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The year 1999 was one of the most difficult in the ten-year history of systemic transition in Poland. At the same time, however, it confirmed that the Polish economy already rests on sound market foundations that provide a solid basis for economic growth even when the external environment is unfavourable.

There were two factors that made the year 1999 a difficult one. Firstly, in 1999 Poland felt the full repercussions of the financial and economic crises that had taken place in earlier years in various parts of the world, and also of the overall slowdown in world growth and the increase in world oil prices. As a result, first-quarter Polish GDP growth came to just 1.6%. However, the aforementioned sound foundations of our economy allowed output to climb increasingly rapidly in the next quarters, taking GDP growth in the final quarter to 6.2%, and annual growth to 4.1%.

Secondly, it was during this period of slackening growth, at the beginning of 1999, that Poland launched four public sector reforms which are of great importance to long-term economic growth, but are also costly, namely, an administrative reform linked to the decentralisation of government, a pension reform, a health service reform, and a reform of primary and secondary education. In addition, the reforms referred to above were accompanied by a swifter process of privatisation and corporate restructuring. The cost of the reforms proved higher than anticipated, which – in conjunction with the slowdown in growth – had an additionally adverse effect on certain tendencies within the economy.

Two of those tendencies deserve particular mention. The first involved a further increase in the current account deficit, which in 1999 amounted to the equivalent of 7.6% of GDP. The second involved an acceleration of annualised inflation, the first since Poland entered on the path of systemic transition, with consumer price growth in December 1999 standing at the high level of 9.8% year-on-year.

However, without belittling these negative tendencies, it has to be stated that there is much to suggest that they are temporary in character, while Poland's financial condition is secure. This opinion is based on ten years of assiduous efforts in laying the foundations for a modern market economy, developing its institutional structures and stabilising its operation.

The difficulties encountered in the year 1999 also showed that the National Bank of Poland was capable of performing its basic functions effectively in these adverse circumstances. Inflation did rise, as was already mentioned, a development fuelled – in addition to the factors previously outlined – by greater official intervention on the market for agricultural produce, reinforced by stricter tariff protection, yet the acceleration of price growth was reduced to the minimum by anti-inflationary monetary policies. The NBP also achieved positive results in its other areas of activity (including foreign exchange policy, international activity, banking supervision, legislative activity, statistics and analysis, human resource management, property management, IT support activity, the protection of confidential information, and also audit, promotional and informational activity).

In summarising, I feel justified in saying that in 1999 the National Bank of Poland fulfilled its statutory responsibilities, overcoming numerous difficulties and obstacles in doing so. The Bank carried out its mission as the national monetary authority in a consistent fashion, systematically adjusting its activity to implement the vision of a central bank that confirms to international standards and criteria.

President of the National Bank of Poland

Hanna Gronkiewicz-Waltz

The Directing Bodies of the NBP

The President of the National Bank of Poland

The responsibilities of the President of the National Bank of Poland include presiding over meetings of the Monetary Policy Council, the NBP Management Board and the Commission for Banking Supervision[1], and also representing the central bank in external contacts (with other institutions, both foreign and domestic). In performance of those responsibilities, the President of the NBP participated in the annual meetings of the Board of Governors of the World Bank Group in Washington and of the Board of Governors of the European Bank for Reconstruction and Development in London, and also took part in meetings of the Board of Directors of the Bank for International Settlements in Basle.

Pursuant to the Act on the National Bank of Poland, the President of the NBP has the right to participate in the debates of Poland's Sejm and Council of Ministers. In 1999, the President of the NBP did indeed take part in meetings of the Council of Ministers, primarily presenting the position of the central bank on questions concerning the economic condition and finances of the Republic of Poland.

The President of the NBP also presides over meetings of the Committee to Prepare the NBP for European Integration, an internal consultative body that coordinates the activity of the central bank with respect to the ongoing process of adjustment and negotiation with the EU.

In the course of 1999, the President of the NBP issued a number of regulations, the subject matter of which included:

– specifying the design of notes and coin issued by the Bank,
– authorisation to take decisions on foreign exchange permits,
– determining the model bank chart of accounts,
– methods and procedures for counting, sorting, packing and designating packages of notes and coin, and the performance of operations involving the supply of notes and coin to the banks.

In 1999, the President of the NBP issued licences for the performance of various types of foreign exchange operation to over 60 banks domiciled in Poland.

The President of the NBP is the superior of all the Bank's staff, and is responsible for developing and implementing personnel policies and overseeing staff compliance with the performance standards required at the central bank. The activity of the President finds reflection in the results achieved in all areas of the central bank's operations.

The Monetary Policy Council

In 1999, the Monetary Policy Council adopted a number of resolutions and issued instructions to the NBP Management Board, principally with respect to the principles to be applied in conducting open market operations.

During the year, the Council adjusted NBP interest rates on three occasions, in January, September and November.

In line with the adopted objective of moving towards the full float of the zloty, in March the Council adopted a resolution extending the trading band for permissible fluctuations in NBP mid-rates for the zloty relative to central parity, raising this to $\pm 15\%$, and also adopted a resolution lowering the monthly rate of crawling zloty devaluation against the reference currency basket, cutting this to 0.3%.

In May, the Council adopted a resolution approving the *Report on the performance of monetary policy guidelines in 1998*, and also evaluating the activity of the NBP Management Board in implementing those guidelines, taking a positive view of the work done by the NBP Management Board in fulfilling its duties with respect to monetary policy.

In 1999, the Monetary Policy Council was also involved in work on a concept of lowering the banks' regulatory reserve requirements in conjunction with

[1] The Commission for Banking Supervision is responsible for supervising the activities of the banks. It is not part of the NBP.

the conversion of certain central government liabilities to the NBP into negotiable Treasury securities. This resulted in the signing of the relevant agreement between the NBP and the Ministry of Finance on July 21, and also in the conclusion of agreements with the banks regarding their purchase of the bonds issuing from the conversion operation. This then laid the basis for a Council resolution which reduced the reserve requirement to a uniform 5% for all eligible liabilities.

In September, the Council adopted a resolution establishing monetary policy guidelines for the year 2000, and also issued its opinion on the Budget for 2000; in accordance with the Act on the NBP, the President of the NBP, acting on behalf of the Monetary Policy Council, forwarded this opinion simultaneously to the Council of Ministers and the Minister of Finance.

As part of its conduct of an open information policy, the Monetary Policy Council resolved to issue quarterly and annual reports on inflation, these to contain information important to the market on the development of inflationary processes in the context of monetary policy.

In all, the Council held 17 meetings in the course of 1999. In addition, Council members met at working meetings organised together with NBP management and representatives of the Bank's particular departments.

The NBP Management Board

Pursuant to the Act on the National Bank of Poland, the Management Board directs the day-to-day activity of the NBP. In its work, the NBP Management Board carries out resolutions of the Monetary Policy Council and adopts its own resolutions on matters not reserved by statute for the exclusive authority of other bodies of the NBP. The NBP Management Board is authorised to adopt resolutions regulating the internal activity of the NBP, i.e., those addressed to the Bank's own organisational units and offices.

The most important decisions taken by the NBP Management Board included resolutions adopted on the following matters:

– the principles and procedures applicable to NBP procurement,
– the principles applicable to NBP personnel and remuneration policy,
– the procedures and detailed principles for banks submitting to the National Bank of Poland the data necessary for the compilation of the balance of payments and the balances of foreign assets and liabilities at the NBP,
– the procedures and detailed principles for banks submitting to the National Bank of Poland the data necessary for the determination of monetary policy, for periodic assessments of Poland's monetary situation, and for an evaluation of the financial condition of the banks and the risks within the banking sector,
– the principles for the use of electronic data exchange in performing certain operations related to the operation of bank accounts at regional branches of the National Bank of Poland and at the Chief Branch of Foreign Exchange in Warsaw,
– the principles for the operation of the Central Treasury Bill Registry,
– methods of performing accounting duties at the NBP,
– an amendment to "Terms and conditions for the performance of payment orders and cheque transactions in international operations, and for the purchase and sale of foreign currencies on behalf of parties holding accounts at NBP",
– an amendment to "Terms and conditions for the operation by the NBP of Treasury bill accounts and deposit facilities",
– approval of the detailed requirements relating to the safeguarding of confidential information, designated "classified", at the National Bank of Poland,
– the introduction of a system of job descriptions at the NBP,
– approval of the Bank's financial plan, investment plan and plan of operations for the year 2000.

In 1999, the NBP Management Board prepared, reviewed and recommended to the Monetary Policy Council all the draft resolutions and other materials submitted to Council meetings.

The NBP Management Board also introduced the necessary organisational changes at NBP Head Office with a view to ensuring the effective performance of its responsibilities with respect to NBP security. One of the key measures taken in this area was the establishment of a Security Department, charged with centralised and integrated responsibility for the safeguarding of persons and property, personnel data security, protection of information, fire protection, and matters of defence and civil defence. The Department will also carry out overall supervision of other NBP organisational units in relation to these questions.

Throughout the year, the NBP Management Board supervised, on an ongoing basis, the preparations made by the National Bank of Poland and the Polish banking system to resolve the issue of Y2K. Eight meetings were held at the NBP to discuss in detail the threats which this issue posed to the Polish banking system and the ways in which these threats could be averted.

In 1999, the NBP Management Board also began work on a system of NBP vault deposits to be placed at selected branch offices of commercial banks. The arrangement being proposed is intended to enhance the efficiency of shipments of notes and coin, reducing their number while also improving their security.

In 1999, the NBP Management Board altered the principles used to determine zloty exchange rates and abolished the operational (trading) nature of the exchange rate fixing.

Monetary Policy

Monetary policy in 1999: targets and conditioning factors

In line with the *Monetary Policy Guidelines*, the short-term target of the NBP was to lower inflation to 8%-8.5% by December 1999. In March, the Monetary Policy Council adjusted this inflation target, finally setting it at 6.6%-7.8%. However, this target was not achieved; in December, inflation stood at 9.8%. This means that inflation was higher at year end 1999 than it had been at the end of 1998. Due to the slow price growth recorded in the first half of the year, annualised average inflation came to 7.3%, which represented a decline of 4.5 points compared to the previous year.

Underlying inflation

In Poland, the inflation target is determined with reference to the headline consumer price index (CPI). However, in 1999 the central bank also analysed indices of underlying inflation, which allow an approximate determination of whether price growth is the result of temporary supply shocks or is rooted in more lasting inflationary tendencies.

The NBP analysed the following measures of underlying inflation in 1999:

- the rate of underlying inflation as adjusted to exclude from the CPI officially controlled prices (i.e., those groups of prices that are subject to various forms of administrative regulation, whether direct or indirect),
- the rate of underlying inflation as adjusted to exclude from the CPI those consumer prices that exhibit the highest volatility,
- the rate of underlying inflation obtained by excluding from CPI data the outlying 15% of exceptionally high or low consumer price movements relative to the previous period (a "15% trimmed mean").

Underlying inflation excluding officially controlled prices ran below headline inflation throughout the period in question, thereby confirming that these prices had a major impact on overall price growth in Poland in 1999 (cf. Table below).

Underlying inflation as adjusted to exclude the most highly volatile prices, i.e., those with the greatest amplitude of fluctuation (which principally include prices of fruit and vegetables, and also those of certain services) was higher than the CPI from January to April, very similar to the CPI from May to August, and lower than it from September to December.

Meanwhile, the underlying inflation calculated by excluding the 15% highest and lowest values of price growth exceeded overall price growth from the beginning of 1999 until the end of July, and then lagged behind the CPI in the subsequent months until year end.

These trends in underlying inflation, although calculated in various ways, display a similarity to the tendency observable in overall consumer price growth; this particularly applies to underlying inflation excluding the most volatile prices and the 15% trimmed mean. Both of these measures of underlying inflation were distinctly higher than the CPI towards the end of 1998 and at the beginning of 1999. Subsequently, from August onwards, they were both lower than the overall price index. This common tendency reaffirms the major role of supply shocks in generating a pattern of price growth in 1999 that differed from previous years. At the same time, however, all the measures of underlying inflation uniformly point to an upward trend in consumer prices. These movements in underlying inflation relative to consumer price inflation would appear to confirm that an important part in speeding up price growth in 1999 was played by the secondary repercussions of supply disruptions, primarily the consequences of fuel price rises.

CPI vs underlying inflation (corresponding month previous year = 100)

	1998	1999			
	XII	III	VI	IX	XII
CPI	108.6	106.2	106.5	108.0	109.8
Underlying inflation excluding officially controlled prices	107.2	105.7	105.5	106.6	108.2
Underlying inflation excluding most volatile prices	108.5	106.6	106.4	107.6	109.2
15% trimmed mean	108.9	106.8	106.7	106.7	107.5

Source: NBP calculations based on GUS figures

In the first two months of the year, inflation came down, which is attributable to the maintenance of excess supply, primarily of foodstuffs, caused by the loss of Eastern markets in the wake of the Russian crisis. Given that inflation was expected to decline further in 1999, and that in line with Government declarations a tightening of fiscal policy was expected, the Monetary Policy Council took the decision to cut base interest rates as of January 21, 1999. Since the Polish economy was to a substantial degree open to capital flows, a relaxation of the monetary stance and a more restrictive fiscal policy were essential for performance of the medium-term inflation target and the achievement of stable, balanced economic growth. Thus, the Council's decision resulted in the lombard rate being lowered from 20% to 17% and the rediscount rate from 18.25% to 15.5%, while the minimum reverse repo rate (constituting the minimum yield on 28-day open market operations) was brought down from 15.5% to 13%. This sharp rate cut (of 250-300 bps) was also designed to eliminate market expectations of a further fall in interest rates. The persistence of such expectations increases the inflow of short-term speculative capital.

The real course of economic developments subsequently differed from that projected by the Monetary Policy Council. In the second half of the year, inflation began to gather speed fairly quickly, chiefly due to higher fuel and food prices. World oil prices rocketed, while at the same time, owing to the financial difficulties experienced by central government in simultaneously implementing four structural reforms, excise duty on fuels was raised more than originally anticipated. Since competition on the market for fuels was relatively weak, this translated into steep price growth. The protection afforded to the market for foodstuffs and raw materials for the food-processing industry was expanded, with certain tariffs raised, quotas introduced, and intervention on the market for agricultural produce stepped up. This was compounded by a worse harvest than in the previous year, with the result that in the second half of the year (from August onwards) foodstuff prices rose more rapidly than overall inflation.

Fiscal policy proved to be over-expansionary, stimulating domestic demand. This was also fed by monetary policy, which in these circumstances was too relaxed. A reflection of these developments was a large increase in personal loan demand and a parallel fall in zloty deposit growth. Borrowing at the banks was encouraged by the decrease in real lending rates. Compared to 1998, the share of personal consumption financed by borrowings increased. Fast loan growth was also related to increasing ease of access to loan finance. A large number of non-bank loan intermediaries were now operating on the market, while security requirements were more lenient.

Excessive domestic demand was one of the factors behind the growth of the current account deficit. This heightened investor uncertainty and thereby made the zloty more susceptible to depreciation. In turn, zloty depreciation acted as another factor fuelling inflation.

The maintenance of structural surplus liquidity within the banking industry was weakening the effectiveness of monetary policy transmission mechanisms. For this reason, the NBP took measures in 1999 to induce a shortage of operating liquidity within the industry, carrying out the two-stage conversion of the non-negotiable Treasury securities held in the Bank's portfolio to negotiable bonds.

Another NBP decision designed to reduce surplus liquidity, among other things, involved altering the procedures for the exchange rate fixing. The National Bank's withdrawal from purchases of foreign currency at the fixing made it possible to exercise better control over one of the largest sources of liquid funds in recent years, namely, the gross official reserves.

Monetary policy instruments

Interest rates

The basic instrument employed by the Monetary Policy Council in its performance of monetary policy in 1999 were interest rates. The NBP influenced market interest rates both directly, via the rates offered on open market operations, and indirectly, via the rate payable on lombard loans.

The combined effect of the factors kindling inflation, as earlier described, was that price growth soared. Inflation gathered momentum rapidly from August 1999 until year end. In this situation, the Monetary Policy Council raised interest rates twice. On September 23, the minimum reverse repo rate was increased by 1 point. On November 18, the lombard and rediscount rates were also raised, going up 3.5 points to 20.5% and 19%, respectively, while the reverse repo rate was again put up, this time increasing 2.5 points to 16.5%. As a result, the central bank's base rates were higher at year end 1999 than they had been in December 1998. However, due to the time lags in monetary policy transmission mechanisms, the effects of these higher interest rates in terms of slower growth in domestic demand and a reduction in inflationary pressure could only make themselves felt in 2000.

Open market operations

The basic instrument used in 1999 to control the banks' liquid reserves and stabilise market interest rates were open market operations.

In 1999, the balance outstanding on open market operations declined by 17.4bn zloty. This fall was in essence the result of the National Bank cutting back its issuance of money market bills. The issue of 28-day money market bills was virtually the sole instrument employed by the NBP in 1999 to siphon off liquidity. In December, the Bank carried out interim issues of bills with shorter maturities (1, 7 and 14 days), a move dictated by the need to regulate liquidity within the banking system in connection with Y2K.

During the year, the Monetary Policy Council adjusted the minimum yields available on NBP money market bills (the reverse repo rate) on three occasions. At its first meeting in January, the Council lowered the reverse repo rate to 13%, while later in the year it raised this rate twice, putting it up 1 point in September and 2.5 points in November. As a result of these upward adjustments, at year end the yield on NBP money market bills stood at 16.5%, 1 point higher than at year end 1998.

The year 1999 saw a decline in banking sector liquidity, the prime reason for this being the withdrawal of the NBP from purchases of foreign currency from the commercial banks. Thanks to this move, liquid funds were no longer increased due to growth in net foreign assets, which in recent years had been the largest source of liquidity injections. In the present situation, the sole source of liquidity that displays considerable short-term volatility is net lending to the government. The fluctuations witnessed here are mainly caused by periodic decreases in central government deposits at the central bank.

As in 1998, the supply of money market bills in 1999 was greater than the demand forthcoming for them. The NBP put up for sale bills to an overall face value of 384.3bn zloty, while receiving bids from the banks totalling 304.2bn zloty. The National Bank accepted bids to a nominal value of 300.7bn zloty.

Exchange rates

In 1999, zloty exchange rates continued to be subject to the same crawling band regime, consisting in crawling devaluation against a reference currency basket in conjunction with a trading band for permissible deviations in market exchange rates. However, owing to the launch of the single European currency, the euro, the composition of the reference currency basket was altered. Pursuant to a decision of the Council of Ministers and the Monetary Policy Council, as of January 1, 1999, the composition of the basket was set at 55% euro and 45% US dollar.

In 1999, the NBP took preparatory steps with a view to fully floating the Polish currency. Thus, as of March 25, 1999, the monthly rate of crawling devaluation was lowered from 0.5% to 0.3%, thereby adjusting it to correspond to the new inflation target for 1999 and to reflect the narrowing differential in price growth between Poland and other countries. In parallel with this, the trading band for permissible fluctuations of NBP market rates relative to central parity was extended from ±12.5% to ±15%. This was accompanied by the NBP winding down its presence on the FX market. The decisive move in this respect was the abolition of the operational (trading) character of the exchange rate fixing as of June 7, 1999. At the same time, the central bank did not intervene directly on the forex throughout the year. The fact that the requirement for the central bank to conclude FX transactions with the commercial banks during the fixing had now been removed gave strong impetus to the development of the domestic interbank FX market, thereby also consolidating the market character of zloty exchange rates. The new procedures for setting NBP mid-rates, which as of June 7, 1999, are merely a "snapshot" of market rates at a specified time of day, brings the Polish system closer to the solutions applied on developed currency markets.

The above changes, within the framework of the existing exchange rate mechanism, had a positive effect on the conditions for monetary policy performance in pursuit of the direct inflation target. Thanks to curbing the growth in the gross official reserves, it was possible to curtail the most important source of monetary expansion over the last two years. This allowed the NBP to scale down its open market operations significantly, thereby lowering the cost of implementing monetary policy. Permitting market exchange rates for the zloty to fluctuate within a 30% trading band enhanced the freedom of action of the monetary authorities. In consequence, the profit transferred by the Bank to the Treasury rose considerably in 1999.

The greater flexibility of zloty exchange rates strengthened the adjustment mechanisms of the market in responding to the balance of payments situation. With the shortfall on current transactions becoming more acute in 1999, and an accompanying reduction in the surplus on capital transactions, the depreciation of Poland's currency gathered pace. The average divergence of the fixing rate from central parity over the year as a whole stood at 1.9% on the upside, while in 1998 it had been 5.6%. However, this exchange rate adjustment mechanism was disrupted by inflows of foreign currency stemming from privatisations within the Polish economy, which periodically generated pressure for the zloty to appreciate (cf. Fig. 1). As in 1998, zloty exchange rates were subject to relatively large swings, primarily driven by domestic macroeconomic factors. The volatility of zloty exchange rates in 1999 came to 10.4%, as against 10.2% in 1998. The extent of exchange rate fluctuation amounted to some 13.8%, with the greatest deviation of market exchange rates from central parity, almost 9% on the upside, being recorded in January. By contrast, the largest divergence on the downside was 4.8% in November.

The first quarter of 1999 saw the zloty take heavy losses against other currencies. The most important external events weakening the zloty at this time included the crisis of the Brazilian real and the outbreak of military conflict in Kosovo. The tendency for the zloty to depreciate was also reinforced by the lowering of base interest rates by the Monetary Policy Council in January, which - given adverse signals concerning the Polish economy and this entire region of emerging markets - resulted in a clear reduction in the interest shown in Poland by foreign investors. Pressure for the zloty to soften was also generated by the trading activity of Polish banks.

Figure 1. Deviation of market zloty exchange rates* against central parity, 1998-1999

* Mid-rates at fixing against euro and US dollar.

In the second quarter of 1999, after a period in which the zloty held steady around parity, a tendency took shape for the zloty to appreciate. The strengthening of the Polish currency stemmed from an overall improvement in the global investment climate and mounting investor confidence in the health of the Polish economy thanks to a gradual upturn in Poland's performance and the intensification of privatisation. Positive appraisals of the Polish economy, expressed in the raising of Poland's investment rating by international agencies, prompted a distinct increase in expectations of zloty appreciation on the domestic FX market[2].

The tendencies outlined above caused nominal effective zloty exchange rates to slip 3.3% during the first half of the year (comparing June 1999 to December 1998), contrasting with the corresponding period of 1998, when the zloty rose a nominal 2.3%.

In the second half of 1999, with the global investment climate generally brighter, zloty exchange rates were conditioned by domestic factors connected with the state of the Polish economy. The decline in the value of the zloty then recorded came in response to a deterioration in macroeconomic indicators, particularly the increasing current account deficit and the persistence of financial difficulties besetting the general government sector. A rise in inflation expectations and the maintenance of relatively rapid lending growth reinforced the likelihood that interest rates would be put up, which temporarily served to heighten the pressure for the zloty to depreciate. A similar effect was engendered by the political events surrounding attempts to amend the tax system. The weakening of the zloty was also to some extent liked to the unveiling of plans to set aside a portion of privatisation receipts on a special account at the NBP, earmarked for repayment of the foreign debt, a move intended to curtail excessive fluctuations in the supply of foreign currency to the domestic forex. In December, as fears connected with the date change began to die down and the market took a positive view of the measures taken by the central bank to tighten the monetary stance, the zloty resumed its upward path. An additional source of sentiment for appreciation was investor optimism at the prospect of the zloty being floated fully. All in all, the average deviation of market rates from parity in the second half of the year was 1.3% on the upside, as against 2.5% in the first half of the year.

As a result of the tendencies presented above, nominal effective zloty exchange rates came down 6.9% in 1999 (December-on-December), compared to a decline of 3.0% in 1998. On an annualised average basis, on the other hand, nominal depreciation stood at 9.0% in 1999, as against 5.4% in 1998. Movements in real effective exchange rates for the zloty also point to the zloty weakening in 1999 compared to 1998. In annualised average terms, using an index based on manufacturers' producer prices, these rates fell 4.2%, while depreciation as measured by the Consumer Price Index came to 3.2%. Movements in zloty exchange rates against the currencies of Poland's major trading partners were substantially impacted in 1999 by the sharp depreciation of the euro relative to the US dollar (which amounted to 16.3% over the year).

With real effective zloty exchange rates coming down, the large ground lost by the euro limited the possibility of improving Poland's competitive position with regard to the EU countries, which constitute Poland's primary external sales market. Whereas the zloty depreciated 12.7% against the US dollar in real terms, it appreciated 2.9% against the euro (December-on-December, as adjusted by reference to manufacturers' producer prices).

Refinancing to the banks

The principles for refinancing to banks by the National Bank of Poland remained unchanged in 1999. Under the regulations in force, the banks can borrow at the NBP:

– under lombard facilities, collateralised by Treasury securities,
– by rediscounting bills.

[2] Standard & Poor's raised its principal rating for Polish long-term paper denominated in foreign currencies from BBB- to BBB. In addition, the rating for long-term zloty-denominated debt was raised from A- to A.

The total outstanding borrowings of the banks fell 7.3% during the year. The volume of bills rediscounted dropped almost 20%, the result of the banks investing their own funds in providing finance for the purchase of agricultural produce. The seasonal nature of agricultural procurement causes rediscount loans to decline in the first three quarters of the year, with demand for these loans rising again in the fourth quarter. This tendency was again visible in 1999.

During the period under examination, lombard loans were not utilised actively as a monetary policy instrument. In February, May and November, the banks drew on lombard facilities to top up their required reserves, yet this had an incidental character.

The volume of refinancing to government central investment projects stood at 5.1bn zloty at year end 1999, down 8.3% on year end 1998. This reduction in outstanding debt was the result of the banks repaying 0.5bn zloty in loans obtained previously. No new disbursements were made in the course of 1999, and the entire amount outstanding on central investment refinancing was recorded by the NBP from the beginning of the year as being in process of repayment. This was directly related to the completion in December 1998 of the largest investment project being refinanced, the Opole power station. Of the overall amount of central investment refinancing remaining, over 64.5% is composed of capitalised interest from previous years, when the projects in question were in course of construction (in 1998, the corresponding proportion was slightly lower, at 63.7%).

The year 1999 saw the final retirement of debt on lombard loans made for restructuring purposes. At the end of December 1998, the debt still unsettled on these loans had amounted to 11.2m zloty, and during the course of 1999 the banks duly repaid this in accordance with contractual repayment schedules. Under the monetary policy guidelines adopted in 1993, lombard loans for restructuring purposes were a vehicle used by the NBP to support economic change. The loans bore preferential rates of interest, at 70% of the variable rate payable on normal lombard loans.

Regulatory reserves

In 1999, the banks held their required regulatory reserves on current accounts at the NBP, on reserve accounts, and in the form of declared vault cash.

As of January 1, 1999, the procedures for calculating reserve requirements were changed. Beginning with the reserves required against deposits held in January 1999, the basis for calculating the reserves was taken to be the arithmetic mean of deposit balances on each day of the month. The reserves had previously been computed on the basis of averaged deposit balances on the 10th, 20th and final day of the month.

Up until September 29, the reserve ratios in force were the following: zloty demand deposits - 20%, zloty time deposits - 11%, and all foreign currency deposits, whether demand or time - 5%. As of September 30, however, in performance of a resolution of the Monetary Policy Council, the reserve requirement was cut to 5% for all eligible deposits. The funds released due to the lowering of reserve requirements were used by 67 banks to purchase 6-, 7-, 8-, 9- and 10-year bonds issued by the NBP.

The issue of these bonds took place at 30 September as part of an integrated operation involving the conversion of central government debt to the NBP. This debt conversion, coupled with the lowering of reserve requirements, has strengthened the competitiveness of the Polish banking system. Reducing the burden on banks represented by required reserves is a long-term process, one under way in many countries, including those of Central and Eastern Europe. The further maintenance of high reserve requirements in the context of the progressive deregulation and globalisation of financial markets could have led to Polish banks being squeezed out of customer markets. A shift in the interest of Polish residents towards the deposit and loan products offered by foreign banks would also weaken the impact of NBP instruments on this segment of the market, thereby limiting the effectiveness of monetary policy.

Movements in regulatory reserves during 1999 are presented in Table 1.

Table 1. Regulatory reserves, 1999 (million zloty)

	Balance, 31 XII 1998	Quarterly growth,1999 Q1	Q2	Q3	Q4	Balance, 31 XII 1999
Total reserves						
of which:	21,271.1	2,352.8	318.4	-13,986.3	120.2	10.076,2
– on account at NBP	19.157.8	2,224.1	262.8	-12,671.9	101.2	9.074,0
– vault cash	2.113.4	128.6	55.6	-1,314.4	19.0	1.002,2

The surplus balances held by the banks on their current accounts, relative to the level of reserves required, ranged from 0.1bn zloty in April 1999 to 0.6bn zloty in December.

The funds held as regulatory reserves at year end 1999 were down 11.2bn zloty (52.6%) on December 31, 1998, while the deposits used to calculate the reserves were up 20.7%. The decrease in the required reserves is thus attributable to the lowering of the reserve ratio, which averaged 11.8% until August and 5% in the fourth quarter of the year.

The average effective reserve ratio, less declared vault cash, stood around 10.6% in the first three quarters of 1999, while in the fourth quarter it dropped to 4.5%.

During 1999, the National Bank of Poland continued to provide support to banks implementing rehabilitation programmes by exempting them from the requirement of holding regulatory reserves. In 1999, 4 commercial banks enjoyed these exemptions, to a total value of 0.7bn zloty (1 bank had its exemption extended, 2 banks had the scope of their exemptions expanded, and 1 bank was granted an exemption for the first time), as did 32 cooperative banks, to a total value of 0.1bn zloty (23 banks had their exemptions renewed and their scope expanded, and 9 banks were granted an exemption for the first time). The banks were required to apply the funds thus released to the purchase of Treasury securities or NBP money market bills, which represented an additional source of income for them and helped secure their obligations towards their depositors.

The conversion of non-negotiable NBP claims on central government

The effectiveness of monetary policy in 1999 was undermined by the persistence of excess liquidity within the banking sector. For this reason, the NBP took measures in 1999 to induce a shortage of operating liquidity within the industry, carrying out the two-stage conversion of the non-negotiable Treasury securities held in the Bank's portfolio to negotiable bonds.

The first stage of this operation took place on September 30, in conjunction with the lowering of reserve requirements and the issue of NBP bonds indexed to inflation. Claims held under dollar-denominated Treasury bonds issued in 1997 and 1998 ("old" conversion bonds and units of settlement) were exchanged for 3-, 4-, 5- and 10-year fixed-rate Treasury bonds, bearing interest at 10%, 10%, 8.5% and 6%, respectively. The face value of the new conversion bonds totalled 12,305m zloty, divided among the four maturities involved into equal parts of 3,076m zloty. The interest accrued up until the conversion date was settled in a single payment by the Treasury.

Under the second stage of the operation (December 29, 1999), the debt conversion involved three tranches of bonds issued to obtain funds for implementation of an agreement with the London Club. Floating-rate bonds with a total face value of 3,055.3m zloty, bearing interest at the NBP lombard rate, were at this point exchanged for a 2-year zero-coupon bond with a nominal value of 4,134m zloty. The Treasury bonds obtained under the debt conversion operation are available for sale to the banks under open market operations, which will allow excess liquidity to be drained from the banking sector.

The Issue of Currency

Notes and coin in circulation

The total volume of notes and coin in circulation rose 9.4bn zloty in 1999, to stand at almost 43.4bn zloty at year end, which represents year-on-year growth of 27.6%. The volume of notes and coin excluding vault cash in circulation at December 31, 1999, totalled 38.1bn zloty, up 26% on year end 1998.

The increase in currency in circulation seen in 1999, both in terms of total cash stocks and excluding vault cash, was thus much greater than that reported the previous year, when the relevant growth rates came to 9.4% and 10.9%. The largest growth in cash stocks occurred in December 1999, and was primarily traceable to Y2K. This month accounted for over half of the annual growth in total notes and coin (56.8%) and almost half of the growth excluding vault cash (46.2%).

Over the first eleven months of the year, growth in cash stocks outpaced that of inflation by several percentage points. Further, movements in the level of currency in circulation, including the direction and pace of those movements, were comparable with those observed in years past, also displaying the seasonal characteristics that are repeated every year. By contrast, growth in cash stocks was much more rapid than inflation in the final month of the year, a development not witnessed in previous years.

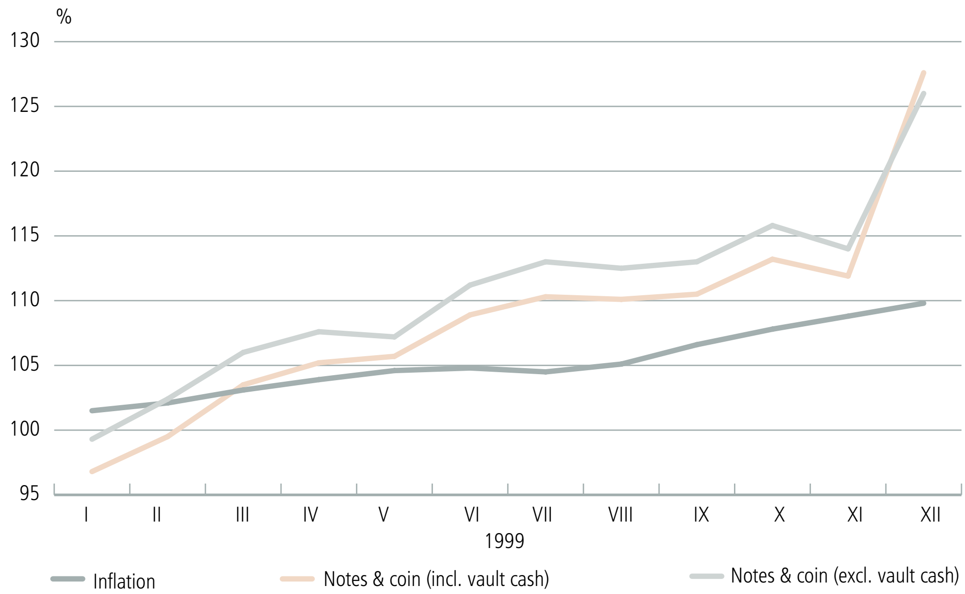
The growth of notes and coin in circulation, in comparison with the rate of inflation in the particular months of 1999, is charted in Figure 2.

As already mentioned, the strong growth in the volume of notes and coin in circulation in the final month of 1999 was related to Y2K. A tendency for cash withdrawals to increase was noticed at the banks, mainly in the second half of December. This manifested itself in various types of transaction, including withdrawals from personal interest-bearing current accounts, from corporate current accounts and from savings passbooks, a slowdown in the opening of new time deposits, and refusal to roll over time deposits maturing towards year end. There were also cases where employers paid out December wages in cash, although for some time previously they had been using direct transfers to their employees' bank accounts.

The National Bank of Poland had factored in the possibility of higher cash withdrawals in December 1999 as a result of Y2K concerns. For this reason, reserve stocks of currency had been increased 21.3% compared to December 1998.

With a view to achieving maximum effectiveness in supplying branches of other banks with notes and coin, as this issue could be of major significance

Figure 2. Growth in notes & coin vs inflation, 1999 (December 31, 1998 = 100)



were cash withdrawals to intensify, the NBP Management Board resolved to introduce new arrangements for shipping domestic currency to the commercial banks as of mid-1999. The concept adopted involves the placing of NBP deposits of domestic currency at branch offices of commercial banks, under the relevant agreements with those banks, with the possibility of these deposits being drawn on as the need arises. This new, supplementary form of supplying notes and coin to the banks was applied for the first time in connection with preparations for Y2K. By the end of 1999, 14 banks were involved in this system of deposits. At December 31, 1999, 21.5% of the reserve stocks of currency held at NBP regional branches were made up of notes and coin placed on deposit at the commercial banks.

Another factor which led to a certain increase in cash withdrawals from the banks in the final month of 1999 was the termination at year end of Treasury guarantees to three large banks (PKO BP, Bank Pekao SA and BGŻ SA). These banks were incorporated in the deposit protection scheme operated by the Bank Guarantee Fund, on the same basis as other banking institutions. This change in the principles of deposit protection, which had been announced earlier, produced sporadic cases of deposits being withdrawn from the banks in question.

In summarising, it should be emphasised that the events described above were relatively mild in character and solely involved a section of accountholders, mostly consumers.

Confirmation of the factors that lay behind the surge in cash stocks at the end of 1999 was provided by developments at the beginning of 2000. Once the New Year date change was over, the volume of notes and coin in circulation declined markedly, with a large part being redeposited at the banks. In January 2000, the total volume of notes and coin fell almost 14%; excluding vault cash, the decrease came to 12%. This tendency was also maintained in February (with a year-to-date decline in notes and coin in circulation of 15.4% and 13%, respectively). It should be underlined that a drop in cash stocks in the first month of the year is quite typical, yet the drop seen at the beginning of 2000 was much more profound than normal and persisted for much longer.

Due to the sharp rise in cash stocks recorded in December 1999, the volume of notes and coin in circulation (excluding vault cash) also increased as a proportion of the total money supply at year end. At December 31, 1998, this proportion had stood at 13.7%, while at year end 1999 it came to 14.4%. However, this does not imply an end to the trend seen for many years now for the role of notes and coin to diminish, and for cash to be gradually replaced by non-cash instruments, as was clearly demonstrated by the figures for January and February 2000. At the end of January, cash stocks represented no more than 13.1% of the total money supply, while by the end of February this ratio had fallen to almost 12.8%.

As regards the composition of cash stocks by value, at year end 1999 notes accounted for 97.35% of all currency in circulation, while coin made up 2.65%. In absolute terms, the number of notes in circulation represented 12.9% of all items of currency, with coin constituting 87.1%. Relative to the end of 1998, the changes that occurred involved a slight increase in the total value of notes at the expense of coin, with a slight decrease in the relative number of notes compared to coin (these differences were no greater than one percentage point).

With respect to the composition of notes and coin by denomination, the highest denomination notes, 100 and 200 zloty, together accounted for some 77.2% of total cash stocks by value. The coins representing the largest share by value of all coin in circulation were the three of the highest denomination, i.e., 1, 2 and 5 zloty coins, which constituted 2% of total cash stocks by value.

The requirements of cash circulation were met during the year by shipments of notes and coin carried out by the regional branches of the NBP. The frequency of these shipments varied, usually averaging one or two per month, although in the fourth quarter this increased to three or four a month owing to the need to ensure higher stocks of currency at year end (because of Y2K).

The regional branches of the NBP also retired worn and damaged notes and coin, to be withdrawn from circulation.

Other issues related to notes and coin

In 1999, the banking system continued the exchange of old zloty (issued prior to redenomination) for new zloty. As a result, the value of old notes and coin still not presented for exchange fell from 0.66% of the value of cash stocks at December 31, 1998, to 0.47% at year end 1999. This exchange is now no more than vestigial in character, although it may still be performed until the end of the year 2010.

In 1999, the Polish Securities Printing Works (PWPW SA) took over production of two more banknotes, the 50 and 200 zloty notes, from the British company of De La Rue International Ltd, and commenced delivery of these notes to the NBP. At the same time, PWPW SA carried out preparations for production of the 100 zloty note (having assumed production of the remaining notes earlier). The design of the notes, security features and specifications of the paper (manufactured at PWPW SA) are the same as those of the notes previously produced by the British company.

The State Mint (Mennica Państwowa SA) is responsible for minting the commemorative collector's coins issued by the National Bank of Poland. During 1999, the NBP issued commemorative coins around 11 separate themes. These continued themes taken up in previous years (Polish Kings, Castles and Palaces of Poland, and Animals of the World) or commemorated events being celebrated in 1999. The latter events included the pilgrimage to Poland of Pope John Paul II, the 600th anniversary of the renaissance of the Cracow Academy, the 500th anniversary of the birth of Jan Łaski, the 150th anniversary of the death of Frederic Chopin, the 150th anniversary of the death of Juliusz Słowacki, the 100th anniversary of the death of Ernest Malinowski, and Poland's entry to NATO.

As part of the international "Coin of the Year" programme sponsored by *World Coin News* and Krause Publications, a Polish collector's coin, namely, a 2 zloty coin struck from an alloy called "Golden Nordic", issued in 1997 and bearing a representation of the Castle at Pieskowa Skała, was chosen as Commercial Coin of the Year 1999.

The number of counterfeit domestic notes and coin uncovered in 1999 was 10.6% less than in 1998. The items most often counterfeited were notes of current issue (78.8%), with the remainder (21.2%) comprising coins and other items of currency issued prior to 1994.

Servicing Central Government

Servicing the accounts of central government

The National Bank of Poland is responsible for servicing the performance of the national budget, i.e., for the collection, transfer and disbursement of public funds.

In 1999, as a result of Poland's administrative reform and the introduction of a three-tier system of local government, the number of government customers serviced by the NBP declined considerably. The Bank provided services to around 3,100 units of central government in 1999, which represents some 35% of the corresponding number in 1998, together with around 600 offices of central government special-purpose funds.

