



Hanna Gronkiewicz-Waltz
President of the National Bank of Poland

The year 1997 once again brought dynamic growth in the Polish economy. Poland's GDP rose 6.9%, giving the country one of the fastest growing economies in the world. Unemployment continued to decline. For the first time since the start of economic transition, inflation was kept on target.

However, falling inflation was accompanied by a rapid widening of Poland's trade gap and increase in the current account deficit. The difference between aggregate demand and domestic supply was made up by imports. Just how dangerous a situation this can be has been demonstrated both by past economic history and by the events witnessed more recently in certain countries.

Despite periodic strains on the foreign exchange market, Poland was able to avoid a currency and financial crisis. A contributing factor in this were the policies pursued by the National Bank of Poland (NBP), which have been geared to containing domestic demand since December 1996. In 1997, these policies were considerably tightened. Given that the traditional instruments employed by central banks to this end were still not proving effective enough, the NBP was compelled to resort to a less conventional instrument for regulating the money supply, and began directly taking personal time deposits. With fiscal policies offering an insufficient and belated response, and no reaction at all in incomes policy, these measures were essential.

The year 1997 also saw very far-reaching changes in the legal environment of the National Bank. The prime development here was the introduction of the new Constitution of the Polish Republic, which took effect on October 17. Article 227 of the Constitution, which refers to the NBP, lays the basis for extending the autonomy of the decision-making process at the National Bank. Another provision included in the Constitution is a prohibition on the financing of the fiscal deficit by the central bank. Although this ban did not actually take effect until the beginning of 1998, the NBP had been holding no Treasury bills in its portfolio since the end of December 1997.

Work on other legislation determining the legal environment of the Polish banking system was also completed in 1997. On August 29, Poland's parliament, the Sejm, adopted a new Act on the National Bank of Poland, a new Banking Act, and an Act on Mortgage Bonds and Mortgage Banks. These took effect as of the beginning of 1998, yet during the previous year the NBP had already been vigorously involved in preparing to implement the powers delegated to it under the new legislation.

Poland's new Constitution and the other Acts mentioned above have brought Polish banking legislation substantially closer to the standards of the European Union. While there are many detailed legal provisions related to the operation of the Polish banking sector which will still have to be modified to bring them completely into line with the legal arrangements applied within the European Union, the current systemic profile of our regulations is already in basic conformity with EU requirements.

President of the National Bank of Poland



Hanna Gronkiewicz-Waltz

Monetary policy in 1997: targets and conditioning factors

The year 1997 was again one of economic growth. Poland's Gross Domestic Product is estimated to have risen 6.9% in real terms, as against 6.1% in 1996. This growth was thus 1.4 points higher than projected in the Budget and the *Monetary Policy Guidelines for 1997*. Macroeconomic factors meant that the pursuit of monetary policy took place in conditions different from those anticipated in the *Guidelines*.

The basic target of monetary policy in 1997 was to achieve a further reduction in inflation. The *Monetary Policy Guidelines for 1997* projected that annualised average consumer price growth could be brought down to 15%. Indeed, while many economic developments in 1997 in fact proved at variance with those forecast in the *Guidelines*, this target was able to be achieved (also in terms of inflation measured year-on-year, December 1996 - December 1997).

Throughout 1997, monetary policy was focussed on neutralising the powerful inflationary forces discernible within the Polish economy. These were linked to the fact that the growth in domestic demand (consumer, investment and government demand) was outstripping that of GDP. This demand imbalance on the domestic market was resolved, as it had been in 1996, by surging imports. Thus, declining inflation was accompanied by a rapid widening of the trade gap and increase in the current account deficit.

The swift rise of the deficit on current account posed the danger that, were foreign investors suddenly to lose confidence in the Polish economy and the zloty to spiral downwards out of control, inflation would then pick up speed considerably and it would be necessary to make drastic cuts in government spending, thereby yielding slower economic growth, higher unemployment and a serious reduction in the pace of real wage growth. One factor making this scenario all the more likely was the troubled situation on global financial markets produced by the currency crises in a number of emerging markets, particularly in the Czech Republic and South-East Asia.

The need to counter these threats demanded that the central bank take action during the year to tighten its monetary policy significantly in order to curb the growth in domestic demand. The scale of the adjustment measures necessary in monetary policy was also linked to the insufficient and belated fiscal policy response to the escalating external disequilibrium of the Polish economy. At the same time, this economy, still in a state of transition, was marked by a number of characteristics that limited the effectiveness of the monetary policy instruments applied. These characteristics included the continuing excess liquidity within the commercial banking sector and the structure of that sector, a legacy from the days of the centrally planned economy (with a crucial role played by the largest banks, and underdeveloped lending operations compared to funding employed), and also the low elasticity of demand for credit as a function of changing interest rates. Further, with the banks in fierce competition with each other for loan customers, lending rates rose more slowly than rates on the interbank market.

Paradoxically, the signs of crisis on emerging markets and uncertainty related to Poland's parliamentary elections actually made it easier to implement monetary policy. Given that foreign capital now viewed investments in Poland as presenting higher foreign exchange risk, it was possible to keep interest rates relatively high without triggering a large influx of foreign portfolio investment. This saved the central bank from having to undertake costly - and potentially partially ineffective - open market operations to neutralise the impact of the growth in foreign exchange reserves on the money supply, and also prevented the appreciation of the zloty.

The money supply

The *Monetary Policy Guidelines for 1997* projected an increase in the money supply of PLN 27.4-28.6bn. Money supply growth in fact came to PLN 39.8bn, which represents an increase in money stocks of 28.5% on year end 1996, one that was at least 39.1% higher than forecast. In real terms, money stocks rose 13.6%.

The ratio of total money stocks to GDP stood at 39.6%, as against 37.7% in 1996, indicating that the monetisation of the Polish economy increased, although still remaining low. The degree of monetisation also rose in terms of the ratio of domestic money stocks to GDP. This came to 32.7% in 1997, as against 31.2% a year earlier.

The chief counterpart to changes in money stocks was an increase in personal and corporate borrowings, which accounted for 68.3% of total money supply growth¹. Corporate borrowings represented 51.7% of this growth, and personal borrowings - 16.6%.

At year end 1997 total personal and corporate borrowings stood at PLN 108.2bn, an increase of PLN 27.2bn (33.5%) on the previous year (cf. the Statistical Appendix, Table X). In real terms, this represents a rise of 17.9%, with corporate borrowings up 29.6% nominally (14.5% in real terms) and personal borrowings up 56.2% (38.0%).

¹ Calculations include the net balance on "other items".

Within the sectoral structure of total borrowings, corporates occupied a predominant position, accounting for 83.0%. In terms of currency, zloty borrowings constituted an overwhelming 85.2%.

The monetary policy instruments applied to restrict credit expansion resulted in a certain slowdown in the supply of credit to the economy. The leap in household borrowings recorded in 1996 due to soaring consumer lending (up almost 110%) was substantially reduced - this came to 56.2%. At the same time, the increase in corporate borrowings at domestic banks fell from 37% in 1996 to 29.6% in 1997.

Net general government indebtedness rose PLN 7.0bn in 1997, to reach PLN 55.2bn at year end. This constituted 17.5% of total money supply growth.

Net foreign receivables went up USD 2,762m during 1997, and at year end stood at USD 24,429m². As in the previous year, the increase in the foreign exchange reserves held within the banking system was determined by the financial account of Poland's balance of payments. The surplus recorded on financial transactions offset the deficit on the current account and led to an increase in the reserves, albeit not to the same degree as in 1996. The net balance on financial transactions came to USD 7,494m. The prime factors behind the growth in the reserves were foreign direct investment (a surplus of USD 3,041m) and portfolio investment (a surplus of USD 2,098m). The current deficit of USD 4,286m was attributable to the shortfall on merchandise trade, which amounted to USD 11,269m. Only half of this sum was offset by the surplus on "unclassified current transactions".

The composition of the money supply remained basically unchanged in 1997.

Table 1. Composition of the money supply, 1996 and 1997 (%)

	1996	1997
Notes & coins	17.5	15.4
Zloty deposits	65.2	67.1
Foreign currency deposits	17.3	17.5

At year end 1997, personal and corporate deposits totalled PLN 118.4bn, up PLN 28.7bn (31.9%) on the end of 1996. In real terms, this represents growth of 16.5%. At the end of the year, personal zloty deposits amounted to 68.3% of total zloty deposits, while corporate deposits made up 31.7%. These deposits had grown 40.9% and 16.0%, respectively, in nominal terms, and 24.4% and 2.5% in real terms.

Foreign currency deposits rose 31.8% over the year (real growth of 16.5%) to stand at the equivalent of PLN 30.8bn. Corporate foreign currency deposits climbed 90.8% (68.6% in real terms), and accounted for 18.1% of total foreign currency deposits, while personal currency deposits rose 23.4% (9.0%).

The volume of notes and coin in circulation came to PLN 27.3bn. This represents an increase of PLN 3.7bn on 1996, i.e., nominal growth of 15.7% and real growth of 2.2%.

The largest component of money supply growth was the increase in zloty deposits, which came to almost 72%. The increase in foreign currency deposits represented 18.7% of growth, while that of notes and coin accounted for 9.3%.

The operational target of monetary policy

The operational target of the NBP in 1997, as in 1996, continued to be controlling the growth in reserve money. The *Monetary Policy Guidelines* targetted annual growth in reserve money stocks of PLN 5.2-7.5bn. The lower of these figures was based on the assumption that the reserve requirement would be lowered, while the upper assumed it would remain unchanged. In a resolution adopted on the 1997 *Guidelines*, the Sejm instructed the NBP to hold reserve money growth to PLN 6.6bn.

Given the high daily fluctuations in the level of reserve money, the NBP moved to controlling this on the basis of a 30-day rolling average.

In balance sheet terms, reserve money growth in 1997 totalled PLN 8.1bn (an increase of 23.7%), while in terms of the 30-day rolling average it amounted to PLN 10.6bn (30.3%). Over 85% of annual reserve money growth in balance sheet terms is attributable to the first six months of the year - the increase in each of the first two quarters was around PLN 3.5bn. Some 50% of this can be traced to two increases in the reserve ratio. In the second half of the year, on the other hand, growth was slower. In the third quarter reserve money stocks went up PLN 2.8bn, while in the fourth quarter they even fell, slipping PLN 1.8bn.

² Up to now, the term "net foreign receivables" has been used in NBP publications to represent the item in the consolidated balance sheet of the banking system reflecting movements in foreign assets and liabilities, and their impact on the money supply. However, the NBP is now gradually replacing this with the category "net foreign assets". The nominal difference in the value of "net foreign receivables" and "net foreign assets" is minor, since the items previously not included in "net foreign receivables" are of approximately equivalent value on both sides of the balance sheet, and therefore cancel each other out. "Net foreign assets" are presented in Tables X and XI of the Statistical Appendix.

The fact that the target for reserve money growth was substantially overshoot stems from the fact that, in submitting to the Sejm the *Monetary Policy Guidelines for 1997*, the NBP Management Board made no provision for any need to raise the reserve requirement.

The average monthly level of the reserve multiplier in 1997 came to 3.85, an increase of 1.9% on 1996. The movement in the money multiplier came as a result of two opposing factors: the increase in the reserve ratio on the one hand, and on the other, particularly towards the end of the year - a drop in the demand for money.

The fiscal policy pursued in 1997 hindered the central bank's efforts to exert effective control over the creation of reserve money. Difficulties in financing the public debt led the Ministry of Finance, with Sejm approval, to fund the fiscal deficit directly via the central bank. The National Bank made direct purchases of T-bills from the Ministry of Finance on eight occasions, thereby pumping PLN 2.3bn into central government.

An additional factor pushing up the supply of reserve money was the Government decision to access a central bank loan to finance assistance to flood victims. An amendment to the Budget authorised central government to take out financing of up to PLN 2.5bn at the NBP, which it drew on almost in full.

Another circumstance impeding effective control of reserve money were the effects of direct or indirect government borrowing abroad. This increased the foreign exchange reserves. Central government operations involving the obtaining of loans from foreign banks (PLN 1.5bn), international bond issues (PLN 1.3bn) or indirect foreign financing through the sale of Treasuries to foreign investors (PLN 2.2bn) constituted a major source of excess liquidity within the banking system.

Monetary policy instruments

Interest rates

The policies pursued by the NBP in 1997 were designed to raise real interest rates by means of both official base rates and rates on open market operations. The actual level of real interest rates was conditioned by the level of nominal rates and the slowdown in price growth.

The interest rate applicable to open market operations (the 14-day reverse repo rate) rose from 21.64% in January to 22.59% in July, to go up to 23.55% in August and remain at this level to the end of the year. On August 4, the National Bank raised its base rates. The lombard rate was increased from 25% to 27%, while the rediscount rate was lifted from 22% to 24.5% (meaning that actual rates on rediscount loans went up from 23.28% to 26.1%).

Real lombard rates in the particular quarters of 1997 are presented in Table 2.

Table 2. Real lombard rates, 1997

Period	Annualised	Average monthly	Real rate	Real rate
	rate (quarterly average)	rate	(A)	(B)
1st quarter	25.0	2.08	0.6	0.5
2nd quarter	25.0	2.08	1.4	1.0
3rd quarter	26.3	2.19	1.3	1.8
4th quarter	27.0	2.25	1.6	1.1

A - Adjusted by reference to Producer Price Index (PPI)

B - Adjusted by reference to Consumer Price Index (CPI)

The effectiveness of the interest rate policy applied in 1997 was lower than expected due to the limited impact of movements in official rates on lending and deposit rates at the banks, and the low elasticity of demand for credit as a function of changing interest rates. The first of these factors was linked to the characteristic features of the Polish economy in its present state of transition, as indicated in the previous chapter. The low price elasticity of demand for credit was true of both households and corporations. In the former case, this can be traced to the rapid growth of real wages, the large potential for consumption deferred from the initial years of transition, and the lack of institutional factors encouraging the propensity to save (such as the "capital pillar" in the system of pensions and disability benefits, a system of voluntary health insurance, a developed sector of building societies, or a private sector in education). The low sensitivity of corporations to interest rate movements is related to the small part that external financing still plays in business development and the large share of state ownership within the economy as a whole.

Refinancing credit to banks

The liabilities of the banks on outstanding refinancing facilities increased by a total of PLN 933.8m in the course of 1997 (a rise of 13.8%); excluding loans to finance central government investment projects, this figure came to PLN 346.4m (an increase of some 19%).

The volume and growth of refinance loans is set out in Table 3.

The amount outstanding on central investment refinancing increased by PLN 587.4m in 1997, i.e., 11.8%. Disbursements on these loans totalled PLN 145m, interest capitalisation came to PLN 640m, while repayments amounted to PLN 197.6m. The disbursements in question were made entirely to Powszechny Bank Gospodarczy SA - Pekao SA Group of Łódź to fund that bank's financing of the Opole power station project. Repayments on central investment loans were over twice as high as those contractually due.

Table 3. NBP refinancing credit, 1997 (PLN million)

	Dec 31 1996	March 31 1997	Balance at:		Dec 31 1997	Growth, 1997
			Jun 30 1997	Sept 30 1997		
Total refinancing credit	6,780.9	6,962.5	6,598.4	6,375.3	7,714.8	933.8
1. Central investment credit	4,987.9	5,001.5	5,026.0	5,007.6	5,575.3	587.4
2. Bills rediscounted	180.8	145.1	136.5	28.7	230.3	49.5
a) agricultural procurement	180.6	142.6	130.6	25.1	228.7	48.1
b) trade bills	0.2	2.5	5.9	3.6	1.6	1.4
3. Lombard loans	255.6	489.1	135.9	46.4	613.7	358.1
a) restructuring	50.0	48.3	47.1	45.2	36.9	-13.1
b) other	205.6	440.8	88.8	1.2	576.8	371.2
4. Other (debt of Bank Handlowo-Kredytowy SA)	1,356.6	1,326.8	1,300.0	1,292.5	1,295.4	-61.2

In the first three quarters of the year, the refinancing liabilities of the banks gradually shrank (on both lombard and rediscount facilities), while the last quarter, as is the case every year, saw a surge in demand for rediscount loans from sugar industry banks.

Lombard facilities were generally drawn down by banks at the end of the month in order to top up their regulatory reserves, held on reserve account at the NBP. On the other hand, the balance due from banks on lombard loans for restructuring purposes fell PLN 13.1m, to stand at PLN 36.9m at year end. The interest rate on these restructuring loans stood at 0.7 of the lombard rate.

The only overdraft facilities utilised involved unpaid interest on the debt of Bank Handlowo-Kredytowy SA, Katowice (under liquidation). This bank's debt to the NBP was again slightly reduced.

Exchange rates

The year 1997 saw a continuation of the exchange rate regime applied in 1996. This provided for a maximum permissible divergence between market zloty exchange rates and central parity of $\pm 7\%$. At the same time, the central parity rate was subject to 1% monthly devaluation under the crawling band mechanism.

Exchange rate policy was geared towards arresting the mounting current account deficit rather than combatting inflation. Zloty exchange rates were thus intended to improve export efficiency and discourage imports. These considerations lay behind the maintenance of a 1% monthly rate of crawling devaluation (equivalent to 12.68% p.a.). This mechanism was additionally reinforced by frequent NBP intervention on the interbank FX market to prevent excessive gains in the market rate for the zloty.

The year 1997 also brought a relatively strong trend for the zloty to lose ground within its trading band around parity, primarily as a result of events on emerging financial markets. Market exchange rates were also noticeably more volatile than in 1996, with the greatest swings, of over 7%, recorded in July (cf. Fig. 1).

Figure 1. Deviation of zloty exchange rates from parity (against Poland's reference basket of currencies), 1997 (%)



In the first quarter of the year, with both Polish and foreign investors continuing to display interest in zloty financial instruments, Poland's currency came under market pressure to appreciate. However, this pressure was significantly mitigated by NBP intervention. The National Bank intervened most heavily to buy currency in January. The average deviation of market exchange rates from central parity at this time was edging towards minus 3%.

The second quarter witnessed a distinct easing of the upward trend in zloty exchange rates, the result of intense NBP intervention, which in April was almost twice as great as in the whole of the first quarter. The second half of May then saw a powerful tendency for the zloty to lose value as foreign investors reacted to the crisis of the Czech koruna by disposing of Polish T-bills.

Over the first half of 1997, as a result of intervention on the market and at the fixing, the central bank bought up a total of USD 2.5bn. The market rate for the zloty remained above parity for the whole of this period, while the average divergence of the fixing rate from central parity stood at minus 2.5%.

The second half of the year was then marked by a distinct slip in the market rate for the zloty, with a considerable increase in rate volatility. The average divergence of the fixing rate from central parity came to plus 0.8% in the third quarter, as against minus 3% in the first and minus 2.1% in the second. The deepening of the Asian financial crisis, leading foreign

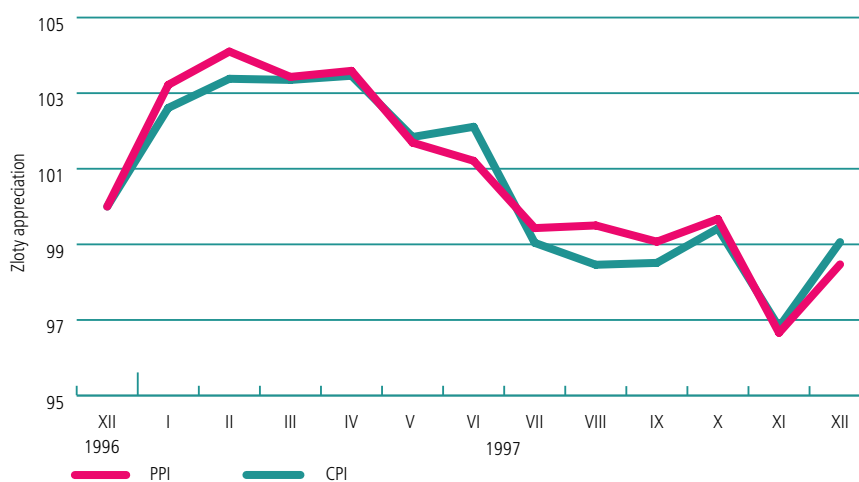
investors to sell off paper from all emerging markets (Poland included), rekindled strong pressure for the zloty to depreciate. Poland's currency was also weakened by internal developments - large-scale flooding and a wait-and-see attitude prior to the general election. These tendencies were countered by decisions of the NBP designed to curb bank lending, which included raising official base rates and the taking of personal deposits.

Allowing a broader range of exchange rate fluctuation in the second half of the year contributed substantially to making monetary policy more effective. It was thus possible to keep interest rates relatively high without aggravating the danger of an influx of foreign capital. The scale of NBP intervention at the fixing and on the FX market was three times less than in the first half of the year.

The level of market exchange rates for the zloty was also affected by movements in the major currencies traded on world markets. The US dollar's strong advance against the principal currencies of Western Europe (the annualised average rate for the dollar against the Deutschmark was up around 15.4% on 1996) was one of the factors - alongside trends on the domestic FX market - speeding up the dollar's appreciation relative to the zloty. Over the year 1996 as a whole (December-December), the rate for the US dollar at the fixing had risen 13.9% against the zloty, while in 1997 it gained 23.4%. On the other hand, the D-mark moved up 7.6% against the zloty in 1997, compared to 5.9% in 1996.

An analysis of the indices of effective real zloty exchange rates in relation to the currencies of Poland's major trading partners demonstrates the clear and progressive depreciation of the zloty. The real depreciation of the zloty, measured by relative movements in Producer Price Index (the PPI), amounted to 1.5 points, measured by Consumer Price Index (the CPI), it came to 0.9 points (cf. Fig. 2).

Figure 2. Effective real zloty exchange rates, 1997 (December 1996 = 100)



The more competitive position of Polish exporters, coupled with an upturn in external demand, were reflected in an improvement in the tendencies visible in Poland's foreign trade. The second half of the year, in particular, showed that the deepening deficit on visible trade was beginning to bottom out. Export receipts (calculated using constant cross rates³) rose 22.9% in this period (relative to the second half of 1996), while import remittances were up 24.4% (whereas in the first half of 1997, annualised growth had still been 32.8%).

Required reserves

There was no change in the course of 1997 in the principles applicable to settling reserve requirements, maintaining required reserves, and making use of the balances on reserve accounts for the purpose of day-to-day interbank settlements.

The NBP raised the reserve ratio twice in 1997. On February 28, 1997, the National bank increased the requirement on zloty demand deposits from 17% to 20%, and on foreign currency demand and time deposits from 2% to 4%. The immediate reason for this decision was the sale of T-bills totalling PLN 2.2bn to the central bank by the Minister of Finance on December 30, 1996. It was necessary to neutralise this transaction in order to prevent an excessive expansion of the money supply.

³ Given the strong appreciation of the US dollar against the other currencies in which Poland's trade is settled, changes in foreign trade trends are better expressed using the value of imports and exports translated into dollars using "cross rates" from the same period of the previous year.

Given the need for a further restriction in credit expansion, which was fuelling excess demand, the NBP decided to raise the reserve ratio once again on May 31. This time the requirement on zloty time deposits was increased from 9% to 11%, while the requirement on foreign currency deposits, both demand and time, went up from 4% to 5%. In addition, as of December 31, 1997, the proportion of regulatory reserves eligible to be held as vault cash was lowered from 50% to 10%.

Movements in required reserves in 1997 are shown in Table 4.

Table 4. Required reserves, 1997 (PLN million)

	Total on		1997				Total at
	Dec 31 1996		Quarterly increases				Dec 31 1997
			I	II	III	IV	
1. Total required reserves	10,308	2,149	2,472	1,139	986	17,054	
of which:							
1.1. on account at NBP	7,246	1,872	2,272	992	3,048	15,430	
– non-interest bearing	6,601	869	987	801	2,916	12,174	
– interest-bearing	645	1,003	1,285	191	132	3,256	
1.2. vault cash	3,062	277	200	147	-2,062	1,624	

The effect of the increases in required reserves carried out in 1997 was to drain liquidity from the banking system to a total of PLN 3,556m. By the end of 1997, required reserves had risen 65.4% compared to year end 1996, as against 30.9% growth in the deposits serving as the basis for calculating the reserves. The changes in the requirements on time and demand deposits led to a change in the average reserve ratio, which went up from 9% in December 1996 to 11.7% at the end of 1997.

The increase in required reserves was primarily a function of the growth in zloty deposits (up almost 31%), which were subject to an average requirement 2.7 times higher than that applicable to foreign currency deposits. The increases in the reserve ratio also led to a doubling in the reserves held against currency deposits, yet these still accounted for no more than 10% of total reserves.

A tendency visible over the course of 1997 was for the proportion of required reserves held as declared vault cash to diminish. Vault cash declined from 29.7% of reserves at December 31, 1996, to 9.5% twelve months later.

In 1997, the NBP continued to provide financial support to banks implementing financial recovery programmes by exempting them from the reserve requirement. These banks were obliged to apply the funds thus retained to the purchase of Treasury securities or NBP money market bills, which provided them with an additional source of income while also securing their liabilities to depositors. (Cf. the section on "The role of the NBP in banks' rehabilitation" in the chapter "Banking supervision").

Open market operations

The value of open market operations carried out in 1997 showed an increase year-on-year of PLN 4.6bn. Transactions involving the National Bank's own money market bills grew PLN 1.8bn, while reverse repurchase operations decreased by 0.8bn. An additional instrument used to siphon off liquidity in 1997 was the acceptance of personal deposits by the central bank. The NBP took in PLN 3.6bn of these deposits, which in effect functioned as a form of open market operations. Figures on open market operations in 1997 are set out in Table 5.

Table 5. Open market operations, 1997 (PLN million)

	Dec 31 1996	March 31 1997	June 30 1997	Sept 30 1997	Dec 31 1997	Change, 1997
Repurchase transactions	0	0	0	0	0	0
Reverse repurchase transactions	2,127	61	773	1,495	1,288	-839
Money market bills	12,533	16,954	18,021	14,748	14,374	1,841
Personal deposits	0	0	0	842	3,600	3,600
Total	14,660	17,015	18,794	17,085	19,262	4,602

Between January and July, the size of open market operations grew firstly as a result of lending to central government, and then due to the influx of foreign exchange causing an increase in the gross official reserves. One of the main reasons for the rise in the official reserves was the financing by foreign investors of the public borrowing requirement. Open market operations were scaled down in August and September, as central government finances improved and the foreign exchange reserves stabilised. In October, foreign investors made a temporary return to the Polish Treasuries market. The gross official reserves again

grew, due to open market operations. The next significant need for these operations came about in December. At the beginning of the month, the banks were considerably in excess of their averaged monthly required reserves. The expansion in the volume of notes and coin in circulation proved lower than expected. As a result, towards the end of the month the idle balances held by the banks increased, creating greater demand for NBP money market bills.

It was the issue of NBP bills that was utilised as the primary vehicle for open market operations. A total of 120 tenders were held for these bills, sold with 91-, 182- and 273-day maturities. Short-term bills (redeemable in 1, 7- or 14 days) were also issued. The face value of all the bills put up for tender came to PLN 48.3bn, with demand totalling PLN 47bn. The tender value of bills sold amounted to PLN 39.6bn.

In addition, 102 reverse repurchase operations were performed, mostly with 14-day maturities. The NBP conducted reverse repos involving bills with a face value of PLN 61.85bn, with the banks entering bids to a value of PLN 43.7bn. The value of bills sold came to PLN 41.3bn. These operations were principally used to absorb short-term excess liquidity.

Exceptional instruments

Given the limited impact of changes in official base rates on the banks' lending and deposit rates, in mid-September the NBP began accepting personal deposits. These were offered at fixed rates of interest, with 6-month deposits earning 21.5% p.a., and 9-month deposits earning 22.5% p.a. These rates were at the time higher than those being offered by the commercial banks. During a three-month campaign to attract personal depositors, the central bank took in funds totalling PLN 3.6bn, with over two thirds of this sum placed in 9-month deposits. The NBP Management Board expected the banks to respond to this by raising their own deposit and lending rates, with higher real interest rates inducing households to curtail current consumption. The NBP estimates that the increases in base rates, allied to the central bank's acceptance of personal deposits, helped push up deposit rates at the largest banks by between 0.9 points (12-month deposits) and 1.6 points (1- and 3-month deposits). Prime lending rates rose 1.1 points. According to the Central Statistical Office (GUS), the ratio of savings to disposable incomes increased from 10.4% in 1996 to 10.9% in 1997, while growth in personal consumption slowed from 8.7% to 7%.

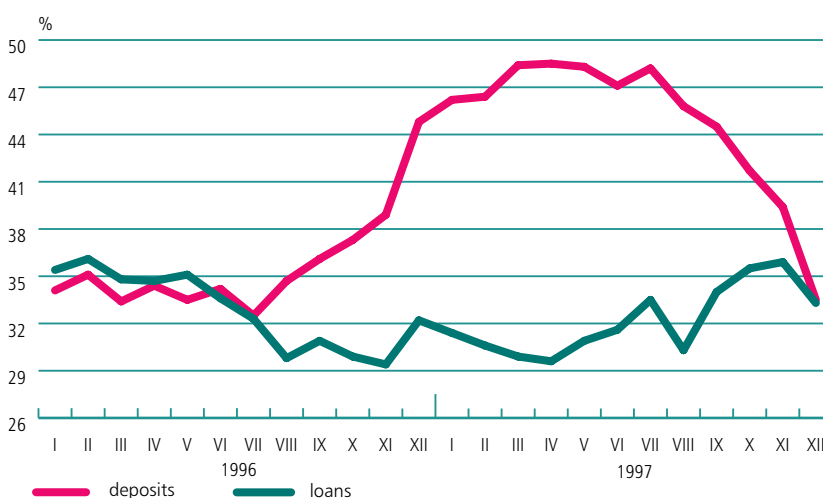
The impact of monetary policy instruments on lending and deposit-taking

One indication of the effectiveness of monetary policy instruments in 1997 is the impact these had on lending and deposit growth in the particular months of the year (cf. Fig. 3).

Up until July 1996, loans and deposits exhibited a similar rate of growth. As of August 1996, loans began to rise much more quickly than deposits, possibly as a result of the cut in NBP base rates (performed in mid-July 1996), which led to a decrease in rates at commercial banks. The maximum divergence between lending and deposit growth rates came to 18 points; it remained at around 10 points right until September 1997. In December, loan and deposit growth became synchronised once again.

The increase in outstanding loans to corporations and households was different than that in lending as a whole (cf. Fig. 4). The most rapid growth in lending to households took place in the period up until December 1996 (largely owing to the promotional efforts of a number of banks), while corporate lending growth peaked in July 1997. In 1997, consumer

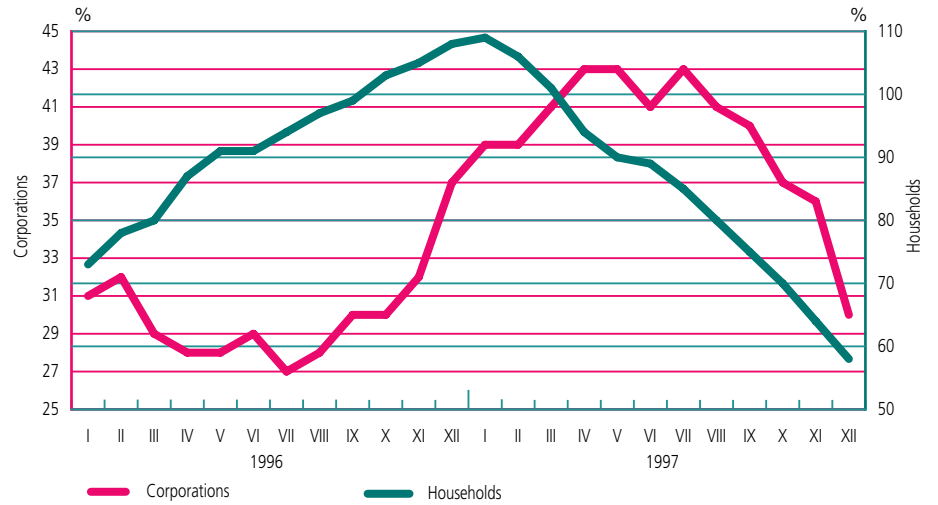
Figure 3. Lending and deposit growth, non-financial sector (same month previous year = 100)



lending growth gradually began to ebb. By contrast, corporate lending growth did not start to fall off until the second half of the year.

To summarise, it has to be recognised that the effectiveness of traditional monetary policy instruments in 1997 proved limited. It was for this reason that the NBP Management Board, seeking to bolster the effectiveness of monetary policy, concluded that it was necessary to apply an exceptional instrument in the shape of the taking of personal deposits.

Figure 4. Corporate and household lending growth (same month previous year = 100)



Banking supervision

The activity of banking supervision in 1997

The activity of banking supervision in 1997 may be divided into two basic areas:

- the development of principles for safe and sound banking operations through the establishment of prudential standards designed to prevent the assumption of undue risk,
- the review of the situation of banks through off-site surveillance and on-site examinations.

