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# Annual Report 2001

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Leszek Balcerowicz  
*President of the National Bank of Poland*

The activity of the National Bank of Poland in 2001 was conducted with the aim of stabilisation and normalisation. Over the past year, the central bank focussed on the performance of its two basic objectives of monetary stability and the stability of the financial system, while at the same time systematically adjusting its operations to conform to the standards in place within the European System of Central Banks. This was in accordance with the tasks laid down in the Bank's *Workplan for 2001*, adopted by the NBP Management Board, and in the *Monetary Policy Guidelines for 2001* approved by the Monetary Policy Council.

In September 1998, the Monetary Policy Council set itself the primary target of bringing inflation down to under 4% in 2003. Since then, it has proved possible to lower inflation from the 11% seen at that time to 3.6% at year end 2001. The previous years of work to consolidate mechanisms supporting price stability permitted a process of gradual interest rate reductions to be begun in February 2001. As a result of these measures, NBP interest rates were cut to the lowest level since Poland embarked on the process of economic transition. The scale of these cuts could have been greater, yet in consideration of the significant public sector financial deficit and uncertain economic situation, the Monetary Policy Council adopted a cautious approach to its interest rate decisions.

Measures were continued in 2001 to reduce the excess liquidity within the banking sector, which acts as a constraint on monetary policy effectiveness. In order to facilitate liquidity management at the banks and strengthen the safety of the payment system, the NBP introduced new legal regulations and new technical instruments. The Bank collaborated in this with the Polish Banking Association.

With a view to increasing the safety of the deposits placed at banks, while in parallel undertaking adjustments to correspond to European Union standards, work was conducted on new prudential regulations to limit banking risk and on the introduction of consolidated supervision, taking into account the need for cooperation and the exchange of information with other supervisory agencies at home and abroad.


Further major elements of the activity carried out by the NBP included participation in the early redemption of the debt of the Republic of Poland to the Federative Republic of Brazil, an education and information campaign on Poland's membership in the European Union and on the launch of euro notes and coin in the EMU countries, and also measures to raise the quality of service provided to the Bank's customers.

The process of bringing the operating principles of the NBP into line with the standards of the ESCB was pursued in collaboration with the central bank of France and the central bank of Italy in the framework of the Phare 2000 programme. The changes thus performed required strengthening the Bank's staff potential and also entailed financial outlays.

The present *Annual Report for 2001* contains a summary description of the activity of the central bank. It begins with an overview of the work of the Bank's directing bodies. The *Report* then presents the activity of the NBP in developing monetary policy. Subsequent chapters outline the performance of the key responsibilities of the NBP (banking supervision, the issue of currency, the development of the payment system, foreign exchange operations, and services to central government), activity in support of those key responsibilities (in the areas of legislation, analysis and statistics, education and information), and also responsibilities related to the Bank's own operations as an institution (international activity and internal development, with a presentation of the Bank's balance sheet and profit and loss account). The *Report* ends with the balance of payments of the Republic of Poland for 2001.

In 2001, the National Bank of Poland was able to halt the fall in the value of Poland's currency. Confidence in the zloty rose, and the relative proportion of personal zloty deposits increased in relation to savings in foreign currencies. The National Bank of Poland will be continuing its activity to ensure price stability and will be safeguarding the value of the Polish currency.

President of the National Bank of Poland



Leszek Balcerowicz

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## The Monetary Policy Council

### Chairperson

Leszek Balcerowicz

### Members:

Marek Dąbrowski

Bogusław Grabowski

Cezary Józefiak

Janusz Krzyżewski

Wojciech Łączkowski

Jerzy Pruski

Dariusz Rosati

Grzegorz Wójtowicz

Wiesława Ziółkowska

## The Management Board of the National Bank of Poland

### Chairperson

Leszek Balcerowicz

### Members:

Jerzy Stopyra

First Deputy President

Andrzej S. Bratkowski

Deputy President

Joanna Wielgórska-Leszczyńska

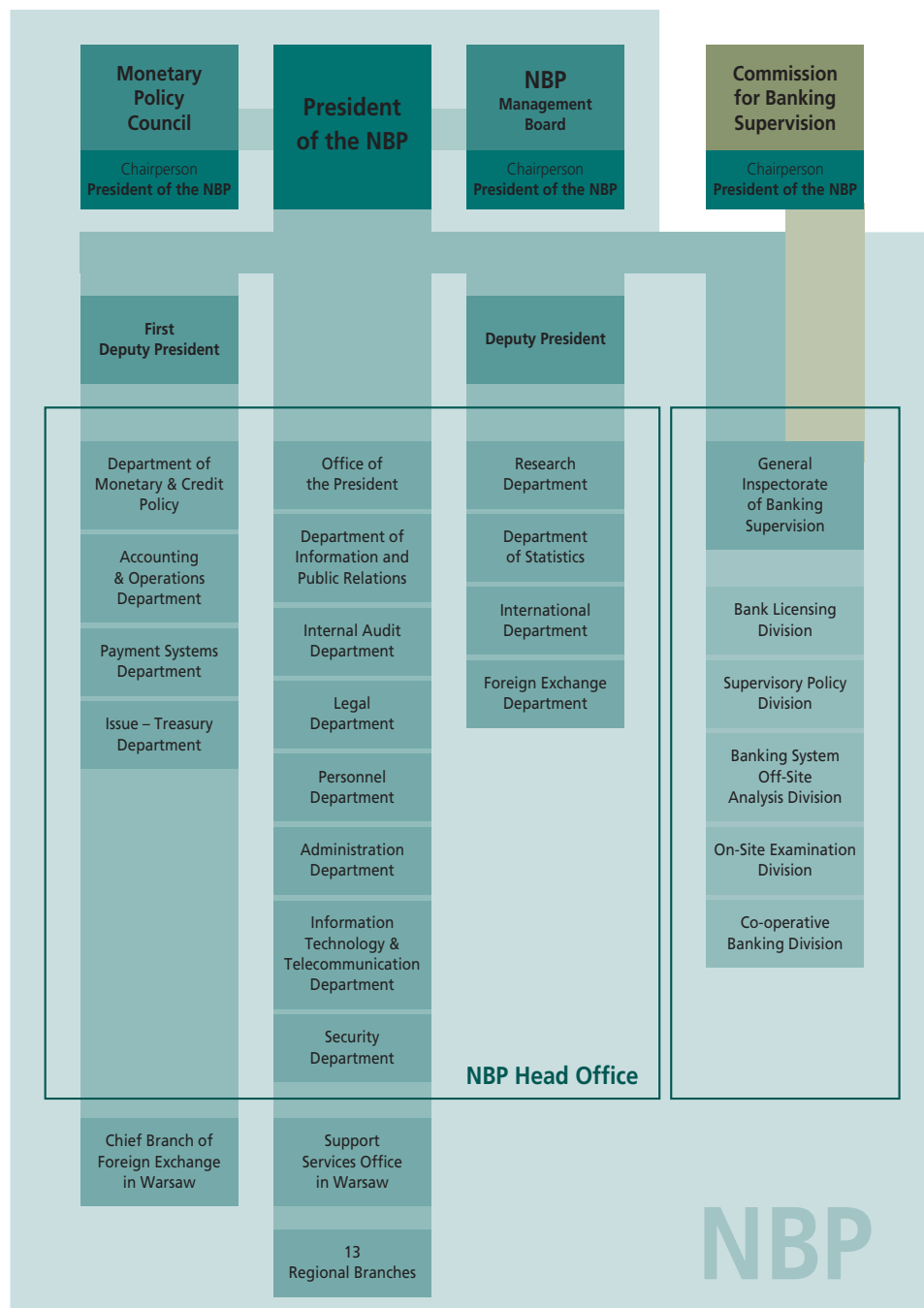
Andrzej Jakubiak

Tomasz Pasikowski

Józef Sobota

# ORGANISATION CHART OF THE NATIONAL BANK OF POLAND

As at December 31, 2001.



THE DIRECTING BODIES  
OF THE NATIONAL BANK OF POLAND

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

## 1.1. The President of the National Bank of Poland

On December 22, 2000, Poland's Sejm, acting at the request of the President of the Republic of Poland, appointed Leszek Balcerowicz to the post of President of the National Bank of Poland. Professor Balcerowicz was sworn in by the Sejm and assumed the post of President of the NBP on January 10, 2001.

In performance of his responsibilities, the President of the National Bank of Poland presided over meetings of the Monetary Policy Council, the NBP Management Board and the Commission for Banking Supervision.

The President of the NBP issued 13 regulations during the year, which concerned:

- methods for the conduct of interbank settlements,
- specifying the design, fineness, and volume of issue of coin,
- methods and procedures for counting, sorting, packing and designating packages of notes and coin, and the performance of operations involving the supply of notes and coin to the banks,
- authorisation to take decisions regarding foreign exchange permits.

Representing Poland's central bank in external contacts with international institutions, the President of the NBP participated in the following meetings, among others:

- a meeting of the Board of Governors of the European Bank for Reconstruction and Development (EBRD) in London, where he presented a paper that included a discussion of the role played by the EBRD over the ten years of its activity in the countries pursuing economic transition,
- the forum of the Organisation for Economic Cooperation and Development in Paris (OECD Forum 2001), which examined key issues of contemporary economics,
- the Annual Meeting of the Board of Governors of the Bank for International Settlements (BIS) in Basle,
- the European Economic Summit organised in Salzburg at the initiative of the World Economic Forum.

As part of his statutory responsibilities and as the superior of all the Bank's staff, the President of the NBP was involved in developing personnel policies, supervising their implementation, and overseeing staff compliance with the performance standards required at the National Bank of Poland.

## 1.2. The Monetary Policy Council

The Monetary Policy Council (MPC) held 14 meetings in 2001, of which 11 were two-day meetings. During these, it adopted 20 resolutions that were subsequently promulgated and issued 9 recommendations to the NBP Management Board. The members of the MPC also held a number of working meetings.

The MPC lowered base interest rates on six occasions, by a total of seven and a half points, as follows:

- in February (one point),
- in March (one point),
- in June (one and a half points),

- in August (one point),
- in October (one and a half points), and
- in November (one and a half points).

In connection with the above, the Council adopted the following resolutions:

- five resolutions on the rediscount rate and the refinance rate,
- one resolution on the rediscount rate, the refinance rate, and the NBP deposit rate,
- six resolutions on procedures for the conduct of open market operations.

In addition, the Council also adopted resolutions in 2001 on the following matters:

- approving the accounts of the NBP at December 31, 2000,
- approving the report on the performance of monetary policy guidelines in 2000 and assessing the activity of the NBP Management Board in implementing those guidelines,
- approving the report on NBP operations in 2000,
- establishing a ceiling on the liabilities due on NBP borrowings at international banking and financial institutions,
- establishing monetary policy guidelines for 2002,
- approving the NBP financial plan for 2002,
- setting the reserve ratio for banks.

The subjects addressed in the nine recommendations issued by the MPC to the NBP Management Board included:

- procedures for the conduct of open market operations (six recommendations),
- sales of Treasury securities obtained through the conversion of non-negotiable Treasury debt,
- the lowering of reserve requirements.

The Council also gave its opinion on drafts of the Budget for 2002 that were submitted to it (in October and November 2001).

In 2001, the MPC issued the annual *Inflation Report* for the year 2000, and also three quarterly reports (for Q1, Q2 and Q3 2001), presenting information on the development of inflation processes in the context of monetary policy.

During the year, meetings were also held between the members of the MPC and representatives of the Government.

In November 2001, the MPC organised a meeting with the presidents of commercial banks, which was primarily devoted to the Council's monetary policy guidelines for 2002.

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

The NBP Management Board directs the day-to-day activity of the National Bank of Poland. The Board adopts resolutions on matters not reserved by statute for the exclusive authority of other bodies of the NBP, and it implements the resolutions of the Monetary Policy Council.

During the year, the President of the Republic of Poland, acting at the request of the President of the NBP, appointed the following members of the NBP Management Board:

- Tomasz Pasikowski (on January 12, 2001),
- Andrzej S. Bratkowski, who replaced Ryszard Kokoszczyński as NBP Vice President (on October 10, 2001),
- Joanna Wielgorska-Leszczynska (on October 10, 2001),
- Jozef Sobota (on October 10, 2001).

At the same time, the Polish President also recalled from the NBP Management Board Ewa Popowska, Krzysztof Majczuk and Waldemar Szostak. As a result of these changes, the size of the Board was reduced from eight members to seven, which is the statutory minimum.

In the course of 2001, the Management Board held 59 meetings, at which it adopted 78<sup>1</sup> resolutions of a regulatory nature, 62 of a non-regulatory nature, and 528 other rulings.

The most important decisions taken by the NBP Management Board included the adoption of resolutions on the following questions:

- approving an NBP workplan for the years 2002-2004,
- approving the Bank's financial plan for 2002,
- approving the Bank's investment plan for 2002,
- amending the resolution on the performance of payment orders and cheque transactions in international operations and the purchase and sale of foreign currencies at the NBP,
- amending the resolution on procedures applicable to the issue of foreign exchange rulings,
- amending the resolution on the issue of NBP money market bills and trading in these bills,
- specifying the procedure for informing individuals about the processing of their personal data at the NBP,
- establishing competitive selection procedures for certain posts at the NBP,
- adopting "Regulations for intraday refinancing provided to the banks by the National Bank of Poland",
- amending the resolution on the conditions applicable to the opening of accounts for banks at the NBP.

At its meetings in 2001, the NBP Management Board reviewed and recommended to the Monetary Policy Council the draft resolutions and other materials that were submitted to Council meetings.

The Board paid particular attention to the issue of bringing the NBP into line with the standards in force in the European Union. Important measures undertaken to this end included the following:

- the conclusion by the President of the NBP and the Governor of the Bank of France, on July 12, 2001, in Warsaw, of a twinning agreement between the NBP and the Bank of France (as the lead bank), together with the Bank of Italy (this agreement is a prerequisite for commencing the Phare 2000 programme),
- the preparation of the NBP for the introduction of euro notes and coin,
- the participation of the NBP in the Pre-Accession Economic Programme.

Another important issue in 2001 was the involvement of the NBP in the early redemption by the Republic of Poland of the "Brazilian debt"<sup>2</sup>.

<sup>1</sup> A schedule of those resolutions of the NBP Management Board published in *Monitor Polski* [the Polish Gazette] and *Dziennik Urzędowy Narodowego Banku Polskiego* [the Official Gazette of the National Bank of Poland] is given in Appendix 5 to the present Report.

<sup>2</sup> The redemption of this debt is discussed in more detail in subsection 7.4.



## MONETARY POLICY

Pursuant to Article 227, para. 1, of the Polish Constitution, the National Bank of Poland is responsible for the value of Poland's currency. Article 3 of the Act on the National Bank of Poland of August 29, 1997, specifies that the basic objective of NBP activity is to maintain price stability, while at the same time acting in support of Government economic policies, insofar as this does not constrain pursuit of that basic objective. In September 1998, the Monetary Policy Council adopted the *Medium-Term Monetary Policy Strategy for the Years 1999-2003*, setting a strategic monetary policy target of bringing inflation down to under 4% by year end 2003.

In line with the *Monetary Policy Guidelines for the Year 2001*, the short-term auxiliary monetary policy target was to lower consumer price growth to 6%-8% in December 2001.

At the end of 2001, twelve-month inflation stood at 3.6%, thereby running 2.4 points below the lower bound of the range for the short-term inflation target. This was the combined effect of both supply factors, i.e., a situation on the markets for food and fuels that was exceptionally favourable for a slowdown in inflation, and of demand factors, i.e., a sharper reduction than projected in external demand and a decrease in domestic absorption. Investment demand declined under the influence of a series of factors, the relative weight of which cannot be estimated with precision. Among these were the deterioration in the external economic environment in 2001, the expansion in investment spending in previous years, and the tight monetary policy applied in 2000, which had been essential to curb the rising inflation seen at that time and to hold down inflation expectations. Zloty appreciation also acted to restrain price growth in 2001.

The MPC began the process of lowering central bank interest rates in February 2001, stepping this up in the second half of the year, when the slowdown in economic growth and in inflation proved to be more profound and longer-lasting than generally expected. In all, the Council cut NBP base interest rates six times in the course of 2001, by a total of seven and a half points. From the first rate cut in February to year end, the reference rate (minimum reverse repo rate) came down three and a half points in real terms. The scale and speed of rate reductions were conditioned by the need to stabilise inflation at a low level in line with the medium-term target. For this reason, despite the inflation rate slipping below the annual target, the MPC decided against any deeper rate cuts. Most Council members believed this would have posed the risk of a resurgence of inflation, making it necessary to incur additional costs in bringing down inflation in subsequent years.

The caution displayed in easing monetary policy was also related to the condition of public finances. A rapid increase in government expenditure, in the context of slackening economic growth, caused the budget deficit to soar. With privatisation receipts contracting, the high government deficit was primarily funded by a rise in government indebtedness within the banking system. This indebtedness was the principal counterpart to movements in money stocks in 2001, resulting in money supply growth substantially outpacing nominal GDP growth. An overly lax budgetary policy aggravated the unfavourable mix of monetary and fiscal policy. This found expression in the declining importance of lending to the private sector in fuelling money supply growth, as against the mounting significance of general government debt. In 2000, growth in outstanding claims on persons and corporates had accounted for 98.3% of movements in money stocks, while in 2001 this dropped to 38.7%. By contrast, the increase in general government indebtedness was equivalent to 42% of money supply growth in 2001, whereas in 2000 this sector had reduced its debt to the banking system.

The easing of monetary policy was assisted by a marked improvement in Poland's current balance. The current account deficit was successfully brought down from over 8% of GDP at the beginning of 2000 to 6.3% at year end 2000 and 4.1% at year end 2001. This proved possible, on the one hand, thanks to a judicious monetary policy, which restricted absorption and imports, and on the other – due to the maintenance of relatively strong economic growth within the European Union until the first quarter of 2001. However, the deterioration in the external economic situation in the second quarter, and then again in the fourth (considerably more sharply), weakened export growth, which led to a fall in investment and low growth in incomes from employment.

In the course of 2001, the National Bank of Poland also instituted measures to increase the efficiency of financial markets, modifying the monetary policy instruments employed to adjust its system of operations to the standards of the European Central Bank (ECB).

## 2.1. The monetary policy target in 2001 and performance of that target

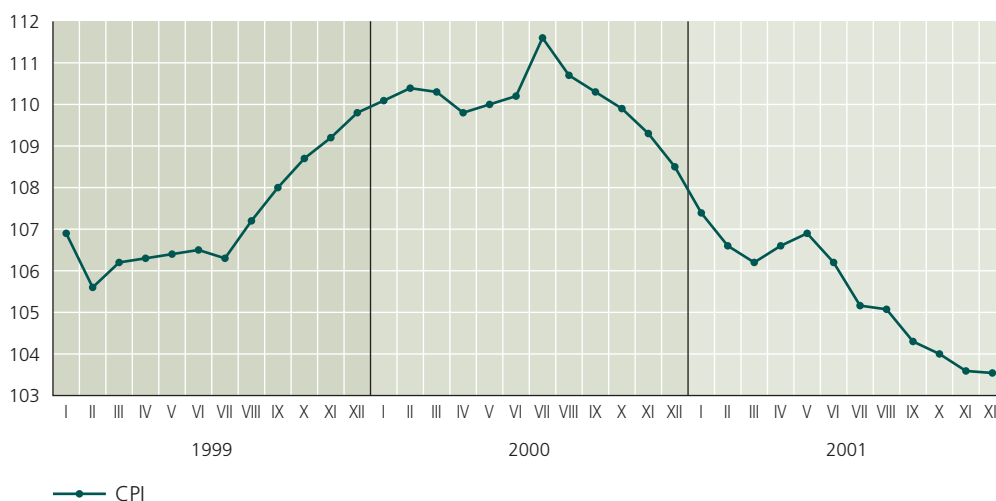
The short-term monetary policy target written into the *Monetary Policy Guidelines for the Year 2001* was to reduce consumer price inflation to 6%-8% in December 2001. This constituted an auxiliary target in relation to the basic target of lowering inflation to under 4% by year end 2003.

At the end of 2001, the twelve-month Consumer Price Index stood at 3.6% (cf. Fig. 1). This represented a decline of 4.9 points compared to December 2000, and was also the lowest level of consumer price growth since the mid-1970s. Inflation was at an annual high during the year in January (7.4%), and then steadily trended downwards in subsequent months, with the exception of April and May. Annualised average inflation came to 5.5% in 2001, as against 10.1% the year before.

**Figure 1**

### Consumer Price Index (CPI)

(corresponding period previous year = 100)



Source: GUS

The fact that inflation at the end of 2001 was 2.4 points below the lower bound of the short-term inflation target was chiefly determined by several factors. It can be estimated that the drop in inflation below the lower bound of the target range was in large part – some 1.5 points – a direct consequence of low food price growth and a decrease in fuel prices, developments associated with trends on the relevant markets that were independent of monetary policy and difficult to predict (see Appendix 1). In addition, the year 2001 saw declining growth in both domestic demand (see Appendix 2) and external demand, which clearly alleviated inflationary pressure. The fall in inflation was also helped by the zloty appreciation which accompanied the pronounced narrowing of the current account deficit (see Appendix 3), and in consequence reduced Polish investment risk.

In a situation of major uncertainty as to the lasting nature of the downward trend in inflation observed since the third quarter of 2000, in February the MPC concluded it safe to embark on a process of gradual interest rate cuts. By the end of March, rates had been lowered by two points. The prime factors counselling against more profound rate cuts in this period were the following:

- widespread expectations that a relatively high rate of economic growth would be sustained, with a substantial increase in personal disposable incomes and projections of a turnaround in the falling investment growth witnessed since the fourth quarter of 1999,
- the persistence in the first months of 2001 of a risk of further rapid food price growth,
- the threat of a swift increase in the government deficit, which indicated a risk (confirmed by subsequent developments) of the deficit target being overshot,
- the negative experience of the previous cycle of monetary easing at the turn of 1998-99, when steep rate cuts had acted to compound the effects of supply shocks on the food and fuel markets, causing inflation to quicken and the current account deficit to swell dangerously.

In these circumstances, the MPC resolved to maintain particular caution in order to sustain the downward tendency in inflation visible since July 2000 (when it was running at a high 11.6%), and thereby to allow achievement of the medium-term monetary policy target, which is to bring inflation down to under 4% by year end 2003.

The rapid and unexpected decline in economic growth and in inflation that began in the second quarter of 2001, which prompted a general revision of macroeconomic forecasts, led the MPC to carry out further rate cuts<sup>3</sup>. In the second half of the year, decisions to reduce interest rates were also influenced by the fact that the danger had receded of further accelerated growth in the government deficit in 2002. All in all, the MPC lowered NBP base interest rates six times in the course of 2001, by a total of seven and a half points. The result was that nominal NBP interest rates were brought down to their lowest level since the start of systemic transition. Real interest rates also dropped; from the first rate cut at the end of February to year end, the NBP reference rate came down three and a half points in real terms. This loosening of monetary policy was also evidenced by other indicators. The Monetary Conditions Index (MCI) calculated at the NBP, which takes account of movements both in short-term real interest rates and in the real effective exchange rate for the zloty, moved down markedly from mid-2001, and in December was lower than it had been in December 2000.

Given that the fall in inflation gathered speed due to non-monetary factors (the impact of food and fuel prices, particularly in the latter half of the year), real NBP interest rates came down much more slowly than nominal rates. The decline in lending rates at some of the commercial banks was even slower. On the one hand, the banks had to factor heightening credit risk into their pricing policies, while on the other, the mounting borrowing requirements of government ensured them a safe investment vehicle for their funds. This situation did not encourage lending to corporates and households.

Nevertheless, the decisions taken by the MPC from June onwards could no longer have any greater bearing on the development of the macroeconomic situation in 2001, since interest rate adjustments exert a major impact on inflation with a time lag of seven to nine quarters, and on economic growth with a lag of four to six quarters. Furthermore, in its *Monetary Policy Guidelines for the Year 2001*, the Council had declared that, were the influence of supply factors in 2001 to prove different from that projected, causing inflation to fall below the lower bound of the target range, then the Council's approach to the relative tightness of interest rate policy would be conditioned by the pursuit of the medium-term target; in other words, the MPC had allowed for inflation in 2001 being lower than targetted. Since long-term economic growth is only possible provided macroeconomic equilibrium is sustained, the MPC had to conduct – and still has to conduct – a very careful policy. The experience of recent years indicates that in Poland the influence of monetary policy instruments on the real economy is very moderate when compared to non-monetary factors. A radical relaxation of monetary policy would therefore have made little

<sup>3</sup> This ebbing of growth was seen throughout the world economy, and growth forecasts were adjusted not only for Poland. For instance, in May 2001, the IMF revised the GDP growth forecast it had made in October 2000 for Germany from 3.3% to 1.9%, while lowering its forecast for the euro area from 3.4% to 2.4%, for the USA from 3.2% to 1.5%, and for Japan from 1.8% to 0.6% (cf. *World Economic Outlook*, October 2000 and May 2001, IMF). Actual GDP growth in 2001 was even lower, coming to 0.6% in Germany, 1.4% in the euro area, 1.1% in the USA, and minus 0.4% in Japan.

contribution to boosting economic growth in the short term, yet it would have undermined the basis for that growth over the long term. The interest rate cuts performed in 2001, in a context of low inflation and a distinct improvement in external equilibrium, will help the economy to pick up gradually in subsequent years.

A proper assessment of inflation processes and monetary policy in 2001 requires a view that goes beyond that year alone. The development of the macroeconomic situation in the years 1998-2001, which refuted expectations and was influenced by an unfavourable external environment and problems in the sector of public finances, meant that the process of disinflation in that period proved both slower and more costly than could have been anticipated. GDP growth in 2001 came to a mere 1.1%, as against the 5% projected in the *Monetary Policy Guidelines for the Year 2001*. Nonetheless, annualised average inflation was just 1.8 points lower than it had been two years before. Twelve-month inflation in December 2001 was only 2 points down on February 1999, which had been the previous low point of the disinflation process. The slackening of economic growth was unavoidable in circumstances where the international economy was deteriorating dramatically. However, strong swings in real zloty exchange rates, triggered both by changes in the external situation and by the deepening fiscal imbalance in 2001, served to accentuate the downtrend. This refers both to periods of appreciation, which sparked a surge in the pressure of external competition, and also the relatively brief periods of depreciation seen in 2001, which made it essential to maintain a highly restrictive monetary policy in the face of the sharper risk of a slump in the value of the zloty and the attendant danger of inflation increasing. Meanwhile, the non-monetary factors causing fluctuations in the inflation rate generated unpredictable movements in real interest rates, weakening the effects of rate rises in 2000 and reinforcing these effects in 2001. This raised the cost of curbing inflation and made the conduct of monetary policy more difficult.

The cautious monetary policy that was pursued in 2001 contributed to a reduction in the current account deficit, one more pronounced than that projected in the *Monetary Policy Guidelines*; the deficit fell from over 8% of GDP at the beginning of 2000 to 6.3% at year end 2000 and 4.1% in 2001 (compared to a forecast 7% – see Appendix 3). Thanks to this, at the end of 2001 the likelihood had greatly diminished of the zloty plunging in value, of a financial crisis breaking out in Poland, and of inflation accelerating in the future.

The *Monetary Policy Guidelines for the Year 2001* had included an estimate of money supply growth in the range of 40-46bn zloty, with this figure corresponding to the inflation target adopted and the projections for GDP growth and the current deficit. However, with all these indicators diverging from those forecasted, money supply growth stood at the lower end of the projected range. At year end 2001, the money supply totalled 334.7bn zloty, representing growth over the year of 40.4bn zloty (i.e., 13.7%, as against 11.8% in 2000 – see Appendix 4). This was accompanied by an adverse trend for weakening growth in personal zloty deposits at the banks, and also by an increase in the volume of notes and coin in circulation. These tendencies, together with concern that the propensity to save at the banks might decline further due to the introduction of a tax on savings income, also constituted arguments in favour of continuing a judicious monetary policy.

## 2.2. Factors conditioning monetary policy implementation

An important factor behind movements in both economic growth and inflation in 2001, and also in Poland's external disequilibrium, was the sharp, parallel weakening in business activity that took place in the key regions of the world economy. This generalised global downturn, which was particularly reflected in waning investment demand growth, clearly gathered momentum in the second half of the year, producing a swift fall in prices for industrial commodities (cf. Table 1). In this situation, the projections for the development of the international economy made in 2000 proved far too optimistic. Growth forecasts performed in the course of 2001 were also systematically downgraded (see footnote 3).

Table 1

## External factors conditioning monetary policy, 2000-2001

	2000	2001				
	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4
Euro area GDP growth (%)	3.4	1.5	2.4	1.6	1.4	0.6
of which: Germany <sup>1</sup>	3.0	0.7	1.8	0.7	0.4	0.0
US GDP growth (%) <sup>1</sup>	5.0	1.1	2.5	1.2	0.5	0.4
US Fed Funds rate (%) <sup>2</sup>	6.50	1.75	5.00	3.75	3.00	1.75
Euro area refinancing rate (%) <sup>2</sup>	4.75	3.25	4.75	4.50	3.75	3.25
Oil prices (Brent, US\$ per barrel) <sup>3</sup>	28.6	24.5	25.9	27.3	25.3	19.4

<sup>1</sup> Relative to corresponding period previous year

<sup>2</sup> Period end

<sup>3</sup> Period average

Source: Eurostat, Reuters, Bloomberg.

The collapse of demand and output first occurred in the USA. This came as the effect of the rise in world oil prices, the downswing in the telecoms sector and the tightening of US monetary policy in the years 1999-2000. A powerful and unexpected development which additionally stifled American business activity was the terrorist attack in September 2001. The transmission of these recessionary impulses to other regions of the world was reinforced by the persistence of unresolved structural problems in the Japanese economy, and by the difficulties of the telecoms sector in South-East Asia, strongly tied to the US market.

The downturn was felt most painfully in Germany, the largest market for Polish exports. On the one hand, this was due to the German market having the relatively closest trade and investment links to the US market, while on the other it stemmed from the structural weaknesses of the German economy itself<sup>4</sup>. German investment demand sank 4.1% in 2001, compared to growth of 2.3% in 2000<sup>5</sup>. As a result, German imports slumped 6% in the fourth quarter of 2001, whereas they had risen 13.4% in the same quarter of 2000. The largest fall was reported in imports of production supplies, and of machinery and transport equipment. By contrast, the economies of Central and Eastern Europe continued to do well. In the first three quarters of last year, Russia's GDP grew 5.4%, while the value of that country's imports climbed 21.2%. During the same period, Czech GDP rose 3.6%, accompanied by import growth of 14.8%<sup>6</sup>.

The unexpected cumulation of recessionary tendencies within the world economy contributed in various ways to inflation in Poland coming down more sharply in 2001 than could have been anticipated. Declining growth in demand for Polish exports resulted in slower growth in export volumes in the second half of the year and was one of the factors causing companies in Poland to scale back their investment. These developments acted to undermine both economic growth and demand pressure on prices. The frail global economy also caused a decrease in prices for many important commodities, encouraging lower Polish import prices.

<sup>4</sup> In particular, these weaknesses concern Germany's labour market and services sector (chiefly the distributive trades).

<sup>5</sup> Investment in the sector of machinery and equipment fell even more sharply in this period compared to the previous year, coming down 3.4% as against an increase of 8.7% in 2000.

<sup>6</sup> Russia and the Czech Republic are Poland's largest export and import markets within Central and Eastern Europe.

The difficult external environment and the reduction in domestic demand due to a fall in capital expenditure restricted Polish economic activity and restrained growth (see Appendix 2). Worsening sales prospects both at home and abroad, in a situation where utilisation of the capacity developed thanks to earlier rapid investment growth was relatively low and still declining, and where no improvement was forthcoming in corporate finances, led to a fall in capital formation. Despite the deterioration in external conditions, the weakening of domestic demand acted as an incentive to businesses to hold on to their market shares abroad, while at the same time import demand contracted. In consequence, flagging export growth in 2001 was combined with an even faster decline in import growth. The increase in import volumes over the four quarters of the year was reduced by almost two thirds (compared to that seen over the same period a year earlier), while the rise in export volumes was halved. Thanks to this, the restoration of external equilibrium to the Polish economy, a process begun in 2000, gained speed; the current account deficit in 2001 was reduced to a level generally regarded as safe (see Appendix 3). This lower current deficit, which continued to be securely financed, helped to strengthen the zloty and lessened the risk of currency market instability.

During 2001, zloty import prices fell 6.2% compared to the previous year. Dollar import prices came down 0.5% over this period. This is traceable both to a general heightening of competition on international markets and to zloty appreciation. With a sharp weakening of demand and a reduction in industrial output in the major world economies, the decline in world prices for the most important commodities, begun in the second half of 2000, quickened substantially in 2001. This process gained further pace in the latter half of the year in the wake of the terrorist attack on the United States, particularly affecting oil and metal prices.

World oil prices did not begin to come down significantly until the second half of 2001. By the fourth quarter, prices were already US\$ 10 per barrel lower than in the fourth quarter of 2000. As a result, over 2001 as a whole, the average price for a barrel of Brent was over US\$ 4 less than the year before. Aside from the worldwide economic downturn, demand for oil also sagged due to the sharp decrease in air traffic after the terrorist attacks on the USA. As a result, world demand for oil in 2001 was on average just 30,000 barrels per day higher than a year earlier<sup>7</sup>, whereas in 2000 the corresponding increase had been 1.2 million barrels. This represented the lowest growth in oil demand since the beginning of the 1990s.

Fuel prices also fell on the domestic market. The annualised average decline in fuel prices came to 7.6% in 2001, while in 2000 these prices had risen 36.8%. From December 2000 to December 2001, fuel prices came down 10.9%, as against an increase of 11.0% over the preceding twelve months, with larger rises seen only in May and September (2.1% and 1.5%, respectively). The level of retail fuel prices in 2001 was not solely attributable to movements in world prices and in exchange rates. Retail prices are also impacted by changes in rates of excise duty and by the pricing policies applied by domestic refineries and retailers. Excise duty on fuels was raised twice in 2001, going up around 7.1% on January 1 and some 6.0% on June 1. Altogether, the increases in excise duty in 2001 came to some 13.5%, contributing around 5.5 points to the price growth for EU 95 petrol.

As regards non-energy commodities, the largest decline in price in 2001 was seen for metals, which next to fuels are most sensitive to cyclical fluctuations in the economy. On the other hand, there was a relatively slower decrease last year in prices for foodstuffs and for agricultural commodities used in industry (cf. Table 2)<sup>8</sup>.

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<sup>7</sup> *Monthly Oil Market Report*, OPEC, January 2002.

<sup>8</sup> The levelling off of the downward trend in foodstuff prices in the years 2000-2001 was related to a decrease in excess supply (relative to demand), which was most conspicuous on the market for wheat.

Table 2

## Price movements, basic commodities (as % relative to previous year)

	1998	1999	2000	2001
Non-energy commodities	-18.3	-9.2	3.5	-6.6
of which: foodstuffs	-16.3	-17.5	-1.0	-3.8
industrial commodities	-20.6	0.6	7.1	-10.1
of which: agricultural products	-20.2	-1.4	-3.2	-7.0
metals	-20.9	2.2	15.0	-12.4
Oil (Brent)	-33.7	40.3	59.6	-14.1

Source: *The Economist*, Bloomberg.

The decline in external prices can be estimated to have shaved some 0.5 points off the annualised average CPI in 2001. A similar process was observed in other economies, especially those that are dependent on imported fuel supplies. At the same time, the faster decrease in import prices than in export prices yielded an improvement in Poland's terms of trade, which additionally assisted in narrowing the deficit on the current account.

The rapid reduction in inflation witnessed in 2001 was also very closely connected with the low increase in domestic food prices (see Appendix 1). From January to December, foodstuffs went up 1.6% in price, i.e., 2.0 points less than overall consumer price growth. Food price growth in 2001 was also significantly smaller than in 2000, when it stood at 8.5%.

The determining fact behind these price movements was the relatively large supply of foodstuffs, combined with a limited increase in demand. The fall in food price growth, particularly visible in the latter half of 2001, was related to a seasonal price decline that came earlier than the year before. It also proved sharper and lasted longer than had been projected in setting the inflation target. The steepest fall on the market for agricultural produce was in grain prices, which was associated with a change in the system of official intervention (the introduction of purchase price subsidies for food grain) and with the comparatively good harvest.

December-on-December, food price growth came to 1.6% in 2001, accounting for 0.5 points of the overall rise in consumer prices, whereas in 2000 the corresponding figure had been 2.6 points.

Changes in indirect taxes in order to bring these to the level required by the European Union represent another non-monetary factor conditioning the performance of the monetary policy target, yet in 2001 these did not result in any major price growth. True, VAT was raised from 0% to 7% for newspapers and most periodicals, and from 7% to 22% for laundry services. Higher excise duty was also levied on fuels, wine and beer. However, plans to increase VAT on building materials and services from 7% to 12% were not carried out, and a zero rate of VAT was also maintained on machinery, agricultural tractors and newly-built housing. As a result, it can be estimated that these changes contributed some 0.5 points to consumer inflation (December-on-December), while in 2000 this contribution had been 0.9 points.

The performance of monetary policy in 2001 was conditioned by the worsening and uncertain condition of public finances. The dramatic increase in public sector financial disequilibrium that occurred in 2001 can be traced to three main reasons. Firstly, a very swift rise in expenditure had been planned, of over 20% compared to 2000. Secondly, the projected level of government receipts was overoptimistic, even in terms of the macroeconomic assumptions adopted (the Budget for 2001 provided for central government receipts of 161.1bn zloty, whereas in reality they were over 20bn zloty lower). Thirdly, those macroeconomic assumptions – which were situated within the range of forecasts available when the Budget was being drawn up – proved far removed from the actual course of economic developments.



The difficulties in securing central government receipts led the Government to revise the national budget twice, in July and December. Thus, the final shape of the national budget and the situation of the whole sector of public finances in 2001 were fundamentally different from those originally projected. A substantial loosening of fiscal policy took place, both in relation to the assumptions of the Budget itself, and to performance in 2000. With a shortfall in revenues amounting to around 20bn zloty and spending cut back by 8.7bn, the central government deficit came to around 4.5% of GDP, as against a deficit target in the Budget of 2.6%. The preliminary figure for the adjusted public sector financial deficit puts this at 4.8% of GDP, compared to a Budget target of 1.8% and an adjusted deficit of 2.1% in 2000<sup>9</sup>. This constituted the end result of an increase in the central government deficit, a deterioration in the finances of the remaining components of the general government sector, and a smaller transfer than projected of social insurance contributions to open-ended pension funds. The arrears arising from the failure to transfer social insurance contributions, which at year end 2000 were estimated at 3.5bn zloty, were to have been paid off in 2001. In fact, however, these rose once again, going up some 2.5bn zloty.

The experience of 2001 confirms the weakness of Poland's system of public finances, which has proved ill-suited to operation in conditions of slackening economic activity. The high level of public spending and inflexible structure of that spending represent the basic obstacle to overcoming the permanent imbalance of public sector finances. Despite the reduction in government expenditure performed during the year – necessitated by the collapse of receipts – this remained at a very high level. Central government expenditure stood at 23.9% of GDP, while general government spending came to 44.5% of GDP, with both rising compared to the previous year (in 2000, these figures had been 22% and 42.8%, respectively). The structure of expenditure was unfavourable, with over 47% involving rigid expenditure items and a mere 6% going on development projects, which represented a substantial reduction compared to 2000.

The maintenance of a high public sector financial deficit, coupled with low privatisation receipts<sup>10</sup>, led to a large increase in government borrowing requirements and a greater part being played by the banking sector in funding those requirements. The net debt of the general government sector to the domestic banking system climbed 17.1bn zloty in 2001, i.e., 33.8%. The mounting borrowing requirements of central government thus provided the banks with a safe investment vehicle in 2001, against a background of adverse macroeconomic conditions and escalating credit risk. This was one of the reasons for banks keeping lending rates high and limited the possibility of financing corporate development.

Following the introduction of a fully floating exchange rate regime in April 2000, zloty exchange rates moved solely in response to market forces in 2001, with the NBP undertaking no intervention on the currency market throughout the year. On the one hand, a floating exchange rate is not unaffected by interest rate adjustments and declarations concerning monetary policy, while on the other it is also one of the factors that conditions performance of that policy.

In 2001, zloty exchange rates supported the achievement of the inflation target, with the zloty strengthening for most of the year. The nominal effective exchange rate for the zloty against a basket of the currencies most important to the Polish economy rose by 8.8% (annualised average), compared to appreciation of 2.2% in 2000. The zloty firmed in relation to both the US dollar and the euro, with annualised average nominal appreciation greater in terms of the euro than the dollar (8.5% and 5.8%, respectively). This was linked to the softening of the euro against the dollar on world markets, although euro depreciation was markedly smaller in 2001 than it had been the previous year (2.2%, as against 13.3% in 2000). At the same time, the relationship between the value of the euro and zloty exchange rates was reinforced<sup>11</sup>. In real terms, as adjusted by producer prices, the zloty gained 7.7% against the euro, whereas in 2000 it had risen 0.4%, while against the dollar it gained 4.2% (in 2000, it had lost 11.5%). Adjusted by unit labour costs, the zloty strengthened in relation to the euro 12% in real terms (compared to 0.4% in 2000), and 7.2% against the dollar (in 2000, it had weakened 13.9%)<sup>12</sup>.

<sup>9</sup> Taken from the draft Budget for 2002 (November 2001).

<sup>10</sup> Privatisation receipts fell to 6.5bn zloty in 2001, as against 26.7bn in 2000.

<sup>11</sup> The correlation coefficient for euro/dollar and euro/zloty rates rose to 0.83 (compared to 0.66 in 2000), while for dollar/zloty rates it came to 0.23 (minus 0.88 in 2000).

<sup>12</sup> Annual average relative to previous year.

The tendency for the zloty to appreciate, already observable in the latter half of 2000, became more pronounced in the first half of 2001. The zloty then weakened distinctly in the third quarter, resulting in a temporary rise in exchange rate volatility, after which it returned to its upward course in the final three months of the year. Zloty appreciation was driven by the following factors:

- The macroeconomic risk associated with the Polish economy declined substantially due to the major reduction of the current account deficit and decline in inflation. Further, the shortfall on the current account was increasingly financed by inflows of stable foreign investment (see Appendix 3). This found reflection in the relatively high assessment of the Polish economy maintained by international rating agencies in the years 2000-2001.
- Strong demand for Poland's currency was accompanied by a marked increase in the supply of Treasury paper stemming from the mounting borrowing requirements of general government. This facilitated access to zloty-denominated assets for non-residents and curbed the fall in bond yields. Compared to the previous year, the year 2001 saw growth of almost 20% in total sales of Treasury securities, while non-resident holdings of Polish Treasuries climbed by an average of 40%. The growth referred to here was almost exclusively confined to T-bonds; investment in T-bills basically remained flat. Balance of payment figures indicate that the net inflow of foreign currency from non-resident portfolio investment in Treasury securities issued on the domestic market in 2001 amounted to US\$ 0.6bn.
- Interest rate differentials remained relatively wide in 2001, although they gradually narrowed during the year as rates were cut. Rate differentials were especially large at the short end of the yield curve. Advantage of this was taken primarily by non-residents investing on the FX swap market (investment in other money market instruments was very limited). The application by these investors of a "carry trade" strategy<sup>13</sup> was visible throughout the year to a greater or less extent, one reflection of this being significantly heavier trading on the swap market. For example, the more obvious shift of investor demand from the bond market to the swap market that became apparent in the second quarter of 2001 was principally associated with the heightening risk of zloty depreciation<sup>14</sup>. In the latter half of 2001, non-resident investment on the domestic money market played a smaller role, in relative terms, in conditioning zloty exchange rates. After the series of Polish interest rate cuts, foreign investors found the Hungarian market more attractive (as of Q4 2001, the nominal reference rates of the Polish and Hungarian central banks were at similar levels).
- The demand for long-term Polish Treasuries forthcoming from foreign investors was also a function of the advancing process of integrating the Polish economy with that of the European Union and the prospects for monetary unification. Zloty appreciation was thus to a certain degree supported by the steady influx of foreign investment generated by the perspective of diminishing inflation in Poland in the long term and the alignment of Polish interest rates with those obtaining in the euro area<sup>15</sup>. This is a process observable not only in Poland, but also in the other EU candidate countries, particularly in the Czech Republic

<sup>13</sup> The carry trade strategy involves a combination of two trades: a spot sale of a low-interest currency (e.g., US dollars) in order to obtain zloty, and an FX swap. Under the FX swap, the investor sells the zloty for spot value and at the same time purchases zloty forward, at a forward rate agreed at trade date. The combination of the spot and swap effectively gives the investor an outright forward position. The investor's gain comes from the forward premium arising on the difference between dollar and zloty interest rates. The carry trade strategy is profitable when the expected movement in zloty exchange rates is not greater than the interest rate differential between the two currencies. Zloty appreciation is a by-product of the initial spot sale of foreign currency to secure the original zloty. The purchase of foreign currency under the spot leg of the swap does not exert pressure for zloty depreciation, since this constitutes a form of hedge against the placing of zloty on the money market, rather than a stand-alone transaction.

<sup>14</sup> This risk became more acute due to the increasing overvaluation of the zloty. This overvaluation, as measured by the divergence from the trended real effective exchange rate for the zloty, adjusted by producer price movements, stood at 10.9% in June 2001, compared to an average for the year of 4.8%.

<sup>15</sup> Capturing the impact of this factor on the volume of investment in Polish bonds, and therefore on the strengthening of the zloty, would require a precise categorisation of the particular parties active on the bond market in order to identify those with a long investment horizon. The information available to the NBP does not allow such a categorisation.

and Hungary<sup>16</sup>. The positive signals received as regards Poland's admission to the EU in 2004 may also have reinforced this investment motive in 2001.

- Market expectations of MPC rate cuts continued. These were based on information regarding the slackening economy at home and abroad, and on the progressive monetary easing carried out by the major foreign central banks, especially in the second half of 2001. These expectations were additionally reinforced by repeated political pressure for larger rate reductions in Poland, which were accompanied by declarations concerning planned amendments to the Act on the NBP. The lowering of NBP rates had a dual effect on investor behaviour. On the one hand, it reduced the cost of carry for positions in Polish bonds, while on the other it discouraged investment on the Polish market, since the rate cuts diminished the protection afforded against the consequences of any exchange rate adjustment.
- The strengthening of the zloty continued to be encouraged by inward flows of foreign direct investment. However, this factor was less significant than in 2000 due to shrinking privatisation receipts. Despite this, the smaller current account deficit meant that direct investment increased its role in financing that deficit, which reduced the level of Polish risk perceived by foreign investors.
- As in previous years, the appreciation of the zloty in 2001 was also partly attributable to one-off factors. This time, these chiefly involved expectations of an influx of foreign currency from compensation payments to victims of forced labour under the Third Reich (in the first half of the year) and from the government sale of UMTS licences for third-generation mobile phone systems (also in the first half of the year), together with periodic expectations of privatisation deals.

Zloty depreciation in the third quarter of 2001 was linked to the escalation of local financial crises in Argentina, Brazil and Turkey, which temporarily upset confidence in emerging markets. Due to the "contagion effect", speculative plays on a weakening of the local currency affected not only those countries directly hit by these crises, but also Poland, Hungary and South Africa. This external impulse undermining the zloty was compounded by news of problems in Poland's public finances and existing expectations of zloty depreciation. From July 5 to 11, the zloty lost 14.4% to the euro and 12% to the US dollar. For the remainder of the quarter, the zloty stabilised against the dollar at around 4.23, while in relation to the euro it continued to soften gradually. This stemmed from the considerable gains made by the single currency against the dollar on world markets in response to the clear weakening of US growth.

The direct impact on zloty exchange rates of the terrorist attacks in the USA was short-lived and relatively minor; it was virtually limited to activity on the domestic FX market dying down for around four days. The mid-rate for the zloty against the dollar at that point stood at 4.24 (while the average for September was 4.22). Indirectly, however, September's events contributed to the Polish currency strengthening in the fourth quarter of the year. Following July's downward correction in the value of the zloty and the stabilisation of the political situation after the general election, Polish investment risk lessened, while zloty-denominated assets continued to offer good returns. Moreover, it is worth underlining that the resistance shown by the zloty to external events was also connected with it being subject to a floating rate regime.

Zloty exchange rates helped curtail domestic inflation in 2001. Estimates performed at the NBP indicate that the appreciation of the nominal effective exchange rate for the zloty pared 0.9 points off the annualised average CPI<sup>17</sup>.

The structural changes necessary for an effective reduction in the costs of disinflation to the Polish economy proceeded in 2001 with great difficulty and delays. This refers to the processes of privatisation and demonopolisation, and also restructuring, in such sectors as energy and fuels, coal mining, rail transport or telecommunications services. It should be emphasised in this respect

<sup>16</sup> According to the Bank for International Settlements in Basle, in 2001 the real effective exchange rate, as adjusted by consumer price growth, strengthened appreciably in both the Czech Republic (up 7.1%) and Hungary (up 8.4%).

<sup>17</sup> This calculation of the impact of the exchange rate on the CPI includes the effect of temporary zloty depreciation in July 2001, which lessened the extent of the annualised average appreciation of the zloty.

that producer prices in these sectors rose much faster in 2001 than industrial producer prices overall. Industrial producer prices rose by an annualised average of 1.6%, whereas producer prices went up 9.0% in hard coal mining, 9.1% in the gas industry, 13% in electricity supply, and 8.7% in rail transport. This represents a threat to future consumer price growth. Prices in these sectors have a large impact, directly and indirectly, on the cost of running a household. In addition, the increase in these prices translated into higher costs at business organisations, thereby restricting their development capacity.

## 2.3. Monetary policy instruments

The basic instrument employed in 2001 in pursuit of the monetary policy target were interest rates. In seeking to control the level of interbank rates, the NBP utilised the reference rate (the minimum reverse repo rate applicable to 28-day open market operations), the lombard rate and the deposit rate (as of December). In addition, reserve requirements reduced the impact of liquidity fluctuations on interbank interest rates.

The instruments employed by the NBP were adjusted to correspond to the surplus operating liquidity that still prevails in the commercial banking sector. During 2001, the NBP took further steps to contain that surplus liquidity. The launch of floating zloty exchange rates in 2000 made it possible to reduce the increase in excess liquidity arising from the purchase of foreign currency by the NBP. The year 2001 also saw the continuation of outright sales, from the National Bank's own portfolio, of Treasury bonds acquired in 1999 under the conversion of non-negotiable Treasury debt to the central bank. These sales allow a lasting reduction in the excess liquidity built up in previous years.

### 2.3.1. Interest rates

The performance of monetary policy in 2001 involved adjustments to NBP interest rates, which – by influencing the level of interbank interest rates – impacted lending and deposit rates at the commercial banks. In this way, the National Bank was able to influence the decisions of households concerning savings and consumption, and also corporate investment decisions.

The NBP interest rates that served to map out the direction of monetary policy were the reference rate, the lombard rate and the deposit rate.

The **reference rate** set the minimum yield on reverse repos involving 28-day NBP money market bills sold under open market operations. This rate determined interbank deposit rates for comparable maturities, i.e., one-month interbank rates (1M WIBOR, the Warsaw Interbank Offered Rate).

The **lombard rate** defined the maximum cost of funds at the central bank, thereby setting a ceiling on interest rate fluctuations for the shortest maturities (particularly O/N rates).

The **deposit rate** was introduced on December 1, 2001, as a floor on fluctuations in interbank rates, particularly those for the shortest maturities (O/N rates). Overnight deposits allow the banks to place their excess liquid funds on time deposit at the NBP.

In the course of 2001, the Monetary Policy Council cut official interest rates six times, lowering them by a total of seven and a half points (cf. Table 3). As a result, nominal NBP interest rates dropped to the lowest level since the beginning of systemic transition in Poland. Real interest rates also fell; from the first rate cut at the end of February to year end, the NBP reference rate came down three and a half points in real terms.

**Table 3**

**Monetary Policy Council decisions on adjustments in official interest rates, 2001**

Date*	Decision
February 28	Minimum 28-day reverse repo rate lowered from annual 19% to 18%. Lombard rate lowered from 23% to 22%. Rediscount rate lowered from 21.5% to 20.5%.
March 28	Minimum 28-day reverse repo rate lowered from annual 18% to 17%. Lombard rate lowered from 22% to 21%. Rediscount rate lowered from 20.5% to 19.5%.
June 27	Minimum 28-day reverse repo rate lowered from annual 17% to 15.5%. Lombard rate lowered from 21% to 19.5%. Rediscount rate lowered from 19.5% to 18%.
August 22	Minimum 28-day reverse repo rate lowered from annual 15.5% to 14.5%. Lombard rate lowered from 19.5% to 18.5%. Rediscount rate lowered from 18% to 17%.
October 26	Minimum 28-day reverse repo rate lowered from annual 14.5% to 13%. Lombard rate lowered from 18.5% to 17%. Rediscount rate lowered from 17% to 15.5%.
November 28	Minimum 28-day reverse repo rate lowered from annual 13% to 11.5%. Lombard rate lowered from 17% to 15.5%. Rediscount rate lowered from 15.5% to 14%. Introduction of deposit rate (7.5%).

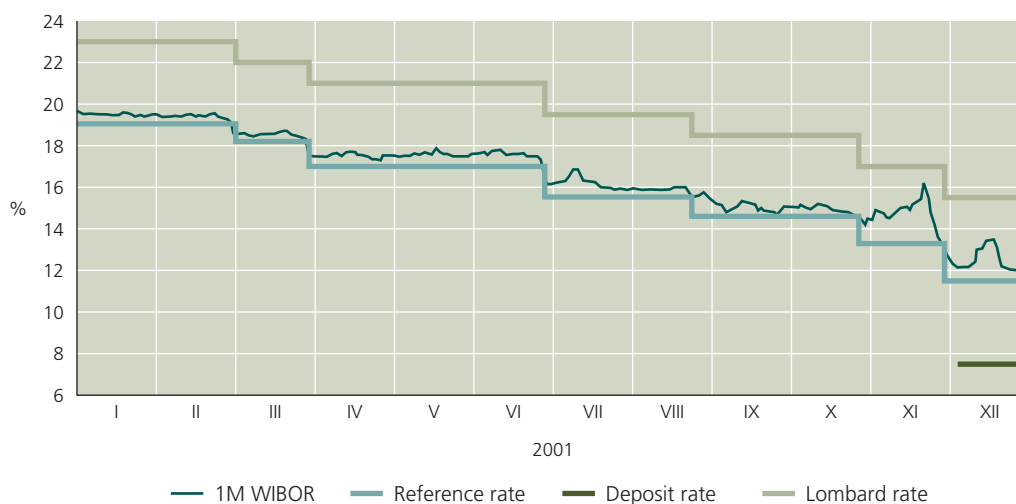
\* Date decision taken.

Source: NBP

As the reference rate came down, so too did 1M WIBOR, thereby lowering the lending and deposit rates offered by the banks to persons and corporates. The rate movements involved are illustrated by Figure 2.

**Figure 2**

**NBP interest rates and one-month interbank rates**



Source: NBP

### 2.3.2. Open market operations

As is the case with most central banks, open market operations were the basic method used by the NBP to influence the level of market interest rates.

The principal type of open market operations were issues of 28-day NBP money market bills. In affecting market rates, these operations impacted the level of 1M WIBOR. Issues were performed at irregular intervals, on days when surplus liquidity was apparent within the banking sector, and exerted downward pressure on interbank rates.

On two occasions in December, the Bank's open market operations also included the issue of shorter-dated bills (14 days). This stemmed from the need to ensure that the banks maintained the requisite liquidity in the approach to the Christmas holidays and at the end of the reserve maintenance period, allowing them to spread out their liquidity better over the month as a whole.

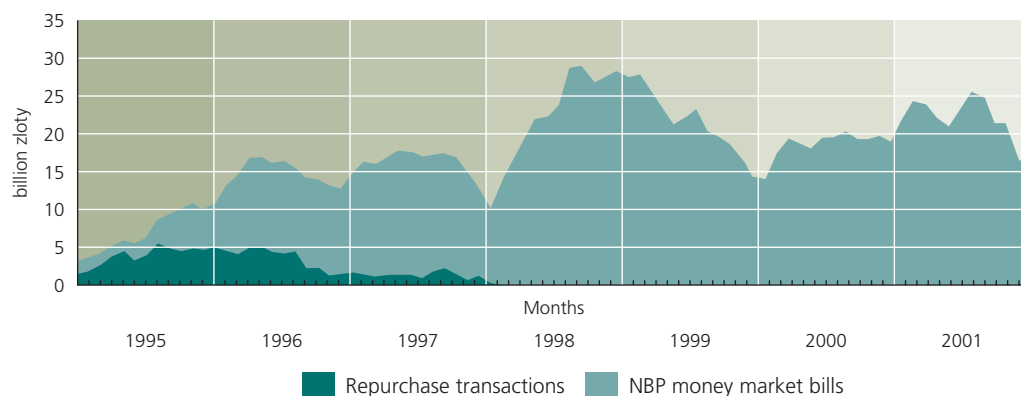
In addition to bills maturing in less than one month, in 2001 the NBP also issued longer-dated bills (for 91-day maturities), to a total value of 7.5bn zloty. The issue of these was connected with an agreement between the National Bank and PKO BP SA.

In contrast to the year 2000, demand for money market bills in 2001 was higher than supply (the Bank put up for sale bills to a face value of 204.5bn zloty, while receiving bids from the banks to a value of 287.1bn zloty). The Bank accepted bids to a face value of 187.7bn zloty.

The scale of temporary liquidity-absorbing operations carried out in 2001 to stabilise the market is presented in Figure 3.

**Figure 3**

#### Balance on temporary liquidity-absorbing operations



Source: NBP

In 2001, the balance on open market operations issued and outstanding decreased overall by 6.2bn zloty (this includes both NBP money market bills maturing in less than one month and in 91 days). This decline was the result of movements in particular sources of liquidity and reserve money.

Speculation on NBP interest rates coming down led to the banks purchasing more money market bills in October than was consistent with their liquidity requirements. In consequence, despite NBP rates being lowered in November, shortages of liquidity occurred, which temporarily hoisted interbank rates, including 1M WIBOR.

During 2001, the NBP continued its sale of Treasury conversion bonds<sup>18</sup>. This represents a structural operation that absorbs liquidity on a permanent basis. Since the Bank accepted yields on these bonds similar to those prevailing on the market, these sales did not affect market interest rates. These outright sales were not associated with the ongoing conduct of monetary policy<sup>19</sup>.

<sup>18</sup> These bonds were issued by the Treasury in 1999 to convert its debt to the NBP into tradable securities.

<sup>19</sup> Outright sales involve the central bank selling securities (usually Treasury paper) to the banks on an unconditional basis (with no repurchase provision).

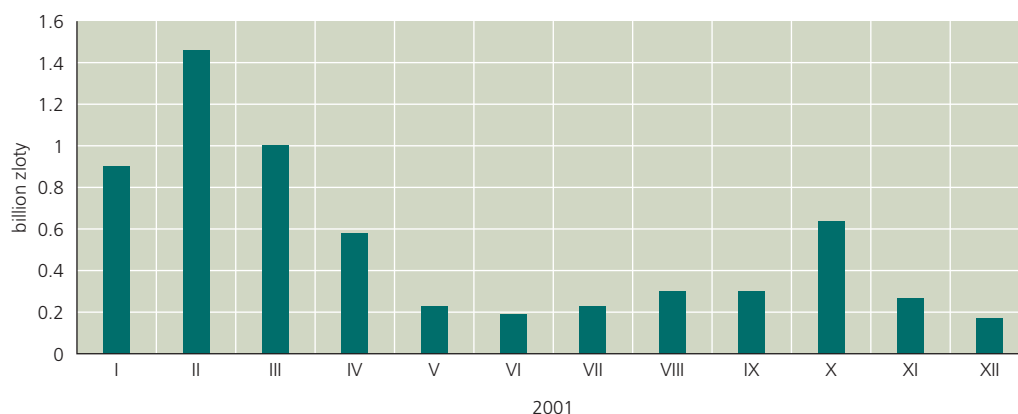
At 49 tenders held during the year, conversion bonds to a face value of 15.6bn zloty were offered for sale. Demand from investors came to 23.9bn zloty, equivalent to 153.6% of supply. Altogether, the NBP accepted bids to a face value of 6.4bn zloty, which constituted 40.8% of the volume on offer and 26.6% of bids received.

The standard offer of bonds for sale at each tender was 300m zloty. However, at the last two tenders in February and the first in March, this amount was increased to 600m zloty in response to greater demand, after which it was again lowered to 300m.

The scale of outright sales of conversion bonds performed in 2001 is shown in Figure 4 (which gives the face value of bonds sold each month).

**Figure 4**

**Sales of conversion bonds, 2001**



Source: NBP

From the beginning of 2001, open market operations were conducted with a group of 15 banks designated as money market dealers. Due to bank consolidations during the year, this number was reduced to 12 in the final quarter. The dealer banks were selected on the basis of uniform qualifying criteria, contained in the Dealer Activity Index, as banks that were highly active on the market for forward-value interest rate instruments (FRAs and interest rate swaps), and had a significant share of the market for Treasury securities (T-bills and T-bonds).

### 2.3.3. Reserve requirements

The maintenance of required reserves by the banks made it possible to smooth out volatility in market interest rates.

These reserves constitute a portion of the funds held on bank accounts, of funds obtained from the sale of securities, and of other repayable funds accepted by the bank. Funds taken from another domestic bank, or obtained from abroad for a period of no less than two years, are excluded from the calculation of the reserve base.

The amount of the reserve held during a reserve maintenance period is calculated as the sum of averaged daily balances on the bank's current account or reserve account at the NBP and of daily balances of vault cash, these being no greater than declared by the bank. The reserve actually required varies depending on the value of reservable funds taken by banks and on the amount of any exemptions from the reserve under rulings of the NBP Management Board.

In 2001, reserves were calculated and maintained by all the banks except those exempt from reserve requirements for the duration of a rehabilitation programme under the relevant ruling of the NBP Management Board<sup>20</sup>. At December 31, the amount of reserves so exempted stood at 1,904m zloty. During the year, the sole exemptions in force were those granted in previous years.

<sup>20</sup> These rulings were issued pursuant to Article 39, para. 3, of the Act on the National Bank of Poland.

Movements in required reserves are presented in Table 4.

**Table 4****Movements in required reserves, 2001 (million zloty)**

		Balance, 31/XII/2000	Quarterly growth				Balance, 31/XII/2001
			Q1	Q2	Q3	Q4	
1.	Total reserves required	12,240	-504	494	497	942	13,669
1.1.	of which: on account at NBP	11,031	-525	442	456	885	12,289
1.2.	vault cash	1,209	21	52	41	57	1,380

Source: NBP

At year end 2001, the required reserves held by the banks had risen 1.4bn zloty on the end of 2000, an increase of 11.7%, while reservable deposits had grown 20.1%. In the month of December, required reserves (together with excess balances held) were on average up 713.5m zloty compared to December 2000. The faster growth in reservable deposits than in reserves held is attributable to an increase in the exemption from the reserve granted to one large commercial bank<sup>21</sup>.

The level of required reserves in particular maintenance periods in 2001 is detailed in Table 5.

**Table 5****Required reserves, 2001 (million zloty)**

Reserve maintenance period	Total	On current account at NBP	Declared vault cash
02.01 - 30.01.2001	11,803	10,561	1,241
31.01 - 27.02.2001	11,737	10,504	1,232
28.02 - 01.04.2001	11,735	10,505	1,230
02.04 - 29.04.2001	11,825	10,584	1,240
30.04 - 30.05.2001	12,083	10,816	1,266
31.05 - 01.07.2001	12,229	10,947	1,281
02.07 - 30.07.2001	12,337	11,045	1,292
31.07 - 30.08.2001	12,460	11,157	1,303
31.08 - 30.09.2001	12,726	11,404	1,322
01.10 - 30.10.2001	12,857	11,512	1,344
31.10 - 29.11.2001	13,005	11,650	1,354
30.11 - 30.12.2001	13,146	11,777	1,368

Source: NBP

In all the reserve maintenance periods in 2001, the averaged reserve balances held on the banks' current accounts exceeded the reserves actually required, by an amount ranging from 48m zloty in October to 349m zloty in November. Over the year as a whole, excess reserve balances averaged 141.7m zloty, whereas the corresponding figure in 2000 had been 164.9m zloty. This decrease reflects better liquidity management at the banks.

<sup>21</sup> The decision to grant this bank a partial exemption from reserve requirements took effect at the beginning of 2001, although it was made in 2000.