On January 1, 1999, the NBP implemented a reorganised method of servicing the new system of social insurance, which includes provision for the centralised collection of social insurance contributions and the decentralised disbursement of funds from separate accounts used for old age pensions, disability pensions, sickness benefit and accident benefit.

Acting on behalf of the Ministry of Finance, the NBP also opened a special current account for central government in 1999, earmarked for non-repayable foreign assistance broken down by particular projects or assistance programmes.

The services provided by the NBP to units of central government and to central government special-purpose funds involve the operation of current accounts. The operations carried out on these accounts relate both to receipts and expenditures, including both cash and non-cash expenditures. 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.

Payment instructions from government institutions and central government special-purpose funds are handled at local NBP offices or the Chief Branch of Foreign Exchange in Warsaw. These services are carried out at the expense of the National Bank, regardless of whether a transaction is being performed though one of its own branches or through the offices of another bank.

The associated fees paid by the NBP to other banks in 1999 totalled 14,681,000 zloty, and were not refundable by central government.

Due to the reforms of public administration and the Social Insurance Board, the character of certain accounts operated by the NBP changed, as did the workload involved in running these accounts. Given the establishment of non-independent offices within the organisational structure of central government institutions, the NBP as of 1999 also began operating auxiliary accounts for central government institutions and special-purpose funds.

The number of outgoing payment messages forwarded by NBP offices during the year was similar to that seen the previous year, yet the number of incoming transactions increased substantially, mainly as a result of the adopted procedure for separate payment of social insurance contributions, health insurance contributions, and the contributions to the Employment Fund and Guaranteed Employee Benefit Fund.

Despite the rise in the number of operations, the NBP continued to ensure same-day settlement.

Table 2. Payment instructions forwarded and received, 1998-1999

Period	Payment instructions handled, of which:					Growth, 1998 = 100, payment instructions	
	forwarded		received		ZUS (received)		
	1998	1999	1998	1999	1999	forwarded	received
Q1	868,123	914,345	3,650,160	12,542,052	8,335,316	105.3	343.6
Q2	1,089,231	1,048,064	4,622,025	17,594,774	13,007,241	96.2	380.7
Q3	1,036,701	977,420	4,741,418	17,845,979	13,062,487	94.3	376.4
Q4	1,138,708	1,145,328	4,994,294	18,157,920	13,150,681	100.6	363.6
Total	**4,132,763**	**4,085,157**	**18,007,897**	**66,140,725**	**47,555,725**	**98.9**	**367.3**

Table 2 presents detailed figures on the number and growth of transactions handled by the NBP.

The establishment of new local government institutions in 1999 expanded the scope of the services provided by the NBP in transferring funds to these institutions from central government. Funds were transferred by 49 NBP offices from the central account of central government to gmina (district) and powiat (local borough) accounts at domestic banks in consideration of the proportional revenues attributable to gmina authorities from personal income tax receipts, together with the general local government grant, the general education grant, the compensatory road allowance and special-purpose subsidies. These services are also provided at NBP expense.

Servicing trading in government securities

In 1999, the NBP in its capacity as issuing agent organised tenders for Treasury bills, which continue to be the principal instrument used to finance the fiscal deficit. The supply of T-bills on offer was 12.9% greater than the previous year, while the demand for those bills was 24.9% lower. Detailed information on the scale and composition of T-bill sales in 1999 is given in Table 3.

Table 3. T-bill sales, 1999 (million zloty)

Maturity	Tender		3 : 2	Sales		5 : 3	5 : 2
	offered for sale	bids received		Total	of which:		
	million zloty		%	million zloty	bought by banks	%	
1	2	3	4	5	6	7	8
2-wk	1,500.0	3,397.0	226.5	2,225.3	92.5	65.5	148.4
3-wk	2,800.0	2,204.7	78.7	2,173.1	94.9	98.6	77.6
6-wk	2,500.0	3,319.2	132.8	2,570.1	83.6	77.4	102.8
8-wk	2,500.0	3,779.6	151.2	2,384.0	79.2	63.1	95.4
13-wk	10,200.0	18,312.0	179.5	9,463.4	77.6	51.7	92.8
26-wk	7,050.0	12,344.5	175.1	6,416.4	70.8	52.0	91.0
39-wk	2,500.0	1,603.6	64.1	1,153.6	75.5	71.9	46.1
52-wk	20,500.0	44,286.7	216.0	19,075.9	87.5	43.1	93.1
Total	49,550.0	89,247.3	180.1	45,461.8	82.7	50.9	91.8

Apart from organising T-bill tenders on the primary market, the National Bank continued to record transactions on the secondary market, maintaining the Central Treasury Bill Register (established on July 1, 1995). In 1999, the secondary market experienced further steady and dynamic growth in both trade volume and turnover. Turnover was 13.0% higher than in 1998.

During the year, the Bank also conducted tenders for Treasury bonds addressed to direct participants in the National Securities Depositary. At these tenders, the Ministry of Finance put up for sale T-bonds to a total face value of 21,973.50m zloty. This was 15.1% more than the supply of bonds in 1998, although demand fell 23.8%. The bonds sold had a face value of 17,243.57m zloty, representing an increase on 1998 of 11.5%.

T-bond sales represented 42.0% of the demand forthcoming from the banks, and 78.5% of the supply provided by the Ministry.

Administering the foreign borrowings of the Polish Government and servicing the international claims and liabilities of the Treasury

The year 1999 saw the end of disbursements under the Financial Institutions Development Loan, whereby funds were made available to participating banks to finance computerisation programmes. Total utilisation of this loan came to USD 25.4m.

In its capacity as financial agent to the Government, the NBP continued to supervise the repayment by domestic parties of the loan financing extended to them under the World Bank's Privatisation and Restructuring Loan and Agricultural Development Loan.

In 1999, the Bank also continued to service the foreign liabilities of the Polish Government with respect to borrowings from international financial organisations and contributions to those organisations.

The NBP continued to maintain the financial records of the claims and liabilities involved, and also began work on maintaining the accounting records of Treasury claims and liabilities under guarantees extended by the Polish Government to Polish business organisations utilising loans from international financial institutions and foreign banks. In addition, work was continued on maintaining records of contributions and donations to such institutions.

The Polish Bank Privatisation Fund

Under agreements with the Governments of Australia, Finland, Sweden and the USA (1998), and also the United Kingdom (1999), income earned on contributions to the Polish Bank Privatisation Fund (PBPF) was deposited on a separate PBPF income account, administered by the NBP, and earmarked to finance a capital infusion to the PZU insurance company or for the early redemption of series A restructuring bonds. In line with a decision by the Minister of Finance, the sum of 313.7m zloty (equivalent to USD 79.8m) was transferred to the account of central government on June 30, 1999, and subsequently, on August 2, 1999, the redemption of the restructuring bonds was duly performed.

The balance currently remaining on the PBPF income account consists of interest accrued on the Japanese contribution to the Fund, totalling USD 13.9m (at December 31, 1999). Pursuant to the relevant agreements with the Japanese Government, the funds held on the account may be utilised solely to service the loan extended by Japan (constituting the Japanese contribution to the PBPF).

Foreign Exchange Operations

Management of the official reserves

At year end 1999, the gross official reserves stood at USD 25.5bn. During the year, the foreign exchange reserves declined USD 1.9bn.

In contrast to 1998, when the official reserves grew strongly (up USD 6.7bn), chiefly as a result of the large net balance on transactions conducted with domestic banks at the exchange rate fixing and in the course of intervention on the forex, movements in the reserves in 1999 were primarily attributable to movements in the cross rates for the component currencies. Given that the net balance on flows to and from the reserves was virtually zero, the principal factor causing the foreign exchange reserves to decrease in US dollar terms was the sharp depreciation of European currencies against the dollar. The abolition of the operational (trading) character of the fixing on June 7, 1999, and the de facto absence of intervention on the FX market constituted the root cause of the major change in flows within the reserves compared to 1998. While the fixing retained its operational character, i.e., in the first half of the year, the net balance on transactions with domestic counterparties came to USD 0.2bn, which slightly softened the fall in the reserves. In the second half of the year, the items that most affected the volume of currency flows within the reserves were payments arising on Poland's foreign debt and income earned on reserves invested. The size of both of these items was similar to that recorded in 1998. The relative weight of the principal factors impacting movements in the reserves is presented in Table 4.

Figure 3. Gross official reserves, monthly

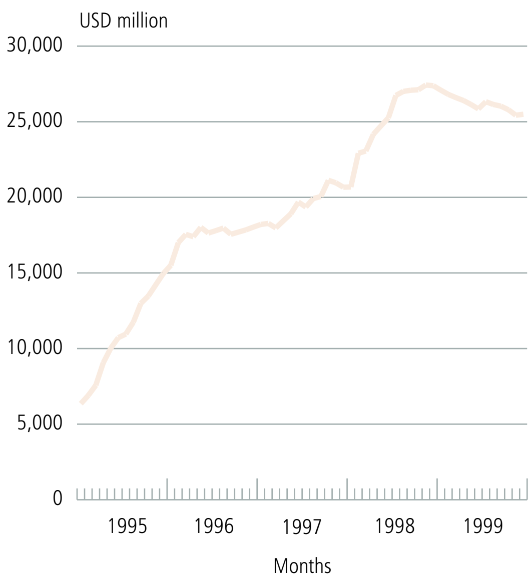


Table 4. Principal factors impacting movements in official reserves

Increases in reserves	Share, %	Decreases in reserves	Share, %
Currency purchases from domestic banks	56.8	Currency sales to domestic banks	51.3
Servicing of foreign claims of Polish Government	7.7	Servicing of foreign liabilities of Polish Government	41.0
Income from reserves invested	32.5	Expense of investment operations	1.9
Other inflows	3.0	Other outflows	5.8

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

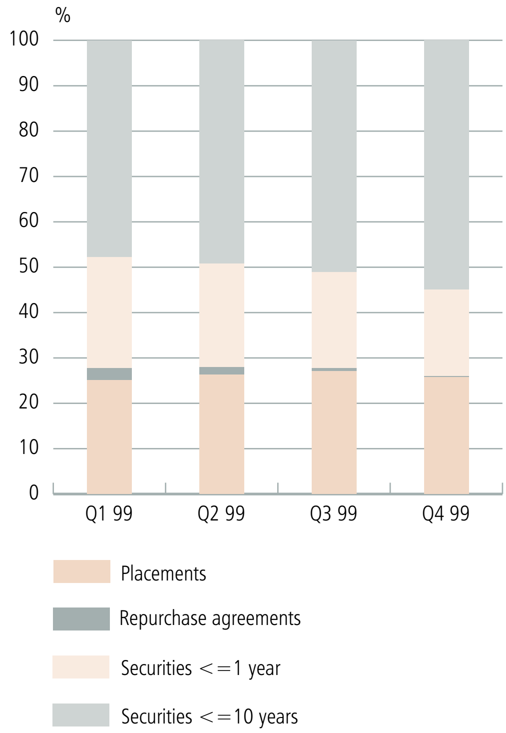
- achieving the highest possible safety of investment,
- ensuring the requisite level of liquidity,
- maximising return at an acceptable level of risk.

Applying the first of the principles listed above involved both selecting investment instruments of very low credit risk (with securities accounting for over 70% of the reserves), and the identification and appropriate diversification of investment partners of the strongest possible financial standing.

The investment structure of the reserves ensured the appropriate access to funds, which were held in two basic investment portfolios. A portion of the reserves were held in instruments maturing in a maximum of one year, namely, Treasury paper (mainly discount securities), placements at banks and repurchase agreements, 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 instruments subject to a maximum maturity of ten years. The average investment horizon of the reserves as a whole came to around one and a half years. The debt instruments held as part of the reserves were used for structured transactions, primarily securities lending (the simultaneous conclusion of repo and reverse repo transactions), and to a lesser extent repo placements. FX trading was utilised to maintain the required currency composition of the reserves or in connection with servicing the foreign debt.

With a view to maximising income, in 1999 the NBP expanded the range of investment instruments employed to incorporate new, higher-yielding

Figure 4. Structure of official reserves by investment instrument employed, 1999 (quarterly averages)



money market and capital market instruments, while at the same time maintaining the permissible risk profile of those investments. The income earned on investment activity in 1999, including income accrued on investments outstanding (deferred income) totalled USD 1.4bn, of which USD 1.1bn was actually received during the year. This level of income represents the combined effect of the investment assumptions made (in terms of the composition of the reserves by both currency and instrument) and the market conditions prevailing. Short-term market rates for the currencies included in the reserves were generally lower than in 1998, although yields on government debt rose substantially.

The benchmark parity approach adopted by the NBP Management Board was of crucial significance in achieving a qualitative improvement in the management of the reserves in pursuit of established strategic objectives, and also in developing an objective performance assessment. The assessment of performance in managing the reserves involved a comparison of the ongoing yields obtained with a parity yield based on standardised components and daily rates of return on particular investment instruments.

The year 1999 had a specific character. This stemmed from the need to restate in euro part of the reserves held in the national currencies of the EMU countries, and also from the Y2K preparations undertaken and the need to ensure current liquidity in each of the component currencies.

The projections made of the income and expense associated with investing the official reserves in 1999 were on the one hand based on investment assumptions regarding the composition of the reserves by both currency and instrument, and on the other hand on forecasts carried out at the time (year end 1998). The forecasts used referred in particular to the anticipated rates of interest on particular investment instruments in 1999. The projected rates on placements differed little from those in fact obtainable. However, the levels of income and expense finally recorded were directly influenced by the size of the official reserves and the ensuing level of funds invested in particular instruments, and also by the investment strategy adopted in 1999, which was geared towards increasing the yields on foreign currency invested. The fact that the income generated from debt instruments was higher than planned was a consequence of implementing that strategy, reinforced by rising market yields on those instruments. On the other hand, the low income earned on repo transactions was conditioned by the low level of investment in those transactions due to the dwindling return offered by the market. The reorientation performed of the structure of reserves invested primarily involved a systematic increase in the relative proportion of instruments with longer maturities and higher yields (this increase came to 10.2% over the year), at the expense of less profitable money market instruments, although the liquidity of investment did not suffer as a result (indeed, the overall investment horizon was shortened). In the course of the year, the funds committed to repurchase agreements fell to zero, while the value of short-dated securities declined 43.2%. Since interbank placements provided higher yields compared to other money market instruments, the relative weight of these rose 11.0% during the year. It should be stressed, however, that this pattern of investment remained in compliance with the provisions of the resolution of the NBP Management Board on the principles applicable to managing the reserves.

Exchange controls

Changes in exchange regulations

The new Foreign Exchange Act which took effect as of January 12, 1999, contains numerous authorisations for the Ministry of Finance, the Council of Ministers and the President of the NBP to issue implementing regulations that are closely connected to the powers which the Act vests in the President of the NBP and the National Bank of Poland.

As a result of the work performed in this area, in which the NBP played an active part, the following regulations were issued:

– Regulation of the President of the NBP specifying a schedule of foreign currencies deemed convertible, December 31, 1998,
– Ordinance of the Minister of Finance on the detailed conditions for carrying on the business of bureaux de change, the professional qualifica-

tions required to conduct such business and the procedures for documenting such qualifications, February 10, 1999,

– Ordinance of the Minister of Finance on procedures for the performance of exchange controls by the NBP, March 22, 1999,
– Ordinance of the Council of Ministers on the methods, scope and deadlines for fulfilling the obligation of submitting to the National Bank of Poland the data necessary for the compilation of the balance of payments and the balances of central government foreign assets and liabilities, and notifications of property held abroad, March 29, 1999.

In addition, Art. 29 of the Foreign Exchange Act required the President of the NBP to adjust foreign exchange licences granted to banks to conform to the provisions of the new Act within six months of the Act being promulgated. This meant that by June 28, 1999, it was necessary to verify all the licences issued to banks prior to the Act taking effect, and to bring the text of those licences into line with the provisions and terminology of the new Act.

The licences referred to above are granted pursuant to the provisions of Art. 99 of the Banking Act of August 29, 1997. Under those provisions, banks are solely entitled to perform those foreign exchange operations for which they have been licensed by the President of the NBP, regardless of whether or not the Foreign Exchange Act stipulates that such operations require a foreign exchange permit.

Following the taking effect of the Act, as a result of changes in the structure of the banking industry, there were 54 banks in Poland holding foreign exchange licences. All of these licences were adjusted to conform to the provisions of the new Act by June 28, 1999.

The adjustments mentioned above were performed ex officio, pursuant to Art. 61 of the Code of Administrative Procedure, in such a way as to ensure that the licences had the uniform character of administrative rulings.

This approach, in adjusting the licences ex officio, rather than on the basis of applications from the banks, appeared to correspond in full to the intentions of the authors of the legislation concerned, and obviated the need for a profound analysis of the condition of particular banks and their state of preparedness for the performance of foreign exchange operations. Such analyses of the banks are carried out only when they apply for an extension of the scope of the licence they already hold or for the grant of a new licence. Subsequent to June 28, 1999, the process of extending the scope of foreign exchange licences held by banks was carried on.

Pursuant to the Foreign Exchange Act, an amendment was also effected to the provisions of the Banking Act regarding foreign exchange operations, with the insertion of a new Art. 99a, which regulates the granting of licences by the President of the NBP for the operation of non-bank foreign currency desks.

As a result of the above amendment, in 1999 the NBP was involved in work on drafting the Ordinance of the Minister of Finance (October 29, 1999) on the principles applicable to the purchase and sale of foreign currencies and foreign exchange by juridical persons other than banks and by parties not possessed of personality at law.

Given the obligations contained in the agreement on Poland's accession to the OECD, and in view of Poland's efforts to secure membership in the European Union, work was continued in 1999 to adjust Polish foreign exchange legislation to correspond to EU standards. As in previous years, NBP representatives collaborated with the Ministry of Finance in developing the foundations for the further deregulation of exchange controls, in particular with respect to short-term capital flows.

NBP exchange control inspections

The taking effect of the Foreign Exchange Act of December 18, 1998, signified an expansion of the scope of exchange controls performed by the NBP. In accordance with Art. 21, para. 3, subpara. 1, of the Act, in 1999 the National Bank carried out inspections relating to the following areas:

- operations conducted by Polish residents and non-residents that had obtained the relevant foreign exchange permits to perform such operations,

- foreign exchange operations conducted by banks,
- foreign exchange operations conducted at non-bank foreign currency desks,
- performance of the requirement laid down in Art. 15 of the Act concerning the submission to the NBP of the data necessary for the compilation of the balance of payments and the balances of central government foreign assets and liabilities, and notifications of property held abroad.

The exchange control inspections carried out by the NBP, broken down by subject matter and the offices performing those inspections, are presented in Table 5.

Table 5. Exchange control inspections, 1999, by scope and office

Scope of inspection	Number of inspections		
	NBP Head Office	Regional branches & Main Foreign Exchange Control Branch	Total
Inspections of banks licensed to conduct foreign exchange operations	3	154	157
Reviews of compliance with terms of foreign exchange permits granted to residents and non-residents	17	147	164
Inspections of bureaux de change*	-	2,580	2,580
Inspections of establishments buying & selling gold and platinum*	-	30	30
Inspections of non-bank foreign currency desks*	-	31	31
TOTAL	20	2,942	2,962

* Inspections performed solely by NBP regional branches & Chief Branch of Foreign Exchange in Warsaw.

The number of exchange control inspections carried out by the NBP was influenced by the time lag between the taking effect of the Foreign Exchange Act and of subsequent implementing regulations, including those concerning exchange controls, and also by the need to adjust the foreign exchange licences previously issued to banks to conform to the new regulations.

Exchange control inspections at banks

In 1999, the National Bank of Poland performed a total of 157 exchange control inspections at the offices of 27 banks involved in foreign exchange operations.

Under Resolution 13/1999 of the NBP Management Board, banks licensed to perform foreign exchange operations are required to submit to the NBP the data necessary for the compilation of the balance of payments and the balances of central government foreign assets and liabilities. In performance of guidelines laid down by the NBP Management Board, the inspections of the foreign exchange operations conducted by banks were extended to include a review of the statistical codes assigned to international transactions performed by Polish banks. This review serves to determine whether the codes assigned by the banks on the basis of the statistical classification of transactions in fact reflect the substance of the transactions concerned.

As a result of shortcomings found at the banks in 1999, the NBP issued 114 post-inspection recommendations to those banks. The ratio of post-inspection recommendations to the number of exchange control inspections carried out was similar in 1998.

Inspections of compliance with foreign exchange permits obtained by residents and non-residents

In 1999, the NBP inspected compliance with the terms of 227 foreign exchange permits, doing so at 164 institutions. A detailed schedule of the number of foreign exchange permits reviewed, by the particular operations involved and the legislation in force when the permit was issued, is given in the following table.

Table 6. Inspections relative to foreign exchange permits, 1999

Type of foreign exchange operation	Number of foreign exchange permits reviewed				
	Act of December 2, 1994		Act of December 18, 1998		Total
	NBP Head Office	Regional branches & Chief Branch of Foreign Exchange in Warsaw	NBP Head Office	Regional branches & Chief Branch of Foreign Exchange in Warsaw	
Direct investment	8	79	-	5	92
Deposit transaction	5	21	1	-	27
Loan transaction	8	20	-	-	28
Exemption from immediate transfer of currency	1	1	-	-	2
Exemption from using services of bank	-	-	-	8	8
Other capital transaction	17	49	1	2	69
Other	1	-	-	-	1
Total	40	170	2	15	227

The irregularities determined in the course of these inspections as regards compliance with the terms of foreign exchange permits included the following:
- maintaining accounts contrary to the terms of the permit,
- concluding loan agreements in a manner incompatible with the permit,
- non-compliance with the requirement of transferring funds earned to Poland,
- exceeding the amount specified in the permit or payment of such an amount to a different counterparty,
- payment in Poland of liabilities due to a foreign party,
- exceeding the value or number of shares acquired.

As a result of these violations of the terms of foreign exchange permits, the NBP issued the relevant post-inspection recommendations and notified the financial investigations agency of appropriate geographical jurisdiction of the probability that a fiscal offence or misdemeanour had been committed.

Exchange control inspections at bureaux de change

At December 31, 1999, 3,557 permits were held to conduct the business of a bureau de change, although only 3,529 were operational, since 28 bureaux had suspended activity.

The most serious and more common irregularities noted in the activity of these establishments included the following:
- discrepancies between the amounts held in foreign and Polish currency and the amounts entered in financial records,
- failure to ensure the uninterrupted purchase and sale of all the foreign exchange being traded,
- failure to issue purchase or sales receipts, or issue of receipts lacking all the particulars required,
- non-possesion by the cashier or owner of the bureau de change of a valid certificate attesting to their lack of criminal convictions.

Deficiencies that were found more frequently, although were relatively less grave in nature, included the following:
- failure to display NBP announcements,
- lack of the requisite equipment, e.g., all supplements to the catalogue of foreign currency.

As a result of these irregularities, the NBP issued the relevant post-inspection recommendations and notified the financial investigations agency of appropriate geographical jurisdiction of the probability that a fiscal offence or misdemeanour had been committed.

Exchange control inspections at non-bank foreign currency desks

At year end 1999, there were 338 non-bank foreign currency desks in operation. During the year, 31 exchange control inspections were carried out, with irregularities noted during 15 of those inspections, and 15 post-inspection recommendations issued.

Inspections of compliance with the obligation of submitting to the NBP the data necessary for the compilation of the balance of payments and the balances of central government foreign assets and liabilities, and notifications of property held abroad

Article 15 of the new Foreign Exchange Act extends the scope of foreign exchange controls conducted by the NBP to include a review of the performance of reporting requirements. The methods, scope and deadlines for fulfilling those requirements are set out in an Ordinance of the Council of Ministers of March 29, 1999, which stipulates that the relevant reports are to be filed with regional branches of the NBP and with the Chief Branch of Foreign Exchange in Warsaw. In order to allow the branches to start processing the data contained in the reports they receive, the NBP Department of Statistics began a process of providing them with successive data bases which deal with selected categories of reporting institution.

During the year, these reports were registered and verified in terms of formal and accounting requirements. Where the data submitted were found to be in error or incomplete, or where the applicable deadlines were not met, the branches took direct steps to remedy the situation.

Having obtained the necessary insight into the issues raised by these reporting requirements, the NBP began to review these issues during inspections of compliance with the terms of foreign exchange permits. As a result, certain recurring deficiencies were found, as follows:

– discrepancies between the data reported and source documentation,
– failure to submit reports to the NBP,
– failure to meet reporting deadlines.

The measures taken by the NBP in reviewing the performance of reporting requirements allowed the appropriate adjustments to be made to the balances of central government foreign assets and liabilities.

Servicing the foreign borrowings of the NBP

In 1999, the NBP supervised repayment by the banks of the funding provided to them under the World Bank loans taken out by the NBP in 1990 to finance the Industrial Development and Agro-Industrial Development programmes.

Under the facility extended by Natexis Banque, the NBP made available to the participating banks FFr 14.3m in further loans for the development of Franco-Polish companies (with these funds to be applied to the modernisation and expansion of industrial facilities and to the purchase in France of process machinery and equipment).

International Activity

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

The year 1999 brought a clear acceleration of work connected with the negotiations on Poland's membership in the European Union. This was linked to the continuation of the first stage of negotiations, which lasted from April 1998 to July 1999 and involved a review of Community legislation to identify the extent to which Polish legal regulations were in compliance (the screening process). This process included six areas related to the responsibilities of the NBP, namely, "Economic and Monetary Union", "Free Flow of Capital", "Free Provision of Services", "Consumer and Health Protection", "Statistics" and "Government Finances and the Budget". In addition, the intensification of work also stemmed form the need to draw up Poland's negotiating positions concerning the 29 areas so far included in the negotiations process. An active part in developing these negotiating positions was played by representatives of the NBP. All of Poland's negotiating positions were presented to the European Commission in 1999.

The direction and pace of the work undertaken in this regard by the NBP was on the one hand dictated by the European Commission and by the Polish ministries and other central government agencies responsible for conducting negotiations in the areas of interest to the NBP (i.e., the Ministry of Finance, the Central Statistical Office, the Agency for Competition and Consumer Protection, and the Agency of the Committee for European Integration), while on the other it was driven by the Bank's own Committee to Prepare the NBP for European Integration, in collaboration with internal, interdepartmental groups of experts.

At the initiative of the latter Committee, measures were taken in 1999 to address the needs of both the adjustment process and the negotiations being held. In addition, with a view to the prospect of obtaining membership in EMU in the future, the Committee conducted ongoing monitoring of developments within the EU, particularly of legal changes concerning banking and the operations of the central bank, and also analysed the work being done by the European Central Bank. The role of the Committee was enhanced with the dissolution in July 1999 of the Commission for Identifying and Performing Responsibilities Associated with the Introduction of the Euro, with the Committee now assuming that Commission's long-term tasks.

In April 1999, at the suggestion of the Committee, a questionnaire was distributed to the NBP representatives that had been involved in the screening process. The responses to this made it possible to specify precisely in the negotiating positions being drawn up the scope and timetable for the implementing measures necessary to ensure the full compliance of Polish law with Community legislation, and also contributed to the process of planning further harmonisation measures to be conducted by the NBP in conjunction with other institutions that enjoy legislative initiative.

In order to carry out the proper adjustment measures with a view to future EU membership, and also participation in the European System of Central Banks (ESCB), the NBP developed two pre-accession priorities that were included within the *National Programme of Preparations for Membership in the European Union* approved by the Committee for European Integration and the Council of Ministers at the turn of April and May 1999. These priorities are: *The Adjustment of the National Bank of Poland for Operation within the European System of Central Banks and The Harmonisation of Polish Banking Regulations with Community Legislation*. The former was also presented as a project to be co-financed using EU financial assistance under the PHARE 2000 programme, and was viewed positively by both the European Commission and the European Central Bank. This project provides for the NBP carrying out the requisite adjustments to the payment system, monetary statistics, the monitoring of capital flows, accounting and reporting systems, banking supervision, internal controls and audit, and IT systems.

A further step along the road to the proper preparation of the NBP for incorporation within the ESCB was taken in July 1999 with the establishment of collaboration with the European Central Bank. This collaboration involves various issues, including legislative harmonisation, the conduct of monetary and exchange rate policies, the maintenance of financial stability, and adjustments to the payment system, statistics and banking supervision.

Given the need to draw up an integrated and comprehensive programme of all the measures associated with the process of EU integration that require implementation in the medium term, in September 1999 the NBP Management Board adopted a framework document entitled *NBP Workplan for the Years 2000-2002*. This document specifies the objectives connected with the integration process both directly and indirectly. Direct objectives include developing a 3-year convergence plan with respect to price and interest rate stability, stepping up work on a Polish real time gross settlement (RTGS) system, adjusting monetary policy instruments to correspond to those employed by the ESCB, and preparing a group of staff to be responsible for direct cooperation with the ECB, ESCB and European supervisory institutions. Indirect objectives include completing the computerisation of accounting and reporting systems, introducing regulations on consolidated supervision and developing principles for the exchange of information between GINB (the General Inspectorate of Banking Supervision) and other supervisory agencies at home and abroad, and developing and implementing a model system of internal audit at NBP. It should also be mentioned in this connection that working contacts were established in 1999 between experts from the NBP and ECB (with regard to legal issues) and the European Commission (with regard to the payment system); these contacts are being continued.

To increase the speed and effectiveness of the work being carried out within the NBP in relation to the integration process, a series of interdepartmental groups of experts were set up in November. These groups were constituted for each area of negotiations that could impact on the operating environment of the Polish banking system. The groups in question comprise: the Interdepartmental Group of Experts on Economic and Monetary Union; the Interdepartmental Group of Experts on the Free Flow of Capital; the Interdepartmental Group of Experts on the Deregulation of Short-term Capital Flows; the Interdepartmental Group of Experts on the Free Provision of Banking Services; the Interdepartmental Group of Experts on Banking Customer Protection; the Interdepartmental Group of Experts on Government Finances and the Budget; and the Interdepartmental Group of Experts on Statistics. The experts concerned are to participate in work to draw up negotiating documentation and are to be involved in the next phase of the screening process and in the negotiations themselves, and are also responsible for ongoing analyses of new legal solutions and the identification of problems that could affect the proper performance of the tasks facing the NBP. In December, the groups began analytical work to assess the level of Polish compliance with EU legislation and the possibility of implementing newly-adopted Community legislation that was previously not included in the screening process. The results of this work will be used in supplementing Poland's negotiating positions and initiating the necessary harmonisation and institutional adjustment measures.

Collaboration with international financial institutions

The year 1999 saw a tightening of international collaboration in resolving the problems involved in preventing financial crises. In particular, work was continued on the establishment of a new financial architecture. Cooperation between the World Bank Group[3] and the International Monetary Fund, together with other international economic and financial agencies, resulted in the drafting of particular standards and codes of good practice.

The NBP was also involved in this work, both by sharing its experience in these areas, and by implementing certain recommendations of international institutions, such as those relating to statistics or banking supervision.

[3] The World Bank Group comprises the International Bank for Reconstruction and Development, the International Development Association (the two together being known as the World Bank), the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for the Settlement of Investment Disputes.

In their speeches to the Annual Meeting of the Board of Governors of the World Bank Group and IMF, both the chairman of the Polish delegation, Deputy Prime Minister and Finance Minister Leszek Balcerowicz, and NBP President Hanna Gronkiewicz-Waltz underscored the importance of constructing a new international financial architecture and strengthening financial systems.

The International Monetary Fund (IMF)

In line with declarations made during the Annual Meeting of the Board of Governors of the World Bank Group and IMF in 1998 concerning Poland's readiness to participate in the increase in capital proposed under the IMF General Review of Quotas, the NBP performed the relevant payment in February, amounting to the equivalent of SDR 380.5m (25% in foreign currency and 75% in zloty). As a result, Poland's quota in the IMF rose from SDR 988.5m to SDR 1,369m.

In August, the IMF Executive Board declared Poland to be a country with a "sufficiently strong external position". The basic criterion used in assessing a country and its currency are the current balance, the level of the official reserves and volatility of exchange rates, the ratio of short-term external debt to official reserves, and the debt service ratio. Thus, as of the September-November quarter, Poland was included in the IMF Operating Budget, the mechanism allowing the Fund to make financing available to its members. The NBP Management Board, assenting to the decision that Poland should participate in the Operating Budget, also consented, pursuant to the IMF Articles of Agreement, to the exchange by the NBP of the zloty used in transactions with the Fund into one of four "freely convertible" currencies, i.e., the US dollar, Japanese yen, pound sterling or euro.

In September, the NBP Management Board adopted a resolution to transfer the sum of around SDR 7.1m derived from Poland's participation in the IMF SCA-2 Special Contingent Account as a long-term loan to finance the joint World Bank/IMF debt relief programme in the framework of the PRGF-HIPC Trust. Additional funding for this purpose, amounting to SDR 5m, was pledged by the President of the NBP on behalf of the Republic of Poland during the Annual Meeting of the World Bank and IMF.

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

In addition to the initiatives already mentioned to strengthen the international financial architecture, conducted together with the IMF and other international financial institutions, the World Bank also supports the efforts of countries applying for membership in the European Union. A special World Bank unit, the World Bank EU Accession Team, deals directly with the problems involved in accepting new members into the EU. The studies carried out by this team primarily focus on macroeconomic issues and economic growth, the management of public finances, and social issues. As part of this activity, two meetings of pre-accession countries were held in 1999, attended by representatives of the NBP. During the discussions held at these meetings, attention was drawn to four key questions:

– the importance of deepening the collaboration between international financial institutions and the Commission,
– the usefulness of the World Bank's country and sectoral studies, and in particular the emphasis on EU accession contained in the country economic memorandum,
– the importance of incorporating the social and human dimensions within the accession process,
– the importance of developing and consolidating institutional capacity.

The European Bank for Reconstruction and Development (EBRD)

The Annual Meeting of the Board of Governors of the EBRD, held in London in April, was devoted to the question of further economic transition in the countries of Central and Eastern Europe. In her speech, the President of the NBP expressed the belief that the prime responsibility for further economic transition, together with the obligation of continuing reforms, must be borne by the governments of the region. Their commitment to this process constitutes the guarantee that it will be irreversible. However, she also drew attention to the fact that international financial institutions can do a great deal to support this process by attempting to respond to the needs of particular countries. It was important for the EBRD, as a bank that sees support for transition as being its key objective, to react swiftly to the changing situation in the region, making available diverse financial instruments to countries that are at varying stages of progress in implementing reform.

The International Investment Bank (IIB) and International Bank for Economic Cooperation (IBEC)

The year 1999 failed to produce any significant progress in resolving the debt problems of the IIB. The Bank partially reduced its indebtedness though exchanging its own debt for debt purchased on the secondary market by some indebted member countries. However, it did not conclude any agreement with its creditors due to the fact that the obligations of other shareholders remain unsettled.

In November, the President of the Republic of Poland repudiated the Agreement establishing the IIB. The Ministry of Finance, together with the NBP, instituted proceedings to settle the bilateral liabilities outstanding under that Agreement.

The question of the outstanding debt of the IBEC to its creditors also remained unresolved in 1999. This Bank has also yet to recover the debt owed to it by member countries.

A Polish delegation participated in two meetings of the Supervisory Boards of both banks.

The Bank for International Settlements (BIS), Basle

The 69th Annual General Meeting of Shareholders in the Bank for International Settlements (BIS) was held on June 7, 1999, in Basle. The meeting accepted the Annual Report and approved the Bank's balance sheet at March 31, 1999, showing total assets of 66.2bn gold francs. The General Meeting also approved the Bank's income statement, which reported net earnings of 303.6m gold francs.

On November 8, 1999, an Extraordinary General Meeting of BIS Shareholders took place, at which amendments were approved to the Bank's Statutes.

The Development of the Banking System

Legislation

In 1999, the directing bodies of the NBP and the Commission for Banking Supervision issued numerous regulations under their own statutory authority. In addition, in presenting the position of the President of the NBP on draft regulations forwarded by government agencies and central institutions, the National Bank drew up its own opinions on these, in terms of both substantive and legal-cum-legislative matters. The types of draft regulation most frequently received were parliamentary bills and draft ordinances of the Council of Ministers, the Prime Minister and other ministers.

Those draft regulations that relate to the activity of banks or are of importance in other ways to the operation of the banking system constitute from 5% to 15% of all the regulations received, depending on whether these are taken to be solely those subsequently referred to meetings of the Council of Ministers, or also those subject to inter-agency consultation or referred to meetings of the Cabinet Economic Committee.

Of the many Bills concerning the operations of the banking system which involved the participation of NBP representatives in 1999 in preparing and agreeing their provisions, those particularly worthy of note included:

1. A Government Bill on the operations of cooperative banks, their affiliation to affiliating banks and amendments to certain legislation.
   The purpose of this Bill is to complete the process of restructuring the cooperative banks that was begun with The Act on the Restructuring of Cooperative Banks and Bank Gospodarki Żywnościowej and on Amendments to Certain Legislation of June 24, 1994 (as published in *Dziennik Ustaw* (the Journal of Laws) no. 80/1994, item 369, and subsequently amended); this was intended to strengthen the cooperative banking sector, one method being the creation of a uniform three-tier organisational structure within that sector.
2. A Government Bill on building societies, state support to savings for housing purposes, and amendments to certain legislation.
   One of the objectives of this Bill is to put an end to the growing liabilities of central government arising from the present system of savings for housing purposes.
   This Bill was submitted to the Sejm, although not all points of difference with the position taken by the NBP had been resolved.
3. A Government Bill on preventing the introduction into the financial system of assets derived from illegal or undisclosed sources. The drafting of this Bill is designed to bring Polish legislation into line with European Union requirements with respect to combatting money laundering, and in particular to adjust this legislation to correspond to the Directive of the Council of the European Communities of 10 June, 1991, on prevention of the use of the financial system for the purpose of money laundering (91/308/EEC), and to the Vienna Convention on illegal trade in narcotics and psychotropic substances, ratified by Poland in 1994.

Within the legislative activity conducted by the NBP in 1999, a significant achievement was the final drafting and agreement through inter-agency consultation of a Bill on NBP employees, prepared in collaboration with the Head of the Civil Service. This Bill was subsequently submitted to the Sejm of the Republic of Poland at the initiative of the Government. NBP representatives also took part in meetings of Sejm commissions and subcommissions.

Statistics and analyses

The statistical and analytical activity conducted in 1999 comprised both the performance of standard responsibilities under the NBP by-laws, and new areas of statistical inquiry.

The most important of those standard responsibilities include:

– the gathering, on a ten-day, monthly, quarterly and annual basis, of data needed to draw up the balance of payments,
– the gathering and ongoing analysis 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 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 end result of the above are statistical reports, analytical materials and publications addressed to users both within and outside the Bank. The most important of these include:

- quarterly reports on the balance of payments which, following acceptance by the President of the NBP (or review by the NBP Management Board in the case of annual reports), are presented to the Sejm and Council of Ministers;
- an annual *Balance of payments on a transaction basis and balance of foreign assets and liabilities of the Republic of Poland*; having been approved by the NBP Management Board, this document is submitted to the members of the Council of Ministers and representatives of other central government agencies, for the information thereof; this document includes a full presentation of the "international investment position", drawn up in accordance with the standards of the International Monetary Fund;
- quarterly figures on Poland's external debt, which in 1999 were for the first time published in accordance with a definition corresponding to international standards;
- monthly balance of payments reports, compiled on the basis of data from the commercial banks;
- a 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, which then functions as the basis for developing many other statistical reports.

The uniform information system that has been created to meet the requirements of the central bank also permits the Bank to fulfil its statistical obligations to the international organisations of which Poland is a member (the IMF, World Bank, OECD and BIS), and also the bodies of the European Union, which Poland is seeking to join.

The NBP also attaches great importance to providing information on monetary categories to the business and economic community. This objective is served primarily by the Bank's monthly publications, such as the NBP *Information Bulletin*[4] and *Preliminary Information*. These materials contain basic data on Poland's monetary and economic situation, and are widely distributed at home and abroad.

A major qualitative change in the information provided by the NBP took place with the development of the Bank's own web site, launched at the end of 1998. The site is available in both Polish and English versions, is systematically updated, and its contents include a wealth of statistical information, both current and from previous years. This has made it possible to deliver information to users more rapidly than before. What is also important is that the use of electronic media allows simultaneous and equal access to information by all end users, a requirement that has been stressed repeatedly by many international organisations, including the IMF in particular. This represents one of the principles of the Special Data Dissemination Standard (SDDS), which Poland joined in 1996. Detailed information on the data (the "metadata"), including the scope, terminology employed and the methods of providing access, developed for the purpose of the SDDS, are available on the electronic bulletin board run by the IMF. The purpose of this initiative is to provide improved access to comprehensive and timely data and thereby lay the basis for the better macro-

[4] As of 2000, the *Bulletin* has been expanded to include an analytical narrative section and additional statistical compilations.

economic policy and the more efficient operation of financial markets. The National Bank of Poland currently fulfils all the requirements of the SDDS.

