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# Annual Report 2004

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Leszek Balcerowicz

*President of the National Bank of Poland*

The event that had the most powerful impact on the activity of the National Bank of Poland in 2004 was Poland's accession to the European Union. The NBP became a member of the European System of Central Banks and of European payment systems, which was an achievement crowning the many years of NBP's preparation. The NBP entered into cooperation agreements with central banks, which perform oversight over payment systems, as well as with banking supervision authorities in the European Union. The NBP also participated in the drafting of legal regulations, which put Polish banks on an equal footing with those operating in other EU member states.

The NBP was the first central bank among the new EU member states to join SORBNET-EURO, the EU system of settlement of euro payments. It has translated to lower transaction costs, shortening of the duration of settlements and very high security of execution of payments. On the other hand, joining the pan-European TARGET system, and introducing the intra-day credit facility in euro, has streamlined the maintenance of liquidity in euro by domestic banks.

The beginning of 2004 brought an end to the first term of the Monetary Policy Council, which is responsible for the stability of prices in the recent years. The present members of the Council have acknowledged the priorities of the monetary policy established by their predecessors. In 2004, the Council conducted monetary policy in an environment of economic recovery, which was accompanied by inflation growing to a level above the inflation target. The success of Polish businesses in EU markets, particularly in the food industry, combined with rising oil prices and prices of other commodities, all led to accelerated price growth rate, which could have induced a permanent increase in inflation expectations. Such developments would pose a risk of higher wage demands and, in consequence, of sustained higher inflation figures. In order to mitigate this risk, the Monetary Policy Council raised NBP interest rates. This decision was additionally supported by the fact that low inflation in Poland had, as still has, a fairly short history and has not yet settled into public awareness.


One of the fundamental areas of operation of the National Bank of Poland is the management of Polish official foreign exchange reserves. Adequate official reserves increase the financial credibility of a country and ensure the convertibility of its currency. They also serve to maintain exchange rate stability against other currencies. Income from foreign exchange reserves in 2004 allowed for a transfer of the amount of 4.17 billion zloty to the central budget.

In 2004, the National Bank of Poland became still more open and transparent as an institution. We adopted new formats of the *Inflation Report* and of the announcements following Monetary Policy Council meetings. We also began publishing inflation projections and holding regular meetings with market analysts. The *2004 NBP Financial Report* was for the first time examined by a certified auditor, selected by the Monetary Policy Council. In the opinion of the auditors, the report provides reliable, clear and comprehensive data that is significant in the assessment of the Bank's financial results.

Following the best practice of other central banks, the National Bank of Poland continued its Programme of Economic Education, which is addressed to the youth, teachers, journalists, businessmen, as well as non-governmental institutions. As part of the educational program, the NBP organized its first Open Days and participated in the preparation of the Cultural Days of the European Central Bank — Poland 2004 in Frankfurt am Main.

In 2004, the National Bank of Poland continued reforms aimed at increasing its efficiency and lowering its general expense. With the general expense lowered, the NBP organizational structure has been adjusted to the new conditions of operation.

*President of the National Bank of Poland*



Leszek Balcerowicz

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## The Monetary Policy Council

### Chairperson

Leszek Balcerowicz

### Members:

*appointed by the President of the Republic of Poland*

*on February 18, 2004:*

Dariusz Filar

Andrzej Sławiński

Andrzej Wojtyna

*appointed by the Sejm:*

Jan Czekaj (new term since January 9, 2004)

Mirosław Pietrewicz (appointed on January 9, 2004)

Stanisław Nieckarz (appointed on February 7, 2004)

*appointed by the Senate on January 23, 2004:*

Marian Noga

Stanisław Owsiak

Halina Wasilewska-Trenkner

## Management Board of the National Bank of Poland

### Chairperson

Leszek Balcerowicz

### Members:

**Jerzy Pruski**

First Deputy President of the NBP (since March 26, 2004)

**Krzysztof Rybiński**

Deputy President of the NBP (since March 26, 2004)

**Andrzej Jakubiak**

**Tomasz Pasikowski**

**Paweł Samecki** (since December 13, 2004)

**Józef Sobota**

**Jerzy Stopyra**

*In 2004, the President of the Republic of Poland –  
at the request of the President of the NBP – recalled:*

**Andrzej S. Bratkowski** (on March 25, 2004)

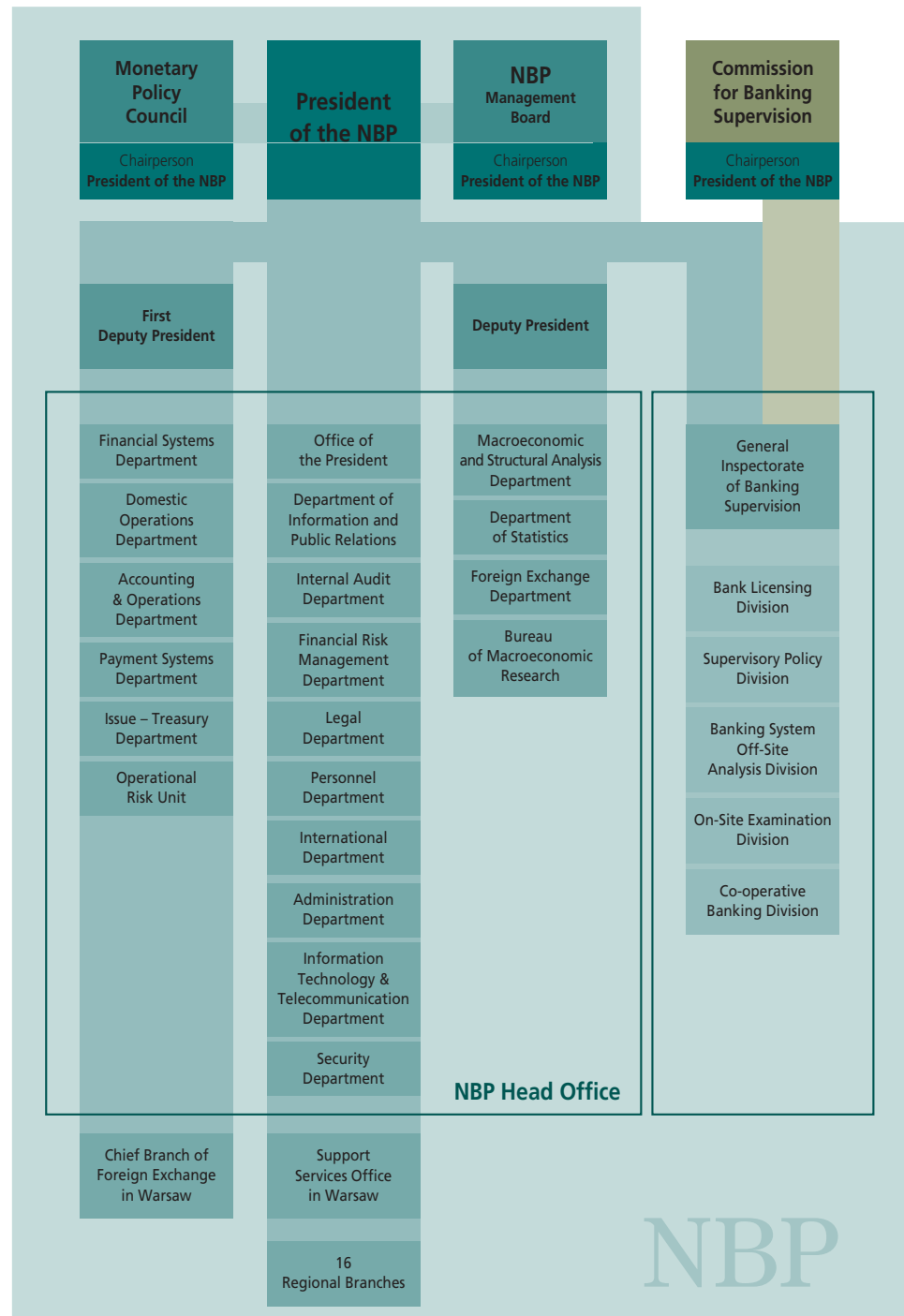
**Joanna Wielgórska-Leszczyńska** (on March 25, 2004)

**Jerzy Miller** (on September 30, 2004)



# ORGANISATION CHART OF THE NATIONAL BANK OF POLAND

As at December 31, 2004.





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## SUMMARY

1. Pursuant to Article 227, para. 1 of the Constitution of the Republic of Poland, "The central bank of the State shall be the National Bank of Poland. It shall have the exclusive right to issue money as well as to formulate and implement monetary policy. The National Bank of Poland shall be responsible for the value of Polish currency." The basic responsibilities of the NBP are stipulated in the Act on the National Bank of Poland and in the Banking Act. In 2004, the NBP was conducting its activities pursuant to the *Monetary Policy Strategy beyond 2003* and the *Monetary Policy Guidelines for 2004* as well as the *NBP Plan of Activity for the Years 2004–2006*.
2. This Report describes the performance of the statutory responsibilities of the NBP in 2004 with regard to the following areas: monetary policy, banking supervision, the issue of currency, the management of official reserves, foreign exchange operations, the development of the payment system, education and information, services to central government, research activity, statistical activity and international activity. The *Report* also presents the legislative activity and internal activity and also the balance sheet and the profit and loss account of the NBP.
3. Pursuant to the Act on the National Bank of Poland of August 29, 1997, the directing bodies of the NBP comprise the President of the National Bank of Poland, the Monetary Policy Council and the Management Board of the National Bank of Poland. In 2004, the term of the Monetary Policy Council elected in 1998 expired and new members were elected. The organisational structure of the NBP comprised the NBP Head Office, 18 organisational units and the General Inspectorate of Banking Supervision (GIBS), which is the executive body of the Commission for Banking Supervision established as a separate organisational unit within the structure of the National Bank of Poland.
4. Poland's European Union membership had a significant impact on the activity of the NBP. Most preparatory tasks at the NBP were completed in 2003. As part of the adjustment of the Polish legislation concerning the banking system to Community regulations, wide-ranging amendments to the Banking Act and the Act on Certain Types of Financial Collateral were adopted in April 2004. The new regulations adjusted the operation of the Polish banking system in line with the solutions adopted in the EU. Since May 1, 2004 the NBP has been a member of the European System of Central Banks as the central bank of a country with a derogation and the responsibilities of the NBP have been governed not only by Polish but also by European regulations. Those regulations include most importantly the Treaty establishing the European Community and the Protocol on the Statute of the European System of Central Banks and of the European Central Bank. The National Bank of Poland has commenced the performance of new responsibilities, primarily with regard to the reporting activity. Using its prerogatives, the NBP joined the agreements that govern the cooperation within the ESCB with regard to the exchange rate policy, payment system oversight, and contingency management. The representatives of the NBP participated in the work of ECB and ESCB committees and working groups.
5. In 2004, monetary policy was implemented in the context of economic recovery (the GDP grew at a rate of 5.3%), accompanied by the increase in inflation which exceeded the NBP inflation target. The accelerated price growth rate was primarily linked to Poland's accession to the EU and the rising prices of oil and other commodities in world markets. The observed accelerated inflation rate, accompanied by the increasingly pronounced economic recovery could have led to a permanent increase in inflation expectations. This could have given rise to growing wage demands and, as a consequence, inflation could have stabilised at a higher level. In order to counteract this threat, the Monetary Policy Council raised NBP interest rates on three occasions in 2004 – in June, July, and August. In the fourth quarter of 2004, the inflation prospects within the monetary policy transmission horizon significantly improved. In December 2004, the annual inflation rate in Poland amounted to 4.4%, and the average annual rate was 3.5%. In 2004, the IMF favourably assessed the monetary policy pursued by the NBP.

6. The NBP pursued its monetary policy with the set of instruments adopted by the MPC in *Monetary Policy Guidelines for 2004*. Their yield was determined by the level of official NBP interest rates: the reference, deposit and lombard rates. By engaging in open market operations, the NBP managed the liquidity of the banking sector and influenced short-term market rates. In 2004, only basic operations were applied for this purpose, consisting in the systematic issue of money market bills with a 14-day maturity. The standing facilities offered by the NBP allowed banks to cover their shortfalls and deposit fund surpluses at the central bank applying the lombard loan and the overnight deposit facility. Since May 1, 2004, required reserve funds have accrued interest amounting to 0.9 of the NBP rediscount rate. Moreover, since June 30, 2004, the reserve ratio on repo transactions has been reduced to 0%.
7. The liquidity surplus of the banking sector persisted over the year of 2004. The average annual liquidity surplus measured by the scale of NBP money market bill issues amounted to 5,275 m zloty, compared to 6,251 m zloty in 2003. The decrease in liquidity surplus resulted primarily from the change in the manner in which funds were absorbed from the banking sector – in 2004, the amount of funds which were absorbed by the Ministry of Finance and held as time deposits with the central bank edged up.
8. The catalogue of the objectives of the monetary policy pursued include the strengthening the credibility of the NBP as the institution responsible for the value of the Polish currency; this objective is achieved, *inter alia*, by reducing inflation effectively, acting in a transparent manner and communicating with financial markets, businessmen and the public. In 2004, the NBP adopted a new form for the *Inflation Report* and press releases after MPC meetings, started to publish inflation projections and organised regular meetings with market analysts during which inflation reports were discussed.
9. As in previous years, the National Bank of Poland contributed to establishing the conditions necessary for the development of the financial system, including the banking system, primarily by maintaining a low inflation rate. It also focused on maintenance of the liquidity and efficiency of the payment system and the safety of funds held in bank accounts. By joining the TARGET system and introducing the euro intraday credit facility, the NBP helped domestic banks maintain liquidity in this currency. It continued to cooperate with the banking community, primarily within the framework of the Payment System Council and the initiatives undertaken in collaboration with the Polish Bank Association (PBA). This cooperation resulted e.g. in the introduction of the NRB and IBAN standards as well as mechanisms ensuring the timely completion of daily settlements in the ELIXIR system. In 2004, the National Bank of Poland participated in the drafting of legal regulations which ensured that the conditions under which Polish banks conducted their activity were comparable to those in other EU Member States. Moreover, it took part in exercising supervision over banks, researched the stability of the financial system, cooperated with the Bank Guarantee Fund and extended assistance to the banking sector by contributing funds to the Bank Guarantee Fund (*Bankowy Fundusz Gwarancyjny – BFG*).
10. As in previous years, the operation of the General Inspectorate for Banking Supervision (*Generalny Inspektorat Nadzoru Bankowego – GINB*) involved the pursuance of its licensing, regulatory, analytical and examination duties. The supervisory activities covered 57 banks incorporated as public limited companies, 1 state-owned bank, 5 credit institution branches, 17 representative offices of foreign banks and 596 cooperative banks. In 2004, Polish banking supervision authorities concluded agreements with supervisory bodies from the USA and Germany concerning the scope and procedure of exercising consolidated supervision over banks operating within groups.
11. The safety and liquidity of cash transactions was the key responsibility of the NBP with regard to the issue of currency. In 2004, the principles of issuing domestic notes and coin and putting them into circulation remained unchanged. As in previous years, the NBP issued collector coins. Pursuant to the regulations, which require that Poland counteract euro counterfeiting, the



National Analysis Centre and the Coin National Analysis Centre were established at the National Bank of Poland and the National Counterfeit Centre was established in collaboration with the European Central Bank.

12. In managing foreign exchange reserves, the NBP followed two principles: the safety of invested funds and maintaining the adequate liquidity of reserves. Moreover, the NBP aimed at the maximum investment income within the acceptable level of investment risk and subject to market conditions. In 2004, the NBP applied the following investment instruments: discount securities and fixed interest rate securities issued by governments, international institutions and non-government financial institutions and also deposit transactions. Income from investment activity in 2004 was higher than in 2003 and amounted to 3.9 bn zloty. The yield on foreign exchange reserves amounted to 2.6% (in 2003 – 2.3%).
13. The foreign exchange operations of the NBP, which were performed by the Head Office, regional branches and the Chief Branch of Foreign Exchange, consisted in issuing foreign exchange licenses and controlling foreign exchange transactions. In 2004, changes were introduced in this regard. As a result of the liberalisation of regulations concerning business activity, the NBP ceased to issue licenses to operate bureaux de change. Pursuant to new regulations, only a register of bureaux de change has been maintained since August 21, 2004.
14. The contribution of the National Bank of Poland to the development of the payment system consisted primarily in organising money settlements, exercising oversight over payment, authorisation, and settlement systems as well as over securities settlement systems and the drafting of appropriate legal regulations. In 2004, the NBP focused on developing the infrastructure for the settlements in euro, necessary in order to participate in the TARGET system. The National Bank of Poland was the first central bank in the new EU Member States to join the EU euro settlement system by launching the SORBNET-EURO system. The most important advantages of this system include lower transaction costs for banks, which may result in a reduction of fees charged to customers, cuts in settlement times between banks and highly secure payment procedures. Due to Poland's accession to the European Union, the NBP joined the agreement concerning the cooperation among central banks as institutions exercising oversight over payment systems and banking supervision authorities. In line with the recommendation of the European Central Bank, the NBP and the Polish Securities and Exchange Commission (*Komisja Papierów Wartościowych i Giełd – KPWiG*) concluded an agreement on closer cooperation regarding the oversight over securities settlement systems.
15. In 2004, the NBP implemented education projects aimed at disseminating knowledge on the central bank, the banking system and the entire economy, including the currency and inflation. The most important projects in this regard included the Economic Education Portal, economic competitions addressed to school and university students along with journalists and training courses for upper secondary school teachers. As part of its information activities, the NBP organised Open Days and collaborated with the European Central Bank in the organisation of the ECB Culture Days 2004: Poland in Frankfurt am Main.
16. By operating bank accounts, the National Bank of Poland contributes to the safety and liquidity of public funds settlements. In 2004, the NBP serviced 3,500 account holders and operated 12,100 accounts. The number of users of the enbepe electronic banking system increased and now the system covers 95% of all customers. Account holders have been given access to new functions, which facilitate fund management and make settlements more efficient. Trading in Treasury securities has also been modernized. New software has made it possible to eliminate the paper-based processing of tender documents and therefore has cut the time necessary to award tenders and announce the results.
17. In 2004 the research work of the NBP focused on ongoing projects concerning the effectiveness of monetary policy, inflation processes, money creation, public finances, business cycle, consumer demand, balance of payments and the exchange rate together with the

development of economic and monetary forecasts. The results of research work were used to design monetary and exchange rate policies. In order to prepare Poland for the adoption of the common currency, research was conducted regarding the integration of the Polish economy into the EU and the Eurosystem in comparison to other countries and a report evaluating the costs and benefits of Poland's adoption of the euro. Moreover, analyses were conducted regarding the introduction of a system for researching the impact of the economy structure on inflation processes, adjusting macroeconomic forecasts to ECB practices, and international business cycles (including the economic situation in EU countries). Corporate surveys were extended and institutional conditions affecting financial stability in Poland and several selected countries were analysed.

18. The statistical data collected and processed by the NBP are an important source of information on the condition of the economy both for the Bank and external users. As a result of Poland's accession to the European Union, the NBP implemented the requirements of the European Central Bank regarding monetary and banking statistics, in particular consolidated balance sheets of monetary financial institutions and interest rate statistics. In 2004, the survey scope was extended to include new areas such as quarterly financial accounts, statistics of other financial market intermediaries and statistics of securities issues. In certain areas, e.g. general government statistics, the NBP cooperated with the Central Statistical Office (*Główny Urząd Statystyczny – GUS*) and the Ministry of Finance.
19. The representatives of the NBP attended the meetings of the Committee of the Council of Ministers, the European Committee of the Council of Ministers and the Council of Ministers. In 2004, the NBP cooperated with the government e.g. within the framework of the Public Debt Management Committee and the Interdepartmental Working Group for Poland's Integration with the EMU, whereas the members of the Monetary Policy Council held meetings with representatives of the Council of Ministers. The NBP cooperated with the state authorities by issuing opinions on draft legislative and non-legislative documents concerning economic policy and the banking system. Since May 1, 2004 the NBP has taken part in issuing opinions on the drafts of the Community legal acts.
20. While representing the central bank and Poland abroad, the representatives of the NBP participated in the work of, *inter alia*, the following bodies: the General Council of the ECB, ESCB committees and working groups, the ECOFIN Council, EU Council and European Commission committees and working groups. They also collaborated with the World Bank, the Organisation for Economic Co-operation and Development, the Bank for International Settlements and the European Bank for Reconstruction and Development. In performing its responsibilities arising from EU membership, the NBP also participated in the drawing up of the *Polish Convergence Programme* – a three-year economic development plan enabling the convergence with the economies of EU Member States.
21. In 2004, the average staffing at the NBP declined by 217 full-time posts, i.e. by 4.2% compared to 2003. Personnel expense decreased again, which was the consequence of the rationalisation of employment initiated in 2003 and the freezing of salaries at the 2001 level. In 2004, the activity of the internal audit function at the NBP was adjusted to International Standards for the Professional Practice of Internal Auditing. The financial and operational risk management system was also enhanced. Moreover, the *Code of Ethics of NBP Employees* was drawn up and deployed. Major investment activities regarded the adjustment of the ICT infrastructure of the NBP to EU (particularly ESCB) requirements and the attainment of the technological standard compatible with that adopted by EU central banks – also with regard to systems security.
22. Pursuant to Article 69, para. 1 of the Act on the National Bank of Poland, *The 2004 Annual Accounts of the NBP* were audited for the first time by a certified auditor selected by the Monetary Policy Council. In the opinion of the certified auditor, the accounts truly and fairly present all information relevant to the assessment of earnings in the period from January 1,

2004 to December 31, 2004 together with the assets and financial standing of the NBP as of December 31, 2004 and complies with the applicable laws. The opinion of the independent certified auditor is presented in Appendix 11 to the *Statement*.

23. In 2004, the profit of the NBP amounted to 4,387,374.64 thousand zloty, of which the transfer to the State Treasury will amount to 4,168,005.91 thousand zloty.

GOVERNING BODIES  
OF THE NATIONAL BANK OF POLAND

Pursuant to the Act on the National Bank of Poland of August 29, 1997<sup>1</sup>, which took effect on January 1, 1998, the governing bodies of the NBP comprise the President of the National Bank of Poland, the Monetary Policy Council and the Management Board of the National Bank of Poland.

## 1.1. President of the National Bank of Poland

In the performance of his responsibilities, the President of the National Bank of Poland presided over the meetings of the Monetary Policy Council, the Management Board of the NBP and the Commission for Banking Supervision. Since May 2004, i.e. the date of Poland's accession to the European Union, the President of the NBP has taken part in the meetings of the General Council of the European Central Bank in Frankfurt as a full member.

In 2004, while representing the central bank and Poland in liaising with foreign institutions, the President of the NBP attended, among others, the following meetings:

- the annual meeting of the Board of Governors of the European Bank for Reconstruction and Development in London;
- the annual meeting and periodic meetings of the Board of Governors of the Bank for International Settlements in Basle;
- the annual meeting of the World Bank and the International Monetary Fund in Washington;
- meetings of the ECOFIN Council enlarged with the governors of central banks.

In 2004, the President of the NBP issued 20 regulations, which concerned:

- specification of the design, alloy, fineness, mass and mintage of coins;
- the manner of performing interbank settlements;
- principles and procedures concerning the exchange of notes and coins which ceased to be considered legal tender due to their unfitness;
- authorisations to take decisions to issue individual foreign exchange licenses and licenses to operate exchange bureaus;
- the manner of maintaining the register of exchange bureaus, the template of the register and the procedure of making entries in the register.

As a superior of central bank staff, the President of the NBP participated in developing and implementing the human resources policy and supervised the observation of performance standards at the NBP.

## 1.2. Monetary Policy Council

In 2004, the term of the Monetary Policy Council elected in 1998 expired<sup>2</sup>.

In 2004, the Monetary Policy Council held 16 meetings (including 12 two-day ones), where it adopted 15 resolutions, promulgated in *Monitor Polski* (Official Gazette) and the *Dziennik Urzędowy NBP* (Official Journal of the National Bank of Poland). Members of the MPC also held

<sup>1</sup> Dziennik Ustaw No.140/1997 item 938 as amended.

<sup>2</sup> The summary of the work of the Monetary Policy Council appointed in 1998 can be found in *Sprawozdanie z działalności Narodowego Banku Polskiego w 2003 roku* (Report on NBP activity in 2003).

15 working meetings with the analytical and forecasting team of the NBP departments along with numerous meetings concerning ongoing work.

The MPC adopted three resolutions concerning the increase in the reference rate, the interest rate on refinancing loans, the interest rate on time deposits and the bill of exchange rediscount rate at the National Bank of Poland. Table 1 presents NBP interest rates as at the end of 2003 and 2004.

**Table 1**

**NBP interest rates as at the end of 2003 and 2004 (percentage points)**

Reference rate		Lombard rate		Deposit at the NBP		Bill of exchange rediscount	
Dec 31, 2003	Dec 31, 2004	Dec 31, 2003	Dec 31, 2004	Dec 31, 2003	Dec 31, 2004	Dec 31, 2003	Dec 31, 2004
5.25	6.5	6.75	8.0	3.75	5.0	5.75	7.0

Source: NBP data.

Additionally, the MPC passed resolutions concerning the following matters:

- approving the annual accounts of the NBP drawn up as of December 31, 2003;
- approving the report on monetary policy implementation in 2003;
- assessing the activity of the Management Board of the NBP with regard to the implementation of monetary policy guidelines in 2003;
- approving the report on NBP activities in 2003;
- establishing monetary policy guidelines for 2005;
- the banks' required reserve rates and the interest rates on required reserve funds; pursuant to this resolution, the required reserve rate on funds obtained through the sale of securities under agreements to repurchase (*repo* transactions) shall be 0% and the interest rate on reserve funds held by banks in required reserve accounts shall be 0.9% of the bill of exchange rediscount rate;
- establishing a ceiling on the liabilities arising from loans extended by foreign banking and financial institutions to the NBP;
- amendments to the resolution concerning the accounting principles, the structure of assets and liabilities in the balance sheet and the profit and loss account of the NBP;
- approving the NBP financial plan for 2005;
- the principles of performing open market operations;
- the by-laws of the MPC.

In the performance of its responsibilities arising from Article 23 of the Act on the National Bank of Poland, the MPC adopted the following documents:

- *Balance of Payments of the Republic of Poland for 2003* and balances of payments of the Republic of Poland for the first and second quarters of 2004;
- *Poland's International Investment Position in 2003*;
- *Forecast of Poland's Balance of Payments in 2005*;
- *Opinion on the Budget Act draft for 2005*.

Moreover, the MPC adopted the *Inflation Report 2003*, and three quarterly *Inflation Reports* (in May, August and November 2004), which present the assessment of perspectives of inflation process in the context of monetary policy.



In 2004, members of the Monetary Policy Council met with government representatives in order to discuss the current macroeconomic situation and the prospects of Poland joining ERM II and the euro area:

- on March 30, 2004 — with Deputy Prime Minister Jerzy Hausner and Minister of Finance Andrzej Raczko;
- on July 27, 2004 — with Deputy Prime Minister Jerzy Hausner and Minister of Finance Mirosław Gronicki;
- on September 28, 2004 — with Deputy Prime Minister Jerzy Hausner and Minister of Finance Mirosław Gronicki.

On October 26, 2004, the annual meeting of the Monetary Policy Council with representatives of commercial banks took place. The meeting was devoted to the presentation of *Monetary Policy Guidelines for 2005*.

### 1.3. Management Board of the National Bank of Poland

Pursuant to the Act on the National Bank of Poland, the activity of the NBP is managed by the Management Board. The Management Board of the NBP adopts resolutions on matters which are not the exclusive competence of other governing bodies of the NBP, and implements MPC resolutions. The Management Board of the NBP performed its basic responsibilities according to the *NBP Plan of Activity for the Years 2004–2006* and the *Financial Plan*.

In 2004, the Management Board considered and then recommended to the Monetary Policy Council draft resolutions and other materials to be discussed at the MPC meetings.

Moreover, it dealt with issues linked to the EU integration process, macroeconomic matters, the standing of the financial sector (including the banking sector) and current issues related to the Bank's activity. Among other things, the following issues were discussed during meetings:

- EU integration issues to be handled by May 1, 2004;
- economic and formal conditions of Poland joining ERM II and the euro area;
- issues regarding the stability of the financial sector, including the standing and development prospects of the banking sector<sup>3</sup>;
- the introduction of SORBNET-EURO — a new system for performing interbank settlements in euro<sup>4</sup>, enabling the NBP to participate in the EU TARGET1 payment system;
- issues regarding the opening and maintenance of accounts by the NBP for handling EU own funds and assistance funds, obtained within the framework of Structural Funds and the Cohesion Fund;
- information campaign concerning the impact of accession to the EU on prices in Poland, conducted in cooperation with the Office of Competition and Consumer Protection;
- introduction of the European risk monitoring standards and streamlining the internal activity;
- inflation projection results.

In 2004, the Management Board of the NBP held 57 meetings, where it adopted 64 legislative resolutions, 10 non-legislative resolutions and 280 decisions. Among the most important decisions were:

<sup>3</sup> Detailed activity in this regard has been presented in individual chapters.

<sup>4</sup> The system was launched on March 7, 2005.



- Resolutions concerning the following matters:
  - Amending the resolution on the procedures and detailed principles of calculating and maintaining required reserves by banks. The resolution was drawn up as a result of the amendment to the Act on the NBP, which stipulated that required reserve funds bear interest as of May 1, 2004 and enabled the introduction of other changes bringing the Polish required reserve system more in line with the Eurosystem standards.
  - Amending the resolution on the implementation of the „Regulamin realizacji poleceń wypłaty i operacji czekowych w obrocie zagranicznym oraz skupu i sprzedaży walut obcych dla posiadaczy rachunków bankowych w Narodowym Banku Polskim" ("Rules of the performance of payment orders and cheque transactions in international operations and the purchase from and the sale of foreign currencies to the NBP's bank account holders.") The objective of the amendments was to introduce necessary adjustments related to the execution of cross-border credit transfers arising from the provisions of the Banking Act and applicable ordinances.
  - Amending the resolution on the procedures and detailed principles of forwarding the data indispensable to establish the monetary policy and periodic assessments of the monetary situation of the country and the evaluation of the financial standing of banks and the banking sector's risk, by banks to the National Bank of Poland. The amendments to the resolution resulted from the acts amending the Banking Act and the amendments to the Act on the National Bank of Poland, which took effect on May 1, 2004 and also aimed at streamlining the process of forwarding the data by banks to the NBP.
  - The terms and conditions of opening and operating of banks' accounts at the National Bank of Poland. The resolution established the legal framework for the SORBNET-EURO system.
  - The principles and conditions concerning the sale of coins, notes and collector coins by the National Bank of Poland.
- Decisions concerning the following matters:
  - participation of the NBP in the STEP-2 system;
  - adoption of the document *Polityka NBP w dziedzinie nadzoru nad systemami płatności* ("NBP policy regarding the oversight of payment systems");
  - the NBP assuming all functions performed by the CENTRAST company with regard to the provision of electronic signature services;
  - signing of the "Memorandum of understanding on cooperation between payment systems overseers and banking supervisors in stage three of Economic and Monetary Union";
  - conclusion of the agreement between the NBP and the Polish Securities and Exchange Commission regarding the principles and procedures of mutual exchange of information, including opinions, concerning the oversight of securities settlement systems;
  - rationalisation of employment at the regional branches and the Chief Branch of Foreign Exchange;
  - gratuitous transfer of title to NBP facilities to universities, law courts and the police.





# 2

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## MONETARY POLICY

## 2.1. Summary<sup>5</sup>

1. Pursuant to Article 227, Paragraph 1, of the Constitution of the Republic of Poland „the central bank of the State shall be the National Bank of Poland. It shall have the exclusive right to issue money as well as to formulate and implement monetary policy. The National Bank of Poland shall be responsible for the value of the Polish currency". The Article 3 of the Act on the National Bank of Poland of August 29, 1997 states that „the basic objective of NBP activity shall be to maintain price stability, and it shall at the same time act in support of Government economic policies, insofar as this does not constrain pursuit of the basic objective of the NBP".

In February 2003 the Monetary Policy Council in its first term of office adopted the *Monetary Policy Strategy beyond 2003*, which served as the basis for the *Monetary Policy Guidelines for the Year 2004* prepared by the same Council. In 2004, the second-term Council confirmed the basic principles presented in the Strategy in the information from its February meeting by stating that:

- monetary policy shall be pursued within the framework of direct inflation targeting strategy (DIT), and the floating exchange rate regime should be maintained until the entry to ERM II,
- the aim of monetary policy is to stabilise inflation rate at the level of 2.5% with a tolerance band for deviations of +/- 1 percentage point,
- the most favourable course of action for Poland shall be to adopt an economic strategy oriented at securing conditions that would allow Poland to introduce the euro at the earliest possible date.

The implementation of a *permanent* target means that it refers to inflation as measured month to the corresponding month of the previous year and not as it used to be the case in 1999-2003 – only in December in relation to the December of the previous year. The *Strategy* implies that in the event of unexpected and strong shocks which would be conducive to pushing inflation out of the deviation tolerance band, the Council will take action to ensure its coming back into the band, and then moving close to the target itself. The period that inflation takes to move back close to the target is conditional on the length of lags characterising the mechanism of monetary policy impulse transmission in Poland and also on the strength and nature of the shocks themselves. International experiences and studies on the transmission process in Poland both indicate that the effects of most shocks on inflation may be successfully neutralised, without triggering off excessive fluctuations in output, in the horizon of 1-3 years after the given change of interest rates.

2. In view of the fact that the time elapsing between an interest rate decision and its strongest impact on inflation amounts to about six quarters, inflationary processes in 2004 were affected by the monetary policy pursued in 2002-2003. In spring 2004, the Polish economy witnessed some strong unexpected shocks in the form of food and oil price hikes, which were reflected in a considerable rise in CPI inflation.
3. 2004 brought a continuation to the recovery in the Polish economy which had been started in the previous year. The recovery coincided with a powerful demand stimulus related to Poland's accession to the European Union. The growth rate of GDP in 2004 stood at 5.4%, which means that Polish economy was developing over 2 times faster than EU-25 countries, where GDP growth was estimated at 2.5% per year. The economic growth, however, differed in particular quarters of 2004 – it was substantially faster in the first half of the year

<sup>5</sup> The present chapter (*Monetary Policy*) contains the *Report on Monetary Policy Implementation in 2004*, which was approved by the Monetary Policy Council at the meeting on May 24-25, 2005.

and slower in the second. After reaching a very high level (of almost 7%) in 2004 Q1, the growth rate was decreasing and in the last quarter of the year it amounted to approx. 4%.

Rapid growth of GDP in the first half of the year pointed to the possibility of current GDP reaching and, in the longer perspective, even crossing the level of potential GDP, which would mean the closing-up of the negative output gap and could be conducive to inflationary pressure. In particular, a soar in the growth rate of investment outlays was expected, which could be suggested by some positive tendencies in this respect observed in the enterprise sector and particularly in industry. At the same time it was expected that private consumption growth rate would be at least sustained, particularly in case of nominal wage growth occurred in the wake of growing inflation and increased, inflationary expectations (second-round effects). In the second half of 2004, as new data were flowing in, it turned out that the fast economic growth recorded in Q1 and Q2 had been triggered by one-off factors and was related to, among others, the transient growth in demand accompanying Poland's EU entry. The released data pointed to a weaker than expected investment revival, a slide in real wage growth rate and also a halt to the exceptionally strong growth rate of inventories in the first half of 2004. As a result, the significant step-up in GDP growth in the first half of 2004 did not prove permanent and, consequently, the prospect of closing the negative output gap was once again postponed.

4. The high 2004 economic growth dynamics resulted from a strong revival in industry and market services, whose contributions to the total value added were equal to 2.4 and 2.3 percentage points, respectively. A particularly dynamic growth was observed in manufacturing. Its high rate was connected to growing exports and improving competitiveness in the domestic market. In turn, the acceleration in services was due to growing trade turnover (particularly in the period of pre-accession boom) as well as to favourable climate in telecommunications and financial intermediation, which was linked with the overall recovery in economic activity.

The analysis of GDP on the demand side indicates that the greatest contribution to its growth was made by consumption (2.84 percentage points). Following a three-year period of decline, fixed capital formation reported a rebound and its contribution to GDP growth came to 1 percentage point. The surge in economic activity was also accompanied by a gradual rebuilding of inventories, thanks to which their contribution to GDP growth amounted to 1.3 percentage points. Exports also displayed a robust rate of growth, which was driven by the improvement in economic conditions among Poland's main trading partners, the country's accession to the EU as well as the fact that zloty exchange rate was favourable to exporters in the first half of the year. Imports, however, rose more slowly and consequently the contribution of net exports to GDP growth proved positive at 0.3 percentage point. The current account deficit melted to approx. 1.5% of GDP, which is a sign of a further reduction in external imbalance.

5. Inflationary processes in 2004 remained under a strong influence of price shocks connected with Poland's entry to the EU and also with commodity price hikes in world markets. In the first three months of 2004, inflation measured with the Consumer Price Index remained at the level of 1.6%-1.7% y/y, which was slightly below the inflation target. Starting from Q2 there was a considerable acceleration in the price growth rate up to 4.6% y/y in July and August 2004. In the middle of 2004, the growth rate of prices of consumer goods and services remained high at 4.4-4.6%, i.e. above the upper tolerance limit for deviations from the inflation target. Inflation, which stayed above target from May 2004 on, was mainly the effect of price hikes connected to Poland's EU accession (food price rises and indirect tax rate increase) and also oil and other commodity price hikes in world markets. The impact of other factors on inflation is evidenced by the fact that starting from April 2004 net core inflation index, which does not account for food, non-alcoholic beverages and fuel prices, ran considerably lower than the inflation measured with the CPI.

6. One of factors exerting influence on the decisions of the Monetary Policy Council was uncertainty surrounding the situation of public finance. In spite of a better expected implementation of the budget than it had been laid down in the 2004 Budget Act, the structural deficit of the public finance was enlarged. The Council was concerned about delays in deficit-curbing reforms and credit needs in the public finance sector. The lags in the necessary reforms might have brought about some disruptions in financial markets leading to an increase in the yields on Treasury securities and a weakening of zloty exchange rate, which constituted an important factor of inflationary risk. Moreover, further public debt accretion might have jeopardised the sustainability of economic growth. In particular, the Council was concerned about:
- little progress in works on a legislative package of bills prepared by the Government in February 2004 in terms of *Public Expenditure Reform and Reduction Programme*,
  - persisting uncertainty as to the eventual shape of the budget for 2005, among others due to it having optimistically accounted for financial effects of bills raising insurance premiums for entrepreneurs and farmers even before they were actually passed by the Parliament. As feared, in the end the Parliament did not approve all of the government-proposed solutions aimed at reducing the public finance deficit,
  - growing political instability, translating into shrinking probability of passing bills aimed at cutting public expenditure.
7. In 2004 the Monetary Policy Council increased NBP interest rates in three consecutive months – in June, July and August. In total, the reference rate was raised from 5.25% to 6.5%, the rediscount rate – from 5.75% to 7.0%, the lombard rate – from 6.75% to 8.0%, and the deposit rate from 3.75% to 5.0%.

These rate increases were meant to limit the risk of secondary effects of the inflation growth related to Poland's EU accession and the hikes in the prices of oil and other commodities in world markets. The mid-2004 climb in inflation amid strengthening economic recovery might have resulted in a permanent surge in inflation expectations. This would breed the risk of wage pressure building up and, consequently, would be conducive to the fixing of inflation at its higher level, i.e. to the occurrence of the so-called *second-round effects*, even though the assessment of the risk of such occurrence was subject to considerable uncertainty. The risk was primarily raised by the strength of shocks in the economy and also the relatively short period of low inflation in Poland. In turn, the main factor which might have restricted the impact of rising inflation expectations on wage increases was the persistently high level of unemployment. Additional impulse towards decreasing inflationary pressure was possibly the impact of supply shocks and the accompanying price rises on the fall in demand.

Through taking decisions to raise the interest rate the MPC intended to send a clear signal to market participants suggesting that the central bank was determined to achieve the inflation target in the mid-term, and so, that inflation rise was transitory in nature. On the basis of these premises the Council declared in its *Monetary Policy Guidelines for the Year 2005* that it would continue its actions towards ensuring prompt inflation reduction down to the level of 2.5% in 5 to 7 quarters.

In 2004 Q4 the outlook for inflation in the monetary policy transmission horizon was significantly improved. The main factors that helped curb future inflationary pressure included:

- interest rate increases made in the summer months of 2004,
- low growth rate of wages in enterprises, which indicated that the reviewed period did not see any second-round effects primarily in connection to high unemployment,

- fading out of price effects brought about by Poland's accession to the European Union,
- strong appreciation trend of the zloty, acting towards diminishing inflation by bringing down prices of imported goods and weakening the economic activity; the trend was mainly the result of reduction in the premium for investment risk in Poland brought about by Poland's accession to the EU and the stabilisation in domestic political situation.

In view of the fact that in 2004 Q4 the outlook for inflation was improving, the Council assessed there was no need for further interest rate increases. However, the pursuit of monetary policy was subject to uncertainty surrounding the exchange rate. At the same time, the inflation projections prepared by the NBP supported the Council's assessment that the probability of inflation staying above target (of 2.5%) in the monetary policy transmission horizon was still higher than the likelihood of inflation sliding below target. That is why, until the end of 2004 the Council maintained its tightening monetary policy bias.

8. In the situation of increased uncertainty the Council deemed it especially important to present the premises for its decisions in a comprehensible and transparent way. One of the measures taken in 2004 with the intention of improving the central bank's communication with its environment was upgrading the format of the *Inflation Report* and bringing forward its release date. Also, starting from August 2004 the *Report* was fitted with inflation projection prepared with the assumption of unchanged interest rates throughout the projection horizon. Inflation projections are prepared by a team of economists of the National Bank of Poland under the supervision of Krzysztof Rybiński, Deputy President of the NBP. The projection is one of the premises on the basis of which the Council decides on NBP interest rates. 2004 also saw a change in the formula of statements of the MPC. The Council strived to make them more forward-looking than it used to be the case and also to include the assessment of the balance of risks for future inflation. These modifications should lead to better understanding and predictability of monetary policy parameter shifts. The Council expects that in the long term the increased transparency will contribute to greater effectiveness of monetary policy.
9. In 2004 three meetings of the MPC with the representatives of Polish government economic ministries were held. These meetings were devoted to the analysis of the current and future condition of the public finance sector and to the issues related to Poland's future participation in the Exchange Rate Mechanism II and its accession to the euro area. The adoption of the common currency is conditional on the compliance with the so-called Maastricht criteria. As a result of a temporary surge in inflation in 2004, Poland has not been complying with the price stability criterion since last August. Nevertheless, the expected drop of inflation down to the level consistent with the target of 2.5 y/y should also be coupled with the average annual price growth rate slowing down to the level that would allow Poland to re-comply with the price stability criterion. As a result, the monetary policy in 2004 was aimed at bringing inflation down to target as soon as possible and thus supported the strategy of Poland's prompt accession to the euro area.
10. In 2004, the NBP pursued its monetary policy influencing the inflation level through interest rate. The Monetary Policy Council set the NBP's official interest rates which determined the yield of monetary policy instruments. In order to influence the short-term interest rates, the NBP used the following instruments: open market operations, lending and deposit operations and reserve requirements. Influencing the level of nominal short-term interest rates, the Monetary Policy Council attempted to achieve a level of interest rate which would be consistent with the adopted inflation target. In 2004, similarly to the previous years, the rates determining the direction of the NBP's monetary policy were: the reference rate, the lombard rate and the deposit rate.



In 2004 the banking sector over-liquidity was continued. In average annual terms, over-liquidity as measured by the scale of issuance of NBP money bills stood at 5.275 billion zloty in comparison to 6.251 billion zloty in 2003. This decrease in over-liquidity resulted primarily from changes in the structure of banking sector fund absorption – in 2004 the funds absorbed by the Ministry of Finance and held in the form of term deposits at the central bank increased.

2004 saw the introduction of changes to the rules of reserve requirement holding and calculation, which brought NBP reserve requirement closer to Eurosystem standards.

## 2.2. Inflation target performance in 2004

The present report is concerned with the 2004 pursuit of the monetary policy the guidelines for which had been formulated by the Monetary Policy Council in the first term in office. The starting point for the *Monetary Policy Guidelines for the Year 2004* were the rulings of the *Monetary Policy Strategy beyond 2003*. Its basic elements were confirmed by the current MPC in February 2004.

In accordance to the *Strategy and Guidelines* under the direct inflation targeting strategy since January 2004 a permanent inflation target of 2.5% has been pursued in year-on-year terms, with a symmetrical tolerance band for deviations of +/- 1 percentage point.

The implementation of a *permanent* target means that it refers to inflation as measured month to the corresponding month of the previous year and not as it used to be the case in 1999-2003 – only in December in relation to the December of the previous year. In case some unexpected and strong shocks occur that would be conducive to pushing inflation out of the tolerance band for deviations, the Council will take measures to ensure inflation returns back to the acceptable deviation range and then close to the target itself. The period that inflation takes to move back close to the target is conditional on the length of lags characterising the mechanism of monetary policy impulse transmission in Poland and also on the strength and nature of the shocks themselves. International experiences and studies on the transmission process in Poland both indicate that the effects of most shocks on inflation may be successfully neutralised, without triggering off excessive fluctuations in output, in the horizon of 1-3 years after the given change of interest rates.

Due to the fact that the lag between the time of interest rate decisions and their most powerful impact on inflation extends to approx. six quarters, the inflationary processes in 2004 were affected by the monetary policy pursued back in 2002-2003. In the spring of 2004, the Polish economy experienced some strong unexpected shocks in the form of food and oil price hikes, which were in turn reflected in a substantial growth in CPI inflation.

## 2.3. Economic climate and inflationary processes

2004 brought a consolidation of the economic recovery in the Polish economy initiated in the previous year. GDP growth rate amounted to 5.4%, which means that the Polish economy was expanding at a rate over two times faster than that of the UE-25 countries, where GDP growth is estimated at 2.5% per annum. The economic growth, however, differed in particular quarters of 2004 – it was substantially faster in the first half of the year and slower in the second. After having achieved a very high level in 2004 Q1 (almost 7%) the growth rate of GDP started to decline steadily and in the last quarter of the same year stood at approx. 4%.

Rapid growth of GDP in the first half of the year pointed to the possibility of current GDP reaching and, in the longer perspective, even crossing the level of potential GDP, which would

mean the closing-up of the negative output gap and could be conducive to inflationary pressure. In particular, a soar in the growth rate of investment outlays was expected, which could be suggested by some positive tendencies in this respect observed in the enterprise sector and particularly in industry. At the same time it was expected that private consumption growth rate would be at least sustained, particularly in case of nominal wage growth occurred in the wake of growing inflation and increased, inflationary expectations (second-round effects). In the second half of 2004, as new data were flowing in, it turned out that the fast economic growth recorded in Q1 and Q2 had been triggered by one-off factors and was related to, among others, the transient growth in demand accompanying Poland's EU entry. The released data pointed to a weaker than expected investment revival, a slide in real wage growth rate and also a halt to the exceptionally strong growth rate of inventories in the first half of 2004. As a result, the significant step-up in GDP growth in the first half of 2004 did not prove permanent and, consequently, the prospect of closing the negative output gap was once again postponed.

Inflationary processes in 2004 remained under a strong influence of price shocks connected with Poland's entry to the EU and also with commodity price hikes in world markets. In the first three months of 2004, inflation measured with the Consumer Price Index remained at the level of 1.6%-1.7% y/y, which was slightly below the inflation target. Starting from Q2 there was a considerable acceleration in the price growth rate up to 4.6% y/y in July and August 2004. In the middle of 2004, the growth rate of prices of consumer goods and services remained high at 4.4-4.6%, i.e. above the upper tolerance limit for deviations from the inflation target (see Appendix 2).

Among inflationary impulses which appeared in the period preceding the accession and in the first months of Poland's EU membership should be listed: increased demand, both domestic and external, for some domestic commodities and goods, introduction of EU regulations related to indirect taxes, customs policy, agricultural policy and also the effects of disturbances which were then troubling the world markets of energy and industrial commodities. The heaviest inflationary impact was exerted by unexpectedly powerful price shocks in the form of food and oil price hikes. The great strength of these shocks was among others revealed by the size of the spread which appeared between the CPI and net core inflation index not accounting for changes in food and fuels (Table 2).

Table 2

## Selected annual core inflation indicators and CPI

	Excluding food and fuel prices ("net" inflation)	15% trimmed mean	CPI
IX 2003	0.9	1.2	0.9
X	1.2	1.2	1.3
XI	1.3	1.4	1.6
XII	1.4	1.5	1.7
I 2004	1.2	1.5	1.6
II	1.1	1.5	1.6
III	1.1	1.5	1.7
IV	1.2	2.0	2.2
V	2.0	2.7	3.4
VI	2.3	3.2	4.4
VII	2.3	3.1	4.6
VIII	2.3	3.2	4.6
IX	2.4	3.1	4.4
X	2.4	3.1	4.5
XI	2.4	3.2	4.5
XII	2.4	3.1	4.4

Source: GUS data, NBP calculations.

Inflation was accelerating in conditions of strengthening economic recovery. The growth in inflation, which in June crossed the upper tolerance limit for deviations from the target, was accompanied by a significant increase in inflation expectations. This was true both about private individuals and bank analysts (Tables 3 and 4). According to GUS surveys, the price expectations in

retail trade and manufacturing were also increasing (Table 5). The development of inflation expectations in 2004 was rather alarming not solely because of the growth in the rate of inflation expected by households as in Poland these expectations are broadly adaptive in nature and usually follow the current inflation. Symptomatic for the first half of 2004 was a substantial deterioration in the structure of responses, among others a considerable increase in the share of respondents expecting inflation in one-year horizon to be higher than the current inflation. Additional factor acting towards increasing inflationary pressure was the depreciation of the nominal effective exchange rate of the zloty started in 2003, which in the situation of a closing output gap could be conducive to enhancing the inflationary pressure.

**Table 3****Inflation expectations of individuals (inflation in 12 months)**

Dec 2003	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2004											
1.6	2.1	2.2	2.4	2.5	2.4	2.7	4.0	4.5	4.6	4.4	4.0	4.3

Source: Ipsos survey, NBP calculations.

**Table 4****Inflation forecasts of bank analysts (inflation in 11 months)**

Dec 2003	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2004											
2.5	2.6	2.6	2.8	2.9	2.9	2.7	2.8	2.8	2.7	2.5	2.7	2.7

Source: Reuters survey, NBP calculations.

**Table 5****Economic climate indicators (seasonally adjusted)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2004											
Manufacturing	11.7	10.6	16.1	26.6	25.1	26.2	20.4	13.3	10.3	10.9	-1.7	-6.1
Retail trade	15.9	23.7	29.9	38.5	43.0	45.8	43.5	32.1	30.0	27.3	25.2	23.6

The indices are calculated in the form of balances produced as differentials between positive and negative responses.  
Source: GUS data.

As the temporary inflationary impulses were abating, also the growth of the current rate of inflation and inflation expectations of individuals was halted. Despite the expectations remaining at a higher level in 2004, no signals suggesting the rise of wage demands were recorded. There was a continuation of the tendency, observed from the mid-2002, for real and nominal wage growth rate to stay well behind the growth rate in real productivity per employee. High wage discipline in enterprises raised their competitiveness and prepared ground for achieving a high rate of economic growth in the longer term.

In 2004 Q4 the outlook for inflation in the monetary policy transmission horizon was significantly improved. The main factors that helped curb future inflationary pressure included:

- interest rate increases made in the summer months of 2004,
- high wage discipline in enterprises amid the persistently high growth rate in labour productivity, which indicated that there did not appear any second-round effects in the analysed period, which was primarily associated with high unemployment figure,
- fading out of price effects brought about by Poland's accession to the European Union,

- strong appreciation trend of the zloty with interest rates at stable level, acting towards lowering inflation by lowering the prices of imported goods and also by dampening economic activity.

### 2.3.1. External factors

2004 saw an acceleration in world economy growth. In line with expectations the improvement of economic climate extended to all major regions of the world (Tables 6 and 7). GDP growth rate in the euro area settled at 2.0%, which was consistent with expectations. However, significantly faster than expected growth was seen in the US and Chinese economies. A high increase in both investment and consumption demand in these countries was a fundamental factor operative in the robust price growth in international commodity markets, especially as regards fuels<sup>6</sup> and metals. Amid soaring demand and the proceeding depreciation of the American dollar, dollar prices of commodities, including oil prices, increased in 2004 by over 30%<sup>7</sup>.

**Table 6**

#### External conditions of monetary policy in 2003-2004

	2003	2004				
	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4
United States – GDP growth (in %) <sup>1</sup>	3.0	4.4	5.0	4.8	4.0	3.9
Euro area – GDP growth (in %) <sup>1</sup>	0.5	-0.1	2.0	1.6	1.6	1.6
of which Germany	2.2	1.9	1.9	1.2	1.6	1.5
Crude oil prices (Brent, US\$/b) <sup>2</sup>	28.8	38.3	32.0	35.3	41.5	43.9
United States – CPI inflation (in %) <sup>3</sup>	2.3	2.7	1.8	2.9	2.7	3.3
Euro area – CPI inflation (in %) <sup>3</sup>	2.1	2.2	1.7	2.3	2.2	2.3
United States – Federal Funds rate <sup>4</sup>	1.00	2.25	1.00	1.25	1.75	2.25
Euro area – refinancing rate <sup>4</sup>	2.00	2.00	2.00	2.00	2.00	2.00

<sup>1</sup> in relation to the corresponding period of the previous year

<sup>2</sup> period average

<sup>3</sup> period average in relation to the corresponding period of the previous year

<sup>4</sup> at the end of the period

Source: Bloomberg, Eurostat, International Energy Agency.

The rise in the commodity and material prices in world markets found reflection in the behaviour of the Producer Price Index in Poland. In 2004, a dynamic growth was observed in the PPI in industry, which was mainly the result of supply factors. Average annual growth rate of producer prices came to 7%, while the largest leap in prices was recorded in section mining and quarrying (a growth of 23.7%). In divisions less dependent on raw materials and also those focused on export production, in 2004 inflationary pressure was moderate.

The recovery in world economy contributed to the acceleration in Polish foreign trade turnover in connection to the increased demand for Polish goods (which was reflected by the rise in the volume of exports) and also to price hikes in international market (leading to the increase in transaction prices). At the same time, the high growth rate in the exports of processed products brought about an increase in imports, especially supply imports. The impact of the significantly higher oil prices on domestic inflation was mitigated by the zloty appreciation persisting from 2004 Q2, in particular in relation to the American dollar, as world prices of commodities are most often expressed in this currency.

<sup>6</sup> In 2004, the joint share of the USA and China in total growth of the demand for crude oil amounted to 60%.

<sup>7</sup> Source: HWWA.

Table 7

## GDP growth forecasts for 2004

	Spring 2003	Autumn 2003	Spring 2004	Autumn 2004	Actual prices
USA	2.5	3.8	3.4	4.4	4.4
Germany	2.0	1.6	1.5	1.9	1.6
EU-15	2.4	2.0	2.0	2.3	2.2
Euro area	2.3	1.8	1.7	2.1	2.0

Source: European Commission.

Table 8

## Effective zloty exchange rate index

(% change in relation to the corresponding quarter of the previous year)

Effective zloty exchange rate index	2003			2004			
	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Nominal	-10.8	-4.7	-10.1	-9.9	-6.8	0.8	10.1
CPI deflated	-11.9	-5.4	-10.1	-9.7	-5.7	3.1	12.4
PPI deflated	-9.8	-3.4	-7.8	-5.9	-0.3	6.7	13.8
Deflated by unit labour costs*	-19.5	-11.9	-23.2	-23.3	-18.4	-5.3	8.6**

\* \* - calculated as the relationship of wage cost per one employee to labour productivity measured with output in industrial manufacturing (volume) in relation to one employee in the sector

\*\* \* - estimate based on ECB and NBP data (prepared using GUS monthly data)

Source: own calculations on the basis of NBP, ECB and GUS data.

In the first four months of 2004, the exchange rate of the zloty continued on its depreciation tendency from years 2002-2003 and ranged between 4.66 and 4.91 in relation to the euro, and 3.65 and 3.98 against the American dollar. However, in the period between May and the end of 2004 zloty exchange rate was consolidating, with the scale of the appreciation markedly exceeding the expectations of financial markets. In consequence, in 2004 the zloty strengthened by 13.5% and 21.1% against the euro and American dollar, respectively<sup>8</sup>.

Exchange rate forecasting is subject to large uncertainty. Even the explanation of present tendencies in the exchange market with the use of economic variables is only possible to a very limited extent. An *ex post* hypothesis might be formulated that the zloty appreciation, whose scale came as a shock to currency market participants, occurred primarily as the result of decline in the premium for the risk of investment in Poland in connection with the country's EU accession and the temporary stabilisation of the internal political situation. At the same time, a strengthening might have been favoured by the continuing improvement in the current account balance, low unit labour costs and a high rate of economic growth. Also conducive to the appreciation of zloty exchange rate were the interest rate increases introduced by the Council.

The appreciating tendency of the Polish currency and also other currencies of the region was further consolidated by international developments such as: decrease in the risk of investing in the emerging markets and low interest rates in the markets for the major world currencies. These factors, coupled with a high supply of Polish Treasury securities, bolstered an increased inflow of foreign portfolio capital.

## 2.3.2. Food prices and regulated prices

In average annual terms the prices of food and non-alcoholic beverages rose by 6.3% in 2004, i.e. almost 4 percentage points more than anticipated in *Monetary Policy Guidelines*

<sup>8</sup> Change in the exchange rate value as measured by relating its level at the end of December 2004 to the level at the end of December 2003.

for the Year 2004 (2.4%). The largest deviations of the actual price moves from their forecasted values took place in the prices of sugar, butter, milk and meat, and they occurred in the period before and immediately after Poland's EU entry.

In analysing the reasons behind this discrepancy between forecasted and actual price increases we have to bear in mind that food and non-alcoholic beverage prices are among the most volatile components of consumer price basket, among others because they are largely dependent on unpredictable weather conditions. In 2004 this yearly uncertainty was accompanied by additional, not fully predictable, price movements connected with Poland's entry to the EU.

A more detailed analysis of the reasons behind the growth in the prices of food and non-alcoholic beverages in 2004 points to the emergence of an external demand shock related to EU accession (this was particularly true about the rising demand for Polish meat and milk products in the European Union) and also to the continuation in the negative supply shock of 2003, brought about by lower supply of many agricultural products (especially grains). It has to be emphasised that the National Bank of Poland does not forecast agricultural commodity prices, which are the main indications for the forecast of food prices, by itself. Instead, it takes into consideration all available external sources of information published by specialised institutes and agencies on the level of commodity prices and on the factors that can influence them (such as demand, competitiveness, supply, climate conditions etc.). The above mentioned discrepancies between the forecast and the actual prices mainly followed from difficulties in estimating the scale of price movements in the agricultural market in connection with the accession, including the changes in the external demand for Polish agricultural products. It is important to realise that at the time the *Guidelines* were being prepared the external forecasts from the first half of 2003 were available. Although the external forecasts assumed some export recovery stirred up by the adoption of the Common Customs Tariff, but its actual extent far outpaced the expectations. The opening of agricultural market within the EU in the first few months following the accession contributed to a robust growth in the external demand for Polish food. What is more, the elimination of all the limitations in the food trade between Poland and the EU revealed a remarkably higher than expected competitiveness of many Polish food products, primarily beef, poultry and milk produce. Beef makes a good example here. Before the accession the prices of beef in Poland had been markedly lower than in EU countries and so was expected that its imports would attract interest of consumers in the common market. However, due to the lower quality of the meat if compared to that in the old Union, it was expected that its prices will grow at a relatively slow pace. Contrary to expectations, the actual growth in beef prices proved much faster. In the first half of 2004 the rise in price competitiveness in international markets was further consolidated by the exporter-friendly exchange rate of the euro against the zloty.

Another factor causing food price to grow more dynamically in February-April 2004 was the rise in demand for some food articles related to the general public's fears as to the growth in their prices after the accession. The growing demand brought about a temporary but significant soar of prices, which was particularly prominent in the case of sugar.

The total rise of regulated prices in 2004 in average annual terms amounted to 3.2%, while in August 2003 it was expected to stand at mere 1.9%. This higher than expected growth in regulated prices was mainly the result of fuel price increases underpinned by the unexpectedly high growth of oil prices in world markets. Fuel price increase amounted to 1.7 percentage point (i.e. 53.8%) of the growth in regulated prices

### 2.3.3. Fiscal policy

An important factor influencing the conditions of the pursuit of monetary policy and also the longer-term economic growth is the situation in the public finance. By exerting its impact on global demand, fiscal policy also affects inflation. A loose fiscal policy necessitates maintaining higher real

exchange rates in order to achieve a low and stable inflation. Higher interest rates lead to curbing private investment, but high level of inflation that is not addressed with an adequate monetary policy reaction has a negative effect on investment. Thus, the non-optimal macroeconomic policy mix which couples a restrictive monetary policy with a loose fiscal policy, increases the cost of price stability maintenance in the form of lower GDP growth (in relation to the optimal mix).

In 2004 some growth in the public finance sector deficit was anticipated, accompanied by a large probability of the public debt crossing the second prudential threshold (i.e. 55% of GDP), and a vague fiscal outlook in the mid-term. The Council was concerned about delays in deficit-curbing reforms and credit needs in the public finance sector. The lags in the necessary reforms might have brought about some disruptions in financial markets leading to an increase in the yields on Treasury securities and a weakening of zloty exchange rate, which constituted an important factor of inflationary risk. Moreover, further public debt accretion might have jeopardised the sustainability of economic growth. In particular, the Council was concerned about:

- little progress in works on a legislative package of bills prepared by the Government in February 2004 in terms of *Public Expenditure Reform and Reduction Programme*,
- persisting uncertainty as to the eventual shape of the budget for 2005, among others due to it having optimistically accounted for financial effects of bills raising insurance premiums for entrepreneurs and farmers even before they were actually passed by the Parliament. As feared, in the end the Parliament did not approve all of the government-proposed solutions aimed at curbing the public finance deficit,
- growing political instability, translating into shrinking probability of passing bills aimed at cutting public expenditure.

In line with the *Budget Act*, in 2004 a considerable growth was envisaged in the imbalance of the public sector and, consequently, also in the credit needs of the state. The planned deficit of the sector at approx. 2% of GDP in relation to 2003 largely resulted from a soar in public expenditure related to Poland's EU accession. This increase in public spending was the sum of the following elements: net payment<sup>9</sup> of membership contribution to EU budget, expenditure on co-financing EU structural funds, among others through increasing the contribution of local governments in income taxes and expenditure on supplementing of direct subsidies for farmers from the central budget. What is more, due to the change in the indirect tax settlement principles at the moment of EU accession, one-off drop in the inflows from these taxes was anticipated in 2004.

In 2004 the state budget deficit was still very high and in relation to 2003 it rose by 0.2% of GDP. According to the data of the Ministry of Finance, the deficit of the total public finance sector (in cash terms) came to 4.8% of GDP<sup>10</sup> in 2004 (which after adjusting the expenditure for transfers to open pension funds represents a growth at 0.6 percentage point of GDP against its 2003 value). Thus, cash deficit landed below the value planned for 2004, which resulted partly from a lower than assumed central budget deficit and a better than expected result of the remaining public finance sector units. In 2004 the Social Security Fund and local governments recorded a positive balance and not deficit as it had been assumed.

The lack of improvement in the condition of the public finance sector in 2004 is attested by a rise in the structural deficit. The deficit, by definition unaffected by cyclical factors, grew in 2004 by 0.9% of GDP<sup>11</sup> in relation to 2003, i.e. more than the public finance sector deficit.

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<sup>9</sup> Expenditure on membership contribution diminished by funds received by the central budget from the EU (among others special cash flow facility for the purpose of improving liquidity).

<sup>10</sup> In comparable terms (i.e. after adjusting central budget expenditure for the subsidies to the Social Security Fund by way of compensation for social security premiums transferred to open pension funds, which in 2004 were excluded from expenditure and classified as below the line) central budget deficit increased in relation to 2003 by 1.4% of GDP.

<sup>11</sup> Since 2004 the structural deficit has been permanently increased by the net payment of membership contribution to EU budget.