As part of its activity to develop regulatory standards for safety and soundness, the NBP in 1997 began work to implement the delegation of powers contained within new legislation scheduled to take effect as of January 1, 1998, i.e., the new Banking Act, the new Act on the National Bank of Poland, and the Act on Mortgage Bonds and Mortgage Banks.

Recommendations of the President of the NBP

The work performed in 1997 with respect to standards for safety and soundness focussed on issues of qualitative supervision.

This work resulted in the distribution to banks of recommendations concerning capital market operations (referring to derivatives risk, investment risk and large exposure risk) and the management of IT and telecommunications systems (with particular reference to the preparation of these systems for the Year 2000).

Prudential regulations

A new prudential regulation issued on the basis of statutory authorisation given to the NBP was Regulation 9/97 of the President of the NBP, December 5, 1997, on procedures for determining the capital base of banks belonging to a banking group for the purpose of the requirements and limits set in the Banking Act (issued pursuant to Article 10, para. 4, of the Act on the Amalgamation and Consolidation of Certain Joint-Stock Banks of June 14, 1996).

Regulations of the President of the NBP on bank accounting and reporting

A new regulation drawn up in 1997 was that of the President of the NBP on detailed procedures for the compilation of aggregate (consolidated) financial statements by regional affiliating banks. This regulation was issued under an authorisation set out in Article 23, para. 6, of the Act on the Restructuring of Cooperative Banks and Bank Gospodarki Żywnościowej and on Amendments to Certain Legislation of June 24, 1994. In addition, three regulations were issued amending existing banking sector regulations. These amendments were necessitated by the taking effect as of January 1, 1998, of the new Banking Act of August 29, 1997, and also by practical considerations relating to the operation of the Model Bank Chart of Accounts and prudential reporting system. Amendments were also made to the Regulation of the President of the NBP on detailed bank accounting principles and the compilation of notes to financial statements; these amendments stemmed from the need to ensure an equitable balance between the expense incurred by banks in repaying capitalised interest on refinance loans and the income earned from capitalised interest on loans to finance central government capital projects.

On-site examinations

The year 1997 saw the publication of uniform standards for the performance of on-site examinations, drawn up in an *On-Site Examination Manual* devoted to examination procedures and methodologies. This Manual, primarily utilised by bank examiners, was also distributed to the banks. In addition, a *Uniform Bank Performance Report* was developed, together with "supervisory profiles" for all the banks. These tools provide a standardised methodological framework for the review of banks and for a rating system for banks within established peer groups. These ratings are used for analytical purposes, although the intention of the NBP is to make them available to the banks in the future.

In performance of the National Bank's on-site supervisory function, 118 examinations were carried out in 1997, at a total of 42 commercial banks. Of these, 9 were full-scope examinations, 52 were targetted exams, and 57 were ad hoc exams. At the cooperative banks, 378 examinations were conducted; 155 of these were full-scope, 169 were targetted, 8 were connected with a suspension of operations or liquidation, and 46 were of some other character. The full-scope examinations carried out by the NBP were based on the CAMEL methodology, modelled on the procedures applied by the US Federal Reserve, although adjusted to correspond to the economic and legal environment within the Polish banking industry.

The role of the NBP in banks' rehabilitation

The activity of the NBP in 1997 in respect of bank rehabilitations was primarily concerned with overseeing, applying and implementing financial recovery programmes at banks, and also with support to rehabilitations and restructurings within the banking industry.

During the year, the President of the NBP approved recovery programmes for three joint-stock banks.

At the same time, due to changing external conditions, some banks drew up modified rehabilitation plans, applying these after receiving the requisite approval.

At year end 1997, there were 14 joint-stock banks implementing recovery programmes, with the scope of operations of one bank subject to a restriction order. In the years 1991-

97, 17 joint-stock banks successfully completed recovery programmes. In the cooperative sector, 287 banks were in the process of carrying out recovery programmes that had been approved or conditionally accepted by the NBP. The supervisors were developing or analysing programmes for another 25, while the distressed condition of a further 21 was under review, although no decision had yet been reached on the course of action to be taken.

At the end of the year, the NBP was continuing to provide active support to the rehabilitation of five joint-stock banks, providing financial assistance on the basis of agreements concluded in the years 1993-94. At December 31, 1997, the outstanding assistance made available in this respect came to PLN 486,618,300⁴.

Furthermore, the central bank was involved in supporting the restructuring process within the cooperative banking sector. In 1997, financial assistance in the form of cheap discount loans totalling PLN 57,095,300 was granted to 35 banks. Given that certain formal procedures associated with the disbursement of this assistance had been commenced in previous periods and were subsequently finalised in 1997, part of the funding advanced by the NBP was applied in accordance with the Sejm Resolutions of July 12, 1995, January 11, 1996, and 24 January, 1997. In carrying out these resolutions, and also that of the NBP Management Board adopted in 1994, the central bank provided assistance to the takeover of 25 cooperative banks by 12 joint-stock banks, and the acquisition of a further 85 cooperative banks by 67 other cooperative banks. In five cases, where rehabilitation measures had been completed, this assistance was refunded in full. At December 31, 1997, the outstanding financial assistance provided by the NBP to cooperative sector restructuring amounted to PLN 122,226,700.

The year 1997 was the last year in which the National Bank, in consultation with the Ministry of Finance, took decisions on the provision of assistance through the purchase of restructuring notes for the cooperative sector.

Pursuant to the Act on the National Bank of Poland, the central bank also continued to contribute to the process of cooperative bank rehabilitation by exempting banks from the reserve requirement. In 1997, 82 cooperative banks availed themselves of these exemptions, with the required reserves thus retained by these banks totalling PLN 88m.

As regards joint-stock banks, exemptions from the reserve requirement were obtained in 1997 by five institutions; in two cases the exemptions were designed to support rehabilitation measures undertaken by the banks themselves, while in the other three cases they related to the acquisition of other banks. In the latter cases, the amount exempt was calculated with reference to the volume of deposits acquired. It should be noted that two banks received assistance of this nature in connection with their acquisition of four cooperative banks.

In all, by the end of 1997 this form of support had been extended to 23 joint-stock banks and 221 cooperative banks, with the funds thereby retained at these institutions amounting to PLN 720.6m.

Since 1995, when the Act on the Bank Guarantee Fund of December 14, 1994, took effect, the obligation of financing recovery measures at banks and guaranteeing the deposits held at banks declared bankrupt rests exclusively with the Bank Guarantee Fund. The NBP delivers its opinion on applications made by banks to the Fund.

Banks' consolidations

In the course of 1997, the National Bank continued its efforts to promote the process of consolidation under way within the Polish banking industry. Under approvals issued by the President of the NBP, seven cooperative banks were taken over by four other cooperative banks and one joint-stock bank. In addition, having gained the approval of the President of the NBP, the shareholders of one bank resolved to liquidate that bank and sell its banking operations to another, well-established and respected, institution. The NBP believes all initiatives aimed at consolidating the banking sector to be extremely valuable, contributing substantially to the positive public perception and safety of the system as a whole.

Banking system surveillance and analyses

As in previous years, the analytical surveillance performed by the NBP included periodic assessments of the operations and financial condition of the banking industry. Four summary evaluations of the operations of banks were published (referring to 1996 and to each of the first three quarters of 1997), which were in each case distributed to banks and directors of NBP regional branches, and were also made available to other interested agencies and institutions, and to the general public. Furthermore, a comprehensive study was produced entitled *Evaluation of the operations of the banking system in 1996*.

Development of the cooperative banking sector

The NBP was also engaged in analysing the operations of the cooperative banking sector and in particular of troubled cooperative banks. The operations of this sector are mainly regulated by the Act on the Restructuring of Cooperative Banks and Bank Gospodarki Żywności-

⁴ Exclusive of the refinance loan (past due) extended in 1994 to Bank Agrobank SA.

ciowej. In conjunction with the Minister of Finance, the NBP drew up reports on the implementation of that Act, together with an *Evaluation of the condition of cooperative banks during the first three quarters of 1997*.

The measures taken by the NBP were primarily related to overseeing work on the National Affiliation Agreement for cooperative banks. Under the Act on the Restructuring of Cooperative Banks and Bank Gospodarki Żywnościowej, which provides for the establishment of a three-tier cooperative structure (the National Cooperative Banking Group), the foundations for the operations of this structure are to be incorporated in a National Affiliation Agreement, to be developed by Bank Gospodarki Żywnościowej and accepted by representatives of the organisations affiliating cooperative banks, and subsequently approved by the President of the National Bank of Poland, acting in consultation with the Minister of Finance. In 1997, various departments of the NBP drew up comments on draft versions of this Agreement submitted by the President of Bank Gospodarki Żywnościowej. No draft was finally approved, however.

In 1997, the process of establishing intermediate-tier regional affiliating banks was completed, in compliance with the Act on the Restructuring of Cooperative Banks and Bank Gospodarki Żywnościowej. The National Bank worked together with the regional banks to prepare the documentation necessary for authorisation. During the year, the courts registered three of these banks: Dolnośląski Bank Regionalny SA (headquartered in Wrocław), Bałtycki Bank Regionalny SA (Koszalin) and Rzeszowski Bank Regionalny SA (Rzeszów). In 1997, five regional banks also received permits to commence operating activity: Mazowiecki Bank Regionalny SA (Warsaw), Pomorsko-Kujawski Bank Regionalny SA (Bydgoszcz), Bałtycki Bank Regionalny SA (Koszalin), Dolnośląski Bank Regionalny SA (Wrocław) and Małopolski Bank Regionalny SA (Cracow).

The issue of currency

Notes and coin in circulation

The total volume of currency in circulation (including vault cash) increased PLN 3.8bn in 1997, to stand at PLN 31.1bn at year end. This represents an annual growth of 14.1%. At December 31, 1997, total notes and coin in circulation, excluding vault cash, amounted to PLN 27.3bn, an increase of 15.7% year-on-year. The expansion of cash stocks recorded in 1997 was thus markedly smaller than in 1996 (21.6%).

Table 6 presents the growth of notes and coin in circulation, in the context of Consumer Price Growth (CPI), in the particular months of 1997.

An analysis of the level of cash stocks in the particular months of 1997 clearly indicates that the highest increments occurred in March, April and July. On the other hand, an analysis of the figures for 1997 by quarter shows that the largest growth took place in the 2nd quarter (PLN 2.2bn), followed by the third (PLN 0.8bn) and the first (PLN 0.7bn). The volume of currency in circulation was exceptionally stable in the final quarter of the year, when it edged up less than PLN 100m. While high growth in cash stocks in the spring and in July can be attributed to seasonal factors, the almost complete lack of growth in the fourth quarter could have been related to the NBP accepting at that time 6- and 9-month personal deposits at attractive rates of interest.

With respect to the composition of notes and coin by denomination, at the end of 1997 the highest denomination notes, 100 and 200 zloty, together accounted for some 77.5% of total cash stocks by value. At December 31, notes of the remaining denominations represented around 19.4% of currency in circulation, while all coins taken together made up some 3.1%. The changes in this regard compared to 1996 involved an increase in the relative proportion of notes of the highest denominations at the expense of other notes, with the share of coin remaining approximately the same.

In 1997, the NBP also issued collector's coins in six editions. These continued themes taken up in previous years (Polish Kings, Castles and Palaces of Poland, and Animals of the World), commemorated anniversaries celebrated in 1997 (the Millennium of the Martyr's Death of St Adalbert and the 200th Anniversary of the Birth of Paweł Edmund Strzelecki), or were devoted to a significant event (the Participation of John Paul II in the Eucharistic Congress in Wrocław). In presenting these themes, 13 kinds of coin were minted:

- four 2 zloty coins struck from an alloy called "Golden Nordic",
- seven 10 and 20 zloty silver coins,
- two 100 and 200 zloty gold coins.

In addition, the minting of gold "bullion" coins begun two years ago was continued. These are intended for investment purposes and as collector's items. The coins bear the likeness of a golden eagle, with face values of 50, 100, 200 and 500 zloty, and contain, respectively, 1/10, 1/4, 1/2 and 1 ounce of pure gold.

Table 6. Monthly growth rates: notes & coin in circulation, prices, 1997

Month	Total	Growth,	Price	Growth,	Price
	notes & coin	notes & coin	growth	notes & coin	growth
	PLN million	December 1996 = 100		Previous month = 100	
December 1996	27,244.4	100.0	100.0	x	x
January 1997	25,748.4	94.5	102.9	94.5	102.9
February	26,240.9	96.3	104.0	101.9	101.1
March	27,989.2	102.7	104.9	106.7	100.8
April	28,952.5	106.3	105.9	103.4	101.0
May	29,352.5	107.7	106.6	101.4	100.6
June	30,156.8	110.7	108.2	102.7	101.5
July	31,129.4	114.3	108.0	103.2	99.8
August	31,185.5	114.5	108.1	100.2	100.1
September	30,990.0	113.7	109.5	99.4	101.4
October	31,136.5	114.3	110.8	100.5	101.1
November	30,994.2	113.8	112.1	99.5	101.2
December	31,075.2	114.1	113.2	100.3	101.0

Other issues

On January 1, 1997, the old notes and coin issued prior to the redenomination of the zloty ceased to be legal tender. The vast majority of old zloty had been replaced naturally by new notes and coin during the years 1995-96, when both old and new zloty were in use side by side. On January 1, 1997, the value of old currency that had not been returned to NBP cash desks (i.e., had not been exchanged during the two years of parallel circulation and remained outside the central bank) represented just over 3% of total notes and coin in circulation.

Under Article 3, para. 2, of the Act on the Redenomination of the Zloty of July 7, 1994, the old currency may be exchanged for new zloty at banks until the end of the year 2010. The year 1997 was the first in which currency was exchanged under this procedure. The largest amount of currency for exchange was received at the beginning of the year. By December 31, 1997 holdings of old zloty outside the NBP had shrunk to just 0.86% of total notes and coin in circulation. This means that in 1997 the public submitted for exchange over two thirds of the old currency that was in circulation at the end of 1996, when the two-year period of parallel circulation came to an end.

Servicing central government

Operating the accounts of central government

The National Bank of Poland is responsible for servicing central government receipts and expenditures, i.e., for the collection, transfer and disbursement of public funds.

The NBP operates accounts for some 10,000 central government institutions and around 890 central government special-purpose funds. In 1997, the number of NBP customers involved in central government finances, and the number of accounts maintained for them, remained basically unchanged. The current accounts which the NBP operates for these customers are used for both receipts and expenditures, in both cash and non-cash form. Payments are authorised in observance of the key principle underlying the operation of current accounts, namely, that withdrawals cannot exceed the balance of funds held on account.

The National Bank's servicing of central government accounts allows ongoing monitoring of the performance of the Budget. The Bank submits daily reports to the Ministry of Finance on the balance of central government funds, indicating the level of receipts by composition and total level of expenditures, and the funds held to cover the fiscal deficit.

The workload involved in servicing central government, measured by the number of settlements processed, is constantly increasing. In 1997, the number of outgoing payments messages forwarded by National Bank of Poland offices on behalf of central government institutions and special-purpose funds rose 15.3%, while the number of incoming transactions increased 6.6% (the corresponding figures for 1996 were 19.4% and 18.5%). Despite the rise in the number of operations, the NBP ensures same-day settlement.

Payments instructions from government institutions and central government special-purpose funds are handled at local NBP offices or via the offices of other banks. The latter arrangement refers to situations where the government institution concerned is located in a town where the NBP does not have a branch equipped to service cash transactions. These services are carried out at the expense of the National Bank, regardless of whether a transaction is being performed through one of its own branches or through the offices of another bank.

Table 7 presents detailed figures on the number, composition and growth of transactions handled by the NBP.

Table 7. Payments instructions forwarded and received, 1996-97

Period	Payments instructions handled				Growth rates	
	forwarded		received		instructions forwarded	instructions received
	1996	1997	1996	1997		
1st quarter	1,097,028	1,235,162	1,624,184	1,699,450	112.6	104.6
2nd quarter	1,135,804	1,391,829	1,638,656	1,908,707	122.5	116.5
3rd quarter	1,154,432	1,357,752	1,743,224	2,082,639	117.6	119.5
4th quarter	1,226,952	1,525,010	1,742,852	2,305,994	124.3	132.3
Total	4,614,216	5,509,753	6,748,916	7,996,790	119.4	118.5

Servicing trading in government securities

In 1997, the NBP in its capacity as issuing agent for Treasury bills organised and conducted T-bill tenders, which continue to constitute the principal source of financing for the current fiscal deficit. Over the whole year, the NBP held 58 tenders - 53 organised on a regular weekly basis, and 5 additional tenders, held in April and June. Demand for T-bills came to PLN 74.8bn, exceeding both supply (by PLN 6.8bn, i.e., 10.0%) and the demand generated in 1996 (an increase of 1.5%). Sales of T-bills totalled PLN 49.1bn, up 13.1% on the previous year. The pattern of T-bill sales by maturity in 1997, in terms of value, indicates that the greatest part was played by 52-week bills (46.2% of the total), while 39-week bills were of least importance (3.0%).

Data on the volume and pattern of Treasury bill sales in 1997 are detailed in Table 8.

Apart from organising Treasury bill tenders on the primary market, in 1997 the NBP maintained the Central Treasury Bill Register (since July 1, 1995, the bills have been issued solely in book entry form). The Register serves to record both holdings of bills on deposit accounts and sale/purchase transactions performed on the secondary market.

In 1997, the NBP also continued to organise limited tenders for government bonds, used to finance the fiscal deficit over longer time horizons than T-bills. The Bank held 48 of these tenders (as against only 30 in 1996), open exclusively to participants in the National

Table 8. Sales of Treasury bills, 1997

Maturity	Tender		3 : 2	Sales				
	offered for sale	bids received		total	of which:			
	PLN million		%	PLN million		%		
1	2	3	4	5	6	7	8	9
8-wk	4,100.00	7,892.32	192.5	4,477.26	3,274.74	73.1	109.2	56.7
13-wk	15,600.00	19,329.16	123.9	14,420.36	9,916.96	68.8	92.4	74.6
26-wk	10,700.00	8,553.59	79.9	6,036.92	3,710.53	61.5	56.4	70.6
39-wk	2,100.00	1,639.27	78.1	1,465.27	1,194.21	81.5	69.8	89.4
52-wk	35,500.00	37,358.96	105.2	22,680.34	16,996.64	74.9	63.9	60.7
Total	68,000.00	74,773.30	110.0	49,080.15	35,093.08	71.5	72.2	65.6

Securities Deposit, with sales coming to a total nominal value of PLN 8,637.8m. These broke down by maturity as follows:

one-year bonds	PLN	221.1m	(2.6%),
two- and five-year bonds	PLN	5,084.1m	(58.9%),
five-year assimilation bonds ⁵	PLN	2,177.5m	(25.2%),
three-year bonds	PLN	873.6m	(10.1%),
ten-year bonds	PLN	259.5m	(3.0%),
ten-year assimilation bonds ⁶	PLN	22.0m	(0.2%).

In addition to acting as issuing agent for Treasury bills and organising tenders for the sale of Treasury bonds, the National Bank serviced operations involving government bonds assigned to the recapitalisation of Bank Gospodarki Żywnościowej SA (issued in 1996).

⁵ Treasury bonds not sold at the initial date of issue may subsequently be offered as "assimilation bonds", with redemption dates identical to that of five-year bonds.

⁶ Treasury bonds not sold at the initial date of issue may subsequently be offered as "assimilation bonds", with redemption dates identical to that of ten-year bonds.

The operations of the NBP as a central foreign exchange authority

Management of the official foreign exchange reserves

In 1997, Poland's official foreign exchange reserves rose from USD 18bn to USD 20.7bn. This increase was some USD 0.4bn less than that recorded in 1996.

The factors of greatest importance in determining movements in the official reserves included the surplus on transactions with domestic banks, although this was USD 1.7bn less than in 1996. The role of particular factors impacting on the official reserves is illustrated in Table 9.

The receipts and payments produced by operations performed at the instruction of the Ministry of Finance yielded a net outflow of USD 0.2bn, with total operations at the relatively high level of USD 3.1bn. Most of the inflows on the above (82.2%) were recorded between June and August. The majority of the outflows (74.4%), related to the servicing of Poland's obligations to the Paris and London Clubs, occurred in April, September and October.

In 1997, the situation on foreign markets exerted a much stronger influence on the Polish FX market than it had a year earlier. As regards developments at home, the factors with the most significant effect on the zloty were the following:

- the inflow of foreign capital,
- the high returns offered on zloty instruments,
- the situation on Poland's current account,
- the measures taken by the NBP to contain domestic demand,
- certain extraordinary circumstances and political events.

Pressure for the zloty to depreciate stepped up considerably, and zloty exchange rates fluctuated more widely in relation to central parity. Most of the National Bank's intervention on the FX market in 1997 continued to be aimed at protecting the zloty from excessive or sudden appreciation. An increase in speculative trading on the domestic FX market induced the NBP to move to a more flexible intervention policy. Thus, although the number of interventions rose compared to 1996, the NBP stepped in to adjust market rates much less frequently than the market expected.

Figure 5. Growth of official foreign reserves, monthly, 1995-97

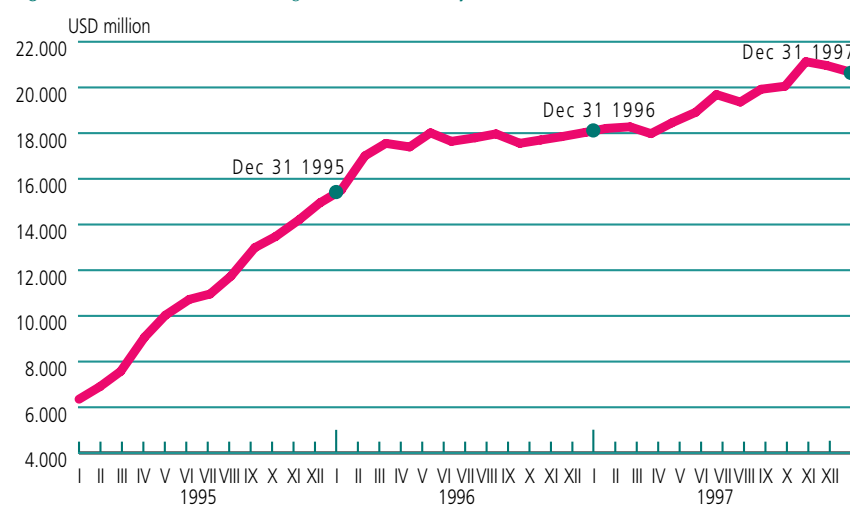
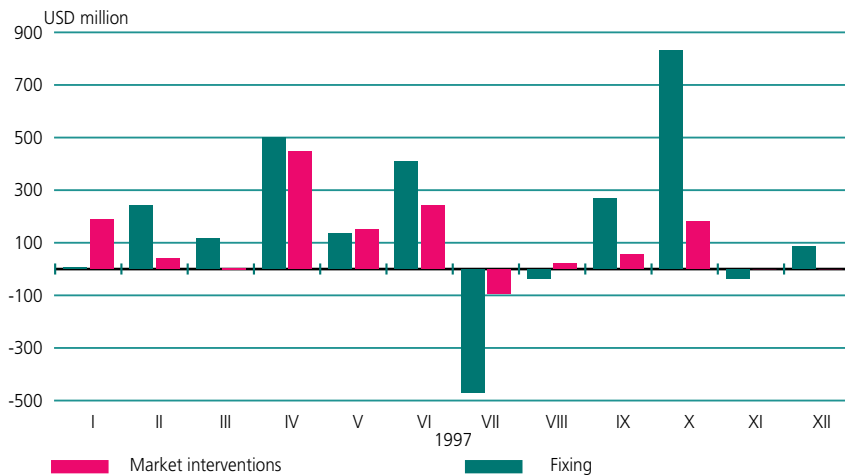


Table 9. Factors impacting on official reserves

Increases in reserves	% impact	Decreases in reserves	% impact
Currency purchases from domestic banks	75.3	Currency sales to domestic banks	66.4
Inflows, operations of the Ministry of Finance	13.5	Outflows, operations of the Ministry of Finance	23.6
Income from borrowings administered by NBP	0.8	Repayment of borrowings administered by NBP	0.2
Income from reserves invested	9.1	Expense of investment operations	0.8
Other income	1.2	Special placements at domestic banks	8.7
		Other payments	0.4

Figure 6. NBP net transactions with domestic banks



The value of transactions conducted by the NBP with domestic banks at the fixing and during interventions totalled USD 12.7bn, up USD 1.1bn on 1996.

The net value of NBP foreign exchange transactions with domestic banks is outlined in Figure 6.

As in the previous year, the vast majority of transactions on the domestic market were concluded in US dollars, accounting for 66.4% of all transactions at the fixing and during interventions. The remaining 33.6% were settled in Deutschmarks.

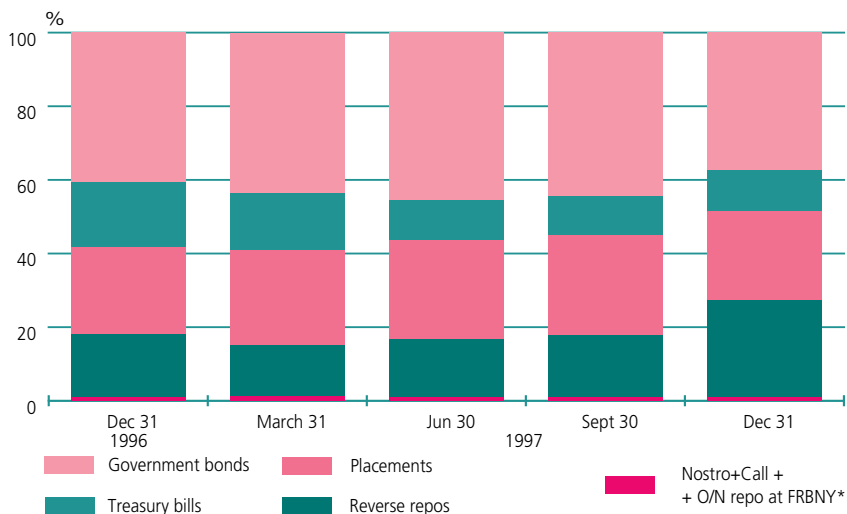
The guiding principles followed by the NBP in managing the reserves were to secure the highest possible safety of investments, maintain the requisite liquidity, and at the same time optimise the yields obtainable in the prevailing market conditions.

Investment activity

In 1997, the National Bank conducted studies concerning credit risk of counterparties in investment activity with the aim of improving its limit procedures and making them more flexible, modifying the criteria applied in assigning limits, and making other necessary adjustments.

The Bank's active investment policy was designed to ensure the performance of payments arising from Poland's international obligations (servicing the external debt and maintaining liquidity in foreign trade transactions), safeguard the liquidity of the domestic FX mar-

Figure 7. Structure of official reserves by investment instrument employed



* Federal Reserve Bank of New York

ket, and allow the pursuit of the relevant exchange rate policies through intervention on the domestic interbank market.

The primary investment instruments employed included short- and medium-term government instruments (including Treasury bills and bonds), short-term placements under reverse repos, and other short-term placements, made solely at banks with high credit standing and sound financial condition. The debt instruments in the Bank's securities portfolio were used for backed securities lending (the simultaneous conclusion of repo and reverse repo transactions), thereby earning additional income. The proprietary FX transactions carried out by the Bank principally served to maintain the requisite currency composition of the reserves, or were connected with servicing the foreign debt.

Figure 7 presents a breakdown of the official reserves by type of investment instrument employed.

The income earned on the National Bank's investment activity in 1997, at average monthly rates for the US dollar to the zloty, totalled around USD 1.1bn, of which some USD 0.9bn was actually collected during the year. The difference between these two figures is attributable to accrued income and expense for the reporting period.

Foreign exchange controls

Foreign exchange control inspections

In performance of its statutory responsibility for the enforcement of foreign exchange controls, in 1997 the National Bank carried out inspections of the following:

- banks licensed to conduct foreign exchange operations,
- Polish residents and non-residents that had obtained individual foreign exchange permits (including establishments engaged in the buying and selling of foreign exchange),
- desks operated by non-bank institutions authorised to provide foreign exchange and currency services to the public.

The foreign exchange control inspections carried out by the NBP, broken down by subject matter, are presented in Table 10.

Table 10. The foreign exchange control inspections performed by the NBP, 1997

Scope of inspection	Number of inspections		
	NBP	Regional	Total
	Head Office	branches	
Inspections of banks licensed to conduct foreign exchange operations	12	167	179
Checks on compliance with terms of individual foreign exchange permits	25	629	654
Inspections of bureaux de change	-	3,499	3,499
Inspections of establishments buying & selling gold and platinum	-	45	45
Inspections of currency desks operated by non-bank institutions	-	181	181

The exchange control inspections performed by the National Bank concerned the following areas:

- foreign exchange operations conducted by banks, involving banks, or via banks,
- compliance by banks with the provisions of the regulation on combatting money laundering,
- the utilisation of foreign exchange permits in performance of the transactions indicated in such permits and in compliance with the Foreign Exchange Act,
- compliance with the terms of authorisation by currency desks operated by non-bank institutions.

Individual foreign exchange permits issued by the President of the NBP

In 1997, the directors of NBP regional branches, the Chief Branch of Foreign Exchange, Warsaw and the relevant units of Head Office, all acting under authorisation granted by the President of the NBP, issued 4,609 rulings concerning applications for foreign exchange permits. The permits granted broke down as follows:

- 665 permits to conduct the business of buying and selling foreign exchange and brokerage in foreign exchange,
- 579 permits for the purchase by a Polish resident of shares in a public or private company domiciled abroad, or for the purchase of bonds,
- 276 permits waiving the requirement that foreign exchange be immediately transferred from abroad,
- 44 permits for Polish residents to extend endorsements or issue performance bonds to non-residents,
- 206 permits to export or transfer abroad foreign currencies to meet future liabilities to non-residents arising from the operations specified under Article 9, para. 1, subpara. 1, points b-d, of the Foreign Exchange Act, with the liabilities involved amounting to more than 5,000 Ecu,

- 339 permits for the opening and holding of a bank account abroad by a business organisation for the purpose of financing local expenses associated with the performance of export contracts valued at over 500,000 Ecu,
- 61 permits to export foreign currencies to meet outstanding liabilities amounting to over 5,000 Ecu,
- 215 permits for Polish residents to obtain loans and advances abroad,
- 41 permits for the repayment of loans and advances previously obtained without a permit,
- 22 permits for the repayment of loans and advances in zloty,
- 40 permits for the assignment of receivables.

Alterations to foreign exchange regulations

Owing to Poland's efforts to join the European Union, and also its membership in the Organisation for Economic Cooperation and Development (OECD), work on various adjustment measures has been under way for several years now, with these also including adjustments to foreign exchange legislation. As in 1996 and in preceding years, the NBP was involved in the process of deregulating exchange controls. Given the need for rapid change in this area, this process had previously concentrated on amending implementing regulations to the Foreign Exchange Act. In 1997, however, the work in which representatives of the National Bank took part primarily related to revising and modernising the Foreign Exchange Act itself.

International activity

In 1997, the international activity of the NBP focussed on measures designed to adjust the Polish banking system to the requirements of the European Union (EU) and Organisation for Economic Cooperation and Development (OECD), and also on coordinating Poland's cooperation with international financial institutions, servicing borrowings by the NBP, and collaboration with other central banks.

Adjusting the Polish banking system to the requirements of the European Union and the Organisation for Economic Cooperation and Development

The European Union

The process of integrating Poland with the European Union picked up speed considerably in 1997. This was also true of the role played by the National Bank of Poland.

The year 1997 brought major advances in harmonising Polish legislation with the standards applicable in the EU. A new Constitution of the Polish Republic was adopted, which brings the status of the NBP more into line with EU norms, e.g., by reinforcing the independence of the central bank, prohibiting the financing of the fiscal deficit by borrowings from the central bank, and instituting a collective mechanism for the formulation of monetary policy by establishing the Monetary Policy Council. In addition, a new Banking Act was adopted, bringing Polish banking legislation much closer to EU regulations, as was a new Act on the National Bank of Poland, which defines the operations of the Monetary Policy Council, the Commission for Banking Supervision and the NBP Management Board. NBP representatives played an active part in developing the latter two pieces of legislation.

The above legislative changes were accompanied by technological adjustment. Work continued on the computerisation of the NBP, one aim being to bring the IT systems of Poland's central bank into line with the requirements of future membership in the European System of Central Banks. Intensive work was also carried on to upgrade SORBNET, a new system for processing transactions on the accounts which banks hold at the central bank, which represents the Polish counterpart to a real time gross settlement system (RTGS). SORBNET will enable Poland's future inclusion in the TARGET system, developed to link together RTGS systems in various countries under Stage III of Economic and Monetary Union.

In January 1997, the Polish Government adopted a "National Integration Strategy", which maps out the tasks involved in adjustment processes prior to joining the EU, during negotiations, and in the initial period of membership. On this basis a detailed "Timetable for measures implementing the National Integration Strategy" was then developed, which specifies the most crucial adjustment projects. The NBP is participating in many of these projects, either as a collaborating institution, or as the lead institution.

