



Annual Report 2007

Warsaw, 2008



Sławomir Stanisław Skrzypek
President of the National Bank of Poland

I hereby present the Annual Report of the National Bank of Poland for 2007. The year 2007 was the first year of my term of office as NBP President.

Last year saw the beginning of serious turmoil in global financial markets. The first clear signs of crisis in the US sub-prime mortgage market appeared in July. An increase in the price of raw materials and food led to a significant rise in global inflation. In 2007 we saw a strong appreciation of the zloty against leading currencies. These difficult circumstances notwithstanding, the monetary situation in Poland remained stable. Average annual inflation stood at a level of around 2.5%, i.e. a level corresponding to the inflation target. However, in November 2007 the above mentioned factors, which generally remained beyond the influence of Monetary Policy Council instruments, triggered a rise in inflation above the acceptable ceiling of 3.5%. Since April 2007, the Monetary Policy Council has been tightening monetary policy. By the end of the year, interest rates had been raised by a total of 100 basis points, from 4.25% to 5.25%.

Since May 2007, the National Bank of Poland has published the "Minutes of the Monetary Policy Council decision-making meetings" on a monthly basis. The publication presents the key issues considered during the Council's meetings and also the arguments put forward by discussion participants. With the publication of this document, the transparency of the monetary policy pursued has increased considerably and NBP communication standards have become closer to those of the best central banks.

Effective monetary policy requires a well-developed analytical and research base, which is confirmed by the experience of leading central banks across the world. In 2007, the NBP conducted activities aimed at creating an Economic Institute within the NBP, acting as a department dealing with complex and comprehensive research and analysis. This change is the first step in a plan to strengthen the role of the central bank as a research and scientific centre in addition to its traditional role. The Economic Institute uses its analysis to support the current decisions of the Monetary Policy Council and conducts independent research in the field of macroeconomics. This activity will be developed in line with the long-term objective of making the Institute one of the main research and analysis centres in this part of Europe.

Modifications made to Poland's foreign exchange reserves management strategy have led to an increase in their return: in 2007 the reserves yielded 5.4%, which was almost two times higher than in previous years. Poland's foreign exchange reserves increased from slightly less than EUR 37 billion to almost EUR 45 billion. This is particularly important from the point of view of the decision to join the euro area to be made by the government, and as a consequence the need to maintain a stable zloty-euro exchange rate in the two-year period of participation in ERM II, which is the first step towards adopting the single European currency.

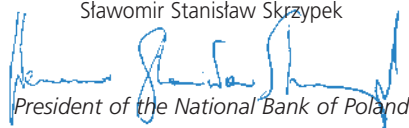
In 2007 the NBP's financial result was negative. This does not mean, however, that the quantity of money at the Bank's disposal has decreased; the loss is only of an accounting nature and is the consequence of the zloty's strong appreciation against those foreign currencies which make up our foreign exchange reserves portfolio. As a result of the appreciation of the zloty in 2007, the value of Poland's foreign exchange reserves expressed in zloty decreased despite an increase in their nominal amount expressed in euro. The appreciation of the zloty had a negative impact on NBP performance. This impact had previously been neutralised by the revaluation reserve created in the 1990s. At the beginning of 2007 this reserve was used up, which led to a loss on unrealised exchange differences.

However, the appreciation of the zloty also brings positive effects: Poland's foreign liabilities, both public and private, decrease. Poland is a net debtor and therefore the zloty's appreciation contributes to a decrease in the value of our liabilities.

Pursuant to the Act on the Supervision of the Financial Market, towards the end of 2007 the Commission for Banking Supervision ceased to exist, the General Inspectorate of Banking Supervision was liquidated and as of 1 January 2008 the responsibilities of the Commission for Banking Supervision were taken over by the Polish Financial Supervision Authority. The NBP made every effort to transfer supervisory tasks to the Polish Financial Supervision Authority efficiently and in a manner constituting the least amount of risk for the banking system. In addition, to maintain the stability and security of the financial system in Poland, the National Bank of Poland supported activities aimed at signing a cooperation agreement between the Minister of Finance, the NBP President and the Chairperson of the Polish Financial Supervision Authority to support the stability of the domestic financial system. Pursuant to the agreement, the Financial Stability Committee was created.

To sum up, last year was good for the Polish economy with rising production and an increase in the standard of living for Poles. While maintaining the stability and value of the Polish zloty, the National Bank of Poland will at the same time support our country's rapid and sustainable economic growth.

Sławomir Stanisław Skrzypek



President of the National Bank of Poland

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The Monetary Policy Council

Chairperson

Sławomir S. Skrzypek

(from 11 January 2007)

Members:

Jan Czekaj

Dariusz Filar

Stanisław Nieckarz

Marian Noga

Stanisław Owsiak

Mirosław Pietrewicz

Andrzej Sławiński

Halina Wasilewska-Trenkner

Andrzej Wojtyna

Management Board of the National Bank of Poland

Chairperson

Sławomir S. Skrzypek

(appointed at the motion of the President of the Republic of Poland by the Sejm of the Republic of Poland on 10 January 2007; assumed the post as of 11 January 2007, after taking an oath pursuant to art. 9 section 3 of the Act on the NBP)

Members:

Jerzy Pruski

First Deputy President of the NBP
(from 25 March 2004 to 19 February 2008)*

Krzysztof Rybiński

Deputy President of the NBP
(from 25 March 2004 do 19 February 2008)**

Zbigniew Hockuba (since 2 November 2007)

Tomasz Pasikowski (until 15 February 2007)

Paweł Samecki (since 13 December 2004)

Jakub Skiba (since 2 November 2007)

Józef Sobota (until 2 November 2007)

Zdzisław Sokal (since 13 March 2007)

Jerzy Stopyra (since 25 March 2004)

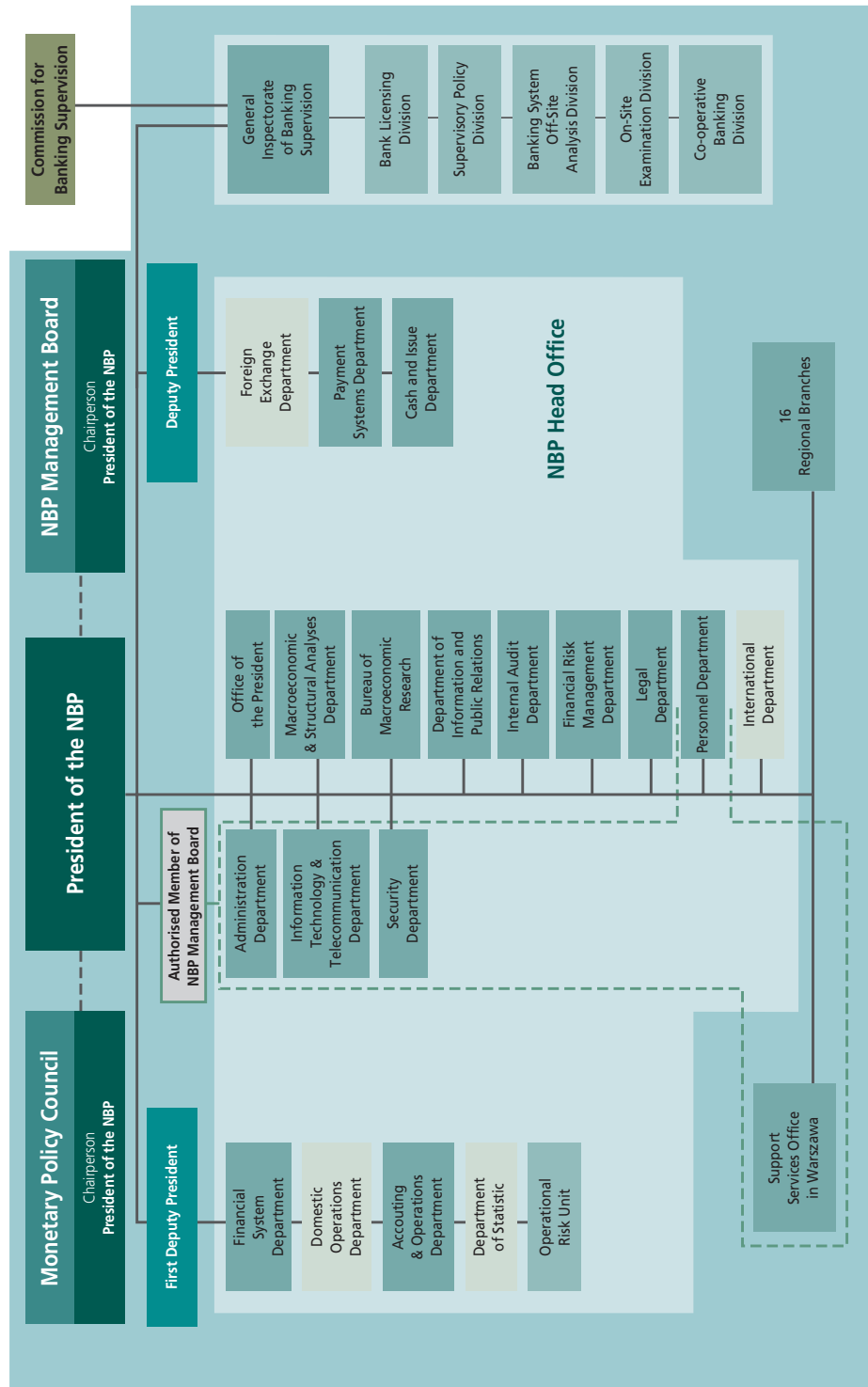
Anna Trzecińska (since 2 June 2005)

* after resigning on 24 January 2008 he was recalled as of 19 February 2008

** after resigning on 2 January 2008 he was recalled as of 19 February 2008

ORGANIZATION CHART OF THE NATIONAL BANK OF POLAND

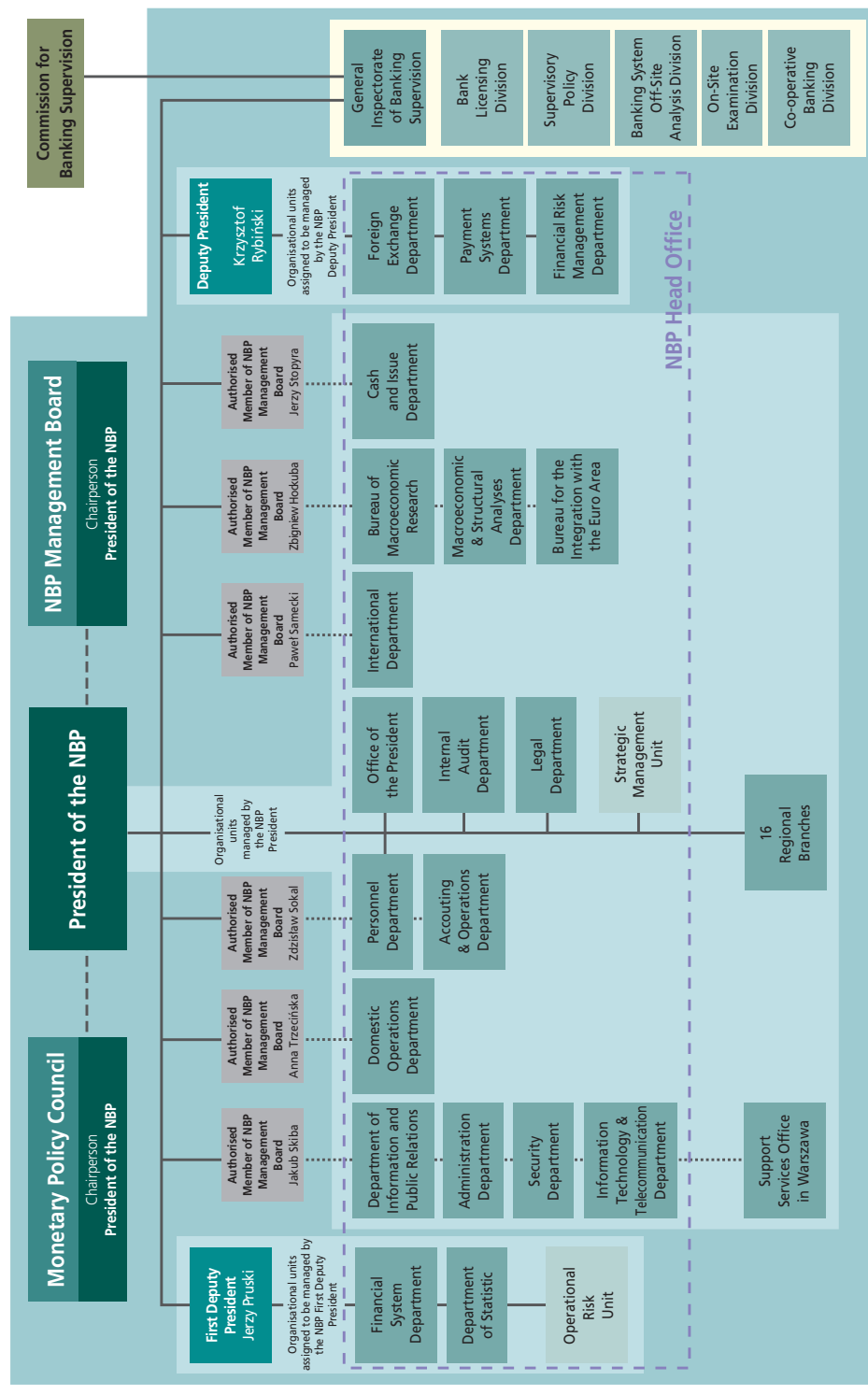
As at January 1, 2007



--- Day-to-day oversight exercised pursuant to an authorisation granted by the NBP President to Member of NBP Management Board, in accordance with § 12 of the Organisational By-laws of the National Bank of Poland

█ Departments managed by Members of the NBP Management Board

As at December 31, 2007



..... Day-to-day oversight exercised pursuant to an authorisation granted by the NBP President to Members of NBP Management Board, in accordance with § 12 of the Organisational By-laws of the National Bank of Poland

— Day-to-day oversight exercised on the basis of the NBP reporting structure, according to the areas of work of organisational units assigned by the NBP President to be managed by the NBP Deputy Presidents



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, in the Banking Act, in the Treaty establishing the European Community, and in the Statute of the ESCB and of the ECB. In 2007, the NBP conducted its activities pursuant to the *Monetary Policy Strategy beyond 2003*, the *Monetary Policy Guidelines for 2007* and the *NBP Plan of Activity for the years 2007–2009*.
2. This *Report* describes the performance of the statutory responsibilities of the NBP in 2007 with regard 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 cooperation. 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 29 August 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 2007, the organisational structure of the NBP consisted of the Head Office, 17 organisational units and the General Inspectorate of Banking Supervision (GINB), which was the executive body of the Commission for Banking Supervision, established as a separate organisational unit within the structure of the National Bank of Poland.¹
4. In 2007, NBP representatives participated in the work of committees and working groups of the ECB and the ESCB.² Other most important works relating to the European integration included cooperation with the ECB in research projects, works on the *Report on Poland's full membership in the third stage of the Economic and Monetary Union*, works to integrate the Polish payment system with the Single Euro Payment Area, further adjustments related to the statistical activity, issuing opinions on EU legal drafts, and monitoring the ongoing EU developments.
5. In 2007, the monetary policy was conducted in the climate of a high rate of economic growth, decreasing unemployment, an increasingly growing openness of the Polish economy, and a gradual rise in inflation. The annual consumer price index (CPI) increased from 1.6% y/y in January to 4.0% y/y in December 2007. Between January and October 2007, inflation remained close to the NBP inflation target (2.5%). In November and December 2007, inflation exceeded the upper limit for deviations from target (3.5%). The annual average consumer price index amounted to 2.5%, thus reaching the NBP inflation target. The gradual inflation rise in 2007 was mainly caused by growing food and fuel prices, which largely resulted from the increase in prices in world raw material markets and agricultural and food markets. This growth in prices in world markets drove up inflation in the majority of countries in the world. Among factors which accelerated inflation in Poland was also the rapid GDP growth, which amounted to 6.6% in 2007. In a situation of a high economic growth there was a significant increase in employment and a decrease in unemployment, although the number of economically active people decreased. The significant decline in unemployment contributed to the acceleration of the rise in salaries and unit labour costs. Inflation was curbed by the continuing decline in the prices of goods imported from countries with low production costs. Another factor that contributed to curbing inflation was the appreciation of the zloty in 2007 (the exchange rate of the zloty strengthened by 5.4% against the euro and by 14.2% against the US dollar). In order to stabilise inflation at the level of the inflation target over the monetary policy transmission horizon, the Council raised interest rates four times in 2007 – in April, June,

¹ Until 31 December 2007.

² Since Poland has been a member of the Economic and Monetary Union as a Member State with a derogation, NBP representatives participate in the works of the ESCB within the scope specified for the EU Member States which remain outside the euro area.



August, and November, each time by 0.25 percentage points. As a result, the NBP reference rate increased and reached 5.0%.

6. The NBP conducted the monetary policy using the set of instruments adopted by the *Monetary Policy Council in the Monetary Policy Guidelines for the Year 2007*. The NBP interest rate remained the main instrument. The reference interest rate determined the minimal profitability of the main open market operations and influenced the level of the market rate with one-week maturity (WIBOR SW). In 2007, similarly as in 2006, the main operations consisted in the issuance of money market bills with 7-day maturity. Using these bills the NBP absorbed liquidity surplus in the banking sector. The deposit and lombard rates determined the profitability of standing facilities as well as the corridor for deviations of the overnight market rate. Through the lombard facility and the deposit facility, banks could supplement liquidity deficits and deposit their surplus liquidity in the central bank.
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 19,302 million and was PLN 456 million lower compared to the average level in 2006. The decline in excess liquidity resulted mainly from the increased level of currency in circulation and the higher level of banks' reserve requirement. In parallel, liquidity in the banking sector was increased by such factors as: foreign currency purchases exceeding sale by the NBP (mainly due to the use of EU funds in the Polish zloty), transfer of part of the 2006 profit of the NBP to the central budget, and interest paid on zloty and foreign currency time deposits held by the Ministry of Finance at the NBP.
8. One of the objectives of the monetary policy pursued by the NBP is strengthening of NBP credibility as an institution responsible for the value of the Polish currency. The NBP continues to enhance the transparency of its activities and makes efforts to ensure the best possible communication with the financial markets, enterprises and the general public. With that end in view, in 2007 the NBP started to publish minutes from the decision meetings of the Monetary Policy Council on the NBP website. Moreover, over 320 written answers were provided to journalists' questions about the activities of the NBP, and nearly 200 interviews and meetings with members of the Management Board of the NBP and of the Monetary Policy Council 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 taking steps to maintain a stable and low level of inflation. In addition, in 2007 the NBP focused on developing the payment system and ensuring liquidity, as well as ensuring the safety of funds deposited on bank accounts (see para. 14 of the *Summary*). The NBP also participated in the drafting of legal regulations concerning the banking sector, conducted analyses of the financial system stability, cooperated with the Bank Guarantee Fund and the Polish Bank Association.
10. The General Inspectorate of Banking Supervision (GINB) functioned as the executive body of the Commission for Banking Supervision within the NBP organisational structure until the end of 2007. Pursuant to the Act of 21 July 2006 on financial market supervision, the Commission for Banking Supervision was abolished and GINB was dissolved on 31 December 2007. As from the beginning of 2008, banking supervision was taken over by the Polish Financial Supervision Authority (KNF). Therefore, in 2007 the NBP took steps to transfer banking supervision to the Polish Financial Supervision Authority smoothly and to ensure cooperation between the NBP and the KNF. The activities in this area were related to defining the scope and procedure for exchanging information between the KNF and the NBP, IT systems, handing over property necessary to perform banking supervision, personnel issues and assigning sort codes to banks.

As at 31 December 2007, banking supervision covered 645 banks, including 49 banks incorporated as public companies, 1 state-owned bank, 14 branches of credit institutions and 581 cooperative banks. In 2007, 72 credit institutions notified the banking supervision authority of the intention to carry out cross-border activities in the territory of Poland. 93 full-scope on-site examinations and 43 targeted on-site examinations were carried out. In 2007, GINB completed the work on implementing the New Capital Accord to the Polish banking system, including the work on the preparation of relevant draft laws.

11. The main responsibility of the NBP issuing activity was to ensure safe and liquid cash turnover cycle. The NBP continued to issue collector's coins, which remain invariably popular. In 2007, 660.7 thousand pieces of coins were issued which related to 11 topics; 43.7 thousand pieces were gold and 617 thousand were silver coins.
12. In the management of foreign exchange reserves, the NBP sought maximum return while ensuring the safety of invested funds and the necessary liquidity of reserves. In 2007, as part of the steps aimed to increase the profitability of reserves, the *Long-term Foreign Exchange Reserves Management Strategy of the National Bank of Poland* was completed. Furthermore, on the basis of the analyses of the global macroeconomic outlook, forecasts concerning the developments in world financial markets and the results of an optimisation analysis, the NBP Management Board decided to reduce the share of the US dollar in the currency structure of foreign exchange reserves and start investing in the Australian dollar. The decision had a positive impact on profitability, which was the highest in the last few years and amounted to 5.4%.
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 matters, and control of foreign exchange trading. In 2007, a total of 2,473 decisions and 25 resolutions concerning foreign exchange were issued, as well as 2,980 inspections of foreign exchange trading were conducted. As at 31 December 2007, 4,187 bureaux de change were operating in Poland.
14. Activities of the National Bank of Poland related to the payment system mainly comprised the organisation of money settlements, oversight of payment systems, authorization and settlement systems as well as securities settlement systems. In 2007, the NBP focused on preparations to join the TARGET2 system, the Single Euro Payments Area (SEPA Credit Transfer) and the STEP2 SCT system. In addition, the NBP contributed to the ECB publication on the payment and securities settlement systems, also known as the *Blue Book*. The NBP also continued its cooperation with the banking circles, primarily the Council for the Payment System and undertakings carried out in cooperation with the Polish Bank Association.
15. In 2007, informational and educational activities were continued. During the NBP Open Days, organised for the fourth time, the Bank (the Head Office and regional branches) was visited by about 50,000 people. Twelve educational schemes aimed at schools, university students, journalists and the clergy were implemented, together with 5 schemes carried out in cooperation with the public and private media. Increased interest in the NBP website and NBPportal was noted again – the number of visits on the website increased to 6.2 million, whereas NBPportal.pl was visited by nearly 1,700 thousand users.
16. The maintenance of bank accounts by the National Bank of Poland contributes to the safety and liquidity of public funds settlements. In 2007, the NBP provided services to 3,765 account holders and maintained 16,537 accounts. Works on introducing new rules for the provision of services to the central government were continued. The functionalities of the Electronic Banking System were extended through the introduction of sending payment orders in foreign currencies other than the euro, directed to accounts operated outside the NBP, and improvements facilitating emergency submission of orders. In 2007, changes aimed to facilitate the management of funds held on bank accounts were also prepared. The central bank also ensured servicing international

liabilities and receivables of the central government and trading in Treasury securities, and cooperated with the Ministry of Finance in respect of public debt management.

17. In 2007, research work focused mainly on the participation in the Exchange Rate Mechanism II, monetary policy and inflation processes, economic condition of enterprises and households, public finance, structural changes in the economy, determinants of economic development, world economy, national and international economic climate, the balance of payments, labour and property market. The results of the research and analyses were used as the basis for decisions taken by the NBP Management Board and the Monetary Policy Council. In the area of monetary policy, research on wage rigidity in Poland was conducted and the determinants of real interest rates were analysed. In addition, the level of competition was analysed and data concerning regulation of economic activity in Poland were updated. Two forecasting models were improved: the computable general equilibrium (CGE) model for Poland and the ECMOD model. The NBP participated in activities in support of the national financial system, conducted regular research on the stability and development of the Polish financial system, and published relevant reports. The Bureau for the Integration with the Euro Area was established. Its task is to carry out research and public consultation on the full membership of Poland in the third stage of Economic and Monetary Union (cf. point 4 of the Summary). In 2007, 7 international conferences and 12 open seminars were held at the NBP.
18. The NBP conducted further works to adjust its statistical tasks to the requirements of the ECB in respect of monetary, banking, and financial statistics, the statistics of the balance of payments and profit and loss account, the statistics of other financial intermediation establishments, and the statistics of the general government sector. In 2007, the SIS reporting system was completed. Three new systems were further developed: the monetary statistics system, the investment funds' statistics system and a system to collect and process data for the needs of the statistics of the balance of payments. The NBP also participated in *Operation 2007*, coordinated by the GUS, aimed to unify European-level classification and thus adjust it to world classifications adopted by the UN. Moreover, the NBP extended the scope of its statistical activity by performing tasks related to prudential reporting.
19. NBP representatives participated in meetings of the Committee of the Council of Ministers and the European Committee of the Council of Ministers. In 2007, the NBP cooperated with the Ministry of Finance, *inter alia*, within the framework of the Committee of Public Debt Management. Moreover, NBP representatives participated in the works of such inter-departmental bodies as the Polish Financial Supervision Authority, the Commission for Banking Supervision³ and the Financial Market Development Council. 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 as well as drafts of national legal acts of EU Member States concerning the competence of the central bank. The Financial Stability Committee established in December 2007 is a new form of cooperation between the NBP, the Ministry of Finance and the Polish Financial Supervision Authority.
20. Representing the central bank and Poland on the international forum, in 2007 NBP representatives participated, *inter alia*, in works of such bodies as the ECB General Council, ESCB committees and working groups, the ECOFIN Council (unofficial meetings), committees and working groups of EU Council and the European Commission. The NBP also continued cooperation 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 participated in the works of UN – UNCITRAL working group and in the works of the UNIDROIT. In 2007, the NBP continued its technical and training assistance programme addressed to central banks in countries undergoing transformation.

³ Until 31 December 2007.

21. In 2007, the NBP's average one-year staffing amounted to 4,424 full-time positions and decreased by 57 full-time positions (1.3%) compared to 2006. Personnel expense increased by 4.5% compared to 2006. The increase in the expense was in accordance with the assumptions of the NBP financial plan for 2007. In 2007, 9,204 persons participated in training sessions organised for the staff by the NBP.⁴
22. Pursuant to Article 69 section 1 of the Act on the National Bank of Poland, the *NBP Financial Statements for 2006* have been reviewed by a certified auditor appointed by the Monetary Policy Council. In the opinion of the certified auditor, the financial statements comply in their form and content with the legal regulations applicable to the NBP, and present true and fair view of the asset position and the financial condition of the NBP as at 31 December 2007 and the financial results for the period from 1 January 2007 to 31 December 2007. The opinion of the certified auditor is presented in an appendix to the *Report*.
23. As at the end of 2007, the NBP posted a loss of PLN 12,427,261,700. Its amount was mainly influenced by the appreciation of the zloty against foreign currencies in 2007. As a result, unrealised costs on the exchange rate valuation of assets and liabilities denominated in foreign currencies in the amount of PLN 15,014,602,500 were recorded as at the end of 2007. Other items in the NBP profit and loss account totalled PLN 2,587,340,800.

⁴ Some employees participated in training sessions more than once.



1

GOVERNING BODIES
OF THE NBP

Pursuant to the Act on the National Bank of Poland of 29 August 1997,⁵ which took effect on 1 January 1998, the governing bodies of the NBP comprise the President of the National Bank of Poland, the Monetary Policy Council and the Management Board of the National Bank of Poland.

1.1. President of the National Bank of Poland

In the performance of his responsibilities, the President of the National Bank of Poland presided over the meetings of the Monetary Policy Council and the Management Board of the NBP, and took part in the meetings of the General Council of the European Central Bank in Frankfurt.

While representing the central bank and Poland in liaising with foreign institutions, in 2007 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,
- the annual meeting of the Board of Governors of the World Bank and the International Monetary Fund;
- an unofficial meeting of the ECOFIN Council;
- meetings of Governors of the Bank for International Settlements in Basel.

In 2007, the President of the NBP issued 25 regulations, which concerned, among others:

- specification of the design, alloy, fineness, mass and mintage of coins;
- the manner and procedures for counting, sorting, packing and marking packages of notes and coins, and performing activities related to providing banks with notes and coin.

As the superior of central bank staff, the President of the NBP participated in developing and implementing the human resources policy and overseeing compliance with work standards at the NBP.

1.2. Monetary Policy Council

In 2007, the Monetary Policy Council acted in accordance with the *Monetary Policy Strategy beyond 2003* and the *Monetary Policy Guidelines for the Year 2007*.

In 2007, the Monetary Policy Council (MPC) held 22 meetings (including 12 two-day meetings), and adopted 13 resolutions published in *Monitor Polski* (Official Gazette) and *Dziennik Urzędowy NBP* (Official Journal of the National Bank of Poland). In addition, the MPC held 4 working meetings.

The MPC adopted 4 resolutions concerning the increase in the reference rate, the interest rate on refinancing loans, the interest rate on time deposits, and the bill of exchange rediscount rate at the National Bank of Poland. Table 1 presents NBP interest rates as at the end of 2006 and 2007.

⁵ Dziennik Ustaw (*Journal of Laws*) of 2005, No.1, item 2, as amended.

Table 1

NBP interest rates as at the end of 2006 and 2007 (percentage points)

Reference rate		Lombard rate		Deposit at the NBP		Bill of exchange rediscount	
31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007
4.5	5.0	5.5	6.5	2.5	3.5	4.25	5.25

Source: NBP data.

Additionally, the MPC passed resolutions concerning the following matters:

- approving the annual financial statement of the NBP as at 31 December 2006,
- approving the report on monetary policy implementation in 2006,
- assessing the activity of NBP Management Board with regard to the implementation of monetary policy guidelines in 2006,
- approving the report on NBP activities in 2006,
- establishing monetary policy guidelines for 2008,
- changing the principles for conducting open market operations,
- establishing a ceiling on the liabilities arising from loans extended by foreign banking and financial institutions to the NBP,
- developing principles for creating and releasing a reserve for foreign exchange risk at the National Bank of Poland,
- approving the NBP financial plan for 2008.

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:

- balances of payments of the Republic of Poland for the third and fourth quarters of 2006 and for the first and second quarters of 2007,
- *Poland's International Investment Position in 2006*,
- *Forecast of Poland's Balance of Payments in 2008*,
- *Opinion on the Budget Act draft for 2008*.

Moreover, the MPC adopted four quarterly reports on inflation (in January, April, July and October), which included an assessment of inflation perspectives in the context of the monetary policy.

On 4 December 2007, the annual meeting of the Monetary Policy Council with representatives of commercial banks took place. During the meeting, the *Monetary Policy Guidelines for 2008* were presented.

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 2007–2009*, and the *Financial Plan*.

In 2007, the Management Board of the NBP considered draft resolutions and materials to be discussed at MPC meetings.

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

- inflation projection results,
- ongoing macroeconomic developments, including the course of the inflation process, the condition of public finance, the economic condition of enterprises and households, the developments in the labour, property and the financial and loan markets,
- economic and formal conditions of Poland's joining ERM II and the euro area,
- Poland's functioning as an EU Member State,
- financial sector stability, including the assessment of the functioning of and development outlook for the banking system,⁶
- the model of the Polish financial safety net,
- open market operations,
- management of foreign exchange reserves, including the long-term investment strategy and strategic benchmarking,
- development of the Reporting Information System(SIS);
- works related to the Single Euro Payments Area (SEPA) and the NBP joining the STEP2 system,
- adjustment of the NBP to the requirements related to its participation in the TARGET2 system,
- scientific and research activities,
- works on the institutional changes in the organisation of banking supervision, consisting in the transfer of banking supervision tasks to the Polish Financial Supervision Authority (KNF) and the specification of principles for cooperation and exchange of information between the NBP and the KNF.

⁶ Activities within this scope are discussed in detail in the subsequent chapters.

In 2007, NBP Management Board held 65 meetings, during which it adopted 55 normative resolutions, 22 non-normative resolutions, and 362 decisions. The most important decisions included the following:

Resolutions concerning the following matters:

- Amending the resolution on the *Regulations for opening and maintaining bank accounts in foreign currency using electronic banking at the National Bank of Poland* and templates of bank account agreements. The need to introduce the amendment resulted from the entry into force of the Act of 26 January 2007 amending the Foreign Exchange Law and other acts. Pursuant to the new regulations, the bank account holder is not required to submit an individual foreign exchange permit, documentation confirming the legal title of the transfer or the settlement, or a statement specifying the reasons for the failure to submit such documents.
- Appointing a consultative and advisory body affiliated with the Management Board of the National Bank of Poland named the Scientific Council of the National Bank of Poland. The Council will support the NBP in its efforts to achieve the position of a significant economic research centre, both domestically and within the ESBC, as well as to support the dissemination of economic knowledge.
- Amending the resolution on the procedures and detailed principles for forwarding data necessary to establish the monetary policy and carry out periodic assessments of the monetary condition of the state, and the evaluation of the financial condition of banks and the banking sector risk, by banks to the National Bank of Poland. The amendment is related to the completion of the SIS reporting system project. The development of the system has changed the procedure for collecting, processing and analysing financial data of banks and branches of foreign credit institutions.
- Amending the resolution on the principles and procedures for calculating and maintaining the reserve requirement by banks. Regulations specifying the method of allocating the reserve requirement between the divided bank and the recipient bank, as well as provisions allowing for an accurate calculation of the reserve requirement in the event of the bank's division were introduced. The regulations are based on ECB standards and were consulted with the European Central Bank.
- Amending the resolution on the management of official reserves. The modifications were mainly aimed at adjusting the rules of official reserves management to the objectives of the long-term investment strategy adopted by the Management Board of the NBP on 15 October 2007. The main amendments introduced by the resolution concern the decision process relating to the official reserve management and the investment limits system.
- Amending the Rules of Procedure of the NBP of 5 November 2007 (see chapter: Internal Development of the NBP, p. 126).
- Appointing the Management Board Plenipotentiary for facilitating the activity of the NBP regional branches. The Plenipotentiary is responsible for preparing draft solutions enhancing the organisation of work in the NBP regional branches, including, among other things, the distribution of tasks between the NBP Head Office and the NBP regional branches.
- Establishing, as of 1 January 2008, the Economic Institute by merging the Macroeconomic and Structural Analyses Department and the Bureau of Macroeconomic Research (see chapters: Research Activity and Internal Development of the NBP).

Decisions concerning the following matters:

- accepting the contents of the agreement on cooperation and exchange of information between the Polish Financial Supervision Authority and the National Bank of Poland, and the contents of the cooperation agreement between the MF, the NBP and the KNF to enhance the stability of the domestic financial system,
- preparing the *Strategy Optimising Management of the National Bank of Poland*,
- adopting the *Long-term Official Management, Strategy of the National Bank of Poland*,
- accepting the *Outline of the Report on Poland's full membership in the third stage of the EMU*,
- accepting the contents of the agreements on the NBP's joining the TARGET 2 system.

1.4. Implementation of the *NBP Plan of Activity for the Years 2007–2009*

On 3 January 2007, the Management Board of the NBP adopted the *NBP Plan of Activity for the Years 2007–2009*. The Plan specifies the areas, content and objectives of NBP activity and, in its detailed part, sets tasks aimed at accomplishing those objectives.

The *Plan* assumes that the NBP will aim at achieving six main objectives, i.e.: monetary stability, financial system stability, the preparedness of the Polish currency for joining the Exchange Rate Mechanism (ERM II), assuming the status of a major economic research centre in Poland and within the ESCB, dissemination of economic knowledge, strengthening the bank's leading position in the field of educational activities within the ESCB, and ensuring efficient operations of the Bank.

The *Plan* includes 27 priority tasks and 19 other tasks. The novelty in comparison with the previous plans is that the description of each task includes the justification for the need to implement it and the most important activities to be undertaken in each year. The change is aimed to increase the transparency of the *Plan* and to enhance its implementation assessment system.

As in the previous years, the NBP systematically monitored the progress on the implementation of the plan of activity. In order to facilitate this process, work was undertaken to develop a set of measures for evaluating the accomplishment of objectives specified in the NBP Plan of Activity.



2

MONETARY POLICY⁷

⁷ The Chapter *Monetary policy* is the *Report on Monetary Policy Implementation in 2007*, which was approved by the Monetary Policy Council at the meeting on 21 May 2008. The tasks in this area are performed, among others, on the basis of Article 3 para. 2 point 5, Article 12, Article 16, Article 17 para. 3 point 1 and para. 4 points 2, 4, Articles 23–24 and provisions of Title 6 of the Act on the NBP.

2.1. Monetary policy strategy in 2007

According to the Article 227 para. 1 of the Constitution of the Republic of Poland "the National Bank of Poland shall be responsible for the value of Polish currency." The Act on the National Bank of Poland of 29 August 1997 states in Article 3 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".

Contemporary central banks understand price stability as an inflation low enough as not to exert negative influence on investment, saving and other important decisions taken by economic agents. Ensuring thus understood price stability is a fundamental way in which the central bank contributes, by means of its decisions, to high and sustainable economic growth. Central banks view price stability symmetrically, which means that they respond both to inflationary and deflationary threats.

The Monetary Policy Council (MPC) bases its monetary policy on the direct inflation targeting (DIT) strategy. International experience shows that this strategy is an effective method of ensuring price stability. After having brought down inflation to a low level, starting from 2004 the MPC adopted a permanent inflation target at 2.5% with a symmetrical tolerance range for deviations of +/- 1 percentage point. This arrangement may be in force until Poland joins the ERM II. The MPC pursues this strategy under a floating exchange rate regime, which should be maintained until Poland's accession to the ERM II. Floating exchange rate regime does not rule out foreign exchange interventions, should they turn out necessary for inflation target implementation.

In *Monetary Policy Guidelines for the Year 2007*, the Council explained how it understood the inflation target and the way of its implementation:

- First, the notion of permanent inflation target means that it refers to inflation measured as a year-on-year change in prices of consumer goods and services in each month compared to the corresponding month of the preceding year. For a better understanding of inflation processes it is also justified to use annual and quarterly inflation indices such as those used in the NBP's inflation projection and the central budget. Core inflation indices also play an important role in the assessment of inflationary pressure.
- Second, the adopted solution means that the monetary policy is unequivocally focused on maintaining inflation as close as possible to the target of 2.5% and not only within the tolerance range. The adopted solution provides anchoring for inflation expectations, thus facilitating the pursuit of monetary policy, which requires smaller and less frequent interest rate changes to be effected in response to shocks.
- Third, the occurrence of shocks in the economy is inevitable. The scale and duration of an inflation deviation from the adopted target differs depending on the strength of the shock and the degree of inertia of inflation expectations. The central bank does not usually respond to deviations from the inflation target which it deems temporary and which lie within the tolerance range around the target. In countries with a permanently low inflation, the central bank does not have to respond even when inflation actually leaves the tolerance band temporarily. In the case of shocks viewed as leading to a permanent deviation from the inflation target, the central bank adjusts its monetary policy accordingly.
- Fourth, monetary policy reaction to shocks depends on their causes and nature. The reaction to demand shocks is a relatively minor issue, since in this case inflation and output move in the same direction. An interest rate increase weakens economic activity and, consequently, inflationary pressure. Supply shocks are a much more difficult problem from the point of view of monetary policy, as in that case output and inflation move in opposite

directions. Inappropriate monetary policy reaction may have far-reaching negative consequences for the economy. An attempt to fully neutralise the impact of a supply shock on inflation through monetary policy may lead to an unnecessary drop in output, as the supply shock itself already has a negative effect on consumption and investment. On the other hand, an attempt to fully accommodate a supply shock resulting in a price increase and output decrease – by pursuing an expansive monetary policy – usually leads to persistently higher inflation, which, in turn, requires a far more restrictive monetary policy in subsequent periods, bringing about a stronger deceleration in economic growth. Reaction of the central bank should depend on the assessment of the duration of the shock.

- Fifth, most of supply shocks are transitory and limited in scale. Thus, they do not require an immediate reaction. However, in the case of strong shocks even temporary acceleration in price growth may bring about a relatively permanent rise in inflation expectations and, consequently, an increase in inflation level due to the emerging wage pressure. In such a situation, monetary policy has to prevent secondary effects of the supply shock (the so-called second-round effects). The risk of such effects is substantial in countries with a short history of low inflation. Very useful in analysing supply shocks are core inflation indices, which help distinguish, at least roughly, temporary effects from permanent changes in inflationary pressure.
- Sixth, because of the delayed reaction of output and inflation to the pursued monetary policy, its influence on current inflation is rather limited. Current decisions of the monetary authorities affect price developments in the future in a similar way that current inflation is influenced by interest rate changes made several quarters before. However, the length of these lags is not constant and, to a large extent, depends on structural and institutional changes ongoing in the economy. As a result of changes in the transmission mechanism of monetary impulses central banks can only approximately assess the time lag between a change in interest rate and its strongest observed impact on real variables (output, employment), and then on inflation.
- Seventh, monetary policy affects the economy not only by changing the interest rates but also by keeping them unchanged for a period of time. The decision to keep interest rates unchanged for several periods (months or quarters) also has substantial consequences for the economy because it leads to a gradual widening or narrowing of the output gap.
- Eighth, monetary policy is pursued under uncertainty. Large uncertainty is due, among others, to the fact that inflation projection models utilised by central banks may start to less adequately describe economic processes owing to the ongoing structural changes in the economy. This means that (a) while making decisions it is necessary to take into account all available information, and not only the inflation projection; (b) it is not possible to make use of a simple policy rule which could be known *ex ante* to market participants; and (c) forward-looking monetary policy has to be presented to the public as an attempt to achieve the inflation target under uncertainty, rather than an exercise of strict control over economic processes.
- Ninth, in pursuance of monetary policy, while assessing the inflation outlook, especially when inflation is low, central banks allow for the prices of assets because of the need of ensuring financial stability. In the conditions of liberalised financial markets and amid favourable developments on the supply side of the economy, which are supporting low inflation, it is becoming ever more essential for monetary authorities to allow for the financial stability in their decisions. If in response to low inflation central banks reduce interest rates too much, this may lead to a rapid asset price growth. This growth is accompanied with the risk of the so-called unstable boom, where higher inflation surfaces with a considerable lag. Such rapid growth in asset prices is also accompanied with the rising risk of their violent and considerable slump, which poses the threat to the stability

of the financial system and the real economy. Financial system stability ensures effective operation of the transmission mechanism, which is crucial for appropriate monetary policy implementation. In assessing the risk of the emergence of disruptions in the asset market and the inflation outlook, it may be useful in the longer run to account for the paths of monetary aggregates.

- Tenth, in assessing monetary conditions, not only the level of real interest rates should be considered, but also the level of the real exchange rate. Thus understood restrictiveness of monetary policy impacts, along with the implemented fiscal policy, the total restrictiveness of macroeconomic policy. An overly expansive fiscal policy is the most common reason that necessitates keeping the interest rates at a higher level.
- Eleventh, an important input into monetary policy decision-making process is the balance of factors affecting the probabilities of future inflation running above or below target. This balance is based on the inflation projection, the assessment of the actual economic developments, which may deviate from the scenario presented in the projection, as well as the course of variables and information not accounted for directly in the projection. When assessing the factors influencing future inflation, the duration of the period of low inflation should be taken into account.

In *Monetary Policy Guidelines for the Year 2007* the Council maintained its belief that it would be most beneficial for Poland to pursue an economic strategy aimed at creating conditions for the introduction of the euro at the earliest possible date.

2.2. Monetary policy in 2007

While assessing the monetary policy in 2007 it has to be borne in mind that, similarly to the previous years, it was pursued under uncertainty. Decisions of the central bank are based on information and forecasts available at the time they are taken, which means that, in hindsight, they do not necessarily have to seem optimal from the point of view of the need to stabilise inflation as close to the target as possible. Due to the nature of the monetary policy, and in particular the significant lags between the central bank's decisions and their effects for the economy, decisions have to be taken in advance and their later assessment has to account for their accompanying uncertainty. Thus, to assess the past monetary policy it is necessary to account for the scope of information that was available at the moment a given decision was taken, as it was naturally smaller than the scope of information available at the time an *ex post* assessment is made.

The main source of monetary policy uncertainty is the fact that there is a several-quarter lag between the moment of an interest rate decision and the materialisation of its strongest impact on inflation. Thus, the inflationary processes in 2007 were to a large extent affected by the monetary policy pursued back in 2005–2006. In turn, the monetary policy conducted in 2007 will primarily influence inflationary processes in 2008 and 2009.

In 2007 an important impact on the monetary policy of central banks, including the policy of the National Bank of Poland, was exerted by disruptions observed in the second half of 2007 in the world economy. Those disruptions were to some extent unexpected both by the financial markets participants and by most central banks. In consequence of those disruptions, the level of uncertainty rose significantly and the assessments of future economic situation formulated in the first half of 2007 were gradually revised (Figure 1).

First, uncertainty in the second half of 2007 increased markedly as a result of the turmoil in international financial markets initiated in the US subprime mortgage market. As new information was flowing in, it was becoming an increasingly common conviction that those disruptions could

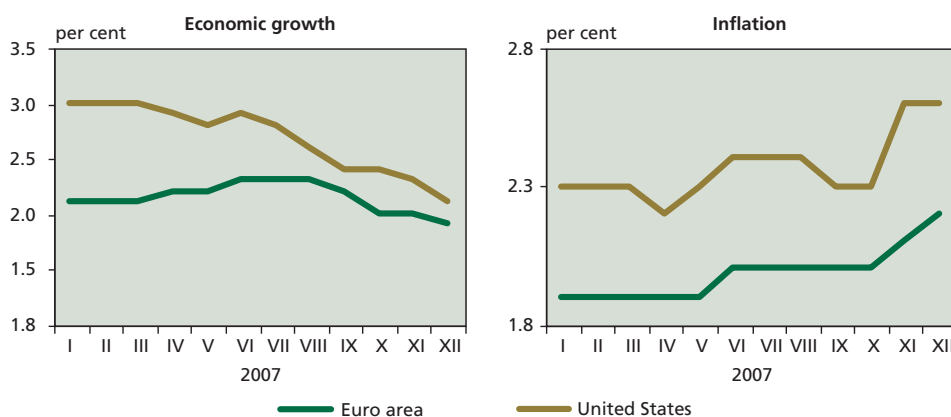
have a significant negative impact on economic activity in the United States and other countries, including the euro-area. Growing probability of such scenario persuaded major central banks either to ease or abstain from tightening their monetary policy despite a rise in current inflation. In some countries, monetary policy easing was also connected with a rising risk to the stability of their financial systems. At the same time, significant uncertainty as to the scale and duration of the economic slowdown in the United States and its spill-over to other economies was hampering the assessment of the risk for price stability in countries which were not directly affected by the crisis initiated in the subprime mortgage market.

Second, a significant increase in the prices of energy commodities, especially crude oil, and food and agricultural commodities in the world markets in 2007 Q4 was conducive to a pronounced inflation acceleration in many countries, including those of the Central and Eastern Europe. At the end of 2007 inflation was 5.4% y/y in the Czech Republic, 7.4% y/y in Hungary and 3.4% y/y in Slovakia.

Central banks' reaction to these price shocks was strongly affected by changing assessment of their expected duration. With time it was gradually concluded that both shocks were probably more permanent in nature than typical price shocks resulting from temporary supply disruptions. A relatively long growth period of the prices of those products suggested that these shocks to a large extent result from structural changes such as e.g. increased demand for commodities and food in developing countries and rising global output of bio-fuels. Under these circumstances an inappropriate monetary policy reaction to those shocks could result in excessive fluctuations in output and employment.

Figure 1

Forecasts of economic growth and inflation in euro-area and United States for 2008 (% y/y)



Source: Foreign Exchange Consensus Forecasts.

Central banks had to take into account the risk of a decline in their policy credibility due to inflation increase, even though it predominantly resulted from the effect of factors outside the direct impact of their monetary policy. Moreover, banks still had to account for the risk that a strong surge in prices of relatively often purchased goods (food, fuels) may lead to increased inflation expectations and, consequently, through potential second-round effects, also to fixing inflation at its heightened level.

In 2007 Poland's monetary policy was pursued – similarly as in other countries – in the conditions of a gradual inflation increase. The annual price index of consumer goods and services (CPI) rose from 1.6% y/y in January to 4.0% y/y in December 2007 (Figure 2). In January-October 2007 inflation moved within the limit for deviations from the NBP's inflation target (2.5% ±1 percentage point). In November and December 2007 inflation crossed the upper limit for

deviations from the target (3.5%). Nevertheless, the average annual rate of growth of the Consumer Price Index amounted to 2.5%, which is the level of the NBP's inflation target. Despite the NBP's key interest rates had been raised in 2007 by the total of 1 percentage point, the significant rise in inflation at the end of 2007 meant that the real interest rates were 1.6 percentage point lower in December 2007 in *ex post* terms (deflated with the current CPI) than one year before. Real interest rates fell also in many other countries, primarily due to the significant inflation acceleration.

The gradual inflation increase in 2007 was mainly connected with an increased growth rate of food and fuel prices, which can be confirmed by a considerable spread between CPI inflation and the level of core inflation net of food and fuel prices. The annual change rate of food prices rose from 2.8% y/y in January to 7.9% y/y in December 2007, which was the result of several factors. Food price growth was driven by unfavourable supply conditions in Poland, including a low supply of grains in the first months of 2007 (due to the 2006 drought) and lower fruit crops than in the preceding years (due to some ground frosts occurring in May 2007). Moreover, the high growth rate of food prices in Poland to a large extent resulted from a significant price increase in international agricultural and food markets.

In the first two months of 2007 fuel price behaviour was a factor lowering the rate of inflation. In March-September 2007 fuel price growth was only slightly contributing to the rise in the overall CPI. Later in the year a strong hike in oil prices was observed in the world commodity markets, though it was partially offset by the appreciating exchange rate of the zloty against the US dollar. This oil price growth in combination with a low last year's base resulted in a considerable surge in the annual growth rate of fuels (down from 2.5% in September up to 18.1% in December), which pushed up the annual CPI in this period. The overall level of consumer prices in 2007 in Poland was additionally raised by an increase in prices of tobacco products resulting from the rise in the excise tax rate introduced in January 2007. It should be emphasised that the discussed factors, which were largely responsible for the inflation increase in the second half of 2007, were outside the direct influence of the domestic monetary policy.

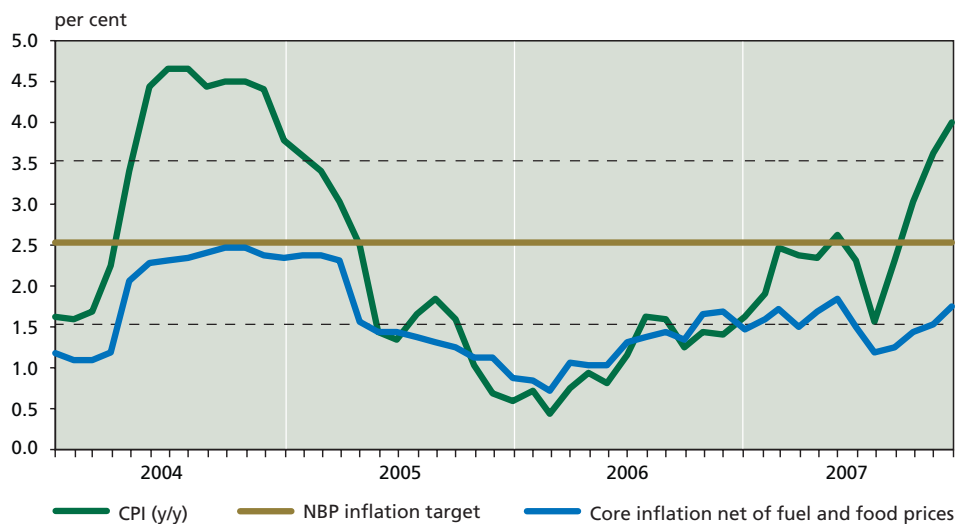
In 2007 inflation growth was also driven by the high rate of economic growth; GDP rose by 6.6%, which was the highest rate of growth in the past 10 years. The main contribution in GDP growth was made by growth in investment and individual consumption. The growth structure in 2007 was favourable from the perspective of the future inflationary pressure, as the high contribution of investment in GDP growth will support growth in potential output and labour productivity in the medium term.

The economic growth in Poland in the recent period has contributed to rising the demand for labour. A growing number of working persons and a quickly decreasing unemployment rate have been accompanied by a decline in the number of the economically active. The shrinking domestic supply of labour resulted, among others, from the withdrawal of people entitled to early retirement from the labour market and the economic emigration of Polish workers to EU countries. This was reflected in faster wage growth. The accelerating rate of wage growth in the economy, in combination with a lower rise in labour productivity, pushed unit labour costs in the economy above their 2006 levels. However, the wage growth in 2007 passed through on prices only to a limited extent, among others due to a good financial standing of enterprises and a relatively low contribution of labour costs in total production costs. 2007 marked the continuation of a very low percentage of enterprises which in answering a survey question declared that wage growth was the main or only reason for price increases.

Inflation was also being limited by strong competition in the international markets and increased openness of the Polish economy, which led to a continuing decline in the prices of goods imported from countries with low production costs. Starting from 2007 Q2 the inflation decline was also favoured by dropping import prices expressed in the zloty, which was connected with the appreciation of the zloty in this period.

Figure 2

Inflation vs. inflation target in 2004–2007



Source: GUS data, NBP data.

While striving to keep inflation at the inflation target in the monetary policy transmission horizon, the Monetary Policy Council raised the NBP's interest rates on four occasions in 2007 – in April, June, August and November – each time by 0.25 percentage points. On each occasion in its NBP interest rate decisions the Council considered the inflation outlook, including the results of subsequent projections assessing them in the context of past, current and especially the anticipated economic situation.

In line with the central path of the January 2007 inflation projection, assuming constant interest rates, in the first half of 2007 inflation was to come back to the inflation target. It was expected that in 2008 inflation would continue to rise and in the second half of 2009 it would cross the upper limit for deviations from the NBP inflation target.⁸ Macroeconomic data released in January–March 2007 suggested that the high level of economic activity in Poland continued amid a dynamically growing demand for labour and quickly rising wages. However, the Council assessed that in the short-term both CPI inflation and net core inflation would be markedly lower than it followed from the January projection. In turn, the Council believed that in the medium term an increased wage growth rate could be expected, which might lead to inflation increase. The Council believed that this increase in inflation would probably be moderate, provided that the strong productivity growth and low growth of external prices were sustained, the latter being associated with globalisation and the ensuing increased competition in the market of internationally traded goods and services.

In January and February the Council assessed that the then level of NBP interest rates should be supporting inflation in the medium term to stay close to the target of 2.5% and so decided to leave the interest rates unchanged. At the same time, the Council signalled that stabilising inflation close to the target level so as to create conditions for sustainable long-term economic growth could require some monetary policy tightening and so the future decisions of the Council would depend on new data on developments in the Polish and world economies and also on their impact on the inflation outlook in Poland. In March 2007 the Council kept NBP interest rates unchanged and upheld its opinion that the monetary policy should be tightened adding that it might happen in the immediate future.

⁸ Inflation projections prepared by a team of NBP economists are one of the inputs to the Monetary Policy Council's decision-making process. The projections published in 2007 have been presented in Appendix 5.

At the meeting in April 2007 the Council got acquainted with a subsequent inflation projection, which suggested that till mid-2008 inflation would be running below the target. However, it was anticipated that starting from the end of 2007 consumer prices will grow steadily and at the end of the projection horizon will approach the upper limit for deviations from NBP inflation target.

Considering data available in April 2007, the Council assessed that the Polish economy was in the period of strong growth which should continue for at least several quarters to come. This growth was to be supported by strong activity in the world economy, including the euro area. The Council assessed that the high growth of domestic demand, most probably outpacing the growth of potential GDP, would also be sustained in subsequent quarters, which could be conducive to a gradual building of wage and inflationary pressures. Considering the results of the April inflation projection, the Council assessed that in the second half of 2007 inflation should temporarily fall down clearly below the inflation target of 2.5%. In turn, the Council believed that in the medium term the balance of risks for future inflation had deteriorated and so the probability of inflation overshooting the inflation target was higher than the probability of inflation running below the target. Consequently, the Council decided to raise the NBP's interest rates by 0.25 percentage point.

In May-July 2007 the Council upheld its assessment of the outlook for economic growth in Poland and worldwide expressed at the April meeting and at the same time it stressed that the rate of economic growth in Poland in subsequent quarters would most probably be slightly lower than in 2007 Q1.

On the basis of the data on labour market situation available in May, the Council acknowledged the risk of a further build-up in wage pressure which could lead to inflation increase. However, inflation growth in the medium term was to be offset primarily by most likely sustained high rate of productivity growth, which should be supported by a dynamic increase in investment outlays, a very good financial standing of enterprises and a low growth rate of external prices, connected with the globalisation process. At the same time, the Council assessed that in the medium term the probability of inflation running above the inflation target had decreased in response to the April rise of NBP interest rates, though it remained higher than the probability of inflation running below target. In May the Council kept interest rates unchanged and pointed out that a more complete assessment of the scale of the risk of inflation overshooting the inflation target would only be possible after analysing later released data.

In June the Council emphasised that the then available data on the labour market revealed a deteriorated relationship between wage growth and productivity growth. Even though the Council, as at the previous meetings, pointed to the factors which could potentially curb inflation increase in the medium term (i.e. the continuation of a high growth of productivity, very good financial standing of enterprises and low growth of external prices), it still assessed the strength of their impact to be insufficient to keep inflation at the target level in the monetary policy transmission horizon. The Council decided to raise the NBP's interest rates by 0.25 percentage point.

In July the Council got acquainted with the new inflation projection which indicated that the inflation target of 2.5% would be overshoot in 2007 Q4, while throughout the projection horizon inflation might run within the limits for deviations from the target, approaching the upper limit at the end of 2009.

While stating the grounds for the July decision to keep interest rates unchanged, the Council once again emphasised the previously mentioned factors, both those conducive to rise in inflationary pressure and those conducive to easing the inflationary pressure. The low growth of external prices was quoted as an additional argument for limited inflation growth in the medium term. At the same time, attention was drawn to the monetary policy pursued by major central banks. The Council assessed that in the medium term, due to the previous monetary policy

tightening, the balance of factors shaping future inflation pointed to a somewhat decreased probability of inflation running above the inflation target, even though the risk of such a scenario remained higher than the probability of inflation running below the target.

In August the international financial markets experienced disruptions. This increased the risk that the weakening in the activity in the US economy and, consequently, also in the euro area would prove greater than previously expected. Despite a heightened uncertainty about external conditions, the Council upheld its positive assessment of the outlook for Poland's economic growth while also emphasising the deeper than anticipated deterioration in the relation between wage and labour productivity growth. The Council also pointed at the risk of a deterioration of the public finance balance, which could potentially be triggered by decisions lowering the revenues and increasing the expenditures of the public finance sector taken in the period preceding the August meeting. Those factors could result in additional inflationary pressure in the medium term. The Council assessed that the evaluation of the balance of factors influencing future inflation pointed to the necessity of a monetary policy tightening and so decided to raise the NBP's interest rates by 0.25 percentage point.

At its September meeting the Council restated its previous assessment of the inflation outlook, while at the same time it emphasised the difficulties with assessing the scale of the impact the disruptions afflicting the international financial markets since August 2007 had on US and euro-area economic growth and, consequently, on the Polish economy. However, the Council pointed at a possible slowdown in world economic growth as at a factor potentially easing inflationary pressure.

At its October meeting the Council got acquainted with the latest inflation projection. In line with the central projection, the inflation target of 2.5% was to be overshoot in 2007 Q4. At the same time, it was anticipated that in the monetary policy transmission horizon inflation would be gradually accelerating (apart from a temporary deceleration in the first half of 2008) and from 2009 Q2 till the end of projection horizon it would remain above the upper limit for deviations from the target.

The Council paid attention to the fact that the forecasts of US and euro-area economic growth had been slightly lowered in connection to disruptions in the international financial markets. It was also pointed out that the macroeconomic data available in October signalled a possible weakening of Poland's economic growth. During the meeting attention was also drawn to a significant zloty exchange rate appreciation in the preceding two months. Those factors, in the Council's opinion, should be curbing future inflation. At the same time, the global process of food price growth raised the risk of inflation increase.

In stating the grounds for the September and October decisions, the Council pointed out that in the medium term, due to the previously taken decisions on monetary policy tightening, the balance of factors influencing future inflation had improved. The Council decided to keep interest rates unchanged waiting for the release of new data that would allow a more comprehensive assessment of the risk of inflation growing above the NBP's inflation target.

In November the Council stressed that there had been a rise in uncertainty about the impact of the financial market turmoil on the economic growth in the United States and the euro area. At the same time, inflation in October proved slightly higher than expected and amounted to 3.0% and so it had overshoot the NBP's inflation target. On the basis of the latest macroeconomic data, the Council assessed that in the months to come inflation would be running above the October central projection. It was also emphasised that the risk of inflation increase in Poland was raised by the process of food price growth, encompassing the global economy and also affecting the domestic market, and by higher oil prices than those accounted for in the October projection. Moreover, the draft Budget Bill sent to the Parliament at that time, in the Council's opinion, pointed to a procyclical effect of fiscal policy on the economy in 2008. Considering the above factors and taking into account the risk of second-round effects of current inflation increase, the

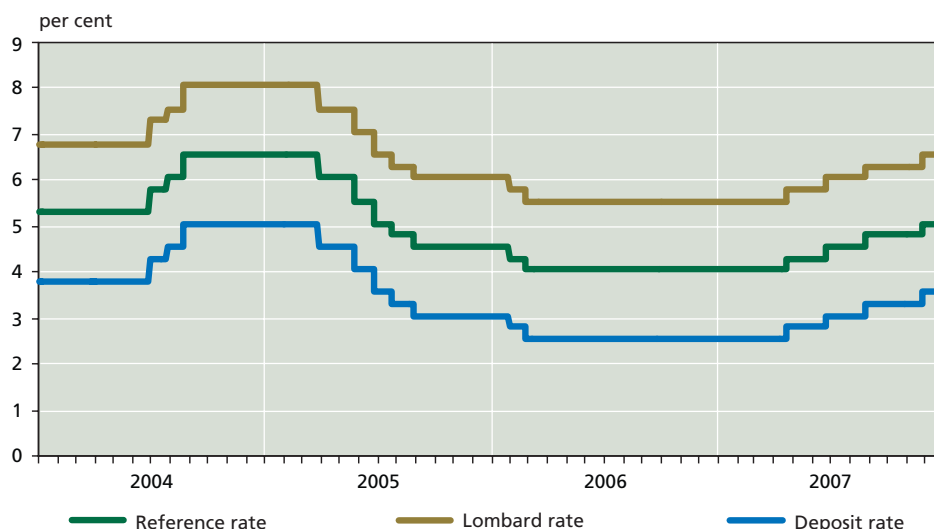
Council decided to raise the NBP interest rates by 0.25 percentage point and stressed that it would strive to lower inflation in the medium term to the level consistent with the inflation target.

