



Annual Report 2002

Warsaw, September 2003



Leszek Balcerowicz
President of the National Bank of Poland

Poland's Constitution reflects an awareness of the advantages brought by price stability and the harm done by high inflation. Under Article 227 the National Bank of Poland is entrusted with the responsibility to uphold the value of the Polish currency, in other words to ensure that its purchasing power is sustained and that it underpins the country's economic development. In 2002, the National Bank of Poland concentrated its efforts on the achievement of this aim, and on maintaining the stability of Poland's financial system. The NBP also continued to make an active contribution to Poland's preparations for accession to the European Union, and introduced a number of internal reforms to increase its own efficiency and reduce its operating costs.

In 2002 the Monetary Policy Council continued to reduce interest rates, a process it had initiated in February 2001. The NBP minimum intervention rate fell by 4.75 percentage points on eight occasions. The NBP's monetary policy helped to bring inflation down to a level similar to that in highly developed countries: by the end of 2002 inflation was as low as 0.8%. Our monetary policy made an important contribution to the establishment of foundations for rapid and sustainable economic growth. But to allow the Polish economy to expand rapidly and on a long-term basis, we shall need to complete the changes to our political and economic system conducive to the recovery of public finance, to job creation, and increased productivity.

One of NBP's key tasks is to encourage stability in the banking sector. In 2001–2002 the Polish banking system faced an acid test of its stability. After a period of rapid economic growth and an even faster rise in loans granted, there was a period of economic slowdown. However, the qualitative reduction in the credit portfolio did not jeopardise the stability of the system, since higher credit risk was fully counterbalanced by security measures on credit and special reserve funds created for this purpose by banks. In 2002 the range of inspections conducted by the General Inspectorate of Banking Supervision was extended to include examinations of operational risk management for computer technology and electronic banking. In addition the Banking Supervision Commission adopted new safety-net measures to give a more accurate estimate of the real risks a bank was facing.

Another of NBP's basic activities is the management of Poland's official foreign currency reserves. These bring two kinds of advantages. First, if properly invested the foreign currency reserves provide income that is contributed to the national budget on an annual basis. In 2002 that income amounted to US\$ 1.1bn (4.6bn PLN). Secondly, a sufficiently high level of currency reserves guarantees the convertibility of the national currency and the stability of its exchange rate against other currencies, as well as the country's financial credibility. The present level of Poland's currency reserves offers the foregoing advantages.

In 2002 the NBP continued to implement reforms to increase its own productivity and reduce operating costs. We contracted our territorial network to 16 regional branches, and introduced an electronic banking system for our customers, institutions financed by the national budget and the state's special-purpose funds. Thanks to this, notwithstanding the savings on our territorial network, we have been able to maintain the high quality of service we offer to our customers. Finally, like the best central banks, we are continuing our Economic Education Programme addressed to young people and their teachers, to journalists, businessmen, and non-governmental organisations.

These changes in our structure and the expansion of our range of activities were accompanied by intensive preparations for the new tasks we shall be facing as a result of Poland's imminent membership of the European Union.

A stable currency, a healthy banking system, and a sufficiently broad scope of professional management for the national currency reserves – these make up the indispensable foundations for stable, rapid and long-term economic growth. In its continuing effort to protect and promote these assets, the National Bank of Poland will endeavour to sustain its contribution to the creation of a sound market economy in Poland, a crucial factor in ensuring a steady improvement in the standard of living enjoyed by the Polish people

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

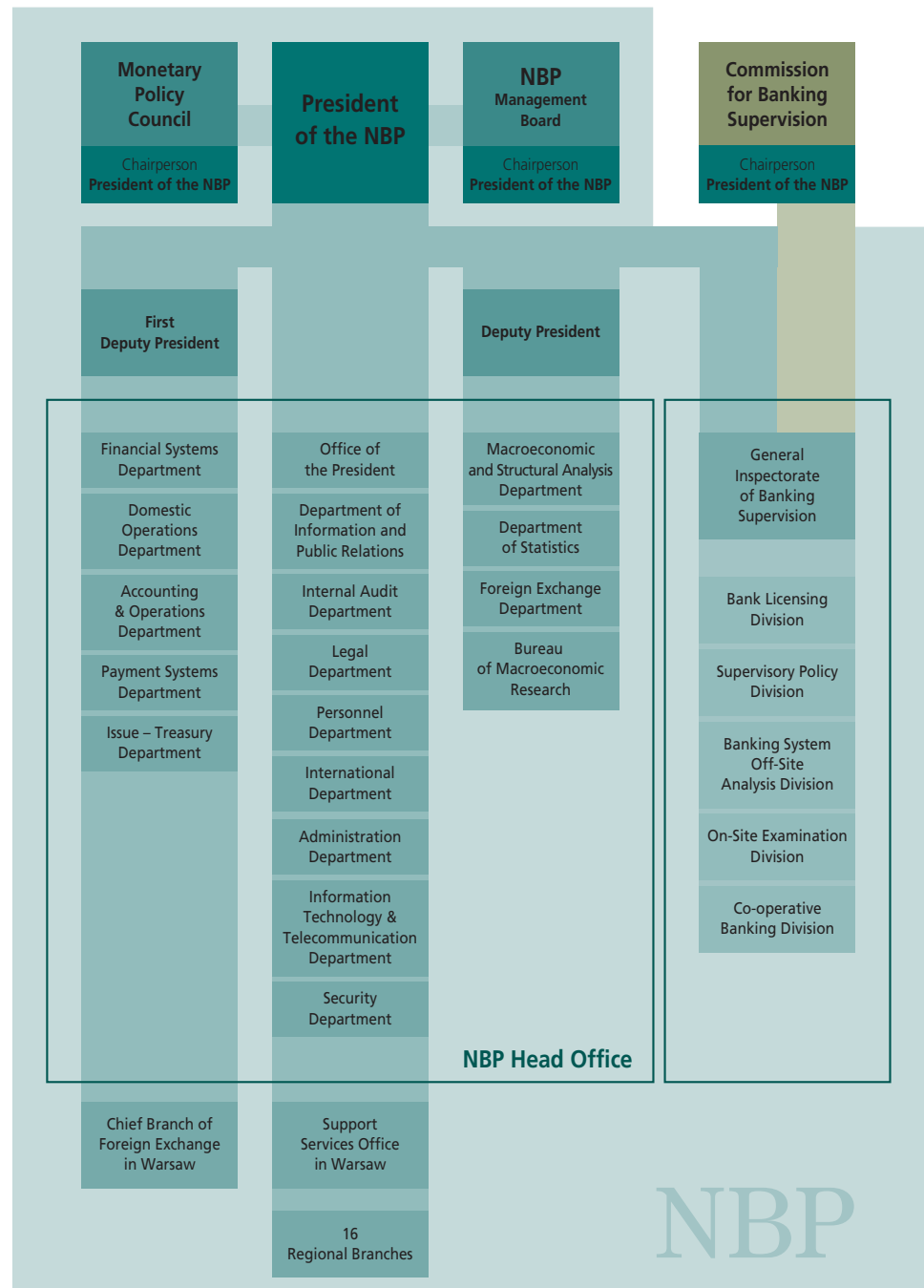
Andrzej Jakubiak

Tomasz Pasikowski

Józef Sobota

ORGANISATION CHART OF THE NATIONAL BANK OF POLAND

As at December 31, 2002.



THE DIRECTING BODIES
OF THE NATIONAL BANK OF POLAND

Under the Act on the National Bank of Poland of August 29, 1997,¹ which took effect on 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

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.

Representing Poland's central bank in external contacts with international institutions, the President of the NBP attended the following meetings in 2002:

- the Annual Meeting of the Board of Governors of the European Bank for Reconstruction and Development (EBRD) in London,
- the spring summit of the World Bank and the International Monetary Fund in Washington,
- the Munich Economic Summit which examined the principles of policy implementation within the enlarged European Union, as well as the challenges facing the EU in connection with the new wave of accessions,
- the Annual Meeting of the Board of Governors of the Bank for International Settlements (BIS) in Basle,
- a meeting of the Group of Thirty at the Federal Reserve in New York, where he lectured on the key issues involved in establishing market economy in European countries.

In the course of the year the President of the NBP issued 14 regulations, which concerned:

- specifying the design, alloy, fineness, mass and volume of issue of coin,
- methods for numbering accounts held at banks,
- authorisation to take decisions regarding foreign exchange licenses,
- 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 banks,
- methods for the conduct of interbank settlements,
- scope of the information to be forwarded by banks to the Bank Guarantee Fund.

Being 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 16 meetings in 2002, of which 12 were two-day meetings. During these, it adopted 19 resolutions that were subsequently promulgated and 2 resolutions that were not promulgated. The MPC issued 1 recommendation to the NBP Management Board regarding the conduct of open market operations. The members of the MPC also held a number of working meetings, inter alia, with the representatives of analytical departments.

During the entire year, the MPC lowered base interest rates on eight occasions. The combined extent of the National Bank of Poland interest cuts in 2002 is shown in Table 1.

¹ Published in *Dziennik Ustaw* [the Journal of Laws] no. 140, item 938, and subsequently amended.

Table 1**Cuts in the National Bank of Poland's interest rates, 2002 (in percentage points)**

	Refinance rate	Lombard rate rate	Rediscount rate	Reference rate	Deposit rate
Combined cuts of	6.75	6.75	6.5	4.75	2.75

Source: NBP.

In connection with the above, in 2002, the Council adopted the following resolutions:

- 2 resolutions on the procedures for the conduct of open market operations,
- 8 resolutions on the rediscount rate, the reference rate, the interest charged on refinancing loans and the interest charged on time deposits held at the National Bank of Poland.

In addition, the MPC also adopted resolutions on the following matters:

- approving the accounts of the NBP at December 31, 2001,
- approving the report on the performance of monetary policy guidelines in 2001,
- assessing the activity of the NBP Management Board in implementing those guidelines in 2001,
- approving the report on NBP operations in 2001,
- amending the resolution establishing monetary policy guidelines for 2002,
- establishing a ceiling on the liabilities due on NBP borrowings at international banking and financial institutions,
- establishing monetary policy guidelines for 2003,
- approving the reviewed NBP financial plan for 2002,
- approving the NBP financial plan for 2003.

As part of its statutory responsibilities under the Act on the National Bank of Poland, in October 2002, the MPC issued an opinion on the 2003 draft budget.

The Council issued the annual Inflation Report for the year 2001, and also three quarterly reports (for Q1, Q2 and Q3 2002), 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 the Deputies, Senators, the President and representatives of the Council of Ministers to discuss the current macroeconomic situation and prospects for Poland's economic development.

On October 15, 2002, an annual meeting was held between the MPC and the representatives of commercial banks, which was primarily devoted to the Council's monetary policy guidelines for 2003.

1.3. The Management Board of the National Bank of Poland

Under the Act on the National Bank of Poland, the Bank's day-to-day activity is directed by the Management Board of the NBP. In its work, the Management Board of the NBP implements the resolutions of the MPC and adopts resolutions on matters not reserved by statute for the exclusive authority of other bodies of the NBP.

In the course of 2002, the Management Board held 58 meetings, at which it adopted 68 resolutions of a regulatory nature, 44 resolutions of a non-regulatory nature, and 229 other rulings.

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

- amending the resolution on an NBP workplan for the years 2002–2004,
- approving the Bank's investment plan for 2003,
- approving the Bank's financial plan for 2003,
- procedures and detailed principles for forwarding by the banks to the National Bank of Poland of the data indispensable for establishing the monetary policy and periodic assessments of the monetary situation of the country and the evaluation of the financial standing of the banks and the banking sector's risk,
- amending the resolution on the issue of NBP money market bills and trading in these bills,
- amending the resolution on the procedures and detailed principled of calculating and maintaining required reserves by the banks,
- amending the resolution on the implementation of the "Rules for the performance of payment orders and cheque transactions in international operations and the purchase and sale of foreign currencies by the NBP account holders",
- 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,
- methods for calculating and announcing current foreign exchange rates,
- amending the resolution on the conditions applicable to the opening and operating of accounts for banks at the NBP,
- the issue by the National Bank of Poland of bonds earmarked for conversion against a portion of bonds purchased by banks in connection with the lowering of required reserve rates,
- amending the resolution on the methods for performing accounting tasks,
- amending the resolution on bank commissions and fees charged by the NBP,
- amending the resolution on the implementation of the "Rules for the maintenance by the National Bank of Poland of accounts and treasury bill deposit accounts",
- deposits held by the NBP,
- management of foreign currency reserves.

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

The Board specially emphasized the issues related to the preparations for Poland's membership in the European Union and the Economic and Monetary Union (EMU). The NBP's interest in the integration with the EU was reflected in:

- the establishment, on July 24, 2002, of the Inter-Ministerial Work Group (the NBP and the Ministry of Finance) for Poland's integration with the EMU, to work out, in conjunction with the government, procedures for Poland's entry into the euro area,
- involvement in work on the development of the Accession Treaty – the key document laying down terms for Poland's membership in the EU,
- the conduct of an information campaign regarding the introduction of euro notes and coin



2

MONETARY POLICY

2.1. Overview

Pursuant to Article 227, para. 1, of the Polish Constitution, "The central bank of the State shall be the National Bank of Poland. It shall have the exclusive right to issue money as well as to formulate and implement monetary policy. The National Bank of Poland shall be responsible for the value of Polish currency."

In August 2001, the Monetary Policy Council, aiming to achieve price stability, established in the *Monetary Policy Guidelines for 2002* the inflation target at 5%, with a permissible deviation band of +/- 1 percentage point. This target constituted an element of the medium-term target, defined as bringing inflation down to under 4% at the end of 2003. However, the conditions in the first half of 2002 proved considerably more encouraging for lowering inflation than expected at the moment of setting the 2002 inflation target. As a result, in order to avoid misleading interpretation as to the future direction of the monetary policy and to preserve its transparency, the Council resolved to review the inflation target for 2002. In June 2002, the target was lowered to 3%, with a permissible deviation band of +/- 1 percentage point.

At the end of 2002, the twelve-month inflation rate amounted to 0.8%, thereby running below the inflation target for 2002. A lower than forecasted inflation rate in 2002 was primarily attributable to unexpected factors, not affected by monetary policy:

- higher than forecasted supply on the agricultural market led to a decline in the prices of agricultural produce, and consequently, to declining retail food prices,
- increase in officially controlled prices was lower than anticipated due to, inter alia, an unexpected cut of excise duty on spirits,
- forecasts of the growth rate of the global economy proved inaccurate; deteriorating prospects for economic recovery in Poland's major trading partners contributed to the easing of inflationary pressure both through lower than forecasted external demand growth and more favourable trends in the prices of many raw materials and imported goods.

In the *Monetary Policy Guidelines for 2002*, the Council stressed that "inflation can be strongly influenced in the short term by temporary supply shocks. Yet adjustments to monetary policy parameters in response to unexpected inflationary impulses have a delayed impact on prices. For these reasons, the Monetary Policy Council emphasises that performance of the strategic monetary policy target takes precedence over achieving the target for 2002."

In the course of the year, the MPC lowered NBP base rates on eight occasions. As a result, the reference rate, representing the minimum rate of return on open market operations, was brought down from 11.5% in December 2001 to 6.75% in December 2002. The prime factors counselling in favour of reducing interest rates in 2002 were as follows:

- a reduction and subsequent stabilisation at a low level of current inflation rate and of all core inflation measures,
- a decrease and subsequent stabilisation at a low level of inflation expectations of both consumers and bank analysts,
- unfavourable and worsening prospects for global economic growth, in particular with reference to the German economy,
- moderate salary growth within the national economy, and
- monetary processes encouraging the containment of inflationary pressures.

At the same time, factors were taken into consideration regarding interest rates which could cause a resurgence of inflation, and thus reduce the scale of interest rate cuts:

- consumption growth higher than that of disposable income, which, given the unknown scale "grey economy" income growth, signalled the risk of declining household savings,

- uncertainty as to the condition of public finances both in 2002 and in 2003 limited considerably the effectiveness of monetary policy,
- risk of oil price rises,
- zloty depreciation in 2002, and
- delays in the economy's response to movements in interest rates, whereby the impact of interest rate cuts was not fully manifest until the end of 2002.

Both groups of factors – those providing grounds for and against the limitation of their scope – were burdened with a high degree of uncertainty and varied over time. As a result, the year 2002 witnessed widespread reviews of economic forecasts both in Poland and abroad. Forecasted economic growth and inflation rate were substantially reduced. In parallel to those changes, the scale of anticipated cuts in central banks' interest rates was also extended. The Monetary Policy Council implemented the assumptions behind the monetary policy on the basis of the data and forecasts available at the time of decision making. A high degree of uncertainty as to the evaluation of the future economic situation resulted in varied assessments by the members of the Council as presented in the course of discussions at the meetings. The course of those meetings is described by the results of votes contained in Appendix no. 8 hereto.

In 2002, the inflation rate in Poland remained at the low level recorded in recent years in developed countries. The completion of the process of bringing down inflation created new conditions in terms of quality for the conduct of monetary policy. Stabilisation of inflation at a low level will allow to abandon the twelve-month inflation targets set at the end of a given calendar year and, instead, enables a shift towards the achievement of a continuous target. Such a target was established at the level of 2.5% with a permissible deviation band of +/- 1 percentage point, in the *Monetary Policy Strategy beyond 2003* published in March 2003.

2.2. Inflation target for 2002

The purpose of the monetary policy in 2002, according to the *Monetary Policy Guidelines for 2002*, was the restraining of the twelve-month price growth of consumer goods and services to 5% +/- 1 percentage point in December 2002.

In August 2001, at the time of formulating guidelines for monetary policy and setting the inflation target for 2002, it was assumed that:

- in the first half of 2002, there would be moderate food price growth;
- the world economy would gradually recover;
- economic growth rate in Poland in 2002 would stand at ca. 2.5%; and
- according to the assumptions for the 2002 Budget Act, excise duty rates would be further increased, while currently applicable reduced VAT tax rates would be partially abandoned.

In August 2001, both inflation expectations and the inflation rate forecasted by analytical centres were running at a relatively high level. The findings of NBP research, conducted on the basis of Demoskop polls, revealed that in August 2001 consumers expected the year-on-year price growth rate in August 2002 to reach 6%. According to the expectations of bank analysts formulated in August 2001 for 11 months ahead, the twelve-month inflation rate in July 2002 was to reach 5.7%. In mid-2001, analytical centres and banks forecasted twelve-month inflation averaging 5.3% in December 2002.

The conditions for the performance of the inflation target in the first half of 2002 were considerably more favourable to lowering the inflation rate than anticipated at the moment of setting the target. Supply factors proved unexpectedly favourable, especially with regard to food

prices. It turned out that growth in prices subject to administrative regulation would be lower than originally expected. Domestic demand growth also settled at a lower level.

