Hanna Gronkiewicz-Waltz
President of the National Bank of Poland

The year 1998 was a difficult time for Poland. Nevertheless, although this might initially appear paradoxical, the year's events also brought evidence of the strength of our economy and its capacity to weather international storms, and also highlighted the credibility of the policies being pursued by the central bank.

The beginning of 1998 saw a new Act on the National Bank of Poland take effect, one which – together with the new Constitution of the Republic of Poland of April 2, 1997, approved earlier by referendum – established a new institutional framework for the operations of the central bank. These pieces of legislation have introduced legal solutions that are in basic conformity with the arrangements applicable to central banks in the member countries of European Economic and Monetary Union (EMU).

The taking effect of the new Act on the NBP has altered the decision-making process within the central bank. Decisions on monetary policy measures are now taken by a ten-member Monetary Policy Council, while decisions relating to banking supervision are in the hands of a seven-person Commission for Banking Supervision. Although both bodies are chaired by the President of the NBP, decisions are reached on a collective basis and sanctioned by vote.

The Act on the NBP defines the Bank's basic objective as maintaining price stability, while also acting in support of Government economic policies, insofar as the latter does not constrain pursuit of that objective. The National Bank is performing this responsibility in full. The autumn of 1998 saw inflation fall to single figures for the first time in 18 years. The activity of the NBP also contributed to limiting the deficit on the current account. Curbing the growth of the current deficit was one of the clear priorities of Government economic policy. However, the wave of financial and currency crises that engulfed the world last year (most particularly the Russian crisis) made controlling the deficit significantly more difficult. Nonetheless, the sound fundamentals of the Polish economy, allied to the flexible monetary and exchange rate policies implemented by the NBP, substantially reduced the impact of global turbulence on our economy, although 1998 did bring a slowdown in economic growth compared to previous years.

The year 1998 demonstrated that the new institutional environment conditioning the operations of the NBP allows the Bank to take swift and proper decisions. At the same time, the response of the economy to external shocks is evidence that, after ten years of systemic transition, Poland is now home to a vibrant market economy.

President of the National Bank of Poland

Hanna Gronkiewicz-Waltz

The new framework for the operations of the NBP

The year 1998 marked the beginning of a new legal and institutional framework for Poland's central bank and the whole banking system, a framework first outlined by the new Constitution of the Republic of Poland of April 2, 1997, and then fleshed out by two pieces of legislation adopted on August 29, 1997: the new Act on the National Bank of Poland and the new Banking Act. The legislation previously in force in this regard, put in place in 1989 and since repeatedly amended, no longer corresponded to the requirements of the economic transformations taking place in Poland, nor to the needs of development within the banking industry. The necessity of drafting new legislation, and its adoption by the Sejm, also stemmed from the commitments undertaken by Poland under the agreement on association with the European Union (the European Treaty).

The new Polish Constitution took effect on October 17, 1997, while the aforementioned banking legislation took effect on January 1, 1998. This means that the operations of the NBP in the entire period covered by the present report were subject to the new legal framework.

The Constitution and the Act on the NBP specify the position of Poland's central bank. They define the NBP as the country's central bank, which has the exclusive right to issue currency, and to determine and implement monetary policy. Pursuant to the Constitution, the NBP is responsible for the value of the Polish currency. The Act on the NBP stipulates that the basic objective of NBP activity is to maintain price stability, and the Bank is at the same time to act in support of Government economic policies, insofar as this does not constrain pursuit of the basic objective of the central bank.

The key questions regulated by the Act on the National Bank of Poland include:

- specifying the Bank's powers and responsibilities in terms of monetary policy,
- determining the relationship between the NBP, the Sejm and the Council of Ministers,
- laying down the scope and form of the Bank's activity in influencing the operations of the commercial banks (including the scope and procedures of banking supervision),
- modernising the management process at the NBP and adjusting it to correspond to the responsibilities and functions entrusted to the Bank.

The Constitution, and following on from it the Act on the NBP, also identifies the directing bodies of the central bank, which comprise the President, the Monetary Policy Council and the Management Board. It should be emphasised that these new legal provisions have altered the position, role and powers of the NBP President and Management Board, and vested major powers in a newly-established body, the Monetary Policy Council. Large changes have also occurred in the position of banking supervision. The Act entrusts supervisory powers to a new collective state body, the Commission for Banking Supervision.

The most important factors which lay behind the above changes include the following:

- the need to consolidate the independence of central bank policymaking (with particular reference to monetary policy) in respect of political fluctuations, and to achieve further stabilisation in this regard,
- a desire to enhance the collective nature of the NBP management process,
- the European Treaty, which commits Poland to harmonising domestic legislation with that of the EU.

These changes have established new operational interrelationships between the principal directing bodies of the NBP and modified the operating conditions for the whole central bank. The subsections below discuss how those bodies and the Commission for Banking Supervision have been performing the responsibilities assigned to them, and also certain other issues conditioning the Bank's operations.

The President of the National Bank of Poland

The President of the National Bank of Poland is appointed by the Sejm at the request of the President of the Republic of Poland for a six-year term of office, and chairs the Monetary Policy Council, the NBP Management Board and the Commission for Banking Supervision. The President is authorised to represent the Bank in its external contacts and is the superior of all NBP staff. The President of the NBP is also entitled to participate in the debates of the Sejm and Council of Ministers.

The Monetary Policy Council

The Monetary Policy Council convened for its first session on February 17, 1998. The Council is composed of the President of the NBP as Chairperson and nine other members appointed in equal numbers by the President of the Republic of Poland, the Sejm and the Senate, these being specialists in the field of finance. The basic responsibility of this body is to draw up annual monetary policy guidelines and submit these to the Sejm, for the information thereof, alongside the submission by the Council of Ministers of the draft Budget. The Council's responsibilities also include:

- presenting a report to the Sejm on the performance of monetary policy within five months of the end of the fiscal year,
- establishing the basic parameters of monetary policy, which primarily involves setting NBP base interest rates, determining the procedures governing the reserve requirement and setting the reserve ratio, and determining the principles applicable to open market operations,
- setting ceilings on the liabilities arising from loans and advances drawn by the NBP from foreign banking and financial institutions,
- approving the NBP budget and the report on the activity of the NBP, and accepting the Bank's annual accounts.

At the beginning of its term, the Council drafted and adopted *Monetary policy guidelines for the year 1998*, and established the monetary policy target that constitutes the basis for *Monetary policy guidelines for the year 1999*. Further, in a document which it approved entitled *Medium-Term Monetary Policy Strategy, 1999-2003*, the Council laid out Poland's monetary policy strategy for the period preceding membership in the European Union. This document specifies that the primary medium-term monetary policy objective is to be a reduction in annual inflation to below 4% by the year 2003.

In 1998, the Monetary Policy Council on five occasions resolved on alterations to the rediscount and refinance rates, and on seven occasions adopted resolutions on the procedures for the conduct of open market operations. The Council also issued instructions to the NBP Management Board, including ones to reduce the monthly rate of crawling zloty devaluation and to extend the permissible trading band for market exchange rates relative to the central parity rate for the zloty.

Other decisions taken by the Council in this period included changing the procedures for calculating reserve requirements, adopting the *Report on the performance of monetary policy, 1997,* approving the *Report on the activity of the NBP, 1997*, and adopting the *By-laws of the Monetary Policy Council.* The Council also carried out work on a draft resolution on NBP accounting principles and the layout of the Bank's balance-sheet assets and liabilities, and profit and loss account, and presented its opinions on amendments to the Act on the Bank Guarantee Fund and on a draft ordinance of the Council of Ministers on the procedures for setting zloty exchange rates against Poland's reference basket of foreign currencies in the context of the launch of the euro in 1999.

The Management Board of the National Bank of Poland

The activity of the National Bank of Poland is directed by its Management Board, composed of the President of the NBP in his/her capacity as Chairperson, and from six to eight other Board members, of which two are Vice Presidents of the NBP. In March 1998, at the request of the President of the NBP, the President of the Republic of Poland issued an order countersigned by the Prime Minister appointing the six members of the current Board (including two Vice Presidents of the Bank, one of which serves as First Deputy President).

The NBP Management Board is charged with implementing resolutions of the Monetary Policy Council, performing responsibilities with respect to exchange rate policies, supervising open market operations, and performing assessments of foreign currency trading, the operations of the banking system, the circulation of currency and monetary settlements. The Board also adopts resolutions on other matters not reserved by statute for the exclusive authority of other bodies of the NBP, which include resolutions on the licensing of banks to conduct foreign exchange operations. In addition, the Board is empowered to establish, reorganise and wind up organisational units of NBP Head Office and other NBP units.

In 1998, all the documents examined by the Monetary Policy Council were previously discussed and recommended to the Council by the Management Board.

The Commission for Banking Supervision

Under the Act on the National Bank of Poland, the responsibilities of the central bank in the area of banking supervision have been entrusted to the Commission for Banking Supervision, whose decisions are carried out by the General Inspectorate of Banking Supervision, a separate organisational unit within the structure of the NBP.

The Commission enjoys very broad powers of control, with a detailed listing of these powers contained in the Banking Act. The Commission is capable of exerting a strong influence on the procedures and conditions governing entry to the Polish banking market. It sets out principles for the conduct of banking activity that ensure the safety of the funds held by customers at banks, determines the procedures for the performance of banking supervision and carries out periodic assessments of the financial condition of banks.

The first meeting of the Commission for Banking Supervision was held on January 28, 1998. The Commission is chaired ex lege by the President of the NBP, and is also composed of the Deputy Chairperson, this being the Minister of Finance or a delegated representative thereof, this being a Secretary or Undersecretary of State at the Ministry of Finance (in the current Commission this post is held by an Undersecretary of State at the Ministry), and the remaining Commission members, namely, a representative of the President of the Republic of Poland, the President of the Bank Guarantee Fund, the Chairperson of the Securities and Exchange Commission, another representative of the Minister of Finance, and the General Inspector of Banking Supervision. At one of its first meetings, the Commission adopted by-laws detailing procedures for its activity.

In 1998, the most significant decisions taken by the Commission included the issuance of resolutions that constitute implementing regulations to such legislation as the Banking Act, the Act on the NBP, the Accounting Act and the Act on Certain Forms of Support to Residential Construction. The subject matter of these resolutions included:

- detailed procedures for determining the capital base of banks,
- the method of calculating a bank's risk-based capital ratio,
- procedures for asset classification and specific provisioning,
- detailed bank accounting principles and the compilation of notes to financial statements.

Other issues

Two other issues remain that are worth underlining in terms of the impact which they had in 1998 on the framework in which the central bank operated. These are, firstly, the question of internal audit within the NBP, and secondly - the question of the Bank's network of field offices.

In 1998, proposals were developed and presented to the NBP Management Board on alterations to the operations of internal audit at the Bank, with a view to establishing a modern, risk-based internal audit function. The essence of this approach is to commence a process whereby the principles and methods of internal controls and internal audit at the NBP are brought in line with the standards in force at central banks in Western Europe.

The year also saw organisational changes in the Bank's network of field offices. The reorganisation effected was dictated by the need to adjust the Bank's organisational structures to the responsibilities which it faced as of January 1, 1998, and to reduce the expense involved in maintaining the Bank's property and other assets. The changes performed resulted in the number of regional branches being cut from 39 to 13, with those branch offices now wound up being used to establish other units operating within the structure of the remaining branches.

Monetary policy

Monetary policy in 1998: targets and conditioning factors

The year 1998 was the first in which the strategy of pursuing a direct inflationary target was implemented, with this strategy having been announced officially by the Monetary Policy Council in October 1998 in its document *Medium-Term Monetary Policy Strategy, 1999-2003*. The Council's decision to abandon the use of money supply growth as the official intermediate monetary policy target is attributable to the fact that the correlation between the M2 monetary aggregate (total money stocks) and inflation is becoming increasingly less stable and predictable. This is primarily a consequence of the development of Poland's financial markets and the progress made in macroeconomic stabilisation, factors which are currently yielding a rise in money demand, expressed in the increasing monetisation of the Polish economy. In addition, given the increasingly close ties between Polish and foreign financial markets, NBP control of the money supply has been impeded by the exchange rate mechanism currently applied in Poland, one which is not fully flexible, coupled with the high surplus liquidity within the banking industry.

There were also other arguments in favour of moving to a strategy of pursuing a direct inflationary target over the years immediately ahead, a strategy that would represent a qualitatively new stage in lowering inflation - already down to single figures - to a level close to that recorded in the European Union. The transparent application of this strategy by a credible central bank helps to overcome inflationary expectations, while minimising the cost to the real economy. At the same time, the National Bank will be able to be more flexible in its choice of policy instruments, adjusting these in response to the external or internal disruptions that threaten achievement of the inflationary target.

In line with the *Monetary policy guidelines for the year 1998* adopted by the Monetary Policy Council, the level of annual consumer price inflation at year end 1998 was not to exceed 9.5%. This target was attained by the central bank. Year-on-year (December 1997 - December 1998), inflation came to 8.6%, i.e., 0.9 points below the projected level. The annualised average growth in consumer prices, which was to have fallen to 11%, in fact amounted to 11.8%. The *Medium-Term Monetary Policy Strategy, 1999-2003* sees the fulfilment of annual monetary policy targets as successive stages in reaching the central medium-term monetary policy objective of bringing inflation to under 4% by the year 2003.

The conditions surrounding the implementation of monetary policy in 1998 were slightly different than envisaged in the *Guidelines*. In the first months of the year, accumulated increases in administered prices pushed inflation up further than anticipated, fuelling higher inflationary expectations. At the same time, Poland's dynamic economic growth and low investment risk - against a background of interest rate differentials and limited flexibility in exchange rates - produced a huge influx of portfolio investment, making it difficult to contain money supply growth.

The second half of the year brought a certain weakening of business activity, with the result that GDP growth for the year as a whole stood at 4.8%, 1.2 points down on the growth forecast (as against 6.9% growth in 1997). One of the prime factors at work in slowing down growth was the slacker increase in demand seen in the final months of the year, principally in external demand. Figures released by the NBP show the growth in import remittances steadying at 13.7% year-on-year, while the growth in export receipts slumped from 18.2% year-on-year in the first half of 1998 to 4.2% in the second half. This situation was primarily the indirect effect of turmoil on global financial markets, and particularly of the Russian crisis, which (especially in the final months of the year) caused a grave collapse in Polish exports to the largest CIS countries, especially Russia and Ukraine. As a result, the trend noted since August 1998 for an improvement in Poland's current balance was now reversed, with external disequilibrium being exacerbated once again. This external demand shock also altered the situation of domestic businesses, lowering industrial output and seriously undermining corporate capital expenditure. It was no easy task for businesses to readjust to the changed conditions produced by weaker demand growth and lower inflation. The deteriorating state of corporate finances, with companies having limited opportunities to raise their prices, compelled them to increase efficiency.

The disruptions to global financial markets in 1998 produced a substantial drop in international commodity prices and cut price growth in many countries of the world. Given the increasingly powerful links between the Polish economy and international markets, the external tendency for inflation to decline was transmitted to Poland from outside.

It is difficult to pass definitive judgement on the impact of fiscal policy on the performance of monetary policy in 1998. The progress made in easing fiscal disequilibrium seemed to assist in attaining the inflationary target. The fiscal deficit totalled 13.2bn zloty, 91.6% of the projection made in the annual Budget. The ratio of the fiscal deficit to GDP came to around 2.4%, as against 2.7% in 1997 and 3.4% in 1996. There were also favourable changes in the structure of financing the deficit, which worked to the advantage of monetary policy implementation. Last year, by far the largest role in funding the shortfall in central government finances was played by the non-banking sector, which accounted for some 88.5% of that funding, compared to 38.6% in 1997. There was a major increase in purchases of Treasury securities by domestic investors, which is a positive development in terms of the NBP controlling the growth in the foreign component of the monetary base.

Although the fiscal deficit was kept in rein, the outstanding liabilities of institutions in the general government sector were at the same time on the rise, in a way that was none too transparent, and thus hindered the taking of optimum monetary policy decisions. A particular surge in these liabilities began as of September, although information on the scale of the increase involved was not made public until year end. At that point, the indebtedness of general government stood at some 6.7bn zloty, of which around 5bn represented debts incurred in 1998, mainly by health care institutions. If the fiscal deficit reported in 1998 were to be augmented by the outstanding debt of government institutions it would rise to 3.1% of GDP, which would signify no more than a symbolic decrease in the level of domestic demand generated by government compared to the previous year[1]. The progress achieved in pruning the fiscal deficit is therefore insufficient, particularly given the low level of monetisation of the Polish economy.

Nonetheless, the news of sound fiscal performance forthcoming during the year made it easier for the Monetary Policy Council to take decisions on lowering interest rates. This was designed to help attain the inflationary target while carrying out a positive recomposition of macroeconomic policy, with the restrictive role now being played to a larger extent by fiscal policy.

In these circumstances, the monetary policy of the National Bank in 1998 was geared to pursuing the inflationary target by using the various instruments at the disposal of the central bank, such as interest rates (the lombard, discount and reverse repo rates), exchange rates (lowering the rate of monthly devaluation under the crawling band mechanism and broadening the trading band around central parity), and also regulatory reserve requirements and refinancing facilities. An additional consideration factored into the decisions of the Monetary Policy Council was the need to close the gap between the growth of domestic demand and that of GDP. This was designed to ease inflationary pressure and fend off the threats associated with the growing deficit on current transactions. The instruments employed by the NBP throughout the year were adjusted in line with changes in monetary and macroeconomic processes.

At the beginning of 1998, another problem that faced monetary policy - in addition to the rise in inflationary expectations - was the intensive inflow of foreign capital. This stemmed from the maintenance of relatively high domestic interest rates, from the positive perception abroad of Poland's macroeconomic

[1] In statistical terms, the growth in the debt of central government institutions in 1997 amounted to around 13m zloty. However, taking into account the 2.2bn zloty in central government funds assigned to debt relief for those institutions in 1996 and disbursed in 1997, the real fiscal deficit in 1997 in fact came to 3.2% of GDP.

policy and overall economic condition, and also from the "convergence effect", with hopes of this producing capital gains from long-term investments. Thus, the first decisions taken by the Monetary Policy Council in February 1998 had to reinforce monetary policy effectiveness in a situation where Poland's financial markets were already closely integrated with world markets.

It was for the above reasons that, in addition to a decision that effectively raised short-term interbank rates by around 0.5 points, the Council also took two major decisions concerning the exchange rate regime. Firstly, it cut the monthly rate of zloty devaluation against Poland's reference currency basket under the crawling band mechanism from 1% to 0.8%. Secondly, the Council extended the permissible trading band against central parity from ±7% to ±10%. Lowering the rate of crawling devaluation relative to the central parity rate was intended to lay the basis for attaining the inflationary target by acting to restrain inflationary expectations. Widening the trading band, on the other hand, and in practice making market exchange rates more flexible by halting intervention on the currency market, was done in order to make it possible to resolve a certain contradiction that affected the monetary policy strategy previously being pursued. This contradiction is traceable to the fact that, with the integration of Polish financial markets into global markets speeding up and the restricted flexibility of the exchange rate mechanism, it was becoming increasingly difficult to control money supply growth as an intermediate monetary policy target. In addition to all the above, another significant supplementary measure was the decision to cease the issuance of NBP money market bills with maturities longer than 28 days. Allowing the market to determine the price for these bills and introducing the possibility of interest rate arbitrage caused yields on the bills to decline substantially, thereby restricting the incentives behind the influx of foreign capital which was threatening to obstruct the performance of monetary policy.

As achievement of the monetary policy target drew closer, with inflation dropping in the course of the year, the Monetary Policy Council carried out further rate cuts. Exchange rate volatility was also fostered, with further reductions in the monthly rate of crawling zloty devaluation, which constituted a major source of inflationary inertia.

In the second half of the year, the factors conditioning monetary policy altered significantly due to the intensifying upheavals on world financial markets, particularly in association with the Russian crisis. As investment risk in "emerging markets" grew, the danger was posed of Poland suffering an outflow of capital. With global markets continuing to be gripped by uncertainty in the wake of the Russian crisis of August 1998, the Monetary Policy Council, meeting on September 9, took a decision designed to underline clearly that Poland was in a different situation. Noting that the positive trends within the Polish economy were continuing, one of these being the maintenance of price growth in line with the inflationary target adopted, the Council considered it justified to continue with the direction of monetary policy change already under way, including further modifications to exchange rate and interest rate policies. The rate on 28-day open market operations (the reverse repo rate) was cut by 1 point, while the monthly rate of zloty devaluation against Poland's reference basket of currencies was lowered to 0.5%. This package of decisions undermined the profitability of investing in Polish assets, and also sent out a clear message that Poland's financial markets and her entire economy were not imperilled by the repercussions of the Russian financial crisis.

The relatively modest withdrawal of portfolio investment that followed the Russian crisis was offset by incoming foreign direct investment (FDI), and therefore produced neither a substantial decline in the official reserves, nor any more substantial contraction of liquidity within the banking system. Towards the end of 1998, the inflow of foreign capital again picked up, forcing the NBP to keep up its open market operations on a fairly frequent basis.

The greater frequency and expense of open market operations made it impossible to lower the reserve ratio in 1998. This would have threatened to hoist the cost of open market operations to a level where they could not be covered by the revenues of the central bank.

The basic monetary policy goals adopted for 1998 were attained. Inflation was brought down further, and successive rate cuts, combined with gradual moves towards floating the zloty, laid the foundations for curtailing the inflow of short-term capital. The policy of reducing interest rates and allowing the zloty to move more freely thereby established a framework in which monetary policy could be more autonomous, which represents an indispensable condition for conducting a strategy based on a direct inflationary target. At the same time, the serious disruptions to world financial markets did not spread to Polish markets to any major extent. This can be interpreted as an expression of the confidence shown by foreign and domestic investors in the macroeconomic policies being implemented in Poland, including monetary policy.

Monetary policy instruments

Open market operations

January 1, 1998, saw the taking effect of the act on the National Bank of Poland, which specifies that the principles applicable to open market operations are to be determined by the Monetary Policy Council. In line with the guidelines adopted by the Council in February 1998, the basic form of these operations is now the issue of 28-day NBP money market bills.

The National Bank halted the issuance of bills for longer maturities. The minimum yield on 28-day bills, as set by the Council (the "reverse repo rate", fixed on a 360-day year base), in practice became the third NBP base rate, alongside the lombard and rediscount rates. The reverse repo rate was in effect used by the central bank to influence short-term rates on the interbank deposit market (i.e., WIBOR rates - Warsaw Interbank Offered Rates), and thereby to impact the lending rates employed by the commercial banks. The return obtainable on instruments maturing in longer than 28 days was left to the market. Following a temporary increase in the reverse repo rate to 24% in February, the rate was gradually reduced, right down to 15.5% in December 1998.

The year 1998 brought a significant expansion in the scale of open market operations carried out by the NBP to stabilise the market. The balance on outstanding operations with the commercial banks rose 12.9bn zloty (repurchase and reverse repurchase transactions fell 1.3bn zloty, while the volume of money market bills outstanding increased 14.2bn zloty).

The volume of funds absorbed under open market operations in 1998 is presented in Table 1.

Table 1. Open market operations (million zloty)

	31/XII/1997	1998				Movement,
		31/III	30/VI	31/IX	31/XII	1998
Repurchase transactions	0	0	0	0	0	0
Reverse repurchase transactions	1,288	0	0	0	0	-1,288
Money market bills *	14,374	20,728	22,057	30,025	28,576	14,202
Personal deposits * *	3,600	3,332	1,986	58	3	-3,597
Total	19,262	24,060	24,043	30,083	28,579	9,317

* nominal values * * exclusive of accrued interest

The prime reason for the increase in liquidity at the banks was the growth in the gross official reserves (which climbed USD 6.7bn during the year). This large rise in the reserves was linked to the surplus recorded on the capital account.

To a lesser degree, the higher surplus liquidity witnessed at the commercial banks was attributable to net lending to government, which - although periodically subject to strong swings - rose over the year as a whole by more than 1.2bn zloty.

Gross outstanding lending to banks, which fell 0.6bn zloty, acted as a factor tightening liquidity within the banking industry.

September 1998 saw the maturing of the last personal time deposits held at the NBP. This operation by the National Bank reduced the propensity to consume and helped slow down the growth in domestic demand, while also absorbing part of the excess liquidity generated by the additional borrowing of the Government of the Republic of Poland in 1997 (the "flood loan"). The deposits maturing in 1998 released 3.6bn zloty back on to the market, making it necessary for the NBP to soak up part of these liquid funds through issues of money market bills.

During the course of the year, 164 tenders for NBP bills were organised, with bills being sold to a total value of 243bn zloty. Bills with maturities of longer than 28 days were offered for sale only in January and February.

In 1998, the NBP also ceased 14-day reverse repo operations (in 1997, the bills sold to the banks at tender under these operations had a total value of 41.3bn zloty).

In 1998, as in 1997, the National Bank selected a group of banks participating in open market operations as money market dealers, performing this selection on the basis of an objective and uniform set of qualifying criteria, the Dealer Activity Index. This assessment of the banks' involvement on the money market was carried out each month from February to November. This approach produced a listing of 15 dealer banks which play a clearly predominant role on the market for Treasury bills and money market bills.

These 15 most active banks, which in December signed agreements to function as money market dealers in 1999, took part in open market operations and submitted accelerated monthly reports on changes occurring on the zloty money market and FX market. These reports were used by the National Bank to verify its own monetary forecasts.

Interest rates

The Bank influenced interest rates during the year both directly, via the rates offered on open market operations, and indirectly, through the rate on lombard facilities. The purpose of this was to adjust interest rates in line with the threat of inflation.

Figure 1. Official interest rates, nominal terms, 1998

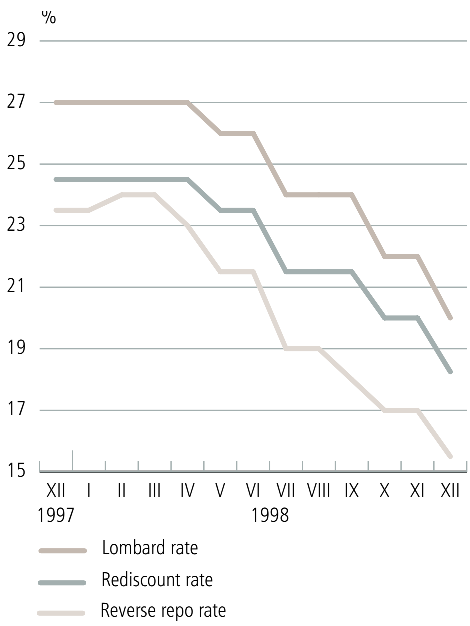
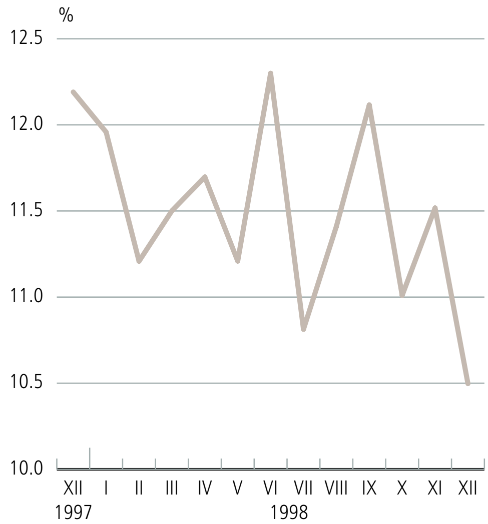


Figure 2. Lombard rate, real terms



Given the planned buildup of administered price rises at the beginning of the year, it was to be expected that inflationary expectations might rise. To prevent that, the Monetary Policy Council resolved that, as of February 26, the reverse repo rate would be no lower than 24%. Other official interest rates, i.e., the lombard and rediscount rates, were held flat, at 27% and 24.5%, respectively.

In the second quarter, it became apparent that the stimulus to prices given at the beginning of the year was dying out, inflation was declining, as was nominal lending growth, and domestic demand growth was also slowing. With demand for Polish exports running relatively high, the current deficit was dwindling. These circumstances presented an encouraging basis for bringing down interest rates. In April, the Council for the first time cut the minimum reverse repo rate, reducing it 1 point to 23%. The remaining base rates were lowered the month after, when 1 point was also pared off the lombard and rediscount rates, which were cut from 27% to 26% and from 24.5% to 23.5%, respectively. In addition, the reverse repo rate was cut once again, this time to a minimum 21.5%. July brought another round of cuts, taking the lombard rate down from 26% to 24%, the rediscount rate from 23.5% to 21.5%, and the minimum reverse repo rate to 19%.

Due to the further rapid decrease in both ongoing and forecast inflation and the diminishing pace of domestic demand growth (both consumer and investment demand), yet another decision was made to cut rates. In September, the minimum reverse repo rate was lowered to 18%.

The weakening of external demand engendered by the Russian crisis helped to speed up the fall in inflation. Given expectations that price growth would continue to come down rapidly, in October the Monetary Policy Council cut the lombard rate from 24% to 22%, the rediscount rate from 21.5% to 20%, and the minimum reverse repo rate to 17%.

The same factors as in October lay behind the next cut in NBP base rates in December 1998. This time the Council now slashed 2 points off the lombard rate, which came down to 20%, and 1.75 points off the rediscount rate, which dropped to an annualised 18.25%. The reverse repo rate was lowered to a minimum 15.5%.

In all, the lombard rate was cut 7 points over the whole of 1998, the rediscount rate was lowered 6.25 points, and the reverse repo rate (for open market operations) ended the year down 8.5 points. Meanwhile, consumer price growth slowed from 13.2% to 8.6%, a decrease of 4.6 points, which means that NBP base rates came down in real terms compared to December 1997.

Figure 1 shows official interest rates in nominal terms, while Figure 2 presents the lombard rate in real terms.

Refinancing to commercial banks

The outstanding borrowings of the banks under refinancing facilities fell 598.1m zloty in 1998 (7.8%), to stand at 7,118.1m zloty at year end. This amount comprises financing to government central investment projects; an overdraft facility extended to Bank Handlowo-Kredytowy SA, Katowice (BHK SA); rediscount loans; lombard loans (collateralised by Treasury securities); and the past-due borrowings of Bank Agrobank SA (declared bankrupt).

The largest item in the banks' debt to the NBP was the balance on loans made to them to finance central government investment projects, which at year end 1998 amounted to 5,614.3m zloty, up 39.0m zloty on the end of 1997. Almost 64% of this amount was composed of capitalised interest accrued on loans funding central investments in course of construction (in 1997, this had accounted for 62.4% of all financing of this type).

The relatively high growth in central investment financing in the fourth quarter of 1998 was a consequence of the accounting practice of annual interest capitalisation while the projects concerned are still under way. Over the year, the increase in the outstanding balance on these loans was modest, at 39m zloty, which represents a rise of just 0.7%, as against an increase of 11.8% in 1997.

Another large refinancing item in 1998 was the debt owed by BHK SA (under liquidation), which constituted 18.1% of total refinancing and at year end stood at 1,289.0m zloty; this amount consists entirely of unpaid capitalised interest.

However, the outstanding balance on refinancing loans in the period under consideration does not give a full picture of the NBP involvement in refinancing the banks. Lombard facilities were usually drawn down at the end of the month, for 1-5 days, to top up reserve balances at the central bank. The balances outstanding on these loans at given points in time were high; for example, in January they came to 2.1bn zloty, and in September they totalled 2.4bn.

A detailed breakdown of the debt of the banks to the NBP on refinancing loans is given in Table 2.

Table 2. NBP refinancing (1997 - 1998)

	Balance at:		Change	Composition	
	31 XII 1997	31 XII 1998		31 XII 1997	31 XII 1998
		million zloty		%	
Total refinancing	7,716.2	7,118.1	-598.1	100.0	100.0
of which:					
– central investment financing	5,575.3	5,614.3	39.0	72.2	78.9
– overdraft facility (BHK SA)	1,295.4	1,289.0	-6.4	16.8	18.1
– bills rediscounted	230.3	202.1	-28.2	3.0	2.8
– lombard loans	613.7	11.2	-602.5	8.0	0.2
– past due (Bank Agrobank SA)	1.5	1.5	0.0	0.0	0.0

Regulatory reserves

In 1998, the regulatory reserve requirement was calculated on the basis of averaged zloty and foreign currency deposit balances at the end of particular ten-day periods during the month, with banks having to meet their requirements on the final calendar day of the following month. The reserve was held on the current accounts of the commercial banks at the NBP, and as vault cash. The banks were obliged to maintain their current account at the NBP throughout the month at a level no lower than the reserve required for that month. In 1998, the maximum proportion of vault cash eligible to be held against reserve requirements amounted to 10%. Pursuant to the Act on the NBP, as of 1998 interest-bearing regulatory reserves were abolished; interest on these had previously been transferred to the account of the Agency for Agricultural Restructuring and Modernisation. On January 1, 1998, the balances on these interest-bearing regulatory reserves were posted to the banks' current accounts. These balances were treated as a credit towards the non-interest-bearing reserves. Another change was that, as of the beginning of the year, banks were now required to hold regulatory reserves against funding obtained from abroad for periods of less than two years.

The reserve ratios remained unchanged during the year, at 20% for zloty demand deposits, 11% for zloty time deposits, and 5% for all foreign currency deposits. The justification for these high reserve requirements was the continuation of structural surplus liquidity within the banking industry.

Meeting on May 7, 1998, the Monetary Policy Council took the decision that required reserves would be calculated on the basis of the arithmetic mean of balances on the accounts subject to the requirement on all calendar days of the month, rather than on the basis of mean balances at the end of the first and second ten-day periods and on the final day of the month. However, this change did not take effect until the requirements to be met on February 28, 1999. The new calculation procedure is intended to tighten up the system of required reserves. At the same time, the Council was involved in work during the year to prepare a lowering of the reserve ratio.

Movements in regulatory reserves during 1998 are set out in Table 3.

Table 3. Regulatory reserves, 1998 (million zloty)

	Balance	Quarterly growth				Balance
	31 XII 1997	I	II	III	IV	31 XII 1998
Total reserves	17,054	581	879	1,943	814	21,271
of which:						
- on account at NBP	15,430	464	797	1,785	682	19,158
- non-interest-bearing	12,159	464	797	1,785	682	19,158
- interest-bearing	3,271	0	0	0	0	0
- vault cash	1,624	117	82	158	132	2,113

The funds held as regulatory reserves at year end 1998 were up 4,217m zloty (24.7%) on December 31, 1997, while the deposits used to calculate the reserves were up 24.1%. The overall increase in the required reserves is primarily attributable to strong growth in zloty deposits (28.5%). Foreign currency deposits rose 8.9% over the year.

The largest quarterly increase in the reserves was seen in the third quarter of 1998, when they rose 11.4% compared to year end 1997, with deposits up 19.8%, and zloty deposits up 21.7%. Vault cash represented 9.9% of total reserves at the end of 1998, as against 9.5% a year before.

The average reserve ratio at December 31, 1998, stood at 11.8%, up 0.1 points on December 31, 1997. The effective reserve ratio, less eligible vault cash held, came to 10.6%, the same as at year end 1997.

