



Annual Report 2005



Leszek Balcerowicz

President of the National Bank of Poland

The mission of the National Bank of Poland is to oversee the value of the Polish currency, provide for a stable and safe banking system and manage the Polish official foreign exchange reserves. Its mission also includes scientific research and the economic education of the general public. The NBP carries out the tasks entailed by its membership in the European System of Central Banks and takes steps aimed at Poland's adoption of the single European currency. In accomplishing these tasks in 2005, the NBP acted on the basis of the *Monetary Policy Strategy beyond 2003*, *Monetary Policy Guidelines for the Year 2005* and the *Plan of Activity for 2004–2006*.

In 2005, the Monetary Policy Council continued its measures to anchor inflation and inflation expectations at a low level, thus creating the conditions necessary for fast and sustainable economic growth and for Poland's accession to the euro area. In 2005, the reference interest rate of the central bank was reduced from 6.5% to 4.5%. At the end of 2005, inflation dropped below 1%, diverging from the inflation target which, since January 2004, has been 2.5%, with a fluctuation band of ± 1 percentage point, and is of a continuous character. To a significant degree, this divergence was the result of one-off factors, primarily of a drop in fuel and food prices. Inflation throughout the year was restrained by the strong nominal exchange rate of the zloty.

The banking sector is a main part of the Polish financial system and a stable and thriving financial system enhances the development of the economy and enables the income of the public to increase on a sustainable basis. In looking after the stability and safety of the banking system, the National Bank of Poland protects the value of bank deposits. In the years 2000–2005, banks' capital base went up by 48%. Banks' solvency ratio stood at 14.6% at the end of 2005, considerably exceeding the minimum 8% level. The quality of their loan portfolios improved significantly – the ratio of non-performing loans to total loans went down from 10.1% in 2004 to 7.4% in 2005. The ratio of financial results to banks' assets and capital as well as efficiency, measured in terms of revenue/cost ratio, have also been improving systematically. In 2005, Polish banking supervision continued intensive preparations to implement the New Capital Accord, which will become effective as of 1 January 2007.

The third core area of NBP's activities is the management of the Polish official foreign exchange reserves. The reserves support the stability of the zloty exchange rate and reduce the risk, as perceived by financial markets, of investing in Polish currency. Adequate foreign exchange reserves increase Poland's financial credibility and enable the state and private entities to take loans denominated in foreign currencies that bear a relatively lower interest rate. In its management of reserves, the NBP observes two principles: to ensure the safety of invested funds and maintain their liquidity at an appropriate level. Acting in keeping with these guidelines, the NBP aimed to generate a maximum return on investment. Income from foreign exchange reserves in 2005 made it possible to transfer the amount of PLN 1.1 billion to the central budget.

In 2005, the focus of NBP research was on current analyses of the effectiveness of monetary policy and inflation processes, economic conditions, the economic situation in the corporate sector, households, and on the labour market.

Following the example of other central banks in the world, the National Bank of Poland continued its Programme of Economic Education, which is aimed at enhancing the general public's knowledge of the central bank and the banking system, among other subjects. In 2005, the Economic Education Portal was further developed and the number of its users increased almost three-fold, to over 1.5 million. The NBP also organised contests on economic issues for school and university students, as well as journalists. As part of an information campaign, the NBP organized Open Door Days at the bank's headquarters and regional branches, during which over 30,000 persons visited the NBP.

2005 was the second year of Poland's membership in the European Union. NBP representatives participated in the work of the ECB Governing Council, the ECOFIN Council, the EU Council, and European Commission committees and work teams. In 2005, the NBP started to transfer data related to the consolidated balance sheets of financial monetary institutions and interest rate statistics to the ECB. In 2005, steps were also taken to integrate the newly-created euro settlement infrastructure with systems that are in place in the European Union, i.e., TARGET, STEP2, and EURO1. As part of the collaboration with the ECB in counteracting euro counterfeiting, the NBP joined the Counterfeit Monitoring System.

In 2005, the National Bank of Poland continued internal reforms aimed at improving the efficiency and security of operations, and the reduction of general expense. The Risk Management System introduced in 2004 was further developed and the IT infrastructure was modernised. As a result of the rationalisation measures implemented in 2002–2005, the number of employees at the NBP decreased by a total of 27%. The process of organisational and personnel changes in the Bank's regional branches was also completed in 2005.

A stable currency, a healthy banking system, sufficiently large and professionally managed foreign exchange reserves are the pre-conditions for a stable, fast and sustainable development of the economy. By overseeing the above, the National Bank of Poland makes a significant contribution to the process of building a healthy free-market economy which, in turn, leads to a systematic improvement in the living standards of the entire society.

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:

Dariusz Filar

Andrzej Sławiński

Andrzej Wojtyna

appointed by the Sejm:

Jan Czekaj

Mirosław Pietrewicz

Stanisław Nieckarz

appointed by the Senate:

Marian Noga

Stanisław Owskiak

Halina Wasilewska-Trenkner

Management Board of the National Bank of Poland

Chairperson

Leszek Balcerowicz

Members:

Jerzy Pruski

First Deputy President of the NBP

Krzysztof Rybiński

Deputy President of the NBP

Andrzej Jakubiak

Tomasz Pasikowski

Paweł Samecki

Józef Sobota

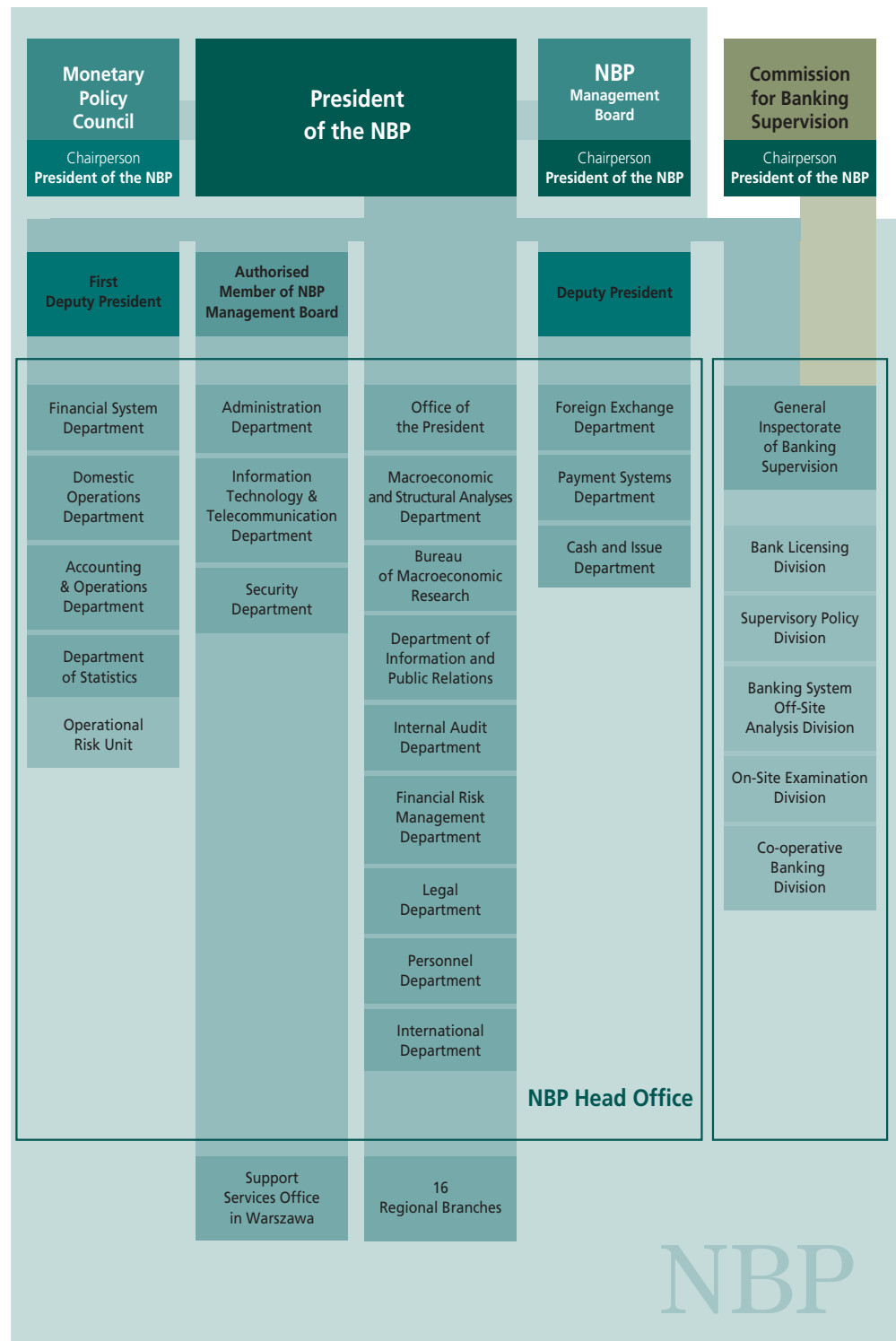
Jerzy Stopyra

Anna Trzecińska (as of 2 June 2005)



ORGANISATION CHART OF THE NATIONAL BANK OF POLAND

As at December 31, 2005





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 2005 the NBP conducted its activities pursuant to the *Monetary Policy Strategy beyond 2003* and the *Monetary Policy Guidelines for 2005* 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 2005 with regard to the following areas: monetary policy, banking supervision, issue of currency, management of official reserves, foreign exchange operations, 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, internal activity, and 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 2005, the organisational structure of the NBP comprised the NBP Head Office, 17 organisational units¹ 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. The year 2005 was the second year of Poland's membership in the European Union, and of NBP's participation in the European System of Central Banks. With regard to the fact that Poland, as a country with a derogation, participates in the Economic and Monetary Union within a limited scope, NBP representatives participate in the work of the ESCB according to the principles set forth for the EU Member States remaining outside the euro area. The most important works related to the European integration in 2005 included research connected with participation in the ERM II and in the euro area, works to adopt the provisions of the New Capital Accord (NCA) to the Polish banking system and to integrate the Polish payment system with the Single European Payment System, further adjustments within the statistical activity, issuing opinions about EU legal drafts, and monitoring the ongoing operation of EU institutions.
5. In 2005 the average inflation measured with the Consumer Price Index (CPI) stood at 2.1% and was lower than all available forecasts of external units performed in 2004 and 2005. The annual CPI dropped from 3.7% in January down to 0.7% in December, whereas the net inflation fell, respectively, from 2.3% to 1.0%. Strong slides of both inflation measures largely effected from waning of the temporary inflation growth in 2004 as a result of Poland's joining the European Union. The process of waning of the accession shock had an impact of the inflation level primarily in the first half of 2005. The waning shock was reflected in the current inflation coming level with the net inflation. However, in the third quarter of 2005, the current inflation surged above the level of net inflation, mainly due to the rapid growth of oil prices on world markets. On the other hand, the drop in current inflation below the net inflation level in the fourth quarter of 2005 entailed from the decline in food prices and the lowered distribution margins on fuel markets. The lack of secondary effects of the inflation shock in 2004, a lower than expected growth in domestic demand in the fourth quarter of 2004, and a considerable fall of inflation on the turn of 2004 indicated that, following the period in which the EU effect was observed in the level of the 12-month CPI, the current inflation would plummet. Facing these circumstances, the Monetary Policy Council cut the interest rates twice, in March and April 2005, by 100 basis points jointly. The inflation projection developed in May confirmed that in the mid-term the then-prevailing level of interest rates should have ensured the shaping of inflation close to the inflation target. However, data on economic developments from the period from June to August indicated that the economic growth rate in 2005, and thus the inflationary pressure, might have been considerably lower than expected in the projection from May. In these circumstances the Council decreased the interest rates on three consecutive occasions in

¹ As of 1 May 2005.

the period from June to August, by 100 basis points jointly. The MPC did not change interest rates in the period from September to year-end, since developments in the economy largely converged with the August inflation projection which envisaged gradual recovery of the economic climate. An additional factor that restrained the MPC from lowering interest rates was the risk related to surging oil prices on world markets. The economic developments in the closing months of 2005, i.e. the considerable recovery of the economic climate and the simultaneous inflation at a level lower than had been forecasted prompted the MPC to consider the possible impact on inflation processes of such structural factors as increased competition on the products market, higher flexibility of the labour market, sustained favourable trend in the labour efficiency ratio, and a lower than expected degree of shift of changes in commodity prices to domestic prices. To sum up, the course of economic processes and phenomena that shaped the inflation enabled the MPC gradual easing of the monetary policy, aimed at meeting the inflation target. Interest rates were decreased five times, by 200 basis points altogether (from 6.5% to 4.5%). Eased monetary policy fuelled the growth of economic activity and job creation. The MPC shall continue to analyse in detail all changes in the economic and financial standing of the country against a threat to price stability. In the case of such a threat, it shall duly respond with the use of the monetary policy instruments at its disposal.

6. The NBP conducted the monetary policy using the set of instruments adopted by the MPC in the *Monetary Policy Guidelines for the Year 2005*. Their profitability was determined by the NBP official interest rates: the reference interest rate, the deposit interest rate, and the lombard rate. Conducting open market operations, the NBP had an impact on the level of short-term market rates. In 2005, in order to streamline liquidity management in commercial banks, and in relation to the actions undertaken to adjust the NBP monetary policy operational system to the requirements of Eurosystem, the Monetary Policy Council shortened the maturity of the NBP money market bills issued (within the framework of main refinancing operations) from 14 to 7 days. The average divergence of the market rate with a maturity of one week from the NBP reference rate stood at 9 basis points. The standing facilities provided by the NBP allowed banks to make up for their shortfalls and deposit their surplus of funds with the central bank – via the lombard loan or marginal lending facility.
7. The level of excess operational liquidity of the banking sector, measured as the yearly average balance of NBP money market bills, stood at PLN 16,699 million and was up by PLN 11,424 million compared to the average level in 2004. The growth in excess liquidity resulted primarily from NBP foreign currency transactions, following from the buying-in of foreign currencies by the central bank connected with the flow of EU funds. Another important reason was the drop in budget deposits with the central bank, caused by the limited level of zloty term deposits maintained with the NBP.
8. One of the objectives of the monetary policy conducted is strengthening of credibility of the NBP as an institution responsible for the value of Polish currency – attained mainly through stabilising inflation at a low level, transparency of activities and communication with financial markets, *entrepreneurs*, and the general public. In 2005, the NBP arranged press conferences, both following meetings of the Monetary Policy Council and presenting *Inflation Reports*. About 250 written answers have been given and nearly 140 interviews and meetings with representatives of the Bank's authorities were arranged.
9. Pursuant to Article 3 section 2 para. 6 of the Act on the National Bank of Poland, the responsibilities of the NBP shall include "laying down the necessary conditions for the development of the banking system". The Polish central bank performs this responsibility on an ongoing basis by maintaining low inflation. Moreover, in 2005 the NBP focused on the development and ensuring liquidity of the payment system and on ensuring safety of funds on bank accounts (see para. 14). The NBP also participated in the drafting of legal regulations concerning the banking sector, conducted analyses of financial system stability, cooperated with the Bank Guarantee Fund, and supported the banking sector in the form of contributions to the BGF.

10. The activity of the banking supervision was very important for "laying down the necessary conditions for the development of the banking system". The banking supervision realised the objectives specified in the Banking Act, which comprise safe and lawful running of banking activity, including but not limited to: 1) the safety of funds accumulated on bank accounts, 2) compliance of banks' activities with their articles of association and the decision on issuing the permit to establish a bank, as well as control of entities applying for a permit to conduct banking activity, acting as bank's founders, shareholders, and management board members. In the performance of the above, the following documents, among others, were issued: 1 permit to establish a bank, 10 resolutions concerning exercising of the voting rights at the general meeting of bank's shareholders, 2 permits to launch agencies, 51 resolutions concerning expressing consent for appointment of banks' management board members, 196 decisions concerning amendments to banks' articles of association, and 9 notices were received concerning the taking up of activities by branches of credit institutions on the territory of Poland and 46 notices concerning the taking up of cross-border activities by credit institutions. Supervisory activities covered 53 banks incorporated as public companies, 1 state-owned bank, 7 branches of credit institutions, 19 representative offices of foreign banks, and 588 cooperative banks. In 2005, within the works aimed to integrate the provisions of the New Capital Accord into the Polish banking system, consultations with the banking sector were conducted to select the so-called national options, and agreements with supervisory institutions in Belgium, China, the Netherlands, and the USA were entered into.
11. The main responsibility of the issuing activity of the NBP was to ensure safe and liquid cash flow cycle. The basic principles of this activity did not change in 2005. To face the ever-greater public interest, the NBP continued the issue of collector coins. Within the cooperation with the European Central Bank regarding counteracting euro counterfeit, the NBP gained access to and commenced entering data on cases of counterfeit euro found in Poland to the Counterfeit Monitoring System maintained by the ECB. The NBP also undertook actions aimed at facilitating the review of the there-stored data by the Police.
12. In the management of foreign exchange reserves, the NBP followed two principles: safety of invested funds and maintenance of sufficient liquidity of reserves. Under these assumptions, the NBP pursued maximum return on investment. The investment instruments applied by the NBP in 2005 were discounted securities, fixed interest rate securities issued by governments, international institutions and non-governmental financial institutions, as well as deposit transactions. A new element in the management of foreign exchange reserves in 2005 was NBP's own structure of the benchmark portfolio, used for the analysis of profitability and efficiency of official reserves management. In previous years, the benchmark portfolio was established with the use of external indices. The profit on investment activity in 2005 amounted to PLN 3.4 bn. The profitability of foreign exchange reserves stood at 2.6%.
13. The foreign exchange activity of the NBP, conducted by the Bank's Head Office and regional branches, consisted in the maintenance of a register of bureau de change activities, issuing permits concerning foreign exchange issues, and control of foreign exchange trading. In 2005, a total of 1,710 decisions and 26 resolutions concerning foreign exchange were issued, as well as 2,454 controls of foreign exchange trading were conducted. As at 31 December 2005, there were 3,852 bureaux de change operating in Poland.
14. Activities of the National Bank of Poland for the benefit of the payment system comprised mainly organisation of money settlements, exercising supervision over payment systems, authorization and settlement systems as well as over securities settlement systems, and drafting appropriate legal regulations. The activities of the National Bank of Poland for the benefit of the payment system in 2005 were focused on integration of the newly-created infrastructure for euro settlements with the systems functioning in the European Union, i.e. the TARGET system and the STEP2 and EURO1 systems. Another significant area of activity were works related to the supervision of payment systems as well as authorization and settlement systems.

In 2005, the NBP began collection and analysis of statistical data concerning the functioning of the payment system within the scope of new entities: cooperative savings and credit unions, Poczta Polska, entrepreneurs conducting business activity that consists in effecting money orders and intermediation in their performance both in the domestic and foreign trade, and entrepreneurs conducting business activity that consists in intermediation in accepting payments to bank accounts. The NBP continued its cooperation with the banking environment, primarily within the Council for the Payment System and undertakings performed in cooperation with the Polish Bank Association. The cooperation resulted, among other things, in the activities aimed to develop non-cash transactions, launch of mechanisms that streamline interbank settlements, elaboration of a dynamic standing order model for volatile amounts, and standardisation of principles of effecting mass payments. The NBP participated in works on the development strategy for the National Clearing House and the National Depository for Securities, and in works on new legal acts regulating the functioning of the Polish financial market.

15. The NBP conducted educational activities aimed at raising the public knowledge, *inter alia*, concerning the central bank and the banking system, including but not limited to money and inflation. In 2005, the Economic Education Portal was further developed – the number of portal users picked up almost threefold and exceeded 1.5 million. Additionally, the NBP organised competitions on economic issues targeted at secondary school students, university students, and journalists, as well as training sessions for teachers. Within the framework of informational activity a campaign concerning introduction of the euro was conducted and Open Days were organised in the NBP Head Office and regional branches. About 9,000 people visited the Bank's premises.
16. The maintenance of bank accounts by the National Bank of Poland contributes to the safety and liquidity of public funds settlements. In 2005, the NBP provided services to 3,500 account holders and maintained about 14,600 accounts. The number of users of the "enbepe" Electronic Banking System increased further and stood close to 100% of all account holders. In 2005, the NBP made the *Business To Business (B2B)* inter-system interface available to the Ministry of Finance, which connects directly financial and accounting systems of the NBP and the MF. The new system significantly streamlined handling of MF bank account in the NBP. Moreover, the central bank launched handling of foreign liabilities and receivables of the central budget, trading in Treasury securities, and cooperated with the Ministry of Finance in public debt management.
17. In its research in 2005, the NBP focused on ongoing research concerning efficiency of the monetary policy and inflation processes, the economic climate, public finance, structural changes in the economy, the economic condition of enterprises and households, and the labour market. Results of the research were used in designing the monetary and the exchange rate policies, and in taking decisions by the NBP Management Board of the Monetary Policy Council. Within the preparation for adoption of the single currency the results of hitherto-conducted research were updated within the scope of, among other things, the optimal moment of joining ERM II and the optimal level of the real effective exchange rate of the zloty. Moreover, analyses were conducted concerning business activity in the regional breakdown, utilisation of EU funds, and interrelations between the labour market and the monetary policy. Within the scope of performance of the direct inflation target a new formula of balance of factors shaping future inflation was developed. The NBP improved the ECMOD forecasting model, expanded analyses of international economic climate and conducted regular research concerning stability and development of the Polish financial system. In 2005, 4 international conferences and 17 scientific seminars were held at the NBP.
18. Following Poland's joining the European Union, the statistical activity of the National Bank of Poland expanded significantly and is subject to numerous, changing requirements of the European Central Bank. In relation to the above, the NBP continued the implementation of ECB requirements within the scope of statistical tasks. The adjustment works covered a few areas

– monetary, banking, and financial statistics, the statistics of the balance of payments and profit and loss accounts, and the statistics of other financial intermediation establishments. Within the performance of these tasks, the NBP commenced to submit to the ECB data on the consolidated balance sheet of monetary financial institutions (MFI) and interest rate statistics, and collaborated with the Central Statistical Office and the Ministry of Finance within the following teams: for the general government sector statistics, the foreign sector statistics for the purpose of national accounts and the balance of payments, and for the statistics of income from labour of residents and non-residents. In 2005 the NBP joined, as an observer, the European Committee of Balance Sheet Data of Non-financial Entities.

19. NBP representatives participated in meetings of the Committee of the Council of Ministers, the European Committee of the Council of Ministers, and of the Council of Ministers. In 2005, the NBP cooperated with the government, *inter alia*, within the framework of the Committee of Public Debt Management and the Inter-departmental Working Group for Poland's Integration with the EMU, whereas members of the Monetary Policy Council arranged meetings with representatives of the Council of Ministers. The NBP collaborated with state authorities issuing opinions on normative and non-normative draft acts as regards the economic policy and the banking system. As a member of the ESCB, the NBP issued opinions on drafts of EU legal acts.
20. Representing the central bank and Poland on the international forum, in 2005 NBP participated, *inter alia*, in works of such bodies as ECB General Council, ESCB committees and working groups, ECOFIN Council, committees and working groups of EU Council and the European Commission. They also cooperated with the World Bank, the International Monetary Fund, the Organisation for Economic Co-operation and Development, the Bank for International Settlements, and the European Bank for Reconstruction and Development. The NBP continued its training support programme delivered to supervisory institutions within the Training Initiative for Banking Supervision (TIBS).
21. As far as internal audit is concerned, further works were conducted aimed at ensuring full compliance with the International Standards for the Professional Practices of Internal Auditing. Moreover, the Risk management System, launched in 2004, was developed: a resolution of the Management Board was elaborated concerning operational risk management in the NBP, and a methodology of activities of risk managers. The main directions of investment activity were modernization of NBP's communication and IT infrastructure to meet the requirements of the reporting system operated in the NBP, enhancing safety of critical systems, improvement of bank protections, and further automation of bank vault and cash-desk operation. In 2005, the average one-year staffing in the NBP amounted to 4,627 full-time positions and slid, as compared to 2004, by 298 full-time positions, i.e. by 6%. As a result of reductions made in the years 2002–2005 the staffing in the NBP decreased by a total of 1,704 full-time positions, i.e. by 27%. In 2005 the process of organisational and personnel changes in NBP field offices – through a merger, as of 1 May 2005, of the Regional Branch in Warsaw and the Chief Branch of Foreign Exchange into a single organisational unit.
22. Pursuant to Article 69 section 1 of the Act on the National Bank of Poland, the NBP Financial Statements for 2005 have been reviewed by a certified auditor appointed by the Monetary Policy Council. In the opinion of the certified auditor, the financial statements present true and fair view of all material aspects of the assessment of the financial results for the period from 1 January 2005 to 31 December 2005, as well as the asset position and the financial condition of the NBP as at 31 December 2005, and complies with applicable legal regulations. An opinion of the certified auditor is presented in Appendix No. 11 to the *Statements*.
23. In 2005, NBP profit stood at PLN 1,218,975,900, of which payment to the central budget shall amount to PLN 1,158,027,100.

GOVERNING BODIES
OF THE NATIONAL BANK OF POLAND

Pursuant to the Act on the National Bank of Poland of August 29, 1997, which took effect on January 1, 1998, the governing bodies of the NBP² 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. In 2005, the President of the NBP took part, as a full member, in the meetings of the General Council of the European Central Bank in Frankfurt.

In 2005, 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 Basel;
- meetings of the ECOFIN Council enlarged with the governors of central banks.

In 2005, the President of the NBP issued 18 regulations, which concerned:

- specification of the design, alloy, fineness, mass and mintage of coins;
- the manner of performing interbank settlements;
- the manner and procedures for counting, sorting, packing and marking packages of notes and coins, and performing activities related to the supply of banks with notes and coin;
- authorisation to take decisions concerning individual foreign exchange licences;
- the manner of maintaining the register of bureaux de exchange, 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 2005, the Monetary Policy Council held 15 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). Moreover, the MPC held 14 working meetings along with numerous meetings concerning ongoing work.

The MPC adopted 5 resolutions concerning the decrease 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 2004 and 2005.

Table 1

NBP interest rates as at the end of 2004 and 2005 (percentage points)

Reference rate		Lombard rate		Deposit at the NBP		Bill of exchange rediscount	
Dec 31, 2004	Dec 31, 2005	Dec 31, 2004	Dec 31, 2005	Dec 31, 2004	Dec 31, 2005	Dec 31, 2004	Dec 31, 2005
6.5	4.5	8.0	6.0	5.0	3.0	7.0	4.75

Source: NBP data.

² Dziennik Ustaw [Journal of Laws] of 2005, No. 1, item 2 as amended.



Additionally, the MPC passed resolutions concerning the following matters:

- approving the annual financial statement of the NBP as at 31 December 2004,
- approving the report on monetary policy implementation in 2004,
- assessing the activity of NBP Management Board with regard to the implementation of monetary policy guidelines in 2004,
- approving the report on NBP activities in 2004,
- establishing monetary policy guidelines for 2006,
- establishing a ceiling on the liabilities arising from loans extended by foreign banking and financial institutions to the NBP,
- selection of the certified auditor to examine the annual financial statement of the NBP for the business year 2005 and for 2006,
- approving the NBP financial plan for 2006,
- 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,
- amendments to the resolution concerning the principles of performing open market operations.

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 2004* and balances of payments of the Republic of Poland for the first and second quarters of 2005,
- *Poland's International Investment Position in 2004*,
- *Forecast of Poland's Balance of Payments in 2006*,
- *Opinion on the Budget Act draft for 2006*.

Moreover, the MPC adopted three quarterly reports on inflation (in February, May, and August), which include an assessment of perspectives of the inflation process in the context of the monetary policy.

In 2005, members of the Monetary Policy Council met with government representatives:

- on 7 February 2005 – with Marek Belka, Chairman of the Council of Ministers, Mirosław Gronicki, Minister of Finance, and Jerzy Hausner, Minister of Economy and Labour, in order to discuss Poland's perspectives of joining ERM II and the euro area.
- on 16 August 2005 – with Mirosław Gronicki, Minister of Finance, in order to discuss issues included in the document: *Poland's Integration with the Euro Area: Conditions of Membership and Strategy for Process Management*.

On 18 October 2005 the annual meeting of the Monetary Policy Council with representatives of commercial banks took place. During the meeting, the Monetary Policy Guidelines for 2006 were presented, and issues concerning the functioning of the payment system and the developments on the loans to households market were discussed.

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. NBP Management Board 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 2005, the Management Board elaborated and considered draft resolutions and other materials to be discussed at MPC meetings.

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

- economic and formal conditions of Poland's joining ERM II and the euro area,
- ongoing macroeconomic developments, including the course of the inflation process, the condition of public finance, the economic condition of enterprises and households, the developments on the labour market and on the loan market,
- inflation projection results,
- issues concerning financial sector stability, including the assessment of functioning and outlooks for the development of the banking system,³
- issues related to open market operations,
- issues concerning the management of foreign currency reserves,
- issues concerning functioning of the payment system, including launch of new interbank euro settlement systems and the future participation of Poland in the common platform of TARGET 2,
- issues relating to the strategy of further development of the National Depository for Securities and the National Clearing House.

In 2005, NBP Management Board held 85 meetings, during which it adopted 74 normative resolutions, 13 non-normative resolutions, and 357 decisions. The most important decisions included:

- Resolutions concerning the following matters:
 - Introduction of Rules of the performance of payment orders and cheque transactions in foreign currencies and in the domestic currency in international operations, and the buying-in and sale of foreign currencies to holders of bank accounts at the NBP. The resolution was amended in connection with the launch of new settlement systems, i.e. SORBNET-EURO and EURO-Elixir, as of 7 March 2005.
 - Amending the resolution on the terms and conditions of opening and operating of banks' accounts at the National Bank of Poland. The resolution was elaborated in relation to the necessity to adjust its provisions to changes resulting from the introduction of SORBNET-EURO.
 - Amending the resolution on the procedures and detailed principles of forwarding data necessary to draw up the balance of payments, and the balance of central budget foreign liabilities and receivables, by banks to the National Bank of Poland. The amendment was prompted, among other things, by the adjustment of balance of payments reporting to the requirements of the European Central Bank.
 - Amending the resolution on the procedures and detailed principles of forwarding data necessary to establish the monetary policy and perform periodic assessments of the monetary condition of the state, and evaluation of financial condition of banks and the banking sector risk, by banks to the National Bank of Poland. The amendment resulted mainly from the provisions of Act amending the Accounting Act, which took effect as of 1 January 2005, and introduced the standards adopted by the International Accounting Standards Committee into the Polish legal system.
 - Amending the resolution on the introduction of the Rules of maintaining of securities deposit accounts and handling operations on securities and their registration on deposit

³ Activities within this scope have been discussed in detail in particular chapters.



accounts of the securities by the National Bank of Poland. The amendment was aimed to facilitate – as of January 2006 – participation in tenders for Treasury securities to foreign entities with the status of Treasury Securities Dealers.

- Amending the resolution on issuing NBP money market bills. The amendment expanded the possibility of issuing NBP money market bills. As of 1 January 2006, the NBP may issue money market bills with maturities from 1 day to 365 days. The amendment also expanded access to the primary market of NBP money market bills. As of January 2006, all domestic banks, branches of foreign banks, and branches of credit institutions, with and without the status of money market dealers, have access to the market, provided that they meet the general and operational criteria.
- Decisions concerning the following matters:
 - the manner of NBP’s participation in TARGET 2,
 - entering into an agreement with the Bank of Italy concerning joining the SORBNET-EURO system with TARGET,
 - NBP’s accession to STEP-2 – the pan-European clearing house,
 - signing a Memorandum concerning cooperation on contingency management in the European Union among central banks, banking supervision institutions, and ministries of finance,
 - adopting a position by the NBP concerning the proposals of the European Commission presented in its Green Book concerning EU future financial services market,
 - filing an application with the Minister of Economy and Labour for authorisation of the NBP to perform the function of an entity providing certification services, which consist in manufacturing of certificates and issuing certificates on behalf of the Minister, and for approval of the *Certification Policy of the National Certification Centre* document.

2005
Annual Report

NBP



2

MONETARY POLICY

2.1. Monetary Policy Strategy in 2005⁴

This report covers the implementation of monetary policy in 2005, whose principles have been formulated in Monetary Policy Guidelines for the Year 2005.

Pursuant to Article 227 section 1 of the Constitution of the Republic of Poland, "The National Bank of Poland shall be responsible for the value of Polish currency". The provisions of Article 3 of the Act on the National Bank of Poland of 29 August 1997 stipulate 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".

At present, price stability is construed by central banks as the inflation rate low enough not to exert a negative impact on investment, savings, and other important decisions taken by participants of the economic life. Ensuring so-understood stability is the basic way in which the central bank contributes with its decisions to attainment of high, sustained economic growth.

The policy of the Monetary Policy Council is based on the direct inflation targeting strategy (DIT). International experience shows that such strategy is an effective way to ensure price stability. In the Monetary Policy Strategy beyond 2003, adopted in February 2003, the MPC adopted the so-called permanent inflation target at the level of 2.5% with a symmetrical deviation band of ± 1 percentage point. In February 2004 the present MPC acknowledged the basic elements of the Monetary Policy Strategy beyond 2003, i.e. the inflation target level and the fluctuation band, as well as application of a floating exchange rate until Poland's joining ERM II.

The Council stressed, on numerous occasions, that the most favourable for Poland would be an economic strategy oriented at creating conditions ensuring adoption of the euro on the closest possible date, which would contribute to acceleration of the long-term economic growth.

In the *Monetary Policy Guidelines for 2005*, the Council presented its interpretation of the inflation target and the way of its implementation:

- Firstly, implementation of the permanent target means that it refers to inflation as measured month to the corresponding month of the previous year, and not like in the years 1999–2003, only in December in relation to the December of the previous year. The horizon of its application may be marked by Poland's joining ERM II or the end of term of office of the current Council members.
- Secondly, the Central Statistical Office provides data on inflation in the form of the Consumer Price Index in a particular month as compared to the corresponding month of the previous year. This measure constitutes the main grounds for interpretation of the inflation target. For a better understanding of the inflationary processes, it is justified to use quarterly and annual average values of inflation indices, such as are applied in NBP inflation projection⁵ and in the central budget. Application of the quarterly index is supported by the fact that inflation projection, which is a very important point of reference for decisions of the MPC, enables assessment of the probable deviations of inflation from the target in quarterly terms. Application of the annual average index is

⁴ The chapter *Monetary Policy* is the *Report on Monetary Policy Implementation in 2005* that the Monetary Policy Council adopted at its meeting on 30–31 May 2006.

⁵ Inflation projections are forecasts of the course of inflationary processes in the Polish economy, developed under the assumption of invariability of interest rates within the forecast horizon. The projections are developed on a quarterly basis by NBP experts with the use of the ECMOD econometric model. As of August 2004 inflation projections are published in *Inflation Reports* (a projection based on ECMOD was first published in the *Report* from November 2004). See information in Appendix 6: NBP inflation projections.

supported by the fact that: a) it eliminates short-term, accidental deviations of inflation from the target; b) some significant values published in the inflation projection are expressed in these terms, and c) it is used in the budget forecast and in other documents and government programmes.

- Thirdly, the adopted solution means that the monetary policy is explicitly oriented towards maintaining the inflation possibly closest to the inflation target of 2.5%, and not only within the deviation band. This solution is different from the one applied in some countries, where a deviation band without a central parity is an element of the DIT strategy. The adopted solution enables better anchoring of inflation expectations.
- Fourthly, deviations of inflation within the band should be treated as a natural result of the impact of slight shocks and factors connected with the economic climate. It should be assumed that these deviations compensate in the long term, and so typically do not require a change in the monetary policy. However, unexpected and strong shocks may occur that temporarily push inflation outside the deviation band, which may require a reaction of the central bank.
- Fifthly, the response of the monetary policy to unexpected shocks will depend on their strength and character as well as on the degree of inertia of inflation expectations. A reaction to demand shocks is becoming less of a problem, since in this case the changes in inflation and output take the same course. An increase in interest rates with high inertia of inflation expectations weakens business activity and further the inflation pressure. Supply shocks are not only more difficult to measure than demand shocks. Difficulties arise from the fact that, in this case, output and inflation change in opposite directions, as was the case during the strong oil shocks in the 1970s. They triggered a significant growth of inflation and at the same time a drop in output due to increased costs in many countries. Improper reaction of the monetary policy may have far-reaching negative consequences on the economy. An attempt to completely neutralise the impact of the supply shock on inflation by the monetary policy may unnecessarily lead to a strong slide in output, since the supply shock itself adversely affects supply and investment. On the other hand, an attempt to completely amortise the effects of supply shock causing an increase in prices and a decrease in output – through excessively eased monetary policy – typically causes sustained higher inflation, and requires applying more stringent monetary policy in the forthcoming periods, which causes a relatively strong slow-down of the economic growth rate.
- Sixthly, a lot of supply shocks are of temporary nature and small scale, so there is no need to respond to them immediately. With higher shocks, even temporary acceleration of the price growth may induce a relatively sustained increase in inflation expectations, and the resulting increase in inflation due to the occurrence of wage demands. Thus, the objective of the monetary policy in such a case is to prevent the occurrence of secondary effects of the supply shock (the so-called second-round effects). The risk of occurrence of second-round effects is high in countries with a relatively short history of low inflation. Measures of core inflation are very useful in the analysis of supply shocks, since they facilitate at least partial distinction between temporary and sustained effects of inflation pressure changes.
- Seventhly, due to delays in the response of output and inflation to the monetary policy implemented, it has a small impact on the current inflation level. Current decisions of monetary authorities have an impact on future shaping of prices, just as current inflation is fuelled by interest rates changes made a few quarters before. Unfortunately, duration of the delays is not a fixed value and depends largely on the structural and institutional changes taking place in the economy. Changes in the mechanism that transmits the monetary impulses enable banks to only estimate the period that elapses from taking the decision to observing its greatest impact on real values (output, employment), and further on inflation.

- Eighthly, the monetary policy has an impact on the economy not only through changes in interest rates, but also through maintaining them at a certain level for some time. No decision to change interest rates for a few periods (months or quarters) is also a decision of significant effects for the economy, since it leads to a gradual closing or opening of the output gap.
- Ninthly, the monetary policy is implemented in the conditions of high uncertainty. High uncertainty means, among other things, that the inflation projection model used by the central bank may cease to reflect the developments in the economy in a reliable way, due to the structural changes undergoing in the economy. It means that: a) while taking a decision, it is necessary to take into account the whole of information available, and not only the results of inflation projection; b) using the simple principle of the policy is not possible, which, *ex ante*, could have been known to market participants, and c) a monetary policy oriented towards the future must be communicated to the environment as an attempt to balance the risk factors related to the implementation of the inflation target, and not as maintaining stringent control over economic processes.
- Tenthly, in the assessment of restrictiveness of the monetary policy, not only real interest rates, but also real exchange rate, should be taken into account.

2.2. Monetary Policy in 2005

Five to seven quarters pass from the time of taking a decision concerning interest rates to their strongest impact on inflation. Therefore, inflationary processes in 2005 developed largely under the influence of the monetary policy of 2003–2004. The monetary policy in 2005 will, on the other hand, impact mostly inflationary processes in 2006 and 2007.

Proper monetary policy is oriented towards the future. Therefore, decisions in the monetary policy take into consideration, as one of the reasons, inflation projections. Such approach is typical for central banks, which apply the DIT strategy. An important point of reference for the monetary policy of those central banks is a level of interest rate that favours mid-term stability of inflation at the inflation target.

The monetary policy in 2005 was conducted in the conditions of dropping inflation as measured with the Consumer Price Index (CPI), and decreasing net inflation.⁶

In 2005, the annual average value of the CPI inflation stood at 2.1%, and was lower than all available forecasts of external agencies prepared in 2004 and 2005. The annual CPI index went down from 3.7% in January to 0.7% in December, whereas the net inflation index declined from 2.3% to 1.0%, respectively.

Strong downward movements of both inflation measures largely resulted from waning of the temporary increase in inflation in 2004, which was the effect of Poland's joining the European Union. The reason behind the temporary increase in inflation was a rise in indirect taxes to the levels compliant with EU requirements,⁷ and a higher foreign demand for Polish food. Moreover, in 2004 high growth was observed in prices on world markets of energy and industrial commodities (including oil, coal, and copper).

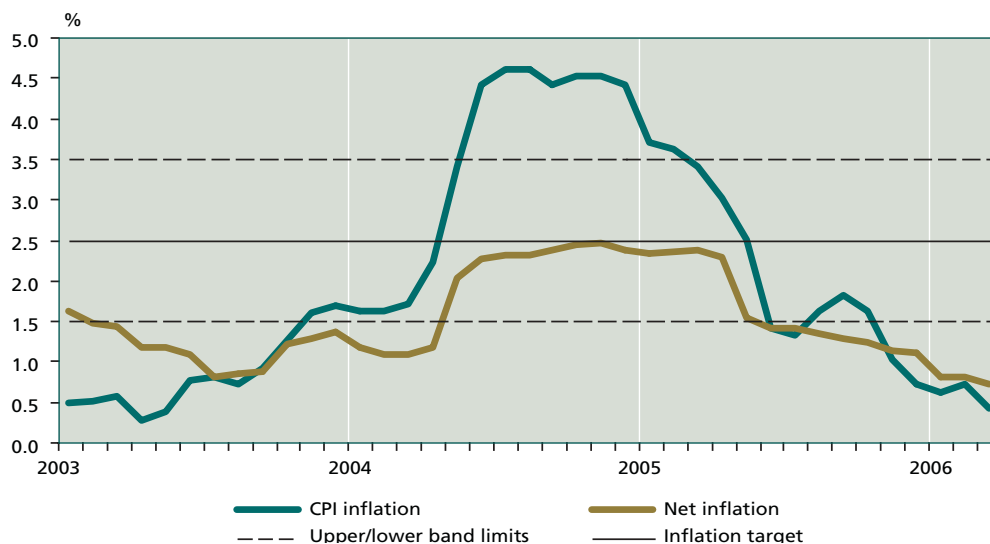
Low inflation in 2005 also resulted from strong zloty appreciation in 2004 (by 14% against the euro, by 20% against the US dollar). Low inflation was attained in the conditions of public finance deficit in 2005, which was lower than forecasted.

⁶ Net inflation is inflation exclusive of food and fuel prices.

⁷ VAT rates were increased (among other things, on building materials, children's clothes) and excise taxes (on tobacco products).

Figure 1

Inflation in the years 2003–2006



Source: GUS, NBP data.

The process of the accession shock waning influenced inflation primarily in the first half of 2005. Equal levels of the current inflation and the net inflation signalled the waning. In the third quarter of 2005, the CPI inflation surged above the net inflation, mainly due to quick growth of oil prices on world markets. On the other hand, the drop in CPI inflation below the level of net inflation in the fourth quarter of 2005 effected from the fall in food prices and lower distribution margins on the fuel market.

The relatively moderate growth rate of wages and prices towards the end of 2004 indicated that the acceleration of inflation, observed as a result of EU shock, did not accelerate the wage growth by itself, or – in consequence – the inflation. It opened the possibility of lowering interest rates close to the level maintained before the rise in 2004. The interest rate rise was to prevent a situation where temporarily higher inflation expectations would cause a permanent increase in inflation by considering them in wage negotiations and contracts for future deliveries of goods (the so-called second-round effects).

No second-round effects, a lower than expected growth in domestic demand in the fourth quarter of 2004, and a significant drop in inflation at the turn of 2004, indicated that, following the period when the EU effect was reflected in the 12-month CPI, a relatively strong drop in CPI inflation would take place. Such developments prompted the MPC to ease the monetary policy in February 2005, and subsequently to make two further interest rate cuts by 50 basis points each, in March and in April 2005. As a result, the NBP reference rate was reduced from 6.5% to 5.5%.

In April 2005, the MPC changed its monetary policy from eased to neutral. The Council decided that, in mid-term, the then-prevailing interest rate level should have ensured inflation close to the target level and should have favoured the maintenance of the GDP close to the potential, i.e. a level that causes neither a rise nor a drop in inflation. This assessment was confirmed with the inflation projection made in May.

While taking decisions on changes in the monetary policy, the MPC was guided by the need to maintain a future-oriented monetary policy that would take into account the delays that occur between the decision concerning interest rate level and its strongest impact on inflation. In particular, February 2005 saw the Council ease the monetary policy, although the CPI inflation significantly exceeded the ceiling of the deviation band from the inflation target. Similarly, while taking a decision to change the monetary policy to neutral in April, the Council expected that in

the forthcoming quarters inflation would probably remain below the inflation target, mainly due to a strong slide in the growth of food prices. However, the Council assessed that – due to the gradual closing of the output gap and the influence of high oil prices on inflation and economic growth – the probability of the growth rate of prices shaping beyond and below the inflation target was similar in the long term.

In view of the inflation projection results of May 2005, the NBP reference rate was set at a level favouring the return of inflation to the inflation target in the horizon of the monetary policy impact. However, the data on economic developments incoming in the period from June to August demonstrated that the economic growth rate in 2005, and thus the inflation pressure, might have been considerably lower than expected in the projection of May. Considering these data, the MPC changed the monetary policy in June 2005 from neutral to eased, and reduced the NBP reference rate by 50 basis points to 5.0%.

In July, an analysis of available data allowed for the assessment that the GDP growth in the second quarter of 2005, although higher than in the previous quarter, was significantly lower than expected in the *Inflation Report*⁸ of May. In view of these estimates as well as the appreciation of the zloty, the MPC reduced the NBP reference rate again in July 2005 by 25 basis points.

The inflation projection generated in August took into account the previously unexpected worsening of the economic climate. The August projection of inflation, as compared to the May one, provided for a further reduction in inflation in the horizon of the impact of monetary policy instruments. However, the Council took account of the fact that the projection might have not taken into consideration all the sources of uncertainty, including but not limited to the shape of economic policy of the government in the forthcoming years. Moreover, due to the period required for its preparation, the August projection did not consider the latest information concerning the much higher forecasted oil prices or the different than expected composition of GDP growth.

The GUS data published in August concerning the national accounts for the second quarter confirmed the prior supposition of slower than expected recovery of the Polish economy. They also confirmed that, under the assumption of invariable estimates of potential GDP, the period of gradual closing of the output gap might have been longer than expected in the May Report, which translated into a factor curbing the inflation. Under the influence of this information, the MPC took a decision to reduce the NBP reference rate again, by 25 basis points, to the level of 4.5%. In view of the August projection, the new NBP reference rate remained at a level favouring the return of inflation to the inflation target in the horizon of the impact of the monetary policy. However, the MPC retained the eased monetary policy, taking into account, among other things, the gradually decreasing level of core inflation, which reflected the weakening inflation pressure.

In the following months, the MPC did not change interest rates, since the economic developments turned out to be largely consistent with the results of the August inflation projection that forecasted a gradual recovery of the economic climate. The annual growth rate of industrial output was on a gradual rise. A moderate upward movement of retail sales was also observed. The recovery in the construction industry was maintained, although its rate declined in October and November. Assessments of the economic climate, reported by enterprises in GUS economic climate surveys, did not change significantly, whereas positive results of the enterprise sector for the first three quarters of 2005 indicated a sound economic condition of the enterprises surveyed: growing revenues, a high yield, and a safe level of liquidity (in the third quarter of 2005, liquidity reached its record high in the history of GUS surveys).

According to GUS data published in November, in the third quarter of 2005 the GDP growth rate was higher than in the second quarter and compliant with the forecasts presented in the *August Report*. The growth of private consumption and investment was also consistent with NBP

⁸ In the *Inflation Report*, published on a quarterly basis, the Monetary Policy Council presents its assessment of the course of macroeconomic processes. Inflation and GDP projections, developed by NBP experts, are part of the Report. See Information included in Appendix No. 6: NBP inflation projections.

expectations and higher than in the second quarter. Net exports, notwithstanding the appreciation of the real effective exchange rate of the zloty in 2004, remained to be the main factor of the economic growth on the part of demand. Its contribution to the GDP growth turned out to be significantly larger than forecasted.

An additional factor that restrained the MPC from reducing interest rates was the risk related to the rapidly growing oil prices on world markets.

Data on economic developments between September and December 2005 confirmed the accuracy of NBP projections concerning the gradual recovery of the economic climate; however, the scale of decrease in core inflation was slightly larger than assumed in the inflation projection of August 2005. On the other hand, the CPI inflation in the third quarter was little higher than forecasted in the August Report, whereas in the fourth quarter it fell dramatically, due to the lower growth of food, beverage and fuel prices.

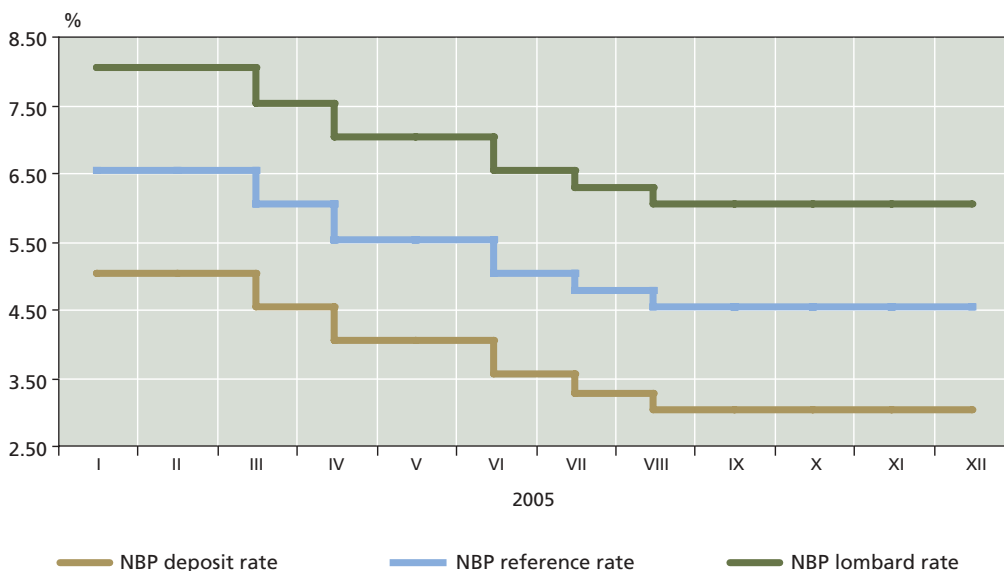
The economic conditions in late 2005, showing a pronounced recovery of the economic climate and the inflation level lower than forecasted before, prompted the MPC to consider the possible impact on inflationary processes of such structural factors as increased competition on the products market, increased flexibility of the labour market, the sustained positive trends in labour productivity, and the lower than expected degree of translation of commodity price changes into domestic prices, more seriously.

To sum up, the course of economic processes and phenomena that shape inflation in 2005 enabled the MPC gradual easing of the monetary policy in the attempt to meet the inflation target. Five interest rate cuts by a total of 200 basis points (from 6.5% to 4.5%) were conducted. The eased monetary policy supported the increase in business activity and job creation.

The MPC will continue the close analysis of all the developments in the economic and financial condition of the country in terms of threats to price stability. In the case of occurrence of such threats, it will react relevantly with the use of monetary policy instruments at its disposal.

Figure 2

Decisions of the MPC in 2005



Source: NBP data.

2.3. Monetary Policy Instruments

2.3.1. Excess liquidity of the banking sector

Excess liquidity of the banking sector in 2005, contrary to the previous year, was on a gradual rise. Its level, measured as the average balance of NBP money market bills, amounted to PLN 16,699 m, and was up by PLN 11,424 m as compared to the average level of NBP money market bills in 2004. The total absorption of funds from the banking sector, measured with the scale of issue of NBP money market bills and the level of deposits of the Ministry of Finance at the NBP, stood at the average of PLN 21,707 m in 2005, and was up by PLN 4,240 m as compared to 2004. Additionally, bonds issued by the NBP in 2002, in the amount of PLN 7,816 m, with maturity in 2012, are still in circulation.

The liquidity developments in particular months of 2005 were shaped by changes in autonomous factors beyond the control of the central bank. One of the factors that contributed to the growth in excess liquidity was the net buying-in of foreign currencies by the NBP, which amounted to PLN 7,479 m. It was mainly caused by the use of EU funds, submitted from the auxiliary account of the European Commission at the NBP (maintained in the euro) to fund accounts, and further converted to the zloty in the central bank. Other important factors driving liquidity were: a drop, by PLN 6,609 m, in zloty deposits of the public sector at the central bank, and payment of NBP profit to the central budget in the amount of PLN 4,168 m. The level of excess liquidity was mitigated primarily through a growth of cash in circulation by PLN 3,864 m, an increase in the level of banks' required reserves by PLN 945 m, and repayment of the refinancing loan in the amount of PLN 343 m.

2.3.2. Monetary Policy Instruments

2.3.2.1. Interest rate

The Monetary Policy Council sets the level of NBP interest rates, which determine the interest rate on monetary policy instruments, i.e. open market operations, required reserves, and standing facilities.

The main NBP rate is the reference rate. It has an influence on the level of market rates with a maturity similar to the maturity of basic open market operations. The NBP deposit and lombard rates determine the fluctuation band for overnight (O/N) interest rates on the interbank market.

In 2005, the Monetary Policy Council cut NBP's base interest rates on five occasions. The reference rate was reduced jointly from 6.50% to 4.50%, the lombard rate – from 8.00% to 6.00%, whereas the deposit rate – from 5.00% to 3.00%. The width of the fluctuation band of short-term market rates remained unchanged at the level of +/-1.5 percentage points.

Following the reductions of the reference rate, short-term interest rates on the interbank market fell as well. The WIBOR SW⁹ rate, which was directly influenced by the central bank through open market operations, fluctuated around the NBP reference rate and remained within the fluctuation band set by the NBP lombard and deposit rates. The average deviation of this rate from the NBP reference rate came to 9 basis points and was by 7 basis points lower as compared to the previous year.

⁹ WIBOR SW (Warsaw Interbank Offer Rate Spot Week) – the interest rate at which banks will extend a loan on the market of unsecured interbank deposits for a period of 7 days. It is calculated as the arithmetic mean of the quotations, submitted by participants of fixing sessions held on every business day at 11 am.

