of Public External Indebtedness incurred in connection with any Project Financing provided that such Security Interest applies only to properties which are the subject of such Project Financing or revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or failure to complete, or damage to, such properties; or

- (f) the renewal or extension of any Security Interest described in subparagraphs (a) to (e) above, provided that the principal amount of the Public External Indebtedness secured thereby is not increased.

For these purposes:

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

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

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

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

Payment of Additional Amounts

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

- a tax that would not have been imposed but for your present or former connection (or a connection of your fiduciary, settlor, beneficiary, member, shareholder or other related party) with Poland, including your (or your fiduciary, settlor, beneficiary, member, shareholder or other related party) being or having been a citizen or resident of Poland or being or having been engaged in a trade or business or present in Poland or having, or having had, a permanent establishment in Poland;
- imposed because you present a Security in definitive form for payment more than 30 days after the date on which the payment became due and payable;
- an estate, inheritance, gift, sales, transfer or personal property tax or any similar tax, assessment or governmental charge;
- a tax, assessment or other governmental charge which is payable other than by withholding;
- a tax that would not have been imposed but for the failure to comply with certification, information or other reporting requirements concerning your nationality, residence or identity (or the nationality, residence or identity of the beneficial owner of the Security), if your compliance is required by the laws of Poland or of any political subdivision or taxing authority of Poland to avoid or reduce such tax;
- required to be withheld by any paying agent from a payment on the Security to the extent that such payment can be made without withholding by another paying agent;

- a tax, assessment or other governmental charge which is required to be withheld or deducted where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the EU Directive on the Taxation of Savings Income (Directive 2003/48/EC), or any law implementing or complying with, or introduced in order to conform to, such directive; or
- imposed as a result of any combination of the items listed above.

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

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

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

General

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

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

Default; Acceleration of Maturity

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

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

the fiscal agent shall, upon receipt of written requests to the State Treasury at the specified office of the fiscal agent from holders of not less than 25 percent in aggregate outstanding principal amount of the Securities, declare the Securities due and payable, in each case at their principal amount together with accrued interest without further formality. Upon such declaration by the fiscal agent, the fiscal agent shall give notice thereof in the manner provided in the Fiscal Agency Agreement to the State Treasury and to the holders of the Securities in accordance with such Agreement.

After such declaration, if all amounts then due with respect to the Securities are paid (other than amounts due solely because of such declaration) and all other defaults with respect to the Securities are cured, such declaration may be annulled and rescinded by holders of not less than 50 percent in aggregate outstanding principal amount of the Securities, the "Required Percentage", by a written notice thereof to the State Treasury at the specified office of the fiscal agent or by the passing of a resolution by the holders of not less than the Required Percentage.

Meeting of Holders of Debt Securities; Modification

The Fiscal Agency Agreement contains provisions for convening meetings of Securityholders in a given series to consider matters relating to the Securities in that series, including, without limitation, the modification of any provision of the terms of the Securities in that series. Any such modification may be made if, having been approved in writing by the State Treasury, it is sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the State Treasury and shall be convened by the fiscal agent upon the request in writing of Securityholders holding not less than 10 percent of the aggregate principal amount of the outstanding Securities in the given series.

The quorum at any meeting of Securityholders convened to vote on an Extraordinary Resolution will be one or more persons present and holding or representing at least 50 percent of the aggregate principal amount of the outstanding Securities in the given series or, at any adjourned meeting of Securityholders, one or more persons present and holding or representing at least 25 percent of the aggregate principal amount of the outstanding Securities in a given series; *provided, however*, that any proposals relating to a Reserved Matter may only be approved by an Extraordinary Resolution passed at a meeting of Securityholders at which one or more persons holding or representing at least 75 percent of the aggregate principal amount of the outstanding Securities in that series are present. For these purposes, the holder of a Global Security shall be treated as two persons. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Securityholders, whether present or not.