Table 9

## Measures of fiscal imbalance

	2003	2004	
	Performance	Budget Act	Performance
	PLN billion		
Central budget deficit	-37.0	-45.3	-41.4
Cash deficit of the public finance sector	-44.6	-54.3	-42.0
Adjusted cash deficit of the public finance sector*	-34.7		
	% of GDP		
Central budget deficit	-4.5	-5.3	-4.7
Cash deficit of the public finance sector	-5.4	-6.3	-4.8
Adjusted cash deficit of the public finance sector*	-4.2		

\* In line with the methodology adopted in 2004, the cash deficit of the public finance sector in 2003 was decreased by the transfer of funds to cover insurance premiums handed over to open pension funds.

As a result of higher than expected revenue from privatisation and also the strong zloty appreciation (conducive to a reduction in the value of foreign liabilities expressed in zloty), the ratio of state public debt (with guarantees) to GDP at the end of 2004 settled at the level of 50.3%, i.e. below its 2003 value.

2004 brought a significant change in public debt financing structure. There was a steep rise in the contribution of foreign investors in financing the debt (from 16.4% in 2003 up to 21.4% at the end of 2004)<sup>12</sup>, while the financing contribution of domestic banking sector saw a decline (from 34.1% in 2003 down to 29.4% in 2004). The involvement of domestic non-banking sector in public debt financing remained broadly stable in relation 2003, at the level of 49.2%.

## 2.4. Decisions of the MPC

The inflation acceleration in the situation of a strengthening economic recovery and also expected continuation to rising tendencies in the economy conducive to a gradual build-up in inflationary pressure persuaded the Council to signal, in February 2004, a possibility of tightening its monetary policy bias. In its justification for the decision the Council pointed to facts attesting to a considerable risk of inflation acceleration and crossing the upper tolerance limit for deviations from the inflation target, including in the first place the rise in inflation expectations, the risk of their perpetuation and the depreciation of the nominal effective exchange rate of the zloty.

Even though the majority of shocks which affected Polish economy in the spring of 2004 proved to be of transitory nature, some uncertainty existed as to the way in which these shocks would impact inflationary pressure growth. Amid a sizeable growth of inflation expectations there existed a risk of the emergence of higher wage demands and, consequently, of permanent inflation settling at the level considerably higher than the inflation target established by the Council at 2.5%. The risk of the rise of *second-round effects* was signalled, among others, by the strength of shocks observed in the economy as well as a short period of low inflation in Poland. What is more, in the assessment of the Council heightened wage demand could be more easily satisfied due to the strengthening economic recovery and high profits of enterprises. In turn, the main factor that could potentially check the impact of growing inflation expectations was persistently high unemployment. Additionally, supply shocks accompanied by price growths could be conducive to curbing demand and thus to bringing inflationary pressure down.

<sup>12</sup> The value of investments of non-residents in government Treasury securities increased from 41.1 billion zloty in December 2003 to 62.3 billion in December 2004.

In June-August 2004 the Monetary Policy Council raised the key NBP rates on three occasions – in June by 0.5 percentage point, in July by 0.25 pp and in August again by 0.5 pp. Such sequence of interest rate increases reflects the flow of information from the economy, which was affecting the balance of risks for future inflation path in the period of a markedly heightened uncertainty accompanying Poland's EU accession. It has to be emphasised, however, that what matters most from the perspective of the impact on inflationary processes is the total scale of the increases rather than their sequence.

Through its decisions on interest rate increases the Council intended to send market participants a clear signal that the central bank is determined to meet the inflation target in the mid-term and the rise in inflation is of transient nature. On the basis of these premises the Council declared in its *Monetary Policy Guidelines for the Year 2005* that it would continue its actions towards ensuring prompt inflation reduction down to the level of 2.5% in 5 to 7 quarters. The MPC's decisions were meant to counteract a permanent rise in inflation expectations. Although it is true that these expectations in Poland are largely adaptive, still in period preceding the country's accession to the EU and also in a few subsequent months they ranked higher than it was suggested by current inflation indicators. This shows that in certain periods inflation expectations can also be forward looking.

As the outlook for inflation was improving in 2004 Q4, the Council did not think it necessary to introduce further rate increases. Nevertheless, the Council perceived considerable uncertainty surrounding the development of zloty exchange rate. Thanks to pursuing its monetary policy within the BCI strategy and the system of floating exchange rate, the NBP can intervene in the currency market. In 2004, however, the NBP did not recourse to such interventions.

In 2004, while both inflation and nominal NBP interest rates were growing, there occurred a slump in real interest rates. In January 2004, the reference rate deflated by inflation expectations of households stood at 3.1%. In the following months of the year, it fell down to 1.4% in August. In the final months of the year the rate rose again to reach the value of 2.1% in December.

Supply and demand shocks which affected Polish economy in 2004 coupled with significant fluctuations of the exchange rate, greatly increased the scope of uncertainty accompanying monetary policy implementation. In the situation of increased uncertainty the Council deemed it especially important to present the premises for its decisions in a comprehensible and transparent way. According to research, transparent and credible monetary policy contributes to better anchoring of inflation expectations at the target level and, consequently, facilitates bringing inflation back to target after shocks and reduces the cost of adjustment process.

Within the framework of actions taken in 2004 oriented at improving communication of the central bank with the environment, the formula of the *Inflation Report* was modified. This document presents the current assessment of inflationary processes and inflation determinants, and also describes the pursued monetary policy. Bringing forward the publication date of the *Inflation Report* and the inclusion of latest available data allowed a better explanation of the premises behind the current monetary policy decisions. Also, starting from August 2004 the *Report* was fitted with inflation projection prepared with the assumption of unchanged interest rates throughout the projection horizon. Inflation projections are prepared by a team of economists of the National Bank of Poland under the supervision of Krzysztof Rybiński, Deputy President of the NBP. The projection is one of the premises on the basis of which the Council decides on NBP interest rates. Starting from August 2004, each release of the *Inflation Report* is accompanied by press conference and meeting with financial market analysts, which are meant to further improve communication between the central bank and the environment. 2004 also saw a change in the formula of statements of the MPC. The Council strived to make them more forward-looking than before and also wanted them to present the assessment of the balance of risks for future inflation. These modifications should lead to better understanding and predictability of monetary policy parameter shifts. The Council expects that in the long term the increased transparency will contribute to greater effectiveness of monetary policy.

In 2004 three meetings of the MPC with the representatives of Polish government economic ministries were held. These meetings were devoted to the analysis of the current and future condition of the public finance sector and to the issues related to Poland's future participation in the Exchange Rate Mechanism II and its accession to the euro area. The adoption of the common currency is conditional on the compliance with the so-called Maastricht criteria. In the aftermath of last year's temporary rise in inflation, since August 2004 Poland has not been complying with the price stability criterion. Nevertheless, the expected drop of inflation down to the level consistent with the target of 2.5% should also be coupled with the average annual price growth rate slowing down to the level that would allow Poland to re-comply with the price stability criterion. As a result, the monetary policy in 2004, oriented at bringing inflation down to the target as soon as possible, favoured the pursuit of the strategy of Poland's acceding to the euro area at the earliest possible date.

Due to the lags in monetary policy transmission to the economy, the complete assessment of the monetary policy pursued in 2004 will only be possible in 2006.

## 2.5. Institutional conditions for economic growth and inflation in 2004 and in the longer period

Economic growth analyses indicate that the traditional model of its explanation, limited to the observation of shifts in the inputs of production factors: labour, capital and land, and the evolution of utilised technologies is not sufficient to explain the differences in the pace of growth and the level of development across countries. Having deposits of raw materials and demographic potential is neither a sufficient nor necessary requirement to achieve a high and sustainable rate of economic growth. Contemporary models of economic growth treat technological and organisational progress as a fundamental growth factor, which in turn above all depends on institutional factors defining the entire institutional framework for business activity in a particular country.

Institutional weaknesses, by creating barriers to economic activity for enterprises at the microeconomic level and by restricting the competition mechanism, decrease the effectiveness of production factor utilisation for the economy as a whole. This weakening of the supply-side of the economy has far reaching consequences for the pursuit of monetary policy; there is a slowdown in the growth rate of potential GDP consistent with the adopted inflation target. This means that successful reforms reducing systemic barriers would allow the economy to enter a higher, non-inflationary path of growth without the need to increase interest rates. What is more, lower efficiency of the supply-side of the economy linked with low flexibility of markets, means greater fluctuations of actual GDP around its trend and, consequently, greater cost of its stabilising.

What is meant by "institutional factors" are in the main the formal (i.e. sanctioned by law) and informal rules which govern the activity of individuals and other economic agents, including enterprises. These primarily include:

- legal regulations and bureaucratic procedures concerning the start and termination of economic activity,
- type and level of property right protection,
- rules of contracting and enforcement of liabilities,
- scope and type of labour market regulation,
- tax regulations,
- development stage and rules of operation of the financial system,

- legislation related to the prevention against monopolist practices,
- degree of liberalisation of foreign trading,
- independence of the central bank.

Well-functioning institutions bolster the economic activity of individuals and ensure that they can retain profits from this activity. For instance, economic activity is favoured by the freedom to establish a company coupled with possibly simple and cheap registration procedures. Property guarantees encourage development of companies, as owners who can be sure of their rights to generated profits will invest them in physical and human capital. Also, the development of companies will be supported by: the financial system that is tailored to their needs, Labour Code regulations that allow flexible employment decisions, protection of intellectual property and free competition. Vague regulations on property rights and ineffective methods of its enforcement lead to the waste of funds and ineffectiveness, and also politicisation of the economy.

Comparisons of different countries indicate that institutional factors explain to a large extent their differences in terms of:

- the level of economic development,
- the rates of growth,
- the stability of the economic growth.

Institutional reforms constituted a fundamental factor of economic growth in Poland in the transition period. It is thanks to these reforms that Poland managed to secure its membership in the OECD and the European Union. Despite the fact that currently Polish law and institutions do not diverge from the solutions adopted in EU countries, the proper enforcement of the existing legislation and the smooth operation of institutions remains a fundamental challenge. There still exist institutional barriers that are the main reason behind social and economic problems, halt the currently observed recovery and raise concerns about its sustainability. The studies by many analytical centres (OECD, World Bank, EBRD and domestic research institutes) and the NBP all point to the following weaknesses of the institutional sphere in Poland:

- far more complicated process of new business registration in Poland than in the old EU member states,
- long period of the execution of contract obligations,
- high degree of regulation of labour relationships effectively hampering the creation of new jobs,
- high burdens on labour costs, which are one of the major factors restricting the rise in the demand for labour in the economy and persuading the jobless to seek employment in the grey economy instead,
- significant share of the public sector in the economically important industries and a significant scope of public support for some of them, meaning a waste of funds and a curb on the development of free competition in those markets.

In 2004 a number of systemic changes were introduced bearing on the conditions for economic growth and inflation in the long term. The most important of these changes include:

- reduction of the rate of the Corporate Income Tax (CIT) from 27% to 19%,
- introduction of the option for individuals conducting economic activity to be taxed at the 19% rate,

- change in the system of local governments' financing consisting in a rise of the share of the local government in Personal Income Taxes (PIT) (from 30.1% to 45.74%) and CIT (from 5.5% to 24.01%),
- re-introduction of a Labour Code regulation which restricts the maximal number of consecutive fixed-term employment contracts entered with the same employee to two. From the end of November 2002 to the end of April 2004 a temporary regulation was in force allowing employers to make any number of fixed-term contracts with particular employees. The return to the regulation of these contracts was necessitated by harmonization of Polish law with EU legal regulations.

It could be asserted that 2004 brought some improvement in the institutional environment for economic growth. However, some institutional weaknesses that still persist in Poland and the high structural deficit of the public finance sector still constitute a stumbling block to faster bridging the development gap between Poland and the developed countries, and also to a significant improvement in the labour market.

## 2.6. Monetary policy instruments

In 2004, the NBP pursued its monetary policy influencing the inflation level through interest rate. The Monetary Policy Council set the NBP's official interest rates which determined the yield of monetary policy instruments. In order to influence the short-term interest rates, the NBP had recourse to the following combination of instruments: open market operations, standing facilities and reserve requirements. Influencing the level of nominal short-term interest rates, the Monetary Policy Council attempted to achieve a level of interest rate which would be consistent with the adopted inflation target.

### 2.6.1. Banking sector liquidity

Banking sector liquidity in 2004 was affected by a variety of autonomous factors. Reduction of liquidity surplus measured as a monthly average balance of NBP bills was mainly driven by increased balance of budget deposits held at the central bank, increased amount of currency in circulation, higher reserve requirements and net sales of foreign currencies by the NBP. The increase in the scale of liquidity surplus was driven, among others, by the transfer of the NBP's profit to the central budget, payment of interest on NBP bonds, payment of discount on NBP money bills and payment of interest on required reserve.

The strongest factor affecting the level of banking sector liquidity were central budget deposits held at the central bank. The level of funds held by the Ministry of Finance at the NBP was highly volatile. The biggest reduction in the liquidity level was recorded in April – May 2004 when the majority thereof was absorbed from the market by the Ministry of Finance and then deposited at the central bank. This situation changed only after the Ministry of Finance started in May 2004 to deposit part of the budget surpluses in the banking sector and transferred part of the NBP's profit for 2003 to the central budget at the end of June 2004.

The average level of liquidity surplus measured by the scale of issuance of the NBP's money bills dropped in 2004 down to the level of 5.275 billion zloty as compared with 6.251 billion zloty in 2003.

### 2.6.2. Interest rates

The implementation of the monetary policy under the direct inflation targeting regime means that the NBP's official interest rates are maintained at the level consistent with the adopted target. Open market operations and standing facilities influence the level of interbank interest rates and

indirectly affect deposit and credit rates offered by commercial banks. This, in turn, has an impact on the decisions of households related to savings and consumption and the level of corporate investment.

In 2004, similarly to the previous years, the rates determining the direction of the NBP's monetary policy were: the reference rate, the lombard rate and the deposit rate.

The **reference rate** set the minimum yield on money market bills sold in open market operations. The maturity of the NBP bills issued in 2004 was 14 days. The minimum interest rate on the liquidity-absorbing short-term open market transactions defined the current direction of the monetary policy and influenced the level of interbank interest rates with similar maturity.

The **lombard rate** determined the cost incurred by banks to obtain liquidity from the central bank for overnight deposits.

The **deposit rate** specified the price offered by the central bank to commercial banks for overnight deposits at the NBP.

The deposit rate and the lombard rate constituted the fluctuation band for short-term interbank interest rates with its centre determined by the reference rate. The band of +/- 1.5 percentage point was maintained.

In 2004, the Monetary Policy Council raised the reference rate and the lombard and the deposit rate on three occasions (Table 10). These rates were increased by 1.25 percentage point during the year.

The reference rate increases were followed by increases of short-term interest-rates in the interbank market. WIBOR 2W rate influenced directly by the central bank through open market operations oscillated around the reference rate within the band of fluctuations of short-term interest rates.

**Tabela 10**

**Decisions of the Monetary Policy Council regarding changes in the official interest rates in 2004**

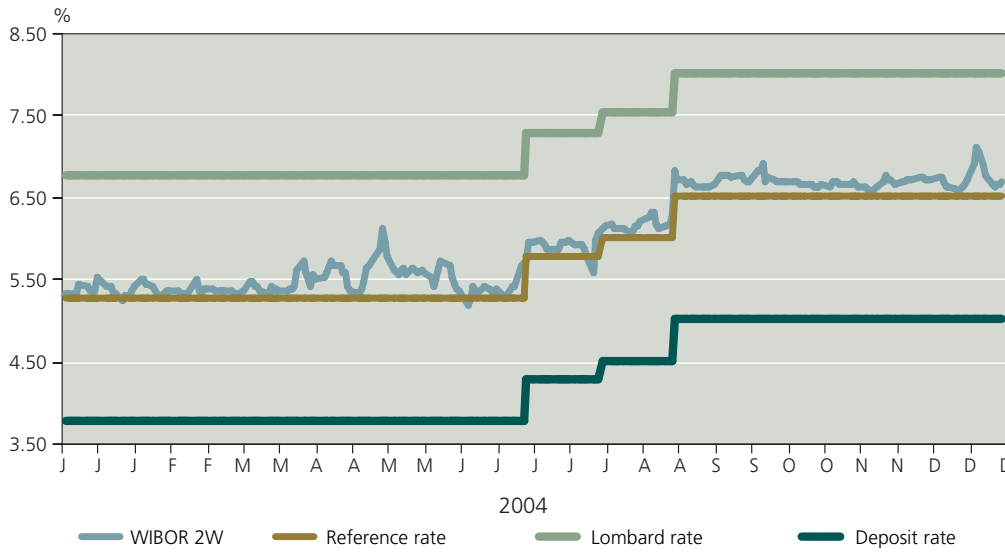
Decision date*	Decision:
June 30	<ul style="list-style-type: none"> <li>- Raising of the minimum yield on the 14-day open market operations from 5.25% to 5.75%</li> <li>- Raising of the lombard rate from 6.75% to 7.25%</li> <li>- Raising of the rediscount rate from 5.75% to 6.25%</li> <li>- Raising of the deposit rate from 3.75% to 4.25%</li> </ul>
July 28	<ul style="list-style-type: none"> <li>- Raising of the minimum yield on the 14-day open market operations from 5.75% to 6.0%</li> <li>- Raising of the lombard rate from 7.25% to 7.5%</li> <li>- Raising of the rediscount rate from 6.25% to 6.5%</li> <li>- Raising of the deposit rate from 4.25% to 4.5%</li> </ul>
August 25	<ul style="list-style-type: none"> <li>- Raising of the minimum yield on the 14-day open market operations from 6.0% to 6.5%</li> <li>- Raising of the lombard rate from 7.5% to 8.0%</li> <li>- Raising of the rediscount rate from 6.5% to 7.0%</li> <li>- Raising of the deposit rate from 4.5% to 5.0%</li> </ul>

\*decisions came into force on the following business day

Source: NBP data.

Figure 1

Official NBP rates and 14-day interest rate in the interbank market WIBOR 2W in 2004



Source: NBP data.

### 2.6.3. Open market operations

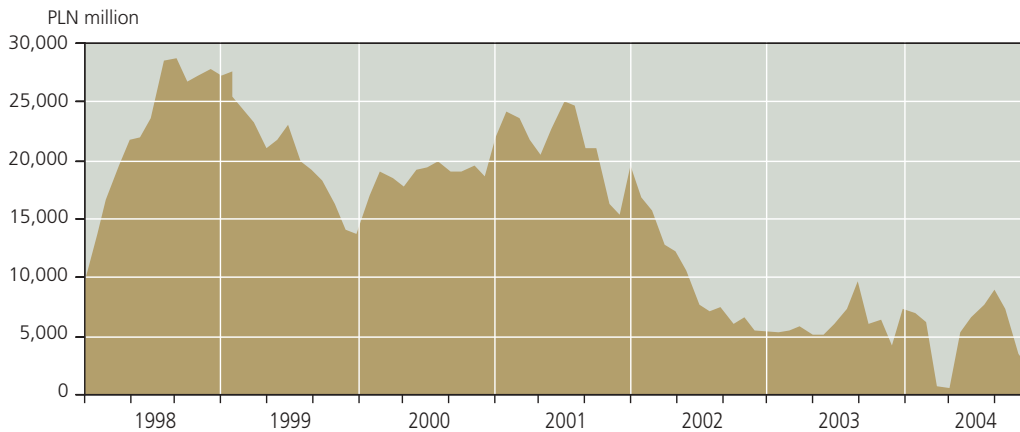
In 2004 like in the previous year, the NBP had recourse to the following categories of open market operations: main, fine-tuning and structural operations.

The NBP conducted main open market operations on a regular basis, once a week. They were used to absorb the liquidity surplus in the banking sector and involved the issuance of the NBP bills with 14-day maturity.

The scale of liquidity-absorbing operations conducted in order to adjust the level of liquidity in the banking sector is depicted in the figure below.

Figure 2

Average monthly balance of main open market operations 1998-2004



Source: NBP data.



The level of issuance of NBP money market bills decreased throughout 2004 by PLN 1.8 billion to reach the average of PLN 2.3 billion in December 2004. The drop resulted from reduced liquidity in the banking sector mainly due to the increased amount of zloty budget funds held at the NBP, increased amount of cash in circulation and increased reserve requirements.

In exceptional situations (e.g. in the case of significant short-term movements in liquidity of the banking sector or in the case of threat to the payment system operations), the NBP could use fine-tuning operations. These operations could take the form of both liquidity-providing and liquidity-absorbing operations, their maturity depending on the duration of disruption. This instrument was not used in 2004.

In 2004 the market conditions did not require changes in long-term liquidity structure of the banking sector and the use of structural operations.

In 2004, open market operations were carried out with a group of 14 entities i.e. 13 banks – money market dealers and the Bank Guarantee Fund. Banks – dealers were selected in accordance with uniform qualification criteria of the Dealer Activity Index. The banks were active in the FRA and IRS markets and held large shares in the market of Treasury securities (bills and bonds), NBP money market bills, interbank deposits and FX swaps..

#### 2.6.4. Reserve requirement

Banks hold required reserves with the NBP on current accounts and on required reserve accounts. Required reserves are calculated on the basis of bank's collected deposits and funds received from the sale of securities<sup>13</sup>. The funds taken from other domestic banks, as well as funds obtained from abroad for at least two years are excluded from the reserve base. Required reserves are calculated and held in Polish zloty. The reserve ratio for all types of liabilities except for funds received from repo transactions is 3.5%. All banks reduce the amount of calculated required reserves by an allowance of EUR 500 thousand.

The banks are obliged to maintain an average balance of funds on accounts with the NBP over the reserve period at the level not lower than the required reserve. Such system mitigates the impact of liquidity fluctuations in the banking sector on interest rate movements.

2004 brought the following changes in the principles of calculation and holding of required reserves:

- Since 1 May 2004 – under art. 38 section 4 and 5 of *The Act on the NBP* – the remuneration has been charged on required reserve holdings. The Monetary Policy Council set the interest rate at the level of 0.9 bill rediscount rate. 80% of the remuneration of the required reserves i.e. PLN 334.7 million was transferred by the NBP to the EU Guarantee Fund established in 2004, and the remaining 20% in the amount of PLN 83.7 million increased the banks' revenues<sup>14</sup>.
- On 30 June 2004, the Monetary Policy Council set a zero required reserve ratio on funds received by banks from repo transactions. The zero required reserve ratio set by the Monetary Policy Council – as in the Eurosystem – has had a positive impact on extending scope of the repo transactions to the non-banking sector and on improving the competitive position of Polish banks against the euro area banks.

<sup>13</sup> Until April 30, 2004 the principles of calculation and holding of required reserves were set forth in Resolution no. 64/2001 of the NBP Management Board dated December 21, 2001 as amended and since May 1, 2004 in Resolution no. 15/2004 of the NBP Management Board dated April 13, 2004 as amended.

<sup>14</sup> On October 30, 2003 the Vice President of the Council of Ministers, the Minister of Finance and the Polish Banks' Association signed, in the presence of the President of the NBP, an agreement establishing the EU Guarantee Fund and allocating part of resources coming from remuneration on reserve requirement to this Fund.



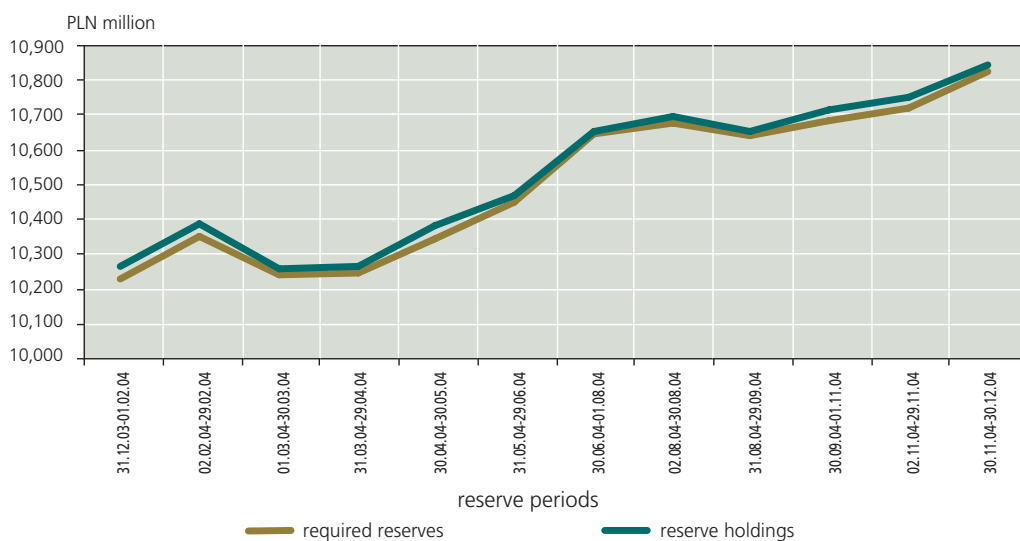


- On September 1, 2004 – pursuant to art. 38 section 2 – funds received under individual pension account agreements were exempted from the reserve base.

These changes, apart from the last one, brought the NBP required reserve system closer to the Eurosystem standards.

The amount of required reserves is PLN 11,097 million as of December 31, 2004 showing an increase of PLN 876 million (8.6%) as compared with December 31, 2003. The change in the amount of reserves in 2004 was driven by the increase in deposits constituting the reserve base– 7.6% on an annual scale.

**Figure 3**  
**Changes in the amount of required reserves and reserve holdings in 2004**



Source: NBP data.

All reserve periods marked a slight surplus of the average balance of funds held by banks on accounts with the NBP as compared with the level of the required reserves due<sup>15</sup>. In particular periods this surplus ranged from PLN 7 million in July (0.06%) to PLN 34 million in May (0.3%). Average positive deviation of the reserves held in 2004 in the banking sector – as compared with the required reserves due – amounted to PLN 23 million (0.2% of required reserves) and was lower by PLN 2 million than the corresponding value in 2003.

The minimum differences between the required reserves and reserve holdings in 2004 resulted from the improvement in asset management at banks, the use of instruments facilitating asset management at the NBP (open market operations and standing facilities) and the introduction of remuneration on required reserve funds. An additional driving force behind more efficient management of banks' assets was NBP's information published daily on the level of required reserves and balance of funds on accounts held at the NBP the previous day (NBPM page at Reuters Website).

### 2.6.5. Lending and deposit and intraday credit

Standing facilities performed with the central bank initiated by commercial banks were aimed at short-term supplementing of the banking sector liquidity or overnight deposits of the

<sup>15</sup> The minimal surplus of held reserves in relation to the required level is connected with the system of calculating the reserve ratio with reference to average monthly bank balances. Banks hedge in this way against the risk of determining incorrectly the average monthly level of required reserve and thus against default interest charged for failure to meet the reserve requirement.

banks' surplus of free funds with the NBP. Standing facilities include lombard facility and deposit facility. These operations are aimed to prevent excessive fluctuations of the interbank interest rates.

The lombard facility used by banks supplemented their current liquidity. The lombard facility interest rate determined the maximum cost of funding with the NBP by setting a ceiling on fluctuations of the inter-bank rates<sup>16</sup>.

In 2004 the lombard facility was used by banks to provide for the lack of assets in the current account. It was collateralised with Treasury securities. The total amount of the lombard facility used throughout the year was PLN 8.0 billion as compared with PLN 11.6 billion in 2003. The banks took credits mainly at dates ending the required reserve maintenance periods.

The banks placed their liquidity surplus on the NBP's term deposit accounts as overnight deposits reimbursable on the following business day. The deposit rate determining the instrument's yield constituted the lower limit for movements in short-term market rates.

In 2004, the total amount of term deposits placed by the banks with the NBP equalled PLN 113.6 billion. They increased by 67.6% as compared with the previous year's corresponding period. The value of a single deposit ranged from PLN 370 thousand to PLN 7.9 billion. The highest amounts were deposited by the banks on the last days of the required reserve maintenance periods, in the period April – May (liquidity disturbances caused by changes in the level of the central budget funds with the NBP) and during the PKO BP privatisation transaction.

In 2004, the banks used the intraday credit facility every day. It was taken and repaid during the same business day. It is a non-interest bearing credit which is collateralised with Treasury securities. Such a credit facility serves to facilitate settlements and liquidity management in the banking system during the business day. The banks' daily debt under credit facility ranged from PLN 4.0 billion to PLN 8.7 billion.

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<sup>16</sup> Overnight market rate may be higher than the lombard rate in case the bank does not have a required collateral to take a lombard credit.



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## BANKING SUPERVISION

In 2004 the General Inspectorate for Banking Supervision, as an executive body of the Commission for Banking Supervision and also a special organisational unit in the structure of the NBP, implemented the banking supervision objectives as specified in the Banking Act, i.e.: safeguarding the security of funds deposited in bank accounts and ensuring banks' compliance with legal regulations, articles of association and the decision to issue an authorization to establish the bank<sup>17</sup>.

These objectives are implemented in division into areas of licensing, regulatory, analytical and on-site examinations responsibilities.

As at 31 December 2004, the number of banks<sup>18</sup> in Poland stood at 659 (660 at the end of 2004), including:

- 57 banks incorporated as public limited companies<sup>19</sup> (58<sup>20</sup> in 2003) of which:
  - 1 bank directly controlled by the Treasury (2 in 2003),
  - 4 mortgage banks (4 in 2003),
  - 3 associating banks (3 in 2003),
- 1 state-owned bank (1 in 2003),
- 596 cooperative banks (600 in 2003),
- 5 branches of credit institutions<sup>21</sup> (1 branch of a foreign bank in 2003),

Additionally, there were 17 representative offices of foreign banks and credit institutions (18 agencies of foreign banks<sup>22</sup> in 2003).

More detailed data on the banking sector can be found in other publications of the NBP<sup>23</sup>, which are available to general public and posted on NBP website. Selected data on the situation of the banking sector at the end of 2004 are presented in Appendix 1.

### 3.1. Licensing

The licensing activities of the General Inspectorate for Banking Supervision include the pursuit of regular responsibilities, which consist in examining the applications for the decision by the Commission for Banking Supervision (CBS). In 2004 these responsibilities covered:

- establishment of banks,
- changes in the banks' ownership structure and mergers of banks,
- changes in the banks' management boards,

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<sup>17</sup> This chapter has been prepared on the basis of the *Report on the Activity of the Commission for Banking Supervision* accepted at the meeting on 6 April 2005.

<sup>18</sup> Excluding banks in bankruptcy or liquidation.

<sup>19</sup> Including 2 banks not conducting operational activity and 2 banks under organisation.

<sup>20</sup> Including 2 banks that did not conduct operational activity.

<sup>21</sup> Including 2 branches under organisation.

<sup>22</sup> The offices of foreign banks based in an EU member state that had been established under the regulations holding before 1 May 2004 became on this day, by law, representative offices of credit institutions.

<sup>23</sup> For further information see Appendix 8.

- changes in the banks' articles of association,
- commencement of operation by credit institutions in the territory of Poland either through opening branches or in terms of cross-border activity,
- establishment of representative offices of foreign banks and credit institutions,
- other issues related to licensing responsibilities.

### 3.1.1. Establishment of banks

In 2004, 4 applications were received for authorization to establish a new bank. Together with 3 applications from previous years, the General Inspectorate for Banking Supervision considered 7 applications, including 2 applications related to the authorization to establish mortgage banks. After the applications have been considered by the General Inspectorate for Banking Supervision, the CBS adopted:

- 2 resolutions regarding the establishment of two new banks:
  - Cetelem Bank S.A. based in Warsaw,
  - RCI Bank Polska S.A. based in Warsaw,
- 3 resolutions to discontinue proceedings regarding the authorization to establish a bank (1 universal bank and 2 mortgage banks) – as postulated by the founders.

Two applications to establish universal banks are still being examined (decisions will be taken after the founders submit the required documents).

In 2004 the application was examined and authorisation granted to commence the activities of Cetelem Bank S.A.

### 3.1.2. Changes in the banks' ownership structure and mergers of banks

In 2004 the General Inspectorate considered 15 applications regarding the changes in the ownership structure and mergers of banks. On this basis the CBS adopted:

- 10 resolutions to grant approval to exercise voting rights at a general meeting of the bank's shareholders.
- 1 resolution on a bank merger,
- 4 resolutions to withdraw applications for approval to exercise voting rights at a general meeting of shareholders.

In 2004 the General Inspectorate for Banking Supervision also considered applications to grant authorization for the purchase of qualifying holdings, which would allow investors to gain control over banks. In preparing its opinions in this respect for the CBS, the General Inspectorate for Banking Supervision considered, among others, the size and importance of the bank for the banking sector as a whole. The issuance of an approval to purchase shares in a bank that was significant for the banking sector involved some commitments on the part of the strategic investor to be made towards the taken-over bank. The commitments pertained to, inter alia:

- retaining the bank's local character,
- maintaining quotations of the bank's shares at the stock exchange and guarantee of their liquidity in the stock exchange trade – in the case of banks quoted on the Warsaw Stock Exchange,

- preparing a business strategy for the bank's development, mainly in terms of increasing capital, cost reduction, offer extension and dividend payout.

At the same time, the General Inspectorate exercised current supervision over the investors compliance with the commitments they had made and also verified if the pursued strategy secured the correct and safe development of the banks.

### 3.1.3. Changes in the banks' management boards

In the year of 2004, the GINB reviewed 100 applications concerning the members of the Management Board of banks, as a result of which the Commission for Banking Supervision adopted:

- 34 resolutions related to the appointment of management board members (including 9 presidents) of banks incorporated as public limited companies, already pursuing operational activity, of which:
  - 29 involved approvals for appointing management board members,
  - 4 involved discontinuing the proceedings further to the withdrawal of applications by the supervisory boards of particular banks,
  - 1 involved the suspension of the proceedings
- 4 resolutions involving approvals for appointing management board members (including 2 presidents) at newly established banks
- 1 resolution with reference to authorising the appointment of the president at a state-run bank (BGK)
- 61 resolutions on the appointment of the management board president at co-operative banks, including:
  - 51 resolutions to authorize appointment of presidents in cooperative banks,
  - 8 resolutions on the discontinuation of proceedings,
  - 2 resolutions on the resumption of suspected proceedings

Banking supervision also involved monitoring of changes in the composition of supervisory boards and management boards of banks. The collected information helped assess whether the tasks of special significance for the security of the bank were vested on properly qualified persons with the adequate professional experience.

### 3.1.4. Changes in the banks' articles of association

In 2004, the GINB reviewed the applications concerning amendments to banks' articles of association, whereby the Commission for Banking Supervision issued:

- 51 rulings on approval of amendments to the articles of associations of banks – public limited companies:
- 304 approvals for amending the articles of association of cooperative banks (including 12 approvals of extending the territorial coverage of a cooperative bank).

On 1 May 2004, the new resolution of 1 April 2004 on amending the Banking Act took effect. This new legal instrument extended the catalogue of issues that should be provided

for in the articles of association of a bank and the list of amendments to the articles which require the permit from the Commission for Banking Supervision. The banks are under obligation to bring the provisions of their articles in line with the new regulations within the next two years. The relevant applications reached the Commission in the third quarter of 2004.

Additionally, the amendments to the articles of association of cooperative banks reflected the novel to the Act on the Operations of Cooperative Banks, their Affiliation and Affiliating Banks which took effect on 6 September, 2003. The Act provided for the following modifications:

- territorial expansion of cooperative banks meeting the specific capital related-requirements,
- extending the catalogue of banking activities,
- modifying the subject-related scope of lending and guarantee activities.

### **3.1.5. Commencement of operation by credit institutions in the territory of Poland either through opening branches or in terms of cross-border activity**

In connection with Poland's accession to the EU, the amended provisions of the Banking Act became effective on May 1, 2004. The amendments implemented the standards of Directive 2000/12/EC of the European Parliament and of the Council of March 20, 2000 relating to the taking up and pursuit of operations by credit institutions.

Under these regulations, credit institutions are authorized to pursue, within the framework of a single banking license, operations on the territory of Poland through a branch or within cross-border activity.

In the period from May 1, 2004 to December 31, 2004, the Commission for Banking Supervision received the following notifications from the relevant supervisory authorities of the EU Member States:

- 4 notifications about the commencement on the territory of Poland of activities through branch by credit institutions (2 from France, 1 from Sweden and 1 from Denmark); all the branches mentioned in notifications took up their operational activities,
- 57 notifications concerning the launch of cross-border activity on the territory of Poland by credit institutions.

Meanwhile, as from May 1, 2004 the branch of a foreign bank Societe Generale S.A., operating in Poland since 1992, became a branch of a credit institution.

### **3.1.6. Establishment of representative offices of foreign banks and credit institutions**

In 2004, the number of representative office of foreign banks and credit institutions operating in Poland fell by one institution in comparison to the previous year. The enterprise Credit Agricole Indosuez with the headquarters in Paris ceased its activities. In 2004, no new applications for the establishment of representative offices were filed.

As at the end of 2004, 17 representative offices of foreign banks and credit institutions operated in Poland, including 4 from Belarus, 3 from Italy, 3 from the USA, 3 from Germany and 1 respectively from France, Switzerland, Austria and Taiwan.

### 3.1.7. Other activities related to licensing responsibilities

The list of fixed supervisory tasks of banking supervision includes conducting the registration (EWIB), enumerating the organizational units of domestic banks. The information contained herein is accessible to banks and other entities concerned.

## 3.2. Regulatory tasks

In 2004, the regulatory activities of the GINB focused on providing legal standards relevant for proper and secure banking system in Poland in the context of free competition – since Poland's accession to the UE - from the business operating on the internal market of the UE. Also the adjusting activities were put in the centre of attention. These aimed at providing smooth operations of the supervisory structures in the context of full membership in the UE – in line with international standards.

The banking supervision cooperated in drafting the legal acts, while also interpreting them and issuing necessary explanations.

### 3.2.1. The Act on Amending the Act Banking Law and other acts<sup>24</sup>

The NBP participated in drafting the amendment to the Act Banking Law which was adopted on April 1st, 2004 and took effect on May 1st, 2004 (some provisions took effect on January 1st, 2005). The developed provisions:

- regulate new areas of banks' operations related to:
  - principles governing the outsourcing of banking activities;
  - securitisation of bank's claims, particularly with reference to reducing the bank's risk related to securitisation
- qualify the existing provisions insofar as:
  - prudential regulations related to large exposures, calculation of regulatory capital and capital adequacy standards;
  - principles governing the transfer of information falling under banking secrecy clauses,
  - consolidated supervision over banks,
  - control of shares flow in banks organized as public limited companies,
  - recovery and liquidation procedures for banks,
- support the effectiveness of collaboration of Polish banking supervision with the supervisory bodies from other countries.

The amendment to the Act contributed to the stability of the banking sector and aligned Polish provisions to the regulations of the UE. The effective provisions, along with the executive acts issued by the Commission for Banking Supervision establish a complex system of counteracting different forms of banking risk.

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<sup>24</sup> Dz. U. of 2004, No. 91, item 870.



### 3.2.2. Other provisions

The NBP also participated in drafting the amendments to the following Acts.

- **Amendments to the act of November 16, 2000 on preventing the introduction of assets from illegal and undisclosed sources into financial circulation and on countering the financing of terrorism**

This novel, *inter alia*, extends the scope of CBS's supervision over banks, which has hitherto covered the principles of registering the transactions and notifying the General Inspector of Financial Information of them, by other requirements stipulated in the Act.

- **The Bill on Supplementary Supervision of Credit Institutions, Insurance Companies and Investment Firms included in a Financial Conglomerate<sup>25</sup>**

This Act is crucial for the security of financial sector operations. The NBP, along with the representatives of the Polish Securities and Exchange Commission and Insurance and Pension Funds Supervisory Commission, participated in the activities of the working group for the development of the draft. The collaboration over financial conglomerates with reference to supplementary supervision is anticipated to intensify. The NBP also drafted the Regulation on the methods of calculating the own funds and the requirements from the capital adequacy of a financial conglomerate. The new legal acts adjust the Polish regulations to the requirements of the Directive 2002/87/EC on supervision over financial conglomerates.

- **The Act on the Amendment to the Act Banking Law<sup>26</sup>**

Pursuant to the EU regulations, from the beginning of 2005 the amended act imposes on the banks the obligation to apply the **International Accounting Standards (IAS)** and the **International Financial Reporting Standards (IFRS)** on the consolidated level, and provides for the application of these standards on the individual level by quoted banks or banks that are subsidiaries or entities quoted on EU stock exchanges. Moreover, the act adjusts the Polish balance sheet law to Directive 78/660/EC as regards annual financial statements of some types of companies and Directive 83/349/EC as regards consolidated financial statements.

- **The act on investment funds<sup>27</sup> and the act on securitization<sup>28</sup>**

Those acts provide for different solutions concerning securitisation of bank's receivables. The Act on Investment Funds took effect on July 1st, 2004.

- **The act on amendments to the Civil Code and some other acts, and on amendments to the act on consumer credit**

Both drafts concern regulating the issue of the so-called maximum interest by establishing their statutory limits. From the viewpoint of banking supervision, both those Acts are disadvantageous for banks. For this above reason, the representatives of the NBP issued a negative opinion on the proposed solutions in the course of parliamentary proceedings.

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<sup>25</sup> Act was adopted on 15 April, 2005.

<sup>26</sup> Act was adopted on 12 March, 2004, Dz.U. No. 145, item 1535.

<sup>27</sup> Act was adopted on 27 May, 2004, Dz. U. No. 146, item 1546.

<sup>28</sup> Bill under Parliamentary proceedings.

- **The act on preventing the insolvency of natural persons and on consumer bankruptcy**

This draft act provides for the introduction of the institution of consumer bankruptcy and lays out, inter alia:

- the principles of joint pursuance of claims from the insolvent debtors - consumers,
- the effects of declaring the consumer bankruptcy,
- the principles of action aiming to prevent the consumer bankruptcy,

Given the significance of the Act for the banking sector, the NBP actively participated in proceeding the bill at the Parliament.

- **The act on the European Economic Interest Grouping and on the European Company**

The draft concerns the establishment of European Companies on the territory of the EU Member States. Banks may also become European Companies. The NBP representatives participated in the development of this draft and commented on the scope of applying the provisions concerning the European company with reference to banks.

### 3.2.3. Related executive acts

In 2004, the NBP participated in the development of the related executive acts issued by the Commission for Banking Supervision and the Minister of Finance. In the course of work, the related executive acts for the following Acts were amended:

- **The Act on the National Bank of Poland**

Resolution No. 1/2004 of the CBS was issued to amend Resolution No. 4/2002 of the CBS regarding the procedures of banking supervision.

- **The Act Banking Law**

The draft novels of the following CBS Acts were developed:

- No 2/2004 of the CBS amending the Act No.5/2001 of the CBS on the capital requirements and the solvency ratio. This novel resulted from the requirement to adjust Polish regulations to Directive 2004/69/EC of April 27, 2004.
- No 3/2004 of the CBS related to enlisting the documents concerning economic activity of the international business, which intends to perform the activities commissioned by the bank and specified in art. 6a. Clause 1 of the Act Banking Law. 6.a of the Act Nr 3/2004 of the CBS related to enlisting the documents concerning economic activity of the international business, which intends to perform the activities commissioned by the bank and specified in art. 6a. Clause 1 of the Act Banking Law.
- No 4/2004 of the CBS related to the capital requirements and solvency ratio which substituted the previous Resolution No 5/2001 CBS The introduced amendment involves the classification of the capital requirement from exceeding the exposure limit under the category of total capital requirement. The conversion factor used in the calculation of capital requirements resulting from special risks of capital prices of securities was lowered. The statutory definition of exposures was extended to include capital exposures, whereas securitization, sub-participation and credit derivatives were recognized as a technique for credit risk reduction in the calculation of capital adequacy. The mortgage security was equalized with the method used in the system of creating specific provisions.

- No 5/2004 of the CBS related to the size, scope and conditions of decreasing the own funds of a bank which substituted the previous Resolution No 6/2001 of the CBS. They pertain to the principles of reduction of banks' regulatory capital by the value of their exposures to financial entities and other banks (a changed base of reference) and changes in the principles of consideration of banks' insignificant capital investments, i.e. investments not exceeding 10% of the regulatory capital.
- No 6/2004 of the CBS related to observing the exposures limit and large exposures limit which substituted the previous Resolution No 6/2001 of the CBS. This resolution extends the definition of exposures to cover also capital exposures. The new regulations specify the terms and conditions of excluding commercial portfolio exposures from the exposure limits in banks with a significant scope of activities. Detailed provisions were worked out to regulate the requirement to register contingent off-balance sheet liabilities at their nominal value and to register off-balance sheet transactions according to their balance sheet equivalent. Meanwhile, the list of exposures excluded from the provisions of the resolution was extended.

#### • The Accounting Act

The NBP was involved in issuing the opinions about the Ordinances of the Minister of Finance amending the resolutions with regard to:

- special accountaning principles; the amended regulations enable banks to post the interest payable on receivables under observation as revenues,
- the principles of drawing up consolidated financial reports of banks and of financial holdings.

### 3.2.4. Other areas of regulatory activities

In 2004, the GINB was pursuing also other tasks of regulatory character, in particular:

- Continued work on the implementation of the New Capital Accord. carried out the analytical work concerning the regulations stipulated in the Basle Committee for Banking Supervision's document *New Capital Accord* and draft amendments to the Directive 2000/12/WE and Directive 93/6/EWG, the executive provision for the New Capital Accord's proposals will be applied in the UE states to all the banks and investment companies in the UE.
- Continued analytical work and agreements with reference to the Commission for Banking Supervision's recommendations concerning the management of and control of operational risk. In September 2004, the CBS adopted the draft recommendation M concerning operational risk management at banks. commenced the development of recommendation R, concerning the principles of identifying irregular credit exposures and of establishing valuation allowances due to the loss of value, along with developing the recommendations concerning good practices in the area of financing the real estate market by banks.
- Moreover, works were initiated to develop a draft resolution of the CBS regarding the establishment of **liquidity standards and other standards of acceptable risk in banks' operations**. The work was preceded by the review of relevant international solutions and the survey concerning the liquidity risk management at Polish banks.
- Developed new guidelines concerning the application by banks of Art. 6a-6d of Act Banking Law (outsourcing).
- The banking supervisory authority developed new forms of Banking Reporting Information (*Bankowa Informacja Sprawozdawcza – BIS*). In 2004, the NBP Management Board's Resolution No. 23/2003 was amended. This regulation concerned the procedure and detailed principles of providing the NBP by banks with data necessary to establish the

monetary policy. The changes were primarily aimed at adjusting the BIS reports submitted by banks applying International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) to the needs of monetary statistics.

- The banking supervisory authority agreed with the Minister of Social Policy on the scope of information submitted by the banking supervision authority about banks maintaining Individual Pension Accounts, pursuant to the ordinance of the Council of Ministers of June 29, 2004 regarding the submission of annual and semi-annual data on individual pension accounts by financial institutions and supervisory authorities<sup>29</sup>.
- The GINB developed and updated the analytical supervisory tools (Economic and Financial Indices Report and the Analytical and Supervisory Sheets), used to identify and assess risk undertaken by banks and the presentation of risk in the form of standard reports.

Furthermore, on June 17, 2004, at the session of the General Council of the ECB, the President of the NBP, being the President of the NBP's Management Board and the Chairman of the Commission for Banking Supervision ratified<sup>30</sup> *Memorandum of Understanding on co-operation between payment systems overseers and banking supervisors in Stage Three of Economic and Monetary Union and Memorandum of Understanding on high-level principles of co-operation in crisis management situations*. As well as the NBP, also the central banks and supervisory institutions of other new Member States of the EU signed those memoranda. At present, all the central banks and supervisory institutions of other new Member States of the EU are the parties to those agreements.

### 3.3. Off-site analysis

The GINB's analytical responsibilities are explicit and they include:

- direct analytical supervision over banks, the so-called off-site analysis,
- supervision over banks in a difficult financial situation,
- complex analysis of the banking sector standing.

#### 3.3.1. Direct analytical supervision over banks, the so-called off-site analysis

In 2004, the so-called off-site analysis included:

- ongoing and quarterly analysis and assessment of the economic and financial position of particular banks, attended by:
  - updating and improving the Analytical and Supervisory Sheets, including the most crucial data about particular banks<sup>31</sup>,
  - the results of the quarterly analysis were used to award the partial ratings to particular areas of risk and the general rating in the score system CAEL<sup>32</sup>, the areas which may

<sup>29</sup> Dz.U. of 2004, No. 155, item 1634.

<sup>30</sup> Ibid: the charter "Activities for the payment system".

<sup>31</sup> They provide, inter alia, score ratings of a bank, characteristics of a risk incurred by a bank and compliance with the provisions stipulated in the Act Banking Law and also other supervisory provisions and regulations.

<sup>32</sup> It is a method of rating specific areas of banking risk and helps, inter alia, planow the schedule and frequency of full-scope examinations and targeted examinations. The letters stand for : capital adequacy (C), quality of assets, (A), earnings (E) and liquidity(L).

constitute the source of risk and require detailed supervision, were indicated and proposals of action in the form of supervision with reference to banks,

– information on the CAEL rating, along with the reasons for it, were forwarded to the management board and the supervisory board of the bank<sup>33</sup> and to the Bank Guarantee Fund (BGF) (about the banks under a recovery plan).

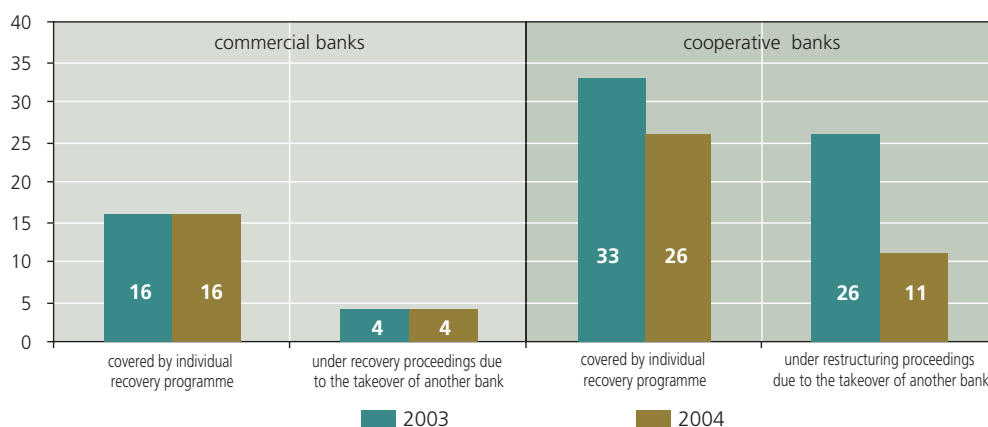
- The analysis of semi-annual reports on the state of preparedness of banks to the implementation of the New Capital Accord.
- Drafting the CBS's resolutions and the decisions of the CBS's Chairman<sup>34</sup>.
- Undertaking interventional, explanatory and informative activities<sup>35</sup>.
- Developing opinions and evaluations for the external institutions (i.a. for KPWiG, KNUiFE, BFG, Ministry of Finance and Ministry of the Treasury).

### 3.3.2. Supervision over banks in a difficult financial situation

In 2004, 42 banks (in 2003 - 79), were included in the recovery programs<sup>36</sup>, including 16 commercial and 26 co-operative banks. The recovery programs related to the takeovers of other banks were pursued at 15 banks (in 2003 - 30), 4 commercial banks and 11 cooperative banks.

**Figure 4**

#### Number of banks subject to recovery proceedings in the years 2003-2004



Source: NBP data.

The decrease in the number of banks pursuing the recovery program is presented in Fig. 4. In addition to those mentioned under item 3.3.1, the supervisory activities included also:

- the ongoing analysis of the situation of banks along with the evaluation of implementation of recovery programs and restructuring programs,

<sup>33</sup> For cooperative banks with the balance sheet total over PLN 100 million.

<sup>34</sup> Incl. i.a. the classification of subordinate loan under the category of supplementary fund, issuing of permit for the merger of banks, revoking, establishing and appointing the office of curator monitoring the recovery programme implementation by the cooperative bank, demand for convening the Extraordinary General Assembly of the bank to consider the position of the bank, the approval of amending the affiliation agreement.

<sup>35</sup> Interventions undertaken in 2004 primarily regarded credit risk management (529) and complaints of the operations of banks (567).

<sup>36</sup> In accordance with Art. 142 of the Act Banking Law.

- drawing up opinions on the recovery programs and restructuring programs developed by banks,
- preparation of proposals of actions and decisions for the CBS, including: extension of the period of administration or the change in the composition of administration, caution or recommendation to lower the interest rate on deposits, termination of advertising activities and also the restriction in the scope of bank's activity,
- collaboration with the Bank Guarantee Funds, including providing this body with information on the activities undertaken towards banks under the recovery program.

In addition to supervising the banks conducting operational activities, the situation of banks under the bankruptcy and liquidation proceedings was also observed<sup>37</sup>.

### 3.3.3. Comprehensive analysis of the business climate in the banking sector

The GINB performed the following tasks related to the analysis of the banking sector situation:

- compilation of the quarterly *Evaluation of the economic situation of banks*<sup>38</sup>, containing the complex information on the situation of the Polish banking sector, discussing developments and tendencies occurring in the sector and also the sources of threat to its stability,
- providing external recipients with the Basic data on the sector in the form of the work *Evaluation of the Financial Situation of Banks*<sup>39</sup>. Synthesis (semi-annual and annual syntheses are also published in English),
- the annual evaluation: *Assessment of the impact of the monetary, tax and supervisory policies on the development of banks in 2003*,
- maintenance of the register of foreign customers of banks and analysis of risk related to large exposures of banks,
- analysis of selected areas of banks' activities and – on this basis – development of information for the Commission for Banking Supervision, the Management of the NBP, government and general government together with other external institutions (in particular international organizations and financial institutions<sup>40</sup>).

## 3.4. On-site examinations

In 2004, on-site examinations included carrying out examinations at banks, branches and representative offices of credit institutions and foreign banks, with assured uniform standard of the executed examinations. The on-site examinations conducted pursuant to

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<sup>37</sup> In 2004, the bankruptcy proceedings were completed at 18 banks (1 commercial bank and 17 cooperative banks), whereas the liquidation proceedings were completed at 1 (cooperative) bank.

<sup>38</sup> The Annual Evaluation for 2003 and for the first six months of 2004 was forwarded to: the President of the Republic of Poland, Speakers of the Sejm and the Senate, Chairman of the Ministers' Council, selected minister and heads of the central offices, along with the Chairmen of selected Committees.

<sup>39</sup> This document is distributed to a wide circle of recipients and placed on the website of the NBP.

<sup>40</sup> In 2004, numerous target analyses were developed with regard to different areas of banking activities, i.e., the earnings of banks in 2003, as audited and based on the consolidated reports, the scale of authorised consolidation of banking sector, collection of banks; claims, distribution of earnings generated by banks in 2003, the activities of the so-called car-financing banks, financing the real estate market by banks, outsourcing, the new issue of shares of Bank Gospodarki Żywnościowej S.A. in Warszawa and the consolidation of banks affiliating cooperative banks.

Resolution No. 4/2002 of the Commission for Banking Supervision of March 6, 2002 concerning the procedure of conducting banking supervision focused particularly on the following:

- real property market funding – due to the volume of housing loans; its increase poses the threat of a growing credit risk in the banking system,
- long- and medium-term liquidity management by banks,
- operational risk management,
- banks' activities with reference to counteracting the crime of "money laundering" further to amending the provisions of law in this area.

Examinations at cooperative banks were intensified in order to complete the rating of risk at cooperative banks - under way – and also to assign score ratings to all cooperative banks.

#### 3.4.1. On-site examinations at banks, branches of credit institutions and representative offices of credit institutions and foreign banks

In 2004, the following examinations were conducted:

- 179 full-scope on-site examinations (in 2003 - 154), including:
  - 18 examinations at commercial banks,
  - 12 examinations at large cooperative banks with the balance-sheet total of more than PLN 100 million
  - **149 examinations at other cooperative banks,**
- 21 targeted on-site examination (in 2003-20), including:
  - 3 examinations at commercial banks — to review selected areas of activity,
  - 3 examinations at other cooperative banks,
  - 15 examinations with reference to counteracting "money laundering"<sup>41</sup>
- 6 explanatory proceedings (in 2003 – also 6), including:
  - 1 at a commercial bank,
  - 5 at other cooperative banks,
- **1 on-site review** of a bank's preparations for the launch of operating activity,
- 8 on-site at the branches of credit institutions and representative offices of foreign banks,
- 1 on-site review in a subsidiary of a bank as part of consolidated supervision.

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<sup>41</sup> Exclusive of one examination regarding "money laundry" at a commercial banks within the framework of a targeted examination covering other areas of the activities of the bank.

### 3.4.2. The scope of conducted examinations

The scope of conducted examinations included:

- Within the framework of complex examinations: quality of assets, liquidity, interest rate risk, currency transaction risk, earnings, capital, management and compliance with regulations binding to banks, articles of associations and provisions included in the authorization to establish the bank. The examinations focused especially on the risk related to real property market funding, operational risk as well as long- and medium-term liquidity management by banks.
- With reference to counteracting "money laundry" – compliance with the provisions of law.
- Within the framework of tasks commissioned by the Management Board of the NBP, the following were performed:
  - reviews of monetary clearing and interbank settlements — as part of the 179 full-scope examinations conducted at banks,
  - reviews of correct calculation and transfer of required specific provisions at commercial banks – as part of 18 full-scope examinations,
  - reviews of banks' reporting with reference to the statistics of the balance sheet – as part of 6 full-scope examinations.

### 3.4.3. Support to the examination process and provision of the uniform standards of examination

The review activities involved the task of streamlining of the examination process and adjusting it to the provisions of law and international standards.

In 2004 the significant modifications affected:

- *the scoring system* – the scale of scoring the risk management quality was extended in the following areas: asset quality, liquidity, interest rate risk and currency transaction risk, which facilitated more accurate evaluation of the risk management process,
- *guidelines for examination activities within consolidated supervision* – the scope of examination of credit risk and internal audit was specified in more detail.

On this opportunity, the following new methodologies of examination were developed:

- a procedure to be followed in the case an examined entity raises reservations to the examination report – the procedure formally specifies the standards for considering banks' reservations,
- methodology of examining the short- and long- term liquidity of banks,
- the updated version of the chapter in the examination manual entitled: Capital adequacy and regulatory capital,
- development of a chapter of the examination manual entitled: *Countering "money laundering"* and a detailed procedure for examination activities in this area.

In addition, the implementation of Banking Supervision IT System Project (SINB) was launched. The completion of this Project is planned for 2005. The system SINB will contain the



complex IT solutions for examinations planning and management, remote access to the central database, automation of examination activities and document management. This system will significantly streamline the performance of examination activities.

### 3.5. Memoranda with foreign supervisory institutions

In 2004 negotiations were settled with regard to the memoranda regulating the scope and procedure of consolidated supervision over banks operating within holdings with other supervisory institutions of the USA and Germany. The first memorandum was settled in October 2004 by and between the Commission for Banking Supervision and the *Board of Governors of the Federal Reserve*, the *Office of the Controller of the Currency and Federal Deposit Insurance Corporation*. The second memorandum was signed in December 2004 by and between the Commission for Banking Supervision and the German supervisor (*Bundesanstalt für Finanzdienstleistungsaufsicht*).

In 2004 the negotiations were also pursued about concluding the next memoranda with the supervisory institutions of both European Union Member States and also states from outside of the European Union (China, Ukraine).

### 3.6. Participation of the National Bank of Poland in the recovery of banks

In 2004, the NBP extended no financial support for bank rehabilitation programmes. It analysed the implementation of the rehabilitation programmes and supervised timely repayment of banks' debts, according to the agreements concluded.

In 2004, the financial support was maintained at two banks in the form of bond redemption and bills of notes discounted. As at 31 December, 2004, the total amount of support was PLN 115.9 m, i.e. 20% less than at the end of 2003.

The reduction in the NBP's debt was due to the repayment by banks of some part of the debt, i.e.

- Decrease in the bills of notes discounted by PLN 19.7 m, i.e. by 15%, was due to the redemption by banks of their promissory notes and submitting new ones of lower value.
  - BPH S.A. (the recovery of taken over Pierwszy Komercyjny Bank S.A. in Lublin) submitted the bills of notes discounted by the collected „loss” to the NBP for redemption on terms and conditions laid out in the concluded agreements. The submitted bills of notes amount to the value lower by PLN 136.2 thousand i.e. by 0.20%.
  - Millennium Bank S.A. lowered the amount of the submitted bill of note by PLN 19.6 m, i.e. by 30%.
- Decrease in the claims under the purchased bonds by PLN 10 m, i.e. 100%:
  - Millennium Bank S.A. redeemed all the bonds purchased by the NBP in the amount of PLN 10 m.

In 2004, no bank was exempted by the NBP Management Board from reserve requirements. This form of support in the amount of PLN 421.7 m was enjoyed by Bank BPH S.A. in accordance with the decision taken by the NBP Management Board in the year of 1999.

### 3.7. The GINB activities supporting the conditions necessary for the development of the banking system

In the year of 2004, the list of factors significantly contributing to the development of the banking system included Poland's accession to the UE and reaching the full compliance of Polish Banking Law provisions with the regulations of the EU. Following the above, it is now possible, inter alia, to freely establish branches of credit institutions within the territory of Poland and also carry out of cross-border activities. Consequently, the banking system will be stimulated for more dynamic development and the competition will increase across the sector. For the bank customers this should mean more attractive banking products and higher quality of services rendered by banks.

In 2004, the main activities of the GINB, which contributed to establishment of the conditions necessary for developing the banking system included:

- The consolidated supervision made banks pay more attention to managing their affiliates.
- Clone collaboration with the KNUiFE and KPWiG provided for including a significant part of financial sector in Poland under the functionally integrated supervision.
- Collaboration with foreign institutions supervising banks allowed the Exchange of information and experience with reference to better risk identification of international capital groups.
- Collaboration with the BFG allowed effective activities towards stability of the banking sector and particular banks.
- Monitoring was maintained under the capital injection process of BGŻ S.A. and PKO BP S.A., thus those banks significantly increased the potential for their development.
- The GINB monitored the activities of cooperative banks which aimed at attaining particular capital thresholds, - the regulatory capital is to amount to 500 thousand euro before the end of 2005 , and to 1 million euro before the end of 2007.

#### The most important activities in the year of 2004 included:

- As at 31 December 2004 there were 57 banks incorporated as public limited companies, 1 state-run bank, 5 branches of credit institutions, 17 representative offices of foreign banks and also 596 cooperative banks in Poland. Their activity was subject to the supervision by the CBS and the GINB – executive body operating within the structure of the NBP.
- The GINB carried, inter alia, 179 full-scope and 21 targeted on-site examinations and also 6 explanatory proceedings.
- The CBS concluded the memorandum of understanding with the KPWiG and memoranda of understanding with the supervisory institutions of the USA and Germany.
- The consolidated supervision was maintained.



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## THE ISSUE OF CURRENCY

Pursuant to statutory provisions, the National Bank of Poland has the exclusive right to issue the notes and coins of the Republic of Poland. Assuring security, liquidity and quality of cash operations, the NBP contributed to the maintenance of monetary stability.

#### 4.1. Notes and coins in circulation

The volume of notes and coins in circulation (including stocks) as of December 31, 2004 amounted to PLN 55,928.4 m (of which PLN 179.3 m in the value of notes and coins withdrawn from circulation as a result of the redenomination of the zloty, which had not been exchanged for new notes and coins by the end of 2004). This signifies an increase in the value of notes and coins in circulation by PLN 1,751.8 m, i.e. 3.2% of the amount as of December 31, 2003. In terms of value, the increase in notes and coins in circulation was the lowest for several years.

Table 11 presents data on the value and growth in the value of notes and coins in circulation in particular months of 2004, compiled on the basis of monthly stocks of domestic notes and coins.

**Table 11**

##### Value and growth in the value of notes and coins in circulation in particular months of 2004

Month	Notes and coins in circulation (million zloty)	Growth in notes and coins in circulation on previous month, %
December 2003	54,176.6	X
January 2004	52,358.1	96.6
February	53,271.4	101.7
March	53,838.3	101.1
April	56,648.1	105.2
May	54,579.8	96.3
June	54,879.2	100.5
July	55,269.6	100.7
August	56,067.9	101.4
September	55,357.3	98.7
October	55,557.9	100.4
November	54,958.4	98.9
December	55,928.4	101.8

Source: NBP data.

At the end of 2004, notes accounted for 97.0% of all currency in circulation by value, while coins made up 3.0%. At the end of 2003, notes accounted for 97.2% of all currency in circulation by value, while coins made up 2.8%.

In terms of volume, notes represented 9.1% of all notes and coins in circulation, with coins constituting 90.9%, whereas in the previous year the respective shares had been 9.7% and 90.3%.