In December the majority of the Council members believed that markedly higher inflation in November and the ensuing risk of rising inflation expectations amid tight labour market constituted a major risk factors to price stability. However, due to fact that the meeting in December was held earlier than in other months, the Council had less than usual information on the economic processes at its disposal. The Council concluded that a more comprehensive assessment of the risk of inflation remaining at a heightened level would only be possible at the Council's next meeting and that the pace of monetary policy tightening thus far was fast enough from the point of view of stabilising inflation at the target level in the medium term. Therefore, the Council decided to keep interest rates unchanged while declaring, at the same time, that it would strive to bring inflation in the medium term down to the level consistent with the inflation target.

At the end of 2007 the key NBP's interest rates were 1 percentage point higher than at the beginning of 2007 amounting to: the reference rate 5.00%, the lombard rate 6.50%, the deposit rate 3.50% and the rediscount rate 5.25%.

Figure 3

Key NBP interest rates in 2004–2007



Source: NBP data.

As in the previous years, communication with the public was an important component in the pursuit of monetary policy under the direct inflation targeting strategy. For this reason, the Council presented its assessments of the current economic situation and future economic developments. The most important instruments of communication in 2007 included: *Inflation Reports*, *Information from the meeting of the Monetary Policy Council* and press conferences organised after the Council's meetings. In an effort to enhance the transparency of the pursued monetary policy, in May the Council started to publish *Minutes of the Monetary Policy Council decision-making meeting*, following the practice of many central banks. The monthly published *Minutes* present the most important issues discussed at the Council's meetings and arguments put forward by the discussants. The main issues discussed by the Council⁹ in 2007 included the medium-term

⁹ A more comprehensive coverage of the issues discussed at the 2007 meetings of the Monetary Policy Council can be found in chapters devoted to Monetary Policy in the *Inflation Reports* of April, July and October 2007 and February 2008. Additionally, starting from May 2007, a separate document (*Minutes of the Monetary Policy Council decision-making meeting*) has been published each month. The *Minutes* published in 2007 can be found in Appendix 6 to the *Report on Monetary Policy Implementation in 2007*.

inflation outlook, the outlook for economic growth in Poland and in the world economy and the developments observed in the labour market. At its meetings the Council also discussed developments of the zloty exchange rate and of food prices, the financial market disruptions, monetary policy pursued by other central banks and the public finance stance. Other discussed issues covered current inflation developments and the ensuing shifts in inflation expectations (including the risk of second-round effects), developments of monetary aggregates, the impact of globalisation on the economic processes in Poland, the prospect of Poland's compliance with the Maastricht price stability criterion and changes in the external imbalance of the Polish economy.

2.3. Monetary policy instruments

In 2007, the NBP pursued its monetary policy influencing the inflation level *via* interest rates. The Monetary Policy Council set the NBP's official interest rates which determined the yields on monetary policy instruments. To shape short-term interest rates in line with the guidelines established by the MPC, the NBP used the following instruments: open market operations, lending and deposit operations (standing facilities) and reserve requirements. By influencing the level of short-term interest rates, the Monetary Policy Council strived to achieve such a level of interest rates in the economy that would be consistent with the adopted inflation target.

2.3.1. Liquidity surplus in banking sector

The liquidity surplus in the banking sector edged down in 2007. Its level, measured as the average annual balance of NBP bills, amounted to PLN 19,302 million and was PLN 456 million (i.e. 2.3%) lower than the average level of 2006.

The liquidity path was connected with changes in factors independent of the NBP's decisions. The main factor increasing the liquidity surplus scale was the NBP's net purchase of foreign currencies, which was conducive to raising liquidity surplus in average annual terms by PLN 6,254 million. Other factors conducive to growing liquidity surplus were the payments of the NBP including, among others, discount on NBP bills, the transfer of the NBP's profit to the central budget, interest accrued on the NBP's reserve requirements and bonds. In turn, the level of liquidity surplus was, among others, lowered by the rise of currency in circulation (of an average of PLN 11,502 million annually), increased reserve requirements of banks and higher budget deposits held at the NBP.

Additionally, the liquidity surplus of the banking sector was being absorbed by bonds issued by the NBP in 2002 in the amount of PLN 7,816 million with maturity in 2012.

In the second half of 2007, especially in December, banks limited their exposure to the purchase of NBP bills and made greater use of the deposit facility at the central bank. Banks' willingness to hold higher levels of disposable funds resulted from the situation in the world markets connected with the sub-prime mortgage loan crisis in the United States.

2.3.2. Monetary policy instruments

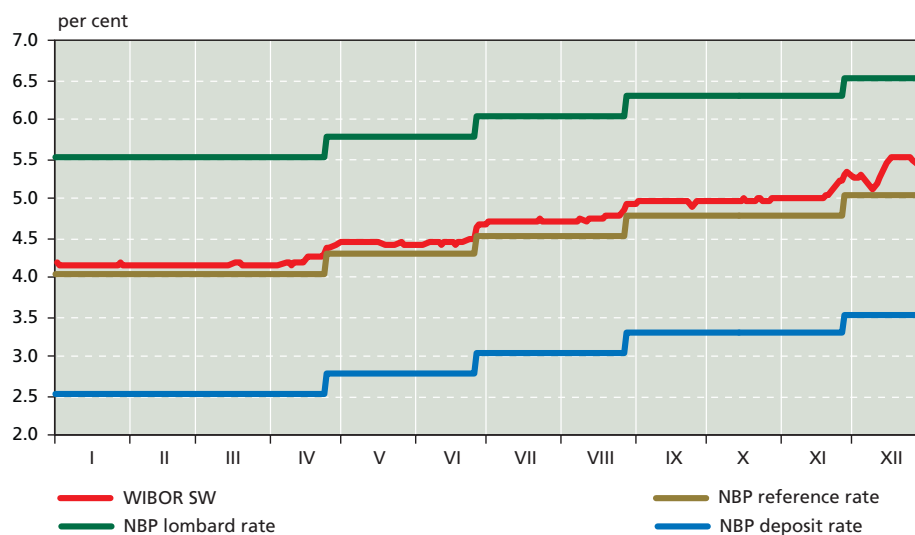
2.3.2.1. Interest rate

In 2007 the fundamental monetary policy instrument was the short-term interest rate. The Monetary Policy Council determined the level of NBP interest rates, which, in turn, influenced the interest on monetary policy instruments, i.e. open market operations, reserve requirements and standing facilities.

The main interest rate of the NBP was the reference rate. This rate influenced the level of interest rates with maturities comparable to the maturity of basic open market operations (WIBOR SW¹⁰). The deposit rate and the lombard rate of the NBP determined the fluctuation band of overnight interest rates in the interbank market. The rediscount rate indirectly determined the interest on required reserve funds.

Figure 4

NBP interest rates and interbank market WIBOR SW rate in 2007



Source: NBP data.

In 2007 the Monetary Policy Council raised the key NBP rates on four occasions. Overall, the reference rate was raised from 4.00% to 5.00%, the lombard rate from 5.50% to 6.50%, the deposit rate from 2.50% to 3.50% and the rediscount rate from 4.25% to 5.25%. The tolerance band for deviations of short-term market rates remained unchanged at ± 1.50 percentage point around the reference rate.

The reference rate increases were followed by short-term interest rates in the interbank market. WIBOR SW rate oscillated around the NBP reference rate and remained in the corridor for deviations delineated by the lombard and deposit rates of the NBP. The average deviation¹¹ of this rate from the NBP reference rate in 2007 amounted to 9 basis points and was 3 basis points higher than in the preceding year. A rise in the deviation of WIBOR SW rate in relation to 2006 was observed in the second half of 2007 and particularly in 2007 Q4 and it mainly resulted from:

- increased expectations of NBP interest rate hikes and
- increased aversion to risk in the interbank market resultant from the crisis in the US mortgage loan market and the ensuing liquidity disruptions in the world markets.

¹⁰ WIBOR SW (Warsaw Interbank Offered Rate Spot Week) – rate at which banks are ready to grant loans in the unsecured interbank deposit market for the period of 7 days. It is calculated as the arithmetic mean from quotations submitted by participants of the fixing conducted each business day at 11.00 AM and published on Reuters news website (WIBO). The fixing is organised by ACI Polska.

¹¹ The average deviation of WIBOR SW rate as well as WIBOR O/N and POLONIA rates was calculated according to a uniform base 365 days in the year.

Table 2

Decisions of the Monetary Policy Council regarding changes in the official interest rates in 2007

Decision date*	Decision
25 April 2007	Raising of the minimum yield on the 7-day open market operations from 4.00% to 4.25% Raising of the lombard rate from 5.50% to 5.75% Raising of the rediscount rate from 4.25% to 4.50% Raising of the deposit rate from 2.00% to 2.75%
27 June 2007	Raising of the minimum yield on the 7-day open market operations from 4.25% to 4.50% Raising of the lombard rate from 5.75% to 6.00% Raising of the rediscount rate from 4.50% to 4.75% Raising of the deposit rate from 2.75% to 3.00%
29 August 2007	Raising of the minimum yield on the 7-day open market operations from 4.50% to 4.75% Raising of the lombard rate from 6.00% to 6.25% Raising of the rediscount rate from 4.75% to 5.00% Raising of the deposit rate from 3.00% to 3.25%
28 November 2007	Raising of the minimum yield on the 7-day open market operations from 4.75% to 5.00% Raising of the lombard rate from 6.25% to 6.50% Raising of the rediscount rate from 5.00% to 5.25% Raising of the deposit rate from 3.25% to 3.50%

* Decisions came into force on the following business day.

Source: NBP data.

The average deviation from the NBP reference rate in 2007 amounted to 23 basis points for POLONIA rate¹² and 19 basis points for WIBOR O/N rate (compared with 16 and 10 basis points, respectively, in 2006).

2.3.2.2. Open market operations

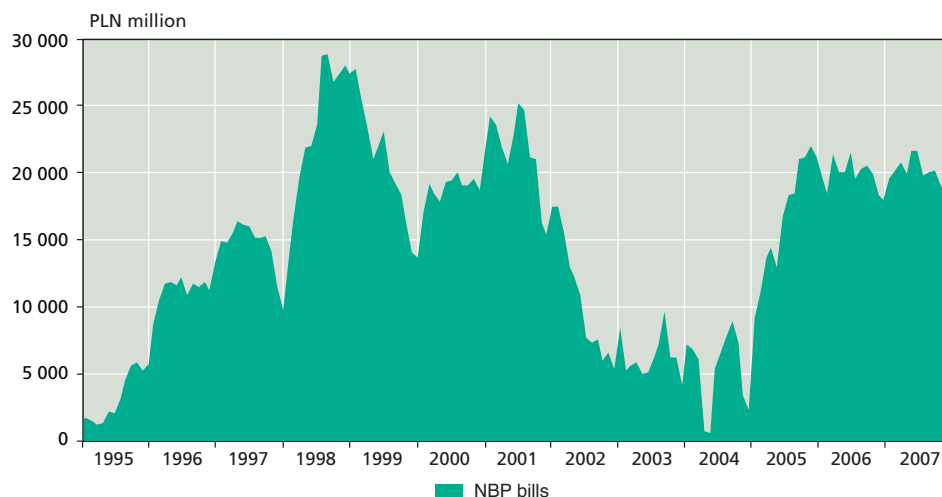
In 2007 open market operations were the principal instrument for maintaining short-term interest rates at a level consistent with the pursuit of the MPC-established inflation target. As regards these operations, the NBP could make use of basic, fine-tuning and structural operations.

Basic operations consisted in the issuance of the NBP bills with 7-day maturity. They were performed, similarly as in the preceding year, on a regular basis (once a week).

¹² POLONIA (Polish Overnight Index Average) – is an average overnight rate weighted with the transaction volume in the unsecured interbank deposit market. The NBP publishes this rate at NBP's page at Reuters website daily at 17.00 hrs.

Figure 5

Average monthly balance of basic open market operations 1995–2007



Source: NBP data.

Starting from 1 January 2006 the access to basic operations was granted to all the banks participating in the SORBNET system which at the same time had an account at the NBP's Securities Register and the ELBON application.

In 2007 the National Bank of Poland, apart from the basis open market operations, could also recourse to conduct fine-tuning operations. Fine-tuning operations could take the form of both liquidity-absorbing and liquidity-providing operations. These operations could be accessed by 13 banks which were most active in the money and foreign exchange markets and which signed contracts with the NBP to act as a Money Market Dealer. These operations could be performed in order to mitigate the impact of unexpected short-term movements in the liquidity of the banking sector on the level of short-term interest rates. In 2007, however, there were no grounds to conduct any operations of this kind.

2007 saw the continuation of the liquidity surplus in the banking sector, yet the forecast for subsequent years envisaged its reduction. In these conditions, it was not necessary either to modify the long-term liquidity structure of the banking sector.

2.3.2.3. Reserve requirements

In 2007 the obligation to hold reserve requirements in the accounts with the NBP applied to banks, branches of credit institutions and branches of foreign banks operating in Poland. Reserve requirements were held in the averaged system. Banks were obliged to maintain an average balance of funds in accounts with the NBP during the reserve maintenance period at the level not lower than the reserve requirements.

Required reserves were calculated on the basis of bank's collected deposits and funds received from the sale of securities. Excluded from the reserve base were funds received from another domestic bank, acquired from abroad for at least two years and deposited in credit and savings accounts at building societies and in individual pension accounts. Required reserves were calculated and held in the Polish zloty.

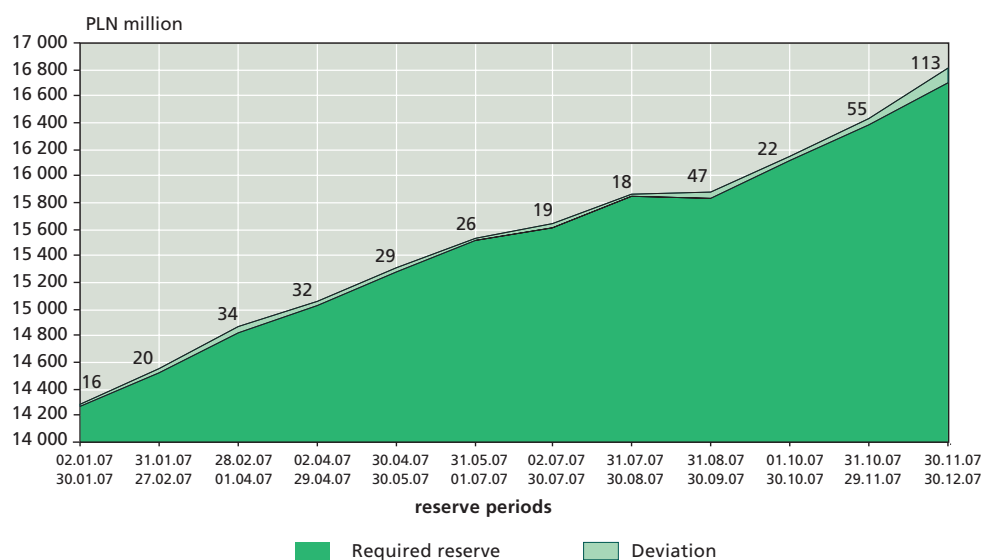
The ratios of required reserves were not changed in 2007 and amounted to 3.5% on all liabilities included in the reserve base, except for funds acquired from repo transactions, for which the required reserve rate was 0%. Banks deducted a lump-sum allowance, equivalent to EUR 500 thousand, from their reserve requirements.

The holdings of required reserves were remunerated. On 1 May 2004, the Monetary Policy Council set the interest rate at the level of 0.9 of the rediscount rate. Starting from 2007 all the remuneration has been received by banks.¹³

The amount of required reserves is PLN 16,966 million as of 31 December 2007, showing an increase of PLN 2,996 million (21.4%) as compared with 31 December 2006. This rise in the required reserve level mainly resulted from a 20.3% increase in deposits that formed the reserve base and were subject to the positive ratio of required reserves.

Figure 6

Changes of required reserve level and deviations from reserve requirements in 2007



Source: NBP data.

There was a continuation in all the reserve maintenance periods of a surplus in the average balance of funds (of PLN 36 million, i.e. 0.23%, on average) in relation to the level of the reserve requirements. Slight differences between the required and held reserves in particular periods (except for December) resulted from:

- proper asset management at banks,
- banks' use of instruments facilitating asset management in accounts with the NBP (intraday credit, deposit and lombard facilities), and
- arrangement under which interest is only charged on reserve funds to the amount of the required reserve (regulation in force since May 2004).

In December the surplus in the average balance of funds in relation to the required reserve amounted to PLN 113 million (0.68%). This larger difference, in comparison to preceding months, resulted from cautious current liquidity management on the part of banks at the end of the year amid concurrent liquidity disruptions in the world markets.

¹³ In 2004, 2005 and 2006 the NBP was obliged to transfer 80%, 60% and 50%, respectively in subsequent years, of the amount of interest accrued on required reserve assets to the EU Guarantee Fund.

2.3.2.4. *Standing facilities*

Standing facilities performed with the central bank were meant for banks to deposit their free funds overnight with the NBP or to supplement the banking sector's short-term liquidity. These operations, initiated by commercial banks, prevented excessive fluctuations of interbank rates. Standing facilities include lombard facility and deposit facility.

The lombard facility interest rate determining the maximum cost of funding with the NBP also set a ceiling on fluctuations of interbank rates, while the deposit rate constituted the lower limit of the band for interbank rate deviations.

In 2007, the total amount of term deposits placed by banks with the NBP amounted to PLN 195.3 billion and was 3.5 times higher compared with the deposits placed one year before. Between 1 January and 31 December 2007 the average daily level of overnight deposits amounted to PLN 535.1 million, compared to PLN 149.9 million in 2006. A particularly high utilisation of deposit operations was observed in December at the average level of PLN 2,964.0 million. It was connected with banks' willingness to hold more funds at the turn of the year.

The total value of overnight deposits placed by banks ranged between PLN 0.1 million and PLN 11.8 billion. The highest amounts were deposited by banks on the last days of the required reserve maintenance periods.

In 2007 banks made use of the lombard facility collateralised with Treasury securities to supplement their current liquidity, mainly towards the end of periods of maintaining required reserves in current accounts with the NBP. The total amount of credit used in 2007 was PLN 11.4 billion, compared to PLN 15.5 billion in 2006, while the average daily use of lombard facility was PLN 31.3 million as compared to PLN 42.6 million in 2006.

2.3.2.5. *Other operations*

Intraday credit facility is an instrument facilitating liquidity management in the banking sector during the business day and, at the same time, ensuring the interbank settlement liquidity. It is a non-interest bearing credit collateralised with Treasury securities, taken and repaid during the same business day. In 2007 the daily injection of operational liquidity for banks ranged between PLN 10.4 billion and PLN 18.7 billion. The utilisation of intraday credit facility increased by 15.2% in relation to 2006.

Intraday credit in EUR serves to ensure settlement liquidity in the SORBNET-EURO system. It is collateralised with Treasury bonds that have been previously accepted by the ECB and is subject to repayment during the same business day. In 2007 the daily injection of euro-denominated operational liquidity to banks ranged between EUR 0.5 million and EUR 2.4 million. The utilisation of the intraday credit facility in the euro increased by 7.1% in relation to 2006.

BANKING SUPERVISION¹⁴

¹⁴ Tasks related to his area were carried out, among others, pursuant to art. 25, art. 27–30 of the Act on the National Bank of Poland and provisions of chapter 11 and 11a of The Banking Act (art. 131 and subsequent articles).

Until 31 December 2007, the tasks related to banking supervision stipulated in the Banking Act were performed by the General Inspectorate of Banking Supervision (GINB), which was the executive body of the Commission for Banking Supervision (CBS) and was a separate organisational unit within the structure of the NBP. Supervisory tasks consisted in ensuring the security of funds deposited in the bank accounts and compliance of banks' operations with the provisions of law, by-laws and the decision on issuing the licence to establish a bank.

Pursuant to the Law of 21 July 2006 on the supervision of financial markets, the Commission for Banking Supervision was abolished as of 31 December 2007 and GINB was liquidated. Since 1 January 2008, pursuant to the above-mentioned Law, the tasks carried out by CBS have been performed by the Polish Financial Supervision Authority (PFSA).

As at 31 December 2007, 645 banks were subject to banking supervision (647 banks as at the end of 2006), of which:

- 49 banks incorporated as public limited companies (including 3 banks associating co-operative banks),
- 1 state-owned bank,
- 14 branches of credit institutions,
- 581 co-operative banks.

In 2007, the intention to conduct cross-border operations on the territory of Poland was reported by 72 credit institutions.

Detailed information on the situation of the banking sector as at the end of 2007 is presented in the appendix.

3.1. Licensing

In 2007, the principal tasks in the area of licensing covered the consideration of applications and notifications addressed to CBS related to the following issues:

- Establishment of banks and taking up of operating activities

In 2007, three applications for the authorization to establish new banks were considered.

- Execution of voting rights at the general meeting of shareholders of the banks incorporated in the form of a public limited company

In 2007, CBS issued 8 resolutions, including 7 resolutions regarding the authorization to execute voting rights at banks' general meetings of shareholders, and 1 resolution regarding the discontinuance of proceedings to amend the resolution of CBS regarding the issuance of an authorization to execute voting rights at a bank's meeting of shareholders.

- Changes to the composition of banks' management boards

In 2007, CBS issued 54 resolutions regarding the appointment of banks' management boards, including 31 resolutions on the appointment of management board members in banks operating in the form of a public limited company and 23 resolutions on the appointment of management board presidents of co-operative banks.

- Amendments to the statutes of the banks

In 2007, CBS issued 218 decisions regarding the issue of an authorization to amend the statutes of banks, 49 decisions regarding the authorization to amend the statutes of banks operating as public limited companies and 169 decisions regarding the authorization to amend the statutes of co-operative banks.

- Running operations *via* branches or in the form of cross-border activity

In 2007, the following notifications were submitted to CBS by relevant supervisory authorities of the European Economic Area (EEA) countries:

- 7 notifications regarding the taking up of business in Poland by a branches of credit institutions that have their seat in Spain, Sweden, Luxembourg, France, Portugal and Ireland (2 notifications),
- 72 notifications regarding the taking up of business of credit institutions in Poland,
- 1 notification of terminating operations in Poland by a branch of credit institution.

In addition, domestic banks submitted the following:

- 5 notifications regarding the taking up of cross-border operations in the territory of EEA countries;
- 7 notifications regarding the taking up of business *via* branches in EEA countries; proceedings related to 5 notifications were not completed in 2007.

- Establishment of representative offices of foreign banks and credit institutions

Upon the consideration of applications for the authorization to establish representative offices of credit institutions in Poland, CBS issued 4 decisions authorising the establishment thereof in 2007.¹⁵

- Division of banks

In 2007, CBS passed 1 resolution in this matter relating to the application submitted by Bank Pekao SA and Bank BPH SA.

- Merger of banks

In 2007, CBS passed 1 resolution relating to the merger of Bank DnB NORD Polska SA and Bank Inicjatyw Społeczno-Ekonomicznych SA.

Within the framework of permanent licensing tasks of the banking supervisor the following activities were also performed, among others: running and updating of the banks' registration system¹⁶, provision of information and opinions on the binding legal regulations concerning licensing to natural persons, enterprises and state institutions.

¹⁵ As at the end of 2007, 20 representative offices of foreign banks and credit had operations in Poland, of which 5 from Germany, 3 from Belarus, 3 from Austria, 2 from the United States and 1 in each France, Switzerland, Ireland, Taiwan, Spain, Italy, and Luxembourg.

¹⁶ Pursuant to Regulation No. 25/2007 of the President of the National Bank of Poland of 21 December 2007 amending the regulation on the manner of assigning sort codes to banks and their organisational units' the task of keeping a register of banks was delegated to the Financial System Department of the NBP on 27 December 2007; see section 3.8.

3.2. Regulatory tasks

In 2007, key regulatory tasks of the banking supervisor focused on the implementation of the provisions of the New Capital Accord (Basel II) and the Capital Requirements Directive (CRD)¹⁷ to the Polish legal system.

CBS passed the following regulations relating to these matters:

- No. 1/2007/CBS of 13 March 2007 on the scope of the capital requirements against particular risks and the detailed principles to be applied in determining those requirements, including but not limited to the scope and conditions of applying statistical methods and the scope of information attached to an application for the authorization to apply them, principles and conditions of taking account of contracts on debt assignment, subparticipation, credit derivative and contracts other than those on debt assignment, subparticipation, in calculating the capital requirements, terms and conditions, scope and manner of making use of the ratings assigned by external credit assessment institutions and the export credit agencies, manner and specific principles of calculating the solvency ratio of a bank, the scope and manner of taking account of banks conducting their activities in groups in calculating their capital requirements as well as establishing additional items of bank balance sheets included in bank regulatory own funds in the capital adequacy account, the amount thereof and the conditions to be used in calculating them¹⁸,
- No. 2/2007/CBS of 13 March 2007 on other deductions from a bank's core capital, amount thereof, scope and conditions of such deductions from the core capital of a bank, other balance sheet items included in the supplementary capital, the amount and scope thereof, and the conditions of including them in a bank's supplementary capital, deductions from a bank's supplementary capital, the amount and scope thereof and conditions of performing such deductions from the banks' supplementary capital, the scope and manner of taking account of the business of banks conducting their activities in groups in calculating their own funds,
- No. 3/2007/CBS of 13 March 2007 on detailed principles and conditions of accounting for exposures in determining compliance with exposure concentration limit and large exposure limit, specifying exposures exempt from the provisions regarding exposure concentration limits and large exposure limits, and the conditions they have to satisfy, specifying exposures that need the authorization of CBS for the exemption from provisions related to exposure concentration limits and large exposure limits and the scope and manner of accounting for the activities of banks operating in groups in calculating exposure concentration limits,
- No. 4/2007/CBS of 13 March 2007 on detailed principles of the functioning of risk management and internal control systems and detailed conditions for assessing by banks their internal capital and reviewing the process of assessing and maintaining the adequacy of internal capital,
- No. 5/2007/CBS of 13 March 2007 on requirements for the identification, monitoring and control of exposure concentration, including large exposures,
- No. 6/2007/CBS of 13 March 2007 on detailed principles related to and the manner of publishing disclosures by banks with regard to qualitative and quantitative information regarding capital adequacy and the scope of information subject to disclosure,

¹⁷ Detailed information about New Capital Accord and CRD Directive can be found in *NBP Annual Report 2005*.

¹⁸ Resolution amended by Resolution No. 12/2007/CBS of 8 August 2007. The amendment consisted in adding 2 banks to the list of multilateral development banks in para 44 of Annex No. 4.

- No. 7/2007/CBS of 13 March 2007 amending the resolution on the manner of carrying out banking supervision,
- No. 8/2007/CBS of 13 March 2007 amending the resolution on the list of documents to be attached to applications submitted to CBS in matters relating to the authorization to establish a bank, authorization to appoint members of bank's management board and relating to the information about the composition of the management board submitted to CBS by the bank's supervisory board,
- No. 9/2007/CBS of 13 March 2007 on setting liquidity norms binding the banks.

At its meeting held on 6 June 2007, CBS passed Resolution No. 10/2007/CBS on ratings assigned by external credit assessment institutions which may be used by the bank to set capital requirements and the scope of using the ratings as well as connecting the ratings to the grades of credit quality.¹⁹

The New Capital Accord adopted in 2004 by the Basel Committee on Banking Supervision establishes a new international standard for calculating the regulatory capital. The provisions of the NCA have been transposed into the EU legislation through Directive 2006/48/EC on the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions, called collectively the CRD Directive.

The above mentioned CBS resolutions form executory acts to the amended Banking Act and transpose the provisions of the CRD Directive into the Polish law.

A transitional period lasting to 31 December 2007 was provided for a major part of the provisions based on the above-mentioned CBS resolutions and banks were free to apply the provisions at their discretion. Therefore, most banks²⁰ used the transitional period and the banking sector as a whole has been subject to regulatory requirements provided for in CBS resolutions of 13 March 2007 since 1 January 2008, with the exception of resolution No. 2/2007/CBS on the core capital of a bank which became effective on 1 April 2007, and resolution No. 9/2007/CBS, that entered into force on 1 January 2008. However, banks and branches of credit institutions were not subject to complying with the supervisory limits of liquidity measures until 29 June 2008. In the transitional period, i.e. until 29 June 2008, banks and branches of credit institutions were required to calculate supervisory liquidity measures to monitor liquidity level and comply with supervisory liquidity measures as well as review the existing internal procedures in this regard.

Pillar 2 of the NCA is a particular issue in the new regulations. It requires that banks estimate capital needed to cover the risks underlying all their activities (internal capital) and review the estimate in the process of supervisory activities (examination and supervisory assessment). According to the Polish supervisory practice to date, an assessment of the risk underlying the bank's activities was made, after which, however, banks were not required to allocate capital exceeding the sum of minimum capital requirements under Pillar 1 of the NCA to the assessed risk.

Pillar 3 is also a new issue in the regulations (market discipline). It imposes the obligation on banks to fully inform market participants about the key elements of risk profile underlying the activities carried out by banks. Public disclosure of such information should enhance the quality of bank management process and contribute to increased customer security.

¹⁹ Resolution amended by Resolution No. 11/2007/CBS of 8 August 2007.

²⁰ 46 commercial banks (of the total of 49) and the state-owned BGK as well as all co-operative banks.

In addition, in 2007, the banking supervisor participated in issuing opinions on the following legal acts:

- law amending the Accounting Act of 29 September 1994,
- law amending the Act on Trading in Financial Instruments and some other acts,
- law amending laws to unify the terminology used in IT,
- ordinance of the Finance Minister amending the ordinance on specific accounting principles for pension funds,
- ordinance of the Finance Minister amending the ordinance on specific accounting principles for investment funds,
- ordinance of the Finance Minister amending the ordinance on specific accounting principles for brokerage houses and banks' organisational units conducting brokerage activities,
- ordinance of the Finance Minister amending the ordinance on specific accounting principles for insurance companies,
- amendments to the ordinance of the Finance Minister of 12 December 2001 on principles of preparing banks' consolidated financial reports and consolidated reports of a financial holding company,
- Regulation of the European Council on IFRS²¹ 8 "Operational segments".

3.3. Analytical tasks

In 2007, analytical tasks of the banking supervisor included:

- Direct supervision of banks, i.e.:
 - ongoing and quarterly analysis and assessment of the economic and financial situation of individual banks, under which analytical-supervisory spreadsheets containing key financial information on banks were updated²², ratings were assigned to risk areas and a score was calculated (in the CAEL system).²³ This information was then provided to banks' management boards and supervisory boards²⁴, and to the Bank Guarantee Fund in the case of banks where recovery programs were being implemented,
 - co-operation with foreign supervisors,
 - monitoring banks' preparedness to implement New Capital Accord,

²¹ International Financial Reporting Standards.

²² They embrace, among others, the scoring assigned to bank, description of the risk incurred by bank and compliance with norms provided for in the Banking Act and other provisions and supervisory regulations.

²³ This is a method of assessing individual banking risks and is used, among others, to plan the dates and frequency of full scope and targeted examinations. The letters stand for: C – capital adequacy, A – asset quality, E – earnings, L – liquidity.

²⁴ In the case of co-operative banks with the balance sheet sum exceeding PLN 100 million.

- analysis of applications concerning contracts on outsourcing concluded by banks,
- monitoring the implementation of post-examination recommendations,
- analysis of banks' business plans and their implementation,
- preparation of information for CBS about key occurrences taking place in banks; in 2007, particular attention was given to problems relating to bank's involvement in funding the real estate market,
- undertaking explanatory, informative and emergency activities – in 2007, these activities were connected, among others, with the crisis on the US subprime market and its impact on the banking sector in Poland.

- Supervision of banks in a difficult financial situation

In 2007, recovery action plans were implemented in 6 commercial banks (7 banks in 2006) and 2 banks restructured bank enterprises taken over from other banks (5 banks in 2006). CBS made a decision, acting in line with its normal supervisory activities, to limit the scope of activities of one commercial bank. Actions stipulated in the Banking Act in relation to banks subject to liquidation and bankruptcy were taken as part of analytical supervision activities.

- Comprehensive analysis of the situation in the banking sector, including:

- development of quarterly *Evaluation of the economic situation of Polish banks*²⁵,
- providing external recipients (in Poland and abroad) with key information about the banking sector in the report entitled *Summary evaluation of the financial situation of Polish banks*,
- preparation of annual assessment entitled *Impact of monetary, tax and supervisory policies on the development of banks in 2006*,
- preparation of annual report entitled *Financing of real estate by banks in Poland*,
- preparation of annual information entitled *Financial performance of banks following audits and in the light of consolidated statements*,
- preparation of *Information on the distribution of profit for the previous year by domestic banks*,
- preparation of quarterly information on banks subject to recovery proceedings,
- running the register of banks' foreign customers and shareholders of the customers,
- analysing the risk related to banks' large exposures.

²⁵ Annual Report 2006 and Report for the first half of 2007 was delivered to: the President of Poland, Speakers of the Sejm and Senate, the Prime Minister, certain ministers and heads of central institutions and the chairmen of three parliamentary commissions.

3.4. Examination tasks

In 2007, examination tasks of the banking supervisor included the preparation and execution of on-site examinations at banks while ensuring a uniform standard of the examinations. In the course of the examinations carried out on the basis of resolution No. 4/2002 of CBS of 6 March 2002, particular attention was given to:

- banks' preparedness to implement the provisions of the amended Banking Act and CBS resolutions transposing the provisions of the directives of the European Parliament and of the Council²⁶,
- application by banks of the principle of managing risks underlying loans earmarked to fund real estate purchases, among others, related to the compliance with *Recommendation S* on good practices in the field of mortgage secured credit exposures (with particular emphasis on housing loans to households denominated in foreign currencies).

In 2007 r., examinations were carried out by 214 inspectors of banking supervision. The examinations carried out in banks included:

- 93 full-scope on-site examination (in 2006 – 106 examinations), of which:
 - 19 examinations in commercial banks,
 - 74 examinations in co-operative banks,
- 43 targeted examinations (in 2006 – 40 examinations), of which:
 - 20 examinations in commercial banks, which covered some selected activity areas,
 - 23 examinations in co-operative banks,
- 2 examinations in a representative offices of a foreign bank,
- 2 examinations in a representative offices of credit institutions,
- 3 supervisory visits related to the assessment of applications submitted by banks for the authorization to use advanced measurement approach for the calculation of capital requirement for credit risk.

3.5. International supervisory co-operation

In 2007, international supervisory co-operation focused on issues related to:

- running of the Secretariat of the Banking Supervisors from Central and Eastern Europe (BSCEE) by the Polish banking supervision authority,
- signing co-operation agreements by CBS with supervisors of other countries. On 21 September 2007, CBS signed an agreement with the New York State Banking Department²⁷ on the principles and manner of conducting consolidated supervision of

²⁶ Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions, called collectively the CRD Directive.

²⁷ This is the fifth supervisory institution in the United States with which CBS has signed a supervisory agreement.

banks. On 25 October 2007, CBS signed a Memorandum of Understanding with the National Bank of Ukraine.

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

In 2007, the NBP did not financially support banks' recovery programs but supervised the progress on and timeliness of debt repayment in line with the arrangements provided for in the agreements.

Financial aid in the form of a B/E loan was maintained with one bank. The B/E in the amount of PLN 5.71 million was repaid in whole on 6 November 2007 and as at 31 December 2007 the NBP did not have any exposures related to the aid granted to recovery programs.

In addition, as at 31 December 2007 no bank was exempt from the reserve requirement.

3.7. The activities of the banking supervisor contributing to establishing conditions needed to develop the banking system

In 2007, key actions of the banking supervisor which contributed to establishing conditions needed to develop the banking system covered:

- works on the regulations implementing New Capital Accord and Directives 2006/48/EC and 2006/49/EC to the Polish banking system and monitoring banks' activities in this regard,
- works on a new reporting system for banks,
- consolidated supervision,
- monitoring of co-operative banks' actions aimed at achieving own funds amounting to EUR 1 million by the end of 2007,
- conducting examinations as a result of which banks' actions found to be noncompliant with legal provisions regulating their operations as well as non-prudential practices were identified and eliminated and the improvement of risk management quality was recommended,
- dissemination of principles of corporate governance, the use of which ensures the transparency of the banking sector,
- co-operation with the Bank Guarantee Fund in the area of ensuring stability and security of the banking sector and individual banks,
- co-operation with foreign banking supervision authorities, which allowed to share information and experience related to the implementation of the New Capital Accord and Directives 2006/48/EC and 2006/49/EC, as well as the identification of risks in international capital groups.

3.8. Transfer of banking supervision to the Polish Financial Supervision Authority

The coming into force of the provisions of the Law of 21 July 2006 on the supervision of financial markets led to the need to undertake actions in the National Bank of Poland ensuring efficient transfer of banking supervision to the Polish Financial Supervision Authority and ensuring NBP co-operation with the banking supervision functions established within the structure of PFSA as of 1 January 2008.

The most important activities conducted by the NBP²⁸ in his respect included:

- Information exchange between the NBP and the PFSA

In the course of works aimed at developing principles of co-operation between the PFSA and the NBP an analysis was carried out of the kind of information and its scope to be exchanged by the two institutions on the basis of which a draft agreement was prepared. The agreement was signed on 14 December 2007. It provides the formal grounds enabling the Office of the PFSA to submit information needed to pursue the Bank's statutory objectives to the NBP and the NBP to submit information to the PFSA that is collected in the NBP and may be needed to fulfil the tasks related to banking supervision.

- IT systems

To ensure efficient functioning of banking supervision after 31 December 2007 it was necessary to provide IT services to the employees responsible for banking supervision. The main assumption taken into account was to ensure IT support continuity to banking supervision in the new structure after 1 January 2008, in particular, the continuity of IT systems used before that date by GIBS.

The proposal developed at the NBP assumed that a part of the hardware and software would be handed over to PFSA free of charge and IT systems supporting the performance of banking supervision tasks for a period needed to roll-out a proper IT and telecommunication infrastructure in the PFSA would be made available. NBP undertook a number of actions to carry through the proposal; among others, it analysed application systems, prepared an inventory of IT software, and a list of license costs. As part of property transfer to enable the PFSA to carry out its responsibilities IT hardware and a part of the software were handed down free of charge. A relevant agreement with the PFSA on rendering IT and telecommunication services was signed with the PFSA on 28 December 2007. Pursuant to the agreement, PFSA employees responsible for banking supervision were provided with remote access to IT systems of the NBP as of 1 January 2008.

- Property used to carry out the responsibilities related to banking supervision

As part of the work aimed at transferring property used to carry out banking supervision responsibilities the following activities were undertaken:

- it was agreed that the property used to carry out the responsibilities of banking supervision would be handed down to the Office of PFSA free of charge,
- a list of property used to carry out the responsibilities of banking supervision was made,
- an approach was developed regarding the manner and form of transferring NBP property for the needs of banking supervision,

²⁸ Coordinated by the Commission for GIBS spin-out, established on 21 September 2006.



- principles for the usage the NBP premises by PFSA employees after 1 January 2008 were laid down,
- on 20 December 2007 an agreement on allotting the property used to carry out the responsibilities of the CBS and GIBS was signed by the Prime Minister and the NBP President,
- the property was handed down to the Office of PFSA (fixed and intangible assets),
- archival documentation and the documentation of pending matters carried out by GIBS was handed down to the Office of PFSA.

- Human resources

Activities in this respect were aimed at ensuring an efficient transfer of information about the personnel and documents confirming employment of GIBS personnel to the Office of the PFSA and mitigate personnel risk connected with GIBS leaving the structure of the NBP (through providing information to the employees of GIBS about matters connected with GIBS leaving the structure of the NBP). The activities undertaken in this respect were, among others, as follows:

- the Office of the PFSA was provided with regulations determining remuneration principles and information about benefits employees were entitled to in the NBP, as well as information needed to prepare budget forecast of the Office of the PFSA for 2008 and a draft of a regulation about remuneration principles for PFSA employees,
- GIBS employees were informed about the change of employer, pursuant to the law on the supervision of financial markets, that may have an impact on individual job contracts,
- at the beginning of 2008, information about all GIBS employees who became PFSA employees was submitted to the Office of the PFSA, including personal files/records and remuneration documents.

- Assigning sort codes to banks

Tasks related to assigning sort codes to banks and their organisational units continue to be carried out by the NBP, pursuant to the Act on the NBP and the Regulation of the NBP President of 21 December 2007 (until 31 December 2007 these tasks were carried out by GIBS).

- The functioning of a division operating Reporting Information System (SIS) in the structure of the NBP

To perform its statutory tasks the NBP is entitled to collect data from banks that are needed to determine the monetary policy and prepare periodical assessments of the country's monetary situation, banks' financial condition and the risk underlying the banking sector. Pursuant to the present legislation, this task may not be performed by banking supervision functions in the structure of the PFSA. Therefore, the tasks related to the roll-out and operation of the system processing prudential and stability-related data after 31 December 2007 have to be performed at the NBP. To enable this, on 29 November 2007, the NBP Management Board made a decision stating that the NBP would continue to manage the Reporting Information System which contains prudential and stability-related data and establish a division to perform these tasks in the Department of Statistics.

The most important activities of the NBP in 2007

- As at 31 December 2007, the banking supervision covered 645 banks, including 49 banks incorporated as public limited companies, 1 state-owned bank, 14 branches of credit institutions and 581 co-operative banks.
- In 2007, 77 credit institutions notified the banking supervision authority of the intention to carry out cross-border operations in Poland.
- Ninety three full-scope on-site examinations and forty three targeted on-site examinations were carried out.
- GINB completed the work on the implementation of New Capital Accord to the Polish banking system, including the work on the preparation of relevant draft laws.
- Activities were carried out to ensure an efficient termination of the activities of the General Inspectorate of Banking Supervision within the structure of the NBP.



4

THE ISSUE OF CURRENCY²⁹

²⁹ The responsibilities in this field are exercised, *inter alia*, pursuant to Article 4 and Articles 31 to 37 of the Act on the NBP.

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

4.1. Notes and coin in circulation

The volume of notes and coins in circulation (including bank vault cash) as at 31 December 2007 amounted to PLN 85,994.3 million.³⁰ This signifies an increase in the value of notes and coins by PLN 10,617.1 million, i.e. by 14.09% of the amount as at 31 December 2006.

In 2007, manufacturers of notes and coins, 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 1,312,787.2 thousand pieces of notes and coins. The total cost of purchase amounted to PLN 261.1 million, which constitutes an increase by 26.7% on 2006 (PLN 206 million).

In terms of value, as at 31 December 2007, notes accounted for 97.16% of all currency in circulation, whilst coins made up 2.84% (in 2006, notes accounted for 97.19%, and coins – 2.81%).

In terms of volume, notes represented 9.93%, and coins – 90.07% of all notes and coin in circulation (in 2006, notes accounted for 9.7%, whereas coins – for 90.3%).

In terms of value, 100 zloty and 200 zloty notes accounted for the largest share of all notes in circulation at the end of 2007, totalling 63.58% and 23.58%, respectively (61.8% and 24.92% in 2006). In the case of coins, 5 zloty and 2 zloty coins had the largest share of all coins in circulation, accounting for 31.38% and 28.46%, respectively (29.67% and 28.8% in 2006).

In terms of volume, 100 zloty and 50 zloty notes had the largest share in the circulation at the end of 2007, amounting to 54.41% and 16.76%, respectively (in 2006, their respective shares stood at 52.48% and 17.05%). In the case of coins, 1 grosz and 2 grosz coins dominated, with their respective shares at 36.57% (36.9% in 2006), and 17.84% (17.8% in 2006).

4.2. Issue of collector coin

The NBP issues collector coin, *inter alia*, to disseminate knowledge about the history and culture of Poland. In 2007, the total of 660.7 thousand pieces of coins were issued within 11 topics, of which 43.7 thousand pieces were gold coins and 617 thousand were silver coins.

16 types of collector coins were issued:

- 5 gold coins with face values of 200 and 100 zloty;
- 11 silver coins with face values of 20 and 10 zloty.

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

³⁰ Of which PLN 176.1 million is 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 2007.

- silver coin with a cubic zirconium ("Polish Travellers and Explorers – Henryk Arctowski and Antoni B. Dobrowolski"),
- silver coin struck using the pad printing technique ("Polish Painters of the Turn of the 19th and 20th Centuries – Leon Wyczółkowski 1852–1936"),
- silver coin with a hologram ("Konrad Korzeniowski – Joseph Conrad"),
- rectangular silver coin ("History of the Polish Cavalry – The Mounted Knight – 15th Century").

Moreover, the NBP continued the issue of the general circulation coins with a face value of 2 zloty, struck in the Nordic Gold alloy, which accompanied particular issues of collector coins. The NBP also continued the issue of 2 zloty coins, struck in the Nordic Gold alloy, of the new series *Historical Cities in Poland*; within the series every month a coin dedicated to a different city was issued. In 2007, the total of 23 coins of this type were issued.

In 2007, the NBP issued 7,500 pieces of gold bullion coins, which are investment coins.

4.3. Withdrawal of unfit notes and coin

In 2007, the total of 296.8 million pieces of notes and coins were withdrawn from circulation (322.1 million pieces in 2006) due to unfitness or loss of counterfeit protection features. The average life of notes is correlated with their face value and ranges from 9 months in the case of 10 zloty notes to 126 months in the case of 200 zloty notes. The average life of coins exceeds ten years.

4.4. Counterfeit Polish currency

The number of counterfeit Polish currency notes and coins decreased by 29.52% on 2006. Table 3 presents the number and breakdown of counterfeit Polish notes and coin reported in 2007 in comparison with 2006.

Table 3

Number and breakdown of counterfeit Polish currency notes and coins

Counterfeit notes and coins	2006		2007		Increase/ decrease (in %)
	Number (pieces)	Breakdown (in %)	Number (pieces)	Breakdown (in %)	
Notes issued in 1994, the "Polish Monarchs" series	23 874	44.96	15 227	40.68	-36.22
Notes of previous issues, the "Great Poles" series	26	0.05	24	0.06	-7.69
Coins of current issue	27 891	52.52	19 911	53.20	-28.61
Coins of previous issues, withdrawn in 1994	1 313	2.47	2 267	6.06	+72.66
Total	53 104	100	37 429	100	-29,52

Source: NBP data.

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.

4.5. Supply of notes and coin to the banks

In 2007, commercial banks purchased Polish currency notes and coins at the NBP for the amount of PLN 155.5 billion (PLN 145.3 billion in 2006), of which PLN 96.4 billion – i.e. 62% of the total value – accounted for transactions of purchase of notes and coin under agreements on storing and purchasing notes and coin deposited at the NBP³¹ (58.7% in 2006), whereas PLN 59.1 billion – i.e. 38% of the total value, accounted for transactions of purchase concluded on the basis of agreements on the execution procedure for the agreements of sale-purchase of Polish currency notes and coin³² (41.3% in 2006).

4.6. Exchange of currency which ceased to be 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 2007, 99.80% of notes and coins issued before redenomination were replaced, representing 92.85% of the total number of old notes and coins.

4.7. Works of the Commission for the Strategy of Introducing Euro Notes and Coin

The Commission for the Strategy of Introducing Euro Notes and Coin was appointed in 2005. Its responsibilities include development of a strategy of introducing euro notes and coin in Poland and coordination of activities in this respect. The development of the strategy is to benefit from the collection, classification and analysis of data on:

- experience of the euro area countries as regards the cash changeover,
- identification of tasks in respect of the logistics of introducing euro notes and coin,
- determinants of specific scenarios of introducing euro notes and coin.

To date, the works of the Commission have focused on the issues that will directly influence the choice of the scenario for introducing euro notes and coin in Poland, and in 2007 the works encompassed, *inter alia*:

- experience of Slovenia related to the introduction of euro notes and coin,
- technical options for introducing euro notes and coin in Poland, taking into consideration:

³¹ Under such agreements Banks store in their vaults notes and coins which are NBP property, and which can be re-purchased.

³² I.e. an agreement which regulates the collection or delivery of notes and coins by banks from and to the NBP.

- services of transportation of euro notes and coin,
- storage of euro notes and coin,
- organisation and protection of euro notes and coin transports.

The most important activities of the NBP in 2007

- The NBP disseminated knowledge about the history and culture of Poland, *inter alia*, through the issue of collector coin.
- The number of counterfeit Polish currency notes and coin decreased by 29.52% on 2006.

MANAGEMENT OF OFFICIAL RESERVES³³

³³ The responsibilities in this field are carried out, *inter alia*, pursuant to Article 3 section 2 para. 2 and Article 52 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 by conducting banking operations and taking other measures to ensure the safety of foreign exchange operations and Poland's payment liquidity. Foreign exchange reserves serve primarily to ensure financial credibility and stability of the country, and their amount and composition should allow for conducting efficient monetary and exchange rate policy.

In the management of foreign exchange reserves, the NBP aims at maximising the yields on reserves while ensuring a high level of safety of invested funds and the necessary liquidity of reserves.

5.1. General principles for managing official reserves

The basic principles for the management of official reserves are introduced by the resolution of the NBP Management Board, which specifies, in particular, the applied investment instruments, and the principles for establishing credit limits and the criteria for the selection of the NBP counterparties.

Every year, the NBP Management Board decides on the strategic guidelines for the investment process, i.e. the main parameters of the benchmark portfolio. These include first and foremost:

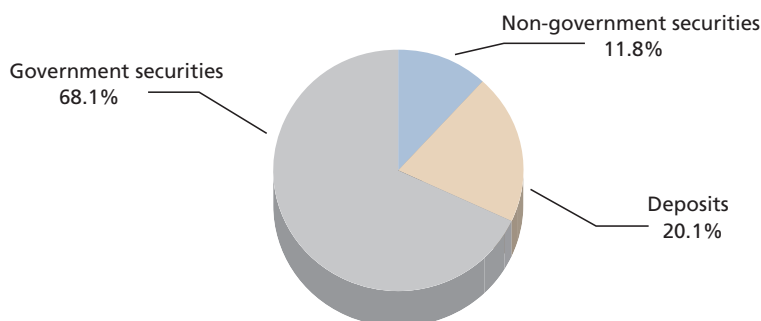
- currency and investment composition,
- the level of modified duration, which illustrates the sensitivity of investment to changes in the yields of the instruments (interest rate risk).

At the same time, the NBP Management Board sets the acceptable ranges for deviation of real parameters from benchmark parameters, which determine the scope of active investment policy. The benchmark also constitutes an objective point of reference for assessing the effectiveness of the foreign exchange reserve management.

In the management of foreign exchange reserves, the NBP invests in typical instruments, applied by other central banks. As shown in Figure 7, government securities constitute the dominant part of foreign exchange reserves. The NBP also invests in non-government securities, issued by international institutions as well as American and European government agencies. Moreover, part of reserves is held in deposits at prestigious banks.

Figure 7

Average share of individual investment instruments in nbp foreign exchange reserves, 2007



Source: NBP data.

5.2. Financial risk management in the official reserves management process

One of the most important elements in the official reserve management process is managing the risk that accompanies investments. The basic principles of the process are determined by the system of investment limits and restrictions accepted by the NBP Management Board.

Table 4 presents the basic types of financial risk in the official reserve management process and the methods applied by the NBP to reduce the risk.

Table 4

List of investment limits applicable in the financial risk management process at the NBP

Risk	Mitigation methods
Credit risk	Reduction in the share of deposit transactions and non-government securities Counterparty selection criteria and ongoing monitoring of their creditworthiness Limits on deposit transactions and currency exchange for counterparties Minimum rating of securities Exposure limits for issuers of securities Collateral in deposit transactions with securities repurchase agreements
Foreign exchange risk	Optimum currency composition Volatility ranges of currency composition
Interest rate risk	Maximum level of modified duration of reserves Optimum level of modified duration of reserves specified in the benchmark Benchmark volatility ranges of modified duration of currency portfolios
Liquidity risk	Reduction in the share of deposit transactions Securities selection criteria

Source: NBP data.

5.3. Level of official reserve assets³⁴

In 2007, the NBP official reserve assets grew:

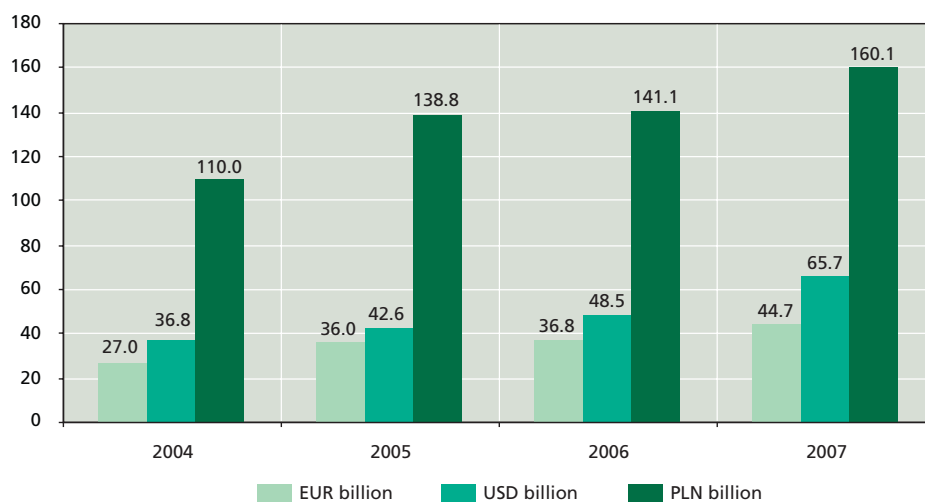
- by EUR 7.9 billion to EUR 44.7 billion (21.3%) – when calculated in the euro,
- by USD 17.3 billion to USD 65.7 billion (35.6%) – when calculated in the US dollar,
- by PLN 19.0 billion to PLN 160.1 billion (13.4%) – when calculated in the zloty.

Figure 8 presents the level of official reserves in between 2004 and 2007.

³⁴ According to the definition of the International Monetary Fund (IMF), official reserve assets comprise readily available liquid foreign assets owned by the central bank. This category includes monetary gold, special drawing rights (SDRs), reserve position in the International Monetary Fund, assets in foreign currencies, mainly in the form of securities, deposits and currency.

Figure 8

Official reserve assets between 2004 and 2007



Source: NBP data.

The increase in the value of official reserves resulted primarily from the positive balance of external flows, especially from the inflow of funds from the European Union, and from investment income. Official reserves grew most significantly in dollar terms. In this case an additional factor which affected their growth was the depreciation of the dollar against other reserve currencies.

The lower growth of reserves in euro and zloty terms was related to the appreciation of these currencies – the euro appreciated mainly against the dollar and the pound sterling, whereas the zloty – against all reserve currencies.

In 2007, due to the significant increase in the price of gold (about 31%), the value of monetary gold owned by the NBP increased:

- by EUR 0.3 billion to EUR 1.9 billion – when calculated in the euro,
- by USD 0.7 billion to USD 2.8 billion – when calculated in the US dollar,
- by PLN 0.6 billion to PLN 6.7 billion – when calculated in the zloty.

5.4. Foreign exchange reserves management strategy

The return rate on investment in foreign exchange reserves depends to a large extent on benchmark parameters adopted by the NBP Management Board for a given year, which illustrate the strategic guidelines of the assets allocation process.

Based on the analysis of global macroeconomic outlook conducted at the end of 2006, forecasts concerning developments in world financial markets and the results of the optimisation analysis, the NBP Management Board decided to reduce the share of the US dollar in the structure of foreign exchange reserves and invest in the Australian dollar. The level of modified duration of the benchmark portfolio did not change significantly as compared to the previous year.

Table 5 presents the currency composition and benchmark modified duration between 2004 and 2007.

Table 5

Currency composition and benchmark modified duration between 2004 and 2007 (in %)

	Benchmark currency structure				Modified duration
	USD	EUR	GBP	AUD	
2004	50	40	10	0	1.75
2005	50	40	10	0	1.76
2006	45	40	15	0	1.55
2007	40	40	15	5	1.52

Source: NBP data.

The decision to change the currency composition of reserves positively influenced the yields. The benchmark yield of reserves in PLN was higher by 53.4 basis points compared to the yield which would have been generated if the currency composition had remained unchanged. This increased yield resulted from the reduced share of the currency which depreciated more significantly against the PLN in favour of a greater share of the currency which had depreciated less significantly against the PLN (in 2007, the USD/PLN and AUD/PLN exchange rates decreased by 16% and 7% respectively).

5.5. Market environment in 2007

Yields on foreign exchange reserves are closely related to price behaviour in financial markets.

The main trends observed throughout the year in the markets whose instruments dominated in individual currency portfolios are presented below. Within the USD, EUR and GBP portfolios, the largest exposures were maintained in government debt instruments, whereas the AUD portfolio, created in 2007, consisted mostly of interbank deposits.

In 2007, the situation in the markets was influenced both by internal factors (especially expectations related to the monetary policy of central banks), and by global factors. In the second half of the year, the markets for debt instrument were strongly affected by the crisis in the US subprime market. One of the results of the crisis was the sudden increase in investors' risk aversion, which entailed an inflow of capital from higher-risk markets to government securities markets and led to an increase in government bonds prices.

In 2007, the largest decline in yields (increase in the price of securities) was observed in the US market, and a smaller one – in the British market (the yield of 2-year bonds decreased by 176 and 85 basis points respectively, and that of 10-year bonds – by 68 b.p. and 23 b.p.). On the other hand, yields in the euro area market increased (by 6 basis points in the case of 2-year bonds and by 38 basis points in the case of 10-year bonds).

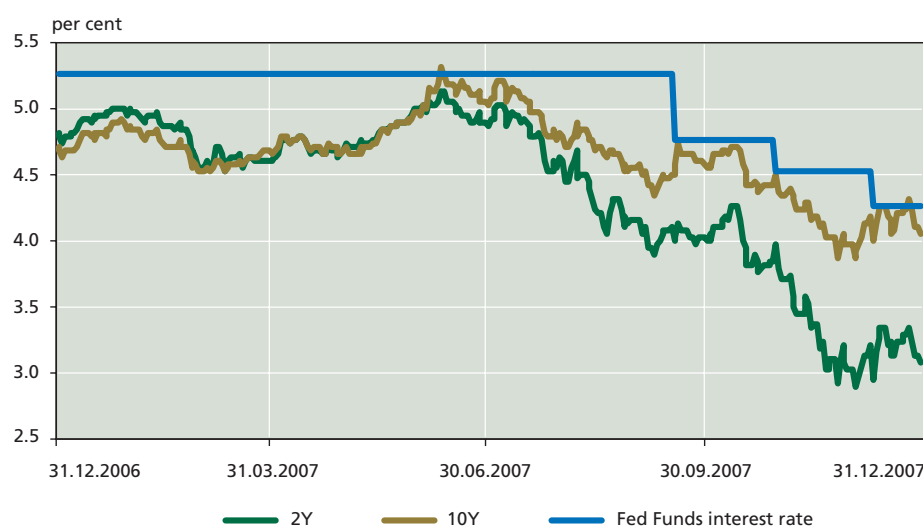
5.5.1. US government securities market

In 2007, the yield on US government securities decreased significantly as a result of the downward trend initiated in June.

The first half of the year was dominated by an increase in bond yields due to a more remote perspective of interest rate cuts by the Federal Reserve Bank (FED). Investors' expectations for the reduction of official interest rates weakened following the publication of data on US economy, particularly data pointing to growing inflationary pressures.

Figure 9

Yields on US government securities against the Fed Funds interest rate



Source: Bloomberg.

The situation in the market changed at the end of the second quarter when a downward trend in yields began, which was the strongest in the case of short-term securities. The increase in prices of government debt was a consequence of the crisis in the US subprime market, which was conducive, *inter alia*, to increased investors' expectations that the FED would cut the official interest rates, which would protect the economy against negative effects of the crisis. Due to the signs of a slow down in the economy, the FED cut Fed Funds interest rates on three occasions, by a total of 100 basis points.

5.5.2. Euro-area government securities market

In 2007, varying trends were observed in the European government bonds market, with the yield having increased in annual terms.

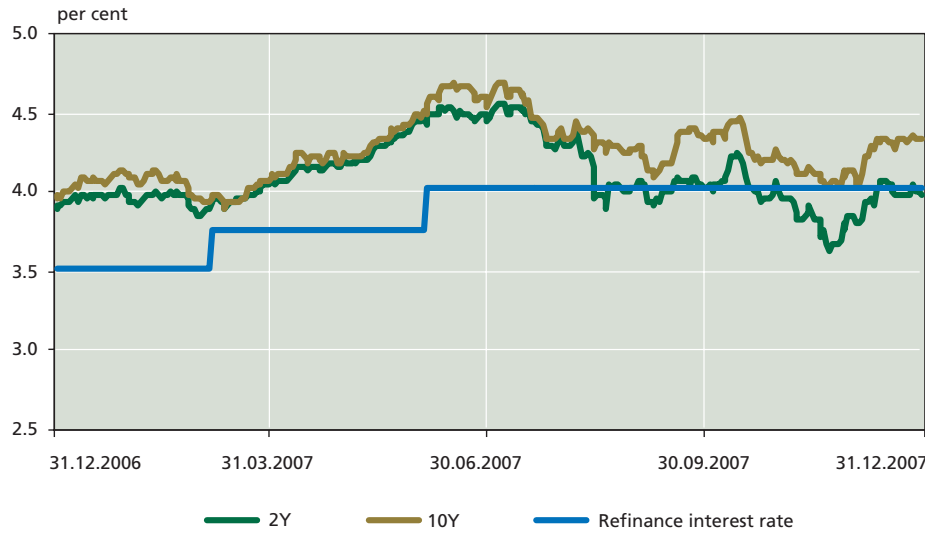
As in the case of the leading US market, the first half of the year was dominated by the rising tendencies in the bond yields. Apart from global factors, the tendency was also determined by investors' expectations for the tightening of the monetary policy by the European Central Bank (ECB). These expectations increased after the publication of macroeconomic data which confirmed the high growth rate of the euro area economy. Over that period, the ECB raised the refinancing rate on two occasions, by a total of 50 basis points.

In the second half of the year the situation on the European government bonds market was affected by the effects of the crisis in the U.S. subprime market when the dominating trend was

a decrease in yields, yet not as strong as in the United States. In spite of tensions in financial markets and weaker data from the EMU economy, investors did not expect the ECB would cut interest rates, expecting instead it would maintain them on the previous level.