A resolution may be in writing and any such resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Securityholders.

For these purposes:

“Extraordinary Resolution” means:

- in relation to any Reserved Matter:
 - a resolution passed at a meeting of Securityholders duly convened and held in accordance with the Fiscal Agency Agreement by 75 percent of the aggregate principal amount of all outstanding Securities in the given series; or
 - a resolution in writing signed by or on behalf of Securityholders of not less than 75 percent of the aggregate principal amount of all outstanding Securities in the given series; and
- in relation to any other matter:
 - a resolution passed at a meeting of Securityholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority consisting of not less than 66⅔ percent of the aggregate principal amount of the outstanding Securities in the given series which are represented at that meeting; or
 - a resolution in writing signed by or on behalf of Securityholders of not less than 66⅔ percent of the aggregate principal amount of all outstanding Securities in the given series.

“Reserved Matter” means any proposal to:

- change the due date for the payment of the principal of, or any installment or interest on, the Securities;
- reduce the principal amount of the Securities;
- reduce the portion of the principal amount that is payable in the event of an acceleration of the maturity of the Securities;
- reduce the interest rate on any Security or any premium payable upon redemption of the Securities;

- modify any provision of the terms and conditions of the Securities in connection with any exchange or substitution of the Securities, or the conversion of the Securities into, any other obligations or securities of the State Treasury or any other person, which would result in the terms and conditions of the Securities as so modified being less favorable to the holders of the Securities which are the subject of the terms and conditions as so modified than:
 - (a) the provisions of the other obligations or securities of the State Treasury or any other person resulting from the relevant exchange or substitution; or
 - (b) if more than one series of other obligations or securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series having the largest aggregate principal amount;
- change the currency in which any amount in respect of the Securities is payable;
- shorten the period during which the State Treasury is not permitted to redeem the Securities or permit the State Treasury to redeem the Securities if, prior to such action, the State Treasury is not permitted to do so;
- change the definition of “outstanding” with respect to the Securities;
- change the governing law of the Securities;
- change the courts to the jurisdiction of which the State Treasury has submitted, the State Treasury’s obligation under the Fiscal Agency Agreement or the terms and conditions of the Securities to appoint and maintain an agent for the service of process or the State Treasury’s waiver of immunity with respect to any suit, action or proceeding that may be brought in connection with the Securities or the Fiscal Agency Agreement;
- reduce the proportion of the principal amount of the Securities that is required to constitute a quorum or for any request, demand, authorization, direction, notice, consent, waiver or other action or that is required to modify, amend or supplement the Fiscal Agency Agreement or the terms and conditions of the Securities; or
- change the obligation of the State Treasury to pay additional amounts on the Securities.

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

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

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

The State Treasury may from time to time, without notice to or the consent of the registered holders of any series of Securities, issue further Securities which will form a single series of Securities, provided the further Securities are fungible with the Securities of the existing series for U.S. federal income tax purposes. These further Securities will have the same terms as to status, redemption or otherwise as the Securities of the existing series

and will rank equally with the Securities of the existing series in all respects, except for the payment of interest accruing prior to the issue date of these further Securities or except for the first payment of interest following the issue date of these further Securities.

Purchase of Securities by the State Treasury

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

Form and Settlement

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

DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities of its participants and facilitates the clearance and settlement of securities transactions through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of securities certificates. DTC’s participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to DTC’s book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules that apply to DTC are on file with the SEC and the DTC agrees and represents to its participants that it will administer its book-entry system in accordance with its rules and requirements of law.