Table 2

Decisions of the Monetary Policy Council concerning NBP's base interest rates in 2005

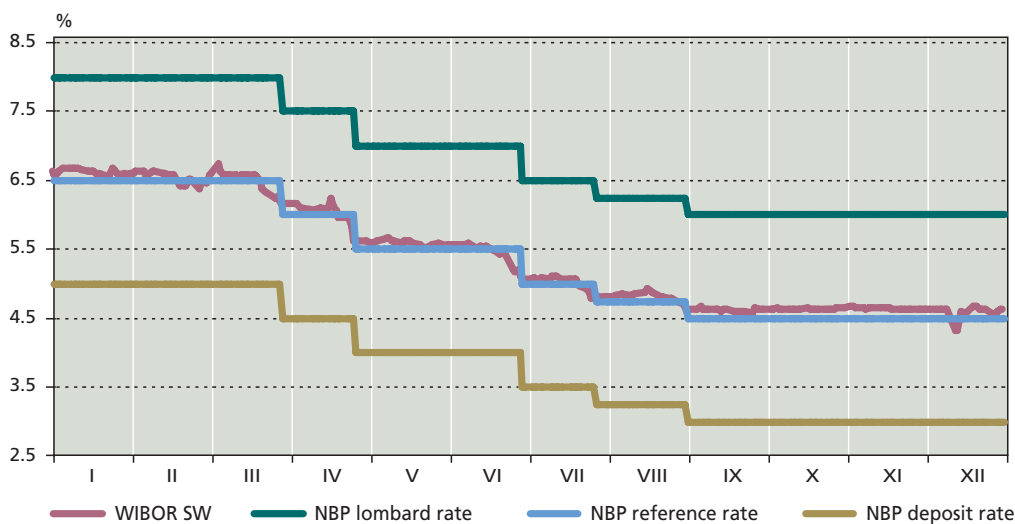
Decision date *	Decision
30 March	<ul style="list-style-type: none"> - Reduction of the minimum yield rate of 7-day open market operations from 6.5% to 6.0% - Reduction of the interest rate on lombard loan from 8.0% to 7.5% - Reduction of the bill of exchange rediscount rate from 7.0% to 6.5% - Reduction of the deposit facility rate from 5.0% to 4.5%
27 April	<ul style="list-style-type: none"> - Reduction of the minimum yield rate of 7-day open market operations from 6.0% to 5.5% - Reduction of the interest rate on lombard loan from 7.5% to 7.0% - Reduction of the bill of exchange rediscount rate from 6.5% to 6.0% - Reduction of the deposit facility rate from 4.5% to 4.0%
29 June	<ul style="list-style-type: none"> - Reduction of the minimum yield rate of 7-day open market operations from 5.5% to 5.0% - Reduction of the interest rate on lombard loan from 7.0% to 6.5% - Reduction of the bill of exchange rediscount rate from 6.0% do 5.5% - Reduction of the deposit facility rate from 4.0% to 3.5%
27 July	<ul style="list-style-type: none"> - Reduction of the minimum yield rate of 7-day open market operations from 5.0% to 4.75% - Reduction of the interest rate on lombard loan from 6.5% to 6.25% - Reduction of the bill of exchange rediscount rate from 5.5% to 5.25% - Reduction of the deposit facility rate from 3.5% to 3.25%
31 August	<ul style="list-style-type: none"> - Reduction of the minimum yield rate of 7-day open market operations from 4.75% to 4.5% - Reduction of the interest rate on lombard loan from 6.25% to 6.0% - Reduction of the bill of exchange rediscount rate from 5.25% to 4.75% - Reduction of the deposit facility rate from 3.25% to 3.0%

*the decisions took effect on the following business day

Source: NBP data.

Figure 3

NBP's base rates and the interbank WIBOR SW rate in 2005



Source: NBP data.

As of 2005, the NBP introduced the POLONIA rate (*Polish Overnight Index Average*). POLONIA is the average overnight rate weighted with the value of transactions on the unsecured interbank deposit market. POLONIA reflects real interest rates on overnight deposits on the interbank market. The average deviation of the POLONIA rate from the NBP reference rate in 2005 stood at 26, whereas that of WIBOR O/N – 22 basis points (in 2004 – 38 basis points). The NBP published the level of the POLONIA rate on the Reuters information service website (NBPS) every day at 5 pm.

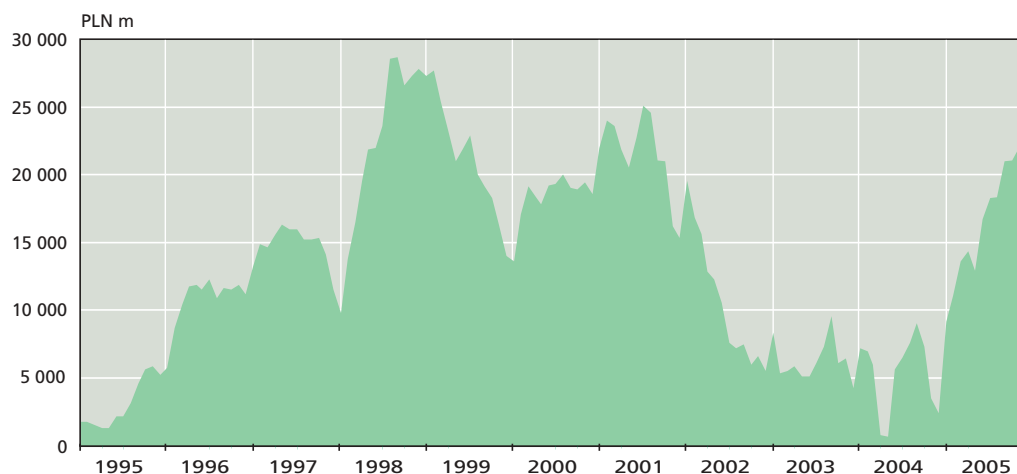
2.3.2.2. Open market operations

Open market operations constitute the primary instrument that allows for maintenance of short-term interest rates on a level close to the NBP reference rate, consistent with realization of the inflation target set by the MPC. The NBP may apply main, fine-tuning, and structural operations.

In 2005, within the main refinancing operations, the NBP regularly, once a week, issued money market bills. The minimum yield of NBP money market bills was determined by the NBP reference rate. Aiming at more precise management of the banking sector liquidity, the NBP shortened the maturity of money market bills issued from 14 to 7 days. This change brought the operational system of NBP monetary policy closer to Eurosystem standards. Issuance of 7-day NBP money market bills favours mitigating the volatility of short-term interest rates.

Figure 4

Scale of issue of NBP money market bills in the years 1995–2005



Source: NBP data.

In 2005, main open market operation were conducted with a group of 14 entities, i.e. with 13 banks – money market dealers, and with the Bank Guarantee Fund. Banks – dealers were selected according to uniform criteria of the Dealer Activity Index. The selected banks exhibited high activity on Treasury securities, NBP money market bills, interbank deposits, and foreign exchange swap markets.

In 2005, no necessity emerged to conduct fine-tuning or structural operations.

Fine-tuning operations may be performed in the case of unexpected short-term change in banking sector liquidity, which leads to undesired – from the monetary policy viewpoint – fluctuations of short-term interest rates. These operations would include both liquidity absorbing and supplying operations (issues of NBP money market bills, repo operations, and prior redemption of NBP money market bills).

Structural operations are aimed to change the liquidity condition of the banking sector in the long term. The central bank could conduct structural operations through redemption of own

bonds (held in portfolios of commercial banks), purchase of own securities on the secondary market, and issue of own long-term debt securities.

2.3.2.3. Required reserve

The banks are required to maintain the average balance of funds on accounts at the NBP in the reserve maintenance period at a level no lower than the required reserve. Such system mitigates the influence of autonomous factors on market interest rate fluctuations.

In 2005, no changes were introduced into the principles of maintaining and calculation of the required reserve. The required reserve is calculated and maintained in the zloty. The required reserve rate on proceeds of sales of securities with repurchase agreements stands at 0.0%, whereas on other liabilities – at 3.5%. The reserve base comprises funds accumulated on bank accounts, proceeds of sales of securities, and other repayable funds. Funds accepted from another domestic bank and raised abroad for a period of at least 2 years are excluded from the reserve base.

All banks reduce the amount of calculated required reserve by an equivalent of EUR 500 thou. As of 1 May 2004, the Monetary Policy Council set the interest rate on required reserve funds at a level of 0.9 of the bill of exchange rediscount rate.

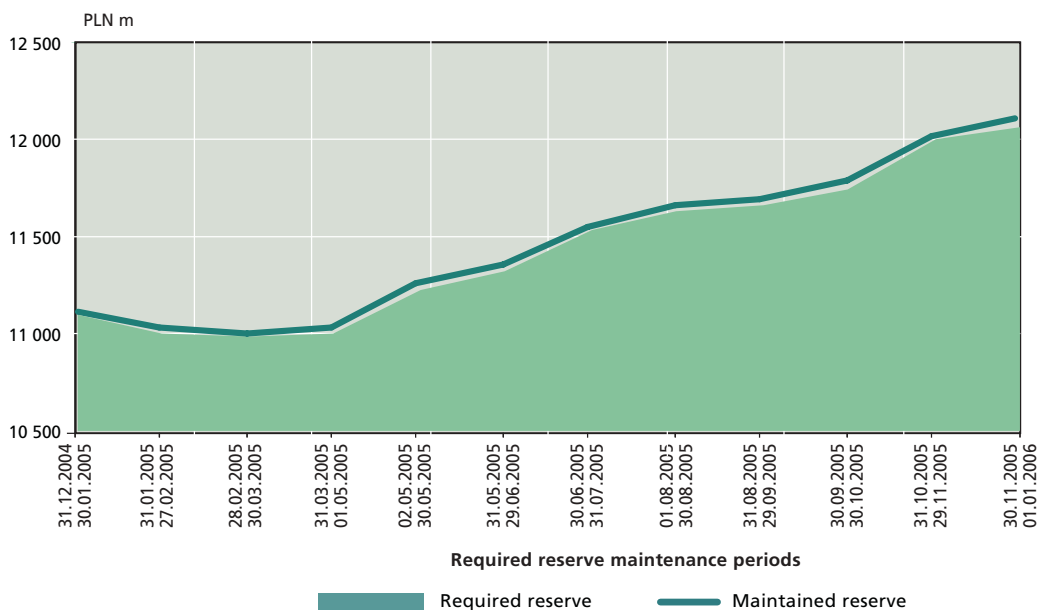
In 2005, one of the banks implementing the rehabilitation programme was partly released from the requirement to maintain the reserve, pursuant to the decision of NBP Management Board of 1999. The release amount was PLN 421.7 m.

The required reserve as at 31 December 2005 stood at PLN 12,065 m. As compared to its level as at 31 December 2004 it went up by PLN 968 m (8.7%). The amount of required reserve in 2005 was basically influenced by the increase, by 8.3%, in deposits that form the base for calculation of the required reserve, covered with the positive required reserve rate.

A slight surplus of the average required reserve funds as compared to the level required prevailed throughout all maintenance periods in 2005. The annual average surplus was PLN 28 m, i.e. 0.24% of the required level. In particular, maintenance periods the surplus fluctuated between 0.09% in March and 0.46% in December.

Figure 5

Movements in the required and maintained level of required reserve in 2005



Source: NBP data.

The slight differences between the required reserve and the reserve maintained in particular maintenance periods resulted mainly from the interest rate on reserve funds maintained only up to the required level, appropriate asset management in banks, and the use by banks of instruments that streamline fund management on accounts at the NBP (intraday credit facility, deposit facility, and lombard loan). An additional factor streamlining the management of current liquidity level by banks was the daily announcement of banks' accounts balances by the NBP on the Reuters information service website (NBPM).

2.3.2.4. Standing facilities

Standing facilities, including the overnight deposit facility and the lombard loan facility, are initiated by commercial banks. They are a source of banks' short-term liquidity shortfall supply, and enable banks to deposit their surplus funds overnight at the NBP.

Standing facilities contribute to stabilisation of interbank market rates. The deposit rate sets the lower limit of the band of short-term market rate fluctuations. The lombard rate determines the maximum cost of raising funds at the NBP, setting the ceiling for the interbank market rate fluctuation band.

In 2005, banks placed overnight deposits at the NBP for a total of PLN 56.9 bn. The amount was almost twofold lower as compared to the previous year, when it stood at PLN 113.6 bn. The total value of overnight deposits placed by banks varied between PLN 200 thousand and PLN 4.5 bn. The average daily overnight deposit amounted to PLN 155.9 m, whereas in 2004 it stood at PLN 310 m. Banks placed the largest deposits on the last days of required reserve maintenance periods.

In 2005, banks used the lombard loan, secured with Treasury securities, mainly on the last days of required reserve maintenance periods. The total recourse to the lombard loan over the year amounted to PLN 10.3 bn, as compared to PLN 8.0 bn in 2004. The average daily recourse to the lombard loan stood at PLN 28.4 m, compared to PLN 22 m in 2004.

2.3.2.5. Other operations

Intraday credit facility serves as an instrument to streamline settlements and liquidity management in the banking system within a trading day. It is a zero-interest loan, extended and repaid on a single trading day, secured with Treasury securities. In 2005, banks used the intraday credit facility on every trading day. The daily debt varied between PLN 4.4 bn and PLN 15.3 bn.

As of 7 March 2005, via the central bank of Italy, the NBP joined euro settlements within the TARGET system. One of the terms and conditions specified in the TARGET agreement that the NBP was required to meet was the requirement to ensure settlement liquidity in the SORBNET-EURO system. This function is played by the intraday credit facility, extended to the domestic RTGS participants in euro. As an intraday credit facility is shall be repaid by the end on the trading day on which it is extended, and is zero-interest. It may be secured by Treasury bonds subject to price fixing on the MTS CeTO platform. The principles of valuation of securities – in relation to the amount of credit extended – are fully compliant with the Eurosystem standards. Due to a small volume of payments routed by banks to SORBNET-EURO, the utilisation of intraday credit facility in 2005 was low. The average daily amount of banks' debt at the NBP amounted to EUR 0.3 m. Considering the short period that has elapsed from the time of making euro intraday credit facility available to banks, its utilisation should be expected to rise gradually.



3

BANKING SUPERVISION

In 2005, the General Inspectorate of Banking Supervision as an executive body of the Commission for Banking Supervision, spun off in the structure of NBP, implemented the objectives of banking supervision specified in the Banking Law Act.¹⁰ They consist in ensuring the security of funds deposited in the bank's accounts and adherence of banks' operations to the legal provisions, statute and decision on issuing the licence to establish a bank.

As at 31 December 2005, 649 banks pursued operating activity in Poland (659 as at the end of 2004), of which:

- 53 banks incorporated as public limited companies,
- 1 state-owned bank,
- 588 co-operative banks,
- 7 branches of credit institutions.

Till the end of 2005, the intention to run cross-border operations within the territory of Poland was reported by 103 credit institutions.

Detailed information on the banking sector has been presented in NBP's other publications,¹¹ which are passed to numerous recipients and are available at the NBP's web site. Selected information presenting the situation of the banking sector as at the end of 2005 is included in appendix no. 1.

3.1. Licensing

In 2005, the principal tasks of the Commission for Banking Supervision insofar as licensing covered the following issues:

- establishment of banks,
- sale of banking enterprises or their organised parts,
- execution of voting rights at the general meeting of shareholders of the banks in the form of a joint-stock company,
- appointments of the Management Board members of a bank,
- amendments to banks' statute,
- running operations via branches or in the form of cross-border activity,
- establishment of representative offices of foreign banks and credit institutions.

3.1.1. Establishment of banks

In 2005, 2 applications were received for authorization to establish a new bank. The proceedings with reference to the establishment of Dexia Kommunalkredit Bank Polska SA with its headquarters in Warsaw were finished with issuing authorisation, the work on the other application is still underway.

¹⁰ The chapter has been prepared based on the *Report of the Commission for Banking Supervision for 2005*.

¹¹ More information in appendix no. 8.

In addition, the Commission for Banking Supervision approved 1 application for the authorization to commence operations by RCI Bank Polska SA, licensed in 2004. Cetelem Bank SA obtained the permit to engage in the activities, not set forth in the permit to commence operations issued in 2004.

3.1.2. Sale of a banking enterprise or of its organised part

In 2005, the General Inspectorate of Banking Supervision approved 4 applications concerning the purchase of a banking enterprise or of its organised part. The applications for the permit to purchase a banking enterprise were filed by credit institutions which, having previously notified of the establishment of a branch office in Poland, decided to close down their Polish sub-branches for the benefit of newly established branches.

3.1.3. Changes in the banks' ownership structure

In 2005, the General Inspectorate of Banking Supervision considered 10 applications concerning the changes in the banks' ownership structure and bank mergers. Based on that the Commission for Banking Supervision issued:

- 6 resolutions on the approval to exercise voting right at a general meeting of bank's shareholders,
- 1 resolution to suspend proceedings in the matter of issuing the approval to exercise voting rights at a general meeting of shareholders,
- 1 resolution to resume proceedings in the matter of issuing the approval to exercise voting rights at a general meeting of shareholders,
- 2 resolutions to withdraw applications for approval to exercise voting rights at a general meeting of shareholders.

3.1.4. Changes in the composition of banks' management boards

In 2005, the General Inspectorate of Banking Supervision considered applications concerning the permit to appoint presidents and members of the banks' management boards as a result of which the Commission for Banking Supervision adopted:

- 25 resolutions on the appointment of presidents and management board members of banks incorporated as public limited companies, including:
 - 21 resolutions to authorize appointment of presidents or management board members,
 - 4 resolutions to discontinue proceedings due to the withdrawal of applications by supervisory boards of particular banks,
- 26 resolutions on the appointment of presidents of the management boards at co-operative banks, including:
 - 22 resolutions to authorize appointment of presidents at co-operative banks,
 - 3 resolutions on the discontinuation of proceedings,
 - 1 resolution to refuse appointment of the president of management board at a co-operative bank.

3.1.5. Amendments to banks' statutes

As a result of considering the filed applications concerning the amendments to the banks' statutes, in 2005, the Commission for Banking Supervision issued:

- 75 decisions concerning amendments to the statutes of the banks incorporated as public limited companies,
- 121 decisions concerning the permit to introduce amendments to the statutes of co-operative banks.

In addition, the Commission for Banking Supervision issued 4 approvals to extend the territorial scope of activity of co-operative banks. On that basis co-operative banks introduce relevant amendments to their statutes.

3.1.6. Pursuance of activity via branch or in the form of cross-border activity

In 2005, the Commission for Banking Supervision received the following notifications from the relevant supervisory authorities of the Member States of European Economic Area (EEA):¹²

- 9 notifications concerning the commencement of activity via a branch by a credit institution on the territory of Poland,
- 46 notifications concerning the commencement of cross-border activity on the territory of Poland by credit institutions,
- 1 notification concerning the launch of cross-border activity on the territory of Poland by a financial institution.

In addition, 4 domestic banks notified the Commission for Banking Supervision of their intention to commence cross-border activity on the territory of other EU member states. The Commission for Banking Supervision forwarded these notifications to appropriate supervisory authorities of relevant EU member states.

3.1.7. Establishment and operations of representative offices of foreign banks and credit institutions

In 2005, the General Inspectorate of Banking Supervision approved two applications for the establishment of a representative office in Poland, as a result of which the Commission for Banking Supervision issued two permits in this area.

As at the end of 2005, 19 representative offices of foreign banks and credit institutions operated in Poland, including 4 from Belarus, 3 from Italy, 3 from the USA, 4 from Germany and 1 respectively from France, Switzerland, Austria, Ireland and Taiwan.

3.1.8. Other activities related to licensing operations

The list of banking supervision's permanent tasks includes also running the registration system (EWIB). The system includes information on the banks and their organisational units as well as the branches of credit institutions and foreign banks exchanging payment orders within the inter-bank settlements and clearings. This information is made available to the banks and other interested entities.

Since 2005, the General Inspectorate of Banking Supervision has also run the register of holdings incorporating domestic banks.

¹² Apart from EU member states the EU regulations are applicable also in Island, Lichtenstein and Norway. These States along with the EU member states constitute the European Economic Area.

3.2. Regulatory tasks

In 2005, the General Inspectorate of Banking Supervision's key regulatory tasks concerned the implementation of the New Capital Accord (Basel II) and the Capital Requirements Directive (CAD) to the Polish legal system. A particularly important aspect of work pertained to developing the amendment to the Banking Law Act and the executive legislation hereto. Prior to this work, the provisions of the New Capital Accord and the CRD Directive were put under an extensive analysis. The banking sector was also consulted about legislative solutions suggested by the banking supervision with respect to the national options.

The New Capital Accord (Basel II) is a standard developed by the Basel Committee on Banking Supervision which will be introduced to *acquis communautaire* in the form of CRD Directive (*Capital Requirements Directive*) of the European Parliament and Council.¹³ The final version of Basel II was published by the Basel Committee in November 2005. The provisions of CRD Directive are to be transposed to the law of member states at such a date that they are applicable from 1 January 2007. The legislative process of CRD Directive will be completed when it is published in the Official Journal of the European Union in the national languages of member states which is to be effected at the end of June 2006.

Basel II is composed of three mutually supplementary pillars. As compared to the currently applicable Agreement, the first pillar of Basel II (Minimum Capital Requirements) includes significant changes in the treatment of credit risk and introduces capital requirements related to operational risk. The approach to market risk remains generally unchanged. A significant benefit of Basel II as compared to the previous document is the possibility to use by the banks their own internal methods of credit and operational risk assessment for the needs of calculating minimum capital requirements.

Within a so-called second pillar the banks are to develop internal processes of economic capital assessment and define target capitals compliant with the risk profile in a given bank and supervisory environment. The role of banking supervision, in turn, will be to review and assess both the manner of solvency assessment adopted by the bank and the solvency set independently by the bank.

In the third pillar (Market Discipline) the banks are obliged to disclose information on their risk profile and level of capitalisation. In this way market participants maintain discipline. The scope of disclosed information depends on the first pillar option adopted by the bank, however, the more advanced the approach is the more information needs to be disclosed.

The introduction of Basel II will result in the need to adjust supervisory actions to individual banks, which directly follows from the requirements within the second pillar of New Capital Accord. In addition, Basel II stipulates the co-ordination of actions of supervisory institutions from different countries, first of all, in the area of common approval of the advanced methods of risk measurement and management.

The New Capital Accord provides for a better, more accurate reflection of the banks' risk profile in the level of maintained capitals. Consequently, the bank's assessment of customer's risk should, in line with the Basel II provisions, become one of the key factors impacting the valuation of banks' products.

3.2.1. Draft acts

The banking supervision was involved in developing legal acts as well as in providing interpretation and clarifications with regard to applicable legal regulations. It also took

¹³ CRD Directive constitutes an update of the Directive 2000/12/EC of the European Parliament and Council of 20 March 2000 concerning the undertaking and running of operations by credit institutions as well as the Council Directive 93/6/EEC of 15 March 1993 re: capital adequacy of investment firms and credit institutions.

part in providing opinions on draft legal acts forwarded to the NBP within the inter-departmental agreements.

- **Act on the supplementary supervision of credit institutions, insurance companies and investment firms in a financial conglomerate¹⁴**

The Act introduces the provisions of Directive 2002/87/EC of the European Parliament and Council of 16 December 2002 to the Polish law. It specifies the principles of effecting supplementary supervision over credit institutions, insurance companies and investment firms in a financial conglomerate as well as the principles of applying supplementary supervision to other entities operating in a financial conglomerate, including the dominant non-regulated entities. In addition, it is projected to tighten the co-operation in the area of supervising the financial conglomerates via signing so-called coordinating agreements. To this end the Financial Conglomerates Coordination Committee, incorporating the representatives of Commission for Banking Supervision, SEC as well as Insurance and Pension Funds Supervisory Commission was established.

It should be highlighted, however, that currently financial conglomerates as defined in line with the act do not operate in Poland.

- **Act on the change in the act on the protection of confidential information and other acts¹⁵**

The Act introduces changes in the area of processing information constituting banking secrecy with regard to natural persons (consumers). In addition, it changes the definition of a state secrecy, provisions relating to the organisation of confidential information protection system, clauses of secrecy, access to confidential information and secret offices as well as the provisions related to industrial security.

- **Act on the amendment to the Civil Code and on the change of some other acts¹⁶**

The Act regulates, among others, the issue of so-called maximum interest through the definition of their statutory amount. In the course of parliamentary work the NBP presented a negative stance towards the solutions assumed in the act, in particular with regard to the dependence of maximum interest on the lombard loan interest, set by the NBP.

- **Act on the European economic interest grouping and a European company¹⁷**

The act is aimed at introducing the provisions regulating registration and some principles of the organisation of the European economic interest grouping and the provisions regulating the establishment, organisation and operations of the European company as well as the principles of involving staff in the European company.

- **Act on the state's help in the repayment of some housing loans, granting guarantee premiums and refunding the disbursed guarantee premiums to the banks¹⁸**

The act regulates the provisions in relation to interpretation doubts which appear when applying them, in particular the principles related to setting the amount of guarantee premium when disbursing it again and extension of the period of suspending the housing loan repayments for the poorest and unemployed borrowers.

¹⁴ Act passed on 15 April 2005, Journal of Laws of 2005 no. 83, item 719.

¹⁵ Act passed on 15 April 2005, Journal of Laws of 2005 no. 85, item 727.

¹⁶ Act passed on 7 July 2005, Journal of Laws of 2005 no. 157, item 1316.

¹⁷ Act passed on 4 March 2005, Journal of Laws of 2005 no. 62, item 551.

¹⁸ Act passed on 21 April 2005, Journal of Laws of 2005 no. 94, item 786.

- **Draft act on counteracting the insolvency of a natural person and consumer's bankruptcy**¹⁹

The draft act's objective was to define:

- principles of prosecuting claims by creditors from insolvent debtors who are consumers,
- effects of announcing consumer's bankruptcy,
- principles of proceedings, aimed at counteracting the insolvency of a natural person,
- principles of counteracting insolvency (consumer's restructuring proceedings).

3.2.2. Related executive acts

In 2005, the NBP participated in preparing and providing opinions on executive acts issued by the Commission for Banking Supervision and the Minister of Finance.

- **Banking Law Act**

The draft resolution CBS no. 1/2005 was prepared in relation to the manner of running the list of holdings, the manner of submitting and updating the information on holdings and the pattern of reporting a holding.²⁰

The opinion was prepared to the ordinance of the Minister of Finance re: the scope of processed information concerning natural persons (consumers) after the expiry of obligation derived from the agreement concluded with a bank or with another institution authorised by law to grant loans and the procedure of deleting such information.²¹

- **Act on supplementary supervision of credit institutions, insurance companies and investment firms in a financial conglomerate**

Based on the delegation included in the above said act, on 23 August 2005, the Minister of Finance issued three ordinances:

- re: substantial risk concentration at the level of a financial conglomerate,
- re: intra-group transactions in a financial conglomerate,
- re: capital adequacy of a financial conglomerate.

- **Accounting Act**

The NBP participated in providing opinions on the ordinances of Minister of Finance:

- ordinance of the Minister of Finance re: banks' accounting principles,
- ordinance of the Minister of Finance re: special principles of accounting for brokerage houses and banks' organisational units within which the brokerage operations are run,
- ordinance of the Minister of Finance re: special principles of pension funds' accounting

¹⁹ With regard to the completion of work by the Sejm of the 4th term and in line with the principle of discontinuation, work on the project was not continued by the present parliament.

²⁰ Act was passed on 19 October 2005.

²¹ Ordinance was issued on 20 September 2005.

- the draft amendment included changes related to the extension of provisions with the accounting principles for financial derivatives as well as adjusting the provisions to the act on the organisation and operations of pension funds and to the acts replacing the Act on public trading in securities,
- ordinance of the Minister of Finance re: special principles of crediting, valuation methods, scope of disclosing and manner of presenting financial instruments.

3.2.3. Consultation documents

In 2005, the General Inspectorate of Banking Supervision commenced work on the draft prudential regulations which will become executive legislation to the amended Banking Law Act. The documents were passed in the form of so-called consultation documents to the banking sector in order to obtain comments and opinions. They include:

- Consultation and implementation of New Capital Accord in the banking sector in Poland (January 2005),
- Standard method of calculating capital requirements from credit risk (May 2005),
- Advanced Method of calculating capital requirements from credit risk (May 2005),
- Simple Methods of calculating capital requirements from operational risk (June 2005),
- The third pillar. Disclosures (June 2005),
- Techniques of reducing credit risk (July 2005),
- Standard Method of calculating capital requirements from credit risk – update of document from May 2005 (October 2005),
- Advanced Method of calculating capital requirements from credit risk – update of document from May 2005 (October 2005),
- The second pillar of the New Capital Accord (November 2005),
- Guidelines on the internal capital adequacy assessment process for co-operative banks (ICAAP) (November 2005).

In addition, based on the currently available text of the CRD Directive, on considering the analysis of banks' questions and comments directed to the banking supervision, the General Inspectorate of Banking Supervision came up with the working version of draft executive acts to the Banking Law Act related to the issues of 1 and 3 Pillar.

3.2.4. Drafts of EU acts

The key drafts of EU acts and documents, on which NBP provided opinion include:

- **Draft amendment to the directive 2000/12/EC concerning the competence of member states in the area of control of the ownership structure and acquisition of substantial shares in the banks**

According to the NBP, the EC's proposals aimed at a substantial limitation of the role and competence of supervisory authorities directly supervising the credit institutions in which substantial shares are purchased, while leaving the liability of these authorities for the supervision of prudential and stable management of these institutions and the security of deposited funds.

- **Agreement on the co-operation between banking supervisions, central banks and ministries of finance in the situation of a financial crisis**

The agreement specifies the principles and procedures for the exchange of information between the above said institutions in case of financial crisis. President of the NBP as Chairman of the Management Board of NBP and Chairperson of the Commission for Banking Supervision joined the agreement on the co-operation in the area of crisis management in the EU.

3.2.5. Other areas of regulatory activities

In 2005, the General Inspectorate of Banking Supervision also carried out work on other documents of regulatory nature, i.e.:

- Draft recommendations of the Commission for Banking Supervision:
 - Recommendation R, on the principles of identifying the credit exposures which lost their value in the balance sheet, establishing revaluation allowances for the loss of value by balance sheet credit exposures and provisioning for off-balance credit exposures,
 - Recommendation S on good practices in the field of mortgage secured credit exposures,
- A draft resolution of the Commission for Banking Supervision regarding the establishment of liquidity standards and other standards of acceptable risk in banks' operations,
- A draft resolution of the Commission for Banking Supervision imposing additional capital requirements on the banks with regard to the issue of excessive indebtedness of households in foreign currencies.

3.3. Off-site analysis

Analytical supervision of GIBS is permanent and consists in:

- direct off-site surveillance over banks,
- supervision over banks with a difficult financial standing,
- comprehensive analysis of the business climate in the banking sector.

3.3.1. Direct off-site surveillance over banks

In 2005, direct off-site supervision over banks covered:

- Current and quarterly analysis and analysis of economic and financial position of individual banks within which:
 - Analytical-Supervisory Spreadsheets including key financial information on the banks were updated,²²

²² They include, among others, the score rating of the bank, profile of risk incurred by the bank and adherence to the standards specified in the Banking Law Act and other supervisory provisions and regulations.

- individual risk areas were assigned ratings and a general rating was assigned in the CAEL system²³ and this information was forwarded to the banks' management boards and supervisory boards²⁴ and to the Bank Guarantee Fund (in the case of banks implementing recovery plans),
- potential risk areas requiring detailed control were indicated,
- co-operation was carried out with foreign supervisory bodies, in particular with the supervisory bodies of banks having their subsidiaries in Poland.
- Examination of the banks' preparedness to introduce the New Capital Accord, including the survey research and meetings with banks' representatives.
- Analysis of applications concerning outsourcing agreements concluded by the banks.
- Preparation of information for the Commission for Banking Supervision related to individual situations and phenomena in the banks.
- Undertaking explanatory, informative and intervention actions.
- Development of opinions and materials for external institutions.

3.3.2. Supervision over banks in a difficult financial position

In 2005, 27 banks (12 commercial and 15 co-operative ones) implemented individual recovery action plans (in 2004, 42 banks), whereas 14 banks (5 commercial and 9 cooperative ones) conducted restructuring at the taken over bank enterprises (in 2004, also 14 banks). The supervision over these banks, among others, covered:

- preparation of opinions to the recovery plans developed by the banks which constitute the basis for approving these plans by CBS,
- co-operation with BGF consisting in informing on all the actions undertaken towards the banks in the mode of supervision and on the financial position of individual banks, as well as the sharing of opinions on the assumptions of recovery plans of the banks that were granted loans from the aid fund of the BGF,
- current analysis of their economic and financial position along with the assessment of the progress in their implementation of recovery programme, presented in the form of documents at the CBS meetings,
- preparation for the CBS and for the Chairman of CBS of the proposed actions towards these banks as regards the supervisory function.

Apart from the supervision over the banks running operations, the actions stipulated in the Banking Law Act were also undertaken towards the banks subject to liquidation and bankruptcy proceedings.²⁵

²³ It constitutes the method of evaluating individual types of banking risk and it is i.a. used to plan the dates and frequency of full-scope and targeted on-site examinations. Individual letters indicate: capital adequacy (C), asset quality (A), earnings (E) and liquidity (L).

²⁴ In the case of co-operative banks, only to the banks with the total balance sheet exceeding PLN 100 million.

²⁵ In 2005, 13 co-operative banks completed bankruptcy proceedings and 2 commercial banks completed liquidation procedure.

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

The GIBS's tasks related to the analysis of business climate in the banking sector covered:

- development of quarterly *Evaluation of the economic situation of Polish banks*,²⁶ including comprehensive information on the situation of the Polish banking sector, discussing its phenomena and trends as well as the sources of threat to its stability,
- providing external recipients with the main data on the sector in the form of document *Bank's financial standing. Summary*,
- annual assessment of: *Impact of monetary, tax and supervisory policies on the development of banks in 2004*,
- running the register of banks' foreign customers and analysing the risk related to the banks' large exposure,
- analysis of selected areas of banks' operations and development of information for the Commission for Banking Supervision, Management Board of NBP and other external units (including international organisations and financial institutions).²⁷

3.4. On-site examination

In 2005, the primary responsibilities of the banking supervision authority in this regard included the preparation and execution of on-site examination at banks, representative offices of credit institutions and foreign banks. The on-site examinations²⁸ focused particularly on:

- financing real estate market,
- correctness of introduction by the banks of solutions set forth in IAS,
- banks' compliance with the provisions of law on outsourcing.

As of 31 December 2005, the process of restructuring the regional offices of the On-site Examinations Division – initiated in 2002 – was completed. Due to this process, the banking supervision structure was made fully compatible with the network of the NBP branch offices, and the number of employed supervision inspectors was reduced by 52 persons.

3.4.1. On-site examinations at commercial and co-operative banks, at representative offices of credit institutions and foreign banks

In 2005, the banking supervision authority carried out the following on-site examinations:

- 138 full-scope on-site examinations (in 2004 – 179), including:
 - 18 examinations at commercial banks,

²⁶ Annual assessment for 2004 and for H1 2005 was assigned to: President of the Polish Republic, Speakers of the Lower and Upper Chamber of Parliament, Head of Cabinet, selected ministers and managers of central offices and chairmen of the selected Sejm commissions.

²⁷ The supervision specially focused on the development of loans for real estates and fx loans which was discussed in: *Financing the real estates by the banks in Poland* and special information for the Commission for Banking Supervision concerning fx loans for the investments in householdst.

²⁸ Pursuant to the resolution 4/2002 as of 6 March 2002 of the Commission for Banking Supervision on procedures for the performance of banking supervision.

- 120 examinations at co-operative banks,
- 34 targeted on-site examinations (in 2004 – 21), including:
 - 23 examinations at commercial banks – related to the selected areas of operations,
 - 11 examinations at co-operative banks,
- 6 explanatory proceedings, (in 2004 – also 6) including:
 - 4 at commercial banks,
 - 2 at co-operative banks,
- 2 examinations at the representative offices of foreign bank,
- 2 examinations at the representative offices of credit institutions,
- 1 on-site review of a bank's preparations for the launch of operating activity (in 2004 – also 1).

Additionally, banking supervision examiners, at the request of the banking supervision authorities from Ukraine, participated in the on-site examination at Kredyt Bank Ukraina.

3.4.2. Scope of conducted examinations

The scope of conducted examinations covered:

- Activities conducted under full-scope examinations included the examination of: quality of assets, liquidity, interest rate risk, currency transaction risk, earnings, capital, management and compliance with regulations binding to banks, statute and provisions included in the authorization to establish the bank.
- Targeted examinations covered mainly: compliance with legal regulations in the area of counteracting introduction of property values originating from illegal or undisclosed sources to financial transactions and on counteracting financing of terrorism, examination of the risk management of loans for financing real estates, identification of classified credit exposures and the establishment of revaluation allowances from the loss of value, compliance with the banking law with regard to outsourcing.
- Within the tasks commissioned by the Management Board of NBP:
 - reviews of monetary clearing and inter-bank settlements – as part of 138 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' reports regarding balance of payment statistics as commissioned by the NBP Department of Statistics – as part of 6 full-scope examinations at commercial banks.

3.4.3. Support of examination process and ensuring uniform examination standards

The tasks related to examinations include streamlining and adjusting the examination process to the changing legal regulations and international standards.

In 2005, the following new methodologies of examination were developed:

- procedure for examining outsourcing,
- procedure for identifying classified credit exposures and for determining the amount of revaluation allowances for the loss of value at the banks which implemented the standards of IAS and IFRS,
- principles of organisation and scope of targeted examinations in the area of property financing,
- methodology of examining the branch offices of credit institutions,
- procedure concerning the principles and the manner of determining the composition of an examination team and undertaking organisational activities related to the preparation of examination process at the banks.

In addition, the following examination methodologies have been updated:

- methodology of examinations in the area related to the introduction of IAS by the banks,
- score rating system for the banks – the test assessment of operational risk was introduced,
- procedure on examination activities in the field of consolidated supervision,
- methodology of assessing the stability of deposit base – methods ensuring higher precision of measurement of stable part of deposits were introduced.

3.5. Agreements with foreign supervisory institutions

In 2005, the Commission for Banking Supervision entered into agreements with the following foreign supervisory institutions:

- Belgian Banking, Financial and Insurance Commission (in February 2005),
- Chinese Commission for Banking Supervision (in March 2005),
- Bank of Holland (in November 2005),
- Federal supervisory institution of the United States – Office of Thrift Supervision (in December 2005).

In 2005, the negotiations were carried out with regard to the agreements with supervisory institutions from France, Portugal and Italy.

3.6. The participation of the National Bank of Poland in the reforms of banks

In 2005, the NBP supervised the implementation and timeliness of repayments of aid funds under the previously concluded agreements on the support of restructuring actions in the banks.

Financial support in the form of B/E loan was maintained with two banks. As at 31 December 2005, the total exposure was PLN 74.01m, i.e. by 36% less than at the end of 2004. The decrease in receivables was caused by the banks' purchase of issued B/Es and submission of new ones with lower or the same values.

In 2005, the Management Board of NBP did not exempt any bank from the reserve requirement. Based on the decision of the Management Board of NBP taken in 1999, 1 bank used this form of support in the amount of PLN 421.7m.

3.7. GIBS's actions contributing to establishing conditions needed to develop the banking system

In 2005, key actions of GIBS which contributed to establishing conditions needed to develop the banking system covered:

- work on the introduction of New Capital Accord to the Polish banking system,
- consolidated supervision,
- monitoring of co-operative banks' actions aimed at achieving subsequent capital thresholds – till the end of 2005 – EUR 500k own funds, till the end of 2007 – EUR 1m own funds,
- co-operation with the Bank Guarantee Fund in the area of ensuring stability and security of the banking sector and individual banks,
- sharing information and tight co-operation with Insurance and Pension Funds Supervisory Commission and SEC when effecting supervision over individual financial market segments in Poland which actually means covering a substantial part of the Polish financial sector with functionally integrated supervision,
- performance of control activities as a result of which banks' actions which were non-compliant with legal provisions regulating their operations as well as non-prudential practices were identified and eliminated and the improvement of risk management process quality was recommended,
- co-operation with foreign institutions supervising banks, which allowed to share information and experience in order to better identify risks in international capital groups.

The most important activities of the NBP in 2005

- As at 31 December 2005, the banking supervision covered 53 banks incorporated as public limited companies, 1 state-owned bank, 7 branches of credit institutions and 588 co-operative banks operating in Poland.
- Till the end of 2005, 103 credit institutions reported the intention to run cross-border operations within the territory of Poland.
- There were carried out, among others, 138 full-scope examinations, 34 targeted examinations, 6 explanatory proceedings, 2 examinations at the representative offices of foreign banks, 2 examinations at the representative offices of credit institutions and 1 on-site review of a bank's preparations for the launch of operating activity.
- GIBS carried out comprehensive work on the introduction of New Capital Accord and CRD Directive to the Polish banking system.



4

THE ISSUE OF CURRENCY

Pursuant to statutory provisions, the National Bank of Poland has the exclusive right to issue to notes and coin 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 note and coins in circulation (including bank vault cash) as at 31 December 2005 amounted to PLN 62,596.9 m (of which PLN 177.6 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 2005). This signifies an increase in the value of notes and coins by PLN 6,672.0 m, i.e. by 11.93% of the amount as at 31 December 2004.

Table 3 presents the value and the growth in the value of notes and coins in circulation in particular months of 2005 r, as compared to the end of 2004, compiled on the basis of monthly statements of stocks of domestic notes and coins prepared by regional branches and the Cash and Issue Department.

Table 3

Value and growth in the value of notes and coin in circulation in 2005

Month	Notes and coins in circulation (million zloty)	Growth in notes and coins in circulation on previous month, %
December 2004	55,924.9	X
January 2005	54,401.4	97.3
February	55,058.8	101.2
March	56,103.5	101.9
April	57,982.0	103.3
May	58,002.4	100.0
June	58,762.5	101.3
July	60,025.5	102.1
August	60,095.9	100.1
September	60,118.4	100.0
October	61,244.9	101.9
November	60,649.0	99.0
December	62,596.9	103.2

Source: NBP data.

As at 31 December 2005, notes accounted for 97.02% of all currency in circulation by value, whilst coins made up 2.98% (in 2004, notes accounted for 97.01%, and coins – 2.99%).

In terms of volume, notes represented 9.11%, and coins – 90.89% of all notes and coin in circulation (in 2004, notes accounted for 9.08%, whereas coins – for 90.92%).

In terms of value, 100 zloty and 200 zloty notes accounted for the largest share of all notes in circulation at the end of 2005, totalling 61.34% and 25.07%, respectively (58.89% and 26.87% in 2004). In the case of coins, 5 zloty and 2 zloty coins had the largest share of all coins in circulation, accounting for 28.94% and 28.87%, respectively (29.36% and 27.97% in 2004).

In terms of volume, 100 zloty and 50 zloty notes had the largest share in the circulation, amounting to 51.09% and 16.64%, respectively (in 2004, their respective shares stood at 48.63% and 17.29%). In the case of coins, 1 grosz and 2 grosz coins dominated, with their respective shares at 36.58% (36.20% in 2004), and 17.68% (17.66% in 2004).

4.2. Supply of notes and coin to the banks

Supplying of commercial banks with domestic notes and coin consists in direct supplies to bank offices based on sale-purchase agreements and the use of the NBP deposits under the agreements on storing and purchasing deposited notes and coin. Banks were supplied via a network of 16 regional branches of the NBP.

In 2005, in spite of a lower number of agreements on storing and purchasing deposited notes and coins, the value of purchased domestic notes and coins deposited at the NBP increased. The deposit system facilitates banks' access to notes and coin, allows a reduction of cash transportation cost, and enhances the security of cash transactions.

At the end of 2005, 81 branches of commercial banks (94 at the end of 2004) held NBP deposits amounting to PLN 2.7 bn in their vaults, which constitutes an increase by 12.5% as compared to 2004 (PLN 2.4 bn). The value of NBP deposits held by commercial bank branches at the end of 2005 accounted for 4.4% (4.3% in 2004) of the total value of notes and coin in circulation.

In 2005, commercial banks purchased domestic notes and coin at the NBP for the amount of PLN 134.6 bn, of which PLN 78.9 bn (58.6% of the total value) accounted for transactions of purchase of notes and coin deposited at the NBP (50.6% in 2004), whereas PLN 55.7 bn (41.4% of the total value) accounted for transactions based on sale-purchase of domestic notes and coin agreements (49.4% in 2004).

4.3. Withdrawal of unfit notes and coin

In 2005, 363.7 m pieces of notes and coins were withdrawn from circulation (400.5 m pieces in 2004) due to unfitness or the loss of counterfeit protection features. The average life of notes is correlated with their face value and ranges from 8 months in the case of 10 zloty notes to 115 months for 200 zloty notes. The average life of coins exceeds ten months.

4.4. Other issues related to notes and coins

4.4.1. Delivery of notes and coins

In 2005, manufacturers of notes and coin, i.e. the Polish Security Printing Works (*Polska Wytwórnia Papierów Wartościowych SA – PWPW SA*) and the Polish State Mint (*Mennica Polska SA – MP SA*) delivered to the NBP 1,464,846.3 thousand pieces of notes and coin. The total cost of purchase amounted to PLN 247.0 m, which constitutes an increase by 9.1% on 2004 (PLN 226.3 m).

The PWPW SA supplied the NBP with a total of 655 m pieces of notes with face values of 100, 50, 20, and 10 zloty, whereas the MP SA supplied 809.8 m pieces of coins, of which 808.7 m general circulation coins with face values 2 zloty, 20, 10, 5, 2, and 1 grosz, and 1.2 m pieces of collector coins.

The notes and general 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 2005.

4.4.2. Issue of collector coins

The NBP issues collector coins, *inter alia*, to disseminate knowledge about the history and culture of Poland. In 2005, 1,172.3 thousand pieces of coins were issued within 12 topics, of which 47.4 thousand pieces were gold coins and 1,124.9 thousand were silver coins.

22 types of collector coins were issued:

- 8 gold coins with face values of 200 and 100 zloty,
- 14 silver coins with face values of 20 and 10 zloty.

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

- a silver coin in the shape of a fan ("EXPO 2005"),
- silver coins struck using the pad printing technique ("60th Anniversary of the Ending of World War Two", "Konstanty Ildefons Gałczyński", "Polish Painters of the Turn of 19th and 20th century – Tadeusz Makowski"),
- a silver, gold-plated coin ("Pope John Paul II").

The NBP sales margin on of collector coins issued in 2005 was PLN 14.6 m (PLN 8.5 m in 2004).

4.4.3. Issue of general circulation coins struck in Nordic Gold

The NBP continued the issue of the general circulation coins with the face value of 2 zloty, struck in the Nordic Gold alloy, which accompanied particular issues of collector coins. In September, the issue of 2 zloty coins of the new series *Historical Cities in Poland* was commenced; within the series every month a coin was issued dedicated to a different city. In 2005 a total of 19 types of general circulation coins struck in the Nordic Gold alloy were issued.

4.4.4. Exchange of currency no longer legal tender

The NBP and domestic banks providing cash services continued the exchange of notes and coin issued prior to the 1 January 1995 redenomination. By the end of 2005, 99.72% of notes and coin issued before redenomination were replaced, representing 91.35% of the total number of old notes and coin.

4.4.5. Counterfeit domestic currency

The number of counterfeit domestic notes and coins decreased by 1.41% on 2004. Table 4 presents the number and breakdown of counterfeit domestic notes and coin reported in 2005 in comparison with 2004.

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.

4.4.6. Counteracting euro counterfeiting

The Notes National Analysis Centre and the Coins National Analysis Centre, established in 2004 at the National Bank of Poland, obtained access to the Counterfeit Monitoring System maintained at the European Central Bank, and thus to enter technical and statistical data on cases of counterfeiting reported in Poland. In 2005, the NBP undertook actions aimed at making the aforementioned data available to the Police for review.

Table 4

Number and breakdown of counterfeit domestic notes and coins

Counterfeit notes and coins	2004		2005		Increase/ decrease (%)
	Number (pieces)	Breakdown (%)	Number (pieces)	Breakdown (%)	
Notes issued in 1994, the "Polish Monarchs" series	33,954	60.11	29,819	53.65	-12.18
Notes issued previously, the "Great Poles" series	48	0.08	22	0.04	-54.17
Coins of current issue	21,902	38.77	22,439	40.37	2.45
Coins of previous issues, withdrawn in 1994	583	1.03	3,302	5.94	466.38
Total	56,487	100	55,582	100	-1.60

Source: NBP data.

4.5. Works of the Commission for the Strategy of Introducing Euro Notes and Coins

In March 2005, pursuant to the decision of the President of the National Bank of Poland, the Commission for the Strategy of Introducing Euro Notes and Coins was appointed within the NBP. Its responsibilities include development of a strategy of introducing euro notes and coins to Poland, and coordination of thereto-related activities within the competences of the NBP. In 2005, works of the commission focused on issues related to the future manufacturing of euro notes and coins, and the possible scenarios of introduction of new currency.

In August 2005, the Commission elaborated the opinion of the NBP concerning the amendment draft to the Regulation of the Council 974/98 concerning introduction of the euro in countries outside the EMU. The Regulation provides for one of the three scenarios:

- a scenario providing for a transition period,
- a "big bang" scenario, where euro is introduced both as cash and non-cash transactions,
- a "big bang" scenario with a phasing-out period.

In its opinions, the NBP tried to define the term "phasing-out" in the most detail, and postulated supplementing the preamble of the Regulation with the so-called interpretation clause, concerning legal instruments which may be used by Member States during the phasing-out period.

In September 2005, the Commission issued the opinion of the NBP concerning the Draft Memorandum of Understanding, prepared by the European Commission. The present policy of the European Commission concerning the date of launching the manufacturing of euro coins by Member States outside the EMU provides for its possibility after taking the decision to terminate the derogation for a given country. The European Commission states at the same time that such preparatory measures may be undertaken earlier – they comprise, among other things, the possibility of manufacturing 1 million pieces of test coins for each face value.

In its opinion, presented in October 2005 during the meeting of the Sub-Committee for Euro Coins operating at the Economic and Financial Committee (EFC), the NBP stated that it intended to:

- uphold the postulate concerning the necessity to commence coin manufacturing before taking a decision on termination of the derogation, upon the cost and responsibility of the country joining the euro area, or
- obtain consent from the European Commission on a significant increase in the number of test coins, in proportion to the needs and size of a country.

The most important activities of the NBP in 2005

- The NBP conducted activities aimed at disseminating the deposit system. As at the end of 2005, 81 branches of commercial banks held NBP deposits in their vaults worth PLN 2.7 bn.
- The NBP disseminated knowledge about the history and culture of Poland, *inter alia*, through issue of collector coins.
- The NBP collaborated with the ECB as regards counteracting euro counterfeiting.

MANAGEMENT
OF OFFICIAL RESERVES

Pursuant to Article 52 section 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 accumulation of state reserves is to ensure macroeconomic stability and financial credibility of the country, and convertibility of the national currency.

The basic principles that govern the management of foreign exchange reserves by the NBP is ensuring a high level of safety of invested funds, and maintaining the requisite level of liquidity. Operating within these constraints, the NBP aims at maximising the returns on investments.

Key decisions concerning 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 may be employed, investment exposure limits, the investment composition of the benchmark portfolio, principles of calculating the return on official reserves, and the acceptable level of interest rate risk, depending on the modified duration. These decisions constitute a point of reference for assessing the management of official reserves.

In 2005 the investment instruments applied included discount instruments, 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).

5.1. 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 a given year. Modified duration and its annual and quarterly acceptable volatility ranges are among the most important interest rate risk management tools.
- Liquidity risk mitigation, which is construed as the temporary loss of availability of foreign exchange assets, aims at providing for the continuity of services to holders of accounts at the NBP (in particular, the central government institutions), and, if need be, at facilitating measures to increase the foreign exchange liquidity of domestic banks. This risk is mitigated by appropriate diversification of investment instruments, investment exposure limits, and maintenance of part of funds as short-term bank deposits.

- 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.

5.2. Investment environment

5.2.1. Economic background

A high economic growth rate prevailed in the United States in 2005, resulting from a high growth rate of consumer, investment, and federal spending. The positive outlook for the American economy, together with the temporary increase in inflation expectations, following largely from surging oil prices, prompted the Federal Reserve Bank to continue the policy of gradual rising of interest rates, commenced in June 2004. According to the market expectations, the Federal Reserve Bank raised the federal funds rate, during each of its eight meetings, by 25 basis points (by 200 basis points in total), up to the highest level since April 2001 – 4.25%.

Similarly to 2004, the pace of economic recovery in EU-12 countries was much weaker than in the United States, mainly due to a temporary slide in trade resulting from the strong euro exchange rate. The European Central Bank (ECB), in response to the increase in inflation beyond the set target and the excess of the desired value of money supply, took a decision in December 2005 to increase the refinance rate for the first time in five years, by 25 basis points up to 2.25%.

Contrary to the FED and the ECB, the Bank of England took a decision – for the first time since July 2003 – to reduce interest rates by 25 basis points, to 4.5%. The decision was taken in August and conditioned on the signals of a slow down in the economic climate and in the property market.

During the year, the EUR/USD exchange rate decreased by almost 13%, whereas the GBP/USD exchange rate by over 10%.

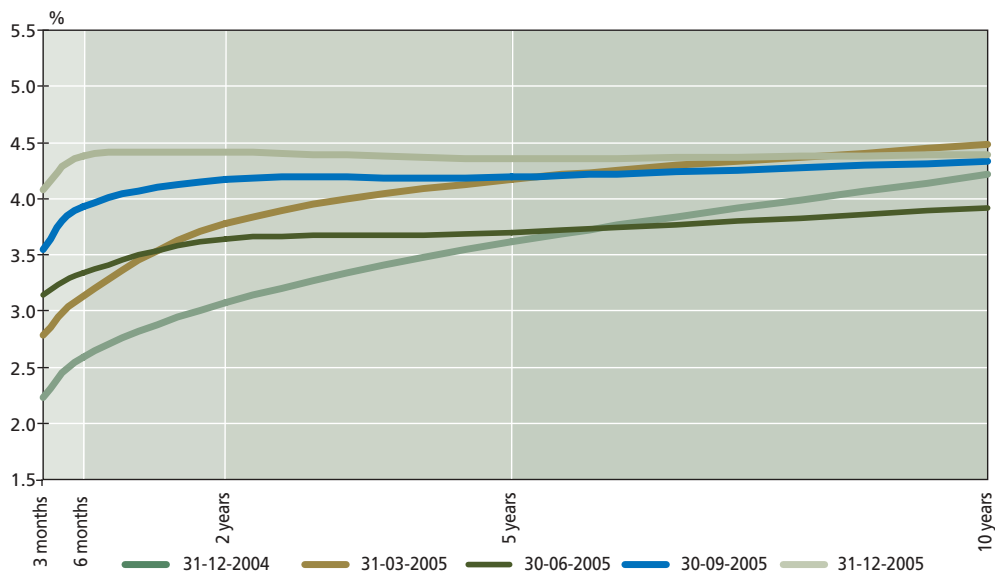
5.2.2. Characteristics of market investment parameters

The tightening of the monetary policy by the FED was reflected in the increased yield on dollar investments on the money market. As a result of the aforementioned one-off decisions of the central banks (the reduction by the Bank of England, and the increase by the ECB) the return on investment in the pound sterling and the euro was comparable to the one from the previous year. The level of year-average 3-month LIBOR rates as compared to that in 2004 was much higher in the case of the US dollar (by 194 basis points), and only slightly higher in the case of the pound sterling – by 12 basis points, and the euro – by 8 basis points.