Given the impact of all the above factors, the annual inflation rate decreased from 3.6% in December 2001 to 1.9% in May 2002. Inflation expectations of both consumers and bank analysts also dropped. Bank analysts who, in January 2002 forecasted the twelve-month inflation rate in December 2002 to stand at 4.7%, in June 2002 reviewed their forecasts down to 3.3%. Similarly, inflation forecasts developed by other analytical centres and banks were lowered to the average level of approx. 3.6% at the end of 2002.

In these circumstances, the inflation in 2002 was expected to be substantially lower than the inflation target set for 2001. Its maintenance could give rise to misleading interpretations as to the direction of monetary policy. Therefore, in June 2002, a decision was taken to review the inflation target from 5% +/- 1 percentage point to 3% +/- 1 percentage point.

In the second half of 2002, there was further unexpected improvement in the circumstances encouraging lower inflation. As a result, in December 2002 the annual inflation stood at the level of 0.8% (cf. Appendix 1). The lower level of inflation in the last months of 2002, running below the reviewed target, was mainly attributable to factors independent of monetary policy.

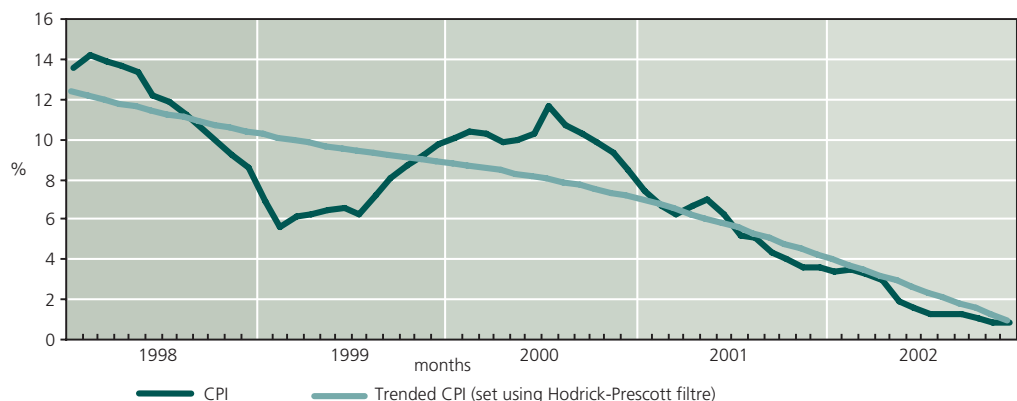
- The annual fall in the prices of food and non-alcoholic beverages in December 2002 by 2.7% against a 2.6% growth forecasted by the NBP, based on information available in June 2002. In 2002, the market saw a persistently high supply of agricultural produce. This resulted, inter alia, from high crop harvests and growing livestock production, in relation to the average in the preceding years.
- Lower than expected annual growth of officially controlled prices totalling in December 2002 2.7% against 4.5% forecasted in June 2002.

If the growth of officially controlled prices and prices of food and alcoholic beverages in 2002 was consistent with the forecasts made in June 2002, the annual inflation rate would stand at ca. 2.8%.

- Worse than forecasted situation of the world economy. In the euro area, economic growth in 2002 reached 0.8% against the forecasted 1.4% in June 2002. In Germany the corresponding figures were 0.2% against the forecasted 0.8%.

Figure 1

Twelve-month inflation (CPI) and trended CPI, 1998–2002

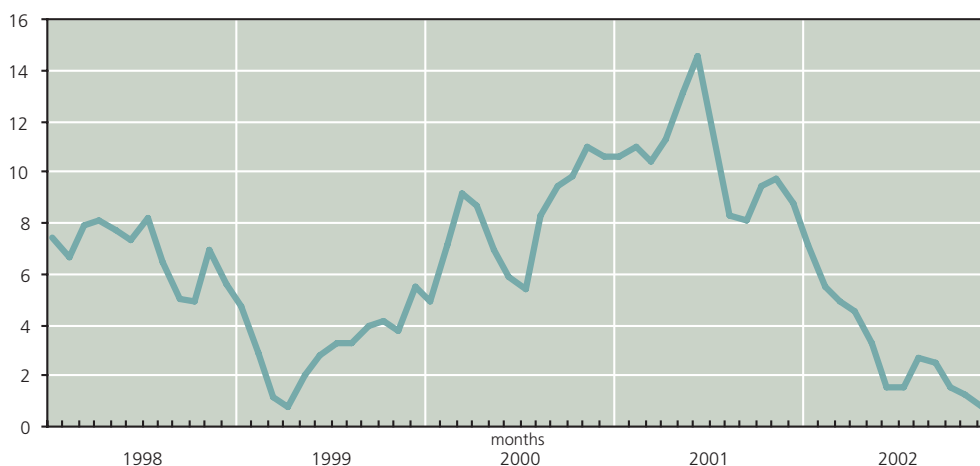


Source: GUS and NBP.

The Monetary Policy Council lowered NBP interest rates on eight occasions in 2002. In the course of the year, the reference rate was lowered from 11.5% to 6.75%, the rediscount rate from 14% to 7.5%, the lombard rate from 15.5% to 8.75%, whereas the deposit rate from 7.5% to 4.75%. Consequently, nominal interest rates hit a record low level since the beginning of the

transformation period. Real interest rates also declined – in the period from December 2001 to December 2002 the NBP reference rate adjusted for CPI dropped 1.7 percentage point, and its average value in 2002 fell in relation to 2001 by 3 percentage points. In December 2002, the reference rate adjusted for PPI decreased in relation to December 2001 by 7.5 percentage points, and in 2002 it was on average lower compared to 2001 by 6.2 percentage points. The fall in nominal and real interest rates was also accompanied by a substantial depreciation of the zloty.

Under the impact of these factors, the considerable easing of monetary policy was reflected in the falling MCI index² (cf. Fig. 2).

Figure 2**MCI index (base: December 1994)**

Source: NBP.

The prime factors counselling in favour of reducing interest rates in 2002 were as follows:

- a reduction and subsequent stabilisation at the low level of current inflation rate and of all core inflation measures (cf. Table 1).

Table 2**Selected annual core inflation measures and CPI**

	Exclusive of most volatile prices	Net of food and fuel prices	15% trimmed mean	CPI
VIII 2001	4.2	6.5	5.0	5.1
IX	3.6	5.8	4.6	4.3
X	3.2	5.5	4.2	4.0
XI	3.0	5.3	3.9	3.6
XII	3.1	5.1	3.7	3.6
I 2002	2.9	4.7	3.5	3.4
II	2.8	4.7	3.2	3.5
III	2.6	4.1	2.9	3.3
IV	2.5	4.0	2.6	3.0
V	2.1	3.2	2.0	1.9
VI	1.9	3.1	1.9	1.6
VII	1.6	2.9	1.7	1.3
VIII	1.5	2.8	1.7	1.2
IX	1.3	2.8	1.5	1.3
X	0.9	2.3	1.3	1.1
XI	0.8	2.1	1.3	0.9
XII	0.7	2.0	1.2	0.8

Source: GUS and NBP.

² Temporary increase in the value of the MCI index from July 2002 to September 2002 is due to the statistical effect of the reference base.

- Inflation expectations of consumers (cf. Table 3) and forecasts of bank analysts (cf. Table 4) fell, and subsequently stabilised at the low level.

Table 3

Inflation expectations of consumers (for 12 months)

	2001					2002											
	VIII	IX	X	XI	XII	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Consumers	6.0	5.1	4.8	3.7	3.9	3.5	3.3	3.1	3.0	2.6	2.3	1.5	1.2	1.0	0.9	0.9	0.8

Source: NBP calculations based on Demoskop opinion polls.

Table 4

Inflation forecasts of bank analysts (for 11 months)

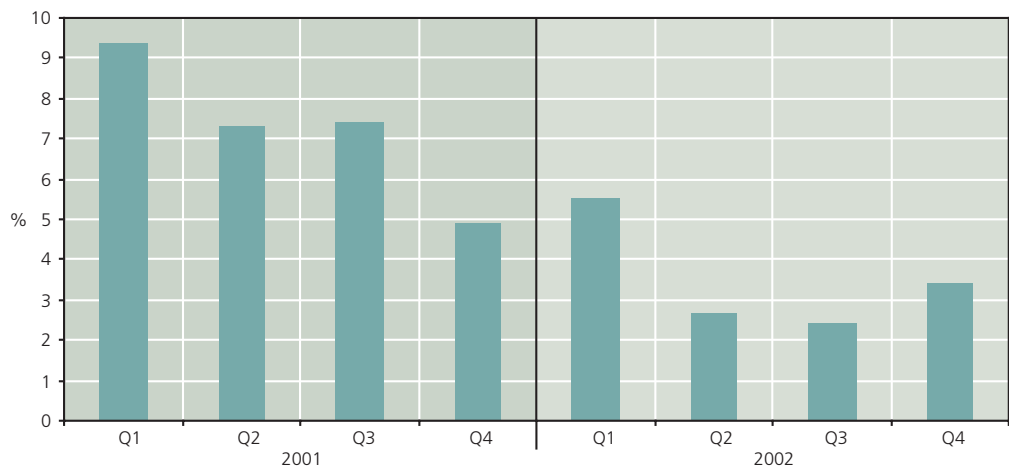
	2001					2002											
	VIII	IX	X	XI	XII	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Bank analysts	5.7	5.4	5.1	4.8	4.7	4.7	4.6	4.6	4.4	4.2	3.6	3.4	3.1	2.9	2.5	2.5	2.5

Source: Reuters.

- Forecasts for world economy growth, including in particular those for the German economy, were unfavourable and subject to further deterioration. In Germany, Poland's most important trading partner, GDP grew a mere 0.2% in 2002, whereas a 0.8% growth was expected as late as in the mid-year.
- Salary growth in the economy was moderate and lower than assumed at the time of formulating assumptions for the budget and monetary policy targets (cf. Fig. 3).

Figure 3

Annual growth of average nominal salary in the national economy

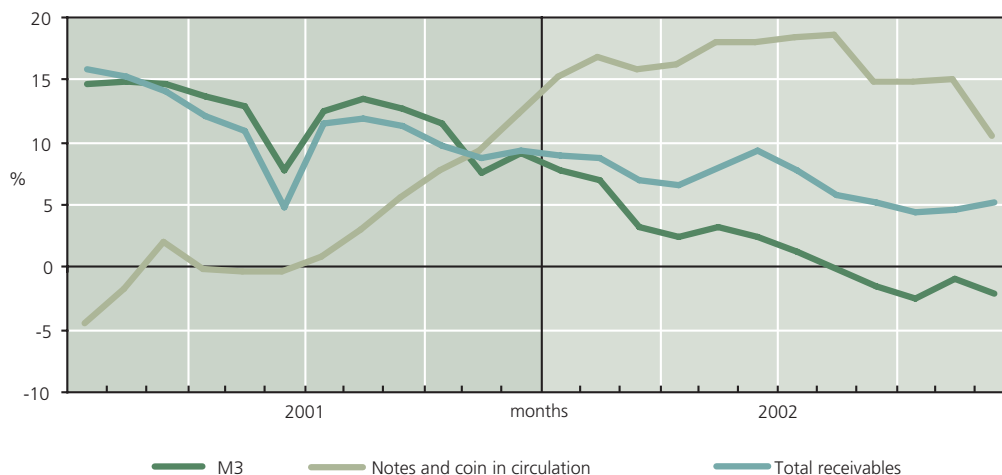


Source: GUS.

- Developments in the monetary policy encouraged the curbing of inflationary pressures; there was a marked slowdown in the annual total money supply growth, notes and coin growth stabilised, while the annual credit growth remained low. M3 total money supply declined in 2002 by 6.9bn zloty, or 2.1% (cf. Fig. 4).

Figure 4

Annual growth of M3, notes & coin in circulation and total receivables of the banking sector



Source: NBP

At the same time, factors were taken into consideration regarding interest rates which could threaten the stabilisation of inflation at a low level, and thus reduce the scale of interest rate cuts:

- Consumption growth higher than that of disposable income, which, given the unknown scale of "grey economy" income growth, signalled the risk of declining household savings.
- Uncertainty as to the condition of public finances both in 2002 and in 2003. The risk of economic deficit in the public finance sector higher than that planned in the 2003 draft Budget Act was stressed, mainly due to a more extensive shortage of that sector's undertakings operating outside of the state budget. Lack of fiscal discipline considerably limited the effectiveness of monetary policy.
- Risk of oil price increases in international markets enhanced by an unstable political situation in Q4 2002 in the face of the imminent armed conflict in Iraq.
- Zloty depreciation in 2002.
- Delayed response of the economy to interest rate cuts, which led to the situation where the impact of implemented changes was not fully manifest until the end of 2002.

The *Monetary Policy Guidelines for 2002* stressed that "inflation can be strongly influenced in the short term by temporary supply shocks. Yet adjustments to monetary policy parameters in response to unexpected inflationary impulses have a delayed impact on prices. For these reasons, the Monetary Policy Council emphasises that performance of the strategic monetary policy target takes precedence over achieving the target for 2002."

In 2002, the inflation rate in Poland was brought down to a low level similar to the rate recorded for developed countries in recent years. Such low inflation was partially achieved owing to factors independent of monetary policy. It may be assumed, however, that the long-term process of disinflation has come to an end. This creates new conditions for monetary policy development, under which inflation stabilisation and maintenance of low inflation expectations allow for a transition to a continuous target as announced in the *Monetary policy strategy beyond 2003*.

2.3. Factors conditioning monetary policy implementation

2.3.1. External factors

The *Monetary Policy Guidelines for 2002* pointed to the wide diversity of the global economy's growth forecasts and the resulting uncertainty as to the impact of the developments in the world economic environment on the growth of the Polish economy. Analytical centres forecasted at the time of setting the inflation target (August 2001) accelerated growth in developed countries in 2002. Strong economic recovery in the euro area and in other key trading partners of Poland could trigger increased demand for Polish exports and, as a result – through total demand growth – lead to a more intense inflationary pressure.

The year 2002, however, did not bring the expected improvement in the global economy. Growth recorded on the EU markets, of particularly high importance to Poland, given the scale of economic ties, proved much weaker than originally expected (cf. Table 5). In Germany, our most important economic partner, GDP grew by a mere 0.2%, which is the least since 1993. A considerable decline in domestic demand resulted in lower exports by that country, down by 3.8% (in euro) in relation to the previous year.³ That, in turn, led to a slowdown in the growth of Polish exports to Germany. According to customs statistical data, it grew by a mere 1.8% in 2002 against the 15.8% increase in 2001.

Table 5

GDP growth forecasts in 2002 (%)

	2001		2002		Performance
	Spring	Autumn	Spring	Autumn	
United States	3.0	0.5	2.7	2.3	2.4
Germany	2.6	0.7	0.8	0.4	0.2
EU	2.9	1.4	1.5	1.0	1.0
Euro area	2.9	1.3	1.4	0.8	0.8

Source: European Commission.

Table 6

External factors conditioning monetary policy, 2001–2002

	2001	2002				
	I-IV	I-IV	I	II	III	IV
US GDP growth (%) ¹	0.3	2.4	1.4	2.2	3.3	2.9
Euro area GDP growth (%), of which: Germany ¹	1.4	0.8	0.3	0.6	0.9	1.3
Oil prices (Brent, US\$ per barrel) ²	24.4	25.0	21.1	25.1	26.9	26.8
US CPI inflation (%) ³	2.8	1.6	1.2	1.3	1.6	2.2
Euro area CPI inflation (%) ³	2.4	2.2	2.5	2.0	2.1	2.3
US Fed Funds rate ⁴	1.75	1.25	1.75	1.75	1.75	1.25
Euro area refinancing rate ⁴	3.25	2.75	3.25	3.25	3.25	2.75

¹ In relation to corresponding period previous year.

² Period average.

³ Period average relative to corresponding period previous year.

⁴ Period end.

Source: Bloomberg, Eurostat, International Energy Agency.

³ The fall in German imports initiated in the second half of 2001 aggravated until Q3 2002. In Q4, a slight growth was recorded. The recovery in German exports as of Q3 2002 probably had positive impact on imports.

- In 2002, the euro appreciated strongly on the international market,⁴ which contributed to the improvement of the competitiveness of Polish enterprises and the stepping up of Polish export growth in the second half of the year. There was marked improvement in the conditions of price and cost competition in the Polish foreign trade, attributable to the following factors:

- labour efficiency growth in the domestic economy exceeding salary growth,⁵
- falling inflation, and
- zloty depreciation.

Enhanced competitiveness in 2002 found its reflection in movements of competitiveness rat (cf. Table 7).

Table 7

Movements in competitiveness ratios*
(in % in relation to the corresponding period of the previous year)

	2001				2002			
	I	II	III	IV	I	II	III	IV
Export prices to industrial output prices	-1.9	-7.6	-2.1	-3.1	0.5	6.5	3.8	6.8
Export prices to unit labour costs	2.8	-10.0	-3.6	-10.7	0.5	10.5	11.9	22.4

* The above ratios illustrate price and cost competitiveness of exports; their growth depicts improved competitiveness.

Source: GUS and NBP.

The appreciation of euro against the US dollar building up in the course of 2002 weakened the Polish zloty against the single European currency by 5.1% in medium term (against the 8.5% appreciation in 2001). The zloty to the US dollar exchange rate remained at a level close to that observable in 2001. According to NBP estimates, the nominal effective exchange rate of the zloty to the basket of currencies with key importance for the Polish economy weakened throughout 2002 by 3.9% (annually), and the PPI deflated real exchange rate by 4.0%. Zloty depreciation was especially steep in the second half of the year (cf. Table 8)

Table 8

Annual movements in PLN exchange rate, 2000–2002 (% change in relation to the previous year)

PLN exchange rate	2000	2001	2002
Nominal effective	1.5	9.0	-3.9
PPI deflated real effective	6.0	7.7	-4.0
Real effective deflated with unit labour costs	-5.0	8.9	-10.8

"+" means zloty appreciation, while "-" means zloty depreciation.

Source: NBP and GUS.

High borrowing needs of the state budget had an opposite effect, i.e. strengthened the Polish currency in 2002. The value of Polish treasury securities issued on the domestic market and held in the portfolios of foreign investors grew by 51%, up from 20.7bn zloty in December 2001 to 31.4bn zloty at the end of 2002.

⁴ The euro to the US dollar exchange rate appreciated in 2002 against 2001 by 5.6% annually.

⁵ From December 2001 to December 2002, labour efficiency in manufacturing grew by 11.8%, whereas real wage growth amounted to a mere 0.4%.

2.3.2. Food prices and indirect taxes

Good crop harvests in both 2001 and 2002, combined with higher than expected livestock production growth, with a moderate increase in food consumption, led to the halting of food price growth. In the first half of the year, prices shrank only by 0.2%, whereas in the second their decline reached 2.5%. Prices of food and non-alcoholic beverages in December 2002 fell by 2.7%, while in June 2002 their growth was forecasted at 2.6%. Almost all groups of food prices (except for fish and fruit) contributed to the lowering of the general inflation rate.