100 zloty and 200 zloty notes had the largest share in the total value of notes in circulation at year end 2004, totalling 58.9% and 26.9%, respectively (57.2% and 28.2% in 2003), while the corresponding positions among coins were held by 5 and 2 zloty coins, with 29.4% and 28.0%, respectively (30.3% and 26.6% in 2003).

In terms of volume, 100 zloty and 50 zloty notes accounted for the largest share of notes in circulation at the end of 2004, totalling 48.6% and 17.3%, respectively (47.3% and 17.9% in 2003). In the case of coins, 1 and 2 grosz coins dominated, with their shares of 36.2% and 17.7%, respectively (35.6% and 17.5% in 2003).

## 4.2. Supply of notes and coins to the banks

In 2004, the principles of supplying commercial banks with domestic notes and coins remained unchanged. They consisted in direct supplies to bank offices based on sale-purchase agreements and the use of the NBP deposits, i.e. granted under the agreements on storing and purchasing of deposited notes and coins. Banks were supplied via a network of 16 regional branches of the NBP.

In 2004, a further increase in the banks' interest in the deposit system was noted; this system facilitates the banks' access to notes and coins, makes it possible to reduce the cost of organising cash transport, and enhances the security of cash transactions.

At the end of 2004, 94 branches of commercial banks (compared to 91 at year end 2003) held NBP deposits amounting to PLN 2.4 bn in their vaults. At the end of 2004, the value of NBP deposits held at commercial bank branches constituted 7.8% (6.3% in 2003) of the issued stock held at regional branches of the NBP, and 4.3% (3.6% in 2003) of the total value of notes and coins in circulation.

In 2004, commercial banks purchased domestic notes and coins with a value of PLN 130.9 bn at the NBP, of which transactions pertaining to the purchase of notes and coins from NBP deposits accounted for PLN 66.2 bn (50.6% of total purchased value), and transactions concluded pursuant to sale-purchase contracts regarding domestic notes and coins accounted for PLN 64.7 bn (49.4% of total purchased value).

## 4.3. Withdrawal of unfit notes and coins

In 2004, 400.5 m pieces of notes and coins were withdrawn from circulation (352 m pieces in 2003) due to unfitness or the loss of counterfeit protection features. The average life of notes in circulation is correlated with their face value and ranges from 7 months for 10 zloty notes to 119 months for 200 zloty notes. The average life of coins exceeds ten years.

## 4.4. Other issues related to notes and coins

### 4.4.1. Delivery of notes and coins

In 2004, manufacturers of notes and coins — the Polish Security Printing Works (*Państwowa Wytwórnia Papierów Wartościowych SA – PWPW SA*) and the Polish State Mint (*Mennica Państwowa SA – MP SA*) – delivered to the NBP 1,009,615.7 thousand notes and coins items. The total cost of purchase amounted to 226.3 m zloty (132 m zloty in 2003), which constitutes an increase of 71.4% on the previous year.

The increased demand for notes and coins was related to, inter alia, the need to provide notes necessary in order to exchange unfit notes, the considerable demand for coins with the lowest face values, the growing amount of currency in circulation and the maintenance of operational stock.

PWPW SA supplied the NBP with a total of 415 m pieces of notes with face values of 100, 50, 20 and 10 zloty, while the MP SA supplied 594.6 m pieces of coins, including 573 m general circulation coins with face values of 20, 10, 5, 2 and 1 grosz and 20.6 m Nordic Gold circulation coins with a face value of 2 zloty as well as 1 m collector coins.

The notes and circulation coins supplied by manufacturers replenished the currency stock of those denominations. The existing currency stock of the remaining denominations was fully sufficient to meet the needs regarding the cash in circulation in 2004.

#### 4.4.2. Issue of collector coins

One of the objectives of the NBP is to disseminate knowledge about the culture and history of Poland, e.g. through the issue of collector coins. Therefore in 2004 the NBP issued collector coins of 15 themes.

In 2004, 22,200 gold coins, 967,000 silver coins and 6,500 gold investment coins (so-called bullion coins) made of .9999 Au were issued.

19 types of collector coins were issued:

- five 200 and 100 zloty gold coins;
- fourteen 20 and 10 zloty silver coins.

The coins issued included several types of "non-standard" coins:

- silver coins struck using the pad printing technique ("Poland's Accession to the European Union," "85 Years of the Police," "The Polish Calendar of Traditional Customs and Rituals: Harvest Festival," "Polish Painters of the Turn of 19th and 20th Centuries: Stanisław Wyspiański (1869-1907)");
- a silver coin with an amber ("15 Years of the Senate of the Republic of Poland");
- a gold-plated silver coin ("28th Olympic Games — Athens 2004");
- an oxidised silver coin ("In Memory of Victims in Łódź Ghetto");
- an oxidised silver coin struck using the pad printing technique ("100th Anniversary of Foundation of Fine Arts Academy").

The NBP margin on sales of collector coins issued in 2004 amounted to PLN 8.5 m (PLN 7.9 m in 2003).

#### 4.4.3. Exchange of currency no longer legal tender

In 2004, the NBP and domestic banks providing cash services continued the exchange of zloty notes and coins issued prior to the January 1, 1995 redenomination. The old currency is eligible for exchange until December 31, 2010. By the end of 2004, 99.7% of old notes and coins in terms of value had been exchanged, representing 90.5% of the total number of old notes and coins.

#### 4.4.4. Counterfeit domestic currency

In 2004, the number of counterfeit domestic notes and coins decreased by 3.4% compared to 2003.

Table 12 presents the number and breakdown of counterfeit domestic notes and coins retained in 2004 in comparison with 2003.

Authentic, general circulation coins with face values of 10 and 20 zloty, withdrawn in 1994, which had been reshaped (e.g. filed) and used in coin-operated vending machines have been numbered among the counterfeit old issues.

Table 12

## Number and breakdown of retained counterfeit notes and coins

Counterfeit notes and coins	2003		2004		Increase/ decrease (%)
	Number (pieces)	Breakdown (%)	Number (pieces)	Breakdown (%)	
Notes issued in 1994, "The Polish Monarchs" series	41,956	71.6	33,954	60.1	-19.1
Notes issued previously, the "Great Poles" series	223	0.4	48	0.1	-78.5
Coins of current issue	15,077	25.8	21,902	38.8	45.3
Coins of previous issues, withdrawn in 1994	1,293	2.2	583	1.0	-54.9
<b>Total</b>	<b>58,549</b>	<b>100</b>	<b>56,487</b>	<b>100</b>	<b>-3.5</b>

Source: NBP data.

## 4.4.5. Counteracting euro counterfeiting

Council Regulation No. 1338/2001 laying down measures necessary for protection of the euro against counterfeiting, and Regulation No. 1339/2001 extending the effects of Regulation No 1338/2001 to those Member States which have not adopted the euro as the single currency, require that Poland counteract euro counterfeiting. In the performance of this responsibility, the Notes National Analysis Centre and the Coins National Analysis Centre have been established at the National Bank of Poland. Moreover, the National Counterfeit Centre has been established in collaboration with the European Central Bank.

## The most important activities in 2004

- The NBP continued to promote the deposit system. At the end of 2004, 94 branches of commercial banks stored NBP deposits totalling PLN 2.4 bn in their vaults.
- The NBP disseminated knowledge about the culture and history of Poland, e.g. through the issue of collector coins.
- The NBP collaborated with the ECB in counteracting euro counterfeiting.





MANAGEMENT  
OF OFFICIAL RESERVES

## 5.1. General principles for managing official reserves

Pursuant to Article 52, para. 1 of the Act on the National Bank of Poland, the NBP performs the function of the central foreign exchange authority by holding and managing the official foreign exchange reserves, and also by conducting banking operations and taking other measures to ensure the safety of foreign exchange operations and international payment liquidity. The objective of the accumulation of state reserves is to ensure macroeconomic stability and financial credibility of the country and the convertibility of the domestic currency.

The basic principles that govern the management of foreign exchange reserves by the NBP include ensuring a high level of safety of invested funds and maintaining the requisite level of liquidity. Operating within these constraints, the NBP aims at maximizing the returns on investments depending on the accepted level of investment risk and market conditions.

Key decisions related to the management of official reserves are taken by the Management Board of the NBP. These decisions concern the determination of the currency composition of official reserves, the financial instruments that can be employed, investment exposure limits, the investment structure of the benchmark portfolio, principles for calculating return on official reserves and the acceptable level of interest rate risk - depending on modified duration. These decisions constitute a point of reference for assessing the management of official reserves.

In 2004, the following investment instruments were employed: discount securities and fixed interest rate securities issued by governments, international institutions and non-government financial institutions as well as deposit transactions (including fixed-term deposits and securities repurchase transactions).

## 5.2. Risk management in the official reserve management process

The high level of protection of official reserves is ensured by principles, regulations and procedures in force at the NBP with regard to depositing funds and concluding transactions. General principles (e.g. investment in securities with the highest market risk is prohibited) are adhered to and credit risk, liquidity risk, foreign exchange risk and operational risk are mitigated to the extent possible.

- Credit risk, which consists in the possibility of incurring losses due to the counterparty defaulting on contractual obligations, is mitigated by the rigorous selection of transaction partners. Selection criteria include ratings assigned by recognised rating agencies and own analyses of the counterparty's financial standing conducted according to a strictly defined procedure. The credit limits assigned to individual undertakings are monitored and adjusted on an ongoing basis.
- Foreign exchange risk, i.e. the possibility of incurring losses due to adverse movements in exchange rates, is mitigated by specifying the currency composition of foreign exchange reserves and its periodic adjustment to market conditions.
- Interest rate risk, related to the possibility of incurring losses due to adverse movements in market interest rates, is managed according to the principles stipulated in the benchmark portfolio for the given year. Modified duration and its annual and quarterly acceptable volatility ranges are among the most important interest rate risk management tools.
- The mitigation of liquidity risk, which is construed as the loss of availability of foreign exchange assets, aims at providing for the needs of central government institutions

holding their accounts at the NBP. This risk is mitigated by appropriate diversification of investment instruments and investment exposure limits.

- Operational risk is construed as the risk of failure of IT systems or internal control mechanisms. Detailed operating procedures and numerous safeguards are implemented in order to mitigate this risk.

## 5.3. Investment environment

### 5.3.1. Developments on financial markets

#### 5.3.1.1. Economic background

After a two-year prevalence of low interest rates, a strong economic recovery on a global scale was expected. The attention was especially focused on the United States where the pace of economic growth was relatively high, while at the same time the current account deficit and budget deficit were increasing. As in 2003, the processes taking place in the U.S. economy were ambiguous. The tightening of monetary policy by the FED, which was expected by the market, depended on the condition of the labour market and the inflation rate. It was initially forecast that the FED would raise the base rates at the turn of 2005 but from the second quarter of 2004 onwards, the rise has been expected to occur sooner. Surging oil prices were seen as an obstacle to the economic growth. As a result of the changing conditions, the FED raised its target for the federal funds rate on five occasions from the end of June 2004 — from 1% (the lowest level since 1958) to 2.25%.

Compared to the United States, the pace of economic recovery in the Economic and Monetary Union countries was much lower, which was primarily evidenced by weaker corporate investment and lower consumer demand. As a result, increases in the ECB interest rates were a distant prospect, particularly in the context of the strong euro. In 2004, the ECB maintained the main refinancing rate at the level of 2%.

Macroeconomic indices in the UK (low unemployment rate, high retail sales and industrial production) reflected rapid economic growth. Taking into account the gradual rise in inflationary pressure, mainly resulting from an increase in real property prices and the rapid growth in household debt, the Bank of England continued tightening of the monetary policy that had begun in November 2003. By August 2004, the base interest rate was raised on four occasions (from 4% to 4.75%).

As in the previous two years, the U.S. dollar depreciated. During the year, the euro to dollar exchange rate rose by 7.8%, while that of pound sterling to dollar increased by 7.5%.

#### 5.3.1.2. Characteristics of market investment parameters

The economic recovery continuing in the United States and the initiation of the monetary policy tightening cycle by the FED were reflected in the gradual increase in returns on dollar investments in the money market. Due to the aforementioned decisions of the Bank of England, the situation regarding pound sterling investments was similar. The rate of return on euro investments, on the other hand, was lower than in 2003 due to the limited probability of changes in the ECB's monetary policy parameters. The average annual three-month LIBOR rates were higher than in 2003 in the case of the pound sterling (by 91 basis points) and the dollar (by 41 basis points) but lower for the euro (by 22 basis points).

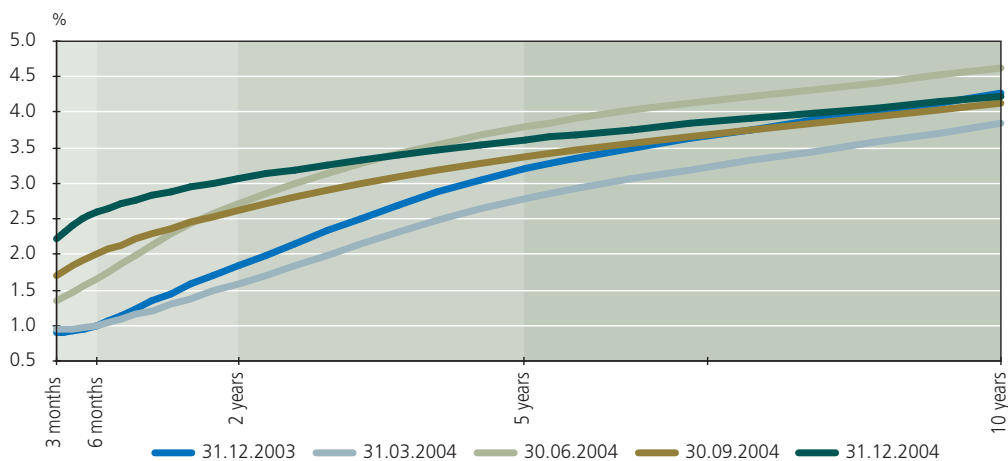
In 2004, the government securities market remained volatile. In the first quarter of 2004, the prices of U.S. bonds rose unexpectedly in response to the lack of improvement in the labour market and the absence of inflationary pressure. In the second quarter of 2004, the prices plummeted due

to the increasing expectations regarding the initiation of an interest rate increase cycle by the FED due to high employment and rising inflation. In the third quarter of 2004, bond prices increased unexpectedly again, which resulted from the belief of market participants that the monetary policy was being tightened at a moderate pace. The unexpected slowdown in employment growth and the absence of inflationary pressure despite rising oil prices formed the basis for such opinions. In the last quarter of 2004, price decreases prevailed, which were more pronounced for the issues with shorter maturities; this was the impact of changing data regarding both the labour market and the inflation rate. As a result, prices were on a decline over the entire year; the most pronounced decrease was recorded for U.S. securities with maturities up to one year. The amount of changes in yield — which is inversely correlated with prices — decreased in line with maturity (Fig. 5). With respect to bonds, the yield on 2-year issues increased the most (by 123 basis points). The increase in yield on 5-year issues amounted to 39 basis points, while for 10-year ones a slight decrease was recorded (by 4 basis points).

In 2004, the prices of euro government bonds rose (Fig. 6). The decrease in yield was the largest for 10-year securities (by 61 basis points), followed by 5-year and 2-year ones (by 47 and 13 basis points respectively). In the first three quarters, the developments on the U.S. government securities market had a decisive impact on the direction of the movement of euro securities prices. This is corroborated by the high correlation between the yield on both types of financial instruments, especially bonds. On the other hand, internal factors had a greater impact on the prices of government securities denominated in euro in the fourth quarter; the most important factor was the rapid appreciation of the euro, which raised concerns that the economic recovery within the EMU might slow down and was seen as a curb on inflation.

The increase in prices (decrease in yield) of the British government bonds was smaller compared to the bonds denominated in euro and pertained to maturities of over 3 years. The yield on 10-year and 5-year issues decreased by 26 and 11 basis points, respectively, whereas the yield on 2-year bonds went up by 14 basis points (Fig. 7). The market benefited from the tightening of the monetary policy by the Bank of England from the beginning of the year, which contributed to the decrease in the prices of British securities in the first half of 2004. In the second quarter, this trend was supported by the developments in the U.S. market, which had an important impact on the government debt instruments. In the second half of the year, prices rose strongly. In the third quarter, the rise resulted largely from factors influencing the U.S. market, whilst in the fourth quarter — from the slowdown in the British economic climate and weakened expectations of an increase in interest rates by the Bank of England in the coming months.

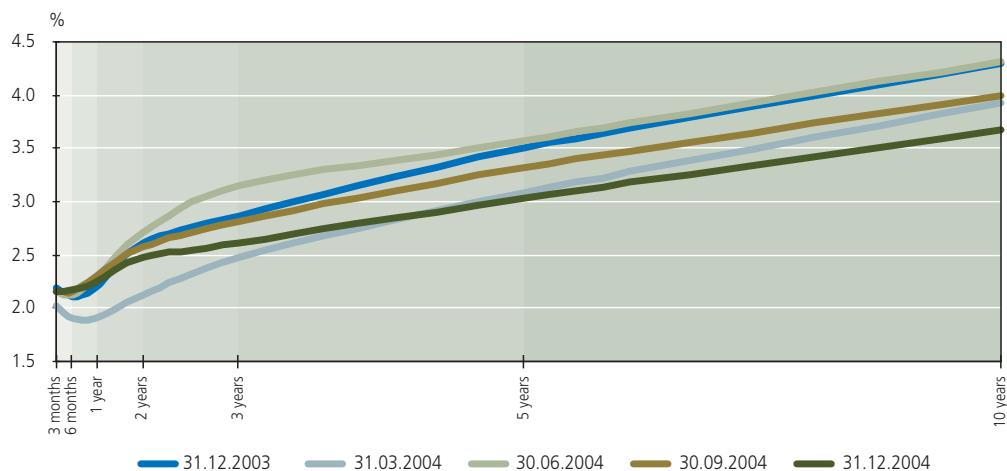
**Figure 5**  
**Yield curves of U.S. government securities**



Source: Bloomberg.

Figure 6

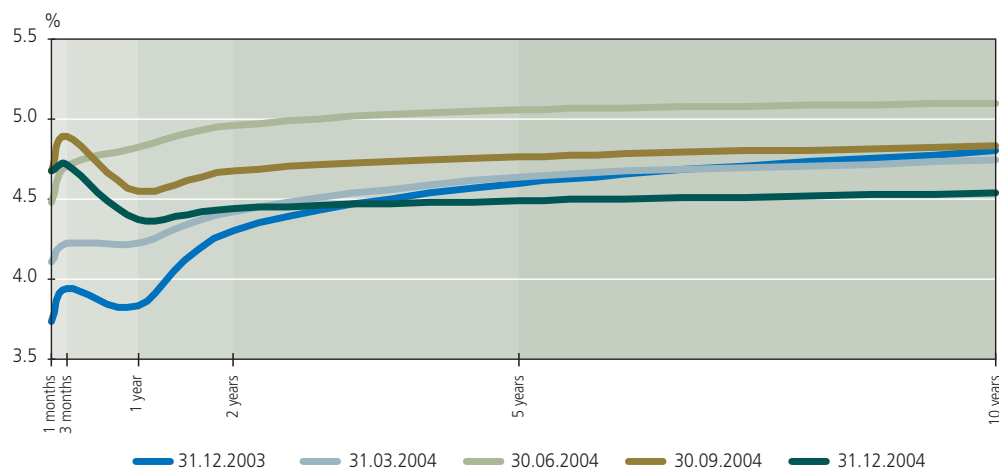
Yield curves of euro government securities



Source: Bloomberg.

Figure 7

Yield curves of UK government securities



Source: Bloomberg.

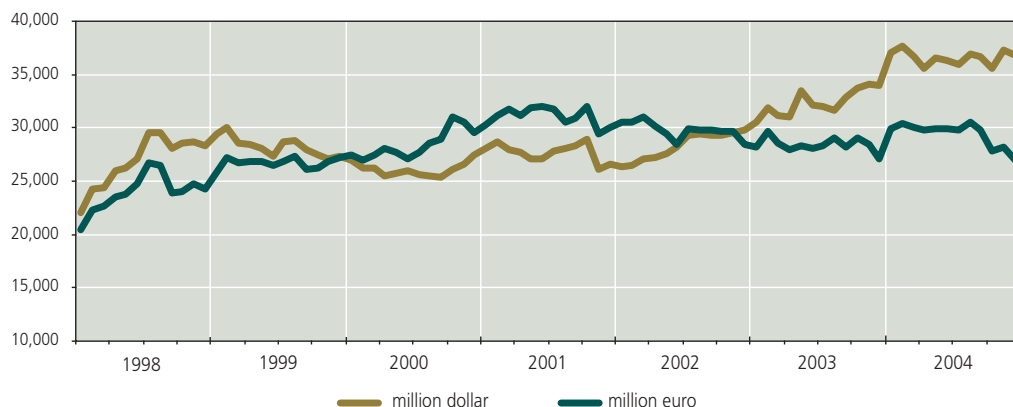
### 5.3.2. Level of official reserve assets

In 2004, official reserve assets<sup>42</sup> in dollar terms increased by USD 2.8 bn to USD 36.8 bn (Fig. 8), while in euro terms they decreased by EUR 0.1 bn to EUR 27.0 bn. The increase in the level of reserves in dollar terms was primarily triggered by the appreciation of the euro and pound sterling in relation to the U.S. dollar. This was particularly observable in the fourth quarter, where both European currencies appreciated considerably.

<sup>42</sup> Official reserve assets include such financial instruments as assets in convertible currencies (securities, deposits at foreign banks, foreign currency in NBP vaults), reserve item at the IMF, SDRs (NBP's current account at the IMF), monetary gold and other reserve assets. Compared to official reserve assets, the official reserves discussed in this Report are a subset including such items as securities, deposits at foreign banks (excluding foreign exchange funds of the Ministry of Finance) and also gold invested in international markets. In 2004, foreign exchange reserves in dollar terms increased by USD 3.0 bn and amounted to USD 35.9 bn; the average annual level was USD 34.9 bn. The average proportion of gold in foreign exchange reserves was 3.8%.

**Figure 8**

**Level of official reserve assets in individual months**



Source: NBP data.

### 5.3.3. Currency composition of reserves

The currency composition of the official foreign exchange reserves was stipulated by the Management Board of the NBP in August 2004. It comprised three reserve currencies: the U.S. dollar, the euro and the pound sterling, each to be held at designated percentages of the total reserves. The currency positions were maintained at specified parity levels, within permissible deviation bands, on the basis of analyses of the current and forecast situations in the currency market. In order to achieve the desired structure, foreign exchange operations were conducted.

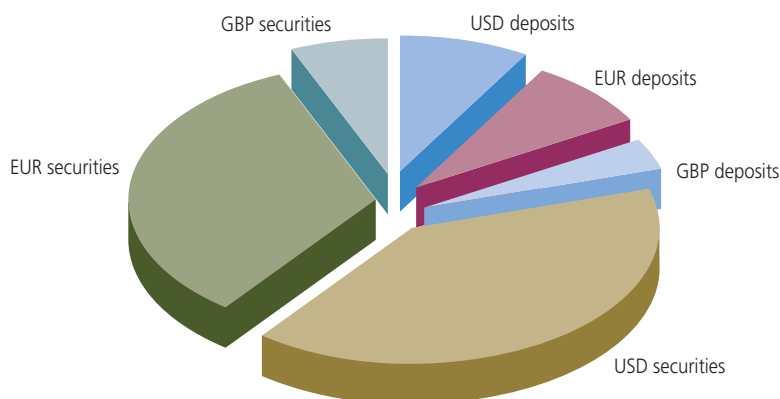
### 5.3.4. Investment activity

In 2004, as in the previous year, the investment structure of reserves held in foreign currencies allowed investment in three investment portfolios: the dollar, euro and pound sterling ones.

The investment strategy implemented in 2004 was primarily influenced by forecasts of developments in the securities market. This reflected the dominant share of securities in reserves (Fig. 9) and their decisive impact on the value of investment parameters.

**Figure 9**

**Average share of individual investment instruments in foreign exchange reserves, 2004**



Source: NBP data.

In the first quarter of 2004, the modified duration of the total foreign exchange reserves steadily increased, which reflected investment activity within all foreign currency portfolios. During this period, a rising trend with regard to the prices of bonds prevailed on the market. In such circumstances, securities with longer maturities guarantee much higher yields than money market instruments. Therefore extending the modified duration of securities while also increasing the exposure to such instruments at the expense of deposit transactions was advantageous.

In the second quarter of 2004, the investment strategy was modified. In response to a revaluation of market bond prices, the modified duration of reserves was considerably shortened and maintained below the benchmark level. Due to the fact that while securities prices decrease, bonds with the longest maturities record the largest drops in value, the exposure to such instruments was diminished. On the other hand, the shares of securities with shorter maturities and deposit transactions were increased (particularly with regard to the dollar portfolio).

The renewed rising trend with regard to debt securities in the third quarter of 2004 determined further investment policy adjustments. The assumption was to extend the modified duration of reserves to a level close to the benchmark. Maintaining a neutral position is preferable under high price volatility and uncertainty regarding the direction of changes. However, the continued drop in yield on euro securities caused the modified duration of such investments to be raised further in the last months of the year. A different policy was implemented with regard to the dollar portfolio. The prevailing downward trend in U.S. bond prices in the fourth quarter of 2004 prompted a decision to reduce the maturity of these investments. As a consequence of the actions taken within individual currency portfolios, the modified duration of total foreign exchange reserves varied considerably during this period but remained slightly above the benchmark level. In the last quarter, changes in investment structure were relatively insignificant.

#### 5.3.5. Investment income

In 2004, investment income amounted to PLN 3.9 bn, i.e. USD 1.1 bn or EUR 0.9 bn (in 2003 it was PLN 3.7 bn). The return on foreign exchange reserves amounted to 2.6% (in 2003 – 2.3%).

##### The most important activities of the NBP in 2004

- The obtained investment income amounted to PLN 3.9 bn.







# 6

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## FOREIGN EXCHANGE OPERATIONS

## 6.1. Foreign exchange activity

### 6.1.1. Organisation of foreign exchange transactions

In 2004 changes were introduced with regard to foreign exchange market operations. On August 21, 2004, the Freedom of Business Activity Act and the Act implementing the Freedom of Business Activity Act came into force. Pursuant to the new regulations, conducting foreign exchange market operations, which had hitherto been subject to permits from the President of the NBP (issued by directors of the NBP regional branches upon authorisation of the President of the NBP) is now considered regulated activity and requires only an entry in the register maintained by the President of the NBP. Therefore as of August 21, 2004, regional branches ceased to issue decisions regarding foreign exchange market operations.

Businessmen who had conducted foreign exchange operations before the act took effect were entered into the register without the need to submit additional applications.

As of December 31, 2004, the register of entities conducting foreign exchange market operations included 3,259 entries.

### 6.1.2. Foreign exchange decisions

In 2004, a total of 1,547 decisions (in 2003 — 1,704 decisions and 20 provisions) were issued, including: 776 permits, 4 negative decisions, and 767 other decisions, i.e. on the proceeding being discontinued or amended, determining the expiry and revocation along with 22 rulings.

Positive decisions included 233 permits to conduct foreign exchange market operations and 424 individual foreign exchange permits to conduct foreign currency settlements between residents at home. 141 individual permits regarded settlements related to the implementation of contracts co-financed from European Union funds, and 283 regarded settlements between domestic entities linked to foreign exchange transactions with entities abroad.

### 6.1.3. Foreign exchange control

In 2004, the National Bank of Poland exercised control over foreign exchange activities pursuant to the provisions of the Foreign Exchange Act<sup>43</sup> and the Act on Counteracting Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources and on Counteracting the Financing of Terrorism<sup>44</sup>.

In 2004, a total of 2,129 inspections were carried out (in comparison to 2,084 in 2003), including:

- 758 inspections concerning compliance with reporting requirements related to the balance of payments (736 in 2003), including 18 inspections combined with the inspection of foreign exchange permits (41 in 2003);
- 1,300 inspections regarding foreign exchange market operations (1,348 in 2003);
- 71 inspections at bank organisational units authorised to perform intermediary services with regard to the execution of foreign exchange money transfers and settlements.

<sup>43</sup> Dziennik Ustaw No. 141/2002 item 1178 as amended.

<sup>44</sup> Dziennik Ustaw No. 153/2003 item 1505 as amended.

The inclusion of responsibilities related to inspections at bank organisational units which perform intermediary services with regard to the execution of foreign exchange money transfers and settlements caused minor changes in the breakdown of control activities carried out by the NBP.

#### 6.1.4. Post-inspection activity

In 2004, the share of inspections which detected irregularities was 62% (77% in 2003). Irregularities were detected during 1,312 inspections.

Had any irregularities had been detected, post-inspection recommendations were issued, committing the management of the inspected unit to ensure compliance with applicable regulations. In 371 cases (308 cases in 2003) tax offices were notified of circumstances indicating that an offence may have been committed with regard to foreign exchange turnover. The findings of all inspections carried out at bureaux de change with regard to their compliance with the requirements stipulated by the Act on Counteracting Money Laundering were reported to the General Inspector of Financial Information.

In one case (two cases in 2003), the NBP revoked the permit to conduct foreign exchange market operations.

#### 6.2. Servicing the foreign borrowings of the NBP

In 2004, the NBP completed the servicing of World Bank loans taken out in 1990 to finance the Industrial Export Development and Agroindustries Export Development Projects. The last bank participating in these programmes (BGŻ S.A.) fully repaid its debt arising from those loans.

The servicing of the loan extended by the French government for the development of Polish-French joint venture companies, which had been made available to domestic banks, was continued. Repayments of the loan granted to the NBP and of the banks' credits were made as scheduled. The loan will be fully repaid by December 31, 2005.

##### The most important activities of the NBP in 2004

- 1,547 decisions regarding foreign exchange transactions were issued.
- 2,129 foreign exchange inspections were carried out.
- As a result of the liberalisation of regulations concerning business activity, the NBP ceased to issue permits to conduct foreign exchange market operations. A register of entities conducting foreign exchange market operations is maintained instead.



THE DEVELOPMENT  
OF THE PAYMENT SYSTEM

The contribution of the National Bank of Poland to the development of the payment system consists primarily in organising money settlements, exercising oversight over payment and securities settlement systems and drafting appropriate legal regulations.

In 2004, the NBP focused on developing the infrastructure for payments in euro, necessary in order to participate in the TARGET system, and on other activities contributing to the development of domestic payment infrastructure.

## 7.1. Preparation for participation in the TARGET system

In 2004, NBP arranged for the participation in the TARGET system. Within the framework of this task the NBP:

- Continued to develop the SORBNET-EURO system<sup>45</sup>, which will be used for the operation of banks' current accounts in euro and euro settlements of both domestic and cross-border payments. The SORBNET-EURO system must meet the security and functionality requirements stipulated by the ECB for systems joining the TARGET system. Within the framework of this task, the NBP:
  - stipulated the formal and legal requirements along with the rules of participation in the TARGET system via another central bank from the euro area;
  - cooperated with the Bank of Italy in the development of the technical infrastructure and drawing up the agreement stipulating the rules of linking the SORBNET-EURO system with the TARGET system via this bank.

The main advantages of launching the SORBNET-EURO system include:

- lower transaction costs for banks, which may result in the reduction of fees charged to customers;
  - cut settlement times between banks, which may shorten settlement times for the customers of Polish banks;
  - highly secure payments.
- Conducted analyses regarding the preparation for participation in the TARGET2 system, which (according to ECB plans) is to replace the TARGET system currently in operation from 2007. Work in this regard was performed by the TARGET2 System Commission appointed by the NBP and through the participation of an NBP representative in the ECB TARGET2 Working Group.

## 7.2. Oversight of payment systems and securities settlement systems as well as authorisation and clearing systems

Pursuant to the Act on Settlement Finality in Payment and Securities Settlement Systems, and on the Rules of Oversight on These Systems of August 24, 2001, the National Bank of Poland exercises oversight over payment systems in order to ensure their efficiency and security. Moreover, pursuant to the Act on Electronic Payment Instruments of October 12, 2003<sup>46</sup>, the NBP exercises oversight over authorisation and clearing systems operated by non-bank acquirers. In 2004, within the framework of oversight responsibilities the NBP:

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<sup>45</sup> The system was launched on March 7, 2005.

<sup>46</sup> Dziennik Ustaw No. 169/2002 item 1385.

- Assessed the authorisation and clearing systems operated by non-bank acquirers with regard to their compliance with the requirements of the Polish law and the possibility of ensuring their efficient and secure operation.
- Monitored the manner of implementation of NBP's recommendation to the National Clearing House (*Krajowa Izba Rozliczeniowa S.A. – KIR SA*) issued in 2002.

The recommendation concerned the adjustment of the ELIXIR system to the principles stipulated in the report of the Bank for International Settlements,<sup>47</sup> in particular those with respect to ensuring the timely completion of daily settlement in the event of potential default of the participant with the largest net debit position, i.e. the introduction of the so-called settlement guarantee.

On November 2, 2004, changes ensuring that this requirement was met were introduced into the ELIXIR system. In this way, the threat of the so-called domino effect, which may occur if a participant is excluded from the settlement of all orders, has been eliminated. The new solution has contributed to increasing the security of the system.

- Published the document NBP policy regarding the oversight of payment systems (*Polityka NBP w dziedzinie nadzoru nad systemami płatności*), which stipulates the objectives, legal framework accompanied by the criteria and manners of exercising oversight. The document was published pursuant to the recommendation of the ECB concerning the public disclosure of payment systems oversight principles.

According to the Policy, the criteria of assessment of the operation of payment systems employed by the NBP include:

- compliance with the Polish law;
- safety of the system's operation;
- efficient operation of the system.

In assessing the security and efficiency of system operation, the NBP uses generally observed international standards and European Union regulations.

In order to publicise the principles of payment systems oversight, the NBP published the document *The Role of the National Bank of Poland in the oversight of payment system (Rola Narodowego Banku Polskiego w zakresie nadzoru nad systemami płatności)*.

- Cooperated with the Polish Securities and Exchange Commission.

On October 1, 2004, the NBP and the Polish Securities and Exchange Commission concluded an agreement regarding the principles and procedure of mutual exchange of information, including opinions, concerning the oversight of securities settlement systems<sup>48</sup>.

- Undertook actions aimed at assessing the compliance of the link between the securities settlement system operated by the National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych – KDPW SA*) and the Austrian securities settlement system operated by the Oesterreichische Kontrollbank AG (OeKB) with ECB standards.

<sup>47</sup> *Core Principles for the Systemically Important Payment Systems*, published in January 2001. These principles constitute the basis for the assessment of payment systems by the IMF within the framework of the Financial Sector Assessment Program – FSAP.

<sup>48</sup> The agreement implements the September 2002 ECB recommendation for Poland and the standard of the ESCB CESR Working Group (CESR – Committee of European Securities Regulators) included in the document *Standards for Securities Clearing and Settlement in the European Union*.

Pursuant to the ECB procedure stipulating the principles of performing such assessments<sup>49</sup>, the NBP, being the central bank of a country where the securities settlement system acting as the investor system operates (the Austrian system acts as the issuer system) drew up the first assessment report, which was favourable. The second report will be drawn up by the Austrian National Bank and the third by the ECB. The work concerning the assessment of the link will be completed in 2005. The assessment is of informal nature – it is performed in order to detect any irregularities in the operation of the link, which must be removed before the link may be approved for the settlement of the ESCB credit operations.

- Signed the "Memorandum of understanding on cooperation between payment systems overseers and banking supervisors in stage three of Economic and Monetary Union" on June 17, 2004<sup>50</sup>.

The "Memorandum" is an agreement, originally concluded by and between 15 central banks of the European Union Member States as entities overseeing payment systems and the banking supervisory authorities in these countries, which took effect on January 1, 2001. It regards the promotion of cooperation among the aforementioned entities, particularly through the exchange of information about the risks to which credit institutions are exposed due to their participation in payment systems, and on the other hand about the risks generated by credit institutions which may have an impact on the operation of payment systems. The primary objective of this cooperation is to limit the impact of payment systems disruptions on the financial system stability.

### 7.3. Regulatory activity regarding the payment system

In 2004, the following legal acts regarding the payment system were adopted by the NBP:

- Resolution No. 20/2004 of the Management Board of the NBP of April 22, 2004 on the terms and conditions of opening and maintaining banks' accounts at the NBP.
- Resolution No. 6/2004 of the President of the NBP of April 20, 2004 on the manner of performing interbank settlements.

Compared to the regulations previously in force, the changes affected the performance of interbank settlements in euro and the operation of the newly-developed SORBNET-EURO system. Thus a uniform and consistent legal framework for the operation of two separate RTGS systems at the NBP – SORBNET (for settlements in zloty) and SORBNET-EURO (for settlements in euro) — has been established.

Due to the fact that the operation of the SYBIR system (used for exchanging paper-based payment instructions) at the National Clearing House was discontinued on June 30, 2004, the system was removed from the Ordinance of the Minister of Finance which defined systems carrying systemic risk of June 6, 2003.

In 2004, the NBP participated in the drafting of the Ordinance of the Council of Ministers on the manner of developing, saving, transferring, storing and protecting documents related to banking operations drawn up on electronic media. The Ordinance was issued on October 26, 2004 and came into force on November 2, 2004.

<sup>49</sup> Apart from assessing securities settlement systems used to settle operations related to the Eurosystem's monetary policy, the ECB performs the annual assessment of links between these systems with regard to their compliance with ECB standards.

<sup>50</sup> See also the "Banking supervision" chapter.



## 7.4. Operation of the SORBNET system

In 2004, work was performed aimed at the modification and extension of the SORBNET system in three main areas:

- with regard to adjustment to changing organisational and legal regulations:
  - the system for servicing required reserves was adjusted to the principles stipulated in Resolution No. 15/2004 of the Management Board of the NBP of April 13, 2004 on the principles and procedures of calculating and maintaining required reserves by banks;
  - the interface between the SORBNET system and the Integrated Accounting System was launched on September 6, 2004;
  - the settlement guarantee mechanism aimed at limiting the risk related to the payment system was launched in cooperation with the National Clearing House on November 2, 2004;
- with regard to increasing the security and reliability of its operation:
  - numerous changes with regard to securing access to the system were introduced on the basis of comprehensive analyses of ECB requirements described in the *Target Security Requirements and Controls* document;
  - a contingency communication method between NBP and banks/the National Depository for Securities has been deployed via the SORBNET Portal following the requests of the banks participating in the system.
- with regard to improving the effectiveness and efficiency of the system:
  - communication route with the National Clearing House was improved and upgraded pursuant to the agreement of September 29, 2004 on the launch of the link between the NCH Lotus Notes network and the NBP for data exchange purposes;
  - system processing was migrated to higher-performance servers in December 2004.

## 7.5. Servicing bank current accounts held at the NBP Head Office

### 7.5.1. Number of bank current accounts operated by the NBP

As of year-end 2004, the NBP Head Office operated current accounts under the SORBNET system for 54 banks, i.e. fewer by one bank than a year earlier.

Two current accounts were closed in 2004:

- the current account of Spółdzielczy Bank Rozwoju "Samopomoc Chłopska" – closed on January 2 due to the acquisition of this bank by Bank Przemysłowo-Handlowy PBK S.A. (from August 5 – Bank BPH S.A.);
- the current account of Bank Przemysłowy S.A. – closed on December 31 due to the acquisition of that bank by Getin Bank S.A. (before December 10 – Górnośląski Bank Gospodarczy S.A.).

During the same period, one new current account was opened:

- the current account of Svenska Handelsbanken AB SA Oddział w Polsce – on December 31.

Moreover, on April 19, 2004, the required reserve account of SAVIM BANK Depozytowo-Kredytowy SA was closed due to the conclusion of bankruptcy proceedings.

### 7.5.2. Types and number of operations performed on current accounts held by banks with the NBP

In 2004, around 907,000 operations were performed in the banks' current accounts held with the NBP Head Office (against 750,000 in 2003), totalling PLN 19.8 trillion (against PLN 17.2 trillion in 2003). This was an increase in the number of operations by 157,000 (around 21%) and by PLN 2.6 trillion in value terms (around 15.1%) on 2003. The average amount per operation decreased and amounted to PLN 21.8 m (PLN 22.9 m in 2003).

The structure of turnover on banks' current accounts held at the NBP Head Office is presented in Table 13, while the amount of transfer orders broken down by principal types of operations performed on banks' current accounts held at the NBP Head Office is shown in Table 14.

In 2004, as in the previous year, customer transfer orders were the largest item in the turnover on banks' current accounts (compared to 2003, the increase in the turnover related to such orders amounted to PLN 2.6 trillion, i.e. 7.2%). The turnover related to interbank money market orders dropped by 7%, i.e. by PLN 0.4 trillion.

## 7.6. Developing standards

In 2004, the activities with regard to developing standards focused on the introduction of the NRB and IBAN standards into the Polish banking sector. Pursuant to Resolution No. 5/2002 of the President of the NBP of May 6, 2002, banks were required to assign NRB numbers to all bank accounts operated for domestic settlements and IBAN numbers to all bank accounts operated for cross-border settlements. Since July 1, 2004, only new bank account numbers have been in operation. Thanks to the cooperation of the NBP with the Polish Banking Association and the National Clearing House and a wide-ranging information campaign, the introduction of the NRB standard was successful.

Within the framework of works of the Technical Committee No. 271 for Banking and Banking Financial Services (*Komitet Techniczny nr 271 ds. Bankowości i Bankowych Usług Finansowych*), a number of drafts for Polish standards (harmonised with the ISO international standards) were developed with the participation of NBP employees. Moreover, opinions were issued on several Polish standard drafts developed by related technical committees affiliated with the Polish Committee for Standardisation (*Polski Komitet Normalizacyjny – PKN*).

In 2004, the PN-ISO 13616 "Banking and related financial services – International Bank Account Number (IBAN)" (*Bankowość i pokrewne usługi finansowe. Międzynarodowy Numer Rachunku Bankowego (IBAN)*) Polish standard was amended. The draft for the standard was developed at the NBP. The standard specifies the structure and manner of developing elements of the IBAN.

Table 13

## Structure of turnover in banks' current accounts held at the NBP Head Office, 2004

Type of current account transaction	Turnover, million zloty			Turnover structure, %	
	Balance	of which:		debits	credits
		debits	credits		
Movement in balance of funds in banks' current accounts, of which:	1,103.9	19,782,026.6	19,783,130.5	100.0	100.0
1) customer transfer orders:	192,761.4	10,831,868.6	11,024,630.0	54.8	55.7
- interbank	0.0	10,617,862.2	10,617,862.2	53.7	53.7
- involving the National Depository for Securities	-107.2	14,445.0	14,337.8	0.1	0.1
- involving other customers of the NBP	192,868.6	199,561.3	392,430.2	1.0	2.0
2) interbank transactions:	0.0	6,110,639.0	6,110,639.0	30.9	30.9
- money market	0.0	3,733,044.3	3,733,044.3	18.9	18.9
- FX market	0.0	1,119,755.2	1,119,755.2	5.7	5.7
- securities	0.0	1,257,839.6	1,257,839.6	6.4	6.4
of which secondary market trading in:					
- Treasury bills	0.0	1,153,261.4	1,153,261.4	5.8	5.8
- NBP money market bills	0.0	60,359.7	60,359.7	0.3	0.3
3) drawings or repayments of NBP loans to banks	-92.6	1,430,322.5	1,430,229.8	7.2	7.2
4) transactions and operations settled by the National Depository for Securities	1,188.2	450,894.4	452,082.6	2.3	2.3
5) exchange of transfer orders via the National Clearing House:	-167,819.3	479,329.8	311,510.6	2.4	1.6
- morning settlement session	-158,297.8	257,891.0	99,593.1	1.3	0.6
- afternoon settlement session	-18,596.4	125,979.8	107,383.5	0.6	0.5
- evening settlement session	9,074.9	95,459.1	104,534.0	0.5	0.5
6) purchase (buyback) of securities from NBP:	568.6	139,947.2	140,515.9	0.7	0.7
- NBP money market bills	-4,632.3	139,937.2	135,305.0	0.7	0.7
- other securities	5,200.9	10.0	5,210.9	0.0	0.0
7) purchase or sale of cash at NBP:	-747.0	130,848.7	130,101.7	0.7	0.7
- domestic currency	-749.0	130,844.5	130,095.5	0.7	0.7
- foreign currency	2.0	4.1	6.1	0.0	0.0
8) purchase or redemption of Treasury securities:	-23,054.1	106,573.7	83,519.6	0.5	0.4
- Treasury bills	444.9	45,743.9	46,188.8	0.2	0.2
- other securities	-23,499.0	60,829.8	37,330.8	0.3	0.2
9) placings and returns of time deposits at NBP	-41.2	66,686.8	66,645.6	0.3	0.3
10) purchase or sale of foreign currencies at NBP	-5,147.1	8,143.1	36.4	0.0	0.0
11) open market operations:	0.0	0.0	0.0	0.0	0.0
- repos	0.0	0.0	0.0	0.0	0.0
- reverse repos	0.0	0.0	0.0	0.0	0.0
- outright sales	-1,372.0	1,372.0	0.0	0.0	0.0
12) interest paid or received by banks	694.9	198.4	893.3	0.0	0.0
13) transactions on reserve accounts	-2.4	123.0	120.6	0.0	0.0
14) other transactions	2,794.6	29,291.3	32,085.9	0.1	0.2

Source: NBP data.

Table 14

**Total number of transfer orders by principal types of operations performed on banks' current accounts held at the NBP Head Office, 2004**

Item	No. of payment orders executed on current accounts		Order breakdown, %		
	total	of which:		debits	credits
		debits	credits		
Total number of transfer orders executed on banks' current accounts, of which:	906,803	784,014	816,647	100.0	100.0
1) customer transfer orders:	523,291	492,628	514,652	62.8	63.0
- interbank	483,989	483,989	483,989	61.7	59.3
- involving the National Depository for Securities	792	518	274	0.1	0.0
- involving other customers of the NBP	38,510	8,121	30,389	1.0	3.7
2) interbank transactions:	209,026	209,026	206,026	26.7	25.6
- money market	100,860	100,860	100,860	12.9	12.4
- FX market	61,266	61,266	61,266	7.8	7.5
- securities	46,900	46,900	46,900	6.0	5.7
of which secondary market trading in:					
- Treasury bills	43,530	43,530	43,530	5.6	5.3
- NBP money market bills	839	839	787	0.1	0.1
3) drawings or repayments of NBP loans to banks	12,520	4,955	7,565	0.6	0.9
4) transactions and operations settled by the National Depository for Securities	25,982	12,351	13,631	1.6	1.7
5) exchange of orders via the National Clearing House	40,331	20,159	20,172	2.6	2.5
- morning settlement session	13,448	5,326	8,122	0.7	1.0
- afternoon settlement session	13,485	8,513	4,972	1.1	0.6
- evening settlement session	13,398	6,320	7,078	0.8	0.9
6) purchase (buyback) of securities from NBP:	1,030	310	720	0.0	0.1
- NBP money market bills	990	309	681	0.0	0.1
- other securities	40	1	39	0.0	0.0
7) purchase or sale of cash at NBP:	79,735	36,716	46,281	5.8	7.0
- domestic currency	79,670	36,667	43,003	4.7	5.3
- foreign currency	65	49	16	0.0	0.0
8) purchase or redemption of Treasury securities:	4,526	2,383	2,143	0.3	0.3
- Treasury bills	1,589	523	1,066	0.1	0.1
- other securities	2,937	1,860	1,077	0.2	0.1
9) placings and returns of time deposits at NBP	2,018	1,038	980	0.1	0.1
10) purchase or sale of foreign currencies at NBP	100	72	28	0.0	0.0
11) open market operations:	0	0	0	0.0	0.0
- repos	0	0	0	0.0	0.0
- reverse repos	0	0	0	0.0	0.0
- outright sales	0	0	0	0.0	0.0
12) interest paid or received by banks	2,923	1,513	1,410	0.2	0.2
13) transactions on reserve accounts	33	16	17	0.0	0.0
14) other transactions	5,288	2,847	3,284	0.4	0.4

Source: NBP data.

## 7.7. Activity of the Payment System Council

The Payment System Council (Rada ds. Systemu Płatniczego) has a significant impact on the operation and development of the Polish payment system. The Council was established in 1998 as a consultative and advisory body affiliated with the Management Board of the NBP. It comprises representatives of the NBP and also of, inter alia, the Polish Bank Association, the Ministry of Finance, the National Clearing House and commercial banks.

In 2004, four meetings of the Payment System Council were held and discussed:

- Issues related to the alignment of the Polish payment system to the requirements effective in the payment systems in European Union Member States, including:
  - the progress of preparations to introduce settlement guarantee in the ELIXIR system;
  - a summary of the process of introduction of the NRB and IBAN standards;
- Issues related to the inclusion of the Polish payment system in the Single European Payment Area:
  - new legal framework for payment services in the EU internal market in the context of the Polish legal regulations and practices;
  - Poland's implementation of 2002 ECB recommendations;
  - information concerning the progress of work on the SORBNET-EURO and EuroELIXIR systems, and the principles of operation of the EuroELIXIR system;
  - information concerning the performance of responsibilities arising from the Act on Electronic Payment Instruments by the NBP;
  - assessment of the use of electronic signatures in the banking sector in the light of the Act on Electronic Signature;
  - cross-border settlements in the capital market;
  - integration of the Polish securities settlement system with other European systems;
  - introduction of principles related to Straight Through Processing in the Polish payment system.
- Systemic issues related to the optimisation of payments, including:
  - assessment of the current status and development prospects of electronic banking;
  - reducing the amount of cash transactions in Poland;
  - eliminating paper documents from interbank settlements.

Additionally, the Council issued opinions on semi-annual assessments of the operation of the Polish payment system.

## 7.8. Collaboration with the banking sector regarding other interbank projects

In 2004, the NBP continued its collaboration with the Polish Bank Association and banks. With the active participation of the NBP, the banking sector:

- developed a standard for electronic bank transfers used for mass payments to large creditors;
- discussed the security of non-cash payments;
- undertook actions related to the use of the XML standard in banking;
- developed the principles of operation and a workplan for a new group operating within the Polish Bank Association — the Banking Technologies Forum of the Electronic Banking Council (*Forum ds. Technologii Bankowych przy Radzie Bankowości Elektronicznej*);
- worked on the following drafts:
  - of the Ordinance of the Minister of Finance amending the Ordinance on the definition of form templates for making cash payments and bank transfers to the account of a tax authority;
  - the Ordinance of the Minister of Finance amending the Ordinance on the template of the bank payment document regarding liabilities arising from compulsory contributions to the Social Security Institution.

### The most important activities of the NBP in 2004

- The NBP operated current accounts in the SORBNET system for 54 banks.
- New technological solutions were implemented in the SORBNET system.
- Work on the development of the SORBNET-EURO system continued.
- NBP policy regarding payment systems oversight was published.
- The NBP collaborated with the Polish Bank Association and the National Clearing House in order to successfully introduce the NRB and IBAN standards in the Polish banking sector.
- The NBP and the Polish Securities and Exchange Commission concluded an agreement on closer cooperation regarding the oversight of securities settlement systems.
- Within the framework of works of the Payment System Council and the Polish Banking Association, the following issues were discussed, among others: new legal framework for payment services in the EU internal market and the progress of work on the SORBNET-EURO and EURO-ELIXIR systems.

## EDUCATION AND INFORMATION

Pursuant to its statutory prerogatives, the National Bank of Poland engages in publishing and promotional activities. Within their framework, it implements educational and informational projects designed to, among other things, increase the transparency of its operations (including the monetary policy operations) and enhance public awareness regarding the central bank, the banking system and the entire economy.

The NBP models its information and education activities on leading central banks.

## 8.1. Education

### 8.1.1. Programme of Economic Education

Within the framework of the *Programme of Economic Education*, the National Bank of Poland undertakes measures aimed at disseminating economic knowledge (also regarding currency and inflation), fostering understanding of market economy mechanisms and economic processes while also developing skills necessary for efficient operation in the market economy.

In 2004, the NBP continued the activity initiated in 2002 and 2003 and launched new projects.

The objectives of projects implemented under the programme have been developed primarily on the basis of detailed analyses of educational activity of other central banks, projects carried out by institutions and non-governmental organisations operating in Poland and on public opinion surveys.

#### 8.1.1.1. *Economic Education Portal – NBPortal.pl*

In 2004, the Web-based Economic Education Portal launched in 2003 in order to disseminate and broaden economic knowledge developed rapidly. The [www.nbportal.pl](http://www.nbportal.pl) web page reported over 5 million visits and more than 560,000 users accessed NBPortal.pl resources. Among other things, 3,500 articles, 3 new multimedia courses (*The Monetary History of Poland, Banking and Investment*), 104 quizzes, 8 games and 17 educational presentations were added to the NBPortal.pl.

The education campaign "*Obierz kurs na ekonomię*" (On Course to Economics), organised jointly with the *Gazeta Wyborcza* daily, proved very popular. It enabled around 20,000 persons to use NBPortal.pl's e-learning courses; nearly 1,000 completed their courses and obtained certificates.

#### 8.1.1.2. *Grant competitions*

In April 2004, the NBP announced the third edition of grant competitions regarding financial support of economic education projects. The topic of the competition, addressed to the mass media, was Polish Economy in the European Union. 95 applications were submitted, of which 31 were awarded financial support. Non-governmental organisations and educational institutions could choose from the following topics: Business Activity and Entrepreneurship, Economic Education in Polish Schools and Polish Economy in the European Union. 61 applications out of 373 submitted for the competition were awarded financial support.

#### 8.1.1.3. *Programmes for schools, teachers and journalists*

Secondary school students and their teachers are a target group of particular importance to the NBP. The activities of the NBP focused on providing equal opportunities in access to education parallelly with enhancing the quality of economic education in schools. In 2004, the following projects were carried out:



- The third edition of the essay competition for lower and upper secondary school students entitled *Moja "ziemia obiecana" – mój pomysł na sukces zawodowy* (My 'Promised Land' – My Idea for a Successful Career). The competition was held in cooperation with the Centralny Ośrodek Doskonalenia Nauczycieli (the National In-Service Teacher Training Centre) and under the auspices of the *Gazeta Wyborcza* daily and *Gazeta Szkolna* weekly. Over 900 papers were submitted, mostly from small towns and villages. 12 students were awarded prizes.
- The *Z Ekonomią na ty* (On Friendly Terms with Economics) competition for powiat (county) libraries. In 2004, 93 libraries entered the competition, 31 of which were granted subventions for implementing economic education projects. In total, around 16,000 students, 160 schools and over 300 public institutions and enterprises were involved in the project.
- The *Ekonomia na co dzień* (Day-to-day Economics) programme. In order to complement the *Wychowanie do aktywnego udziału w życiu gospodarczym* (Education for Active Participation in Business Life) classes taught in lower secondary schools, a modern educational programme aimed at the dissemination of practical economic knowledge was developed in cooperation with the Fundacja Młodzieżowej Przedsiębiorczości (Junior Achievement Foundation). In 2004, more than 250 teachers joined the programme.
- The *Ekonomia w szkole* (Economics in School) programme aims at broadening the economic knowledge of teachers of Basic of Entrepreneurship classes taught in upper secondary schools and enable them to disseminate their knowledge more effectively. The programme, which has been developed in cooperation with the Junior Achievement Foundation, will be implemented through a three-year cycle. The first group of 1,200 teachers began their training in November 2004.
- The Euromanager competition for university students. 231 teams participated in the 5<sup>th</sup> edition of the international competition in enterprise management. The NBP lent financial support to 50 teams, mainly those coming from smaller academic centres.
- Competition for economic journalists organised in cooperation with Reuters Polska. The Władysław Grabski Memorial Award is granted to journalists authoring articles as well as radio and TV programmes that contribute to raising of economic awareness among the general public. 62 journalists entered the second edition of the competition. In May 2004, the Chapter granted awards to eight of them.

#### 8.1.1.4. Scholarship programme

The National Bank of Poland, in cooperation with the Agricultural Property Agency, the Polish-American Freedom Foundation, the Educational Enterprise Foundation, Bank Gospodarstwa Krajowego and non-governmental organisations took part in the third edition of the Bridging Scholarship Programme. The programme funds scholarships for the initial year of Master's studies for talented young people from rural areas and small towns. In 2004, the sponsors of the programme managed to raise a total of over 5.7 m zloty, which made it possible to grant scholarships to 1,348 students.

#### 8.1.2. Collaboration in staff training for the banking sector

In 2004, the NBP continued its work for the benefit of the banking sector, which included the organisation of training courses in balance of payments statistics for commercial bank staff.

## 8.2. Information activity

### 8.2.1. Contacts with the media and market analysts

In 2003, the NBP organised 30 press conferences and meetings with representatives of the media, 12 of them following MPC meetings, and issued around 130 press releases. Moreover, around 200 journalists' questions regarding the activity of the NBP were answered and about 150 interviews and meetings with representatives of the Bank's management were arranged.

From March to July 2004, the NBP ran the EU – Prices information campaign aimed at updating the public on factors influencing changes in the prices of goods and services after Poland's accession to the European Union.

In order to increase the transparency of monetary policy, the NBP holds quarterly press conferences, to present Inflation Reports including inflation projections. The National Bank of Poland also initiated regular meetings with market analysts.

### 8.2.2. Information activities regarding the euro

One of the NBP's objectives is to enhance the public's knowledge about the Economic and Monetary Union and Poland's preparation for the introduction of the single currency, with particular emphasis on the convergence criteria and the consequences of this development for Polish citizens.

As part of its activities targeted at the general public, the NBP produced and broadcast a cycle of the Appetite for the Euro films on public television. It also issued and distributed the Getting Closer to the Euro brochure describing the practical aspects of the introduction of the single currency in Poland. In cooperation with the European Central Bank, a leaflet presenting the security features of the euro was produced and posters on this subject were distributed to banks and bureaux de change. Information about the euro was regularly updated on the NBP web site and the sections of the Economic Education Portal on the single currency were constantly extended.

The NBP also supported education initiatives related to the EU integration developed by other institutions *Poznaj i przelicz Unię - Europejskie lekcje ekonomiczne* (Learn and Calculate the EU – European Economics Lessons) project, the *Od płacidła do euro* (From Commodity Money to the Euro) exhibition at the Collegium Maius of the Jagiellonian University, the *Olimpiada wiedzy o Unii Europejskiej* (European Union Knowledge Competition) and the *Polska w Unii Europejskiej* (Poland in the European Union – Economic Forum).

In 2004, the NBP continued to conduct opinion polls concerning the level of the general public's knowledge about the European integration as well as the euro as well as the Poles' opinion on the future introduction of the euro.

### 8.2.3. The Voivodships' Arms series of coins

The introduction of the 2 zloty Nordic Gold Voivodships' Arms coins, was the occasion of the NBP's promotional campaign to popularise this new series. Twelve meetings were held in voivodship capitals during which the coins were presented and the role of the NBP as the issuer of currency was discussed. Representatives of local government authorities, government administration, academic communities and institutions cooperating with the NBP attended the meetings.

The promotion of the coins was combined with meetings with the regional scientific and economic communities, including businessmen participating in the NBP regional research development programme.

#### 8.2.4. Participation of the NBP in the organisation of the Cultural Days of the ECB: Poland in Frankfurt am Main

Each year, the European Central Bank organises the Cultural Days of the European Central Bank, to show the inhabitants of Frankfurt the abundant and diverse cultures of particular European Union countries. In 2004, the decision was taken to host Poland at the Days, selected as the first among the fifteen new EU members. At the invitation of the ECB, the National Bank of Poland participated in the organisation of the event.

*The Cultural Days of the ECB 2004: Poland* were held in Frankfurt am Main from September 16 to October 17, 2004. The celebrations began with an international discussion panel featuring the President of the NBP and the President of the ECB, which was devoted to the future of the European Union.

The agenda included many events which promoted Polish culture and an exhibition of modern applied arts entitled *Made in Poland*. *The ECB's Cultural Days 2004: Poland* were very well received by the inhabitants of Frankfurt and representatives of the European Central Bank.

#### 8.2.5. 80th anniversary of the central bank in Poland

Pursuant to the Act on the State Treasury Repair and Currency Reform, on April 28, 1924, the central bank of the Republic of Poland – Bank Polski S.A. – commenced its activity. On the same day, the exchange of the Polish mark for the new Polish currency – the zloty – was launched. The bank's articles of association had been written by Władysław Grabski, the father of the reforms of the state's finances. Similarly as the NBP today, Bank Polski S.A. guarded the stability of the Polish currency.

In 2004, the NBP commemorated the date of foundation of Bank Polski S.A. by organising the celebrations of the 80th anniversary of the central bank in Poland. The celebrations included, among other things, Open Days at the NBP Head Office, a cycle of Open Days was also initiated at NBP regional branches.

From May 17 to May 23, 2004, the NBP Head Office was open for visitors – organised groups of students and teachers (on weekdays) and the general public (on Saturday and Sunday). Twelve exhibitions and presentations of the notes and coins design and detecting counterfeit currency, comprehensive information on the history of central banking in Poland and the contemporary role and responsibilities of the NBP were available to visitors. Around 8,300 people visited the NBP Head Office.

In subsequent months, Open Days were held at NBP regional branches.

#### 8.2.6. NBP publications and web site

In 2004, as in previous years, the NBP issued numerous publications, including the *Annual Report*, *Inflation Reports*, *Monetary Policy Guidelines*, *Report on Monetary Policy Implementation*, *Report on NBP Activity*, *Information Bulletin*, and *Financial Stability Report*. Research papers in the *Materials and Studies* series and the *Bank and Credit* monthly and a periodical for the NBP employees entitled *Jak w Banku* ("Safe as Bank") were also published. Moreover, a book including a collection of articles discussing the origins and determinants of globalisation – *Globalizacja od A do Z* (An A to Z of Globalisation) was published.

In 2004, the NBP published the *Financial System Development in Poland 2002–2003* report, which was the continuation of the *Financial Market in Poland 1998–2001* report published in 2002. An updated edition of the *Guide to the National Bank of Poland* was also published. Moreover, a document devoted to new banking regulations – the Banking Act, the Act on the NBP and the Act on Certain Types of Financial Collateral was published.



Additionally:

- In June 2004, the NBP started to publish the *Monthly Bulletin of the European Central Bank* in Polish<sup>51</sup>.
- On the 80<sup>th</sup> anniversary of the central bank in Poland, publications on the history of Polish central banking and a biography of Władysław Grabski were issued.
- In August 2004, the inflation projection for 2004–2006 was published for the first time as part of the *Inflation Report*; the projection presents the probable development of inflation assuming unchanged central bank interest rates.
- Together with the *Stowarzyszenie Otwarte Drzwi* (Open Door Association), the NBP issued the *Accessible Bank (Bank dostępny)* publication on adjusting banks to the needs of the disabled and elderly.

A detailed list of publications can be found in Appendix 8 of this Report.

The NBP web site plays an important part in its information activity. It includes numerous economic papers and analyses accompanied by the information on the ongoing NBP activity. In 2004, the NBP web site reported around 2 million visits. The number of regular users almost doubled from 43,000 to 82,000 in the period from January to December 2004.

An essential part of the NBP web site is the Statistics section, which contains, inter alia, monetary statistics and balance of payments data. It also includes data on core inflation and inflation expectations. The statistical section of the web site was updated and extended on a regular basis in 2004. A separate Reporting section was created, which includes guidelines on the methodology and principles of drawing up reports as well as information on the ECB activity.

### 8.3. NBP Central Library

The publications at the NBP Central Library pertain to economics, with particular emphasis on banking. They can be accessed in the reading room by all interested parties and are available on loan to the NBP employees, employees of other banks on the basis of concluded agreements and to other interested parties as interlibrary loans.

The Library catalogue can be accessed at six workstations. The Library provides catalogue, bibliographical and substantive information on the basis of its own collections.

It subscribes to numerous economic and legal databases, which can be accessed free of charge by all interested parties.

In 2004, the ProQuest database was accessed by over 5,000 users and the Internet workstation was used by over 1,000 people.

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<sup>51</sup> Published quarterly in Polish.

Table 15

## Collections of the NBP Central Library

Type of publication	31.12. 2001	31.12.2002	31.12. 2003	31.12.2004
Self-contained publications	81,399 volumes	85,462 volumes	89,773 volumes	94,466 volumes
Serial publications	32,797 volumes	33,300 volumes	33,167 volumes	34,936 volumes
Current periodicals	473 titles	398 titles	386 titles	386 titles

Source: NBP data.

Library catalogues, which are maintained in the "Co-Liber" system, include 1,850 periodical titles and 42,614 book titles. In 2004, nearly 25,000 volumes of books and periodicals were borrowed from the Library and the reading room was visited by over 6,300 people who were given access to almost 28,000 volumes of books and periodicals.