Figure 10

Yields on euro-area government securities against the refinace rate



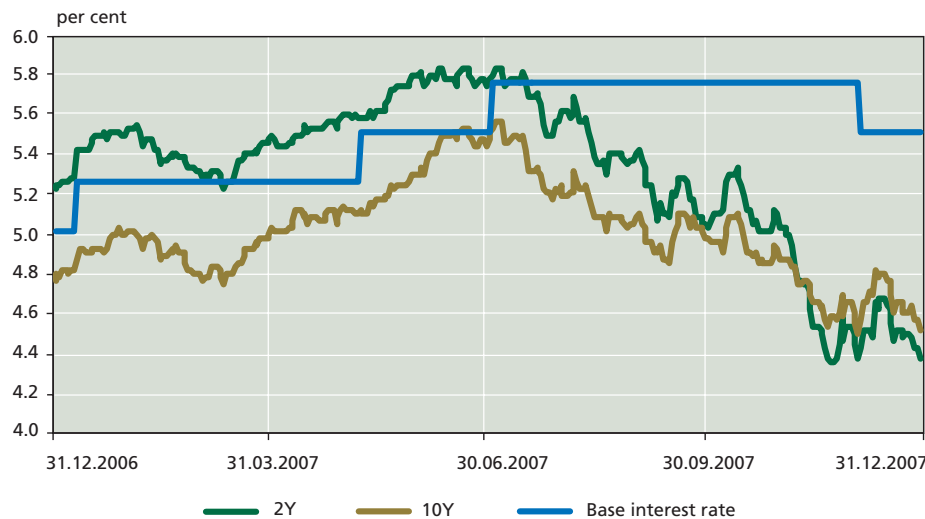
Source: Bloomberg.

5.5.3. British government securities market

In 2007, yields on British government bonds decreased, yet the extent of the decrease was significantly lower than that in the U.S. market.

Figure 11

Yields on UK government securities against the base interest rate



Source: Bloomberg.

In the first half of the year, the increase in yields on British government bonds was larger than the rise in yields on U.S. and euro bonds. This was a result of investors' expectations for the cycle of base interest rate increases to be continued by the Bank of England (BoE). These expectations resulted, *inter alia*, from the fact that inflation reached the highest level in the past ten years. Between January and July, the BoE raised interest rates on three occasions, by a total of 75 basis points.

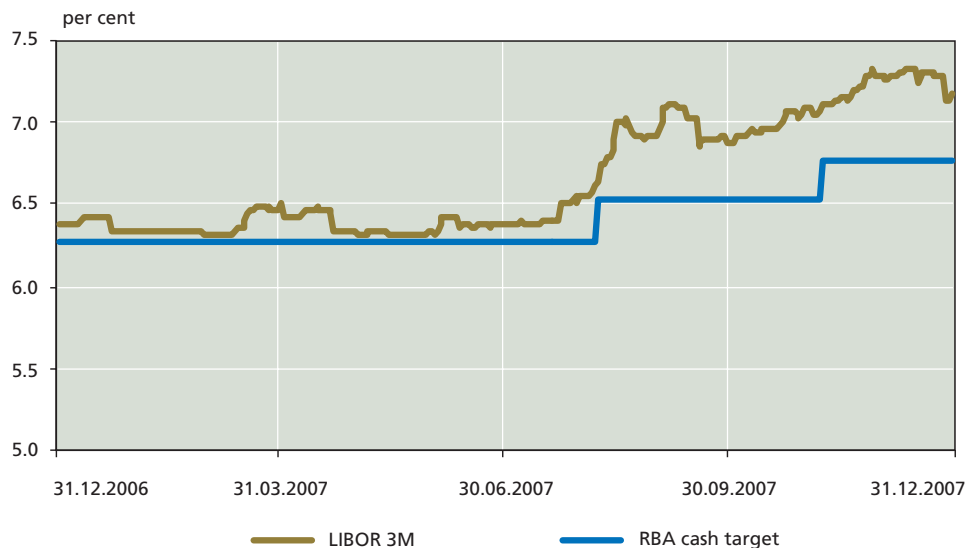
The crisis in the US subprime market contributed to the change in the market in the middle of the year. The prices of British debt securities were positively influenced by the publication of statistical data that were lower than forecasted by analysts, especially the data on inflation, related to the UK economy. They contributed to the rise in expectations for the easing of the BoE monetary policy (in December the bank lowered the level of the official interest rate by 25 basis points).

5.5.4. Australian interbank deposits market

In 2007, there was a significant rise in AUD LIBOR rates. The strongest rise was noted in the second half of the year. It was related to the rise in inflation in Australia and the resulting expectations for interest rate increases to be made by Australia's central bank (RBA) (the bank raised interest rate on two occasions until the end of 2007, by a total of 50 basis points; in December the market fully discounted the third rise, expected for the first quarter of 2008). The increase in AUD LIBOR rates was also significantly influenced by the liquidity deficit in financial markets, a result of the crisis on the US subprime market.

Figure 12

Level of 3-month AUD LIBOR rate against the cash target rate



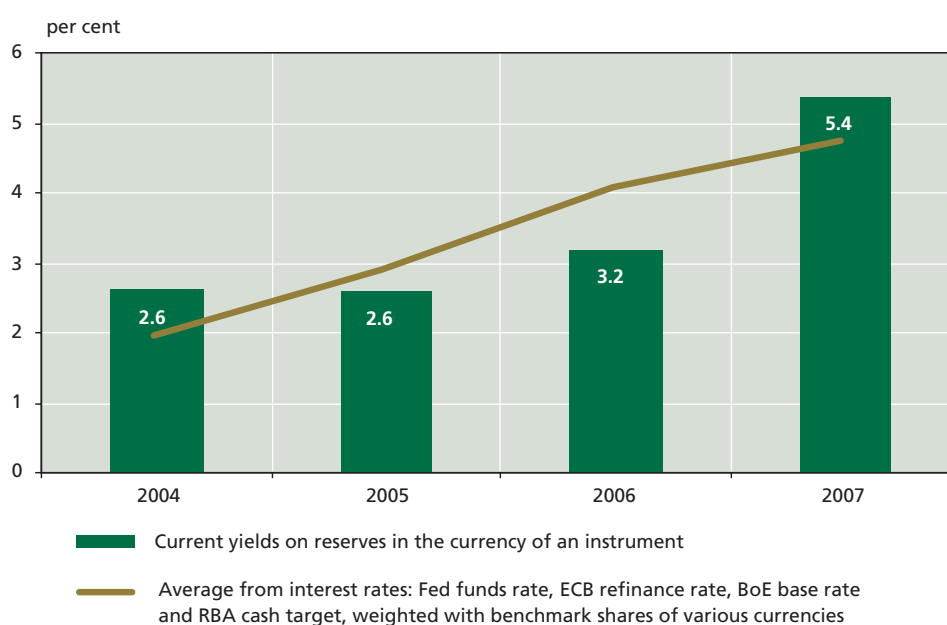
Source: Bloomberg.

5.6. Yields on foreign exchange reserves

In 2007, the NBP attained yields calculated in the currency of instruments³⁵ at the level of 5.4%, the highest in recent years. The increased yields on reserves were related, inter alia, to higher yields on investment in most foreign exchange currencies. Moreover, the attained return rate was positively influenced by higher prices of government bonds noted during the year in the United States and the UK. Owing to this, yields on foreign exchange reserves were higher than the average official interest rates for foreign exchange currencies.

Figure 13

Yields on the NBP foreign exchange reserves (excluding the influence of changes in exchange rates)



Source: NBP data.

Yields on reserves calculated in PLN³⁶ were negative (Figure 14). This resulted from the appreciation of the zloty (shown in Figure 15) against all reserve currencies. The scale of appreciation exceeded the return rate in the currency of the instruments (in 2007, the USD/PLN exchange rate went down by 16%, the GBP/PLN exchange rate fell by 15%, and the EUR/PLN and AUD/PLN exchange rates – by 7%).

5.7. Investment income

In 2007, income on investment activity related to the management of official reserves, excluding the cost of exchange rate valuation incurred as a result of the appreciation of zloty exchange rate against foreign currencies, stood at PLN 6.1 billion, which is an equivalent of EUR 1.6 billion or USD 2.2 billion (PLN 4.3 billion in 2006).

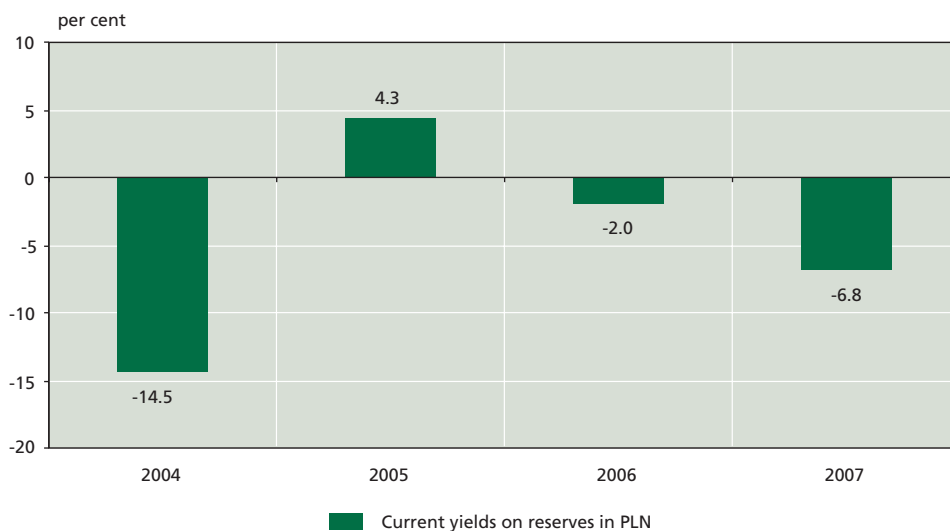
³⁵ Yields on foreign exchange reserves in the currencies of various investment portfolios are calculated on the basis of daily changes in the market value of the instruments.

³⁶ Yields on foreign exchange reserves denominated in PLN additionally include the influence of changes in the exchange rates of reserve currencies against the zloty

Income on foreign exchange reserves management, including exchange rate differences against foreign currencies in 2007, stood at PLN 9.4 billion, which is an equivalent of EUR 2.5 billion and USD 3.4 billion (PLN 1.8 billion in 2006).

Figure 14

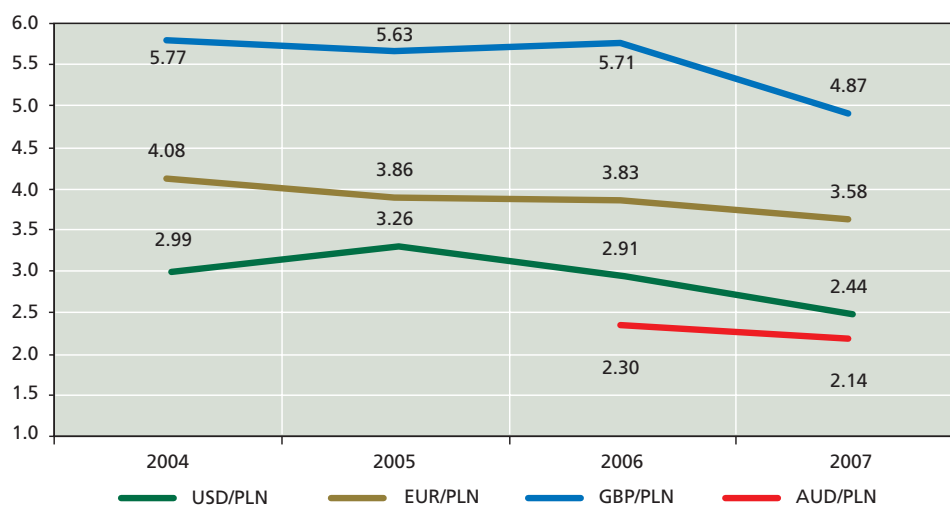
Yields on foreign exchange reserves (including the influence of changes in exchange rates)



Source: NBP data.

Figure 15

Exchange rates of reserve currencies against the PLN between 2004 and 2007 (level as at period-ends)



Source: NBP data.

5.8. Activities aimed at increasing the yields on foreign exchange reserves

In 2007, the following activities aimed at increasing the yields on foreign exchange reserves were carried out at the NBP:

- Work was finished on the *Long-Term Strategy for Foreign Exchange Reserves Management of the National Bank of Poland*. The strategy defines the vision, mission, corporate values, environment, objectives and strategic measures to be taken by the NBP in the years 2007–2012 in the area of foreign exchange reserves management. Its summary has been published on the NBP website.
- Cooperation with the research personnel of the Faculty of Mathematics, Informatics, and Mechanics of the University of Warsaw was continued. Its objective is to develop methods applied in the optimisation of reserves currency and investment composition, and risk management related to the investments made.
- The resolution on foreign exchange reserves management was amended, allowing for the extension of investment and the improvement of the investment limits system.

The most important activities of the NBP in 2007

- Yield on foreign exchange reserves of the NBP was the highest in the recent years and stood at 5.4%. However, as a result of zloty appreciation against reserve currencies the yield on the NBP foreign exchange reserves calculated in PLN was negative (-6.8%).
- As part of the activities aimed at increasing the yield on foreign exchange reserves the *Long-Term Strategy for Foreign Exchange Reserves Management of the National Bank of Poland* was developed and cooperation with the research personnel of the Faculty of Mathematics, Informatics, and Mechanics of the University of Warsaw was continued.

FOREIGN EXCHANGE OPERATIONS³⁷

³⁷ The responsibilities in this field are exercised, *inter alia*, pursuant to Article 3 section 2 para. 3, and Article 52 of the Act on the NBP, and the provisions of the Foreign Exchange Act.

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. This is performed through, *inter alia*, maintaining a register of bureaux de change, issuing opinions on foreign exchange matters and exercising control over foreign exchange transactions.

6.1. Register of entities conducting foreign exchange market operations

In 2007, 900 entries were made to the register of entities conducting bureau de change activity (865 in 2006), out of which 217 entries concerned new entrepreneurs launching foreign exchange market operations. The remaining entries concerned deletion of entrepreneurs from the register and changes to data entered into the register. As at 31 December 2007, the total of 4,187 bureaux de change operated in Poland (as at 31 December 2006 the number was 4,034).

6.2. Foreign exchange decisions

In 2007, a total of 2,473 decisions concerning foreign exchange were issued, including: 1,772 permits, 701 other decisions³⁸ and 25 rulings (2,453 decisions and 20 rulings in 2006).

6.3. Foreign exchange control

In 2007, the total of 2,980 inspections were conducted (as compared to 2,752 in 2006), including:

- 1,891 inspections concerning compliance with reporting requirements in respect of the balance of payments (1,484 inspections in 2006), of which 61 inspections were combined with the inspection of foreign exchange permits (64 in 2006),
- 1,089 inspections regarding foreign exchange market operations (1,041 in 2006).

1,268 inspections, i.e. 43% of all the conducted inspections, detected irregularities (as compared to 1,258, i.e. 46%, in 2006). In the case of irregularities, post-inspection recommendations were issued, committing the management of the inspected unit to comply with applicable regulations.

The most important activities of the NBP in 2007

- As at 31 December 2007, the total of 4,187 bureaux de change operated in Poland.
- The total of 2,473 decisions concerning foreign exchange were issued.
- 1,268 inspections, i.e. 43% of all the conducted inspections, detected irregularities.

³⁸ Relating to cancellation of proceedings and change of permit.

DEVELOPMENT OF THE PAYMENT SYSTEM³⁹

³⁹ The responsibilities in this area are carried out, *inter alia*, pursuant to Article 3 section 2 para.1 and para. 6 of the Act on the NBP, and the Act on Settlement Finality in Payment and Securities Settlement Systems and on the Rules of Oversight of These Systems.

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

In 2007, the NBP focused on exercising oversight, current servicing of the SORBNET and SORBNET-EURO and preparations for NBP's membership in TARGET2.

7.1. Integration with payment systems functioning in the European Union

In 2007, the NBP continued its work on adjusting Polish payment infrastructure and the rules governing the payment system to the requirements of European cooperation and integration. The NBP continued its preparations to participate in the TARGET2 system, which has been gradually replacing the current TAGRET system since November 2007. The work focused on the introduction of changes in SORBNET-EURO that are essential from the point of view of the participation in TARGET2 and on the development of an adequate legal framework related to Polish banks' direct participation in the system or participation *via* the NBP. Direct participation of the NBP and three Polish commercial banks in TARGET2-NBP, located on a common TARGET2 platform, will commence on 19 May 2008.

The NBP also carried out work aimed at entering into the SEPA Credit Transfer and STEP2 SCT system in January 2008.

7.2. Oversight of payment systems, authorisation and clearing systems and securities settlement systems

Oversight of payment systems and securities settlement systems as well as authorisation and clearing systems is exercised by the NBP, whose responsibility is to minimise the risk related to potential disruptions in the functioning of these systems.

To this effect, in 2007, the NBP:

- Collected and analysed statistical data and information about the functioning of large-value payment systems, i.e. SORBNET and SORBNET-EURO, analysed the liquidity level in the context of settlement safety and prepared changes to be introduced in those systems in order to minimise systemic risk.
- In January 2007, consented to the operation of mPay, an authorisation and clearing system for mobile payments, by the MPAY SA company.
- In June 2007, consented to the operation of the Easy Pay and SIM Easy Pay payments systems by PWPW – Technologie Informatyczne Sp. z o.o.
- In June 2007, consented to the operation of the authorisation and clearing system – System płatności.pl – by PayU SA.

- Carried out a preliminary evaluation of SORBNET-EURO compliance with the Core Principles for Systemically Important Payment Systems.⁴⁰ The evaluation was the condition for connecting the SORBNET-EURO system with TARGET2.

In addition, the NBP participated in preparations of the new edition of the European Central Bank's publication on the functioning of payment systems and securities settlement systems in EU Member States, so called the Blue Book.

7.3. Regulatory activity regarding the payment system

In relation to the preparations for participation in TARGET2, draft resolutions amending the existing provisions were drawn up and will enter into force upon NBP's accession to TARGET2, i.e. on 19 May 2008.

A draft law amending the Act on Settlement Finality in Payment and Securities Settlement Systems and on the Rules of Oversight of These Systems was also prepared.⁴¹

NBP representatives participated in the work of the payment services working group appointed within the Council for Financial Market Development attached to the Minister of Finance. The aim of the group is, *inter alia*, to prepare a draft legal act implementing the provisions of the Directive of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market into the national legal system.

7.4. Servicing banks' current accounts held at the NBP Head Office

In 2007, similarly to the previous years, the NBP's activities related to servicing the SORBNET and SORBNET-EURO systems focused on:

- widening the scope of the systems' functionality;
- increasing the scope of controls to reduce the probability of incidents in the systems;
- increasing safety by implementing the NBP Continuity Plan and broadening its scope.

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

As at the end of December 2007, current accounts in zloty were held at the NBP Head Office for 52 banks, i.e. three banks less than in the previous year.

⁴⁰ Core Principles for Systemically Important Payment Systems, BIS, January 2001 r. – report developed by the Committee for Payment and Settlement Systems at the Bank for International Settlements and approved by the ESCB as applicable guidelines for the evaluation of payment systems in the Member States (publication available on the NBP website www.nbp.pl under *Payment System* → *Oversight of payment systems*).

⁴¹ The draft was submitted to the Ministry of Finance.

In 2007, three current accounts in zloty of the following banks were closed:

- Danske Bank Polska S.A. – on 4 April 2007, in relation to the termination of the bank account agreement,
- BNP Paribas Bank Polska S.A. – on 31 October 2007, in relation to an earlier establishment of BNP Paribas S.A. Oddział w Polsce,
- Bank Inicjatyw Społeczno-Ekonomicznych S.A. – on 30 November 2007, in relation to merger with DnB NORD Polska S.A.

7.4.2. Operations performed on banks' current accounts held at the NBP in the SORBNET system

In 2007, about 1,455 thousand operations were performed in the banks' current accounts held with the NBP Head Office (1,269 thousand in 2006) for the total amount of PLN 32.5 trillion (PLN 29.2 trillion in 2006). This translates into an increase in the number of transactions by 186 thousand (about 15%) and in their total value by PLN 3.3 trillion (about 11%) as compared to 2006. The average transaction value in 2007 was PLN 22.3 m (23.0 m in 2006), which represents a decrease by 3%.

Tables 6 and 7 present the structure of turnover on banks' current accounts held in PLN with the NBP Head Office in the SORBNET system and the structure of orders broken down by main types of operations performed on those accounts.

7.4.3. Number of bank current accounts operated by the NBP in the SORBNET-EURO system

As at the end of December 2007, the NBP Head Office operated current accounts in the euro of 35 banks, i.e. two less compared to the previous year.

In 2007, two current accounts of the following banks were closed:

- Danske Bank A/S Spółka Akcyjna Oddział w Polsce – on 15 March 2007, in relation to the termination of the bank account agreement,
- Bank Inicjatyw Społeczno-Ekonomicznych S.A. – on 31 October 2007, in relation to merger with DnB NORD Polska S.A.

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

In 2007, about 153 thousand operations in EUR were performed in the SORBNET-EURO system (114 thousand in 2006) for the total amount of EUR 23.1 billion (EUR 17.2 billion in 2006). This translates into an increase in the number of operations by 39 thousand (about 34%) and in their total value by EUR 5.9 billion (also about 34%) as compared to 2006. The average value of transactions rose by EUR 151 thousand (EUR 150.9 thousand in 2006), which represents a slight increase in the average value of transaction (by EUR 0.1 thousand).

Tables 8 and 9 present the structure of turnover on banks' current accounts held in EUR in the SORBNET-EURO system and the structure of orders broken down by main types of transactions performed on banks' current accounts.

Table 6

Structure of turnover on banks' current accounts held in PLN in the SORBNET system in 2007

Types of current account transactions	Turnover (in million zloty)			Turnover structure (in %)	
	Balance	of which:		debits	credits
		debits	credits		
Movement in balance of funds in banks' current accounts of which:	5 147.5	32 476 523.6	32 481 671.0	100.0	100.0
1) customer transfer orders:	305 626.2	18 046 151.0	18 351 777.1	55.6	56.5
– interbank	0.0	17 306 020.9	17 306 020.9	53.3	53.3
– involving the National Depository for Securities	-6 492.1	40 109.0	33 616.9	0.1	0.1
– involving other customers of the NBP	312 118.2	700 021.1	1 012 139.3	2.2	3.1
2) interbank transactions:	0.0	6 934 103.9	6 934 103.9	21.4	21.3
– money market	0.0	5 787 817.7	5 787 817.7	17.8	17.8
– FX market	0.0	962 556.5	962 556.5	3.0	3.0
– securities	0.0	183 729.7	183 729.7	0.6	0.6
of which secondary market trading in:					
– Treasury bills	0.0	104 832.2	104 832.2	0.3	0.3
– NBP money market bills	0.0	35 590.8	35 590.8	0.1	0.1
3) drawings or repayments of NBP loans to banks	-1 677.7	3 210 073.4	3 208 395.7	9.9	9.9
4) transactions and operations settled by the National Depository for Securities	6 467.7	2 274 901.7	2 281 369.4	7.0	7.0
5) purchase (buyback) of securities from the NBP:	10 985.2	996 235.4	1 007 220.6	3.1	3.1
– NBP money market bills	5 774.3	996 235.4	1 002 009.7	3.1	3.1
– other securities	5 210.9	0.0	5 210.9	0.0	0.0
6) exchange of transfer orders via the National Clearing House:	-294 974.7	641 207.9	346 233.2	2.0	1.1
– morning settlement session	-241 586.6	354 865.9	113 279.3	1.1	0.3
– afternoon settlement session	-64 607.1	174 744.8	110 137.7	0.5	0.3
– evening settlement session	11 219.1	111 597.2	122 816.3	0.3	0.4
7) purchase or sale of cash at the NBP:	-10 535.1	155 956.3	145 421.2	0.5	0.4
– domestic currency	-10 527.5	155 948.7	145 421.2	0.5	0.4
– foreign currency	-7.6	7.6	0.0	0.0	0.0
8) placings and returns of time deposits at the NBP	2 346.2	104 278.9	106 625.2	0.3	0.3
9) purchase or redemption of Treasury securities:	-16 288.9	73 500.2	57 211.2	0.2	0.2
– Treasury bills	855.0	21 809.2	22 664.2	0.1	0.1
– other securities	-17 143.9	51 691.0	34 547.0	0.2	0.1
10) interest paid or received by banks	905.4	137.5	1 042.9	0.0	0.0
11) purchase or sale of foreign currencies at the NBP	-665.8	758.0	92.2	0.0	0.0
12) transactions on reserve accounts	-97.6	232.2	135.6	0.0	0.0
13) 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
14) other transactions	3 056.7	38 986.1	42 042.2	0.1	0.1

Source: NBP data.

Table 7

Number of transfer orders by principal types of operations performed on banks' current accounts in PLN in the SORBNET system in 2007

Item	Number of payment orders executed on current accounts			Order breakdown (in %)	
	Total	of which:		debits	credits
		debits	credits		
Total number of transfer orders executed on banks' current accounts, of which:	1 445 149	1 308 503	1 349 078	100.0	100.0
1) customer transfer orders:	1 103 424	1 061 904	1 092 163	81.2	81.0
– interbak	1 050 643	1 050 643	1 050 643	80.3	77.9
– involving the National Depository for Securities	1 179	870	309	0.1	0.0
– involving other customers of the NBP	51 602	10 391	41 211	0.8	3.1
2) interbank transactions:	149 980	149 980	149 980	11.5	11.1
– money market	92 772	92 772	92 772	7.1	6.9
– FX market	51 896	51 896	51 896	4.0	3.8
– securities	5 312	5 312	5 312	0.4	0.4
of which secondary market trading in:					
Treasury bills	3 355	3 355	3 355	0.3	0.2
NBP money markets bills	223	223	223	0.0	0.0
3) drawings or repayments of NBP loans to banks	25 154	9 339	15 815	0.7	1.2
4) transactions and operations settled by the National Depository for Securities	41 429	19 239	22 190	1.5	1.6
5) purchase (buyback) of securities from the NBP	2 202	1 071	1 131	0.1	0.1
– NBP money market bills	2 163	1 071	1 092	0.1	0.1
– other securities	39	0	39	0.0	0.0
6) exchange of orders via the National Clearing House:	40 065	20 694	19 371	1.6	1.4
– morning settlement session	13 380	5 648	7 732	0.4	0.6
– afternoon settlement session	13 367	8 463	4 904	0.6	0.4
– evening settlement session	13 318	6 583	6 735	0.5	0.5
7) purchase or sale at the NBP off:	77 182	38 057	39 125	2.9	2.9
– domestic currency	77 151	38 026	39 125	2.9	2.9
– foreign currency	31	31	0	0.0	0.0
8) placings and returns of time deposits at the NBP	1 795	905	890	0.1	0.1
9) purchase or redemption of Treasury securities	3 489	1 196	2 293	0.1	0.2
– Treasury bills	706	196	510	0.0	0.0
– other securities	2 783	1 000	1 783	0.1	0.1
10) interest paid or received by banks	3 669	1 981	1 688	0.2	0.1
11) purchase or sale of foreign currencies at the NBP	71	20	51	0.0	0.0
12) transactions on reserve accounts	115	92	23	0.0	0.0
13) 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
14) other transactions	6 574	4 025	4 358	0.3	0.3

Source: NBP data.

Table 8

Structure of turnover on banks' current accounts held in EUR in the SORBNET-EURO system in 2007

Type of current account transactions	Turnover (thousand euro)			Turnover structure (in %)	
	Balance	of which:		debits	credits
		debits	credits		
Movement in balance of funds in banks' current accounts, of which:	6 966.4	23 108 785.5	23 115 752.0	100.0	100.0
1) cross-border interbank payment	-4 725 393.5	16 256 072.2	11 530 678.7	70.3	49.9
2) exchange of cross-border orders via the National Clearing House	1 120 456.5	3 210 434.2	4 330 890.8	13.9	18.7
3) exchange of domestic orders via the National Clearing House:	25 666.1	2 116 871.2	2 142 537.2	9.2	9.3
– morning settlement session	14 401.5	812 964.8	827 366.4	3.5	3.6
– afternoon settlement session	11 264.5	1 303 906.3	1 315 170.9	5.6	5.7
4) cross-border customers payments	2 799 705.0	693 039.6	3 492 744.7	3.0	15.1
5) domestic customer transfer orders:	781 399.4	526 027.5	1 307 426.9	2.3	5.7
– interbank	0.0	525 509.0	525 509.0	2.3	2.3
– involving the National Depository for Securities	0.0	0.0	0.0	0.0	0.0
– involving other customers of the NBP	781 399.4	518.5	781 917.9	0.0	3.4
6) drawings or repayments of NBP intraday loans to banks	0	165 709.7	165 709.7	0.7	0.7
7) domestic operations on the interbank market	0.0	111 714.9	111 714.9	0.5	0.5
– money market	0.0	66 187.1	66 187.1	0.3	0.3
– FX market	0.0	45 525.5	45 525.5	0.2	0.2
– securities	0.0	2.2	2.2	0.0	0.0
8) transactions and operations settled by the National Depository for Securities	3 005.4	0.0	3 005.4	0.0	0.0
9) interest paid or received by banks	2 127.5	43.9	2 171.4	0.0	0.0
10) other transactions	-0.0	28 872.3	28 872.3	0.1	0.1

Source: NBP data.

7.5. Developing standards

2007 saw the continuation of work with regard to developing standards, focused on increasing the efficiency and safety of the Polish payment system, and adjusting the banking infrastructure to European Union requirements and standards.

NBP representatives participated in the working meetings of the Polish Committee for Standardisation (*Polski Komitet Normalizacyjny – PKN*), during which draft Polish standards compatible with the international ISO standards were elaborated.

The standardisation work was conducted by expert bodies established at the Polish Bank Association, with the participation of representatives of the NBP, Polish Bank Association, the National Clearing House and the banking business. The work mainly focused on the requirements of the Single Euro Payments Area (SEPA).

Table 9

Number of transfer orders by principal types of transactions performed on banks' current accounts in EUR in the SORBNET-EURO system in 2007

Item	Number of payment orders executed on current accounts		Structure of the number of orders (in %)		
	Total	debits	credits	debits	credits
Total number of payment orders performed on banks' current accounts, of which:	153 332	30 648	126 079	100.0	100.0
1) cross-border interbank payments	18 844	7 811	11 033	25.5	8.8
2) exchange of cross-border orders via the National Clearing House	8 412	2 381	6 031	7.8	4.8
3) exchange of domestic orders via the National Clearing House:	11 870	1 879	9 991	6.1	7.9
– morning settlement session	5 015	872	4 143	2.8	3.3
– afternoon settlement session	6 855	1 007	5 848	3.3	4.6
4) cross-border customer payments	108 185	14 329	93 856	46.8	74.4
5) domestic customer transfer orders:	4 259	3 359	4 226	11.0	3.4
– interbank	3 355	3 355	3 326	10.9	2.6
– involving the National Depository for Securities	0	0	0	0.0	0.0
– involving other customers of the NBP	904	4	900	0.0	0.7
6) drawings or repayments of NBP intraday loans to banks	502	251	251	0.8	0.2
7) domestic operations on the interbank market:	69	69	69	0.2	0.1
– money market	25	25	25	0.1	0.0
– FX market	43	43	43	0.1	0.0
– securities	1	1	1	0.0	0.0
8) transactions and operations settled by the National Depository for Securities	74	0	74	0.0	0.1
9) interest paid or received by banks	889	455	434	1.5	0.3
10) other transactions	228	114	114	0.4	0.1

Source: NBP data.

7.6. Activity of the Payment System Council

In 2007, four meetings of the Payment System Council were held, during which the following issues were discussed:

- Issues related to adjusting the Polish payment system to the requirements for payment systems of EU Member States, covering:
 - comparison of selected elements of the Polish payment system with the systems of other EU Member States;
 - significance of the Directive on Payment Services in Poland and Europe.

- Issues related to incorporating the Polish payment system into the EU single payment area, covering:
 - progress of preparations regarding the participation in TARGET2,
 - technical aspects of adopting the euro in the banking sector in the context of the payment system efficiency,
 - cost of cross-border euro transfers in Poland and euro area countries,
 - comparison of the charges for cross-border euro transfers in Polish banks.
- Systemic issues, related to the optimisation of payments, including:
 - evaluation of the implementation of the Polish payment system strategic objective,
 - comparison of the amounts of fees and commissions in PLN related to money settlements in the Polish banking sector,
 - results of a study on the use of banking services by enterprises, the development of electronic banking,
 - innovative payment services in Poland – results of a study carried out in Poland among natural persons.

In addition, the Council issued opinions about semi-annual evaluations of the Polish payment system functioning.

7.7. Collaboration with the banking sector regarding other interbank projects

In 2007, the NBP continued its collaboration with the Polish Bank Association. Within the collaboration the following activities were undertaken:

- Measures related to the development and promotion of non-cash transactions. *Inter alia*, the Coalition for Non-Cash Transactions and Micropayments to develop and promote electronic payment instruments was established at the Polish Bank Association, under the patronage of the President of the NBP,
- Strategy for the introduction of SEPA in Poland, including, *inter alia*, work on the draft National Plan of SEPA Implementation and Migration was prepared and work on the standards to handle mass payments for ZUS and the Tax Office, the so-called AOS (additional services under the standard determined) was initiated, the idea of joining the STEP2 SCT European settlement system which settles transfer orders in the SEPA standard was developed,
- Two draft parts of the *PN-ISO 13616-1 and 2 standard Financial Services – International Bank Account Number – Part 1 IBAN Structure, Part 2 Role and responsibilities of the Registration Authority*.

The most important activities of the NBP in 2007

- Accounts for 52 banks were held in the SORBNET system, and accounts for 35 banks in the SORBNET-EURO system.
- Preparatory work enabling the NBP to participate in the STEP2 SCT system from 25 January 2008, and in the TARGET2 system – from 19 May 2008, was continued.
- Within the work of the Payment System Council and the cooperation with the Polish Bank Association, the following issues were discussed, *inter alia*: the concept of the TARGET2 system and legal provisions related to the Single Euro Payments Area (SEPA) establishment and implementation project.

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 also implements educational and informational projects designed to enhance the transparency of its operations and raise public knowledge about the principles of central banking, banking system, and market economy.

8.1. Promotional activity

In 2007, the NBP conducted promotion activities of collector coin and 2 zł coins struck in Nordic Gold alloy of the *Historical Cities in Poland* series, as well as of the collector note commemorating pope John Paul II, issued in 2006. The NBP cooperated with media, organised numerous contests and press conferences, and the NBP representatives regularly met with the authorities and residents of the cities commemorated by the *Historical Cities in Poland* coin series.

In 2007, the National Bank of Poland organised Open Days for the fourth time. Over 50,000 people visited the NBP Head Office and the regional branches during the Open Days (around 40,000 in 2006).

8.2. Publishing activity

In 2007, as in previous years, the NBP issued numerous periodic publications, including in particular:

- annual publications: the *Annual Report*, *Report on NBP Activity*, *Monetary Policy Guidelines*, *Report on Monetary Policy Implementation*, *Financial System Development in Poland*, *Report on Financial System Stability*, *Report on the Activity of the Commission for Banking Supervision*, *Monetary Policy Instruments*, *International Investment Position of Poland*;
- quarterly publications: *Inflation Report*, *Balance of Payments of the Republic of Poland*;
- monthly publications: *Information Bulletin*, *Preliminary Information and Bank i Kredyt* (Bank and Credit), to which an insert was added, entitled *Integracja rynków finansowych w Unii Europejskiej od A do Z* (Integration of Financial Markets in the European Union, A to Z).

The majority of annual, quarterly and monthly publications are issued in two language versions – Polish and English – with a circulation of around 1,000 copies per each version.

In addition, as part of cooperation with the European Central Bank, the NBP published quarterly editions of the *Monthly Bulletin* and a study entitled *The European Central Bank – history, role and functions*, both in Polish.

The NBP also published a number of studies from the series *Materiały i Studia* (National Bank of Poland Working Papers) (8 booklets in Polish and 6 booklets in English were published), two editions of *Badanie rynku pracy w województwie mazowieckim* (Survey of the Labour Market in the Mazowieckie Voivodship), *Raport z badania cen na rynkach nieruchomości w Polsce ze szczególnym uwzględnieniem warszawskiego rynku mieszkaniowego* (Report on prices in the housing property market in Poland, with special focus on Warsaw housing market), as well as the book entitled *Bankowość centralna od A do Z* (Central Banking from A to Z).

8.3. Information

8.3.1. Liaising with the media and market analysts

In 2007, the NBP organised 26 press conferences and meetings with journalists, including regular press conferences following the meetings of the Monetary Policy Council, as well as conferences devoted to inflation projections. Over 100 press releases were also published.

Over 320 written responses to journalists' questions concerning the activities of the NBP were provided, and about 200 interviews and meetings with members of the Management Board of the NBP and of the Monetary Policy Council were held.

In order to enhance the transparency of monetary policy, minutes from decision meetings of the Council Monetary Policy have been published on NBP website since May 2007.

8.3.2. NBP website

The NBP website includes information about the ongoing activity of the Bank, presents official positions of the Bank's management, as well as documents, statistics and analyses elaborated at the NBP. In 2007, the number of visits on the website increased to 6.2 million (from 5 million in 2006), of which the number of regular users exceeded 2 million persons in 2007 (over 180 thousand persons monthly).

8.3.3. Examining petitions, complaints, requests and letters

In 2007, 6,969 matters submitted to the NBP were examined (i.e. 23.5% fewer than in 2006), including 5,846 letters and 1,123 complaints and requests.

Out of the total number of submitted matters, 6,006 were handled at the NBP and 963 (i.e. 13.8%) were directed to banks and other institutions, according to their competence.

The matters examined by the NBP were primarily requests for financial support, requests for information about the issue of collector coins, exchange rates, statistical data, foreign exchange regulations and job offers.

The NBP addressed letters to banks and other institutions mainly related to banking services, including formal and substantive mistakes in granting and servicing loans, the revaluation of savings deposits from the 1970s and 1980s, rules for calculating guarantee premiums on funds deposited on housing savings account, and the method of recovering defaulted loans by debt recovery companies cooperating with the banks. The remaining matters concerned bonds issued before 1939, providing assistance in establishing legal successors of banks closed down or recognised as closed down in 1948 and legal successors of banks which changed their names as a result of ownership transformations after 1989, as well as information about banking products.

8.4. Education

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

8.4.1. The Programme of Economic Education

As part of programmes for schools, students, journalists and the clergy, the following schemes were implemented: *Ekonomia w szkole* (Economics in School), *Podstawowe pojęcia ekonomiczne* (Basic Economic Concepts), *Moje finanse* (My Finances), *Z klasy do kasy* (From My Class to Some Cash) - Fifth Edition, *Ekonomia na co dzień* (Day-to-day Economics), the competition for a written paper, *Entrepreneurship Olympics*, the *IMPULSE Entrepreneurship Club* programme, *Polska przedsiębiorcza* (Enterprising Poland) – economic education for students, *Kapitalizm i ewangelia* (Capitalism and the Gospel), *Serwis edukacji ekonomicznej* (Economic Education Service) at the "Opoka" portal, *the Władysław Grabski Memorial Award*. The following schemes were also organised in cooperation with public and private media: *Motel w pół drogi* (The Midway Motel), *Polaków portfel własny* (The Poles' Own Wallet), *Wolny wybór* (Free Choice), *Internetowy serwis edukacyjny Co?* ("What?" educational website), *Kto pod firmą dołki kopie* (Who Digs a Pit for a Firm).

8.4.2. Economic Education Portal - NBPortal.pl

The main objective of NBPortal.pl is to disseminate economic knowledge via the Internet, in a simple and accessible manner.

Since the launch of the Economic Education Portal in March 2004, the number of persons regularly using NBPortal has been constantly growing. In 2007, NBPortal was visited by a record-breaking number of 1,700 thousand users (approximately 1,300 thousand users in 2006).

8.5. NBP Central Library

The publications at NBP Central Library pertain to economics, with particular emphasis on banking and money. Its book collections are made available to all interested parties in the reading room or via interlibrary lending. Using databases at NBP Central Library is free and publicly available.⁴²

In 2007, 10,139 readers visited the lending room, and 12,255 books were made available to them. There were 9,221 visitors to the reading room (an increase by 100% compared to 2006), and 19,081 books were made available to them.

Table 10

Collections of NBP Central Library

Type of publications	31 Dec 2004	31 Dec 2005	31 Dec 2006	31 Dec 2007
Self-contained publications	94 446 volumes	99 237 volumes	103 574 volumes	108 017 volumes
Serial publications	34 936 volumes	37 685 volumes	38 500 volumes	39 000 volumes
Current periodicals	386 titles	525 titles	525 titles	505 titles

Source: NBP data.

⁴² Contact to NBP Central Library via electronic mail: biblioteka@nbp.pl.



The most important activities of the NBP in 2007

- Educational activities were continued.
- The NBP started to publish the minutes from the decision meetings of the Monetary Policy Council on the NBP website.
- Approximately 50 thousand persons visited the NBP Head Office and regional branches during the Open Days.
- The Economic Education Portal – NBPortal.pl – was further developed.

SERVICES TO CENTRAL GOVERNMENT⁴³

⁴³ The responsibilities in this field are exercised, *inter alia*, pursuant to Article 3 section 2 para. 4, Articles 49, 51, 52 of the Act on the National Bank of Poland, the provisions of the Public Finance Act and Banking Law regulations.

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 2007 the National Bank of Poland operated the bank accounts referred to in Article 160 of the Public Finance Act of 30 June 2005,⁴⁴ including: central government account, current accounts of the government institutions, government special-purpose funds and auxiliary enterprises of government institutions, as well as accounts for permanent expenses of those units. The NBP also operates term deposit accounts in zloty and foreign currencies for entities entitled to hold accounts at the NBP.

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 section 1 para. 4 of the Act on the National Bank of Poland, *inter alia* the Social Insurance Institution (Zakład Ubezpieczeń Społecznych – ZUS), the Polish Agency for Enterprise Development (Państwowa Agencja Rozwoju Przedsiębiorczości), the Agricultural Market Agency (Agencja Rynku Rolnego) and 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 include both cash operations and non-cash operations executed using the *enbepe* electronic banking system. A cross-system B2B interface combining the Integrated Accounting System of the NBP with the IT and accounting system of an account holder is used for operating bank accounts of the State Budget Department and the Paying Authority Department of the Ministry of Finance.

In 2007, the works continued with regard to the launch of the cross-system B2B interface for other account holders. In addition, further works were conducted together with the Ministry of Finance on the introduction of new rules for the provision of services to the central government. On 10 December 2007, the possibility was offered to enter symbols of the budget nomenclature on transfer orders charging central government expenditure accounts as well as to prepare expenditure reports.

In February 2007, the Integrated Accounting System of the NBP was directly integrated with the SWIFT system, which improved the functionality of the Electronic Banking system. The direct integration of the systems allowed for sending payment orders in foreign currencies other than the euro, directed to accounts operated outside the NBP. Also improvements facilitating submission of orders on an emergency basis were introduced.

In 2007, changes aimed to facilitate management of funds held on bank accounts by account holders were prepared. These changes involved, in particular, the extension of working hours of the Electronic Banking system and a change in the rules of capitalisation of interest on interest-bearing accounts in PLN (from annual to monthly). This enables account holders to effect

⁴⁴ Dziennik Ustaw No. 249/2005, item 2104, as amended.

settlements and dispose of financial resources, particularly deposit sums held on accounts more easily (an account holder is obliged to return the deposit to the payee, together with calculated interest).

9.1.2. Types of accounts operated by the NBP

The NBP operates accounts in PLN and in foreign currencies, including accounts for the servicing of the European Union budget funds.

In 2007, the National Bank of Poland provided services to 3,765 customers (3,752 in 2006), for whom the NBP regional branches operated around 16,537 bank accounts, including:

- in PLN:
 - 8,246 current accounts (8,205 in 2006),
 - 4,428 ancillary accounts (3,972 in 2006),
 - 2,995 accounts of special-purpose funds and enterprise social benefit funds of central government institutions (2,817 in 2006),
- in foreign currencies:
 - 153 current and ancillary accounts in EUR to service the funding from the structural funds and funding received within the framework of the Common Agricultural Policy (133 in 2006),
 - 240 accounts in foreign currencies of the government institutions (222 in 2006).

9.2. Servicing international receivables and liabilities of central government

The National Bank of Poland provided, pursuant to the contracts of agency signed in previous years with the Minister of Finance, the servicing of receivables and liabilities of the central government arising from:

- 51 loans granted by international institutions and financial organisations to the government of the Republic of Poland (49 in 2006),
- 56 foreign loans guaranteed by the government of the Republic of Poland, granted to domestic entities (56 in 2006),
- 2 agreements concerning the provision of loan finance to domestic entities (4 in 2006).

Acting as depository for the World Bank, its agencies and the European Bank for Reconstruction and Development, the NBP administered 18 promissory notes issued by the government of the Republic of Poland in connection with Poland's membership in those organisations.

9.3. Organising trading in Treasury securities

9.3.1. Treasury securities tenders

The NBP, in its capacity of the issuing agent for Treasury securities, is obliged to hold Treasury bill tenders and buyback tenders as well as Treasury bond tenders, buyback and switch tenders.

In 2007, the NBR carried out:

- 19 Treasury bill tenders – in 18 tenders 52-week bills were sold, whereas in the last tender in December, the sales of which accounted for 31.4% of the total 2007 sales, 6-, 13- and 39-week bills were sold;
- 38 Treasury bond tenders, out of which 7 were non-competitive tenders. The sales were dominated by five-year fixed-rate bonds and zero-coupon bonds (33.4% and 24.1% of total sales, respectively). Ten-year, twenty-year and thirty-year fixed-rate bonds were also sold, as well as ten-year floating-rate bonds and twelve-year inflation-indexed bonds;
- 11 Treasury bond switch tenders, where the Ministry of Finance bought back bonds worth PLN 27.5 billion, and sold bonds worth PLN 27.7 billion. Five-year fixed-rate bonds (49.4%) and ten-year floating-rate bonds (31.2%) constituted the majority of bonds sold at switch tenders.

In 2007, no Treasury securities buyback tenders were held.

9.3.2. Treasury Securities Dealer system

The development of the Treasury Securities Dealer system⁴⁵ is one of the tasks of the *Strategy of the Public Finance Sector Debt Management*.

In 2007, pursuant to the *Agreement on cooperation with regard to the functioning of the Treasury Securities Dealer system* concluded with the Ministry of Finance, the NBP performed the following obligations:

- provided monthly and quarterly assessments of the activity of Treasury Securities Dealer banks and banks being candidates for the Treasury Securities Dealers in the Treasury bills and bonds market and derivatives market;
- organised the Treasury securities fixing on the MTS Poland electronic platform, the launch of which was intended to improve the transparency of trading in securities;⁴⁶
- participated in the meetings of the Council of Market Participants, arranged by the Ministry of Finance.

In addition, within the framework of cooperation with the Ministry of Finance, the NBP performed examination and verification activities at banks whose accounts and securities deposit accounts are maintained in the Securities Register.

⁴⁵ 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.

⁴⁶ The banks acting as primary dealers have an obligation of everyday quotation of prices of purchase and sale of T-bonds (mainly benchmark) on the organised electronic secondary market (MTS Poland), an obligation to conclude the transactions pursuant to the price adopted at the platform and to inform the market in real time about the quotation.

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.⁴⁷

The objective is to exchange information with a view to coordinating the public debt management policy (carried out by the Ministry of Finance) with the monetary and exchange rate policies (implemented by the NBP). The most important responsibilities of the Committee include the development of a long-term public debt extension strategy, minimisation of the cost of debt servicing and the creation of conditions for the development of financial markets.

The most important activities of the NBP in 2007

- The NBP serviced 3,765 customers and operated 16,537 accounts.
- Further improvements concerning the B2B and Electronic Banking systems were introduced.

⁴⁷ Appointed pursuant to an agreement of 22 December 1994 between the National Bank of Poland and the Minister of Finance.



10

RESEARCH ACTIVITY⁴⁸

⁴⁸ The responsibilities in this field are exercised, *inter alia*, pursuant to Article 59 of the Act on the NBP.

In 2007 research work focused on issues related to participation in the Exchange Rate Mechanism II and monetary policy, inflation processes, public finance, balance of payments, structural changes in the economy, determinants of economic development, global economy and economic situation in Poland and all over the world, stability and development of the financial system, financial standing of enterprises and households and situation in the labour and real property markets. Results of the conducted research were used, *inter alia*, to design and improve the model tools intended to develop projections and forecasts.

These forecasts and findings of research and analytical works were the basis for the decisions taken by the Management Board of the NBP and the Monetary Policy Council.

In 2007 well-renowned national and international periodicals published 82 academic publications, including 55 in Polish and 27 in English language.

Within the framework of works of the Working Committee in charge of Scientific Research at the NBP (including the analysis of the methods of research organisation in selected central banks, namely the ECB, Bundesbank, Bank of Norway, Bank of Austria, Bank of New Zealand, Bank of Sweden, Bank of Finland and Bank of England) recommendations of changes in the organization of analytical and research areas of the NBP were formulated. Efficient conduct of economic research is essential for high quality of work at the central bank and its prestige and reputation as an institution enjoying public confidence. For this purpose on 1 January 2008 the Economic Institute was created as a result of merger of the Department of Macroeconomic and Structural Analyses and the Office for Macroeconomic Research (see Chapter: Internal Development of the NBP).

10.1. Research related to participation in the Exchange Rate Mechanism II (ERM II)

- Research related to the participation of the Polish currency in the ERM II

Research concerning the optimal current account balance was conducted, different variants of the equilibrium exchange rate for the zloty were developed and evaluations of the scale of deviation of the current exchange rate from the equilibrium exchange rate of the zloty were made.

- Setting the optimal central parity in the ERM II
 - calculations of the fundamental equilibrium exchange rate were updated on a quarterly basis,
 - tools for the analysis of the impact of changes of the exchange rate on the economy were improved,
 - changes of the real exchange rate and the purchasing power of the zloty were analysed,
 - estimates of the equilibrium exchange rate by external centres were analysed.

10.2. Enterprise and household surveys

- Development of analyses and forecasts of the financial standing of enterprises based on the surveys

The aim of the analyses is to provide data on the interaction between monetary policy and real sector of the economy. Development of research on the corporate sector implies extending the analysed subjects and areas and implementing modern methods and solutions used in major research centres and central banks.

- Survey studies of financial standing of enterprises

The present and forecast economic situation was assessed and the following issues were analysed: investment activity with particular focus on the impact of uncertainty concerning demand on investment decisions of enterprises, pricing mechanisms, including the comparison of those mechanisms in Polish enterprises with the EU countries, loan availability, especially for small and medium-sized enterprises (SMEs), methods used by enterprises in hedging against foreign exchange risk, competition, competitiveness and innovativeness of enterprises, price and wage flexibility.

- Analysis of the household sector

The analytical work covered the issues concerning: generation and distribution of income, consumer demand, saving processes and debt-related issues, including inflation processes. The analysis covered also mechanisms and factors determining the disposable income of households, types of income as well as trends of changes in the income level and structure. Also factors affecting household consumption were analysed.

10.3. Other macroeconomic research

- Monetary policy

– Studies of the effectiveness of the transmission mechanism of monetary policy were conducted.

– Methods of conducting monetary policy by selected central banks pursuing direct inflation targeting strategy and by the European Central Bank were analysed. The analysis concerned the basic aspects of monetary policy strategy, the decision-making process and the method of communication of the central bank with the outside.

– The conditions of monetary policy were analysed. The analysis covered inflation expectations of Polish enterprises connected with changes in transparency of the NBP's monetary policy. A new method of modelling inflation expectations was proposed.

– Analyses concerning wage rigidity in Poland were carried out.

– Determinants of real interest rates (broken down into global, regional and domestic factors) and the impact of exchange rate regimes on the driving force of those factors in 22 OECD countries.

- Analyses and examinations of prices of consumer goods and services

– Ongoing analyses and studies of inflation processes in the national economy were conducted and projections of changes in consumer prices on selected areas were developed.

– Works were conducted with regard to the structure and functioning of the market of electric energy, gas fuels, liquid fuels and telecommunications and the impact of the liberalization of the energy and telecommunications markets on inflation processes.

- Impact of the trends in the world commodity markets on changes of various price categories in the national economy was analysed.
- Methodological work was conducted with regard to the construction, functioning and evolution of Consumer Prices Indices (CPI) and studies related to the core inflation measures.
- Also studies and analyses of the impact of changes of regulated prices and changes of indirect taxes' rates on inflation processes in the economy were conducted.
- Structural conditions of potential economic growth

The analysis covered, *inter alia*, competition situation through determination of monopolistic margins and the advantages of scale in particular branches of the economy. The results are used to calibrate the parameters of the computable general equilibrium model for Poland.

- Computable general equilibrium model (CGE) for Poland

Work was conducted on the use of the CGE model to examine the results of the fiscal consolidation programme (reduction of the disability pension contribution) and the impact of globalisation on the Polish economy. Works were started on the construction of a dynamic CGE model for Poland which will be used to prepare the report on costs and benefits of Poland's accession to the euro area.

- Analysis of the regulatory framework of the economy
 - Data concerning legal constraints imposed on the economic activity in Poland were updated.
 - Studies were conducted within the framework of the European Network for Better Regulation which included the analysis of principles and processes of drafting commercial law.
- Analysis of financial condition of the general government sector, studies of the relationship between monetary and fiscal policies
 - Forecasting tools used in fiscal policy evaluation were improved. Fiscal rules and the impact of one-off events on the assessment of the condition of the general government sector were analysed.
 - Research aimed at estimating the value of hidden obligations of the Polish pension system with the use of the Pension Reform Options Simulation Toolkit (PROST model) developed by the World Bank and assessments of the macroeconomic effects of reduction of the disability pension contribution were conducted.
- Studies concerning globalisation and its impact on the international business cycle, including the economic situation in the EU countries

Works covered the analyses of the impact of globalisation on inflation and monetary policy, the modelling of the US economy and the economies of the euro area, international interest rates and business cycle (to this end, *inter alia*, an econometric model for the economies of the USA, the euro area, Great Britain and Australia was built). Besides, the so-called global imbalance phenomenon was analysed.

- Monitoring and analysis of real property prices in Poland
 - Situation in the real property sector were observed. The system of monitoring real property prices on the local housing markets in all voivodships was introduced.

- Structural analyses of major housing property markets in Poland were conducted. Works continue on the creation of the so-called ongoing monitoring of the situation in the real property market.
- Works on the construction of a weighted-average housing market index were conducted.
- Analyses of the situation in foreign real property markets, in particular American real property market, were prepared.
- Analysis of regional labour markets

Two editions of analyses of regional labour markets were conducted. On the basis thereof a report addressed to the Management Board of the NBP and the Monetary Policy Council was prepared. In November 2007 – in cooperation with the ECB – analysis of the wage and price flexibility under the Wage Dynamics Network was conducted.

- Participation in the basic research conducted by the ESCB, including cooperation in preparing economic analyses and forecasts
- The main prognostic model NBP – ECMOD was improved.
- Quarterly macroeconomic forecasts of the Polish economy to be used by the Monetary Policy Council were prepared. Semi-annual macroeconomic forecasts of the Polish economy to be used by the ECB were prepared.
- Development of simulation and forecasting tools
- Works were continued on short-term structural forecasting tools and Bayesian econometrics methods as well as SOE-PL model constituting a DSGE model.
- Tools for forecasting national accounts with the use of current data (the so-called Nowcasting tools) were improved. Works involving the implementation of tools for short-term forecasting of GDP components using dynamic factor models, Bayesian VAR model and leading economic indicators are now being finalised.
- The NAWRU rate was made endogenous in the ECMOD model by changing the modules of labour and fiscal markets in the specification.
- During works on the development of the ECMOD model, the impact of expected inflation on the current level of price growth on the basis of the new Phillips curve estimation was analysed. Also the relative importance of anticipatory and adaptive expectations of inflation developments in Poland were tested. With the use of the expectations theory of the term structure of interest rates, anticipatory elements were also introduced to long-term interest rate equations.
- Preparation of annual plans of the NBP's scientific research including determination of the conditions of their completion and drawing up of reports on their completion

The works were finalised on the first part of the Report of the Working Committee in charge of Scientific Research at the NBP describing the importance of research for central banks and presenting the diagnosis of the current research and analytical activity at the NBP and suggested changes both in the organisational structure and the method of conducting research and analytical activity.

10.4. Measures and research concerning development and stability of the financial system

Measures aimed at supporting the stability of the domestic financial system involved the works intended to modify the operation of security network in the new legal framework (dissolution of the General Inspectorate of Banking Supervision and assigning their tasks involving banking supervision to the Polish Financial Supervision Authority by virtue of the Act on supervision of the financial market, see also chapter: Banking Supervision). Those measures involved the following:

- On 14 December 2007 the President of the National Bank of Poland and the Chairman of the Polish Financial Supervision Authority signed an agreement on specification of principles of cooperation and exchange of information between the National Bank of Poland and the Polish Financial Supervision Authority.
- On 21 December 2007 an agreement was signed between the President of the National Bank of Poland, the Minister of Finance and the Chairman of the Polish Financial Supervision Authority on cooperation in supporting the stability of the domestic financial system. The agreement establishes the Financial Stability Committee and specifies the principles of cooperation aimed at developing efficient mechanisms to manage financial crisis situations. The concluded agreement materialises the idea of creating effective domestic crisis management systems in the EU countries in accordance with the Memoranda of Understanding on co-operation between the Banking Supervisors, Central Banks and Finance Ministries of the European Union in Financial Crisis situations, signed in 2005 and 2008.
- *The 2006 Financial Stability Report in 2006 and Financial Stability Review. First half of 2007* were published, presenting analyses of the stability of the most important segments of the Polish financial system (such as banking, insurance and pension sectors), including the evaluation of the current situation and the prospects for the following quarters. The publications pointed to the issue of continuing fast growth of household loans for housing purposes against the background of price developments on the real property market.
- Another edition of the *Financial Systems Development Report* was drawn up. The *Report* describes the developments in the financial system in 2006 and presents trends, barriers and probable scenarios of development of individual segments of the financial system in Poland. The changes in the infrastructure and legal regulations relating to the financial sectors were also analysed, as well as the initiatives aimed at financial market integration in the European Union.
- Reports concerning loan market condition, compiled on the basis of the results of the surveys conducted at the largest banks, were prepared. The reports present trends and causes of changes in the lending policies and borrowing demand.
- Works on the analytical model of the banking sector continued. Subsequent models of loan losses and interest income were developed.
- Works focusing on the system analysis of banks' liquidity were conducted. Simulation of the Polish banking sector was performed in order to assess the risk of lack of liquidity being transmitted between banks (the so-called contagion effect). The result suggests low probability of the Polish banking system being affected by the contagion.
- Analyses aimed at measuring the degree of household burden resulting from loan repayment and household sensitivity to interest rate, foreign exchange and unemployment shocks. On the basis of the data on household budgets, the percentage of households

with excessive loan burden and the share of household borrowers was estimated. Also the impact of particular shocks on the households' loan servicing capacity was compared.

- In cooperation with Tilburg University and CEPII⁴⁹ the impact of banks' ownership structure and the method of foreign banks' entry into the Polish market on the bank loan portfolio structure and the level of loan interest was analysed.
- The NBP participated in the survey conducted by the Bank for International Settlement concerning the development of the global and domestic foreign exchange market and over-the-counter derivatives⁵⁰. The results of the survey of the global foreign exchange turnover were published on official websites of the BIS and the NBP.

10.5. Works on the Report on full membership of Poland in the third stage of the Economic and Monetary Union

On 15 May 2007 the Bureau for the Integration with the Euro Area was established at the NBP. The main task of the Bureau is to draw up the *Report on full membership of Poland in the third stage of the Economic and Monetary Union*.

Detailed tasks of the Bureau include:

- assessing the functioning of the euro area to date,
- defining the optimizing conditions for the adoption of the euro in Poland,
- analysing costs and benefits of Poland's membership in the euro area,
- formulating assessments, recommendations and postulates providing guidance for decisions taken in the process of Poland acquiring full membership in the third stage of the EMU.

In 2007 two out of four scheduled stages of works aimed at preparing the *Report* (organisational works, conceptual and design works) were completed.

Two subsequent stages involving research works, analytical and synthetic works and editorial works are still going on. The *Report* is scheduled to be finalised in December 2008.⁵¹

In accordance with the principle of transparency concerning works on the *Report*, in 2007 extensive communication actions were carried out, involving the following:

- Information and consultation meetings with representatives of various social and professional groups – organisations and institutions representing different milieus in Poland may present their opinions on Poland's membership in the euro area,
- Working seminars and meetings – both held internally at the NBP and with the participation of representatives of interested national and foreign institutions. Opinions and remarks raised by participants concerning the presented materials are taken into account while drawing up the *Report*.

⁴⁹ Centre d'Etudes Prospectives et d'Informations Internationales in France.

⁵⁰ The survey is conducted every three years (previous edition in 2004). The 2007 edition of the survey involved central banks and monetary authorities of 54 countries.

⁵¹ Draft version is scheduled to be prepared by August 2008.

The following list contains major communication actions carried out in 2007:

Consultation seminars

- Seminar held in cooperation with the Institute of Economic Sciences of the Polish Academy of Sciences – presentation of the concept of the Report, discussion with the economists, 27 September 2007
- Seminar of the Polish Economic Society – presentation of the concept of the Report, discussion with the economists, 16 October 2007

Research and academic seminars concerning monetary integration

- Seminar held in cooperation with the Institute of Economic Sciences of the Polish Academy of Sciences entitled *Economic, social and political prerequisites for the adoption of the euro in Poland*, 11 October 2007
- Seminar entitled *The Euro and the new Member States* held with the participation of a representative of the International Monetary Fund, 29 October 2007
- Seminar entitled *Exchange rate policies in a run-up to EMU* held with the participation of Professor Ronald MacDonald of the University of Glasgow, 13 November 2007
- Seminar entitled *Business cycle convergence in EMU: A first look at the second moment*, Professor Jesus Crespo Cuaresma of the University of Innsbruck, 7 December 2007
- Academic seminars connected with research works on the *Report*: presentation of research projects: 12, 13 and 20 December 2007

Meetings with social partners

- Working meeting with the representatives of organisations of employers and employees, June-October 2007
- Meeting with the representatives of organisations of employers and employees, 10 December 2007

Debates

- With the representatives of the world of finance, 24 September 2007
- With academic circles, 26 November 2007

Meetings with journalists

- 13 June 2007
- 3 December 2007

10.6. Academic conferences and seminars organised by the NBP⁵²

In 2007, the NBP organised the following academic conferences:

- February 2007 – conference held to commemorate Professor Cezary Józefiak. Professor Cezary Józefiak was Chairman of the Research Council of the Institute of Economic Sciences of the Polish Academy of Sciences (1999–2007), director of the Institute of Economic Sciences of the Polish Academy of Sciences (1990–1993) and member of the Monetary Policy Council (1998–2004).
- June 2007 – conference entitled *The role of euro for the future of Poland* organised in cooperation with the German Embassy in Warsaw and the Konrad Adenauer Foundation. The invited guests included representatives of the Polish government, members of Parliament, euro-deputies, ambassadors, European Commissioners, governors of central banks of the EU Member States and representatives of the academic circles.
- November 2007 – conference entitled *Monetary policy challenges resulting from the rapid credit growth in emerging economies*. The aim of the conference was to present the latest research identifying determinants of loan growth in the economies during the convergence process, the impact of this phenomenon on the economy and its importance for the monetary and supervisory policies.