Due to an unscheduled and deep decrease in excise duty on alcoholic beverages, lower than expected scale of energy and gas rate rises, as well as weaker than assumed impact of excise duty on electricity prices, officially controlled prices climbed in 2002 by 2.7% against the 4.5% growth forecasted in June 2002. Still, the price growth in the officially controlled price group was the highest among the three base price groups (food, officially controlled prices and other).

Under the impact of the above factors, movements in food and officially controlled prices triggered a steep decline in inflation in 2002. If the forecasts of June 2002 regarding food and officially controlled prices had proven true, the inflation rate in December 2002 would have reached ca. 2.8%, thus falling within the bounds of the set inflation target.

2.3.3. Systemic environment, mutual relationship of monetary and fiscal policies

The *Monetary Policy Guidelines for 2002* stressed that in order to establish the foundations for sustainable balance of public finance, employment growth and economic development it would be necessary and urgent to implement certain structural and systemic reforms. Still, their importance did not decrease with the end of the disinflation process. Delays in or lack of reforms decelerate in the long-term the growth rate of the Polish economy. The persistent structural deficit of the public finance sector and related borrowing needs of the budget limit the pool of funds which could be earmarked for corporate investment. The drain of domestic savings by the public sector is one of the factors encouraging the maintenance of external imbalance and narrows down the room for manoeuvre of the monetary policy in terms of interest rate cuts. As a result, the unfavourable combination of fiscal and monetary policies raises real costs of achieving and maintaining internal and external balance.

1. The major structural weaknesses of the Polish economy in 2002 are characterised below.

A. Labour market deformations

In 2002, the operation and condition of the Polish labour market continued to be negatively impacted by:

- High charges to net wages considerably increasing payroll-related expenses, and thus discouraging the creation of new jobs:
 - from the early nineties until 2002, the burdening of employers with obligatory contributions (Social Insurance Agency – ZUS, Labour Fund – FP, National Rehabilitation Fund for the Disabled – PFRON) and taxes on wages grew from about 65 – 67% to 90 – 95% of net wages, i.e. represented almost half of employment-related costs,
 - net value of wages paid to employees also decreased due to the freezing of tax thresholds.

As a result, the wage wedge expanded, that is, the difference between the value of the labour product (net wages) and the price paid for it by employers (labour costs). This discouraged job-seekers from actively looking for work (labour supply) and contributed to lower labour demand reported by enterprises.

- Regulations encouraging high unemployment:
 - lack of territorial differentiation of minimum pay and absence of an effective employment system,
 - slowdown in the rate of CIT reduction, and
 - excessive paperwork related to the establishment of private businesses.

Amendments to the Labour Code of 2002 marked development in the right direction. Still, they fall short of resolving problems related to the above mentioned factors and heavy fiscal burden, both of which unfavourably affect the creation of new jobs in the economy.

B. Slowdown in privatisation and demonopolisation processes

In 2002, privatisation efforts stalled. Total privatisation receipts amounted to 2.9bn zloty, which accounted for 43% of the amount provided for in the Budget Act.⁶ Compared to 2000 and 2001, this meant a decline by 89% and 58%, respectively. The failure to carry out privatisation plans in 2002 resulted in a substantial increase in public debt and, consequently, its the costs of its servicing. Lower growth of privatisation processes also contributed substantially to the reduced foreign direct investment in Poland (4.0bn euro against 7.7bn euro in 2001).

In 2002, over 40% of industrial output originated from state-owned enterprises. The sectors with a high concentration of state ownership recorded the fastest price growth and the highest commitment of overt state aid, including government subsidies, subsidising state-owned enterprises through equity transfer by the Treasury and, most of all, "forced" aid in the form of outstanding liabilities towards the budget and other public institutions (e.g. in the "mining of coal and lignite" section, a 34% increase in these liabilities was recorded in relation to the end of 2001). In 2002, the downward trend of the concentration ratio for total manufacturing, present in previous years, was reversed. An inadequate privatisation rate, just like the maintenance of highly concentrated manufacturing structures, hampers competition.

The year 2002 saw continued growth of labour costs, i.e. wages and non-payroll related expenses of employment, slower than that of labour efficiency for total industry. This could be traced to downsizing, affecting mainly least qualified employees. Because of the administrative rigidities mentioned above and high payroll-related charges, the costs incurred by the employer to preserve these jobs were too high in relation to their efficiency. Additionally, a difficult general economic situation and concerns about loss of employment alleviated the pressure on salary growth.

In the general government sector, in the face of falling output and substantial employment cuts, the average gross nominal remuneration still grew faster than in the private sector (4.2% against 3.0%), where output climbed and employment cuts were distinctly smaller.

Summing up, the slowdown in systemic reforms meant the preservation of structures impairing economic growth, in particular in raw material industry and distribution still dominated by the public sector.

2. The monetary policy in 2002 took account of further aggravation of the *imbalance of the general government* sector and lack of prospects for a marked improvement in its situation. Unfavourable conditions are confirmed by a deterioration of fiscal policy measures presented in Table 9.

⁶ Total privatisation receipts in 2002 amounted to 2.869bn zloty (release of the Ministry of Finance of February 19, 2003). The revenues planned in the 2002 Budget Act stood at 6.8bn zloty, of which 6.6bn zloty allocated to financing the general government deficit. In fact, in 2002 1.972bn zloty was earmarked for that purpose (according to the draft *Report on the performance of the State Budget in 2002*, May 2003).

Table 9

Basic measures of fiscal imbalance

	2000	2001	2002*
billion zloty			
General government deficit	-15.3	-32.6	-39.4
Primary deficit of general government	2.8	-11.7	-15.3
Cash deficit of general government deficit	-20.9	-38.0	-49.7
Economic deficit of general government sector	-14.5	-33.9	-42.4
as proportion of GDP			
General government deficit	-2.1%	-4.3%	-5.1%
Original profit/loss of general government deficit	0.4%	-1.6%	-2.0%
Cash deficit of general government deficit	-2.9%	-5.1%	-6.4%
Economic deficit of general government sector	-2.0%	-4.5%	-5.5%

* Forecasted performance according to NBP.

Source: Ministry of Finance.

Although the performance of the general government budget runs as scheduled in 2002, already in the course of the year a serious threat arose of higher than originally projected deficit of special-purpose funds, and thus, the entire public finance sector. Due to the shortage of contributions, Social Insurance Fund and Labour Fund incurred extensive debt in the banking system. The same applies to the Agricultural Market Agency, whose indebtedness did in fact grow in 2002. The financial standing of Health Funds also deteriorated. Meanwhile, the Treasury was forced to issue more treasury securities than planned, given its failure to secure privatisation receipts in the amount written into the budget. Such swift increase in borrowing requirements of the public finance sector had a negative impact on the crediting possibilities of the private sector by banks. Its end result was the increase in the state's public indebtedness further aggravated by anticipated disbursements under guarantees and warranties in relation to GDP, up from 41.6% at the end of 2001 to some 47.6% at the end of 2002.

Budget expenditure grew in comparison to 2001 by ca. 10bn zloty, or 5.8% in nominal and 3.8% in real terms. In 2002, total budget spending grew once more in relation to GDP. While in 2001 it represented 23.1% of GDP, in 2002 it increased to 23.8% of GDP. Original budget expenditure, i.e. expenditure less the costs of servicing public debt, surged in 2002 by 4.5% (by 2.6% in real terms) and came to ca. 20.6% of GDP (against 20.3% of GDP in 2001). The prime item of expenditure (accounting for some 75%) were still expenses of consumption and benefit nature, i.e. subsidies and benefits payable to natural persons.

In 2002, the structure of budget spending did not improve. Another major position of budget spending (13.1%) was the soaring costs of servicing public debt. Even though spending on assets was higher by 21.7% compared to the previous year, their share in total budget expenditure amounted to slightly over 4%, which reflected the negligible role of that category in stimulating investment demand. At the same time, the widening budget deficit limited private investment.

The economic deficit⁷ of the public finance sector was not reduced in 2002. Based on preliminary estimates, it reached the level of about 5.5% of GDP,⁸ growing by 1 percentage point in relation to 2001.

⁷ The economic deficit is the cash deficit of the general government sector adjusted for: disbursement of compensations for the failure to raise wages as well as old age and disability pensions at the turn of 1991/1992, transfer of social insurance contributions from ZUS to open-ended pension funds (OFE) and funds accumulated in any given year in the Demographic Reserve Fund.

⁸ When the additional category is taken into account adjusting the deficit and introduced by the Ministry of Finance at the time of drawing up the 2003 budget, i.e. costs of debt servicing paid to OFE in connection with their investment in Treasury securities, the deficit to GDP ratio amounts to ca. 5.2%.

Another factor rendering monetary policy less effective in 2002 was the lack of prospects for a reduction of the financial deficit in the general government sector in 2003. The risk of high deficits in special-purpose funds was not mitigated. The already very high share of rigid expenditure items in the budget is to increase further in 2003, which will additionally impair the tightening of fiscal policy.

The deterioration in the situation of the general government sector, coupled with the lack of signals pointing to radical steps being taken to rehabilitate that sector, reduced the scale of interest rate adjustments made by the NBP.

2.4. Monetary policy instruments

The basic instrument employed by the National Bank of Poland in 2002 in pursuit of the inflation target were interest rates. In conducting open market as well as credit and deposit operations, the central bank influenced the interest rates on the interbank market. In the case of sudden liquidity crises resulting in substantial fluctuations of market rates, NBP could utilise adjustment instruments. Such a necessity, however, did not arise in 2002.

In 2002, the structural excessive liquidity of the banking sector persisted. The central bank continued to curb it, primarily by means of the outright sale of treasury bonds from the NBP portfolio, obtained in 1999 following the conversion of non-transferable debt the Treasury owed to the central bank. Excessive operating liquidity was absorbed by means of the issues of the NBP money market bills with a 28-day maturity.

2.4.1. Interest rates

The performance of monetary policy under a direct inflation target strategy consists of maintaining official NBP interest rates at a level consistent with the adopted target. The pursuit of open market operations as well as credit and deposit operations with the profitability determined by the MPC impacts the interbank market rates and indirectly also lending and deposit rates at the commercial banks, which, in turn, affects the decisions of households on savings and consumption, and corporate investment alike.

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 directly interbank deposit rates for comparable maturities.

The **lombard rate** defined the maximum cost of attracting funds for one day at the central bank.

The **deposit rate** determined the lower bound for interbank O/N rate fluctuations. Overnight deposits allow the banks to place their excess liquid funds at the NBP with the maturity on the following business day.

In 2002, the Monetary Policy Council cut the minimum yield on the NBP money market bills on eight occasions (cf. Table 10). As a result, this yield was reduced by 4.75 percentage points down from 11.5% at year end 2001 to 6.75% at year end 2002. Official interest rates were lowered unevenly, which led to the narrowing of the symmetrical corridor for market rate fluctuations.

Table 10

Monetary Policy Council Decisions on adjustments in official interest rates, 2002

Date decision taken	Decision:
January 30	<ul style="list-style-type: none"> – Minimum 28-day reverse repo rate lowered from annual 11.5% to 10% – Lombard rate lowered from 15.5% to 13.5% – Rediscount rate lowered from 14% to 12% – Deposit rate lowered from 7.5% to 6.5%
April 25	<ul style="list-style-type: none"> – Minimum 28-day reverse repo rate lowered from annual 10% to 9.5% – Lombard rate lowered from 13.5% to 12.5% – Rediscount rate lowered from 12% to 11%
May 29	<ul style="list-style-type: none"> – Minimum 28-day reverse repo rate lowered from annual 9.5% to 9% – Lombard rate lowered from 12.5% to 12% – Rediscount rate lowered from 11% to 10.5% – Deposit rate lowered from 6.5% to 6%
June 26	<ul style="list-style-type: none"> – Minimum 28-day reverse repo rate lowered from annual 9% to 8.5% – Lombard rate lowered from 12% to 11.5% – Rediscount rate lowered from 10.5% to 10% – Deposit rate lowered from 6% to 5.5%
August 28	<ul style="list-style-type: none"> – Minimum 28-day reverse repo rate lowered from annual 8.5% to 8% – Lombard rate lowered from 11.5% to 10.5% – Rediscount rate lowered from 10% to 9%
September 25	<ul style="list-style-type: none"> – Minimum 28-day reverse repo rate lowered from annual 8% to 7.5% – Lombard rate lowered from 10.5% to 10% – Rediscount rate lowered from 9% to 8.5% – Deposit rate lowered from 5.5% to 5%
October 22	<ul style="list-style-type: none"> – Minimum 28-day reverse repo rate lowered from annual 7.5% to 7% – Lombard rate lowered from 10% to 9% – Rediscount rate lowered from 8.5% to 7.75%
November 27	<ul style="list-style-type: none"> – Minimum 28-day reverse repo rate lowered from annual 7% to 6.75% – Lombard rate lowered from 9% to 8.75% – Rediscount rate lowered from 7.75% to 7.5% – Deposit rate lowered from 5% to 4.75%

Source: NBP.

As the reference rate came down, so too did 1M WIBOR (cf. Fig. 5), thereby lowering the zloty lending and deposit rates offered by the banks to persons and corporates.

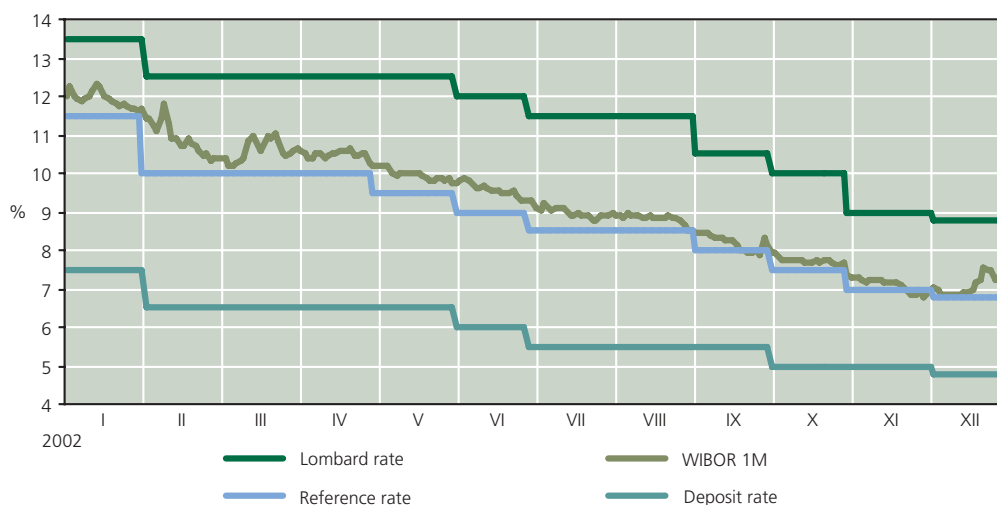
Commercial banks lowered interest rates with caution. This was due to a number of factors:

- Deteriorating quality of banks' credit portfolios. The ratio of irregular credits in 2002 grew from 17.9% to 20.5%. At the same time, the balance of specific provisions established to cover outstanding credits increased by 12.1%. These provisions represented an additional cost for banks.
- Considerable increase in the state budget's borrowing requirements. In conditions of permanent relatively high risk related to credit activity, banks more readily engaged in the

purchase of treasury securities. By placing funds in treasury securities, they did not have to establish specific provisions for their coverage. In consequence, the yield on such investment could be comparable with the return on credit activity.

- Possession by banks of the NBP bonds issued on September 30, 1999 in connection with the lowering of the required reserve rate, with interest corresponding to the inflation rate. In February 2002, the NBP, in an attempt to encourage the lowering of the interest margin in the banking sector, carried out a conversion of 60% of these bonds into securities bearing interest at market rates.

Figure 5
Interest rates at NBP and 1M WIBOR, 2002



Source: NBP.

2.4.2. Open market operations

As was the case with most central banks, open market operations were the basic instrument used by the NBP to control the commercial banks' liquid reserves, and thus, interbank interest rates.

Pursuant to the MPC resolution of January 29, 2002, the system used for the conduct of open market operations was altered by the NBP. Open market operations were divided into three main categories: basic, adjusting and structural operations. The changes were consistent with the *Monetary Policy Guidelines for 2002* and contributed to the further compliance of the domestic system with the standards applied within the Eurosystem. Additionally, they optimised liquidity management by the banks.

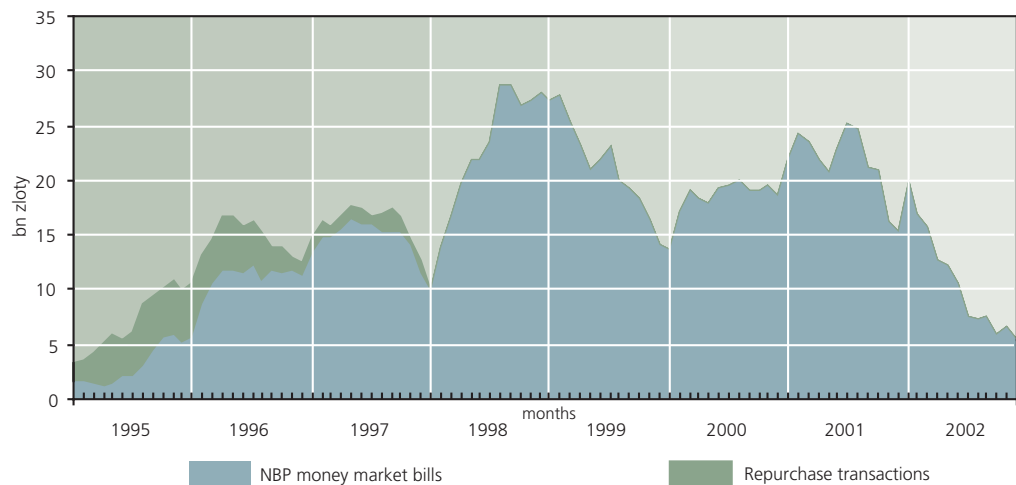
The basic instrument utilised by the NBP in 2002 to sterilise excessive operative liquidity in the banking sector was the issue of 28-day money market bills. As of February 2002, such issues were carried out regularly once a week (every Friday).

In January 2002, the NBP money market bills for 91-day maturities held by PKO BP SA became due, in three tranches. That was the result of the end of the NBP assistance extended to PKO BP SA.

The scale of liquidity-absorbing operations carried out to stabilise the market is shown in Figure 6.

Figure 6

Average monthly balance on temporary liquidity-absorbing operations



Source: NBP.

Taking into account all money market bills issued by the NBP in 2002, the balance on open market operations shrank to 7.3bn zloty at year end 2002, or by 7.0bn zloty compared to the level recorded at year end 2001. This fall was the effect of reduced excessive operating liquidity of the banking sector caused primarily by the sale of conversion bonds from the NBP portfolio, increase in notes and coin in circulation, higher balance of zloty budget funds at the NBP and sale of net currencies by the NBP.