The work conducted at the NBP in 1999 as regards reporting by the banks primarily involved a further expansion of the scope of information collected. The intensive development of new segments of the financial markets meant that the system of bank reports designed several years ago was no longer providing the appropriate information on certain instruments. In addition, the market has seen the emergence of a new group of specialist institutions in the shape of mortgage banks. For these reasons, extensive new schedules were introduced with respect to derivative instruments, together with reporting forms customised to correspond to the specific operations of mortgage banks.

In 1999, a new system was also brought into operation for registering foreign borrowings. Further, the first stage of work was completed on a system for monitoring international capital flows associated with portfolio investment.

The National Bank of Poland is also engaged in preparatory work to adjust itself to future operations within the framework of the European System of Central Banks, which includes adapting the monetary and balance of payments statistics compiled at the NBP to the requirements of the European Central Bank. Adjustment measures in the area of statistics have been under way for several years. Various seminars and working group meetings organised by EU bodies and devoted to the question of pre-accession adjustments by candidate countries have been utilised as a forum for presenting the progress made in this field in Poland, and also for exchanging experiences with representatives of other European countries. In 1999, adjustment efforts focussed on ongoing study of the relevant ECB guidelines and participation in working groups and other meetings organised by the EU. An NBP delegation also took part in a seminar held by the ECB on its requirements concerning monetary statistics. In October 1999, Warsaw for the first time hosted a meeting of the Committee on Monetary, Financial and Balance of Payments Statistics. This Committee, set up in 1991, brings together representatives of statistical agencies and central banks from the EU countries, and is charged with mapping out the direction of statistical work in the member countries. From the beginning, the Committee has also involved representatives of Eurostat and the ECB (formerly the European Monetary Institute). For several years, the Committee has also been holding meetings with representatives of EU candidate countries. The meeting in Warsaw was the first to be organised by Poland, with the co-hosts being the Central Statistical Office (GUS) and the National Bank of Poland. The NBP also took part during the year in a Eurostat project on direct investment. As part of this project, the NBP hosted an expert from that organisation, with NBP representatives also participating in a seminar organised in Riga.

For several years now, the NBP has also been conducting periodic studies of the corporate sector. These studies have been designed to serve as a tool for assessing the overall business climate and corporate finances by analysing basic indicators of corporate activity such as liquidity, money stocks and inflation expectations, and by identifying loan demand. The studies encompass around 300 businesses selected by the Bank's regional branch offices. The regional branches also prepare "memos on economic activity", which contain information on the level of business activity and regional economic developments. These studies of economic activity have recently made use of a number of new analytical methods not applied previously.

The development of payment systems

Overview

Following the major organisational changes within the NBP in 1998, which included the concentration of responsibilities relative to the operation of the Polish payment system within one new department and the establishment of the Payment System Council, the year 1999 saw a continuation of work aimed at improving the efficiency and safety of the Polish payment system.

One of the most significant developments in the functioning of the payment system in 1999 was the National Bank's assumption from Bank Śląski SA of the role of clearing bank for the National Securities Depositary SA (KDPW SA). This change was carried out in stages and was preceded by the NBP taking up one third of the share capital of KDPW SA in January 1999. The first stage of assuming the functions of clearing bank involved making it possible to perform settlements of Treasury bond tenders under the SORBNET system[5], on the basis of payment instructions issued by KDPW SA. The second stage involved the signing of an agreement between the NBP and KDPW SA, on July 22, 1999, under which an auxiliary account for KDPW SA was opened on July 26, 1999, and the NBP assumed the role of clearing agent for the transactions and operations settled by KDPW SA with respect to:

– the spot market for securities or other property rights,
– the performance of the rights conferred by securities or other property rights,
– the buyback or redemption of Treasury bonds or payment of interest on these by the Ministry of Finance,
– servicing the system of guaranteed settlement compensation,
– servicing securities lending,
– the market for derivatives or other property rights akin to derivatives,
– transfer payments between open-ended pension funds,
– servicing the pension guarantee fund,
– managing the funds available to the National Securities Depositary.

The National Bank's assumption of the role of clearing bank for KDPW SA constituted the fulfilment of one of the basic standards defined by the European Monetary Institute in 1998 with regards to securities settlement systems in the European Union. In line with this standard, monetary settlements under systems for the registration of securities that are used in the lending operations of the ESCB should be performed in central bank money. At the same time, the above change yielded considerably faster settlements on this segment of the financial markets and lessened the potential risks that were present earlier as a result of the clearing function being carried out by a commercial bank that was itself an active participant in the capital market.

As a result of the implementation of a new version of the SKARBNET system[6], changes were made in 1999 to the method of forwarding payment instructions in connection with the purchase of Treasury bills on the secondary market. Payment instructions had previously been submitted by the banks in hard copy. Under the new procedures, the instructions are issued by the NBP electronically (being generated by SKARBNET).

In 1998, the NBP established a Payment System Council as a consultative and advisory body reporting to the Management Board. At its meetings in 1999, the Council concentrated on the following issues, among others:

– legal barriers restricting the circulation of hard copy documentation relating to non-cash settlements,
– the possibility of introducing procedures for banks to present cheques for collection electronically,
– proposals concerning the legal, organisational and technical measures necessary to assist in reducing cash settlements and developing non-cash settlements,
– the problems involved in the use of bank cards in Poland,
– the development of electronic banking,
– the standardisation of bank account numbers,
– the problems involved in settling social insurance contributions,
– the considerations involved in abolishing the third settlement session at the National Clearing House (KIR SA) or moving it to an earlier time of day, the preconditions for this, and the consequences for the payment system,
– the organisation of monetary and interbank settlements at the turn of 1999/2000.

The results of the work undertaken by the Council that may be considered most important, in terms of yielding solutions now destined for implementation, include:

[5] The real time gross settlement (RTGS) system operated by the NBP.
[6] The system supporting the market for T-bills traded in book-entry form.

– defining the legal framework for applying a programme of cheque truncation and entrusting the Polish Banking Association with the tasks involved in implementing such a programme,
– initiating and developing proposals for amending legal regulations on issues connected with the payment and settlement of social insurance contributions, developing proposals for organisational and technical changes designed to make the settlement procedures involved more efficient, and reaching agreement on these proposals with the interested parties,
– issuing a positive opinion of proposals for changing the time of the third settlement session at KIR SA.

Another task completed in 1999 was the drafting of a description of the Polish payment system that was subsequently included in the "Blue Book", a publication of the European Central Bank on the payment systems of countries applying for membership in the EU. The work involved in preparing this, which included the gathering of statistical information from the banks and other financial institutions involved in settlements, also bore fruit in the publication of a Polish language description of the country's payment system. Moreover, this allowed the commencement of regular collection of certain statistical data on the payment system, one step involved in this being the inclusion of the relevant requirements in a resolution of the NBP Management Board on the procedures and detailed principles for banks submitting to the NBP the data necessary for the determination of monetary policy, for periodic assessments of Poland's monetary situation, and for an evaluation of the financial condition of the banks and the risks within the banking sector.

Work was also continued in 1999 in performance of the timetable of NBP measures related to the introduction of the euro. Due to certain factors, including changes in the position taken by the European Central Bank and the intense work involved in preparing the Polish banking system for Y2K, the performance of some tasks was carried over to 2000. These concern the implementation of a new function within the SORBNET system allowing banks to submit high-value and urgent customer payment instructions, the definition of the target model for the RTGS system, and an analysis of the current and maximum capacity of the domestic RTGS system.

NBP representatives also took an active part in the work of various bodies operating under the auspices of the Polish Banking Association with respect to the infrastructure of the banking system and banking sector norms and standards.

Operating the current accounts of the banks

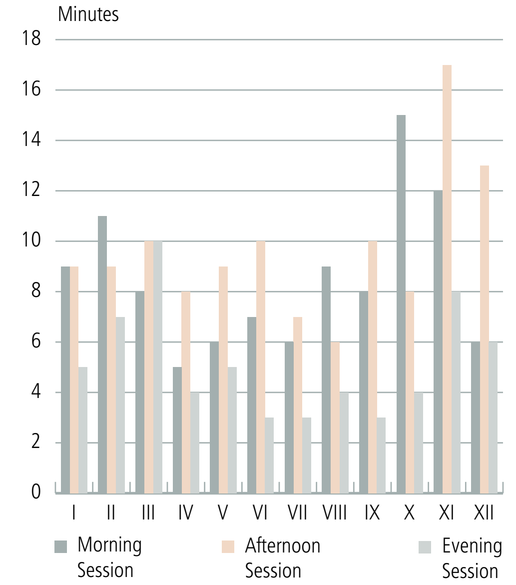
At year end 1999, the NBP was operating current accounts for 66 banks, all of which were direct participants in the National Clearing House. All banks holding current accounts at the NBP were using the SORBNET banking module, introduced in 1998, which allows electronic data exchange between the banks and the NBP, including the transfer of payment instructions and receipt of information on account balances and history via e-mail.

An important change that impacted the conduct of interbank settlements at NBP Head Office was the lowering of the banks' reserve requirements in line with Resolution no. 12/1999 of the Monetary Policy Council (July 21, 1999). The new reserve ratio, 5% of eligible liabilities, was first applied for the regulatory reserves to be met on September 30, 1999. These changes led to a large decline in the balances held on the banks' current accounts. The average daily balances on the banks' current accounts at NBP in the particular months of 1998 and 1999 are shown in Table 7.

In terms of value and importance, one of the principal types of operation performed on the banks' current accounts in 1999 were interbank settlements arising from the exchange of payment instructions between the banks via the National Clearing House[7]. These settlements were conducted at NBP Head Office during three daily settlement sessions, i.e.,

[7] The payment instructions submitted by KIR SA to NBP Head Office on behalf of the banks resulted from the setoff of the banks' bilateral claims and liabilities under instructions exchanged via two systems in operation at KIR:
– SYBIR, used for hard copy payment instructions, and
– ELIXIR, used for electronic payment instructions.

Figure 5. Length of settlement sessions at NBP Head Office, 1999



– a morning session (10:30 am - 11:00 am), which accounted for an average of 36.5% of turnover at KIR SA (as against 58.5% in 1998),
– an afternoon session (2:30 pm - 3:00 pm), which accounted for an average of 53.9% of turnover at KIR SA (as against 34.2% in 1998), and
– an evening session (7:00 pm - 7:30 pm), which accounted for an average of 9.6% of turnover at KIR SA (as against 7.3% in 1998).

Table 7. Average daily balances on banks' current accounts at NBP, by month, 1998-99 (million zloty)

Month	Average daily balances on current accounts, by month	
	1998	1999
January	15.508,6	19.380,3
February	15.822,6	20.355,0
March	15.744,5	21.019,2
April	16.037,1	21.686,9
May	16.255,9	21.772,0
June	16.518,2	21.884,6
July	16.960,7	21.780,0
August	17.487,1	22.190,5
September	17.788,0	22.040,8
October	18.680,9	9.242,2
November	19.169,9	9.466,9
December	19.269,4	9.679,9

It is worth noting the sizeable increase in the proportion of total settlement turnover dealt with at the afternoon and evening sessions, which is attributable to the growing use of the ELIXIR system in the settlements performed at KIR SA.

The length of the settlement sessions at NBP is presented in Figure 5.

Y2K

Summary of Y2K activity at NBP in 1999

The NBP had already begun work on preparations for Y2K by the end of 1997. An inventory was drawn up of critical and basic applications software at NBP Head Office, which was subsequently modified and tested for Y2K compliance by designers and users in a specially prepared test environment. The list of software applications involved ran to several dozen.

The National Bank's own systems, in operation at branch offices, were also listed in an inventory, modified and tested for Y2K compliance. A separate issue involved the testing at branches of operating system software in common use at all the branches. These tests were performed on repeated occasions, usually on Saturdays or Sundays, with the involvement of branch employees and staff from the Department of Information Technology and Telecommunications.

The NBP took part in national tests of banking software, organised together with the National Clearing House and the Polish Bank Association in March, April, June and August. The June test was part of a worldwide test which Poland participated in, one purpose being to test the ELIXIR and SORBNET settlement systems (used by the National Clearing House and the NBP, respectively), which constitute the backbone of the Polish payment system.

A broad programme of Y2K modification and testing was also carried out in the area of telecommunications. In conjunction with Y2K preparations, the telecommunications equipment in use at the NBP throughout the country was unified, as well as being adjusted to correspond to Y2K requirements. At most offices, it proved possible to ensure:

– switchboard access to the networks of two separate telephone operators,
– installation of the phone terminals of two separate telephone operators,
– the provision of mobile phones,
– a secure power supply for telecommunications systems,

– the obtaining of a Y2K certificate for the connection tariff system,
– a listing of those telephones that should be able to obtain connections at all times.

The SWIFT equipment employed at the NBP was also tested for compliance with Y2K requirements. On completion of the tests, a *SWIFT Year 2000 Customer Mandatory Testing Test Confirmation Letter* was sent to SWIFT headquarters, advising the organisation that the tests had been performed successfully.

The National Bank's computer systems and data transmission network systems were duly adjusted to Y2K requirements. All the necessary improvements were made on an ongoing basis, and were then tested by hardware specialists; microcomputer systems were also checked. Old equipment unsuitable for Y2K modification was replaced by new.

The Y2K preparations performed at the NBP were not limited solely to IT and telecommunications, but also encompassed other automated equipment, chip-based security systems, and technical support equipment. Intensive work was carried on to check the Y2K compliance of equipment other than that used for IT and telecommunications purposes. For the most part, conclusions were drawn, compliance testing performed and remedial measures taken before September 30, 1999.

Contingency plans for the NBP Head Office and branch offices were drawn up prior to August 30, 1999. These plans were then reviewed in September, and from October to the end of the year they were tested several times, both at NBP Head Office and at branch offices. Tests were also performed of contingency procedures with respect to IT systems (software, hardware and the data transmission network), end user telecommunications, security systems, the power supply, logistics and management.

Plans were made of the activity to be undertaken by the NBP over the critical period. Detailed plans were drawn up for the Head office and branch offices for the days from December 30, 1999, to January 3, 2000. During this period (and also from February 28 to March 2, 2000), a Crisis Centre was in operation at the NBP; no customer services, monetary settlements or interbank settlements were performed on December 31, 1999.

The expenditure on Y2K undertaken at the NBP totalled some 26 million zloty, with around 19 million zloty being spent on computer, network and telecommunications equipment together with control programmes, and around 3 million being spent on new software.

Work on Y2K involved all the departments, organisational units and branch offices of NBP.

The NBP also participated in Y2K projects covering the entire banking system and the country as a whole. The Special Representative of the NBP Management Board for Y2K Issues took part in the work of the relevant commission reporting to the Polish Prime Minister. The head of the NBP Year 2000 Office also participated in the work of the Y2K team set up by the Polish Bank Association. One function played by this team was to act as a forum for the exchange of information on nationwide compliance testing.

The NBP came through the date change of December 31, 1999/ January 1, 2000, without difficulty. The situation on January 3, 2000, the first business day of the year 2000, was monitored very carefully at the Crisis Centre, and no disruptions connected with Y2K were noted. The NBP was also able to track the situation on the world's major financial markets (using the MACS system on the Internet).

During Y2K preparations, numerous contingency procedures were developed, and staff were trained in operational continuity plans.

The replacement of computer, network and telecommunications equipment associated with ensuring Y2K compliance also meant a thoroughgoing modernisation of the National Bank's IT and telecommunications resources. In the course of work to modify the Bank's applications software to comply with Y2K requirements, this software was also upgraded, and frequently shifted to a more modern hardware and operating platform.

Supervisory monitoring of the Y2K preparations of the banking sector

During 1999, banking supervision continued the measures it had begun in 1997 to assist the Polish banking industry in preparing itself for entry into the Year 2000. The basic task in this respect was to conduct systematic monitoring of the progress made by the banks in their preparatory work.

Representatives of GINB took part in the work of advisory committees established under the aegis of the Polish Bank Association, namely, the Information Campaign Steering Committee and the Y2K IT Systems Working Group. GINB compiled information on the progress being made in Y2K preparations for the Sejm of the Republic of Poland, the Ministry of Internal Affairs and Administration, the Ministry of Finance, the Supreme Chamber of Control, supervisors in other countries, the Basle Committee, banks, non-bank companies with an interest in the issue, and also the media (preparing individual press releases, posting information on the Internet, and providing information during a conference with journalists held by the Commission for Banking Supervision at Zalesie Górne outside Warsaw in June). This information was drawn up on the basis of the reports filed by the banks with GINB in line with Prudential Recommendation E of GINB on the Preparation of IT Systems for Operation in the Year 2000, and also on the basis of questionnaires and the findings of on-site examinations at the banks conducted by a specialised group of GINB staff, selected and trained for this purpose by the On-Site Examinations Division.

In the period from February 15 to May 7, 1999, this group of bank examiners conducted on-site examinations at all the commercial banks operating in Poland. These examinations did not include the cooperative banks, nor banks declared bankrupt or under liquidation. The cooperative banks were reviewed indirectly on the basis of the preparations made by their affiliating banks and the measures the latter took on behalf of the cooperative banks.

The end result of each examination was a report containing a detailed assessment of the Y2K preparations undertaken by the bank in question. This report was presented to the bank's management board, constituting an independent appraisal of the state of Y2K preparedness in their institution. In addition, in most cases the examination was followed by the issue of post-examination recommendations to the bank, with the Chairperson of the Commission for Banking Supervision requiring the bank's management board to rectify shortcomings or take appropriate remedial action, and also recommending measures to enhance Y2K preparations[8].

The findings of these on-site examination demonstrated that the overwhelming majority of the banks were preparing themselves for Y2K and had instituted measures to satisfy the requirements set by banking supervision in December 1997, in Prudential Recommendation E. In some cases, however, difficulties were found in carrying out preparatory programmes on schedule.

On the basis of the findings of the first stage of on-site examinations and the results of an external test of bank IT systems conducted in June, a group of commercial banks was selected for follow-up Y2K examinations in September. This group was composed of those banks which GINB believed to pose the greatest risk, together with those banks of strategic importance to Poland's financial markets.

The work done in 1999 came to a final conclusion on January 1 and 3, 2000. On those dates, the banks submitted reports to GINB duty staff on the date change operation, confirmations that they were prepared to conduct operating activity, and confirmations that they had indeed begun operating activity in 2000.

In summarising, it should be said that the Polish banking sector as a whole prepared itself very well for entry into the new Millennium, both in IT terms and in business terms. Following the critical date, the banking system continued to function smoothly.

[8] Detailed findings from the first stage of examinations were presented to the Commission for Banking Supervision in a GINB report entitled *The process of Y2K preparation at the banks: the findings of on-site examinations.*

In resolving the problem of Y2K which they faced, the banks gained various lasting benefits, such as the modernisation of their hardware and software resources, the development or updating of contingency procedures, an increase in customer confidence, and a heightened awareness among the management of the banks, the result of having defined a common goal and having financed and carried out an industry-wide information campaign. In the broader context, the entire experience undermined the adverse assessment of Poland's Y2K preparations presented by rating agencies, which had classed Poland as a high-risk country as regards the risk of date-change failure.

Banking Supervision

At December 31, 1999, the following institutions were subject to banking supervision:

– 77 commercial banks (excluding those under liquidation or declared bankrupt),
– 781 cooperative banks, and
– 30 representative offices of foreign banks.

In 1999, the activity of the General Inspectorate for Banking Supervision (GINB) was conducted within the institutional structure put in place under the reorganisation performed in August 1998. Almost eighteen months of operations within this new structure have shown that the reorganisation has brought a qualitatively new dimension to the work of banking supervision. GINB has adjusted itself to having dual reporting lines, whereby it reports to the Commission for Banking Supervision on matters involving the supervision of the banks[9], while at the same time reporting to the NBP Management Board on all other questions relating to its organisational affiliation to the NBP. The proper performance of the responsibilities entrusted to GINB has been made possible by an internal structure comprising five specialised divisions: the Bank Licensing Division, the Supervisory Policy Division, the Banking System Off-Site Analysis Division, the On-Site Examinations Division, and the Cooperative Banking Division.

Pursuant to Article 25, para. 1, of the Act on the National Bank of Poland, GINB carries out and coordinates the decisions of the Commission for Banking Supervision and the responsibilities it assigns, and also performs a support function with respect to meetings of the Commission. During these meetings (at which the relevant materials had been prepared and presented by GINB), the Commission:

– adopted resolutions pursuant to its statutory authority on matters relating to supervisory regulations and principles for the conduct of banking activity,
– adopted resolutions ex officio on individual matters, including, in particular, granting approval for the appointment of a bank president or member of the management board; granting (or refusing) approval for bank mergers; granting (or refusing) approval for a bank to refrain, on an interim basis, from deducting unabsorbed prior period losses from its core capital; granting approval for the acquisition of shares in a bank or the rights conferred by such shares; and granting (or refusing) approval for a temporary reduction in the level of specific provisions established against balance sheet or off balance sheet exposures to particular counterparties, or against particular types of claim.

The Commission also performed quarterly and annual assessments of the financial condition of banks, presenting these to the Monetary Policy Council and NBP Management Board, and evaluations of the impact of monetary, tax and supervisory policies on the development of banks.

In addition, under authorisation from the Commission and in accordance with the adopted by-laws, the Chairperson of the Commission, acting between meetings of the Commission on the basis of materials prepared by GINB, issued rulings and recommendations 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.

Licensing

In 1999, the Commission for Banking Supervision received a total of 629 applications for the issue of the relevant rulings of the Commission or opinions of the President of the NBP provided for under the Banking Act, the Act on

[9] The activity of banks, and of branches and representative offices of foreign banks, is subject to supervision by the Commission.

Mortgage Bonds and Mortgage Banks, and the Act on the Restructuring of Cooperative Banks and Bank Gospodarki Żywnościowej.

Authorisation proceedings were completed for the establishment of a mortgage bank under the name of "Rheinhyp-BRE Bank Hipoteczny SA", registered office in Warsaw (the application for authorisation had been submitted in 1998). In addition, the Commission examined an application from Hypo-Bank Polska SA, requesting approval for an amendment to its Articles of Association that would convert this bank into a mortgage bank under the name of "HypoVereinsbank Bank Hipoteczny SA". In both of these cases, it was also necessary to consider applications for the appointment of Depositories and Deputy Depositories for the banks in question. In the above cases, the Commission adopted the draft resolutions drawn up for it by GINB.

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

In 1999, GINB drafted the following resolutions for the Commission, in performance of its statutory authority:

– on procedures for the performance of banking supervision,
– specifying a model collateral register for mortgage bonds,
– specifying the procedures for holding examinations for candidates for the post of bank examiner and for on-the-job training for such candidates.

In addition, during the year the Commission on three occasions amended the resolution on procedures for provisioning against the risk of banking operations, and on two occasions amended the aforementioned resolution on procedures for the performance of banking supervision. This exemplifies the continuous process of adjusting prudential regulations to correspond to the changing conditions on the market for banking services, and also testifies to a desire to ensure the constant qualitative upgrading of those regulations.

In connection with the fulfilment by the NBP Management Board and the Commission for Banking Supervision of the statutory remit they had been given, GINB undertook numerous activities in 1999 to adapt the relevant supervisory tools to the new implementing regulations introduced under that remit. These activities included:

– updating Regulation 4/95 of the President of the NBP on the establishment of a model bank chart of accounts, February 22, 1995, to incorporate the new resolution on procedures for provisioning against the risk of banking operations[10], and also the operations conducted by mortgage banks,
– developing, in conjunction with the NBP Department of Statistics, amendments to the banks' report package[11], and to the instructions for the compilation of the *Bank Call Report Based on the Model Chart of Accounts*, with these amendments reflecting the decisions, resolutions and regulations of the Commission that took effect as of January 1, 1999,
– adjusting the Uniform Bank Performance Report (UBPR) to correspond to the new regulations.

[10] Resolution no. 13/98 on procedures for provisioning against the risk of banking operations, December 22, 1998 (as published and amended in *Dziennik Urzędowy* NBP [the NBP Official Gazette] nos. 29/1998, item 65; 7/1999, item 11; 23/1999, item 39; and 26/1999, item 43).

[11] These amendments, in line with new regulations, are contained in Resolution no. 15/1999 of the NBP Management Board on the procedures and detailed principles for banks submitting to the National Bank of Poland the data necessary for the determination of monetary policy, for periodic assessments of Poland's monetary situation, and for an evaluation of the financial condition of the banks and the risks within the banking sector, April 23, 1999.

Furthermore, in 1999 GINB drafted several prudential recommendations that were subsequently adopted by the Commission for Banking Supervision and then distributed to the banks, namely:

1. Prudential Recommendation G on the management of interest rate risk at banks, June 23, 1999[12],
2. Prudential Recommendation H on bank internal controls and audit, December 1, 1999,
3. Prudential Recommendation I on the management of foreign exchange risk at banks and principles for the performance by banks of transactions involving exposure to foreign exchange risk, December 1, 1999.

The effectiveness of supervisory activity is contingent on collaboration between banking supervision and other parties, including the supervisors of other segments of Poland's financial services market, bank supervisors in other countries, and external auditors. In this connection, GINB drafted an agreement between the Commission for Banking Supervision and the Securities and Exchange Commission, which was signed on June 29, 1999. However, the achievement of full collaboration with Poland's other financial supervisors/regulators still requires the conclusion of similar agreements with the Agency for Pension Fund Supervision (UNFE) and the State Agency for Insurance Supervision (PUNU). Work was also carried on in 1999, via an exchange of correspondence with foreign supervisory agencies, with a view to concluding agreements on cooperation and exchange of information with those agencies.

In 1999, GINB was also involved in constant monitoring of the Y2K preparations being made by the Polish banking industry[13].

In addition, during the year 1999 GINB began the performance of certain tasks that originally had not been scheduled for the year, but which proved essential. These included the development of a prudential recommendation on outsourcing, of procedures for mortgage banks maintaining collateral accounts for mortgage bonds, and of principles applicable to the creation by mortgage banks of data bases on the real estate market; the implementation of the "post-BCCI" Directive and the introduction of Tier III capital with respect to the trading book; and work on drafting Poland's position regarding the consultative paper issued by the Basle Committee on Banking Supervision entitled *A New Capital Adequacy Framework* and the document of the European Commission entitled *A Review of Regulatory Capital Requirements for EU Credit Institutions and Investment Firms*.

Off-site analysis

During the course of 1999, the General Inspectorate of Banking Supervision compiled reports entitled E*valuation of the financial situation of Polish banks for the year 1998* and for the particular quarters of 1999, and also an *Evaluation of the impact of monetary, tax and supervisory policies on the development of banks in 1998*; having been approved by the Commission for Banking Supervision, these reports were submitted to the NBP Management Board and the Monetary Policy Council. In addition, the annual *Evaluation of the financial situation of Polish banks in 1998* was also forwarded to leading representatives of central government, including the President of the Republic of Poland, the Speakers of the Sejm and Senate, the Prime Minister, the Ministers of Finance, of the Economy and of the Treasury, and the President of the Supreme Chamber of Inspection (NIK).

Each of the above "evaluations" constituted the basis for drawing up a "summary evaluation", two of which were translated into English[14]. These

[12] This Prudential Recommendation discusses elements of interest rate risk management that are common to all banks. However, the degree to which particular elements will be applicable at a given bank depends on that bank's scale of operations, the complexity of its balance sheet, and the range of products it offers. At the same time, a framework risk management process is outlined for positions in both the trading and banking books. The Recommendation does not set capital charges for interest rate risk.

[13] Detailed information on the work undertaken by banking supervision in this regard is given in the section *The development of the banking system*, subsection *Y2K*.

[14] These "summary evaluations" are published in Polish on a quarterly basis, and in English on a semi-annual basis.

Summary evaluations of the financial situation of Polish banks, which constitute a basic source of information on developments within the Polish banking system, were distributed not only to the Monetary Policy Council, the NBP Management Board and various central authorities and civil service agencies, but also to all bank presidents, the Bank Guarantee Fund, the Polish Bank Association, international financial organisations and institutions, supervisory agencies in other countries, rating agencies, and the academic community. The "summary evaluations" compiled by GINB are also available on the NBP web site.

Furthermore, the analytical surveillance of the banking sector carried out by GINB also led to the preparation of numerous other documents, including:

– a report on the direct and indirect exposures of banks vulnerable to the repercussions of the Russian crisis,
– reports on the structure of the banks' claims on the Treasury arising from purchased debt (as per March 31 and November 30, 1999),
– a report on the banks' financial plans, including performance against plan,
– a report on the banks' distribution of 1998 earnings,
– an analysis of the lending procedures applied by the banks in financing purchases of securities,
– ten-day reports on the banks' compliance with prudential standards for permissible foreign exchange risk.

In addition, a survey was conducted on export finance, and a simulation was performed of the potential impact on Polish banks of the new capital adequacy proposals from the Basle Committee on Banking Supervision.

In carrying out **off-site supervision of commercial banks**, GINB conducted analyses and assessments of the financial condition of individual banks, with particular consideration being given to the scale and types of risk incurred by those banks, and also monitored their compliance with the standards specified in the Banking Act, in other legislation and in prudential regulations.

In carrying out **off-site supervision of banks engaged in rehabilitation programmes**, these banks were subject to ongoing surveillance, which included: analysing the rehabilitation programmes presented by those banks; assessing performance of those programmes and submitting those assessments to the Commission for Banking Supervision; drawing up proposals for the Commission on particular measures and the general course of action to be taken with respect to banks that had prepared inadequate rehabilitation programmes or were failing to implement their programmes properly; analysing applications from banks for exemptions from reserve requirements; analysing applications from banks for an extension of the deadline for them to increase their capital base to the level stipulated in the Banking Act, and submitting proposals to the Commission on the decisions to be taken on such applications; analysing applications from banks for approval to refrain, on an interim basis, from deducting unabsorbed prior period losses from their core capital, and submitting proposals to the Commission on the decisions to be taken on such applications; conducting ongoing correspondence with banks, liquidators, trustees in bankruptcy, custodians overseeing the performance of rehabilitation programmes, financial institutions and other departments of the NBP; and carrying on day-to-day collaboration with the Bank Guarantee Fund.

In carrying out **off-site supervision of specialist banks**, GINB was involved in preparing motions for the Commission for Banking Supervision concerning the approval of the real estate appraisal policies of mortgage banks; drawing up amendments to the Commission's resolution on procedures for the performance of banking supervision (which resolution was supplemented with the procedures applied by GINB in assessing candidates for the depositories and deputy depositories of mortgage banks); developing amendments to the reporting system and model bank chart of accounts to incorporate the specific operations carried on by mortgage banks; assisting in the preparation of a new bill on building societies (work on amending a previous piece of legislation having been abandoned); and conducting research into issues connected with lending to finance purchases of securities.

On-site examinations

One of the basic responsibilities of banking supervision as specified in the Banking Act is to conduct on-site examinations at banks, and at branches and representative offices of foreign banks.

Examinations at the banks were conducted in 1999 in line with the procedures for the performance of banking supervision laid down in Resolution no. 1/1999 of the Commission for Banking Supervision, January 6, 1999 (as published in *Dziennik Urzędowy NBP* no. 2/1999, item 3, and subsequently amended), and related to the scope of review specified in the Banking Act of August 29, 1997. During the year, 60% of examination time was spent on site at commercial banks, while 40% was spent at cooperative banks.

In conducting on-site examinations in 1999, GINB continued its implementation of the principles of risk-based supervision recommended by the Basle Committee, adjusting the scope and duration of particular examinations, and the resources allocated to them, to correspond to the level of risk at the banks in question. The examinations focussed on a review of credit risk, market risk and certain elements of operational risk, and on the process employed to manage those risks. The examinations also included an analysis of the banks' compliance with the provisions of the Banking Act and with other external regulations and internal policies. Further, in the course of full-scope examinations at the banks, GINB also carried out additional responsibilities assigned to it by the NBP Management Board, such as reviewing monetary and interbank settlements, reviewing the correctness of calculations and transfers of required reserves at banks and branches of foreign banks, and reviewing the banks' reports to the NBP in terms of the information utilised in balance of payments statistics.

The end products of the examinations performed were: reports of examination, containing a detailed assessment of particular risk areas; composite and component ratings of the banks; and letters of recommendation. The reports of examination provided GINB, and also the banks' own management and supervisory boards (in the case of full-scope examinations), with an independent assessment of a given bank's financial condition and the quality of its management processes. The composite and component ratings assigned to a bank represent an internal tool within GINB, utilised as one of the elements in developing the organisation's supervisory strategy in relation to a given bank. The letters of recommendation issued subsequent to examinations, in which the Chairperson of the Commission for Banking Supervision required the banks in question to take measures to eliminate and/or remedy shortcomings in their operations, played a major role in performing one of the primary statutory functions of banking supervision, i.e., ensuring the safety of the funds entrusted to the banks by their customers. Additionally, the examinations carried out in 1999 were used to promote safe risk management principles and effective internal controls. Both the reports of examination and letters of recommendation acted as a stimulus to the management and supervisory boards of the banks – and indirectly, the owners of those banks as well – to increase the capital base of their institutions and develop appropriate internal support systems.

A priority task of the on-site examination function in 1999 were reviews of the Y2K preparations undertaken by the Polish banking industry.

As part of the work done in 1999 to expand and enhance the on-site examination methodology applied by GINB, a new point-based bank rating system was developed, numerous examination tools were upgraded, various new examination methods were drawn up, including one for determining the loan sample to be reviewed during an examination, and work was continued on updating the *On-Site Examination Manual*. In terms of the organisation of examinations, improvements were made to the planning process, one example being the development of a methodology for determining the optimum duration of examinations and the particular stages thereof.

Supervision of the cooperative banking sector

As a result of the off-site surveillance of the operations of the cooperative banks conducted in 1999, GINB submitted various matters to the Commission for Banking Supervision for its consideration, including approvals for bank mergers, for the acquisition of one bank by another, for a bank to refrain, on an interim basis, from deducting unabsorbed prior period losses from its core capital, and for a temporary reduction in the level of specific provisions established against consumer loans.

In 1999, the activity undertaken by GINB with respect to the cooperative banking sector and regional or affiliating banks included, in particular, compiling quarterly analyses of financial condition (with reference to 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.

In addition, GINB drew up applications for cooperative banks to include in their supplementary capital funds received from their regional bank for a period of no less than five years, and for them to include in supplementary capital their "cash contribution fund". These applications were approved by the Chairperson of the Commission for Banking Supervision, who issued the appropriate rulings.

GINB also gave its opinion on applications from cooperative banks for exemptions from the requirement of establishing and maintaining regulatory reserves, and endorsed the application from one bank for the extension of an exemption previously issued. As regards the legal procedures envisaged in relation to cooperative banks declared bankrupt or under liquidation, in ten cases GINB drew up opinions of the Commission for Banking Supervision, submitted to the courts, concerning the terms for the acquisition of a bankrupt banking business, and in five cases drafted approvals for the financial statements of liquidation proceedings.

GINB also prepared numerous written statements concerning bankruptcy and liquidation proceedings, which were forwarded to trustees in bankruptcy, liquidators and the courts of due jurisdiction.

In line with Resolution no. 9/98 of the Commission for Banking Supervision on detailed procedures for cooperative banks assembling their initial capital, August 5, 1998, GINB carried out analyses of applications received from cooperative banks for an extension of the deadline for them to increase their capital base, and subsequently drafted proposals for the Chairperson of the Commission on how to deal with these applications. The process of cooperative banks increasing their capital to meet minimum requirements became lengthier as a result of an amendment to the Banking Act introduced under amendments to the Act on the Bank Guarantee Fund adopted on April 9, 1999; a new paragraph 3 was inserted in Article 172 of the Banking Act, to read: "Cooperative banks shall be required to increase their capital base to a level equivalent to 300,000 euro by December 31, 2000". The enactment of this amendment considerably weakened the process of mergers and acquisitions within the cooperative banking sector. In these circumstances, seeking to exercise a creative influence on developments in the cooperative sector, representatives of GINB took part in the shareholders' general meetings of regional and affiliating banks, where they presented arguments to demonstrate that holding up the merger processes that had begun was in the interests of neither the regional and affiliating banks, nor of the local cooperative banks themselves.

Thanks to activity of this sort, and to the consistent application by GINB, assisted by the regional and affiliating banks, of a policy aimed at strengthening the capital of the cooperative banks, the rewording of Article 172 of the Banking Act, postponing for another year the deadline for arriving at minimum capital requirements, did not block the process of consolidation under way in this sector; indeed, over the year this process resulted in the number of cooperative banks declining by 410.

At year end 1998, there had been 1,188 cooperative banks in operation, whereas one year later that number had fallen to 781.

The above-mentioned merger processes within the cooperative sector had an exceptional character in 1999, since never before had there been such a sharp decrease in the number of banks with no adverse consequences in the form of waning public confidence in the cooperative banking sector. The acceleration of mergers and acquisitions among the cooperative banks is attested to by the figures presented in Table 8.

Table 8. Mergers and acquisitions within the cooperative banking sector

Affiliating bank	No. of affiliated local cooperative banks				
	1998	1999			
	XII	III	VI	IX	XII
Gospodarczy Bank Wielkopolski SA	125	100	94	91	88
Gospodarczy Bank Południowo-Zachodni SA	145	94	93	88	86
Bank Unii Gospodarczej SA	93	72	69	66	65
Warmińsko-Mazurski Bank Regionalny SA	122	77	76	65	57
Lubelski Bank Regionalny SA	167	158	155	122	117
Bałtycki Bank Regionalny SA	60	52	50	42	39
Pomorsko-Kujawski Bank Regionalny SA	78	64	63	58	57
Dolnośląski Bank Regionalny SA	50	41	34	32	31
Małopolski Bank Regionalny SA	167	123	121	118	114
Rzeszowski Bank Regionalny SA	49	49	49	46	44
Mazowiecki Bank Regionalny SA	132	99	97	90	82
Total*	1,188	929	901	818	780

* Together with Spółdzielczy Bank Rozwoju "Samopomoc Chłopska", there were 781 cooperative banks in operation at year end 1999.

Training activity

Two general categories of training activity can be distinguished within GINB, namely, basic training courses and specialist ones. Given the character and responsibilities of banking supervision, these courses frequently relate to common subject matter, providing instruction on a series of different issues.

Thanks to assistance received from abroad, two principal specialist training programmes have been put in place for GINB staff involved in the areas of off-site analysis and on-site examinations. The *On-Site Examination Manual*, developed with the aid of the Barents Group serves as the basis for a training programme addressed to GINB examiners. This programme was originally launched in 1993 and at first was founded by the US Government. Now it being run independently by GINB.

Meanwhile, GINB analysts participated in a special East European Scholarship Programme financed by the US Government via the United States Agency for International Development (USAID). GINB staff have been involved in this programme since 1996. The prime objective of this training programme is to expand participants' knowledge of issues related to modern financial analysis, enriching this with practical experience gained during placements at US financial institutions.

Other specialist training courses provided to GINB staff primarily involved legal and accounting issues, and also the application of modern banking technologies, especially IT systems.

The Internal Development of the NBP

Human resource management

Average staffing at the NBP in 1999 amounted to the equivalent of 6,322 full-time posts. The majority of staff were women, who accounted for 74.4% of staff in non-manual posts (as against 75.1% in 1998) and 26.8% in manual and related posts (compared to 28.1% in 1998).

The age structure of the Bank's employees is marked by a substantial proportion of staff up to the age of 35 (29.7%), although since 1989 there has been a constant tendency for this to decline (the relevant percentages stood at 31.7% in 1997 and 31.2% in 1998). Employees over 55 years of age represented 9.0% of total staff (8.8% in 1998).

In 1999, the number of employees with higher education continued to rise, and at year end represents 40.8% of those employed in non-manual posts (38.8% in 1998). The proportion of staff who had not completed their secondary education came to 5.2% (5.6% in 1998).

Developing staff qualifications

Staff training continued to receive major attention in 1999. The National Bank provided its staff with the opportunity to participate in diverse training events, including specialist training in Poland and abroad, together with other educational programmes and conferences, and also language courses and seminars, including individual conversation classes.

In 1999, the Bank's staff continued to show great interest in raising their qualifications through specialist post-graduate studies, with the most popular courses being in banking and finance. In addition, interest grew noticeably in post-graduate courses related to European integration. Staff also took part in specialist training abroad, at banks and other financial institutions, or by attending seminars and workshops, and were involved in specialist study visits devoted to adjusting the National Bank's procedures to correspond to the requirements of central banking in the European Union. The main vehicle for developing staff qualifications at the NBP was through professional training at various courses and seminars. 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 and banking. Further, seminars devoted to particular areas of law (including banking, foreign exchange and employment legislation), due to their significance and relevance, also elicited large interest, as did seminars on legislation connected with the reform of the social insurance system and pension funds, and on the safeguarding of restricted information, the protection of personal data, non-life insurance, VAT and management issues.

Language instruction was also continued in the form of four- and five-year courses. At the same time, new and intensive forms of English language instruction were introduced, intended to develop more advanced language skills. A specialist class was also begun to prepare staff from NBP Head Office for an examination held by a Commission of the London Chamber of Commerce and Trade (the SEFIC).