Exchange rates

The mechanism for setting zloty exchange rates against other currencies remained unchanged in 1998. The regime in place continued to be that of a crawling band, used to determine the permissible deviation of market exchange rates from central parity. However, there were changes in the exchange rate policies pursued.

In 1998, the exchange rate policies applied were principally a function of the pursuit of the inflationary target in difficult conditions, these mainly involving the volatile situation as regards external disequilibrium and the continuing instability on world financial markets. Given the above constraints, and given the virtual deregulation of the capital account, exchange rate policies were above all designed to lay the basis for effective monetary policy. Thus, direct market intervention by the monetary authorities to influence zloty exchange rates was markedly more restrained than in 1997[2].

In view of the visible decline in inflation and the need to impact inflationary expectations, the Monetary Policy Council cut the monthly rate of crawling devaluation three times in 1998, lowering it from 1% to 0.8% on February 26, to 0.6% on July 17, and to 0.5% on September 10.

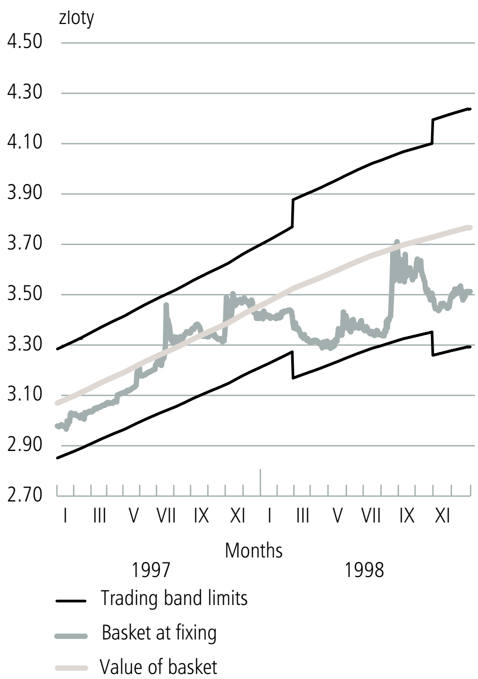
At the same time, to allow exchange rates to move more freely, the Council also broadened the permissible trading band relative to central parity on two occasions in 1998: on February 26 it was extended from ±7% to ±10%, and on October 28 to ±12.5%. With tighter control being exercised over the growth in the foreign component of the monetary base, with a strengthening of the market character of zloty exchange rates, and with greater risk now attached to speculative trading, in December the Council decided to alter the procedures governing the exchange rate fixing. The new procedures restricted the opportunity for the commercial banks to conclude currency deals directly with the NBP by introducing a spread between the buying and selling rates, shortening the time for submitting trade offers to the NBP, and limiting the number of these offers.

The fact that exchange rate policies were made more flexible, coupled with a major inflow of foreign capital to Poland, laid the basis for a distinct strengthening of the zloty in 1998. The average deviation of the zloty from central parity during the year was 5.6% on the upside, while in 1997 it had been 0.9% (cf. Fig. 3). At the same time, owing to the deepening integration of Polish financial markets with global ones and the greater freedom given to zloty exchange rates, rate swings became sharper.

The upward course charted by the zloty constituted the dominant trend for practically the entire year, excepting the period of financial crisis in Russia. The gains made by the zloty, particularly in the first half of the year, can be traced to the relatively strong activity of foreign investors. At the turn of August and September, the repercussions of the Russian crisis took the zloty down to the central parity rate. However, following a fairly short-lived tendency to weaken, the zloty soon rallied once again, and up to year end trended upwards. The average upside divergence of market rates from central parity ranged from 4.6% in October to 7.7% in November and 6.7% in December.

The annualised average depreciation of effective nominal zloty rates in 1998 came to 5.3%, as against 9.8% in 1997; in terms of the same rates year-on-year, the zloty lost 3%, compared to 11% the year before. Of the main cur-

Figure 3. Zloty exchange rates relative to Poland's reference basket of currencies, 1997-1998



[2] NBP intervention took place 23 times, mainly in the first half of the year, as against 39 times in 1997; the average monthly value of interventions from January to July amounted to USD 342m; for the remainder of the year, intervention was halted entirely.

rencies traded on the Polish FX market, the zloty depreciated more in 1998 against the US dollar (an average of 6.5%), than against the Deutschemark (5.1%). This was above all due to the strengthening of the dollar against the D-mark on world markets.

The changes in nominal zloty exchange rates had the determining impact on the appreciation of the zloty in real terms, which took place primarily in the first half of 1998. Effective real zloty exchange rates, as adjusted by reference to the Producer Price Index, rose 2.3% (December 1997 - December 1998); adjusted by the Consumer Price Index, the zloty gained 4.1%. By contrast, in 1997 the zloty registered depreciation in real terms of some 3.9% and 0.9%, respectively.

The greater freedom imparted to exchange rate movements made it possible to lay the foundation for more effective monetary policy. At the same time, sharp exchange rate fluctuations presented difficulties for Polish producers of tradable goods. However, this had the effect of raising the awareness of exchange rate risk, and the importance of hedging against it, among domestic businesses involved in foreign trade or funding themselves with foreign currency loans. This encouraged the development of the forward and futures markets.

Despite the large fluctuations in real zloty exchange rates and the substantial real appreciation of the zloty in the first six months of 1998, the annualised real movement in zloty exchange rates was not large compared to the previous year. Effective real zloty exchange rates, as adjusted by reference to the Producer Price Index, rose just 1.4%, with real growth of 4.5% when compared to consumer price inflation (although the latter calculation provides a less accurate reflection of the impact of exchange rate movements on foreign trade competitiveness).

The far-reaching freedom imparted to exchange rates in 1998, while allowing the zloty to strengthen, substantially made it possible to neutralise the potential inflationary effect of the influx of foreign capital and assist in achieving the monetary policy target.

The issue of curency

Notes and coin in circulation

As in previous years, movements in the volume of notes and coin in circulation in 1998 were clearly related to the level of inflation. The volume of currency in circulation rose 2.9bn zloty to reach almost 34bn zloty at year end, giving annual growth of 9.4%. Excluding vault cash, currency in circulation at December 31, 1998, stood at 30.2bn zloty, representing an increase of 10.9% year-on-year. The growth in notes and coin in 1998, both including and excluding vault cash, was distinctly slower than in the previous year, when the corresponding figures came to 14.1% and 15.7%, respectively.

Table 4 presents a comparison of the growth in total notes and coin and in consumer prices in the particular months of 1998.

Table 4. Monthly growth rates: notes & coin in circulation, consumer prices, 1998

Month	Total notes & coin	Growth, notes & coin	Price growth	Growth, notes & coin	Price growth
	million zloty	December 1997 = 100		Previous month = 100	
December 1997	31,075.2	100.0	100.0	x	x
January 1998	29,295.7	94.3	103.1	94.3	103.1
February	30,061.0	96.7	104.9	102.6	101.7
March	30,200.1	97.2	105.5	100.5	100.6
April	31,715.5	102.1	106.3	105.0	100.7
May	31,635.7	101.8	106.7	99.7	100.4
June	32,828.9	105.6	107.1	103.8	100.4
July	32,955.8	106.1	106.7	100.4	99.6
August	33,890.1	109.1	106.0	102.8	99.4
September	33,256.4	107.0	106.9	98.1	100.8
October	33,155.7	106.7	107.6	99.7	100.6
November	33,059.1	106.4	108.1	99.7	100.5
December	33,993.5	109.4	108.6	102.8	100.4

Reviewing the movements in the volume of notes and coin in circulation in the successive months of 1998, it becomes clear that the largest growth was recorded in April, then in the period June-August, and again in December, which seems to point to the impact of seasonal factors (larger wage payouts due to the major holidays and the summer vacation season). In turn, an analysis of these figures on a quarterly basis indicates that the largest increment in cash stocks took place in the second quarter (up 2.4bn zloty) and in the third (up 0.7bn).

Despite the continuing rise in the absolute volume of currency in circulation, it should be stressed that this item is slowly but surely declining as a proportion of total money stocks. This development stems from the gradual increase in the role of non-cash transactions (among consumers) and in recent years has been manifest in the rapid expansion of banking products, both in terms of non-cash settlements and in new savings vehicles. An illustration of this is the ratio of notes and coin to the entire money supply, which stood at 18.7% in 1995, 17.2% in 1996 and 15.4% in 1998. This downward trend continued in 1998, with the ratio decreasing to 13.7% at year end. The above would seem to demonstrate that in the future cash settlements will gradually diminish in importance.

As regards the composition of notes and coin by value, at year end 1998 notes accounted for almost 97% of cash stocks, while coin represented slightly over 3%. This composition is virtually identical to that seen at the end of 1997. On the other hand, there was a small decline in the relative number of notes in circulation; at year end 1998, this stood at 13.8% of all items of currency (as against 15.5% twelve months before). There was a corresponding increase in volume terms in the number of coins in circulation, up to 86.2% from 84.5% in 1997.

The cash requirements within the economy were met during the year by shipments of notes and coin to the banks carried out by the regional branches of the NBP. The frequency of these shipments varied, usually averaging one or two per month. The same offices retired cash and collected worn and damaged notes and coin from the banks.

Other issues

In 1998, the National Bank continued to receive an inflow of modest amounts of the old zloty issued prior to redenomination; as of January 1, 1997, this ceased being legal tender. The old notes and coin may still be exchanged for new zloty, solely at the banks, until the end of the year 2010.

Generally speaking, the old currency was exchanged for new in the years 1995-96, when both currencies were in circulation in parallel. At January 1, 1997, the old currency which had not been returned to NBP cash desks represented just over 3% by value of all currency then in circulation. By the end of that year, this had fallen to 0.86% of currency in circulation, and in 1998 dropped a further 0.2 points, so that by year end 1998 this constituted no more than 0.66% of outstanding cash stocks. Taking into account the fact that the old notes and coin still remaining outside the central bank (i. e., not yet presented for exchange) are mostly of small denominations, there is little prospect of all old zloty being exchanged, and this whole question can shortly be considered over and done with.

Towards the end of 1998, the Polish Securities Printing House (PWPW SA) commenced production and delivery to the National Bank of 10 and 20 zloty notes in the series „Rulers of Poland", introduced at the time of the currency reform. These notes are printed on paper manufactured by PWPW SA itself. The design of the notes, security features and specifications of the paper are the same as those of the notes previously produced by the British manufacturers Thomas De La Rue Ltd. In the future, PWPW SA is to begin production of the remaining denominations in the same series.

During 1998, the NBP issued commemorative collector's coins around 10 separate themes. These continued themes taken up in previous years (Polish Kings, Castles and Palaces of Poland, and Animals of the World) or commemorated anniversaries celebrated in 1998 (the 20th anniversary of the pontificate of Pope John Paul II, the 200th anniversary of the birth of national bard Adam Mickiewicz, the 100th anniversary of the discovery of polonium and radium, the 80th anniversary of Poland regaining independence, the 50th anniversary of the adoption of the Universal Declaration of Human Rights, and the 45th anniversary of the death of Brigadier General August Emil Fieldorf), with one edition also devoted to the XVIIIth Winter Olympics at Nagano. In presenting these themes, 20 kinds of coin were minted:

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

In addition, the minting of gold „bullion" coins begun three years ago was continued. Intended for investment purposes and as collector's items, these 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. All of the coins struck in 1998, whether for general circulation or for commemorative purposes, were produced and delivered to the NBP by the State Mint.

Servicing central government

Operating the accounts of central government

The National Bank of Poland is responsible for servicing the accounts of central government, i.e., for performing the payment instructions of those managing central government finances with respect to the collection, transfer and disbursement of public funds.

In 1998, the central bank operated around 17,450 accounts for approximately 8,950 central government institutions, together with some 900 accounts for around 700 central government special-purpose funds. The number of current accounts operated for central government institutions decreased over the year by about 1,500, mainly as a result of the transformation of government-run health care institutions into public health care facilities.

The operations carried out on government accounts relate both to receipts and expenditures, and involve both cash and non-cash transactions. 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 monitoring of the utilisation of funding limits assigned to particular institutions. 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 the total level of expenditures, and on the balance of funds held to cover the fiscal deficit.

The Bank's offices transferred funds from the central account of central government to gmina [local government] accounts at domestic banks in consideration of the proportional revenues attributable to gminas from personal income tax receipts, the general local government grant (including funding for education), special-purpose subsidies in respect of relief and exemptions from the agricultural and forestry tax, and road subsidies.

All of these services are carried out at the expense of the National Bank, regardless of whether a transaction is performed though one its own branches or through the offices of another bank.

The workload involved in servicing central government, measured by the number of settlements processed, is systematically increasing. In 1998, the number of outgoing payment messages forwarded by NBP offices on behalf of central government institutions and special-purpose funds was down 25%, yet the number of incoming transactions was up 125.2%. In 1997, the corresponding figures showed annual increases of 19.4% and 18.5%. Despite the rise in the number of operations, the NBP ensures same-day settlement.

Table 5 presents detailed figures on the number and growth of transactions handled by the NBP.

Table 5. Payment instructions forwarded and received, 1997-1998

Period	Payment instruction handled				Growth, 1997 = 100	
	forwarded		received		payment instructions	
	1997	1998	1997	1998	forwarded	received
1st quarter	1,235,162	868,123	1,699,450	3,650,160	70.2	214.8
2nd quarter	1,391,829	1,089,231	1,908,707	4,622,025	78.3	242.2
3rd quarter	1,357,752	1,036,701	2,082,639	4,741,418	76.4	227.7
4th quarter	1,525,010	1,138,708	2,305,994	4,994,294	74.7	216.6
Total	5,509,753	4,132,763	7,996,790	18,007,897	75.0	225.2

As in previous years, the Ministry of Finance, in managing current liquidity, made use of the opportunities open to it to place time deposits at the NBP. As they matured, these deposits generally helped maintain central government liquidity in the first half of the month. In 1998, the Ministry placed a total of 56 deposits of this kind, each to a nominal value of 200m-500m zloty, for periods of from 7 to 50 days. The interest earned by these central government deposits was contingent on the current conditions on the money market and ranged from 16.62% to 25.07%. The expense incurred by the Bank in 1998 in paying interest on central government time deposits amounted to 198m zloty.

In the course of 1998, the NBP conducted preparatory work relating to the banking and settlement services it provides to government with respect to:

- the new system of social insurance,
- the operations of accounts for central government institutions and central government special-purpose funds following the performance of the reform of public administration and introduction of a three-tier system of local government.

Servicing trading in government securities

In 1998, the NBP in its capacity as issuing agent organised and conducted 53 tenders for Treasury bills, which constitute one of the principal sources of financing for the fiscal deficit. The supply of T-bills on offer totalled 43.9bn zloty, a marked decrease on 1997 (down 35.4%), while nominal demand amounted to 118.93bn zloty, up 59.1% on the previous year. Detailed information on the scale and composition of T-bill sales in 1998 is given in Table 6.

Table 6. T-bill sales, 1998

Maturity	Tender: offered for sale	Tender: bids received	3 : 2	Sales: Total	Sales: of which: bought by banks	6 : 5	5 : 2	5 : 3
	million zloty	million zloty	%	million zloty	million zloty	%	%	%
1	2	3	4	5	6	7	8	9
8-wk	1,800.0	3,856.2	214.2	1,800.0	1,393.3	77.4	100.0	46.7
13-wk	9,500.0	23,371.6	246.0	9,453.1	6,465.2	68.4	99.5	40.4
26-wk	5,800.0	15,685.6	270.4	5,400.8	3,476.6	64.4	93.1	34.4
52-wk	26,800.0	76,015.9	283.6	25,598.9	20,150.6	78.7	95.5	33.7
Total	43,900.0	118,929.3	270.9	42,252.8	31,485.7	74.5	96.2	35.5

Apart from organising T-bill tenders on the primary market, in 1998 the NBP continued to record transactions on the secondary market, maintaining the Central Treasury Bill Register (established on July 1, 1995). In 1998, the secondary market experienced further dynamic growth in both trade volume and turnover. A total of 80,089 trades were recorded, to a nominal value (net) of 328,228.0m zloty. Turnover was thus 17.2% higher than in 1997.

The second major instrument used in funding the public borrowing requirement were Treasury bonds. In 1998, the Bank conducted 41 tenders for T-bonds, addressed to direct participants in the National Securities Depositary. At these tenders, the Ministry of Finance put up for sale bonds to a total value of 19,087.3m zloty. This was 23.8% less than the supply of T-bonds in 1997. In comparison to that year, the year 1998 witnessed a considerable increase in demand, up 183% to 53,810.1m zloty. The bonds sold had a nominal value of 15,470.6m zloty, representing an increase on 1997 of 79.1%. Sales stood at 28.8% of the demand forthcoming from the banks, and 81.1% of the supply provided by the Ministry.

By maturity, the bonds sold in 1998 broke down as follows:

- one-year bonds (2 tenders) - 38.5m zloty sold (supply from the Ministry - 200.0m, demand - 214.2m),
- three-year bonds (12 tenders) - 2,756.8m zloty sold (supply from the Ministry - 3,400.0m, demand - 6,029.2m),
- two- and five-year bonds (12 tenders) - 8,668.8m zloty sold (supply from the Ministry - 10,100.0m, demand - 36,042.5m),
- five-year assimilation bonds (7 tenders) - 2,697.8m zloty sold (supply from the Ministry - 3,237.4m, demand - 8,761.0m),
- ten-year bonds (8 tenders) - 1,309.0m zloty sold (supply from the Ministry - 2,150.0m, demand - 2,763.5m).

Foreign exchange operations

Management of the official reserves

In 1998, the official foreign exchange reserves rose USD 6.7bn, to stand at USD 27.4bn at year end. Compared to the movements in the reserves recorded in 1997, the growth in 1998 was USD 4bn greater.

The strong growth in the official reserves, comparable in scale (although USD 2.3bn lower) to that seen in the record year of 1995, was primarily the result of the high surplus on transactions conducted with domestic banks at the fixing and during market interventions by the central bank. The level of the reserves was also impacted by movements in dollar exchange rates and by the higher value of securities held as investments.

The percentage share of the principal factors impacting movements in the reserves is presented in Table 7.

Figure 4. Gross official reserves, by month

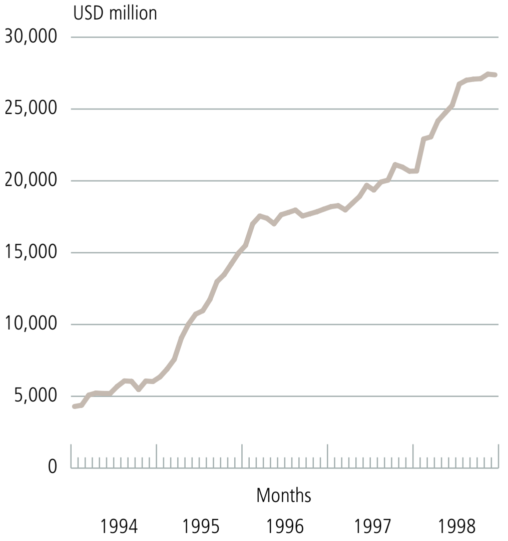


Table 7. Principal factors impacting movements in official reserves

Increases in reserves	Share, %	Decreases in reserves	Share, %
Currency purchases from domestic banks	84.3	Currency sales to domestic banks	76.8
Inflows, operations of Ministry of Finance	3.5	Outflows, operations of Ministry of Finance	15.8
Income from borrowings administered by NBP	0.2	Repayment of borrowings administered by NBP	0.3
Income from reserves invested	7.3	Expense of investment operations	0.9
Other inflows	5.7	Other outflows	6.2

Foreign exchange transactions with domestic counterparties yielded a net surplus of purchases over sales of USD 5.9bn, with the majority of this (59.6%) coming from operations performed at the fixing. Inflows and outflows associated with payment instructions received from the Ministry of Finance produced a net reduction in the reserves of USD 1.1bn. The largest payments executed in this respect (52.8%) were carried out in March and September, and were linked to servicing Poland's obligations to the Paris Club. An important factor impacting the level of the reserves was the sale abroad, in the fourth quarter, of shares in Telekomunikacja Polska SA – the resultant inflow came to USD 0.7bn.

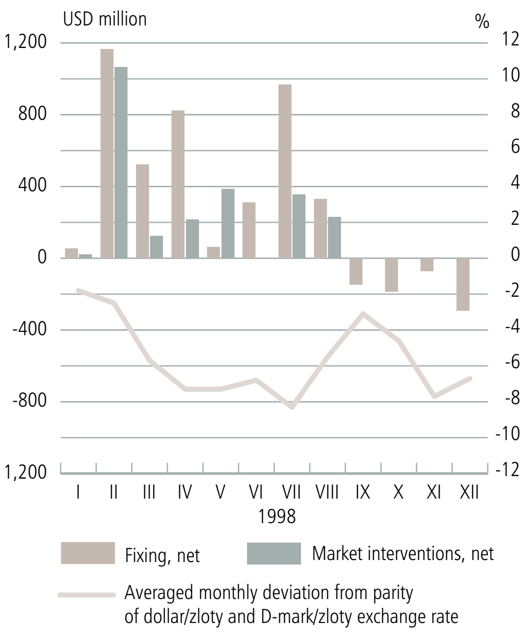
Compared to 1997, the Bank's direct trading with domestic banks at the fixing and during market interventions rose 77.9% by value, to stand at USD 22.6bn. This represents the combined effect of a 78.5% increase in purchases of foreign currency and a 76.9% increase in sales. As in 1997, the vast majority of transactions on the domestic market were in US dollars (64.4%), with the remaining 35.6% in Deutschemarks.

The considerable growth in turnover at the fixing (up 79.5% on 1997) was a natural consequence of the development of the domestic FX market, encouraged by decisions of the Monetary Policy Council which liberalised the exchange rate mechanism. The expansion of the Polish FX market is evidenced by the growth in daily trading from over USD 600m in 1997 to an estimated USD 3bn at year end 1998. The rise in the net surplus of currency purchases over sales, up 72.6% at transactions during the fixing and 93.9% during market interventions, reflects both heavier trading by players on the domestic market and the mounting pressure for the zloty to appreciate.

In managing the official foreign exchange reserves, the National Bank of Poland is guided by the following principles:

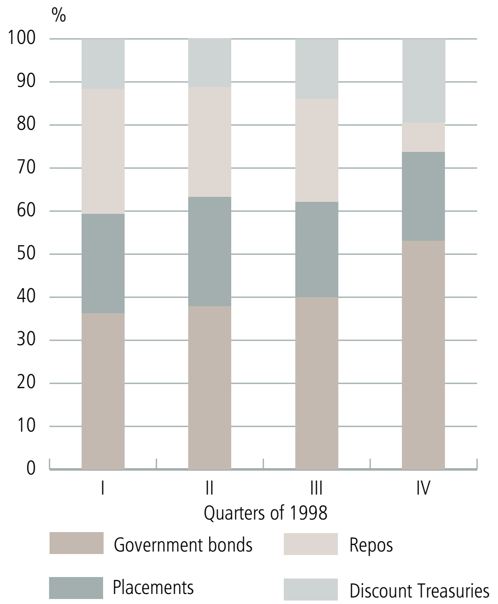
- achieving the highest possible safety of investment,
- ensuring the requisite level of liquidity,
- maximising return at an acceptable level of risk.

Figure 5. Transactions during fixing and market interventions (net), and divergence of zloty exchange rates from parity by value date (monthly figures)



Applying the first of the principles listed above involved both selecting the safest possible investment instruments (government securities, issues from government agencies), and the identification and appropriate diversification of investment partners with the strongest possible credit standing. Observing the

Figure 6. Structure of official reserves by investment instrument employed (quarterly averages)



principle of maintaining an adequate level of available funds was strictly conditioned by the necessity of ensuring access to foreign currencies to perform payments arising from Poland's international commitments (servicing the foreign debt, maintaining the liquidity of trade settlements), safeguarding the liquidity of the domestic FX market, and allowing implementation of exchange rate policies through intervention on that market.

Given the above, the official reserves were invested in safe and highly liquid instruments. A specified portion of the reserves were held in money market instruments with a maximum one-year time horizon (discount Treasuries, repurchase agreements, placements at banks), with the proviso that part of these funds could not be employed in any transactions liable to restrict their availability. The remainder of the reserves were invested in government securities with longer maturities, yet subject to a maximum of ten years. The average investment horizon of the reserves as a whole came to around two years. The debt instruments held as part of the reserves were used for securities lending (the simultaneous conclusion of repo and reverse repo transactions). FX trading was employed to maintain the required currency composition of the reserves or in connection with servicing the foreign debt.

The foreign exchange administered by the NBP was held in two basic investment portfolios characterised by differing parameters, principally as a function of the investment horizon involved.

The income realised on the National Bank's investment activity in 1998 totalled USD 1.1bn; including unrealised income (accrued by year end on outstanding investments), the total came to USD 1.4bn.

Changes in exchange regulations

In view of Poland's efforts to secure membership in the European Union, and also in the Organisation for Economic Cooperation and Development (OECD), work on adjustment measures had been under way for several years, including work on Polish foreign exchange legislation. As in previous years, in 1998 the NBP was involved in work that had been going on since 1996 on a new Foreign Exchange Bill. At the beginning of the year, the Bill was submitted to parliament, and work then continued in committee, with the Bank's representatives also actively participating. The Bill was enacted by parliament on December 18, 1998.

In line with Government policy guidelines concerning foreign exchange, the new Foreign Exchange Act reaffirms the full deregulation of foreign trade within the current account. However, certain controls on capital transactions remain in force, particularly with respect to short-term portfolio investments performed by Polish residents abroad or by non-residents in Poland, and also with regard to derivatives trading. These restrictions reflect the foreign exchange policy direction adopted by the Polish authorities in seeking to arrive at complete foreign exchange deregulation gradually, with the scope of these restrictions to some extent also determined by an evaluation of the causes and effects of recent currency crises, including those in the Czech Republic and in Asia. These considerations provided the justification for foreign exchange regulations to include certain safeguards that allow the partial suspension of liberalising measures in situations where the performance of monetary policy is jeopardised by extraordinary circumstances. In addition, the Foreign Exchange Act introduces the principle that the Polish zloty is formally and legally on an equal footing with convertible currencies, which means that the transactions permitted under exchange regulations may be settled either in foreign currencies or in zloty, and that zloty may be transferred abroad without requiring to be exchanged into convertible currency (signifying the external convertibility of the zloty).

The Foreign Exchange Act also regulates the procedures applicable to foreign exchange trading and to exchange controls, and matters of jurisdiction over issues of foreign exchange.

Exchange controls, and individual foreign exchange permits and approvals

The exchange control inspections carried out by the NBP in 1998, broken down by subject matter and the office of the Bank involved, are presented in Table 8.

Table 8. Exchange control inspections, 1998, by scope and office

Scope of inspection	Number of inspections NBP Head Office	Regional branches	Total
Inspections of banks licensed to conduct foreign exchange operations	7	158	165
Checks on compliance with terms of individual foreign exchange permits	11	623	634
Inspections of bureaux de change	–	3,181	3,181
Inspections of establishments buying & selling gold and platinum	–	46	46
TOTAL	18	4,008	4,026

In 1998, the National Bank performed both scheduled and unscheduled inspections at banks licensed to conduct foreign exchange operations. The unscheduled inspections included ones carried out by the International Department on the instructions of the NBP Management Board in relation to an application from one of the banks to extend the terms of its foreign exchange licence, and also at the request of the General Inspectorate of Banking Supervision. In addition, given the increased purchases of foreign currencies noted by the central bank in February 1998, the International Department, at the request of the Department of Monetary & Credit Policy, performed analyses of the foreign exchange trading conducted by eight banks on the interbank market.

The shortcomings determined by the NBP during its inspections at the banks may be divided into four categories:

1) violations of exchange regulations, including:

- failure by banks to fulfil the requirement that they perform exchange controls in respect of foreign exchange operations in which they act as intermediaries,
- sales and/or transfers of foreign currencies by banks with no valid documentary basis for performing such operations,
- deficiencies in the operation of foreign currency accounts and unrestricted non-resident's accounts,
- deficiencies in cash purchases of foreign currencies;

2) formal irregularities by banks in complying with the procedures governing the performance of exchange controls and the effectiveness of such controls – of these irregularities, over half concerned the lack of an annotation on documents constituting the basis for the performance of payment instructions certifying their conformity with the originals;

3) violations of the provisions of the regulation of the President of the NBP and the resolution of the Commission for Banking Supervision concerning the detailed procedures for combatting money laundering and the relevant responsibilities of banks;

4) other irregularities, including non-compliance with the internal policies of the banks themselves.

Table 9. Inspections relative to foreign exchange permits, 1998

Type of foreign exchange operation	Number of inspections NBP Head Office	Regional branches	Total
Transport or transfer of foreign currency abroad	17	255	272
Purchase of shares in public or private company domiciled abroad	17	331	348
Opening and holding of bank accounts abroad	5	100	105
Other	23	131	154
TOTAL	62	817	879

As regards compliance with the terms of individual foreign exchange permits, the inspections conducted by the Bank in 1998 are summarised in Table 9.

The violations found with respect to complying with the terms of individual foreign exchange permits may be categorised as follows:

1) violations of exchange regulations, involving the performance of foreign exchange operations in breach of the terms of the foreign exchange permit involved or without such permit;

2) non-performance of the requirements laid down in the ruling granting a permit, such as failing to:

- notify the NBP of the manner in which the ruling was carried out,
- submit a copy of a loan agreement,
- notify the NBP of withdrawal from performance of a ruling, in whole or in part.

At December 31, 1998, the business of buying and selling foreign exchange was being carried on by 3,535 bureaux de change and 64 establishments trading in gold and platinum bullion. During inspections at the firms involved, shortcomings were found at 47% of the bureaux de change (these were mainly of a formal character) and 63% of the latter establishments. In all, 53 permits were withdrawn for non-compliance with the relevant regulations.

In 1998, the directors of NBP regional branches, the Chief Branch of Foreign Exchange in Warsaw and the International Department at the Bank's Head Office, all acting under authorisation granted by the President of the NBP, issued 4,209 rulings concerning foreign exchange permits and approvals.

Servicing foreign borrowings by the NBP and the Government of the Republic of Poland

In 1998, servicing was continued of the World Bank loans taken out by the NBP in 1990 to finance the Industrial Development and Agro-Industrial Development programmes. The administration of these loans involved overseeing repayment by the banks of the funds advanced to them. In July 1998, the Bank repaid, ahead of schedule, the loan taken out to finance performance of the Industrial Development programme, thereby paying off all outstanding debt to the World Bank.

Table 10. Utilisation of loans extended to NBP

	Utilisation		Principal repayments		Debt outstanding,
	Total	1998	Total	1998	31XII 1998
IBRD (USD million)	**147.5**	**–**	**147.5**	**28.1**	**0.0**
Industrial Development	75.9	–	75.9	28.1	0.0
Agro-Industrial Development	71.6	–	71.6	0.0	0.0
Natexis Banque (FFr million)	**265.6**	**2.6**	**88.8**	**33.3**	**176.8**
Development of Franco-Polish companies	235.8	2.6	81.4	25.9	154.4
Banking cooperation	29.8	–	7.4	7.4	22.4

Under the facility extended by Natexis Banque, the NBP made available to the participating banks FFr 11.7m in further loans for the development of Franco-Polish companies (the purpose of these loans included the modernisation and expansion of industrial facilities and the purchase in France of machinery, equipment and entire process lines).

In 1998, the National Bank also continued to service the foreign obligations of the Government of the Republic of Poland. In September, the Bank and the Ministry of Finance concluded Protocol no. 2, agreeing the outstanding obligations of central government to the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, and the European Investment Bank as at December 31, 1997.

Administering foreign loans

Funds under the Financial Institutions Development Loan were made available to participating banks in 1998 to finance computerisation programmes (now in the final stage of implementation). Utilisation of this loan came to USD 29.6m.

In its capacity as financial agent to the Government, the NBP supervised the repayment by domestic parties of their liabilities in respect of loan financing extended to them; this concerned financing under agreements with National Investment Funds, which had received advances under the Privatisation and Restructuring Loan, and with those banks which had drawn on the Agricultural Development Loan.

The Polish Bank Privatisation Fund

In April 1998, the Steering Committee of the Polish Bank Privatisation Fund approved the disbursement of principal from the Fund. Pursuant to agreements reached by the Polish Government with the governments of the participating countries, in June the NBP disbursed USD 352.8m from the Fund's account, this being applied to the early redemption of series A restructuring bonds.

Under agreements with the Governments of Australia, Finland, Japan, Sweden and the USA, the Polish Government also received approval to disburse interest from the Fund to finance a capital infusion to the PZU insurance company. The relevant disbursements were performed in July and August.

International activity

Adjusting the Polish banking system to the requirements of the European Union

At the turn of March and April 1998, Poland was officially invited to take part in negotiations on membership in the European Union. The first stage in this, prior to the commencement of negotiations proper, involves a review of legislation (the „screening" process) to perform a comparative analysis that will identify the extent to which Polish law conforms with Community regulations (the „acquis communautaire"). The screening process, to be staggered out over the years 1998-1999, has been broken down into 29 subject areas, of which 6 directly relate to the NBP. These comprise the following: statistics; consumer protection; freedom of capital flows; economic and monetary union; free provision of services; and government finances and the Budget. The Bank's representatives have taken an active part in both preparatory work and the screening process itself.

In connection with EU preparations for the launch of the euro and the key decisions in this regard taken at the EU Brussels summit in May 1998, the National Bank in June established a Commission for Identifying and Performing Responsibilities Associated with the Introduction of the Euro. One of the Bank's Vice Presidents was appointed Chairperson of the Commission, with the other members recruited from directors of the Bank's Head Office departments. The Commission's task was to pinpoint potential problems that could affect the NBP when the euro was launched within the EU, to specify the crux of those problems and designate departments responsible for resolving them, and also to specify those measures which lay outside the powers of the Bank, yet which needed to be undertaken by external institutions. The Commission drew up a „NBP work plan related to the introduction of the euro", which dealt with such issues as exchange rates, the official reserves, the operation of banks accounts and performance of banking operations, the payment system, statistics, accounting and legal regulations. The Commission discharged the responsibilities entrusted to it prior to the launch of the euro, i.e., before January 1, 1999. In addition, ahead of that date the Bank passed on to the banking industry the appropriate information needed for preparations for the euro.

One of the tasks which the Commission deemed necessary in connection with the establishment of the euro was to alter the composition of Poland's reference currency basket. Accordingly, the Council of Ministers, acting in consultation with the Monetary Policy Council, resolved that, as of January 1, 1999, the basket would be changed from five currencies to two, i.e., to the euro and US dollar (weighted 55% / 45%).

October saw the constitution of the Committee to Prepare the NBP for European Integration, chaired by the President of the NBP and composed of directors of selected Head Office departments. This Committee was set up in order to coordinate the measures being taken within the central bank with a view to preparing for the requirements of Poland's future membership in the EU. The Committee's tasks include assessing developments within the EU from the standpoint of the central bank, initiating and evaluating measures to prepare the Bank to meet EU requirements, monitoring the work of the European Central Bank in the context of the future membership of the NBP in the European System of Central Banks (ESCB), and analysing the screening process and its findings in those areas that relate to the NBP. Work was also carried on to adjust the Bank's accounting standards to those in force in the ESCB.