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

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

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

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

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

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

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

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

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

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

Prescription

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

Judgment Currency

The State Treasury agrees that if a judgment or order given or made by any court for the payment of any amount in respect of any Security is expressed in a currency, the judgment currency, other than the U.S. dollar, the denomination currency, the State Treasury will pay any deficiency arising or resulting from any variation in rates

of exchange between the date as of which the amount in the denomination currency is notionally converted into the amount in the judgment currency for the purposes of such judgment or order and the date of actual payment thereof. This obligation will constitute a separate and independent obligation from the other obligations under the Securities, will give rise to a separate and independent cause of action, will apply irrespective of any waiver or extension granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due in respect of the relevant Security or under any such judgment or order for a liquidated sum or sums in respect of amounts due in respect of the relevant Security or under any such judgment or order.

Governing Law; Consent to Service; Sovereign Immunity

The Fiscal Agency Agreement and the Securities will be governed by and interpreted in accordance with the laws of the State of New York without regard to any conflicts of laws principles thereof that would require the application of the laws of a jurisdiction other than the State of New York, except that all matters governing the authorization and execution of the Securities by the State Treasury will be governed by the laws of Poland. The State Treasury will appoint CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York as its authorized agent upon which process may be served in any action arising out of or based on the Securities which may be instituted in any State or federal court in New York City by any holder of a Security. Poland will irrevocably waive to the fullest extent permitted by law any immunity from jurisdiction to which it might otherwise be entitled in any action (other than a pre-judgment attachment which is expressly not waived) arising out of or based on the Securities which may be instituted by any holder of a Security in any State or federal court in New York City or in any competent court in Poland. Such waiver of immunities constitutes only a limited and specific waiver for the purposes of the Securities and under no circumstances shall it be interpreted as a general waiver by Poland or a waiver with respect to proceedings unrelated to the Securities. However, the United States Foreign Sovereign Immunities Act of 1975, or the Immunities Act, may provide an effective means of service and preclude granting sovereign immunity in such actions.

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

Poland reserves the right to plead sovereign immunity under the Immunities Act with respect to actions brought against it under U.S. federal securities laws or any State securities laws. In the absence of a waiver of immunity by Poland with respect to such actions, it would not be possible to obtain a U.S. judgment in such an action against Poland unless a court were to determine that Poland is not entitled under the Immunities Act to sovereign immunity with respect to such action.

ENFORCEABILITY OF JUDGMENTS

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

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

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

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

TAXATION

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

PLAN OF DISTRIBUTION

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

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

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

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

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

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

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

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

VALIDITY OF THE SECURITIES

Except as may otherwise be indicated in any prospectus supplement, the validity of each series of Securities will be passed upon on behalf of the State Treasury by or on behalf of the Director of the Legal Department, Ministry of Finance, ul. Swietokrzyska 12, Warsaw, Poland and, as to U.S. and New York State law, by White & Case LLP, 1155 Avenue of the Americas, New York, New York 10036-2787, United States counsel for the State Treasury, and, as to Polish law, by White & Case W. Daniłowicz, W. Jurcewicz i Wspólnicy—Kancelaria Prawna Spółka Komandytowa, Królewska Center, ul. Marszałkowska 142, 00-061, Warsaw, Poland, Polish counsel for the State Treasury. Certain legal matters will be passed upon for any underwriters by counsel identified in the related prospectus supplement. All statements in this Prospectus with respect to matters of Polish law have been passed upon by the Director of the Legal Department, Ministry of Finance, Republic of Poland and are made upon his authority.

AUTHORIZED AGENT IN THE UNITED STATES

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

OFFICIAL STATEMENTS AND DOCUMENTS

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

FURTHER INFORMATION

The information set forth herein relating to Poland has been reviewed by Mirosław Gronicki, Minister of Finance of the Ministry of Finance, and is included herein on his authority.