The NBP Central Library can also be contacted by e-mail at [biblioteka@nbp.pl](mailto:biblioteka@nbp.pl).

#### The most important activities of the NBP in 2004

- The NBP held quarterly press conferences to present *Inflation Reports*.
- The NBP started to publish inflation projections.
- Around 20,000 users enrolled for e-learning courses at the NBPPortal.pl – Economic Education Portal.
- In order to enhance economic education in Polish schools, the NBP initiated a cycle of training courses for teachers of Basic Entrepreneurship in upper secondary schools.
- Over 10,000 people took part in Open Days at the NBP.
- The NBP promoted Polish culture and economy by participating in the organisation of the *ECB's Cultural Days 2004: Poland* in Frankfurt am Main.





# 9

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## SERVICES TO CENTRAL GOVERNMENT

The responsibilities of the National Bank of Poland within the framework of services to the central government include operating central government accounts, servicing the international receivables and liabilities of the central government, trading in Treasury securities and public debt management, particularly with regard to central government debt.

## 9.1. Bank accounts operated at the NBP

Pursuant to the Act on the National Bank of Poland, the NBP operates primarily central government accounts but also, with the approval of the President of the NBP, accounts of other legal persons, e.g. the Social Insurance Institution (*Zakład Ubezpieczeń Społecznych – ZUS*), the Cooperation Fund Foundation (*Fundacja "Fundusz Współpracy"*) along with the accounts of other undertakings which, pursuant to statutory regulations, are authorized to have their accounts maintained at the NBP, e.g. the Agricultural Market Agency (*Agencja Rynku Rolnego*), the Agency for Restructuring and Modernisation of Agriculture (*Agencja Restrukturyzacji i Modernizacji Rolnictwa*).

By operating central government accounts, the National Bank of Poland contributes to ensuring the safety and liquidity of public funds settlements. Within the framework of services to the central government, the NBP operates the bank accounts referred to in Article 190 of the Public Finance Act of November 26, 1998<sup>52</sup> including the accounts of special-purpose funds and enterprise social benefit funds for the government institutions.

### 9.1.1. Operating bank accounts

The transactions executed by the National Bank of Poland on central government accounts pertain to cash and non-cash receipts and expenditures, using both the electronic banking system and traditional methods. While executing transfer orders, a principle is observed according to which expenditures are settled up to the balance of the account. The NBP executes customers' payment instructions on the same day on which they are placed.

In 2004, the number of account holders using the enbepe electronic banking system launched in 2002 continued to grow. In the previous year, around 3,340 customers used the system, out of 3,500 whose accounts were operated at the NBP (in 2003 – around 3,200).

On September 6, 2004, a direct interface between the electronic banking system and the Integrated Accounting System (IAS) was launched. It facilitated fund management by account holders and money settlements became more efficient. The IAS enabled online posting of transactions made between bank accounts operated at the NBP. Moreover, account holders were provided access to the following functionality:

- queuing payment instructions where there are insufficient funds in the account;
- the possibility to assign an execution priority to a transfer order and to change the execution priority for a queued transfer order or a transfer with a future execution date;
- the possibility to cancel a queued transfer order or a transfer with a future execution date.

In 2004, work related to the launch of a B2B interface to link the IAS system in operation at the NBP with the IT systems of account holders was also initiated. In cooperation with the Ministry of Finance, work continued on stipulating new guidelines for services to the central government and on the draft of the Public Finance Act.

<sup>52</sup> Dziennik Ustaw No.155/1998 item 1014 as amended.



### 9.1.2. Types of accounts operated by the NBP

In 2004, the National Bank of Poland provided services to 3,500 customers (3,450 in 2003). Within the framework of those services, NBP regional branches operated around 12,100 zloty accounts, including:

- 8,240 current accounts (7,935 in 2003);
- 2,089 auxiliary accounts (1,445 in 2003);
- 1,479 accounts of special-purpose funds and enterprise social benefit funds of central government institutions (1,024 in 2003).

The number of auxiliary accounts increased by nearly a half in 2004. This was caused by the fact that government institutions opened new accounts in order to handle funds from the European Union.

The increase in the number of accounts in the last of the aforementioned categories was the result of the interest of government institutions (dating back to 2003) in the possibility to open enterprise social benefit fund accounts at NBP branches.

In addition to zloty accounts, the National Bank of Poland also opens and operates foreign currency accounts, including those where funds from the European Union budget are handled.

### 9.1.3. Procedures for operating accounts

Accounts were maintained pursuant to "*Regulamin otwierania i prowadzenia przez Narodowy Bank Polski rachunków bankowych w walutach obcych*" ("Regulations for opening and maintaining of bank accounts in foreign currency at the National Bank of Poland") and – by September 6, 2004 – pursuant to "*Regulamin otwierania i prowadzenia przez Narodowy Bank Polski rachunków bankowych w złotych dla podmiotów niebędących bankami*" ("Regulations for opening and maintaining bank accounts in zloty for non-bank entities at the National Bank of Poland"). From September 6, 2004, accounts in zloty were opened and maintained pursuant to "*Regulamin otwierania i prowadzenia przez Narodowy Bank Polski rachunków bankowych w złotych*" ("Regulations for opening and maintaining bank accounts in zloty at the National Bank of Poland") and to "*Regulamin otwierania i prowadzenia przez Narodowy Bank Polski rachunków bankowych w złotych z wykorzystaniem Bankowości Elektronicznej*" ("Regulations for opening and maintaining bank accounts in zloty using electronic banking at the National Bank of Poland").

In 2004, the maintenance of central government accounts was also regulated by the Ordinance of the Minister of Finance of December 20, 2000 on the detailed manner of implementation of the central budget and detailed principles of operating central government bank accounts, and the scope and timeframe for the compilation of statements and reports on the implementation of the central budget within the framework of banking services rendered to the central government by the National Bank of Poland<sup>53</sup>.

Services were provided to customers by 16 NBP regional branches and the NBP Chief Branch of Foreign Exchange.

In 2004, the number of holders of accounts which were operated according to the alternative cash service procedure slightly decreased to 2,069 (from 2,107 in 2003). Alternative cash service is provided at the expense of the NBP where institutions have their registered offices outside the area of location of NBP organisational units.

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<sup>53</sup> Dziennik Ustaw No. 122/2000 item 1335.

## 9.2. Servicing international receivables and liabilities of central government

In 2004, the NBP continued – pursuant to the contracts of agency signed in previous years with the Minister of Finance – to service the receivables and liabilities of the central government arising from:

- loan agreements concluded by the government of the Republic of Poland with international institutions and financial organisations or guaranteed by the government;
- loans from international financial institutions which were made available to domestic undertakings;
- Poland's membership in those organisations;
- loans received from governments of other countries.

In 2004, the following agreements were serviced:

- 56 government loan agreements (52 in 2003);
- 51 government guarantee agreements (48 in 2003);
- 5 agreements concerning the provision of loan finance to domestic entities (6 in 2003), including two agreements concerning the administration of World Bank loans for Agricultural Development and Financial Institutions Development programmes, which had been made available to domestic banks. The NBP supervised the repayment of liabilities by three banks.

New government loan agreements concerned loans drawn from the European Investment Bank (for the financing of infrastructure improvement programmes), and from the World Bank (for restructuring the coal sector and the maintenance and improvement of road infrastructure).

New guarantee agreements concerned loans granted to Polish commercial banks by the European Investment Bank and the Council of Europe Development Bank for the financing of investment projects by small and medium-sized enterprises and territorial local government units, projects within the framework of European Union assistance programmes and the loan for PKP Polskie Linie Kolejowe SA, used to co-finance the project aimed at increasing the capacity of the Polish railway network.

In 2004, acting as depositary for the European Bank for Reconstruction and Development and also the World Bank and its agencies, the NBP administered 22 promissory notes issued by the government of the Republic of Poland in connection with Poland's membership in those organisations.

## 9.3. Organising trading in Treasury securities

### 9.3.1. Treasury securities tenders

In 2004, the NBP in its capacity of the issuing agent for Treasury securities organised 49 Treasury bill tenders (compared to 51 in 2003) and 40 bond auctions (of which 18 were non-competitive tenders).

The supply of T-bills on offer totalled PLN 49 bn, a decrease of PLN 8 bn from 2003. The nominal demand for these bills amounted to PLN 132.4 bn. The value of accepted bids amounted to PLN 48.7 bn (in 2003 – PLN 56.9 bn).

The following securities were on offer during bond tenders:

- two-year zero-coupon bonds: supply – PLN 30.3 bn, demand – PLN 69.2 bn, sales – PLN 28.9 bn;
- ten-year fixed-rate bonds: supply – PLN 26.7 bn, demand – PLN 67.5 bn, sales – PLN 25.4 bn;
- three- and seven-year floating-rate bonds: supply – PLN 8.6 bn, demand – PLN 23.6 bn, sales – PLN 6.3 bn.

In September, an auction for twenty-year fixed-rate bonds was held. The total supply was PLN 1.2 bn, the declared demand amounted to PLN 2 bn, and sales to PLN 1.2 bn.

In August 2004, the issue of new inflation-indexed fixed-rate bonds maturing in 2016 began. The Ministry of Finance set the supply at PLN 2.7 bn, the declared nominal demand amounted to PLN 10.1 bn, and the accepted bids amounted to PLN 2.6 bn. The bonds are indexed according to the ratio calculated by the Minister of Finance based on a reference index. The reference index is in turn calculated on the basis of the monthly consumer price index announced by the President of the Central Statistical Office.

### 9.3.2. Work on the Treasury Securities Dealer system

In 2004, the NBP cooperated with the Ministry of Finance in the development of selection criteria, principles and procedures for assessing banks applying for the status of Treasury Securities Dealers (*Dealerzy Skarbowych Papierów Wartościowych – DSPW*). Within the framework of this cooperation, the scope of reporting was revised – the changes concerned the SKARBNET system, which provides the data necessary to assess Treasury Securities Dealers and candidates for dealers<sup>54</sup>. The NBP submitted to the Ministry of Finance quarterly activity assessments of the banks applying for the status of DSPW in the primary market for Treasury bills and bonds, and in the market for derivatives. Based on the reports drawn up by the banks applying for the status of Treasury Securities Dealers, the NBP prepared monthly report entitled *Aktywność banków na rynkach finansowych* (Activity of Banks in Financial Markets), which was submitted to the Ministry of Finance and the reporting banks.

The NBP organised the Treasury securities fixing on the electronic platform selected by the Ministry of Finance. The objective of the organisation of the Treasury securities fixing by the NBP on the MTS-Poland electronic platform was to improve the transparency of trading in securities<sup>55</sup>. Moreover, NBP representatives attended the monthly meetings of the Council of Market Participants, arranged by the Ministry of Finance.

Within the framework of cooperation with the Ministry of Finance, which is the issuer of Treasury securities, the NBP performed examination activities at banks whose accounts and securities deposit accounts are maintained in the Securities Register.

<sup>54</sup> The primary goal of the Treasury Securities Dealer system is to select a group of banks (the so-called primary dealers) which, in exchange for specific privileges, undertake to ensure the liquidity, transparency and efficiency of the Treasury securities market.

<sup>55</sup> Banks which have the status of Treasury Securities Dealers are required to provide daily quotations of purchase and sale prices of Treasury bonds (primarily base issues) in the organised electronic secondary market (MTS-Poland), to conclude transactions at the price set at MTS-Poland and to notify the market of such quotations in real time.

## 9.4. Public debt management activities

### 9.4.1. Improving the efficiency of Treasury securities trading

The year 2004 witnessed the continuation of work (initiated in October 2003) aimed at enhancing the efficiency of Treasury securities trading. A multi-user version of the software supporting submission of bids and orders, which had been installed at the sites of entities that participate in the Securities Register maintained at the NBP, was developed. The new software version allowed the elimination of paper-based procedures related to Treasury bill and bond tenders. Since Treasury Securities Dealers enter bids directly into the system, the time required to conclude a tender and announce its results by the Ministry of Finance was considerably shortened (to one hour following the completion of a tender) and thus the risk of changes in market conditions was reduced. It also provided for the possibility to organise non-competitive tenders on the same day, immediately after the main tender is completed.

### 9.4.2. Switching operations

In 2004, 12 switch auctions of bonds were organised by the NBP, just as in 2003.

The Ministry of Finance, aiming at evening out the payments related to the debt to be serviced and bought back in subsequent years, and also assuming an increase in the average debt maturity, bought back bonds with a nominal value of PLN 19.26 bn and issued bonds totalling PLN 20.25 bn (increases of PLN 12.73 bn and PLN 13.45 bn on 2003, respectively).

The increase in the value of Treasury bonds bought back, sold and switched in 2004 was directly influenced by the rising need for state borrowing and also the need to maintain a safe liquidity level of the central budget (limiting the risk of refinancing when large issues are bought back). Additionally, bonds were sold (switched) according to market demand and the bids submitted by investors were acceptable to the Ministry of Finance under prevailing market conditions.

Ten-year fixed-rate (85.2%) bonds constituted the majority of bonds sold by the Ministry of Finance at switch tenders. The inclusion of such bonds in government debt mitigates the risk related to the changing cost of servicing the debt and makes this cost more predictable.

### 9.4.3. Activity of Public Debt Management Committee

The Public Debt Management Committee (*Komitet Zarządzania Długiem Publicznym*), which was appointed pursuant to an agreement between the National Bank of Poland and the Minister of Finance acting on behalf of the State Treasury, has operated since 1994. The Committee coordinates measures related to the ongoing and long-term public debt management (carried out by the Ministry of Finance) and the monetary and payment policies (implemented by the NBP). The objectives of the Committee are to develop a long-term debt accumulation strategy, minimise the cost of debt servicing, eliminate the threat of public finance crisis and establish liquid financial markets.

#### The most important activities of the NBP in 2004

- The NBP serviced 3,500 customers and operated 12,100 accounts.
- The number of electronic banking system users rose from 3,200 in 2003 to 3,340 in 2004.
- The NBP participated in the development of selection criteria, principles, and procedures for assessing banks applying for the status of Treasury Securities Dealers.
- The NBP implemented measures enhancing the efficiency of Treasury securities trading.



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## RESEARCH ACTIVITY

In 2004, the research activity of the National Bank of Poland focused on conducting ongoing macroeconomic research as well as developing economic and monetary forecasts. The research work was largely concerned with the effectiveness of monetary policy, inflation processes, money creation, public finances, the business cycle, consumer demand, the balance of payments and the exchange rate mechanism. Research results were used to design monetary and exchange rate policies. Moreover, the year 2004 saw intensified research related to Poland's participation in the ERM II (Exchange Rate Mechanism II) and adoption of the euro.

Research results were used to prepare drafts of the Monetary Policy Council's resolutions and documents as well as other materials submitted to the MPC.

### 10.1. Research related to participation in the ERM II and the euro area

- Analysis of the process of joining the ERM II and the euro area

Analyses regarding the institutional and procedural aspects of Poland's joining the ERM II and adopting the euro were conducted. The series of events leading to the adoption of the euro were examined, and institutions and decision-making bodies participating in the process as well as the responsibilities and duties of institutions involved in particular stages of the euro adoption processes were identified. Based on the conducted analyses, scenarios of Poland's entry into the euro area were elaborated.

- Research regarding the participation of the Polish currency in the Exchange Rate Mechanism II (ERM II)

- Developing a monetary policy strategy within the ERM II.

Within the framework of this task, research concerning the best moment for joining the ERM II and the allowable budget deficit level upon joining the ERM II was conducted. This problem was addressed in numerous domestic and international publications.

- Determining the optimum central parity for the zloty within the ERM II.

As a result of the works carried out in 2004, the optimum real effective exchange rate of the zloty was updated.

- Analysis of costs and benefits of euro adoption

Accession to the European Union enabled Poland to join the euro area and thus to implement and conduct the common monetary policy within the EMU. The research aimed to assess the costs and benefits of adopting the single currency in order to enable the choice of the best adoption strategy. Detailed results of the analysis were published in *The Report on the Costs and Benefits of Poland's Adoption of the Euro*.

- *Analysis of Convergence Reports* of the European Commission and the ECB

A comparative analysis of *Convergence Reports* which assess the level of preparation of, among others, Member States with a derogation regarding the adoption of the euro was conducted. The paper points out differences in the interpretation of the extent to which convergence criteria have been met by particular countries.

- Ongoing analyses

Additionally, the ongoing work of the EU institutions and the impact of solutions introduced within the EU on the economic situation in Poland or the situation of individual sectors and social groups (including issues related to the new EU Financial Perspective 2007–2013, the implementation of the Lisbon Strategy, changes in the Stability and Growth Pact and the degree of utilisation of structural funds) were analysed.

## 10.2. Enterprise and household surveys

- Quarterly surveys of the economic situation of enterprises

In 2004, the survey was extended to include new areas such as corporate sentiment before Poland's accession to the EU, assessment of the situation after the accession and wage pressures.

The report which contains data from the NBP annual survey describes the relations between enterprises and lending banks as well as mechanisms which determine prices and wages in a more comprehensive manner. Moreover, phone surveys were conducted in 2004 among enterprises which cooperate with the NBP, focusing on growth in prices after Poland's accession to the EU, the assessment of investment activity, wage pressures and the enterprises' responses to exchange rate movements.

- Analyses of the situation of enterprises

In 2004, the NBP continued its analytical work related to examining the situation of enterprises, which resulted in the analysis entitled *Wpływ przyjmowanego przez Polskę prawa UE na sytuację przedsiębiorstw, w szczególności małych i średnich* ("The Impact of EU Regulations Adopted by Poland on the Situation of Enterprises, Particularly Small and Medium-Sized Ones"). The paper presents barriers and benefits of operation and development of enterprises related to the adoption of EU regulations. The analysis focuses on areas where this impact is particularly tangible (e.g. with regard to regulations concerning the prices of products and services, the manufacturing process and market economy mechanisms). It describes the situation of small and medium-sized enterprises in sectors where burdens resulting from the need to meet EU requirements are particularly heavy, i.e. in the meat production and processing and milk production and processing sectors. The final part of the analysis presents the current status of work on better regulation governing small and medium-sized enterprises.

- Research on economic activity on the regional scale

In 2004, a concept regarding modification of the regional research system was developed, based on the experience of the Bank of England.

- Launch of the system of consumer climate surveys

In cooperation with the Central Statistical Office (GUS), the National Bank of Poland conducted monthly household condition surveys (in 2003, those had been conducted at quarterly intervals). In 2004, household budgets were included in the survey. Analysis methodology as well a concept of cyclical information on household condition, taking actual data from public statistics into account, were developed.

- Examining the relationships between the labour market and monetary policy

The analysis dealt with the impact of monetary policy on the situation of the labour market and employment and unemployment rates (particularly with regard to the possible impact of monetary policy on the real economy).

- Introduction of a system for studying the impact of the structure of the economy on the inflation processes.

Analyses of output growth, investment outlays, financial situation of enterprises and projections of GDP utilisation were conducted for the purposes of examining inflation determinants and establishing the monetary policy. Within the framework of this task, work is also being conducted with the aim of developing models of the Polish economy. The first model is the ECMOD model — a multi-equation quarterly macroeconomic model of the Polish economy. It is used for forecasting the most important macroeconomic figures and conducting simulations which enable the quantification of the impact of economic policy and external shocks on macroeconomic figures.

Under this task, cooperation with the World Bank in developing a structural model of the Polish economy was continued. This is a computable general equilibrium (CGE) model which describes the processes taking place in the Polish economy (changes in production processes, the flow of income and expenditure between sectors, the capital formation process). The model will be used to forecast changes in the economy due to changes in the structure of tax receipts and expenditure of the government sector. During the initial period, the model will be used to forecast the impact of changes in the tax system on the labour market. It may also be utilised to determine the impact of EU transfers on redistribution processes and the development of the Polish economy.

Analytical work also included:

- analysis of the experience of selected countries (Greece, Lithuania) in the ERM II system;
- analysis of inflation expectations of consumers on the basis of surveys.

### 10.3. Other macroeconomic research

- Analyses and forecasts of the zloty exchange rate

The econometric model for forecasting the zloty exchange rate was enhanced, and work on the quantitative analysis of factors affecting the zloty exchange rate continued. Analytical work was related in particular to updating calculations regarding the optimum EUR/PLN parity within the ERM II (the methodology and analysis results were presented during domestic and international scientific conferences), the impact of the exchange rate on fundamental macroeconomic variables in the Polish economy, and the introduction of changes in the method for calculating unit labour costs when researching the competitiveness of the economy.

- Analysis and modelling of the balance of payments

The model for forecasting the balance of payments, particularly with regard to exports and imports, was improved.

- Analysis of the financial condition of the general government sector and studies of the relationship between the monetary and fiscal policies



- The research work resulted in the development of a model for forecasting the public debt and a disaggregated method for calculating the cyclically adjusted deficit of the general government sector for Poland. Work was conducted on the ECMOD quarterly macroeconomic model of the Polish economy. Moreover, the following analyses were conducted: operation of automatic business cycle stabilisers, sources of excessive deficit of the general government sector in Poland, effectiveness of fiscal rules in EU countries, the economic impact of state support for disabled persons as well as proposals regarding comprehensive solutions in this area.

- Research on the natural interest rate level in Poland

This work resulted in the paper *The Information Content of the Natural Rate of Interest: the Case of Poland*.

- Analysis of monetary and credit processes in the Polish economy in the context of international experience

The following issues were analysed: the relationship between loans for enterprises and households as well as money supply, on the one hand, and interest rates and other economic variables, on the other; money creation in the contemporary banking system; the impact of euro adoption on credit expansion in Central European countries. The results of analyses were used in the cyclical money supply forecasts, *Inflation Reports*, and *Biannual Monetary Policy Coordination Exercise* materials submitted to the ECB.

- Analysis of transparency and communication in the monetary policy in Poland and other countries implementing the direct inflation targeting (DIT) strategy.

The principles of communicating the monetary policy at selected central banks were analysed. The results were presented in a paper entitled *Strategia bezpośredniego celu inflacyjnego w wybranych bankach centralnych* ("Direct Inflation Targeting Strategy at Selected Central Banks").

- The adjustment of macroeconomic forecasting to ECB practices

A general equilibrium model was developed, which enabled the forecasting of basic macroeconomic categories. A model for a closed economy was built, which allows for a multivariate assessment of the effects of monetary policy. The research on the development of stochastic forecasting methods resulted in the development of software allowing to forecast the paths of prices most sensitive to shocks (e.g. the path of food prices) and to calculate new core inflation indices.

- Analysis and monitoring of the level of integration of the Polish economy with the EU and the Eurosystem compared to other countries.

Two research areas were taken into consideration: the process of integration versus structural changes in foreign trade, and the process of integration versus the balance of payments. The impact of Poland's accession to the EU on the balance of payments, the level of foreign exchange reserves and the international investment position was analysed.

As a result, two papers were prepared: *Development of the Trade Links between Poland and the European Union in the Years 1992–2002* and *Zmiany struktury eksportu krajów Europy Środkowej i Wschodniej do UE* ("Changes in the Structure of Exports of Central and East European Countries to the EU"). Moreover, analyses of the experience of selected EU Member States in terms of the impact of EU accession on their balances of payments and foreign exchange reserves were continued.

- Analyses of the international business cycle, including the economic situation of EU Member States

Current trends in external demand and world prices, including oil prices, were monitored. The analysis was specifically related to the causes and consequences of imbalance in the U.S. economy, the impact of oil prices on the world economy, the development prospects of the Chinese economy and changes in the interest rate policies of selected countries implementing the DIT strategy.

- Analyses of economies of the CEEC (Central and East European Countries)

*Raport na temat sytuacji gospodarczej w krajach Europy Środkowej i Wschodniej w 2003 r.* ("Report on the Economic Situation of Central and East European Countries in 2003") with particular emphasis on fiscal policy was prepared, which included quarterly statistical annexes. Moreover, comparative papers presenting Poland against the background of a group of Central and East European countries with regard to competitiveness, monetary policy and the exchange rate were prepared.

#### 10.4. Research into the development and stability of the financial system

In 2004, the NBP continued its research on various aspects of financial system stability, including the development of the Polish financial system and its individual segments. The most important tasks included:

- Publication of the *Financial Stability Report*, presenting the results of examination of the stability of banking, insurance and pensions sectors. In 2004, the NBP published a semi-annual, abridged version of the *Stability Report* for the first time.
- Bank surveys concerning loan market condition, initiated in 2003, were continued. The results of quarterly surveys were submitted to the Monetary Policy Council and subsequently published on the NBP's web site.
- In 2004, work on the *Financial System Development in Poland 2002–2003* report was completed. The report describes development trends in individual segments of the domestic financial system and contains comparisons with the situation of other countries in the region and EU countries. It also presents probable scenarios of future development of Polish financial markets and institutions as well as barriers to their growth. Subsequent editions of the Report covering annual periods will be published regularly.
- The NBP participated in the research on the development of global foreign exchange market and over-the-counter derivatives market. The project, which was coordinated by the Bank for International Settlements, involved central banks and monetary authorities from 52 countries. The preliminary results of the examination of global and Polish trading were published in September 2004.
- Research work on a model for early warning of currency crises for Poland was completed. Using signal analysis methods and econometric models, the impact of macroeconomic factors on currency crisis risk was examined. The model enables the development of monthly forecasts of the probability of a crisis occurring in Poland within a specified time horizon.
- An analysis regarding institutional determinants of financial stability in Poland and several selected countries was developed; this was the first paper of this type in Poland.

- Research was conducted on selected subjects related to financial stability; its results were published in the *Bank and Credit* monthly. Among other things, the research concerned the involvement of central banks in financial crisis management, legal regulations concerning consumer bankruptcy, and the comparative analysis of deposit guarantee schemes.
- Changes and trends in global financial markets, including the development of financial market infrastructure, were tracked on a current basis; initiatives related to the integration of the European financial market were also monitored.

## 10.5. Contemporary Monetary Policy in-house seminars in 2004

In 2004, the NBP initiated a cycle of in-house seminars entitled "Contemporary Monetary Policy". Monetary policy under uncertainty was among the key issues discussed. Speakers included both monetary policy theorists and practitioners from various countries.

In 2004, the following subjects were presented:

- Should central banks respond to supply-side shocks?
- Can a high GDP be a cause for concern?
- How should institutions respond to an excessively high growth rate of the potential GDP?
- Efficient allocation of public debt over time.
- General Equilibrium Models.
- Introduction to Bayesian Analysis.
- Linear regression model and autoregressive equation of the  $p$ th order.
- Monte Carlo methods used in classical and Bayesian econometrics.

## 10.6. Conferences and academic seminars organised by the NBP

In 2004, the National Bank of Poland developed its activity aimed at the exchange of experience between central bank and international financial institution representatives by organising scientific conferences and specialist seminars.

- On October 7–8, 2004, a scientific conference entitled *Central Banking and the Financial System* was held. The objective of the conference was the exchange of views concerning mutual relationships between central banks and the financial system, the role and position of the central bank and the challenges posed by globalisation and financial instability. The conference was attended by representatives of central banks, financial institutions and scientific communities from all over the world.
- On September 15–18, 2004, the NBP co-organised (together with the Research Institute of Economic Development of the Warsaw School of Economics and the Central Statistical

Office) a CIRET conference entitled *Economic Tendency Surveys and Cyclical Indicators*. The CIRET (Centre for International Research on Economic Tendency Surveys) is an international organisation of business cycle research centres from all over the world. The conference focused on the possibility of using research results for the assessment of current development trends in individual countries and addressed issues regarding the formulation of short- and medium-term forecasts. The conference was attended by representatives of such bodies as the OECD, the Eurostat, the European Commission, the Institute for Economic Research as well as scientists from Polish academic centres and business cycle research centres.

- In 2004, 13 open academic seminars were organised at the NBP, focusing, *inter alia*, on monetary policy, financial stability determinants, public debt management and the development of derivatives. During those seminars, employees of the NBP and lecturers of Polish and international academic institutions presented the results of their research. A list of seminar topics can be found in Appendix 9 to this Report.

#### The most important activities of the NBP in 2004

- *The Report on the Costs and Benefits of Poland's Adoption of the Euro* was published.
- The scope of corporate surveys was extended.
- The model for forecasting the balance of payments was improved.
- The following economic tools were developed:
  - a model for early warning of currency crises for Poland;
  - a model for forecasting public debt;
  - a method of calculating the adjusted deficit of general government sector.
- Institutional conditions affecting financial stability in Poland and several selected countries were analysed.

STATISTICAL  
ACTIVITY

As a result of Poland's accession to the European Union in 2004, the catalogue of the most important activities of the NBP was topped by the successive implementation of the European Central Bank requirements with regard to statistical responsibilities. Harmonisation work was performed parallelly in several areas, primarily regarding the monetary, banking and financial statistics and also the balance of payments. It also pertained to new fields, such as financial accounts, statistics of other financial intermediaries, and securities issue statistics. Moreover, due to the fact that the ECB entrusted the central bank with coordination tasks in areas for which the NBP is not directly responsible, actions were undertaken which were aimed at meeting (in collaboration with appropriate institutions) the ECB requirements concerning the general government sector statistics and real economy statistics.

In performing its monetary policy responsibilities, the National Bank of Poland largely relied on the statistical data which it collected and processed by itself. The information published by the NBP constituted one of the basic premises of economic decisions taken by external recipients. The NBP also submitted reports to international institutions.

The necessity to ensure a uniform and streamlined process of collecting and storing statistical data both for the purposes of internal analyses and for external data recipients and suppliers was the reason for the establishment of the Integrated Economic Database (IED) at the NBP. The new database provides the NBP employees with access to current datasets in the form of time series, and enables them to perform both simple and advanced transformations. The IED also contributed to streamlining the exchange of data between the NBP and the Bank for International Settlements (BIS) as well as the ECB. A cyclical report, based on the data in the IED and BIS databases, presenting the most important economic indicators in Poland against other European countries is anticipated to be drawn up in the future.

### 11.1. Responsibilities regarding monetary and financial statistics, the balance of payments and the international investment position

In 2004, the statistical responsibilities included primarily:

- collection, validation checks, processing and ongoing analysis of data regarding:
  - the balance of payments, the external debt and the international investment position;
  - balance-sheet data from banks, collected for the purposes of the monetary policy pursued by the NBP and for the purposes of supervision and the ECB;
  - interest rates applied by banks;
- compilation of statistical tables and publications pursuant to the data obtained from reporting agents;
- interpretation of monetary developments and operations with regard to the balance of payments, for the purposes of ongoing monitoring of monetary developments;
- processing and analyses of corporate finance data;
- development of methodology for compilation of the monetary statistics, the balance of payments and the general government sector statistics;
- modification of the IT systems applied in the collection and processing of statistical data;
- continuous improvement of data collection, processing and presentation methods.

In 2004, work on extending the scope of the conducted statistical surveys to new areas, such as quarterly financial accounts, statistics of other financial intermediaries, and securities issue statistics, was intensified. The NBP also cooperated with the Central Statistical Office and the Ministry of Finance in the area of the general government sector statistics.

Statistical work resulted in numerous tables, analytical materials and publications addressed to both internal and external users. The most important of those included:

- quarterly reports on the balance of payments and the annual report on Poland's international investment position, which, having been approved by the Management Board of the NBP and the Monetary Policy Council, are submitted to the Sejm, the Council of Ministers and other users;
- quarterly figures on Poland's external debt;
- monthly balance of payments data;
- monthly international reserves and foreign currency liquidity data;
- a consolidated balance sheet of the banking system drawn up on the basis of monthly data submitted by banks and the NBP; this balance sheet forms a basis for the development of many statistical and analytical materials, including the *Information Bulletin (Biuletyn Informacyjny)* and the *Remarks on the Tables Regarding the Financial Assets of Households (Komentarz do zestawień dotyczących aktywów finansowych gospodarstw domowych)*;
- tables of revenues, costs and financial results in the corporate sector, financial liquidity and cash stocks held by businesses, characteristics of the labour market and investment activity in the corporate sector.

Data obtained from banks and other entities were also forwarded to international organisations such as the IMF, the World Bank, the OECD, the BIS and the Eurostat and also European Union bodies, in particular the European Central Bank. In 2004, the NBP regularly submitted selected statistical data, compiled in accordance with the standards required from all the Member States, to the ECB. A programme of data exchange between the NBP and the BIS was implemented and work was conducted on optimising the system for data exchange with international institutions.

The scope of data exchanged with external institutions was regularly extended in 2004. The newly developed Integrated Economic Database largely contributed to the efficient performance of responsibilities in this regard.

## 11.2. Adjustment measures regarding ECB statistical requirements

In 2004, as in previous years, adjustment work at the NBP focused on the following areas:

- monetary and banking statistics;
- balance of payments statistics;
- financial accounts statistics;
- other financial intermediaries and of securities issue statistics;
- general government sector statistics.

Correct implementation of adjustment work resulted, inter alia, from the regular participation of the NBP representatives in the work of the ECB Statistics Committee and the working groups operating within its framework and in the Eurostat working groups and in the meetings of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB).

### 11.2.1. Harmonisation of money and banking statistics

In 2004, the National Bank of Poland intensified harmonisation work with regard to money and banking statistics. The work focused on the implementation of the requirements concerning the consolidated balance sheet of monetary financial institutions (MFIs)<sup>56</sup>, interest rate statistics<sup>57</sup> and the drawing up of the List of MFIs<sup>58</sup>.

- With regard to the consolidated balance sheet statistics, the collection and validation checks of data was initiated, based on new or modified report types which had been adjusted to the ECB requirements. New analytical breakdowns (by currencies and countries) and the requirement to submit information needed to compile flows statistics, which had not been compiled previously, were introduced with regard to banks' reporting.
- New principles for the compilation of interest rate statistics by banks were introduced. In 2004, banks for the first time submitted interest rate data compiled according to the ECB methodology; these were test data and were not published. The new statistics covered all outstanding agreements concluded by banks; new agreements and outstanding amounts were reported separately. For new agreements, the effective rate was reported.
- One of the ECB requirements, which is binding for all EU Member States, is regular updating of the List of Monetary Financial Institutions. The NBP has employed all list validation check principles since May 2004, and in November 2004 it was included in the annual quality checking procedures for the first time. The decision to include credit unions (*Spółdzielcze Kasy Oszczędnościowo-Kredytowe – SKOK*) in the list of reporting agents and classify them to the sub-sector of other monetary financial institutions was an important measure providing for a uniform classification of financial institutions. On July 12, 2004, an Agreement was signed between the NBP and the National Association of Credit Unions (*Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa*) concerning the procedure and manner of submitting the information enabling the NBP to perform its responsibilities in the area of the compilation of monetary statistics. From January 2005, credit unions will submit data as stipulated in the Regulation ECB/2001/13. According to the ECB methodology, the sub-sector of other monetary financial institutions also includes funds which fall within the definition of money market funds. Pursuant to the provisions of the Act on Investment Funds<sup>59</sup>, the deadline for submitting declarations concerning the operation of entities as money market funds falls on June 30, 2005. Anticipating that the list would grow, the NBP conducted work regarding the sources and possibilities of obtaining data from such institutions in the future.
- In 2004, work continued on the development of statistics principles for other financial intermediaries, including the most important sub-sector, i.e. investment funds. At the request of the ECB, central banks (including the NBP) drew up and submitted to the ECB

<sup>56</sup> Regulation No. 2423/2001 of the European Central Bank of November 22, 2001 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2001/13).

<sup>57</sup> Regulation No. 63/2002 of the European Central Bank of December 20, 2001 concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations (ECB/2001/18).

<sup>58</sup> See note 56.

<sup>59</sup> Act on Investment Funds of May 27, 2004 (Dziennik Ustaw No. 146/2004 item 1546 of June 28, 2004).



a list of investment funds as of end-June 2004. Harmonised definitions of individual sub-sectors (i.e. investment funds, FVCs, securities and derivative dealers, financial corporations engaged in lending) along with reporting form templates were also developed in cooperation with central banks. These measures aimed at establishing a steady-state approach for other financial intermediaries statistics and its implementation in 2007.

- In 2004, the NBP actively collaborated with the ECB in developing long-term interest rate statistics, which is now used for the convergence purposes. The NBP forwarded appropriate monthly and daily data to the ECB and participated in methodology development. The NBP also participated in the preparation of the third edition of the *Bond Markets and Long-Term Interest Rates in the European Union Accession Countries*, which was published by the ECB in October 2004.

### 11.2.2. Harmonisation of quarterly financial accounts

In 2004, preparations were under way for drawing up quarterly financial accounts by the NBP according to the ECB requirements. The work included the identification of the ESA95 (European System of Accounts 1995) statistical standards, the development of the methodological framework and the identification of available data sources. Financial accounts will be compiled based on the NBP data and data obtained from external sources (e.g. the Central Statistical Office, the Insurance and Pension Funds Supervisory Commission, the Securities and Exchange Commission, the National Depository for Securities).

### 11.2.3. Harmonisation of general government sector statistics

In June 2004, the Working Group on General Government Statistics appointed by the President of the Central Statistical Office commenced its work; the Working Group consists of the Central Statistical Office, Ministry of Finance and NBP representatives. The responsibilities of the Working Group include, *inter alia*, developing a proposed methodology for compiling general government sector statistical data according to ECB requirements.

### 11.2.4. Harmonisation of the balance of payments statistics

The work regarding the balance of payments focused on compilation and publication of the monthly transaction-based balance of payments. The balance is based not only on foreign payments made via banks but also includes information from other sources, in line with the recommendations of international institutions. Moreover, new statistical requirements for banks were introduced, which set the reporting threshold at 12,500 euro and decreased the frequency of reports (which contributed to reducing the burden on banks). Direct reporting was also introduced for loans of the government and banking sectors, which made the information collected from all reporting agents uniform.

In 2004, the NBP took part in the preparation of the subsequent edition of the publication entitled *European Union on Balance of Payments and International Investment Position Statistical Methods* (BoP Book). The manual describes the balance of payments methodology in EU Member States.

## The most important activities of the NBP in 2004

- The requirements of the European Central Bank regarding money and banking statistics, in particular consolidated balance sheets of monetary financial institutions and interest rate statistics were implemented.
- All procedures of validation checks regarding the list of monetary financial institutions were implemented. A decision was made to include credit unions and money market funds in the List of MFIs.
- The Integrated Economic Database (IED) was established in order to make the collection and storage of statistical data more efficient.
- Compilation of the quarterly and monthly balance of payments on a transaction basis was initiated.
- The NBP collaborated with the Central Statistical Office and the Ministry of Finance in extending the scope of general government sector statistics.



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LEGISLATIVE  
ACTIVITY

## 12.1. Legislative activity of NBP governing bodies and of the Commission for Banking Supervision

In 2004, 107 legal acts were issued by the governing bodies of the National Bank of Poland and the Commission for Banking Supervision. A schedule of executive legal acts published in Monitor Polski (Official Gazette) and the Official Journal of the National Bank of Poland (53 acts) is enclosed in Appendix 7 to this Report<sup>60</sup>.

## 12.2. Participation of the NBP in the state authorities' work on draft normative and non-normative acts

Pursuant to the Act on the National Bank of Poland, the NBP cooperated with the state authorities by issuing opinions on draft normative and non-normative acts regarding economic policy and the banking system. Within the framework of this cooperation, it worked to ensure the stability of the financial system, the safety and development of the banking system and the monetary stability.

In 2004, the National Bank of Poland issued opinions on the following documents submitted by state supreme and central authorities:

- 315 documents received in the course of interministerial consultations;
- 808 documents received prior to their examination by the Committee of the Council of Ministers;
- 728 documents received prior to their examination by the Council of Ministers;
- around 1,700 documents received prior to their examination by the European Committee of the Council of Ministers and the Committee for European Integration.

In 2004, representatives of the NBP participated in the work of 59 interministerial consultative conferences and legal committees at the Chancellery of the Prime Minister as well as 264 meetings of Sejm committees and subcommittees, and meetings of Senate committees.

The NBP also took part in the development of solutions regarding the major areas of the state's operation by participating in the work of the following bodies:

- Trilateral Commission for Social and Economic Affairs (*Trójstronna Komisja ds. Społeczno-Gospodarczych*);
- Public Debt Management Committee (*Komitet Zarządzania Długiem Publicznym*);
- Financial Information Council affiliated with the Minister of Finance (*Rada ds. Informacji Finansowej przy Ministrze Finansów*);
- Interministerial Team on OECD (*Międzyresortowy Zespół ds. OECD*);

<sup>60</sup> The principle adopted in this Report is that legal acts pertaining to individual NBP activity areas are discussed in appropriate chapters. Other legal acts are discussed in the "Legislative Activity" chapter.

- Interministerial Working Group for Poland's Integration with the Economic and Monetary Union (*Międzyresortowa Grupa Robocza ds. Integracji Polski z Unią Gospodarczą i Walutową*);
- Accounting Standards Committee (*Komitet Standardów Rachunkowości*);
- Export Insurance and Policy Committee (*Komitet Polityki i Ubezpieczeń Eksportowych*);
- Council of the Agency for Restructuring and Modernisation of Agriculture (*Rada Agencji Restrukturyzacji i Modernizacji Rolnictwa*);
- Insurance and Pension Funds Supervisory Commission (*Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych*);
- Capital Market Council (*Rada Rynku Kapitałowego*).

The most important draft legal acts on which the NBP issued opinions in 2004, which do not pertain directly to the banking sector (legal acts on the banking sector have been discussed in detail in Section 12.3), include:

- acts from the legislative package *Public Expenditure Reform and Reduction Programme* adopted by the Council of Ministers on October 8, 2003;
- the Act Amending the Act on Public Statistics and Other Acts;
- the Act on Lobbying Activity;
- the Act on the Computerisation of the Activities of Certain Entities Performing Public Tasks;
- the Act Amending the Act on the Protection of Classified Information and Other Acts;
- the Act Amending the Act on Limitation of Business Activity by Persons Holding Public Functions;
- the Act on the Compensation of Orphaned Costs Arising from the Termination of Long-Term Electrical Power and Energy Sale Contracts;
- the Act on Public and Legal Partnership;
- the Act on Supporting Innovative Activity;
- the Act on Financial Support for Investments of essential importance for the economy.

Moreover, the NBP issued opinions on, inter alia, the following government documents which were not draft normative acts:

- the update of the Convergence Programme;
- the preliminary draft of the National Development Plan 2007–2013;
- the strategy of the public finance sector debt management for 2005–2007;
- the Agenda Warsaw City 2010 capital market development strategy.

## 12.3. Draft legislation pertaining to the operation of the banking system

### 12.3.1. Bills developed at the National Bank of Poland

In 2004, three draft acts were developed at the NBP:

#### 12.3.1.1. *The Act Amending the Banking Act and Other Acts*<sup>61</sup>

The solutions adopted in the Act aim to regulate such aspects of the Polish banking system as outsourcing and the claim securitisation<sup>62</sup>, and the adjustment of the provisions of the Act to the provisions of other acts, including the Act on Electronic Signature and the Code of Commercial Companies.

The solutions adopted in the Act adjust its provisions to:

- Directive 2000/12/EC of the European Parliament and of the Council of March 20, 2000 relating to the taking up and pursuit of the business of credit institutions amended by Directive 2000/28/EC;
- Directive 2001/24/EC of the European Parliament and of the Council of April 4, 2001 on the reorganisation and winding up of credit institutions.

#### 12.3.1.2. *Act on certain forms of Financial Collateral*<sup>63</sup>

The Act transposes the provisions of Directive 2002/47/EC of the European Parliament and of the Council of June 6, 2002 into Polish legislation. The Directive concerns the principles of establishing and enforcing financial collateral in situations where both the collateral taker and provider are institutions acting in the financial market.

#### 12.3.1.3. *Bill on Supplementary Supervision of Credit Institutions, Insurance Companies and Investment Firms included in a Financial Conglomerate*<sup>64</sup>

The Bill stipulates the principles of supplementary supervision of credit institutions, insurance companies and investment firms, and the principles of including other undertakings operating within the financial conglomerate, including unregulated parent undertakings, in supplementary supervision.

### 12.3.2. Other bills

The most important bills regarding the operation of the banking system considered by the Sejm in 2004, in the development of which the National Bank of Poland participated, are presented below.

#### 12.3.2.1. *Adopted acts*

- **Act on Investment Funds**<sup>65</sup>

The objective of the Act is to regulate the activity of management companies and to introduce simplified prospectuses. The new regulations adjust Polish legislation e.g. to Directive 2001/107/EC of the European Parliament and of the Council of January 21, 2002 amending the

<sup>61</sup> The Act was passed on April 1, 2004; Dziennik Ustaw No. 91/2004 item 870.

<sup>62</sup> See also the "Banking Supervision" chapter

<sup>63</sup> The Act was passed on April 2, 2004; Dziennik Ustaw No. 91/2004 item 871.

<sup>64</sup> See also the "Banking Supervision" chapter.

<sup>65</sup> The Act was passed on May 27, 2004; Dziennik Ustaw No. 146/2004, item 1546.

Directive 85/611/EEC of the Council on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities.

The adopted solutions regard:

- changes in investment principles and allowable investment limits employed by funds as a result of the investment policy of an open investment fund becoming more flexible;
- enabling the operation of funds which may sell various unit types.

The Act amends the Banking Act with regard to securitisation, bank books of account and the principles of protection of banking secrets.

- **Act Amending the Act on Counteracting Introduction of Property Values Derived from Illegal or Undisclosed Sources into Financial Circulation and Counteracting the Financing of Terrorism<sup>66</sup>**

The provisions of the Act aim to make the activities of the General Inspector of Financial Information (GIFI) more efficient, e.g. through the extension of the requirement to record transactions exceeding the equivalent of 15,000 euro and to notify the GIFI of such transactions to a larger number of institutions.

These regulations adjust the Act to the provisions of Directive 2000/97/EC of the European Parliament and of the Council of December 4, 2001 amending Council Directive 91/308/EEC of June 10, 1991 on prevention of the use of the financial system for the purpose of money laundering.

The amendment changes the status of the National Bank of Poland; as before, the NBP is regarded as an entity cooperating with the GIFI in the performance of its tasks but at the same time it is considered as so called obliged institution, to the extent the NBP carries out bank accounts, the sales of collector coins, the purchase of gold and the exchange of damaged notes and coin. The amendment results from the guidelines included in the Directive.

- **Act on Freedom of Business Activity<sup>67</sup>**

The Act aims to reduce formal burdens related to doing business by:

- replacing the overwhelming majority of licences issued by entries in the regulated activity register;
- limiting the number and duration of on-site examinations of business entities and introducing the prohibition of performing more than one on-site examination at any time with regard to the same entrepreneur.

The Act still upholds licences issued e.g. pursuant to regulations concerning public trading in securities, investment funds, the organisation and operation of pension funds, insurance activity and the Banking Act.

The Act has introduced changes in the operation of bureaux de change. Pursuant to new regulations, the operation of bureaux de change, which had hitherto been subject to permits of the President of the NBP, is now considered as regulated activity and only requires an entry in the register maintained by the President of the NBP<sup>68</sup>.

<sup>66</sup> The Act was passed on March 5, 2004; Dziennik Ustaw No. 62/2004, item 577.

<sup>67</sup> The Act was passed on July 2, 2004; Dziennik Ustaw No. 173/2004, item 1807.

<sup>68</sup> For details see the "Foreign Exchange Operations" chapter.

- **EU Guarantee Fund Act<sup>69</sup>**

The Act establishes the EU Guarantee Fund. Its main objective is to facilitate the absorption of European Union funds by Polish entrepreneurs and local government authorities by increasing the availability of bank loans and obtaining funds from bond issues.

The Act anticipates that the Fund's resources will be administered by Bank Gospodarstwa Krajowego (National Economy Bank). It also stipulates the principles according to which BGK shall issue loan guarantees or endorsements or the performance bonds related to the obligations resulting from the issue of bonds where the loan or funds obtained through the issue are allocated to own contribution or expenditure eligible for reimbursement from EU funds.

Moreover, the Act amends the Act on the National Bank of Poland with regard to allocating part of the interest on required reserves to the EU Guarantee Fund.

- **Act on European Economic Interest Groupings and a European Company<sup>70</sup>**

#### 12.3.2.2. *Bills under consideration*

- **Bill on Public Finance**

Among other things, the bill:

- introduces order within the public finance sector;
- stipulates relationships between the central budget and the budget of the European Union;
- amends the Act on Mortgage Bonds and Mortgage Banks with regard to extending loans to local government entities.

In the course of legislative work which began in 2003, the NBP submitted comments which were largely related to the total amount of contributions being financed by the Social Security Fund and the operation of central government accounts by Bank Gospodarstwa Krajowego.

- **Bill Securitisation**

The MPs' bill regulates the principles of issuing securities secured by property rights. Pursuant to the bill, a securitisation transaction shall be construed as the transfer of property rights against payment between the initiator and the issuer, the issue of securities by the issuer and the performance of actions in order to fulfil the issuer's obligations. The National Bank of Poland issued a negative opinion on the bill because issues related to securitisation had already been regulated in the Banking Act and the Act on Investment Funds.

- **Bill amending the Act on Consumer Credit<sup>71</sup>**

- **Bill on Preventing Insolvency of Natural Persons and on Consumer Bankruptcy<sup>72</sup>**

- **Bill amending the Banking Law and other Acts**

The objective of the bill is to abolish enforcement titles issued by banks. The NBP has issued a negative opinion on the bill.

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<sup>69</sup> The Act was passed on April 16, 2004; Dziennik Ustaw No. 121/2004, item 1262.

<sup>70</sup> See also the "Banking Supervision" chapter.

<sup>71</sup> See also the "Banking Supervision" chapter.

<sup>72</sup> See also the "Banking Supervision" chapter.



## 12.4. Participation of the NBP in consulting Community bills

Pursuant to the provisions of the Treaty on European Union and the ESCB Statute, the responsibilities of central banks belonging to the ESCB include issuing opinions on ECB legal acts as well as domestic and Community regulations pertaining to e.g. the issue of currency, legal tender, the status and operation of national central banks, monetary statistics, payment systems and financial institutions. Since May 1, 2004, the NBP as an ESCB member has participated in consultations by submitting comments to draft opinions expressed by the ECB and regarding the aforementioned matters.

### The most important activities of the NBP in 2004

- The NBP developed three bills related to the operation of the banking system.
- The NBP participated in giving opinions on government documents and bills related to the operation of the economy and the banking system.
- NBP representatives participated in the work of government bodies.
- The NBP participated in consulting Community bills.





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INTERNATIONAL  
ACTIVITY

## 13.1. Activity related to the performance of responsibilities arising from Poland's European Union membership

### 13.1.1. Measures aimed at adjusting the Polish banking sector to European Union requirements

Upon Poland's accession to the European Union on May 1, 2004, the NBP became a member of the European System of Central Banks. Since that date, the responsibilities of the National Bank of Poland have been governed not only by Polish but also by European regulations. Those regulations include, most importantly, the Treaty establishing the European Community (TEC) and the appended Protocol on the Statute of the European System of Central Banks and of the European Central Bank (the so-called Statute of the ESCB and of the ECB), which constitute the basis for the operation of the ESCB.

In 2004, as in the previous years, the NBP participated in the adjustment of the Polish legislation to the Community regulations. Wide-ranging amendments to the Banking Act and the passage of the Act on Financial Collateral have made it possible to adjust the operation of the banking system to the solutions adopted in the EU<sup>73</sup>. The Convergence Report drawn up by the European Central Bank, which assesses the readiness of the new Member States with a derogation for the adoption of the euro, indicates e.g. the need to adjust Polish regulations regarding the institutional and financial independence of the NBP.

The implementation of tasks included in the *National Programme of Preparations for Membership in the European Union* with respect to the *Freedom to Provide Services and the Economic and Monetary Union* adjustment areas continued. The progress of work in this regard was monitored by the European Committee of the Council of Ministers. The assessment of the progress in the implementation of tasks assigned to individual ministries and central authorities (including the NBP) was presented in July 2004 in the "Report on the Implementation of the National Programme of Preparations for Membership in the European Union".

### 13.1.2. Cooperation with the European System of Central Banks

Since its accession to the EU, Poland has been a member of the Economic and Monetary Union as a Member State with a derogation. As a result, NBP representatives participate in the works of the ESCB within the scope corresponding to that of the representatives of other EU Member States which remain outside the euro area.

In 2004, the President of the NBP participated as a member in the quarterly meetings of the General Council of the ECB, comprising governors of the national central banks of the EU Member States as well as the President and Vice-President of the ECB. The Council is one of the governing bodies of the ECB. Its competencies are stipulated by the provisions of the ESCB Statute and include e.g. expressing opinions on legislative acts passed by the Governing Council, cooperation in the performance of statistical reporting responsibilities and participation in the determination of exchange rates. At its extraordinary meeting in October 2004, the General Council of the ECB adopted the Convergence Report. The Report assesses the extent to which the economic criteria for euro area membership have been met by the ten new EU Member States and Sweden as well as the compliance of their domestic legislation with the Treaty establishing the European Community and the ECB and ESCB Statute. The document emphasises that the nominal convergence process must continue in the new EU Member States, and in particular credible public finance consolidation programmes must be implemented.

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<sup>73</sup> See also the "Banking Supervision" and "Legislative Activity" chapters.

NBP representatives participated as members in the work of twelve Committees of the ESCB:

- International Relations Committee – IRC;
- Monetary Policy Committee – MPC;
- Banknote Committee – BANCO;
- External Communications Committee – ECCO;
- Internal Auditors Committee – IAC;
- Banking Supervision Committee – BSC;
- Legal Committee – LEGCO;
- Market Operations Committee – MOC;
- Information Technology Committee – ITC;
- Payment and Settlement Systems Committee – PSSC;
- Statistics Committee – STC;
- Accounting and Monetary Income Committee – AMICO.

During the meetings, NBP employees participated in discussions and the development of solutions concerning, among others:

- the scenarios of putting the euro into circulation, manufacturing of euro notes and the organisation of tenders in this regard;
- counteracting currency counterfeiting;
- cross-border banking, consolidated supervision and strengthening of supervisory cooperation;
- conducting test interventions within ERM II;
- the cyclical assessment of the current status of fiscal policy and monetary policy coordination reports;
- the analysis of legal risk inherent to the activities of central banks in the EU Member States.

NBP employees also participated in the work of numerous ESCB working groups and task forces. Moreover, the NBP has established closer cooperation with central banks of EU Member States.

### 13.1.3. The NBP's participation in the work of Community bodies

The year 2004 was a breakthrough for the participation of the Polish representatives in the work of the EU bodies. Upon signing the Accession Treaty in April 2003, Poland obtained the status of an EU accession country, which meant that its representatives were assigned the status of active observers in EU bodies. This solution was aimed to facilitate the adoption of the *acquis communautaire* by the accession countries and their participation in its development. From January to April 2004, the representatives of Poland (including representatives of the NBP) participated in

the work of EU institutions, presenting their position on draft legislation and documents under review but without the right to vote. On the day Poland became an EU Member State, the status of active observer was automatically converted into membership, which is analogous to that of the countries remaining outside the euro area.

In 2004, NBP representatives took part in the work of the following EU bodies:

- the extended ECOFIN Council, with the participation of governors of central banks of Member States;
- committees and working groups of the Council of the EU and the European Commission (as a cooperating institution)<sup>74</sup>;
- the Committee for Monetary, Financial and Balance of Payments Statistics (CMFB) and the Eurostat working groups;
- the Counterfeit Coin Experts Group affiliated with the European Anti-Fraud Office (OLAF).

One of Poland's obligations arising from EU membership was to submit a *Convergence Programme* to the European Commission and the Council of the EU. In its preparation stage, the document was subject to interdepartmental consultations involving the NBP. The *Convergence Programme* adopted by the Council of Ministers on April 30, 2004 outlines a three-year economic development plan enabling the convergence with the economies of the EU countries. The programme was submitted for opinion to the EU Economic and Financial Affairs Council (ECOFIN). On December 1, 2004, the updated version of the Programme was submitted to the European Commission. Member States from outside the euro area are required to update their *Convergence Programmes* on an annual basis.

As part of its cooperation with ministries and central authorities, the NBP also participated in consultations regarding the following documents:

- draft Directive on Services in the Internal Market;
- draft Third Directive amending Directive 91/308/EEC on prevention of the use of the financial system for the purpose of money laundering;
- draft Directive of the European Parliament and of the Council on the harmonisation of the laws, regulations and administrative provisions of the Member States concerning credit for consumers, repealing Directive 87/102/EC and amending Directive 93/13/EC;
- Poland's position on services of general interest.

#### 13.1.4. Other activity at the NBP

In relation to the ongoing work on the draft EU Constitution, the NBP analysed the impact of proposed legal regulations on the activity of ESCB central banks, including the NBP. A list of the most important regulations concerning the functioning of the Economic and Monetary Union was also compiled.

In the context of the work conducted on the possible modification of the Stability and Growth Pact principles, analyses were undertaken and opinions were issued on selected amendment proposals, regarding e.g. the redefinition of the medium-term objective and the means to its achievement as well as the principles for assessing the fiscal situation with regard to excessive deficit.

<sup>74</sup> Including the Economic and Financial Committee, the Economic Policy Committee of the Council of the EU, the Financial Services Committee of the Council of the EU, and the Banking Advisory Committee of the European Commission.

In 2004, the NBP became one of the users of the pilot version of the EWD-Polska system for organising the flow and archiving of issues and electronic documents, which is used for managing documents sent by the General Secretariat of the Council of the EU. The system will serve to streamline the participation of representatives of Polish public authorities in the legislative process and the works on developing Poland's position. Representatives of the NBP already utilise the system as users with the rights of cooperating experts.

Moreover, an electronic EU document flow system was launched at the NBP in 2004 in order to streamline the work related to issuing opinions on such documents and developing positions on issues which are important from the point of view of the NBP and the banking sector.

## 13.2. Activity of the National Bank of Poland aimed at adoption of the euro in Poland

### 13.2.1. Participation of NBP representatives in the works of EU bodies dealing with issues related to adoption of the euro

NBP representatives could participate in discussions regarding the single currency issues in the following EU bodies:

- Committees and working groups of the ESCB: the Banknote Committee and its working groups, the Legal Committee and the External Communications Committee;
- Committees of the Council of the EU: the Economic and Financial Committee and the affiliated Euro Coin Sub-Committee;
- Working groups of the European Commission:
  - the PAN II (Public Administration Network) group dealing with practical aspects of the future adoption of the euro by the new EU Member States.

The works of the PAN II Group resulted in the publication of the *First Report on the State of Practical Preparations for the Further Enlargement of the Euro Area* by the European Commission on November 9, 2004. The report presents the state of preparation of the new EU Member States for the introduction of euro notes and coin into circulation and includes conclusions related to the experience of euro area countries as well as suggestions for the new EU Member States.

- the DIR COM Group for Information and Communication affiliated with the Directorate General for Economic and Financial Affairs of the European Commission, which implements the *PRINCE Programme – the EMU and the euro*;
- the Counterfeit Coin Experts Group affiliated with the European Anti-Fraud Office (OLAF).

### 13.2.2. Agreement between the ECB and central banks regarding exchange rate policy

On April 29, 2004, the NBP together with other central banks of the new Member States joined the Agreement of 1 September 1998 between the European Central Bank and the national central banks of the Member States outside the euro area laying down the operating procedures for an exchange rate mechanism. Most provisions of the Agreement take effect after a country joins the ERM II.

### 13.2.3. Cooperation with the Ministry of Finance within the Interdepartmental Working Group for Poland's Integration with the Economic and Monetary Union

In 2004, four meetings of the Interdepartmental Working Group for Poland's Integration with the Economic and Monetary Union were held, which were attended by representatives of the NBP and the Ministry of Finance. The meetings focused on legal and institutional aspects of Poland's future participation in the ERM II and in the euro area as well as issues related to monetary and fiscal policy.

### 13.2.4. Other activities

Other works related to the preparations for Poland's adoption of the single currency included measures aimed at developing facilities for settlements in euro, preparing the NBP for putting euro notes and coin into circulation and preventing their counterfeiting as well as preparing the future information campaign. These have been described in the following chapters: "Development of the Payment System," "The Issue of Currency," and "Education and Information".

## 13.3. Collaboration with international economic and financial institutions

### 13.3.1. The Organisation for Economic Co-operation and Development

- In the course of implementation of the tasks arising from Poland's membership in the OECD, the NBP continued to collaborate with the National Coordinator of Cooperation between the Republic of Poland and the OECD, the Ministry of Economy, Labour and Social Policy, the Ministry of Finance and the Permanent Representative of the Republic of Poland to the OECD. In 2004, NBP representatives took part in the works of the following OECD target committees and working groups:
  - Economic Policy Committee:
    - Working Group on Short-Term Economic Prospects;
    - Working Party on Macroeconomic and Structural Policy Analysis;
  - Committee on Financial Markets:
    - Working Party on Financial Statistics;
  - Committee on Capital Movements and Invisible Transactions;
  - Committee on International Investment and Multinational Enterprises;
  - Economic and Development Review Committee.

In February 2004, the second mission of the OECD, which was working on the 8<sup>th</sup> Review of the Polish Economy, visited Warsaw; labour market policy was the main subject of the survey. The meeting of the Economic and Development Review Committee of the OECD held on April 1, 2004 which was devoted to the review summary pointed to the need to reform the Polish labour market (through increasing its efficiency and flexibility) as well as to consolidate public finances.



In May and October 2004, meetings of the Interministerial OECD Working Group held at the Ministry of Economy, Labour and Social Policy, were attended by representatives of the NBP. The meetings raised, among others, the issues of organisational changes within the OECD, the OECD 2005–2006 budget guidelines and the financial impact of the OECD enlargement.

As in the previous years, the NBP forwarded to the OECD data on basic monetary aggregates and statistics concerning the international trade in services and direct investment.

### 13.3.2. The World Bank

Within the framework of the Spring Meetings of the World Bank Group and the IMF, in April 2004 representatives of the NBP took part in the meeting with the World Bank Vice-President for Europe and Central Asia Region. The World Bank and IMF Annual Meeting in October 2004 focused on the issues related to the effectiveness of the provided development assistance, the ways of strengthening the foundations of the economic growth, and the development of the private sector. In 2004, four missions of the World Bank visited Warsaw. The first came to discuss the details of the World Bank's technical assistance for the NBP focused on interest rate risk modelling and bank reporting activities. The second mission was devoted to discussing the World Bank's programme concentrated on the judicial system research, while the third dealt with researching the development barriers of the Polish financial system. The last mission was concerned with a project implemented by the NBP, the World Bank and the EBRD, aimed at preparing a comprehensive report on the enforcement of contractual obligations in Poland in the context of the financial market operation.

In their Quarterly Economic Report published in April 2004, the World Bank experts assessed the Polish monetary policy as one of the most credible among the EU-8 countries.

Additionally:

- In September 2004, the World Bank Doing Business 2005 report was presented at the NBP; it is devoted to private business activity regulations in various countries. According to the assessment of World Bank experts, Poland was among the 10 countries which implemented the most effective reforms regarding the conditions of conducting business activity in 2003.
- In October 2004, the NBP organised a visit to Poland of advisors of the Executive Director of the World Bank and the IMF from countries belonging to the Polish constituency. The visitors were acquainted with the history of economic transformation in Poland and other Central and East European countries, the situation after accession to the EU as well as Poland's cooperation with international financial institutions.
- The NBP took part in consultations regarding the draft *Country Partnership Strategy for Poland 2005–2007*. The current *Strategy*, as opposed to the previous ones, emphasises partnership between the World Bank and Poland rather than the Bank's assistance for Poland. The priorities of the strategy include promoting growth and reversing negative debt dynamics through fiscal consolidation, improving the investment climate as well as enhancing competitiveness, reducing poverty and increasing employment.

### 13.3.3. The International Monetary Fund

In 2004, two IMF missions visited Poland. The first, in April 2004, was organised within Article IV consultations held pursuant to the provisions of the IMF Statute. The Fund representatives got acquainted with Poland's current economic situation, plans regarding economic, budgetary and monetary policies, and also collected statistical data required to compile the IMF annual report on Poland. In October, the second mission was held, which assessed the economic policy implementation in 2004 and set macroeconomic guidelines for the following year. Representatives of the NBP and members of the Monetary Policy Council attended the meetings with members of the IMF mission. The IMF made a positive assessment of the monetary policy and

inflation targeting strategy pursued by the NBP. The Polish banking system was declared to be stable, and good earnings as well as an improvement in the efficiency of the banks' operation were emphasised. The fact that the NBP started to publish inflation projections was considered an important step towards increasing monetary policy transparency. Moreover, the development of scientific and research activities of the NBP was recognised.

In 2004, employees of the NBP took part in training courses organised by the IMF in macroeconomics, econometric modelling, forecasting, monetary and financial statistics, and central bank accounting as well as the IMF forecasting missions (e.g. to Bulgaria).