Collaboration in training staff for the banking industry

The year 1999 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 continued to assist schools offering banking courses by making available to them specialist publications (*Bank i Kredyt* [Bank and Credit], *Materiały i Studia* [Materials and Studies], *Dziennik Urzędowy NBP* [the Official Gazette of the NBP]) and other materials dealing with various aspects of banking. The Bank also helped equip these 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 direction of further work in this field will depend on the solutions adopted in the current education reform.

The year 1999 also witnessed the completion of a joint Polish-Swiss education project for young bankers that had lasted several years, representing a "dual system of Polish banking education". The team working on this project included representatives of the NBP. The project involved the development of new training concepts for students of secondary schools and colleges of further education, and the practical application of these concepts on an experimental basis. Further work is envisaged to enhance this programme as development trends change within the banking industry in Europe and worldwide. This Polish-Swiss programme, intended to educate middle-tier banking staff, was acknowledged by the Polish Bank Association to be an important element in training future bank employees and fostering the general development of the Polish banking sector.

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 set up within this system of qualification standards. NBP representatives took part in developing the principles to be applied in conferring the highest professional title under this system, that of bank expert or manager. An honorary Chapter of Professional Bank Managers and Experts was established, with an NBP representative as Deputy Chairperson.

As in previous years, in 1999 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 the UK, Holland and France).

The Bank invited representatives of the Polish Bank Association, the Securities and Exchange Commission and the commercial banks to participate in seminars which it organised (including one on bank reporting for balance of payments purposes).

For the first time, the NBP hosted an international seminar on "Global and international trends in the banking sector". The seminar was attended by representatives of eleven central banks from the European Union, Central and Eastern Europe and the Baltic states.

Capital expenditure

The NBP investment projects scheduled for performance in 1999 included:

- the construction and modernisation of vault facilities as part of improved security for cash desks and bank vaults, and also of other security facilities on Bank premises,
- the adaptation, in line with EU requirements and changes in Polish regulations, of computer network, telecommunications, operating and applications systems and software,
- improvements to staff working conditions and safety standards, to be achieved by:
  - modernising fire protection facilities, ventilation and air-conditioning systems, water supply and sewerage systems, and central heating systems,
  - modernising Bank buildings and premises, together with their surroundings.

During the year, a number of capital construction projects were completed and brought into operation, thanks to which:

– existing Bank premises were upgraded,
– Bank buildings were equipped with better security facilities as protection against robbery, burglary and fire, through the extension of anti-burglary and anti-robbery alarm systems, the construction of a communications system, the modernisation of surveillance camera systems, the installation of electronically-coded locks, the direct connection of Bank buildings to fire brigade and police monitoring systems, etc.,
– further improvements were made to staff working conditions, while both office space and customer reception areas were redecorated.

Given the need to guarantee power supply to Bank premises in line with the requirements for the "transition to Y2K", the necessary power generating equipment was purchased, installed and brought on stream at NBP Head Office and the bank's regional branch offices.

IT support to the banking system and NBP

Adjusting IT systems to new requirements

In 1999, the NBP modified the systems used to calculate schedules of exchange rates to allow calculations of exchange rates for the euro and the component national currencies. A new application was developed, *RELACJE*, utilised within a data warehouse to compile listings and data sets of exchange rates for particular currencies in relation to the US dollar and euro.

In line with the administrative reform carried out in Poland, the relevant adjustments were performed to particular IT systems, including "EWIB" (which maintains records of the banks and their offices), "*Pieniądze Zagraniczne*" ("Foreign Funds"), "*Inwestycje Zagraniczne*" ("Foreign Investment"), and "*Bilans*" ("Balance Sheet").

Work was also carried on with a view to making the necessary adjustments stemming from the social insurance reform to the Bank's branch software, central software, and the structure of its hardware, computer systems and telecommunications facilities. In this connection, electronic data exchange was introduced in interoffice settlements, and the *EDIMOD* module was implemented for transfers of social insurance contributions. The *REDBANK 99* and *REDBANK C* systems were also developed, to service payments of social insurance contributions at the Chief Baranch of Foreign Exchange in Warsaw. Further, the *EDBANK* system was implemented, on a test basis, for the exchange of data with the Social Insurance Board. In addition, the Bank brought on line the *NBP-HEART* package, allowing data encryption to protect information within the system servicing social insurance contributions.

Development of applications software for particular areas of Bank operations

The completion in 1999 of the expansion of the National Bank's central computer system brought a radical increase in the system's reliability and capacity, and also in the safety of the data being processed. The system currently has a dispersed architecture, with components in operation not only at the main building of NBP Head Office in Warsaw, but also outside the city. This allows identical copies of operating data to be stored at several locations simultaneously. Each of these back-up copies can be employed in conjunction with the local computer infrastructure as an autonomous IT system in its own right.

To allow records to be maintained of foreign debt (at NBP regional offices), and the relevant schedules to be generated, the Bank developed the *KREZUS* application. The *NetBIS* application, based on intranet technology, was prepared for field sections and units of banking supervision to allow them to review and print out data from the *BIS* system (the bank report data system). Also, the *SDK* (executive summary) module of the *SARNA* (supervisory profile system) programme was developed for GINB management, allowing the capture and presentation of key supervisory information on the banks. With respect to payment systems, implementation was performed of a new version of the system used to record Treasury bill trading and settlements, *SKARBNET 2*. Work was also begun on a software module, *SEBOP*, for maintaining records of NBP money market bills. Within the *SORBNET* system, a function was installed for servicing transactions at the National Securities Depositary. A new version of the *SORBNET OW* module was installed at 40 NBP offices. A working time monitoring system, *SKOCZ*, was developed and brought into operation at the NBP Foreign Exchange Department.

Modernisation and development of NBP telecommunications facilities

During the year, work on developing and upgrading telecommunications and data transmission systems was continued with respect to both internal and external connections. In this regard:

– a programme of replacing and modernising telephone switchboards was completed,
– design work was begun for implementation of the NBP corporate network,
– the network of data transmission channels was modernised, ensuring suitable throughputs and reliability (e.g., a new broad-band satellite system was brought on line),
– internet solutions were implemented using the ISDN platform within a switched network,
– a programme of Y2K preparations was carried out with respect to switching and transmission systems and terminals,
– a programme was completed, as scheduled, of new installation and replacement of telecommunications terminals (telex and fax devices),
– the installation of structural cabling was completed at the buildings of NBP regional branches and sub-branch offices.

Protection of restricted information at the NBP

Given the taking effect of the Protection of Restricted Information Act of January 22, 1999, a number of organisational changes were made at the National Bank of Poland. The key measures taken in this respect were the appointment of an Officer for the protection of restricted information at the NBP, and the establishment of a Security Department, as a specialised organisational unit dealing, among others, with the protection of restricted information. Moreover, numerous internal regulations were issued to ensure compliance with the provisions of the new Act, while taking into account the specific character of the central bank.

In the framework of the work on protecting information carried out by the NBP for its own end users and for those from the commercial banks, data encryption systems were developed, including the generation, certification and distribution of cryptographic keys and cryptographic security measures within the NBP telecopying network. In addition, steps were instituted to upgrade the safety and protection of both restricted and non-restricted information in the Bank's computer and telecommunications systems and networks.

Work on an NBP systems security policy chiefly involved initiating the construction of a comprehensive security system, addressing issues such as the integration of data protection systems with the technical infrastructure in place at the Bank's buildings, the particular importance of the Bank's computer and telecommunications systems and networks, and the need for compatibility between these systems and networks and other banking and financial data transmission systems in use in Poland and abroad.

Internal audit

In 1999, a total of 15 internal audits were held in various areas of the Bank's operations (with these audit reviews encompassing both particular organisational units of Head Office and also other NBP offices). Given the priority significance attached to preparing the Bank for the transition to the Year 2000, the principal reviews conducted concerned IT and telecommunications, and an evaluation of the state of security at the National Bank.

Although certain shortcomings were noted, the audit findings painted a generally positive picture of the areas under review. Follow-up measures included the issue of recommendations to remedy any deficiencies that had been found.

In parallel with this audit activity, work was also conducted to develop a new model of internal controls within the NBP, one similar to that in operation at central banks in the European Union. To this end, an internal controls team was established, chaired by the First Deputy President of the NBP. The work of this team resulted in the drafting of an internal policy regulating the internal control environment at the National Bank.

The issue of this policy will assist in improving internal controls throughout the various organisational units of the NBP; these controls constitute one of the pillars of the Bank's entire system of controls and audit.

To raise the status accorded to internal controls at the Bank, and to improve knowledge of the issues involved among NBP management staff, a number of seminars and training courses were organised in the framework of collaboration established with the Polish Institute of Internal Controls and Audit (Polski Instytut Kontroli Wewnętrznej SA).

In addition, work was finalised on the Polish language version of the OECD/PHARE SIGMA report on the central bank audit function. This publication is designed to promote sound audit practices at the central banks of countries in the process of adjusting themselves to EU standards.

Promotions and information activity

In 1999, the NBP continued its promotions and information activity, conducted with a view to popularising knowledge of the central bank and the banking system in general, and also to fostering a positive public image of the NBP.

In seeking to achieve these aims, numerous NBP publications were utilised, including *Monetary Policy Guidelines*; *Bank and Credit*; the *NBP Information Bulletin*; *Preliminary Information*; the *NBP Annual Report*; the *Inflation Report*; the *NBP Information Handbook*; *The Payment System in Poland*; brochures on collector's coins; and also the internal NBP Newsletter, addressed to the Bank's staff.

Another major vehicle for promoting the central bank is the Bank's web site (to be found at: <*www.nbp.pl*>). An English language version of the web site was launched in 1999. In addition, certain pages on the site were expanded, i.e., *Legislation* (in the Polish language version) and *Publications*. Further, a "contact us" function was introduced, allowing visitors to the web site to forward questions or suggestions concerning the activity of the NBP and the statistical information which the site provides on the state of the Polish banking system.

The NBP Central Library (classed as an academic library under Resolution no. 262 of Poland's Council of Ministers, August 29, 1968) plays an important educational and informative role for employees of the National Bank and of other banks, for the academic staff of financial institutions and universities, and for students. The Library houses a collection of works relating to economics, with particular reference to banking and finance. Since 1987, the Library has acted as depositary for the World Bank Library. The Library also has a collection of information periodicals and monographic studies on the operations of foreign banks and international institutions.

The Library provides catalogue, bibliographical and substantive information on the basis of its own collections. The reading room has a separate computer for viewing the *ABI/INFORM Business Periodical on Disc* and the *Financial Times*. Other data bases, available on the NBP network or on CD-ROM (the latter include *JUSTIS CELEX, EUROPEAN REFERENCES*, AND *LEX*), can be accessed from the remaining terminals in the Library.

As regards collaboration between Poland's central bank and the media, one of the most important tasks in 1999 was coordinating the information campaign conducted by the NBP with respect to Y2K. This campaign embraced press conferences, publications (including a brochure entitled *The Preparations of the National Bank of Poland for the Year 2000*), and public statements by Bank representatives.

A major component of the information activity carried out by the NBP during the year were press conferences at which the President of the NBP and members of the Monetary Policy Council, the NBP Management Board and the Commission for Banking Supervision explained the reasoning behind monetary policy and supervisory decisions taken by these bodies. Several press conferences were also held with the participation of foreign guests, including the Governor of the Central Bank of Chile, Carlos Massad, the President of the European Bank for Reconstruction and Development, Horst Köhler, a member of the Executive Board of the European Central Bank, Tommaso Padoa-Schioppa, and another representative of the European Central Bank, Otmar Issing.

In addition, other information and educational activity was also conducted on an ongoing basis for the benefit of media representatives (via press releases, replies to questions received, or corrections to information published).

A significant part in the promotions activity of the central bank was also played by conferences and visits which it organised.

In 1999, the NBP celebrated the 75th anniversary of the founding of its predecessor, Bank Polski SA (the Bank of Poland SA), with commemorative events being held on May 4 and 5 and June 9. Among those participating in these events were Polish President Aleksander Kwaśniewski, who unveiled a bust at NBP Head Office of Władysław Grabski, the Polish Prime Minister of the 1920s associated with founding Bank Polski SA, and Poland's current Prime Minister, Jerzy Buzek, who delivered the opening address at an academic conference on "The role and place of the central bank in a United Europe", held at Warsaw Royal Palace. The foreign guest of honour during these celebrations was Wim Duisenberg, President of the European Central Bank. In addition, the events were also attended by governors of other European central banks, members of the Polish Government, chief executives of government agencies, presidents of commercial banks, and rectors of Polish universities.

On October 14 and 15, 1999, the NBP, together with Poland's Central Statistical Office, hosted a meeting of the Committee on Monetary, Financial and Balance of Payments Statistics, attended by the heads of offices of statistics from EU candidate countries.

On June 14 and 15, 1999, the NBP held an academic conference on "Monetary policy in the face of domestic and international challenges".

During 1999, those visiting Poland at the invitation of the President of the NBP included Carlos Massad, President of the Central Bank of Chile, and Horst Köhler, President of the European Bank for Reconstruction and Development. Their visits included meetings with the Monetary Policy Council and the NBP Management Board, and also with President Aleksander Kwaśniewski and representatives of the Polish Government.

Balance sheet of the National Bank of Poland at December 31, 1999

		thousand zloty
TOTAL ASSETS		146,709,270.8
I.	**Primary assets**	**142,807,100.9**
	1. Gold and gold receivables conforming to international standards of purity	3,979,991.9
	2. Foreign currency balances and claims on foreign institutions denominated in foreign currency	116,064,838.2
	3. Claims on domestic institutions denominated in foreign currency	490,200.1
	4. Lending to domestic credit institutions denominated in Polish currency	6,600,644.7
	5. Other claims on domestic credit institutions denominated in Polish currency	0.0
	6. Domestic debt securities	15,671,426.0
	7. Claims on domestic general government sector	0.0
II.	**Other assets**	**3,902,169.9**
	1. Tangible fixed assets and assets in course of construction	646,709.0
	2. Intangible assets	15,853.4
	3. Financial fixed assets	212,977.2
	4. Accrued income & prepaid expense	556,003.8
	5. Revaluation accounts	1,454,587.0
	6. Miscellaneous claims & inventory	1,016,039.5
	7. Appropriations of earnings	0.0

		thousand zloty
TOTAL LIABILITIES & CAPITAL		146,709,270.8
I.	**Notes & coin in circulation**	**43,375,240.1**
II.	**NBP debt securities issued and outstanding**	**24,694,015.3**
III.	**Liabilities denominated in Polish currency, excluding those given under items I & II**	**22,607,104.2**
	1. Liabilities to domestic credit institutions	9,435,340.9
	2. Liabilities to domestic general government sector	4,937,905.4
	3. Liabilities to other domestic institutions	1,783,815.4
	4. Liabilities to foreign institutions	6,450,042.5
IV.	**Liabilities denominated in foreign currency, excluding those given under item II**	**8,510,942.8**
	1. Liabilities to domestic institutions	472,651.2
	2. Liabilities to foreign institutions	8,038,291.6
V.	**Other liabilities**	**9,520,593.2**
	1. Deferred income & accrued expense	6,310,489.1
	2. Special funds	1,364.8
	3. Miscellaneous liabilities	28,663.1
	4. Revaluation accounts	3,180,076.2
VI.	**Reserves**	**34,155,617.2**
	1. Currency revaluation reserve	34,155,617.2
	2. Specific reserves	0.0
VII.	**Core capital**	**1,548,219.2**
	1. Registered equity	400,000.0
	2. Reserve capital	1,148,219.2
VIII.	**Earnings**	**2,297,538.8**

CHIEF ACCOUNTANT,
NATIONAL BANK OF POLAND

Ewa Popowska

MANAGEMENT BOARD
NATIONAL BANK OF POLAND

Hanna Gronkiewicz-Waltz
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Balance Sheet and Profit & Loss Account

The balance sheet of the NBP and movements in its composition, 1999

In 1999, the directing bodies of the NBP adopted two resolutions concerning the accounts of the National Bank of Poland. The first of these was Resolution no. 10/1999 of the Monetary Policy Council, of June 16, 1999, entitled "Accounting principles of the National Bank of Poland and the format to be used for the Bank's balance sheet assets and liabilities and profit and loss account". This was supplemented by Resolution no. 30/1999 of the NBP Management Board, entitled "Methods of performing accounting responsibilities at the National Bank of Poland"[15]. The second Resolution of the Council (no. 11/1999, of June 16, 1999) concerned “Procedures for establishing and releasing the currency revaluation reserve at the National Bank of Poland”. Furthermore, in line with the provisions of Resolution no. 10/1999 of the Monetary Policy Council, the format used in presenting the assets and liabilities of the Bank's balance sheet was altered to correspond to the guidelines of the European Central Bank.

The **total assets of the NBP** rose 11.6% in the course of 1999 compared to year end 1998. In real terms, total assets grew 4.0%. The prime factor behind this growth were the gross official reserves, which rose in 1999 by the zloty equivalent of 9.8bn, representing an increase of 10.2% (in dollar terms, the reserves fell almost USD 1,888m).

The major movements in assets and liabilities in 1999 are presented in Table 9.

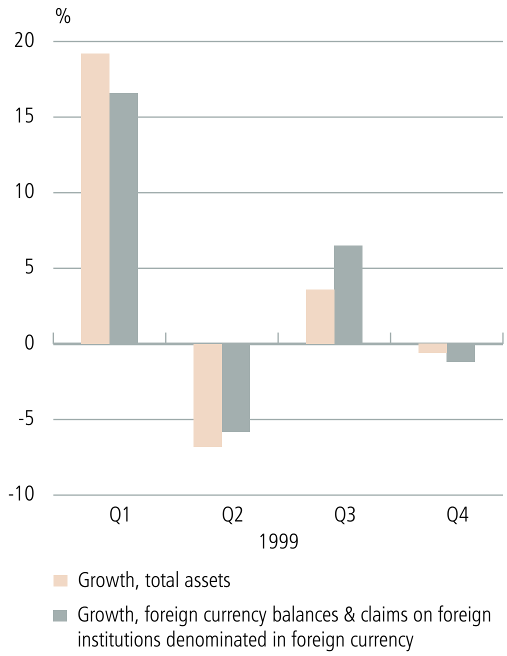
Table 9. Movements in assets and liabilities, 1998-99

	Balance at: 31 XII 1998	31 XII 1999	Change	31 XII 1998 = 100
	million zloty			%
Assets				
I. Primary assets	129,117.2	142,807.1	13,689.9	110.6
of which:				
1. Gold and gold receivables conforming to international standards of purity	3,328.7	3,980.0	651.3	119.8
2. Foreign currency balances and claims on foreign institutions denominated in foreign currency	100,029.3	116,064.8	16,035.5	116.0
3. Claims on domestic institutions denominated in foreign currency	533.7	490.2	-43.5	91.9
4. Lending to domestic credit institutions denominated in Polish currency	7,116.6	6,600.7	-515.9	92.8
5. Domestic debt securities	16,355.0	15,671.4	-683.6	95.8
6. Claims on domestic general government sector	1,753.9	-	-1,753.9	-
II. Other assets	2,361.5	3,902.2	1,540.7	165.2
Total	131,478.7	146,709.3	15,230.6	111.6
Liabilities & capital				
I. Notes & coin in circulation	33,993.5	43,375.3	9,381.8	127.6
II. NBP debt securities issued and outstanding	28,575.5	24,694.0	-3,881.5	86.4
III. Liabilities denominated in Polish currency	28,493.1	22,607.1	-5,886.0	79.3
IV. Liabilities denominated in foreign currency	4,126.0	8,510.9	4,384.9	206.3
V. Other liabilities	10,408.7	9,520.6	-888.1	91.5
VI. Capital & reserves	25,214.7	35,703.9	10,489.2	141.6
VII. Earnings	667.2	2,297.5	1,630.3	344.4

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

[15] These documents replaced Regulation no. C/I/21/95 of the President of the NBP, "The accounts of the National Bank of Poland", and the provisions they contain came into force as of October 1, 1999.

Figure 6. Quarterly movements in total assets and in foreign currency balances and claims on foreign institutions, 1999



in terms of assets:
- foreign currency balances and claims on foreign institutions denominated in foreign currency, up 16.0%,
- other assets, up 65.2%,
- gold and gold receivables conforming to international standards of purity, up 19.6%;

in terms of liabilities and capital:
- capital and reserves, up 41.6% due to a 44.3% increase in the currency revaluation reserve,
- notes and coin in circulation, up 27.6% compared to December 31, 1998,
- liabilities denominated in foreign currency, up 106.3%.

As regards the assets held by the National Bank, the largest growth, as in previous years, was seen in foreign exchange invested in foreign debt securities, which climbed by 9.1% from 77,384.2m zloty at year end 1998 to 84,415.1m zloty at the end of 1999). By the end of 1999, the Bank's holdings of foreign currency balances and claims on foreign institutions denominated in foreign currency were 16.0% higher than they had been at December 31, 1998. The strongest growth was observed in January and February, when it averaged 9,977.5m zloty, which is mainly attributable to the rising value of the US dollar (which gained 0.436 zloty).

The movements seen in the Bank's liabilities and capital varied in character. Sharp growth was witnessed in earnings (up 244.4%), in liabilities denominated in foreign currency (up 106.3%) and in capital and reserves (up 41.6%). The steepest fall, on the other hand, was in liabilities denominated in Polish currency (down 20.7%), and in NBP debt securities issued and outstanding (down 13.6%).

The growth in the Bank's total assets recorded in 1999 in fact took place during the first three months of the year. This can be traced to the fact that asset growth is very closely correlated with movements in dollar exchange rates and in the volume of foreign currency balances and claims on foreign

Table 10. Structure of assets and liabilities, year end 1998 & 1999

	Structure 31 XII 1998 %	Structure 31 XII 1999 %	Change, percentage points
Total assets	**100.0**	**100.0**	**x**
I. Primary assets			
of which:	98.2	97.3	-0.9
1. Gold and gold receivables conforming			
to international standards of purity	2.5	2.7	0.2
2. Foreign currency balances and claims on foreign			
institutions denominated in foreign currency	76.1	79.1	3.0
3. Claims on domestic institutions denominated			
in foreign currency	0.4	0.3	-0.1
4. Lending to domestic credit institutions denominated			
in Polish currency	5.4	4.5	-0.9
5. Domestic debt securities	12.5	10.7	-1.8
6. Claims on domestic general government sector	1.3	-	-1.3
II. Other assets	1.8	2.7	0.9
Total liabilities & capital	**100.0**	**100.0**	**x**
I. Notes & coin in circulation	25.9	29.6	3.7
II. NBP debt securities issued and outstanding	21.7	16.8	-4.9
III. Liabilities denominated in Polish currency	21.7	15.4	-6.3
IV. Liabilities denominated in foreign currency	3.1	5.8	2.7
V. Other liabilities	7.9	6.5	-1.4
VI. Capital & reserves	19.2	24.3	5.1
VII. Earnings	0.5	1.6	1.1

institutions denominated in foreign currency. The latter asset item constitutes the basic component of the gross official reserves.

Quarterly movements in total assets and in foreign currency balances and claims on foreign institutions are depicted in Fig. 6

Movements in the major items of the balance sheet also engendered changes in the structure of the Bank's assets and liabilities. The relative weight of particular components of NBP assets and liabilities is illustrated in Table 10.

Assets

The dominant component within the Bank's **assets** consists in foreign currency balances and claims on foreign institutions denominated in foreign currency, which accounted for over 79% of NBP assets at year end 1999, having gone up 3.0 points over the year. This item has steadily risen as a proportion of the Bank's assets, increasing from 61.8% in 1996, 67.6% in 1997 and 76.1% in 1998. This item also has a key impact on movements in the composition of liabilities and capital, particularly on the currency revaluation reserve, which represents 23.3% of total liabilities and capital.

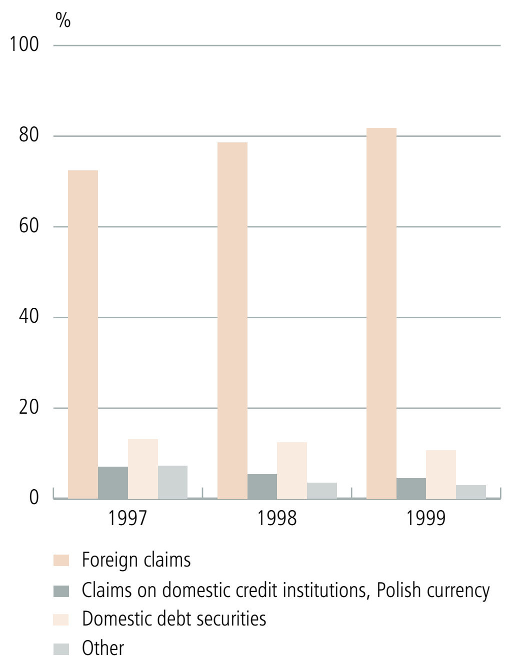
The relative decrease in the share of assets held in domestic debt securities, which slipped from 12.5% in 1998 to 10.7% in 1999, did not alter the overall position of this item within the structure of the Bank's assets.

The decline of 0.9 points, as a proportion of assets, in lending to domestic credit institutions denominated in Polish currency chiefly relates to claims on banks under refinance and rediscount loans. Over 78% of all claims on banks are the result of refinancing to government central investment projects, consisting of the outstanding principal advanced against those projects together with interest capitalised when the projects were in course of construction.

The 1.3 point decrease in claims on domestic general government, which in 1998 comprised units of account, is attributable to the conversion of Treasury obligations carried out in 1999.

Movements in the structure of NBP assets in the years 1997-1999 are charted in Figure 7.

Figure 7. Movements in structure of assets, 1997-1999



On the asset side of the Bank's balance sheet, the most important item were **foreign currency balances and claims on foreign institutions**, with foreign debt securities representing around 73% of this amount. The basic component of this item in 1999 were foreign government securities, which accounted for 90.3% of all foreign debt securities (as against almost 95.1% in 1998). Debt securities also include instruments issued by foreign financial institutions. At year end 1999, the Bank's holdings of these instruments were 144.4% greater than at year end 1998.

The value of short-term placements collateralised by securities under repurchase agreements rose 26.4% compared to 1998. The zloty balance on these placements includes all reverse repos and also structured transactions in the form of securities lending. At year end 1999, this item consisted solely of the reverse repurchase agreements involved in securities lending transactions.

Balances and placements at foreign banks increased 34.2% in 1999 compared to the previous year. In investing the official foreign exchange reserves, the central criterion applied was to achieve the highest possible safety of investment and maintain the requisite level of liquidity, while obtaining the optimum return in the given market conditions. This determined the structure of placements. As in 1998, almost 100% of balances and placements at foreign banks in 1999 were short-term.

Movements in foreign currency balances and claims on foreign institutions denominated in foreign currency, in nominal terms, together with the structure of these accounts, are outlined in Table 11.

The second largest asset item were **domestic debt securities**, accounting for 10.7% of total assets. This item is composed of Treasury bonds, bonds issued by domestic banks, and bills discounted from domestic banks.

Movements in the Bank's holdings of domestic debt securities are presented in Table 12.

The basic (98%) constituent of this item are government debt securities. In 1999, the conversion was performed of Treasury debt to the NBP. Under this

Table 11. Foreign currency balances and claims on foreign institutions denominated in foreign currency, movements and structure, 1998-99

	Balance at:		Change	Structure	
	31 XII 1998	31 XII 1999		31 XII 1998	31 XII 1999
		million zloty		%	
Foreign currency balances & claims on foreign institutions denominated in foreign currency	100,029.3	116,064.8	16,035.5	100.0	100.0
of which:					
– Polish quota, IMF	4,563.5	7,423.2	2,859.7	4.6	6.4
– Polish contribution, World Bank	4.4	0.0	-4.4	-	-
– balances at foreign banks & international institutions	9.6	24.2	14.6	-	-
– placements at foreign banks	17,712.2	23,759.2	6,047.0	17.7	20.5
– foreign debt securities	71,391.2	76,842.1	5,450.9	71.4	66.2
– term placements collateralised by securities under repurchase agreements	5,993.0	7,573.0	1,580.0	6.0	6.5
– lending to foreign institutions	14.0	9.5	-4.5	-	-
– foreign currency	311.8	359.1	47.3	0.3	0.3
– SDRs	24.8	46.2	21.4	-	0.1
– other	4.8	28.3	23.5	-	-

operation, non-negotiable NBP assets were converted to 3-, 4-, 5- and 10-year fixed-rate Treasury bonds, and a 2-year zero-coupon bond.

Under the first stage of the conversion operation (September 30, 1999), the National Bank received 3-, 4-, 5- and 10-year Treasury bonds, each with a face value of 3,076.3m zloty.

Under the second stage (December 1999), the debt conversion involved a bond issued to service obligations to the London Club, which was exchanged for a 2-year zero-coupon bond valued at 3,055.3m zloty on purchase, i.e., with a nominal value of 4,133.9m zloty. As a result of the above transactions, the gross value of the Bank's portfolio of government debt securities increased to 18,803.3m zloty.

Table 12. Domestic debt securities, 1998-99

	Balance, 31 XII 1998	Valuation allowances	Balance, 31 XII 1998 (net of valuation allowances)	Balance, 31 XII 1999	Valuation allowances	Balance, 31 XII 1999 (net of valuation allowances)	Structure 31 XII 1998	Structure 31 XII 1999
			million zloty					%
Government debt securities	16,026.3	0.0	16,026.3	18,803.3	3,443.1	15,360.2	98.0	98.0
of which:								
- bonds issued in 1991	3,223.7	-	3,223.7	3,242.5	-	3,242.5	19.7	20.7
- bonds issued on May 5, 1997	4,956.8	-	4,956.8	-	-	-	30.3	-
- bonds issued on Dec. 17, 1998	2,556.2	-	2,556.2	-	-	-	15.6	-
- Treasury bonds	5,289.6	-	5,289.6	15,560.8	3,443.1	12,117.7	32.4	77.3
Other debt securities	403.9	75.2	328.7	311.2	0.0	311.2	2.0	2.0
of which:								
- bills	354.7	75.2	279.5	267.4	-	267.4	1.7	1.7
- bonds issued by domestic banks	49.2	-	49.2	43.8	-	43.8	0.3	0.3
Total	16,430.2	75.2	16,355.0	19,114.5	3,443.1	15,671.4	100.0	100.0

Table 13. Lending to domestic credit institutions denominated in Polish currency, movements and structure, 1998-99

	Balance		Valuation allowances		Balance net of valuation allowances		Structure	
	31 XII 1998	31 XII 1999	31 XII 1998	31 XII 1999	31 XII 1998	31 XII 1999	31 XII 1998	31 XII 1999
	million zloty						%	
Lending to domestic credit institutions, Polish currency	**7,118.2**	**6,602.2**	**1.5**	**1.5**	**7,116.7**	**6,600.7**	**100.0**	**100.0**
of which:								
– overdrafts	1,289.0	1,287.1	-	-	1,289.0	1,287.1	18.1	19.5
– lombard loans for restructuring purposes	11.2	-	-	-	11.2	-	0.2	-
– refinancing to central investment projects	5,614.4	5,146.5	-	-	5,614.4	5,146.5	78.9	78.0
– finance for purchases of agricultural produce	201.8	162.1	-	-	201.8	162.1	2.8	2.4
– non-specific advances	0.3	5.0	-	-	0.3	5.0	-	0.1
– past due, supporting rehabilitation programmes	1.5	1.5	1.5	1.5	-	-	-	-

Adjusted for valuation allowances and currency translation of bonds denominated in US dollars, the value of the Bank's holdings of government debt at year end 1999 stood at 15,360.2m zloty.

The movements recorded in 1999 in claims arising on bills discounted are the result of commercial and cooperative banks redeeming bills under agreements concluded with the NBP. In the case of commercial banks implementing their own rehabilitation programmes, the value of bills presented to the NBP for discounting every year, at dates set in the relevant agreements, is reduced by loan loss recoveries, on terms specified on those agreements.

The value of the Bank's claims on bonds issued by domestic banks was 5.4m zloty less at the end of 1999 than it had been a year before, primarily due to the amortisation of principal by Prosper Bank.

The next largest component of the Bank's assets was **lending to domestic credit institutions denominated in Polish currency**, which constituted 4.5% of total assets.

The balances and structure of this lending are detailed in Table 13.

The principal item in the banks' debt to the NBP in the reporting period were loans extended to refinance central government investment projects. However, the claims arising on this central investment refinancing are of a mixed character. Over 64% of the amount outstanding represents finance for capitalised interest accrued on refinancing loans during project construction. At year end 1999, finance for capitalised interest totalled 3,320.4m zloty, having declined 7.1% over the year.

The proportion of amounts due under refinancing loans represented by capitalised interest has been rising systematically, going up from 62.4% in 1997 and 63.7% in 1998 to 64.5% in 1999.

Around 90% of the total balance outstanding at year end 1999 on refinancing for central government investment projects consisted in funding provided to Bank Pekao SA to finance construction of the Opole power station. In line with a programme of debt rescheduling for the power station approved in 1997, the last advances to this borrower were made in 1998, and as of January 1, 1999, this loan has been booked as in process of repayment.

The second significant component of lending to the banks was the overdraft of Bank Handlowo-Kredytowy SA, Katowice (under liquidation), which accounted for 19.5% of total borrowings by domestic banks. At the end of 1999, the balance outstanding on this loan came to 1,287.1m zloty, down 1.9m zloty compared to year end 1998. This decrease was chiefly the result of the repayment of interest accrued prior to March 30, 1992; at December 21, 1999, this interest stood at 104.0m zloty. In addition, Bank Handlowo-Kredytowy SA is also required to repay interest accrued after April 1, 1992. At the end of the reporting period, this interest totalled 1,183.1m zloty.

Movements in the borrowings of the banks under other loans were of no great significance, either for the total amount outstanding, or for the structure of those borrowings.

Claims on domestic institutions denominated in foreign currency accounted for 0.3% of total assets at the end of December 1999, with the balance on these claims decreasing 8.1% since December 1998.

Movements in claims on domestic institutions denominated in foreign currency, and the structure of those claims, are set out in Table 14.

Table 14. Claims on domestic institutions denominated in foreign currency, balances and structure, 1998-99

	Balance at:		Structure	
	31 XII 1998	31 XII 1999	31 XII 1998	31 XII 1999
	million zloty		%	
Claims on domestic institutions, foreign currency of which:	533.7	490.2	100.0	100.0
– placements at domestic banks denominated in foreign currency	405.6	392.7	76.0	80.1
– onlending to domestic banks	128.1	97.5	24.0	19.9

The foreign currency deposits placed by the NBP at domestic banks have been trending downwards. At the end of 1998, these placements constituted 76% of claims on domestic institutions denominated in foreign currency, while a year later, despite falling in nominal terms, they rose in relative terms to stand at 80.1% of those claims.

In 1999, **other assets** increased 65.2%, and their share in total assets thereby rose by 0.9 points.

Balances on "other assets", and their relative weight within total assets, are shown in Table 15.

Table 15. Other assets, balances and structure, 1998-99

	Balance at:		Structure	
	31 XII 1998	31 XII 1999	31 XII 1998	31 XII 1999
	million zloty		%	
Other assets	2,361.5	3,902.2	100.0	100.0
of which:				
– tangible fixed assets & assets in course of construction	561.9	646.7	23.8	16.6
– valuation accounts	260.6	1,454.6	11.0	37.3
– settlements under Libyan credit facility	331.9	372.2	14.1	9.5
– miscellaneous foreign settlements	258.4	263.5	10.9	6.8
– financial fixed assets	120.9	213.0	5.1	5.5
– settlements on disposals of financial fixed assets	161.2	161.2	6.8	4.1
– accrued income & prepaid expense	3.9	556.0	0.2	14.2
– other	662.7	235.0	28.1	6.0

The balance on "other assets" and the movements in this item during the year were primarily a function of movements on revaluation accounts. The determining impact on this was an increase in deferred losses due to a decline in the value of debt securities issued by foreign governments and central banks. There was also a major rise, in both nominal and relative terms, in accrued income and prepaid expense, which grew 552.1m zloty to constitute 14.2% of "other assets".

The balance on accrued income and prepaid expense was mainly related to the following factors:

– deferred expense on financial operations in Polish currency, involving interest payable on NBP bonds issued in connection with the lowering of reserve requirements,
– an increase in deferred expense in foreign currency, principally involving expense on foreign currency deposits (under repurchase agreements),
– an increase in deferred expense involving unpaid interest accrued on time deposits of the Ministry of Finance.

Another substantial item in "other assets" are tangible fixed assets and assets in course of construction. At year end 1999, this item amounted to 646.7m zloty, which represented an increase of 15.1%. The rise in the value of tangible fixed assets is primarily traceable to fixed assets being brought into operation on the completion of investment projects, and also to the purchase of new fixed assets.

Liabilities & Capital

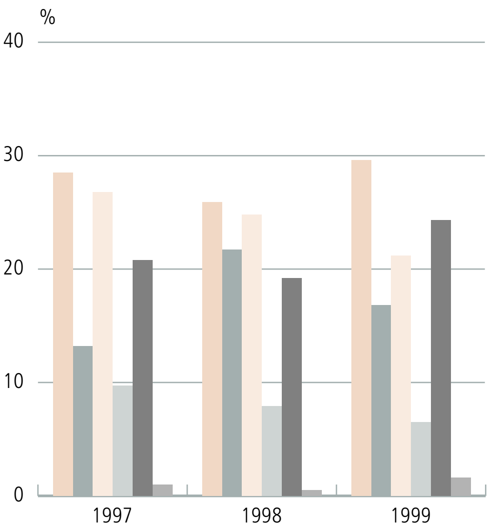
On the liability side of the Bank's balance sheet, the largest item, representing 29.6% of total liabilities and capital, is notes and coin in circulation. Compared to December 31, 1998, the relative share of this item in total liabilities and capital rose 3.7 points. Capital and reserves increased 5.1 points in relative terms, going from 19.2% of total liabilities and capital at year end 1998 to 24.3% at year end 1999, principally as a result of the increase in the currency revaluation reserve, which rose from 18.0% in 1998 to 23.3% in 1999. The sharpest decrease within the structure of capital and liabilities was that of "liabilities denominated in Polish currency", which fell 6.3 points (from 21.7% in 1998 to 15.4% in 1999), mainly due to lower balances on the current accounts of domestic banks.

A major decline was also seen in the relative importance of "NBP debt securities issued and outstanding", which slipped 4.9 points from 21.7% of capital and liabilities in 1998 to 16.8% in 1999.

Movements in the structure of the National Bank's liabilities and capital in the years 1997-1999 are charted in Figure 8.

Notes and coin in circulation constitute the basic component of NBP liabilities. At year end 1999, the share of this item in total liabilities and capital stood at 29.6%, an increase of 3.7 points. In nominal terms, the volume of currency in circulation grew 27.6% year-on-year. This rapid growth was primarily linked to the need for the banks to prepare themselves for an anticipated increase in customer demand for cash due to concerns over Y2K.

Figure 8. Movements in structure of liabilities & capital, 1997-1999



A considerable impact on the composition of the Bank's liabilities and capital in 1999 was exerted by the level of **capital and reserves**. The key element in this item is the currency revaluation reserve. At year end 1999, this reserve represented 23.3% of total liabilities and capital, having gone up 44.3% in nominal terms over the year and 5.3 points as a proportion of all liabilities and capital. The level of this reserve was chiefly influenced by the weakening of the zloty relative to the US dollar, which took it from 3.5040 against the dollar in 1998 to 4.1483 in 1999, and by the release of 675.6m zloty of the reserve in accordance with the new procedures for establishing and releasing the NBP currency revaluation reserve introduced in 1999[16].

The overall balance on this reserve is the combined result of the revaluation of NBP assets and liabilities denominated in foreign currency at the midrates ruling on balance date, which has been going on since 1991. This revaluation increases the nominal value of foreign currency balances and claims on foreign institutions denominated in foreign currency, and also of other claims and liabilities in foreign currency, while at the same time providing a reserve to safeguard against exchange rate risk.

Liabilities denominated in foreign currency represented 5.8% of total liabilities and capital (as against 3.1% in 1998). At December 31, 1999, these liabilities were up 106.3% compared to year end 1998. This liability item includes sums due to both domestic and foreign institutions. Movements in the former during 1999 came as the combined effect of an increase in balances on miscellaneous foreign currency accounts and a decrease in foreign currency lia-

[16] Resolution no. 11/1999 of the Monetary Policy Council, June 16, 1999.

bilities to the Treasury, which involved the balances held on the income accounts of the Polish Stabilisation Fund and the Polish Bank Privatisation Fund.

The basic factor behind movements in the foreign currency liabilities to foreign institutions, on the other hand, was an increase equivalent to 4,438.9m zloty in foreign currency deposits (under agreements to repurchase debt securities). These deposits represent short-term funds resulting from repos and reverse repos carried out on international markets.

The balances and structure of liabilities denominated in foreign currency are presented in Table 16.