July 1997 saw the official publication of the "Opinion of the European Commission on the application by Poland for membership in the European Union". This opinion was issued on the basis of a questionnaire completed by Poland, with the NBP playing a large part in drafting replies under the sections dealing with monetary policy, capital flows and domestic financial markets. The general assessment of this questionnaire was positive, with the European Union concluding that Poland now fulfils, or will in the medium term fulfil, the EU membership criteria set at Copenhagen in 1993.

In relation to the central bank, it was stated that monetary policy was being "conducted capably" and was effective in combatting inflation, while exchange rate policies were being pursued on a clear basis. It was also declared that the Polish financial system is supervised satisfactorily, by competent supervisory authorities. Certain criticisms were made of the banking sector, noting that it required further reform. In terms of harmonising Polish legislation with the requirements of the Cannes White Paper, it was considered that the directives envisaged for implementation under stage I of the adjustment process had in their majority been adopted, although work on those scheduled for stage II was less advanced.

In 1997, the Government set up 33 working groups charged with preparing documentation for the negotiations on EU membership. Representatives of the NBP took part in the work of 10 of these. The results of these efforts were presented at the end of the year in a report of the Committee for European Integration entitled *Preparations for membership negotiations with the European Union*.

The Organisation for Economic Cooperation and Development

The year 1997 was the first in which Poland collaborated with the OECD as a full member. This required representatives of the National Bank to participate in the permanent bodies of that organisation.

Collaboration with the OECD in relation to financial markets is coordinated at government level by the Ministry of Finance, with the NBP cooperating in developing Poland's positions to be presented at various OECD bodies. It is only in the Working Group on Financial Statistics that the NBP plays the lead role in Poland's collaboration with the OECD.

Collaboration with international financial institutions

In 1997, NBP representatives took part in the work of the Economic Policy Committee, the Financial Markets Committee, the Committee of Capital Movements and Invisible Transactions, the Committee for International Investments and Multinational Corporations, and attended meetings of working groups established by those committees.

Pursuant to Article 11, para. 3, of the Act on the National Bank of Poland of August 29, 1997, the President of the NBP represents the interests of the Polish Republic within international banking institutions, and also, insofar as the Council of Ministers does not decide otherwise, within international financial institutions. In performance of this authorisation, the President of the NBP sits as Governor of Poland in the World Bank Group (with the exception of the Multilateral Investment Guarantee Agency, MIGA) and the European Bank for Reconstruction and Development (EBRD). The NBP also represents Poland's interests in the International Investment Bank (IIB) and International Bank for Economic Cooperation (IBEC).

In addition, the NBP holds Poland's quota in the International Monetary Fund (IMF) and is a shareholder in the Bank for International Settlements (BIS) in Basle.

The International Monetary Fund

Throughout the whole of 1997, as in 1996, Poland's relations with the IMF were regulated by Article IV of the Fund's Articles of Agreement, applicable to countries which are not utilising IMF loans or are doing so to a minimal extent. Pursuant to this Article, the economies of these member countries are subject to review once a year, without establishing detailed assessment criteria. However, under an agreement concluded with the IMF on a voluntary basis, the review of the Polish economy is conducted twice a year.

Central banks

In 1997, the President of the NBP, in her capacity as representative of Polish interests within international banking institutions, took part in the monthly consultations of central bank governors organised by the BIS, and in June attended the Shareholders General Meeting of the BIS.

National Bank representatives also participated in the annual meeting of coordinators of technical assistance and training held by the BIS in Basle.

Visits and meetings of the President of the NBP

As part of the National Bank's collaboration with international institutions and other central banks, visits to Poland at the invitation of the President of the NBP were paid in 1997 by Jacques de Larosiere, President of the EBRD; Charles R. Frank, Vice President of the EBRD; Prof. Reimut Jochimsen, President of the Central Bank of the State of North Rhine-Westphalia; and Victor Yushchenko, Governor of the National Bank of Ukraine.

Other guests of the President of the NBP included James D. Wolfensohn, President of the World Bank, and Christian L. Stahls, President of the South African Reserve Bank. For her part, the President of the NBP visited the central banks of the following countries at the invitation of their governors: Germany, Austria and Lithuania, and also the USA (the Federal Reserve Bank of Kansas City).

Servicing the foreign borrowings by the NBP

In 1997, servicing was continued of the World Bank loans taken out by the NBP in 1990 to finance the Industrial Export Development and Agroindustries Export Development programmes. In servicing these loans, the NBP supervised repayment by domestic counterparties of the funds they had received.

In 1997, the NBP - through the offices of the participating banks - made available FRF 13.5m in further loans for the development of Franco-Polish companies, these being provided under a line extended by Natexis Banque (legal successor to Crédit Nationale) and earmarked for the modernisation and expansion of industrial facilities and the purchase in France of machinery, equipment and entire process lines.

Under agreements concluded in the years 1992-95 between the NBP and government

Table 11. Utilisation of loans extended to NBP

	Utilisation		Principal repayments		Debt outstanding, Dec 31 1997
	Total	1997	Total	1997	
World Bank (USD million)	147.5	-	119.4	90.2	28.1
A. Industrial Export Development	75.9	-	47.8	15.3	28.1
B. Agroindustries Export Development	71.6	-	71.6	0.0	0.0
Natexis Banque* (FFr million)	263.0	11.8	55.5	11.7	207.5
A. Development of Franco-Polish companies	233.2	11.8	55.5	11.7	177.7
B. Banking cooperation	29.8	-	-	-	29.8

* Legal successor to Crédit Nationale

Servicing the foreign borrowings by the Government

institutions, the National Bank services the external liabilities of the Government of the Polish Republic. This which involves acting as financial agent with respect to certain World Bank loans, bank servicing of most borrowings by the Polish Government from international financial institutions, bank servicing of the Polish Bank Privatisation Fund, and also registering central government liabilities under borrowings from international financial institutions and those arising from Poland's membership in international organisations.

Administering foreign loans

In 1997, funds under the Financial Institutions Development Loan were made available to banks under agreements signed in October 1995 on financing computerisation programmes at Bank Depozytowo-Kredytowy SA - Pekao SA Group and Bank Przemysłowo-Handlowy SA. The sum utilised in 1997 came to USD 6.7m.

Under an agreement concluded in July 1995 with the Minister of Privatisation on administering the Privatisation and Restructuring Loan, and pursuant to loan agreements signed with 14 National Investment Funds (NFIs), the National Bank continued to advance funds to NFI management companies. Disbursements in 1997 came to USD 24.8m, while the total amount outstanding under this facility at year end stood at USD 70.8m.

The Agricultural Development Loan was closed on July 31, 1995. As financial agent, in 1997 the NBP supervised repayment by banks of the funds advanced to them.

The Polish Bank Privatisation Fund

The Polish Bank Privatisation Fund was established on January 4, 1993, initially financed by contributions from the USA, Sweden, Australia, Iceland, Finland and the UK, and a loan from the Government of Japan. In January 1995, the Fund was joined by Denmark and Turkey, and in December 1996 by Switzerland. The total amount of contributions thereby rose to USD 440m.

Contributions to the Fund can be utilised for the servicing of long-term restructuring bonds issued by the Polish Government and granted to commercial banks pursuant to the Act on the Financial Restructuring of Enterprises and Banks of February 3, 1993, or for other purposes involving privatisation within the Polish banking industry, subject to these being agreed by the Fund's Steering Committee, composed of representatives of the participating countries and the IMF. However, the Fund's resources can be employed to service restructuring bonds only after the recipient bank in question has been privatised. In 1995, this requirement was fulfilled by Bank Przemysłowo-Handlowy SA, and in 1996 Bank Gdański SA also qualified. The total value of drawdowns from the Fund to service restructuring bonds amounted to USD 23.8m in 1997, as against USD 25.6m in 1996. In all, USD 60.6m has been disbursed from the Fund for this purpose.

Balance Sheet of the National Bank of Poland at December 31, 1997

	thousand zloty		thousand zloty
TOTAL ASSETS	108,987,930.1	TOTAL LIABILITIES & CAPITAL	108,987,930.1
I. Total primary assets	105,401,388.0	I. Notes & coin in circulation	31,075,216.7
1. Gold	923,062.9	II. Outstanding securities	14,374,020.0
2. Foreign exchange & cash in foreign currencies	73,705,034.6	III. Deposits	28,518,393.4
3. Polish quota, IMF	4,302,845.6	1. Due to domestic banks	13,564,951.2
4. Polish contribution, World Bank	4,442.1	2. Due to foreign banks and institutions	6,521,225.6
5. Foreign currency placements at domestic banks	1,425,118.2	3. Due to central government	2,278,678.4
6. Refinance loans	6,870,729.8	4. Other	6,153,538.2
7. Rediscout loans	230,343.4	IV. Other liabilities and deferred income	11,217,111.1
8. Lombard loans	613,677.2	1. Due to foreign institutions and other foreign liabilities	630,205.3
9. Other claims on banks	518,364.6	2. Miscellaneous liabilities	411,333.0
10. Central government indebtedness and other claims on government	2,818,904.4	3. Deferred income	10,175,572.8
11. Government securities	13,988,865.2	V. Other funds and reserves	22,252,714.4
II. Total other assets	3,586,542.1	1. Fixed asset fund and other special funds	1,066,501.1
1. Other loans & advances	65,684.6	2. Currency translation reserve	21,186,213.3
2. Tangible and intangible fixed assets	519,644.3	VI. Capital	400,000.0
3. Equity investments	85,644.5	Equity capital	200,000.0
4. Other claims and inventory	646,272.3	Reserve capital	200,000.0
5. Appropriations of earnings	1,150,474.5	VII. Earnings	1,150,474.5
Appropriations to central government	1,111,913.0		
Appropriations to capital	38,561.5		
6. Accrued income & prepaid expense	1,118,821.9		

ACTING CHIEF ACCOUNTANT,
NATIONAL BANK OF POLAND

Ewa Feliga

THE NBP MANAGEMENT BOARD

Hanna Gronkiewicz-Waltz
Jerzy Stopyra
Ryszard Kokoszczyński
Ewa Popowska
Krzysztof Majczuk
Andrzej Jakubiak
Waldemar Szostak

Balance sheet and profit & loss account

Changes in the structure of the NBP's balance sheet, 1997

The total assets of the National Bank of Poland at the end of 1997 amounted to PLN 108,987.9m, having risen PLN 24,889.1m (29.6%) in comparison to year end 1995. In real terms, the total assets of the NBP grew 12.8%.

The basic assets and liabilities and their movements in the course of 1997 are presented in Table 12.

Table 12. NBP's balance sheet at the end of 1996 and 1997

	Balance at		Change	Balance at Dec 31 1996 = 100 %
	Dec 31 1996	Dec 31 1997		
	PLN million			
Assets				
1. Gold	543.5	923.1	379.6	169.8
2. Foreign exchange & cash in foreign currencies	51,985.5	73,705.0	21,719.5	141.8
3. Polish contributions, IMF & World Bank	3,835.5	4,307.3	471.8	112.3
4. Due from financial institutions	11,035.3	9,658.2	-1,377.1	87.5
5. Due from the government	12,760.7	16,807.8	4,047.1	131.7
6. Other assets	3,938.3	3,586.5	-351.8	91.1
Total assets	84,098.8	108,987.9	24,889.1	129.6
Liabilities & capital				
1. Notes & coin in circulation	27,244.4	31,075.2	3,830.8	114.1
2. Outstanding securities	12,532.6	14,374.0	1,841.4	114.7
3. Due to financial institutions	9,971.6	13,565.0	3,593.4	136.0
4. Due to the government	3,109.6	2,278.7	-830.9	73.3
5. Due to foreign institutions	4,744.7	7,151.4	2,406.7	150.7
6. Due to other institutions	3,083.9	6,153.5	3,069.6	199.5
7. Capital	1,392.6	1,466.5	73.9	105.3
8. Other items of liabilities & capital	22,019.4	32,923.6	10,904.2	149.5

The increase in total assets during 1997 largely occurred during the first nine months of the year. During this period, total assets rose PLN 24,572.2m (29.2%). This was strictly connected with the monthly movements in gross official reserves, which affected the Bank's FX positions on both the asset and liability sides of its balance sheet.

Movements in total assets and in foreign exchange are depicted in Fig. 8.

Figure 8. Total assets and total foreign exchange, quarterly, 1997



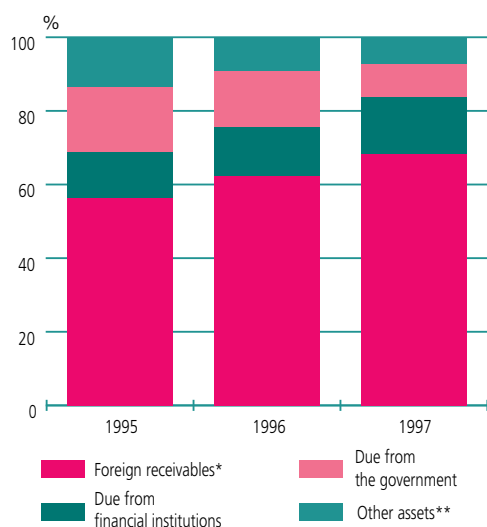
The growth in total assets was accompanied by a change in the structure of both sides of the Bank's balance sheet, as shown in Table 13.

Table 13. The growth of assets and liabilities of the NBP at the end of 1996 and 1997

	Structure		Change, percentage points
	Dec 31 1996 %	Dec 31 1997 %	
Total assets	100.0	100.0	0.0
1. Gold	0.6	0.8	0.2
2. Foreign exchange & cash in foreign currencies	61.8	67.6	5.8
3. Polish contributions, IMF & World Bank	4.6	4.0	-0.6
4. Due from financial institutions	13.1	8.9	-4.2
5. Due from the government	15.2	15.4	0.2
6. Other assets	4.7	3.3	-1.4
Total liabilities & capital	100.0	100.0	0.0
1. Notes & coin in circulation	32.4	28.5	-3.9
2. Outstanding securities	14.9	13.2	-1.7
3. Due to financial institutions	11.9	12.5	0.6
4. Due to the government	3.7	2.1	-1.6
5. Due to foreign institutions	5.6	6.6	1.0
6. Due to other institutions	3.7	5.6	1.9
7. Capital	1.6	1.3	-0.3
8. Other items of liabilities & capital	26.2	30.2	4.0

Assets

Figure 9. Asset structure, 1995-97



* Foreign receivables comprise gold, foreign exchange and cash in foreign currencies
 ** Other assets comprise Polish contributions to the IMF and World Bank, and all other remaining asset

The predominant item in the Bank's asset mix is foreign exchange and cash in foreign currencies (almost 68% of total assets). The relative growth seen in 1997 - 5.8 points - strengthened the position this item occupies in the NBP balance sheet. A systematic increase in the importance of this item has been evident since 1994: that year, it accounted for 28.4% of total assets, in 1995 - 56.3%, and in 1996 - 61.8%. At the same time, this has had a fundamental impact on the structure of liabilities and capital, particularly as regards the currency translation reserve (included under "other items of liabilities and capital") and in funds held at the NBP by domestic banks ("due to financial institutions").

Movements in the Bank's asset structure in the years 1995-97 are portrayed in Fig. 9.

The 41.8% rise in foreign exchange recorded in 1997 relative to 1996 took place in the first three quarters, coming as the combined effect of:

- an increase in the official reserves and in gold prices,
- a decrease in foreign exchange owing to the establishment of specific provisions totalling PLN 466.4m at branches and affiliates of Polish banks abroad.

The largest growth, as in previous years, was in foreign exchange invested in foreign securities - the amount due on this climbed 44.2%. This growth chiefly involved long-dated securities issued by other governments; these averaged 42.0% of the gross official reserves.

The official reserves were also placed in short-term zero-coupon securities (averaging 12% of total reserves), with the remainder (averaging 19%) held in paper maturing in 14 days.

The composition of **foreign exchange and cash in foreign currencies** remained basically unchanged. As the domestic interbank FX market develops, the proportion of this item made up of cash in foreign currencies declines. In 1993 this stood at 9.9%, while in 1997 it represented just 0.5% of all foreign exchange.

Movements in foreign exchange and cash in foreign currencies, in nominal terms, and the composition thereof, are presented in Table 14.

The second largest asset item are sums **due from government** (15.4% of total assets). A key factor in the 31.7% change in government liabilities to the NBP was the purchase by the central bank of dollar-denominated Polish Treasury bonds, issued in 1997, to a value of USD 1,407.8m.

The movements in NBP claims on government and the structure of these claims were also determined by the Bank restricting its purchases of T-bills. No sums due on T-bills are shown in the reporting balance at December 31, 1997.

The item "due from government" incorporates a flood relief loan accessed by central government which the National Bank was required to make under the Budgetary Law. The claim on central government arising on this loan amounts to PLN 1bn, which represents some 6% of all sums due from government.

Table 14. Balances and structure of foreign exchange & cash in foreign currencies, 1996-97

	Balance at:		Change	Structure	
	Dec 31 1996	Dec 31 1997		Dec 31 1996	Dec 31 1997
	PLN million			%	
Total foreign exchange & cash in foreign currencies	51,985.5	73,705.0*	21,719.5	100.0	100.0
of which:					
– foreign currencies	413.9	392.1	-21.8	0.8	0.5
– foreign securities	38,787.0	55,932.6	17,145.6	74.6	75.9
– current accounts & placements at foreign banks	12,635.2	17,183.8*	4,548.6	24.3	23.3
– SDRs	–	19.0	19.0	–	–
– other	149.4	177.5	28.1	0.3	0.3

* Net of specific reserves

Another item impacting on the level of claims on government were long-term zloty-denominated Treasury bonds. The PLN 5,452.5m shown here consists of sums due on bonds issued in application of an agreement with the London Club and a "conversion" bond used to repay government borrowing to finance the fiscal deficit in the years 1982-89 and 1991.

Movements in claims arising on these long-term bonds reflect current debt servicing by central government and changes in the variable interest rate applicable, which is tied to the lombard rate.

The structure of the NBP's claims on government, and nominal balances on particular components thereof, are given in Table 15.

The item **"due from financial institutions"**, which constitutes 8.9% of total assets, declined 12.5% in the course of 1997. This item is made up of three components:

- foreign currency deposits placed by the NBP at domestic banks,
- refinancing extended by the NBP to domestic banks,
- claims arising on the purchase of securities from banks under rehabilitation (bonds and promissory notes), and advances to domestic banks under a line from the World Bank.

The National Bank's claims on financial institutions are set out in Table 16.

The basic constituent of this asset category is the sum due from banks on total refinancing, which accounts for almost 80% of all claims on financial institutions. This item rose 9.3% on year end 1996.

Table 15. Balances and structure of claims on the government, 1996-97

	Balance at		Change	Structure	
	Dec 31 1996	Dec 31 1997		Dec 31 1996	Dec 31 1997
	PLN million			%	
Total due from the government	12,760.7	16,807.8	4,047.1	100.0	100.0
of which:					
– due on units of account	1,753.8	1,753.8	0.0	13.7	10.4
– government dollar-denominated bonds	3,285.8	8,536.4	5,250.6	25.8	50.8
– T-bills	2,103.0	–	-2,103.0	16.5	–
– Treasury "conversion" bonds	2,197.1	2,074.9	-122.2	17.2	12.3
– bonds for application with the London Club	3,361.2	3,377.6	16.4	26.3	20.1
– loans extended under the World Bank facility	59.8	64.4	4.6	0.5	0.4
– flood relief loans	–	1,000.7	1,000.7	–	6.0

Table 16. Balances and structure of claims on financial sector, 1996-97

	Balance at		Change	Structure	
	Dec 31 1996	Dec 31 1997		Dec 31 1996	Dec 31 1997
	PLN million			%	
Total due from financial institutions	11,035.2	9,658.2	-1,377.1	100.0	100.0
of which:					
– NBP placements at domestic banks	3,815.5	1,425.1	-2,390.4	34.6	14.8
– Total refinancing	6,722.6	7,714.8	992.1	60.9	79.9
of which:					
– refinance loans	6,286.2	6,870.7	584.5	57.0	71.1
– rediscount loans	180.8	230.4	49.5	1.6	2.4
– lombard loans	255.6	613.7	358.1	2.3	6.4
– Other claims on banks	497.1	518.3	21.2	4.5	5.3

Table 17. Balances and structure of refinance loans, 1996-97

	Balance at:		Change	Structure	
	Dec 31 1996	Dec 31 1997		Dec 31 1996	Dec 31 1997
	PLN million		%		
Refinance loans	6,286.2	6,870.7	584.5	100.0	100.0
of which:					
– central investment loans	2,015.9	2,099.1	83.2	32.1	30.5
– capitalisation of interest on central investment loans	2,972.0	3,476.2	504.2	47.3	50.6
– overdrafts (debt of Bank Handlowo-Kredytowy SA)	1,298.3	1,295.4	-2.9	20.6	18.9

The most significant portion of the banks' liabilities to the NBP involves loans to finance central government investment projects extended under refinance facilities. The debt owed on these, together with capitalised interest, amounted to PLN 5,575.3m, an increase of PLN 587.4m on the end of 1996. The share of this in the banks' total debt to the NBP rose to 81.1%.

Over 62% of the balance on these liabilities represents capitalised interest, accrued on these refinance loans during the construction stage of the projects concerned (as against 57.1% in 1995 and 59.6% in 1996).

The next most important element of refinancing is the debt of Bank Handlowo-Kredytowy SA (under liquidation), which constitutes 18.9% of total refinancing.

Detailed figures on the structure of the National Bank's claims under refinance loans are provided in Table 17.

Movements in the balances of borrowings by banks under other types of refinancing did not have a material impact, either on the total level of bank borrowings from the NBP, nor on the structure thereof.

The Bank's foreign currency placements at domestic banks tended to decrease in 1997. At year end, these accounted for only 14.8% of sums due from the financial sector, as against almost 35% twelve months previously.

The decline in foreign currency deposits placed at domestic banks was the result of a number of different events throughout the year:

- The withdrawal of special deposits totalling PLN 1,407.8m from Bank Handlowy w Warszawie SA and Bank Pekao SA. In May 1997, these were converted to dollar-denominated Treasury Bonds (the effect of withdrawing the currency placements and paying for the dollar-denominated Treasury bonds was solely to alter the National Bank's asset mix).
- The placement of another special deposit at Bank Pekao SA, to a value of PLN 630.2m (USD 179.1m).
- The withdrawal, under an agreed schedule, of time deposits held at Bank Handlowy SA and Bank Pekao SA. This was related to the settlement of mutual liabilities arising from the Bank's purchase of foreign currencies in 1992 and 1993 (the balance on these time deposits fell USD 106.4m, to stand at USD 218.7m).
- The revaluation of the Bank's currency placements at the average rate at closing balance date (which had risen PLN 0.64 during the year).

Movements in the National Bank's foreign currency placements at domestic banks in the course of 1997 are set out in Table 18.

The remaining items came to only 5.3% of the bank's total claims on financial institutions. The movements here are of no greater significance for the balance sheet as a whole. The Bank established a bad debt provision of PLN 75.8m against its other claims on banks.

Other assets declined 8.9% in 1997, with their relative share in total assets thereby decreasing 1.4%

Movements in other assets, and the relative share of particular items within this category, are presented in Table 19.

The balance on other assets was principally determined by appropriations of earnings. The level of, and movements in, this item are strictly related to the level of profit recorded by

Table 18. Foreign currency placements at domestic banks, 1997

	Balance at	Quarters of 1997				Balance at
	Dec 31 1996	1st	2nd	3rd	4th	Dec 31 1997
PLN million						
Foreign currency placements at domestic banks	3,815.5	1,515.7	-4,411.9	20.3	485.5	1,425.1
of which						
– special deposits	2,853.2	1,469.8	-4,323.0	–	632.3	632.3
– time deposits	962.3	45.9	-88.9	20.3	-146.8	792.8

Table 19. Balances and structure of other assets, 1996-97

	Balance at		Structure	
	Dec 31 1996	Dec 31 1997	Dec 31 1996	Dec 31 1997
	PLN million		%	
Other assets	3,938.3	3,586.5	100.0	100.0
of which:				
— appropriations of earnings	640.0	1,150.5	16.2	32.1
— gold and precious metals	607.7	144.4	15.4	4.0
— settlements under Libyan credit facility	447.8	392.0	11.4	10.9
— fixed assets	418.9	519.6	10.6	14.5
— equity investments	261.1	85.6	6.6	2.4
— accrued income & prepaid expense	1,247.7	1,118.8	31.7	31.2

the Bank and the procedures for the distribution of this profit specified in the Act on the National Bank of Poland, whereby part is retained by the central bank, while part is transferred to the Treasury.

The decline of almost one quarter in the balance on gold and precious metals is the result of a reclassification of part of the Bank's gold stocks, now held in the form of gold fulfilling international fineness standards (this being reported as gold in the balance sheet).

The drop of almost 70% in equity investments was related to the disposal by the NBP of its shares in Polski Bank Inwestycyjny SA and Prosper Bank SA. The decrease in claims under the Libyan credit facility reflects the partial repayment of these claims. The settlements concerned were directly connected with the level of exports which are assigned to the repayment of foreign debt under an agreement with the Libyan Central Bank.

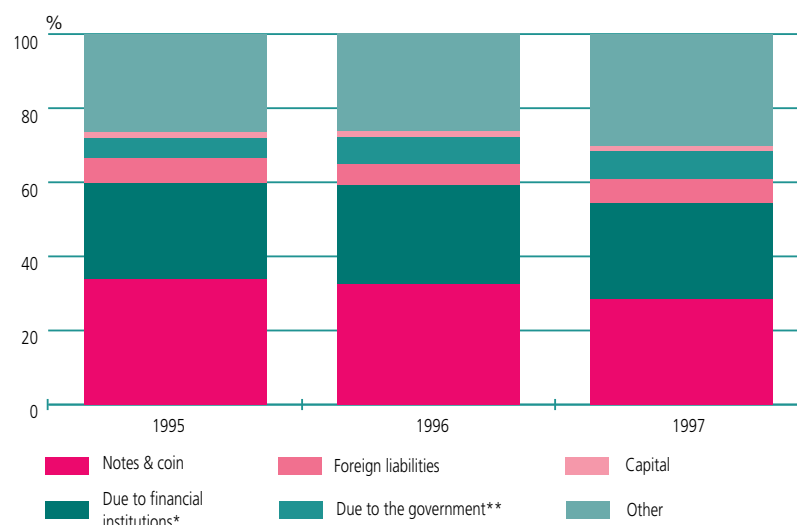
Accrued income and prepaid expense also declined. This can be traced to the discount on NBP money market bills and to foreign currency items. At the same time, accrued expense increased owing to interest on time deposits taken from persons.

Liabilities and capital

The movements in the liability and capital items of the National Bank's balance sheet in 1997 were all in one direction. All of these items increased, albeit to varying degrees. Particularly rapid growth was recorded in deposits taken from "other parties" (up 99.5%), foreign banks (up 50.7%) and financial institutions (up 36.0%).

Movements in the Bank's liabilities and capital in the years 1995-97 are depicted in Fig. 10.

The key component of the Bank's liabilities are notes and coin in circulation, which accounted for 28.5% of all liabilities and capital. As in previous years, this item declined in relative terms - the proportion of total liabilities and capital represented by this item at the end of 1996 fell 3.9 points compared to year end 1996, although in nominal terms this item

Figure 10. Structure of liabilities & capital, 1995-97

* Due to financial institutions is comprised of liabilities to financial institutions and outstanding securities

** Due to the government comprises liabilities to general government and liabilities to all other parties

Table 20. Balances and structure of liabilities on open market operations, 1996-97

	Balance at		Structure	
	Dec 31 1996	Dec 31 1997	Dec 31 1996	Dec 31 1997
	PLN million		%	
Total due on open market operations	14,659.3	19,261.9	100.0	100.0
of which:				
– issue of money market bills	12,532.6	14,374.0	85.5	74.6
– time deposits, banks*	2,126.7	1,288.1	14.5	6.7
– time deposits, persons**	–	3,599.8	–	18.7

* Reported in the balance sheet under "due to financial institutions"

** Reported in the balance sheet under "due to other parties"

had risen 14.1%. The decrease in notes and coin is thus a function of the increased weight of other items, including the currency translation reserve.

A significant factor impacting the Bank's liabilities and capital were **open market operations**. The sum due on these grew 31.4%.

The balances and structure of the Bank's liabilities on open market operations are shown in Table 20.

An increase in liabilities on these operations was seen with respect to all types of instrument, with the exception of short-term reverse repos.

Movements in the balance due on issues of money market bills during the year reflect the number of operations conducted, the volume of sales, and maturities on bills sold.

The Bank's **liabilities to the banking sector** rose 36.0%, although this growth - as in the case of the balance sheet as a whole - took place in the first half of the year. Movements in these liabilities were primarily the result of the increase in required reserves.

Liabilities to banks are presented in Table 21.

Almost 60% of all funds held at the NBP by domestic banks are on their current accounts. A considerable part of this is associated with the holding of non-interest-bearing required reserves.

Balances on time deposits are related to reverse repo transactions.

Other liabilities to the banks comprise overnight liabilities on payments instructions received on December 31, 1997. These were settled on January 2, 1998. Thus, the change

Table 21. Balances and structure of liabilities to financial institutions, 1996-97

	Balance at		Structure	
	Dec 31 1996	Dec 31 1997	Dec 31 1996	Dec 31 1997
	PLN million		%	
Total due to banks on accounts held at NBP	9,971.6	13,565.0	100.0	100.0
of which:				
– current accounts	6,306.1	7,982.2	63.2	58.8
– required reserves	645.6	3,256.6	6.5	24.0
– time deposits	2,126.7	1,288.1	21.3	9.5
– other liabilities	893.2	1,038.1	9.0	7.7

Table 22. Balances and structure of liabilities to foreign institutions, 1996-97

	Balance at		Structure	
	Dec 31 1996	Dec 31 1997	Dec 31 1996	Dec 31 1997
	PLN million		%	
Total due to foreign institutions	4,744.7	7,151.4	100.0	100.0
of which:				
– contributions to IMF	3,500.1	3,936.4	73.8	55.1
– foreign currency borrowings				
from international institutions	136.1	102.0	2.9	1.4
– foreign currency borrowings				
from foreign banks	561.9	514.2	11.8	7.2
– other	546.6	2,598.8	11.5	36.3

Table 23. Balances and structure of liabilities to the government, 1996-97

	Balance at		Structure	
	Dec 31 1996	Dec 31 1997	Dec 31 1996	Dec 31 1997
	PLN million		%	
Total due to the government	3,109.6	2,278.7	100.0	100.0
of which:				
– current accounts of government institutions	42.9	30.3	1.4	1.4
– central government funds – current year	2,451.0	1,480.9	78.8	65.0
– following year	458.6	565.8	14.7	24.8
– Polish Stabilisation Fund	154.4	199.0	5.0	8.7
– central government deposits	2.7	2.7	0.1	0.1

in the balance reported here is the product of instructions from customers holding accounts at the NBP. Compared to 1996, the value of these instructions rose PLN 144.9m (over 16%), to reach PLN 1,038.1m.

The next item on the liabilities side of the Bank's balance sheet are **sums due to foreign institutions**. These climbed 50.7% during the reporting period (to stand at 7.0% of total liabilities and capital).

The balances and structure of the Bank's liabilities to foreign institutions are indicated in Table 22.

The prime component in this category of liabilities are sums due to the IMF on Poland's contributions to that organisation. At the end of December 1997, these amounted to 55.1% of all foreign liabilities.

Other items in this category are connected with reverse repos in international markets. These grew nearly 25% relative to year end 1996.

Liabilities to government stood at PLN 2,278.7m at the end of 1997. This represents a drop of 26.7% year on year.

The main reason for this decrease was the low balance of funds held to cover the current fiscal deficit, although a significant part of the balance here in any case represents the flood relief loan extended towards the end of the year.

The remaining items in this category did not seriously influence the size of, and movements in, liabilities to government.

The balances and structure of liabilities to government are shown in Table 23.

Sums due to "other parties" soared PLN 3,069.6m during the year, i.e., almost 100%. The fundamental source of this increase were the personal time deposits taken by the Bank. These deposits (together with accrued interest) constitute the predominant component of liabilities to "other parties". This is illustrated by Table 24.

The second most important element in this liability category were deposits taken from government special-purpose funds. At the end of December 1997, the balance on these deposit accounts was PLN 991.0m lower than a year before, which is attributable to a lower balance on the social insurance fund (the result of disbursements due to an increase in pensions and disability benefits).