In December, a new Foreign Exchange Act was passed, one that both takes account of the introduction of the euro in the European Union and maps out a direction of readjustment linked to the future deregulation of capital flows required under the Maastricht Treaty. NBP representatives played an active part in drafting the Act.

The close of the year 1998 brought an end to the work of the Phare unit that had operated within the NBP (the Programme Management Unit), which had dealt with issues connected with EU assistance programmes.

Collaboration with international financial institutions

Pursuant to the Act on the National Bank of Poland, the President of the NBP represents Poland's monetary authorities at the periodic meetings of the World Bank, the International Monetary Fund, the Board of Governors of the European Bank for Reconstruction and Development, and the Board of Governors of the Bank for International Settlements (BIS).

The International Monetary Fund (IMF)

In January 1998, the IMF took the decision to raise the organisation's capital subscription from SDR 146bn to SDR 212bn in order to adjust its lending policy to the current needs of its members. This operation increased Poland's membership quota to SDR 1,369m.

Under Article IV of the IMF Articles of Agreement, which regulate its relations with Poland, and in line with separate agreements reached with the Fund, IMF missions visited Poland in the course of 1998 to review the country's economic situation, taxation policies and tax management.

One of these IMF missions visited Poland in September at the invitation of the NBP. IMF representatives met the Bank's President and Vice President, members of the Monetary Policy Council, and also officials from the Ministry of Finance and representatives of several commercial banks. The subject under discussion was that of monetary and exchange rate policies and their impact on economic growth, inflation and the involvement of foreign capital in Poland.

The International Bank for Reconstruction and Development (the World Bank)

In response to the crises in Asia, Brazil and Russia, and in view of the need for international collaboration in preventing financial crises, an extraordinary meeting of finance ministers and governors of central banks was held in Washington in April 1998. The organisers of this meeting were the US Treasury Secretary and the Chairman of the Federal Reserve Board. Those participating in the discussions included representatives of the leadership of the IMF, World Bank, OECD and BIS. At the invitation of the organisers, the NBP President and Vice President also took part. Another extraordinary meeting took place during the annual meeting of the IMF and World Bank, at which an assessment was made of the steps taken to strengthen the international financial system and the opportunities for expanding international cooperation in this regard.

During the meeting, three working groups established in April 1998 presented reports on studies they had conducted, which constituted a starting point for further reflection on the question of international assistance in crisis situations. Discussions were also conducted on the following issues:

- developing policies that would allow countries to utilise international capital flows in a safe and sustainable manner,
- transforming the IMF to allow it to respond to the new kinds of financial crisis more effectively by minimising their frequency, severity and ensuing social costs,
- the possibility of providing extraordinary financial aid to countries that find themselves in crisis situations.

The European Bank for Reconstruction and Development (EBRD)

During the Annual Meeting of the EBRD Board of Governors held in Kiev in May 1998, an important question raised during speeches and discussions among delegates from various countries was the new European currency, the euro, and the potential impact it might have on the economies of Central and Eastern Europe. In addition, it was noted that the EBRD now faced a new challenge, namely, the need to support the economic ties currently being established between countries of the region.

The NBP delegation in attendance had a number of meetings with representatives of foreign financial institutions interested in investing in Poland. The President of the NBP also met with the President of the National Bank of Ukraine (NBU), discussing the objects of central banks and cooperation between the NBP and NBU.

The development of the banking system

Legislation

Legislative activity conducted in 1998 included a review of all the implementing regulations issued pursuant to the 1989 banking legislation - the old Banking Act and Act on the National Bank of Poland. The purpose of this was to eliminate those regulations at variance with the provisions of the new versions of the legislation, which required the President of the NBP to perform just such a review. The review was to be carried out in the period between January 1, 1998 (i.e., the date the two new pieces of legislation took effect), and June 30, 1998. This requirement had already been fulfilled by the President of the NBP by April, when a notice was placed in *Dziennik Urzędowy NBP* (the Official Gazette of the National Bank of Poland) containing a listing of the implementing regulations that continued to remain in force. The review involved an analysis of 24 regulations.

The Act on the NBP adopted in 1997 vested the power to issue legal regulations in the directing bodies of the central bank - the Monetary Policy Council and the NBP Management Board - and also in the Commission for Banking Supervision, doing so by transferring to those bodies some of the powers previously held by the President of the NBP. By the deadline of June 30, 1998, these bodies, now exercising their autonomous legislative authority, had issued all the implementing regulations necessary to replace the previous regulations of the President of the NBP.

Over the whole of 1998, pursuant to the Act on the National Bank of Poland, the Banking Act, and other statute, a total of 99 legal regulations were drafted, consulted, submitted for signature and issued by the directing bodies of the NBP and the Commission for Banking Supervision of those regulations, ones of major importance for the organisation of the operations of the central bank included resolutions of the NBP Management Board on the principles and procedures applicable to granting power of attorney in matters of financial powers and responsibilities, on legislative activity, and on legal support services.

Statistics and analyses

The statistical information forwarded to the Bank from both the banking industry and non-bank sources has since 1994 been gathered by one organisational unit of NBP. The integration of the data base involved has enhanced the efficiency of data flow and data processing, while at the same time making possible a comprehensive analysis of economic developments to support monetary policy decision-making. The Bank's key responsibilities in this area comprise:

- the gathering of monthly balance-sheet data from the banks,
- the collection, on a ten-day basis, compilation and interpretation of data on selected components of the banks' assets and liabilities with a view to monitoring monetary developments,
- the gathering, on a ten-day and monthly basis, of data needed to draw up the balance of payments, and the analysis of particular items of the balance of payments in conjunction with other monetary aggregates,
- the processing and interpretation of data on corporate finances,
- work to enhance methods of data collection and processing, together with the methodology used to calculate monetary categories on the basis of the data collected, and the development of transparent methods of data presentation and publication.

The final result of the above are analytical materials and publications addressed to users both within and outside the Bank. In 1998, the National Bank prepared quarterly reports on the balance of payments which, following acceptance by the President of the NBP (or by the NBP Management Board in the case of annual reports), were presented to the Sejm and Council of Ministers. September saw the completion of work on the *Balance of payments on a transaction basis and balance of foreign assets and liabilities of the Republic of Poland, 1997*. Having been approved by the Bank's Management Board, this document was submitted to the members of the Council of

Ministers, for the information thereof, and also to representatives of other central government agencies. For the first time, the document included a full presentation of the "international investment position", drawn up in accordance with the standards of the International Monetary Fund.

The monthly balance of payments is compiled on the basis of data from the commercial banks. One of the purposes of this document is to allow an evaluation of Poland's payments situation; it also furnishes one of the tools for government economic assessment and decision-making.

Another product of the statistical work conducted at the NBP is the "consolidated balance sheet of the banking system", drawn up every month on the basis of balance-sheet data submitted by the banks and data from the NBP itself. This document provides decision-making support to the makers of monetary policy and represents an important source of information on the banking system. It allows surveillance of monetary aggregates, assessments of the financial condition of the banks, and observation of the development of Poland's financial markets, particularly with respect to the new instruments being employed by Polish banks. The uniform information system that has been created to meet the requirements of the central bank also permits the Bank to fulfil its statistical commitments to the international organisations which Poland belongs to, i.e., the IMF, World Bank, OECD and other international financial institutions.

The ongoing monitoring of monetary processes is made possible by a system of accelerated data collection that encompasses the banks' domestic operations and their foreign assets and liabilities.

The NBP also attaches great importance to providing information to business and financial organisations regarding the monetary categories which the Bank is responsible for. This objective is served primarily by the Bank's monthly publications, such as the *Information Bulletin and Preliminary Information*. These materials contain basic data on Poland's monetary and economic situation, and are widely distributed at home and abroad. *Preliminary Information*, published in bilingual format (Polish & English), is the subject of particular interest and appreciation; this publication presents data for the most recent month taken from the accelerated data collection system, allowing it to appear soon after the end of the reporting period. Since 1997, the *Information Bulletin* has been published in revised format, and work is currently under way to expand further the scope of information it provides.

A major qualitative change in the delivery of information by the NBP came with the preparation of the Bank's own web site. The site was launched in December 1998, and among other things contains a wealth of statistical data, both current and from previous years. The site has made it possible to communicate information to users much more swiftly. A significant factor here is also that the utilisation of electronic media allows simultaneous and equal access to information by all interested parties, a requirement of information policy repeatedly emphasised by many international organisations, including the IMF in particular. In the near future, the site will be supplemented by the requisite methodological notes. At present, the "metadata" containing information on scope, terminology and methods of providing access to data are available on the electronic bulletin board developed by the IMF under the SDDS (Special Data Dissemination Standard) system, which Poland joined in 1996. The purpose of this initiative was to increase the accessibility of comprehensive, timely data, and thereby lay the basis for better macroeconomic policies and the more efficient operation of financial markets. The year 1998 was the final year of the "transition period", with work being finalised to achieve full compatibility with SDDS requirements.

The work conducted at the NBP in 1998 as regards reporting by the banks involved further improvements to the scope of information submitted by the banks and the procedures for collecting it. One change that was introduced refers to the reporting path for cooperative banks, which now report directly, without going through an intermediate tier, i.e., the NBP regional branches.

The National Bank also carries out periodic surveys of the corporate sector. These are intended to allow an assessment of the condition of corporates, and also provide premises for forming views on the overall business climate. The surveys encompass around 250 companies selected by the Bank's regional branches. The regional branches prepare "memos on business activity", which present information on business conditions and regional economic developments.

The development of payment systems

Overview

The organisational changes which took place at the NBP in 1998 also affected the handling of issues related to the operations of the Polish payment system. To concentrate all issues related to the functioning of the payment system within one department, on July 1, 1998, the previous Interbank Settlements Department was reorganised as the Payment Systems Department. The frame of reference of the new Department comprises all questions previously dealt with by the Department of Bank Accounts, certain responsibilities taken over from the Accounting and Operations Department (including developing procedures for interbank settlements and other settlements conducted via the banks, and also procedures for the opening and operation of accounts for the banks at the NBP, the organisation of the settlement system, and the conduct of research and analyses concerning the operations of the domestic payment system), and responsibilities assumed from the Department of Banking Technology (including conducting and coordinating work within the NBP on the relevant standards, excluding those relating to electronic document interchange and backup, and the computerisation of clerical activities). The work undertaken by the Payment Systems Department is thus primarily connected with the operation and development of the Polish payment system (e.g., analytical, legislative and operational functions in this area) and with analysing the workings of payment systems in other countries.

In June, a resolution of the Management Board established the Payment Systems Council as a consultative and advisory body reporting to the Management Board. The principal responsibilities of this Council include:

- analysing and assessing the Polish payment system and the legal regulations obtaining in this field,
- taking measures to integrate the initiatives of the banking industry concerning the payment system,
- drawing up proposals for particular steps to be taken, including ones designed to bring the Polish payment system in line with European Union requirements,
- minimising the systemic risk associated with the Polish payment system,
- making payment transactions more efficient and secure, and promoting non-cash transactions.

The Council is chaired by the First Deputy President of the NBP, with the deputy chairperson being the President of the Polish Bank Association, and the other members comprising representatives of four commercial banks, the Ministry of Finance, BPT TELBANK SA, the Polish Post Office, the National Clearing House (KIR SA) and the National Securities Depositary. The Director of the Bank's Payment Systems Department serves as secretary to the Council. In the second half of 1998, the Council held two meetings, discussing, among other things, the development of the SORBNET system (the Polish Real Time Gross Settlement, RTGS, system), carrying out an analysis of a study on the Polish payment system prepared for the European Central Bank, and examining a proposal from the National Securities Depositary regarding the development of capital market settlements in Poland. At the initiative of the National Clearing House, work was begun on identifying and removing the legal obstacles that prevent a universal move away from hard copy settlement documentation.

One of the new areas of work undertaken at the NBP in 1998 was the preparation, at the invitation of the European Central Bank, of a draft publication on the payment system in Poland, intended to resemble the descriptions of payment systems in EU countries found in the "Blue Book". The preparation of this publication required extensive initial groundwork, including the gathering of statistical information from the banks and other financial institutions involved in settlements, and the appropriate compilation of numerous statistical data on the operations of the Polish payment system.

In the framework of the Inter-Ministerial Team for the Preparation of Negotiations on Polish Membership in the European Union, a representative of the NBP participated in the review of legislation on cross-border transfers and electronic payments which took place as part of the screening process.

The Bank's representatives also took part in the work of various bodies which deal with the development of banking system infrastructure, and with standards and norms for the banking sector, and which operate under the auspices of the Polish Bank Association. The work in question was carried on via the Steering Committee for Banking Infrastructure Development; Special-Purpose Standards Committee no. 271 for Banking and Bank Financial Services; the Payment Systems Committee; the Working Group for Bank Document Standardisation; and the Council of Bank Card Issuers.

Operating the current accounts of the banks

At year end 1998, the NBP was operating current accounts for 71 banks, which were direct participants in the system of exchanging payment instructions through the National Clearing House. Compared to the end of 1997, there was 1 account more.

The year 1998 saw major alterations in the administration of the bank's current accounts at the NBP. This was related to implementation of the banking module of the SORBNET system, allowing electronic data exchange between the banks and the NBP via e-mail. Introduction of the banking module, which was phased in successively at eight groups of banks, commenced at the beginning of March and was completed in mid-December. By the end of December 1998, all banks holding current accounts at the NBP were using the SORBNET banking module to transfer payment instructions and receive information on account balances and transactions.

Another important change that impacted the conduct of interbank settlements at NBP Head Office was the taking effect on December 1, 1997, of a regulation of the President of the NBP on reserve requirements. In line with the regulation, interest-bearing reserve accounts were closed as of the beginning of 1998, with the balances on those accounts credited either to the banks' current accounts, or to their non-interest-bearing reserve accounts (where the bank in question had no current account at the central bank). These account transfers had the effect of substantially increasing the balances on the banks' current accounts, which had a positive impact on the efficiency of interbank settlements.

The average daily balances on the banks' current accounts at NBP in the particular months of 1997 and 1998 are shown in Table 11.

Table 11. Average daily balances on banks' current accounts at NBP, by month, 1997-1998 (million zloty)

Month	Average daily balances on current accounts, by month	
	1997	1998
January	6,857.5	15,508.6
February	7,326.4	15,822.6
March	8,063.4	15,744.5
April	8,088.0	16,037.1
May	8,409.0	16,255.9
June	8,773.9	16,518.2
July	9,104.1	16,960.7
August	9,359.1	17,487.1
September	9,668.4	17,788.0
October	9,833.9	18,680.9
November	10,094.9	19,169.9
December	10,453.6	19,269.4

Banking supervision

The new legal framework for banking supervision

The activity of the General Inspectorate of Banking Supervision in 1998 should primarily be viewed in the context of the banking legislation enacted by parliament on August 29, 1997 – the new Banking Act and Act on the National Bank of Poland. These both took effect on January 1, 1998, ushering in far-reaching changes in the legal basis for banking operations and in the principles governing banking supervision.

Supervision of the operations of the banks is now the responsibility of the Commission for Banking Supervision, which is not a body of the NBP, although its composition and methods of work are specified in the Act on the NBP. As of January 1, the General Inspectorate of Banking Supervision (GINB) became the executive agency of the Commission, while remaining within the structure of the NBP as a separate organisational unit. Pursuant to the Act, GINB carries out and coordinates the responsibilities assigned to it by the Commission. GINB has dual reporting lines: on matters involving supervising the activity of the banks it reports to the Commission for Banking Supervision, while in all other matters stemming from its organisational relationship with the National Bank of Poland it reports to the NBP Management Board.

In addition to the above provisions, the new banking legislation also made it necessary for GINB to incorporate the staff of existing supervisory units at NBP regional branches and assume the responsibilities of those units; in these circumstances, a new organisational structure was instituted at GINB itself. Given that defining the detailed procedures for the activity of GINB is integrally linked to the organisational framework of banking supervision, and given that GINB constitutes part of the organisational structure of the NBP, work on the new structure of banking supervision was also conducted in parallel by the NBP Management Board. As a result of this work, the NBP Management Board laid down the principles governing the functioning of the General Inspectorate of Banking Supervision, which are contained in the Organisational By-laws of the National Bank of Poland. These By-laws took effect on July 1, and on the basis of those By-laws GINB issued the Organisational By-laws of the General Inspectorate of Banking Supervision. The internal structure of GINB was finally approved by resolution of the Commission for Banking Supervision in August 1998.

The new organisational structure of GINB is based on the operations of five specialised divisions, each dealing with different responsibilities: the Bank Licensing Division, the Supervisory Policy Division, the Banking System Off-Site Analysis Division, the On-Site Examination Division, and the Cooperative Banking Division.

As a result of reorganisation, GINB took over the supervisory responsibilities previously performed by the NBP regional branches. The supervisory staff of those branches became GINB staff, and the branch sections or units for banking supervision, together with other organisational units responsible to them, were incorporated into the On-Site Examination Division and currently operate as units or sections of GINB.

At year end 1998, GINB employed a staff of 499, of which 310 persons were employed at GINB field units.

Under the Act on the NBP, GINB carries out and coordinates the decisions of the Commission for Banking Supervision and the responsibilities it assigns. In addition, in 1998 the Chairperson of the Commission, acting between meetings of the Commission, under authorisation from the Commission and in accordance with the adopted By-laws, took a total of 434 decisions and measures on matters not exclusively reserved for the decision of the Commission. In line with Article 27, para. 4, of the Act on the NBP, the Commission was on each occasion advised at its next meeting of the decisions made by the Chairperson.

In all, at its meetings in 1998, having examined the relevant materials as prepared and submitted by GINB, the Commission adopted 18 resolutions and regulations pursuant to its statutory authority on issues relating to banking supervision and principles for the conduct of banking activity, and 113 resolutions ex officio on individual matters.

Licensing

In 1998, the Commission for Banking Supervision received four applications for the establishment of building societies and two applications for the establishment of mortgage banks.

The key problem which prevented completion of the process of authorising building societies was the lack of statutory provisions ensuring safe operating conditions for the building societies to be set up; in the absence of such, the societies would be exposed to the risk of losing liquidity, while members of the societies would have no assurance of the safety of their savings[3].

Authorisation proceedings were completed in 1998 for the establishment of the first mortgage bank. The results of those proceedings furnish the basis for the Commission to adopt the relevant resolution in 1999 authorising the establishment of a mortgage bank named „Rheinhyp-BRE Bank Hipoteczny SA", with its registered office in Warsaw.

During the year, following on-site reviews of preparations for the conduct of banking operations, three banks received permits to commence operating activity, while one bank which had previously received a permit to commence activity of restricted scope received approval from GINB to expand that activity. Also in 1998, 249 applications were submitted concerning amendments to a bank's articles of association, of which 105 were received from joint-stock banks and 144 from cooperative banks. The Commission for Banking Supervision concluded the reviews of those applications by ruling on 93 from joint-stock banks and 108 from cooperative banks.

The applications presented by joint-stock banks primarily concerned adjusting their articles to correspond to the new Banking Act, and also expanding their scope of activity to include new financial services, increasing share capital, powers to represent the bank, and the assignment of preferential voting rights to shares.

During the year, the Commission received 75 applications from bank supervisory boards to approve the appointment of presidents and other members of management boards.

The Commission issued 20 resolutions approving the appointment of the president of the management board, and 21 resolutions approving the appointment of another member of the management board. In addition, the President of the National Bank of Poland issued one opinion regarding the appointment of the president of a regional bank (which affiliates local cooperative banks).

In the course of 1998, the Commission for Banking Supervision also received 40 applications from bank management boards to approve the acquisition by investors of large shareholdings; in 24 of these cases, resolutions were issued approving the acquisition of such shareholdings. The remaining applications are still being considered.

In addition, prior to the transfer to the NBP International Department of responsibility for examining applications for foreign exchange licences (this occurred on July 1, 1998), applications for such licences from four banks were considered.

Prudential regulations

The taking effect as of January 1, 1998, of new banking legislation (the Banking Act, the Act on the NBP, and the Act on Mortgage Bonds and Mortgage Banks) entailed the requirement that the Commission for Banking Supervision, as the body duly authorised, issue implementing regulations to this legislation to allow it to function properly. As the executive arm of the

[3] The danger involved here stems from the provisions of Art. 9, para. 1, subpara. 5, of the Act on Building Societies and State Support to Savings for Housing Purposes of June 5, 1997. This paragraph requires a building society to specify the date at which a housing loan will be made when concluding the savings plan agreement with a society member; at the same time, paragraph 2 of Art. 9 stipulates that the savings plan agreement cannot place any restrictions on the obligation of the society to extend a housing loan if the holder of the savings account has fulfilled the conditions set in the agreement. Work is under way in the Sejm to amend the Act in order to remove this danger.

Commission, GINB drafted these regulations and presented them to the Commission for adoption.

In addition, GINB developed and circulated to the banks a recommendation concerning the basic criteria to be used by the Commission in reviewing the property valuation policies adopted by mortgage banks. The process of issuing such policy guidelines concerning recommended practices which banking supervision expects to see implemented at the banks is one begun in 1996. GINB intends to continue this process in 1999. In 1998, the work undertaken by GINB as regards determining the principles of safe and sound banking operations also focussed on full implementation of the provisions of the Act on Mortgage Bonds and Mortgage Banks.

GINB representatives were among the participants in the work being carried out at the Ministry of Finance to amend the Act on Building Societies and State Support to Savings for Housing Purposes. GINB proposed a series of amendments to facilitate proper supervision of banks of this kind, taking into particular consideration the specific nature of their activity.

In 1998, work was also continued within an inter-ministerial framework on the drafting of a bill establishing an institution responsible for combatting money laundering on a systemic basis. GINB representatives took an active part in the work of the team involved in this.

The prospect of Poland's future membership in the European Union has set in motion a process of legal and organisational adjustment to prepare Polish banking supervision for its partnership role within the structures of Europe. In 1998, this adjustment process constituted one of the more important tasks for GINB, which at the same time constantly factored in the changes taking place within the EU itself and its financial services sector.

As part of the process of preparation for integration within the EU, the General Inspectorate of Banking Supervision was entrusted with the task of analysing the conformity of Polish supervisory regulations with EU Directives. This analysis led to the drawing up of a list that provides the basis for multilateral and bilateral screening. Representatives of Polish banking supervision took part in meetings of the European Commission at which they presented the progress being made in bringing Polish supervision into line with EU requirements. A positive view of the work carried out by GINB was taken by both the leadership of the Polish delegation at the review sessions, and by the experts of the European Commission. During these proceedings, the future direction of development of Polish prudential regulations was mapped out, as part of the adjustment process.

In addition, in 1998 GINB oversaw the preparations of the banks for dealing with the Year 2000 problem, and also systematically increased the effectiveness and quality of its supervision of the banks, with particular attention being paid to the risks associated with the new financial instruments and banking products now appearing on the market.

Initial work was also undertaken with a view to performing the amendments to Polish statute that are necessary to ensure the effectiveness of supervision and allow a comprehensive approach to supervising financial institutions on a consolidated basis.

In 1998, GINB participated in developing a framework memorandum of understanding, intended to regulate relations with foreign supervisory authorities and the Securities and Exchange Commission.

Off-site analysis

The analytical surveillance conducted by GINB included performing comprehensive periodic analyses of the operations and financial condition of the banking sector.

One of the responsibilities of banking supervision is to analyse the financial situation of the banking industry. In discharging this responsibility, GINB drew up quarterly evaluations of the financial condition of the banks for the members of the Commission for Banking Supervision, Monetary Policy Council and NBP Management Board. In addition, the *Evaluation of the financial situation of Polish banks, 1997* was also forwarded to representatives of the country's central authorities and civil service agencies, including the President of the

Republic of Poland, the Prime Minister, the Speakers of the Sejm and Senate, and the President of the Supreme Chamber of Inspection.

The above materials were used to develop four summary evaluations of the financial situation of the banks, which set out the most crucial information on the operations of the banking system in particular periods and were addressed to a broad circle of readers.

Banking supervision is also required to monitor the financial situation of particular banks, a requirement which GINB fulfilled by preparing extensive and comprehensive quarterly assessments and analyses of the condition of individual banks.

In 1998, regular meetings were held between representatives of GINB and the presidents and management board members of banks, members of bank supervisory boards, strategic investors in banks, and the external auditors who audit bank accounts.

Separate discussion is required of the issue of supervising problem banks and the role of banking supervision in bank rehabilitations. At the end of 1998, two banks were required, pursuant to the Banking Act, to implement financial recovery measures and develop suitable rehabilitation programmes. At the same time, given the changing external environment, certain banks were required to revise the assumptions behind rehabilitation programmes they had drawn up earlier, while one bank submitted such a proposal itself.

At year end, eleven joint-stock banks were implementing recovery measures that had been approved prior to the taking effect of the new Banking Act. Of that number, three banks were carrying out the rehabilitation of banking businesses which they had acquired. In the years 1991-1998, twenty joint-stock banks successfully completed rehabilitation programmes, three of those doing so in 1998. The NBP continued to provide rehabilitation support to five commercial banks, extending financial assistance under the terms of agreements concluded with them in the years 1993-1994. At December 31, 1998, the Bank's outstanding financial involvement to this end (through bond redemptions and assistance via loans against promissory notes) totalled 308.4m zloty[4].

At year end 1998, 214 cooperative banks were carrying out rehabilitation programmes or merger programmes instituted following the acquisition of distressed banks. In the case of 9 cooperative banks, rehabilitation programmes were being developed or analysed by GINB or by the relevant intermediate-tier regional or affiliating bank. During 1998, 23 cooperative banks commenced rehabilitation measures, while 97 completed them.

The central bank also participated in the restructuring of the cooperative banking sector. In 1998, financial assistance in the form of low-cost loans against promissory notes (pursuant to a resolution of the Sejm of January 11, 1996) was provided solely to one commercial bank that was acquiring a cooperative bank. This stemmed from the fact that the formal procedures related to making this assistance available were begun in the previous period, yet not completed until the beginning of 1998. In all, over the years 1994-1998, in performance of the resolutions and decisions of the Sejm and a decision of the NBP Management Board, the Bank extended support to the acquisition of 26 cooperative banks by 12 joint-stock banks, and to the taking over of 85 cooperative banks by 67 other cooperative banks. In 28 cases[5], the assistance in question (amounting to 30.77m zloty) was returned in full on the completion of rehabilitation at the banking businesses thus acquired. At 31 December, 1998, the outstanding amount contributed by the Bank to the restructuring of the cooperative banking sector under loans against promissory notes stood at 95.18m zloty.

In accordance with the Act on the NBP, the Bank's Management Board continued measures to aid bank rehabilitations through exemptions from reserve requirements. As a result:

- 19 cooperative banks took advantage of this form of assistance in 1998, with the total funds thus released amounting to 30.4m zloty; at 9 banks,

[4] Excluding the refinancing loan (past due) granted to Bank Agrobank SA in 1994.

[5] 23 banks returned loans against promissory notes in full, while 5 banks did so in part.

exemptions were renewed owing to the continuation of rehabilitation measures at those banks, releasing 9.4m zloty for this group of banks;

- an exemption from reserve requirements in 1998 was granted to only one joint-stock bank, which had acquired a cooperative bank, and which gained the release of reserves corresponding to the deposits acquired from that cooperative bank.

Altogether, by the end of the year, 23 joint-stock banks and 240 cooperative banks had availed themselves of this form of assistance, with the required reserves thus released (at the date the exemptions were granted) totalling 752.6m zloty, of which 541.84m refers to commercial banks and 210.77m to cooperative ones. Meanwhile, exemptions from regulatory reserves expired for 9 commercial banks (thereby obliging them to meet requirements of 34.66m zloty), and for 163 cooperative banks (120.47m zloty).

In addition to all the above, problem banks also received major assistance from the Bank Guarantee Fund.

On-site examinations

The new organisational structure of GINB includes an On-Site Examinations Division. In addition to Head Office staff, regional examination coordinators and banking supervision units and sections throughout the rest of the country all report to the Director of this Division. During 1998, examinations were performed by a staff of 328 bank examiners (figures at year end), of which 310 were based at banking supervision units and sections in the field, and 18 were employed at the banking supervision unit and section in Warsaw.

GINB is responsible for supervising and examining a total of 82 commercial banks and 1,189 cooperative banks. In 1998, bank examiners performed:

- 232 full-scope examinations, of which:
  - 15 at commercial banks, and
  - 217 at cooperative banks;
- 221 targetted examinations, of which:
  - 41 at commercial banks, and
  - 180 at cooperative banks.

The total time devoted to full-scope and targetted examinations at the banks in 1998 amounted to 26,483 man-days, with 59% of this time spent on site at commercial banks, and 41% at cooperative banks.

In carrying out on-site examinations, the primary focus of the examiners was to review the scale of risk exposure and the adequacy of risk management processes. In addition to credit risk, the examiners reviewed liquidity, FX and interest rate risk, and at selected banks also looked into the operational risk associated with Y2K. Furthermore, the examiners assessed internal controls, the internal audit function, and compliance with statute, prudential regulations and internal policies. Full-scope examinations were concluded with the drawing up of reports of examination which contained a painstaking assessment of key risk areas in line with the CAMELS examination methodology, which involves performing reviews of:

- capital adequacy,
- asset quality,
- management and the adequacy of management processes,
- earnings,
- liquidity and asset/liability management,
- internal controls and audit,
- FX operations.

The findings of examinations formed the basis for drawing up letters of recommendation in which the Chairperson of the Commission for Banking Supervision required the banks examined to take remedial measures with respect to their risk management processes, in particular as regards risk measurement and control systems, and also to revise asset classifications and correspondingly adjust the level of specific provisioning. The comprehensive character of these examinations and the exhaustive scope of the ensuing reports of examination provided both banking supervision and the management and supervisory boards of the banks themselves with an independent and thoroughgoing evaluation of the bank's risk management processes, thereby functioning as a tool for promoting modern risk management principles and internal control systems. The examinations and the products thereof, in the shape of reports and recommendations, helped enhance the safety and soundness of the banks, spurring management and supervisory boards, and indirectly the owners of the banks as well, to take such measures as increasing capital and developing support systems, e.g., IT systems, and measurement and reporting systems tracking risk and return. An integral component of this whole process is follow-up surveillance to monitor on a constant basis the implementation of post-examination recommendations and the progress made in improving management processes.

In addition to reviewing risk, the continuing weaknesses in internal control systems meant that examiners were also obliged to perform work that partly duplicates the responsibilities of the internal audit function in order to arrive at a detailed determination of compliance with the provisions of the Banking Act, prudential regulations and internal polices and procedures, and also to evaluate the reliability of prudential reporting to the NBP, together with the correctness of earnings calculations.

The reviews carried out by examiners of asset quality and the adequacy of specific provisioning resulted in 13 commercial banks (of 15 subject to full-scope examinations in 1998) being required to establish additional provisions against adversely classified assets. These banks were required to downgrade existing asset classifications and to charge to specific provisions a total of 606.195m zloty, which corresponds to 8.9% of the specific provisions established by commercial banks at December 31, 1998.

Further, 66 cooperative banks were also instructed to reclassify part of their assets. This entailed additional specific provisions of almost 6.1m zloty. These additional provisions represented 4% of all specific provisions held by cooperative banks at year end 1998.

At the same time, examinations were also conducted at representative offices of foreign banks. At December 31, 1998, there were 37 offices of this kind in operation in Poland. In 1998, 32 examinations were held at representative offices of foreign banks.

Work continued in 1998 to develop uniform criteria for assessing the deficiencies present within the Polish banking industry and to improve supervisory procedures and examination methodologies. Given the approach of the Year 2000 and the threats to the banking system this entails, preparations were also begun to institute a methodology for assessing Y2K risk and possibly recommending adjustment measures to ensure a smooth transition to the new Millennium.

In 1998, work as also begun at GINB, with the assistance of foreign consultants, to prepare accreditation examinations for candidates for the post of bank examiner.

Supervision of the cooperative banking sector

In 1998, the activity undertaken by GINB with respect to the cooperative banking sector and regional or affiliating banks included, in particular, compiling quarterly analyses of the financial situation of the regional or affiliating banks and Bank Gospodarki Żywnościowej SA (BGŻ SA), conducting correspondence on ongoing issues with the banks supervised, performing on-site examinations at those banks, considering proposed rehabilitation programmes, including providing opinions on these to the Bank Guarantee Fund, and overseeing the work of custodians appointed to carry out rehabilitation programmes already approved. At the same time, a number of other tasks were undertaken.

In 1998, the Commission for Banking Supervision approved a document prepared by GINB entitled *Report on the situation of the Polish cooperative banking sector and proposals for future lines of development*. The Commission took the view that the key questions for the development of the cooperative banking sector were the need to separate the process of restructuring BGŻ SA from that of restructuring the cooperative sector as a whole, and the need to amend the Act on the Restructuring of Cooperative Banks and Bank Gospodarki Żywnościowej and on Amendments to Certain Legislation. In May, the Chairperson of the Commission forwarded this report to the Prime Minister.

Following the submission by the President of BGŻ SA, the national affiliating bank in the national cooperative banking group, of another draft version of the national affiliation agreement, the NBP Management Board, on the basis of evaluations prepared by the appropriate departments of the Bank, issued a negative opinion on the draft to BGŻ SA.

In the second half of the year, further work was conducted on amendments to the Act on the Restructuring of Cooperative Banks and BGŻ. On the basis of discussions involving representatives of the Ministry of Finance, the Ministry of the Treasury, BGŻ SA and the National Association of Cooperative Banks, the Ministry of Finance drew up draft amendments to the Act, which were passed on to the NBP. However, these draft amendments were founded on premises substantively different from the key lines of development of the Polish cooperative banking sector accepted by the Commission for Banking Supervision. In particular, the draft continued to tie together the process of restructuring BGŻ SA and that of restructuring the cooperative sector as a whole.

By year end 1998, the Commission for Banking Supervision had issued 254 rulings in response to applications from cooperative banks in relation to the provisions of a resolution adopted by the Commission which had set a minimum capital requirement of 300,000 euro for cooperative banks; under Art. 172 of the Banking Act, the final date for assembling this minimum level of capital was December 31, 1998, although this date could be extended, subject to the consent of the Commission, to December 31, 1999.

During the course of the year, the mergers took place of 96 cooperative banks. These mergers were either approved by the Commission for Banking Supervision or, where such approval was not required, performed pursuant to the provisions of the Cooperatives Act. Owing to these mergers, and to the fact that four cooperative banks were declared bankrupt, while the decision was taken to put another six into liquidation and sell off their banking business to commercial banks, the total number of cooperative banks at year end fell to 1,189, a decrease of 106 on the end of 1997.

The internal development of the NBP

Human resource management

Average staffing at the NBP in 1998 amounted to the full-time equivalent of 6,280, an increase on 1997 of 138.5. The majority of staff were women, who accounted for 75.1% of staff in non-manual posts (as against 76.2% in 1997) and 28.1% in manual and related posts (compared to 28.8% in 1997).