Table 16. Liabilities denominated in foreign currency, movements and structure, 1998-99

	Balance at:		Change	Structure	
	31 XII 1998	31 XII 1999		31 XII 1998	31 XII 1999
	million zloty			%	
Liabilities denominated in foreign currency	**4,126.0**	**8,510.9**	**4,384.9**	**100.0**	**100.0**
Liabilities to domestic institutions	**528.7**	**472.6**	**-56.0**	**12.8**	**5.5**
of which:					
– due to Treasury	480.1	317.1	-163.0	11.6	3.7
– miscellaneous accounts	48.6	155.6	107.0	1.2	1.8
Liabilities to foreign institutions	**3,597.3**	**8,038.3**	**4,441.0**	**87.2**	**94.5**
of which:					
– foreign currency deposits collateralised by securities under repurchase agreements	3,123.0	7,570.9	4,438.9	75.7	89.0

Movements in the next item of the Bank's liabilities, **liabilities denominated in Polish currency**, and the structure of those liabilities, are set out in Table 17.

Table 17. Liabilities denominated in Polish currency, 1998-99

	Balance at:		Change	Structure	
	31 XII 1998	31 XII 1999		31 XII 1998	31 XII 1999
	million zloty			%	
Liabilities denominated in Polish currency	**28,493.1**	**22,607.1**	**-5,886.0**	**100.0**	**100.0**
of which:					
– Liabilities to domestic credit institutions	20,812.7	9,435.3	-11,377.4	73.0	41.7
– Liabilities to domestic general government sector	2,388.2	4,937.9	2,549.7	8.4	21.9
– Liabilities to other domestic institutions	1,105.3	1,783.8	678.5	3.9	7.9
– Liabilities to foreign institutions	4,186.9	6,450.1	2,263.2	14.7	28.5

Almost 100% of liabilities to domestic credit institutions in 1999 represented funds held on the current accounts of the banks. The balance on this liability item was affected by the fact that, as of September 30, reserve requirements were lowered to a uniform 5% against all types of deposit, while the funds released as a result were invested by the banks in bonds issued by the NBP, thereby increasing the balance on the item "NBP debt securities issued and outstanding".

Liabilities to the general government sector were 2.5bn higher at year end 1999 than they had been a year before. The basic reason for this growth was the higher level of current balances, up 1,953.7m zloty, and also of central government time deposits, up 602.3m zloty. The growth in funds held on account by central government in 1999 is primarily traceable to a decline in the expense of servicing Poland's foreign debt and in government expenditures. In addition, the level of this liability item was also impacted by Y2K, which contributed to a tendency to close out monetary settlements in 1999, thereby causing account balances to rise.

Liabilities to other domestic institutions went up by a nominal 61.4% in the course of 1999, mainly as a result of Y2K.

The increase in liabilities to foreign institutions was principally the result of movements in the balances held on deposit by the International Monetary Fund. This was linked to a 1,309.9m zloty increase in Poland's membership quota in the IMF, and to the revaluation of IMF deposits held.

NBP debt securities issued and outstanding comprise NBP money market bills and NBP bonds, and fell 13.6% in value by year end 1999. Whereas money market bills had been the sole component of this item in 1998, by the end of 1999 the major part consisted in NBP bonds, issued to drain off the funds released due to the cut in reserve requirements. These funds came to 16.8% of the total balance, down 4.9 points compared to 1998.

In return for the funds released by the lowering of the reserve ratio, the NBP issued 6-, 7-, 8-, 9- and 10-year bonds. These bear interest at par with inflation, are registered at the National Securities Depositary and are not eligible for trading on the secondary market. Should banking system liquidity be squeezed, the NBP is entitled to redeem the bonds prior to maturity, thereby providing an additional injection of liquid funds.

The balance outstanding on NBP debt securities was changeable during the year, depending on the scale of open market operations performed.

This liability item is presented in Table 18.

Table 18. NBP debt securities

	Period				
	31 XII 1998	31 III 1999	30 VI 1999	30 IX 1999	31 XII 1999
	million zloty				
NBP debt securities outstanding	**28,575.5**	**27,429.6**	**22,583.5**	**30,874.0**	**24,694.0**
- money market bills	28,575.5	27,429.6	22,583.5	17,839.4	11,133.0
- bonds	-	-	-	13,034.6	13,561.0

Other liabilities totalled 9,520.6m zloty at the end of 1999, having declined 888.1m zloty over the year. As a proportion of total NBP liabilities and capital, this item decreased from 7.9% in 1998 to 6.5% in 1999. The most important components of this item comprise deferred income and revaluation accounts.

Deferred income and accrued expense constitute the sum total of several accounts, with the predominant one, representing 73% of the total balance, being deferred interest income on refinance loans and on amounts past due on those loans. At year end 1999, this deferred interest income amounted to 4,607.6m zloty.

The next account that is also significant in relative terms is deferred income on foreign debt securities issued by governments and central banks. Standing at 995.4m zloty, this made up almost 16% of all deferred income and accrued expense in 1999, having risen 141.6m zloty compared to 1998.

The remaining liabilities included in this category involve deferred income on securities, foreign and domestic, and on foreign currency placements at banks abroad. The balance on these liabilities dropped over 29.5% in the case of domestic securities and 31.7% in the case of foreign paper. Deferred income on foreign currency placements at banks abroad climbed 205.2m zloty, or 254.9%.

Revaluation accounts are used to record deferred income on the revaluation of asset and liability balances denominated in foreign currency; at the end of the reporting period, the balance on these accounts came to 3,180.1m zloty, down almost 9.5% compared to 1998.

The financial performance of the NBP
Basic figures

In 1999, the operations of the National Bank of Poland yielded a profit of 2,297.5m zloty, exceeding both the earnings recorded the previous year and the profit originally projected for 1999.

Fluctuations in the earnings reported by the NBP constitute the result of the Bank's performance of its statutory responsibilities, including its efforts to ensure price stability in a changing environment. The variation in the level of profit relative to that shown the year before, and also that planned for 1999, stems from the need to adjust monetary policy instruments to correspond to both changes in domestic economic circumstances and changes in the external situation associated with the globalisation of the economy.

The level of profit generated by the NBP and its growth in relation to the previous year were primarily determined by the following factors:

– the volume of money market bills issued by the NBP, which - due to a substantial reduction in the surplus liquidity of the banking sector during 1999 - was lower than that issued in 1998. The major decline in the average volume of bills outstanding (at sale prices, this stood at 14,059m zloty in December 1999, as against 27,886m zloty a year before) can principally be ascribed to the effects of measures taken to move gradually towards the full float of the zloty. As a result of the abolition of the operational (trading) nature of the exchange rate fixing, the liquidity effects produced by developments on the currency market were replaced by exchange rate effects. The Bank refrained from purchasing foreign currency on the market, although it continued to sell foreign currency to service Poland's foreign debt. This not only arrested the previous growth of the gross official reserves, but in fact triggered a trend in the opposite direction. The gross official reserves ceased to play the prime role in determining liquidity on the domestic money market.

– movements in the level and composition of the gross official reserves, which greatly differed from the previous year. In the course of 1999, the reserves shrank USD 1.9bn (as against growth of USD 6.7bn in 1998), to stand at USD 25.5bn at the end of December.

In addition to the reduction in the excess liquidity of the banking industry, mentioned above, which meant that the NBP issued a smaller volume of money market bills, and thus incurred much less expense in discounting those bills, the fact that the Bank's earnings were higher than planned is also attributable to:

– the taking effect as of July 1, 1999, of Resolution no. 11/1999 of the Monetary Policy Council on procedures for establishing and releasing the currency revaluation reserve, June 16, 1999,

– the zloty trading more weakly than expected, averaging 4.0 to the US dollar, as against a forecast 3.67.

The level of profit recorded in 1999 was also impacted by the Bank's general expense, which was lower than projected (76.2m zloty, or 9.1%, less than planned).

The level of income and expense reported by the NBP and the main sources thereof, together with details of performance against plan, are given in Table 19.

Table 19. Income and expense, 1999

	1998	1999			
	performance	plan	performance		
		million zloty		1998 = 100	plan = 100
Total income	**7,657.7**	**7,520.6**	**8,600.5**	**112.3**	**114.4**
of which:					
securities income	4,969.2	5,320.4	5,701.5	114.7	107.2
of which:					
– foreign	3,591.2	4,205.5	4,157.7	115.8	98.9
Total expense	**6,990.5**	**7,399.4**	**6,303.0**	**90.2**	**85.2**
of which:					
open market operations	5,289.8	5,336.0	2,818.3	53.3	52.8
Profit	**667.2**	**121.2**	**2,297.5**	**344.3**	**1,895.6**

In terms of **income** - as in previous years, and as planned for 1999, the major source of revenues consisted in securities trading. This generated 66.3% of total income (compared to 64.9% in 1998). Income on foreign securities represented 48.3% of total income (as against 46.9% the previous year), while income on domestic securities yielded 18.0%, as it had the previous year.

In terms of **expense** - the determining factor was the expense of open market operations, which in 1999 was equivalent to the expense involved in issuing NBP money market bills. The expense of discounting these bills represented 44.7% of the Bank's total expense, compared to a planned 72.1% and to 69.9% the year before.

Income

The Bank's income in 1999 totalled 8,600.5m zloty, a figure 12.3% higher than that reported in 1998 and 14.4% higher than planned.

A breakdown of the major sources of the Bank's income is given in Table 20, which also outlines performance against plan and against the previous year.

Table 20. Structure of income

	1998	1999			
	performance	plan		performance	
		million zloty		1998 = 100	plan = 100
Total income	**7,657.7**	**7,520.6**	**8,600.5**	**112.3**	**114.4**
of which:					
– interest income	1,220.6	1,692.2	1,292.2	105.9	76.4
– securities income	4,969.2	5,320.4	5,701.5	114.7	107.2
– fee & commission income	14.2	4.0	10.8	76.1	270.0
– other income	1,453.7	504.0	1,596.0	109.8	316.7

The total level of income earned by the Bank in 1999, as was already mentioned, was determined by **securities income**, representing the sum total of income obtained on foreign securities (72.9%) and domestic securities of various types (27.1%).

Income on foreign securities (including income on placements collateralised by foreign securities under repurchase agreements) was 15.8% higher than a year before and close to the target level written into the annual plan. Income directly earned on foreign securities amounted to 3,759.5m zloty, i.e., 90.4% of this income item, while that earned on placements collateralised by these securities came to 398.2m zloty, or 9.6%. Compared to the performance seen a year earlier, direct income on these securities was up 1,501.3m zloty, while income from placements was down 934.8m zloty.

A direct impact on the income earned on foreign securities in 1999 was exerted by the level of the gross official reserves and the investment structure of those reserves. In 1999, an average of 72.6% of the reserves was invested in securities, compared to 56.4% in 1998. By contrast, the average proportion of the reserves represented by repurchase agreements stood at 1.4%, as against 21.4% a year before. The corresponding percentages written into the plan were 59.7% and 13.8%.

Income on domestic securities stood at 1,543.8m zloty, which was 12.0% more than a year previously and 38.5% more than planned.

The largest income from the domestic securities held in the NBP portfolio was interest income on bonds issued by the Minister of Finance in 1994 to raise funds for the application of the agreement with the commercial banks of the London Club. This income came to 815.5m zloty, 1.4% more than a year previously and 27.8% more than planned.

Under the terms of issue of these bonds, the coupons have been redeemable three times a year since 1995. Interest is payable at the average lombard rate for the intervening period between coupon dates.

As a result of the conversion of NBP claims on central government carried out on December 29, 1999, these instruments were converted into zero-coupon Treasury bonds. The NBP continued to receive the interest on these

London Club bonds up until the date of the debt conversion operation, which is why the total interest income obtained was greater than that planned for the year and greater than that a year before.

Interest income was some 6% higher in 1999 than it had been in 1998, although it amounted to 23.6% less than targetted in the annual plan.

The level and growth of securities income in 1999, together with performance against plan, are illustrated by the figures given in Table 21.

Table 21. Interest income

	1998	1999			
	performance	plan		performance	
		million zloty		1998 = 100	plan = 100
Total interest income	1,220.6	1,692.2	1,292.2	105.9	76.4
of which:					
a) placements	904.0	1,102.1	680.8	75.3	61.8
of which:					
– at foreign banks	765.2	909.8	657.9	86.0	72.3
– at domestic banks	138.8	192.3	22.9	16.5	11.9
b) loans	316.6	590.1	611.4	193.1	103.6

The volume of interest income was driven by interest on placements at foreign banks. This accounted for 50.9% of all interest income, although failing to reach the level set in the annual plan and the level achieved the year before. A major factor in determining the level of interest income, as in the case of income on foreign securities, was the level of the foreign exchange reserves in 1999 and the investment structure of those reserves.

The interest income obtained on placements at domestic banks amounted to 22.9m zloty, 83.5% less than in 1998[17], and 88.1% less than projected in the annual plan. The low level of plan performance in relation to this income was the result of a failure to realise foreign currency interest income on placements at domestic banks that had been planned at 170.0m zloty.

In 1999, the NBP earned less zloty interest on foreign currency placements than it had in 1998. These placements earn interest at 6-month LIBOR.

The overall interest income generated on loans, at 611.4m zloty, was primarily composed of interest received from domestic banks (96.4%). The most significant component of loan interest (89.5%) was interest on refinance loans to central government investment projects. This income stood at the level planned, and included both capitalised interest from previous years (46.3% of total interest on these loans), received by the Bank as part of the principal instalments paid by the banks under the terms of the relevant agreements, and current interest, accrued quarterly on loans in process of repayment (53.7%).

Fee and commission income came to 10.8m zloty, a decrease on the previous year, although higher than in fact planned for 1999. This income is not a significant factor in the Bank's total income stream, accounting for 0.1%.

By contrast, **other income** does constitute an important source of income to the Bank. This item constituted 18.6% of total income, and was not only higher than in 1998, but 216.7% higher than planned for 1999.

Table 22 sets out the principal components of "other income" in 1999, comparing performance against plan and against figures for 1998.

The level of income generated in this category was chiefly determined by:
– unplanned income on the release of part of the currency revaluation reserve,
– unplanned income on the release of valuation allowances against Bank assets, which primarily involved allowances established against placements abroad and against the promissory notes of Pierwszy Komercyjny Bank SA, Lublin,
– gains on the revaluation of NBP claims denominated in foreign currency;

[17] In 1998, the NBP had received foreign currency interest on placements at these banks equivalent to 72.3m zloty.

Figure 9. Structure of income, 1998-1999

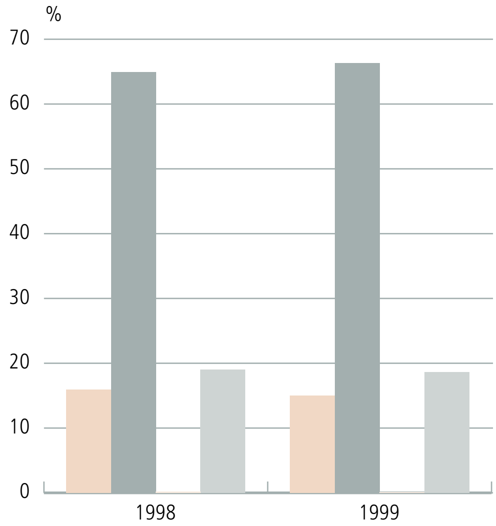


Table 22. Other income

	1998 performance	1999 plan	1999 performance	1998 = 100	plan = 100
		million zloty			
Total "other income"	1,453.7	504.0	1,596.0	109.8	316.7
of which:					
– release of currency revaluation reserve	-	-	670.2	x	x
– FX gains on revaluation	709.9	443.4	535.9	75.5	120.9
– release of valuation allowances	666.8	-	294.2	44.1	x
– interest on units of account	17.4	17.4	27.9	160.3	160.3
– income on equities	8.5	7.0	23.4	275.3	334.3
– other	51.1	36.2	44.4	86.9	122.7

this was mainly related to the redemption of successive tranches of dollar-denominated Treasury bonds issued in 1991, and to another repayment of NBP placements at Bank Handlowy w Warszawie SA.

A breakdown of NBP income in the years 1998-1999 is presented in Figure 9.

Expense

The expense of the National Bank's operations in 1999 totalled 6,303.0m zloty, which represented 14.8% less than planned and 9.8% less than the expense reported the previous year.

The structure of the Bank's expense, together with performance against plan and against the previous year, is given in Table 23.

Table 23. Structure of expense

	1998 performance	1999 plan	1999 performance	1998 = 100	plan = 100
		million zloty			
Total expense	6,990.5	7,399.4	6,303.0	90.2	85.2
of which:					
– interest expense	766.2	409.9	313.1	40.9	76.4
– securities expense	5,402.0	6,006.0	3,334.7	61.7	55.5
– fee & commission expense	29.9	30.0	16.2	54.2	54.0
– general expense	542.8	835.3	759.1	139.8	90.9
– other expense	249.6	118.2	1,879.9	753.2	1,590.4

The level of expense incurred by the Bank and the performance of its plan in this respect were determined by **securities expense**. As in 1998, the amount of expense involved here was primarily a function of the cost of discounting NBP money market bills, offered for sale to the banks due to the need to siphon off liquidity from the banking sector.

The expense of issuing NBP money market bills amounted to 2,818.3m zloty, which represented 84.5% of total securities expense. This expense was over 40% lower than planned and than incurred in 1998.

As was mentioned in presenting basic figures on the Bank's financial performance, the year 1999 saw a substantial reduction in the surplus liquidity of the banking industry. The volume of NBP money market bills outstanding (at nominal values) stood at 11,133.0m zloty at the end of December, which represents a fall of 17,442.5m zloty compared to year end 1998.

The remaining items of securities expense comprised:

– interest on deposits collateralised by foreign securities under repurchase arrangements, the value of which, at 283.9m zloty, was below both the plan for 1999 and the expense recorded in 1998,

– the expense arising from the decline in market value of foreign securities purchased in the years 1993-1999; this came to 232.5m zloty, slightly less than projected.

Interest expense was 59.1% less in 1999 than it had been in 1998, and 23.6% less than anticipated in the annual plan. This expense was 99.6% composed of interest paid on funds held on account at the NBP, primarily as time deposits.

The dominant item within the structure of interest expense was interest paid to central government. This amounted to 222.6m zloty, up 12.1% on the year before, although 11.0% less than planned. This expense principally involved government funds placed at NBP, chiefly for short terms, under the authorisation contained within Article 108 of the Public Finance Act of November 26, 1998.

Fee and commission expense proved to be 46% lower than in 1998 and than forecast in the 1999 plan. This item represented 0.3% of the Bank's total expense and did not materially affect its overall level.

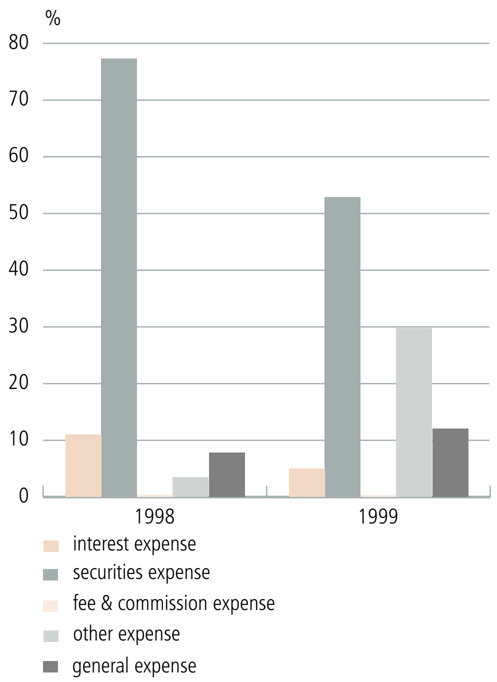
The Bank's **general expense** was 9.1% lower than planned, with each of the particular components of this item also being lower, i.e., personnel expense (including associated charges), administrative expense and depreciation.

The level of these expense components, performance against plan and a comparison with the figures for 1998 are set out in Table 24.

Table 24. General expense

	1998 performance	1999 plan	1999 performance	1998 = 100	plan = 100
	million zloty				
General expense	542.8	835.3	759.1	139.8	90.9
1) personnel expense, including					
associated charges	282.5	351.3	330.1	116.8	94.0
of which:					
associated charges	102.7	63.7	59.2	57.6	92.9
2) administrative expense	194.0	399.0	352.0	181.4	88.2
3) depreciation charges	66.3	85.0	77.0	116.1	90.6

Figure 10. Structure of expense, 1998-1999



Personnel expense (including associated charges) was less than planned. This applies to both employee compensation (5.8% less than planned) and associated charges (7.1% less). Within the total expense incurred by the NBP, personnel expense and associated charges represented 5.2% (as against 4.0% in 1998).

In line with planned developments, the year 1999 brought a substantial increase in employee compensation compared to the previous year, with a decrease in associated charges. The increase in employee compensation is primarily attributable to the reform of the social insurance system launched on January 1, 1999, as a result of which monthly employee earnings were "grossed up". On the other hand, associated charges fell due to the division of social insurance contributions paid by the NBP into two parts, one paid by the employee (giving rise to the "grossing up"), and the other paid by the employer.

Administrative expense was 11.8% lower than planned in 1999, although 81.4% higher than a year previously. This expense, as in 1998, was chiefly associated with the cost of purchasing notes and coin, which constituted 57.7% of total administrative expense, and 77.0% of all expenditure on material services.

Other expense overshot the projections of the annual plan almost 16 times, and was also almost 8 times greater than a year before. The key components of this expense item were:

– unplanned expense on charges to valuation allowances against the Bank's assets, which amounted to 1,719.4m zloty, an increase of 1,674.8m zloty compared to 1998; almost all of this sum (99.7%) was related to the decline in the book value of fixed-rate Treasury bonds received under the conversion of the Bank's claims on central government performed on September 30, 1999;
– the expense of contributions to the Bank Guarantee Fund, with the amount payable by the NBP being specified in the Act on Amendments to the Act on the Bank Guarantee Fund and to Certain Other Legislation of April 9, 1999; this expense, equivalent to 40.0% of the annual contributions of the banks, came to 135.6m zloty, which was 51.0% more than in 1998 and 35.6% more than planned.

A breakdown of the Bank's expense in the years 1998-1999 is presented in Figure 10.

Profit and distributions

The profit generated by the National Bank in 1999, amounting to 2,297.5m zloty, was a function of the level of realised income (8,600.5m zloty) and realised expense (6.303.0m zloty), as determined by the various factors discussed above.

The Bank's monthly income was uneven in 1999, ranging from 384.9m zloty in January to 1,161.7m zloty in December. Expense was distributed more evenly, ranging from 274.0m zloty in November to 474.7m zloty in February, with the sole exception of September, when expense came to 2,115.5m zloty, producing negative monthly earnings of 1,077.8m zloty. This was chiefly the result of charges to valuation allowances against the Treasury bonds received in connection with the conversion of the Bank's claims on central government.

The level of income, expense and earnings at the NBP in the particular months of 1999 are charted in Figure 11.

Under the Act on the National Bank of Poland of August 29, 1997, appropriations are made from the Bank's annual net earnings to reserve capital (2.0%) and to the staff bonus fund. Once the Bank's annual accounts for the year 1999 are approved by the Council of Ministers, the remaining portion of net earnings will be transferred to the Treasury.

Table 25 presents the distribution of the Bank's 1999 profit, together with performance against plan and figures for 1998.

Figure 11. Income, expense and earnings, 1999

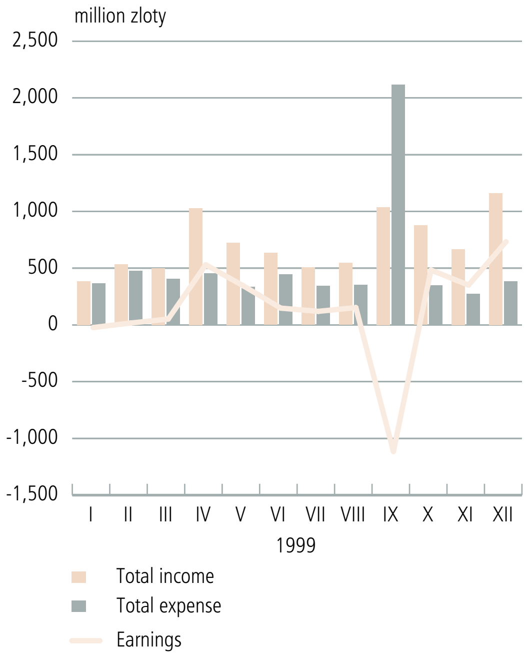


Table 25. Distribution of profit

	1998 performance	1999 plan	1999 performance (million zloty)	1997 = 100	plan = 100
Total profit	**667.2**	**121.2**	**2,297.5**	**344.3**	**1,895.6**
applied as follows:					
1) appropriations to capital	64.8	37.4	84.0	129.6	224.6
– reserve capital	13.4	2.4	46.0	343.3	1,916.7
– staff bonus fund	51.4	35.0	38.0	73.9	108.6
2) paid to Treasury	602.4	83.8	2,213.5	367.4	2,641.4
of which:					
advance payments	100.0	-	-	-	-

The total amount of appropriations to capital constituted 3.7% of the net earnings generated by the Bank. The remainder - 96.3%, or 2,213.5m zloty - will be paid to the Treasury.

Balance of Payments of the Republic of Poland, 1999

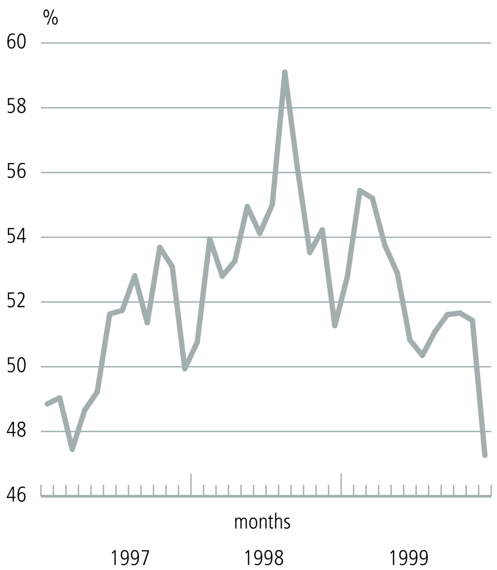
Both the balance of payments as drawn up on the basis of payments registered by the banks and the preliminary trade figures released by the Central Statistical Office (GUS) point to an aggravation of Poland's external disequilibrium in 1999. The current account deficit was USD 4.7bn higher than in 1998.

Table 26. Selected balance of payments ratios on a cash basis, 1997-99

		Ratio	1997	1998	1999
1	Current account balance / Gross domestic product	%	-3.0	-4.4	-7.5
2	Balance on goods & services / Gross domestic product	%	-7.7	-9.0	-10.4
3	Exports of goods & services / Imports of goods & services	%	73.8	70.4	65.0
4	Gross official reserves / Imports, goods & services	months	5.9	6.8	6.7
5	Foreign direct investment, net / Current account balance	%	-71.4	-74.8	-55.9
6	Gross official reserves / Domestic money supply	%	49.9	51.3	47.3
7	Gross official reserves / Total money supply (M2)	%	41.1	43.5	40.1

1998 and 1999 data on GDP based on GUS figures. *Biuletyn Statystyczny GUS* [GUS Statistical Bulletin] no. 2 March 2000.

Figure 12. International liquidity ratio (ratio of gross official reserves to domestic money supply)



With economic growth slower, the ratio of the current deficit (on a balance of payments basis) to GDP deteriorated substantially, standing at 7.5%, as against 4.4% the year previously.

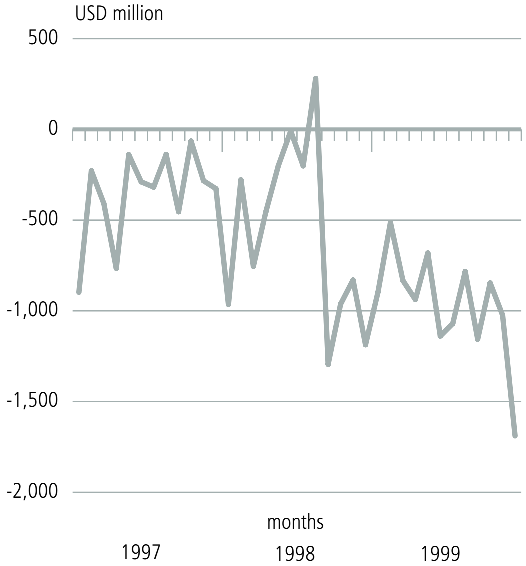
An analysis of the reasons for the growing trade deficit indicates that it is to a certain degree structural in nature. Polish exports are largely based on sales of goods that are vulnerable to cyclical fluctuations on foreign markets. At the same time, no change was noted in the conditions for trade in goods with Russia and Ukraine prevailing in the aftermath of the Russian financial crisis, which considerably restricted Polish exports. In these circumstances, a question of major importance in assessing balance of payments equilibrium is the structure of inward foreign investment. The year 1999 saw a net increase of 20% in incoming foreign capital compared to 1998; it is worth emphasising that the predominant component of this was long-term investment. Nevertheless, cause for concern is given by the fact that the proportion of the current deficit financed by incoming direct investment fell from around 75% in 1998 to 56% in 1999. This signifies that the deficit is to a greater extent being funded by inflows of capital that are very sensitive to movements in interest rates and zloty exchange rates.

The current account and Poland's economic situation

Of all the components of the current account, on a cash basis, current transfers and unclassified current transactions were the only ones to show a surplus of receipts over remittances in 1999. The other items of the current account yielded a deficit, with the trade deficit being by far the largest (USD 14,380m). The end result of this performance on the major components of Poland's current account, on a cash basis, was a profound current deficit. The negative balance on current account registered at year end 1999 of USD 11,569m constitutes a major deterioration in relation to 1998, when the current deficit amounted to USD 6,858m. In relation to GDP, the current deficit also worsened, rising from 4.4% in 1998 to 7.5% in 1999[18]. The growth in the deficit compared to 1998 was primarily the result of a decline in the surplus on unclassified current trans-

[18] Data on GDP taken from *Biuletyn Statystyczny GUS* [GUS Statistical Bulletin] no. 2, March 2000.

Figure 13. Current account balance



actions, which fell USD 2,361m, and an increase in the deficit on services, which rose a further USD 1,116m.

Poland's **trade deficit** totalled USD 14,380m in 1999, which represents an increase of almost 5% compared to 1998. The balance of trade (in goods) witnessed an adverse differential between the growth of export receipts and import payments (with exports falling 7.1%, yet exports plunging much more sharply, down 12.5%). In tracking exports and imports over the particular quarters of 1999, this negative trend can be seen to gather momentum. In the first quarter, the exports registered by the banks amounted to just over USD 7bn. By the second quarter, this figure had already dropped 10.4%, and it was not until the fourth quarter that exports once again approached the level seen in the first (now coming to USD 6.8bn). Meanwhile, imports (which from the beginning were considerably higher than exports, standing at USD 9.8bn in Q1) slipped only slightly in the second quarter (down 1.9%), to begin rising markedly in the third and fourth (up 4.8% and 11.4%, respectively), and totalled USD 11.2bn in the final quarter of the year.

Export receipts fell 12.5% in 1999, representing a decline of USD 3.8bn compared to 1998. One of the reasons for Poland's widening trade gap should be sought in the collapse of exports to the countries of Central and Eastern Europe, particularly to Russia. Figures from GUS show Russia occupying tenth position among customers for Polish goods in 1999 (in 1998, it was second)[19]. In dollar terms, Polish exports to this country dropped 55.5%, while imports rose 12.8%. Poland's trade deficit with Russia came to almost USD 2bn in 1999, while the share of Polish exports taken by Russia fell from 5.6% in 1998 to 2.6% in 1999. Similarly unfavourable developments were seen in trade with Ukraine. In analysing export performance overall, one conclusion is that, had exports to Russia and Ukraine remained at the level recorded in 1998, then total Polish exports would have risen 4.8% rather than declining 2.9%. These facts demonstrate that restoring Poland's position on Eastern markets is exceptionally difficult due to the structural features of Polish exports to those countries. In these circumstances, any evaluation of export performance has to bear in mind these limitations.

The slump in eastward exports was not accompanied by faster growth in exports to Poland's main trading partner, the European Union. The principal reasons for this include the adverse merchandise composition of Polish exports, particularly in comparison with Poland's main competitors, the Czech Republic and Hungary. For example, comparative figures from Eurostat show that the group of most highly-processed goods (SITC 7, comprising machinery, equipment and transport equipment) accounted for some 26.7% of Polish exports to the EU in 1998, while the corresponding percentages for Hungary and the Czech Republic stood at 57.6% and 43.8%, respectively.

Import payments amounted to USD 40,727m in 1999, down 7.1% on 1998. Although exports fell over the year as a whole, they grew from one quarter to the next, and by the fourth were at a level similar to that seen in the corresponding period of 1998. One factor stimulating imports, despite the decline overall, was the large inflow of foreign direct investment. This investment was coupled with the transfer of modern technologies, which spurred an increase in imports of goods and services.

On the basis of GUS figures for 1999[20], it can be concluded that one factor which positively impacted the balance of trade were favourable movements in export prices in relation to those in import prices. As a result, Poland's terms of trade stood at 101.2 (as against 103.4 in 1998). The terms of trade were strongly negative in relation to trade with Central and Eastern Europe (93.7, compared to 106.9 in 1998). As regards the European Union, Poland's terms of trade remained approximately unchanged, at a fairly sound 101.8 (as against 102.9 the year before).

[19] Cf. *Obroty handlu zagranicznego ogółem i według krajów w okresie I-XII 1999 r.* [Foreign trade, overall and by country, January-December 1999], final figures, GUS, Warsaw 2000.

[20] *Informacja o sytuacji społeczno-gospodarczej kraju. Rok 1999* [Report on national socio-economic conditions, 1999], GUS, Warsaw, p. 79 (figures for the first ten months of 1999).

Some interesting changes took place within the currency composition of trade. The currency most frequently used to settle both exports and imports of goods is now the euro (accounting for 42% of exports and 39% of imports). Taken together, the national currencies of the euro area countries were used to settle 11.6% of exports and 18.2% of imports[21]. The currency which lost ground as a result of the expansion of the Euroland currencies was the US dollar, with 36.2% of exports denominated in this currency, almost 4 points less than in 1998 (in terms of imports, the role of the dollar remained virtually the same, settling 32.1% of imports in 1999). A point that deserves to be stressed is that the zloty is becoming more popular in settling foreign trade transactions. In 1999, 4.2% of Polish exports and 3.4% of imports were settled in zloty. The changes in the denomination of Poland's trade in goods reflect the continuing integration of the Polish economy with that of the EU countries, in particularly the countries participating in Economic and Monetary Union.

In terms of **services**, the negative balance registered in 1998 (USD 508m) trebled in 1999 to reach USD 1,624m. The deficit on services in 1999 was the result of a large rise in debits (up 18%), coupled with a fall in credits (down 10%).

The crucial factor in the shortfall on services were payments for imports of "other commercial services" (USD 1,615m). Exports of those same services came to USD 1,155m, thereby producing a negative balance of USD 460m. These services involve payments for commercial brokerage services, operating leases, engineering services, legal and accounting advisory services, etc. Substantial shortfalls were also recorded on other categories of services, e.g., patents and licence fees (USD 323m), construction services (USD 295m), and postal, delivery and telecommunications services (USD 216m). The changes occurring with respect to these service categories can be attributed to the activity of foreign direct investors in Poland, which is accompanied by technology transfers that swell service imports.

Another fact worth noting is the dwindling surplus on transportation services (USD 178m), which were the sole item of services to yield a surplus of credits over debits in 1999. The deterioration of the balance on these services may attest to a certain loss of competitive position by Polish transport companies. A full analysis of the trends discernible in trade in services will be possible when information is available on the balance of payments on a cash basis.

As was the case in 1998, the balance on **income** was negative, with a deficit of USD 804m. A year earlier, the corresponding deficit had come to USD 568m. Compared to 1998, both credits and debits on this item decreased. The decline in debits stood at 16.7% (coming down from USD 3,244m to USD 2,703m), while that on credits was sharper, at 29.1% (down from USD 2,676m to USD 1,899m).

The largest proportion of income received consisted in interest on debt securities, which accounted for 57% of total credits. This represents a significant structural change compared to 1998, when interest on debt securities paid to Polish parties by foreign issuers constituted 34% of income receipts. The majority of this interest income was earned on long-term debt instruments. The absolute increase in this income was not large, yet it assumed much more significance in the context of the decline in other types of income. A major reduction was seen in credits on income from "other investment", particularly on repurchase transactions, and also credits on income from Polish direct investment abroad. As regards debits on income, the predominant component of these was income to non-residents on "other investment", primarily involving interest on credits extended to Polish borrowers, which represented 36.3% of total debits (as against 28.1% in 1998). A substantial role within debits on income was also played by interest paid by the Polish Government to the creditors of the Paris Club. These payments exerted a determining influence on the level of the overall deficit reported on income.

Another important component of debits on income were dividends and interest paid to foreign portfolio investors. The largest part of this item was

[21] Although the national currencies of the euro area countries formally constitute components of the euro, they in fact also continue to be used separately for trade payments.

interest on Polish debt securities, which accounted for 27.7% of all debits on income (compared to 24.9% in 1998).

Payments of dividends and interest to foreign direct investors constituted 14.5% of total debits in 1999, amounting to USD 393m.

Current transfers produced a surplus in 1999 of USD 1,604m, which had a beneficial effect on the current balance as a whole. However, the positive balance on current transfers was lower than in 1998, when it had come to USD 1,942m. The main reasons for this are related to credits, which dropped from USD 2,543m in 1998 to USD 2,209m in 1999, a decrease of USD 334m. The sharpest fall in this respect was in donations and non-refundable assistance to the government sector, which slumped over USD 200m (almost 56% in terms of 1998).

Debits edged up very slightly durring the year, by just USD 4m. In investigating the composition of net inflows of current transfers, it can be seen that around 18% constituted government sector, while the rest involved other sectors. In government sector, the main role, as in 1998, was played by donations and non-refundable assistance from foreign governments (despite the steep decline mentioned above). Current transfers to other sectors chiefly comprised payments from abroad to personal foreign currency accounts. These payments in fact principally involve funds transfers from Poles living abroad to their families at home. By comparison, net government sector in 1999 made up almost 21% of total net inflows, while other current transfers, primarily involved payments to the personal foreign currency accounts of domestic residents. It is worth noting that the net value of currency payments to these accounts remained virtually flat compared to 1998 (slipping some USD 2m), meaning that these payments increased as a proportion of all transfers to other sectors.

The figures for 1999 show a surplus on **unclassified current transactions** (of USD 3,635m), thanks to which this item continued to make a positive contribution to the current balance. However, this surplus represents a sharp fall, of over 39%, compared to 1998 (when it stood at USD 5,996m). The downward trend in this item had already become visible in the fourth quarter of 1998 (when unclassified current transactions produced a surplus of USD 1,249m). In the first two quarters of 1999, this trend was reaffirmed (with net revenues of USD 798m and USD 785m, respectively), although the third quarter proved an exception, bringing a fairly strong surge in the surplus to USD 1,153m; however, the final quarter of the year saw this fall once again (to USD 899m).

The general changes taking place within this item should most probably be ascribed to a considerable reduction in revenues from local cross-border trading and trading at outdoor markets, and primarily to the lower volume of purchases being made in Poland by the country's Eastern neighbours. The decline in the total value of purchases cannot be related to the scale of border traffic, since the Border Guards noted a slight increase in the number of foreigners visiting Poland in 1999 (up 0.6%, to 89.1m)[22]. The reasons for these developments should rather be sought in the unfavourable conditions for trade with Russia, Belarus and Ukraine stemming from relative price levels and exchange rates. The fall in net revenues from cross-border and outdoor market trading with these countries is confirmed by figures on net purchases of foreign currencies by voivodship. These indicate a slump in currency purchases in eastern voivodships and in Mazovia.

A characteristic fact is that the composition of currencies purchased in 1999 shows a pronounced decrease in purchases of US dollars. This may imply that the volume of purchases made by our Eastern neighbours in US dollars is declining, while they have become more interested in buying up dollars themselves. The end result in 1999 was that the surplus of dollars purchased over dollars sold came to just USD 664m (17.6% of total net purchases), as against USD 2,791m in 1998 (43.5%).

Local trading at Poland's Western and Southern borders was not subject to such major changes in volume, although the form of cross-border trading here

[22] Cited in *Informacja o sytuacji społeczno-gospodarczej kraju. Rok 1999* [Report on national socio-economic conditions, 1999], GUS, Warsaw, p. 90.

is changing (with German and Czech shoppers beginning to favour institutional retail outlets rather than outdoor markets), which may be considered a lasting trend given the continuing levelling out of prices for goods and services.

Incoming foreign capital and its impact on the balance of payments

The net inflow of capital to Poland yielded by the investments of non-residents over the twelve months of 1999 was over 20% higher than in 1998, totalling USD 10,620m. The pattern of foreign investment in Poland in 1999 was clearly dominated by long-term, stable components (cf. Table 27).