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

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

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State Treasury Internal Debt

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

as at December 31, 2004

Issue	Issue Date	Final Maturity Date	Principal Amount		Interest Rate
			Issued	Outstanding	
(PLN millions)					
Restructuring Bond “B”	12/16/93	17/12/08	573	757.4 ⁽¹⁾	Floating
Restructuring Bond “C”	12/29/93	30/12/08	427	554.2 ⁽¹⁾	Floating
Restructuring Bond “D”	11/21/94	22/11/09	1,900	2,384 ⁽¹⁾	Floating
Bonds allocated to increasing the capital of BGZ S.A.	09/23/96	24/09/11	600	637.1 ⁽¹⁾	Floating
Subtotal			3,500	4,333.3	
DK 0809	09/29/99	22/08/09	3,076.3	2,568.3	6.0%

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

Source: Ministry of Finance

State Treasury Internal Debt

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

as at December 31, 2004

Series short name	Issuance date	Maturity date	ISIN code	Principal amount		Interest rate (%)
				Issued	Outstanding	
WZ0307	01/24/04	03/24/07	PL0000103297	6,738,169,000	6,738,169,000	Floating
WZ0911	01/24/04	09/24/11	PL0000103305	1,130,636,000	1,130,636,000	Floating
Total				7,868,805,000	7,868,805,000	
DZ1205	12/13/95	12/14/05	PL0000100467	500,000,000	500,000,000	Floating
DZ0406	03/17/96	04/18/06	PL0000100517	767,700,000	767,700,000	Floating
DZ0706	06/17/96	07/18/06	PL0000100558	935,618,000	935,618,000	Floating
DZ1006	09/17/96	10/18/06	PL0000100616	313,546,000	313,546,000	Floating
DZ0107	12/17/96	01/18/07	PL0000100673	193,261,000	193,261,000	Floating
DZ0407	03/17/97	04/18/07	PL0000100731	3,500,000	3,500,000	Floating
DZ0707	07/17/97	07/18/07	PL0000100806	75,000,000	75,000,000	Floating
DZ0108	01/17/98	01/18/08	PL0000100913	279,000,000	279,000,000	Floating
DZ0708	01/17/98	07/18/08	PL0000100921	1,029,970,000	1,029,970,000	Floating
DZ0109	01/17/99	01/18/09	PL0000101234	1,920,273,000	1,920,273,000	Floating
DZ0709	07/17/99	07/18/09	PL0000101242	694,420,000	694,420,000	Floating
DZ0110	02/17/00	01/18/10	PL0000101598	1,853,830,000	1,853,830,000	Floating
DZ0811	08/18/01	08/18/11	PL0000102224	1,285,500,000	1,285,500,000	Floating
DZ1111	11/28/03	11/24/11	PL0000103222	1,178,391,000	1,178,391,000	Floating
Total				11,030,009,000	11,030,009,000	
OK0405	04/12/03	04/12/05	PL0000103024	12,709,529,000	9,583,440,000	Zero coupon
OK0805	08/12/03	08/12/05	PL0000103107	10,931,914,000	10,752,964,000	Zero coupon
OK0406	12/12/03	04/12/06	PL0000103263	14,139,943,000	14,139,943,000	Zero coupon
OK0806	05/12/04	08/12/06	PL0000103263	10,128,023,000	10,128,023,000	Zero coupon
OK1206	09/12/04	12/12/06	PL0000103537	8,300,000,000	8,300,000,000	Zero coupon
Total				56,209,409,000	52,904,370,000	
PS0205	02/12/00	02/12/05	PL0000101564	6,146,812,000	3,444,220,000	8.5
PS0605	06/12/00	06/16/05	PL0000101721	3,713,943,000	3,174,896,000	8.5
PS1005	01/12/00	10/12/05	PL0000101887	4,342,029,000	4,342,029,000	8.5
PS0206	02/12/01	02/12/06	PL0000102026	5,509,132,000	5,509,132,000	8.5
PS0506	05/12/01	05/12/06	PL0000102125	5,836,608,000	5,836,608,000	8.5
PS1106	11/12/01	11/12/06	PL0000103331	13,411,765,000	13,411,765,000	8.5
PS0507	05/12/02	05/12/07	PL0000102679	10,390,741,000	10,390,741,000	8.5
PS0608	11/24/02	06/24/08	PL0000102869	24,675,872,000	24,675,872,000	5.75
Total				74,026,902,000	70,785,263,000	
DS0509	05/24/99	05/24/09	PL0000101259	28,646,234,000	28,646,234,000	6.0
DS1109	11/24/99	11/24/09	PL0000101473	3,382,264,000	3,382,264,000	6.0
DS1110	11/24/00	11/14/10	PL0000101937	13,097,477,000	13,097,477,000	6.0
DS1013	10/24/02	10/24/13	PL0000102836	19,132,278,000	19,132,278,000	5.0
DS1015	10/24/04	10/24/15	PL0000103602	4,396,687,000	4,396,687,000	6.25
Total				68,654,940,000	68,654,940,000	
WS0922	04/22/02	09/23/22	PL0000102646	3,404,263,000	3,404,263,000	5.75
IZ0816 ⁽¹⁾	08/24/04	08/24/16	PL0000103529	2,630,000,000	2,630,000,000	3.0