The age structure of the Bank's employees is marked by a substantial proportion of staff up to the age of 35 (31.2%), although since 1989 there has been a constant tendency for this to decline. Those over 55 years of age represented 8.8% of total staff (9.2% in 1997).

In 1998, 1,851 members of staff had a higher education, which represents 38.8% of those employed in non-manual posts (36.8% in 1997). The proportion which had not completed a secondary education came to 5.6% (6.3% in 1997). Further education was being obtained by 360 employees, 320 of them at university level and 40 at secondary level.

Developing staff qualifications

Staff training continued to receive major attention in 1998. The National Bank provided its staff with the opportunity to participate in diverse training events, including specialist training, in Poland and abroad, and language courses and seminars.

In 1998, 60 members of staff continued specialist post-graduate studies, which were begun during the year by another 48, of which 34 were from NBP Head Office. At the same time, 55 employees (25 from Head Office) completed post-graduate courses. It is worth emphasising that large interest continues to be shown in this form of raising qualifications, particularly as regards courses in banking and finance. A total of 280 employees received specialist training abroad, at banks and other financial institutions.

As in previous years, the main vehicle for developing staff qualifications at the NBP was through professional training at various courses and seminars. During the year, a total of 6,096 employees participated in training events of this type. The subject matter of these courses and seminars, which were organised at home and abroad both by the Bank and by major training institutions, most frequently concerned IT (1,991 persons) and banking (1,749). Further, seminars devoted to particular areas of law, due to their significance and relevance, also elicited great interest; these included seminars on banking law, the law on cheques, the law on bills of exchange, labour law, new developments in real estate law, amendments to construction law, the reform of the pension system, VAT, the Accounting Act, and regulations relating to management issues.

Language instruction was also continued, with some 330 members of staff attending language classes. At the same time, new and intensive forms of English language instruction were introduced, intended to develop more advanced language skills, with around 50 participants. During 1998, 47 Bank employees passed the examination in banking English.

In the second half of 1998, work was undertaken on implementing the contracts signed at the end of 1997 with the Bank of England and Banque de France for the performance of consultative programmes related to the Bank's preparations to fulfil EU requirements.

Collaboration in training staff for the banking industry

The year 1998 saw a continuation of collaboration with the Ministry of National Education in developing middle-tier financial staff for the banking sector with a view to preparing them for posts at local offices of banks. Work in this field concentrated on cooperation involving the Ministry of National Education, the Polish Bank Association, and the Banking Education and Research Foundation, carried out under the auspices of the Secondary Education Section of the Bank Training Council, a section chaired by a representative of the central bank.

As in previous years, the National Bank of Poland conducted a programme to advance the qualifications of teachers of banking subjects at schools offering specialist banking courses. To this end, the Bank made available publications *(Bank and Credit, Materials and Studies, the Official Gazette of the NBP)* and other materials dealing with various aspects of banking, and assisted in equipping the schools with computer hardware.

All of the measures taken by the Bank to promote the desired model of middle-tier banking staff are long-term in character and will be kept up in the years to come, in collaboration with the Ministry, the Polish Bank Association, the Banking Education and Research Foundation, the banks, local education authorities and the schools themselves. These measures are of considerable importance for developing staff for the banking industry and incorporating secondary schools in a system of banking education that corresponds to the qualification standards currently being put into practice.

The National Bank also continued its involvement in the Polish Banking Qualification Standards Committee. In addition, Bank representatives were delegated to participate in the work of examination commissions operating within the relevant system of standards.

As in previous years, in 1998 the Bank again offered in-house training to students from domestic universities and colleges whose theses were on subjects related to the banking system or central banking. The Bank also organised internships for students from foreign universities, and lectures on the process of transition within the Polish banking system (the latter were given to groups of university students from Holland and France, and to a group from the German-Polish Society at the Central College of Commerce).

Capital expenditure

The Bank's capital expenditure plan for the year 1998 focussed on the three basic pillars of technological advance at the NBP, namely, the technical and structural modernisation of the Bank's buildings, keeping pace with the development of IT systems and tools, and the modernisation of security facilities and technical equipment or introduction of new, sophisticated versions thereof.

During the year, 62 capital projects were completed and brought on stream, to a total value of 45,917,000 zloty, while the Bank's capital spending amounted to 18,675,000 zloty.

Preparations for the Year 2000

In January, a Year 2000 Commission was established at the NBP to investigate issues related to the preparation of the Bank's IT systems for operation in the Year 2000 and in subsequent years. Y2K requirements were specified, to be used in contacts with designers, testing staff, and hardware and software vendors.

In April, the NBP Management Board appointed a Management Representative for the Y2K compliance of NBP telecommunications and IT systems and technical infrastructure.

The process of compiling an inventory of issues needing to be addressed in the context of Y2K was completed by mid-year. Following an analysis of NBP resources, plans were drawn up for the modification and adjustment of particular applications, operating systems and software tools, data bases and hardware. By year end, 80% of the Bank's applications software had been modified nationwide. The Bank's branch offices and Head Office units took a very active approach to Y2K preparations, performing some of the necessary work at local level, e.g., carrying out Y2K adjustments of systems specific to a given unit, collaborating with vendors, and obtaining written assurances from them that the systems in question were Y2K compatible. In December, a test environment was brought on line at the Bank for systems running under Windows or Unix. A very advanced stage was reached in the testing programme for all components of the Bank's IT systems.

A broad programme of Y2K modifications and testing was developed for telecommunications systems, factoring in the need for the unification of the Bank's telecommunications equipment throughout the country.

Y2K preparations also involve other automated devices, chip-based security systems and technical support equipment. Work on these areas was commenced in 1998.

Initial work was also begun to develop contingency plans in the event of any Y2K disruptions.

The National Bank of Poland has been organising tests for the whole banking system and itself participates in these. The Bank is preparing itself to deal with various eventualities related to the operations of the financial system and the circulation of currency.

Balance Sheet of the National Bank of Poland at December 31, 1998

	thousand zloty
TOTAL ASSETS	131,478,650.9
I. Total primary assets	129,117,139.1
1. Gold	3,328,648.1
2. Foreign exchange & cash in foreign currencies	95,461,396.4
3. Polish quota, IMF	4,563,492.4
4. Polish contribution, World Bank	4,442.1
5. Foreign currency placements at domestic banks	405,643.6
6. Refinance loans	6,903,308.3
7. Rediscount loans	202,100.0
8. Lombard loans	11,210.0
9. Other claims on banks	456,738.1
10. Central government debt, other claims on government	1,753,846.7
11. Government securities	16,026,313.4
II. Total other assets	2,361,511.8
1. Other loans & advances	59,733.3
2. Tangible & intangible fixed assets	574,789.5
3. Equity investments	120,914.7
4. Other claims & inventory	674,377.2
5. Appropriations of earnings	667,180.3
Appropriations to central government	602,413.4
Appropriations to capital	64,766.9
6. Accrued income & prepaid expense	264,516.8

	thousand zloty
TOTAL LIABILITIES & CAPITAL	131,478,650.9
I. Notes & coin in circulation	33,993,480.4
II. Securities issued and outstanding	28,575,540.0
III. Deposits	32,153,751.5
1. Due to domestic banks	20,812,726.9
2. Due to foreign banks & institutions	7,318,857.5
3. Due to central government	2,865,392.6
4. Due to other parties	1,156,774.5
IV. Other liabilities & deferred income	10,843,948.0
1. Due to foreign institutions, other foreign liabilities	465,261.8
2. Miscellaneous liabilities	549,166.4
3. Deferred income	9,829,519.8
V. Other funds & reserves	23,696,531.5
1. Special funds	30,035.9
2. Currency translation reserve	23,666,495.6
VI. Core capital	1,548,219.2
1. Registered equity	400,000.0
2. Reserve capital	1,148,219.2
VII. Earnings	667,180.3

CHIEF ACCOUNTANT
NATIONAL BANK OF POLAND

Ewa Popowska

MANAGEMENT BOARD
NATIONAL BANK OF POLAND

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

Balance sheet and profit & loss account

The balance sheet of the NBP and movements in its composition in 1998

The total assets of the National Bank of Poland at year end 1998 stood at 131,478.7m zloty, an increase of 22,490.8m zloty (20.6%) on the end of 1997. In real terms, asset growth came to 7.9%. The major movements in assets and liabilities in 1998 are presented in Table 12.

Table 12. Movements in assets and liabilities, 1998

	Balance at: 31/XII/1997	Balance at: 31/XII/1998	Change	31/XII/97 = 100
	million zloty			%
Assets				
1. Gold	923.1	3,328.7	2,405.6	360.6
2. Foreign exchange & cash in foreign currencies	73,705.0	95,461.4	21,756.4	129.5
3. Polish contributions, IMF & IBRD	4,307.3	4,567.9	260.6	106.1
4. Due from financial institutions	9,658.2	7,979.0	-1,679.2	82.6
5. Due from government	16,807.8	17,780.2	972.4	105.8
6. Other assets	3,586.5	2,361.5	-1,225.0	65.8
Total	**108,987.9**	**131,478.7**	**22,490.8**	**120.6**
Liabilities & capital				
1. Notes & coin in circulation	31,075.2	33,993.5	2,918.3	109.4
2. Securities issued and outstanding	14,374.0	28,575.5	14,201.5	198.8
3. Due to financial institutions	13,565.0	20,812.7	7,247.7	153.4
4. Due to government	2,278.7	2,865.4	586.7	125.8
5. Due to foreign institutions	7,151.4	7,784.2	632.8	108.9
6. Due to other parties	6,153.5	1,156.8	-4,996.7	18.8
7. Capital	1,466.5	1,578.2	111.7	107.6
8. Other items of liabilities & capital	32,923.6	34,712.4	1,788.8	105.4

The level of assets and liabilities was primarily a function of growth in the following items:

Assets:

- foreign exchange and cash in foreign currencies, up 29.5%, which is attributable to much faster growth in the gross official reserves than in the years 1996-1997, coupled with a decline in the value of the US dollar of 0.0140 zloty (taking the dollar down from 3.5180 zloty at year end 1997 to 3.5040 zloty at year end 1998);
- gold, up 260.6% due to gold purchases carried out in June 1998 to a total value of USD 709.9m.

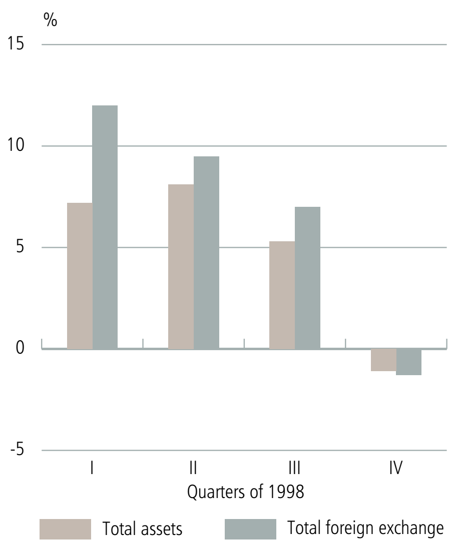
Liabilities and capital:

- securities issued and outstanding, up 98.8% due to the issue of securities to drain excess liquidity from the banking sector via open market operations;
- due to financial institutions, up 53.4%, which is mainly traceable to higher balances on the banks' current accounts;
- notes and coin in circulation, up 9.4%;
- capital and reserves, up 11.4% on year end 1997, with this increase chiefly due to growth in the currency translation reserve (which rose 2,480.3m zloty, i.e., 11.7%).

The increase in total assets largely took place in the first ten months of the year, when asset growth came to 24,002.8m zloty. This stems from the very strong correlation between asset growth and movements in foreign exchange and cash in foreign currencies, the basic component of the gross official reserves.

Quarterly movements in total assets and in total foreign exchange are depicted in Fig. 7

Figure 7. Quarterly movements in total assets and total foreign exchange, 1998



The growth in total assets, and the corresponding breakdown of this among the major items of assets and liabilities, also engendered changes in the composition of the Bank's balance sheet.

Table 13. NBP balance sheet at the end of 1997 & 1998

	Structure 31/XII/1997 %	Structure 31/XII/1998 %	Change, percentage points
Total assets	100.0	100.0	x
1. Gold	0.8	2.5	1.7
2. Foreign exchange & cash in foreign currencies	67.6	72.6	5.0
3. Polish contributions, IMF & IBRD	4.0	3.5	-0.5
4. Due from financial institutions	8.9	6.1	-2.8
5. Due from government, including sums due on government securities	15.4	13.5	-1.9
6. Other assets	3.3	1.8	-1.5
Liabilities & capital	100.0	100.0	x
1. Notes & coin in circulation	28.5	25.9	-2.6
2. Securities issued and outstanding	13.2	21.7	8.5
3. Due to financial institutions	12.4	15.8	3.4
4. Due to government	2.1	2.2	0.1
5. Due to foreign institutions	6.6	5.9	-0.7
6. Due to other parties	5.6	0.9	-4.7
7. Capital	1.4	1.2	-0.2
8. Other items of liabilities & capital	30.2	26.4	-3.8

The dominant component within the Bank's **assets** consists in foreign exchange and cash in foreign currencies. This item has been systematically increasing as a proportion of total assets, climbing from 55.6% in 1995, 61.8% in 1996 and 67.6% in 1997 to 73% in 1998. Furthermore, this item has a key impact on movements in the composition of liabilities and capital, particularly on the currency translation reserve, which represents 18% of total liabilities and capital.

The changes in the next two asset items, „due from government" and „due from financial institutions", did not affect their relative position within the structure of total assets. Both items decreased, going down 1.9 points to 13.5% and 2.8 points to 6.1%, respectively.

Claims on financial institutions (on domestic banks) have been declining in weight from year to year (13.1% in 1996, 8.9% in 1997 and 6.1% in 1998), with this decrease mainly related to claims on the banks on rediscount and lombard loans. Over 70% of the amount due from the banks is the result of their debt under refinancing for government central investment projects, comprising both the principal involved and interest capitalised during project construction.

In terms of **liabilities**, the largest item, at almost 26% (despite a drop of 2.6 points on year end 1997) are notes and coin in circulation. The decrease in question reflects the growth in NBP securities issued and outstanding, and in sums due on deposits taken from domestic banks. The weight of securities outstanding within total liabilities and capital rose 8.5 points, and that of sums due to financial institutions went up 3.4 points, chiefly as a result of the larger balances on banks' current accounts.

The steepest decline within the structure of total liabilities and capital, 4.7 points, was recorded by „due to other parties". This stems from the Bank ceasing the taking of six- and nine-month personal time deposits, an operation introduced in the fourth quarter of 1997.

Movements in assets

The largest asset item is foreign exchange and cash in foreign currencies. At year end 1998, this item stood at 95,461.4m zloty, an increase of 29.5% on 1997. The entire growth seen in this item occurred over eight months of 1998, principally in the period from July to August. This growth resulted from three factors:

- an increase in the gross official reserves,
- a weakening of the US dollar,
- a rise in stocks of foreign exchange (placements at foreign branches and subsidiaries of domestic banks) due to the release of 466.4m zloty in specific provisions, which in 1997 had diminished the carrying value of this item.

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

Table 14. Balances and structure of foreign exchange & cash in foreign currencies, 1997-1998

	Balance at:		Change	Structure	
	31/XII/1997	31/XII/1998		31/XII/1997	31/XII/1998
	million zloty			%	
Total foreign exchange & cash in foreign currencies	73,705.0*	95,461.4	21,756.4	100.0	100.0
of which:					
– foreign currencies	392.1	311.8	-80.3	0.5	0.3
– foreign securities	55,932.6	77,384.2	21,451.6	75.9	81.1
– current accounts & placements at foreign banks	17,183.8*	17,721.8* *	538.0	23.3	18.6
– SDRs	19.0	24.8	5.8	–	–
– other	177.5	18.8	-158.7	0.3	–

* net of specific provisions (466.4m zloty)

* * in 1998, the Bank released specific provisions against placements at foreign branches and subsidiaries of domestic banks (466.4m zloty)

The largest increase, as in preceding years, was seen in investments in foreign securities. The balance on this item rose from 55,932.6m zloty at year end 1997 to 77,384.2m at the end of 1998 (growth of 38.4%). As the schedule below demonstrates, this growth was concentrated in the first three quarters of the year.

Period	**Growth, million zloty**
January-March	10,380.7
April-June	6,014.9
July-September	6,527.4
October-December	-1,471.3
Total	**21,451.7**

At the end of 1998, foreign securities represented 81% of total foreign exchange and cash in foreign currencies. The prime component of this portfolio were long-dated securities issued by foreign central banks and governments. These accounted for 87.7% of the portfolio in 1998 (as against over 61% in 1997). Securities investments also include short-term placements under repurchase agreements, maturing in 14 days, which at December 31, 1998, had a total value of 5,993.0m zloty, down 15,638.7m zloty (72.3%) on 1997, as well as short-term paper issued by government agencies.

As part of preparations for the introduction of Economic and Monetary Union, in the last quarter of 1998 Deutschemark funds obtained under repurchase agreements were invested in DM-denominated government securities, which did not change their denomination with the launch of the euro. To avoid anticipated technical problems associated with the conversion of European currencies into euros, the decision was taken to restrict to the minimum repos and reverse repos in DM at the turn of the year.

Securities issued by US government agencies represent an instrument newly admitted as an approved investment vehicle. At December 31, 1998, holdings of these amounted to the equivalent of 3,490.5m zloty. Current balances and placements at foreign banks rose 0.4 % in gross terms over the year, going up from 17,650.2m zloty at the end of 1997 to 17,721.8m zloty at year end 1998.

The second largest asset item is „due from government", which accounted for 13.5% of total assets. In nominal terms, this item rose from 16,807.8m zloty at the end of 1997 to 17,780.2m zloty at the end of 1998, an increase of 5.8%.

The composition of the Bank's claims on government, and the nominal values of those claims, are given in Table 15.

Table 15. Balances and structure of claims on government, 1997-1998

	Balance at:		Change	Structure	
	31/XII/1997	31/XII/1998		31/XII/1997	31/XII/1998
		million zloty		%	
Total due from government	16,807.8	17,780.2	972.4	100.0	100.0
of which:					
– due on units of account	1,753.8	1,753.8	-	10.4	9.8
– government dollar-denominated bonds	8,536.4	10,736.7	2,200.3	50.8	60.4
– Treasury „conversion" bond	2,074.9	1,952.7	-122.2	12.3	11.0
– bonds for application of agreement					
with banks of London Club	3,377.6	3,337.0	-40.6	20.1	18.8
– loans extended under IBRD facility	64.4	-	-64.4	0.4	-
– loans to central government	1,000.7	-	-1,000.7	6.0	-

The principal factor impacting movements in the balance of government obligations to the NBP was the growth of the Bank's claims arising on government dollar-denominated bonds. This stemmed from the purchase in December 1998 of dollar-denominated bonds to finance the early redemption of long-term Treasury liabilities, to a value of USD 727.8m; at year end 1998, this amount represented 2,550.4m zloty. The government debt to the Bank on dollar-denominated bonds rose 2,200.3m zloty over the year, to stand at 10,736.7m zloty.

The level and composition of government debt to the central bank was also a result of:

- the repayment of a loan made to government in 1997 to fund spending associated with the flood containment and relief campaign that year (this loan was extended pursuant to the Act Amending the 1997 Budget of July 17, 1997),
- the early repayment by government of its liabilities under loans onlended to central government under an IBRD facility[6].

A significant position within the structure of the Bank's assets is also occupied by zloty bonds for the application of the agreement with the banks of the London Club, and a „conversion" bond used to repay government debt to the NBP arising on the Bank's financing of the fiscal deficit in the years 1982-1989 and 1991. The total liabilities of government (including accrued interest) on these bonds fell by 162m zloty, amounting to 5,289.7m zloty at year end 1998.

The movements in the Bank's outstanding claims on long-term bonds are the result of ongoing payments by central government or changes in debt servicing terms (alterations to the interest rate applicable due to changes in the variable lombard rate). However, these were not of major importance for the overall level of central government debt to the NBP.

The claim of 1,753.8m zloty on central government, which stayed unchanged throughout the year, relates to units of account purchased in 1990 by Bank Handlowy w Warszawie SA, and resold to the central bank, which were recognised by the Minister of Finance as a Treasury obligation to the Bank under an agreement regulating the question of settlements between the parties which was signed in December 1992 between the NBP, Bank Handlowy w Warszawie SA and the Minister of Finance.

[6] Under a loan agreement concluded on August 24, 1995, the National Bank of Poland extended a USD 15m loan to central government to finance capital expenditure in health care. This loan was to be amortised in 24 payments from the end of January 1996 to the end of January 2007. However, central government made the final payment (57m zloty) in December 1998.

The next largest item of the Bank's assets, „due from financial institutions", declined 17.4% during the year, to stand at 7,979.0m zloty (6.1% of total assets) at year end.

The balances and relative weight of particular components of this item are presented in Table 16.

Table 16. Balances and structure of claims on financial institutions, 1997-1998

	Balance net at:		Change	Structure	
	31/XII/1997	31/XII/1998		31/XII/1997	31/XII/1998
	million zloty			%	
Total claims on financial institutions	9,658.2	7,979.0	-1,679.2	100.0	100.0
1. NBP placements at domestic banks	1,425.1	405.7	-1,019.4	14.8	5.1
2. Total refinancing	7,714.8	7,116.6	-598.2	79.9	89.2
of which:					
– refinance loans	6,870.7	6,903.3	32.6	71.1	86.5
– rediscount loans	230.4	202.1	-28.3	2.4	2.5
– lombard loans	613.7	11.2	-602.5	6.4	0.2
3. Other claims on banks	518.3	456.7	-61.6	5.3	5.7

This item of the Bank's assets is made up of three economically different 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 IBRD.

The basic constituent of this asset category is the sum due from banks on total refinancing. This came to 6,904.8m zloty at the end of 1998; the sum shown in the balance sheet, 6,903.3m zloty, is net of a 1.5m zloty provision against problem claims. The outstanding debt of the banks on refinance extended to them (net of the provision) increased during the year by 32.6m zloty (0.5%).

Table 17 sets out a detailed breakdown of claims on the commercial banks arising form refinance loans.

Table 17. Balances and structure of refinance loans, 1997-1998

	Balance net at:		Change	Structure	
	31/XII/1997	31/XII/1998		31/XII/1997	31/XII/1998
	million zloty			%	
Total refinance loans:	6,870.7	6,903.3	32.6	100.0	100.0
of which:					
- central investment loans	2,099.1	2,040.4	-58.7	30.5	29.5
- capitalisation of interest on central investment loans	3,476.2	3,573.9	97.7	50.6	51.8
- overdrafts (debt of Bank Handlowo-Kredytowy SA)	1,295.4	1,289.0	-6.4	18.9	18.7

The largest item of the banks' debt during the reporting period comprised financing obtained for government central investment projects. In 1998, the Bank provided refinancing for corporate debt to the banks on funding for 13 projects of this type. The outstanding debt involved totalled 5,614.3m zloty at year end, up 39.0m zloty on year end 1997. A substantial increase in this sum (204.9m zloty) occurred in the fourth quarter of 1998, attributable to 283.3m zloty in interest being rolled up on December 31, 1998. At the same time, the banks repaid 78.4m zloty in central investment loans during this period. The share of these loans in total refinancing to the banks edged up in the course of the year from 81.1% to 81.3%.

The claims on commercial banks on refinancing granted to them are not uniform in character. Over 63% of the outstandings involved represent the financing of capitalised interest accrued while the investment projects in question were under construction. At year end 1998, refinancing against capitalised interest amounted to 3,573.9m zloty, having gone up 2.8% since the end of 1997. The proportion of refinancing which comprises rolled-up interest has been rising systematically – in 1996 it accounted for 59.6%, in 1997 for 62.4%, and in 1998 for 63.7%.

In 1998, of the total volume of central investment loans, over 87% (4,912.2m zloty) was being utilised by PBG SA, Łódź (of the Pekao SA Group), against financing to the Opole Power Station. Under the programme of debt restructuring for the power station adopted in 1997, further financing was ceased in 1998.

Another significant item in refinance loans (18.7% of the total) is the outstanding debt of Bank Handlowo-Kredytowy SA (BHK SA), Katowice, which is under liquidation. At year end 1998, this stood at 1,289m zloty, a decrease of 6.4m zloty (0.5%) on year end 1997. This decline was primarily the result of the repayment of interest accrued prior to March 30, 1992. In addition, BHK SA is obliged to repay interest accrued since April 1, 1992, which at the end of the reporting period came to 1,183.1m zloty.

The movements in the banks' debt to the NBP under other forms of refinancing were not of material importance either to the volume of total claims outstanding, nor to the composition of those claims.

The total volume of rediscount loans to the banks on the rediscounting of trade bills stood at 0.3m zloty at year end 1998, a drop of 1.4m zloty since the end of 1997.

The total value of rediscount loans to finance the procurement of agricultural produce (mainly drawn by those banks financing procurement by sugar mills), arising on the rediscounting of notes from the companies carrying out such procurement, amounted to 201.8m zloty at the end of the year, which is 26.9m zloty less than at the end of 1997.

At year end 1998, the outstanding liabilities of the banks under drawdowns of lombard facilities were composed of lombard loans for restructuring purposes, totalling 11.2m zloty. Loans of this kind are extended to refinance restructuring programmes at business organisations, and are collateralised by Treasury bills and bonds issued by the banks. The balance on these loans dropped 25.7m zloty (69.9%) in 1998. This corresponded to the provisions of the relevant agreements concluded with the banks.

In June 1998, the Bank introduced new *Terms and conditions for the refinancing of banks under lombard facilities*. The changes made as a result did not affect the basic principles governing refinancing and were principally designed to provide more flexibility in the access of banks to lombard facilities. Lombard facilities were generally drawn down at the end of a given month for periods of one to five days as the banks topped up required reserves on account at NBP. The banks utilised lombard loans to supplement their liquid funds during the first three quarters of 1998 – at year end, there were no outstanding claims of this sort.

The National Bank's foreign currency placements at domestic banks, the next largest item in claims on financial institutions, trended downwards during 1998.

Table 18. Movements in foreign currency placements at domestic banks, 1998

	Balance at: 31/XII/1997	Quarterly change, 1998				Balance at: 31/XII/199884
		Q1	Q2	Q3	Q4	
Foreign currency placements at domestic banks	1,425.1	-28.9	250.3	1,636.2	-2,877.1	405.6
of which:						
– special deposits	632.3	-2.0	422.6	1,628.9	-2,681.8	-

At year end 1997, these placements had totalled 1,425.1m zloty, representing almost 15% of all claims on the financial sector. By year end 1998, however, they had fallen to 405.7m zloty, and accounted for 5.1% of these claims.

Movements in the foreign currency placements of the NBP at domestic banks during the year 1998 are shown in Table 18.

Movements in these placements were the result of the following:

- the partial return of time deposits placed at Bank Handlowy w Warszawie SA, and full return of those at Bank Pekao SA. These deposits arose on the netting in 1992 and 1993 of the liabilities of the NBP and of those banks on foreign currency purchases carried out in 1991. The decrease in these placements corresponded to contractual agreements and came to 375.9m zloty;
- the withdrawal by the NBP of special deposits placed in convertible currency on a special account at Bank Pekao SA, these totalling USD 727.8m, i.e., 2,531.4m zloty. These deposits were converted into Treasury bonds of identical value denominated in US dollars;
- the revaluation of the above-mentioned deposits at the applicable mid-rate and the settlement of interest due.

Other claims on banks constituted 5.7% of total claims on financial institutions, and the reasons for movements in this item, and size of such movements, are therefore not a material consideration in analysing the total assets of the Bank. However, due to the nature of the operations involved here – the purchase of bonds and promissory notes from banks in the process of rehabilitation – these claims are the subject of particularly scrupulous ongoing monitoring. This monitoring process led to the determination that part of the claims on bonds and notes purchased may be difficult to collect, and suitable provisions were thus established, totalling 75.2m zloty.

In 1998, „other assets" decreased by 34.2%, to stand at 2,361.5m zloty at year end. As a result, the share of this item in total assets dropped by 1.5 points.

Movements in the Bank's other assets, and the composition of these, are set out in Table 19.

Table 19. Balances and structure of other assets, 1997-1998

	Balance at:		Structure	
	31/XII/1997	31/XII/1998	31/XII/1997	31/XII/1998
	million zloty		%	
Other assets	3,568.5	2,361.5	100.0	100.0
of which:				
- appropriations of earnings	1,150.5	667.2	32.2	28.3
- settlements under Libyan credit facility	392.0	331.9	10.9	14.1
- fixed assets	519.6	574.8	14.6	24.3
- equity investments	85.6	120.9	2.4	5.1
- accrued income & prepaid expense	1,118.8	264.5	31.4	11.2
- settlements on disposals of financial fixed assets	-	161.2	-	6.8
- other	302.0	241.0	8.5	10.2

The volume of „other assets" and the movements within this item in the course of 1998 were primarily a function of appropriations of earnings, and of accrued income and prepaid expense. The movements in appropriations of earnings were related to the profit generated by the Bank and the way in which this was distributed, pursuant to the Act on the NBP.

The drop of 854.3m zloty in accrued income and prepaid expense chiefly stemmed from a decline in prepaid expense associated with the payment of interest on time savings deposits and the issue of 28-day money market bills, with the discount on these taken directly to expense. The movements in the Bank's equity investments were determined by:

- a 166.6m zloty reduction in equity holdings due to the sale of Pierwszy Komercyjny Bank w Lublinie (PKB SA), and the one-off release of valuation allowances held against shares in that bank,

- the currency translation of the balance of equity investments in foreign undertakings, at the exchange rates ruling on balance date (2.4m zloty),
- the release of provisions against a shareholding in BH, Luxembourg (32.9m zloty),
- the charging to provisions of a shareholding in the EP Partners company on the liquidation of that company (0.3m zloty).

The 60.1m zloty reduction in the outstanding balance on the Libyan credit facility was caused by the partial settlement of this claim effected in 1998.

„Other assets" also include various other claims and inventories, including outstanding foreign settlements related to claims on the Government of Bulgaria. However, these are zeroed out in the balance sheet due to the fact that the claims involved have been fully provisioned.

The item in question concerns US dollar and D-mark time deposits placed by the NBP in the years 1989-1990 at the Bulgarian Foreign Trade Bank Ltd, Sofia (BFTB Bulbank). In 1990, BFTB advised the Bank that it would not be able to repay these deposits and the related interest on schedule. Since then, the Bank has been compelled to perform an automatic rollover of the placements every three months and to capitalise the interest.

In 1994, the question of the placements at Bulbank was raised during a plenary meeting of the Presidents of Poland and Bulgaria in Sofia. Discussions with BFTB were held in both 1995 and 1996. In 1995, these discussions focussed on a proposal that the placements be exchanged for securities – Bulgarian Treasury bonds – but no resolution of the issue was forthcoming. In April 1996, the NBP made a proposal to BFTB that the terms agreed by Bulgaria with the Paris Club be taken as the basis for restructuring the placements – repayment under the longest variant involved would have been spread over 11 years, with a 7-year grace period for repayment of principal. By the end of 1996, the Bulgarian side had still to respond to the Bank's proposal, although the Bank forwarded a reminder on November 25, 1996.

Discussions and negotiations with Bulgarian government agencies conducted by the NBP over the next two years with a view to obtaining a return of the placements at BFTB were brought to a conclusion on September 19, 1998, with the signing of an Agreement between the National Bank of Poland and the Government of Bulgaria. The two sides reaffirmed that the issue to be resolved under the said Agreement concerned liabilities of Bulbank to the NBP on placements totalling USD 25m and DM 44m, together with unpaid interest outstanding. The Government of Bulgaria declared that, pursuant to a Resolution of the National Assembly of the Republic of Bulgaria of January 23, 1992, it had assumed all the liabilities of Bulbank to the NBP with respect to the said placements and that it was acting in its place as obligor in relation to all the obligations specified in the Agreement.

At year end 1998, the claim on Bulgaria came to 258.4m zloty (gross). As a result of debt restructuring, the conversion of the claim to D-marks, and repayment of 15% of the interest accrued since 1990, the outstanding amount due was 19.9m zloty lower than at the end of 1997.

Movements in liabilities

The movements that took place within the liabilities of the National Bank of Poland in 1998 were basically all in the same direction. Most items rose, although the scale of the increase varied. Rapid growth was recorded in „securities issued and outstanding" (up 98.8%), „due to financial institutions" (up 53.4%) and „due to government" (up 25.8%).

The prime component of the Bank's liabilities continues to be notes and coin in circulation. At year end 1998, the proportion of this item in total liabilities and capital had declined 2.6 points, to come to 25.9%. In nominal terms, this item rose 33,993.5m zloty, representing annual growth of 9.4%. During the course of the year, movements in notes and coin were of an unusual character. In the first quarter, growth of 904.4m zloty was reported, the equivalent of 31.0% of total annual growth, while in the second quarter the increase was 2,628.8m zloty, which corresponded to 90.1% of annual growth. As of September, growth halted, and the volume of notes and coin in circulation in particular months stayed roughly flat, averaging around 33,370m zloty.

A significant impact on the Bank's liabilities in 1998 was exerted by open market operations, conducted with a view to implementing the monetary policy guidelines adopted for the year. These operations are reflected in the Bank's balance sheet under „securities issued and outstanding". The movements in this item are set out in Table 20.

Table 20. Securities issued and outstanding (million zloty)

	Period				
	31/XII/1997	31/III/1998	30/VI/1998	30/IX/1998	31/XII/1998
- balance	14,374.0	20,727.7	22,056.9	30,025.2	28,575.5
- quarterly movement	–	6,354.7	1,329.2	7,968.3	-1,449.7

The primary instrument employed in open market operations were NBP money market bills, with the volume of these outstanding at year end 1998 coming to 14,201.5m zloty, which constitutes an increase over the year of 98.8%. This item represented 21.7% of total liabilities and capital, up 8.5 points on year end 1997.

The growth in the scale of open market operations in 1998, and thus also in the issue of NBP bills, was mainly due to the considerable increase in the volume of foreign currency purchased, which compelled the National Bank to take steps to contain liquidity on financial markets.

Sums due to financial institutions, another large item in the Bank's liabilities and capital, amounted to 20,812.7m zloty, which signifies an increase over the year of 53.4%; this increase is traceable to the following:

- a rise of 146.2% in the current balances of the banks,
- a decline in required reserves due to the use of current balances to meet reserve requirements,
- a decrease of 1.3bn zloty in time deposits associated with reverse repos.

The composition of the bank's liabilities to the financial sector is given in Table 21.

Table 21. Balances and structure of liabilities to financial institutions, 1997-1998

	Balance at:		Structure	
	31/XII/1997	31/XII/1998	31/XII/1997	31/XII/1998
	million zloty		%	
Total due to banks on accounts held at NBP	13,565.0	20,812.7	100.0	100.0
of which:				
– current accounts	7,982.2	19,652.7	58.8	94.4
– required reserve accounts	3,256.6	0.1	24.0	-
– time deposits	1,288.1	–	9.5	-
– other liabilities	1,038.1	1,159.9	7.7	5.6

Over 94% of all the Bank's liabilities on deposits held by domestic banks were balances on current accounts, which, together with required reserves, totalled 19,652.7m zloty.