Other items of liabilities and capital grew PLN 10,904.2m in 1997, causing their share in total liabilities and capital to rise from 26.2% at the end of 1996 to over 30% at year end 1997. As in previous years, this liability category brings together various items. The most important of these are the following:

Table 24. Balances and structure of liabilities to other parties, 1996-97

	Balance at		Structure	
	Dec 31 1996	Dec 31 1997	Dec 31 1996	Dec 31 1997
	PLN million		%	
Total due to other parties	3,083.9	6,153.5	100.0	100.0
of which:				
– government special-purpose funds	2,967.3	1,976.3	96.2	32.1
– accounts of non-bank financial institutions	60.6	2.3	2.0	0.1
– auxiliary accounts	4.1	1.9	0.1	–
– savings deposits	–	3,599.8	–	58.5
– interest due on savings deposits	–	540.8	–	8.8
– miscellaneous foreign currency accounts	49.8	30.4	1.6	0.5

Table 25. Balances and structure of other items of liabilities and capital, 1996-97

	Balance at		Structure	
	Dec 31 1996	Dec 31 1997	Dec 31 1996	Dec 31 1997
	PLN million		%	
Other items of liabilities and capital	22,019.4	32,923.6	100.0	100.0
of which:				
– deferred income	8,835.2	10,175.6	40.1	30.9
– currency translation reserve	12,057.1	21,186.2	54.8	64.4
– earnings	640.0	1,150.5	2.9	3.5

Table 26. Capital and sources of capital funds, 1997

	Balance at	Appropriations	Charges	Balance at
	Dec 31 1996	of earnings	to expense	Dec 31 1997
	PLN million			
Total capital funds	1,392.6	38.4	128.7	1,466.5
of which:				
– equity capital	200.0	–	–	200.0
– reserve capital	200.0	–	–	200.0
– fixed asset fund	418.3	–	–	490.2
– capital investment fund	376.2	11.5	55.1	334.4
– foreign exchange fund	133.0	11.6	–	157.4
– bonus fund	–	15.5	–	–
– employees benefit fund	–	–	0.1	–
– employees discretionary bonus fund	12.0	–	14.1	15.0
– employees welfare fund	0.8	–	2.4	0.8
– technical & economic progress fund	52.3	–	57.0	68.7

- The currency translation reserve (accounting for 64.4% of all the items in question), which reflects the revaluation of the National Bank's foreign exchange and cash in foreign currencies. The increase in this reserve (of over 75%) is strictly due to the scale of zloty devaluation during 1997 and to the overall growth in the gross official reserves.

- Deferred income, principally in the form of capitalised interest on refinancing for central investment projects and interest due on the loan utilised by Bank Handlowo-Kredytowy SA (which bank is under liquidation) - at year end, these represented 46.9% of all deferred income. Of the remainder, 49.8% constitutes the revaluation of the balances on foreign currency assets and liabilities recorded at the NBP, yet not connected with the Bank's own responsibilities.

- Earnings (a detailed discussion of the sources of the Bank's earnings and the causes of movements in earnings is given in the following section of this chapter).

A breakdown of other items of liabilities and capital is given in Table 25.

At the end of 1997, the capital of the NBP had risen 5.3% compared to the end of 1996.

Earnings on NBP operations

Basic data

The operations of the National Bank of Poland in 1997 yielded a profit of PLN 1,150.5m. This represented an increase of 79.8% on the profit recorded a year earlier, and was almost three times the amount projected in the Bank's annual plan.

The level and growth of earnings, together with the degree to which the Bank's plan was fulfilled, were influenced by changes in the level and structure of the gross official reserves, the measures taken to neutralise excess liquidity within the banking system, and the debt to the Bank owed by central government, which was higher than in 1996.

The dominant component of income, as in preceding years, were revenues from securities operations. These accounted for 62.9% of all income (as against 61.1% in 1996), with revenues from foreign securities representing 39.2% of this item, and those from domestic securities constituting 23.7% (compared to 35.4% and 25.7%, respectively, in 1996).

The expense incurred by the Bank was primarily determined by the expense of open market operations. These accounted for 64.8% of all expense (64.9% in 1996), and rose 17.3% over the year. This is traceable to changes in the structure of open market operations linked to measures taken to drain liquidity from the banks.

Discount on the National Bank's money market bills made up 88.4% of the expense incurred on open market operations (compared to 74.8% in 1996). Interest on short-term

Table 27. Income and expense, 1997

	1996	1997		Ratios	
	performance	plan PLN million	performance	1996 = 100	plan = 100
				%	
Total income	5,542.5	4,925.6	6,905.8	124.6	140.2
of which:					
– securities	3,386.0	3,583.7	4,344.0	128.3	121.2
of which:					
– foreign	1,963.3	2,152.0	2,708.4	138.0	125.9
Total expense	4,902.5	4,539.6	5,755.3	117.4	126.8
of which:					
– open market operations	3,179.3	3,085.0	3,729.4	117.3	120.9
Profit	640.0	386.0	1,150.5	179.8	298.1

deposits from the banks - under reverse repos involving NBP bills - declined in 1997, coming to 7.9% of the expense of open market operations (as against 25.2% a year previously).

Interest accrued on personal time deposits represented just under 4% of the expense of open market operations, and 16% of all interest paid.

An overview of the Bank's income and expense is provided in Table 27.

Income

The Bank's income in 1997 totalled PLN 6,905.8m, a figure 24.6% greater than 1996 income, and 40.2% higher than projected in the annual plan.

As mentioned earlier, the Bank's income was mainly derived from securities, primarily foreign securities, in which a large part of the gross official reserves were invested.

The second greatest contribution to the Bank's income in 1997, exceptionally, came from revenues classed as "other operating income". These accounted for 21.0% of total income (as against 15.7% in 1996), and in relative terms were 4.9 points higher than interest income on refinancing and placements at domestic and foreign banks. Interest income on refinancing and placements declined as a proportion of total income, going down from 23.2% in 1996 to 16.1% in 1997.

A breakdown of the major sources of the Bank's income is given in Table 28.

Securities income, representing the sum of revenues from various securities, both domestic and foreign, is presented in Table 29.

A prime component in the income earned on domestic securities was interest income on bonds issued by the Minister of Finance in 1994 to raise funds for the application of the agreement with the commercial banks of the London Club. While this income was less than in 1996, it was still 3.1% higher than planned, and represented over 47% of all income on domestic securities.

Under the terms of issue of these bonds, the coupons are redeemable over a period of 25 years, beginning in 1995, and interest is payable at the lombard rate. In 1997 this rate stood at 25% until August 3, and as of August 4 rose to 27%.

A second significant item in income derived from domestic securities was discount income on Treasury bills. These revenues were ten times higher than in 1996, and constituted 28% of total income on domestic securities.

In the course of 1997, the NBP purchased T-bills on several occasions. At year end, however, the Bank was no longer holding any T-bills in its portfolio.

The third largest source of income on domestic securities were dollar-denominated Treasury bonds. This income was earned on bonds of two types:

Table 28. Structure of income, 1997

	1996	1997		Ratios	
	performance	plan PLN million	performance	1996 = 100	plan = 100
				%	
Total income	5,542.5	4,925.6	6,905.8	124.6	140.2
of which:					
– interest income	1,286.0	756.2	1,112.8	86.5	147.2
– securities income	3,386.0	3,583.7	4,344.0	128.3	121.2
– fee & commission income	3.0	3.0	2.2	73.3	73.3
– other	867.5	582.7	1,446.8	166.8	248.3

Table 29. Securities income, 1997

	1996	1997		Ratios	
	performance	plan	performance	1996 = 100	plan = 100
		PLN million		%	
Total securities income	3,386.0	3,583.7	4,344.0	128.3	121.2
A. Domestic securities	1,422.7	1,431.7	1,635.6	115.0	114.2
of which:					
1) government securities	1,417.5	1,428.1	1,631.6	115.1	114.2
of which:					
– T-bills	46.3	450.4	463.1	1,000.2	102.8
– London Club bonds	826.9	749.2	772.6	93.4	103.1
– dollar-denominated bonds	216.7	207.0	374.4	172.8	180.9
– "conversion bonds"	22.8	21.5	21.5	94.3	100.0
– fixed-rate bonds	304.8	–	–	–	–
2) bonds issued by domestic banks	5.2	3.6	4.0	76.9	111.1
B. Foreign securities	1,963.3	2,152.0	2,708.4	138.0	125.9

Figure 11. Structure of securities income, 1996-97



1) Bonds issued by the Minister of Finance in 1991 to meet central government liabilities to foreign-exchange banks, including the NBP. Income on these instruments in 1997, at PLN 215.8m, was similar to that obtained in 1996, although 4.3% greater than forecast in the annual plan. This is attributable both to prevailing LIBOR rates and to the rate for the zloty against the US dollar, both of which were slightly higher than anticipated. During the first half of the year, LIBOR stood at 5.85%, while the average rate for the dollar was 3.1 zloty; in the second half of the year, these rates averaged 5.87% and 3.5 zloty, respectively.

2) A Treasury bond issued in May 1997 to finance the early redemption of long-term Treasury liabilities. Under the terms of issue, coupon payments are made twice a year, at LIBOR plus 13/16%. No provision was made for this income in the annual plan, which explains the large divergence between the income received by the Bank on dollar-denominated bonds in 1997, and both planned income and 1996 performance.

Total income on dollar-denominated bonds amounted to PLN 374.4m, which represented 22.9% of all income on domestic securities.

Interest income on the "conversion bond" refers to income on a bond issued by the Minister of Finance to cover central government debt to the NBP arising on NBP financing of shortfalls in central government finances in previous years. This bond bears interest at 1% p.a. The income on this - PLN 21.5m - was as projected in the plan.

The final item of income from domestic securities is income from securities issued by domestic banks. These securities brought the Bank PLN 4.0m in 1997 (0.5m on bonds and 3.5m on securitised notes), and were of no material importance in terms of the Bank's total income.

Income on foreign securities and placements under repurchase agreements was up 38.0% on 1996, and 25.9% higher than planned. The direct cause of this can be sought in the level of the gross official reserves. These reserves grew USD 2.6bn over the year, while the annual plan had projected that they would remain at a level similar to that of December 1996.

The income generated in 1997 by the investment of reserves in government securities (at average investments of around USD 10,270m per month) means that the average yield obtained on this paper was 5.99% (as against 5.73% in 1996).

Interest income in 1997 was lower than a year earlier (down 13.5%), although 47.2% higher than projected. The main factors determining the level and growth of this item were:

- Interest on loans, which - as planned - was less than in 1996, yet over 100% greater than anticipated for 1997. This was mainly due to early repayment of principal and interest on central investment loans, and also to the increase in refinancing rates performed in August. In 1997, the NBP also received additional, unplanned interest income from the Treasury (PLN 81.5m) on borrowings made in the second half of the year to cover flood damage repairs.

- Interest on placements at domestic and foreign banks, the volume of which was conditioned by movements in the level and structure of the gross official reserves.

Interest income earned in 1997 is presented in Table 30.

Interest income on refinancing credit included interest on central investment loans, rediscount loans, lombard loans and loans provided to banks under World Bank lines, and also past due interest on the debt of Bank Handlowo-Kredytowy SA (under liquidation).

Table 30. Interest income, 1997

	1996	1997		Ratios	
	performance	plan	performance	1996 = 100	plan = 100
	PLN million			%	
Total interest income	1,286.0	756.2	1,112.8	86.5	147.2
of which:					
– loans	655.0	165.7	358.9	54.8	216.6
– placements	631.0	590.5	753.9	119.5	127.7
of which:					
a) at domestic banks	136.7	55.6	179.5	131.3	322.8
b) at foreign banks	494.3	534.9	574.4	116.2	107.4

The primary component in this category of income, as mentioned earlier, was interest on central investment loans. This accounted for some 67% of all interest on refinancing in 1997, although only around 40% of the amount earned in 1996.

Lower performance in 1997 was associated with the larger scale of loan prepayments, including interest capitalised in previous years, and also with the sizeable amounts received in 1996 on repayment of the debt of Bank Handlowo-Kredytowy SA.

Given the low amounts involved in interest income on other categories of refinancing (lombard, rediscount and other loans), and their small share in interest income from all refinancing operations, these other items had no major impact on total income.

A breakdown of the interest earned on loans is given in Table 31.

Interest income on placements totalled PLN 753.9m (up 19.5% on 1996 and 27.7% higher than planned), with 76.2% of this amount earned on deposits placed at *foreign banks* (cf. Table 30). The higher income obtained on foreign placements (up 16% on 1996) can be traced to the larger volume of placements, a consequence of the growth in the official reserves. In 1997, the reserves invested in foreign currency placements (at average investments of around USD 5.4bn per month - some 28% of total reserves) yielded an average return that was slightly smaller than planned (3.24%, as against a planned 3.48%).

Interest income on placements at *domestic banks* was 31.3% higher than in 1996 and over three times greater than planned. This income was derived from:

- Placements established in 1992 as the result of the NBP, Bank Handlowy w Warszawie SA and Bank Pekao SA setting off claims and liabilities on foreign exchange transactions carried out in the years 1990-91. The income earned on these placements came to PLN 65.1m (under the relevant agreements, these placements accrue interest at LIBOR).
- Special placements withdrawn in 1997 prior to maturity and earmarked for the purchase of a dollar-denominated bond issued by the Minister of Finance. The additional revenues on this amounted to PLN 114.4m.

Fee and commission income came to PLN 2.2m in 1997 - less than in 1996, and also less than planned (cf. Table 28). This represented 0.03% of all income, and as such was of no material importance as regards the Bank's total income in 1997.

An item that was significant in 1997, however, as already mentioned, was *other income*. This grew very rapidly in 1997, and was almost 2.5 times greater than projected. Other income totalled PLN 1,446.8m, thereby constituting the second largest source of revenue to the Bank (cf. Table 28).

Figure 12. Sources of income, 1996-97

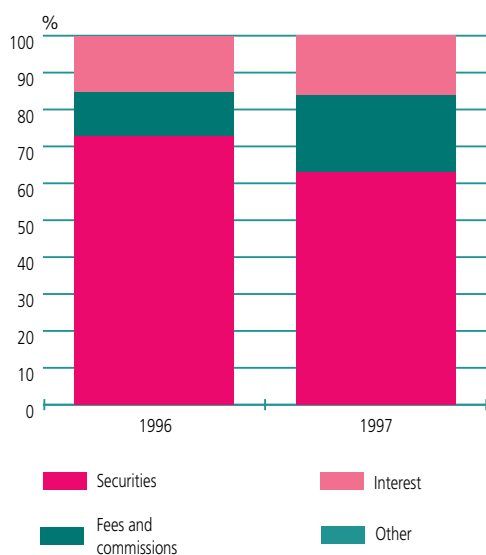


Table 31. Interest income on loans, 1997

	1996	1997		Ratios	
	performance	plan	performance	1996 = 100	plan = 100
	PLN million			%	
Total interest income on loans	655.0	165.7	358.9	54.8	216.6
of which:					
– central investment loans	452.2	98.0	179.4	39.7	183.1
– rediscount loans	34.9	35.9	27.0	77.4	75.2
– lombard loans	20.8	11.2	40.4	194.2	360.7
– other	147.1	20.6	112.1	76.2	544.2
of which: debt of					
Bank Handlowo-Kredytowy SA	128.6	0.2	6.8	5.3	–

The volume of income obtained from this item is primarily attributable to unplanned revaluation gains on special placements in foreign currencies that were withdrawn prior to maturity. These gains totalled PLN 527.3m, i.e., 36.4% of other income. Another factor serving to increase this item were realised FX gains on other positions closed by the Bank - this principally refers to the redemption in instalments of dollar-denominated Treasury bonds and the withdrawal of foreign currency placements at domestic banks - and also gains on the sale or purchase of foreign currency for zloty or other currency. These gains together came to PLN 619.0m, and accounted for 42.8% of other income.

The remainder of other income primarily comprises income on the release of specific provisions (PLN 163.1m), income from equity investments in banks and the Bank's own limited-liability companies, together with the proceeds from the sale of equity in Polski Bank Inwestycyjny SA and Prosper Bank SA (PLN 70.0m), and also interest on the Treasury's long-term debt to the NBP on units of account (PLN 17.4m).

The structure of the Bank's income in 1997, compared to that in 1996, is portrayed in Fig. 12.

Expense

The expense incurred by the Bank in 1997 totalled PLN 5,755.3m, an increase of 17.4% on 1996. This figure was PLN 1,215.7m (26.8%) higher than planned. A breakdown of expense, compared to levels in 1996 and the annual plan for 1997, is presented in Table 32.

An analysis of the Bank's expense in 1997 demonstrates that the increase recorded, and the fact that the expense projections in the annual plan were overshot, were primarily due to:

- securities expense (which accounted for 64.4% of total expense),
- interest expense (15.1% of total expense), with the largest component being interest on reverse repos,
- other expense, in the form of charges to specific reserves (11.3% of total expense).

A factor worth underlining is the trend for interest expense to decline as a proportion of total expense, with a concomitant increase in securities expense. These two items represented, respectively, 23% and 50.7% of total expense in 1996, and 15.1% and 64.4% in 1997.

Securities expense exhibited swift growth, higher than that of the Bank's expense as a whole, with the factor driving this growth being discount on NBP money market bills. This accounted for around 90% of all securities expense (although the corresponding figure in 1996 was over 95%).

The volume of money market bills issued by the NBP, together with interest on those bills, is shown in Table 33.

The remaining components of securities expense comprised:

- Losses on the diminution in market value of foreign securities with maturities of over one year, which amounted to PLN 220.2m.

Table 32. Structure of expense, 1997

	1996	1997		Ratios	
	performance	plan	performance	1996 = 100	plan = 100
	PLN million			%	
Total expense	4,902.5	4,539.6	5,755.3	117.4	126.8
of which:					
– interest expense	1,128.4	980.6	869.9	77.1	88.7
– securities expense	2,486.1	2,907.0	3,704.7	149.0	127.4
– fee & commission expense	53.7	35.0	30.7	57.2	87.7
– other	831.0	70.8	651.1	78.4	919.6
– general & administrative expense	403.3	546.2	498.9	123.7	91.3

Table 33. Issue of money market bills and interest payable on them, 1997

	Dec 31 1996	March 31 1997	Jun 30 1997	Sept 30 1997	Dec 31 1997
	PLN million				
NBP money market bills outstanding	12,532.6	16,953.8	18,021.2	14,747.7	14,374.0
Discount paid	2,379.0	738.8	1,601.1	2,481.3	3,297.1
Discount rate*	19.0	–	–	–	22.9

* Percentage discount derived from volume of bills outstanding

Table 34. Interest expense, 1997

	1996	1997		Ratios	
	performance	plan	performance	1996 = 100	plan = 100
	PLN million			%	
Total interest expense	1,128.4	980.6	869.9	77.1	88.7
of which:					
– domestic banks	800.3	448.0	293.0	36.6	65.4
– government institutions	209.3	345.6	155.6	74.3	45.0
– interest on required reserves	85.5	177.1	270.7	316.6	152.9
– Bank Guarantee Fund and Employees Welfare Fund	2.7	3.0	2.2	81.5	73.3
– personal time deposits	–	–	139.3	–	–
– personal foreign currency accounts	12.8	–	–	–	–
– loans (French & the World Bank)	17.8	6.9	9.1	51.1	131.9

- Interest expense on repos involving foreign securities, which amounted to PLN 187.4m - considerably more than in 1996. This expense was associated with the repurchase of securities lending transactions (involving a simultaneous repo and reverse repo).

The level of interest expense borne by the Bank in 1997, compared to that in 1996 and the plan for 1997, is presented in Table 34.

Continuing the trend witnessed in 1996, interest expense in 1997 was lower than in the previous year, and also lower than planned (decreasing 22.9% and 11.3%, respectively). This was due to a drop in interest expense payable to domestic banks and government institutions. These two items represented 51.6% of interest expense in 1997, while in 1996 they had accounted for almost 90%.

Interest payable to domestic banks was down 63.4% on the previous year, and 34.6% lower than projected. This consisted in interest on reverse repos performed by the Bank.

Additional confirmation that the scale of reverse repos involving NBP money market bills declined is provided by the balances on deposits held by the banks at the NBP at the end of particular quarters. These balances are given in Table 35.

The second largest item in interest expense was interest on required reserves held by the banks, which interest was remitted to the Agency for Agricultural Restructuring and Modernisation. This expense grew PLN 182.5m in 1997, an increase of over threefold on 1996. The sharp rise in this expense can be attributed to:

- 1) the increase as of August 4 of the rediscount rate, which was raised from 22% to 24.5%,

- 2) the increase in the reserve ratio applicable to banks' reserve requirements.

The next, third largest, item of interest expense was interest payable to government institutions, which represented 17.9% of all interest expense and came to 74.3% of the amount payable in 1996. This item consisted of:

- Interest payable to central government on short-term deposits, placed at the NBP under authorisation given in the 1997 Budget. This interest totalled PLN 34.7m, over three times less than in 1996.

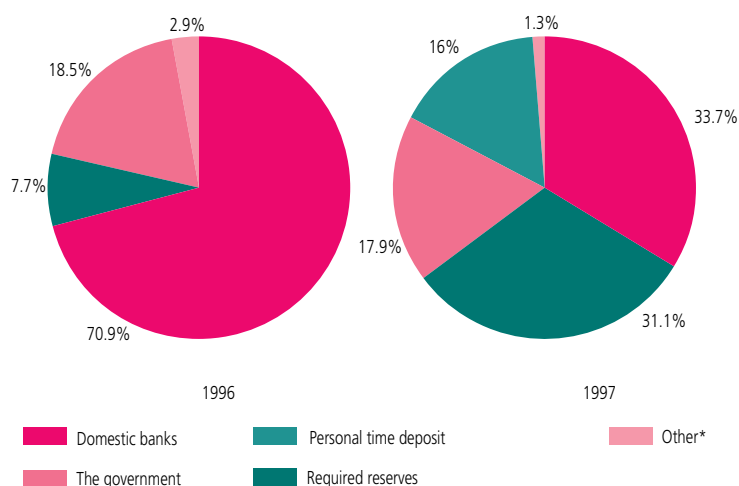
- Interest payable to central government special-purpose funds on current account balances. This amounted to PLN 109.8m, a year-on-year increase of 22% that was the result both of higher balances during the year and of a 1% increase in the rate payable on those accounts as of August 1997. In the first three quarters of the year, these balances averaged slightly over PLN 300m more than in the same period of 1996, although they then declined in the fourth quarter to PLN 1,976.3m as against 2,967.3m in 1996.

- Interest payable to the government of PLN 11.1m on the revenue account of the Polish Stabilisation Fund and other accounts in foreign currencies.

Table 35. Banks' deposits held at NBP, 1997

	Balances on deposits	Interest payable,
	from banks	year-to-date
	PLN million	
Dec 31 1996	2,126.7	800.3
March 31 1997	60.6	80.3
Jun 30 1997	773.9	145.2
Sept 30 1997	1,494.8	230.1
Dec 31 1997	1,288.1	293.0

Figure 13. Structure of interest expense, 1996-97



* Other interest expense comprises interest on French & the World Bank loans

Interest on personal time deposits represented 16% of all interest expense (the fourth largest item).

The interest accrued on these deposits, taken between September 16 and December 19, constituted an additional, unplanned expense incurred by the Bank in 1997. It is worth noting that a total of PLN 3,599.8m was paid into these deposits, with PLN 1,089.2m (30.3%) on deposit for 180 days, and PLN 2,510.6m (69.7%) on deposit for 270 days.

The remaining interest expense comprised interest to the Bank Guarantee Fund and the employees' welfare fund, interest on borrowings from the World Bank (used for onlending to domestic banks), and interest on French lines of credit (lines I and II). Together, these items made up 1.3% of total interest expense.

The structure of interest expense incurred by the NBP in the years 1996 and 1997 is outlined in Fig. 13.

Other expense amounted to PLN 651.1m. The prime component of this were charges to bad debt provisions, totalling PLN 524.9m (this represented 80.6% of other expense). In 1996, these provisions had stood at PLN 594.8m. These charges had not been envisaged in the annual plan, but an assessment of repayment capacity relative to the claims concerned indicated that they were necessary.

The provisions in question concerned the following claims:

- on placements at foreign banks and foreign branches of domestic banks, and on an equity interest at one bank, these totalling PLN 499.3m,
- on bonds and notes purchased from domestic banks under assistance provided to their rehabilitation, on equity interests at those banks, and on personal deposit guarantees (extended prior to the establishment of the Bank Guarantee Fund), with these together amounting to PLN 25.6m.

Table 36. General & administrative expense, 1997

Wyszczególnienie	1997		Performance ratio plan = 100 %
	plan	performance	
	PLN million		
Total general & administrative expense	546.2	498.9	91.3
of which:			
– personnel & associated expense	243.4	242.5	99.6
– expense of premises & equipment	243.3	198.5	81.6
of which:			
– material services	189.2	147.4	77.9
of which:			
– purchase of notes & coin	140.0	111.8	79.9
– repairs & maintenance	24.0	12.9	53.8
– use of materials & energy	20.7	20.2	97.6
– non-material services	29.9	27.5	92.0
– business travel	3.5	3.4	97.1
– depreciation	59.5	57.9	97.3

Next in significance as an item of other expense were charges to special-purpose accounts, which came to PLN 73.6m and made up 11.3% of this category of expense.

The final major component of other expense were FX losses of PLN 47.7m (these chiefly involved current trading losses).

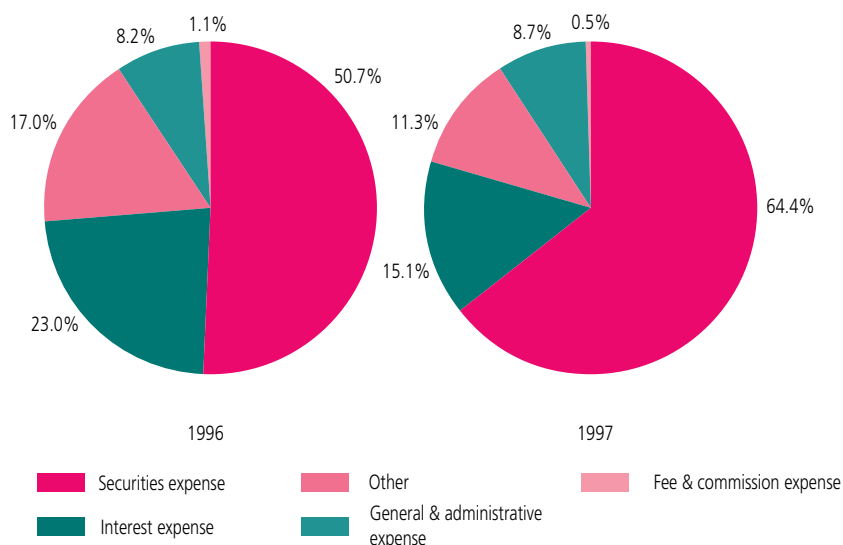
Also included under other expense are expense incurred on foreign currency borrowings, which amounted to PLN 3.3m, and miscellaneous other expense (including foreign currency revaluation expense), which came to PLN 1.6m.

The overhead expense involve in running the operations of the NBP, reported as **general and administrative expense**, was 23.7% higher in 1997 than in 1996, yet 8.7% lower than planned. This constituted 8.7% of total expense.

A breakdown of general and administrative expense is provided in Table 36.

A comparative breakdown of expense by particular categories in the years 1996 and 1997 is shown in Fig. 14.

Figure 14. Categories of expense, 1996-97



The distribution of NBP's profit

In 1997, the operations of the NBP generated a profit of PLN 1,150.5m. This was PLN 510.5m more than in 1996, and PLN 764.5m (198.1%) more than projected in the Bank's annual plan. Part of this profit was appropriated to the Bank's capital, while the remainder was paid into the Treasury.

Table 37 presents the distribution of this profit.

Table 37. Distribution of profit, 1997

	1996	1997		Ratios plan=100 %
	performance	plan	performance	
PLN million				
Total profit	640.0	386.0	1,150.5	298.1
of which:				
– appropriations to capital	44.9	30.9	38.6	124.9
– paid to Treasury	595.1	355.1	1,111.9	313.1
of which:				
– advance payments	x	x	890.0	x

Total appropriations to the Bank's capital represented 3.4% of profit earned, while in 1996 this proportion had been 7%. The Bank paid PLN 1,119.9m to the Treasury, which constituted 96.6% of profit (as against 93% in 1996).

The balance of payments, 1997⁷

The situation of Poland's balance of payments in 1997 reflected the underlying processes at work within the Polish economy. The discrepancy between aggregate demand and domestically generated supply was made up by imports. As a result, the deficit on officially registered merchandise trade rose USD 3.1bn compared to the previous year, to total USD 11.3bn. The shortfall on visible trade as registered by the banks in the balance of payments was not fully offset by the traditional surplus on unclassified current transactions. These transactions reflect the financial effects of economic activity with Polish non-residents, in particular with regard to unregistered trading in goods and services. In 1997, the positive balance on unclassified transactions fell 15% compared to 1996. The other transactions reported in the current account, i.e., services, current transfers, and income from factors of production (labour and capital), were incapable of making up for the deficit on merchandise trade. In consequence, the current account of the balance of payments showed a deficit of USD 4.3bn, an increase of USD 2.9bn on 1996. This current deficit was financed by an inflow of funds from abroad.

The dominant position within incoming foreign financing was occupied by foreign direct investment, followed by portfolio investment and credits. In comparison with 1996, the year 1997 saw a noticeable rise in inflows from foreign portfolio investment and credits. Given that the surplus on the financial account more than covered the deficit on current transactions, the remaining amount was absorbed by the central bank, thereby increasing the gross official reserves.

The balance of payments in convertible currencies

The current account

In 1997, the current account of Poland's balance of payments, compiled on the basis of registered payments, again brought a substantial preponderance of debits over credits. The current deficit reported at year end 1997 totalled USD 4,268m, which represents three times worse performance than in 1996 (when the negative balance on the current account stood at USD 1,352m). In relation to GDP, the current deficit also rose, from around 1.01% in 1996 to some 3.15% in 1997⁹.

The composition of the current account in the years 1996 and 1997, together with movements in particular items, is presented in Table 38.

The prime cause of such a profound current deficit was the deterioration in the balance on registered merchandise trade, where import remittances increased 18.2%, while export receipts rose 11.5%. The extent to which the shortfall on registered trade is offset by the surplus on unclassified current transactions is progressively decreasing (the net surplus on unclassified current transactions fell USD 1bn in 1997), although these transactions have traditionally been the second most important component of the current account (the first being merchandise trade itself).

On the other hand, a positive impact on the 1997 current account was exerted by the balances on official and private transfers (together these yielded a surplus of USD 1,100m, up USD 876m on 1996), and on services (where a net surplus of USD 305m was recorded, up USD 514m on 1996). Nonetheless, the growth in these items relative to 1996 was not enough to compensate for the widening trade gap.

Merchandise trade

Registered merchandise trade in 1997 produced a negative balance of USD 11,269m, which represents a greater shortfall than in 1996 (when this stood at USD 8,154m). These trade

Table 38. Balances on principal current account components, 1996-97 (USD million)

Balances	1996	1997	Change
Merchandise	-8,154	-11,269	-3,115
Services	-209	305	514
Investment income	-366	-465	-99
Transfers			
— official	73	102	29
— private	151	998	847
Unclassified current account transactions	7,153	6,061	-1,092
Total current account transactions	-1,352	-4,268	-2,916

⁷ The balance of payments and the settlements balance represent statistical reports which systematically summarise foreign transactions within a given time period. These reports are compiled on a double-entry basis, which means that each payment or transaction is recorded both under the appropriate heading indicating the economic nature of the operation concerned, and also under a heading indicating the source of financing for that operation. The annual balance of payments presented in this chapter is drawn up on the basis of payments settled and registered by Polish banks.

⁸ Given the negligible role played by clearing currencies within the balance of payments, these have not been analysed here.

⁹ Figures on GDP taken from *Biuletyn Statystyczny GUS* (the Statistical Bulletin of the Central Statistical Office), April 1998.

figures are an expression of the considerable differentiation between export and import growth rates. The increase in import payments in 1997, accompanied by a much slower growth in export receipts, lay behind the higher trade deficit than in the previous year. Registered merchandise exports were up 11% on 1996. However, import growth was much more rapid, at over 18%. This sharp rise in imports is the result of the maintenance of strong domestic demand within the Polish economy.

Table 39 presents Poland's trade figures for the particular quarters of 1997.

Table 39. Merchandise trade balance, quarterly, 1997 (USD million)

	Quarters 1997				1997
	1 st	2 nd	3 rd	4 th	
Exports	5,766	6,692	7,018	7,753	27,229
Imports	8,833	9,349	9,541	10,775	38,498
Balance	- 3,067	- 2,657	- 2,523	- 3,022	- 11,269

Despite the temporary improvement witnessed in the second and third quarters (when the deficits were USD 410m and USD 134m less than in the preceding quarter), these quarterly trade figures generally testify to a downward trend in the balance of trade. The deficit in the fourth quarter was up just under USD 500m greater than in the third.

These movements, together with export and import growth rates and trade balances, are portrayed in Fig. 15.