Under resolutions adopted in December 2001, the reserve ratio was lowered from 5% to 4.5%, while at the same time the possibility of holding up to 10% of required reserves in the form of declared vault cash was withdrawn. While these decisions were neutral in their impact on the liquidity position of the banking sector, they brought the principles governing the maintenance of required reserves closer to the standards applied by the ECB. The effective reserve ratio remained unchanged.

As of December 2001, the NBP began publishing daily figures on the amount of required reserves, and on the balances on banks' current accounts at the NBP and on reserve accounts the previous day (this information is available on the "NBPM" page of the Reuters service). This measure is intended to increase the efficiency of the banks in managing their liquidity.

#### 2.3.4. Lending and deposit operations, and bank refinancing

The lending and deposit-taking operations carried out by the NBP with the banks, at their initiative, made it possible to close out short-term liquidity gaps<sup>22</sup>, thereby easing pressure on interbank rates. In the pursuit of monetary policy, active use was made of lombard facilities and overnight deposits.

**Lombard loans** allowed banks to replenish their day-to-day liquidity. The lombard rate functioned as a ceiling on the marginal cost of interbank funds.

In the particular quarters of 2001, the average daily utilisation of lombard facilities was as follows:

- Q1 – 124.3m zloty,
- Q2 – 66.2.m zloty,
- Q3 – 271.6m zloty,
- Q4 – 473.5m zloty.

The highest monthly average utilisation of lombard facilities was seen in October, when this came to 997.8m zloty (towards the end of October, daily utilisation had reached as much as 6.3bn zloty).

In 2001, the banks most frequently drew on these facilities towards the end of the reserve maintenance period, particularly in the first quarter and in October. This was the result of banks speculating on cuts in NBP interest rates. The large amounts they consequently invested in purchases of money market bills compelled them to top up their day-to-day liquidity by borrowing at the NBP.

On December 1, 2001, as part of the adjustment of the Bank's system of operations to the standards of the ECB, a new instrument was introduced, namely, an **overnight deposit** facility; this allows banks to place their surplus balances on time deposit at the NBP. The deposit is repayable on the next business day. The deposit rate, set by the MPC, constitutes a floor on fluctuations in interbank rates.

Overnight deposits effectively began to be utilised by the banks as of December 21. By year end, 39 deposit agreements had been concluded, while the total funds placed by the banks amounted to 7.9bn zloty. The average balance on overnight deposits during December stood at 714.5m zloty (711m zloty during December's reserve maintenance period), while the largest deposit placed was 1.9bn zloty. Deposit balances were highest prior to weekends and holidays.

Rediscount loans and refinancing for central government investment projects played no significant role in the conduct of monetary policy in 2001, while the principles for bank refinancing via these instruments remained unchanged.

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<sup>22</sup> That is, to make up liquidity shortfalls or invest surplus balances.

The outstanding borrowings of the banks under these refinancing loans fell 14.2% in 2001, to total 5.6bn zloty at the end of December. This decline was the result of the repayment, at contractually specified dates, of central investment refinance amounting to 436.8m zloty<sup>23</sup>, and of a lower utilisation of rediscount facilities, down 17.8m zloty on December 2000. The funds obtained from the seasonal rediscounting of bills by one bank were used to finance loans for the purchase of agricultural produce.

In line with a provision included in the *Monetary Policy Guidelines for the Year 2001*, a new vehicle for bank refinancing was introduced at the end of 2001, namely, an **intraday credit** facility, for same-day drawdown and repayment<sup>24</sup>. This arrangement allows banks to carry out more efficient settlements during the working day, thanks to which it helps reduce interest rate swings over the course of the day. Intraday credits are collateralised by the transfer to the NBP of title to Treasury bills. By year end 2001, 21 banks had concluded agreements with the NBP on intraday credit facilities. The instrument was first used on December 18.

In modifying its monetary policy instruments in 2001, the National Bank sought both to bring its system of operations into line with ECB standards and to improve the efficiency of Poland's financial markets.

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<sup>23</sup> The debt of the commercial banks to the NBP under this form of refinance solely involved loans to refinance central investment projects begun prior to 1989.

<sup>24</sup> This facility was introduced under Resolution 57/2001 of the NBP Management Board, November 22, 2001.

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BANKING SUPERVISION

As was the case the year before, the activity of the General Inspectorate of Banking Supervision (GINB) in 2001 reflected the division of the statutory responsibilities of banking supervision into those involving licensing, regulation, off-site analysis, on-site examinations and matters related to the cooperative banking sector<sup>25</sup>.

### 3.1. Licensing

The licensing activity of GINB in 2001 included responsibilities of a permanent nature involving the examination of applications for the issue of rulings or opinions by the Commission for Banking Supervision, received pursuant to the provisions of the legislation regulating the operations of banks in Poland.

The licensing activity of GINB was related to the following areas:

- the establishment of banks,
- the opening of representative offices of foreign banks,
- changes in banks' ownership structure and bank mergers,
- changes in the composition of bank management boards,
- amendments to banks' articles of association.

#### 3.1.1. Establishment of banks

In 2001, GINB examined eleven applications to the Commission for Banking Supervision for authorisation to establish a bank, of which three involved mortgage banks, four involved banks operating as building societies, and four involved universal banks to be set up by foreign banks (in 2000, GINB had examined three applications to establish banks).

On the conclusion of authorisation proceedings by GINB, the Commission for Banking Supervision adopted the following resolutions:

- three resolutions granting authorisation to establish the following banks:
  - MHB Bank Polska SA, registered office Warsaw (resolution adopted on January 18, 2001),
  - Bank Svenska Handelsbanken (Polska) SA, registered office Warsaw (resolution adopted on February 7, 2001),
  - Bank of Tokyo-Mitsubishi (Polska) SA, registered office Warsaw (resolution adopted on October 10, 2001);
- six resolutions suspending proceedings on authorisation to establish a bank, these comprising:
  - four resolutions suspending proceedings on authorisation to establish a bank operating as a building society (the applications in question had been filed with the Commission in the years 1998-1999). Proceedings in these cases were subsequently discontinued, as Poland's Sejm, in enacting a package of "supporting" legislation to the national budget on December 21, 2001, adopted regulations which repeal the Act on Building Societies and State Support to Savings for Housing Purposes of June 5, 1997, and the building societies in question were to have operated pursuant to that Act,
  - two resolutions suspending proceedings on authorisation to establish a bank, adopted due to organisational changes at the two banks that had filed the applications;
- one resolution discontinuing proceedings on authorisation to establish a mortgage bank, adopted due to the application concerned having been withdrawn by the applicant.

One further application for authorisation to establish a bank was still under examination at year end.

<sup>25</sup> GINB, the executive arm of the Commission for Banking Supervision, operates as an organisational unit within the structure of the National Bank of Poland.

In addition, as part of bank authorisation proceedings, GINB examined three applications in 2001 for the Commission to issue permits for newly-established banks to commence operating activity. Operating activity was begun in 2001 by two banks, namely:

- Slaski Bank Hipoteczny SA, Warsaw, which had been granted a banking licence in 2000,
- Bank Svenska Handelsbanken (Polska) SA, Warsaw.

MHB Bank Polska SA, Warsaw, which in 2001 submitted an application to the Commission for a permit to commence operating activity, received the requisite approval to do so on January 22, 2002.

### 3.1.2. Opening of representative offices of foreign banks

At December 31, 2001, there were 27 representative offices of foreign banks operating in Poland (at December 31, 2000, there had been 32). During the year, GINB examined 12 applications concerning the operation in Poland of representative offices of foreign banks (in 2000, 14 applications had been examined, either for the opening of a representative office or for a change in name); of these 12, proceedings in 1 case were discontinued at the request of the party concerned and 2 applications were still under examination at year end, while in the remaining cases affirmative rulings of the Commission were issued, whereby:

- authorisation was granted for the establishment of five new representative offices of foreign banks, namely:
  - Landesbank Baden-Württemberg, Representative Office in Poland,
  - Bank Vontobel AG, Representative Office in Poland,
  - Nova Ljubljanska Banka d.d., Ljubljana, Representative Office in Poland,
  - Banca Intesa Banca Commerciale Italiana S.p.A., Representative Office in Poland,
  - Hamburgische Landesbank-Girozentrale, Representative Office in Poland;
- approval was given for changes in the name of three representative offices of foreign banks, namely:
  - Otkritoye Aktsyonernoye Obshchestvo "Technobank", Representative Office in Poland,
  - Credit Industriel et Commercial, Representative Office in Poland,
  - Otkritoye Aktsyonernoye Obshchestvo "Byelvneshekonombank", Representative Office in Poland;
- an extension was granted (for an indefinite period) to the activity in Poland of a representative office of a foreign bank operating under the name of Deutsche Hyp Deutsche Hypothekenbank Frankfurt-Hamburg Aktiengesellschaft, Representative Office in Poland.

### 3.1.3. Changes in banks' ownership structure and bank mergers

In 2001, GINB examined the following applications in this area:

- 42 applications concerning the acquisition or taking up of qualifying holdings of shares in banks; as a result, the Commission for Banking Supervision issued the following resolutions:
  - 22 resolutions approving the acquisition of qualifying holdings of shares in banks (in 2000, there had been 23),
  - 3 resolutions refusing to grant such approval,
  - 1 resolution upholding a previous resolution on this matter that had been subject to appeal.

With respect to the remaining applications regarding changes in banks' ownership structure examined in 2001, rulings of the Commission were scheduled to be issued in 2002, following the receipt by GINB of the documents required by regulation.

- 5 applications concerning the merger of banks incorporated as public limited companies; having analysed these, the Commission issued the following resolutions:
  - 3 resolutions that stemmed from consolidations taking place at foreign banks which were the owners of banks in Poland, where the latter were merging as a result,
  - 2 resolutions concerning the merger of regional banks (affiliating local cooperatives).

### 3.1.4. Changes in the composition of bank management boards

In 2001, 219 applications were received for approval for the appointment of members of bank management boards (including bank presidents). The Commission for Banking Supervision approved, by resolution, the appointment of 61 members of bank management boards (compared to 42 in 2000), including 39 bank presidents (25 in 2000). Of the 61 resolutions thereby adopted:

- 36 involved approvals for appointing management board members at banks already in operation as public limited companies,
- 6 concerned management board members at newly-established banks,
- 19 involved the appointment of presidents at existing cooperative banks (in accordance with Article 31 of the Act on the Operations of Cooperative Banks, Their Affiliation, and Affiliating Banks of December 7, 2000).

The remaining applications were to be dealt with in 2002, once they had been supplemented with other documentation required by regulation.

### 3.1.5. Amendments to banks' articles of association

In 2001, GINB examined 481 applications for the approval of amendments to banks' articles of association (this refers both to banks incorporated as public limited companies and to cooperative banks), and 1 application to the Commission for Banking Supervision for an opinion to be issued on amendments to the articles of a state bank. As a result, the Commission issued:

- 65 rulings on approval for amendments to the articles of association of banks incorporated as public limited companies. These amendments most commonly involved extending the list of operations performed by a given bank, increasing its authorised share capital, altering the manner in which it may be represented externally, and the attachment of voting privileges to shares; some amendments were also related to changes in the names of banks;
- 138 rulings on approval for amendments to the articles of association of cooperative banks. These amendments were primarily attributable to a requirement laid down in the Act on the Operations of Cooperative Banks, Their Affiliation, and Affiliating Banks, namely, that cooperative banks bring their articles into line with the provisions of that Act;
- 1 opinion concerning amendments to the articles of association of a state bank.

Examination of the remaining applications was to be concluded, via the issue of an appropriate ruling of the Commission, following the submission by the applicants of the additional documents required (in 2000, 360 proceedings of this kind ended in the issue of rulings).

#### **MOST IMPORTANT NBP ACTIVITY IN 2001**

On the basis of proposals prepared by GINB:

- The Commission for Banking Supervision authorised the establishment of three new banks.
- The Commission for Banking Supervision authorised the establishment of five new representative offices of foreign banks.

## 3.2. Prudential regulations

The regulatory activity of GINB in 2001 primarily focussed on tasks relating to the development of prudential regulations to limit banking risk, and adapting the Polish banking system to conform to the requirements of the European Union and the recommendations of the Basle Committee on Banking Supervision. The performance of these tasks involved carrying out analyses of particular kinds of banking risk, of provisions of law, and of the problems arising from the introduction by the banks of new products and services. In this area of work, GINB participated in drafting new legal instruments and also provided interpretations

and clarification regarding the provisions of law already in force, especially with reference to prudential regulations, bank accounting principles and accounting procedures for particular banking operations. In addition, GINB developed new tools for prudential reporting and supervisory analysis, and updated those already employed, the aim being to enhance the identification and assessment of the level of risk being undertaken by the banks, and to determine suitable supervisory strategies relative to those banks; further, GINB ensured that these tools were utilised appropriately.

### 3.2.1. The Banking Act

GINB took part in work on a Bill amending Poland's Banking Act, which was subsequently adopted by the Sejm. The new provisions incorporated in that Act:

- Specify qualitatively new prudential requirements, in particular with respect to large exposures, the determination of a bank's capital base and capital adequacy standards.
- Modify the procedures for banks disclosing information that is subject to the obligation of banking secrecy, thereby allowing information of this kind to be transmitted between banks not belonging to the same banking group for the purpose of preparing consolidated accounts.
- Set out regulations that permit the performance of consolidated supervision of the banks, one benefit of this being that it should facilitate the negotiation and conclusion of memoranda of understanding with agencies of banking supervision in other countries.
- Modify the regulations concerning the exchange of information with banking supervision agencies in other countries. The new provisions allow information subject to banking secrecy to be made available to foreign supervisors on a reciprocal basis, provided that it is not transmitted to parties outside the given agency of banking supervision without the consent of the Commission for Banking Supervision.
- Amend the procedures for the exchange of information between the Commission and other domestic supervisory agencies. The principle now introduced is that such information is communicated between the Commission and other supervisors on a bilateral basis.
- Introduce the procedures applicable to the taking up and pursuit of business by EU credit institutions in Poland and to the taking up and pursuit of business by domestic banks in EU member states. This represents the application of the principle of a single banking licence (these provisions are to take effect as of Poland's accession to the EU).

The amendments performed to the Banking Act have strengthened the stability of the banking sector by introducing more precise prudential requirements, of both a quantitative and qualitative nature. At the same time, the new provisions authorise the Commission for Banking Supervision to issue implementing regulations, which in conjunction with statute law constitute a comprehensive system of legal instruments laying down a framework for mitigating the risks inherent in the operations of the banks. The Act Amending the Banking Act has brought Polish banking regulations fully into line with the standards obtaining in the European Union.

### 3.2.2. Implementing regulations to the Banking Act, the Act on the NBP and the Accounting Act

In 2001, GINB drew up implementing regulations in performance of the statutory authorisation contained in the following legislation:

- **The Banking Act.** Here, GINB drafted four resolutions of the Commission for Banking Supervision, which concerned:
  - the scope and detailed procedures for determining capital requirements against particular risks,
  - detailed procedures for determining the capital base of banks,
  - detailed procedures and conditions for including claims and extended off balance sheet commitments in determining compliance with large exposure limits,
  - the amount of the additional portion of members' commitments at cooperative banks that may be included in the capital base of those banks, and the conditions for such inclusion.

The above regulations, in supplementing the new solutions contained in the revised Banking Act, represent the adoption within the Polish regulatory system of changes in the prevailing approach to risk, changes which had been previously announced and keenly awaited. The crucial innovations made refer to market risk, while the methodology for the treatment of credit risk has remained virtually unchanged. The most significant consequence of introducing these new solutions will be that banks abandon the control of risk through position limits in favour of a more flexible approach based on the application of risk capital requirements. The adoption of these regulations concludes a further stage in the process of bringing Polish prudential regulations into conformity with international standards, particularly as regards EU Directive 2000/12/EC of March 20, 2000, relating to the taking up and pursuit of the business of credit institutions, and Directive 93/6/EC of March 15, 1993 (as subsequently amended), on the capital adequacy of investment firms and credit institutions.

- **The Act on the National Bank of Poland.** Here, GINB drafted a resolution of the Commission for Banking Supervision amending Resolution no. 1/1999 of the Commission on procedures for the performance of banking supervision, January 6, 1999, with the purpose of the amendments concerned being to adjust the principles governing the performance of banking supervision to correspond to the provisions of the Act on Preventing the Use in Financial Trading of Assets Derived from Illegal or Undisclosed Sources of November 16, 2000. GINB also drafted a resolution of the Commission for Banking Supervision on the procedure to be applied by the Commission as an institution collaborating with the General Inspector of Financial Information. This specifies the principles for the relevant cooperation and exchange of information.
- **The Accounting Act.** Here, GINB drafted four ordinances of the Minister of Finance, concerning:
  - procedures for establishing specific provisions against the risk of banking operations,
  - detailed bank accounting principles,
  - detailed procedures for the compilation of the consolidated accounts of banks and the consolidated accounts of financial groups,
  - the establishment of a model bank chart of accounts.

Following the acceptance of the draft ordinances by the Commission for Banking Supervision, they were forwarded to the Minister of Finance. In accordance with the provisions of the revised Accounting Act, these ordinances, having being subject to interdepartmental consultation and having received a positive opinion from the Commission, were then issued by the Minister of Finance.

The regulation on specific provisioning is especially significant. The relevant Ordinance imparts greater flexibility to issues that have a major impact on the operations of the banks, in particular by liberalising requirements concerning lending activity (with respect to consumer loans and small business finance). An important aspect of this regulation is that credit risk models approved by banking supervision have become admissible for use in asset classification and specific provisioning.

Meanwhile, the ordinances of the Minister of Finance on accounting bring bank accounting principles into line with the revised provisions of the Accounting Act and Banking Act, and also with International Accounting Standards.

### 3.2.3. Developing a position on The New Basle Capital Accord

During 2001, a position was developed for the Commission for Banking Supervision on the second version of the consultative document entitled *The New Basle Capital Accord*, issued by the Basle Committee on Banking Supervision<sup>26</sup>. This second consultative document was carefully analysed at GINB and discussed with the banking community and with the "Big Five" auditors. The final position of the Commission on this document was adopted in May 2001. In that posi-

<sup>26</sup> This represents a revision of the 1988 Capital Accord, aimed at modifying the measurement of capital adequacy at banks, chiefly with respect to credit risk and operational risk. The first consultative document was issued in June 1999.



tion, the Commission upheld the observations it had previously made on the first version of the document, and also presented a number of new comments, which concentrated on the following issues:

- questions of definition,
- the relationship between specific provisions and capital adequacy,
- the level of complexity represented by the new methodology and the feasibility of implementing it in developing countries,
- the role of rating agencies, the transparency of their rating process, and the responsibility borne by those agencies.

### 3.2.4. Drafting prudential recommendations of the Commission for Banking Supervision

In the course of 2001, GINB drafted prudential recommendations of the Commission for Banking Supervision on the following issues:

- The principles for the maintenance by mortgage banks of collateral accounts for mortgage bonds and projections of those accounts. This prudential recommendation seeks to underline the importance of collateral accounts for mortgage bonds, as these accounts play a key role in the activity of mortgage banks by allowing them to monitor the state of collateral provided against mortgage bonds, with these bonds constituting the basic instrument used to refinance the operations of those banks.
- The role of external auditors in contributing to the process of bank supervision. This prudential recommendation emphasises the importance of external auditors to the safety of the banking system, and implements the guidelines for supervisory institutions contained in the document of the Basle Committee on Banking Supervision entitled *Internal audit in banks and the supervisor's relationship with auditors*.

### 3.2.5. Memoranda of understanding with agencies of banking supervision from other countries

Work was continued in 2001 towards the conclusion of memoranda of understanding with banking supervision agencies from other countries<sup>27</sup>. The draft memorandum previously developed was modified (taking account of the amendments performed to the Banking Act), and following acceptance by the Commission for Banking Supervision was forwarded to all the foreign supervisory agencies with which negotiations on this question were being conducted.

## 3.3. Off-site analysis

In its off-site analysis of the banks in 2001, GINB primarily carried on its permanent responsibilities in this area, concentrating on:

- direct off-site surveillance of the commercial banks,
- supervision of distressed banks,
- overall analyses of the condition of the banking sector.

### 3.3.1. Direct off-site surveillance

In 2001, the direct off-site surveillance of commercial banks included the following:

- carrying out ongoing and quarterly analyses and assessments of the financial condition of particular banks. The results of the quarterly analyses were used to assign internal ratings to each bank using the CAEL methodology<sup>28</sup>, to draw attention to those areas that could

<sup>27</sup> The purpose of concluding memoranda of understanding with foreign supervisors is to allow the exercise of more effective supervision over the activity of branches or representatives offices of foreign banks in Poland, and of branches or representatives offices of domestic banks abroad.

<sup>28</sup> This represents a method of estimating exposure to particular types of banking risk, and serves, among other things, as a basis for scheduling the dates and frequency of full-scope and targeted examinations. CAEL represents an acronym of Capital adequacy, Asset quality, Earnings and Liquidity.

constitute a source of potential problems and which required detailed review during on-site examinations, and to develop a supervisory strategy for each bank. These conclusions were presented in Executive Summaries for GINB Management. Meanwhile, the Supervisory Profiles of particular banks, containing key information on each one, were updated on an ongoing basis<sup>29</sup>, and monthly reports were compiled on the condition of the banks (including proposals for urgent supervisory action where necessary);

- examining applications from the banks for supervisory approval to carry out particular measures<sup>30</sup>;
- developing materials to be examined by the Commission for Banking Supervision, including draft Commission resolutions and draft rulings of the Chairperson of the Commission in individual cases, pursuant to statutory authority;
- undertaking ad hoc interventions, explanatory proceedings and inquiries<sup>31</sup>;
- selecting banks for full-scope and targeted examinations, participating in those examinations, and monitoring the subsequent performance of examination recommendations;
- preparing proposals for alterations to the prudential reporting package as regards the data on real estate finance submitted by both mortgage banks and universal commercial banks;
- giving opinions on the real estate appraisal policies submitted by banks to the Commission for Banking Supervision for approval.

### 3.3.2. Supervision of distressed commercial banks

In 2001, GINB exercised supervision over:

- 24 distressed banks, of which:
  - 12 banks were implementing rehabilitation programmes approved by the Commission for Banking Supervision,
  - a further 12 banks had been required to institute rehabilitation programmes.
- 7 banks under liquidation,
- 6 banks that had been declared bankrupt.

In performing this supervision:

- Ongoing analyses were conducted of the condition of the banks involved (including assessments of the implementation of rehabilitation programmes). On this basis, reports were drawn up for the Commission for Banking Supervision on those banks, and on other banks connected with them, together with information on the supervisory measures instituted and proposals for further action.
- Opinions were issued on the rehabilitation programmes drawn up by twelve banks, with four of these being approved by the Commission (in the remaining cases, the banks were required to revise and/or supplement those programmes).
- In the case of banks where the rehabilitation programmes concerned were inadequate or their implementation deficient, the following measures were proposed to the Commission:
  - acquisition by another bank (in one case),
  - requiring the bank to summon an extraordinary general meeting of shareholders (two cases),
  - restricting or suspending the operations of the bank (one case).

<sup>29</sup> The contents of these include the bank's CAEL rating, a characterisation of its risk exposure, and a review of compliance with the provisions of the Banking Act, other legislation and prudential regulations.

<sup>30</sup> 67 opinions were provided concerning the issue of securities by banks, and 33 opinions were forwarded to the Securities and Exchange Commission and other institutions.

<sup>31</sup> Ad hoc interventions were undertaken where it was found that banks had submitted incorrect information in their prudential reports to the NBP or had failed to file such reports on schedule (24 banks), where violations were determined of the provisions of statute or prudential regulations (including violations of Articles 22 and 71 of the Banking Act, with 12 and 8 cases of this kind, respectively), and where discrepancies were established in bank classifications of claims on a common borrower (141 cases).

These proposals were adopted by the Commission, by resolution.

In addition, GINB was involved in collaboration with the Bank Guarantee Fund. The Fund was notified of banks being required to institute rehabilitation proceedings and of the supervisory measures undertaken with respect to those banks, and in individual cases was also advised of the financial condition of particular banks.

### 3.4. On-site examinations

The examination activity carried out by GINB in 2001 focussed on continuing and stepping up the process of on-site examinations at commercial and cooperative banks, and at branches and representative offices of foreign banks, while also, on a parallel and complementary basis, establishing, extending or improving supervisory examination procedures, and developing methodologies for reviewing particular risks at the banks. An important part of this work was also laying the foundations for the comprehensive and expert professional development of bank examiners. The examination responsibilities performed can best be discussed in three areas, each outlined below:

- on-site examinations performed at commercial and cooperative banks, and at branches and representative offices of foreign banks,
- the scope of the examinations performed,
- the examination methodology and tools applied.

#### 3.4.1. Examinations at commercial and cooperative banks, and branches and representative offices of foreign banks

In 2001, GINB carried out the following on-site activity:

- 104 full-scope on-site examinations, comprising:
  - 22 examinations at commercial banks,
  - 5 examinations at large cooperative banks, with total assets of over 100m zloty,
  - 77 examinations at other cooperative banks;
- 97 targetted on-site examinations, comprising:
  - 10 examinations at commercial banks to review selected areas of activity,
  - 17 examinations at commercial banks to review compliance with Resolution no. 4/98 of the Commission for Banking Supervision on bank procedures in cases of money laundering, and on the trigger amount and conditions for maintaining a record of cash deposits in excess of a specified amount, and of the particulars of the parties performing such deposits and the parties to whose account the deposits are made, June 30, 1998 (as published in Dziennik Urzędowy NBP no. 18/1998, item 40)<sup>32</sup>,
  - 72 examinations at cooperative banks;
- measures associated with suspending the operations of 2 cooperative banks;
- 23 explanatory proceedings, with these involving 15 commercial banks and 8 cooperative banks;
- 2 on-site reviews of a bank's preparations for commencing operating activity;
- 6 on-site examinations at Polish representative offices of foreign banks;
- participation in activity with a view to 1 cooperative bank being removed from the cooperative register.

<sup>32</sup> It should be noted that two of these examinations with respect to money laundering were performed alongside examinations of other areas of activity at the banks concerned. For this reason, to avoid double counting of the examinations in question, it has been assumed that the total amount of targetted examinations was 97.

The examination activity undertaken was carried out on the basis of an annual examination plan approved by the General Inspector of Banking Supervision. The examination plan for commercial banks was drawn up by reference to an examinations model based on a supervisory cycle<sup>33</sup>.

### 3.4.2. Scope of examinations

#### 3.4.2.1. Areas of banking activity reviewed

The commercial banks subject to full-scope examination in 2001 were selected using the criteria of scale of risk and size of total assets, as adopted in the examinations model being applied, together with those banks that had previously not been examined on a full-scope basis. In this process, an assessment was made of asset quality, liquidity, interest rate risk, foreign exchange risk, earnings, capital and management, and also of compliance with the regulations governing banking activity, the banks' articles of association, and the conditions laid down in their authorisations. In addition, during three full-scope examinations, pilot reviews were carried out of operational risk.

In 2001, GINB also began work on implementing consolidated supervision, which included reviews of the structure of groups of companies and of their inter-company cash flows, and analyses of the non-bank undertakings affiliated to given banks. Two elements of consolidated supervision were added to the on-site examination process:

- information was obtained from the Securities and Exchange Commission and the Agency for Pension Fund Supervision on undertakings supervised by those institutions which belonged to group structures involving the banks being examined,
- greater emphasis was placed on analysing and utilising the information contained in certain reports filed by the banks with the NBP (the B0300, B0701 and B0702 reports<sup>34</sup>).

#### 3.4.2.2. Examination responsibilities assigned by the NBP Management Board

The on-site activity conducted by GINB in 2001 as part of the responsibilities assigned by the NBP Management Board included the following:

- reviews of monetary and interbank settlements during the 104 full-scope examinations conducted at banks,
- reviews of the accuracy of the calculation and performance of reserve requirements during 15 full-scope examinations at commercial banks,
- 4 explanatory proceedings concerning the value and purchase dates of NBP money market bills or securities at commercial banks that had received an exemption from reserve requirements, with this issue also reviewed during 2 targeted examinations.

### 3.4.3. Examination methodology and tools

In 2001, work was continued on updating or developing uniform standard procedures for on-site examinations. The criteria for assigning points-based ratings to the banks were revised. In order to impart greater transparency to the supervisory process, it was decided to make available to the banks the document entitled *The points-based bank rating system*, and also the ratings assigned to individual banks as of January 1, 2002.

New chapters of the *On-site Examination Manual* were developed, addressing issues related to derivative instruments, real estate financing, and the operational risk connected with IT systems and electronic banking. Further, in the course of the year the general principles for sampling loans and other credit exposures during examinations were updated and expanded.

<sup>33</sup> The supervisory cycle has been defined as the totality of supervisory activity undertaken in relation to a given bank between the date of the last rating panel for that bank following a full-scope examination and the date of the next rating panel, following the next full-scope examination. The basic criteria adopted for determining the supervisory cycle involve two factors: the scale of the systemic risk posed by the given bank (or banking group), as established by reference to its share in the total assets (less provisions) of the banking sector as a whole; and the specific risk of the given bank, as established by banking supervision under its point-based bank rating system.

<sup>34</sup> The B0300, B0701 and B0702 reports present a bank's large exposures, both on and off the balance sheet, to a single customer or group of undertakings related by capital or management, including any relevant equity investments.

In addition, overall guidelines were developed for a data base to contain information on asset classifications. This will allow a more efficient identification of irregular assets.

### 3.5. Supervision of the cooperative banking sector

The activity of GINB with respect to the cooperative banks in 2001 was determined by the taking effect of the Act on the Operations of Cooperative Banks, Their Affiliation, and Affiliating Banks of December 7, 2000, and the Act Amending the Banking Act and Other Legislation of August 23, 2001. In connection with the above, GINB:

- provided interpretations and clarifications concerning the new provisions of law now coming into effect and drafted an implementing regulation to the Banking Act specifying the amount of the additional portion of members' commitments at cooperative banks that may be included in the capital base of those banks;
- supervised the process of mergers among affiliating banks, induced by the need to fulfil the capital requirements now imposed on them by the above-mentioned legislation. As a result, GINB presented six draft affiliation agreements to the Commission for Banking Supervision, for its approval;
- supervised the process of consolidation among cooperative banks, involving both mergers and acquisitions, which was geared towards strengthening their capital. Cooperative banks also increased their capital by obtaining approval from the Commission for Banking Supervision to include subordinated debt in their capital base.

At year end 2000, there had been 680 cooperative banks in operation, while at year end 2001 there were 642. In exercising supervision over the cooperative banking sector in 2001<sup>35</sup>, GINB:

- presented 24 matters to the Commission for Banking Supervision, these concerning:
  - authorisation for bank mergers (3 cases),
  - suspending the operations of a bank and approving its acquisition by another bank (1 case),
  - suspending the operations of a bank and petitioning the court for a declaration of bankruptcy (1 case),
  - authorisation for a bank to refrain from deducting unabsorbed prior period losses from its core capital (3 cases),
  - requiring a bank's management board to call an extraordinary general meeting in order to examine the bank's position (2 cases),
  - approving draft affiliation agreements submitted by affiliating banks (6 cases),
  - examining motions to set a date for a ruling on approving a draft affiliation agreement (3 cases),
  - discontinuing proceedings regarding approval for a draft affiliation agreement, at the request of the bank concerned (1 case),
  - examining reports from GINB on the condition of the banks (3 cases),
  - examining a draft resolution of the Commission on the amount of the additional portion of members' commitments at cooperative banks that may be included in the capital base of those banks, and the conditions for such inclusion (1 case);
- presented 250 matters to the Chairperson of the Commission for Banking Supervision, these concerning:
  - the issue of post-examination recommendations (142 cases),
  - the issue of cautions to the management boards of cooperative banks (27 cases),
  - the approval of rehabilitation programmes (28 cases),
  - negative assessments of the assumptions submitted for rehabilitation programmes (3 cases),

<sup>35</sup> At December 31, 2001, the cooperative banking sector comprised 642 local cooperative banks, 10 regional banks affiliating local cooperative banks, and Bank Gospodarki Zywnosciowej SA.

- authorisation for a bank to refrain from deducting unabsorbed prior period losses from its core capital (1 case),
- authorisation for a bank to include in its supplementary capital funds received for a period of at least five years (25 cases),
- prohibiting a bank from granting loans and cash advances to its shareholders, management board members and staff (1 case),
- the appointment of a conservator to supervise implementation of a rehabilitation programme (1 case),
- requiring a bank to draw up a rehabilitation programme (7 cases),
- requiring a bank to revise a rehabilitation programme (6 cases),
- issuing opinions on the proposed conditions for the acquisition of a banking business declared bankrupt (5 cases),
- measures taken by the Commission and GINB with respect to the former president of a regional affiliating bank (1 case),
- upholding the position taken by the President of the NBP in 2000 regarding the impossibility of issuing a positive opinion on a person proposed for the post of bank president (1 case),
- two other matters.

During 2001, rehabilitation programmes were under implementation at 101 cooperative banks. At the majority of these (69), the necessity of instituting a rehabilitation programme was connected with the earlier acquisition of another, financially weaker, cooperative bank. The remaining banks were implementing rehabilitation as a result of losses they had incurred on their operations.

In 2001, GINB supervised 94 cooperative banks declared bankrupt and 3 banks under liquidation. In connection with this activity, where supervisory intervention was required, GINB forwarded 22 communications to trustees in bankruptcy and courts conducting bankruptcy proceedings.

### 3.6. NBP participation in bank rehabilitations

The close of 2001 marked the end of the eighth year of rehabilitation proceedings at banks that had obtained financial assistance from the NBP. In 2001, the NBP provided no further financial support for the implementation of rehabilitation programmes; however, it continued to analyse the performance of such programmes and the timeliness of debt repayment by the banks, in line with the agreements concluded with them in the years 1993-94 (taking account of subsequent amendments to those agreements).

In 2001, financial assistance was still in place to five banks incorporated as public limited companies. At December 31, the total amount of NBP assistance outstanding (under bond redemptions and bills or notes discounted) stood at 204.72m zloty<sup>36</sup>, which was 14.4% less than at year end 2000. The reduction in the sum due to the NBP was brought about by the repayment of part of this debt, in accordance with the provisions of the relevant agreements, and by the full redemption of its promissory note by one commercial bank (in November 2001).

The value of the outstanding bonds issued by domestic banks and acquired by the NBP declined 13.8% during the year, the result of one commercial bank redeeming a series of its bonds.

The central bank had also participated in the restructuring of the cooperative banking sector in the years 1994-97, making available assistance to 79 banks that acquired cooperative institutions. In 2001, only 2 banks continued to have unpaid liabilities of this type.

At December 31, 2001, the outstanding amount of NBP assistance granted for the restructuring of the cooperative banking sector came to 4.18m zloty, having fallen 61.5% compared to year end 2000.

<sup>36</sup> Excluding the refinancing loan (past due) made in 1994 to Bank Agrobank SA.

In the course of 2001, there were also 25 banks which enjoyed NBP support via exemptions from reserve requirements, issued under Article 39, para. 3, of the Act on the NBP of August 29, 1997. At December 31, the amount so exempted stood at 1.9bn zloty.

These exemptions from reserve requirements had been granted in previous years. In seeking to treat all banks on an equal basis with regard to the reserves required of them, the NBP Management Board granted no new exemptions from reserves in 2001.

On December 21, 2000, the NBP and PKO BP SA concluded an agreement on the terms and forms of assistance to be provided for performance of the rehabilitation programme scheduled for implementation at the latter bank in the years 1999-2003. The agreement was concluded for the period from January 2, 2001, to January 16, 2002, with the option of renewal for further contractual periods<sup>37</sup>. Under a decision of the NBP Management Board taken on December 21, 2000, the performance of the rehabilitation objectives involved was to be assisted by an exemption from reserve requirements totalling 800m zloty, and by the redemption of part of the NBP bonds previously acquired by PKO BP SA in connection with the earlier reduction of the reserve ratio. The face value of these bonds amounted to 3.2bn zloty, equivalent to 76.2% of all the bonds held by PKO BP SA. The funds altogether released as a result of the exemption from reserve requirements and the redemption of bonds (with maturities of 6, 7, 8, 9 and 10 years) thus came to 4bn zloty, and were placed on account at the NBP in the form of a renewable 3-month time deposit, the income from which, amounting to 693.2m zloty, was transferred to the account of PKO BP SA. In addition, pursuant to the agreement, PKO BP SA purchased 91-day NBP money market bills to a total face value of 7.5bn zloty, doing so in three equal tranches, and undertook to roll over those bills.

#### **MOST IMPORTANT NBP ACTIVITY IN 2001**

- Prudential regulations were developed to limit banking risk, in the broad sense of the term.
- The Polish banking system was brought into line with the requirements of the European Union and the recommendations of the Basle Committee on Banking Supervision.
- The most significant consequence of the new supervisory solutions incorporated in the Banking Act will be that banks abandon the control of risk through position limits in favour of a more flexible approach based on the application of risk capital requirements.
- Work was continued with a view to concluding memoranda of understanding with banking supervision agencies from other countries.
- Work was begun on implementing consolidated supervision.
- The principle was adopted in 2001 that no differentiation would be made between the banks as regards their reserve requirements. As a result, no further exemptions from those requirements were issued. The exemptions that remained in force are solely ones granted in previous years.

<sup>37</sup> The results of the rehabilitation programme at PKO BP SA up to January 2002 were in line with projections; in consequence, seeking to ensure equal treatment to all the banks, the National Bank of Poland did not extend the agreement.

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## THE ISSUE OF CURRENCY

## 4.1. Notes and coin in circulation

The volume of notes and coin in circulation rose 4.57bn zloty during 2001, to stand at 43,130.6m zloty at year end. This signifies an 11.8% expansion of cash stocks during the year compared to December 31, 2000. The factors behind this increase included sales by the public of the national currencies of the EMU countries as these were withdrawn from circulation, payouts of various forms of compensation and reimbursement, and also – in the last months of 2001 – a temporary conversion of bank deposits to cash, which was connected with the search for alternative, more profitable savings vehicles.

Excluding vault cash, notes and coin in circulation totalled 38,212.6m zloty at December 31, 2000, having risen 12% year-on-year, or some 4.1bn zloty. By comparison, a year earlier there had been a decline of 10.4%.

The proportion of notes and coin (excluding vault cash) in the total money supply stood at 11.4% at December 31, 2001, which represents a decrease of 0.2% year-on-year.

Year-to-date movements in notes and coin in circulation in the particular months of 2001 are depicted in Table 6.

**Table 6**

### Movements in notes & coin, 2001

Month	Total notes & coin in circulation	Notes & coin excluding vault cash	Movements in total notes & coin	Movements in notes & coin excluding vault cash
	million zloty		December 2000 = 100	
December 2000	38,564.1	34,112.7	X	X
January 2001	35,807.5	31,964.2	92.9	93.7
February	36,253.4	32,508.3	94.0	95.3
March	37,242.7	33,544.5	96.6	98.3
April	38,699.2	34,486.4	100.4	101.1
May	37,643.8	33,796.9	97.6	99.1
June	38,757.6	34,961.4	100.5	102.5
July	39,425.8	35,301.4	102.2	103.5
August	39,343.7	35,509.5	102.0	104.1
September	40,430.8	36,575.9	104.8	107.2
October	40,586.9	36,642.2	105.2	107.4
November	41,043.5	36,637.4	106.4	107.4
December	43,130.6	38,212.6	111.8	112.0

Source: NBP

### 4.1.1. Composition of notes & coin

At year end 2001, notes accounted for 96.98% of all currency in circulation by value, while coin made up 3.02%. In 2000, the relevant proportions were 96.80% for notes and 3.20% for coin.

In absolute terms, the number of notes in circulation represented 10.03% of all items of currency, with coin constituting 89.97%, whereas in 2000 the share of notes had been 10.30%, and that of coin had been 89.70%.

By value, 100 zloty and 200 zloty notes accounted for the largest share of cash stocks (53.37% and 26.92%, respectively), while the corresponding role among coins was played by 5 and 2 zloty coins (1% and 0.77%, respectively). In absolute terms, on the other hand, the largest part was played by 100 and 50 zloty notes (3.8% and 1.7%), and by 1 and 2 grosz coins (34.5% and 14.2%).

#### 4.1.2. Supply of notes & coin to the banks

In 2001, the principles for supplying the commercial banks with notes and coin remained unchanged. These involved direct shipments to the banks under agreements for the sale and purchase of Polish currency, and also NBP vault deposits, placed at banks under agreements for the safekeeping and purchase of Polish currency. The supply of notes and coin to the banks was carried out via 39 offices of the NBP.

Of the total number of transactions performed, only 4.1% represented vault deposits, accounting for 7.95% of the overall value of notes and coin purchased by the banks. At December 31, 2001, the value of the NBP vault deposits held at branches of commercial banks constituted 1.3% of the currency reserve at regional branches of the NBP, and 2% of total cash stocks. This method of providing currency to the commercial banks generated less interest in 2001.

#### 4.1.3. Withdrawal of worn or damaged notes & coin

Notes and coin that were damaged or worn through their use in circulation were systematically destroyed during 2001. The notes and coin in question were withdrawn from circulation via NBP regional branches. Of the currency destroyed during the year, 99.8% constituted notes issued since redenomination.

### 4.2. Other issues related to currency

#### 4.2.1. Production of currency

In 2001, the manufacturers of currency – the Polish Securities Printing Works (PWPW SA) and the State Mint (Mennica Państwowa SA) – supplied the NBP with over 674.2 million notes and coins, as previously ordered.

The total purchase cost of these items of currency came to 139.5m zloty. This was 36.4% less than in 2000 (when the corresponding cost had been 219.3m zloty).

During the year, PWPW SA delivered to the NBP 20 and 100 zloty notes (200.0 million in all), while the State Mint supplied the Bank with 1, 2, 5, 10 and 20 grosz coins for general circulation (a total of 468.3 million).

The notes and coin delivered by these manufacturers served to replenish the currency reserve in the denominations concerned, on an ongoing basis. In the remaining denominations, the currency reserve already held was fully sufficient to meet the needs of cash circulation in 2001.

The notes and coin brought into circulation by the National Bank of Poland are of high quality. The manufacturers of currency have been set stiff requirements in this regard. These requirements are specified in delivery contracts and reflect ISO standards. Shipments of notes and coin are subject to NBP quality controls.

The average time that particular notes remain in circulation stands at 7 to 10 months for 10 and 20 zloty notes, 1.5 years for 50 zloty notes, and 3.5 years for 100 zloty notes. The longest useful life is that of 200 zloty notes, yet these have been in circulation for too short a period to be able to determine exactly how long they remain in service.

As regards coins, these remain in circulation for well over 10 years.

#### 4.2.2. Issue of commemorative coins

The commemorative coins issued by the National Bank of Poland as collector's items are produced by the State Mint. In 2001, the National Bank issued coins around 12 themes. The total number of commemorative coins struck was 5,968,200, of which 5,600,000 were of non-precious metals, 351,500 were of silver, and 16,700 were of gold.

The themes employed involved the minting of 26 types of collector's coin, namely:

- nine 2 zloty coins struck from an alloy called "Nordic Gold",
- eleven 10 and 20 zloty silver coins,
- six 100 and 200 zloty gold coins.

The commemorative coins issued included four types of "non-standard" coin, i.e., one triple-alloy gold coin, and also silver coins inset with amber and zircon.

The commemorative coins issued by the NBP, particularly the non-standard mintings, proved enormously popular among collectors.

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

In 2001, the NBP and domestic banks providing cash services continued the exchange of old zloty, issued prior to redenomination on January 1, 1995, for new zloty. The old currency is eligible for exchange until December 31, 2010. By the end of 2001, 99.56% by value of all old zloty had been exchanged, representing 87.51% of the total number of old notes and coin.

#### 4.2.4. Counterfeit domestic currency

The year 2001 brought a 1.69% decrease in the number of counterfeit domestic notes and coin uncovered compared to 2000.

Table 7 provides a percentage breakdown of the counterfeit domestic notes and coin uncovered in 2001 in comparison with 2000.

**Table 7**

##### Percentage structure of counterfeit domestic notes & coin uncovered

Counterfeit items	2000	2001	Increase/decrease
Notes issued in 1994, "Rulers of Poland" series	72.73	72.48	-2.03
Notes issued previously, "Great Poles" series	0.36	0.14	-62.53
Coins of current issue	16.18	15.87	-3.59
Coins previously issued, withdrawn in 1994 <sup>1</sup>	10.73	11.52	5.52
<b>Total</b>	<b>100</b>	<b>100</b>	<b>-1.69</b>

<sup>1</sup> The counterfeit old zloty coins included in the figure for 2001 are solely genuine coins for general circulation – 10, 20, 50, 100 and 500 zloty coins – which were withdrawn from circulation in 1994, and which had been tampered with (e.g., filed down) for use instead of coins of current circulation in vending or similar machines.

Source: NBP

### 4.3. Preparations for the launch of euro notes & coin

In relation to the introduction of euro notes and coin in the twelve EMU countries, preparatory measures were undertaken in Poland, involving legislation, public information and logistics.

In line with ECB guidelines, the import of euro notes and coin to Poland by the NBP became possible as of December 1, 2001. In March 2001, the Deutsche Bundesbank had been selected as

the National Bank's partner in the supply of euros, and an agreement on deliveries of euros was subsequently signed with the Bundesbank on November 6, 2001. The NBP imported euro notes and coin both for its own purposes and for those commercial banks that had concluded agreements on the supply of foreign currencies via the NBP. The remaining banks accessed euros using their previous sources of supply, i.e., their strategic investors or correspondent banks.

The head offices of commercial banks signed annexes to the existing agreements they had with the NBP, which allowed them to obtain the single currency at the National Bank prior to January 1, 2002, in the form of euro deposits.

In the first days of December 2001, the NBP vaults received euro notes and coin to a total value of € 50,017,500 (and a total weight of 35 tons).

In the fourth quarter of the year, training courses were held to provide education and information to the staff of the NBP, the commercial banks, the police, bureaux de change and the border guard. These courses were devoted to methods of verifying the authenticity both of euro notes and coin, and of the twelve national currencies being withdrawn from circulation. Numerous information materials were prepared for these courses, including slides showing the security features of euro currency, illustrated albums on how to recognise as genuine euros and the twelve currencies being withdrawn from circulation, and tables listing the security features of euro notes. By the end of December, NBP staff had provided training for 885 persons.

#### **MOST IMPORTANT NBP ACTIVITY IN 2001**

- An increase was recorded in the volume of notes and coin in circulation, the reasons for this including sales by the public of euro area national currencies being withdrawn from circulation, payouts of compensation and reimbursement, and also the conversion of bank deposits to cash in a search for more rewarding savings vehicles.
- Beginning December 1, 2001, the NBP began the process of importing to Poland euro notes and coin.
- To prevent counterfeiting, the NBP conducted training courses providing education and information on how to verify the authenticity of euros and of the twelve currencies being withdrawn from circulation.

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THE DEVELOPMENT  
OF THE PAYMENT SYSTEM

In 2001, the National Bank of Poland continued its active involvement in developing the payment system, which constitutes one of its primary functions as a central bank. During the year, particular emphasis was placed on regulatory questions; the results this yielded included the adoption by the Sejm of two major pieces of legislation, and the preparation of several lower-level regulations concerning the operation of the payment system. A second area on which work was focussed in 2001 were issues related to the functionality and security of the payment system. The central objectives guiding the above activity were to reduce the risk involved in the payment system and to adjust the Polish payment system to correspond to the requirements of the European Union.

## 5.1. Adjusting payment system regulations to conform to European Union standards

In 2001, the NBP took part in work on the following legal instruments:

- The Act on Settlement Finality in Payment and Securities Settlement Systems, and on the Principles for Supervision of those Systems. This Act was adopted by the Sejm on August 24, 2001. It incorporates in Polish legislation the regulations contained in Directive 98/26/EC of the European Parliament and of the Council of 19 May, 1998, on settlement finality in payment and securities settlement systems. The Act introduces provisions to ensure the finality of settlements in payment systems, with these provisions to take effect as of Poland's accession to the European Union, and also regulations concerning the supervision of those systems (including NBP supervision over payment systems), which took effect on January 1, 2002.
- The Act Amending the Banking Act. The adoption by the Sejm of the Act Amending the Banking Act of August 23, 2001, and the forwarding to the Ministry of Finance of a draft ordinance of the Minister of Finance on cross-border credit transfers which specifies the responsibilities of banks and other institutions performing such transfers, resulted in the inclusion in Polish legislation of the provisions of Directive 97/5/EC of the European Parliament and of the Council of 27 January, 1997, on cross-border credit transfers.
- The Bill on Electronic Payment Instruments. The aim of this Bill is to incorporate in Polish legislation two EU regulations, namely, Commission Recommendation 97/489/EC of 30 July, 1997, concerning transactions by electronic payment instruments and in particular the relationship between issuer and holder, and Directive 2000/46/EC of the European Parliament and of the Council of 18 September, 2000, on the taking up, pursuit of and prudential supervision of the business of electronic money institutions. The Bill was the subject of numerous discussions in Sejm committees and sub-committees, and in July 2001 was referred back to the Government for further work. The process of agreeing a new version of this Bill commenced at the Ministry of Finance at the beginning of 2002.

In carrying out work in 2001 connected with the implementation of European Union recommendations regarding the operation of the payment system, the NBP also developed several other regulations, including the following:

- Amendments to Resolution no. 14/2000 of the NBP Management Board on the conditions applicable to the opening and operation of accounts for banks at the National Bank of Poland. These amendments rescinded the previous requirement that a minimum of 200 payment orders had to be placed per month to be eligible for participation in the SORBNET system.
- Amendments to Regulation no. 6/2000 of the President of the NBP on methods of performing interbank settlements, April 6, 2000. The changes made here included:
  - postponing for a year, i.e., to January 1, 2003, the requirement that large-value transfer orders be forwarded directly for settlement under SORBNET. The above change stems both from the lack of unequivocal declarations from all the banks that they are capable of providing this type of service for their customers, and from the fact that the telecommunications platform supporting SORBNET is expected to be changed in 2002;



– deleting from the Regulation the provision that the NBP issue a positive appraisal of intermediary institutions wishing to forward transfer orders for interbank settlement at the NBP. The adoption by the Sejm of the Act on Settlement Finality in Payment and Securities Settlement Systems, and on the Principles for Supervision of those Systems, furnishes the NBP with a better instrument for exercising supervision over all payment systems.

- Regulations enabling the NBP to open and operate zloty time deposits for the banks.
- Regulations enabling the introduction of an intraday refinancing facility for the banks.

## 5.2. Operations of the SORBNET system (system modifications)

In 2001, the European Central Bank did not take a final decision concerning the possibility and procedures for incorporating the RTGS systems of EU candidate countries into the present TARGET system at the time these countries join the EU. Given that the introduction of the second-generation TARGET system is initially projected to take place in the years 2006-2010, the ECB is currently recommending to the candidate countries that they develop modern payment systems to service the needs of their own economies.

As a result of the above, a large number of measures were taken in 2001 to enhance the functionality and security of the SORBNET system. The key changes included putting in place new functions designed to facilitate liquidity management at the commercial banks, as follows:

- in April, a new version of the NBP-HEART cryptographic software was brought into operation within SORBNET, thereby fulfilling the request of many SORBNET participants that they hold a private user-only key and making copying of that key impossible; in addition, thanks to the application of cryptographic hardware components, the new solution ensures a higher level of data security than previously existed;
- in October, a central order queue was introduced, with an optimisation mechanism<sup>38</sup>;
- in December, an intraday credit facility was made available to the banks at the NBP, to be secured by Treasury bills;
- in December, banks holding current accounts within SORBNET were provided with an overnight deposit facility, allowing them to place their surplus balances on time deposit at the NBP.

## 5.3. Operating the current accounts of the banks at NBP Head Office

At year end 2001, NBP Head Office was operating current accounts (under the SORBNET system) for 62 banks, i.e., for 3 fewer than a year earlier.

In 2001, the current accounts of the following banks were closed:

- BIG Bank SA – closed on January 5 due to the merger of this bank with BIG Bank Gdanski SA,
- Bank Citibank (Poland) SA – closed on April 2 due to the merger of this bank with Bank Handlowy w Warszawie SA,
- Bank Zachodni SA – closed on June 29 due to the merger of this bank with Wielkopolski Bank Kredytowy SA,
- ING Bank N.V., Warsaw Branch – closed on October 1 due to its merger with Bank Slaski SA,
- Wielkopolski Bank Rolniczy SA – closed on November 30 due to this bank's operating activity being taken over by ING Bank Slaski.

<sup>38</sup> An order received from a bank which does not have available funds on its account is not rejected by the system, but instead is held to await the possibility of execution, i.e., the arrival of suitable funds on the account. The optimisation mechanism additionally increases efficiency by first selecting from the queue those orders that will allow the performance of others. This solution facilitates the management and oversight of the transactions being directed through the account. In many cases, it also allows settlements to be carried out at lower levels of bank liquidity, and also enables closer control over the banks' payment capacity.

At the same time, two new current accounts were opened, namely:

- for Lubelski Bank Regionalny SA (on May 7),
- for Malopolski Bank Regionalny SA (on July 9).

One bank (Gliwicki Bank Handlowy SA) holds a current account at the NBP, yet is not a participant in the National Clearing House (KIR SA). In addition, during 2001 reserve accounts were opened at the NBP Head Office for seven regional banks affiliating local cooperative banks.

In all, some 538,000 operations were performed in 2001 on the current accounts of banks at NBP Head Office (as against 518,000 in 2000), to a total value of 11.6bn zloty (compared to 8.2bn in 2000).

A breakdown of the total turnover on the current accounts of the banks at NBP Head Office is given in Table 8, while the structure of the total number of transfer orders, by principal types of transaction conducted on bank current accounts at NBP Head Office, is presented in Table 9.

**Table 8**

**Total turnover on bank current accounts at NBP Head Office, 2001**

Type of current account transaction	Turnover, million zloty			Structure of turnover (%)	
	balance	of which:		debits	credits
		debits	credits		
<b>Movement in balance of funds on bank current accounts of which:</b>	<b>6,185.7</b>	<b>11,609,196.4</b>	<b>11,615,382.1</b>	<b>100.0</b>	<b>100.0</b>
1) interbank transactions:	0.0	5,709,492.2	5,709,492.2	49.2	49.2
– zloty money market	0.0	3,741,691.7	3,741,691.7	32.2	32.2
– FX market	0.0	1,565,427.6	1,565,427.6	13.5	13.5
– securities	0.0	402,372.9	402,372.9	3.5	3.5
of which secondary market trading in:					
– T-bills	0.0	231,637.5	231,637.5	2.0	2.0
– NBP money market bills	0.0	126,852.6	126,852.6	1.1	1.1
2) customer transfer orders:	-4,182.4	4,435,177.7	4,430,995.3	38.2	38.1
– interbank	0.0	4,347,797.5	4,347,797.5	37.5	37.4
– involving the National Securities Depository SA (KDPW SA)	-1,500.5	13,501.9	12,001.4	0.1	0.1
– involving other NBP customers	-2,681.9	73,878.3	71,196.4	0.6	0.6
3) exchange of transfer orders via KIR SA:	19,498.4	858,523.1	878,021.5	7.4	7.6
– morning session	-35,861.3	261,072.7	225,211.4	2.2	1.9
– afternoon session	41,590.6	516,277.1	557,867.7	4.4	4.8
– evening session	13,769.1	81,173.3	94,942.4	0.7	0.8
4) purchase (buyback) of securities from NBP:	12,961.9	212,847.3	225,809.3	1.8	1.9
– NBP money market bills	9,761.9	212,847.3	222,609.3	1.8	1.9
– other	3,200.0	0.0	3,200.0	0.0	0.0
5) purchase or sale of cash at NBP:	-3,535.7	120,788.1	117,252.4	1.0	1.0
– domestic currency	-3,451.4	120,502.9	117,051.5	1.0	1.0
– foreign currency	-84.4	285.2	200.8	0.0	0.0

Table 8 cont.

Type of current account transaction	Turnover, million zloty			Structure of turnover (%)	
	balance	of which:		debits	credits
		debits	credits		
6) transactions & operations cleared via KDPW SA	26,017.3	97,771.7	123,789.0	0.8	1.1
7) drawings or repayments of NBP loans to banks	-570.7	58,424.8	57,854.1	0.5	0.5
8) purchase or redemption of Treasury securities:	-34,052.9	71,406.4	37,353.5	0.6	0.3
– T-bills	-10,900.7	45,355.0	34,454.3	0.4	0.3
– other	-23,152.2	26,051.4	2,899.2	0.2	0.0
9) placings and returns of time deposits at NBP	-4,000.0	11,859.3	7,859.3	0.1	0.1
10) transactions on reserve accounts	-321.6	9,623.1	9,301.5	0.1	0.1
11) open market operations:	-5,833.9	5,833.9	0.0	0.1	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	-5,833.9	5,833.9	0.0	0.1	0.0
12) purchase or sale of foreign currencies at NBP	-2,978.6	3,004.2	25.6	0.0	0.0
13) interest paid or received by banks	761.6	345.6	1,107.1	0.0	0.0
14) other transactions	2,422.4	14,098.9	16,521.3	0.1	0.1

Source: NBP

Table 9

**Total number of transfer orders, by principal types of transaction conducted on bank current accounts at NBP Head Office, 2001**

	No. of transfer orders executed on current accounts			Structure of transactions (%)	
	total	of which:		debits	credits
		debits	credits		
<b>Total number of transfer orders executed on bank current accounts of which:</b>	<b>537,887</b>	<b>405,932</b>	<b>453,441</b>	<b>100.0</b>	<b>100.0</b>
1) interbank transactions:	262,540	262,540	262,540	64.7	57.9
– zloty money market	152,898	152,898	152,898	37.7	33.7
– FX market	87,418	87,418	87,418	21.5	19.3
– securities	22,224	22,224	22,224	5.5	4.9
of which secondary market trading in:					
– T-bills	17,690	17,690	17,690	4.4	3.9
– NBP money market bills	1,609	1,609	1,609	0.4	0.4

Table 9 cont.

	No. of transfer orders executed on current accounts			Structure of transactions (%)	
	total	of which:		debits	credits
		debits	credits		
2) customer transfer orders:	61,837	60,313	60,321	14.9	13.3
– interbank	58,797	58,797	58,797	14.5	13.0
– involving KDPW SA	523	264	259	0.1	0.1
– involving other NBP customers	2,517	1,252	1,265	0.3	0.3
3) exchange of transfer orders via KIR SA:	46,462	20,547	25,915	5.1	5.7
– morning session	15,528	7,996	7,532	2.0	1.7
– afternoon session	15,552	6,344	9,208	1.6	2.0
– evening session	15,382	6,207	9,175	1.5	2.0
4) purchase (buyback) of securities from NBP:	1,787	617	1,170	0.2	0.3
– NBP money market bills	1,786	617	1,169	0.2	0.3
– other	1	0	1	0.0	0.0
5) purchase or sale of cash at NBP:	136,867	46,647	90,220	11.5	19.9
– domestic currency	134,973	45,683	89,290	11.3	19.7
– foreign currency	1,894	964	930	0.2	0.2
6) transactions & operations cleared via KDPW SA	18,823	8,611	10,212	2.1	2.3
7) drawings or repayments of NBP loans to banks	809	423	386	0.1	0.1
8) purchase or redemption of Treasury securities:	3,913	2,480	1,433	0.6	0.3
– T-bills	2,504	1,112	1,392	0.3	0.3
– other	1,409	1,368	41	0.3	0.0
9) placings and returns of time deposits at NBP	78	41	37	0.0	0.0
10) transactions on reserve accounts	1,289	731	558	0.2	0.1
11) open market operations:	119	119	0	0.0	0.0
– repos	0	0	0	0.0	0.0
– reverse repos	0	0	0	0.0	0.0
– outright sales	119	119	0	0.0	0.0
12) purchase or sale of foreign currencies at NBP	27	17	10	0.0	0.0
13) interest paid or received by banks	2,502	2,351	151	0.6	0.0
14) other transactions	834	495	488	0.1	0.1

Source: NBP

In addition to transactions on the interbank money market, which are constantly predominant in relation to other transactions, in terms of both turnover and number, the significance of customer transfer orders should also be noted. Turnover on these rose over 20% in 2001 compared to the year before, to account for 38.2% of total turnover.

## 5.4. Developing standards and norms

In 2001, the National Bank actively participated in developing banking system standards and norms with a view to adjusting the Polish payment system to conform to the requirements of the European Union. This activity primarily involved collaboration with the Polish Banking Association and the Polish Standardisation Committee in drawing up standards and norms for particular instruments employed in the payment system, including the BAN (Bank Account Number), IBAN (International Bank Account Number), BIC (Bank Identification Code) and International Payment Instruction (IPI).

A number of norms were developed with the involvement of the NBP, including the following concerning standard bank forms, subsequently adopted by the Polish Standardisation Committee on July 23, 2001:

- Norm PN-F 01101 "Banking – Specimen bank forms – Payment order/ cash deposit form". The work done to draw up a standard for payment order forms has made it possible to introduce a form with uniform procedures for entering information. The personalisation of documents and automatic data recognition, rather than the transcription of data, will shorten the time taken to execute payment instructions. This standard document was also employed in developing a form for contributions to the Social Insurance Board and one for tax payments, both of which have been officially approved for general use.
- Norm PN-F 01100 "Banking – Specimen bank forms – Cheque forms". The adoption of this norm has allowed the application of modern technologies of automatic data recognition to cheque forms.

Reviews were also conducted at the NBP of the applicability of the EN European standards and ISO international standards to the work done by particular departments of the Bank. At a meeting of the Standardisation Policy Commission on Banking and Bank Financial Services, which operates at the Polish Banking Association, selected standards were put forward with the request that they be included in the Commission's workplan. The application of international standards in banking practice will become necessary when Poland joins the European Union.

## 5.5. Activity of the Payment System Council

In addition to NBP staff, the Payment System Council includes representatives of other institutions that play an important role in the operation of the payment system, such as the Polish Banking Association, the Ministry of Finance, the National Clearing House and the commercial banks.

In 2001, four meetings were held of the Council, which was established in 1998 as a consultative and advisory body reporting to the NBP Management Board. At these meetings, the issues examined by the Council included:

- periodic assessments of the operation of the payment system,
- adjusting the Polish payment system to correspond to the requirements in force in the European Union,
- an assessment of the current state of Treasury securities settlement systems, and proposals for future solutions in this respect,
- an assessment of new solutions to assist liquidity management under SORBNET,
- an assessment of the solutions applied to ensure the timeliness and security of net settlements,
- an assessment of the operational security of electronic banking in Poland, including Internet banking,
- a report on the measures undertaken by the National Bank, the Ministry of Finance and the Polish Banking Association to make the use of standards and norms obligatory for the banks,
- ongoing problems in introducing the BAN standard,

- an analysis of the changes made with a view to eliminating hard copy from interbank settlements,
- the distribution of pension payments via bank accounts,
- an assessment of the functioning of direct debits as a banking product,
- the operation of "cheque truncation" involving cheques drawn on personal current accounts<sup>39</sup>, and the prospects for extending this to include cheques drawn on other accounts,
- the preparation of Polish banks for the launch of euro notes and coin.

The most important practical effects of the Council's work, yielding solutions scheduled for implementation, comprised the following:

- measures undertaken by the National Bank, the Ministry of Finance and the Polish Banking Association to make the use of standards and norms obligatory for the banks,
- a plan for the banking sector to move to interbank settlements exclusively in electronic form by year end 2003,
- proposals concerning alterations to the settlement system for Treasury securities,
- new solutions to assist liquidity management under SORBNET.

In carrying out periodic reviews of the operation of payment systems – both gross (RTGS) and net (retail), and also securities settlement systems – the Council exerts an indirect influence on the functioning and behaviour of such institutions as the National Clearing House, the National Securities Depository (KDPW SA) and the banks, and also on the choice of solutions for system efficiency preferred by the banking community. In this regard, an especially important role was played by the opinions which the Council issued on the measures to be taken by KDPW SA, the NBP and other parties concerned in order to improve the efficiency of settlement systems for securities, including Treasury bonds. The effect of these was to increase the efficiency of the deposit and settlement system in place at KDPW SA, as follows:

- in March, a matching system for trade confirmations by settlement parties was brought on stream at KDPW,
- in July, the single settlement session was replaced by three,
- in September, the number of settlement sessions was increased to five, and then in December to eight.

The introduction of multiple settlement sessions at KDPW SA has significantly expedited the procedures for drawing on NBP lombard facilities.

## 5.6. Collaboration with the banking sector regarding other interbank initiatives

In performance of the statutory responsibility of the NBP to establish the necessary conditions for the development of the banking system (as specified in Article 3, para. 2, subpara. 6, of the Act on the National Bank of Poland), the Bank continued its cooperation with the Polish Banking Association and the banks in relation to the following additional initiatives:

- A Bill on Electronic Signatures was drawn up, with significant input from the NBP.
- NBP representatives took part in the development by the banking community of numerous proposals and suggestions that subsequently found reflection in resolutions adopted by the General Meeting of the Polish Banking Association, and also in new legal instruments. Examples of this activity include the resolutions of the Association's General Meeting on judgements made by the Banking Ombudsman and on the performance of his/her rulings, on consumer protection in the field of banking services, and on the introduction of the BAN standard.