Moreover, the NBP organised the following international seminars:

- May 2007 – seminar with the participation of deputy governors of the central banks of Slovakia, the Czech Republic, Hungary and Slovenia. The seminar discussed the following issues: *The experience of the central bank in the ERM II, foreign exchange rate regime, open market operations versus interest rate policy, successful adoption of the euro in Slovenia*.
- October 2007 – seminar entitled *The impact of turmoil in the international financial markets on the economic situation in Poland*. The seminar was a forum for exchange of ideas on the condition of the Polish economy, situation in the international financial markets and its impact on the economic situation in Poland. The seminar was attended *inter alia*, by representatives of the financial supervisory authorities, banks and representatives of academic circles.
- October 2007 – seminar entitled *What and how to measure when measuring financial stability, and what to do if it all goes wrong – methodological problems*. The seminar was organised in cooperation with the Centre for Central Banking Studies (CCBS) of the Bank of England. It was addressed at experienced employees of central banks in Central Europe dealing with the issue of the financial system stability, as well as employees of Polish institutions forming the financial security network.
- November 2007 – seminar entitled *New challenges for the financial stability in the light of international experience*. The seminar was a forum for exchange of ideas between representatives of the central bank, financial market and academic circles on the operation of the financial security network and the impact of turmoil in the financial markets on the economic situation in Poland.

⁵² Except for conferences and seminars organised by the Bureau for the Integration with the Euro Area discussed in point 10.5.

Moreover, 12 academic seminars open to the public were held concerning, *inter alia*, the prospects of Poland's joining the euro area, banking crises, assessment of banks' liquidity, etc. A detailed list of seminars is to be found in Appendix 8 to this Report.

The most important activities of the NBP in 2007

- In 2007, 82 academic publications were released in well-renowned periodicals, including 55 publications in Polish and 27 publications in English language.
- The econometric model ECMOD and tools used in forecasting national accounts were improved.
- The Bureau for the Integration with the Euro Area was established and public consultations connected with the drawing up of the report on Poland's joining the euro area were held.
- 7 academic conferences and seminars and 12 academic seminars open to the public were held.

STATISTICAL ACTIVITY⁵³

⁵³ The responsibilities in this field are exercised, *inter alia*, pursuant to Article 3 section 2 para. 7, Article 17 section 4 para. 13, Article 23 of the Act on the NBP and the Act on Public Statistics.

In performing its monetary policy responsibilities, the National Bank of Poland largely relies on the statistical data it collects and processes. The information published by the NBP is used by external recipients in taking economic decisions. The NBP also submits reports to domestic and international institutions, including, in particular, the European Central Bank.

In 2007, the NBP proceeded with harmonisation works to adjust statistical activity to EU requirements, in accordance with the tasks set out in the *NBP Plan of activity for years 2007–2009*.

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

In 2007, 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;
 - interest rates applied by banks;
- interpretation of monetary developments and balance of payments operations, for the purposes of ongoing monitoring of monetary developments;
- processing and analyses of corporate finance data;
- development of methodology for compilation of the monetary statistics, financial institutions and markets statistics, the balance of payments, financial accounts and the general government sector statistics;
- modification of the IT systems applied in the collection and processing of statistical data.

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

- quarterly reports on the balance of payments and the annual report on Poland's International Investment Position, which, when approved by the Management Board of the NBP and the Monetary Policy Council, were submitted to the Sejm, the Council of Ministers and other recipients;
- quarterly figures on Poland's external debt;
- monthly balance of payments data;
- monthly consolidated balance sheet of the MFI sector, including basic monetary aggregates (M3 money supply and its counterparts), which forms the basis for the development of, among others: 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*).

Statistical information obtained from banks was forwarded to domestic institutions such as the Sejm, the Council of Ministers, the Central Statistical Office, and to academic institutions. They were also submitted to the ECB and other international organisations such as the IMF, the World Bank, the OECD, the BIS and the Eurostat.

Moreover, in 2007:

- The works on the Reporting Information System (SIS) were completed. Implementation of the SIS made it possible to include the requirement for the banks to present in the reports information on their risk profile, risk management method as regards the volume and quality of equity, i.e. the requirement provided for, *inter alia*, in the New Capital Accord.
- The NBP participated in the works of the Steering Group on Seasonal Adjustment Network established by the ECB and the Eurostat. Internal audit was performed at the NBP, based on the Group's guidelines. The results showed that the Bank's methodology complies with European standards.
- Due to the fact that on 1 January 2008 the Polish Financial Supervision Authority took over the responsibilities of banking supervision, the NBP extended its statistical activity to responsibilities related to prudential reporting (see also chapter entitled: Banking supervision).
- The NBP also conducted statistical and analytical works concerning the construction of monetary aggregates. On the basis of microeconomic theories the so-called Divisia indices were estimated, which take account of the differences in the liquidity and yields of M1, M2 and M3 components. These indices may be an alternative to the traditional monetary aggregates and can be used in modelling inflation processes.

11.2. Adjustment measures regarding ECB statistical requirements

In 2007, as in the previous years, works related to the adjustment of NBP statistics to ECB requirements were conducted in the following areas:

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

The works consisted in issuing opinions on the changes proposed by the ECB in the binding requirements and analysing the possibilities of implementing the proposed solutions by the Polish reporting entities (within deadlines similar to those for euro-area countries). These responsibilities were exercised, *inter alia*, through participation in the work of the ECB Statistics Committee and the working and expert groups operating within it, in the Eurostat working groups and in the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB).

The works performed also concerned the implementation of the SDMX data exchange system and the introduction of the applied seasonal adjustment procedures in accordance with Eurostat standards.

11.2.1. Harmonisation of monetary and financial institutions and markets statistics

Since 2005, the NBP has provided the ECB with harmonised data with regard to the consolidated balance sheet of monetary financial institutions (MFIs)⁵⁴ and interest rate statistics⁵⁵ on a regular basis. In 2007, the NBP participated in the works, started in 2005 within the ESCB, on the modification of the scope of reporting data obtained from monetary financial institutions. In 2007, the works primarily involved the continuation of the ESCB procedure for projecting costs and benefits for the new reporting requirements.

In 2007, the works on setting up a new reporting system for the purposes of monetary statistics were continued. The scope of data necessary for on-going monitoring of the monetary situation was established, as well as the scope of data needed to meet the information needs of the ECB, including the new reporting requirements comprised in the modified ECB regulations.

The NBP also continued works on the development of a reporting system for other financial intermediaries, primarily investment funds. The Bank participated in ECB works concerning the regulation on the statistics of investment funds⁵⁶ and the regulation on the statistics of institutions whose activity concerns securitisation of assets. In its preparations for implementing the European requirements in this regard, the NBP prepared the preliminary principles for collecting and processing data from investment funds, and draft regulations in this area. Investment fund management companies were informed about the plans to implement the new reporting system and about the major methodological guidelines. The NBP initiated cooperation with the Polish Financial Supervision Authority in respect of the data on the population of the investment funds. The cooperation with the National Depository for Securities (KDPW) was also initiated and concerned securities deposited at the KDPW.

11.2.2. Harmonisation of quarterly financial accounts

In 2007, the NBP continued works aimed to ensure that it meets the ECB requirements concerning quarterly financial accounts. Pilot balance sheet data on financial assets and liabilities for the period from the fourth quarter of 2004 to the second quarter of 2007 were devised according to the layout defined by the ECB. At the same time, they formed the basis for calculating initial transactions. Financial accounts were compiled based on data from NBP information systems and data obtained from external sources (mainly GUS and the KNF).

11.2.3. Harmonisation of general government sector statistics

In 2007, representatives of the NBP, GUS and MF participated in the works on general government statistics within the Working Group on General Government Statistics appointed by the President of the Central Statistical Office. In 2007, the works focused on developing a methodology for calculating revenues and expenditure compliant with the EU standards and on verifying the institutional scope of the sector.

⁵⁴ 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).

⁵⁵ 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).

⁵⁶ Regulation No. 958/2007 of the European Central Bank of 27 July 2007 concerning statistics on the assets and liabilities of investment funds (ECB/2007/8).

11.2.4. Harmonisation of real sector statistics

In 2007, the NBP participated in the works of the European Committee of Central Balance Sheet Data Offices, as well as its working group BACH (*Bank for the Accounts of Companies Harmonised* – a balance sheet database of non-financial entities). As a result, the NBP started works aimed to provide the BACH database with aggregated data on non-financial entities for the years 1995–2006 in the required breakdowns.

The NBP also participated in the works called *Operacja 2007* (Operation 2007), coordinated by the Central Statistical Office and aimed to harmonise classifications with the European guidelines within the framework of adjustment to the world classifications adopted by the UN. In 2007, the draft Polish Classification of Activities 2007 (PKD 2007) was approved, which is based on the *Statistical Classification of Economic Activities in the European Community* (NACE Rev. 2). As a result of these works, the Council of Ministers adopted a regulation of 24 December 2007 introducing new PKD classification to be applied for the purpose of statistics, records, documentation and accounting, as well as in official registers and information systems of public administration.

Moreover, in 2007 the NBP continued works on the European *Classification of Products by Activity* (CPA) as well as on its Polish counterpart – the Polish Classification of Products and Services 2008 (PKWiU 2008).

11.2.5. Harmonisation of the balance of payment statistics

The NBP conducted work on the new system of data collection and processing in the field of balance of payment statistics. The system will rely, to a larger extent than previously, on data coming directly from foreign trade participants. Works were conducted in the scope of the project *Development of the new system for foreign trade statistics* (PEGAZ). Its aim is to enable the NBP to develop balance of payment statistics in a situation when changes to legal regulations prevent from gathering data on bank payments, as well as to meet the new ECB requirements with regard to monthly balance of payments and quarterly investment position broken down by geographical regions. The new system will ensure an increased number of available analytical breakdowns, as well as easy and quick access to data. The applied solutions will make it possible to adjust this area to the new methodological standards of the International Monetary Fund.

The works to increase the frequency of compiling the international investment position were also continued.

The NBP representatives took part in the works of the Working Group on Foreign Sector Statistics for the Purposes of National Accounts and Balance of Payments, appointed by the President of the Central Statistical Office. The Group's responsibilities include the coordination of the flow of information between the GUS and the NBP, development of proposals for methodological and organisational solutions, and proposing motions in this respect.

The most important activities of the NBP in 2007

- Completion of the development of the SIS Reporting Information System.
- The NBP continued works on the new reporting systems – monetary statistics system, system for foreign trade statistics and investment funds statistics system.
- The NBP took part in the works of the ESCB involving statistics for other financial intermediaries and modification of the reporting requirements in respect of the consolidated balance sheet of monetary financial institutions as well as interest rate statistics.

LEGISLATIVE ACTIVITY⁵⁷

⁵⁷ The responsibilities in this area are carried out, *inter alia*, pursuant to Article 7, Article 12, Article 16 section 3, Article 17 section 3 para. 2 and section 4 of the Act on the NBP, and pursuant to the provisions of other acts in accordance with authorisations contained therein for NBP governing bodies to issue legal acts.

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

In 2007, 93 legal acts were issued by the governing bodies of the National Bank of Poland, including 25 issued by the President of the NBP, 55 issued by the NBP Management Board, and 13 issued by the Monetary Policy Council. Of all the legal acts issued by the governing bodies of the National Bank of Poland, 24 were published in "Monitor Polski" (the Official Gazette of the Republic of Poland), and 23 were published in the Official Journal of the National Bank of Poland. In 2007, the Commission for Banking Supervision issued 12 normative legal acts, which were published in the Official Journal of the National Bank of Poland.

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 and issued opinions on draft normative and non-normative acts related to economic policy and of relevance for the banking system. Within the framework of this cooperation, the NBP worked to ensure the stability of the financial system, the safety and development of the banking system, and the monetary stability.

In 2007, the National Bank of Poland issued opinions on the following documents:

- 118 documents received in the course of inter-ministerial consultations;
- 1,016 documents received prior to their examination by the Committee of the Council of Ministers;

The most important draft legal acts on which the NBP issued opinions in 2007, which do not pertain directly to the banking sector (legal acts on the banking sector are discussed in detail in section 12.3), include:

- Law amending the Act on Housing Cooperatives and certain other Acts;⁵⁸
- Law amending the Act on Retirement Pensions and Disability Pensions from the Social Security Fund and certain other Acts;⁵⁹
- Law on Preventing Insolvency of Natural Persons and Consumer Bankruptcy;
- Law amending the Act on Freedom of Economic Activity and Other Acts;
- Law on Bridging Pensions, Law amending the Act on Retirement Pensions and Disability Pensions from the Social Security Fund and the Act on Social Insurance for Accidents at Work and Occupational Diseases, Law on Benefits from Funds Gathered by Open Pension Funds and Pension Authorities;
- Law on National Fiscal Administration and Law Implementing the Act on National Fiscal Administration;

⁵⁸ The Act adopted on 14 June 2007 (Journal of Laws No. 125, item 873).

⁵⁹ The Act adopted on 7 September 2007 (Journal of Laws No. 191, item 1368).

- Law amending the Accounting Act;
- Law on Public Finance and Law Implementing the Public Finance Act.

Moreover, the NBP issued opinions on 27 documents out of approximately 2,500 documents received in relation to the meetings of the European Committee of the Council of Ministers (KERM). The most important included:

- Draft Position of the Polish Government on the adoption of the euro by Cyprus and Malta;
- Draft Position of the Polish Government on a proposal for a Council Regulation amending Regulation 1338/2001 laying down measures necessary for the protection of the euro against counterfeiting;
- Draft Position of the Polish Government on the Communication from the European Commission to the European Parliament and the Council concerning the review of Directive 94/19/EC on Deposit-Guarantee Schemes;
- Green Paper on Retail Financial Services;
- In 2007, NBP employees participated in the work of 20 consultative conferences and legal committees, as well as 56 meetings of Sejm committees and subcommittees, and meetings of Senate committees.

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

- Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*);
- Commission for Banking Supervision (*Komisji Nadzoru Bankowego*);⁶⁰
- Accounting Standards Committee (*Komitet Standardów Rachunkowości*);
- Export Insurance Policy Committee (*Komitet Polityki Ubezpieczeń Eksportowych*);
- Council for Financial Market Development (*Rada Rozwoju Rynku Finansowego*).

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

12.3.1. Laws developed at the National Bank of Poland

- Law amending the Act on Financial Market Supervision and certain other Acts;⁶¹

⁶⁰ Until 31 December 2007.

⁶¹ The draft was submitted to the Minister of Finance and to the Sejm as a government draft (Sejm form No. 2061). Due to the shortened 5th term of office of the Sejm, the draft was not examined. The draft was subsequently presented to the Sejm of the 6th term of office by the President (Sejm form No. 30). The draft was rejected in the first reading. The draft concerned postponing, until 31 December 2012, the process of taking over the tasks and competences of the Commission for Banking Supervision and the GINB by the Polish Financial Supervision Authority, modification of the composition and mode of appointing some of the members of the Polish Financial Supervision Authority, and establishing the Financial Stability Committee.

- Law amending the Act on Settlement Finality in Payment and Securities Settlement Systems and on the Rules on Oversight of These Systems.⁶²

12.3.2. Other Laws

Adopted acts

- Law of 26 January 2007 amending the Banking Law Act⁶³

Laws under consideration and opinion

- Law amending the Act on the Bank Guarantee Fund;
- Law amending the Bankruptcy and Rehabilitation Law, the Act on the National Court Register and the Act on the Bank Guarantee Fund;
- Law amending the Civil Code, and amending the Foreign Exchange Law;
- Law amending the Act on Registered Pledge and the Register of Pledges and other Acts;
- Law amending the Act on the Register of Deeds and Mortgage and certain other Acts;
- Government Law: amending the Act on Trading in Financial Instruments and certain other Acts, amending the Act on Public Offering and Conditions Governing the Introduction of Financial Instruments to Organised Trading and on Public Companies and amending other Acts, and amending the Act on Investment Funds;
- Law amending the Act on Counteracting Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources and on Counteracting the Financing of Terrorism, and amending the Criminal Code (developed by the Ministry of Finance).

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

The NBP, as a member of the ESCB, participates in the process of consulting Community laws and draft national legislation pursuant to Article 105 of the Treaty establishing the European Community and the Statute of the ESCB and of the ECB. In 2007, the National Bank of Poland issued, within the framework of consultations with ESCB members, opinions on approximately 100 documents, the most important of which include:

- Law amending the Act on the Bank Guarantee Fund (ECB opinion issued at the request of the Minister of Finance of the Republic of Poland);
- Law amending the Act on Financial Market Supervision (ECB opinion issued at the request of the Minister of Finance of the Republic of Poland);
- a draft resolution amending Resolution No. 15/2004 of the Management Board of the National Bank of Poland of 13 April 2004 on the principles and procedures for the

⁶² The draft was submitted to the Minister of Finance.

⁶³ Journal of Laws No. 42, item 272.

calculation and maintenance of reserve requirements by banks (ECB opinion issued at the request of the President of the National Bank of Poland);

- proposal for the legislation of the European Parliament and the Council on European statistics;
- proposal for a Council Regulation amending the regulation on the protection of the euro against counterfeiting.

The NBP also participated in consultations on documents and Community legal acts in relation to the works of other Community bodies. The most important documents on which the NBP issued opinions include the following:

- Draft Position of the Government of the Republic of Poland on the Green Paper on improving the efficiency of the enforcement of judgments in the European Union: the attachment of bank accounts;
- Draft Position of the Government of the Republic of Poland on European Commission Initiatives within the scope of Retail Financial Services;
- draft Council Conclusions on the White Paper of the European Commission on enhancing the single market framework for investment funds;
- draft Council Conclusions on hedge funds;
- draft Directive on Payment Services in the Internal Market;
- the European Commission report on retail banking;
- draft Council Conclusions on EU funds relating to financial stability;
- draft Council Conclusions on the review of the Lamfalussy process;
- European Commission questionnaire on the review of Directive 2001/24/EC on the reorganisation and winding up of credit institutions;
- draft Directive on consumer credit;
- the European Commission report on progress in establishing the single market in financial services.

The most important activities of the NBP in 2007

- Development of the draft law amending the Act on Financial Market Supervision.
- The NBP participated in issuing opinions on laws and government draft legal acts and other government documents on the functioning of the economy and the banking system.
- In the framework of consultations conducted by the ECB, the NBP took part in issuing opinions on drafts of national and Community legal acts.

INTERNATIONAL ACTIVITY⁶⁴

⁶⁴ The responsibilities in this field are exercised, *inter alia*, on the basis of Article 5, Article 11 sections 2 and 3, Article 23 section 7 of the Act on the NBP and on the basis of the provisions of the Statute of the ECB and the Statute of the ESCB.

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 Banks

NBP representatives participated in the works of the ESCB within the scope provided for the representatives of central banks of the EU Member States outside the euro area.

In 2007, the President of the NBP participated in quarterly meetings of the General Council of the ECB which comprises governors of national central banks of the EU Member States as well as the President and Vice-President of the ECB. The General Council addressed the following issues: economic development of the euro area, monetary and fiscal policy, the structure of the EU banking sector, ERM II, monitoring of the activity of central banks as regards the so-called prohibition of monetary financing (which follows from Article 101 of the Treaty) and the prohibition of privileged access (which follows from Article 102 of the Treaty).

NBP representatives, as members of 12 Committees of the ESCB⁶⁵ and 48 working groups and task forces operating within the Committees, discussed and prepared solutions concerning the following issues:

- legislation pertaining to the euro (counterfeit protection, cash transport, stock management);
- functioning of the ERM II mechanism;
- SEPA issues;
- creation of the TARGET2 system;
- assessment of EU financial system stability and development, as well as solutions supporting financial stability.

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

In 2007, NBP representatives took part in the works of the following EU bodies:

- ECOFIN Council (participation in unofficial meetings);
- committees and working groups of the EU Council and the European Commission,⁶⁶
- the Committee for Monetary, Financial and Balance of Payments Statistics (CMFB) and the Eurostat working groups.

NBP representatives participated in the works of expert groups dealing in international financial law (UNCITRAL, UNIDROIT).

⁶⁵ These are: International Relations Committee, Monetary Policy Committee, External Communications Committee, Internal Auditors Committee, Banking Supervision Committee, Legal Committee, Market Operations Committee, Information Technology Committee, Payment and Settlement Systems Committee, Statistics Committee, Accounting and Monetary Income Committee.

⁶⁶ Economic and Financial Committee, PAN II Group of the European Commission, Counterfeit Coin Experts Group affiliated with the European Anti-Fraud Office (OLAF).

13.2. Cooperation with international economic and financial institutions

13.2.1. The Organisation for Economic Co-operation and Development (OECD)

Within the frameworks of cooperation with the OECD, the NBP:

- issued an opinion on OECD policy for 2009–2010 (defining priorities and possible relocation of funds);
- provided the OECD with data on basic monetary aggregates and statistics concerning international trade in services and FDI;
- participated in the implementation of the OECD research project *Regulation Inside Government*, making available the results of the NBP's pilot survey of costs incurred by Polish banks, resulting from administrative obligations.

NBP representatives also took part in the works of the OECD⁶⁷ target committees and working groups.

Moreover, in November 2007, the mission of the OECD Secretariat visited Poland to prepare the 10th Review of the Polish Economy, which was devoted to tax issues. The meeting with NBP representatives was devoted to monetary and exchange rate policy and economic situation in Poland.

13.2.2. The World Bank Group and the International Monetary Fund

As in the previous years, NBP representatives participated in the following meetings:

- The spring meeting of the Board of Governors of the World Bank (WB) and the International Monetary Fund (IMF) in Washington (April 2007). Discussions covered the following issues: progress in the implementation of the Millennium Development Goals (MDG), decrease in the actual flow of official development assistance (ODA) and advancement of works as regards anti-corruption measures. Moreover, the global financial situation and the medium-term implementation of the IMF policy were also addressed during the discussion.
- Meeting of the Polish constituency⁶⁸ in the WB and IMF in Berne (October 2007). The major topic of the meeting was the relationship between transfers from migrants and the financial system.
- Annual Meeting of the Boards of Governors of the WB and the IMF in Washington (October 2007). The meetings covered, *inter alia*, the following issues: situation of the global economy, in particular the effects of the crisis on the American mortgage market, role of central banks in ensuring the effective functioning of the money market, advancement in the implementation of the medium-term reform of the MFI, issues related to the financing of the IMF activity and strengthening of the Fund's supervisory activity.

⁶⁷ These were: 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) and Committee on Investment.

⁶⁸ The Polish constituency also includes: Azerbaijan, Kyrgyzstan, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan.

Moreover, December 2007 saw finalisation of the 15th round of negotiations on supplementing the resources of the International Development Association for 2009–2012. The discussions during the negotiations covered, *inter alia*, the payments by individual donors. Poland pledged itself to provide a payment in the amount of SDR 4.3 million.⁶⁹

13.2.3. The Bank for International Settlements (BIS)

The annual General Meeting of BIS Shareholders adopted the 77th Annual Report and approved the balance sheet as at 31 March 2006. The profit and loss account was also approved, which showed a net profit of SDR 639.4 million after deduction of administrative expenses, out of which 139.3 million were allocated to payment of dividends.⁷⁰

The NBP holds 8,000 BIS shares with a nominal value of SDR 40 million, and was paid the dividend amounting to SDR 2.04 million (4.08% increase as compared to 2006).

13.2.4. The European Bank for Reconstruction and Development

The 16th Annual Meeting of the Board of Governors of the European Bank for Reconstruction and Development (EBRD) was held in Kazan (Russia) in May 2007. In his speech, the President of the NBP presented areas in the development of which the EBRD should become involved: development of new technologies under the Lisbon Strategy, support to economic sectors without access to alternative sources of financing, and co-financing of investments targeted at Southern and Eastern Europe by Central European countries.

Furthermore, the following events took place:

- In July 2007, the President of the NBP visited the EBRD and met with Jean Lemierre, the President of the EBRD.
- In November 2007, the cyclical EBRD publication – *Transition Report 2007*, entitled *People in Transition*, was presented at the NBP office.
- The NBP, the Ministry of Finance and the Ministry of Foreign Affairs held consultations on the allocation of the profit earned by the EBRD. The Polish authorities consider that it will be the most profitable to support investment projects in countries where economic transition is the least advanced.

13.2.5. The International Bank for Economic Cooperation

In 2007, representatives of the NBP and of the Ministry of Finance participated in the meetings of the IBEC Council and in the IBEC working meetings.

The financial statements of the IBEC for the year ended 31 December 2006 were approved by their auditors.

13.3. Technical and training assistance for central banks

Technical and training assistance offered by the NBP – the *Technical Cooperation for Transition Initiative* – continued to be of great interest to central banks in countries undergoing transformation.

⁶⁹ Total amount of donations pledged was SDR 16.48 billion.

⁷⁰ Paid out in a convertible SDR basket currency and amounting to SDR 255 per share.

In 2007, the NBP organised 17 study visits (Moldova, Ukraine, Russia, Serbia, Vietnam, Belarus, Armenia, Azerbaijan, Kyrgyzstan, Montenegro and Georgia), 4 seminars,⁷¹ 2 traineeships (Montenegro, Albania), and 4 expert visits (in Armenia, Georgia, Slovenia and Mongolia).

The topics of the training and study visits organised by the NBP included monetary policy (including inflation projection, econometric models and information policy), management of foreign currency reserves, payment system, accounting, statistics, treasury services, security of information systems, internal audit and personnel and training management issues.

The total of 136 persons from 20 countries benefited from technical and TCT training assistance offered by the NBP in 2007.

The NBP continued the programme of training assistance for supervisory authorities under the TIBS (*Training Initiative for Banking Supervision*) programme. Two seminars were organised in 2007:

- *Practical Implementation of Pillar II* – in cooperation with the British financial supervision authorities and the Bank of Spain. The seminar was attended by 25 people from 17 countries: Albania, Austria, Bulgaria, Cyprus, Montenegro, the Czech Republic, Estonia, Germany, Greece, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Hungary and Italy.
- *Financing the real estate market* – attended by 18 people from 13 Central and Eastern European countries.

Between 2001 and 2007, the total of 18 seminars were organised within the TIBS programme, including 5 seminars organised in cooperation with other institutions.

The most important activities of the NBP in 2007

- NBP representatives participated in the works of committees and working groups of the ESCB, the EU Council and the European Commission.
- The NBP participated in the works aimed at defining the directions for further involvement of the EBRD in financing investment projects.
- The NBP conducted extensive technical assistance and training activity.

⁷¹ Two seminars were organised in cooperation with the Central Bank of Serbia (in Belgrade) and the Swiss National Bank (in Geneva).

INTERNAL DEVELOPMENT OF THE NBP⁷²

⁷² The responsibilities in this field are exercised, *inter alia*, pursuant to Articles 7 and 8, 10 and 11, Article 17 section 1, section 3 para. 2 and section 4, as well as Articles 56 and 57 of the Act on the NBP.

14.1. Human resources management

14.1.1. NBP staffing

In 2007, the average staffing at the NBP was 4,424 full-time posts and declined by 57 posts, i.e. 1.3% as compared to 2006. This results from the continued rationalisation of staffing in NBP regional branches – natural dismissals (retirements) and not hiring new employees to replace those dismissed.

Personnel expenses increased by 4.5% as compared to 2006. Higher personnel expenses in 2007 are in line with the assumptions adopted for the financial plan of the NBP for 2007. Personnel risk has been observed as a result of a decline in salary competitiveness at the NBP which could be observed in the past few years. The decline was caused mainly by a slower salary growth rate in comparison with the banking sector (state-owned and commercial banks). In order to prevent the outflow of key employees from the NBP, additional funds were allocated for salaries.

Women dominated the staff and accounted for 57.8% of the total headcount (as compared to 58.4% in 2006).

The proportion of staff under 35 years of age in the total number of employees is 20.2% (20.5% in 2006), while employees over 55 years of age represented 10.7% (13% in 2006).

As at the end of 2007, the number of NBP employees with higher education constituted 55.7% of all the staff (as compared to 54.3% in 2006).

14.1.2. Developing staff qualifications

In 2007, the NBP continued to develop the qualifications of its staff by conducting training courses, to ensure the Polish central bank the position of a distinguished economic research centre, both at home and within the ESCB.

As in the previous years, issues related to the priority tasks of the NBP included in the *NBP Plan of activity for the years 2007–2009* were given priority when selecting and planning training courses. This guaranteed an efficient use of funds allocated to training.

In 2007, 9,204⁷³ employees participated in training sessions organised by the NBP (9,808 in 2006).

14.2. Organisational changes

In 2007, the following organisational changes were introduced at the NBP:

- On 1 March 2007, the Strategic Management Unit was established. Its work is aimed at increasing the significance of strategic planning and further improving the effectiveness and efficiency of the responsibilities exercised by the NBP by implementing a strategic management process based on strategic analysis. In implementing new solutions in the strategic management of the central bank, the Unit draws on the extensive experience of the leading central banks of the ESCB.

⁷³ Some employees attended training sessions more than once.

- The Bureau for the Integration with the Euro Area was established on 15 May 2007 (see chapter: Research activity) in order to prepare a Report concerning the costs and benefits of full membership of Poland in the third stage of the Economic and Monetary Union (euro area).
- As at 5 November 2007, changes were introduced to the Rules of Procedure of the NBP specifying the powers of the President of the NBP which follow from Resolution No. 4/2001 of 26 January 2001 of the Management Board of the NBP, with regard to authorising designated members of the Management Board to exercise, on behalf of the President of the NBP, ongoing supervision over departments and organisational units subordinated to the President of the NBP (Appendices 11a and 11b). The changes introduced are aimed at improving the management of the NBP, especially as regards the need to adjust the practice to statutory requirements which prohibit to combine the function of a member of the Management Board with other posts. Towards the end of 2007, the members of the Management Board of the NBP ceased to perform functions of heads of departments.⁷⁴
- At the end of the year, works were undertaken with a view to streamlining the performance of analytical and research responsibilities at the NBP. As a result of these works, the Macroeconomic and Structural Analyses Department, as well as the Bureau of Macroeconomic Research ceased to operate on 31 December 2007; instead, the Economic Institute was established on 1 January 2008 with a view to making the allocation of NBP's research-analytical resources more effective.

14.3. Risk management

In 2007, the works related to the development of the modern integrated risk management system (RMS), implemented in 2006, were continued. The RMS is developed in accordance with the *NBP Plan of Activity for the years 2007–2009*. The NBP focused on accomplishing two priority tasks:

- description and analysis of the main processes of the NBP for the purposes of risk management;
- development and implementation of the KRI – Key Risk Indicators – within the framework of the RMS.

Additionally, the following activities were undertaken within the framework of the RMS implementation:

- the level of operational and financial risk was monitored on an ongoing basis;
- necessary measures related to the reduction of risk at the NBP were undertaken and their implementation was monitored;

⁷⁴ The Monetary Policy Council took the following stand on that issue: "The Monetary Policy Council considers that the introduced changes concerning the authorisation of designated members of the Management Board of the National Bank of Poland to exercise, on behalf of the President of the NBP, ongoing supervision over departments to the exclusion of the Vice Presidents of the NBP raise doubts as to whether they comply with the Act on the NBP, which entrusts the Vice Presidents with a special role in the functioning of the central bank. The Monetary Policy Council has notified the President of Poland, the Marshal of the Sejm and the Marshal of the Senate about its opinion. The Council adopted Resolution No. 1/2008 of 29 January 2008 concerning the restoration of the organisational scheme compliant with the Act on the National Bank of Poland. The Management Board of the NBP did not implement this Resolution."

- the new Business Continuity Plan (BCP) was tested and further developed at the NBP;
- operation of the *Risk Base* was improved;
- training courses and consultations on the theory and practice of operational risk management were conducted for employees involved in the RMS implementation project;
- tests and analyses on mechanisms and procedures of advanced operational risk management to be implemented in subsequent stages of the RMS construction were conducted;
- activities aimed at ensuring the compliance of the RMS development with global trends in this regard were continued;
- possibilities of applying selected elements of the New Capital Accord for the purpose of risk management at the NBP were analysed,
- development of a new methodology for estimating the value of operational losses was initiated.

The implementation of all of the above tasks was coordinated by the Risk Management Commission.

14.4. IT support to the banking system and the NBP

In 2007, the following information and communication technology works were carried out:

- The existing ICT infrastructure of the NBP was modernised. It allows for an effective and safe data sharing using the Internet.
- In relation to the organisation of money settlements, preparations to make the SORBNET-EURO system compatible with the TARGET2 system were continued. Additionally, tests of compatibility of the Polish settlement system with TARGET2 were initiated, and the Integrated Accounting System was modified to allow for the handling of orders submitted in the SEPA format.
- Works aimed at improving the quality and extending the scope of banking services for the general government were carried out. New functionalities were introduced to the *enbepe* Electronic Banking System: possibility to submit orders to the SWIFT system, access to current account balances of main and subordinate budget holders, and the budget nomenclature service.
- The SIS reporting system was launched. It meets all the supervisory reporting requirements in respect of capital adequacy and making financial information available which follow, *inter alia*, from the New Capital Accord, as well as the requirements which follow from off-site and on-site supervision and from the analyses of financial system stability and development. The system consists of three modules: the Reporting Portal, the main tool of data gathering, a module-repository of source reporting data which comprises mechanisms of formal, technical and substantive control of the received data, as well as a module providing data which allows for drawing up various kinds of tables and analyses on an ongoing basis.

- The NBP carried out adaptation works to allow for the use of its IT systems and ICT infrastructure for the purpose of banking supervision, transferred to the Office of the Polish Financial Supervision Authority, until the latter develops its own solutions.
- The works on the creation of the PEGAZ system for foreign trade statistics were continued. The analysis stage was completed and the system development stage was initiated.

14.5. Safety and security

In 2007, as in the previous years, works on maintaining appropriate security standards at the NBP were 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's security policy, were developed and implemented.

Additionally:

- The scope of services provided by the National Certification Centre was extended: new profiles of certificates were issued, used by qualified entities in providing services in respect of issuing certificates and desposit, registration and repository certifications.
- The NBP business continuity plan in the case of unavailability of the NBP Head Office was maintained and further developed. Additionally, tests were carried out to check its functioning.
- Certification services were launched for the employees of the Office of the Polish Financial Supervision Authority in order to provide them access to the NBP's IT systems which are indispensable for banking supervision.

14.6. Internal audit

In 2007, 47 audits covering 35 topics were conducted, including 2 audits at the request of the ESCB's Internal Auditors Committee and 3 special investigations. The works of 17 organisational units of the Head Office, the General Inspectorate of Banking Supervision and 13 regional branches of the NBP were audited.

No threats to the NBP activity were found in the course of internal audits. As a result of the audit, the total of 157 proposals were formulated, aimed at improving organisational solutions.

The NBP continued to implement methods and International Standards for the Professional Practice of Internal Auditing to the current work of auditors.

14.7. Code of Ethics

In 2004, the National Bank of Poland introduced *The Code of Ethics of NBP Employees*. The employees' compliance with the *Code* in 2007 was analysed and presented to the Management Board by the designated member of the NBP Management Board.

The most important activities of the NBP in 2007

- In order to streamline the performance of analytical and research tasks, the NBP Economic Institute was established.

BALANCE SHEET AND PROFIT & LOSS ACCOUNT OF THE NBP⁷⁵

⁷⁵ The responsibilities in this area are carried out, *inter alia*, pursuant to the provisions of Chapter 10 (Articles 60 to 70) of the Act on the NBP.

The financial statements of the National Bank of Poland were prepared as at 31 December 2007.

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;
- 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;
- 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;
- Resolution No. 9/2006 of the Monetary Policy Council of 19 December 2006 concerning the principles for creating and releasing a reserve at the National Bank of Poland for the risk of the zloty to foreign currency exchange rate fluctuations.

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 standards applied in the European System of Central Banks. Therefore, on 1 January 2004, the NBP accounting rules were adjusted to the *Guidelines of the European Central Bank on the legal framework for 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 NBP, the bankruptcy of the NBP cannot be declared.

- **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. In accordance with this principle, unrealised gains are not recognised as income in the profit and loss account, but are shown on the liabilities side of the balance sheet.

- **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 the same amount 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.

- **Principles for the 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 risks or benefit related to an asset or liability have 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,⁷⁶

⁷⁶ The foreign currency revaluation account, which as at 1 January 2007 amounted to PLN 331,008.4 thousand, was released entirely in March 2007.

- unrealised costs on the valuation of the foreign currency resources, debt securities and gold resources are recognised in the profit and loss account as at the balance sheet date;
- deferred income or expense is recognised in assets or liabilities.

- **Outstanding issues**

Outstanding issues not laid down in the NBP accounting regulations are resolved as provided for, as at the date of drawing up the financial statements, by:

- guidelines of the European Central Bank,
- reports and decisions of the Accounting and Monetary Income Committee – AMICO of the ECB,
- preparatory work regarding ECB guidelines and international accounting standards, with a view to presenting the true and fair view of the financial statements.

15.3. Information about significant events after the balance sheet date, not recognised in the financial statements

Pursuant to the Act of 21 July 2006 on Financial Market Supervision (Journal of Laws 2006, No. 157, item 1119 as amended), the Polish Financial Supervision Authority (KNF) was established – a public administration authority which exercises supervision of the financial market. The KNF took over the powers of the Polish Securities and Exchange Commission and the Insurance and Pension Funds Supervisory Commission, and – as from 1 January 2008 – the powers of the Commission for Banking Supervision. As at 31 December 2007, the General Inspectorate of Banking Supervision (GINB, an executive body of the Commission for Banking Supervision spun off in the structure of NBP) was liquidated. The provisions of the Act stipulated that, by operation of law, the employees of the GINB become employees of the Polish Financial Supervision Authority as of 1 January 2008. Pursuant to Article 72 section 2 of the Act, the Prime Minister, in consultation with the President of the National Bank of Poland, determined the allotment, after 31 December 2007, of the property used to exercise supervision by the GINB and the Commission for Banking Supervision. Under the above agreement, the tangible and intangible fixed assets, as well as property in the form of small items of equipment of workstands of employees of the GINB in Warsaw and NBP's regional branches were transferred, free of charge, to the Polish Financial Supervision Authority on the basis of handover/takeover certificates.

It was estimated that the liquidation of the GINB will influence the items of the balance sheet and the NBP profit and loss account for 2008 as follows:

- decrease in the value of the following items of the balance sheet:
 - 10.1 "Tangible and intangible fixed assets" by PLN 7,657.9 thousand (tangible fixed assets by PLN 5,245.3 thousand, intangible fixed assets by PLN 2,412.6 thousand),
- decrease in the value of the following items of the profit and loss account:
 - personnel expense by PLN 54,183.9 thousand,
 - administrative expense (expense on materials and energy, benefits for employees and other entitled parties, business travel expense, external services expense, taxes, transfers to special funds (enterprise social benefits fund) and other administrative expense), by PLN 18,428.4 thousand,

- depreciation, by PLN 2,207.9 thousand,
- increase in the value of the following items of the profit and loss account:
 - income on rental of office premises, by PLN 2,554.7 thousand,
 - income on the provision of IT services, by PLN 11,712.8 thousand,
 - other operating expense, by PLN 7,657.9 thousand.

The above amounts were established as at 31 December 2007.

Tangible and intangible fixed assets which were used by the GINB until 31 December 2007 were removed from the NBP's accounting books on 30 January 2008. The unredeemed value of tangible and intangible fixed assets handed over free of charge, was recognised as an expense in 2008 in the amount of PLN 7,657.9 thousand.

15.4. Certified auditor and its selection

The NBP annual financial statements drawn up as at 31 December 2007 are subject to examination and evaluation by a certified auditor, i.e. PricewaterhouseCoopers Sp. z o.o. with its principal place of business in Warsaw. The certified auditor was selected in 2007 by the Monetary Policy Council pursuant to Article 69 section 1 of the Act on the National Bank of Poland. The selection was made by unlimited tender pursuant to the Public Procurement Act of 29 January 2004 (Journal of Laws of 2006, No. 164, item 1163 as amended) for the period of three years (auditing financial statements for the years 2007, 2008 and 2009).

15.5. Changes in the items of the NBP balance sheet

The balance sheet total of the National Bank of Poland as at 31 December 2007 was PLN 170,439,025.5 thousand and increased by PLN 16,427,646.0 thousand (10.7%) as compared to 31 December 2006, i.e. PLN 154,011,379.5 thousand.

15.5.1. Changes in asset items

The main cause of the increase in the balance sheet total on the asset side as at 31 December 2007 in comparison with 31 December 2006 was the increase in the balance of official reserve assets of the NBP⁷⁷ denominated in foreign currencies by EUR 7,860.1 million, which was primarily due to the increase in reverse repo transactions of debt securities. The increase, despite the appreciation of the zloty against reserve currencies, had an impact on the increase of item 2.2 "Balances with foreign institutions, securities, granted loans and other foreign assets", by PLN 18,525,932.4 thousand, which accounts for 95.7% of official reserve assets of the NBP.

Another important cause, which resulted mainly from the increased market price of gold, was the increase of item 1 "Gold and gold receivables conforming to international standards of

⁷⁷ Official reserve assets of the NBP denominated in foreign currencies include: share in IMF holdings of currency, current accounts and deposits in foreign currency in foreign banks, foreign securities, deposits (loans granted) in foreign currency placed under reverse repo transactions in debt securities, foreign currency resource and monetary gold.

purity" by PLN 617,632.3 thousand. Table 11 presents changes in asset items of the NBP balance sheet in 2007.

Table 11**Changes in asset items of the NBP balance sheet**

Item	Balance as at:		Change	
	31.12.2006	31.12.2007	31.12.2006–31.12.2007	
	PLN thousand			%
1 Gold and gold receivables conforming to international standards of purity	6 120 942.1	6 738 574.4	617 632.3	10.1
2 Claims on non-residents denominated in foreign currency	135 484 279.2	153 838 172.4	18 353 893.2	13.5
2.1 <i>Receivables from the IMF</i>	801 782.0	629 742.8	-172 039.2	-21.5
2.2 <i>Balances with foreign institutions, securities, loans granted and other foreign assets</i>	134 682 497.2	153 208 429.6	18 525 932.4	13.8
3 Claims on residents denominated in foreign currency	0.0	0.0	0.0	0.0
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	33 186 239.2	1 552 000.0	-1 634 239.2	-51.3
6 Other claims on other domestic monetary financial institutions denominated in national currency	2 254 761.0	1 847 841.9	-406 919.1	-18.0
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	0.4	0.3	-0.1	-25.0
9 Item on course of settlement	0.0	0.0	0.0	0.0
10 Other assets	6 965 157.6	6 462 436.5	-502 721.1	-7.2
10.1 <i>Tangible and intangible fixed assets</i>	1 044 065.9	958 167.3	-85 898.6	-8.2
10.2 <i>Other financial assets</i>	5 677 685.5	5 300 130.8	-377 554.7	-6.6
10.3 <i>Off-balance sheet instruments revaluation differences</i>	0.3	0.0	-0.3	-100.0
10.4 <i>Accruals and prepaid expenses</i>	32 389.6	16 794.4	-15 595.2	-48.1
10.5 <i>Sundry</i>	211 016.3	187 344.0	-23 672.3	-11.2
TOTAL ASSETS	154 011 379.5	170 439 025.5	16 427 646.0	10.7

Source: NBP data.

At the same time, the change in the total assets resulted from the decrease in:

- item 5. "Claims on other domestic monetary financial institutions related to monetary policy operations denominated in national currency" – by PLN 1,634,239.2 thousand, following a change in lombard facilities collateralised with Treasury securities, extended by the NBP to domestic banks,
- item 10. "Other assets" – by PLN 502,721.1 thousand, primarily due to the decreased value of other financial assets, mainly a decrease in the value of the holdings of the

Republic of Poland in the International Monetary Fund, paid by the NBP in national currency,

- item 6. "Other claims on other domestic monetary financial institutions denominated in national currency" – by PLN 406,919.1 thousand, mainly due to repayment of instalments of the loan granted by the NBP for central investments.

The value of items 3 "Claims on residents denominated in foreign currency", 4 "Claims on non-residents denominated in national currency", 7 "Securities of residents denominated in national currency" and 9 "Items in course of settlement" was zero as at 31 December 2007 (similarly as at 31 December 2006).

15.5.2. Changes in liability items

The increase in total liabilities as at 31 December 2007 as compared to 31 December 2006 was determined by the increase in item 7 "Liabilities to non-residents in foreign currency" by PLN 16,274,514.7 thousand following an increase in the balance of time deposits denominated in foreign currency received under securities repo agreements. Table 12 presents changes in liability items of the NBP balance sheet in 2007.

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

- item 1. "Notes and coins in circulation" by PLN 10,617,064.2 thousand,
- item 2.1 "Current accounts (covering the minimum reserve accounts)" by PLN 5,196,994.7 thousand,
- item 4. "Liabilities to other residents denominated in national currency" – by PLN 5,945,612.3 thousand, primarily as a result of the increase in liabilities to general government,
- item 5. "Liabilities to non-residents denominated in national currency" – by PLN 332,960.7 thousand, primarily as a result of the increase in the balance of funds on the account of the European Commission,
- item 6. "Liabilities to residents in foreign currency" – by PLN 5,540,728.2 thousand, primarily due to an increase in the balance of current accounts of the Ministry of Finance denominated in foreign currency,
- item 12.2. "Differences on exchange rate valuation of assets, liabilities and off-balance sheet instruments in foreign currency" – by PLN 290,544.9 thousand, primarily due to foreign exchange differences resulting from an increase in the value of gold,
- item 12.3. "Assets and liabilities price valuation differences" – by PLN 891,418.7 thousand,
- item 13. "Capital and reserves" – by PLN 130,434.8 thousand, following an appropriation to the NBP reserve capital from the profit,

and was accompanied by the decrease in:

- item 2.2. "Deposit facility" – by PLN 2,346,772.2 thousand,
- item 2.4. "Other monetary policy operations" – by PLN 10,633,260.8 thousand, following a reduction of the liability due to the issue of NBP bills,
- item 8. "Liabilities to the IMF" – by PLN 360,456.5 thousand, mainly due to the revaluation of holdings of the Republic of Poland at the IMF paid in national currency,

- item 12.1. "Revaluation account" - by PLN 331,008.4 thousand, following the decrease in the revaluation account for foreign currency (due to the sale of foreign currencies for the zloty),
- item 14. "Total profit" - by PLN 15,035,958.2 thousand, due to unrealised costs of the exchange rate valuation of assets and liabilities in foreign currency, recognised as part of the total profit.

Table 12

Changes in liability items of the NBP balance sheet

Item	Balance as at:		Change	
	31.12.2006	31.12.2007	31.12.2006-31.12.2007	
	PLN thousand			%
1 Notes and coins in circulation	75 377 236.1	85 994 300.3	10 617 064.2	14.1
2 Liabilities to other domestic monetary financial institutions related to monetary policy operations in national currency	40 941 690.2	33 158 651.9	-7 783 038.3	-19.0
2.1 Current accounts (covering the minimum reserve accounts)	11 801 127.2	16 998 121.9	5 196 994.7	44.0
2.2 Deposit facility	2 648 281.1	301 508.9	-2 346 772.2	-88.6
2.3 Fixed -term deposits	0.0	0.0	0.0	0.0
2.4 Other monetary policy operations	26 492 281.9	15 859 021.1	-10 633 260.8	-40.1
3 Other liabilities to other domestic monetary financial institutions in national currency	144 936.9	50 262.3	-94 674.6	-65.3
4 Liabilities to other residents denominated in national currency	13 270 740.7	19 216 353.0	5 945 612.3	44.8
4.1 Liabilities to general government	12 909 206.8	19 160 506.4	6 251 299.6	48.4
4.2 Other liabilities	361 533.9	55 846.6	-305 687.3	-84.6
5 Liabilities to non-residents denominated in national currency	39 216.9	372 177.6	332 960.7	849.0
6 Liabilities to residents in foreign currency	5 776 157.2	11 316 885.4	5 540 728.2	95.9
7 Liabilities to non-residents in foreign currency	3 532 073.0	19 806 587.7	16 274 514.7	460.8
8 Liabilities to the IMF	5 497 829.9	5 137 373.4	-360 456.5	-6.6
9 Items in course of settlement	0.0	0.0	0.0	0.0
10 Other liabilities	266 450.7	281 359.9	14 909.2	5.6
10.1 Off-balance sheet instruments revaluation differences	-1 417.0	0.0	1 417.0	100.0
10.2 Accruals and income collected in advance	232 575.0	236 110.0	3 535.0	1.5
10.3 Sundry	35 292.7	45 249.9	9 957.2	28.2
11 Provisions	104 095.6	98 689.9	-5 405.7	-5.2
12 Revaluation accounts	4 113 340.6	4 964 295.8	850 955.2	20.7
12.1 Revaluation accounts	1 949 048.2	1 618 039.8	-331 008.4	-17.0
12.2 Differences on exchange rate valuation of assets, liabilities and off-balance sheet instruments in foreign currency	2 113 918.1	2 404 463.0	290 544.9	13.7
12.3 Assets and liabilities price valuation differences	50 374.3	941 793.0	891 418.7	1 769.6
13 Capital and reserves	2 338 915.2	2 469 350.0	130 434.8	5.6
13.1 Authorised capital	1 500 000.0	1 500 000.0	0.0	0.0
13.2 Reserve capital	838 915.2	969 350.0	130 434.8	15.5
13.3 Reserves	0.0	0.0	0.0	0.0
14 Total profit	2 608 696.5	-12 427 261.7	-15 035 958.2	-576.4
TOTAL LIABILITIES	154 011 379.5	170 439 025.5	16 427 646.0	10.7

Source: NBP data.

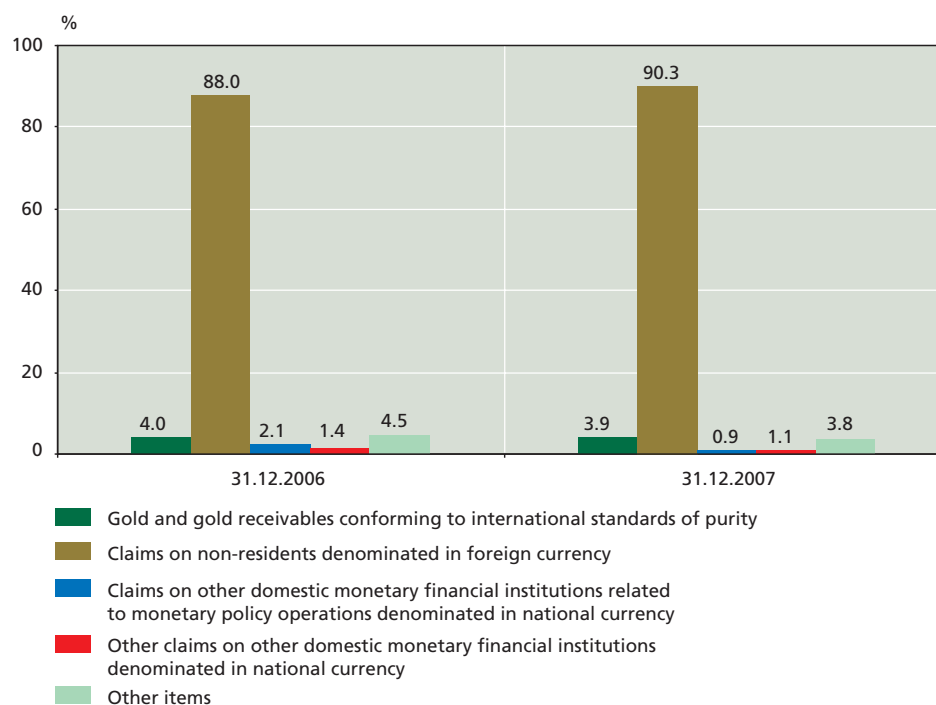
The value of items 9 "Items in course of settlement" and 13.3 "Reserves" was zero as at 31 December 2007, similarly as at 31 December 2006.

15.5.3. Movements in assets

Claims on non-residents denominated in foreign currency were the main asset item both as at 31 December 2006 and as at 31 December 2007 (88.0% and 90.3% of the balance sheet total, respectively). Fig. 16 presents the comparison of the structure of assets in 2006 and 2007.

Figure 16

Structure of NBP balance-sheet assets in 2006 and 2007



Source: NBP data.

The shares of other items in the balance sheet total decreased in 2007 in comparison with 2006:

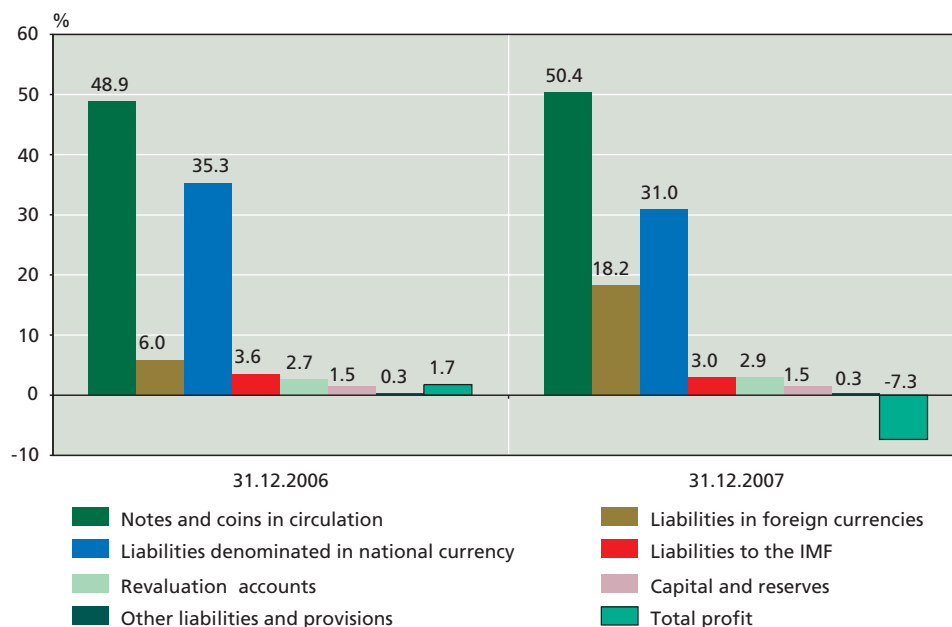
- claims on other domestic monetary financial institutions related to monetary policy operations denominated in national currency (item 5) – by 1.2 percentage points, from 2.1% down to 0.9%,
- other assets (item 10) – by 0.7 percentage points, from 4.5% down to 3.8%,
- other claims on other domestic monetary financial institutions denominated in national currency (item 6) – by 0.3 percentage points, from 1.4% down to 1.1%,
- gold and gold receivables conforming to international standards of purity (item 1) – by 0.1 percentage points, from 4.0% down to 3.9%.

15.5.4. Movements in liabilities

Item 1. "Notes and coins in circulation" was the main liability item. Its share in the balance sheet total was 50.4% as at 31 December 2007, as compared to 48.9% at the end of December 2006. Figure 17 illustrates the comparison of the structure of liabilities in 2006 and 2007.

Figure 17

Structure of NBP balance-sheet liabilities in 2006 and 2007



Source: NBP data.

Additionally, the movements in liabilities as at 31 December 2007 were influenced by the increase in:

– liabilities denominated in foreign currency (items 6 and 7) – by 12.2 percentage points, from 6.0% up to 18.2%;

– revaluation accounts (item 12) – by 0.2 percentage points, from 2.7% up to 2.9%,

and was accompanied by the decrease in:

– total profit (item 14) – by 9.0 percentage points;

– liabilities denominated in national currency (items 2, 3, 4 and 5) – by 4.3 percentage points, from 35.3% down to 31.0%,

– liabilities to the IMF (item 8) – by 0.6 percentage points, from 3.6 down to 3.0%.

15.6 Movements in the NBP profit and loss account

As at 31 December 2007, the NBP posted a loss on its activity amounting to PLN 12,427,261.7 thousand. This result was worse than the result generated in the previous reporting period by PLN 15,035,958.2 thousand. Table 13 illustrates the movements in the profit and loss account for 2006 and 2007.

Table 13

NBP profit and loss account, 2006–2007

Item	Data for year		Change	
	2006	2007		
	PLN thousand		%	
Total profit	2 608 696.5	-12 427 261.7	-15 035 958.2	-576.4
1 Net interest, discount and premium income/expense	3 211 148.8	4 173 680.8	962 532.0	30.0
2 Net income/expense on financial operations, of which:	474 368.2	-15 467 336.1	-15 941 704.3	-3 360.6
- FX gains	536 621.2	204 692.7	-331 928.5	-61.9
- FX losses	110 330.4	775 926.1	665 595.7	603.3
- unrealised losses related to exchange rate valuation	2 886 892.1	15 014 602.5	12 127 710.4	420.1
- income on decrease in revaluation account balance	3 866 461.8	331 008.4	-3 535 453.4	-91.4
3 Net free and commission income/expense	-10 914.9	-9 639.1	1 275.8	-11.7
4 Income from equities	10 681.1	9 805.7	-875.4	-8.2
5 Other income	123 993.5	118 616.7	-5 376.8	-4.3
6 Personnel expense	403 817.2	418 416.6	14 599.4	3.6
7 Administrative expense	349 751.5	339 730.3	-10 021.2	-2.9
8 Depreciation	158 635.9	164 642.0	6 006.1	3.8
9 Issue of notes and coin expense	205 982.8	261 075.8	55 093.0	26.7
10 Other expense	82 392.8	68 525.0	-13 867.8	-16.8

Source: NBP data.

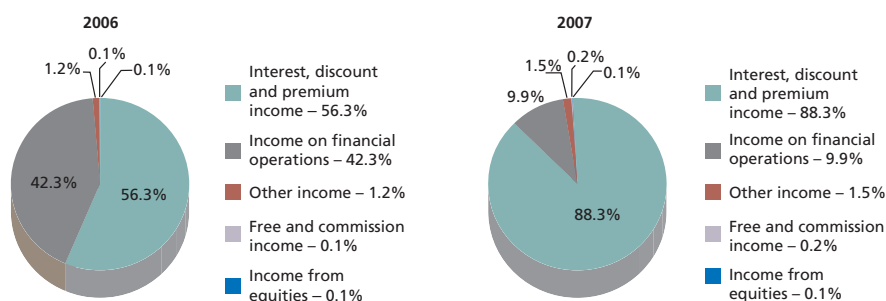
The loss generated by the NBP is primarily due to the decrease in net income on financial operations by PLN 15,941,704.3 thousand, which was a consequence primarily of the increase in unrealised costs of the exchange rate valuation of assets and liabilities in foreign currency by PLN 12,127,710.4 thousand. Movements of other items of the profit and loss account compensated the negative impact of net expense on financial operations only to a limited extent – they reduced the NBP's loss by PLN 905,746.1 thousand. Figure 18 presents the movements in the structure of NBP income as at 31 December 2006 and 2007.

In 2007, there were significant movements in income structure. The share of net income on interest, discount and premium increased by 32.0 percentage points (from the level of 56.3% in 2006 up to 88.3% in 2007). This change occurred primarily at the expense of the share of net income on financial operations, which decreased by 32.4 percentage points (from 42.3% in 2006 to 9.9% in 2007).

Figure 19 presents movements in the structure of NBP expense as at 31 December 2006 and 2007.

Figure 18

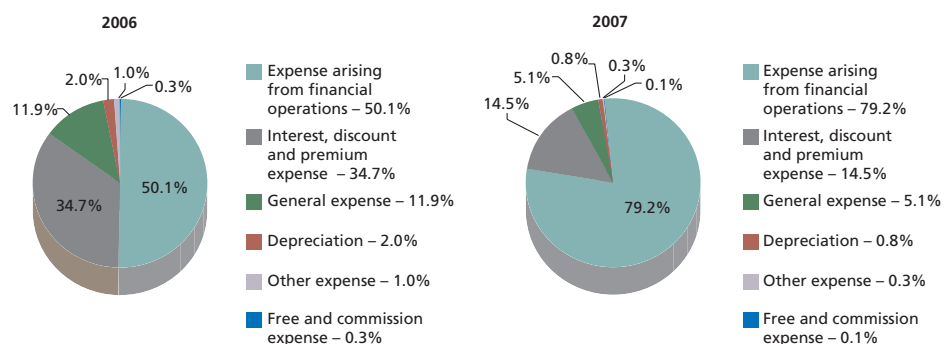
Income structure in 2006 and 2007



Source: NBP data.

Figure 19.

Expense structure in 2006 and 2007



Source: NBP data.

The structure of expense changed in that the share of expense arising from financial operations increased significantly – by 29.1 percentage points (from 50.1% in 2006 up to 79.2% in 2007). This increase was accompanied by a decrease in the share of interest, discount and premium expense by 20.2 percentage points (from 34.7% in 2006 down to 14.5% in 2007), and by a decrease in the share of general expense by 6.8 percentage points (from 11.9% in 2006 down to 5.1% in 2007).

15.6.1. Net interest, discount and premium income/expense

In 2007, net interest, discount and premium income/expense amounted to PLN 4,173,680.8 thousand, which represents an increase by PLN 962,532.0 thousand (30.0%) as compared to the previous reporting period. The above movement is a result of a simultaneous increase in income by PLN 1,136,337.1 thousand (18.9%) and in expense by PLN 173,805.1 thousand (6.2%).

Table 14

Net interest, discount and premium income/expense, 2006–2007

Item	Data for year		Change	Structure		
	2006	2007		2006	2007	
	PLN thousand			%		
Net interest, discount and premium income/expense	3 211 148.8	4 173 680.8	962 532.0	30.0	–	–
1 Income	6 023 371.3	7 159 708.4	1 136 337.1	18.9	100.0	100.0
– on securities	4 422 227.4	4 949 579.4	527 352.0	11.9	73.4	69.1
– on NBP funds held in bank accounts	1 424 394.1	2 056 368.7	631 974.6	44.4	23.7	28.7
– on loans and advances	150 275.4	127 339.7	-22 935.7	-15.3	2.5	1.8
– other income	26 474.4	26 420.6	-53.8	-0.2	0.4	0.4
2 Expense	2 812 222.5	2 986 027.6	173 805.1	6.2	100.0	100.0
– interest, discount and premium on securities	1 566 690.9	1 380 577.6	-186 113.3	-11.9	55.7	46.2
– interest on current accounts and time deposits operated by the NBP	1 245 380.7	1 605 442.2	360 061.5	28.9	44.3	53.8
– on loans and advances denominated in foreign currency	0.0	0.7	0.7	0.0	0.0	0.0
– other expense	150.9	7.1	-143.8	-95.3	0.0	0.0

Source: NBP data.