Figure 15. Merchandise trade, quarterly, 1994-97

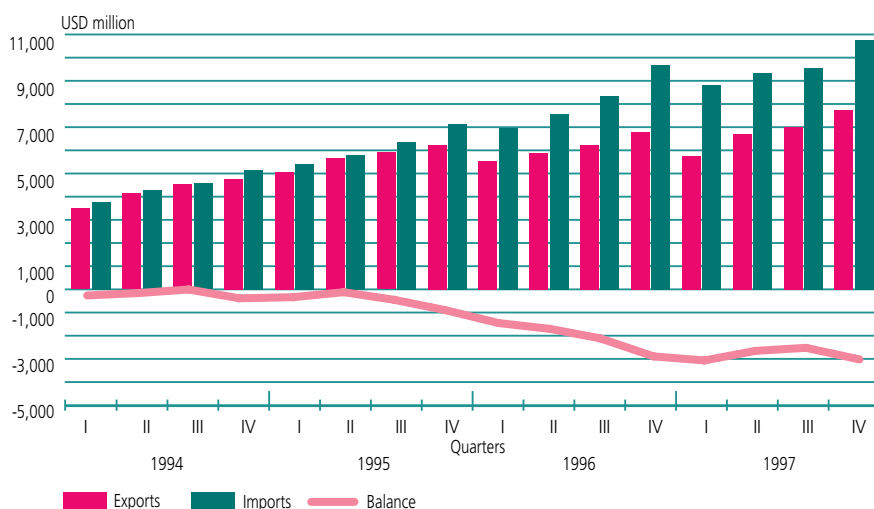
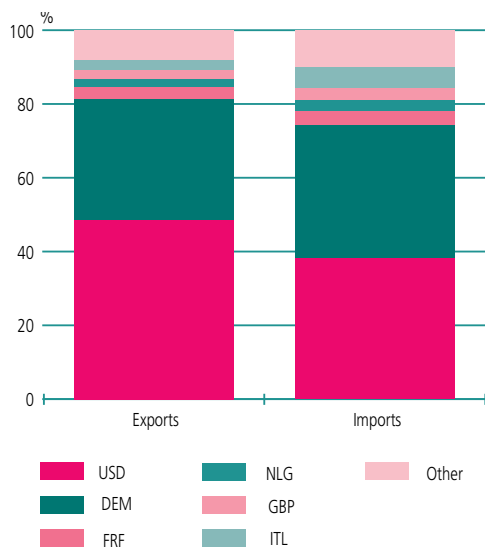


Figure 16. Currency composition of merchandise trade, 1997



Settlements on Poland's visible trade are traditionally carried out primarily in two currencies, the US dollar and Deutschmark. Dollar settlements represented 48.5% of exports in 1997 and 38% of imports, while D-mark settlements accounted for 32.6% and 36.2%, respectively. The predominance of these currencies within Polish foreign trade is thus obvious (together, payments in these two currencies constituted 81% of export settlements and over 74% of import settlements).

The percentage share of particular currencies in settling Poland's merchandise trade is outlined in Fig. 16.

As regards the geographical composition of Poland's trade, the dominant position was occupied in 1997, as in 1996, by the countries of the European Union. However, in analysing merchandise trade in terms of its geographical composition, it has to be taken into account that the information supplied by foreign exchange banks indicates the country of settlement, which is not necessarily the country of origin of goods imported, nor the destination of goods exported. Exports to EU countries accounted for 59.4% of Poland's total exports in 1997, while imports from those countries made up 65.7% of total imports. Unfortunately, in line with the overall trend affecting foreign trade, exports to the EU grew less swiftly than imports (exports were up 12.3% on 1996, whereas imports were up 20.3%). This produced a trade deficit of USD 9,118m, representing an increase over the year of USD 2,483m (almost 37.5%). In Poland's trade relations with the EU, the largest revenues were once again obtained from exports to Germany (USD 8,262m, i.e., over 30% of all export receipts), which signifies an increase of only 1.3% compared to 1996. Remittances on

imports from Germany amounted to USD 11,545m (a rise of 19.2%). Poland's trade deficit with that country thus came to USD 3,283m, having grown USD 1,752m since 1996.

The figures for Poland's trade with her other neighbours remain rather modest, while trade with the other countries of Eastern and Central Europe (including the CEFTA countries) generated only USD 2,716m in exports (10% of total exports) and USD 2,583m in imports (6.6%). These figures are 3 and 4.5 times lower, respectively, than the corresponding figures for registered trade with Germany. However, trade with this group of countries was exceptional in 1997 in displaying faster export growth (25.3%) than import growth (4.4%), resulting in an improvement of the total balance, which moved from a negative USD 264m in 1996 to a positive USD 178m in 1997.

Services Exports of services, as registered by payment¹⁰, rose slightly over 10% in 1997, while remittances on services imported fell 4.8%. The end result was a net credit balance of USD 305m at year end 1997. Registered credits on imports stood at USD 3,724m (as against USD 3,383m the year before), and debits came to USD 3,419m (as against USD 3,592m).

A breakdown of credits on services exported is presented in Table 40.

Table 40. Credits on services exported, 1996 and 1997 (USD million)

CREDITS	1996	1997	Change
SERVICES TOTAL	3,383	3,724	341
Transport	935	1,089	154
Foreign travel	435	590	155
Post & telecommunications	155	254	99
Insurance & reinsurance	189	217	28
Finance	224	121	-103
Construction	242	133	-109
IT & information services	28	18	-10
Copyrights, patents & licence fees	24	22	-2
Other commercial services	886	872	-14
Non-commercial services	224	378	154
Government (foreign missions)	41	30	-11

In 1997, as in previous years, the largest receipts were obtained on the export of transport services, which accounted for 29.2% of all services exported. Given the relatively small debits on these services, transport had an important impact on the surplus on services as a whole (net credits on transport services in 1997 came to USD 681m).

In terms of services imported (cf. Table 41), the largest role was played by other commercial services, which represented 25.5% of all debits on services, despite declining 10% on 1996. The second most important item was foreign travel (20% of registered payments on imported services), where debits in 1997 amounted to USD 679m (up nearly 9% on 1996). Payments for imported non-commercial services rose 65% during the year to reach USD 569m, and this item was instrumental in limiting the surplus on services as a whole, since the balance here was a negative USD 191m.

The debits on imported transport services of USD 408m in 1997 were sizeably lower than in the previous year (down USD 162m). This also made a major contribution to the overall decrease in service debits, and thereby boosted the net credits achieved.

The most significant role in attaining a positive balance on services (aside from transport services, which also yielded net credits) were played by postal and telecommunications services, and by construction services, although the latter only earned a net surplus of USD 67m, well down on the USD 157m recorded in 1996. By contrast, the balances on financial, non-commercial and government services were considerably worse.

Investment income Investment income showed a USD 465m deficit in Poland's 1997 balance of payments, which represents a deterioration of the negative USD 366m recorded the preceding year.

Credits on investment income amounted to USD 1,433m, down USD 38m on 1996. The dominant item here were receipts on portfolio investment, which came to USD 727m, a year-on-year increase of USD 37m. Another important inflow was interest on balances at foreign banks, which totalled USD 412m in 1997, although this figure was USD 22m lower than in 1996. There was a significant drop - USD 76m - in interest on repurchase transactions involving foreign securities.

¹⁰ Registered payments do not include a major part of services settled outside the Polish banking system. Figures on all trade in services, including both transactions registered by payment and those not registered within the banking system, are published in the "Settlements balance" compiled at the National Bank of Poland.

Table 41. Debits on services imported, 1996-97 (USD million)

DEBITS	1996	1997	Change
SERVICES TOTAL	3,592	3,419	-173
Transport	570	408	-162
Foreign travel	625	679	54
Post & telecommunications	62	93	31
Insurance & reinsurance	328	217	-111
Finance	223	186	-37
Construction	85	66	-19
IT & information services	135	86	-49
Copyrights, patents & licence fees	131	121	-10
Other commercial services	968	871	-97
Non-commercial services	345	569	224
Government (foreign missions)	120	123	3

Debits on investment income in 1997 came to USD 1,898m, up USD 61m on the year before. The largest debit items, as usual, were interest payments on foreign borrowings (USD 840m) and on Polish securities held by non-residents (USD 572m). Both of these items relate to the servicing of Poland's foreign debt. One outflow that shrank in relative terms as a proportion of total investment debits (down 12.7%), yet continued to have a major impact on the balance of investment income, were debits on foreign direct investment. Payments on this item, which comprise profits and dividends together with interest payments on loans from direct investors, totalled USD 241m (representing a rise of USD 160m on 1996). This item therefore had a determining influence in deepening the shortfall on investment income as a whole.

Current transfers

The current account item "transfers" showed a surplus in 1997 of USD 1,100m. In 1996 there had also been a surplus, of USD 224m.

This 391% growth in the positive balance of transfers came as the result of higher credits than debits, principally with respect to private transfers. In 1997, inflows on transfers totalled USD 4,889m (as against USD 5,401m in 1996), while outflows came to USD 3,789m (as against USD 5,177m). There was thus a decrease in transfers in general, amounting to 9.5% for credits and 26.8% for debits. The reason for this, and for the higher surplus on this item of current transactions, were movements on foreign currency "A" accounts held by Polish residents. Deposits on these accounts dropped 12.4%, while withdrawals fell 25.4%. Movements on "A" accounts exerted the dominant influence on the level and balance of

Figure 17. Net credits & debits, foreign currency "A" accounts, quarterly, 1996 and 1997

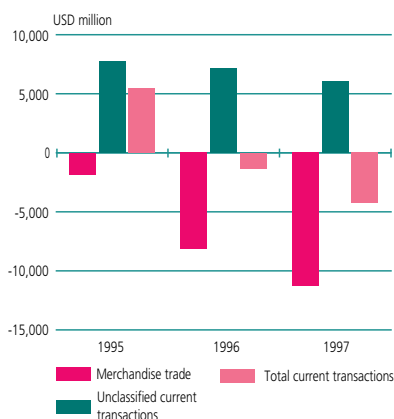


transfers, since they represented 81.4% of all credits (USD 3,978m) and 92.1% of all debits (USD 3,488m).

Deposits and withdrawals on these accounts in 1996 and 1997, by quarter, are depicted in Fig. 17.

Unclassified current transactions

Figure 18. Balances on unclassified current transactions, merchandise trade and total current transactions



The financial & capital account

The financial account

Unclassified current transactions ended the year 1997 showing a positive balance of USD 6,061m. Nonetheless, this figure attests to a major contraction in the surplus achieved on this item (down over 15%), since this had stood at USD 7,153m in 1996.

The volume of foreign currencies purchased by banks from the public and from bureaux de change, which is presented in the balance of payments under "unclassified current transactions", constitutes the financial effect of part of the transactions conducted between Polish residents and non-residents, especially with reference to unregistered trading in goods and services, the earnings of Poles working abroad, and transfers. While a substantial portion of unregistered trading is believed to be associated with tourist traffic, all purchases made by foreign nationals for resale, or in wholesale amounts, have to be treated as trade in goods rather than services.

Unclassified current transactions have been systematically declining since 1995, which suggests that the narrowing of price differentials between Poland and neighbouring countries is undermining the appeal to foreigners of making purchases in Poland, with this factor imparting a permanent character to the downward trend observable.

The fact that the vast majority of unclassified current transactions are reflected in purchases of convertible currencies which constitute the proceeds of unregistered trading and tourist revenues justifies viewing this item of the current account as a counterweight to the deficit on registered trade in goods and services.

Figure 18 presents the balances on unclassified transactions and officially registered merchandise trade, and the impact of these on the current account as a whole.

In 1997, Poland's financial and capital account showed a surplus of USD 7,589m. The capital account¹¹ provided a surplus of USD 95m, as against USD 90m a year previously.

The balance on financial transactions in 1997 was positive and amounted to USD 7,494m. This fully covered the current deficit, leaving an additional USD 3,226m. The financial account comprises the following balances on financial transactions (1997 balances given in brackets): direct investment (USD 3,041m), portfolio investment (USD 2,098m), credits extended (USD -170m), credits received (USD 1,008m) and other short-term capital (USD 1,517m). The financial transactions reported here do not include changes in the gross official reserves, which for analytical purposes have been presented separately (cf. Table 42).

Direct investment. The balance on direct investment¹² in 1997 was a positive USD 3,041m. In 1996, the surplus had come to USD 2,741m.

The net equity interests held by foreign investors in Polish companies were 11% higher than a year previously. One of the sources of inflows from abroad were payments in the second half of 1997 connected with the privatisation of large state enterprises: Bank Handlowy w Warszawie SA, the KGHM "Polska Miedź" - Copper Mining and Smelting Combine, and Powszechny Bank Kredytowy SA. Foreign direct investment in Poland in 1997 totalled USD 3,077m (net), as against USD 2,768m in 1996.

Polish direct investment abroad, where movements were minor, closed the year with a deficit of USD 36m. This signifies greater outflows on investments abroad than inflows from the withdrawal of capital directly invested in foreign companies. In 1996, there was also a deficit on this item, of USD 27m.

Portfolio investment. The year 1997 brought a surplus on portfolio investment of USD 2,098m, representing very sharp growth since 1996, when the surplus came to USD 241m.

In comparing the figures for 1996 and 1997 on Polish portfolio investment in foreign securities and foreign investment in Polish securities, what is noticeable is not just the higher surplus achieved, but also the large increase in flows of portfolio investment overall.

The balance on foreign portfolio investment in Poland in 1997 was a positive USD 1,283m, representing an impressive increase of USD 1,324m (the balance in 1996 was a negative USD 41m). Of considerable importance in generating this surplus was the fact that Polish investors made less purchases on foreign markets of Polish Brady bonds and Polish

¹¹ The capital account comprises two parts: capital transfers (investment grants together with principal and interest forgiven), and transactions involving the purchase and sale of non-financial and non-productive assets (patents, licences, trademarks).

¹² The payments involved in direct investment do not include non-cash considerations for equity or the reinvestment of profits. Figures on total direct investment, incorporating both payments registered by the banking system and those not registered, will be published in the settlements balance for 1997.

Table 42. Financial and capital account, 1996-97

	1996	1997
FINANCIAL AND CAPITAL ACCOUNT	4,783	7,589
CAPITAL ACCOUNT	90	95
FINANCIAL ACCOUNT	4,693	7,494
Direct investment	2,741	3,041
Polish direct investment abroad	-27	-36
Foreign direct investment in Poland	2,768	3,077
Portfolio investment	241	2,098
Polish portfolio investment abroad (assets)	282	815
Foreign portfolio investment in Poland (liabilities)	-41	1,283
Long-term credits extended	-32	-110
Drawings	55	227
Repayments	23	117
Short-term credits extended	-5	-60
Drawings	153	189
Repayments	148	129
Long-term credits received	-211	416
Drawings	819	1,189
Repayments	1,030	773
Due and paid	964	711
Due but not paid	66	62
Rescheduled	4	3
Forgiven	4	3
Converted	58	56
Arrears	-	-
Short-term credits received	85	592
Drawings	597	1,201
Repayments	512	609
Other short-term capital	1,874	1,517
Other financial transactions	596	2,075
Changes in other assets	757	-755
Changes in other liabilities	521	197

Treasury Eurobonds. These purchases substantially lowered the value of Polish liabilities abroad, thus reducing the volume of foreign portfolio investment in 1996. Foreign investment in Polish debt securities came to USD 684m (net), while investments in equities amounted to USD 599m. The large rise in foreign portfolio investment in Polish securities in 1997 was also a result of new Eurobond issues by the Treasury and greater demand for Polish short-term debt instruments. In addition, there were major bond issues addressed solely at foreign markets by both banks and - above all - non-banking corporations.

The balance of Polish investment in foreign securities was also positive, standing at USD 815m. This indicates that more foreign securities were sold by Polish investors than bought. In 1996, the balance on Polish portfolio investment abroad was USD 533m lower. The principal component of this item were foreign debt securities, where the balance in 1997 came to USD 759m, an increase of USD 459m on 1996. The inflows and outflows on this item do not include operations by the NBP, which are reported under "changes in the gross official reserves".

Credits extended. The year 1997 brought a deficit on credits extended of USD 170m; there was also a deficit in extended credits to foreign borrowers totalling USD 285m (of which USD 148m was long term) - this represented 68.5% of drawings in 1997. The remaining sectors extended credits of USD 131m (31.5%).

Credits received. A surplus of USD 1,008m was recorded on credits received in 1997, as against a deficit in 1996, when repayments were USD 126m higher than drawings.

Drawings of credits extended by foreign lenders in 1997, as registered by payment, amounted to USD 2,390m. In 1996, this figure had come to USD 1,416m. The year 1997 thus saw an increase of 69%. Polish borrowers made similar use of both long- and short-term credits - the former amounted to USD 1,189m (49.7% of total drawings), while the latter came to USD 1,201m (50.3% of total drawings).

There was a drop in repayments compared to 1996. Repayments in 1997 stood at USD 1,382m, as against USD 1,542m in 1996 (a decrease of 10.4%).

By sector, the biggest net inflow of funds on credits received in 1997 was seen in the domestic banking industry, where drawings were USD 564m greater than repayments (cf. Table 43).

Table 43. Drawings and repayments of credits received, by sector, January-December 1997 (USD million)

	Drawings	Repayments	Balance
Credits received	2,390	1,382	1,008
National Bank of Poland	1	15	-14
The government	545	645	-100
Banking	768	204	564
Non-government & non-banking	1,076	518	558

A similar inflow - USD 558m - was also noted in the non-government, non-banking sector.

The major increase in drawings of credits by the banking industry and the non-government, non-banking sector may indicate that banks and other corporations are seeking loans abroad due to the higher cost of credit at home.

Other short-term capital. This item, as registered in the balance of payments at year end 1997, showed a surplus of USD 1,517m. Other short-term capital comprises the following (1997 balances given in brackets): changes in the banking system's other foreign assets (USD -755m), changes in the banking system's other foreign liabilities (USD 197m) and other financial transactions (USD 2,075m).

The other foreign assets of the banking system rose USD 755m in 1997 (as against a fall of US 757m in 1996). The factors behind this increase included a growth in foreign placements by the banks, up USD 513m, and also a rise in repurchase transactions, up USD 339m. A decline was noted in cash balances, with foreign assets of this type decreasing USD 206m.

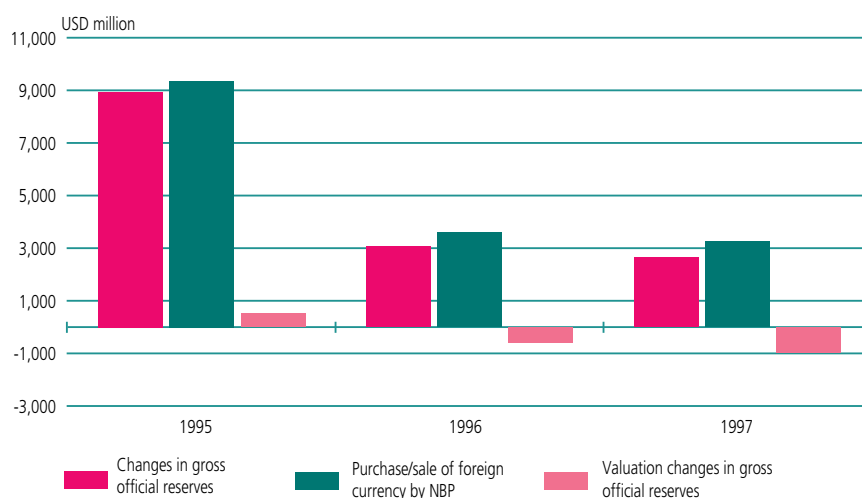
The other foreign liabilities of the Polish banking system went up USD 197m in 1997 (whereas in 1996 this increase had been USD 521m). This was primarily the result of an increase in the deposits held by foreign banks at domestic banks, which rose USD 202m, and also of balances on accounts held by other non-residents, up USD 86m.

Reserves

At December 31, 1997, the gross official reserves stood at USD 20,670m, having grown USD 2,637m over the preceding twelve months. At year end, the reserves were equivalent to 6.4 times the value of average monthly imports during the year. By comparison, at the end of 1996 the gross official reserves stood at USD 18,033m, which corresponded to 6.6 times the value of average monthly imports in 1996.

The level of reserves at year end 1997 was also over 6 times (6.03 times) the value of full annual payments, understood as the sum of average monthly imports and average monthly repayments of foreign debt. In terms of GDP, the reserves represented 15.2%.

Figure 19. Gross official reserves and net purchases of foreign currency by NBP



A major source of growth in the gross official reserves were the central bank's operations on the interbank FX market, and the associated purchase of foreign currencies from the banks, which totalled USD 3,250m (net).

On the other hand, a factor containing growth in the gross official reserves were foreign exchange differences, which reduced the value of the reserves by USD 954m. The translation losses involved here were due to the strengthening of the US dollar against the other currencies in which the central bank holds its reserve assets. Over the course of the year, the US dollar rose against the Deutschmark from 1.5467 at the beginning of January (January 2) to 1.7917 at December 31.

The annual change in the gross official reserves, together with net purchases of foreign currencies by the NBP and monthly movements in the reserves as a result of FX differences, are presented in Fig. 19.

Methodological notes

TABLE I. Basic Economic Data

The data included in Table 1 have been taken from the Statistical Bulletin of the Central Statistical Office (GUS). The definitions pertaining to the categories in Table I can be found in Central Statistical Office publications.

1. The data included in points 1,2,6,7,10 and 12 refer to all business organisations, irrespective of ownership rights, whether belonging to the public or private sector. The public sector comprises state and municipal enterprises and also firms with a majority public ownership.

2. The term "corporate sector" includes organisations conducting economic activity in forestry, logging and related services; marine fisheries; mining and quarrying; manufacturing; electricity, gas and water supply; construction; the wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods; hotel and catering services; transportation, storage and communication; real estate activities; renting; business activities; sewage and refuse disposal, and sanitation and similar activities; recreation, culture and sports and other services.

3. The term "industry" refers to the following sections: Mining & Quarrying; Manufacturing; and Electricity, Gas & Water Supply.

4. Figures on sales of industrial goods (point 1), sales of construction output (point 2), on the employed labour force, average employees in employment and average monthly wages and salaries in the corporate sector (points 6,7 and 10) all refer to business organisations employing more than five persons.

5. Figures on sales of industrial goods (point 1), sales of construction output (point 2) are net of VAT.

6. Figures on construction output (point 2) are exclusive of works performed abroad and those performed for their own purposes by non-contractors, i.e., by business organisations engaged in basic activity other than construction.

7. Figures on sales of industrial goods and services (point 1) and sales of construction output (point 2) are not seasonally adjusted, i.e., they refer to effective working time.

8. Figures on the labour force employed in the corporate sector (point 6) refer to the total at month-end.

9. Figures on the number of unemployed (point 8) refer to individuals registered as unemployed at employment offices at month-end.

10. The unemployment rate (point 9) represents the proportion of the unemployed in the total civilian work force.

11. Figures on average monthly wages and salaries in the corporate sector (point 10) are given both as gross earnings (i.e., before personal income tax), and as net earnings (i.e., after tax deductions).

12. Since the beginning of 1998, income from privatisations are excluded from current central government receipts, instead they are a source of budget deficit financing (point 11a).

13. The figures for corporate financial performance (point 12) refer mainly to business organisations maintaining accounting records and which required to complete monthly statements on income, expenses and profit/loss. Data on mining & quarrying and on manufacturing refer to organisations employing over 50 persons, whereas in other kinds of activity this qualification involves 20 employees.

TABLE II. Financial Market - Basic Information

The National Bank of Poland is the source of the data in Table II. The data in point 16, however, are taken from "Cedula Gieldowa" (Daily Quotations) of the Warsaw Stock Exchange.

1. Interest rates in Table II are presented on an annualised basis. Interest rates are given at month-end, except in points 14e and 15e and f which give average monthly figures.

2. If two interest rates are given in one cell (point 3) it means that the first interest rate is on refinance loans to finance government investment projects guaranteed by the Treasury. It is equal to the lombard rate. The other rate is 1 percentage point higher and is charged on other refinance loans.

3. Since the beginning of 1992, current accounts held by banks at the NBP do not bear interest.

4. Since April 1, 1996 an individual permission of the President of the National Bank of Poland is required to open current accounts for non-bank financial institutions, central government budget, state-owned companies and state target (special purpose) funds as well as to open time deposits unless these institutions are legally obliged to have such accounts (it does not refer to the Ministry of Finance).

5. Information given in point 4b refers to personal time deposits only.

6. Rates on loans and deposits at the principal commercial banks (points 5 and 6) refer to the rates quoted by the following banks:

- PKO-State Savings Bank,

- Bank Handlowy w Warszawie SA,
- Bank Śląski SA,
- Bank Przemysłowo-Handlowy SA,
- Bank Depozytowo-Kredytowy SA - Pekao Group SA,
- Powszechny Bank Gospodarczy SA - Pekao Group SA,
- Wielkopolski Bank Kredytowy SA,
- Pomorski Bank Kredytowy SA - Pekao Group SA,
- Powszechny Bank Kredytowy SA,
- Bank Zachodni SA,
- Bank Rozwoju Eksportu SA,
- BIG Bank Gdański SA,
- Bank Pekao SA - Pekao Group SA,
- Kredyt Bank PBI SA,
- Bank Gospodarki Żywnościowej SA.

7. Point 5a presents the lowest range of lending rates and refers to loans extended for terms of up to 1 year.

8. Points 5b, 6 and 7 show minimum and maximum interest rates.

9. The rates given for demand deposits (point 6a) refer to personal accounts.

10. Rates on foreign currency deposits (point 7) refer to US dollar accounts at the banks listed in point 6 above and also at Bank Staropolski SA.

11. Data on interbank placements (point 8) refer to złoty deposits at resident banks. The average length of placements and average interest rates are weighted according to the proportion of placements for particular maturities in the total value of placements. The data have been supplied by banks listed in note 6 above and also by:

- BIG Bank SA,
- Polski Bank Rozwoju SA,
- Bank Staropolski SA,
- Raiffeisen Centrobank SA,
- Pierwszy Komercyjny Bank SA,
- CITIBANK (Poland) SA.

The data include:

- deposits placed by these banks with each other,
- deposits placed by these banks at other banks,
- deposits placed at these banks by other banks.

12. Total required reserves (point 10) shows values declared by banks and is given at month-end.

13. Figures for auction securities sales by NBP (point 12) are based on the data from all auctions held during the month.

14. Figures for Treasury Bill tenders (point 14, excluding sub-point 14g) are based on the data from all auctions held during the month. The average discount rates on bids accepted (sub-point 14e) and average yields on bills purchased (sub-point 14f) are weighted according to the proportion of purchase costs of bills with particular maturities in the total market price of bills purchased. The balance of bills outstanding at month-end (sub-point 14g) is computed considering of maturities, calculated on the next day after the tender at which the bills were sold. The above balance does not comprise outstanding bills not sold at tender.

15. Figures for tenders for NBP money-market bills (point 15, excluding sub-point 15g) are based on the data from all auctions held during the month. The average discount rates on bids accepted (sub-point 15e) and average yields on bills purchased (sub-point 15f) are weighted according to the proportion of purchase costs of bills with particular maturities in the total market price of bills purchased.

16. The Warsaw Stock Exchange Index (point 16d) is calculated according to percentage changes in the market values of listed companies. The market value of all such companies is computed during each trading session (the total market capitalisation) and compared with the value at previous sessions. It has been assumed that the Index stood at 1,000 points during the first session of the Exchange on April 16, 1991.

17. The P/E ratio (point 16e) represents the ratio of market price to net earnings and is calculated as a multiple expressing the total average market capitalisation of listed companies in a given month to their combined net profits during the last twelve months for which financial data are available.

18. The turnover ratio (point 16f) represents the ratio of the value of shares sold to the average market capitalisation of all companies quoted on the Exchange in a given month.

The data collected by the National Bank of Poland are the source of information in Table III.

1. The fixing rate is an official rate used for statistical and accounting purposes.

2. The market exchange rate is computed based on information collected on a basis at private bureaux de change in several selected voivodships.

TABLE III. USD and DEM Exchange Rates, 1997

3. The average fixing rates for PLN/USD, PLN/DEM, and for USD/1 DEM are calculated as arithmetic means of the official daily rates on particular days of the month.

4. The monthly average USD exchange rate at bureaux de change is calculated as a weighted average.

TABLE IV. Zloty Lending Rates at Selected Commercial Banks

Information has been provided by commercial banks.

1. Interest rates are presented on an annualised basis.

2. Lending rates are determined by each bank and vary with the risk involved. Prime rates are applicable to lowest-risk loans granted to borrowers with high creditworthiness.

TABLE V. Zloty Deposit Rates at Selected Commercial Banks

Information has been provided by commercial banks.

1. Interest rates are presented on an annualised basis.

2. More than one interest rate in a given period reflect the fact that banks offered interest rates varying with the amount deposited. Low interest rates are given in brackets.

General Remarks on TABLES VI, VII and VIII

1. Data refer to the balance of accounts at the end of particular months. They have been obtained from information on balances of accounts received from banks received from banks within the framework of the "Bank Reporting System" (BIS) which was introduced in January 1997.

2. Data was obtained from BIS as of May 31, 1998.

3. Figures on December 1996, presented in this Report, have been supplied under the BIS system. They are computed based on reports prepared by banks and verified by auditors. Figures on December 1996, presented in Annual Report 1996 were not audited since the material had been published before the December data were verified. That explains the differences between the same categories (of the same contents) on December 1996 as published in Annual Report 1996 and in this Report.

4. Tables VI, VII and VIII present gross assets, i.e. reserves, debt cancellations and depreciation reserve have not been deducted from the sums due.

5. **"Non-bank financial institutions"** are insurance companies, investment funds, trust funds and other financial institutions, i.e., Stock Exchange, brokerage houses not owned by banks, bureaux de change, Post Office, mutual fund associations, financial market supervisory institutions (e.g. Stock Exchange Securities Committee - KPW) and financial infrastructure institutions (e.g. Domestic Deposit of Securities - KDPW, clearing banks), leasing companies and also various funds and foundations rendering financial services. In the new system of bank reporting non-bank financial institutions are included in the financial sector. In the system used before the end of 1996, those institutions were included in various corporate sectors.

6. The term **"general government sector"** refers to the central government, local government and special purpose funds of the two. The contents of the category remains unchanged.

7. The term **"non-financial sector"** refers to business organisations and persons listed in points 7 and 8.

8. The term **"non-financial corporate sector"** refers to state enterprises and state-owned companies, registered companies, partnerships and cooperatives, sole proprietors, private farmers and other non-financial organisations, i.e., non financial funds and foundations, agencies, trade unions, associations, political parties, churches, religious groups and the like.

9. The term **"persons"** refers to natural persons who are not private farmers or sole proprietors.

10. The terms **"foreign assets/foreign liabilities"** comprise amounts due from or to non-residents, in both convertible and non-convertible currencies and also in zloty, excluding bank capital and supplementary funds paid in by foreigners. This capital - according to the guidelines of NBP - should be treated like the capital paid in by residents. "Foreign assets/foreign liabilities" in this Report comprise the same elements as "foreign assets/foreign liabilities" in Reports published earlier. The remaining categories presented in the tables represent transactions with residents.

11. The term **"due from"** refers to zloty and foreign currency loans and credits, purchased debts, guarantees and collaterals, exceptional operations, other claims and interest outstanding.

12. **"securities purchases/sales under repurchase/reverse repurchase agreements"** denote credit granted/placements made/credit received, placements accepted in pledge of securities. The above items do not comprise transactions between commercial banks and the central bank that are included in the item of "due from/to NBP".

13. The term **"due to"** includes current account deposits (including savings books of personal customers), time deposits and blocked deposits, savings certificates and certificates of deposit (non-transferable) held by personal customers, escrow accounts, investment accounts in bank brokerage houses, credits and loans extended by non-financial funds and

TABLE VI. Commercial Banks - Assets and Liabilities

foundations and non-bank financial institutions, exceptional operations and funds to finance development programmes.

1. The item **"due from non-bank financial institutions"** covers only sums due from organisations listed in points 7 and 8 of "General remarks on Tables VI, VII and VIII". It does not include sums due from insurance companies that were included in this item in previous Reports.

2. **Reverse repo operations** were previously covered by "other assets/liabilities".

3. **"Securities issued by general government"** include:

- Treasury bills,
- bonds denominated in zloty and foreign currency.

General government debt to commercial banks, resulting from government securities held by banks at the end of December 1996, as published in Annual Report 1996, differs considerably from that presented in this Report. The difference is due to a certain method of evidencing debt securities used in a group of banks, i.e., the banks supplied the NBP with information on the purchase prices of securities held. Data on the value of the government securities portfolio, including December 1996, presented in this Report, reflect the purchase price plus interest due and discount.

4. **"Other assets"** include, among others: fixed assets, interest due, settlement accounts, settlements with various debtors, accrued income and prepaid expenses.

5. **"Other liabilities"** include, among others: capital, interest due, settlement accounts, settlements with various creditors, pre-paid costs and deferred earnings, restricted use earnings, profit/loss account under approval and profit/loss account of the current year, special purpose funds, cancellations and depreciation reserves.

TABLE VII. The National Bank of Poland - Assets and Liabilities

1. Assets and liabilities of the National Bank of Poland contained in Table VII allow for the aggregation of data and for obtaining aggregated information on the banking system.

2. The rules of data aggregation in Table VII are consistent with those used for commercial banks. It means that the same categorisation of items and sectors has been applied and presented together with typical operations performed by the central bank (e.g. refinance loans, required reserve).