Balances on time deposits (taken from banks under operations at tender) fell to zero at the end of 1998. These deposits are the result of reverse repos performed under open market operations, and these transactions were not conducted in 1998.

Other liabilities to the commercial banks represent overnight balances resulting from the bank's performance of payment instructions placed by customers (government institutions and special-purpose funds) on December 31, where the beneficiaries were corporates and other organisations holding current accounts at other domestic banks. These liabilities are for next-day settlement.

At the end of 1998, „other liabilities" to financial institutions amounted to 1,159.9m zloty and had risen 11.7% during the reporting period.

The next liability item, „due to government", stood at 2,865.4m zloty at year end 1998, an increase of 25.7% on the end of 1997. The basic reason for this growth was a 29.8% rise in central government balances at the Bank as a result of larger proceeds from the privatisation of Treasury assets.

Table 22 presents the balances and structure of the Bank's liabilities to government.

Table 22. Balances and structure of liabilities to government, 1997-1998

	Balance at:		Structure	
	31/XII/1997	31/XII/1998	31/XII/1997	31/XII/1998
	million zloty		%	
Total due to government	2,278.7	2,865.4	100.0	100.0
of which:				
– current accounts of government institutions	30.3	16.1	1.4	0.6
– central government funds:				
– current year	1,480.9	1,922.2	65.0	67.1
– following year	565.8	444.2	24.8	15.5
– Polish Stabilisation Fund	199.0	480.1	8.7	16.7
– central government deposit	2.7	2.8	0.1	0.1

The remaining components of this category of liabilities, given their size, had no significant impact on the balances and movements in the Bank's liabilities to government.

In 1998, sums due to foreign institutions rose 8.8%, to reach 7,784.2m zloty by year end (representing some 6% of total liabilities and capital).

The components and composition of this item are shown in Table 23.

Table 23. Balances and structure of liabilities to foreign institutions, 1997-1998

	Balance at:		Structure	
	31/XII/1997	31/XII/1998	31/XII/1997	31/XII/1998
	million zloty		%	
Total due to foreign institutions	7,151.4	7,784.2	100.0	100.0
of which:				
– subscriptions, IMF	3,936.4	4,183.3	55.1	53.7
– foreign currency borrowings				
from international institutions	102.0	–	1.4	-
– foreign currency borrowings				
from foreign banks	514.2	442.4	7.2	5.7
– other	2,598.8	3,158.5	36.3	40.6

The largest component of this item are deposits from the IMF corresponding to capital subscriptions from the Polish Republic. At year end 1998, this item stood at 4,183.3m zloty and constituted 53.7% of total liabilities to foreign institutions, with the increase in this item a consequence of revaluation by the IMF.

The largest constituent of the item „other" liabilities are reverse repo transactions conducted on international markets. At year end 1998, the amount due on these transactions came to 3,158.5m zloty, which represents an increase of 559.7m zloty compared to the end of 1997, a result of the Bank expanding its involvement in these transactions. As a proportion of liabilities to foreign institutions, this item grew by 4.3 points.

The liability item „due to other parties" amounted to 1,156.8m zloty at December 31, 1998, having fallen over 80% during the year. There were two factors at play here: the first was that in December 1997 the Bank ceased taking 6- and 9-month personal time deposits, and the second was that the balances held by government special-purpose funds declined. This caused a decrease in the relative importance of this item within total liabilities and capital from 5.6% at year end 1997 to 0.9% at year end 1998.

Table 24 provides details on this overall category of the Bank's liabilities.

Table 24. Balances and structure of liabilities to other parties, 1997-1998

	Balance at:		Structure	
	31/XII/1997	31/XII/1998	31/XII/1997	31/XII/1998
	million zloty		%	
Total due to other parties	6,153.5	1,156.8	100.0	100.0
of which:				
– government special-purpose funds	1,976.3	1,096.4	32.1	94.8
– accounts of non-bank financial institutions	2.3	2.4	0.1	0.2
– auxiliary accounts	1.9	2.9	–	0.3
– time savings deposits	3,599.8	3.4	58.5	0.3
– interest due on time savings deposits	540.8	-	8.8	-
– miscellaneous foreign currency accounts	30.4	48.6	0.5	4.2

The acceptance of personal time deposits by the NBP was a supplementary monetary policy instrument used to absorb the reserves of liquid funds held by households. The final maturities on these deposits were in September 1998, and the balance of 3.4m remaining at year end represents deposits uncollected by accountholders.

The decrease noted in balances held by government special-purpose funds (which accounted for the overwhelming majority of all liabilities to other parties, almost 95%) mainly involved the social insurance fund (a decline of 879.9m zloty).

January 1, 1998, saw the taking effect of the new Act on the National Bank of Poland, the provisions of which define the capital of the NBP. The Act specifies that the core capital of the NBP consists of registered equity and reserve capital. Special funds, the other component of the Bank's capital, comprise the staff bonus fund, the works discretionary bonus fund and the works staff welfare fund. As a result of these statutory provisions, the other funds previously maintained by the Bank were wound up, and the balances on them credited to reserve capital.

At year end 1998, the Bank's capital funds amounted to 1,578.2m zloty, having risen 111.7m zloty (7.6%) since 1997. Core capital increased 1,148.2m zloty in consequence of the following:

- the appropriation to registered equity of 200m zloty, taking it to 400m zloty, as specified in the Act on the NBP,
- the transfer to reserve capital of 934.9m zloty, this representing the balances on the special funds now wound up,
- the appropriation to reserve capital, pursuant to the Act, of 2% of the net profit earned in 1998, this appropriation amounting to 13.3m zloty.
- At December 31, 1998, the Bank's special funds totalled 30m zloty. The basic component of this, over 96%, is the staff bonus fund.

The balance-sheet category „other items of liabilities and capital" stood at 34,712.4m zloty at year end 1998, having gone up 1,788.8m zloty in the course of the year. As a proportion of the Bank's total liabilities and capital, this fell from 30.2% in 1997 to 26.4% in 1998.

Figures on the components of this item are given in Table 25.

Table 25. Balances and structure of other items of liabilities and capital, 1997-1998

	Balance at:		Structure	
	31/XII/1997	31/XII/1998	31/XII/1997	31/XII/1998
	million zloty		%	
Other items of liabilities and capital	32,923.6	34,712.4	100.0	100.0
of which:				
– deferred income	10,175.6	9,829.5	30.9	28.3
– currency translation reserve	21,186.2	23,666.5	64.6	68.2
– earnings	1,150.5	667.2	3.5	1.9

The largest part of the above category is the currency translation reserve, which constitutes 68.2% of „other items of liabilities and capital”. This arises on the translation of the Bank's holdings of foreign exchange and cash stocks of foreign currency, as performed on the basis of mid-rates. The increase of almost 12% recorded during the year was strictly related to the devaluation of the zloty in 1998, and to the growth in the overall level of the gross official reserves.

The second important component of „other items of liabilities and capital” is deferred income. This includes income due on capitalised interest accrued on refinancing for central investment projects, and interest on the loan to BHK SA (under liquidation). At the end of December 1998, income from these sources amounted to 4,862.9m zloty, i.e., 49.5% all deferred income. Of the remainder, 4,670.5m zloty 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.

A detailed discussion of the origin of, and movements in, the third component of this category – earnings – is contained in the next subsection.

The financial performance of the NBP

In 1998, the operations of the National Bank of Poland yielded a profit of 667.2m zloty. This was 42% less than the net earnings recorded in 1997, yet 16.4% more than planned.

The level of profit generated by the NBP, the growth ratios involved and the performance of the Bank's financial plan were primarily determined by the following factors:

- movements in the level and composition of the gross official reserves, which considerably exceeded the projections in the financial plan; over the year 1998, the reserves rose USD 6.7bn (as against USD 2.6bn the previous year), to stand at USD 27.4bn at year end; the plan projected a level that was USD 1.6bn higher;
- the volume of money market bills issued by the NBP, which was a function of the need to drain excess liquidity from the banking system; the expense of issuing these bills was some 50% higher than projected for the year 1998 (and than that recorded the previous year);
- the mid-rate of the zloty against the dollar, which was lower than anticipated; this stood at zloty/USD = 3.5, as against a projected level of zloty/USD = 3.7;
- the rate of inflation, again lower than projected, which also yielded lower interest rates.

It should be emphasised that the volume of profit generated by the NBP in 1998 was also linked to the Bank's general expense, which was substantially lower than projected (74.8m zloty lower).

A breakdown of the income and expense of the NBP in 1998, and details of performance against plan, are given in Table 26.

Table 26. Income and expense, 1998

	1997	1998			
	performance	plan	performance		
		million zloty		1997=100	plan =100
Total income	6,905.8	6,399.6	7,657.7	110.9	119.7
of which:					
– securities	4,344.0	4,479.2	4,969.2	114.4	110.9
of which:					
– foreign	2,708.4	3,123.9	3,591.2	132.6	115.0
Total expense	5,755.3	5,826.4	6,990.5	121.5	120.0
of which:					
open market operations	3,729.4	4,305.0	5,289.8	141.8	122.9
Profit	1,150.5	573.2	667.2	58.0	116.4

In terms of **income** – as in previous years, the major source consisted in securities trading. This generated 64.9% of total income (compared to 62.9%

in 1997). Income on foreign securities (including income on repurchase transactions involving these securities) represented 46.9% of total income (as against 39.2% the previous year), while income on domestic securities yielded 18.0% (compared to 23.7% in 1997).

In terms of **expense** – the determining factor were open market operations conducted in 1997 and 1998. The aggregate expense incurred on these operations accounted for 75.7% of total expense (as against 64.8%), overshooting the planned target and growing considerably faster than total expense.

In relation to the projections included in the financial plan, it is necessary to underline the change in the structure of expense on open market operations, which was a consequence of the scope and nature of the operations performed. In order to stabilise the money market in 1998, the central bank issued solely its own money market bills. This made up 92.3% of total expense on open market operations, as against a planned 74.3%.

The level of **profit** achieved in 1998 – 667.2m zloty – was a function of the volume of income realised (7,657.7m zloty) and expense incurred (6,990.5m zloty). In turn, the income and expense booked in 1998 was determined by various factors, primarily associated with the Bank's decisions relating to monetary policy.

The income obtained by the NBP in 1998 was spread out unevenly during the year, from 328.7m zloty in March to 1,257.9m zloty in October, which principally reflected the distribution of income on securities (varying interest payment dates and a large increase in the official reserves). Expense, mainly the expense of issuing NBP money market bills, was also borne unevenly: from 339.5m zloty in January to 834.9m zloty in December.

Fig. 8 illustrates the Bank's income, expense and profit in particular months of the reporting period.

The profit earned by the National Bank was around 116% higher than projected in the annual plan. Part of this profit – 64.8m zloty – was appropriated to the Bank's capital. while the remainder was transferred to central government.

The distribution of the Bank's 1998 profit, against the previous year's performance and the Bank's plan, is presented in Table 27.

Figure 8. Income, expense and profit, 1998

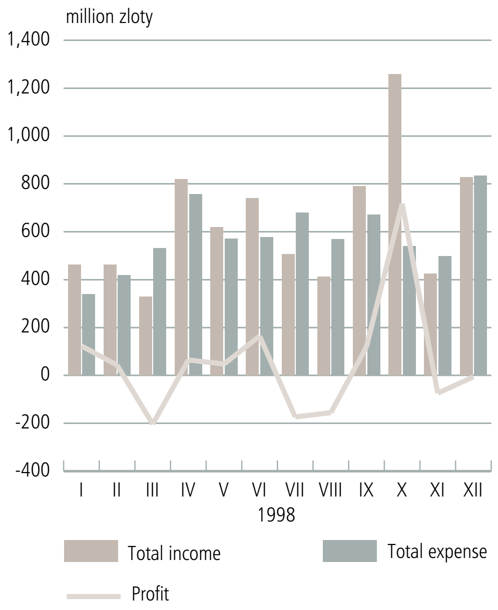


Table 27. Distribution of profit

	1997	1998			
	performance	plan	performance		
		million zloty		1997=100	plan =100
Total profit	1,150.5	573.2	667.2	58.0	116.4
of which:					
1) appropriations to capital	38.6	35.5	64.8	167.9	182.5
– reserve capital	–	11.5	13.4	x	116.5
– staff bonus fund	15.5	24.0	51.4	331.6	214.2
– foreign exchange fund	11.6	-	-	x	x
– capital expenditure fund	11.5	-	-	x	x
2) paid to Treasury	1,111.9	537.7	602.4	54.2	112.0
of which: advance payments	890.0	–	100.0	11.2	x

Altogether, appropriations to the Bank's capital represented 9.7% of total profit. As required, the Bank transferred the great majority of profit – 90.3%, i.e., 602.4m zloty – to central government (this does not include government revenues from interest earned on short-term placements at the NBP, performed under an authorisation included in the 1998 Budget; these totalled 198.6m zloty).

Balance of Payments of the Republic of Poland, 1998

The current account and Poland's economic situation

The balance of payments as drawn up on the basis of payments registered by the banks allows an initial assessment of the impact of the external sector on Poland's economic situation in 1998. A full evaluation of this will be possible when figures are available on the balance of payments compiled on the basis of transaction data.

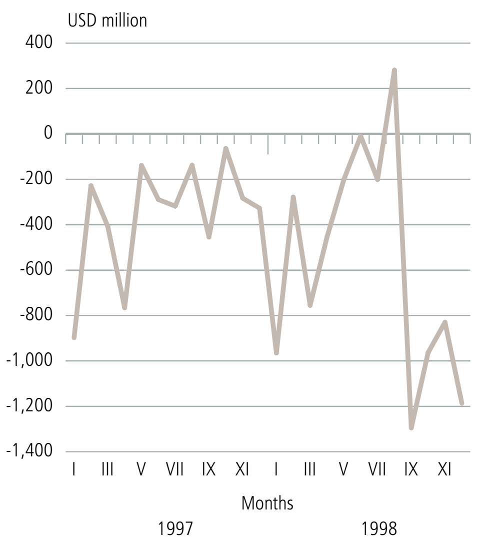
Table 28. Selected balance of payments ratios (payments registered by the banks), 1995-1998

	Unit	1995	1996	1997	1998
Current balance, % GDP	%	4.6	-1.0	-3.0	-4.4
Merchandise and services balance, % GDP	%	-1.4	-6.2	-7.7	-9.0
Merchandise & services: exports/ imports	%	94.0	76.9	73.8	70.4
Imports/ official reserves	monthly	6.5	6.0	5.9	6.8
Net FDI/ current balance	%	20.8	-204.7	-71.4	-74.8
Official reserves/ domestic money stocks	%	44.5	46.5	49.9	51.3
Current balance	USD million	5,455	-1,350	-4,312	-6,858
Merchandise & services balance	USD million	-1,677	-8,363	-11,015	-14,228
Merchandise & services exports	USD million	26,068	27,803	30,953	33,800
Merchandise & services imports	USD million	27,745	36,166	41,968	48,028
Net FDI	USD million	1,132	2,768	3,077	5,129
Gross official reserves, year end	USD million	14,963	18,033	20,670	27,382
GDP	USD million	119,082	134,550	143,100	157,542
Domestic money stocks	USD million	33,612	38,782	41,392	53,403
Exchange rate, zloty/USD, annualised average	PLN	2.4244	2.6965	3.2808	3.4937

Nevertheless, the data registered by the banks already allow us to conclude that the deficit on the current account grew during the year. This deficit rose both in nominal terms, up from USD 4.3 bn in 1997 to USD 6.9bn in 1998, and in relation to GDP - up from 3% to 4.4%. The widening of the current deficit in reality signifies a larger gap between domestic gross disposable incomes and domestic demand, i.e., between the volume of consumption and that of domestic investment. The shortfall on the current balance indicates that the aggregate growth in domestic demand was higher than the growth of GDP.

The slowdown in the economy thus observable is confirmed by the figures on merchandise trade. Export receipts rose 10.6% on the previous year (as against 11% growth in 1997). Meanwhile, import remittances went up 13.7% (18% in 1997). The major decline in import growth may be attributed to weaker growth in domestic demand. However, despite that positive trend, the deficit on visible trade increased more than 20% on 1997, to stand at USD 13,720m.

Figure 9. Current balance



In the first three quarters of 1998, receipts from merchandise exports were higher than they had been in the same period of 1997. This trend was reversed in the fourth quarter, when exports were lower than they had been in the same quarter of 1997. The main reason for this was the Russian crisis and the decline in import demand in the countries of the European Union. These events abroad were the determining factor behind developments at home, curtailing foreign demand for Polish industrial goods and agricultural produce. In evaluating the volume of Polish exports last year and the movements in export figures, it is also important to consider unclassified current transactions, which are to some extent a reflection of the inflow of funds from local cross-border trading. As in the case of officially registered exports, strong performance was recorded here in the first three quarters of 1998 (aside from some temporary problems at the very beginning of the year). Over this period, net revenues on unclassified transactions were up 12.6% on 1997. However, the fourth quarter saw a clear decrease in the volume of currency purchased as a result of unclassified transactions, both in terms of the preceding quarters, and also year-on-year. The cause of this change in trend was again the Russian crisis, which had a negative impact on cross-border trading. The devaluation of the rouble and the other CIS currencies altered price differentials and reduced the appeal of making purchases at Polish open-air markets. The tendency for our Eastern neighbours to cut back their purchases had in fact been seen since the beginning of the year as a consequence of restrictions on personal travel into Poland, but this had previously been offset by higher purchases at the Western border. It is likely that the significant decrease in purchases from September 1998 onwards lies behind the decline in revenues on unclassified current transactions.

As regards merchandise imports, these were influenced by factors moving in the opposite direction. The growth of merchandise imports, as registered by the banks, was constrained by the above-mentioned slowdown in domestic demand growth. However, this intended effect was partially neutralised by the lifting of tariff barriers, which heightened the competitiveness of imported goods on the domestic market. The lowering of customs barriers is related to performance of Poland's agreement on association with the EU and also of agreements concluded within the framework of the World Trade Organisation. This is particularly evident in merchandise trade between Poland and the European Union. Since implementation of the association agreement, the EU countries have substantially increased their surplus on merchandise trade with Poland. Another factor increasing the price attraction of imported goods was the appreciation of the zloty in real terms, as adjusted by reference to the Consumer Price Index. Imports also received a major boost from the large inflow of foreign direct investment (FDI), which was almost always accompanied by the transfer of modern technology.

A factor that had a positive impact on the balance of trade were favourable movements in export prices relative to movements in import prices. The increase in export prices (up 0.1%) was coupled with a decrease in import prices (down 3.7%), bringing the terms of trade to 103.9. This signifies a change in the trend seen over the previous two years, when the terms of trade were below 100.

Table 29. Merchandise trade, growth (by value, volume and USD prices; previous year = 100)

	1994	1995	1996	1997	1998*
Exports					
Value	121.9	132.8	106.7	105.4	102.2
Volume	118.3	116.7	109.7	113.7	102.1
Prices	103.3	113.8	97.3	92.7	100.1
Imports					
Value	114.5	134.7	127.8	113.9	111.0
Volume	113.4	120.5	128.0	122.0	115.3
Prices	101.9	111.8	99.8	93.4	96.3
Terms of trade	101.4	101.8	97.5	99.4	103.9

* Figures for 11 months

Source: Handel Zagraniczny, Central Statistical Office (GUS).

There were also interesting changes in the currency composition of merchandise trade. The currencies of the euro area countries achieved a dominant position in settlements of Polish foreign trade. The total share of these currencies in trade settlements stood at 51.3%, having gone up over 10 points since 1994. This proportion was even greater in the case of imports, coming to 58.5% (an increase of over 12 points). This rise in the role of the euro area currencies occurred at the expense of the US dollar. The movements in the denomination of Polish merchandise trade stem from the progressive integration of the Polish economy with that of the EU countries, particularly with those involved in EMU.

As regards services, the net credit balance recorded in 1997 became a net debit balance in 1998. The deficit on services in 1998 amounted to USD 508m and was caused by a substantial increase in outgoing payments (up 22.4%), with incoming payments remaining at a level approximately similar to that of the previous year. The determining factor within this deficit were payments under the item "other commercial services". This includes commercial brokerage, operating leases, engineering services, advisory services in law and accounting, etc. A noteworthy development here was the increase in debits on operating leases and engineering services. There was also a negative balance on payments related to other categories of services, including payments for construction services, and patents and licence fees. The changes that took place within the above-mentioned categories are traceable to the growing activity of foreign direct investors in Poland, which is coupled with technology transfer that translates into rising service imports. It is also worth noting the decline in the surplus recorded on transportation services. This may well attest to a certain weakening of the competitive position of Polish transportation companies. A full analysis of the trends observable in relation to the balance of services will be possible when balance of payments figures based on transaction data become available.

Another item of the balance of payments that exacerbated the shortfall on current transactions was income. This means that the deficit on this item decreased domestic disposable incomes. The deficit on income is a consequence of the fact that domestic parties hold considerably greater foreign liabilities than foreign assets. For example, at year end 1997, Polish liabilities abroad were altogether USD 30.5bn higher than Polish assets abroad[7]. This negative position became even greater in the course of 1998, which was reflected in an increase in the deficit on income payments, which rose to USD 568m. The dominant components of the negative balance on income in 1998 were net income on direct investment and on other investment, particularly interest payments on loans extended and received. The deficit on income from direct investment was primarily due to the repatriation of profits by foreign direct investors, and also to interest payments on borrowings from foreign investors. Meanwhile, the deficit on income from other investment was the result of debt service (interest payments) by Polish residents to non-residents, this chiefly involving the servicing of the foreign debt of the Polish Treasury.

Figure 10. Income

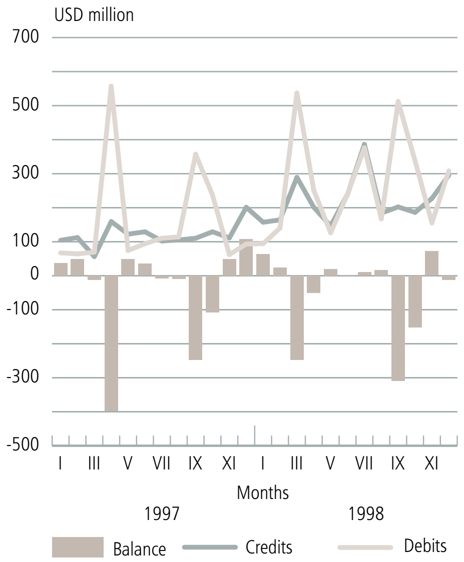


Figure 10, which presents monthly credits and debits and the balance on income, shows the clear increase in outgoing payments in March and September 1998, and also in similar periods of 1997. In these months, outflows of income were several times above the monthly average. With monthly inflows of income staying relatively flat, this produced large deficits in the months in question and had a major impact in generating a negative balance for the year as a whole. These outgoing payments, of such significance for the overall balance on income, were associated with the servicing of the debt of the Polish Treasury to the creditors of the Paris Club.

In terms of inflows of income, the predominant item was income obtained by the central bank on its reserve assets. Given that these assets grew throughout 1998, the income earned on them rose as well.

Positive impact of incoming transfers on current balance

One item of the balance of payments, as registered by the banks, which increased domestic disposable incomes, and thus exerted a positive affect on the current account, were current transfers. The net credit balance on current transfers came to USD 1,942m, of which over 20% were official transfers, while the remainder involved the other sectors. Official transfers were chiefly composed of donations and non-refundable assistance from foreign governments, and taxes and charges collected by Poland's government sector. A considerable part of this non-refundable assistance consisted in funds from the European Union under EU assistance programmes. Transfers to the other sectors, on the other hand, primarily comprised funds transferred by Poles living abroad to their families at home. These transfers were mainly in the form of payments to personal foreign currency accounts held by Polish residents. The funds involved were also obtained as gifts, alimony payments, and transfers of wages, and of old age and disability pensions.

[7] Figures taken from balance of foreign assets and liabilities, 1997.

Incoming foreign capital and its impact on the balance of payments

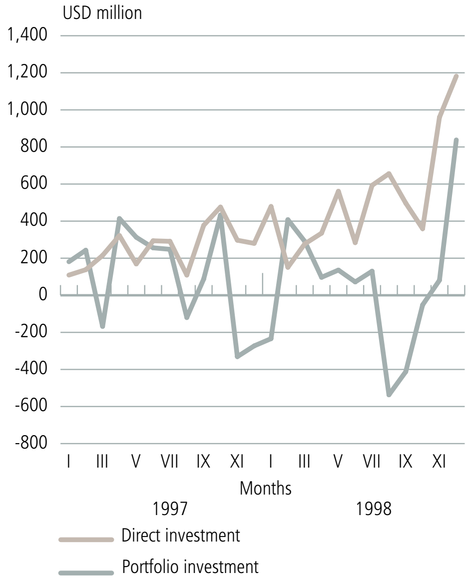
The year 1998 brought a large influx of capital connected with investments by non-residents in Poland. The capital inflows in question totalled USD 8.8bn, up over USD 3.3bn on the year before.

An analysis of these figures reveals that the prime component of inward capital flows were investments that may be considered stable or long-term. These principally took the form of FDI, which constituted almost 58% of all capital inflows. Another stable source of incoming capital were long-term borrowings, the balance on which amounted to USD 1,669m, which represented 19% of capital inflows. In all, long-term capital accounted for over 77% of all foreign investment in Poland. This indicates that a relatively small proportion of incoming capital was highly volatile or short-term, i.e., portfolio investment, short-term borrowings or deposits received.

As was already mentioned, the dominant source of incoming capital in 1998 was FDI, which totalled USD 5,129m. Over the whole of the year, there was an increase of over half (66.7%) in capital inflows of this type compared to 1997; this includes both equity purchases and loan finance from direct investors. This trend suffered no major disruption as a result of the Russian crisis in August. Foreign direct investors continued to view the Polish economy as stable and offering sound growth prospects.

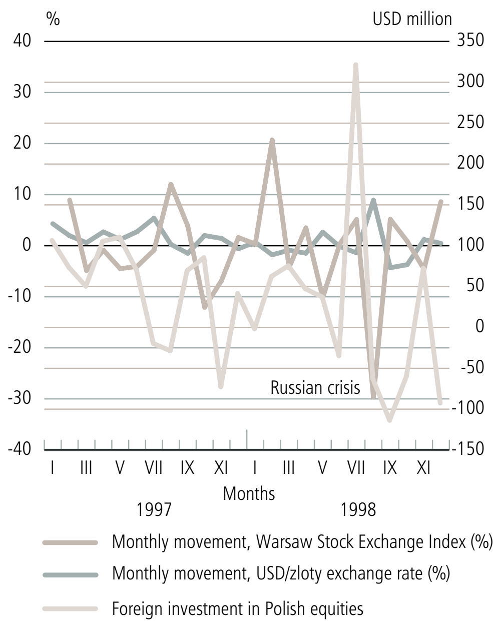
The industries receiving the most FDI were, first and foremost, the financial sector and the car industry. One of the factors encouraging investment in the banking industry was that it was seen as a very good bridgehead for gaining a strong position on the Polish pension fund market (owing to the reform under way), and also as a vehicle for increasing sales revenues by companies not connected with the financial sector. Examples here include the acquisition by foreign investors of a majority holding in Powszechny Bank Kredytowy SA, and the establishment by Fiat and Volkswagen of their own banks in Poland to finance purchases of their cars. The growth in demand for consumer goods, albeit less rapid than previously, contributed to further foreign direct investment in the car industry. The largest investors here, Fiat and Daewoo, both undertook capital expenditure in the course of 1998 to prepare the production of new models of vehicle, while General Motors brought on stream a green-field plant.

Figure 11. Foreign direct and portfolio investment, net



The year 1998 also saw an inflow of capital arising from foreign portfolio investment. The surplus on trading in Polish securities between residents and non-residents was higher than in 1997, standing at USD 1,510m. However, the most important event of the year, one which had the strongest influence on the behaviour of foreign portfolio investors in 1998, was the "Russian crisis". August 1998 brought a sudden collapse of the Russian rouble, which triggered an enormous outflow of portfolio investment from Russia, including both investment in equities and (above all) in debt securities. Like the other countries of Central and Eastern Europe, Poland was classed by many of the analysts working for large Western institutional investors (investment and "hedge" funds) as belonging to the same risk category as Russia. As a result, when these investors closed out their positions in Russia, they frequently offset their losses by offloading the Polish securities they were holding in their portfolios. This produced a very rapid surge in the exchange rates for the US dollar and Deutschemark against the zloty, the result of the sudden rise in demand for convertible currencies among foreign investors.

Figure 12. Foreign investment in Polish equities, net



One of the most significant events on the equity market in 1998 was the sale of shares in Telekomunikacja Polska SA (TP SA); this company had the largest market capitalisation of all those privatised to date through public offerings. At year end 1998, TP SA accounted for 36% of the total capitalisation of the first-tier market of the Warsaw Stock Exchange. Only 15% of equity in this company was sold in 1998, with 5% allocated to domestic investors and 10% to foreign investors (in the form of Global Depository Receipts), and the entire transaction should therefore be considered as falling within the category of portfolio investment. In 1998, TP SA was also responsible for the largest issue of debt securities abroad. The value of the bonds issued by the company, all of which were taken up by a subsidiary established in Holland as a special-purpose vehicle mediating in projects of this sort, amounted to USD 1,000m. It was this bond issue which lay behind the soaring volume of incoming portfolio capital in December 1998.

Another source of inward capital flows were borrowings by Polish parties from non-residents. Drawings under long-term credits received amounted to USD 3,235m, considerably exceeding repayments. This yielded a net surplus on these credits (as had been the case in 1997), which stood at USD 1,669m. Loan finance from abroad was utilised to a greater extent by corporates than by banks. The government sector, on the other hand, showed a negative balance on borrowings of this sort. As regards short-term credits, repayments were slightly higher than drawings. This represented the combined effect of a high negative balance in the government sector and surplus balances in the other sectors. The government sector repaid short-term loans while not taking any new ones.

The balance of payments figures also indicate that the year 1998 saw an increase in foreign deposits at Polish banks. The net inflow of capital arising on this came to USD 602m, and was markedly greater than in 1997. A characteristic feature of this item was the high level of both inflows and outflows, with the balance changing sharply throughout the year.

Residents' investments abroad and their impact on payments performance

During 1998, total Polish investment abroad fell USD 1,904m (resulting in a corresponding inflow of capital). This is mainly attributable to a net inflow of Polish capital withdrawn from foreign banks, which stood at USD 2,294m (this represents the balance of inflows and outflows from current accounts and placements held by Polish banks at banks abroad). At the same time there was also an outflow of Polish capital invested abroad by Polish residents in the form of FDI (USD 163m), portfolio investment (USD 180m) and credits extended (USD 98m). The volume of placements at foreign banks withdrawn by Polish banks was a major component of the surplus recorded on the whole financial account of the balance of payments. The funds derived from these placements were sold to the NBP and converted into zloty. This behaviour on the part of Polish banks was related to the relatively higher return obtainable on zloty assets compared to foreign currency assets (due to interest rate differentials).

Payments performance and its impact on the official reserves

The overall balance of payments, calculated as the sum of the balance on the current account, the balance on the capital and financial account (excluding reserve assets), and net errors and omissions, was positive in 1998, coming to USD 5.7bn. The larger deficit on current transactions than in 1997 was accompanied by a substantially higher surplus on the capital and financial account. The item "net errors and omissions" also showed a surplus. This performance on the principal components of the balance of payments, as registered by the banks, yielded the equivalent increase in the gross official reserves held by the NBP (owing to the transactions thus ensuing), i.e., an increase of USD 5.7bn. This was the result of the National Bank's operations in carrying out net purchases of foreign currencies via direct transactions with the banks at the fixing and intervention on the FX market. The reserve assets held by the Bank also rose due to the income earned on those assets.

In addition to the transactions registered in the balance of payments, the level of the central bank's foreign exchange reserves was also impacted by revaluations and FX differences, which produced a further increase in the reserves of USD 1,014m. This means that, altogether, the gross official reserves rose USD 6.7bn during 1998, to stand at USD 27,382m at year end.

An analysis of the safety ratios of the balance of payments associated with the foreign exchange reserves indicates that the situation in this regard remains positive. For example, at year end 1998 the official reserves stood at 6.8 times the value of monthly imports. In the past, a level of reserves sufficient to finance three months' imports was considered satisfactory. Today, in the wake of the recent currency crises, it is believed that an adequate volume of reserves is one that would fund six months' imports. The ratio of foreign exchange reserves to domestic money stocks (the international liquidity measure) was also satisfactory. At year end 1998, this came to 51.3%. This ratio needs to be monitored carefully, as do other balance of payments ratios. This is particularly important in that Poland continues to be viewed as one of the "emerging markets", where investment risk is higher, and thus the danger of a currency crisis is also higher.