In 2005, the yield curve of U.S. government securities moved up, which was related to the continued cycle of tightening the monetary policy by the FED. The scale of growth in the yields of government securities – which moved in the opposite direction to their prices – decreased together with the lengthening of maturities (see Figure 6). It was the largest in the case of 3-6-month sectors, for which it stood at 186 and 179 basis points, respectively. The yield of 2-year securities increased by 134 basis points and at the end of December exceeded the yield of 10-year bonds, which increased by 18 basis points. There are many hypotheses as to the reasons for occurrence of the unusual market phenomenon, which is the prevailing low long-term interest rates, despite rises of central bank interest rates. The most often suggested hypotheses include an increase in demand for long-term bonds on the part of pension funds and investment companies, a global surplus of savings, and lower risk premiums as the result of a drop in inflation expectations and their anchoring at a low level. Some experts deem the reversed yield curve a forecast of the forthcoming weaker economic climate, others believe that in the recent years, the US government securities yield curve has lost its recession forecasting abilities.

Figure 6

Yield curves of U.S. government securities



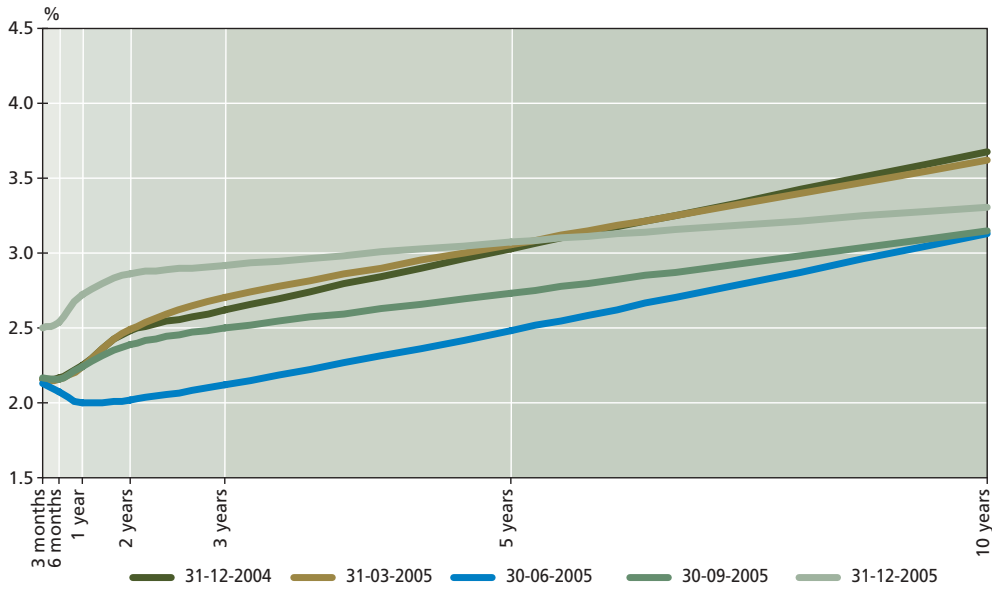
Source: Bloomberg.

The yield curve of euro government bonds flattened (see Figure 7) – the spread between 10-year and 2-year issues decreased by 75 basis points down to 45 basis points at the end of 2005. It reflected the price movements of particular instruments: securities with maturities up to 5 years lost in value, but their yield picked up (in the case of 2-year bonds – by 38 basis points). On the other hand, prices of bonds with maturities over 5 years grew, whereas their yield dropped (in the case of 10-year bonds – by 37 basis points). The fall in prices of shorter-term bonds, which are more sensitive to changes of other interest rates, resulted primarily from the growing expectations of ECB interest rates rise in the second half of the year. Securities with longer maturities picked up, largely due to the increased demand on the part of pension funds and Asian investors, as well as in relation to the sustained relatively low inflation expectations in the euro area. Developments on the U.S. government securities market had a significant influence on the situation on the euro securities market – it is proved by a relatively high ratio of correlation of yield changes for euro and U.S. dollar bonds of equal maturities.

In 2005 the yield curve of the British government bonds moved down (see Figure 8), what indicates an increase in prices, with the growth being more pronounced in the case of securities with longer maturities. The yield of 10-year issues dropped by 44 basis points, and that of 2-year issues – by 25 basis points. The decrease in the prices of securities in the first quarter resulted mainly from the increased market expectations as to the increase in the base rate, which was supported by the enhanced forecasts of economic growth and inflation by the Bank of England. In the consecutive months of the second quarter, the market sentiment changed dramatically. In view of signals of slowed-down business cycle, expectations of reduction of the base interest rate in the UK were common. Considering the above, prices of UK securities surged by the turn of June and July. The second half of the year featured a narrower range of price changes. As of mid-November, the spread between the yields of 10-year and 20-year issues was negative. As in the case of euro-denominated securities, the developments on the U.S. securities market had an influence on prices of long-term securities.

Figure 7

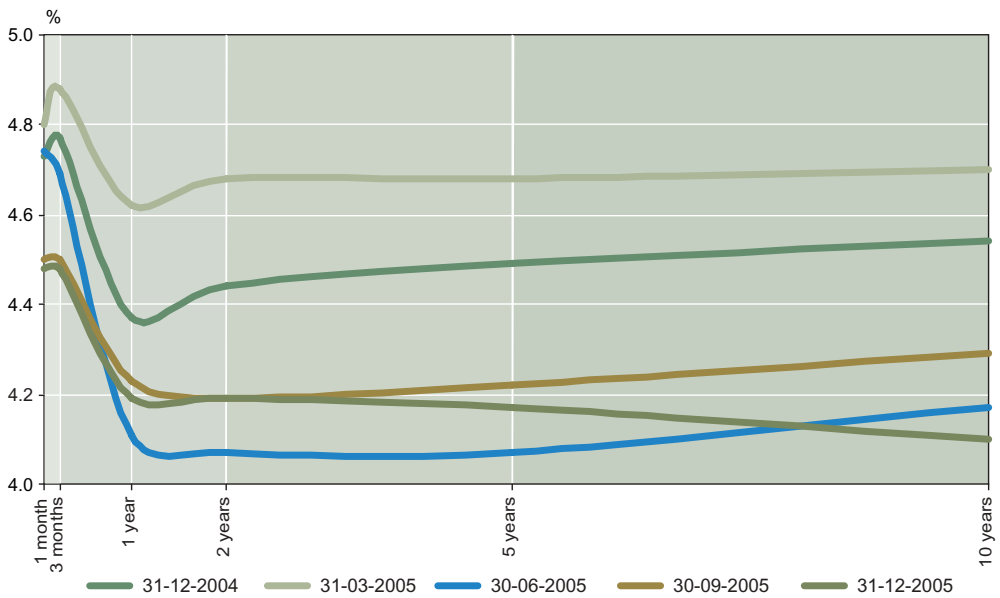
Yield curves of euro government securities



Source: Bloomberg.

Figure 8

Yield curves of UK government securities



Source: Bloomberg.

5.3. Level of official reserve assets

In 2005, official reserve assets²⁹ in euro grew by EUR 9.0 bn to EUR 36.0 bn (Table 5), whereas in dollar terms it picked up by USD 5.8 bn to USD 42.6 bn. The growth in official reserves followed from the positive balance of external flows, and mainly was related to the inflow of funds from the European Union, and changes in exchange rate relations. The weaker exchange rate of the euro against the dollar and the pound sterling had an upward impact on reserves in euro.

Table 5

Composition of official reserve assets – data as at period-ends, EUR and USD bn

	2004		2005	
	EUR	USD	EUR	USD
Monetary gold	1.1	1.5	1.4	1.7
Foreign exchange	25.3	34.5	32.8	38.8
– USD portfolio	12.2	16.6	16.1	19.0
– EUR portfolio	10.5	14.4	13.6	16.1
– GBP portfolio	2.6	3.5	3.1	3.7
SDRs	0.1	0.1	0.1	0.1
Reserve tranche at the IMF	0.5	0.7	0.3	0.3
Other receivables in convertible currencies	0.0	0.0	1.4	1.7

Source: NBP data.

5.4. Investment activity

Transactions whose subject matter includes currencies are conducted according to the principles and good practices of the international FX and capital market. The conclusion of transactions is secured by procedures and systems of internal control, position monitoring, and analysis of limit utilisation.

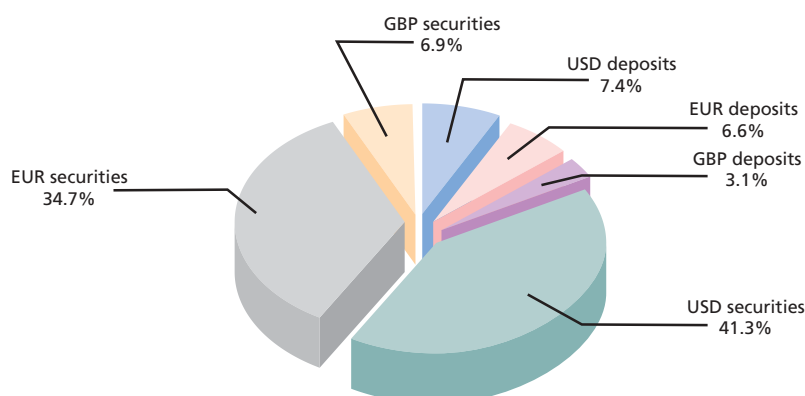
The NBP manages foreign exchange reserves shaping the positions of currencies and the modified duration of each currency portfolio, against set parities within the admissible deviation bands. Foreign currency funds are invested in money and capital market instruments. Money market instruments include short-term discount securities, deposits, and securities transactions with repurchase agreements, whereas capital market instruments comprise government securities, high quality agency securities and securities of international institutions (see Figure 9). In its transactions, the NBP takes into account the current market conditions, and development forecasts.

A new element in the management of foreign exchange reserves in 2005 was NBP's own composition of the benchmark portfolio, used for analyses of yield and efficiency of foreign exchange reserves management. In previous years, the NBP used external indices for the composition of the benchmark portfolio.

²⁹ Official reserve assets include such financial instruments as monetary gold, SDRs, reserve item at the IMF, assets in convertible currencies (cash, current accounts, deposits, and securities of foreign issues), and other receivables. In comparison to official reserve assets, the foreign exchange reserves referred to in the *Report* constitute a smaller aggregation, which includes such items as securities of foreign issues, current accounts and deposits in banks abroad (excluding the foreign currency funds of the Ministry of Finance), and gold invested on the international market. In 2005, foreign exchange reserves in euro rose by EUR 7.8 bn to EUR 34.1 bn, of which the funds of the Ministry of Finance as at the end of 2005 accounted for EUR 0.9 bn, whereas in dollar terms they grew by USD 4.5 bn to USD 40.4 bn, of which the funds of the Ministry of Finance as at the end of 2005 accounted for USD 1.0 bn. The average level of foreign exchange reserves in 2005 (excluding the foreign currency funds of the Ministry of Finance) stood at EUR 30.1 bn (USD 37.4 bn), whereas their average share of gold was 3.8%.

Figure 9

Average share of individual investment instruments in foreign exchange reserves, 2005



Source: NBP data.

5.5. Yields on foreign exchange reserves

The investment composition of foreign exchange reserves binding in 2005, as in the previous year, provided for investments in three investment portfolios: the dollar, the euro, and the pound sterling portfolio. Modified duration remained within the fluctuation band provided for by the NBP Management Board. In 2005, the average modified duration level of FX reserves stood at 1.81, and as slightly higher than the average level of the previous (1.76) – Table 6.

The yields on foreign exchange reserves attained in 2005 stood at 2.6% (Table 6) – similarly to 2004. However, the yields of particular investment portfolios changed, as compared with the previous year.

Table 6

Average modified duration and yields in 2004–2005

	Modified duration		Yield (%)	
	2004	2005	2004	2005
Foreign exchange reserves	1.76	1.81	2.6	2.6
– USD portfolio	1.87	1.82	1.5	2.2
– EUR portfolio	1.62	1.73	3.4	2.4
– GBP portfolio	1.86	2.12	4.8	5.4

Source: NBP data.

The shaping of market prices of debt instruments in particular sectors of yield curves had a primary importance for the yield of each investment portfolio in 2005. In the case of the USD portfolio, the expected increase in interest rates was accompanied by a shortened modified duration, what contributed to a higher yield as compared to the previous year. In 2005, yield on securities denominated in euro was lower throughout the sectors of the yield curve than in 2004, hence the investment policy was aimed to mitigate the negative impact of market factors on the yield of the whole portfolio in euro. On the other hand, the rise of prices on the British securities market and the increase in the modified duration of the GDP portfolio resulted in higher than in

the previous year yield. Results of the analysis of the global macroeconomic conditions and the forecasts of economic trends conducted at the end of the year prompted the NBP Management Board to take strategic decisions for 2006 within the investment composition of foreign exchange reserves, consisting in a decrease in the share of the U.S. dollar for the benefit of the pound sterling, and shortening of the modified duration of the USD portfolio.

5.6. Monetary gold

As a result of a significant increase in the price of gold, the value of monetary gold held by the NBP grew by EUR 0.3 bn to EUR 1.4 bn as at the end of 2005 (in dollar terms – by USD 0.2 bn to USD 1.7 bn), what was reflected in the increase in NBP financial result.

5.7. Investment income

Income on investment activity in 2005 stood at PLN 3.4 bn, which is an equivalent of USD 1.0 bn (or EUR 0.8 bn).

The most important activities of the NBP in 2005

- Yield on foreign exchange reserves stood at 2.6%.
- The NBP applied its own composition of the benchmark portfolio for the analysis of yield and efficiency of foreign exchange reserves management.



6

FOREIGN EXCHANGE OPERATIONS

Foreign exchange operations of the NBP consist in undertaking actions to ensure security of foreign exchange transactions and exercise control within the scope specified in the provisions of the Foreign Exchange Law. It is performed through, inter alia, maintaining a register of bureaux de change, issuing opinions on foreign exchange matters, and control of foreign exchange transactions.

6.1. Foreign exchange activity

6.1.1. Register of entities conducting foreign exchange market operations

Foreign exchange market operations are conducted pursuant to the provisions of the act on freedom of economic activity, and require an entry to the register of entities conducting foreign exchange market operations maintained by the President of the NBP. As a result of liberalisation of regulations concerning business activity, in 2004 the NBP ceased to issue licences regarding foreign exchange market operations.

In 2005, 808 entries were made to the register of entities conducting foreign exchange market operations, concerning: new entrepreneurs launching foreign exchange market operations, deletion of entrepreneurs from the register, and changes to data entered into the register.

As at 31 December 2005, 3,852 bureaux de change operated in Poland.

6.1.2. Foreign exchange decisions

In 2005, a total of 1,710 decisions concerning foreign exchange were issued, including: 1325 permits, 1 negative decision, 384 other decisions,³⁰ and 26 rulings (1,547 decisions and 22 rulings in 2004).

Over 91% (1,211) of permits issued related to conducting foreign currency settlements between residents at home. 211 of them concerned settlements related to contracts co-financed with EU funds, other regarded settlements between domestic entities, connected with foreign exchange transactions with foreign businesses.

6.1.3. Foreign exchange control

In 2005, the National Bank of Poland exercised control over foreign exchange activities, pursuant to the provisions of the Foreign Exchange Act³¹ 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.³²

In 2005, a total of 2,454 inspections were conducted (as compared to 2,129 inspections in 2004), including:

- 1,147 inspections concerning compliance with reporting requirements related to the balance of payments (758 inspections in 2004), of which 45 inspections combined with the inspection of foreign exchange permits (18 in 2004),
- 1,072 inspections regarding foreign exchange market operations (1,300 in 2004),
- 235 inspections at bank organisational units authorised to perform intermediary services with regard to the execution of foreign exchange money transfers and settlements (71 in 2004).

³⁰ Relating to cancellation, change, leaving without consideration, or maintaining in force.

³¹ Dziennik Ustaw No. 141/2002, item 1178, as amended.

³² Dziennik Ustaw No. 153/2003, item 1505, as amended.

6.1.4. Post-inspection activity

In 2005, the share of inspections which detected irregularities was 54%. Irregularities were detected during 1,334 inspections (1312, i.e. 62%, in 2004).

In the case of detection of irregularities, post-inspection recommendations were issued, committing the management of the inspected unit to ensure compliance with applicable regulations. In 747 cases (371 in 2004) tax offices have been notified of circumstances indicating that an offence could have been committed by the units inspected. 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.

As a result of finding of gross breach of the requirements of foreign exchange market operations, the NBP issued 2 decisions revoking the permit to conduct foreign exchange market operations (1 decision in 2004).

6.1.5. Organisation of foreign exchange transactions

In 2005, the NBP participated in the works on the draft act amending the Foreign Exchange Law and the draft act amending the Tax Criminal Code.³³ The proposed amendment results from the necessity to amend or repeal regulations whose compliance with EU law raises doubts. It refers in particular to the regulations concerning the principles of granting permits to conduct foreign exchange market operations, the limits of capital flow to and from third countries, and procedures for the performance of money orders abroad via authorised banks. In the latter case, the amendment is aimed to simplify the procedures for performing money orders abroad, by abandoning the requirement to provide the order title and its documentation by the ordering party to the bank.

6.2. Servicing the foreign borrowings of the NBP

The NBP completed servicing of the loan extended by the French government for the purpose of development of French-Polish companies to domestic banks. The total repayment of liabilities and receivables was effected on 2 January 2006.

The most important activities of the NBP in 2005

- 1,710 permits to conduct foreign exchange operations were issued,
- 2,454 inspections of foreign exchange activities were conducted,
- As at 31 December 2005, 3,852 bureaux de change operated in Poland.

³³ Due to the termination of works of the IV term of the Sejm and according to the principle of discontinuation, works on the project were not continued in the present parliament.



7

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 2005, the NBP focused on integration of the newly established infrastructure for euro settlements with the systems functioning in the European Union: TARGET, STEP2, and EURO1. Another important area of focus were the works related to supervision over payment systems and authorisation and settlement systems. These works were aimed at mitigating threats for the functioning of the financial system, related to possible disruptions in the payment system.

7.1. Integration with payment systems functioning in the European Union

One of the priorities for 2005 in the area of the payment system was preparation of the Polish central bank for participation in the TARGET system, which links the Real Time Gross Settlement Systems from European Union countries and facilitates cross-border payments between these countries.³⁴ In the performance of this task, in 2005 the NBP accomplished the works related to the building of the SORBNET-EURO system – a new Polish real time gross settlement system, which was launched on 7 March 2005. SORBNET-EURO is used for high-value settlements of euro payments, and is linked with the TARGET system via the Italian RTGS named BIREL.

The National bank of Poland is the first central bank of the new EU Member States to fully participate in the TARGET system, thus facilitating Poland's participation in the settlement system of the European Union.

Launching the SORBNET-EURO system and linking it to the TARGET system was a response to the needs of the banking sector, and one of the activities within the statutory responsibility of the NBP to organise money settlements and create conditions necessary for the development of the banking system.

The main benefits resulting from the launch of the SORBNET-EURO system and linking it to the TARGET system include:

- establishment of a modern system fully compliant with the RTGS standards of EU Member States,
- enabling of the parallel creation of the EuroELIXIR system for euro retail payments, maintained by the National Clearing House (KIR SA),
- facilitating a significant reduction of settlement time,
- contributing to lower transaction costs incurred by commercial banks,
- increasing the security level of payment performance, thanks to the high safety requirements of the SORBNET-EURO system,
- facilitating settlement of domestic payment orders in euro according to the principles corresponding to those applied with high-value payment settlements in zloty via the SORBNET system.

³⁴ As of Poland's joining the EU, discretionary participation is made possible (pursuant to the decision of the ECB Governing Council of October 2002); as of Poland's joining the euro area, it will be mandatory.

Apart from launching the SORBNET-EURO system and linking it to the TARGET system, as of the 30 May 2005 the NBP joined the STEP2 and EURO1 systems, operated by EBA Clearing.³⁵ This connection enabled development of the retail euro payment system, and was a response to the expectations of the Polish banking sector. The EuroELIXIR system was built by KIR SA, and facilitated settlements of domestic (as of 7 March 2005) and cross-border (as of 30 May 2005) payments in euro.

The NBP also continued preparation to participation in the TARGET2 system, which, as of November 2007, will gradually replace the presently operating TARGET. NBP's participation in the TARGET2 system is planned as of May 2008.

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 on Oversight of These Systems of 24 August 2001, the National Bank of Poland exercises oversight over payment systems and securities settlement systems.³⁶ Oversight over authorisation and clearing systems operated by non-bank acquirers is exercised pursuant to the Act on Electronic Payment Instruments³⁸ of 12 September 2002. The oversight exercised is aimed at minimising the risk related to possible disruptions in the functioning of these systems.

In 2005, the NBP:

- Collected and analysed statistical data and information concerning the functioning of the payment system, as of the beginning of 2005 also from new entities – cooperative savings and credit unions, Poczta Polska, entrepreneurs conducting business activity consisting in effecting money orders and intermediation in their performance in domestic and foreign transactions, and from entrepreneurs conducting business activity involving intermediation in accepting payments to bank accounts. The requirement of submitting data by the aforementioned entities ensues from the Regulation of the Minister of Finance of 23 April 2004 concerning the method, scope, and dates of submitting data necessary for assessment by the NBP of the functioning of money settlements and interbank settlements by entities participating in such settlements. The data collected enabled, among other things, assessment of the scale of market activity of entities involved in intermediation in accepting payments to bank accounts.
- Granted consent to establish the EuroELIXIR system, and change the principles of functioning of the ELIXIR system (both systems are maintained by KIR SA).
- Participated in the works of KIR SA concerning the company development strategy, adopted by the Supervisory Board of KIR SA in September 2005.
- Conducted market analyses in terms of the compliance of some business entities with the provisions of the Act on Electronic Payment Instruments of 12 September 2002.
- In December 2005, granted consent to CardPoint SA to operate the authorisation and clearing system (CardPoint SA took over the above system from Bank Handlowy w Warszawie SA).

³⁵ EBA Clearing – company operating the STEP2 system.

³⁶ Dziennik Ustaw No. 123/2001, item 1351.

³⁷ Dziennik Ustaw No. 169/2002, item 1385.

- Participated in the works of the National Depository for Securities (KDPW SA) on the company development strategy, adopted by the Supervisory Board of KDPW SA in June 2005.
- Participated in the works of KDPW SA on the establishment of an intersystem link between KDPW SA and another deposit and settlement institution, based on the DVP³⁸ principle.
- Participated in the works of the ESBC-CESR Working Group³⁹ concerning standards for securities clearing and settlement.
- Continued works aimed at assessment of the link between the securities settlement system operated by KDPW SA and the Austrian securities settlement system operated by Oesterreichische Kontrollbank AG (OeKB), in terms of compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations".⁴⁰ In the performance of the binding procedures, the National Bank of Poland and the National Bank of Austria presented reports that assessed the aforementioned link. Based on the reports, in June 2005 the European Central Bank issued its opinion confirming the compliance of the link between KDPW SA and OeKB with ECB standards. However, the above assessment was of an informal nature. In order for the link between KDPW SA and OeKB to be used in credit operations of Eurosystem, formal assessment must be conducted, planned for the period directly preceding Poland's joining the euro area.

7.3. Regulatory activity regarding the payment system

In 2005, the following NBP legal acts concerning the payment system were amended:

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

The amendments were aimed to adjust the hitherto existing regulations to the requirements of the European Central Bank, related to participation of the NBP in the TARGET system, specified in ECB's "TARGET Guideline" and in the TARGET Agreement.

In connection with NBP's joining the EURO1 system and pursuant to the Act on Supplementary Supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate of 15 April 2005, Article 5 of the Act on Settlement Finality in Payment and Securities Settlement Systems, and on the Rules on Oversight of These Systems was amended. The statutory amendment introduced allowed the NBP to obtain positive legal verification by the ECB and EBA Clearing (owner of the EURO1 system) and join the STEP2 and EURO1 systems.

In 2005, the NBP participated in the works on new legal acts which regulate functioning of the Polish capital marketing, proposing entry of provisions aimed at increasing the supervision of the NBP of securities settlement systems. Pursuant to the adopted regulations, NBP representative obtained the right to participate in the meetings of the Polish Securities and Exchange Commission where matters related to the securities settlement system operated by KDPW SA are discussed.

³⁸ DvP – Delivery versus Payment – a link between the securities transfer and the funds transfer, assuring that a delivery is effected only if the respective payment is made.

³⁹ CESR – Committee of European Securities Regulators.

⁴⁰ "Standards for the use of EU securities settlement systems in ESCB credit operations".

The new acts regulating the functioning of the Polish capital markets are:

- **The Act on public offer and the conditions of introducing financial instruments to organised trading system and on public companies⁴¹**

The act regulates the principles and conditions of making public offers of securities, and admitting to trading on the regulated market of securities or other financial instruments. It also stipulates the obligations of issuers and other entities participating in securities trading.

- **The Act on Trading in Financial Instruments⁴²**

The act stipulates the principles, mode and conditions of conducting business activity within trading in securities and other financial instruments, and obligations of entities participating in the trading; it amends the definitions of confidential information and manipulation of financial instruments.

- **The Act on supervision over the capital market⁴³**

The act stipulates the organisation of supervision over the securities and other financial instruments market, and over the commodity market.

NBP representatives took part in the preparation of executive acts to the aforementioned legal acts. The executive acts included:

- **Draft Regulation of the Minister of Finance and Regulations of the Council of Ministers related to three acts replacing the Act on Public Trading in Securities**

The Regulations constitute execution of the statutory delegations included in the acts, which replaced the Act on Public Trading in Securities.

- **Regulation of the Council of Ministers concerning investments of pension funds⁴⁴**

The Regulation expands the catalogue of pension funds' categories of investment in derivatives, i.e. future transactions, option contracts, and swap transactions. The solution is aimed to mitigate the investment risk related to funds' assets.

- **Regulation of the Council of Ministers repealing the Regulation concerning investments of pension funds⁴⁵**

The Regulation is aimed to repeal the possibility of investing funds of open-ended pension funds in derivatives. The NBP issued a negative opinion on the presented draft Regulation. It stressed that including derivative instruments into open-ended pension funds' portfolios will serve to lower investment risk.

⁴¹ The Act was adopted on 29 July 2005, Dziennik Ustaw No. 184, item 1539.

⁴² The Act was adopted on 29 July 2005, Dziennik Ustaw No. 183, item 1538.

⁴³ The Act was adopted on 29 July 2005, Dziennik Ustaw No. 183, item 1537.

⁴⁴ Dziennik Ustaw No. 186/2005, item 1549.

⁴⁵ Dziennik Ustaw No. 260/2005, item 2180.

7.4. Servicing bank current accounts held at the NBP Head Office

7.4.1. Number of bank current accounts operated by the NBP in the SORBNET system

As at the end of December 2005, current accounts in zloty of 53 banks were held at the NBP Head Office, i.e. fewer by one than in the previous year.

In 2005, 3 current accounts of the following banks were closed:

- GE Bank Mieszkaniowy SA – on 17 January 2005, due to a take-over by GE Capital Bank SA (GE Money Bank SA as of 17 January),
- Bankgesellschaft Berlin (Polska) SA under liquidation – on 31 March 2005, due to accomplishment of bank's liquidation process,
- Svenska Handelsbanken (Polska) SA – on 1 July 2005, in relation to the transfer, as of 6 January 2005, upon consent of the Commission for Banking Supervision, of the banking activity to Svenska Handelsbanken AB SA Branch in Poland.

Within the same period, 2 current accounts were opened for:

- Toyota Bank Polska SA – on 1 March 2005,
- Dresdner Bank AG SA Branch in Poland – on 3 October 2005.

7.4.2. Types and number of operations performed on banks' current accounts at the NBP, in the SORBNET system

In 2005, about 1,091 thousand operations were performed in the banks' current accounts held with the NBP Head Office (907 thousand in 2004) for the total amount of PLN 24.9 trillion (PLN 19.8 trillion in 2004). It translates into an increase in the number of effected transactions by 184 thousand (about 20%), and in their total value by PLN 5.1 trillion (about 26%) as compared to 2004. The average value of transactions rose and came to PLN 22.8 m (21.8 m in 2004).

The structure of turnover on banks' current accounts held with the NBP Head Office is presented in Table 7, whereas the number of orders broken down by main types of operations performed on banks' current accounts held with the NBP Head Office is presented in Table 8.

The year 2005 was the third consecutive year in which the dominating position of customer transfer orders in the trading on banks' current accounts strengthened (the increase amounted to PLN 3.0 trillion, i.e. 0.8%, as compared to 2004).

7.4.3. Number of banks' current accounts in euro held at the NBP in the SORBNET-EURO system

The SORBNET-EURO system was launched on 7 March 2005, with 33 banks joining the system on that day. As of end 2005, 36 banks, as well as the National Depository for Securities and the National Clearing House, participated in the system.

Table 7

Structure of turnover on banks' current accounts held with the NBP Head Office in 2005

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:	-5 349.3	24 939 341.0	24 933 991.7	100.0	100.0
1) customer transfer orders:	232 596.9	13 876 804.9	14 109 401.8	55.6	56.6
- interbank	0.0	13 659 090.4	13 659 090.4	54.8	54.8
- involving the National Depository for Securities	-2 861.2	13 195.8	10 334.6	0.1	0.0
- involving other customers of the NBP	235 458.1	204 518.7	439 976.8	0.8	1.8
2) interbank transactions:	0.0	6 423 056.4	6 423 056.4	25.8	25.8
- money market	0.0	4 190 138.6	4 190 138.6	16.8	16.8
- FX market	0.0	1 017 437.8	1 017 437.8	4.1	4.1
- securities	0.0	1 215 480.1	1 215 480.1	4.9	4.9
of which secondary market trading in:					
- Treasury bills	0.0	807 266.3	807 266.3	3.2	3.2
- NBP money market bills	0.0	274 244.1	274 244.1	1.1	1.1
3) drawings or repayments of NBP loans to banks	421.4	1 884 706.1	1 885 127.5	7.6	7.6
4) transactions and operations settled by the National Depository for Securities	2 937.0	1 093 996.3	1 096 933.3	4.4	4.4
5) exchange of transfer orders via the National Clearing House:	-206 003.1	497 306.3	291 303.2	2.0	1.2
- morning settlement session	-179 832.4	266 693.2	86 860.8	1.1	0.3
- afternoon settlement session	-37 389.1	135 796.6	98 407.6	0.5	0.4
- evening settlement session	11 218.4	94 816.5	106 034.9	0.4	0.4
6) purchase (buyback) of securities from NBP:	-16 382.4	856 089.4	839 707.0	3.4	3.4
- NBP money market bills	-21 583.3	856 079.4	834 496.1	3.4	3.3
- other securities	5 200.9	10.0	5 210.9	0.0	0.0
7) purchase or sale of cash at NBP:	-5 993.3	134 524.7	128 531.4	0.5	0.5
- domestic currency	-5 992.3	134 520.4	128 528.0	0.5	0.5
- foreign currency	-1.0	4.4	3.4	0.0	0.0
8) purchase or redemption of Treasury securities:	-10 519.1	97 531.7	87 012.6	0.4	0.3
- Treasury bills	21 438.7	25 709.4	47 148.1	0.1	0.2
- other securities	-31 957.9	71 822.3	39 864.5	0.3	0.2
9) placings and returns of time deposits at NBP	-2 529.5	32 363.4	29 834.0	0.1	0.1
10) purchase or sale of foreign currencies at NBP	-2 842.1	2 988.3	146.1	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	0.0	0.0	0.0	0.0	0.0
12) interest paid or received by banks	832.9	177.9	1 010.8	0.0	0.0
13) transactions on reserve accounts	-10.2	67.4	57.2	0.0	0.0
14) other transactions	2 142.3	39 728.0	41 870.3	0.2	0.2

Source: NBP data.

Table 8

Total number of transfer orders by principal types of operations performed on banks' current accounts at the NBP Head Office, 2005

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:	1 090 875	967 310	1 001 751	100.0	100.0
1) customer transfer orders:	724 663	692 693	717 063	71.6	71.6
- interbank	685 093	685 093	685 093	70.8	68.4
- involving the National Depository for Securities	865	588	277	0.1	0.0
- involving other customers of the NBP	38 705	7 012	31 693	0.7	3.2
2) interbank transactions:	191 989	191 989	191 989	19.8	19.2
- money market	95 697	95 697	95 697	9.9	9.6
- FX market	64 859	64 859	64 859	6.7	6.5
- securities	31 433	31 433	31 433	3.2	3.1
of which secondary market trading in:					
- Treasury bills	27 346	27 346	27 346	2.8	2.7
- NBP money market bills	1 587	1 587	1 587	0.2	0.2
3) drawings or repayments of NBP loans to banks	16 138	6 346	9 792	0.7	1.0
4) transactions and operations settled by the National Depository for Securities	31 156	14 448	16 708	1.5	1.7
5) exchange of orders via the National Clearing House:	38 628	18 673	19 955	1.9	2.0
- morning settlement session	12 893	5 273	7 620	0.5	0.8
- afternoon settlement session	12 909	7 604	5 305	0.8	0.5
- evening settlement session	12 826	5 796	7 030	0.6	0.7
6) purchase (buyback) of securities from NBP:	1 834	579	1 255	0.1	0.1
- NBP money market bills	1 794	578	1 216	0.1	0.1
- other securities	40	1	39	0.0	0.0
7) purchase or sale of cash at NBP:	71 614	34 312	37 302	3.5	3.7
- domestic currency	71 564	34 280	37 284	3.5	3.7
- foreign currency	50	32	18	0.0	0.0
8) purchase or redemption of Treasury securities:	4 474	2 379	2 095	0.2	0.2
- Treasury bills	1 395	352	1 043	0.0	0.1
- other securities	3 079	2 027	1 052	0.2	0.1
9) placings and returns of time deposits at NBP	1 372	702	670	0.1	0.1
10) purchase or sale of foreign currencies at NBP	126	89	37	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	3 088	1 804	1 284	0.2	0.1
13) transactions on reserve accounts	54	32	22	0.0	0.0
14) other transactions	5 739	3 264	3 579	0.3	0.4

Source: NBP data.

7.4.4. Transactions executed on banks' current accounts held at the NBP in the SORBNET-EURO system

7.4.4.1. Number of transactions

54,411 transactions were executed in 2005 in the SORBNET-EURO system (excluding daily orders concerning the drawing and repayment of intraday credit by the NBP). The majority of transactions (91.1%) were cross-border transfer orders, in particular payments inflowing to the system, whose number in the reviewed period stood at 40,572 (75% of the total number of transactions executed in the system). Domestic payments (4,831 transfer orders) constituted 8.9% of the total number of transactions, and comprised mainly interbank transactions.

7.4.4.2. Value of transactions

The value of payments settled in the SORBNET-EURO system in 2005 stood at EUR 11.23 bn (excluding daily orders concerning the drawing and repayment of intraday credit by the NBP). In the total value of transactions settled in the SORBNET-EURO system, cross-border payments constituted almost 83%. The ratio of sent payment orders to received payment orders in the composition of cross-border payments was slightly over 40% in both cases, with a majority of interbank transfer orders. Interbank transfer orders also constituted the major part of the value of domestic payments.

7.5. Developing standards

In 2005, the activities with regard to developing standards were focused on increasing the efficiency of the Polish payment system, and adjusting the banking infrastructure to European Union requirements and standards.

The works on developing standards were conducted at the Technical Committee No. 271 for Banking and Banking Financial Services (*Komitet Techniczny nr 271 ds. Bankowości i Bankowych Usług Finansowych*), affiliated with the Polish Bank Association. NBP representatives participated in the working meetings of the Committee, during which many drafts of Polish standards fully compatible with the international standards were elaborated. The NBP also issued opinions on over a dozen of drafts of Polish standards developed by the Technical Committee affiliated with the Polish Committee for Standardisation (*Polski Komitet Normalizacyjny – PKN*).

The standardisation works were also conducted in expert bodies established at the Polish Bank Association, with participation of representatives of the NBP, the Polish Bank Association, the National Clearing House, and the banking business. The works took into account the requirements related to the Single Euro Payments Area (SEPA).

7.6. Activity of the Payment System Council

The Payment System Council has a significant impact on the functioning 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. Apart from NBP representatives, it comprises representatives of the Polish Bank Association, the Ministry of Finance, the Polish Securities and Exchange Commission, the National Clearing House, the National Depository for Securities, and commercial banks.

In 2005, four meetings of the Payment System Council were held, during which the following issues were discussed:

- Issues related to incorporating the Polish payment system into the EU single payment area, covering:
 - information on the launch of the SORBNET-EURO and Poland's joining the TARGET system,
 - information on the launch of the EuroELIXIR system,
 - concept of the TARGET2 system and outlook for Poland's joining TARGET2,
 - the "New Legal Framework" – a report on the hitherto conducted works and the consequences of the directive coming into effect,
 - the EMV – new possibilities of the use of payment card,
 - introducing the CREDEURO and the ICP⁴⁶ conventions into the Polish payment system,
 - Single Euro Payments Area (SEPA) – selected issues, in particular legal regulations concerning the construction of the Single Euro Payments Area.
- Systemic issues, related to the optimisation of payments, including:
 - promotion of non-cash transactions, taking into account assessment of the hitherto conducted activities and their future course,
 - the issue of fees related to money settlements in zloty in the Polish banking sector,
 - information on entities conducting business activity involving intermediation in accepting cash payments to bank accounts,
 - activities aimed at streamlining mass payments,
 - the future course of development of the electronic signature in Poland.

The Council also worked on issues related to the evolution of the Polish payment system, against the directions of development of the payments and settlements systems in the European Union. The Council adopted the strategic target of the Polish payment system, which consisted in providing public payment services at the highest possible level, taking into account in particular:

- the economically favourable access of the public to various modern payment instruments,
- efficiency, competitiveness, and security of domestic payment systems that settle the instruments,
- the necessity of adjustment of the Polish payment infrastructure and the principles of functioning of the payment system to the requirements of European integration and co-operation.

Moreover, the Council issued its half-yearly assessment of the Polish payment system operation.

⁴⁶ CREDEURO, ICP – conventions concluded among banks, related to euro cross-border payments.

7.7. Collaboration with the banking sector regarding other interbank projects

In 2005, the NBP continued its collaboration with the Polish Bank Association. Within the collaboration the following activities were undertaken:

- activities for the development of non-cash transactions,
- analyses of the possibility of expanding the use of the electronic signature,
- introduction of mechanisms optimising interbank settlements,
- development of the dynamic standing order model for variable amounts,
- introduction of a uniform entry in the "title" field for mass payments,
- assessment of the introduction of the NRB (Numer Rachunku Bankowego) standard,
- discussion of the initial proposals concerning the introduction of the IBAN (International Bank Account Number) standard for domestic settlements.

The most important activities of the NBP in 2005

- Accounts of 53 banks were held in the SORBNET system at the NBP.
- The SORBNET-EURO system was launched and the NBP joined the TARGET system.
- The NBP joined the STEP2 and EURO1 systems, which facilitated linking the EuroELIXIR system operated by the National Clearing House to the pan-European STEP2 system.
- Works on the preparation for participation in the TARGET2 system were continued.
- The NBP participated in the works on the development of the National Clearing House and the National Depository for Securities.
- Within the framework of works of the Payment System Council and the Polish Bank Association, the following issues were discussed, *inter alia*: the concept of the TARGET2 system, the draft directive concerning payment services on the internal market, the project of establishing of the Single Euro Payments Area (SEPA), and activities aimed at optimising mass payments.

EDUCATION AND INFORMATION

Pursuant to Article 59 of the Act on the NBP, the National Bank of Poland conducts publishing and promotional activity. Within its framework, it implements educational and informational projects designed to enhance the transparency of its operations and enhance the public knowledge regarding the principles of operation of the central bank, the banking system, and the market economy.

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

8.1. Education

8.1.1. Programme of Economic Education

The National Bank of Poland conducts activities fostering dissemination of the economic knowledge, including the knowledge about money and inflation, understanding the principles of functioning of the market economy and economic processes, and elaborating the skills necessary for efficient operation in the market economy.

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

8.1.1.1. *Economic Education Portal – NBPortal.pl*

In 2005, the Economic Education Portal was further developed. The data and information made available were updated on an ongoing basis, and new items, such as studies, lesson scenarios, and publications, etc., were introduced.

The number of users of NBPortal.pl resources grew almost threefold, exceeding 1.5 m at the end of 2005 (560 thousand in 2004). 30 thousand users continued their studies on e-learning courses.

For the purpose of facilitating free utilisation of the educational offer of NBPortal to users with a slower Internet connection, the NBP made available dedicated CDs with multimedia items of the portal.

In 2005, the *Ekonomia wokół nas* (Economics around us) economic knowledge competition was accomplished. About 1 000 secondary school students from all areas of Poland participated in tests organised by NBP regional branches.

In June 2005, NBPortal received the prize for the best Education and Training Portal in the *Teraz Internet* (The Internet Now) competition, and in July 2005 it received the Good Practice Label certificate in the e-Europe Awards competition organised by the European Institute of Public Administration and the European Commission.

8.1.1.2. *Grant competitions*

In 2005 the NBP announced the fourth edition of grant competitions regarding financial support of economic education projects. The topic of the competition, addressed to the mass media, was the *Poland's Way to the Euro*. 73 applications were filed for the competition, 17 of which received financial support. Non-governmental organisations and training institutions may have prepared projects concerning the following topics: *Economic activity and entrepreneurship*, *Economic education in the Polish school*, and the *Poland's Way to the Euro*. Out of 244 applications filed for the competition, 19 received financial support.

8.1.1.3. Programmes for schools, teachers, and journalists

Secondary school students and teachers are a target group of particular importance to the NBP. NBP's educational activity is aimed to contribute to enhancing the level of teaching economics in schools. In 2005, the following projects were carried out:

- The fourth edition of the competition addressed to lower and upper secondary school students for a written paper concerning the topic: *Freedom versus free market – 15 years of economic transformation in Poland*. The competition has been organised in collaboration with the Centralny Ośrodek Doskonalenia Nauczycieli (the National In-Service Teacher Training Centre). Over 860 papers were filed, mostly from small villages, 12 students were awarded prizes.
- The *Z ekonomią na ty* (On friendly terms with economics) competition for powiat (county) libraries. In 2005, 59 libraries entered the competition, of which 32 were granted subventions. In total, the project involved over 16 000 students, 300 schools, and over 500 public institutions and enterprises.
- 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 on lower secondary schools, a modern educational programme aimed at dissemination of practical economic knowledge was developed in collaboration with the Fundacja Młodzieżowej Przedsiębiorczości (the Junior Achievement Foundation). As of December 2005, over 1 600 teachers and about 60 000 students from almost 880 schools participated in the programme.
- The *Ekonomia w szkole* (Economics in School) programme is designed to broaden the economic knowledge of teachers of *Basics of Entrepreneurship* classes in upper-secondary schools and enable them to disseminate their knowledge more effectively. The programme, which has been developed in collaboration with the Junior Achievement Foundation, has been implemented in three-year cycle in two training groups: the first group of teachers (1 220 persons) started training in November 2004, the second (1 300 persons) – in September 2005.
- The *Moje finanse* (My finances) programme. The objective of the programme is to provide high quality teaching aids to teachers, to familiarise students with the principles of operation of the banking system in the European Union, and to train the skill of private finance management. The programme is implemented in cooperation with the Junior Achievement Foundation and the Leopold Kronenberg Bank Foundation. The cycle of two-year trainings were started by 220 teachers in September 2005.
- The Euromanager competition for university students. 293 teams participated in the 6th edition of the international competition in enterprise management. The NBP lent financial support to 34 teams, mainly those coming from smaller academic centres.

In addition to schools and universities, another important addressee of NBP educational activity are mass media and journalists. In 2005, the following events were held:

- The 3rd edition of competition for economic journalists, organised in collaboration with Reuters Polska. The Władysław Grabski prize, awarded in the competition, is aimed to honour journalists, whose articles and radio and television broadcasts contribute to increasing economic knowledge of the public. 44 economic journalists entered the competition. In May 2005, the Chapter granted awards to 7 of them.
- Training sessions for journalists on the topic *Central Bank in the market economy*. The training sessions aim to broaden the knowledge of journalists about the functioning of the

central bank in free market economy, taking into consideration the economic integration processes in Europe. Three such training sessions, with a total participation of 35 persons, were held.

8.1.1.4. Scholarship programme

The National Bank of Poland, in cooperation with the Educational Enterprise Foundation, the Agricultural Property Agency, the Polish-American Freedom Foundation, and non-governmental organisations, took part in the fourth edition of the Bridging Scholarship Programme. In 2005, the sponsors of the programme managed to raise a total of over PLN 5 m, which made it possible to grant scholarships to 1 244 persons.

8.1.1.5. Other educational programmes

In 2005, the 2nd edition of the *Bank Dostępny* (Available Bank) competition was held. The objective of the project, organised by the National Bank of Poland and the *Otwarte Drzwi* (Open Door) Association, is to select and award the banks that face the needs of handicapped and elderly persons. In 2005, 27 banks entered 76 of their branches or offices for competition. Moreover, 17 banks entered for the *Oferta Elektroniczna Banku* (Bank's Electronic Offer) category.

8.1.2. Collaboration in staff training for the banking sector

In 2005, the NBP continued its works for the benefit of the banking sector, which comprised organising training sessions for employees of commercial banks within the scope of balance of payments statistics.

8.2. Information

8.2.1. Liaising with the media and market analysts

In 2005, the NBP organised 30 press conferences and published about 125 press releases. In order to enhance transparency of the monetary policy, press conferences were arranged after meetings of the Monetary Policy Council. About 250 written responses to questions of journalists concerning the activities of the NBP were provided, and about 140 interviews and meetings with members of the Management Board of the NBP and of the Monetary Policy Council were held.

8.2.2. Information activities regarding the euro

The NBP conducted information activity concerning preparations for adoption of the single currency in Poland, and the consequences of Poland's joining the euro area. Information was disseminated through the *Euro coraz bliżej* (the Euro approaching) brochure, describing the practical aspects of adoption of a single currency in Poland. The information was also published on NBP website and the Economic Education Portal (NBPortal). In cooperation with the European Commission, the *United in diversity* brochure for children was disseminated.

Aiming to increase the security of the euro circulation in Poland, the National Bank of Poland disseminated posters and leaflets with information on security measures on euro notes in banks and bureaux de change.

The NBP also supported educational initiatives of other institutions regarding the European integration, among other things, through supporting individual initiatives, e.g. the *Od złotego do euro* (From Zloty to Euro) exhibition, the *Euro a gospodarka Polski* (Euro vs. the Polish Economy) conference, the *Klub europejski – EURO* (the EURO European Club) project, competitions on knowledge about the euro.

In 2005, the NBP conducted public opinion surveys of public knowledge on the European integration and the euro currency, and of Poles' opinion about the future adoption of the euro.

8.2.3. Open Days at the NBP

One of the methods of communicating to the public the role and functions of the central bank in Poland is organising Open Days, both at the Head Office and at the regional branches of the NBP. In 2005, there were about 7 000 visitors to the NBP Head Office and about 2 000 visitors to each of the regional branches during the Open Days. Visitors to the NBP offices could have learnt about all areas of operation of the Bank. Many special attractions were prepared for the visitors, such as a course in identifying counterfeited notes, a meeting with designers of notes and coins, presentations of unique numismatic exhibits, the possibility to strike a commemorative token on one's own. Presentation of the *Polska mój kraj* (Poland – my country) photographic exhibition, organised jointly by the NBP and the ECB, was an additional visitor attraction.

8.2.4. NBP publications and website

In 2005, as in previous years, the NBP issued numerous publications, including the *Annual Report*, *Inflation Report*, *Monetary Policy Guidelines*, *Report on Monetary Policy Implementation*, *Report on NBP Activity*, *Report on Financial System Stability*, *Balance of payments of the Republic of Poland*, and the *Information Bulletin*.

In 2005, changes were introduced to the *Inflation Report*: GDP forecasts were included in the Report, and dates of publication of the Report were changed (in order to adjust them to the dates of publication of GUS quarterly data on national accounts). In 2005, the *Financial System Development in Poland (2002–2003)* and the *Financial System Development in Poland (2004)* reports were published. Moreover, a new, updated issue of the *Information Bulletin* was published.

A selection of articles published in the insert to *Bank and Credit* monthly was issued in the book form, devoted to selected economic problems of Poland in the period of systemic transformation, entitled *Gospodarka polska na przełomie wieków od A do Z* (A to Z of the Polish Economy at the turn of the century).

The publishing series *Materials and Studies*, *Bank and Credit* monthly magazine, and quarterly issues of the *Information Bulletin* of the European Central Bank were among NBP's other publications.

A detailed list of publications is included in Appendix No. 8.

An important source of information concerning the activity of the NBP is its website. It includes information about the ongoing activity of the NBP, presents official positions of the Bank's management, as well as documents, statistics, and analyses elaborated at the NBP. In 2005, the number of visits on the website grew almost twofold – to about 3.7 m (from 2 m in 2004), whereas the number of regular users amounted to the average of over 100 thousand every month.

NBP website was updated on an ongoing basis, particularly within the scope of statistical data and reporting, as well as NBP publications on monetary policy, supervisory policy, payment system, and financial system stability. Announcements of the most important events at the NBP were posted on an ongoing basis. The Collector Coins section, enhanced in 2005, was a significant part of the service enjoying vivid interest of users. Materials on the single currency were also regularly updated.

8.3. NBP Central Library

The publications at NBP Central Library pertain to economics, with particular emphasis on banking and the money. The library collections are made available in the reading room with 29 seats, or through the lending room. The Library lends publications directly to NBP employees, and to other interested parties as interlibrary loans.

There are 6 computer workstations for the disposal of library visitors, where the Library catalogue is made available. The Library provides catalogue, bibliographic, and substantive information on the basis of its own collections.

The library subscribes numerous economic and legal databases (*inter alia* the JSTOR periodicals database, the SOURCE OECD database, the *Financial Times* archive, and the LEX legal acts database). The use of databases in NBP Central Library is free of charge and publicly available.

An internet workstation was established in the Library, which was used by approximately 2 thousand users until the end of 2005; about 5 thousand persons used the ProQuest database.

Table 9

Collections of NBP Central Library

Type of publication	31 December 2002	31 December 2003	31 December 2004	31 December 2005
Self-contained publications	85 462 volumes	89 773 volumes	94 466 volumes	99 237 volumes
Serial publications	33 300 volumes	33 167 volumes	34 936 volumes	37 685 volumes
Current periodicals	398 titles	386 titles	386 titles	525 titles

Source: NBP data.

In 2005, almost 13.7 thousand volumes of books and periodicals were lent. There were 4.8 visitors to the reading room, and almost 23 thousand volumes of books and periodicals were made available to them.

Library catalogues in the "Co-Liber" system contained 1,958 titles of periodicals and 48 890 titles of books as at the end of 2005. The catalogue of books may be reviewed at www.nbp.pl. One may contact NBP Central Library via electronic mail at biblioteka@nbp.pl.

The most important activities of the NBP in 2005

- In order to enhance transparency of the monetary policy, the NBP organised press conferences, both after meetings of the MPC, and to present *Inflation Reports*.
- Aiming to improve the public economic knowledge, the NBP organised educational projects addressed to students, teachers, and journalists.
- NBP website was visited by about 3.7 m users.
- Over 30 000 users participated in e-learning courses at the Economic Education Portal.



9

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

Within the services to the central government, in 2005 the NBP operated the bank accounts referred to in Article 190 of the Public Finance Act of 26 November 1998,⁴⁷ including, *inter alia*, central government account, current and auxiliary accounts of the government institutions and government special-purpose funds. Furthermore, the National Bank of Poland operates, with the approval of the President of the NBP, accounts of other legal persons pursuant to Article 51 para. 4 of the Act on the National Bank of Poland, e.g. the Social Insurance Institution (*Zakład Ubezpieczeń Społecznych – ZUS*), the Polish Agency for Enterprise Development (*Państwowa Agencja Rozwoju Przedsiębiorczości*), and accounts of other entities having statutory authorisation to open accounts 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.

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 NBP 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 2005, the National Bank of Poland provided services to 3,500 account holders for whose service 8,960 bank account agreements were concluded.⁴⁸ Nearly 100% of account holders serviced by the NBP use electronic banking system.

On 22 November 2005 a cross-system interface called *Business To Business* (B2B) was launched. It combines the Integrated Accounting System which is in operation at the NBP with the TREZOR IT and accounting system of the Ministry of Finance. This interface provides the Ministry of Finance with:

- broader functions compared with solutions available in the electronic banking system;
- quicker and reliable exchange of communication between the Ministry of Finance and the NBP through direct connection of two independent accounting systems;
- modern, unique manner of communication between the Ministry of Finance and the NBP, owing to the adoption – for the first time in Poland – of a standard by the Electronic Banking Council at the Polish Bank Association, specifying the manner of communication and business assumptions of the B2B interface;
- high level of safety of data transferred and security of communication.

⁴⁷ Dziennik Ustaw No. 155/1998, item 1014 as amended. On 1 January 2006, the Public Finance Act of 30 June 2005 entered into force, Dziennik Ustaw No. 249, item 2104.

⁴⁸ As at 15 March 2006.

The National Bank of Poland is planning to launch the B2B interface also for other account holders who perform a large number of operations on a daily basis, such as ZUS, the National Association of Credit Unions (*Krajowa Spółdzielcza Kasa Oszczędnościowo-Kredytowa – KSKOK*), ARiMR.

Moreover, the NBP continued working – in cooperation with the Ministry of Finance – over the introduction of new principles of services to the central government.

9.1.2. Types of accounts operated by the NBP

In 2005, the National Bank of Poland provided services to 3,500 account holders. Within the framework of those services, the NBP regional branches operated around 14,600 accounts, including:

- 8,070 current accounts (8,240 in 2004);
- 3,067 ancillary accounts (2,089 in 2004);
- 2,700 accounts of special-purpose funds and enterprise social benefit funds of central government institutions (1,479 in 2004).

The decrease in the number of current accounts stems from the closure, by tax offices, of accounts for collecting revenues of central government institutions. At present, those revenues are transferred directly to the account of the Ministry of Finance.

The number of ancillary accounts increased by nearly a half in 2005. It was primarily related to the opening, by central government institutions, of own revenue accounts.

The increase in the number of accounts of special-purpose funds stems from the opening of new accounts of this category based on the amendment to the Public Finance Act of 25 November 2004⁴⁹ and the opening of accounts of enterprise social benefit funds.