3. The differences between the data in Table III contained in the Annual Report 1996 and in this Report in the **"foreign assets and liabilities"** items (December 1996) result from a different method of booking the particular components of this items used by the National Bank of Poland.

4. The item **"due from banks"** is equivalent to the item "due from financial sector" as published in Table III contained of the Annual Report 1996.

5. The item **"special purpose funds"** is equivalent to "other refinance loans" as published in Table III contained of the Annual Report 1996.

6. The item **"other refinance loans"** is equivalent to "current account refinance loans" as published in Table III of Annual Report 1996.

7. The item **"loans past due"** is equivalent to "basic refinance loans" as published in Table III of Annual Report 1996.

8. The item **"securities issued by banks"** is equivalent to "other securities" as published in Table III of Annual Report 1996.

9. The item **"securities issued by Treasury"** is equivalent to "Treasury bills and bonds" as published in Table III of Annual Report 1996.

10. The components of the item **"due to banks"** and **"due to non-bank financial institutions"** are equivalent to those of item "due to financial sector" as published in Table III of Annual Report 1996.

11. The item **"outstanding securities"** was in previous Reports a component of "other liabilities".

12. Assets and liabilities items not mentioned in the notes on Table VII remained unchanged relative to those in Table III.

13. **"Other assets"** include various items not identified separately in the balance sheet of NBP, the major ones being: accrued receivables, appropriation of the financial surplus (including payments to government), other amounts due and reserves, stockholdings, and real estate and movables.

14. **"Other liabilities"** include various items not identified separately in the balance sheet of the National Bank of Poland, the major ones being: other capital, accruals, interbank and interbranch settlements, special purpose funds, currency translation reserve, balance on foreign currency assets and liabilities and the surplus of income over expense for a given period.

TABLE VIII. The Banking System: Commercial Banks and NBP - Assets and Liabilities

This table contains aggregated data on commercial banks (see: Table VI) and NBP (see: Table VII).

**TABLE IX. Money
Aggregates**

M2 is the basic money aggregate used by NBP to measure **money supply**. It is equivalent to "total money supply" as published in previous Reports.

The definition of M2, as compared to that used before the end of 1996, has been expanded to include deposits of non-bank financial institutions (previously only deposits of insurance companies were included) and amounts due to organisations for securities sold under repurchase agreements.

M2 includes **M1** - the most liquid money is comprised of cash in circulation and personal and corporate demand deposits (in zloty and foreign currency).

**TABLE X. Consolidated
Balance Sheet of the
Banking System**

1. This table presents assets and liabilities of commercial banks and NBP in a way that facilitates monetary analyses. It is equivalent to Table V in Annual Report 1996.

2. As of January 1, 1997 the National Bank of Poland introduced certain changes in the method of computing money aggregates. This Report also includes the data on December 1996 obtained with the use of the modified method.

The aggregate "deposits" used before the end of 1996 has been replaced by the aggregate amounts "**due to**" that - in addition to deposits - includes securities sold under reverse repurchase agreements.

The aggregated "lending" has been replaced by the aggregated amounts "**due from**" - that, in addition to loans, can include purchased debts, guarantees and collaterals, debt securities and securities purchased under repurchase agreements.

The aggregates "due to" and "due from" have been expanded to include data on non-bank financial institutions which - in previous Reports - were included in the item "balance of other items (net)".

3. The item "**total money supply**" covers zloty money supply and amounts due in foreign currency to persons and corporations.

4. The item "**zloty money supply**" includes notes and coin in circulation (excluding vault cash) and amounts due in zloty to persons and corporations.

5. The item "**notes and coin in circulation (excluding vault cash)**" represents cash in zloty (notes and coin) circulating outside vaults. When booked it is the difference between cash circulating outside NBP and vault cash.

6. The item "**due to: persons**" includes demand deposits (including savings books), escrow demand accounts, investment accounts with bank brokerage houses, time deposits and blocked deposits, escrow fixed-term accounts, savings certificates and certificates of deposit (non-transferable).

7. The item "**due to: corporations**" includes both amounts due to non-financial sector and to non-bank financial institutions. This item covers current accounts, time deposits, blocked deposits, escrow accounts, accounts with bank brokerage houses, loans and credits granted by non-bank funds and foundations and non-bank financial institutions and also securities sold under reverse repurchase agreements.

8. "**Net foreign assets**" represent the difference between all amounts due from non-residents and amounts due to them (see definition in "General remarks on Tables VI, VII and VIII" point 9).

9. "**Net domestic assets**" represent amounts due from persons and corporations, net general government debt and the balance of other items (net); arithmetically it is the difference between total money supply and net foreign assets.

10. The item "**due from: persons**" includes loans and credits extended, debts purchased, guarantees and collaterals, and past interest due on performing and doubtful loans.

11. The item "**due from: corporations**" refers both to non-financial sector and to non-bank financial institutions. This category comprises loans and credits extended, purchased and doubtful debts, securities purchased under repurchase agreements and other receivables (e.g. subsidies to help finance interest on preferential loans, capital invested in the Stock Exchange Guarantee Fund).

12. "**Net general government debt**" to the banking system represents all amounts due from the central government, local governments and their special purpose funds, and securities issued by central and local governments and held by commercial banks and the central bank less total amounts due by banks to the above mentioned.

13. The item "**Other items (net)**" includes mainly bank income, capital, interbank and interbranch settlements, settlement accounts, securities issued by banks, banks' claims on other bank and also special purpose funds.

**TABLE XII. Poland:
Balance of Payments in
Convertible Currencies**

1. The balance of payments is a statistical presentation of all business transactions between the Republic of Poland and all other countries in a given period of time. These transactions are concluded between residents and non-residents. They cover, among others, goods and services, as well as income, financial claims and liabilities and also transactions classified as transfers. When booked they constitute a counterbalance of one-sided transactions.

2. The data on the balance of payments have been obtained from reports of domestic banks authorized to deal in foreign currencies, on nostro account transactions at foreign

banks, accounts of non-residents with Polish banks, compensation settlements, netting of mutual liabilities and cash transactions at domestic foreign exchange banks. The data for balance of payments purposes are collected in original currencies, i.e. in currencies in which the transaction was settled. Next they are translated into USD.

The balance of payments includes current account, capital and financial accounts, errors and omissions, exceptional financing, valuation changes and changes in gross official reserves.

3. The **"current account"** covers merchandise, services, income, current transfers and unclassified transactions on current account.

The item **"merchandise"** includes visible exports and imports, repairs of goods, goods for processing, goods procured in ports by couriers and nonmonetary gold.

The term **"services"** includes invisible exports and imports of transportation services, foreign travel services, post office and express delivery services as well as telecommunication services, insurance services, financial services, construction services, computer and data transmission services, copyrights, patents and royalties, other commercial services, household services, audiovisual, cultural and recreational services and also government services.

The term **"income"** includes compensation of employees, income on direct investment, portfolio investment and other income: "other income" covers interest on extended and received credits and interest on bank accounts and deposits.

The term **"current transfers"** includes general government's donations and grants, taxes and payments to the general government in Poland and also transfers of other sectors that cover workers' remittances, inheritances, disability pensions, old-age pensions, payments into and withdrawals from foreign currency "A" accounts, taxes and payments made to other governments.

The item **"unclassified transactions on current account"** reflects the net value of foreign currencies sold and bought.

4. **"Capital and financial account"**

The item **"capital account"** covers capital transfers which includes donations and grants to finance fixed assets, debt forgiveness and acquisition/disposal of non-produced, non-financial assets. Acquisition disposal of non-produced, non-financial assets refers to patents, copyrights, trademarks etc. purchased by residents/sold to non-residents and also real estate sold to foreign embassies in Poland or bought by Polish embassies abroad.

The item **"financial account"** includes financial assets and liabilities that cover direct investment, portfolio investment, credits and other short-term capital.

The term **"direct investment"** reflects long-term investment of an organisation owned by a resident of one economy (direct investor) in an organisation owned by a resident of other economy (direct investment company) and includes transactions between the two. Direct investment transactions (Polish abroad and foreign in Poland) are divided into two groups: equity capital and other capital.

"Portfolio investment" covers transactions in equities and debt securities. Debt securities are divided into bonds and notes, money market instruments and financial derivatives.

The item **"Credits extended and received"** includes all transactions and financial credits of the general government sector, banking sector, non-government sector and non-banking sector broken into long-term credits (above 1 year) and other short-term credits (up to 1 year).

"Other short-term capital" includes other financial transactions and changes in other assets and liabilities.

5. The term **"exceptional financing"** covers two forms of financing by the balance of payment accounts: rescheduled obligations to foreign creditors and changes in arrears. Increase of arrears occurs when only a part of the principal and interest due is either paid or formally rescheduled. Default repayments not made result in changes in arrears increase. Changes in arrears decreases occurs when principal and interest arrears are either paid or when they are rescheduled under a refinance agreement.

6. **"Changes in gross official reserves"**

"Gross official reserves" consist of those extend assets that are readily available to and controlled by the NBP. They are used for direct financing of payment imbalances, interventions in exchange markets, and other purposes. They are a security for the balance of payments operations. They can, among others, be used to intervene in money markets. Gross official reserves always refer to assets that actually exist. They comprise monetary gold, SDRs, reserve positions in the IMF, foreign exchange assets (consisting of currency and deposits, securities) and other claims.

TABLE I. Basic Economic Data

Item		1996	1997		
		XII	I	II	III
1. Sales of industrial goods and services					
a) current prices	PLN million	24,930.3	24,525.0	23,929.4	25,598.8
b) constant prices					
- corresponding month previous year = 100	%	110.1	108.6	108.7	104.8
- previous month = 100	%	102.1	96.6	97.2	106.6
2. Sales of basic output, construction firms					
a) current prices	PLN million	3,431.6	1,368.1	1,585.9	1,970.2
b) constant prices					
- corresponding month previous year = 100	%	122.1	97.9	128.0	133.9
- previous month = 100	%	139.7	39.6	114.0	122.7
3. Consumer price index					
a) corresponding month previous year = 100	%	118.5	117.8	117.3	116.6
b) previous month = 100	%	101.3	102.9	101.1	100.8
c) December previous year = 100	%	118.5	102.9	104.0	104.9
4. Producer price index					
a) corresponding month previous year = 100	%	110.5	112.9	111.9	111.8
b) previous month = 100	%	100.5	103.4	100.8	100.2
5. Construction price index					
a) corresponding month previous year = 100	%	116.4	114.5	114.4	114.5
b) previous month = 100	%	101.1	101.2	101.3	101.3
6. Employed labour force, corporate sector total					
	thou.	5,841.0	5,879.0	5,885.0	5,897.0
7. Average employees in employment, corporate sector total					
	thou.	5,667.0	5,681.0	5,700.0	5,708.0
8. Unemployed					
	thou.	2,359.5	2,336.3	2,312.5	2,235.7
9. Unemployment rate					
	%	13.6	13.1	13.0	12.6
10. Average monthly wages & salaries, corporate sector,					
of which:					
- gross	PLN	1,153.79	1,024.32	1,025.36	1,073.37
- net	PLN	923.10	844.22	848.22	887.02
11. Central government receipts & expenditure					
a) receipts	PLN million	99,734.6	7,961.2	15,547.9	23,467.3
b) expenditure	PLN million	108,857.0	8,380.8	17,011.9	27,409.1
c) financial surplus/deficit and net external lending/borrowing	PLN million	-9,734.9	-417.2	-1,456.6	-4,161.9
12. Corporate financial performance					
a) total revenues	PLN million	543,097.3	48,632.2	95,189.5	146,711.7
of which: sales of goods & services	PLN million	328,454.6	29,501.3	57,385.2	87,794.1
b) total operating costs	PLN million	527,419.0	46,628.8	91,478.7	141,205.8
of which: cost of sales	PLN million	327,470.8	29,034.6	57,194.7	87,824.3
c) pre-tax profit/loss	PLN million	18,438.6	2,046.7	3,819.4	5,737.6
d) statutory deductions (taxes)	PLN million	9,922.2	1,214.6	2,224.9	3,215.4
e) net profit/loss	PLN million	8,516.5	832.0	1,594.5	2,522.2
f) cost to sales ratio	%	97.1	95.9	96.1	96.2
g) net trading profitability	%	1.6	1.7	1.7	1.7
h) second degree liquidity ratio	%	89.5	90.6	91.1	89.6
i) total current assets	PLN million	149,729.7	146,299.6	155,104.6	159,360.5
j) accounts receivable	PLN million	57,761.9	58,730.9	62,292.6	64,486.6
k) accounts payable	PLN million	56,032.2	53,054.9	55,016.1	56,464.7

1997								
IV	V	VI	VII	VIII	IX	X	XI	XII
27,314.2	25,841.5	27,476.8	26,738.4	26,758.7	30,347.5	31,235.3	29,438.4	30,714.9
115.9	106.6	119.9	110.4	108.9	116.4	110.9	111.7	113.3
106.0	94.3	105.9	96.6	99.8	113.0	102.3	93.7	103.6
2,355.3	2,539.8	2,839.7	2,846.5	2,953.5	3,383.5	3,895.8	3,039.9	4,452.1
135.8	120.9	120.2	111.3	110.8	117.6	118.2	109.4	113.5
117.7	106.8	110.8	99.1	102.6	113.4	113.8	77.3	145.2
115.3	114.6	115.3	114.9	114.5	113.6	113.1	113.2	113.2
101.0	100.6	101.5	99.8	100.1	101.4	101.1	101.2	101.0
105.9	106.6	108.2	108.0	108.1	109.5	110.8	112.1	113.2
112.0	112.4	112.2	112.0	112.5	113.0	112.1	112.1	111.6
101.0	100.4	100.5	100.9	100.9	100.8	100.8	100.7	100.5
114.5	114.4	114.0	114.3	114.2	114.1	114.3	114.2	114.3
101.6	101.0	100.8	101.0	101.1	101.1	101.2	100.9	100.9
5,905.0	5,910.0	5,922.0	5,927.0	5,926.0	5,944.0	5,964.0	5,946.0	5,877.0
5,718.0	5,716.0	5,726.0	5,733.0	5,730.0	5,745.0	5,769.0	5,756.0	5,712.0
2,131.7	2,043.8	2,039.9	1,989.0	1,928.9	1,853.7	1,791.7	1,800.5	1,826.4
12.1	11.7	11.6	11.3	11.0	10.6	10.3	10.3	10.5
1,106.66	1,099.73	1,172.12	1,191.50	1,145.92	1,173.98	1,226.24	1,277.28	1,368.35
913.07	906.22	962.12	975.48	936.93	957.28	995.78	1,032.24	1,109.21
32,023.0	40,641.1	50,605.7	61,549.9	72,088.3	83,373.8	96,210.8	107,664.7	119,772.1
37,516.3	47,309.3	58,000.7	69,343.9	79,055.6	89,418.0	102,065.2	112,884.3	125,675.7
-5,230.5	-10,939.5	-10,967.7	-9,556.5	-7,682.6	-7,251.0	-7,476.1	-7,034.5	-8,086.2
202,820.1	257,436.5	314,455.4	371,340.4	425,985.7	488,232.0	554,463.8	615,400.4	692,158.1
121,005.1	153,171.1	187,424.5	220,863.2	254,645.9	292,786.6	332,308.4	368,687.8	410,952.3
195,141.3	247,683.6	302,668.9	357,297.0	409,904.3	469,353.4	532,865.9	592,338.5	668,678.9
120,398.5	152,547.3	186,692.1	219,916.4	253,521.4	291,002.4	330,112.7	367,039.5	410,407.4
7,930.7	10,043.8	12,193.4	14,415.5	16,405.6	19,603.5	22,209.0	23,885.3	24,677.5
4,256.1	5,281.8	6,207.8	7,146.3	8,113.4	9,323.2	10,408.7	10,991.3	12,088.8
3,674.6	4,762.0	5,985.6	7,269.1	8,292.2	10,280.3	11,800.2	12,894.1	12,588.7
96.2	96.2	96.3	96.2	96.2	96.1	96.1	96.3	96.6
1.8	1.8	1.9	2.0	1.9	2.1	2.1	2.1	1.8
90.0	90.7	90.3	89.9	89.7	89.7	89.2	89.5	85.6
162,148.2	166,185.6	169,752.5	170,661.4	174,180.4	179,732.7	187,303.9	193,144.5	193,596.5
65,493.1	67,282.9	69,743.7	68,846.6	71,411.4	74,332.2	77,268.9	80,599.0	78,656.2
57,587.0	59,806.1	63,059.5	62,268.0	64,310.0	66,656.9	71,104.1	73,669.5	78,881.5

TABLE II. Financial Market - Basic Information

Item		1996	1997		
		XII	I	II	III
1. Lombard rate	%	25.0	25.0	25.0	25.0
2. Rediscount rate	%	22.0	22.0	22.0	22.0
3. Refinancing rate	%	25.0/26.0	25.0/26.0	25.0/26.0	25.0/26.0
4. NBP deposit rates					
a) current accounts of other institutions	%	7.5	7.5	7.5	7.5
b) time deposits:					
- 180-days	%	-	-	-	-
- 270-days	%	-	-	-	-
5. Zloty lending rates, principal commercial banks					
a) prime rate	%	20.5-28.8	20.5-26.3	20.5-26.3	22-26.3
b) discount rate	%	21.9-26	22-26	22-26	22-26
6. Zloty deposit rates, principal commercial banks					
a) demand	%	6.66-14	6.66-14	6.66-14	6.66-14
b) transaction accounts	%	12.25-15.2	12.25-15.2	9.5-15.2	9.5-15.2
c) 1 month	%	14-18	14-18.7	14-18.7	14-19
d) 3 months	%	15.5-18	15.5-18.2	16-18.5	16-18.8
e) 6 months	%	17-19.5	16.5-19.5	16.5-19.5	16.5-20
f) 12 months	%	18-20.5	16.5-20.5	16.5-20.5	16.5-20.5
g) 24 months	%	18.5-21	18.5-21	18.5-21	18.5-21
h) 36 months	%	18.5-22	18.5-22	18.5-22	18.5-21.5
7. Foreign currency deposit rates at banks					
a) demand	%	2-4	2-4	2-3.8	2-3.8
b) 3 months	%	3-4.95	3-4.9	3-4.8	3-5.4
c) 6 months	%	3-5	3-5	3-4.9	3-5.6
d) 12 months	%	3.5-5.3	3.5-5.2	3.5-5.1	3.5-5.9
e) 24 months	%	4-5.4	4-5.3	4-5.3	4-5.3
f) 36 months	%	4-5.5	4-5.5	4-5.5	4-5.5
8. Interbank placements					
a) total at month-end	PLN million	6,342.4	6,387.3	7,127.8	7,555.3
of which:					
0 - 1 month	%	46.5	45.4	61.7	56.6
1 - 2 months	%	21.9	17.9	4.3	11.1
2 - 3 months	%	8.4	10.1	8.1	6.3
3 - 6 months	%	8.4	7.4	10.5	12.0
6 - 12 months	%	7.2	7.3	5.9	7.2
12 - 24 months	%	7.2	11.6	9.0	6.5
b) length of placements, weighted average (at month-end)	month	2.8	3.2	2.3	2.4
c) rates offered, weighted average (at month-end)	%	20.9	20.5	20.7	22.4
of which:					
0 - 1 month	%	21.2	20.5	20.9	23.4
1 - 2 months	%	22.1	21.8	20.9	22.1
2 - 3 months	%	19.1	19.7	19.8	20.2
3 - 6 months	%	19.3	19.5	20.8	21.2
6 - 12 months	%	19.8	19.9	20.0	20.6
12 - 24 months	%	20.3	19.8	20.4	20.7

									1997
IV	V	VI	VII	VIII	IX	X	XI	XII	
25.0	25.0	25.0	25.0	27.0	27.0	27.0	27.0	27.0	
22.0	22.0	22.0	22.0	24.5	24.5	24.5	24.5	24.5	
25.0/26.0	25.0/26.0	25.0/26.0	25.0/26.0	27.0/28.0	27.0/28.0	27.0/28.0	27.0/28.0	27.0/28.0	
7.5	7.5	7.5	7.5	8.5	8.5	8.5	8.5	8.5	
-	-	-	-	-	21.5	21.5	21.5	21.5	
-	-	-	-	-	22.5	22.5	22.5	22.5	
22-26.3	22-27.4	22-27.4	22-27.4	22-29.4	22.5-29.4	22.5-29.4	22.5-29.4	22.5-29.4	
22-26	22-26	22-26	22-26	23-28.5	23-28.5	23-28.5	23-28.5	23-28.5	
6.66-14	6.66-14	6.66-14	6.66-14	6.66-14	6.66-14	6.66-14	6.66-14	6.66-14	
9.5-14.5	9.5-14.5	9.5-14.5	9.5-14.5	9.5-15	9.5-15	9.5-15	9.5-15	9.5-15	
14-19.2	15-18.8	15-18.8	15-20.3	15-20.5	15-20.5	16-20.8	16-20.8	16-20.8	
16-19	16-18.7	16-18.7	16-20.4	16-21.1	16.8-21.1	17.5-20.8	17.5-20.8	17.5-21.1	
16.5-20.2	16.5-19.4	16.5-19.5	16.5-21.1	17-21.8	17-21.6	17-21.6	18-21.6	18-21.8	
16.5-20.7	16.5-20.4	16.5-20.4	16.5-22.1	16.5-22.8	16.5-22.1	16.5-22	19-22	19-22.8	
18.5-21	18.5-21	18.5-21	18.5-22.1	18.5-22.8	19-22.1	19-22	19-22	19-22.8	
18.5-21.5	18.5-21.5	18.5-21.5	18.5-21.6	18.5-22.8	19.3-22.1	19.5-22	19.5-22	19.5-22.8	
2-3.8	2-3.8	2-3.8	2-3.8	2-3.8	2-3.8	2-3.8	2-3.8	2.1-3.8	
3.3-5	3.3-4.6	3.3-4.6	3.3-4.6	3.3-4.6	3.3-4.6	3.3-4.6	3.3-4.6	3.3-4.5	
3.5-5.2	3.6-4.8	3.6-4.8	3.6-4.8	3.6-4.8	3.6-4.8	3.6-4.8	3.6-4.8	3.6-4.7	
3.7-5.5	3.8-5	3.8-5	3.8-5	3.8-5	3.8-5	3.8-5	3.8-5	3.8-5	
4-5.3	4-5.3	4-5.3	4-5.3	4-5.3	4-5.3	4-5.3	4-5.3	4-5.3	
4-5.5	4-5.5	4-5.5	4-5.5	4-5.5	4-5.5	4-5.5	4-5.5	4-5.5	
9,186.7	8,046.1	7,116.5	8,004.6	7,671.6	9,004.4	8,271.1	8,860.6	8,215.2	
56.9	47.2	54.7	53.0	55.1	64.0	53.5	57.1	42.0	
3.2	7.0	8.5	20.8	14.2	8.0	11.6	8.0	21.3	
5.5	8.4	7.6	5.2	6.8	4.7	6.6	7.7	9.2	
16.6	16.5	16.5	9.3	10.9	11.7	14.5	14.1	14.6	
12.8	16.5	9.5	7.0	7.4	4.7	5.6	6.1	6.7	
4.9	3.5	1.9	3.5	4.5	5.1	5.6	5.1	3.9	
3.0	3.1	2.5	2.2	2.4	2.3	2.6	2.2	2.4	
22.1	22.6	22.2	22.8	20.1	23.5	23.4	24.6	24.4	
22.5	23.5	22.5	23.1	17.6	23.5	23.0	25.3	24.8	
22.5	22.5	22.4	23.3	24.4	24.3	24.1	24.3	24.4	
21.0	21.5	21.4	21.8	23.1	23.2	23.5	23.7	24.2	
21.8	21.9	22.0	22.2	23.1	23.8	24.1	24.2	24.1	
21.6	21.6	21.0	21.6	22.0	22.3	22.8	22.9	23.1	
20.8	21.4	22.9	22.3	22.4	23.1	23.5	23.5	24.2	

cont. TABLE II. Financial Market - Basic Information

Item		1996		1997	
		XII	I	II	III
9. Reserve requirement:					
a) zloty deposits					
- demand	%	17.0	17.0	20.0	20.0
- time	%	9.0	9.0	9.0	9.0
b) foreign currency deposits (zloty equivalent)					
- demand	%	2.0	2.0	4.0	4.0
- time	%	2.0	2.0	4.0	4.0
10. Total required reserves held					
	PLN million	10,308.2	10,757.1	12,458.3	12,455.3
a) interest-bearing reserve account at NBP	PLN million	644.6	709.5	1,648.6	1,645.7
b) current accounts at NBP (non-interest bearing)	PLN million	6,600.9	6,894.0	7,470.4	7,470.4
c) declared vault cash	PLN million	3,062.7	3,153.6	3,339.3	3,339.3
11. NBP securities purchases from banks under repurchase agreements					
a) no. of tenders					
		0	0	0	0
b) nominal NBP funds allocated to purchases	PLN million	0.00	0.00	0.00	0.00
c) value of offers submitted by banks	PLN million	0.00	0.00	0.00	0.00
d) value of offers accepted	PLN million	0.00	0.00	0.00	0.00
12. NBP securities sales to banks under reverse repurchase agreements					
a) no. of tenders					
		9	17	6	6
b) nominal value of securities allotted for sale	PLN million	7,700.00	6,250.00	5,950.00	2,300.00
c) value of bids submitted by banks	PLN million	7,707.39	4,517.82	5,342.63	1,267.69
d) value of bids accepted	PLN million	6,366.67	4,244.60	5,257.92	1,014.69
13. Outright sales of securities by NBP					
a) no. of tenders					
		0	0	0	0
b) nominal value of securities allotted for sale	PLN million	0.00	0.00	0.00	0.00
c) value of bids submitted by banks	PLN million	0.00	0.00	0.00	0.00
d) value of bids accepted	PLN million	0.00	0.00	0.00	0.00
14. Treasury bill tenders					
a) no. of tenders					
		5	4	4	4
b) nominal value of bills offered for sale					
	PLN million	4,150.00	3,600.00	4,000.00	4,900.00
of which:					
- 8-week bills	PLN million	0.00	0.00	0.00	800.00
- 13-week bills	PLN million	1,000.00	1,000.00	1,300.00	1,200.00
- 26-week bills	PLN million	950.00	800.00	700.00	800.00
- 39-week bills	PLN million	0.00	0.00	0.00	0.00
- 52-week bills	PLN million	2,200.00	1,800.00	2,000.00	2,100.00
c) nominal value of bids					
	PLN million	3,021.91	2,777.23	1,971.22	4,883.55
of which:					
- 8-week bills	PLN million	0.00	0.00	0.00	1,043.03
- 13-week bills	PLN million	1,076.23	1,223.33	767.76	971.15
- 26-week bills	PLN million	480.30	309.38	151.41	257.01
- 39-week bills	PLN million	0.00	0.00	0.00	0.00
- 52-week bills	PLN million	1,465.38	1,244.52	1,052.05	2,612.36

1997								
IV	V	VI	VII	VIII	IX	X	XI	XII
20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
9.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
4.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
12,808.4	12,807.8	14,684.6	15,293.7	15,292.6	16,068.2	16,425.7	16,399.7	17,053.8
1,623.4	1,622.9	2,933.0	3,016.9	3,015.8	3,123.8	3,216.3	3,208.5	3,255.9
7,851.0	7,851.0	8,270.4	8,694.0	8,694.0	9,257.8	9,422.2	9,408.4	12,174.1
3,334.0	3,334.0	3,481.3	3,582.8	3,582.8	3,686.5	3,787.2	3,782.7	1,623.8
0	0	0	0	0	0	0	0	0
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	7	7	10	8	12	10	3	8
7,500.00	2,700.00	4,750.00	7,400.00	6,300.00	6,500.00	5,000.00	1,200.00	5,900.00
5,783.97	1,347.20	3,615.52	5,229.97	3,483.11	4,431.19	3,173.69	373.11	4,862.87
5,595.07	1,306.67	3,615.52	4,383.82	3,331.31	4,307.45	3,111.61	373.11	4,489.00
0	0	0	0	0	0	0	0	0
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7	4	8	4	4	5	4	5	5
6,700.00	5,200.00	8,300.0	4,400.0	4,400.0	6,200.0	5,900.0	7,400.0	7,000.0
400.00	200.00	300.00	400.00	900.00	400.00	300.00	-	400.00
1,400.00	1,500.00	1,300.00	800.00	700.00	1,000.00	1,500.00	2,000.00	1,900.00
1,100.00	1,000.00	900.00	1,000.00	800.00	1,000.00	400.00	1,100.00	1,100.00
0.00	0.00	1,300.00	-	-	-	800.00	-	-
3,800.00	2,500.00	4,500.00	2,200.00	2,000.00	3,800.00	2,900.00	4,300.00	3,600.00
13,468.60	7,878.38	6,762.08	3,482.64	3,139.80	8,785.42	8,454.76	5,112.74	8,056.88
1,437.69	336.53	265.21	392.15	1,340.07	1,990.88	680.84	-	405.92
2,385.86	2,459.37	1,477.78	1,018.40	842.24	2,039.90	2,053.08	1,903.88	2,186.41
2,145.99	1,299.39	954.28	327.28	195.51	533.93	501.34	652.71	1,225.36
0.00	0.00	948.02	-	-	-	691.25	-	-
7,499.06	3,783.09	3,116.79	1,744.81	761.98	4,220.71	4,528.25	2,556.15	4,239.19

cont. TABLE II. Financial Market - Basic Information

Item		1996		1997	
		XII	I	II	III
d) nominal value of bills sold	PLN million	1,663.46	1,828.31	1,656.68	3,290.25
of which:					
- 8-week bills	PLN million	0.00	0.00	0.00	881.26
- 13-week bills	PLN million	668.61	968.13	730.28	733.80
- 26-week bills	PLN million	231.80	231.78	143.81	213.99
- 39-week bills	PLN million	0.00	0.00	0.00	0.00
- 52-week bills	PLN million	763.05	628.40	782.59	1,461.20
e) discount rate on bids accepted, weighted average	%	17.15	17.78	17.74	18.98
of which:					
- 8-week bills	%	-	-	-	20.71
- 13-week bills	%	17.93	18.53	18.75	19.92
- 26-week bills	%	17.56	17.89	18.12	18.99
- 39-week bills	%	-	-	-	-
- 52-week bills	%	16.35	16.59	16.73	17.47
f) yield on bills purchased, weighted average	%	19.22	19.64	19.92	21.20
of which:					
- 8-week bills	%	-	-	-	21.39
- 13-week bills	%	18.79	19.45	19.68	20.98
- 26-week bills	%	19.26	19.68	19.95	21.01
- 39-week bills	%	-	-	-	-
- 52-week bills	%	19.58	19.92	20.13	21.22
g) bills outstanding from tender sales at month-end (purchase prices)	PLN million	22,856.17	22,208.86	20,784.78	21,633.44
15. Tenders for NBP money-market bills					
a) no. of tenders		4	15	4	6
b) nominal value of bills offered for sale	PLN million	2,100.00	6,000.00	1,000.00	2,125.00
of which:					
- 1-day bills	PLN million	600.00	-	-	-
- 7-day bills	PLN million	-	-	-	-
- 14-day bills	PLN million	-	-	-	-
- 28-day bills	PLN million	-	-	-	-
- 91-day bills	PLN million	550.00	1,475.00	700.00	850.00
- 182-day bills	PLN million	950.00	2,425.00	300.00	350.00
- 273-day bills	PLN million	-	2,100.00	-	925.00
c) nominal value of bids	PLN million	3,285.00	6,901.92	1,108.53	2,796.66
of which:					
- 1-day bills	PLN million	1,464.50	-	-	-
- 7-day bills	PLN million	-	-	-	-
- 14-day bills	PLN million	-	-	-	-
- 28-day bills	PLN million	-	-	-	-
- 91-day bills	PLN million	909.50	1,821.07	825.23	917.50
- 182-day bills	PLN million	911.00	2,688.42	283.30	492.88
- 273-day bills	PLN million	-	2,392.43	-	1,386.28
d) nominal value of bills sold	PLN million	1,467.00	5,386.39	954.83	1,916.96
of which:					
- 1-day bills	PLN million	600.00	-	-	-
- 7-day bills	PLN million	-	-	-	-
- 14-day bills	PLN million	-	-	-	-
- 28-day bills	PLN million	-	-	-	-
- 91-day bills	PLN million	431.00	1,282.60	673.53	639.50
- 182-day bills	PLN million	436.00	2,332.69	281.30	351.90
- 273-day bills	PLN million	-	1,771.10	-	925.56