<sup>39</sup> This is performed pursuant to an interbank agreement on hard copy cheque truncation and the inclusion of the appropriate message format in the ELIXIR system.

- The collaboration carried on with the banking community also included addressing issues of banking security (Internet banking, digital signatures, audit trails, and the question of plastic cards and associated devices).

NBP experts were involved in many of the areas mentioned above through their participation in discussions to develop model solutions and through the opinions they gave on the draft solutions prepared. An additional form of support to selected interbank projects – undertaken, for example, by various bodies operating under the auspices of the Polish Banking Association – was financial assistance from the NBP.

#### **MOST IMPORTANT NBP ACTIVITY IN 2001**

- The regulations governing the operation of the Polish payment system were brought into line with European Union requirements.
- Changes were made to the SORBNET system to facilitate liquidity management at the banks, as follows:
  - a central order queue was introduced, with an optimisation mechanism,
  - an intraday credit facility was made available to the banks at the NBP,
  - banks holding current accounts within SORBNET were provided with an overnight deposit facility at the NBP for their surplus balances.
- The NBP played an active part in developing banking system standards and norms with a view to adjusting the Polish payment system to conform to the requirements of the European Union.
- Current accounts were operated for 62 banks.
- Collaboration was conducted with the banks (via the Payment System Council and the Polish Banking Association) in supporting liquidity management, payment system security, and the implementation of standards and norms.

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FOREIGN EXCHANGE OPERATIONS

## 6.1. Management of the official reserves

### 6.1.1. Principles for managing the official reserves

The criteria for managing the official foreign exchange reserves have been established by the NBP in line with the standards developed and applied by the central banks of European Union member states. These criteria have remained an invariable component of the Bank's investment policy for many years now, and comprise:

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

In consideration of the above, and taking account of the ongoing situation and projected course of developments in the world economy and on international financial markets, the NBP Management Board each year approves a framework investment strategy (benchmark parity<sup>40</sup>) based on the previously accepted currency composition of the reserves<sup>41</sup>. These decisions constitute a point of reference in assessing the management of the official reserves. The investment criteria adopted limit the range of admissible investment instruments to securities issued by governments, international institutions and agencies supported by government guarantees, reverse repurchase transactions (reverse repos) and placements at banks rated the most highly by international rating agencies. To increase the returns on the reserves, use is made of structured forward-value transactions, which involve the simultaneous conclusion of repurchase and reverse repurchase transactions (repos and reverse repos). The net income earned on these constitutes the positive spread between the interest income on the reverse repo and the interest expense of the repo.

Ensuring the highest possible safety of the reserves is assisted by a system of investment exposure limits for foreign exchange operations, developed and monitored in line with principles approved by the NBP Management Board. These limits set exposure ceilings on operations with particular financial institutions, broken down by the types of transaction involved. The limits are adjusted on an ongoing basis as the financial parameters of the Bank's investment partners are updated and their ratings modified, and also in connection with changes in organisational structure.

Other procedures of great significance in managing the reserves are:

- monitoring market risk parameters (for exchange rate risk and interest rate risk),
- maintaining an appropriate level of liquidity,
- complying with the parameters of the investment structure and large exposures.

### 6.1.2. Investment environment

#### 6.1.2.1. Situation on financial markets

##### 6.1.2.1.1. Economic background

In 2001, the slowdown in US economic growth, already visible in the latter half of 2000, developed into the first US recession for ten years. At the same time, it began to affect the economies of other regions, including the EU economies. The major central banks reacted to this by easing their monetary policies.

The terrorist attack on the United States on September 11 worsened global macroeconomic prospects, putting paid to any chance of a recovery before year end. It also triggered several days of disruption on financial markets, particularly the US Treasury market. A key role in restoring the

<sup>40</sup> This specifies a model structure of investment, by currency and investment instrument, together with the modified duration of the portfolio, which expresses the change in portfolio value in response to a one point move in interest rates.

<sup>41</sup> Established on the basis of proposals drawn up by the Commission for the Currency Composition of the Official Reserves.

normal operations of those markets was played by the stabilisation measures taken by the G-7 central banks, which injected additional funds onto the market and participated, along with other banks, in the first coordinated interest rate cuts since the stock market crash of 1987.

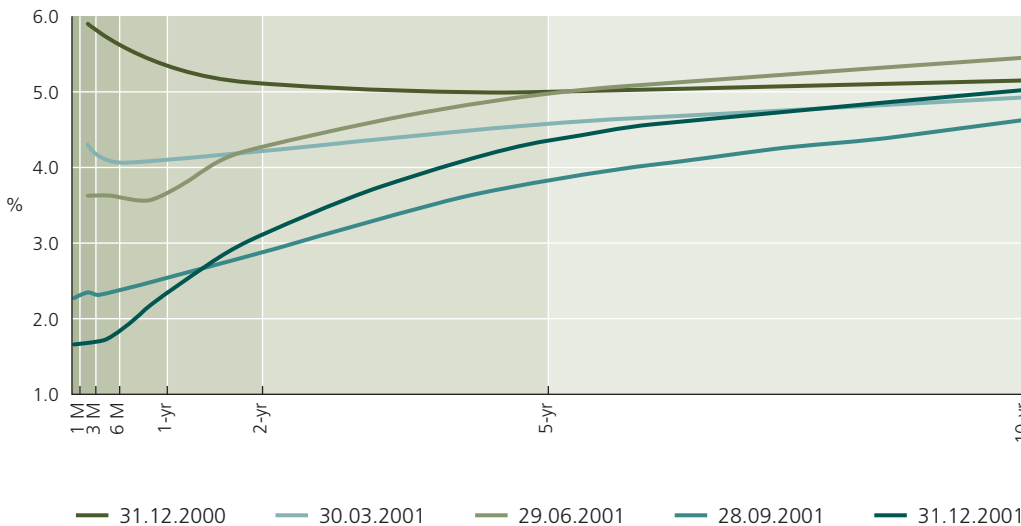
6.1.2.1.2. Characteristics of market investment parameters

The expansionary policies pursued by the central banks led to a slide in money market rates, most pronounced in the case of the US dollar. Three-month US dollar LIBOR dropped 452 bps to 1.88%. The corresponding rates slipped 155 bps for the euro, to 3.30%, and 179 bps for sterling, to 4.11%. The different speed at which rates came down caused a reversal of the situation seen at the end of the previous year, when the US dollar had been earning the highest rates of all the NBP reserve currencies. In January 2001, dollar rates fell below those for sterling, and by April they were lower than euro rates.

The relaxation of monetary policy had a positive impact on US Treasury prices, particularly for short-dated paper (cf. Fig. 5). Prices climbed steeply right after September's terrorist attacks. At that point, the market priced in sharper cuts in official interest rates, and in a climate of generalised uncertainty a crucial factor became the "safe haven" status accorded to US government securities. These instruments especially firmed in price in periods when the main share indices tumbled, particularly in the first and third quarters of the year. The price of long-dated securities was also helped by the continuing process of scaling back the US public debt. On the other hand, one constraint on price increases for government instruments was the large supply of agency and corporate securities, offering competitive yields.

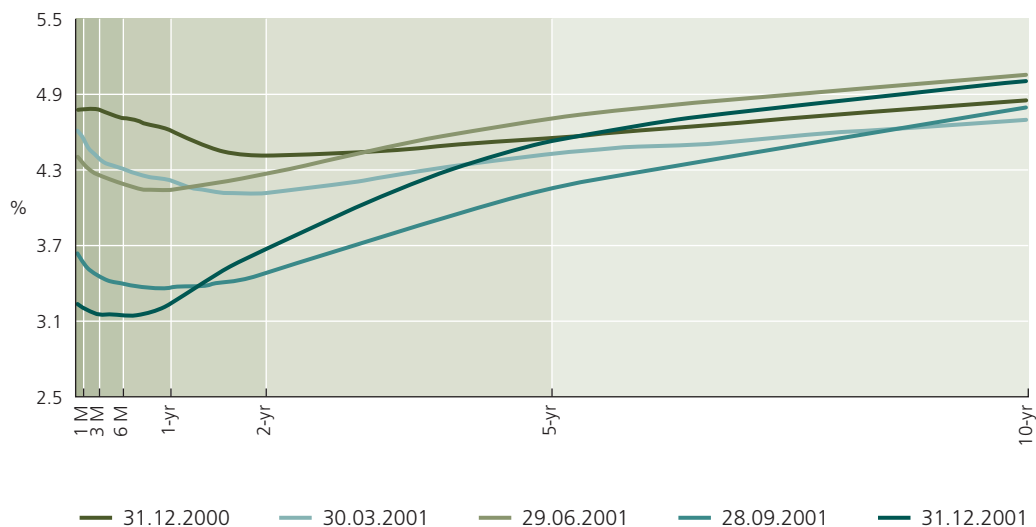
Developments on the market for euro-denominated Treasury paper were similar to those in the USA (cf. Fig. 6). The primary impulse to price growth were expectations of base rates being lowered in the euro area, which became stronger in the wake of successive rate cuts by the Fed; in the second half of the year, price rises were also fuelled by investors searching for the safest possible investment vehicles and by price falls on European stock markets. Factors holding down price increases for euro-denominated paper, especially in the first half of the year, were the depreciation of the single currency against the dollar, and also fears of an intensification of inflationary pressure in the EMU countries.

**Figure 5**  
**US government yield curves**



Source: Reuters

**Figure 6**  
**Euro-denominated government yield curves**

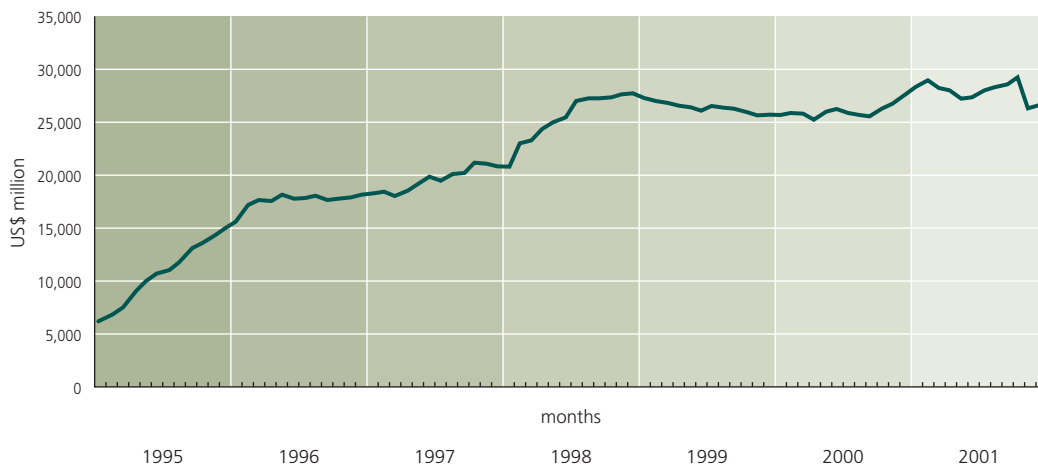


Source: Reuters

### 6.1.3. Level of official reserve assets

Poland's official reserve assets, in dollar terms, declined US\$ 0.9bn in 2001, to stand at US\$ 26.6bn (cf. Fig. 7)<sup>42</sup>. The main reason for this decrease was the early repayment of Polish debt to Brazil.

**Figure 7**  
**Official reserve assets (monthly figures)**



Source: NBP

<sup>42</sup> The official reserve assets comprise liquid foreign assets held and fully controlled by the NBP. They constitute security for potential balance of payments operations and may be used for interventions on the Polish FX market. The official reserve assets include such financial instruments as: a) convertible currency assets (securities, foreign currency held at the NBP vaults, and placements at banks abroad); b) Poland's reserve tranche at the International Monetary Fund; c) SDRs (the current account of the NBP at the IMF); d) monetary gold; and e) other reserve assets.

#### 6.1.4. Currency composition of the official reserves

The currency composition of the reserves approved by the NBP Management Board in November 2000 comprised three reserve currencies, namely, the dollar, the euro and sterling, each to be held at designated percentages of the total reserves. These currency positions were maintained at the specified parity levels, within permissible bands of deviation, on the basis of analyses of the ongoing situation on international financial markets, taking account of the forecast direction of change (which principally referred to exchange rates and the yields on investment instruments denominated in the particular currencies included in the reserves). To attain the desired structural effects, foreign exchange transactions were also performed (involving the three reserve currencies).

#### 6.1.5. Investment structure and horizon of the official reserves

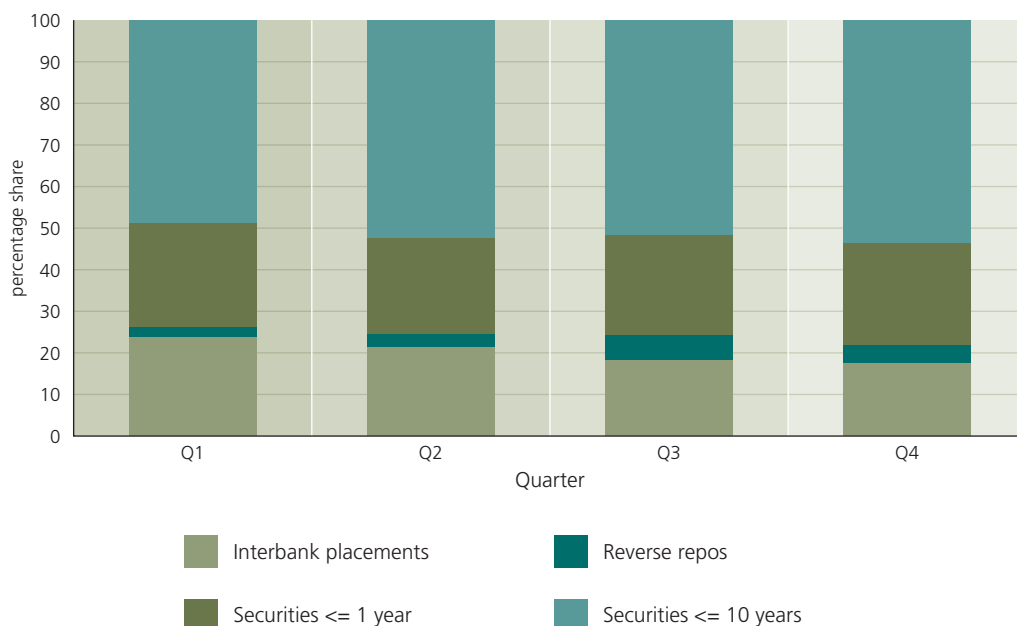
The investment structure of part of the foreign exchange reserves, as laid down in a resolution of the NBP Management Board adopted in April 1998, provides for a division into short- and long-term portfolios. The former consists of money market instruments with horizons no greater than one year (interbank placements, reverse repos and securities, cf. Fig. 8). This portfolio includes the NBP liquidity reserve, which ensures funding for any unforeseen financial obligations that need to be met. The latter portfolio is made up of securities with maximum maturities of ten years (cf. Fig. 8).

The investment strategy pursued in 2001 was based on the assumption that interest rates would be coming down for all the currencies held within the reserves. In the case of securities, a major factor conditioning performance of the investment strategy was the projection of a steepening of yield curves (with yields falling more sharply on short-dated instruments than on long-dated ones). As a result, involvement in money market instruments was generally reduced in favour of capital market instruments, thereby lengthening the time horizon of the reserves. It was also assumed that investment in non-government paper would be increased, which stemmed from the expected narrowing of the differential between yields on these instruments and on Treasury securities. As regards interbank placements and reverse repos, the possibility was utilised of obtaining higher yields on shorter-term instruments due to the fact that the yield curve remained inverted for the greater part of the year. The liquidity adjustment measures taken in connection with the early repayment of Polish debt to Brazil represented an adjustment to the investment strategy originally adopted. The revision of previous assumptions was also necessitated by considerations of the safety of the reserves following the terrorist attacks on the USA. At that point, credit risk parameters were temporarily tightened, particularly with respect to interbank placements.

Foreign exchange trading, in addition to the adjustment function already mentioned as regards the currency composition of the reserves, was also conducted in connection with the servicing of the foreign debt of the Republic of Poland. Part of the associated payments were funded from the foreign currency account of the Ministry of Finance.

**Figure 8**  
**Structure of official reserves by investment instrument employed, 2001**

(quarter end)



Source: NBP

**6.1.6. Investment income**

The income earned on investment activity in 2001 totalled US\$ 1.4bn. The investment policy implemented during the year produced a return on the currency reserves of 5.7%. The highest yields were earned on securities, while the lowest were obtained on reverse repos.

**6.1.7. Adjusting the registration methodology for foreign exchange operations, and financial analyses, to conform to the standards of European Union central banks**

In 2001, work was continued with a view to implementing a modern IT system at the NBP for the management of the official reserves.

The system concerned contains a number of functions that support risk management, performance measurement of the efficiency of managing the official reserves, and also the control of cash flows on the accounts of correspondent banks. The system incorporates details of the financial instruments currently employed by the NBP, and also those designated for utilisation at central banks and recommended for future use by the European Central Bank.

**MOST IMPORTANT NBP ACTIVITY IN 2001**

- The primary assumption of the investment strategy pursued was that interest rates would be coming down for all the currencies held within the reserves (the dollar, the euro and sterling).
- The income earned on investment activity came to US\$ 1.4bn.
- The return on the reserves stood at 5.7%.

## 6.2. Exchange controls

### 6.2.1. Modifications to exchange regulations

In 2001, NBP representatives took an active part in work on a new Foreign Exchange Bill, being drafted at the Ministry of Finance and intended to adjust the provisions of Polish law to the legislation in force in the European Union, and in particular to the requirements of the Maastricht Treaty. The Bill provides for no limitations on capital flows and payments between Poland and the EU member states aside from those permitted by the Treaty, meaning that foreign exchange operations will be fully free in this respect once the Bill is enacted and takes effect.

Work was also continued on adapting internal legislative activity to changes in external regulations:

- Given the amendments to the regulations on stamp duty, modifications were made to the Resolution of the NBP Management Board on procedures applicable to the issue of foreign exchange rulings, March 3, 2000, with these modifications taking effect on April 2, 2001.
- The physical introduction of the single currency in the European Union countries belonging to EMU necessitated amendments to the Regulation of the President of the NBP specifying the schedule of foreign currencies deemed convertible. These amendments, which involve extending the list of convertible currencies to include the euro and setting time limits for the EMU legacy currencies functioning as legal tender, took effect on December 14, 2001.
- Due to the changed number of NBP offices, an amendment was performed to the Regulation of the President of the NBP on authorisation to issue rulings concerning foreign exchange permits. The amendment took effect on January 1, 2002.

In 2001, the President of the NBP issued 111 rulings authorising banks to perform specific foreign exchange operations<sup>43</sup>.

A total of 6,276 foreign exchange rulings were issued in 2001<sup>44</sup>, of which 2,221 were positive (including the grant of foreign exchange permits), 20 were negative, and 4,035 were of a different character, e.g., rulings on proceedings being discontinued or on other decisions expiring or being amended.

In terms of the number of foreign exchange permits granted (2,817), no major change was observed compared to the year 2000. The sole significant increase was noted in permits for Polish residents to perform payments between themselves in foreign exchange.

### 6.2.2. Performance of exchange control inspections

In 2001, the National Bank carried out exchange control inspections pursuant to Article 21, para. 3, subpara. 1, of the Foreign Exchange Act of December 18, 1998.

During the year, a total of 2,692 such inspections were performed (compared to 2,982 in 2000), which broke down as follows:

- 73% involved inspections of the operations of bureaux de change (in 2000 these had represented 80% of all inspections),
- 13% were related to the performance of reporting requirements for the purpose of compiling the balance of payments (7% in 2000),
- 7% involved inspections at banks (6% in 2000),
- 4% involved inspections at non-bank foreign currency desks (4% in 2000),
- 3% were related to compliance with foreign exchange permits (3% in 2000).

The lower total number of inspections compared to the previous year is attributable to NBP offices being involved in inspections that were highly time-consuming. These were carried out at banks and at other undertakings required to submit data necessary for the compilation of the balance of payments and the balances of central government foreign assets and liabilities, and also to provide notification of property held abroad.

<sup>43</sup> Pursuant to Article 99, para. 1, of the Banking Act of August 29, 1997.

<sup>44</sup> Pursuant to Article 7 of the Foreign Exchange Act of December 18, 1998.

A schedule of the inspections performed in the years 2000-2001, by subject matter and the offices performing those inspections, is given in Table 10.

**Table 10****Foreign exchange inspections by scope and office, 2000 & 2001**

Scope of inspection	No. of inspections						
	International Dept., NBP Head Office		Regional branches & Main Foreign Exchange Control Branch		Total		
	2000	2001	2000	2001	2000	2001	Increase 2000 = 100
Inspections of banks licensed to conduct foreign exchange operations	9	12	179	186	188	198	105.3
Reviews of compliance with terms of foreign exchange permits for performance of foreign exchange operations, granted to residents and non-residents	12	22	69	53	81	75	92.6
Inspections of bureaux de change	-	-	2,380	1,978	2,380	1,978	83.1
Inspections of non-bank foreign currency desks	-	-	135	104	135	104	77.0
Reviews of performance of balance of payments reporting requirements	-	-	198	337	198	337	170.2
<b>TOTAL</b>	<b>21</b>	<b>34</b>	<b>2,961</b>	<b>2,658</b>	<b>2,982</b>	<b>2,692</b>	<b>90.3</b>

Source: NBP

**6.2.3. Post-inspection activity**

As a result of the inspections carried out by the NBP, irregularities were noted in 1,206 cases.

Post-inspection recommendations were issued to the undertakings at which such irregularities had been found. These recommendations required the directing bodies of the undertakings concerned to ensure compliance with the provisions of foreign exchange legislation in the business they were conducting. In 150 cases, notification was additionally provided to tax offices that circumstances had been uncovered indicating the possibility that foreign exchange misdemeanours or offences had been committed.

The scope of post-inspection activity was contingent on the type and scale of any deficiencies noted. The percentage of inspections which led to irregularities being disclosed was the same in 2001 as it had been the previous year, i.e., 45%. At the same time, a larger number of inspections uncovered irregularities attesting to unlawful activity, subject to penal sanction. This found reflection in the number of the relevant notifications to tax offices.

**6.3. Servicing the foreign borrowings of the NBP****6.3.1. World Bank loans**

In 2001, the NBP continued to administer loans taken out at the World Bank in 1990 to finance the "Industrial Export Development" and "Agro-Industrial Export Development" programmes. The NBP supervised repayment of this financing by the sole remaining participant in these programmes, Bank Gospodarki Zywnosciowej SA (BGZ SA).



### 6.3.2. Other loans

In 2001, the NBP administered loans made available under a line of credit provided by the French Government for the development of Franco-Polish companies under a Financial Protocol concluded in 1993 between the Polish and French Governments. Since this Protocol had since expired, no new agreements with banks were arranged.

The claims and obligations of the NBP arising from the line of credit established by the French Government to provide a capital infusion to Bank Inicjatyw Społeczno-Ekonomicznych (BISE) were settled in full.

#### **MOST IMPORTANT NBP ACTIVITY IN 2001**

- The NBP issued a total of 6,276 foreign exchange rulings, of which 2,221 were positive.
- The Bank granted 2,817 foreign exchange permits.
- The Bank performed a total of 2,692 foreign exchange inspections.

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## SERVICES TO CENTRAL GOVERNMENT

The National Bank of Poland provides banking services to central government in accordance with the scope of such services laid down in the Public Finance Act. This involves operating the central account of central government, and the accounts of central government institutions and government special-purpose funds, which is done under the relevant account agreements and in performance of the legal provisions generally in force.

## 7.1. Operating the accounts of central government

### 7.1.1. Provisions of the "Regulations for the National Bank of Poland opening and operating zloty bank accounts for non-bank institutions"

In 2001, a new version was drawn up and brought into effect of the "Regulations for the National Bank of Poland opening and operating zloty bank accounts for non-bank institutions"; this incorporates amendments stemming from the provisions of the Banking Act<sup>45</sup>, the Act on the National Bank of Poland<sup>46</sup>, the Act on the Social Insurance System<sup>47</sup>, the Public Finance Act<sup>48</sup>, and the Ordinance of the Minister of Finance on the detailed manner of performing the national budget and detailed procedures for operating the bank accounts of central government, and on the scope and time frame for the National Bank of Poland compiling statements and reports on the performance of the national budget in the framework of the banking services it provides to central government<sup>49</sup>. A major change in the makeup of these Regulations is that a large part of the contractual provisions have been moved from the Regulations themselves to account agreements. The specimen agreement for a bank account denominated in zloty now contains new provisions which raise the standard of the banking services provided and monetary settlements conducted, these including:

- a shortening of the lead time declared by the NBP for performing monetary settlements, from six to four days for interbank settlements, and to two days in the case of inter-office settlements,
- a facility enabling the accountholder to place payment instructions on diskettes secured by digital signatures,
- a facility allowing information to be obtained on the balance and history of the account by telephone.

In November 2001, the Regulations were amended by the inclusion of a specimen agreement for a bank account denominated in zloty utilising electronic banking technology. The chief reasons for making available an electronic banking service were the need to overcome the inconvenience arising from the greater distance between government institutions and the NBP offices operating their accounts, a consequence of the planned reorganisation of the Bank's network of field offices, and also the need to modernise the system of monetary settlements conducted via the National Bank.

An agreement for a bank account denominated in zloty utilising electronic banking technology, as concluded in line with the specimen agreement now introduced, authorises the accountholder to:

- forward transfer orders electronically between 6 a.m. and 10 p.m. on working days, with the proviso that orders placed after 3 p.m. will be executed at the latest on the next working day,
- inquire as to the performance of transfer orders placed electronically,
- inquire as to the given party's account balance and history,
- receive account statements from the NBP in electronic form.

<sup>45</sup> Enacted on August 29, 1997 (as published in *Dziennik Ustaw* [the Journal of Laws] no. 140/1997, item 939, and subsequently amended).

<sup>46</sup> Enacted on August 29, 1997 (as published in *Dziennik Ustaw* no. 140/1997, item 938, and subsequently amended).

<sup>47</sup> Enacted on October 13, 1998 (as published in *Dziennik Ustaw* no. 137/1998, item 887, and subsequently amended).

<sup>48</sup> Enacted on November 26, 1998 (as published in *Dziennik Ustaw* no. 155/1998, item 1044, and subsequently amended).

<sup>49</sup> Issued on December 29, 2000 (as published in *Dziennik Ustaw* no. 122/2000, item 1334).

The specimen agreement referred to above shortens the time for execution of the accountholder's payment instructions to a maximum of three working days for interbank settlements. Agreements for bank accounts utilising electronic banking technology are to be concluded successively in the course of 2002.

### 7.1.2. Types of central government account operated at the NBP

As in the year 2000, the National Bank of Poland provided services in 2001 to around 3,200 customers. To this end, the Bank operated some 8,400 accounts<sup>50</sup>, these including, approximately:

- 470 accounts for offices of government special-purpose funds,
- 600 subsidiary accounts.

In 2001, the National Bank opened foreign currency accounts in euro for the Ministry of Finance at the Bank's Main Foreign Exchange Control Branch, these to handle funds derived from non-repayable European Union assistance to finance tasks under the ISPA 2000 programme and to operate the SAPARD National Fund, and also a zloty account for funds returned under the SAPARD programme.

### 7.1.3. Principles for operating central government accounts

The operations carried out on central government accounts relate both to receipts and expenditures, including both cash and non-cash expenditures. Payments are authorised in observance of the key principle underlying the operation of current accounts, namely, that payments cannot exceed the balance of funds held on account. The NBP performs same-day settlement of customer payment instructions.

In 2001, in conjunction with the Ministry of Finance, guidelines were drawn up for the services to central government to be provided from January 1, 2003, onwards, and these were duly accepted by the senior management of the Ministry of Finance.

These guidelines provide for the utilisation of electronic banking and constitute part of the framework assumptions for the development of the NBP Integrated Accounting System. The guidelines developed for services to central government as of January 1, 2003, also laid the basis for agreements reached with the Ministry of Finance concerning essential amendments to the Public Finance Act as regards banking services to central government from 2003 onwards.

With a view to making the operation of the central account of central government more efficient on an ongoing basis, an agreement was concluded in July 2001 between the Ministry of Finance and the National Bank of Poland as to the determination of the balance of central government funds. In addition, the SPID module was brought on stream, used for intraday reporting on the current account balance.

### 7.1.4. Procedures for operating central government accounts

In 2001, payment instructions from central government institutions and government special-purpose funds were handled at 49 NBP field offices and at the Bank's Main Foreign Exchange Control Branch, with cash transactions being performed at 39 NBP field offices and at offices of other banks. In 2001, alternative cash services for around 1,300 central government institutions and government special-purpose funds were provided by some 520 branches of commercial banks and cooperative banks. The facilities of these banks are used where particular government institutions have offices outside towns where there are NBP offices providing cash services. In both cases, the services are carried out at the expense of the National Bank, regardless of whether the transactions are performed through one of its own field offices or through the offices of another bank. During the year, thanks to a reduction in the proportion of instructions involving cash withdrawals, the associated fees paid by the NBP to other banks were around 12% lower than in 2000, amounting to 14.08m zloty.

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<sup>50</sup> Were this number to be calculated as it was in 2000 i.e., without distinguishing between particular kinds of central government income account, the number of accounts operated would be around 6,900.

The number of incoming transactions in 2001 was similar to that seen the year before, whereas the number of outgoing transactions rose due to a change in the method of transferring funds to certain banks; aggregate transfer orders to these banks were replaced by individual transfer orders to particular beneficiaries (this mainly involved social insurance benefits).

Detailed figures on the number, composition and growth of transactions settled by the Bank are given in Table 11.

**Table 11****Payment instructions forwarded and received, 2000-2001**

Period	Payment instructions handled				Growth 2000 = 100	
	forwarded		received		forwarded	received
	2000	2001	2000	2001		
1st quarter	5,826,876	9,448,903	31,927,474	35,409,698	162.16	110.91
2nd quarter	6,664,147	9,744,641	32,788,699	33,471,938	146.22	102.08
3rd quarter	6,041,550	7,989,870	31,768,744	31,053,626	132.25	97.75
4th quarter	5,861,844	7,253,908	32,190,754	28,631,751	123.75	88.94
<b>Total</b>	<b>24,394,417</b>	<b>34,437,322</b>	<b>128,675,671</b>	<b>128,567,013</b>	<b>141.17</b>	<b>99.92</b>

Source: NBP

In 2001, as was the case in 2000, 49 NBP field offices transferred funds from the central account of central government to local government accounts at commercial banks. These transfers involved the proportional revenues attributable to gmina [district] authorities from personal income tax receipts; the general local government support grant; the general education grant; the compensatory road allowance included in the general support grant; and special-purpose subsidies. These services are also provided at NBP expense.

## 7.2. Administering the foreign borrowings of the Polish Government

In 2001, the NBP continued to supervise the repayment by domestic parties of the loan finance extended to them under the World Bank facilities taken out by the Polish Government to fund the "Financial Institutions Development" and "Agricultural Development" programmes.

## 7.3. Handling the international claims and liabilities of central government

In its capacity as financial agent to the Government of the Republic of Poland, in 2001 the NBP continued to handle the claims and liabilities of central government arising on loan agreements with international financial institutions and organisations concluded or guaranteed by the Polish Government, and also those stemming from Polish membership in such organisations, doing so pursuant to an agreement signed with the Ministry of Finance on August 25, 1995.

On February 19, 2001, the NBP signed an agreement with the Ministry of Finance concerning the principles applicable to the National Bank of Poland acting as financial agent to the Government of the Republic of Poland with respect to the performance of borrowing agreements concluded with the governments of other countries.

The services thus provided by the Bank involved 44 Government loan agreements and 43 Government guarantee agreements.

In addition, in its capacity as depository for the European Bank for Reconstruction and Development and for the International Bank for Reconstruction and Development, and for the agencies of the latter (the International Development Association and the Multilateral Investment Guarantee Agency), the National Bank administered 30 debt notes.

## 7.4. Early redemption of Polish Government debt to Brazil

On November 8, 2001, an agreement was concluded between the Ministry of Finance and the National Bank of Poland on financing the early redemption of the debt of the Republic of Poland to the Federative Republic of Brazil. This allowed performance of an agreement signed by the Governments of the two countries on October 29, 2001, which provided for the early repayment of all of Poland's debt to Brazil. This debt, with a nominal value of US\$ 3.32bn, was duly repaid in full on November 13, 2001, for the sum of US\$ 2.46bn, as a result of which Poland saved US\$ 860m (the debt was redeemed at 74% of par). Poland's early retiral of this debt was fully accepted by the Paris Club, and this operation reinforced the international credibility of the Polish economy.

## 7.5. Organising trading in Treasury securities

### 7.5.1. Treasury bill tenders

In 2001, the NBP in its capacity as issuing agent for Treasury securities organised 50 tenders for Treasury bills (compared to 57 in 2000). The supply of T-bills on offer totalled 49.6bn zloty, an increase of 2.4bn on the previous year. Nominal demand for these bills amounted to 139.4bn zloty. The value of bids accepted came to 50.3bn zloty (as against 46.8bn in 2000).

### 7.5.2. Work on the "Treasury Security Dealer" system

The experience gained by the National Bank in operating, and continually modifying, the system of money market dealers was put to use in 2001 in work conducted at the Ministry of Finance on a "Treasury Security Dealer" system. This system constitutes the achievement of one of the objectives outlined in the *Strategy for managing the public sector debt in the years 2001-2004*, as adopted by the Council of Ministers and presented to Poland's Sejm. The system is intended to improve the liquidity, transparency and efficiency of the market for Treasury securities. The NBP played an active part in developing the selection criteria for the system and the scope of reporting that will be required of banks wishing to become Treasury security dealers. The Bank also participated in developing the Rules of the Treasury Security Market and the Rules of the Treasury Security Fixing.

In collaboration with the Ministry of Finance as the issuer of Treasury securities, the National Bank is to carry out verification and inspection activity at banks that apply for, or have been assigned, the status of Treasury security dealers.

## 7.6. Increasing the efficiency of public debt management

### 7.6.1. Exchange of zero-coupon conversion bonds held by the NBP for fixed-rate assimilation bonds

In 2001, at the request of the Ministry of Finance, the NBP conducted the exchange of conversion bonds held in the Bank's portfolio for bonds of longer maturities. Following an analysis of this request and agreements reached with the Ministry, an agreement was concluded between the Ministry and the Bank on December 27, 2001, concerning the conversion of a portion of the Treasury's liabilities under a rollover of the debt involved. Zero-coupon conversion bonds held by the NBP and redeemable on April 29, 2002, with a face value of 1.95bn zloty, were exchanged for fixed-rate assimilation bonds maturing on October 12, 2002, with a face value of

1.82bn zloty. The face value of the bonds delivered to the Bank was determined by reference to market prices. The performance of this operation was associated with the difficulties projected in funding government borrowing requirements in each of the quarters of 2002. The operation lessened the risk of sales to the NBP of the foreign currency proceeds of Eurobond issues, which would have led to a lasting increase in surplus liquidity.

### 7.6.2. Switching operations

In addition to the ongoing administration of the primary T-bond market and both the primary and secondary T-bill markets, the NBP also participated in preparations for bond switching operations.

In 2001, the Ministry of Finance introduced a new instrument for managing the public debt, namely, bond switching tenders. From August 2001 onwards, the NBP was involved in developing the assumptions for the IT system to support the conduct of these tenders, an application run under the existing SKARBNET 2 system.

Switching operations consist in the redemption of one series of bonds prior to maturity, with payment for the bonds thus redeemed being performed via delivery to the bondholder of bonds of another series; these are therefore non-cash transactions. In return for the bonds being retired, investors receive benchmark bonds.

The first switching tender was carried out on November 20, 2001. In all, five tenders were held in 2001, at which the Minister of Finance bought back bonds to a value of 661.99m zloty, providing in return bonds to a value of 706.69m zloty.

#### **MOST IMPORTANT NBP ACTIVITY IN 2001**

- A new version was drawn up and brought into effect of the "Regulations for the National Bank of Poland opening and operating zloty bank accounts for non-bank institutions"; this now provides for an electronic banking facility.
- On November 8, 2001, an agreement was concluded between the Ministry of Finance and the National Bank of Poland on financing the early redemption of the debt of the Republic of Poland to the Federative Republic of Brazil.
- The NBP participated in work carried out at the Ministry of Finance on a "Treasury Security Dealer" system.
- At the request of the Ministry of Finance, the NBP conducted the exchange of conversion bonds held in the Bank's portfolio for bonds of longer maturities.



SUPPORT ACTIVITY  
FOR KEY RESPONSIBILITIES

## 8.1. Legislation

### 8.1.1. Legislative work of NBP directing bodies and the Commission for Banking Supervision

In 2001, the directing bodies of the National Bank of Poland and the Commission for Banking Supervision issued 125 legal instruments.

A schedule of those instruments published in *Monitor Polski* and *Dziennik Urzędowy Narodowego Banku Polskiego* is given in Appendix 5 to the present Report.

### 8.1.2. Draft legislation developed at the NBP

#### 8.1.2.1. Bill Amending the Act on the National Bank of Poland

On June 8, 2001, the Bill Amending the Act on the National Bank of Poland was sent back by Poland's Sejm at its third reading as a result of a dispute concerning proposed changes to Article 3, which specifies the basic objectives and principles of the activity of the National Bank of Poland.

The purpose of the Bill was to achieve full conformity between certain provisions of the Act and the Constitution of the Republic of Poland, and to harmonise, in terms of the institutional, personal and financial independence of the NBP, the legal status of Poland's central bank with the provisions of the Maastricht Treaty, and the annex thereto constituting the Statute of the European System of Central Banks and of the European Central Bank. The provisions of the Bill included the following:

- assigning to the NBP, as one of its distinct responsibilities, the collection of statistical information for the purpose of developing monetary policy statistics,
- strengthening the independence of the NBP by giving the representative of the Council of Ministers participating in meetings of the Monetary Policy Council authority solely to present motions to the Council,
- abandoning the present provision on special-purpose funds, which requires that appropriations to such funds be agreed with the Minister of Finance,
- stipulating that the accounts of the NBP are to be audited by an independent external auditor,
- introducing the principle that NBP accounting should conform to the standards applied within the European System of Central Banks.

#### 8.1.2.2. Act Amending the Banking Act

The Bill Amending the Banking Act was based on the legal solutions contained in several bills drafted at the National Bank of Poland, namely, a Bill on Amendments to the Banking Act, a Bill on the Taking Up and Pursuit of Business by Credit Institutions from the European Union Member States, and a Bill on the Taking Up of Business by Domestic Banks within European Union Member States.

On August 23, 2001, the Sejm adopted the Act Amending the Banking Act and Other Legislation<sup>51</sup>. This Act:

- ensures the conformity of the provisions contained therein with European Union regulations, most particularly with Directive 2000/12/EC of the European Parliament and of the Council of March 20, 2000, relating to the taking up and pursuit of the business of credit institutions<sup>52</sup>,

<sup>51</sup> Published in *Dziennik Ustaw* no. 111/2001, item 1195.

<sup>52</sup> The new provisions of the Banking Act that conform to the above-mentioned Directive are to be introduced in two stages. The first stage took place on January 1 and 7, 2002, when provisions of the Act took effect ensuring the incorporation within the current legal framework of certain regulations required by the Directive. The second stage is to take place on Poland's accession to the European Union. At that point, the provisions of the Act that treat Poland as an EU Member State will come into effect. This means that banking institutions operating in Poland and in the other Member States will be regarded as operating within the same single area of Member States.

- incorporates the regulations in force within the European Union concerning electronic signatures, electronic money, cross-border credit transfers, consumer credit and contractual netting.

#### **8.1.2.3. Act on the Consequences of the Introduction of the Single Currency, the Euro, in Certain European Union Member States**

On May 25, 2001, the Sejm adopted an Act on the Consequences of the Introduction of the Single Currency, the Euro, in Certain European Union Member States<sup>53</sup>. The Act took effect on January 1, 2002.

This Act regulates a number of key issues, namely:

- it specifies the consequences for the legal and economic system in Poland of the physical introduction of the single currency by the EMU countries,
- it introduces the principle that the performance of a monetary consideration to be fulfilled within the Republic of Poland after December 31, 2001, should be in euro if that consideration had been expressed in the national currency of one of the countries belonging to Economic and Monetary Union,
- it requires the banks to translate into euro funds held on bank accounts and denominated in the national currencies of the countries belonging to Economic and Monetary Union, by reference to the balance of such funds at January 1, 2002,
- it requires banks and offices of the National Bank of Poland providing cash services to exchange the designated legacy currencies into euro notes and coin from January 1 to December 31, 2002, as requested by individuals of Polish citizenship, at the exchange rates laid down in the Act.

#### **8.1.2.4. Act on Settlement Finality in Payment and Securities Settlement Systems, and on the Principles for Supervision of those Systems**

On August 24, 2001, the Sejm adopted the Act on Settlement Finality in Payment and Securities Settlement Systems, and on the Principles for Supervision of those Systems<sup>54</sup>. This incorporates in Polish legislation the regulations contained in Directive 98/26/EC of the European Parliament and of the Council of 19 May, 1998, on settlement finality in payment and securities settlement systems (see subsection 5.1).

#### **8.1.3. NBP participation in work on drafting government regulations**

In 2001, the National Bank of Poland issued its opinion, involving questions of merit or legal and legislative matters, on the following draft legal instruments referred to it by central bodies of government and administrative agencies:

- 516 drafts received from the Council of Ministers (compared to 534 in 2000),
- 303 drafts received prior to being examined by the Government Economic Committee, and then the Cabinet Committee (181 in 2000),
- 264 drafts received in the course of interdepartmental consultations (171 in 2000).

The difference between the number of drafts on which the Bank gave an opinion prior to meetings of the Council of Ministers and the number on which an opinion was provided in the course of interdepartmental consultations and prior to meetings of the Government Economic Committee and Cabinet Committee is attributable, among other things, to the following:

- not all of the drafts to be examined by the Council of Ministers were referred to the NBP while subject to interdepartmental consultations,
- in principle, the Government Economic Committee and Cabinet Committee only examined those drafts of major significance to the functioning of the national economy, or those eliciting differences of opinion during interdepartmental consultations.

<sup>53</sup> Published in *Dziennik Ustaw* no. 63/2001, item 640.

<sup>54</sup> Published in *Dziennik Ustaw* no. 123/2001, item 1351.

Of the draft legal instruments referred to the NBP, the largest number comprised draft acts of parliament and draft ordinances of the Council of Ministers, the Prime Minister or particular ministers.

In 2001, NBP representatives participated in 125 meetings of Sejm committees and subcommittees and over 25 meetings of Senate committees that were reviewing draft legislation.

#### 8.1.4. Draft legislation relating to the operations of the banking system

As regards the draft legislation concerning the banking system that was developed and agreed with the involvement of NBP representatives and subsequently examined by the Sejm in 2001, those pieces of legislation that are particularly noteworthy include the following:

- The Consumer Credit Act, as enacted on July 20, 2001<sup>55</sup>.
  - This Act incorporates in Polish legislation the solutions set out in Council Directive 87/102/EEC of 22 December, 1986, for the approximation of the laws, regulations and administrative provisions of the Member States concerning consumer credit.
  - The Act includes the specification that the provisions it contains apply to all borrowers, including those who have taken out loans at banks.
  - The Act also applies to the “Argentine credit” system, and in this connection requires the President of the NBP to publish, periodically, the weighted average interest rate on personal time deposits at the banks. This rate is to be used by the undertaking granting credit under this system to determine the total cost of credit extended to the consumer by illustrating the possible losses that the consumer could incur by paying funds to that undertaking rather than to a bank.
- The Act on Electronic Signatures of September 18, 2001<sup>56</sup>.
  - This Act takes account of the regulations included in Directive 1999/93/EC of the European Parliament and of the Council of 13 December, 1999, on a Community framework for electronic signatures.
  - The Act is of enormous importance in terms of enhancing the security of trading conducted within “electronic commerce”. The taking effect of the provisions of the Act will among other things allow equal effectiveness at law to be accorded to declarations of intent presented in traditional written form and those presented in electronic form. The National Bank of Poland or other central government authorities are eligible to operate as certification service providers. Certification services may also be provided by banks, excepting the issue of qualified certificates to be utilised in operations to which they are a party.
- The Act Amending the Personal Income Tax Act, as enacted on November 21, 2001<sup>57</sup>.
  - This Act is designed to increase government receipts in order to remedy the situation of public finances, one method of doing so being the taxation of income from certain savings and capital investments. This solution was questioned by the NBP, which asserted that it would lead to a further reduction in domestic savings, in parallel with a substantial contraction in public sector savings and an increase in the current account deficit. At the same time, it was pointed out that diminishing the returns on bank deposits could trigger a decrease in the household propensity to save and thereby undermine the possibility of utilising the relevant savings to finance investment. It was also noted that this could heighten inflationary pressure, increase the risk of the Polish currency being destabilised and limit the impact of monetary policy in terms of being able to lower interest rates.
- The Act Amending the Act on the Organisation and Procedure of the Work of the Council of Ministers, the Act on the Terms of Reference of Government Ministers, the Act on the Divisions of Government Administration, and Certain Other Legislation of December 21, 2001<sup>58</sup>.

<sup>55</sup> Published in *Dziennik Ustaw* no. 100/2001, item 1081.

<sup>56</sup> Published in *Dziennik Ustaw* no. 130/2001, item 1450.

<sup>57</sup> Published in *Dziennik Ustaw* no. 134/2001, item 1509.

<sup>58</sup> Published in *Dziennik Ustaw* no. 154/2001, item 1800.

– This Act, which introduces provisions aimed at improving the effectiveness of the work of bodies of state administration, includes an amendment to the Act on the National Bank of Poland of August 29, 1997, that removes the previous authorisation for the President of the NBP to participate in meetings of the Council of Ministers, and also amends the Act on Public Trading in Securities of August 21, 1997, by limiting the involvement of the President of the NBP in appointing the Chairperson of the Securities and Exchange Commission. The Chairperson of the SEC had previously been appointed by the Prime Minister at the joint request of the Minister of Finance and President of the National Bank, whereas now the Chairperson is to be appointed at the request of the Minister responsible for financial institutions, with the President of the NBP solely being consulted beforehand. These arrangements were questioned by the NBP, as they reduce the capacity of the President of the Bank to influence the development of government financial policy.

## 8.2. Statistics and analyses

### 8.2.1. Economic analysis and research

In 2001, the analytical work of the NBP was primarily focussed on enhancing the forecasting and analytical tools employed at the Bank, together with the content and format of materials prepared for meetings of the NBP Management Board and Monetary Policy Council, which materials lay the basis for the decisions taken by those bodies. The chief results of this work were as follows:

- the development of an “analytical scheme” based on the Phillips curve equation and its application to monthly forecasts,
- improvements to the Small Structural Inflation Model,
- the development of a Small Structural Monetary Transmission Model,
- the extension of the capacity of the Small Structural Inflation Model by developing a method for generating fan charts (graphical illustrations of forecasting uncertainty),
- the commencement of research into the long-term neutrality of money.

The following analytical and forecasting materials, drawn up on a regular basis, were compiled for the NBP Management Board and MPC:

- the draft of the *Monetary Policy Guidelines for the Year 2002*,
- the *Report on the Performance of Monetary Policy Guidelines in 2000*,
- the *Inflation Report, 2000*, and the *Inflation Reports* for the first, second and third quarters of 2001,
- monthly and annual balance of payments forecasts,
- monthly reports for meetings of the NBP Management Board and MPC entitled *Inflationary Processes in the Economy and Monetary Policy*,
- an opinion on the draft Budget for 2002.

Furthermore:

- work was continued on exploring monetary transmission mechanisms,
- work was stepped up on the issue of the future monetary integration of Poland with the euro area<sup>59</sup>.

The analytical achievements of the NBP were presented at various academic conferences and seminars, both at home and abroad.

<sup>59</sup> Materials presenting estimates of the “Harrod-Balassa-Samuelson effect” and the implications thereof were presented to a meeting of the MPC. This question was also the subject of an international conference at Falenty near Warsaw.

**8.2.1.1. Research and academic activity**

The analyses and forecasts that were utilised in preparing the documents referred to above comprised:

- analyses and projections of basic monetary and macroeconomic categories, including inflation,
- ongoing analyses of monetary processes, for use by domestic and international financial institutions,
- analyses of the sector of public finance, research into the relationship between monetary and fiscal policy, forecasts of the net public sector debt, analyses of the degree of monetary policy tightness (the Monetary Conditions Index, or MCI), and comparative analyses of the MCI and the policy mix index,
- analyses of the stability of the demand for money function,
- analyses of household disposable incomes, consumption and savings,
- analyses and forecasts of the balance of payments and its components,
- analyses concerning exchange rates, the development of a forecasting model for exchange rates based on time series analysis and a model based on the theory of uncovered interest rate parity, and investigations into the impact of exchange rates on domestic prices (the pass-through effect) and on foreign currency deposit growth,
- analyses of the competitiveness of the Polish economy,
- ongoing analyses of the state of Polish foreign trade (growth and structural change),
- research into the economic situation of the euro area and its impact on the Polish economy,
- analyses of the capital market and other segments of financial markets,
- analyses of the financial condition of local government, including elements of projections,
- analyses and assessments of the financial condition of central government,
- analyses of economic growth scenarios for Poland in the years 2000/2001 to 2004.

In addition to the questions outlined above, research and academic activity conducted in 2001 also included:

- Analysing threats to the stability of the Polish financial system.
  - This area of work was conducted as a preparatory phase prior to developing a *Report on Financial System Stability*. As part of the initial preparations for the drafting of this report, a number of studies were carried out concerning threats to the Polish financial system. These then found concrete expression in various papers delivered publicly by NBP staff and materials published by them. In December 2001, with the involvement of external parties, work was completed on drawing up the *Report*. The *Report* is being prepared for distribution.
  - As part of the analyses of financial sector stability, work was instituted on stress testing the Polish economy as regards its sensitivity to external shocks.
- Developing a report characterising the money, capital, forward-value and currency markets. This report sets out the changes that have occurred on these markets over the last four years and the factors conditioning their development. It is anticipated that the report will be made available to financial market participants in the first half of 2002.
- Performing ongoing analyses of the conditions for Polish participation in ERM2, including the development of an approach scenario for EMU. These analyses yielded the following studies:
  - “NBP exchange rate policy in the process of preparing Poland for membership in European Economic and Monetary Union” (in the document entitled *The role of the NBP in the process of European integration*),
  - *Examples of “significant” real exchange rate appreciation within the world economy over the last twenty years*,
  - *A comparative analysis of movements in real interest rates and exchange rates in Poland, the Czech Republic and Hungary*,
  - *Market imperfections as a cause of currency crises*.

- Analysing the process of capital integration. Within this, the following presentations were delivered:

- *Liberalisation of capital movements: philosophy and Polish experience*, a lecture delivered to a seminar organised by the IMF for parliamentarians from Ukraine, Moldova, Georgia, Armenia and Azerbaijan,

- *Polish experience in attracting foreign direct investment*, a presentation given to a conference entitled "Ukraine: Investment climate", organised by the OECD,

- *Polish experience with liberalisation of capital movements and attracting foreign direct investment*, a lecture delivered to parliamentarians from Russia and Belarus at a seminar organised by the IMF,

- *Polish experience with capital movement liberalisation*, a report given to the "High-level conference on capital liberalisation in transition economies" held by the IMF, De Nederlandsche Bank and the National Bank of Ukraine.

- Investigating the Balassa-Samuelson effect in Poland. This research was completed in 2001. A technical description of the research is being prepared for publication in the monthly periodical *Bank i Kredyt* [Bank and Credit].

- Establishing a new measure of core inflation in Poland.

The research involved in this consisted of two parts. In the first, an assessment was made of the core inflation indices employed by most central banks. An analysis of these shows that, in theoretical terms, the indices currently employed fail to reflect the essence of core inflation. In particular, it was demonstrated that the indices currently in general use fail to fulfil three criteria, i.e., of being exogenous, unencumbered and attractive. In the second part of the research, a new methodology was developed for measuring core inflation on the basis of components of the Lucas model and Bayesian inference. This research is to be enlarged to include adaptive expectations and will be published in *Bank i Kredyt*.

- Analysing the condition of the European Union economy.

Investigations were continued into the situation in the EU countries. In addition to overall, ongoing analyses conducted on the basis of materials received, the experiences of these countries was examined in the course of study visits. NBP representatives also took part in the work of the OECD Economic Policy Committee and Committee on Capital Movements and Invisible Transactions, and of bodies responsible to those committees, within particular working groups.

- Examining the budget deficit and its impact on the economy.

Research in this area is concentrated on short-term macro growth generated by demand shocks. In particular, the general equilibrium model is used to study the impact of temporary demand shocks on the short-term behaviour of economic variables and the effectiveness of economic policy instruments. This research demonstrates that macro-economic stabilisation is essential, even when the shocks are of a temporary nature. In particular, the research results show that increased government spending, funded by bond sales, are a valuable instrument of stabilisation and increased prosperity in all time horizons, although they have an adverse impact on the process of physical capital formation. In addition, it is determined that fiscal policy is a more effective stabilisation instrument than monetary policy.

- Analysing the competitive position of the banking sector on the domestic market. The research in this area led to the preparation of the following studies:

- "The technological and cost efficiency of Polish commercial banks, 1997-2000 (Part II)",

- "Internal audit in banks and the supervisor's relationship with auditors – the requirements of the Basle Committee on Banking Supervision",

- "The latest requirements of the Basle Committee on Banking Supervision – a process of more profound analysis and verification of bank customers".

These studies were published in the monthly magazine *Bank* and in the series *Materialy i Studia* [Materials and Studies].

- Analysing changes in corporate creditworthiness.

On the basis of data received from 12 major banks, a quarterly aggregate analysis was conducted of changes in corporate creditworthiness, taking into consideration detailed figures on the number of companies that had lost their positive credit standing and changes in that number, and also an analysis of the size and structure of the debt of undertakings not considered creditworthy. The resulting studies were passed on to the NBP Management Board, the Government Centre for Strategic Studies, the Ministry of Finance and the Central Statistical Office (GUS).

- Conducting research into business activity in manufacturing, construction and the distributive trades.

On the basis of data sets received from GUS, appraisals were made of the general business climate in Poland and probable directions of change therein, principally with regard to domestic and external demand, the volume of output and producer prices.

- Conducting research into the structure of the Polish economy.

Analyses of the real economy were carried out in relation to selected areas of industry of particular importance in influencing the industrial producer price index (the PPI). The areas examined were those marked by:

- monopoly tendencies,
- the small role of the private sector due to difficulties in privatisation,
- large losses on operations in industries where restructuring programmes were being implemented, i.e., first and foremost: the power industry, telecommunications, metal manufacture, coal mining, rail transport, the fuel sector and postal services.

- Analysing corporate earnings.

Investigations were carried out of the economic and financial situation of medium and large businesses, on the basis of the data they reported in their F-01 financial statements, to assist in assessing relative developments within the real economy. These analyses looked at the following issues:

- corporate earnings and efficiency ratios,
- the current assets of companies and the sources of financing for those assets,
- corporate loan finance,
- movements in production costs,
- growth in industrial output and construction output.

The developments observable within the corporate sector were examined in terms of their impact on producer price growth in industry and in particular sections and divisions thereof, and also, in a wider context, on inflationary processes in Poland overall.

- Conducting periodic studies of the corporate sector.

These studies have been designed to serve as a tool for assessing the overall business climate and corporate finances by analysing basic indicators of corporate activity such as liquidity, money stocks and inflation expectations, and by identifying loan demand.

– In 2001, four surveys of the ongoing condition of businesses were performed, together with an annual corporate survey. These surveys are carried out via the Bank's regional branch offices, using a sample of some 430 companies. Both the quarterly surveys and the survey for the annual report were supplemented with an analysis of non-specific unit data taken from GUS F-01 and F-02 reports, and with econometric analyses of selected macro data.

– As part of the surveys, a special study was made of corporate sensitivity to exchange rate risk.

– Important aspects of this survey activity included:

- a) making improvements to the scalable NBP index of business activity,
- b) enlarging the sample surveyed,
- c) introducing mechanisms for the automatic verification of the integrity and cohesion of the survey data.



- Analysing movements in the volume of notes & coin in circulation.  
Using NBP information and GUS data, quarterly analyses were performed of currency in circulation on a year-to-date basis, with particular consideration given to:
  - the volume of notes and coin in circulation compared to movements in inflation,
  - movements in notes and coin in circulation, by value and in absolute terms,
  - the currency reserve (NBP cash stocks), by value and in absolute terms,
  - the capacity of the currency reserve to meet the market demand for cash,
  - the steadily accelerating growth in non-cash settlements.
- Conducting research into developments on the domestic capital market. This work led to the preparation of two studies, namely:
  - “Problems of the Polish capital market”, published in *Bank i Kredyt*,
  - “The capital market”, a chapter in the *International Economic Report*.
- Conducting research to investigate monetary policy transmission mechanisms in Poland. This research resulted in the preparation of the following studies:
  - “Analysing the relationship between prices and money in the Polish economy using the  $\Pi^*$  model”, published in *Bank i Kredyt*.

The  $\Pi$ -star model is currently employed to develop medium-term forecasts of inflation processes.

  - *The relationship between real interest rates and inflation*.

This material contains a description of the theoretical relationship between real interest rates, the natural rate of interest and inflation, along with empirical research on the US economy. It constitutes a starting point for analysing similar relationships in Poland.

  - *The monetary transmission mechanism and structural modelling of inflation at the National Bank of Poland*, BIS Papers, no. 8, November 2001,
  - *Monetary transmission in Poland. Theoretical concepts vs. evidence*, National Bank of Poland, Paper no. 19.

#### 8.2.1.2. Overall analyses of the condition of the banking sector

The overall analyses of the financial condition of the banking sector conducted by GINB in 2001 comprised:

- Developing quarterly *Evaluations of the financial situation of banks*, containing comprehensive information on the condition of Poland's banking sector, and presenting the developments and tendencies present in that sector and sources of potential threats to its stability<sup>60</sup>; the basic information included in these *Evaluations* was made available externally in the publications entitled *Summary evaluation of the financial situation of banks*<sup>61</sup>.
- Performing the annual *Assessment of the impact of monetary, tax and supervisory policies on the development of banks for the year 2000* (pursuant to Article 25 of the Act on the National Bank of Poland).
- Compiling ten-day reports on the banks' compliance with normative provisions on permissible foreign exchange risk, maintaining records of the foreign customers of the banks, and monitoring the risk associated with the banks' large exposures.
- Performing analyses of selected areas of banking sector activity and on this basis developing reports on these issues for GINB, the Commission for Banking Supervision, the Monetary

<sup>60</sup> Having been approved by the Commission for Banking Supervision, these *Evaluations* were submitted to the NBP Management Board, the Monetary Policy Council, the management of GINB and the directors of selected NBP departments. In addition, the annual *Evaluation* for 2000 and version for the first six months of 2001 were also forwarded to the President of the Polish Republic, the Speakers of the Sejm and Senate, the Prime Minister, selected ministers and heads of central government agencies, and the chairpersons of three Sejm committees.

<sup>61</sup> These were distributed in Polish and English to a broad range of recipients (and posted on the NBP web site).

Policy Council, the NBP Management Board, central bodies of government and the civil service, and other external recipients (particularly international financial organisations and institutions)<sup>62</sup>.

### 8.2.1.3. Analytical activity related to the launch of euro notes & coin

In 2001, analytical work was conducted at the NBP on the physical introduction of the euro. This work led to the preparation of a document entitled *Analysis of the preparations by EU Member States for the introduction of the euro as a cash currency*, and also a second edition of the study *Analysis of the impact of the introduction of the euro on the Polish banking system*.

## 8.2.2. Statistical activity

The statistical activity conducted at the National Bank in 2001 involved day-to-day responsibilities in gathering and making available the necessary statistical information, and also, in parallel and on a broad basis, work towards fully adjusting statistical activity to the requirements of the European Central Bank.

### 8.2.2.1. Standard responsibilities regarding monetary statistics, financial statistics and balance of payments statistics in conjunction with the international investment position

The standard statistical responsibilities carried on in 2001 primarily comprised:

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

The end result of the above were numerous statistical reports, analytical materials and publications addressed to users both inside and outside the Bank. The most important of these included:

- Quarterly reports on the balance of payments, which were submitted to the Sejm and Council of Ministers by the President of the NBP on behalf of the Monetary Policy Council.

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<sup>62</sup> The issues covered by these targeted analyses in 2001 included:

- the impact on the capital adequacy of commercial banks in Poland of the proposed regulatory changes arising from the document published by the Basle Committee on Banking Supervision (*The New Basle Capital Accord*);
- the exposures of the banks to counterparties from the CIS countries;
- the sensitivity of the banks to exchange rate risk;
- the risk exposure arising from the banks providing loan finance for the purchase of securities;
- the potential impact on the banks' earnings and capital of a major deterioration in the quality of the claims they held on non-financial customers;
- the distribution of the banks' net earnings for 2000, with particular consideration given as to how this contributed to capital growth (analysed in the document entitled *Report of the Commission for Banking Supervision on the distribution of the earnings generated by the banks in 2000*);
- the impact of subsidiary and associated undertakings on the condition of banks required to draw up consolidated accounts (analysed in a study entitled *Bank earnings in 2000, as audited and in the light of consolidated accounts*);
- the effects of banking sector consolidation on the scope and quality of the services provided by banks, the size of their capital and their competitive position;
- the differences in operating efficiency at selected groups of banks;
- the real estate financing conducted by banks in Poland in the years 1999-2001, and the associated risks to the banking sector.

- The annual *Balance of payments on a transactions basis and balance of foreign assets and liabilities of the Republic of Poland*. Having been approved by the NBP Management Board, this document was submitted to the Sejm and Council of Ministers by the President of the NBP on behalf of the MPC. This document included a full presentation of the "international investment position", drawn up in accordance with the standards of the International Monetary Fund.
- Quarterly figures on Poland's external indebtedness.
- Monthly balance of payments reports, compiled on the basis of data from the commercial banks.
- A consolidated balance sheet of the banking system, drawn up on the basis of monthly balance-sheet data submitted by the banks and data from the NBP itself. This then functioned as the basis for developing many other statistical reports and analytical materials, including the *Report on monetary processes (compiled using interim figures)*, and the *Monthly report on the balances of consumer and corporate savings and debt at commercial banks*.

The information system in place at the NBP also permits the Bank to fulfil its statistical obligations to international organisations such as the IMF, World Bank, OECD and BIS, and to the bodies of the European Union, which increasingly involves reporting to the European Central Bank.

#### 8.2.2.2. Statistical information for external recipients

The NBP attaches great importance to providing information on monetary categories to the business community and economists. This objective is served primarily by the Bank's monthly publications, such as the *NBP Information Bulletin* and *Preliminary Information*. These materials contain basic data on Poland's monetary and economic situation. In addition to a statistical section, the quarterly edition of the *Bulletin* includes an analytical narrative section.

A tool allowing both current statistical information and historical information to be made available to external recipients is the statistical section of the NBP web site, which is systematically updated. This makes possible rapid information delivery to users, while ensuring simultaneous and equal access to that information. These factors reflect the basic principles of the system known as the Special Data Dissemination Standard (SDDS), which Poland joined in 1996. A date release calendar is also included on the web site and regularly updated (which is another provision of the SDDS). This calendar provides users with current information, one quarter in advance, on the publication schedules for basic monetary and balance of payments data.

#### 8.2.2.3. Adjustment measures to conform to the statistical requirements of the European Central Bank

Intensive efforts were made in 2001 to bring the statistics compiled at the NBP fully into line with the requirements of the European Central Bank. This work involved both monetary and balance of payments statistics. In the case of monetary statistics, activity was focussed on preparing the requisite changes to the bank reporting system. The first stage of these changes was prepared and scheduled for implementation in March 2002; this is primarily to involve adjusting the sectoral classification of the economy employed by the banks to comply with the ESA95 standard (the European System of Accounts 1995), as required within the European Union. The work carried out in this area, which consisted in developing the substantive assumptions needed and preparing IT system modifications, necessitated detailed analyses of the activity conducted by particular types of economic agent, together with numerous consultations with other institutions, both at home (the Central Statistical Office and the Ministry of Finance) and abroad (the ECB and the national central banks of the Eurosystem).

The modifications made to the reporting formats received by the NBP from the banks also allowed the calculation of monetary aggregates in line with ECB requirements, and in particular the introduction of a new, harmonised version of M3. These aggregates are to be calculated and published beginning with the data compiled for the end of March 2002.