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

9.1.3. Procedures for operating accounts

The operation of central government accounts was regulated by:

- bank account agreements;
- resolutions of the NBP Management Board concerning:
 - *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);*
 - *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),*
 - *Regulamin otwierania i prowadzenia przez Narodowy Bank Polski rachunków bankowych w walutach obcych (Regulations for opening and maintaining bank accounts in foreign currency at the National Bank of Poland);*

⁴⁹ The Act of 25 November 2004 amending the Public Finance Act and Other Acts, Dziennik Ustaw (Journal of Laws) No. 273, item 2703.

– *Regulamin otwierania i prowadzenia przez Narodowy Bank Polski rachunków bankowych w walutach obcych z wykorzystaniem Bankowości Elektronicznej (Regulations for opening and maintaining bank accounts in foreign currency using electronic banking at the National Bank of Poland);*

- the Regulation of the Minister of Finance of 28 December 2004 on the detailed manner of the implementation of the central budget,⁵⁰
- the Regulation of the Minister of Finance of 28 December 2004 on detailed principles of operating central government bank account, the scope of information on the implementation of the central budget and deadlines for making it available within the operation of the central government account.⁵¹

Services were provided to customers by 16 NBP regional branches.⁵²

In 2005, the number of holders of accounts which were operated according to the alternative cash service procedure slightly increased to 2,124 (from 2,069 in 2004). Alternative cash service is provided at the expense of the NBP where account holders have their registered offices outside the area of location of NBP organisational units.

9.2. Servicing international receivables and liabilities of central government

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;
- Poland's membership in international institutions and financial organisations;
- loans received from governments of other countries.

In 2005, the NBP administered:

- 53 government loan agreements (56 in 2004);
- 53 guarantee agreements (51 in 2004);
- 5 agreements concerning the provision of loan finance to domestic entities (5 in 2004).

The NBP supervised the repayment of liabilities by three banks within the administration of World Bank loans. Due to, *inter alia*, early repayment of a part of loans extended by the World Bank, the NBP completed the servicing of 8 loans. In 2005, the NBP started the servicing of 5 new loans.

New agreements which the NBP started to service in 2005 include:

- Government loan agreements concerning loans extended by:

⁵⁰ Dziennik Ustaw No. 285/2004, item 2854.

⁵¹ Dziennik Ustaw No. 285/2004, item 2855.

⁵² Until 1 May 2005, also by the NBP Chief Branch of Foreign Exchange.

- the European Investment Bank – for the financing of the following projects: development of higher education, co-financing of responsibilities concerning monetary funding for Poland from structural funds between 2004 and 2006 and projects aimed at the improvement and reconstruction of selected segments of public roads;
- the World Bank – for the financing of the programme aimed at maintaining and improving road infrastructure;
- the Council of Europe Development Bank – for the co-financing of investment projects of territorial local government units, aimed at the development of private sector in Śląskie and Małopolskie Voivodships;
- Guarantee agreements concerning loans granted by the European Investment Bank and the Nordic Investment Bank to:
 - the Republic of Poland – for projects involving improvement of road infrastructure in Poland;
 - domestic entities – for the repair and modernisation of railway network, co-financing of the Economic and Social Cohesion Programme by the European Union and projects concerning regional development and urban renovation.

Acting as depositary for the European Bank for Reconstruction and Development and also the World Bank and its agencies, the NBP administered 24 promissory notes issued by the government of the Republic of Poland in connection with Poland's membership in those organisations. In 2005, 3 promissory notes were paid in full; the NBP accepted for deposit 2 new promissory notes.

9.3. Organising trading in Treasury securities

The NBP, in its capacity of the issuing agent for Treasury securities, is obliged to organise Treasury bills tenders and buyback tenders as well as Treasury bonds tenders, buyback and switch tenders.

9.3.1. Treasury securities tenders

9.3.1.1. Treasury bills tenders

In 2005, the NBP organised 37 Treasury bill tenders (49 in 2004). Since the beginning of the year until the end of June, Treasury bill tenders took place on the first business day of a week. Since July, the Ministry of Finance aiming – in compliance with the *Public Debt Management Strategy* – at the extension of the average debt maturity, significantly reduced the supply of T-bills and limited the number of tenders to two per month.

In the period January – June 2005, the Ministry of Finance offered for sale T-bills totalling PLN 19.1 bn, while in the period July – December totalling PLN 7.9 bn. The supply of T-bills on offer totalled PLN 27.0 bn, a decrease in PLN 22 bn from 2004 (PLN 49 bn). The nominal demand for those bills amounted to PLN 83.0 bn, and the accepted bids amounted to PLN 26.9 bn (PLN 132.4 bn and PLN 48.7 bn respectively in 2004).

9.3.1.2. Treasury bond tenders

In 2005, 50 Treasury bond tenders were organised by the NBP of which 17 were non-competitive tenders (compared to 40 and 18 in 2004, respectively).

The NBP offered the following bonds during tenders:

- two-year zero-coupon bonds: supply – PLN 28.3 bn, demand – PLN 75.4 bn, sale – PLN 28.3 bn;
- five-year fixed-rate bonds: supply – PLN 25.9 bn, demand – PLN 67.0 bn, sale – PLN 25.3 bn;
- seven-year floating-rate bonds: supply – PLN 5.0 bn, demand – PLN 17.0 bn, sale – PLN 5.0 bn;
- ten-year fixed-rate bonds: supply – PLN 9.9 bn, demand – PLN 13.4 bn, sale – PLN 9.3 bn;
- twelve year inflation-indexed fixed-rate bonds: supply – PLN 2.9 bn, demand – PLN 6.9 bn, sale – PLN 1.9 bn;
- twenty-year fixed-rate bonds: supply – PLN 2.6 bn, demand – PLN 5.5 bn, sale – PLN 2.6 bn.

In 2005, the sale of Treasury bonds was dominated by two-year zero-coupon bond and five-year fixed-term bond tenders (they were not sold in 2004). The issue of ten-year fixed-rate bonds significantly decreased (in 2004 their sale totalled PLN 25.4 bn).

In July, a bond buy-back tender of two-year zero-coupon bonds maturing in August 2005 was organised. During the tender, the Ministry of Finance bought back bonds totalling PLN 26.5 bn.

9.3.1.3. Treasury bond switch tenders

In 2005, the Ministry of Finance organised ten bond switch tenders during which it bought back PLN 16.2 bn and sold PLN 15.8 bn (PLN 19.2 bn and PLN 20.2 bn respectively in 2004). Fixed-rate (55% – bonds with five years to maturity, 21% – bonds with ten years to maturity) bonds constituted the majority of bonds sold by the Ministry of Finance at switch tenders. Ten-year floating-rate securities with maturity in 2011 constituted 18% of the bonds sold. A twelve-year inflation-indexed fixed-rate bond issued to be switched aroused no interest in the market.

9.3.2. Treasury Securities Dealer system

In terms of cooperation with the Ministry of Finance, the NBP participated in the assessment of banks applying for the status of Treasury Securities Dealers).⁵³ The Treasury Securities Dealer system is one of the key responsibilities included in the Strategy of the Public Finance Sector Debt Management.

New stipulations in the Rules of Treasury Securities Dealers concerning assessment criteria resulted in the necessity of the revision of the scope of reporting based on which the NBP assesses, on a quarterly basis, the activity of dealers and candidates for dealers in the following markets: the primary market for Treasury bills and bonds, the secondary market for Treasury bills, and in the market for derivatives. Moreover:

- the NBP, organising the Treasury securities fixing on the electronic platform maintained by MTS Poland, supervised the fixing;
- NBP representatives attended the meetings of the Council of Market Participants, arranged by the Ministry of Finance;
- within the 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.

⁵³ The main purpose of the Treasury Securities Dealer system is to separate a group of banks (the so-called *primary dealers*) which, in exchange for certain privileges, are obliged to actively operate in the Treasury securities market in order to ensure its liquidity, transparency and efficiency.

9.4. Public debt management activities

Public debt management activities cover primarily cooperation between the NBP and the Ministry of Finance within the Public Debt Management Committee.⁵⁴

The objective is to first of all exchange information with a view of coordinating the ongoing and long-term public debt management (carried out by the Ministry of Finance) with the monetary and payment policies (implemented by the NBP).

The most important responsibilities of the Committee include the analysis of long-term purposes of debt management, minimisation of the cost of debt servicing, planning of activities fostering the establishment of liquid financial markets, analysis of current policy of domestic and foreign debt management, and analysis of borrowing needs of the central budget.

The most important activities of the NBP in 2005

- The NBP serviced 3,500 customers and operated 14,600 accounts.
- The number of electronic banking system users rose from 3,340 in 2004 to 3,500 in 2005.
- The NBP made available to the Ministry of Finance the B2B interface which significantly improved the manner in which transactions are settled in the bank account of the Ministry of Finance at the NBP.

⁵⁴ Appointed in 1994 pursuant to an agreement between the National Bank of Poland and the Minister of Finance acting on behalf of the State Treasury.

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10

RESEARCH ACTIVITY

The NBP research activity covers on-going macro and microeconomic research and the development of economic and monetary forecasts. In 2005, the research work focused mainly on the effectiveness of monetary policy and inflation processes, business cycle, public finances, structural changes in the economy, standing of enterprises and households, and the labour market. The research related to Poland's participation in the ERM II and adoption of the euro continued.

The results of the conducted analyses were used to design monetary and exchange rate policies and constituted a basis for decisions taken by the Management Board of the NBP and the Monetary Policy Council.

In 2005, 128 academic publications prepared by the employees of the NBP research departments were released in recognised national and international periodicals (compared to 110 in 2004).

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

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

Research concerning the best time for joining the ERM II and the allowable budget deficit upon joining the ERM II was conducted. The problem was discussed in the publication *Looking Forward Towards the ERM II Central Parity: the Case of Poland*.

Work was continued aimed at determining the optimum central parity for the zloty within the ERM II and estimating final zloty exchange rate against the euro based on equilibrium exchange rate models. Hitherto made calculations were updated within the task.

- Analysis of costs and benefits of euro adoption

Research was conducted on the strategy of the adoption of a single currency in Poland. The results of analyses were published in the following publications: *Successes and Failures of Greece on Its Way to the Euro Area*, *Conclusions for the New EU Member States and Lending Booms in the New EU Member State: Will Euro Adoption Matter?*

- Ongoing analyses

Opinions were issued on amendment proposals to the Stability and Growth Pact, regarding *inter alia* the redefinition of the medium-term objective and the means to its achievement as well as the principles for assessing the fiscal situation under the excessive deficit procedure.

Cyclical assessment of fiscal situation of the EU Member States and monetary policy coordination reports was carried out and the analysis of risk inherent to the activities of central banks in the EU Member States was performed.

Research was conducted using the computable general equilibrium (CGE) model on minimum fiscal conditions making the Poland's participation in the ERM II possible.

10.2. Enterprise and household surveys

- Quarterly surveys on the economic standing of enterprises

In 2005, the survey was extended to include new areas: hedging against FX risk, investment barriers, review of investment plans, innovative activity of enterprises and wage structure.

The report which contains data from the NBP annual survey focuses on: Polish enterprise competitiveness, expansion to foreign markets, market strategies, factors driving wages and leasing. There were also discussions on the following topics: pricing, investment activities and reaction to the monetary policy conducted.

Moreover, a phone survey was conducted among enterprises which cooperate with the NBP, focusing on changes in wage. The enterprises were also requested to provide information on the extent to which leasing was used and explain accounting differences related to financial lease.

- Economic activity research per region

Work was conducted on the modification of the regional research system whereunder economic activity of the SME sector will be examined. Work will be continued after the completion of the pilot phase of the project.

- The analysis of the EU aid use and its impact on investments in Poland

In December 2005, a survey was initiated which will be ultimately implemented in cooperation with the NBP regional branches. Its objective is to present to what extent the EU aid funds were used and to show their impact on the size of investments in Poland and GDP growth rate. The survey is to identify the most important barriers to the use of the Community resources. The volume of foreign services import stemming from the implementation of investment projects financed with the EU funds will also be examined.

- Examination of real property prices in Poland

Work began on developing a real property database in Poland which will contain data coming from surveys conducted by the NBP regional branches employees at developers and agents operating in the real property market. At present, the NBP conducts pilot studies.

The study will initially cover the real property market but it shall be expanded by the analysis of the situation of commercial real property and land in the future.

- The survey on the barriers to employment growth.

Work was conducted on the mismatch between labour supply and demand in particular regions in Poland. The analysis aimed at diagnosing the main barriers to employment growth. The examination of the unemployed persons' activity as regards searching for job offers, propensity for migration, wage expectations, operation of public and private job agents were deemed particularly important.

- Research on the relationship between the labour market and monetary policy

Research work was initiated relating to the impact of the outflow of Polish workforce to other EU countries and the inflow of foreigners on wage in Poland. Work is focused on

the analysis of institutional determinants of the use of labour resources, which is of great importance to the assessment of potential economic growth rate and inflation prospects.

10.3. Other macroeconomic research

- Inflation analyses and forecasts

Within the scope of implementation of the direct inflation targeting strategy, a new formula of the balance of risks for future inflation was elaborated.

New model tools are elaborated to be adopted at the turn of 2006 and 2007. Therefore, work is underway to: develop a small structural model for medium-term inflation projection, create tools for structural medium-term inflation projection (up to 12 months), modify the two-equation VAR model which will make the comparison between expected and neutral inflation possible from the point of view of real sector reaction to monetary policy.

- Analysis of the real sector of the economy

Work covered mainly regular monitoring of current trends in GDP and its components in Poland, together with the analysis of factors influencing these categories.

- Analysis and modelling of the balance of payments

Work was continued to improve the model for forecasting the balance of payments, particularly with regard to exports and imports. Analyses of the volume and structure of Poland's external debt, published *inter alia* in the annual report on *Poland's international investment position* were also conducted.

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

The impact of the structure of government finance receipts and expenditure on the labour market was examined, proposed solutions aimed at the reduction of public expenditure (including legally determined expenditure) were developed, and the impact of Poland's accession to the EU and NATO on public expenditure in seven new EU members were analysed. Work was conducted in cooperation with other institutions on the effects of population ageing on public expenditure.

Research was conducted using the computable general equilibrium (CGE) model on the effects of fiscal tightening and results of reducing the tax wedge.

Moreover, work was conducted on the fiscal blocking of the ECMOD quarterly macroeconomic model of the Polish economy.

- The adjustment of macroeconomic forecasting to ECB practices

Work continued on the preparation of new model tools, consisting *inter alia* in the adjustment of the DSGE (*Dynamic Stochastic General Equilibrium*) model, developed by the Bank of Sweden for the euro area, with a view of the Polish conditions.

- Participation in the research conducted by the ESCB

Work continued to improve the ECMOD forecasting model. This model is used for the elaboration of quarterly macroeconomic projections transferred to the ESCB.

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

The work covered mainly the monitoring of current and expected trends in external demand, world prices, including oil prices and situation in international financial markets. The work was also related to the causes and consequences of the global imbalance, the models of interest rates development in the USA, in the euro area and in the United Kingdom, the impact of oil prices on the world economy and the monetary policy in selected world economies.

Work began on macroeconomic model for the euro area and research started on business cycles in the EU. Starting from June 2005, the NBP has published the quarterly bulletin *International Economic Climate* which contains the analysis of current processes in the global economy, cross-checking of forecasts by external institutions and analytical articles.

- Analyses of the economies of Central and East European Countries

Moreover, comparative papers presenting Poland against the background of a group of Central and East European countries were prepared with regard to the following: the competitiveness, monetary policy, exchange rate and fiscal policies. A quarterly statistical annex on economies of those countries was also published.

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

In 2005, regular research was conducted on various aspects of financial system stability in Poland.

- The *2004 Financial Stability Report* and the *Financial Stability Review - First Half of 2005* were published, presenting the analyses of the stability and prospects ahead for the most important segments of the Polish financial system (such as banking, insurance and pensions sectors).
- Quarterly reports on loan market condition, compiled based on the results of bank surveys were presented. The reports present trends and causes of changes in lending policies and borrowing demand.
- Proposals of coordination of the activities to be undertaken in the event of threats to financial system stability were elaborated based on the analyses of legal and institutional environment in Poland and international experience.
- The *Financial System Development* report was prepared. The report describes development trends in individual segments of the financial system in Poland, including based on comparisons with other countries. It also presents scenarios of future development of the Polish financial market and barriers to its growth.
- The report on the findings of survey studies on enterprises as issuers of shares and securities was prepared. It was entitled *Wybrane determinanty rozwoju rynku akcji i korporacyjnych instrumentów dłużnych w Polsce – [Selected Determinants of the Development of Stock and Corporate Debt Instruments Markets in Poland]*. It contained the factors underlying the propensity of enterprises to issue shares and debt instruments, as well as barriers to the development of stock market.
- Research was conducted on the dynamics of housing loans.

10.5. Contemporary Monetary Policy in-house seminars

In 2005, the cycle of in-house seminars was continued, entitled "Contemporary Monetary Policy", which focused on the computable general equilibrium model developed by the NBP. Discussions were also held on recent macroeconomic issues.

10.6. Conferences and academic seminars organised by the NBP

In 2005, the National Bank of Poland developed its activity aimed at the exchange of experience between central bank and international financial institution representatives through organising scientific conferences and specialist seminars.

- In June 2005, the NBP:
 - In cooperation with the National Bank of Hungary held a conference entitled "Fiscal Policies and the Way to the Euro". The conference focused on research results on assumptions and mechanisms of the implementation of fiscal policies which are most favourable to the maintenance of price stability and sustained economic growth in the preparation of the new EU Member States for the introduction of the euro. The participants considered in what manner fiscal consolidation may support nominal and real convergence and how the attention of decision-makers and the media may be attracted to the impact of fiscal imbalance on economic performance.
 - Together with the World Bank, the NBP organised a seminar on the "Contract Enforcement and Judicial System in Central and Eastern Europe". The purpose of the seminar was to exchange experience on reform of the judicial system and its influence on the country's economic growth.
 - organised a conference entitled the "Central Bank Transparency and Communication: Implications for Monetary Policy". The objective of the conference was the exchange of views concerning the impact of publicly disclosed activities and ways of communicating information to the general public by central banks on the monetary policy. Owing to the conference, employees of central banks and researchers from academic centres had a chance to share their expertise.
- In December 2005, a conference for representatives of central banks entitled "New Challenges in Reserves and Risk Management ahead of ERM II and EUR Adoption" was organised. The conference was attended by representatives of central banks from nine EU Member States that wish to adopt the euro. The meeting enabled exchange of experience and discussing current trends in managing the official foreign exchange reserves of central banks. The optimum level and the currency composition of the official foreign exchange reserves (in particular within ERM II and following Poland's accession to the Eurosystem), the role of gold in foreign exchange reserves and active management of investment portfolios were discussed, among others.
- Moreover, in 2005 the NBP organised 14 open and 3 in-house academic seminars, *inter alia* on contemporary monetary policy, including forecasting tools applied, selected areas of banking sector operation as well as procedural and institutional aspects of Poland's joining the ERM II and the euro area. During those seminars, employees of the NBP and representatives of financial institutions and academic centres presented their research results. A detailed list of seminar topics is to be found in Appendix 9 to this Report.

The most important activities of the NBP in 2005

- Analyses were conducted regarding the determination of the best time for joining the ERM II.
- Work was continued to improve the ECMOD forecasting model.
- The Financial System Development report was prepared. The report describes development trends in individual segments of the financial system in Poland.
- The research agenda was launched, entitled The EU aid funds use and their impact on investments in Poland.
- The publishing of the quarterly bulletin *International Economic Climate* was initiated. The bulletin contains an analysis of current processes in the global economy, cross-checking of forecasts by external institutions and analytical articles.



11

STATISTICAL
ACTIVITY

After Poland's accession to the European Union, the statistical activity of the National Bank of Poland has significantly expanded and is subject to numerous, ever-changing requirements of the European Central Bank. In 2005, the NBP continued introducing the ECB requirements concerning statistical responsibilities. Harmonisation work regarded several areas, such as monetary, banking and financial statistics, balance of payments and areas under examination since 2004, i.e. financial accounts and statistics of other financial intermediaries. Coordination work was also carried out aimed at meeting 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 relies on the statistical data collected and processed by itself. The information published by the NBP constitutes one of the basic premises of economic decisions taken by external recipients. The NBP also submits reports to international institutions.

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

In 2005, the statistical responsibilities included:

- 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 and credit unions, 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;
- development of methodology for compilation of the monetary statistics, the balance of payments and the general government sector statistics;
- 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;
- modification of the IT systems applied in the collection and processing of statistical data.

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;
- consolidated balance sheet of the MFI sector which forms a basis for the development of 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)*.

Data obtained from banks and other entities were forwarded to institutions which analyse economic situation of the country such as the Central Statistical Office, the Sejm, the Council of Ministers and to academic institutes, as well as were submitted to international organisations such as the IMF, the World Bank, the OECD, the BIS and also European Union bodies, in particular the European Central Bank and the Eurostat. Preparations regarding statistics necessary to elaborate, in 2006, the next *Convergence Report* were carried out. The report will assess the extent to which the statistical and economic criteria for membership have been met by the EU Member States.

11.2. Adjustment measures regarding ECB statistical requirements

In 2005, as in previous years, intensive work related to the adjustment of the NBP statistics to the ECB requirements was conducted in the following areas:

- monetary statistics and financial institutions and markets;
- balance of payments statistics;
- financial accounts statistics;
- general government sector statistics;
- real sector statistics.

The scope of adjustment work was discussed *inter alia* during the work of the ECB Statistics Committee and the working groups operating therewithin, in the Eurostat working groups and in the meetings of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB), in which the NBP representatives were actively involved.

11.2.1. Harmonisation of monetary statistics and financial institutions and markets

In 2005, the NBP provided the ECB with harmonised data with regard to the consolidated balance sheet of monetary financial institutions (MFIs)⁵⁵ and interest rate statistics.⁵⁶ Since January 2005, the statistical reporting requirement has concerned credit unions classified to the MFI sector. According to the ECB methodology, the MFI sub-sector also includes money market funds not covered by the statistical reporting requirement due to moderate scale of their activities.

The NBP continued working on the development of statistics principles of other financial intermediaries, including investment funds. The NCBs of all EU Member States (including the NBP) carried out a detailed analysis of availability and significance of the data of the reporting system proposed and the costs connected with its introduction. Based on the results of the analysis, ultimate regulations will be established concerning statistics of other financial intermediaries, which will be applicable from 2007 onwards.

11.2.2. Harmonisation of quarterly financial accounts

In 2005, preparatory works were continued to ensure that the NBP meets the ECB requirements concerning quarterly financial accounts. They included the development of detailed methodological measures compliant with the ESA95 (*European System of Accounts 1995*) and the

⁵⁵ Regulation No. 2423/2001 of the European Central Bank of 22 November 2001 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2001/13).

⁵⁶ Regulation No. 63/2002 of the European Central Bank of 20 December 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).

modification of existing subsidiary reporting systems in order to obtain indispensable data. 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 2005, the Working Group on General Government Statistics appointed by the President of the Central Statistical Office continued its work; the Working Group consists of the Central Statistical Office, Ministry of Finance and NBP representatives. One of the responsibilities of the Working Group is the development of a proposed methodology for compiling general government sector statistical data according to the ECB requirements. In 2005, the works concentrated on the development of a methodology for compiling data on the revenues and expenditure of the general government sector in compliance with the EU standards.

11.2.4. Harmonisation of real sector statistics

In 2005, the NBP joined the European Committee of Central Balance Sheet Data Offices as an observer. As part of the works of the Committee, the possibility of the NBP providing data to the BACH (*Bank for the Accounts of Companies Harmonised*) database was checked on merits, incl. time series length, classification of activity, enterprise size and timeliness.

11.2.5. Harmonisation of the balance of payments statistics

In 2005, work focused on:

- the improvement of compilation and publication of the monthly and quarterly balance of payments;
- the launch of study work on a new system of data collection and processing in the field of the balance of payments statistics which will now rely to a larger extent on data coming directly from foreign trade participants;
- preparatory works involving an increase in the frequency of compiling international investment;
- participation in the work of the working groups appointed by the President of the Central Statistical Office:
 - the Working Group on Foreign Sector Statistics for the Purposes of National Accounts and Balance of Payments whose responsibilities include: work coordination with regard to the information flow between the Central Statistical Office and the NBP as well as the development of proposed methodological and organisational arrangements related thereto. As a result of the works, requirements were defined concerning national accounts and balance of payments, regarding compilation of foreign sector current accounts and the possibility of fulfilling those requirements.
 - the Working Group on Residents and Non-residents Labour Income Statistics that aims at developing a method for estimating labour income of residents and non-residents e.g. proposing to extend the current survey or initiate a new one. The work focused on the analysis of the presently conducted studies and their suitability for estimating income.
- Participation 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)* which describes the balance of payments methodology in EU Member States.


11.3. Integrated Economic Database

Systematic development of the Integrated Economic Database (IED)⁵⁷ is carried out on an ongoing basis. The database provides the employees with access to current, complete and well-arranged dataset. In order to ensure automatic IED input monitoring and improve the quality and consistency of the database, in 2005 additional application components were implemented which are currently being tested. Moreover, complete documentation concerning specific database areas was prepared. The documentation is intended for end-users. A cyclical draft report presenting the most important economic indicators in Poland against other European countries was drawn up based on the IED data and BIS Data Bank.

The most important activities of the NBP in 2005

- The provision of the ECB with harmonised data with regard to the consolidated balance sheet of monetary financial institutions (MFIs) and interest rate statistics started.
- The NBP cooperated with the Central Statistical Office within the following working groups: the Working Group on Foreign Sector Statistics for the Purposes of National Accounts and Balance of Payments and the Working Group on Residents and Non-residents Labour Income Statistics.
- The NBP took part in the European Committee of Central Balance Sheet Data Offices as an observer.

⁵⁷ Introduced in 2004.



12

LEGISLATIVE
ACTIVITY

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

In 2005, 110 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 (46 acts) is enclosed in Appendix 7 to this *Report*.⁵⁸

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 2005, the National Bank of Poland issued opinions on the following documents submitted by state supreme and central authorities:

- 186 documents received in the course of inter-ministerial consultations;
- 752 documents received prior to their examination by the Committee of the Council of Ministers;
- 815 documents received prior to their examination by the Council of Ministers;
- around 3,600 documents received prior to their examination by the European Committee of the Council of Ministers and the Committee for European Integration.

Within the inter-ministerial cooperation and at the meetings of the European Committee of the Council of Ministers, the NBP participated in giving opinions on Community and national documents related to Poland's European Union membership. In 2005, the following documents were *inter alia* subject to consultation:

- Poland's Integration with the Euro Area: Membership Conditions and Process Management Strategy;
- Draft Position of the Polish Government regarding the EU document: Proposal for a Council Regulation amending Regulation (EC) No. 974/98 on the introduction of the euro (COM (2005) 357 final);
- the National Development Plan (2007–2013);
- Green Paper on the Enhancement of the EU Framework for Investment Funds;
- Green Paper on Mortgage Credit in the EU.

In 2005, representatives of the NBP participated in the work of 32 inter-ministerial consultative conferences and legal committees as well as 243 meetings of Sejm committees and subcommittees, and meetings of Senate committees.

⁵⁸ According to the rule adopted in the *Report*, legal acts concerning particular areas of the NBP activity are discussed in relevant chapters. Other legal acts are discussed in the chapter *Legislative activity*.

The NBP also took part in the development of solutions regarding 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*);
- Interministerial Team on OECD (*Międzyresortowy Zespół ds. OECD*);
- 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*);
- Insurance and Pension Funds Supervisory Commission (*Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych*);
- Securities and Exchange Commission (*Komisja Papierów Wartościowych i Giełd*);
- Capital Market Council (*Rada Rynku Kapitałowego*).

The most important draft legal acts on which the NBP issued opinions in 2005, 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:

- the Act on the Computerisation of the Activities of Certain Entities Performing Public Tasks;
- the Act on the Compensation of Orphaned Costs Arising from the Termination of Long-Term Electrical Power and Energy Sale Contracts;
- the Act on the National Actuary.

Moreover, the NBP issued opinions on government documents which were not draft normative acts, such as the *Strategy of the Public Finance Sector Debt Management for 2005–2007*.

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

12.3.1. Bills developed at the National Bank of Poland

- **The Act on Supplementary Supervision of Credit Institutions, Insurance Companies and Investment Firms included in a Financial Conglomerate⁵⁹**

The Act transposes the provisions of Directive 2002/87/EC of the European Parliament and the Council of 16 December 2002. The Act stipulates the principles of supplementary supervision of credit institutions, insurance companies and investment firms operating within the financial conglomerate.⁶⁰

⁵⁹ The Act adopted on 15 March 2005, Dziennik Ustaw No. 83, item 719.

⁶⁰ See the chapter *Banking supervision* for more details.

12.3.2. Other bills

12.3.2.1. Adopted acts

- **The Act on the National Capital Fund⁶¹**

The Act provides for the establishment of a financial institution which will support small and medium-sized enterprises with high potential growth.

- **The Public Finance Act⁶²**

The Act has replaced the Public Finance Act of 26 November 1998, amended on several occasions. It has not changed the fundamental principles of general government operation; it is primarily of harmonizing nature in relation to Poland's accession to the EU. The Act indicates, *inter alia*, which accounts intended for central government operation may be maintained by Bank Gospodarstwa Krajowego (*National Economy Bank*).

- **Three acts replacing the Act on Public Trading in Securities,⁶³ i.e.:**

- the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies;⁶⁴

- the Act on the Trading in Financial Securities;⁶⁵

- the Act on Supervision of Capital Market.⁶⁶

- **The Act Amending the Civil Code and Other Acts⁶⁷**

The main objective of the Act is to introduce to the Civil Code provisions establishing maximum interest on loans.

12.3.2.2. Bills under consideration and opinion

- **Bill amending the Act on the National Bank of Poland**

The bill was submitted to the Speaker of the Sejm on 1 December 2005 by a group of deputies from the Parliamentary Club of the Self-Defence of the Republic of Poland. Currently discussed amendments refer to:

- the objectives of the NBP activity;

- reasons for the dismissal of the President of the NBP and the MPC members prior to the end of their term;

- monetary policy instruments;

⁶¹ The Act adopted on 4 March 2005, Dziennik Ustaw No. 57, item 491.

⁶² The Act adopted on 30 June 2005, Dziennik Ustaw No. 249, item 2104.

⁶³ See the chapter *The Development of the Payment System*.

⁶⁴ The Act adopted on 29 July 2005, Dziennik Ustaw No. 184, item 1539.

⁶⁵ The Act adopted on 29 July 2005, Dziennik Ustaw No. 183, item 1538.

⁶⁶ The Act adopted on 29 July 2005, Dziennik Ustaw No. 183, item 1537.

⁶⁷ The Act adopted on 7 July 2005, Dziennik Ustaw No. 157, item 1316. See the chapter *Banking supervision* for more details.

- system for setting zloty exchange rate against foreign currencies;
- principles of accounting and financial management applied by the NBP.

In the opinion submitted to the Speaker of the Sejm on 13 December 2005, the NBP issued a negative opinion on the bill. It indicated that arrangements adopted in the bill are in conflict with the Constitution of the Republic of Poland and with central bank independence arising *inter alia* from the Treaty establishing the European Community (TEC).

- **Bill amending the Public Procurement Act⁶⁸**

The bill, together with a self-amendment, assumes the adjustment of provisions to the requirements laid down in the European Union directives. In areas not covered by directives, the bill is to simplify tender procedures e.g. increase the base amount from which the Act applies (to 60,000 euro compared to 6,000 euro at present).

Moreover, the NBP participated in giving opinions on, *inter alia*, the following bills which, due to the conclusion of the fourth term of the Parliament, were discontinued.

- **Bill on Preventing Insolvency of Natural Persons and Consumer Bankruptcy⁶⁹**
- **Bill amending the Foreign Exchange Act and the Polish Penal and Fiscal Code⁷⁰**
- **Bill mending 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.

12.4. Participation of the NBP in consulting Community bills and draft national legislation of the EU Member States

The NBP, as an ESCB member, participates in the process of consulting Community bills and draft national legislation where there is an obligation to consult the ECB, as required by the Treaty establishing the European Community and the Statute of the ESCB and the of the ECB.⁷¹ This obligation concerns draft legislative provisions pertaining, *inter alia*, to the issue of currency, legal tender, the status and operation of national central banks, monetary statistics, payment systems and financial institutions. In 2005, the ECB issued 61 draft opinions, including 48 draft opinions on draft national legislation (including on one Polish draft, i.e. an amendment to the Foreign Currency Act) and 13 draft opinions on the Community regulations.

The NBP took part in consultations regarding draft Community documents and legislation in relation to the ongoing work of other Community fora (see subparagraph 13.1.2). The most important drafts on which the NBP issued opinions in 2005 in that regard include:

- Regulations 1055/2005 and 1056/2005 amending Regulations 1466/97 and 1467/97 establishing the Stability and Growth Pact;

The Stability and Growth Pact specifies budgetary discipline adopted in EMU/EU, including the deficit below the 3% of GDP and the public debt below 60% of GDP.

⁶⁸ The Act adopted by the Sejm of the Republic of Poland on 10 March 2006.

⁶⁹ See the chapter *Banking supervision* for more details.

⁷⁰ See the chapter *Foreign exchange operations* for more details.

⁷¹ The obligation to consult the ECB, as required by Article 105 para. 4 of the Treaty establishing the European Community, rests both with the national and Community authorities.

- draft Directive on Services in the Internal Market;

This draft is the most important and complex legislative initiative regarding the internal market. It follows the initiatives undertaken under the Lisbon Strategy and is phase two of the implementation of the Internal Market Strategy for Services. The implementation of this directive should help eliminate barriers to the Community market for services *inter alia* by adoption of the country of origin principle, simplification of administrative procedures, introduction of electronic procedures and other simplifications.

- draft amendment to Directive 2000/12/EC relating to Member States competences within control of ownership changes and acquiring major shares in banks;⁷²
- draft amendment to Council Regulation 974/98/EC on certain provisions relating to the introduction of the euro;⁷³
- 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 amending directive 93/13/EC on credit agreements for consumers;
- draft Directive amending Directives 97/7/EC, 2000/12/EC and 2002/65/EC on payment services in the internal market;
- the European Commission's Green Paper on Financial Services Policy (2005–2010), Mortgage Credit in the EU and on the Enhancement of the EU Framework for Investment Funds;

The Green Paper on Mortgage Credit in the EU is a vital element of the European Commission policy within the scope of the Financial Services Action Plan, in particular mortgage loan markets.

The Green Paper on the enhancement of the EU framework for investment funds describes current situation in the European Union investment fund market. The document contains an analysis of current legal conditions together with planned actions for development of the funds and increase of their efficiency.

- Agreement on cooperation between bank supervisory authorities, central banks and ministries of finance in financial crisis situations;⁷⁴

Bill amending the Foreign Exchange Act (draft concerning Polish law).⁷⁵

⁷² See the chapter *Banking supervision*.

⁷³ See the chapter *The Issue of Currency*.

⁷⁴ See the chapter *Banking supervision*.

⁷⁵ See the chapter *Foreign Exchange Operations* for more details.

The most important activities of the NBP in 2005

- The NBP developed a Bill on Supplementary Supervision of Credit Institutions, Insurance Companies and Investment Firms included in a Financial Conglomerate.
- The NBP participated in giving opinions on bills and government draft legislation and other government documents related to the operation of the economy and the banking system.
- Within the consultations with the ESCB, the NBP gave opinions on 61 draft opinions on draft national and Community legislation.



13

INTERNATIONAL
ACTIVITY

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

13.1.1. Cooperation with the European System of Central Banks⁷⁶

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 specified for the EU Member States which remain outside the euro area.

In 2005, the President of the NBP participated in quarterly meetings of the General Council of the ECB. The Council is one of the governing bodies of the ECB. It comprises governors of national central banks of the EU Member States as well as the President and Vice-President of the ECB. Its competencies 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 in countries joining the euro area.

In 2005, the General Council considered the following issues: economic development of the euro area, fiscal and monetary policy, cross-border banking, banking statistics and *Convergence Reports*.

NBP representatives participated as members in the works of 12 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.

Moreover, NBP employees participated in the work of 50 out of almost 80 working groups and task forces within the ESCB.

During the meetings of the above mentioned committees, working groups and task forces, the solutions related to the following issues were discussed and prepared:

⁷⁶ Participation of the NBP in the preparation of drafts of Community legislation was described in detail in Section 12.4: *Participation of the NBP in consulting Community bills* and in respective chapters.

- risk assessment methodologies for the creation of audit plans in the ESCB central banks,
- the scenarios of putting euro into circulation, production of banknotes and early supply of euro cash,
- cross-border banking, crisis management, banking structures and the stability of the European banking system,
- selected aspects of ERM II,
- implementation of statistical requirements by countries outside the euro area,
- creation of TARGET 2 system, including the legal form of the system,
- use of the following ICT systems: CebaMail, CoreNet, ESCB-Net and Teleconference System.

In 2005, meetings of the following ECB working groups and committees, co-organised by the ECB and the NBP, were held in Poland:

- FLEX Working Group, including financial law experts; 34 representatives of the ESCB central banks participated in the meeting;
- Basel Committee on Banking Supervision and Core Principles Liaison Group (CPLG);
- Working Group on Macro-Prudential Analysis;
- Information Technology Committee (ITC).

In 2005, the NBP continued cooperation with the Central Banks of the EU Member States, particularly with the German Bundesbank, the Bank of France, the National Bank of Austria and the National Bank of Denmark. Representatives of these banks participated in meetings devoted to such issues as the coordination of preparation works for the participation in the meetings of the ESCB and other Community authorities. Moreover, the NBP established closer links with the National Bank of Bulgaria, an observer at the ESCB, to provide assistance to the bank as regards its preparation before joining the ESCB.

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

In 2005, NBP representatives took part in the work of the following bodies:

- ECOFIN Council (unofficial meetings),
- committees and working groups of the EU Council and the European Commission (as a cooperating institution),
- the Committee for Monetary, Financial and Balance of Payments Statistics (CMFB) and the Eurostat working groups.

Together with ministries and central agencies, the NBP was involved in the preparation of solutions and Community documents during meetings of the above mentioned bodies.

13.1.3. Other activity

NBP monitored events related to the activities of the EU bodies directly or indirectly pertaining to the central bank. Information about cooperation between Poland and the Community institutions, national and Community level preparations to the implementation of the euro, as well as opinion polls regarding these issues were analysed. The ratification process of the EU Constitution was also monitored. Moreover, the NBP analysed negotiations regarding the *New Financial Perspective of the EU for 2007–2013*, works on the medium-term review of the Lisbon Strategy and the influence of the cohesion policy financed with the EU funds on the Polish economy.

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 participated in discussions and development of issues related to the single currency in meetings of the following bodies:

- ESCB committees and working groups, such as the Legal Committee, the Banknote Committee and the External Communications Committee,
- the EU Council committees and working groups, such as the Economic and Financial Committee, Euro-Coin Sub-Committee and the Working Group of Financial and Legal Experts,
- 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 Counterfeit Coin Experts Group affiliated with the European Anti-Fraud Office (OLAF),
 - the DIR COM Group for Information and Communication affiliated with the Directorate General for Economic and Financial Affairs of the European Commission.

Within the scope of a project conducted by the Directorate General for Economic and Financial Affairs of the EC, the National Bank of Poland established formal cooperation with the German Bundesbank in order to share the German experience on the information campaign about the euro. The project started in March 2005 and is co-financed by the European Commission funds.

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

NBP cooperates with the Ministry of Finance within the Interdepartmental Working Group for Poland's Integration with the EMU. Two meetings were held in 2005. They were devoted to current issues, such as the macro-economic situation, the situation of the public finance sector, the reform of the Stability and Growth Pact, the update of the Convergence Programme. Moreover, the exchange rate stability assessment criteria used so far by the European Commission were discussed on selected examples of the EU countries.

13.2.3. Other activity

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 2005, the National Bank of Poland continued to collaborate with the Ministry of Economy, the Ministry of Finance and the Permanent Representative of the Republic of Poland to the OECD in the implementation of the tasks arising from Poland's membership in this organisation. 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 Investments:
 - Task Force on Investment Policy Framework;
- Economic and Development Review Committee;
- Steering Group on Corporate Governance.

In September 2005, the mission of the OECD Secretariat visited Poland to prepare the 9th Review of the Polish Economy. The meeting with the NBP representatives was devoted to the current economic situation, monetary and exchange rate policy and the situation in the banking sector.

As in the previous years, the National Bank of Poland communicated to the OECD selected statistical data on basic monetary aggregates, international trade in services and FDI.

13.3.2. The World Bank and the International Monetary Fund

In March 2005, the World Bank approved the *Country Partnership Strategy for Poland 2005–2007*. The *Strategy* emphasised the need to reform public finance, improve the investment climate and competitiveness of the economy, reform the social benefits system and increase employment in line with the Lisbon Strategy objectives.

During the annual spring meeting of the Council of Governors of the World Bank and the International Monetary Fund, NBP representatives took part in meetings with the EU Commissioner for development and with the Vice President of the World Bank for Europe and Central Asia. The talks were related to the economic situation in Poland, and particularly to the effects of the accession to the European Union.

In September 2005, NBP and the Ministry of Finance organised a meeting of presidents of central banks and finance ministers of countries belonging to the Polish constituency in the World Bank and the International Monetary Fund (representatives of 6 out of 8 countries were present, i.e.: Poland, Switzerland, Serbia and Montenegro, Kyrgyzstan, Tajikistan and Turkmenistan). The meeting was organised to prepare the group to the Annual Meeting of the World Bank and the IMF held in the autumn. Activities of the World Bank and the IMF within the last year, the economic situation in individual countries and the issue of public investment and tax system reforms were discussed at the meeting.

The World Bank and IMF Annual Meeting in September 2005 focused on the latest initiatives in the Development Programme, i.e. support of partnership to attain the millennium goals of development, *Africa's Development Plan* and issues related to debt reduction. The issues of international trade were also discussed as part of negotiations in the World Trade Organisation (WTO).

Additionally:

- The third World Bank Doing Business 2006 report was published; it is devoted to private business activity regulations in various countries. The authors of the report underlined an urgent need to reform the commercial judiciary in Poland.
- Consultations with NBP representatives were held when preparing the Country Financial Accountability Assessment Report for Poland. The authors positively evaluated Poland's achievements in the management of public finance, e.g. accounting and internal audit issues. Increased transparency of public finance was also noted.

In 2005, as in the previous years, two missions of the International Monetary Fund visited Poland. The first mission, organised within Article IV consultations held pursuant to the provisions of the IMF Statute, was held in April 2005. Its members 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 2005, the second mission was held, which assessed the economic policy implementation in the previous year and set macroeconomic guidelines for the following year. Representatives of the IMF made a positive assessment of the monetary policy implemented by the NBP. It was emphasised that the publication of inflation projections increased the monetary policy transparency. In 2005, the Polish banking system was perceived as stable; activities of the General Inspectorate for Banking Supervision as regards the preparation of prudential regulations for the banking system were positively assessed.

In 2005, employees of the NBP took part in training courses organised by the IMF in macroeconomics, monetary and financial statistics, and banking supervision.

13.3.3. The Bank for International Settlements

In 2005, the President of the NBP took part in six meetings of the Board of Governors of the BIS.

The 75th General Meeting of BIS Shareholders approved the distribution of the dividend for 2004/2005, the Annual Report, the balance sheet as at 31 March 2005, and the profit and loss account which showed a net profit of SDR (Special Drawing Rights) 370.9 m. SDR 114.4 m (SDR 235 per share) was allocated as dividend. As the BIS shareholder, the NBP holds

8,000 shares of the nominal value of SDR 40 m and received dividend amounting to SDR 1.88 m (a 4.4% increase compared to 2004).⁷⁷

In 2005, NBP continued its involvement in the electronic network for exchange of information about central banking management, operated by BIS. Central banks that are involved in the network obtain comparable data on central banking and have access to aggregate information and BIS analyses.

Moreover, 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 management of assets and liabilities of banks and insurance companies, risk management, audit and internal control, accounting and audits of financial statements of banks, risk transfer and securitisation.

13.3.4. The European Bank for Reconstruction and Development

In May 2005, the President of the NBP took part in the 13th Annual Meeting of the Board of Governors of the European Bank for Reconstruction and Development. In his speech, he pointed out the need for the EBRD to continue its further involvement in advanced countries of operations⁷⁸ (including Poland), and to search for new forms of activities. He underlined that the support of countries that actively implement economic and political reform is justifiable. The presentation of the Polish economy prepared together with the representatives of the Ministry of Finance, Polish Information and Foreign Investment Agency and the private sector focused on the situation of the Polish economy one year after the accession to the EU, prospects as regards fulfilment of the convergence criteria by Poland and our country's attractiveness for FDI.

Additionally:

- The EBRD report entitled *Transition Report 2005 – Business in Transition* was presented at the NBP's Head Office in December 2005.
- EBRD and NBP experts prepared a report entitled: *The influence of the legal system on the property security market in Poland*.
- The NBP coordinated inter-ministry consultations regarding *EBRD Strategy for Poland 2006–2008* and the EBRD financial plan for 2006–2010.

13.3.5. The International Bank for Economic Cooperation

NBP representatives participated in the meetings of the IBEC Council and in working meetings. The delegation also included representatives of the Ministry of Finance. Following a motion by the NBP, actions were taken to present the IBEC financial statements in accordance with the International Financial Reporting Standards (IFRS). In 2005, the IBEC continued its efforts in order to recover overdue receivables from its debtors.

13.3.6. International cooperation in banking supervision

The participation in works of expert groups and working groups within the EU, particularly the Committee of European Banking Supervisors, and ESCB and ECB working groups, was a crucial

⁷⁷ In 2005, BIS shareholders were offered to purchase shares from the American issue that were not assumed by the Federal Reserve System. The NBP was entitled to purchase 564 BIS shares within that offer. The cost of purchase of these shares by the NBP would amount to approx. SDR 7.7 m (approx. USD 11.7 m). Considering low yield on such investments and since the shares offered did not give AGM voting rights, the Management Board of the NBP decided not to purchase these shares.

⁷⁸ Countries of operations – a term used to specify countries in which the EBRD provides funds for investment projects. Countries of operations are divided into non-advanced and advanced. Currently, the EBRD is considering the discontinuation of its operations in advanced countries, including Poland, due to the EU enlargement.

aspect of the international cooperation in banking supervision in 2005. As a result of joint works, solutions were prepared in order to facilitate the implementation of the New Capital Accord provisions on the national level. The effects of cooperation with the EU supervisors are much greater as compared with individual activities.

As regards regional cooperation, the 19th Regional Conference of the Group of Banking Supervisors from Central and Eastern Europe (BSCEE) was a significant event. It was held on 30 May – 1 June 2005 in Ukraine. Poland was chosen to conduct the BSCEE Secretariat since 1 January 2006. The annual BSCEE conference is the most important meeting place for banking supervisors from 20 Central and Eastern European countries. Representatives of supervisory bodies from other countries, representatives of the Basel Committee on Banking Supervision, the World Bank and IMF experts are also invited to participate in the conference.

Additionally:

- Representatives of the Polish banking supervision participated in the works of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures in Central and Eastern Europe (MONEYVAL). The meetings were devoted to the status of works of the Third Money Laundering Directive and other issues. Reports evaluating Bosnia and Herzegovina, Slovenia and Hungary were approved.
- Cooperation agreements were signed with the Belgian Banking, Financial and Insurance Committee, the Chinese Banking Supervision Committee, the Bank of Holland and the Office of Thrift Supervision, one of federal supervision institutions in the US.
- The bilateral cooperation involved the visit to the NBP of delegations led by banking supervision heads from the Central Bank of Montenegro, the Central Bank of Mongolia, the Central Bank of Serbia and the Central Bank of Georgia.

13.3.7. Training assistance to central banks and supervisory authorities from other countries

The NBP organised 16 study visits, 2 traineeships and 2 international seminars as part of technical and training assistance to other central banks. The initiative encompassed members of the Polish constituency in the World Bank and the IMF (Azerbaijan, Kyrgyzstan, Serbia and Montenegro, Tajikistan, Turkmenistan), other members of the Commonwealth of Independent States (Ukraine, Belarus, Moldova, Armenia, Georgia, Kazakhstan), Balkan states (Bulgaria, Croatia, Bosnia and Herzegovina, Albania) and Far East countries (China, Vietnam, Mongolia). Training focused mainly on the NBP experience related to the implementation of the monetary policy, foreign exchange policy and foreign currency reserves; development and stability of the financial system and banking supervision. Other issues presented were connected with the international activity of the NBP, ownership transformations and the adjustment of the Polish banking sector to the EU, collection of statistics, internal audit, protection of information and staffing policy.

The NBP pursued its training support programme addressed to supervisors within the framework of the Training Initiative for Banking Supervision (TIBS). Two seminars were held in 2005: on the problems of banking systems in developing countries, credit risk management and consolidated supervision.

The most important activities of the NBP in 2005

- NBP representatives participated in works of committees and working groups of the EU bodies: the European System of Central Banks, the EU Council and the European Commission.
- The IMF positively assessed the monetary policy conducted by the NBP and the stability of the Polish banking system. The activities of the General Inspectorate of Banking Supervision as regards the preparation of prudential regulations for the banking system were also positively evaluated.
- The Regional Conference of the Group of Banking Supervisors from Central and Eastern Europe (BSCEE) chose Poland to conduct the BSCEE Secretariat as of 1 January 2006.

INTERNAL DEVELOPMENT
OF THE NBP

14.1. Human resource management

14.1.1. NBP staffing

In 2005, the average staffing at the NBP was 4,627 full-time posts and declined by 298 posts, i.e. 6% as compared to 2004. Personnel expense decreased again (by 5.3%),⁷⁹ as a consequence of reduction in staffing initiated in 2002.

As a result of the said reduction over 2002–2005, the staffing at the NBP decreased by 1,704 posts, i.e. by 27% in total.

Women dominated the staff and constituted 59.5% of total headcount (compared to 60.7% in 2004).

The proportion of staff up to the age of 35 in the total number of employees amounted to 21.7% (compared to 22.5% in 2004), while employees over 55 years of age represented 12% (as compared to 12.7% in 2004).

At year-end 2005, the number of NBP employees with higher education constituted 52.7% of all staff (as compared to 48.5% in 2004).

14.1.2. Developing staff qualifications

In 2005, training activities were continued to reach one of the major objectives of the NBP, i.e. achieving the position of a significant research centre, both at home and within the European System of Central Banks. As a result, a lot of attention was paid to the development of specialist training. The training of the bank's employees participating in the works of international bodies, especially the EU bodies, continued. The courses were devoted both to individual areas of the NBP's activities, the principles of operation of European institutions, negotiation skills and improving one's command of foreign languages.

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 efficient use of funds allocated to training.

In 2005, 9,941 employees⁸⁰ took part in training sessions organised by the NBP. The number of trainees was 13% lower than in 2004 (11,471 employees). The decline stems from reduced employment at the NBP and the occurrence of a one-off factor, i.e. a large number of training courses about the amended Public Procurement Act.

The National Bank of Poland offered the following types of training courses to its employees:

- Internal training sessions featuring local and foreign lecturers

The internal specialised training covered primarily: law, IT, accounting, taxes, risk management, internal audit, macroeconomics and econometrics. A number of mandatory training sessions were also conducted. These covered the issues of protection of the bank's property as well as occupational health and safety. Foreign language tutoring was organised in the form of specialised courses and conversation classes with native speakers. The language courses focused on improving communication skills in specific areas.

- Training sessions abroad

⁷⁹ On a comparable basis.

⁸⁰ Some employees attended training sessions more than once.

Such training included seminars, courses, conferences and study visits organised by central banks, international financial institutions and other educational institutions. The participating employees of the NBP had an opportunity to exchange experience on macroeconomics, IT, payment systems, banking supervision and modern management methods. 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 the European Commission and the European Central Bank.

- Domestic external training sessions

The topics of domestic external training sessions included macroeconomics, law, accounting, audit and control, financial markets, risk management, banking supervision and IT systems.

- University courses and higher education: under- and post-graduate university courses, PhD courses and legal training

The scope of undergraduate university studies included: economics, administration, management, finance. The scope of postgraduate studies included: banking, finance, law (European banking law, commercial law, legislation), accounting (financial and managerial accounting, controlling), IT. The PhD studies were related to economics, law, IT and management.

The employees of the NBP completed legal counsel training.

14.1.3. Code of Ethics of NBP Employees

Following in the footsteps of the best central banks, the National Bank of Poland introduced the *Code of Ethics of NBP Employees* in 2004. The use of such regulations mitigated personnel risk and management risk at the NBP.

The employees' compliance with the *Code* in 2005 was analysed and presented to the Management Board by the assigned member of the NBP Management Board.

14.2. Premises and equipment

In 2005, the capital spending of the National Bank of Poland related to the performance of its responsibilities and investment purchases amounted to PLN 186,605 thousand, down by 17.5% as compared to 2004. As in previous years, the expenditure was primarily allocated to the following:

- ICT and telecommunications equipment investments and purchases,
- investment in construction,
- purchases of fixed assets.

The principal directions of investment activities in 2005 pertained to:

- upgrade of the ICT infrastructure at the NBP in order to meet the requirements of the reporting system operating at the NBP and to enhance the security of critical systems,
- improvement and enhancement of the banking security systems,
- continued automation of cash and vault operations to increase the efficiency of counting notes and coins and to increase the security of cash storage and transport,
- expansion and upgrading of the Bank's premises to improve their technical condition, increase work safety and replace worn-out and depreciated assets.

14.3. IT support to the banking system and the NBP

The IT works performed in 2005 consisted in:

- the implementation of ongoing modifications to the IT systems, resulting from Poland's integration with the EU, and in particular from the participation of the NBP in the ESCB,
- the adjustment of supervision reporting to the requirements of the New Capital Accord,
- the improvement of the existing ICT infrastructure,
- the continuation of long-term projects to ensure adequate security of NBP systems.

While these tasks were implemented in 2005:

- the SORBNET-EURO system was initiated,
- the final stage of branch system migration was implemented under the Integrated Accounting System; for instance, the Collector Cash Module of the Cash and Issue System was launched,
- the development of the Banking Supervision IT System continued,
- the functional scope of the Integrated Economic Database (IED) was expanded,
- the data processing system for the balance of payments (Roza) was modified,
- BIS, the current reporting system was modified; analytical works for the new reporting system for supervision purposes started.

14.4. Safety and security

In 2005, as in previous years, work on maintaining proper security standards at the NBP was conducted. Further internal regulations regarding the protection of classified information and personal data, IT system security management, provision of cryptographic and certification services, technical security and physical safety, as well as business continuity, arising from the NBP security policy, were developed and implemented.