Table 27. Investment in Poland by non-residents (net)

	1997	1998	1999
Investment in Poland by non-residents	5,466	8,823	10,620
Long-term investment	3,493	6,798	8,527
Foreign direct investment in Poland	3,077	5,129	6,471
Credits received, over 1 year	416	1,669	2,056
Short-term investment	1,973	2,025	2,093
Foreign portfolio investment in Poland (liabilities)	1,283	1,510	1,437
Credits received, up to 1 year	592	-46	440
Currency & deposits	98	602	218
Other	0	-41	-2

The year 1999 continued to see an influx of capital as a result of **foreign direct investment**. The ensuing inflow of capital came to USD 6,471m (net) over the whole of 1999, giving an increase of USD 1,342m compared to the previous year. An analysis of figures for the years 1997-1999 shows that the share of FDI in total investment by non-residents has been growing steadily, representing 56%, 58% and 61% in the three years in question. The predominant and growing role of FDI in total investment by non-residents in Poland is something that should be viewed positively. However, an analysis of the pattern of FDI reveals certain adverse trends. One expression of these is the decline in direct equity investment, with an increase in the proportion of direct investment consisting in credits extended by foreign investors. The share of direct contributions to equity in total foreign direct investment in Poland in the years 1997-1999 stood at 74%, 69% and 67%, respectively. The most significant component of direct equity investment were receipts from the privatisation of Polish companies and banks. In 1999, these receipts constituted over 65% of all direct contributions to equity (as against 39% in 1998). This indicates that foreign investment in newly-established companies represented a minority of all FDI.

In 1999, there was also a net inflow of capital on **foreign portfolio investment**. The surplus on transactions between residents and non-residents involving Polish securities was slightly higher than in 1998, amounting to US 1,449m.

Poland's equity market displayed strong, albeit uneven, growth in 1999. Over the year, the Warsaw Stock Exchange Index (WIG) moved up from 13,218 points to 18,080. The sharpest rise, following a downward correction in the third quarter, came in the fourth quarter of 1999, when the WIG surged from 14,200 to 18,080 (an increase of 27%). This was accompanied by a net inflow of foreign investment in equity securities of USD 921m. Over the whole of 1999, the net inflow came to USD 885m. Particularly large share price gains were recorded by the companies included in the WIG20 Index, which comprises those listed companies with the largest market capitalisation and the most liquid shares, companies that are especially attractive to foreign institutional investors seeking vehicles for short- and medium-term investment. Within this group, the largest interest, reflected in share price growth, was focussed on telecom and media companies such as Telekomunikacja Polska (TPSA), Optimus, Prokom and Agora that are developing their business in the field of Internet commerce and services. Other factors encouraging investment

Figure 14. Foreign direct and portfolio investment, net

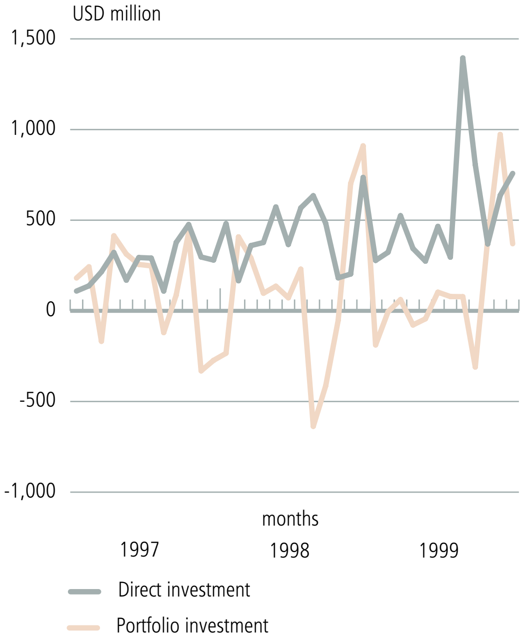


Figure 15. Foreign investment in Polish debt securities, net

in Polish equities were the rather modest level of US interest rates and the strength of the zloty against the euro.

Table 28. Investment in Poland by non-residents, 1999: pattern of incoming capital (net) by recipient

	USD million	% share
I. Direct investment	6,471	
II. Other investment	4,150	100.0
Banking sector (incl. NBP)	1,817	43.8
Portfolio investment	-187	
Credits received	1,786	
Credits received	218	
Government sector	-143	-3.4
Portfolio investment	81	
Credits received	-224	
Non-banking, non-government sector	2,476	59.7
Portfolio investment	1,543	
Credits received	935	
Other	-2	
III. Total investment in Poland by non-residents (I + II)	10,621	

The final quarter of the year also brought the most favourable conditions for investing in Polish debt securities. Net inward investment of this sort in the fourth quarter came to USD 820m. These fourth-quarter figures were decisive in producing a USD 552m positive balance on investment in Polish debt securities over the whole of 1999. An important component of this investment in the fourth quarter was the inflow of capital associated with successive Eurobond issues by TPSA. Figure 15 illustrates the monthly turnover in purchases and sales of Polish debt securities by foreign investors, shown in relation to monthly movements in the rate differential between yields on 52-week Polish and American Treasury bills, adjusted by the annual rate of crawling zloty devaluation. The yield on 52-week T-bills constitutes a benchmark on the Polish market for many issues of long-term floating-rate debt. An analysis of Figure 15 shows that an inflow of investment in Polish debt securities is forthcoming when the adjusted rate differential moves above the level of some 3.5%-4%. The differential ran below this level for most of 1999, resulting in an outflow of foreign investment in Polish debt securities. However, it should be borne in mind that the figures on investment turnover in Polish debt securities also include turnover in Polish instruments denominated in foreign currency, and the last quarter of the year saw the Eurobond issues by TPSA mentioned above.

As was the case with banks, companies generally utilised long-term credits (only 25% of drawings were short-term credits). As regards the government sector, repayments of earlier credits (primarily those received from the creditors of the Paris Club) exceeded new drawings. This led to a negative balance of USD 224m.

The figures contained in the balance of payments for 1999 show a net inflow of capital on **foreign deposits** taken by Polish banks of USD 218m. The volume of deposits received from non-residents in 1998 was much greater, at USD 602m. It is worth noting that the inflow of deposits was recorded in the final two quarters of the year, while in the first two quarters the balance was negative.

Residents' investment abroad and their impact on the balance of payments

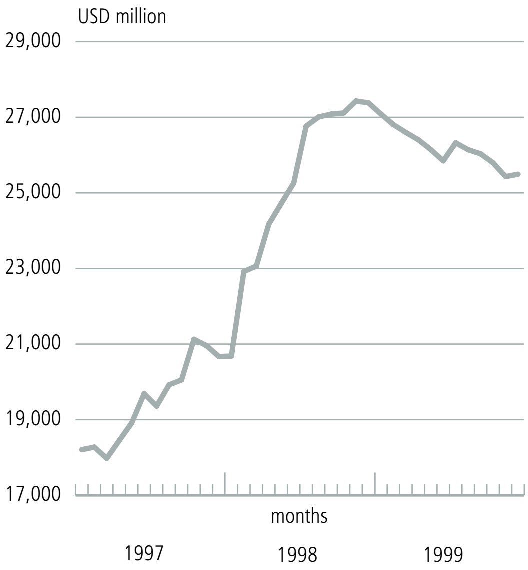
Total investment abroad by Polish residents rose USD 2,802m in 1999 (representing an outflow of capital). This was chiefly related to an increase of USD 2,713m in Polish deposits at foreign banks (constituting the balance of payments and withdrawals from current accounts and placements held by Polish banks at banks abroad). This signifies a complete about-turn in the approach pursued by Polish banks relative to 1998, when these assets diminished by USD 2,294m (giving a movement in the balance on this item over 1998 and 1999 of over USD 5bn). A leap in the deposits placed by Polish banks at banks abroad took place in the second half of the year (the largest increase being seen in Q3). The first two quarters had witnessed a slight decrease in this asset item. The increase in assets abroad carried out by Polish banks, in the form of deposits, would seem to be chiefly linked to expectations of devaluation. These were particularly strong in the fourth quarter, when interest rate differentials were high, yet assets grew nevertheless. A certain impact on these developments was most probably exercised by the change to the principles of foreign currency purchases and sales by the NBP in transactions with the commercial banks, which took effect on June 1, 1999 (i.e., the abolition of the operational exchange-rate fixing). Thus, despite non-resident investment in Poland being higher than a year before, the change in the behaviour of Polish banks outlined above had a determining effect in reducing the surplus on the entire financial account compared to 1998.

Payments performance and its impact on the official reserves

The overall balance of payments, measured as the sum total of the balances on the current account and on the capital and financial account (excluding reserve assets) together with net errors and omissions, stood at a negative USD 220m in 1999. The current account deficit amounted to USD 11,569m, an increase of USD 4,711m compared to 1998. This was accompanied by a surplus of USD 7,865m on the capital and financial account, which was lower than the year before. Net errors and omissions were positive (USD 3,484m)[23]. This performance on the main accounts of the balance of payments led to a decline of USD 229m in the gross official reserves of the NBP as a result of transactions it carried out. The level of the foreign exchange reserves, in addition to the transactions registered in the balance of payments, was also impacted by revaluation changes and translation differences. These produced a fall in the reserves of USD 1,659m. This means that, in all, the gross official reserves decreased by USD 1,889m, and at year end stood at USD 25,494m. The principal cause of the decline in the reserves were translation losses associated with the weakening of the euro against the US dollar in the course of 1999.

Ratios of balance of payments safety remain sound, although they did deteriorate somewhat. At year end 1999, the official reserves stood at 6.7 times the value of monthly imports (slipping just 0.1 compared to the previous year). The ratio of foreign exchange reserves to the domestic money supply (the international liquidity measure) came down by 4 points relative to 1998, yet was still at the safe level of 47.3%. Similarly, while the ratio of reserves to the total money supply (M2) dropped 3.4 points, it also remained safe at 40.1%.

Figure 16. Gross official reserves



[23] Net errors and omissions also include funds transfers to Poland from residents' accounts at foreign banks. This amount will be posted to other accounts in the balance of payments on a cash basis following receipt of reports from the corporate sector.

TABLE I Basic Economic Data

Item	Unit	1998 XII	1999 I	1999 II	1999 III
1. Industrial output					
a) current prices	million zloty	31 540.5	27 892.8	27 991.9	34 280.9
b) constant prices					
- corresponding month previous year = 100	%	97.8	94.9	94.4	103.5
- previous month = 100	%	102.7	89.1	99.6	122.0
2. Construction output					
a) current prices	million zloty	5 052.4	2 322.2	2 477.5	2 970.8
b) constant prices					
- corresponding month previous year = 100	%	102.5	104.0	96.9	101.1
- previous month = 100	%	140.9	45.2	105.7	119.0
3. Consumer Price Index					
a) corresponding month previous year = 100	%	108.6	106.9	105.6	106.2
b) previous month = 100	%	100.4	101.5	100.6	101.0
c) December previous year = 100	%	108.6	101.5	102.1	103.1
4. Producer Price Index					
a) corresponding month previous year = 100	%	104.8	103.9	103.7	104.7
b) previous month = 100	%	100.1	100.4	100.6	101.1
5. Construction Price Index					
a) corresponding month previous year = 100	%	110.6	109.9	109.4	109.0
b) previous month = 100	%	100.5	101.7	100.9	100.7
6. Employed labour force, corporate sector total	thou.	5 919	6 010	5 998	5 988
7. Average employees in employment, corporate sector total	thou.	5 769	5 835	5 818	5 808
8. Unemployed	thou.	1 831.4	2 046.8	2 146.6	2 170.4
9. Unemployment rate	%	10.4	11.4	11.9	12.1
10. Average montly gross employee earnings, corporate sector	million zloty	1 582.13	1 596.96	1 625.95	1 741.60
11. Central government receipts & expenditure					
a) receipts	million zloty	126 563.2	9 481.6	17 334.6	27 747.8
b) expenditure	million zloty	139 755.8	11 940.1	24 606.3	36 467.0
c) financial surplus/deficit and net external lending/borrowing	million zloty	-16 489.2	-2 484.1	-7 381.5	-9 464.2
12. Corporate financial performance					
a) total revenues	million zloty	833 304.2	.	.	176 347.3
of which: sales of goods & services	million zloty	475 657.1	.	.	107 842.3
b) total operating costs	million zloty	817 826.3	.	.	174 674.6
of which: cost of sales	million zloty	488 848.9	.	.	109 828.0
c) pre-tax profit/loss	million zloty	16 720.2	.	.	1 744.6
d) statutory deductions (taxes)	million zloty	11 445.7	.	.	2 574.8
e) net profit/loss	million zloty	5 274.6	.	.	-830.2
f) cost to sales ratio	%	98.1	.	.	99.1
g) net margin	%	0.6	.	.	-0.5
h) quick liquidity ratio	%	83.0	.	.	80.6
i) total current assets	million zloty	251 586.1	.	.	219 281.3
j) accounts receivable and associated claims	million zloty	101 095.4	.	.	92 272.8
k) accounts payable	million zloty	101 942.9	.	.	85 012.0

1999 IV	V	VI	VII	VIII	IX	X	XI	XII
31 995.2	32 608.1	32 555.4	32 126.2	33 812.7	37 128.9	37 468.8	37 542.9	40 167.0
100.3	102.3	101.0	101.5	107.4	108.9	109.2	115.9	119.1
93.0	101.3	100.0	98.1	104.9	109.5	100.3	99.1	105.7
3 292.5	3 669.4	4 035.9	4 027.4	4 311.1	4 733.2	4 979.6	4 106.4	6 191.7
102.5	104.2	104.9	99.5	104.2	105.2	99.8	105.9	112.3
109.9	110.8	109.6	99.3	106.3	108.8	104.3	81.8	149.3
106.3	106.4	106.5	106.3	107.2	108.0	108.7	109.2	109.8
100.8	100.7	100.2	99.7	100.6	101.4	101.1	100.9	100.9
103.9	104.6	104.8	104.5	105.1	106.6	107.8	108.8	109.8
105.0	105.2	105.2	105.5	105.9	106.2	106.8	107.5	108.1
100.6	100.5	100.1	100.5	100.9	100.9	100.8	100.7	100.6
108.6	108.4	108.1	107.8	107.8	108.2	108.3	108.6	108.9
100.5	100.6	100.3	100.3	100.6	100.9	100.7	100.6	100.8
5 983	5 964	5 960	5 936	5 935	5 926	5 938	5 908	5 846
5 799	5 779	5 771	5 748	5 747	5 735	5 738	5 723	5 679
2 122.2	2 073.1	2 074.0	2 116.4	2 143.6	2 177.8	2 186.8	2 257.3	2 349.8
11.8	11.6	11.6	11.8	11.9	12.1	12.2	12.5	13.0
1 779.84	1 766.66	1 826.60	1 852.47	1 823.29	1 874.91	1 881.13	1 946.14	2 186.03
37 769.6	46 828.1	56 532.9	65 848.7	76 798.7	88 965.3	100 585.7	112 409.5	125 911.5
46 732.6	57 043.4	67 852.9	78 392.6	88 937.2	100 235.3	112 643.6	124 492.9	138 425.2
-9 718.3	-11 047.3	-12 187.8	-13 110.6	-12 767.8	-12 906.8	-13 593.7	-13 604.2	-13 662.0
.	.	372 693.2	.	.	581 225.9	.	.	822 912.1
.	.	229 190.7	.	.	351 868.5	.	.	497 206.4
.	.	367 144.9	.	.	573 687.1	.	.	815 201.6
.	.	230 800.9	.	.	358 541.9	.	.	507 095.9
.	.	5 850.2	.	.	8 013.7	.	.	8 798.4
.	.	5 193.3	.	.	7 765.2	.	.	10 414.4
.	.	656.9	.	.	248.6	.	.	-1 616.0
.	.	98.5	.	.	98.7	.	.	99.1
.	.	0.2	.	.	.	.	.	-0.2
.	.	78.4	.	.	78.1	.	.	74.8
.	.	226 993.7	.	.	243 100.9	.	.	256 019.1
.	.	96 518.7	.	.	103 968.5	.	.	107 347.6
.	.	90 438.3	.	.	97 785.4	.	.	111 435.3

TABLE II Financial Market - Basic Information

Item	Unit	1998 XII	1999 I	1999 II	1999 III
1. Lombard rate	%	20.0	17.0	17.0	17.0
2. Rediscount rate	%	18.3	15.5	15.5	15.5
3. Refinance rate	%	20.0/21.0	17.0/18.0	17.0/18.0	17.0/18.0
4. Minimum yield on 28-day open market operations (reverse repo rate)	%	15.5	13.0	13.0	13.0
5. Monthly zloty devaluation against reference currency basket	%	0.5	0.5	0.5	0.3
6. Zloty lending rates, principal commercial banks					
a) 1 year loans	%	15.5-25	13.1-23.6	12.9-22.5	12.9-22.5
b) discount rate	%	16.3-23.5	13.9-23	13.7-21	13.7-20.5
7. Zloty deposit rates, principal commercial banks					
a) demand	%	4.5-10	3.5-9	3.5-7	3.5-7
b) transaction accounts	%	5-13	7-12.5	7-11.1	7-9.7
c) 1 month	%	12-15.4	9.4-13.9	9.3-11.8	9.3-11.8
d) 3 months	%	11.6-15.1	9-14.6	9-12	9-12
e) 6 months	%	11-15	8.6-14.5	7.5-12.3	7.5-12.3
f) 12 months	%	8.7-15.4	8.7-15.4	7.5-12.6	7.5-12.5
g) 24 months	%	10.5-16.3	9-16	9-13.3	9-13.3
h) 36 months	%	12.4-16.3	10.4-16.3	10.9-13.6	10.9-13.3
8. Foreign currency deposit rates, commercial banks					
a) demand	%	2.3-3.8	2.3-3.8	2.3-3.8	2.3-3.8
b) 3 months	%	3.3-4.7	3.3-4.7	3.3-4.7	3.3-4.7
c) 6 months	%	3.5-4.9	3.5-4.7	3.5-4.7	3.5-4.7
d) 12 months	%	3.8-5	3.8-4.8	3.7-4.9	3.8-4.9
e) 24 months	%	3.9-5.3	3.9-5	3.9-5	3.9-5
9. Interbank placements	million zloty	16 786.8	19 605.0	20 139.7	18 138.6
a) total at month end					
of which:					
0 - 1 month	%	33.3	47.1	52.5	32.2
1 - 2 months	%	19.7	11.1	5.1	17.5
2 - 3 months	%	7.7	6.4	7.8	8.1
3 - 6 months	%	8.5	9.7	8.2	10.2
6 - 12 months	%	12.4	12.9	18.5	12.1
12 - 24 months	%	15.6	10.6	6.3	17.6
b) length of placements, weighted average (at month end)	months	4.6	3.8	3.8	4.7
c) deposit rates, weighted average (at month end)	%	16.5	14.6	14.5	14.0
of which:					
0 - 1 month	%	15.9	12.9	13.7	13.1
1 - 2 months	%	16.4	15.3	13.8	13.5
2 - 3 months	%	16.1	15.2	14.6	14.0
3 - 6 months	%	18.5	18.6	18.3	16.9
6 - 12 months	%	19.9	18.1	15.8	17.1
12 - 24 months	%	14.2	12.6	12.9	12.3

				1999				
IV	V	VI	VII	VIII	IX	X	XI	XII
17.0	17.0	17.0	17.0	17.0	17.0	17.0	20.5	20.5
15.5	15.5	15.5	15.5	15.5	15.5	15.5	19.0	19.0
17.0/18.0	17.0/18.0	17.0/18.0	17.0/18.0	17.0/18.0	17.0/18.0	17.0/18.0	20.5/21.5	20.5/21.5
13.0	13.0	13.0	13.0	13.0	14.0	14.0	16.5	16.5
0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
13.8-22.5	13.9-22.5	13.8-22.5	13.8-22.5	13.4-22.5	13.8-19.1	14.4-19.8	14.4-22.0	14.4-25.9
13.8-20.5	13.8-20.5	13.8-20.5	13.8-20.5	14.0-20.5	15.4-21.5	15.5-22.4	15.4-23.6	19-24.4
3.5-7	3.5-8	3.5-7	3.5-7	3.5-7	3.5-7	3.5-7	3.5-9.5	3.5-9.5
7-9.7	7-9.7	7-9.7	7-9.7	7-9.7	7-9.7	7-9.7	7-10.0	7-10.0
9.3-11.8	9.3-11.8	9.3-11.8	9.3-11.8	9.3-11.8	9.3-11.8	9.3-12.5	9.3-15.1	10.8-15.1
9-12	9-12	9.4-12	9.4-12	9.4-12	9.4-12	10-12.7	10-16.0	11-16.0
7.5-12.3	7.5-12.3	7.5-12.3	7.5-12.3	7.5-12.3	7.5-12.3	7.5-12.9	7.5-16.9	9-16.9
7.5-12.5	7.5-12.5	7.5-12.5	7.5-12.5	7.5-12.5	7.5-12.5	7.5-12.9	7.5-16.9	7.5-16.9
9-13.3	9-13.3	9-13.3	9-13.3	10.3-13.3	10.3-13.3	10.9-13.3	10.9-14.5	11.5-14.6
10.9-13.3	10.9-13.3	10.9-13.3	10.9-13.3	10.9-13.3	10.9-13.3	10.9-13.3	10.9-14.5	11.5-14.6
2.3-3.8	2.3-3.8	2.3-4	2.3-4	2.3-4.3	2.3-4.3	2.3-4.4	2.3-4.5	2.3-4.5
3.3-4.6	3.3-4.7	3.3-4.8	3.3-4.8	3.3-5.1	3.3-5.1	3.5-5.8	3.5-5.4	3.5-5.4
3.5-4.7	3.5-4.8	3.5-5	3.5-5	3.5-5.5	3.5-5.5	3.8-5.6	3.8-5.4	3.8-5.4
3.7-4.9	3.7-5.1	3.8-5.3	3.8-5.3	3.8-5.7	3.8-5.7	4-5.8	4-5.5	4-5.5
3.9-5	3.9-5	3.9-5	3.9-5	4-5.1	4-5.1	4-5.2	4-5.2	4-5.2
19 984.0	20 008.3	19 824.1	18 623.6	22 373.6	25 829.4	23 195.9	22 176.8	19 496.1
48.6	39.9	49.6	37.0	32.3	47.4	30.8	40.5	26.5
7.2	15.9	8.4	14.4	16.3	6.3	14.9	5.9	10.4
5.2	3.9	2.7	4.1	4.1	3.9	4.7	4.5	6.1
9.0	8.6	8.9	8.8	9.9	10.0	12.4	10.8	10.3
11.5	12.0	10.5	11.8	10.9	9.8	10.7	11.0	12.0
16.3	17.4	17.5	20.9	24.4	20.3	24.1	25.5	32.2
4.4	4.5	4.3	5.2	5.2	5.0	5.6	5.3	6.7
13.5	13.5	13.3	13.3	12.8	13.4	12.5	14.7	15.3
13.1	13.3	13.1	13.2	12.9	14.0	10.7	16.3	16.4
13.8	13.9	14.3	13.3	13.3	13.3	14.2	14.7	18.3
13.6	13.5	13.7	13.2	13.2	13.3	13.8	15.0	15.7
15.8	13.9	13.6	13.1	13.1	13.4	14.0	14.6	15.4
15.5	15.0	14.6	15.7	13.6	13.5	13.6	13.7	13.9
12.4	12.2	12.1	12.1	11.9	12.0	12.1	12.3	13.7

cont. TABLE II Financial Market - Basic Information

Item	Unit	1998 XII	1999 I	1999 II	1999 III
10. 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
11. Total required reserves held	million zloty	21 271.1	21 271.1	22 314.1	23 623.9
a) current account	million zloty	19 157.8	19 157.8	20 124.9	21 381.9
b) declared vault cash	million zloty	2 113.4	2 113.4	2 189.2	2 242.0
12. Treasury bill tenders					
a) no. of tenders during month		5	4	4	5
b) nominal value of bills offered for sale	million zloty	4 100.00	3 600.00	2 600.00	6 700.00
of which:					
- 2-week bills	million zloty	-	-	-	-
- 3-week bills	million zloty	-	-	-	-
- 6-week bills	million zloty	-	-	-	-
- 8-week bills	million zloty	-	-	200.00	400.00
- 13-week bills	million zloty	1 100.00	800.00	500.00	1 200.00
- 26-week bills	million zloty	300.00	600.00	200.00	1 200.00
- 39-week bills	million zloty	-	-	-	-
- 52-week bills	million zloty	2 700.00	2 200.00	1 700.00	3 900.00
c) nominal value of bids	million zloty	8 243.43	9 318.95	5 243.20	14 052.39
of which:					
- 2-week bills	million zloty	-	-	-	-
- 3-week bills	million zloty	-	-	-	-
- 6-week bills	million zloty	-	-	-	-
- 8-week bills	million zloty	-	-	382.36	591.57
- 13-week bills	million zloty	2 031.33	1 436.31	945.76	2 416.00
- 26-week bills	million zloty	446.67	1 540.15	470.14	2 419.86
- 39-week bills	million zloty	-	-	-	-
- 52-week bills	million zloty	5 765.43	6 342.49	3 444.94	8 624.96
d) nominal value of bills sold	million zloty	4 281.63	3 601.07	2 606.79	6 727.83
of which:					
- 2-week bills	million zloty	-	-	-	-
- 3-week bills	million zloty	-	-	-	-
- 6-week bills	million zloty	-	-	-	-
- 8-week bills	million zloty	-	-	200.00	400.00
- 13-week bills	million zloty	1 243.54	779.95	510.65	1 200.00
- 26-week bills	million zloty	230.30	600.00	196.34	1 175.33
- 39-week bills	million zloty	-	-	-	-
- 52-week bills	million zloty	2 807.79	2 221.12	1 699.80	3 952.50
e) discount rate on bids accepted, weighted average	%	11.67	11.41	10.62	11.24
of which:					
- 2-week bills	%	-	-	-	-
- 3-week bills	%	-	-	-	-
- 6-week bills	%	-	-	-	-
- 8-week bills	%	-	-	11.57	12.31
- 13-week bills	%	13.12	13.13	11.65	12.01
- 26-week bills	%	12.57	12.24	11.17	11.76
- 39-week bills	%	-	-	-	-
- 52-week bills	%	10.96	10.58	10.14	10.75

				1999				
IV	V	VI	VII	VIII	IX	X	XI	XII
20.0	20.0	20.0	20.0	20.0	5.0	5.0	5.0	5.0
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	5.0	5.0	5.0	5.0
23 881.4	24 083.8	23 942.3	23 942.3	24 554.7	9 956.0	9 956.0	10 076.2	10 076.2
21 597.2	21 774.9	21 644.7	21 644.7	22 213.8	8 972.8	8 972.8	9 074.0	9 074.0
2 284.2	2 308.8	2 297.6	2 297.6	2 340.8	983.2	983.2	1 002.2	1 002.2
4	5	4	4	5	4	6	5	4
4 000.00	3 800.00	2 600.00	2 400.00	2 100.00	1 900.00	6 200.00	7 300.00	6 350.00
-	-	-	-	-	-	1 500.00	-	-
-	-	-	-	-	-	-	2 800.00	-
-	-	-	-	-	-	300.00	400.00	1 800.00
-	-	-	300.00	400.00	-	600.00	-	600.00
900.00	1 000.00	700.00	800.00	900.00	800.00	800.00	700.00	1 100.00
500.00	800.00	600.00	600.00	200.00	-	-	1 200.00	1 150.00
-	-	-	-	-	-	2 500.00	-	-
2 600.00	2 000.00	1 300.00	700.00	600.00	1 100.00	500.00	2 200.00	1 700.00
9 787.22	7 565.20	5 723.31	3 167.33	3 559.33	3 170.72	8 449.77	8 557.02	10 652.82
-	-	-	-	-	-	3 397.03	-	-
-	-	-	-	-	-	-	2 204.72	-
-	-	-	-	-	-	662.45	1 036.36	1 620.39
-	-	-	423.93	803.61	-	817.78	-	760.35
1 953.72	2 015.96	1 221.05	1 116.55	1 897.97	2 413.20	1 252.79	968.51	674.13
1 599.50	1 502.43	992.52	694.29	293.56	-	-	1 024.39	1 807.69
-	-	-	-	-	-	1 603.56	-	-
6 234.00	4 046.81	3 509.74	932.56	564.19	757.52	716.16	3 323.04	5 790.26
3 817.85	3 630.95	2 547.78	2 145.36	1 571.38	1 347.71	5 402.52	6 348.37	5 714.23
-	-	-	-	-	-	2 225.33	-	-
-	-	-	-	-	-	-	2 173.12	-
-	-	-	-	-	-	300.00	752.20	1 517.89
-	-	-	254.30	413.15	-	505.60	-	610.95
848.62	993.76	700.00	808.43	787.89	859.56	794.04	700.00	480.52
455.07	729.67	515.62	505.08	134.58	-	-	850.25	1 254.42
-	-	-	-	-	-	1 153.58	-	-
2 514.16	1 907.52	1 332.16	577.55	235.76	488.15	423.97	1 872.80	1 850.45
11.11	11.29	11.26	11.64	12.00	11.71	13.49	14.27	15.30
-	-	-	-	-	-	13.89	-	-
-	-	-	-	-	-	-	14.29	-
-	-	-	-	-	-	13.44	14.22	16.67
-	-	-	12.13	12.29	-	13.31	-	16.66
11.99	11.88	11.88	11.96	12.16	12.00	13.20	15.08	15.57
11.52	11.63	11.58	11.75	11.96	-	-	14.82	15.14
-	-	-	-	-	-	13.34	-	-
10.73	10.85	10.82	10.88	10.99	11.20	12.58	13.71	13.78

cont. TABLE II Financial Market - Basic Information

Item	Unit	1998 XII	1999 I	II	III
f) yield on bills purchased, weighted average	%	12.75	12.42	11.51	12.22
of which:					
- 2-week bills	%	-	-	-	-
- 3-week bills	%		-	-	-
- 6-week bills	%	-	-	-	-
- 8-week bills	%	-	-	11.78	12.55
- 13-week bills	%	13.57	13.58	12.01	12.39
- 26-week bills	%	13.43	13.05	11.83	12.50
- 39-week bills	%	-	-	-	-
- 52-week bills	%	12.32	11.85	11.29	12.06
g) bills outstanding from tender sales at month end					
(purchase prices)	million zloty	24 591.29	25 393.16	25 563.43	27 594.57
13. Tenders for NBP money-market bills					
a) no. of tenders		14	13	15	16
b) nominal value of bills offered for sale	million zloty	47 000.00	31 100.00	36 000.00	34 800.00
of which:					
- 1-day bills	million zloty	-	-	-	-
- 7-day bills	million zloty	-	-	-	-
- 14-day bills	million zloty	-	-	-	-
- 28-day bills	million zloty	47 000.00	31 100.00	36 000.00	34 800.00
- 91-day bills	million zloty	-	-	-	-
- 182-day bills	million zloty	-	-	-	-
- 273-day bills	million zloty	-	-	-	-
c) nominal value of bids	million zloty	39 515.49	24 286.33	31 141.18	31 202.48
of which:					
- 1-day bills	million zloty	-	-	-	-
- 7-day bills	million zloty	-	-	-	-
- 14-day bills	million zloty	-	-	-	-
- 28-day bills	million zloty	39 515.49	24 286.33	31 141.18	31 202.48
- 91-day bills	million zloty	-	-	-	-
- 182-day bills	million zloty	-	-	-	-
- 273-day bills	million zloty	-	-	-	-
d) nominal value of bills sold	million zloty	38 827.51	23 274.37	31 001.81	30 697.25
of which:					
- 1-day bills	million zloty	-	-	-	-
- 7-day bills	million zloty	-	-	-	-
- 14-day bills	million zloty	-	-	-	-
- 28-day bills	million zloty	38 827.51	23 274.37	31 001.81	30 697.25
- 91-day bills	million zloty	-	-	-	-
- 182-day bills	million zloty	-	-	-	-
- 273-day bills	million zloty	-	-	-	-
e) discount rate on bids accepted, weighted average	%	16.19	15.13	12.97	12.97
of which:					
- 1-day bills	%	-	-	-	-
- 7-day bills	%	-	-	-	-
- 14-day bills	%	-	-	-	-
- 28-day bills	%	16.19	15.13	12.97	12.97
- 91-day bills	%	-	-	-	-
- 182-day bills	%	-	-	-	-
- 273-day bills	%	-	-	-	-

1999								
IV	V	VI	VII	VIII	IX	X	XI	XII
12.13	12.23	12.20	12.34	12.53	12.47	14.09	15.22	16.49
-	-	-	-	-	-	13.97	-	-
-	-	-	-	-	-	-	14.41	-
-	-	-	-	-	-	13.65	14.46	17.00
-	-	-	12.36	12.53	-	13.59	-	17.10
12.36	12.24	12.25	12.33	12.55	12.38	13.66	15.68	16.21
12.23	12.35	12.30	12.49	12.73	-	-	16.03	16.39
-	-	-	-	-	-	14.85	-	-
12.04	12.18	12.15	12.23	12.37	12.63	14.42	15.91	16.01
27 919.94	27 367.56	26 609.66	25 720.39	25 205.12	22 887.22	22 552.39	23 330.84	24 187.36
11	9	15	14	14	12	10	11	16
24 500.00	23 500.00	38 500.00	29 000.00	28 500.00	27 000.00	26 000.00	27 500.00	58 000.00
-	-	-	-	-	-	-	-	16 500.00
-	-	-	-	-	-	-	-	21 000.00
-	-	-	-	-	-	-	6 500.00	18 500.00
24 500.00	23 500.00	38 500.00	29 000.00	28 500.00	27 000.00	26 000.00	21 000.00	2 000.00
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
21 883.33	19 678.86	29 782.33	23 414.51	22 353.89	21 951.53	19 670.39	16 838.39	41 948.29
-	-	-	-	-	-	-	-	13 976.00
-	-	-	-	-	-	-	-	15 043.81
-	-	-	-	-	-	-	4 616.20	12 032.32
21 883.33	19 678.86	29 782.33	23 414.51	22 353.89	21 951.53	19 670.39	12 222.19	896.16
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
21 776.79	19 338.86	29 777.33	23 414.51	22 295.81	21 376.53	19 670.39	16 141.16	41 948.29
-	-	-	-	-	-	-	-	13 976.00
-	-	-	-	-	-	-	-	15 043.81
-	-	-	-	-	-	-	4 616.20	12 032.32
21 776.79	19 338.86	29 777.33	23 414.51	22 295.81	21 376.53	19 670.39	11 524.96	896.16
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
12.97	12.97	12.97	12.97	12.97	13.48	13.95	15.52	16.46
-	-	-	-	-	-	-	-	16.49
-	-	-	-	-	-	-	-	16.47
-	-	-	-	-	-	-	16.43	16.43
12.97	12.97	12.97	12.97	12.97	13.48	13.95	15.16	16.39
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-

cont. TABLE II Financial Market - Basic Information

Item	Unit	1998 XII	1999 I	II	III
f) yield on bills purchased, weighted average	%	16.40	15.31	13.10	13.10
of which:					
- 1-day bills	%	-	-	-	-
- 7-day bills	%	-	-	-	-
- 14-day bills	%	-	-	-	-
- 28-day bills	%	16.40	15.31	13.10	13.10
- 91-day bills	%	-	-	-	-
- 182-day bills	%	-	-	-	-
- 273-day bills	%	-	-	-	-
g) bills outstanding from tender sales at month end (purchase prices)	million zloty	28 221.62	23 000.46	30 689.10	27 152.89
14. Data on trading sessions of Warsaw Stock Exchange - first-tier market					
a) no. of companies listed		117	117	118	118
b) average market capitalisation of listed companies	million zloty	64 522.3	78 514.4	75 009.0	79 101.4
c) monthly turnover	million zloty	2 661.7	4 198.9	3 549.9	3 628.5
d) Warsaw Stock Exchange Index					
- monthly average		12 093.6	13 785.6	14 133.5	13 796.0
- final session in month		12 795.6	14 573.5	13 235.2	14 131.3
e) P/E ratio		14.1	19.2	20.2	19.5
f) turnover ratio	%	2.3	3.1	2.5	2.6
15. Data on trading sessions of Warsaw Stock Exchange - second-tier market					
a) no. of listed companies		51	53	55	56
b) average market capitalisation of listed companies	million zloty	1 439.3	1 506.8	1 663.4	1 712.9
c) monthly turnover	million zloty	131.0	118.5	101.7	121.1
d) Warsaw Second-Tier Market Index					
- monthly average		1 608.2	1 573.6	1 552.4	1 583.3
- final session in month		1 674.5	1 519.5	1 557.9	1 592.4
e) P/E ratio		8.2	8.8	8.7	9.3
f) turnover ratio	%	6.0	5.1	4.3	4.8

TABLE III PLN/USD & PLN/EUR Exchange Rates, 1999

Month	Rate at month end USD fixing	EUR fixing	USD/1EUR	Monthly average mid-rate USD fixing	EUR fixing
December 1998	3.5040	.	x	3.4858	.
January 1999	3.6590	4.1650	1.1383	3.5417	4.1087
February	3.9400	4.3450	1.1028	3.7948	4.2494
March	4.0100	4.3000	1.0723	3.9430	4.2886
April	3.9540	4.1890	1.0594	4.0016	4.2843
May	3.9705	4.1500	1.0452	3.9368	4.1830
June	3.9297	4.0593	1.0330	3.9431	4.0969
July	3.8600	4.1340	1.0710	3.8827	4.0166
August	3.9810	4.1936	1.0534	3.9510	4.1946
September	4.1141	4.3977	1.0689	4.0799	4.2881
October	4.2029	4.4140	1.0502	4.1092	4.4031
November	4.2903	4.3306	1.0094	4.2527	4.3974
December	4.1483	4.1689	1.0050	4.1696	4.2200

				1999				
IV	V	VI	VII	VIII	IX	X	XI	XII
13.10	13.10	13.10	13.10	13.10	13.63	14.10	15.68	16.52
-	-	-	-	-	-	-	-	16.50
-	-	-	-	-	-	-	-	16.52
-	-	-	-	-	-	-	16.5	16.54
13.10	13.10	13.10	13.10	13.10	13.63	14.10	15.3	16.60
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
19 843.48	19 143.79	22 355.73	21 270.71	21 518.25	17 650.88	18 254.14	15 975.79	11 095.45
119	119	119	119	119	120	120	121	121
86 497.4	91 179.2	97 393.0	102 569.3	99 549.4	91 344.3	85 010.5	91 375.0	111 191.9
3 450.7	2 886.2	3 560.7	4 401.3	2 382.4	2 324.5	1 862.1	2 869.0	3 816.3
14 954.1	15 525.3	16 473.7	17 209.0	16 818.7	15 782.4	14 666.7	15 119	16 991
15 248.0	15 623.0	16 825.1	16 980.4	17 014.3	14 259.4	15 011.3	15 669	18 084
24.1	26.9	29.7	30.6	28.3	27.3	25.1	23.1	25.7
2.3	1.8	2.1	2.4	1.4	1.4	1.2	1.8	1.9
58	58	58	58	59	60	60	61	62
1 975.1	2 305.6	2 265.8	2 262.0	2 209.2	2 349.4	2 289.5	2 330.4	2 641.4
177.9	175.7	151.8	125.3	71.9	116.7	94.2	78.0	162.8
1 689.2	1 835.9	1 889.4	1 895.7	1 837.8	1 738.3	1 692.5	1 691.0	1 920.8
1 782.8	1 867.1	1 861.9	1 856.7	1 835.7	1 637.4	1 695.2	1 761.5	2 085.9
13.8	15.5	15.6	15.3	15.6	16.6	16.5	19.0	21.7
6.1	5.3	4.4	3.6	2.1	3.3	2.7	2.2	3.9

TABLE IV Weighted Average Zloty Deposit Rates at Commercial Banks (Annualised Percentage Rates)

Item	1998 XII	1999 I	II	III
Personal deposits				
Original maturity:				
- demand	9.9	7.3	7.3	7.2
- 1 month	12.6	11.5	10.0	9.9
- 3 months	12.0	11.0	9.9	9.6
- 6 months	12.6	11.2	10.3	10.2
- 1 year	13.7	11.8	10.9	10.8
- 2 years	14.2	13.3	11.4	11.2
- 3 years	13.7	12.4	11.3	11.0
Average, all maturities				
(excluding demand deposits)	12.8	11.4	10.3	10.2
Corporate deposits				
Original maturity:				
- demand	6.9	5.7	5.4	5.3
- 1 month	12.8	11.3	9.7	9.5
- 3 months	12.6	11.8	10.6	10.2
- 6 months	12.7	12.1	10.7	10.3
- 1 year	13.9	12.4	11.2	10.9
- 2 years	14.0	13.7	11.4	11.1
- 3 years	13.9	13.6	12.1	10.3
Average, all maturities				
(excluding demand deposits)	12.8	11.5	10.0	9.7
Total	12.8	11.4	10.3	10.1

TABLE V Weighted Average Zloty Lending Rates at Commercial Banks (Annualised Percentage Rates)