Adjustment transactions, the purpose of which was to alleviate the impact of liquidity crises in the banking sector on market interest rates, may be utilised in exceptional cases. Their yield was determined at a level not lower than the NBP reference rate. That instrument was not used in 2002.

During 2002, the NBP continued its sale of Treasury conversion bonds.⁹ The *outright*¹⁰ transaction was structural in nature and absorbed liquidity on a permanent basis.

At 48 tenders held during the year, conversion bonds to a face value of 14.0bn zloty were offered for sale. Demand from investors came to 23.1bn zloty, equivalent to 165.1% of supply. Altogether, the NBP accepted bids to a face value of 5.3bn zloty, or 37.8% of the volume on offer and 22.9% of bids received. The standard offer of bonds for sale at each tender was 300m zloty. At tenders, the NBP accepted a yield on bonds at a level close to the market rate.

The scale of outright sales in 2002 is shown in Figure 7 (which gives the face value of conversion bonds sold each month).

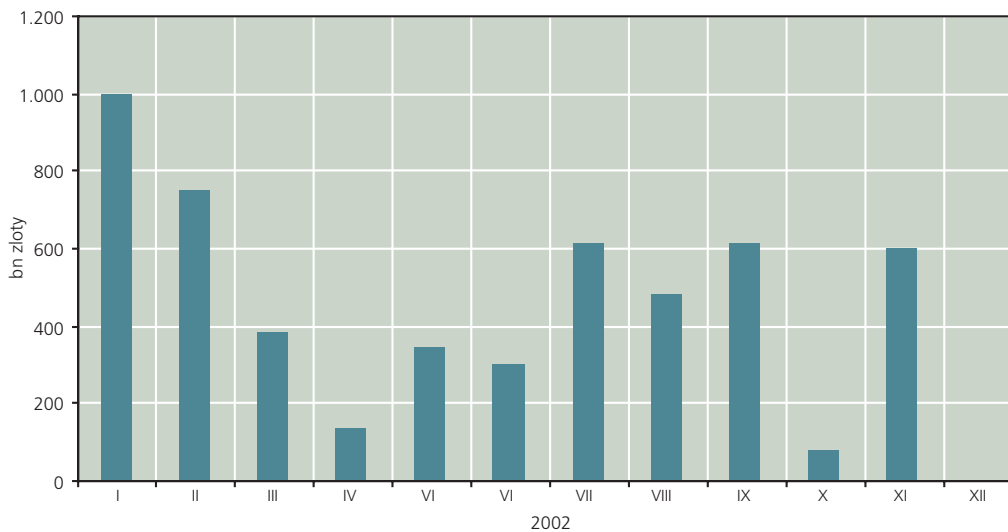
Open market operations in 2002 were conducted with a group of 13 entities, i.e. with 12 banks – money market dealers and the Bank Guarantee Fund. The dealer banks were selected based on uniform qualification criteria, contained in the Dealer Activity Index (DAI), as banks that were highly active on the market for forward-value interest rate instruments (FRAs and IRSs) and held a significant share of the market for Treasury securities (T-bills and T-bonds).

⁹ Bonds issued by the Treasury in 1999 to convert its debt to the NBP into tradable securities.

¹⁰ Transaction involving the central bank selling securities to the banks on an unconditional basis (with no repurchase provision).

Figure 7

Sales of conversion bonds, 2002



Source: NBP.

2.4.3. Reserve requirements

The basic role of required reserves is to smooth out liquidity movements in the banking sector on interest rate fluctuations. This role results from the obligation to maintain an adequate portion of funds on current accounts held at the commercial banks during a reserve maintenance period and enables the central bank to keep market interest rates at a desired level.

These reserves constitute a portion of the funds accumulated 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 not less than two years, are excluded from the calculation of the reserve base. Until February 27, 2002, the required reserve rate, under a resolution adopted by the Monetary Policy Council on September 30, 1999, stood at 5% for all kinds of deposits. The banks were allowed to hold up to 10% of required reserves in the form of declared vault cash, and thus the effective required reserve rate net of cash amounted to 4.5%.

As of February 28, 2002, the reserve ratio was lowered to 4.5%, while at the same time the possibility of maintaining a portion of the reserve in the form of vault cash was withdrawn.¹¹ That decision had no impact on the volume of the reserve maintained on the banks' accounts, and thus on the liquidity position of the banking sector. The amount of required reserve held during a reserve maintenance period is calculated as the arithmetic mean of daily balances on the bank's current account or reserve account at the NBP and (until February 27, 2002) of daily balances of vault cash, these being no greater than declared by the bank. Pursuant to the statutory regulations, required reserve is interest-free.

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. At December 31, the amount of reserves so exempted stood at 1,104m zloty. During the year, the sole exemptions in force were those granted in previous years. Movements in required reserves during 2002 are shown in Table 11.

¹¹ Pursuant to the MPC Resolution no. 20/2001 and Resolution 64/2001 of the NBP Management Board.

Table 11

Movements in required reserves, 2002 (million zloty)

Item	Balance at Dec. 31, 2001	Quarterly growth				Balance at Dec. 31, 2002
		Q1	Q2	Q3	Q4	
Total reserves required, of which:	13,669	- 468	- 286	233	-109	13,039
– on account at NBP	12,289	912	- 286	233	- 109	13,039
– vault cash	1,380	-1,380	0	0	0	0

Source: NBP.

In all the reserve maintenance periods in 2002, the averaged reserve balances held on the banks' current accounts exceeded the reserves actually required, by an amount ranging from 17m zloty in July to 80m zloty in January. During the whole year, excess reserve balances averaged 43m zloty, whereas the corresponding figure in 2001 had been 142m zloty. This decrease in the differences between required and maintained reserves in particular maintenance periods reflects better asset management at banks and the application of new instruments facilitating management of funds held on accounts at the NBP (intraday credit facility, overnight deposit).

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.

2.4.4. 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 of the banking system or, in the case of surplus balances, deposit them at the NBP. Such operations prevented excessive fluctuations of interbank rates. In the pursuit of the 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.

During the year, the average daily utilisation of lombard facilities amounted to 169.7m zloty, whereas in the particular quarters of 2002 was as follows:

- Q1 – 285.7m zloty,
- Q2 – 176.5m zloty,
- Q3 – 137.1m zloty,
- Q4 – 81.4m zloty.

The highest monthly average utilisation of lombard facilities was seen in January, when this came to 717.5m zloty (towards the end of January daily utilisation had reached as much as 8bn zloty).

In 2002, the banks most frequently drew on these facilities towards the end of the reserve maintenance period on current accounts at the NBP. An exceptional situation was observed at the turn of January and February. The banks, in anticipation of an interest rate cut by the NBP, invested large amounts to purchase money market bills, which, coupled with the end of the "maintenance period", compelled them to top up their day-to-day liquidity by borrowing at the NBP.

Last year, the banks placed their liquid surplus balances on time deposit at the NBP. The overnight deposit instrument repayable on the following business day, with interest rate set by the MPC, was launched on December 1, 2001. The deposit rate acted as a floor on fluctuations in interbank rates.

By year end 2002, the banks had placed at the NBP overnight deposits of a total value of 29.3bn zloty. The highest monthly volume of the funds placed by the banks at the NBP was 14.4bn zloty (in February 2002).

In 2002 the principles of refinancing the banking sector as rediscount loans and refinancing for central government project played no significant role in the conduct of monetary policy in 2001, while the principles for bank refinancing via these instruments remained unchanged.

The outstanding borrowings of the banks under these refinancing loans fell 8.8% in 2002, to a total of 5.090m zloty at the end of December. This decline was the result of the repayment of central investment refinance amounting to 443.4m zloty, at dates specified in contracts concluded with the banks in 2002. Additionally, a rediscount loan of 48m zloty was repaid in full. As of February 2002, the banks did not rediscount their bills of exchange at the NBP.

In 2002, the banks took advantage of the new vehicle for bank refinancing introduced in December 2001, namely, an intraday credit facility, for same-day drawdown and repayment. As of December 31, 46 banks had concluded agreements with the NBP on intraday credit facilities. The instruments were used by the banks on a daily basis. Its average daily utilisation amounted to 1.8bn zloty. This arrangement allows the banks to carry out more efficient settlements and manage liquidity position in the banking system during the business day.

BANKING SUPERVISION

In 2002, the activity of the General Inspectorate of Banking Supervision (GINB), the executive body of the Commission for Banking Supervision (KNB) and an NBP organisational unit, 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.

3.1. Licensing

The licensing activity of GINB in 2002 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 2002, GINB examined two applications to the Commission for Banking Supervision for authorisation to establish a bank. One concerned a mortgage bank and the other concerned a universal bank to be set up by a foreign bank (in 2001, GINB had examined eleven applications to establish banks). Next to the conclusion of authorisation proceedings by GINB, the Commission for Banking Supervision adopted a resolution granting authorisation to establish a mortgage bank under the name of Nykredit Bank Hipoteczny Spółka Akcyjna (licence granted on November 18, 2002). The other application for authorisation to establish a bank was still under examination at the end of the year.

The Commission for Banking Supervision also adopted four resolutions suspending proceedings on authorisation to establish banks operating as building societies (the applications in question had been filed with the Commission in the years 1998–1999). Proceedings in these cases were afterwards 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, whereas the building societies in question were to have operated pursuant to that Act.

In addition, as a part of bank authorisation proceedings, GINB examined two applications in 2002 to the Commission for banking licences for newly-established banks. Having examined internal regulations and instructions, and having conducted an on-site examination to determine the extent of the banks' preparedness to commence operating activity, KNB issued decisions approving the commencement of operating activity by the two banks, i.e.:

- MHB Bank Polska S.A., Warsaw (on January 22, 2002),
- Bank of Tokyo-Mitsubishi (Polska) S.A., Warsaw (on March 28, 2002).

At the end of 2002, 59 commercial banks were operating in Poland.

3.1.2. Opening of representative offices of foreign banks

As of January 1, 2002, there were 27 representative offices of foreign banks operating in Poland. During the year, the Commission issued affirmative rulings on two new applications for the operation of representative offices of foreign banks in Poland. As an effect, the representative offices of the following banks began operating activity:

- Otkrytoye Aktsyonernoye Obshchestvo Byelorusskiy Bank Razvitya i Rekonstruktsyi "BYELINVESTBANK", Minsk, and
- Investkredit Bank AG, Vienna.

In 2002, 12 representative offices of foreign banks ceased their activity in Poland. On December 31, 2002, there were 17 representative offices of foreign banks operating in Poland.

3.1.3. Changes in banks' ownership structure and bank mergers

In 2002, GINB examined the following applications in this area:

- 20 applications for the acquisition or taking up of qualifying holdings of shares in banks. As a result, KNB issued the following resolutions:
 - 12 resolutions approving the acquisition of qualifying holdings of shares in banks,
 - 6 resolutions refusing such approval.

Rulings of KNB with respect to the remaining applications regarding changes in banks' ownership structure examined in 2002 were scheduled to be issued in 2003.

- 4 applications for the merger of banks incorporated as public limited companies. Having analysed these, KNB issued 3 resolutions approving the merger of banks, involving the implementation of rehabilitation processes. The ruling of KNB on the fourth application is scheduled to be issued in 2003.

3.1.4. Changes in the composition of bank management boards

In 2002, 578 applications were received for approval of the appointments to bank management boards (in 2001, there had been 219 such applications), including bank presidents. KNB approved, by resolution, the appointment of 306 members of bank management boards, including bank presidents. Of the 306 resolutions thereby adopted:

- 38 involved approvals for appointing management board members at banks already in operation as public limited companies (36 in 2001),
- 2 concerned management board members at newly-established banks (6 in 2001),
- 266 involved the appointment of presidents at existing cooperative banks, in accordance with Article 12 para. 3 of the Act on the Operations of Cooperative Banks, their Affiliation, and Affiliating Banks of December 7, 2000, (19 in 2001).

The remaining applications is to be dealt with in 2003, once they have been supplemented with other documentation as required.

3.1.5. Amendments to banks' articles of association

In 2002, GINB examined 661 (481 in 2001) 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 KNB for an opinion to be issued on amendments to the articles of a state bank. As a result, the Commission issued:

- 58 decisions on approval of amendments to the articles of association of banks incorporated as public limited companies. These amendments most frequently involved extending the list of operations performed by the bank in question, increases in its authorised share capital, changes in the external representation of the bank and voting preferences for shares; some amendments were also related to changes in the names of banks;
- 485 decisions 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 (of which 25 rulings concerned approval for extending the territorial coverage of a cooperative bank);
- 1 opinion concerning amendments to the articles of association of a state bank.

Examination of the remaining applications is to be concluded, via the issue of an appropriate ruling of the Commission, following the submission by the applicants of the additional documents required.

3.2. Prudential regulations

As was the case in previous years, the regulatory activity of GINB in 2002 primarily focused 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, provisions of law, and the problems arising from the launching by the banks of new products and services. In this area, 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 improve the identification and assessment of the level of risk in the banks, and to determine suitable supervisory strategies relative to those banks; further, GINB ensured adequate operations of the banking system.

The regulatory activity of GINB in 2002 involved mainly the development of legal standards in the areas of particular importance to the accuracy and security of the banking system's operations.

3.2.1. Draft legislation

3.2.1.1. *The Banking Act*

The NBP took active part in work on the Bill Amending the Banking Act.¹² The list of amendments include:

- Regulating new areas of banking activity insofar as:
 - the principles for contracting by banks to other entities of the operations related to the banking activity (*outsourcing*),
 - securitisation of bank receivables, in particular in the area of mitigating the bank's securitisation risk,
- Amending the regulations already in force relative to:
 - prudential regulations on large exposures, determination of a bank's capital base and capital adequacy standards,
 - procedures for banks disclosing information that is subject to bank secrecy,
 - consolidated supervision over the banks,
 - monitoring transfers of equity holdings at banks incorporated as public limited companies, and
 - bank rehabilitation and liquidation proceedings.

The amendments to the Banking Act will substantially strengthen the stability of the banking sector through the establishment of new and modification of the already existing prudential regulations. At the same time, the new provisions authorise KNB to issue implementing regulations, which in conjunction with the 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 will bring Polish banking regulations fully into line with the standards recently introduced in the European Union.

¹² Following the positive opinion being issued by the NBP Management Board and the Commission for Banking Supervision, the Bill was submitted to the Ministry of Finance for further legislative work.

3.2.1.2. The Bill Amending the Act on the Operations of Cooperative banks, their Affiliation and Affiliating Banks

The Bill has been prepared with a view to rationalizing the operations of the cooperative banking sector. Among other things, the draft legislation:

- adapts the existing regulatory framework to the context of cooperative banking relative to the process of the consolidation of affiliating banks,
- excludes Bank Gospodarki Żywnościowej SA from the category of affiliating banks,
- extends the list of operations that cooperative banks are authorised to perform,
- introduces regulations on the operation of consolidated affiliation of cooperative banks.

In the course of legislative work on the draft document, NBP presented, inter alia, its position on the proposed amendments thereto submitted by the Sejm's deputies and regarding the exemption of cooperative banks from an obligation to establish required reserves in the amount of 1m zloty. Such exemption would also imply the obligation to allocate 85% of the earnings generated by a given bank in a financial year to its capital base. In the presented position, NBP pointed out the importance of equal treatment of commercial and cooperative banks in that regard. NBP also observed that those banks which posted a loss at the end of the financial year would not be included the proposed exemption scheme.

3.2.2. Implementing regulations

During the year, the National Bank of Poland, and GINB accordingly, took active part in the drawing up of implementation regulations in the performance of the statutory authorisation of KNB and the Ministry of Finance, contained in the following legislation:

- **The Banking Act.** Here, GINB developed a draft resolution of KNB¹³ which concerned the list of documents to be attached to the applications for authorisation to establish a bank and for approval of the appointments to bank management boards, and to the information on the composition of bank management boards presented by the bank's supervisory board. The purpose of issuing the resolution was, not only to carry out the statutory authorisation, but also to identify, inter alia, the list of documents and information to be attached to the applications of the Commission in the discussed matters.
- **The Act on the National Bank of Poland.** Here, GINB drafted three resolutions of KNB, including:
 - a draft resolution amending "Rules of KNB".¹⁴ Amendments to the Resolution were the consequence of the changes resulting from the Act on the Operations of Cooperative Banks, their Affiliation, and Affiliating Banks of December 7, 2000,¹⁵ and the Act amending the Banking Act and other acts of August 23, 2001;¹⁶
 - a draft resolution amending Resolution no. 1/1999 of the Commission for Banking Supervision on the procedures for the performance of banking supervision of January 6, 1999.¹⁷ These amendments brought the provisions of the resolution into conformity with the Act amending the Banking Act and Other Acts of August 23, 2001.
- **The Act on Mortgage Bonds and Mortgage Banks.** GINB developed a draft resolution of KNB on the definition of a standard register of mortgage bond collateral in connection with the amended Act on Mortgage Bonds and Mortgage Banks.¹⁸

¹³ Resolution no. 1/2002 of the Commission for Banking Supervision of January 10, 2002 *Dziennik Urzędowy NBP* (the Official Gazette of the National Bank of Poland no. 1, item 1).

¹⁴ Resolution no. 2/2002 of the Commission for Banking Supervision of (not promulgated).

¹⁵ *Dziennik Urzędowy* (the Journal of Laws no. 119, item 1252).

¹⁶ *Dziennik Urzędowy* no. 111, item 1195.

¹⁷ Resolution no. 3/2002 of February 6, 2002 (*Dziennik Urzędowy NBP* no. 4, item 6); uniform text of Resolution no. 4/2002 of March 6, 2002 (*Dziennik Urzędowy NBP* no. 6, item 10).

¹⁸ Resolution no. 5/2002 of November 18, 2002 (*Dziennik Urzędowy NBP* no. 18, item 45).

- **The Accounting Act.** Here, GINB drafted, jointly with the Ministry of Finance, two ordinances of the Minister of Finance amending the ordinances of the Minister of Finance on:
 - procedures for provisioning against the risk associated with banking operations, and
 - detailed bank accounting principles.

The amendments drew on the conclusions from the monitoring of the impact of new regulations, and also accommodated the postulates submitted by the banks. In accordance with the provisions of the revised Accounting Act, these ordinances, having being the subject of the government and banking community consultation, were positively appraised by the Commission, and finally issued by the Minister of Finance.