#### 13.3.4. The Bank for International Settlements

The NBP is a shareholder of the BIS and holds 8,000 shares with a nominal value of SDR 40 m. The President of the NBP takes part in the meetings of the Governors of the BIS and the General Meetings of BIS Shareholders.

In June 2004, during the General Meeting of BIS Shareholders, the following resolutions were approved: distribution of the dividend for 2003/2004, the Annual Report, the balance sheet as at March 31, 2004, and the profit and loss account which showed a net profit of SDR (Special Drawing Rights) 536.1 m. SDR 104 m (SDR 225 per share) was allocated as dividend. The NBP received SDR 1.8 m (a 4.7% increase compared to 2003).

In 2004, employees of the NBP took part in training courses and seminars organised by the BIS in collaboration with the Financial Stability Institute (FSI) and the Joint Vienna Institute (JVI). The courses covered such topics as banking supervision and supervision of financial conglomerates, risk management basics, strategic planning as well as accounting and audit at central banks.

Together with the FSI, the National Bank of Poland organised a seminar on credit risk transfer, addressed to representatives of banking supervisory authorities from Central and East European countries.

In May 2004, an annual meeting of technical and training cooperation coordinators from national central banks of G-10, CEEC and CIS countries was held. During the meeting, the FSI presented an initiative to launch an online educational platform (FSI-Connect) to train banking supervisors. As one of just a few central banks, the NBP was invited to participate in the pilot stage of the project. The platform was launched at the end of June 2004. It enables bank representatives to participate in courses focusing on the New Capital Accord as well as market, credit and operational risk.

#### 13.3.5. The European Bank for Reconstruction and Development

In April 2004, the President of the NBP took part in the 13<sup>th</sup> Annual Meeting of the Board of Governors of the EBRD. In his speech, he indicated the need for the EBRD to provide further assistance with respect to know-how, public private partnership, financial institution development and new investment projects. The presentation prepared by representatives of Poland (together with government representatives) focused on the prospects of Poland's adoption of the euro, the current status and prospects of fiscal consolidation and foreign investment in Poland.

Moreover, in 2004:

- representatives of the Board of Directors of the EBRD visited Warsaw at the invitation of the President of the NBP. During the visit, issues related to EBRD strategy and new investment projects in Poland were discussed.
- NBP's representatives made a study visit to the EBRD's London headquarters, which focused on issues related to cooperation between the EBRD and Central Asian countries, the EBRD's experience in comparative law research and the principles of internal and external communication.

- The EBRD report entitled *Transition Report 2004 – Infrastructure* was presented at the NBP's Head Office.

### 13.3.6. The International Bank for Economic Cooperation

Polish delegation participated in the meetings of the IBEC Council. It was headed by the First Deputy President of the National Bank of Poland and included representatives of the Ministry of Finance.

In 2004, the IBEC repaid almost all its debt to creditors. It did not, however, receive payments related to a large part of overdue receivables from its debtors.

### 13.3.7. International cooperation in banking supervision

As with other organisational units of the NBP, Poland's accession to the EU had a considerable impact on the international activities of the Polish banking supervisory authorities. Due to its participation in the works of the EU bodies since May 1, 2004, Poland has been involved in the development of the common policy regarding financial system supervision, to the extent corresponding to that of representatives of other EU Member States which remain outside the euro area. In 2004, the activity in this respect included elaboration of the NBP's position papers addressed to committees and working groups of the Council of the EU, and in particular to the Committee of European Banking Supervisors (CEBS).

With regard to regional cooperation, the most important event was participation of the Polish delegation (led by the General Inspectorate of Banking Supervision) in the 17<sup>th</sup> BSCEE Conference in Croatia on May 26–29, 2004. The Conference focused, among other things, on the model for a dynamic establishment of specific provisions at banks and the institutional position of financial market supervision.

Bilateral cooperation involved e.g. the visit of a delegation of supervisors from the National Bank of Ukraine to the NBP and visits of representatives of the Polish supervisory authorities to Spanish and Austrian supervisory bodies.

### 13.3.8. Training assistance to central banks and supervisory authorities from other countries

The National Bank of Poland provides training support to central banks from countries which are undergoing economic transformation. In 2004, this support included mostly study visits by experts from central banks and an international seminar. The initiatives undertaken by the NBP focused on countries which were members of the Polish constituency in the World Bank and the IMF (Azerbaijan, Kyrgyzstan, Serbia and Montenegro, Tajikistan, Turkmenistan, Uzbekistan), other countries of the former Soviet Union (Ukraine, Belarus, Moldova, Armenia, Georgia, Kazakhstan), and Far East countries (China, Vietnam, Mongolia).

The NBP pursued its training support programme addressed to supervisors from Central and East European countries within the framework of the Training Initiative for Banking Supervision (TIBS). The initiative aims to promote good supervisory practice and the exchange of experience in bank restructuring, the development and implementation of prudential regulations, and banking supervision methods. In 2004, the NBP held four seminars, either directly under the TIBS or in collaboration with foreign partners. The topics of TIBS seminars organised in June and November 2004 included credit risk management and consolidated supervision. Additionally, at the request of the Vice-Governor of the National Bank of Ukraine, in September 2004 the NBP organised a seminar in Kiev for employees of the National Bank of Ukraine devoted to risk-based banking supervision. The high rating awarded to TIBS seminars was affirmed by the proposal concerning the joint organisation of a seminar on credit risk transfer with the Financial Stability Institute. It was held in Warsaw in September 2004. Altogether, 110 participants from 24 Central and East European countries as well as former Soviet Union countries attended TIBS seminars in 2004.

In May 2004, a seminar organised in collaboration with the Swiss National Bank, which was devoted to monetary and exchange rate policy strategies, was held. It was attended by 21 participants from 12 Eastern European and Central Asian central banks.

In 2004, the NBP concluded agreements on training cooperation with the National Bank of Kyrgyz Republic and the Bank of Mongolia

### The most important activities of the NBP in 2004

- Upon Poland's accession to the European Union, the NBP became a member of the European System of Central Banks.
- The NBP and the Ministry of Finance strengthened their cooperation within the Interministerial Working Group for Poland's Integration with the EMU.
- The IMF made a positive assessment of the monetary policy and inflation targeting strategy pursued by the NBP as well as the condition of the Polish banking system.

INTERNAL DEVELOPMENT  
OF THE NBP

## 14.1. Human resource management

### 14.1.1. NBP staffing

In 2004, the average staffing at the NBP amounted to 4,925 full-time posts a decline of 217 posts, i.e. 4.2% compared to 2003. Personnel expense decreased again (by 4.4%)<sup>75</sup>, which was the consequence of the decrease in employment initiated in 2002 and the freezing of salaries at the 2001 level.

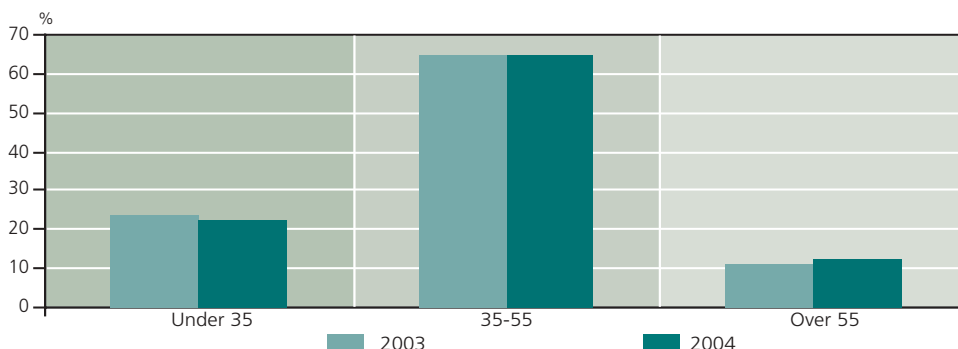
The majority of staff were women, accounting for 69.5% of staff in non-manual posts (as against 71.0% in 2003) and 22.2% in manual and related posts (compared to 23.0% in 2003).

The proportion of staff up to the age of 35 in the age structure of the Bank's employees (Figure 10) amounted to 22.5% (compared to 24% in 2003), while employees over 55 years of age represented 12.7% of total staff (as against 11.5% in 2003).

At year-end 2004 the number of NBP employees with higher education increased again and amounted to 60.0% of all staff in non-manual posts (Figure 11), compared to 55.8% in 2003. The proportion of staff who had not completed their secondary education decreased and amounted to 2.0% (3.0% in 2003). The improvement in the level of education of NBP employees results on the one hand from the continuing trend among the staff to enhance their qualifications by undertaking BA and MA courses, and on the other hand is an outcome of a consequent staffing policy aiming at recruiting people with university level degrees.

**Figure 10**

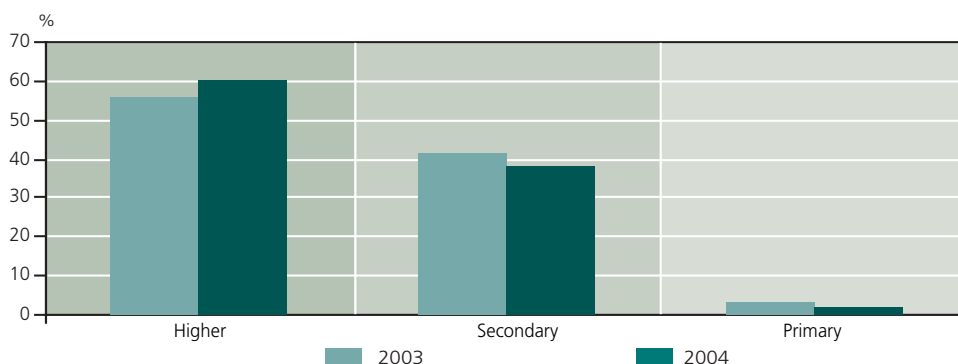
**NBP staff age structure**



Source: NBP data.

**Figure 11**

**NBP staff education structure**



Źródło: dane NBP.

<sup>75</sup> On a comparable basis.

### 14.1.2. Developing staff qualifications

Since the date of Poland's accession to the EU, NBP employees have participated in the work of EU bodies in the scope analogous to that of representatives of the EU Member States which remain outside the euro area. Proper performance of the related tasks is directly linked to the necessity of professional development, consisting in improving one's command of foreign languages, learning negotiation skills and the principles of operation of European institutions as well as enhancing one's competencies. One of the objectives of the NBP is to achieve the position of a significant economic research centre, both domestic and within the European System of Central Banks. In order to achieve this, the National Bank of Poland organises numerous specialist training courses for its employees who raise their professional qualifications. This contributes to the development and improvement in the quality of analyses and research conducted at the NBP.

As in previous years, priority tasks of the NBP were taken into account when selecting and planning training courses. The application of this principle guarantees the efficient use of funds allocated to training.

#### 14.1.2.1. Basic forms of developing staff qualifications

In 2004, 11,471 employees<sup>76</sup> took part in training sessions organised by the NBP (compared to 10,172 in 2003). The increase in the number of trainees (12.6% change on 2003) resulted from the need to conduct a large number of training sessions regarding the Public Procurement Act<sup>77</sup> and the employees' participation in subsequent editions of specialist training courses.

The National Bank of Poland offered its employees the following types of training sessions:

- **Internal training sessions featuring local and foreign lecturers**

The internal specialised training covered primarily: macroeconomics, the Community law, the FX reserves management, risk management, advanced econometric models, statistics, accounting, payment systems, internal audit and issues related to the European Union. A number of mandatory training sessions were also conducted which covered the issues of protection of the bank's property as well as health and safety at work. Foreign language tutoring was organised in the form of specialised courses and conversation classes with native speakers. The language courses were at the intermediate and higher levels and focused on improving specific areas of language competence.

- **Training sessions abroad**

Such training events were organised by central banks as well as international financial and educational institutions and included seminars, courses, conferences, and study visits. The NBP employees had an opportunity to broaden their knowledge and exchange experience regarding macroeconomic issues, statistics and econometrics, financial markets, payment systems, banking supervision, the management of official foreign exchange reserves, risk management, accounting, law, and detailed issues related to the operation of the ESCB. The training courses abroad concerned primarily priority training areas specified for individual departments by the Management Board of the NBP.

- **Internships at European institutions**

The NBP employees completed internships at, *inter alia*, the European Commission, the European Central Bank and other central banks within the framework of the so-called "Staff Exchange Programme"

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<sup>76</sup> Some employees attended training sessions more than once.

<sup>77</sup> For the first time, NBP procurement was included in the scope of the Act.

- Domestic external training sessions

The topics of domestic external training courses included IT systems, financial markets, accounting, law, risk management, and European integration.

- University courses and higher education: under- and post-graduate university courses, PhD courses and legal training.

#### 14.1.2.2. Introduction of the Code of Ethics of NBP Employees

As an institution performing public responsibilities, the NBP promotes conduct conforming to the highest ethical standards, which enables its employees to attain a high level of competence and professionalism. In 2004, the *Code of Ethics of NBP Employees* was drawn up and deployed. All employees were familiarised with the Code and obliged to observe it. A member of the NBP Management Board was assigned to oversee the observance of the Code.

## 14.2. Premises and equipment

In 2004, the capital spending of the National Bank of Poland related to the performance of its responsibilities and investment purchases amounted to 226,118 thousand zloty, up by 1.4% compared to 2003. As in previous years, the expenditure was primarily allocated to the following areas:

- ICT and telecommunications equipment purchases;
- investment construction;
- purchases of tangible fixed asset.

The principal directions of investment activity in 2004 involved:

- the adjustment of the ICT infrastructure of the NBP to EU (particularly ESCB) requirements and the attainment of the technological standard compatible with that adopted by EU central banks;
- the enhancement the security of NBP premises and systems;
- the mechanisation of bank vaults and cash and vault operations aimed at increasing the efficiency of counting notes and coin as well as enhancing the security of cash storage and transport in connection with the planned adoption of the euro;
- the modernisation of the Bank's premises in order to improve their technical condition and replace worn-out and depreciated assets.

The investment projects implemented yielded the following results:

- the existing IT and ICT systems were further extended and upgraded;
- the Bank's premises were enlarged and modernised;
- robbery, burglary and fire protection systems at the Bank's premises were modernised and extended, and the adjustment of the Bank's premises to statutory security requirements continued;
- the technical condition of the Bank's premises and their environment improved, thus enhancing the working conditions.



### 14.3. IT support to the banking system and the NBP

In 2004, the IT work performed consisted in:

- implementation of ongoing modifications to the IT systems, resulting from Poland's integration into the EU, and in particular from the participation of the NBP in the ESCB;
- adjustment of the IT systems to provide services to government institutions, pursuant to the new Public Finance Act;
- streamlining of the existing ICT infrastructure;
- continuation of the long-term projects initiated and ensuring the adequate level of security of NBP systems.

While these tasks in 2004 were implemented:

- the work on the development of the SORBNET-EURO system continued;
- the ICT infrastructure used by the European System of Central Banks was launched;
- centralisation of the Integrated Accounting System was completed and the final stage of branch system migration within the framework of this project was initiated;
- development of the ICT System Monitoring and Management Centre was completed;
- the reporting system was adjusted to EU requirements;
- implementation of advanced technological solutions on the NBP website continued.

### 14.4. Safety and security

In 2004, work on maintaining proper security standards at the NBP continued. Internal regulations regarding business continuity, the provision of certification services and IT system security management, arising from the NBP security policy were developed and implemented.

Additionally:

- A secure telecopy communication system, intended for the transmission of classified information marked as "restricted" as well as unclassified information of special importance to the NBP was developed.
- Work was conducted on the adjustment of internal legal regulations to the amendment (planned for 2005) to the Act on the Protection of Persons and Property of August 22, 1997 and the amendment to the Ordinance on detailed principles and requirements regarding the protection of currency stored and transported by entrepreneurs and other organisational units of October 14, 1998.
- Training sessions for staff having access to confidential information and involved in processing of personal data were delivered.

- The *Strategy of Developing Business Continuity Plans at the NBP* was drawn up and the development of business continuity plans for the most important, critical functions of the NBP was commenced.

## 14.5. Internal audit

In 2004, the NBP focused on the adjustment of the activity of the internal audit function to the International Standards for the Professional Practice of Internal Auditing. The adjustment included the establishment of a risk-based audit function and support for the operation of the internal control system at the NBP.

The following activities were undertaken with regard to this area:

- 56 audits covering 31 topics stipulated in the Internal Audit Activity Plan for 2004 were performed;
- 2 special investigations were conducted;
- the implementation of audit conclusions and recommendations was monitored;
- non-audit tasks, including analytical and consulting ones, were performed.

The results of the internal audits conducted indicate that the NBP operates correctly and there are no significant threats to its activities. Once more, continued improvement in the internal control system was observed.

Moreover, the NBP began to cooperate with central banks within the ESCB on a current basis and conducted an audit commissioned by the ESCB Internal Auditors Committee for the first time in 2004.

## 14.6. Organisational changes

In 2004, activities aimed at establishing modern risk management mechanisms and procedures were performed at the NBP. To this end, the Financial Risk Management Department was established. It is responsible for monitoring financial risk at the NBP. Its primary responsibilities include the ongoing identification, measurement and control of all types of financial risk, i.e. credit risk, interest rate risk, liquidity risk and foreign exchange risk.

Moreover, the Operational Risk Team was established. It is responsible for developing the methodology and performing analytical tasks related to operational risk management at the NBP.

In 2004, employment at the NBP regional branches was rationalised. In addition to this, work began with the aim to merge the Regional Branch in Warsaw and the Chief Branch of Foreign Exchange into one organisational unit on May 1, 2005. The objective is to reduce further the general expense of the NBP and make the provision of services to the NBP customers more efficient.

**The most important activities of the NBP in 2004**

- Employment at the NBP decreased further — by 217 full-time posts, i.e. 4.2%.
- The adjustment of internal audit function activities to the International Standards for the Professional Practice of Internal Auditing continued.
- The risk management system at the NBP was strengthened.

2004  
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NBP

BALANCE SHEET  
AND PROFIT & LOSS ACCOUNT

## 15.1. Changes in accounting principles

On 1 January 2004, amendment to Article 67 of the Act on the NBP entered into force. Pursuant to the amendment, NBP accounting principles should conform to ESCB standards. In 2003, in order to comply with the above provision, the MPC adopted two resolutions regarding accounting: Resolution No. 16/2003 on accounting principles, format of assets and liabilities in the balance sheet and profit and loss account of the NBP (as amended), and Resolution No. 17/2003 on principles of creating and releasing the provision against the risk of changes in exchange rates of the Polish zloty against foreign currencies in the NBP. The amendments introduced on 1 January 2004 related to:

- Accrual frequency of interest, discount, and premium on NBP assets and liabilities, i.e. a shift from monthly to daily accrual.
- The method of calculating discount on purchased discount debt securities with maturities above one year from purchase date, i.e. a shift from straight-line method to internal rate of return method.
- The valuation of debt securities, i.e. a shift from valuation at mid-market price not higher than the purchase price to valuation at mid-market price even if it is higher than the purchase price.
- The recognition of price valuation effects, i.e. unrealised losses and unrealised gains. During the financial year, unrealised losses are included in the balance sheet assets, and gains in the balance sheet liabilities, both as asset and liability revaluation differences. On the balance sheet date, unrealised losses are taken to profit and loss account (previously, unrealised losses were included in the balance sheet assets as revaluation differences, and unrealised gains were not included in the balance sheet).
- The manner of accounting for gains and losses on foreign exchange transactions — the so-called realised foreign exchange differences (a shift from accounting based on the average NBP exchange rate from the date of entering the transaction in the books to the method based on the average cost of foreign exchange holdings). This principle is applied to operations regarding the management of official foreign exchange reserves.
- Detailed regulations regarding the recognition and valuation of risk mitigation instruments (off-balance sheet instruments).
- The recognition of exchange rate valuation effects regarding assets and liabilities denominated in foreign currencies, i.e. unrealised losses and unrealised gains. During the financial year, unrealised losses are included in the balance sheet assets, and gains in the balance sheet liabilities both as foreign exchange asset and liability revaluation differences. On the balance sheet date, unrealised losses are taken to profit and loss account. Previously, the surplus of negative over positive foreign exchange differences arising from the conversion of assets and liabilities denominated in foreign currencies decreased the reserve against the risk of changes in exchange rates of the Polish zloty against foreign currencies. The surplus of positive over negative foreign exchange differences increased the reserve against the risk of changes in exchange rates of the Polish zloty against foreign currencies.

In the case of assets and liabilities indexed to foreign currencies, negative foreign exchange differences (unrealised losses) are included in the balance sheet assets as revaluation differences and positive foreign exchange differences (unrealised gains) are included in the balance sheet liabilities as revaluation differences. They are taken to the profit and loss account on the date on which the asset or liability is disposed of. This principle has remained unchanged.

- The manner in which capitalised interest income is taken to the profit and loss account — such income is taken to the profit and loss account on the date on which it accrues. Previously, it was treated as deferred income on the accrual date and was taken to the profit and loss account on the settlement date.
- The restatement of the former reserve against the risk of changes in exchange rates of the Polish zloty against foreign currencies into a revaluation account, separately for foreign currencies and gold. Owing to its character and origin, the reserve against the risk of changes in exchange rates of the Polish zloty against foreign currencies corresponds to the revaluation account referred to in the ECB guidelines. The balance of the revaluation account will not be increased. The balance disclosed as at 1 January 2004 will be only decreased.
- The introduction of double entry book keeping requirement with regard to off-balance sheet accounts.
- The adjustment of financial statement format to the ECB requirements.
- The composition and amount of NBP's own funds.
- The reserve against the risk of changes in exchange rates of the Polish zloty against foreign currencies:
  - the provision is created and recognised as cost — previously, the reserve against the risk of changes in exchange rates of the Polish zloty against foreign currencies was increased by the surplus of positive over negative foreign exchange differences and decreased by the surplus of negative over positive differences;
  - the provision is released and recognised as income when it is too high compared to the identified exchange rate movement risk; previously, the reserve against the risk of changes in exchange rates of the Polish zloty against foreign currencies could be released when foreign exchange assets were sold against the zloty to banks in the interbank foreign exchange market and to the Ministry of Finance for the purpose of servicing Poland's external debt or where the NBP recorded an operating loss.

Resolution No. 16/2003 stipulates that any issues not regulated therein should be resolved taking into account ECB guidelines, reports and decisions of the Accounting and Monetary Income Committee (AMICO), preparatory work regarding ECB guidelines and international accounting standards in force as at the date on which the financial statement is drawn up, aiming to produce a reliable and correct financial statement.

## 15.2. Balance sheet of the NBP and adjustments resulting from changes in accounting principles

Changes in asset items of the NBP balance sheet resulting from changes in accounting principles introduced as from 1 January 2004 as compared to 31 December 2003 are presented below.

Table 16

## Changes in asset items of the NBP balance sheet

Item	Balance as at		Change	
	31 Dec 2003	1 Jan 2004	1 Jan 2004 – 31 Dec 2003	
	PLN thousand			%
ASSETS				
1. Gold and gold receivables conforming to international standards of purity	5,163,760.65	5,163,594.70	-165.95	0.00
2. Claims on non-residents denominated in foreign currency	122,786,818.04	124,037,908.69	1,251,090.65	1.02
2.1. Receivables from the IMF	3,259,844.45	3,259,844.45	0.00	0.00
2.2. Balances with foreign institutions, securities, granted loans and other foreign assets	119,526,973.59	120,778,064.24	1,251,090.65	1.05
3. Claims on residents denominated in foreign currency	561,508.08	561,508.08	0.00	0.00
4. Claims on non-residents denominated in domestic currency	0.00	0.00	0.00	0.00
5. Claims on other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	0.00	0.00	0.00	0.00
6. Other claims on other domestic monetary financial institutions denominated in domestic currency	4,765,152.16	4,765,152.16	0.00	0.00
7. Securities of residents denominated in domestic currency	0.00	0.00	0.00	0.00
8. Claims on general government denominated in domestic currency	0.70	0.70	0.00	0.00
9. Items in course of settlement	0.00	0.00	0.00	0.00
10. Other assets	6,303,871.91	6,085,038.01	-218,833.90	-3.47
10.1. Tangible and intangible fixed assets	1,072,834.84	1,072,834.84	0.00	0.00
10.2. Other financial assets	4,865,999.15	4,864,751.88	-1,247.27	-0.03
10.3. Off-balance sheet instruments revaluation differences	0.00	4.73	4.73	-
10.4. Accruals and prepaid expenses	7,725.32	7,725.32	0.00	0.00
10.5. Sundry	357,312.60	139,721.24	-217,591.36	-60.90
TOTAL ASSETS	139,581,111.54	140,613,202.34	1,032,090.80	0.74

Source: NBP data.

## 15.2.1. Gold and gold receivables conforming to international standards of purity

As at 1 January 2004, the value of this item decreased by PLN 165.95 thousand compared to 31 December 2003. The difference resulted from the change in the manner in which gold is recorded in the books of account, i.e. a shift from grams to ounces and the adjustment to the average cost of gold holdings. The difference was taken to the profit and loss account.

## 15.2.2. Claims on non-residents denominated in foreign currency

Claims on non-residents denominated in foreign currency increased by PLN 1,251,090.65 thousand, primarily owing to a change in the principles of market valuation of debt securities denominated in foreign currency. Previously, these securities were valued at mid-market price not higher than the purchase price. As from 1 January 2004, securities are valued at mid-market price (even where higher than the purchase price).



The following factors contributed to the increase in this item:

- the increase in the value of discount debt securities denominated in foreign currency by PLN 7,198.69 thousand related to the change in the principles of valuation of such securities, i.e. the shift to mid-market price valuation;
- the increase in the value of interest-bearing debt securities denominated in foreign currency by PLN 1,245,380.95 thousand resulting from the valuation of fixed interest rate securities according to a market price higher than the book value of such securities in the NBP portfolio;

with a parallel decrease in the following:

- balance sheet item of time deposit accounts by PLN 1,488.99 thousand, which is related to a decrease in the amount of interest accrued due to the change in the manner of its calculation<sup>78</sup>. The aforementioned adjustment includes interest adjustments on the following deposits: in GBP, amounting to PLN 593.53 thousand; in EUR, amounting to PLN 572.14 thousand, and in USD, amounting to PLN 323.32 thousand.

Claims on non-residents denominated in foreign currency include interest adjustments on the following deposits: in GBP, amounting to PLN 593.53 thousand; in EUR, amounting to PLN 572.14 thousand, and in USD, amounting to PLN 323.32 thousand.

The aforementioned differences were taken to the profit and loss account.

### 15.2.3. Other financial assets

The decrease in the value of "other financial assets" by PLN 1,247.27 thousand has resulted from the change in the manner in which discount debt securities denominated in domestic currency (bills of exchange issued by commercial banks) are recognised in books of account – a shift from the face value of the bill of exchange to the amount due to the party submitting the bill of exchange.

### 15.2.4. Off-balance sheet instruments revaluation differences

As at 1 January 2004, the "off-balance sheet instruments revaluation differences" item, amounting to PLN 4.73 thousand, was included in the balance sheet for the first time. The item refers to the result of valuation adjustment (to the average cost of purchase) of off-balance sheet spot foreign exchange transactions receivable.

### 15.2.5. Other assets

The decrease in the "other assets" item by PLN 217,591.36 thousand is the result of the change in the manner in which negative revaluation differences on securities in EUR, GBP, and USD are presented. They have been recognised as costs arising from adjustments related to changes in accounting principles.

Changes in liability items of the NBP balance sheet resulting from changes in accounting principles introduced as from 1 January 2004 as compared to 31 December 2003 are presented in Table 17.

<sup>78</sup> Until 31 December 2003, the interest period assumed by the NBP included the date on which the deposit was opened and excluded the day on which the deposit was released.

Table 17

## Changes in liability items of the NBP balance sheet

Item	Balance as at		Change	
	31 Dec 2003	1 Jan 2004	1 Jan 2004 – 31 Dec 2003	
	PLN thousand			%
<b>LIABILITIES</b>				
1. Notes and coin in circulation	54,176,616.52	54,176,616.52	0.00	0.00
2. Liabilities to other domestic monetary financial institutions related to monetary policy operations in domestic currency	26,354,274.93	26,354,274.93	0.00	0.00
2.1. Current accounts (covering the minimum reserve accounts)	12,141,088.75	12,141,088.75	0.00	0.00
2.2. Deposit facility	11,216.15	11,216.15	0.00	0.00
2.3. Fixed-term deposits	0.00	0.00	0.00	0.00
2.4. Other monetary policy operations	14,201,970.03	14,201,970.03	0.00	0.00
3. Other liabilities to other domestic monetary financial institutions in domestic currency	12,178.39	12,178.39	0.00	0.00
4. Liabilities to other residents denominated in domestic currency	8,393,444.07	8,393,444.07	0.00	0.00
4.1. Liabilities to general government	8,384,949.22	8,384,949.22	0.00	0.00
4.2. Other liabilities	8,494.85	8,494.85	0.00	0.00
5. Liabilities to non-residents denominated in domestic currency	13,272.44	13,272.44	0.00	0.00
6. Liabilities to residents in foreign currency	3,055,931.38	3,055,931.38	0.00	0.00
7. Liabilities to non-residents in foreign currency	858,698.56	858,698.56	0.00	0.00
8. Liabilities to IMF	4,583,717.38	4,583,717.38	0.00	0.00
9. Items in course of settlement	1,599.94	1,599.94	0.00	0.00
10. Other liabilities	4,017,472.36	1,438,638.21	-2,578,834.15	-64.19
10.1. Off-balance sheet instruments revaluation differences	0.00	4.44	4.44	-
10.2. Accruals and income collected in advance	3,618,259.58	1,401,456.15	-2,216,803.43	-61.27
10.3. Sundry	399,212.78	37,177.62	-362,035.16	-90.69
11. Provisions	103,608.16	126,544.06	22,935.90	22.14
12. Revaluation accounts	0.00	31,894,870.52	31,894,870.52	-
13. Capital and reserves	33,739,950.89	1,845,080.37	-31,894,870.52	-94.53
13.1. Authorised capital	1,500,000.00	1,500,000.00	0.00	0.00
13.2. Reserve capital	345,080.37	345,080.37	0.00	0.00
13.3. Reserves	31,894,870.52	0.00	-31,894,870.52	0.00
14. Total profit	4,270,346.52	7,858,335.57	3,587,989.05	84.02
14.1. Current year profit	4,270,346.52	3,587,989.05	-682,357.47	-15.98
14.2. Previous year profit	0.00	4,270,346.52	4,270,346.52	-
<b>TOTAL LIABILITIES</b>	<b>139,581,111.54</b>	<b>140,613,202.34</b>	<b>1,032,090.80</b>	<b>0.74</b>

Source: NBP data.

## 15.2.6. Other liabilities

The change in the "other liabilities" item amounting to PLN 2,578,834.15 thousand resulted from:

- the appearance of the "off-balance sheet instruments revaluation differences" item amounting to PLN 4.44 thousand; the item refers to the result of valuation adjustment (to the average cost of purchase) of off-balance sheet spot foreign exchange transactions payable; in the previous financial year, spot transactions were only recorded in balance sheet accounts on the settlement date;
- a decrease in the value of accruals and income collected in advance amounting to PLN 2,215,556.16 thousand, resulting from the change in the manner in which capitalised

interest on refinancing credit for central investments denominated in domestic currency is recognised in the books of account; previously, it was treated as deferred income;

- a decrease in the value of accruals and income collected in advance amounting to PLN 1,247.27 thousand due to the transfer of the discount on discount debt securities related to the change in the manner in which securities are recognised in the books of account: from the face value of the bill of exchange to the amount due to the party submitting the bill of exchange (this item did not result in any change in the profit and loss account);
- a decrease in the "sundry" balance sheet item amounting to PLN 362,035.16 thousand as a result of:
  - a change in the manner in which positive foreign exchange differences on USD assets and liabilities (due to their conversion at the average NBP exchange rate) unrelated to foreign exchange reserve management are presented, amounting to PLN 339,099.27 thousand; as a result of the change, positive foreign exchange differences which were hitherto indicated as balance sheet liabilities are indicated (as income on financial operations in the profit and loss account) as positive foreign exchange differences;
  - the transfer of PLN 22,935.90 thousand from the staff bonus fund to provisions for contingent liabilities due to the liquidation of the staff bonus fund; this did not result in any change in the profit and loss account.

#### 15.2.7. Provisions

As it has already been indicated, the "provisions" item was increased by PLN 22,935.90 thousand, i.e. the amount of the former staff bonus fund, which did not result in any change in the profit and loss account.

#### 15.2.8. Revaluation accounts

The "revaluation accounts" item was created as a result of the transfer of the former reserve against the risk of changes in the Polish zloty against foreign currencies to the revaluation account due to changes in accounting principles and did not result in any change in the profit and loss account.

#### 15.2.9. Capital and reserves

The decrease in the amount of the "capital and reserves" item resulted from the fact that the reserve against the risk of changes of the Polish zloty against foreign currencies was included in the "revaluation accounts" item; this did not result in any change in the profit and loss account.

### 15.3. NBP profit and loss account and adjustments resulting from changes in accounting principles

Due to changes in accounting principles, profit and loss account of the NBP as at 1 January 2004 was credited with the total amount of PLN 3,587,989.05 thousand.

Table 18

## Profit and loss account of the NBP as at 1 January 2004

Item		As at 1 Jan 2004
		PLN thousand
1.	Net interest, discount & premium income	2,215,556.16
1.1.	Interest, discount & premium income	2,215,556.16
1.2.	Interest, discount & premium expense	0.00
2.	Net income/expense on financial operations	1,372,432.89
2.1.	Income on financial operations	1,591,754.11
2.2.	Expense arising from financial operations	219,321.22
3.	Net fee & commission income/expense	0.00
4.	Income from equities	0.00
5.	Other income	0.00
A.	Total net income (1+2+3+4+5)	3,587,989.05
6.	Personnel expense	0.00
7.	Other administrative expenses	0.00
8.	Depreciation	0.00
9.	Issue of notes and coin expense	0.00
10.	Other expense	0.00
B.	Profit for the year	3,587,989.05

Source: NBP data.

NBP's profit as at 1 January 2004 accounted for a difference between:

- income amounting to PLN 3,807,310.27 thousand, of which:
  - PLN 2,215,556.16 thousand from capitalised interest on refinancing loans denominated in domestic currency (transferred from deferred income);
  - PLN 1,252,577.14 thousand on financial operations (valuation of discount debt securities and interest bearing securities);
  - PLN 77.28 thousand on financial operations (accrued interest on interest bearing securities);
  - PLN 339,099.27 thousand due to the change in disclosure of positive foreign exchange differences on assets and liabilities denominated in foreign currency;
  - PLN 0.42 thousand on financial operations (the adjustment of off-balance sheet amounts in Swedish crowns (SEK) to the average cost of foreign exchange position).
- expense amounting to PLN 219,321.22 thousand, of which:
  - PLN 165.95 thousand — disclosed gold and gold receivables adjustments to the average cost of gold holdings and the change in the policy of recording gold in the books of account (a shift from grams to ounces);
  - PLN 1,563.77 thousand — an adjustment of the interest accrued on current accounts, deposits and interest-bearing securities denominated in foreign currency;
  - PLN 217,591.36 thousand due to the change in disclosure of negative revaluation differences on securities denominated in foreign currency;
  - PLN 0.14 thousand due to adjustment of off-balance sheet amounts in euro to the average cost of foreign exchange holdings.

## 15.4. Balance sheet of the NBP as of December 31, 2004

Table 19

## NBP assets (in PLN)

		In PLN, as at:		
		31 Dec 2003	1 Jan 2004	31 Dec 2004
	<b>TOTAL ASSETS</b>	<b>139,581,111,539.25</b>	<b>140,613,202,341.41</b>	<b>119,661,106,916.55</b>
1.	Gold and gold receivables conforming to international standards of purity	5,163,760,650.63	5,163,594,700.88	4,332,440,356.68
2.	Claims on non-residents denominated in foreign currency	122,786,818,041.08	124,037,908,686.40	105,994,178,199.64
2.1.	Receivables from the IMF	3,259,844,447.34	3,259,844,447.34	2,344,541,377.82
2.2.	Balances with foreign institutions, securities, granted loans and other foreign assets	119,526,973,593.74	120,778,064,239.06	103,649,636,821.82
3.	Claims on residents denominated in foreign currency	561,508,082.29	561,508,082.29	101,303,935.61
4.	Claims on non-residents denominated in domestic currency	0.00	0.00	0.00
5.	Claims on other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	0.00	0.00	0.00
6.	Other claims on other domestic monetary financial institutions denominated in domestic currency	4,765,152,164.57	4,765,152,164.57	3,158,748,533.36
7.	Securities of residents denominated in domestic currency	0.00	0.00	0.00
8.	Claims on general government denominated in domestic currency	697.70	697.70	0.00
9.	Items in course of settlement	0.00	0.01	0.00
10.	<b>Other assets</b>	<b>6,303,871,902.98</b>	<b>6,085,038,009.56</b>	<b>6,074,435,891.26</b>
10.1.	Tangible and intangible fixed assets	1,072,834,838.57	1,072,834,838.57	1,146,326,941.11
10.2.	Other financial assets	4,865,999,150.57	4,864,751,880.16	4,709,474,600.44
10.3.	Off-balance sheet instruments revaluation differences	0.00	4,734.46	187,190.33
10.4.	Accruals and prepaid expenses	7,725,324.68	7,725,324.68	46,360,973.40
10.5.	Sundry	357,312,589.16	139,721,231.69	172,086,185.98

Source: NBP data.

Table 20

## NBP liabilities

		In PLN, as at:		
		31 Dec 2003	1 Jan 2004	31 Dec 2004
	<b>TOTAL LIABILITIES</b>	139,581,111,539.25	140,613,202,341.41	119,661,106,916.55
1.	Notes and coin in circulation	54,176,616,519.15	54,176,616,519.15	55,924,918,651.95
2.	Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	26,354,274,930.58	26,354,274,930.58	27,240,318,678.65
2.1.	Current accounts (covering the minimum reserve accounts)	12,141,088,751.58	12,141,088,751.58	13,247,536,303.56
2.2.	Deposit facility	11,216,152.22	11,216,152.22	52,377,173.97
2.3.	Fixed-term deposits	0.00	0.00	0.00
2.4.	Other monetary policy operations	14,201,970,026.78	14,201,970,026.78	13,940,405,201.12
3.	Other liabilities to other domestic monetary financial institutions denominated in domestic currency	12,178,392.62	12,178,392.62	13,917,936.52
4.	Liabilities to other residents denominated in domestic currency	8,393,444,065.49	8,393,444,065.49	11,429,217,775.38
4.1.	Liabilities to general government	8,384,949,214.44	8,384,949,214.44	11,076,660,511.67
4.2.	Other liabilities	8,494,851.05	8,494,851.05	352,557,263.71
5.	Liabilities to non-residents denominated in domestic currency	13,272,438.11	13,272,438.11	136,626,597.24
6.	Liabilities to residents in foreign currency	3,055,931,378.59	3,055,931,378.59	3,577,020,831.05
7.	Liabilities to non-residents in foreign currency	858,698,561.37	858,698,561.37	288,280,539.55
8.	Liabilities to the IMF	4,583,717,383.66	4,583,717,383.66	4,412,809,298.44
9.	Items in course of settlement	1,599,936.74	1,599,938.16	0.00
10.	Other liabilities	4,017,472,356.72	1,438,638,208.42	304,394,097.48
10.1.	Off-balance sheet instruments revaluation differences	0.00	4,442.83	558.74
10.2.	Accruals and income collected in advance	3,618,259,578.24	1,401,456,147.83	261,561,425.05
10.3.	Sundry	399,212,778.48	37,177,617.76	42,832,113.69
11.	Provisions	103,608,161.28	126,544,055.98	113,445,297.25
12.	Revaluation accounts	0.00	31,894,870,521.90	9,774,184,873.87
13.	Capital and reserves	33,739,950,895.73	1,845,080,373.83	2,058,597,699.79
13.1.	Registered equity fund	1,500,000,000.00	1,500,000,000.00	1,500,000,000.00
13.2.	Reserve capital	345,080,373.83	345,080,373.83	558,597,699.79
13.3.	Reserves	31,894,870,521.90	0.00	0.00
14.	<b>Total profit</b>	<b>4,270,346,519.21</b>	<b>7,858,335,573.55</b>	<b>4,387,374,639.38</b>
14.1.	Current year profit	4,270,346,519.21	3,587,989,054.34	4,387,374,639.38
14.2.	Previous year profit	0.00	4,270,346,519.21	0.00

Source: NBP data.

## 15.5. Profit and loss account for 2004

Table 21

## Profit and loss account

	2003	2004
<b>1. Net interest, discount &amp; premium income/expense</b>	<b>2,696,653,426.19</b>	<b>3,544,029,686.94</b>
1.1. Interest, discount & premium income	4,527,048,013.51	6,352,764,673.79
1.2. Interest, discount & premium expense	1,830,394,587.32	2,808,734,986.85
<b>2. Net income/expense on financial operations</b>	<b>2,508,763,077.05</b>	<b>2,020,643,795.45</b>
2.1. Income on financial operations	1,207,886,425.89	3,853,622,205.13
2.2. Expense arising from financial operations	82,145,292.04	3,102,504,767.44
2.3. Unrealised losses	0.00	21,187,022,425.09
2.4. Income on release of provisions against risk and reversal of write-downs on financial assets	1,383,083,990.32	22,483,609,947.41
2.5. Expense arising from creation of provisions against risk and revaluation write-downs on financial assets	62,047.12	27,061,164.56
<b>3. Net fee &amp; commission income/expense</b>	<b>-12,506,923.10</b>	<b>-12,963,689.98</b>
3.1. Fee & commission income	11,655,174.45	12,939,510.90
3.2. Fee & commission expense	24,162,097.55	25,903,200.88
<b>4. Income from equities</b>	<b>29,629,660.00</b>	<b>11,058,835.85</b>
<b>5. Other income</b>	<b>115,441,242.16</b>	<b>110,979,275.58</b>
<b>A. Total net income [1+2+3+4+5]</b>	<b>5,337,980,482.30</b>	<b>5,673,747,903.84</b>
<b>6. Personnel expense</b>	<b>361,044,036.64</b>	<b>454,399,991.67</b>
<b>7. Other administrative expense</b>	<b>374,899,696.17</b>	<b>392,813,649.80</b>
<b>8. Depreciation</b>	<b>117,640,454.09</b>	<b>137,913,466.15</b>
<b>9. Issue of notes and coin expense</b>	<b>131,999,712.84</b>	<b>226,301,666.57</b>
<b>10. Other expense</b>	<b>82,050,063.35</b>	<b>74,944,490.27</b>
<b>B. Profit for the year [A-6-7-8-9-10]</b>	<b>4,270,346,519.21</b>	<b>4,387,374,639.38</b>

Source: NBP data.

## 15.6. Changes in NBP balance sheet in 2004

The balance sheet total of the National Bank of Poland as at 31 December 2004 amounted to PLN 119,661,106.92 thousand and decreased by PLN 20,952,095.42 thousand, i.e. by 14.9% compared to the amount of PLN 140,613,202.34 thousand as at 1 January 2004.

Table 22

## Changes in NBP assets in 2004

Item	Balance as at		Change	
	1 Jan 2004	31 Dec 2004	31 Dec 2004 – 1 Jan 2004	
	PLN thousand			%
<b>ASSETS</b>				
1. Gold and gold receivables conforming to international standards of purity	5,163,594.70	4,332,440.36	-831,154.34	-16.10
2. Claims on non-residents denominated in foreign currency	124,037,908.69	105,994,178.20	-18,043,730.49	-14.55
2.1. Receivables from the IMF	3,259,844.45	2,344,541.38	-915,303.07	-28.08
2.2. Balances with foreign institutions, securities, granted loans and other foreign assets	120,778,064.24	103,649,636.82	-17,128,427.42	-14.18
3. Claims on residents denominated in foreign currency	561,508.08	101,303.93	-460,204.15	-81.96
4. Claims on non-residents denominated in domestic currency	0.00	0.00	0.00	0.00
5. Claims on other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	0.00	0.00	0.00	0.00
6. Other claims on other domestic monetary financial institutions denominated in domestic currency	4,765,152.16	3,158,748.54	-1,606,403.62	-33.71
7. Debt securities of residents denominated in domestic currency	0.00	0.00	0.00	0.00
8. General government debt denominated in domestic currency	0.70	0.00	-0.70	-100.00
9. Items in course of settlement	0.00	0.00	0.00	0.00
10. Other assets	6,085,038.01	6,074,435.89	-10,602.12	-0.17
10.1. Tangible and intangible fixed assets	1,072,834.84	1,146,326.94	73,492.10	6.85
10.2. Other financial assets	4,864,751.88	4,709,474.60	-155,277.28	-3.19
10.3. Off-balance sheet instruments revaluation differences	4.73	187.19	182.46	3,857.51
10.4. Accruals and prepaid expenses	7,725.32	46,360.97	38,635.65	500.12
10.5. Sundry	139,721.24	172,086.19	32,364.95	23.16
<b>TOTAL ASSETS</b>	<b>140,613,202.34</b>	<b>119,661,106.92</b>	<b>-20,952,095.42</b>	<b>-14.90</b>

Source: NBP data.

Main reasons for the decrease in the total amount of assets as at 31 December 2004 compared to 1 January 2004 were the strong appreciation of the zloty and the related asset valuation effects. During 2004, the zloty appreciated by around 20% against the US dollar (3.7405 PLN/USD on 31 December 2003 against 2.9904 PLN/USD on 31 December 2004) and by over 13% against the euro and the pound sterling (4.7170 PLN/EUR and 6.6686 PLN/GBP on 31 December 2003 against 4.0790 PLN/EUR and 5.7699 PLN/GBP on 31 December 2004).

This appreciation resulted in the decrease in the amount of the largest asset item ("balances with foreign institutions, debt securities, extended loans and other external assets") by a total of PLN 17,128,427.42 thousand.

In addition, the change in the total amount of assets was influenced by decreases with regard to the following items:



- "gold and gold receivables conforming to international standards of purity" by PLN 831,154.34 thousand due to a reduction in gold holdings by 740.819 ounces and a drop in the US dollar exchange rate accompanied by an increase in gold market prices;
- "receivables from the IMF" by PLN 915,303.07 thousand;
- "claims on residents denominated in foreign currency" by PLN 460,204.15 thousand, primarily due to the redemption of the last instalment of Treasury bonds from the 1991 issue by the Ministry of Finance and the repayment of the last deposit instalment by Bank Handlowy w Warszawie SA;
- "other claims on other domestic monetary financial institutions denominated in domestic currency" by PLN 1,606,403.62 thousand, primarily due to the posting of the claim on Bank Handlowo-Kredytowy SA w Katowicach under liquidation procedure amounting to PLN 1,183,103.71 thousand as a memo item and the repayment of principal instalments on loans for central investments by Bank BPH SA and Bank Polska Kasa Opieki SA as well as the repayment of a subordinated loan by Bank Gospodarki Żywnościowej SA

Table 23

## Changes in NBP liabilities in 2004

Item	Balance as at		Change	
	1 Jan 2004	31 Dec 2004	31 Dec 2004 – 1 Jan 2004	
	PLN thousand			%
<b>LIABILITIES</b>				
1. Notes and coin in circulation	54,176,616.52	55,924,918.65	1,748,302.13	3.23
2. Liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency	26,354,274.93	27,240,318.68	886,043.75	3.36
2.1. Current accounts (covering the minimum reserve accounts)	12,141,088.75	13,247,536.30	1,106,447.55	9.11
2.2. Deposit facility	11,216.15	52,377.18	41,161.03	366.98
2.3. Fixed-term deposits	0.00	0.00	0.00	0.00
2.4. Other monetary policy operations	14,201,970.03	13,940,405.20	-261,564.83	-1.84
3. Other liabilities to other domestic monetary financial institutions denominated in domestic currency	12,178.39	13,917.93	1,739.54	14.28
4. Liabilities to other residents denominated in domestic currency	8,393,444.07	11,429,217.78	3,035,773.71	36.17
4.1. Liabilities to general government	8,384,949.22	11,076,660.51	2,691,711.29	32.10
4.2. Other liabilities	8,494.85	352,557.27	344,062.42	4,050.25
5. Liabilities to non-residents denominated in domestic currency	13,272.44	136,626.60	123,354.16	929.40
6. Liabilities to residents in foreign currency	3,055,931.38	3,577,020.83	521,089.45	17.05
7. Liabilities to non-residents in foreign currency	858,698.56	288,280.54	-570,418.02	-66.43
8. Liabilities to the IMF	4,583,717.38	4,412,809.30	-170,908.08	-3.73
9. Items in course of settlement	1,599.94	0.00	-1,599.94	-100.00
10. Other liabilities	1,438,638.21	304,394.10	-1,134,244.11	-78.84
10.1. Off-balance sheet instruments revaluation differences	4.44	0.56	-3.88	-87.39
10.2. Accruals and income collected in advance	1,401,456.15	261,561.43	-1,139,894.72	-81.34
10.3. Sundry	37,177.62	42,832.11	5,654.49	15.21
11. Provisions for contingent liabilities	126,544.06	113,445.30	-13,098.76	-10.35
12. Revaluation accounts	31,894,870.52	9,774,184.87	-22,120,685.65	-69.35
13. Capital and reserves	1,845,080.37	2,058,597.70	213,517.33	11.57
13.1. Registered equity fund	1,500,000.00	1,500,000.00	0.00	0.00
13.2. Reserve capital	345,080.37	558,597.70	213,517.33	61.87
13.3. Reserves	0.00	0.00	0.00	0.00
14. Total profit	7,858,335.57	4,387,374.64	-3,470,960.93	-44.17
14.1. Profit for the year	3,587,989.05	4,387,374.64	799,385.59	22.28
14.2. Previous year profit	4,270,346.52	0.00	-4,270,346.52	-100.00
<b>TOTAL LIABILITIES</b>	<b>140,613,202.34</b>	<b>119,661,106.92</b>	<b>-20,952,095.42</b>	<b>-14.90</b>

Source: NBP data.

The decrease in the amount of liabilities as at 31 December 2004 compared to 1 January 2004 was mainly caused by the appreciation of the zloty, which resulted in the decrease of the "revaluation accounts" item by PLN 22,120,685.65 thousand. This was the result of the application of new accounting principles according to which negative foreign exchange differences (unrealised losses) are taken to the profit and loss account at year end, while the revaluation account is simultaneously decreased by the same amount<sup>79</sup>.

Moreover, the change in the amount of liabilities was influenced by decreases in the following items:

- "liabilities to non-residents denominated in foreign currency" item by PLN 570,418.02 thousand, resulting primarily from the decrease in the amount of time deposits in foreign currency under debt securities repurchase agreements by PLN 646,384.61 thousand;
- "total profit" item by PLN 3,470,960.93 thousand due to the settlement with the central budget regarding the 2003 profit, appropriations to reserve capital and increasing current year profit;

with a simultaneous increase in the following:

- "notes and coin in circulation" by PLN 1,748,302.13 thousand, which was the result of higher demand for cash;
- "liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency" by PLN 886,043.75 thousand, primarily due to the increase in the amount of funds in the banks' current accounts;
- "liabilities to other residents denominated in domestic currency" by PLN 3,035,773.71 thousand, primarily due to the increase in the amount of funds in general government sector accounts, including time deposits of the Ministry of Finance;
- "liabilities to residents in foreign currency" by PLN 521,089.45 thousand, due to the increase in the amount of funds in general government sector accounts.

## 15.7. Movements in assets and liabilities in 2004

Both on 1 January and 31 December 2004, claims on non-residents denominated in foreign currency constituted the most important asset item (accounting for 88.21% and 88.58% of total assets, respectively). In addition, in the analysed period the share of "other assets" item became larger, primarily due to the increase in the amount of tangible fixed assets and intangibles.

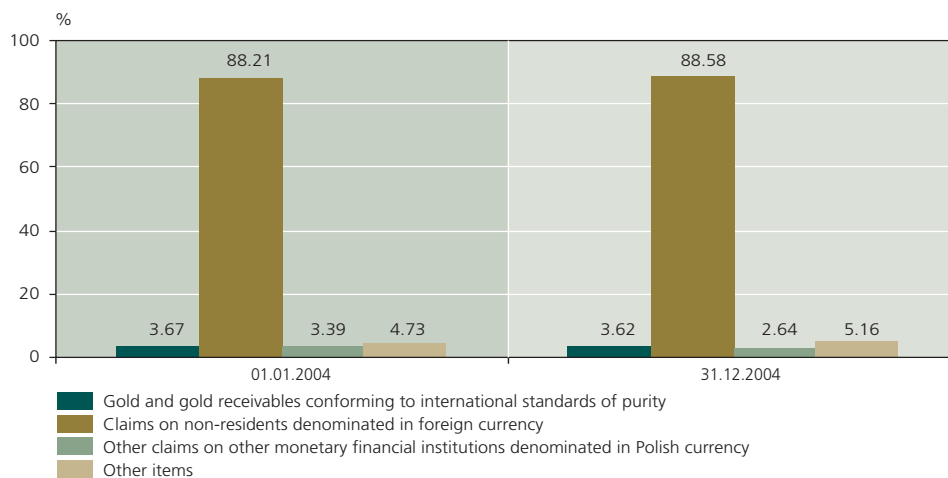
Movements in the structure of assets are presented in Fig. 12.

<sup>79</sup> The change in "revaluation accounts" was caused by:

1. A decrease in the revaluation account amounting to PLN 22,483,524.73 thousand, of which:
  - due to unrealised losses on foreign exchange asset and liability valuation in the amount of PLN 20,103,872.69 thousand;
  - due to unrealised losses on gold valuation in the amount of PLN 790,537.11 thousand;
  - due to the sale of foreign exchange against zloty in the amount of PLN 1,588,566.65 thousand;
  - due to a decrease in gold holdings in the amount of 548.28 thousand zloty;
2. An increase amounting to PLN 362,839.08 thousand as a result of recognising positive securities revaluation differences.

Figure 12

## Movements in the structure of NBP assets in 2004



Source: NBP data.

Movements in the structure of liabilities as at 31 December 2004 were influenced by increases in the following items:

- "notes and coin in circulation" from 38.53% to 46.74% of total assets;
- "liabilities to other domestic monetary financial institutions related to monetary policy operations denominated in domestic currency" from 18.75% to 22.76% of total assets;
- "liabilities to other residents denominated in domestic currency" from 5.97% to 9.55% of total assets, primarily due to the increase in the amount of funds in general government sector accounts;

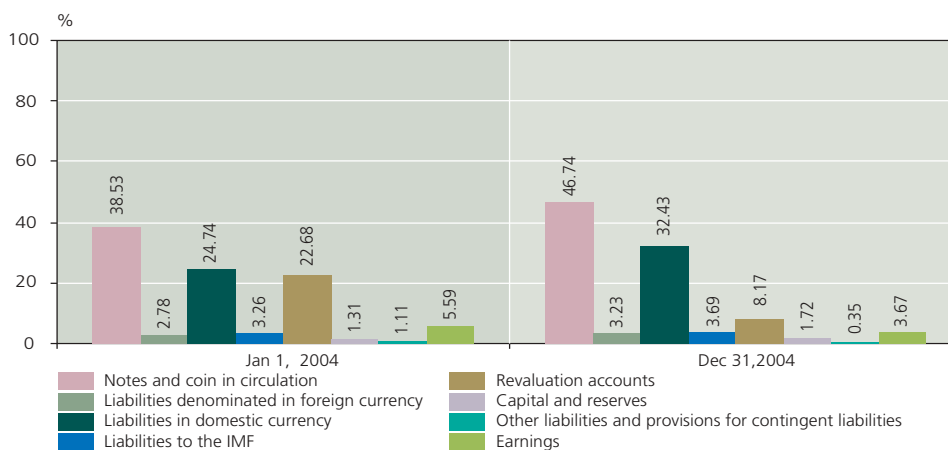
with a simultaneous decrease in the following:

- "revaluation accounts" from 22.68% to 8.17% of total assets, primarily due to the decrease in the revaluation account.

Movements in the structure of liabilities are presented in Fig. 13.

Figure 13

## Movements in the structure of liabilities in 2004



Source: NBP data.

## 15.8. Movements in the NBP profit and loss account, 2004

Table 24

## NBP profit and loss account, 2003–2004

Item	Data for year		Change	
	2003	2004		
	PLN thousand			%
Annual profit	4,270,346.52	4,387,374.64	117,028.12	2.74
1. Net interest, discount and premium income/expense	2,696,653.42	3,544,029.68	847,376.26	31.42
<i>of which: capitalised interest on central investments,</i>	-	1,991,304.73	1,991,304.73	-
2. Net income/expense on financial operations	2,508,763.08	2,020,643.80	-488,119.28	-19.46
<i>of which: income arising from adjustments resulting from changes in accounting principles</i>	-	1,252,654.09	1,252,654.09	-
<i>expense arising from adjustments resulting from changes in accounting principles</i>	-	219,155.13	219,155.13	-
3. Net fee & commission income/expense	-12,506.92	-12,963.69	-456.77	3.65
4. Income from equities	29,629.66	11,058.84	-18,570.82	-62.68
5. Other income	115,441.24	110,979.28	-4,461.96	-3.87
6. Personnel expense	361,044.04	454,399.99	93,355.95	25.86
7. Other administrative expense	374,899.70	392,813.65	17,913.95	4.78
8. Depreciation	117,640.45	137,913.47	20,273.02	17.23
9. Issue of notes and coin expense	131,999.71	226,301.67	94,301.96	71.44
10. Other expense	82,050.06	74,944.49	-7,105.57	-8.66

Source: NBP data.

The higher profit in 2004 compared to the previous reporting period was primarily caused by an increase in net interest, discount and premium income by PLN 847,376.26 thousand.

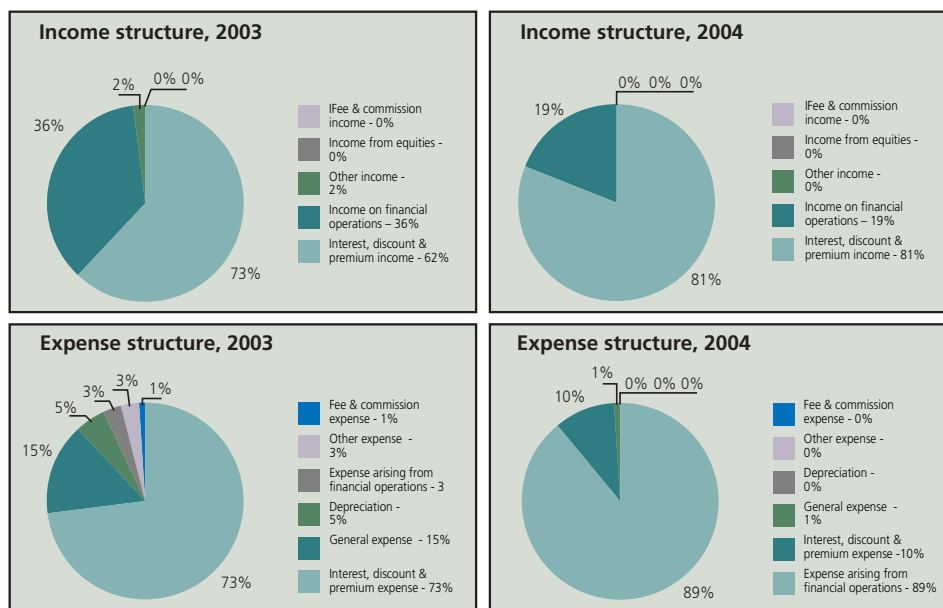
The increase in this item was largely offset by the decrease in net income on financial operations, which fell by PLN 488,119.28 thousand.

Movements in the NBP income and expense structure (rounded to the nearest percentage point) as at 31 December 2003 and 2004 are shown in Fig. 14.

Changes in the NBP income and expense structure in 2004 – compared to the reference period – were mostly caused by unrealised losses related to exchange rate valuation, which amounted to PLN 20,894,409.80 thousand at end December 2004. According to the accounting principles in force at the NBP, the revaluation account is, among other things, decreased by the amount equivalent to unrealised losses related to foreign exchange asset and liability valuation.

Figure 14

## Income and expense structure, 2003–2004



Source: NBP data.

## 15.9. NBP profit and loss account for 2004 – detailed information

### 15.9.1. Net interest, discount and premium income/expense

The increase in net interest, discount and premium income resulted from an increase both in income by PLN 1,825,716.66 thousand (40.33%) and in expense by PLN 978,340.40 thousand (53.45%).

Income increased with regard to the "interest income on loans and advances" item (PLN 1,916,784.56 thousand), primarily due to changes in NBP accounting principles consisting in including capitalised interest on loans for central investments in income. The effect of this increase in income was partly offset by a decrease in income on securities (by PLN 117,787.36 thousand). The decrease in those income items mainly resulted from:

- the appreciation of the zloty against the US dollar (the average annual value of the zloty against the euro and pound sterling decreased); this offset the favourable impact of an increase in the volume of foreign securities in original currency terms<sup>80</sup>;
- a decrease in the volume of Treasury bonds in the NBP portfolio (due to the outright sale of conversion bonds, the redemption of principal instalments of US dollar bonds – 1991 and 2001 issuance), which caused a drop in interest income;

<sup>80</sup> Due to the larger proportion of the US dollar in the NBP foreign exchange position, the appreciation of the zloty vis-à-vis the dollar (by 0.2409 PLN/USD on the average annual basis) had a larger impact on NBP earnings in 2004 than the effects of the depreciation of the zloty vis-à-vis the euro and the pound sterling (by 0.1338 PLN/EUR and 0.3261 PLN/GBP on the average annual basis, respectively).

Table 25

## Net interest, discount and premium income/expense, 2003–2004

Item	Data for year		Change		Structure	
	2003	2004			2003	2004
	PLN thousand			%		
Net interest, discount and premium income/expense	2,696,653.42	3,544,029.68	847,376.26	31.42	-	-
<b>1 Income</b>	<b>4,527,048.01</b>	<b>6,352,764.67</b>	<b>1,825,716.66</b>	<b>40.33</b>	<b>100.00</b>	<b>100.00</b>
on securities	3,382,039.18	3,264,251.82	-117,787.36	-3.48	74.71	51.38
on NBP funds held in bank accounts	601,466.55	624,426.35	22,959.80	3.82	13.29	9.83
on loans and advances	492,693.99	2,409,478.55	1,916,784.56	389.04	10.88	37.93
other income	50,848.29	54,607.95	3,759.66	7.39	1.12	0.86
<b>2 Expense</b>	<b>1,830,394.59</b>	<b>2,808,734.99</b>	<b>978,340.40</b>	<b>53.45</b>	<b>100.00</b>	<b>100.00</b>
interest, discount and premium on securities	1,388,146.15	1,576,106.35	187,960.20	13.54	75.84	56.11
interest on current accounts and time deposits operated by the NBP	441,944.96	1,232,157.86	790,212.90	178.80	24.14	43.87
loans and advances denominated in foreign currency	96.75	35.20	-61.55	-63.62	0.01	0.00
other expense	206.73	435.58	228.85	110.70	0.01	0.02

Source: NBP data.

The increase in interest, discount and premium expense resulted primarily from:

- the introduction of interest on minimum reserve accounts in 2004 (which resulted in expense amounting to PLN 418,357.30 thousand);
- a more active policy of depositing available funds at the NBP by the Ministry of Finance (interest expense arising from zloty deposits rose by PLN 353,500.91 thousand);
- an increase in the book value of foreign securities due to the adoption of new valuation principles on 1 January 2004, which caused a growth PLN 309,012.95 thousand in premium expense.

The impact of those factors on an increase in interest, discount and premium expense was partly offset by the lower expense related to servicing NBP securities (a decrease by PLN 121,052.75 thousand).