At the same time, preparations were also under way for providing the ECB with additional statistical information not previously collected; this is scheduled to begin as of the start of 2003, and principally involves:

- data on bank operations broken down by country and currency,
- data necessary for compiling transaction statistics,
- information on the interest rates applied by the banks.

Two important ECB regulations in this field were issued in 2001, which made it possible to map out further adjustment measures at the NBP, as a result of which:

- Work was continued to put in place statistics on securities issues that correspond to ECB requirements, and also preparatory work connected with the ECB extending the reporting required from "other financial intermediaries".
- At the end of 2001, collaboration in the area of monetary statistics was begun with experts from the Bank of France under the Phare 2000 programme, on the basis of the twinning agreement concluded.

With respect to balance of payments statistics, a major intensification of work took place with a view to making the requisite adjustments for future operations within the framework of the European System of Central Banks. In the course of this work, an ECB document was produced, describing the methods of compiling the balance of payments used in the EU candidate countries<sup>63</sup>. The chapter discussing the functioning of the Polish system of statistics was drawn up at the NBP.

Work was also carried on in 2001 to develop a new system for gathering information on portfolio investment, which is to constitute a component of a data base on securities. This activity was conducted in collaboration with experts from the Bank of Italy, in the framework of the Phare 2000 programme.

One vehicle for NBP staff gaining the experience necessary to perform these adjustment measures was their participation in seminars and working group meetings organised by EU institutions and devoted to issues of pre-accession adjustments by candidate countries to achieve the standards in force. These meetings afforded an opportunity to present the progress made in this field in Poland, and also to exchange experiences with representatives of other European countries. In 2001, NBP delegations took part in seminars on EU requirements in the area of monetary and balance of payments statistics held by the European Central Bank and Eurostat.

#### **8.2.2.4. Other activity**

Work was continued in 2001 on the development at the NBP of an integrated data base designed to provide an easily accessible source of macroeconomic information utilised at the Bank in carrying out analyses and forecasts, and in taking monetary policy decisions. This task is also being implemented in the framework of the Phare 2000 programme, in cooperation with experts from the Bank of France.

### **8.3. Education and information**

#### **8.3.1. Collaboration in staff training for the banking sector**

As in previous years, in 2001 the NBP took part in various initiatives to assist the development of the banking sector, which involved:

- organising training courses for commercial bank staff on balance of payments statistics and monetary and credit policy, in the context of Poland's future membership in Economic and Monetary Union, and also courses on establishing the authenticity of euros and of the twelve EMU currencies being withdrawn from circulation;

<sup>63</sup> *Accession countries: balance of payments/international investment position statistical methods*, published by the ECB in February 2002.

- organising in-house training for students specialising in subjects related to the banking system or central banking, and also organising internships for students from foreign universities, allowing them to collect materials for their theses, and holding lectures for them on the Polish banking system;
- organising internships for students from the National School of Public Administration, for Ph.D. students, and for staff from the Ministry of Finance;
- cooperating with other banks in admissions to the Post-Graduate Banking Course at the Warsaw School of Economics (through participation in the Programme Commission of the Course).

National Bank staff also continued to serve as members of the Coordinating Committee for Polish Banking Qualification Standards. In addition, Bank representatives were delegated to participate in the work of the relevant examination commissions and participated in the conduct of examinations awarding various professional titles under the Polish Banking Qualification Standards System.

### 8.3.2. NBP publications and web site

In performing its educational and information responsibilities in 2001, the National Bank made use of its various publications, namely, *Bank i Kredyt*, *Inflation Report*, the *NBP Annual Report for 2000*, *NBP Information Bulletin*, the *Monetary Policy Guidelines for 2002*, the *Report on the Performance of Monetary Policy Guidelines in 2000*, the *Report on the Activity of the Commission for Banking Supervision in 2000*, and the *Materialy i Studia* research series.

The Bank also published a book entitled *The National Bank of Poland, 1948-1970*, written by Andrzej Jezierski and Cecylia Leszczynska. In addition, a number of brochures were issued on collector's coins: *The Year 2001*; *The Amber Trail*; *The Wieliczka Salt Mine*; *15 Years of the Constitutional Tribunal (1986-2001)*; *The Swallow-Tail Butterfly*; *King Ladislaus the Short, 1320-1333*; *The XIIIth Henryk Wieniawski International Music Festival*; *The 100th Anniversary of the Birth of Stefan Cardinal Wyszyński*; *King John III Sobieski*; and *Michał Siedlecki, 1873-1940*.

During the year, the NBP web site was expanded to include several additional sections, on "The Euro 2002" (an extensive section devoted to preparations for the physical launch of the single currency, including materials from the information campaigns being conducted on this question in the EU countries and in Poland), on "NBP Conferences" and on "Vacancies at the NBP".

The "Statistics" section was also enlarged, e.g., with the regular publication of core inflation indices. Further, a special page was designed for communicating ongoing comments and information to the banks in relation to the introduction of a modified reporting package as of 2002. The exchange rate schedules on the site were extended to include current and historical schedules of mid-rates for non-convertible currencies.

In addition, preparations were made for publishing on the web, as of the beginning of 2002, a virtual catalogue of the NBP Central Library.

### 8.3.3. Media support to NBP directing bodies

In 2001, the media support provided to the President of the NBP, the NBP Management Board and the Monetary Policy Council included the organisation of eleven press conferences involving the President of the Bank and members of the MPC, and also five academic conferences attended by NBP management and staff.

A conference on the early repayment of Poland's debt to Brazil was also organised, in conjunction with the Ministry of Finance. Further, a conference was held at which representatives of the World Bank presented their *World development report 2002 – building institutions for markets*.

In addition, regular information and education services were also provided to journalists.

#### 8.3.4. "Euro 2002" information and promotion campaign

As an Official Partner of the ECB, in 2001 the NBP began an information and promotion campaign entitled "Euro 2002". The campaign was conducted via the radio, TV and press, and also made use of seminars and press conferences.

Publications popularising the new currency were developed and issued, and special leaflets and posters were prepared, as was an information compendium entitled *The euro – the new currency of a united Europe*, and a practical guide entitled *Where and how you can exchange the national currencies of the 12 EMU countries into euro*. These materials were distributed to persons interested in the issue of the physical introduction of the euro in the EMU countries and were also made available at NBP offices and on the Bank's web site.

As part of the media information campaign, factual films on bringing the new currency into circulation in the EMU countries were broadcast from December 15 to 31 on Channel 2 of Polish State Television. Further, National Bank experts appeared on radio and TV to explain the principles behind the launch of euro notes and coin.

NBP specialists gave interviews and published articles in newspapers on the euro. This activity resulted in the establishment of regular cooperation with the largest national daily papers and with certain local ones. Bank representatives also participated in training events organised by non-government organisations and trade associations.

At the invitation of the National Bank and the Polish Police, an exhibition prepared by the German Police was brought to Poland. This presented the appearance and security features of euro notes and Deutschemarks.

On October 12 and 13, NBP representatives paid a working visit to the Deutsche Bundesbank and ECB in Frankfurt. The purpose of this visit was to discuss ways of cooperation in promotion and educational activity related to the physical introduction of the single currency. One result of the visit was the publication of joint information materials.

In addition, a presentation to twelve commercial counsellors was given in September at the Embassy of the Kingdom of Belgium on the subject of "The role of the NBP in preparing the Polish public for the introduction of the euro".

In order to popularise the euro as a new currency that many companies would be using for settlements from January 2002 onwards, cooperation was instituted with the Polish Confederation of Private Employers, the Business Centre Club, the National Business Council and the Association of Polish Private Craftsmen. These contacts bore fruit in the development of joint information programmes addressed to the business community.

Under an agreement between the NBP and the charitable foundation "The Great Christmas Aid Orchestra", concluded on December 15, 2001, the Bank took part in a fund-raising campaign organised by the "Orchestra" in January 2002. The basis for this collaboration was the collection of coins in the national EMU currencies being withdrawn from circulation, to be subsequently exchanged by the Bank into euro and the resulting proceeds then transferred to the "Orchestra".

As part of the educational activity being conducted, a meeting with young people was organised in the Polish Sejm on September 8, 2001. NBP representatives took part in a national conference of "School Clubs for Europe". The 320 participants in the conference listened to lectures and were presented with copies of the information compendium entitled *The euro – the new currency of a united Europe*.

The campaign conducted by the NBP proved to be a highly effective one. Surveys carried out by the OBOP polling organisation demonstrated that the activity undertaken by the Bank had increased public knowledge of the euro. Between September 2001 and January 2002, the number of respondents citing the replacement of the legacy currencies of the twelve EMU countries by the euro as an important event for the EU rose from 69% to 88%. At the same time, the number of people uninformed on this subject declined (falling from 26% to 11%). It was also noted that the principal institution providing information to the public on the changes involved in the introduction of the euro was the National Bank of Poland. While the NBP was named by 33% of respondents in August 2001, by January 2002 this figure had climbed to 54%.

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

During the year the National Bank organised one international academic conference and a number of seminars on banking activity and monetary policy. The Bank also edited and published research papers in the series *Materiały i Studia*.

- On October 22-23, the National Bank organised an international academic conference entitled "The Polish road to the euro". The conference was divided into three sessions by subject matter, namely, "EMU accession strategies", "The adequacy of monetary criteria for the accession countries" and "The costs and benefits of joining the euro area". The conference was attended by representatives of the NBP, other central banks, the European Central Bank, the European Commission, Polish and foreign universities and colleges, research institutes and the media. It constituted an important meeting with a group of international experts, providing an opportunity to discuss the tasks facing Poland and the other candidate countries in the period prior to their joining the euro area.

The conference materials were subsequently issued in *Bank i Kredyt*, and also in a special English-language publication.

- A total of 16 academic seminars were held at the NBP during 2001, at which presentations were given by representatives of various departments of the Bank, by lecturers from Polish universities, and also by international guests (including Robert A. Mundell, Nobel prize winner in economics, Lavan Madaheva from the Bank of England, Jerzy D. Konieczny from Wilfrid Laurier University in Canada, and Rafal Kierzenkowski from the University of Paris-Dauphine).

Questions examined during these seminars included issues related to the payment system, monetary policy, and NBP adjustments to conform with the standards required in the EU.

- In the course of the year, the Bank edited and published 23 study papers in the series *Materiały i Studia*, 20 of which were in Polish (nos. 116-135) and 3 in English (nos. 18-20). This is a series of publications on important issues related to banking and monetary policy, with the papers published presenting the results of research conducted both by the Bank's own staff and by staff from other academic and financial institutions.

### 8.3.6. NBP Central Library

The NBP Central Library is a research facility. The works at the Library relate to economics, with particular reference to banking and monetary issues.

In 2001, the Library lent out books to both NBP staff and the staff of other banks (on the basis of separate agreements), and also made its collections available under inter-library exchanges, in line with generally accepted principles. In the reading room, which seats 29, the Library's works are provided to all visitors. The Library catalogue can be accessed at six workstations. The Library provides catalogue, bibliographical and substantive information on the basis of its own collections. All staff of the NBP have access to the catalogue of the Central Library via the local area network. In 2001, the Library continued to subscribe to the data bases *ABI/Inform* and *Business Periodical on Disc*, and to the *Financial Times*, *Justis Celex* and *SCAD*. Access to all the data bases at the NBP Central Library is free of charge and open to everyone. The collections held at the Library are summarised in Table 12.

**Table 12**

#### Collections held at NBP Central Library

Type of publication	Works held at:	
	December 31, 2000	December 31, 2001
Self-contained publications	77,659 volumes	81,399 volumes
Serial publications	32,068 volumes	32,797 volumes
Current periodicals	488 titles	473 titles
– of which: Polish periodicals	300 titles	319 titles

Source: NBP



During the year, over 14,750 copies of books and periodicals were borrowed from the Library. This represents an increase in readership compared to 2000, when over 11,200 copies were borrowed. The reading room was visited by 8,660 people in 2001, who were provided with 34,674 books and periodicals (in 2000, the reading room was visited by 11,686 people, who were supplied with more than 120,000 books and periodicals; these statistics do not include current periodicals, bank reports and other publications freely available on shelves). The decrease in the number of people using the reading room is traceable, among other things, to the opening of Warsaw University Library to readers, and to the greater activity shown by the libraries of private colleges.

The Library was automated under the "Co-Liber" computer system in 1993. The present data base contains 1,723 titles of periodicals (32,797 issues), 31,781 titles of books (46,766 volumes) and 1,338 articles concerning banking (most of them full-length) taken from Polish periodicals.

#### **MOST IMPORTANT NBP ACTIVITY IN 2001**

- The NBP participated in work on numerous pieces of draft legislation of major significance to the banking system, including ones introducing solutions adopted within the European Union.
- Analytical activity was primarily focussed on enhancing the forecasting and analytical tools employed at the Bank, together with the content and format of materials prepared for meetings of the NBP Management Board and Monetary Policy Council, which materials lay the basis for the decisions taken by those bodies.
- A major intensification of work took place with a view to adjusting balance of payments statistics for future operation within the European System of Central Banks. Work was also conducted on developing a new system for gathering information on portfolio investment. This activity was conducted in collaboration with experts from the Bank of Italy, in the framework of the Phare 2000 programme.
- The first stage of changes to monetary statistics was prepared; this is primarily to involve adjusting the sectoral classification of the economy employed by the banks to comply with the ESA95 standard required within the European Union. Among other things, modifications made to the reporting formats received by the NBP from the banks allowed the calculation of monetary aggregates in line with ECB requirements, and in particular the introduction of a new, harmonised version of M3 (publication of these aggregates is to commence in 2002).
- At the end of 2001, collaboration in the area of monetary statistics was begun with experts from the Bank of France under the Phare 2000 programme.
- Additions to the NBP web site included the regular publication of core inflation indices.
- As an Official Partner of the ECB, the NBP began an information and promotion campaign entitled "Euro 2002".
- On October 22-23, the National Bank organised an international academic conference entitled "The Polish road to the euro".



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## INTERNATIONAL ACTIVITY

## 9.1. Adjusting the Polish banking system and the NBP to the requirements of the European Union

### 9.1.1. Negotiations on Polish membership in the European Union

In 2001, Poland continued the negotiations on membership in the European Union begun in 1998. In the first half of 2001, during the Swedish presidency, three areas of negotiation were concluded, namely, "Free movement of goods", "Customs union" and "Social policy and employment", while in the second half of the year, during the Belgian presidency, a further four titles were closed, i.e., "Energy", "Environment", "Company law" and "Free movement of persons". By the end of 2001, 20 of the 29 chapters of the *acquis* had been closed since negotiations first commenced. As an institution supporting the Polish Government in this field, the NBP participated in the negotiations on Polish EU membership in the following areas: "Economic and monetary union", "Freedom to provide services", "Free movement of capital", "Statistics", "Consumers and health protection" and "Financial and budgetary provisions".

The basic strategic document intended to guide performance of the commitments undertaken during negotiations is the *National Programme of Preparations for Membership in the European Union*. In 2001, as in previous years (starting from 1998), the Bank took part in modifying the priorities set out in the *National Programme*. Among the NBP priorities contained in the modified *Programme* for 2001 were the following: "Harmonising Polish banking legislation with Community legislation", "Adjustments to monetary policy and exchange rate policy" and "Preparing the National Bank of Poland for operation within the European System of Central Banks"; there were also certain new tasks, namely, "Implementing the regulations on the introduction of the euro", "The NBP information campaign on the euro" and "Preparations for bringing euro notes and coin into circulation".

The work carried out at the National Bank in 2001 was also related to other documents connected with EU negotiations (concerning commitments arising from the negotiating positions on "Freedom to provide services" and "Economic and monetary union"), and also documents associated with EU enlargement (the *2001 Regular Report on Poland's progress towards accession; Making a success of enlargement. Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries; the Swedish Presidency Conclusions; the Belgian Presidency Conclusions; and the ECB's 2001 Report on the status of legal preparation of accession countries in the areas of Community law of concern to the Eurosystem*).

### 9.1.2. Preparing the NBP for operation within the European System of Central Banks

The year 2001 again saw implementation of the *NBP workplan for the years 2000-2002 to bring the National Bank of Poland into line with the requirements set for central banks in EU Member States*. On November 22, 2001, the NBP Management Board adopted an NBP workplan for the years 2002-2004, specifying the Bank's objectives and tasks for the coming three years, including those that stem from Poland's planned membership in the EU.

Since 1998, a Committee to Prepare the NBP for European Integration has been in place at the central bank, chaired by the President of the NBP. In 2001, the meetings of the Committee discussed the most important issues involved in adjusting the NBP to conform to the standards of the ESCB.

On July 12, 2001, the President of the NBP and the Governor of the Bank of France signed a twinning agreement in Warsaw, with the Bank of France as lead bank and the Bank of Italy as cooperating bank; this agreement constituted a precondition for the NBP beginning implementation of the Phare 2000 programme. The programme was initiated on July 20, 2001, having been approved by the European Commission. The aim of the programme is to adapt the NBP fully to the requirements set for members of the European System of Central Banks. Adjustment work is being conducted in the following areas of NBP activity: the payment system, monetary statistics, a system for monitoring capital flows involving portfolio investment,

accounting and reporting, banking supervision, internal audit, and IT systems (these areas were set as NBP priorities within the *National Programme of Preparations for Membership in the European Union*). As of September 2001, work at the NBP was begun by a Pre-Accession Adviser.

### 9.1.3. Other activity at the NBP

In line with an initiative of the European Commission, as of 2001 the candidate countries were obliged to develop Pre-Accession Economic Programmes (PEPs). These are medium-term programmes (with a five-year time horizon, currently covering the years 2000-2004), and the issues addressed include macroeconomic questions, public finances and structural reform. In 2001, the NBP took part in drawing up the sections of Poland's Pre-Accession Economic Programme entitled "Macroeconomic assumptions", "Monetary and exchange rate policy" and "Financial sector structural reforms" (with respect to the banking system). The PEP represents one part (the first stage) of a broader strategy of monitoring the economic situation in both candidate countries and EU Member States. In accordance with the above-mentioned initiative taken by the Commission, Poland will also be required to develop a Convergence Programme for EU members remaining outside the EMU area, and once it joins EMU will be required to prepare a Stability Programme.

### 9.1.4. Translation work associated with the process of adjusting the NBP and the banking system to the requirements of the European Union

Work was stepped up in 2001 on indexing and verifying translations of Community legislation of importance in the process of adjusting the central bank and the banking sector as a whole to EU requirements.

The adjustment work carried out included the translation into Polish of legal instruments issued by the European Central Bank, while translations into English were performed of more significant amendments to Polish legislation, including the Act Amending the Banking Act and the Act on the Consequences of the Introduction of the Euro.

## 9.2. Collaboration with international economic and financial institutions

### 9.2.1. The Organisation for Economic Cooperation and Development

In relation to all issues involving the Organisation for Economic Cooperation and Development, the NBP collaborated closely in 2001, as in previous years, with the National Coordinator of Cooperation between the Republic of Poland and the OECD, the Permanent Representative of the Polish Government to the OECD, the Ministry of the Economy and the Ministry of Finance.

In March 2001, the regular review of the Polish economy took place in Paris, during a meeting of the Economic and Development Review Committee (EDRC). Representatives of the NBP were among those taking part in this. Questions discussed included those of macroeconomic growth and also monetary and fiscal policy, as taken up in the draft report entitled *OECD Economic Surveys: Poland*. In May, Paris also hosted the annual session of the OECD Ministerial Council, attended by delegations from all the member countries, together with ministers from non-member countries and the leaders of other international organisations.

On April 27 and October 19, meetings of Poland's Inter-departmental OECD Working Group were held at the Ministry of the Economy. The NBP was represented at the Working Group by the Bank's Deputy President. In December, an OECD mission visited Poland, meeting with representatives of NBP senior management, among others. The subjects raised during the ensuing talks included preparations for the performance of the VIth review of the Polish economy and clarification of certain information forwarded by the NBP in reply to a questionnaire compiled by the OECD Secretariat.

### 9.2.2. The International Monetary Fund

In 2001, the International Monetary Fund utilised the funds it held on account at the NBP, totalling € 277.3m, as financial support to economic reforms in Turkey.

The operations involved were carried out pursuant to the involvement of Poland in the Fund's plan of financial transactions, as determined by the IMF and Poland in 1999, and in accordance with a technical agreement concluded between the NBP and the IMF on August 18, 1999.

In May, Poland was visited by a mission of the IMF. The purpose of the visit was to familiarise the Fund's representatives with the economic situation in Poland, with plans regarding economic, budgetary and monetary policies, and plans in the field of banking supervision, and also to gather statistical data for the IMF annual report on Poland. Representatives of the NBP and members of the Monetary Policy Council participated in meetings held with the IMF mission.

Within the framework of the collaboration conducted with the IMF and the World Bank, NBP experts took part during the year in a Financial Sector Assessment Programme (FSAP) in Latvia. In addition, Polish specialists were involved in numerous seminars organised by the IMF. The seminars held in 2001 concerned issues related to operations on financial markets, the balance of payments, and the assessment of financial systems.

### 9.2.3. The World Bank

In 2001, a change took place with respect to the Polish Governor at the World Bank. Pursuant to the Act on the NBP, in assuming the post of President of the NBP on January 10, 2001, Leszek Balcerowicz at the same time became the new Polish Governor at the World Bank. Furthermore, as of October 10, 2001, NBP Deputy President Andrzej S. Bratkowski became the Polish Deputy Governor at that organisation.

April saw the Spring meeting of the IMF and World Bank Group and of the World Bank Development Committee. This meeting was attended by representatives of NBP management. Due to the tragic events in New York, the annual meeting of the World Bank Board of Governors, planned for the end of September 2001, did not take place. In order to fulfil treaty obligations concerning this meeting, the decision was taken to organise another meeting instead, at World Bank headquarters in Washington, on December 4, 2001.

In the course of 2001, regular meetings took place of the Anti-corruption Working Group, organised under the aegis of the World Bank's Warsaw Office. During these meetings, in which the President of the NBP, a member of the Group, also took part, a document was adopted entitled *A strategy for combatting corruption in Poland*. In March, a second meeting of the World Bank's External Advisory Board on Governance and Anti-corruption was held at the Bank's Warsaw Office. The meeting was chaired by the President of the NBP. The Board is composed of experts from Europe and Central Asia.

### 9.2.4. The European Bank for Reconstruction and Development

The annual meeting of the Board of Governors of the European Bank for Reconstruction and Development was held in London on April 22-24, 2001. The meeting brought together representatives of all the Bank's member countries and organisations. The President of the NBP, along with an accompanying delegation, took part in the plenary sessions, and in selected meetings with foreign partners. While in London, the President met with the European Union Economic and Financial Commissioner, and also with the German Deputy Minister of Finance, the Deputy General Director of the German Ministry of Finance, and with persons accompanying them. The subjects raised by participants in the meetings included the state of accession negotiations and preparations for particular stages of Polish integration in Economic and Monetary Union. The economic outlook for European countries was also discussed, as was the current economic situation in Poland and growth prospects for the immediate future.

In November 2001, Poland was visited by a group of executive directors from the World Bank. During their stay in Poland, they met the President of the NBP and representatives of the Polish Government, and also took a first-hand look at investments that had been carried out using funds made available by the EBRD.

In December, EBRD President Jean Lemierre paid a visit to Warsaw. During meetings with representatives of government agencies, discussions were held on the state of cooperation between Poland and the EBRD, on new investments planned by the EBRD in Poland, and also on issues related to Poland's accession to the EU.

### 9.2.5. Activity of the Bank for International Settlements, Basle

An Extraordinary General Meeting of Shareholders in the Bank for International Settlements was held in January 2001, devoted to amendments to that Bank's Statutes. The most important of these involved restricting the right to hold shares in the BIS solely to central banks, thereby excluding private shareholders (parties other than central banks), with compensation to the latter being provided at a rate of SFr 16,000 (€ 10,500, or US\$ 9,470) per share.

The 71<sup>st</sup> BIS General Meeting of Shareholders was held in June 2001; this meeting adopted the 71<sup>st</sup> Annual Report, approved the Bank's balance sheet at March 31, 2001, and also approved the income statement. The latter showed a net profit, after deduction of the costs of administration, of 271.7m gold francs (1 gold franc = US\$ 1.94149), and this was distributed as follows: 48.6m gold francs were assigned to a dividend payment, payable in Swiss francs, of SFr 360 per share (with the NBP receiving SFr 2.88m); 44.6m gold francs were transferred to the general reserve fund; 3m gold francs were transferred to the "special dividend reserve fund"; and 175.5m gold francs were transferred to the free reserve fund.

In the framework of the BIS General Meeting, a seminar was held, organised by the Financial Stability Institute and the Basle Committee on Banking Supervision, on the principles underlying *The New Basle Capital Accord*. The new requirements included therein are to take better account of new types of risk. The measure of capital adequacy is to be based on ratings issued by recognised rating agencies and on the application of a broad range of risk mitigation techniques.

### 9.2.6. The European Central Bank

In 2001, the NBP continued its collaboration with the ECB, begun in February 2000. In April, the National Bank hosted an official delegation from the ECB. Subsequently, in September, the President of the NBP paid a visit to the ECB. During the meeting then held with the management of the ECB, the NBP President proposed that bilateral cooperation be established between the NBP and the ECB with respect to legal matters, monetary and credit policy, research activity, the payment system, statistics, accounting and reporting, IT and telecommunications, the launch of the euro, and public relations.

### 9.2.7. The International Investment Bank

In 2001, talks were continued with the International Investment Bank (IIB) with a view to resolving the question of mutual claims and liabilities. These talks, chaired by the NBP, were conducted by an interdepartmental working group which included representatives of the Ministry of Finance and the Ministry of Foreign Affairs. The chairperson of the Polish delegation was invited to participate, as an observer, in the autumn session of the Board of the IIB, scheduled to discuss the settlement of that organisation's liabilities with respect to the countries that had left the IIB, i.e., Poland and Hungary.

### 9.2.8. The International Bank for Economic Cooperation

The year 2001 brought a certain amount of progress in resolving the problem of the recovery of past due claims on debtors held by the International Bank for Economic Cooperation (IBEC). The Russian Federation presented proposals for a rescheduling of its debt, and these were accepted, on a preliminary basis, by the Board of the IBEC. It is envisaged that the year 2002 will see the conclusion of the relevant agreements with the Russian Federation, and also with Western creditors.

The Polish delegation participating in meetings of the IBEC Board was led by the NBP, as represented by the National Bank's First Deputy President and Deputy President.

### 9.2.9. Training assistance to central banks and supervisory authorities of other countries

The most important aspects of the Bank's cooperation with other central banks in 2001 included the following:

- The organisation of training courses at the NBP for representatives of the central banks of China, Belarus, Mongolia, Georgia and Kazakhstan. The subjects covered by these training courses included the preparation of monetary policy guidelines, problems associated with adjusting the financial and banking sectors to conform to EU standards, open market operations, interest rate volatility, deposit and lending operations, and research into the transmission mechanism.
- The organisation of study visits for representatives of the central banks of Belarus, the Czech Republic, Georgia, Kirghizia and Moldova concerning the functioning of a modern central bank, with consideration being given to risk management, the reform of the financial and banking system, and personnel management.
- The organisation, as part of outreach training assistance, of some 15 study visits for representatives of supervisory agencies from Russia, Ukraine, Belarus, Moldova, Kirghizia and Armenia, and also from China and Vietnam. In response to a large number of requests for training assistance, a programme was initiated in conjunction with the United States Agency for International Development (USAID) to establish a training centre for bank supervisors with the aim of allowing other countries of Central and Eastern Europe to benefit from Poland's experiences in developing an effective and efficient system of banking supervision.
- The holding of the first in a series of pilot seminars, entitled "FX Risk: Regulation and Examination in Banks. CAD Implementation in Poland", in November 2001. The seminar was attended by supervisors from Albania, Armenia, Belarus, Bosnia and Herzegovina, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Romania, Russia, Slovakia, Slovenia and Ukraine. Poland's experiences regarding the application of market risk regulations elicited very large interest from the seminar participants, who took a highly positive view of those experiences. Further seminars outlining the experiences of Polish banking supervision are planned for 2002.
- The organisation, in collaboration with the Bank of England's Centre for Central Banking Studies, of an international seminar on "Instruments of monetary operations". This took place in March 2001.

#### **MOST IMPORTANT NBP ACTIVITY IN 2001**

- On July 12, 2001, the President of the NBP and the Governor of the Bank of France signed a twinning agreement in Warsaw that constituted a precondition for the NBP beginning implementation of the Phare 2000 programme.
- The NBP organised training for representatives of the central banks of China, the Czech Republic, Belarus, Mongolia, Georgia and Kazakhstan, together with numerous study visits for representatives of supervisory agencies from Russia, Ukraine, Belarus, Moldova, Kirghizia and Armenia, and also from China and Vietnam.

## THE INTERNAL DEVELOPMENT OF THE NBP

## 10.1. Human resource management

### 10.1.1. NBP staffing

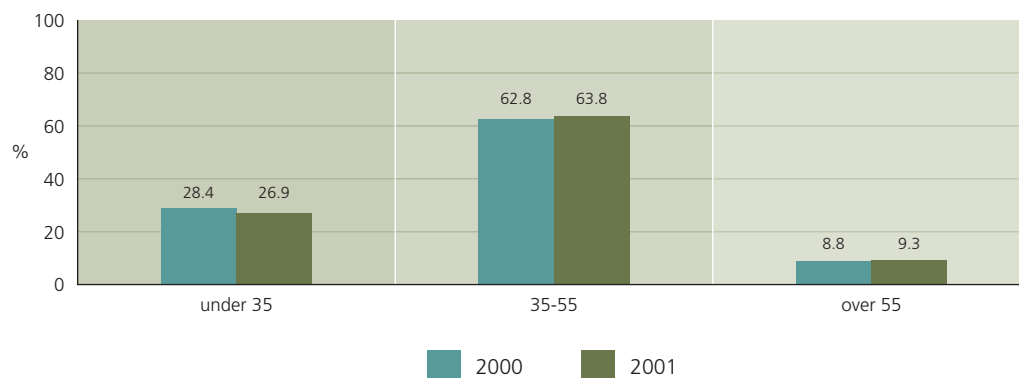
Average staffing at the NBP in 2001 amounted to the equivalent of 6,375 full-time posts, an increase of 56 posts compared to 2000. This increase in staffing stemmed from three of the Bank's sub-branch offices being given the status of regional branch offices<sup>64</sup>, and also from the extension of the responsibilities of the central bank as a result of the process of adjustment being undertaken to conform to the standards in force in the European Union.

The majority of staff were women, who accounted for 73.0% of staff in non-manual posts (as against 73.7% in 2000) and 24.9% in manual and related posts (compared to 25.3% in 2000).

The age structure of the Bank's employees (cf. Fig. 9) is marked by a substantial proportion of staff up to the age of 35 (26.9%), although since 1989 there has been a constant tendency for this to decline (the relevant percentages stood at 31.7% in 1997, 29.7% in 1999 and 28.4% in 2000). Employees over 55 years of age represented 9.3% of total staff (8.8% in 2000).

**Figure 9**

#### Age structure of NBP staff



Source: NBP

In 2001, the number of employees with higher education continued to rise, and at year end stood at 2,245, which represents 46.1% of those employed in non-manual posts (compared to 43.3% in 2000). The proportion of staff who had not completed their secondary education came to 4.3% (4.9% in 2000). A total of 379 members of staff were studying for university or college degrees.

### 10.1.2. Developing staff qualifications

#### 10.1.2.1. Basic forms of developing staff qualifications

In 2001, as in previous years, staff training continued to receive major attention at the NBP. The performance of many responsibilities, including those associated with adjustments to conform to ESCB standards, with banking supervision and with Poland's integration with the EU, require the acquisition of new skills.

The National Bank of Poland provided staff with the opportunity to participate in various forms of training, as follows:

- In the course of 2001, 206 staff, 135 of them from NBP Head Office, began post-graduate courses (in 2001, the corresponding figure was 120 staff, with 75 from Head Office). At the

<sup>64</sup> The ensuing rise in staffing is a temporary one, associated with the preparations being conducted in 2001 for the reorganisation of the NBP field office network. The Bank plans to reduce that network to 16 offices, located in voivodship capitals, as of January 31, 2003.



same time, 116 staff (68 from Head Office) completed their post-graduate studies, 37 of them doing so in the field of European integration. Next to European integration, the most popular area of this type of advanced professional education was banking (16 staff).

- At year end, 118 employees of NBP Head Office were studying for degrees, as were 261 employees from the Bank's regional branches. During the year, 11 members of staff began Ph.D. courses, while 2 began studying to qualify as legal advisers.
- In 2001, 226 staff from NBP Head Office participated in training abroad (compared to 267 in 2000), while 73 took part in study visits to other central banks (139 in 2000). The majority of these training events and study visits abroad were devoted to the issues involved in adjusting the National Bank to the requirements of the ESCB, and also to the question of the introduction of euro notes and coin.
- The development of staff qualifications was also carried out through a system of professional training via courses and seminars held at training centres and at the Bank's Head Office, including events featuring lecturers from abroad. In 2001, training of this sort was provided to 8,942 persons, in absolute terms<sup>65</sup> (compared to 7,334 in 2000). The subject matter of training courses was principally related to questions of European integration, preparing the NBP for operation within the ESCB, and the physical introduction of the euro, with other events also being devoted to issues associated with payment systems, financial markets, risk management, statistics, econometric modelling, *The New Basle Capital Accord*, the introduction of consolidated supervision, electronic banking, combatting money laundering, bank licensing policy, changes in Polish law and IT systems. A large number of training events addressed changes in regulations or constituted compulsory training courses, such as ones on the protection of personal data, the safeguarding of restricted information and amendments to tax regulations, while many were also devoted to particular areas of law, such as banking law, foreign exchange law and employment legislation.
- Language instruction was conducted in the form of standard group classes and advanced one-on-one conversation classes. Four- and five-year courses in English, German and French were attended by a total of 486 employees (compared to 320 in 2000), with additional, intensive forms of instruction also being provided to 159 employees (60 in 2000).

#### **10.1.2.2. Staff designated for liaison with the ESCB and international supervisory institutions**

The increased interest shown in 2001 in various forms of developing qualifications, both professional and linguistic, is attributable to the implementation of a decision taken by the NBP Management Board to establish at the Bank's Head Office a group of staff designated for direct liaison with the ESCB and international supervisory institutions. The principle applicable in this regard is that this group is to receive priority in the selection of participants for training events abroad and in specialist, advanced language instruction.

Due to the personnel changes that had taken place since this group was first set up (at year end 2000), a review of its composition was carried out at the end of 2001 in order to ensure that the training opportunities made available corresponded to the best possible extent with the needs that existed and the tasks the group would have to perform within the structures of the ESCB.

#### **10.1.2.3. Training under the aegis of the Phare 2000 programme**

The year 2001 also saw the inauguration of the twinning agreement signed with the Bank of France under the Phare 2000 programme. Performance of the tasks specified in the agreement for particular programme modules required the organisation of specialist study visits to the Bank of France or Bank of Italy, visits of foreign experts to Poland, and the organisation of specialist seminars involving experts from the above-mentioned banks (six such seminars were held from July to December).

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<sup>65</sup> Some members of staff took part in more than one training event.

### 10.1.3. Other personnel issues

- Work was begun in 2001 on the implementation of a Personnel and Salary IT system that is to handle issues of personnel, employee compensation, training and welfare. The functionality of the new system will ensure more efficient human resource management. The previous system, developed by NBP staff, had been in operation for 30 years.
- Work was also continued during the year on a project begun a year earlier, involving a system of NBP job descriptions and appraisals. This represents a component of the efforts being made to enhance the Bank's personnel policy. The project is designed to fulfil one of the requirements set for members of the European Union, namely, application of the principle "equal pay for equal work".
- A System of Access Control and Working Time Registration ("SKOCZ") was brought on stream at NBP Head Office, allowing the working time contributed by each member of staff to be recorded. This permits a move to a "flexitime" system, and enables more effective utilisation of staff working time. The system ensures rapid access to information on the working time of particular employees and facilitates reporting.

#### **MOST IMPORTANT NBP ACTIVITY IN 2001**

- Training activity was provided to staff in the areas of:
  - European integration,
  - adjusting the NBP to operation within the ESCB,
  - the physical introduction of the euro,
  - banking supervision,
  - payment systems.
- The SKOCZ IT system was brought into operation at NBP Head Office, allowing the introduction of "flexitime".

## 10.2. Premises and equipment

At December 31, 2001, the tangible fixed assets of the National Bank were valued at 735.53m zloty. The capital spending performed during the year in performance of the Bank's investment projects amounted to 157.14m zloty (compared to 147.06m zloty in 2000).

The capital expenditure undertaken in 2001 included investment in the following projects:

- the expansion and modernisation of NBP telecommunications and IT systems,
- the mechanisation of cash and vault operations,
- the upgrading and enhancement of security facilities safeguarding the premises and systems of the NBP,
- the construction and modernisation of NBP premises,
- the improvement of health and safety conditions for Bank staff, comprising:
  - the modernisation of fire protection facilities, ventilation and air-conditioning systems, water supply and sewerage systems, and central heating systems,
  - the modernisation of Bank buildings and premises, together with their surroundings.

The Bank was engaged in 206 capital construction projects during 2001, which involved total expenditure of 52.73m zloty. This figure represents a decrease of 14% compared to 2000.

These capital projects yielded the following results:

- selected Bank buildings and premises were modernised,
- further security facilities were installed at Bank premises as protection against robbery, burglary and fire, and designated zones and locations began to be adapted to conform to security requirements,
- the existing technical standard of Bank premises and their surroundings was further upgraded.

### 10.3. IT support to the banking system and NBP

Work related to the provision of IT services to the banking system and the NBP has already been presented in previous sections of the present Report, since all areas of NBP activity receive IT support. To summarise, work was continued in 2001 in connection with adapting IT systems to correspond to ESCB requirements. Within this, the Bank's analysts, designers and programmers developed many new software applications for the NBP and upgraded ones that were already in place.

- System modifications were performed with regard to:
  - statistics on the balance of payments and international investment position,
  - monetary statistics,
  - monetary policy instruments,
  - the issue of currency and vault operations,
  - support to the Bank's branch offices.
- Work was continued on constructing a new NBP Integrated Accounting System.
- Changes were made to adapt the SORBNET, SKARBNET and SEBOP systems to EU standards.
- Work was conducted with a view to bringing on line at the NBP an electronic banking facility for government sector customers, allowing them to manage the funds on their accounts efficiently without leaving their own offices.
- The Bank's web site, at [www.nbp.pl](http://www.nbp.pl), was upgraded in response to the mounting interest being shown in the site.
- Measures were taken under the auspices of the Phare 2000 programme to specify the necessary conditions for bringing the operational continuity of the NBP computer and data transmission system to a level similar to that obtaining at ESCB central banks.
- A Monitoring and Management Centre for the NBP IT system was brought into operation.

### 10.4. Safety and security

The year 2001 saw work continue to raise security standards at the NBP, which included the design of an NBP systems security policy and the development of the concepts and guidelines to underpin a comprehensive NBP security system. These measures went ahead on schedule, in line with the document *NBP Security policy* adopted by the Bank's Management Board in 2000, which specifies measures in the field of security that are being carried out or need to be carried out in the years 2000-2003.

#### 10.4.1. Protection of restricted information

Numerous measures were taken in 2001 in the area of protecting restricted information, in particular with the aim of adjusting the security systems in place at the NBP to conform to the Protection of Restricted Information Act of January 22, 1999<sup>66</sup>. These measures primarily concerned the following:

- industrial security, where detailed guidelines were developed for the principles of conduct and procedures applicable,
- the adaptation of NBP IT and telecommunications systems and networks for the processing of restricted information, where:
  - training was provided at the Office of State Security for NBP staff performing or due to perform the functions of IT and telecommunications systems administrators and inspectors,
  - work was continued on developing and introducing the documentation for further IT and telecommunications systems earmarked for the processing of data included in various categories of restricted information,

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<sup>66</sup> Published in *Dziennik Ustaw* no. 11/1999, item 95.

- the inauguration of a zone to house a new secretariat dealing with restricted information and the Archives of Classified and Confidential Documents,
- the installation of non-standard security systems at six Bank buildings.

#### 10.4.2. Protection of personal data

Work was continued to fulfil the provisions of the Personal Data Protection Act of August 29, 1997<sup>67</sup>, this including:

- the development and issue of another internal Bank regulation in this area<sup>68</sup>,
- the modernisation of further IT systems, thereby bringing them fully into line with the requirements of the Act,
- new sets of personal data were submitted for registration, on an ongoing basis, to the Office of the General Inspector of Personal Data Protection, as were changes in data sets already registered.

#### 10.4.3. Security of persons and property

In performance of the requirements of the Protection of Persons and Property Act of August 22, 1997<sup>69</sup>, the following measures were taken:

- technical security standards for the NBP were drawn up,
- the technical documentation was prepared for putting in place backup radio communications between Bank buildings and the police, and the assignment of the wavelengths necessary for this was obtained,
- measures were continued to upgrade the level of technical security at particular zones and premises within the bank buildings belonging to the NBP, and to adapt these to correspond to statutory requirements.

#### 10.4.4. Other responsibilities

In performance of a responsibility previously assigned, namely, "The establishment at the NBP of an operational centre for key certification for cryptographic systems used to protect the information administered by the Bank", a decentralised, hierarchical system was introduced in 2001 for the issue, revocation and distribution of certificates, known as the Public Key Infrastructure. This system provides a service to both internal and external users.

### 10.5. Internal audit

The internal audit activity conducted in 2001 comprised:

- The review of 20 subject areas specified in the *NBP Audit Plan* (compared to 16 in 2000). This involved the performance of a total of 88 audits (109 in 2000), at both organisational units of Head Office and at other offices of the NBP.
- Follow-up activity to monitor the performance of audit recommendations and conclusions. The findings of these audit reviews were that the operations of the National Bank were generally of a positive standard in most of the areas audited. No major deficiencies were noted. Nevertheless, it was recognised that there was still a need to strengthen internal control mechanisms and procedures at the offices and units of the Bank subject to review.

Aside from the audit activity being conducted, work was continued to move from a compliance-based framework to a risk-based audit function; in particular, this involved:

- The institution of collaboration with the Bank of Italy (under the twinning agreement in place). This collaboration is to yield an assessment of the NBP internal audit system,

<sup>67</sup> Published in *Dziennik Ustaw* no. 133/1997, item 883.

<sup>68</sup> Resolution no. 37/2001 of the NBP Management Board on the procedure for informing natural persons of the processing of their personal data by the NBP, May 11, 2001.

<sup>69</sup> Published in *Dziennik Ustaw* no. 114/1997, item 740.

performed by experts from the Bank of Italy, and also proposals by these experts for changes in this area, including organisational and methodological improvements, in line with the standards in force in the European Union.

- The conclusion of an agreement with the Federal Reserve Bank of Chicago. One of the provisions of this is that the NBP is to receive support in the introduction of a modern, risk-based internal audit function.

## 10.6. Organisational changes

### 10.6.1. Reorganisation of the NBP field office network

Work was carried out at the NBP in 2001 in order to ensure the efficient restructuring of the Bank's field office network in the years 2002 and 2003. The objective of the restructuring project is to reduce the Bank's field network to 16 offices, one in each voivodship.

It was resolved that, as of January 1, 2002, the status of regional branches would be assigned to three existing sub-branch offices, namely, Kielce, Opole and Zielona Gora.

The National Bank has been authorised by statute to transfer its sub-branch offices and field teams to Bank Gospodarstwa Krajowego (BGK) by January 31, 2003, free of consideration<sup>70</sup>. In performance of this authorisation, the decision was taken to transfer to BGK the Bank's sub-branch office in Pila by March 31, 2002.

#### **MOST IMPORTANT NBP ACTIVITY IN 2001**

- Work was continued to adapt the Bank's IT systems to correspond to ESCB requirements.
- Activity was conducted to move from a compliance-based audit framework to a risk-based one.
- A decentralised, hierarchical system was introduced for the issue, revocation and distribution of key certificates, known as the Public Key Infrastructure.
- It was resolved that, as of January 1, 2002, the Bank's sub-branch offices in Kielce, Opole and Zielona Gora would be given the status of regional branches.

<sup>70</sup> This authorisation is contained in the Act Amending the Banking Act and Other Legislation of August 23, 2001.

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NBP

BALANCE SHEET  
AND PROFIT & LOSS ACCOUNT

## 11.1. Balance sheet of the NBP at December 31, 2001

ASSETS	Balance, in zloty, at	
	January 1, 2001	December 31, 2001
<b>TOTAL ASSETS</b>	<b>143,079,930,728.12</b>	<b>135,992,180,208.00</b>
<b>I. Primary assets</b>	<b>140,990,794,671.90</b>	<b>133,812,697,682.06</b>
1. Gold and gold receivables conforming to international standards of purity	3,734,977,170.59	3,646,282,190.73
2. Foreign currency balances and claims on foreign institutions denominated in foreign currency	116,422,251,095.12	107,319,595,382.9
3. Claims on domestic institutions denominated in foreign currency	376,247,546.47	244,858,097.22
4. Lending to domestic banks denominated in Polish currency	6,503,134,310.96	5,581,720,095.42
5. Domestic debt securities	13,954,184,548.76	17,020,241,915.79
<b>II. Other assets</b>	<b>2,089,136,056.22</b>	<b>2,179,482,525.94</b>
1. Tangible fixed assets & assets in course of construction	699,753,384.59	736,627,623.70
2. Intangible assets	14,826,294.62	35,020,312.12
3. Financial fixed assets	245,358,965.24	503,825,282.84
4. Accrued income & prepaid expense	3,457,428.19	30,134,279.40
5. Currency revaluation accounts	268,982,998.51	136,912,108.79
6. Miscellaneous claims & inventories	856,756,985.07	736,962,919.09



LIABILITIES & CAPITAL	Balance, in zloty, at	
	January 1, 2001	December 31, 2001
<b>TOTAL LIABILITIES &amp; CAPITAL</b>	<b>143,079,930,728.12</b>	<b>135,992,180,208.00</b>
I. Notes & coin in circulation	38,564,111,807.81	43,130,281,319.78
II. NBP debt securities issued & outstanding	33,738,053,413.62	24,167,138,533.14
III. Liabilities denominated in Polish currency excluding those given under items I and II	22,940,307,055.35	31,381,941,358.53
1. Liabilities to domestic banks	11,039,596,948.43	22,330,441,394.10
2. Liabilities to domestic government sector	4,257,084,729.43	2,870,739,453.34
3. Liabilities to other domestic institutions	1,193,805,211.22	1,021,785,786.03
4. Liabilities to foreign institutions	6,449,820,166.27	5,158,974,725.06
IV. Liabilities denominated in foreign currency, excluding those given under item II	6,437,340,509.58	6,139,547,806.31
1. Liabilities to domestic institutions	4,378,047,019.76	3,806,591,433.03
2. Liabilities to foreign institutions	2,059,293,489.82	2,332,956,373.28
V. Other liabilities	6,704,246,714.68	5,793,853,532.89
1. Deferred income & accrued expense	4,351,479,086.66	4,064,757,218.93
2. Special funds	11,756,367.87	14,212,397.46
3. Miscellaneous liabilities	64,273,434.31	87,389,442.74
4. Revaluation accounts	2,276,737,825.84	1,627,494,473.76
VI. Reserves	28,089,677,584.73	20,988,901,599.72
1. Currency revaluation reserve	28,089,677,584.73	20,988,901,599.72
2. Specific provisions	0.00	0.00
VII. Core capital	1,594,169,971.36	1,694,410,444.78
1. Registered equity	400,000,000.00	400,000,000.00
2. Reserve capital	1,194,169,971.36	1,294,410,444.78
VIII. Earnings	5,012,023,670.99	2,696,105,612.85

## 11.2. Profit &amp; loss account at December 31, 2001

	2000	2001
I. Interest, discount & premium income	10,092,038,971.05	7,142,220,659.71
II. Interest, discount & premium expense	6,060,363,123.29	5,519,740,491.81
III. Net interest, discount & premium income / expense (I-II)	4,031,675,847.76	1,622,480,167.90
IV. Net income / expense on financial operations	-966,902,866.06	-482,535,942.51
V. Movements in valuation allowances against financial assets	402,983,999.55	1,371,982,626.90
VI. FX gains / losses, net	2,483,236,211.91	1,176,417,116.91
VII. Fee & commission income	16,252,257.15	18,171,774.46
VIII. Fee & commission expense	18,169,280.97	16,147,049.43
IX. Net fee & commission income / expense (VII-VIII)	-1,917,023.82	2,024,725.03
X. Income from financial fixed assets	14,761,935.32	7,925,040.78
<b>A. Net income/expense on banking activity (III+IV+V+VI+IX+X)</b>	<b>5,963,838,104.66</b>	<b>3,698,293,735.01</b>
XI. Other operating income	75,613,102.55	34,472,034.70
XII. Other operating expense	2,795,540.15	3,004,086.49
XIII. Depreciation charges	90,455,203.37	94,901,374.84
XIV. General expense	934,176,792.70	938,629,767.52
1. Personnel expense	359,411,975.36	405,774,625.88
2. Administrative expense	355,416,607.03	393,341,233.24
3. Purchases of domestic notes & coin	219,348,210.31	139,513,908.40
XV. Movements in provisions	0.00	0.00
1. Income from release of provisions	0.00	0.00
2. Provisioning expense	0.00	0.00
<b>B. NET INCOME/EXPENSE ON ORDINARY OPERATIONS (A+XI-XII-XIII-XIV+XV)</b>	<b>5,012,023,670.99</b>	<b>2,696,230,540.86</b>
XVI. Extraordinary gains	0.00	0.00
XVII. Extraordinary losses	0.00	124,928.01
<b>C. EXTRAORDINARY GAINS / LOSSES, NET (XVI-XVII)</b>	<b>0.00</b>	<b>-124,928.01</b>
<b>D. EARNINGS (B+C) (PROFIT)</b>	<b>5,012,023,670.99</b>	<b>2,696,105,612.85</b>

## 11.3. Notes to the accounts

### 11.3.1. Movements in assets and liabilities

The total assets of the National Bank of Poland, which at the end of 2000 had stood at 143,079,931 thousand zloty, subsequently declined 7,087,571 thousand zloty (5.0%) over the year 2001, to stand at 135,992,180 thousand zloty at year end.

**Table 13**

#### Movements in assets and liabilities, 1999-2001

	Balance at			Change, 2000/2001	31/XII/2000 =100
	31/XII/1999	31/XII/2000	31/XII/2001		
	thousand zloty				
<b>ASSETS</b>					
I. Primary assets of which:	142,807,101	140,990,795	133,812,698	-7,178,097	94.9
1. Gold and gold receivables conforming to international standards of purity	3,979,992	3,734,977	3,646,282	-88,695	97.6
2. Foreign currency balances and claims on foreign institutions denominated in foreign currency	116,064,838	116,422,251	107,319,596	-9,102,655	92.2
3. Claims on domestic institutions denominated in foreign currency	490,200	376,248	244,858	-131,390	65.1
4. Lending to domestic banks denominated in Polish currency	6,600,645	6,503,134	5,581,720	-921,414	85.8
5. Domestic debt securities	15,671,426	13,954,185	17,020,242	3,066,057	122.0
II. Other assets	3,902,170	2,089,136	2,179,482	90,346	104.3
<b>TOTAL ASSETS</b>	<b>146,709,271</b>	<b>143,079,931</b>	<b>135,992,180</b>	<b>-7,087,751</b>	<b>95.0</b>
<b>LIABILITIES &amp; CAPITAL</b>					
I. Notes & coin in circulation	43,375,240	38,564,112	43,130,281	4,566,169	111.8
II. NBP debt securities issued and outstanding	24,694,016	33,738,053	24,167,139	-9,570,914	71.6
III. Liabilities denominated in Polish currency	22,607,104	22,940,307	31,381,941	8,441,634	136.8
IV. Liabilities denominated in foreign currency	8,510,943	6,437,340	6,139,548	-297,792	95.4
V. Other liabilities	9,520,593	6,704,247	5,793,853	-910,394	86.4
VI. Capital & reserves	35,703,836	29,683,848	22,683,312	-7,000,536	76.4
Earnings	2,297,539	5,012,024	2,696,106	-2,315,918	53.8

The movements seen in the balance sheet at year end 2001 relative to December 31, 2000, were chiefly attributable to the following:

#### in terms of assets:

- a decrease in foreign currency balances and claims on foreign institutions denominated in foreign currency of 9,102,655 thousand zloty, or 7.8%, principally due to the appreciation of the zloty,

- a decrease in lending to domestic banks denominated in Polish currency of 921,414 thousand zloty, or 14.2%, which was associated with the repayment of lombard loans,
- an increase in domestic debt securities of 3,066,057 thousand zloty, or 22.0%, which was traceable to the purchase of dollar-denominated Treasury bonds issued to fund the repayment of Polish sovereign debt to Brazil;

**in terms of liabilities:**

- a decrease in NBP debt securities issued and outstanding of 9,570,914 thousand zloty, or 28.4%, resulting from a reduction in the scale of open market operations in the final days of December 2001,
- a decrease in capital and reserves of 7,000,536 thousand zloty, or 25.6%, caused by a decline in the currency revaluation reserve,
- a decrease in earnings of 2,315,918 thousand zloty, or 46.2%,
- an increase in notes and coin in circulation of 4,566,169 thousand zloty, or 11.8%, with the reasons for this including the diminished appeal of holding funds on bank accounts (due to falling interest rates) and the sale of legacy currencies of the EMU countries,
- an increase in liabilities denominated in Polish currency of 8,441,634 thousand zloty, or 36.8%, mainly due to a rise in the current account balances held by domestic banks.

### 11.3.2. Structure of assets and liabilities

The prime component of assets are foreign currency balances and claims on foreign institutions denominated in foreign currency, which in 2001 accounted for almost 79% of the Bank's assets. This represented a decrease of 2.5 points compared to 2000.

By contrast, the share of domestic debt securities in total assets rose 2.8 points relative to 2000.

Movements in the structure of the Bank's assets in the years 1999-2001 are depicted in Figure 10.

**Figure 10**

#### Movements in structure of assets, 1999-2001



Source: NBP

As regards the Bank's liabilities and capital, the largest item were notes and coin in circulation, accounting for 31.7% (an increase of 4.7 points compared to December 31, 2000).

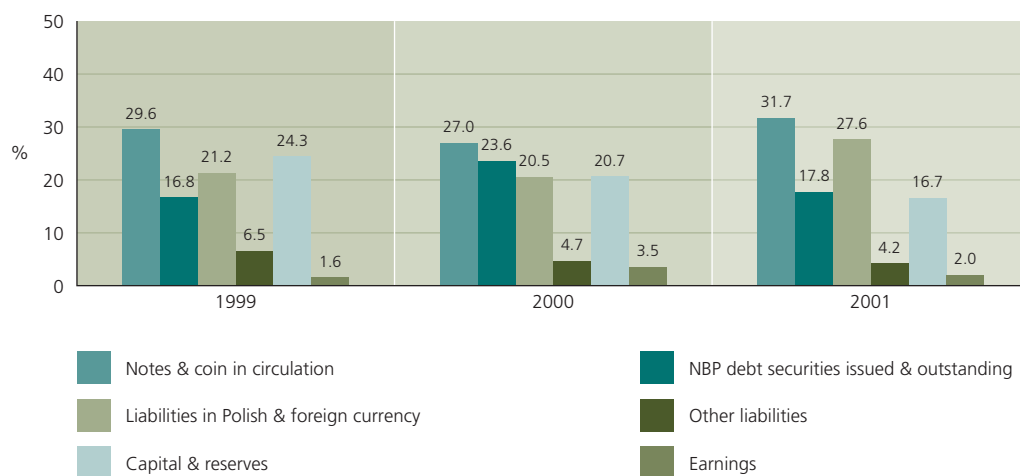
The second biggest item within liabilities and capital were liabilities denominated in Polish currency (up 7.1 points in relative terms compared to 2000).

On the other hand, the relative share represented by NBP debt securities issued and outstanding decreased, dropping 5.8 points, while that of reserves and capital came down 4.0 points, chiefly due to a decline in the currency revaluation reserve.

Movements in the structure of the Bank's liabilities and capital in the years 1999-2001 are portrayed in Figure 11.

**Figure 11**

**Movements in structure of liabilities & capital, 1999-2001**



Source: NBP

## 11.3.3. Movements in profit and loss account

In 2001, the operations of the National Bank of Poland yielded a profit of 2,696,106 thousand zloty. This was 387,506 thousand zloty more than the profit originally projected for the year. However, in comparison to 2000, earnings were down 2,315,918 thousand zloty. In comparing the level of earnings generated in the years 2000 and 2001, account has to be taken of the consequences of the move to accrual basis accounting in 2000, which resulted in a one-off increase in the profit for that year due to the recognition of income and expense that had been booked on a cash basis up to the end of 1999; this effect was not repeated in 2001.

Table 14

## Movements in profit &amp; loss, 2001

	Year		Change	Structure		
	2000	2001		2000	2001	
	thousand zloty			%		
<b>Earnings</b>	<b>5,012,024</b>	<b>2,696,106</b>	<b>-2,315,918</b>	<b>-46.2</b>	<b>100.0</b>	<b>100.0</b>
<b>1. Net income / expense on banking activity</b>	<b>5,963,838</b>	<b>3,698,294</b>	<b>-2,265,544</b>	<b>-38.0</b>	<b>119.0</b>	<b>137.2</b>
of which:						
– net interest, discount & premium income / expense	4,031,676	1,622,480	-2,409,196	-59.8	80.4	60.2
– net income / expense on financial operations	-966,903	-482,536	484,367	-50.1	-19.3	-17.9
– net movements in valuation allowances against financial assets	402,984	1,371,983	968,999	240.5	8.0	50.9
– net FX gains / losses	2,483,236	1,176,417	-1,306,819	-52.6	49.5	43.6
– net fee & commission income / expense	-1,917	2,025	3,942	-	-0.0	0.1
– income from financial fixed assets	14,762	7,925	-6,837	-46.3	0.3	0.3
<b>2. Net income / expense on other operating activity</b>	<b>-951,814</b>	<b>-1,002,063</b>	<b>-50,249</b>	<b>-5.3</b>	<b>-19.0</b>	<b>-37.2</b>
of which:						
– other operating income / expense, net	72,818	31,468	-41,350	-56.8	1.5	1.2
– depreciation charges	-90,455	-94,901	4,446	4.9	-1.8	-3.5
– general expense	-934,177	-938,630	-4,453	0.5	-18.6	-34.8
<b>3. Net income / expense on extraordinary operations</b>	<b>0</b>	<b>-125</b>	<b>-125</b>	<b>-</b>	<b>-</b>	<b>-0.0</b>

The lower earnings recorded in 2001 relative to the previous reporting period can be ascribed to a decrease in net income on banking activity, which was down 2,265,544 thousand zloty.

The movement in net income on banking activity can primarily be traced to the following:

- a decrease of 2,409,196 thousand zloty in net interest, discount and premium income, the end result of a reduction in total interest, discount and premium income of 2,949,818 thousand zloty (mainly involving lower income on securities), combined with a decline of 540,622 thousand zloty in the corresponding expense item (this included lower interest expense payable on NBP bonds),
- a decrease of 1,306,819 thousand zloty in net FX gains/losses, which was associated with less income from the release of the Bank's currency revaluation reserve,

- an increase of 968,999 thousand zloty in net income arising on movements in valuation allowances against financial assets, which stemmed from greater sales of Treasury conversion bonds, with charges to allowances having previously been made against those bonds.

### 11.3.4. Detailed figures on financial performance

#### 11.3.4.1. Net income/expense on banking activity

##### 11.3.4.1.1. Net interest, discount and premium income/expense

**Table 15**

#### Net interest, discount & premium income / expense

	Year		Change		Structure	
	2000	2001			2000	2001
	thousand zloty			%		
<b>Net interest, discount &amp; premium income / expense</b>	<b>4,031,676</b>	<b>1,622,480</b>	<b>-2,409,196</b>	<b>-59.8</b>		
Interest, discount & premium income	10,092,039	7,142,221	-2,949,818	-29.2	100.0	100.0
1. Income:	2,493,951	2,071,869	-422,082	-16.9	24.7	29.0
a) interest receivable on funds held on bank accounts	1,874,700	1,464,310	-410,390	-21.9	18.6	20.5
b) interest receivable on loans and advances	600,562	588,273	-12,289	-2.0	6.0	8.2
c) other income	13,056	15,133	2,077	15.9	0.1	0.2
d) income receivable on past due claims	5,632	4,152	-1,480	-26.3	0.1	0.1
2. Securities income	7,598,088	5,070,352	-2,527,736	-33.3	75.3	71.0
Interest, discount & premium income	6,060,363	5,519,740	-540,623	-8.9	100.0	100.0
1. Interest expense:	822,809	1,488,447	665,638	80.9	13.6	27.0
a) interest payable on funds held on bank accounts	806,770	1,466,826	660,056	81.8	13.3	26.6
b) interest payable on loans and advances	958	338	-620	-	0.0	0.0
c) other expense	15,081	21,283	6,202	41.1	0.2	0.4
2. Discount and interest expense on NBP securities	5,237,554	4,031,293	-1,206,260	-23.0	86.4	73.0

11.3.4.1.2. *Net income/expense on financial operations*

The net expense generated by financial operations in 2001, compared with that obtained in 2000, is presented in Table 16.

**Table 16****Net income/expense on financial operations**

	Year		Change	
	2000	2001		
	thousand zloty		%	
<b>Net income / expense on financial operations</b>	<b>-966,903</b>	<b>-482,536</b>	<b>484,367</b>	<b>-50.1</b>
Gains on securities trading	0	571,130	571,130	-
of which:				
– foreign securities	0	568,873	568,873	-
– domestic securities	0	2,257	2,257	-
Losses on securities trading	966,903	1,053,666	86,763	9.0
of which:				
– foreign securities	622,897	392,603	-230,294	-37.0
– domestic securities	344,005	661,063	317,058	92.2

The net expense incurred on financial operations in 2001 showed an improvement of 484,367 thousand zloty in relation to 2000, which was mainly connected with gains arising on the difference between the selling price of securities and their carrying value.

11.3.4.1.3. *Movements in valuation allowances against financial assets*

The net income derived from movements in valuation allowances in 2001, compared with that recorded in 2000, is set out in Table 17.

**Table 17****Movements in valuation allowances against financial assets**

	Year		Change	
	2000	2001		
	thousand zloty		%	
<b>Movements in valuation allowances against financial assets</b>	<b>402,984</b>	<b>1,371,983</b>	<b>968,999</b>	<b>240.5</b>
– income on release of valuation allowances	403,005	1,372,006	969,002	240.4
– expense of charges to valuation allowances	21	24	3	15.3



In 2001, the release of valuation allowances held against financial assets was primarily the result of the following operations:

- the outright sale of Treasury conversion bonds, which led to the release of an allowance of 1,366,879 thousand zloty,
- the settlement of foreign currency loans to the Warsaw Financial Centre, which led to the release of an allowance of 4,868 thousand zloty.

#### 11.3.4.1.4. Net FX gains/losses

The net FX gains achieved in 2001 are shown in Table 18, along with the corresponding figures for 2000.

**Table 18**

#### Net FX gains / losses

	Year		Change		Structure	
	2000	2001			2000	2001
	thousand zloty			%		
<b>Net FX gains / losses</b>	<b>2,483,236</b>	<b>1,176,417</b>	<b>-1,306,819</b>	<b>-52.6</b>		
<b>Gains</b>	<b>2,514,839</b>	<b>1,194,924</b>	<b>-1,319,916</b>	<b>-52.5</b>	<b>100.0</b>	<b>100.0</b>
of which:						
– gains on exchange operations	68,122	51,128	-16,995	-24.9	2.7	4.3
– release of currency revaluation reserve	1,519,808	577,580	-942,228	-62.0	60.4	48.3
– gains on revaluation of assets & liabilities denominated in foreign currencies	926,909	566,216	-360,693	-38.9	36.9	47.4
<b>Losses</b>	<b>31,603</b>	<b>18,507</b>	<b>-13,096</b>	<b>-41.4</b>	<b>100.0</b>	<b>100.0</b>
of which:						
– losses on exchange operations	31,434	10,102	-21,333	-67.9	99.5	54.6
– losses on revaluation of assets & liabilities denominated in foreign currencies	169	8,405	8,236	4,886.1	0.5	45.4

The level of net FX gains obtained in 2001 was determined by the following factors:

- the income recognised on the release of the currency revaluation reserve, which was 942,228 thousand zloty less than in 2000. In 2001, income was generated from this source as a result of the sale of foreign currency to the Ministry of Finance for the servicing of Poland's sovereign external debt;
- gains on the revaluation of assets and liabilities denominated in foreign currency, which were 360,693 thousand zloty less than the year before due to the weakening of the US dollar, and also due to the redemption of principal and interest on dollar-denominated bonds (issued in 1991) and the partial repayment of a claim on Bank Handlowy w Warszawie SA arising from a foreign currency placement.