TABLE I. Basic Economic Data

		1997 XII	1998 I	II	III
1. Industrial output					
a) current prices	million zloty	30,714.9	28,533.7	28,579.9	31,753.3
b) constant prices					
- corresponding month previous year = 100	%	113.3	108.1	110.4	114.9
- previous month = 100	%	103.6	92.7	99.6	110.9
2. Construction output					
a) current prices	million zloty	4,452.1	2,033.1	2,335.0	2,692.4
b) constant prices					
- corresponding month previous year = 100	%	113.5	130.3	127.1	118.2
- previous month = 100	%	145.2	45.3	113.2	113.9
3. Consumer Price Index					
a) corresponding month previous year = 100	%	113.2	113.6	114.2	113.9
b) previous month = 100	%	101.0	103.1	101.7	100.6
c) December previous year = 100	%	113.2	103.1	104.9	105.5
4. Producer Price Index					
a) corresponding month previous year = 100	%	111.6	109.2	109.1	109.2
b) previous month = 100	%	100.5	101.3	100.7	100.2
5. Construction Price Index					
a) corresponding month previous year = 100	%	114.3	115.7	115.7	115.4
b) previous month = 100	%	100.9	102.3	101.3	101.1
6. Employed labour force, corporate sector	thou.	5,877	6,018	6,030	6,046
7. Average employees in employment, corporate sector	thou.	5,712	5,801	5,834	5,845
8. Total unemployed	thou.	1,826.4	1,893.3	1,891.9	1,845.7
9. Unemployment rate	%	10.3	10.7	10.6	10.4
10. Average monthly employee earnings, corporate sector, of which:					
- gross	zloty	1,368.35	1,232.58	1,223.90	1,267.59
- net	zloty	1,109.21	1,026.82	1,024.03	1,059.88
11. Central government receipts & expenditure					
a) receipts	million zloty	119,772.1	9,619.1	19,015.2	28,717.3
b) expenditure	million zloty	125,674.9	8,840.8	20,942.0	32,257.3
c) financial surplus/deficit and net external lending/borrowing	million zloty	-8,085.4	754.8	-1,954.2	-4,025.7
12. Corporate financial performance					
a) total revenues	million zloty	692,158.1	59,594.5	118,561.7	185,146.3
of which: sales of goods & services	million zloty	410,952.3	35,110.6	69,516.1	108,381.4
b) total operating costs	million zloty	668,678.9	57,982.2	115,290.3	179,804.0
of which: cost of sales	million zloty	410,407.4	35,016.5	70,531.6	110,112.7
c) pre-tax profit/loss	million zloty	24,677.5	1,611.5	3,277.9	5,391.8
d) statutory deductions (taxes)	million zloty	12,088.8	1,247.9	2,287.8	3,463.3
e) net profit/loss	million zloty	12,588.7	363.6	990.2	1,928.5
f) cost to sales ratio	%	96.6	97.3	97.2	97.1
g) net margin	%	1.8	0.6	0.8	1.0
h) quick liquidity ratio	%	85.6	87.8	87.4	86.7
i) total current assets	million zloty	193,596.5	191,057.2	201,675.2	208,782.0
j) accounts receivable and associated claims	million zloty	78,656.2	80,790.8	85,209.8	87,253.2
k) accounts payable	million zloty	78,881.5	74,144.5	78,352.5	81,113.1

				1998				
IV	V	VI	VII	VIII	IX	X	XI	XII
30,555.1	30,350.5	30,900.4	30,205.5	30,137.7	32,477.6	32,562.6	30,470.6	31,540.5
103.9	109.5	104.7	106.1	106.1	101.4	98.8	98.6	97.8
95.8	99.3	101.3	97.7	99.3	107.8	99.8	93.1	102.7
2,949.0	3,250.9	3,559.4	3,745.8	3,834.3	4,157.0	4,600.7	3,562.6	5,052.4
109.2	111.7	109.5	115.7	114.9	109.2	105.5	105.4	102.5
108.5	109.2	108.6	104.5	101.7	107.7	109.9	77.1	140.9
113.7	113.3	112.2	111.9	111.3	110.6	109.9	109.2	108.6
100.7	100.4	100.4	99.6	99.4	100.8	100.6	100.5	100.4
106.3	106.7	107.1	106.7	106.0	106.9	107.6	108.1	108.6
108.4	108.2	107.7	107.0	106.6	106.4	105.8	105.1	104.8
100.3	100.3	100.1	100.3	100.5	100.6	100.3	100.1	100.1
114.6	114.4	114.1	113.6	113.0	112.4	111.7	111.1	110.6
100.9	100.8	100.6	100.5	100.6	100.5	100.6	100.4	100.5
6,048	6,047	6,059	6,055	6,032	6,027	6,038	5,985	5,919
5,851	5,848	5,858	5,860	5,840	5,829	5,842	5,805	5,769
1,765.5	1,695.4	1,687.6	1,683.1	1,671.0	1,676.7	1,692.6	1,743.4	1,831.4
10	9.7	9.6	9.6	9.5	9.6	9.7	9.9	10.4
1,302.78	1,303.10	1,344.17	1,369.84	1,334.18	1,357.30	1,379.35	1,451.17	1,582.13
1,086.20	1,085.02	1,116.09	1,133.58	1,102.75	1,119.68	1,134.19	1,188.79	1,295.26
38,663.2	48,513.4	57,972.6	68,550.3	79,548.3	91,047.8	102,683.7	114,141.5	126,563.2
43,863.4	55,525.4	67,330.4	78,673.3	89,218.8	101,457.5	114,243.0	125,482.6	139,755.8
-5,694.0	-7,543.3	-9,080.8	-9,757.0	-9,728.0	-11,105.2	-12,048.3	-12,002.0	-16,489.2
251,749.4	318,445.9	387,674.5	459,222.6	528,282.2	599,895.6	677,497.9	747,348.9	833,304.2
146,696.2	185,287.1	225,731.8	266,579.6	304,851.4	346,183.9	389,868.5	431,057.9	475,657.1
244,654.5	309,251.7	376,744.1	446,674.2	514,553.8	584,002.2	659,301.6	729,058.2	817,826.3
149,640.1	188,971.7	229,873.1	271,942.1	311,877.4	353,531.4	397,796.9	439,902.0	488,848.9
7,318.0	9,462.7	11,369.4	13,312.7	14,540.0	16,767.4	19,156.1	19,289.1	16,720.2
4,396.9	5,288.3	6,092.8	7,066.4	7,941.4	9,085.6	10,106.7	10,639.3	11,445.7
2,921.1	4,174.4	5,276.6	6,246.3	6,598.7	7,681.8	9,049.4	8,649.8	5,274.6
97.2	97.1	97.2	97.3	97.4	97.4	97.3	97.6	98.1
1.2	1.3	1.4	1.4	1.2	1.3	1.3	1.2	0.6
85.3	85.5	85.4	84.6	84.9	85.5	85.7	86.0	83.0
209,261.1	215,286.4	219,988.8	225,379.4	229,419.1	236,672.3	243,795.6	246,705.4	251,586.1
88,343.6	91,593.1	93,784.3	93,223.7	96,160.7	100,352.3	103,891.4	105,517.8	101,095.4
81,750.6	85,207.9	87,077.3	88,201.4	90,632.9	93,566.5	97,741.6	97,405.6	101,942.9

TABLE II. Financial Market – Basic Information

		1997 XII	1998 I	II	III
1. Lombard rate	%	27.0	27.0	27.0	27.0
2. Rediscount rate	%	24.5	24.5	24.5	24.5
3. Refinancing rate	%	27.0/28.0	27.0/28.0	27.0/28.0	27.0/28.0
4. Miniumum yield on 28-day open market operations					
(reverse repo rate)	%	-	-	24.0	24.0
5. Monthly zloty devaluation against reference currency basket	%	1.0	1.0	0.8	0.8
6. NBP deposit rates					
a) current accounts of institutions other than banks	%	8.5	8.5	8.5	8.5
b) time deposits:					
- 180 days	%	21.5	-	-	-
- 270 days	%	22.5	-	-	-
7. Zloty lending rates, principal commercial banks					
a) 1 year loans	%	22.5-29.4	22-32	22-32	22-32
b) discount rate	%	23-28.5	24.4-31.5	24-29.9	24-30.1
8. Zloty deposit rates, principal commercial banks					
a) demand	%	6.66-14	5-13	5-13	5-13
b) transaction accounts	%	9.5-15	9-15	9-15	9-15
c) 1 month	%	16-20.8	16-21.3	16-21.6	16-21.7
d) 3 months	%	17.5-21.1	17.5-21.8	16.5-21.8	17-21.7
e) 6 months	%	18-21.8	18-22.1	17-22.4	18-21.6
f) 12 months	%	19-22.8	19-21.9	17-22	19-21.6
g) 24 months	%	19-22.8	19-23.5	19-23.5	19-23.5
h) 36 months	%	19.5-22.8	19.5-26.5	19.5-26.5	19.5-26.5
9. Foreign currency deposit rates at banks					
a) demand					
b) 3 months	%	2.1-3.8	2.3-3.8	2.3-3.8	2.3-3.8
c) 6 months	%	3.3-4.5	3.3-4.5	3.3-4.5	3.3-4.7
d) 12 months	%	3.6-4.7	3.6-4.6	3.6-4.6	3.6-4.7
e) 24 months	%	3.8-5	3.8-4.8	3.8-4.8	3.8-4.8
f) 36 months	%	4-5.3	4-5.3	4-5.3	4-5.3
10. Interbank placements					
a) total at month end	million zloty	8,215.2	11,061.2	11,214.5	11,039.5
of which:					
0 - 1 month	%	42.0	61.7	62.4	44.8
1 - 2 months	%	21.3	10.3	3.9	12.7
2 - 3 months	%	9.2	7.6	9.5	10.3
3 - 6 months	%	14.6	8.6	7.6	11.1
6 - 12 months	%	6.7	4.8	5.4	6.1
12 - 24 months	%	3.9	6.3	10.6	14.2
b) length of placements, weighted average					
(at month end)	month	2.4	2.2	2.8	3.4
c) deposit rates, weighted average					
(at month end)	%	24.4	25.6	24.2	24.1
of which:					
0 - 1 month	%	24.8	26.4	24.4	24.3
1 - 2 months	%	24.4	24.9	24.5	24.5
2 - 3 months	%	24.2	24.5	24.4	24.3
3 - 6 months	%	24.1	24.0	23.9	24.2
6 - 12 months	%	23.1	23.2	23.3	23.4
12 - 24 months	%	24.2	24.0	23.7	23.5

				1998				
IV	V	VI	VII	VIII	IX	X	XI	XII
27.0	26.0	26.0	24.0	24.0	24.0	22.0	22.0	20.0
24.5	23.5	23.5	21.5	21.5	21.5	20.0	20.0	18.3
27.0/28.0	26.0/27.0	26.0/27.0	24.0/25.0	24.0/25.0	24.0/25.0	22.0/23.0	22.0/23.0	20.0/21.0
23.0	21.5	21.5	19.0	19.0	18.0	17.0	17.0	15.5
0.8	0.8	0.8	0.65	0.65	0.50	0.50	0.50	0.5
8.5	8.5	7.8	7.8	7.2	7.2	7.2	6.6	6.0
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
22-29.9	22-29.8	22-29.4	20-29.4	19.5-28	18.8-28	16.7-28	17.4-25.7	15.5-25
24-29.7	23-29.5	22.7-29.5	20.5-28.0	20.1-28	18.8-28	17.5-25.5	16.7-25.5	16.3-23.5
5-13	5-13	5-13	5-13	5-12.5	5-12.5	5-12.5	5-11	4.5-10
9-15	9-15	9-15	9-15	9-15	9-15	7-15	7-14	5-13
16-20.9	16-19.7	16-19.7	15.5-18.4	15.3-18	14.8-17	14.3-16.5	13.8-15.7	12-15.4
17-21.2	17-19.7	17-19.7	15.9-19.6	15.5-19	14.7-17.5	14-17	13.5-16.3	11.6-15.1
18-21.6	17.7-19.8	17.5-19.8	15-19.8	15-19.5	14.7-18.3	13.3-17.5	11.5-17	11-15
19-21.3	17.9-21	18.5-21	13-21.5	13-19	13-19	12.8-19	11-17.5	8.7-15.4
19-23.5	17.9-23.5	18.5-23.5	12.5-23.5	12.5-20.7	12.5-20.7	12.5-20.7	11.5-18	10.5-16.3
19.1-26.5	17.9-26.5	19.5-26.5	16.1-26.5	16.8-22	14.9-21	14.7-21	13.8-17.9	12.4-16.3
2.3-4	2.3-4	2.3-4	2-3.8	2.3-3.9	2.3-4.2	2.3-4	2.3-4	2.3-3.8
3.3-4.9	3.3-5	3.3-5	3.3-5	3.3-5	3.3-5	3.3-5	3.3-4.7	3.3-4.7
3.6-5	3.6-5	3.6-5	3.6-5.1	3.6-5.1	3.6-4.9	3.6-4.9	3.5-4.9	3.5-4.9
3.8-5.1	3.8-5.2	3.8-5.2	3.8-5.1	3.8-5.1	3.8-4.8	3.7-5	3.8-5	3.8-5
4-5.3	4-5.3	4-5.3	4-5.3	4-5.3	4-5.3	3.6-5.3	3.8-5.3	3.9-5.3
11,390.1	14,113.5	15,744.4	13,472.8	16,454.6	15,610.4	17,791.4	16,742.3	16,786.8
46.2	47.2	57.1	37.6	40.5	45.4	45.1	43.8	33.3
7.1	13.9	3.8	15.5	13.4	5.8	12.8	7.8	19.7
8.2	6.2	7.2	5.6	4.7	3.9	2.3	5.9	7.7
13.7	11.3	9.0	10.4	11.3	13.2	10.8	10.6	8.5
6.2	6.2	6.2	9.4	8.7	9.7	9.4	9.3	12.4
17.8	14.6	6.1	8.6	9.1	9.8	8.8	11.1	15.6
3.9	3.3	8.0	9.8	9.0	9.1	8.1	8.8	4.6
23.4	21.7	21.7	20.0	19.7	18.8	18.3	17.7	16.5
23.1	20.0	22.2	19.0	19.7	18.1	17.7	17.2	15.9
24.2	22.9	21.9	21.3	19.3	18.7	18.1	17.1	16.4
24.1	22.8	22.2	21.4	19.6	19.0	17.9	17.0	16.1
24.2	23.9	22.9	21.5	20.7	20.0	19.4	18.7	18.5
23.2	23.1	23.1	22.7	22.1	21.7	20.9	20.5	19.9
23.3	23.0	21.3	19.8	18.9	18.8	18.8	18.0	14.2

cont. TABLE II. Financial Market – Basic Information

		1997 XII	1998 I	II	III
11. Reserve requirement:					
a) zloty deposits					
- demand	%	20.0	20.0	20.0	20.0
- time	%	11.0	11.0	11.0	11.0
b) foreign currency deposits (zloty equivalent)					
- demand	%	5.0	5.0	5.0	5.0
- time	%	5.0	5.0	5.0	5.0
12. Total required reserves held	million zloty	17,053.8	17,053.8	17,357.8	17,634.8
a) interest-bearing reserve accounts	million zloty	3,255.9	-	-	-
b) current accounts (non-interest bearing)	million zloty	12,174.1	15,430.0	15,650.2	15,893.4
c) declared vault cash	million zloty	1,623.8	1,623.8	1,707.6	1,741.4
13. Securities purchased from banks by NBP under repurchase agreements					
a) no. of tenders		0	0	0	0
b) nominal NBP funds allocated to purchases	million zloty	0.00	0.00	0.00	0.00
c) value of offers submitted by banks	million zloty	0.00	0.00	0.00	0.00
d) value of offers accepted	million zloty	0.00	0.00	0.00	0.00
14. Securities sold to banks by NBP under reverse repurchase agreements					
a) no. of tenders		8	0	0	0
b) nominal value of securities allotted for sale	million zloty	5,900.00	0.00	0.00	0.00
c) value of bids submitted by banks	million zloty	4,862.87	0.00	0.00	0.00
d) value of bids accepted	million zloty	4,489.00	0.00	0.00	0.00
15. Outright sales of securities by NBP					
a) no. of tenders		0	0	0	0
b) nominal value of securities allotted for sale	million zloty	0.00	0.00	0.00	0.00
c) value of bids submitted by banks	million zloty	0.00	0.00	0.00	0.00
d) value of bids accepted	million zloty	0.00	0.00	0.00	0.00
16. Treasury bill tenders					
a) no. of tenders during month		5	4	4	5
b) nominal value of bills offered for sale	million zloty	7,000.0	3,200.0	4,100.0	4,900.0
of which:					
- 8-week bills	million zloty	400.00	-	-	-
-13-week bills	million zloty	1,900.00	500.00	1,000.00	800.00
- 26-week bills	million zloty	1,100.00	800.00	900.00	600.00
- 39-week bills	million zloty	-	-	-	-
- 52-week bills	million zloty	3,600.00	1,900.00	2,200.00	3,500.00
c) nominal value of bids	million zloty	8,056.88	10,831.20	13,208.10	7,576.29
of which:					
- 8-week bills	million zloty	405.92	-	-	-
-13-week bills	million zloty	2,186.41	2,478.72	1,763.26	1,770.85
- 26-week bills	million zloty	1,225.36	2,199.41	2,840.33	1,040.36
- 39-week bills	million zloty	-	-	-	-
- 52-week bills	million zloty	4,239.19	6,153.07	8,604.51	4,765.08

1998								
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
11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
17,774.5	17,774.5	18,514.5	19,270.9	19,651.6	20,457.1	20,457.1	20,875.6	21,271.1
-	-	-	-	-	-	-	-	-
16,015.5	16,015.5	16,691.2	17,393.7	17,728.2	18,475.7	18,475.7	18,861.0	19,157.8
1,759.0	1,759.0	1,823.3	1,877.2	1,923.5	1,981.4	1,981.4	2,014.5	2,113.4
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
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
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
4	4	5	4	5	4	4	5	5
4,000.0	4,400.0	5,600.0	2,500.0	2,900.0	2,800.0	3,300.0	2,100.0	4,100.0
-	-	300.00	-	-	400.00	700.00	400.00	-
700.00	1,200.00	1,400.00	400.00	700.00	900.00	600.00	200.00	1,100.00
400.00	600.00	1,100.00	400.00	500.00	-	-	200.00	300.00
-	-	-	-	-	-	-	-	-
2,900.00	2,600.00	2,800.00	1,700.00	1,700.00	1,500.00	2,000.00	1,300.00	2,700.00
12,276.21	11,998.80	12,621.85	10,426.84	6,178.88	8,619.80	9,154.47	7,793.45	8,243.43
-	-	563.65	-	-	1,487.31	1,199.45	605.75	-
1,026.80	1,990.38	2,334.43	2,158.34	1,616.26	3,487.80	1,704.15	1,009.35	2,031.33
1,100.36	2,250.15	1,789.10	2,093.94	1,250.09	-	-	675.20	446.67
-	-	-	-	-	-	-	-	-
10,149.05	7,758.27	7,934.67	6,174.56	3,312.53	3,644.69	6,250.87	5,503.15	5,765.43

cont. TABLE II. Financial Market – Basic Information

		1997 XII	1998 I	II	III
d) nominal value of bills sold	million zloty	6,852.18	3,236.79	3,938.89	4,543.88
of which:					
- 8-week bills	million zloty	400.00	-	-	-
-13-week bills	million zloty	1,855.40	500.00	838.89	817.00
- 26-week bills	million zloty	1,038.28	802.58	900.00	558.90
- 39-week bills	million zloty	-	-	-	-
- 52-week bills	million zloty	3,558.50	1,934.21	2,200.00	3,167.98
e) discount rate on bids accepted, weighted average	%	20.54	20.17	19.60	18.94
of which:					
- 8-week bills	%	22.82	-	-	-
-13-week bills	%	22.18	22.01	21.45	20.63
- 26-week bills	%	21.16	21.22	20.60	19.93
- 39-week bills	%	-	-	-	-
- 52-week bills	%	19.25	19.26	18.49	18.33
f) yield on bills purchased, weighted average	%	23.74	23.79	22.79	22.33
of which:					
- 8-week bills	%	23.66	-	-	-
-13-week bills	%	23.50	23.31	22.68	21.76
- 26-week bills	%	23.70	23.77	22.99	22.16
- 39-week bills	%	-	-	-	-
- 52-week bills	%	23.89	23.92	22.74	22.50
g) bills outstanding from tender sales at month end (purchase prices)	million zloty	27,289.22	27,841.20	28,515.03	28,036.65
17. Tenders for NBP money-market bills					
a) no. of tenders		3	4	15	7
b) nominal value of bills offered for sale	million zloty	4,500.00	2,900.00	24,400.00	10,100.00
of which:					
- 1-day bills	million zloty	-	-	-	-
- 7-day bills	million zloty	3,000.00	-	11,000.00	-
- 14-day bills	million zloty	1,000.00	-	1,900.00	2,700.00
- 28-day bills	million zloty	-	-	1,700.00	7,400.00
- 91-day bills	million zloty	500.00	1,900.00	1,100.00	-
- 182-day bills	million zloty	-	1,000.00	2,700.00	-
- 273-day bills	million zloty	-	-	6,000.00	-
c) nominal value of bids	million zloty	3,557.82	3,112.85	21,904.54	6,103.71
of which:					
- 1-day bills	million zloty	-	-	-	-
- 7-day bills	million zloty	2,280.33	-	9,489.20	-
- 14-day bills	million zloty	825.49	-	3,017.78	1,545.09
- 28-day bills	million zloty	-	-	1,364.74	4,558.62
- 91-day bills	million zloty	452.00	2,082.85	313.86	-
- 182-day bills	million zloty	-	1,030.00	2,346.00	-
- 273-day bills	million zloty	-	-	5,372.96	-
d) nominal value of bills sold	million zloty	3,478.32	2,822.70	19,793.39	5,548.71
of which:					
- 1-day bills	million zloty	-	-	-	-
- 7-day bills	million zloty	2,266.83	-	9,180.07	-
- 14-day bills	million zloty	770.49	-	1,900.00	1,525.09
- 28-day bills	million zloty	-	-	1,051.50	4,023.62
- 91-day bills	million zloty	441.00	1,822.70	313.86	-
- 182-day bills	million zloty	-	1,000.00	2,279.00	-
- 273-day bills	million zloty	-	-	5,068.96	-

				1998				
IV	V	VI	VII	VIII	IX	X	XI	XII
3,985.97	4,441.32	5,415.19	2,499.02	2,123.96	2,762.97	2,827.08	2,196.07	4,281.63
-	-	300.00	-	-	400.00	700.00	400.00	-
738.93	1,197.71	1,389.67	401.15	644.01	882.15	600.00	200.00	1,243.54
347.04	609.94	910.91	398.21	459.99	-	-	182.96	230.30
-	-	-	-	-	-	-	-	-
2,900.00	2,633.67	2,814.61	1,699.66	1,019.96	1,480.82	1,527.08	1,413.11	2,807.79
19.06	18.59	18.20	15.72	14.96	15.02	14.46	12.55	11.67
-	-	20.25	-	-	16.05	16.08	15.04	-
20.91	20.39	19.84	17.79	16.64	16.53	15.51	13.44	13.12
20.33	19.43	18.91	16.74	15.34	-	-	13.34	12.57
-	-	-	-	-	-	-	-	-
18.44	17.57	16.94	14.99	13.72	13.85	13.31	11.62	10.96
22.55	21.43	20.66	17.93	16.52	16.53	15.82	13.74	12.75
-	-	20.91	-	-	16.47	16.49	15.40	-
22.07	21.50	20.88	18.63	17.37	17.25	16.14	13.90	13.57
22.65	21.55	20.91	18.30	16.63	-	-	14.30	13.43
-	-	-	-	-	-	-	-	-
22.66	21.37	20.44	17.68	15.93	16.11	15.38	13.17	12.32
28,268.90	28,986.24	30,095.48	29,204.88	28,203.47	27,373.39	26,955.99	26,068.54	24,591.29
16	13	10	14	12	17	14	12	14
33,300.00	16,400.00	20,500.00	28,600.00	34,200.00	40,000.00	27,200.00	31,500.00	47,000.00
-	-	-	-	-	-	-	-	-
4,500.00	-	-	-	-	-	-	-	-
2,500.00	-	-	-	-	-	-	-	-
26,300.00	16,400.00	20,500.00	28,600.00	34,200.00	40,000.00	27,200.00	31,500.00	47,000.00
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
20,709.25	12,789.47	15,827.12	25,498.00	23,900.83	30,492.48	23,054.93	29,060.58	39,515.49
-	-	-	-	-	-	-	-	-
2,576.00	-	-	-	-	-	-	-	-
2,501.60	-	-	-	-	-	-	-	-
15,631.65	12,789.47	15,827.12	25,498.00	23,900.83	30,492.48	23,054.93	29,060.58	39,515.49
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
19,013.25	12,573.99	15,727.12	23,794.25	23,900.83	30,381.48	22,426.61	28,214.71	38,827.51
-	-	-	-	-	-	-	-	-
2,537.00	-	-	-	-	-	-	-	-
2,019.60	-	-	-	-	-	-	-	-
14,456.65	12,573.99	15,727.12	23,794.25	23,900.83	30,381.48	22,426.61	28,214.71	38,827.51
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-

cont. TABLE II. Financial Market – Basic Information

		1997	1998		
		XII	I	II	III
e) discount rate on bids accepted, weighted average	%	23.12	21.77	22.18	23.72
of which:					
- 1-day bills	%	-	-	-	-
- 7-day bills	%	23.29	-	23.37	-
- 14-day bills	%	23.17	-	23.22	23.82
- 28-day bills	%	-	-	23.41	23.67
- 91-day bills	%	22.16	22.19	22.18	-
- 182-day bills	%	-	21.01	21.01	-
- 273-day bills	%	-	-	19.93	-
f) yield on bills purchased, weighted average	%	23.40	23.50	23.50	24.10
of which:					
- 1-day bills	%	-	-	-	-
- 7-day bills	%	23.40	-	23.47	-
- 14-day bills	%	23.38	-	23.43	24.04
- 28-day bills	%	-	-	23.84	24.12
- 91-day bills	%	23.47	23.50	23.50	-
- 182-day bills	%	-	23.50	23.50	-
- 273-day bills	%	-	-	23.48	-
g) bills outstanding from tender sales at month end					
(purchase prices)	million zloty	13,315.96	8,188.90	17,098.11	18,871.91
18. Data on trading sessions of Warsaw Stock Exchange					
first-tier market					
a) no. of companies listed		96	98	99	100
b) average market capitalisation of listed companies	million zloty	37,339.6	36,987.3	44,831.2	48,962.9
c) monthly turnover	million zloty	2,427.1	2,204.9	4,873.0	4,247.5
d) Warsaw Stock Exchange Index					
- monthly average		14,434.7	13,993.9	16,471.0	17,718.4
- final session in month		14,668.0	14,601.5	17,621.0	16,864.0
e) P/E ratio		12.4	12.1	13.0	14.1
f) turnover ratio	%	3.8	3.5	6.3	5.0

TABLE III. Zloty/USD & zloty/DEM Exchange Rates, 1998, (zloty)

Month	Rate at month end			
	USD		DEM	cross rate
		fixing	bureaux de change	
December 1997	3.5180	3.4771	1.9635	1.7917
January 1998	3.5420	3.5258	1.9420	1.8239
February	3.4790	3.4896	1.9195	1.8125
March	3.4485	3.4323	1.8685	1.8456
April	3.3980	3.3840	1.8930	1.7950
May	3.4880	3.4803	1.9555	1.7837
June	3.4825	3.4834	1.9285	1.8058
July	3.4345	3.4159	1.9305	1.7791
August	3.7400	3.7211	2.1140	1.7692
October	3.5790	3.5491	2.1345	1.6767
September	3.4460	3.4422	2.0850	1.6528
November	3.4875	3.4683	2.0515	1.7000
December	3.5040	3.4623	2.0915	1.6754

1998 IV	V	VI	VII	VIII	IX	X	XI	XII
23.39	22.52	21.29	20.68	18.87	18.41	17.78	16.93	16.19
-	-	-	-	-	-	-	-	-
23.37	-	-	-	-	-	-	-	-
23.35	-	-	-	-	-	-	-	-
23.40	22.52	21.29	20.68	18.87	18.41	17.78	16.93	16.19
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
23.75	22.92	21.65	21.01	19.15	18.68	18.03	17.15	16.40
-	-	-	-	-	-	-	-	-
23.48	-	-	-	-	-	-	-	-
23.56	-	-	-	-	-	-	-	-
23.83	22.92	21.65	21.01	19.15	18.68	18.03	17.15	16.40
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
21,968.78	19,587.26	20,715.45	23,931.17	27,852.77	28,903.40	22,316.52	27,843.25	28,221.62
102	105	107	108	107	109	111	116	117
49,116.1	47,901.4	44,578.0	57,010.7	49,536.4	41,628.6	37,309.9	53,679.2	64,522.3
2,938.8	3,441.8	3,064.5	4,616.7	2,925.0	2,819.3	2,526.2	2,850.6	2,661.7
17,023.2	17,001.8	15,486.4	16,887.1	14,485.0	12,257.2	11,261.1	12,761.7	12,093.6
17,743.8	15,683.3	15,728.6	16,534.3	11,635.9	12,238.3	12,345.4	11,777.7	12,795.6
13.4	13.0	11.9	13.9	12.1	10.4	10.4	13.3	14.1
3.6	4.1	3.8	4.5	3.2	3.7	3.7	3.0	2.3

Average monthly rate USD	fixing	DEM/1USD fixing	DEM bureaux de change	fixing
3.5256	3.5032	1.9852		
3.5316	3.5134	1.9461		
3.5386	3.5237	1.9505		
3.4593	3.4483	1.8941		
3.4195	3.4056	1.8827		
3.4188	3.4018	1.9246		
3.4789	3.4574	1.9420		
3.4592	3.4460	1.9226		
3.5850	3.5496	2.0046		
3.6066	3.5870	2.1211		
3.4955	3.4921	2.1353		
3.4496	3.4396	2.0514		
3.4858	3.4683	2.0884		

TABLE IV. Zloty Lending Rates (weighted averages, annual percentage rates)

Month	Corporate loans:					Personal loans
	to 1 year	to 2 years	to 3 years	to 5 years	above 5 years	
January	25.8	26.3	26.4	26.2	25.2	27.8
February	26.9	26.5	26.8	27.2	25.5	28.0
March	26.8	26.4	26.8	27.2	25.6	28.0
April	26.2	26.0	26.4	26.5	25.1	28.0
May	25.8	25.7	26.1	26.2	24.9	28.0
June	25.7	25.6	25.9	26.1	24.8	27.8
July	25.3	25.2	25.5	25.7	24.4	27.3
August	23.7	23.7	23.9	23.9	23.1	26.7
October	23.5	23.4	23.6	23.7	22.4	26.1
September	22.6	22.5	22.9	22.9	21.7	26.0
November	22.0	21.9	22.3	22.5	21.4	25.4
December	19.6	20.1	20.6	20.8	19.4	24.0

TABLE V. Personal Zloty Deposit Rates (weighted averages, annual percentage rates)

Month	Transaction accounts	Time deposits:						Time deposits (averages)
		1 month	3 months	6 months	12 months	24 months	36 months	
January	12.9	18.2	18.3	18.7	19.7	19.9	20.4	18.9
February	13.0	18.2	18.2	18.7	19.7	20.0	20.4	18.9
March	13.0	18.1	18.2	18.7	19.7	20.0	20.4	18.9
April	12.9	18.0	18.2	18.6	19.7	20.0	20.4	18.9
May	12.9	17.8	18.1	18.6	19.7	20.0	20.3	18.8
June	12.8	17.6	17.8	18.3	19.1	19.8	19.6	18.4
July	12.7	16.9	17.6	18.2	19.1	19.6	19.6	18.2
August	11.4	16.0	16.2	16.7	17.6	18.1	18.1	16.8
October	11.5	15.5	16.2	16.6	17.5	18.1	18.1	16.7
September	10.7	15.2	15.9	16.4	17.4	17.4	17.7	16.5
November	11.0	14.3	14.5	15.1	15.7	16.3	15.9	15.1
December	9.9	12.6	12.0	12.6	13.7	14.2	13.7	12.8

TABLE VI. Commercial Banks – Assets, Liabilities & Capital (million zloty)

	1997 XII	1998 I	1998 II	1998 III
ASSETS				
Foreign assets	25,595.4	24,771.7	20,659.5	20,315.5
Due from banks	32,164.0	40,002.7	38,541.3	36,273.2
- vault cash	3,819.3	2,807.9	2,657.1	2,914.0
- NBP	12,517.9	16,822.7	15,117.0	14,132.8
- other banks	15,826.8	20,372.2	20,767.2	19,226.4
Due from non-bank financial institutions	1,530.3	1,311.3	1,745.8	1,721.4
Due from general government	3,375.1	3,526.0	3,456.5	3,761.9
- central government	1,963.8	2,089.6	1,964.7	2,256.5
- local government	1,403.0	1,429.4	1,486.9	1,500.6
- special-purpose funds	8.4	6.9	4.9	4.9
Due from non-financial sector	106,134.6	109,145.2	110,217.1	112,331.2
- corporates	87,766.2	90,791.6	91,898.4	93,722.4
- persons	18,368.4	18,353.7	18,318.8	18,608.8
Securities purchased under agreements to resell	820.4	972.6	808.5	606.4
Securities	65,303.2	60,884.8	67,101.2	68,664.7
- issued by banks	14,589.9	9,339.9	18,369.8	20,199.0
- issued by non-bank financial institutions	129.9	133.3	132.6	144.9
- issued by general government	49,233.7	49,988.1	47,186.1	46,827.8
of which: issued by Treasury	49,008.0	49,769.6	46,969.1	46,611.9
- issued by non-financial sector	1,152.9	1,227.4	1,218.3	1,285.8
- privatisation certificates, rights issues,				
units in unit trusts	196.8	196.1	194.5	207.2
Other assets	24,713.0	26,683.4	27,567.2	29,207.3
TOTAL ASSETS	259,636.0	267,297.7	270,097.3	272,881.7
LIABILITIES & CAPITAL				
Foreign liabilities	15,071.3	14,266.8	14,443.6	14,403.7
Due to banks	25,094.4	30,655.2	29,935.9	27,693.7
- NBP	9,180.3	10,683.6	9,371.0	8,474.0
- other banks	15,914.2	19,971.6	20,565.0	19,219.7
Due to non-bank financial institutions	3,401.7	3,600.1	3,657.4	3,772.9
Due to general government	9,857.0	10,041.4	10,026.6	10,586.5
- central government	4,075.7	4,347.5	4,181.5	4,308.7
- local government	4,395.2	4,289.7	4,345.3	4,693.1
- special-purpose funds	1,386.0	1,404.1	1,499.8	1,584.7
Due to non-financial sector, zloty	111,909.4	111,275.8	113,764.8	116,843.6
- corporates	34,612.7	31,262.1	30,435.5	31,276.1
demand	18,559.6	14,525.8	13,788.9	14,656.7
time	16,053.1	16,736.3	16,646.6	16,619.3
- persons	77,296.7	80,013.6	83,329.4	85,567.5
demand	15,094.8	15,310.6	16,418.8	16,863.1
time	62,201.8	64,703.0	66,910.5	68,704.4
Due to non-financial sector, foreign currency	30,198.5	30,761.3	29,827.4	29,132.5
- corporates	4,940.8	5,329.4	4,896.8	4,670.8
demand	2,329.2	2,234.1	2,209.9	2,265.6
time	2,611.6	3,095.3	2,686.8	2,405.2
- persons	25,257.7	25,431.9	24,930.6	24,461.8
demand	8,050.8	7,951.8	7,695.9	7,524.9
time	17,206.9	17,480.1	17,234.7	16,936.9
Securities sold under agreements to repurchase	767.4	995.7	839.6	611.4
Securities issued and outstanding	890.3	943.2	949.3	867.9
Core capital	13,481.8	15,906.6	16,002.0	16,741.1
Supplementary capital	-	2,610.2	2,575.3	2,543.9
Other liabilities & capital	48,964.1	46,241.6	48,075.4	49,684.5
TOTAL LIABILITIES & CAPITAL	259,636.0	267,297.7	270,097.3	272,881.7