The increase in income was mainly due to:

- the increase in interest and discount on securities – by PLN 527,352.0 thousand (11.9%),
- the increase in interest on NBP funds held in bank accounts in foreign currency – by PLN 631,974.6 thousand (44.4%).

The increase in the value of these items stemmed mainly from the higher interest rates on current accounts, time deposits and debt securities reverse repo transactions denominated in EUR, discount debt securities and interest-bearing debt securities denominated in USD, as well as the increase in foreign exchange reserves and in the number of debt securities reverse repo transactions denominated in USD. The positive impact of these factors on the NBP profit was partially offset by the annual average appreciation of the zloty against foreign currencies.

The change in expense arising from net interest, discount and premium was primarily caused by:

- a increase in interest on accounts operated by the NBP by PLN 360,061.5 thousand (28.9%). This increase primarily concerned the expense on interest on time deposit accounts placed under securities repo agreements (up by PLN 231,378.2 thousand, i.e. 105.3%) and the expense on interest on banks' reserve requirement (up by PLN 154,730.5 thousand, i.e. 31.4%),
- a decrease in net interest, discount and premium on securities by PLN 186,113.3 thousand (11.9%), caused primarily by lower expense on premium on foreign securities by PLN 198,822.1 thousand (49.9%).

15.6.2. Net income/expense on financial operations

A net expense on financial operation was recorded as at the end of 2007 – PLN 15,467,336.1 thousand, i.e. a decrease by PLN 15,941,704.3 thousand as compared to 2006.

Table 15

Net income/expense on financial operations, 2006 –2007

Item	Data for year		Change		Structure	
	2006	2007			2006	2007
	PLN thousand			%		
Net income/expense on financial operations	474 368.2	-15 467 336.1	-15 941 704.3	-3 360.6	–	–
1 Income on financial operations	665 603.2	471 878.6	193 724.6	-29.1	100.0	100.0
– FX gains	536 621.2	204 692.7	-331 928.5	-61.9	80.6	43.4
– positive price differences	128 981.4	267 185.9	138 204.5	107.2	19.4	56.6
– other income on financial operations	0.6	0.0	-0.6	-100.0	0.0	0.0
2 Expense arising from financial operation	522 416.3	1 167 209.0	664 792.7	123.4	100.0	100.0
– FX losses	110 330.4	775 926.1	665 595.7	603.3	21.1	66.5
– price losses	412 085.9	391 282.9	-20 803.0	-5.0	78.9	33.5
3 Unrealised expense	3 537 981.9	15 103 024.3	11 565 042.4	326.9	100.0	100.0
– unrealised losses related to exchange rate valuation	2 886 892.1	15 014 602.5	12 127 710.4	420.1	81.6	99.4
– unrealised losses related to price valuation	651 089.8	88 421.8	-562 668.0	-86.4	18.4	0.6
4 Income on release of provisions against risk and reversal of write-downs on financial assets	3 869 163.2	331 018.6	-3 538 144.6	-91.4	100.0	100.0
– income on reversal of write-downs on financial assets	2 701.4	10.2	-2 691.2	-99.6	0.1	0.0
– income on decrease in revaluation account balance	3 866 461.8	331 008.4	-3 535 453.4	-91.4	99.9	100.0
5 Expense arising from establishment of provisions against risk and write-downs on financial assets	0.0	0.0	0.0	0.0	0.0	0.0

Source: NBP data.

The decrease in net income/expense on financial operations stemmed primarily from:

- the increase by PLN 12,127,710.4 thousand (420.1%) in unrealised losses related to foreign exchange valuation, which in 2007 amounted to PLN 15,014,602.5 thousand;
- the decrease by PLN 3,535,453.4 thousand (91.4%) in income on decrease in revaluation account balance, which amounted to PLN 331,008.4 thousand;
- the increase by PLN 665,595.7 thousand (603.3%) in realised foreign exchange losses, which in 2007 amounted to PLN 775,936.1 thousand.

The negative impact of the above factors was partly offset by a decrease of PLN 562,668.0 thousand in unrealised losses related to price valuation.

15.6.3. Net fee and commission income/expense

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 by commercial banks of alternative cash services to state budget units and government special-purpose funds in places where the NBP does not have its offices and in relation to clearing services provided to the NBP by the National Clearing House (Krajowa Izba Rozliczeniowa SA).

Table 16

Net fee and commission income/expense, 2006 –2007

Item	Data for year		Change	
	2006	2007		
	PLN thousand			%
Net fee and commission income/expense	-10 914.9	-9 639.1	1 275.8	11.7
1. Fee and commission income	15 687.3	17 705.1	2 017.8	12.9
2. Fee and commission expense	26 602.2	27 344.2	742.0	2.8

Source: NBP data.

The fee and commission expense in 2007 amounted to PLN 9,639.1 thousand and was lower as compared to the previous reporting period by PLN 1,275.8 thousand (11.7%). This change was primarily a result of an increase in fee and commission income by PLN 2,017.8 thousand (12.9%).

15.6.4. Income from equities

Income from equities (covering solely income from shares) in 2007 amounted to PLN 9,805.7 thousand, i.e. down by PLN 875.4 thousand (8.2%) as compared to the previous reporting period. The income was the sum of the income from dividends on shares in KIR SA and the Bank for International Settlements in Basel.

Table 17

Income from equities, 2006–2007

Items	Data for year		Change	
	2006	2007		
	PLN thousand			%
Income from equities	10 681.1	9 805.7	-875.4	-8.2
Income from shares held	10 681.1	9 805.7	-875.4	-8.2

Source: NBP data.

15.6.5. Other income

Other income was at the level of PLN 118,616.7 thousand and decreased as compared to the previous reporting period by PLN 5,376.8 thousand (4.3%).

Table 18

Other income, 2006–2007

Item	Data for year		Change		Structure	
	2006	2007			2006	2007
	PLN thousand				%	
Other income	123 993.5	118 616.7	-5 376.8	-4.3	100.0	100.0
Income on reversal of write-downs on other assets	34.1	14.4	-19.7	-57.8	0.0	0.0
Income on release of provisions	1 873.0	1 881.1	8.1	0.4	1.5	1.6
Other operating income	121 655.4	106 514.2	-15 141.2	-12.4	98.1	89.8
Adjustment on other expense from previous years	431.0	10 207.0	9 776.0	2 268.2	0.4	8.6

Source: NBP data.

The change in this income item can be accounted for by:

- the decrease in other operating income by PLN 15,141.2 thousand (12.4%), in particular, the income on the sales of collector coins and collector note.
- the increase in the adjustment on other expense from previous years by PLN 9,776.0 thousand (over twenty times).

15.6.6. General expense

15.6.6.1. Personnel expense

Personnel expense in 2007 amounted to PLN 418,416.6 thousand, up by PLN 14,599.4 thousand (3.6%) as compared to 2006. This increase was primarily a result of the adopted staffing policy, aimed at minimising personnel risk which arose in some areas of NBP activity.

Table 19

Personnel expense, 2006–2007

Item	Data		Change		Structure	
	2006	2007			2006	2007
	PLN thousand				%	
Personnel expense	403 817.2	418 416.6	14 599.4	3.6	100.0	100.0
Salaries	329 326.4	341 573.6	12 247.2	3.7	81.6	81.6
Associated payroll costs	74 490.8	76 843.0	2 352.2	3.2	18.4	18.4
of which: costs of the Employees' Pension Scheme	20 149.7	20 769.3	619.6	3.1	5.0	5.0

Source: NBP data.

15.6.6.2. Administrative expense

Administrative expense was at the level of PLN 339,730.3 thousand and decreased by PLN 10,021.2 thousand (2.9%) as compared to the previous reporting period. The decrease resulted mainly from lower expense on external services related to the IT system expansion at the NBP, and from lower expense on information, promotional and educational activities conducted by the NBP. The above-mentioned decrease was partly offset by the increase in the mandatory charge contributed by the NBP to the Bank Guarantee Fund, included in taxes and charges.

Table 20

Administrative expense, 2006–2007

Item	Data for year		Change		Structure	
	2006	2007			2006	2007
	PLN thousand				%	
Administrative expense	349 751.5	339 730.3	-10 021.2	-2.9	100.0	100.0
Materials and energy	26 883.6	26 982.0	98.4	0.4	7.7	7.9
Benefits for employees and other entitled parties	14 037.5	11 861.0	-2 176.5	-15.5	4.0	3.5
Business travel	8 744.6	8 426.7	-317.9	-3.6	2.5	2.5
External services	198 790.7	178 003.5	-20 787.2	-10.5	56.9	52.4
Taxes and official charges	77 276.8	93 298.8	16 022.0	20.7	22.1	27.5
– of which: BGF charges	70 174.9	86 325.9	16 151.0	23.0	20.1	25.4
Transfer to special funds (enterprise social benefits fund)	3 967.4	4 135.3	167.9	4.2	1.1	1.2
Other administrative expense	20 050.9	17 023.0	-3 027.9	-15.1	5.7	5.0

Source: NBP data.

15.6.6.3. Issue of notes and coin expense

Issue of notes and coin expense at the end of 2007 was at the level of PLN 261,075.8 thousand and was higher by PLN 55,093.0 thousand (26.7%) than in 2006. This increase, observed in the coin issue expense, was caused by, *inter alia*, the growth in the notes and coin.

Table 21

Issue of notes and coin expense, 2006–2007

Item	Data for year		Change		Structure	
	2006	2007			2006	2007
	PLN thousand				%	
Issue of notes and coin expense	205 982.8	261 075.8	55 093.0	26.7	100.0	100.0
Banknote issue expense	133 818.4	133 786.8	-31.6	0.0	65.0	51.2
Coin issue expense	72 164.4	127 289.0	55 124.6	76.4	35.0	48.8

Source: NBP data.

15.6.7. Depreciation

Depreciation expense in 2007 amounted to PLN 164,642.0 thousand and increased by PLN 6,006.1 thousand (3.8%) as compared to the previous year. This change can be accounted for by the increase in the depreciation of fixed assets resulting from the use of IT equipment and the decrease in amortisation of intangible assets resulting from the change in amortisation rates.

Table 22

Depreciation in the years 2006–2007

Item	Data for year		Change		Structure	
	2006	2007			2006	2007
	PLN thousand				%	
Depreciation	158 635.9	164 642.0	6 006.1	3.8	100.0	100.0
Depreciation of fixed assets	98 530.0	112 064.0	13 534.0	13.7	62.1	68.1
Amortisation of intangibles	60 105.9	52 578.0	-7 527.9	-12.5	37.9	31.9

Source: NBP data.

15.6.8. Other expense

Other expense amounted to PLN 68,525.0 thousand at the end of 2007 and was lower by PLN 13,867.8 thousand (16.8%) as compared to the previous reporting period. This decline resulted primarily from a decrease in other operating expense, especially in the nominal value of collector coins and notes, which is recognised as expense at the moment of the sale.

Table 23**Other expense, 2006–2007**

Items	Data for year		Change		Structure	
	2006	2007			2006	2007
	PLN thousand			%		
Other expense	82 392.8	68 525.0	-13 867.8	-16.8	100.0	100.0
Expense arising from revaluation of write-downs on other assets	86.3	169.3	83.0	96.2	0.1	0.2
Expense arising from establishing provisions	453.8	327.5	-126.3	-27.8	0.6	0.5
Other operating expense	81 851.0	67 964.2	-13 886.8	-17.0	99.3	99.2
Adjustment on other income from previous years	1.7	64.0	62.3	3 664.7	0.0	0.1

Source: NBP data.

15.7. Movements in the NBP off-balance sheet items

15.7.1. Off-balance sheet items

Table 24**Off-balance sheet items – receivables and liabilities related to current operations of currency exchange**

Item	Balance as at		Change	
	31.12.2006	31.12.2007	31.12.2006–31.12.2007	
	PLN thousand			%
1. Receivables in foreign currencies related to current operations of currency exchange	6 159.7	1 024.3	-5 135.4	-83.4
2. Liabilities in foreign currencies related to current operations of currency exchange	131 513.7	0.0	-131 513.7	-100.0
3. Receivables in national currency related to current operations of currency exchange	126 268.8	0.0	-126 268.8	-100.0
4. Liabilities in national currency related to current operations of currency exchange	914.8	1 024.3	109.5	12.0

Source: NBP data.

Table 25

Off-balance sheet items – collateral received

Item	Balance at		Change	
	31.12.2006	31.12.2007	31.12.2006–31.12.2007	
	PLN thousand			%
1. Financial collateral	43 490.0	0.0	-43 490.0	-100.0
2. Guarantee collateral	19 514.9	15 437.7	-4 077.2	-20.9

Source: NBP data.

The largest movements in off-balance sheet items pertained to receivables and liabilities related to currency exchange operations, performed for the value date up to 2 business days from the date of conclusion. These operations were performed mainly for the sector of Polish general and local government and were settled in the first days of January 2008.

15.7.2. Other off-balance sheet items

Table 26

Other off-balance sheet items – value register

Item	Balance at		Change	
	31.12.2006	31.12.2007	31.12.2006–31.12.2007	
	PLN thousand			%
1. Contingent receivables	1 183 406.8	1 183 372.7	-34.1	0.0
2. Third party fixed assets accepted for use	2 225.0*	3 476.4	1 251.4	56.2
3. Foreign currency accepted for collection	1.4	0.7	-0.7	-50.0

* Comparable data

Source: NBP data.

Contingent receivables claimed by the NBP constitute the main item. Their value decreased from PLN 1,183,406.6 thousand as at 31 December 2006 to PLN 1,183,372.7 thousand as at 31 December 2007. The item mainly includes receivables claimed by the NBP on the interest from Bank Handlowo-Kredytowy SA in Katowice, which is undergoing winding-up proceedings. The value of these receivables as at 31 December 2007 did not change as compared to the end of 2006 and amounted to PLN 1,183,103.7 thousand.

The most significant movement occurred in the item "Third party fixed assets accepted for use," which as at the end of 2007 amounted to PLN 3,476.4 thousand and increased by PLN 1,251.4 thousand as compared to the end of 2006. This item covers the value of leased fixed assets, fixed assets received for administration free of charge, and fixed assets accepted for testing.

Table 27

Other off-balance sheet items – quantity register

Item	Balance		Change	
	31.12.2006	31.12.2007	31.12.2006–31.12.2007	
	in thousand items			%
1. Numismatic collection	256.0	258.8	2.8	1.1
2. Deposit of valuables	6.8	7.4	0.6	8.8

Source: NBP data.

The item "Numismatic collection" mainly includes Polish and foreign notes and coin, securities, medals, badges and bills; hallmarks and specimens of notes and coin; graphic designs of notes and coin, medals and badges; plaster models of notes and coin, medals and badges; bronze models of notes and coin, medals and badges; copies of notes and coin, medals and badges; bank documentation as well as objects related to the circulation of money and appliances used to produce notes and coin. This collection is used to compare the quality and methods of striking coins in different time periods, improving the technique of printing notes and specimens of new notes and coin, as well as to popularise knowledge about notes and coin.

As at 31 December 2007, the quantity of items in the numismatic collection increased slightly from 256.0 thousand items as at 31 December 2006 to 258.8 thousand items.

"Deposit of valuables" are third-party deposits (objects or documents received for safekeeping) and own deposits, expressed in items. As at the end of 2007, the register included 7.4 thousand items of third-party deposits, which constitutes an increase by 0.6 thousand items (8.8%) as compared to the end of 2006, and 48 items of own deposits.



APPENDICES

Appendix 1

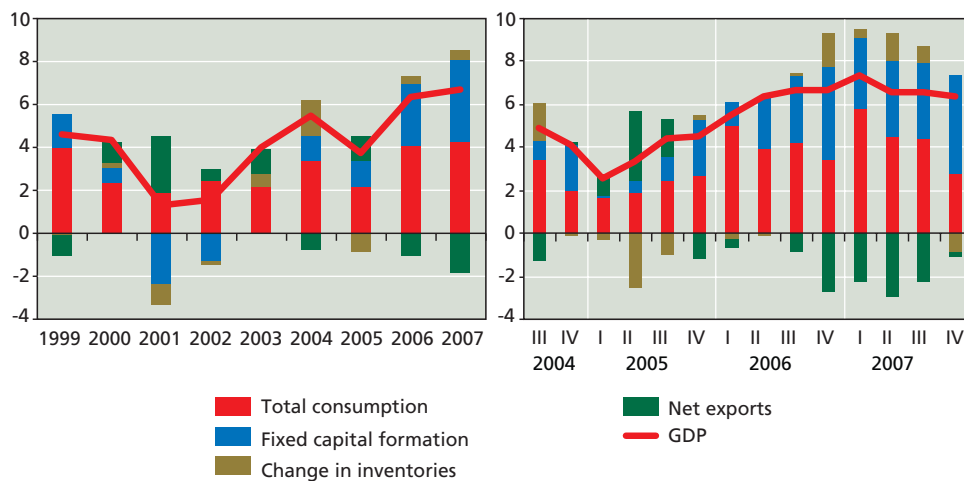
GDP and final demand

In 2007 GDP rose by 6.6% (compared to 6.2% in 2006), which was the highest rate of growth in 10 years. The growth rate of domestic demand amounted to 8.3% y/y (compared to 7.3% in 2006). The significant growth in domestic demand resulted primarily from a high growth rate of private consumption (5.2% y/y compared to 4.9% y/y in 2006) and gross fixed capital formation (19.3% y/y compared to 15.6% in 2006). The growth rate of public consumption (5.8% y/y) and the contribution of inventories to GDP (0.4 percentage point) remained at their levels from 2006. Exports were rising more slowly than imports, which led to net exports being conducive to lowering GDP growth rate, similarly as in the previous year.

Gross value added⁷⁸ rose in 2007 by 6.7% y/y (compared to 6.0% y/y one year before). This surge in gross value added in 2007 primarily resulted from a recovery in market services and industry (their contributions to total value added growth amounted to 3.4 percentage points and 1.9 percentage point, respectively). A faster growth rate of gross value added was also recorded in construction (15.6% y/y as compared to 12.5% y/y one year before). The value added increase in construction was brought about, among others, by high investment outlays in housing construction and investments connected with the inflow of EU structural funds.

Figure 20

Share of final demand components in the GDP growth



Source: NBP calculations based on GUS data

The private consumption growth in 2007 was slightly higher than in 2006 and was mainly connected with a rise in disposable income of households (of approx. 8.7% y/y). The improved situation in the labour market was conducive to increased income from paid employment in 2007 (a rise of approx. 16% in current prices, data on income according to NBP estimates). In turn, old-age and disability pension transfers increased at a slower rate than in 2006 (5.5% y/y compared

⁷⁸ GDP equals gross value added increased by the balance of taxes on products (including import duties) and product subsidies.

to 7.5% in 2006). The fact that the growth rate of investment outlays was faster than one year before was connected with a very good financial situation of enterprises and their favourable assessments of anticipated demand and development prospects. The good financial standing of enterprises favoured greater availability of loans to these entities. The growth rate of foreign trade turnover in 2007 was markedly lower than in the previous year, even though, similarly to 2006, it remained higher than GDP growth rate. The volume of exports rose in 2007 by 8.4%, while that of imports increased by 12.4% (see Table 28). In 2007 the contribution of net exports to GDP equalled -1.8 percentage points.

Table 28**GDP and domestic demand 2000–2007**

Specification	2000	2001	2002	2003	2004	2005	2006	2007
Growth rate								
GDP (%)	4.3	1.2	1.4	3.9	5.3	3.6	6.1	6.6
Domestic demand (%)	3.1	-1.3	0.9	2.7	6.0	2.4	7.3	8.3
Consumption (%)	2.9	2.3	3.0	2.6	4.0	2.7	5.1	5.3
Private consumption (%)	3.0	2.3	3.4	2.0	4.4	2.0	4.9	5.2
Capital formation (%)	3.9	-13.4	-7.2	3.3	14.7	1.4	16.8	19.7
Gross fixed capital formation (%)	2.7	-9.7	-6.3	-0.1	6.4	6.5	15.6	19.3
Exports (%)	23.2	3.1	4.8	14.2	14.0	8.0	14.6	8.4
Imports (%)	15.6	-5.3	2.6	9.3	15.2	4.7	17.4	12.4
Contribution of net exports to GDP growth (percentage points)	0.9	2.6	0.5	1.1	-0.8	1.1	-1.1	-1.8
GDP structure in current prices (GDP = 100)								
Domestic demand	106.4	103.7	103.4	102.6	102.6	100.3	101.4	102.3
Consumption	81.6	82.9	84.8	83.8	81.9	81.1	80.3	78.6
Capital formation	24.8	20.8	18.6	18.7	20.1	19.3	21.1	23.7
Net exports	-6.4	-3.7	-3.4	-2.6	-2.0	-0.3	-1.4	-2.3

Source: GUS data.

Appendix 2

Prices of consumer goods and services

In 2007 the average annual growth in the Consumer Price Index amounted to 2.5%, which is the level of the NBP's inflation target. In particular months of 2007 the annual inflation indicators showed a rising tendency – from 1.6% in January to 4.0% in December 2007 (with a temporary decline in August 2007 to 1.5% y/y⁷⁹). The inflation rise in the course of 2007 was mainly caused by an increase in the growth rate of food and non-alcoholic beverage prices and regulated prices.

The index of food and non-alcoholic beverage prices went up from 2.8% y/y in January to 7.9% in December 2007. The average annual growth of these prices in 2007 was considerably higher than one year before (at 4.9% compared to 0.6% back in 2006). The high growth of these prices was primarily connected with a significant rise of non-processed food prices⁸⁰. The main factors contributing to food price growth in 2007 included: accelerated demand for agricultural and food products on the part of developing countries amid ongoing changes in the global demand structure, adverse weather conditions diminishing agricultural output in many regions of the world and the growth of the bio-fuel market supported by the developed countries' governments.

Regulated price index⁸¹ went up from 1.7% y/y in January to 4.8% in December 2007. The strongest contribution to the acceleration of the annual growth of regulated prices was made by the stepped up growth of the prices of fuels and tobacco products.

In January-August 2007 the annual growth in regulated prices stayed at a relatively low level. Towards the end of the year, however, the growth of prices in this group started to accelerate. This was connected with the rises of excise tax rates on tobacco products introduced at the beginning of the year. Additionally, the acceleration in the group of regulated prices was fuelled by a marked rise in the rate of fuel prices, connected with significant oil price hikes in the world markets in 2007. The index of prices of "other" goods and consumer services, i.e. inflation net of food and regulated prices, stayed at a relatively low level in 2007. Nevertheless, the growth of those prices displayed a rising tendency, which was temporarily disrupted by its decline in 2007 Q3. The rise in the growth of other prices was mainly driven by accelerating growth in prices of services in the first half of 2007. This growth was temporarily halted in 2007 Q3 due to the decline in the growth of internet services prices⁸². In January-October 2007 the decline in the annual growth in prices of "other" goods and services was driven by falls in the prices of non-food products. The main reasons behind the decline in this group of goods were continuing drops in the prices of clothes, footwear and electronic equipment, i.e. goods that are in a large proportion imported from low cost countries. At the same time, the decrease in the prices of non-food products was curbed by rising prices of materials used for home maintenance and repairs and of heating fuel.

⁷⁹ The temporary drop in the annual CPI to 1.5% and in net inflation to 1.2% in August 2007 was primarily the result of a promotional price reduction by one of Internet providers and of a decline in the annual growth rate of food and non-alcoholic beverage prices due to the disappearance of the statistical base effect.

⁸⁰ In this group prices of fruit and vegetables displayed high growth. In the first half of the year this was the aftermath of a drought in the summer of 2006, while in the second half of 2007 it was connected with the spring ground frosts which considerably reduced the supply of domestic fruits.

⁸¹ Regulated prices include prices of goods and services whose developments are not fully shaped by the market. This group encompasses goods whose retail price is mainly composed of excise tax (fuels, alcoholic beverages, tobacco products) and goods and services whose prices are largely impacted by the decisions of central and local government institutions (public administration services, certain transportation services) and market regulators (electricity, gas, communications).

⁸² July 2007 marked the disappearance of the base effect connected with a price increase introduced twelve months before. In turn, in August 2007 there was a significant drop in prices of internet services.

Table 29

Changes in main groups of consumer goods and services in 2006–2007 (% y/y)

	CPI	Food and non-alcoholic beverages	Regulated prices	of which:	Other goods and services	of which:	
				fuels		non-food products	services
% structure of weights in CPI basket							
2006	100.00	27.2	27.5	3.9	45.3	26.7	18.6
2007	100.00	26.2	27.4	4.0	46.4	27.4	19.0
Change in realisation to the corresponding period of the previous year %							
I 2006	0.6	-0.9	3.6	6.4	-0.4	-1.6	1.4
II	0.7	-0.2	3.3	4.6	-0.4	-1.6	1.4
III	0.4	-0.7	3.2	3.4	-0.6	-1.6	0.8
IV	0.7	-0.6	4.3	4.4	-0.6	-1.7	0.9
V	0.9	-0.2	4.5	7.1	-0.6	-1.6	0.8
VI	0.8	-0.5	4.3	5.9	-0.6	-1.6	1.0
VII	1.1	0.2	3.8	4.6	0.0	-1.7	2.5
VIII	1.6	1.8	3.9	4.9	0.1	-1.7	2.7
IX	1.6	2.4	3.0	-1.1	0.2	-1.5	2.5
X	1.2	2.2	1.9	-6.2	0.2	-1.3	2.4
XI	1.4	2.2	1.8	-7.1	0.7	-1.2	3.5
XII	1.4	1.8	1.9	-6.3	0.8	-1.1	3.6
I 2007	1.6	2.8	1.7	-3.9	0.9	-1.3	4.0
II	1.9	3.2	2.1	-1.3	1.0	-1.1	4.1
III	2.5	4.3	2.8	4.0	1.2	-0.9	4.3
IV	2.3	4.6	1.8	2.6	1.4	-0.7	4.4
V	2.3	4.3	1.5	0.8	1.7	-0.4	4.6
VI	2.6	4.4	2.2	4.1	1.8	-0.2	4.8
VII	2.3	4.4	2.2	2.7	1.1	-0.1	2.9
VIII	1.5	2.8	1.9	-0.5	0.6	-0.1	1.6
IX	2.3	5.1	2.4	2.5	0.6	-0.2	1.8
X	3.0	6.6	3.2	7.6	0.8	0.0	2.0
XI	3.6	7.6	4.0	13.2	1.0	0.1	2.3
XII	4.0	7.9	4.8	18.1	1.3	-0.3	2.6
I–XII 2006	1.0	0.6	3.3	1.5	-0.1	-1.5	2.0
I–XII 2007	2.5	4.9	2.5	4.1	1.1	-0.4	3.3

Source: NBP calculations based on GUS data.

Appendix 3

Balance of payments

In 2007 the current account deficit of the balance of payments amounted to EUR 11.5 billion (as compared to EUR 7.3 billion in 2006). The relation of current account deficit to GDP rose from 2.7% in 2006 to 3.7% in 2007. The deterioration in the current account balance was connected with the deepening of the deficit in goods and income. Similarly to 2006, the rising surplus in current transfers and services was conducive to the lowering of the current account deficit.

The factors that contributed to changes in the growth rate of Polish foreign trade in 2007 were, on the one hand, the persistent high growth in demand in the Polish economy and, on the other hand, slight weakening in demand from major trading partners. In 2007 the value of exports increased by 15.0% y/y (compared with 23.1% y/y in the previous year), and the value of imports – by 17.8% (as compared to 24.2% respectively).⁸³ Due to a slightly stronger fall in the growth rate of exports than in the growth rate of imports, with a persistent negative balance in foreign trade, the latter further deepened (to EUR 17.6 billion compared with EUR 12.9 billion in 2006 according to GUS data). The persistent relatively high level of imports was mainly driven by a strong growth in its volume whereas the growth in transaction prices in imports was the lowest since 2004, which was supported by the zloty appreciation. The growth of investment and consumption demand (mainly for consumer durable goods) was higher compared with 2006, whereas the demand in the sector of export grew at a slower pace (which is reflected in a decline in the import of supply goods). On the other hand, the lower growth in exports was driven by a slower rise in the volume of exports which, compared with 2006, was two times lower, while the growth of transaction prices in exports remained at a high level. The higher growth in transaction prices in exports⁸⁴ compared with transaction prices in imports was conducive to an improvement of *terms of trade* in the Polish foreign trade.⁸⁵

Analysis of changes in the foreign trade balance broken down into Poland's major trading partners shows that the deepening of the deficit in 2007 was driven both by the decrease in the positive trade balance with EU Member States and a further deepening of the negative trade balance with third countries. The decrease in trade surplus with the European Union was mainly driven by an increase in trade deficit with the euro area (primarily with Germany).

At the same time, there was an increase in trade surplus with new EU Member States. The most marked imbalance has been noted in trade with non-EU countries, in particular with developing countries, mainly China.⁸⁶

In 2007 the nominal zloty exchange rate continued to strengthen – the average annual exchange rate of the zloty was 2.9% stronger against the euro, and 10.8% stronger against the US dollar. In 2007 the real effective exchange rate of the zloty deflated by unit labour costs in

⁸³ In 2007 the volume of exports stepped up by 8.9% y/y (as compared with an increase of 16.1% y/y in 2006), whereas the volume of imports grew by 13.8% y/y (compared with 16.8% respectively).

⁸⁴ Transaction prices in imports expressed in EUR increased in 2007 by 3.6% y/y (against 6.3% y/y in 2006) whereas export prices increased by 5.6% y/y (as compared to 6.0% y/y).

⁸⁵ In 2007 terms of trade index was 102.1 as compared with 99.7 in the previous year.

⁸⁶ In 2007 trade deficit with China increased to EUR 7.8 billion (by EUR 2.2 billion as compared with 2006). The growth in imports from China (significantly higher than growth in total imports) mainly contributed to the deficit. In 2007 the value of imports from China increased by 38.0%, which made China the third major supplier of goods to the Polish market (the import from China accounted for 7.2% of Poland's imports).

manufacturing industry⁸⁷ appreciated less than the nominal rate, i.e. by 2.6% as compared with 5.3% for the nominal effective exchange rate of the zloty. The real appreciation of the effective exchange rate of the zloty deflated by CPI reached 5.8% in 2007.⁸⁸

In 2007 most of major financial indicators reflecting the external equilibrium of the Polish economy remained at safe levels. Current account deficit was financed in 90% by the inflow of foreign capital in the form of foreign direct investment. The increased use of EU funds classified on the capital account has been restraining the growing deterioration in the ratio of current account and capital account balance to the GDP.

Table 30

Selected warning indicators

Warning indicator	2004	2005	2006	2007
Current account balance/GDP	-4,0%	-1,2%	-2,7%	-3,7%
Current account balance + capital balance/GDP	-3,5%	-0,9%	-2,1%	-2,5%
Trade balance/GDP	-2,2%	-0,9%	-2,0%	-3,7%
Direct investment/current account balance	119,2%	184,9%	110,7%	90,8%
(Current account balance + capital balance + direct investment)/GDP	1,2%	1,4%	0,9%	0,9%
Foreign debt service/exports of good and services	35,4%	32,3%	29,7%	33,9%
Foreign reserves expressed in terms of monthly imports of goods and services	4,0	4,7	3,9	4,0

Source: NBP calculations.

⁸⁷ 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 this reason, the real exchange rate deflated by unit labour costs in the manufacturing industry is the appropriate indicator of the competitive position of producers in international markets. Calculations are based on estimates for 2007 Q4.

⁸⁸ Change calculated against the 2006 average annual exchange rate. For the real effective rate of the zloty deflated by unit labour costs calculations were based on quarterly data; in other cases – on monthly ones.

Appendix 4

Money and credit

In 2007 the rise in consumer sentiment related to the improvement in the labour market was driving the revival in the market for household loans that has persisted since 2005. A positive assessment of the expected income situation of households translated into a growth in demand for bank loans, both housing loans and loans for the purchase of consumer durables.

In 2007 there was a marked acceleration in the growth of corporate indebtedness in the banking sector. A positive assessment of the current economic situation of enterprises and favourable forecasts relating to demand were conducive to taking investment decisions. The high level of utilisation of production capacity by corporates also constituted a strong incentive to taking investment decisions.

The first three quarters of 2007 saw a continued trend, initiated in 2005, of regular reallocation of household financial assets in non-banking saving. This was mainly driven by low yields on funds deposited in bank accounts⁸⁹ as compared to other moderate-risk forms of saving, mainly participation units in stable growth funds and balanced growth funds. In the fourth quarter of 2007 the structure of financial assets of individuals changed considerably. Owing to a significant slide in Warsaw Stock Exchange indices and rising interest rates bank deposits were treated as an alternative for non-banking savings.

In 2007 a gradual decline in the growth of money supply measured with M3 aggregate was recorded. The fastest growth was recorded in the most liquid components of M1 aggregate (currency in circulation and current deposits).

Loans to households

In 2007 nominal value of households' indebtedness with banks rose by PLN 70.3 billion to PLN 253.2 billion as compared to 2006 when it amounted to PLN 46.9 billion.

The fastest growth was recorded in *housing loans*. The quick growth in the value of housing loans was mainly driven by the improvement in income of households, strong competition in the housing loan market, the use of mortgage collateral and a rise in property prices.

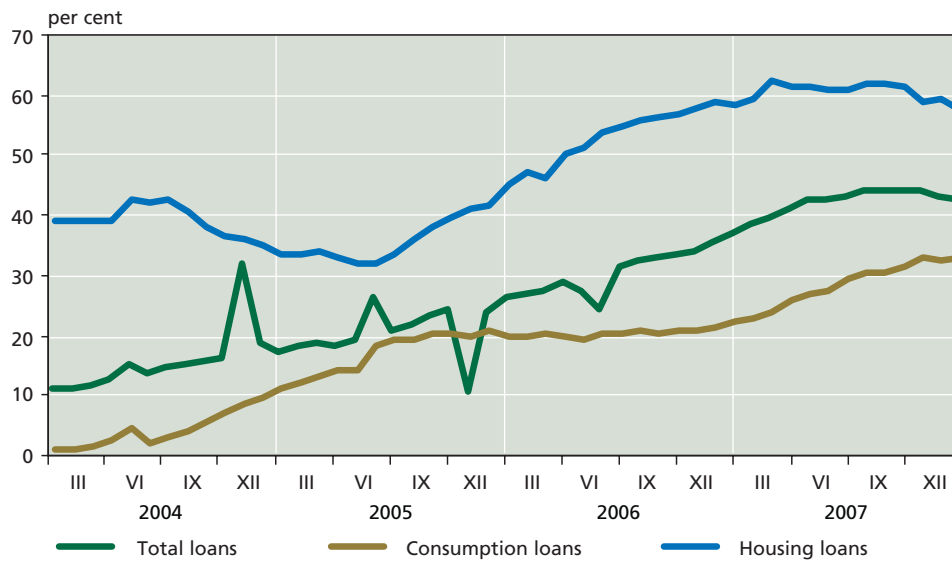
Since mid-2006 there had been a clear shift in households' preferences towards zloty denominated loans. In parallel, the growth rate of housing loans denominated in foreign currencies declined which was driven, among others, by a rise in interest rates on the most popular loans, i.e. those denominated in the Swiss franc which was connected with an increase in LIBOR CHF rates. However, of major significance for the decline in demand for foreign currency loans was the implementation at the beginning of July of *Recommendation S*⁹⁰ aimed at limiting access to foreign currency loans. In the last quarter of 2007 the growth rate of zloty denominated loans dropped significantly which was driven by the increase in interest rate on such loans and a decline in house prices both in the primary and secondary market. Some households may have postponed their decisions related to house purchase awaiting further price declines in the property market.

⁸⁹ Bank deposits also include household deposits in Credit Unions (*Spółdzielcze Kasy Oszczędnościowo-Kredytowe – SKOK*)

⁹⁰ *Recommendation S* – a document prepared by the Commission for Banking Supervision comprising good practices for mortgage secured credit exposures.

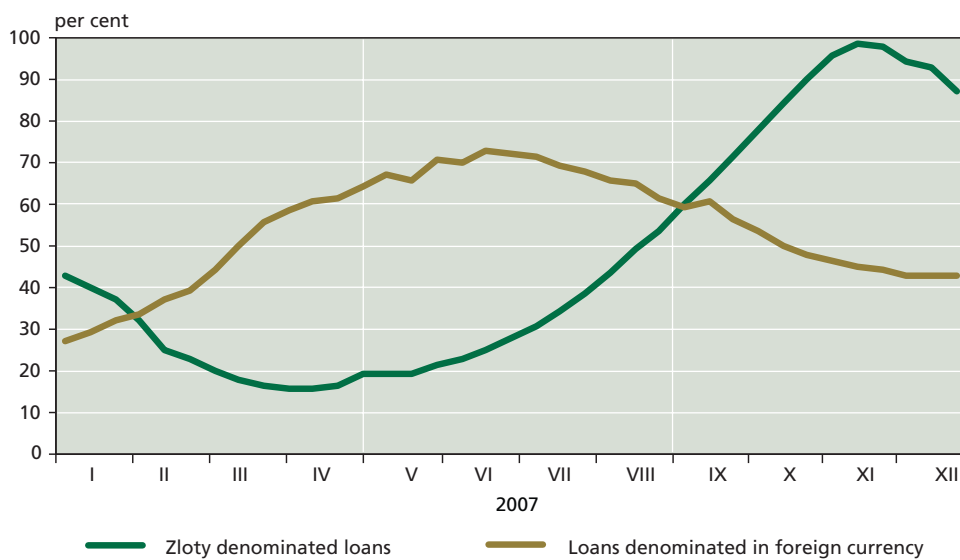
The share of zloty denominated loans in housing loans rose from 36% in December 2006 to 45% in December 2007. Throughout all months of 2007 the majority of new housing loans were denominated in the zloty and their share in total new housing loans accounted for approximately 60%.

Figure 21
Households' indebtedness, annual growth rate



Source: NBP data.

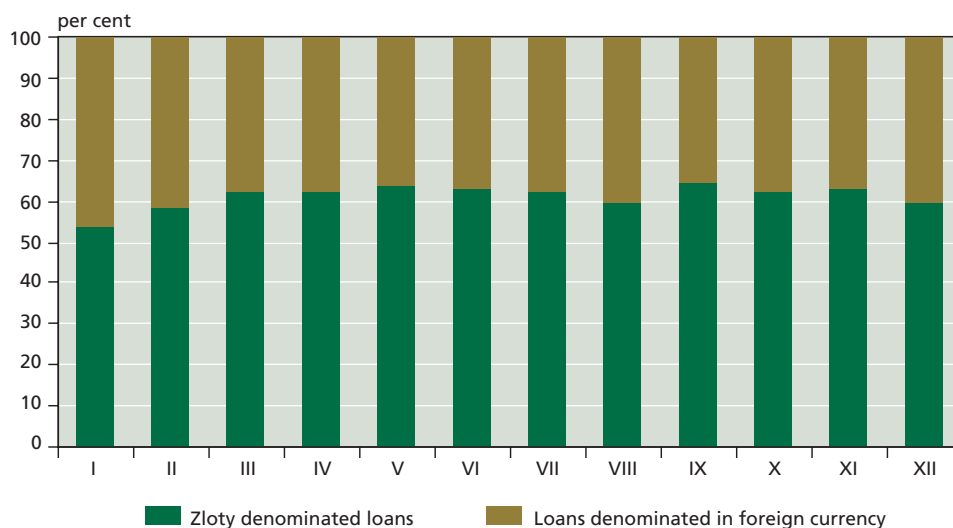
Figure 22
Housing loans to households, annual growth rate



Source: NBP data.

Figure 23

New housing loan agreements – currency structure



Source: NBP – structure prepared on the basis of information comprised in interest rate reports on a sample of 19 banks (from July 2007 – 20 banks) whose share in the market for loans to the non-financial sector represents approximately 75%.

In 2007 the growth in *consumer loans* accelerated markedly⁹¹ and at the end of the year reached the level of almost 33% *y/y*.

In 2007 the value of consumer loans went up by PLN 24.9 billion in nominal terms, of which current account credits increased by PLN 2.5 billion, credits related to credit cards – by PLN 3.1 billion and other credits⁹² – by PLN 19.3 million.

The prolongation of the maximum crediting period by banks constituted an important factor enabling households to increase demand for consumer loans in spite of their significant housing debt servicing burden.

Loans to enterprises

In 2007 a marked rise in the growth of corporate debt in the banking sector was recorded. The annual growth rate of loans to enterprises rose from 15% *y/y* in January to over 25% *y/y* in December 2007. At the end of 2007 it slightly slowed-down as a result of the rising interest on credits and uncertainty of the future economic situation assessment connected with turmoil in global financial markets and its potential impact on the national economy.

The largest demand among enterprises was for *property loans* with an annual growth in these loans exceeding 60% *y/y* in most months of the second half of 2007, whereas *investment loans* grew at a much slower pace. In December 2007 the annual growth of such loans stood at less than 10%.

⁹¹ This category comprises current account credits, credits related to credit cards and other credits and loans.

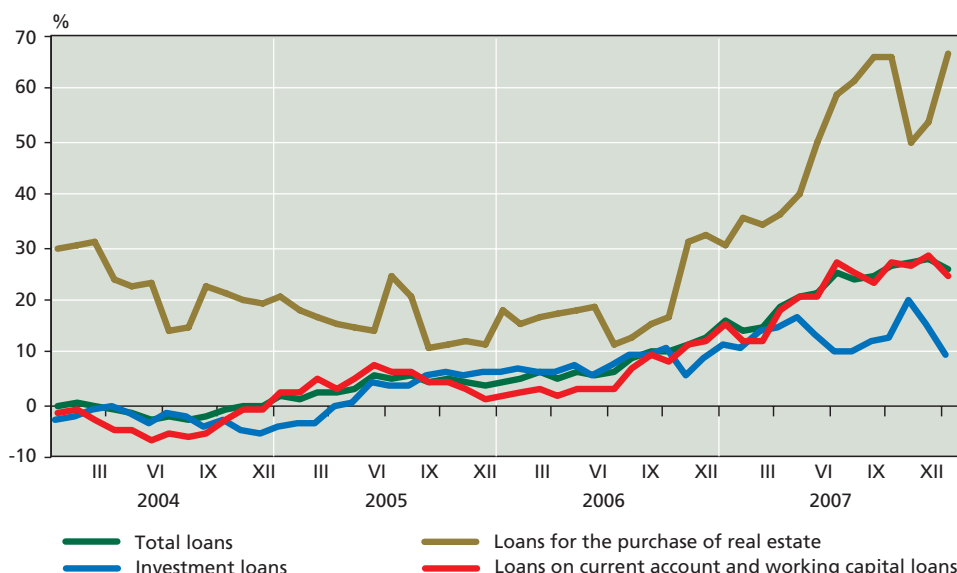
⁹² The last group of credits accounting for around 30% of households' credits and around 75% of consumer credits comprises loans for the purchase of cars, cash and seasonal loans, loans for instalment purchases and credits and loans for purposes unspecified by borrowers.

Loans on current account and working capital loans displayed a clear upward trend in 2007. Their annual growth in the second half of 2007 exceeded 20% y/y and was close to the growth of total loans to this sector.

As shown by the balance of payments data, domestic sources of corporate financing were largely supplemented by foreign debt⁹³ which increased in 2007 by PLN 24,5 billion (10.9%) to PLN 249.2 billion, primarily as a result of growing share of non-trade loans (by PLN 17.3 billion, i.e. 11.8%). The value of trade loans rose by PLN 6.4 billion (10.2%) in this period and the value of debt securities held by foreign portfolio investors increased by PLN 0.9 billion (8.4%)

Figure 24

Corporate indebtedness, annual growth rate



Source: NBP data.

Financial assets of households

In the first three quarters of 2007 the trend for further reallocation of households' financial assets in non-banking saving continued. The rise in investment funds' assets by approximately PLN 34 billion in 2007 was accompanied by an increase in deposits by PLN 24.5 billion.

In the fourth quarter of 2007 the structure of households' financial assets changed significantly. The value of deposits rose by a record high of PLN 16 billion. In parallel, the value of shares held by households fell by PLN 5.4 billion and the value of investment funds' assets by PLN 5.7 billion which was driven by significant slides in Warsaw Stock Exchange indexes. In this period bank deposits became an alternative for non-banking savings allowing investors to wait through the period of the uncertainty in the capital market. A factor that contributed to the situation was a gradually rising interest on bank deposits – as at 2007-end average weighted interest in the largest banks was 4.2% compared to 3.3% a year before.

⁹³ Percentage changes for individual categories of foreign debt are calculated on the basis of PLN nominal values (the adjustment for the impact of foreign exchange rate changes are not taken into account).

Table 31
Financial assets of households

	Balance (PLN billion)					Change (PLN billion)		Change (y/y, %)		Structure (%)	
	XII 2006	III 2007	VI 2007	IX 2007	XII 2007	Q4 2007	2007	Q4 2007	2007	XII 2006	XII 2007
1. Deposits (with banks and Credit Unions)	242.6	247.4	243.2	251.1	267.2	16.0	24.5	6.4	10.1	46.1	43.7
2. Shhaires ^{1,10}	52.3	57.9	70.3	66.7	61.4	-5.4	9.0	-8.0	17.2	9.9	10.0
3. Investment fund assets ²	94.0	111.9	133.3	133.6	127.9	-5.7	33.9	-4.3	36.0	17.9	20.9
4. Life assurance undertaking ³	53.0	57.6	61.6	62.1	63.9	1.8	10.9	2.9	20.5	10.1	10.4
5. Treasury bonds ⁴	12.1	11.6	11.0	10.7	10.4	-0.4	-1.7	-3.3	-13.9	2.3	1.7
6. Treasury bills ⁵	0.8	0.7	0.5	0.4	0.3	-0.1	-0.5	-15.8	-60.1	0.2	0.1
7. Notes and coins in circulation (excluding vault cash) ⁶	68.8	70.2	73.4	75.8	77.2	1.4	8.4	1.9	12.3	13.1	12.6
8. Bank bonds ⁷	2.7	2.9	2.8	3.3	3.5	0.1	0.8	4.3	29.1	0.5	0.6
TOTAL (items 1–8)	526.3	560.1	596.3	603.8	611.7	7.9	85.3	1.3	16.2	100.0	100.0

¹ Shares and allotment certificates deposited in accounts in brokerage offices and houses and in trust companies – for semi-annual reporting periods according to data provided by GUS and Polish Financial Supervision Authority, for the end of Q3 according to the Polish Financial Supervision Authority data, for the remaining periods NBP estimates.

² Does not account for data from funds known to be oriented at legal entities only.

³ Figures represent value of technical provisions in life assurance (including provisions where investment risk is borne by the policy holder).

⁴ According to data of the Ministry of Finance.

⁵ According to data of Domestic Operations Department.

⁶ It has been assumed that the whole cash in the market is held by households.

⁷ According to data of Domestic Operations Department prepared on the basis of money market dealers. The reports contain the following information: bank bonds issued in compliance with the Act on bonds, bank securities issued in compliance with the Banking Act, other non-treasury debt securities (including corporate bonds and other short term debt securities issued in compliance with the Act on bonds, Act on Bill of Exchange, Civil Code) mortgage bonds, debt securities issued by local governments).

⁸ According to preliminary data.

⁹ Own estimates.

¹⁰ Data changed after revision by the Polish Financial Supervision Authority.

Source: NBP data.

Bank deposits continue to be the main form of household savings. Yet, their share in the sector's financial assets fell in 2007 by 2.4 percentage points to 43.7%. At the same time, the share of assets of investment funds increased by 3 percentage points to 20.9%.

In 2007 the nominal value of households' financial assets increased by PLN 85.3 billion. Investment funds' assets accounted for almost 40% of the increase. Bank deposits also represented a significant share in the growth structure (28.7%), as well as funds of life assurance companies (12.7%), shares of listed enterprises (10.6%) and cash (9.9%).

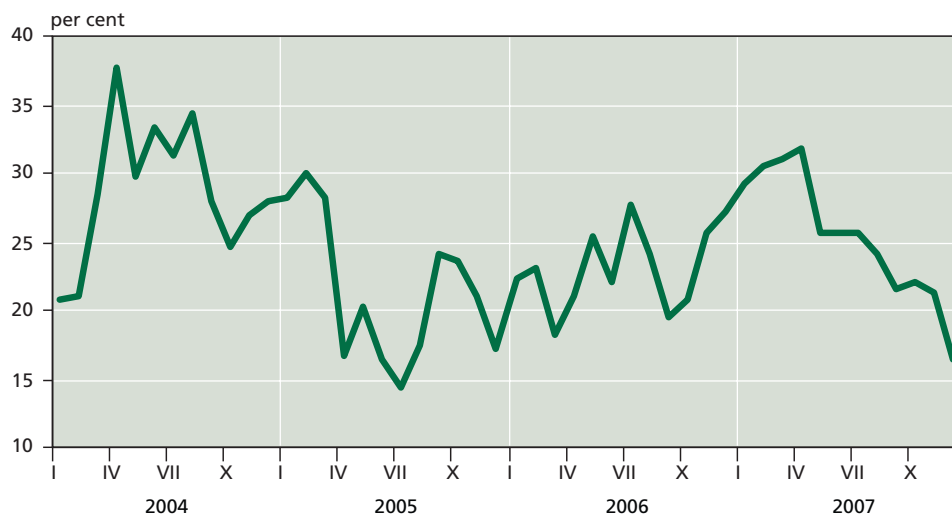
Deposits of enterprises

In 2007 corporate sector performance and its main economic ratios improved significantly. Corporates' own funds were the main source of financing both day-to-day activities and pro-development projects. There was a marked decline in funds collected on bank accounts. The annual growth of deposits had displayed a rising trend since the middle of 2005 reaching a maximum in April 2007 (31.4% y/y). Thereafter, the growth of funds on bank accounts declined rapidly to reach slightly more than 16% y/y at the end of 2007.

Nominal growth in deposits was PLN 17.8 billion in 2007 against PLN 25.9 billion in the previous year. At the end of December 2007 more than PLN 144 billion was deposited on this sector's accounts, which shows that economic entities have considerable potential for continuing to co-finance their investment from their own funds.

Figure 25

Corporate deposits, annual growth rate



Source: NBP data.

Monetary aggregates

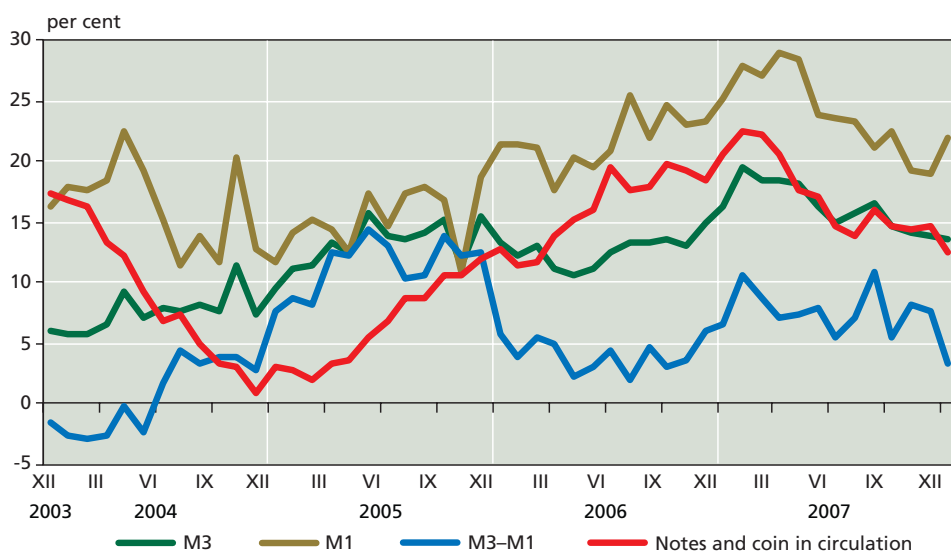
In 2007 money supply measured with the M3 aggregate slowed down steadily. Its growth fell in December 2007 by 2.6 percentage points to 13.4% compared to the end of 2006.

The fastest growth was recorded in the most liquid components of M1 aggregate (currency in circulation and current deposits). The annual growth in this category declined by 3.5 percentage points to 21.6% in 2007. The growth of other less liquid components of the broad money (M3-M1) – also went down – by 3.2 percentage points to 3.1% y/y.

The relatively high growth of M1 aggregate in 2007, in particular that of current deposits, with a parallel modest interest of entities from the non-financial sector in depositing funds in term deposits was conducive to further rise in M3 liquidity (measured with the share of cash and current liabilities in money M3) by 4 percentage points to 59.7% at the end of 2007.

Among components of the narrow money M1, a nominal growth in currency in circulation was lower than in the previous year and amounted to PLN 8.4 billion as compared with an increase of PLN 11.6 billion in 2006, which may have been connected with a wider popularity of cashless payments. As a result of the above-mentioned growth the share of currency in M1 fell by 1.9 percentage points to a record low of 23%.

Figure 26
Monetary aggregates, annual growth rates



Source: NBP data.

Appendix 5

Inflation projections of the NBP

The *Inflation Report* which presents the Monetary Policy Council's assessment of the current and future macroeconomic developments influencing inflation is a very important instrument of communication with market participants.

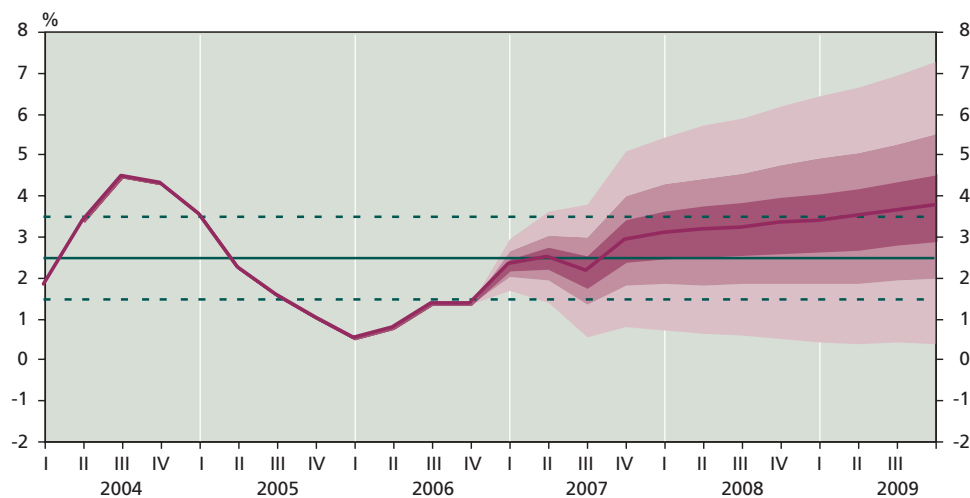
Since August 2004 *Inflation Reports* have included the inflation projections which are one of the inputs to the Monetary Policy Council's decision-making process on the NBP interest rates. The projection results and assessment of the balance of factors influencing future inflation published in *Inflation Reports* enhance the transparency of the implemented monetary policy.

The projection presented in Chapter 4 of the Report is prepared with the use of an econometric model of the Polish economy, called ECMOD,⁹⁴ by a team of the NBP economists. Each time the projection horizon encompasses the year of its preparation and two subsequent calendar years. The inflation projection is prepared under the assumption of unchanged interest rates.

The below presented fan charts depict the results of projections published in 2007. The fan charts reflect main sources of uncertainty (e.g. uncertainty connected with price food developments). The types of uncertainty not included in the fan chart are discussed in detail in projection descriptions in *Inflation Reports*.

Figure 27

Central inflation projection, fan chart of future inflation path and inflation target of the MPC – January 2007

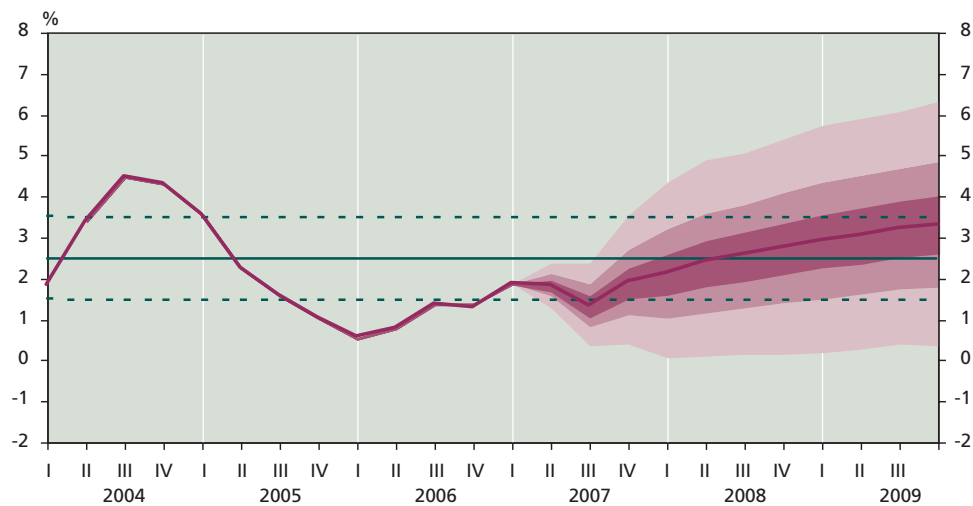


Source: *Inflation Report*, January 2007, NBP.

⁹⁴ 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. Abbreviated description of the latest version of the model is available at the NBP website at: http://www.nbp.pl/en/publikacje/raport_inflacja/ECMOD_April2007.pdf.

Figure 28

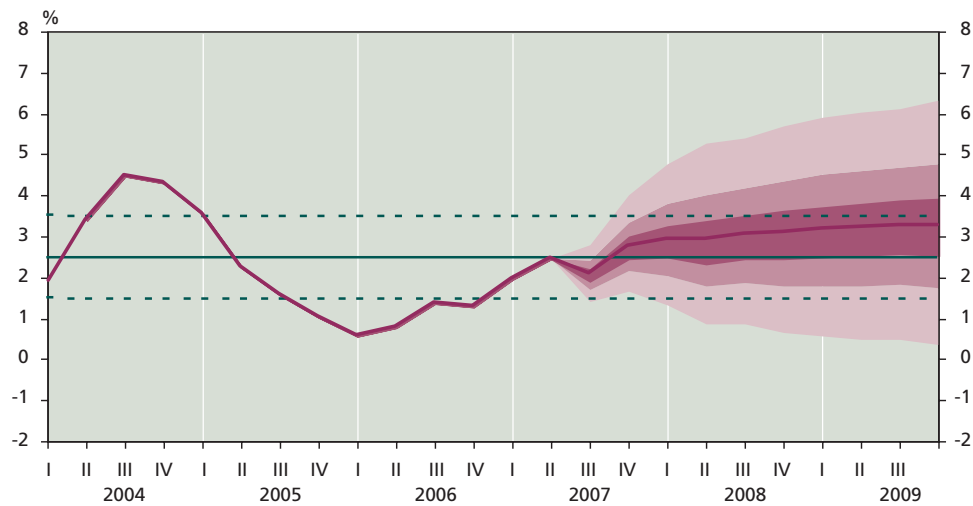
Central inflation projection, fan chart of future inflation path and inflation target of the MPC – April 2007



Source: *Inflation Report*, April 2007, NBP.

Figure 29

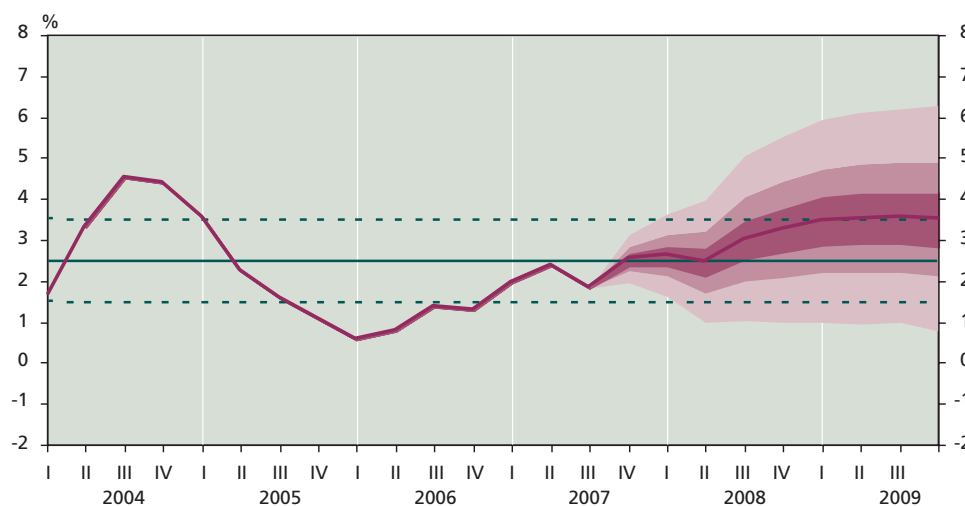
Central inflation projection, fan chart of future inflation path and inflation target of the MPC – July 2007



Source: *Inflation Report*, July 2007, NBP.

Figure 30

Central inflation projection, fan chart of future inflation path and inflation target of the MPC – October 2007



Source: *Inflation Report*, October 2007, NBP.

How should fan charts be interpreted?

Every projection of future values of economic variables is subject to 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 realizations is determined for each quarter. The most probable realizations, 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 falling 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 falling within the fan.

For example, the chart which refers to the July inflation projection shows that the probability that the inflation in 2008 Q1 will fall between 2.5% and 3.0% equals to 30%, whereas the probability that the inflation at that time will amount from 2% to 4% is equal to approx. 60%. The inflation projection is characterised by slight asymmetry, which reflects approximately equal probabilities of inflation running above the central path as well as below it.

The fan charts depict the uncertainty associated with assumptions exogenous to the projection model and connected with inaccuracy of the statistical mapping of the relations between macroeconomic variables as regards the model. Fan charts, however, do not take into account 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 6

Minutes of the Monetary Policy Council decision-making meetings in 2007

Minutes of the Monetary Policy Council decision-making meeting held on 25 April 2007

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, expected economic situation.

The Council paid considerable attention to the prospects of economic growth. Council members pointed out that the Polish economy is in the stage of strong economic growth and that the high GDP growth may be expected to be sustained in the medium term, at least. The factors supporting robust economic growth should be the inflow of foreign direct investment and EU funds, as well as optimistic expectations of enterprises regarding future economic situation, additionally boosted by the prospect of Poland hosting the European Football Championships in 2012. In the opinion of some Council members, high economic growth in the coming years will be favoured by strong economic growth in EU countries.

Most Council members considered the current GDP growth to be higher than the potential output growth. However, the Council members differed in their assessment of the magnitude of the impact this factor may have on inflationary pressure.

Some members of the Council believed that there is a significant risk that a demand growth exceeding the growth of potential GDP would lead to a rise in costs and, consequently, to higher inflation and widening external imbalance. They pointed out that, in the medium term, inflation running above the inflation target would result in Polish economy gradually losing its price competitiveness.