## 11.3.4.1.5. Net fee &amp; commission income/expense

Table 19

## Net fee &amp; commission income / expense

	Year		Change	Structure		
	2000	2001		2000	2001	
	thousand zloty			%		
<b>Net fee &amp; commission income / expense</b>	<b>-1,917</b>	<b>2,025</b>	<b>3,942</b>	<b>-</b>		
<b>Income</b>	<b>16,252</b>	<b>18,172</b>	<b>1,920</b>	<b>11.8</b>	<b>100.0</b>	<b>100.0</b>
of which, receivable from:						
– domestic banks	8,593	10,498	1,905	22.2	52.9	57.8
– foreign banks	0	92	92	-	-	0.5
– government sector	4,078	5,313	1,235	30.3	25.1	29.2
– persons	1,590	0	-1,590	-100.0	9.8	-
– other parties	1,991	2,268	278	13.9	12.2	12.5
<b>Expense</b>	<b>18,169</b>	<b>16,147</b>	<b>-2,022</b>	<b>-11.1</b>	<b>100.0</b>	<b>100.0</b>
of which, payable to:						
– domestic banks	16,136	14,162	-1,974	-12.2	88.8	87.7
– foreign banks	2,024	1,985	-39	-1.9	11.1	12.3
– other parties	9	0	-9	-100.0	0.1	-

Fee and commission income is earned by the National Bank on the provision of banking services to the banking sector and part of the general government sector (government special-purpose funds). Fee and commission expense is incurred principally as a result of banking operations performed by the commercial banks under alternative cash services to government institutions in localities where the NBP does not have its own offices.

11.3.4.1.6. *Income from financial fixed assets*

Income obtained on financial fixed assets in 2001, compared to that earned in 2000, is presented in Table 20.

**Table 20****Income from financial fixed assets**

	Year		Change		Structure	
	2000	2001			2000	2001
	thousand zloty			%		
<b>Income from financial fixed assets</b>	<b>14,762</b>	<b>7,925</b>	<b>-6,837</b>	<b>-46.3</b>	<b>100.0</b>	<b>100.0</b>
of which:						
– shares sold	6,189	0	-6,189	-100.0	41.9	-
– dividends received	8,572	7,925	-647	-7.6	58.1	100.0
of which, received from:						
– KUKE SA [the Export Credit Insurance Corporation], Warsaw	99	241	142	144.4	0.7	3.0
– KIR SA [the National Clearing House], Warsaw	56	188	131	233.3	0.4	2.4
– BPT TELBANK SA, Warsaw	1,074	1,100	26	2.4	7.3	13.9
– BIS	7,343	6,396	-947	-12.9	49.7	80.7

11.3.4.2. *Other operating income/expense, net*

The net income/expense arising on other operating activity in 2001 is shown in Table 21, along with the relevant figures for 2000.

In 2001, the Bank's general expense decreased in real terms, although increasing slightly in nominal terms (up 0.5%). This was chiefly due to a reduction in the expense of purchasing notes and coin.

**Personnel expense** stood at 405,775 thousand zloty, having thereby risen 12.9% compared to the previous reporting period, which is attributable to the following:

- 6.9% of this increase constituted the carryover effect in 2001 of the decision to modify staff salaries that took effect on July 1, 2000,
- the remaining part of the increase was the result of a decision taken by the NBP Management Board to raise the salaries of Bank staff as of January 1, 2001; this raise did not apply to senior management (the members of the NBP Management Board, the directors and deputy directors of Head Office departments, of other offices and of GINB, and also advisers to the President). The salaries of senior management were frozen in 2001 at the same level as 2000.

**Administrative expense** amounted to 393,341 thousand zloty. The level of administrative expense was related to the performance of new responsibilities laid down in the *NBP Workplan*, which involved, among other things, the Bank's active participation in the exchange of the national currencies of the EMU countries into euro, and the expansion of the Bank's activity in the fields of information, promotion and community education.

The category of "administrative expense" includes both typically administrative items connected with the day-to-day functioning of the Bank (e.g., the expense of energy, telecommunications, office supplies, health and safety, or official travel), and also expenditure designed to enhance the quality of the services provided to the general government sector (spending on

training, and on the installation and maintenance of an electronic banking system), and to adjust the operations of the National Bank to conform to the standards of the European Central Bank and European System of Central Banks (joint financing of the Phare 2000 programme). The rising price of goods and services (particularly officially controlled prices, such as electricity charges) contributed to the increase in administrative expense.

**Table 21****Net income / expense on other operating activity**

	Year		Change		Structure	
	2000	2001			2000	2001
	thousand zloty			%		
<b>Net income / expense on other operating activity</b>	<b>-951,814</b>	<b>-1,002,063</b>	<b>-50,249</b>	<b>-5.3</b>		
I. Other operating income	75,613	34,472	-41,141	-54.4	100.0	100.0
II. Other operating expense	2,796	3,004	209	7.5	100.0	100.0
III. Depreciation charges	90,455	94,901	4,446	4.9	100.0	100.0
IV. General expense	934,177	938,630	4,453	0.5	100.0	100.0
1. Personnel expense	359,412	405,775	46,363	12.9	38.5	43.2
of which:						
– salaries	301,650	339,741	38,091	12.6	32.3	36.2
– associated payroll expense	57,762	66,034	8,272	14.3	6.2	7.0
2. Administrative expense	355,417	393,341	37,925	10.7	38.0	41.9
of which:						
– materials and energy	30,297	31,654	1,357	4.5	3.2	3.4
– employee benefits <sup>1</sup>	15,300	36,453	21,153	138.3	1.6	3.9
– official travel	8,276	9,020	744	9.0	0.9	1.0
– external services	113,672	134,395	20,723	18.2	12.2	14.3
– taxes & official charges	4,176	5,226	1,050	25.1	0.4	0.6
– other banking expense	174,401	167,191	-7,211	-4.1	18.7	17.8
– other administrative expense	5,371	5,001	-369	-6.9	0.6	0.5
– charges to special-purpose funds	3,923	4,401	478	12.2	0.4	0.5
3. Purchases of domestic notes & coin	219,348	139,514	-79,834	-36.4	23.5	14.9

<sup>1</sup> As of 2001, this item includes the expense of the Staff Pension Programme (in 2001 – 23,303 thousand zloty).

The **expense of purchasing notes and coin** came to 139,514 thousand zloty, which represents a decline of 79,834 thousand zloty on the year 2000. This expense comprised:

- purchases of banknotes from the Polish Securities Printing Works (at a cost of 75,222 thousand zloty),
- purchases of coin struck by the State Mint (at a cost of 64,292 thousand zloty).

**11.3.4.3. Extraordinary gains/losses, net**

In 2001, the NBP recorded extraordinary losses of 125 thousand zloty, of which 1 thousand zloty represented losses at the Bydgoszcz regional branch office due to acts of fate, while 124 thousand zloty represented losses associated with the costs incurred in organising a conference entitled "Economic policy directions in the OECD countries: analysing the experiences". As a result of the September 11 terrorist attacks, this conference did not take place in 2001.

**11.3.4.4. Profit and distributions**

In 2001, the profit of the National Bank of Poland totalled 2,696,106 thousand zloty, a decrease of 2,315,918 thousand zloty compared to 2000. Once the Bank's annual accounts for the year 2001 are approved by the Council of Ministers, this profit will be distributed via appropriations to the Bank's capital funds (to reserve capital and the staff bonus fund), and a transfer of earnings to the Treasury. The profit figure of 2,696,106 thousand zloty will thus be divided as follows: appropriations to capital of 113,922 thousand zloty, and a transfer of earnings to the Treasury of 2,582,184 thousand zloty.

2001  
Annual Report

NBP

BALANCE OF PAYMENTS  
OF THE REPUBLIC OF POLAND

## 12.1. Summary

An analysis of the 2001 balance of payments figures on a cash basis allows several general conclusions to be drawn, as follows:

1. A continuous process was observable of moving towards the restoration of balance of payments equilibrium, as illustrated by the positive changes seen in the ratio of the current balance to GDP, both on a quarterly and on an annual basis. The figures for the fourth quarter show the current account deficit standing at 3.6% of GDP, whereas in the first quarter this ratio had been 5.5%. As regards the annual ratio, this came to 4.1%, as against 6.3% in 2000.
2. The current account deficit narrowed US\$ 2,786m compared to the previous year. This was the result of the following:
  - a) a situation in terms of trade in goods that favoured a reduction in the current deficit; despite a downward trend, the high growth of receipts on exports of goods was sustained, at 7.1% in dollar terms, while import growth was low, at 1.3%;
  - b) the negative balance on services was reduced by US\$ 710m, or 42.1%;
  - c) the surplus on unclassified current transactions came to a high US\$ 4,395m.
3. The improvement of the balance of trade in goods and services is related to both cyclical and structural factors. As regards the cyclical factor, the weakening of domestic demand on the one hand acted to reduce imports, while on the other encouraging companies to increase their exports. The expansion of exports was also significantly boosted by a substantial growth in exports of highly-processed goods, such as vehicle parts and accessories (up 37.9%), TV sets (up 42.9%) and vehicle engines (up 18.0%). This testifies to the growing competitiveness of Polish goods on foreign markets.
4. The positive pattern of incoming foreign investment was maintained. Long-term investment (direct investment and long-term credits) accounted for 79.3% of all inward investment, which constituted a stabilising factor in the financing of the current deficit.
5. The level of foreign direct investment remained high and steady, while its structure remained favourable. The dominant form was equity investment (83.3%), i.e., purchases of shares in Polish direct investment enterprises. It can be inferred from this that direct investors see their involvement in the Polish economy as a long-term process. The inflow of direct investment funded an impressive 97.6% of the current deficit.
6. An analysis of safety ratios such the current account deficit to GDP, reserve assets to months of imports, or the financing of the current balance by long-term direct investment, and also the index of macroeconomic susceptibility to crisis, all indicate that the threat of Poland falling victim to a currency crisis receded in 2001.

## 12.2. Current account

### 12.2.1. Improvement in current balance

The year 2001 brought a considerable improvement in the balance on current transactions. The current account deficit decreased US\$ 2,786m compared to 2000 (down 28.0%), to stand at US\$ 7,166m.



Table 22

## Current account components (US\$ million)

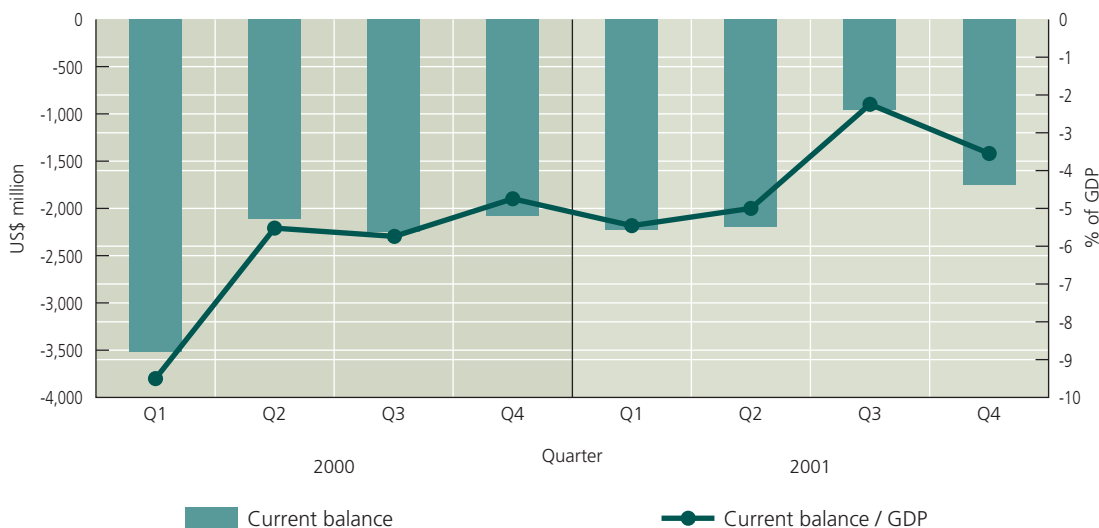
	2000	2001	2001			
			Q1	Q2	Q3	Q4
<b>Current balance</b>	<b>-9,952</b>	<b>-7,166</b>	<b>-2,230</b>	<b>-2,210</b>	<b>-973</b>	<b>-1,753</b>
Trade balance, goods	-13,168	-11,675	-3,147	-2,776	-2,735	-3,017
Services, net	-1,686	-976	-350	-197	-186	-243
Income, net	-759	-896	165	-635	-111	-315
Current transfers, net	1,681	1,986	372	424	693	497
Unclassified current transactions, net	3,980	4,395	730	974	1,366	1,325

The healthy changes that took place in the current balance primarily involved an increase of 7.1% in exports of goods and 13.8% in exports of services, while payments for services imported declined 4.4%, and payments for imports of goods edged up just 1.3%. The balance on current transfers also improved. The key factor in the surplus recorded on transfers were private transfers, mainly to domestic individuals. As is traditional, a large surplus was shown on unclassified current transactions; this rose 10.4% compared to 2000.

The positive developments as regards the current balance outlined above impacted the level of the current account deficit as a proportion of GDP, causing this ratio to improve markedly (cf. Fig. 12).

Figure 12

## Current balance as proportion of GDP (by quarter, net)

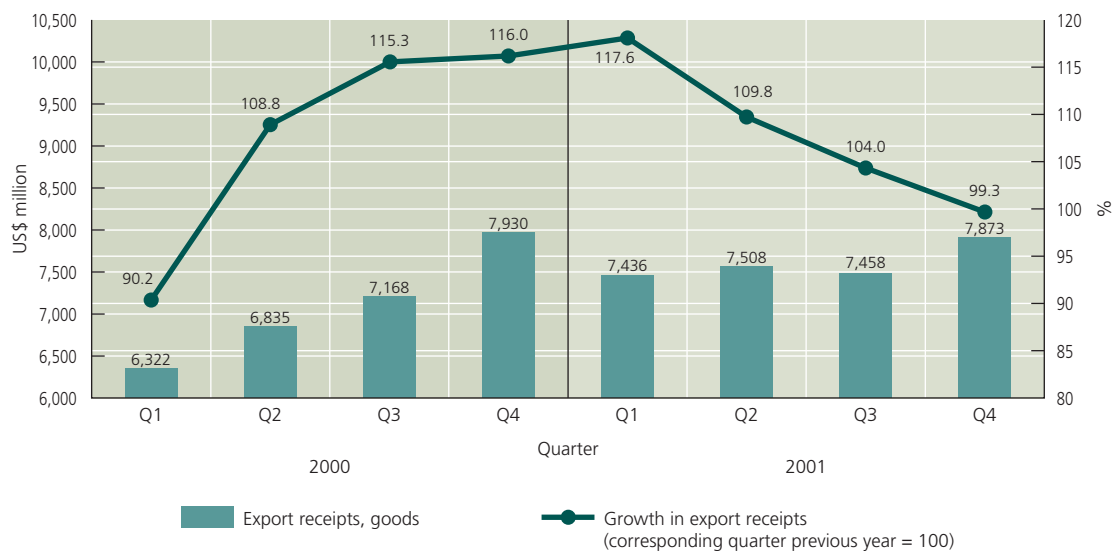


### 12.2.2. Increase in exports of goods

In 2001, export receipts totalled US\$ 30,275m, or € 33,823m. Expressed in dollars, these receipts were 7.1% greater than in 2000, while in euro terms they were up 9.9%.

**Figure 13**

#### Export growth

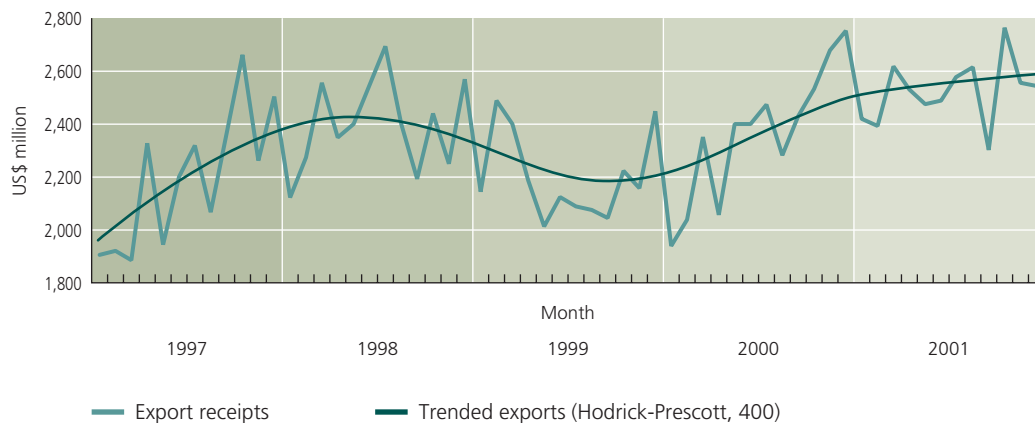


In analysing export receipts and growth in the particular quarters of 2000 and 2001 (Fig. 13), it can clearly be seen that exports in 2001 were higher than in 2000. It was only in the fourth quarter of 2001 that exports were slightly lower than in the corresponding period of 2000. However, from the second quarter of 2002 onwards, export growth began to slow. In part, this is attributable to the increasingly high basis for comparison represented by exports in 2000. In addition, the slackening of export growth was also linked to contracting external demand.

The diminishing pace of export growth is also confirmed by an analysis of trended exports, using the Hodrick-Prescott filter.

**Figure 14**

#### Trended exports



Foreign trade statistics compiled on the basis of customs data<sup>71</sup> show that the increased value of goods exported in 2001 primarily involved the following product groups:

- ships, boats and floating structures (growth of US\$ 858m, or 83.2%),
- vehicle parts and accessories (growth of US\$ 284m, or 37.9%),
- vehicle engines and parts thereof (growth of US\$ 267m, or 21.2%),
- furniture (growth of US\$ 297m, or 14.0%),
- TV sets (growth of US\$ 272m, or 42.9%).

As regards their geographical pattern, the value and growth of exports in 2001 was mainly determined by the level of deliveries to the countries listed below, which accounted for the largest share of Poland's exports:

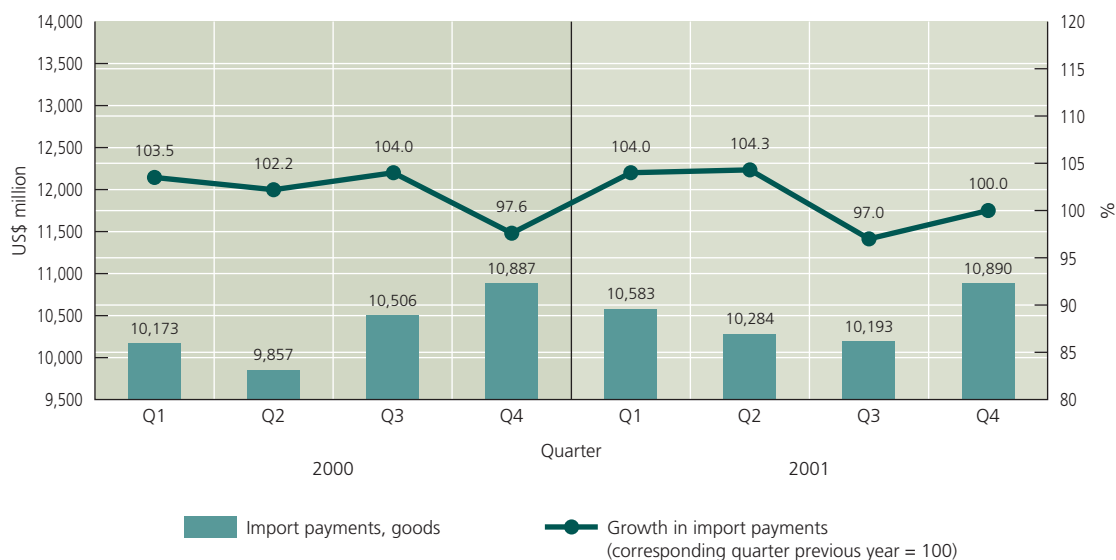
- the countries of the European Union (which took 69.2% of exports). Exports to these countries increased by US\$ 2,923m, or 13.2%. The dominant role here was played by Germany, with a share of 34.4% in Polish exports and growth in exports to that country of US\$ 1,411m, or 12.8%. The strong growth in exports to EU countries also applied to the UK (an increase of US\$ 382m, or 26.9%) and France (an increase of US\$ 311m, or 18.9%);
- the Czech Republic (4.0% of exports), with an increase of US\$ 239m, or 20.0%;
- Ukraine (2.8% of exports), with an increase of US\$ 210m, or 26.5%;
- Russia (2.9% of exports), with an increase of US\$ 207m, or 24.3%;
- the United States (2.4% of exports), with a decrease of US\$ 142m, or 14.3%.

### 12.2.3. Imports of goods

Import payments in 2001 amounted to US\$ 41,950m, or € 46,848m. The increase in imports of goods came to the equivalent of US\$ 527m (1.3%), or as expressed in euros – € 1,878m (4.2%).

**Figure 15**

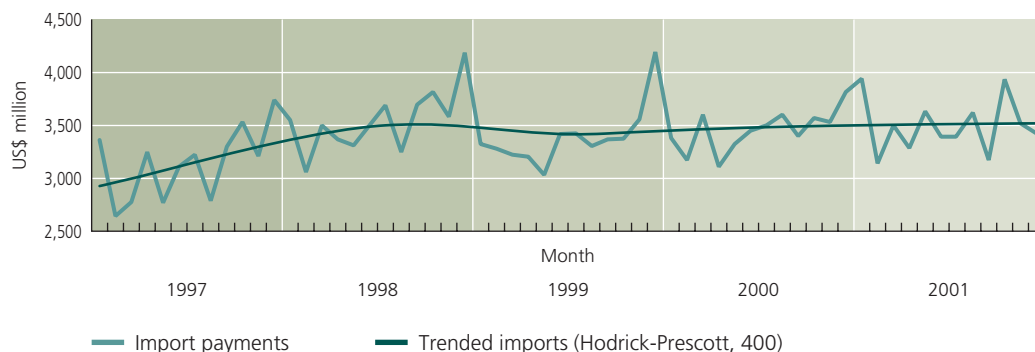
#### Import growth



The distribution of quarterly import figures in 2001, and their growth relative to the same periods in 2000, indicates that imports held steady, running only slightly higher than in 2000. This is also borne out by trend analysis using the Hodrick-Prescott filter (cf. Fig. 16).

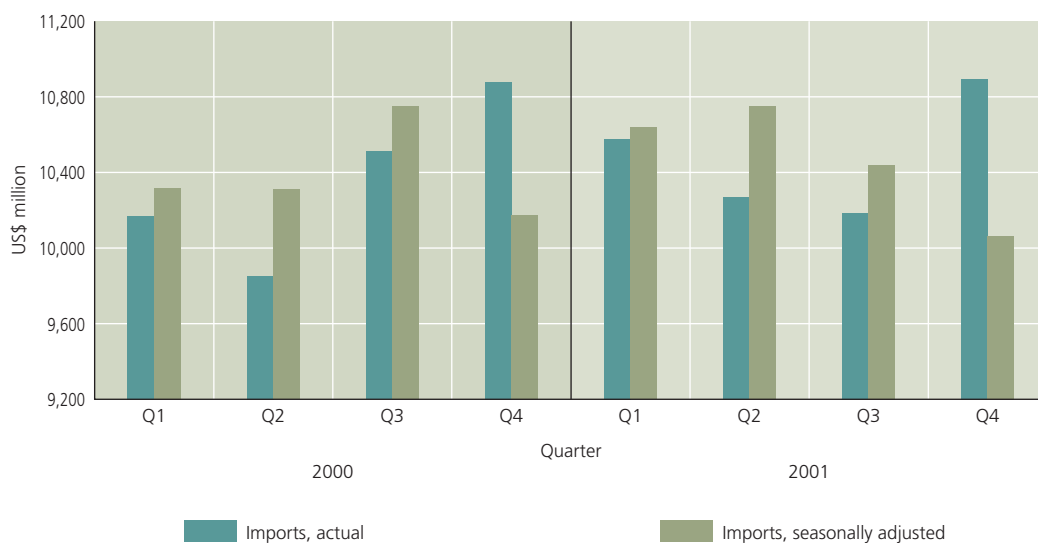
<sup>71</sup> Using SAD documents for 2001.

**Figure 16**  
**Trended imports**



The growth in import payments recorded in the fourth quarter of 2001 was seasonal in character. In analysing seasonally adjusted data (Fig. 17)<sup>72</sup>, it becomes evident that imports in the fourth quarter of 2001 were lower than in the third quarter of that year (down 3.5%), and also lower than in the fourth quarter of 2000 (down 1.1%).

**Figure 17**  
**Imports, seasonally adjusted**



Drawing on the figures from SAD documents, it becomes apparent that movements in the level of imports were caused by both the increase and decrease of imports in many product groups.

Imports of consumer goods rose to a greater extent than those of production supplies (the former were up US\$ 981m, or 10.3%, while the latter were up US\$ 343m, or 1.1%). The increase in consumer imports chiefly involved passenger cars (growth of US\$ 287m) and pharmaceuticals (growth of US\$ 293m).

The smallest growth by value was seen in imports of capital equipment (up US\$ 31m, or 0.3%). Within this category, an increase of US\$ 79m was seen in imports of industrial transportation equipment. By contrast, imports of capital goods other than transportation equipment were slightly down on the year before, slipping 0.6% (US\$ 48m).

<sup>72</sup> Seasonal adjustments have been performed for quarterly data for the period 1997-2001.

In terms of geographical pattern, the value and growth of imports in 2001 was mainly determined by deliveries from the following countries:

- the countries of the European Union (which accounted for 61.4% of Polish imports). Imports from this region rose US\$ 915m, or 3.1%. Poland's largest trading partner in this respect was Germany, which provided 24.0% of total imports, with imports from this country increasing US\$ 348m, or 3.0%. Of the remaining EU countries, major growth was also seen in imports from France (up US\$ 271m, or 8.6%). On the other hand, imports from the UK dropped US\$ 91m, or 4.2%;
- Russia (8.8% of imports), with a decrease of US\$ 192m, or 4.2%;
- the Czech Republic (3.5% of imports), with a sharp increase of US\$ 176m, or 11.3%;
- the United States (3.4% of imports), with a very steep decrease of US\$ 460m, or 21.4%;
- China (3.2% of imports), with an increase of US\$ 242m, or 17.6%.

#### 12.2.4. Currency composition of trade payments (goods)

The majority of foreign trade payments in 2001 were carried out in euros (over 54%). The proportion of Polish foreign trade settled in euros has been systematically increasing. By contrast, the share settled in US dollars, although still substantial, has been diminishing (33.7% of exports and 31.8% of imports). A characteristic development is also the steady rise in the share of trade settlements performed in zloty.

**Table 23**

##### Trade in goods: currency composition (%)

	Exports			Imports		
	2000	2001	Change in proportion, 2000/2001	2000	2001	Change in proportion, 2000/2001
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>
of which: Euro	49.4	54.7	5.3	48.2	54.2	6.0
US dollar	36.2	33.7	-2.5	34.8	31.8	-3.0
Zloty	3.5	4.1	0.6	3.9	4.6	0.7

## 12.2.5. Lower deficit on services

The balance on services in 2001 was negative, as it had been in the three preceding years, with a deficit of US\$ 976m. However, in comparison to 2000, a considerable improvement was registered, equivalent to US\$ 710m. This was the combined effect of credits on exports of services going up 13.8%, while debits on imports went down 4.4%.

Figure 18

## Services

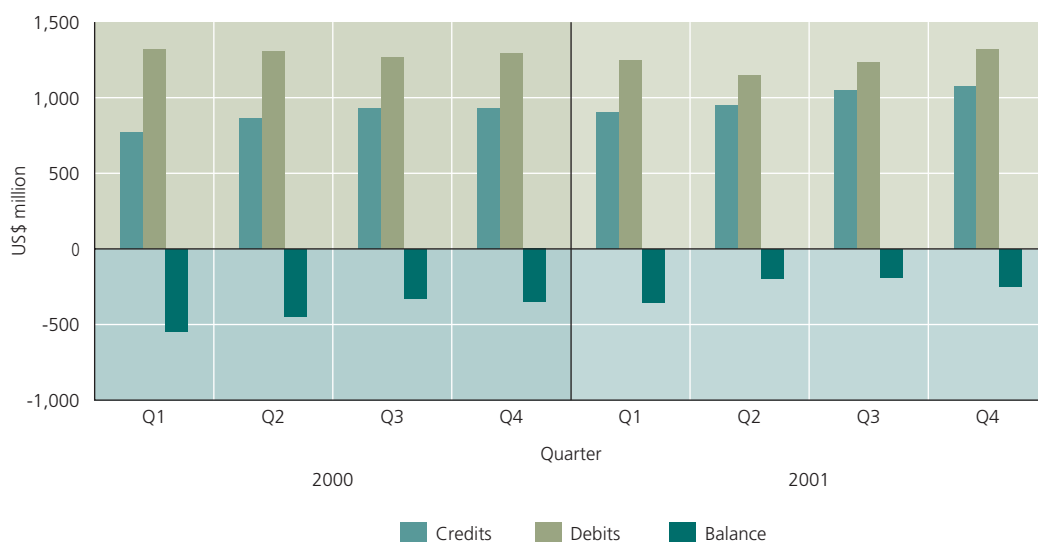


Table 24

## Service payments, net (US\$ million)

	2000	2001	Change 2000/2001
<b>Services, total</b>	<b>-1,686</b>	<b>-976</b>	<b>710</b>
1. Transportation services	224	374	150
2. Foreign travel	-91	-17	74
3. Postal, courier & telecommunications services	-208	-60	148
4. Construction services	-247	-190	57
5. Insurance & reinsurance	-99	-77	22
6. Financial services	-101	-190	-89
7. Computer and information services	-149	-169	-20
8. Royalties and licence fees	-443	-412	31
9. Other business services	-360	-106	254
10. Personal, audiovisual, cultural and recreational services	-90	-38	52
11. Government services not included elsewhere	-121	-91	30
12. Other	-1	0	1

A breakdown of payments for services by the type of activity involved indicates that, with the exception of financial services, and also of computer and information services, the balance on all types of service improved. The healthier net figure for services in 2001 was principally the result of the following:

- a reduction of US\$ 254m in the deficit on "other business services"<sup>73</sup>, and of US\$ 148m on postal, delivery and telecommunications services. In the case of "other business services", which occupy a dominant position within service transactions as a whole, exports rose 6.8%, while imports fell 11.6%. The improvement in the balance on postal, delivery and telecommunications services was caused by a sharp drop in payments for imports of these services, which amounted to US\$ 151m, or 37.9%, while exports showed a modest decrease of only US\$ 3m, or 1.6%. The sounder balance on these services was largely associated with the development of activity by domestic companies with foreign equity involvement engaged in this type of business;
- an increase of US\$ 150m in the surplus reported on transportation services. The 19.6% growth recorded in exports of transportation services and 3.1% increase in imports of those services is traceable to a higher volume of trade in goods. In the case of transportation services, a significant part of the payments involved are settled by other means than through banks. For this reason, the full picture of international settlements arising on these services will be presented in the balance of payments on a transactions basis (the same applies to foreign travel services);
- a 12.3% decrease in imports of construction services, allied with a 30.6% increase in exports, which improved the balance on these services by US\$ 57m.

Mounting problems in selling to the domestic market in 2001 meant that Polish companies stepped up their service activity on foreign markets. Furthermore, domestic firms in the service sector offered Polish customers more attractive terms, which made them more competitive in relation to foreign firms and thereby caused service imports to decline.

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<sup>73</sup> The category of "other business services" comprises merchanting and trade-related services, operational leasing services, engineering services, legal and accounting consultancy, etc.

**12.2.6. Negative balance on income**

In 2001, the balance on income came to a negative US\$ 896m. This deficit was 18.1% higher than in 2000, when it had stood at US\$ 759m. The persistence of a deficit on income stems from the existence – and growth – of the excess volume of Polish liabilities to foreign parties (i.e., investment performed by non-residents in Poland) in relation to Polish assets abroad (i.e., Polish foreign investment).

**Table 25****Income**

	2000	2001	Change, 2000/2001	Growth, 2001 (2000 = 100)
	US\$ million			%
<b>CREDITS</b>	<b>2,248</b>	<b>2,652</b>	<b>404</b>	<b>118.0</b>
Employee compensation	191	192	1	100.5
Income from direct investment	30	64	34	213.3
Income from portfolio investment	1,047	1,436	389	137.2
Income from other investment	946	941	-5	99.5
Other	34	19	-15	55.9
<b>DEBITS</b>	<b>3,007</b>	<b>3,548</b>	<b>541</b>	<b>118.0</b>
Employee compensation	164	200	36	122.0
Income from direct investment	527	862	335	163.6
Income from portfolio investment	925	1,054	129	113.9
Income from other investment	1,365	1,404	39	102.9
Other	26	28	2	107.7
<b>BALANCE</b>	<b>-759</b>	<b>-896</b>	<b>-137</b>	<b>-</b>
Employee compensation	27	-8	-35	-
Income from direct investment	-497	-798	-301	-
Income from portfolio investment	122	382	260	-
Income from other investment	-419	-463	-44	-
Other	8	-9	-17	-

The total income received by Polish parties on their foreign assets amounted to US\$ 2,652m, representing an increase of 18% on the year before.

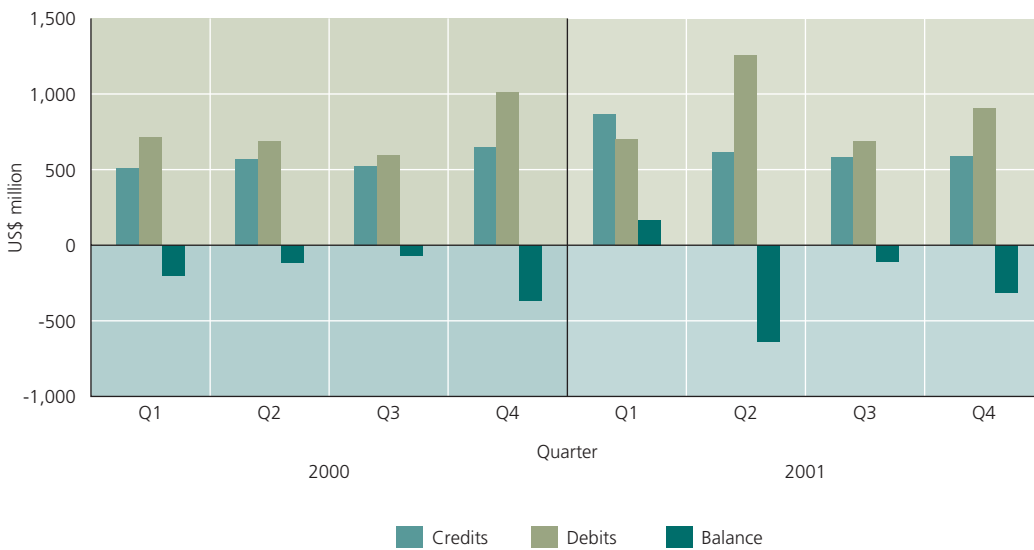
The largest proportion of these receipts was income from portfolio investment (54.2%). The second largest was income from other investment, primarily from deposits at banks abroad (35.5% of all receipts in 2001). In both these categories, a major share of the receipts was income obtained by the NBP on the foreign exchange reserves.

The significant growth recorded in income received from portfolio investment (up 37.2% on the previous year) was largely the result of the sale by the Polish Treasury, in the first quarter of the year, of a holding of 30-year zero-coupon US Treasury bonds, used to collateralise Polish Brady bonds that were subject to early redemption. The interest earned on these US Treasuries, amounting to US\$ 242m, was taken to income from portfolio investment.



Figure 19

## Income



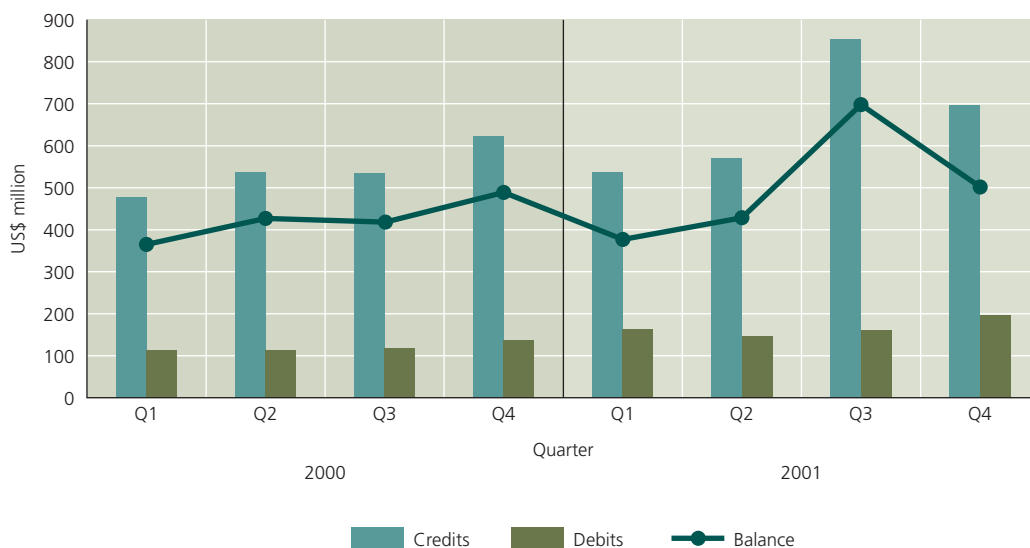
The debits on income arising on investment by non-residents in Poland totalled US\$ 3,548m, an increase of 18.0%. The chief reason for this increase was a rise in transfers of profits by foreign direct investors to their home countries. The amount of direct investment income thus repatriated climbed from US\$ 527m in 2000 to US\$ 862m in 2001, i.e., 63.6%. A substantial part in debits on income was played by interest paid by the Polish Treasury to the creditors of the Paris Club (shown as income from other investment) and to non-residents holding Polish Treasury bonds, whether issued on foreign markets or on the domestic market (shown as income from portfolio investment).

## 12.2.7. Current transfers

Current transfers represent a component of the balance of payments which for many years has contributed to the improvement of the current balance. In 2001, the surplus on current transfers amounted to US\$ 1,986m, representing an increase of US\$ 305m, or 18.1%.

Figure 20

## Current transfers



Credits on incoming current transfers stood at US\$ 2,644m, which constituted an increase of US\$ 485m, or 22.5%, compared to 2000. This growth in credits was concentrated in the third quarter of the year and was mainly due to the receipt of compensation payments for the forced labour of Poles during World War II. The credits recorded on this in the third quarter came to US\$ 196m, while over the year as a whole they stood at US\$ 297m; they thus represented 61.2% of overall annual growth in credits on current transfers.

Debits on current transfers came to US\$ 658m in 2001, having thereby gone up US\$ 180m, or 37.7%.

**Table 26****Current transfers: credits, debits & growth**

	2000	2001	Change, 2000/2001	Growth, 2001 (2000 = 100)
	US\$ million			%
<b>CREDITS</b>	<b>2,159</b>	<b>2,644</b>	<b>485</b>	<b>122.5</b>
General government transfers	316	401	85	126.9
Private transfers	1,843	2,243	400	121.7
<b>DEBITS</b>	<b>478</b>	<b>658</b>	<b>180</b>	<b>137.7</b>
General government transfers	57	125	68	219.3
Private transfers	421	533	112	126.6
<b>BALANCE</b>	<b>1,681</b>	<b>1,986</b>	<b>305</b>	<b>-</b>
General government transfers	259	276	17	-
Private transfers	1,422	1,710	288	-

In looking at the structure of current transfers, a noteworthy fact is the predominant part played by private transfers, to individuals or other recipients outside the government sector. Private transfers, with a balance of US\$ 1,710m, accounted for 84.8% of credits on current transfers and 81.0% of debits. These comprise international funds transfers involving workers' remittances; old-age and disability pensions; legacies; taxes, and membership fees and charges; and gifts. Most of these transactions were carried out via personal foreign currency accounts.

General government transfers constituted the remaining part of current transfers; in terms of credits, these primarily included donations and grants provided from abroad to government sector institutions, while in terms of debits they were chiefly composed of membership fees and charges.

**12.2.8. Increase in surplus on unclassified current transactions**

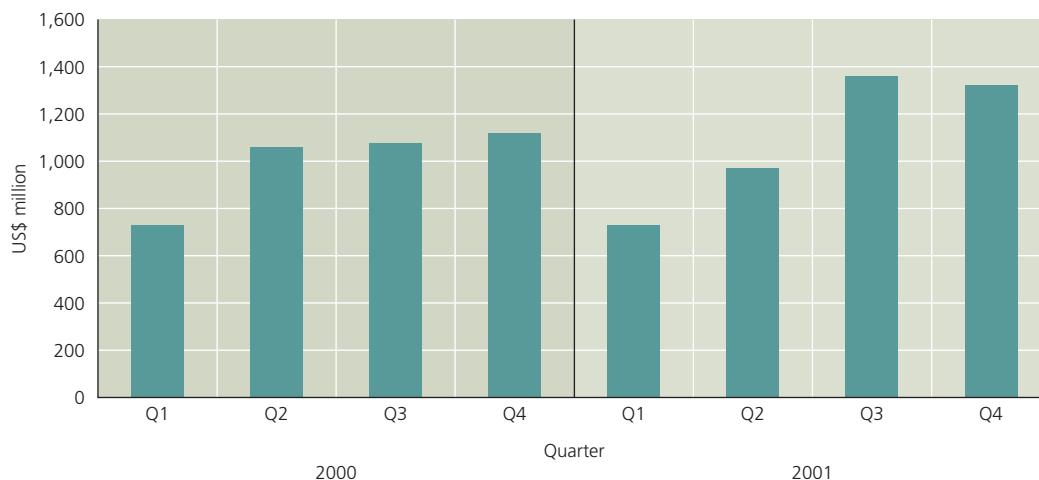
The balance on unclassified current transactions reflects the net value of foreign currencies (notes and coin) taken at the cash desks of Polish banks and arising on transactions between residents and non-residents, where these transactions have not been assigned a classification under the standard components of the balance of payments.

The balance on unclassified current transactions presented in the current account of the balance of payments for 2001 stands at US\$ 4,395m<sup>74</sup>, which means that the surplus on this item rose US\$ 415m, or 10.4%, compared to the previous year.

<sup>74</sup> The net purchases of foreign currency registered by the banks, plus the balance on cash transactions performed via the personal foreign currency accounts of Polish residents, was in fact considerably higher, amounting to US\$ 5,334m. However, an adjustment to this figure was necessary to deduct the value of transactions carried out with domestic persons as a result of the withdrawal from circulation in Q1 2002 of the EMU legacy currencies and their replacement by the euro. For the purpose of compiling the balance of payments, the size of the corresponding adjustment to the balance on unclassified current transactions was estimated on the basis of an analysis of monthly average purchases of foreign currency and of cash deposits to the personal foreign currency accounts of residents in the years 1997-2000. The adjustment duly performed in Q4 2001 amounted to US\$ 937m.

Figure 21

## Unclassified current transactions, net



A comparison of the distribution of the amounts shown for the balance on unclassified current transactions in the particular quarters of 2000 and 2001 reveals systematic growth over the first three quarters of 2001. In the fourth quarter, too, despite a modest decrease in relation to the preceding quarter, the balance on unclassified current transactions was 18.5% higher than in the fourth quarter of 2000. This represents a corresponding increase in international transactions, which will be accounted for in detail in accordance with the standard components of the balance of payments in the annual balance of payments on a transactions basis.

On the basis of the research and analysis conducted with respect to the year 2000, it can be estimated that the balance on unclassified transactions was the end result of three types of international transactions:

- around 60% constituted the surplus of receipts over payments arising on foreign travel;
- around 25% constituted the surplus generated on merchandise trade not registered in SAD customs documents, i.e., on local cross-border trading;
- around 15% constituted receipts on transfers, principally workers' remittances. The share of this item is set to increase due to the growing interest being shown in taking up employment abroad.

### 12.3. Financial account

The balance on the financial account in 2001 was a positive US\$ 2,981m, which signifies a decrease of over 60% compared to 2000.

The main factor behind the smaller surplus on the financial account was the contraction in incoming investment by non-residents. The balance on this investment came to US\$ 6,846m. In 2000, non-residents had invested US\$ 10,507m in Poland.

The reduced inflow of non-resident investment in Poland in 2001 is attributable to the following:

- a decrease in incoming foreign direct investment, and in particular a decline in privatisation receipts,
- a decrease in incoming foreign portfolio investment,
- a substantial outflow of the capital associated with credits received, due to the early retirement by the Polish Government of its obligations to Brazil, amounting to US\$ 2.4bn.

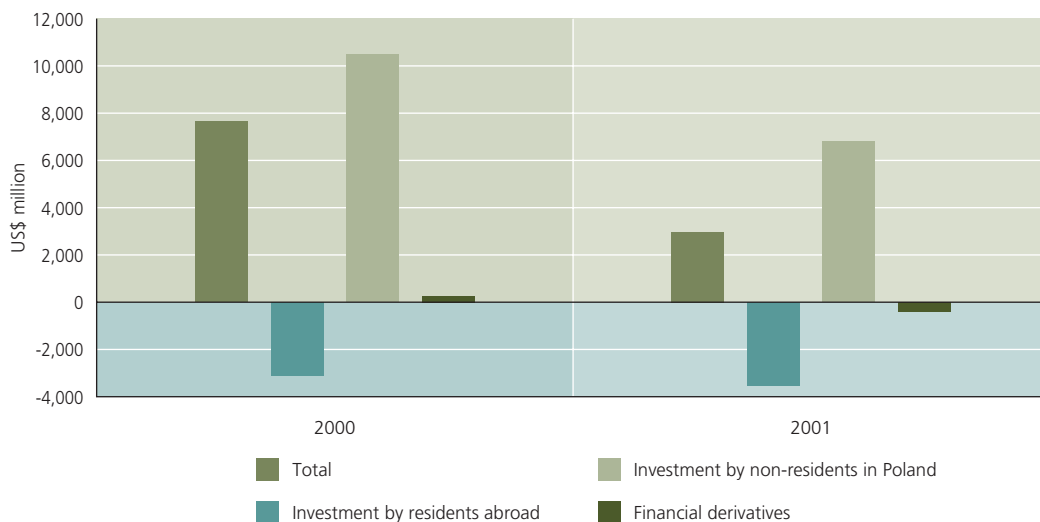
As was the case in 2000, a negative impact on the balance recorded on the financial account was exerted by the investment carried out abroad by Polish residents. The ensuing outflow of capital amounted to US\$ 3,524m, a sum similar to that reported in 2000 (US\$ 3,129m).

The balance of investment in financial derivatives in 2001 was a negative US\$ 341m. In 2000, this balance had been a positive US\$ 269m.

Figure 22 presents the composition of the financial account in the years 2000 and 2001.

**Figure 22**

**Financial account components**



### 12.3.1. Investment in Poland by non-residents

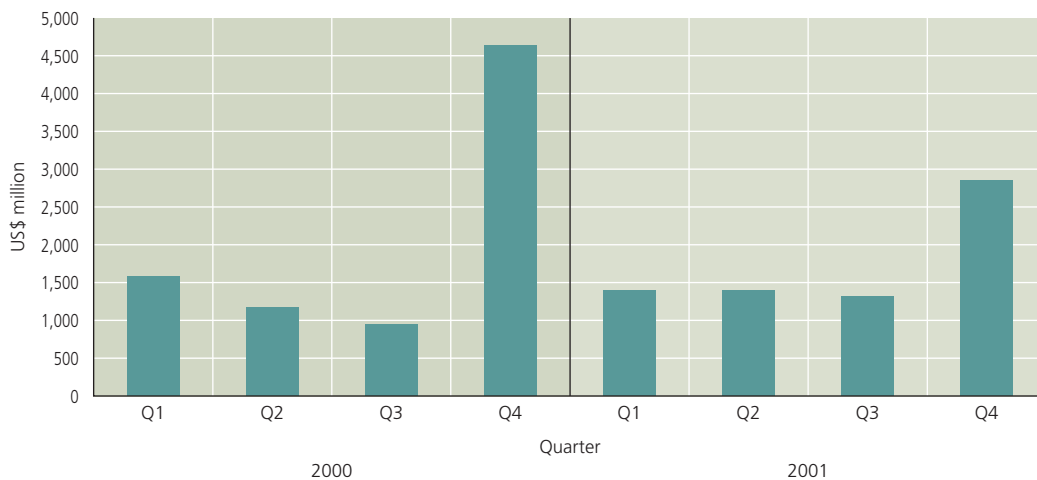
Investment in Poland by non-residents totalled US\$ 6,846m in 2001. This inflow of capital was 34.8% down on the year before, when it had amounted to US\$ 10,507m. The pattern of incoming investment remained sound. Long-term investment by non-residents (direct investment and long-term credits) came to US\$ 5,428m, representing 79.3% of all inward investment (in 2000, this ratio had been exceptionally favourable, at 90.8%). The remainder of inward investment was short-term (portfolio investment, short-term credits, and currency and deposits).

#### 12.3.1.1. Stable inflow of foreign direct investment

The greatest part of all incoming foreign investment was direct investment, which was the determining factor in the overall balance on this category. The inflow of foreign direct investment to Poland in 2001 stood at US\$ 6,995m. This represented a decrease of US\$ 1,298m (15.7%) compared to 2000.

**Figure 23**

**Foreign direct investment in Poland, net**



In the first three quarters of 2001, direct foreign investment ran at a level close to, or higher than, the same period in 2000. The decline in incoming direct investment is traceable to the figures for the fourth quarters of 2000 and 2001. At the end of 2000, the Treasury sold a large equity interest in Telekomunikacja Polska SA (TPSA) to France Telecom. This single transaction was responsible for the much larger balance on foreign direct investment in 2000.

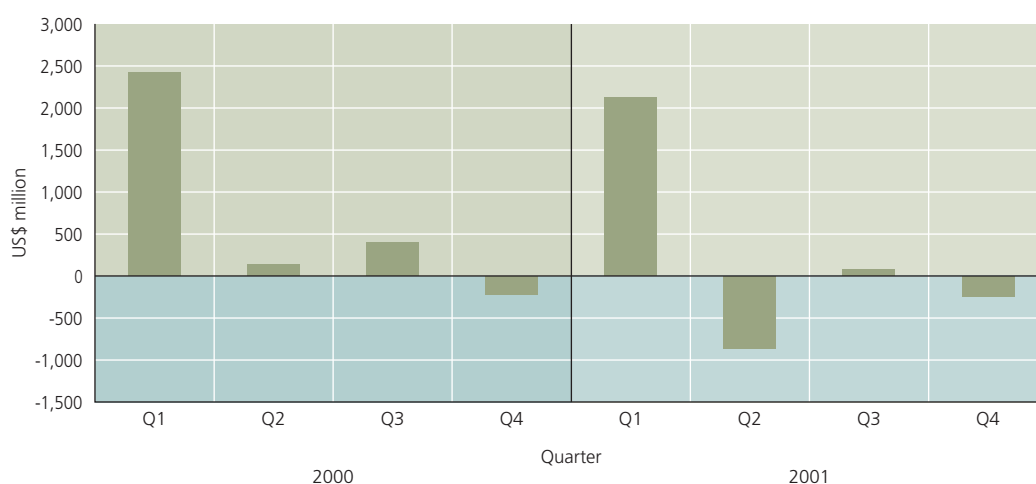
**Table 27****Direct investment: balances & movements (US\$ million)**

	2000	2001	Change 2000/2001	Growth, 2001 (2000 = 100) %
Equity investment & loans from investors	8,293	6,995	-1,298	84.3
– Equity investment	7,265	5,830	-1,435	80.2
– Loans from investors	1,028	1,165	137	113.3

Within the structure of foreign direct investment, the central part was played by purchases of equity with a view to increasing the capital funds of Polish direct investment enterprises (83.3% of all direct investment). The remaining portion of direct investment was made up of loans from direct investors. In 2000, the pattern of inward investment was slightly more favourable. Equity investment constituted 87.6% of all direct investment performed by non-residents in Poland.

**12.3.1.2. Less incoming portfolio investment**

The net investment of non-residents in Polish securities in 2001 totalled US\$ 1,066m. This accounted for 15.6% of the inflow of all non-resident investment in Poland in 2001. This figure is less than half that recorded in 2000, when foreign portfolio investment amounted to US\$ 2,676m.

**Figure 24****Foreign portfolio investment in Poland, net**

The dominant form of foreign portfolio investment was investment in debt securities. The net inflow of investment in these securities in 2001 came to US\$ 1,372m. This investment was almost in its entirety concentrated in long-term paper (US\$ 1,363m).

Table 28

## Foreign portfolio investment: inflows, outflows, balances, movements &amp; growth

	2000	2001	Change, 2000/2001	Growth, 2001 (2000 = 100)
	US\$ million			%
<b>INFLOWS</b>	35,771	62,313	26,542	174.2
Equity securities	8,494	4,264	-4,230	50.2
Debt securities	27,277	58,049	30,772	212.8
<b>OUTFLOWS</b>	33,095	61,247	28,152	185.1
Equity securities	7,628	4,570	-3,058	59.9
Debt securities	25,467	56,677	31,210	222.6
<b>BALANCE</b>	<b>2,676</b>	<b>1,066</b>	<b>-1,610</b>	<b>-</b>
Equity securities	866	-306	-1,172	-
Debt securities	1,810	1,372	-438	-

The largest net influx of non-resident investment in Polish long-term debt was in the first quarter of 2001. The second quarter saw an outflow of investment in these securities. The subsequent quarters of the year brought a very small inflow (compared to Q1) of funds placed in long-term Polish debt securities.

Foreign investors chiefly targetted Treasury securities. In the first quarter, non-residents substantially increased their holdings of long-term Polish T-bonds denominated in zloty and traded on the domestic market. At the same time, the Polish Treasury issued euro-denominated Eurobonds on international markets, to a face value of € 750m.

In addition to T-bonds, in the first quarter of the year non-residents took up large issues of corporate bonds carried out on international markets by TPSA (euro-denominated bonds with a face value of € 500m) and by the Turow power station (euro-denominated bonds with a face value of € 270m).

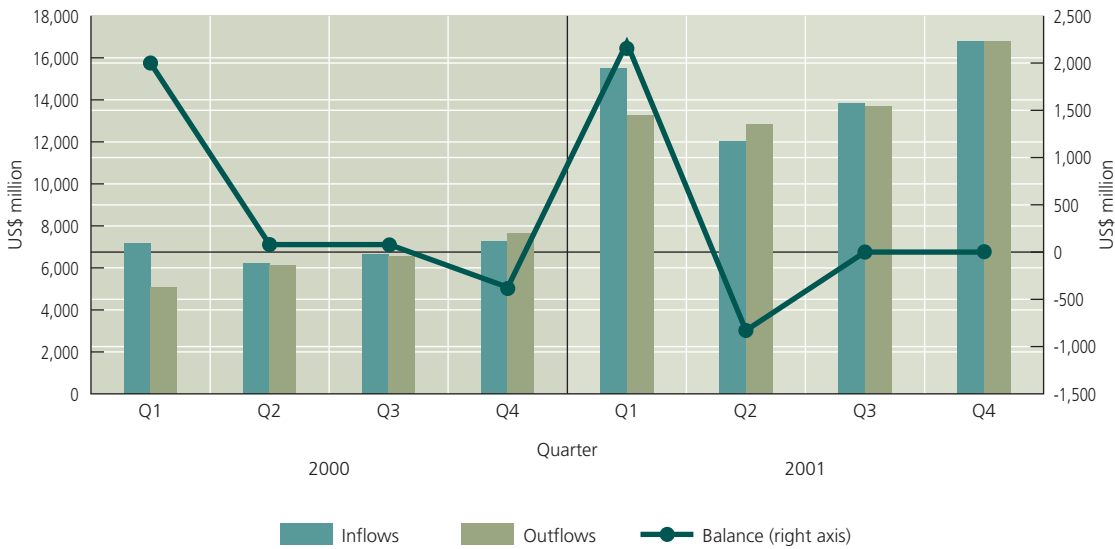
In the second quarter, due to the slower appreciation of the zloty (especially against the dollar, and in June also against the euro) and the emergence among analysts of expectations of depreciation, an outflow took place of investment in Polish zloty-denominated debt, particularly T-bonds.

The third quarter brought the redemption of Polish Treasury Eurobonds with a face value of DM 250m. The Treasury then issued € 250m of Eurobonds in the fourth quarter.

The particular quarters of 2001 saw large-scale foreign investor acquisitions of debt securities, as measured by gross turnover (cf. Table 28). This increase in turnover chiefly involved investment in long-term Treasury securities (a market characterised by high liquidity). The growth in turnover attests to foreign investors carrying out more frequent switches of the securities they held in their portfolios. In comparison to 2000, both the incoming and outgoing amounts on investment in Polish long-term debt securities rose more than twofold (the former up 117.7% and the latter up 128.2%). At the same time, the average value of the total portfolio of Polish zloty-denominated T-bonds issued on the domestic market and held by foreign investors held steady at a level some 50% higher than in 2000.

Figure 25

Investment in Polish debt securities



In the period under examination, non-resident investment in Polish equity securities decreased. The balance for the year 2001 was a negative US\$ 306m. In 2000, the corresponding balance was positive, standing at US\$ 866m. Foreign investors pulled out of their holdings of Polish equities, particularly in the fourth quarter of 2001, despite the rise in share prices at that time on the Warsaw Stock Exchange. The balance on this investment in the fourth quarter came to a negative US\$ 257m. It may be surmised that this foreign investor behaviour was due to the general withdrawal from emerging markets triggered by the terrorist attacks of September 11, 2001.

A noteworthy feature was that turnover in terms of investment in Polish equities (i.e., both sums incoming and outgoing) decreased from one quarter to the next. Incoming investment in 2001 was 49.8% lower than in 2000, while the amount withdrawn was down 40.1% (cf. Table 28 & Fig. 26).

Figure 26

Investment in Polish equity securities



Companies not included in the WIG20 index (the index of the 20 largest companies on the Warsaw Stock Exchange) are continuing to be increasingly marginalised. The turnover registered in trading in the shares of somewhere over half of the twenty companies that make up this index (compared to a total of over 200 listed companies) accounts for over 90% of all turnover on the Warsaw Stock Exchange<sup>75</sup>. Another process gaining momentum is the withdrawal from trading on the Exchange of companies where foreign investors hold majority interests. As a result of these developments (characteristic of virtually all of the stock exchanges in Central and Eastern Europe), the opportunities for significant investment in Polish equity instruments are becoming increasingly limited. The dwindling liquidity of the Polish stock market is becoming a major factor heightening the risk of investment in Polish equities. In addition to global factors of a cyclical nature, this erosion of liquidity is linked to domestic investors shifting from the spot market to the futures market, particularly to contracts on the WIG20. The data available do not allow an assessment of whether this trend also applies to non-residents.

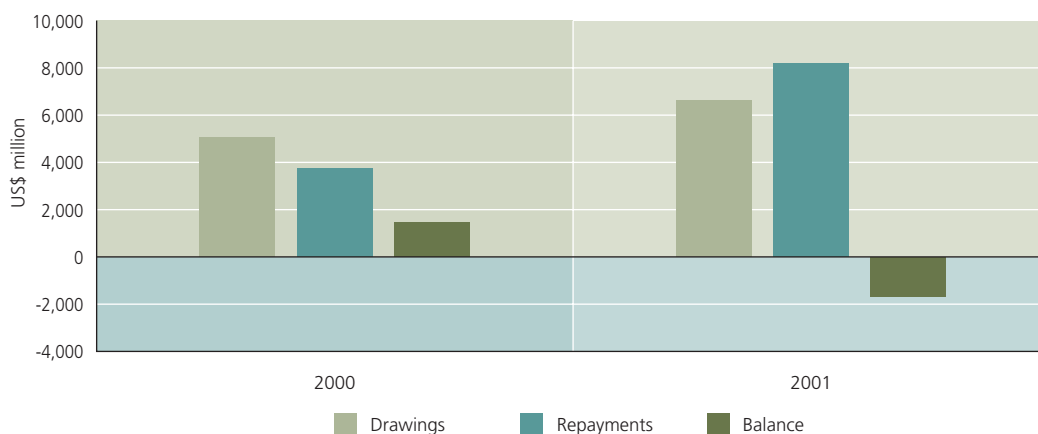
### 12.3.1.3. Negative balance on credits received

The year 2001 witnessed a net outflow of foreign capital with respect to foreign credits amounting to US\$ 1,658m<sup>76</sup>. In 2000, there was a net inflow of US\$ 1,393m.

A major factor affecting this outflow of capital was the transaction whereby the Polish Government carried out the early repayment of debt to the Government of Brazil amounting to US\$ 2,457m. Were this transaction to be excluded, there would have been a net inflow of capital in 2001 of US\$ 800m.

**Figure 27**

#### Credits received: drawings, repayments & balance



In analysing the structure of foreign financing in the form of credits, it is noticeable that this involved an inflow of capital, principally through drawings of long-term credits by the non-government and non-banking sector, i.e., mainly by business organisations. In 2001, net incoming credits to businesses amounted to US\$ 1,424m. However, this inflow was 16.5% lower than that reported in 2000. Drawings of new credits totalled US\$ 4,276m, an increase of US\$ 749m, or 21.2%. At the same time, repayments of previous corporate borrowings have been increasing steadily. In 2001, these repayments came to US\$ 2,852m, and were up US\$ 1,030m (56.5%) on the year before.

Incoming foreign credits to businesses exhibit a considerable degree of concentration. These transactions refer to a small group of companies and have high unit values.

<sup>75</sup> Figures given by the Warsaw Stock Exchange for December 2001.

<sup>76</sup> Excluding loans from direct investors.



Table 29

## Credits received: balances, movements &amp; growth

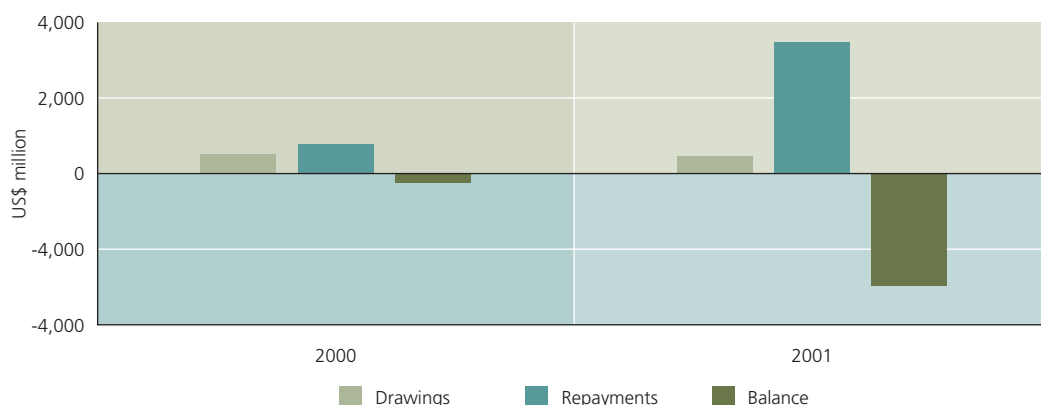
	2000	2001	Change, 2000/2001	Growth, 2001 (2000 = 100)
	US\$ million			%
<b>DRAWINGS</b>	5,125	6,566	1,441	128.1
National Bank of Poland	2	0	-2	0.0
General government sector	495	437	-58	88.3
Banking sector	1,101	1,853	752	168.3
Long-term	973	1,846	873	189.7
Short-term	128	7	-121	5.5
Non-government, non-banking sector	3,527	4,276	749	121.2
Long-term	3,104	3,630	526	116.9
Short-term	423	646	223	152.7
<b>REPAYMENTS</b>	3,732	8,224	4,492	220.4
National Bank of Poland	7	7	0	100.0
General government sector	790	3,483	2,693	440.9
Banking sector	1,113	1,882	769	169.1
Long-term	839	1,808	969	215.5
Short-term	274	74	-200	27.0
Non-government, non-banking sector	1,822	2,852	1,030	156.5
Long-term	1,688	2,182	494	129.3
Short-term	134	670	536	500.0
<b>BALANCE</b>	1,393	-1,658	-3,051	-
National Bank of Poland	-5	-7	-2	-
General government sector	-295	-3,046	-2,751	-
Banking sector	-12	-29	-17	-
Long-term	134	38	-96	-
Short-term	-146	-67	79	-
Non-government, non-banking sector	1,705	1,424	-281	-
Long-term	1,416	1,448	32	-
Short-term	289	-24	-313	-

All credits received by the general government sector and the National Bank of Poland are long-term.