									1997
IV	V	VI	VII	VIII	IX	X	XI	XII	
6,202.24	4,854.36	5,252.10	2,692.72	1,972.42	5,245.95	5,731.56	3,501.35	6,852.18	
523.94	233.03	149.64	274.06	767.76	861.86	385.71	-	400.00	
1,375.26	1,372.28	1,234.63	827.30	556.59	1,595.30	1,523.36	1,648.00	1,855.40	
1,074.03	915.12	770.83	256.62	135.56	458.94	325.65	472.31	1,038.28	
0.00	0.00	812.57	-	-	-	652.70	-	-	
3,229.01	2,333.93	2,284.43	1,334.74	512.51	2,329.85	2,844.14	1,381.04	3,558.50	
18.96	18.66	18.63	19.22	20.74	20.39	19.95	20.61	20.54	
20.57	20.12	20.19	21.00	21.81	21.95	21.79	-	22.82	
20.54	19.82	19.86	20.41	21.33	21.62	21.62	21.85	22.18	
19.57	19.29	19.36	19.68	20.40	20.83	20.80	20.99	21.16	
-	-	18.45	-	-	-	19.56	-	-	
17.82	17.59	17.69	18.02	18.59	18.88	18.80	19.01	19.25	
21.68	21.19	21.33	21.83	22.66	23.07	23.05	23.33	23.74	
21.25	20.77	20.84	21.71	22.57	22.72	22.56	-	23.66	
21.66	20.87	20.91	21.52	22.55	22.87	22.87	23.12	23.50	
21.72	21.37	21.45	21.86	22.75	23.29	23.25	23.48	23.70	
-	-	21.45	-	-	-	22.96	-	-	
21.74	21.40	21.55	22.04	22.89	23.33	23.21	23.53	23.89	
22,750.37	23,590.42	24,170.27	23,715.79	22,785.28	23,572.35	24,527.89	24,571.81	27,289.22	
10	8	8	12	7	7	12	2	3	
4,950.00	2,250.00	3,450.00	7,050.00	4,400.00	2,400.00	9,300.00	800.00	4,500.00	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	3,000.00	
-	-	-	-	-	-	-	-	1,000.00	
-	-	-	-	-	-	-	-	-	
2,050.00	1,850.00	3,050.00	5,850.00	4,400.00	2,400.00	3,850.00	400.00	500.00	
1,550.00	-	400.00	1,200.00	-	-	5,450.00	400.00	-	
1,350.00	400.00	-	-	-	-	-	-	-	
4,828.98	2,049.90	3,587.16	6,437.17	3,895.00	2,028.00	9,064.40	783.50	3,557.82	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	2,280.33	
-	-	-	-	-	-	-	-	825.49	
-	-	-	-	-	-	-	-	-	
1,477.35	1,619.20	3,054.52	5,500.32	3,895.00	2,028.00	3,673.00	335.50	452.00	
1,660.06	-	532.64	936.85	-	-	5,391.40	448.00	-	
1,691.57	430.70	-	-	-	-	-	-	-	
3,665.95	1,997.20	3,249.52	5,445.02	2,785.00	1,860.00	8,084.50	730.50	3,478.32	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	2,266.83	
-	-	-	-	-	-	-	-	770.49	
-	-	-	-	-	-	-	-	-	
1,465.95	1,612.20	2,849.52	4,749.32	2,785.00	1,860.00	3,431.50	330.50	441.00	
1,200.00	-	400.00	695.70	-	-	4,653.00	400.00	-	
1,000.00	385.00	-	-	-	-	-	-	-	

cont. TABLE II. Financial Market - Basic Information

Item		1996		1997	
		XII	I	II	III
e) discount rate on bids accepted, weighted average	%	18.38	19.78	20.32	19.70
of which:					
- 1-day bills	%	15.19	-	-	-
- 7-day bills	%	-	-	-	-
- 14-day bills	%	-	-	-	-
- 28-day bills	%	-	-	-	-
- 91-day bills	%	20.63	20.82	20.84	20.87
- 182-day bills	%	19.32	19.79	19.80	19.80
- 273-day bills	%	-	18.73	-	18.86
f) yield on bills purchased, weighted average	%	19.38	21.93	22.00	22.01
of which:					
- 1-day bills	%	15.20	-	-	-
- 7-day bills	%	-	-	-	-
- 14-day bills	%	-	-	-	-
- 28-day bills	%	-	-	-	-
- 91-day bills	%	21.53	21.98	22.00	22.03
- 182-day bills	%	21.41	21.99	22.00	22.00
- 273-day bills	%	-	21.83	-	22.00
g) bills outstanding from tender sales at month-end (purchase prices)	PLN million	11,047.93	14,964.43	14,556.42	14,797.59
16. Data on trading sessions of Warsaw Stock Exchange					
- primary market					
a) no. of quoted companies		66	70	72	74
b) average market capitalisation of quoted companies	PLN million	22,233.8	25,614.9	29,587.0	28,771.8
c) monthly turnover	PLN million	1,502.5	3,372.6	3,992.8	3,002.7
d) Warsaw Stock Exchange Index					
- monthly average		13,764.4	15,697.5	17,688.5	16,955.3
- final session in month		14,342.8	16,105.5	17,543.8	16,690.4
e) P/E ratio		14.1	14.4	16.1	15.8
f) turnover ratio	%	3.9	7.7	7.7	6.0

TABLE III. PLN/USD & PLN/DEM Daily Exchange Rates in 1997

Months	Exchange rates at month-end			
	fixing rate	PLN/USD free-market rate	PLN/DEM fixing rate	DEM/USD
December 1996	2.8755	2.8379	1.8500	1.5543
January 1997	2.9995	2.9918	1.8380	1.6319
February	3.0580	3.0435	1.8075	1.6918
March	3.0760	3.0606	1.8345	1.6768
April	3.1595	3.1479	1.8295	1.7270
May	3.1980	3.1887	1.8795	1.7015
June	3.2860	3.2517	1.8840	1.7442
July	3.4630	3.4522	1.8905	1.8318
August	3.4720	3.4583	1.9325	1.7966
September	3.4205	3.4072	1.9360	1.7668
October	3.4890	3.4627	2.0230	1.7247
November	3.5390	3.5194	2.0075	1.7629
December	3.5180	3.4771	1.9635	1.7917

									1997	
IV	V	VI	VII	VIII	IX	X	XI	XII		
20.02	20.61	20.87	21.24	22.18	22.19	21.51	21.54	23.12		
-	-	-	-	-	-	-	-	-		
-	-	-	-	-	-	-	-	-	23.29	
-	-	-	-	-	-	-	-	-	23.17	
-	-	-	-	-	-	-	-	-	-	
20.99	21.02	21.02	21.41	22.18	22.19	22.19	22.19	22.19	22.16	
19.80	-	19.80	20.05	-	-	21.01	21.01	-	-	
18.86	18.86	-	-	-	-	-	-	-	-	
22.07	22.16	22.18	22.60	23.50	23.50	23.50	23.50	23.50	23.40	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	23.40	
-	-	-	-	-	-	-	-	-	23.38	
-	-	-	-	-	-	-	-	-	-	
22.17	22.20	22.20	22.64	23.50	23.50	23.50	23.50	23.50	23.47	
22.00	-	21.24	22.31	-	-	23.50	23.50	-	-	
22.00	22.00	-	-	-	-	-	-	-	-	
16,133.86	16,111.38	16,222.55	15,617.66	15,699.08	13,470.43	14,747.76	12,788.41	13,315.96		
76	81	85	86	87	91	92	95	96		
28,151.1	29,870.9	29,709.3	34,295.5	38,599.0	41,335.0	41,593.4	37,845.8	37,339.6		
3,269.1	2,565.3	2,083.4	3,446.9	2,867.5	2,992.9	3,695.3	2,322.6	2,427.1		
16,282.6	16,304.9	15,899.1	15,318.8	16,568.8	17,501.8	17,163.9	14,911.5	14,434.7		
16,546.7	15,941.7	15,103.8	15,166.7	16,833.1	17,482.8	15,371.9	14,322.6	14,668.0		
15.6	16.0	15.6	13.8	15.2	16.0	14.5	12.4	12.4		
6.7	5.5	4.5	6.2	4.3	4.2	5.1	4.3	3.8		

Monthly average exchange rates			
	PLN/USD		PLN/DEM
	fixing rate	free-market rate	fixing rate
	2.8579	2.8393	1.8447
	2.9273	2.9084	1.8312
	3.0279	3.0140	1.8104
	3.0793	3.0651	1.8163
	3.1212	3.1078	1.8250
	3.1713	3.1558	1.8605
	3.2385	3.2194	1.8749
	3.3965	3.3750	1.8962
	3.4817	3.4709	1.8948
	3.4566	3.4477	1.9333
	3.4223	3.4062	1.9454
	3.5033	3.4759	2.0230
	3.5256	3.5032	1.9852

TABLE IV. Zloty Lending Rates at Selected Commercial Banks, December 31, 1997 (annual percentage rates)

Bank	Prime rates, by maturity		
	≤ 3 months	≤ 6 months	≤ 1 year
PKO-State Savings Bank	19.5 + from 3.5 to 8 p.p.	19.5 + from 3.5 to 9 p.p.	19.5 + from 3.5 to 9 p.p.
Bank Pekao SA - Pekao Group SA	from 26	from 26	from 26
Bank Gospodarki Żywnościowej SA	from 27	from 27	from 27
Bank Handlowy w Warszawie SA	from 24.5 + negotiable rate	from 24.5 + negotiable rate	from 24.5 + negotiable rate
Bank Rozwoju Eksportu SA	WIBOR+from 0.01 p.p.	WIBOR+from 0.01 p.p.	WIBOR+from 0.01 p.p.
BIG Bank Gdański SA (formerly Bank Gdański SA)	26.5 + negotiable rate	26.5 + negotiable rate	26.5 + negotiable rate
Bank Śląski SA	25.5	25.5	25.5
Bank Przemysłowo-Handlowy SA	WIBOR+from 1 to 5 p.p.	WIBOR+from 1.5 to 4 p.p.	WIBOR+from 2 to 5 p.p.
Bank Depozytowo-Kredytowy SA - Pekao Group SA	from 27	from 27	from 27
Powszechny Bank Gospodarczy SA - Pekao Group SA	27	27	27
Wielkopolski Bank Kredytowy SA	from 22.5	from 22.5	from 22.5
Pomorski Bank Kredytowy SA - Pekao Group SA	from 26.5	from 26.5	from 26.5
Powszechny Bank Kredytowy SA	from 27	from 27	from 27
Bank Zachodni SA	26.52	27.96	29.4

		loans	High-risk rate	Default rate	Discount
1-3 years	above 3 years				
19.5 + from 3.5 to 9 p.p.	19.5 + from 3.5 to 9 p.p.	-	42	25	
from 26	from 26	from 26	contractual rate + 20 p.p.	from 25	
32	from 32 to 34	-	contractual rate x 1.5	26	
from 24.5 + negotiable rate	from 24.5 + negotiable rate	-	statutory rate	23 + negotiable rate	
WIBOR+from 0.01 p.p.	WIBOR+from 0.01 p.p.	WIBOR+from 0.01 p.p.	(WIBOR+from 0.01p.p.) x 1.75	24.5 + negotiable rate	
26.5 + negotiable rate	26.5 + negotiable rate	negotiable	53	from 25.5	
25.5	25.5	-	35	24.5 to 25	
WIBOR+from 3 to 6 p.p.	WIBOR+from 3 to 6 p.p.	WIBOR+from 2 to 12 p.p.	35	WIBOR+from 0.5 to 5 p.p.	
from 27	from 27	-	45	25	
27	27	-	47	26	
from 22.5	from 22.5	36	contractual rate x 2	WIBOR+ 1.1; 1.2	
from 26.5	from 26.5	from 34.5	54	26.5 to 28.5	
from 27	from 27	-	36	25	
30	30	from (26.5 to 31.5) in dependence on min. rate	statutory rate	25.08 to 27	

TABLE V. Zloty Deposit Rates at Selected Commercial Banks, December 31, 1997 (annual percentage rates)

Bank	Demand deposits:				
	sole proprietorships outside agriculture	other business organisations	persons	banks	other institutions
PKO-State Savings Bank	to 9	to 9	11.5	-	to 9
Bank Pekao SA - Pekao Group SA	2 to 8	2 to 8	9.5	negotiable	-
Bank Gospodarki Żywnościowej SA	9	9	13	9	9
Bank Handlowy w Warszawie SA	8	8	12	6	-
Bank Rozwoju Eksportu SA	8	8	8	8	8
BIG Bank Gdański SA (formerly Bank Gdański SA)	7 to 12	7 to 12	-	7 to 12	7 to 12
Bank Śląski SA	7	7	14	7	7
Bank Przemysłowo-Handlowy SA	10	10	9	10	10
Bank Depozytowo-Kredytowy SA - - Pekao Group SA	5 to 11	5 to 11	-	-	5 to 11
Powszechny Bank Gospodarczy SA - Pekao Group SA	7	7	-	7	7
Wielkopolski Bank Kredytowy SA	8 to 11	8 to 11	13	8 to 11	8 to 11
Pomorski Bank Kredytowy SA - - Pekao Group SA	6	6	10	-	-
Powszechny Bank Kredytowy SA	8	8	8	-	8
Bank Zachodni SA	6.66 to 12.06	6.66 to 12.06	6.66 to 12.06	3.24	6.66 to 12.06

Transaction accounts (ROR)	Time deposits & savings bonds, by maturity:						
	1 month	2 months	3 months	6 months	12 months	24 months	36 months
			(17.5)	18 (18.5)	19.5	20.5	20.5
12.5	-	-	(18.5)	18.5 (19.5)	20	21	21
			(19)	19 (19.75)	20.5	21.5	21.5
9.5	16.5	17	18	18.5	19.5	19.5	19.5
15	18	-	19	20	20.5	21.5	-
-	(18.5)	-	21.06 (19)	21.81 (19.5)	22.81 (20)	22.81	22.81
-	20.79	20.79	20.79	21.6	21.6	negotiable	negotiable
13.5	18 (18)	-	19 (19)	19.5	21	-	-
14	(19)	(19.2)	18 (19.5)	18.25; 18.75 (19.5)	19; 19.5 20 (19.75)	20	-
15	16 to 18	-	18 to 19	18 to 19	19.5	20	21
13.50	to 16	to 16.5	to 18.25	to 19.25	to 19.75	to 20	-
13.25	17	17.25	18.25	19.25	19.75	20	20
14	(19)	-	(19.5)	(19.5)	(19.5)	(19)	-
13.5	17	-	18.25	19.25	19.75	20	-
14.5	17 to 18	-	18 to 19	18.5 to 19.5	19.5 to 20.5	20 to 21	20.5 to 21.5
13.02	(18.12)	(18.36)	17.82 (19.2)	18.96 (19.8)	20.64	21	21.48

TABLE VI. Commercial Banks - Assets & Liabilities (PLN million)

Item	1996		1997	
	XII	I	II	III
ASSETS				
Foreign assets	17,632.7	16,825.5	17,150.9	17,504.8
Due from banks	25,171.1	24,012.8	27,925.2	27,606.9
- vault cash	3,680.6	2,895.7	2,727.3	3,398.0
- NBP	9,079.5	8,093.2	11,140.3	9,755.0
- other banks	12,411.0	13,024.0	14,057.6	14,453.9
Due from non-bank financial institutions	312.3	412.2	486.9	577.1
Due from general government	2,247.8	2,349.0	2,488.3	2,859.8
- central government	1,410.7	1,561.5	1,697.3	2,042.3
- local government	835.7	787.4	790.5	815.3
- special purpose funds	1.5	0.2	0.4	2.2
Due from non-financial sector	80,191.3	82,209.3	84,087.9	86,878.1
- corporations	68,438.5	70,272.1	71,799.6	74,077.1
- persons	11,752.8	11,937.2	12,288.2	12,801.0
Securities purchases under reverse repurchase agreements	1,024.3	913.5	686.8	1,178.7
Securities	60,464.1	62,846.6	60,719.1	62,833.8
- issued by banks	11,964.9	15,938.8	15,700.3	15,949.3
- issued by non-bank financial institutions	31.0	33.0	34.4	34.1
- issued by general government	47,300.2	45,849.5	43,949.5	45,666.2
of which: issued by Treasury	47,219.8	45,777.5	43,879.2	45,586.9
- issued by non-financial sector	996.9	857.0	845.4	978.5
- equities, rights issues, trust funds participation units	171.1	168.3	189.5	205.6
Other assets	21,149.2	25,641.9	28,002.8	28,114.7
TOTAL ASSETS	208,192.7	215,210.8	221,547.8	227,554.0
LIABILITIES				
Foreign liabilities	7,900.0	8,722.3	9,105.9	9,691.8
Due to banks	22,900.9	22,940.2	24,172.6	26,555.5
- NBP	10,685.2	10,607.0	10,682.1	12,437.6
- other banks	12,215.7	12,333.1	13,490.5	14,117.9
Due to non-bank financial institutions	2,761.9	2,921.6	3,228.6	2,665.6
Due to general government	7,942.0	8,770.5	9,492.6	10,084.7
- central government	3,835.7	3,963.6	3,948.6	4,280.5
- local government	3,400.6	3,665.0	4,393.0	4,550.2
- deposits of special purpose funds	705.7	1,141.9	1,151.0	1,254.0
Zloty deposits of non-financial sector	87,157.3	86,014.9	87,271.7	89,353.0
- corporations	29,739.2	26,742.2	26,007.5	26,076.3
current	16,984.5	13,501.3	12,642.8	12,816.7
time	12,754.7	13,241.0	13,364.7	13,259.6
- persons	57,418.0	59,272.7	61,264.2	63,276.7
current	11,087.9	11,413.1	11,823.3	12,908.6
time	46,330.2	47,859.6	49,440.9	50,368.1
Foreign currency deposits of non-financial sector	22,968.4	23,962.2	24,204.1	24,601.7
- corporations	2,503.1	3,041.4	3,116.0	3,304.2
current	1,464.5	1,502.9	1,551.2	1,555.9
time	1,038.6	1,538.5	1,564.8	1,748.3
- persons	20,465.3	20,920.9	21,088.2	21,297.5
current	7,236.1	7,189.6	7,139.6	7,163.3
time	13,229.2	13,731.3	13,948.6	14,134.2
Securities sales under reverse repurchase agreements	1,549.0	1,599.7	1,272.5	1,706.3
Outstanding securities	821.9	910.9	1,081.9	1,539.7
Own prime funds	8,559.2	8,640.3	8,816.2	9,168.7
Other liabilities	45,632.1	50,728.1	52,901.8	52,187.0
TOTAL LIABILITIES	208,192.7	215,210.8	221,547.8	227,554.0

1997								
IV	V	VI	VII	VIII	IX	X	XI	XII
16,563.1	18,056.6	19,262.4	20,890.1	21,620.6	22,321.9	25,022.3	24,322.1	25,601.9
30,657.9	28,017.3	29,137.7	32,846.1	33,604.0	35,640.7	33,988.0	36,994.7	32,211.9
3,079.1	3,418.5	3,321.7	3,288.3	3,277.5	3,359.4	3,473.1	3,299.8	3,819.4
12,411.1	9,620.6	11,895.0	13,034.0	13,857.5	14,553.6	13,350.1	15,793.1	12,516.7
15,167.7	14,978.3	13,921.0	16,523.8	16,469.1	17,727.8	17,164.9	17,901.7	15,875.9
609.0	726.6	808.5	871.0	981.0	1,115.3	1,159.2	1,388.7	1,312.0
3,289.1	3,516.4	3,863.6	4,232.4	4,279.5	4,176.1	4,511.3	4,736.2	5,142.7
2,444.8	2,637.9	2,932.2	3,231.7	3,231.1	3,094.4	3,351.6	3,479.3	3,721.2
842.9	876.3	928.8	997.4	1,039.5	1,074.6	1,152.8	1,249.4	1,413.2
1.5	2.2	2.6	3.3	8.9	7.2	6.9	7.5	8.3
89,251.6	90,420.4	93,191.7	95,154.3	97,383.9	100,271.5	102,533.3	105,635.9	106,276.2
75,820.4	76,450.0	78,389.0	79,796.2	81,520.6	83,900.7	85,476.7	88,161.3	87,907.9
13,431.2	13,970.4	14,802.7	15,358.1	15,863.3	16,370.9	17,056.5	17,474.6	18,368.3
953.2	897.4	910.8	139.3	358.6	101.2	339.9	606.0	822.4
63,395.0	59,378.2	59,615.5	59,226.3	58,827.5	57,550.8	59,193.0	60,006.3	65,298.6
17,311.6	17,371.0	17,720.0	16,847.3	17,018.5	14,625.8	15,755.5	13,963.0	14,590.0
50.9	51.8	67.8	68.9	72.1	98.1	107.7	155.4	124.5
44,846.1	40,751.7	40,573.5	40,987.7	40,348.6	41,207.3	41,954.4	44,569.9	49,234.8
44,769.2	40,667.7	40,430.5	40,834.5	40,187.6	41,038.0	41,749.5	44,373.9	49,009.6
986.6	998.3	1,073.9	1,123.2	1,184.9	1,407.4	1,180.9	1,121.7	1,152.4
199.7	205.4	180.3	199.1	203.5	212.3	194.6	196.3	196.8
30,024.0	30,830.6	28,971.8	30,938.9	30,581.6	30,620.9	31,160.9	33,079.7	26,655.0
234,743.0	231,843.5	235,762.0	244,298.4	247,636.8	251,798.5	257,907.8	266,769.6	263,320.9
9,669.0	10,710.1	11,548.8	11,752.4	11,673.4	12,689.7	14,113.2	14,258.9	15,071.7
28,304.7	22,118.2	21,426.4	24,011.6	24,126.2	24,977.1	24,356.6	27,388.8	25,103.7
12,701.0	7,680.3	7,671.8	7,876.1	7,850.4	7,432.4	7,341.8	9,650.6	9,180.3
15,603.7	14,438.0	13,754.6	16,135.6	16,275.8	17,544.7	17,014.7	17,738.2	15,923.5
2,758.4	2,695.2	2,773.7	3,149.8	2,573.6	3,165.0	3,346.7	3,715.4	3,447.8
9,293.5	10,226.7	10,447.8	10,965.7	11,342.8	11,774.0	12,050.6	12,633.1	11,590.8
3,909.8	4,445.4	4,645.0	5,235.7	5,624.3	5,639.5	6,098.5	6,194.5	5,809.6
4,114.0	4,473.8	4,438.2	4,385.7	4,331.2	4,663.8	4,536.4	4,972.9	4,394.3
1,269.7	1,307.5	1,364.6	1,344.3	1,387.4	1,470.7	1,415.7	1,465.7	1,386.9
91,499.4	94,503.7	95,816.2	99,009.0	101,015.2	102,372.4	104,919.6	106,167.0	111,908.4
26,507.8	27,898.9	27,313.5	28,851.7	29,584.5	29,915.0	31,497.1	31,491.2	34,618.8
12,604.2	13,611.3	14,479.5	15,399.9	15,345.3	15,411.2	15,544.1	14,932.1	18,557.0
13,903.7	14,287.6	12,834.0	13,451.8	14,239.1	14,503.9	15,953.0	16,559.1	16,061.8
64,991.6	66,604.9	68,502.7	70,157.3	71,430.7	72,457.4	73,422.5	74,675.7	77,289.6
13,385.4	13,872.6	14,606.6	14,866.9	14,901.4	14,941.1	14,572.1	14,458.2	15,095.0
51,606.2	52,732.3	53,896.1	55,290.4	56,529.3	57,516.3	58,850.4	60,217.5	62,194.6
24,930.4	25,309.8	25,988.6	27,679.3	28,154.2	28,107.3	29,442.7	29,538.4	30,198.9
3,300.0	3,325.2	3,516.4	3,960.5	3,970.6	4,017.5	4,640.4	4,460.1	4,941.3
1,468.3	1,756.6	1,954.7	1,965.3	1,984.6	2,028.8	2,152.9	2,001.9	2,329.7
1,831.8	1,568.6	1,561.6	1,995.2	1,986.0	1,988.7	2,487.5	2,458.2	2,611.6
21,630.3	21,984.7	22,472.2	23,718.8	24,183.7	24,089.8	24,802.3	25,078.3	25,257.7
7,180.2	7,278.2	7,404.4	7,794.1	7,886.6	7,811.4	7,962.9	7,967.5	8,050.7
14,450.1	14,706.4	15,067.9	15,924.7	16,297.1	16,278.4	16,839.4	17,110.8	17,206.9
1,231.8	1,041.3	1,158.3	297.8	432.2	198.5	457.2	714.2	767.4
1,716.3	1,663.7	1,873.9	1,873.3	1,652.9	854.8	828.3	816.3	890.3
9,428.6	11,172.0	12,005.2	12,261.4	12,552.5	12,990.2	13,126.7	13,174.2	13,510.5
55,910.9	52,402.7	52,723.0	53,298.2	54,113.7	54,669.6	55,266.4	58,363.2	50,831.4
234,743.0	231,843.5	235,762.0	244,298.4	247,636.8	251,798.5	257,907.8	266,769.6	263,320.9

TABLE VII. The National Bank of Poland - Assets & Liabilities (PLN million)

Item	1996	1997		
	XII	I	II	III
ASSETS				
Foreign assets	56,537.7	59,123.0	60,723.9	63,795.2
Due from banks	10,790.6	10,696.9	10,769.6	12,436.9
- deposits	3,755.9	3,917.8	3,994.2	5,236.8
- loans under foreign credit lines	252.3	233.4	233.7	236.0
- refinancing credits	6,780.9	6,544.1	6,540.1	6,962.5
bills rediscounted	180.8	142.4	139.9	145.1
lombard facilities	255.6	49.0	48.7	489.1
special purpose funds	0.0	0.0	0.0	0.0
central investment project	4,987.9	4,996.3	4,996.2	5,001.5
other	1,356.6	1,356.5	1,355.3	1,326.8
- open market operations (auction credit)	0.0	0.0	0.0	0.0
- outstanding deposits	1.6	1.6	1.6	1.6
Due from non-bank financial units	0.0	0.0	0.0	0.0
Due from central government	1,813.7	1,793.1	1,794.2	1,794.5
Due to non-financial sector	59.5	59.1	59.1	59.4
- corporations	35.2	35.2	35.2	35.0
- persons	24.3	23.9	23.9	24.3
Securities	11,340.8	10,789.0	10,918.9	13,230.1
- issued by banks	393.8	398.2	401.9	419.5
- issued by State Treasury	10,947.0	10,390.8	10,517.0	12,810.5
Other assets	4,193.4	4,108.8	3,918.8	4,208.9
TOTAL ASSETS	84,735.7	86,570.0	88,184.4	95,524.9
LIABILITIES				
Foreign liabilities	4,746.0	5,079.6	5,269.5	8,938.0
Notes & coin in circulation (including vault cash)	27,244.4	25,748.4	26,240.9	27,989.2
Due to banks	9,078.4	8,111.3	11,179.8	9,784.9
- current accounts	6,306.1	5,932.1	6,703.8	8,077.9
- required reserves	645.6	710.6	1,649.8	1,646.4
- open market operations (auction credit)	2,126.7	1,468.6	2,826.3	60.6
- other due	0.0	0.0	0.0	0.0
Due to non-bank financial units	63.6	21.1	48.8	11.8
Due to general government	6,126.3	4,903.8	2,260.3	3,098.6
- central government	3,159.1	2,595.7	730.3	1,717.6
- general government special purpose funds	2,967.3	2,308.1	1,530.0	1,381.0
Zloty deposits of non-financial sector	1.9	2.4	1.9	2.4
- corporations	1.9	2.4	1.9	2.4
current	1.9	2.4	1.9	2.4
time	0.0	0.0	0.0	0.0
- persons	0.0	0.0	0.0	0.0
Outstanding securities	12,532.6	16,909.0	16,431.9	16,953.8
Equity & reserve capital	400.0	400.0	400.0	400.0
Other liabilities	24,542.4	25,394.3	26,351.3	28,346.3
TOTAL LIABILITIES	84,735.7	86,570.0	88,184.4	95,524.9

TABLE VIII. Banking Sector: NBP & Commercial Banks - Assets & Liabilities (PLN million)

Item	1996		1997	
	XII	I	II	III
ASSETS				
Foreign assets	74,170.3	75,948.5	77,874.8	81,300.1
Due from banks	35,961.7	34,709.7	38,694.8	40,043.8
- vault cash	3,680.6	2,895.7	2,727.3	3,398.0
- banks from NBP	9,079.5	8,093.2	11,140.3	9,755.0
- banks from other banks	12,411.0	13,024.0	14,057.6	14,453.9
- NBP from banks	10,790.6	10,696.9	10,769.6	12,436.9
Due from non-bank financial institutions	312.3	412.2	486.9	577.1
- banks	312.3	412.2	486.9	577.1
- NBP	0.0	0.0	0.0	0.0
Due from general government	4,061.5	4,142.2	4,282.4	4,654.3
- central government	3,224.3	3,354.6	3,491.5	3,836.8
- local government	835.7	787.4	790.5	815.3
- special purpose funds	1.5	0.2	0.4	2.2
Due from non-financial sector	80,250.8	82,268.4	84,146.9	86,937.5
- corporations	68,473.7	70,307.3	71,834.9	74,112.1
- persons	11,777.1	11,961.2	12,312.1	12,825.4
Securities purchase under repurchase agreements	1,024.3	913.5	686.8	1,178.7
Securities	71,804.9	73,635.6	71,638.0	76,063.9
- banks	12,358.7	16,337.1	16,102.2	16,368.9
- non-bank financial institutions	31.0	33.0	34.4	34.1
- general government	58,247.2	56,240.3	54,466.5	58,476.7
- of which: issued by State Treasury	58,166.8	56,168.3	54,396.3	58,397.4
- non-financial sector	996.9	857.0	845.4	978.5
- equities, rights issues				
and trust fund participation units	171.1	168.3	189.5	205.6
Other assets	25,342.7	29,750.7	31,921.6	32,323.5
TOTAL ASSETS	292,928.4	301,780.8	309,732.3	323,078.9
LIABILITIES				
Foreign liabilities	12,646.0	13,802.0	14,375.5	18,629.8
Notes & coin in circulation (including vault cash)	27,244.4	25,748.4	26,240.9	27,989.2
Due to banks	31,979.3	31,051.5	35,352.5	36,340.4
- banks to NBP	10,685.2	10,607.0	10,682.1	12,437.6
- banks to other banks	12,215.7	12,333.1	13,490.5	14,117.9
- NBP to banks	9,078.4	8,111.3	11,179.8	9,784.9
Due to non-banking financial institutions	2,825.5	2,942.7	3,277.4	2,677.4
- banks	2,761.9	2,921.6	3,228.6	2,665.6
- NBP	63.6	21.1	48.8	11.8
Due to general government	14,068.3	13,674.3	11,752.9	13,183.3
- central government	6,994.8	6,559.3	4,678.9	5,998.1
- local government deposits	3,400.6	3,665.0	4,393.0	4,550.2
- special purpose funds	3,673.0	3,450.0	2,681.0	2,635.0
Zloty deposits of non-financial sector	87,159.2	86,017.3	87,273.6	89,355.4
- corporations	29,741.2	26,744.6	26,009.4	26,078.7
current	16,986.4	13,503.7	12,644.7	12,819.1
time	12,754.7	13,241.0	13,364.7	13,259.6
- persons	57,418.0	59,272.7	61,264.2	63,276.7
current	11,087.9	11,413.1	11,823.3	12,908.6
time	46,330.2	47,859.6	49,440.9	50,368.1
Foreign currency deposits of non-financial sector	22,968.4	23,962.2	24,204.1	24,601.7
- corporations	2,503.1	3,041.4	3,116.0	3,304.2
current	1,464.5	1,502.9	1,551.2	1,555.9
time	1,038.6	1,538.5	1,564.8	1,748.3
- persons	20,465.3	20,920.9	21,088.2	21,297.5
current	7,236.1	7,189.6	7,139.6	7,163.3
time	13,229.2	13,731.3	13,948.6	14,134.2
Securities sales under reverse repurchase agreements	1,549.0	1,599.7	1,272.5	1,706.3
Outstanding securities	13,354.6	17,820.0	17,513.7	18,493.5
Own primary funds	8,959.2	9,040.3	9,216.2	9,568.7
Other liabilities	70,174.4	76,122.5	79,253.1	80,533.3
TOTAL LIABILITIES	292,928.4	301,780.8	309,732.3	323,078.9