3.2.3. Other areas of regulatory activity

In 2002, GINB also carried out the following tasks:

- continued work to conclude memoranda of understanding with:
 - foreign banking supervision agencies, specially those of the EU member states and those whose banks hold a qualifying share in the Polish banking sector,
 - domestic agencies supervising the financial sector – the Securities and Exchange Commission (KPWiG) and the Agency for Pension Fund Supervision (KNUiFE). In December 2002, the Commission for Banking Supervision approved the new agreement with KPWiG, which was signed on February 4, 2003. The agreement with KNUiFE is still under discussion;
- drew up the report for the Commission for Banking Supervision on the compliance by the banks with banking supervisory recommendations, containing the principles of "good banking practise", and then reviewed the existing recommendations for their relevance, taking into account amendments in the provisions regulating the issues governed by a given recommendation. The recommendations concerning the following areas were reviewed and amended:
 - bank financial liquidity monitoring system,
 - managing risk associated with transactions involving derivatives concluded by the banks,
 - mitigating risk associated with banks' financial investment,
 - managing large exposure risk,
 - managing risk associated with IT and telecommunication systems used by banks,
 - internal audit at banks,
 - managing currency risk at banks and procedures for the banks conducting operations carrying foreign exchange risk.

On December 11, 2002, KNB adopted the revised recommendations;

- continued analytical work on draft regulations contained in the consultative document The New Basle Capital Accord, issued by the Basle Committee on Banking Supervision, and their impact on the banking sector;
- in the area of reporting:
 - drafted modifications and reviewed the Bank Reporting System, introducing new supervisory regulations, amendments to the Accounting Act and changes to the scope of information required from specialist banks (mortgage banks),
 - drafted a reporting package for the banks required to draw up consolidated financial statements,
 - determined procedures for drawing up financial statements for the purposes of banking supervision by domestic banks with branches abroad.

3.3. Off-site analysis

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

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

3.3.1. Comprehensive analysis of the condition of the banking sector

The analysis of the condition of the banking sector by GINB involved:

- developing quarterly *Evaluations of the financial situation of Polish banks*, containing comprehensive information on the condition of the Polish banking sector,¹⁹ and presenting the developments and tendencies in that sector and sources of potential threats to its stability;
- disseminating the key information included in these *Evaluations* in the publications *Summary evaluation of the financial situation of Polish banks*;²⁰
- performing the annual *Assessment of the impact of monetary, tax and supervisory policies on the development of banks for the year 2001* (pursuant to Article 25 of the Act on the National Bank of Poland);
- maintaining records of the foreign clients of the banks and monitoring the risk associated with the banks' large exposures;
- conducting analyses of selected areas of the banks' operations to feed into the reports for internal purposes, the Commission for Banking Supervision, the NBP Management Board, general government agencies and other external entities (specially for international financial organisations and institutions).

3.3.2. Direct off-site surveillance

In 2002, direct off-site surveillance of commercial banks involved the following:

- carrying out ongoing and quarterly analyses and assessments of the financial condition of particular banks whereby the Supervisory Profiles of particular banks, containing key information on each of them, were updated,²¹ and monthly reports on the condition of the banks were compiled (including proposals for urgent supervisory action, if necessary). Meanwhile, the results of the quarterly analyses were employed to assign internal ratings to each bank using the CAEL methodology,²² to highlight the areas that could turn vulnerable 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. As of January 2002, ratings assigned to the banks using the CAEL methodology were forwarded (with the opinion) to the banks' management and supervisory boards.
- undertaking ad hoc interventions, explanatory proceedings and inquiries;²³
- giving opinions on the banks' operations for the purposes of external institutions;
- selecting banks for full-scope and targeted examinations.

¹⁹ The 2001 *Summary Evaluation* was forwarded, for example, to the President of the Republic of Poland, the Sejm and Senate's Speakers, the Prime Minister, selected ministers and heads of central government offices and chairpersons of three parliamentary committees.

²⁰ They are made available in Polish and English to a wide range of recipients, also via the NBP website.

²¹ The contents of these include, among others, the bank's CAEL rating, characterisation of its risk exposure, and a review of compliance with the provisions of the Banking Act, other legislation and prudential regulations.

²² 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.

²³ Ad hoc interventions undertaken in 2002 involved, among other things, violations of the provisions of the statute or prudential regulations (including violations of Articles 22, 71, 79 and 111 of the *Banking Act*, with 2, 12, 2, and 27 cases of this kind, respectively), where discrepancies were established in bank classifications of claims on a common borrower (1,051 cases), 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 (31 banks), comments contained in the auditors' statements and reports (9 banks).

3.3.3. Supervision of distressed commercial banks

In 2002, there were 22 distressed banks (24 in 2001), of which 18 were implementing rehabilitation programmes approved by KNB, whereas 4 had been invited to institute rehabilitation programmes. 6 banks were under liquidation, and 4 had been declared bankrupt. In performing this direct supervision:

- ongoing analyses were conducted of the condition of banks involved (including assessment of the implementation of rehabilitation programmes). On this basis, reports were drawn up for KNB;
- opinions were issued on the rehabilitation programmes drawn up by 15 banks, with twelve of these being approved by the Commission (in the remaining cases, the banks were invited to revise and/or supplement those programmes);
- proposals were submitted to the Commission of supervisory measures to be undertaken with regard to the banks under rehabilitation, including: appointment of an administrator (3), suspension of the operations and acquisition by another bank (1), recommended discontinuation of certain forms of advertising (1), appointment of a conservator overseeing the implementation of the rehabilitation programme by the bank (1), ordering a financial audit at the expense of the NBP (2).

In addition, the Bank Guarantee Fund (BFG) was notified of banks being required to institute rehabilitation proceedings and of the supervisory measures being 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

As was the case in previous years, the examination activity carried out by GINB in 2002 focused on on-site examinations at commercial and cooperative banks, and at branches and representative offices of foreign banks, and also on enhancing the quality and effectiveness of the examination process through the establishment, extension and improvement of supervisory examination procedures, and the development of methodologies for reviewing particular risks at the banks. In 2002, the examination process was made more effective as a result of better utilisation of human resources and introduction of more effective examination tools. A specialist training programme to ensure professional development of bank examiners was developed.

The examination responsibilities performed can best be discussed in the three areas 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,
- examination process support – supervisory methodologies and tools applied.

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

In 2002, the General Inspectorate for Banking Supervision carried out the following on-site activity:

- 108 full-scope on-site examinations (104 in 2001), comprising:
 - 20 examinations at commercial banks; in addition, a pilot on-site examination was conducted at a Lithuanian branch of Kredyt Bank SA,
 - 6 examinations at large cooperative banks, with total assets of over 100m zloty,
 - 82 examinations at other cooperative banks;
- 73 targeted on-site examinations (97 in 2001), comprising:

- 7 (scheduled) examinations at commercial banks to review selected areas of activity,
- 4 examinations at large cooperative banks, with total assets of over 100m zloty,
- 48 examinations at other cooperative banks,
- 14 examinations at commercial banks to review compliance with Resolution no. 4/98 of KNB 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, of June 30, 1998;
- 15 explanatory proceedings (23 in 2001), of which:
 - 14 involving commercial banks, and
 - 1 involving a cooperative bank;
- 2 on-site reviews of a bank's preparations for commencing operating activity;
- measures associated with suspending the operations of 2 cooperative banks;
- at 3 banks – measures associated with the appointment of an administrator;
- 4 on-site examinations at Polish representative offices of foreign banks.

The examination activity undertaken was carried out on the basis of an examination plan approved by GINB. The examination plan for commercial banks followed an examination model based on a supervisory cycle, and taking into account the results of ongoing analysis of the financial condition of particular banks. Following the on-site examinations, the Chairperson of KNB addressed post-examination recommendations to the concerned banks.

3.4.2. Scope of examinations

Areas of banking activity reviewed:

- Measures associated with the performance by GINB of its responsibilities pursuant to the Banking Act and carried out under full-scope and targeted on-site examinations. In the course of full-scope examinations, 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 2002, the scope of on-site examination was extended to include systematic reviews of the process of managing operational risk associated with IT technology and electronic banking.
- Examination responsibilities assigned by the NBP Management Board included:
 - reviews of monetary and interbank settlements,
 - reviews of the accuracy of the calculation and performance of reserve requirements at commercial banks,
 - reviews of the banks' reporting with respect to the issues relative to the balance of payment statistics.

3.4.3. Examination methodology and tools – examination process support

In 2002, in the course of both the scheduled and ad hoc activities, work was continued on consolidated standard procedures for conducting on-site examinations at banks. The purpose of these measures was to further improve the quality and effectiveness of examinations, and to bring relevant standards into line with the changing legal framework. In the course of performed work, a portion of existing methodologies was updated and new supervisory tools were developed. In this regard:

- The following methodologies were updated:
 - points-based bank rating system – amendments to legal provisions governing banks' asset valuation were incorporated;
 - guidelines for performing examinations in the area of combating money laundering at

head offices and in organisational units of the banks in the course of full-scope on-site examinations – in order to bring existing procedures into conformity with the revised Act on Preventing the Use in Financial Trading of Assets Derived from Illegal or Undisclosed Sources and on Preventing Terrorism Financing, of November 16, 2000;

- methodology for collecting samples of credit facilities and other exposures for review in the course of on-site examinations – the methodology of sampling along with some notions and definitions adopted in the methodology were described more accurately based on the feedback from previous examinations;
- new methodologies were developed concerning standardisation of the examination process:
 - instructions concerning reviews of the operational risk associated with IT technology and electronic banking,
 - procedures for performing examinations under consolidated supervision of the banks,
 - procedures for reviewing the accuracy of the calculation of capital requirements,
 - methodology for developing post-examination recommendations.

In 2002, work on the development of assumptions for an IT system to support the process was commenced in order to ensure a better and more effective examination process. To this end, a needs analysis was carried out and preliminary assumptions for the system were developed. The launching of the system in the future would optimise and step up the process of preparing and carrying out on-site examinations at banks.

A key factor imparting greater transparency to banking supervision was the introduction in 2002 of the principle whereby the banks are notified of the ratings assigned to them as a result of performed examinations, under the points-based bank rating system adopted by GINB.

3.5. Supervision of the cooperative banking sector

In 2002, consolidation processes geared towards the capital strengthening of cooperative banks were continued. The number of cooperative banks decreased from 642 in 2001 to 605 in 2002, with 35 cases being the effect of bank mergers.

The consolidation of banks operating as affiliating banks was accomplished in view to satisfying the requirements laid down in the provisions of the Act on the Operations of Cooperative Banks, their Affiliation, and Affiliating Banks of December 7, 2000. At the end of 2002, 603 cooperative banks were affiliated within 3 structures. The following cooperative banks operated outside these structures, namely, Spółdzielczy Bank Rozwoju "Samopomoc Chłopska", Warsaw, and Krakowski Bank Spółdzielczy, Cracow.

The three operational affiliating structures comprised:

- Gospodarczy Bank Wielkopolski SA in Poznań, which initiated consolidation among affiliating banks, merged with Bałtycki Bank Regionalny SA in Koszalin, and then with Pomorsko-Kujawski Bank Regionalny SA in Bydgoszcz.
- Bank Polskiej Spółdzielczości SA in Warsaw established following the takeover by Górnośląski Bank Południowo-Zachodni SA in Wrocław of five affiliating banks, i.e. Małopolski Bank Regionalny SA in Cracow, Lubelski Bank Regionalny SA in Lublin, Rzeszowski Bank Regionalny SA in Rzeszów, Bank Unii Gospodarczej SA in Warsaw and Warmińsko-Mazurski Bank Regionalny SA in Olsztyn, through the contribution of assets in exchange for equity, while at the same time changing of name and registered office. Furthermore, Bank Polskiej Spółdzielczości SA took over Dolnośląski Bank Regionalny SA in Wrocław, in line with Article 147 para. 2 of the Banking Act.
- Mazowiecki Bank Regionalny SA in Warsaw.

Cooperative banks' consolidation was monitored by the banking supervision. Pursuant to the provisions of Article 142 para. 4 of the Banking Act,²⁴ some of these, could merge only subject to the approval of KNB. At the end of 2002, the average value of their capital base amounted to 3,436,000 zloty (or €891,000). The increase in the average value of capital base was accompanied by enhanced safety of funds held at cooperative banks and more extensive customer service.

In 2002, day-to-day responsibilities relating to the supervision of the operations of cooperative and affiliating banks consisted primarily in ongoing monitoring of the financial condition of the banks, drawing up relevant quarterly analyses and forwarding communication on current matters to the supervised banks.

During 2002, there were 67 cooperative banks implementing rehabilitation programmes. These involved supervisory responsibilities focused primarily on issuing opinions on rehabilitation programmes, monitoring their implementation by the banks, and cooperating with conservators appointed at 13 banks to oversee the implementation of adopted rehabilitation programmes.

In addition to supervising the activity of operating banks, GINB also monitored 94 cooperating banks declared bankrupt or under liquidation (including 10 cases where the bankruptcy proceedings were concluded and petitions filed for the banks to be deleted from the relevant register). In connection with the above activity, GINB:

- drafted 5 opinions of KNB concerning bankruptcy and liquidation cases which were subsequently forwarded to trustees in bankruptcy, liquidators and courts of law with a jurisdiction over their respective principal places of business;
- forwarded 50 communications on matters requiring supervisory intervention to trustees in bankruptcy and courts of law conducting bankruptcy proceedings.

On numerous occasions in the course of 2002, the Commission for Banking Supervision dealt with matters related to the activity of cooperative banks, and:

- adopted 13 resolutions concerning the activity of cooperative and affiliating banks, i.e.:
 - 1 resolution authorising a merger of banks,
 - 2 resolutions suspending the operations of a bank,
 - 4 resolutions authorising acquisition of one bank by another,
 - 2 resolutions requiring a bank's management board to call an extraordinary general meeting in order to examine the bank's position and adopt relevant resolutions,
 - 2 resolutions discontinuing suspended proceedings on the approval of a draft affiliation agreement and on the suspension of a bank's operations,
 - 1 resolution suspending from office a bank president;
 - 1 resolution requiring a bank's supervisory board to dismiss a bank president;
- performed quarterly and annual assessments under 100% off-site analysis of the banks, comprising also the cooperative banking sector, presented in the GINB reports on the financial situation of Polish banks in 2001, the first quarter of 2002, the first half of 2002, Jan.-Sept. 2002 and quarterly information on the banks under rehabilitation programmes;
- submitted the information on the course of the consolidation of the banks affiliating cooperative banks and cooperative banks which had failed to meet the capital requirements as of December 31, 2001, and on the proposed measures to be taken with respect to these banks.

The Chairperson of the Commission for Banking Supervision, acting under authorisation received from the Commission, examined the following matters, issuing a number of decisions and rulings:

- requiring a bank to draw up or revise a rehabilitation programme (17 cases),

²⁴ Loss-making banks are allowed to merge with other banks only after obtaining the approval of the Commission for Banking Supervision.

- approving a bank rehabilitation programme (14 cases),
- appointing a conservator to supervise implementation of a rehabilitation programme (3 cases),
- revoking a decision to appoint a conservator to supervise implementation of a rehabilitation programme (1 case),
- authorising a bank to include, in its supplementary capital, funds received for a period of at least five years (5 cases),
- concerning early repayment by banks of funds received under subordinated loan, previously included in their supplementary capital (4 cases),
- revoking the decision to prohibit a bank from granting loans and cash advances to its management and supervisory board members and staff (1 case),
- concerning non-inclusion in a bank's capital base reductions of capital exposure in excess of 10% of a bank's equity (1 case).

In supervising cooperative banks in 2002, GINB issued opinions on 5 loan applications filed by the banks with the BFG and notified the Fund of banks being invited to institute rehabilitation proceedings and of the supervisory measures being undertaken with respect to those banks.

3.6. NBP participation in bank recoveries

December 31, 2002 marked the end of the ninth year of rehabilitation proceedings at banks that had obtained financial assistance from the NBP. In 2002, NBP provided no further support for the implementation of rehabilitation programmes; however, it continued to analyse the performance of such programmes and keeping the schedule of debt repayment by the banks, in line with the agreements concluded with them in the years 1993–1994 (taking account of subsequent amendments to those agreements).

In 2002, financial assistance was still granted to 5 banks. On December 31, the total amount of NBP assistance outstanding (under bond redemption and bills or notes discounted) stood at 186.09m zloty, which was 9% less than at year end 2001.

The reduction in the outstanding amount of NBP assistance was attributable to the repayment of part of the debt, in accordance with the provisions of the relevant agreements, namely:

- full redemption of promissory notes by 2 commercial banks which, with the NBP assistance, took over distressed cooperative banks; debt repayment by these banks put an end to the NBP involvement in the restructuring of the cooperative banking sector, and thus the Bank recovered funds committed under rehabilitation programmes of the cooperative banking sector;
- reduction in the claims under bills discounted as a result of the submission by 3 commercial banks (continuing rehabilitation programmes with the NBP assistance) of promissory notes of lower value;
- reduction in the value of bonds issued by 2 domestic banks and acquired by the NBP, the result of those banks redeeming subsequent series of their bonds.

During 2002, no bank was exempted from reserve requirements by the NBP Management Board.

In 2002, four banks continued to enjoy NBP support via exemptions from reserve requirements, issued under Article 39 para. 3 of the Act on the National Bank of Poland of August 29, 1997. At December 31, the amount so exempted stood at 1.1bn zloty and comprised three banks (on June 29, 2002, a decision expired exempting 1 bank from reserve requirements). These exemptions from reserve requirements had been granted in previous years.

January 2002 witnessed the expiry of the agreement concluded on December 21, 2000, between the NBP and PKO BP SA 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 implementation of the rehabilitation programme in 2001 ran as scheduled. The results achieved by the bank proved to be considerably better than the objectives included in the the rehabilitation programme. Therefore, the NBP, seeking to treat all banks on an equal basis, discontinued in January 2002 the provision of financial support to the rehabilitation programme of PKO BP S.A. The assistance ensured via a partial exemption of the bank from the obligation to maintain required reserves and a redemption of part of the NBP bonds previously acquired by PKO BP SA in connection with the earlier reduction of the reserve ratio, was discontinued on January 2, 2002. On January 3, 2002, PKO BP SA once again acquired the NBP bonds, of the face value of 3.2bn zloty, issued by the NBP under a reduction of the reserve ratio. As of January 3, 2002, the bank maintains required reserves in the full amount.

MOST IMPORTANT NBP ACTIVITY IN 2002

- As at December 31, there were 59 commercial banks, 17 representative offices of foreign banks and 605 cooperative banks operating in Poland.
- The Commission for Banking Supervision adopted 1 resolution authorising the establishment of a mortgage bank.
- The Commission for Banking Supervision issued rulings authorising 2 banks to commence operating activity.
- During the year, 2 new representative offices of foreign banks were established.
- Transfer was begun of ratings assigned to the banks as a result of on-site examinations and of quarterly assessments developed under off-site analysis, imparting greater transparency to banking supervision.
- 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.
- Work was conducted on the Bill Amending the Banking Act in the following areas including legal definition of *outsourcing*, amendments to prudential regulations, consolidated supervision, bank secrecy, bank rehabilitation and liquidation proceedings.
- Work was continued with a view to concluding memoranda of understanding with banking supervision agencies from other countries.
- Analyses were conducted with respect to the *New Capital Accord*. Among other things, the Third Quantitative Impact Study (QIS3) of the impact of newly designed solutions on the condition of the Polish banking sector was conducted.
- During the year, 108 full-scope and 73 targeted on-site examinations were performed. The scope of examinations was extended to include the process of managing operational risk associated with IT technology and electronic banking.