Additionally:

- The National Certification Centre was established. It serves as the main certification office in the Polish Public Key Infrastructure.
- The infrastructure of NBP was adjusted to the requirements of the ESCB as regards the security of RTGS systems and other critical systems operating at the NBP, including SKARBNET and SEBOP.
- The development of business continuity plans for the most important critical systems at the NBP continued. A business continuity plan for SORBNET-EURO was developed and tested. An initial draft of the NBP business continuity plan in the case of unavailability of the NBP Head Office was prepared.
- 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 implemented.
- An electronic system for monitoring cash transports was initiated.
- Special exercises were conducted in regional branches of the NBP in cooperation with the Police to enhance cooperation principles and procedures in the case of crises in the NBP facilities.

14.5. Internal audit

Further works were conducted to ensure full compliance of the internal audit activities with the International Standards for the Professional Practice of Internal Auditing. A quality assurance system was implemented in the Internal Audit Department in January 2005. Risk assessment methodology for audit planning was also developed. It was used when preparing the internal audit activity plan for 2006 and a three-year plan for 2006–2008.

In 2005, 44 audits were conducted (as compared to 56 in 2004). They covered 35 topics stipulated in the *Internal Audit Activity Plan for 2005*. The works of 18 organisational units of the Head Office, the General Inspectorate of Banking Supervision and 12 regional branches of the NBP were audited. 5 audits were conducted as commissioned by the ESCB Internal Auditors Committee within the cooperation with central banks associated in the European System of Central Banks.

No threats to the NBP activity were found in course of internal audits.

Additionally:

- special investigations were conducted,
- the implementation of audit findings and recommendations was monitored,
- analytical and consulting activity was expanded.

14.6. Risk management

The Risk Management System (RMS) implemented in 2004 was developed in 2005. Internal regulations related to the development of the System, such as the Resolution of the NBP Management Board on the management of operational risk at the NBP and methodology for risk managers at the NBP, were developed and implemented. The works were coordinated by the Risk Management Commission.

14.7. Organisational changes

Changes in the supervision of Departments of the NBP Head Office were introduced on 1 September 2005. Due to the strategic importance of research conducted at the NBP, the President of the National Bank of Poland assumed direct supervision of the following NBP research departments: the Macroeconomic and Structural Analyses Department and the Bureau of Macroeconomic Research. Moreover, the First Deputy President of the NBP assumed the supervision of the Department of Statistics and the Deputy President became responsible for the supervision of the Cash and Issue Department and the Payment Systems Department.

Organisational and staff changes in the NBP local units⁸¹ were completed in 2005. The Regional Branch in Warsaw was merged with the Chief Branch of Foreign Exchange into one organisational unit on 1 May 2005 in order to reduce general expense, to make the provision of services to the NBP customers more efficient and to make the organisational structure of the NBP more uniform.

The most important activities of the NBP in 2005

- Further decrease in employment at the NBP – by 298 full-time posts, i.e. by 6%.
- Establishment of the National Certification Centre that serves as the main certification office in the Polish Public Key Infrastructure.
- Audits commissioned by the ESCB Internal Auditors Committee.
- Development of the risk management system implemented at the NBP in 2004.
- The merging of the Regional Branch in Warsaw with the Chief Branch of Foreign Exchange into one organisational unit.

⁸¹Previous stages of implemented changes were described in the NBP *Annual Reports* for 2002–2004.

BALANCE SHEET
AND PROFIT & LOSS ACCOUNT

The financial statements of the National Bank of Poland were prepared as at 31 December 2005.

To compare assets and liabilities in the balance sheet, income, expense, profits and losses in the profit and loss account as well as off-balance sheet items were recognised as at the balance sheet day of the current and previous financial year, i.e. as at 31 December 2005 and 31 December 2004, respectively.

15.1. Legal basis for the accounting of the NBP

The financial statements of the NBP were prepared on the basis of accounting books complying with the following regulations:

- the Act on the National Bank of Poland of 29 August 1997,⁸²
- Resolution No. 16/2003 of the Monetary Policy Council of 16 December 2003 regarding the accounting principles, the structure of assets and liabilities in the balance sheet and the profit and loss account of the National Bank of Poland as amended, hereinafter referred to as "Resolution No. 16/2003",
- Resolution No. 17/2003 of the Monetary Policy Council of 16 December 2003 regarding the 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, hereinafter referred to as "Resolution No. 17/2003",
- Resolution No. 57/2003 of the Management Board of the National Bank of Poland of 30 December 2003 regarding the way of performing tasks related to accounting at the National Bank of Poland, as amended, hereinafter referred to as "Resolution No. 57/2003".

15.2. Basic accounting principles at the NBP

Pursuant to Article 67 of the Act on the NBP, the NBP accounting principles should conform to the ESCB standards. Therefore, on 1 January 2004, the NBP accounting rules were adjusted to *Guidelines of the European Central Bank of 5 December 2002 regarding the legal framework of accounting and financial reporting in the European System of Central Banks*.

The main accounting principles adhered to when preparing the financial statements of the NBP are as follows:

- **The principle of true and fair view**

The NBP applies the accounting principles so as to ensure a true and fair view of the economic and financial standing and the financial performance, in accordance with the true nature and economic importance of economic events.

- **The going concern principle**

Pursuant to Article 58 of the Act on the National Bank of Poland, the bankruptcy of the NBP cannot be declared.

⁸² Dziennik Ustaw No. 1/2005, Item 2 and No. 167/2005, Item 1398.

- **The prudence principle**

The valuation of assets and liabilities and recognition of revenues as part of the profit and loss account is performed with caution.

- **The materiality principle**

A simplified method for grouping economic operations on accounts, for the valuation of assets and liabilities and for the recognition of income and expense may be applied at the NBP, provided that it does not adversely affect either the true and fair view of the material and financial standing or financial performance.

- **The comparability principle**

The accounting principles are applied throughout. In subsequent financial years, the grouping of economic operations on accounts, the valuation of assets and liabilities, the establishment of the financial result and the preparation of financial statements are similar, so that the information included therein is comparable through subsequent years. The value of assets and liabilities shown in the accounting books as at the end of the year is recognised in a similar way in the accounting books that are opened for the subsequent financial year.

- **The accrual basis; an economic approach**

All economic events in a given financial year are recognised in accounting books for that year. Foreign currencies and gold that complies with the international standards of purity, which were purchased or sold in a current or forward transaction, as well as debt securities purchased or sold in a forward transaction are recognised on off-balance sheet accounts from the contract date to the settlement date. Debt securities purchased or sold in a current transaction and cash received or deposited by the NBP to be repaid are recognised on the balance sheet accounts on the settlement day. Interest, discount and premium on assets and liabilities and on off-balance sheet instruments are recognised in the financial result at the end of each operating day, except for interest on current assets in foreign currencies kept by the NBP on current accounts of other banks, interest on the required reserve payment and interest on assets and liabilities related to internal management, which is recognised in the financial result on the day of payment.

- **Events after the balance sheet date**

The balance sheet and the profit and loss account recognise the events of which the information was obtained after the balance sheet date and before the approval of the annual financial statements if these materially influence their contents.

- **Recognition of assets, liabilities, income and expense**

Assets, liabilities, income and expense are recognised in accounting books if:

- it is probable that any future economic benefits will flow in or liabilities will be paid,
- the risk or benefit related to an asset or liability has been transferred to the NBP,
- the value of an asset or liability and income or expense may be estimated reliably.

All income and expense regarding a given fiscal year are recognised in the financial result of that fiscal year. The following principles are observed:

- unrealised income is not recognised in the profit and loss account, with the exception of income due to a decrease in the revaluation account,

- unrealised costs on the valuation of the foreign currency resources, debt securities and gold resources are not recognised in the profit and loss account as at the balance sheet date,
- deferred income or expense are recognised in assets or liabilities.
- **Outstanding issues**

Outstanding issues not laid down in the NBP accounting regulations are resolved as provided for by ECB guidelines, reports and decisions of the Accounting and Monetary Income Committee – AMICO of the ECB, preparatory works regarding ECB guidelines and international accounting standards in force as at the date of drawing up the financial statements. The aim of the NBP is to present true and fair view of the financial statements.

15.3. Certified auditor and its selection

The NBP annual financial statements drawn up as at 31 December 2005 are to be examined and evaluated by a certified auditor, i.e. Ernst & Young Audit sp. z o.o. with its principal place of business in Warsaw.

The certified auditor was selected by the Monetary Policy Council pursuant to Article 69 para. 1 of the Act on the National Bank of Poland. The selection was made by unlimited tender pursuant to the Public Procurement Act⁸³ of 29 January 2004. Ernst & Young Audit sp. z o.o. with its principal place of business in Warsaw was selected for two years. As a result, it will also audit the NBP financial statements drawn up as at 31 December 2006.

15.4. Changes in legal regulations pertaining to the NBP accounting in the financial year 2005

Significant changes in the organisation of the NBP accounting system in 2005, as compared to 2004, involved:

- the opening of the SORBNET-EURO subsidiary ledger at the NBP on 7 March 2005. Economic events related to banks' accounts operated by the NBP in EUR and operations denominated in EUR for the NBP customers are recorded therein,
- changes in the organisational structure of the NBP, i.e. the merging of the Regional Branch in Warsaw with the Chief Branch of Foreign Exchange on 1 May 2005.

In view of the above changes, Resolution No. 57/2003 of the Management Board of the NBP regarding the performance of accounting tasks at the National Bank of Poland was amended.

15.5. Changes in the arrangement of assets and liabilities in the NBP balance sheet and in the arrangement of the NBP profit and loss account

Pursuant to Resolution No. 16/2003 of the Monetary Policy Council, since 1 January 2004 the arrangement of the balance sheet, the profit and loss account and the content of asset and liability items have been adjusted to the ECB guidelines.

⁸³ Dziennik Ustaw [Journal of Laws] No. 19, Item 177 as amended.

The arrangement of the NBP balance sheet did not change in the financial year 2005. However, the presentation of valuation of off-balance sheet items changed and selected balance sheet items were shifted within assets and liabilities. To ensure the comparability of financial data included in the financial statements for 2005 with the data for 2004, the NBP standardised the presentation of the above mentioned items in the closing balance as at 31 December 2004. The presentation principles were used retrospectively. The adjustments made by the NBP were related to the way of presentation only and did not influence the earnings for 2004 and 2005.

In 2005, the NBP changed the presentation of item 10.3. "Off-balance sheet instruments revaluation differences" in assets and item 10.1 "Off-balance sheet instruments revaluation differences" in liabilities. The change influenced the value of the balance sheet total as at 31 December 2004. As at the end of 2004, total assets and liabilities of the NBP amounted to PLN 119,661,106.9 thousand. Due to the retrospective presentation of the change, the balance sheet total as at 31 December 2004 that was presented in the comparable balance sheet is less by PLN 176.5 thousand and amounts to PLN 119,660,930.4 thousand.

According to the principles applied by the ECB, the list of monetary financial institutions does not include bankrupt or liquidated banks. Since 1 January 2005, operations with such banks have been presented as other financial institutions. As a result, the balance sheet as at 31 December 2004 included the following changes of classification: as regards assets – the amount of PLN 96,951.9 thousand was moved from item 6. "Other claims on other domestic monetary financial institutions denominated in national currency" to item 10.5. "Sundry", and as regards liabilities – the amount of PLN 375.4 thousand was moved from item 2.1. "Current accounts (covering the minimum reserve accounts)" to item 4.2. "Other liabilities".

The arrangement of the NBP profit and loss account did not change in the financial year 2005.

15.6. Changes in the breakdown of off-balance sheet items of the NBP

To increase transparency, items related to forward transactions on debt securities not intended to be completed by the NBP in the near future were excluded from the breakdown of the NBP off-balance sheet items. The value of these items as at 31 December 2004 and as at 31 December 2005 was zero. The above change pertains to the following items: 9. "Debt securities in foreign currencies to be received under forward transactions", 10. „Cash in foreign currencies to be expended on the purchase of debt securities in forward transactions", 11. "Debt securities in foreign currencies to be expended under forward transactions", 12. "Cash in foreign currencies to be received under the purchase of debt securities in forward transactions". A new off-balance sheet item was established: 11. "Contingent claims".

15.7. Changes in the items of the NBP balance sheet

Total assets and liabilities of the National Bank of Poland as at 31 December 2005 were PLN 149,664,629.1 thousand and increased by PLN 30,003,698.7 thousand (25.1%) as compared to 31 December 2004 i.e. PLN 119,660,930.4 thousand (provided that the data are comparable).⁸⁴

15.7.1. Changes in asset items

Total assets as at 31 December 2005 increased as compared to 31 December 2004, which stemmed primarily from the increased foreign currency reserves. This led to the increase in item 2.2.

⁸⁴ The balance sheet total in the financial statements drawn up as at 31 December 2004 amounted to PLN 119,661,106.9 thousand and is higher by PLN 176.5 thousand than the amount presented in the comparable balance sheet.

"Balances with foreign institutions, securities, granted loans and other foreign assets" by PLN 28,851,258.2 thousand. Table 10 presents changes in asset items of the NBP balance sheet in 2005.

Table 10

Changes in asset items of the NBP balance sheet

Item	Balance as at		Change	
	31 Dec 2004	31 Dec 2005	31 Dec 2004 – 31 Dec 2005	
	PLN thousand			%
ASSETS				
1. Gold and gold receivables conforming to international standards of purity	4,332,440.4	5,535,040.4	1,202,600.0	27.8
2. Claims on non-residents denominated in foreign currency	105,994,178.2	133,770,335.2	27,776,157.0	26.2
2.1. Receivables from the IMF	2,344,541.4	1,269,440.2	-1,075,101.2	-45.9
2.2. Balances with foreign institutions, securities, granted loans and other foreign assets	103,649,636.8	132,500,895.0	28,851,258.2	27.8
3. Claims on residents denominated in foreign currency	101,303.9	107,671.7	6,367.8	6.3
4. Claims on non-residents denominated in national currency	0.0	0.0	0.0	0.0
5. Claims on other domestic monetary financial institutions related to monetary policy operations denominated in national currency	0.0	464,000.0	464,000.0	-
6. Other claims on other domestic monetary financial institutions denominated in national currency	3,061,796.6	2,699,968.5	-361,828.1	-11.8
7. Securities of residents denominated in national currency	0.0	0.0	0.0	0.0
8. Claims on general government denominated in national currency	0.0	0.0	0.0	0.0
9. Items in course of settlement	0.0	0.0	0.0	0.0
10. Other assets	6,171,211.3	7,087,613.3	916,402.0	14.8
10.1. Tangible and intangible fixed assets	1,146,326.9	1,140,746.9	-5,580.0	-0.5
10.2. Other financial assets	4,709,474.6	5,649,565.0	940,090.4	20.0
10.3. Off-balance sheet instruments revaluation differences	10.7	0.3	-10.4	-97.2
10.4. Accruals and prepaid expenses	46,361.0	59,086.3	12,725.3	27.4
10.5. Sundry	269,038.1	238,214.8	-30,823.3	-11.5
TOTAL ASSETS	119,660,930.4	149,664,629.1	30,003,698.7	25.1

Source: NBP data.

Moreover, the change in the total assets resulted from the increase in:

- item 1. "Gold and gold receivables conforming to international standards of purity" by PLN 1,202,600.0 thousand – following increased market prices of gold, depreciation of the zloty against the US dollar and an increase in gold deposits by 635.872 ounces,
- item 5. "Claims on other domestic monetary financial institutions related to monetary policy operations denominated in national currency" by PLN 464,000.0 thousand – due to an overnight lombard loan granted to a commercial bank and secured with treasury securities,
- item 10.2. "Other financial assets" by PLN 940,090.4 thousand – mainly due to the conversion, by the IMF, of the share of the Republic in Poland in an interest-bearing reserve tranche in foreign currency into the shares of the Republic of Poland in PLN, following the 2005 repayment of loans previously granted by the IMF to Indonesia, Ukraine, Turkey, Philippines and Brazil,

and the decrease in:

- item 2.1. "Receivables from the IMF" by PLN 1,075,101.2 thousand – mainly due to the conversion, by the IMF, of the share of the Republic in Poland in an interest-bearing reserve tranche in foreign currency into the shares of the Republic of Poland in PLN, following the 2005 repayment of loans previously granted by the IMF to Indonesia, Ukraine, Turkey, Philippines and Brazil,
- item 6. "Other claims on other domestic monetary financial institutions denominated in national currency" by PLN 361,828.1 thousand – due to repayment of instalments of a loan granted by the NBP for central investments.

The value of items: 4. "Claims on non-residents denominated in national currency", 7. "Securities of residents denominated in national currency", 8. "Claims on general government denominated in national currency" and 9. "Items in course of settlement" was zero as at 31 December 2005 (as at 31 December 2004).

15.7.2. Changes in liability items

Changes in liability items varied. The increase in total liabilities as at 31 December 2005 as compared to 31 December 2004 mainly followed from increased supply of cash, which resulted in increased open market operation liabilities (an increase in the value of item 2.4. "Other monetary policy operations" by PLN 17,280,969.4 thousand). The issue of the NBP monetary market bills increased to absorb liquidity in 2005. Table 11 presents changes in liability items of the NBP balance sheet in 2005.

Moreover, the change in total liabilities resulted from the increase in:

- item 1. "Notes and coin in circulation" by PLN 6,671,964.1 thousand, as a result of increased demand for cash,
- item 2.2. "Deposit facility " by PLN 2,529,857.2 thousand,
- item 6. "Liabilities to residents in foreign currency" by PLN 4,210,892.0 thousand due to increased funds on government accounts,
- item 7. "Liabilities to non-residents in foreign currency" by PLN 6,220,107.6 thousand mainly due to increased funds denominated in EUR on the auxiliary account of the European Commission to service own funds of the European Union and deposits obtained in foreign currencies with a commitment to repurchase debt securities,
- item 8. "Liabilities to IMF" by PLN 985,704.5 thousand, mainly due to the conversion, by the IMF, of the share of the Republic in Poland in an interest-bearing reserve tranche in foreign currency into the shares of the Republic of Poland in PLN, following the 2005 repayment of loans previously granted by the IMF to Indonesia, Ukraine, Turkey, Philippines and Brazil,
- item 12. "Revaluation accounts" by PLN 1,697,384.9 thousand, including:
 - the revaluation account (the value as at 31 December 2005 was PLN 5,842,180.3 thousand and decreased by PLN 3,569,165.5 thousand as compared to 31 December 2004),
 - unrealised gains from exchange rate valuation (the value as at 31 December 2005 was PLN 5,472,707.1 thousand; the value as at 31 December 2004 was zero),
 - unrealised gains from price valuation (the value as at 31 December 2005 was PLN 156,682.4 thousand and was lower by PLN 206,156.7 thousand as compared to 31 December 2004),

Table 11

Changes in liability items of the NBP balance sheet

Item	Balance as at		Change	
	31 Dec 2004	31 Dec 2005	31 Dec 2004 – 31 Dec 2005	
	PLN thousand			%
LIABILITIES				
1. Notes and coin in circulation	55,924,918.7	62,596,882.8	6,671,964.1	11.9
2. Liabilities to other domestic monetary financial institutions related to monetary policy operations in national currency	27,239,943.3	41,758,335.0	14,518,391.7	53.3
2.1. Current accounts (covering the minimum reserve accounts)	13,247,160.9	7,954,726.0	-5,292,434.9	-40.0
2.2. Deposit facility	52,377.2	2,582,234.4	2,529,857.2	4,830.1
2.3. Fixed-term deposits	0.0	0.0	0.0	0.0
2.4. Other monetary policy operations	13,940,405.2	31,221,374.6	17,280,969.4	124.0
3. Other liabilities to other domestic monetary financial institutions in national currency	13,917.9	60,731.1	46,813.2	336.4
4. Liabilities to other residents denominated in national currency	11,429,593.2	10,131,386.5	-1,298,206.7	-11.4
4.1. Liabilities to general government	11,076,660.5	10,024,016.2	-1,052,644.3	-9.5
4.2. Other liabilities	352,932.7	107,370.3	-245,562.4	-69.6
5. Liabilities to non-residents denominated in national currency	136,626.6	36,552.2	-100,074.4	-73.2
6. Liabilities to residents in foreign currency	3,577,020.8	7,787,912.8	4,210,892.0	117.7
7. Liabilities to non-residents in foreign currency	288,280.5	6,508,388.1	6,220,107.6	2,157.7
8. Liabilities to IMF	4,412,809.3	5,398,513.8	985,704.5	22.3
9. Items in course of settlement	0.0	0.0	0.0	0.0
10. Other liabilities	304,217.6	311,661.4	7,443.8	2.4
10.1. Off-balance sheet instruments revaluation differences	-175.9	-9.2	166.7	-
10.2. Accruals and income collected in advance	261,561.4	242,938.8	-18,622.6	-7.1
10.3. Sundry	42,832.1	68,731.8	25,899.7	60.5
11. Provisions	113,445.3	105,753.3	-7,692.0	-6.8
12. Revaluation accounts	9,774,184.9	11,471,569.8	1,697,384.9	17.4
13. Capital and reserves	2,058,597.7	2,277,966.4	219,368.7	10.7
13.1. Authorised capital	1,500,000.0	1,500,000.0	0.0	0.0
13.2. Reserve capital	558,597.7	777,966.4	219,368.7	39.3
13.3. Reserves	0.0	0.0	0.0	0.0
14. Total profit	4,387,374.6	1,218,975.9	-3,168,398.7	-72.2
- Total profit following changes in accounting principles	3,587,988.8	0	-3,587,988.8	-100.0
- Total profit without considering changes in accounting principles	799,385.8	1,218,975.9	419,590.1	52.5
TOTAL LIABILITIES	119,660,930.4	149,664,629.1	30,003,698.7	25.1

Source: NBP data.

and the decrease in:

- item 2.1. "Current accounts (covering the reserve requirement accounts)" by PLN 5,292,434.9 thousand,
- item 4. "Liabilities to other residents denominated in national currency" by PLN 1,298,206.7 thousand, mainly due to increased funds on the government accounts,
- item 14. "Total profit" by PLN 3,168,398.7 thousand. In 2005, there were no one-off factors stemming from changes in accounting principles which brought PLN 3,587,988.8 thousand in 2004 and increased the profit of the NBP as at 1 January 2004.

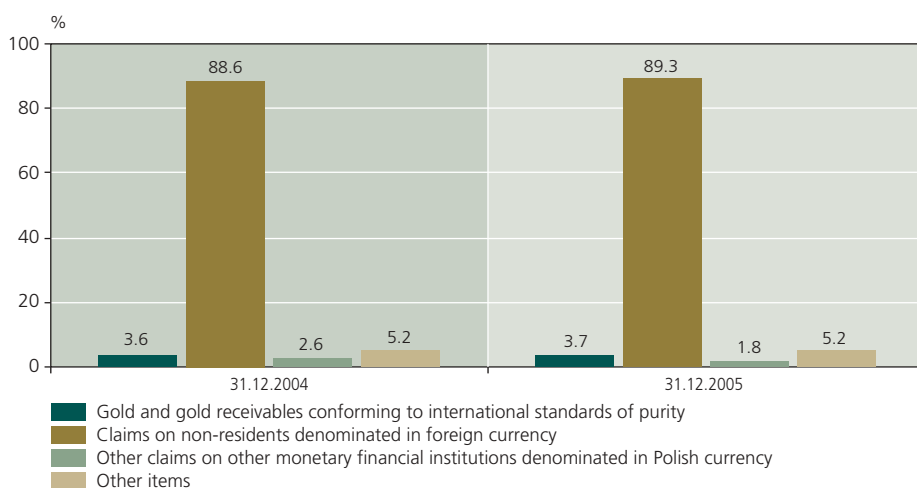
The value of items: 2.3. "Fixed-term deposits", 9. "Items in course of settlement" and 13.3. "Reserves" was zero as at 31 December 2005 (as at 31 December 2004).

15.7.3. Movements in assets

Claims on non-residents denominated in foreign currency were the main asset item both as at 31 December 2004 and as at 31 December 2005 (88.6% and 89.3% of the balance sheet total, respectively). The increase in the share of this item in the balance sheet total results mainly from the increased level of foreign currency reserves at the NBP. Additionally, the share of item 6. of the assets, i.e. "Other claims on other domestic monetary financial institutions denominated in national currency" decreased mainly due to repayment of instalments of a loan granted by the NBP for central investments. Fig. 10 presents the comparison of the structure of assets in 2004 and 2005.

Figure 10

Movements in the structure of NBP assets in 2005



Source: NBP data.

15.7.4. Movements in liabilities

The largest movement in liabilities pertains to item 2.4. "Other monetary policy operations", resulting from the increase in excessive liquidity of the banking sector in 2005 as compared with 2004. Fig. 11 presents the comparison of the structure of liabilities in 2004 and 2005.

Notes and coin in circulation are the largest liability item in the NBP balance sheet. The share of this item in the balance sheet total was 46.7% as at 31 December 2004 and 41.8% as at the end of December 2005. The movements in liabilities as at 31 December 2005 were influenced by the decrease in:

- item 12. "Revaluation accounts" from 8.2% down to 7.7% of the balance sheet total,
- item 14. "Total profit" from 3.7% down to 0.8% of the balance sheet total,

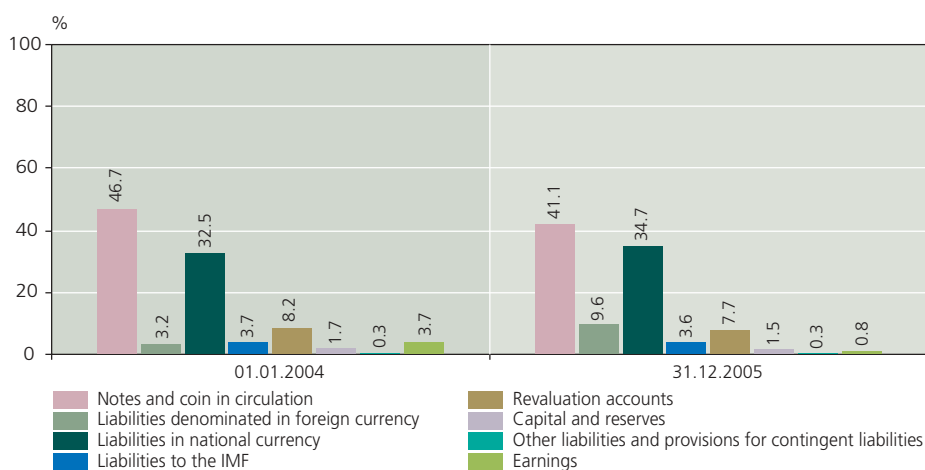
and by the increase in:

- liabilities in national currency from 32.5% up to 34.7% of the balance sheet total (item 2. "Liabilities to other domestic monetary financial institutions related to monetary policy operations in national currency" from 22.8% up to 27.9%, item 4. "Liabilities to other residents denominated in national currency" from 9.6% up to 6.8%, item 5. "Liabilities to non-residents denominated in national currency" from 0.1% up to 0.0%),

- liabilities in foreign currency from 3.2% up to 9.6% of the balance sheet total (item 6. "Liabilities to residents in foreign currency" from 3.0% up to 5.2%, item 7. "Liabilities to non-residents in foreign currency" from 0.2% up to 4.4% of the balance sheet total).

Figure 11

Movements in the structure of liabilities in 2005



Source: NBP data.

15.8. Movements in the NBP profit and loss account

As at 31 December 2005, the activity of the NBP brought profit amounting to PLN 1,218,975.9 thousand, i.e. PLN 3,168,398.7 thousand (72.2%) less than in 2004. Lower profit in 2004 results from a one-off change in the accounting principles introduced on 1 January 2004. Table 12 presents general information about movements in the profit and loss account, subject to data comparability (i.e. having eliminated the accounting principle change effect from the profit for 2004).

Table 12

NBP profit and loss account, 2004–2005

Item	Data for year		Change	
	2004	2005		
	PLN thousand			%
1. Annual profit	4,387,374.6	1,218,975.9	-3,168,398.7	-72.2
2. Annual profit due to changes in accounting principles	3,587,988.8	-	-3,587,988.8	-
3. Annual profit without considering the changes in accounting principles	799,385.8	1,218,975.9	419,590.1	52.5
4. Net interest, discount and premium income/expense	1,328,473.5	1,581,617.7	253,144.2	19.1
5. Net income/expense on financial operations	648,211.2	774,503.9	126,292.7	19.5
6. Net fee & commission income/expense	-12,963.7	-12,608.3	355.4	-2.7
7. Income from equities	11,058.9	10,736.0	-322.9	-2.9
8. Other income	110,979.3	109,425.5	-1,553.8	-1.4
9. Personnel expense	454,400.0	405,849.5	-48,550.5	-10.7
10. Administrative expense	392,813.7	344,110.7	-48,703.0	-12.4
11. Depreciation	137,913.5	166,177.5	28,264.0	20.5
12. Issue of notes and coin expense	226,301.7	246,982.0	20,680.4	9.1
13. Other expense	74,944.5	81,579.2	6,634.7	8.9

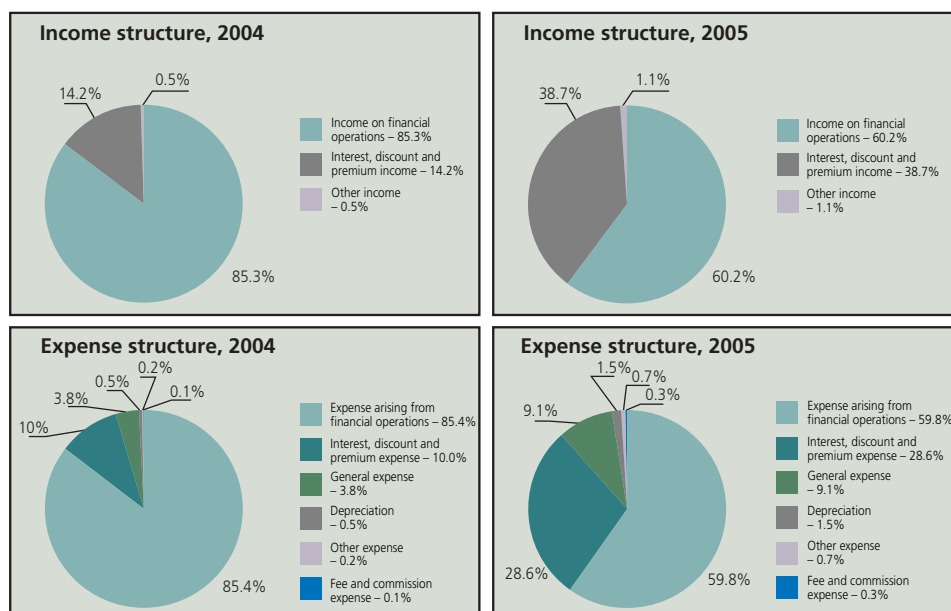
Source: NBP data.

After eliminating the effect of changes in the accounting principles on the profit in 2004 (PLN 3,587,988.8 thousand), the profit amounted to PLN 799,385.8 thousand. It means that **under comparable conditions the profit realised by the NBP in 2005 was higher than that in the previous reporting period by PLN 419,590.1 thousand (52.5%).**

The following comparison of the profit and loss account items listed in Table 13 is based on figures after the elimination of the above-mentioned effect of changes in the accounting principles. Fig. 12 presents changes in the NBP structure of income and expense as at 31 December 2004 and 2005.

Figure 12

Income and expense structure, 2004–2005



Source: NBP data.

15.8.1. Net interest, discount and premium income/expense

The increase in net interest, discount and premium income by PLN 253,144.2 thousand (19.1%) stemmed both from higher income (by PLN 579,656.2 thousand) and higher expense (by PLN 326,512.0 thousand) (11.6%).

The increase in income resulted mainly from increased income on:

- interest and discount on securities (by PLN 327,521.7 thousand),
- interest on NBP funds held in bank accounts (by PLN 277,235.5 thousand).

The increase in the value of these items stemmed mainly from increased foreign currency reserves, additionally supported by an increased interest on inter-bank deposits and securities denominated in USD (the interest on discount securities in EUR and GBP was maintained at the level of 2004 whereas it decreased in the case of coupon securities in these currencies). The positive impact of the above mentioned factors on the NBP profit was partially offset by the annual average appreciation of the zloty against foreign currencies.

Table 13

Net interest, discount and premium income/expense, 2004–2005

Item	Data for year		Change		Structure	
	2004	2005			2004	2005
	PLN thousand				%	
1. Net interest, discount and premium income/expense	3,544,029.7	1,581,617.7	-1,962,412.0	-55.4	-	-
2. Effect of changes in accounting principles	2,215,556.2	-	-2,215,556.2	-	-	-
3. Net interest, discount and premium income/expense – comparable	1,328,473.5	1,581,617.7	253,144.2	19.1	-	-
4. Income	4,137,208.5	4,716,864.7	579,656.2	14.0	100.0	100.0
on securities	3,264,251.8	3,591,773.5	327,521.7	10.0	78.9	76.1
on NBP funds held in bank accounts	624,426.4	901,661.9	277,235.5	44.4	15.1	19.1
on loans and advances	193,922.4	172,184.7	-21,737.7	-11.2	4.7	3.7
other income	54,607.9	51,244.6	-3,363.3	-6.2	1.3	1.1
5. Expense	2,808,735.0	3,135,247.0	326,512.0	11.6	100.0	100.0
interest, discount and premium						
on securities	1,576,106.3	1,919,198.8	343,092.5	21.8	56.1	61.2
interest on current accounts and time deposits operated by the NBP	1,232,157.9	1,214,981.3	-17,176.6	-1.4	43.9	38.8
loans and advances denominated in foreign currency	35.2	10.7	-24.5	-69.6	0.0	0.0
other expense	435.6	1,056.2	620.6	142.5	0.0	0.0

Source: NBP data.

The increase in the interest, discount and premium expense was primarily related to the expense on securities. As compared to the previous reporting period, the expense increased by PLN 343,092.5 thousand (21.8%). This stemmed mainly from larger expense on discount on the NBP money market bills (by PLN 567,194.7 thousand) due to larger issue. The said was brought about by a larger scale of open market operations due to the growth in excessive liquidity of the banking sector. Lower interest on bills, resulting from the changes in the NBP reference rate in 2005, reduced discount expense.

The impact of larger expense of discount on the NBP money market bills on the profit was partially offset by lower expense on premium on foreign securities (by PLN 243,509.8 thousand). The expense was reduced primarily due to lower prices of securities, supported by the effect of the annual average appreciation of the zloty against foreign currencies.

Although the other items of interest, discount and premium expense did not have a significant impact on the change of the NBP earnings (the total effect amounted to an increase by PLN 16,580.5 thousand), it should be mentioned that 2005 brought a significant decrease (by over 60%) in the expense on time deposits of the Ministry of Finance. The decrease in this expense (by PLN 417,032.3 thousand as compared to the previous reporting period) stemmed primarily from the reduction in the average balance of these deposits.

15.8.2. Net income/expense on financial operations

Table 14

Net income/expense on financial operations, 2004–2005

Item	Data for year		Change		Structure	
	2004	2005			2004	2005
	PLN thousand			%		
1. Net income/expense on financial operations	2,020,643.8	774,503.9	-1,246,139.9	-61.7	-	-
2. Impact of changes in accounting principles	1,372,432.6	-	-1,372,432.6		-	-
3. Net income/expense on financial operations – comparable	648,211.2	774,503.9	126,292.7	19.5	-	-
4. Income on financial operations	2,261,868.4	3,760,435.2	1,498,566.8	66.3	100.0	100.0
5. FX gains	2,124,384.7	3,426,381.7	1,301,997.0	61.3	93.9	91.1
6. Positive price differences	137,483.7	334,053.5	196,569.8	143.0	6.1	8.9
7. Expense arising from financial operations	2,883,183.6	2,738,606.8	-144,576.8	-5.0	100.0	100.0
8. FX losses	2,823,053.0	2,586,754.8	-236,298.2	-8.4	97.9	94.5
9. Price losses	60,130.6	151,852.0	91,721.4	152.5	2.1	5.5
10. Unrealised losses	21,187,022.4	3,816,542.6	-17,370,479.8	-82.0	100.0	100.0
11. Unrealised losses related to exchange rate valuation	20,894,409.8	3,181,805.4	-17,712,604.4	-84.8	98.6	83.4
12. Unrealised losses related to price valuation	292,612.6	634,737.2	342,124.6	116.9	1.4	16.6
13. Income on release of provisions against risk and reversal of write-downs on financial assets	22,483,610.0	3,569,218.1	-18,914,391.9	-84.1	100.0	100.0
14. Income on reversal of writedowns on financial assets	85.2	52.6	-32.6	-38.3	0.0	0.0
15. Income on decrease in revaluation account balance	22,483,524.8	3,569,165.5	-18,914,359.3	-84.1	100.0	100.0
16. Expense arising from establishment of provisions against risk and write-downs on financial assets	27,061.2	-	-27,061.2	-100.0	100.0	-
17. Expense arising from writedowns on financial operations	27,061.2	-	-27,061.2	-100.0	100.0	-

Source: NBP data.

The increase in net income on financial operations by PLN 126,292.7 thousand (19.5%) resulted primarily from:

- the increase in the balance of FX gains/losses worth PLN 839,626.9 thousand in 2005, i.e. PLN 1,538,295.2 thousand more than in 2004,
- the increase in the balance of positive and Price losses that amounted to PLN 182,201.5 thousand, i.e. PLN 104,848.4 thousand more than in 2004; the increase stemmed mainly from a large scale of operations involving sales of securities, partially offset by the decrease in the price of these securities.

The positive impact of the above mentioned factors on the NBP earnings was partially offset by:

- the decrease (by PLN 1,201,754.9 thousand) in the income on the reduction of the revaluation account following the sales of foreign currencies for the national currency, mainly due to a lower scale of the sales,

- the increase in unrealised expense on price valuation of securities in foreign currencies by PLN 342,124.6 thousand, mainly due to the decrease in the price of these securities.

15.8.3. Net fee and commission income/expense

Table 15

Net fee and commission income/expense, 2004–2005

Item	Data for year		Change	
	2004	2005		
	PLN thousand		%	
Net fee & commission income/expense	-12,963.7	-12,608.3	355.4	-2.7
Fee & commission income	12,939.5	15,204.8	2,265.3	17.5
Fee & commission expense	25,903.2	27,813.1	1,909.9	7.4

Source: NBP data.

Fee and commission income is earned by the NBP on the provision of banking services to the banking sector, state budget units and government special-purpose funds. Fee and commission expense is incurred principally as a result of the provision of alternative cash services⁸⁵ and clearing services for the NBP by the National Clearing House (Krajowa Izba Rozliczeniowa SA). The fee and commission expense as at 31 December 2005 amounted to PLN 12,608.3 thousand, which was lower by PLN 355.4 thousand than the amount realised in 2004. The reduction of the fee and commission expense resulted primarily from the increase in income by PLN 2,265.3 thousand (increase in individual items of fee and commission income, such as income on the operation of current and auxiliary accounts by the NBP and the performance of payment orders), which was largely offset by higher expense (by PLN 1,909.9 thousand) mainly due to higher fees to the National Clearing House.

15.8.4. Income from equities

Table 16

Income from equities, 2004–2005

Item	Data for year		Change		Structure	
	2004	2005			2004	2005
	PLN thousand				%	
Income from equities	11,058.9	10,736.0	-322.9	-2.9	100.0	100.0
Income from shares held	10,558.9	10,736.0	177.1	1.7	95.5	100.0
Income from participating interests	500.0	-	-500.0	-100.0	4.5	-

Source: NBP data.

Income from equities was the sum of the income from dividends on shares in the National Clearing House (KIR SA) (PLN 1,562.5 thousand) and the Bank for International Settlements in Basel (PLN 9,173.5 thousand). The decrease in income from equities compared to 2004 resulted from absence of income from participating interests in Bazy i Systemy Bankowe sp. z o.o. in Bydgoszcz. In 2004, the NBP received dividends on participating interests in that company worth PLN 500.0 thousand.

⁸⁵ See also chapter: "Services to central government".

15.8.5. Other income

Table 17

Other income, 2004–2005

Item	Data for year		Change		Structure	
	2004	2005			2004	2005
	PLN thousand		%			
Other income	110,979.3	109,425.5	-1,553.8	-1.4	100.0	100.0
Income on reversal of write-downs on other assets	28.8	30.7	1.9	6.6	0.0	0.0
Income on release of provisions	22,334.1	4,487.7	-17,846.4	-79.9	20.1	4.1
Other operating income	88,616.4	104,907.1	16,290.7	18.4	79.9	95.9

Source: NBP data.

The decrease in the presented item resulted primarily from lower income on release of provisions. Lower income from that source was partially offset by the increase in other operating income, mainly on the sale of collector notes, amounting to PLN 83,094.6 thousand, which is PLN 16,942.1 thousand more than in 2004.

15.8.6. General expense

15.8.6.1. Personnel expense

Table 18

Personnel expense, 2004-2005

Item	Data for year		Change		Structure	
	2004	2005			2004	2005
	PLN thousand		%			
Personnel expense	454,400.0	405,849.5	-48,550.5	-10.7	100.0	100.0
Salaries	371,932.6	331,613.5	-40,319.1	-10.8	81.9	81.7
Associated payroll costs of which: costs of the Employees' Pension Scheme	82,467.4	74,236.0	-8,231.4	-10.0	18.1	18.3
	22,571.9	19,834.5	-2,737.4	-12.1	5.0	4.9

Source: NBP data.

The decrease in personnel expense by PLN 48,550.5 thousand (10.7%) resulted from reduced staffing in the NBP and the introduction of a change, in 2004, involving the recognition of additional annual payroll expense. Under comparable conditions, i.e. following the elimination of the additional annual payroll expense for 2003 (recognised in the accounting books for 2004) and costs of provisions for liabilities arising from unused vacation, the expense came to PLN 415,300.2 thousand. It means that the expense incurred in 2005 was lower by PLN 9,450.7 thousand (2.3%) than that realised in 2004.

15.8.6.2. Administrative expense

Table 19

Administrative expense, 2004–2005

Item	Data for year		Change		Structure	
	2004	2005			2004	2005
	PLN thousand				%	
Administrative expense	392,813.7	344,110.7	-48,703.0	-12.4	100.0	100.0
Materials and energy	33,087.4	29,953.8	-3,133.6	-9.5	8.4	8.7
Benefits for employees and other entitled parties	19,037.5	16,045.2	-2,992.3	-15.7	4.9	4.7
Business travel	8,002.1	8,737.8	735.7	9.2	2.0	2.5
External services	210,426.3	202,401.9	-8,024.4	-3.8	53.5	58.8
Taxes and official charges	100,610.4	71,557.9	-29,052.5	-28.9	25.6	20.8
of which: BGF charges	93,095.8	61,123.5	-31,972.3	-34.3	23.7	17.8
Transfers to special funds (enterprise social benefit fund)	3,882.5	3,884.3	1.8	0.0	1.0	1.1
Other administrative expense	17,767.5	11,529.8	-6,237.7	-35.1	4.5	3.4

Source: NBP data.

The NBP administrative expense in 2005 decreased by PLN 48,703.0 thousand as compared to 2004. The decrease resulted from:

- lower expense related to the compulsory charge to the Bank Guarantee Fund,
- restructuring of local units of the NBP (liquidation of holiday centres in Dźwirzyno and Charzykowy, the Banking School in Katowice, and the Administration and Vault Departments (Wydział Administracyjno-Skarbcowy) in Lubartów, Augustów and Koźienice,
- employment rationalisation⁸⁶ that reduced these elements of administrative expense that are proportional to the employment level.

15.8.6.3. Depreciation

At the end of December 2005, depreciation expense amounted to PLN 166,177.5 thousand, i.e. was higher by PLN 28,264.0 thousand (20.5%) than in 2004. This item includes:

- depreciation of fixed assets amounting to PLN 115,338.7 thousand,
- amortisation of intangibles amounting to PLN 50,838.8 thousand.

The increase in depreciation of fixed assets and amortisation of intangibles was mainly due to gradual implementation of a modern IT infrastructure in the NBP.

15.8.6.4. Issue of notes and coin expense

Table 20

Issue of notes and coin expense, 2004–2005

Item	Data for year		Change		Structure	
	2004	2005			2004	2005
	PLN thousand				%	
Issue of notes and coin expense	226,301.7	246,982.0	20,680.3	9.1	100.0	100.0
Banknote issue expense	127,192.9	151,888.2	24,695.3	19.4	56.2	61.5
Coin issue expense	99,108.8	95,093.8	-4,015.0	-4.1	43.8	38.5

Source: NBP data.

⁸⁶ See also Chapter: "Internal Development of the NBP".

The increase in the issue of notes and coin expense was primarily related to:

- an increase in currency in circulation,
- the need to replace damaged banknotes with new ones,
- the need to ensure liquidity of settlements by providing coin with the value ranging from 1 grosz to 20 groszy and PLN 2,
- the creation and maintenance of operating and strategic stocks of notes and coin.

15.8.6.5. Other expense

Table 21

Other expense, 2004–2005

Item	Data for year		Change		Structure	
	2004	2005			2004	2005
	PLN thousand				%	
Other expense	74,944.5	81,579.2	6,634.7	8.9	100.0	100.0
Expense arising from revaluation write-downs on other assets	4,086.0	463.7	-3,622.3	-88.7	5.4	0.6
Expense arising from establishing provisions	9,658.1	206.7	-9,451.4	-97.9	13.0	0.2
Other operating expense	61,200.4	80,908.8	19,708.4	32.2	81.7	99.3

Source: NBP data.

The increase in other expense by PLN 6,634.7 thousand (8.9%) resulted from the increase in the value of collector coins sold recognised as expense according to accounting registration, and from the increased expense on free-of-charge transfer of fixed assets. These effects were partially offset by lower expense arising from establishing provisions.

15.9. Annual profit of the NBP and its distribution

As at 31 December 2005, the profit of the NBP totalled PLN 1,218,975.9 thousand, i.e. by PLN 3,168,398.7 thousand less (72.2%) than in 2004.

Under comparable conditions, the profit was PLN 419,590.1 thousand higher (52.5%) than that in 2004 (PLN 799,385.7 thousand).

Pursuant to Article 62 and Article 69 of the Act on the National Bank of Poland of 29 August 1997, the earnings of the NBP shall be distributed in the following manner (upon the audit of the NBP annual financial statements by an external auditor and its approval by the Council of Ministers):

- appropriation to the NBP reserve capital (5% of the profit) – PLN 60,948.8 thousand,
- transfer to the State Treasury – PLN 1,158,027.1 thousand.

15.10. Movements in the NBP off-balance sheet items

Table 22 presents a list of off-balance sheet items whose values are registered.

Table 22

Movements in off-balance sheet items of the NBP

Item	As at		Change	
	31 Dec 2004	31 Dec 2005	31 Dec 2004 - 31 Dec 2005	
	PLN thousand			%
TOTAL OFF-BALANCE SHEET ITEMS				
- registered value	1,407,079.7	1,333,283.8	-73,795.9	-5.2
1. Receivables in foreign currencies related to current operations of currency exchange	3,942.6	1,032.8	-2,909.8	-73.8
2. Liabilities in foreign currencies related to current operations of currency exchange	34,450.0	1,654.0	-32,796.0	-95.2
3. Receivables in national currency related to current operations of currency exchange	31,178.4	1,406.4	-29,772.0	-95.5
4. Liabilities in national currency related to current operations of currency exchange	671.0	785.2	114.2	17.0
5. Receivables in foreign currencies related to forward operations of currency exchange	0.0	0.0	0.0	-
6. Liabilities in foreign currencies related to forward operations of currency exchange	0.0	0.0	0.0	-
7. Receivables in national currency related to forward operations of currency exchange	0.0	0.0	0.0	-
8. Liabilities in national currency related to forward operations of currency exchange	0.0	0.0	0.0	-
9. Financial liabilities				
- received	709.5	0.0	-709.5	-100.0
- granted	709.5	0.0	-709.5	-100.0
10. Guarantee liabilities				
- received	25,560.6	21,700.0	-3,860.6	-15.1
- granted	12,490.0	12,490.0	0.0	0.0
11. Conditional receivables	1,183,612.4	1,183,436.5	-175.9	0.0
12. Off-balance sheet operations related to own management	113,502.4	110,525.1	-2,977.3	-2.6
13. Foreign currency accepted for collection	1.8	0.4	-1.4	-77.8
14. Numismatic collection	251.5	253.4	1.9	0.8

Source: NBP data.

As at 31 December 2005, the total off-balance sheet items amounted to PLN 1,333,283.8 thousand, which was 5.2% lower than as at 31 December 2004. The decrease by PLN 73,795.9 thousand was primarily related to the reduction of:

- off-balance sheet liabilities in foreign currencies by PLN 32,796.0 thousand and off-balance sheet receivables in national currency by PLN 29,772.0 thousand due to current sales of foreign currencies for national currency,
- received guarantee liabilities by PLN 3,860.6 thousand; these liabilities include guarantees and sureties from commercial banks or insurance companies granted for works and services provided to the NBP,

- off-balance sheet operations related to own management by PLN 2,977.3 thousand including land for perpetual usufruct, leased fixed assets and fixed assets obtained free-of-charge for management and use.

As at 31 December 2005, there were no off-balance sheet items related to the purchase and sales of foreign currencies in forward transaction.



APPENDICES

APPENDIX 1

SELECTED INFORMATION ON THE BANKING SECTOR

The banking sector is the largest and the most developed segment of the Polish financial market. In 2005, its assets reached PLN 587 bn. and were by 9% higher than in the previous year. They represented 61% of GDP (58% in 2004).

Table 23

Asset structure of the banking sector

Specification	Value (in PLN billion)		Dynamics (%)	Structure (in %)	
	2004	2005	2004 = 100	2004	2005
Cash and due from central bank	20.0	17.8	89.1	3.7	3.0
Due from financial corporations	106.6	122.3	114.7	19.8	20.8
Due from non-financial customers, including:	226.1	248.4	109.9	42.0	42.3
– net loans to non-financial customers, of which:	227.7	258.4	113.5	42.3	44.0
– to enterprises	117.1	121.1	103.5	21.7	20.6
– to households	109.9	136.4	124.1	20.4	23.2
Due from general government	20.7	20.4	98.6	3.8	3.5
Due from reverse repo transactions	0.7	1.2	160.0	0.1	0.2
Securities, of which:	115.5	133.9	115.9	21.5	22.8
– NBP money bills and bonds	13.9	31.2	224.0	2.6	5.3
– Treasury bills and bonds	86.4	88.5	102.4	16.1	15.1
Fixed assets	21.6	20.8	96.0	4.0	3.5
Other assets	27.2	22.3	81.9	5.0	3.8
Total assets of the banking sector	538.5	587.0	109.0	100.0	100.0

Source: NBP data.

The net financial result of the sector reached PLN 9.2 bn, by 28.9% higher than in 2004, and turned out to be the highest since the beginning of transformation. In the commercial banks the net result increased by 30.5%, and in the co-operative ones by 6.5%. The result was primarily impacted by: increase in income from retail customers due to consumer and housing loans, from the fees and commissions as well as lower encumbrance with provisions.

The profitability of the Polish banking sector also improved. Return rate from assets (ROA) and equity (ROE) in the commercial banks increased as compared to 2004 by 0.3% and 3.9%, and in co-operative banks they slightly decreased (by 0.2% and 0.9%).

Table 24

Financial result of the banking sector

Specification	Value (in PLN bn)		Dynamics (in %)
	2004	2005	2004 = 100
Gross financial result	7.9	11.1	139.9
Net financial result	7.1	9.2	128.9

Source: NBP data.

Table 25

Profitability of the banking sector

Specification	Return rate (in %)	
	2004	2005
ROA – net	1.4	1.7
ROE – net	17.2	20.8

Source: NBP data.

The banks' capitals were corresponding to the incurred risk and allowed for their further development. The average solvency ratio was higher than the required minimum and amounted to 14.6% (in domestic commercial banks 14.5%, in co-operative banks 14.7%).

Table 26**Solvency ratio of the domestic banking sector**

Specification	2004	2005	Dynamics
	in %		in %
Solvency ratio	15.4	14.6	-0.8

Source: NBP data.

The below tables include additional data on the situation of the banking sector in 2005.

Table 27**Own funds and distributed earnings of the banking sector**

Specification	2004	2005	Dynamics
	in PLN bn		in %
Regulatory own funds	42.7	45.7	107.0
Distributed profit, of which:	4.1	7.4	180.5
– own funds	2.5	2.9	116.0
– dividends	1.5	4.2	280.0

Source: NBP data.

Table 28**Relationships with non-residents**

Specification	Contribution (in %)	
	2004	2005
Contribution of operations with non-residents		
– in total assets of the banking sector	14.5	14.6
– in total liabilities of the banking sector	9.3	9.4

Source: NBP data.

Table 29**Ratio of assets to GDP in comparison to EU countries in 2004**

Specification	Poland	EU countries (25)
	in %	
Ratio of assets of the banking sector to GDP*	58	280

Source: NBP data.

* as at the end of 2005, the ratio of assets to GDP for Poland was 61%, respectively.

APPENDIX 2

GDP and Final Demand

What has to be borne in mind while discussing the path of GDP and its components in 2005 is the fact that these data have been subject to a number of revisions announced by the GUS and thus there may appear differences between the values quoted in the present Report and those presented in press releases and *Inflation Reports* published earlier on. Especially in the first half of 2005, the data on national accounts were characterised by large uncertainty connected with the assessment of two developments: the speed of changes in their main components (consumption, investment and stock building) and the impact of net exports on GDP growth rate. These issues attracted a lot of attention during the MPC's meetings, as the quality of these estimates is of great importance for the correct assessment of the current and future economic situation.

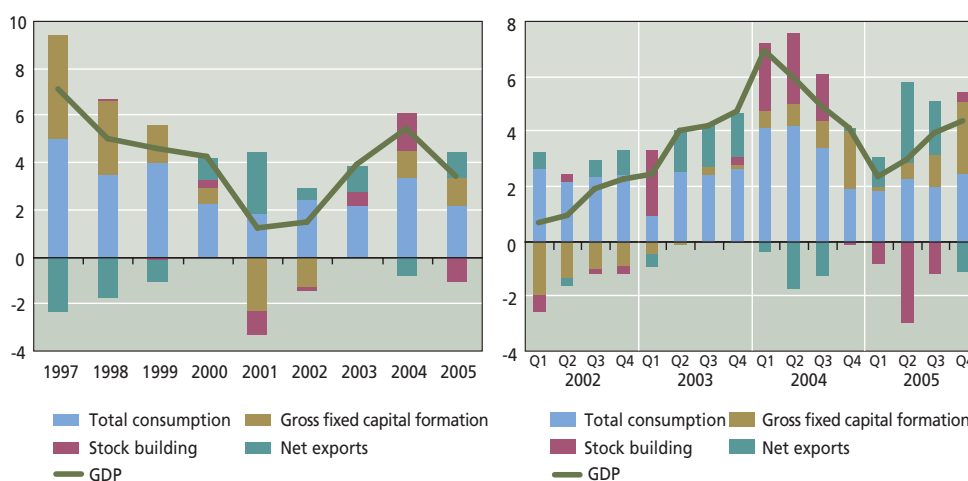
In 2005, a 2.2% growth in domestic demand was recorded as compared with 6.0% growth in 2004. The decline in year-on-year growth rate of domestic demand was, to a large extent, the result of significantly lower stock building than a year before, which led to capital formation rising only 0.5%. The growth rate of total consumption (2.6%) was also lower than in the preceding year. In 2005, the surplus of imports over exports in current prices fell down for the fifth consecutive year.