Item	1998 XII	1999 I	II	III
Personal loans	**24.0**	**23.0**	**20.5**	**20.3**
Corporate loans				
Original maturity:				
- 1 year	19.6	18.2	16.6	16.4
- 2 years	20.1	18.7	16.8	16.7
- 3 years	20.6	19.5	17.0	16.8
- 5 years	20.8	19.2	17.4	17.3
- over 5 years	19.4	19.2	16.9	16.8
Average, all maturities	19.7	18.8	16.8	16.7
Total	**20.4**	**19.5**	**17.4**	**17.3**

				1999				
IV	V	VI	VII	VIII	IX	X	XI	XII
7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.4
10.0	10.1	10.1	10.0	10.1	10.1	10.4	10.8	12.5
9.8	9.9	10.0	10.0	10.0	10.1	10.5	10.7	12.7
10.3	10.3	10.4	10.4	10.4	10.5	10.7	11.0	13.0
10.9	10.9	11.0	10.9	10.9	11.0	11.2	11.4	13.1
11.3	11.3	11.4	11.4	11.4	11.4	11.6	11.7	13.7
11.2	11.2	11.3	11.3	11.3	11.3	11.5	11.6	13.9
10.3	10.3	10.4	10.4	10.4	10.5	10.7	11.0	12.9
5.4	5.3	5.3	5.3	5.3	5.3	5.2	5.4	5.5
9.6	9.7	9.5	9.6	9.9	10.0	10.5	11.2	12.7
10.5	10.5	10.2	10.5	10.5	10.5	11.0	11.5	13.0
10.7	10.7	10.4	10.7	10.7	10.9	11.3	11.9	13.4
11.2	11.1	10.9	11.1	11.1	11.2	11.4	12.0	13.7
10.9	11.1	11.1	11.3	11.6	11.6	12.3	14.2	15.2
10.9	10.9	10.9	11.0	11.0	10.9	11.3	11.4	13.1
9.9	9.9	9.7	9.9	10.1	10.2	10.7	11.3	12.9
10.2	10.2	10.3	10.3	10.3	10.4	10.7	11.1	12.9

				1999				
IV	V	VI	VII	VIII	IX	X	XI	XII
19.1	**19.5**	**19.5**	**19.1**	**19.2**	**19.4**	**19.5**	**19.6**	**21.3**
16.7	16.4	16.4	16.3	15.8	16.1	16.5	17.9	20.1
16.9	16.6	16.6	16.5	15.9	16.3	16.7	18.2	20.3
17.1	16.9	16.8	16.7	16.1	16.3	16.7	17.8	19.6
17.6	17.0	17.0	17.0	16.5	16.7	17.1	18.3	20.4
17.3	17.0	16.9	16.9	16.0	16.3	16.7	18.0	20.1
17.0	16.7	16.7	16.6	16.0	16.2	16.6	18.0	20.1
17.3	**17.2**	**17.1**	**17.1**	**16.5**	**16.8**	**17.2**	**18.3**	**20.3**

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

Item	1998 XII	1999 I	II	III
ASSETS				
Foreign assets	18 940.3	21 483.0	21 026.4	19 595.7
Due from banks	54 921.9	56 423.1	54 230.2	53 001.5
- vault cash	3 768.2	2 885.9	2 868.4	3 153.6
- NBP	19 567.6	22 479.6	19 032.4	18 743.9
- other banks	31 586.0	31 057.5	32 329.5	31 104.0
Due from non-bank financial institutions	3 378.2	3 613.5	3 598.3	3 952.3
Due from general government	6 579.4	6 964.4	7 134.6	7 838.8
- central government	4 414.4	4 860.3	4 992.0	4 994.9
- local government	2 150.2	2 090.3	2 134.5	2 103.1
- special-purpose funds	14.9	13.8	8.2	740.8
Due from non-financial sector	133 384.1	136 775.4	140 394.9	142 408.5
- corporates	109 505.2	112 670.9	115 894.2	117 124.4
- persons	23 879.0	24 104.5	24 500.7	25 284.2
Securities purchased under agreements to resell	422.1	358.1	178.5	53.1
Securities	84 976.3	82 115.8	90 630.3	90 664.0
- issued by banks	28 826.9	23 685.2	31 477.8	27 915.8
- issued by non-bank financial institutions	521.4	520.4	541.9	627.1
- issued by general government	53 410.0	55 465.4	56 133.9	59 301.9
of which: issued by Treasury	53 001.9	55 070.3	55 728.7	58 894.4
- issued by non-financial sector	2 111.0	2 346.4	2 369.6	2 683.1
- privatisation certificates, rights issues, units in unit trusts	107.0	98.4	107.0	136.2
Other assets	30 030.8	34 520.4	36 368.3	36 533.9
TOTAL ASSETS	332 633.2	342 253.7	353 561.6	354 047.8
LIABILITIES & CAPITAL				
Foreign liabilities	18 269.3	19 997.8	20 286.1	19 655.0
Due to banks	38 973.7	38 389.7	40 467.0	38 526.6
- NBP	7 565.0	7 559.9	8 873.1	7 525.6
- other banks	31 408.6	30 829.8	31 593.8	31 001.0
Due to non-bank financial institutions	4 686.5	4 845.4	5 102.1	5 303.7
Due to general government	12 515.4	14 602.3	16 046.5	16 683.7
- central government	5 429.3	6 119.3	6 241.6	6 539.3
- local government	5 551.4	6 928.7	8 357.2	8 528.7
- special-purpose funds	1 534.7	1 554.4	1 447.7	1 615.7
Due to non-financial sector, zloty	153 005.5	153 595.9	155 262.2	156 493.6
- corporates	43 425.3	40 592.2	40 195.3	39 962.6
demand	20 028.2	17 423.1	16 160.0	17 250.8
time	23 397.1	23 169.1	24 035.3	22 711.8
- persons	109 580.3	113 003.7	115 066.9	116 531.0
demand	20 693.3	21 166.7	22 333.4	23 729.9
time	88 886.9	91 837.0	92 733.5	92 801.1
Due to non-financial sector, foreign currency	32 434.5	32 931.1	35 026.5	35 965.6
- corporates	7 963.7	7 632.6	7 758.2	8 024.5
demand	2 541.9	2 484.3	2 437.3	2 586.2
time	5 421.8	5 148.4	5 320.9	5 438.3
- persons	24 470.8	25 298.5	27 268.3	27 941.2
demand	7 224.8	7 322.0	7 740.9	7 829.2
time	17 246.0	17 976.4	19 527.4	20 111.9
Securities sold under agreements to repurchase	259.6	379.3	286.9	127.1
Securities issued and outstanding	882.0	823.2	899.3	897.7
Core capital	21 862.7	21 985.4	22 132.0	22 360.5
Supplementary capital	2 850.3	2 864.3	2 839.6	2 743.4
Other liabilities & capital	46 893.8	51 839.2	55 213.4	55 291.0
TOTAL LIABILITIES & CAPITAL	332 633.2	342 253.7	353 561.6	354 047.8

				1999				
IV	V	VI	VII	VIII	IX	X	XI	XII
18 795.6	20 143.4	19 378.5	21 517.4	27 394.7	27 793.4	28 672.8	33 319.0	32 662.6
57 925.6	59 473.0	57 416.7	57 642.4	56 936.3	49 495.9	48 614.0	47 380.5	43 995.2
3 236.0	3 538.6	3 414.0	3 292.8	3 436.1	3 379.9	3 472.6	3 591.3	5 292.5
22 821.7	23 114.7	21 194.6	23 216.9	19 732.8	9 104.2	9 083.0	9 469.0	9 430.0
31 867.9	32 819.7	32 808.0	31 132.8	33 767.4	37 011.8	36 058.4	34 320.2	29 272.7
4 097.5	4 282.8	4 601.1	4 799.3	4 684.3	5 255.9	5 629.0	6 025.3	6 818.7
7 849.1	8 000.0	8 065.3	8 388.2	9 565.0	10 747.8	10 895.6	10 772.9	11 262.9
5 028.3	5 165.4	5 233.1	5 310.9	5 398.0	5 425.9	5 514.9	5 691.6	6 107.3
2 072.8	2 085.8	2 077.0	2 153.8	2 251.5	2 323.3	2 383.0	2 465.2	2 753.5
748.1	748.8	755.2	923.4	1 915.5	2 998.6	2 997.7	2 616.2	2 402.1
144 646.8	147 308.9	149 112.6	151 407.9	155 051.8	160 028.7	164 041.3	167 967.5	166 572.0
118 567.7	120 249.9	120 821.8	121 786.3	124 101.2	127 693.0	130 497.8	132 988.1	130 007.0
26 079.1	27 058.9	28 290.8	29 621.6	30 950.5	32 335.7	33 543.6	34 979.4	36 565.0
23.6	579.5	827.0	317.4	358.4	786.0	353.6	1 036.4	86.4
82 313.7	82 689.1	85 244.6	82 717.6	81 218.0	89 869.1	89 630.2	87 941.3	84 723.8
20 568.1	19 997.0	23 122.1	21 940.1	22 029.0	31 101.2	31 943.7	29 846.5	25 178.4
505.2	565.7	570.3	578.1	577.2	637.4	663.5	623.6	674.9
58 549.2	59 276.7	58 784.4	57 541.6	55 688.9	55 274.6	53 929.4	54 245.9	55 733.8
58 170.2	58 876.1	58 361.4	57 150.8	55 272.2	54 808.8	53 391.6	53 711.9	55 275.5
2 554.3	2 696.1	2 614.2	2 504.7	2 777.0	2 713.1	2 941.6	3 071.7	2 987.6
137.0	153.6	153.6	153.1	145.8	142.7	152.1	153.6	149.0
38 314.4	37 123.3	39 892.7	39 265.8	39 886.6	40 128.2	41 317.6	42 245.3	34 793.9
353 966.4	359 599.9	364 538.5	366 056.0	375 095.1	384 104.9	389 154.1	396 688.2	380 915.5
19 517.5	21 090.0	21 088.4	25 019.7	26 542.3	25 085.2	26 321.6	27 127.6	27 807.7
38 983.3	39 957.9	40 222.2	38 451.0	41 158.4	44 479.1	42 872.1	41 667.0	36 032.1
7 400.1	7 384.5	7 263.3	7 211.3	7 195.3	7 098.7	7 060.5	7 355.0	7 010.0
31 583.2	32 573.4	32 958.9	31 239.6	33 963.1	37 380.4	35 811.6	34 312.0	29 022.1
5 510.3	5 788.2	6 518.8	5 703.4	5 285.2	5 620.4	6 042.0	8 031.0	7 303.9
16 268.8	16 481.1	16 361.7	15 344.8	16 074.9	16 653.4	17 039.7	17 815.3	14 194.7
6 400.6	6 090.4	5 715.0	5 670.4	5 923.4	5 997.5	6 420.4	6 599.1	5 237.4
8 319.2	8 782.4	8 637.0	8 114.8	8 260.4	8 765.3	8 751.8	9 195.6	7 145.6
1 549.0	1 608.3	2 009.7	1 559.6	1 891.0	1 890.6	1 867.5	2 020.6	1 811.6
156 762.1	158 794.8	160 305.4	162 617.6	164 690.0	167 915.6	169 013.9	169 739.7	178 519.5
39 401.6	40 900.7	41 087.5	41 956.7	43 466.3	45 542.1	45 736.8	45 814.1	54 433.7
15 935.1	17 806.1	18 448.5	17 714.8	18 993.2	19 696.9	21 668.7	19 849.7	23 521.6
23 466.5	23 094.6	22 639.0	24 241.9	24 473.2	25 845.1	24 068.1	25 964.4	30 912.1
117 360.5	117 894.1	119 217.9	120 660.9	121 223.6	122 373.5	123 277.0	123 925.6	124 085.7
24 386.0	24 779.2	25 905.5	26 632.7	26 519.0	26 623.2	26 686.3	27 019.1	25 431.1
92 974.5	93 114.9	93 312.4	94 028.3	94 704.7	95 750.4	96 590.8	96 906.5	98 654.6
35 366.7	35 800.7	35 306.5	35 546.9	37 332.8	37 830.7	40 222.7	41 712.4	38 683.6
7 604.2	7 813.4	7 471.0	7 664.4	8 489.6	7 677.8	9 348.7	10 361.7	8 330.1
2 445.1	2 615.1	2 813.3	2 862.5	2 970.0	2 622.9	2 750.0	2 922.1	3 056.5
5 159.1	5 198.3	4 657.6	4 801.9	5 519.7	5 054.9	6 598.8	7 439.7	5 273.6
27 762.5	27 987.3	27 835.6	27 882.5	28 843.2	30 152.9	30 874.0	31 350.7	30 353.5
7 797.8	7 854.0	7 800.8	7 854.4	8 055.8	8 312.6	8 431.8	8 484.8	8 099.6
19 964.7	20 133.3	20 034.7	20 028.1	20 787.4	21 840.3	22 442.2	22 865.9	22 253.9
102.5	607.6	954.8	500.0	542.4	1 024.9	492.4	1 149.3	209.7
863.3	853.4	884.3	738.1	745.9	829.4	866.2	855.3	1 197.9
22 981.3	23 823.0	24 053.6	24 429.2	24 477.0	25 561.7	25 767.1	25 409.7	25 609.4
2 944.2	2 969.4	2 995.6	3 026.8	3 065.7	3 087.1	3 082.6	3 074.7	3 048.5
54 666.4	53 433.7	55 847.0	54 678.6	55 180.6	56 017.3	57 433.8	60 106.1	48 308.6
353 966.4	359 599.9	364 538.5	366 056.0	375 095.1	384 104.9	389 154.1	396 688.2	380 915.5

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

Item	1998 XII	1999 I	1999 II	1999 III
ASSETS				
Foreign assets	103 400.1	112 038.0	123 767.1	120 384.5
Due from banks	7 639.7	7 637.0	8 947.4	7 602.5
- time deposits	393.5	410.9	442.4	450.3
- loans under foreign credit lines	128.1	111.2	121.9	121.0
- refinance loans	7 116.6	7 113.3	8 381.5	7 029.6
bills rediscounted	202.1	199.3	163.2	185.8
lombard loans	11.2	10.7	1 315.1	10.2
special-purpose funds	0.0	0.0	0.0	0.0
central investment finance	5 614.3	5 614.3	5 614.3	5 545.0
other	1 289.0	1 289.0	1 288.9	1 288.6
- 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	1 738.9	1 738.9	1 738.9	1 738.9
Due to non-financial sector	59.7	60.7	64.0	65.6
- corporates	34.0	35.5	38.2	38.9
- persons	25.7	25.2	25.7	26.7
Securities	16 430.2	16 909.8	17 827.4	18 145.6
- issued by banks	403.9	389.3	389.4	389.1
- issued by Treasury	16 026.3	16 520.5	17 438.0	17 756.4
Other assets	2 130.8	2 520.6	2 550.8	2 949.7
OTHER ASSETS	131 399.5	140 905.1	154 895.6	150 886.8
LIABILITIES & CAPITAL				
Foreign liabilities	7 785.9	13 349.7	18 535.8	14 072.7
Notes & coin in circulation (including vault cash)	33 993.5	32 897.3	33 809.5	35 180.7
Due to banks	19 652.8	22 172.0	19 017.0	18 701.7
- current accounts	19 652.7	22 171.1	19 015.3	18 699.8
- required reserves	0.1	1.0	1.7	1.9
- open market operations (reverse repos)	0.0	0.0	0.0	0.0
- other	0.0	0.0	0.0	0.0
Due to non-bank financial institutions	2.4	16.6	20.4	37.5
Due to general government	4 010.2	8 128.6	4 024.4	6 010.9
- central government	2 913.8	7 036.1	2 554.4	4 466.6
- general government special-purpose funds	1 096.4	1 092.5	1 469.9	1 544.3
Due to non-financial sector, zloty	7.6	26.2	49.4	56.5
- corporates	4.2	23.6	46.2	53.4
demand	4.2	23.6	46.2	53.4
time	0.0	0.0	0.0	0.0
- persons	3.4	2.6	3.2	3.2
Securities issued and outstanding	28 575.5	23 274.4	31 001.8	27 429.6
Registered equity & reserve capital	1 548.2	1 545.8	1 545.8	1 548.2
Other liabilities & capital	35 823.3	39 494.5	46 891.6	47 849.1
TOTAL LIABILITIES & CAPITAL	131 399.5	140 905.1	154 895.6	150 886.8

				1999				
IV	V	VI	VII	VIII	IX	X	XI	XII
118 091.4	118 187.2	114 467.9	117 799.0	121 390.2	121 676.3	122 628.2	123 189.2	120 352.1
7 470.0	7 454.3	7 335.3	7 261.1	7 262.9	7 174.9	7 125.5	7 420.4	7 080.8
403.7	405.3	401.2	394.1	406.4	420.0	386.2	394.2	381.1
112.8	112.9	109.0	104.9	106.6	111.1	107.7	106.1	97.5
6 952.0	6 934.5	6 823.5	6 760.6	6 748.4	6 642.2	6 630.0	6 918.5	6 600.6
203.5	186.5	146.2	118.7	110.7	74.3	92.3	161.0	167.1
1.6	1.4	1.1	0.8	0.6	0.0	0.0	221.2	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5 458.7	5 458.7	5 388.3	5 353.1	5 349.7	5 280.4	5 250.5	5 249.0	5 146.4
1 288.2	1 287.9	1 288.0	1 288.0	1 287.4	1 287.5	1 287.2	1 287.3	1 287.1
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
1 738.9	1 738.9	1 738.9	1 738.9	1 738.9	0.0	0.0	0.0	0.0
65.7	66.2	67.2	67.1	68.7	70.9	71.7	72.5	70.8
38.4	38.5	39.1	38.6	39.8	41.5	42.6	43.7	42.4
27.3	27.7	28.1	28.5	28.9	29.4	29.1	28.9	28.3
17 570.2	17 443.1	17 324.7	17 134.2	17 563.4	19 534.7	19 194.1	19 408.2	19 114.5
387.2	384.6	380.0	379.0	376.6	376.6	371.0	367.7	311.3
17 183.0	17 058.5	16 944.7	16 755.2	17 186.8	19 158.1	18 823.1	19 040.6	18 803.3
2 904.2	2 610.8	3 151.9	2 417.0	2 479.4	2 728.1	3 206.5	3 515.5	3 607.1
147 840.5	147 500.6	144 085.8	146 417.2	150 503.6	151 185.0	152 225.9	153 605.8	150 225.3
14 019.2	14 579.6	12 954.1	16 341.8	17 366.9	14 590.2	14 191.0	14 148.4	14 489.0
35 762.7	35 938.4	37 030.7	37 490.5	37 427.1	37 548.3	38 478.6	38 046.0	43 375.2
23 758.0	23 386.6	22 086.8	23 522.8	19 948.5	8 620.4	9 160.6	9 748.6	9 430.7
23 756.4	23 385.5	22 085.6	23 521.5	19 944.0	8 619.6	9 159.7	9 746.4	9 427.0
1.6	1.2	1.2	1.3	4.5	0.9	0.9	2.2	3.7
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
120.3	143.3	92.4	8.5	5.5	27.0	31.6	109.2	148.6
6 576.7	6 469.0	3 799.5	3 340.9	6 851.8	6 898.7	4 016.6	6 397.0	7 040.2
5 379.2	5 293.2	2 920.4	2 421.4	5 980.9	6 278.3	3 244.7	5 784.6	5 561.4
1 197.5	1 175.7	879.1	919.5	870.9	620.4	772.0	612.4	1 478.9
66.0	57.2	34.3	29.4	36.1	35.9	2.6	2.5	2.3
63.1	54.5	31.7	26.8	33.5	33.5	0.1	0.1	0.1
63.1	54.5	31.7	26.8	33.5	33.5	0.1	0.1	0.1
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.9	2.7	2.7	2.5	2.6	2.4	2.5	2.4	2.2
20 045.7	19 338.9	22 583.5	21 487.5	21 737.5	30 874.0	31 748.1	29 581.1	24 694.0
1 548.2	1 548.2	1 548.2	1 548.2	1 548.2	1 548.2	1 548.2	1 548.2	1 548.2
45 943.7	46 039.4	43 956.2	42 647.7	45 581.9	51 042.4	53 048.6	54 024.9	49 497.0
147 840.5	147 500.6	144 085.8	146 417.2	150 503.6	151 185.0	152 225.9	153 605.8	150 225.3

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

Item	1998 XII	1999 I	1999 II	1999 III
ASSETS				
Foreign assets	122 340.5	133 521.0	144 793.5	139 980.2
Due from banks	62 561.6	64 060.1	63 177.7	60 604.0
- vault cash	3 768.2	2 885.9	2 868.4	3 153.6
- due to banks from NBP	19 567.6	22 479.6	19 032.4	18 743.9
- due to banks from other banks	31 586.0	31 057.5	32 329.5	31 104.0
- due to NBP from banks	7 639.7	7 637.0	8 947.4	7 602.5
Due from non-bank financial institutions	3 378.2	3 613.5	3 598.3	3 952.3
- due to banks	3 378.2	3 613.5	3 598.3	3 952.3
- due to NBP	0.0	0.0	0.0	0.0
Due from general government	8 318.4	8 703.4	8 873.5	9 577.8
- central government	6 153.3	6 599.3	6 730.9	6 733.9
- local government	2 150.2	2 090.3	2 134.5	2 103.1
- special-purpose funds	14.9	13.8	8.2	740.8
Due from non-financial sector	133 443.9	136 836.1	140 458.9	142 474.2
- corporates	109 539.1	112 706.4	115 932.4	117 163.3
- persons	23 904.7	24 129.7	24 526.5	25 310.9
Securities purchased under agreements to resell	422.1	358.1	178.5	53.1
Securities	101 406.5	99 025.7	108 457.6	108 809.6
- issued by banks	29 230.8	24 074.6	31 867.2	28 304.9
- issued by non-bank financial institutions	521.4	520.4	541.9	627.1
- issued by general government	69 436.3	71 985.9	73 571.9	77 058.3
of which: issued by Treasury	69 028.2	71 590.8	73 166.7	76 650.8
- issued by non-financial sector	2 111.0	2 346.4	2 369.6	2 683.1
- privatisation certificates, rights issues and units in unit trusts	107.0	98.4	107.0	136.2
Other assets	32 161.6	37 041.0	38 919.2	39 483.6
TOTAL ASSETS	464 032.7	483 158.8	508 457.2	504 934.6
LIABILITIES & CAPITAL				
Foreign liabilities	26 055.2	33 347.5	38 821.8	33 727.6
Notes & coin in circulation (including vault cash)	33 993.5	32 897.3	33 809.5	35 180.7
Due to banks	58 626.5	60 561.7	59 484.0	57 228.3
- due from banks to NBP	7 565.0	7 559.9	8 873.1	7 525.6
- due from banks to other banks	31 408.6	30 829.8	31 593.8	31 001.0
- due from NBP to banks	19 652.8	22 172.0	19 017.0	18 701.7
Due to non-bank financial institutions	4 688.8	4 862.0	5 122.5	5 341.1
- banks	4 686.5	4 845.4	5 102.1	5 303.7
- NBP	2.4	16.6	20.4	37.5
Due to general government	16 525.6	22 731.0	20 070.9	22 694.6
- central government	8 343.1	13 155.4	8 796.0	11 005.9
- local government deposits	5 551.4	6 928.7	8 357.2	8 528.7
- special purpose funds	2 631.1	2 646.9	2 917.7	3 160.0
Due to non-financial sector, zloty	153 013.2	153 622.1	155 311.6	156 550.2
- corporates	43 429.5	40 615.8	40 241.5	40 015.9
demand	20 032.4	17 446.8	16 206.1	17 304.1
time	23 397.1	23 169.1	24 035.3	22 711.8
- persons	109 583.7	113 006.2	115 070.1	116 534.2
demand	20 693.3	21 166.7	22 333.4	23 729.9
time	88 890.3	91 839.5	92 736.7	92 804.3
Due to non-financial sector, foreign currency	32 434.5	32 931.1	35 026.5	35 965.6
- corporates	7 963.7	7 632.6	7 758.2	8 024.5
demand	2 541.9	2 484.3	2 437.3	2 586.2
time	5 421.8	5 148.4	5 320.9	5 438.3
- persons	24 470.8	25 298.5	27 268.3	27 941.2
demand	7 224.8	7 322.0	7 740.9	7 829.2
time	17 246.0	17 976.4	19 527.4	20 111.9
Securities sold under agreements to repurchase	259.6	379.3	286.9	127.1
Securities issued and outstanding	29 457.5	24 097.6	31 901.1	28 327.3
Core capital	23 410.9	23 531.1	23 677.7	23 908.7
Supplementary funds	2 850.3	2 864.3	2 839.6	2 743.4
Other liabilities & capital	82 717.1	91 333.7	102 105.0	103 140.1
TOTAL LIABILITIES & CAPITAL	464 032.7	483 158.8	508 457.2	504 934.6

				1999				
IV	V	VI	VII	VIII	IX	X	XI	XII
136 887.0	138 330.6	133 846.4	139 316.4	148 784.9	149 469.7	151 301.0	156 508.2	153 014.7
65 395.7	66 927.3	64 752.0	64 903.5	64 199.3	56 670.8	55 739.5	54 801.0	51 076.1
3 236.0	3 538.6	3 414.0	3 292.8	3 436.1	3 379.9	3 472.6	3 591.3	5 292.5
22 821.7	23 114.7	21 194.6	23 216.9	19 732.8	9 104.2	9 083.0	9 469.0	9 430.0
31 867.9	32 819.7	32 808.0	31 132.8	33 767.4	37 011.8	36 058.4	34 320.2	29 272.7
7 470.0	7 454.3	7 335.3	7 261.1	7 262.9	7 174.9	7 125.5	7 420.4	7 080.8
4 097.5	4 282.8	4 601.1	4 799.3	4 684.3	5 255.9	5 629.0	6 025.3	6 818.7
4 097.5	4 282.8	4 601.1	4 799.3	4 684.3	5 255.9	5 629.0	6 025.3	6 818.7
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9 588.0	9 738.9	9 804.2	10 127.1	11 304.0	10 747.8	10 895.6	10 772.9	11 262.9
6 767.2	6 904.3	6 972.0	7 049.8	7 136.9	5 425.9	5 514.9	5 691.6	6 107.3
2 072.8	2 085.8	2 077.0	2 153.8	2 251.5	2 323.3	2 383.0	2 465.2	2 753.5
748.1	748.8	755.2	923.4	1 915.5	2 998.6	2 997.7	2 616.2	2 402.1
144 712.5	147 375.1	149 179.7	151 474.9	155 120.5	160 099.6	164 113.0	168 040.0	166 642.7
118 606.0	120 288.5	120 860.9	121 824.9	124 141.0	127 734.5	130 540.4	133 031.7	130 049.4
26 106.5	27 086.6	28 318.9	29 650.0	30 979.5	32 365.1	33 572.7	35 008.3	36 593.3
23.6	579.5	827.0	317.4	358.4	786.0	353.6	1 036.4	86.4
99 884.0	100 132.2	102 569.3	99 851.7	98 781.4	109 403.8	108 824.2	107 349.5	103 838.3
20 955.3	20 381.7	23 502.1	22 319.0	22 405.6	31 477.8	32 314.6	30 214.1	25 489.7
505.2	565.7	570.3	578.1	577.2	637.4	663.5	623.6	674.9
75 732.3	76 335.2	75 729.1	74 296.8	72 875.7	74 432.7	72 752.5	73 286.4	74 537.1
75 353.2	75 934.6	75 306.1	73 906.0	72 459.0	73 966.9	72 214.7	72 752.4	74 078.7
2 554.3	2 696.1	2 614.2	2 504.7	2 777.0	2 713.1	2 941.6	3 071.7	2 987.6
137.0	153.6	153.6	153.1	145.8	142.7	152.1	153.6	149.0
41 218.6	39 734.1	43 044.5	41 682.8	42 366.0	42 856.3	44 524.2	45 760.8	38 401.0
501 807.0	507 100.5	508 624.3	512 473.1	525 598.7	535 289.9	541 380.1	550 294.0	531 140.8
33 536.7	35 669.6	34 042.5	41 361.5	43 909.2	39 675.4	40 512.6	41 276.0	42 296.6
35 762.7	35 938.4	37 030.7	37 490.5	37 427.1	37 548.3	38 478.6	38 046.0	43 375.2
62 741.3	63 344.6	62 309.0	61 973.8	61 106.9	53 099.6	52 032.7	51 415.6	45 462.8
7 400.1	7 384.5	7 263.3	7 211.3	7 195.3	7 098.7	7 060.5	7 355.0	7 010.0
31 583.2	32 573.4	32 958.9	31 239.6	33 963.1	37 380.4	35 811.6	34 312.0	29 022.1
23 758.0	23 386.6	22 086.8	23 522.8	19 948.5	8 620.4	9 160.6	9 748.6	9 430.7
5 630.6	5 931.5	6 611.2	5 711.8	5 290.7	5 647.4	6 073.6	8 140.2	7 452.5
5 510.3	5 788.2	6 518.8	5 703.4	5 285.2	5 620.4	6 042.0	8 031.0	7 303.9
120.3	143.3	92.4	8.5	5.5	27.0	31.6	109.2	148.6
22 845.4	22 950.1	20 161.2	18 685.7	22 926.7	23 552.0	21 056.3	24 212.3	21 234.9
11 779.8	11 383.6	8 635.4	8 091.8	11 904.3	12 275.8	9 665.0	12 383.7	10 798.8
8 319.2	8 782.4	8 637.0	8 114.8	8 260.4	8 765.3	8 751.8	9 195.6	7 145.6
2 746.5	2 784.1	2 888.8	2 479.1	2 761.9	2 511.0	2 639.5	2 633.0	3 290.5
156 828.1	158 852.0	160 339.7	162 647.0	164 726.1	167 951.5	169 016.5	169 742.1	178 521.7
39 464.7	40 955.2	41 119.1	41 983.5	43 499.9	45 575.5	45 736.9	45 814.2	54 433.8
15 998.2	17 860.6	18 480.2	17 741.6	19 026.7	19 730.4	21 668.8	19 849.8	23 521.7
23 466.5	23 094.6	22 639.0	24 241.9	24 473.2	25 845.1	24 068.1	25 964.4	30 912.1
117 363.3	117 896.8	119 220.5	120 663.5	121 226.2	122 376.0	123 279.6	123 928.0	124 087.9
24 386.0	24 779.2	25 905.5	26 632.7	26 519.0	26 623.2	26 686.3	27 019.1	25 431.1
92 977.3	93 117.6	93 315.0	94 030.8	94 707.3	95 752.8	96 593.3	96 908.9	98 656.8
35 366.7	35 800.7	35 306.5	35 546.9	37 332.8	37 830.7	40 222.7	41 712.4	38 683.6
7 604.2	7 813.4	7 471.0	7 664.4	8 489.6	7 677.8	9 348.7	10 361.7	8 330.1
2 445.1	2 615.1	2 813.3	2 862.5	2 970.0	2 622.9	2 750.0	2 922.1	3 056.5
5 159.1	5 198.3	4 657.6	4 801.9	5 519.7	5 054.9	6 598.8	7 439.7	5 273.6
27 762.5	27 987.3	27 835.6	27 882.5	28 843.2	30 152.9	30 874.0	31 350.7	30 353.5
7 797.8	7 854.0	7 800.8	7 854.4	8 055.8	8 312.6	8 431.8	8 484.8	8 099.6
19 964.7	20 133.3	20 034.7	20 028.1	20 787.4	21 840.3	22 442.2	22 865.9	22 253.9
102.5	607.6	954.8	500.0	542.4	1 024.9	492.4	1 149.3	209.7
20 909.0	20 192.3	23 467.9	22 225.5	22 483.4	31 703.4	32 614.3	30 436.4	25 891.9
24 529.5	25 371.2	25 601.9	25 977.4	26 025.2	27 109.9	27 315.3	26 957.9	27 157.6
2 944.2	2 969.4	2 995.6	3 026.8	3 065.7	3 087.1	3 082.6	3 074.7	3 048.5
100 610.1	99 473.1	99 803.3	97 326.4	100 762.4	107 059.6	110 482.4	114 131.0	97 805.7
501 807.0	507 100.5	508 624.3	512 473.1	525 598.7	535 289.9	541 380.1	550 294.0	531 140.8

TABLE IX Monetary Aggregates (million zloty)

Item	1998 XII	1999 I	II	III
1. Notes & coin in circulation (including vault cash))	33 993.5	32 897.3	33 809.5	35 180.7
2. Current accounts of the banks	19 652.7	22 171.1	19 015.3	18 699.8
3. Required reserves	0.1	1.0	1.7	1.9
M0 (1 + 2 + 3)	53 646.3	55 069.4	52 826.5	53 882.3
4. Notes & coin in circulation (excluding vault cash)	30 225.3	30 011.4	30 941.1	32 027.1
5. Demand deposits	51 258.8	49 248.0	49 554.4	52 713.4
zloty	37 828.4	35 797.0	35 694.5	38 581.3
- persons	17 077.3	17 555.0	18 681.1	20 030.1
- non-financial corporates	20 032.4	17 446.8	16 206.1	17 304.1
- non-bank financial institutions	718.7	795.2	807.2	1 247.1
foreign currency	9 814.4	9 839.3	10 207.7	10 432.4
- persons	7 224.8	7 322.0	7 740.9	7 829.2
- non-financial corporates	2 541.9	2 484.3	2 437.3	2 586.2
- non-bank financial institutions	47.7	33.0	29.5	16.9
savings books (sight)	3 616.0	3 611.7	3 652.3	3 699.8
M1 (4 + 5)	81 484.0	79 259.4	80 495.5	84 740.5
6. Time deposits & deposits on hold	139 292.7	142 491.1	146 227.7	145 512.4
zloty	114 301.7	117 226.3	119 101.3	117 897.2
- persons	87 727.4	90 705.8	91 653.9	91 824.2
- non-financial corporates	23 623.9	23 363.5	24 294.4	22 983.2
- non-bank financial institutions	2 950.4	3 157.0	3 153.0	3 089.8
foreign currency	23 809.4	24 113.9	26 025.9	26 618.7
- persons	17 227.4	17 959.3	19 509.8	20 095.6
- non-financial corporates	5 610.0	5 277.8	5 383.2	5 535.8
- non-bank financial institutions	972.1	876.9	1 132.8	987.4
savings certificates and certificates of deposit (non-negotiable)	1 181.6	1 150.8	1 100.4	996.5
- zloty	1 162.9	1 133.7	1 082.8	980.1
- foreign currency	18.6	17.1	17.6	16.4
7. Repurchase transactions	3.1	3.1	35.7	3.0
with non-financial corporates	3.1	3.1	3.0	3.0
with non-bank financial institutions	0.0	0.0	32.6	0.0
M2 (M1 + 6 + 7)	220 779.8	221 753.5	226 758.9	230 255.9

				1999				
IV	V	VI	VII	VIII	IX	X	XI	XII
35 762.7	35 938.4	37 030.7	37 490.5	37 427.1	37 548.3	38 478.6	38 046.0	43 375.2
23 756.4	23 385.5	22 085.6	23 521.5	19 944.0	8 619.6	9 159.7	9 746.4	9 427.0
1.6	1.2	1.2	1.3	4.5	0.9	0.9	2.2	3.7
59 520.8	59 325.0	59 117.5	61 013.3	57 375.6	46 168.7	47 639.2	47 794.5	52 806.0
32 526.7	32 399.8	33 616.7	34 197.8	33 991.0	34 168.4	35 006.0	34 454.6	38 082.7
51 780.6	54 465.0	56 224.6	55 924.2	57 467.3	58 213.9	60 965.4	59 411.7	61 296.8
37 760.4	40 168.0	41 710.1	41 218.6	42 452.5	43 334.6	45 854.7	44 090.5	46 093.2
20 624.7	20 990.1	22 049.0	22 667.4	22 555.7	22 705.2	22 796.9	23 154.6	21 415.5
15 998.2	17 860.6	18 480.2	17 741.6	19 026.7	19 730.4	21 668.8	19 849.8	23 521.7
1 137.5	1 317.3	1 180.9	809.6	870.1	899.0	1 389.0	1 086.1	1 155.9
10 258.9	10 507.8	10 657.9	10 740.3	11 051.5	10 961.4	11 221.4	11 456.7	11 188.1
7 797.8	7 854.0	7 800.8	7 854.4	8 055.8	8 312.6	8 431.8	8 484.8	8 099.6
2 445.1	2 615.1	2 813.3	2 862.5	2 970.0	2 622.9	2 750.0	2 922.1	3 056.5
16.0	38.7	43.8	23.4	25.7	25.9	39.6	49.8	32.0
3 761.3	3 789.2	3 856.6	3 965.2	3 963.3	3 917.9	3 889.4	3 864.5	4 015.6
84 307.3	86 864.8	89 841.2	90 122.0	91 458.3	92 382.3	95 971.4	93 866.3	99 379.5
146 440.1	146 481.6	146 394.7	148 335.4	150 250.7	153 590.3	154 756.7	160 738.7	164 066.4
119 270.1	119 022.5	119 787.5	121 641.8	122 531.0	125 342.2	124 361.1	129 010.3	134 901.4
92 040.0	92 231.7	92 445.1	93 239.9	93 962.3	95 003.7	95 858.7	96 200.2	98 008.1
23 766.8	23 388.9	22 934.1	24 514.8	24 754.6	26 134.1	24 380.4	26 315.2	31 394.1
3 463.3	3 402.0	4 408.2	3 887.1	3 814.1	4 204.4	4 122.1	6 494.9	5 499.1
26 218.2	26 559.4	25 725.3	25 892.2	26 965.0	27 489.3	29 652.1	31 011.4	28 509.5
19 950.2	20 119.5	20 022.7	20 017.6	20 777.6	21 830.6	22 433.3	22 857.6	22 247.0
5 254.2	5 266.4	4 724.2	4 882.8	5 606.6	5 140.6	6 695.8	7 644.4	5 497.1
1 013.8	1 173.5	978.3	991.8	580.8	518.1	522.9	509.4	765.4
951.8	899.7	881.9	801.4	754.8	758.8	743.4	717.0	655.5
937.3	885.9	869.9	790.9	745.0	749.1	734.6	708.7	648.7
14.5	13.8	12.0	10.5	9.8	9.7	8.8	8.3	6.9
3.0	3.0	3.0	3.0	53.6	3.0	2.5	2.5	2.7
3.0	3.0	3.0	3.0	3.0	3.0	2.5	2.5	2.7
0.0	0.0	0.0	0.0	50.6	0.0	0.0	0.0	0.0
230 750.5	233 349.3	236 238.9	238 460.3	241 762.6	245 975.5	250 730.5	254 607.5	263 448.7

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

Item	1998 XII	1999 I	II	III
TOTAL MONEY SUPPLY (M2)	220 779 .8	221 753 .5	226 758 .9	230 255 .9
A. Domestic money stocks	187 137 .4	187 783 .1	190 507 .7	193 188 .4
1. Notes & coin in circulation (excluding vault cash)	30 225 .3	30 011 .4	30 941 .1	32 027 .1
- notes & coin in circulation (including vault cash)	33 993 .5	32 897 .3	33 809 .5	35 180 .7
- vault cash	3 768 .2	2 885 .9	2 868 .4	3 153 .6
2. Due to persons and corporates . zloty	156 912 .1	157 771 .8	159 566 .6	161 161 .4
persons	109 583 .7	113 006 .2	115 070 .1	116 534 .2
- demand	20 693 .3	21 166 .7	22 333 .4	23 729 .9
- time	88 890 .3	91 839 .5	92 736 .7	92 804 .3
corporates	47 328 .5	44 765 .5	44 496 .5	44 627 .1
- demand	20 751 .1	18 241 .9	17 013 .4	18 551 .2
- time	26 577 .4	26 523 .6	27 483 .2	26 076 .0
B. Due to persons & corporates . foreign currency	33 642 .4	33 970 .4	36 251 .2	37 067 .5
1. Persons	24 470 .8	25 298 .5	27 268 .3	27 941 .2
2. Corporates	9 171 .7	8 671 .9	8 982 .9	9 126 .3
NET FOREIGN ASSETS	96 285 .2	100 173 .5	105 971 .6	106 252 .6
of which: in USD million	27 478 .7	27 377 .3	26 896 .4	26 496 .9
NET DOMESTIC ASSETS	124 494 .6	121 580 .0	120 787 .2	124 003 .3
C. Due from persons & corporates	138 482 .3	142 328 .2	145 898 .1	148 573 .9
1. Persons	23 904 .7	24 129 .7	24 526 .5	25 310 .9
2. Corporates	114 577 .6	118 198 .4	121 371 .7	123 263 .0
D. Net general government debt	61 229 .1	57 958 .3	62 374 .6	63 941 .5
1. Due from central government	6 153 .3	6 599 .3	6 730 .9	6 733 .9
2. Due from special-purpose funds	14 .9	13 .8	8 .2	740 .8
3. Due from local government	2 150 .2	2 090 .3	2 134 .5	2 103 .1
4. Treasury securities	69 028 .2	71 590 .8	73 166 .7	76 650 .8
of which: - Treasury bills	16 418 .2	16 792 .7	16 657 .3	18 043 .3
- zloty-denominated 1-year Treasury bonds	1 115 .7	1 166 .4	1 181 .6	1 186 .8
- other zloty-denominated Treasury bonds	32 540 .5	34 082 .5	33 979 .6	35 452 .4
- dollar-denominated Treasury bonds	18 953 .8	19 549 .1	21 348 .3	21 968 .4
5. Local government securities	408 .1	395 .2	405 .2	407 .5
6. Due to central government	8 343 .1	13 155 .4	8 796 .0	11 005 .9
7. Due to special-purpose funds	2 631 .1	2 646 .9	2 917 .7	3 160 .0
8. Due to local government	5 551 .4	6 928 .7	8 357 .2	8 528 .7
E. Other items (net)	-75 216 .9	-78 706 .4	-87 485 .5	-88 512 .1