THE ISSUE OF CURRENCY

4.1. Notes and coin in circulation

The volume of notes and coin in circulation rose 3,614.7m zloty during 2002, to stand at 46,745.0m zloty at end of the year. This signifies an 8.4% expansion of cash stocks during the year compared to December 31, 2001.

Excluding vault cash, notes and coin in circulation totalled 42,194.0m zloty at December 31, 2001, having risen 10.4% year-on-year.

One of the main reasons for this increase was the shrinking returns on bank deposits due to rapidly falling interest and the imposing of tax on interest income.

The above factors made customer turn to more profitable savings measures. As an effect, some portion of bank deposits was cashed upon their maturity or just not prolonged for the next periods.

Year-to-date movements in notes and coin in circulation in the particular months of 2002 please find in Table 12.

Table 12

Movements in notes & coin, 2002

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 2001 = 100	
December 2001	43,130.3	38,212.6	x	x
January 2002	40,465.2	36,755.1	93.8	96.2
February	41,389.5	37,932.6	96.0	99.3
March	43,128.5	38,789.8	100.0	101.5
April	44,166.7	40,005.0	102.4	104.7
May	43,905.8	39,832.4	101.8	104.2
June	44,934.3	41,231.4	104.2	107.9
July	45,547.5	41,763.8	105.6	109.3
August	45,757.0	42,080.0	106.1	110.1
September	45,951.5	41,932.8	106.5	109.7
October	46,207.2	42,050.0	107.1	110.0
November	45,733.7	42,105.8	106.0	110.2
December	46,745.0	42,194.0	108.4	110.4

Source: NBP.

4.1.1. Composition of notes & coin

At year end 2002, notes accounted for 97.01% of all currency in circulation by value, while coin made up 2.99%. In 2001, the relevant proportions were 96.98% for notes, and 3.02% for coin.

In absolute terms, the number of notes in circulation represented 9.55% of all items of currency, with coin constituting 90.45%, whereas in 2001 the share of notes had been 10.03%, and that of coin had been 89.97%.

In absolute terms, 100 zloty and 50 zloty notes accounted for the largest share of cash stocks at year-end 2002,²⁵ totalling 44.68% and 18.91%, respectively (43.19% and 19.33% in 2001), while the corresponding role among coins was played by 1 and 2 grosz coins, with 34.77% and 17.30%, respectively (33.54% and 16.97% in 2001).

²⁵ The share of particular notes and coin in circulation presented by value and by volume was set against: notes in circulation – for notes, coin in circulation – for coins. In 2001, the share of particular denominations was set against the total currency in circulation, i.e. notes and coin combined.

By value, 100 zloty and 200 zloty notes accounted for the largest share of cash stocks at year-end 2002 (55.87% and 28.04%, respectively), while the corresponding role among coins was played by 2 and 5 zloty coins (25.91% and 31.07%, respectively).

4.1.2. Supply of notes & coin to the banks

In 2002, 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.

Following the restructuring of the NBP network, as of October 1 all the NBP sub-branch offices ceased to supply the commercial banks with notes and coin. From that date onwards, the supply of the banks with Polish currency has been carried out solely via 16 regional offices of the NBP (until October, through 39 offices).

In an attempt to meet the expectations of the commercial banks, the following amendments were made to the safekeeping agreements in October 2002, with a view to:

- enabling the acceptance and redemption of the currency from the NBP vault deposit and the settlement of differences, if any, pursuant to the terms of the safekeeping agreement, i.e. without the necessity to conclude an agreement for the sale and purchase of Polish currency;
- lowering the minimum value of the NBP vault deposit to be accepted for safekeeping by a branch of a commercial bank, until the moment its redemption begins, from 20m zloty to 10m zloty;
- enabling the acceptance by branches of commercial banks of the NBP vault deposits containing 200 zloty notes, packed in shipment bags of 5, 10 or 20 note bundles each.

The above amendments led to an increase in the number of bank branches keeping the NBP vault deposits (from 28 to 59 branches) and the value of the NBP vault deposits kept by commercial banks by ca. 300m zloty (or roughly 18%).

At December 31, 2002, the value of the NBP vault deposits held at branches of commercial banks constituted 5.14% (1.3% in 2001) of the currency reserve at regional branches of the NBP, and 4.3% (2% in 2001) of total cash stocks.

4.1.3. Withdrawal of worn or damaged notes & coin

Notes and coin of the current issue that were damaged or worn through their use in circulation were systematically destroyed during 2002. The notes and coin in question were withdrawn from circulation via NBP regional offices.

4.2. Other issues related to currency

4.2.1. Production of currency

In 2002, the manufacturers of currency – the Polish Securities Printing Works (PWPW SA) and the State Mint (Mennica Państwowa SA) – supplied the NBP with over 486.1m notes and coin, as previously ordered. The total purchase cost of these items of currency came to 73.3m zloty. This was 52.7% less than in 2001 (when the corresponding cost had been 139.5m zloty).

During the year, PWPW SA delivered to the NBP 10 zloty notes (75 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 405.5 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 2002.

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 2002, the National Bank issued coins on 11 themes.

The total number of commemorative coins struck was 5,570,600, of which 14,100 were of gold, 446,500 were of silver, and 5,110,000 were of an alloy called "Nordic Gold".

The themes employed involved the minting of 20 types of collector's coin, namely:

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

The commemorative coins issued included four types of "non-standard" coin:

- a silver coin struck using the tampon print technique,
- a silver rectangular coin struck using the tampon print technique,
- a silver coin with amber,
- a silver coin with ceramics.

The commemorative coins issued by the NBP enjoyed tremendous popularity among collectors.

4.2.3. Exchange of currency no longer legal tender

In 2002, 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 2002, 99.61% by value of all old zloty had been exchanged, representing 88.65% of the total number of old notes and coin.

4.2.4. Counterfeit domestic currency

The year 2002 brought a 13.8% decrease in the number of counterfeit domestic notes and coin uncovered, compared to 2001.

Table 13 provides a percentage breakdown of the counterfeit domestic notes and coin uncovered in 2002 in comparison with 2001.

Table 13

Percentage structure of counterfeit domestic notes & coin uncovered

Counterfeit items	2001		2002		% Increase /Decrease
	Total items	% Breakdown	Total items	% Breakdown	
Notes issued in 1994, "Rulers of Poland" series	72,328	72.50	54,861	63.84	-24.15
Notes previously issued, "Great Poles" series	136	0.14	208	0.24	52.94
Coins of current issue	15,792	15.83	18,880	21.97	19.55
Coins previously issued, withdrawn in 1994	11,506	11.53	11,982	13.94	4.14
Total	99,762	100	85,931	100	-13.86

Source: NBP.

The counterfeit old zloty coins included in the figure for 2002 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.

4.3. Changeover of national currencies of EMU countries into the euro

The national currencies of the EMU countries were exchanged for the euro between January 1 and December 31, 2002. The operation was carried out efficiently and smoothly.

The introduction of the euro currency in the twelve EMU countries also in Poland necessitated the replacement of the national currencies of these countries with euro notes and coin. Given strong economic ties with the EU, direct neighbourhood of the euro area and the substantial volume of withdrawn notes and coins of the EMU member states held by Polish citizens and other entities, already in 2001 preparatory measures were undertaken in Poland with respect to the changeover, involving legislation, public information and logistics.

The changeover was performed by both the NBP branches and the commercial banks. The principles for the changeover are laid down in the Act on the Implications of the Introduction of the Single Currency, the Euro, in Certain European Union Member States of May 25, 2001.

In the course of twelve months of 2002, natural persons exchanged at the NBP the national currencies of the EMU countries totalling €8,055,000, of which 77% constituted German marks. In terms of value, the peak in currency exchange was recorded in January (36%) and December 2002 (16%). Of the total value of the currencies exchanged during 2002, as much as 5% were replaced on December 30 and 31, 2002.

As not all branches of the commercial banks exchanged the national currencies, especially coins, of the EMU countries into the euro and given high commissions charged for such services, many clients took advantage of the possibility to carry out this operation at NBP cash desks.

A portion of the EMU countries' currencies (equivalent to €1,792,000) was collected by the NBP on behalf of the *Wielka Orkiestra Świątecznej Pomocy* Foundation [Great Orchestra of Christmas Aid – charity]. These were mainly coins, of the combined weight of over 50 tons.

In 2002, the NBP also purchased the national currencies of the EMU countries from the commercial banks with whom it had concluded agreements for the supply of foreign notes and coin. The total sales of the EMU currencies by the commercial banks to the NBP came to €7,586,000.

In total, the NBP exchanged EMU currencies worth €19,873,000. Additionally, the NBP sold euro notes and coin totalling €13,030,000 to the commercial banks.

The notes and coin of the EMU countries derived from the changeover services provided to natural persons and supplied by authorised commercial banks were successively sold by the NBP to the relevant central banks of the EMU countries.

MOST IMPORTANT NBP ACTIVITY IN 2002

- An increase was recorded in the volume of notes and coin in circulation, the reasons for this being primarily rapidly shrinking interest and return on bank deposits.
- Beginning October 1, 2002, banks have been supplied with notes and coin via 16 regional branches of the NBP.
- The NBP made amendments to the safekeeping agreements, facilitating the placement and keeping of the NBP deposits for the banks.
- Between January 1 and December 31, 2002, the NBP exchanged the national currencies of the EMU countries for the euro (equivalent to €19,873,000).

THE DEVELOPMENT OF THE PAYMENT SYSTEM

In 2002, 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. Particular emphasis was placed on activities in the area of functionality and security of the payment system, aiming in particular to reduce the risk involved. In 2002, the activities focused also on regulatory issues relative to the payment system, including those adjusting it to correspond to the requirements of the European Union.

5.1. Supervision of payment systems

On January 1, 2002, the Act on Settlement Finality in Payment and Securities Settlement Systems, and on the Principles for Supervision of those Systems took effect, in the part concerning supervision over payment systems to be exercised by the NBP. In executing the provisions of the Act, the NBP carried out an assessment of the payment systems run by the National Clearing House and PolCard SA, in terms of their operating efficiency and security as well as compliance with the provisions of Polish law. The ultimate objective of the assessment was to identify areas giving rise to a potential systemic risk, and in consequence, posing a threat to the stability of the financial system.

After the withdrawal from service of SYBIR in mid-2004, ELIXIR will be the only system settling the bulk of payments by bank customers in Poland. Therefore, the NBP resolved to recognise it as systemically crucial to the Polish payment system. The assignment of such status involves the meeting by the system of 10 principles developed by the Bank for International Settlements, the International Monetary Fund, the World Bank and experts from selected central banks.²⁶ The European Central Bank also recognised these principles as a basic element of supervision performed by national central banks over payment systems.

Given the above and on the basis of the analysis carried out by the NBP, the President of the Bank issued a recommendation for the National Clearing House to bring ELIXIR into line with the principles laid down in the BIS document mentioned above, in particular with reference to the introduction of so-called settlement guarantee. Due to the necessity of reviewing various possible options of implementing the NBP recommendation within the banking environment and the need to ensure time necessary to upgrade the system, the recommendation sets the deadline for its implementation at year end 2004.

The NBP approach to the issues relative to the assessment of payment systems relies on innovative principles currently recommended by the European Central Bank. The ECB delegation visiting the NBP on June 24–26, 2002 to assess the Polish payment system rated very highly NBP efforts in the area of payment system supervision, finding them worth recommending also to other candidate countries.

5.2. Adjusting payment system regulations to conform to European Union standards

In 2002, the NBP was involved in work on the following legal instruments:

- **The Bankruptcy and Rehabilitation Act**, adopted by the Sejm on February 28, 2003. This Act governs, on a comprehensive basis, all types of bankruptcy proceedings. This is the reason why selected provisions of Chapter 2 of the Act on Settlement Finality in Payment and Securities Settlement Systems, and on the Principles for Supervision of those Systems, regulating the issues of bankruptcy of the entities participating in payment and securities settlement systems were incorporated in its text. The Act is scheduled to take effect on October 1, 2003.

²⁶ These principles were published in the Core principles for the systemically important payment systems report in January 2001. They constitute the basis for the assessment of payment systems by the IMF under the *Financial Sector Assessment Program* (FSAP).

- **Implementing regulations to the Act on Settlement Finality in Payment and Securities Settlement Systems, and on the Principles for Supervision of those Systems:**

- Ordinance of the Minister of Finance defining systems carrying systemic risk;
- Ordinance of the Council of Ministers laying down procedures for notifying the National Bank of Poland, the Securities and Exchange Commission and the entities operating a payment or securities settlement system.

The draft versions of the above legal instruments were developed by the National Bank of Poland and submitted to the Ministry of Finance for further legislative work. Their promulgation is necessitated by the coming into force of the provisions of the Bankruptcy and Rehabilitation Act, as scheduled on October 1, 2003.

- **The Bill on electronic payment instruments**, adopted by the Sejm on September 12, 2002.²⁷

It transposes two EU regulations into the Polish legislation, namely, Commission Recommendation 97/489/EC of July 30, 1997, concerning transactions by electronic payment instruments and in particular the relationship between issuer and holder, and Directive 2000/46/EC of September 18, 2000, on electronic money institutions. Among other things, the Bill lays down:

- principles for issuing and using electronic payment instruments, including electronic money,
- principles for the operation of electronic money institutions and their supervision,
- disclosure requirements to be observed by issuers of payment cards, banks and electronic money institutions issuing electronic money instruments and settlement agents with respect to the NBP.

Most provisions of the Bill will take effect 12 months after the promulgation date, i.e. on October 12, 2003, giving the entities operating in the payment card market the time necessary to adjust to a completely new legal environment.

- **Regulation of the President of the National Bank of Poland on methods of numbering bank accounts operated at banks.** The opinion of the banking community was taken into consideration in the course of drafting the regulation.²⁸ The regulation constitutes the performance of the statutory authorisation contained in Article 68 Point 4 of the Banking Act. Given the slow and unsatisfactory rate of introducing the new BAN (Bank Account Number) standard by the banks, the issued regulation provides a legal basis for the above standard, to date implemented exclusively under the agreement of the entire banking sector. The regulation is meant to adjust the system of numbering bank accounts operated in Poland to the standard adopted in the European Union Member States. It obliges Polish banks to implement BAN and IBAN standards by specific dates, while allowing, during the so-called transition period, for the use of both old and new methods of bank account numbering.

The regulation is meant to adjust the system of numbering bank accounts operated in Poland to the standard adopted in the European Union Member States. It obliges Polish banks to implement BAN and IBAN standards by specific dates, while allowing, during the so-called transition period, for the use of both old and new methods of bank account numbering.

- Following amendments to the Personal Income Tax Act, on November 6, 2002, Regulation no. 6/2000 of the President of the NBP on methods of interbank settlements was revised to exclude the payments due to tax authorities from the category of large-value transfer orders to be forwarded directly for settlement under SORBNET.

- In connection with the coming into force on August 16, 2002, of the Act on Electronic Signatures of September 18, 2001, a draft Ordinance of the Council of Ministers was drafted by the National Bank of Poland, on the principles for developing, saving, storing and securing, including by means of electronic signatures, bank documents drawn up on electronic carriers of information. The Ordinance was adopted by the Council of Ministers on February 25, 2003.

²⁷ *Dziennik Ustaw* no. 169, item 1385.

²⁸ *Dziennik Urzędowy NBP* no. 8, item 26.

5.3. Operations of the SORBNET system

In 2002, the NBP continued work to make the existing SORBNET system more efficient and functional.

At the request of, and in conjunction with, the banks of the Working Group for introducing interbank settlement optimisation mechanisms, the following elements were incorporated within SORBNET in the second quarter of 2002:

- different control principles applying to a separate group of transfers to the accounts of foreign correspondent banks (the so-called LORO accounts),
- solutions enabling banks to block funds earmarked for a session at the National Clearing House,
- solutions enabling banks to make payments for the benefit of the customers of the banks holding an account at the NBP branches.

In the second half of 2002, a new platform was under construction, ensuring communication between SORBNET and users, brought into operation under the SWAT project. The purpose of the project to be implemented at the banks and the National Securities Depository (KDPW SA) in 2003, was to ensure higher efficiency and security of the data transferred via SORBNET. Also in the second half of the year, work was initiated on the introduction of the BAN standard for accounts held within SORBNET. The completion of this task, conditional for the implementation of the SWAT project, is projected in 2003.

On October 24, 2002, the ECB Governing Council took long-awaited decisions regarding the direction of the development of the TARGET system and the possibility of central banks of the candidate countries joining the system. These decisions enabled the intensification of work conducted at the NBP on a development strategy for the Polish RTGS system and the selection of a method of participation in the TARGET system, such participation being obligatory on Poland joining the Economic and Monetary Union.

5.4. Operating the current accounts of the banks at NBP Head Office

5.4.1. Number of current accounts of the banks operated by the NBP

At year end 2002, NBP Head Office was operating current accounts (under the SORBNET system) for 58 banks,²⁹ i.e. for 4 fewer than a year earlier.

In 2002, the following nine current accounts were closed:

- Powszechny Bank Kredytowy SA in Warsaw – closed on January 2 due to the merger of this bank with Bank Przemysłowo-Handlowy SA,
- Bank Unii Gospodarczej SA, Lubelski Bank Regionalny SA and Małopolski Bank Regionalny SA – closed on April 2 due to the merger of these banks with Gospodarczy Bank Południowo-Zachodni SA, renamed Bank Polskiej Spółdzielczości S.A. on the same day,
- Gliwicki Bank Handlowy SA – closed on April 24 due to the liquidation of the banking enterprise,
- Bank Rozwoju Budownictwa Mieszkaniowego SA – closed on May 31 due to the termination of the bank account agreement and planned sale of the banking enterprise to Bank Gospodarstwa Krajowego,

²⁹ One bank carries out its settlements via another bank holding a current account at the NBP Head Office.

- Bank Własności Pracowniczej - Unibank SA – closed on September 27 due to the merger of this bank with Nordea Bank Polska SA,
- Bank Cukrownictwa "CUKROBANK" SA – closed on October 1 due to a merger of this bank with Bank Inicjatyw Społeczno-Ekonomicznych SA,
- Bank Rozwoju Cukrownictwa SA in Poznan – closed on November 15 due to the termination of the bank account agreement and scaling down of the bank's operating activity.

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

- for Bank Powierniczo-Gwarancyjny SA – on January 4, renamed Dresdner Bank Polska SA on February 8,
- for Mazowiecki Bank Regionalny SA – on February 18,
- for Bank Svenska Handelsbanken (Poland) SA – on June 10,
- for MHB Bank Polska SA – on October 1,
- for Bank of Tokyo-Mitsubishi (Poland) SA – on October 28.