The growth rate of gross value added⁸⁷ in 2005 was at 3.2%, while a year before this category recorded a rise of 5.1%. The rise in gross value added in 2005 primarily resulted from a recovery in market services and industry (their contributions to total value added growth amounted to 1.6 percentage points and 1 percentage point, respectively). The scale of increase in industrial output was determined by the manufacturing sector whose growth rate was affected by the rising exports and gradually recovering domestic demand.

The GDP and domestic demand growth rates, and their structure in the years 1997–2005 are presented in Table 30, share of final demand components in GDP growth are shown in Figure 13, while GDP and domestic demand growth rates by quarters are presented in Table 31.

Figure 13

Share of final demand components in GDP growth



Source: NBP calculations based on GUS data.

⁸⁷ Gross Domestic Product equals the total gross value added increased by the net balance of taxes on products (including import duties) and product subsidies.

Table 30

GDP and domestic demand in 1997–2005

	1997	1998	1999	2000	2001	2002	2003	2004	2005
	Growth rate								
GDP	7.1	5.0	4.5	4.2	1.1	1.4	3.8	5.3	3.4
Domestic demand	9.3	6.4	5.2	3.1	-1.4	0.9	2.7	6.0	2.2
Consumption	6.3	4.3	5.0	2.8	2.2	2.9	2.5	4.0	2.6
Individual consumption	7.1	5.0	5.4	3.0	2.2	3.3	1.9	4.3	2.0
Capital formation	21.0	13.6	6.0	3.9	-13.4	-7.2	3.3	14.7	0.5
Gross fixed capital formation	21.8	14.0	6.6	2.7	-9.7	-6.3	-0.1	6.4	6.5
Exports	12.2	14.4	-2.5	23.2	3.1	4.8	14.2	14.0	8.1
Imports	21.4	18.6	1.0	15.5	-5.3	2.7	9.3	15.2	4.9
Contribution of net exports to GDP growth (percentage points)	-2.3	-1.7	-1.0	0.9	2.6	0.5	1.1	-0.8	1.1
	GDP structure in current prices								
Domestic demand	103.9	104.8	105.9	106.4	103.7	103.4	102.6	102.0	100.3
Consumption	80.5	79.8	80.7	81.6	82.9	84.8	83.8	81.9	81.3
Capital formation	23.4	25.1	25.2	24.8	20.8	18.6	18.8	20.1	19.0
Net exports	-3.9	-4.8	-5.9	-6.4	-3.7	-3.4	-2.6	-2.0	-0.3

Source: GUS data.

Table 31

GDP and domestic demand dynamics by quarters

	Year	Q1	Q2	Q3	Q4	Q1–Q4
Gross value added	2005	2.2	2.8	3.7	4.2	3.2
	2004	6.4	5.5	4.8	4.2	5.1
Industry	2005	0.9	2.6	4.3	7.8	4.0
	2004	15.7	13.6	7.6	6.3	10.5
Construction	2005	5.4	11.0	8.2	3.8	6.7
	2004	-0.7	0.1	-0.2	4.9	1.8
Market services	2005	2.3	2.7	4.1	3.6	3.2
	2004	4.8	4.5	4.3	3.2	4.2
GDP	2005	2.2	2.9	3.9	4.3	3.4
	2004	6.8	5.9	4.8	4.0	5.3
Domestic demand	2005	1.1	0.0	1.9	5.4	2.2
	2004	7.0	7.4	5.9	3.9	6.0
Total consumption	2005	2.1	2.6	2.4	3.3	2.6
	2004	4.6	4.9	4.1	2.5	4.0
Individual consumption	2005	1.4	1.4	2.3	2.8	2.0
	2004	5.1	5.1	4.4	2.7	4.3
Gross capital formation	2005	-4.3	-12.0	-0.3	11.4	0.5
	2004	23.5	20.4	14.5	7.9	14.7
Gross fixed capital formation	2005	1.4	4.0	6.5	10.1	6.5
	2004	4.8	4.9	5.3	8.6	6.4

Source: GUS data.

The growth rate of gross investment outlays in 2005 was close to the value recorded one year earlier, while stock increases were considerably lower than a year before. The growth rate of investment outlays was affected by the inflow of structural funds from the European Union.

The growth rate of individual consumption in 2005 was lower than a year ago and approx. 1 percentage point lower than the growth rate of real gross disposable income of households. The improvement of the situation in the labour market was conducive to increased income from paid employment (a rise of 5.5% in current prices), while social benefits remained at levels close to those recorded in 2004. Important sources of financing consumption growth in 2005 included the increasing income from private business activity (nominal growth in operational surplus of 10.6%

in relation to 2004) and income from property (a rise of 14.1%). In the aftermath of Poland's accession to the European Union, an important role in income growth was played by payments to farmers under the Common Agricultural Policy.

The year 2005 was the fourth consecutive year which saw a rise in exports and imports, though foreign trade growth rate was not as high as in the previous year. Despite a strengthening exchange rate, the growth of exports outpaced the growth of imports, which resulted in net exports making an over-one-percent contribution to the real GDP growth, after this contribution being negative in 2004. There was a reduction in the external imbalance as measured with the fall in foreign savings⁸⁸ in relation to GDP from approx. 4.3% in 2004 to 1.5% in 2005. To a large extent, this was the result of improved foreign trade balance. The decline in the rate of foreign savings was accompanied by the rise in total savings in relation to GDP from 15.8% in 2004 to 17.6% in 2005.

⁸⁸ According to national accounts. The national accounts' data on foreign trade turnover differ from those published in the NBP's balance of payments primarily in that they account for the so-called net processing turnover (in the balance of payments this category is presented in gross terms).

APPENDIX 3

PRICES OF CONSUMER GOODS AND SERVICES

In 2005, inflation (CPI) decreased from 3.7% y/y in January to 0.7% y/y in December and thus ran below the lower tolerance limit for deviations from the inflation target. From the point of view of inflation processes, the year 2005 may be divided into two sub-periods. For the first five months of 2005, the annual inflation rate remained at a high level, which resulted from price increases in the period preceding Poland's accession to the EU and in the first months of its membership. The fading-out of the statistical base effect⁸⁹ led to a decline in annual inflation in the subsequent months. Also conducive to the reduction of the annual price growth rate in the final months of 2005 was a slowdown in the growth rate of the prices of food and non-alcoholic beverages and of fuel prices. Likewise, the appreciation of the zloty exchange rate contributed to lowering annual inflation.

Table 32

Changes in the main price groups of consumer goods and services in 2004-2005 (y/y)

	CPI	Food and non-alcoholic beverages	Regulated prices	of which fuels	Other goods and services	of which	
						non-food products	services
Weight structure (in %)							
2004	100.00	26.95	27.28	3.8	45.77	27.29	18.48
2005	100.00	26.94	26.62	3.84	46.44	26.81	19.63
Change in relation to the corresponding period of the previous year (in %)							
Jan 2004	1.6	2.2	2.3	5.4	0.8	-0.2	2.4
Feb	1.6	2.7	1.9	2.7	0.7	-0.3	2.3
Mar	1.7	3.3	1.6	1.3	0.7	-0.2	2.1
Apr	2.2	4.6	2.2	4.7	0.8	0.0	2.1
May	3.4	5.2	3.7	15.3	2.1	1.9	2.4
Jun	4.4	8.1	4.1	17.8	2.3	2.1	2.7
Jul	4.6	9.1	3.7	16.1	2.5	2.3	2.8
Aug	4.6	9.3	3.5	14.8	2.5	2.4	2.9
Sep	4.4	8.1	3.7	15.9	2.6	2.4	3.0
Oct	4.5	7.7	4.0	19.2	2.8	2.5	3.3
Nov	4.5	7.7	4.0	19.1	2.7	2.4	3.4
Dec	4.4	7.8	3.7	17.0	2.6	2.2	3.4
Jan 2005	3.7	6.7	3.4	9.9	2.3	1.6	3.2
Feb	3.6	5.9	3.4	10.2	2.3	1.7	3.2
Mar	3.4	5.3	3.3	9.1	2.4	1.5	3.6
Apr	3.0	3.7	3.7	11.9	2.3	1.4	3.5
May	2.5	4.3	3.0	6.8	1.2	-0.4	3.3
Jun	1.4	0.4	3.3	8.4	0.9	-0.6	3.0
Jul	1.3	-0.8	4.2	13.1	0.8	-0.7	2.9
Aug	1.6	0.5	4.4	14.7	0.7	-0.9	2.8
Sep	1.8	1.0	4.7	16.5	0.6	-1.0	2.9
Oct	1.6	0.8	4.4	12.8	0.4	-1.1	2.6
Nov	1.0	-0.5	3.9	9.6	0.2	-1.2	2.2
Dec	0.7	-1.3	3.4	6.4	0.2	-1.2	2.2
Jan-Dec 2004	3.5	6.3	3.2	12.4	1.9	1.4	2.7
Jan-Dec 2005	2.1	1.6	2.9	10.8	1.2	-0.1	2.9

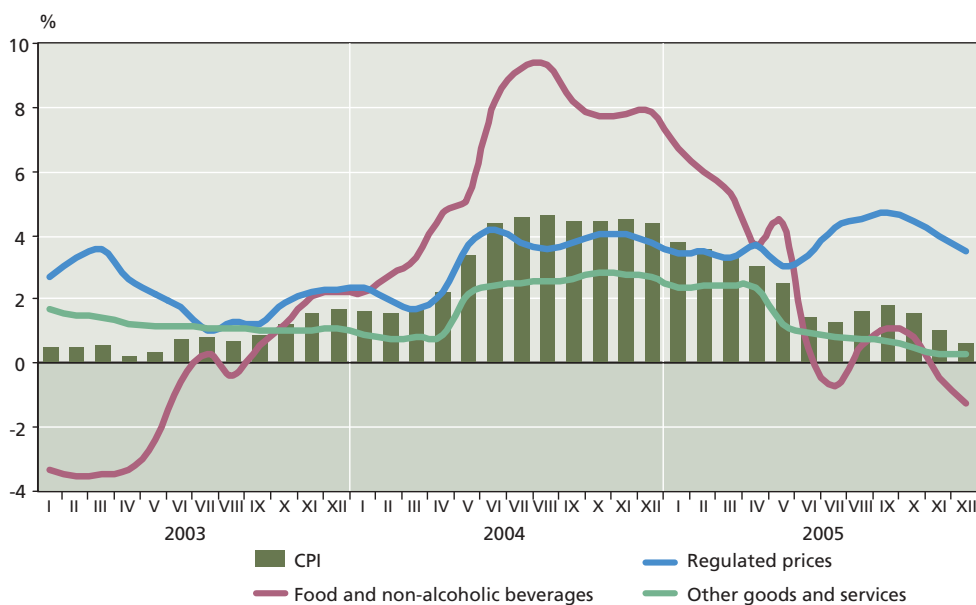
Source: GUS data, NBP calculations.

⁸⁹ The base effect consisted in that the current price level was referred to a much lower level from the period preceding Poland's EU accession.

The increase in prices of consumer goods and services of 0.7% y/y at the end of 2005 resulted from:

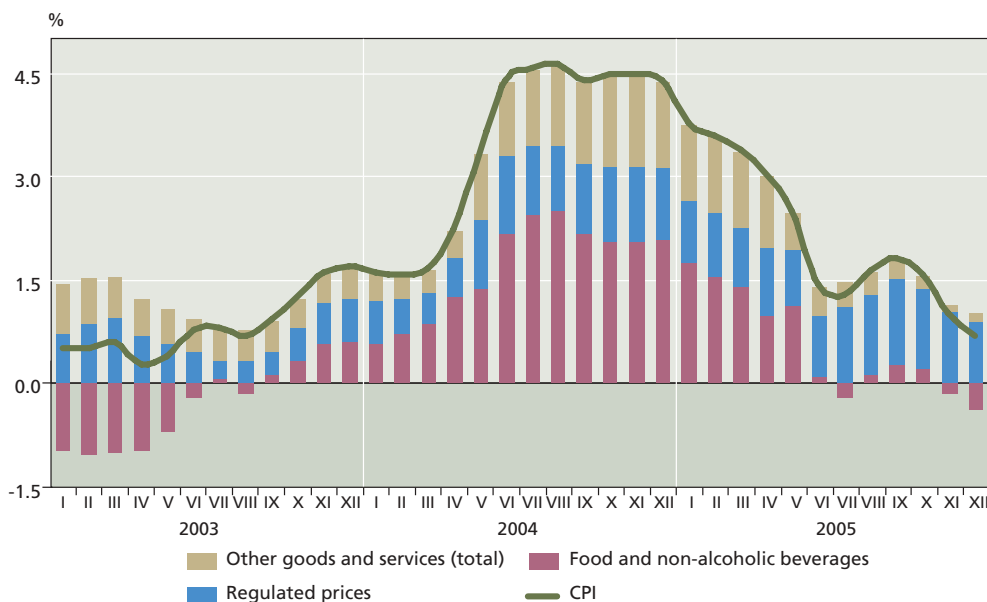
- a 1.3% y/y drop in the prices of food and non-alcoholic beverages, which lowered the CPI by 0.4 percentage point,
- a 3.4% y/y increase in regulated prices, which raised the CPI by 1.0 percentage point, including the rise of fuel prices of 6.4% y/y, which was conducive to the CPI rising by 0.2 percentage point,
- a rise in the prices of other goods and services of 0.2% y/y, which led to an overall price growth of 0.1 percentage point.

Figure 14
Changes (y/y) in CPI and main price categories in 2003–2005



Source: GUS data, NBP calculations.

Figure 15
CPI breakdown (y/y)



Source: GUS data, NBP calculations.

Prices of food and non-alcoholic beverages

Prices of food and non-alcoholic beverages in December 2005 fell down by 1.3% y/y and thus contributed to a 0.4-percentage point reduction of inflation measured with the CPI, while in the corresponding period of 2004 they had recorded a steep increase (of 7.8% y/y).

For the first five months of 2005 there persisted a high, though falling, tendency in the 12-month index of the prices of food and non-alcoholic beverages: it slid from 6.7% in January to 4.3% in May 2005. In turn, in June 2005, due to the vanishing of the price effects connected with Poland's accession to the European Union and also due to the seasonal drop in food and non-alcoholic beverage prices in the summer months, the annual growth rate of these prices amounted to 0.4%. In subsequent months of 2005, the development of price growth in this group was affected by one-off factors such as a growing supply of pork. The meat price falling tendencies were additionally strengthened by consumers' fears connected with the news of bird flu cases being reported in Europe and the ban on Polish food imports introduced by Russian authorities starting from November 2005. This strengthening effect, however, was mitigated by a rise in exports to EU countries. The decline in prices of food and non-alcoholic beverages was also supported by a high crop harvest in 2005, supplemented with considerable stocks from the 2004 harvest.

Regulated prices

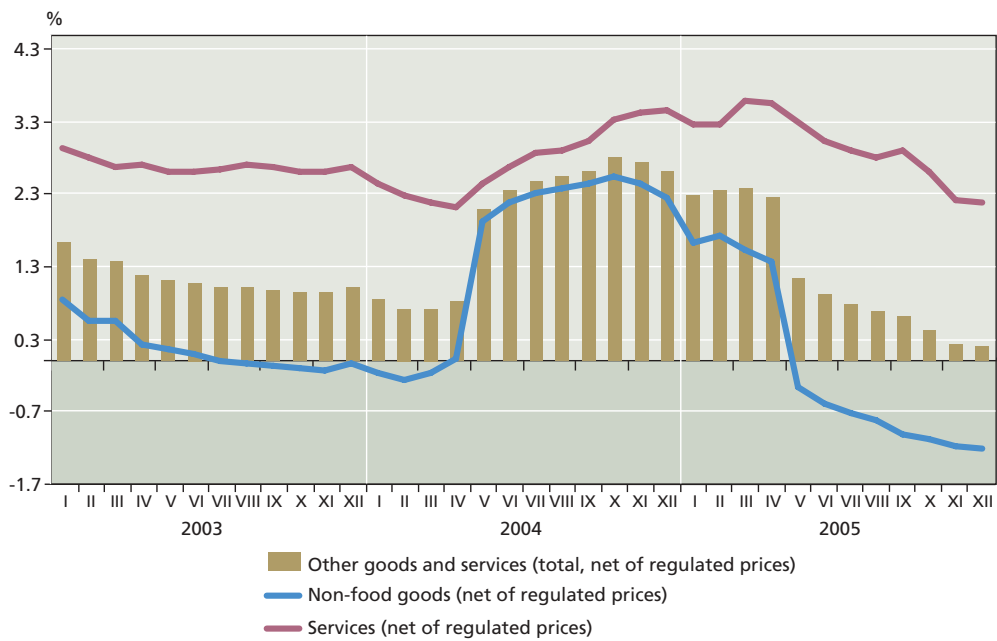
In December 2005 the 12-month growth rate of regulated prices reached 3.4%, i.e. the same level as had been recorded at the beginning of 2005. The most important factor which was conducive to keeping a relative high growth rate of regulated prices over the analysed period was a rise in prices of natural gas (by 11.3% y/y) and fuels (by 6.4% y/y) connected with oil price hikes in the world markets. The combined increase in oil and gas prices accounted for 52% of the rise of regulated prices (1.8 percentage points). Moreover, 2005 marked a considerable increase in prices of tobacco products (by 7.3% y/y), which resulted from the increase of excise tax rate, due to the obligation to harmonise it with the level required in the European Union. The change in the tariffs for electricity raised its prices by 3.4% (y/y). On the other hand, the prices of alcoholic beverages remained unchanged in relation to the preceding year.

Prices of other consumer goods and services

The prices of the remaining consumer goods and services slid from 2.3% y/y in January 2005 to 0.2% y/y in December 2005. The main reason behind decrease in the annual price dynamics in the group of other goods and services was the vanishing of the previously mentioned base effect. It should be borne in mind that Poland's EU accession brought about an increase in the VAT rate on some goods and services (inter alia construction materials and children's apparel), which led to a one-off price increase reflected in the rise of annual inflation rates persisting up to the end of April 2005.

The growth rate of other prices was primarily decelerated by a drop in the price growth rate in non-food goods. In December 2005, the prices of those goods fell by 1.2% y/y as compared with a rise of 1.6% y/y recorded in January 2005. The most pronounced drop in prices was observed in the following categories: clothes (5.2%), footwear (8.6%), telecommunications equipment (10.9%), audiovisual, photographic and computer equipment (8.9%), passenger cars (6.8%) and household appliances (1.4%). The lower inflation rate in the group of other consumer goods and services was also driven by a lower growth rate of the prices of services, which decreased from 3.2% y/y in January 2005 to 2.2% y/y in December 2005. The main reason for weakening in the growth rate of these prices was a strong decline in the prices of internet services, which was conducive to lowering the annual price growth rate in December 2005 by approx. 0.3 percentage point.

Figure 16
Changes in prices of other consumer goods and services in 2003–2005 (y/y)



Source: GUS data, NBP calculations.

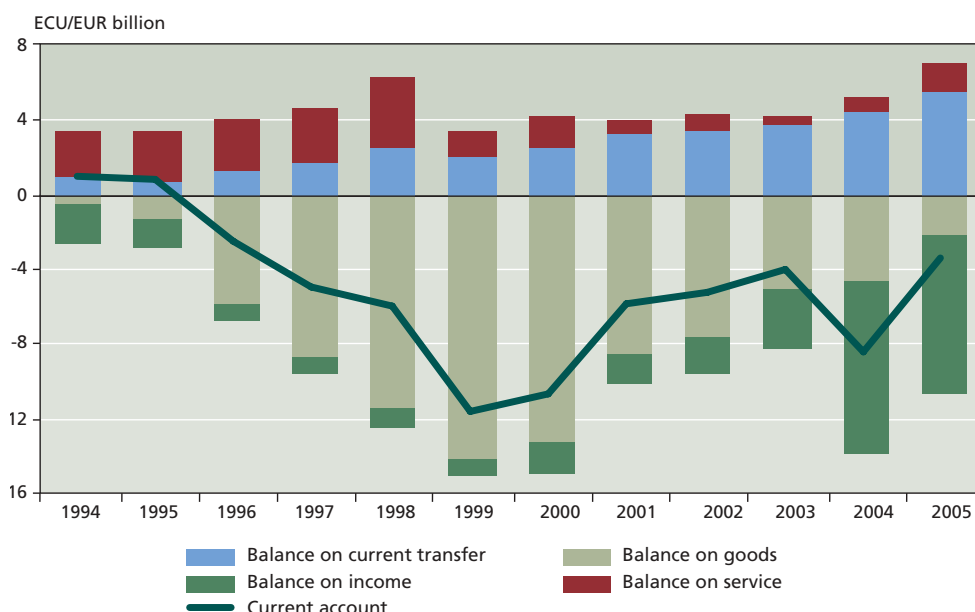
APPENDIX 4

Balance of Payments

The negative current account balance of the balance of payments decreased in 2005 after a temporary deepening in the previous year.⁹⁰ In 2005 the current account deficit amounted to EUR 3.5 billion, i.e. it was more than EUR 5 billion lower than in the preceding year. The relation of current account deficit to GDP went down from 4.1% in 2004 to 1.5% in 2005. The improvement in the current account balance in 2005 was primarily driven by a considerable lowering of trade deficit in goods. Likewise, the changes in the balance of the other components contributed to a reduction in the current account deficit.

Figure 17

Current account balance in 1994–2005



Source: NBP data.

The year 2005 was the sixth consecutive year when the Polish foreign trade deficit was shrinking. A strong decrease in the negative balance on goods from EUR 4.6 billion to EUR 2.2 billion in 2005 was the reflection of the relatively large, in comparison to the previous years, difference between the growth rates of exports and imports.⁹¹

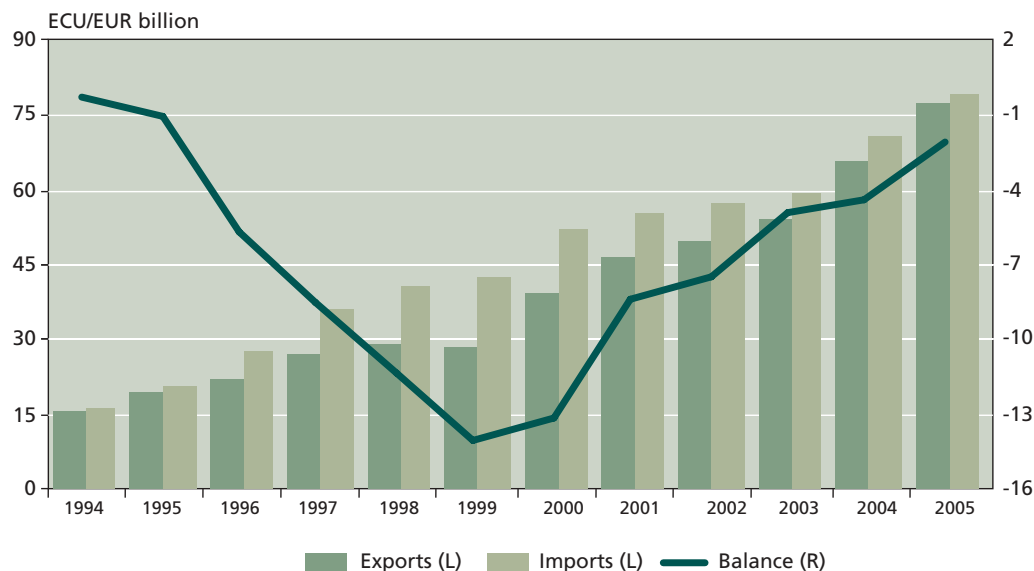
In 2005 the rise in the value of exports (expressed in the euro) remained relatively high, though it fell slightly in relation to 2004.⁹²

⁹⁰ The data presented in the *Report on the implementation of monetary policy guidelines in 2004* pointing at an improvement in the current account balance were subsequently revised in September 2005 due to the fact that the balance of payments statistics started to account for reinvested profits from direct investment. Before the revision, the current account deficit in 2004 amounted to EUR 3.0 billion, while after it – EUR 8.5 billion.

⁹¹ According to NBP data the euro value of exports increased in 2005 by 17.1%, while the value of imports rose by 12.6% in comparison to the previous year (compared with 22.3% and 19.5% in 2004).

⁹² According to GUS data the growth rate of export volume in year-on-year terms fell from 18.2% in 2004 to 10.8% in 2005. The impact of the lowered growth rate of export volume was partly offset by the acceleration in the growth of euro transaction prices from 6.3% to 7.9%, respectively. In turn, the growth rate of import volume declined from 17.3% in 2004 to 4.6% in 2005, while the increase of import prices (of 8.0%) proved considerably higher in relation to the previous year (0.8%).

Figure 18
Exports and imports in 1994–2005



Source: NBP data.

In 2005 the Gross Domestic Product in the euro area, which accounted for 54% of Polish export, increased by 1.3% as compared with 2.1% in the previous year. The rise in the demand of the export sector in the euro area, accompanied with rising tendencies visible in this region's investment demand, contributed to raising Polish exports to the euro area in the second half of 2005. This is mainly due to the fact that Polish exports to the euro area are dominated by supply goods, which are used as intermediate products and components in the export production of the euro area.

After a significant appreciation of the zloty in 2004, in 2005 the nominal zloty exchange rate continued to strengthen – the average annual exchange rate of the zloty was 11.2% stronger in relation to the euro, and 11.5% – in relation to the US dollar. An appropriate measure to assess changes in the competitive position of producers in international markets is an index reflecting production costs. Moreover, most of trade has so far involved the products of the manufacturing industry. For these reasons, the real exchange rate deflated with unit labour costs in manufacturing is the appropriate indicator of the international competitive position of producers. In 2004 Q1–2005 Q4 the real effective exchange rate of the zloty deflated with unit labour costs in manufacturing appreciated less than the nominal rate, i.e. by 5.3%. The real zloty exchange rate appreciation was lower in this period than the real appreciation of the Czech and Slovak koruna and Hungarian forint, which appreciated by 13.6%, 8.9% and 6.6%, respectively.

The continuation of a relatively high growth rate of exports, despite lower import demand in major markets and in spite of the zloty appreciation, also resulted from the continuation of the structural changes underway in the Polish economy. The changes are connected with the growing importance of foreign direct investment in Polish exports. This leads to an ever increasing participation of the Polish economy in the international division of labour. The growing contribution of corporate trade⁹³ makes exports increasingly less sensitive both to demand changes and exchange rate fluctuations.

The 2005 rise in the value of imports expressed in the euro was strongly affected by the rise in transaction prices, which was caused, primarily, by the increased fuel prices in international

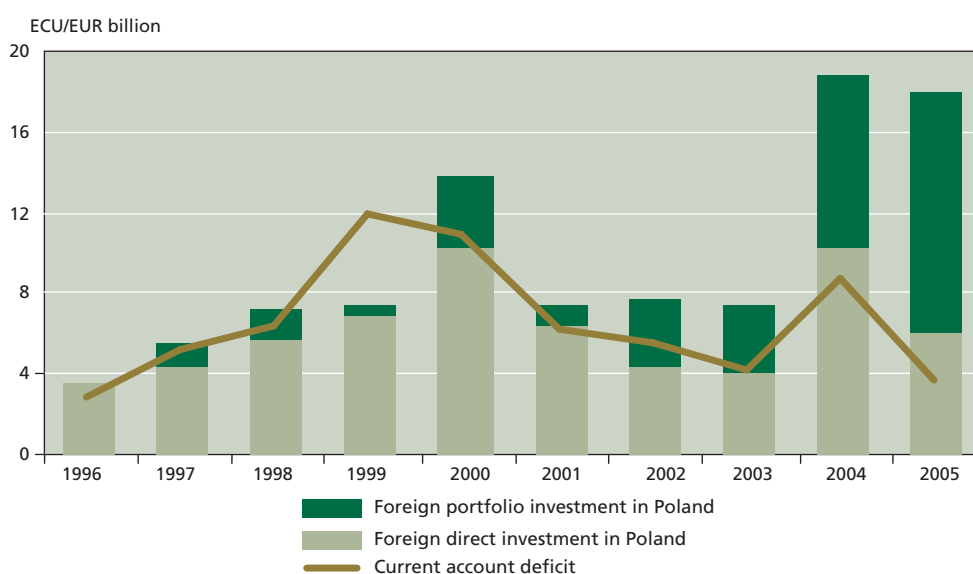
⁹³ Corporate trade consists in exporting and importing goods between Polish branches of foreign corporations and the parent companies or branches located in other countries.

markets.⁹⁴ The impact of high fuel prices on the value of imports was partly weakened as a result of a lower increase in the unit prices of investment and consumer goods. This was caused by a larger contribution of countries with lower production cost (primarily China) in total Polish imports. The rise in investment demand that occurred in the second half of 2005 was conducive to accelerating growth of investment imports.

2005 marked an improvement in all major financial indicators reflecting the external equilibrium of the Polish economy. The relation of current account deficit and trade deficit in goods to GDP declined in relation to the period 2002–2004. The current account deficit was in 2004 and 2005 entirely financed by in the inflow of capital in the form of foreign direct investment, which is considered safe.

Figure 19

Current account deficit versus foreign investment inflow in 1996–2005



Source: NBP data.

Table 33

Main indicators of external equilibrium

Warning indicator	2002	2003	2004	2005
Current account balance / GDP	-2.7%	-2.1%	-4.2%	-1.5%
Trade balance / GDP	-3.9%	-2.7%	-2.2%	-0.9%
Direct investment / current account balance	76.7%	92.5%	112.9%	141.4%
(Current account balance + capital balance – direct investment) / GDP	-0.6%	-0.2%	0.9%	0.9%
Foreign debt servicing / exports of goods and services	28.2%	30.7%	35.4%	32.5%
Foreign reserves expressed in terms of monthly imports of goods and services	5.5	4.8	4.0	4.8

Source: NBP calculations.

⁹⁴ The value of the import of crude oil to Poland (expressed in euro) rose in 2005 by 45%. This resulted mainly from the rise in the price of oil imported to Poland of 42.3%, while the volume of supplies increased by only 1.9% in relation to the previous year.

APPENDIX 5

Money Supply

The year 2005 brought acceleration in the growth of households' indebtedness in the banking system. The fastest growth was observed in housing loans, particularly foreign currency ones, but the growth rate of consumer loans also stepped up considerably. There was also a rise in the indebtedness of enterprises, but the scale of this increase was moderate, particularly if compared with the growth rate of investments recorded in 2005. On the other hand, there was a continuously high growth in corporate deposits at banks, which may point to the limited credit needs of enterprises. The bank deposits of households increased moderately. At the same time, however, there was a surge in the level of financial savings held by households in forms alternative to bank accounts, primarily in investment fund units.

Loans to households

In 2005 the volume of bank loans to households increased by PLN 26.4 billion (24.0%) in nominal terms. Some of those loans were taken in foreign currencies and so changes in the zloty exchange rate had an effect on the growth rate of the volume of lending to this sector. In comparable terms, after adjusting for exchange rate fluctuations, the increase in loans to households in 2005 amounted to PLN 27.8 billion (25.0%). The rising trend in the annual growth rate of loans to households was disrupted twice in 2005 – in May and October. In the first case, a one-off increase in the growth rate resulted from the fact that households took loans for the purchase of the shares of LOTOS fuel company sold by the State Treasury in the public offering. In the second case, a significant one-off growth rate drop was caused by the base effect (in October 2004 household indebtedness had risen considerably as a consequence of the privatisation offer of Bank PKO BP and a major publishing house WSiP).

The breakdown of household loan growth in 2005 reveals that housing loans were the main growth component. At the same time, the contribution of consumer loans was only slightly smaller.

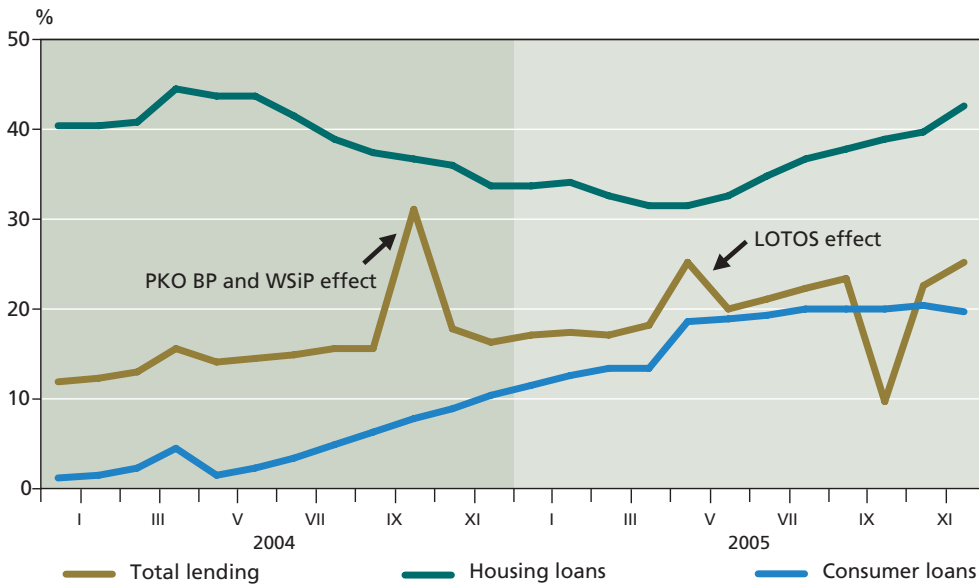
The volume of housing loans increased by PLN 14.6 billion in nominal terms (40.8%), which represents PLN 15.8 billion (42.2%) after adjusting for the zloty exchange rate fluctuations. Housing loans denominated in foreign currencies were more popular than zloty denominated loans, which resulted from their lower interest rates and intensified marketing activities by commercial banks, which were persuading borrowers to take loans particularly in Swiss francs. The volume of housing loans (in comparable terms, i.e. after adjusting for the zloty exchange rate fluctuations) rose in 2005 by PLN 13.0 billion (61.3%), while the volume of zloty denominated housing loans – by PLN 2.8 billion (18.2%).

In 2005 the volume of consumer loans increased by PLN 10.2 billion (19.0%) in nominal terms. After adjusting for the zloty exchange rate fluctuations this amounted to PLN 10.4 billion (19.4%). The rising trend in consumer loans started in the mid-2004 and continued in 2005. Its roots lie in the improvement of financial standing of households stemming from the acceleration of economic growth over the past two years accompanied by positive developments in the labour market.

These developments also affected the structure of bank indebtedness of households. The share of housing loans granted to households in the total value of bank loans to that sector amounted to 37.1%, while the contribution of consumer loans was 46.9%. In December 2004 these shares were 32.7% and 48.9%, respectively.

Figure 20

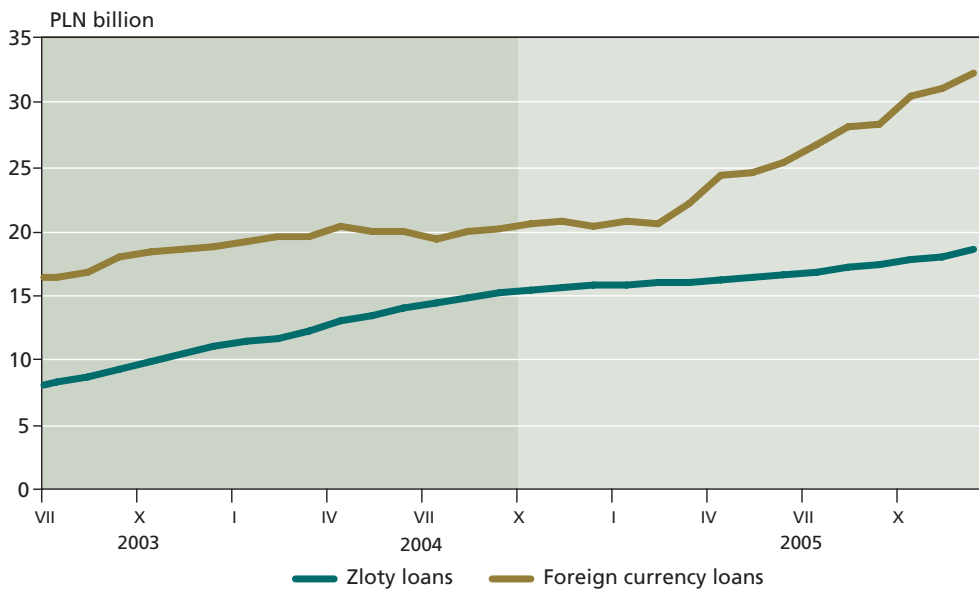
Loans to households, annual growth rate, data adjusted for the impact of exchange rate fluctuations



Source: NBP data.

Figure 21

Housing loans to households



Source: NBP data.

Loans to enterprises

In 2005 the indebtedness of enterprises in the Polish banking sector rose by PLN 3.0 billion, while foreign debt of enterprises increased by EUR 3.1 billion in the same period.

The volume of bank loans to enterprises increased in 2005 by PLN 3.0 billion (2.6%) in nominal terms. In comparable terms, after adjusting for exchange rate changes, this increase was

even bigger, i.e.: PLN 4.1 billion (3.5%). In the first half of the year, the annual growth rate was stepping up steadily, and in the second half – it stabilised at the level of approx. 4%.

Despite the observed economic recovery, the growth rate in corporate loans in 2005 was relatively low. This may reflect very good financial results of the sector in 2004 and 2005. With a large amount of own funds at their disposal, enterprises are able to fund their activity with only a limited use of bank loans.

The foreign debt of enterprises rose from EUR 42.3 billion at the end of 2004 to EUR 45.4 billion at the end of 2005, i.e. by 7.3%. There was a continuation to the dynamic growth of trade loan debt (18.0% y/y), reflecting Poland's growing foreign trade volume. The other debt categories, including debt securities issued by Polish companies, were growing at a pace consistent with the domestic debt growth (6.5% y/y).

Figure 22

Bank loans to enterprises, annual growth rate, data adjusted for exchange rate fluctuations



Source: NBP data.

Deposits of households

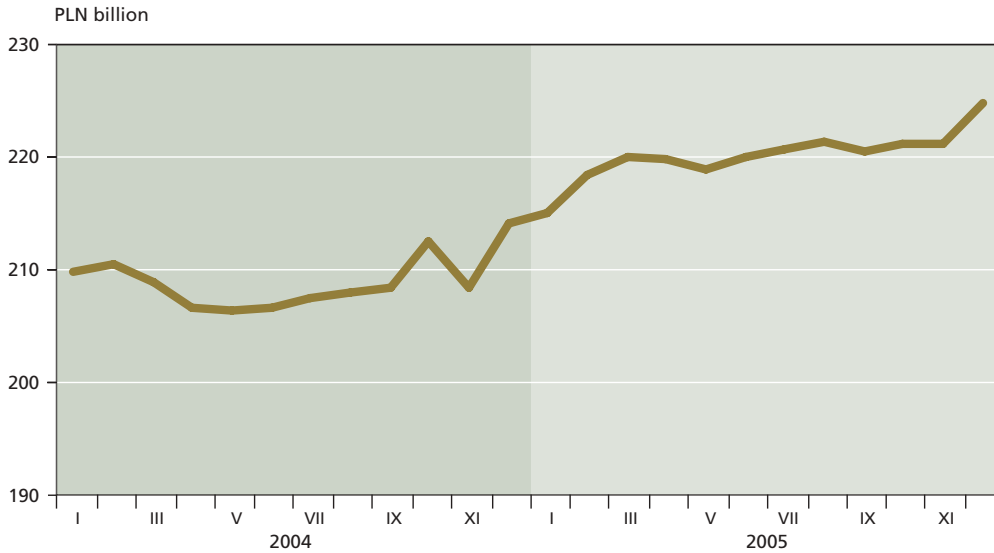
In 2005 the volume of bank deposits of households increased by PLN 11.0 billion (5.2%) in nominal terms. After adjusting for exchange rate fluctuations, the rise in deposits amounted to PLN 10.6 billion (5.0%). The increase in households' deposits occurred in two stages: at the beginning of 2005 and in December. In the first period, from January through March 2005 the deposits rose by PLN 5.8 billion, and in December – by PLN 3.6 billion. The remaining part of the deposit increase, i.e. approx. PLN 1.2 billion, was evenly spread over the other months.

Households deposit their financial savings also outside the banking sector, mainly in the form of investment fund units and Treasury bonds, which are close substitutes of bank deposits. In 2005 the growth pace of households' financial assets held in non-banking financial institutions was well ahead of that in bank deposits. The value of investment fund units, deposits at Credit Unions and Treasury securities held by households rose during the year by approx. PLN 20.9 billion, i.e. 35.5%.⁹⁵ Alternative forms of saving owe their popularity to the fact that their potentially attainable yields significantly exceed interest accrued on bank deposits. The structure of household savings is undergoing changes leading to a gradual reduction of bank deposit share (Figure 24). The observed diversification of assets, particularly the shrinking significance of bank deposits, makes the structure of financial assets of Polish households similar to that observed in many developed countries.

⁹⁵ NBP data.

Figure 23

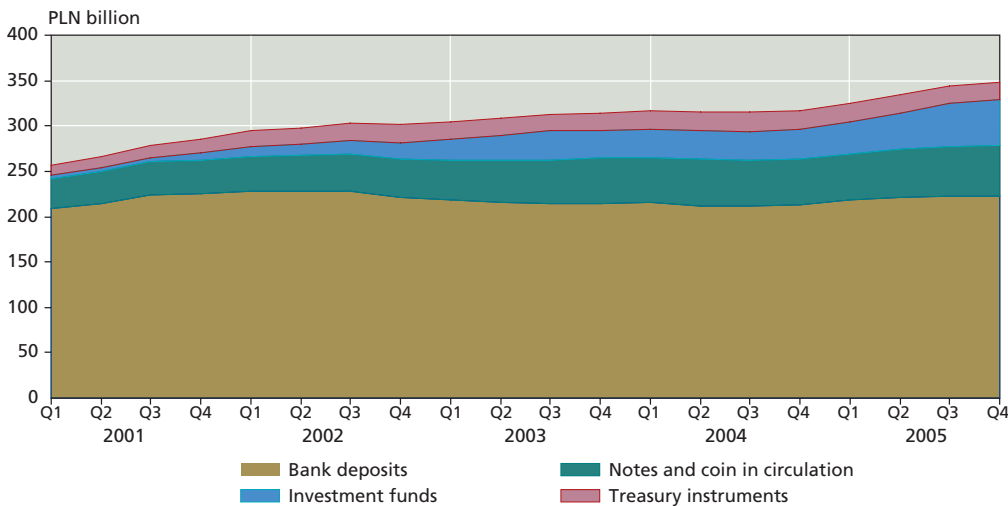
Deposits of households, volumes adjusted for the impact of exchange rate fluctuations



Source: NBP data.

Figure 24

Selected financial assets of households



Note: Figure 24 does not include all types of financial assets of households, particularly shares in their possession.

Deposits of enterprises

In 2005 bank deposits of enterprises were building up dynamically. Nominal growth amounted to PLN 14.6 billion (17.0%), i.e. PLN 14.5 billion (16.4%) in adjustment for the impact of exchange rate fluctuations. During the year the annual growth rate of corporate deposits was gradually decreasing – in the first months of 2005 it settled at the level of approx. 30%, while in December it fell to 16.4%.

A rapid growth in corporate deposits was related to good financial results of enterprises. The growth rate of deposits should be falling together with the acceleration of investments funded mainly from own funds.

Figure 25

Deposits of enterprises, annual growth rate, data adjusted for the impact of exchange rate fluctuations



Source: NBP data.

Monetary aggregates

The above described changes in loans and deposits found reflection in the developments in monetary aggregates. The annual growth rate of broad M3 money remained at the level of approx. 10% throughout the year. In December 2005 it stood at 10.4% in nominal terms (9.7% in real terms, deflated with the current CPI). Narrow money M1 was growing faster than M3. The annual growth rate of M1 at the end of the year reached 18.3% in nominal terms (17.5% in real terms, deflated with the current CPI). After a period of decline in 2004, the growth rate of notes and coin in circulation in 2005 was growing to reach the value of 12.7%, in nominal terms in December (11.9% in real terms, deflated with the CPI). The temporary drop in the growth rate of notes and coin in circulation in 2004 resulted from the shift in the structure of the narrow money supply (M1).

Table 34

Money supply in 2004 and 2005

Specification	As at 31 Dec 2004	As at 31 Dec 2005	Growth	Annual nominal growth rate	Annual real growth rate*
	PLN million			%	
M1 money supply	175 815.4	208 033.6	32 218.2	18.3	17.5
M3 money supply	373 409.1	412 346.0	38 936.9	10.4	9.7
Notes and coin in circulation	50 710.2	57 154.7	6 444.5	12.7	11.9
Deposits and other liabilities	315 672.3	345 340.0	29 667.6	9.4	8.6
Households	196 524.5	203 549.1	7 024.6	3.6	2.9
Non-monetary financial institutions	11 395.8	15 180.6	3 784.8	33.2	32.3
Non-financial corporations	85 099.9	99 415.6	14 315.7	16.8	16.0
Non-profit institutions serving households	8 937.7	9 708.1	770.4	8.6	7.9
Local governments	11 320.7	13 702.0	2 381.2	21.0	20.2
Social security funds	2 393.6	3 784.5	1 390.9	58.1	57.0
Other M3 components	7 026.6	9 851.4	2 824.8	40.2	39.2

* Deflator: consumer goods and services price index (CPI)

Source: NBP data.

Table 35

Claims and liabilities of the banking system in 2004 and 2005*

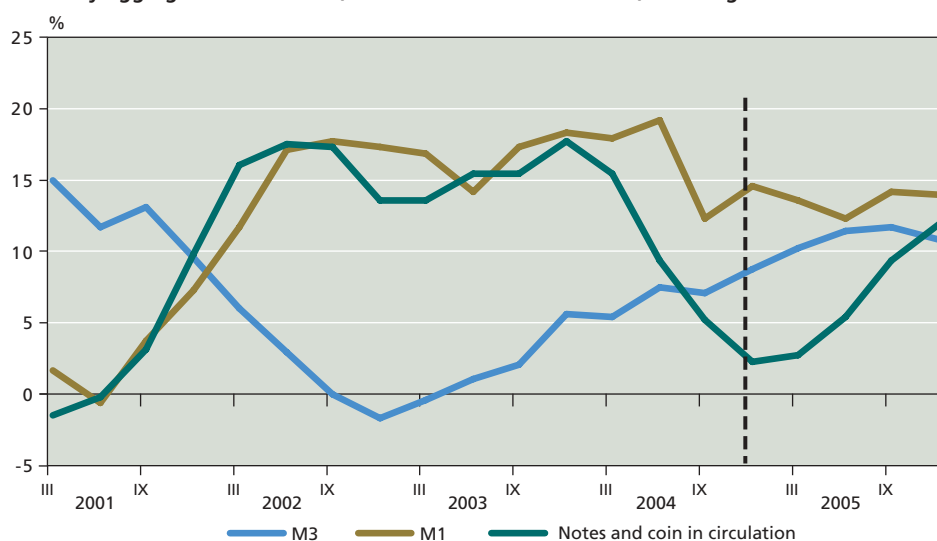
Specification	As at 31 Dec 2004	As at 31 Dec 2005	Growth	Annual nominal growth rate	Annual real growth rate*
	PLN million			%	
Total claims	272 757.5	303 300.3	30 542.8	11.2	10.4
Households	114 996.9	141 251.8	26 254.9	22.8	22.0
Non-monetary financial institutions	15 564.6	15 946.7	382.1	2.5	1.7
Non-financial corporations	123 328.5	126 459.9	3131.4	2.5	1.8
Non-profit institutions serving households	714.9	835.9	121.0	16.9	16.1
Local governments	13 349.3	14 253.8	904.6	6.8	6.0
Social security funds	4 803.4	4 552.2	-251.2	-5.2	-5.9

*Deflator: consumer goods and services price index (CPI)

Source: NBP data.

Figure 26

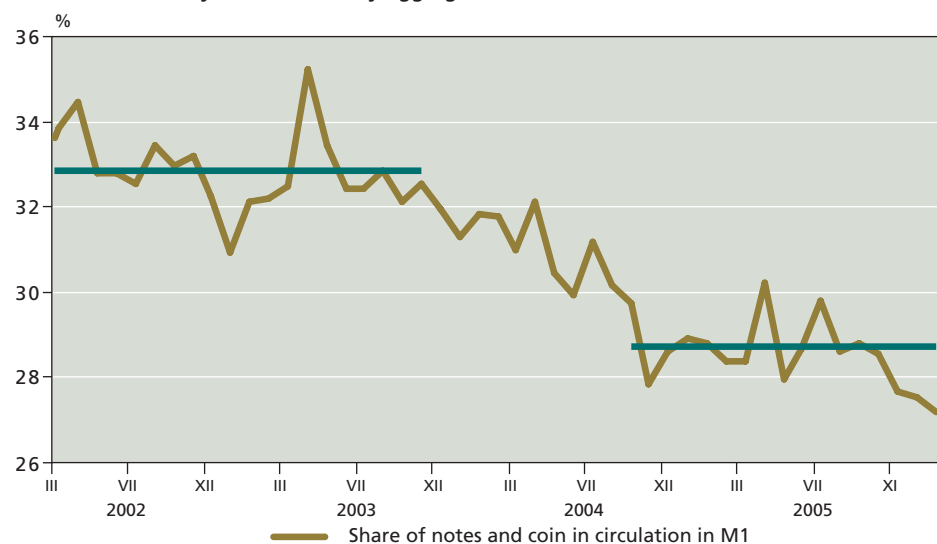
Monetary aggregates M3 and M1, notes and coin in circulation, annual growth rates



Source: NBP data.

Figure 27

Share of cash money in M1 monetary aggregate



Source: NBP data.

APPENDIX 6

Inflation Projections of the NBP

Inflation Report prepared quarterly by the MPC, together with its attached inflation projection prepared by the NBP's economists is a very important instrument of communication with market participants. The *Inflation Report* is a document presenting the Monetary Policy Council's assessment of the current and future macroeconomic developments influencing inflation. It is worth pointing out that due to the change in the time of releasing GUS data on national accounts, the publication schedule of *Inflation Reports* was modified in 2005. As a result, after the February, May and August *Reports*, the preparation of the next projection and *Report* was postponed from November 2005 to January 2006.

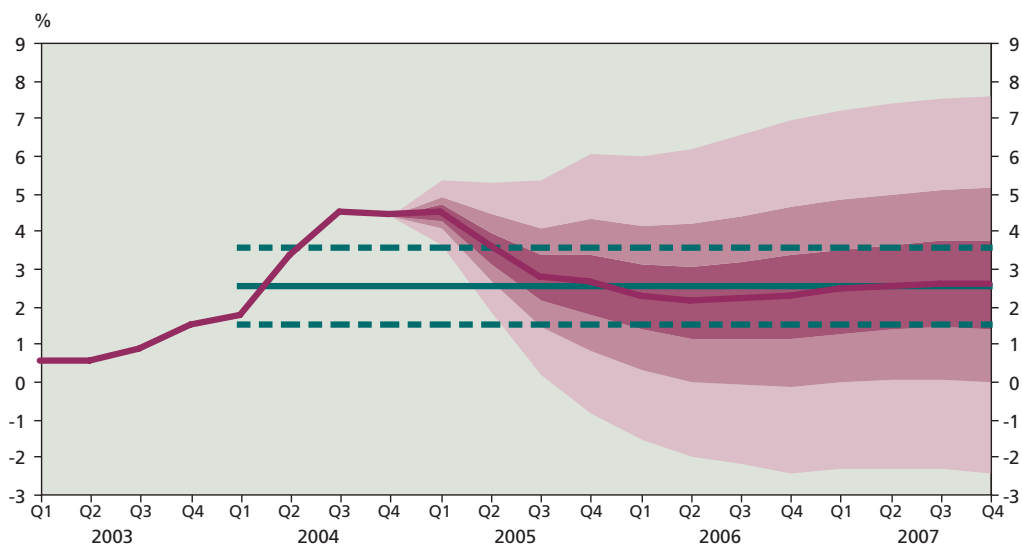
In view of the need to account for delays in the transmission mechanism of monetary policy impulses, in pursuing its forward-looking policy, the MPC made use of, among other things, inflation projections. At the same time, the inclusion of projection results and the assessment of the balance of factors influencing future inflation into *Inflation Reports* warranted the transparency of the implemented monetary policy.

Ever since August 2004 *Inflation Reports* have included the results of inflation projections (and since May 2005 – also GDP projection results). The projection presented in Chapter 4 of the *Report* is prepared with the use of an econometric model of the Polish economy, called ECMOD,⁹⁶ by a team of NBP economists. The projection horizon encompasses the year of its preparation and two subsequent calendar years. The inflation projection is one of the inputs to the Monetary Policy Council's decision-making process on NBP interest rates.

The below presented fan charts depict the results of projections published in 2005. Fan charts only reflect the main sources of uncertainty (e.g. uncertainty connected with exogenous assumptions). The types of uncertainty not accounted for in the fan chart are discussed in detail in projection descriptions in *Inflation Reports* (see Box below).

Figure 28

Central inflation projection, fan chart of future inflation path and inflation target of the MPC – February 2005

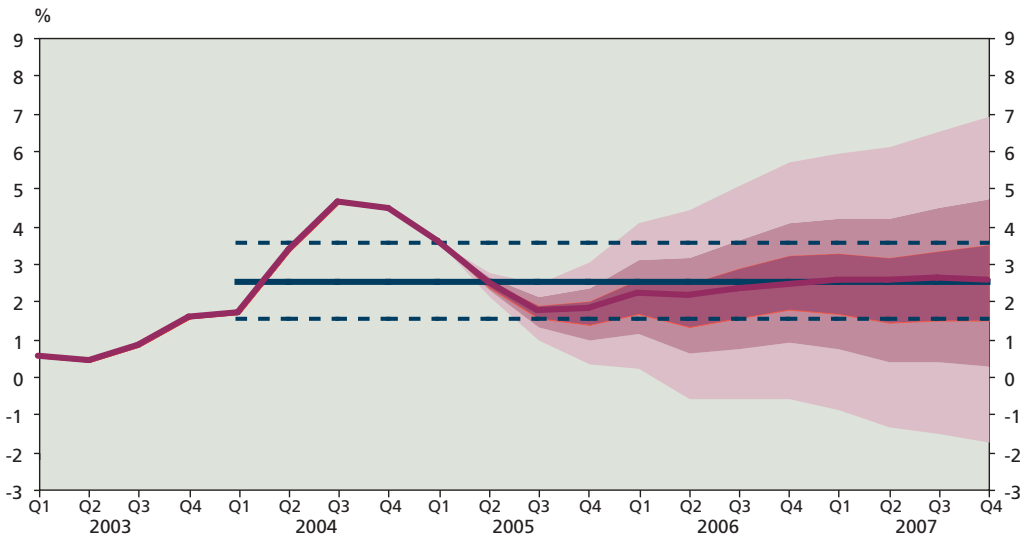


Source: *Inflation Report*, February 2005, NBP.