(1) Issued and outstanding amounts in case of IZ series are presented in initial face value

Source: Ministry of Finance

State Treasury Internal Debt

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

as at December 31, 2004

Series No.	Issue Date	Maturity Date ⁽¹⁾	Issued	Outstanding	Interest Rate
<i>(PLN millions)</i>					
TZ0205	02/01/02	05/05/05	1,000	462.62	Floating
TZ0505	05/06/02	05/05/05	1,000	493.41	Floating
TZ0805	08/01/02	08/05/05	1,000	477.99	Floating
TZ1105	11/04/02	11/05/05	1,000	283.94	Floating
TZ0206	02/03/03	02/05/06	1,000	245.28	Floating
TZ0506	05/05/03	05/05/06	1,000	222.09	Floating
TZ0806	08/01/03	08/05/06	1,000	363.30	Floating
TZ1106	11/03/03	11/05/06	1,000	104.15	Floating
TZ0207	02/02/04	02/05/07	1,000	69.39	Floating
TZ0507	05/04/04	05/05/07	1,000	107.03	Floating
TZ0807	08/02/04	08/05/07	1,000	259.29	Floating
TZ1107	11/02/04	11/05/07	1,000	354.38	Floating
TOTAL				2,459.65	
COI0105	01/02/01	4 years from date of purchase	150	22.94	Floating
COI0205	02/01/01	4 years from date of purchase	150	9.51	Floating
COI0305	03/01/01	4 years from date of purchase	150	9.28	Floating
COI0405	04/02/01	4 years from date of purchase	150	9.85	Floating
COI0505	05/04/01	4 years from date of purchase	150	9.17	Floating
COI0605	06/01/01	4 years from date of purchase	150	6.58	Floating
COI0705	07/02/01	4 years from date of purchase	150	7.23	Floating
COI0805	08/01/01	4 years from date of purchase	150	22.77	Floating
COI0905	09/03/01	4 years from date of purchase	150	26.74	Floating
COI1005	10/01/01	4 years from date of purchase	150	106.40	Floating
COI1105	11/02/01	4 years from date of purchase	150	142.89	Floating
COI0205	12/03/01	4 years from date of purchase	150	15.33	Floating
COI0106	01/02/02	4 years from date of purchase	150	22.49	Floating
COI0206	02/01/02	4 years from date of purchase	150	23.26	Floating
COI0306	03/01/02	4 years from date of purchase	150	22.55	Floating
COI0406	04/02/02	4 years from date of purchase	150	20.38	Floating
COI0506	05/06/02	4 years from date of purchase	150	11.96	Floating
COI0606	06/03/02	4 years from date of purchase	150	9.91	Floating
COI0706	07/01/02	4 years from date of purchase	150	12.16	Floating
COI0806	08/01/02	4 years from date of purchase	150	5.13	Floating
COI0906	09/02/02	4 years from date of purchase	150	2.32	Floating
COI1006	10/01/02	4 years from date of purchase	150	4.12	Floating
COI1106	11/04/02	4 years from date of purchase	150	10.25	Floating
COI1206	12/02/02	4 years from date of purchase	150	8.15	Floating
COI0107	01/02/03	4 years from date of purchase	150	7.85	Floating
COI0207	02/03/03	4 years from date of purchase	150	14.26	Floating
COI0307	03/03/03	4 years from date of purchase	150	3.77	Floating
COI0407	04/01/03	4 years from date of purchase	150	4.13	Floating
COI0507	05/05/03	4 years from date of purchase	150	4.47	Floating
COI0607	06/02/03	4 years from date of purchase	150	3.30	Floating
COI0707	07/01/03	4 years from date of purchase	150	5.09	Floating
COI0807	08/01/03	4 years from date of purchase	150	22.92	Floating
COI0907	09/01/03	4 years from date of purchase	150	8.82	Floating
COI1007	10/01/03	4 years from date of purchase	150	6.15	Floating
COI1107	11/03/03	4 years from date of purchase	150	5.12	Floating
COI1207	12/01/03	4 years from date of purchase	150	5.63	Floating
COI0108	01/02/04	4 years from date of purchase	150	5.78	Floating