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

Item	1998 XII	1999 I	II	III
NET FOREIGN ASSETS	95 614 .2	98 688 .3	105 231 .3	106 311 .8
NET DOMESTIC ASSETS	-41 967 .9	-43 619 .0	-52 404 .8	-52 429 .5
Due from financial institutions	7 639 .7	7 637 .0	8 947 .4	7 602 .5
Net general government debt	13 755 .1	10 130 .8	15 152 .5	13 484 .4
Due from non-financial sector	59 .7	60 .7	64 .0	65 .6
Other items (net)	-63 422 .4	-61 447 .5	-76 568 .7	-73 582 .0
RESERVE MONEY	53 646 .3	55 069 .4	52 826 .5	53 882 .3
Notes & coin in circulation (including vault cash)	33 993 .5	32 897 .3	33 809 .5	35 180 .7
Due to domestic banks	19 652 .8	22 172 .0	19 017 .0	18 701 .7
Money multiplier	4 .12	4 .03	4 .29	4 .27

IV	V	VI	VII	1999 VIII	IX	X	XI	XII
230 750 .5	**233 349 .3**	**236 238 .9**	**238 460 .3**	**241 762 .6**	**245 975 .5**	**250 730 .5**	**254 607 .5**	**263 448 .7**
194 258 .9	**196 268 .3**	**199 843 .6**	**201 817 .3**	**203 736 .3**	**207 515 .1**	**209 848 .2**	**212 131 .1**	**223 744 .2**
32 526 .7	32 399 .8	33 616 .7	34 197 .8	33 991 .0	34 168 .4	35 006 .0	34 454 .6	38 082 .7
35 762 .7	35 938 .4	37 030 .7	37 490 .5	37 427 .1	37 548 .3	38 478 .6	38 046 .0	43 375 .2
3 236 .0	3 538 .6	3 414 .0	3 292 .8	3 436 .1	3 379 .9	3 472 .6	3 591 .3	5 292 .5
161 732 .2	163 868 .5	166 226 .9	167 619 .5	169 745 .3	173 346 .8	174 842 .2	177 676 .5	185 661 .5
117 363 .3	117 896 .8	119 220 .5	120 663 .5	121 226 .2	122 376 .0	123 279 .6	123 928 .0	124 087 .9
24 386 .0	24 779 .2	25 905 .5	26 632 .7	26 519 .0	26 623 .2	26 686 .3	27 019 .1	25 431 .1
92 977 .3	93 117 .6	93 315 .0	94 030 .8	94 707 .3	95 752 .8	96 593 .3	96 908 .9	98 656 .8
44 368 .8	45 971 .7	47 006 .4	46 956 .1	48 519 .1	50 970 .8	51 562 .7	53 748 .5	61 573 .6
17 135 .7	19 177 .9	19 661 .1	18 551 .2	19 896 .8	20 629 .4	23 057 .8	20 935 .9	24 677 .7
27 233 .1	26 793 .8	27 345 .3	28 404 .9	28 622 .3	30 341 .4	28 504 .9	32 812 .6	36 896 .0
36 491 .6	**37 081 .0**	**36 395 .3**	**36 643 .0**	**38 026 .3**	**38 460 .4**	**40 882 .3**	**42 476 .4**	**39 704 .4**
27 762 .5	27 987 .3	27 835 .6	27 882 .5	28 843 .2	30 152 .9	30 874 .0	31 350 .7	30 353 .5
8 729 .1	9 093 .7	8 559 .7	8 760 .5	9 183 .1	8 307 .5	10 008 .4	11 125 .7	9 350 .9
103 350 .3	**102 661 .0**	**99 803 .9**	**97 954 .9**	**104 875 .7**	**109 794 .3**	**110 788 .4**	**115 232 .2**	**110 718 .0**
26 138 .2	25 855 .9	25 397 .3	25 376 .9	26 344 .1	26 687 .3	26 360 .0	26 858 .8	26 690 .0
127 400 .2	**130 688 .3**	**136 435 .0**	**140 505 .3**	**136 886 .9**	**136 181 .2**	**139 942 .2**	**139 375 .3**	**152 730 .6**
150 791 .5	**153 781 .7**	**155 791 .8**	**158 140 .0**	**161 993 .1**	**167 351 .6**	**171 976 .6**	**176 507 .4**	**175 938 .3**
26 106 .5	27 086 .6	28 318 .9	29 650 .0	30 979 .5	32 365 .1	33 572 .7	35 008 .3	36 593 .3
124 685 .0	126 695 .0	127 473 .0	128 490 .0	131 013 .6	134 986 .5	138 403 .9	141 499 .2	139 345 .0
62 474 .9	**63 124 .0**	**65 230 .8**	**65 738 .2**	**61 252 .9**	**61 628 .4**	**62 591 .7**	**59 847 .0**	**64 565 .1**
6 767 .2	6 904 .3	6 972 .0	7 049 .8	7 136 .9	5 425 .9	5 514 .9	5 691 .6	6 107 .3
748 .1	748 .8	755 .2	923 .4	1 915 .5	2 998 .6	2 997 .7	2 616 .2	2 402 .1
2 072 .8	2 085 .8	2 077 .0	2 153 .8	2 251 .5	2 323 .3	2 383 .0	2 465 .2	2 753 .5
75 353 .2	75 934 .6	75 306 .1	73 906 .0	72 459 .0	73 966 .9	72 214 .7	72 752 .4	74 078 .7
16 806 .2	16 017 .4	16 015 .6	15 149 .7	14 148 .0	13 384 .5	13 520 .9	14 552 .3	16 227 .0
1 211 .0	1 211 .5	1 152 .4	900 .0	902 .1	701 .2	281 .8	270 .9	81 .3
36 212 .1	37 405 .5	36 768 .6	36 996 .2	35 797 .0	46 264 .3	45 230 .7	45 463 .9	45 675 .6
21 123 .9	21 300 .3	21 369 .5	20 860 .0	21 612 .0	13 616 .9	13 181 .2	12 465 .2	12 094 .8
379 .1	400 .5	423 .0	390 .8	416 .6	465 .8	537 .8	534 .0	458 .4
11 779 .8	11 383 .6	8 635 .4	8 091 .8	11 904 .3	12 275 .8	9 665 .0	12 383 .7	10 798 .8
2 746 .5	2 784 .1	2 888 .8	2 479 .1	2 761 .9	2 511 .0	2 639 .5	2 633 .0	3 290 .5
8 319 .2	8 782 .4	8 778 .3	8 114 .8	8 260 .4	8 765 .3	8 751 .8	9 195 .6	7 145 .6
-85 866 .2	**-86 217 .3**	**-84 587 .6**	**-83 372 .9**	**-86 359 .1**	**-92 798 .8**	**-94 626 .1**	**-96 979 .1**	**-87 772 .9**

IV	V	VI	VII	1999 VIII	IX	X	XI	XII
104 072 .2	**103 607 .5**	**101 513 .8**	**101 457 .2**	**104 023 .2**	**107 086 .1**	**108 437 .2**	**109 040 .8**	**105 863 .1**
-44 551 .4	**-44 282 .5**	**-42 396 .3**	**-40 443 .9**	**-46 647 .6**	**-60 917 .4**	**-60 798 .0**	**-61 246 .3**	**-53 057 .2**
7 470 .0	7 454 .3	7 335 .3	7 261 .1	7 262 .9	7 174 .9	7 125 .5	7 420 .4	7 080 .8
12 345 .3	12 328 .5	14 884 .2	15 153 .2	12 073 .9	12 259 .4	14 806 .5	12 643 .6	11 763 .0
65 .7	66 .2	67 .2	67 .1	68 .7	70 .9	71 .7	72 .5	70 .8
-64 432 .5	-64 131 .5	-64 682 .9	-62 925 .2	-66 053 .2	-80 422 .7	-82 801 .7	-81 382 .8	-71 971 .8
59 520 .8	**59 325 .0**	**59 117 .5**	**61 013 .3**	**57 375 .6**	**46 168 .7**	**47 639 .2**	**47 794 .5**	**52 806 .0**
35 762 .7	35 938 .4	37 030 .7	37 490 .5	37 427 .1	37 548 .3	38 478 .6	38 046 .0	43 375 .2
23 758 .0	23 386 .6	22 086 .8	23 522 .8	19 948 .5	8 620 .4	9 160 .6	9 748 .6	9 430 .7
3 .88	**3 .93**	**4 .00**	**3 .91**	**4 .21**	**5 .33**	**5 .26**	**5 .26**	**4 .99**

TABLE XII Poland: Balance of Payments on a Cash Basis (USD million)*

	Q 1		Q 2	
	1998	1999	1998	1999
A. CURRENT ACCOUNT	-1 998	-2 243	-665	-2 758
Trade balance	-3 244	-2 821	-2 875	-3 360
Goods: exports	7 056	7 012	7 670	6 282
Goods: imports	10 300	9 833	10 545	9 642
Services: net	-109	-364	-111	-402
Services: credit	782	783	875	733
Services: debit	891	1 147	986	1 135
Income: net	-161	-235	-31	-133
Income: credit	610	501	586	517
Income: debit	771	736	617	650
of which: due and paid	769	734	614	648
Current transfers: net	353	379	637	352
Current transfers: credit	486	548	777	490
Current transfers: debit	133	169	140	138
Unclassified transactions on current account: net	1 163	798	1 715	785
B. CAPITAL AND FINANCIAL ACCOUNT	3 242	1 152	2 192	1 757
Capital account	19	18	-2	-6
Financial account	3 223	1 134	2 194	1 763
Direct investment: net	1 004	1 125	1 257	1 043
Polish direct investment abroad	-3	-1	-59	-41
Foreign direct investment in Poland	1 007	1 126	1 316	1 084
Portfolio investment: net	212	-289	363	33
Polish portfolio investment abroad (assets)	-253	-158	58	52
Equity securities	-38	-147	-10	-11
Debt securities	-215	-11	68	63
Foreign portfolio investment in Poland (liabilities)	465	-131	305	-19
Equity securities	138	-67	52	-10
Debt securities	327	-64	253	-9
Other investment: net	2 007	298	574	687
Polish assets	1 800	578	21	12
Long-term credits extended	18	32	-19	-40
Drawings	69	31	67	59
Repayments	87	63	48	19
Short-term credits extended	14	2	-32	11
Drawings	30	17	55	7
Repayments	44	19	23	18
Other assets	1 768	544	72	41
Currency and deposits	1 735	531	57	40
Other	33	13	15	1
Polish liabilities	207	-280	553	675
Long-term credits received	228	-76	424	559
Drawings	560	555	699	890
Repayments	332	631	275	331
of which: due and paid	317	622	275	331
Short-term credits received	42	16	-120	151
Drawings	99	65	20	231
Repayments	57	49	140	80
Other liabilities	-63	-220	249	-35
Currency and deposits	-50	-220	251	-35
Other	-13	0	-2	0
C. NET ERRORS AND OMISSIONS	1 339	1 247	463	834
OVERALL BALANCE	2 583	156	1 990	-167
D. FINANCING OF OVERALL BALANCE	-2 583	-156	-1 990	167
Reserve assets (Gross official reserves)	-2 578	-152	-1 989	172
Credits from IMF	0	0	0	0
Exceptional financing	-5	-4	-1	-5

* Data for 1999 were verified.

Q 3 1998	Q 3 1999	Q 4 1998	Q 4 1999	4 Quarters 1998	4 Quarters 1999
-1 215	-3 009	-2 980	-3 559	-6 858	-11 569
-3 296	-3 886	-4 305	-4 313	-13 720	-14 380
7 801	6 214	7 595	6 839	30 122	26 347
11 097	10 100	11 900	11 152	43 842	40 727
-25	-381	-263	-477	-508	-1 624
1 028	866	993	928	3 678	3 310
1 053	1 247	1 256	1 405	4 186	4 934
-283	-313	-93	-123	-568	-804
772	402	708	479	2 676	1 899
1 055	715	801	602	3 244	2 703
1 053	712	800	600	3 236	2 694
520	418	432	455	1 942	1 604
664	549	616	622	2 543	2 209
144	131	184	167	601	605
1 869	1 153	1 249	899	5 996	3 635
2 638	1 916	2 728	3 040	10 800	7 865
6	-11	50	46	73	47
2 632	1 927	2 678	2 994	10 727	7 818
1 684	2 467	1 021	1 713	4 966	6 348
-1	-30	-100	-51	-163	-123
1 685	2 497	1 121	1 764	5 129	6 471
-859	-90	1 614	1 795	1 330	1 449
-39	63	54	55	-180	12
-1	-2	7	-13	-42	-173
-38	65	47	68	-138	185
-820	-153	1 560	1 740	1 510	1 437
147	42	615	920	952	885
-967	-195	945	820	558	552
1 807	-450	43	-514	4 431	21
1 474	-1 950	-1 048	-1 331	2 247	-2 691
-49	-21	-32	18	-82	-11
71	79	53	29	260	198
22	58	21	47	178	187
11	5	-9	-5	-16	13
24	12	38	17	147	53
35	17	29	12	131	66
1 512	-1 934	-1 007	-1 344	2 345	-2 693
1 509	-1 937	-1 007	-1 347	2 294	-2 713
3	3	0	3	51	20
333	1 500	1 091	817	2 184	2 712
82	987	935	586	1 669	2 056
528	1 526	1 448	1 434	3 235	4 405
446	539	513	848	1 566	2 349
445	538	469	810	1 506	2 301
-64	163	96	110	-46	440
86	254	129	384	334	934
150	91	33	274	380	494
315	350	60	121	561	216
335	351	66	122	602	218
-20	-1	-6	-1	-41	-2
-516	722	480	681	1 766	3 484
907	-371	228	162	5 708	-220
-907	371	-228	-162	-5 708	220
-903	371	-228	-162	-5 698	229
0	0	0	0	0	0
-4	0	0	0	-10	-9

TABLE XIIA Poland: Balance of Payments on a Cash Basis (USD million)*

	Q 1		Q 2	
	1998	1999	1998	1999
A. CURRENT ACCOUNT	-1 998	-2 243	-665	-2 758
Trade balance	-3 244	-2 821	-2 875	-3 360
Goods: exports	7 056	7 012	7 670	6 282
Goods: imports	10 300	9 833	10 545	9 642
Services: net	-109	-364	-111	-402
Services: credit	782	783	875	733
Services: debit	891	1 147	986	1 135
Income: net	-161	-235	-31	-133
Income: credit	610	501	586	517
Income: debit	771	736	617	650
of which: due and paid	769	734	614	648
Current transfers: net	353	379	637	352
Current transfers: credit	486	548	777	490
Current transfers: debit	133	169	140	138
Unclassified transactions on current account: net	1 163	798	1 715	785
B. CAPITAL AND FINANCIAL ACCOUNT	3 242	1 848	2 192	1 290
Capital account	19	18	-2	-6
Financial account	3 223	1 830	2 194	1 296
Direct investment: net	1 004	1 125	1 257	1 043
Polish direct investment abroad	-3	-1	-59	-41
Foreign direct investment in Poland	1 007	1 126	1 316	1 084
Portfolio investment: net	212	-289	363	33
Polish portfolio investment abroad (assets)	-253	-158	58	52
Equity securities	-38	-147	-10	-11
Debt securities	-215	-11	68	63
Foreign portfolio investment in Poland (liabilities)	465	-131	305	-19
Equity securities	138	-67	52	-10
Debt securities	327	-64	253	-9
Other investment: net	2 007	994	574	220
Polish assets	1 800	578	21	12
Long-term credits extended	18	32	-19	-40
Drawings	69	31	67	59
Repayments	87	63	48	19
Short-term credits extended	14	2	-32	11
Drawings	30	17	55	7
Repayments	44	19	23	18
Other assets	1 768	544	72	41
Currency and deposits	1 735	531	57	40
Other	33	13	15	1
Polish liabilities	207	416	553	208
Long-term credits received	228	-76	424	559
Drawings	560	555	699	890
Repayments	332	631	275	331
of which: due and paid	317	622	275	331
Short-term credits received	42	16	-120	151
Drawings	99	65	20	231
Repayments	57	49	140	80
Other liabilities	-63	476	249	-502
Currency and deposits[1]	-50	476	251	-502
Other	-13	0	-2	0
C. NET ERRORS AND OMISSIONS	1 339	1 247	463	834
OVERALL BALANCE	2 583	852	1 990	-634
D. FINANCING OF OVERALL BALANCE	-2 583	-852	-1 990	634
Official reserve assets[1]	-2 578	-848	-1 989	639
Credits from IMF	0	0	0	0
Exceptional financing	-5	-4	-1	-5

1 In May 2000 the category "Gross Official Reserves" was replaced by "Official Reserves Assets". As a consequence, the following items of the balance on a cash basis changed in comparison to previously published figures: "Currency and deposits", "Official reserves assets". This change consisted in shifting the liabilities side of NBP repo transactions form previously compiled "Gross Official Reserves" to "Currency and deposits". From comparison purposes the data from January 1998 through December 1999 were adjusted accordingly.

Q 3		Q 4		4 Quarters	
1998	1999	1998	1999	1998	1999
-1 215	-3 009	-2 980	-3 559	-6 858	-11 569
-3 296	-3 886	-4 305	-4 313	-13 720	-14 380
7 801	6 214	7 595	6 839	30 122	26 347
11 097	10 100	11 900	11 152	43 842	40 727
-25	-381	-263	-477	-508	-1 624
1 028	866	993	928	3 678	3 310
1 053	1 247	1 256	1 405	4 186	4 934
-283	-313	-93	-123	-568	-804
772	402	708	479	2 676	1 899
1 055	715	801	602	3 244	2 703
1 053	712	800	600	3 236	2 694
520	418	432	455	1 942	1 604
664	549	616	622	2 543	2 209
144	131	184	167	601	605
1 869	1 153	1 249	899	5 996	3 635
3 542	2 061	2 696	3 054	11 672	8 253
6	-11	49	46	72	47
3 536	2 072	2 647	3 008	11 600	8 206
1 684	2 467	1 021	1 713	4 966	6 348
-1	-30	-100	-51	-163	-123
1 685	2 497	1 121	1 764	5 129	6 471
-859	-90	1 614	1 795	1 330	1 449
-39	63	54	55	-180	12
-1	-2	7	-13	-42	-173
-38	65	47	68	-138	185
-820	-153	1 560	1 740	1 510	1 437
147	42	615	920	952	885
-967	-195	945	820	558	552
2 711	-305	12	-500	5 304	409
1 471	-1 951	-1 079	-1 332	2 213	-2 693
-49	-21	-32	18	-82	-11
71	79	53	29	260	198
22	58	21	47	178	187
11	5	-9	-5	-16	13
24	12	38	17	147	53
35	17	29	12	131	66
1 509	-1 935	-1 038	-1 345	2 311	-2 695
1 506	-1 937	-1 038	-1 347	2 260	-2 713
3	2	0	2	51	18
1 240	1 646	1 091	832	3 091	3 102
82	987	935	586	1 669	2 056
528	1 526	1 448	1 434	3 235	4 405
446	539	513	848	1 566	2 349
445	538	469	810	1 506	2 301
-64	163	96	110	-46	440
86	254	129	384	334	934
150	91	33	274	380	494
1 222	496	60	136	1 468	606
1 242	496	66	136	1 509	606
-20	0	-6	0	-41	0
-513	722	512	681	1 801	3 484
1 814	-226	228	176	6 615	168
-1 814	226	-228	-176	-6 615	-168
-1 810	226	-228	-176	-6 605	-159
0	0	0	0	0	0
-4	0	0	0	-10	-9

TABLE XIII Poland: Gross Official Reserves (Reserve Assets, USD million)[1]

	1999			
	I	II	III	IV
GROSS OFFICIAL RESERVES [2]	**26 597.8**	**25 848.2**	**26 032.2**	**25 494.3**
MONETARY GOLD	923.8	862.9	988.4	959.4
SDR	240.8	237.7	250.4	247.2
FOREIGN EXCHANGE	25 433.2	24 747.6	24 793.4	24 287.7

[1] In May 2000, the National Bank of Poland introduced a new category "Official reserve assets", which replaces that used previously, i.e. "Gross official reserves" that differed from the former with the treatment of repo transactions. "Gross official reserves" included the value of net repo transactions (difference between assets and liabilities side repo transactions). The category of official reserve assets, introduced starting from 31 May, 2000 comprises only assets side repo transactions, which treatment is in line with the IMF definition. For comparison official reserve assets from January to December of 1999 were adjusted backwards. See table below.

[2] As of the end of quarter.

TABLE XIV Poland: Official Reserve Assets (USD million)

	1999, by quarters			
	I	II	III	IV
OFFICIAL RESERVE ASSETS [1]	**28 609.7**	**27 384.1**	**27 892.4**	**27 313.7**
MONETARY GOLD	923.8	862.9	988.4	959.4
SDR	240.8	237.7	250.4	247.2
FOREIGN EXCHANGE	27 445.1	26 283.5	26 653.6	26 107.1

[1] As of the end of quarter.

TABLE XV Poland: External Debt (USD million) as of May 31, 2000*

	Stock at end of period			
	1996	1997	1998	1999
Monetary authorities	78	58	32	23
Loans	78	58	32	23
General government	36 271	34 402	34 098	32 085
Debt securities	7 562	7 818	7 037	6 905
Bonds and notes	6 884	7 343	6 672	6 760
Money-market instruments	678	475	365	145
Other investment	28 709	26 584	27 061	25 180
Loans	28 708	26 584	27 061	25 180
Other liabilities	1	0	0	0
Banks	2 518	3 683	5 149	6 532
Loans from direct investors (Intercompany loans)	87	141	178	189
Debt securities	200	488	236	10
Bonds and notes	200	306	215	10
Money-market instruments	0	182	21	0
Other investment	2 231	3 054	4 735	6 333
Loans	488	1 104	2 084	3 507
Deposits with Polish banks	1 685	1 950	2 651	2 826
Other liabilities	58	0	0	0
Other sectors	8 487	10 771	17 588	21 888
Loans from direct investors (Intercompany loans)	2 681	4 326	6 260	6 996
Debt securities	107	347	1 416	2 051
Bonds and notes	31	325	1 328	2 028
Money-market instruments	76	22	88	23
Other investment	5 699	6 098	9 912	12 841
Trade credits	2 197	1 862	2 125	3 360
Loans	3 502	4 236	7 787	9 481
TOTAL EXTERNAL DEBT	47 354	48 914	56 867	60 528
of which:				
Long-term	42 572	44 541	50 783	53 191
Short-term	4 782	4 373	6 084	7 337

* See Methodological Notes.

Methodological Notes

TABLE I. Basic Economic Data

1. The data included in points 1, 2, 6, 7, 10 and 12 refer to all business organisations, irrespective of ownership rights, whether belonging to the public or private sector (the public sector comprises business undertakings consituting the state property of local government institutions and also those of mixed equity, 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, and personal and household goods; hotel and restaurants; transport, storage and communication; real estate, renting of machinery and equipment without an operator; renting of personal and household goods; computer and related activities; other 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 sections of the Polish Classification of Economic Activity (PKD): Mining & Quarrying; Manufacturing; and Electricity, Gas & Water Supply.

4. Figures on industrial output (point 1), construction output (point 2), on the employed labour force, average employees in employment and average monthly employee earnings in the corporate sector (points 6,7 and 10) 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 and excise duty, but inclusive of product subsidies to goods and services, using "underlying prices".

6. Figures on construction output (point 2) refer to works performed within Poland by construction companies, i.e., those classified in line with the NACE under the section "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 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. As of 1999, average gross monthly earnings have been increased to include the value of the compulsory social security contribution.

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 quarterly statements on income, expense and profit/loss, whereas data on all kinds of activity refer to organisations employing more than 49 persons.

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 in points 14 and 15, which are provided by the Warsaw Stock Exchange).

1. Interest rates in Table II are presented on an annualised basis as obtaining at month end, except in points 12e and 13e, which give monthly average rates.

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

3. As of January 1999, the reference basket of currencies used to set the exchange rate of the zloty is composed of the euro (55%) and the US dollar (45%).

4. Rates on loans, zloty deposits and foreign currency deposits at the principal commercial banks (points 6, 7 and 8) refer to the rates quoted by the following banks:

– PKO-State Savings Bank,
– Bank Handlowy w Warszawie SA,
– Bank Śląski SA,
– Bank Przemysłowo-Handlowy SA,
– Wielkopolski Bank Kredytowy SA,
– Powszechny Bank Kredytowy SA,
– Bank Zachodni SA,
– BRE Bank SA,
– BIG Bank SA,
– BIG Bank Gdański SA,
– Bank Polska Kasa Opieki SA,
– Kredyt Bank SA,
– Bank Gospodarki Żywnościowej SA.

5. Rates on loans and deposits (points 6, 7 and 8) are given by reference to the minimum and maximum rates. (NB: Some banks only provide information on minimum lending and deposit rates.)

6. Rates on loans (point 6) refer to corporate loans.

7. Rates on zloty deposits (point 7) refer to personal deposits.

8. Rates on foreign currency deposits at commercial banks (point 8) refer to accounts held in US dollars.

9. Data on interbank placements (point 9) refer to zloty deposits at resident banks. 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. Since January 1998, the data have been supplied by banks listed in note 4 above and also by:

– Raiffeisen Centrobank SA,
– CITIBANK (Poland) SA,
– Bank Ochrony Środowiska SA,
– Bank Austria Creditanstalt Poland SA,
– ING Bank N.V. Warsaw Branch,
– Societé Générale – Succursale de Varsovie,
– Deutsche Bank Polska SA.

The data include:

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

10. Total required reserves (point 11) refers the month-end values declared by the banks.

11. Figures for Treasury Bill tenders (point 12, excluding sub-point 12g) are taken from the tenders held during the given month. The average discount rates on bids accepted (sub-point 12e) and average yields on bills purchased (sub-point 12f) 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 12g) 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.

12. Figures for tenders for NBP money-market bills (point 13, excluding sub-point 13g) are taken from the tenders held during the given month. The average discount rates on bids accepted (sub-point 13e) and average yields on bills purchased (sub-point 13f) are weighted according to the proportion of bills of particular maturities in the total value of bills purchased.

13. The Warsaw Stock Exchange Index (sub-point 14d) and Warsaw Second-Tier Market Index (sub-point 15d) are calculated according to percentage changes in the market values of listed companies. The market value of all companies on the first-tier market (for the former index) and second-tier market (for the latter index) is computed during each trading session (the total mar-

ket 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, while the Warsaw Second-Tier Market Index stood at 1,000 points at year end 1994.

14. The P/E ratio (sub-points 14e and 15e) 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.

15. The turnover ratio (sub-points 14f and 15f) represents the ratio of the value of shares sold to the average market value of shares listed on the particular market in a given month.

TABLE III. PLN/USD and PLN/EUR Daily Exchange Rates

The source of this information is the National Bank of Poland.

1. The NBP average exchange rate (fixing) is the official rate used for statistical and accounting purposes.

2. Average PLN/USD and PLN/EUR fixing rates and USD/1EUR exchange rates are calculated as the arithmetic means of the average rates on particular days of the month.

TABLE IV. Weighted Average Zloty Deposit Rates at Commercial Banks

Weighted interest rates are calculated on the basis of the rates quoted by 15 banks. At year end 1999, these banks accounted for approximately 83% of deposits and 77% of loans within the entire Polish banking system. The banks in question are:

– PKO-State Savings Bank,
– Bank Handlowy w Warszawie SA,
– Bank Śląski SA,
– Bank Przemysłowo-Handlowy SA,
– Wielkopolski Bank Kredytowy SA,
– Powszechny Bank Kredytowy SA,
– Bank Zachodni SA,
– BRE Bank SA,
– BIG Bank SA,
– BIG Bank Gdański SA,
– Bank Polska Kasa Opieki SA,
– Kredyt Bank SA,
– Bank Gospodarki Żywnościowej SA,
– Raiffeisen Centrobank SA,
– CITIBANK (Poland) SA.

The data on interest rates at particular banks are derived from the standard bank reporting packages submitted to the NBP. The interest rate for a given category of deposit or loan has been taken to be:

- the minimum floating rate of interest,
- where there is no floating rate – the minimum fixed rate of interest.

Interest rates have been calculated as a weighted average. The weights applied represent the proportion attributable to particular banks in a given category in relation to all the banks within the above-mentioned reference group.

TABLE V. Weighted Average Zloty Lending Rates at Commercial Banks

Cf. note to Table VI.

General Remarks on Tables VI, VII and VIII

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

2. Tables VI, VII and VIII present gross assets, i.e., with no deduction of provisions, accumulated depreciation or valuation allowances.

3. **"Non-bank financial institutions"** are insurance companies (excluding the Social Insurance Authority and Farmers' Social Insurance Boards, which are included in the general government sector), 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 – KPW), and financial support institutions (e.g., the National Securities Depositary – KDPW, 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.

4. The term **"general government sector"** refers to central government, local government and special purpose funds of the two.

5. The term **"non-financial sector"** refers to the organisations and persons listed in points 6 and 7.

6. 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 groups, etc.

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

8. The terms **"foreign assets/foreign liabilities"** comprise amounts due from or to non-residents, in both convertible and non-convertible currencies and also in zloty, excluding 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. The "foreign assets/foreign liabilities" in this *Report* comprise the same scope as those in *Reports* published earlier. All items other than "foreign assets/foreign liabilities" presented in the tables represent transactions conducted with residents.

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

10. **"Securities purchases/sold under agreements to resell/repurchase"** represent loans or placements made, or borrowings or deposits taken, collateralised by securities. The above items do not comprise transactions between the commercial banks and the central bank, which are shown as "due from/to NBP".

11. The term **"due to"** includes 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 6 and 7 of "General remarks on Tables VI, VII and VIII".

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

– Treasury bills,

– Treasury bonds denominated in zloty and foreign currency.

Figures on the value of portfolio of government securities presented in this *Report* are given at cost plus interest accrued and discount accreted.

3. **"Other assets"** include, among other things: fixed assets, accrued interest income, settlement accounts, accrued income and prepaid expense, and settlements with miscellaneous debtors.

4. **"Other liabilities & capital"** include, among others: 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 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 VII are consistent with those used for commercial banks. It 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 banks (e.g., refinance loans, required reserves).

3. **"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.

4. **"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 and NBP – Assets and Liabilities

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

TABLE IX. Monetary Aggregates

The basic monetary aggregate used by the NBP to measure the **money supply** is **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 and coin in circulation and personal and corporate demand deposits (in zloty and foreign currency).

TABLE X. Consolidated Balance Sheet of the Banking System

1. This table presents the assets and liabilities of the commercial banks and NBP in a format that reflect the requirements of monetary analyses.

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

The aggregate "deposits" used 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, can 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)*.

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

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

5. The item **"notes and 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.

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

7. The item **"due to corporate"** 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, 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.

8. **"Net foreign assets"** represent the difference between all amounts due to and from non-residents (see definition in general notes on Table VI, VII and VIII, point 8).

9. **"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 total money supply and net foreign assets.

10. 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.

11. 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).

12. **"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.

13. 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.

TABLES XII & XIIa. Poland: Balance of Payments on a cash basis (USD million)

1. **The balance of payments as compiled on a cash basis** is a statistical presentation of all payments settled by the Polish banking system (supplemented by additional data described in point 2 below) that provides a systematic summary of all business transactions over a given period of time between Poland and the rest of the world (i.e., between Polish residents and non-residents). This presentation is drawn up in analytical format according to the standard components of the balance of payments, in line with the recommendations of the International Monetary Fund and other international organisations. The balance of payments on a cash basis comprises the current account, the capital and financial account, net errors and omissions, and the financing of the overall balance, including the official reserve assets.

2. **The source of data on the Polish balance of payments on a cash basis** are the reports of domestic banks licensed to trade in foreign exchange and perform the associated settlements. The data concerned refer to transactions in foreign currency and zloty on the accounts held by Polish banks at banks abroad and on the accounts of non-residents at Polish banks, and also direct foreign currency transactions at the cash desks of Polish banks. In addition, the balance of payments on a cash basis also incorporates:

- trade credits (i.e., drawings and repayments of credit through deliveries of goods and services) within the banking and government sectors, as registered by banks operating as payments agent to the Government;
- the cancellation, conversion, rescheduling and capitalisation of foreign liabilities under the servicing of government sector borrowings (principal and interest), as registered by banks operating as payments agent to the Government;
- current account transactions, as registered by Bank Handlowy w Warszawie SA, carried out by residents in performance of agreements involving the exchange of non-monetary benefits concluded with non-residents from countries where the national currency has not been recognised as a convertible currency (Ordinance of the Ministry of

Finance amending certain provisions of the Foreign Exchange Act, January 8, 1999, §3, para. 2, subparas. 2b and 3a, as published in *Dziennik Ustaw* [the Journal of Laws] no. 1/1999, item 2).

Until year end 1998, payments figures also included transactions involving the bilateral netting of liabilities; as of 1999, these are shown solely in the balance of payments on a transactions basis.

Data for the balance of payments on a cash basis are collected in original currencies, i.e., in the currencies in which the particular transactions were settled, and are then translated into US dollars.

3. The **"current account"** comprises trade, balance of goods, services, income, current transfers and the net value of unclassified transactions on current account.

"Merchandise" comprises the value of payments made for imports and exports of goods, including the refining of goods for re-export, the cost of capital repairs to transport equipment, the value of supplies purchased by shipping agents at ports, and the import and export of non-monetary gold, i.e., gold that is not a component of the official reserve assets.

"Services" comprise payments for 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, consumer services, audiovisual, cultural and recreational services, and the maintenance of government missions.

"Income" comprises receipts to residents and payments to non-residents arising on employee earnings, income from direct and portfolio investment, and income from other investment. Income from other investment includes interest on credits extended and received, and interest on balances held on bank accounts.

"Current transfers" comprise official (government) transfers arising from donations and non-refundable assistance, and taxes and charges collected by the Polish government sector, and also transfers of other sectors, including funds transfers involving wages, legacies, and old-age and disability pensions, and deposits to and withdrawals from the personal foreign currency accounts of Polish residents, where these are performed via the accounts held abroad by Polish banks.

"Unclassified transactions on current account" reflect the net value of foreign currencies bought and sold at the cash desks of banks, where these transactions have not been assigned a statistical classification for the balance of payments. This item also includes the balance of cash deposits to and withdrawals from the personal foreign currency accounts of Polish residents, where these are performed via the foreign currency desks of Polish banks.

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 non-financial and non-produced 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 transactions involving direct investment, portfolio investment and other investment.

"Direct investment" reflects the expenditure undertaken by direct investors in establishing lasting and direct business interests by acquiring at least 10% of the equity capital of the company in which the direct investment takes place. In addition to acquisitions of equity, direct investment also includes other capital flows between direct investors and the companies subject to such investment, such as loans and advances.

Within the item "direct investment", a distinction is made between Polish direct investment abroad and foreign direct investment in Poland.

"Portfolio investment" comprises payments on the purchase and sale of equities (not constituting direct investment) and debt securities. Debt securities include long-term securities (e.g., bonds and notes) and short-term securities (money market instruments, such as Treasury bills and commercial paper), and also include derivative instruments.

Within the item "portfolio investment", a distinction is made between Polish portfolio investment abroad and foreign portfolio investment in Poland.

"Other investment" comprises financial transactions not included under direct investment, portfolio investment or the official reserve assets, yet impacting the balances of Polish assets (abroad) and Polish liabilities (to foreign parties).

"Polish assets" (abroad) comprise transactions involving drawings and repayments of credits extended and other assets. Credits extended to non-residents include long– and short-term financial credits, together with – in the case of the government and banking sectors – trade credits, drawn and repaid through deliveries of goods and services. The item "other assets" refers to currency and deposits, and sundry other assets. "Currency and deposits" comprise the balances arising on operations conducted on bank accounts abroad and at the cash desks of banks, and the balances of deposits placed at banks abroad (including the value of the asset side of repurchase agreements concluded by Polish commercial banks).

"Polish liabilities" (to foreign parties)[1] comprise transactions involving drawings and repayments of credits received and other liabilities. Credits received from non-residents include long- and short-term financial credits, together with – in the case of the government and banking sectors – trade credits, drawn and repaid through deliveries of goods and services. Long-term credits received by the government sector also include transactions involving the cancellation, conversion, rescheduling and capitalisation of borrowings. The item "other liabilities" refers to currency and deposits, and sundry other liabilities. "Currency and deposits" comprise the balances arising on operations conducted on the bank accounts of non-residents and the balances of deposits placed at Polish banks by non-residents (including the value of the liability side of repurchase agreements concluded by Polish commercial banks and the NBP).

5. **"Net errors and omissions"** are the result of transactions not registered or misstated in reports from the banks.

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

"Official reserve assets"[2] comprise the balance of transactions involving the official reserve assets performed by the NBP and realised in terms of payments (including the balance of operations involving currency and deposits placed at banks abroad, the balance of transactions in foreign currency at NBP cash desks, the balance of operations involving foreign securities, transactions with respect to Poland's reserve tranche at the IMF, and the purchase and sale of monetary gold).

The term **"exceptional financing"** covers transactions by the government sector with respect to financing balance of payment operations through the rescheduling of obligations (the amount of deferred repayments of liabilities specified in agreements concluded with foreign creditors) and by movements in arrears on claims and obligations arising on credits (principal and interest).

Changes in presentation and methodology in the balance of payments in 2000

A major change in scope introduced in the balance of payments in May 2000 refers to the presentation of the official reserve assets. The National Bank of Poland has replaced the previous item "gross official reserves" with a new item entitled "official reserve assets". The new item differs from the previous one solely in its treatment of repurchase agreements (repos), with all other components remaining unchanged. The "gross official reserves" included the net value of repo transactions, i.e., the difference between the asset and liability sides of repos. By contrast, the "official reserve assets" only incorporate the asset side of repos. As a result of the introduction of the new item "official reserve assets" in place of the former "gross official reserves", the following items have

[1] See: "Changes in presentation and methodology in the balance of payments in 2000".
[2] Ibid.

changed relative to the previously published data for the balance of payments on a cash basis:

– "Polish liabilities – Currency and deposits",
– "Financing of overall balance – Official reserve assets".

The change involves transferring the value of the liability side of repos performed by the NBP from the previous item "gross official reserves" to the item "currency and deposits".

Table XIV. Official Reserve Assets[3]

The **"official reserve assets"** comprise readily available (liquid) foreign assets owned and fully controlled by the NBP. These constitute security for balance of payments operations and their uses include intervention on the money markets.

The official reserve assets are composed of:

– monetary gold,
– Poland's reserve tranche at the International Monetary Fund,
– SDRs,
– other foreign assets in convertible currencies, of which:
  • currency held at banks abroad and at the NBP vaults,
  • deposits placed at banks abroad,
  • foreign securities,
  • other foreign assets arising from the asset side of repurchase transactions.

TABLE XV. Poland: External debt

The National Bank of Poland reports information on Poland's external debt in accordance with the following definition: "Gross external debt refers to the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principal, with or without interest, or to pay interest, with or without principal". This definition was established by international organisations[4].

The above definition refers to gross debt, i.e., it refers to the particular foreign liabilities of Poland (with no deduction of Polish assets abroad). The terms "contractual liabilities … to repay principal … or to pay interest" exclude equity participations from external debt. The phrase "principal with or without interest" means that the concept of external debt also includes non-interest-bearing liabilities, as these also involve a "contractual" obligation to repay. The phrase "interest with or without principal" signifies that the concept of external debt also incorporates liabilities with no stated maturity (e.g., undated bonds). The term "disbursed and outstanding" excludes potential liabilities, e.g., the undrawn portions of existing credit facilities.

The distinction between domestic and external (foreign) debt is based solely on the criterion of residence, regardless of the currency involved.

The following categories of financial instrument have been included in the concept of external debt:

a) intercompany loans,
b) current balances and time deposits held by non-residents at Polish banks,
c) debt securities held by non-resident portfolio investors,
d) trade credits,
e) other loans and credits (including financial leases).

[3] Ibid.
[4] *External Debt: Definition, Statistical Coverage and Methodology,* BIS, IMF, OECD, World Bank, Paris, 1988.

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