⁹⁶ Description of the model was published in: Fic T., Kolasa M., Kot A., Murawski K., Rubaszek M., Tarnicka M., "Model gospodarki polskiej ECMOD" [ECMOD – a model of the Polish economy], *Materiały i Studia*, NBP, No. 194, May 2005.

Figure 29

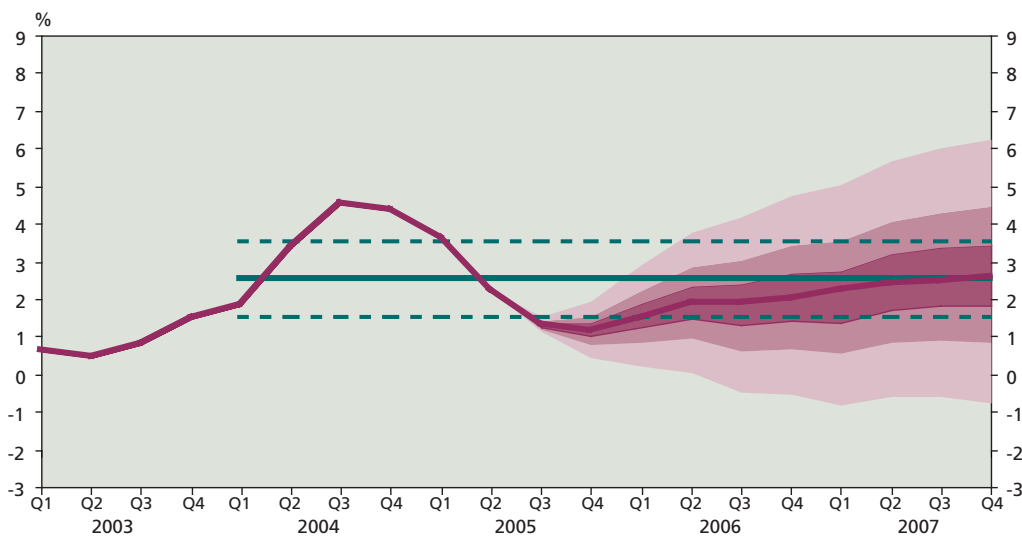
Central inflation projection, fan chart of future inflation path and inflation target of the MPC – May 2005



Source: Inflation Report, May 2005, NBP.

Figure 30

Central inflation projection, fan chart of future inflation path and inflation target of the MPC – August 2005



Source: Inflation Report, August 2005, NBP.

How should fan charts be interpreted?

Every projection of future values of economic variables is subject to risk and uncertainty. Central banks present the size and scope of quantifiable inflation projection risk through the use of fan charts. The width of the "fan" corresponds to the overall level of risk, which usually changes from quarter to quarter. The further ahead, the wider it gets, as the uncertainty of the assessments of the future usually grows proportionally to the length of the time horizon.

In inflation projections prepared by the NBP, probability distribution of their possible realisations is determined for each quarter. The most probable realisations, i.e. the mode of the distributions in particular quarters, are adopted as the central projection. At the same time, 30-percent confidence intervals are constructed around distribution medians. These constitute the central band of the fan, indicated with the darkest shade. Thus, the probability of inflation settling within this band is equal to 30%. Next, the fan is expanded on both sides so that the probability of the variable running between the extended boundaries increases by another 30 percentage points – 15 points on the above, and 15 on the below. The subsequent extensions create successive bands of the fan marked with increasingly lighter shades. The entire fan represents a 90-percent band of confidence around the medians – there is a 90-percent probability of inflation running within the fan.

For example, the chart in Figure 23, which refers to the August inflation projection, shows that the probability of inflation staying in 2006 Q1 within the tolerance band around the inflation target amounted to approx. 52%, the probability of higher inflation was equal to approx. 1%, whereas the probability of lower inflation could be assessed at approx. 47%. For 2007 Q1 these probabilities corresponded to 42%, 20% and 38%, respectively. Except for 2006 Q3 and 2007 Q1, the inflation projection was characterised by positive asymmetry, which reflects a greater probability of inflation running above the central path than below it.

Fan charts depict the uncertainty associated with assumptions exogenous to the projection model and connected with the inaccuracy of the model's statistical mapping of the relations holding between macroeconomic variables. Fan charts, however, do not account for all kinds of uncertainty, such as the uncertainty related to possible changes in the structure of the Polish economy, the approximate nature of any replication of economic reality by a model or the potential instability of estimated relationships in time. A detailed discussion of the sources of uncertainty not accounted for in the fan chart can be found in *Inflation Reports*.

APPENDIX 7

LIST OF EXECUTIVE LEGAL ACTS ISSUED IN 2005 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.	1/2005	11.01.2005	14.01.2005	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. 3, item 32
2.	2/2005	02.02.2005	03.02.2005	amending the resolution on the method of conducting interbank settlements	Official Journal of the NBP No. 1, item 2
3.	3/2005	02.02.2005	14.02.2005	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty, 10 zloty and 100 zloty and the date of their introduction into circulation	Official Gazette No. 9, item 181
4.	4/2005	17.02.2005	01.03.2005 except § 1 point 1 which took effect on 01.05.2005	amending the resolution on the methods and procedure on counting, sorting, packing and labelling the packaging of banknotes and coins and performing actions related to providing banks with these banknotes and coins	Official Journal of the NBP No. 2, item 4
5.	5/2005	23.02.2005	25.02.2005	amending the resolution on the method of conducting interbank settlements	Official Journal of the NBP No. 3, item 6
6.	6/2005	23.02.2005	09.03.2005	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. 14, item 250
7.	8/2005	11.03.2005	21.03.2005	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. 16, item 271
8.	9/2005	17.03.2005	01.05.2005	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. 4, item 8
9.	10/2005	17.03.2005	01.05.2005	concerning the method of keeping the register of foreign exchange market operations, model of the register and the procedure of entering the records to the register	Official Journal of the NBP No. 4, item 9
10.	12/2005	06.04.2005	11.04.2005	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and the date of their introduction into circulation	Official Gazette No. 22, item 338
11.	14/2005	20.04.2005	26.04.2005	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. 25, item 358
12.	15/2005	28.04.2005	02.05.2005	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. 26, item 367
13.	16/2005	07.06.2005	17.06.2005	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty, 10 zloty and 100 zloty and the date of their introduction into circulation	Official Gazette No. 35, item 477
14.	17/2005	28.07.2005	12.08.2005	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty, 10 zloty, 20 zloty and 200 zloty and the date of their introduction into circulation	Official Gazette No. 47, item 641
15.	18/2005	17.08.2005	26.08.2005	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty and the date of their introduction into circulation	Official Gazette No. 49, item 667
16.	19/2005	28.09.2005	07.10.2005	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. 58, item 785
17.	20/2005	03.11.2005	09.11.2005	concerning the establishment of designs, metal, fineness, weight and mintage of coins of the face value of 2 zloty, 10 zloty and 100 zloty and the date of their introduction into circulation	Official Gazette No. 67, item 941
18.	21/2005	25.11.2005	02.12.2005	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. 77, item 1077

Appendix 7.2.

Resolutions of the Monetary Policy Council

No.	Reference number	Adopted	Took effect	Title (subject matter)	Where published
1.	1/2005	30.03.2005	31.03.2005	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. 4, item 7
2.	2/2005	26.04.2005	26.04.2005	concerning the approval of the annual accounts of the National Bank of Poland drawn up as at December 31, 2004	Official Journal of the NBP No. 6, item 12
3.	3/2005	27.04.2005	28.04.2005	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. 6, item 13
4.	4/2005	24.05.2005	24.05.2005	concerning the approval of the report on the monetary policy implementation in 2004	Official Gazette No. 33, item 460
5.	5/2005	24.05.2005	24.05.2005	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 2004	Official Gazette No. 33, item 461
6.	6/2005	24.05.2005	24.05.2005	concerning the approval of the report on the National Bank of Poland's activities in 2004	Official Journal of the NBP No. 8, item 15
7.	7/2005	29.06.2005	30.06.2005	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. 10, item 17
8.	8/2005	27.07.2005	28.07.2005	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 20
9.	9/2005	31.08.2005	01.09.2005	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. 15, item 22
10.	10/2005	27.09.2005	01.01.2006	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 23
11.	11/2005	28.09.2005	01.01.2006	concerning the determination of the monetary policy guidelines for 2006	Official Gazette No. 64, item 884
12.	1/OR/2005	25.10.2005	25.10.2005	concerning the appointment of certified auditor auditing the annual accounts of the National Bank of Poland for the accounting year 2005 and 2006	Official Journal of the NBP No. 19, item 26
13.	12/2005	20.12.2005	20.12.2005	concerning the approval of the financial plan of the National Bank of Poland for 2006	Official Journal of the NBP No. 21, item 29
14.	13/2005	20.12.2005	01.01.2006	amending the resolution on the accounting principles, 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. 21, item 30
15.	14/2005	20.12.2005	01.01.2006	amending the resolution on the principles of conducting open market operations	Official Journal of the NBP No. 21, item 31

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.	5/2005	01.02.2005	03.02.2005	amending the resolution on the terms of opening and maintaining bank accounts at the National Bank of Poland	Official Journal of the NBP No. 1, item 1
2.	7/2005	11.02.2005	07.03.2005	concerning 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. 2, item 3
3.	11/2005	22.02.2005	25.02.2005	amending the resolution on the terms of opening and maintaining bank accounts at the National Bank of Poland	Official Journal of the NBP No. 3, item 5
4.	22/2005	31.03.2005	01.05.2005	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 securities deposit accounts"	Official Journal of the NBP No. 5, item 10
5.	25/2005	13.04.2005	01.05.2005	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. 5, item 11
6.	38/2005	06.05.2005	15.05.2005	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 balance of payments and the balance of Polish foreign assets and liabilities	Official Journal of the NBP No. 7, item 14
7.	42/2005	29.04.2005	31.05.2005	amending the resolution concerning the terms and conditions of sales of coins, notes and numismatic items for collection and other purposes	Official Gazette No. 30, item 428
8.	43/2005	30.05.2005	30.06.2005	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. 9, item 16
9.	54/2005	23.09.2005	07.10.2005	amending the resolution concerning regulations of the National Bank of Poland's Management Board	Official Gazette No. 58, item 787
10.	58/2005	27.10.2005	28.11.2005 except § 1 point 8 which took effect on 01.01.2006	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 25
11.	66/2005	09.12.2005	01.01.2006	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 securities deposit accounts"	Official Journal of the NBP No. 20, item 27
12.	68/2005	09.12.2005	01.01.2006	amending the resolution on the issuance of money market bills of the National Bank of Poland	Official Journal of the NBP No. 20, item 28

Appendix 7.4.**Resolutions of the Commission for Banking Supervision**

No.	Reference number	Adopted	Took effect	Title (subject matter)	Where published
1.	1/2005	19.10.2005	04.11.2005	concerning the method of keeping the register of holdings, procedure of filing and updating holdings' applications and specimen form of holdings' application	Official Journal of the NBP No. 17, item 24

APPENDIX 8

PUBLICATIONS AND THE WEBSITE OF THE NATIONAL BANK OF POLAND IN 2005

Title	Subject	Language
Annual publications		
Annual Report 2004	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"> • Polish • English
Report on activities of the NBP in 2004 <i>(Sprawozdanie z działalności Narodowego Banku Polskiego w 2004 roku)</i>	Information concerning the realisation of particular functions of the central bank in 2004, balance sheet and earnings of the NBP.	<ul style="list-style-type: none"> • Polish
Monetary Policy Guidelines for 2006	Presentation of the monetary policy guidelines adopted each year by the Monetary Policy Council (MPC). Description of external and internal factors influencing the monetary policy, monetary policy objectives and instruments of its implementation.	<ul style="list-style-type: none"> • Polish • English
Report on Monetary Policy Implementation in 2004	Description of implementation of the inflation target, developments in monetary aggregates, monetary policy instruments, as well as description of execution of other monetary policy tasks.	<ul style="list-style-type: none"> • Polish • English
Balance of Payments of the Republic of Poland in 2004	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"> • Polish • English
International investment Position of Poland in 2004 <i>(Międzynarodowa pozycja inwestycyjna Polski w 2004 roku)</i>	Information on the balance of Polish foreign assets and liabilities 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"> • Polish
Foreign direct investment in Poland <i>(Zagraniczne inwestycje bezpośrednie w Polsce)</i>	Analysis of inflow of direct investments in the analysed period.	<ul style="list-style-type: none"> • Polish
Assessment of the financial condition of enterprises in 2004 (according to surveys and data from the GUS) <i>(Ocena kondycji finansowej przedsiębiorstw w 2004 r. w świetle danych GUS. Synteza)</i>	Specification of results of annual surveys completed by a group of enterprises and the data of the Central Statistical Office (GUS).	<ul style="list-style-type: none"> • Polish
Report on the Activity of the Commission for Banking Supervision 2004	Description of principal directions of activity of banking supervision, broken down into 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 working procedures. Apart from that, it contains a specification of resolutions and matters examined by the Commission for Banking Supervision.	<ul style="list-style-type: none"> • Polish • English



Title	Subject	Language
Assessment of the financial condition of enterprises in 2003, (according to surveys and data from the GUS) <i>(Ocena kondycji finansowej przedsiębiorstw w 2003 r. w świetle danych GUS. Synteza)</i>	Specification of results of annual surveys completed by a group of enterprises and the data of the Central Statistical Office (GUS).	• Polish
Monetary policy instruments against the banking system liquidity in 2004 <i>(Instrumenty polityki pieniężnej na tle płynności sektora bankowego w 2004 roku)</i>	The report presents the developments in the liquidity position of the banking sector in Poland in 2004. 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
Financial System Development in Poland 2002-2003	Complex description of regulations, infrastructure and developments of particular segments of the domestic financial system, and – depending on the availability of statistical data – comparisons with the financial system of European countries. The Report also presents the probable 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.	• Polish • English
Financial Stability Report 2004	The report contains analysis of the stability of key segments of the financial market (including banking, insurance and pension sectors) in a particular year and prospects for the following year. Besides, the report contains remarks concerning payment system risks and monographic articles.	• Polish • English
Convergence Report 2004	The report discusses the level of convergence of 11 member states from outside the euro area (Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia and Sweden).	• Polish
ECB Annual Report	General characteristics of economic and financial results of euro area countries. It contains a description of the banking sector and the banking system Eurosystem as well as directions and tendencies of the EU economic growth.	• Polish
Semi-annual publications		
Financial Stability Review 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
Quarterly publications		
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 of the Republic of Poland <i>(Bilans płatniczy RP)</i>	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 <i>(Wstępna informacja o kondycji sektora przedsiębiorstw ze szczególnym uwzględnieniem stanu koniunktury)</i>	Analysis of the economic climate in the enterprise sector based on the results of rapid 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

Title	Subject	Language
ECB Monthly Bulletin	The NBP publishes ECB Monthly Bulletin for the last month of each quarter. The Bulletin contains information, <i>inter alia</i> , 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 the ECB concerning the monetary policy of the ECB. The statistical part presents macroeconomic indices of the Euro area, <i>inter alia</i> , the consolidated financial reports of Eurosystem, information on the financial markets, public finances, the ECB interest rates and current foreign exchange rates.	• Polish
Credit market situation – results of the surveys to the chairpersons of credit committees <i>(Sytuacja na rynku kredytowym – wyniki ankiety do przewodniczących komitetów kredytowych)</i>	Study entitled "Situation on the credit market" presents the results of the quarterly survey carried out using economic climate test among chairpersons of credit committees at 24 banks. The report presents the tendencies and reasons behind changes in the credit policy and credit demand as perceived by banks.	• 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
Monthly publications		
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 money creation, 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 <i>(Bank i Kredyt)</i>	Analytical studies of the financial sector, in particular the banking sector, as well as papers of information character. Presentation of the most important issues related to the activity and strategic initiatives of the NBP as the central bank.	• Polish (Summary in English)
Official Journal of the NBP <i>(Dziennik Urzędowy NBP)</i>	Contains legal acts concerning the 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
Non-periodical publications		
National Bank of Poland Plan of Activity 2004–2006	Primary objectives and the most important tasks of the NBP planned for execution in the years 2004–2006.	• Polish • English
The information booklet on the NBP	Discussion of the main areas of the central bank's activities in Poland. The booklet is supplemented with information on the bodies of the NBP, the organisational structure and outline of the main publications of the NBP.	• Polish • English



Title	Subject	Language
Monetary policy implementation in the euro area (<i>Realizacja polityki pieniężnej w strefie euro</i>)	Presentation of operating procedures of the Eurosystem for the single monetary policy in the euro area.	• Polish
Polish economy at the turn of the centuries. From A to Z (<i>Gospodarka polska na przełomie wieków. Od A do Z</i>)	A set of educational inserts to the monthly publication Bank and Credit issued in 2004, supplemented and updated. Discussion of changes in the Polish economy in the period of political transformation with particular focus on the evolution of the Polish financial system and monetary and fiscal policy. Presentation of the impact of political and institutional changes on economic transformations.	• Polish
Selected determinants of development of stock and corporate debenture markets in Poland. Survey results (<i>Wybrane determinanty rozwoju rynku akcji i korporacyjnych instrumentów dłużnych w Polsce. Wyniki badania ankietowego</i>)	The report presents the factors driving enterprises to issue stock and corporate debenture on the domestic capital market, identified during the survey. The study identifies major barriers to the stock market development and corporate debt.	• Polish
Correspondent Central Banks – May 2005 (<i>System Korespondentów Banków Centralnych – maj 2005</i>)	Presentation of the Correspondent Central Banking Model (CCBM) implemented in 1999 by the Eurosystem – providing for cross-border use of collateral. Presentation of procedures enabling contracting parties participating in the monetary policy operations in the TARGET system to use all eligible assets.	• Polish
Materials and Studies (<i>Materiały i Studia</i>) no. 186–198	A publication series, where studies resulting from research projects of the NBP's employees are published, as well as publications of authors working for academic and financial institutions. They focus on important issues related to the banking and the monetary policy.	• Polish
Website of the NBP		
http://www.NBP.pl	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".	• Polish • English
www.NBPortal.pl	Economic Education Website of the National Bank of Poland NBPortal.pl describes economic issues in a simple and clear language. This website provides, <i>inter alia</i> : <ul style="list-style-type: none"> • about 200 hours of open to public multimedia e-learning courses, • economic news, • subject-oriented module covering the key economic issues, • multimedia presentations, • guides helping to comprehend the world of loans, deposits, payment cards, insurance or pensions, etc., • special virtual library stocked with over 1000 unabridged and downloadable publications, • economics through games: jackpots and strategic plays, crossword puzzles, quizzes, puzzles, competitions, etc. 	• Polish

APPENDIX 9

LIST OF OPEN-TO-PUBLIC SEMINARS HELD AT THE NBP
IN 2005

1.	The Level of Competition and Effectiveness versus Concentration in the Polish Banking System
2.	Procedural and Institutional Aspects of Poland's Joining the EMU II and the Euro Area
3.	Lending Boom Prospects in the Central and Eastern European Countries during the Process of Joining the Euro Area
4.	Polish Deposit Insurance Scheme compared with Solutions Adopted in Other EU Member States
5.	Financial Structure and Monetary Policy Transmission in Transition Countries
6.	Recent Developments in Macro Modelling at Central Banks and the IMF
7.	Model of Early Warning Indicators of Currency Crisis for Poland
8.	High Risk Capital Sector in Poland compared with Central and Eastern European Countries – Tendencies and Growth Prospects
9.	Fiscal Reform and the Labour Market Situation in Poland: Simulations on the Computable General Equilibrium Model (CGE)
10.	Would Poland Benefit from a Fiscal Responsibility Law?
11.	Convergence of Government Bond Yields in the Euro Zone: the role of Policy Harmonisation
12.	Strategic Groups in the Polish Banking Sector
13.	New Perspective and the Need of Stabilisation Policy
14.	An Estimated DSGE Model for the German Economy within the Euro Area

APPENDIX 10

VOTING RESULTS OF THE MEMBERS OF THE MONETARY POLICY COUNCIL ON MOTIONS AND RESOLUTIONS ADOPTED IN 2005

Date	Subject matter of motion or resolution	MPC decision	Voting of the Council members	
			For:	Against:
26 January 2005	Motion to change the monetary policy bias from tightening to neutral	The motion was not passed (due to tie vote, the vote of the Chairman prevailed)	J. Czekaj M. Pietrewicz S. Nieckarz A. Sławiński A. Wojtyna	L. Balcerowicz D. Filar M. Noga S. Owsiak H. Wasilewska-Trenkner
25 February 2005	Motion to change the monetary policy bias from tightening to neutral	The motion did not receive a majority vote	L. Balcerowicz D. Filar M. Noga H. Wasilewska-Trenkner	J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński A. Wojtyna
25 February 2005	Motion to change the monetary policy bias from tightening to easing	The MPC changed its monetary policy bias from tightening to easing	J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński A. Wojtyna	L. Balcerowicz D. Filar M. Noga H. Wasilewska-Trenkner
30 March 2005	Resolution on the level of reference rate, interest charged on refinancing loans, deposit rate and rediscount rate of the National Bank of Poland	The MPC reduced the level of all interest rates by 0.5 percentage point	L. Balcerowicz J. Czekaj S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	D. Filar
26 April 2005	Resolution to approve the Annual Financial Report of the National Bank of Poland prepared as of 31 December 2004		L. Balcerowicz J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
27 April 2005	Resolution on the level of the reference rate, interest charged on refinancing loans, deposit rate and rediscount rate of the National Bank of Poland	All interest rates reduced by 0.5 percentage point	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:
27 April 2005	Motion to change the monetary policy bias from easing to neutral	The MPC changed its monetary policy bias	L. Balcerowicz J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
24 May 2005	Resolution to approve the Report on Monetary Policy Implementation in 2004		L. Balcerowicz J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
24 May 2005	Resolution assessing the activities of NBP Management Board as regards monetary policy implementation in 2004		L. Balcerowicz J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
24 May 2005	Resolution to approve the Report on the Operations of the National Bank of Poland in 2004		L. Balcerowicz J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
25 May 2005	Motion to change the monetary policy bias from neutral to easing	The motion was not passed (due to tie vote, the vote of the Chairman prevailed)	J. Czekaj S. Owsiak M. Pietrewicz A. Sławiński A. Wojtyna	L. Balcerowicz D. Filar S. Nieckarz M. Noga H. Wasilewska-Trenkner
29 June 2005	Resolution on the level of the reference rate, interest charged on refinancing loans, deposit rate and rediscount rate of the National Bank of Poland	All interest rates reduced by 0.5 percentage point	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:
29 June 2005	Motion to change the monetary policy bias from neutral to easing	The MPC changed its monetary policy bias	J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński A. Wojtyna	L. Balcerowicz D. Filar M. Noga H. Wasilewska-Trenkner
27 July 2005	Resolution on the level of the reference rate, interest charged on refinancing loans, deposit rate and rediscount rate of the National Bank of Poland	All interest rates reduced by 0.25 percentage point	J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński A. Wojtyna	L. Balcerowicz D. Filar M. Noga H. Wasilewska-Trenkner
27 July 2005	Motion to maintain the easing monetary policy bias	Motion received a majority vote – the MPC maintained its easing monetary policy bias	J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński A. Wojtyna	L. Balcerowicz D. Filar M. Noga H. Wasilewska-Trenkner
27 July 2005	Motion to change the monetary policy bias from easing to neutral	Motion did not receive a majority vote – the MPC maintained its easing monetary policy bias	L. Balcerowicz D. Filar M. Noga H. Wasilewska-Trenkner	J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński A. Wojtyna
31 August 2005	Resolution on the level of the reference rate, interest charged on refinancing loans, deposit rate and rediscount rate of the National Bank of Poland	Reduction of the reference rate, interest charged on refinancing loans and deposit rate by 0.25 percentage point, and rediscount rate by 0.5 percentage point	J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński A. Wojtyna	L. Balcerowicz D. Filar M. Noga H. Wasilewska-Trenkner
31 August 2005	Motion to change the monetary policy bias from easing to neutral	Motion did not receive a majority vote – the MPC maintained its easing monetary policy bias	L. Balcerowicz D. Filar M. Noga H. Wasilewska-Trenkner	J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński A. Wojtyna
27 September 2005	Resolution 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 September 2005	Motion for the Monetary Policy Council to cease announcing its monetary policy bias	The motion received a majority vote – the MPC decided not to announce its monetary policy bias any more	L. Balcerowicz D. Filar M. Noga S. Owsiak M. Pietrewicz H. Wasilewska-Trenkner	J. Czekaj S. Nieckarz A. Sławiński A. Wojtyna

Date	Subject matter of motion or resolution	MPC decision	Voting of the Council members	
			For:	Against:
28 September 2005	Resolution establishing monetary policy guidelines for 2006		L. Balcerowicz J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
25 October 2005	Resolution to appoint a certified auditor to audit NBP annual financial statements for the business year 2005 and for the year 2006		L. Balcerowicz J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
30 November 2005	Motion to change the monetary policy bias from easing to neutral	Motion did not receive a majority vote – the MPC maintained its easing monetary policy bias	L. Balcerowicz D. Filar M. Noga H. Wasilewska-Trenkner	J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński A. Wojtyna
20 December 2005	Resolution to approve the Financial Plan of the National Bank of Poland		L. Balcerowicz J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
20 December 2005	Resolution amending the resolution on accounting policies, the structure of assets and liabilities in the Balance Sheet and the Profit and Loss Account of the National Bank of Poland		L. Balcerowicz J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
20 December 2005	Resolution amending the 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



Ernst & Young Audit sp. z o.o.
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OPINIA NIEZALEŻNEGO BIEGŁEGO REWIDENTA

Dla Rady Polityki Pieniężnej Narodowego Banku Polskiego

- Przeprowadziliśmy badanie załączonego sprawozdania finansowego za rok zakończony dnia 31 grudnia 2005 roku Narodowego Banku Polskiego (zwanego dalej „NBP”) z siedzibą w Warszawie przy ulicy Świętokrzyskiej 11/21, obejmującego:
 - bilans sporządzony na dzień 31 grudnia 2005 roku, który po stronie aktywów i pasywów wykazuje sumę 149.664.629 tysięcy złotych,
 - rachunek zysków i strat za okres od dnia 1 stycznia 2005 roku do dnia 31 grudnia 2005 roku wykazujący zysk w wysokości 1.218.976 tysięcy złotych, oraz
 - informację dodatkową („załączone sprawozdanie finansowe”).
- Za rzetelność, prawidłowość i jasność załączonego sprawozdania finansowego, jak również za prawidłowość ksiąg rachunkowych odpowiada Zarząd NBP. Naszym zadaniem było zbadanie załączonego sprawozdania finansowego i wyrażenie, na podstawie badania, opinii o tym, czy sprawozdanie finansowe jest, we wszystkich istotnych aspektach, rzetelne, prawidłowe i jasne oraz czy księgi rachunkowe stanowiące podstawę jego sporządzenia są prowadzone, we wszystkich istotnych aspektach, w sposób prawidłowy.
- Badanie załączonego sprawozdania finansowego przeprowadziliśmy stosownie do obowiązujących w Polsce postanowień:
 - rozdziału 7 ustawy z dnia 29 września 1994 roku o rachunkowości,
 - norm wykonywania zawodu biegłego rewidenta wydanych przez Krajową Radę Biegłych Rewidentów,
 w taki sposób, aby uzyskać racjonalną pewność czy sprawozdanie to nie zawiera istotnych nieprawidłowości. W szczególności, badanie obejmowało sprawdzenie – w dużej mierze metodą wrywkową – dokumentacji, z której wynikają kwoty i informacje zawarte w załączonym sprawozdaniu finansowym. Badanie obejmowało również ocenę poprawności przyjętych i stosowanych przez Zarząd zasad rachunkowości i znaczących szacunków dokonanych przez Zarząd, jak i ogólnej prezentacji załączonego sprawozdania finansowego. Uważamy, że przeprowadzone przez nas badanie dostarczyło nam wystarczających podstaw do wyrażenia opinii o załączonym sprawozdaniu finansowym traktowanym jako całość.
- Sprawozdanie finansowe NBP za poprzedni rok obrotowy zakończony dnia 31 grudnia 2004 roku było przedmiotem naszego badania i w dniu 30 marca 2005 roku wydaliśmy opinię z objaśnieniem o tym sprawozdaniu finansowym. Powyższe objaśnienie dotyczyło uwzględnienia w wyniku finansowym NBP za 2004 rok wpływu korekt zmian zasad rachunkowości wprowadzonych zgodnie z Uchwałami Nr 16/2003, Nr 17/2003 oraz Nr 12/2004 Rady Polityki Pieniężnej w łącznej kwocie 3.587.989 tysięcy złotych co w rezultacie prowadziło do braku pełnej porównywalności danych za 2003 rok zaprezentowanych w sprawozdaniu finansowym za rok zakończony dnia 31 grudnia 2004 roku. Powyższa kwestia nie ma wpływu na sprawozdanie finansowe Banku za rok zakończony dnia 31 grudnia 2005 roku oraz przedstawione w nim dane porównywalne za 2004 rok.

ERNST & YOUNG W POLSCE JEST CZŁONKIEM GLOBALNEJ PRAKTYKI ERNST & YOUNG
Sąd Rejonowy dla m.st. Warszawy w Warszawie,
215, Wydział Gospodarczy Krajowego Rejestru Sądowego, KRS 0000000004

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5. Naszym zdaniem załączone sprawozdanie finansowe, we wszystkich istotnych aspektach:

- przedstawia rzetelnie i jasno wszystkie informacje istotne dla oceny wyniku finansowego za okres od dnia 1 stycznia 2005 roku do dnia 31 grudnia 2005 roku, jak też sytuacji majątkowej i finansowej NBP na dzień 31 grudnia 2005 roku;
- sporządzone zostało na podstawie przepisów Ustawy z dnia 29 sierpnia 1997 roku o Narodowym Banku Polskim (tekst jednolity Dz. U. z 2005r., nr 1 poz. 2 z późniejszymi zmianami), Uchwały nr 16/2003 Rady Polityki Pieniężnej (dalej „RPP”) z dnia 16 grudnia 2003 roku w sprawie zasad rachunkowości, układu aktywów i pasywów bilansu oraz rachunku zysków i strat Narodowego Banku Polskiego wraz z późniejszymi zmianami, Uchwały nr 17/2003 RPP z dnia 16 grudnia 2003 roku w sprawie zasad tworzenia i rozwiązywania rezerwy na pokrycie ryzyka zmian kursu złotego do walut obcych w Narodowym Banku Polskim, Uchwały nr 57/2003 Zarządu Narodowego Banku Polskiego z dnia 30 grudnia 2003 roku w sprawie sposobu wykonywania zadań z zakresu rachunkowości w Narodowym Banku Polskim wraz z późniejszymi zmianami, na podstawie prawidłowo prowadzonych ksiąg rachunkowych;
- jest zgodne z powołanymi wyżej przepisami.

Dorota Snarska - Kuman
Biegły rewident Nr 9667/7232

w imieniu
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1
00-124 Warszawa
Nr ewid. 130

Biegły rewident Nr 9262/6958

ERNST & YOUNG
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-45-

Warszawa, dnia 4 kwietnia 2006 roku



STATISTICAL ANNEX

TABLE I

Basic Economic Data

Specification	Unit	2004	2005		
		XII	I	II	III
1. Industrial output					
a) current prices	million zloty	54,284.40	49,902.00	49,482.70	54,593.20
b) constant prices					
- the same month previous year = 100	%	106.80	104.60	102.30	96.30
- previous month = 100	%	97.70	91.70	99.70	110.20
2. Construction output					
a) current prices	million zloty	5,224.00	1,711.60	1,853.60	2,078.00
b) constant prices					
- the same month previous year = 100	%	107.80	118.50	113.20	96.20
- previous month = 100	%	148.20	32.60	108.20	111.90
3. Consumer Price Index					
a) the same month previous year = 100	%	104.40	103.70	103.60	103.40
b) previous month = 100	%	100.10	100.10	99.90	100.10
c) December previous year = 100	%	104.40	100.10	100.00	100.20
4. Producer Price Index					
a) the same month previous year = 100	%	105.20	104.50	103.20	102.20
b) previous month = 100	%	98.70	100.10	99.50	100.50
5. Construction Price Index					
a) the same month previous year = 100	%	104.80	104.80	104.80	104.40
b) previous month = 100	%	100.10	100.20	100.10	100.20
6. Number of employed, corporate sector total	thousands	4,849.00	4,927.00	4,933.00	4,935.00
7. Average employment, corporate sector total	thousands	4,679.00	4,737.00	4,745.00	4,742.00
8. Number of unemployed	thousands	2,999.60	3,094.90	3,094.50	3,052.60
9. Unemployment rate	%	19.00	19.40	19.40	19.20
10. Average monthly employee earnings, gross, corporate sector	zloty	2,748.11	2,385.39	2,411.49	2,480.50
11. National Budget revenue & expenditure					
a) revenue	million zloty	156,281.20	16,861.90	28,587.20	41,228.30
b) expenditure	million zloty	197,698.30	18,264.90	37,471.60	53,954.00
c) financial surplus/deficit and net foreign lending/ borrowing	million zloty	-38,292.40	-1,338.40	-8,701.00	-12,687.80
12. Corporate financial performance					
a) total revenues	million zloty	1,258,714.80	.	.	294,462.00
of which: sales of goods & services	million zloty	773,050.30	.	.	182,677.20
b) total operating costs	million zloty	1,186,540.10	.	.	279,648.10
of which: cost of sales	million zloty	759,521.70	.	.	180,776.20
c) pre-tax profit/loss	million zloty	75,412.40	.	.	15,086.10
d) statutory deductions	million zloty	14,711.60	.	.	4,099.10
e) net profit/loss	million zloty	60,700.90	.	.	10,987.00
f) cost to sales ratio	%	94.30	.	.	95.00
g) net margin	%	4.80	.	.	3.70
h) quick liquidity ratio	%	94.40	.	.	94.70
i) total current assets	million zloty	359,521.70	.	.	363,595.00
j) accounts receivable and associated claims	million zloty	145,198.00	.	.	143,889.20
k) accounts payable	million zloty	142,724.50	.	.	133,322.30

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
54,372.60	51,647.70	56,175.50	51,948.60	54,238.10	59,097.00	60,064.30	60,078.40	58,834.00
98.90	100.90	106.90	102.60	104.80	105.90	107.60	108.50	109.20
99.60	95.20	109.00	92.10	104.00	110.20	101.40	99.80	98.30
2,598.00	3,178.00	3,885.80	3,820.30	3,912.90	4,441.70	4,639.60	3,809.20	5,774.00
82.30	121.80	129.90	117.30	106.50	110.50	106.80	105.90	108.30
124.80	122.30	122.20	97.90	102.10	113.30	104.30	82.00	151.60
103.00	102.50	101.40	101.30	101.60	101.80	101.60	101.00	100.70
100.40	100.30	99.80	99.80	99.90	100.40	100.40	99.80	99.80
100.50	100.80	100.60	100.40	100.30	100.70	101.10	100.90	100.70
100.90	99.50	100.00	100.00	99.80	99.50	99.10	99.60	100.50
100.70	99.80	100.30	100.20	100.10	99.70	99.90	100.10	99.60
103.60	103.00	102.50	102.30	102.20	102.30	102.30	102.30	102.30
100.30	100.20	100.20	100.30	100.20	100.20	100.10	100.10	100.10
4,950.00	4,954.00	4,970.00	4,963.00	4,970.00	4,989.00	4,997.00	5,002.00	4,972.00
4,754.00	4,756.00	4,770.00	4,772.00	4,776.00	4,788.00	4,797.00	4,804.00	4,799.00
2,957.80	2,867.30	2,827.40	2,809.00	2,783.30	2,760.10	2,712.10	2,722.80	2,773.00
18.70	18.20	18.00	17.90	17.70	17.60	17.30	17.30	17.60
2,471.22	2,423.92	2,512.78	2,506.55	2,480.56	2,483.99	2,538.88	2,677.75	2,789.08
55,995.50	69,555.10	86,694.50	101,829.30	117,246.30	133,040.80	148,872.00	164,421.70	179,801.60
69,646.30	87,689.50	104,942.30	119,160.20	135,783.50	150,822.80	169,520.70	186,693.80	208,360.80
-13,065.30	-14,460.10	-14,589.50	-12,384.80	-10,909.50	-10,214.50	-12,743.70	-11,640.70	-16,528.70
.	.	614,127.00	.	.	947,552.00	.	.	1,314,630.60
.	.	380,480.40	.	.	586,035.50	.	.	809,174.50
.	.	582,291.50	.	.	897,236.70	.	.	1,250,067.30
.	.	376,029.70	.	.	579,285.50	.	.	805,407.70
.	.	32,206.10	.	.	50,704.40	.	.	64,963.80
.	.	7,351.50	.	.	10,743.90	.	.	13,554.10
.	.	24,854.60	.	.	39,960.40	.	.	51,409.70
.	.	94.80	.	.	94.70	.	.	95.10
.	.	4.00	.	.	4.20	.	.	3.90
.	.	95.00	.	.	98.50	.	.	97.30
.	.	371,914.80	.	.	382,643.90	.	.	396,349.10
.	.	151,212.80	.	.	155,406.40	.	.	158,943.90
.	.	139,510.00	.	.	141,434.30	.	.	157,697.50

TABLE II

Financial Market – Basic Information

Specification	Unit	2004	2005			
		XII	I	II	III	
1. Lombard rate	%	8.00	8.00	8.00	7.50	
2. Rediscount rate	%	7.00	7.00	7.00	6.50	
3. Refinancing rate	%	8.0/9.0	8.0/9.0	8.0/9.0	7.5/8.5	
4. Deposit rate	%	5.00	5.00	5.00	4.50	
5. Minimum yield on open market operations (reverse repo rate) *	%	6.50	6.50	6.50	6.00	
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	%	0.00	0.00	0.00	0.00	
8. Interest on reserve requirement	%	0.9 of the rediscount rate	0.9 of the rediscount rate	0.9 of the rediscount rate	0.9 of the rediscount rate	
9. Total required reserves held	million zloty	11097.38	11001.37	10996.82	11007.47	
a) current account	million zloty	11097.38	11001.37	10996.82	11007.47	
10. Treasury bill tenders		.	.	.	.
a) Number of tenders during month		3	5	4	4	
b) Face value of bills offered for sale	million zloty	1200.00	3400.00	3400.00	3300.00	
of which:						
- 1-week	million zloty	.	.	.	.
- 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	0.00	0.00	0.00	
- 39-week	million zloty	0.00	0.00	0.00	0.00	
- 52-week	million zloty	1100.00	3100.00	3400.00	3200.00	
c) Demand declared by bidders (at face value)	million zloty	4952.50	13374.15	10511.64	6881.21	
of which for:						
- 1-week	million zloty	.	.	.	.
- 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	264.91	611.39	0.00	373.35	
- 26-week	million zloty	0.00	0.00	0.00	0.00	
- 39-week	million zloty	0.00	0.00	0.00	0.00	
- 52-week	million zloty	4687.59	12762.76	10511.64	6507.86	

* Until December 2004 14-day operation, 7-day operation from January 2005.

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
7.00	7.00	6.50	6.25	6.25	6.00	6.00	6.00	6.00
6.00	6.00	5.50	5.25	5.25	4.75	4.75	4.75	4.75
7.0/8.0	7.0/8.0	6.5/7.5	6.25/7.25	6.25/7.25	6.0/7.0	6.0/7.0	6.0/7.0	6.0/7.0
4.00	4.00	3.50	3.25	3.25	3.00	3.00	3.00	3.00
5.50	5.50	5.00	4.75	4.75	4.50	4.50	4.50	4.50
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	0.00	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	0.9 of the rediscount rate
11007.47	11339.42	11534.48	11534.48	11670.75	11744.40	11996.85	12065.33	12065.33
11007.47	11339.42	11534.48	11534.48	11670.75	11744.40	11996.85	12065.33	12065.33
.
4	3	4	3	2	2	2	2	2
5200.00	1500.00	2300.00	1700.00	1000.00	1000.00	1000.00	900.00	2300.00
1300.00	0.00	0.00	0.00	0.00	0.00	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	0.00	0.00
300.00	0.00	100.00	300.00	0.00	200.00	200.00	0.00	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
3600.00	1500.00	2200.00	1400.00	1000.00	800.00	800.00	900.00	2100.00
16495.57	4061.24	6603.56	8800.68	1780.74	3364.72	2814.88	2953.49	5339.90
6160.34	0.00	0.00	0.00	0.00	0.00	661.57	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1460.38	0.00	554.13	1683.27	0.00	1276.73	661.57	0.00	754.57
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8874.85	4061.24	6049.43	7117.41	1780.74	2087.99	2153.31	2953.49	4585.33

TABLE II – cont.

Financial Market – Basic Information

Specification	Unit	2004	2005		
		XII	I	II	III
d) Face value of bills sold	million zloty	1200.00	3327.82	3400.00	3300.00
of which for:					
- 1-week	million zloty	.	.	.	.
- 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	227.82	0.00	100.00
- 26-week	million zloty	0.00	0.00	0.00	0.00
- 39-week	million zloty	0.00	0.00	0.00	0.00
- 52-week	million zloty	1100.00	3100.00	3400.00	3200.00
e) Yield on bills purchased, weighted average	%	6.44	6.27	5.88	5.51
of which for:					
- 1-week	%	.	.	.	.
- 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	%	6.28	6.25	0.00	5.62
- 26-week	%	0.00	0.00	0.00	0.00
- 39-week	%	0.00	0.00	0.00	0.00
- 52-week	%	6.46	6.28	5.88	5.51
Bills outstanding from tender sales at month end (purchase prices)	million zloty	43977.01	42475.84	41525.62	40029.47
11. Tenders for NBP money-market bills					
a) Number of tenders during month		5	4	4	4
b) Face value of bills offered for sale	million zloty	11500.00	33500.00	47500.00	55000.00
of which for:					
- 1-day	million zloty	0.00	0.00	0.00	0.00
- 7-day	million zloty	0.00	33500.00	47500.00	55000.00
- 14-day	million zloty	11500.00	0.00	0.00	0.00
- 28-day	million zloty	0.00	0.00	0.00	0.00
c) Demand declared by bidders (at face value)	million zloty	34005.00	93100.60	247630.00	120704.80
of which for:					
- 1-day	million zloty	0.00	0.00	0.00	0.00
- 7-day	million zloty	0.00	93100.60	247630.00	120704.80
- 14-day	million zloty	34005.00	0.00	0.00	0.00
- 28-day	million zloty	0.00	0.00	0.00	0.00
d) Face value of bills sold	million zloty	10240.00	33500.00	47500.00	55000.00
of which for:					
- 1-day	million zloty	0.00	0.00	0.00	0.00
- 7-day	million zloty	0.00	33500.00	47500.00	55000.00
- 14-day	million zloty	10240.00	0.00	0.00	0.00
- 28-day	million zloty	0.00	0.00	0.00	0.00

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
5200.00	1500.00	2300.00	1700.00	1000.00	1000.00	1000.00	900.00	2300.00
1300.00	0.00	0.00	0.00	0.00	0.00	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	0.00	0.00
300.00	0.00	100.00	300.00	0.00	200.00	200.00	0.00	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
3600.00	1500.00	2200.00	1400.00	1000.00	800.00	800.00	900.00	2100.00
5.47	5.11	4.78	4.31	4.37	4.17	4.19	4.39	4.40
5.85	0.00	0.00	0.00	0.00	0.00	4.17	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5.49	0.00	4.70	4.43	0.00	4.19	4.17	0.00	4.27
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5.34	5.11	4.78	4.28	4.37	4.16	4.20	4.39	4.41
39940.97	39021.71	36919.69	34160.18	29994.41	27512.53	24913.43	22220.90	23198.69
5	4	4	5	4	5	4	4	5
70100.00	52200.00	69400.00	91000.00	73800.00	105400.00	85600.00	68100.00	113500.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
70100.00	52200.00	69400.00	91000.00	73800.00	105400.00	85600.00	47100.00	113500.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	21000.00	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
112630.00	76999.80	132128.10	161469.20	120687.30	163633.70	117023.30	68882.50	115291.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
112630.00	76999.80	132128.10	161469.20	120687.30	163633.70	117023.30	48063.00	115291.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	20819.50	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
70100.00	52200.00	69400.00	91000.00	73800.00	105400.00	85600.00	66232.50	107343.50
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
70100.00	52200.00	69400.00	91000.00	73800.00	105400.00	85600.00	45413.00	107343.50
0.00	0.00	0.00	0.00	0.00	0.00	0.00	20819.50	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

TABLE II – cont.

Financial Market – Basic Information

Specification	Unit	2004	2005		
		XII	I	II	III
e) Yield on bills purchased, weighted average	%	6.50	6.50	6.50	6.50
of which for:					
- 1-day	%	0.00	0.00	0.00	0.00
- 7-day	%	0.00	6.50	6.50	6.50
- 14-day	%	6.50	0.00	0.00	0.00
- 28-day	%	0.00	0.00	0.00	0.00
f) Bills outstanding from tender sales at month end (purchase prices)	million zloty	5725.52	6491.79	11984.84	10486.74
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		230	232	236	237
b) Capitalisation at month end	million zloty	214312.54	207614.95	228705.76	220676.63
c) P/E ratio at month end		17.10	16.40	16.30	13.70
d) Warsaw Stock Exchange Index (WIG) at month end		26636.19	25992.99	28294.49	27268.07
e) WIG monthly average		26077.71	25739.48	27253.69	27328.77
f) Second-Tier Market Index (WIRR) at month end		4738.62	4768.86	4756.33	4366.21
g) WIRR monthly average		4686.05	4675.75	4833.02	4464.01
h) Monthly turnover	million zloty	13982.64	11410.61	16223.94	14225.32
i) Turnover ratio	%	3.80	3.10	3.00	2.50

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
5.93	5.50	5.50	4.96	4.75	4.50	4.50	4.50	4.50
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5.93	5.50	5.50	4.96	4.75	4.50	4.50	4.50	4.50
0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.50	0.00
0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10588.67	11188.03	16881.93	17483.85	17483.85	20482.06	21780.93	18696.63	22979.88
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
239	241	244	245	246	250	252	256	255
206296.84	214422.07	232133.17	243334.05	250353.63	273343.04	279103.14	293958.71	308417.62
12.90	13.30	14.00	14.80	15.60	14.90	14.00	13.60	14.30
25813.59	26744.36	28332.05	30448.31	31364.29	33801.17	32024.41	33926.06	35600.79
26731.18	26075.10	27710.11	29304.20	30923.39	32834.02	32358.38	33284.33	34962.39
4082.10	4140.47	4366.99	4530.06	4457.10	4673.99	4710.88	4940.99	5471.33
4219.79	4058.98	4312.54	4415.02	4493.70	4496.48	4639.76	4802.40	5239.98
8940.44	9430.60	13737.87	14179.71	13627.37	20386.64	18482.45	17430.06	17327.64
1.60	1.70	2.30	2.20	2.00	2.80	2.60	2.30	2.20

TABLE III

PLN/USD and PLN/EUR Exchange Rates, 2005 (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 2004	2.9904	4.0790	1.3640	3.0954	4.1438
January 2005	3.1200	4.0503	1.2982	3.1033	4.0816
February	2.9501	3.9119	1.3260	3.0601	3.9841
March	3.1518	4.0837	1.2957	3.0492	4.0209
April	3.2988	4.2756	1.2961	3.2053	4.1510
May	3.3265	4.1212	1.2389	3.2909	4.1827
June	3.3461	4.0401	1.2074	3.3365	4.0603
July	3.3689	4.0758	1.2098	3.3992	4.0973
August	3.3140	4.0495	1.2219	3.2871	4.0450
September	3.2575	3.9166	1.2023	3.1952	3.9247
October	3.3067	3.9893	1.2064	3.2600	3.9261
November	3.3165	3.9053	1.1775	3.3672	3.9721
December	3.2613	3.8598	1.1835	3.2518	3.8559

TABLE IV

Weighted Interest Rates on Zloty Deposit Offered
by Commercial Banks

Specification	2004	2005											
	XII	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Households deposits													
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	0.2	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Time deposits:													
- 1 month	3.3	3.3	3.3	3.3	3.1	2.6	2.5	2.3	2.8	2.4	2.4	2.4	2.4
- 3 months	3.5	3.5	3.5	3.5	3.0	2.8	2.8	2.6	2.5	2.4	2.2	2.4	2.4
- 6 months	3.7	3.7	3.7	3.7	3.3	3.0	3.0	2.7	2.7	2.5	2.4	2.4	2.4
- 1 year	4.4	4.3	4.3	4.3	4.0	3.7	3.7	3.6	3.5	3.2	3.2	3.2	3.2
- 2 years	4.7	4.7	4.7	4.7	4.3	3.9	3.9	3.7	3.6	3.3	3.2	3.2	3.2
- over 2 years	4.3	4.3	4.3	4.2	3.8	3.6	3.6	3.8	3.8	3.6	3.8	3.7	3.8
Total households time deposits	3.8	3.8	3.8	3.8	3.5	3.1	3.1	3.0	3.1	2.8	2.8	2.8	2.8
Non-financial corporations deposits													
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	3.4	3.4	3.4	3.3	3.1	2.9	2.8	2.4	2.3	2.3	2.1	2.2	2.2
- 3 months	3.3	3.2	3.2	3.2	3.0	2.8	2.7	2.4	2.2	2.1	2.2	2.1	2.1
- 6 months	3.2	3.3	3.3	3.4	3.3	3.1	2.9	2.5	2.2	2.1	2.2	2.1	2.0
- 1 year	3.4	3.4	3.4	3.4	3.3	3.0	2.9	2.5	2.3	2.2	2.2	2.2	2.2
- 2 years	4.4	4.5	4.4	4.5	4.3	4.1	4.1	3.6	3.5	3.4	3.2	3.0	3.1
- over 2 years	4.2	4.3	4.3	4.3	4.3	4.3	4.3	4.0	4.0	4.0	4.0	3.8	4.0
Total non-financial corporations time deposits	3.4	3.4	3.3	3.3	3.1	2.9	2.8	2.5	2.3	2.2	2.2	2.2	2.2
Total	3.7	3.7	3.7	3.7	3.4	3.1	3.0	2.9	2.9	2.7	2.7	2.7	2.7

TABLE V

Weighted Average Interest Rates on Zloty Lending Offered
by Commercial Banks

Specification	2004	2005											
	XII	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Non-financial corporations loans													
Overdrafts	8.1	8.2	8.1	7.9	7.2	7.1	6.7	6.4	6.3	6.3	6.2	6.2	6.2
Original maturity of:													
- 1 year	8.2	8.1	8.0	7.7	7.2	7.1	6.6	6.3	6.2	6.1	6.2	6.2	6.1
- 2 years	8.6	8.7	8.4	8.2	7.6	7.6	7.2	6.9	6.8	6.6	6.6	6.5	6.5
- 3 years	8.6	8.7	8.5	8.3	7.9	7.7	7.2	7.0	6.7	6.6	6.6	6.6	6.6
- 5 years	8.6	8.7	8.5	8.2	7.6	7.6	7.1	6.9	6.7	6.6	6.5	6.5	6.6
- over 5 years	8.7	8.7	8.6	8.3	7.8	7.6	7.2	7.0	6.7	6.6	6.5	6.5	6.5
Total	8.3	8.4	8.2	8.0	7.4	7.3	6.8	6.6	6.5	6.4	6.3	6.3	6.3
Households loans													
Overdrafts	16.1	15.9	15.9	15.9	15.7	15.5	15.4	15.1	15.1	15.1	15.1	15.0	14.9
Consumer loans with original maturity of:													
- 1 year	15.5	15.5	15.4	15.3	15.2	15.3	15.1	15.0	15.0	14.9	14.6	14.4	14.4
- 2 years	16.1	16.1	16.1	16.1	16.0	16.0	16.0	16.0	16.0	16.0	15.8	15.8	15.8
- 3 years	15.8	15.8	15.8	15.8	15.7	15.7	15.7	15.6	15.6	15.6	15.3	15.3	15.2
- 5 years	16.2	16.2	16.2	16.1	16.1	16.1	16.2	16.2	16.2	16.3	15.9	15.9	16.0
- over 5 years	16.3	16.3	16.4	16.3	16.3	16.3	16.2	16.1	16.2	16.2	15.5	15.5	15.5
Total	15.9	15.9	15.9	15.9	15.8	15.8	15.7	15.7	15.7	15.7	15.2	15.2	15.2
Housing loans with original maturity of:													
- 1 year	7.5	7.4	7.5	7.1	6.7	6.6	6.1	5.8	5.8	5.7	5.8	5.8	5.7
- 2 years	8.1	8.0	7.8	7.1	6.7	6.6	6.1	5.8	5.8	5.7	5.8	5.8	5.7
- 3 years	7.9	7.9	7.7	7.3	7.0	6.8	6.3	6.0	6.0	5.8	5.9	5.9	5.9
- 5 years	8.7	8.7	8.5	8.2	7.8	7.6	7.1	6.7	6.7	6.6	6.0	6.6	6.6
- over 5 years	8.3	8.1	8.0	7.9	7.4	7.4	7.1	6.5	6.5	6.4	6.1	6.1	6.1
Total	8.1	8.0	7.9	7.6	7.2	7.0	6.6	6.2	6.2	6.1	5.9	6.0	6.0
Loans to private entrepreneurs with original maturity of:													
- 1 year	9.3	9.3	9.2	8.9	8.5	8.3	7.9	7.6	7.4	7.3	7.3	7.3	7.3
- 2 years	9.9	9.8	9.6	9.4	8.9	8.8	8.3	8.0	7.8	7.7	7.7	7.6	7.7
- 3 years	9.2	9.2	9.1	8.9	8.4	8.1	7.6	7.5	7.2	7.2	7.1	7.1	7.1
- 5 years	8.8	8.8	8.7	8.5	8.0	7.8	7.4	7.2	6.9	6.8	6.7	6.7	6.7
- over 5 years	9.3	9.2	9.1	8.8	8.4	8.1	7.7	7.4	7.2	7.2	7.1	7.2	7.2
Total	9.3	9.2	9.1	8.9	8.4	8.2	7.8	7.5	7.3	7.2	7.2	7.2	7.2
Agricultural loans with original maturity of:													
- 1 year	8.3	8.3	8.3	7.7	7.1	7.1	6.5	6.3	6.2	5.7	5.6	5.6	5.6
- 2 years	8.6	8.6	8.5	8.0	7.4	7.4	6.8	6.5	6.4	5.9	5.9	5.9	5.9
- 3 years	8.5	8.5	8.5	8.0	7.4	7.4	6.8	6.5	6.4	5.9	5.8	5.8	5.8
- 5 years	8.4	8.4	8.4	7.9	7.4	7.3	6.7	6.5	6.3	5.9	5.8	5.8	5.8
- over 5 years	8.5	8.5	8.5	8.0	7.4	7.4	6.8	6.5	6.4	5.9	5.9	5.9	5.9
Total	8.5	8.5	8.5	8.0	7.4	7.3	6.7	6.5	6.4	5.9	5.8	5.8	5.8
Other loans with original maturity of:													
- 1 year	12.7	12.6	12.7	12.4	11.9	11.6	11.3	10.8	10.9	10.6	10.6	10.6	10.6
- 2 years	12.7	11.4	11.2	11.0	10.6	10.5	10.2	9.8	9.8	9.6	9.7	9.7	9.6
- 3 years	12.9	12.9	12.6	12.3	12.0	11.8	11.5	10.9	9.9	9.7	9.8	9.8	9.8
- 5 years	11.5	11.5	11.3	10.9	10.5	10.3	9.5	9.3	9.0	8.9	8.8	8.8	8.8
- over 5 years	10.5	10.6	10.2	9.9	9.7	9.4	8.7	8.4	8.3	8.2	8.3	8.2	8.2
Total	12.0	11.9	11.8	11.4	11.1	10.9	10.4	9.9	9.8	9.6	9.6	9.6	9.5
Total households loans	12.1	12.0	11.9	11.7	11.5	11.4	11.0	10.7	10.6	10.5	10.3	10.3	10.3
Total loans to non-financial corporations and consumer	10.3	10.3	10.2	10.0	9.7	9.7	9.3	9.1	9.1	9.0	8.9	8.9	8.9
Total zloty loans	10.4	10.3	10.2	10.0	9.6	9.6	9.2	8.9	8.9	8.8	8.6	8.7	8.6

TABLE VI

Aggregated Balance Sheet of Other Monetary Financial Institutions (million zloty)
ASSETS

Specification	2004	2005		
	XII	I	II	III
Loans to domestic residents*	307,501.9	311,556.2	316,228.5	323,494.5
– Monetary financial institutions*	45,103.0	43,750.4	48,913.5	50,684.3
– General government*	20,474.2	20,576.5	20,290.1	21,574.5
– Other domestic residents ¹	241,924.7	247,229.3	247,024.9	251,235.7
Holdings of securities other than shares issued by domestic residents	110,593.1	111,878.4	116,638.7	117,934.6
– Monetary financial institutions	14,721.4	15,372.7	20,741.3	18,912.1
– General government	93,158.2	93,851.2	93,390.7	96,831.5
– Other domestic residents ¹	2,713.5	2,654.5	2,506.7	2,191.0
Holdings of shares/other equity issued by domestic residents	7,660.3	7,159.2	7,465.1	7,324.4
– Monetary financial institutions	1,126.5	970.6	974.9	1,082.9
– Other domestic residents ¹	6,533.8	6,188.6	6,490.2	6,241.5
External assets	83,844.7	81,875.7	83,960.5	86,743.1
Fixed assets²	29,742.9	29,883.8	29,931.8	30,052.7
Remaining assets*	38,902.5	36,349.5	38,995.4	35,760.5
Total assets	578,245.4	578,702.8	593,220.0	601,309.8

* Data calculated for all periods since 1999 – see "Methodological Notes" (interest due).