Series No.	Issue Date	Maturity Date ⁽¹⁾	Issued	Outstanding	Interest Rate
			<i>(PLN millions)</i>		
COI0208	02/02/04	4 years from date of purchase	150	12.82	Floating
COI0308	03/01/04	4 years from date of purchase	150	11.78	Floating
COI0408	04/01/04	4 years from date of purchase	150	8.87	Floating
COI0508	05/04/04	4 years from date of purchase	150	14.95	Floating
COI0608	06/01/04	4 years from date of purchase	150	19.54	Floating
COI0708	07/01/04	4 years from date of purchase	150	36.46	Floating
COI0808	08/02/04	4 years from date of purchase	150	31.50	Floating
COI0908	09/01/04	4 years from date of purchase	150	18.95	Floating
COI1008	10/01/04	4 years from date of purchase	150	13.32	Floating
COI1108	11/01/04	4 years from date of purchase	150	25.51	Floating
COI1208	12/01/04	4 years from date of purchase	150	20.12	Floating
			17,650	852.51	

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

Source: Ministry of Finance

State Treasury Internal Debt
Retail Treasury bonds with a maturity at issuance of more than one year
as at December 31, 2004

Series No.	Issue Date	Maturity Date ⁽¹⁾	Issued	Outstanding	Interest Rate (%)
<i>(PLN millions)</i>					
DOS0105	01/02/03	2 years from date of purchase	500	135.48	5.5%
DOS0205	02/03/03	2 years from date of purchase	500	157.76	5.5%
DOS0305	03/03/03	2 years from date of purchase	500	121.22	5.5%
DOS0405	04/01/03	2 years from date of purchase	500	149.93	5.5%
DOS0505	05/05/03	2 years from date of purchase	500	197.27	5.25%
DOS0605	06/02/03	2 years from date of purchase	500	129.99	4.75%
DOS0705	07/01/03	2 years from date of purchase	500	130.72	4.75%
DOS0805	08/01/03	2 years from date of purchase	500	396.35	4.75%
DOS0905	09/01/03	2 years from date of purchase	500	334.58	4.75%
DOS1005	10/01/03	2 years from date of purchase	500	208.38	4.75%
DOS1105	11/03/03	2 years from date of purchase	700	584.61	5.40%
DOS1205	12/01/03	2 years from date of purchase	1,500	1,208.14	6.0%
DOS0106	01/02/04	2 years from date of purchase	1,000	724.62	6.0%
DOS0206	02/02/04	2 years from date of purchase	1,000	545.06	6.0%
DOS0306	03/01/04	2 years from date of purchase	700	538.26	6.0%
DOS0406	05/01/04	2 years from date of purchase	700	252.90	6.0%
DOS0506	05/04/04	2 years from date of purchase	700	273.00	6.25%
DOS0606	06/01/04	2 years from date of purchase	700	506.42	6.70%
DOS0706	07/01/04	2 years from date of purchase	700	404.99	6.70%
DOS0806	08/02/04	2 years from date of purchase	700	668.94	7.00%
DOS0906	09/01/04	2 years from date of purchase	700	367.81	7.00%
DOS1006	10/01/04	2 years from date of purchase	700	348.38	7.00%
DOS1106	11/01/04	2 years from date of purchase	700	347.66	6.75%
DOS1206	12/01/04	2 years from date of purchase	700	368.42	6.50%
TOTAL			16,200	9,314.56	
SP1206	12/03/01	2006-12-03	500	500.00	9.00%
SP0307	03/01/02	2007-03-01	500	187.49	8.00%
SP0607	06/03/02	2007-06-03	500	498.63	8.00%