				1998				
IV	V	VI	VII	VIII	IX	X	XI	XII
18,893.2	19,402.3	19,412.0	18,116.6	19,081.3	15,305.4	15,287.7	14,203.7	18,956.7
38,080.1	43,822.9	45,191.7	48,501.1	48,728.0	46,075.6	55,244.1	48,983.6	54,942.0
2,881.1	2,775.0	3,163.2	2,821.2	3,157.2	2,938.6	2,996.3	3,171.0	3,768.3
14,924.9	17,184.9	16,852.0	20,451.2	16,523.5	16,317.1	22,375.2	17,593.8	19,608.6
20,274.1	23,863.0	25,176.6	25,228.7	29,047.2	26,819.9	29,872.5	28,218.9	31,565.1
2,019.3	2,107.1	2,416.8	2,668.3	2,841.6	3,076.9	3,382.6	3,499.4	3,340.9
4,645.9	4,111.1	4,265.6	4,487.7	4,899.8	5,312.9	5,550.0	5,863.4	6,565.9
3,092.1	2,508.9	2,631.6	2,771.7	3,173.5	3,533.5	3,715.5	3,984.4	4,416.9
1,548.6	1,595.9	1,622.9	1,699.8	1,710.5	1,766.6	1,821.3	1,863.4	2,138.7
5.2	6.3	11.2	16.2	15.8	12.8	13.2	15.5	10.4
114,299.3	116,223.5	118,725.8	119,664.6	123,209.4	126,850.6	129,404.5	132,233.6	133,429.6
95,323.0	96,787.8	98,685.9	98,947.6	101,931.7	104,942.2	106,436.4	109,256.3	109,551.0
18,976.3	19,435.7	20,039.9	20,717.0	21,277.6	21,908.3	22,968.2	22,977.2	23,878.6
540.6	1,696.5	1,444.1	503.3	569.6	272.3	1,067.2	366.8	422.1
70,801.7	71,190.3	73,875.8	76,365.3	85,562.0	86,953.2	80,109.7	86,113.2	85,037.5
22,974.7	20,739.0	22,392.1	25,554.3	29,238.7	30,234.8	23,845.9	28,583.9	28,735.0
152.9	105.0	161.3	353.1	360.4	382.1	463.6	476.1	499.6
46,094.2	48,717.8	49,608.1	48,991.0	54,414.0	54,711.1	53,946.6	54,897.0	53,520.8
45,879.6	48,498.1	49,327.2	48,711.2	54,086.5	54,406.2	53,630.1	54,536.8	53,130.5
1,363.0	1,413.3	1,489.8	1,358.1	1,440.8	1,516.5	1,743.6	2,046.4	2,171.9
216.9	215.1	224.6	108.8	108.2	108.6	110.0	109.8	110.2
29,613.9	32,000.2	31,714.8	33,407.7	34,300.3	35,160.0	36,421.7	36,941.2	31,602.0
278,893.9	290,553.8	297,046.6	303,714.5	319,191.9	319,006.7	326,467.4	328,204.8	334,296.8
15,331.1	15,808.8	15,893.7	17,264.8	19,993.5	17,802.7	18,462.1	18,009.5	18,266.8
28,794.1	32,664.4	33,414.2	33,467.8	38,394.6	36,983.0	39,629.1	38,089.3	39,115.5
8,629.8	8,646.1	8,560.4	8,640.3	9,983.3	10,022.3	9,716.2	9,837.1	7,565.0
20,164.3	24,018.4	24,853.8	24,827.5	28,411.4	26,960.7	29,912.9	28,252.2	31,550.5
3,784.8	3,313.0	4,594.6	4,648.5	4,666.1	4,831.0	5,237.7	4,874.3	4,713.0
11,317.0	11,857.8	11,981.7	11,759.5	12,390.2	13,023.3	12,869.3	13,455.9	12,513.1
5,238.2	4,766.7	4,913.7	5,141.0	5,357.3	5,758.2	6,018.7	5,818.3	5,426.6
4,411.1	5,378.9	5,313.2	4,916.9	5,272.9	5,609.7	5,249.1	5,913.4	5,551.5
1,667.7	1,712.2	1,754.8	1,701.6	1,760.1	1,655.4	1,601.5	1,724.2	1,534.9
119,204.3	122,548.2	126,930.2	131,777.2	135,599.2	138,130.2	139,878.7	142,424.8	152,965.0
31,495.5	32,707.6	33,842.2	35,339.4	36,331.8	36,418.5	36,653.4	37,201.3	43,385.7
13,647.8	14,965.2	16,564.5	16,474.3	17,036.8	17,287.5	16,554.4	17,397.1	19,983.8
17,847.7	17,742.4	17,277.7	18,865.2	19,294.9	19,131.0	20,099.1	19,804.2	23,401.9
87,708.8	89,840.6	93,087.9	96,437.7	99,267.4	101,711.7	103,225.2	105,223.5	109,579.2
17,100.3	17,384.2	18,270.8	18,505.3	18,652.7	19,044.3	19,133.3	19,093.1	20,693.1
70,608.5	72,456.4	74,817.1	77,932.5	80,614.7	82,667.4	84,091.9	86,130.3	88,886.1
28,745.6	29,717.1	28,938.1	28,956.6	30,387.1	29,991.2	29,240.3	29,681.2	32,433.5
4,584.8	5,177.5	4,811.0	5,298.2	5,090.5	5,517.4	5,453.4	5,699.8	7,962.8
2,035.0	2,254.9	2,163.3	2,129.6	2,311.4	2,546.6	2,363.9	2,583.7	2,540.3
2,549.8	2,922.6	2,647.8	3,168.6	2,779.1	2,970.7	3,089.6	3,116.0	5,422.4
24,160.8	24,539.5	24,127.1	23,658.4	25,296.5	24,473.8	23,786.8	23,981.5	24,470.8
7,416.9	7,507.4	7,326.0	7,195.9	7,559.0	7,206.1	6,997.2	7,018.0	7,224.8
16,743.9	17,032.2	16,801.1	16,462.5	17,737.5	17,267.7	16,789.6	16,963.4	17,246.0
693.0	1,765.5	1,593.8	747.2	609.5	371.0	1,332.1	486.5	259.6
826.8	796.0	786.9	841.7	821.6	808.3	814.2	801.0	882.1
17,505.9	19,201.2	20,319.2	20,717.9	20,755.6	21,072.3	21,674.5	21,765.1	21,884.5
2,682.5	2,817.5	2,789.8	2,844.4	2,851.1	2,638.0	2,611.0	2,599.0	2,846.8
50,008.9	50,064.3	49,804.4	50,688.9	52,723.3	53,355.7	54,718.5	56,018.1	48,416.9
278,893.9	290,553.8	297,046.6	303,714.5	319,191.9	319,006.7	326,467.4	328,204.8	334,296.8

TABLE VII. The National Bank of Poland - Assets, Liabilities & Capital (million zloty)

	1997		1998	
	XII	I	II	III
ASSETS				
Foreign assets	79,441.4	82,375.1	88,584.6	88,275.3
Due from banks	9,267.6	10,764.3	9,450.8	8,553.3
- time deposits	1,399.6	1,409.2	1,384.1	1,372.0
- loans under foreign credit lines	151.7	137.4	135.4	132.3
- refinance loans	7,714.8	9,216.2	7,929.7	7,047.4
bills rediscounted	230.3	201.7	192.0	184.9
lombard loans	613.7	2,135.0	852.0	35.0
special-purpose loans	0.0	0.0	0.0	0.0
central investment finance	5,575.3	5,584.6	5,591.3	5,533.9
other	1,295.4	1,294.9	1,294.4	1,293.6
- open market operations (repos)	0.0	0.0	0.0	0.0
- past due loans	1.6	1.6	1.6	1.6
Due from non-bank financial institutions	0.0	0.0	0.0	0.0
Due from general government	2,803.3	2,796.5	2,195.5	1,795.0
Due from non-financial sector	65.7	65.1	65.1	65.0
- corporates	39.0	39.0	39.0	39.0
- persons	26.7	26.1	26.1	26.0
Securities	14,431.4	14,499.8	14,635.6	14,669.1
- issued by banks	442.5	440.0	440.1	432.3
- issued by Treasury	13,988.9	14,059.8	14,195.6	14,236.8
Other assets	3,751.2	3,861.0	4,686.2	4,470.4
TOTAL ASSETS	109,760.6	114,361.8	119,617.8	117,828.0
LIABILITIES & CAPITAL				
Foreign liabilities	7,152.7	9,591.3	9,260.6	9,114.3
Notes & coin in circulation (including vault cash)	31,075.2	29,295.7	30,061.0	30,200.1
Due to banks	12,526.8	16,971.4	15,177.6	14,155.1
- current accounts	7,982.2	16,970.4	15,176.4	14,153.7
- required reserves	3,256.5	1.0	1.2	1.3
- open market operations (reverse repos)	1,288.1	0.0	0.0	0.0
- other	0.0	0.0	0.0	0.0
Due to non-bank financial institutions	2.8	4.6	7.2	5.4
Due to general government	4,285.2	8,050.3	6,698.2	5,770.4
- central government	2,308.9	6,511.5	5,075.9	4,099.9
- central government special-purpose funds	1,976.3	1,538.8	1,622.3	1,670.5
Due to non-financial sector, zloty	3,602.1	3,594.3	3,586.7	3,335.1
- corporates	2.3	4.7	3.1	2.7
demand	2.3	4.7	3.1	2.7
time	0.0	0.0	0.0	0.0
- persons	3,599.8	3,589.6	3,583.6	3,332.3
Securities issued and outstanding	14,374.0	9,032.2	18,930.0	20,727.7
Registered equity & reserve capital	400.0	400.0	400.0	400.0
Other liabilities & capital	36,341.8	37,422.1	35,496.4	34,120.2
TOTAL LIABILITIES & CAPITAL	109,760.6	114,361.8	119,617.8	117,828.0

1998								
IV	V	VI	VII	VIII	IX	X	XI	XII
92,215.5	96,085.4	98,844.7	105,865.0	114,834.9	104,963.6	102,590.1	104,270.6	103,400.1
8,703.3	8,726.0	8,642.2	8,714.5	10,056.4	10,097.7	9,788.4	9,909.3	7,639.7
1,577.5	1,619.3	1,616.8	1,734.8	3,093.4	3,230.4	2,895.1	2,930.0	393.5
131.4	135.7	134.4	122.5	134.3	135.0	128.3	127.0	128.1
6,992.8	6,969.5	6,889.4	6,855.6	6,827.1	6,730.7	6,763.4	6,850.7	7,116.6
131.6	105.9	84.5	63.4	43.2	3.6	53.4	142.2	202.1
36.4	33.8	28.5	27.3	27.0	26.7	16.2	15.9	11.2
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5,531.6	5,537.0	5,483.9	5,472.8	5,465.2	5,409.4	5,403.3	5,403.3	5,614.3
1,293.2	1,292.9	1,292.6	1,292.1	1,291.7	1,291.0	1,290.6	1,289.3	1,289.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1,794.2	1,795.6	1,795.5	1,791.7	1,796.3	1,793.9	1,791.8	1,792.5	1,738.9
65.0	64.9	64.7	64.4	64.4	61.5	61.3	61.3	59.7
39.0	39.0	38.6	38.6	38.6	35.4	35.4	35.4	34.0
25.9	25.9	26.1	25.8	25.7	26.1	25.9	25.9	25.7
14,252.9	14,245.7	14,222.0	14,119.0	14,926.1	14,639.7	13,604.3	13,756.1	16,430.2
430.0	427.2	426.7	424.4	422.1	419.6	419.6	417.2	403.9
13,822.9	13,818.6	13,795.3	13,694.7	14,504.0	14,220.1	13,184.7	13,339.0	16,026.3
4,326.5	3,848.1	3,645.4	2,463.4	2,248.6	2,107.3	2,259.1	2,067.1	2,128.3
121,357.4	124,765.9	127,214.4	133,018.1	143,926.7	133,663.6	130,095.0	131,856.8	131,397.0
10,472.7	10,335.7	11,252.0	14,254.1	14,074.3	8,317.9	9,471.3	9,047.0	7,785.9
31,715.5	31,635.7	32,828.9	32,955.8	33,890.1	33,256.4	33,155.7	33,059.1	33,993.5
15,031.1	17,275.1	16,906.3	20,518.2	16,876.0	16,464.1	22,387.0	17,463.9	19,652.8
15,029.8	17,273.8	16,898.8	20,500.3	16,859.3	16,452.8	22,386.9	17,463.8	19,652.7
1.3	1.3	7.5	17.8	16.7	11.4	0.1	0.1	0.1
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.6	4.9	0.7	11.1	2.5	4.2	2.9	1.8	2.4
3,996.6	5,667.7	6,782.4	6,220.4	7,258.0	6,195.0	5,221.7	7,851.1	4,010.2
2,432.4	3,631.3	5,224.5	4,707.6	5,819.9	4,864.1	3,860.8	6,487.4	2,913.8
1,564.2	2,036.4	1,557.9	1,512.8	1,438.1	1,330.9	1,361.0	1,363.7	1,096.4
2,997.6	2,760.1	1,989.1	1,260.5	654.4	60.9	20.9	10.5	7.6
2.7	2.8	3.0	2.6	3.5	2.9	2.8	2.3	4.2
2.7	2.8	3.0	2.6	3.5	2.9	2.8	2.3	4.2
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2,994.8	2,757.3	1,986.2	1,257.9	650.9	58.0	18.1	8.3	3.4
23,385.1	20,922.0	22,056.9	25,224.1	28,969.8	30,025.2	23,335.0	28,214.7	28,575.5
1,534.9	1,534.9	1,534.9	1,534.9	1,534.9	1,534.9	1,534.9	1,534.9	1,545.8
32,221.4	34,629.8	33,863.2	31,039.0	40,666.7	37,805.0	34,965.6	34,673.8	35,823.3
121,357.4	124,765.9	127,214.4	133,018.1	143,926.7	133,663.6	130,095.0	131,856.8	131,397.0

TABLE VIII. The Banking System: Commercial Banks & NBP - Assets, Liabilities & Capital (million zloty)

	1997 XII	1998 I	II	III
ASSETS				
Foreign assets	105,036.8	107,146.8	109,244.1	108,590.9
Due from banks	41,431.6	50,767.1	47,992.1	44,826.5
- vault cash	3,819.3	2,807.9	2,657.1	2,914.0
- due to banks from NBP	12,517.9	16,822.7	15,117.0	14,132.8
- due to banks from other banks	15,826.8	20,372.2	20,767.2	19,226.4
- due to NBP from banks	9,267.6	10,764.3	9,450.8	8,553.3
Due from non-bank financial institutions	1,530.3	1,311.3	1,745.8	1,721.4
- due to banks	1,530.3	1,311.3	1,745.8	1,721.4
- due to NBP	0.0	0.0	0.0	0.0
Due from general government	6,178.4	6,322.5	5,652.0	5,556.9
- central government	4,767.1	4,886.1	4,160.2	4,051.5
- local government	1,403.0	1,429.4	1,486.9	1,500.6
- special-purpose funds	8.4	6.9	4.9	4.9
Due from non-financial sector	106,200.3	109,210.4	110,282.3	112,396.2
- corporates	87,805.2	90,830.6	91,937.4	93,761.4
- persons	18,395.1	18,379.8	18,344.9	18,634.8
Securities purchased under agreements to resell	820.4	972.6	808.5	606.4
Securities	79,734.6	75,384.6	81,736.9	83,333.8
- issued by banks	15,032.5	9,779.9	18,809.9	20,631.3
- issued by non-bank financial institutions	129.9	133.3	132.6	144.9
- issued by general government	63,222.5	64,047.9	61,381.7	61,064.6
of which: issued by Treasury	62,996.9	63,829.4	61,164.7	60,848.7
- issued by non-financial sector	1,152.9	1,227.4	1,218.3	1,285.8
- privatisation certificates, rights issues, units in unit trusts	196.8	196.1	194.5	207.2
Other assets	28,464.2	30,544.4	32,253.4	33,677.7
TOTAL ASSETS	369,396.6	381,659.6	389,715.0	390,709.8
LIABILITIES & CAPITAL				
Foreign liabilities	22,224.0	23,858.1	23,704.2	23,518.0
Notes & coin in circulation (including vault cash)	31,075.2	29,295.7	30,061.0	30,200.1
Due to banks	37,621.3	47,626.6	45,113.5	41,848.8
- due from banks to NBP	9,180.3	10,683.6	9,371.0	8,474.0
- due from banks to other banks	15,914.2	19,971.6	20,565.0	19,219.7
- due from NBP to banks	12,526.8	16,971.4	15,177.6	14,155.1
Due to non-bank financial institutions	3,404.4	3,604.7	3,664.6	3,778.3
- due from banks	3,401.7	3,600.1	3,657.4	3,772.9
- due from NBP	2.8	4.6	7.2	5.4
Due to general government	14,142.2	18,091.6	16,724.8	16,356.9
- central government	6,384.6	10,859.1	9,257.4	8,408.6
- local government	4,395.2	4,289.7	4,345.3	4,693.1
- special-purpose funds	3,362.3	2,942.9	3,122.1	3,255.2
Due to non-financial sector, zloty	115,511.5	114,870.0	117,351.6	120,178.7
- corporates	34,615.0	31,266.8	30,438.6	31,278.8
demand	18,561.9	14,530.4	13,792.0	14,659.5
time	16,053.1	16,736.3	16,646.6	16,619.3
- persons	80,896.4	83,603.3	86,913.0	88,899.9
demand	15,094.8	15,310.6	16,418.8	16,863.1
time	65,801.6	68,292.7	70,494.1	72,036.7
Due to non-financial sector, foreign currency	30,198.5	30,761.3	29,827.4	29,132.5
- corporates	4,940.8	5,329.4	4,896.8	4,670.8
demand	2,329.2	2,234.1	2,209.9	2,265.6
time	2,611.6	3,095.3	2,686.8	2,405.2
- persons	25,257.7	25,431.9	24,930.6	24,461.8
demand	8,050.8	7,951.8	7,695.9	7,524.9
time	17,206.9	17,480.1	17,234.7	16,936.9
Securities sold under agreements to repurchase	767.4	995.7	839.6	611.4
Securities issued and outstanding	15,264.4	9,975.4	19,879.3	21,595.5
Core capital	13,881.8	16,306.6	16,402.0	17,141.1
Supplementary funds	-	2,610.2	2,575.3	2,543.9
Other liabilities & capital	85,305.9	83,663.7	83,571.8	83,804.7
TOTAL LIABILITIES & CAPITAL	369,396.6	381,659.6	389,715.0	390,709.8

				1998				
IV	V	VI	VII	VIII	IX	X	XI	XII
111,108.7	115,487.8	118,256.6	123,981.6	133,916.2	120,269.0	117,877.8	118,474.3	122,356.9
46,783.4	52,548.9	53,833.9	57,215.6	58,784.4	56,173.3	65,032.4	58,892.9	62,581.8
2,881.1	2,775.0	3,163.2	2,821.2	3,157.2	2,938.6	2,996.3	3,171.0	3,768.3
14,924.9	17,184.9	16,852.0	20,451.2	16,523.5	16,317.1	22,375.2	17,593.8	19,608.6
20,274.1	23,863.0	25,176.6	25,228.7	29,047.2	26,819.9	29,872.5	28,218.9	31,565.1
8,703.3	8,726.0	8,642.2	8,714.5	10,056.4	10,097.7	9,788.4	9,909.3	7,639.7
2,019.3	2,107.1	2,416.8	2,668.3	2,841.6	3,076.9	3,382.6	3,499.4	3,340.9
2,019.3	2,107.1	2,416.8	2,668.3	2,841.6	3,076.9	3,382.6	3,499.4	3,340.9
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6,440.0	5,906.7	6,061.2	6,279.4	6,696.2	7,106.7	7,341.8	7,655.8	8,304.8
4,886.2	4,304.5	4,427.1	4,563.3	4,969.8	5,327.4	5,507.3	5,776.9	6,155.8
1,548.6	1,595.9	1,622.9	1,699.8	1,710.5	1,766.6	1,821.3	1,863.4	2,138.7
5.2	6.3	11.2	16.2	15.8	12.8	13.2	15.5	10.4
114,364.3	116,288.4	118,790.5	119,729.0	123,273.7	126,912.1	129,465.8	132,294.8	133,489.3
95,362.0	96,826.9	98,724.5	98,986.2	101,970.4	104,977.6	106,471.8	109,291.7	109,585.0
19,002.2	19,461.5	20,066.0	20,742.8	21,303.4	21,934.4	22,994.1	23,003.1	23,904.3
540.6	1,696.5	1,444.1	503.3	569.6	272.3	1,067.2	366.8	422.1
85,054.6	85,436.0	88,097.7	90,484.3	100,488.2	101,592.9	93,714.0	99,869.3	101,467.7
23,404.8	21,166.2	22,818.7	25,978.7	29,660.8	30,654.4	24,265.5	29,001.1	29,138.8
152.9	105.0	161.3	353.1	360.4	382.1	463.6	476.1	499.6
59,917.1	62,536.4	63,403.4	62,685.7	68,918.0	68,931.2	67,131.2	68,235.9	69,547.1
59,702.5	62,316.6	63,122.5	62,405.9	68,590.5	68,626.3	66,814.7	67,875.8	69,156.8
1,363.0	1,413.3	1,489.8	1,358.1	1,440.8	1,516.5	1,743.6	2,046.4	2,171.9
216.9	215.1	224.6	108.8	108.2	108.6	110.0	109.8	110.2
33,940.4	35,848.3	35,360.2	35,871.1	36,548.9	37,267.3	38,680.7	39,008.2	33,730.3
400,251.3	415,319.7	424,261.1	436,732.6	463,118.6	452,670.4	456,562.3	460,061.6	465,693.8
25,803.7	26,144.4	27,145.7	31,519.0	34,067.8	26,120.6	27,933.4	27,056.6	26,052.7
31,715.5	31,635.7	32,828.9	32,955.8	33,890.1	33,256.4	33,155.7	33,059.1	33,993.5
43,825.2	49,939.5	50,320.5	53,986.0	55,270.6	53,447.2	62,016.2	55,553.2	58,768.3
8,629.8	8,646.1	8,560.4	8,640.3	9,983.3	10,022.3	9,716.2	9,837.1	7,565.0
20,164.3	24,018.4	24,853.8	24,827.5	28,411.4	26,960.7	29,912.9	28,252.2	31,550.5
15,031.1	17,275.1	16,906.3	20,518.2	16,876.0	16,464.1	22,387.0	17,463.9	19,652.8
3,787.4	3,317.9	4,595.3	4,659.6	4,668.6	4,835.2	5,240.6	4,876.2	4,715.4
3,784.8	3,313.0	4,594.6	4,648.5	4,666.1	4,831.0	5,237.7	4,874.3	4,713.0
2.6	4.9	0.7	11.1	2.5	4.2	2.9	1.8	2.4
15,313.6	17,525.5	18,764.1	17,979.9	19,648.3	19,218.3	18,091.0	21,307.0	16,523.2
7,670.6	8,398.0	10,138.2	9,848.6	11,177.2	10,622.3	9,879.5	12,305.6	8,340.4
4,411.1	5,378.9	5,313.2	4,916.9	5,272.9	5,609.7	5,249.1	5,913.4	5,551.5
3,231.9	3,748.6	3,312.7	3,214.4	3,198.2	2,986.3	2,962.4	3,088.0	2,631.3
122,201.9	125,308.4	128,919.3	133,037.7	136,253.6	138,191.0	139,899.6	142,435.3	152,972.6
31,498.2	32,710.4	33,845.2	35,342.1	36,335.2	36,421.4	36,656.3	37,203.6	43,390.0
13,650.6	14,968.0	16,567.5	16,476.9	17,040.3	17,290.3	16,557.2	17,399.3	19,988.0
17,847.7	17,742.4	17,277.7	18,865.2	19,294.9	19,131.0	20,099.1	19,804.2	23,401.9
90,703.6	92,597.9	95,074.1	97,695.6	99,918.3	101,769.7	103,243.3	105,231.7	109,582.6
17,100.3	17,384.2	18,270.8	18,505.3	18,652.7	19,044.3	19,133.3	19,093.1	20,693.1
73,603.4	75,213.8	76,803.3	79,190.4	81,265.6	82,725.4	84,109.9	86,138.6	88,889.5
28,745.6	29,717.1	28,938.1	28,956.6	30,387.1	29,991.2	29,240.3	29,681.2	32,433.5
4,584.8	5,177.5	4,811.0	5,298.2	5,090.5	5,517.4	5,453.4	5,699.8	7,962.8
2,035.0	2,254.9	2,163.3	2,129.6	2,311.4	2,546.6	2,363.9	2,583.7	2,540.3
2,549.8	2,922.6	2,647.8	3,168.6	2,779.1	2,970.7	3,089.6	3,116.0	5,422.4
24,160.8	24,539.5	24,127.1	23,658.4	25,296.5	24,473.8	23,786.8	23,981.5	24,470.8
7,416.9	7,507.4	7,326.0	7,195.9	7,559.0	7,206.1	6,997.2	7,018.0	7,224.8
16,743.9	17,032.2	16,801.1	16,462.5	17,737.5	17,267.7	16,789.6	16,963.4	17,246.0
693.0	1,765.5	1,593.8	747.2	609.5	371.0	1,332.1	486.5	259.6
24,211.8	21,718.0	22,843.9	26,065.8	29,791.4	30,833.5	24,149.1	29,015.7	29,457.6
19,040.7	20,736.1	21,854.1	22,252.8	22,290.5	22,607.2	23,209.4	23,300.0	23,430.3
2,682.5	2,817.5	2,789.8	2,844.4	2,851.1	2,638.0	2,611.0	2,599.0	2,846.8
82,230.3	84,694.1	83,667.6	81,728.0	93,390.0	91,160.7	89,684.1	90,691.9	84,240.2
400,251.3	415,319.7	424,261.1	436,732.6	463,118.6	452,670.4	456,562.3	460,061.6	465,693.8

TABLE IX. Monetary Aggregates (million zloty)

	1997 XII	1998 I	1998 II	1998 III
1. Notes & coin in circulation (including vault cash)	31,075.2	29,295.7	30,061.0	30,200.1
2. Current accounts of the banks	7,982.2	16,970.4	15,176.4	14,153.7
3. Required reserves	3,256.5	1.0	1.2	1.3
M0 (1+2+3)	**42,314.0**	**46,267.0**	**45,238.6**	**44,355.1**
4. Notes & coin in circulation (excluding vault cash)	27,255.9	26,487.8	27,403.8	27,286.1
5. Demand deposits	44,863.8	40,769.9	40,945.3	42,317.4
zloty	31,394.8	27,556.4	27,985.7	29,473.2
- persons	12,059.3	12,307.9	13,387.9	13,824.2
- non-financial corporates	18,561.9	14,530.4	13,792.0	14,659.5
- non-bank financial institutions	773.6	718.1	805.8	989.5
foreign currency	10,433.4	10,210.8	9,928.7	9,805.3
- persons	8,050.8	7,951.8	7,695.9	7,524.9
- non-financial corporates	2,329.2	2,234.1	2,209.9	2,265.6
- non-bank financial institutions	53.4	25.0	22.9	14.8
savings books (sight)	3,035.6	3,002.8	3,030.9	3,038.9
M 1 (4+5)	**72,119.7**	**67,257.7**	**68,349.1**	**69,603.5**
6. Time deposits & deposits on hold	104,250.6	108,466.1	109,898.2	110,772.0
zloty	79,583.7	83,261.2	85,617.2	87,357.4
- persons	61,521.8	64,274.2	66,747.0	68,594.3
- non-financial corporates	16,053.1	16,736.3	16,646.6	16,619.3
- non-bank financial institutions	2,008.8	2,250.7	2,223.7	2,143.9
foreign currency	20,326.5	21,129.3	20,480.7	19,923.1
- persons	17,146.3	17,423.0	17,181.7	16,887.9
- non-financial corporates	2,611.6	3,095.3	2,686.8	2,405.2
- non-bank financial institutions	568.7	611.0	612.2	630.1
savings certificates and certificates of deposit (non-negotiable)	4,340.4	4,075.5	3,800.2	3,491.4
- zloty	4,279.8	4,018.5	3,747.2	3,442.5
- foreign currency	60.6	57.1	53.1	49.0
7. Repurchase transactions	21.4	7.5	6.1	30.6
- with non-financial corporates	3.8	5.6	4.4	19.6
- with non-bank financial institutions	17.6	1.9	1.7	11.0
M2 (M1+6+7)	**176,391.7**	**175,731.4**	**178,253.4**	**180,406.1**

1998								
IV	V	VI	VII	VIII	IX	X	XI	XII
31,715.5	31,635.7	32,828.9	32,955.8	33,890.1	33,256.4	33,155.7	33,059.1	33,993.5
15,029.8	17,273.8	16,898.8	20,500.3	16,859.3	16,452.8	22,386.9	17,463.8	19,652.7
1.3	1.3	7.5	17.8	16.7	11.4	0.1	0.1	0.1
46,746.6	**48,910.8**	**49,735.2**	**53,474.0**	**50,766.1**	**49,720.6**	**55,542.7**	**50,523.0**	**53,646.3**
28,834.4	28,860.7	29,665.7	30,134.6	30,732.9	30,317.8	30,159.3	29,888.1	30,225.2
41,074.0	42,762.7	45,633.1	45,314.0	46,506.1	47,245.5	46,188.1	47,062.3	51,278.0
28,540.5	29,906.9	32,985.7	32,787.5	33,398.9	34,281.0	33,597.1	34,243.0	37,828.5
14,037.5	14,310.9	15,132.9	15,318.0	15,441.0	15,861.4	15,946.0	15,894.3	17,079.0
13,650.6	14,968.0	16,567.5	16,476.9	17,040.3	17,290.3	16,557.2	17,399.3	19,988.0
852.5	628.0	1,285.3	992.6	917.5	1,129.3	1,093.9	949.4	761.4
9,470.7	9,782.5	9,509.5	9,339.3	9,895.5	9,781.6	9,403.6	9,620.5	9,835.4
7,416.9	7,507.4	7,326.0	7,195.9	7,559.0	7,206.1	6,997.2	7,018.0	7,224.8
2,035.0	2,254.9	2,163.3	2,129.6	2,311.4	2,546.6	2,363.9	2,583.7	2,540.3
18.8	20.2	20.2	13.8	25.1	28.9	42.6	18.7	70.3
3,062.8	3,073.3	3,137.9	3,187.2	3,211.7	3,182.8	3,187.3	3,198.8	3,614.1
69,908.4	**71,623.4**	**75,298.8**	**75,448.7**	**77,239.0**	**77,563.3**	**76,347.4**	**76,950.5**	**81,503.2**
113,661.0	115,742.5	116,942.1	121,436.1	124,955.3	125,949.5	128,452.1	130,173.0	139,258.4
90,623.5	92,147.3	94,080.4	98,619.8	101,422.5	102,955.2	105,897.5	107,624.1	114,281.1
70,466.5	72,322.5	74,174.9	76,824.1	79,123.1	80,880.8	82,401.5	84,682.1	87,718.3
17,847.7	17,794.7	17,316.8	18,904.9	19,368.1	19,211.0	20,188.4	19,926.6	23,628.6
2,309.3	2,030.2	2,588.7	2,890.8	2,931.3	2,863.5	3,307.5	3,015.4	2,934.3
19,854.8	20,660.9	20,193.8	20,415.3	21,356.3	21,117.0	20,819.9	21,070.4	23,787.4
16,698.1	16,989.2	16,761.6	16,427.8	17,703.5	17,235.1	16,763.4	16,941.5	17,227.4
2,549.8	3,032.1	2,731.2	3,225.1	2,858.1	3,068.4	3,259.9	3,236.3	5,610.7
606.9	639.6	701.1	762.4	794.7	813.5	796.6	892.6	949.4
3,182.7	2,934.2	2,667.9	2,401.0	2,176.5	1,877.2	1,734.7	1,478.4	1,189.8
3,136.8	2,891.3	2,628.4	2,366.3	2,142.5	1,844.6	1,708.4	1,456.5	1,171.2
45.8	42.9	39.5	34.7	34.1	32.6	26.3	21.9	18.6
11.0	24.6	22.2	21.5	12.8	11.2	3.3	3.3	3.1
11.0	4.6	22.2	21.5	12.8	11.2	3.3	3.3	3.1
0.0	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
183,580.4	**187,390.4**	**192,263.1**	**196,906.3**	**202,207.1**	**203,524.0**	**204,802.8**	**207,126.8**	**220,764.7**

TABLE X. Consolidated Balance Sheet of the Banking System (million zloty)

	1997 XII	1998 I	1998 II	1998 III
TOTAL MONEY SUPPLY (M2)	**176,391.7**	**175,731.4**	**178,253.4**	**180,406.1**
A. Domestic money stocks	145,571.1	144,334.2	147,790.9	150,628.7
1. Notes & coin in circulation (excluding vault cash)	27,255.9	26,487.8	27,403.8	27,286.1
- notes & coin in circulation (including vault cash)	31,075.2	29,295.7	30,061.0	30,200.1
- vault cash	3,819.3	2,807.9	2,657.1	2,914.0
2. Due to persons and corporates, zloty	118,315.2	117,846.4	120,387.1	123,342.6
persons	80,896.4	83,603.3	86,913.0	88,899.9
- demand	15,094.8	15,310.6	16,418.8	16,863.1
- time	65,801.6	68,292.7	70,494.1	72,036.7
corporates	37,418.8	34,243.1	33,474.1	34,442.8
- demand	19,335.5	15,248.5	14,597.8	15,649.0
- time	18,083.3	18,994.6	18,876.3	18,793.8
B. Due to persons and corporates, foreign currency	30,820.6	31,397.2	30,462.5	29,777.4
1. Persons	25,257.7	25,431.9	24,930.6	24,461.8
2. Corporates	5,562.8	5,965.3	5,531.9	5,315.7
NET FOREIGN ASSETS	**82,812.8**	**83,288.7**	**85,539.9**	**85,072.8**
expressed in USD million	23,539.7	23,514.6	24,587.5	24,669.5
NET DOMESTIC ASSETS	**93,578.9**	**92,442.7**	**92,713.5**	**95,333.3**
C. Due from persons & corporates	108,291.1	111,147.6	112,602.3	114,747.4
1. Persons	18,395.1	18,379.8	18,344.9	18,634.8
2. Corporates	89,896.1	92,767.9	94,257.4	96,112.6
D. Net general government debt	55,258.8	52,278.7	50,308.8	50,264.6
1. Due from central government	4,767.1	4,886.1	4,160.2	4,051.5
2. Due from special-purpose funds	8.4	6.9	4.9	4.9
3. Due from local government	1,403.0	1,429.4	1,486.9	1,500.6
4. Treasury securities	62,996.9	63,829.4	61,164.7	60,848.7
of which: - Treasury bills	18,306.6	17,609.0	16,814.0	16,688.5
- zloty-denominated 1-year Treasury bonds	208.5	225.8	223.1	98.3
- other zloty-denominated Treasury bonds	25,712.7	26,908.3	25,763.3	25,968.6
- dollar-denominated Treasury bonds	18,769.1	19,086.2	18,364.2	18,093.3
5. Local government securities	225.7	218.5	217.0	215.9
6. Due to central government	6,384.6	10,859.1	9,257.4	8,408.6
7. Due to special-purpose funds	3,362.3	2,942.9	3,122.1	3,255.2
8. Due to local government	4,395.2	4,289.7	4,345.3	4,693.1
E. Other items (net)	-69,971.1	-70,983.7	-70,197.6	-69,678.7