The outflow of capital in terms of credits reduced the outstanding debt of the general government sector. In analysing the relevant figures for the general government sector, we see a systematic decline in drawings of new credits. This is primarily a result of changes in the structure of government external debt, involving the increased utilisation of debt securities. In 2001, new drawings of credits were down 11.7% compared to 2001. Meanwhile, repayments of credits drawn by this sector soared 340.9% due to the above-mentioned early repayment of debt to the Government of Brazil, amounting to US\$ 2,457m, in November 2001. Excluding this transaction, the repayments performed by government in 2001 would still have been high, coming to US\$ 1,026m, which is 29.9% more than in 2000. The large cost of servicing the foreign debt is primarily the result of the repayment of obligations to the creditors of the Paris Club.

Figure 28

## Credits received: general government sector



A large increase was also observed in both drawings and repayments of credits in the banking sector (up 68.3% and 69.1%, respectively). Despite this growth in overall turnover, however, the balance on credits to the banking sector was not large. On a net basis, this sector has not been sourcing new funds abroad.

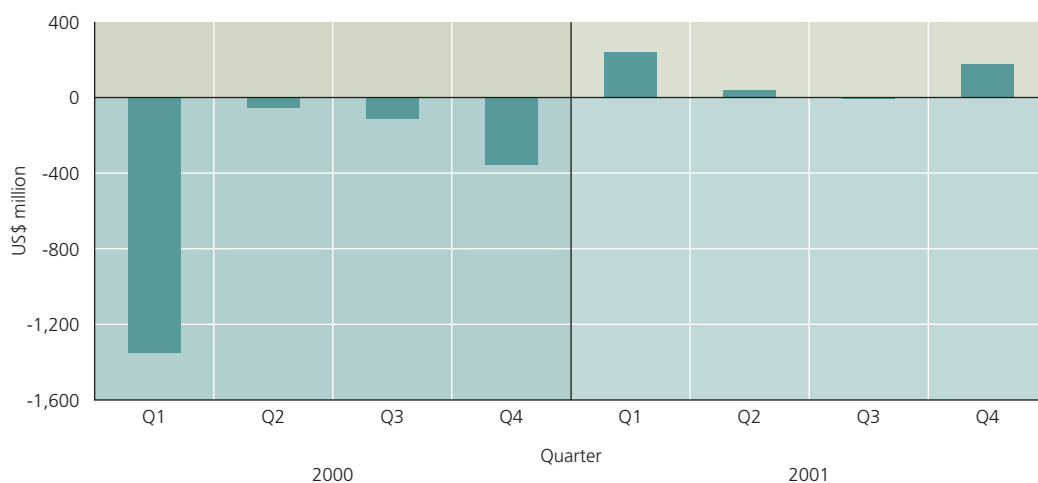
## 12.3.1.4. Increase in foreign deposits at Polish banks

The balance on currency and deposits held by non-residents at Polish banks was positive in 2001, coming to US\$ 443m. Non-residents chiefly placed their funds as time deposits at commercial banks. A large part of the incoming funds were reported in the first quarter of the year.

The outflow of capital reported on this item in 2000, amounting to US\$ 1,852m, was mainly due to the repayment of obligations under repurchase agreements concluded by the NBP.

Figure 29

## Currency and deposits



The currency and deposits held by non-residents represent funds utilised by investors as an interim, short-term placement pending investment in more profitable financial instruments.

## 12.3.2. Investment abroad by Polish residents

### 12.3.2.1. Increase in residents' investment abroad

In 2001, Polish investment abroad increased US\$ 3,542m. This growth in Polish foreign assets was chiefly traceable to a rise of US\$ 3,496m in deposits at foreign banks. This item, as is the case with the deposits of non-residents at Polish banks, is one that is highly volatile. The largest outflow, of US\$ 2,621m, was registered in the fourth quarter of 2001 and was associated with the exchange of the national currencies of the EMU countries into euros.

**Table 30**

#### Residents' investment abroad: balances & movements (US\$ million)

	2000	2001	Change, 2000/2001
Investment by residents abroad	-3,129	-3,524	-395
Polish direct investment abroad	-124	-67	57
Polish portfolio investment abroad (assets)	-85	43	128
Credits extended	152	-5	-157
Currency & deposits	-3,094	-3,496	-402
Other accounts receivable	22	1	-21

The value of direct investment abroad performed by Polish residents in 2001 stood at US\$ 67m. This represents a decrease of US\$ 57m on the year 2000. Polish investment abroad in the form of credits extended to non-residents came to US\$ 5m. This was accompanied by a withdrawal of Polish capital from abroad, stemming from a reduction in Polish portfolio investment of US\$ 43m. The chief inflow of capital to Poland came as the result of the sale by the Government, in the first quarter of the year, of 30-year US Treasury bonds that had previously collateralised Polish Brady bonds, at a "clean price" of US\$ 197m.

### 12.3.3. Financial derivatives

In 2001, the balance on transactions involving financial derivatives between residents and non-residents amounted to a negative US\$ 341m. In 2000, this balance had been positive, standing at US\$ 269m.

**Table 31**

#### Financial derivatives: balances & movements (US\$ million)

	2000	2001	Change, 2000/2001
Financial derivatives, net	269	-341	-610

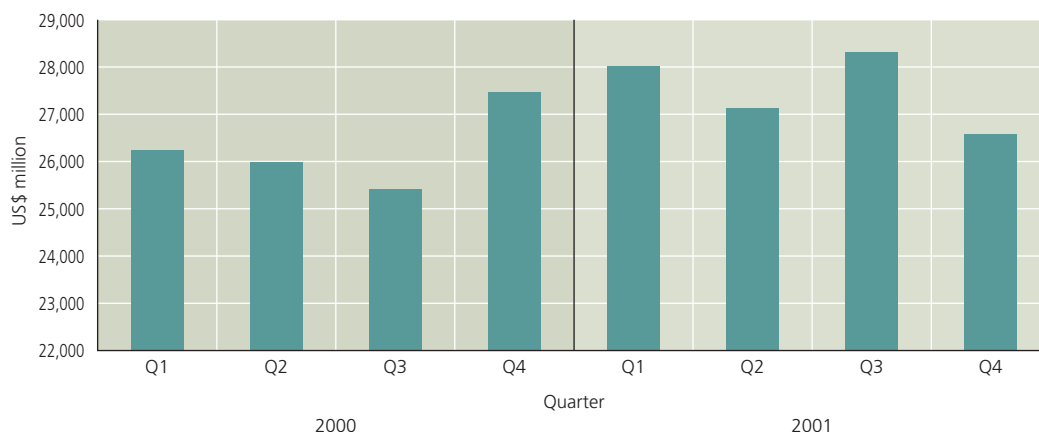
Most of the payments registered in this area involved FX swaps and FX forwards on the interbank market. The negative balance recorded may be interpreted as the net loss on trading in these instruments incurred by residents on the settlement of derivatives expiring or maturing in the course of 2001. It should be borne in mind, however, that the payments figures also include the cash flows involved in concluding, and performing interim payments on, derivatives contracts that finally mature in future periods.

## 12.4. Overall balance and its impact on the official reserves

The overall balance, measured as the sum total of the current balance, the balance on the capital and financial account, and net errors and omissions, came to a negative US\$ 423m.

**Figure 30**

### Official reserve assets



This negative overall balance, coupled with negative FX differences, resulted in a decline in the official reserves. Poland's official reserve assets fell US\$ 900.5m during 2001, to stand at US\$ 26,562m at year end.

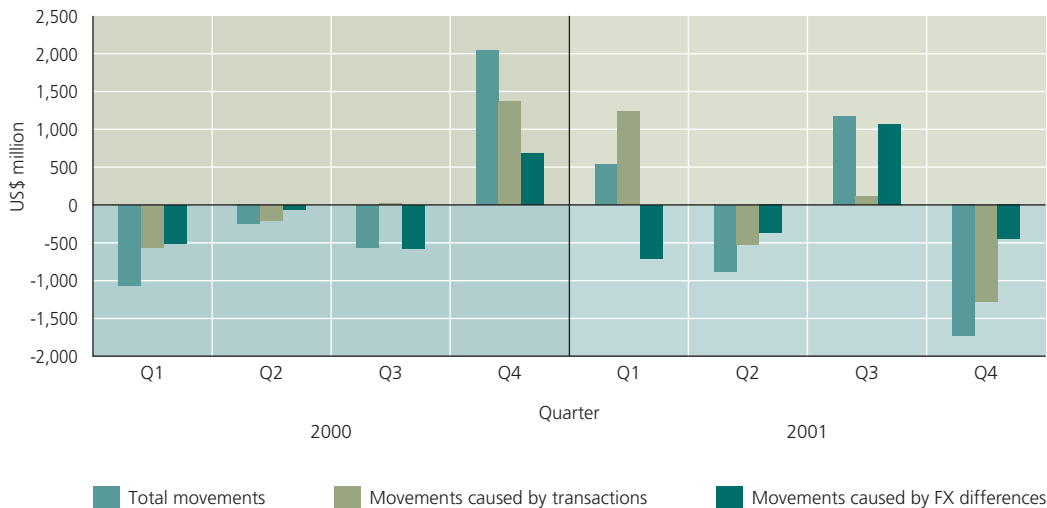
The transactions performed in the course of the year reduced the official reserve assets by US\$ 440m. The transactions causing the official reserves to decrease primarily involved the transfer of funds to the Polish Government in the fourth quarter to finance the early repayment of debt to the Government of Brazil. Other transactions with similar consequences in 2001 included the ongoing servicing of Poland's sovereign external debt (payments to the Paris Club and London Club, and the redemption of bonds issued on international markets). Factors causing the reserve assets to increase included the Government's sale of US Treasuries at a "dirty price" of US\$ 439m in January (these had been held as collateral). The proceeds from this transaction were placed on a special Government account at the NBP. The reserve assets were also boosted by an inflow of funds from a € 1,000m Government bond issue, by privatisation receipts, and by the income earned on those reserves by the NBP.

**Table 32**

### Official reserve assets, quarter end (US\$ million)

	2000				2001			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OFFICIAL RESERVE ASSETS	26,240.4	25,986.1	25,415.7	27,465.7	27,998.3	27,113.0	28,300.1	26,565.2
Monetary gold	914.8	952.7	904.8	901.5	852.1	894.7	969.1	914.7
SDRs	244.6	246.4	238.8	423.7	300.4	330.7	392.4	488.9
Other foreign exchange in convertible currencies	25,081.0	24,787.0	24,272.1	26,320.5	26,845.8	25,887.6	26,938.6	25,161.6

In addition to the transactions registered in the balance of payments, the level of the official reserve assets was also affected adversely by revaluations and FX differences. These shaved US\$ 460.5m off the reserves. The main reason for the movements arising from FX differences were changes in the value of the euro against the US dollar.

**Figure 31****Movements in official reserve assets****12.5. Balance of payments ratios****Table 33****Selected balance of payments ratios**

	Unit	2000	2001	2001			
				Q1	Q2	Q3	Q4
1. Current balance / Gross domestic product	%	-6.3	-4.1	-5.5	-5.0	-2.3	-3.6
2. Trade balance, goods & services / Gross domestic product	%	-9.4	-7.2	-8.6	-6.7	-6.8	-6.6
3. Official reserve assets / Average monthly imports, goods & services	months	7.1	6.8	7.1	7.1	7.4	6.5
4. Foreign direct investment, net / Current balance	%	-83.3	-97.6	-63.4	-63.8	-136.3	-162.4
5. Official reserve assets / Domestic money stocks	%	45.3	37.6	45.0	41.3	44.5	37.6
6. Official reserve assets / Total money supply (M2)	%	38.7	31.6	38.1	35.2	37.4	31.6
7. Short-term external debt / Official reserve assets	%	34.8	37.7	34.3	36.9	35.3	37.7

Table 33 cont.

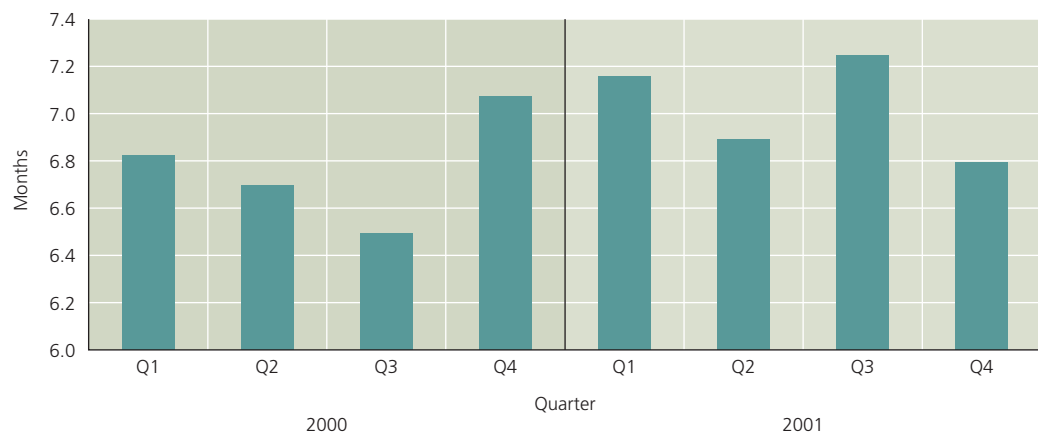
	Unit	2000	2001	2001			
				Q1	Q2	Q3	Q4
A Current balance	US\$ million	-9,952	-7,166	-2,230	-2,210	-973	-1,753
B Trade balance, goods & services	US\$ million	-14,854	-12,651	-3,497	-2,973	-2,921	-3,260
C Exports, goods & services	US\$ million	31,760	34,263	8,340	8,460	8,513	8,950
D Imports, goods & services	US\$ million	46,614	46,914	11,837	11,433	11,434	12,210
E Foreign direct investment, net	US\$ million	8,293	6,995	1,413	1,410	1,326	2,846
F Official reserve assets, period end	US\$ million	27,466	26,565	27,998	27,113	28,300	26,565
G Gross domestic product	US\$ million	157,606	176,457	40,508	44,258	42,670	49,079
H Domestic money stocks	US\$ million	60,682	70,681	62,175	65,616	63,629	70,681
I Total money supply (M2)	US\$ million	71,053	83,975	73,416	77,132	75,687	83,975
J Short-term external debt	US\$ million	9,548	10,006	9,612	9,993	9,992	10,006
K Mid-rate, USD / PLN		4.3458	4.0936	4.0876	3.9894	4.2168	4.0805

The following conclusions can be drawn from an analysis of the ratios derived from the balance of payments:

- An improvement has taken place in the ratio of the current deficit to GDP. In the fourth quarter of 2001, this ratio stood at 3.6%, signifying marked progress since the first quarter. The narrowing of the current account deficit is due to substantial growth in exports (with little change in imports), to the reduction in the deficit on services, and to an increase in the surplus on both official transfers and unclassified current transactions. A sound improvement can be seen in this ratio on an annual basis, with a decrease from 6.3% in 2001 to 4.1% in 2001.
- The ratio reflecting the financing of the current deficit by direct investment is also positive. In 2001, 97.6% of the current deficit was funded by the inflow of foreign direct investment.
- The coverage ratio of reserve assets to imports of goods and services remains high. At year end 2001, the reserve assets were equivalent to 6.8 times the value of monthly imports. The level of the reserves has to be considered safe. The coverage ratio for Poland is well above the average for emerging markets, which stands at 4.6 times monthly imports.

Figure 32

## Official reserve assets / average monthly imports, goods &amp; services



- The ratio of the official reserve assets to the total money supply (M2) slipped 7.1 percentage points compared to year end 2000, to stand at 31.6%. This is traceable to both strong growth in domestic money stocks and to the decline in the reserve assets. In examining this ratio from the beginning of 1999 to mid-2001, an overall decrease can be seen. The sharp drop witnessed in the fourth quarter of 2001 is linked to the fall in the reserves caused by the transfer of funds to the Polish Government for the early repayment of debt to the Government of Brazil.
- The ratio of short-term debt to the official reserves stood at 37.7% at the end of 2001 and is healthier than the average for emerging markets, which is 66%. The rise in this ratio in the final quarter of 2001 was associated with a slight increase in short-term debt and with the decline in the official reserves.

2001  
Annual Report

NBP



55 +  
55 +  
16 +  
3 +  
3 +

## APPENDICES

## APPENDIX 1

### Consumer prices in 2001

The twelve-month Consumer Price Index stood at 3.6% in December 2001, having come down 4.9 points since the end of 2000. Inflation was at an annual high in January (at 7.4%), and then steadily trended downwards in subsequent months, with the exception of April and May. Annualised average inflation came to 5.5% in 2001, as against 10.1% the year before.

The CPI growth of 3.6% recorded at the end of 2001 came as the result of the following:

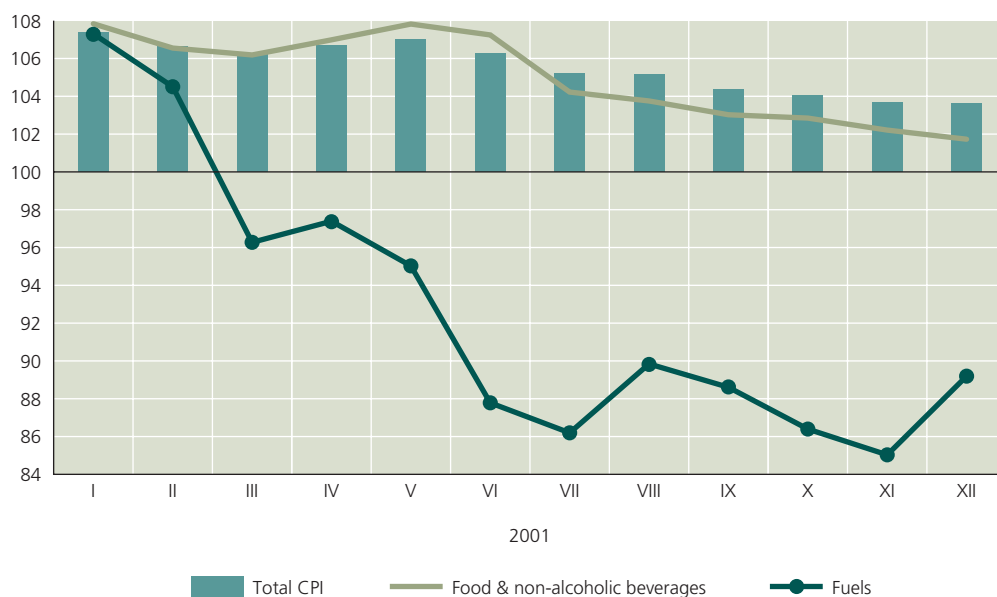
- growth of 4.5% in officially controlled prices, which contributed 1.2 points to the overall increase in the CPI,
- growth of 6.3% in service prices (excluding those officially controlled), which contributed 1.1 points to the CPI,
- growth of 3.0% in prices for non-food articles (excluding those officially controlled), which contributed 0.8 points to the CPI,
- growth of 1.6% in prices for food and non-alcoholic beverages, which contributed 0.5 points to the CPI.

This situation is illustrated by Figures 33 and 34.

**Figure 33**

#### CPI vs. prices for food & non-alcoholic beverages and fuel prices, 2001

(corresponding month previous year = 100)

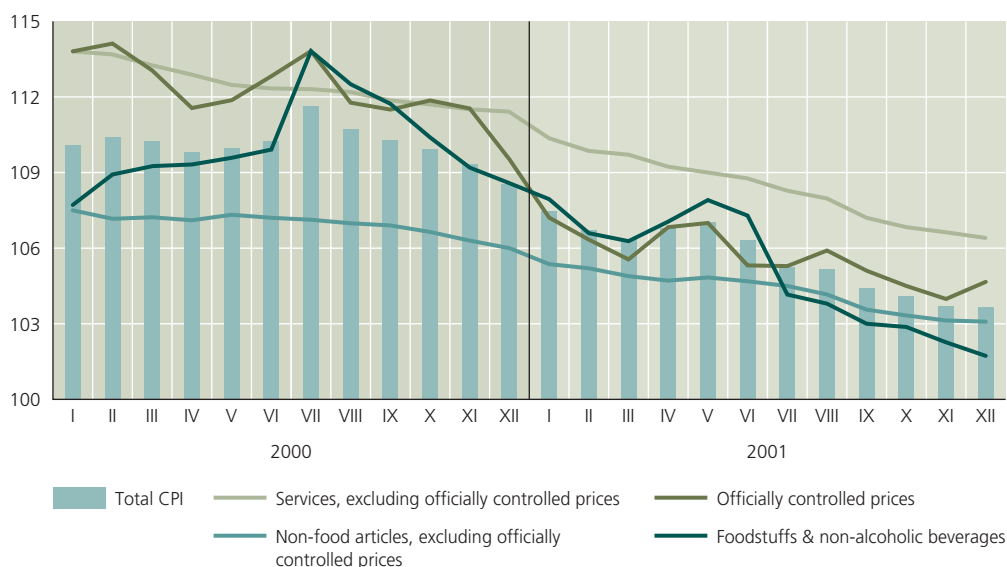


Source: GUS; NBP calculations

**Figure 34**

**CPI and principal price categories, 2000-2001**

(corresponding month previous year = 100)



Source: GUS; NBP calculations

Tables 34 and 35 present inflation in the years 1999-2001 as measured by consumer price growth, together with price indices for basic price categories and a breakdown of CPI growth.

**Table 34**

**Price growth, basic categories of consumer goods & services**

(corresponding month previous year = 100)

	1999	2000	2001				
	XII	XII	III	VI	IX	XII	I-XII
Consumer goods & services	109.8	108.5	106.2	106.2	104.3	103.6	105.5
Officially controlled prices	114.7	109.5	105.5	105.2	105.0	104.5	105.5
– of which: fuels	152.7	111.0	96.2	87.8	88.6	89.1	92.5
Food & non-alcoholic beverages	106.0	108.5	106.2	107.2	102.9	101.6	105.0
Non-food articles (excluding officially controlled prices)	107.1	105.9	104.8	104.6	103.5	103.0	104.2
Services (excluding officially controlled prices)	114.0	111.3	109.6	108.7	107.1	106.3	108.3

Source: GUS; NBP calculations

**Table 35**

**Contribution of basic categories of consumer goods & services to 12-month CPI**

	1999	2000	2001				
	XII	XII	III	VI	IX	XII	I-XII
Contribution to CPI growth (percentage points)							
CPI	9.8	8.5	6.2	6.2	4.3	3.6	5.5
Officially controlled prices	3.6	2.4	1.4	1.3	1.3	1.2	1.4
– of which: fuels	1.3	0.3	-0.1	-0.4	-0.4	-0.4	-0.3
Food & non-alcoholic beverages	1.9	2.6	1.9	2.2	0.9	0.5	1.5
Non-food articles (excluding officially controlled prices)	2.0	1.7	1.3	1.2	0.9	0.8	1.2
Services (excluding officially controlled prices)	2.3	1.8	1.7	1.5	1.2	1.1	1.4
Composition of CPI growth (%)							
CPI	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Officially controlled prices	36.9	28.0	22.6	21.4	29.8	33.0	26.0
– of which: fuels	13.1	3.6	-2.1	-6.8	-9.2	-10.7	-4.8
Food & non-alcoholic beverages	19.5	30.6	29.9	34.8	20.3	13.8	27.3
Non-food articles (excluding officially controlled prices)	20.4	19.7	21.0	20.0	21.7	22.7	20.8
Services (excluding officially controlled prices)	23.2	21.7	26.5	23.8	28.2	30.5	25.9

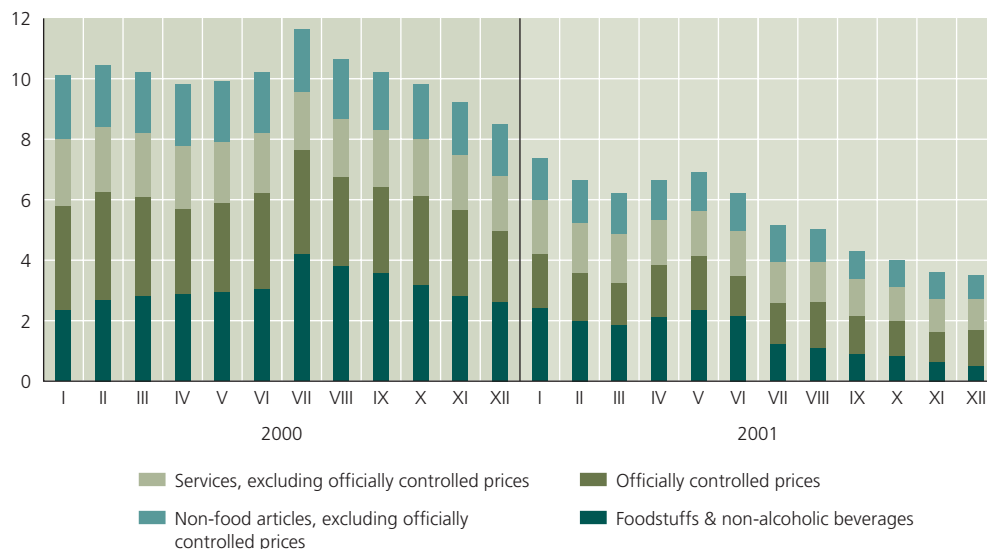
Source: GUS; NBP calculations

The contribution of particular price categories to the 12-month CPI in the years 2000-2001 is portrayed in Figure 35.

**Figure 35**

**Contribution of particular price categories to CPI growth, 2000-2001**

(corresponding month previous year = 100)



Source: GUS; NBP calculations

The decline in inflation in 2001 was accompanied by significant changes in the pattern of price movements compared to the year before (cf. Table 35 and Fig. 35). The part played by food and non-alcoholic beverages in overall CPI growth was more than halved (dropping to 14% from almost 31% a year previously). By contrast, there was a major increase in the contribution to the CPI of service prices (excluding officially controlled prices), up from some 22% to nearly 31%. Changes in the relative weight of the other two price categories were smaller, with officially controlled prices accounting for 33% of CPI growth (as against 28% in 2000), while non-food articles (excluding officially controlled prices) accounted for around 23% (as against some 20%). Fuel prices helped bring down inflation in 2001, whereas in 2000 they had exerted a pro-inflationary influence (albeit accounting for the smallest proportion of CPI growth).

In 2001, as was also the case in 2000, the sharpest increase was reported in **service prices (excluding officially controlled prices)**. Faster growth in consumer service prices than in the overall CPI has persisted, with varying intensity, since the very beginning of Poland's systemic transition. This situation is typical in rapidly developing countries, one of the underlying reasons being the "Balassa-Samuelson effect". The strongest growth seen in service prices (excluding officially controlled ones) in 2001 was in water supply and other services related to the dwelling, housing occupancy, and social protection; annual price growth in these areas ranged from 8% to 14%. It should be noted here that demand is rigid for many of these services that have been swiftly rising in price. Prices in this group are not sensitive to the level of monetary policy tightness and act to slow down disinflation.

As in previous years, the growth registered in 2001 in **officially controlled prices** (governed by market mechanisms to a limited extent) exceeded that of overall consumer price growth. However, compared to 2000, the pace of price increases in this group clearly waned. This was primarily associated with the fall in fuel prices. The annualised average decline in fuel prices came to 7.6% in 2001, while in 2000 these prices had risen 36.8%. From December 2000 to December 2001, fuel prices came down 10.9%, as against an increase of 11.0% over the preceding twelve months. Movements in fuel prices in 2001 were a function of changes in world prices, increases in rates of excise duty and the pricing policies applied by domestic refineries and retailers. At the end of 2001, the decrease in world petrol prices was accompanied by a weakening of the dollar, which provided an additional impulse to the fall in domestic fuel prices.

**Prices of foodstuffs and non-alcoholic beverages** displayed minor growth in 2001 (growth had been five times higher the year before), rising 2.0 points less than the overall CPI. Generally speaking, this reflected substantially slower food price growth than the year before. In the basic groups of foodstuff, the largest price increases in relative terms were seen for fish and vegetables. By contrast, the prices of poultry, beef, sugar, edible oil and fats all came down.

The key factor conditioning prices on the market for agricultural produce in 2001 was the much bigger grain harvest (up 20.7%), which led to lower prices in the second half of the year for both grain and compound animal feeds. Procurement prices (December-on-December) dropped 15% for wheat and 14% for rye; one factor in this was the supply situation, with large grain imports in the first and second quarters of the year and greater grain deliveries under official intervention purchases. On the market for livestock products, the period in question saw a smaller supply of fat pigs and fat cattle, and a larger supply of poultry and cow's milk.

**Prices of non-food articles (excluding officially controlled prices)** represent the price category most sensitive to demand fluctuations and subject to the strongest foreign competition. For this reason, these prices tend to exhibit relatively weaker growth than those in other categories. The decline in domestic demand and slower growth in external demand seen in 2001 reinforced the systematic decrease seen in the growth of these prices. At year end 2001, prices of non-food articles (excluding officially controlled prices) were 3.0% higher than they had been at the end of 2000, giving growth 0.6 points less than the CPI and down by almost half on the year before.

## APPENDIX 2

## GDP and domestic demand

In 2001, domestic demand was lower than the year before, although still greater than GDP. This fall in demand stemmed from a substantial reduction in capital formation. Consumption rose, although more slowly than a year earlier. The decline in domestic demand contributed to a weakening of business activity. GDP growth sank to the lowest level since 1992. The fact that positive GDP growth was achieved despite the decrease in domestic demand was made possible by a further improvement in net exports. Growth rates for GDP and domestic demand, and the relationship between these in the years 1996-2001, are presented in Table 36.

Table 36

## GDP and domestic demand, 1996-2001

	1996	1997	1998	1999	2000	2001
previous year = 100, constant prices						
GDP	106.0	106.8	104.8	104.1	104.0	101.1
Domestic demand	109.7	109.2	106.4	104.8	102.8	98.0
Growth differential, percentage points	-3.7	-2.4	-1.6	-0.8	+1.2	+3.1
– Consumption	107.2	106.1	104.2	104.4	102.4	101.8
– Capital formation	119.5	120.8	113.8	106.1	103.9	86.2
Exports	112.0	112.2	114.3	97.4	123.2	113.0 *
Imports	128.0	121.4	118.5	101.0	115.6	102.0 *
percentage of GDP, current prices						
Domestic demand	101.6	104.3	105.2	106.4	106.9	103.5
– Consumption	79.7	79.7	79.0	80.0	80.8	81.8
– Capital formation	21.9	24.6	26.2	26.4	26.1	21.7
Net exports	-1.6	-4.3	-5.2	-6.4	-6.9	-3.5

\* NBP estimates

Source: GUS; NBP calculations

The fall in capital formation can be traced both to the scaling back of fixed investment and to the much smaller increase in stocks of tangible current assets. The reduction in capital expenditure represented the continuation of a downward trend in growth observable since as far back as 1999, compared to the very powerful growth previously seen in the years 1995-98. In industry, investment activity already began to falter in 1999, while in the distributive trades this occurred in 2000. The decline in capital expenditure was connected with a more pessimistic assessment of sales prospects, while utilisation of the productive capacity built up by investment in previous years was relatively low and diminishing further. Given the high cost of borrowing, investment was also constrained by the low level of capital employed by companies, a result of the deterioration in corporate finances in 1999<sup>77</sup>. Despite an improvement in corporate finances in 2000 and 2001, the tendency to cut back capital spending became more pronounced in 2001. The decline in overall capital expenditure within the Polish economy reported from the second quarter of 2001 onwards was also associated with this expenditure being reduced in the remaining sections of the economy (including transport and construction) and with a further

<sup>77</sup> In 1999, the companies included in GUS surveys had reported negative net earnings of 1.6bn zloty, whereas in 1998 corporate earnings had come to a positive 7.7bn zloty.

deepening of the downtrend in industry. It is believed that there was also a substantial decrease in the investment performed by foreign undertakings<sup>78</sup>, which had risen in previous years; this could have been connected with the increasingly marked downturn within the world economy and dwindling sales opportunities for output within large trans-national corporations. Further, the level of capital expenditure was also depressed by a distinct reduction in investment spending in the general government sector, the result of the mounting crisis of public finances.

Macroeconomic data show that from 1999 onwards the stock of productive assets within the Polish economy has been increasing faster than economic growth, despite fading investment growth (which in 2001 was in fact negative). In the years 1997-2000, the capital/output ratio held steady at 2.35 zloty per 1 zloty of national income<sup>79</sup>. The incremental capital/output ratio<sup>80</sup>, as calculated for three-year periods, has been rising uninterruptedly since the beginning of Poland's systemic transition. This rise did not halt in 2001. The swifter increase in assets than in GDP, coupled with the reduction in employment, means that the capital/labour ratio within the Polish economy has been climbing very rapidly, at over 6%, and this accelerated in 2001<sup>81</sup>. Growth in labour productivity remained at a high 4% in 2001. All the above indicators demonstrate that the slowdown in investment was linked to the earlier expansion of that investment, which caused production capacity to rise too quickly in relation to demand.

**Table 37****Basic macroeconomic data, 1995-2001**

	1995	1996	1997	1998	1999	2000	2001
GDP growth	7.0	6.0	6.8	4.8	4.1	4.0	1.1
Investment growth	17.1	19.2	22.2	15.3	5.9	1.4	-12.0
Fixed asset growth	2.1	4.8	3.5	3.9	3.9	4.2	2.1
COR	2.46	2.42	2.36	2.34	2.35	2.35	2.41
ICOR	-	-	-	2.12	2.60	3.03	4.01
Capital/labour ratio, growth	0.5	1.6	1.4	1.9	6.9	6.1	6.3
Labour productivity growth	4.8	3.4	3.6	2.9	6.7	5.8	4.0

Source: GUS; NBP estimates

Despite the worsening situation on the labour market and a real decrease in incomes from employment for the second year in succession, there was only a minor slowdown in personal consumption growth. This was due to an increase in the purchasing power of other components of gross household disposable incomes, particularly social benefits. The reduction in the growth of social consumption was sharper than in the case of personal consumption.

The decline in investment demand helped hold down import growth. At the same time, export growth continued to be strong, particularly in the first half of the year. As a result, the level of negative net exports dropped significantly. It is estimated that, as a proportion of GDP, the volume of these negative exports halved compared to 2000.

The effect of the more favourable balance of trade was a distinct lessening of external disequilibrium. On a cash basis, the current account deficit came down from 6.3% of GDP in 2000 to 4.1% in 2001. This lower requirement for external savings, expressed in the smaller current deficit, stemmed from the decline in capital formation together with the decrease in gross savings within the Polish economy.

<sup>78</sup> This appraisal is based on balance of payments figures on foreign direct investment, which differ in scope from the definition of investment expenditure. In 2000, foreign direct investment in Poland amounted to US\$ 8.2bn zloty, while in 2001 it came to US\$ 6.9bn.

<sup>79</sup> The capital/output ratio (COR) is defined as the ratio of fixed assets to GDP.

<sup>80</sup> The incremental capital/output ratio (ICOR) is defined as the ratio of asset growth to GDP growth.

<sup>81</sup> The capital/labour ratio is defined as the value of assets per employee.

The particular quarters of 2001 brought a slowdown in both GDP and domestic demand growth, and changes in the composition of these categories. Due to the very rapid export growth and increase in fixed investment recorded in the first quarter of the year, GDP growth in that quarter was similar to that reported in the fourth quarter of 2000; value added in industry also rose. In subsequent quarters, sagging export growth and the deepening fall in investment acted to lower GDP growth, one reason being a decrease in industrial value added. In the second half of the year, a stronger increase in household incomes boosted personal consumption growth, which contributed to faster growth in value added within commercial services. Growth rates for GDP and domestic demand are shown in Table 38.

**Table 38****Quarterly growth in GDP & domestic demand, 2000-2001**

(corresponding period previous year = 100)

	Year	Quarters				
		Q1	Q2	Q3	Q4	Q1-Q4
Gross value added	2000	105.7	104.8	102.9	102.2	103.7
	2001	102.1	100.8	100.6	100.1	100.9
Industry	2000	110.2	109.1	106.0	102.3	106.8
	2001	103.3	98.7	98.5	97.5	99.4
Construction	2000	104.3	100.7	97.7	97.6	99.3
	2001	94.8	92.0	91.8	92.0	92.4
Commercial services	2000	105.4	104.8	103.1	104.0	104.2
	2001	103.5	103.7	104.1	104.2	103.8
GDP	2000	106.0	105.0	103.1	102.3	104.0
	2001	102.3	100.9	100.8	100.3	101.1
Domestic demand	2000	105.1	103.3	101.3	101.7	102.8
	2001	98.7	98.2	98.0	97.1	98.0
Total consumption	2000	104.1	102.7	101.2	101.6	102.4
	2001	101.2	101.3	101.8	102.8	101.8
Personal consumption	2000	104.8	103.0	101.1	101.6	102.6
	2001	101.5	101.6	102.1	103.2	102.1
Capital formation	2000	110.4	105.7	101.6	101.7	103.9
	2001	86.9	87.5	85.8	86.5	86.2
Gross fixed investment	2000	105.4	102.8	102.0	102.1	102.7
	2001	101.5	91.6	86.4	85.7	89.8

Source: GUS; NBP estimates



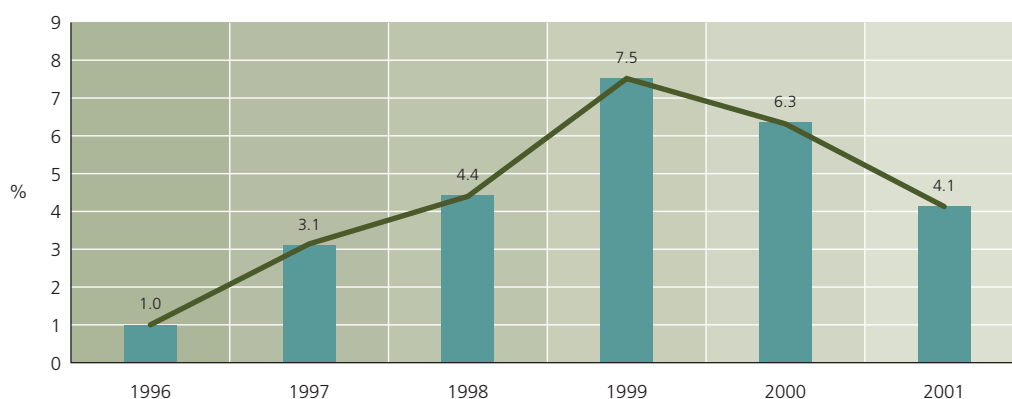
## APPENDIX 3

## External Disequilibrium

The year 2001 saw a continuation of the restoration of external equilibrium within the Polish economy, a process begun the previous year. The current account deficit amounted to US\$ 7.2bn, falling almost 30% compared to 2000. As a proportion of GDP, the deficit came down to 4.1%, as against 6.3% in 2000 (cf. Fig. 36).

Figure 36

Current deficit as proportion of GDP, 1996-2001



Source: NBP

The reduction of the current deficit in 2001 was assisted by trade in goods (accounting for 54% of the decrease in the deficit), trade in services (25%), unclassified current transactions (15%) and current transfers (11%). The opposite effect was forthcoming from the mounting deficit on incomes (-5%) (cf. Table 39).

Table 39

Balance of payments (US\$ million)

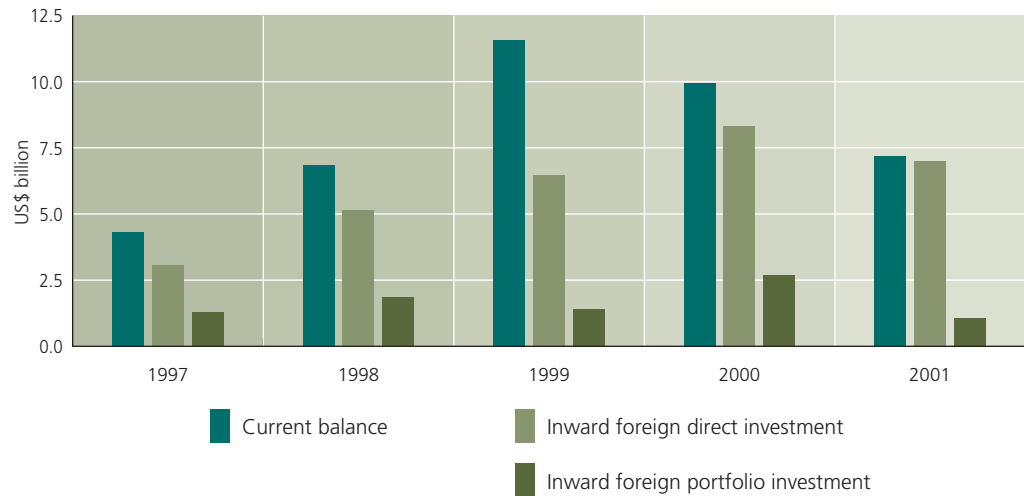
	2000	2001
Current account	-9,952	-7,166
Export receipts, goods	28,255	30,275
Import payments, goods	41,423	41,950
Trade balance, goods	-13,168	-11,675
Services, net	-1,686	-976
Income, net	-759	-896
Current transfers, net	1,681	1,986
Unclassified current transactions, net	3,980	4,395

Source: NBP

An appreciable improvement took place in financing the shortfall on current transactions, with the proportion of the current deficit funded by incoming foreign direct investment rising from 82.2% in 2000 to 96.7% in 2001 (cf. Fig. 37). Progress was also made in the financing of the current deficit by incoming equity capital (purchases of shares in direct investment enterprises), which accounted for 81.1% of the deficit last year, as against 72.9% a year earlier.

Figure 37

## Funding of current deficit



Source: NBP

The year 2001 brought a change in the structure of portfolio investment compared to previous years. With business activity weakening sharply in the most important regions of the world economy and reduced interest being shown in equity securities, the proportion of investment in these instruments on the Polish market also fell. Net investment in Treasury securities remained at the same level as in 2000, totalling some US\$ 1bn (compared to US\$ 56m in 2000 and US\$ 6m in 1998).

External indebtedness, although going up US\$ 0.6bn in 2001 relative to December 2000, did not constitute a threat to Poland's financial stability. This increase in debt was recorded primarily in the non-government, non-banking sector (where it rose US\$ 3.6bn). Short-term indebtedness remained stable as a proportion of the overall external debt, at around 14%.

The year 2001 saw an improvement in the level of selected early warning indicators, which indicate the probability of disruptions to financial markets as a result of the scale of external disequilibrium and the way this is financed. Exceptions were the level of short-term debt and corporate debt relative to total external indebtedness, and also the level of import coverage provided by the official reserves (cf. Table 40).

The deterioration in the ratio of foreign debt service to export receipts is temporary in character; this was caused by an increase in the level of debt service related to the early retirement of debt to Brazil, part of Poland's indebtedness to the Paris Club.

Table 40

## Early warning indicators

Early warning indicators	1998	1999	2000	2001
Current balance / GDP (%)	-4.3	-7.6	-6.3	-4.1
Trade balance / GDP (%)	-8.7	-9.4	-8.4	-6.6
Direct investment / Current balance (%)	74.8	55.9	82.2	96.7
Incoming equity capital / Current balance (%)	49.1	37.5	72.9	81.1
Current balance less direct investment / GDP (%)	-1.2	-3.4	-0.4	-0.1
Portfolio investment / Official reserve assets (%)	4.9	5.7	9.4	4.2
Official reserve assets / Current balance (yrs)	4.0	2.2	2.8	3.7
Foreign debt service (principal + interest) / Exports (%)	-	39.0	41.7	59.3
Short-term external debt / Total external debt (%)	14.2	17.1	13.7	14.3
Corporate external debt / Total external debt (%)	32.1	38.1	43.2	48.0
Official reserve assets as months of imports	7.5	7.5	8.0	7.6

Source: NBP

## APPENDIX 4

## The money supply

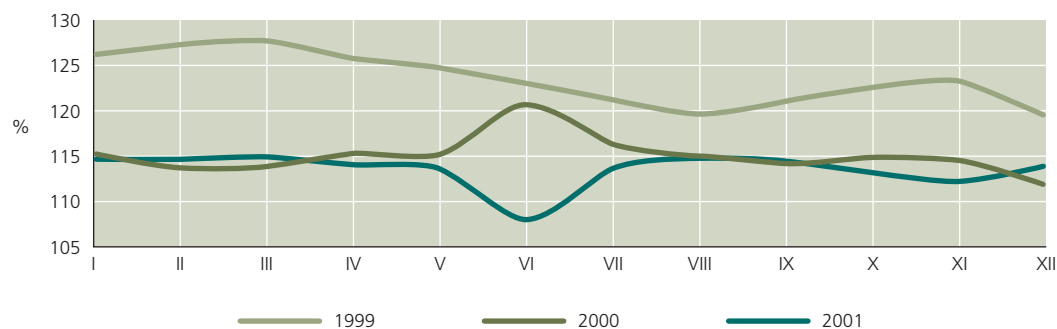
At the end of 2001, the money supply (M2) totalled 334.7bn zloty, representing an increase on year end 2000 of 40.4bn zloty, or 13.7% in nominal terms and 9.8% in real terms<sup>82</sup>.

Twelve-month money supply growth during 2001 was lower than in previous years. It was also stable, with the growth rates observed in particular months showing no more than minor deviations from the annualised average, which came to 13.4% (cf. Fig. 38). The distinctly more muted growth in M2 seen in June was a consequence of the high reference base represented by June 2000, when non-financial sector deposits and loans had soared, taking the money supply with them, due to the public offering of sales in the PKN Orlen Polish Oil Corporation.

Figure 38

## Total money supply, nominal growth

(corresponding month previous year = 100)



Source: NBP

The slowdown in GDP growth, allied with relatively rapid monetary expansion, resulted in an increase in the monetisation of the Polish economy, with the ratio of money stocks (annualised average M2) to GDP coming to 43.0% in 2001, as against 40.0% in 2000. As measured by the ratio of average domestic money stocks to GDP, the degree of monetisation last year came to 36.4% (compared to 33.7% in 2000). At year end, the ratio of the total money supply to GDP was 46.3% (as against 43.0% at the end of 2000).

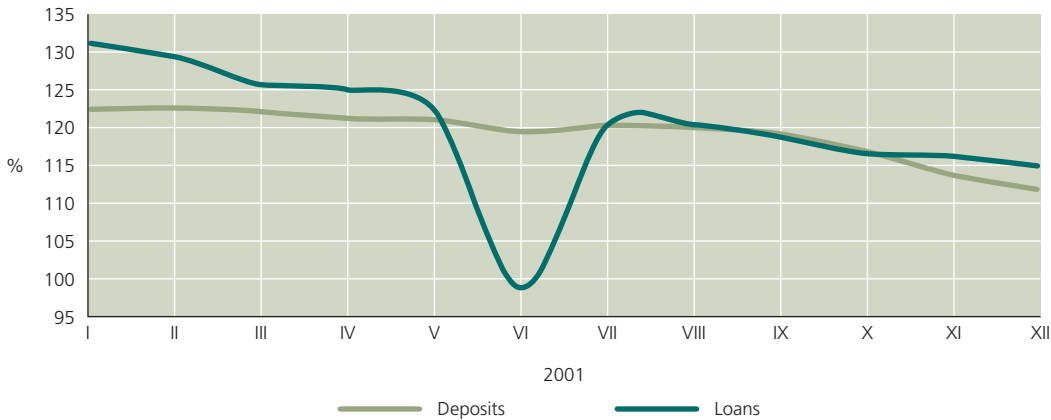
In analysing monetary processes in 2001, one conclusion that has to be drawn is that the fourth quarter brought an adverse development, whereby a distinct weakening occurred in the growth tendency in personal zloty deposits at the banks. Annual growth in personal zloty deposits dropped from 24.1% in December 2000 to 11.7% at the end of 2001 (cf. Fig. 39). This declining household propensity to save at the banks was on the one hand related to low growth in personal incomes, and on the other to the marked reduction in bank deposit rates in the course of the year. In addition, the announcement that interest income on bank deposits was to become taxable meant that in the last two months of the year households held back from placing their savings at the banks, preferring to use their funds to purchase bonds and units in investment funds, and also real estate.

<sup>82</sup> Money supply growth in 2001 was thus close to the lower bound of the range forecast in the *Monetary Policy Guidelines for the Year 2001*, i.e., 40-46bn zloty.

**Figure 39**

**Personal zloty deposits & loans, nominal growth, 2001**

(corresponding month previous year = 100)



Source: NBP

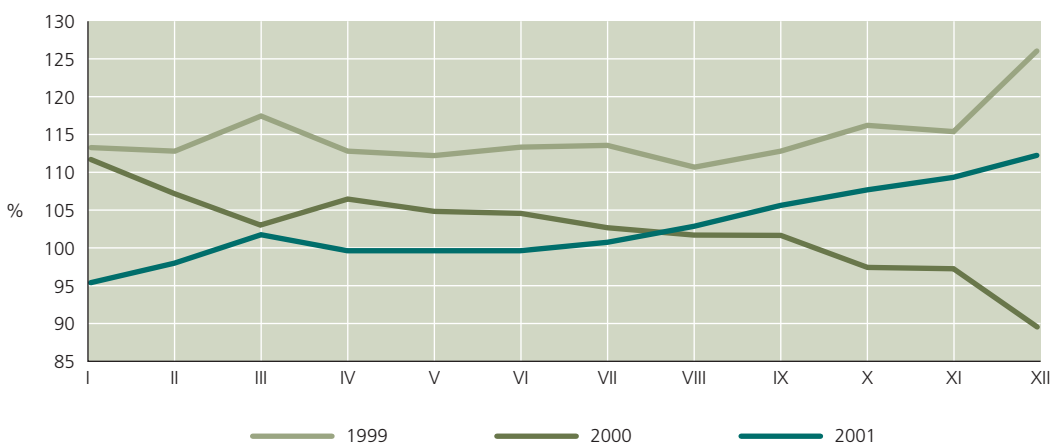
The year 2001 brought a reversal of the downward trend in the volume of notes and coin in circulation that had been observed in 2000 (cf. Fig. 40). This trend was sustained until mid-year, whereupon from July onwards growth in cash stocks gradually began to speed up, reaching 12% in December. Growth in notes and coin in circulation over the year 2001 totalled 4.1bn zloty. Thus, the decrease seen in 2000, of 4.0bn zloty, was made up.

One of the reasons for this change was that the appeal of bank deposits diminished in the course of 2001, while the opportunity cost involved in holding cash was reduced as inflation came down. The growth of notes and coin in circulation was also related to the deterioration in corporate finances, one expression being the difficulties which companies encountered in collecting on their receivables. In these circumstances, many businesses, particularly small ones, safeguarded their liquidity position by holding larger stocks of cash. The faster increase seen in notes and coin could also have been a symptom of the expansion of the "grey economy" as economic growth waned. In addition, with euro notes and coin about to be launched on January 1, 2002, the months of November and December 2001 brought increased purchases of Euroland national currencies prior to their being retired from circulation. The equivalent of US\$ 737m was purchased in this period, of which some 40% was then exchanged into zloty. A substantial part of these funds may have swollen cash stocks.

**Figure 40**

**Notes & coin in circulation, nominal growth**

(corresponding month previous year = 100)



Source: NBP

The consolidated balance sheet of the banking system is presented in Table 41.

**Table 41****Consolidated balance sheet of the banking system, 2001**

<b>BALANCE SHEET OF THE BANKING SYSTEM</b>	<b>2000 Total</b>	<b>Growth</b>	<b>2001 Total</b>
<b>ASSETS</b>			
1. Net foreign assets (US\$ million) nominal/ real growth (%)	31,878.9 6.0	1,902.7	33,781.5
Net foreign assets (million zloty) nominal/ real growth (%)	132,080.5 2.0	2,582.7	134,663.2 -1.6
2. Net domestic assets (million zloty) nominal/ real growth (%)	162,307.4 23.3	37,782.5	200,089.9 18.9
2.1. Net general government debt (million zloty) nominal/ real growth (%)	50,749.2 33.8	17,158.2	67,907.4 29.1
2.2. Claims on persons & corporates (million zloty) nominal/ real growth (%)	206,357.3 7.6	15,602.8	221,960.1 3.8
2.3. Other items, net nominal/ real growth (%)	-94,799.1 -5.3	5,021.5	-89,777.6 -8.6
<b>TOTAL ASSETS (million zloty)</b>	<b>294,387.9</b>	<b>40,365.2</b>	<b>334,753.1</b>
<b>LIABILITIES</b>			
3. Domestic money stocks (million zloty) nominal/ real growth (%)	251,417.3 12.1	30,344.1	281,761.4 8.1
3.1. Notes & coin in circulation (million zloty) nominal/ real growth (%)	34,112.7 12.0	4,099.9	38,212.6 8.1
3.2. Zloty liabilities (million zloty) nominal/ real growth (%)	217,304.6 12.1	26,244.2	243,548.8 8.1
4. Foreign currency liabilities (million zloty) nominal/ real growth (%)	42,970.6 23.3	10,021.1	52,991.7 19.0
Foreign currency liabilities (US\$ million)	10,371.4	2,922.1	13,293.5
<b>TOTAL MONEY STOCKS</b> nominal/ real growth (%)	<b>294,387.9</b> 13.7	<b>40,365.2</b>	<b>334,753.1</b> 9.7
EXCHANGE RATE (USD / PLN)	4.1432	-0.1569	3.9863
CPI (%)		3.6	

Source: NBP

## APPENDIX 5

### Schedule of implementing regulations issued in 2001 by the directing bodies of the National Bank of Poland and the Commission for Banking Supervision (regulations promulgated)

- 5.1. Resolutions of the Management Board of the National Bank of Poland
- 5.2. Resolutions of the Monetary Policy Council
- 5.3. Regulations of the President of the National Bank of Poland
- 5.4. Resolutions of the Commission for Banking Supervision

## Appendix 5.1

## Resolutions of the Management Board of the National Bank of Poland

No.	Date adopted	Date took effect	Title (subject matter)	Where published
1.	12.01.2001	01.02.2001	amending the Resolution establishing "Regulations for the performance of payment orders and cheque transactions in international settlements, and for the purchase and sale of foreign currencies for holders of bank accounts at the National Bank of Poland"	Dziennik Urzędowy NBP no. 1, item 1
2.	26.01.2001	29.01.2001	amending the Resolution on the principles and procedures for calculating and maintaining required reserves	Dziennik Urzędowy NBP no. 1, item 2
3.	05.02.2001	28.02.2001	amending the Resolution on the By-laws of the Management Board of the National Bank of Poland	Monitor Polski no. 7, item 116
4.	16.02.2001	31.03.2001	amending the Resolution on the procedures and detailed principles for banks submitting to the National Bank of Poland the data necessary for the determination of monetary policy, for periodic assessments of Poland's monetary situation, and for an evaluation of the financial condition of the banks and the risks within the banking sector	Dziennik Urzędowy NBP no. 2, item 4
5.	02.03.2001	05.03.2001	on the interest rate payable on funds held at the National Bank of Poland on current accounts	Dziennik Urzędowy NBP no. 3, item 8
6.	30.03.2001	02.04.2001	on the interest rate payable on funds held at the National Bank of Poland on current accounts	Dziennik Urzędowy NBP no. 5, item 11
7.	30.03.2001	23.04.2001	amending the Resolution on the issue of NBP money market bills and trading in those bills	Dziennik Urzędowy NBP no. 5, item 12
8.	21.06.2001	02.07.2001	amending the Resolution on the publication of exchange rates for the zloty against foreign currencies	Dziennik Urzędowy NBP no. 8, item 17
9.	29.06.2001	02.07.2001	on the interest rate payable on funds held at the National Bank of Poland on current accounts	Dziennik Urzędowy NBP no. 9, item 20
10.	24.08.2001	27.08.2001	on the interest rate payable on funds held at the National Bank of Poland on current accounts	Dziennik Urzędowy NBP no. 13, item 28
11.	31.08.2001	01.09.2001	rescinding the Resolution on the interest rate payable on funds held at the National Bank of Poland on current accounts	Dziennik Urzędowy NBP no. 14, item 29



## Appendix 5.1 – cont.

No.	Date adopted	Date took effect	Title (subject matter)	Where published
12.	07.09.2001	24.09.2001	amending the Resolution establishing "Regulations for bank refinancing by the National Bank of Poland under lombard facilities"	Dziennik Urzędowy NBP no. 15, item 30
13.	14.09.2001	01.12.2001	amending the Resolution on the procedures and detailed principles for banks submitting to the National Bank of Poland the data necessary for the determination of monetary policy, for periodic assessments of Poland's monetary situation, and for an evaluation of the financial condition of the banks and the risks within the banking sector	Dziennik Urzędowy NBP no. 16, item 31
14.	28.09.2001	18.10.2001	amending the Resolution on the By-laws of the Management Board of the National Bank of Poland	Monitor Polski no. 35, item 568
15.	16.11.2001	01.12.2001	amending the Resolution on the conditions applicable to the opening and operation of accounts for banks at the National Bank of Poland	Dziennik Urzędowy NBP no. 18, item 37
16.	22.11.2001	01.12.2001	establishing "Regulations for intraday bank refinancing by the National Bank of Poland"	Dziennik Urzędowy NBP no. 19, item 38
17.	14.12.2001	01.01.2002	amending the Resolution establishing "Regulations for the performance of payment orders and cheque transactions in international settlements, and for the purchase and sale of foreign currencies for holders of bank accounts at the National Bank of Poland"	Dziennik Urzędowy NBP no. 23, item 49
18.	21.12.2001	01.01.2002	on the principles and procedures for calculating and maintaining required reserves	Dziennik Urzędowy NBP no. 23, item 50

## Appendix 5.2

## Resolutions of the Monetary Policy Council

No.	Date adopted	Date took effect	Title (subject matter)	Where published
1.	28.02.2001	01.03.2001	on the rediscount rate and refinancing rate	Dziennik Urzędowy NBP no. 3, item 6
2.	28.02.2001	01.03.2001	on procedures for the conduct of open market operations	Dziennik Urzędowy NBP no. 3, item 7
3.	28.03.2001	29.03.2001	on the rediscount rate and refinancing rate	Dziennik Urzędowy NBP no. 4, item 9
4.	28.03.2001	29.03.2001	on procedures for the conduct of open market operations	Dziennik Urzędowy NBP no. 4, item 10
5.	25.04.2001	25.04.2001	accepting the accounts of the National Bank of Poland at December 31, 2000	Dziennik Urzędowy NBP no. 6, item 14
6.	30.05.2001	30.05.2001	accepting the report on the performance of monetary policy guidelines in 2000 and assessing the activity of the Management Board of the National Bank of Poland in implementing those guidelines	Monitor Polski no. 18, item 308
7.	30.05.2001	30.05.2001	approving the report on the operations of the National Bank of Poland in 2000	Dziennik Urzędowy NBP no. 7, item 15
8.	27.06.2001	28.06.2001	on the rediscount rate and refinancing rate	Dziennik Urzędowy NBP no. 8, item 18
9.	27.06.2001	28.06.2001	on procedures for the conduct of open market operations	Dziennik Urzędowy NBP no. 8, item 19
10.	22.08.2001	23.08.2001	on the rediscount rate and refinancing rate	Dziennik Urzędowy NBP no. 12, item 26
11.	22.08.2001	23.08.2001	on procedures for the conduct of open market operations	Dziennik Urzędowy NBP no. 12, item 27
12.	25.09.2001	01.01.2002	establishing a ceiling on the liabilities due on borrowings by the National Bank of Poland at international banking and financial institutions	Dziennik Urzędowy NBP no. 16, item 32

## Appendix 5.2 – cont.

No.	Date adopted	Date took effect	Title (subject matter)	Where published
13.	26.09.2001	01.01.2002	establishing monetary policy guidelines for 2002	Monitor Polski no. 34, item 562
14.	24.10.2001	24.10.2001	approving amendments to the financial plan of the National Bank of Poland for 2001	Dziennik Urzędowy NBP no. 17, item 34
15.	25.10.2001	26.10.2001	on the rediscount rate and refinancing rate	Dziennik Urzędowy NBP no. 17, item 35
16.	25.10.2001	26.10.2001	on procedures for the conduct of open market operations	Dziennik Urzędowy NBP no. 17, item 36
17.	28.11.2001	29.11.2001, with the exception of \$5, to take effect on 1.12.2001	on the rediscount rate and refinancing rate, and the NBP deposit rate	Dziennik Urzędowy NBP no. 20, item 39
18.	28.11.2001	29.11.2001	on procedures for the conduct of open market operations	Dziennik Urzędowy NBP no. 20, item 40
19.	18.12.2001	18.12.2001	approving the financial plan of the National Bank of Poland for 2002	Dziennik Urzędowy NBP no. 23, item 47
20.	19.12.2001	1.01.2002, to be applicable to the reserve requirements to be met, pursuant to separate regulations, on 28.02.2002	on the reserve ratio for banks	Dziennik Urzędowy NBP no. 23, item 48

## Appendix 5.3

## Regulations of the President of the National Bank of Poland

No.	Date adopted	Date took effect	Title (subject matter)	Where published
1.	25.01.2001	08.02.2001	specifying the design, alloy, fineness, weight and volume of issue of coins with a nominal value of 2 and 20 zloty, and the date they are to be brought into circulation	Monitor Polski no. 4, item 81
2.	27.03.2001	11.04.2001	specifying the design, alloy, fineness, weight and volume of issue of coins with a nominal value of 2, 10 and 100 zloty, and the date they are to be brought into circulation	Monitor Polski no. 11, item 181
3.	24.04.2001	04.05.2001	specifying the design, alloy, fineness, weight and volume of issue of coins with a nominal value of 2 and 20 zloty, and the date they are to be brought into circulation	Monitor Polski no. 13, item 218
4.	22.05.2001	31.05.2001	specifying the design, alloy, fineness, weight and volume of issue of coins with a nominal value of 2, 10 and 200 zloty, and the date they are to be brought into circulation	Monitor Polski no. 17, item 292
5.	13.06.2001	26.06.2001	specifying the design, alloy, fineness, weight and volume of issue of coins with a nominal value of 100 zloty, and the date they are to be brought into circulation	Monitor Polski no. 20, item 324
6.	27.06.2001	01.08.2001	on methods and procedures for counting, sorting, packing and designating packages of notes and coin, and the performance of operations involving the supply of notes and coin to the banks	Dziennik Urzędowy NBP no. 10, item 22
7.	08.08.2001	24.08.2001	specifying the design, alloy, fineness, weight and volume of issue of coins with a nominal value of 2, 10 and 200 zloty, and the date they are to be brought into circulation	Monitor Polski no. 27, item 444
8.	14.09.2001	28.09.2001	specifying the design, alloy, fineness, weight and volume of issue of coins with a nominal value of 2, 10 and 100 zloty, and the date they are to be brought into circulation	Monitor Polski no. 32, item 530
9.	11.10.2001	23.10.2001	specifying the design, alloy, fineness, weight and volume of issue of coins with a nominal value of 2 and 10 zloty, and the date they are to be brought into circulation	Monitor Polski no. 37, item 608
10.	07.11.2001	15.11.2001	specifying the design, alloy, fineness, weight and volume of issue of coins with a nominal value of 2 and 20 zloty, and the date they are to be brought into circulation	Monitor Polski no. 40, item 661
11.	07.12.2001	14.12.2001	on the foreign currencies deemed convertible	Monitor Polski no. 45, item 738
12.	11.12.2001	21.12.2001	amending the Regulation specifying the method of conducting interbank settlements	Dziennik Urzędowy NBP no. 21, item 41
13.	13.12.2001	1.01.2002	amending the Regulation on authorisation to issue rulings on foreign exchange permits	Dziennik Urzędowy NBP no. 22, item 42