At year end 2002, two banks (MHB Bank Polska SA – as of the day of the opening of the account – and Bank Współpracy Europejskiej SA – as of October 11) held current accounts at the NBP, yet were not participants in the National Clearing House (KIR SA).

5.4.2. Types and number of operations performed on current accounts held by banks at NBP

In 2002, some 479,000 operations were performed on the current accounts of banks at the NBP Head Office (against 538,000 in 2001), to a total value of 13.3bn zloty (compared to 11.6bn zloty in 2001). The average value of an operation came to 27.8m zloty (against 21.6m zloty in 2001). An increase in the average value of an operation stemmed primarily from the rescission by the NBP as of January 2002 of one of the conditions governing eligibility for SORBNET. This condition required the banks to place and carry out a monthly average of 200 payment orders in the system. In 2001 this requirement made the banks split individual payment orders into lower-value ones in an attempt to meet the above quota.

A breakdown of the total turnover on the current accounts of the banks at the NBP Head Office is given in Table 14, while the structure of the total number of transfer orders, by principal types of transaction conducted on bank current accounts at the NBP Head Office is presented in Table 15.

In addition to transactions on the interbank money market, which remain predominant in relation to other transactions, in terms of both turnover (47.6%) and number, the significance of customer transfer orders should also be noted. Turnover on these rose insignificantly in 2002, whereas their share in total turnover represented 35.2%, despite a 3% fall compared to the year before. The types of transactions mentioned above account for over 80% of the value of turnover on current accounts of the banks at the NBP.

5.5. Developing standards and norms

In 2002, the National Bank actively participated in developing banking system standards and norms in view of 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 Committee for Standardisation 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), IPI (International Payment Instruction) and the Payment order/cash deposit form.

A number of norms were developed with the participation of the NBP in the Standardisation Policy Commission on Banking and Financial Services, concerning in particular the security of

Table 14

Total turnover on bank current accounts at NBP Head Office, 2002

Type of current account transaction	Turnover, million zloty			Structure of turnover (%)	
	balance	of which:		debits	credits
		debits	credits		
Movement in balance of funds on bank current accounts of which:	-1,089.9	13,286,484.0	13,285,394.2	100.0	100.0
1) interbank transactions:	0.0	6,317,859.7	6,317,859.7	47.6	47.6
- zloty money market	0.0	4,222,911.7	4,222,911.7	31.8	31.8
- FX market	0.0	1,344,235.2	1,344,235.2	10.1	10.1
- securities	0.0	750,712.8	750,712.8	5.7	5.7
of which secondary market trading in:					
T-bills	0.0	647,058.8	647,058.8	4.9	4.9
NBP money market bills	0.0	76,534.8	76,534.8	0.6	0.6
2) customer transfer orders:	1,233.3	4,671,297.1	4,672,530.4	35.2	35.2
- interbank	0.0	4,540,754.9	4,540,754.9	34.2	34.2
- involving the National Securities Depository (KDPW SA)	-452.5	13,600.7	13,148.3	0.1	0.1
- involving other NBP customers	1,685.7	116,941.5	118,627.2	0.9	0.9
3) exchange of transfer orders via KIR SA:	18,940.6	962,169.6	981,110.2	7.2	7.4
- morning session	-49,820.3	239,188.9	189,368.6	1.8	1.4
- afternoon session	51,470.4	630,037.8	681,508.2	4.7	5.1
- evening session	17,290.5	92,942.9	110,233.4	0.7	0.8
4) drawings or repayments of NBP loans to banks	-149.1	701,692.5	701,543.4	5.3	5.3
5) transactions and operations cleared via KDPW SA	479.7	229,915.2	230,394.9	1.7	1.7
6) purchase (buyback) of:					
- securities from NBP:	4,784.6	137,175.4	141,960.1	1.0	1.1
- NBP money market bills	7,989.9	133,970.1	141,960.1	1.0	1.1
- other	-3,205.3	3,205.3	0.0	0.0	0.0
7) purchase or sale of cash at NBP:	-2,435.5	123,162.7	120,727.2	0.9	0.9
- domestic currency	-2,411.4	123,096.7	120,685.3	0.9	0.9
- foreign currency	-24.1	65.9	41.8	0.0	0.0
8) purchase or redemption of Treasury securities:	-21,353.1	90,176.7	68,823.6	0.7	0.5
- T-bills	-3,738.8	42,189.4	38,450.7	0.3	0.3
- other	-17,614.3	47,987.3	30,372.9	0.4	0.2
9) placings and returns of time deposits at NBP	3,992.1	29,281.2	33,273.3	0.2	0.3
10) transactions on reserve accounts	-31.7	6,446.1	6,414.5	0.0	0.0
11) open market operations:	-5,417.8	5,417.8	0.0	0.0	0.0
- repos	0.0	0.0	0.0	0.0	0.0
- reverse repos	0.0	0.0	0.0	0.0	0.0
- outright sales	-5,417.8	5,417.8	0.0	0.0	0.0
12) purchase or sale of foreign currencies at NBP	-2,576.0	2,607.0	31.0	0.0	0.0
13) interest paid or received by banks	74.1	274.8	348.9	0.0	0.0
14) other transactions	1,368.8	9,008.2	10,377.0	0.1	0.1

Source: NBP.

Table 15

Total number of transfer orders, by principal types of transactions conducted on bank current accounts at NBP Head Office, 2002

Item	No. of transfer orders executed on current accounts			Structure of transactions (%)	
	total	of which:		debits	credits
		debits	credits		
Total number of transfer orders executed on bank current accounts, of which:	478,973	362,290	397,028	100.0	100.0
1) interbank transactions:	223,340	223,340	223,340	61.6	56.3
- zloty money market	121,925	121,925	121,925	33.7	30.7
- FX market	68,466	68,466	68,466	18.9	17.2
- securities	32,949	32,949	32,949	9.1	8.3
of which secondary market trading in:					
T-bills	30,049	30,049	30,049	8.3	7.6
NBP money market bills	746	746	695	0.2	0.2
2) customer transfer orders:	60,060	58,366	58,531	16.1	14.7
- interbank	56,837	56,837	56,837	15.7	14.3
- involving KDPW SA	541	287	254	0.1	0.1
- involving other NBP customers	2,682	1,242	1,440	0.3	0.4
3) exchange of transfer orders via KIR SA:	43,110	19,189	23,921	5.3	6.0
- morning session	14,398	6,421	7,977	1.8	2.0
- afternoon session	14,431	6,484	7,947	1.8	
- evening session	14,281	6,284	7,997	1.7	2.0
4) drawings or repayments of NBP loans to banks	7,009	3,523	3,486	1.0	0.9
5) transactions and operations cleared via KDPW SA	22,330	10,587	11,743	2.9	3.0
6) purchase (buyback) of securities from NBP:	891	305	586	0.1	0.1
- NBP money market bills	885	299	586	0.1	0.1
- other	6	6	0	0.0	0.0
7) purchase or sale of cash at NBP:	111,033	40,309	70,724	11.1	17.8
- domestic currency	110,511	40,054	70,457	11.1	17.7
- foreign currency	522	255	267	0.1	0.1
8) purchase or redemption of Treasury securities:	4,755	2,613	2,142	0.7	0.5
- T-bills	2,035	898	1,137	0.2	0.3
- other	2,720	1,715	1,005	0.5	0.3
9) placings and returns of time deposits at NBP	1,406	712	694	0.2	0.2
10) transactions on reserve accounts	827	452	375	0.1	0.1
11) open market operations:	68	68	0	0.0	0.0
- repos	0	0	0	0.0	0.0
- reverse repos	0	0	0	0.0	0.0
- outright sales	68	68	0	0.0	0.0
12) purchase or sale of foreign currencies at NBP	45	28	17	0.0	0.0
13) interest paid or received by banks	2,785	2,000	785	0.6	0.2
14) other transactions	1,314	798	684	0.2	0.2

Source: NBP.

payment cards, management of keys in electronic banking, and securities and banking terminology. A selection was made of the norms of the Technical Committee relative to the following legal instruments: the Act on Electronic Signature and Electronic Payment Instruments. These norms will be included in the Commission's workplan and given top priority.

The application in banking practise of Polish standards in conformity with the EU and international standards will become necessary once Poland joins the European Union. This harmonisation is directly linked to the conformity of Polish law with the EU directives.

5.6. Activity of the Payment System Council

The Payment System Council was established in 1998 as a consultative and advisory body reporting to the NBP Management Board. In addition to the NBP representatives, 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 commercial banks.

In 2002, five meetings of the Council were held. The issues examined by the Council included:

- the adjustment of the Polish payment system to conform to the requirements and conditions applicable to payments systems of the EU Member States, including:
 - assessment of the Polish payment system from the standpoint of the principles contained in the *Core Principles for Systemically Important Payment Systems* – report of the Bank for International Settlements,
 - assessment of Poland's securities settlement systems in the light of principles contained in the *Recommendations for Securities Settlement Systems* – report of the Bank for International Settlements,
 - role of the National Bank of Poland in supervising payment systems,
 - SORBNET development strategy;
- legal regulations concerning the operations of the payment system, including:
 - a Bill on Electronic Payment Instruments,
 - a draft regulation of the President of the NBP on the numbering of bank accounts held at banks,
 - discussion of the coming into force of the Act on Settlement Finality in Payment and Securities Settlement Systems, and on the Principles for Supervision of these systems, together with implementing regulations;
- systemic issues related to the optimisation of the payment system, including:
 - the use of the Internet in interbank settlements,
 - a review of new products and telecommunications and IT systems used for non-cash settlements, and risk of the offences committed by their means,
 - measures taken to replace hard copy in interbank transactions with electronic operations,
 - preparations for the launch of electronic signatures.

Additionally, the Council carried out two 6-month reviews of the operation of the Polish payment system.

The work of the Payment System Council which constitutes a forum for an exchange of information, views and opinions on the matters of material importance to the operation of the Polish payment system, are key to the coordination of the activity of the National Bank of Poland, the Polish Banking Association and other participants of the Polish payment system. Thus, the Council is able to exert an indirect influence on the functioning and behaviour of such institutions as the National Clearing House (KIR SA), the National Securities Depository (KDPW SA), and the banks, and also on the choice of solutions preferred by the banking community as regards the operation of the payment systems and securities settlement systems. This was reflected in the

opinion worked out by the banking community on the development strategy for the Polish on-line gross settlement system (SORBNET).

5.7. 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,³⁰ in 2002 the Bank continued its cooperation with the Polish Banking Association and the banks in relation to the following additional initiatives:

- A Bill on Electronic Payment Instruments was drawn up, with significant input from the NBP;
- The 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 resolution of the Association's General Meeting on further enhancement of the operational efficiency of the Polish payment system;
- The collaboration carried out with the banking community also included addressing issues of electronic payments and settlements, the launch of the BAN and IBAN standards, standard payment order forms, the security of non-cash trading.

NBP experts were involved in many of the areas mentioned above through their participation in discussions on the development of optimal 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 2002

- Beginning January 1, 2002, the NBP has been in charge of payment systems supervision. The method for performing this task was assessed by the ECB representatives as worth recommending to the other candidate states.
- Among measures taken to enhance the functionality of the SORBNET system, solutions were implemented enabling the banks to block funds earmarked for a session at the National Clearing House and to make payments for the benefit of customers of the banks holding an account at the NBP branches.
- Work was continued on a new telecommunications platform ensuring higher security and efficiency of SORBNET.
- Work was begun on the launch of the BAN standard for accounts operated under SORBNET.
- Adjustment was continued of regulations governing the Polish payment system to bring them into line with the requirements of the European Union.
- Collaboration was conducted with the banks (via the Payment System Council and the Polish Banking Association) on issues related to electronic payments and settlements, the security of non-cash trading, legal regulations and the implementation of norms and standards.
- Current accounts were operated for 58 banks.

³⁰ These conditions were laid down in Article 3 para. 2 subpara. 6 of the Act on the National Bank of Poland.

FOREIGN EXCHANGE OPERATIONS

6.1. Management of the official reserves

6.1.1. Principles for managing the official reserves

In managing the official reserves the National Bank of Poland targeted:

- achieving the highest possible safety of investment,
- ensuring the requisite level of liquidity,
- maximising returns that depend on the acceptable level of investment risk and may be achieved with adequate levels of safety and liquidity of reserves.

The above principles bear strongly on the fundamental function of the state's official reserves, namely, ensuring the country's macroeconomic stability, financial credibility and convertibility of the national currency. Liquidity rests upon the requisite availability of foreign currencies, inter alia, with a view to securing the needs of the central government entities holding accounts at the NBP.

Management of official reserves involves making decisions at various levels of the NBP organisational structure. The most important of these decisions, taken by the NBP Management Board, determine the currency composition of the reserves, financial instruments employed, investment exposure limits and *modified duration*³¹ (*duration*), as well as the investment structure of a benchmark portfolio and the principles for calculating returns on the reserves. The NBP Management Board also establishes the credit risk policy. These decisions constitute a point of reference in assessing the management of the official reserves.

The investment criteria limit the range of admissible investment instruments to securities issued by governments, non-governmental bodies (international institutions and agencies), interbank deposits and reverse repo transactions.

6.1.1.1. Handling risk in the process of managing the official reserves

The system of investment exposure limits has been launched to ensure the highest possible safety of the reserves. The investment exposure limits prove specially relevant for the interbank deposits with temporary exposure risk. Essential for them are strict criteria for adopted ratings and financial data, and the calculation method dependent on the duration of the deposit. Investment exposure limits are also applied in relation to securities issued by non-governmental bodies such as international agencies and institutions.

Given the stabilisation of financial markets, credit risk and maximum investment horizon parameters for interbank deposits, previously made stricter in response to the developments on September 11, 2001, were rescinded in mid-March 2002.

Other key procedures in managing the reserves include:

- monitoring market risk parameters (for exchange rate risk and interest rate risk),
- monitoring the system of investment exposure limits in relation to the parties to interbank deposits,
- analysing adopted limits on security issues,
- maintaining an appropriate level of liquidity,
- complying with the parameters of investment structure,
- monitoring operating risk.

³¹ The parameter defining sensitivity of any investment project to movements in interest rates.

6.1.2. Investment environment

6.1.2.1. Situation on financial markets

6.1.2.1.1. Economic background

The rapid recovery of the global economy expected in early 2002 failed to generate the forecasted effect. The developments on the financial markets were determined by ambiguous and predominantly unfavourable macroeconomic reports on major economies of the world, a series of revisions of economic growth projections and tumbling down equity markets. Investors' uncertainty also stemmed from the growing risk of an armed conflict with Iraq. Prospects for a global economic revival faded away and raised the investor's hopes for next interest rate cuts, while at the beginning of the year forecasts had assumed a completion of this cycle and transition to a more restrictive monetary policy.

In 2002, the dollar depreciated significantly (the euro to dollar exchange rate climbed 18%, while that of sterling to dollar increased by 11% only³²). The imminent risk of an armed confrontation in Iraq triggered higher interest in assets considered most safe, such as gold and government securities.

6.1.2.1.2. Characteristics of market investment parameters

The monetary policy pursued by leading central banks kept returns on money market instruments low in 2002. A pronounced slide in short-term interest rates in the second half of the year affected the currencies whose official interest rates were reduced. Three-month US dollar LIBOR dropped 50 bps to 1.38%. The corresponding rates slipped 44 bps for the euro, to 2.86%, and 8 bps for sterling, to 4.02%.

In 2002, prices of government debt instruments followed a long-term growth trend initiated in 2000. A price fall in the first quarter was an adjustment in character and stemmed from the then improved macroeconomic situation. A steep growth in the prices of government securities was recorded in the third quarter.

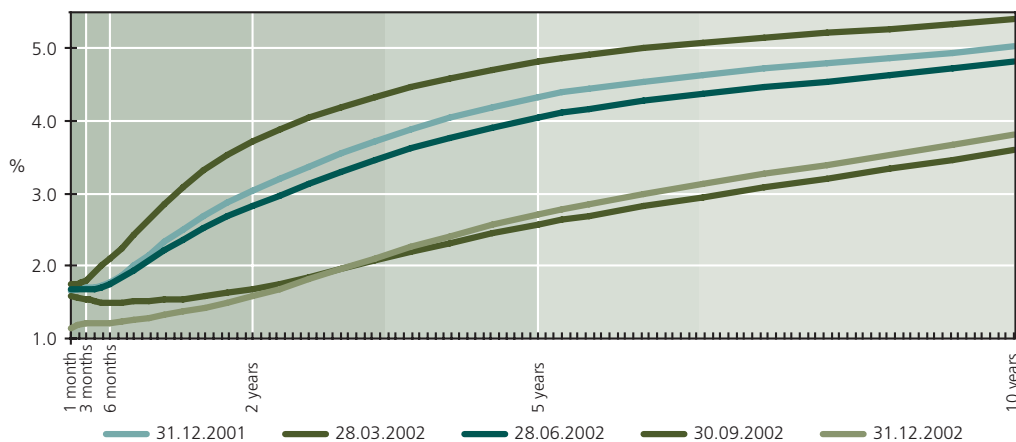
In US government securities, the returns on 2 and 5-year issues deflated most during the year (as prices climbed) by 146 and 161 bps, respectively (cf. Fig. 8). The capital flows from the equity market had a major impact on the price growth of the US treasury securities. It was triggered by both the irregularities due to "creative accounting" of the companies listed on NYSE, and the growing concerns in the context of an imminent war with Iraq. On the other hand, lower tax receipts, and higher military spending along with the large supply of treasury securities curbed the increase in price of the government instruments.

As was the case with the US instruments mentioned above, among euro-denominated government securities the most spectacular fall in returns was recorded in 2 and 5-year issues, by 99 and 119 bps, respectively (cf. Fig. 9). This effect was driven by the factors typical of all the market for government securities (tumbling main share indices, investment safety) and growing expectations of official interest rate cuts in the EMU countries in the second half of the year.

Following the global trend, UK government securities also appreciated. The most pronounced decrease in returns was that of 2 and 5 — year issues, by 101 and 94 bps, respectively (cf. Fig. 10).

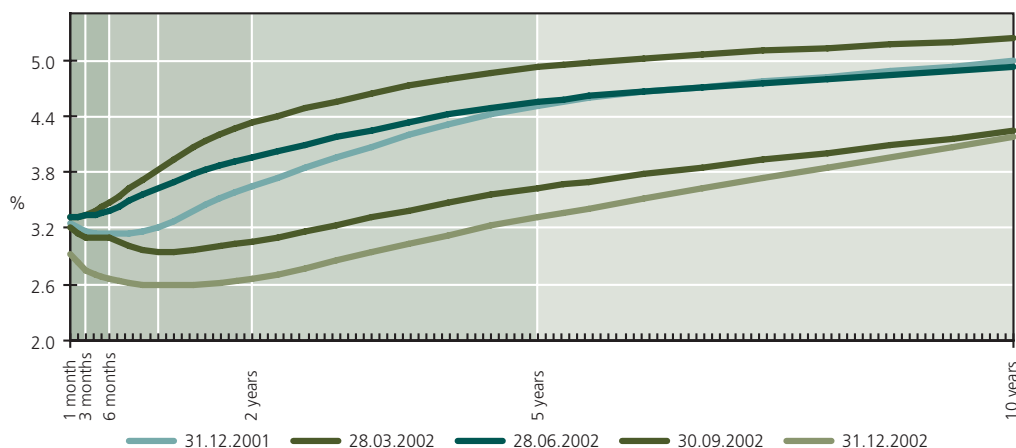
³² Source: Reuters.