¹ Non-monetary financial institutions and non-financial sector.

² 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	2004	2005		
	XII	I	II	III
Deposits of domestic residents	381,663.7	381,690.5	390,905.2	400,649.7
– Monetary financial institutions	35,465.7	34,818.5	39,735.9	41,107.4
– Central government	12,337.9	12,541.3	12,637.4	12,702.7
– Other domestic residents ¹	333,860.1	334,330.7	338,531.9	346,839.6
– overnight	124,109.0	122,721.6	126,911.6	129,131.6
– with agreed maturity	203,896.4	204,392.0	204,660.2	210,398.3
– redeemable at notice	28.8	30.3	30.9	37.6
– repurchase agreements	5,825.9	7,186.8	6,929.2	7,272.1
Debt securities issued	4,653.1	5,179.6	5,091.6	5,073.3
Capital and reserves	88,291.7	89,020.8	90,390.4	89,949.5
Tier-1 capital	46,287.9	47,966.6	48,053.7	47,280.2
Tier-2 capital	1,651.3	1,626.4	2,566.4	2,513.6
Reserves	40,352.5	39,427.8	39,770.3	40,155.7
External liabilities	50,651.4	49,068.5	49,352.8	50,260.2
Remaining liabilities	52,985.5	53,743.4	57,480.0	55,377.1
Total liabilities	578,245.4	578,702.8	593,220.0	601,309.8

** Methodological adjustment since VI 2005 – see "Methodological Notes" (subordinated credits).

¹ Non-monetary financial institutions, local government, social security funds and non-financial sector.

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
334,034.9	337,127.0	335,172.5	338,041.7	344,084.4	348,116.8	348,616.2	356,701.6	348,665.0
54,048.9	51,858.2	53,622.8	55,027.0	56,984.2	58,003.7	53,370.1	57,098.9	52,089.0
20,370.0	19,127.4	19,524.1	18,300.8	19,694.2	20,311.5	20,174.5	22,690.0	20,404.1
259,616.0	266,141.4	262,025.6	264,713.9	267,406.0	269,801.6	275,071.6	276,912.7	276,171.9
113,949.4	114,402.9	121,834.1	120,174.0	114,613.5	120,838.9	122,138.2	117,023.5	126,541.0
18,995.4	19,825.8	25,647.4	26,200.5	26,433.3	29,603.6	31,006.2	27,868.4	32,396.3
92,974.1	92,325.2	94,016.8	91,719.7	86,049.9	89,306.6	89,055.3	87,117.9	91,634.4
1,979.9	2,251.9	2,169.9	2,253.8	2,130.3	1,928.7	2,076.7	2,037.2	2,510.3
7,535.8	6,622.9	7,067.9	6,928.5	6,785.5	6,652.4	6,620.0	6,370.5	6,544.2
1,089.6	1,098.9	1,113.7	1,013.8	1,014.5	1,023.9	1,028.7	1,026.7	838.9
6,446.2	5,524.0	5,954.2	5,914.7	5,771.0	5,628.5	5,591.3	5,343.8	5,705.3
91,780.5	94,986.9	91,683.3	91,949.5	95,961.9	94,273.0	100,280.2	94,385.4	91,719.8
30,140.5	30,252.6	30,324.4	30,321.8	30,398.0	30,492.1	30,602.0	30,799.2	31,046.7
35,619.6	33,494.8	29,553.0	30,308.4	30,657.9	28,788.2	30,438.1	28,355.1	27,176.3
613,060.7	616,887.1	615,635.2	617,723.9	622,501.2	629,161.4	638,694.7	633,635.3	631,693.0

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
408,585.5	414,509.1	416,290.1	421,826.3	423,891.7	433,898.3	439,749.4	434,998.2	434,192.7
44,611.4	40,718.2	43,910.9**	46,822.8	45,930.4	49,534.9	45,661.6	45,618.7	44,157.4
12,822.2	14,361.2	14,210**	20,101.5	16,690.4	18,277.0	20,553.7	17,005.6	13,381.4
351,151.9	359,429.7	358,169.2	354,902.0	361,270.9	366,086.4	373,534.1	372,373.9	376,653.9
122,184.1	135,638.1	133,174.0	129,375.6	136,790.3	136,138.6	138,917.1	145,373.3	149,627.6
220,355.8	214,036.6	213,701.2**	216,613.9	215,327.6	220,327.1	222,276.0	216,843.9	217,305.2
36.9	43.7	84.3	130.1	21.1	16.7	45.5	33.0	37.5
8,575.1	9,711.3	11,209.7	8,782.4	9,131.9	9,604.0	12,295.5	10,123.7	9,683.6
5,017.5	5,142.8	5,366.3**	5,315.1	5,416.7	5,167.7	5,537.9	5,704.7	5,444.4
91,458.5	92,670.7	94,034.8	93,719.3	94,384.6	94,278.0	93,690.1	93,145.3	92,543.9
48,136.8	48,995.5	49,452.6	49,378.0	49,818.9	50,468.0	50,492.2	50,375.4	50,517.1
2,479.5	2,580.8	2,700.4	2,466.9	2,673.5	2,369.6	1,864.7	1,646.5	1,874.8
40,842.2	41,094.4	41,881.8	41,874.4	41,892.2	41,440.4	41,333.2	41,123.4	40,152.0
52,335.9	52,710.4	53,095.3	50,102.8	50,369.9	50,632.1	53,788.7	52,662.3	54,142.7
55,663.3	51,854.1	46,848.7**	46,760.4	48,438.3	45,185.3	45,928.6	47,124.8	45,369.3
613,060.7	616,887.1	615,635.2	617,723.9	622,501.2	629,161.4	638,694.7	633,635.3	631,693.0

TABLE VII

Balance Sheet of the National Bank of Poland (million zloty)
ASSETS

Specification	2004	2005		
	XII	I	II	III
Loans to domestic residents*	1,086.8	1,085.5	1,084.9	1,056.1
– Other monetary financial institutions*	1,059.3	962.3	962.2	933.4
– General government*	0.0	0.0	0.0	0.0
– Other domestic residents ¹ *	27.5	123.2	122.7	122.7
Holdings of securities other than shares issued by domestic residents	114.8	114.9	115.0	115.1
– Other monetary financial institutions	114.8	114.9	115.0	115.1
– General government	0.0	0.0	0.0	0.0
Holdings of shares/other equity issued by domestic residents	80.9	80.9	80.9	80.9
– Other monetary financial institutions	0.0	0.0	0.0	0.0
– Other domestic residents ¹	80.9	80.9	80.9	80.9
External assets	114,867.4	132,688.2	130,388.1	125,262.5
Fixed assets ²	1,970.2	1,969.8	1,973.8	1,960.7
Remaining assets*	2,426.5	2,790.5	5,340.5	2,864.3
Total assets	120,546.6	138,729.8	138,983.2	131,339.6

* Data calculated for all periods since 1999 – see "Methodological Notes" (interest due).

¹ Non-monetary financial institutions and non-financial sector.

² 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	2004	2005		
	XII	I	II	III
Currency in circulation	55,924.9	54,401.4	55,058.8	56,103.5
Deposits of domestic residents	28,253.1	39,981.7	36,715.5	27,153.7
– Other monetary financial institutions	13,299.9	12,108.5	12,162.0	12,343.7
– Central government	13,813.2	27,234.8	23,796.3	13,962.9
– Other domestic residents ¹	1,140.0	638.4	757.2	847.1
Debt securities issued	13,556.4	14,316.4	19,816.4	18,316.4
Capital and reserves	2,944.0	2,954.8	2,966.3	2,970.4
– Tier-1 capital	2,058.6	2,058.6	2,058.6	2,058.6
– Reserves	885.4	896.2	907.7	911.8
External liabilities	4,837.7	9,407.8	9,267.7	8,818.6
Remaining liabilities	15,030.5	17,667.7	15,158.5	17,977.0
Total liabilities	120,546.6	138,729.8	138,983.2	131,339.6

¹ Non-monetary financial institutions, local – government, social security funds and non-financial sector.

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
1,349.1	1,056.2	2,897.4	2,897.8	2,897.4	2,808.7	2,712.2	2,707.1	3,081.9
1,226.5	933.4	2,774.6	2,774.6	2,774.6	2,685.9	2,685.9	2,681.0	3,056.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
122.6	122.8	122.8	123.2	122.8	122.8	26.3	26.1	25.9
115.2	115.3	115.4	115.5	115.6	115.7	115.8	92.8	73.3
115.2	115.3	115.4	115.5	115.6	115.7	115.8	92.8	73.3
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
80.9	80.9	80.9	80.9	80.9	80.9	80.9	80.9	80.9
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
80.9	80.9	80.9	80.9	80.9	80.9	80.9	80.9	80.9
139,420.5	140,576.8	143,368.4	143,029.7	142,588.6	139,410.2	143,540.4	143,200.4	145,017.5
1,969.5	1,948.0	1,955.5	1,966.1	1,969.2	1,977.7	2,001.2	1,990.2	2,046.3
2,585.6	2,591.5	1,067.3	896.9	1,071.9	2,593.5	2,217.6	3,113.0	521.2
145,520.8	146,368.7	149,484.9	148,986.9	148,723.6	146,986.7	150,668.1	151,184.4	150,821.1

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
57,982.0	58,002.4	58,762.5	60,025.5	60,095.9	60,118.4	61,244.9	60,649.0	62,596.9
33,694.8	35,545.4	37,045.8	33,880.6	34,462.4	28,975.5	26,922.0	32,426.0	28,347.6
12,100.6	14,077.7	12,538.1	12,279.3	15,068.2	12,286.7	11,641.7	14,766.3	10,679.1
20,568.2	20,421.7	23,537.1	20,500.2	18,130.7	15,657.5	14,120.3	16,444.3	16,417.2
1,026.0	1,046.0	970.6	1,101.1	1,263.5	1,031.3	1,160.0	1,215.4	1,251.3
18,416.4	19,016.4	24,716.4	25,316.4	25,316.4	28,316.4	29,616.4	26,529.4	30,816.4
2,980.0	2,965.3	3,197.4	3,206.6	3,218.2	3,229.4	3,238.2	3,229.9	3,244.8
2,058.6	2,058.6	2,278.0	2,278.0	2,278.0	2,278.0	2,278.0	2,278.0	2,278.0
921.4	906.7	919.4	928.6	940.2	951.4	960.2	951.9	966.8
8,451.4	8,519.6	7,479.4	8,176.7	8,183.9	10,165.0	12,161.9	10,799.5	12,143.3
23,996.2	22,319.6	18,283.4	18,381.1	17,446.8	16,182.0	17,484.7	17,550.6	13,672.1
145,520.8	146,368.7	149,484.9	148,986.9	148,723.6	146,986.7	150,668.1	151,184.4	150,821.1

TABLE VIII

Consolidated Balance Sheet of Monetary Financial Institutions
(million zloty)
ASSETS

Specification	2004	2005		
	XII	I	II	III
Loans to domestic residents*	262,426.4	267,929.0	267,437.7	272,932.9
– General government*	20,474.2	20,576.5	20,290.1	21,574.5
– Other domestic residents ¹ *	241,952.2	247,352.5	247,147.6	251,358.4
Holdings of securities other than shares issued by domestic residents	95,871.7	96,505.7	95,897.4	99,022.5
– General government	93,158.2	93,851.2	93,390.7	96,831.5
– Other domestic residents ¹	2,713.5	2,654.5	2,506.7	2,191.0
Holdings of shares/other equity ² issued by other domestic residents ¹	6,614.7	6,269.5	6,571.1	6,322.4
External assets	198,712.1	214,563.9	214,348.6	212,005.6
Fixed assets ³	31,713.1	31,853.6	31,905.6	32,013.4
Remaining assets*	36,179.7	34,481.4	39,765.0	33,904.7
Total assets	631,517.7	651,603.1	655,925.4	656,201.5

* Data calculated for all periods since 1999 – see “Methodological Notes” (interest due).

¹ Non-monetary financial institutions, and non-financial sector.

² Including rights issues (to XII 2003), units in investment funds and financial fixed assets.

³ Excluding financial fixed assets, incorporated in column 7.

⁴ Including rights issues (from I 2004).

TABLE VIII

Consolidated Balance Sheet of Monetary Financial Institutions
(million zloty)
LIABILITIES

Specification	2004	2005		
	XII	I	II	III
Currency in circulation	50,775.6	49,742.8	50,487.9	51,383.4
Deposits of central government	26,151.1	39,776.1	36,433.7	26,665.6
Deposits of other domestic residents ¹	335,000.1	334,969.1	339,289.1	347,686.7
– overnight	124,944.0	123,360.0	127,668.8	129,978.7
– with agreed maturity	204,201.4	204,392.0	204,660.2	210,398.3
– redeemable at notice	28.8	30.3	30.9	37.6
– repurchase agreements	5,825.9	7,186.8	6,929.2	7,272.1
Debt securities issued	3,373.3	4,008.4	4,051.7	4,362.5
Capital and reserves	90,109.2	91,005.0	92,381.8	91,928.5
External liabilities	55,489.1	58,476.3	58,620.5	59,078.8
Remaining liabilities	68,016.0	71,411.1	72,638.5	73,262.6
Excess of inter – MFI liabilities	2,603.3	2,214.3	2,022.2	1,833.4
Total liabilities	631,517.7	651,603.1	655,925.4	656,201.5

** Methodological adjustment since VI 2005 – see “Methodological Notes” (subordinated credits).

¹ Non-monetary financial institutions, local government, social security funds and non-financial sector.

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
280,108.6	285,391.6	281,672.5	283,137.9	287,223.0	290,235.9	295,272.4	299,628.8	296,601.9
20,370.0	19,127.4	19,524.1	18,300.8	19,694.2	20,311.5	20,174.5	22,690.0	20,404.1
259,738.6	266,264.2	262,148.4	264,837.1	267,528.8	269,924.4	275,097.9	276,938.8	276,197.8
94,954.0	94,577.1	96,186.7	93,973.5	88,180.2	91,235.3	91,132.0	89,155.1	94,144.7
92,974.1	92,325.2	94,016.8	91,719.7	86,049.9	89,306.6	89,055.3	87,117.9	91,634.4
1,979.9	2,251.9	2,169.9	2,253.8	2,130.3	1,928.7	2,076.7	2,037.2	2,510.3
6,527.1	5,604.9	6,035.1	5,995.6	5,851.9	5,709.4	5,672.2	5,424.7	5,786.2
231,201.0	235,563.7	235,051.7	234,979.2	238,550.5	233,683.2	243,820.6	237,585.8	236,737.3
32,110.0	32,200.6	32,279.9	32,287.9	32,367.2	32,469.8	32,603.2	32,789.4	33,093.0
33,471.9	30,983.2	25,702.1	26,444.2	26,879.8	26,609.3	27,194.2	26,700.6	22,255.3
678,372.6	684,321.1	676,928.0	676,818.3	679,052.6	679,942.9	695,694.6	691,284.4	688,618.4

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
53,248.7	52,899.3	53,844.3	55,264.4	55,245.9	55,346.0	55,783.4	55,881.5	57,154.7
33,390.4	34,782.9	37,747.1**	40,601.7	34,821.1	33,934.5	34,674.0	33,449.9	29,798.6
352,177.9	360,475.7	359,139.8	356,003.1	362,534.4	367,117.7	374,694.1	373,589.3	377,905.2
123,210.1	136,684.1	134,144.6	130,476.7	138,053.8	137,169.9	140,077.1	146,588.7	150,878.9
220,355.8	214,036.6	213,701.2**	216,613.9	215,327.6	220,327.1	222,276.0	216,843.9	217,305.2
36.9	43.7	84.3	130.1	21.1	16.7	45.5	33.0	37.5
8,575.1	9,711.3	11,209.7	8,782.4	9,131.9	9,604.0	12,295.5	10,123.7	9,683.6
4,323.3	4,218.1	4,319.9**	4,315.5	4,184.2	3,764.8	4,032.3	4,272.9	3,791.2
93,446.7	94,638.8	96,220.6	96,016.9	96,695.2	96,597.5	96,018.8	95,466.0	95,071.8
60,787.3	61,230.0	60,574.7	58,279.5	58,553.8	60,797.1	65,950.6	63,461.8	66,286.0
79,561.7	74,072.0	65,030**	65,036.7	65,778.2	61,253.3	63,294.1	64,557.9	58,919.4
1,436.6	2,004.3	51.6**	1,300.5	1,239.8	1,132.0	1,247.3	605.1	-308.5
678,372.6	684,321.1	676,928.0	676,818.3	679,052.6	679,942.9	695,694.6	691,284.4	688,618.4

TABLE IXa

M3 and Counterparts (million zloty)

Specification	2004	2005		
	XII	I	II	III
1. Currency in circulation (excluding vault cash)	50,775.6	49,742.7	50,487.9	51,383.4
- Currency in circulation (including vault cash)	55,924.9	54,401.4	55,058.8	56,103.5
- Cash in banks vaults	5,149.3	4,658.7	4,570.9	4,720.1
2. Overnight deposits and other liabilities	124,943.9	123,360.1	127,668.7	129,978.7
- Households	58,646.1	59,004.6	61,485.6	61,844.2
- of which individuals	46,717.1	47,881.0	50,266.0	50,962.7
- Non-monetary financial institutions	6,272.5	5,797.0	6,606.2	6,704.0
- Non-financial corporations	44,921.6	44,364.1	43,452.1	45,680.2
- Non-profit institutions serving households	3,984.9	3,824.9	3,930.3	3,957.9
- Local government	9,103.5	9,332.9	11,078.2	10,699.9
- Social security funds	2,015.3	1,036.6	1,116.3	1,092.6
M1 (1 + 2)	175,719.5	173,102.8	178,156.6	181,362.0
3. Deposits and other liabilities with agreed maturity up to 2 years and blocked deposits	186,718.3	186,953.8	186,079.5	190,387.4
- Households	133,920.7	138,853.7	137,348.0	139,232.1
- of which individuals	132,046.3	137,108.9	135,570.7	137,354.3
- Non-monetary financial institutions	5,069.9	4,208.5	4,016.0	4,235.4
- Non-financial corporations	40,179.3	34,545.0	34,928.6	36,547.2
- Non-profit institutions serving households	4,952.8	5,101.2	5,112.2	5,160.5
- Local government	2,217.2	3,269.2	3,675.4	4,151.0
- Social security funds	378.3	976.2	999.3	1,061.1
4. Deposits redeemable at notice up to 3 months	20.0	19.1	18.2	23.4
M2 (M1 + 3 + 4)	362,457.8	360,075.6	364,254.3	371,772.8
5. Repurchase agreements	5,825.9	7,186.8	6,929.2	7,272.1
6. Debt securities issued with maturity up to 2 years	1,200.6	1,153.0	1,213.1	1,182.1
M3 (M2 + 5 + 6)	369,484.4	368,415.4	372,396.7	380,227.0

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
53,248.7	52,899.3	53,844.3	55,264.3	55,246.0	55,346.0	55,783.4	55,881.5	57,154.7
57,982.0	58,002.4	58,762.5	60,025.5	60,095.9	60,118.4	61,244.9	60,649.0	62,596.9
4,733.3	5,103.1	4,918.2	4,761.2	4,850.0	4,772.4	5,461.5	4,767.5	5,442.2
123,210.1	136,684.2	134,144.6	130,476.7	138,053.8	137,170.0	140,077.2	146,588.7	150,878.9
62,335.5	63,566.4	63,697.8	64,455.2	65,437.8	65,256.3	65,669.5	67,586.5	70,806.3
51,991.0	53,086.4	52,864.3	53,418.6	53,854.8	53,656.0	53,768.5	55,566.4	56,360.2
7,298.1	9,398.7	7,377.8	7,247.6	7,666.5	7,586.5	7,625.0	8,985.7	8,860.1
39,164.6	47,217.9	47,478.0	43,159.9	48,851.0	47,920.8	49,825.9	52,625.8	54,887.7
3,758.8	4,139.7	4,010.8	4,105.5	4,269.7	4,273.4	4,410.6	4,443.9	4,546.4
9,401.1	11,054.7	10,555.4	10,249.6	10,403.2	10,843.4	11,092.4	11,684.9	10,507.0
1,252.0	1,306.7	1,024.8	1,258.9	1,425.6	1,289.7	1,453.8	1,261.9	1,271.3
176,458.8	189,583.4	187,988.9	185,741.1	193,299.8	192,516.0	195,860.6	202,470.2	208,033.6
199,914.2	192,925.4	191,138.3	193,916.8	192,852.3	197,958.1	199,397.0	194,192.9	194,447.9
139,592.9	136,498.7	135,957.7	136,090.2	135,739.3	134,605.5	134,983.8	132,849.0	132,729.7
137,567.7	134,698.7	134,011.4	134,061.8	133,746.9	132,490.8	132,861.2	130,731.2	130,243.0
5,196.4	8,310.1	4,929.7	5,140.1	5,783.5	6,004.4	6,500.5	6,712.7	6,320.4
43,051.7	36,673.9	38,419.8	40,397.5	39,570.0	45,055.3	45,491.2	42,041.4	44,527.9
5,517.2	5,245.3	5,449.3	5,488.5	5,316.2	5,362.2	5,401.5	5,359.6	5,161.8
5,364.7	4,883.0	4,629.0	4,944.5	4,722.1	5,027.5	5,078.9	4,755.8	3,195.0
1,191.3	1,314.5	1,752.9	1,856.0	1,721.2	1,903.3	1,941.1	2,474.4	2,513.2
21.0	23.2	26.4	22.7	20.8	16.4	25.3	11.9	13.2
376,394.0	382,532.1	379,153.6	379,680.6	386,172.9	390,490.5	395,282.9	396,675.0	402,494.7
8,575.1	9,711.3	11,209.7	8,782.4	9,131.9	9,604.0	12,295.5	10,123.7	9,683.6
1,175.7	1,178.8	1,098.0	1,081.4	943.6	894.5	784.6	339.9	167.8
386,144.8	393,422.2	391,461.3	389,544.3	396,248.4	400,989.0	408,363.0	407,138.7	412,346.0

TABLE IXb

M3 and Counterparts (million zloty)

Specification	2004	2005		
	XII	I	II	III
Net external assets	143,223.1	156,087.6	155,728.0	152,926.7
- External assets	198,712.1	214,563.9	214,348.6	212,005.5
- External liabilities	55,489.1	58,476.3	58,620.6	59,078.8
Credit to other domestic residents*	269,433.1	274,574.4	273,937.5	278,785.3
Loans to other domestic residents*	257,809.4	263,359.3	262,656.2	268,033.8
- Households*	112,071.3	115,693.5	115,128.5	117,929.6
- of which individuals*	84,594.6	88,050.6	87,522.7	90,163.7
- Non-monetary financial institutions*	9,298.3	9,886.2	10,086.8	10,343.9
- Non-financial corporations*	119,867.7	121,059.9	121,225.9	122,381.4
- Non-profit institutions serving households*	714.9	713.0	706.4	703.4
- Local government*	11,053.8	10,921.2	10,717.5	10,574.3
- Social security funds*	4,803.4	5,085.6	4,791.1	6,101.2
Holdings of securities other than shares	5,009.0	4,945.6	4,710.1	4,429.2
- issued by Non-monetary financial institutions	602.1	533.2	585.6	500.1
- issued by Non-financial corporations	2,111.5	2,121.2	1,921.1	1,690.9
- issued by Local government	2,295.4	2,291.1	2,203.4	2,238.2
Holdings of shares/other equity	6,614.7	6,269.5	6,571.2	6,322.4
- Non-monetary financial institutions	4,838.0	4,591.4	4,845.2	4,637.0
- Non-financial corporations	1,776.7	1,678.1	1,726.1	1,685.3
Credit to central government, net	69,328.6	56,353.7	59,535.2	72,826.8
Credit to central government	95,479.7	96,129.8	95,968.8	99,492.4
- Loans	4,539.5	4,529.6	4,741.2	4,851.9
- Debt securities issued	90,862.7	91,560.1	91,187.3	94,593.3
Deposits of central government	26,151.2	39,776.1	36,433.6	26,665.6
Longer-term financial liabilities	107,728.3	108,581.4	111,103.0	112,080.5
Deposits with agreed maturity over 2 years and deposits redeemable at notice over 3 months	17,491.9	17,449.4	18,593.4	20,025.1
- Households	14,591.9	14,516.1	15,659.6	16,629.5
- of which individuals	14,372.2	14,278.1	15,403.5	16,360.6
- Non-monetary financial institutions	1,884.1	1,874.7	1,911.8	2,321.1
- Non-financial corporations	824.2	864.9	822.9	866.8
- Non-profit institutions serving households	177.1	179.5	183.1	191.0
- Local government	14.6	14.3	16.0	16.6
- Social security funds	0.0	0.1	0.1	0.1
Debt securities issued with maturity over 2 years	127.0	127.1	127.7	126.9
Capital and reserves	90,109.3	91,004.9	92,381.9	91,928.5
Fixed assets (excluding financial fixed assets)	31,713.1	31,853.6	31,905.5	32,013.4
Other items (net)*	-36,485.2	-41,872.5	-37,606.5	-44,244.8

* Data calculated for all periods since 1999 – see "Methodological Notes" (interest due).

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
170,413.7	174,333.7	174,477.0	176,699.7	179,996.7	172,886.0	177,870.0	174,124.0	170,451.3
231,201.0	235,563.7	235,051.7	234,979.2	238,550.5	233,683.1	243,820.6	237,585.8	236,737.3
60,787.3	61,229.9	60,574.7	58,279.5	58,553.8	60,797.1	65,950.6	63,461.8	66,286.0
286,051.2	291,084.8	287,831.0	289,272.2	293,156.1	295,997.2	300,993.3	305,066.0	303,300.3
275,300.9	280,979.9	277,384.2	278,736.6	282,911.1	286,153.5	291,087.1	295,443.0	292,650.5
123,841.8	129,970.1	125,638.1	128,775.1	131,819.7	133,630.7	137,522.8	139,544.1	141,251.8
95,623.2	101,559.7	97,046.3	99,785.5	102,540.0	104,193.3	107,948.5	109,610.7	111,892.9
11,091.0	11,262.9	11,723.2	11,619.6	11,386.4	11,489.8	11,915.6	11,454.6	11,353.8
124,082.8	124,313.8	124,063.7	123,697.5	123,534.4	123,964.6	124,783.2	125,041.6	122,756.4
723.1	717.5	723.5	745.0	788.3	839.2	876.2	898.6	835.9
10,459.1	10,357.5	10,261.2	10,314.8	10,412.7	10,366.5	10,518.2	10,986.3	11,900.5
5,103.1	4,358.3	4,974.6	3,584.6	4,969.6	5,862.7	5,471.0	7,517.9	4,552.2
4,223.2	4,500.0	4,411.8	4,540.1	4,393.2	4,134.4	4,234.0	4,198.3	4,863.7
293.7	446.0	350.9	347.0	346.5	283.2	274.2	361.2	342.2
1,686.3	1,806.0	1,819.0	1,906.8	1,783.8	1,645.5	1,802.6	1,676.0	2,168.1
2,243.3	2,248.1	2,241.9	2,286.3	2,262.8	2,205.8	2,157.3	2,161.1	2,353.4
6,527.1	5,604.9	6,035.0	5,995.5	5,851.9	5,709.3	5,672.2	5,424.7	5,786.1
4,683.3	3,743.1	4,079.4	4,146.7	4,121.7	4,067.5	4,090.3	3,781.3	4,250.6
1,843.8	1,861.7	1,955.7	1,848.8	1,730.2	1,641.8	1,581.8	1,643.4	1,535.5
62,148.2	59,705.9	58,312.1	53,229.0	53,273.7	57,248.7	56,409.3	55,692.6	63,433.9
95,538.5	94,488.8	96,063.3	93,834.8	88,098.9	91,183.1	91,083.4	89,142.5	93,232.5
4,768.6	4,379.1	4,258.6	4,368.6	4,281.8	3,902.0	3,888.6	3,877.8	3,657.1
90,730.8	90,077.1	91,775.0	89,433.4	83,787.1	87,100.8	86,898.1	84,956.8	89,281.0
33,390.4	34,782.8	37,751.2	40,605.7	34,825.2	33,934.4	34,674.0	33,449.9	29,798.6
114,031.0	115,897.7	118,997.9	118,977.8	119,327.2	119,127.2	119,078.8	118,295.4	118,114.8
20,457.5	21,131.7	22,620.8	22,804.5	22,475.5	22,369.2	22,899.1	22,672.0	22,881.6
17,050.2	17,652.0	18,989.4	19,224.4	18,873.3	18,587.3	19,164.9	19,325.6	19,724.6
16,776.4	17,374.5	18,684.0	18,903.0	18,541.1	18,227.0	18,755.0	18,925.1	19,300.1
2,305.9	2,321.8	2,404.1	2,346.5	2,355.2	2,418.6	2,375.4	1,992.0	1,749.8
886.4	924.9	975.2	968.6	978.9	1,096.9	1,075.0	1,069.9	1,098.7
198.5	214.2	232.9	244.1	247.1	244.6	261.5	263.4	288.7
16.4	18.7	19.2	20.8	21.0	21.7	22.3	21.1	19.7
0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
126.9	127.2	156.5	156.5	156.5	160.5	160.9	157.5	161.5
93,446.6	94,638.8	96,220.5	96,016.7	96,695.1	96,597.5	96,018.7	95,465.9	95,071.7
32,110.0	32,200.6	32,279.9	32,288.0	32,367.2	32,469.8	32,603.2	32,789.4	33,093.0
-50,547.3	-48,005.2	-42,440.9	-42,966.8	-43,218.2	-38,485.6	-40,434.1	-42,237.8	-39,817.7

TABLE X

Reserve Money and Counterparts (million zloty)

Specification	2004	2005*		
	XII	I	II	III
External assets, net	110,029.7	123,280.4	121,120.4	116,443.9
Official reserve assets	109,996.3	127,821.2	125,484.8	120,464.2
Refinancing credit	3,047.7	2,950.7	2,950.7	2,862.2
– Rediscount credit	0.0	0.0	0.0	0.0
– Lombard credit	0.0	0.0	0.0	0.0
– Credit for rehabilitation programmes	0.0	0.0	0.0	0.0
– Credit for central government investment projects	2,950.7	2,950.7	2,950.7	2,862.2
– Other credit	97.0	0.0	0.0	0.0
– Overdue credit	0.0	0.0	0.0	0.0
Open market operations (net)	-5,740.0	-6,500.0	-12,000.0	-10,500.0
– Auction credit	0.0	0.0	0.0	0.0
– Auction deposits	0.0	0.0	0.0	0.0
– NBP bills	-5,740.0	-6,500.0	-12,000.0	-10,500.0
Credit to central government, net	-13,813.2	-27,238.4	-23,796.3	-13,962.9
Other items (net)	-24,351.7	-25,989.9	-21,054.5	-26,437.6
Central Bank reserve money	69,172.5	66,502.9	67,220.3	68,405.6
– Currency in circulation (including vault cash)	55,924.9	54,401.4	55,058.8	56,103.5
– Bank current accounts	13,230.4	12,084.0	12,139.6	12,278.1
– Reserve requirements accounts	17.1	17.5	22.0	24.0

* Effective from January 2005, values from "Other loans" were transferred to "Net balance of other items" owing to the implementation of MFI list, used in monetary statistics while drawing up the sectoral qualification of entities.

2005								
IV	V	VI	VII	VIII	IX	X	XI	XII
130,969.1	132,057.2	135,889.1	134,853.1	134,404.7	129,245.1	131,378.6	132,400.8	132,874.2
134,503.8	135,182.4	137,983.8	137,455.8	136,995.4	133,735.7	137,821.5	137,437.7	138,837.6
3,155.2	2,862.2	2,773.7	2,773.7	2,773.7	2,685.1	2,685.1	2,680.2	3,055.7
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
293.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	464.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2,862.2	2,862.2	2,773.7	2,773.7	2,773.7	2,685.1	2,685.1	2,680.2	2,591.7
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
-10,600.0	-11,200.0	-16,900.0	-17,500.0	-17,500.0	-20,500.0	-21,800.0	-18,713.0	-23,000.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
-10,600.0	-11,200.0	-16,900.0	-17,500.0	-17,500.0	-20,500.0	-21,800.0	-18,713.0	-23,000.0
-20,568.2	-20,421.7	-23,537.1	-20,500.2	-18,130.7	-15,657.5	-14,120.3	-16,444.3	-16,417.2
-33,228.3	-31,312.9	-27,044.3	-28,046.9	-26,519.6	-23,528.9	-25,460.7	-24,761.7	-26,007.7
69,727.9	71,984.8	71,181.4	71,579.6	75,028.0	72,243.9	72,682.7	75,162.0	70,505.0
57,982.0	58,002.4	58,762.5	60,025.5	60,095.9	60,118.4	61,244.9	60,649.0	62,596.9
11,721.8	13,954.5	12,396.4	11,530.4	14,905.9	12,100.2	11,412.1	14,486.8	7,880.7
24.1	28.0	22.5	23.7	26.1	25.3	25.7	26.3	27.4

METHODOLOGICAL NOTES

Please be advised that as of June 2005, the Department of Statistics of the National Bank of Poland redefined monetary categories published in the Statistical Annex to the Annual Report of the NBP. Adjustments have been made during works on data harmonization in ESCB, in line with ECB recommendations. Change in definition of monetary categories was effected owing to classification adjustments:

- due interest on liabilities,
- subordinated liabilities.

With regard to due interest on liabilities, adjustments were made for all periods presented in the Statistical Annex to the Report, whereas adjustments to subordinated liabilities pertain to periods as from June 2005.

Detailed description of reclassification adjustments is presented below.

TABLE VI Aggregated Balance Sheet of Other Monetary Financial Institutions

Assets

Category: "Credits, loans and other claims to domestic residents".

Interest due were excluded from the abovementioned category and hence transferred to the "Remaining assets" category. Thus the abovementioned category include current accounts, reserve requirements, open market operations, deposits, loans and credits, debt purchased, realized guarantees and sureties, other claims, interest due and claims on securities purchased under repurchase agreements, while the interest due are included in the "Remaining assets" category comprising among others interest not due.

The above description indicates that the amount in interest due was transferred from item in the category "Credits, loans and other claims to domestic residents" to "Remaining assets".

Liabilities

Category: "Deposits and other liabilities to domestic residents" and "Debt securities issued".

Subordinated claims, previously classified "Remaining liabilities" as were included in the above categories.

Therefore the "Deposits and remaining liabilities to domestic residents" represent overnight deposits, deposits with agreed maturities, blocked deposits, deposits redeemable at notice, received credit and loans, including refinancing, auction (open market operations) and claims from cash collateral (classified to "with agreed maturities"), **subordinated claims (claims in the form of issued securities excluded)** other liabilities and claims on repurchase agreements. "Debt securities issued" are liabilities on own debt securities issued by other monetary financial institutions and subordinated claims in the form of issued securities.

The above description indicates that, the amount in subordinated claims was transferred from "Remaining Liabilities" to item in the category "Deposits and other liabilities to domestic residents" and "Debt securities issued".

TABLE VII Balance Sheet of the NBP – Assets

The item “Credits, loans and other claims to domestic residents” .

Interest due were excluded from the abovementioned category and hence transferred to the “Remaining assets” category. Consequently, the adjusted claims comprise: credits, realized guarantees and sureties, concentrated claims and other claims while the interest due are included in the “Remaining assets” category comprising among others interest not due.

The above description indicates that the amount in interest due was transferred from item in the category “Credits, loans and other claims to domestic residents” to “Remaining assets”.

TABLE VIII Consolidated Balance Sheet of Monetary Financial Institutions**Assets**

Category: “Loans to domestic residents”.

Interest due were excluded from the abovementioned category and transferred to „Remaining assets”. Consequently, the adjusted category comprises: credits and loans, deposits, realized guarantees and sureties, concentrated claims, claims on repo and other claims while the interest due are included in the “Remaining assets” category so far comprising interest not due.

The above description indicates that, the amount in interest due was transferred from item in the category “Loans to domestic residents” to “Remaining assets”.

Liabilities

Categories: “Deposits and other claims to central government”, “Deposits and other claims to other domestic residents” and “Debt securities issued”.

Subordinated claims, so far included in “Remaining liabilities” were transferred to the abovementioned categories.

Thus these redefined categories of deposits and other claims to central government, deposits and other claims to other domestic residents comprise: current deposits, fixed term deposits, blocked deposits, deposits with notice period, credits and loans received, claims on cash collaterals, **subordinated claims (save for those in securities issued)**, claims on repo, and other claims whereas the debt securities issued category includes; claims on issue of individual debt securities, and **subordinated claims in securities issued**.

The above description indicates that, the amount in subordinated claims was transferred from “Remaining liabilities” to “Deposits and other claims to central government”, item in the category “Deposits and other claims to other domestic residents” and to “Debt securities issued” category.

TABLE IX M3 and counterparts

Category: “Credit”.

Unpaid interest due were excluded form “Credit” category and transferred to “Other items (net)”. Therefore the redefined “Credit” category comprises the widely understood capital, i.e.

funds rendered available to the public by MFI (realized credits, guaranties and sureties, concentrated receivables and other claims). Whereas interest due were included in the category of "Other items (net)" so far including only interest not due. The hereinabove principle applies to claims included in the category: "Net credit to central government".

TABLE I Basic Statistical Data

Information contained in Table I is derived from the "Statistical Bulletin" of the Central Statistical Office [GUS]. Definitions of the categories presented in the Table can be found in the GUS publications.

1. Data presented in pts. 1, 2, 6, 7, 10 and 12 comprise national economy entities regardless of their ownership type, i.e. public sector entities (state-owned entities, units of local government and mixed ownership, where public sector entities prevail) and private sector entities.

2. The corporate sector comprises entities, which conduct their economic activities in the fields 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 as well as 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 sold production of industry (pt.1), and the construction and assembly production (pt. 2) refer to:

– economic entities with of more than 9 employees.

5. Data on the value of the sold production of industry (pt. 1) and the construction and assembly production (pt. 2) are disclosed net without the due value added tax (VAT) and the excise tax, while they include subsidies for specific purposes to products and services in the so-called base prices.

6. Construction and assembly production data (pt. 2) refer to works performed in Poland by the business entities of the construction sector, i.e. classified under "construction" according to the PKD.

7. Information on the sold production of industry (pt. 1) and the construction assembly production (pt. 2) are disclosed without seasonal adjustments.

8. Data on employed persons includes those employed on a full and part-time basis in the main place of work. Employed persons include: persons employed on the basis of a labour contract; owners and co-owners of units engaged in economic activities including contributing family members; outworkers; agents and persons employed by agents; members of agricultural production. Data presented in the Bulletin does not include private farmers or employees of budget entities conducting activity within the scope of national defence and public safety.

9. The unemployment rate (pt. 9) denotes the proportion of the registered unemployed to the professionally active civilian population. Data on the registered unemployment rate are presented after taking into account the verified number of persons employed in private farms, which is a component of the professionally active civilian population. The verification of the number of the employed was done on the basis of the results of the National Population and Housing Census 2002 and the National Agricultural Census 2002.

10. Revenues from privatisation do not constitute the current revenues of the state budget; instead they finance the budget deficit (pt. 11).

11. Financial performance of non-financial corporations (pt. 12) concerns economic entities which keep account books and are obliged to prepare statements on their revenues, costs and financial results on a quarterly basis; however, the data for all types of economic activities applies to the entities with a number of employees exceeding 49.

TABLE II Financial Market – Basic Information

Information comprised in Table II has been derived from the National Bank of Poland (save for the data in pt. 13, supplied by the Warsaw Stock Exchange).

1. Interest rates in Table II are presented on an annual basis at the level which was binding on the last day of a given month. The average monthly interest rate has been given only for the weighted average yield on purchased T-bills or the NBP money-market bills.

2. Two interest rates are shown in one column (pt. 3 – interest rate on refinancing loan) means that the first interest rate refers to the refinancing loan for financing central investment projects which have a State Treasury guarantee. It is equal to the lombard rate. The other rate, which is higher by 1 percentage point, refers to other refinancing loans.

3. As of 1 December 2001, the NBP introduced the Central Bank deposit rate (pt. 4). This rate sets the price offered by the Central Bank to commercial banks for short-term deposits.

4. Total reserve requirements (pt. 9) pertain to the volumes declared by banks and binding on the last day of the month. Since 28 February 2002, the total reserve requirements are held exclusively on the NBP accounts.

5. Information on treasury bill tenders (pt. 10), except for the stocks of bills in circulation at the end of the month, comprises data from tenders conducted within one month. The average yield on bills purchased is weighted by the share of the sales of bills with different maturities in the total value of bills purchased. The stock of bills in circulation at month end has been determined on the basis of the agreed maturity, calculated from the day after the tender which resulted in the sale of the bill. The above stock does not include bills in circulation which do not stem from tenders.

6. Information on tenders for the NBP money-market bills (pt. 11), except for the stock of bills in circulation at month end, comprises data from tenders conducted within one month. The average yield on bills purchased is weighted by the share of the sales of bills with different maturities in the total value of bills purchased.

7. Information on the results of the trading sessions on the Warsaw Stock Exchange (pt. 13) is disclosed on the basis of the Warsaw stock exchange system introduced in November 2000. To assure data comparability, the data for the period from January to November 2000 has been recalculated. The National bank of Poland has no available recalculated data for 1999.

8. The Warsaw Stock Exchange Index [WIG Index] and the Warsaw Parallel Market Index [WIRR Index] are calculated by a so-called capital formula, which reflects the 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 the 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 from the end of 1994 were equal to 1,000 points.

9. The indices comprise companies from all the quotation markets.

10. Capitalization refers only to domestic companies.

11. The P/E ratio shows the relation of the market price to net earnings and is calculated as a quotient of the total market value of companies at month end to their aggregated profits and losses generated within the last 4 quarters, for which financial data are available.

12. The turnover ratio shows the relation between the value of sold shares to the average value of shares quoted in a given month.

13. The monthly turnover value and the turnover ratio comprise the continuous quotation and fixing.

TABLE III PLN/USD and PLN/EUR daily exchange rates in 2005

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. The average PLN/USD and PLN/EUR exchange rates and the USD/EUR ratio were calculated as the arithmetic average of the NBP average exchange rates for a month (based on daily exchange rates).

Sectoral classification of items in tables IV, V, VI, VII, VIII, IX and X

financial sector – comprises the following sub-sectors:

- monetary financial institutions¹ (including the central bank and other monetary financial institutions). *In Poland, the concept of other monetary financial institutions applies to banks from January 2005 credit unions (SKOK) and money market funds;*
- insurance corporations and pension funds:
- other financial intermediaries (including SKOK [Co-operative Saving and Credit Unions] to December 2004, financial leasing companies, factoring companies, brokerage offices, investment funds and financial companies created for securitization);
- financial auxiliaries (including bureaux de change, bourses, hire purchase institutions);

¹ In accordance with the ECB definition, monetary financial institutions (MFIs) comprise financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs 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;
- individual entrepreneurs;
- farmers;
- individuals;
- non-profit institutions serving households.

In Table IX “M3 and counterparts”, claims and liabilities of banks to the non-financial sector are sub-divided into three sectors:

- *households* – comprising:
 - individuals;
 - farmers;
 - individual entrepreneurs (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: individual entrepreneurs with more than 9 employees);
- *non-profit institutions serving households*: (separate legal entities, which serve households. Their principal resources, apart from those derived from occasional sales, are derived from voluntary contributions in cash or in kind from households, from payments made by general governments 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 Insurance Institution and the Agricultural Social Insurance Fund and the funds they manage, and the healthcare funds).

Details on sectoral breakdown of relevant subjects and monetary aggregates are available on NBP website (www.nbp.pl ⇒ sprawozdawczość ⇒ dla NBP przekazywana przez banki ⇒ instrukcje).

TABLE IV Weighted interest rates on zloty deposit offered by commercial banks

Weighted interest rates are calculated on the basis of data derived from 11 commercial banks, i.e.:

Powszechna Kasa Oszczędności – Bank Polski SA,

Bank Handlowy w Warszawie SA,

ING Bank Śląski SA,

Bank BPH SA,

Bank Zachodni WBK SA,

BRE Bank SA,

Bank Millennium SA,

Bank Polska Kasa Opieki SA,

Kredyt Bank SA,

Bank Gospodarki Żywnościowej SA,

Raiffeisen Bank Polska SA.

These banks, in the case of residents, held 79.5% of household zloty deposits and 76.8% of corporate zloty deposits as at the end of December 2005.

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 an annual basis, without capitalisation. Banks supply interest rates of a product with the highest share in a given item category. In the calculations, floating interest rates have been given a priority. Fixed interest rates are taken into account only when floating interest rates are not available. Banks which do not offer any products in a given category have not been included in the calculation.

TABLE V Weighted average interest rates on zloty loans offered by commercial banks

General rules for their calculation are the same as for zloty deposits presented in Table IV and they refer to the same group of banks. Their share in the zloty loans to non-financial corporations was equal to 71.6% and 58.2% for loans extended to households. As a rule, interest rates offered to the clients with the highest creditworthiness are included in the reports sent to the NBP.

General comments on Tables VI, VII, VIII

1. The figures refer to the end of each reporting month and have been derived from balance sheets received from the banks within the framework of the "Banking Reporting Information system (BIS)" and from the balance sheet of the National Bank of Poland and credit unions (SKOK).

2. The presentation is structured in accordance with the ECB standards.
3. Assets in Tables VI, VII, VIII are shown gross of provisions, accumulated depreciation and write downs (except for securities presented at a market price).
4. Apart from external assets/liabilities and capital and reserves, all categories reflect operations with residents.

TABLE VI Aggregated Balance Sheet of Other Monetary Financial Institutions – Assets and Liabilities

1. **Credits, loans and other claims to domestic residents** include current accounts, reserve requirements, open market operations, deposits, loans and credits, debt purchased, realised guarantees and sureties, other claims, interest due and claims on securities purchased under repurchase agreements.
2. Debt securities issued by domestic residents held by other monetary financial institutions.
3. **Securities and other shares and other equity issued by domestic residents** include shares, investment fund participation units, investment certificates and fixed financial assets (shares).
4. **External assets** include all assets of non-residents denominated in zloty and foreign currencies.
5. **Fixed assets** include total fixed assets except for financial fixed assets.
6. **Other assets** include vault cash, i.e. cash and other cash equivalents held at other monetary financial institutions, as well as other claims and interest due and not due from all sectors, settlement accounts, claims on various debtors, deferred income and expenditure, other financial assets, rights issue, other assets, other operations, interest on securities purchased under repurchase agreement.
7. **Deposits and other liabilities to domestic residents** represent overnight deposits, deposits with agreed maturities, blocked deposits, deposits redeemable at notice, received credit and loans, including refinancing, auction (open market operations) and claims from cash collateral (classified to "with agreed maturities"), other liabilities and claims on repurchase agreements, subordinated claims save for those in securities issued.
8. **Debt securities issued** are liabilities on own debt securities issued by other monetary financial institutions, subordinated claims in securities issued.
9. **Capital and reserves** are divided into: a) core fund comprising share paid-in capital, called-up capital unpaid, own shares, accumulated reserves, general risk provisions, reserve capital and retained earnings, b) supplementary funds, i.e. revaluation reserves and other supplementary funds specified in Banking Law Act (assigned both to residents and non-residents) other components of equity capital, c) provisions, including specific provisions, impairment allowances, mortgage notes reserves (resident, non-resident), specific provisions for off-balance liabilities (resident, non-resident), general risk provisions (resident, non-resident).

10. **External liabilities** include all liabilities of non-residents denominated in zloty and foreign currencies, except for reserves included in point 9, which comprise residents and non-residents.

11. **Other liabilities** include interest on the above-mentioned liabilities, settlement accounts, liabilities to creditors, deferred income and expenditure, suspended revenue, other liabilities from financial instruments, other liabilities, exchange rate fluctuations resulting from the conversion of subordinated liabilities, reserves for risk and expenditures not associated with the basic activities of the reporting bank, subordinated liabilities, other operations, interest on subordinated liabilities, value adjustments 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 **credits, loans and other claims to domestic residents** comprises receivables from granted loans, including rediscount, lombard, refinancing for central investments, loans granted from foreign credit facilities, open market operations, other loans and receivables from current and fixed term deposits

2. Debt securities issued by domestic residents are securities held by the National Bank of Poland.

3. **Securities and other shares and other equity issued by domestic residents** – at the moment in the case of the NBP they include only fixed financial assets (equity).

4. **External assets** include all assets of non-residents denominated in zloty and foreign currencies.

5. **Fixed assets** include total fixed assets except for financial fixed assets.

6. **Other assets** include interest due and not due on the above-listed operations, deferred costs, inter-branch settlements and other assets excluding fixed assets.

7. **Deposits of domestic residents** represent liabilities on overnight deposits, deposits with agreed maturity, reserve requirements, auction deposits (open market operations), separated funds and other deposits.

8. **Debt securities issued** represent liabilities on the NBP debt securities issued by the NBP.

9. **Capital and reserves** in the case of the NBP it comprises equity, i.e. authorised capital, as well as reserve fund and provisions, which include specific provisions, accumulated depreciation and valuation allowances.

10. **External liabilities** include all liabilities of non-residents denominated in zloty and foreign currencies.

11. **Remaining liabilities** include interest on the above-mentioned categories of liabilities, deferred income, inter and intra-MFI settlements, other liabilities and financial performance.

TABLE VIII Consolidated Balance Sheet of Monetary Financial Institutions – Assets and Liabilities

1. Table VIII comprises a consolidated balance sheet of monetary financial institutions (commercial banks, NBP, credit unions, branches of foreign banks, branches of foreign credit institutions having their registered office in Poland).

2. In the assets and liabilities of the above-mentioned balance sheet, domestic inter-MFI operations have been netted out.

3. Other assets (assets) and currency in circulation (liabilities) were decreased by cash in vaults of other monetary financial institutions.

ABBREVIATIONS

ARiMR	Agencja Restrukturyzacji i Modernizacji Rolnictwa The Agency for Restructuring and Modernisation of Agriculture
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 SA The Electronic Clearing Systems
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 SA	Krajowa Izba Rozliczeniowa SA National Clearing House SA
KDPW SA	Krajowy Depozyt Papierów Wartościowych SA 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 SA	Mennica Państwowa Polish State Mint
MSR/IAS	Międzynarodowe Standardy Rachunkowości International Accounting Standards
MSSF/IFRS	Międzynarodowe Standardy Sprawozdawczości Finansowej International Financial Reporting Standards
NBP	Narodowy Bank Polski National Bank of Poland
NRB	Numer Rachunku Bankowego Bank Account Number
NUK	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 SA	Państwowa Wytwórnia Papierów Wartościowych SA Polish Securities Printing Works
RPP/MPC	Rada Polityki Pieniężnej Monetary Policy Council
RTGS	System rozrachunku brutto w czasie rzeczywistym Real-Time Gross Settlement
SDR	Specjalne Prawa Ciągnięcia Special Drawings Right
SEPA	Jednolity Obszar Płatności w Euro Single Euro Payment Area
SORBNET	System Obsługi Rachunków Banków w Centrali NBP Real Time Gross Settlement System [RTGS] at the NBP Head Office
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 of 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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