SP0907	09/02/02	2007-09-02	500	500.00	6.50%
SP1207	12/03/02	2007-12-02	500	144.98	5.50%
SP0308	03/03/03	2008-03-03	500	150.00	5.00%
SP0608	06/02/03	2008-06-02	500	34.70	4.50%
SP0908	09/01/03	2008-09-01	500	20.43	4.50%
SP1208	12/01/03	2008-12-01	500	89.07	6.50%
SP0309	03/01/04	2009-03-01	500	44.76	6.50%
SP0609	06/01/04	2009-06-01	500	43.39	7.00%
SP0909	09/01/04	2009-09-01	500	116.51	7.30%
TOTAL			6,000	2,329.96	

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

Source: Ministry of Finance

State Treasury External Debt
With a maturity at issuance of more than one year
as at December 31, 2004

	Currency	Year of Issue	Year of Maturity	Principal Amount		Interest Rate ⁽¹⁾
				Fixed Rate	Floating Rate	
				(\$ millions)		
Paris Club Creditors	EUR	1991	2009	3,268.4	6,256.4	4.61/Fltg
	US\$	1991	2009	1,911.4	1,289.1	5.17/Fltg
	JPY	1991	2009	840.8	—	2.22
	JPY	1991	2014	193.0	—	3.90
	CAD	1991	2009	—	947.2	Floating
	GBP	1991	2009	—	945.5	Floating
	CHF	1991	2009	557.3	347.7	1.97/Fltg
	Other	1991	2009	197.5	51.2	4.63/Fltg
TOTAL				6,968.4	9,836.9	
Other External Creditors⁽²⁾						
Collateralized Par Bonds	US\$	1994	2024	744.7	—	4.00 ⁽³⁾
Collateralized RSTA Bonds	US\$	1994	2024	448.6	—	4.75 ⁽³⁾
\$100 million 7¼% Notes	US\$	1997	2017	100.0	—	7.75
€600 million 6% Notes	EUR	2000	2010	818.4	—	6.00
€1 billion 5½% Notes	EUR	2001	2011	1,364.0	—	5.50
€750 million 5½% Notes	EUR	2002	2012	1,023.0	—	5.50
\$1.4 billion 6¼% Notes	US\$	2002	2012	1,400.0	—	6.25
£400 million 5½% Notes	GBP	2002	2010	771.8	—	56.25
€3 billion 4½% Notes	EUR	2003	2013	4,092.1	—	4.50
¥25 billion 0.84% Notes	JPY	2003	2010	243.9	—	0.84
€500 million 3m Euribor +0.125% Notes	EUR	2003	2003	—	682.0	0.125
\$1 billion 5¼% Notes	US\$	2003	2014	1,000.0	—	5.25
\$400 million 6m Libor +0.325% Notes	US\$	2003	2010	—	400.0	Floating
€1.5 billion 3¾% Notes	EUR	2004	2009	2,046.1	—	3.875
CHF400 million 2¾% Notes	CHF	2004	2009	353.4	—	2.125
¥6.8 billion 2.6475% Notes	JPY	2004	2034	66.3	—	2.6475
¥50 billion 1.02% Notes	JPY	2004	2009	487.7	—	1.02
¥16.8 billion 3.22% Notes	JPY	2004	2034	163.9	—	3.22
World Bank	US\$ ⁽⁴⁾	1991	2008	—	5.6	Floating
World Bank	US\$ ⁽⁴⁾	1992	2009	—	19.5	Floating
World Bank	US\$ ⁽⁴⁾	1993	2010	—	9.3	Floating
World Bank	US\$	1996	2013	—	23.7	Floating
World Bank	EUR	1996	2013	—	24.4	Floating
World Bank	US\$	1997	2012	—	263.9	Floating
World Bank	EUR	1997	2012	—	132.9	Floating
World Bank	EUR	1999	2014	—	363.0	Floating
World Bank	EUR	2000	2015	—	142.8	Floating
World Bank	EUR	2000	2016	—	35.8	Floating
World Bank	EUR	2001	2011	—	153.9	Floating
World Bank	EUR	2004	2014	—	126.2	Floating
World Bank	EUR	2004	2014	—	166.6	Floating
World Bank	EUR	2004	2018	—	0.6	Floating
European Investment Bank	US\$	1993	2013	11.3	—	7.50
European Investment Bank	EUR	1994	2014	113.7	—	5.25
European Investment Bank	EUR	1996	2016	109.1	—	5.77