Other members of the Council emphasised that the structure of the current economic growth is favourable for low inflation, as over the past several quarters the contribution of investment to GDP growth has been rising, which should be conducive to increasing the potential output and limiting inflationary pressure. Moreover, they assessed that the high GDP growth in 2007 Q1 was to some extent the result of favourable weather conditions, which most strongly affected the construction output. The disappearance of these one-off factors in the next quarters, they argued, may reduce the risk of inflation increase.

Another issue discussed at the meeting was the impact of the European Football Championships, which is to be co-hosted by Poland in 2012, on the outlook for economic growth and inflation. Council members assessed that the organisation of the championships should help sustain the high rate of economic growth in the years to come. Some discussants pointed out that the rise in potential output related to hosting the event will be lower than demand growth and also that it will be delayed in time, which should lead to inflation increase. Furthermore, the discussants argued that the investment connected with the championships will be to a large extent financed with public funds, thus creating the risk of a further deepening of the public finance imbalance.

The Council paid significant attention to the situation in the labour market and its impact on inflation outlook. In the opinion of the majority of Council members, a significant risk factor of inflation growth is the currently observed acceleration in wage growth in the corporate sector. They emphasised that the following factors will contribute to wage growth acceleration: significant decline in unemployment, structural mismatch in the labour market and the emigration of Polish workers to other EU countries, as well as wage convergence between Poland and EU countries.

They also argued that the currently observed fast economic growth is strengthening employees' expectations for wage growth acceleration.

Some Council members pointed out that it remained uncertain to what extent the recently observed wage growth acceleration in enterprises was the result of permanent tendencies and to what extent it was fuelled by one-off factors and, therefore, should be seen as a temporary development. Thus, they were convinced that a more comprehensive assessment of the scale of wage pressure strengthening will only be possible after more labour market data are released. These Council members assessed that the rise of unit labour costs will still be constrained by a dynamic increase in investment outlays in the enterprise sector, which should be conducive to sustaining high growth of productivity in this sector. It should also be supported by the structure of employment changing towards a greater share of young workers with relatively higher productivity, yet also higher wage expectations, in relation to the persons who retire. Some discussants pointed out that the wage growth will still be curbed by globalisation processes and the ensuing increase in international competition. They argued that the wage growth acceleration does not necessarily have to lead to inflation growth due to the very good financial standing of enterprises which makes it possible for them to partially absorb wage increases without the need to raise their prices. Moreover, some Council members emphasised that the rising growth of wages may be partially related to acceleration in the process of Polish wages converging to those in other EU countries, which should be taken into account in monetary policy.

The members of the Council also discussed the impact of the zloty exchange rate on inflation. In this context, some Council members tended to pay more attention to fundamental factors, including the inflow of foreign direct investments and EU funds, while others put greater emphasis on developments in the international financial markets.

During the meeting, the Council also addressed the April projection of inflation and GDP presented by NBP analysts and based on the ECMOD model. The projection is one of the inputs to the decision-making process on NBP interest rates. The April projection indicates that, assuming constant interest rates, there will be a gradual inflation increase in the monetary policy transmission horizon. According to the central projection path, inflation, after a temporary fall in 2007 Q3, will gradually rise and, in the second half of 2009, it will approach the upper limit for deviations from the inflation target.

The discussion revealed three different assessments of the April projection. Some Council members accepted the inflation outlook outlined in the April projection as probable. Other discussants, however, assessed that inflation may prove higher than that indicated by the projection, due to the projection's possible underestimation of wage and GDP growth. Finally, other members of the Council pointed out that, in line with the April projection based on the ECMOD model and other forecasts prepared at the NBP, in the short term inflation will be running clearly below the inflation target, while in the longer term it will be lower than it is outlined in the projection.

Most Council members were of the opinion that it is necessary to tighten monetary policy, yet there were different views on the right timing of the interest rates increase.

In the opinion of some Council members, the assessment of the balance of risks for future inflation did not provide clear grounds for tightening the monetary policy at the present meeting. They pointed to the uncertainty as to the duration and scale of wage growth acceleration. They also underlined that inflation expectations have remained low, not creating risk for inflation growth. They also indicated that the recently observed acceleration in CPI inflation was primarily the result of supply-side and statistical factors. At the same time, they argued, core inflation has remained low. Additionally, they highlighted that, according to the majority of forecasts, in the short term inflation will be most probably running below the inflation target. Raising the interest rates, they maintained, may boost expectations of their further increases. Moreover, a monetary policy tightening may, in their opinion, lead to lowering economic growth and, thus, the decision

to raise the interest rates should only be taken when more evident risks to achieving the inflation target arise.

The majority of Council members assessed that in order to keep inflation close to the target in the medium term, it is necessary to tighten the monetary policy at the present meeting. These members believed that increasing the interest rates would send a signal that monetary authorities are committed to achieve the inflation target, which would strengthen the credibility of the pursued monetary policy, lead to the stabilisation of inflation expectations and ease the pressure on wage growth. These members also assessed that a slight monetary policy tightening should have only slight, if any, impact on economic growth. They pointed out that postponing the decision to raise the interest rates may contribute to rising macroeconomic imbalances and inflation. In such a situation, the cost of a monetary policy tightening aimed at bringing inflation back to the target would be significantly higher than the cost of preventing inflation growth by a pre-emptive adjustment of monetary policy parameters, especially amid the globalisation-related weakening of a short-term link between output gap and inflation.

At the meeting, a motion to raise the key NBP interest rates by 25 basis points was put forward and passed. The Council raised the interest rates to the following levels: the reference rate 4.25%, the lombard rate 5.75%, the deposit rate 2.75%, the rediscount rate 4.50%.

The Council discussed the appropriate way in which this decision should be communicated to the public.

Minutes of the Monetary Policy Council decision-making meeting held on 30 May 2007

During the meeting, the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, expected economic situation.

The Council addressed the prospects of economic growth and their impact on inflation.

Some Council members emphasised that the structure of the current economic growth is favourable to low inflation. They pointed out that the robust growth in investment and its structure, characterised by a relatively low share of construction projects, will contribute to fast growth in potential output, thus curbing inflationary pressure. Strong growth in potential output will also be facilitated by a large inflow of foreign greenfield investment supporting increase in productivity. Furthermore, some Council members indicated that the April data concerning industrial production and retail sales as well as business indicators in manufacturing, construction and retail sales might suggest a possible minor slowdown in economic growth in 2007 Q2.

Other members of the Council emphasised that GDP is still rising faster than potential output, leading to a widening of the output gap and a rise in inflationary pressure. In their opinion, in the subsequent quarters the high economic growth will be sustained, primarily due to fast increase in domestic demand supported by rapid growth in the wage fund and lending activity. Those members emphasised that investment growth will boost potential output only in the longer term. They assessed that there is a considerable risk that in the medium term the GDP growth exceeding the growth of potential output will lead to a rise in inflation above the inflation target. Moreover, they argued that although the increase in imports and price competitiveness related to globalisation will limit the influence of domestic output gap on inflation, the scale of the impact of those factors might be insufficient to maintain inflation at the target level.

During its meeting, the Council discussed the situation in the labour market. Council members agreed that the developments in the labour market were the main risk factor for inflation increase. However, they differed in their interpretation of the inflowing data and their assessment of the impact of the current situation in the labour market on inflation.

Some Council members assessed that GUS data concerning the growth of wages in the corporate sector in April 2007 and wages in the economy as a whole in 2007 Q1 confirmed that wage growth has been accelerating. They pointed out that dynamic wage growth was observed in all major groups of enterprises. Some members of the Council signalled that strong wage growth in enterprises was accompanied by increasing wage pressure in the public sector, which is reflected in numerous industrial actions. They indicated that the rapid growth of wages was driving a considerable – and significantly higher than suggested by the NBP April projection – increase in unit labour costs in the economy. Moreover, some Council members pointed at a very fast – and higher than suggested by the April projection – decline in the unemployment rate recorded in the BAEL data, which may fuel further wage growth. Council members assessed that rapid wage growth, by raising costs and disposable income, improving consumer sentiment and increasing demand, may contribute to acceleration in price growth.

Other Council members emphasised that April saw a decline in the growth rate of wages in the corporate sector. They pointed out that for a few years the share of labour costs in the costs of large and medium enterprises has been decreasing and that in 2007 Q1 the rapid wage growth was accompanied by considerable improvement in the profitability of enterprises amidst stable inflation. Those members also observed that despite a considerable fall in unemployment, it still remains relatively high, which suggests the presence of significant “free” labour force in the economy. Some members of the Council noted that accelerating wage growth does not necessarily have to lead to a rise in inflation due to increase in competitive pressure driven by globalisation and a very good financial standing of enterprises allowing them to partially absorb wage increases without the need to change their goods and services prices. Furthermore, they pointed out that inflationary pressure might also be constrained by rising efficiency related to high investment growth and enterprises’ restructuring.

Referring to current inflation indicators, some Council members assessed that the April decline in net inflation and in the growth rate of producer prices in industry, which accompanied the decrease in CPI inflation, might signal low inflationary pressure. However, other members of the Council noted that the April decline in net inflation was mainly the result of the statistical base effect. They also emphasised that given the growing importance of global factors in determining domestic inflation developments, an important indicator of domestic inflationary pressure is the growth rate of services prices, which has been gradually rising since mid-2006 and which now significantly exceeds the growth rate of prices of consumer goods and services. Some Council members pointed out that the increase in inflation expectations is a risk factor for inflation. They observed that in April inflation forecasts of bank analysts exceeded the level of the inflation target for the first time for more than two years.

Some discussants emphasised that domestic inflation is to an increasing extent determined by global factors. They pointed out that due to high credibility of monetary policy conducted by major central banks, global inflation can be expected to remain at a low level which would be conducive to the stabilisation of domestic inflation. However, they also indicated that a possible increase in the world food prices resulting from supply factors is a new global risk factor for inflation.

One of the issues discussed at the meeting was the impact of the zloty exchange rate on inflation. In this context, the influence of fundamental factors as well as trends in the international financial markets was considered.

One of the issues addressed at the meeting was the situation in the public finance sector. Some Council members assessed that lower than expected general government deficit will partly offset rising demand in the private sector and mitigate its effect on inflation. Yet, other members of the Council argued that the observed improvement of the situation in public finances is a cyclical phenomenon and as such is not a factor which will limit price growth in the monetary policy transmission horizon.

At its meeting the Council also discussed developments in monetary and credit aggregates. Some Council members assessed that the persistently high growth in lending will support strong increase in private consumption, and consequently, in aggregate demand and inflation. They pointed out that as a result of the pro-cyclical nature of credit growth, in the coming months a further rapid increase in household and corporate indebtedness in the banking sector can be expected. Those members also indicated that for a few months the share of consumer loans in the credit structure has been rising and that those loans might be directly translated into growing demand and inflationary pressure. Other members of the Council assessed that apart from a slight, in their opinion, change in the lending structure, the monetary and credit developments are a continuation of the hitherto observed trends and should not constitute a risk for inflation growth.

During the meeting the Council also discussed the levels of real interest rates and their impact on inflation. Some Council members noted that the economic recovery observed in Poland started and has been reinforced in a situation when real interest rates were markedly higher than today. They therefore assessed that the current level of interest rates probably does not prevent widening of the output gap and rise in inflationary pressure. Moreover, those members pointed out that amidst the globalisation-related weakening of a short-term link between economic activity and inflation, the cost of a monetary policy tightening aimed at bringing inflation back to the target would be considerably higher than the cost of preventing inflation growth. However, other members of the Council pointed out that the level of real interest rates is still relatively high, especially when compared to other countries in the region. In this context, Council members exchanged their opinions concerning the future path of the NBP interest rates.

At the meeting a motion to raise the key NBP interest rates by 25 basis points was put forward and rejected. The Council kept the interest rates unchanged: the reference rate at 4.25%, the lombard rate at 5.75%, the deposit rate at 2.75% and the rediscount rate at 4.50%.

Minutes of the Monetary Policy Council decision-making meeting held on 27 June 2007

During its meeting, the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, expected economic situation.

The main issue discussed at the meeting was the prospects of economic growth and their impact on inflation.

Some Council members pointed out that the rate of GDP growth in Poland still exceeds the growth rate of potential output, leading to a widening of the output gap and a build-up in inflationary pressure. They assessed that in the nearest future the high rate of domestic demand growth will be sustained. Strong growth in demand will be supported by a considerable rise in nominal wages and employment, the inflow of transfers of earnings by people working abroad, strong lending growth, including accelerating rise in consumer loans, and an increase in disposable income of households due to a cut in disability pension contributions. Those members assessed that in the conditions of the currently high production capacity utilisation, the dynamic growth of domestic demand creates a significant risk of inflation growing above the inflation target in the medium term.

Other Council members emphasised that the structure of the current economic growth is still advantageous, with a growing share of investment, including greenfield foreign direct investments, which raises the economy's innovativeness. This should lead to an increase in labour productivity and production potential of the economy and therefore constrain the inflationary pressure related to swift economic growth. These members also pointed out that the growth in disposable income of households does not necessarily have to lead to consumption growth, if it will be accompanied by a rise in this sector's savings. They also assessed that a part of domestic demand growth will be absorbed by growing imports, which should limit the pressure for price growth. Moreover, those members pointed out that a drop in industrial production, construction and assembly production and retail sales, which was recorded in May, is a sign of a lower GDP growth in 2007 Q2. Some members of the Council also assessed that in the case of the expected lower rate of economic growth and a strong surge in potential output, GDP growth should not outpace the growth of potential output in the nearest future.

During its meeting the Council also discussed the labour market situation.

Some Council members pointed to a continually high rate of wage growth and to a very fast drop in unemployment, facilitating a further strong rise in wages. They indicated that strong wage growth in enterprises is accompanied by increasing wage pressure in the public sector, which is reflected in industrial actions. Those members pointed out that, despite the uncertainty concerning the unit labour costs, all available estimates of these costs obtained with the use of various calculation methods, indicate a worsening relationship between wage and labour productivity growth, which could lead to inflation increase. Those members pointed out that acceleration in price growth should also be fuelled by the rise in households' disposable income resulting from the increase in wages, which should support the growth of consumption demand. They argued that, in the coming period, the rise in households' income related to an increase in aggregate wages will be strengthened by the cut in disability pension contributions, which will additionally contribute to net wage growth, fostering a relatively higher growth in consumption.

In the course of the discussion, it was pointed out that, by leading to net wage growth, the reduction of disability pension contributions should limit the pressure for further gross wage and labour cost increases in the longer term. Some Council members pointed out that, despite a considerable decrease, the unemployment rate in Poland is still high, which should also contain wage growth. Moreover, they assessed that the growth in unit labour costs should be constrained by the continuation of high productivity growth related to increased investment outlays, enterprises' restructuring and improving quality of the labour force. According to those Council members, at the moment it is difficult to assess whether the May slowdown in labour productivity growth in industry will prove permanent. Moreover, those members emphasised that a rise in unit labour costs does not have to lead to inflation growth, as the increase in competition connected, among other things, with the globalisation processes reduces enterprises' pricing power and, thus, their ability to pass the rising costs onto customers. They also pointed out that the observed high wage growth creates incentives to work for inactive people, which may contribute to an increase in labour supply and potential output. Those members also indicated that growing labour costs, amid the persistently high demand, might encourage enterprises to undertake investments aimed at replacing labour-intensive technologies with capital-intensive ones. They assessed that owing to, among others, a very good financial situation, enterprises have a considerable ability to undertake this kind of restructuring measures.

The discussion also concerned the public finance situation.

Some Council members indicated that one of important risk factors for inflation growth is a pro-cyclical fiscal policy, which is reflected, among others, in the reduction in the disability pension contribution. They assessed that the rise of wage pressure in the public sector poses risk to sustaining the budget anchor. Those members emphasised that an overly expansive fiscal policy in the conditions of increasing inflationary pressure could lead to a policy-mix which is unfavourable from the point of view of long-term economic growth. Other Council members pointed out that

the situation of the state budget is very favourable at the moment and that future fiscal policy is subject to considerable uncertainty related, among others, to the Government's response to increased wage pressure in the public sector. They pointed out that, despite a significant risk of a fiscal policy loosening, at present it is difficult to assess the impact of this policy on inflation in the medium term.

Referring to current inflation indicators, some Council members indicated that, despite the rapid economic growth, core inflation has remained low for a long time, which might be an indication of a low inflationary pressure. It was also pointed out that in the next few months inflation will most probably decrease. Other Council members, however, emphasised that there is a lag between a rise in economic activity and inflation growth. Furthermore, they pointed out that keeping CPI inflation at the inflation target might require core inflation to run at a lower level.

Another issue discussed at the meeting were monetary developments. Some Council members pointed out that a very fast credit growth may contribute to further growth in domestic demand and accumulation of inflationary pressure, among others, in the asset market. Other members of the Council assessed that the relation of credit to GDP is still low in Poland and that the observed rapid growth in lending is to a large extent the result of the process of Poland's catching up with countries at a higher level of development.

One of the topics addressed at the meeting was the impact of zloty exchange rate on inflation. In this context, the influence of fundamental factors as well as trends in the international financial markets was considered, including, among others, interest rate disparity, current account balance, outlook for economic growth, inflow of foreign direct investment, EU funds and transfers of earnings made by economic migrants as well as global liquidity and investment strategies of world financial market participants. In this context, some Council members indicated that raising NBP interest rates could give rise to appreciation pressure, which, in turn, might contribute to weakening exports and deepening the foreign trade deficit. Other members disagreed with this opinion and pointed to a low interest rates disparity in relation to the ECB rate. To substantiate this claim, they indicated that the April hike did not bring about appreciation pressure.

Some discussants pointed out that one of the factors that should favour inflation stabilisation in Poland is a bright outlook for global inflation resulting from a credible monetary policy pursued by the largest central banks. At the same time, they quoted the rise of commodity and food prices in the world markets, related to the impact of structural factors, as a risk factor for the growth of global inflation.

In the assessment of some Council members, the current interest rate of the NBP has probably been below the natural rate and thus it has not prevented the build-up of inflationary pressure. They pointed out that many central banks are raising their interest rates at the moment. Other members of the Council, however, argued that the estimates of the natural interest rates are subject to a considerable uncertainty.

Among Council members the opinion prevailed that, due to the accumulation of factors leading to inflationary pressure building up in the economy, sustaining inflation at a level consistent with the target in the medium term requires a monetary policy tightening in the nearest future. The members of the Council, however, differed in their views concerning the optimal moment for the interest rate rise. In the opinion of some Council members, the assessment of the balance of risks for future inflation did not provide clear grounds for tightening the monetary policy at the current meeting. They argued that the NBP inflation projection to be published in July 2007 could be a useful tool in assessing the inflation outlook in the monetary policy transmission horizon. It was also pointed out that an NBP interest rate hike that would come earlier than expected by the market could give rise to expectations for faster and higher interest rate rises, which could result in a stronger decrease in the rate of economic growth than necessary for stabilising inflation at the target level in the medium term. Other Council members, however, assessed that the potential costs of delaying the interest rate rise outweighed possible benefits

related to postponing the decision to change monetary policy parameters. In particular, it was emphasised that in the conditions of a globalisation-related weakening of the short-term relation between domestic economic activity and domestic inflation and amid the adaptive nature of inflation expectations in Poland, the cost of a monetary policy tightening which would ensure the return of inflation to the target would be considerably higher than the cost of preventing inflation growth. Moreover, some Council members assessed that a monetary policy tightening in the face of alarming signals from the public finance sector would strengthen the credibility of the pursued monetary policy.

During the meeting, a motion to raise the key NBP interest rates by 25 basis points was put forward and passed. The Council raised the interest rates to the following levels: the reference rate to 4.50%, the lombard rate to 6.00%, the deposit rate to 3.00% and the rediscount rate to 4.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 25 July 2007

During its meeting, the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The main topics discussed at the meeting were: labour market situation, the outlook for inflation outlined in the inflation projection and the zloty exchange rate developments.

Some Council members pointed out that 2007 Q2 brought acceleration in the pace of wage growth in enterprises, which remained higher than labour productivity growth leading to growth in unit labour costs in this sector. Those members also emphasised that the share of labour costs in the costs of enterprises had been falling for a few years and that now this tendency might have reversed. In their opinion, if the rise in unit labour costs is not accompanied by a rise in the prices of products manufactured by enterprises, their financial results will worsen, which would weaken their propensity to invest to a larger extent than it would be the case if the weakening was the result of increased cost of credit in connection to interest rate increases. If, on the other hand, the rise in labour costs is passed through to prices, this will lead to higher inflation. A high wage growth in enterprises can also lead to accelerated wage growth in the public sector, where only slight productivity growth was observed, which would be conducive to increased inflation.

Other Council members argued that it was not only the growth rate of unit labour costs that should be considered but also their level. In their opinion, the level of unit labour costs in Poland was currently relatively low, which resulted in very good financial results of enterprises allowing them to absorb growing labour costs without the need to raise their prices. Those members also pointed out that the findings of corporate survey did not reveal strong build-up in wage pressure in the nearest future and that, according to these survey, only a very small share of enterprises signalled a rise in the prices of their products in response to the growing wages. The same members also emphasised that the decisions taken by the Government increasing the accessibility to the Polish labour market for workers from countries to the east of Poland, together with the increased geographical mobility of Poles, should be conducive to curbing the wage pressure in the economy.

Some Council members indicated that the currently observed strongly growing demand in the product market, amid a limited growth in domestic supply, will lead to increased inflation. In the assessment of those members, a strong demand pressure was, among others, reflected in the continuously high growth of retail sales.

Other members, however, pointed out that the observed economic growth was currently slowing down, which should ease the demand pressure in the economy. Moreover, those members emphasised that a significant contribution to GDP growth was made by investments, which increased the capital stock and thus contributed to the rise in the potential output and labour productivity. The potential output was also positively affected by a considerable inflow of foreign direct investment. They pointed out too that the observed wage build-up and the reduction in the disability pension contribution may be conducive to an increased supply of labour. Overall, the rise in the capital stock and labour supply should, in the opinion of these members, increase the potential output and thus curb the inflationary pressure. They also argued that the rapid growth in domestic demand would be partially absorbed by growth in imports, which should contain the pressure for price growth. Moreover, the same members pointed out that a fast growth in retail sales mainly applies to durable goods treated as quasi-investments (cars, furniture, radio and television equipment and household appliances), the prices of which do not rise.

Another topic raised at the meeting was the outlook for inflation outlined in inflation projection based on the ECMOD model and the results of other forecasts conducted at the NBP. Some Council members emphasised that the inflation forecasts used at the NBP pointed to a higher inflation path than it had been forecasted a quarter before. According to the central projection based on the ECMOD model, in 2009 CPI inflation would approach the upper limit for deviations from the inflation target (3.5%), while core net inflation would actually reach this level. In the assessment of those members, should there additionally occur a negative shock in the food or fuel market, CPI inflation would rise in 2009 markedly above the upper limit for deviations from the inflation target. Moreover, the discussants pointed out that, in the projection horizon, the estimated probability of inflation breaching the upper limit for deviations from the inflation target was on the rise. At the same time, they believed that the anti-inflationary impact of the already implemented and scheduled reduction of the disability pension contribution would not be as large as accounted for in the projection.

Other members argued that, in line with the central projection based on the ECMOD model, inflation remained within the band for deviations from the inflation target throughout the projection horizon. They also pointed out that the results of other forecasts conducted at the NBP pointed to a lower inflation path than the ECMOD-based projection, while one of the forecasts actually pointed to inflation decline at the end of the forecast horizon.

Council members discussed the level of interest rates and the impact of monetary policy tightening on economic growth. Some Council members concluded that increasing the interest rates in Poland to the level markedly higher than euro area level was warranted by a higher level of the neutral interest rate in Poland than in the euro area, which was due to the difference in potential output growth. Those members also claimed that interest rate increase in Poland should not be limiting the investment growth, as currently investments depended more on the optimistic expectations of entrepreneurs on the sustaining of the strong economic growth than on the level of interest rates. They also argued that a high level of stock exchange indices in Poland reduced the cost of investment in relation to the market value of enterprises, which favoured enterprises' decisions to invest. According to those members, a slight increase in interest rate should not dampen economic growth. In their opinion, this view is confirmed, among others, by the fact that, despite a rise in the key NBP interest rates in April 2007, the growth of corporate credit continued to step up in June 2007.

The members of the Council paid a lot of attention to the zloty exchange rate. In this context, attention was drawn both to the impact of fundamental factors and developments in international financial markets, such as the interest rate disparity, developments of the current account balance, changes in net foreign assets of the banking sector, purchases of investment funds abroad, inflow of foreign direct investment, EU funds and transfers from Poles working abroad. Some Council members pointed out that raising NBP interest rates would lead to appreciation pressure. Other members, however, did not share this opinion. Council members could not agree as to the impact of the April and June interest rate increases on the exchange rate of the zloty.

The members of the Council also discussed the outlook for inflation in the context of developments of the real effective exchange rate of the zloty and its impact on the competitiveness of the Polish economy. Some members quoted the examples of some EU countries which experienced wage growths exceeding the growth of labour productivity amid a stable nominal exchange rate, which led to a strong appreciation of the real effective exchange rate of their currencies and the loss of competitiveness of these countries. In the opinion of those Council members, if wage growth was allowed to outpace the growth of productivity, the competitiveness of Polish economy might suffer as a result. In consequence, the rate of economic growth would fall, diminishing the investment attractiveness of the Polish economy and leading to a decrease in the inflow of foreign direct investment.

Council members emphasised the favourable performance of the central government budget in 2007 Q2. Some Council members also pointed out that the reduction in the disability pension contribution would mean transferring some funds from the public to the private sector, the latter having higher propensity to save than the former, which should be conducive to reducing demand and, consequently, to curbing the inflationary pressure. Council members also pointed out that inflation was still offset by the drop in the prices of goods from low costs countries. The Council also discussed the outlook for food and energy prices. Council members emphasised that the inflation expectations of households declined for another consecutive month.

Some members were convinced that both the outlook for inflation outlined in the inflation projection and the macroeconomic data indicated that the probability of inflation running above target was still significantly higher than the probability of its running below target, which – in their opinion – warranted the interest rate increase. Additionally, the same members suggested that it was probable that Poland would join the ERM II in 2010. If inflation overshoot the inflation target at that point, this could hinder the stabilisation of the exchange rate within the ERM II.

The Council also discussed the right time for a possible further tightening of monetary policy. Some Council members were of the opinion that the decision to raise interest rate should be taken at the July meeting, as this would follow from the results of the inflation projection based on the ECMOD model published in July. It was also suggested that a better assessment of the risk of inflation overshooting the inflation target in the monetary policy transmission horizon would require macroeconomic data that were to be released before the next meeting. Thus, it was suggested to suspend the decision to raise the interest rates.

Considering the results of the other forecasts conducted at the NBP, which did not point to a risk of inflation overshooting the inflation target, other Council members came to the conclusion that there were no grounds for a further monetary policy tightening. They also pointed out that it was not yet clear when Poland would join the ERM II and so the considerations connected with ERM II membership should not be taken into account in current interest rate decisions. Additionally, they emphasised that a monetary policy tightening may lead to zloty appreciation, increase expectations for further interest rate increases and, consequently, dampen economic growth.

At the meeting a motion to raise the key NBP interest rates by 25 basis points was put forward. The motion did not pass. The Council kept the interest rates unchanged: the reference rate at 4.50%, the lombard rate at 6.00%, the deposit rate at 3.00% and the rediscount rate at 4.75%.

Minutes of the Monetary Policy Council decision-making meeting held on 29 August 2007

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The main topics raised at the meeting were the turbulences in international financial markets and their impact on the outlook for economic growth, the labour market situation in Poland and the public finance situation. The Council discussed the influence of these factors on the future inflation in Poland.

Some Council members pointed out that both the current and forecast inflation were close to the inflation target, while core net inflation had remained for a longer period close to the lower limit for deviations from the inflation target. Such developments of core inflation warranted caution in monetary policy and abstaining from a decision to change the interest rates. Other members emphasised that the year-on-year drop in core inflation in July was connected with a significant increase in telecommunication services prices one year before. Apart from that, they argued that the rising growth of prices of services was an indication of an intensifying Balassa-Samuelson effect. They also pointed out that oil prices in the world markets remained above the levels assumed in the July projection.

The members of the Council discussed the turmoil in international financial market observed in August 2007 and its impact on the outlook for global and Polish economies. Some members pointed out that the turbulences in financial markets resulted in lowering forecasts of economic growth in the United States and Europe. Though, at the moment, it is difficult to assess the scale of impact those problems will have on the US economy, it can be expected that the forecasts of economic growth in the external environment of the Polish economy will be further decreased. It was argued that if economic growth in the United States and Europe fell short of previous expectations, then smaller exports of Poland should be expected, resulting in lower economic growth and lower inflationary pressure. In view of the above factors, it was recommended to remain cautious, abstain from the decision to change interest rates at the August meeting and adopt a "wait and see" approach, following the example of some other central banks. It was pointed out that delaying the decision to raise the interest rate would not have any significant impact on monetary policy effect on inflation.

On the other hand, other Council members emphasised that the financial disturbances have a strong influence on the global economy when they are accompanied by a significant and long-lasting decline of stock prices. Such a situation occurred in 2000, when stock exchange indices slumped, among others, due to decreased confidence in the reliability of companies' financial reporting. In the opinion of those members, the turbulences observed in August were similar to those which occurred back in 1998, when they were rooted in the financial markets themselves. Those upheavals had not had any significant impact on the situation of the enterprise sector nor had they dampened significantly economic growth in the United States. Moreover, the August turmoil in the global financial market did not affect the financial market in Poland. It was emphasised that some central banks decided to raise their interest rates in the face of financial market turmoil. In the opinion of these members, a halt in monetary policy tightening in Poland, due to disruptions in international financial markets, might suggest that the National Bank of Poland would in future ease monetary policy in the event of problems resulting from financial institutions incurring excessive risk, which could increase moral hazard. It was also argued that currently the economic growth in Poland is primarily driven by domestic demand and thus the impact of economic growth in the external environment of the Polish economy on GDP growth is currently lower than it used to be.

While addressing the developments in the labour market, some Council members pointed out that in 2007 Q2 the growth of unit labour costs in the economy was significantly higher than forecast in the July projection. Those members pointed also out that a rapid growth of wages in

the enterprise sector had been sustained in 2007 July, which signalled that wage growth in the economy would remain high in 2007 Q3. Those members also argued that the acceleration in wage growth was spreading to a growing number of industries and sectors of the economy. It was emphasised that the higher than previously expected increase in the minimum wage which was announced by the government would be a factor conducive to higher wage growth. It was also pointed out that the high wage growth would be supported by the fast and higher than forecast drop in the unemployment rate, which fell – in the assessment of those members – below the NAWRU. Those members believed that the persistence of the excessively rapid wage growth in the economy would after a lag lead to higher inflation. As a result, this may diminish the competitiveness of Polish exports and, consequently, dampen economic growth in the longer period. This would also be conducive to rising imbalance in the balance of payments, which would raise the macroeconomic risk of Poland.

Other members of the Council pointed out that, despite the rapid growth of wages in enterprises, July brought a significant drop in the growth of unit labour costs in industry and so the deterioration in the relation between wages and productivity was not perpetuated in this sector. Moreover, the same members emphasised that over the past few years wage growth in industry had been lower than productivity growth. These tendencies had to be reversed at some point and thus at the moment wage growth outpaced productivity growth. It was argued that the wage growth outpacing productivity growth would be limited in time, as at some point it is bound to negatively affect the financial results of companies. It was emphasised that in the first half of 2007 enterprises reported record high financial results, with the contribution of wage costs in total costs remaining stable and low, which indicated that enterprises did not have to increase their prices in response to wage growth acceleration. The same members also emphasised that in 2006 and at the beginning of 2007 the growth of unit labour costs in the economy outpaced inflation, yet inflation increased only moderately. Additionally, those members pointed out that in comparison to the similarly developed neighbouring countries the accumulated wage increase in manufacturing since 2002 had been significantly lower in Poland and the corresponding productivity growth considerably higher than in those countries. It was argued that the productivity growth in Poland will be fuelled by the dynamically rising investment. It was also pointed out that, in line with the NBP's analyses, the growth of unit labour cost in the economy as calculated on the basis of LFS (BAEL) data may in fact be overestimated due to the problems with the BAEL accounting for the effects of increased foreign migration of Polish workers.

During the discussion on economic growth in Poland, some Council members pointed out that the GDP growth in Poland was slowing down, which was confirmed by macroeconomic data and business survey results. They also emphasised that the high growth in investments and restructuring taking place in enterprises were contributing to the growth of potential GDP, which would be easing inflationary pressure. They also argued that, in line with the July projection, at the beginning of 2009 the growth of potential GDP may outpace the growth of actual GDP, which would weaken the inflationary impact of strong economic growth.

Other members pointed out that domestic demand was growing faster than GDP leading to a widening current account deficit. They believed that this deficit remained moderate for the time being, but its increase will make it an important factor affecting the inflation outlook. It was argued that the statistical data for July 2007 indicated that the strong growth of domestic demand and growing current account deficit would most probably continue in Q3. In the assessment of those members, a factor supporting the continuation of a rapid growth in consumption demand was – apart from the dynamically rising aggregate wages – a rapid build-up in consumer credit, which kept on stepping up despite two interest rate increases.

The members of the Council also discussed the developments of food prices. It was pointed out that, despite good crop harvest in Poland, there was an increase in the prices of cereals, which have a considerable impact on the overall food prices. It was also stressed that there was an unexpected rise in the prices of other food products and a heightened risk of faster food price growth in the world markets.

The members of the Council also devoted a lot of attention to public finance situation. It was pointed out that the current standing of this sector was favourable. Still, it was underlined that the announced changes in the way of indexing old-age and disability pensions additionally linking the indexation to wage growth would result in increased public expenditure and higher consumption demand. It was also argued that the prolongation of old regulations on early retirement may be still conducive to deactivating some part of the labour force and, thus, negatively affect the potential output and step up the wage growth at the same time. Moreover, in the opinion of some Council members also the reduction in the disability pension contribution under no reduction of public spending would raise the aggregate demand. It was assessed that the announced changes in the public finance – if implemented – would be leading to a rise in the deficit of the public finance sector and an increase in domestic demand and inflation.

The members of the Council also discussed the exchange rate developments of the zloty. In this context, both the impact of fundamental factors was emphasised and also of the tendencies in international financial markets, including the current account balance, portfolio capital and direct investment flows, as well as increased uncertainty connected with probable parliamentary elections in Poland.

In the Council's assessment, in the conditions of increased uncertainty associated with the turmoil in international financial markets, the balance of risks for future inflation pointed to the necessity of a monetary policy tightening. This was supported by the assessment of inflation outlook carried out on the basis of macroeconomic data and the July inflation projection. Another important argument for raising the interest rates were the recent decisions leading to a decrease in revenues and an increase in expenditures of the public finance sector, which may lead to a deterioration of the public finance balance and create additional inflationary pressure in the medium term.

A motion to raise the key NBP interest rates by 25 percentage points was put forward at the meeting. The motion passed. The Council raised the interest rates to the following levels: the reference rate to 4.75%, the lombard rate to 6.25%, the deposit rate to 3.25% and the rediscount rate to 5.00%.

Minutes of the Monetary Policy Council decision-making meeting held on 26 September 2007

During the meeting the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on: the impact of the turmoil in the international financial markets on the outlook for economic growth, labour market situation in Poland, external imbalance and public finance situation. The Council discussed the influence of these factors on the future inflation in Poland.

The members of the Council devoted a lot of attention to the situation in international financial markets and discussed the impact of increased uncertainty on the outlook of economic growth in the global and Polish economies. Some discussants pointed out that the Polish financial sector is safe from turmoil similar to that which occurred in the United States and Western Europe in August and September 2007. They argued that in Poland, in contrast to the United States, mortgage loans are only granted by institutions remaining under the banking supervision and that the domestic market does not offer as complex financial instruments as those available in the markets which experienced the turbulences.

Other discussants pointed out that the turmoil in international financial markets did spread beyond the US subprime loan market, which can be evidenced by problems in the German and British financial markets. They also pointed out that if the problems in the US housing market exacerbate, this situation combined with the appreciation of the euro may dampen euro area growth. They also assessed that the heightened uncertainty may persist for the next few months, as the necessary adjustment in the structure of assets and liabilities of international financial institutions would proceed gradually. It was also emphasised that in the face of turmoil some central banks decided to ease or restrain further monetary policy tightening and adopt a wait-and-see strategy observing the developments in the financial markets and in the real economy.

While discussing the outlook for economic growth, it was underlined that due to the financial market turbulences the forecasts of economic growth were lowered for the United States, while in Europe there was a decline in business confidence indicators. It was argued that if the economic growth in the external environment of the Polish economy fell short of previous expectations, then lower growth of Polish exports should be expected and, consequently, also lower economic growth and lower inflationary pressure. It was also pointed out that GDP growth was approaching the growth of potential output, while the structure of economic growth was still very favourable from the point of view of the inflation outlook due to the increased investment of enterprises.

Other Council members pointed out that deceleration of economic activity in Europe would not have to translate into lowering of the Polish exports growth, since in the past, in a period of low economic growth, the Western European countries – especially Germany, which absorbed a major part of Polish exports – had increased demand for relatively cheap products from Poland. In the assessment of those members, the current data indicated that the Polish economy remained in the period of strong growth and that the output gap was positive, which was conducive to raising the inflationary pressure.

While discussing the stability of the financial sector, some discussants emphasised that the funding of the Polish economy was based to a larger extent on the banking market than on the capital market and that the property structure of banks was dominated by foreign capital. It was pointed out that it could not be ruled out that potential problems of international financial institutions with capital links to Polish banks might affect the condition of the Polish financial sector. In this context, the issue of separating the banking supervision from the central bank was raised, which in case of turmoil in the financial market may impede the coordination of the measures taken by the central bank and the banking supervision.

Moreover, some discussants pointed to a high growth in loans to households and to the increased share of consumption loans in total households' loans. In the assessment of those discussants, the rapid credit expansion combined with the liberalisation of loan granting criteria may be conducive to deterioration of the credit portfolio of banks, which may prove – along with risks originating in international financial markets – an additional threat to the stability of the Polish financial system. Furthermore, the high growth of loans indicated that the growth of domestic demand may be faster than the growth of potential GDP, which could increase the inflationary pressure. In the opinion of those discussants, the pursued monetary policy should counteract the excessive lending growth. Other members of the Council argued, however, that high growth of loans did not have to mean a deterioration of the quality of banks' credit portfolios, as it resulted from the improved creditworthiness of households related to their increased disposable income, higher employment and lower unemployment rate.

During the meeting it was pointed out that the year-on-year inflation in August clearly undershot the target. Some members emphasised that the inflation decrease in August was deeper than it had been forecasted. Other members pointed out the decrease in inflation was connected with the reduction of prices of internet services that month and that the effects of this reduction would fade out at the beginning of 2008. The rising growth of food prices was also emphasised. Another point under discussion was the possible impact of the annual adjustment of the CPI basket on inflation, which is scheduled for early 2008.

While discussing the situation in the labour market it was pointed out that the relation between the growth of wages and the growth of labour productivity was worsening. Some Council members pointed out that the rise in unit labour costs, and thus also in the costs of enterprises, might lead to worsening their profitability and a decline in the international competitiveness of the economy. Those members claimed that wage growth in Poland was very high in comparison to the majority of Central and Eastern European countries. In the opinion of those Council members, in the nearest future a deceleration of the wage growth should not be expected, as despite a relatively high unemployment rate in Poland, enterprises experienced increasing difficulties in finding new employees. Those members assessed that labour market data signalled building-up inflationary pressure in the Polish economy. They also argued that even in case of deceleration of the economic growth, the wage growth in Poland may remain at a high level contributing to the rise in inflation.

Other Council members were of the opinion that wage growth exceeding growth of labour productivity should not prove permanent, as at some point it is bound to negatively affect the financial results of companies. It was emphasised that the share of wage costs in total costs remained at a low and stable level, which meant that enterprises would not have to increase their prices in response to wage growth acceleration. It was pointed out that enterprises had been undergoing intensive restructuring over the past few years, which had contributed to the observed improvement in the financial results and financial liquidity of this sector. Moreover, it was also pointed out that the accumulated wage growth in Poland over the past few years was markedly lower compared to the neighbouring countries at a similar level of development. It was also emphasised that the fast growth in unit labour costs in the economy had not as yet led to a significant inflation increase. It was claimed that this situation resulted from good financial results of enterprises, which allowed them to absorb the rising wage costs, fierce price competition related to the globalisation and increased flexibility of supply stemming from lower costs of increasing production capacities. It was pointed out that the inflationary pressure was also curbed by increased domestic savings (as evidenced by the inflow of assets to investment funds), higher imports contributing to the rise of the current account deficit and zloty appreciation.

The members of the Council also discussed Poland's balance of payments. It was emphasised that the *Forecast of the Balance of Payments of the Republic of Poland for the year 2008*, which was adopted during the meeting, pointed to a building-up of the external imbalance of Poland. It was highlighted that though a moderate current account deficit was typical of the economies in the period of real convergence, it was a cause for concern that the forecasted ratio of this deficit to GDP was rising fast. It was pointed out that if the relation between wage growth and productivity growth continued to deteriorate, the international competitiveness of the Polish economy would worsen, which would be conducive to raising the external imbalance. Other Council members assessed that in the nearest future a build-up in the current account deficit should not be significantly increasing the macroeconomic risk of the Polish economy, as in the globalised economy it was possible to finance larger current account deficits than in the past. Moreover, Poland's membership in the European Union contributed to a significant reduction of the country's macroeconomic risk.

The Council also discussed the situation of public finance. Some Council members pointed out that despite the early parliamentary elections and the ensuing increase in some of the state budget expenditures in 2008, the so-called budget anchor had been preserved. Other members, however, assessed that the spending of the public finance sector as a whole had increased

significantly in 2007 and their structure had become more rigid. It was also argued that the recently introduced changes to the public finance would be deteriorating this sector's situation not only in 2008 but primarily in the following years. Additionally, it was emphasised that the public finance situation could worsen significantly in the event of economic slowdown.

The members of the Council agreed that it was difficult at the moment to assess the duration of the increased uncertainty in the international financial markets or its impact on the global and, consequently, Polish real economy. They also concluded that the data to be published in the nearest future, both those concerning the domestic economy and those coming from the international markets should be very carefully analysed. In the Council's assessment, in the medium term the probability of inflation running above the inflation target had decreased to a certain degree due to the previously implemented monetary policy tightening and thus it was not necessary to change the interest rates at that meeting.

The Council kept the interest rates unchanged: the reference rate at 4.75%, the lombard rate at 6.25%, the deposit rate at 3.25% and the rediscount rate at 5.00%.

Minutes of the Monetary Policy Council decision-making meeting held on 31 October 2007

During the meeting, the Monetary Policy Council discussed the outlook for inflation in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on: changes in the environment of the Polish economy, exchange rate and food prices developments and the outlook for economic growth. The Council discussed the influence of these factors on the future inflation in Poland in view of the October inflation projection.

While discussing the changes in the environment of the Polish economy, it was pointed out that considerable uncertainty persisted as to the assessment what effects the turmoil in international financial markets would have on the outlook for growth and inflation in the global and Polish economies. It was emphasised that there had been a downward revision of the forecast of economic growth in the United States and, to a lesser degree, in the euro area, and that the sentiment of euro-area consumers and producers was less optimistic. It was pointed out that in the past, in the period of low economic growth, Western European countries had reported increased demand for relatively cheap products from Poland. However, the recently observed appreciation of the zloty might result in a decrease of exports due to the deteriorated competitiveness of Polish products. As a consequence, economic slowdown of Poland's main trade partners would translate into a weakened economic activity in Poland. It was also pointed out that in the face of turmoil in international financial markets some central banks decided to ease or restrain further monetary policy tightening despite mounting inflationary pressure.

Some Council members argued that the impact of the disruptions in the US real estate market on economic growth may prove weaker than expected, due to the continuously stable net value of the assets held by US households. Moreover, the discussants pointed out that the situation in international financial markets had stabilised to some extent. It was emphasised that, despite persistent uncertainty as to the impact of turmoil on global economic growth, some central banks had raised interest rates over the recent period, which was related to rising inflationary pressure observed in those economies. It was also argued that one of the factors that contributed to the recently observed turmoil in international financial markets, was lax monetary policy previously pursued by major central banks.

The members of the Council devoted a lot of attention to the zloty exchange rate. In this context, the influence of fundamental factors as well as tendencies in the international financial markets were considered. Some Council members also pointed to the possible impact of the parliamentary election outcome in Poland on exchange rate developments. It was emphasised that the zloty had appreciated since the previous meeting of the Council. Some Council members argued that the zloty appreciation would limit price growth. Those members pointed out that in Poland, just like in other small open economies, foreign exchange movements are an important factor influencing economic situation and inflation. Other Council members, however, indicated that, at the moment, it was difficult to assess the sustainability of the factors that had been conducive to zloty appreciation.

While commenting on the current inflation, some Council members pointed out that the average 12-month HICP for Poland, which is considered in the assessment of the compliance with the inflation Maastricht criterion, had been steadily rising since the end of 2006. At the same time, it was argued that there was a considerable risk that in the next few quarters Poland might cease to comply with the Maastricht inflation criterion. Other members emphasised that net inflation continued at a low and stable level and that the rise in CPI inflation in September 2007 resulted primarily from a rise in food prices, which was independent from the monetary policy.

At the meeting, the Council also discussed food price developments. Growth of these prices may continue in the longer term as it stems, to a large extent, from structural factors connected with increased demand for food in developing countries. At the same time it was pointed out that in Poland food still accounted for a considerable part of the consumption basket of households. As a result, a significant price increase in this group of products may be conducive to increasing inflation expectations and, consequently, to further build-up of wage pressure. Some Council members, however, claimed that the risk of second-round effects connected with food price growth was not high, as further acceleration of wage growth was rather unlikely considering the appearing symptoms of weakening economic growth.

While discussing the influence of global factors on the inflation outlook, some Council members concluded that inflation was still being curbed by a decline in prices of goods imported from countries of low production costs. However, an ever increasing pressure on growth of prices should be expected due to rising demand of those countries, which is already visible in the food and commodity markets. This means that the impact of globalisation factors on inflation may be reverted. Other members pointed out that in the face of rising demand an increase in food output might occur, which would mitigate the pressure on price growth. The same members indicated that, at the moment, it was difficult to assess the joint effect of globalisation factors on future inflation.

The members of the Council also discussed labour market developments. Some Council members pointed out that the currently observed fast wage growth was connected with permanent factors such as the shortage of qualified workers and the ongoing process of Polish wages converging to the level of more developed EU countries. It was emphasised that the wage pressure may be additionally increased by possible second-round effects connected with the rising food prices. Discussants underlined that wage growth was still being fuelled by increased emigration of Polish workforce to EU countries. In turn, some Council members assessed that, most likely, the main emigration wave had already passed and that enterprises were beginning to adjust to labour market developments. The same members argued that the results of survey studies of enterprises indicated that a relatively small group of enterprises intended to raise wages, while in September 2007 the wage growth in the enterprise sector had recorded some deceleration. It was also emphasised that wage growth exceeding the rise in labour productivity would be limited in time, as the decelerating growth of the output and sales of enterprises would limit the possibility of pay rises. Additionally, it was argued that the growth of unit labour costs in the economy calculated on the basis of BAEL (LFS) data may be overestimated.

While discussing the issue of economic growth in Poland, it was noticed that in October 2007 GUS data on GDP growth in the first half of 2007 had been revised downwards. Moreover, it was emphasised that the macroeconomic data for September 2007 suggested a slowdown in economic growth (there was a decline in the growth of industrial production, retail sales and wages in the enterprise sector and also in money supply and loans to households). Nevertheless, some Council members argued that the latest data did not indicate the substantial economic slowdown which would reduce inflationary pressure, as there had not been any significant change of trends of those macroeconomic variables. Moreover, it was noticed that the lowering of economic growth had been anticipated and was accounted for in the October inflation projection.

The Council also discussed the outlook for inflation as outlined in the inflation projection based on the ECMOD model. Some members of the Council pointed out that, in line with the central projection, in 2009, CPI inflation and core net inflation will breach the upper limit for deviations from the inflation target. They also emphasised that the projection did not fully cover the risk of inflation overshooting the target. It was argued that the forecasted lowering of wage growth was rather unlikely amid continuing surge in demand and decreasing rate of unemployment, which, in their assessments, was running below the NAWRU. At the same time, those members pointed out that, due to the procyclicality of labour productivity, it was hard to expect it to accelerate amid the forecasted lowering of GDP growth. In consequence, they argued, the growth of unit labour costs may prove higher than forecast in the projection. It was also pointed out that the projection forecast a considerable acceleration of potential GDP growth, which was faster than suggested by experiences of other countries. Moreover, it was emphasised that the projection did not fully account for the risk of a permanent rise of food price dynamics and the risk of second-round effects. Other Council members, on the other hand, pointed out that the level of the zloty exchange rate accounted for at the starting point of the projection was weaker than that observed; at the same time a nominal exchange rate depreciation was forecasted in the projection horizon. It was argued that if the exchange rate of the zloty sustained at an unchanged level, inflation might be significantly lower than in the projection.

While addressing the situation of the public finance, some Council members emphasised the fact that the state budget deficit in 2007 should be considerably lower than envisaged and at the same time, its ratio to GDP would decrease in relation to the previous year. It was pointed out that in 2008 the ratio of the deficit to GDP should not increase and might even decrease. Some discussants, however, claimed that 2008 would bring a rise in the structural deficit of the public finance sector, which meant that the fiscal policy would have a procyclical impact on the economy.

As a result of the discussion some members concluded that the assessment of the inflation outlook based on the ECMOD-based October inflation projection and considering factors not accounted for in the projection indicated that the probability of inflation overshooting the target in the projection horizon was significant and warrant raising interest rates at the October meeting. Other Council members, however, were convinced that the recently observed appreciation of the zloty exchange rate limited the rise of inflation and that the inflation outlook would be affected by future developments in the foreign exchange market. They also pointed to the symptoms of an economic weakening.

A motion to raise the key NBP interest rates by 25 percentage points was put forward at the meeting. The motion did not pass. The Council kept the interest rates unchanged: the reference rate at 4.75%, the lombard rate at 6.25%, the deposit rate at 3.25% and the rediscount rate at 5.00%.

Minutes of the Monetary Policy Council decision-making meeting held on 28 November 2007

During the meeting, the Monetary Policy Council discussed the outlook for inflation developments in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on: changes in the environment of the Polish economy, current inflation developments, the outlook for economic growth and the prospects of public finance in 2008 and in subsequent years. The Council discussed the influence of these factors on the future inflation in Poland.

While discussing the changes in the environment of the Polish economy, it was pointed out that there were downward revisions of the forecasts of economic growth in the United States and the European Union and that there was a risk of a deceleration in worldwide economic growth, which may slow the growth of Polish exports and the inflow of direct investments and, consequently, reduce the rate of economic growth in Poland. Nevertheless, it was argued that in the past, in the period of low economic growth, some Western European countries had reported increased demand for relatively cheap products from Poland, which complicated the assessment of the actual impact of the world economic slowdown on Poland's economic growth. Moreover, it was pointed out that the current GDP growth was primarily driven by rising domestic demand (i.e. consumption and investment).

Some Council members emphasised that, in the face of the deteriorating situation in international financial markets and the dampening prospect of economic growth, major central banks were expected to ease their monetary policy. Other Council members pointed out that those central banks which did not raise their interest rates or lowered them despite rising inflation are precisely the banks of the countries directly affected by the financial market turmoil.

In this context, it was pointed out that the low interest rates that had been observed until recently had led to the creation of excessive global liquidity, which was not reflected in the inflation of consumer prices, but caused a significant rise in asset prices instead. For two years now, the prices in the world markets of some assets have been falling, and so it is currently hard to assess the direction in which the liquidity surplus will be moving.

While discussing the economic growth in Poland in the years to come, some Council members emphasised that GDP growth should gradually decrease in the next years, which would be easing the demand pressure. Moreover, a fast growth in investments of enterprises, which is indicated by the data for the first three quarters of 2007, should be favouring the growth in potential output. Both these factors will be conducive to limiting the inflationary pressure. Other members of the Council pointed out that the October data on industrial production and retail sales did not signal a weakening of economic activity in Poland. It was emphasised that the high growth of domestic demand was supported by rapid increase of wages and very good financial results of enterprises. Moreover, those members also believed that even though the GDP growth would probably slow down in the coming years, it would remain at a relatively high level.

While addressing the situation in the labour market, it was pointed out that the high wage growth led to a considerable increase in unit labour costs in the economy. It was argued that the wage growth in the economy in 2007 Q3 was higher than expected in the October projection. The continuation of the high growth of wages is also suggested by record-high data on corporate wages in October and the continuously falling rate of unemployment. Some Council members pointed out that the wage differentials between the private and the public sector may be rising, which would lead to the outflow of skilled public sector workers to private companies and thus increase the wage pressure in the public sector. Some discussants indicated that, due to the high wage growth in 2007 Q3, the rise in remuneration costs outpaced the growth of enterprises' revenues for the first time in a long time, which may be an indication that the falling trend of the relation of labour costs to revenues had been reversed.

In the opinion of other Council members, however, the rise in unit labour costs had not so far translated into rising inflationary pressure due to high profits of enterprises. Moreover, the growth of unit labour costs may be expected to go down in the monetary policy transmission horizon due to the expected acceleration in labour productivity resulting from fast growth in investments. It was also emphasised that a potential deceleration in the global economy, including Western European economies, might lead to lower emigration of Polish workers, which would limit the wage pressure.

While addressing the current inflation, it was pointed out that following a long period of inflation running below the inflation target, in October the annual growth of consumer price exceeded the inflation target of 2.5%. Some Council Members emphasised that the rise in CPI inflation in October was to a large extent the result of a surge in food and fuel prices, while the core inflation net of those prices remained at a relatively low level. The same members pointed out that it was difficult to assess at the moment whether the factors responsible for inflation rise would prove permanent. Other Council members, however, pointed out that all measures of core inflation had risen since the previous month and the increase in core inflation net of food and fuel prices was significant as compared to the changes of this indicator over the past year. They believed this suggested that the inflationary pressure that had been building for some time was beginning to be reflected in the growth of prices.

The Council discussed the usefulness of the indicator of core inflation net of food and fuel prices as a measure for assessing inflationary pressure. Some Council members were of the opinion that in the light of empirical studies for the United States core inflation is a good gauge of the price level trend. Other Council members, however, pointed out that the net core inflation in the United States in the past ten year had been lower on average than CPI inflation and so it failed to fully reflect the movements of consumer prices. It was also emphasised that net core inflation accounted for the supply-side globalisation effects of disinflationary nature (decline in the prices of goods imported from low production costs countries), but only to a limited degree – for the demand-side globalisation effects of inflationary nature (growing prices of energy commodities and food).

While discussing future inflation, some members of the Council pointed out that the price growth in the coming quarters was already determined to some extent. Those members believed that inflation would be temporarily increased, which would primarily be the result – just like in many other countries – of increased food and fuels prices, i.e. factors beyond the control of monetary policy. Other Council members emphasised that the October inflation projection pointed to the continuation of high inflationary pressure throughout the projection horizon, among others due to the growth in domestic demand above GDP growth rate as well as wage growth outpacing the rise in labour productivity.

The discussants pointed out that an increase in inflation, particularly when it is triggered by a surge in food and fuel prices, which significantly affect the perception of inflation by consumers, may lead to increased inflation expectations and thus pump up the pressure for the growth of wages. The risk of second-round effects is higher than in 2004 due to the tight labour market, including a markedly lower unemployment. On the other hand, it was argued that the current risk of second-round effects was significantly lower than at the time of oil shocks in the 1970s.

At the meeting, the Council also discussed the growth of food prices in the world markets, which is currently stepping up inflation both in Poland and in the majority of other countries. Some discussants assessed that the increased growth of food prices may continue in the longer term. At the same time, it was argued that the food price increase would mean changing the relative prices and a rise in the food expenditures of households. As a result, there may be a lowered demand for other goods, which would limit the rise of the overall price level. Other Council members pointed out that the increase in food prices in international markets could be transitory and result from negative supply shocks. In the context of the food price developments, the question was raised of a possible increase of VAT rates on unprocessed food and catering services in 2008 and of its impact on inflation.

The Council devoted a lot of attention to the outlook for the public finance. It was emphasised that due to the low actual state budget deficit till the end of October 2007 and, at the same time, the restated announcement that this year's deficit would be implemented at the expected level, there was a risk of a considerable accumulation of public expenditure in the last two months of 2007, which would be conducive to raising inflationary pressure. Moreover, it was pointed out that, on the one hand, there appeared announcements of tax cuts and, on the other, the wage growth in the budget sector would be most probably higher than accounted for in the draft Budget Act for 2008. It was also emphasised that some acts passed by the previous Parliament before its dissolution could increase the public finance imbalance for many years to come.

While discussing the issues related to the exchange rate, it was pointed out that since September 2007 the zloty had significantly appreciated. On the one hand, appreciation of the zloty limits the impact of high oil prices on inflation in Poland, on the other, however, it dampens the competitiveness of the Polish economy, contributing to rising external imbalance. Still, it was emphasised that the export enterprises to a large extent use imported goods in their production, which limits the negative impact of the appreciation of the zloty on their financial situation. It was also argued that the zloty appreciation was decreasing the zloty-denominated value of EU subsidies to the Polish agriculture and the value of Polish emigrants' remittances, which is conducive to lower domestic demand. Similarly, it was indicated that at the moment it was difficult to assess the sustainability of the factors that had been conducive to the recent zloty appreciation.

In conclusion of the discussion it was agreed that the sustained fast growth of demand, the tight labour market, the significant increase in current inflation and the risk of the related second-round effects, as well as the expected considerable surge in demand of the public finance sector until the end of 2008, all warranted the assessment that the probability of inflation overshooting the inflation target over the monetary policy transmission horizon was significant and this necessitated an interest rate increase at the November meeting.

A motion to raise the key NBP interest rates by 25 basis points was put forward and passed. The Council raised the interest rates to the following levels: the reference rate at 5.00%, the lombard rate at 6.50%, the deposit rate at 3.50% and the rediscount rate at 5.25%.

Minutes of the Monetary Policy Council decision-making meeting held on 19 December 2007

During the meeting, the Monetary Policy Council discussed the outlook for inflation developments in the context of the past, current and, primarily, anticipated economic situation.

The discussion at the meeting focused on: current inflation developments, including food price changes, situation in the labour market, the outlook for economic growth and the level of interest rates in Poland and abroad. The Council discussed the influence of these factors on the future inflation in Poland.

While discussing current inflation, the Council analysed the causes of the annual growth of consumer prices in November running above the NBP inflation target of 2.5% and exceeding the upper limit for deviations from the target set at 3.5%. It was pointed out that CPI growth in November was primarily driven by the accelerated growth of food and fuel prices; while net core inflation recorded just a minor rise and remained at a relatively low level. In the opinion of some Council members, low level of net core inflation indicated low inflationary pressure driven by demand. At the same time, it was emphasised that high growth of food and fuel prices and the ensuing growth in CPI inflation were related to global developments which are beyond the scope of the domestic monetary policy. In turn, some discussants, pointed out at the continuing price increases of some services and at falling disinflationary impact of declining prices of goods imported from low-cost countries.

While addressing food price developments, the Council discussed the sustainability of their increased growth. Some members of the Council believed that high growth of food prices was a temporary phenomenon as it was, to a large extent, driven by supply shocks in the global markets. It was also pointed out that high prices of certain agricultural commodities might be partly related to speculation of financial institutions in the futures markets and that there had already been signals of a decline in the prices of some of commodities. Other discussants assessed that high growth of food prices may be sustained over a longer period, as it is largely determined by the persistently growing world's demand for food, while the supply shortages on the global scale may be more frequent than before, among other things, due to climate changes. The possible impact of abandoning the Russian embargo on Polish food exports on the growth of food prices in Poland was also discussed.

Some discussants assessed that the forecasted rise in net core inflation and the continuing high growth of food and fuel prices might result in CPI inflation remaining above the inflation target at the end of 2008. At the same time they emphasised that, due to the specific nature of shocks leading to price increases, CPI inflation was likely to stay above net core inflation over a longer period. It was also pointed out that considerable uncertainty persisted about the scale of the declared increases in gas and energy prices in 2008. Other members of the Council argued that future inflation might be lower than in the October projection due to higher level of zloty exchange rate than accounted for in the projection.

It was pointed out that even though Poland continued to meet the Maastricht price stability criterion in November 2007 the rise in inflation might pose risk of inflation exceeding the reference value in the coming future.

Some members of the Council indicated that the rise in current CPI inflation was likely to boost inflation expectations. They emphasised that the risk of rising inflation expectations is particularly high when inflation increase is driven by a strong growth in the prices of food, i.e. frequently purchased goods having high share in the CPI basket. It was pointed out that rising inflation expectations might add to wage pressure. Moreover, some discussants argued that the rise in current inflation – unlike in 2004 – took place amidst strong economic growth and tight labour market which increased the likelihood of rising inflation expectations and of the so-called second-round effects. Other Council members, however, believed that the risk of second-round effects was moderate due to institutional changes that had taken place in the labour markets in Poland and in other countries.

While discussing the labour market situation, it was pointed out that wage growth in the economy in 2007 Q3 had exceeded the level accounted for in the October projection, wage growth in the corporate sector in November had been very high and the pressure on significant wage increases in the public sector persisted. It was indicated that wage growth continued to exceed labour productivity growth, which was conducive to growing inflationary pressure. Some discussants argued that high wage growth was likely to be sustained also in the months to come due to labour shortage in the domestic market, and that wages would grow faster than assumed in the October inflation projection. Those discussants assessed this would further boost unit labour costs which would, in turn, lead to worsening the financial results of enterprises and to reducing investment in the economy. In the opinion of those discussants, tensions in the labour market reflected in the plunge of unemployment rate and the rising current inflation resulted in the risk of second-round effects being higher than in 2004. They also argued that the scale of economic migration would not decrease significantly in the years to come due to persisting high differences in income levels between Poland and Western European countries.

Other members of the Council argued that there might arise factors that would be curbing wage and unit labour cost growth. They believed that wage growth in the corporate sector might be restrained by concerns about deteriorating financial results of enterprises. These members pointed out that significant pay rises in the public finance sector were rather unlikely as they had not been provided for in the draft Budget Act for 2008. Attention was drawn to the fact that the

growth of unit labour costs in the economy outside private farming in 2007 Q3 was lower than assumed in the October projection. It was also pointed out that the unemployment rate in Poland continued to exceed levels recorded in other countries and that tensions in the labour market might soon diminish as wage growth in Poland and zloty appreciation should reduce the scale of Polish labour migration.