### 15.9.2 Net income/expense on financial operations

The decrease in income on financial operations by PLN 488,119.28 thousand resulted from a change in NBP accounting principles, which caused in particular:

- the recognition of income and expense arising from financial operations amounting to PLN 1,252,654.09 thousand and PLN 219,155.13 thousand, respectively, as at 1 January 2004 as a result of a one-time reassessment of the value of foreign securities in the NBP portfolio;

Table 26

## Net income/expense on financial operations, 2003–2004

Item	Data for year		Change		Structure	
	2003	2004			2003	2004
	PLN thousand				%	
Net income/expense on financial operations	2,508,763.08	2,020,643.80	-488,119.28	-19.46		
1 Income on financial operations	1,207,886.43	3,853,622.21	2,645,735.78	219.04	100.00	100.00
Income arising from adjustments resulting from changes in accounting principles	-	1,252,654.09	1,252,654.09	-	-	32.51
Positive foreign exchange differences	736,105.12	2,463,484.39	1,727,379.27	234.66	60.94	63.93
Positive price differences	471,781.31	137,483.73	-334,297.58	-70.86	39.06	3.57
Other income on financial operations	-	-	-	-	-	-
2 Expense arising from financial operations	82,145.29	3,102,504.77	3,020,359.48	3,676.85	100.00	100.00
Expense arising from adjustments resulting from changes in accounting principles	-	219,155.13	219,155.13	-	-	7.06
Negative foreign exchange differences	44,923.74	2,823,219.06	2,778,295.32	6,184.47	54.69	91.00
Negative price differences	37,221.55	60,130.58	22,909.03	61.55	45.31	1.94
3 Unrealised losses	-	21,187,022.43	21,187,022.43	-	-	100.00
Unrealised losses related to exchange rate valuation	-	20,894,409.80	20,894,409.80	-	-	98.62
Unrealised losses related to price valuation	-	292,612.63	292,612.63	-	-	1.38
4 Income on release of provisions against risk and reversal of write-downs on financial assets	1,383,083.99	22,483,609.95	21,100,525.96	1,525.61	100.00	100.00
Income on reversal of write-downs on financial assets	129,797.91	85.22	-129,712.69	-99.93	9.38	0.00
Income on release of reserve against the risk of changes in exchange rates of the Polish zloty against foreign currencies	1,253,286.08	-	-1,253,286.08	-100.00	90.62	-
Income on decrease in revaluation account balance	-	22,483,524.73	22,483,524.73	-	-	100.00
5 Expense arising from establishment of provisions against risk and write-downs on financial assets	62.05	27,061.16	26,999.11	43,511.86	100.00	100.00
Expense arising from write-downs on financial operations	62.05	27,061.16	26,999.11	43,511.86	100.00	100.00
Expense arising from establishment of provisions against foreign exchange risk	-	-	-	-	-	-

Source: NBP data.

- an increase in income and expense arising from foreign exchange differences — by PLN 1,727,379.27 thousand and PLN 2,778,295.32 thousand, respectively;
- a decrease in income on positive price differences by PLN 334,297.58 thousand and an increase in expense arising from negative price differences by PLN 22,909.03 thousand



(the consequence of the reassessment of the value of securities referred to in the first point above);

- the recognition of unrealised losses related to price valuation amounting to PLN 292,612.63 thousand as at 31 December 2004.

Moreover, the following factors contributed to the change in net income on financial operations:

- an increase by PLN 206,116.16 thousand in income on the release of provisions against risk and reversal of write-downs on financial assets, which resulted primarily from the larger scale of foreign currency sales which form the basis for income related to the decrease in the revaluation account;
- an increase by PLN 26,999.11 thousand in expense arising from the establishment of provisions and write-downs, primarily related to the establishment of a valuation write-down relating to the shares in Centrum Zaufania i Certyfikacji – CENTRAST S.A. held by the NBP.

Unrealised losses related to exchange rate valuation amounting to PLN 20,894,409.80 thousand are an important profit and loss account expense item. They result from the appreciation of the zloty in 2004. According to NBP accounting principles, this expense (unrealised negative foreign exchange differences) is taken to the profit and loss account and at the same time "neutralised" by income on the decrease in revaluation account balance, which functions as a buffer protecting NBP earnings from losses arising from the appreciation of the zloty. In 2004, the expense related to exchange rate valuation discussed here was offset by an equivalent decrease in the revaluation account.

### 15.9.3. Net fee and commission income/expense

**Table 27**

#### **Net fee and commission income/expense, 2003–2004**

Item	Date for year		Change	
	2003	2004		
	PLN thousand		%	
<b>Net fee &amp; commission income/expense</b>	<b>-12,506.92</b>	<b>-12,963.69</b>	<b>-456.77</b>	<b>3.65</b>
Fee & commission income	11,655.17	12,939.51	1,284.34	11.02
Fee & commission expense	24,162.09	25,903.20	1,741.11	7.21

Source: NBP data.

Fee and commission income is earned by the NBP on the provision of banking services to the banking sector and government special-purpose funds. Fee and commission expense is incurred principally as a result of the provision of alternative cash services to government institutions by commercial banks in areas where the NBP does not have branches<sup>81</sup> and the provision of clearing services by the National Clearing House (Krajowa Izba Rozliczeniowa S.A.) for the benefit of the NBP.

<sup>81</sup> See also the "The Issue of Currency" chapter.



## 15.9.4. Income from equities

Table 28

## Income from equities, 2003–2004

Item	Data for year		Change		Structure	
	2003	2004			2003	2004
	PLN thousand				%	
<b>Income from equities</b>	<b>29,629.66</b>	<b>11,058.84</b>	<b>-18,570.82</b>	<b>-62.68</b>	<b>100.00</b>	<b>100.00</b>
Income from shares held	29,629.66	10,558.84	-19,070.82	-64.36	100.00	95.48
Income from participating interests	-	500.00	500.00	-	-	4.52

Source: NBP data.

Income from equities was equivalent to the income from participating interest in the Bazy i Systemy Bankowe sp. z o. o. company and dividends on shares in the National Clearing House (KIR SA) and the Bank for International Settlements in Basel. The decrease in income from equities compared to 2003 was the result of the absence of income from the conversion of shares held by the NBP in the Bank for International Settlements in Basel in 2004, which was generated in 2003.

## 15.9.5. Other income

Table 29

## Other income, 2003–2004

Item	Data for year		Change		Structure	
	2003	2004			2003	2004
	PLN thousand				%	
<b>Other income</b>	<b>115,441.24</b>	<b>110,979.28</b>	<b>-4,461.96</b>	<b>-3.87</b>	<b>100.00</b>	<b>100.00</b>
Income on reversal of write-downs on other assets	27.86	28.82	0.96	3.45	0.02	0.03
Income on release of provisions	1,500.58	22,334.12	20,833.54	1,388.37	1.30	20.12
Other operating income	112,380.69	88,616.34	-23,764.35	-21.15	97.35	79.85
Adjustment of other expense from previous years	1,532.11	-	-1,532.11	-100.00	1.33	-
Extraordinary gains	-	-	-	-	-	-

Source: NBP data.

The increase in other income were influenced by the income on the release of provisions (disputed liabilities to employees and liabilities related to severance pay for employees of restructured units) achieved in 2004 due to their lower than expected degree of utilisation. Higher income in this area was partly offset by the decrease in other operating income, primarily due to the lack of income from sales of precious metals and the sale of NBP premises (in 2003, the NBP sold premises as a result of the restructuring of the field office network).

### 15.9.6. Depreciation

At end December 2004, depreciation expense amounted to PLN 137,913.47 thousand, i.e. was higher by PLN 20,273.02 thousand than in 2003.

This item includes:

- depreciation of fixed assets amounting to PLN 104,637.48 thousand;
- amortisation of intangibles amounting to PLN 33,275.99 thousand.

The increase in depreciation was largely caused by the introduction of advanced IT hardware, primarily in connection with the implementation of the Integrated Accounting System.

### 15.9.7. General expense

General expense, which includes Personnel expense, other administrative expense, and expense related to the issue of notes and coin, rose by PLN 205,571.86 thousand compared to 2003 and amounted to PLN 1,073,515.31 thousand. The largest increase was recorded with regard to the issue of notes and coin.

### 15.9.8. Personnel expense

**Table 30**

**Personnel expense, 2003–2004**

Item	Data for year		Change		Structure	
	2003	2004			2003	2004
	PLN thousand			%		
<b>Personnel expense</b>	<b>361,044.04</b>	<b>454,399.99</b>	<b>93,355.95</b>	<b>25.86</b>	<b>100.00</b>	<b>100.00</b>
Salaries	290,422.64	371,932.63	81,509.99	28.07	80.44	81.85
Associated payroll costs	70,621.40	82,467.36	11,845.96	16.77	19.56	18.15

Source: NBP data.

As at 31 December 2004, personnel expense amounted to PLN 454,399.99 thousand, i.e. PLN 93,355.95 thousand (25.86%) more than in 2003. This rise refers to the expense in accounting terms (not on a comparable basis). When analogous principles of recognition of individual Personnel expense components are applied in 2003 and 2004, the expense decreases by PLN 3,651.79 thousand.

Personnel expense increased in accounting terms compared to the 2003 performance due to:

- inclusion of the NBP employee bonuses amounting to PLN 48,761.65 thousand in Employee remuneration expense; in the previous years, bonuses were paid from the staff bonus fund established through NBP profit appropriation. This change was introduced as a result of the amendment to the Act on the National Bank of Poland, which took effect on 1 January 2004;

- recognition of the PLN 29,737.68 thousand cost of additional annual remuneration for 2004 together with payroll related expense paid in January 2005;
- reclassification of provisions for contingent liabilities to employees related to retirement and pension bonuses as well as jubilee gratuities totalling PLN 14,930.62 thousand;
- establishment of provisions for liabilities arising from unused vacation in 2004, amounting to PLN 9,220.46 thousand.

The increase in Employee remuneration expense in book value terms due to the aforementioned reasons, amounting to a total of PLN 102,650.41 thousand, was partly offset by the decrease in the remaining components of Employee remuneration expense resulting from the reduction in employment by 217 full-time posts. The decrease in employment resulted from the rationalisation of employment at regional branches, the liquidation of the training centre at Rybienko as well as Administration and Vault Departments (Wydział Administracyjno-Skarbcowy) in Brodnica and Słupca, the reduction of employment at the Administration and Vault Department in Lubartów as well as the reorganisation of the Support Services Office (Zakład Usług Gospodarczych).

### 15.9.9. Other administrative expense

Table 31

#### Other administrative expense, 2003–2004

Item	Data for year		Change		Structure	
	2003	2004			2003	2004
	PLN thousand				%	
<b>Other administrative expense</b>	<b>374,899.70</b>	<b>392,813.65</b>	<b>17,913.95</b>	<b>4.78</b>	<b>100.00</b>	<b>100.00</b>
Materials and energy	32,479.29	33,087.44	608.15	1.87	8.66	8.42
Benefits for employees and other entitled parties	12,953.61	19,037.45	6,083.84	46.97	3.46	4.85
Business travel	7,751.74	8,002.08	250.34	3.23	2.07	2.04
External services	167,475.24	210,426.30	42,951.06	25.65	44.67	53.57
Taxes and official charges	130,742.99	100,610.41	-30,132.58	-23.05	34.87	25.61
of which: BGF charges	122,600.44	93,095.81	-29,504.63	-24.07	32.70	23.70
Transfers to special funds (enterprise social benefit fund)	3,910.46	3,882.50	-27.96	-0.72	1.04	0.99
Other administrative expense	19,586.37	17,767.47	-1,818.90	-9.29	5.22	4.52

Source: NBP data.

In 2004, other administrative expense rose by PLN 17,913.95 thousand (4.78%) compared to 2003. This increase was primarily caused by the expense related to outsourcing, in which the operation of IT systems had the largest share (PLN 104,718.37 thousand). This expense rose by PLN 23,195.42 thousand (28.45%). The increase was related to the implementation of new IT systems (in 2004, the second stage of centralisation of the Integrated Accounting System was completed — branch systems were upgraded, the entire scope of services to customers was migrated to the ZSK-C system, and technical and system infrastructure was centralised) and the need to upgrade computer software. Moreover, higher fees for using the Telbank network as well as higher cost of fixed asset repair and maintenance contributed to the rise in external service expense. Employee benefits were the second important item contributing to the increase in other administrative

expense; they rose by PLN 6,083.84 thousand (46.97%), primarily due to a growth in the expense arising from severance pay for employees dismissed for employer-related reasons. The most important factor which lowered other administrative expense was the decrease in taxes and official charges by PLN 30,132.58 thousand caused by the lower charge to the Bank Guarantee Fund ("BGF") due to the reduced percentage rate of the mandatory charge set for 2004 by the Council of the BGF.

#### 15.9.10. Issue of notes and coins expense

Table 32

##### Issue of notes and coin expense, 2003–2004

Item	Data for year		Change		Structure	
	2003	2004			2003	2004
	PLN thousand				%	
<b>Issue of notes and coin expense</b>	<b>131,999.71</b>	<b>226,301.67</b>	<b>94,301.96</b>	<b>71.44</b>	<b>100.00</b>	<b>100.00</b>
Banknote issue expense	71,070.00	127,192.87	78.97	53.84	56.21	56.21
Coin issue expense	60,929.71	99,108.80	62.66	46.16	43.79	43.79

Source: NBP data.

The increase in the issue of notes and coin expense was primarily related to:

- the need to supply banknotes required to replace damaged banknotes;
- high demand for coins with the lowest nominal value;
- an increase in currency in circulation in 2004;
- increased number of collector coin issues<sup>82</sup>.

#### 15.9.11. Other expense

Table 33

##### Other expense, 2003–2004

Item	Data for year		Change		Structure	
	2003	2004			2003	2004
	PLN thousand				%	
<b>Other expense</b>	<b>82,050.06</b>	<b>74,944.49</b>	<b>-7,105.57</b>	<b>-8.66</b>	<b>100.00</b>	<b>100.00</b>
Expense arising from revaluation write-downs on other assets	61.45	4,086.04	4,024.59	6,549.37	0.07	5.45
Expense arising from establishing provisions	9,236.11	9,658.11	422.00	4.57	11.26	12.89
Other operating expense	72,752.50	61,200.34	-11,552.16	-15.88	88.67	81.66
Adjustment of other income from previous years	-	-	-	-	-	-
Extraordinary losses	-	-	-	-	-	-

Source: NBP data.

<sup>82</sup> In 2004, the income of the NBP on the sales of collector coins amounted to 73,431.99 thousand zloty, which is an increase of 33,535.58 thousand zloty on 2003 sales.

Other expense decreased by PLN 7,105.57 thousand compared to 2003 performance. This decrease was primarily the result of the reduction in other operating expense by PLN 11,552.16 thousand due to the absence in 2004 of the expense related to a free of charge transfer of title to NBP premises as part of the restructuring of the field office network (when the assets of field offices were transferred, the not-yet-depreciated part which was recognised as other operating expense). This reduction was partly offset by increased revaluation write-down costs in 2004.

#### 15.9.12. Annual profit of the NBP and its distribution

In 2004, the profit of the National Bank of Poland totalled PLN 4,387,374.64 thousand, i.e. by PLN 117,028.12 thousand (2.74%) more compared to 2003.

Pursuant to Article 69 of the Act on the National Bank of Poland, the earnings of the NBP shall be distributed in the following manner (upon approval by the Council of Ministers):

- appropriation to the NBP reserve capital (5% of the profit) – PLN 219,368.73 thousand;
- transfer to the State Treasury – PLN 4,168,005.91 thousand.





# APPENDICES

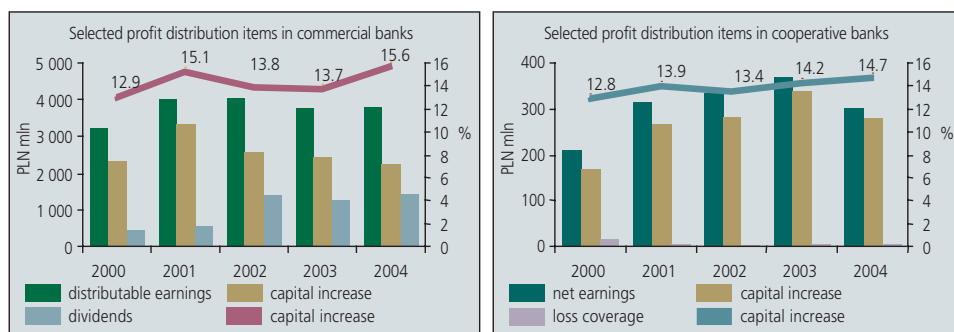
## APPENDIX 1

### SELECTED INFORMATION ON THE BANKING SECTOR

At the end of 2004 the regulatory own funds of the banking sector amounted to 42.9 billion zloty and were 5.7% higher than in December 2003. This rise in funds mainly resulted from a transfer of 2.5 billion zloty (61.1%) from the distributed earnings for the previous year and additional capitalisation by investors of approx. 1.8 billion zloty. Banks allocated 1.5 billion zloty (35.8%) of distributable earnings of the banking sector to dividend payment.

**Figure 15**

**Selected items of commercial and cooperative banks' profit distribution**

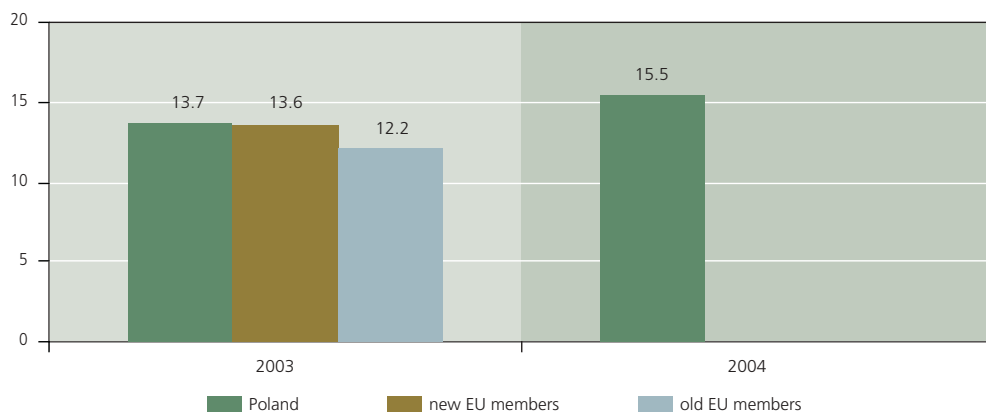


Source: NBP data.

As a result of the rise in own funds accompanied by a reduction in the operational risk of banks the solvency ratio of the banking sector settled at the end of 2004 at 15.5% and was 1.9 percentage point higher than a year before. At the end of 2003 the solvency ratio of the banking sector stood at 13.7% and was 1.5 percentage point higher in relation to the average value in the old EU member states and 0.1 percentage point higher than its average level in the new members.

**Figure 16**

**Solvency ratio**



Source: Banking data tables, European Central Bank, Directorate Financial Stability and Supervision, Financial Stability Division, September 2004, WGMA/04/26. For Poland: NBP calculations on the basis of banks' data.

The tables 34, 35 and 36 below contain some selected detailed data concerning the condition of the banking sector in 2004.



Table 34

## Asset structure of the banking sector

Specification	Value (in PLN billion)		Growth rate (%)	Structure (%)	
	2003	2004	2003 = 100	2003	2004
Cash and due from Central Bank	19.2	20.0	104.0	3.9	3.7
Due from financial corporations	77.0	106.9	138.8	15.7	19.9
Due from non-financial customers	217.0	226.1	104.2	44.4	42.0
net loans to non-financial customers, of which:	201.4	209.0	103.8	41.2	38.8
to enterprises	110.4	106.9	96.8	22.6	19.9
to households	90.2	101.6	112.6	18.5	18.9
Due from general government	19.7	20.7	105.4	4.0	3.9
Due from reverse repo transactions	0.4	0.6	125.4	0.1	0.1
Securities, of which:	113.5	115.4	101.6	23.2	21.4
NBP money bills	14.2	13.9	97.8	2.9	2.6
Treasury bills and bonds	86.9	90.7	104.4	17.8	16.9
Fixed assets	22.2	21.6	97.5	4.5	4.0
Other assets	20.0	26.8	134.4	4.1	5.0
Total assets of the banking sector	489.0	538.0	110.0	100.0	100.0

Source: NBP data.

Table 35

## Relationships with non-residents

Specification	Contribution (%)	
	2003	2004
Contribution of operations with non-residents		
in total assets of the banking sector	10.5	14.5
in total liabilities of the banking sector	9.6	9.4

Source: NBP data.

Table 36

## Ratios of assets and liabilities to GDP in comparison to EU countries

Specification	Poland*	New EU members (10)	Old EU members (15)
	2004		
Ratio of assets of the banking sector to GDP (%)	60.0	79.6	278.4
Ratio of credit to the non-financial sector to GDP (%)	27.1	38.7	140.9

\* At the end of 2004 the ratio of assets and loans to GDP for Poland was 62.5% and 26.4%, respectively.

Source: NBP data.

## APPENDIX 2

### PRICES OF CONSUMER GOODS AND SERVICES

In December 2004 the annual CPI (Consumer Price Index) growth stood at 4.4% y/y. Several sub-periods may be distinguished in terms of the inflationary processes developments in 2004. In Q1 inflation was kept at a steady level (1.6 – 1.7%), close to the level recorded in 2003 Q4. In the period directly preceding Poland’s accession to the EU and in the first months of Poland’s membership in the EU, the CPI growth accelerated considerably to reach 4.6% in July. The growing pressure on price increases resulted, among others, from increased internal and external demand for certain domestic raw materials and goods, introduction of EU regulations relating to indirect taxes, customs policy and agricultural policy. Moreover, the world markets experienced a strong increase in energy and industrial raw materials (mainly crude oil, coal and copper). In the second half of 2004, those factors pushed inflation upwards to the level of 4.4 – 4.6%.

The CPI growth in 2004 resulted mainly from:

- 7.8% growth in prices of food and non-alcoholic beverages accounting for 48% of total growth in consumer prices,
- 3.7% growth in regulated prices increasing the CPI by approximately 24%
- 2.6% growth in prices of other consumer goods and services, contributing in 28% to the overall price increase.

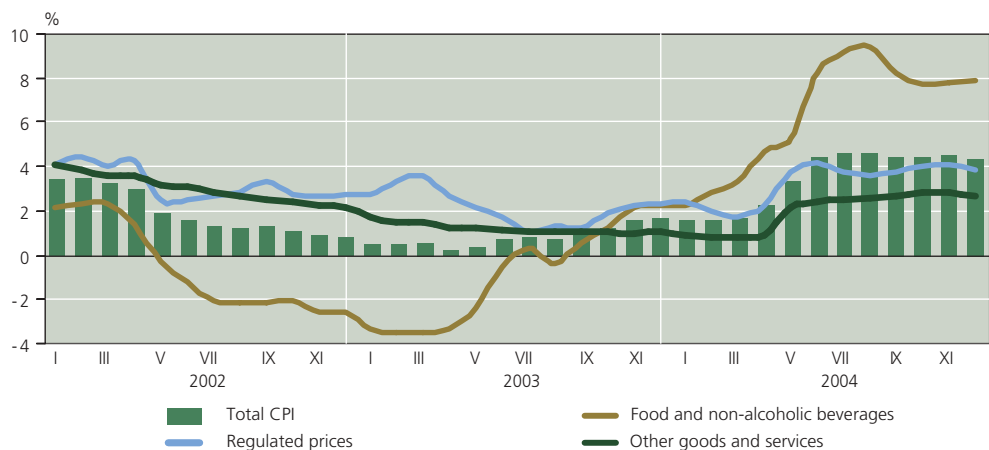
Table 37

Changes in the basic groups of CPI and weight structure in 2003-2004 (y/y)

	2003	2004	2003				2004				2003	2004
	Weight structure in %		Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Jan-Dec	Jan-Dec
	Corresponding period of the previous year = 100											
CPI	100.0	100.0	0.6	0.8	0.9	1.7	1.7	4.4	4.4	4.4	0.8	3.5
Food and non-alcoholic beverages	28.16	26.95	-3.5	-0.6	0.5	2.1	3.3	8.1	8.1	7.8	-1.0	6.3
Regulated prices	27.22	27.28	3.5	1.7	1.2	2.3	1.7	4.1	3.7	3.7	2.1	3.2
Fuel	3.65	3.80	17.4	5.5	5.1	4.4	1.3	17.8	15.9	17.0	7.9	12.4
Other goods and services	44.62	45.77	1.4	1.1	1.0	1.0	0.7	2.3	2.6	2.6	1.1	1.9
Non-food products	26.72	27.29	0.5	0.1	-0.1	-0.1	-0.2	2.1	2.4	2.2	0.1	1.4
Services	17.90	18.48	2.7	2.6	2.6	2.6	2.1	2.7	3.0	3.4	2.7	2.7

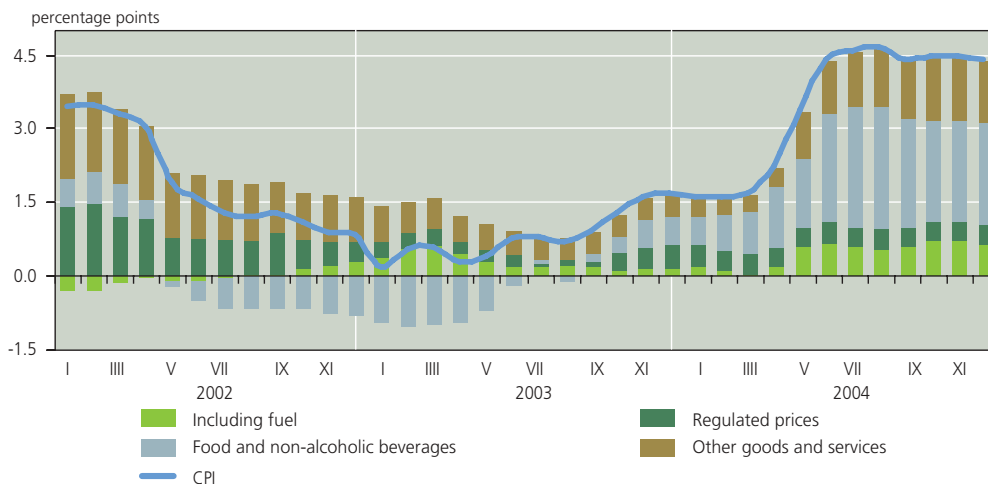
Figure 17

Changes in CPI and main price categories (y/y)



Source: GUS data, NBP calculations.

**Figure 18**  
**CPI breakdown (y/y)**



Source: GUS data, NBP calculations.

### Prices of food and non-alcoholic beverages

2004 saw a further strong growth in prices of food and non-alcoholic beverages which was the key driving force behind accelerated inflation as measured with the CPI index. Due to the strong price growth in the first months of Poland's membership in the EU, the annual growth of this price category in 2004 stood at a high level of 7.8 % y/y (against 2.1 % y/y in the previous year) significantly outpacing the general price growth.

The prices of food and non-alcoholic beverages in 2004 increased faster than in the previous year. In the period January to December 2004, an accelerated growth of retail prices was reported in almost all groups of food products, except for vegetables. The highest growth was recorded in the prices of sugar, honey and chocolate products (24.8%) with sugar experiencing the highest price increase of 67.1%. Pre-accession period experienced the highest price increases in this group of prices (in April 2004, sugar prices rose by 48.5%). They were driven by intensified purchases of consumers concerned about price increases following Poland's accession to the EU. Price increases in 2004 were strongly affected by meat prices which rose by 15.6% during the twelve months' period of 2004 mainly as a result of pork production being reduced for many months and free trade in the EU's single market since 1 May 2004. Meat prices, after marking an accelerated growth in the pre- and post-accession period (between May to July 2005 – 13% growth) stayed at a high annual level until the end of 2004. Oil and fat prices increased by 10.4%, mainly as a result of limited supply of animal fats and increased foreign demand for Polish butter. Low supply resulting from lower cereal crops in 2003 and weaker than expected response of retail prices to very good crops in 2004 contributed to a 12-month price increase in the group "bread and cereal products" (by 5.8%).

The table below presents forecasts of prices of food and non-alcoholic beverages of August 2003 and the actual prices in 2004.

Table 38

Specification	August 2003 forecast	Actual prices	Main reasons for differences
	Annual average		
Food and non-alcoholic beverages	102.4	106.3	
Bread and cereal products	103.0	105.3	As a result of steep decline in cereal output in Poland, the 2003/2004 season was marked with high increase in prices paid to producers. Forecasts of retail prices of bread and cereal products were based on the forecasts of cereal prices of agricultural exporters who predicted an increase in this group of prices in the first half of 2004, however, on a smaller scale. According to forecasts, the second half of 2004 was to experience a fall in cereal prices starting from July 2004 as a result of expected high crops in 2004 and the adoption of the EU intervention system and price regulations.
Meat	103.1	109.6	In the first half of 2004 the growing fall in swine was expected to bring about successive increases of pork meat prices. Prior to Poland's accession to the EU meat prices in Poland were also expected to be adjusted to the EU level. However, the process was expected to be a gradual and long-term one. As a result of price increases recorded in the first months following the accession, Polish agricultural prices were aligned to the level of prices in other countries of the enlarged EU. The main driver for the increase in retail prices of meat was the increased export volume of main meat types (beef – total increase of 129%, to the EU 15 – 172% increase), pork meat (total drop of 26.6%, to the EU – 70.8% increase) and poultry meat (total increase of 14.2%, to the EU15 – 20% increase).
Fish	100.3	100.5	
Milk, cheeses, eggs	100.8	105.1	Increase of milk prices as a result of increased export volume from 418 tons in 2003 to 49617 tons in 2004 – i.e. a 118-times growth; 54.6% increase in cheese and cottage cheese prices.
Oils and other fats	100.7	110.8	Increase of butter prices as a result of increased total export volume by 195%; to the EU 15 – increase by 135.7%.
Fruit	101.5	103.1	
Vegetables	100.2	98.2	
Sugar, honey, confectionery products	101.6	117.0	Increased domestic demand for sugar resulting from consumers' concern about price increases following EU accession.
Non-alcohol beverages	101.3	101.8	
Other food	98.3	100.2	

Since 1 May 2004, the Polish agricultural and food sector has been affected by a demand shock resulting from the introduction of common market principles and extensive instruments of the Common Agricultural Policy.

Full opening of agricultural markets in the EU contributed, in the first few months following the EU accession, to a strong growth in external demand for Polish food on an unprecedented scale. As a result, the first few months following the EU accession saw a considerable increase in domestic prices of major agricultural raw materials, and consequently, prices of food and a considerable growth in inflation rate. September and October experienced a marked fall in current growth of food prices.

In the first half of 2004, the increased price competitiveness in international markets was strengthened by the very favourable for domestic exporters EUR/PLN exchange rate. Elimination of all restrictions in the trade in food between Poland and the EU has immediately revealed a high price competitiveness of many Polish food articles, mainly beef meat, poultry meat and dairy products (butter, powdered milk and ripening cheeses).

Growing participation of Polish exporters and producers in the EU trade and intervention mechanisms imposed by the Common Agricultural Policy will contribute, in the longer run, to price stabilization in the domestic market, yet at a considerably higher level than in the pre-accession period (except for cereals for which the change in the support mechanism resulted in a stable price decrease following the 2004 crops). The factors behind the stabilisation of the Polish agricultural market until mid-2005 have included mainly high cereal crops in Poland and in the region which is translated into lower fodder prices and, with a certain time lag, lower meat prices.

At the same time, after 1 May 2004 the list of goods eligible for export subsidies was considerably extended. Until 1 May 2004 Poland benefited from export subsidies mainly for sugar, pork meat and powdered milk. At present, Polish exporters may apply for export subsidies from the EU budget for many new products, i.e. cream, butter, cheeses, beef and poultry meat and cereals. The latest data on foreign trade in agricultural and food products point at a sustained annual export growth despite appreciation of the zloty against foreign currencies.

## Regulated prices

In the analysed period, inflation in the group of regulated prices accelerated from 2.3% (y/y) in December 2003 to reach 3.7% (y/y) in December 2004. The leading driving force behind the increase in those prices were fuel price rises in the domestic market of 17.0% (y/y) in December 2004 mainly being the result of growing fuel prices in the world markets.

In the group of regulated prices, the growth rate in prices of the following products exceeded the average rate recorded for the group: fuel products (17.0%), tobacco products (7.5%) and gas (4.3%). The growth in fuel and oil prices was mainly a consequence of oil price increases in the world markets. Yet, the growth in tobacco product prices was driven by increased excise tax rate resulting from the need to adjust its value to the level required in the EU. The annual fall in prices was recorded in the group of alcoholic beverages only (drop of 0.8%).

No new tariffs for electrical energy and gas were introduced in 2004.

The table 39 presents the August 2003 regulated price forecasts and the actual prices in 2004.

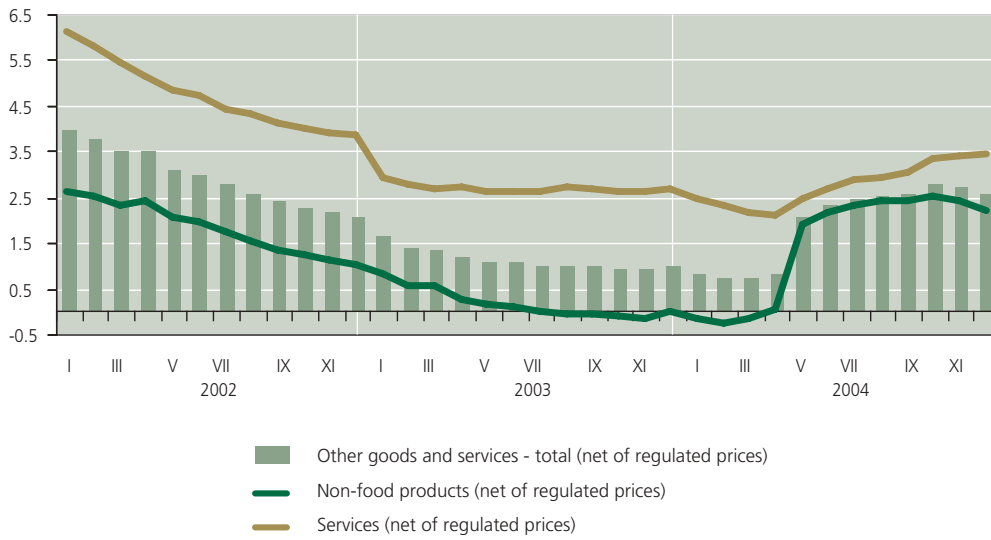
Table 39

Specification	August 2003 forecast	Actual prices	Main reasons for differences
	Annual average		
Regulated prices	101.9	103.2	
Alcoholic beverages	99.4	99.8	
Tobacco products	103.1	107.0	Prices of tobacco products reported a stronger increase than the one suggested by the excise tax increase. The average increase in excise tax rate in 2004 amounted to approximately 9% which, considering the share of this tax in the retail price, should push tobacco product prices up by approximately 4%.
Fuel	100.9	112.4	Considerable increases in oil prices. The average level of oil prices in 2004 of 25 USD/b was adopted for the fuel price forecasts in August 2003; the actual average level of oil prices in 2004 was 38.3 USD/b,
Electrical energy	103.7	101.9	Had the August 2003 forecast of fuel oil come true, the annual increase in regulated prices would have reached 1.9% in December 2004.
Gas	104.9	104.6	No change in tariff in 2004.
Hot water	103.8	103.9	No change in tariff.
Central heating	102.6	101.4	
Other groups of regulated prices	101.3	100.5	

The rate of growth of other consumer goods and services' prices<sup>83</sup> increased from 1.0% (y/y) recorded in December 2003 to 2.6% (y/y) in December 2004. Accelerated growth rate reported in this group of prices resulted mainly from increase of non-food prices in May 2004 and was related to regulations connected with Poland's accession to the EU i.e. change in VAT rates (increase from 7% to 22%) imposed on materials for housing construction and maintenance. The increase in the world prices brought up a considerable rise in fuels, with coke experiencing the most significant rise. As a result, the annual growth in non-food prices in the subsequent months of the second half of 2005 remained at a high level reaching 2.2% (y/y) in December 2004 against a fall of 0.1% (y/y) reported in this group of prices in December 2003. In 2004, services reported a growth in prices from 2.6% (y/y) in December 2003 to 3.4% (y/y) in December 2004; yet, this growth was weaker than the one registered in the group of non-food products.

<sup>83</sup> The group of other consumer goods and services prices includes prices of goods and services driven mostly by market mechanisms i.e. regulated prices and excluded from the group.

**Figure 19**  
**Changes in prices of other consumer goods and services (y/y)**



Source: GUS data, NBP calculations.

## APPENDIX 3

### PRODUCER PRICES IN INDUSTRY

2004 witnessed a strong growth in producer prices in industry (annual average growth of 7% against 2.6% growth recorded in 2003). The largest price increase was noted in mining and quarrying (23.7%); prices in the manufacturing section posted a 6.7% increase and in power production industry a 1.9% increase. Two sub-periods may be distinguished in the 2004 developments of producer prices index (PPI). In the first half of the year producer prices increased dynamically (by 2% q/q in Q1 and by 4.1% q/q in Q2) which supported annual price increase by more than 8%. The second half of the year was marked by price stability and a gradual fall in the annual PPI (particularly in Q4). In December 2004, the PPI growth totalled 5.2% y/y

**Table 40**

Specification	Estimated weight structure in%	2004								Jan-Dec
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
		corresponding period of the previous year = 100				Previous quarter = 100				
INDUSTRY PPI, of which:	100.0	104.4	108.8	108.3	106.5	102.0	104.1	100.6	99.7	107.0
- mining and quarrying	5.0	118.2	131.3	126.4	119.3	110.6	107.5	101.0	99.3	123.7
- manufacturing	84.7	103.8	108.3	108.3	106.5	101.7	104.4	100.6	99.7	106.7
- production and supply of electrical energy, gas and water	10.3	103.1	102.9	101.1	100.6	100.1	100.3	100.2	100.0	101.9
CONSTRUCTION		99.7	102.1	103.7	104.6	100.4	102.3	101.5	100.4	102.5
Producer prices in the domestic market	73.1	103.5	108.6	109.3	108.8	101.9	104.6	101.6	100.4	107.5

Source: GUS data.

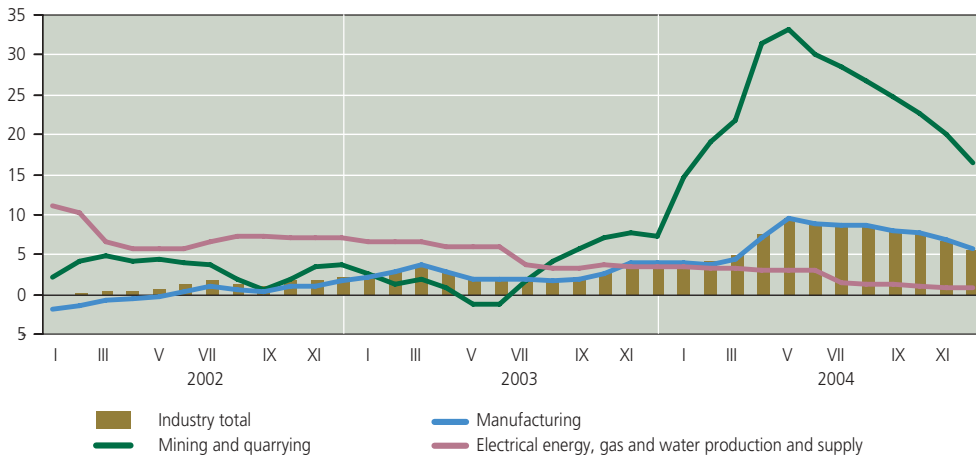
Producer prices inflation in 2004 was driven mainly by the increase in prices of raw materials and materials in the world markets and exchange rate fluctuations. Besides, since Q2 Poland witnessed higher inflationary pressure from demand factors as a result of its accession to the EU.

First, 2004 saw an increase in prices of raw materials and materials in the world markets. Crude oil prices (Brent) expressed in USD posted an average annual increase of more than 31%, which pushed up the average annual price indicator in division manufacture of coke and refined petroleum products by 37.4%. Copper prices in the world markets increased by more than 61% leading to more than 40% increase of prices in the metal ore mining division. The increase in prices of steel products of more than 50% in the international markets translated into 27.8% increase of prices in the metal manufacturing division. Coal prices in the international markets increased by more than 68% driving prices in the hard coal and brown coal mining division up by 23.1%.



Figure 20

Growth rate of producer prices in industry and in particular sections



Source: GUS data.

Second, price rise in 2004 Q1 was driven by zloty depreciation (increase of prices obtained in export trade, higher costs of imports).

Besides, as a result of Poland's accession to the EU, prices in food and beverages production rose (on average by 7.2% annually). Considering the importance of this section in industry (approximately 18% share), these increases had considerable impact on the total PPI.

On the other hand, the decline in price growth in the second half of 2004 was led by a fall in prices obtained in export trade, mainly, as a result of zloty appreciation (2004 Q4 recorded a deflation in producer prices for export products on a year-over-year basis). On the other hand, as far as domestic PPI is concerned, the period until the end of 2004 was marked by a high price growth rate (7.9% growth in December 2004).

Figure 21

Total and domestic producer price index



Source: GUS data.

The second half of 2004 saw prices of raw material in the world markets stabilise, except for crude oil prices, which contributed to the price stabilisation followed by the price fall in annual terms in sections largely dependent on raw materials i.e. metal production and coal mining.

In sections less dependent on raw materials and export production-oriented sections, the 2004 price increases were moderate; four sections (tobacco articles production, fibre mass and paper production, radio and television equipment production, medical instruments production) recorded an average annual deflation of producer prices.

## APPENDIX 4

### GDP AND DOMESTIC DEMAND

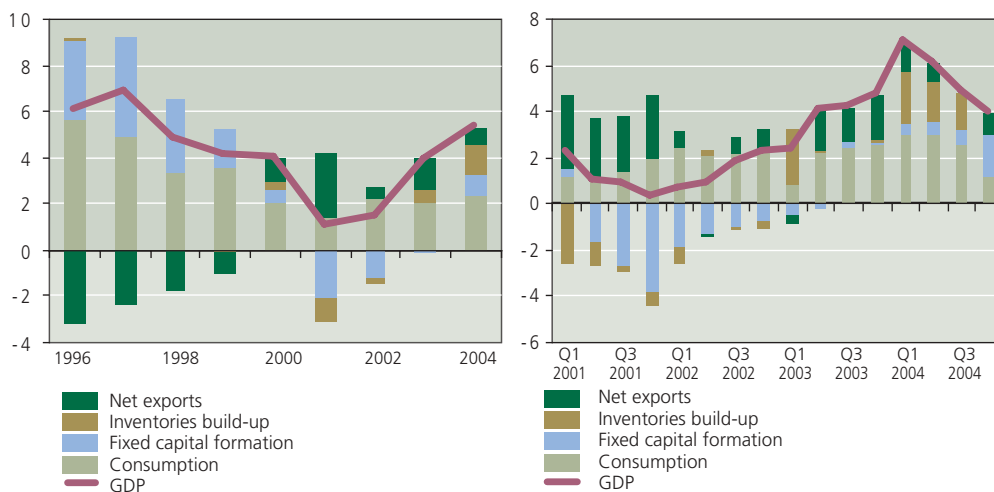
In 2004, a 5% growth in domestic demand was recorded as compared with 2.6% growth in 2003. The accelerated growth of domestic demand stemmed mainly from the strong gross capital formation (12.1%), accompanied by higher level of total consumption (3.4%). In 2004, for the fifth consecutive year an improvement in net exports was recorded, while the pace of the reduction of its deficit was markedly lower than in 2003.

The equivalent of GDP on the side of production, namely the total value added<sup>84</sup> increased by 5.1% which resulted from strong revival in industry and market services (contribution to the total value added by 2.4 percentage points and 2.3 percentage points respectively). Recovery in the trade and repair sector<sup>85</sup> especially during the pre-accession boom was the main driving force behind accelerated revival in services. On the other hand, in industrial production increase was affected by growth in the manufacturing sector which was connected with the rising exports and improved competitiveness of the domestic market.

The GDP and domestic demand growth rates, and their relationship in the years 1996-2004 are shown in Table 41. The share of the domestic demand components in the GDP growth is shown in Figure 22; GDP and domestic demand dynamics by quarters are presented in Table 42<sup>86</sup>.

**Figure 22**

**Share of final demand components in the GDP growth**



Source: NBP calculations based on GUS data.

<sup>84</sup> GDP equals total added value increased by taxes on products (including import duties) and product subsidies.

<sup>85</sup> 6.3% annual growth and 2.5-percentage-point contribution to the increase in value added in the services section.

<sup>86</sup> Contrary to the annual data, the quarterly data do not reflect the revision of national accounts as made by the CSO on 13 May, 2005.

Table 41

## GDP and domestic demand 1996 – 2004

	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Dynamics (previous year = 100, constant prices)</b>									
GDP	106.0	106.8	104.8	104.1	104.0	101.0	101.4	103.8	105.4
Domestic demand	109.4	109.1	106.3	104.8	102.8	98.4	100.8	102.6	105.0
Consumption	107.1	106.1	104.2	104.5	102.5	101.7	102.7	102.5	103.4
Individual consumption	108.6	106.9	104.8	105.2	102.8	102.1	103.3	103.1	103.4
Capital formation	119.5	120.8	113.8	106.1	103.9	87.4	93.2	103.2	112.1
Gross fixed capital formation	119.7	121.7	114.2	106.8	102.7	91.2	94.2	99.8	105.3
Exports	112.0	112.2	114.3	97.4	123.2	103.1	104.8	114.2	110.2
Imports	128.0	121.4	118.5	101.0	115.6	94.7	102.6	109.3	108.7
Contribution of net exports to GDP growth (percentage points)	-3.2	-2.4	-1.8	-1.0	1.0	2.7	0.5	1.1	0.3
<b>GDP structure in current prices</b>									
Domestic demand	101.5	104.0	104.9	106.0	106.5	103.7	103.3	102.5	102.0
Consumption	81.0	81.0	80.3	81.1	81.9	82.9	84.5	83.6	81.9
Capital formation	20.5	23.0	24.6	24.9	24.7	20.7	18.9	18.9	20.0
Net exports	-1.5	-4.0	-4.9	-6.0	-6.5	-3.7	-3.3	-2.5	-2.0

Source: GUS data.

Table 42

GDP and domestic demand dynamics by quarters  
(corresponding period of the previous year = 100)

	Year	Q1	Q2	Q3	Q4	Q1-Q4
Total value added	2004	106.4	105.6	104.5	103.8	105.0
	2003	102.0	104.0	104.0	104.6	103.7
Industry	2004	114.4	112.7	107.4	105.1	109.7
	2003	102.8	106.9	106.9	108.4	106.3
Construction	2004	96.1	97.2	96.8	101.4	98.6
	2003	82.4	94.7	100.3	102.2	97.1
Market services	2004	105.7	105.1	104.9	104.2	105.0
	2003	102.6	104.4	103.4	104.0	103.6
GDP	2004	106.9	106.1	104.8	103.9	105.3
	2003	102.3	104.0	104.1	104.7	103.8
Domestic demand	2004	105.5	105.1	104.6	102.9	104.5
	2003	102.6	102.1	102.5	102.7	102.5
Total consumption	2004	103.3	103.5	102.9	101.5	102.8
	2003	100.9	102.6	102.9	103.3	102.4
Individual consumption	2004	103.9	103.8	103.5	101.8	103.2
	2003	101.3	103.8	103.5	103.8	103.1
Gross capital formation	2004	120.7	113.4	112.6	107.0	111.9
	2003	115.6	99.7	100.9	101.0	102.8
Gross fixed capital formation	2004	103.5	103.6	104.1	107.2	105.1
	2003	96.3	98.9	101.0	100.4	99.5

Source: GUS data.

High growth in gross capital formation in 2004 resulted from the rebuilding of the levels of tangible current assets after their steep decline in 2001-2002. Reduced growth in the build-up of inventories in 2004 Q4 shows that this process had been largely completed. Increased growth in the annual gross capital formation in 2004 was also driven by the increase in gross fixed capital formation recorded for the first time in four years (5.3%). 2004 Q4 was marked by a particularly high growth in gross fixed capital formation. A clear rebound in investment was recorded in the corporate sector, particularly in manufacturing.

The growth rate of individual consumption in 2004 was stronger than a year ago and continued to exceed the growth rate of the purchasing power of households' gross disposable income. Despite further deterioration in the labour market conditions, real incomes on hired employment were at the previous year's level. Social benefits increased as well; however, their growth was lower than a year ago. Apart from higher disposable income, a major source of financing of the consumption growth in 2004 were increasing incomes from private business, incomes of private owners, unregistered incomes and the continuing, although weaker than a year ago, decline in household savings.

In 2004 the high growth rate in exports continued, which was supported by the improvement in the world business conditions, Poland's accession to the EU and the exchange rate of the zloty which was favourable for exporters. Import growth continued at a high level, however net export contribution to the GDP growth remained positive, albeit considerably lower than in 2003. 2004 saw further improvement in the external imbalance as measured with the fall in foreign savings in relation to GDP to approx. 1.5% from the level of 2.2% recorded in 2003. The decline in foreign savings was accompanied by the rise in domestic savings in relation to GDP from 16.7% in 2003 to 18.6% in 2004 which was the result of clear improvement in the financial condition of enterprises. The savings rate in the economy was adversely affected by the widening deficit of public finance and a falling tendency of household savings.

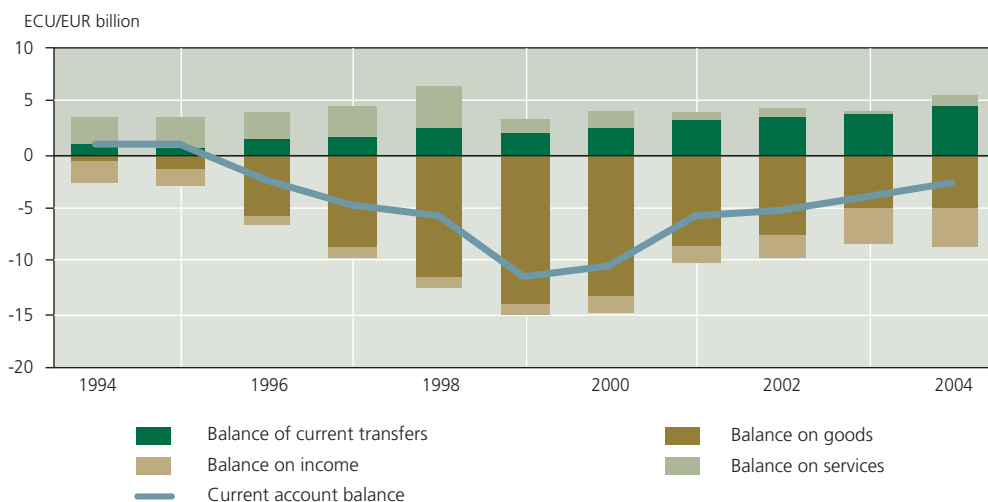
## APPENDIX 5

### EXTERNAL IMBALANCE

In 2004 the current account deficit decreased for the fifth consecutive year. According to preliminary estimates, it totalled EUR 2.96 billion, i.e. was EUR 1.15 billion lower than in 2003 and EUR 8.76 billion lower than in 1999. As a result, the current account deficit - as a percentage of GDP - fell during the last five years from 8.1% to 1.5%. The improvement in the current account deficit in 2004 resulted mainly from a positive balance on current transfers<sup>87</sup> and services and reduction in the trade deficit in goods. The current account deficit deepened further as a result of the increase in the negative balance in incomes.

**Figure 23**

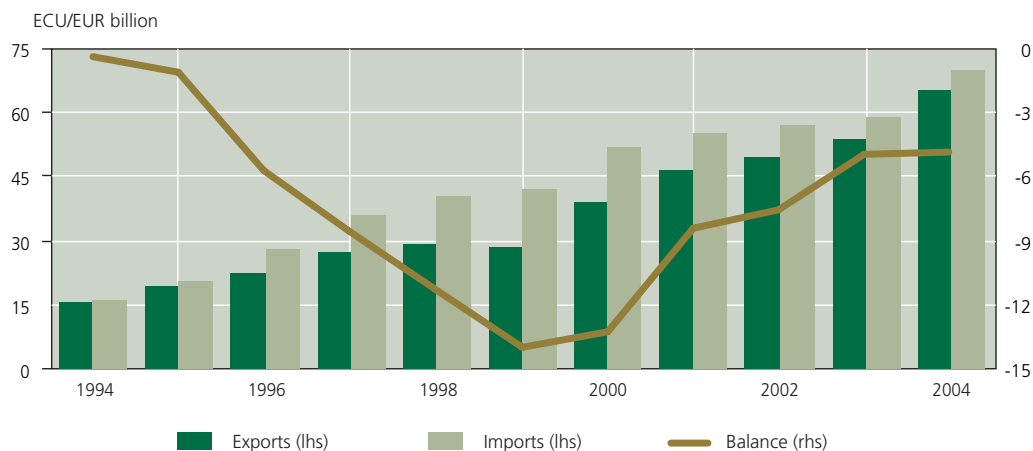
**Current account balance 1994-2004**



Source: NBP data.

**Figure 24**

**Exports and imports 1994-2004**



Source: NBP data.

<sup>87</sup> The improvement in the balance of this item of the current account was driven mainly by EU transfers whose net inflow recorded in this part of the balance of payments amounted to EUR 0.94 billion in 2004. The remaining part of the EU transfers of EUR 0.62 billion was registered of the capital account.

The values of the balance of trade in goods were affected by the depreciation of the American dollar against the euro, lowering the dynamics of turnover expressed in euro against the dynamics in USD and PLN<sup>88</sup>.

The 2004 growth in the balance of trade in goods (in euro terms) was higher than the 2000 growth. The accelerated export growth was driven by:

- increase in the import demand in economies of Poland's major trading partners<sup>89</sup>,
- activity of enterprises with foreign capital participation, as demonstrated by high export growth in groups with the biggest participation of foreign companies (plant and machinery and transport equipment). Additionally, in 2004 their share in the exports to Russia increased considerably,
- increase in the world demand for metallurgical products and coal pushing up their prices in the international markets,
- effects of EU accession. Poland's accession to the EU had a particularly positive impact on the sales of agricultural products. The growth in agricultural exports between May and December 2004 more than doubled as compared with the pre-accession period. On the one hand, it was the result of the elimination of customs duties in agricultural trade with the EU countries, and, on the other hand, export subsidies paid to Polish agricultural products exported to third countries.
- competitive advantage of Polish exporters against foreign partners measured with changes in the real effective rate of exchange deflated with unit labour costs (REER ULC). Improvement in the competitiveness measured in this way was clearly visible in the first half of 2004 (21% fall in REER ULC against the corresponding period of 2003). Since 2004 Q3 a gradual weakening in the competitive position of Polish exporters has been witnessed which was supported by zloty appreciation and a lower drop in unit labour costs in Poland. Overall, the average REER ULC in 2004 decreased by 11.1% combined with a fall in the unit labour costs in manufacturing expressed in zloty by 8.8% as compared with 2003<sup>90</sup>.

Import growth accelerated as a result of the following factors:

- increase in the supply imports connected with the growth in export-bound production,
- higher prices of raw materials, mainly crude oil, in the world markets,
- at the beginning of 2004, anticipated EU accession connected with implementation of higher VAT rates.

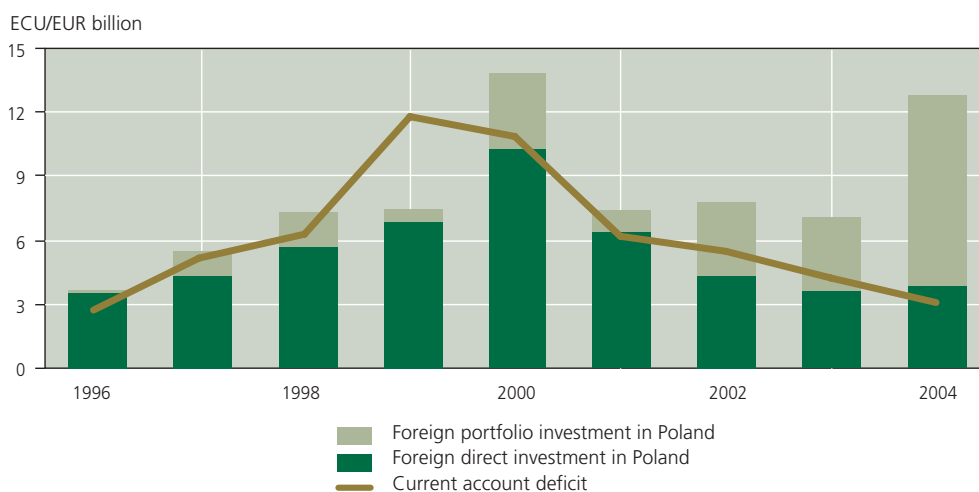
<sup>88</sup> In 2004, export receipts denominated in EUR increased by 22.0% against the previous year. This increase almost doubled as compared with the 2003 increase (9.1%). The value of import expenditure grew by 19.1% against 3.3% growth recorded in 2002. In 2004, the value of export receipts expressed in USD grew by 33.8% (against 30.5% growth recorded in 2003) while the value of import expenditure grew by 30.6% against 23.6% growth recorded in 2003. The PLN-expressed value of export receipts in 2004 grew by 25.1% (against 24.5% growth recorded in 2003) and the value of import expenditure grew by 22.3% (against 17.9% growth in 2003).

<sup>89</sup> Accelerated economic growth in Germany (GDP rose by 1.6% in 2004 after a three year period of stagnation) led to a nearly doubling of the rate of growth of exports to this country as compared to the previous year.

<sup>90</sup> REER ULC for 2004 Q4 was computed using the ECB estimates.

Figure 25

Current account deficit versus foreign investment inflow 1996-2004



Source: NBP data.

2004 witnessed an improvement in the financing structure of the current account deficit (Figure 3 and Table 1). It was fully financed and even exceeded by the inflow of long-term foreign capital in the form of direct investment (against nearly 85% in 2003). This improvement resulted from a marked reduction in the current account deficit with direct investment being kept at the existing level (EUR 3.5 billion). The above mentioned inflow was concurrent with the inflow of portfolio investment of EUR 8.0 billion, mainly debt securities. The majority of warning indicators remained at a safe level.

Table 43

Major warning indicators

Warning indicator	2001	2002	2003	2004
Current account balance / GDP	-2.9%	-2.7%	-2.2%	-1.5%
Trade balance / GDP	-4.2%	-3.8%	-2.8%	-2.3%
Direct investment / current account balance	107.7%	76.7%	84.9%	143.8%
(Current account balance – direct investment) / GDP	0.2%	-0.6%	-0.3%	-1.1%
Foreign debt servicing / Exports of goods and services	31.5%	28.2%	30.7%	20.5%
Foreign reserves expressed in terms of monthly imports of goods and services	5.5	5.1	4.8	4.0

Source: NBP calculations based on the balance of payments on a transaction basis.



## APPENDIX 6

### MONEY SUPPLY

In 2004 the indebtedness of households in the banking sector reported a significant increase. In the first two quarters of 2004, the deposits of households decreased, but in the second half of the year the trend was halted. In the final months of 2004 a build-up was observed in households' deposits in the banking sector. In 2004 a negative annual growth rate in corporate loans was observed. However, at the end of 2004 the indebtedness of this sector in commercial banks, adjusted for exchange rate fluctuations, stood at a level comparable to that recorded in December 2003. Limited lending was accompanied by a considerable increase in deposits in corporate accounts. Nominal changes of deposits and credits were affected by a strong impact of zloty appreciation observed from 2004 Q2.

#### Loans to households

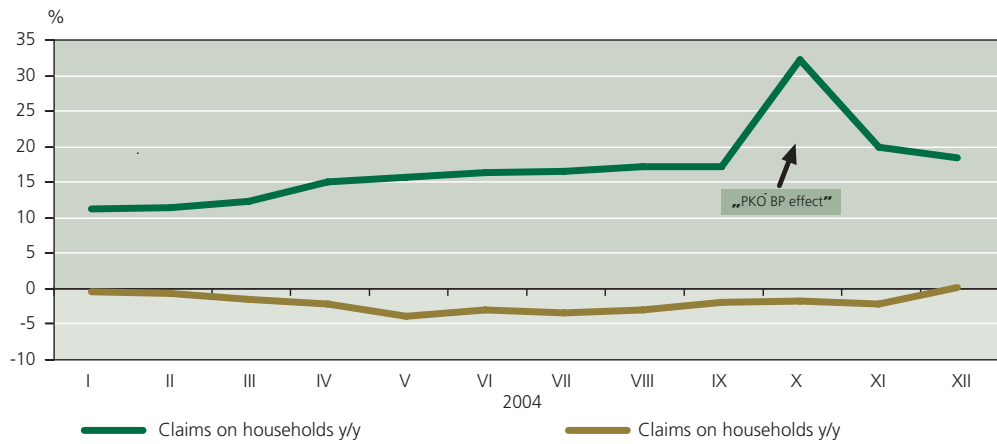
2004 brought a climb in the value of loans to households. The sector's indebtedness in commercial banks rose in nominal terms by 13.5 billion zloty (13.3%). Adjusted for the impact of exchange rate fluctuations the growth was even bigger and amounted to 18.0 billion zloty (18.1%). Two periods of strong acceleration in the growth rate of loans were recorded in 2004 – April and October. Conducive to the significant lending rise in April were intensified purchases connected with fears of price rises after Poland's accession to the EU. In October, the record-breaking accretion in household loans was the result of fund raising for the purchase of shares of bank PKO BP and WSiP publishing house, both privatised in a public offering.

The 2004 growth in household indebtedness was mainly fuelled by housing loans, but starting from the middle of the year the contribution of consumer loans in total claims on this sector was on the rise. Adjusted for the impact of exchange rate fluctuations, in the whole of 2004 the accretion in housing loans accounted for 65.3% of the total growth in household indebtedness, while consumer loans were responsible for 33.9% of the growth. However, while in the first half of 2004 the total growth in claims on households resulted from the hike in housing loans, in the second half of the year the contribution of consumer lending to the total credit growth for this sector slightly outpaced the share of housing loans. In December 2004, the contribution of housing credit in the household debt structure was equal to 43.1%, and in the case of consumer loans it amounted to 56.1%.

2004 saw a rise in the average weighted interest on household loans – in December 2004 it reached 10.4% against 9.6% in January. Upward push on the cost of credit was exerted by the rises of the NBP's interest rates, while the growing competition in the sector of commercial banks and non-banking financial institutions, paired with a general improvement in the economic standing of households acted towards more liberal loan granting conditions.

Figure 26

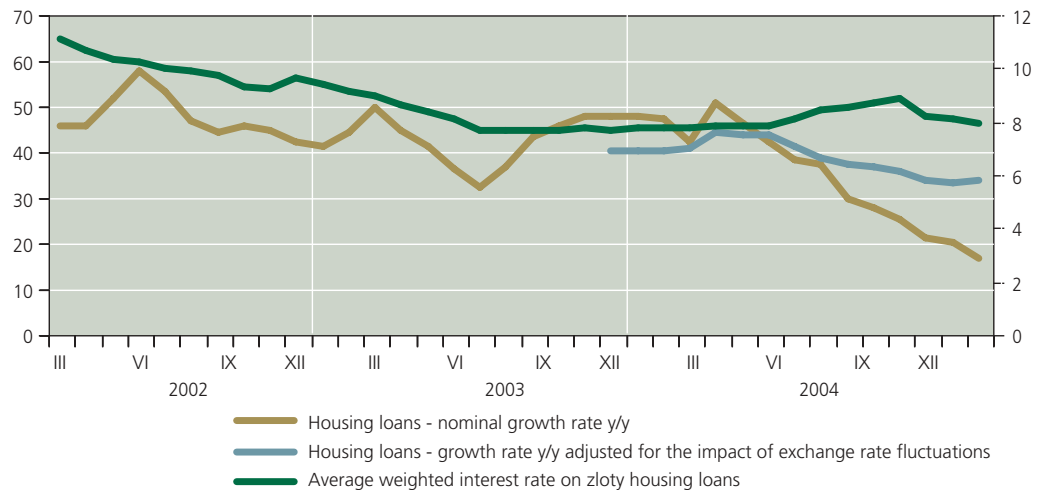
Annual growth rate of claims on enterprises and households in the banking sector in adjustment for the impact of exchange rate fluctuations



Source: NBP data.

Figure 27

Annual growth rate of housing loans to households (% , left-hand axis) and the interest rates on housing loans (% , right-hand axis)



Source: NBP data.

### Loans to enterprises

The economic recovery did not find full reflection in the corporate credit market. 2004 marked a slight growth in the lending volume for the sector. Even though nominal claims on enterprises in the banking sector slid down by 5.2 billion zloty (-3.9%), the drop was in full the result of zloty appreciation. Adjusted for the impact of exchange rate fluctuations, the indebtedness of the corporate sector in commercial banks rose by 0.1 billion zloty (0.1%).

Almost throughout the whole 2004 the annual growth rate of claims on enterprises, adjusted for exchange rate fluctuations, assumed negative values; only in December it was above zero. Following a drop in corporate loans in the first half of 2004, in the last months of the year a rise was observed, mainly due to working capital loans. This small growth in loans may be the result of a significant improvement of the financial standing of enterprises which occurred in 2004. As enterprises have considerable own funds at their disposal they are able to finance their current activities without incurring debts in the banking sector.