## Appendix 5.4

## Resolutions of the Commission for Banking Supervision

No.	Date adopted	Date took effect	Title (subject matter)	Where published
1.	04.04.2001	11.05.2001	amending the resolution on procedures for the performance of banking supervision	Dziennik Urzędowy NBP no. 6, item 13
2.	06.08.2001	28.08.2001	amending the resolution on procedures for the performance of banking supervision	Dziennik Urzędowy NBP no. 11, item 23
3.	06.08.2001	28.08.2001	on the procedure to be applied by the Commission for Banking Supervision as an institution collaborating with the General Inspector of Financial Information	Dziennik Urzędowy NBP no. 11, item 24
4.	12.12.2001	01.01.2002, with the exception of \$2-\$5, \$7, para. 2, and \$13, to take effect on 31.01.2002	on the scope and detailed procedures for determining capital requirements against particular risks, including breaches of large exposure limits, on the manner and detailed procedures for calculating a bank's risk-based capital ratio, taking account of the bank's links with subsidiary undertakings or other undertakings belonging to the same group of companies, and on the specification of additional items of bank balance sheets included together with the capital base in calculating capital adequacy, and the scope and method of determining such items	Dziennik Urzędowy NBP no. 22, item 43
5.	12.12.2001	01.01.2002	on detailed procedures for determining the capital base of banks belonging to banking groups for the purpose of applying the standards and limits stipulated in the Banking Act, on the level and detailed scope of deductions from a bank's core capital and the conditions for such deduction, on other items of bank balance sheets to be included in supplementary capital, the level thereof and the conditions for such inclusion, on other deductions from a bank's capital base, the level thereof and the conditions for such deduction, and on the consideration to be given to a bank's links with subsidiary undertakings or other undertakings belonging to the same group of companies in determining the method used to calculate the capital base	Dziennik Urzędowy NBP no. 22, item 44
6.	12.12.2001	01.01.2002	on the detailed procedures and conditions for including claims and extended off balance sheet commitments in determining compliance with large exposure limits, on the specification of other claims and extended off balance sheet commitments exempt from the provisions concerning large exposure limits, and on the consideration to be given to a bank's links with subsidiary undertakings or other undertakings belonging to the same group of companies in calculating large exposures	Dziennik Urzędowy NBP no. 22, item 45
7.	12.12.2001	07.01.2002	on the amount of the additional portion of members' commitments at cooperative banks that may be included in the capital base of those banks, and the conditions for such inclusion	Dziennik Urzędowy NBP no. 22, item 46

## APPENDIX 6

## NBP publications and web site in 2001

Title, frequency of publication	Subject matter	Language
<b>Annual Report, 2000</b> annual publication	Information on overall economic and financial performance in Poland, the development of the banking sector and the activity of the NBP, together with the balance sheet of the NBP and the banking system, and the balance of payments of the Polish Republic.	Polish, English
<b>Bank and Credit [Bank i Kredyt]</b> monthly: nos. 1-2/2001, 3/2001, 4/2001, 5/2001, 6/2001, 7/2001, 8/2001, 9/2001, 10/2001	Analytical articles on the financial sector, especially the banking sector, plus informative articles. Presents the most important issues connected with the activity and strategic direction of the NBP in its role as Poland's central bank. Contains an educational insert, the "Banking ABC".	Polish, articles summarised in English
<b>Preliminary Information [Informacja Wstępna]</b> monthly: nos. 12/2000-11/2001	Summary publication containing preliminary data on economic performance, the banking system, the balance sheet of the NBP and the balance of payments of the Polish Republic.	Polish, English
<b>Materials and Studies [Materiały i Studia]</b> nos. 116-131	Series of publications containing papers presenting the results of research conducted both by NBP staff and by staff from other academic and financial institutions. These deal with key issues of banking and monetary policy.	Polish, selected issues available in English
<b>Information Bulletin [Biuletyn Informacyjny]</b> monthly: nos. 1-2/2001, 4-5/2001, 7-8/2000 quarterly editions: nos. 3/2001, 6/2001	Basic information on overall economic and financial performance in Poland, and on the monetary policy of the central bank. Quarterly editions also contain a narrative section on general macroeconomic trends, the money supply and counterparts to changes in money stocks, the balance of payments, and basic monetary policy instruments.	Polish, English
<b>Monetary Policy Guidelines for 2002</b> annual publication	Presents the monetary policy guidelines approved annually by the Monetary Policy Council. Contains a characterisation of the external and internal factors conditioning monetary policy, policy targets, and the instruments for achieving them.	Polish, English
<b>Report on the Performance of Monetary Policy Guidelines in 2000</b> annual publication	Discusses the performance of inflation targets, the development of monetary aggregates and monetary policy instruments, and also describes the performance of other monetary policy responsibilities.	Polish
<b>Report on NBP Operations in 2000</b> annual publication (published May 2001)	Contains information on the performance of the various functions of the central bank in 2000, together with the balance sheet and profit and loss account of the NBP.	Polish
<b>Inflation Report</b> annual edition for 2000 (published March 2001) quarterly editions (Q1, Q2 & Q3 2001)	Discusses inflationary trends in the period in question, monetary aspects of inflation, and the non-monetary factors, external and internal, conditioning inflation.	Polish, English
<b>Preliminary Information on Corporate Sector Finances (special focus on business climate) [Wstępna informacja o kondycji sektora przedsiębiorstw]</b> quarterly (Q1, Q2, Q3 & Q4 2001)	Analyses the state of business activity in the corporate sector, based on the following data sources: the findings of NBP early monitoring, the results of business surveys conducted by other domestic institutions, and currently available GUS surveys.	Polish
<b>Direct Investment</b> annual publication	Analyses the inflow of direct investment in the given period.	Polish
<b>Balance of Payments, Transactions Basis, together with Balance of Foreign Assets &amp; Liabilities of the Polish Republic</b> annual publication	Balance of payments data on a transactions basis, and balance of foreign assets and liabilities, coupled with analysis and methodological section.	Polish
<b>Corporate Finances in 2000, with Particular Focus on Monetary and Credit Policies in the Light of Surveys and GUS Data</b> annual publication	Analyses corporate financial performance in 2000 on the basis of GUS data on 17,430 companies submitting financial reports and NBP annual survey findings for 354 businesses.	Polish

## Appendix 6 – cont.

Title, frequency of publication	Subject matter	Language
<b>Balance of Payments of the Polish Republic</b> year 2000 first quarter 2001 first half 2001 first three quarters 2001	Balance of payments data on a cash basis, as registered by the Polish banking system during the period in question.	Polish
<b>Financial Markets [Rynki finansowe]</b> monthly: nos. 1/2001-12/2001	Monthly analysis of the situation on financial markets, with current information on interest and exchange rates, and on investor expectations and behaviour.	Polish
<b>Summary Evaluation of the Financial Situation of Polish Banks [Sytuacja finansowa bankow. Synteza]</b> first quarter mid year first three quarters annual	Evaluation of the financial situation of the banks, developed by the General Inspectorate of Banking Supervision on the basis of prudential reports. Provides a summary presentation of the principal components of the banks' assets, liabilities and off balance sheet operations, including the quality of assets and OBS exposures and the level of provisioning performed, and also the banks' capital base, ownership structure and risk-based capital ratios.	– first quarter, mid-year, first three quarters and annual editions in Polish  – mid-year and annual editions in English
<b>NBP web site:</b> <a href="http://www.NBP.pl">http://www.NBP.pl</a>	Presents the Bank, its organisational structure and operating principles, legislation, statistical information (including NBP base interest rates and primary market rates on Government securities, tenders for fixed-rate Treasury conversion bonds, and results of tenders for fixed-rate Treasury bonds sold by the NBP), notes and coin issued by the NBP, a listing of banks operating in Poland, NBP publications, and updated news of the NBP. Additional pages on "European integration", "The Euro 2002", "NBP conferences" and "Vacancies at the NBP".	Polish, English

## APPENDIX 7

## Voting of Monetary Policy Council members in 2001

Date of resolution	Subject	Decision taken by MPC	Voting of Council members	
			for:	against:
February 28, 2001	lowering all interest rates by one and a half percentage points	motion failed to receive a majority of votes	J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
February 28, 2001	the rediscount rate and refinance rate	to lower base interest rates by one percentage point	L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski G. Wójtowicz	M. Dąbrowski D. Rosati W. Ziółkowska
February 28, 2001	procedures for the conduct of open market operations	to lower the reference rate by one percentage point	L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski G. Wójtowicz	M. Dąbrowski D. Rosati W. Ziółkowska
March 28, 2001	the rediscount rate and refinance rate	to lower base interest rates by one percentage point	L. Balcerowicz J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
March 28, 2001	procedures for the conduct of open market operations	to lower the reference rate by one percentage point	L. Balcerowicz J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
May 30, 2001	lowering all interest rates by two percentage points	motion failed to receive a majority of votes	J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
May 30, 2001	lowering all interest rates by one percentage point	motion failed to receive a majority of votes	J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
June 27, 2001	lowering all interest rates by two percentage points	motion failed to receive a majority of votes	J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
June 27, 2001	the rediscount rate and refinance rate	to lower base interest rates by one and a half percentage points	L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski	M. Dąbrowski D. Rosati G. Wójtowicz W. Ziółkowska



**Appendix 7 – cont.**

Date of resolution	Subject	Decision taken by MPC	Voting of Council members	
			for:	against:
June 27, 2001	procedures for the conduct of open market operations	to lower the reference rate by one and a half percentage points	L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski	M. Dąbrowski D. Rosati G. Wójtowicz W. Ziółkowska
August 22, 2001	the rediscount rate and refinance rate	to lower base interest rates by one percentage point	L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski
August 22, 2001	procedures for the conduct of open market operations	to lower the reference rate by one percentage point	L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski
September 26, 2001	establishing monetary policy guidelines for 2002		L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski D. Rosati G. Wójtowicz W. Ziółkowska	
October 25, 2001	lowering interest rates by two percentage points	motion failed to receive a majority of votes	J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
October 25, 2001	lowering interest rates by one percentage point	motion failed to receive a majority of votes	B. Grabowski C. Józefiak W. Łączkowski J. Pruski	L. Balcerowicz M. Dąbrowski J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska
October 25, 2001	the rediscount rate and refinance rate	to lower all interest rates by one and a half percentage points	L. Balcerowicz J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
October 25, 2001	procedures for the conduct of open market operations	to lower the reference rate by one and a half percentage points	L. Balcerowicz J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski

## Appendix 7 – cont.

Date of resolution	Subject	Decision taken by MPC	Voting of Council members	
			for:	against:
November 28, 2001	the rediscount rate and refinance rate, and the NBP deposit rate	to lower the rediscount rate and refinance rate by one and half percentage points, and to set the NBP deposit rate at 7.5%	L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski
November 28, 2001	procedures for the conduct of open market operations	to lower the reference rate by one and a half percentage points	L. Balcerowicz J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
December 19, 2001	the reserve ratio for banks	to lower the reserve ratio to 4.5%	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski D. Rosati G. Wójtowicz W. Ziółkowska	



# STATISTICAL ANNEX

## TABLE I

## Basic Economic Data

	Unit	2000	2001		
		XII	I	II	III
1. Industrial output					
a) current prices	million zloty	40,458.2	36,606.7	35,592.6	40,834.6
b) constant prices					
– corresponding month previous year = 100	%	97.8	110.1	99.9	102.8
– previous month = 100	%	98.6	91.1	97.3	114.6
2. Construction output					
a) current prices	million zloty	5,758.1	2,354.0	2,539.6	3,016.5
b) constant prices					
– corresponding month previous year = 100	%	93.1	90.2	90.9	91.4
– previous month = 100	%	140.3	40.7	107.4	118.2
3. Consumer Price Index					
a) corresponding month previous year- = 100	%	108.5	107.4	106.6	106.2
b) previous month = 100	%	100.2	100.8	100.1	100.5
c) December previous year = 100	%	108.5	100.8	100.9	101.4
4. Industrial Producer Price Index					
a) corresponding month previous year = 100	%	105.6	104.7	104.1	103.8
b) previous month = 100	%	99.1	99.7	99.9	100.2
5. Construction Output Price Index					
a) corresponding month previous year = 100	%	106.9	106.7	106.5	105.8
b) previous month = 100	%	100.2	100.3	100.5	100.2
6. Employed labour force, corporate sector total	thou.	5,337	5,349	5,359	5,341
7. Average employees in employment, corporate sector total	thou.	5,199	5,184	5,189	5,170
8. Unemployed	thou.	2,702.6	2,835.6	2,876.9	2,898.7
9. Unemployment rate	%	15.1	15.7	15.9	16.1
10. Average monthly employee earnings (gross), corporate sector	zloty	2,350.12	2,069.29	2,074.91	2,149.13
11. Central government receipts & expenditure					
a) receipts	million zloty	135,663.9	11,590.9	20,962.0	31,623.1
b) expenditure	million zloty	151,054.9	16,683.4	32,941.4	46,615.6
c) financial surplus/deficit and net external lending/borrowing	million zloty	-20,410.8	-4,279.4	-9,503.7	-13,019.0
12. Corporate financial performance					
a) total revenues	million zloty	952,520.3	.	.	221,130.7
of which: sales of goods & services	million zloty	571,044.5	.	.	135,618.7
b) total operating costs	million zloty	934,392.2	.	.	218,496.8
of which: cost of sales	million zloty	584,134.6	.	.	139,156.2
c) pre-tax profit/loss	million zloty	18,376.9	.	.	2,619.6
d) statutory deductions (taxes)	million zloty	12,159.9	.	.	2,635.3
e) net profit/loss	million zloty	6,217.1	.	.	-15.8
f) cost to sales ratio	%	98.1	.	.	98.8
g) net margin	%	0.7	.	.	0.0
h) quick liquidity ratio	%	74.3	.	.	76.6
i) total current assets	million zloty	292,251.6	.	.	283,789.8
j) accounts receivable and associated claims	million zloty	123,986.1	.	.	117,504.3
k) accounts payable	million zloty	123,702.5	.	.	109,061.3

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
37,800.2	38,829.2	37,428.3	37,171.9	39,539.8	39,873.3	42,786.1	40,362.3	38,682.0
103.6	99.0	95.2	101.1	100.7	96.2	101.4	99.2	95.2
92.2	102.9	97.2	98.8	105.9	100.6	107.7	94.5	94.5
2,938.7	3,404.8	3,877.1	3,694.9	3,806.9	4,216.8	4,561.8	3,764.6	5,268.2
89.2	88.1	89.9	89.6	86.0	89.0	90.0	90.2	89.4
97.1	115.3	113.7	95.0	102.7	110.7	107.8	82.3	139.6
106.6	106.9	106.2	105.2	105.1	104.3	104.0	103.6	103.6
100.8	101.1	99.9	99.7	99.7	100.3	100.4	100.1	100.2
102.2	103.3	103.2	102.8	102.5	102.8	103.2	103.3	103.6
103.4	102.3	100.9	100.6	100.1	100.7	99.5	99.0	99.6
100.2	100.0	99.6	100.3	100.8	100.5	99.4	99.4	99.7
105.0	104.4	103.9	103.6	103.4	103.2	102.8	102.3	102.3
100.3	100.3	100.1	100.1	100.2	100.1	100.1	99.9	100.1
5,326	5,309	5,296	5,274	5,248	5,233	5,221	5,188	5,094
5,156	5,135	5,121	5,097	5,074	5,060	5,044	5,020	4,952
2,878.0	2,841.1	2,849.2	2,871.5	2,892.6	2,920.4	2,944.3	3,022.4	3,115.1
16.0	15.9	15.9	16.0	16.2	16.3	16.4	16.8	17.4
2,175.55	2,163.44	2,148.44	2,198.50	2,192.41	2,217.55	2,252.16	2,302.46	2,474.11
42,510.4	52,643.1	67,729.7	78,963.7	90,330.9	102,775.5	115,520.0	127,819.4	140,526.9
60,792.3	73,027.2	86,535.2	98,279.3	111,262.5	124,640.5	140,259.4	155,470.0	172,885.2
-17,176.6	-19,270.4	-17,818.6	-18,791.4	-20,386.4	-23,441.1	-25,959.0	-38,849.1	-43,670.8
.	.	456,350.9	.	.	698,138.3	.	.	965,074.6
.	.	276,328.3	.	.	420,351.7	.	.	575,511.2
.	.	450,594.6	.	.	688,328.2	.	.	958,785.7
.	.	285,439.9	.	.	432,779.5	.	.	595,100.2
.	.	5,828.8	.	.	9,866.3	.	.	6,366.4
.	.	4,810.6	.	.	7,176.8	.	.	8,919.8
.	.	1,018.1	.	.	2,689.4	.	.	-2,553.3
.	.	98.7	.	.	98.6	.	.	99.3
.	.	0.2	.	.	0.4	.	.	-0.3
.	.	76.3	.	.	78.0	.	.	76.6
.	.	286,623.0	.	.	295,390.5	.	.	297,066.2
.	.	120,454.6	.	.	126,887.5	.	.	125,455.5
.	.	112,427.4	.	.	117,368.4	.	.	123,974.5

## TABLE II

## Financial Market – Basic Information

	Unit	2000	2001		
		XII	I	II	III
1. Lombard rate	%	23.0	23.0	23.0	21.0
2. Rediscount rate	%	21.5	21.5	21.5	19.5
3. Refinance rate	%	23.0/24.0	23.0/24.0	23.0/24.0	21.0/22.0
4. Deposit rate	%		-	-	-
5. Minimum yield on 28-day open market operations (reverse repo rate)	%	19.0	19.0	19.0	17.0
6. Zloty lending rates, principal commercial banks					
a) 1 year loans	%	19.7 – 24.6	19.4 – 24.8	19.4 – 24.4	17.9 – 22.2
b) discount rate	%	19.7 – 24.5	18.9 – 23.9	18.4 – 23.3	16.9 – 22.0
7. Zloty deposit rates, principal commercial banks					
a) demand	%	3.5 – 9.5	3.5 – 9.5	3.5 – 9.5	2.5 – 8.5
b) personal current accounts	%	7 – 10.0	7 – 10.0	7 – 10.0	7 – 9.5
c) 1 month	%	12.5 – 17.1	12.5 – 16.7	12.5 – 16.7	12.2 – 15.8
d) 3 months	%	9 – 17.4	9 – 16.5	9 – 16.5	8 – 15.4
e) 6 months	%	9 – 17.1	9 – 16.4	9 – 16.4	8 – 15.0
f) 12 months	%	9 – 16.9	9 – 16.6	9 – 16.6	8 – 15.3
g) 24 months	%	14 – 17.2	13.2 – 17.1	12.9 – 17.1	12.8 – 16
h) 36 months	%	14 – 17	12 – 17.0	11.8 – 17	11.9 – 17
8. Foreign currency deposit rates, commercial banks					
a) demand	%	2.5 – 3.8	2.5 – 3.8	2 – 3.8	2 – 3.5
b) 3 months	%	4 – 5.1	3.6 – 4.7	3.4 – 4.7	3 – 4.8
c) 6 months	%	4.3 – 5.3	3.7 – 5.0	3.5 – 5.0	3.1 – 4.9
d) 12 months	%	4.4 – 5.2	3.8 – 5.2	3.6 – 5.1	3.2 – 5
e) 24 months	%	4.4 – 5.3	3.9 – 5.2	2.3 – 5.2	2.3 – 5.1
9. Interbank placements					
a) total at month end	million zloty	30,692.6	23,140.7	23,443.7	22,671.3
of which:					
– 0 - 1 month	%	27.7	46.1	60.3	42.6
– 1 - 2 months	%	39.5	15.3	4.7	16.8
– 2 - 3 months	%	7.5	7.9	8.6	10.0
– 3 - 6 months	%	12.5	9.7	6.4	8.7
– 6 - 12 months	%	7.9	13.3	14.8	14.7
– 12 - 24 months	%	2.8	5.0	3.1	3.1
b) length of placements, weighted average (at month end)	months	3.0	3.7	3.1	4.1
c) deposit rates, weighted average (at month end)	%	19.0	18.7	19.4	17.8
of which:					
– 0 - 1 month	%	18.9	19.0	20.3	17.6
– 1 - 2 months	%	19.6	19.0	18.6	18.0
– 2 - 3 months	%	18.2	17.8	17.9	17.5
– 3 - 6 months	%	18.7	18.3	17.2	17.2
– 6 - 12 months	%	18.6	18.6	18.2	18.1
– 12 - 24 months	%	17.6	18.0	18.7	18.6
10. Reserve ratio					
a) zloty deposits					
– demand	%	5.0	5.0	5.0	5.0
– time	%	5.0	5.0	5.0	5.0

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
21.0	21.0	19.5	19.5	18.5	18.5	17.0	15.5	15.5
19.5	19.5	18.0	18.0	17.0	17.0	15.5	14.0	14.0
21.0/22.0	21.0/22.0	19.5/20.5	19.5/20.5	18.5/19.5	18.5/19.5	17.0/18.0	15.5/16.5	15.5/16.5
-	-	-	-	-	-	-	-	7.5
17.0	17.0	15.5	15.5	14.5	14.5	13.0	11.5	11.5
17.5 – 22.0	17.5 – 22.0	16.7 – 22.0	15.8 – 22.0	15.8 – 22.0	15.0 – 22.0	14.0 – 22.0	13.0 – 22.0	12.5 – 22.0
16.3 – 22.0	16.5 – 22.0	15.7 – 22.0	15.3 – 22.0	14.7 – 22.0	13.9 – 22.0	12.9 – 22.0	12.0 – 22.0	11.3 – 22.0
2 – 8.0	2 – 7.0	2 – 7.0	0.5 – 5.5	0.1 – 5.5	0.1 – 4.5	0.1 – 4.5	0.1 – 3.5	0.1 – 3
5 – 8.5	5 – 8.5	5 – 8.5	5 – 7.5	3 – 7.5	2.9 – 6	2 – 4.5	2 – 4.3	2.0 – 3
11.3 – 15.2	11.3 – 15.4	10.6 – 15.3	9.8 – 14.1	9.6 – 13.7	9 – 13.0	8.1 – 13.3	8.1 – 12.8	6.6 – 10.4
6 – 14.6	6 – 15.1	6 – 14.8	5 – 14.0	5 – 13.3	4 – 12.7	3.5 – 12.6	3 – 12.4	2.5 – 10.4
6 – 14.6	6 – 14.5	6 – 14.5	5 – 13.8	5 – 13.1	4 – 12.5	3.5 – 12.1	3 – 11.7	2.5 – 10.5
6 – 14.4	6 – 14.5	6 – 14.5	5 – 14.0	5 – 13.6	4 – 12.5	3.5 – 12	3 – 11.1	2.5 – 10.6
12.2 – 14.5	12.2 – 14.5	11.6 – 14.5	11 – 14.5	10.6 – 14.5	9.7 – 14	7.9 – 13.4	7.7 – 12.3	6.4 – 11
11.5 – 16	11.7 – 16	11.7 – 15	11.7 – 15	10.7 – 14	10.7 – 13.5	8.1 – 13.5	8.1 – 12	5.8 – 10.6
1.6 – 3.5	1.6 – 3.5	0.5 – 3	0.5 – 2.5	0.5 – 2.5	0.2 – 2.5	0.05 – 1.5	0.05 – 1	0.05 – 0.9
2.7 – 4.7	2.4 – 4.1	2 – 4.1	2.1 – 3.5	1.8 – 3.5	1 – 3.2	0.7 – 2.4	0.6 – 1.7	0.6 – 1.3
2.8 – 4.8	2.5 – 4.1	2.1 – 3.8	2.1 – 3.3	1.8 – 3.3	1.3 – 3.3	0.7 – 2.4	0.7 – 1.6	0.6 – 1.4
2.9 – 4.9	2.6 – 4.5	0.9 – 4	2.1 – 3.4	1.9 – 3.4	1.3 – 3.4	0.7 – 2.3	0.7 – 1.7	0.6 – 2
1.8 – 5	1.4 – 4.6	0.9 – 4	0.9 – 3.5	0.9 – 3.4	0.8 – 3.4	0.3 – 2.3	0.1 – 1.8	0.1 – 1.8
23,712.8	23,049.8	24,299.7	20,340.5	21,473.6	21,567.5	21,708.6	19,751.5	22,134.1
58.3	50.2	64.2	38.1	54.0	59.1	42.9	46.6	49.4
6.0	14.9	6.2	28.3	12.9	7.8	23.1	11.9	17.4
9.4	6.8	4.7	5.5	7.9	9.0	9.1	12.0	11.6
9.4	9.9	8.1	8.9	8.1	8.7	8.8	10.6	7.6
11.8	12.2	11.1	9.6	7.8	6.6	7.2	6.4	5.9
3.1	4.0	3.6	4.3	4.1	3.7	3.9	3.3	3.0
2.9	3.0	2.7	4.4	3.8	3.9	3.8	4.0	3.7
17.3	17.2	16.7	15.8	15.3	15.8	14.9	13.3	12.3
17.3	17.3	16.7	15.4	15.1	16.3	15.5	12.6	11.6
16.8	17.1	16.7	15.9	15.1	14.5	14.5	13.9	12.0
16.9	15.9	15.3	14.9	14.9	14.6	13.9	13.8	13.1
16.8	16.7	16.3	15.7	15.3	14.7	14.0	13.8	13.7
17.7	17.4	17.1	16.4	16.0	15.6	14.4	13.6	13.0
18.5	18.3	18.3	18.0	17.5	17.0	16.5	15.1	14.5
5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0

## TABLE II – cont.

## Financial Market – Basic Information

	Unit	2000	2001		
		XII	I	II	III
b) foreign currency deposits (zloty equivalent)					
– demand	%	5.0	5.0	5.0	5.0
– time	%	5.0	5.0	5.0	5.0
11. Total required reserves held	million zloty	12,240.3	11,737.2	11,735.9	11,735.9
a) bank current accounts	million zloty	11,030.9	10,504.6	10,505.7	10,505.7
b) declared vault cash	million zloty	1,209.4	1,232.6	1,230.2	1,230.2
12. Treasury bill tenders					
a) no. of tenders during month		4	4	4	4
b) nominal value of bills offered for sale	million zloty	1,700.00	4,100.00	5,300.00	4,800.00
of which:					
– 2-week bills	million zloty	-	-	-	-
– 3-week bills	million zloty	-	-	-	-
– 6-week bills	million zloty	-	-	-	-
– 8-week bills	million zloty	-	-	-	-
– 13-week bills	million zloty	300.00	300.00	400.00	400.00
– 26-week bills	million zloty	100.00	1,000.00	900.00	1,300.00
– 39-week bills	million zloty	-	-	-	-
– 52-week bills	million zloty	1,300.00	2,800.00	4,000.00	3,100.00
c) nominal value of bids placed	million zloty	6,281.08	8,997.93	14,144.78	10,441.68
of which:					
– 2-week bills	million zloty	-	-	-	-
– 3-week bills	million zloty	-	-	-	-
– 6-week bills	million zloty	-	-	-	-
– 8-week bills	million zloty	-	-	-	-
– 13-week bills	million zloty	612.44	295.40	507.69	900.39
– 26-week bills	million zloty	325.32	1,792.76	1,799.88	2,608.65
– 39-week bills	million zloty	-	-	-	-
– 52-week bills	million zloty	5,343.32	6,909.77	11,837.21	6,932.64
d) nominal value of bills sold	million zloty	1,651.88	4,105.47	5,308.68	4,741.38
of which:					
– 2-week bills	million zloty	-	-	-	-
– 3-week bills	million zloty	-	-	-	-
– 6-week bills	million zloty	-	-	-	-
– 8-week bills	million zloty	-	-	-	-
– 13-week bills	million zloty	262.64	247.37	333.75	409.47
– 26-week bills	million zloty	89.24	996.53	900.00	1,217.04
– 39-week bills	million zloty	-	-	-	-
– 52-week bills	million zloty	1,300.00	2,861.57	4,074.93	3,114.87
e) discount rate on bids accepted, weighted average	%	15.20	14.84	14.65	14.79
of which:					
– 2-week bills	%	-	-	-	-
– 3-week bills	%	-	-	-	-
– 6-week bills	%	-	-	-	-
– 8-week bills	%	-	-	-	-
– 13-week bills	%	16.13	16.21	16.34	16.35
– 26-week bills	%	15.81	15.76	15.70	15.64
– 39-week bills	%	-	-	-	-
– 52-week bills	%	14.97	14.40	14.28	14.25



2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
12,083.0	12,229.7	12,229.7	12,460.7	12,726.8	12,726.8	13,005.1	13,146.8	13,668.4
10,816.2	10,947.7	10,947.7	11,157.1	11,404.4	11,404.4	11,650.2	11,777.9	12,288.6
1,266.8	1,282.0	1,282.0	1,303.6	1,322.4	1,322.4	1,354.9	1,368.9	1,379.8
4	4	5	5	3	4	5	4	4
3,300.00	3,200.00	6,000.00	2,900.00	2,100.00	3,800.00	5,000.00	3,800.00	5,300.00
-	-	2,800.00	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	100.00	100.00	-	-
400.00	300.00	400.00	500.00	500.00	500.00	300.00	-	300.00
1,300.00	1,300.00	1,200.00	-	-	-	-	200.00	300.00
-	-	-	-	-	-	-	-	1,500.00
1,600.00	1,600.00	1,600.00	2,400.00	1,600.00	3,200.00	4,600.00	3,600.00	3,200.00
12,019.19	6,951.60	10,803.41	10,312.05	7,078.36	14,670.18	17,276.14	13,181.43	13,515.61
-	-	4,404.11	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	604.43	365.42	-	-
1,063.11	510.36	906.08	2,407.09	1,384.22	1,120.66	975.74	-	615.02
4,913.03	2,803.89	1,799.65	-	-	-	-	772.53	812.84
-	-	-	-	-	-	-	-	3,996.76
6,043.05	3,637.35	3,693.57	7,904.96	5,694.14	12,945.09	15,934.98	12,408.90	8,090.99
3,300.00	3,086.74	5,892.75	2,900.73	2,100.00	3,800.00	4,999.20	3,790.79	6,249.97
-	-	2,800.00	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	100.00	100.00	-	-
400.00	235.86	375.11	500.73	500.00	500.00	299.56	-	300.00
1,300.00	1,250.88	1,004.37	-	-	-	-	200.43	293.01
-	-	-	-	-	-	-	-	2,091.63
1,600.00	1,600.00	1,713.27	2,400.00	1,600.00	3,200.00	4,599.64	3,590.36	3,565.33
14.35	14.06	15.47	13.29	12.72	12.35	11.23	10.54	9.92
-	-	17.04	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	13.19	12.53	-	-
15.63	15.36	15.38	14.24	13.34	13.31	12.67	-	10.76
14.97	14.73	14.78	-	-	-	-	11.43	10.57
-	-	-	-	-	-	-	-	10.07
13.53	13.34	13.34	13.10	12.52	12.18	11.11	10.49	9.72

## TABLE II – cont.

## Financial Market – Basic Information

	Unit	2000	2001		
		XII	I	II	III
f) yield on bills purchased, weighted average	%	17.49	16.92	16.77	16.77
of which:					
– 2-week bills	%	-	-	-	-
– 3-week bills	%	-	-	-	-
– 6-week bills	%	-	-	-	-
– 8-week bills	%	-	-	-	-
– 13-week bills	%	16.81	16.90	17.04	17.05
– 26-week bills	%	17.19	17.13	17.05	16.98
– 39-week bills	%	-	-	-	-
– 52-week bills	%	17.65	16.85	16.69	16.65
g) bills outstanding from tender sales at month end (purchase prices)	million zloty	19,749.89	19,459.42	21,262.33	22,874.37
13. Tenders for NBP money-market bills					
a) no. of tenders		8	7	9	6
b) nominal value of bills offered for sale	million zloty	25,500.00	15,000.00	26,500.00	17,000.00
of which:					
– 1-day bills	million zloty	-	-	-	-
– 7-day bills	million zloty	-	-	-	-
– 14-day bills	million zloty	-	-	-	-
– 28-day bills	million zloty	25,500.00	15,000.00	26,500.00	17,000.00
– 91-day bills	million zloty	-	-	-	-
– 182-day bills	million zloty	-	-	-	-
– 273-day bills	million zloty	-	-	-	-
c) nominal value of bids placed	million zloty	24,562.91	19,275.61	25,722.14	16,360.48
of which:					
– 1-day bills	million zloty	-	-	-	-
– 7-day bills	million zloty	-	-	-	-
– 14-day bills	million zloty	-	-	-	-
– 28-day bills	million zloty	24,562.91	19,275.61	25,722.14	16,360.48
– 91-day bills	million zloty	-	-	-	-
– 182-day bills	million zloty	-	-	-	-
– 273-day bills	million zloty	-	-	-	-
d) nominal value of bills sold	million zloty	22,644.59	14,753.12	24,276.65	15,751.73
of which:					
– 1-day bills	million zloty	-	-	-	-
– 7-day bills	million zloty	-	-	-	-
– 14-day bills	million zloty	-	-	-	-
– 28-day bills	million zloty	22,644.59	14,753.12	24,276.65	15,751.73
– 91-day bills	million zloty	-	-	-	-
– 182-day bills	million zloty	-	-	-	-
– 273-day bills	million zloty	-	-	-	-
e) discount rate on bids accepted, weighted average	%	18.81	18.81	18.79	17.70
of which:					
– 1-day bills	%	-	-	-	-
– 7-day bills	%	-	-	-	-
– 14-day bills	%	-	-	-	-
– 28-day bills	%	18.81	18.81	18.79	17.70
– 91-day bills	%	-	-	-	-
– 182-day bills	%	-	-	-	-
– 273-day bills	%	-	-	-	-

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
15.95	15.66	16.37	15.04	14.21	13.86	12.56	11.76	10.85
-	-	17.15	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	13.47	12.78	-	-
16.28	15.98	16.00	14.77	13.81	13.77	13.09	-	11.06
16.19	15.92	15.98	-	-	-	-	12.14	11.16
-	-	-	-	-	-	-	-	10.90
15.67	15.42	15.42	15.10	14.34	13.89	12.52	11.74	10.78
24,018.74	25,021.03	25,583.26	25,067.55	25,134.65	26,382.03	28,492.23	29,220.73	30,542.46
6	9	9	6	5	7	6	2	6
13,000.00	19,000.00	24,000.00	20,000.00	14,000.00	19,500.00	18,000.00	6,000.00	12,500.00
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	3,500.00
13,000.00	19,000.00	24,000.00	20,000.00	14,000.00	19,500.00	18,000.00	6,000.00	9,000.00
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
17,170.29	20,940.82	30,233.29	18,508.69	38,840.47	42,620.65	29,214.79	13,468.93	14,791.21
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	7,655.91
17,170.29	20,940.82	30,233.29	18,508.69	38,840.47	42,620.65	29,214.79	13,468.93	7,135.30
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
12,576.40	18,014.36	22,272.69	17,554.35	13,441.49	17,970.08	14,842.00	6,000.00	10,270.90
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	3,500.00
12,576.40	18,014.36	22,272.69	17,554.35	13,441.49	17,970.08	14,842.00	6,000.00	6,770.90
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
16.84	16.86	16.77	15.38	15.33	14.38	14.36	12.38	11.44
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	11.50
16.84	16.86	16.77	15.38	15.33	14.38	14.36	12.38	11.41
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-

## TABLE II – cont.

## Financial Market – Basic Information

	Unit	2000	2001		
		XII	I	II	III
f) yield on bills purchased, weighted average	%	19.09	19.09	19.07	17.95
of which:					
– 1-day bills	%	-	-	-	-
– 7-day bills	%	-	-	-	-
– 14-day bills	%	-	-	-	-
– 28-day bills	%	19.09	19.09	19.07	17.95
– 91-day bills	%	-	-	-	-
– 182-day bills	%	-	-	-	-
– 273-day bills	%	-	-	-	-
g) bills outstanding from tender sales at month end (purchase prices)	million zloty	19,819.18	11,824.42	23,921.90	15,534.86
14. NBP outright sales of securities					
a) no. of tenders		4	4	4	5
b) nominal value of securities allotted for sale by NBP	million zloty	1,200.00	1,200.00	1,800.00	1,800.00
c) nominal value of bids placed by banks	million zloty	1,432.00	2,463.00	3,751.00	3,591.00
d) nominal value of bids accepted	million zloty	588.00	902.00	1,461.00	1,027.00
e) tender value of bids accepted	million zloty	480.45	788.65	1,350.12	828.73
15. Data on trading sessions of Warsaw Stock Exchange					
a) no. of companies at month end		225	225	226	227
b) capitalisation at month end	million zloty	129,878.74	126,446.41	113,173.58	109,687.04
c) P/E ratio at month end		15.9	15.3	12.4	12.0
d) Warsaw Stock Exchange Index, month end		17,847.55	17,602.91	15,471.50	14,698.91
e) Warsaw Stock Exchange Index, monthly average		17,274.90	17,319.45	16,495.52	14,763.16
f) Warsaw Second-Tier Market Index, month end		2,748.62	2,579.65	2,441.21	2,353.17
g) Warsaw Second-Tier Market Index, monthly average		2,628.68	2,596.40	2,489.47	2,360.12
h) monthly turnover	million zloty	8,848.2	7,771.3	6,139.7	5,803.1
i) turnover ratio	%	3.5	3.3	2.7	2.8

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
17.06	17.09	17.00	15.56	15.52	14.54	14.53	12.50	11.52
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	11.55
17.06	17.09	17.00	15.56	15.52	14.54	14.53	12.50	11.51
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
12,411.68	15,804.32	20,085.49	17,344.42	13,281.18	17,769.11	14,676.18	5,942.22	6,710.83
4	4	3	4	5	4	5	4	3
1,200.00	1,200.00	900.00	1,200.00	1,500.00	1,200.00	1,500.00	1,200.00	900.00
2,591.00	2,367.00	1,039.00	1,323.00	1,809.00	1,763.00	1,882.00	833.00	543.00
585.00	227.00	192.00	235.00	300.00	300.00	674.00	273.00	194.00
528.48	196.08	174.57	202.78	276.65	293.80	685.97	288.42	198.80
228	231	230	230	231	231	231	230	230
112,792.23	113,114.08	103,202.99	95,884.98	91,535.10	87,051.20	100,497.03	103,477.32	100,497.03
12.8	14.7	15.8	15.2	13.9	13.1	15.4	62.4	65.9
15,268.95	15,630.30	13,945.42	13,126.73	12,802.09	11,890.62	13,736.23	14,036.08	13,922.16
15,067.63	15,259.64	14,509.63	13,302.96	12,629.46	12,335.55	12,767.71	14,132.60	13,928.53
2,328.85	2,269.59	2,163.15	1,932.77	18,833.43	1,761.31	1,833.70	1,778.00	1,763.73
2,332.48	2,266.78	2,179.72	2,016.34	1,874.78	1,747.97	1,789.69	1,829.58	1,756.91
5,120.7	4,936.1	4,201.8	4,475.9	5,260.8	3,349.9	6,482.6	5,029.8	3,959.8
2.4	2.3	2.1	2.4	1.9	2.0	3.7	2.6	2.1

TABLE III

## PLN/USD &amp; PLN/EUR Exchange Rates, 2001 (in zloty)

Month	NBP mid-rate, month end			Monthly average mid-rate	
	PLN/1 USD	PLN/1 EUR	USD/EUR	PLN/1 USD	PLN/1 EUR
December 2000	4.1432	3.8544	0.9303	4.3126	3.8804
January 2001	4.0879	3.8015	0.9299	4.1108	3.8648
February	4.0749	3.7535	0.9211	4.0925	3.7689
March	4.1000	3.6170	0.8822	4.0599	3.6952
April	3.9761	3.5364	0.8894	4.0175	3.5904
May	4.0083	3.3969	0.8475	3.9806	3.4853
June	3.9871	3.3783	0.8473	3.9705	3.3894
July	4.2384	3.7110	0.8756	4.1859	3.5998
August	4.2336	3.8843	0.9175	4.2459	3.8218
September	4.2367	3.8810	0.9160	4.2185	3.8450
October	4.0987	3.7069	0.9044	4.1332	3.7425
November	4.0874	3.6223	0.8862	4.0943	3.6389
December	3.9863	3.5219	0.8835	4.0144	3.5829

TABLE IV

Weighted Average Zloty Deposit Rates at Commercial Banks  
(Annual Percentage Rates)

	2000	2001		
	XII	I	II	III
<b>Personal deposits</b>				
Original maturity:				
- demand	7.7	7.7	7.6	7.4
- 1 month	14.0	14.0	14.0	13.3
- 3 months	14.1	14.1	14.1	13.1
- 6 months	14.4	14.4	14.4	13.4
- 1 year	15.0	15.0	15.0	13.7
- 2 years	15.6	15.6	15.6	14.8
- 3 years	15.7	15.7	15.7	14.5
Average, all maturities (excluding demand deposits)	14.4	14.4	14.4	13.4
<b>Corporate deposits</b>				
Original maturity:				
- demand	5.5	5.6	5.5	4.8
- 1 month	14.1	13.9	13.8	12.8
- 3 months	14.4	14.3	14.3	13.6
- 6 months	14.5	14.6	14.6	13.9
- 1 year	15.1	14.9	14.8	14.2
- 2 years	15.4	14.6	14.3	15.0
- 3 years	15.1	15.1	15.0	15.0
Average, all maturities (excluding demand deposits)	14.2	14.1	13.9	13.0
<b>Total</b>	<b>14.3</b>	<b>14.3</b>	<b>14.3</b>	<b>13.3</b>

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
6.3	6.6	6.2	5.3	4.2	4.2	4.0	3.3	2.4
12.5	12.4	12.0	11.2	10.5	10.3	9.4	8.9	7.7
12.1	12.0	11.8	10.9	10.5	10.1	9.5	8.7	7.4
12.5	12.4	12.2	11.1	10.4	10.1	9.6	8.8	7.5
12.8	12.8	12.6	11.4	10.6	10.4	10.0	9.3	8.0
13.7	13.6	12.7	12.0	11.3	11.1	9.9	10.4	9.0
13.7	13.8	13.6	13.0	12.5	12.4	11.8	10.5	9.1
12.4	12.4	12.1	11.2	10.6	10.3	9.7	9.2	7.9
4.8	5.2	4.3	3.0	2.7	2.4	2.2	1.8	1.6
12.8	12.8	11.8	11.7	11.1	10.9	10.2	9.7	8.4
13.0	13.0	12.7	11.8	11.4	11.1	10.2	9.5	8.4
13.0	12.9	12.6	11.7	11.2	10.7	10.0	9.6	8.4
13.4	13.3	13.1	12.1	11.4	10.8	9.9	9.0	7.6
13.8	13.8	13.5	11.7	11.8	11.1	10.7	9.8	8.7
13.9	13.9	13.9	13.4	13.3	12.8	11.9	10.8	9.5
12.9	12.9	12.0	11.7	11.2	10.9	10.2	9.6	8.3
12.5	12.5	12.1	11.3	10.7	10.4	9.8	9.3	8.0

TABLE V

Weighted Average Zloty Lending Rates at Commercial Banks  
(Annual Percentage Rates)

	2000	2001		
	XII	I	II	III
Personal loans	22,9	22.9	22.9	22.2
Corporate loans				
Maturity:				
– 1 year	20.9	20.7	20.6	19.6
– 2 years	21.1	20.9	20.8	19.7
– 3 years	21.1	20.9	20.8	19.5
– 5 years	21.4	21.2	21.1	19.6
– over 5 years	21.4	21.3	21.1	19.7
Average, all maturities	21.2	21.0	20.9	19.6
<b>Total</b>	<b>21.5</b>	<b>21.4</b>	<b>21.3</b>	<b>20.1</b>

TABLE VI

## Commercial Banks – Assets (million zloty)

	2000	2001		
	XII	I	II	III
Foreign assets	46,914.6	45,952.2	45,845.0	50,357.6
Due from banks	58,312.4	58,632.6	48,901.0	53,894.5
– vault casch	4 451.4	3,843.3	3,744.2	3,698.2
– NBP	10,209.3	17,876.2	9,293.1	15,026.5
– other banks	43,651.6	36,913.1	35,863.7	35,169.7
Due from non-bank financial institutions	8,874.9	8,832.0	8,730.7	8,695.8
Due from general government	6,869.3	6,306.5	5,869.8	5,064.8
– central government	1,718.4	970.6	926.7	663.4
– local government	4,550.6	4,519.9	4,477.6	4,389.1
– special-purpose funds	600.3	816.0	465.4	12.3
Due from non-financial sector	194,007.0	196,089.0	197,737.2	198,721.0
– corporates	145,841.5	147,805.8	149,584.6	150,363.7
– persons	48,165.5	48,283.2	48,152.6	48,357.3
Securities purchased under agreements to resell	420.5	94.4	736.9	310.7
Securities	92,575.5	86,637.2	100,316.8	94,772.5
– issued by banks	33,933.1	29,739.0	41,923.1	33,342.9
– issued by non-bank financial institutions	1,247.0	1,254.4	1,347.5	1,471.8
– issued by general government	53,063.6	51,511.0	53,250.1	55,466.7
of which: issued by Treasury	52,265.6	50,737.4	52,497.3	54,697.2
– issued by non-financial sector	3,623.0	3,856.6	3,518.8	3,710.9
– subscription rights and units in mutual & investment funds	708.8	276.2	277.3	780.1
Other assets	42,969.0	50,729.7	50,607.2	50,571.1
<b>Total Assets</b>	<b>450,943.3</b>	<b>453,273.6</b>	<b>458,744.6</b>	<b>462,388.0</b>



2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
22.0	22.1	22.2	22.0	22.2	22.3	22.4	21.9	20.8
19.3	19.1	18.7	17.9	17.9	17.6	16.9	16.3	15.4
19.5	19.4	19.2	18.6	18.6	18.3	17.4	16.6	15.8
19.2	19.2	18.9	18.4	18.4	18.0	16.8	16.3	15.6
19.4	19.4	19.0	18.5	18.4	18.1	17.1	16.6	15.6
19.8	19.5	19.2	18.7	18.8	18.5	17.8	17.2	16.3
19.5	19.3	19.0	18.3	18.3	18.0	17.2	16.7	15.7
<b>20.0</b>	<b>19.9</b>	<b>19.6</b>	<b>19.1</b>	<b>19.1</b>	<b>18.9</b>	<b>18.3</b>	<b>17.7</b>	<b>16.8</b>

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
52,838.6	50,523.4	49,471.2	54,391.0	54,628.9	53,572.1	55,624.1	58,000.6	61,018.3
54,522.9	53,707.7	55,564.8	54,063.0	57,466.0	52,893.0	53,175.5	58,392.9	63,117.5
4,212.8	3,846.9	3,796.1	3,844.2	3,834.3	3,659.8	3,944.7	4,406.2	4,917.7
14,990.7	13,876.2	13,780.2	13,880.9	16,816.9	12,040.3	12,169.0	17,325.0	20,567.6
35,319.4	35,984.6	37,988.5	36,338.0	36,814.9	37,192.8	37,061.8	36,661.7	37,632.1
8,554.9	8,660.1	8,567.3	9,024.8	9,080.5	9,338.3	9,106.3	8,989.3	8,839.1
5,092.3	5,541.7	5,714.3	7,242.5	8,570.2	9,510.2	11,120.7	10,656.2	11,233.5
711.4	831.4	1,157.5	1,401.5	1,893.0	2,022.7	2,560.1	2,745.8	2,480.8
4,363.2	4,392.7	4,539.8	5,030.4	5,375.8	5,527.7	5,679.2	5,920.5	7,036.4
17.7	317.6	17.0	810.6	1,301.3	1,959.9	2,881.4	1,989.9	1,716.4
199,467.5	199,462.5	201,385.5	206,327.6	209,541.2	212,503.3	212,098.6	212,571.3	208,987.5
150,571.1	149,935.8	151,246.2	154,359.6	156,269.0	158,405.9	157,811.2	157,803.5	153,730.1
48,896.4	49,526.7	50,139.3	51,968.0	53,272.2	54,097.5	54,287.4	54,767.7	55,257.4
538.0	545.7	525.9	86.5	667.4	416.6	160.8	106.7	115.4
92,458.5	98,406.9	101,987.9	99,249.6	96,052.1	105,507.7	102,263.1	94,609.4	93,739.4
30,379.6	33,812.0	38,143.6	35,268.2	31,482.1	36,040.6	32,337.5	24,059.4	24,950.8
1,306.3	1,286.5	1,364.4	1,347.9	1,490.2	1,690.9	1,784.5	1,943.9	1,963.2
56,249.4	58,881.1	57,798.0	58,219.0	58,592.0	63,279.3	63,791.0	64,483.8	62,903.8
55,521.9	58,171.7	56,930.4	57,277.8	57,644.2	62,250.9	62,568.2	63,191.1	61,472.0
3,723.5	3,576.2	3,793.6	3,558.2	3,616.8	3,623.5	3,512.1	3,741.5	3,504.1
799.7	851.1	888.3	856.4	871.1	873.3	838.0	380.8	417.6
53,479.8	54,003.3	53,188.5	56,340.2	54,889.0	56,582.5	56,332.8	60,159.7	58,826.9
<b>466,952.4</b>	<b>470,851.3</b>	<b>476,405.3</b>	<b>486,725.4</b>	<b>490,895.2</b>	<b>500,323.7</b>	<b>499,882.0</b>	<b>503,486.1</b>	<b>505,877.8</b>

## TABLE VI – cont.

## Commercial Banks – Liabilities &amp; Capital (million zloty)

	2000	2001		
	XII	I	II	III
Foreign liabilities	27,036.2	26,850.5	27,427.9	26,871.8
Due to banks	50,366.0	43,139.1	43,065.8	42,236.6
– NBP	6,800.4	6,318.9	7,183.4	7,174.8
– other banks	43,565.6	36,820.2	35,882.5	35,061.8
Due to non-bank financial institutions	8,351.6	8,891.3	8,914.9	7,739.4
Due to general government	16,152.5	16,793.1	18,508.8	18,855.6
– central government	6,471.5	6,576.8	6,709.4	7,090.0
– local government	7,472.9	8,183.8	9,593.8	9,347.7
– special-purpose funds	2,208.0	2,032.5	2,205.6	2,417.9
Due to non-financial sector, zloty	208,711.0	208,274.6	210,765.6	213,366.8
– corporates	54,666.4	50,033.0	48,558.4	48,803.8
– demand	21,049.2	18,187.8	17,075.7	16,432.7
– time	33,617.1	31,845.2	31,482.7	32,371.1
– persons	154,044.6	158,241.6	162,207.2	164,563.1
– demand	26,578.3	26,749.6	27,498.4	27,819.0
– time	127,466.3	131,492.0	134,708.8	136,744.1
Due to non-financial sector, foreign currency	41,286.3	41,561.2	41,403.8	44,255.2
– corporates	8,569.9	8,475.9	8,334.6	10,725.7
– demand	3,438.2	3,655.4	3,599.8	3,833.8
– time	5,131.7	4,820.5	4,734.8	6,891.9
– persons	32,716.3	33,085.3	33,069.2	33,529.5
– demand	7,773.9	7,727.7	7,549.3	7,533.2
– time	24,942.4	25,357.6	25,519.9	25,996.3
Securities sold under agreements to repurchase	323.0	70.5	734.5	397.1
Securities issued and outstanding	1,494.9	1,806.1	1,717.1	1,841.8
Core capital	30,141.7	29,842.5	30,237.2	31,947.5
Supplementary capital	3,456.1	3,569.6	3,563.2	3,578.0
Other liabilities & capital	63,624.2	72,475.1	72,405.6	71,298.2
<b>Total Liabilities &amp; Capital</b>	<b>450,943.3</b>	<b>453,273.6</b>	<b>458,744.6</b>	<b>462,388.0</b>

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
28,405.9	27,930.4	28,604.9	31,679.5	32,486.6	31,911.2	31,449.2	30,922.3	30,201.4
41,276.1	41,947.8	45,249.5	42,144.2	42,499.5	46,337.3	43,508.9	42,165.2	43,046.3
6,144.8	6,146.6	7,553.1	6,006.7	6,002.3	8,949.2	6,932.4	5,872.0	5,763.0
35,131.2	35,801.2	37,696.4	36,137.5	36,497.2	37,388.1	36,576.5	36,293.3	37,283.3
7,913.0	8,822.1	8,313.6	8,256.1	8,098.3	8,094.7	8,797.3	12,510.1	10,540.4
18,412.4	18,986.5	18,692.7	17,977.7	17,924.0	20,478.1	19,088.4	19,391.1	16,966.9
7,102.2	7,145.0	7,135.5	7,108.5	7,139.4	9,335.1	7,773.3	8,000.6	7,454.1
9,058.2	9,600.2	8,995.6	8,538.6	8,436.1	8,758.8	8,887.7	9,114.0	7,313.8
2,252.0	2,241.3	2,561.5	2,330.6	2,348.5	2,384.2	2,427.4	2,276.5	2,199.0
214,789.2	217,328.3	218,002.1	221,636.3	224,201.9	224,340.8	226,458.6	225,683.4	232,437.8
48,981.7	50,319.1	48,931.2	50,828.3	52,398.1	51,696.4	53,509.1	54,111.6	60,415.8
16,206.9	17,498.1	17,035.6	18,178.0	17,390.3	18,145.4	18,140.5	18,170.8	23,615.1
32,774.8	32,821.0	31,895.6	32,650.3	35,007.8	33,551.0	35,368.6	35,940.8	36,800.8
165,807.5	167,009.2	169,070.9	170,808.0	171,803.8	172,644.4	172,949.5	171,571.8	172,022.0
28,305.1	28,085.5	28,555.8	29,256.5	28,989.9	29,600.2	28,719.8	26,088.2	27,387.6
137,502.4	138,923.7	140,515.1	141,551.4	142,813.9	143,044.2	144,229.7	145,483.7	144,634.4
42,888.4	42,894.7	43,969.4	46,803.9	47,987.4	48,767.1	49,750.2	48,057.1	50,249.6
10,001.8	9,652.9	10,353.9	10,550.9	10,746.3	11,173.8	13,148.2	12,171.3	13,059.1
3,553.3	3,803.4	3,705.9	3,922.3	3,997.4	3,994.8	3,980.9	4,364.8	5,004.2
6,448.5	5,849.5	6,648.1	6,628.6	6,748.9	7,179.0	9,167.3	7,806.5	8,054.8
32,886.5	33,241.9	33,615.4	36,253.0	37,241.1	37,593.3	36,602.0	35,885.8	37,190.5
7,371.8	7,306.6	7,371.2	7,878.2	7,940.0	8,131.8	7,911.7	7,505.6	8,687.4
25,514.7	25,935.3	26,244.2	28,374.8	29,301.1	29,461.5	28,690.3	28,380.2	28,503.0
481.3	470.5	442.9	1.0	594.2	317.8	71.0	20.4	20.3
1,691.8	1,594.9	1,496.4	1,497.1	1,611.9	1,730.0	1,923.0	2,158.5	1,969.2
33,370.9	33,889.4	35,232.6	35,246.4	35,270.7	35,485.7	36,089.1	36,147.9	37,003.0
3,686.6	3,735.5	3,651.4	3,652.4	3,636.6	3,625.0	3,599.2	3,646.5	3,916.9
74,037.0	73,251.1	72,749.8	77,830.9	76,584.1	79,236.2	79,147.1	82,783.7	79,526.0
<b>466,952.4</b>	<b>470,851.3</b>	<b>476,405.3</b>	<b>486,725.4</b>	<b>490,895.2</b>	<b>500,323.7</b>	<b>499,882.0</b>	<b>503,486.1</b>	<b>505,877.8</b>

TABLE VII

The National Bank of Poland – Assets, Liabilities & Capital  
(million zloty)

	2000	2001		
	XII	I	II	III
<b>Foreign assets</b>	<b>120,711.7</b>	<b>121,833.1</b>	<b>123,968.0</b>	<b>121,517.0</b>
<b>Due from banks</b>	<b>6,869.7</b>	<b>6,389.1</b>	<b>7,250.9</b>	<b>7,239.2</b>
– placements	296.1	292.1	291.2	293.0
– onlending under foreign credit lines	68.9	59.1	56.9	51.6
– refinance loans	6,503.1	6,036.3	6,901.2	6,893.1
– bills rediscounted	65.8	65.1	59.3	68.3
– lombard loans	466.0	0.0	870.9	937.6
– special-purpose loans	0.0	0.0	0.0	0.0
– central investment finance	4,689.8	4,689.8	4,689.8	4,606.1
– other	1,281.5	1,281.4	1,281.3	1,281.1
– open market operations (repos)	0.0	0.0	0.0	0.0
– past due loans	1.6	1.6	1.6	1.6
<b>Due from non-bank financial institutions</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Due from central government</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Due from non-financial sector</b>	<b>68.1</b>	<b>67.0</b>	<b>21.8</b>	<b>21.6</b>
– corporates	45.2	44.8	0.0	0.0
– persons	22.9	22.2	21.8	21.6
<b>Securities</b>	<b>16,994.8</b>	<b>16,084.8</b>	<b>14,689.8</b>	<b>13,952.7</b>
– issued by banks	250.2	241.5	241.5	241.5
– issued by Treasury	16,744.7	15,843.3	14,448.3	13,711.1
<b>Other assets</b>	<b>1,817.1</b>	<b>2,023.2</b>	<b>2,114.3</b>	<b>1,918.8</b>
<b>Total Assets</b>	<b>146,461.5</b>	<b>146,397.2</b>	<b>148,044.8</b>	<b>144,649.3</b>
<b>Foreign liabilities</b>	<b>8,509.6</b>	<b>9,460.1</b>	<b>8,562.6</b>	<b>7,926.3</b>
<b>Notes &amp; coin in circulation (including vault cash)</b>	<b>38,564.1</b>	<b>35,807.5</b>	<b>36,252.5</b>	<b>37,242.7</b>
<b>Due to banks</b>	<b>10,209.7</b>	<b>17,876.2</b>	<b>9,293.1</b>	<b>15,026.3</b>
– current accounts	10,209.7	13,520.6	5,074.1	10,765.6
– required reserves	0.0	355.6	219.0	260.6
– open market operations (reverse repos)	0.0	0.0	0.0	0.0
– other	0.0	4,000.0	4,000.0	4,000.0
<b>Due to non-bank financial institutions</b>	<b>41.9</b>	<b>7.1</b>	<b>7.3</b>	<b>4.1</b>
<b>Due to general government</b>	<b>9,776.0</b>	<b>10,226.1</b>	<b>9,585.3</b>	<b>10,001.9</b>
– central government	8,785.2	9,699.7	8,666.3	8,852.2
– central government special-purpose funds	990.8	526.3	919.0	1,149.7
<b>Due to non-financial sector, zloty</b>	<b>2.3</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>
– corporates	0.1	0.1	0.1	0.1
– demand	0.1	0.1	0.1	0.1
– time	0.0	0.0	0.0	0.0
– persons	2.2	2.3	2.4	2.4
<b>Securities issued and outstanding</b>	<b>33,738.1</b>	<b>29,545.0</b>	<b>41,841.8</b>	<b>33,397.4</b>
<b>Registered equity &amp; reserve capital</b>	<b>1,594.2</b>	<b>1,594.2</b>	<b>1,594.2</b>	<b>1,594.2</b>
<b>Other liabilities &amp; capital</b>	<b>44,025.7</b>	<b>41,878.5</b>	<b>40,905.7</b>	<b>39,454.1</b>
<b>Total Liabilities &amp; Capital</b>	<b>146,461.5</b>	<b>146,397.2</b>	<b>148,044.8</b>	<b>144,649.3</b>

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
117,015.3	114,544.2	114,141.7	123,897.3	124,573.6	125,370.4	123,898.0	112,943.7	111,575.7
6,208.3	6,205.8	7,615.0	6,067.2	6,062.7	9,011.3	6,992.9	5,932.4	5,823.8
243.5	245.5	244.2	259.6	259.3	259.5	209.2	208.6	203.5
48.9	47.3	47.0	45.3	47.1	47.1	43.5	42.6	37.0
5,914.4	5,911.4	7,322.2	5,760.8	5,754.7	8,703.1	6,738.6	5,679.6	5,581.7
51.5	48.6	39.6	6.0	0.0	0.0	17.0	33.0	48.0
0.0	0.0	1,503.5	0.0	0.0	3,032.1	1,075.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4,581.8	4,581.8	4,498.2	4,473.9	4,473.9	4,390.2	4,365.9	4,365.9	4,253.0
1,281.0	1,281.0	1,280.9	1,280.9	1,280.9	1,280.8	1,280.8	1,280.7	1,280.7
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
21.7	21.3	21.8	22.1	122.7	124.4	125.5	22.4	22.8
0.0	0.0	0.0	0.0	101.0	102.2	103.4	0.0	0.0
21.7	21.3	21.8	22.1	21.7	22.1	22.1	22.4	22.8
12,725.5	12,652.1	12,513.3	12,203.4	11,901.4	11,680.4	10,718.3	19,182.7	18,634.9
241.6	238.1	238.2	238.2	238.2	238.2	238.3	214.1	209.0
12,483.9	12,414.0	12,275.2	11,965.2	11,663.2	11,442.2	10,480.0	18,968.6	18,425.8
2,446.8	2,409.3	2,238.7	2,138.9	1,756.3	1,587.9	1,780.0	2,036.0	2,047.0
<b>138,417.7</b>	<b>135,832.7</b>	<b>136,530.5</b>	<b>144,328.8</b>	<b>144,416.7</b>	<b>147,774.4</b>	<b>143,514.6</b>	<b>140,117.3</b>	<b>138,104.2</b>
8,517.5	6,768.5	6,852.3	8,346.3	6,251.2	6,936.6	7,596.4	7,771.9	7,729.5
38,699.2	37,643.8	38,757.6	39,145.6	39,343.7	40,235.7	40,586.9	41,043.5	43,130.3
14,989.6	13,875.4	13,780.3	13,882.2	16,806.8	12,039.9	12,169.1	17,325.0	20,567.7
10,586.6	9,633.7	9,515.7	9,694.2	12,494.4	7,910.0	7,965.1	13,032.8	16,395.0
403.1	241.8	264.7	188.0	312.4	130.0	204.0	292.2	172.7
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
806.9	10.1	4.2	2.1	8.3	6.2	8.8	6.5	4.2
7,148.2	6,814.6	7,669.0	8,433.6	9,141.1	10,195.3	13,656.4	14,222.5	7,688.8
6,685.5	6,352.5	7,145.1	8,059.3	8,731.3	9,791.0	13,253.4	13,693.9	7,022.9
462.7	462.1	523.8	374.3	409.9	404.3	403.0	528.6	666.0
2.3	2.2	2.4	2.3	2.1	2.3	2.3	2.3	2.3
0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2.2	2.1	2.3	2.1	2.0	2.1	2.1	2.1	2.2
30,232.2	33,720.9	38,139.0	35,455.7	31,342.9	35,871.5	32,169.3	23,356.8	24,167.1
1,594.2	1,594.2	1,694.4	1,694.4	1,694.4	1,694.4	1,694.4	1,694.4	1,694.4
36,427.6	35,403.0	29,631.3	37,366.6	39,826.1	40,792.5	35,631.0	34,694.4	33,119.8
<b>138,417.7</b>	<b>135,832.7</b>	<b>136,530.5</b>	<b>144,328.8</b>	<b>144,416.7</b>	<b>147,774.4</b>	<b>143,514.6</b>	<b>140,117.3</b>	<b>138,104.2</b>

## TABLE VIII

The Banking System:  
Commercial Banks & NBP – Assets (million zloty)

	2000	2001		
	XII	I	II	III
Foreign assets	167,626.3	167,785.3	169,813.0	171,874.6
Due from banks	65,182.1	65,021.6	56,151.9	61,133.7
– vault cash	4,451.4	3,843.3	3,744.2	3,698.2
– due to banks from NBP	10,209.3	17,876.2	9,293.1	15,026.5
– due to banks from other banks	43,651.6	36,913.1	35,863.7	35,169.7
– due to NBP from banks	6,869.7	6,389.1	7,250.9	7,239.2
Due from non-bank financial institutions	8,874.9	8,832.0	8,730.7	8,695.8
– due to banks	8,874.9	8,832.0	8,730.7	8,695.8
– due to NBP	0.0	0.0	0.0	0.0
Due from general government	6,869.3	6,306.5	5,869.8	5,064.8
– central government	1,718.4	970.6	926.7	663.4
– local government	4,550.6	4,519.9	4,477.6	4,389.1
– special-purpose funds	600.3	816.0	465.4	12.3
Due from non-financial sector	194,075.1	196,156.0	197,759.1	198,742.5
– corporates	145,886.7	147,850.7	149,584.6	150,363.7
– persons	48,188.4	48,305.4	48,174.5	48,378.8
Securities purchased under agreements to resell	420.5	94.4	736.9	310.7
Securities	109,570.3	102,722.0	115,006.6	108,725.1
– issued by banks	34,183.2	29,980.5	42,164.6	33,584.5
– issued by non-bank financial institutions	1,247.0	1,254.4	1,347.5	1,471.8
– issued by general government	69,808.3	67,354.3	67,698.4	69,177.9
of which: issued by Treasury	69,010.3	66,580.7	66,945.6	68,408.4
– issued by non-financial sector	3,623.0	3,856.6	3,518.8	3,710.9
– subscription rights and units in mutual & investment funds	708.8	276.2	277.3	780.1
Other assets	44,786.2	52,752.9	52,721.4	52,490.0
<b>Total Assets</b>	<b>597,404.8</b>	<b>599,670.7</b>	<b>606,789.4</b>	<b>607,037.3</b>