1997								
IV	V	VI	VII	VIII	IX	X	XI	XII
81,796.2	84,229.6	89,474.1	96,944.6	100,001.0	101,328.6	109,781.6	108,264.6	105,043.4
43,419.6	35,758.2	36,878.3	40,805.6	41,534.1	43,154.6	41,411.0	46,728.8	41,479.5
3,079.1	3,418.5	3,321.7	3,288.3	3,277.5	3,359.4	3,473.1	3,299.8	3,819.4
12,411.1	9,620.6	11,895.0	13,034.0	13,857.5	14,553.6	13,350.1	15,793.1	12,516.7
15,167.7	14,978.3	13,921.0	16,523.8	16,469.1	17,727.8	17,164.9	17,901.7	15,875.9
12,761.7	7,740.9	7,740.6	7,959.5	7,930.0	7,513.9	7,423.0	9,734.2	9,267.6
609.0	726.6	808.5	871.0	981.0	1,115.3	1,159.2	1,388.7	1,312.0
609.0	726.6	808.5	871.0	981.0	1,115.3	1,159.2	1,388.7	1,312.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5,085.1	5,313.1	5,661.9	6,030.8	6,625.0	6,973.7	7,310.1	7,535.9	7,946.0
4,240.8	4,434.6	4,730.5	5,030.1	5,576.6	5,892.0	6,150.3	6,279.0	6,524.5
842.9	876.3	928.8	997.4	1,039.5	1,074.6	1,152.8	1,249.4	1,413.2
1.5	2.2	2.6	3.3	8.9	7.2	6.9	7.5	8.3
89,311.4	90,480.4	93,257.0	95,219.8	97,449.3	100,333.9	102,595.9	105,698.7	106,341.9
75,855.4	76,484.7	78,428.5	79,835.7	81,560.0	83,937.0	85,513.0	88,197.6	87,946.9
13,456.0	13,995.7	14,828.5	15,384.2	15,889.3	16,396.9	17,082.9	17,501.1	18,395.0
953.2	897.4	910.8	139.3	358.6	101.2	339.9	606.0	822.4
76,428.3	76,805.3	76,491.9	76,600.6	76,351.7	73,896.1	74,955.4	75,995.8	79,730.0
17,734.7	17,802.2	18,160.7	17,291.8	17,463.1	15,070.4	16,199.3	14,411.1	15,032.6
50.9	51.8	67.8	68.9	72.1	98.1	107.7	155.4	124.5
57,456.4	57,747.6	57,009.2	57,917.6	57,428.2	57,108.0	57,272.9	60,111.3	63,223.6
57,379.5	57,663.6	56,866.2	57,764.4	57,267.2	56,938.7	57,068.0	59,915.4	62,998.5
986.6	998.3	1,073.9	1,123.2	1,184.9	1,407.4	1,180.9	1,121.7	1,152.4
199.7	205.4	180.3	199.1	203.5	212.3	194.6	196.3	196.8
34,410.5	35,062.8	33,122.7	34,601.8	34,201.4	34,078.6	34,725.8	36,361.7	30,406.2
332,013.4	329,273.3	336,605.1	351,213.4	357,502.0	360,982.1	372,278.9	382,580.3	373,081.5
17,056.0	16,960.1	17,523.3	21,283.8	21,300.9	23,507.0	25,538.2	24,416.0	22,224.4
28,952.5	29,352.5	30,156.8	31,129.4	31,185.5	30,990.0	31,136.5	30,994.2	31,075.2
40,247.3	33,402.1	33,292.0	37,336.9	38,433.2	39,595.5	37,718.9	43,268.9	37,630.6
12,701.0	7,680.3	7,671.8	7,876.1	7,850.4	7,432.4	7,341.8	9,650.6	9,180.3
15,603.7	14,438.0	13,754.6	16,135.6	16,275.8	17,544.7	17,014.7	17,738.2	15,923.5
11,942.6	11,283.8	11,865.7	13,325.3	14,307.0	14,618.4	13,362.3	15,880.1	12,526.8
2,770.4	2,698.1	2,788.8	3,153.0	2,582.7	3,311.9	3,348.8	3,742.4	3,450.5
2,758.4	2,695.2	2,773.7	3,149.8	2,573.6	3,165.0	3,346.7	3,715.4	3,447.8
12.0	2.9	15.1	3.2	9.1	146.9	2.1	27.0	2.8
11,278.1	12,084.1	12,909.8	13,304.4	14,232.6	15,010.1	16,246.0	17,509.9	15,875.9
4,702.8	5,125.2	5,789.6	6,519.9	7,136.2	7,848.9	9,019.5	9,236.6	8,118.4
4,114.0	4,473.8	4,438.2	4,385.7	4,331.2	4,663.8	4,536.4	4,972.9	4,394.3
2,461.4	2,485.2	2,682.0	2,398.8	2,765.3	2,497.4	2,690.1	3,300.4	3,363.2
91,501.5	94,505.8	95,818.6	99,012.1	101,017.6	103,218.6	106,906.8	108,901.6	115,510.4
26,509.9	27,900.9	27,315.9	28,854.8	29,586.8	29,918.8	31,499.7	31,494.0	34,621.1
12,606.2	13,613.3	14,481.9	15,403.1	15,347.7	15,414.9	15,546.8	14,934.9	18,559.3
13,903.7	14,287.6	12,834.0	13,451.8	14,239.1	14,503.9	15,953.0	16,559.1	16,061.8
64,991.6	66,604.9	68,502.7	70,157.3	71,430.7	73,299.8	75,407.1	77,407.5	80,889.4
13,385.4	13,872.6	14,606.6	14,866.9	14,901.4	14,941.1	14,572.1	14,458.2	15,095.0
51,606.2	52,732.3	53,896.1	55,290.4	56,529.3	58,358.8	60,835.0	62,949.3	65,794.3
24,930.4	25,309.8	25,988.6	27,679.3	28,154.2	28,107.3	29,442.7	29,538.4	30,198.9
3,300.0	3,325.2	3,516.4	3,960.5	3,970.6	4,017.5	4,640.4	4,460.1	4,941.3
1,468.3	1,756.6	1,954.7	1,965.3	1,984.6	2,028.8	2,152.9	2,001.9	2,329.7
1,831.8	1,568.6	1,561.6	1,995.2	1,986.0	1,988.7	2,487.5	2,458.2	2,611.6
21,630.3	21,984.7	22,472.2	23,718.8	24,183.7	24,089.8	24,802.3	25,078.3	25,257.7
7,180.2	7,278.2	7,404.4	7,794.1	7,886.6	7,811.4	7,962.9	7,967.5	8,050.7
14,450.1	14,706.4	15,067.9	15,924.7	16,297.1	16,278.4	16,839.4	17,110.8	17,206.9
1,231.8	1,041.3	1,158.3	297.8	432.2	198.5	457.2	714.2	767.4
19,893.4	19,755.5	19,895.1	18,978.9	18,766.0	15,602.5	16,964.0	14,897.6	15,264.4
9,828.6	11,572.0	12,405.2	12,661.4	12,952.5	13,390.2	13,526.7	13,574.2	13,910.5
84,323.3	82,592.0	84,668.4	86,376.4	88,444.6	88,050.6	90,993.2	95,022.9	87,173.2
332,013.4	329,273.3	336,605.1	351,213.4	357,502.0	360,982.1	372,278.9	382,580.3	373,081.5

TABLE IX. Money Aggregates (PLN million)

Item	1996		1997	
	XII	I	II	III
1. Notes & coin in circulation (including vault cash)	27,244.4	25,748.4	26,240.9	27,989.2
2. Current bank accounts	6,306.1	5,932.1	6,703.8	8,077.9
3. Required reserves	645.6	710.6	1,649.8	1,646.4
M0 (1 + 2 + 3)	34,196.2	32,391.1	34,594.4	37,713.5
4. Notes & coin in circulation (excluding vault cash)	23,563.9	22,852.7	23,513.5	24,591.2
5. Demand deposits	37,491.9	34,590.5	34,141.4	35,143.6
zloty deposits	26,168.4	23,289.4	23,155.8	23,745.9
- persons	8,488.9	8,838.8	9,561.2	10,270.4
- non-financial corporate sector	16,986.4	13,503.7	12,644.7	12,819.1
- non-bank financial institutions	693.1	947.0	949.9	656.4
foreign currency deposits	8,724.5	8,726.8	8,723.5	8,759.5
- persons	7,236.1	7,189.6	7,139.6	7,163.3
- non-financial corporate sector	1,464.5	1,502.9	1,551.2	1,555.9
- non-bank financial institutions	23.9	34.3	32.8	40.2
demand savings books	2,599.0	2,574.3	2,262.1	2,638.3
M1 (4 + 5)	61,055.8	57,443.3	57,654.9	59,734.9
6. Time deposits & blocked deposits	75,461.2	78,331.7	80,613.8	81,490.9
zloty deposits	57,498.0	59,270.2	61,116.2	61,485.1
- persons	43,034.9	44,361.2	45,827.7	46,652.2
- non-financial corporate sector	12,754.7	13,241.0	13,364.7	13,259.6
- non-bank financial institutions	1,708.3	1,668.1	1,923.8	1,573.3
foreign currency deposits	14,659.6	15,551.2	15,869.9	16,270.5
- persons	13,220.8	13,719.4	13,934.1	14,114.8
- non-financial corporate sector	1,038.6	1,538.5	1,564.8	1,748.3
- non-bank financial institutions	400.2	293.3	370.9	407.4
savings certificates and certificates of deposit (non-transferable)	3,303.6	3,510.3	3,627.7	3,735.2
- zloty	3,295.2	3,498.4	3,613.2	3,715.9
- foreign currency	8.4	11.9	14.5	19.4
7. Reverse repo transactions	145.4	309.5	284.7	362.5
- with non-financial corporate sector	12.4	40.4	40.5	107.6
- with non-bank financial institutions	133.0	269.1	244.2	254.9
M2 (M1 + 6 + 7)	136,662.4	136,084.5	138,553.4	141,588.2

									1997
IV	V	VI	VII	VIII	IX	X	XI	XII	
28,952.5	29,352.5	30,156.8	31,129.4	31,185.5	30,990.0	31,136.5	30,994.2	31,075.2	
5,956.9	8,742.2	8,158.5	7,485.9	9,387.7	9,999.6	8,727.4	12,470.7	7,982.2	
1,623.8	1,623.3	2,933.2	3,017.0	3,015.9	3,123.9	3,216.4	3,208.6	3,256.5	
36,533.3	39,718.0	41,248.6	41,632.3	43,589.0	44,113.5	43,080.2	46,673.5	42,314.0	
25,873.4	25,934.0	26,835.2	27,841.0	27,908.0	27,630.6	27,663.3	27,694.4	27,255.9	
35,417.1	37,339.0	39,378.9	41,077.4	40,747.4	41,270.4	41,082.6	40,868.8	44,900.5	
24,021.3	25,517.2	27,152.3	30,949.6	27,901.9	28,538.7	28,153.8	28,100.2	31,433.4	
10,674.3	11,123.3	11,793.6	14,541.1	11,973.2	12,093.1	11,806.3	11,704.9	12,061.5	
12,606.2	13,613.3	14,481.9	15,403.1	15,347.7	15,414.9	15,546.8	14,934.9	18,559.3	
740.8	780.5	876.8	1,005.4	581.0	1,030.6	800.7	1,460.4	812.6	
8,684.8	9,072.5	9,413.6	9,801.9	9,917.3	9,883.8	10,163.0	10,015.3	10,433.5	
7,180.2	7,278.2	7,404.4	7,794.1	7,886.6	7,811.4	7,962.9	7,967.5	8,050.7	
1,468.3	1,756.6	1,954.8	1,965.3	1,984.6	2,028.8	2,152.9	2,001.9	2,329.7	
36.3	37.6	54.5	42.5	46.1	43.6	47.2	45.9	53.1	
2,711.0	2,749.3	2,813.0	325.9	2,928.3	2,847.9	2,765.8	2,753.2	3,033.5	
61,290.6	63,273.0	66,214.0	68,918.4	68,655.4	68,901.0	68,745.9	68,563.2	72,156.3	
83,785.1	85,174.8	85,217.2	88,767.1	91,007.1	93,367.4	98,615.6	101,313.6	104,259.4	
63,272.7	64,585.2	64,225.0	66,359.0	68,196.8	70,436.4	74,567.5	76,982.8	79,592.5	
47,793.3	48,827.0	49,952.7	51,268.3	52,504.2	54,266.3	56,687.3	58,746.2	61,514.6	
13,903.7	14,287.6	12,834.0	13,451.8	14,239.1	14,503.9	15,953.0	16,559.1	16,061.8	
1,575.7	1,470.6	1,438.3	1,638.9	1,453.5	1,666.2	1,927.2	1,677.5	2,016.1	
16,678.0	16,655.3	17,013.7	18,347.3	18,741.6	18,791.9	19,848.8	20,072.1	20,326.5	
14,428.7	14,677.5	15,032.9	15,886.0	16,253.6	16,231.7	16,787.7	17,055.2	17,146.3	
1,831.8	1,568.6	1,561.6	1,995.2	1,986.0	1,988.7	2,487.5	2,458.2	2,611.6	
417.6	409.3	419.2	466.1	502.1	571.5	573.6	558.7	568.7	
3,834.3	3,934.2	3,978.5	4,060.8	4,068.7	4,139.2	4,199.3	4,258.7	4,340.4	
3,812.9	3,905.2	3,943.5	4,022.0	4,025.1	4,092.5	4,147.7	4,203.1	4,279.8	
21.5	28.9	35.0	38.8	43.5	46.7	51.6	55.6	60.6	
102.9	198.7	330.0	76.2	3.6	3.2	3.4	3.3	21.4	
16.7	113.1	155.0	4.0	3.6	2.6	3.4	3.3	3.8	
86.2	85.7	175.0	72.2	0.0	0.7	0.0	0.0	17.6	
145,178.5	148,646.5	151,761.2	157,761.7	159,666.1	162,271.6	167,365.0	169,880.1	176,437.1	

TABLE X. Consolidated Balance Sheet of the Banking Sector (PLN million)

Item	1996	1997		
	XII	I	II	III
TOTAL MONEY SUPPLY (M2)	136,662.4	136,084.5	138,553.4	141,588.2
A. Zloty money supply	113,269.9	111,794.6	113,945.6	116,538.9
1. Notes & coin in circulation (excluding vault cash)	23,563.9	22,852.7	23,513.5	24,591.2
- notes & coin in circulation (including vault cash)	27,244.4	25,748.4	26,240.9	27,989.2
- vault cash	3,680.6	2,895.7	2,727.3	3,398.0
2. Due to persons & corporations, in zloty	89,706.0	88,941.8	90,432.0	91,947.6
persons	57,418.0	59,272.7	61,264.2	63,276.7
- current	11,087.9	11,413.1	11,823.3	12,908.6
- time	46,330.2	47,859.6	49,440.9	50,368.1
corporations	32,288.0	29,669.2	29,167.8	28,670.9
- current	17,689.0	14,438.7	13,594.4	13,475.7
- time	14,599.0	15,230.5	15,573.5	15,195.3
B. Foreign currency due to persons & corporations	23,392.5	24,289.9	24,607.8	25,049.3
1. Persons	20,465.3	20,920.9	21,088.2	21,297.5
2. Corporations	2,927.2	3,369.0	3,519.7	3,751.8
NET FOREIGN ASSETS	61,524.3	62,146.6	63,499.4	62,670.2
of which: in million USD	21,396.0	20,719.0	20,765.0	20,373.9
NET DOMESTIC ASSETS	75,138.1	73,937.9	75,054.1	78,918.0
C. Due from persons & corporations	81,084.6	83,067.9	85,033.9	87,998.7
1. Persons	11,777.1	11,961.2	12,312.1	12,825.4
2. Corporations	69,307.5	71,106.7	72,721.9	75,173.4
D. Net general government debt	48,240.8	46,674.4	46,974.0	49,917.2
1. Central government	3,224.3	3,354.6	3,491.5	3,836.8
2. Special purpose funds	1.5	0.2	0.4	2.2
3. Local governments	836.1	787.8	791.7	815.3
4. State Treasury securities	58,172.5	56,168.3	54,396.3	58,397.4
of which: - Treasury bills	19,116.3	16,428.1	15,010.1	17,124.6
- zloty denominated 1-year Treasury bonds	585.0	578.2	407.1	431.5
- zloty denominated Treasury bonds (other)	24,547.3	24,664.3	24,036.7	24,430.8
- USD denominated Treasury bonds	13,923.9	14,497.7	14,942.4	16,410.5
5. Local government securities	74.7	72.0	70.2	79.3
6. Due to central government	6,994.8	6,559.3	4,678.9	5,998.1
7. Due to special purpose funds	3,673.0	3,450.0	2,681.0	2,635.0
8. Due to local government	3,400.6	3,699.1	4,416.2	4,580.7
E. Balance of other items (net)	-54,187.3	-55,804.4	-56,953.9	-58,998.0

TABLE XI. Reserve Money Stocks and Counterparts to Changes in Money Stocks (PLN million)

Item	1996	1997		
	XII	I	II	III
NET FOREIGN ASSETS	51,791.7	54,043.4	55,454.4	54,857.2
NET DOMESTIC ASSETS	-17,595.5	-21,652.3	-20,860.0	-17,143.7
Due from financial institutions	10,790.6	10,696.9	10,769.6	12,436.9
Net general government debt	6,634.3	7,280.2	10,050.9	11,506.4
Due from non-financial sector	59.5	59.1	59.1	59.4
Balance of other items (net)	-35,080.0	-39,688.5	-41,739.6	-41,146.4
RESERVES	34,196.2	32,391.1	34,594.4	37,713.5
Notes & coin in circulation (including vault cash)	27,244.4	25,748.4	26,240.9	27,989.2
Due to domestic banks	6,951.7	6,642.7	8,353.6	9,724.3
Money multiplier	4.00	4.20	4.01	3.75

1997								
IV	V	VI	VII	VIII	IX	X	XI	XII
145,178.5	148,646.5	151,761.2	157,761.7	159,666.1	162,271.6	167,365.0	169,880.1	176,437.1
119,794.3	122,889.8	125,298.9	129,573.7	130,963.7	133,549.2	137,301.5	139,737.1	145,616.4
25,873.4	25,934.0	26,835.2	27,841.0	27,908.0	27,630.6	27,663.3	27,694.4	27,255.9
28,952.5	29,352.5	30,156.8	31,129.4	31,185.5	30,990.0	31,136.5	30,994.2	31,075.2
3,079.1	3,418.5	3,321.7	3,288.3	3,277.5	3,359.4	3,473.1	3,299.8	3,819.4
93,920.8	96,955.7	98,463.7	101,732.7	103,055.7	105,918.6	109,638.2	112,042.8	118,360.6
64,991.6	66,604.9	68,502.7	70,157.3	71,430.7	73,299.8	75,407.1	77,407.5	80,889.4
13,385.4	13,872.6	14,606.6	14,866.9	14,901.4	14,941.1	14,572.1	14,458.2	15,095.0
51,606.2	52,732.3	53,896.1	55,290.4	56,529.3	58,358.8	60,835.0	62,949.3	65,794.3
28,929.3	30,350.8	29,961.0	31,575.4	31,625.0	32,618.8	34,231.1	34,635.2	37,471.2
13,346.6	14,394.0	15,358.9	16,408.9	15,929.1	16,479.6	16,347.9	16,395.5	19,371.9
15,582.6	15,956.8	14,602.1	15,166.5	15,695.9	16,139.2	17,883.2	18,239.7	18,099.2
25,384.2	25,756.8	26,462.3	28,188.0	28,702.4	28,722.4	30,063.5	30,143.0	30,820.7
21,630.3	21,984.7	22,472.2	23,718.8	24,183.7	24,089.8	24,802.3	25,078.3	25,257.7
3,753.9	3,772.1	3,990.1	4,469.1	4,518.8	4,632.6	5,261.2	5,064.7	5,563.0
64,740.2	67,269.6	71,950.7	75,660.8	78,700.1	77,821.6	84,243.4	83,848.7	82,818.9
20,490.6	21,034.9	21,896.1	21,848.3	22,667.1	22,751.5	24,145.4	23,692.8	23,541.5
80,438.3	81,376.9	79,810.4	82,100.9	80,966.1	84,450.0	83,121.5	86,031.5	93,618.2
90,398.8	91,637.4	94,492.3	96,627.1	99,022.4	102,190.3	104,333.5	107,659.2	108,213.9
13,456.0	13,995.7	14,828.5	15,384.2	15,889.3	16,396.9	17,082.9	17,501.1	18,395.0
76,942.8	77,641.7	79,663.8	81,243.0	83,133.1	85,793.3	87,250.6	90,158.1	89,818.9
51,248.5	50,961.6	49,756.7	50,644.4	49,821.5	49,072.1	48,337.0	50,137.3	55,293.7
4,240.8	4,434.6	4,730.5	5,030.1	5,576.6	5,892.0	6,150.3	6,279.0	6,524.5
1.5	2.2	2.6	3.3	8.9	7.2	6.9	7.5	8.3
843.3	876.7	929.2	997.8	1,040.3	1,075.0	1,152.8	1,249.4	1,413.2
57,379.5	57,663.6	56,866.2	57,764.4	57,267.2	56,938.7	57,068.0	59,915.4	62,998.5
16,041.0	16,878.3	15,616.1	15,785.5	15,043.6	14,452.2	14,706.6	16,436.3	18,306.4
736.1	545.0	269.6	344.3	356.6	280.7	260.6	252.0	207.9
24,399.2	24,268.9	24,739.0	24,566.7	24,524.6	24,946.1	24,949.0	25,328.8	25,715.0
16,203.3	15,971.4	16,241.5	17,067.9	17,342.4	17,259.7	17,151.8	17,898.3	18,769.1
76.9	84.0	143.0	153.2	161.0	169.4	204.9	196.0	225.2
4,702.8	5,125.2	5,789.6	6,519.9	7,136.2	7,848.9	9,019.5	9,236.6	8,118.4
2,461.4	2,485.2	2,682.0	2,398.8	2,765.3	2,497.4	2,690.1	3,300.4	3,363.2
4,129.3	4,489.2	4,443.2	4,385.7	4,331.2	4,663.8	4,536.4	4,972.9	4,394.3
-61,209.0	-61,222.1	-64,438.5	-65,170.6	-67,877.8	-66,812.4	-69,549.0	-71,765.0	-69,889.4

1997								
IV	V	VI	VII	VIII	IX	X	XI	XII
57,846.1	59,923.1	64,237.2	66,523.0	68,752.9	68,189.4	73,334.3	73,785.4	72,288.7
-21,312.8	-20,205.1	-22,988.6	-24,890.7	-25,163.8	-24,075.8	-30,254.1	-27,112.0	-29,974.8
12,761.7	7,740.9	7,740.6	7,959.5	7,930.0	7,513.9	7,423.0	9,734.2	9,267.6
12,421.6	16,935.1	15,772.0	16,389.5	16,535.3	15,462.2	13,921.9	13,464.3	12,507.0
59.8	60.0	65.3	65.5	65.4	62.4	62.7	62.8	65.7
-46,556.0	-44,941.1	-46,566.4	-49,305.1	-49,694.6	-47,114.3	-51,661.7	-50,373.2	-51,815.1
36,533.3	39,718.0	41,248.6	41,632.3	43,589.0	44,113.5	43,080.2	46,673.5	42,314.0
28,952.5	29,352.5	30,156.8	31,129.4	31,185.5	30,990.0	31,136.5	30,994.2	31,075.2
7,580.8	10,365.5	11,091.7	10,503.0	12,403.5	13,123.6	11,943.7	15,679.3	11,238.8
3.97	3.74	3.68	3.79	3.66	3.68	3.88	3.64	4.17

TABLE XII. Poland: Balance of payments in convertible currencies (USD million)

Item	I Quarter		II Quarter	
	1996	1997	1996	1997
A. CURRENT ACCOUNT	151	-1,532	-423	-1,165
Merchandise exports	5,537	5,766	5,874	6,692
Merchandise imports	6,979	8,833	7,578	9,349
of which: oil, oil product, energy	514	782	629	664
Trade balance	-1,442	-3,067	-1,704	-2,657
Services: credit	746	923	824	897
Services: debit	891	833	899	837
Services: net	-145	90	-75	60
Income: credit	314	269	348	409
Income: debit	188	200	692	725
of which:				
Due and paid	188	200	691	724
Income: net	126	69	-344	-316
Current transfers: credit	1,362	1,102	1,321	1,146
General government	19	30	5	4
Other sectors	1,343	1,072	1,316	1,142
Current transfers: debit	1,570	942	1,298	960
General government	-	-	-	-
Other sectors	1,570	942	1,298	960
Current transfers: net	-208	160	23	186
General government	19	30	5	4
Other sectors	-227	130	18	182
Unclassified transactions on current account: net	1,820	1,216	1,677	1,562
B. CAPITAL AND FINANCIAL ACCOUNT	2,576	1,590	881	2,546
CAPITAL ACCOUNT	12	12	11	10
FINANCIAL ACCOUNT	2,564	1,578	870	2,536
Direct investment: net	763	456	424	779
Polish direct investment abroad	0	-6	-1	-6
Foreign direct investment in Poland	763	462	425	785
Portfolio investment: net	631	408	-184	1,071
Polish portfolio investment abroad (assets)	74	152	61	88
Foreign portfolio investment in Poland (liabilities)	557	256	-245	983
Long-term credits extended	3	-18	-3	-105
Drawings	1	23	5	124
Repayments	4	5	2	19
Short-term credits extended	-8	1	-3	8
Drawings	41	49	44	31
Repayments	33	50	41	39
Long-term credits received	-146	50	41	165
Drawings	56	165	275	321
Repayments	202	115	234	156
Due and paid	198	111	222	142
Due but not paid	4	4	12	14
Rescheduled	2	2	-	-
Cancelled	2	2	-	-
Converted	-	-	12	14
Arrears	-	-	-	-

III Quarter		IV Quarter		4 Quarters	
1996	1997	1996	1997	1996	1997
-39	-906	-1,041	-665	-1,352	-4,268
6,221	7,018	6,788	7,753	24,420	27,229
8,335	9,541	9,682	10,775	32,574	38,498
578	584	706	561	2,427	2,591
-2,114	-2,523	-2,894	-3,022	-8,154	-11,269
888	838	925	1,066	3,383	3,724
832	839	970	910	3,592	3,419
56	-1	-45	156	-209	305
365	314	444	441	1,471	1,433
519	581	438	392	1,837	1,898
516	579	434	390	1,829	1,893
-154	-267	6	49	-366	-465
1,350	1,316	1,368	1,325	5,401	4,889
26	26	23	42	73	102
1,324	1,290	1,345	1,283	5,328	4,787
1,197	959	1,112	928	5,177	3,789
-	-	-	-	-	-
1,197	959	1,112	928	5,177	3,789
153	357	256	397	224	1,100
26	26	23	42	73	102
127	331	233	355	151	998
2,020	1,528	1,636	1,755	7,153	6,061
-97	1,640	1,423	1,813	4,783	7,589
20	18	47	55	90	95
-117	1,622	1,376	1,758	4,693	7,494
544	777	1,010	1,029	2,741	3,041
0	0	-26	-24	-27	-36
544	777	1,036	1,053	2,768	3,077
-320	639	114	-20	241	2,098
151	424	-4	151	282	815
-471	215	118	-171	-41	1,283
-6	25	-26	-12	-32	-110
13	23	36	57	55	227
7	48	10	45	23	117
-4	-39	10	-30	-5	-60
35	50	33	59	153	189
31	11	43	29	148	129
-196	-58	90	259	-211	416
193	192	295	511	819	1,189
389	250	205	252	1,030	773
372	235	172	223	964	711
17	15	33	29	66	62
2	1	-	-	4	3
2	1	-	-	4	3
13	13	33	29	58	56
-	-	-	-	-	-

cont. TABLE XII. Poland: Balance of payments in convertible currencies (USD million)

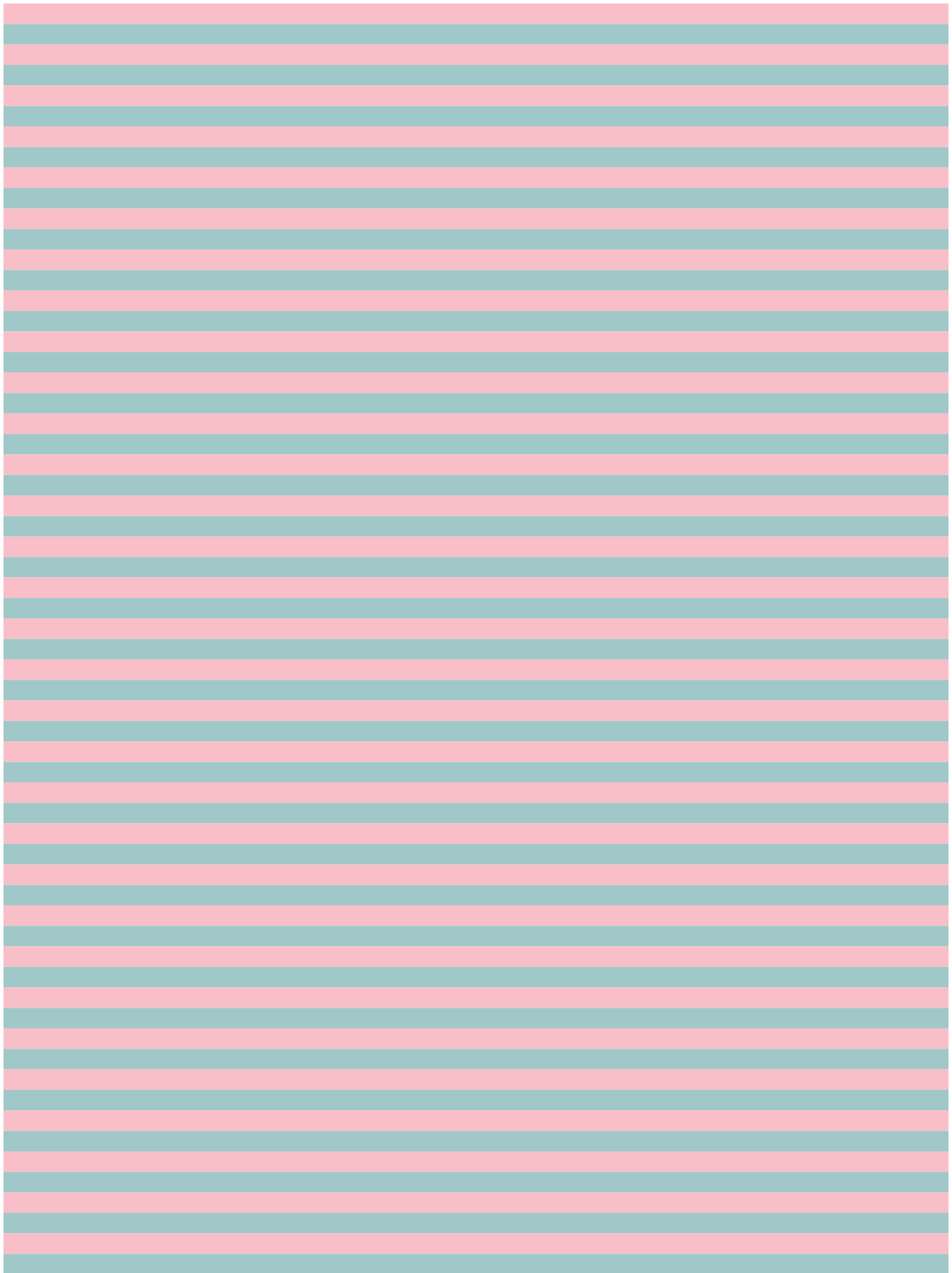
Item	I Quarter		II Quarter	
	1996	1997	1996	1997
Short-term credits received	14	-4	4	379
Drawings	115	82	162	428
Repayments	101	86	158	49
Other short-term capital	1,307	685	591	239
Other financial transactions	399	232	157	142
Changes in other assets	712	425	229	27
Changes in other liabilities	196	28	205	70
C. ERRORS AND OMISSIONS	177	541	-16	650
D. EXCEPTIONAL FINANCING	2	2	0	0
Rescheduled obligations	2	2	-	-
of which: Paris Club	2	2	-	-
E. VALUATION CHANGES	-317	-656	-354	-321
- official reserves	-222	-546	-231	-240
- other assets and liabilities	-95	-110	-123	-81
T O T A L (items A through E)	2,589	-55	88	1,710
F. CHANGES IN GROSS OFFICIAL RESERVES	-2,589	55	-88	-1,710

NOTE

Since January 1997 gross official reserves of the National Bank of Poland include foreign currency cash in NBP vault, which previously was presented under "Other foreign increased by USD 123 million.

III Quarter		IV Quarter		4 Quarters	
1996	1997	1996	1997	1996	1997
7	202	60	15	85	592
104	304	216	387	597	1,201
97	102	156	372	512	609
-142	76	118	517	1,874	1,517
-62	811	102	890	596	2,075
28	-599	-212	-608	757	-755
-108	-136	228	235	521	197
88	-263	231	-460	480	468
3	1	0	0	5	3
3	1	-	-	5	3
3	1	-	-	5	3
-41	-107	-134	-71	-846	-1,155
-10	-97	-108	-71	-571	-954
-31	-10	-26	0	-275	-201
-86	365	479	617	3,070	2,637
86	-365	-479	-617	-3,070	-2,637

assets in convertible currencies". Reclassification and valuation changes of monetary gold were also included in January, and as a result of gross official reserves



Prepared on the basis of NBP data.

Design:

Zbigniew Tomaszczyk
Ryszard Piwowar
Piotr Chodorek
Edro

Photo:

Piotr Liszkiewicz - portrait of the President of the NBP

Banknotes reproduced from NBP collection.

Translated by:

Stefan Piekarczyk

Layout and printed by:

NBP Printing Office

Published by:

National Bank of Poland
Office of the President
Promotion and Information Division
00-919 Warszawa, ul. Świętokrzyska 11/21
phone +48 22 653 25 83, +48 22 653 23 35
fax +48 22 653 13 21
ISSN 1427-0285

© Copyright by the National Bank of Poland, 1998