While discussing the outlook for economic growth in Poland, some members of the Council pointed out that GDP growth in 2007 Q3 had been higher than assumed in the October projection and that economic growth in 2007 Q4 had probably continued at a high level. It was also indicated that a continued growth in demand would be supported by the fast growth in lending. Other members of the Council pointed to the expected decline in world economic growth, which might impede the growth of Polish exports and the inflow of foreign direct investment and, as a result, weaken the economic growth of Poland. Moreover, some members of the Council argued that despite high GDP and wage growth the structure of GDP did not suggest increased demand pressure: growth in total consumption, private consumption and imports in 2007 Q3 were slower than assumed in the projection, whereas exports were rising faster. It was emphasised that stronger than projected investment growth in 2007 Q3 suggested the possibility of faster growth in potential output and weakening inflationary pressure in the medium term.

The Council paid a lot of attention to assessing the monetary policy conditions in Poland. Some members of the Council pointed out that NBP interest rate increases in 2007 combined with the appreciation of zloty exchange rate contributed to maintaining high level of monetary policy restrictiveness. Those members also indicated that the level of the real interest rate in Poland was relatively high as compared to other countries of the region. Other discussants pointed out that the level of the real interest rate had fallen in 2007 as a result of CPI inflation rising stronger than the nominal interest rates. They argued that the differences in the level of real interest rates between countries resulted, among other things, from the differences in the level of their natural interest rate. Those discussants also pointed out that the assessment of changes in the level of monetary policy restrictiveness should take into account the appreciation of the equilibrium exchange rate related to the convergence process. They also indicated that it was difficult to assess the sustainability of factors behind the recent appreciation of the zloty.

Some members of the Council argued that certain central banks had decided to lower their interest rates in the recent period. Other members, however, pointed out that interest rate cuts had taken place mainly in countries directly affected by the financial market turmoil and that some banks had tightened their monetary policy at that time.

The majority of the Council members argued that high level of current inflation and the ensuing risk of rising inflation expectations, as well as tight labour market, constituted a major risk to price stability. Some members of the Council believed that counteracting inflation risk within the monetary policy horizon would require interest rates to be raised at the Council meeting in December. Those members argued that globalisation processes in the past few years had led to weakening the impact of monetary policy on domestic inflation, thus requiring stronger response of central banks to the growing inflationary pressure. They assessed that rises of interest rates should not lead to any significant slowdown of economic growth in Poland, yet it would help to stabilise it at a level consistent with the potential growth.

Other members of the Council pointed out that it was difficult to assess inflationary inertia. They also argued that a monetary policy tightening would increase interest rate disparity between Poland and the euro area and the United States. This could encourage the inflow of short-term capital to Poland and contribute to the appreciation of zloty exchange rate, which would, in turn, weaken the competitiveness of the Polish economy and led to further increase of external imbalance. Moreover, those members pointed out that the pace of monetary policy tightening so far was sufficient from the point of view of stabilising inflation at the target level in the medium term. It was indicated that at its December meeting the Council had at its disposal less information on economic developments



than usual and that a more comprehensive assessment of the risk of inflation remaining at a high level would be possible at the Council's next meeting.

A motion to raise the key NBP interest rates by 25 basis points was put forward. The motion did not pass. The Council kept the interest rates unchanged: the reference rate at 5.00%, the lombard rate at 6.50%, the deposit rate at 3.50% and the rediscount rate at 5.25%.

Appendix 7

Selected information about the banking sector

In 2007, the banking sector continued to be the priority area for the development of the financial sector in Poland. As at the end of 2007, banking sector assets totalled PLN 802,5 billion and were 17.7% higher compared to the previous year. The ratio of assets to GNP rose by around 68%⁹⁵ (from 64% at the end of 2006). Concentration level of the banking sector measured with the share of 5 biggest banks in assets slightly increased (from 46.5% to 47% in 2007)⁹⁶. This resulted from the merger of Bank Pekao SA and Bank BPH SA. Concentration level of the Polish banking sector is still lower than in the majority of EU countries.

Competition level in the Polish banking sector is similar to that in euro area countries where banks also operate under conditions of monopolistic competition.⁹⁷

Table 32

Asset structure of the banking sector

Item	Value (PLN billion)		Dynamics (%)	Structure (%)	
	2006	2007	2006 = 100	2006	2007
Cash and due from central bank	23.0	28.2	122.7	3.4	3.5
Due from financial corporations	134.5	125.0	93.0	19.7	15.6
Due from non-financial customers, including:	314.7	421.9	134.1	46.2	52.6
– net loans to non-financial customers, of which:	304.9	410.2	134.5	44.7	51.1
– to enterprises	129.9	164.4	126.6	19.0	20.4
– to households	174.1	244.2	140.3	25.5	30.5
Due from general government	22.8	21.4	94.1	3.3	2.7
Due from reverse repo transactions	1.8	6.0	336.6	0.3	0.7
Securities, of which:	142.5	135.7	95.2	20.9	16.9
– NBP money bills and bonds	26.4	15.8	59.8	3.9	2.0
– Treasury bills and bonds ¹	97.9	100.6	102.7	14.4	12.5
Fixed assets	20.3	21.9	108.0	3.0	2.7
Other assets	22.3	42.4	189.8	3.3	5.3
Total assets of the banking sector	681.8	802.5	117.7	100.0	100.0

¹ Bonds issued by non-residents are not taken into account.

Source: NBP data.

⁹⁵ Provisional estimates of the GNP for Poland in 2007 published by GUS on 28 February 2008.

⁹⁶ Herfindahl-Hirshman (HHI) index has also increased moderately. It is calculated by squaring the share of each market participant in the sector's net assets and then summing those shares. The values of the index range from 0 to 1. The higher the value of the HHI, the more concentrated the market. In 2006, HHI index for net assets of the Polish banking sector stood at 0.0681, in 2007 it amounted to 0.0725.

⁹⁷ Panzar-Rosse model and H statistics is used to measure competition level. It enables to break down market structure into: monopoly, oligopoly, monopolistic competition and perfect competition. Market power represents the extent to which a change in the price of bank's input ∂w_{ki} is reflected in the change in revenue ∂R_i^* generated by bank.

$H = \sum_{k=1}^m \frac{\partial R_i^*}{\partial w_{ki}} * \frac{w_{ki}}{R_i^*}$. In the conditions of monopolistic competition H-statistics assumes the value between 0 and 1. Zero or negative value of H-statistics points to the existence of monopoly. An increasing value of H-statistics points to a rising level of competition in the banking sector.

Table 33

Liabilities structure of the banking sector

Item	Value (PLN billion)		Dynamics (%)	Structure (%)	
	2006	2007	2006 = 100	2006	2007
Due to central bank	5.0	3.0	61.4	0.7	0.4
Due to financial corporations	119.0	162.6	136.6	17.5	20.3
Due to non-financial customers, including:	383.9	429.1	111.8	56.3	53.5
– deposits of non-financial customers, of which:	375.6	419.4	111.7	55.1	52.3
– from enterprises	125.9	144.9	115.1	18.5	18.1
– from households	238.8	262.4	109.9	35.0	32.7
Due to general government	32.5	44.7	137.7	4.8	5.6
Due to reverse repo transactions	13.8	13.3	96.1	2.0	1.7
Due to issue of own securities	15.9	12.4	77.7	2.3	1.5
Other liabilities	41.5	54.0	130.1	6.1	6.7
Specific provisions for off-balance sheet liabilities	0.4	0.4	105.0	0.1	0.1
General risk provision	0.7	0.7	100.7	0.1	0.1
Capital (funds)	56.3	64.5	114.6	8.3	8.0
Subordinated debt	2.9	5.5	189.7	0.0	0.7
Profit/loss during approval procedures	-0.7	0.0	-2.8	-0.1	0.0
Current year profit/loss	10.6	12.3	116.0	1.6	1.5
Total liabilities of the banking sector	681.8	802.5	117.7	100.0	100.0

Source: NBP data.

Table 34

Relationship with non-residents

Item	Contribution (%)	
	2006	2007
Contribution of operations with non-residents		
– in total assets of the banking sector	13.7	10.7
– in total liabilities of the banking sector	10.6	13.4

Source: NBP data.

Net financial result of the banking sector increased by 16% to PLN 12,3 billion in 2007 as compared to 2006 and was the highest since the beginning of transformation. As in the previous year, it resulted from the fast increase in lending which led to a rise in net interest income. Banks' non-interest income also increased and a particularly high rise was noted in fees related to intermediation in the sale of non-banking financial products.

Table 35

Financial result of the banking sector

Item	Value (PLN billion)		Dynamics (%)
	2006	2007	2006 = 100
Gross financial result	13.0	16.8	129.6
Net financial result	10.6	12.3	116.0

Source: NBP data.

Table 36**Profitability of the banking sector**

Item	Return rate (%)	
	2006	2007
ROA – net	1.7	1.7
ROE – net	21.9	21.5

Source: NBP data.

The increase in loans at a rate exceeding the rise in banks' own funds led to a decrease of banks' solvency ratios. Banking sector capitals continue to be sufficient (in relation to the loan portfolio) but to maintain the growth rate of lending in the medium term it will be necessary for banks to increase capitals, the source of which may be good financial performance.

Table 37**Own funds and solvency ratio of the domestic banking sector**

Item	2006	2007	Annual change (pp)	Dynamics (% , 2006 = 100)
Solvency ratio (%)	13.2	12.4	-0.8	n/a
Regulatory own funds (PLN billion)	51.6	63.4	n/a	122.9

Source: NBP data.

Appendix 8

List of open-to-public academic seminars held in 2007

In 2007, 12 open-to-public academic seminars were held. The seminars included the presentation of the works of the NBP employees, representatives of financial institutions and higher education institutions. The seminars covered the following topics:

- Nominal and real divergences in a monetary union – an approach beyond the theory of the optimum currency areas.
- Understanding international prices: customers as capitals
- Behavioural inclinations to take investment decisions.
- Liquidity levels and delays in settlements in the SORBNET system – simulation with the use of the BoFPSS2 payment system simulator.
- Tax competition in the European Union – challenges for the public finance.
- Determinants of real interest rates in a globalised world.
- The impact of communications of the Monetary Policy Council on the prices of financial assets and predictability of decisions of the NBP.
- Seminar devoted to NBP's contribution to the issue of Poland's accession to the euro area.
- Analytical workshops devoted to NBP's contribution to the issue of Poland's accession to the euro area.
- Measuring the size of banking crises and analysing their impact on economic growth.
- Impact of the method of foreign bank's entry on the cost of credit in Poland. Which borrowers will benefit most?
- System analysis of banks' liquidity.

APPENDIX 9

Voting records of Monetary Policy Council members on motions and resolutions in 2007

Date	Subject matter of motion or resolution	MPC decision	Voting of MPC members	
			For:	Against:
28 February 2007	Motion to raise interest rates by 0.25 percentage point	Motion did not receive a majority vote	D. Filar M. Noga H. Wasilewska-Trenkner	S. Skrzypek J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński A. Wojtyna
28 March 2007	Motion to raise interest rates by 0.25 percentage point	The motion was not passed (due to tie vote, the Chairman's casting vote was decisive)	D. Filar M. Noga A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	S. Skrzypek J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz
24 April 2007	Resolution on approving the <i>Annual Financial Report of the National Bank of Poland</i> prepared as of 31 December 2006		S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
25 April 2007	Resolution on the level of the reference rate, lombard rate, deposit rate and rediscount rate of the National Bank of Poland	The MPC increased the level of all interest rates by 0.25 percentage point	J. Czekaj D. Filar M. Noga A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	S. Skrzypek S. Nieckarz S. Owsiak M. Pietrewicz
16 May 2007	Resolution on approving the <i>Report on Monetary Policy Implementation in 2006</i>		S. Skrzypek 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 MPC members	
			For:	Against:
16 May 2007	Resolution on the assessment of the activities of the NBP Management Board as regards the monetary policy implementation in 2006		S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
16 May 2007	Resolution on approving the <i>Report on the Operations of the National Bank of Poland in 2006</i>		S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
30 May 2007	Motion to raise interest rates by 0.25 percentage point	Motion did not receive a majority vote	D. Filar M. Noga H. Wasilewska-Trenkner A. Wojtyna	S. Skrzypek J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński
27 June 2007	Resolution on the level of the reference rate, lombard rate, deposit rate and rediscount rate of the National Bank of Poland	The MPC increased the level of all interest rates by 0.25 percentage point	J. Czekaj D. Filar M. Noga A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	S. Skrzypek S. Nieckarz S. Owsiak M. Pietrewicz
24 July 2007	Resolution to appoint a certified auditor to audit NBP annual financial statements for business year 2007, 2008 and 2009		S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
25 July 2007	Motion to raise interest rates by 0.25 percentage point	Motion did not receive a majority vote	A. Wojtyna	S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner

Date	Subject matter of motion or resolution	MPC decision	Voting of MPC members	
			For:	Against:
29 August 2007	Resolution on the level of the reference rate, lombard rate, deposit rate and rediscount rate of the National Bank of Poland	The MPC increased the level of all interest rates by 0.25 percentage point	J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	S. Skrzypek
25 September 2007	Resolution on establishing the upper limit for liabilities incurred by the National Bank of Poland by way of loans from foreign banking and financial institutions		S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
26 September 2007	Resolution on establishing the <i>Monetary Policy Guidelines for 2008</i>		S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
31 October 2007	Motion to raise interest rates by 0.25 percentage point	Motion did not receive a majority vote	D. Filar M. Noga H. Wasilewska-Trenkner A. Wojtyna	S. Skrzypek J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński
27 November 2007	Resolution amending the resolution on the principles of conducting open market operations		S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
28 November 2007	Resolution on the level of the reference rate, lombard rate, deposit rate and rediscount rate of the National Bank of Poland	The MPC increased the level of all interest rates by 0.25 percentage point	S. Skrzypek 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 MPC members	
			For:	Against:
18 December 2007	Resolution to approve the <i>Financial Plan of the National Bank of Poland for the Year 2008</i>		S. Skrzypek J. Czekaj D. Filar S. Nieckarz M. Noga S. Owsiak M. Pietrewicz A. Sławiński H. Wasilewska-Trenkner A. Wojtyna	
19 December 2007	Motion to raise interest rates by 0.25 percentage point	Motion did not receive a majority vote	D. Filar M. Noga H. Wasilewska-Trenkner A. Wojtyna	S. Skrzypek J. Czekaj S. Nieckarz S. Owsiak M. Pietrewicz A. Sławiński

Source: NBP data.



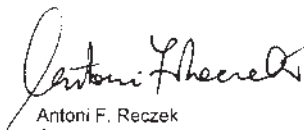
**Opinia niezależnego biegłego rewidenta
Dla Zarządu
Narodowego Banku Polskiego (cd.)**


Badanie zostało zaplanowane i przeprowadzone tak, aby uzyskać wystarczającą pewność, że sprawozdanie finansowe nie zawiera istotnych błędów i przeoczeń. Badanie obejmowało między innymi sprawdzenie, na podstawie wybranej próby, dowodów potwierdzających kwoty i informacje wykazane w sprawozdaniu finansowym. Badanie obejmowało również sprawdzenie poprawności stosowanych przez jednostkę zasad rachunkowości oraz istotnych oszacowań dokonywanych przy sporządzeniu sprawozdania finansowego, a także ogólną ocenę jego prezentacji. Uważamy, że nasze badanie stanowiło wystarczającą podstawę dla wyrażenia opinii.

Naszym zdaniem, załączone sprawozdanie finansowe we wszystkich istotnych aspektach:

- (a) zostało sporządzone na podstawie prawidłowo prowadzonych ksiąg rachunkowych i zgodnie z zasadami rachunkowości obowiązującymi NBP opisanymi w powołanych wyżej przepisach;
- (b) jest zgodne w formie i treści z obowiązującymi NBP przepisami prawa;
- (c) przedstawia rzetelnie i jasno sytuację majątkową i finansową NBP na dzień 31 grudnia 2007 roku oraz wynik finansowy za rok obrotowy od 1 stycznia do 31 grudnia 2007 roku.

Działający w imieniu PricewaterhouseCoopers Sp. z o.o. i przeprowadzający badanie:


Antoni F. Reczek
Prezes Zarządu
PricewaterhouseCoopers Sp. z o.o.


Spółka wpisana na listę podmiotów
uprawnionych do badania sprawozdań
finansowych pod numerem 144

Biegły Rewident
Numer ewidencyjny 90011/503

Warszawa, 28 marca 2008 r.



STATISTICAL ANNEX

TABLE I
Basic Economic Data

Period	1. Industrial output			2. Construction output			3. Consumer Price Index			4. Producer Price Index	
	current prices	constant prices		current prices	constant prices		the same month previous year = 100	previous month = 100	December previous year = 100	the same month previous year = 100	previous month = 100
		the same month previous year = 100	previous month = 100		the same month previous year = 100	previous month = 100					
	million zloty	%	%	million zloty	%	%	%	%	%	%	%
1	2	3	4	5	6	7	8	9	10	11	
XII 2006	63 407.8	105.9	93.3	7 107.3	117.9	144.8	101.4	99.8	101.4	102.6	99.5
I 2007	63 983.9	115.4	100.2	2 713.6	160.5	37.9	101.6	100.4	100.4	103.1	100.6
II	62 823.9	113.0	97.9	3 017.5	156.7	110.5	101.9	100.3	100.7	103.5	100.3
III	72 052.4	111.3	114.7	3 633.6	139.1	119.0	102.5	100.5	101.1	103.3	100.5
IV	66 354.5	112.6	91.4	4 052.0	136.9	110.6	102.3	100.5	101.6	102.2	100.5
V	68 244.6	108.1	103.0	4 636.4	116.3	113.2	102.3	100.5	102.2	102.1	100.4
VI	68 460.7	105.6	100.2	5 196.3	103.7	111.2	102.6	100.0	102.2	101.7	100.5
VII	67 897.1	110.4	98.1	5 297.7	118.5	101.4	102.3	99.7	101.9	101.4	100.3
VIII	68 405.1	108.9	100.9	5 780.7	114.4	108.5	101.5	99.6	101.6	101.8	100.3
IX	71 753.7	105.4	105.7	6 059.0	100.2	104.1	102.3	100.8	102.3	101.8	100.0
X	78 435.5	110.8	109.7	7 023.6	104.3	115.4	103.0	100.6	103.0	102.0	99.7
XI	74 718.2	108.5	95.2	5 887.7	111.0	83.7	103.6	100.7	103.7	102.5	99.9
XII	68 242.3	106.2	91.3	8 698.1	113.0	147.5	104.0	100.3	104.0	102.3	99.3

Period	12. Corporate financial performance												
	revenues		operating costs		pre-tax profit/loss	statutory deductions	net profit/loss	cost to sales ratio	net margin	quick liquidity ratio	total current assets	accounts receivable and associated claims	accounts payable
	total	of which: sales of goods & services	total	of which: cost of sales									
	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	%	%	%	million zloty	million zloty	million zloty
22	23	24	25	26	27	28	29	30	31	32	33	34	
XII 2006	1 497 784.6	913 993.1	1 411 554.6	907 544.6	86 339.3	16 542.5	69 796.8	94.2	4.7	101.0	458 836.2	181 156.2	173 916.0
I 2007	.	.	.	.	.	.	.	.	.	.	.	.	.
II	.	.	.	.	.	.	.	.	.	.	.	.	.
III	386 981.3	237 544.0	363 327.0	233 151.0	23 664.6	4 693.2	18 971.4	93.9	4.9	100.9	466 019.5	185 690.7	169 539.4
IV	.	.	.	.	.	.	.	.	.	.	.	.	.
V	.	.	.	.	.	.	.	.	.	.	.	.	.
VI	802 928.0	488 854.7	750 466.0	481 036.8	52 478.5	9 725.8	42 752.7	93.5	5.3	99.8	492 128.7	196 012.8	179 735.6
VII	.	.	.	.	.	.	.	.	.	.	.	.	.
VIII	.	.	.	.	.	.	.	.	.	.	.	.	.
IX	1 238 747.4	754 874.4	1 159 610.6	744 995.8	79 168.0	14 609.7	64 558.4	93.6	5.2	100.3	516 500.6	205 334.7	186 877.2
X	.	.	.	.	.	.	.	.	.	.	.	.	.
XI	.	.	.	.	.	.	.	.	.	.	.	.	.
XII	1 716 627.8	1 042 814.9	1 610 061.7	1 032 086.2	106 641.0	18 584.6	88 056.5	93.8	5.1	99.0	529 221.6	202 269.9	195 197.2

Period	5. Construction Price Index		6. Number of employed, corporate sector total	7. Average employment, corporate sector total	8. Number of unemployed	9. Unemployment rate	10. Average monthly employee earnings, gross, corporate sector	11. National Budget revenue & expenditure							
	the same month previous year = 100	previous month = 100						revenue	expenditure	financial surplus/deficit and net foreign lending/borrowing					
	%	%						thousands	thousands	thousands	%	zloty	million zloty	million zloty	million zloty
	12	13						14	15	16	17	18	19	20	21
XII 2006	104.3	100.4	5 171.0	4 995.0	2 309.4	14.8	3 027.51	197 639.8	222 702.9	-18 157.9					
I 2007	104.8	100.5	5 253.0	5 048.0	2 365.8	15.1	2 663.55	22 407.5	19 263.4	4 061.8					
II	105.6	100.8	5 271.0	5 070.0	2 331.1	14.8	2 687.48	38 233.3	41 225.6	-1 074.0					
III	106.5	101.0	5 294.0	5 089.0	2 232.5	14.3	2 852.71	55 396.5	60 573.5	-2 750.9					
IV	107.3	101.1	5 303.0	5 105.0	2 103.1	13.6	2 786.29	81 185.6	83 276.5	1 319.0					
V	108.1	101.1	5 320.0	5 116.0	1 985.1	12.9	2 776.92	98 039.2	102 336.4	-589.5					
VI	108.7	100.9	5 342.0	5 144.0	1 895.1	12.3	2 869.69	115 346.7	118 993.3	-76.8					
VII	108.9	100.6	5 356.0	5 160.0	1 856.1	12.1	2 893.71	137 652.3	137 111.0	4 082.8					
VIII	109.0	100.6	5 381.0	5 182.0	1 821.9	11.9	2 885.97	157 377.4	157 073.3	4 182.4					
IX	108.8	100.5	5 385.0	5 192.0	1 777.8	11.6	2 858.83	174 924.3	174 745.4	4 208.7					
X	108.6	100.5	5 417.0	5 220.0	1 720.9	11.3	2 951.67	195 131.4	199 535.3	-254.6					
XI	108.6	100.2	5 431.0	5 233.0	1 719.4	11.2	3 092.01	215 685.5	221 710.3	-1 341.7					
XII	108.4	100.2	5 411.0	5 241.0	1 746.6	11.4	3 246.00	235 976.5	252 898.2	-12 034.5					

TABLE II

Financial Market – Basic Information

Period	1. NBP interest rates					2. Reserve requirement							Total required reserves held		
	Lombard rate	Rediscount rate	Refinancing rate	Deposit rate	Minimum yield on open market operations (reverse repo rate)*	Reserve requirement ratio on zloty deposits		Reserve requirement ratio on foreign currency deposits (zloty)		Reserve requirement ratio on repo operations	Interest on reserve requirement	Total	of which		
						demand	time	demand	time				current account	declared vault cash	
	%	%	%	%	%	%	%	%	%	%	%	million zloty	million zloty	million zloty	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	
XII 2006	5.50	4.25	5.50/6.50	2.50	4.00	3.5	3.5	3.5	3.5	0.0	0.9**	13 969.9	13 969.9	.	
I 2007	5.50	4.25	5.50/6.50	2.50	4.00	3.5	3.5	3.5	3.5	0.0	0.9**	14 526.1	14 526.1	.	
II	5.50	4.25	5.50/6.50	2.50	4.00	3.5	3.5	3.5	3.5	0.0	0.9**	14 827.4	14 827.4	.	
III	5.50	4.25	5.50/6.50	2.50	4.00	3.5	3.5	3.5	3.5	0.0	0.9**	14 827.4	14 827.4	.	
IV	5.75	4.50	5.75/6.75	2.75	4.25	3.5	3.5	3.5	3.5	0.0	0.9**	15 278.3	15 278.3	.	
V	5.75	4.50	5.75/6.75	2.75	4.25	3.5	3.5	3.5	3.5	0.0	0.9**	15 510.8	15 510.8	.	
VI	6.00	4.75	6.00/7.00	3.00	4.50	3.5	3.5	3.5	3.5	0.0	0.9**	15 510.8	15 510.8	.	
VII	6.00	4.75	6.00/7.00	3.00	4.50	3.5	3.5	3.5	3.5	0.0	0.9**	15 849.6	15 849.6	.	
VIII	6.25	5.00	6.25/7.25	3.25	4.75	3.5	3.5	3.5	3.5	0.0	0.9**	15 826.9	15 826.9	.	
IX	6.25	5.00	6.25/7.25	3.25	4.75	3.5	3.5	3.5	3.5	0.0	0.9**	15 826.9	15 826.9	.	
X	6.25	5.00	6.25/7.25	3.25	4.75	3.5	3.5	3.5	3.5	0.0	0.9**	16 378.7	16 378.7	.	
XI	6.50	5.25	6.50/7.50	3.50	5.00	3.5	3.5	3.5	3.5	0.0	0.9**	16 702.7	16 702.7	.	
XII	6.50	5.25	6.50/7.50	3.50	5.00	3.5	3.5	3.5	3.5	0.0	0.9**	16 966.2	16 966.2	.	

* 28-day operation till December 2002, 14-day operation from January 2003, 7-day operation from January 2005.

** 0.9 of the rediscount rate.

*** Since March 2007 we publish WIG80, which is a follow up to the hithero WIRR.

Period	3. Treasury bill tenders												
	Total	Demand declared by bidders (at face value)											
		of which for:											
		1-week	2-week	3-week	5-week	6-week	8-week	10-week	13-week	26-week	39-week	52-week	
	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty
28	29	30	31	32	33	34	35	36	37	38	39		
XII 2006	14 642.16	0.00	0.00	0.00	10 248.88	0.00	0.00	0.00	0.00	0.00	0.00	4 393.28	
I 2007	4 067.64	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4 067.64	
II	3 420.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3 420.48	
III	2 761.85	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2 761.85	
IV	2 694.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2 694.67	
V	1 342.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 342.23	
VI	1 930.64	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 930.64	
VII	1 113.98	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 113.98	
VIII	1 108.87	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 108.87	
IX	3 883.73	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3 883.73	
X	2 418.63	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2 418.63	
XI	1 561.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 561.12	
XII	12 938.11	0.00	0.00	0.00	0.00	6 713.55	0.00	0.00	1 668.75	0.00	1 240.17	3 315.64	

Period	3. Treasury bill tenders												
	Number of tenders during month	Face value of bills offered for sale											
		Total	of which:										
			1-week	2-week	3-week	5-week	6-week	8-week	10-week	13-week	26-week	39-week	52-week
	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty
15	16	17	18	19	20	21	22	23	24	25	26	27	
XII 2006	2	4 200.00	0.00	0.00	0.00	2 200.00	0.00	0.00	0.00	0.00	0.00	0.00	2 000.00
I 2007	2	1 800.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 800.00
II	2	1 800.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 800.00
III	2	2 000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2 000.00
IV	2	1 800.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 800.00
V	1	900.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	900.00
VI	1	500.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	500.00
VII	1	500.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	500.00
VIII	1	800.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	800.00
IX	2	1 400.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 400.00
X	2	1 000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 000.00
XI	1	1 000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 000.00
XII	2	11 500.00	0.00	0.00	0.00	0.00	4 500.00	0.00	0.00	3 000.00	0.00	2 000.00	2 000.00

Period	3. Treasury bill tenders												
	Total	Face value of bills sold											
		of which:											
		1-week	2-week	3-week	5-week	6-week	8-week	10-week	13-week	26-week	39-week	52-week	
	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	
40	41	42	43	44	45	46	47	48	49	50	51		
XII 2006	4 200.00	0.00	0.00	0.00	2 200.00	0.00	0.00	0.00	0.00	0.00	0.00	2 000.00	
I 2007	1 800.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 800.00	
II	1 800.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 800.00	
III	2 000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2 000.00	
IV	1 800.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 800.00	
V	900.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	900.00	
VI	500.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	500.00	
VII	500.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	500.00	
VIII	800.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	800.00	
IX	1 400.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 400.00	
X	1 000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 000.00	
XI	1 000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1 000.00	
XII	9 086.22	0.00	0.00	0.00	0.00	5 158.55	0.00	0.00	1 340.75	0.00	586.92	2 000.00	

TABLE II
Financial Market – Basic Information (cont.)

Period	3. Treasury bill tenders													Bills outstanding from tender sales at month end (purchase prices) million zloty
	Yield on bills purchased, weighted average													
	Total	of which on:												
		1-week	2-week	3-week	5-week	6-week	8-week	10-week	13-week	26-week	39-week	52-week		
	%	%	%	%	%	%	%	%	%	%	%	%		
52	53	54	55	56	57	58	59	60	61	62	63	64		
XII 2006	4.06	0.00	0.00	0.00	3.91	0.00	0.00	0.00	0.00	0.00	0.00	4.21	24 831.72	
I 2007	4.14	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.14	22 355.45	
II	4.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.11	22 161.28	
III	4.23	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.23	21 865.74	
IV	4.40	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.40	21 666.51	
V	4.48	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.48	20 605.73	
VI	4.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.38	19 164.95	
VII	4.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.82	17 727.39	
VIII	4.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.82	16 574.89	
IX	5.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.05	15 992.93	
X	5.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.06	15 411.73	
XI	5.31	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.31	14 827.33	
XII	5.56	0.00	0.00	0.00	0.00	5.43	0.00	0.00	5.64	0.00	5.88	5.74	21 809.18	

Period	4. Tenders for NBP money-market bills											Bills outstanding from tender sales at month end (purchase prices) million zloty
	Face value of bills sold					Yield on bills purchased, weighted average						
	Total	of which:				Total	of which on:					
		1-day	7-day	14-day	28-day		1-day	7-day	14-day	28-day		
	million zloty	million zloty	million zloty	million zloty	million zloty	%	%	%	%	%		
76	77	78	79	80	81	82	83	84	85	86		
XII 2006	89 600.00	0.00	89 600.00	0.00	0.00	4.00	0.00	4.00	0.00	0.00	18 385.68	
I 2007	78 500.00	0.00	78 500.00	0.00	0.00	4.00	0.00	4.00	0.00	0.00	19 984.44	
II	80 500.00	0.00	80 500.00	0.00	0.00	4.00	0.00	4.00	0.00	0.00	20 484.05	
III	104 600.00	0.00	104 600.00	0.00	0.00	4.00	0.00	4.00	0.00	0.00	22 182.73	
IV	80 286.02	0.00	80 286.02	0.00	0.00	4.08	0.00	4.08	0.00	0.00	23 380.67	
V	85 058.50	0.00	85 058.50	0.00	0.00	4.25	0.00	4.25	0.00	0.00	21 682.08	
VI	107 074.22	0.00	107 074.22	0.00	0.00	4.30	0.00	4.30	0.00	0.00	20 199.56	
VII	77 222.41	0.00	77 222.41	0.00	0.00	4.50	0.00	4.50	0.00	0.00	16 129.07	
VIII	102 764.00	0.00	102 764.00	0.00	0.00	4.55	0.00	4.55	0.00	0.00	20 980.62	
IX	80 635.63	0.00	80 635.63	0.00	0.00	4.75	0.00	4.75	0.00	0.00	21 482.05	
X	76 069.06	0.00	76 069.06	0.00	0.00	4.75	0.00	4.75	0.00	0.00	19 881.63	
XI	80 039.19	0.00	80 039.19	0.00	0.00	4.77	0.00	4.77	0.00	0.00	7 484.92	
XII	44 761.35	0.00	44 761.35	0.00	0.00	5.00	0.00	5.00	0.00	0.00	7 761.25	

Period	4. Tenders for NBP money-market bills										
	Number of tenders during month	Total	Face value of bills offered for sale				Total	Demand declared by bidders (at face value)			
			of which:					of which for:			
			1-day	7-day	14-day	28-day		1-day	7-day	14-day	28-day
		million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty	million zloty
65	66	67	68	69	70	71	72	73	74	75	
XII 2006	5	89 600.00	0.00	89 600.00	0.00	0.00	718 155.42	0.00	718 155.42	0.00	0.00
I 2007	4	78 500.00	0.00	78 500.00	0.00	0.00	191 263.00	0.00	191 263.00	0.00	0.00
II	4	80 500.00	0.00	80 500.00	0.00	0.00	374 078.57	0.00	374 078.57	0.00	0.00
III	5	104 600.00	0.00	104 600.00	0.00	0.00	352 734.55	0.00	352 734.55	0.00	0.00
IV	4	82 900.00	0.00	82 900.00	0.00	0.00	98 765.02	0.00	98 765.02	0.00	0.00
V	4	86 500.00	0.00	86 500.00	0.00	0.00	91 755.60	0.00	91 755.60	0.00	0.00
VI	5	112 200.00	0.00	112 200.00	0.00	0.00	114 944.18	0.00	114 944.18	0.00	0.00
VII	4	87 300.00	0.00	87 300.00	0.00	0.00	77 805.41	0.00	77 805.41	0.00	0.00
VIII	5	105 800.00	0.00	105 800.00	0.00	0.00	107 869.55	0.00	107 869.55	0.00	0.00
IX	4	85 900.00	0.00	85 900.00	0.00	0.00	82 126.71	0.00	82 126.71	0.00	0.00
X	4	76 300.00	0.00	76 300.00	0.00	0.00	85 314.28	0.00	85 314.28	0.00	0.00
XI	5	95 900.00	0.00	95 900.00	0.00	0.00	80 346.09	0.00	80 346.09	0.00	0.00
XII	4	67 400.00	0.00	67 400.00	0.00	0.00	44 983.57	0.00	44 983.57	0.00	0.00

Period	5. Outright sales of securities by NBP					6. Data on trading sessions of Warsaw Stock Exchange									
	Number of tenders	face value of securities allotted for sale	face value of bids submitted by banks	face value of bids accepted	value of bids accepted	Number of companies at month end	Capitalisation at month end	P/E ratio at month end	Warsaw Stock Exchange Index (WIG) at month end	WIG monthly average	Second-Tier Market Index (WIRRS/WIG80) at month end**	WIRRS/WIG80 monthly average**	Monthly turnover	Turnover ratio	
															million zloty
	87	88	89	90	91	92	93	94	95	96	97	98	99	100	
XII 2006	0	0.00	0.00	0.00	0.00	284	437 719.2	17.7	50 411.8	51 350.3	12 716.6	13 033.4	28 799.4	2.4	
I 2007	0	0.00	0.00	0.00	0.00	287	482 555.7	19.5	54 558.2	52 135.1	14 443.5	13 329.4	38 057.7	3.2	
II	0	0.00	0.00	0.00	0.00	291	457 094.6	18.2	51 900.4	54 391.1	14 339.1	14 659.0	36 554.3	2.9	
III	0	0.00	0.00	0.00	0.00	293	511 337.3	20.4	57 524.6	54 109.4	17 048.3	15 490.1	42 769.5	3.4	
IV	0	0.00	0.00	0.00	0.00	296	531 701.6	23.3	59 805.5	59 058.8	18 766.3	18 005.0	42 969.0	3.2	
V	0	0.00	0.00	0.00	0.00	301	564 335.9	23.9	63 566.2	60 993.9	20 166.7	19 144.6	39 960.9	2.9	
VI	0	0.00	0.00	0.00	0.00	309	587 287.3	24.6	66 077.7	64 916.9	21 381.7	20 663.7	42 442.4	2.8	
VII	0	0.00	0.00	0.00	0.00	316	565 221.3	23.6	63 670.5	65 421.0	19 765.2	20 460.1	44 280.1	2.0	
VIII	0	0.00	0.00	0.00	0.00	319	543 138.7	21.2	60 649.9	59 513.6	18 325.2	17 974.7	37 683.4	2.3	
IX	0	0.00	0.00	0.00	0.00	325	541 778.7	21.1	60 368.9	60 606.7	17 993.1	18 196.8	27 774.7	1.7	
X	0	0.00	0.00	0.00	0.00	336	573 812.4	22.4	63 126.5	62 813.5	18 412.9	18 421.4	38 416.0	2.5	
XI	0	0.00	0.00	0.00	0.00	345	518 599.3	19.2	56 680.3	57 273.7	16 047.0	16 041.9	36 031.3	2.2	
XII	0	0.00	0.00	0.00	0.00	351	509 887.4	18.8	55 648.5	56 892.2	15 917.9	16 072.0	33 635.6	2.1	

TABLE III

PLN/USD and PLN/EUR daily exchange rates, 2007 (in zloty)

Days	December 2006			January 2007			February 2007			March 2007		
	NBP average exchange rates			NBP average exchange rates			NBP average exchange rates			NBP average exchange rates		
	PLN/USD	PLN/EUR	USD/EUR	PLN/USD	PLN/EUR	USD/EUR	PLN/USD	PLN/EUR	USD/EUR	PLN/USD	PLN/EUR	USD/EUR
	1	2	3	4	5	6	7	8	9	10	11	12
1	2.8700	3.7982	1.3234	2.9105	3.8312	1.3163	2.9973	3.9010	1.3015	2.9525	3.9026	1.3218
2	2.8700	3.7982	1.3234	2.8830	3.8279	1.3277	3.0006	3.9068	1.3020	2.9650	3.8995	1.3152
3	2.8700	3.7982	1.3234	2.8870	3.8270	1.3256	3.0006	3.9068	1.3020	2.9650	3.8995	1.3152
4	2.8672	3.8138	1.3301	2.9325	3.8455	1.3113	3.0006	3.9068	1.3020	2.9650	3.8995	1.3152
5	2.8628	3.8092	1.3306	2.9733	3.8935	1.3095	3.0016	3.8842	1.2940	2.9821	3.9170	1.3135
6	2.8678	3.8050	1.3268	2.9733	3.8935	1.3095	2.9910	3.8710	1.2942	2.9758	3.9030	1.3116
7	2.8669	3.8150	1.3307	2.9733	3.8935	1.3095	2.9741	3.8629	1.2988	2.9729	3.9007	1.3121
8	2.8870	3.8350	1.3284	2.9788	3.8754	1.3010	2.9835	3.8744	1.2986	2.9561	3.8880	1.3152
9	2.8870	3.8350	1.3284	2.9647	3.8635	1.3032	2.9902	3.8888	1.3005	2.9507	3.8795	1.3148
10	2.8870	3.8350	1.3284	2.9943	3.8898	1.2991	2.9902	3.8888	1.3005	2.9507	3.8795	1.3148
11	2.8927	3.8165	1.3194	2.9889	3.8771	1.2972	2.9902	3.8888	1.3005	2.9507	3.8795	1.3148
12	2.8763	3.8106	1.3248	3.0045	3.8785	1.2909	3.0090	3.9065	1.2983	2.9380	3.8699	1.3172
13	2.8639	3.8000	1.3269	3.0045	3.8785	1.2909	3.0145	3.9180	1.2997	2.9521	3.8853	1.3161
14	2.8738	3.8014	1.3228	3.0045	3.8785	1.2909	2.9864	3.9100	1.3093	2.9583	3.9031	1.3194
15	2.8925	3.7900	1.3103	2.9918	3.8728	1.2945	2.9683	3.8980	1.3132	2.9469	3.8926	1.3209
16	2.8925	3.7900	1.3103	2.9895	3.8770	1.2969	2.9769	3.9090	1.3131	2.9330	3.9065	1.3319
17	2.8925	3.7900	1.3103	3.0113	3.8914	1.2923	2.9769	3.9090	1.3131	2.9330	3.9065	1.3319
18	2.8951	3.7938	1.3104	2.9955	3.8787	1.2948	2.9769	3.9090	1.3131	2.9330	3.9065	1.3319
19	2.8896	3.8026	1.3160	2.9677	3.8490	1.2970	2.9680	3.9017	1.3146	2.9170	3.8778	1.3294
20	2.8849	3.8140	1.3221	2.9677	3.8490	1.2970	2.9559	3.8880	1.3153	2.9158	3.8735	1.3285
21	2.8796	3.8003	1.3197	2.9677	3.8490	1.2970	2.9637	3.8954	1.3144	2.9143	3.8762	1.3301
22	2.8908	3.8163	1.3202	2.9630	3.8395	1.2958	2.9637	3.8800	1.3092	2.8977	3.8700	1.3355
23	2.8908	3.8163	1.3202	2.9747	3.8630	1.2986	2.9620	3.8834	1.3111	2.9108	3.8764	1.3317
24	2.8908	3.8163	1.3202	2.9845	3.8825	1.3009	2.9620	3.8834	1.3111	2.9108	3.8764	1.3317
25	2.8908	3.8163	1.3202	2.9912	3.8785	1.2966	2.9620	3.8834	1.3111	2.9108	3.8764	1.3317
26	2.8908	3.8163	1.3202	3.0334	3.9208	1.2925	2.9573	3.8945	1.3169	2.9171	3.8683	1.3261
27	2.9183	3.8383	1.3153	3.0334	3.9208	1.2925	2.9620	3.9139	1.3214	2.9011	3.8718	1.3346
28	2.9194	3.8368	1.3142	3.0334	3.9208	1.2925	2.9699	3.9175	1.3191	2.9163	3.8890	1.3335
29	2.9105	3.8312	1.3163	3.0376	3.9240	1.2918				2.9074	3.8789	1.3341
30	2.9105	3.8312	1.3163	3.0395	3.9385	1.2958				2.9058	3.8695	1.3316
31	2.9105	3.8312	1.3163	3.0400	3.9320	1.2934				2.9058	3.8695	1.3316
Average monthly rate	2.8868	3.8130	X	2.9837	3.8787	X	2.9805	3.8958	X	2.9359	3.8869	X

Days	April 2007			May 2007			June 2007			July 2007		
	NBP average exchange rates			NBP average exchange rates			NBP average exchange rates			NBP average exchange rates		
	PLN/USD	PLN/EUR	USD/EUR	PLN/USD	PLN/EUR	USD/EUR	PLN/USD	PLN/EUR	USD/EUR	PLN/USD	PLN/EUR	USD/EUR
	13	14	15	16	17	18	19	20	21	22	23	24
1	2.9058	3.8695	1.3316	2.7859	3.7879	1.3597	2.8375	3.8130	1.3438	2.7989	3.7658	1.3455
2	2.8930	3.8623	1.3351	2.7755	3.7698	1.3582	2.8375	3.8130	1.3438	2.7695	3.7598	1.3576
3	2.8817	3.8515	1.3365	2.7755	3.7698	1.3582	2.8375	3.8130	1.3438	2.7625	3.7578	1.3603
4	2.8846	3.8509	1.3350	2.7615	3.7465	1.3567	2.8212	3.7940	1.3448	2.7622	3.7609	1.3616
5	2.8746	3.8420	1.3365	2.7615	3.7465	1.3567	2.8163	3.8050	1.3511	2.7593	3.7647	1.3644
6	2.8629	3.8415	1.3418	2.7615	3.7465	1.3567	2.8257	3.8216	1.3524	2.7755	3.7730	1.3594
7	2.8629	3.8415	1.3418	2.7549	3.7479	1.3604	2.8257	3.8216	1.3524	2.7755	3.7730	1.3594
8	2.8629	3.8415	1.3418	2.7624	3.7495	1.3573	2.8732	3.8485	1.3394	2.7755	3.7730	1.3594
9	2.8629	3.8415	1.3418	2.7787	3.7636	1.3544	2.8732	3.8485	1.3394	2.7520	3.7505	1.3628
10	2.8653	3.8420	1.3409	2.7670	3.7470	1.3542	2.8732	3.8485	1.3394	2.7595	3.7655	1.3646
11	2.8509	3.8279	1.3427	2.8080	3.7844	1.3477	2.8746	3.8365	1.3346	2.7464	3.7735	1.3740
12	2.8499	3.8331	1.3450	2.8080	3.7844	1.3477	2.8685	3.8278	1.3344	2.7244	3.7573	1.3791
13	2.8405	3.8410	1.3522	2.8080	3.7844	1.3477	2.8953	3.8451	1.3280	2.7161	3.7443	1.3786
14	2.8405	3.8410	1.3522	2.7773	3.7610	1.3542	2.8744	3.8230	1.3300	2.7161	3.7443	1.3786
15	2.8405	3.8410	1.3522	2.7898	3.7767	1.3538	2.8625	3.8120	1.3317	2.7161	3.7443	1.3786
16	2.8217	3.8248	1.3555	2.7805	3.7815	1.3600	2.8625	3.8120	1.3317	2.7210	3.7510	1.3785
17	2.8241	3.8231	1.3537	2.7996	3.7897	1.3537	2.8625	3.8120	1.3317	2.7223	3.7535	1.3788
18	2.8005	3.8080	1.3598	2.8081	3.7909	1.3500	2.8364	3.8007	1.3400	2.7285	3.7615	1.3786
19	2.8071	3.8151	1.3591	2.8081	3.7909	1.3500	2.8414	3.8066	1.3397	2.7146	3.7508	1.3817
20	2.7894	3.7941	1.3602	2.8081	3.7909	1.3500	2.8191	3.7835	1.3421	2.7236	3.7552	1.3788
21	2.7894	3.7941	1.3602	2.7952	3.7760	1.3509	2.8338	3.7935	1.3387	2.7236	3.7552	1.3788
22	2.7894	3.7941	1.3602	2.8020	3.7735	1.3467	2.8229	3.7865	1.3414	2.7236	3.7552	1.3788
23	2.7866	3.7797	1.3564	2.8270	3.7964	1.3429	2.8229	3.7865	1.3414	2.7258	3.7660	1.3816
24	2.7925	3.7880	1.3565	2.8265	3.7966	1.3432	2.8229	3.7865	1.3414	2.7202	3.7586	1.3817
25	2.7741	3.7838	1.3640	2.8369	3.8113	1.3435	2.8160	3.7883	1.3453	2.7546	3.7858	1.3744
26	2.7668	3.7746	1.3642	2.8369	3.8113	1.3435	2.8200	3.7939	1.3454	2.7752	3.8057	1.3713
27	2.7767	3.7800	1.3613	2.8369	3.8113	1.3435	2.8343	3.8060	1.3428	2.7870	3.8095	1.3669
28	2.7767	3.7800	1.3613	2.8270	3.8040	1.3456	2.8074	3.7770	1.3454	2.7870	3.8095	1.3669
29	2.7767	3.7800	1.3613	2.8353	3.8192	1.3470	2.7989	3.7658	1.3455	2.7870	3.8095	1.3669
30	2.7859	3.7879	1.3597	2.8467	3.8275	1.3445	2.7989	3.7658	1.3455	2.7800	3.7999	1.3669
31				2.8415	3.8190	1.3440				2.7653	3.7900	1.3706
Average monthly rate	2.8279	3.8192	X	2.7997	3.7824	X	2.8399	3.8079	X	2.7500	3.7685	X

TABLE III

PLN/USD and PLN/EUR daily exchange rates, 2007 (in zloty)

Days	August 2007			September 2007			October 2007		
	NBP average exchange rates			NBP average exchange rates			NBP average exchange rates		
	PLN/USD	PLN/EUR	USD/EUR	PLN/USD	PLN/EUR	USD/EUR	PLN/USD	PLN/EUR	USD/EUR
	25	26	27	28	29	30	31	32	33
1	2.7939	3.8125	1.3646	2.7990	3.8230	1.3658	2.6483	3.7680	1.4228
2	2.7786	3.7970	1.3665	2.7990	3.8230	1.3658	2.6543	3.7685	1.4198
3	2.7619	3.7833	1.3698	2.7995	3.8209	1.3649	2.6610	3.7690	1.4164
4	2.7619	3.7833	1.3698	2.8131	3.8255	1.3599	2.6745	3.7740	1.4111
5	2.7619	3.7833	1.3698	2.8105	3.8208	1.3595	2.6681	3.7650	1.4111
6	2.7420	3.7916	1.3828	2.7963	3.8195	1.3659	2.6681	3.7650	1.4111
7	2.7450	3.7855	1.3791	2.7853	3.8120	1.3686	2.6681	3.7650	1.4111
8	2.7451	3.7740	1.3748	2.7853	3.8120	1.3686	2.6635	3.7534	1.4092
9	2.7382	3.7735	1.3781	2.7853	3.8120	1.3686	2.6750	3.7555	1.4039
10	2.7600	3.7775	1.3687	2.7619	3.8075	1.3786	2.6505	3.7464	1.4135
11	2.7600	3.7775	1.3687	2.7513	3.7946	1.3792	2.6375	3.7474	1.4208
12	2.7600	3.7775	1.3687	2.7233	3.7736	1.3857	2.6285	3.7310	1.4194
13	2.7641	3.7755	1.3659	2.7126	3.7756	1.3919	2.6285	3.7310	1.4194
14	2.7873	3.7842	1.3577	2.7254	3.7816	1.3875	2.6285	3.7310	1.4194
15	2.7873	3.7842	1.3577	2.7254	3.7816	1.3875	2.6135	3.7187	1.4229
16	2.8507	3.8277	1.3427	2.7254	3.7816	1.3875	2.6223	3.7190	1.4182
17	2.8533	3.8345	1.3439	2.7280	3.7835	1.3869	2.6160	3.7095	1.4180
18	2.8533	3.8345	1.3439	2.7315	3.7859	1.3860	2.6016	3.7078	1.4252
19	2.8533	3.8345	1.3439	2.7008	3.7730	1.3970	2.5761	3.6792	1.4282
20	2.8350	3.8250	1.3492	2.6847	3.7706	1.4045	2.5761	3.6792	1.4282
21	2.8550	3.8474	1.3476	2.6763	3.7666	1.4074	2.5761	3.6792	1.4282
22	2.8446	3.8375	1.3490	2.6763	3.7666	1.4074	2.5753	3.6835	1.4303
23	2.8289	3.8320	1.3546	2.6763	3.7666	1.4074	2.5730	3.6566	1.4211
24	2.8228	3.8380	1.3596	2.6675	3.7627	1.4106	2.5702	3.6555	1.4223
25	2.8228	3.8380	1.3596	2.6742	3.7680	1.4090	2.5522	3.6436	1.4276
26	2.8228	3.8380	1.3596	2.6761	3.7788	1.4121	2.5227	3.6247	1.4368
27	2.8055	3.8306	1.3654	2.6726	3.7780	1.4136	2.5227	3.6247	1.4368
28	2.8084	3.8328	1.3648	2.6647	3.7775	1.4176	2.5227	3.6247	1.4368
29	2.8310	3.8477	1.3591	2.6647	3.7775	1.4176	2.5145	3.6243	1.4414
30	2.8072	3.8278	1.3636	2.6647	3.7775	1.4176	2.5238	3.6313	1.4388
31	2.7990	3.8230	1.3658				2.5155	3.6306	1.4433
Average monthly rate	2.7981	3.8100	X	2.7286	3.7899	X	2.6042	3.7052	X

Days	November 2007			December 2007		
	NBP average exchange rates		USD/EUR	NBP average exchange rates		USD/EUR
	PLN/USD	PLN/EUR		PLN/USD	PLN/EUR	
	34	35	36	37	38	39
1	2.5155	3.6306	1.4433	2.4589	3.6267	1.4749
2	2.5184	3.6467	1.4480	2.4589	3.6267	1.4749
3	2.5184	3.6467	1.4480	2.4730	3.6195	1.4636
4	2.5184	3.6467	1.4480	2.4675	3.6169	1.4658
5	2.5181	3.6446	1.4474	2.4499	3.6075	1.4725
6	2.5018	3.6339	1.4525	2.4585	3.5818	1.4569
7	2.4672	3.6238	1.4688	2.4525	3.5865	1.4624
8	2.4829	3.6419	1.4668	2.4525	3.5865	1.4624
9	2.4620	3.6235	1.4718	2.4525	3.5865	1.4624
10	2.4620	3.6235	1.4718	2.4378	3.5739	1.4660
11	2.4620	3.6235	1.4718	2.4260	3.5699	1.4715
12	2.4935	3.6390	1.4594	2.4359	3.5773	1.4686
13	2.5006	3.6469	1.4584	2.4373	3.5820	1.4697
14	2.4750	3.6345	1.4685	2.4747	3.6017	1.4554
15	2.5028	3.6648	1.4643	2.4747	3.6017	1.4554
16	2.5130	3.6720	1.4612	2.4747	3.6017	1.4554
17	2.5130	3.6720	1.4612	2.5237	3.6235	1.4358
18	2.5130	3.6720	1.4612	2.5133	3.6162	1.4388
19	2.5057	3.6670	1.4635	2.5115	3.6159	1.4397
20	2.4933	3.6848	1.4779	2.5242	3.6230	1.4353
21	2.4902	3.6860	1.4802	2.5168	3.6180	1.4375
22	2.4855	3.6855	1.4828	2.5168	3.6180	1.4375
23	2.4857	3.6855	1.4827	2.5168	3.6180	1.4375
24	2.4857	3.6855	1.4827	2.5100	3.6115	1.4388
25	2.4857	3.6855	1.4827	2.5100	3.6115	1.4388
26	2.4725	3.6754	1.4865	2.5100	3.6115	1.4388
27	2.4876	3.6912	1.4838	2.4949	3.6168	1.4497
28	2.4851	3.6649	1.4747	2.4566	3.6062	1.4680
29	2.4720	3.6445	1.4743	2.4566	3.6062	1.4680
30	2.4589	3.6267	1.4749	2.4566	3.6062	1.4680
31				2.4350	3.5820	1.4710
Average monthly rate	2.4915	3.6556	X	2.4754	3.6042	X

TABLE IV

Average MFI interest rates on outstanding amounts, PLN denominated
(in per cent)

	Sector	Category	Original maturity, period of	No	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07
Deposits in PLN	households and non-profit institutions serving households	overnight		1	1.2	1.2	1.2	1.2	1.2	1.3
		with agreed maturity	up to 2 years	2	2.8	2.8	2.8	2.8	2.8	2.8
			over 2 years	3	3.1	3.6	3.1	3.1	3.0	3.0
			total	4	2.8	2.9	2.8	2.9	2.8	2.8
		redeemable at notice	up to 3 months' notice	5	2.1	2.1	2.1	2.0	2.1	2.1
			over 3 months' notice	6	4.5	4.6	4.6	4.6	4.6	4.6
	non-financial corporations	overnight		7	1.6	1.7	1.7	1.7	1.7	1.9
		with agreed maturity	up to 2 years	8	3.6	3.7	3.7	3.7	3.7	3.7
			over 2 years	9	3.1	3.0	3.0	3.0	2.9	2.6
			total	10	3.6	3.7	3.7	3.7	3.7	3.7
	total, overnight excluded				11	3.1	3.1	3.1	3.1	3.1
	repos				12	3.9	3.9	3.9	3.9	3.9
	Loans in PLN	households and non-profit institutions serving households	bank overdraft		13	12.3	12.2	12.1	12.0	12.1	12.1
for consumption			credit cards	14	15.4	17.4	16.6	16.9	16.7	17.0
			up to 1 year maturity	15	7.6	8.9	8.9	8.6	8.5	8.4
			over 1 and up to 5 years maturity	16	12.1	13.9	14.4	13.8	13.8	13.6
			over 5 years maturity	17	9.8	11.9	12.2	11.9	12.0	11.8
total			18	11.6	13.5	13.7	13.4	13.4	13.2	
for house purchases			up to 1 year maturity	19	6.7	7.1	7.0	7.0	6.9	6.7
			over 1 and up to 5 years maturity	20	5.6	5.6	5.6	5.6	5.6	5.6
			over 5 and up to 10 years maturity	21	5.8	5.8	5.9	5.8	5.7	5.7
			over 10 years maturity	22	5.7	5.7	5.7	5.6	5.6	5.6
total			23	5.7	5.7	5.8	5.7	5.6	5.6	
for other purposes			up to 1 year maturity	24	6.8	7.4	7.7	7.6	7.0	7.9
			over 1 and up to 5 years maturity	25	7.4	7.8	8.0	8.0	8.0	8.0
		over 5 years maturity	26	7.1	7.3	7.3	7.3	7.3	7.2	
		total	27	7.2	7.4	7.5	7.5	7.4	7.5	
total, overdraft excluded				28	8.3	9.7	9.8	9.5	9.5	
non-financial corporations		bank overdraft		29	5.6	5.6	5.7	5.5	5.5	5.7
		up to 1 year maturity	30	5.9	5.8	5.8	5.8	5.7	5.7	
		over 1 and up to 5 years maturity	31	5.8	5.8	5.9	5.8	5.9	5.9	
		over 5 years maturity	32	6.0	5.9	6.1	6.0	5.9	6.0	
	total, overdraft excluded	33	5.9	5.9	6.0	5.9	5.8	5.9		
	total, overdraft excluded				34	7.2	8.0	8.1	7.9	7.9

* See: Methodological Notes

Jun-07	Jul-07*	Aug-07*	Sep-07*	Oct-07*	Nov-07*	Dec-07*
1.3	1.3	1.3	1.4	1.5	1.5	1.5
2.9	3.0	3.4	3.3	3.3	3.4	3.5
3.2	3.1	3.2	3.2	3.4	3.3	3.3
2.9	3.0	3.3	3.3	3.3	3.4	3.5
2.1	2.1	2.0	2.0	2.2	2.2	2.2
4.6	4.5	4.5	4.5	4.5	4.5	4.5
2.0	2.0	1.9	2.0	2.1	2.1	1.9
3.7	3.9	4.0	4.1	4.3	4.4	4.4
2.7	2.7	2.8	2.9	3.1	3.1	2.7
3.7	3.9	4.0	4.1	4.3	4.4	4.3
3.2	3.3	3.6	3.6	3.7	3.7	3.8
4.2	4.3	4.3	4.7	4.8	4.6	4.9
12.1	12.1	12.2	12.2	12.2	12.3	12.2
16.7	16.9	17.1	16.7	16.9	16.7	17.2
8.4	8.6	8.8	9.1	9.1	10.2	10.1
13.7	13.6	13.6	13.7	13.6	13.7	13.5
11.8	12.0	12.2	12.3	12.3	12.5	12.4
13.2	13.3	13.4	13.5	13.4	13.6	13.5
6.5	6.8	6.8	6.5	6.6	6.5	6.5
5.6	5.8	5.8	5.9	5.9	6.1	6.0
5.7	5.8	5.9	6.0	6.1	6.2	6.2
5.6	5.7	5.9	6.0	6.0	6.2	6.2
5.7	5.8	5.9	6.0	6.0	6.2	6.2
7.5	7.9	7.9	7.9	7.9	7.8	7.5
8.1	8.1	8.2	8.4	8.5	8.4	8.3
7.3	7.3	7.3	7.4	7.5	7.6	7.5
7.5	7.6	7.6	7.7	7.8	7.8	7.7
9.4	9.4	9.4	9.5	9.5	9.6	9.6
5.7	5.9	5.9	6.0	6.2	6.3	6.4
5.8	6.0	6.2	6.2	6.4	6.6	6.8
6.0	6.2	6.3	6.4	6.5	6.5	6.7
6.1	5.9	5.9	6.1	6.1	6.2	6.3
6.0	6.0	6.1	6.2	6.3	6.3	6.5
8.0	7.9	8.0	8.1	8.1	8.2	8.3

TABLE V

Average MFI interest rates on new business, PLN denominated
(in per cent)

	Sector	Category	Original maturity, period of notice, initial rate fixation	No	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	
Deposits in PLN	households and non-profit institutions serving households	with agreed maturity	up to 1 month	1	3.3	3.4	3.4	3.4	3.4	
			over 1 and up to 3 months	2	3.3	3.4	3.3	3.4	3.4	
			over 3 and up to 6 months	3	3.1	3.3	3.5	3.1	3.1	
			over 6 months and up to 1 year	4	3.3	3.5	3.3	3.9	3.2	
			over 1 and up to 2 years	5	3.1	3.4	3.2	3.3	3.3	
			over 2 years	6	2.2	2.4	1.1	3.6	3.0	
			total	7	3.3	3.4	3.4	3.4	3.4	
	non-financial corporations	with agreed maturity	up to 1 month	8	3.5	3.5	3.6	3.6	3.5	
			over 1 and up to 3 months	9	3.7	3.7	3.7	3.8	3.8	
			over 3 and up to 6 months	10	3.8	3.8	3.8	3.9	4.0	
			over 6 months and up to 1 year	11	3.6	3.8	3.9	3.9	4.1	
			over 1 and up to 2 years	12	3.9	3.9	3.9	4.0	3.6	
			over 2 years	13	0.1	3.3	0.4	3.3	1.1	
			total	14	3.5	3.6	3.6	3.6	3.5	
	total			15	3.5	3.5	3.5	3.5	3.5	
	repos			16	3.9	3.9	4.0	3.9	4.0	
Loans in PLN	households and non-profit institutions serving households	for consumption	credits cards	17	15.1	15.9	15.9	15.3	15.3	
			variable rate and up to 3 months initial rate fixation	18	14.4	15.6	14.6	14.6	14.1	
			over 3 months and up to 1 year initial rate fixation	19	10.3	10.2	9.9	10.6	9.8	
			over 1 and up to 5 years initial rate fixation	20	10.4	13.7	14.2	13.2	13.7	
			over 5 years initial rate fixation	21	17.1	17.8	16.1	16.7	16.3	
			total excluding credit cards*	22	12.5	13.7	13.5	13.1	13.0	
			total	23	13.9	14.7	14.5	13.9	13.9	
		the annual percentage rate of charge (APRC)			24	19.9	21.7	21.5	21.5	20.9
		for house purchases	variable rate and up to 3 months initial rate fixation	25	5.6	5.6	5.5	5.6	5.7	
			over 3 months and up to 1 year initial rate fixation	26	5.8	5.7	5.7	5.7	5.8	
			over 1 and up to 5 years initial rate fixation	27	7.0	7.1	5.4	5.6	-	
			over 5 and up to 10 years initial rate fixation	28	7.2	7.4	7.4	6.7	7.0	
			over 5 years initial rate fixation	29	6.1	6.3	6.8	6.7	7.2	
			total	30	5.6	5.6	5.6	5.6	5.8	
		the annual percentage rate of charge (APRC)			31	6.3	6.1	6.1	6.2	6.2
		for farming	variable rate and up to 3 months initial rate fixation	32	5.7	5.9	5.4	5.8	5.8	
			over 3 months and up to 1 year initial rate fixation	33	5.3	-	-	8.1	8.2	
			over 1 and up to 5 years initial rate fixation	34	-	-	-	-	-	
			over 5 years initial rate fixation	35	-	-	-	-	5.6	
			total	36	5.7	5.9	5.4	5.8	5.8	
		for sole proprietors	variable rate and up to 3 months initial rate fixation	37	6.7	7.0	7.0	7.1	7.3	
			over 3 months and up to 1 year initial rate fixation	38	7.4	8.1	7.6	7.9	7.4	
			over 1 and up to 5 years initial rate fixation	39	13.3	12.0	12.8	13.4	12.7	
			over 5 years initial rate fixation	40	7.4	14.9	14.7	13.0	12.1	
	total		41	7.2	7.0	7.1	7.3	7.4		
	for other purposes	variable rate and up to 3 months initial rate fixation	42	7.1	6.4	6.7	6.8	6.4		
		over 3 months and up to 1 year initial rate fixation	43	3.4	5.2	6.1	9.7	0.4		
		over 1 and up to 5 years initial rate fixation	44	5.4	6.0	5.2	5.6	5.2		
		over 5 years initial rate fixation	45	5.3	5.2	7.3	5.3	5.3		
		total	46	3.8	5.4	6.6	6.9	5.4		
	total			47	8.8	10.6	11.1	10.5	9.6	
	non-financial corporations	contracts up to PLN 4 million, overdraft excluded	variable rate and up to 3 months initial rate fixation	48	5.9	6.0	6.0	6.0	6.1	
			over 3 months and up to 1 year initial rate fixation	49	6.1	6.1	6.0	6.0	6.1	
			over 1 and up to 5 years initial rate fixation	50	6.2	5.9	5.7	6.3	6.0	
			over 5 years initial rate fixation	51	14.1	6.3	4.6	10.4	13.7	
			total	52	6.0	6.0	6.0	6.0	6.1	
		contracts over PLN 4 million, overdraft excluded	variable rate and up to 3 months initial rate fixation	53	5.5	5.7	5.8	5.6	5.9	
			over 3 months and up to 1 year initial rate fixation	54	5.0	4.8	4.9	5.4	5.3	
			over 1 and up to 5 years initial rate fixation	55	5.8	6.4	-	-	-	
			over 5 years initial rate fixation	56	4.3	-	5.3	-	6.7	
			total	57	5.4	5.7	5.7	5.6	5.8	
		total			58	5.6	5.8	5.8	5.7	5.9
		total			59	7.4	8.6	8.9	8.5	8.2

* New category "total excluding credit cards" for consumer loans (itm 22) has been added for comparability with real interest rate, which does not include credit cards.