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

	1997 XII	1998 I	1998 II	1998 III
NET FOREIGN ASSETS	**72,288.7**	**72,783.8**	**79,323.9**	**79,161.0**
NET DOMESTIC ASSETS	**-29,974.8**	**-26,516.7**	**-34,085.4**	**-34,805.9**
Due from financial sector	9,267.6	10,764.3	9,450.8	8,553.3
Net general government debt	12,507.0	8,806.0	9,692.8	10,261.4
Due from non-financial sector	65.7	65.1	65.1	65.0
Other items (net)	-51,815.1	-46,152.2	-53,294.1	-53,685.5
RESERVE MONEY	**42,314.0**	**46,267.0**	**45,238.6**	**44,355.1**
Notes & coin in circulation (including vault cash)	31,075.2	29,295.7	30,061.0	30,200.1
Due to domestic banks	11,238.8	16,971.4	15,177.6	14,155.1
Money multiplier	**4.17**	**3.80**	**3.94**	**4.07**

				1998				
IV	V	VI	VII	VIII	IX	X	XI	XII
183,580.4	187,390.4	192,263.1	196,906.3	202,207.1	203,524.0	204,802.8	207,126.8	220,764.7
154,209.2	156,904.1	162,520.3	167,117.0	170,921.2	172,592.7	174,553.0	176,414.0	187,123.2
28,834.4	28,860.7	29,665.7	30,134.6	30,732.9	30,317.8	30,159.3	29,888.1	30,225.2
31,715.5	31,635.7	32,828.9	32,955.8	33,890.1	33,256.4	33,155.7	33,059.1	33,993.5
2,881.1	2,775.0	3,163.2	2,821.2	3,157.2	2,938.6	2,996.3	3,171.0	3,768.3
125,374.7	128,043.4	132,854.5	136,982.4	140,188.4	142,274.9	144,393.7	146,525.8	156,898.0
90,703.6	92,597.9	95,074.1	97,695.6	99,918.3	101,769.7	103,243.3	105,231.7	109,582.6
17,100.3	17,384.2	18,270.8	18,505.3	18,652.7	19,044.3	19,133.3	19,093.1	20,693.1
73,603.4	75,213.8	76,803.3	79,190.4	81,265.6	82,725.4	84,109.9	86,138.6	88,889.5
34,671.1	35,445.4	37,780.4	39,286.7	40,270.0	40,505.2	41,150.4	41,294.1	47,315.4
14,503.0	15,596.0	17,852.8	17,469.5	17,957.9	18,419.6	17,651.1	18,348.7	20,749.4
20,168.1	19,849.4	19,927.6	21,817.2	22,312.1	22,085.6	23,499.3	22,945.4	26,565.9
29,371.3	30,486.3	29,742.8	29,789.3	31,285.9	30,931.2	30,249.8	30,712.8	33,641.5
24,160.8	24,539.5	24,127.1	23,658.4	25,296.5	24,473.8	23,786.8	23,981.5	24,470.8
5,210.5	5,946.8	5,615.7	6,130.8	5,989.3	6,457.4	6,463.0	6,731.4	9,170.7
85,305.0	89,343.3	91,110.9	92,462.6	99,848.3	94,148.4	89,944.4	91,417.7	96,304.1
25,104.5	25,614.5	26,162.5	26,921.7	26,697.4	26,305.8	26,101.1	26,213.0	27,484.1
98,275.5	98,047.1	101,152.1	104,443.6	102,358.7	109,375.6	114,858.5	115,709.1	124,460.6
117,046.4	119,075.1	122,077.2	123,169.9	126,998.1	130,973.4	134,127.0	137,346.4	138,523.1
19,002.2	19,461.5	20,066.0	20,742.8	21,303.4	21,934.4	22,994.1	23,003.1	23,904.3
98,044.2	99,613.5	102,011.2	102,427.1	105,694.7	109,039.0	111,132.9	114,343.3	114,618.8
51,043.5	50,917.6	50,700.5	50,985.2	55,965.8	56,819.7	56,382.0	54,584.8	61,328.7
4,886.2	4,304.5	4,427.1	4,563.3	4,969.8	5,327.4	5,507.3	5,776.9	6,155.8
5.2	6.3	11.2	16.2	15.8	12.8	13.2	15.5	10.4
1,548.6	1,595.9	1,622.9	1,699.8	1,710.5	1,766.6	1,821.3	1,863.4	2,138.7
59,702.5	62,316.6	63,122.5	62,405.9	68,590.5	68,626.3	66,814.7	67,875.8	69,156.8
15,538.7	15,733.1	16,705.7	16,104.3	16,899.5	16,500.3	16,078.1	16,500.2	16,546.8
89.1	115.7	60.5	173.2	257.6	339.3	860.7	898.9	1,115.7
26,909.2	28,555.5	28,642.5	28,456.5	30,719.5	31,920.8	31,247.0	31,760.1	32,540.5
17,165.5	17,912.3	17,713.9	17,671.8	20,713.8	19,865.9	18,629.0	18,716.5	18,953.8
214.5	219.8	280.8	279.8	327.5	304.9	316.5	360.2	390.3
7,670.6	8,398.0	10,138.2	9,848.6	11,177.2	10,622.3	9,879.5	12,305.6	8,340.4
3,231.9	3,748.6	3,312.7	3,214.4	3,198.2	2,986.3	2,962.4	3,088.0	2,631.3
4,411.1	5,378.9	5,313.2	4,916.9	5,272.9	5,609.7	5,249.1	5,913.4	5,551.5
-69,814.4	-71,945.6	-71,625.5	-69,711.4	-80,605.2	-78,417.6	-75,650.5	-76,222.2	-75,391.3

				1998				
IV	V	VI	VII	VIII	IX	X	XI	XII
81,742.8	85,749.7	87,592.6	91,610.9	100,760.6	96,645.7	93,118.8	95,223.5	95,614.2
-34,996.2	-36,839.0	-37,857.4	-38,136.9	-49,994.5	-46,925.1	-37,576.1	-44,700.5	-41,967.9
8,703.3	8,726.0	8,642.2	8,714.5	10,056.4	10,097.7	9,788.4	9,909.3	7,639.7
11,620.5	9,946.5	8,808.5	9,266.0	9,042.3	9,819.0	9,754.8	7,280.3	13,755.1
65.0	64.9	64.7	64.4	64.4	61.5	61.3	61.3	59.7
-55,385.0	-55,576.4	-55,372.8	-56,181.8	-69,157.5	-66,903.3	-57,180.5	-61,951.5	-63,422.4
46,746.6	48,910.8	49,735.2	53,474.0	50,766.1	49,720.6	55,542.7	50,523.0	53,646.3
31,715.5	31,635.7	32,828.9	32,955.8	33,890.1	33,256.4	33,155.7	33,059.1	33,993.5
15,031.1	17,275.1	16,906.3	20,518.2	16,876.0	16,464.1	22,387.0	17,463.8	19,652.8
3.93	3.83	3.87	3.68	3.98	4.09	3.69	4.10	4.12

TABLE XII. Poland: Balance of Payments (USD million)

	1997	1998
A. CURRENT ACCOUNT	-4,312	-6,858
Trade balance	-11,320	-13,720
Merchandise exports	27,229	30,122
Merchandise imports	38,549	43,842
Services: net	305	-508
Services: credit	3,724	3,678
Services: debit	3,419	4,186
Income: net	-458	-568
Income: credit	1,440	2,676
Income: debit	1,898	3,244
of which: due and paid	1,893	3,236
Current transfers: net	1,150	1,942
Current transfers: credit	1,845	2,543
Current transfers: debit	695	601
Unclassified current transactions: net	6,011	5,996
B. CAPITAL AND FINANCIAL ACCOUNT	5,414	10,800
Capital account	90	73
Financial account	5,324	10,727
Direct investment: net	3,041	4,966
Polish direct investment abroad	-36	-163
Foreign direct investment in Poland	3,077	5,129
Portfolio investment: net	2,098	1,330
Polish portfolio investment abroad	815	-180
Equity securities	56	-42
Debt securities	759	-138
Foreign portfolio investment in Poland	1,283	1,510
Equity securities	599	952
Debt securities	684	558
Other investment: net	185	4,431
Polish assets	-921	2,247
Long-term credits extended	-82	-82
Drawings	227	260
Repayments	145	178
Short-term credits extended	-60	-16
Drawings	189	147
Repayments	129	131
Other assets	-779	2,345
Currency, current balances and deposits	-825	2,294
Other	46	51
Polish liabilities	1,106	2,184
Long-term credits received	416	1,669
Drawings	1,189	3,235
Repayments	773	1,566
of which: due and paid	711	1,506
Short-term credits received	592	-46
Drawings	1,201	334
Repayments	609	380
Other liabilities	98	561
Current balances and deposits	98	602
Other	0	-41
C. NET ERRORS AND OMISSIONS	2,488	1,766
OVERALL BALANCE (items A through C)	3,590	5,708
D. FINANCING OF OVERALL BALANCE	-3,590	-5,708
Reserve assets (gross official reserves)	-3,591	-5,698
Credits from IMF	0	0
Exceptional financing	1	-10

Quarters of 1998			
I	II	III	IV
-1,998	-665	-1,215	-2,980
-3,244	-2,875	-3,296	-4,305
7,056	7,670	7,801	7,595
10,300	10,545	11,097	11,900
-109	-111	-25	-263
782	875	1,028	993
891	986	1,053	1,256
-161	-31	-283	-93
610	586	772	708
771	617	1,055	801
769	614	1,053	800
353	637	520	432
486	777	664	616
133	140	144	184
1,163	1,715	1,869	1,249
3,242	2,192	2,638	2,728
19	-2	6	50
3,223	2,194	2,632	2,678
1,004	1,257	1,684	1,021
-3	-59	-1	-100
1,007	1,316	1,685	1,121
212	363	-859	1,614
-253	58	-39	54
-38	-10	-1	7
-215	68	-38	47
465	305	-820	1,560
138	52	147	615
327	253	-967	945
2,007	574	1,807	43
1,800	21	1,474	-1,048
18	-19	-49	-32
69	67	71	53
87	48	22	21
14	-32	11	-9
30	55	24	38
44	23	35	29
1,768	72	1,512	-1,007
1,735	57	1,509	-1,007
33	15	3	0
207	553	333	1,091
228	424	82	935
560	699	528	1,448
332	275	446	513
317	275	445	469
42	-120	-64	96
99	20	86	129
57	140	150	33
-63	249	315	60
-50	251	335	66
-13	-2	-20	-6
1,339	463	-516	480
2,583	1,990	907	228
-2,583	-1,990	-907	-228
-2,578	-1,989	-903	-228
0	0	0	0
-5	-1	-4	0

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 related to the items in Table I are to 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 status, whether belonging to the public or private sector; the public sector comprises state and municipal enterprises, and also mixed companies with a majority public sector interest.

2. The term "corporate sector" comprises organisations conducting economic activity in forestry, logging and related service activities; marine fisheries; mining and quarrying; manufacturing; electricity, gas and water supply; construction; the wholesale and retail trades; repair of motor vehicles, motorcycles, and personal and household goods; hotels and restaurants; transport, storage and communication; real estate, renting and business activities; sewage and refuse disposal, sanitation and similar activities; recreational, cultural and sporting activities; and other service activities.

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

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

5. Figures on industrial output (point 1) and construction output (point 2) are given net of VAT output tax.

6. Figures on construction output (point 2) do not include works performed abroad or carried out by organisations whose basic business is not construction.

7. Figures on industrial output (point 1) and 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 total number of unemployed (point 8) refer to persons registered as jobless at employment offices at month end.

10. The unemployment rate (point 9) represents the proportion of registered jobless in the civilian working population.

11. Figures on average employee earnings in the corporate sector (point 10) are given both gross (before personal income tax) and net (after that tax).

12. Since 1998, revenues from privatisation are excluded from current central government receipts, and instead are given as a source of financing for the fiscal deficit (point 11a).

13. The figures for corporate financial performance (point 12) refer mainly to business organisations maintaining books of account and required to complete monthly statements on income, expense and profit/loss. Figures 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 source of the figures in Table II is the National Bank of Poland (with the exception of the data given in point 18, which are taken from *Ceduła Giełdowa,* published by the Warsaw Stock Exchange).

Table II has been expanded to include data on:

- the minimum yield on 28-day open market operations (the reverse repo rate) (point 4),
- monthly zloty devaluation against Poland's reference basket of currencies (point 5).

1. Interest rates in Table II are presented on an annualised basis, as obtaining at month end, except in points 16e and 17e, which give monthly average rates.

2. In point 3, where two interest rates are given in one cell, the first rate is on refinance loans for central government investment projects guaranteed by the Treasury. This is equal to the lombard rate. The second rate, one percentage point higher, is applicable to other refinance loans.

3. The reference basket of currencies used to set the exchange rate of the zloty is composed of the US dollar (45%), Deutschemark (35%), sterling (10%), Swiss franc (5%) and French franc (5%).

4. As of the beginning of 1992, the balances held by banks on current account at the NBP do not bear interest.

5. As of January 1, 1998, the opening of accounts at the NBP by parties other than banks, central government and the Bank Guarantee Fund requires the individual approval of the President of the NBP. Parties not possessed of personality at law cannot open accounts at the NBP.

6. The figures given for December 1997 in point 6b refer to the rates on time deposits taken by the NBP from September 15, 1997, to December 19, 1997, these deposits being accepted exclusively from persons.

7. Rates on loans, zloty deposits and foreign currency deposits at the principal commercial banks (points 7 and 8, and also - as of January 1998 - point 9) refer to the rates quoted by the following banks:

- PKO State Savings Bank,
- Bank Handlowy w Warszawie SA,
- Bank Śląski SA,
- Bank Przemyslowo-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 Polska Kasa Opieki SA - Pekao Group SA,
- Kredyt Bank PBI SA,
- Bank Gospodarki Żywnościowej SA.

8. In point 7a, the figures for December 1997 represent minimum prime lending rates. As of January 1998, these figures constitute minimum and maximum lending rates.

9.The figures given in points 7b, 8 and 9 constitute minimum and maximum rates.

10. Rates on demand deposits (point 8a) and time deposits (points 8c-h) refer to personal deposits.

11. Rates on foreign currency deposits (point 9) refer to accounts held in US dollars. As of January 1998, information is no longer collected on rates on 36-month foreign currency deposits.

12. Figures on interbank placements (point 10) refer to zloty deposits at banks domiciled in Poland. The ranges in particular periods are closed on the right side. 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. As of January 1998, these figures are supplied by the banks listed in note 7 above, and also by:

- BIG Bank S.A.,
- Polski Bank Rozwoju S.A.,
- Raiffeisen Centrobank SA,
- Pierwszy Komercyjny Bank SA,
- CITIBANK (Poland) SA,
- Bank Ochrony Środowiska SA,
- Bank Creditanstalt SA,
- ING Bank N.V., Warsaw Branch,
- Societé Générale, Warsaw Branch,
- Deutsche Bank Polska SA.

These figures refer to:

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

13. Total required reserves (point 12) refers to the month-end values declared by the banks.

14. Figures on securities sold to banks by the NBP under reverse repurchase agreements (point 14) are taken from the tenders held during the given month.

15. Figures for Treasury Bill tenders (point 16, excluding sub-point 16g) are taken from the tenders held during the given month. The average discount rates on bids accepted (sub-point 16e) and average yields on bills purchased (sub-point 16f) are weighted according to the proportion of bills of particular maturities in the total value of bills purchased. The balance of bills outstanding at month end (sub-point 16g) is computed in consideration 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.

16. Figures for tenders for NBP money-market bills (point 17, excluding sub-point 17g) are taken from the tenders held during the given month. The average discount rates on bids accepted (sub-point 17e) and average yields on bills purchased (sub-point 17f) are weighted according to the proportion of bills of particular maturities in the total value of bills purchased.

17. The Warsaw Stock Exchange Index (sub-point 18d) is calculated according to percentage changes in the market values of listed companies. The market value of all companies on the first-tier market is computed during each trading session (the total market capitalisation) and compared with the value at previous sessions. It has been assumed that the Warsaw Stock Exchange Index stood at 1,000 points during the first session of the Exchange on April 16, 1991.

18. The P/E ratio (sub-point 18e) 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.

19. The turnover ratio (sub-point 18f) represents the ratio of the value of shares sold to the average market value of all companies listed on the Exchange in a given month.

TABLE III. Zloty/USD & zloty/DEM Exchange Rates, 1998

The source of these figures is the National Bank of Poland.

1. The fixing rate is the official rate used for statistical and accounting purposes.
2. Daily rates for the US dollar at bureaux de change were calculated on the basis of daily information on rates at bureaux de change in over a dozen selected voivodships.
3. Average zloty/USD and zloty/DEM fixing rates and DEM/USD cross rates were calculated as the arithmetic mean of the official daily rates on particular days of the month.
4. Monthly average rates for the US dollar were calculated as a weighted average.

TABLES IV & V

The date on interest rates at particular banks were taken from the Accelerated Ten-Day Information Bulletin. Since these figures are not unequivocal, the interest rates applicable to particular categories of loan and deposit were taken to be:

1. the minimum **floating** rate
2. where there was no floating rate - the minimum **fixed** rate
3. where there was no information on the given rate - the rate for the same instrument of next shortest maturity.

Weighted interest rates are calculated on the basis of data from some 20 of the argest banks.

The weights applied represent the proportion attributable to particular banks in a given category in relation to all the banks included in the calculation.

These banks account for approximately 85% of the personal deposits held within the entire Polish banking industry.

The banks in question are the following: 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 SA, BIG Bank Gdański SA, Bank Pekao SA - Pekao Group SA, Kredyt Bank PBI SA, Polski Bank Rozwoju SA (not included as of August 1998), Raiffeisen Centrobank SA, Pierwszy Komercyjny Bank SA, CITIBANK (Poland) SA, and Bank Gospodarki Żywnościowej SA.

General remarks on Tables VI, VII and VIII

1. Figures refer to balances at the end of particular months and were obtained from balance sheet information provided by the banks under the "Bank Reporting System" (BIS) introduced in January 1997.

2. The figures in these tables were compiled on the basis of the source data recorded in the Bank Reporting System at May 31, 1999.

3. The figures for December 1997 included in Tables VI and VIII have been revised in relation to those contained in the 1997 Annual Report, on the basis of adjusted figures submitted by the banks.

4. The assets presented in Tables VI, VII and VIII are given gross, i.e., with no deduction of provisions, accumulated depreciation or valuation allowances.

5. **"Non-bank financial institutions"** comprise insurance companies, investment funds, trust funds and other financial institutions, i.e., stock exchanges, brokerage houses not owned by banks, bureaux de change, post offices, trust fund companies, financial regulatory agencies (e.g., the Securities and Exchange Commission), financial support institutions (e.g., the National Securities Depositary, and clearing houses and centres), leasing companies, and also funds and foundations supplying financial services. In the new system of bank reporting, non-bank financial institutions represent a separate subsection of the financial sector. Under the system in force prior to the end of 1996, these institutions were included in various corporate sectors.

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

7. The term **"non-financial sector"** refers to the organisations and persons listed in points 8 and 9 below.

8. The term **"corporates"** under **"non-financial 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 organisations, etc.

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

10. **"Foreign assets"** and **"foreign liabilities**" comprise amounts due from or to non-residents (parties not resident or domiciled in Poland), in both convertible and non-convertible currencies and also in zloty, excluding the equity and supplementary capital of banks paid in by foreign parties, which - according to guidelines provided to the banks - are to be treated on a par with capital paid in by residents (parties resident or domiciled in Poland).

The "foreign assets" and "foreign liabilities" referred to in the present report retain the same scope as those in previous reports.

All items presented in the tables other than "foreign assets" and "foreign liabilities" represent transactions conducted with residents.

11. The term **"due from"** refers to loans and advances in zloty and foreign currency, purchased debt, claims arising on the performance of guarantees and endorsements, extraordinary operations, and other claims and interest outstanding.

12. **"Securities purchased/sold under agreements to resell/repurchase**" represent loans or placements made, or borrowings or deposits taken, collater-

alised by securities. The above items do not include transactions between the commercial banks and the central bank, which are shown as "due from NBP" or "due to NBP".

13. The term **"due to"** refers to demand deposits (including personal sight savings books), time deposits and deposits on hold, savings certificates and certificates of deposit (non-negotiable) held by personal customers, escrow accounts, brokerage accounts at bank brokerage houses, loans and advances from non-financial funds and foundations and non-bank financial institutions, extraordinary operations, and funds received to finance development programmes.

TABLE VI. Commercial Banks - Assets and Liabilities & Capital

1. The item **"due from non-financial sector"** solely comprises claims on the corporates and persons listed in points 8 and 9 of the "General remarks on Tables VI, VII and VIII". This item does not include claims on insurance companies, which were incorporated in this sector in the Annual Reports containing data for the years up to and including 1996.

2. **"Securities purchased/sold under agreements to resell/repurchase**" were shown under "other assets" and "other liabilities" in the Annual Reports containing data for the years up to and including 1996.

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

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

Figures on the value of portfolios of government securities given in the present report are given at cost plus interest accrued and discount accreted.

4. **"Other assets**" include fixed assets, accrued interest income, settlement accounts, accrued income and prepaid expense, and settlements with miscellaneous debtors.

5. As of January 1998, due to modifications in the system of data collection, a separate item, **"supplementary capital"**, has been included in liabilities & capital.

6. **"Other liabilities & capital**" include accrued interest expense, settlement accounts, settlements with miscellaneous creditors, accrued expense and deferred income (including deferred income on irregular assets), earnings pending publication and current year's earnings, specific provisions, accumulated depreciation and valuation allowances.

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

1. The assets and liabilities of the National Bank of Poland in Table VII have been presented in such a way as to allow for the aggregation of data and the compilation of aggregate figures on the banking system.

2. The principles applied in aggregating the data contained in Table VIII are consistent with those used for commercial banks. In particular, this means that the same breakdown has been applied by class of transaction and counterparty involved, while also taking into consideration the operations specific to the central bank (e.g., refinance loans, required reserves).

3. The item **"due from banks"** conforms to the item *due from financial sector* published in Table III of the Annual Report until the end of 1996.

4. The item **"special-purpose refinance loans"** corresponds to the item *other refinance* loans published in Table III of the Annual Report until the end of 1996.

5. The item **"other refinance loans"** corresponds to the item *overdraft refinancing* published in Table III of the Annual Report until the end of 1996.

6. The item **"past due loans"** corresponds to the item *basic refinance loans* published in Table III of the Annual Report until the end of 1996.

7. The item **"securities issued by banks"** corresponds to the item *other securities* published in Table III of the Annual Report until the end of 1996.

8. The item **"securities issued by Treasury"** corresponds to the sum of the items *Treasury bills* and *Treasury bonds* published in Table III of the Annual Report until the end of 1996.

9. The sum of the items **"due to banks"** and **"due to non-bank financial institutions"** corresponds to the item *due to financial sector* published in Table III of the Annual Report until the end of 1996.

10. The item **"securities issued and outstanding"** constituted a component of the item *other liabilities* in the Annual Reports containing data for the years up to and including 1996.

11. The asset and liability items not mentioned in these notes to Table VI remain unchanged in relation to the items presented in Table III of the Annual Reports containing data for the years up to and including 1996.

12. **"Other assets"** include various items not identified separately in the listing of NBP assets, and primarily comprise prepaid expense, distributed earnings (including payments to government), other claims and inventories, equity investments, real property and moveable property.

13. **"Other liabilities & capital"** include various items not identified separately in the listing of NBP liabilities, and primarily comprise other capital funds, deferred income, interoffice and interbank settlements, specific reserves, the currency translation reserve, FX revaluation differences and earnings.

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

This table contains aggregate data on the commercial banks (cf. Table VI) and NBP (cf. Table VII).

TABLE IX. Monetary Aggregates

1. The basic measure of the **money supply** used by the NBP remains **M2**, referred to prior to the end of 1996 as the *total money supply*.

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 business organisations for securities sold under repurchase agreements.

Within M2, an additional aggregate identified is **M1** - the most liquid kind of money, directly used for the performance of transactions, which comprises notes & coin in circulation and personal and corporate demand deposits (in zloty and foreign currency).

2. The figures for December 1997 included in the present report have been revised in relation to those contained in the 1997 Annual Report, on the basis of adjusted figures submitted by the banks.

TABLE X. Consolidated Balance Sheet of the Banking Sector

1. This table presents the assets and liabilities of the commercial banks and NBP in a format that reflects the requirements of monetary analyses. The corresponding table in the 1996 Annual Report was Table V.

2. The figures for December 1997 included in the present report have been revised in relation to those contained in the 1997 Annual Report, on the basis of adjusted figures submitted by the banks.

3. As of January 1, 1997, the National Bank of Poland has introduced certain changes in its method of computing monetary aggregates.

The aggregate "deposits", in use until the end of 1996, has been replaced by the aggregate amount **"due to"** which - in addition to deposits - may include liabilities arising on securities sold under agreements to repurchase.

The aggregate "loans" has been replaced by the aggregate amount **"due from"** which - in addition to loans - may include purchased debt, claims arising on the performance of guarantees and endorsements, debt securities and claims arising on securities purchased under agreements to resell.

In terms of the breakdown of these items by counterparty, the aggregates "due to" and "due from" have been expanded to include data on non-bank financial institutions which, prior to the change in methodology, were included under *other items (net).*

4. The item **"total money supply"** comprises domestic money stocks together with foreign currency liabilities to persons and corporates.

5. The item **"domestic money stocks"** includes notes and coin in circulation (excluding vault cash) and zloty liabilities to persons and corporates.

6. The item **"notes & coin in circulation (excluding vault cash)"** represents zloty cash stocks (notes and coin) circulating outside bank vaults. In accounting terms, this represents the difference between the currency in circulation outside the NBP and vault cash.

7. The item **"due to persons"** comprises demand deposits (including sight savings books), escrow current accounts, brokerage accounts at bank brokerage houses, time deposits and deposits on hold, escrow time deposits, savings certificates and certificates of deposit (non-negotiable).

8. The item **"due to corporates"** refers to amounts due to both non-financial organisations and non-bank financial institutions. This item comprises current accounts, time deposits and deposits on hold, escrow accounts, brokerage accounts at bank brokerage houses, loans and advances from non-financial funds and foundations and non-bank financial institutions, and liabilities arising on securities sold under agreements to repurchase.

9. **"Net foreign assets"** represent the difference between all amounts due to and from non-residents (cf. the definition in point 10 of " General remarks on Tables VI, VII and VIII").

10. **"Net domestic assets"** represent claims on persons and corporates, net general government debt and other items (net). In accounting terms, this constitutes the difference between the total money supply and net foreign assets.

11. The item **"due from persons"** comprises loans and advances, purchased debt, claims arising on the performance of guarantees and endorsements, and interest outstanding on both regular and irregular assets.

12. The item **"due from corporates"** refers to amounts due from both non-financial organisations and non-bank financial institutions. This item comprises loans and advances, purchased debt, claims arising on the performance of guarantees and endorsements, interest outstanding on both regular and irregular assets, claims arising on securities purchased under agreements to resell, and other claims (e.g., on interest subsidies to preferential loans and contributions to the Stock Exchange Compensation Fund).

13. **"Net general government debt"** represents all amounts within the banking system due from central government, local government and the special purpose funds of the two, including amounts due on securities issued by central and local government and held by commercial banks and the central bank, less the total liabilities of the banks to these institutions.

14. The item **"other items (net)"** primarily comprises bank income, capital, interbank and interoffice settlements, settlement accounts, securities issued and outstanding, interbank claims and liabilities, and specific provisions.

TABLE XII. Poland: Balance of Payments (USD million)

1. The balance of payments is a statistical presentation that provides a systematic summary of all business transactions between a given country and the rest of the world in a given period of time. These transactions are in the main concluded between residents and non-residents, and involve, among other things, merchandise, services, income, financial claims and liabilities on other countries, and also transactions classified as transfers, which constitute offsetting accounting entries for one-way transactions.

2. The data on the Polish balance of payments have been obtained from the reports of domestic banks holding foreign exchange licences regarding transactions on nostro accounts at foreign banks, transactions on the accounts of non-residents at Polish banks, compensation settlements, bilateral netting, and cash transactions at such foreign exchange banks. Data collected for the balance of payments are expressed in original currencies, i.e., in the currencies in which a transaction was settled. They are then translated into US dollars.

The balance of payments includes the current account, the capital and financial account, net errors and omissions, and financing.

3. The **"current account"** comprises merchandise, services, income, current transfers and the net value of unclassified current transactions.

"Merchandise" comprises exports and imports of goods, repairs of goods, the refining of goods for re-export, production supplies purchased from or sold to shipping agents at ports, and non-monetary gold.

"Services" comprise exports and imports of transportation services, foreign travel services, postal, delivery and telecommunications services, insurance and reinsurance services, financial services, construction services, IT and information services, copyrights, patents and licence fees, other commercial services, household services, audiovisual, cultural and recreational services, and the maintenance of representative offices.

"Income" comprises employee earnings, income on direct and portfolio investment, and other income. "Other income" includes interest on credits extended and received, and on current balances and deposits.

"Current transfers" comprise official transfers arising from donations and non-refundable assistance, and taxes and charges collected by the Polish general government sector, and also transfers in other sectors, including wages, legacies, old-age and disability pensions, and deposits to and withdrawals from foreign currency "A" accounts, and taxes and charges collected by other governments.

"Unclassified current transactions" reflect the net value of foreign currencies bought and sold.

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

The **"capital account"** comprises capital transfers, which include donations and non-refundable assistance specifically assigned to finance fixed assets, debt cancellations, and the acquisition or disposal of intangible and non-financial assets. The latter acquisition or disposal refers to patents, copyrights, trademarks, etc., purchased by residents or sold to non-residents, and also land sold to foreign embassies in Poland or purchased by Polish embassies abroad.

The **"financial account"** comprises financial assets and liabilities, consisting in direct investment, portfolio investment and other investment.

"Direct investment" reflects long-term investment by an organisation domiciled in one country (the direct investor) in an organisation domiciled in another, and comprises the transactions between the two. Direct investment transactions (Polish transactions abroad and foreign transactions in Poland) involve either equity capital or other capital.

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

"Other investment" comprises Polish assets and liabilities (abroad) arising on financial transactions not included under direct investment, portfolio investment or reserve assets.

"Polish assets" comprise loan finance and trade credits extended to non-residents by the general government sector, the banking sector, or the non-government and non-banking sectors, broken down into long-term credits (above 1 year) and short-term credits (up to 1 year), and also "other assets", comprising foreign currency held in bank vaults, current balances and deposits at foreign banks, and other long- and short-term assets.

"Polish liabilities" comprise loan finance and trade credits received from non-residents by the general government sector, the banking sector, or the non-government and non-banking sectors, broken down into long-term credits (above 1 year) and short-term credits (up to 1 year), and also "other liabilities", comprising current balances and deposits at Polish banks, and other long- and short-term liabilities.

5. **"Net errors and omissions"** comprises those transactions not included in other items of the balance of payments.

6. **"Financing of overall balance"** comprises reserve assets (the gross official reserves), credits from the International Monetary Fund (IMF), and exceptional financing.

"Reserve assets" (the gross official reserves) reflect the net value of transactions involving monetary gold, Poland's reserve tranche at the IMF, and other foreign assets denominated in convertible currencies.

The term **"exceptional financing"** covers two forms of financing balance of payment transactions: rescheduled obligations to foreign creditors, constituting the value of deferred repayments specified in the relevant agreements concluded with such creditors, and changes in arrears. An increase in arrears occurs when the principal and interest due in a given year is either paid only in part, or is formally rescheduled. Past due repayments cause arrears to grow. A decrease in arrears occurs when principal and interest arrears are either repaid or are rescheduled under a refinancing agreement with creditors.

Changes in presentation and methodology in the 1998 balance of payments

As of the beginning of 1998, major changes have been made to the presentation of Poland's balance of payments as registered by the banks.

Balance of payments data are presented in line with the analytical format employed in the publications of the International Monetary Fund. Financing items have been shown separately, these comprising the gross official reserves, credits from the IMF and exceptional financing. The gross official reserves were previously treated as the only financing item. The next important change is the new composition of the financial account. This has been divided into three standard components: direct investment, portfolio investment and other investment. "Other investment", a new item in the financial account, is broken down into Polish assets and Polish liabilities. Within these assets and liabilities, we then have credits, subdivided into long- and short-term, and movements in assets and liabilities arising from transactions involving foreign currency held in bank vaults, current balances, deposits placed abroad and deposits accepted from abroad (these transactions include repurchase and reverse repurchase agreements).

Another significant factor are the changes in scope that have taken place. The figures presented in the Polish balance of payments for 1998 comprise all transactions in convertible currencies, clearing currencies and transfer roubles. Until this year, separate balances were drawn up for each of these three forms of settlement, while the balance of payments figures published depicted transactions in convertible currencies. To present a full picture of international payments, and in view of the negligible volume of transactions in clearing currencies and transfer roubles, the NBP has decided to present a single, unified balance of payments. For comparative purposes, the figures for 1997 have been suitably adjusted.

Another change is the revision of the definition of current transfers. In 1997 and earlier years, these transfers included all payments both to and from residents' foreign currency accounts ("A" accounts). However, those payments carried out in cash have now been excluded from the definition of current transfers. Thus, in 1998 "current transfers" include only the inflows to and outflows from "A" accounts that are performed through the nostro accounts held abroad by Polish banks. Meanwhile, the net flow of cash on "A" accounts has been included as an adjustment to the net purchases of foreign currencies presented under "unclassified current transactions".

The first reason for the reclassification described above is the fact that cash deposits to, and withdrawals from, foreign currency accounts are transactions between Polish parties (the bank and its customer), and are therefore not a direct expression of operations between Poland and abroad. Transactions of this kind merely shift holdings of foreign currency between sectors of the domestic economy (households and banks). The second reason for this revision is the important substitution effect occurring between these two flows of currency. The cash derived from transactions involving "A" accounts is purchased and sold at the exchange desks of the banks, thus affecting net purchases of foreign currencies. To ensure the comparability of the figures for 1997 and 1998, this reclassification was performed for both years.

In addition, the 1998 balance of payments for the first time includes precise data derived from reports on the accounts of foreign non-bank customers held at Polish banks, both in foreign currencies and in Polish zloty (the latter refer to "direct access" accounts). These reports include a detailed classification of the transactions performed. Up until 1997, the net movements on accounts held by foreign parties were recorded under *"other financial transactions"*.

Another important change in content in the 1998 balance of payments concerns the presentation of reserve assets, i.e., the gross official reserves held by the NBP, and also the assets and liabilities of Polish banks. These items were previously presented as the movement in those assets and liabilities between the beginning and end of the reporting period covered by the balance of payments. Translation adjustments, to factor in the effect of exchange rate movements on the balances involved, were presented under a separate item.

As of 1998, in accordance with suggestions from the International Monetary Fund, the items

"Reserve assets" (Gross official reserves), "Currency, current balances and deposits" (under "other investment - Polish assets"), and "Current balances and deposits" (under "other investment - Polish liabilities") are now presented as the payments resulting from transactions involving the aforementioned assets of the NBP, and the assets and liabilities of the commercial banks. The figures for 1997 have been modified for comparative purposes. This modification consisted in estimating the volume of transactions involved by altering the movements in the relevant assets and liabilities by the value of translation adjustments.

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The Annual Report contains photos of the mineral ores used to obtain the metals used in minting coins.
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