	Currency	Year of Issue	Year of Maturity	Principal Amount		Interest Rate ⁽¹⁾
				Fixed Rate	Floating Rate	
				(\$ millions)		
European Investment Bank	EUR	1997	2022	290.8	—	5.46
European Investment Bank	EUR	1998	2018	471.0	—	4.86
European Investment Bank	EUR	2000	2019	43.5	—	5.53
European Investment Bank	EUR	2000	2020	62.8	—	4.63
European Investment Bank	EUR	2001	2020	258.8	—	4.68
European Investment Bank	EUR	2001	2029	268.9	—	4.68
European Investment Bank	EUR	2002	2024	42.5	—	4.52
European Investment Bank	EUR	2003	2029	463.8	—	4.79
European Bank of Reconstruction and Development	EUR	1993	2008	—	19.5	Floating
Council of Europe Development Bank	EUR	1999	2014	52.1	—	5.32
Council of Europe Development Bank	EUR	2000	2015	46.9	—	5.80
Council of Europe Development Bank	EUR	2001	2016	173.7	—	5.34
Council of Europe Development Bank	EUR	2002	2017	93.3	—	5.36
Council of Europe Development Bank	EUR	2003	2018	—	34.1	Floating
Other	US\$	1993	2005	32.9	—	Various
	JPY	1990	2015	118.4	—	2.90
TOTAL				17,777.4	2,603.8	

In this table “EUR” means Euro, “US\$” means United States dollar, “JPY” means Japanese yen.

(1) The interest rate on floating rate external debt is reset periodically by reference to a number of different bases.

(2) External debt payable to international finance institutions is generally payable in installments over the life of the loans; the remainder is repayable in a single installment at maturity.

(3) Increasing in stages to 5.00% in 2015.

(4) Originally denominated in the World Bank’s “currency pool” and in 1998 converted to US dollars.

Source: Ministry of Finance

State Treasury Internal Debt
State Guaranties and Sureties
With a maturity at issuance of more than one year
as at December 31, 2004

	Maturities					
	2005	2006	2007	2008	2009	2010
	<i>(PLN millions)</i>					
Foreign guarantees	1,252	743	786	691	690	1,332
Domestic sureties and guarantees	1,893	1,952	1,879	1,796	2,099	985
TOTAL	3,145	2,695	2,665	2,487	2,790	2,317

Source: Ministry of Finance

ISSUER

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