Weighted average interest on corporate loans rose from 7.1% in January 2004 to 8.3% in December 2004. The NBP's survey studies indicate that in 2004 the level of loan interest rate was still not perceived by the entrepreneurs as a barrier to the development of their activity.

### Deposits of households

In the first half of 2004 a drop in household deposits occurred. However the annual growth rate of commercial banks' claims to this sector, adjusted for exchange rate fluctuations, was steadily rising and in September started to assume positive values. In December 2004 the deposits of households were 0.2 billion zloty (0.1%) higher than a year before. Adjusted for the impact of exchange rate fluctuations, the growth was considerably bigger as it amounted to 5.9% billion zloty (3.1%).

The banking sector is not the only place where households deposit their financial surpluses. In 2004, similarly to the previous year, the growth pace of financial assets of households held in non-banking financial institutions was well ahead of the increase in bank deposits. In the period, the value of investment fund units, Credit Unions deposits, government bonds and Treasury bills rose by 6.4 billion zloty (12.2%). This leads to the change in the structure of financial assets of households and a drop in the contribution of bank deposits therein.

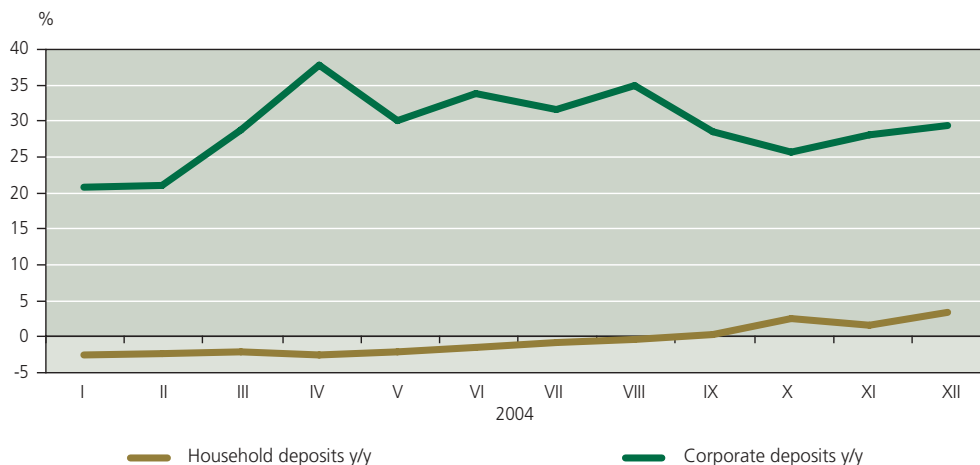
### Deposits of enterprises

2004 marked a dynamic accretion of deposits in corporate accounts. Throughout the year the annual growth rate in this category exceeded 20%. In December 2004 corporate deposit level was 16.9 billion zloty (24.8%) bigger than 12 months earlier, while adjusted for exchange-rate-fluctuation its growth came to 19.8 billion zloty (29.2%).

Strong rising tendency of corporate loans can be attributed to increased gains and the improvement of the financial standing of the sector amid the economic revival. The accretion of assets on the corporate accounts was particularly high in the period preceding Poland's EU accession. This accumulation was, on the one hand, accompanied by a strong rise in industrial output and retail sales brought about by intensified purchases of households, but a weak increase in investments on the other.

**Figure 28**

**Annual growth rate of corporate and household deposits in the banking sector in adjustment for the impact of exchange rate fluctuations**



Source: NBP data.

### Monetary aggregates

The above discussed tendencies in the loan and deposit market find support in the changes to the main monetary aggregates (Table 44). In 2004 M3 money supply grew in nominal terms by 29.4 billion zloty (8.7%). Adjusted for the exchange rate fluctuations this growth was even larger as it equalled 38.3 billion zloty (11.3%). In consequence, in 2004 the annual growth rate of broad money supply was characterised with a rising trend. The rate grew from 4.8% in January to 11.3% in December 2004.

2004 brought a sizeable fall in the growth rate of notes and coin in circulation excluding bank vault cash. The annual growth rate of cash decreased from 15.9% in January to 3.2% in December 2004. These changes should be interpreted as return to balance after a period of a very high growth rate of notes and coin in circulation, which had persisted ever since the start of 2002. The contribution of currency in circulation excluding vault cash in M3 money aggregate fell from 14.5% in December 2003 to 13.7% at the end of 2004.

**Table 44**

#### Money supply in 2003-2004

Specification	As of 31 Dec 2003	As of 31 Dec 2004	Growth	Annual nominal growth rate	Annual real growth rate <sup>a</sup>
	PLN billion			%	
M1 money supply	158 064.7	175 780.4	17 715.7	11.2	6.5
II. M3 money supply	340 048.9	369 470.1	29 421.2	8.7	4.1
1. Notes and coin in circulation (excluding vault cash)	49 417.0	50 775.5	1 358.6	2.7	-1.6
2. Deposits and other liabilities	288 347.3	311 747.9	23 400.5	8.1	3.6
2.1. Households	192 441.5	192 585.1	143.5	0.1	-4.1
2.2. Non-monetary financial institutions	8 941.5	11 336.5	2 395.0	26.8	21.4
2.3. Non-financial corporations	68 236.1	85 174.0	16 937.9	24.8	19.6
2.4. Non-profit institutions serving households	8 576.7	8 937.9	361.3	4.2	-0.2
2.5. Local governments	8 791.1	11 320.7	2 529.6	28.8	23.3
2.6. Social security funds	1 360.4	2 393.6	1 033.2	75.9	68.5
3. Other M3 components	2 284.6	6 946.7	4 662.1	204.1	191.3

<sup>a</sup> Deflated by the CPI.  
Source: NBP data.

**Table 45**

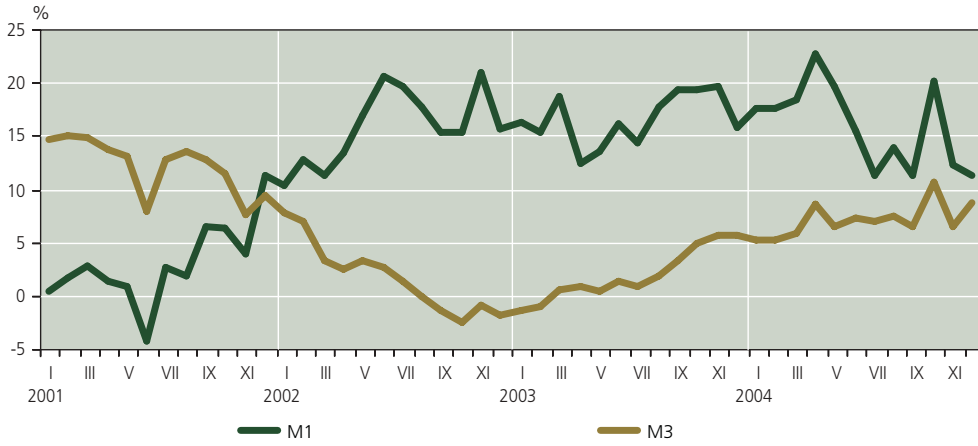
#### Claims of the banking system 2003-20

Specification	As of 31 Dec 2003	As of 31 Dec 2004	Growth	Annual nominal growth rate	Annual real growth rate <sup>a</sup>
	PLN billion			%	
Total claims	264 268.1	271 812.1	7 544.0	2.9	-1.5
Households	101 970.3	115 485.9	13 515.6	13.3	8.5
Non-monetary financial institutions	11 394.6	10 170.3	-1 224.3	-10.7	-14.5
Non-financial corporations	132 365.1	127 201.5	-5 163.6	-3.9	-8.0
Non-profit institutions serving households	826.3	773.3	-53.0	-6.4	-10.4
Local governments	12 852.7	13 377.7	525.0	4.1	-0.3
Social security funds	4 859.1	4 803.4	-55.7	-1.1	-5.3

<sup>a</sup> Deflated by the CPI.  
Source: NBP data.

Figure 29

Annual nominal growth rate of M1 and M3 aggregates



Source: NBP dataP.

## APPENDIX 7

### LIST OF EXECUTIVE LEGAL ACTS ISSUED IN 2004 BY THE BODIES OF THE NATIONAL BANK OF POLAND AND THE COMMISSION FOR BANKING SUPERVISION (PROMULGATED)

- 7.1. Regulations of the President of the National Bank of Poland
- 7.2. Resolutions of the Monetary Policy Council
- 7.3. Resolutions of the National Bank of Poland's Management Board
- 7.4. Resolutions of the Commission for Banking Supervision

**Appendix 7.1.**

**Regulations of the President of the National Bank of Poland**

No.	Reference Number	Adopted	Took effect	Title (subject matter)	Where published
1.	2/2004	16.01.2004	27.01.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and 20 zloty and the date of their introduction into circulation	Official Gazette No. 4, item 62
2.	3/2004	09.02.2004	13.02.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and 100 zloty and the date of their introduction into circulation	Official Gazette No. 8, item 127
3.	4/2004	09.03.2004	18.03.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and 10 zloty and the date of their introduction into circulation	Official Gazette No. 13, item 216
4.	5/2004	22.03.2004	30.03.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty, 10 zloty and 200 zloty and the date of their introduction into circulation	Official Gazette No. 15, item 244
5.	6/2004	20.04.2004	01.05.2004 except § 1 items 4 and 7, § 3 and § 11 and 12, which took effect on 01.11.2004	concerning the manner of conducting interbank settlements	Official Journal of the NBP No. 3, item 7
6.	7/2004	06.05.2004	14.05.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and 20 zloty and the date of their introduction into circulation	Official Gazette No. 20, item 360
7.	8/2004	01.06.2004	07.06.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and 100 zloty and the date of their introduction into circulation	Official Gazette No. 24, item 415
8.	9/2004	09.06.2004	30.06.2004	amending the regulation concerning detailed principles and procedures of replacement of notes and coins that cease to be legal tender on the territory of the Republic of Poland due to wear and tear or damage	Official Journal of the NBP No. 7, item 14
9.	10/2004	29.06.2004	07.07.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and 10 zloty and the date of their introduction into circulation	Official Gazette No. 29, item 531
10.	11/2004	19.07.2004	27.07.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and 10 zloty and the date of their introduction into circulation	Official Gazette No. 32, item 570
11.	12/2004	29.07.2004	06.08.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty, 10 zloty and 200 zloty and the date of their introduction into circulation	Official Gazette No. 33, item 590
12.	15/2004	11.08.2004	20.08.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 20 zloty and the date of its introduction into circulation	Official Gazette No. 35, item 612
13.	16/2004	17.08.2004	21.08.2004	amending the regulation on the authorisation to take decisions concerning the individual foreign exchange licences and licences to conduct foreign exchange market operations	Official Journal of the NBP No. 12, item 22
14.	17/2004	6.09.2004	8.09.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and 20 zloty and the date of their introduction into circulation	Official Gazette No. 37, item 656
15.	18/2004	17.09.2004	17.09.2004	amending the regulation concerning the manner of conducting interbank settlements	Official Journal of the NBP No. 15, item 28
16.	19/2004	7.10.2004	14.10.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty, 10 zloty and 200 zloty and the date of their introduction into circulation	Official Gazette No. 42, item 735
17.	20/2004	26.10.2004	05.11.2004	concerning the manner of conducting foreign Exchange, model of the register and the procedure of entering the records to the register	Official Journal of the NBP No. 17, item 32
18.	21/2004	4.11.2004	15.11.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and 10 zloty and the date of their introduction into circulation	Official Gazette No. 47, item 810
19.	22/2004	16.11.2004	25.11.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and the date of its introduction into circulation	Official Gazette No. 49, item 847
20.	23/2004	7.12.2004	15.12.2004	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and 20 zloty and the date of their introduction into circulation	Official Gazette No. 53, item 901

**Appendix 7.2.**

**Resolutions of the Monetary Policy Council**

No.	Reference Number	Adopted	Took effect	Title (subject matter)	Where published
1.	1/2004	30.03.2004	1.05.2004, § 1 clause 2 shall take effect as from the reserve requirements maintained as from 30.06.2004	concerning the banks' required reserve rate	Official Journal of the NBP No. 2, item 2
2.	2/2004	31.03.2004	15.04.2004	concerning the by-laws of the Monetary Policy Council	Official Gazette No. 17, item 290
3.	3/2004	26.04.2004	26.04.2004	concerning the approval of the annual accounts of the National Bank of Poland drawn up as at December 31, 2003.	Official Journal of the NBP No. 4, item 8
4.	4/2004	18.05.2004	18.05.2004	concerning the approval of the report on the National Bank of Poland's activities in 2003	Official Journal of the NBP No. 5, item 10
5.	5/2004	18.05.2004	18.05.2004	concerning the approval of the report on the execution of the monetary policy objectives in 2003	Official Gazette No. 24, item 416
6.	6/2004	18.05.2004	18.05.2004	concerning the assessment of the activity of the Management Board of the National Bank of Poland in the area of execution of the monetary policy guidelines in 2003	Official Gazette No. 24, item 417
7.	9/2004	25.08.2004	25.08.2004	concerning the reference rate, the interest charged on refinancing loans, the interest charged on time deposits and the rediscount rate at the National Bank of Poland	Official Journal of the NBP No. 13, item 23
8.	10/2004	28.09.2004	01.01.2005	concerning the determination of the upper limit of liabilities resulting from drawing loans in foreign banking and financial institutions by the National Bank of Poland	Official Journal of the NBP No. 16, item 29
9.	11/2004	29.09.2004	01.01.2005	concerning the determination of the objectives of monetary policy for 2005	Official Gazette No. 44, item 777
10.	12/2004	26.10.2004	26.10.2004	amending the resolution on the principles of accountancy, structure of assets and liabilities of the balance sheet and profit and loss account of the National Bank of Poland	Official Journal of the NBP No. 17, item 31
11.	13/2004	23.11.2004	23.11.2004	concerning the approval of the financial plan of the National Bank of Poland for 2005	Official Journal of the NBP No. 18, item 34
12.	14/2004	14.12.2004	01.01.2005	concerning the principles of conducting open market operations	Official Journal of the NBP No. 21, item 39



## Appendix 7.3.

## Resolutions of the National Bank of Poland's Management Board

No.	Reference Number	Adopted	Took effect	Title (subject matter)	Where published
1.	14/2004	01.04.2004	01.04.2004	amending the resolution on the manner of calculation and publication of the current exchange rates of foreign currencies	Official Journal of the NBP No. 2, item 3
2.	15/2004	13.04.2004	01.05.2004	on the principles and procedures of calculation and maintenance of reserve requirements by banks	Official Journal of the NBP No. 3, item 4
3.	17/2004	21.04.2004	01.05.2004	amending the resolution on the introduction of 'Regulations of execution of payment orders and cheque operations in foreign trading and purchase and sale of foreign currencies for bank account holders with the National Bank of Poland'	Official Journal of the NBP No. 3, item 5
4.	20/2004	22.04.2004	01.05.2004 (01.11.2004)	on the terms of opening and maintaining bank accounts at the National Bank of Poland	Official Journal of the NBP No. 3, item 6
5.	24/2004	24.05.2004	24.05.2004	amending the resolution on procedures and detailed principles for forwarding by the banks to the National Bank of Poland of data indispensable for establishing the monetary policy and periodic assessments of the monetary situation of the country and the evaluation of the financial standing of the banks and the banking sector's risk	Official Journal of the NBP No. 5, item 11
6.	25/2004	28.05.2004	21.06.2004	amending the resolution on the introduction of the „Regulations of maintaining of securities accounts and securities deposit accounts at the National Bank of Poland and servicing trading in securities and its recording on securities accounts and accounts deposit accounts”	Official Journal of the NBP No. 6, item 12
7.	29/2004	14.06.2004	15.06.2004	amending the resolution on the principles and procedures of calculation and maintenance of reserve requirements by banks	Official Journal of the NBP No. 7, item 13
8.	40/2004	29.07.2004	01.09.2004	amending the resolution on the principles and procedures of calculation and maintenance of reserve requirements by banks	Official Journal of the NBP No. 11, item 20
9.	41/2004	06.08.2004	01.09.2004	amending the resolution on the introduction of the „Regulations of maintaining of securities accounts and securities deposit accounts at the National Bank of Poland and servicing trading in securities and its recording on securities accounts and accounts deposit accounts”	Official Journal of the NBP No. 11, item 21
10.	46/2004	19.08.2004	15.10.2004	on the terms and conditions of sales of coins, notes and numismatic items for collection and other purposes	Official Gazette No. 37, item 655
11.	49/2004	01.10.2004	01.10.2004	amending the resolution on the terms of opening and maintaining bank accounts at the National Bank of Poland	Official Journal of the NBP No. 16, item 30
12.	52/2004	15.11.2004	15.12.2004	amending the resolution on the introduction of „Regulations of execution of payment orders and cheque operations in foreign trading and purchase and sale of foreign currencies for bank account holders with the National Bank of Poland”	Official Journal of the NBP No. 18, item 33 Official Journal of the NBP No. 19, item 36
13.	54/2004	02.12.2004	13.12.2004	amending the resolution on the introduction of the „Regulations of refinancing of banks with the lombard loan at the National Bank of Poland”	
14.	55/2004	02.12.2004	01.01.2005	amending the resolution on the procedures and detailed principles for forwarding by the banks to the National Bank of Poland of data indispensable for establishing the monetary policy and periodic assessments of the monetary situation of the country and the evaluation of the financial standing of the banks and the banking sector's risk	Official Journal of the NBP No. 20, item 38
15.	56/2004	17.12.2004	10.01.2005	amending the resolution on the introduction of „Regulations of maintaining of securities accounts and securities deposit accounts at the National Bank of Poland and servicing trading in securities and its recording on securities accounts and accounts deposit accounts”	Official Journal of the NBP No. 21, item 40

#### Appendix 7.4.

#### Resolutions of the Commission for Banking Supervision

No.	Reference Number	Adopted	Took effect	Title (subject matter)	Where published
1.	1/2004	09.06.2004	09.06.2004	amending the resolution on the procedures for the performance of banking supervision	Official Journal of the NBP No. 8, item 15
2.	2/2004	29.06.2004	30.06.2004	amending the resolution on the scope and detailed principles of setting the capital requirements resulting from particular types of risk, including the risk of exceeding the large exposure limits, methods and detailed principles of calculation of the bank's capital adequacy ratio, taking into account the links of banks with other entities, subordinated or operating within the same group, and specifying additional items of the bank's balance sheet included, together with the bank's regulatory capital, in the calculation of the bank's capital adequacy and the scope and method of establishing them	Official Journal of the NBP No. 8, item 16
3.	3/2004	08.09.2004	08.09.2004	concerning the list of documents related to economic activities of the foreign businesses which plan to perform the activities commissioned by the bank and specified in Art. 6a, clause 1 of the law Banking Act	Official Journal of the NBP No. 14, item 24
4.	4/2004	08.09.2004	01.01.2005	concerning the scope and detailed principles of setting the capital requirements resulting from particular types of risk, the scope of applying statistical methods and conditions necessary to obtain authorisation to employ them, the manner and detailed principles of calculation of the bank's capital adequacy ratio, scope and detailed principles of including banks' operations within groups in the course of calculating capital adequacy ratio and capital requirements, specification of additional items of the bank's balance sheet included, together with the bank's regulatory capital, in the calculation of the bank's capital adequacy and the scope and method of establishing them	Official Journal of the NBP No. 15, item 25
5.	5/2004	08.09.2004	01.01.2005	concerning the size, scope and conditions of decreasing the regulatory capital of the bank by the capital involvement towards financial institutions, credit institutions, banks, insurance agencies, and also the scope and manner of including the banks' operations within holdings in the course of determining the procedure for calculating the regulatory capital	Official Journal of the NBP No. 15, item 26
6.	6/2004	08.09.2004	01.01.2005	concerning detailed principles and conditions of including the involvement in the course of checking the compliance with the exposure limits and large exposure limits, specification of other exposures exempt from provisions related to exposure and large exposure limits and the scope and manner of including the operations of banks within groups in the course of calculating the exposure limits	Official Journal of the NBP No. 15, item 27

## Appendix 8

### PUBLICATIONS AND THE WEBSITE OF THE NATIONAL BANK OF POLAND IN 2004

Title	Subject	Language
PERIODICALS		
Annual publications		
Annual Report 2003	General description of economic results and earnings, development of the banking sector, activity of the NBP, balance sheet of the NBP and the banking sector, as well as the balance of payments of the Republic of Poland.	<ul style="list-style-type: none"> <li>• Polish</li> <li>• English</li> </ul>
Report on activities of the NBP in 2003	Information concerning the realisation of particular functions of the central bank in 2003, balance sheet and earnings of the NBP.	<ul style="list-style-type: none"> <li>• Polish</li> </ul>
Financial Stability Report 2003	The report on the stability of key segments of the financial market (including banking, insurance and pension sectors) in the previous year and prospects for the oncoming year.	<ul style="list-style-type: none"> <li>• Polish</li> <li>• English</li> </ul>
The Development of Financial System in Poland in the Years 2002-2003	Description of developments of the particular elements of domestic financial system, as compared with the situation of the countries of the region or European Union Member States. The Report also presents the likely scenarios of further development of the institutions and financial markets in Poland and identifies the obstacles to the development prevailing in selected segments of the financial market.	<ul style="list-style-type: none"> <li>• Polish</li> </ul>
Monetary policy guidelines for 2005	Presentation of the monetary policy guidelines adopted each year by the Monetary Policy Council (MPC). It contains the description of external and internal conditions of the monetary policy, its objectives and instruments of its execution.	<ul style="list-style-type: none"> <li>• Polish</li> <li>• English</li> </ul>
Report on implementation of the monetary policy guidelines in 2003	Description of implementation of the inflation target, developments in monetary aggregates, monetary policy instruments, as well as description of execution of other tasks of the monetary policy	<ul style="list-style-type: none"> <li>• Polish</li> </ul>
Balance of payments of the Republic of Poland in 2003	The balance of payments data based on transactions together with its analysis and a methodological section, this publication substitutes "Balance of payments on the basis of transactions and the balance of foreign assets and liabilities of the Republic of Poland" in the part of the balance of payments based on transactions.	<ul style="list-style-type: none"> <li>• Polish</li> <li>• English</li> </ul>
International investment position of Poland in 2003	Information on the balance of Polish foreign assets and liabilities to the foreign countries as at the end of 2003, expressed in euro, broken down by objects and subjects, this publication substitutes "Balance of payments on the basis of transactions and the balance of foreign assets and liabilities of the Republic of Poland" in the part of the balance of foreign assets and liabilities.	<ul style="list-style-type: none"> <li>• Polish</li> </ul>
Foreign direct investment in Poland	Analysis of inflow of direct investments in the analysed period.	<ul style="list-style-type: none"> <li>• Polish</li> </ul>
Assessment of the financial condition of enterprises in 2003, (according to surveys and data from the GUS)	Specification of results of annual surveys filled in by a group of enterprises and the data of the Central Statistical Office (GUS).	<ul style="list-style-type: none"> <li>• Polish</li> </ul>
Report on the activity of the Commission for Banking Supervision in 2003	Description of principal directions of activity of banking supervision, broken down by: licensing tasks, analytical tasks, tasks related to the cooperative banking sector, examination tasks, regulatory tasks and foreign liaison and training activity. It also presents the current composition of the Commission for Banking Supervision, along with its legal framework and procedures of its activity. Apart from that, it contains an exhibit of resolutions and matters considered by the Commission for Banking Supervision.	<ul style="list-style-type: none"> <li>• Polish</li> <li>• English</li> </ul>

Title	Subject	Language
Open-market operations against the banking system liquidity in 2003	The report presents the developments in the liquidity position of the banking sector in Poland in 2003. It focuses on the description of instruments used by the National Bank of Poland for the stabilisation of interbank market rates. Available only on the website of the NBP.	• Polish
<b>Semi-annual publications</b>		
Financial Stability Review in the first half of 2004	The review of the stability of key elements of the financial system in Poland (including banking, insurance and pension sector) in a given half-year together with the presentation of trends for the coming quarters.	• Polish • English
<b>Quarterly publications</b>		
Inflation Report	Characteristics of the inflationary tendencies in a given period, monetary aspects of inflationary processes and non-monetary internal and external determinants of inflation. .	• Polish • English
Balance of payments	Balance of payments data on economic transactions between domestic businesses and foreign businesses during the analysed quarter.	• Polish
Preliminary information on the condition of the corporate sector and economic climate	Analysis of the economic climate in the enterprise sector based on the results of quick monitoring of the NBP, results of studies of the economic climate carried out in other domestic centres and available surveys of the Central Statistical Office.	• Polish
Summary evaluation of the financial situation of Polish banks	Description of financial position of banks established by the General Inspectorate of Banking Supervision based on the reporting data from banks. The overall presentation of the main items of assets, liabilities and off-balance sheet items, their structure in terms of quality, established specific provisions, and also the developments in the own funds of banks (including their ownership structure) and capital adequacy ratio.	• Polish • semi-annual editions – also in English
ECB Monthly Bulletin	The NBP publishes ECB Monthly Bulletin for the last month of each quarter. The Bulletin contains information, inter alia, on economic and monetary situation in the EU, and also outside of the EU. It also presents current decisions taken by the Governing Council of ECB concerning the monetary policy of ECB. The statistical part shows macroeconomic indices of the Euro area, inter alia, the consolidated financial reports of Eurosystem, information on the financial markets, public finances, ECB interest rates and current foreign exchange rates.	• Polish
<b>Monthly publications</b>		
Information Bulletin	Basic data concerning the economic results and earnings as well as the monetary policy of the central bank. Quarterly issues contain an additional descriptive part, which presents basic trends in the macroeconomic situation, developments in money supply and factors of its generation, balance of payments and basic monetary policy instruments.	• Polish • English
Preliminary Information	An abridged publication containing initial data concerning economic results, the banking system and the balance sheet of the National Bank of Poland, as well as the balance of payments of the Republic of Poland.	• Polish • English
Bank and Credit	Analytical studies of the financial sector, in particular the banking sector, as well as papers of informatory nature. Presentation of the most important issues related to the activity and strategic initiatives of the NBP as the central bank. Educational insert – Polish economy at the turn of centuries from A to Z.	• Polish, • Summary in English
Official Gazette of the NBP	Contains acts concerning functioning of banks: regulations of the President of the National Bank of Poland, resolutions of the Monetary Policy Council, resolutions and directives of the Commission for Banking Supervision, resolutions of the Management Board of the National Bank of Poland and announcements concerning the establishment, liquidation and bankruptcy of banks, interest on refinancing and lombard loans, discount rate and rediscount rate on bills of exchange and banks' reserve requirements.	• Polish

Title	Subject	Language
<b>NON-PERIODICAL PUBLICATIONS</b>		
Plan of activity of the NBP for 2004-2006	Primary objectives and the most important tasks of the NBP planned for execution in the years 2004-2006.	<ul style="list-style-type: none"> <li>• Polish</li> <li>• English</li> </ul>
Costs and benefits of Poland's adoption of the euro	The Report presents formal requirements for adopting the common currency in Poland, the analysis of potential costs and threats related to the adoption of the euro and conclusions about the desired model of macroeconomic policy in the period preceding the adoption of the common currency and the optimal for Poland time of accession to the euro area.	<ul style="list-style-type: none"> <li>• Polish</li> <li>• English</li> </ul>
The role of the NBP in overseeing the payment systems	Purposes and principles, assessment criteria of performing the oversight over the payment systems used by the National Bank of Poland	<ul style="list-style-type: none"> <li>• Polish</li> <li>• English</li> </ul>
Globalisation from A to Z	A selection of educational inserts added in 2003 to Bank and Credit monthly. It discusses the origin and conditions of globalisation and different forms of international collaboration in the context of globalisation.	<ul style="list-style-type: none"> <li>• Polski</li> </ul>
The information booklet on the NBP	Discussion of main areas of the central bank's activities in Poland. The booklet is also supplemented with information on the bodies of the NBP, the organizational structure and the synopsis of the main publications of the NBP	<ul style="list-style-type: none"> <li>• Polish</li> <li>• English</li> </ul>
New banking regulations	Presentation of new banking regulations on the banking system as provided for in the acts amended in 2003 and in 2004, i.e. The Act of the National Bank of Poland, the Law Banking Act and the Act on Financial Collateral' Polish	<ul style="list-style-type: none"> <li>• Polish</li> </ul>
European System of Central Banks	An encyclopaedic guide on the European central Bank and respective central banks of ESCB countries with the division into the banks included in the ESCB and those from outside the ESCB	<ul style="list-style-type: none"> <li>• Polish</li> </ul>
Getting closer to the Euro	Information on the prospective introduction of the euro in Poland. This publications discusses the principles of introducing the euro in EU Member States and also presents the practical implications of Poland's adoption of the euro	<ul style="list-style-type: none"> <li>• Polish</li> </ul>
Materials and Studies No. 171-184 - Polish No. 30 – English	A publication series, where studies resulting from research projects of the NBP employees are published, as well as publications of authors working for academic and financial institutions. They concern important issues related to the banking and the monetary policy.	<ul style="list-style-type: none"> <li>• Polish</li> <li>• selected issues in English</li> </ul>
<b>WEBSITE OF THE NBP</b>		
<a href="http://www.NBP.pl">http://www.NBP.pl</a>	Presentation of the Bank, its organisational structure and principles of operation of the Bank, legal acts, statistical information (including exchange rates tables announced by the NBP), notes and coin issued by the NBP, list of banks operating in Poland, publications, current news concerning the NBP. Subsites: „Economic Education”, „Euro 2002”, „Conferences of the NBP” and „Job offers at the NBP”.	<ul style="list-style-type: none"> <li>• Polish</li> <li>• English</li> </ul>
<a href="http://www.NBPportal.pl">www.NBPportal.pl</a>	Economic Education Website of the National Bank of Poland NBPportal.pl describes economic issues in a simple and clear language. This website provides, inter alia: <ul style="list-style-type: none"> <li>• about 200 hours of open to public multimedia e-learning courses.</li> <li>• economic news,</li> <li>• subject-oriented module covering the key economic issues,</li> <li>• multimedia presentations,</li> <li>• guides helping comprehend the world of loans, deposits, payment cards, insurance or pensions, etc.,</li> <li>• special virtual library stocked with over 1000 unabridged and downloadable publications,</li> <li>• easy economics: jackpots and strategic plays, cross-word puzzles, quizzes, puzzles, competitions, etc. p</li> </ul>	<ul style="list-style-type: none"> <li>• Polish</li> </ul>

## APPENDIX 9

### THE LIST OF OPEN-TO-PUBLIC SEMINARS HELD AT THE NBP IN 2004

1. Interest rate policy in the context of the threat of currency crisis
2. Is  $H^\infty$  a solution to the problem of uncertainty of the paradigm in monetary policy?
3. Measurement and characteristics of inflation expectations of private individuals in Poland
4. Institutional conditions of financial stability
5. Ups and downs of the Polish currency
6. Adjusting the operational framework of monetary policy to the requirements of the Eurosystem
7. Coordination of economic policy in the UE – institutional and legal framework, proposed changes, implications for Poland
8. Modelling of the optimal level of the real effective exchange rate of the zloty. The application of the idea of the fundamental equilibrium exchange rate
9. Audit and control in public debt management
10. Effectiveness of monetary policy in the face of supply and demand shocks- not only about liquidity trap
11. The development of the global and domestic foreign currency market and OTC derivatives. Summary of the research coordinated by the Bank of International Settlements
12. Entrance and exit rates in the Polish manufacturing sector against other countries. Survey of the demography of enterprises
13. Controlled prices and inflation in Poland, the Czech Republic and in Hungary in comparison to the European Union

## APPENDIX 10

## VOTING RESULTS OF THE MEMBERS OF THE MONETARY POLICY COUNCIL ON MOTIONS AND RESOLUTIONS ADOPTED IN 2004

Date	Subject matter of motion or resolution	MPC decision	Voting of the Council members	
			For:	Against:
30 Mar 2004	Resolution on the rate of reserve requirement of banks and the interest rate on the reserve requirement		L.Balcerowicz J.Czekaj D.Filar S.Nieckarz M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	
31 Mar 2004	Resolution on the Rules and Regulations of the Monetary Policy Council		L.Balcerowicz J.Czekaj D.Filar S.Nieckarz M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	
26 Apr 2004	Resolution on approving the Annual Financial Report of the National Bank of Poland prepared as of 31 December 2003		L.Balcerowicz J.Czekaj D.Filar S.Nieckarz M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	
27 Apr 2004	Motion to change the monetary policy bias to tightening		L.Balcerowicz J.Czekaj D.Filar M.Noga S.Owsiak A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	S.Nieckarz M.Pietrewicz
18 May 2004	Resolution on approving the Report on the Operations of the National Bank of Poland in 2003		L.Balcerowicz J.Czekaj D.Filar S.Nieckarz M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	

Date	Subject matter of motion or resolution	MPC decision	Voting of the Council members	
			For:	Against:
18 May 2004	Resolution to approve the Report on Monetary Policy Implementation in 2003		L.Balcerowicz J.Czekaj D.Filar S.Nieckarz M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	
18 May 2004	Resolution on the assessment of the activities of the NBP Management Board as regards the monetary policy implementation in 2003		L.Balcerowicz J.Czekaj D.Filar S.Nieckarz M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	
30 Jun 2004	Motion to raise all interest rates by 0.25 percentage points	Motion did not receive a majority vote	M.Pietrewicz	L.Balcerowicz J.Czekaj D.Filar S.Nieckarz M.Noga S.Owsiak A.Sławiński H.Wasilewska-Trenkner A.Wojtyna
30 Jun 2004	resolution on the level of the reference rate, lombard rate, deposit rate and rediscount rate of the National Bank of Poland	All interest rates raised by 0.5 percentage points	L.Balcerowicz J.Czekaj D.Filar S.Nieckarz M.Noga S.Owsiak A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	M.Pietrewicz
28 Jul 2004	Motion to raise all interest rates by 0.5 percentage points	Motion did not receive a majority vote	L.Balcerowicz D.Filar	J.Czekaj S.Nieckarz M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna
28 Jul 2004	Motion to raise all interest rates by 0.25 percentage points	Motion received a majority vote	L.Balcerowicz D.Filar M.Noga A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	J.Czekaj S.Nieckarz S.Owsiak M.Pietrewicz



Date	Subject matter of motion or resolution	MPC decision	Voting of the Council members	
			For:	Against:
28.07.2004	Resolution on the level of the reference rate, lombard rate, deposit rate and rediscount rate of the National Bank of Poland	All interest rates raised by 0.25 percentage points	L.Balcerowicz D.Filar M.Noga A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	J.Czekaj S.Nieckarz S.Owsiak M.Pietrewicz
25 Aug 2004	Motion to raise all interest rates by 0.5 percentage points	Motion received a majority vote	L.Balcerowicz J.Czekaj D.Filar M.Noga S.Owsiak A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	S.Nieckarz M.Pietrewicz
25 Aug 2004	Motion to raise all interest rates by 0.25 percentage points	Motion did not receive a majority vote	S.Nieckarz M.Pietrewicz	L.Balcerowicz J.Czekaj D.Filar M.Noga S.Owsiak A.Sławiński H.Wasilewska-Trenkner A.Wojtyna
25 Aug 2004	Resolution on the level of the reference rate, lombard rate, deposit rate and rediscount rate of the National Bank of Poland	All interest rates raised by 0.5 percentage points	L.Balcerowicz J.Czekaj D.Filar M.Noga S.Owsiak A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	S.Nieckarz M.Pietrewicz
28 Sep 2004	Resolution on establishing the upper limit for liabilities incurred by the National Bank of Poland by way of loans from foreign banking and financial institutions		L.Balcerowicz J.Czekaj D.Filar S.Nieckarz M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	
28 Sep 2004	Resolution on establishing the monetary policy guidelines for 2005		L.Balcerowicz J.Czekaj D.Filar M.Noga S.Owsiak A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	S.Nieckarz M.Pietrewicz

Date	Subject matter of motion or resolution	MPC decision	Voting of the Council members	
			za:	Against:
26 Oct 2004	Resolution to change the resolution on accounting policies, the structure of assets and liabilities in the balance sheet and the profit and loss account of the NBP		L.Balcerowicz J.Czekaj D.Filar S.Nieckarz M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	
23 Nov 2004	Resolution on approving the National Bank of Poland's Financial Plan for 2005		L.Balcerowicz J.Czekaj D.Filar M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	
23 Nov 2004	Resolution on appointing an auditor to audit NBP annual financial statement for the business year 2004		L.Balcerowicz J.Czekaj D.Filar M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	S.Nieckarz was absen
14 Dec 2004	Resolution on the rules of conducting open market operations		L.Balcerowicz J.Czekaj D.Filar S.Nieckarz M.Noga S.Owsiak M.Pietrewicz A.Sławiński H.Wasilewska-Trenkner A.Wojtyna	

## APPENDIX 11

### INDEPENDENT AUDITOR'S REPORT

For the Monetary Policy Council of the National Bank of Poland

1. We have audited the accompanying annual accounts for the year ended 31 December 2004 of the National Bank of Poland ("NBP", "Bank") with its seat in Warsaw, Świętokrzyska 11/21, which comprises:

- the balance sheet as of 31 December 2004 with total assets and liabilities amounting to PLN 119,661,106,916.55,
- the profit and loss account for the period from 1 January 2004 to 31 December 2004 with a profit amounting to PLN 4,387,374,639.38, and
- additional information

2. The NBP Management Board is responsible for the reliability, correctness and clarity of the accompanying annual accounts as well as the correctness of account books. Our responsibility was to audit the accompanying annual accounts and express an opinion, based on our audit, whether the annual accounts are, in all material aspects, reliable, correct and clear and whether the account books which formed the basis for drawing up the statement are correct in all material aspects.

3. We conducted our audit in accordance with the following provisions applicable in Poland:

- the provisions of Chapter 7 of the Accounting Act dated September 29, 1994
- Auditors Standards issued by the National Council of Certified Auditors in Poland.

in a way allowing to obtain reasonable assurance about whether the annual accounts are free of any material misstatement. In particular, the audit included examining, mostly on a test basis, evidence supporting the amounts and disclosures in the annual accounts. The audit also included assessing the accounting principles used and significant estimates made by the Management Board, as well as evaluating overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion on the annual accounts as a whole.

4. The NBP annual accounts for the financial year ended on 31 December 2003 were examined by the NBP Annual Accounts Examination Commission which, on 15 April 2004, submitted a motion to the Council of Ministers relating to the approval of the above annual accounts. On 29 June 2004, the Council of Ministers passed a resolution regarding the approval of the NBP annual accounts for the year ended 31 December 2003.

5. In our opinion, the accompanying annual accounts, in all aspects:

- presents in reliable and clear way all information significant for the assessment of the financial result for the period from 1 January 2004 to 31 December 2004, as well as the assessment of the NBP material and financial situation as of 31 December 2004;
- has been prepared in compliance with the Act on the National Bank of Poland dated 29 August 1997 (Journal of Laws, 21 November 1997, as amended), Resolution no 16/2003 of the Monetary Policy Council ("MPC") dated 16 December 2003 regarding the accounting principles, the structure of assets and liabilities in the balance sheet and profit and loss account of the NBP (as amended), Resolution No. 17/2003 dated 16 December 2003 related to rules of creating and releasing the currency revaluation reserve at the NBP to account for the risk of change in the exchange rate of the zloty to foreign currencies, and Resolution no 57/2003 of the Management Board of the National Bank of Poland dated 30 December 2003, as amended, regarding the way of performing tasks related to accounting at the National Bank of Poland based on books of account kept in the proper manner,
- is in compliance with the above mentioned provisions.

6. Without qualifying our opinion we draw attention to the fact that in 2004 three resolutions of the Monetary Policy Council regarding the scope of accounting entered into force, i.e. 16/2003, 17/2003 and 12/2004, that replaced earlier MPC resolution no 10/1999 dated 16 June 1999 regarding the accounting principles, the structure of assets and liabilities in the balance sheet and profit and loss account of the NBP, and resolution 11/1999 dated 16 June 1999 regarding to rules of creating and releasing a currency revaluation reserve at the NBP to account for the risk of changes in the exchange rate of the zloty to foreign currencies. Adjustments, totalling PLN 3,587,989 thousand, resulting from the implementation of the above resolutions amending NBP accounting principles, are recognised in the profit and loss account of the current period, as described in item 2 of the additional information to the annual accounts. Owing to the introduction of new accounting principles, data for 2003 are not fully comparable. If the adjustments described above had not been recognised in the profit and loss account of the current period, NBP profit for the year ended 31 December 2004 would amount to PLN 799,386 thousand.

*Tomasz Bieske*  
Certified auditor  
Ident. No. 9291/6975

*On behalf of*  
*Ernst&Young Audit Sp. Z o.o.*  
*Ul. Emilii Plater 53, 00-113 Warszawa*  
*Reg. No. 130*

*Iwona Kozera*  
Certified auditor  
Ident. No. 9528/7104

Warsaw, 30 March 2005



## STATISTICAL ANNEX

## TABLE I

## Basic Economic Data

Specification	Unit	2003	2004		
		XII	I	II	III
1. Industrial output					
a) current prices	million zloty	48,607.4	45,990.4	47,157.7	55,731.1
b) constant prices					
- the same month previous year = 100	%	114.0	114.4	118.3	123.5
- previous month = 100	%	101.9	93.7	102.0	117.1
2. Construction output					
a) current prices	million zloty	4,643.1	1,502.5	1,566.3	2,074.3
b) constant prices					
- the same month previous year = 100	%	99.4	83.2	93.6	106.2
- previous month = 100	%	143.3	29.7	113.2	131.8
3. Consumer Price Index					
a) the same month previous year = 100	%	101.7	101.6	101.6	101.7
b) previous month = 100	%	100.2	100.4	100.1	100.3
c) December previous year = 100	%	101.7	100.4	100.5	100.8
4. Producer Price Index					
a) the same month previous year = 100	%	103.7	104.1	104.2	104.9
b) previous month = 100	%	100.1	100.8	100.7	101.5
5. Construction Price Index					
a) the same month previous year = 100	%	98.6	99.3	99.5	100.2
b) previous month = 100	%	99.9	100.2	100.1	100.6
6. Number of employed, corporate sector total	thousands	4,827.0	4,856.0	4,855.0	4,854.0
7. Average employment, corporate sector total	thousands	4,671.0	4,669.0	4,671.0	4,667.0
8. Number of unemployed	thousands	3,175.7	3,293.2	3,294.5	3,265.8
9. Unemployment rate	%	20.0	20.6	20.6	20.5
10. Average monthly employee earnings, gross, corporate sector	zloty	2,662.2	2,325.7	2,377.4	2,427.3
11. National Budget revenue & expenditure					
a) revenue	million zloty	152,110.6	12,078.2	22,957.0	36,011.3
b) expenditure	million zloty	189,153.6	16,216.4	32,303.1	47,815.0
c) financial surplus/deficit and net foreign lending/ borrowing	million zloty	-31,081.4	-1,311.6	-5,985.8	-8,036.5
12. Corporate financial performance					
a) total revenues	million zloty	1,080,601.7	-	-	285,591.3
of which: sales of goods & services	million zloty	659,087.0	-	-	176,009.5
b) total operating costs	million zloty	1,050,716.7	-	-	269,200.0
of which: cost of sales	million zloty	661,952.8	-	-	171,277.9
c) pre-tax profit/loss	million zloty	30,176.0	-	-	16,964.9
d) statutory deductions	million zloty	12,188.5	-	-	3,559.7
e) net profit/loss	million zloty	17,987.4	-	-	13,405.3
f) cost to sales ratio	%	97.2	-	-	94.3
g) net margin	%	1.7	-	-	4.7
h) quick liquidity ratio	%	84.3	-	-	88.4
i) total current assets	million zloty	317,484.5	-	-	331,349.9
j) accounts receivable and associated claims	million zloty	136,146.8	-	-	141,241.8
k) accounts payable	million zloty	139,772.5	-	-	136,389.6

2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
54,957.7	51,851.1	53,142.8	51,354.7	52,409.8	56,792.8	56,946.7	56,061.7	54,284.4
121.8	112.2	115.7	106.0	113.7	109.5	103.5	111.4	106.8
97.0	93.3	102.7	96.0	101.8	109.0	99.7	99.0	97.7
3,044.7	2,539.5	2,929.5	3,187.5	3,593.2	3,933.5	4,246.6	3,519.1	5,224.0
125.9	86.7	85.8	85.7	102.6	100.1	104.1	104.3	107.8
145.8	82.8	114.6	108.5	112.4	109.2	107.9	82.8	148.2
102.2	103.4	104.4	104.6	104.6	104.4	104.5	104.5	104.4
100.8	101.0	100.9	99.9	99.6	100.3	100.6	100.3	100.1
101.6	102.6	103.5	103.4	103.0	103.3	104.0	104.3	104.4
107.6	109.6	109.1	108.6	108.5	107.9	107.6	106.7	105.2
102.1	101.3	99.8	100.2	100.3	99.9	100.4	99.6	98.7
101.4	102.2	102.8	103.4	103.7	104.1	104.4	104.6	104.8
101.0	100.8	100.7	100.5	100.3	100.2	100.1	100.1	100.1
4,868.0	4,874.0	4,880.0	4,874.0	4,874.0	4,882.0	4,886.0	4,881.0	4,849.0
4,675.0	4,681.0	4,688.0	4,688.0	4,681.0	4,685.0	4,698.0	4,689.0	4,679.0
3,173.8	3,092.5	3,071.2	3,042.4	3,005.7	2,970.9	2,938.2	2,942.6	2,999.6
20.0	19.6	19.5	19.3	19.1	18.9	18.7	18.7	19.1
2,427.1	2,353.6	2,405.0	2,428.1	2,412.7	2,439.6	2,386.3	2,505.0	2,748.1
51,043.2	61,956.9	74,758.6	86,524.8	99,644.8	113,107.6	127,562.3	142,181.8	156,290.2
61,824.5	77,142.5	94,488.4	109,591.6	125,438.1	141,948.5	158,204.1	176,001.5	197,794.7
-5,882.0	-9,190.2	-13,776.1	-17,003.7	-19,786.2	-25,694.2	-28,159.6	-31,352.8	-38,379.8
-	-	595,020.7	-	-	910,318.3	-	-	-
-	-	368,146.0	-	-	564,567.1	-	-	-
-	-	557,706.9	-	-	853,488.8	-	-	-
-	-	358,048.6	-	-	551,548.9	-	-	-
-	-	38,387.3	-	-	57,905.9	-	-	-
-	-	7,522.9	-	-	11,503.1	-	-	-
-	-	30,864.4	-	-	46,402.7	-	-	-
-	-	93.7	-	-	93.8	-	-	-
-	-	5.2	-	-	5.1	-	-	-
-	-	91.4	-	-	95.1	-	-	-
-	-	343,393.5	-	-	356,895.3	-	-	-
-	-	146,622.4	-	-	150,469.2	-	-	-
-	-	137,257.2	-	-	138,535.6	-	-	-

## TABLE II

## Financial Market - Basic Information

Specification	Unit	2003	2004		
		XII	I	II	III
1. Lombard rate	%	6.75	6.75	6.75	6.75
2. Rediscount rate	%	5.75	5.75	5.75	5.75
3. Refinancing rate	%	6.75/7.75	6.75/7.75	6.75/7.75	6.75/7.75
4. Deposit rate	%	3.75	3.75	3.75	3.75
5. Minimum yield on 28-day open market operations (reverse repo rate)	%	5.25	5.25	5.25	5.25
6. Reserve requirement					
a) Reserve requirement ratio on zloty deposits					
- demand	%	3.50	3.50	3.50	3.50
- time	%	3.50	3.50	3.50	3.50
b) Reserve requirement ratio on foreign currency deposits (zloty equivalent)					
- demand	%	3.50	3.50	3.50	3.50
- time	%	3.50	3.50	3.50	3.50
7. Reserve requirement ratio on repo operations	%	-	-	-	-
8. Interest on reserve requirement	%				
9. Total required reserves held	million zloty	10,220.23	10,220.23	10,346.10	10,233.67
a) current account	million zloty	10,220.23	10,220.23	10,346.10	10,233.67
10. Treasury bill tenders					
a) Number of tenders during month		4	4	4	5
b) Face value of bills offered for sale	million zloty	5,300.00	4,900.00	4,200.00	5,700.00
of which:					
- 2-week	million zloty	0.00	0.00	0.00	0.00
- 3-week	million zloty	0.00	0.00	0.00	0.00
- 6-week	million zloty	0.00	0.00	0.00	0.00
- 8-week	million zloty	0.00	0.00	0.00	0.00
- 10-week	million zloty	0.00	0.00	0.00	0.00
- 13-week	million zloty	100.00	300.00	0.00	100.00
- 26-week	million zloty	0.00	600.00	0.00	0.00
- 39-week	million zloty	0.00	0.00	0.00	0.00
- 52-week	million zloty	5,200.00	4,000.00	4,200.00	5,600.00
c) Demand declared by bidders (at face value)	million zloty	11,450.22	15,646.33	12,223.88	16,698.30
of which for:					
- 2-week	million zloty	0.00	0.00	0.00	0.00
- 3-week	million zloty	0.00	0.00	0.00	0.00
- 6-week	million zloty	0.00	0.00	0.00	0.00
- 8-week	million zloty	0.00	0.00	0.00	0.00
- 10-week	million zloty	0.00	0.00	0.00	0.00
- 13-week	million zloty	491.38	1,416.40	0.00	480.01
- 26-week	million zloty	0.00	3,014.33	0.00	0.00
- 39-week	million zloty	0.00	0.00	0.00	0.00
- 52-week	million zloty	10,958.84	11,215.60	12,223.88	16,218.29
d) Face value of bills sold	million zloty	5,300.00	4,900.00	4,200.00	5,700.00
of which for:					
- 2-week	million zloty	0.00	0.00	0.00	0.00



2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
6.75	6.75	6.75	7.50	8.00	8.00	8.00	8.00	8.00
5.75	5.75	5.75	6.50	7.00	7.00	7.00	7.00	7.00
6.75/7.75	6.75/7.75	6.75/7.75	7.50/8.50	8.0/9.0	8.0/9.0	8.0/9.0	8.0/9.0	8.0/9.0
3.75	3.75	3.75	4.50	5.00	5.00	5.00	5.00	5.00
5.25	5.25	5.25	6.00	6.50	6.50	6.50	6.50	6.50
3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
-	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0,9 of the rediscount rate	0,9 of the rediscount rate	0,9 of the rediscount rate	0,9 of the rediscount rate	0,9 of the rediscount rate	0,9 of the rediscount rate	0,9 of the rediscount rate	0,9 of the rediscount rate
10,340.35	10,442.87	10,639.44	10,639.44	10,631.80	10,680.65	10,680.65	10,819.00	11,097.38
10,340.35	10,442.87	10,639.44	10,639.44	10,631.80	10,680.65	10,680.65	10,819.00	11,097.38
4	3	4	4	5	4	5	4	3
4,100.00	3,000.00	4,100.00	4,700.00	5,500.00	3,700.00	4,800.00	3,100.00	1,200.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
300.00	0.00	100.00	300.00	0.00	100.00	300.00	0.00	100.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3,800.00	3,000.00	4,000.00	4,400.00	5,500.00	3,600.00	4,500.00	3,100.00	1,100.00
8,333.15	5,250.50	12,953.90	11,339.15	11,485.60	10,191.98	14,907.06	8,455.21	4,952.50
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
796.34	0.00	294.85	1,364.62	0.00	460.25	1,938.33	0.00	264.91
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
7,536.81	5,250.50	12,659.05	9,974.53	11,485.60	9,731.73	12,968.73	8,455.21	4,687.59
4,100.00	3,000.00	4,100.00	4,700.00	5,500.00	3,700.00	4,800.00	2,800.00	1,200.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

## TABLE II – cd.

## Financial Market - Basic Information

Specification	Unit	2003	2004		
		XII	I	II	III
- 3-week	million zloty	0.00	0.00	0.00	0.00
- 6-week	million zloty	0.00	0.00	0.00	0.00
- 8-week	million zloty	0.00	0.00	0.00	0.00
- 10-week	million zloty	0.00	0.00	0.00	0.00
- 13-week	million zloty	100.00	300.00	0.00	100.00
- 26-week	million zloty	0.00	600.00	0.00	0.00
- 39-week	million zloty	0.00	0.00	0.00	0.00
- 52-week	million zloty	5,200.00	4,000.00	4,200.00	5,600.00
e) Yield on bills purchased, weighted average	%	6.12	5.68	5.84	5.88
of which for:					
- 2-week	%	0.00	0.00	0.00	0.00
- 3-week	%	0.00	0.00	0.00	0.00
- 6-week	%	0.00	0.00	0.00	0.00
- 8-week	%	0.00	0.00	0.00	0.00
- 10-week	%	0.00	0.00	0.00	0.00
- 13-week	%	5.31	5.30	0.00	5.24
- 26-week	%	0.00	5.54	0.00	0.00
- 39-week	%	0.00	0.00	0.00	0.00
- 52-week	%	6.14	5.73	5.84	5.89
f) Bills outstanding from tender sales at month end (purchase prices)	million zloty	45,605.50	46,503.26	47,259.11	47,367.69
11. Tenders for NBP money-market bills					
a) Number of tenders during month		4	4	4	4
b) Face value of bills offered for sale	million zloty	10,000.00	20,500.00	12,000.00	11,000.00
of which for:					
- 1-day	million zloty	0.00	0.00	0.00	0.00
- 7-day	million zloty	0.00	0.00	0.00	0.00
- 14-day	million zloty	10,000.00	20,500.00	12,000.00	11,000.00
- 28-day	million zloty	0.00	0.00	0.00	0.00
c) Demand declared by bidders (at face value)	million zloty	14,015.09	32,409.00	25,980.62	32,062.09
of which for:					
- 1-day	million zloty	0.00	0.00	0.00	0.00
- 7-day	million zloty	0.00	0.00	0.00	0.00
- 14-day	million zloty	14,015.09	32,409.00	25,980.62	32,062.09
- 28-day	million zloty	0.00	0.00	0.00	0.00
d) Face value of bills sold	million zloty	9,580.00	18,395.00	12,000.00	11,000.00
of which for:					
- 1-day	million zloty	0.00	0.00	0.00	0.00
- 7-day	million zloty	0.00	0.00	0.00	0.00
- 14-day	million zloty	9,580.00	18,395.00	12,000.00	11,000.00
- 28-day	million zloty	0.00	0.00	0.00	0.00
e) Yield on bills purchased, weighted average	%	5.25	5.25	5.25	5.25
of which for:					
- 1-day	%	0.00	0.00	0.00	0.00
- 7-day	%	0.00	0.00	0.00	0.00
- 14-day	%	5.25	5.25	5.25	5.25

2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
300.00	0.00	100.00	300.00	0.00	100.00	300.00	0.00	100.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3,800.00	3,000.00	4,000.00	4,400.00	5,500.00	3,600.00	4,500.00	2,800.00	1,100.00
6.14	6.89	6.80	7.09	7.27	7.41	6.98	6.80	6.44
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5.38	0.00	5.64	5.85	0.00	6.77	6.57	0.00	6.28
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6.20	6.89	6.83	7.18	7.27	7.42	7.01	6.80	6.46
48,101.22	46,920.01	48,162.61	48,536.10	49,585.42	48,773.44	48,434.84	47,465.83	43,977.01
5	4	4	5	4	4	5	4	5
1,400.00	1,100.00	14,300.00	16,000.00	13,600.00	21,000.00	17,000.00	4,400.00	11,500.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1,400.00	1,100.00	14,300.00	16,000.00	13,600.00	21,000.00	17,000.00	4,400.00	11,500.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8,858.50	1,880.00	62,494.00	39,225.00	21,564.50	38,005.30	124,761.66	67,460.00	34,005.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8,858.50	1,880.00	62,494.00	39,225.00	21,564.50	38,005.30	124,761.66	67,460.00	34,005.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1,400.00	999.00	14,300.00	16,000.00	13,600.00	21,000.00	17,000.00	4,400.00	10,240.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1,400.00	999.00	14,300.00	16,000.00	13,600.00	21,000.00	17,000.00	4,400.00	10,240.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5.25	5.25	5.25	5.79	6.00	6.50	6.50	6.50	6.50
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5.25	5.25	5.25	5.79	6.00	6.50	6.50	6.50	6.50

## TABLE II – cd.

## Financial Market - Basic Information

Specification	Unit	2003	2004		
		XII	I	II	III
- 28-day	%	0.00	0.00	0.00	0.00
f) Bills outstanding from tender sales at month end (purchase prices)	million zloty	5,987.77	9,480.64	5,987.77	1,995.92
12. Outright sales of securities by NBP					
a) Number of tenders		0	0	0	0
b) Face value of securities allotted for sale	million zloty	0.00	0.00	0.00	0.00
c) Face value of bids submitted by banks	million zloty	0.00	0.00	0.00	0.00
d) Face value of bids accepted	million zloty	0.00	0.00	0.00	0.00
e) Value of bids accepted	million zloty	0.00	0.00	0.00	0.00
13. Data on trading sessions of Warsaw Stock Exchange					
a) Number of companies at month end		203	203	204	204
b) Capitalisation at month end	million zloty	140,001.45	146,462.91	156,594.43	160,014.75
c) P/E ratio at month end		49.90	46.10	49.10	46.60
d) Warsaw Stock Exchange Index (WIG) at month end		20,820.07	21,947.21	23,317.86	23,870.12
e) WIG monthly average		20,394.22	22,083.09	22,949.64	23,642.15
f) Second-Tier Market Index (WIRR) at month end		2,740.68	3,130.99	3,749.15	3,970.06
g) WIRR monthly average		2,585.99	3,048.69	3,462.20	3,944.52
h) Monthly turnover	million zloty	5,978.16	8,060.85	8,404.94	11,063.58
i) Turnover ratio	%	2.30	2.80	2.80	3.60

2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1,097.76	399.18	7,784.10	7,483.02	4,090.44	8,478.56	5,486.13	398.99	5,725.52
0	0	0	0	0	0	0	0	0
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
205	206	206	212	213	214	215	221	230
162,854.90	159,273.29	161,201.10	158,482.90	161,827.94	168,604.95	170,851.75	197,127.83	214,312.54
46.30	27.00	27.30	25.00	19.30	20.30	19.90	16.10	17.10
24,304.41	23,607.70	23,949.32	23,632.26	24,239.18	25,267.83	25,419.31	25,424.73	26,636.19
24,680.43	23,267.97	23,527.47	23,702.07	23,776.20	24,965.35	25,149.78	25,325.50	26,077.71
4,588.01	4,360.81	4,193.33	4,208.25	4,481.54	4,910.80	4,757.86	4,578.42	4,738.62
4,316.73	4,289.78	4,286.08	4,156.38	4,316.43	4,710.32	4,765.14	4,601.23	4,686.05
8,715.66	7,810.06	6,273.12	6,138.44	6,080.82	7,178.51	8,848.12	17,217.88	13,982.64
2.80	2.60	2.10	2.00	2.00	2.20	2.40	4.90	3.80

TABLE III

PLN/USD and PLN/EUR Exchange Rates, 2004 (in zloty)

Month	NBP average exchange rates end of month			Average monthly rate	
	PLN/ 1 USD	PLN/1 EUR	USD/EUR	PLN/ 1 USD	PLN/ 1 EUR
December 2003	3.7405	4.7170	1.2611	3.7879	4.6547
January 2004	3.8478	4.7614	1.2374	3.7349	4.7116
February	3.9313	4.8746	1.2399	3.8457	4.8542
March	3.8813	4.7455	1.2227	3.8903	4.7683
April	4.0254	4.8122	1.1955	3.9587	4.7581
May	3.8044	4.6509	1.2225	3.9360	4.7290
June	3.7470	4.5422	1.2122	3.7867	4.5932
July	3.6299	4.3759	1.2055	3.6430	4.4686
August	3.6816	4.4465	1.2078	3.6434	4.4355
September	3.5569	4.3832	1.2323	3.5827	4.3764
October	3.3960	4.3316	1.2755	3.4602	4.3235
November	3.1793	4.2150	1.3258	3.2830	4.2620
December	2.9904	4.0790	1.3640	3.0954	4.1438

TABLE IV

Weighted Interest Rates on Zloty Deposit Offered  
by Commercial Banks

Specification	2003	2004											
	XII	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
<b>Households deposits</b>													
Current accounts (private entrepreneurs and farmers)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Checking accounts - ROR (individuals)	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Time deposits:													
- 1 month	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.8	3.1	3.4	3.4	3.3	3.3
- 3 months	2.5	2.7	2.7	2.7	2.7	2.7	2.7	2.8	3.2	3.6	3.6	3.6	3.5
- 6 months	2.7	2.8	2.9	2.9	2.9	2.9	2.9	2.9	3.3	3.7	3.7	3.7	3.7
- 1 year	3.4	3.5	3.5	3.5	3.5	3.5	3.5	3.5	4.1	4.4	4.3	4.4	4.4
- 2 years	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.0	4.5	4.7	4.7	4.7	4.7
- over 2 years	3.6	3.6	3.6	3.5	3.4	3.4	3.4	3.4	3.8	4.0	4.0	4.4	4.3
Total households time deposits	2.9	3.0	3.0	3.0	3.0	3.0	3.0	3.1	3.5	3.9	3.9	3.9	3.8
<b>Non-financial corporations deposits</b>													
Current accounts	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Time deposits:													
- 1 month	3.0	2.9	2.9	2.9	3.0	2.9	2.9	3.1	3.2	3.4	3.4	3.3	3.4
- 3 months	2.8	2.8	2.8	2.9	2.9	2.9	2.9	3.1	3.2	3.4	3.4	3.3	3.3
- 6 months	2.9	3.0	2.9	2.9	2.8	2.8	2.9	3.0	3.1	3.4	3.2	3.1	3.2
- 1 year	3.2	3.2	3.2	3.1	3.1	3.2	3.2	3.3	3.6	3.7	3.6	3.6	3.4
- 2 years	3.9	3.8	3.9	4.0	3.9	4.0	4.0	3.9	3.9	4.1	4.2	4.3	4.4
- over 2 years	2.8	3.0	3.1	4.2	4.2	4.0	4.0	4.2	4.2	4.2	4.2	4.2	4.2
Total non-financial corporations time deposits	3.0	2.9	2.9	2.9	2.9	2.9	2.9	3.1	3.2	3.4	3.4	3.3	3.4
<b>Total</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.1</b>	<b>3.5</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>3.7</b>

TABLE V

Weighted Average Interest Rates on Zloty Lending Offered  
by Commercial Banks

Specification	2003	2004											
	XII	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
<b>Non-financial corporations loans</b>													
Overdrafts	7.0	7.0	6.9	6.8	7.1	7.1	7.1	7.5	8.0	8.2	8.2	8.2	8.1
Original maturity of:													
- 1 year	7.0	6.9	6.9	6.8	7.1	7.2	7.3	7.6	8.1	8.3	8.2	8.2	8.2
- 2 years	7.5	7.3	7.4	7.4	7.6	7.6	7.8	8.1	8.5	8.7	8.6	8.6	8.6
- 3 years	7.7	7.6	7.7	7.9	8.0	8.2	8.2	8.6	8.6	8.7	8.7	8.8	8.6
- 5 years	7.5	7.5	7.6	7.5	7.8	7.8	7.9	8.3	8.6	8.8	8.7	8.7	8.6
- over 5 years	7.3	7.4	7.4	7.4	7.6	7.7	7.7	8.0	8.4	8.6	8.7	8.7	8.7
<b>Total</b>	<b>7.2</b>	<b>7.1</b>	<b>7.1</b>	<b>7.1</b>	<b>7.3</b>	<b>7.4</b>	<b>7.4</b>	<b>7.8</b>	<b>8.2</b>	<b>8.4</b>	<b>8.4</b>	<b>8.4</b>	<b>8.3</b>
<b>Households loans</b>													
Overdrafts	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.5	15.9	16.0	16.0	16.1	16.1
Consumer loans with original maturity of:													
- 1 year	15.8	15.7	15.7	15.2	15.2	15.2	15.2	15.2	15.3	15.5	14.9	15.4	15.5
- 2 years	16.3	16.2	16.2	16.0	15.9	15.9	15.8	15.8	15.9	16.1	16.8	16.1	16.1
- 3 years	16.7	16.7	16.7	16.4	16.1	15.9	15.8	15.7	15.8	16.0	15.9	15.9	15.8
- 5 years	14.9	15.1	14.9	14.9	14.9	14.8	14.9	14.9	15.9	16.1	16.2	16.1	16.2
- over 5 years	15.8	15.7	15.7	15.2	15.2	15.3	15.2	15.3	15.9	16.1	16.0	16.1	16.3
<b>Total</b>	<b>15.8</b>	<b>15.7</b>	<b>15.7</b>	<b>15.3</b>	<b>15.3</b>	<b>15.3</b>	<b>15.2</b>	<b>15.3</b>	<b>15.7</b>	<b>15.8</b>	<b>15.5</b>	<b>15.8</b>	<b>15.9</b>
<b>Housing loans with original maturity of:</b>													
- 1 year	7.4	7.3	7.3	7.4	7.5	7.5	7.5	7.6	7.9	8.1	8.0	8.3	7.5
- 2 years	7.9	7.7	7.7	7.8	7.9	7.8	7.8	8.2	8.7	8.8	8.7	8.9	8.1
- 3 years	8.1	8.0	8.0	8.1	8.2	8.2	8.1	8.3	8.7	8.9	8.7	8.9	7.9
- 5 years	8.4	8.4	8.4	8.4	8.5	8.5	8.5	8.8	9.2	9.4	9.3	9.5	8.7
- over 5 years	7.1	7.4	7.4	7.5	7.4	7.4	7.4	7.7	7.9	8.0	8.6	8.7	8.3
<b>Total</b>	<b>7.6</b>	<b>7.7</b>	<b>7.7</b>	<b>7.7</b>	<b>7.8</b>	<b>7.8</b>	<b>7.8</b>	<b>8.1</b>	<b>8.4</b>	<b>8.5</b>	<b>8.7</b>	<b>8.8</b>	<b>8.1</b>
<b>Loans to private entrepreneurs with original maturity of:</b>													
- 1 year	7.6	7.5	7.5	7.9	8.1	8.1	8.3	8.6	9.1	9.3	9.4	9.3	9.3
- 2 years	8.4	8.3	8.3	8.7	8.9	9.1	9.2	9.5	10.0	10.1	10.1	10.0	9.9
- 3 years	7.7	7.8	7.8	8.2	8.3	8.4	8.4	8.6	9.1	9.3	9.4	9.3	9.2
- 5 years	7.3	7.3	7.3	7.6	7.8	7.8	7.9	8.1	8.5	8.7	8.9	8.8	8.8
- over 5 years	7.8	7.8	7.8	8.1	8.4	8.6	8.6	8.9	9.4	9.6	9.5	9.4	9.3
<b>Total</b>	<b>7.7</b>	<b>7.6</b>	<b>7.6</b>	<b>8.0</b>	<b>8.2</b>	<b>8.3</b>	<b>8.4</b>	<b>8.6</b>	<b>9.1</b>	<b>9.3</b>	<b>9.4</b>	<b>9.3</b>	<b>9.3</b>
<b>Agricultural loans with original maturity of:</b>													
- 1 year	6.5	6.5	6.5	6.9	6.9	6.9	6.8	7.5	8.2	8.2	8.3	8.3	8.3
- 2 years	6.6	6.6	6.6	7.1	7.1	7.1	7.1	7.7	8.5	8.5	8.6	8.6	8.6
- 3 years	6.5	6.6	6.6	7.0	7.0	7.0	7.0	7.5	8.3	8.4	8.5	8.5	8.5
- 5 years	6.6	6.6	6.6	7.0	7.0	7.0	7.0	7.5	8.2	8.3	8.4	8.4	8.4
- over 5 years	6.6	6.6	6.6	7.0	7.0	7.0	7.0	7.6	8.4	8.4	8.5	8.5	8.5
<b>Total</b>	<b>6.6</b>	<b>6.6</b>	<b>6.6</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.0</b>	<b>7.6</b>	<b>8.4</b>	<b>8.4</b>	<b>8.5</b>	<b>8.5</b>	<b>8.5</b>
<b>Other loans with original maturity of:</b>													
- 1 year	13.5	13.5	13.9	12.1	12.5	12.4	12.7	12.8	13.1	13.3	12.6	12.8	12.7
- 2 years	13.0	12.5	12.0	11.6	11.9	11.9	12.3	12.4	12.7	12.8	12.7	12.7	12.7
- 3 years	12.9	12.6	12.3	11.5	11.8	12.0	12.1	12.6	12.9	13.2	13.0	13.1	12.9
- 5 years	11.6	11.5	11.5	11.0	11.2	11.2	11.2	11.5	11.7	11.8	11.7	11.6	11.5
- over 5 years	10.8	10.8	10.8	9.7	9.9	10.0	10.0	10.3	10.8	10.8	10.7	10.6	10.5
<b>Total</b>	<b>12.6</b>	<b>12.6</b>	<b>12.7</b>	<b>11.3</b>	<b>11.7</b>	<b>11.6</b>	<b>11.8</b>	<b>11.9</b>	<b>12.3</b>	<b>12.4</b>	<b>12.2</b>	<b>12.1</b>	<b>12.0</b>
<b>Total households loans</b>	<b>12.1</b>	<b>12.1</b>	<b>12.0</b>	<b>11.6</b>	<b>11.6</b>	<b>11.6</b>	<b>11.6</b>	<b>11.8</b>	<b>12.2</b>	<b>12.3</b>	<b>12.5</b>	<b>12.4</b>	<b>12.1</b>
<b>Total loans to non-financial corporations and consumer</b>	<b>9.6</b>	<b>9.6</b>	<b>9.5</b>	<b>9.3</b>	<b>9.5</b>	<b>9.6</b>	<b>9.6</b>	<b>9.9</b>	<b>10.3</b>	<b>10.5</b>	<b>10.7</b>	<b>10.5</b>	<b>10.4</b>
<b>Total zloty loans</b>	<b>9.2</b>	<b>9.1</b>	<b>9.0</b>	<b>8.9</b>	<b>9.2</b>	<b>9.3</b>	<b>9.3</b>	<b>9.7</b>	<b>10.1</b>	<b>10.3</b>	<b>10.6</b>	<b>10.3</b>	<b>10.3</b>

## TABLE VI

Aggregated Balance Sheet of Other Monetary Financial Institutions (million zloty)  
**ASSETS**

Specification	2003	2004		
	XII	I	II	III
<b>Loans to domestic residents</b>	<b>303,808.30</b>	<b>301,603.00</b>	<b>309,050.30</b>	<b>307,637.30</b>
– Monetary financial institutions	40,671.70	36,917.20	42,304.90	41,530.90
– General government	19,559.40	18,601.20	19,050.90	18,525.70
– Other domestic residents <sup>1)</sup>	243,577.20	246,084.60	247,694.50	247,580.70
<b>Holdings of securities other than shares issued by domestic residents</b>	<b>107,096.60</b>	<b>111,533.80</b>	<b>108,127.30</b>	<b>108,206.70</b>
– Monetary financial institutions	14,840.00	18,383.60	14,943.50	10,434.60
– General government	89,301.40	90,312.70	90,524.60	95,148.50
– Other domestic residents <sup>1)</sup>	2,955.20	2,837.50	2,659.20	2,623.60
<b>Holdings of shares/other equity issued by domestic residents</b>	<b>7,487.50</b>	<b>7,387.20</b>	<b>7,328.50</b>	<b>7,327.40</b>
– Monetary financial institutions	1,267.90	1,334.70	1,338.30	1,341.30
– Other domestic residents <sup>1)</sup>	6,219.60	6,052.50	5,990.20	5,986.10
<b>External assets</b>	<b>55,816.30</b>	<b>54,033.50</b>	<b>56,180.30</b>	<b>63,625.50</b>
<b>Fixed assets<sup>2)</sup></b>	<b>28,809.00</b>	<b>28,794.10</b>	<b>28,919.40</b>	<b>28,996.60</b>
<b>Remaining assets</b>	<b>24,415.00</b>	<b>24,594.40</b>	<b>25,651.40</b>	<b>25,508.00</b>
<b>Total assets</b>	<b>527,432.70</b>	<b>527,946.00</b>	<b>535,257.20</b>	<b>541,301.50</b>

<sup>1</sup> Non-monetary financial institutions and non-financial sector.