** See: Methodological Notes

May-07	Jun-07	Jul-07**	Aug-07**	Sep-07**	Oct-07**	Nov-07**	Dec-07**
3.5	3.6	3.8	3.8	4.0	4.1	4.1	4.1
3.5	3.6	3.9	3.9	4.0	4.1	4.2	4.5
3.2	3.3	3.6	3.6	3.6	3.8	4.0	4.3
3.2	3.3	3.6	3.6	3.9	3.8	3.6	3.7
3.8	3.7	3.3	3.8	4.1	3.7	3.6	4.1
4.1	1.7	2.8	1.4	4.9	0.9	3.7	4.0
3.5	3.6	3.8	3.8	4.0	4.0	4.1	4.2
3.9	3.9	4.1	4.1	4.2	4.5	4.6	4.2
4.0	4.1	4.3	4.3	4.5	4.6	4.7	5.0
4.0	4.1	4.2	4.5	4.5	4.6	4.7	5.1
3.8	4.1	4.0	4.0	4.1	3.7	4.4	4.9
3.8	3.9	3.9	4.2	4.1	4.4	3.1	2.5
3.7	3.7	3.6	4.0	4.2	3.8	0.2	0.8
3.9	4.0	4.1	4.1	4.2	4.5	4.6	4.2
3.8	3.9	4.1	4.0	4.2	4.4	4.5	4.2
4.3	4.3	4.5	4.6	4.7	4.9	5.1	4.7
15.3	15.5	15.4	15.8	15.6	15.3	15.5	14.8
14.4	13.9	14.4	14.4	14.5	14.9	14.9	14.8
10.4	10.2	10.4	10.4	10.0	10.2	9.7	8.8
14.0	14.4	14.6	14.1	13.8	13.5	13.7	13.3
17.2	18.2	19.0	19.0	17.6	17.8	17.9	17.8
13.4	13.3	13.7	13.5	13.3	13.5	13.5	13.0
14.2	14.1	14.4	14.4	14.1	14.2	14.3	13.7
21.4	21.0	21.5	21.7	21.2	21.8	21.6	20.2
5.7	5.8	6.0	6.3	6.4	6.6	6.7	6.9
5.9	6.1	6.3	6.4	6.7	6.6	7.0	7.2
7.6	-	7.2	-	7.9	7.8	7.5	8.0
8.2	7.1	7.8	7.7	8.3	7.8	8.6	8.1
7.0	6.5	7.5	7.2	7.5	7.6	7.4	7.9
5.7	5.9	6.1	6.3	6.4	6.6	6.7	6.9
6.3	6.6	6.6	6.8	6.9	7.1	7.2	7.5
6.1	6.5	6.7	6.4	6.4	6.4	6.9	6.7
7.2	-	7.6	-	-	-	-	14.8
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
6.1	6.5	6.7	6.4	6.4	6.4	6.9	6.7
7.1	7.3	7.5	7.5	7.4	7.8	7.7	7.8
7.4	8.1	7.8	7.0	8.5	7.9	8.2	9.0
12.1	11.9	12.6	13.3	12.6	12.8	12.7	13.0
12.3	12.5	12.5	13.6	13.6	13.5	12.7	13.1
7.2	7.3	7.5	7.6	7.5	7.8	7.8	7.9
7.6	7.1	6.9	7.3	6.7	7.6	7.4	8.0
7.8	5.2	6.5	8.6	9.3	8.6	8.2	8.2
6.0	6.2	6.5	6.5	6.5	6.4	6.2	7.1
5.5	5.6	5.8	5.7	6.2	6.2	6.2	-
7.8	5.7	6.7	7.4	6.9	7.6	7.5	8.0
9.9	10.2	10.9	11.4	11.2	11.5	11.7	11.6
6.2	6.3	6.5	6.6	6.8	6.7	6.9	7.2
6.2	6.6	6.4	6.3	6.4	6.8	7.1	7.5
6.0	7.7	6.5	6.5	6.9	6.8	7.1	7.4
10.4	10.3	9.1	-	10.0	9.3	7.9	6.3
6.2	6.3	6.5	6.5	6.8	6.7	6.9	7.2
5.8	5.9	6.4	6.1	6.6	6.3	6.6	7.2
5.2	5.4	5.8	5.3	5.9	5.9	6.2	7.2
6.4	-	5.9	5.7	6.6	5.8	-	5.9
-	-	-	-	-	6.0	-	-
5.8	5.9	6.3	6.1	6.5	6.3	6.6	7.2
5.9	6.0	6.3	6.2	6.6	6.4	6.7	7.2
8.7	8.3	8.8	9.1	9.2	9.1	9.4	9.5

TABLE VI

Average MFI interest rates on new business, EUR denominated
(per cent)

	Sector	Category	Original maturity, period of notice, initial rate fixation	No	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	
Deposits in EUR	households and non-profit institutions serving households	overnight*		1	0.7	0.7	0.7	0.7	0.8	
		redeemable at notice	up to 3 months' notice*	2	-	-	-	-	-	
			over 3 months' notice*	3	-	-	-	-	-	
		with agreed maturity	up to 1 month		4	2.6	2.8	2.8	2.9	3.0
			over 1 and up to 6 months		5	2.5	2.6	2.7	3.0	2.9
			over 3 and up to 6 months		6	2.3	2.5	2.6	2.5	2.4
			over 6 months and up to 1 year		7	2.1	2.3	2.5	2.7	2.8
			over 1 and up to 2 years		8	2.4	2.6	2.8	2.5	2.8
			over 2 years		9	1.8	2.4	2.4	1.8	2.2
			total		10	2.6	2.7	2.8	2.9	3.0
	non-financial corporations	overnight*		11	1.3	1.4	1.3	1.4	1.5	
		with agreed maturity	over 1 up to 3 months		12	3.1	3.2	3.2	3.3	3.4
			over 1 and up to 3 months		13	3.3	3.0	3.2	3.5	3.5
			over 3 and up to 6 months		14	3.3	3.1	3.4	3.4	2.9
			over 6 months and up to 1 year		15	2.7	3.1	3.4	2.8	3.8
			over 1 and up to 2 years		16	3.0	3.3	2.5	2.4	1.7
			over 2 years		17	3.0	3.1	3.2	3.0	1.5
		total		18	3.1	3.2	3.2	3.3	3.4	
	total		19	3.1	3.1	3.1	3.2	3.3		
	repos		20	-	-	-	-	-		
Loans in EUR	households and non-profit institutions serving households	bank overdraft*		21	5.7	6.1	5.9	5.9	6.1	
		for consumption	variable rate and up to 3 months initial rate fixation	22	6.1	6.6	10.3	9.0	12.4	
			over 3 months and up to 1 year initial rate fixation	23	-	-	-	-	8.4	
			over 1 and up to 5 years initial rate fixation	24	-	-	-	-	-	
			over 5 years initial rate fixation	25	-	-	-	-	-	
		total		26	6.1	6.6	10.3	9.0	11.9	
		the annual percentage rate of charge (APRC)		27	13.7	8.0	12.8	10.7	15.7	
		for house purchases	variable rate and up to 3 months initial rate fixation	28	5.3	5.2	5.5	5.3	6.4	
			over 3 months and up to 1 year initial rate fixation	29	6.0	5.2	6.2	5.8	5.7	
			over 1 and up to 5 years initial rate fixation	30	-	-	-	-	-	
			over 5 and up to 10 years initial rate fixation	31	6.9	-	-	-	-	
			over 5 years initial rate fixation	32	-	-	-	-	-	
			total		33	5.6	5.2	5.7	5.4	6.0
		the annual percentage rate of charge (APRC)		34	6.0	5.5	6.1	5.7	6.4	
	for other purposes	variable rate and up to 3 months initial rate fixation	35	5.3	5.8	5.9	6.0	5.8		
		over 3 months and up to 1 year initial rate fixation	36	5.5	4.8	4.7	5.0	5.4		
		over 1 and up to 5 years initial rate fixation	37	1.3	-	4.7	5.0	4.9		
		over 5 years initial rate fixation	38	-	-	-	-	-		
		total		39	5.2	5.8	5.8	6.0	5.8	
	total		40	5.2	5.7	5.8	5.9	5.9		
	non-financial corporations	bank overdraft*		41	4.2	4.4	4.3	4.5	4.6	
		contracts up to EUR 1 million, overdraft excluded	variable rate and up to 3 months initial rate fixation	42	5.2	5.1	5.3	5.3	5.4	
			over 3 months and up to 1 year initial rate fixation	43	5.6	5.2	5.1	5.3	5.8	
			over 1 and up to 5 years initial rate fixation	44	4.6	-	4.7	4.8	4.9	
			over 5 years initial rate fixation	45	-	-	-	-	-	
		total		46	5.2	5.1	5.3	5.3	5.4	
		contracts over EUR 1 million, overdraft excluded	variable rate and up to 3 months initial rate fixation	47	5.1	5.2	5.5	5.8	6.5	
over 3 months and up to 1 year initial rate fixation			48	4.9	5.2	5.8	5.3	4.7		
over 1 and up to 5 years initial rate fixation			49	4.0	-	4.4	5.9	-		
over 5 years initial rate fixation			50	-	-	4.8	-	-		
total			51	5.0	5.2	5.4	5.6	6.3		
total		52	5.0	5.1	5.4	5.6	6.1			
total		53	5.0	5.2	5.4	5.6	6.1			

* Category calculated on a basis of an outstanding amounts. Excluded from "total" average.

** See: Methodological Notes

May-07	Jun-07	Jul-07**	Aug-07**	Sep-07**	Oct-07**	Nov-07**	Dec-07**
0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.7
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
3.1	3.2	3.2	3.3	3.4	3.4	3.4	3.4
3.0	3.0	3.1	3.3	3.4	3.6	3.6	3.7
2.6	2.8	2.5	2.9	3.2	3.2	3.2	3.2
2.7	2.9	2.9	2.8	2.9	2.9	2.7	3.0
2.7	2.4	3.0	2.5	2.6	2.7	2.7	3.2
2.3	2.3	2.2	2.8	1.3	2.3	1.7	3.1
3.0	3.1	3.2	3.2	3.4	3.4	3.4	3.5
1.6	1.5	1.5	1.7	1.6	1.6	1.6	1.6
3.4	3.6	3.7	3.7	3.6	3.6	3.6	3.6
3.5	3.8	3.9	4.1	3.9	3.9	3.9	4.2
4.1	3.9	4.0	4.0	4.3	4.6	4.0	4.3
4.3	4.1	3.2	2.4	3.6	3.3	4.1	3.2
3.9	2.8	3.2	2.3	3.5	3.8	3.2	3.3
3.6	3.2	3.1	3.2	3.0	2.3	3.8	3.2
3.5	3.6	3.7	3.7	3.6	3.6	3.7	3.6
3.4	3.5	3.6	3.7	3.6	3.6	3.6	3.6
-	-	-	-	-	-	-	-
6.1	4.8	6.2	6.3	6.5	6.4	6.2	6.7
8.0	9.8	9.4	7.7	-	-	6.3	8.0
-	-	-	7.7	-	-	-	8.6
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
8.0	9.8	9.4	7.7	-	-	6.3	8.0
9.5	14.4	12.3	7.9	-	-	6.9	8.3
6.0	5.8	5.3	6.1	7.3	7.2	7.1	6.8
6.3	5.7	6.0	6.2	6.1	5.9	6.2	6.4
-	-	-	-	-	-	-	-
6.2	-	-	-	-	-	-	6.5
-	-	7.5	-	-	-	-	-
6.1	5.7	5.6	6.1	6.8	6.2	6.6	6.6
6.6	6.0	6.1	6.3	6.9	6.3	6.7	6.8
5.6	5.8	5.6	6.9	6.1	6.3	6.3	6.2
9.1	4.8	5.5	6.7	5.3	5.3	6.0	6.3
4.7	4.7	4.9	-	5.2	5.2	5.1	5.5
-	-	-	-	-	-	-	-
5.6	5.7	5.6	6.8	6.1	6.3	6.3	6.2
5.8	5.7	5.6	6.6	6.3	6.3	6.3	6.3
4.7	4.7	4.7	4.9	5.0	5.1	5.2	5.1
5.6	5.7	5.6	5.9	5.9	5.9	5.6	5.8
5.8	6.6	5.8	6.1	5.7	5.7	5.8	5.9
4.9	4.9	4.9	-	5.5	5.8	6.3	5.9
-	8.2	-	-	-	6.3	7.4	-
5.6	5.7	5.6	5.9	5.9	5.9	5.6	5.8
5.5	5.6	6.0	6.0	5.9	5.9	5.9	5.9
5.0	5.7	6.1	5.3	5.3	5.6	4.7	5.7
6.2	-	-	-	-	4.7	-	5.8
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
5.5	5.6	6.0	6.0	5.9	5.8	5.7	5.9
5.5	5.6	5.9	6.0	5.9	5.8	5.7	5.9
5.5	5.6	5.9	6.0	5.9	5.9	5.7	5.9

TABLE VII

Aggregated Balance Sheet of
Other Monetary Financial Institutions (million zloty)
ASSETS

Period					Holdings of securities other than shares issued by domestic residents				Money Market Fund Shares/Units
	Loans to domestic residents	Monetary financial institutions	General government	Other domestic residents ¹		Monetary financial institutions	General government	Other domestic residents ¹	
	1	2	3	4	5	6	7	8	9
XII 2006	430 323.4	64 003.3	22 728.5	343 591.6	134 387.9	29 071.3	101 527.0	3 789.6	206.3
I 2007	444 810.2	68 627.4	25 485.0	350 697.8	130 278.4	30 511.3	96 535.1	3 232.0	205.3
II	453 751.8	71 559.5	23 923.8	358 268.5	135 347.6	31 176.8	100 304.5	3 866.3	218.7
III	467 261.5	75 471.2	23 448.8	368 341.5	134 789.1	32 187.9	98 775.6	3 825.6	232.9
IV	473 399.8	72 365.2	23 120.3	377 914.3	133 630.9	33 350.9	96 173.9	4 106.1	221.0
V	480 468.1	70 490.6	22 760.8	387 216.7	130 422.1	31 782.4	94 375.4	4 264.3	223.6
VI	488 720.5	69 265.7	20 966.3	398 488.5	126 569.7	30 060.0	92 409.8	4 099.9	232.7
VII	502 934.4	71 565.1	20 742.9	410 626.4	120 460.1	26 415.7	89 788.3	4 256.1	258.0
VIII	510 786.7	69 113.6	20 679.6	420 993.5	126 822.5	31 668.1	90 729.9	4 424.5	259.7
IX	528 910.5	78 147.2	19 403.6	431 359.7	133 669.1	32 384.9	97 211.7	4 072.5	263.2
X	526 180.7	67 567.9	20 635.6	437 977.2	126 869.7	31 035.9	91 622.7	4 211.1	271.1
XI	560 662.9	93 383.8	19 551.7	447 727.4	120 444.4	18 660.3	96 720.5	5 063.6	272.7
XII	545 187.2	70 646.3	21 292.0	453 248.9	128 580.1	18 916.5	104 173.8	5 489.8	267.8

¹ Non-monetary financial institutions and non-financial sector.

² Excluding financial fixed assets, included in column 10.

TABLE VII

Aggregated Balance Sheet of
Other Monetary Financial Institutions (million zloty)
LIABILITIES

Period								Money Market Fund Shares/Units	
	Deposits of domestic residents	Monetary financial institutions	Central government	Other domestic residents ¹	overnight	with agreed maturity	redeemable at notice		repurchase agreements
	1	2	3	4	5	6	7	8	9
XII 2006	499 190.7	55 411.8	14 841.7	428 937.2	204 987.3	213 094.1	48.9	10 806.9	566.4
I 2007	513 555.5	57 335.9	17 167.5	439 052.1	208 086.2	218 402.3	52.4	12 511.2	566.4
II	521 314.7	60 750.1	17 001.0	443 563.6	214 199.1	218 478.0	51.7	10 834.8	566.4
III	529 774.3	64 411.9	20 719.4	444 643.0	214 585.0	218 671.1	50.8	11 336.1	566.4
IV	534 585.5	63 026.9	23 061.5	448 497.1	211 916.6	224 576.0	52.2	11 952.3	591.3
V	530 828.8	58 263.4	19 437.2	453 128.2	220 396.5	219 166.5	51.5	13 513.7	591.3
VI	524 330.8	55 353.1	17 791.5	451 186.2	221 278.7	218 172.6	52.7	11 682.2	591.3
VII	529 917.7	54 865.7	18 187.7	456 864.3	228 024.4	215 203.2	52.2	13 584.5	591.3
VIII	540 431.2	57 449.1	17 085.0	465 897.1	224 296.1	227 637.2	52.1	13 911.7	594.7
IX	555 731.0	68 480.5	23 242.2	464 008.3	231 974.5	220 680.0	54.5	11 299.3	594.7
X	545 192.0	57 562.4	19 569.7	468 059.9	224 718.3	232 245.7	52.1	11 043.8	594.7
XI	568 446.1	69 341.2	24 768.9	474 336.0	235 383.6	229 644.8	52.7	9 254.9	594.7
XII	559 308.3	57 288.0	18 442.1	483 578.2	254 237.6	221 096.9	89.4	8 154.3	594.7

¹ Non-monetary financial institutions, local government, social security funds and non-financial sector.

Holdings of shares/other equity issued by domestic residents	Monetary financial institutions		External assets	Fixed assets ²	Remaining assets	Total assets
	Monetary financial institutions	Other domestic residents ¹				
10	11	12	13	14	15	16
6 479.8	1 040.0	5 439.8	93 537.1	32 210.5	29 742.7	726 887.7
6 501.2	1 041.6	5 459.6	103 501.7	32 015.6	27 743.5	745 055.9
6 461.9	1 040.5	5 421.4	99 496.8	32 032.6	27 271.3	754 580.7
6 321.2	1 041.6	5 279.6	95 464.2	32 080.0	28 104.5	764 253.4
6 373.2	1 053.3	5 319.9	95 841.4	32 184.7	30 991.3	772 642.3
6 423.3	1 058.0	5 365.3	92 347.5	32 249.6	29 722.6	771 856.8
6 509.7	1 054.9	5 454.8	87 174.3	32 411.2	29 424.7	771 042.8
6 455.3	1 052.2	5 403.1	85 244.8	32 630.0	29 699.8	777 682.4
6 458.0	1 051.6	5 406.4	84 575.1	32 776.7	29 686.9	791 365.6
6 374.4	1 081.6	5 292.8	89 339.3	33 013.4	31 068.4	822 638.3
6 404.1	1 079.9	5 324.2	98 157.6	33 063.7	36 397.0	827 343.9
6 427.3	1 129.8	5 297.5	93 118.0	33 479.1	43 465.7	857 870.1
6 425.8	1 133.7	5 292.1	86 267.8	33 924.4	47 438.5	848 091.6

Debt securities issued	Capital and reserves				External liabilities	Remaining liabilities	Total liabilities
		Tier-1 capital	Tier-2 capital	Reserves			
10	11	12	13	14	15	16	17
17 506.2	96 023.8	55 736.0	1 832.5	38 455.3	63 313.1	50 287.5	726 887.7
17 254.3	96 077.1	55 841.5	1 893.6	38 342.0	66 995.4	50 607.2	745 055.9
15 462.0	95 999.5	55 823.4	1 797.7	38 378.4	68 614.2	52 623.9	754 580.7
11 555.5	96 809.7	56 668.2	1 665.5	38 476.0	71 214.0	54 333.5	764 253.4
11 248.7	98 524.1	58 465.8	1 518.8	38 539.5	73 662.4	54 030.3	772 642.3
11 621.3	99 233.4	59 000.2	1 457.5	38 775.7	76 997.6	52 584.4	771 856.8
11 290.9	100 991.7	61 090.7	1 094.1	38 806.9	84 239.8	49 598.3	771 042.8
11 554.3	101 192.4	61 118.6	1 113.1	38 960.7	82 518.7	51 908.0	777 682.4
12 197.6	101 073.9	61 132.3	955.5	38 986.1	86 671.1	50 397.1	791 365.6
12 854.4	101 311.3	61 258.5	1 071.8	38 981.0	98 502.3	53 644.6	822 638.3
15 290.2	101 264.7	61 272.0	1 091.3	38 901.4	104 511.1	60 491.2	827 343.9
14 750.3	104 059.2	64 621.0	707.9	38 730.3	104 635.9	65 383.9	857 870.1
15 889.5	103 553.0	64 775.0	557.9	38 220.1	104 124.2	64 621.9	848 091.6

TABLE VIII

Balance Sheet of the National Bank of Poland (million zloty)
ASSETS

Period	Loans to domestic residents				Holdings of securities other than shares issued by domestic residents			Holdings of shares/other equity issued by domestic residents			External assets	Fixed assets ²	Remaining assets	Total assets
	1	2	3	4	5	6	7	8	9	10				
XII 2006	5 465.1	5 440.2	0.0	24.9	5.7	5.7	0.0	53.9	0.0	53.9	147 223.4	2 077.8	253.0	155 078.9
I 2007	2 243.3	2 219.1	0.0	24.2	5.7	5.7	0.0	53.9	0.0	53.9	161 805.0	2 076.9	516.7	166 701.5
II	2 242.9	2 219.1	0.0	23.8	5.7	5.7	0.0	53.9	0.0	53.9	157 563.4	2 063.0	301.0	162 229.9
III	2 175.6	2 151.6	0.0	24.0	5.7	5.7	0.0	53.9	0.0	53.9	153 922.4	2 065.7	615.4	158 838.7
IV	2 150.3	2 126.0	0.0	24.3	5.7	5.7	0.0	53.9	0.0	53.9	151 398.6	2 066.6	3 709.2	159 384.3
V	2 150.8	2 126.0	0.0	24.8	5.7	5.7	0.0	53.9	0.0	53.9	162 796.3	2 073.7	2 420.0	169 500.4
XII	2 206.2	2 180.9	0.0	25.3	5.7	5.7	0.0	53.9	0.0	53.9	158 523.1	2 074.9	4 054.0	166 917.8
VII	2 059.0	2 032.9	0.0	26.1	5.7	5.7	0.0	53.9	0.0	53.9	161 173.8	2 075.7	3 839.4	169 207.5
VIII	2 058.8	2 032.9	0.0	25.9	5.7	5.7	0.0	53.9	0.0	53.9	163 379.7	2 079.6	2 506.1	170 083.8
IX	1 965.7	1 939.7	0.0	26.0	5.7	5.7	0.0	53.9	0.0	53.9	161 584.3	2 082.3	6 326.8	172 018.7
X	1 965.6	1 939.7	0.0	25.9	5.7	5.7	0.0	53.9	0.0	53.9	157 417.4	2 081.4	11 839.6	173 363.6
XI	1 965.7	1 939.7	0.0	26.0	0.0	0.0	0.0	53.9	0.0	53.9	173 538.1	2 085.4	13 535.5	191 178.6
XII	3 424.1	3 398.6	0.0	25.5	0.0	0.0	0.0	53.9	0.0	53.9	165 823.0	2 081.3	214.5	171 596.8

¹ Non-monetary financial, local-government, social security funds and non-financial sector.

² Excluding financial fixed assets, included in column 8.

TABLE IX

Consolidated Balance Sheet of Monetary Financial Institutions
(million zloty)
ASSETS

Period	Loans to domestic residents			Holdings of securities other than shares issued by domestic residents			Holdings of shares/other equity ² issued by other domestic residents ¹	External assets	Fixed assets ³	Remaining assets ⁴	Total assets
	1	2	3	4	5	6					
XII 2006	366 345.0	22 728.5	343 616.5	105 316.6	101 527.0	3 789.6	5 493.7	240 760.5	34 288.3	23 690.7	775 894.8
I 2007	376 207.0	25 485.0	350 722.0	99 767.1	96 535.1	3 232.0	5 513.5	265 306.7	34 092.5	22 738.2	803 625.0
II	382 216.1	23 923.8	358 292.3	104 170.8	100 304.5	3 866.3	5 475.3	257 060.2	34 095.6	22 101.6	805 119.6
III	391 814.3	23 448.8	368 365.5	102 601.2	98 775.6	3 825.6	5 333.5	249 386.6	34 145.7	23 168.3	806 449.6
IV	401 058.9	23 120.3	377 938.6	100 280.0	96 173.9	4 106.1	5 373.8	247 240.0	34 251.3	28 044.6	816 248.6
V	410 002.3	22 760.8	387 241.5	98 639.7	94 375.4	4 264.3	5 419.2	255 143.8	34 323.3	26 073.8	829 602.1
XII	419 480.1	20 966.3	398 513.8	96 509.7	92 409.8	4 099.9	5 508.7	245 697.4	34 486.1	27 432.4	829 114.4
VII	431 395.4	20 742.9	410 652.5	94 044.4	89 788.3	4 256.1	5 457.0	246 418.6	34 705.7	27 165.8	839 186.9
VIII	441 699.0	20 679.6	421 019.4	95 154.4	90 729.9	4 424.5	5 460.3	247 954.8	34 856.3	25 626.1	850 750.9
IX	450 789.3	19 403.6	431 385.7	101 284.2	97 211.7	4 072.5	5 346.7	250 923.6	35 095.7	31 348.3	874 787.8
X	458 638.7	20 635.6	438 003.1	95 833.8	91 622.7	4 211.1	5 378.1	255 575.0	35 145.1	41 255.5	891 826.2
XI	467 305.1	19 551.7	447 753.4	101 784.1	96 720.5	5 063.6	5 351.4	266 656.1	35 564.5	50 149.6	926 810.8
XII	474 566.4	21 292.0	453 274.4	109 663.6	104 173.8	5 489.8	5 346.0	252 090.8	36 005.7	39 170.3	916 842.8

¹ Non-monetary financial institutions, and non-financial sector.

² Including units in investment funds and financial fixed assets.

³ Excluding financial fixed assets, incorporated in column 7.

⁴ Including rights issues.

TABLE VIII

Balance Sheet of the National Bank of Poland (million zloty)
LIABILITIES

Period	Currency in circulation	Deposits of domestic residents	Other monetary financial institutions	Central government	Other domestic residents ¹	Debt securities issued	Capital and reserves	Tier-1 capital	Reserves	External liabilities	Remaining liabilities	Total liabilities
XII 2006	75 072.7	33 233.0	14 612.0	16 545.1	2 075.9	26 216.4	3 406.3	2 338.9	1 067.4	9 072.0	8 078.5	155 078.9
I 2007	73 144.9	35 979.3	15 708.5	18 545.9	1 724.9	27 816.4	3 461.4	2 338.9	1 122.5	13 427.4	12 872.1	166 701.5
II	74 087.8	33 676.6	15 088.2	16 698.2	1 890.2	28 316.4	3 446.9	2 338.9	1 108.0	11 097.4	11 604.8	162 229.9
III	75 766.5	30 914.5	15 209.4	14 039.2	1 665.9	30 016.4	3 417.3	2 338.9	1 078.4	9 417.5	9 306.5	158 838.7
IV	78 610.3	26 822.7	12 814.4	12 528.7	1 479.6	31 216.4	3 432.7	2 338.9	1 093.8	10 807.3	8 494.9	159 384.3
V	77 525.7	32 497.3	16 457.4	14 831.4	1 208.5	29 516.4	3 447.7	2 338.9	1 108.8	17 738.9	8 774.4	169 500.4
VI	79 488.4	32 034.8	16 594.8	14 278.7	1 161.3	28 033.7	3 460.8	2 338.9	1 121.9	15 016.8	8 883.3	166 917.8
VII	80 092.4	37 947.4	21 527.1	14 937.1	1 483.2	23 959.6	3 598.9	2 469.4	1 129.5	16 926.9	6 682.3	169 207.5
VIII	81 672.5	32 433.3	16 054.6	14 727.1	1 651.6	28 816.4	3 611.8	2 469.4	1 142.4	16 187.9	7 361.9	170 083.8
IX	81 802.7	33 905.7	15 163.1	16 727.3	2 015.3	29 318.3	3 624.5	2 469.4	1 155.1	15 462.7	7 904.8	172 018.7
X	82 596.1	31 905.8	15 872.0	13 699.0	2 334.8	27 716.4	3 634.9	2 469.4	1 165.5	19 339.9	8 170.5	173 363.6
XI	82 350.1	49 449.8	28 527.5	18 427.2	2 495.1	15 308.6	3 646.6	2 469.4	1 177.2	31 868.6	8 554.9	191 178.6
XII	85 671.3	47 760.2	17 522.0	26 386.4	3 851.8	15 585.2	3 626.2	2 469.4	1 156.8	25 319.8	-6 365.9	171 596.8

¹ Non-monetary financial institutions, local-government, social security funds and non-financial sector.

TABLE IX

Consolidated Balance Sheet of Monetary Financial Institutions
(million zloty)
LIABILITIES

Period	Currency in circulation	Deposits of central government	Deposits of other domestic residents ¹					Money Market Funds Shares/Units	Debt securities issued	Capital and reserves	External liabilities	Remaining liabilities	Excess of inter-MFI liabilities	Total liabilities
				overnight	with agreed maturity	redeemable at notice	repurchase agreements							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14
XII 2006	68 767.7	31 386.8	431 013.1	207 063.2	213 094.1	48.9	10 806.9	360.1	14 645.6	98 390.1	72 385.1	58 366.0	580.3	775 894.8
I 2007	67 622.9	35 713.4	440 777.0	209 811.1	218 402.3	52.4	12 511.2	361.1	14 553.7	98 496.9	80 422.8	63 479.3	2 197.9	803 625.0
II	68 617.1	33 699.2	445 453.8	216 089.3	218 478.0	51.7	10 834.8	347.7	12 595.9	98 405.9	79 711.6	64 228.7	2 059.7	805 119.6
III	70 214.9	34 758.6	446 308.9	216 250.9	218 671.1	50.8	11 336.1	333.5	9 378.3	99 185.4	80 631.5	63 640.0	1 998.5	806 449.6
IV	71 954.4	35 590.2	449 976.7	213 396.2	224 576.0	52.2	11 952.3	370.3	9 108.5	100 903.5	84 469.7	62 525.2	1 350.1	816 248.6
V	71 456.9	34 268.6	454 336.7	221 605.0	219 166.5	51.5	13 513.7	367.7	9 349.6	101 623.1	94 736.5	61 358.8	2 104.2	829 602.1
VI	73 442.1	32 070.2	452 347.5	222 440.0	218 172.6	52.7	11 682.2	358.6	9 258.9	103 397.6	99 256.6	58 481.6	501.3	829 114.4
VII	73 719.0	33 124.8	458 347.5	229 507.6	215 203.2	52.2	13 584.5	333.3	9 092.5	103 739.1	99 445.6	58 590.3	2 794.8	839 186.9
VIII	75 105.6	31 812.1	467 548.7	225 947.7	227 637.2	52.1	13 911.7	335.0	9 340.2	103 634.1	102 859.0	57 759.0	2 357.2	850 750.9
IX	75 755.8	39 969.5	466 023.6	233 989.8	220 680.0	54.5	11 299.3	331.5	9 782.1	103 854.2	113 965.0	61 549.4	3 556.7	874 787.8
X	75 615.0	33 268.7	470 394.7	227 053.1	232 245.7	52.1	11 043.8	323.6	11 965.0	103 819.7	123 851.0	68 661.7	3 926.8	891 826.2
XI	75 498.5	43 196.1	476 831.1	237 878.7	229 644.8	52.7	9 254.9	322.0	11 398.6	106 576.0	136 504.5	73 938.8	2 545.2	926 810.8
XII	77 188.6	44 828.5	487 430.0	258 089.4	221 096.9	89.4	8 154.3	326.9	12 558.2	106 045.5	129 444.0	58 256.0	765.1	916 842.8

¹ Non-monetary financial institutions, local government, social security funds and non-financial sector.

TABLE Xa

M3 and Counterparts (million zloty)
M3

Period												M1
	Currency in circulation (excluding vault cash)	Currency in circulation (including vault cash)	Cash in banks vaults	Overnight deposits and other liabilities	Households	of which individuals	Non-monetary financial institutions	Non-financial corporations	Non-profit institutions serving households	Local government	Social security funds	
XII 2006	68 767,7	75 072,7	6 305,0	207 063,2	108 824,7	88 643,8	12 271,2	67 156,0	5 813,4	11 135,3	1 862,6	275 830,9
I 2007	67 622,8	73 144,9	5 522,1	209 811,0	112 935,4	92 292,2	12 820,9	65 514,7	5 469,1	11 304,6	1 766,3	277 433,8
II	68 617,2	74 087,8	5 470,6	216 089,3	116 668,4	96 527,8	13 393,0	66 200,2	5 366,3	12 782,8	1 678,6	284 706,5
III	70 214,9	75 766,5	5 551,6	216 250,9	116 312,1	96 967,4	14 236,3	65 989,1	5 268,7	12 751,2	1 693,4	286 465,8
IV	71 954,4	78 610,3	6 655,8	213 396,1	116 387,4	97 953,7	14 762,1	62 403,0	5 359,8	12 794,9	1 689,0	285 350,5
V	71 457,0	77 525,7	6 068,7	221 605,0	116 896,8	98 145,6	15 947,5	68 169,8	5 469,3	13 706,8	1 414,9	293 062,0
VI	73 442,1	79 488,4	6 046,3	222 439,9	118 860,6	99 879,9	15 308,5	67 612,9	5 833,8	13 352,9	1 471,3	295 882,0
VII	73 719,0	80 092,4	6 373,4	229 507,6	120 370,6	100 778,7	14 780,7	72 734,5	6 225,6	13 693,8	1 702,4	303 226,6
VIII	75 105,6	81 672,5	6 566,9	225 947,7	123 804,1	103 618,9	13 923,6	67 626,5	6 125,8	12 760,6	1 707,1	301 053,3
IX	75 755,9	81 802,7	6 046,8	233 989,8	125 266,1	105 243,2	13 999,4	71 402,8	6 324,6	14 911,2	2 085,8	309 745,6
X	75 615,0	82 596,1	6 981,1	227 053,1	125 930,8	105 486,4	13 484,9	65 108,1	6 296,2	13 705,5	2 527,6	302 668,1
XI	75 498,5	82 350,1	6 851,6	237 878,7	129 614,7	109 136,5	14 367,2	71 319,5	6 275,0	13 647,4	2 654,9	313 377,2
XII	77 188,6	85 671,3	8 482,7	258 089,4	137 269,8	113 316,5	13 287,2	79 404,6	6 457,4	14 671,8	6 998,5	335 278,0

TABLE Xb

M3 and Counterparts (million zloty)
M3 Counterparts

Period	Net external assets			Credit to other domestic residents	Loans to other domestic residents	Households	of which individuals	Non-monetary financial institutions	Non-financial corporations	Non-profit institutions serving households	Local government
	External assets	External liabilities									
	1	2	3								
XII 2006	168 375.4	240 760.5	72 385.1	372 809.4	360 980.9	188 462.0	152 953.5	14 407.6	139 749.8	997.2	14 768.1
I 2007	184 884.0	265 306.8	80 422.8	382 080.3	370 806.4	194 197.5	158 231.7	13 818.2	141 719.9	986.4	14 558.6
II	177 348.6	257 060.2	79 711.7	389 072.5	377 196.6	197 113.9	160 250.7	15 197.7	144 972.4	1 008.4	14 458.1
III	168 755.2	249 386.6	80 631.4	397 921.4	386 234.0	203 729.4	165 638.1	15 086.0	148 533.2	1 016.9	14 217.6
IV	162 770.3	247 240.0	84 469.6	407 978.5	395 907.5	209 429.0	169 820.2	15 410.8	152 100.9	997.9	13 992.2
V	160 407.2	255 143.8	94 736.5	417 946.6	405 673.9	216 825.3	176 069.1	15 703.3	153 679.4	1 033.6	13 975.6
VI	146 440.7	245 697.4	99 256.7	427 774.3	415 563.5	222 800.5	181 203.8	15 836.3	158 810.6	1 066.4	13 954.3
VII	146 973.0	246 418.6	99 445.6	439 767.6	427 464.3	231 663.8	189 320.3	16 361.2	161 496.8	1 130.7	14 041.6
VIII	145 095.8	247 954.8	102 859.0	449 979.3	437 509.9	239 445.5	196 596.4	15 998.6	164 351.6	1 223.7	14 138.0
IX	136 958.7	250 923.6	113 965.0	458 517.8	446 555.9	244 721.9	201 043.1	16 679.2	168 666.6	1 317.9	14 200.1
X	131 724.0	255 575.0	123 851.0	466 351.5	454 205.6	248 932.9	204 925.4	16 948.8	170 697.8	1 423.7	14 262.5
XI	130 151.6	266 656.1	136 504.5	475 741.8	462 758.0	255 428.9	210 789.8	16 791.2	174 003.5	1 529.8	14 500.9
XII	122 646.9	252 090.8	129 443.9	482 808.3	469 139.2	259 956.5	215 685.0	18 295.2	173 387.4	1 635.3	15 864.8

Deposits and other liabilities with agreed maturity up to 2 years and-blocked deposits	of which									Repurchase agreements	Debt securities issued with maturity up to 2 years	Money market fund shares	M3
	Households	of which individuals	Non-monetary financial institutions	Non-financial corporations	Non-profit institutions serving households	Local government	Social security funds	Deposits redeemable at notice up to 3 months	M2				
13	14	15	16	17	18	19	20	21	22	23	24	25	26
205 364.0	128 860,5	125 649,6	6 946,5	58 426,8	4 894,4	3 429,0	2 806,7	15,6	481 210,5	10 806,9	2 932,1	360,0	495 309,5
210 610.1	128 408,1	125 554,2	8 858,4	58 970,4	5 544,6	6 328,2	2 500,5	16,9	488 060,8	12 511,2	2 641,7	361,1	503 574,8
210 654.4	127 346,9	124 499,8	7 096,7	60 271,8	5 755,4	7 114,5	3 069,0	15,6	495 376,5	10 834,8	2 792,7	347,7	509 351,7
210 815.0	126 333,0	123 297,6	8 637,0	59 787,8	5 946,2	7 390,2	2 721,0	14,0	497 294,7	11 336,1	3 017,5	333,4	511 981,7
216 717.6	124 062,4	120 997,1	10 316,8	64 708,6	6 150,3	8 709,0	2 770,4	15,2	502 083,3	11 952,3	2 594,5	370,3	517 000,5
211 723.9	121 103,8	118 429,8	9 847,7	61 398,6	6 183,8	10 013,8	3 176,2	14,6	504 800,5	13 513,7	2 554,7	367,7	521 236,7
210 909.1	119 782,1	116 923,4	10 349,9	61 726,7	6 044,6	9 570,8	3 434,9	15,9	506 807,0	11 682,2	2 534,3	358,6	521 382,1
208 298.9	119 092,4	116 332,6	10 310,4	58 828,8	5 935,6	10 225,2	3 906,5	15,4	511 540,9	13 584,5	2 233,3	333,3	527 692,0
220 683.0	121 236,1	118 287,4	10 811,9	66 825,3	6 147,4	11 226,6	4 435,7	15,2	521 751,6	13 911,7	2 042,4	335,0	538 040,6
213 700.0	121 365,2	118 270,7	10 241,4	61 484,4	5 959,2	10 112,0	4 537,7	17,3	523 463,0	11 299,3	2 233,4	331,6	537 327,3
225 191.2	121 201,0	118 034,3	11 187,6	71 389,3	6 089,9	10 681,8	4 641,5	14,7	527 874,0	11 043,8	2 699,9	323,7	541 941,4
222 696.8	122 629,8	119 488,5	9 688,7	69 078,0	6 066,8	10 718,5	4 515,0	14,9	536 088,9	9 254,9	3 289,4	322,1	548 955,3
214 086.2	125 784,8	122 368,8	10 432,1	64 252,2	5 481,3	3 295,3	4 840,5	50,6	549 414,8	8 154,3	3 757,7	327,0	561 653,7

Social security funds	Holdings of securities other than shares	of which issued by			Holdings of shares/other equity	of which		Credit to central government, net
		Non-monetary financial institutions	Non-financial corporations	Local government		Non-monetary financial institutions	Non-financial corporations	
12	13	14	15	16	17	18	19	20
2 596.2	6 334.8	683.1	3 106.5	2 545.3	5 493.6	3 956.4	1 537.2	72 959.1
5 525.8	5 760.5	590.9	2 641.1	2 528.5	5 513.4	3 994.8	1 518.6	63 693.9
4 446.2	6 400.6	682.2	3 184.0	2 534.4	5 475.3	3 982.0	1 493.2	69 090.5
3 651.0	6 353.9	932.1	2 893.4	2 528.4	5 333.4	3 812.8	1 520.6	67 068.9
3 976.7	6 697.3	937.1	3 169.0	2 591.2	5 373.7	3 816.2	1 557.5	63 143.9
4 456.7	6 853.5	995.1	3 269.2	2 589.2	5 419.2	3 838.7	1 580.5	61 846.1
3 095.4	6 702.1	1 111.8	2 988.0	2 602.3	5 508.7	3 819.3	1 689.4	61 653.9
2 770.2	6 846.4	1 246.4	3 009.7	2 590.3	5 456.9	3 820.6	1 636.3	58 004.4
2 352.5	7 009.0	1 241.8	3 182.7	2 584.6	5 460.3	3 831.0	1 629.3	60 522.2
970.2	6 615.3	1 115.7	2 956.8	2 542.8	5 346.6	3 822.4	1 524.2	58 932.7
1 940.0	6 767.8	1 022.3	3 188.8	2 556.6	5 378.1	3 823.2	1 554.9	60 230.4
503.7	7 632.4	1 015.7	4 047.9	2 568.8	5 351.4	3 813.2	1 538.2	55 502.6
0.0	8 323.1	1 206.5	4 283.3	2 833.4	5 345.9	3 820.2	1 525.7	61 939.1

TABLE Xb

M3 and Counterparts (million zloty), cont.

Period	of which:			Deposits of central government	Longer-term financial liabilities	Deposits with agreed maturity over 2 years and deposits redeemable at notice over 3 months	Households		Non-monetary financial institutions
	Credit to central government	Loans	Debt securities issued				of which individuals		
		21	22					23		28
XII 2006	104 345.9	1 961.8	98 981.7	31 386.8	117 867.1	7 763.4	4 936.1	4 890.9	1 779.6
I 2007	99 407.3	1 953.0	94 006.6	35 713.4	118 236.8	7 827.8	4 884.0	4 843.7	1 824.0
II	102 789.7	1 537.8	97 770.1	33 699.2	116 068.9	7 859.7	4 832.1	4 792.6	1 875.7
III	101 827.4	1 538.6	96 247.2	34 758.6	113 439.2	7 892.9	4 777.8	4 736.3	2 033.6
IV	98 734.1	1 047.7	93 582.8	35 590.2	115 312.9	7 895.4	4 737.3	4 695.5	2 037.9
V	96 114.7	536.5	91 786.2	34 268.6	115 897.4	7 479.4	4 675.6	4 633.8	1 711.0
VI	93 724.2	334.7	89 807.5	32 070.3	117 422.5	7 300.3	4 569.0	4 526.6	1 718.8
VII	91 129.2	329.4	87 198.0	33 124.8	117 539.4	6 941.1	4 514.6	4 483.7	1 731.1
VIII	92 334.4	364.6	88 145.3	31 812.1	117 923.0	6 991.1	4 517.4	4 486.9	1 762.9
IX	98 902.2	361.5	94 668.9	39 969.5	118 420.0	7 017.2	4 509.7	4 478.2	1 765.7
X	93 499.1	379.8	89 066.0	33 268.7	120 176.7	7 092.0	4 287.7	4 255.2	2 076.1
XI	98 698.7	398.0	94 151.7	43 196.1	121 671.0	6 985.8	4 204.8	4 173.4	2 041.2
XII	106 767.6	419.6	101 340.4	44 828.5	121 895.5	7 049.6	4 103.7	4 072.3	2 211.6

TABLE XI

Reserve Money and Counterparts (million zloty)

Period	External assets, net	Official reserve assets	Refinancing credit	Rediscount credit	Lombard credit	Credit for rehabilitation programmes	Credit for central government investment projects	Other credit	Overdue credit
	1	2	3	4	5	6	7	8	9
XII 2006	138 151.4	141 113.7	5 440.2	0.0	3 186.2	0.0	2 219.1	34.8	0.0
I 2007	148 377.6	155 684.1	2 219.1	0.0	0.0	0.0	2 219.1	0.0	0.0
II	146 466.0	151 419.5	2 219.1	0.0	0.0	0.0	2 219.1	0.0	0.0
III	144 505.0	147 570.3	2 151.6	0.0	25.6	0.0	2 126.0	0.0	0.0
IV	140 591.3	145 083.8	2 126.0	0.0	0.0	0.0	2 126.0	0.0	0.0
V	145 057.4	156 754.7	2 126.0	0.0	0.0	0.0	2 126.0	0.0	0.0
VI	143 506.2	152 375.1	2 180.9	0.0	148.0	0.0	2 032.9	0.0	0.0
VII	144 246.9	155 122.0	2 032.9	0.0	0.0	0.0	2 032.9	0.0	0.0
VIII	147 191.8	157 341.7	2 032.9	0.0	0.0	0.0	2 032.9	0.0	0.0
IX	146 121.6	155 382.6	1 939.7	0.0	0.0	0.0	1 939.7	0.0	0.0
X	138 077.5	151 254.1	1 939.7	0.0	0.0	0.0	1 939.7	0.0	0.0
XI	141 669.5	167 741.8	1 939.7	0.0	0.0	0.0	1 939.7	0.0	0.0
XII	140 503.3	160 090.1	3 398.6	0.0	1 552.0	0.0	1 846.6	0.0	0.0

* Since December 2006, volumes of banknotes and collector's coins as well as banknotes and coins withdrawn from issue have been transferred from "currency in circulation" to "Other items net". Impact of these amounts on the total "cash in circulation" was insignificant.

Non-financial corporations	Non-profit institutions-serving households	Local government	Social security funds	Debt securities issued with maturity over 2 years	Capital and reserves	Fixed assets (excluding financial fixed assets)	Other items (net)
30	31	32	33	34	35	36	37
925.1	95.2	27.4	0.1	11 713.6	98 390.1	34 288.3	-35 255.6
992.8	98.4	28.5	0.1	11 912.1	98 496.9	34 092.5	-42 939.1
1 025.4	97.5	28.9	0.1	9 803.2	98 406.0	34 095.6	-44 186.5
959.6	89.8	31.9	0.1	6 360.9	99 185.3	34 145.7	-42 470.2
994.1	94.6	31.3	0.1	6 514.0	100 903.6	34 251.4	-35 830.8
969.1	90.3	33.3	0.1	6 794.9	101 623.1	34 323.3	-37 389.1
891.4	87.7	33.4	0.1	6 724.5	103 397.7	34 486.1	-31 550.5
607.6	80.5	7.2	0.1	6 859.2	103 739.2	34 705.6	-34 219.2
619.6	84.1	7.0	0.1	7 297.9	103 634.0	34 856.2	-34 490.1
646.7	86.4	8.7	0.1	7 548.6	103 854.1	35 095.7	-33 757.6
625.9	93.3	8.9	0.1	9 265.1	103 819.6	35 145.0	-31 332.8
630.0	100.4	9.4	0.1	8 109.3	106 575.9	35 564.4	-26 334.2
617.0	105.6	11.6	0.1	8 800.5	106 045.4	36 005.7	-19 850.8

Open market operations (net)	Auction credit	Auction deposits	NBP bills	Credit to central government, net	Other items (net)	Central Bank reserve money	Currency in circulation (including vault cash)	Bank current accounts	Reserve requirements accounts
10	11	12	13	14	15	16	17	18	19
-18 400.0	0.0	0.0	-18 400.0	-16 545.1	-21 820.7	86 825.7	75 072.7 *	11 698.6	54.4
-20 000.0	0.0	0.0	-20 000.0	-18 545.9	-23 401.3	88 649.5	73 144.9	15 433.6	71.0
-20 500.0	0.0	0.0	-20 500.0	-16 698.2	-22 538.0	88 948.9	74 087.8	14 781.9	79.2
-22 200.0	0.0	0.0	-22 200.0	-14 039.2	-20 860.8	89 556.6	75 766.5	13 709.0	81.1
-23 400.0	0.0	0.0	-23 400.0	-12 528.7	-15 703.0	91 085.6	78 610.3	12 391.9	83.5
-21 700.0	0.0	0.0	-21 700.0	-14 831.4	-16 939.2	93 712.7	77 525.7	16 098.1	88.9
-20 217.3	0.0	0.0	-20 217.3	-14 278.7	-16 992.0	94 199.1	79 488.4	14 620.2	90.5
-16 143.2	0.0	0.0	-16 143.2	-14 937.1	-13 814.5	101 385.0	80 092.4	21 198.0	94.6
-21 000.0	0.0	0.0	-21 000.0	-14 727.1	-16 007.0	97 490.6	81 672.5	15 718.8	99.2
-21 501.9	0.0	0.0	-21 501.9	-16 727.3	-15 349.5	94 482.6	81 802.7	12 580.1	99.8
-19 900.0	0.0	0.0	-19 900.0	-13 699.0	-8 278.1	98 140.2	82 596.1	15 437.0	107.0
-7 492.2	0.0	0.0	-7 492.2	-18 427.2	-7 085.0	110 604.8	82 350.1	28 097.4	157.3
-7 768.8	0.0	0.0	-7 768.8	-26 386.4	-7 077.3	102 669.4	85 671.3	16.846.1	152.0

METHODOLOGICAL NOTES

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. The private sector includes units of private domestic ownership (among others: companies, cooperatives, natural persons conducting economic activities, social organizations, associations, foundations), private foreign ownership (among others: foreign enterprises branches, foreign representatives, partnerships with exclusive foreign capital share) and "mixed" ownership with a private sector unit capital majority or lack of sectors majority in unit capital.

2. The corporate sector comprises entities, which conduct their economic activities in the fields of: forestry, including the provision of services; marine fishing; mining, 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 management and other sanitation 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", "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 on commission 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 include 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 co-operatives. Data presented in the Bulletin do 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.

10. Revenues from privatisation do not constitute the current revenues of the state budget; instead they finance the budget deficit (pt. 11).

11. Data on financial results of enterprises (pt. 12) are presented as prescribed by the amended Accounting Act dated 29 September 1994 (uniform text Journal of Laws 2002 No. 76, item 694, with later amendments).

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. 6, 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. 1, col. 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. Deposit rate (pt. 1, col. 4) sets the price offered by the Central Bank to commercial banks for short-term deposits.

4. Total reserve requirements (pt. 2, col. 12) 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. 3, except for the stocks of bills in circulation at the end of the month – col. 64) 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. 4, except for the stock of bills in circulation at month end – col. 86) 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. 6) is disclosed on the basis of the Warset 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

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, X AND XI

Financial sector – comprises the following sub-sectors:

- monetary financial institutions⁹⁸ (including the central bank and other monetary financial institutions). In Poland, the concept of other monetary financial institutions applies to banks, credit unions (SKOK) and money market funds
- insurance corporations and pension funds:
- other financial intermediaries (including financial leasing companies, factoring companies, brokerage offices, investment funds, without money market funds, and financial companies created for securitization);

⁹⁸ 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.

- financial auxiliaries (including bureaux de change, bourses, hire purchase institutions);
- non-financial sector – comprises the following sub-sectors:
 - state-owned corporations;
 - private corporations and co-operatives;
 - individual entrepreneurs⁹⁹;
 - farmers;
 - individuals;
 - non-profit institutions serving households.

In the publications of the National Bank of Poland, claims and liabilities of banks to the non-financial sector will be presented in accordance with the EU standards, i.e. 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).

⁹⁹ Natural persons conducting business activities on their own account, with a maximum of 9 employees.

TABLE IV
Average interest rate on zloty denominated businesses

Data on zloty denominated businesses refer to all businesses at the end of the reporting month, these concluded prior to the reporting month and still binding as well as new businesses. This interest rate is a quotient of interest on average zloty denominated business by average volume of businesses per reporting month, commissions and other charges excluded.

Until December 2006 the sample of reporting banks comprised the first fourteen items on the list below.

Starting from January 2007 until June 2007 data have been calculated based on the sample comprising 19 banks, i.e.:

1. Powszechna Kasa Oszczędności Bank Polski SA
2. Bank Polska Kasa Opieki SA
3. Bank BPH SA
4. Bank Handlowy w Warszawie SA
5. ING Bank Śląski SA
6. Kredyt Bank SA
7. Bank Zachodni WBK SA
8. BRE Bank SA
9. Bank Millennium SA
10. Bank Gospodarki Żywnościowej SA
11. Raiffeisen Bank Polska SA
12. BRE Bank Hipoteczny SA
13. Krakowski Bank Spółdzielczy
14. Bank Spółdzielczy w Brodnicy
15. Bank Ochrony Środowiska SA
16. FORTIS BANK POLSKA SA
17. GE Money Bank SA
18. LUKAS Bank SA
19. AIG Bank Polska SA.

In July 2007, BGK SA Bank has been addend to the above list.

At the end-December 2007, the above banks held 80.3% of zloty deposits of residents and 75.5 % of credit to households and non-financial corporations.

TABLE V

Average interest on new zloty denominated businesses

Information refers to agreements carried out in a given reporting month. Appendices to existing agreements shall be deemed new businesses.

Interest rates in the statistics on new businesses differ from those in Table IV. The formula is applied to statistical information on new businesses, also known as *Narrowly Defined Effective Rate* (NDER). The concept of Narrowly Defined Effective Rate was coined as an opposite to widely understood effective interest rate or *Real Interest Rate* (RIR). The NDER included, the new business statistics provides RIR for the second category of consumer and house purchase loans. As opposed to the NDER, which covers for interest costs of capital the real interest rate incorporates all charges paid by the borrower. These charges are most of all commissions (brokers included) but also compulsory loan insurance premiums against death or unemployment of the borrower.

The Table IV sample of banks applies.

TABLE VI

Average interest rate on euro denominated businesses

General rule of calculating interest rate are the same as for Table IV (see star-matched lines) and Table V. The Table IV and V sample of banks applies as well.

GENERAL COMMENTS ON TABLES VII, VIII, IX

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 credit unions (SKOK) and money market funds.

2. The presentation is structured in accordance with the ECB standards.

3. Assets in Tables VII, VIII and IX are shown gross of provisions, accumulated depreciation and write downs (except for securities presented at a market price).

4. Apart from external assets/liabilities debt securities issued and partly capital and reserves, all categories reflect operations with residents.

TABLE VII

Aggregated Balance Sheet of Other Monetary Financial Institutions – Assets and Liabilities

1. **Credits, loans and other claims to domestic residents** (assets col. 1) 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** (assets col. 5) held by other monetary financial institutions.

3. **Money Market Funds** participation units purchased by other MFIs (assets col.9).

4. **Securities and other shares and other equity issued by domestic residents** (assets col. 10) include shares, investment fund participation units, investment certificates and fixed financial assets (shares).

5. **External assets** (assets col. 13) include all assets of non-residents denominated in zloty and foreign currencies.

6. **Fixed assets** (assets col. 14) include total fixed assets except for financial fixed assets.

7. **Other assets** (assets col. 15) 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, value adjustments, rights issue, other assets, other operations, interest on securities purchased under repurchase agreement.

8. **Deposits and other liabilities to domestic residents** (liabilities col. 1) 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.

9. **Money Market Funds** participation units issued by the MMF (liabilities col. 9).

10. **Debt securities issued** (liabilities col. 10) are liabilities on own debt securities issued by other monetary financial institutions and subordinated claims in securities issued (purchased by residents and non-residents).

11. **Capital and reserves** (liabilities col. 11) 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).

12. **External liabilities** (liabilities col. 15) include all liabilities of non-residents denominated in zloty and foreign currencies, except for reserves included in point 11, which comprise residents

and non-residents as well as issue of debt securities and subordinated claims in securities purchased by non-residents.

13. **Other liabilities** (liabilities col. 16) 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 VIII
Balance Sheet of the National Bank of Poland – Assets and Liabilities

1. The item **credits, loans and other claims to domestic residents** (assets col. 1) 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** (assets col. 5) are securities held by the National Bank of Poland.

3. **Securities and other shares and other equity issued by domestic residents** (assets col. 8) – at the moment in the case of the NBP they include only fixed financial assets (equity).

4. **External assets** (assets col. 11) include all assets of non-residents denominated in zloty and foreign currencies.

5. **Fixed assets** (assets col. 12) include total fixed assets except for financial fixed assets.

6. **Other assets** (assets col. 13) 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** (liabilities col. 2) 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** (liabilities col. 6) represent liabilities on the NBP debt securities issued by the NBP.

9. **Capital and reserves** (liabilities col. 7) 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** (liabilities col. 10) include all liabilities of non-residents denominated in zloty and foreign currencies.

11. **Other liabilities** (liabilities col. 11) include interest on the above-mentioned categories of liabilities, deferred income, inter and intra-MFI settlements, other liabilities and financial performance.

TABLE IX

Consolidated Balance Sheet of Monetary Financial Institutions – Assets and Liabilities.

1. Table IX comprises a consolidated balance sheet of monetary financial institutions
2. In the assets and liabilities of the above-mentioned balance sheet, domestic inter-MFI operations have been netted out.
3. Other assets (assets col. 10) and currency in circulation (liabilities col. 1) were decreased by cash in vaults of other monetary financial institutions.

LIST OF THE MOST IMPORTANT ABBREVIATIONS

BFG	Bankowy Fundusz Gwarancyjny Bank Guarantee Fund
BIS	Bank Rozrachunków Międzynarodowych Bank for International Settlements
CRD	Dyrektywa dotycząca wymagań w zakresie adekwatności kapitałowej Capital Requirements Directive
EBC/ECB	Europejski Bank Centralny European Central Bank
EBOiR/EBRD	Europejski Bank Odbudowy i Rozwoju European Bank of Reconstruction and Development
ERM II	Europejski Mechanizm Kursowy Exchange Rate Mechanism II
ESBC/ESCB	Europejski System Banków Centralnych European System of Central Banks
FED	Bank Rezerwy Federalnej Federal Reserve Bank
GINB	Generalny Inspektorat Nadzoru Bankowego General Inspectorate of Banking Supervision
GUS	Główny Urząd Statystyczny Central Statistical Office
INE PAN	Instytut Nauk Ekonomicznych Polskiej Akademii Nauk Institute of Economics of the Polish Academy of Sciences
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
KNF	Komisja Nadzoru Finansowego Polish Financial Supervision Authority
MF	Ministerstwo Finansów Ministry of Finance
MFW/IMF	Międzynarodowy Fundusz Walutowy International Monetary Fund
NBP	Narodowy Bank Polski National Bank of Poland
NUK	Nowa Umowa Kapitałowa New Capital Accord

OECD	Organizacja Współpracy Gospodarczej i Rozwoju Organisation for Economic Co-operation and Development
ONZ/UN	Organizacja Narodów Zjednoczonych United Nations
Pb/b.p.	punkt bazowy base point
PKB/GDP	produkt krajowy brutto Gross Domestic Product
RPP/MPC	Rada Polityki Pieniężnej Monetary Policy Council
SDR	Specjalne Prawa Ciągnięcia Special Drawing Rights
SEPA	Jednolity Obszar Płatności w Euro Single Euro Payment Area
SIS	System Informacji Sprawozdawczej Reporting Information System (SIS)
SORBNET	System Obsługi Rachunków Banków w Centrali NBP Real-Time Gross Settlement System [RTGS] at the NBP Head Office
SORBNET-EURO	System Obsługi Rachunków Banków w Euro w Centrali NBP Real-Time Gross Settlement System [RTGS] in Euro at the NBP Head Office
STEP2 SEPA	System Transferów Kredytowych STEP2 SEPA STEP2 SEPA Credit Transfer
SWIFT	Stowarzyszenie na rzecz Światowej Międzybankowej Telekomunikacji Finansowej Society for Worldwide Interbank Financial Telecommunication
TARGET, TARGET2	Transeuropejski Zautomatyzowany Błyskawiczny System Rozrachunku Brutto w Czasie Rzeczywistym Trans-European Automated Real-time Gross Settlement Express Transfer System
TIBS	Inicjatywa Szkoleniowa dla Nadzoru Bankowego Training Initiative for Banking Supervision
UE/EU	Unia Europejska European Union
UGW/EMU	Unia Gospodarcza i Walutowa Economic and Monetary Union
UKNF	Urząd Komisji Nadzoru Finansowego Office of the Polish Financial Supervision Authority
ZBP/PBA	Związek Banków Polskich Polish Bank Association
ZSK/IAS	Zintegrowany System Księgowy Integrated Accounting System

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