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
169,853.8	165,067.6	163,612.9	178,288.3	179,202.5	178,942.6	179,522.1	170,944.3	172,594.1
60,731.2	59,913.5	63,179.8	60,130.3	63,528.7	61,904.2	60,168.4	64,325.3	68,941.2
4,212.8	3,846.9	3,796.1	3,844.2	3,834.3	3,659.8	3,944.7	4,406.2	4,917.7
14,990.7	13,876.2	13,780.2	13,880.9	16,816.9	12,040.3	12,169.0	17,325.0	20,567.6
35,319.4	35,984.6	37,988.5	36,338.0	36,814.9	37,192.8	37,061.8	36,661.7	37,632.1
6,208.3	6,205.8	7,615.0	6,067.2	6,062.7	9,011.3	6,992.9	5,932.4	5,823.8
8,554.9	8,660.1	8,567.3	9,024.8	9,080.5	9,338.3	9,106.3	8,989.3	8,839.1
8,554.9	8,660.1	8,567.3	9,024.8	9,080.5	9,338.3	9,106.3	8,989.3	8,839.1
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5,092.3	5,541.7	5,714.3	7,242.5	8,570.2	9,510.2	11,120.7	10,656.2	11,233.5
711.4	831.4	1,157.5	1,401.5	1,893.0	2,022.7	2,560.1	2,745.8	2,480.8
4,363.2	4,392.7	4,539.8	5,030.4	5,375.8	5,527.7	5,679.2	5,920.5	7,036.4
17.7	317.6	17.0	810.6	1,301.3	1,959.9	2,881.4	1,989.9	1,716.4
199,489.3	199,483.8	201,407.3	206,349.7	209,663.9	212,627.7	212,224.1	212,593.7	209,010.3
150,571.1	149,935.8	151,246.2	154,359.6	156,370.0	158,508.1	157,914.7	157,803.5	153,730.1
48,918.2	49,548.1	50,161.1	51,990.1	53,293.9	54,119.6	54,309.5	54,790.1	55,280.2
538.0	545.7	525.9	86.5	667.4	416.6	160.8	106.7	115.4
105,184.0	111,059.0	114,501.2	111,453.0	107,953.4	117,188.1	112,981.4	113,792.1	112,374.3
30,621.2	34,050.1	38,381.7	35,506.4	31,720.3	36,278.8	32,575.8	24,273.4	25,159.8
1,306.3	1,286.5	1,364.4	1,347.9	1,490.2	1,690.9	1,784.5	1,943.9	1,963.2
68,733.3	71,295.1	70,073.2	70,184.1	70,255.1	74,721.5	74,271.0	83,452.4	81,329.6
68,005.9	70,585.8	69,205.5	69,242.9	69,307.4	73,693.1	73,048.2	82,159.7	79,897.8
3,723.5	3,576.2	3,793.6	3,558.2	3,616.8	3,623.5	3,512.1	3,741.5	3,504.1
799.7	851.1	888.3	856.4	871.1	873.3	838.0	380.8	417.6
55,926.6	56,412.5	55,427.3	58,479.1	56,645.2	58,170.4	58,112.8	62,195.7	60,874.0
<b>605,370.1</b>	<b>606,684.0</b>	<b>612,935.9</b>	<b>631,054.2</b>	<b>635,311.9</b>	<b>648,098.1</b>	<b>643,396.6</b>	<b>643,603.3</b>	<b>643,981.9</b>

## TABLE VIII – cont.

The Banking System:  
Commercial Banks & NBP – Liabilities & Capital (million zloty)

	2000	2001		
	XII	I	II	III
Foreign liabilities	35,545.8	36,310.6	35,990.5	34,798.0
Notes & coin in circulation (including vault cash)	38,564.1	35,807.5	36,252.5	37,242.7
Due to banks	60,575.6	61,015.3	52,359.0	57,262.8
– due from banks to NBP	6,800.4	6,318.9	7,183.4	7,174.8
– due from banks to other banks	43,565.6	36,820.2	35,882.5	35,061.8
– due from NBP to banks	10,209.7	17,876.2	9,293.1	15,026.3
Due to non-bank financial institutions	8,393.5	8,898.4	8,922.2	7,743.5
– due from banks	8,351.6	8,891.3	8,914.9	7,739.4
– due from NBP	41.9	7.1	7.3	4.1
Due to general government	25,928.4	27,019.1	28,094.1	28,857.5
– central government	15,256.7	16,276.5	15,375.7	15,942.2
– local government	7,472.9	8,183.8	9,593.8	9,347.7
– special-purpose funds	3,198.8	2,558.8	3,124.6	3,567.6
Due to non-financial sector, zloty	208,713.3	208,277.0	210,768.1	213,369.3
– corporates	54,666.4	50,033.1	48,558.5	48,803.9
– demand	21,049.3	18,187.9	17,075.8	16,432.8
– time	33,617.1	31,845.2	31,482.7	32,371.1
– persons	154,046.9	158,243.9	162,209.6	164,565.5
– demand	26,578.3	26,749.6	27,498.4	27,819.0
– time	127,468.6	131,494.3	134,711.2	136,746.5
Due to non-financial sector, foreign currency	41,286.3	41,561.2	41,403.8	44,255.2
– corporates	8,569.9	8,475.9	8,334.6	10,725.7
– demand	3,438.2	3,655.4	3,599.8	3,833.8
– time	5,131.7	4,820.5	4,734.8	6,891.9
– persons	32,716.3	33,085.3	33,069.2	33,529.5
– demand	7,773.9	7,727.7	7,549.3	7,533.2
– time	24,942.4	25,357.6	25,519.9	25,996.3
Securities sold under agreements to repurchase	323.0	70.5	734.5	397.1
Securities issued and outstanding	35,232.9	31,351.2	43,558.9	35,239.2
Core capital	31,735.8	31,436.7	31,831.4	33,541.7
Supplementary capital	3,456.1	3,569.6	3,563.2	3,578.0
Other liabilities & capital	107,649.9	114,353.6	113,311.3	110,752.4
<b>Total Liabilities &amp; Capital</b>	<b>597,404.8</b>	<b>599,670.7</b>	<b>606,789.4</b>	<b>607,037.3</b>



2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
36,923.4	34,698.9	35,457.2	40,025.8	38,737.9	38,847.8	39,045.6	38,694.2	37,930.8
38,699.2	37,643.8	38,757.6	39,145.6	39,343.7	40,235.7	40,586.9	41,043.5	43,130.3
56,265.7	55,823.2	59,029.8	56,026.4	59,306.3	58,377.3	55,678.0	59,490.2	63,614.0
6,144.8	6,146.6	7,553.1	6,006.7	6,002.3	8,949.2	6,932.4	5,872.0	5,763.0
35,131.2	35,801.2	37,696.4	36,137.5	36,497.2	37,388.1	36,576.5	36,293.3	37,283.3
14,989.6	13,875.4	13,780.3	13,882.2	16,806.8	12,039.9	12,169.1	17,325.0	20,567.7
8,719.9	8,832.2	8,317.8	8,258.2	8,106.6	8,100.9	8,806.1	12,516.6	10,544.6
7,913.0	8,822.1	8,313.6	8,256.1	8,098.3	8,094.7	8,797.3	12,510.1	10,540.4
806.9	10.1	4.2	2.1	8.3	6.2	8.8	6.5	4.2
25,560.6	25,801.0	26,361.6	26,411.4	27,065.2	30,673.4	32,744.8	33,613.5	24,655.8
13,787.7	13,497.5	14,280.6	15,167.9	15,870.7	19,126.1	21,026.7	21,694.5	14,476.9
9,058.2	9,600.2	8,995.6	8,538.6	8,436.1	8,758.8	8,887.7	9,114.0	7,313.8
2,714.7	2,703.3	3,085.4	2,705.0	2,758.4	2,788.5	2,830.4	2,805.0	2,865.0
214,791.5	217,330.5	218,004.5	221,638.5	224,204.0	224,343.1	226,460.9	225,685.7	232,440.1
48,981.8	50,319.2	48,931.3	50,828.4	52,398.2	51,696.5	53,509.3	54,111.7	60,415.9
16,207.0	17,498.2	17,035.7	18,178.1	17,390.4	18,145.5	18,140.6	18,170.9	23,615.1
32,774.8	32,821.0	31,895.6	32,650.3	35,007.8	33,551.0	35,368.6	35,940.8	36,800.8
165,809.7	167,011.3	169,073.2	170,810.1	171,805.8	172,646.6	172,951.6	171,574.0	172,024.2
28,305.1	28,085.5	28,555.8	29,256.5	28,989.9	29,600.2	28,719.8	26,088.2	27,387.6
137,504.6	138,925.8	140,517.4	141,553.6	142,815.9	143,046.4	144,231.8	145,485.8	144,636.6
42,888.4	42,894.7	43,969.4	46,803.9	47,987.4	48,767.1	49,750.2	48,057.1	50,249.6
10,001.8	9,652.9	10,353.9	10,550.9	10,746.3	11,173.8	13,148.2	12,171.3	13,059.1
3,553.3	3,803.4	3,705.9	3,922.3	3,997.4	3,994.8	3,980.9	4,364.8	5,004.2
6,448.5	5,849.5	6,648.1	6,628.6	6,748.9	7,179.0	9,167.3	7,806.5	8,054.8
32,886.5	33,241.9	33,615.4	36,253.0	37,241.1	37,593.3	36,602.0	35,885.8	37,190.5
7,371.8	7,306.6	7,371.2	7,878.2	7,940.0	8,131.8	7,911.7	7,505.6	8,687.4
25,514.7	25,935.3	26,244.2	28,374.8	29,301.1	29,461.5	28,690.3	28,380.2	28,503.0
481.3	470.5	442.9	1.0	594.2	317.8	71.0	20.4	20.3
31,924.0	35,315.8	39,635.4	36,952.8	32,954.7	37,601.4	34,092.4	25,515.3	26,136.3
34,965.1	35,483.6	36,927.1	36,940.8	36,965.1	37,180.1	37,783.5	37,842.3	38,697.4
3,686.6	3,735.5	3,651.4	3,652.4	3,636.6	3,625.0	3,599.2	3,646.5	3,916.9
110,464.6	108,654.1	102,381.1	115,197.4	116,410.2	120,028.7	114,778.1	117,478.1	112,645.9
<b>605,370.1</b>	<b>606,684.0</b>	<b>612,935.9</b>	<b>631,054.2</b>	<b>635,311.9</b>	<b>648,098.1</b>	<b>643,396.6</b>	<b>643,603.3</b>	<b>643,981.9</b>

## TABLE IX

## Monetary Aggregates (million zloty)

	2000	2001		
	XII	I	II	III
1. Notes & coin in circulation (including vault cash)	38,564.1	35 807.5	36,252.5	37,242.7
2. Current accounts of the banks	10,209.7	13,520.6	5,074.1	10,765.6
3. Required reserves	0.0	355.6	219.0	260.6
<b>M0 (1 + 2 + 3)</b>	<b>48,773.8</b>	<b>49,683.8</b>	<b>41,545.6</b>	<b>48,268.9</b>
4. Notes & coin in circulation (excluding vault cash)	34,112.7	31,964.2	32,508.3	33,544.5
5. Demand deposits	59,645.4	57,447.3	56,952.8	56,283.9
– zloty	44,587.0	42,248.3	42,041.0	41,198.7
– persons	22,756.0	23,046.7	23,851.9	24,165.6
– non-financial corporates	21,049.3	18,187.9	17,075.8	16,432.8
– non-bank financial institutions	781.7	1,013.7	1,113.3	600.4
– foreign currency	11,236.1	11,496.1	11,265.3	11,431.9
– persons	7,773.9	7,727.7	7,549.3	7,533.2
– non-financial corporates	3,438.2	3,655.4	3,599.8	3,833.8
– non-bank financial institutions	23.9	112.9	116.3	64.8
– savings books (sight)	3,822.2	3,702.9	3,646.5	3,653.4
<b>M1 (4 + 5)</b>	<b>93,758.1</b>	<b>89,411.5</b>	<b>89,461.1</b>	<b>89,828.4</b>
6. Time deposits & deposits on hold	200,627.3	203,163.3	206,055.4	211,053.4
– zloty	168,564.9	170,989.4	173,875.8	176,143.8
– persons	127,140.7	131,192.0	134,433.5	136,491.5
– non-financial corporates	34,466.6	32,723.1	32,382.4	33,317.4
– non-bank financial institutions	6,957.6	7,074.3	7,059.9	6,335.0
– foreign currency	31,731.2	31,868.7	31,899.0	34,652.0
– persons	24,939.1	25,354.7	25,517.2	25,993.7
– non-financial corporates	6,161.8	5,816.5	5,749.2	7,915.0
– non-bank financial institutions	630.3	697.5	632.7	743.3
– savings certificates and certificates of deposit (non-negotiable)	331.2	305.2	280.5	257.6
– zloty	327.9	302.3	277.7	255.0
– foreign currency	3.3	3.0	2.8	2.5
7. Repurchase transactions	2.6	2.4	20.8	123.4
with non-financial corporates	2.6	2.4	20.8	123.4
with non-bank financial institutions	0.0	0.0	0.0	0.0
<b>M2 (M1 + 6 + 7)</b>	<b>294,387.9</b>	<b>292,577.2</b>	<b>295,537.3</b>	<b>301,005.2</b>

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
38,699.2	37,643.8	38,757.6	39,145.6	39,343.7	40,235.7	40,586.9	41,043.5	43,130.3
10,586.6	9,633.7	9,515.7	9,694.2	12,494.4	7,910.0	7,965.1	13,032.8	16,395.0
403.1	241.8	264.7	188.0	312.4	130.0	204.0	292.2	172.7
<b>49,688.8</b>	<b>47,519.3</b>	<b>48,537.9</b>	<b>49,027.8</b>	<b>52,150.5</b>	<b>48,275.6</b>	<b>48,756.0</b>	<b>54,368.5</b>	<b>59,698.0</b>
34,486.4	33,796.9	34,961.4	35,301.4	35,509.5	36,575.9	36,642.2	36,637.3	38,212.6
56,260.5	57,683.2	57,337.3	60,163.2	59,192.6	60,690.7	59,561.1	57,347.6	65,818.1
41,582.2	42,923.4	42,645.6	44,677.4	43,612.7	44,964.0	44,119.9	42,115.2	48,596.3
24,662.1	24,498.1	24,984.6	25,673.2	25,428.5	26,054.0	25,232.5	22,826.0	23,923.6
16,207.0	17,498.2	17,035.7	18,178.1	17,390.4	18,145.5	18,140.6	18,170.9	23,615.1
713.1	927.0	625.3	826.1	793.8	764.5	746.9	1,118.3	1,057.6
11,035.3	11,172.5	11,120.5	11,902.4	12,018.5	12,180.5	11,953.8	11,970.2	13,757.8
7,371.8	7,306.6	7,371.2	7,878.2	7,940.0	8,131.8	7,911.7	7,505.6	8,687.4
3,553.3	3,803.4	3,705.9	3,922.3	3,997.4	3,994.8	3,980.9	4,364.8	5,004.2
110.1	62.6	43.5	101.9	81.0	53.9	61.2	99.8	66.1
3,643.0	3,587.4	3,571.2	3,583.4	3,561.5	3,546.1	3,487.4	3,262.2	3,464.0
<b>90,746.9</b>	<b>91,480.1</b>	<b>92,298.8</b>	<b>95,464.6</b>	<b>94,702.1</b>	<b>97,266.5</b>	<b>96,203.2</b>	<b>93,984.9</b>	<b>104,030.7</b>
212,210.4	213,530.5	215,228.8	219,110.4	223,817.0	223,395.6	228,534.8	232,276.8	230,721.5
178,324.9	179,725.2	180,219.3	181,920.4	185,412.6	184,325.0	188,283.1	193,239.4	191,339.2
137,244.2	138,660.3	140,301.6	141,358.2	142,642.3	142,880.4	144,084.7	145,334.6	144,488.1
33,785.6	33,890.3	33,067.2	33,982.2	36,431.1	35,119.2	37,161.5	37,570.4	38,502.1
7,295.1	7,174.6	6,850.5	6,580.0	6,339.2	6,325.3	7,036.9	10,334.4	8,348.9
33,623.0	33,537.7	34,791.7	36,992.7	38,229.0	38,903.1	40,103.3	38,885.2	39,232.2
25,512.5	25,933.2	26,242.2	28,372.9	29,299.3	29,459.9	28,688.9	28,379.2	28,501.3
7,508.9	6,936.4	7,750.9	7,869.6	8,037.2	8,486.1	10,453.2	9,541.8	9,658.9
601.5	668.1	798.5	750.2	892.5	957.1	961.2	964.2	1,072.0
262.5	267.5	217.8	197.2	175.4	167.6	148.5	152.2	150.2
260.3	265.5	215.8	195.3	173.6	166.0	147.1	151.2	148.5
2.2	2.1	2.0	1.9	1.8	1.6	1.4	1.0	1.7
<b>5.3</b>	<b>6.9</b>	<b>4.5</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>
5.3	6.9	4.5	1.0	1.0	1.0	1.0	0.9	0.9
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>302,962.6</b>	<b>305,017.4</b>	<b>307,532.0</b>	<b>314,576.0</b>	<b>318,520.2</b>	<b>320,663.1</b>	<b>324,739.1</b>	<b>326,262.6</b>	<b>334,753.1</b>

## TABLE X

Consolidated Balance Sheet of the Banking System  
(million zloty)

	2000	2001		
	XII	I	II	III
<b>TOTAL MONEY SUPPLY (M2)</b>	<b>294,387.9</b>	<b>292,577.2</b>	<b>295,537.3</b>	<b>301,005.2</b>
<b>A. Domestic money stocks</b>	<b>251,417.3</b>	<b>249,209.5</b>	<b>252,370.1</b>	<b>254,918.8</b>
1. Notes & coin in circulation (excluding vault cash)	34,112.7	31,964.2	32,508.3	33,544.5
notes & coin in circulation (including vault cash)	38,564.1	35,807.5	36,252.5	37,242.7
vault cash	4,451.4	3,843.3	3,744.2	3,698.2
2. Due to persons & corporates, zloty	217,304.6	217,245.3	219,861.8	221,374.3
persons	154,046.9	158,243.9	162,209.6	164,565.5
– demand	26,578.3	26,749.6	27,498.4	27,819.0
– time	127,468.6	131,494.3	134,711.2	136,746.5
corporates	63,257.8	59,001.4	57,652.2	56,808.9
– demand	21,831.0	19,201.6	18,189.1	17,033.1
– time	41,426.7	39,799.8	39,463.1	39,775.8
<b>B. Due to persons &amp; corporates, foreign currency</b>	<b>42,970.6</b>	<b>43,367.7</b>	<b>43,167.1</b>	<b>46,086.4</b>
1. Persons	32,716.3	33,085.3	33,069.2	33,529.5
2. Corporates	10,254.3	10,282.4	10,097.9	12,556.9
<b>NET FOREIGN ASSETS</b>	<b>132,080.5</b>	<b>131,474.7</b>	<b>133,822.5</b>	<b>137,076.6</b>
of which: in US\$ million	31,878.9	32,161.9	32,840.7	33,433.3
<b>NET DOMESTIC ASSETS</b>	<b>162,307.4</b>	<b>161,102.5</b>	<b>161,714.7</b>	<b>163,928.6</b>
<b>C. Due from persons &amp; corporates</b>	<b>206,357.3</b>	<b>208,437.7</b>	<b>209,731.8</b>	<b>210,964.1</b>
1. Persons	48,188.4	48,305.4	48,174.5	48,378.8
2. Corporates	158,168.9	160,132.4	161,557.3	162,585.3
<b>D. Net general government debt</b>	<b>50,749.2</b>	<b>46,641.6</b>	<b>45,474.1</b>	<b>45,385.1</b>
1. Due from central government	1,718.4	970.6	926.7	663.4
2. Due from special-purpose funds	600.3	816.0	465.4	12.3
3. Due from local government	4,550.6	4,519.9	4,477.6	4,389.1
4. Treasury securities	69,010.3	66,580.7	66,945.6	68,408.4
of which:				
– Treasury bills	11,345.8	10,332.1	11,830.0	12,559.6
– zloty-denominated 1-year Treasury bonds	7.0	0.9	0.9	2.9
– other zloty-denominated Treasury bonds	49,154.9	48,002.3	46,249.2	46,819.0
– dollar-denominated Treasury bonds	8,502.6	8,245.4	8,865.5	9,026.9
5. Local government securities	798.0	773.6	752.8	769.5
6. Due to central government	15,256.7	16,276.5	15,375.7	15,942.2
7. Due to special-purpose funds	3,198.8	2,558.8	3,124.6	3,567.6
8. Due to local government	7,472.9	8,183.8	9,593.8	9,347.7
<b>E. Other items (net)</b>	<b>-94,799.1</b>	<b>-93,976.8</b>	<b>-93,491.1</b>	<b>-92,420.6</b>

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
<b>302,962.6</b>	<b>305,017.4</b>	<b>307,532.0</b>	<b>314,576.0</b>	<b>318,520.2</b>	<b>320,663.1</b>	<b>324,739.1</b>	<b>326,262.6</b>	<b>334,753.1</b>
258,302.1	260,305.2	261,617.8	265,679.0	268,270.8	269,578.0	272,680.6	275,406.2	281,761.4
34,486.4	33,796.9	34,961.4	35,301.4	35,509.5	36,575.9	36,642.2	36,637.3	38,212.6
38,699.2	37,643.8	38,757.6	39,145.6	39,343.7	40,235.7	40,586.9	41,043.5	43,130.3
4,212.8	3,846.9	3,796.1	3,844.2	3,834.3	3,659.8	3,944.7	4,406.2	4,917.7
223,815.7	226,508.3	226,656.4	230,377.6	232,761.4	233,002.1	236,038.5	238,768.9	243,548.8
165,809.7	167,011.3	169,073.2	170,810.1	171,805.8	172,646.6	172,951.6	171,574.0	172,024.2
28,305.1	28,085.5	28,555.8	29,256.5	28,989.9	29,600.2	28,719.8	26,088.2	27,387.6
137,504.6	138,925.8	140,517.4	141,553.6	142,815.9	143,046.4	144,231.8	145,485.8	144,636.6
58,006.1	59,497.0	57,583.2	59,567.4	60,955.6	60,355.5	63,086.9	67,194.9	71,524.6
16,920.1	18,425.2	17,661.0	19,004.2	18,184.2	18,910.0	18,887.5	19,289.2	24,672.7
41,086.0	41,071.8	39,922.2	40,563.2	42,771.4	41,445.5	44,199.4	47,905.7	46,851.9
<b>44,660.5</b>	<b>44,712.3</b>	<b>45,914.2</b>	<b>48,897.0</b>	<b>50,249.3</b>	<b>51,085.2</b>	<b>52,058.4</b>	<b>50,856.4</b>	<b>52,991.7</b>
32,886.5	33,241.9	33,615.4	36,253.0	37,241.1	37,593.3	36,602.0	35,885.8	37,190.5
11,773.9	11,470.4	12,298.8	12,644.0	13,008.2	13,491.9	15,456.5	14,970.6	15,801.2
<b>132,930.4</b>	<b>130,368.7</b>	<b>128,155.7</b>	<b>138,262.6</b>	<b>140,464.7</b>	<b>140,094.8</b>	<b>140,476.5</b>	<b>132,250.2</b>	<b>134,663.2</b>
33,432.4	32,524.7	32,142.6	32,621.4	33,178.5	33,067.0	34,273.4	32,355.6	33,781.5
<b>170,032.2</b>	<b>174,648.7</b>	<b>179,376.3</b>	<b>176,313.4</b>	<b>178,055.5</b>	<b>180,568.4</b>	<b>184,262.6</b>	<b>194,012.4</b>	<b>200,089.9</b>
211,477.5	211,422.1	213,548.3	218,741.4	222,437.4	225,902.2	225,269.1	225,926.5	221,960.1
48,918.2	49,548.1	50,161.1	51,990.1	53,293.9	54,119.6	54,309.5	54,790.1	55,280.2
162,559.3	161,874.0	163,387.3	166,751.4	169,143.5	171,782.6	170,959.6	171,136.4	166,679.9
<b>48,265.1</b>	<b>51,035.8</b>	<b>49,425.9</b>	<b>51,015.2</b>	<b>51,760.1</b>	<b>53,558.3</b>	<b>52,647.0</b>	<b>60,495.2</b>	<b>67,907.4</b>
711.4	831.4	1,157.5	1,401.5	1,893.0	2,022.7	2,560.1	2,745.8	2,480.8
17.7	317.6	17.0	810.6	1,301.3	1,959.9	2,881.4	1,989.9	1,716.4
4,363.2	4,392.7	4,539.8	5,030.4	5,375.8	5,527.7	5,679.2	5,920.5	7,036.4
68,005.9	70,585.8	69,205.5	69,242.9	69,307.4	73,693.1	73,048.2	82,159.7	79,897.8
12,514.5	12,592.8	12,446.2	11,830.0	11,927.5	13,377.9	14,422.9	15,838.4	18,627.0
2.9	15.5	1.4	1.4	1.0	1.2	3.0	7.2	1,858.5
47,562.6	49,821.1	48,426.9	48,499.6	48,589.2	51,218.7	50,927.5	50,353.4	43,634.8
7,925.8	8,156.3	8,331.1	8,912.0	8,789.7	9,095.3	7,695.0	15,960.7	15,777.5
727.5	709.4	867.7	941.2	947.8	1,028.4	1,222.8	1,292.8	1,431.8
13,787.7	13,497.5	14,280.6	15,167.9	15,870.7	19,126.1	21,026.7	21,694.5	14,476.9
2,714.7	2,703.3	3,085.4	2,705.0	2,758.4	2,788.5	2,830.4	2,805.0	2,865.0
9,058.2	9,600.2	8,995.6	8,538.6	8,436.1	8,758.8	8,887.7	9,114.0	7,313.8
<b>-89,710.4</b>	<b>-87,809.2</b>	<b>-83,597.9</b>	<b>-93,443.2</b>	<b>-96,142.1</b>	<b>-98,892.2</b>	<b>-93,653.5</b>	<b>-92,409.2</b>	<b>-89,777.7</b>

TABLE XI

Reserve Money and Counterparts  
(million zloty)

	2000	2001		
	XII	I	II	III
<b>NET FOREIGN ASSETS</b>	112,202.1	112,373.0	115,405.4	113,590.7
<b>NET DOMESTIC ASSETS</b>	-63,428.4	-62,689.2	-73,859.8	-65,321.8
Due from financial institutions	6,869.7	6,389.1	7,250.9	7,239.2
Net general government debt	6,968.7	5,617.3	4,863.0	3,709.2
Due from non-financial sector	68.1	67.0	21.8	21.6
Other items (net)	-77,334.9	-74,762.5	-85,995.6	-76,291.9
<b>CENTRAL BANK RESERVE MONEY</b>	<b>48,773.8</b>	<b>49,683.8</b>	<b>41,545.6</b>	<b>48,268.9</b>
Notes & coin in circulation (including vault cash)	38,564.1	35,807.5	36,252.5	37,242.7
Current accounts of the banks	10,209.7	13,520.6	5,074.1	10,765.6
Reserve accounts of the banks	0.0	355.6	219.0	260.6
<b>Money multiplier</b>	<b>6.04</b>	<b>5.89</b>	<b>7.11</b>	<b>6.24</b>

TABLE XII

## Poland: Balance of Payments, Cash Basis (US\$ million)

	Q1		Q2	
	2000	2001	2000	2001
<b>A. CURRENT ACCOUNT</b>	<b>-3,513</b>	<b>-2,230</b>	<b>-2,103</b>	<b>-2,210</b>
<b>Trade balance</b>	<b>-3,851</b>	<b>-3,147</b>	<b>-3,022</b>	<b>-2,776</b>
Goods: exports	6,322	7,436	6,835	7,508
Goods: imports	10,173	10,583	9,857	10,284
<b>Services: net</b>	<b>-548</b>	<b>-350</b>	<b>-445</b>	<b>-197</b>
Services: credits	771	904	864	952
Services: debits	1,319	1,254	1,309	1,149
<b>Income: net</b>	<b>-203</b>	<b>165</b>	<b>-116</b>	<b>-635</b>
Income: credits	509	864	569	618
Income: debits	712	699	685	1,253
of which: due and paid	709	697	684	1,251
<b>Current transfers: net</b>	<b>361</b>	<b>372</b>	<b>423</b>	<b>424</b>
Current transfers: credits	474	534	534	567
Current transfers: debits	113	162	111	143
<b>Unclassified transactions on current account: net</b>	<b>728</b>	<b>730</b>	<b>1,057</b>	<b>974</b>
<b>B. CAPITAL AND FINANCIAL ACCOUNT</b>	<b>2,006</b>	<b>2,492</b>	<b>1,171</b>	<b>1,029</b>
<b>CAPITAL ACCOUNT</b>	<b>-27</b>	<b>-3</b>	<b>8</b>	<b>-5</b>
<b>FINANCIAL ACCOUNT</b>	<b>2,033</b>	<b>2,495</b>	<b>1,163</b>	<b>1,034</b>
<b>Direct investment: net</b>	<b>1,554</b>	<b>1,347</b>	<b>1,121</b>	<b>1,450</b>
Polish direct investment abroad	-19	-66	-42	40
Foreign direct investment in Poland	1,573	1,413	1,163	1,410
<b>Portfolio investment: net</b>	<b>2,421</b>	<b>2,358</b>	<b>21</b>	<b>-950</b>
Polish portfolio investment abroad (assets)	5	237	-102	-83
Equity securities	-5	0	-3	-51
Debt securities	10	237	-99	-32

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
108,497.8	107,775.8	107,289.4	115,551.0	118,322.4	118,433.8	116,301.6	105,171.8	103,846.3
-58,808.9	-60,256.5	-58,751.5	-66,523.2	-66,171.8	-70,158.2	-67,545.6	-50,803.3	-44,148.3
6,208.3	6,205.8	7,615.0	6,067.2	6,062.7	9,011.3	6,992.9	5,932.4	5,823.8
5,335.7	5,599.4	4,606.2	3,531.5	2,522.0	1,246.9	-3,176.4	4,746.2	10,737.0
21.7	21.3	21.8	22.1	122.7	124.4	125.5	22.4	22.8
-70,374.8	-72,083.1	-70,994.5	-76,144.0	-74,879.3	-80,540.8	-71,487.6	-61,504.3	-60,731.8
<b>49,688.8</b>	<b>47,519.3</b>	<b>48,537.9</b>	<b>49,027.8</b>	<b>52,150.5</b>	<b>48,275.6</b>	<b>48,756.0</b>	<b>54,368.5</b>	<b>59,698.0</b>
38,699.2	37,643.8	38,757.6	39,145.6	39,343.7	40,235.7	40,586.9	41,043.5	43,130.3
10,586.6	9,633.7	9,515.7	9,694.2	12,494.4	7,910.0	7,965.1	13,032.8	16,395.0
403.1	241.8	264.7	188.0	312.4	130.0	204.0	292.2	172.7
6.10	6.42	6.34	6.42	6.11	6.64	6.66	6.00	5.61

Q3		Q4		4 Quarters	
2000	2001	2000	2001	2000	2001
-2,254	-973	-2,082	-1,753	-9,952	-7,166
-3,338	-2,735	-2,957	-3,017	-13,168	-11,675
7,168	7,458	7,930	7,873	28,255	30,275
10,506	10,193	10,887	10,890	41,423	41,950
-336	-186	-357	-243	-1,686	-976
934	1,055	936	1,077	3,505	3,988
1,270	1,241	1,293	1,320	5,191	4,964
-71	-111	-369	-315	-759	-896
524	579	646	591	2,248	2,652
595	690	1,015	906	3,007	3,548
593	688	1,013	903	2,999	3,539
<b>414</b>	<b>693</b>	<b>483</b>	<b>497</b>	<b>1,681</b>	<b>1,986</b>
531	849	620	694	2,159	2,644
117	156	137	197	478	658
1,077	1,366	1,118	1,325	3,980	4,395
<b>1,428</b>	<b>1,101</b>	<b>3,055</b>	<b>-1,642</b>	<b>7,660</b>	<b>2,980</b>
<b>-11</b>	<b>-3</b>	<b>43</b>	<b>10</b>	<b>13</b>	<b>-1</b>
<b>1,439</b>	<b>1,104</b>	<b>3,012</b>	<b>-1,652</b>	<b>7,647</b>	<b>2,981</b>
903	1,309	4,591	2,822	8,169	6,928
-37	-17	-26	-24	-124	-67
940	1,326	4,617	2,846	8,293	6,995
<b>412</b>	<b>-29</b>	<b>-263</b>	<b>-270</b>	<b>2,591</b>	<b>1,109</b>
41	-87	-29	-24	-85	43
-9	0	-4	-16	-21	-67
50	-87	-25	-8	-64	110

## TABLE XII – cont.

Poland: Balance of Payments, Cash Basis  
(US\$ million)

	Q1		Q2	
	2000	2001	2000	2001
Foreign portfolio investment in Poland (liabilities)	2,416	2,121	123	-867
Equity securities	405	-79	35	-11
Debt securities	2,011	2,200	88	-856
<b>Other investment: net</b>	<b>-1,958</b>	<b>-1,067</b>	<b>-143</b>	<b>148</b>
Polish assets	-589	-893	-134	-56
Long-term credits extended	48	-52	16	-9
Drawings	32	92	50	61
Repayments	80	40	66	52
Short-term credits extended	1	6	6	1
Drawings	27	18	55	23
Repayments	28	24	61	24
Other assets	-638	-847	-156	-48
Currency and deposits	-655	-847	-153	-47
Other	17	0	-3	-1
Polish liabilities	-1,369	-174	-9	204
Long-term credits received	25	-326	55	258
Drawings	707	782	679	1,388
Repayments	682	1,108	624	1,130
of which: due and paid	681	1,108	624	1,129
Short-term credits received	-44	-80	3	-86
Drawings	202	61	71	154
Repayments	246	141	68	240
Other liabilities	-1,350	232	-67	32
Currency and deposits	-1,350	232	-67	32
Other	0	0	0	0
Financial derivatives: net	16	-143	164	386
<b>C. NET ERRORS AND OMISSIONS</b>	<b>944</b>	<b>988</b>	<b>736</b>	<b>671</b>
<b>OVERALL BALANCE</b>	<b>-563</b>	<b>1,250</b>	<b>-196</b>	<b>-510</b>
<b>D. FINANCING OF OVERALL BALANCE</b>	<b>563</b>	<b>-1,250</b>	<b>196</b>	<b>510</b>
Official reserve assets	566	-1,242	199	513
Credits from IMF	0	0	0	0
Exceptional financing	-3	-8	-3	-3

## TABLE XIII

## Official Reserve Assets

	2000	2001		
	XII	I	II	III
<b>OFFICIAL RESERVE ASSETS<sup>1</sup></b>	<b>27,465.7</b>	<b>28,107.8</b>	<b>28,715.8</b>	<b>27,998.3</b>
Monetary gold	901.5	874.4	881.8	852.1
SDRs	423.7	242.7	243.0	300.4
Foreign exchange in convertible currencies	26,320.5	26,990.7	27,591.0	26,845.8

<sup>1</sup> Month end.



Q3		Q4		4 Quarters	
2000	2001	2000	2001	2000	2001
371	58	-234	-246	2,676	1,066
280	41	146	-257	866	-306
91	17	-380	11	1,810	1,372
<b>492</b>	<b>345</b>	<b>-1,773</b>	<b>-4,141</b>	<b>-3,382</b>	<b>-4,715</b>
509	52	-2,706	-2,603	-2,920	-3,500
39	26	23	14	126	-21
58	30	29	50	169	233
97	56	52	64	295	212
-4	6	23	3	26	16
43	21	44	45	169	107
39	27	67	48	195	123
474	20	-2,752	-2,620	-3,072	-3,495
469	19	-2,755	-2,621	-3,094	-3,496
5	1	3	1	22	1
-17	293	933	-1,538	-462	-1,215
70	221	1,100	-1,720	1,250	-1,567
731	1,430	2,457	2,313	4,574	5,913
661	1,209	1,357	4,033	3,324	7,480
660	1,209	1,331	4,018	3,296	7,464
25	75	159	0	143	-91
73	207	205	231	551	653
48	132	46	231	408	744
-112	-3	-326	182	-1,855	443
-109	-3	-326	182	-1,852	443
-3	0	0	0	-3	0
<b>-368</b>	<b>-521</b>	<b>457</b>	<b>-63</b>	<b>269</b>	<b>-341</b>
<b>875</b>	<b>-6</b>	<b>413</b>	<b>2,110</b>	<b>2,968</b>	<b>3,763</b>
<b>49</b>	<b>122</b>	<b>1,386</b>	<b>-1,285</b>	<b>676</b>	<b>-423</b>
<b>-49</b>	<b>-122</b>	<b>-1,386</b>	<b>1,285</b>	<b>-676</b>	<b>423</b>
-12	-119	-1,374	1,288	-621	440
0	0	0	0	0	0
-37	-3	-12	-3	-55	-17

2001								
IV	V	VI	VII	VIII	IX	X	XI	XII
27,739.3	27,045.4	27,112.9	27,844.3	28,032.4	28,300.1	28,899.7	26,126.7	26,565.2
870.0	884.3	894.7	879.0	902.6	969.1	921.8	911.1	914.7
298.5	331.1	330.7	382.2	395.3	392.4	389.9	388.4	488.9
26,570.8	25,830.0	25,887.6	26,583.1	26,734.5	26,938.6	27,588.0	24,827.2	25,161.6

## TABLE XIV

## Poland: External Debt\*

Based on data available at March 19, 2002.

Items	Period end, US\$ million					
	1996	1997	1998	1999	2000	2001
<b>MONETARY AUTHORITIES</b>	<b>265</b>	<b>791</b>	<b>925</b>	<b>1,844</b>	<b>436</b>	<b>428</b>
Other investment	265	791	925	1,844	436	428
Loans	78	58	32	23	15	8
Currency and deposits <sup>1</sup>	187	733	893	1,821	421	420
<b>CENTRAL AND LOCAL GOVERNMENT<sup>2</sup></b>	<b>36,271</b>	<b>34,402</b>	<b>34,098</b>	<b>32,121</b>	<b>32,980</b>	<b>29,362</b>
Debt securities <sup>3,4</sup>	7,562	7,818	7,037	6,922	9,231	10,373
Bonds and notes	6,884	7,343	6,672	6,777	9,073	10,139
Money-market instruments	678	475	365	145	158	234
Other investment	28,709	26,584	27,061	25,199	23,749	18,989
Loans	28,681	26,557	27,059	25,197	23,747	18,987
Other liabilities	28	27	2	2	2	2
<b>BANKS</b>	<b>2,518</b>	<b>3,683</b>	<b>5,131</b>	<b>6,548</b>	<b>6,122</b>	<b>6,699</b>
Loans from direct investors (intercompany loans)	87	141	160	134	200	231
Debt securities	200	488	236	10	110	166
Bonds and notes	200	306	215	10	110	166
Money-market instruments	0	182	21	0	0	0
Other investment	2,231	3,054	4,735	6,404	5,812	6,302
Loans	488	1,104	2,084	3,681	3,595	3,679
Currency and deposits <sup>5</sup>	1,685	1,950	2,651	2,723	2,217	2,623
Other liabilities	58	0	0	0	0	0
<b>OTHER SECTORS</b>	<b>8,487</b>	<b>10,771</b>	<b>18,981</b>	<b>24,884</b>	<b>30,072</b>	<b>33,671</b>
Loans from direct investors (intercompany loans)	2,681	4,326	6,218	7,080	8,852	9,355
Debt securities	107	347	1,416	2,705	3,487	4,230
Bonds and notes	31	325	1,328	2,682	3,386	4,217
Money-market instruments	76	22	88	23	101	13
Other investment	5,699	6,098	11,347	15,099	17,733	20,086
Trade credits <sup>5,6</sup>	2,197	1,862	3,560	5,225	5,612	5,774
Loans	3,502	4,236	7,787	9,758	11,899	14,124
Other liabilities			0	116	222	188
<b>TOTAL EXTERNAL DEBT</b>	<b>47,541</b>	<b>49,647</b>	<b>59,135</b>	<b>65,397</b>	<b>69,610</b>	<b>70,160</b>
of which:						
Long-term	42,545	44,514	50,720	54,182	60,062	60,154
Short-term <sup>5</sup>	4,996	5,133	8,415	11,215	9,548	10,006

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\* Compiled in accordance with the requirements of international organizations (IMF, OECD, BIS, World Bank), as described in the "Methodological Notes".

<sup>1</sup> In May 2000, the previous item "Gross official reserves" was replaced with the item "Official reserve assets". The difference between the two involves the reporting of repurchase and reverse repurchase agreements (repos and reverse repos). The "Gross official reserves" included the net value of these agreements (the difference between reverse repos and repos), while the "Official reserve assets" only incorporate reverse repos. As a result of this change, repos carried out by the NBP are now shown under "Currency and deposits". For purposes of comparison, the figures on the external debt have been adjusted accordingly from 1996 onwards.

<sup>2</sup> As of 1999, the figures include the external debt of local government.

<sup>3</sup> As of 1999, figures on outstanding securities issued on the domestic market (Treasury bonds and Treasury bills) have been taken from the Ministry of Finance report *Zadłużenie Skarbu Państwa* [Treasury Debt].

<sup>4</sup> Figures on outstanding securities issued on international markets (Brady bonds and Eurobonds) have been adjusted by deducting those held by Polish residents.

<sup>5</sup> Since no maturity breakdown is available for trade credits or currency and deposits, the total for these items has been included in short-term debt.

<sup>6</sup> In March 1999, the regulations on reporting requirements for residents for the purpose of the balance of payments and the international investment position were changed. The scope of undertakings subject to these requirements was extended, and fiscal penalties for noncompliance introduced. In this context, the NBP received data on outstanding trade credits from undertakings that had previously not filed reports. The figures for outstanding trade credits in 1998-1999 were therefore altered accordingly. Since it has not been possible to adjust the figures for 1996-1997, adjusted time series are presented for 1998-1999.

## METHODOLOGICAL NOTES

### TABLE I

#### Basic Economic Data

The data included in Table I have been taken from the Statistical Bulletin of the Central Statistical Office (GUS). The definitions related to the items in Table I are to be found in Central Statistical Office publications.

1. The data included in items 1, 2, 6, 7, 10 and 12 refer to all business undertakings, irrespective of ownership rights, whether belonging to the public or private sector (the public sector comprises undertakings constituting state property and those belonging to local government institutions, and also those of mixed equity, with a majority public sector interest).
2. The term "corporate sector" comprises undertakings conducting economic activity in forestry, logging and related service activities; marine fisheries; mining and quarrying; manufacturing; electricity, gas and water supply; construction; the wholesale and retail trades; repair of motor vehicles, motorcycles, and personal and household goods; hotels and restaurants; transport, storage and communication; real estate activities, and renting of machinery and equipment without an operator and of personal and household goods; computer and related activities; other business activities; sewage and refuse disposal, sanitation and similar activities; recreational, cultural and sporting activities; and other service activities.
3. The term "industry" refers to the following sections of the Polish Classification of Economic Activity (PKD): Mining & Quarrying; Manufacturing; and Electricity, Gas & Water Supply.
4. Figures on industrial output (item 1), construction output (item 2), on the employed labour force, average employees in employment and average monthly employee earnings in the corporate sector (items 6, 7 & 10) refer to business undertakings employing more than nine persons.
5. Figures on industrial output (item 1) and construction output (item 2) are given net of output VAT and excise duty, but inclusive of product subsidies to goods and services, using core (underlying) prices.
6. Figures on construction output (item 2) refer to works performed within Poland by construction companies, i.e., those classified in line with the PKD under the section "Construction".
7. Figures on industrial output (item 1) and construction output (item 2) are not seasonally adjusted, i.e., they refer to effective working time.
8. Figures on the employed labour force in the corporate sector (item 6) refer to month end.
9. Figures on the number of unemployed (item 8) refer to persons registered as jobless at employment offices at month end.
10. The unemployment rate (item 9) represents the proportion of registered jobless in the civilian working population.
11. Revenues from privatisation are excluded from current central government receipts, although they constitute a source of financing for the government deficit (item 11a).
12. The figures for corporate financial performance (item 12) refer mainly to business undertakings maintaining books of account and required to complete quarterly statements on revenues, costs and profit/loss. The figures for all kinds of activity refer to undertakings employing more than 49 persons.

## TABLE II

## Financial Market – Basic Information

The source of the figures in Table II is the National Bank of Poland (with the exception of the data in item 15, provided by the Warsaw Stock Exchange).

1. Interest rates in Table II are presented on an annual basis as obtaining at month end, except in items 12e and 13e, where they are given as a monthly average.
2. The inclusion of two interest rates in one cell (item 3) means that the first rate is on refinance loans for central government investment projects guaranteed by the Treasury. This is equivalent to the lombard rate. The second rate is 1 percentage point higher and is applicable to other refinance loans.
3. On December 1, 2001, the NBP introduced a central bank deposit rate (item 4). The deposit rate represents the price which the central bank offers to the commercial banks for short-term deposits.
4. Rates on loans, zloty deposits and foreign currency deposits at the principal commercial banks (items 6, 7 & 8) refer to the rates quoted by the following banks:
  - Powszechna Kasa Oszczednosci – Bank Polski SA,
  - Bank Handlowy w Warszawie SA,
  - ING Bank Slaski SA,
  - Bank Przemyslowo-Handlowy SA,
  - Powszechny Bank Kredytowy SA,
  - Bank Zachodni WBK SA,
  - BRE Bank SA,
  - BIG Bank Gdanski SA,
  - Bank Polska Kasa Opieki SA,
  - Kredyt Bank SA,
  - Bank Gospodarki Zywnosciowej SA.
5. Lending and deposit rates (items 6, 7 & 8) are given by reference to the minimum and maximum rates. (NB: Some banks only provide information on minimum lending and deposit rates).
6. Lending rates (item 6) refer to corporate loans.
7. Zloty deposit rates (item 7) refer to personal deposits.
8. Foreign currency deposit rates at commercial banks (item 8) refer to accounts held in US dollars.
9. Figures on interbank placements (item 9) refer to zloty deposits at resident banks. The ranges in particular periods are closed on the right side. The average length of placements and average interest rates are weighted according to the proportion of placements for particular maturities in the total value of placements. The figures have been supplied by the banks listed in note 4 above and also by:
  - Raiffeisen Centrobank SA,
  - Bank Ochrony Srodowiska SA,
  - Societé Générale – Succursale de Varsovie,
  - Deutsche Bank Polska SA.
 These figures include:
  - deposits placed by these banks with each other,
  - deposits placed by these banks at other banks,
  - deposits placed at these banks by other banks.

10. Total required reserves (item 11) refer to the balances declared by the banks and required on the final day of the month.
11. Figures for Treasury bill tenders (item 12, excluding 12g) are taken from the tenders held during the given month. The average discount rates on bids accepted (12e) and average yields on bills purchased (12f) are weighted according to the proportion of bills of particular maturities in the total value of bills purchased. The balance of bills outstanding at month end (12g) is computed in consideration of maturities, as calculated on the next day after the tender at which the bills were sold. The above balance does not comprise outstanding bills not sold at tender.
12. Figures for tenders for NBP money-market bills (item 13, excluding 13g) are taken from the tenders held during the given month. The average discount rates on bids accepted (13e) and average yields on bills purchased (13f) are weighted according to the proportion of bills of particular maturities in the total value of bills purchased.
13. The Warsaw Stock Exchange Index (items 15d & 15e) and Warsaw Second-Tier Market Index (items 15f & 15g) are calculated according to percentage changes in the market values of listed companies. The market value of all companies on the first-tier market (for the former index) and second-tier market (for the latter index) is computed during each trading session (the total market capitalisation) and compared with the value at previous sessions. It has been assumed that the Warsaw Stock Exchange Index stood at 1,000 points during the first session of the Exchange on April 16, 1991, while the Warsaw Second-Tier Market Index stood at 1,000 points at year end 1994.
14. The ratios given refer to companies quoted on all tiers of the exchange.
15. The P/E ratio (item 15c) represents the ratio of market price to net earnings and is calculated as a multiple expressing the total market capitalisation of listed companies at month end to their combined net earnings during the last four quarters for which financial data were available.
16. The turnover ratio (item 15i) represents the ratio of the value of shares sold to the average market value of shares listed in a given month.
17. Monthly turnover (item 15h) and the turnover ratio (item 15i) refer to both continuous trading and the uniform daily price system.

### TABLE III

#### PLN/USD and PLN/EUR Exchange Rates, 2001

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

1. The NBP mid-rate (fixing rate) is the official rate used for statistical and accounting purposes.
2. The average mid-rates for the zloty against the US dollar and euro, and for the dollar against the euro, are calculated as the arithmetic means of the NBP mid-rates on particular days of the month.

### TABLE IV

#### Weighted Average Zloty Deposit Rates at Commercial Banks

Weighted interest rates are calculated on the basis of the rates quoted by 12 banks. At year end 2000, these banks accounted for approximately 81% of zloty liabilities to persons and corporates within the entire Polish banking system, and 74% of claims on persons and corporates. The banks in question are:

- Powszechna Kasa Oszczednosci – Bank Polski SA,
- Bank Handlowy w Warszawie SA,
- ING Bank Slaski SA,

- Bank Przemyslowo-Handlowy SA,
- Powszechny Bank Kredytowy SA,
- Bank Zachodni WBK SA,
- BRE Bank SA,
- BIG Bank Gdanski SA,
- Bank Polska Kasa Opieki SA,
- Kredyt Bank SA,
- Bank Gospodarki Zywnosciowej SA,
- Raiffeisen Centrobank SA.

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

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

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

## TABLE V

### Weighted Average Zloty Lending Rates at Commercial Banks

See note to Table IV.

### General Remarks on Tables VI, VII and VIII

1. Figures refer to the balances of accounts at the end of particular months and have been obtained from balance sheet information provided by the banks under the "Bank Reporting System" (BIS) introduced in January 1997.
2. Tables VI, VII and VIII present assets on a gross basis, i.e., with no deduction of provisions, accumulated depreciation or valuation allowances.
3. "**Non-bank financial institutions**" are insurance companies (excluding the Social Insurance Board and Farmers' Social Insurance Trusts, which are included in the general government sector), investment funds and other financial institutions, i.e., stock exchanges, brokerage houses not owned by banks, bureaux de change, post offices, financial support institutions (e.g., the National Securities Depository – the KDPW – clearing houses and settlement centres), lease finance companies, and also funds and foundations supplying financial services.
4. The term "**general government**" refers to central government, local government and special-purpose funds of the two.
5. The term "**non-financial sector**" refers to the corporates and persons listed in notes 6 and 7 below.
6. The term "**corporates**" under "**non-financial sector**" refers to state enterprises and state-owned companies, registered companies, partnerships and cooperatives, sole proprietors, private farmers and other non-financial organisations, i.e., non-financial funds and foundations, agencies, trade unions, associations, political parties, churches, religious groups, etc.
7. The term "**persons**" refers to natural persons who are not private farmers or sole proprietors.
8. The terms "**foreign assets/foreign liabilities**" comprise amounts due from or to non-residents, in both convertible and non-convertible currencies and also in zloty, excluding the

equity and supplementary capital of banks paid in by foreign parties. In line with guidelines provided to the banks, such equity and capital funds are to be treated on a par with capital paid in by residents.

The "foreign assets/foreign liabilities" in this *Report* are of the same scope as those in *Reports* published earlier.

All items other than "foreign assets/foreign liabilities" presented in the tables represent operations transacted with residents.

9. The term "due from" refers to loans and advances in zloty and foreign currency, purchased debt, claims arising on the performance of guarantees and endorsements, extraordinary operations, other claims and interest outstanding.
10. "Securities purchases/sold under agreements to resell/repurchase" represent loans or placements made, or borrowings or deposits taken, collateralised by securities. The above items do not include transactions between the commercial banks and the central bank, which are shown as "due from/to NBP".
11. The term "due to" includes demand deposits (including personal sight savings books), time deposits and deposits on hold, savings certificates and certificates of deposit (non-negotiable) held by personal customers, brokerage accounts at bank brokerage houses, loans and advances from non-financial funds and foundations and non-bank financial institutions, extraordinary operations and funds received to finance development programmes.

## TABLE VI

### Commercial Banks – Assets and Liabilities & Capital

1. The item "due from non-financial sector" solely comprises claims on the corporates and persons listed in notes 6 and 7 of "General remarks on Tables VI, VII and VIII".
2. "Securities issued by general government" include:
  - Treasury bills,
  - bonds denominated in zloty and foreign currency.

Figures on the value of portfolios of general government securities presented in this *Report* are given at cost plus interest accrued and discount accreted.
3. "Other assets" include, among other things: fixed assets, accrued interest income, settlement accounts, accrued income and prepaid expense, and settlements with miscellaneous debtors.
4. "Other liabilities & capital" include, among other things: accrued interest expense, settlement accounts, settlements with miscellaneous creditors, accrued expense and deferred income (including deferred income on irregular assets), earnings pending publication and current year's earnings, specific provisions, accumulated depreciation and valuation allowances.

## TABLE VII

### The National Bank of Poland – Assets and Liabilities & Capital

1. The assets and liabilities of the National Bank of Poland as presented in Table VII allow for the aggregation of data and the compilation of aggregate figures on the banking system.
2. The principles applied in aggregating the data contained in Table VII are consistent with those used for commercial banks. In particular, this means that the same breakdown has been applied by class of transaction and counterparty involved, while also taking into consideration the operations specific to the central bank (e.g., refinance loans, required reserves).



3. **“Other assets”** include various items not identified separately in the listing of NBP assets, and primarily comprise prepaid expense, distributed earnings (including payments to government), other claims and inventories, equity investments, real property and moveable property.
4. **“Other liabilities & capital”** include various items not identified separately in the listing of NBP liabilities, and primarily comprise other capital funds, deferred income, interoffice and interbank settlements, specific provisions, the currency translation reserve, FX revaluation differences and earnings.

## TABLE VIII

### The Banking System: Commercial Banks and NBP – Assets and Liabilities & Capital

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

## TABLE IX

### Monetary Aggregates

The basic **monetary aggregate** used by the NBP to measure the money supply is **M2**.

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

## TABLE X

### Consolidated Balance Sheet of the Banking System

1. This table presents the assets and liabilities of the commercial banks and NBP in a format that reflects the requirements of monetary analyses.
2. The item **“total money supply” – M2** – comprises domestic money stocks together with foreign currency liabilities to persons and corporates.
3. The item **“domestic money stocks”** includes notes and coin in circulation (excluding vault cash) and zloty liabilities to persons and corporates.
4. The item **“notes and coin in circulation (excluding vault cash)”** represents zloty cash stocks (notes and coin) circulating outside bank vaults. In accounting terms, this represents the difference between the currency in circulation outside the NBP and vault cash.
5. The items **“due to persons”** comprise demand deposits (including sight savings books), brokerage accounts at bank brokerage houses, time deposits and deposits on hold, savings certificates and certificates of deposit (non-negotiable).
6. The items **“due to corporates”** refer to amounts due to both non-financial organisations and non-bank financial institutions. These items comprise current accounts, time deposits and deposits on hold, brokerage accounts at bank brokerage houses, loans and advances from non-financial funds and foundations and non-bank financial institutions, and liabilities arising on securities sold under agreements to repurchase.
7. **“Net foreign assets”** represent the difference between all amounts due to and from non-residents (see definition in the general notes on Tables VI, VII and VIII – note 8).
8. **“Net domestic assets”** represent claims on persons and corporates, net general government debt and other items (net). In accounting terms, this constitutes the difference between the total money supply and net foreign assets.

9. The item **"due from persons"** comprises loans and advances, purchased debt, claims arising on the performance of guarantees and endorsements, and interest outstanding on both regular and irregular assets.
10. The item **"due from corporates"** refers to amounts due from both non-financial organisations and non-bank financial institutions. This item comprises loans and advances, purchased debt, claims arising on the performance of guarantees and endorsements, interest outstanding on both regular and irregular assets, debt securities, claims arising on securities purchased under agreements to resell, and other claims (e.g., on interest subsidies to preferential loans and contributions to the Stock Exchange Compensation Fund).
11. **"Net general government debt"** represents all amounts within the banking system due from central government, local government and the special-purpose funds of the two, including amounts due on securities issued by central and local government and held by commercial banks and the central bank, less the total liabilities of the banks to this sector.
12. The item **"other items (net)"** primarily comprises bank income, capital, interbank and interoffice settlements, other settlement accounts, securities issued and outstanding, interbank claims and liabilities, and specific provisions.

## TABLE XII

### Poland: Balance of Payments, Cash Basis

1. **The balance of payments on a cash basis** constitutes a statistical presentation of the payments settled via the Polish banking system, that provides a systematic summary of transactions in a given period of time between Poland and all other countries (i.e., between Polish residents and non-residents). The transactions are presented in analytical format using standard components of the balance of payments, in line with the recommendations of the International Monetary Fund and other international organisations. The balance of payments on a cash basis incorporates the current account, capital and financial account, net errors and omissions, and the financing of the overall balance, including the official reserve assets.
2. **The source of data on the Polish balance of payments on a cash basis** are the reports of Polish banks licensed to carry out foreign exchange operations and perform the associated settlements. The data concerned refer to transactions in foreign currency and zloty on the accounts held by Polish banks at banks abroad and on the accounts of non-residents at Polish banks, and also foreign currency transactions at the cash desks of Polish banks. In addition, the balance of payments on a cash basis also incorporates:
  - trade credits (i.e., drawings and repayments of credit through deliveries of goods and services) within the banking and government sectors, as registered by banks operating as payment agents to the Government;
  - the cancellation, conversion, rescheduling and capitalisation of foreign liabilities under the servicing of banking and government sector borrowings (principal and interest), as registered by banks operating as payment agents to the Government;
  - current account transactions, as registered by Bank Handlowy w Warszawie SA, carried out by residents in performance of agreements involving the exchange of non-monetary benefits concluded with non-residents from countries where the national currency has not been recognised as a convertible currency (Ordinance of the Ministry of Finance on the performance of certain provisions of the Foreign Exchange Act, January 8, 1999, §3, para. 2, subparas. 2b and 3a, as published in *Dziennik Ustaw* no. 1/1999, item 2).

Data for the balance of payments on a cash basis are collected in original currencies, i.e., in the currencies in which the particular transactions were settled, and are then translated into US dollars at the daily rates for those currencies to the dollar.
3. The **"current account"** comprises payments for goods and services, income, current transfers and the net value of unclassified transactions on the current account.

- “Goods” comprise the value of payments made for imports and exports of goods, including the net value of goods for processing, repairs on goods, goods procured in ports by carriers, and the import and export of nonmonetary gold, i.e., gold that is not a component of the official reserve assets.
- “Services” comprise payments related to exports and imports of transportation services, foreign travel services, postal, delivery and telecommunications services, insurance and reinsurance services, financial services, construction services, computer and information services, royalties and licence fees, other business services, personal, cultural and recreational services, and government services not included elsewhere.
- “Income” comprises receipts to residents and payments to non-residents arising on employee compensation, income from direct and portfolio investment, and income from other investment. Income from other investment includes interest on credits extended and received, and interest on balances held on bank accounts.
- “Current transfers” comprise general government transfers arising from donations and grants, and taxes and charges collected by the Polish general government sector, and also transfers of other sectors, including funds transfers involving workers’ remittances, legacies, and old-age and disability pensions, taxes and charges collected by foreign governments, and deposits to and withdrawals from the personal foreign currency accounts of Polish residents, where these are performed via accounts held abroad by Polish banks.
- The item “unclassified transactions on current account” reflects the net value of foreign currencies bought and sold at the cash desks of banks, where these transactions have not been assigned a statistical classification for the balance of payments. This item also includes the balance of cash deposits to and withdrawals from the personal foreign currency accounts of Polish residents, where these are performed via the foreign currency desks of Polish banks.

#### 4. The “capital and financial account”

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

The “financial account” comprises financial transactions involving direct investment, portfolio investment, other investment, and financial derivatives.

- “Direct investment” reflects the expenditure undertaken by direct investors in establishing lasting and direct business interests by acquiring at least 10% of the equity capital of the direct investment enterprise. In addition to acquisitions of equity, direct investment also includes other capital flows between direct investors and direct investment enterprises, such as loans and advances.

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

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

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

- “Other investment” comprises financial transactions not included under direct investment, portfolio investment or the official reserve assets, which impact balances of Polish assets abroad and Polish liabilities to foreign parties.
  - “Polish assets” (abroad) comprise transactions involving drawings and repayments of credits extended and other assets. Credits extended to non-residents include long- and short-term financial credits, together with – in the case of the government and banking sectors – trade credits, drawn and repaid through deliveries of goods and services.

The item "other assets" refers to currency and deposits, and other accounts receivable. "Currency and deposits" comprise the balances arising on operations conducted on bank accounts abroad and at the cash desks of banks, and the balances of deposits placed at banks abroad (including the value of reverse repurchase agreements concluded by Polish commercial banks).

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

- "Financial derivatives" comprise transactions involving all kinds of financial instrument, where the price of such instruments is derived from the price of other financial instruments or commodities, or the value of economic indicators or market indices. Derivatives include such instruments as options, futures, forwards, swaps, credit derivatives and embedded derivatives (provided the latter can be traded separately from the instruments in which they are embedded).
5. "Net errors and omissions" reflect all transactions that were not recorded in the balance of payments (omissions) or were recorded incorrectly (errors).
  6. The item "financing of overall balance" comprises transactions involving the official reserve assets, credits received from the International Monetary Fund (IMF), and exceptional financing.
    - The "official reserve assets" comprise the balance of transactions involving the official reserve assets performed by the NBP and realised in terms of payments (including the balance of operations involving currency and deposits placed at banks abroad, the balance on reverse repurchase agreements, the balance of transactions in foreign currency at NBP cash desks, the balance of operations involving foreign securities, transactions with respect to Poland's reserve position in the IMF, and the purchase and sale of monetary gold).
    - The term "exceptional financing" covers transactions by the government sector with respect to financing balance of payment operations through the rescheduling of obligations (the amount of deferred repayments of liabilities specified in agreements concluded with foreign creditors) and movements in arrears on claims and obligations arising on credits (principal and interest).

## TABLE XIII

### Official Reserve Assets

In accordance with the recommendations of the International Monetary Fund, the reserve assets comprise readily available, liquid foreign assets which are owned and fully controlled by the monetary authority (the National Bank of Poland). These assets may be utilised for the direct financing of any disequilibrium in the balance of payments or for the conduct of other measures by the monetary authority with a view to preserving balance of payments equilibrium.

In relation to the Polish economy, the official reserve assets are composed of:

- monetary gold,
- special drawing rights (SDRs),
- the reserve position in the International Monetary Fund,
- foreign exchange in convertible currencies, including:

- currency and deposits at banks abroad,
- securities issued by foreign entities,
- foreign currency held by the NBP at its vaults,
- other assets, which comprise the balance of claims arising on reverse repurchase agreements (securities purchased under agreements to resell).

The source of data on the official reserve assets are the accounting records of the National Bank.

## TABLE XIV

### Poland: External debt

The National Bank of Poland compiles information on Poland's external debt in accordance with the following definition: "Gross external debt refers to the amount, at any given time, of disbursed and outstanding contractual liabilities of residents of a country to non-residents to repay principal, with or without interest, or to pay interest, with or without principal". This definition is termed the "core definition"<sup>1</sup>.

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

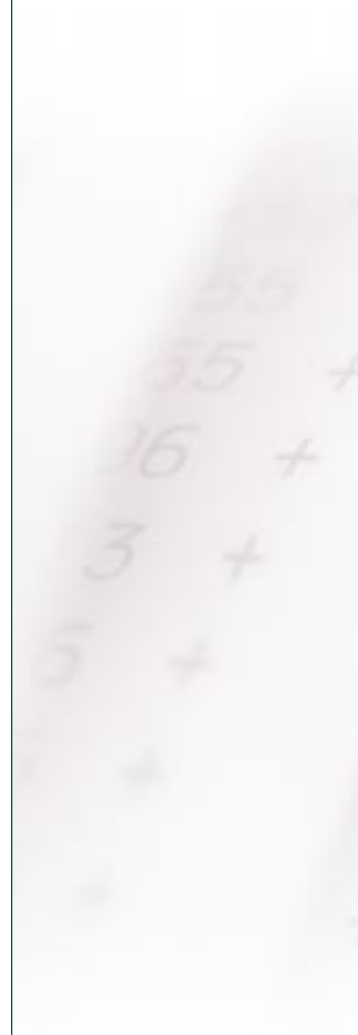
The distinction between domestic and external (foreign) debt is based on the criterion of residence, i.e., regardless of the currency involved.

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

- loans from direct investors (intercompany loans),
- currency and deposits held by non-residents at Polish banks,
- debt securities held by foreign portfolio investors,
- trade credits,
- other loans and advances (including financial leases),
- other external liabilities (arrears of principal and interest).

<sup>1</sup> *External Debt: Definition, Statistical Coverage and Methodology*, BIS, IMF, OECD, World Bank, Paris, 1998.





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