<sup>2</sup> Excluding financial fixed assets, included in line "Holdings of securities other than shares issued by domestic residents".

## TABLE VI

Aggregated Balance Sheet of Other Monetary Financial Institutions (million zloty)  
**LIABILITIES**

Specification	2003	2004		
	XII	I	II	III
<b>Deposits of domestic residents</b>	<b>350,621.00</b>	<b>347,520.40</b>	<b>350,790.60</b>	<b>356,083.30</b>
– Monetary financial institutions	31,750.00	33,923.30	35,047.70	35,613.30
– Central government	10,587.90	10,328.50	10,315.50	13,587.90
– Other domestic residents <sup>1)</sup>	308,283.10	303,268.60	305,427.40	306,882.10
– overnight	107,997.60	103,470.50	106,103.00	110,958.90
– with agreed maturity	200,248.60	199,762.50	199,290.50	195,891.90
– redeemable at notice	36.9	35.6	33.9	31.3
– repurchase agreements	0	0	0	0
<b>Debt securities issued</b>	<b>4,538.10</b>	<b>4,655.60</b>	<b>4,804.00</b>	<b>5,061.30</b>
<b>Capital and reserves</b>	<b>83,886.90</b>	<b>83,896.40</b>	<b>84,401.70</b>	<b>84,825.60</b>
– Tier – 1 capital	43,455.90	43,363.30	43,466.80	43,632.30
– Tier – 2 capital	1,012.80	1,029.30	1,129.70	1,179.30
– Reserves	39,418.20	39,503.80	39,805.20	40,014.00
<b>External liabilities</b>	<b>47,279.10</b>	<b>47,052.40</b>	<b>48,343.70</b>	<b>47,591.90</b>
<b>Remaining liabilities</b>	<b>41,107.60</b>	<b>44,821.20</b>	<b>46,917.20</b>	<b>47,739.40</b>
<b>Total liabilities</b>	<b>527,432.70</b>	<b>527,946.00</b>	<b>535,257.20</b>	<b>541,301.50</b>

<sup>1</sup> Non-monetary financial institutions, local government, social security funds and non-financial sector.



2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
310,021.70	310,775.70	309,925.10	309,373.80	317,354.70	314,283.80	331,273.80	322,181.40	316,366.10
38,569.30	43,639.30	41,133.90	42,414.80	46,965.70	42,991.30	41,938.60	43,767.90	44,927.40
19,804.40	18,629.70	19,349.00	19,514.70	19,472.20	19,453.80	20,499.80	21,745.70	20,545.70
251,648.00	248,506.70	249,442.20	247,444.30	250,916.80	251,838.70	268,835.40	256,667.80	250,893.00
<b>103,766.30</b>	<b>101,763.00</b>	<b>109,343.60</b>	<b>108,941.50</b>	<b>104,525.00</b>	<b>112,193.50</b>	<b>110,007.30</b>	<b>105,701.50</b>	<b>110,452.40</b>
9,619.00	8,961.50	16,337.50	16,086.50	12,690.60	16,863.50	14,237.20	9,277.70	14,716.40
91,437.20	90,022.30	90,188.40	89,962.00	89,160.10	93,059.90	93,500.60	94,244.00	93,025.50
2,710.10	2,779.20	2,817.70	2,893.00	2,674.30	2,270.10	2,269.50	2,179.80	2,710.50
<b>7,222.10</b>	<b>7,084.10</b>	<b>7,133.50</b>	<b>7,259.40</b>	<b>7,378.80</b>	<b>7,570.00</b>	<b>7,546.10</b>	<b>7,565.30</b>	<b>7,644.90</b>
1,347.70	1,169.20	1,192.00	1,294.10	1,446.50	1,457.60	1,460.90	1,461.90	1,125.50
5,874.40	5,914.90	5,941.50	5,965.30	5,932.30	6,112.40	6,085.20	6,103.40	6,519.40
<b>72,291.30</b>	<b>73,615.30</b>	<b>72,631.80</b>	<b>73,339.00</b>	<b>74,236.20</b>	<b>73,884.80</b>	<b>76,882.30</b>	<b>82,939.00</b>	<b>84,063.70</b>
<b>29,102.30</b>	<b>29,157.00</b>	<b>28,938.30</b>	<b>29,095.80</b>	<b>29,225.40</b>	<b>29,318.60</b>	<b>29,378.00</b>	<b>29,545.60</b>	<b>29,748.90</b>
<b>27,488.10</b>	<b>28,176.30</b>	<b>27,484.20</b>	<b>28,094.50</b>	<b>28,987.10</b>	<b>28,567.70</b>	<b>30,024.00</b>	<b>30,407.50</b>	<b>29,499.70</b>
<b>549,891.80</b>	<b>550,571.40</b>	<b>555,456.50</b>	<b>556,104.00</b>	<b>561,707.20</b>	<b>565,818.40</b>	<b>585,111.50</b>	<b>578,340.30</b>	<b>577,775.70</b>

2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
360,515.70	358,940.10	364,548.40	364,146.90	367,599.60	371,069.90	388,344.30	377,621.70	381,465.20
34,295.20	35,086.60	35,537.10	36,306.20	35,778.40	39,340.50	37,199.00	39,355.50	35,373.80
12,575.40	11,655.80	11,869.50	12,080.00	12,429.00	12,251.20	12,301.40	14,426.70	12,182.70
313,645.10	312,197.70	317,141.80	315,760.70	319,392.20	319,478.20	338,843.90	323,839.50	333,908.70
108,303.90	114,249.90	117,836.00	111,941.10	117,267.30	117,823.70	130,370.90	124,259.00	124,169.90
205,310.40	197,130.00	196,573.80	200,769.70	199,249.60	198,435.10	204,754.60	195,950.40	203,963.90
30.8	30.1	28.1	26.8	25.9	25.4	25.3	26	28.8
0	787.7	2,703.90	3,023.10	2,849.40	3,194.00	3,693.10	3,604.10	5,746.10
<b>5,122.60</b>	<b>4,918.20</b>	<b>5,139.30</b>	<b>5,376.60</b>	<b>5,599.20</b>	<b>5,620.40</b>	<b>5,133.00</b>	<b>4,744.20</b>	<b>4,653.10</b>
<b>83,467.80</b>	<b>85,102.20</b>	<b>86,622.30</b>	<b>86,768.90</b>	<b>86,973.90</b>	<b>87,416.90</b>	<b>87,311.90</b>	<b>87,313.10</b>	<b>88,236.80</b>
42,456.50	44,349.20	45,616.80	45,642.80	45,674.60	45,693.90	45,715.80	45,746.10	46,306.00
711.6	633.4	709	706	677	1,107.80	1,138.70	1,307.40	1,644.00
40,299.70	40,119.60	40,296.50	40,420.10	40,622.30	40,615.20	40,457.40	40,259.60	40,286.80
<b>50,836.20</b>	<b>51,949.50</b>	<b>49,610.20</b>	<b>49,659.40</b>	<b>49,884.20</b>	<b>49,639.50</b>	<b>49,856.30</b>	<b>50,386.00</b>	<b>50,861.30</b>
<b>49,949.50</b>	<b>49,661.40</b>	<b>49,536.30</b>	<b>50,152.20</b>	<b>51,650.30</b>	<b>52,071.70</b>	<b>54,466.00</b>	<b>58,275.30</b>	<b>52,559.30</b>
<b>549,891.80</b>	<b>550,571.40</b>	<b>555,456.50</b>	<b>556,104.00</b>	<b>561,707.20</b>	<b>565,818.40</b>	<b>585,111.50</b>	<b>578,340.30</b>	<b>577,775.70</b>

## TABLE VII

Balance Sheet of the National Bank of Poland (million zloty)  
ASSETS

Specification	2003	2004		
	XII	I	II	III
Loans to domestic residents	4,711,40	4,711,50	4,883,50	4,625,90
– Other monetary financial institutions	4,687,50	4,688,20	4,860,40	4,602,00
– General government	0	0	0	0
– Other domestic residents <sup>1)</sup>	23,9	23,3	23,1	23,9
Holdings of securities other than shares issued by domestic residents	529,4	537,3	546,3	541,8
– Other monetary financial institutions	145,6	144,5	144,6	144,8
– General government	383,8	392,8	401,7	397
Holdings of shares/other equity issued by domestic residents	80,8	81,7	82,9	82,4
– Other monetary financial institutions	0	0	0	0
– Other domestic residents <sup>1)</sup>	80,8	81,7	82,9	82,4
External assets	132,807,70	147,409,60	152,981,00	147,493,70
Fixed assets <sup>2)</sup>	1,780,10	1,779,90	1,790,30	1,796,70
Remaining assets	631,5	621,7	583,8	615,6
<b>Total assets</b>	<b>140,540,90</b>	<b>155,141,70</b>	<b>160,867,80</b>	<b>155,156,10</b>

<sup>1)</sup> Non-monetary financial institutions and non-financial sector.

<sup>2)</sup> Excluding financial fixed assets, included in line "Holdings of shares/other equity issued by domestic residents".

## TABLE VII

Balance Sheet of the National Bank of Poland (million zloty)  
LIABILITIES

Specification	2003	2004		
	XII	I	II	III
Currency in circulation	54,176.60	52,352.10	53,267.90	53,834.80
Deposits of domestic residents	23,590.00	29,464.10	31,732.30	32,987.60
– Other monetary financial institutions	12,152.30	6,339.60	10,735.20	9,190.20
– Central government	10,786.50	22,656.20	20,615.50	23,487.30
– Other domestic residents <sup>1)</sup>	651.2	468.3	381.6	310.1
Debt securities issued	14,202.00	17,741.00	14,277.60	9,855.30
Capital and reserves	2,804.60	2,596.60	2,607.60	2,618.00
– Tier – 1 capital	1,845.10	1,845.10	1,845.10	1,845.10
– Reserves	959.5	751.5	762.5	772.9
External liabilities	5,456.70	8,665.10	10,730.40	9,665.20
Remaining liabilities	40,311.00	44,322.80	48,252.00	46,195.20
<b>Total liabilities</b>	<b>140,540.90</b>	<b>155,141.70</b>	<b>160,867.80</b>	<b>155,156.10</b>

<sup>1)</sup> Non-monetary financial institutions, local - government, social security funds and non-financial sector.

2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
4,586,50	4,585,80	4,470,40	4,469,90	4,469,50	4,387,20	4,386,90	4,386,30	4,261,20
4,562,40	4,561,90	4,441,40	4,440,70	4,440,80	4,358,50	4,358,40	4,358,20	4,233,70
0	0	0	0	0	0	0	0	0
24,1	23,9	29	29,2	28,7	28,7	28,5	28,1	27,5
144,9	145	145,1	145,2	145,4	145,5	145,6	115,5	114,8
144,9	145	145,1	145,2	145,4	145,5	145,6	115,5	114,8
0	0	0	0	0	0	0	0	0
82,4	82,4	80,9	80,9	80,9	80,9	80,9	80,9	80,9
0	0	0	0	0	0	0	0	0
82,4	82,4	80,9	80,9	80,9	80,9	80,9	80,9	80,9
148,196,60	144,582,80	141,332,20	135,537,60	141,050,00	135,439,10	125,908,00	123,727,00	114,978,50
1,840,80	1,850,40	1,872,00	1,912,60	1,914,30	1,920,30	1,933,10	1,943,20	1,970,20
1,151,00	2,247,60	3,597,00	7,656,20	5,101,90	8,227,70	11,616,90	17,345,80	432,5
156,002,20	153,494,00	151,497,60	149,802,40	152,762,00	150,200,70	144,071,40	147,598,70	121,838.10

2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
56,644.60	54,575.30	54,875.70	55,266.10	56,064.50	55,353.80	55,554.40	54,955.00	55,924.90
31,265.80	32,808.50	30,953.30	31,198.00	34,864.00	27,003.70	28,851.10	35,362.50	28,253.10
6,949.70	11,667.80	8,945.50	9,544.20	15,208.30	7,880.60	9,306.30	8,765.10	13,299.90
23,701.10	20,720.50	21,586.40	21,128.90	19,016.50	18,315.00	18,778.70	25,815.00	13,813.20
615	420.2	421.4	524.9	639.2	808.1	766.1	782.4	1,140.00
8,993.00	8,331.90	15,616.40	15,316.40	11,916.40	16,316.40	13,316.40	8,216.40	13,556.40
2,627.60	2,638.30	2,874.20	2,877.40	2,887.60	2,897.10	2,906.20	2,916.50	2,924.60
1,845.10	1,845.10	2,058.60	2,058.60	2,058.60	2,058.60	2,058.60	2,058.60	2,058.60
782.5	793.2	815.6	818.8	829	838.5	847.6	857.9	866
8,078.30	11,684.00	9,157.70	7,060.40	8,929.00	10,595.00	5,230.90	7,600.70	4,948.70
48,392.90	43,456.00	38,020.30	38,084.10	38,100.50	38,034.70	38,212.40	38,547.60	16,230.40
156,002.20	153,494.00	151,497.60	149,802.40	152,762.00	150,200.70	144,071.40	147,598.70	121,838.10

## TABLE VIII

Consolidated Balance Sheet of Monetary Financial Institutions  
(million zloty)

## ASSETS

Specification	2003	2004		
	XII	I	II	III
Loans to domestic residents	263,160.50	264,709.10	266,768.50	266,130.30
– General government	19,559.40	18,601.20	19,050.90	18,525.70
– Other domestic residents <sup>1)</sup>	243,601.10	246,107.90	247,717.60	247,604.60
Holdings of securities other than shares issued by domestic residents	92,640.40	93,543.00	93,585.50	98,169.10
– General government	89,685.20	90,705.50	90,926.30	95,545.50
– Other domestic residents <sup>1)</sup>	2,955.20	2,837.50	2,659.20	2,623.60
Holdings of shares/other equity <sup>2)</sup> issued by other domestic residents <sup>1)</sup>	6,300.40	6,134.20	6,073.10	6,068.50
External assets	188,624.00	201,443.10	209,161.30	211,119.20
Fixed assets <sup>3)</sup>	30,589.10	30,574.00	30,709.70	30,793.30
Remaining assets	20,286.80	21,393.70	22,571.60	22,194.80
<b>Total assets</b>	<b>601,601.20</b>	<b>617,797.10</b>	<b>628,869.70</b>	<b>634,475.20</b>

<sup>1)</sup> Non-monetary financial institutions, and non-financial sector.

<sup>2)</sup> Including rights issues (to XII 2003 r.), units in investment funds and financial fixed assets.

<sup>3)</sup> Excluding financial fixed assets, incorporated in column 7.

## TABLE VIII

Consolidated Balance Sheet of Monetary Financial Institutions  
(million zloty)

## LIABILITIES

Specification	2003	2004		
	XII	I	II	III
Currency in circulation	49,416.90	48,529.70	49,604.30	49,906.00
Deposits of central government	21,374.40	32,984.70	30,931.00	37,075.20
Deposits of other domestic residents <sup>1)</sup>	308,934.30	303,736.90	305,809.00	307,192.20
– overnight	108,646.00	103,938.80	106,484.60	111,269.00
– with agreed maturity	200,251.40	199,762.50	199,290.50	195,891.90
– redeemable at notice	36.9	35.6	33.9	31.3
– repurchase agreements	0	0	0	0
Debt securities issued	3,754.50	3,868.50	3,993.50	4,337.20
Capital and reserves	85,423.60	85,158.30	85,671.00	86,102.30
External liabilities	52,735.80	55,717.50	59,074.10	57,257.10
Remaining liabilities	81,418.60	89,144.00	95,169.20	93,934.60
Excess of inter – MFI liabilities	-1,456.90	-1,342.50	-1,382.40	-1,329.40
<b>Total liabilities</b>	<b>601,601.20</b>	<b>617,797.10</b>	<b>628,869.70</b>	<b>634,475.20</b>

<sup>1)</sup> Non-monetary financial institutions, local government, social security funds and non-financial sector.

2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
271,476.50	267,160.30	268,820.20	266,988.20	270,417.70	271,321.20	289,363.70	278,441.60	271,466.20
19,804.40	18,629.70	19,349.00	19,514.70	19,472.20	19,453.80	20,499.80	21,745.70	20,545.70
251,672.10	248,530.60	249,471.20	247,473.50	250,945.50	251,867.40	268,863.90	256,695.90	250,920.50
94,147.30	92,801.50	93,006.10	92,855.00	91,834.40	95,330.00	95,770.10	96,423.80	95,736.00
91,437.20	90,022.30	90,188.40	89,962.00	89,160.10	93,059.90	93,500.60	94,244.00	93,025.50
2,710.10	2,779.20	2,817.70	2,893.00	2,674.30	2,270.10	2,269.50	2,179.80	2,710.50
5,956.80	5,997.30	6,022.40	6,046.20	6,013.20	6,193.30	6,166.10	6,184.30	6,600.30
220,487.90	218,198.10	213,964.00	208,876.60	215,286.20	209,323.90	202,790.30	206,666.00	199,042.20
30,943.10	31,007.40	30,810.30	31,008.40	31,139.70	31,238.90	31,311.10	31,488.80	31,719.10
23,462.30	26,063.00	26,730.40	31,477.90	28,957.40	31,643.40	36,625.70	42,874.60	24,782.80
646,473.90	641,227.60	639,353.40	637,252.30	643,648.60	645,050.70	662,027.00	662,079.10	629,346.60

2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
51,467.80	50,214.40	50,524.90	50,993.30	50,932.90	50,201.80	50,539.20	50,076.30	50,775.50
36,276.50	32,376.30	33,455.90	33,208.90	31,445.50	30,566.20	31,080.10	40,241.70	25,995.90
314,260.10	312,617.90	317,563.20	316,285.60	320,031.40	320,286.30	339,610.00	324,621.90	335,048.70
108,702.90	114,670.10	118,257.40	112,466.00	117,906.50	118,631.80	131,137.00	125,041.40	125,004.90
205,526.40	197,130.00	196,573.80	200,769.70	199,249.60	198,435.10	204,754.60	195,950.40	204,268.90
30.8	30.1	28.1	26.8	25.9	25.4	25.3	26	28.8
0	787.7	2,703.90	3,023.10	2,849.40	3,194.00	3,693.10	3,604.10	5,746.10
4,351.70	4,143.60	4,273.10	4,461.30	4,679.60	4,927.80	4,066.60	3,567.40	3,378.30
84,747.70	86,571.30	88,304.50	88,352.20	88,415.00	88,856.40	88,757.20	88,767.70	90,035.90
58,914.50	63,633.50	58,767.90	56,719.80	58,813.20	60,234.50	55,087.20	57,986.70	55,810.00
98,342.40	93,117.40	87,556.60	88,236.30	89,750.80	90,106.40	92,678.40	96,822.90	68,789.70
-1,886.80	-1,446.80	-1,092.70	-1,005.10	-419.8	-128.7	208.3	-5.5	-487.4
646,473.90	641,227.60	639,353.40	637,252.30	643,648.60	645,050.70	662,027.00	662,079.10	629,346.60

## TABELA IXa

## M3 and Counterparts (million zloty)

Specification	2003	2004		
	XII	I	II	III
1. Currency in circulation (excluding vault cash)	49,417.00	48,529.70	49,604.20	49,906.00
- Currency in circulation (including vault cash)	54,176.60	52,352.10	53,267.90	53,834.80
- Cash in banks vaults	4,759.70	3,822.40	3,663.60	3,928.80
2. Overnight deposits and other liabilities	108,646.00	103,938.80	106,484.60	111,269.00
- Households	57,030.50	55,828.70	57,636.80	57,555.90
- of which individuals	47,367.00	47,208.40	49,416.60	49,189.60
- Non-monetary financial institutions	4,331.60	3,955.80	4,152.90	4,453.60
- Non-financial corporations	35,593.90	32,466.30	32,603.00	36,646.80
- Non-profit institutions serving households	3,721.20	3,442.70	3,434.90	3,478.30
- Local government	7,007.00	7,211.40	7,962.70	8,317.10
- Social security funds	961.9	1,033.90	694.3	817.3
<b>M1 (1 + 2)</b>	<b>158,063.00</b>	<b>152,468.50</b>	<b>156,088.80</b>	<b>161,175.00</b>
3. Deposits and other liabilities with agreed maturity up to 2 years and blocked deposits	179,665.00	179,209.50	178,878.70	175,666.00
- Households	135,374.70	136,003.80	135,906.00	133,903.10
- of which individuals	133,871.80	134,501.90	134,387.30	132,489.80
- Non-monetary financial institutions	4,609.90	3,932.20	3,751.40	3,875.20
- Non-financial corporations	32,642.20	31,214.20	30,514.40	29,447.20
- Non-profit institutions serving households	4,855.40	4,877.10	4,915.20	4,995.90
- Local government	1,784.10	2,744.60	3,260.30	2,906.40
- Social security funds	398.5	437.6	531.4	538.3
4. Deposits redeemable at notice up to 3 months	36.4	35.1	33.3	30.8
<b>M2 (M1+ 3 + 4)</b>	<b>337,764.30</b>	<b>331,713.10</b>	<b>335,000.80</b>	<b>336,871.80</b>
5. Repurchase agreements	0	0	0	0
6. Debt securities issued with maturity up to 2 years	2,284.60	2,174.40	2,301.20	2,411.20
<b>M3 (M2 + 5 + 6)</b>	<b>340,048.90</b>	<b>333,887.50</b>	<b>337,302.00</b>	<b>339,283.00</b>

2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
51,467.90	50,214.40	50,524.90	50,993.40	50,932.90	50,201.80	50,539.20	50,076.20	50,775.50
56,644.60	54,575.30	54,875.70	55,266.10	56,064.50	55,353.80	55,554.40	54,955.00	55,924.90
5,176.80	4,360.90	4,350.80	4,272.80	5,131.60	5,152.00	5,015.20	4,878.70	5,149.40
108,703.00	114,670.10	118,257.40	112,466.10	117,906.50	118,631.80	131,137.00	125,041.40	125,004.90
56,822.90	56,915.30	57,707.50	57,328.10	57,519.20	57,168.30	62,691.70	57,071.20	58,644.40
48,286.60	48,322.60	48,791.70	48,227.50	47,854.30	47,601.70	53,247.70	46,891.80	46,715.50
5,059.30	4,786.90	4,985.40	4,543.70	5,076.40	4,898.80	15,047.60	7,484.10	6,267.20
34,492.30	39,068.80	41,545.60	37,323.00	41,553.50	42,341.50	39,545.00	45,004.00	44,989.40
3,469.00	3,528.20	3,642.20	3,762.80	4,028.60	3,903.90	3,854.10	4,131.20	3,985.10
7,753.50	9,240.10	8,997.20	8,484.20	8,583.30	9,187.20	8,790.30	9,943.90	9,103.50
1,106.00	1,130.70	1,379.50	1,024.40	1,145.60	1,132.10	1,208.30	1,407.00	2,015.30
<b>160,170.80</b>	<b>164,884.60</b>	<b>168,782.30</b>	<b>163,459.40</b>	<b>168,839.50</b>	<b>168,833.50</b>	<b>181,676.20</b>	<b>175,117.60</b>	<b>175,780.40</b>
185,392.70	176,537.00	176,335.40	180,574.10	179,032.50	177,909.20	184,510.80	177,813.40	186,723.00
133,430.40	131,436.20	130,491.30	130,637.90	131,104.80	130,599.80	128,278.20	130,854.80	133,920.70
131,822.90	129,994.60	128,932.70	129,025.90	129,584.90	129,036.10	126,625.60	129,338.30	132,046.30
4,597.20	3,783.50	3,474.20	3,304.10	2,976.20	3,389.00	6,903.70	3,908.50	5,069.30
37,815.80	32,312.10	33,753.10	36,678.40	35,168.70	34,208.00	38,563.40	33,606.00	40,184.60
4,997.10	5,013.20	5,038.90	5,219.00	4,963.60	5,047.10	5,204.90	5,016.60	4,952.80
3,805.30	3,236.10	3,145.00	3,807.60	3,745.30	3,969.70	4,749.90	3,746.20	2,217.20
746.9	755.9	432.8	927.2	1,074.00	695.6	810.6	681.2	378.3
30.4	29.6	27.6	26.4	25.5	23.8	21.8	20.5	20
<b>345,594.00</b>	<b>341,451.20</b>	<b>345,145.30</b>	<b>344,060.00</b>	<b>347,897.50</b>	<b>346,766.50</b>	<b>366,208.80</b>	<b>352,951.50</b>	<b>362,523.40</b>
0	787.7	2,703.90	3,023.10	2,849.40	3,194.00	3,693.10	3,604.10	5,746.10
2,186.60	2,091.70	2,137.90	2,161.70	2,230.20	2,287.90	1,950.20	1,238.50	1,200.60
<b>347,780.60</b>	<b>344,330.60</b>	<b>349,987.20</b>	<b>349,244.80</b>	<b>352,977.10</b>	<b>352,248.50</b>	<b>371,852.20</b>	<b>357,794.10</b>	<b>369,470.10</b>

## TABLE IXb

## M3 and Counterparts (million zloty)

Specification	2003	2004		
	XII	I	II	III
<b>Net external assets</b>	<b>135,888.20</b>	<b>145,725.60</b>	<b>150,087.30</b>	<b>153,862.20</b>
- External assets	188,624.00	201,443.10	209,161.40	211,119.20
- External liabilities	52,735.80	55,717.50	59,074.10	57,257.10
<b>Credit to other domestic residents</b>	<b>270,568.50</b>	<b>271,805.30</b>	<b>273,653.70</b>	<b>272,907.20</b>
Loans to other domestic residents	258,935.90	260,468.30	262,574.40	261,894.20
- Households	101,970.30	102,577.10	103,297.70	104,148.30
- of which individuals	73,947.80	74,343.80	74,812.30	75,474.80
- Non-monetary financial institutions	10,693.30	10,383.90	10,398.50	10,412.50
- Non-financial corporations	130,111.20	132,313.30	133,187.30	132,141.20
- Non-profit institutions serving households	826.3	833.5	834.1	838.6
- Local government	10,475.70	10,362.60	10,335.30	10,138.00
- Social security funds	4,859.10	3,997.80	4,521.50	4,215.50
Holdings of securities other than shares	5,332.20	5,202.70	5,006.10	4,944.50
- issued by Non-monetary financial institutions	701.3	574.3	583.1	523
- issued by Non-financial corporations	2,253.90	2,263.20	2,076.10	2,100.70
- issued by Local government	2,377.00	2,365.10	2,346.90	2,320.80
Holdings of shares/other equity	6,300.40	6,134.40	6,073.20	6,068.60
- Non-monetary financial institutions	4,707.00	4,494.50	4,427.70	4,350.30
- Non-financial corporations	1,593.50	1,639.90	1,645.50	1,718.30
<b>Credit to central government, net</b>	<b>70,158.40</b>	<b>59,596.40</b>	<b>61,842.60</b>	<b>60,321.70</b>
Credit to central government	91,532.80	92,581.10	92,773.50	97,396.90
- Loans	4,043.90	4,054.10	4,023.80	4,008.70
- Debt securities issued	87,308.20	88,340.40	88,579.40	93,224.70
Deposits of central government	21,374.40	32,984.70	30,930.90	37,075.20
<b>Longer-term financial liabilities</b>	<b>106,127.80</b>	<b>105,911.80</b>	<b>106,202.60</b>	<b>106,447.90</b>
Deposits with agreed maturity over 2 years and deposits redeemable at notice over 3 months	20,587.00	20,553.50	20,412.40	20,226.40
- Households	17,488.00	17,730.10	17,547.80	17,400.60
- of which individuals	17,369.50	17,608.40	17,426.50	17,281.20
- Non-monetary financial institutions	1,779.90	1,753.10	1,752.80	1,737.20
- Non-financial corporations	1,150.40	924.8	970.1	946.9
- Non-profit institutions serving households	140.9	124.9	125.2	126.7
- Local government	26.5	20.6	16.4	15
- Social security funds	1.3	0.1	0.1	0.1
Debt securities issued with maturity over 2 years	117.3	200	119.2	119.2
Capital and reserves	85,423.60	85,158.30	85,671.00	86,102.30
<b>Fixed assets (excluding financial fixed assets)</b>	<b>30,589.10</b>	<b>30,574.00</b>	<b>30,709.70</b>	<b>30,793.30</b>
<b>Other items (net)</b>	<b>-61,027.50</b>	<b>-67,902.10</b>	<b>-72,788.70</b>	<b>-72,153.50</b>



2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
161,573.40	154,564.60	155,196.10	152,156.80	156,473.00	149,089.30	147,703.10	148,679.30	143,232.10
220,487.90	218,198.00	213,964.00	208,876.60	215,286.10	209,323.90	202,790.30	206,666.00	199,042.10
58,914.50	63,633.50	58,767.90	56,719.80	58,813.20	60,234.50	55,087.20	57,986.70	55,810.10
<b>277,933.50</b>	<b>273,325.00</b>	<b>274,558.70</b>	<b>272,582.10</b>	<b>275,897.60</b>	<b>277,005.20</b>	<b>294,979.60</b>	<b>284,009.00</b>	<b>278,412.50</b>
266,934.00	262,154.00	263,317.50	261,266.50	264,850.00	266,282.00	284,309.10	273,395.00	266,810.40
107,785.40	108,730.10	109,456.60	109,854.40	111,940.10	112,914.10	128,637.10	117,053.30	115,485.90
78,290.80	78,898.30	79,614.80	80,014.00	81,964.10	83,044.20	98,784.70	87,299.60	86,370.40
10,722.90	10,346.70	10,752.60	10,700.00	10,508.50	10,352.90	10,864.90	10,291.90	9,568.20
132,315.40	128,630.20	128,447.10	126,103.30	127,728.50	127,834.80	128,588.60	128,596.40	125,093.10
847.6	823.6	815	815.7	768.5	765.6	773.2	754.2	773.3
10,092.40	10,058.40	10,034.00	10,067.70	10,334.00	10,370.20	10,621.10	10,643.50	11,086.50
5,170.20	3,565.10	3,812.30	3,725.20	3,570.50	4,044.40	4,824.20	6,055.60	4,803.40
5,042.60	5,173.60	5,218.70	5,269.40	5,034.30	4,529.80	4,504.30	4,429.70	5,001.70
587.2	586	568.2	612	451.5	535.9	503	487.6	602.1
2,122.90	2,193.20	2,249.50	2,281.00	2,222.70	1,734.30	1,766.40	1,692.20	2,108.40
2,332.50	2,394.40	2,400.90	2,376.40	2,360.10	2,259.70	2,234.80	2,249.90	2,291.20
5,956.90	5,997.40	6,022.50	6,046.20	6,013.30	6,193.40	6,166.20	6,184.30	6,600.40
4,335.10	4,355.60	4,390.30	4,407.60	4,365.80	4,487.30	4,451.60	4,474.40	4,776.90
1,621.80	1,641.80	1,632.20	1,638.60	1,647.40	1,706.10	1,714.50	1,709.90	1,823.50
<b>57,369.90</b>	<b>60,257.80</b>	<b>59,834.30</b>	<b>60,098.40</b>	<b>60,922.20</b>	<b>65,273.20</b>	<b>65,240.20</b>	<b>56,798.80</b>	<b>69,394.10</b>
93,646.50	92,634.10	93,290.10	93,307.30	92,367.80	95,839.50	96,320.20	97,040.60	95,390.00
4,371.40	4,841.10	5,346.60	5,560.70	5,419.50	4,909.40	4,910.30	4,916.00	4,539.50
89,104.70	87,627.90	87,787.40	87,585.60	86,800.10	90,800.30	91,265.70	91,994.10	90,734.30
36,276.60	32,376.30	33,455.80	33,209.00	31,445.60	30,566.20	31,080.10	40,241.70	25,995.90
<b>105,003.10</b>	<b>107,285.60</b>	<b>108,664.40</b>	<b>108,669.10</b>	<b>108,753.40</b>	<b>109,505.40</b>	<b>109,126.40</b>	<b>107,033.10</b>	<b>107,717.70</b>
20,134.40	20,593.40	20,238.90	20,196.00	20,217.50	20,527.50	20,247.20	18,142.50	17,554.80
17,275.50	17,125.90	16,927.20	16,890.60	16,977.80	17,458.70	17,199.80	15,081.60	14,591.60
17,156.60	17,004.20	16,807.20	16,761.80	16,840.20	17,292.70	17,017.60	14,885.50	14,371.90
1,720.20	2,158.70	2,127.70	2,129.30	2,073.70	1,940.10	1,929.30	1,989.30	1,947.10
998.2	972.7	1,049.70	1,035.90	1,015.50	964.6	947	887.7	824.2
123.7	114.9	121.3	127.2	136.9	149.4	156.7	166.6	177.2
16.7	221.2	13	13	13.6	14.5	14.4	17.2	14.6
0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0
121	120.9	121.1	120.9	120.9	121.5	122	122.9	127
84,747.70	86,571.30	88,304.50	88,352.20	88,415.00	88,856.40	88,757.20	88,767.70	90,035.90
<b>30,943.10</b>	<b>31,007.40</b>	<b>30,810.30</b>	<b>31,008.40</b>	<b>31,139.70</b>	<b>31,238.90</b>	<b>31,311.10</b>	<b>31,488.80</b>	<b>31,719.10</b>
-75,036.20	-67,538.50	-61,747.70	-57,931.80	-62,702.00	-60,852.80	-58,255.30	-56,148.80	-45,569.90

## TABLE X

## Reserve Money and Counterparts (million zloty)

Specification	2003	2004		
	XII	I	II	III
<b>External assets, net</b>	<b>127,351.00</b>	<b>138,744.50</b>	<b>142,250.70</b>	<b>137,828.50</b>
<b>Official reserve assets</b>	<b>127,804.90</b>	<b>142,417.30</b>	<b>147,965.60</b>	<b>142,375.70</b>
<b>Refinancing credit</b>	<b>4,635.30</b>	<b>4,635.20</b>	<b>4,806.20</b>	<b>4,549.10</b>
– Rediscount credit	0	0	0	0
– Lombard credit	0	0	171	0
– Credit for rehabilitation programmes	0	0	0	0
– Credit for central government investment projects	3,287.50	3,287.50	3,287.50	3,201.40
– Other credit	1,347.70	1,347.70	1,347.70	1,347.70
– Overdue credit	0	0	0	0
<b>Open market operations (net)</b>	<b>-6,000.00</b>	<b>-9,500.00</b>	<b>-6,000.00</b>	<b>-2,000.00</b>
– Auction credit	0	0	0	0
– Auction deposits	0	0	0	0
– NBP bills	-6,000.00	-9,500.00	-6,000.00	-2,000.00
<b>Credit to central government, net</b>	<b>-10,402.70</b>	<b>-22,263.30</b>	<b>-20,213.70</b>	<b>-23,090.30</b>
<b>Other items (net)</b>	<b>-49,265.90</b>	<b>-53,309.10</b>	<b>-56,886.80</b>	<b>-54,267.20</b>
<b>Central Bank reserve money</b>	<b>66,317.70</b>	<b>58,307.40</b>	<b>63,956.30</b>	<b>63,020.10</b>
– Currency in circulation (including vault cash)	54,176.60	52,352.10	53,267.90	53,834.80
– Bank current accounts	12,126.40	5,940.60	10,673.60	9,170.10
– Reserve requirements accounts	14.7	14.7	14.9	15.3

2004								
IV	V	VI	VII	VIII	IX	X	XI	XII
140,118.40	132,898.80	132,174.50	128,477.20	132,121.00	124,844.00	120,677.10	116,126.30	110,029.70
143,094.50	139,102.70	136,018.80	130,276.40	135,760.30	130,353.50	120,722.50	118,654.10	109,996.30
4,549.00	4,549.00	4,433.30	4,433.30	4,433.30	4,351.40	4,351.40	4,351.30	4,230.80
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
3,201.40	3,201.40	3,119.50	3,119.50	3,119.50	3,037.60	3,037.60	3,037.60	2,950.70
1,347.60	1,347.60	1,313.90	1,313.80	1,313.80	1,313.80	1,313.80	1,313.80	1,280.10
0	0	0	0	0	0	0	0	0
-1,100.00	-400	-7,800.00	-7,500.00	-4,100.00	-8,500.00	-5,500.00	-400	-5,740.00
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
-1,100.00	-400	-7,800.00	-7,500.00	-4,100.00	-8,500.00	-5,500.00	-400	-5,740.00
-23,701.10	-20,720.50	-21,586.40	-21,128.90	-19,016.50	-18,315.00	-18,778.70	-25,815.00	-13,813.20
-56,338.90	-50,088.40	-43,404.30	-40,817.70	-42,166.70	-39,147.70	-36,885.30	-30,544.80	-25,534.80
63,527.40	66,238.90	63,817.10	63,463.90	71,271.10	63,232.60	63,864.40	63,717.90	69,172.50
56,644.60	54,575.30	54,875.70	55,266.10	56,064.50	55,353.80	55,554.40	54,955.00	55,924.90
6,867.10	11,648.10	8,925.60	8,181.10	15,190.30	7,862.60	8,289.20	8,746.20	13,230.40
15.7	15.5	15.8	16.7	16.3	16.3	20.8	16.7	17.1

## METHODOLOGICAL NOTES

### TABLE I

#### Basic Economic Data

The information contained in Table 1 is derived from the Statistical Bulletin of the Central Statistical Office [GUS]. Definitions of the categories presented in the Table can be found in GUS publications.

1. The data presented in pt. 1, 2, 6, 7, 10 and 12 comprises national economy entities regardless of their ownership type, i.e. public sector entities (state-owned entities, units of local governments and mixed ownership, where public sector entities prevail) and private sector entities.

2. Corporate sector comprises entities, which conduct their economic activities in the field of: forestry, including the provision of services; marine fishing; mining and quarrying; manufacturing; electricity, water and gas production and supply; construction; wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods, hotels and restaurants; transport, storage and communication; real estate renting and related business activities, renting machines and equipment without an operator and of personal and household goods; computer and related activities; other business activities; sewage and refuse disposal, sanitation and similar services, recreational, cultural, sporting and other services.

3. According to the Polish Statistical Classification of Economic Activities [PKD], the notion of "industry" applies to the following sections: "mining and quarrying", "manufacturing" and "electricity, gas and water production and supply".

4. Data on the industrial output (pt. 1), and construction output (pt. 2) refer to:

– the economic entities with more than 5 employees by the end of 1999 and more than 9 employees since 2000.

5. Data on the value of the industrial output (pt. 1) and the sale of construction output (pt. 2) are disclosed net of due value added tax (VAT) and excise tax, while they include subsidies for specific purposes to products and services in so-called base prices.

6. Industrial output data (pt.2) refers to the works performed in Poland by the business entities of the construction sector, i.e. classified under "construction" according to PKD.

7. Information on industrial output (pt.1) and construction output (pt.2) are disclosed without seasonal adjustment.

8. The data on: the number of persons employed, average employment, gross average monthly employee earnings (pt. 6, 7, 10) refer to national economy entities employing more than 5 employees by the end of 1999 and more than 9 employees since 2000, while the data does not include employees employed abroad, employees of non-governmental organisations, labour unions and other.

9. Data on the number of employed in the corporate sector (pt. 6) is disclosed as at the end of a month.

10. Data on the number of unemployed (pt. 8) comprises people registered in the employment offices at the Local Administrative Districts as at the end of a month.

11. The unemployment rate (pt. 9) stands for the proportion of the unemployed registered in employment offices as a part of the professionally active civil population. Data concerning the registered unemployment rate are presented after taking into account the verified number of persons employed in private farms. The number is a component of the economically active civil population. The verification of the number of the employed was done on the basis of the results of the 2002 Population and Housing Census and 2002 Agriculture Census.

12. Revenues from privatisation do not constitute current revenues of the state budget; instead they finance the budget financial deficit (pt. 11).

13. Corporate financial performance (pt. 12) concerns economic entities which keep accounts and are obliged to prepare statements on their revenues, costs and financial results on a quarterly basis, while the data applies to the entities with a number of employees exceeding 49 for all types of economic activities.

## TABLE II

### Financial Market – Basic Information

The information comprised in Table 2 has been derived from the National Bank of Poland (except for the data in pt. 11 supplied by The Warsaw Stock Exchange).

1. Interest rates in Table 2 are presented on an annual basis at the level binding as at the last day of a month. The average monthly interest rate has been given only for the weighted average yield on bills purchased.

2. Two levels of interest rates shown in one column (pt. 3 – refinancing rate) means that the first interest rate refers to the refinancing credit to finance central investment projects with the State Treasury sureties and is equal to the lombard rate. The other rate, which is higher by 1 percentage point, refers to other refinancing credits.

3. As at 1 December 2001, the NBP introduced the Central Bank deposit rate (pt. 4). The rate sets the price offered by the Central bank to commercial banks for short-term deposits.

4. Total required reserves held (pt. 9) pertain to the volumes declared by banks and binding on the last day of month. Since 28 February 2002, the total required reserves are held exclusively on the accounts maintained in the NBP.

5. Information on treasury bill tenders (pt. 10), except for the bills outstanding at month end) comprises data from tenders conducted within one month. The average yield on bills purchased is weighted with the share of bill sale for bills with different maturity in the total value of bills purchased. The calculation of the bill turnover ratio has also been made on the basis of the maturity date calculated from the day following the date of the tender resulting in the sale of the bill. The turnover does not include bills in circulation traded on WSE.

6. Information on tenders for NBP money-market bills (pt. 11), except for the bills outstanding at month end) comprises data from tenders conducted within one month. Average yield on bills purchased is weighted with the share of sale of bills with different maturity in the total value of bills purchased.

7. Information on trading sessions on Warsaw Stock Exchange (pt. 13) is disclosed on the basis of the Warsaw stock exchange system introduced in November 2000.

8. The Warsaw Stock Exchange Index [WIG Index] (pts. 11 d and 11e) and the Parallel Market Index [WIRR Index] (pts. 11.f and 11 g) are calculated using a so-called capital formula, which reflects percentage changes in the market value of listed companies. The market value of all primary market companies for the WIG Index and the parallel market companies for the WIRR Index (stock capitalisation) is calculated at each session and compared to the value in preceding sessions. It has been assumed that the base values of the WIG Index at the first WSE session held on 16 April 1991 and the WIRR Index in the end of 1994 were equal to 1,000 points.

9. The ratios have been calculated on the basis of companies from all the quotation markets.

10. Capitalization refers to domestic companies only.

11. The P/E ratio shows the relation of market price to net earnings and is calculated as a product of the total market value of companies as at the end of month to their aggregate profits and losses generated within the last 4 quarters available in the form of financial data.

12. Turnover ratio shows the relation between the value of stock sold to the average value of stock quoted in a given month.

13. A monthly turnover value and turnover ratio comprise continuous quotation and the system of the uniform day exchange rate

#### TABLE III

##### PLN/USD and PLN/EUR daily exchange rates in 2004

The information has been based on the data of the National Bank of Poland.

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

2. PLN/USD and PLN/EUR average exchange rate and USD/EUR relation was calculated as the arithmetic average of NBP average exchange rates for a month (based on daily exchange rates).

#### SECTORAL CLASSIFICATION OF ENTITIES IN TABLES IV, V, VI, VII, VIII, IX, X

• **financial sector** – comprises the following sub-sectors:

– monetary financial institutions<sup>1</sup> (including the central bank and other monetary financial institutions). *At present, in Poland, the concept of other monetary financial institutions applies to banks only;*

– insurance corporations and pension funds;

– other financial intermediaries (including SKOK [Co-operative Saving and Credit Unions], financial leasing companies, factoring companies, brokerage offices, investment funds and financial vehicle companies);

– financial auxiliaries (including bureaux de change, bourses, hire purchase institutions);

<sup>1</sup> Monetary financial institutions (MFI) shall be financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than monetary financial institutions and, for their own account, to grant credits and/or to make investments in securities.

- **non-financial sector** – comprises the following sub-sectors:

- state-owned corporations;
- private corporations and co-operatives;
- businessmen;
- farmers;
- individuals;
- non-profit institutions serving households.

In Table IX "M3 and Counterparts" receivables and liabilities of banks in respect of the non-financial sector will be presented in accordance with the EU standards, i.e. sub-divided into three sectors:

- *households* - comprising:

- individuals;
- farmers;
- businessmen (natural persons conducting business activities on their own account, with a maximum of 9 employees);

- *non-financial corporations* - comprising:

- state-owned corporations;
- private corporations and co-operatives (including: businessmen employing more than 9 employees);
- *non-profit institutions serving households*: (separate legal entities, which serve households and which principal resources those derived from occasional sales, are derived from voluntary contributions in cash or in kind from households, from payments made by general government and from property income);

- **general government** - comprises the following sub-sectors:

- central government (including public governing bodies, government administration bodies, state control and law protection bodies, courts and tribunals, state universities, state institutions of culture and welfare, etc.);
- local government (including local administrative offices [at gmina and powiat level], local parliaments, public elementary schools, institutions of culture financed by local governments, welfare institutions, etc.);
- social security funds (comprise the Social Security Fund and the Farmers Social Security Fund and the funds in their management, the healthcare funds).

More detailed information on the new sectoral classification and monetary aggregates is presented on the NBP website ([www.nbp.pl/statistics/money](http://www.nbp.pl/statistics/money) and banking statistics /instructions).

TABLE IV

**Weighted interest rates on zloty deposit offered by commercial banks**

Weighted interest rates are calculated based on data derived from 11 commercial banks, i.e.:

Powszechna Kasa Oszczędności – Bank Polski SA,  
 Bank Handlowy w Warszawie SA,  
 ING Bank Śląski SA,  
 Bank Przemysłowo-Handlowy PBK SA,  
 Bank Zachodni WBK SA,  
 BRE Bank SA,  
 BIG Bank Gdański SA,  
 Bank Polska Kasa Opieki SA,  
 Kredyt Bank SA,  
 Bank Gospodarki Żywnościowej SA,  
 Raiffeisen Centrobank SA.

For residents, these banks held 79.7% of household zloty deposits and 76.0.% of corporate zloty deposits as at the end of December 2004.

Interest rates offered by banks are derived from the monthly reporting to the NBP as of the last day of each reporting month. Interest rates are disclosed on per annum basis, free of capitalisation. Banks supply interest rate on a product with the highest share in a given item category. In the calculation, floating interest rates have been given priority. Fixed interest rate is taken into account only when floating interest rate is not available. A bank offering no product in a given category is not included in the calculation.

The principles of the sectoral presentation of the national economy have changed the presentation of the weighted average interest rates in the Polish banking system implemented in March 2002.

TABLE V

**Weighted average interest rates on zloty lending offered by commercial banks**

In general, weighted average zloty lending rates at commercial banks are calculated in the same way as the weighted average zloty deposit rates at commercial banks presented in Table 4 and they refer to the same group of banks. Their share in the zloty lending to non-financial corporations was equal to 73.6% and 58.9% for lending to households. As a rule, interest rates offered to the clients with highest creditworthiness are included in the reports sent to the NBP.

**General notes to TABLES VI, VII, VIII**

1. The figures are disclosed as at the end of each reporting month and have been derived from balance sheet received from the banks subject to the Banking Reporting Information system (BIS) and from the balance sheet of the National Bank of Poland.

2. The presentation is structured in accordance with the ECB standards.

3. Assets in Tables 6, 7 and 8 are shown gross, i.e. net of provisions, depreciation allowance and write-downs (except for securities at market price).



4. Apart from external assets/liabilities and capitals and reserves, all categories reflect operations with residents.

#### TABLE VI

##### Aggregated Balance Sheet of Other Monetary Financial Institutions – Assets and Liabilities

1. **Loans to domestic residents** (assets col. 1) include current accounts, required reserve, open market operations, deposits, loans and borrowings, debt purchased, exercised guarantees and sureties, other receivables, interest due and claims on securities purchased under repurchase agreements.

2. **Holdings of securities other than shares issued by domestic residents** (assets col. 5) held by the other monetary financial institutions.

3. **Holdings of shares/other equity issued by domestic residents** (assets col. 9) include shares, drawing rights, participation units, investment funds and investment certificates, fixed financial assets.

4. **External assets** (assets col. 12) include all the zloty and foreign currency-denominated assets of non-residents.

5. **Fixed assets** (assets col. 13) are all fixed assets except for financial fixed assets.

6. **Remaining assets** (assets col. 14) include vault cash i.e. cash and other cash equivalents held at other monetary financial institutions, other claims and interest due from all sectors, settlement accounts, settlements with sundry counterparts, deferred income and expenditure, other financial assets, other assets, other operations, interest on securities purchased under repurchase agreement.

7. **Deposits of domestic residents** (liabilities col. 1) represent overnight deposits, deposits with agreed maturities, blocked deposits, deposits redeemable at notice, loans received, including refinancing, auction (open market operations) and claims from cash collateral (classified to "with agreed maturities"), other liabilities and claims on repurchase agreements.

8. **Debt securities issued** (liabilities col. 9) are liabilities on own debt securities issued by other monetary financial institutions.

9. **Capital and reserves** (liabilities col. 10) divide into: a) statutory fund comprising tier-1 capital, paid-in share capital, own shares, registered equity, general risk reserves, reserve capital and profit/loss of preceding periods, b) tier-2 capital i.e. revaluation reserve and other supplementary funds specified in the resolution of the Commission for Banking Supervision (assigned both to residents and non-residents), c) provisions, including specific provisions, depreciation allowance and write-offs due to irretrievable loss of value, provisions for debentures (resident, non-resident), specific provisions for off-balance-sheet liabilities (resident, non-resident), general risk reserve (resident, non-resident).

10. **External liabilities** (liabilities col. 14) include all liabilities to non-residents denominated in zloty and foreign currencies.

11. **Remaining liabilities** (liabilities col. 15) include interest not due on the above-mentioned liabilities, settlement accounts, liabilities to creditors, deferred income and expenditure, contingent liabilities, other liabilities from financial instruments, other liabilities, foreign exchange gains/losses from conversion of subordinated liabilities, reserve for risk and expenditures associated with basic activities of the reporting bank, subordinated liabilities, other operations, interest on subordinated liabilities, profit/loss during approval procedures, current year profit/loss.

TABLE VII

**Balance Sheet of the National Bank of Poland – Assets and Liabilities**

1. The item **loans to domestic** residents comprise receivables from loans granted, including rediscount, lombard, refinancing for central investment projects, loans granted from foreign credit facilities, open market operations, other loans and receivables from deposits as well as interest due on the above-listed operations.

2. **Holdings of securities other than shares issued by domestic residents** (assets col. 5) are securities held by the National Bank of Poland.

3. **Holdings of shares/other equity issued by domestic residents** (assets col. 8) – at the moment for the NBP they include fixed financial assets (equity) only.

4. **External assets** (assets col. 11) include all zloty and foreign exchange-denominated assets pertaining to non-residents.

5. **Fixed assets** (assets col. 12) include total fixed assets except for financial fixed assets.

6. **Other assets** (assets col. 13) include due interest on the above-listed operations, deferred costs, inter-branch settlements and other assets, fixed assets excluded.

7. **Deposits of domestic residents** (liabilities col. 2) represent liabilities on overnight deposits, deposits with agreed maturity, required reserve, auction deposits (open market operations), separated funds and other deposits.

8. **Debt securities issued** (liabilities col.6) represent liabilities on own debt securities issued by the NBP.

9. **Capital and reserves** (liabilities col.7) in the case of the NBP comprises tier 1 capital i.e. registered equity and reserve capital, which include specific provisions, charges to provisions and valuation allowances.

10. **External liabilities** (liabilities col. 10) include all liabilities pertaining to non-residents denominated in zloty and foreign currencies.

11. **Remaining liabilities** (liabilities col. 11) include interest not due on the above-mentioned categories of liabilities, deferred income, inter and intra-MFI settlements and other liabilities.

TABLE VIII

**Consolidated Balance Sheet of Monetary Financial Institutions – Assets and Liabilities**

1. Table 8 comprises a consolidated balance sheet of all monetary financial institutions and it corresponds to the table *Banking System: Commercial Banks and the NBP – Assets and Liabilities* published in the Information Bulletin of the NBP to the issue no. 1-2/2002.

2. In assets and liabilities of the above-mentioned balance sheet, inter-MFI operations have been netted out. Excess of inter-MFI liabilities, presented on the liabilities side (liabilities col. 12), has been calculated with the following algorithm:

*Deposits of other monetary financial institutions* (table VII – liabilities) less *loans to other monetary financial institutions* (table VII – assets) plus *deposits of monetary financial institutions* (table 6 – liabilities) less *loans to monetary financial institutions* (table 6 – assets).

3. Remaining assets (assets) and currency in circulation (liabilities) were decreased by cash in vaults of other monetary financial institutions.

4. On the liabilities' side, debt securities issued by domestic monetary financial institutions and held by this sector were deducted from debt securities issued (col. 8). An identical rule of presentation was applied with respect to capital and reserves (col. 9), i.e. shares and other equity issued by domestic monetary financial institutions, included in the assets of the sector, were deducted from capital and reserves.

## SKRÓTY/ABBREVIATIONS

BCI/DIT	Bezpośredni cel inflacyjny Direct Inflation Targeting
BFG	Bankowy Fundusz Gwarancyjny Bank Guarantee Fund
BIS	Bank Rozrachunków Międzynarodowych Bank for International Settlements
CAEL	Adekwatność kapitału (C), jakość aktywów (A), wyniki finansowe (E) i płynność (L) Capital Asset Earnings Liquidity
CMFB	Komitet ds. Statystyki Monetarnej, Finansowej i Bilansu Płatniczego Committee on Monetary, Financial and Balance of Payment Statistics
CPI	Wskaźnik cen towarów i usług konsumpcyjnych Consumer Price Index
DSPW	Dealerzy Skarbowych Papierów Wartościowych Treasury Securities Dealers
EBC/ECB	Europejski Bank Centralny European Central Bank
EBOiR/EBRD	Europejski Bank Odbudowy i Rozwoju European Bank for Reconstruction and Development
ELIXIR	System wymiany zleceń płatniczych w formie elektronicznej w KIR S.A. KIR SA system for exchange of electronic payment instructions
ERM II	Europejski Mechanizm Kursowy Exchange Rate Mechanism II
ESBC/ESCB	Europejski System Banków Centralnych European System of Central Banks
FSI	Instytut Stabilności Finansowej Financial Stability Institute
GIIF	Generalny Inspektor Informacji Finansowej General Inspector of Financial Information
GINB	Generalny Inspektorat Nadzoru Bankowego General Inspectorate of Banking Supervision
GUS	Główny Urząd Statystyczny Central Statistical Office
HICP	Zharmonizowany indeks cen konsumpcyjnych Harmonised Index of Consumer Prices
IBAN	Międzynarodowy Numer Rachunku Bankowego International Bank Account Number
JVI	Joint Vienna Institute
KIR S.A.	Krajowa Izba Rozliczeniowa S.A. National Clearing House SA
KDPW S.A.	Krajowy Depozyt Papierów Wartościowych S.A. National Depository for Securities SA
KNB	Komisja Nadzoru Bankowego Commission for Banking Supervision
KNUiFE	Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych Insurance and Pension Funds Supervisory Commission
KPWIG	Komisja Papierów Wartościowych i Giełd Securities and Exchange Commission

MFW/IMF	Międzynarodowy Fundusz Walutowy International Monetary Fund
MP S.A.	Mennica Państwowa Polish State Mint
NBP	Narodowy Bank Polski National Bank of Poland
NRB	Numer Rachunku Bankowego Bank Account Number
NUK/Basel II	Nowa Umowa Kapitałowa New Capital Accord
OECD	Organizacja Współpracy Gospodarczej i Rozwoju Organisation for Economic Co-operation and Development
pb/b.p.	Punkt bazowy Base Point
PKB/GDP	Produkt krajowy brutto Gross Domestic Product
PKN	Polski Komitet Normalizacyjny Polish Committee for Standardization
PWPW S.A.	Państwowa Wytwórnia Papierów Wartościowych S.A. Polish Securities Printing Works SA
RPP/MPC	Rada Polityki Pieniężnej Monetary Policy Council
RTGS	System rozrachunku brutto w czasie rzeczywistym Real-Time Gross Settlement
SORBNET	System Obsługi Rachunków Banków w Centrali NBP NBP Head Office System for Interbank Transactions
TARGET	Transeuropejski zautomatyzowany system rozrachunku brutto w czasie rzeczywistym Trans-European Automated Real-time Gross Settlement Express Transfer System
UE/EU	Unia Europejska European Union
UGW/EMU	Unia Gospodarcza i Walutowa Economic and Monetary Union
UOKiK/OCCP	Urząd Ochrony Konkurencji i Konsumenta Office for Competition and Consumer Protection
XML	Rozszerzalny język znaczników Extensible Markup Language
ZBDE/IED	Zintegrowana Baza Danych Ekonomicznych Integrated Economic Database
ZBP/PBA	Związek Banków Polskich Polish Banking Association
ZSK/IAS	Zintegrowany System Księgowy Integrated Accounting System

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