Figure 8
US government yield curves



Source: Reuters.

Figure 9
Euro-denominated government yield curves



Source: Reuters.

Figure 10
UK government yield curves



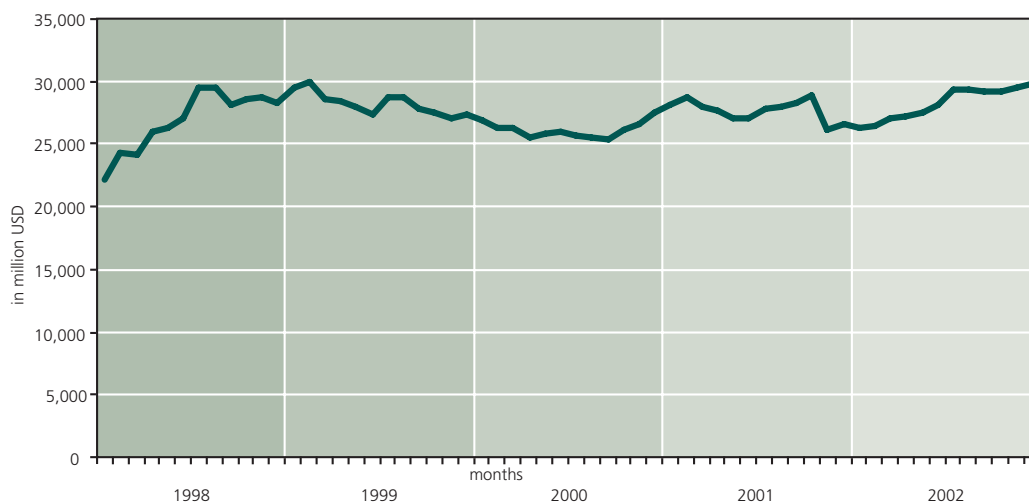
Source: Reuters.

6.1.3. Level of official reserve assets

Poland's official reserve assets,³³ in dollar terms, grew US\$ 3.2bn in 2002, to stand at US\$ 29.8bn (cf. Fig. 11). The main reason for this increase was the decline in the value of US dollar against the remaining reserve currencies. This was especially pronounced in the second and fourth quarters of the year.

Figure 11

Official reserve assets (monthly figures)



Source: NBP.

6.1.4. Currency composition of the official reserves

The currency composition of the reserves approved by the NBP Management Board in November 2001 comprised three reserve currencies, namely, the dollar, the euro and the 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 and forecasted situation on the foreign exchange market.

6.1.5. Investment structure and horizon of the official reserves

The investment structure of the part of the foreign exchange reserves in force in 2002 provides for a division into short- and long-term portfolios. The former consists of money market instruments with horizons no broader than one year (interbank placements, reverse repos and securities). This portfolio includes the NBP liquidity reserve which ensures funding for any unforeseen financial obligation. The latter portfolio is made up of securities with maximum maturities of ten years (cf. Fig. 12).

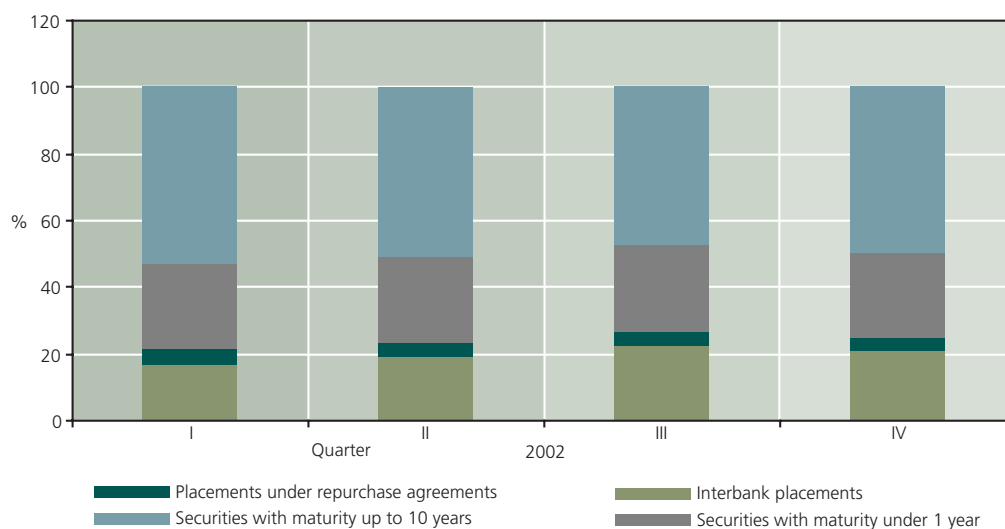
The investment strategy of 2002 assumed the *duration* of total foreign currency reserves above the level set for the benchmark portfolio. This aim was achieved primarily through keeping the *duration* of the long-dated portfolio above the model value and tying it to the projected shape of securities yield curves. The objective was adopted that, in the long run, with growing prices of long-dated instruments, yield curves for debt instruments would flatten. For money market instruments, movements in the *duration* in relation to the model level were relatively common, due to changing market conditions. Both the target *duration* of total foreign exchange reserves and the returns obtained substantially determined the investment structure of the reserves.

³³ The official reserve assets comprise such financial instruments as convertible currency assets (securities, foreign currency held at the NBP vaults, and placements at banks abroad), Poland's reserve tranche at the International Monetary Fund, SDRs (the current account of the NBP at the IMF), monetary gold, and other reserve assets.

Similarly to 2001, exposure to long-term instruments was maintained at a higher level than in the benchmark portfolio at the expense of short-dated paper, because in the context of the growing price, such an investment offers a high rate of return. Change in market developments in the fourth quarter (confusion in the US and EMU economies, basic interest rate cuts and growing fears of an armed conflict), as well as a significant revision of the parameters of the benchmark portfolio for 2003 in the context of anticipated further increases in prices of securities gave rise to the adjustment measures both in terms of investment structure and the *duration* of reserves. Transactions were performed decreasing the exposure to interbank placements and the long-dated portfolio was expanded, along with the extension of its *duration*. Both these factors led to a significant extension of the *duration* of total foreign exchange reserves.

Figure 12

Structure of official reserves by investment instrument employed, 2002 (quarter end)



Source: NBP.

6.1.6. Investment income

The income earned on investment activity in 2002 totalled 4.6bn zloty (or US\$ 1.1bn). The investment policy implemented during the year produced a return on the currency reserves³⁴ of 5.5% (compared to 5.7% in 2001). The highest yields were earned on long-term securities, while the lowest were obtained on reverse repos.

MOST IMPORTANT NBP ACTIVITY IN 2002

- The investment strategy provided that the *duration* of foreign exchange reserves would be higher than the level set for the benchmark portfolio.
- The income earned on investment activity came to 4.6bn zloty.
- The return on the reserves stood at 5.5%.

³⁴ Return rate calculated on the basis of daily rates of market investment instruments, weighted with their actual shares in foreign exchange reserves.

6.2. Exchange controls

6.2.1. Modifications to exchange regulations

In 2002, NBP representatives took an active part in work on the development of the following legal instruments:

- A new Foreign Exchange Bill.³⁵ The Bill has liberalized capital flows and payments in foreign exchange transactions. Thus, it brings the Polish foreign exchange legislation in line with the legal standards of the European Union. The Bill also provides for no limitations on capital flow and payments between Poland and the EU member states. Foreign exchange operations with the countries making up the European Economic Area (EEA) and of the Organisation for Economic Cooperation and Development (OECD) will be fully free in this respect. The Bill also:
 - lays down the principles for granting and revoking by the President of the National Bank of Poland of foreign exchange permits and permits to operate bureaux de change, and for performing inspections of the compliance with such permits by the NBP,
 - commits Polish residents involved in foreign exchange operations to observe the international reporting requirements with respect to the National Bank of Poland for the purpose of compiling the balance of payments and the balance of the state's foreign claims and liabilities; it also defines the principles for performing inspections of the compliance with such obligations by the National Bank of Poland
 - recognises intermediation in money transfers abroad by residents and domestic settlements with non-residents as a banking activity, whenever such services are provided by the banks. The Bill took effect on October 1, 2002.
- A draft regulation of the Minister of Finance on general foreign exchange permits specifying the scope of general foreign exchange permits for a departure from limitations and obligations provided for in the new Foreign Exchange Bill.³⁶ The regulation took effect on October 1, 2002.
- Draft regulations of the Minister of Finance:
 - on the manner of performing inspections defined in the provisions of the Foreign Exchange Act by the National Bank of Poland. The regulation took effect on October 1, 2002.
 - on technical and organisational conditions for operating bureaux de change, a detailed method of keeping records and issuing cash receipts certifying the purchase and sale of foreign currencies and a sample application for a permit to operate bureaux de change,³⁷ The regulation took effect on October 1, 2002.
- An announcement by the NBP President on the proclamation of a list of convertible currencies, in force as of October 1, 2002.
- A draft regulation of the Council of Ministers on the method, scope and dates of the performance by residents involved in foreign exchange operations of reporting requirements in respect to the NBP for the purpose of compiling the balance of payments and the balance of the state's foreign claims and liabilities.³⁸ The regulation took effect on January 1, 2003.

In connection with the new Foreign Exchange Act, the regulation of the NBP President on authorisation to rule on individual foreign exchange permits and permits to operate bureaux de change was also amended.

³⁵ *Dziennik Ustaw* no. 141, item 1178.

³⁶ *Dziennik Ustaw* no. 154, item 1273.

³⁷ *Dziennik Ustaw* no. 154, item 1275.

³⁸ *Dziennik Ustaw* no. 218, item 1835

6.2.2. Foreign exchange rulings

In 2002, the Bank issued a total of 3,550 rulings:

- 3,053 rulings were issued from January 1 to September 30, 2002, of which 1,492 were positive, 15 negative, and 1,546 were of a different character, e.g. rulings on proceedings being discontinued, or on other decisions expiring or being amended;
- following the coming into force of the Foreign Exchange Act, during the period from October 1 to December 31, 2002, a total of 497 rulings were issued on individual foreign exchange permits, of which 110 were positive, 1 was negative, and 386 were of a different character, e.g. rulings on proceedings being discontinued, or on other decisions expiring or being amended. Additionally, 62 permits were issued for the operation of bureaux de change.

A significant difference in the number of rulings issued in 2001 (6,276) and in 2002 (3,550) is attributable to the fact that in 2001 amendments were made to foreign exchange permits for the operation of bureaux de change. These stemmed from the changeover in the EMU countries. Their introduction was necessitated by the replacement of the national currencies of the EMU countries with a single currency of the European Union – the euro. In 2002, the number of permits for residents to carry out domestic settlements in foreign currencies remained at the same level as that recorded a year earlier.

During 2002, the NBP President issued 34 rulings authorising banks to perform specific foreign exchange operations and 65 rulings concerning entities operating non-bank foreign currency desks.

6.2.3. Performance of exchange control inspections

In 2002, the National Bank of Poland carried out exchange control inspections pursuant to the provisions of the Foreign Exchange Act and the Act on Preventing in Financial Trade of Assets Derived from Illegal or Undisclosed Sources and on Preventing Terrorism Financing.³⁹

During the year, a total of 2,696 inspections were performed. Their combined number was similar to that recorded in 2001. A schedule of the inspections performed in the years 2001–2002 is given in Table 16.

Table 16

Foreign exchange inspections, 2001 & 2002

Scope of inspection	No. of inspections		Change (%) 3:2	Structure (%)	
	2001	2002		2001	2002
1	2	3	4	5	6
Inspections of banks licensed to conduct foreign exchange operations	198	153	77.2	7	6
Reviews of performance of balance of payments reporting requirements (including foreign exchange permits)	401 (64)*	447 (51)	111.4 (68)	16 (3)	17 (2)
Inspections of foreign exchange permits only	11	–	–	–	–
Inspections of bureaux de change	1,978	2,059	104	73	76
Inspections of non-bank foreign currency desks	104	37	35.5	4	1
Total	2,692	2,696	100.1	100	100

* A total of 75 inspections were performed in 2001 of foreign exchange permits (taking into account inspections performed exclusively in this regard and those combined with the compliance with reporting requirements).

Source: NBP.

³⁹ *Dziennik Ustaw* no. 116, item 1216.

6.2.4. Post-inspection activity

As a result of the inspections carried out by the NBP, irregularities were detected in 1,812 cases. In 2002, the share of inspections during which irregularities had been detected came to 67%, i.e. up by 22 percentage points on 2001. This increase stemmed from the stepping up of inspections conducted by the NBP of the compliance of bureaux de change with the obligations imposed by the Act on Preventing in Financial Trade of Assets Derived from Illegal or Undisclosed Sources and on Preventing Terrorism Financing.⁴⁰ Irregularities in this respect were disclosed in one out of two bureaux de change inspected.

Post-inspection recommendations were issued to the undertakings at which such irregularities had been identified. These recommendations required the directing bodies of the undertakings inspected to ensure compliance with the applicable regulations. In 230 cases, tax offices were also notified of circumstances indicating foreign exchange torts or offences. Moreover, the General Inspector of Financial Information (GIIF) was advised of the results of the inspections performed at bureaux de change within the scope defined in the Act on Preventing in Financial Trade of Assets Derived from Illegal or Undisclosed Sources and on Preventing Terrorism Financing.

6.3. Servicing the foreign borrowings of the NBP

In 2002, 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, and the credit facility extended by the French Government for the development of Franco-Polish companies. Within the scope of this administration, repayment was supervised of receivables due from the banks to whom the NBP made available funding under such credit facilities. This repayment was carried out as scheduled.

MOST IMPORTANT NBP ACTIVITY IN 2002

- The NBP adjusted its foreign exchange activity to the provisions of the new *Foreign exchange Act*.
- The Bank issued 3,550 foreign exchange rulings.
- The Bank performed a total of 2,696 foreign exchange inspections.

⁴⁰ *Dziennik Ustaw*, no. 116/2000, item 1216, as subsequently amended. The obligations involve the principles for registering transactions and persons performing such transactions, customer identification, and notification of registered transactions.

SERVICES TO CENTRAL GOVERNMENT

7.1. Operating the accounts of 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 bank accounts listed in Article 190 of the Public Finance Act of November 26, 1998,⁴¹ in conformity with the relevant account agreements and the legal provisions in force.

The National Bank of Poland attaches great importance to customer expectations and needs. Accordingly, it has launched modern standards of customer service, enhancing the quality of the services provided.

7.1.1. Organisational changes in operating zloty bank accounts for non-bank institutions

As scheduled, by the end of 2002 the *enbepe* electronic banking system was launched for some 1,020 accountholders at the NBP, including the State Budget Department and the Department of Local Government Financing at the Ministry of Finance. Thanks to the system, the quality of servicing accountholders did not deteriorate despite the restructuring of the NBP Sub-branch Offices network. Moreover, the accountholders were offered a modern instrument that enabled them to operate accounts from their registered offices and provided them with constant insight into account balance and turnover. The introduction of electronic banking for other NBP accountholders is scheduled for the end of 2003.

In 2002, the NBP began to implement the BAN (Bank Account Number) standard adopted for the entire banking system. As of January 1, 2002, account numbers in the BAN standard were introduced for all accounts held in the NBP Regional Branches. The holders of accounts in other organisational units of the NBP were notified of the replacement, effective as of January 1, 2003, of their account number under the BAN standard, with new account numbers being quoted at the same time.

7.1.2. New principles for providing alternative cash service

In connection with the restructuring of the NBP field network and with a view to standardising customer service procedures, new principles were developed in 2002 for providing alternative cash service. These were incorporated in new alternative cash service agreements concluded by the NBP Regional Offices with the banks' branches by the end of 2002. The most important changes contained in the agreements include:

- uniform principles of providing alternative cash service by the commercial and cooperative banks,
- a requirement for the banks' branches to verify coverage of cashed cheques and for the NBP offices to block cheque amounts on accounts of cheque bearers,
- performance of all settlements with the banks' branches and NBP offices involving alternative cash service under ELIXIR via the National Clearing House (KIR SA),
- settlement of liabilities of the NBP offices resulting from alternative cash service on the initiative of the NBP office,
- possibility to forward diskettes with transfer orders and giro cheques under alternative cash service, via courier post,
- establishment of a minimum commission of 1 zloty to be paid on a single operation.

The new procedures support alternative cash service provided to central government offices and government special-purpose funds.

⁴¹ *Dziennik Ustaw* no. 155, item 1014, as subsequently amended.

7.1.3. Types of central government accounts operated at the NBP

In 2002, the National Bank of Poland provided services to around 3,300 customers. To this end, the Bank operated some 8,600 accounts, these including, approximately:

- 430 accounts for offices of government special-purpose funds,
- 650 subsidiary accounts.

The number of serviced customers grew some 3% compared to 2001, due primarily to the coverage with banking service of the County Sanitary and Epidemiological Stations. On the other hand, the number of accounts for offices of government special-purpose funds decreased following the changes in the principles and scope of operation of field offices of the Guaranteed Employee Benefit Fund.⁴²

7.1.4. Principles for operating central government accounts

The operations carried out on central government accounts relate both to receipts and cash and non-cash expenditures, both under electronic banking and using traditional methods. 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.

The Act Amending the Public Finance Act of October 30, 2002,⁴³ extends currently applicable principles for operating central government accounts for "no longer than until December 31, 2004". As a result, no new principles for the operation of central government accounts, developed in co-operation with the Ministry of Finance, will be introduced in 2003.

7.1.5. Procedures for operating central government accounts

Central government accounts were operated according to procedures laid down in the Regulation of the Minister of Finance of December 29, 2000 on the detailed manner of performing the state budget and detailed procedures for operating the bank accounts of central government, and on the scope and time frame for the NBP's informing and reporting on the performance of the state budget in the framework of the banking services it provides to central government⁴⁴ and pursuant to "Rules for the National Bank of Poland opening and operating zloty bank accounts for non-bank institutions".

Payment instructions from central government institutions and government special-purpose funds were handled at 49 NBP field offices and at the Bank's Chief Branch of Foreign Exchange, with cash transactions being performed at 39 NBP Sub-branch Offices and at offices of other banks. In connection with the restructuring of NBP organisational network, as of November 1, 2002, the above activity was carried out by 39 NBP field offices.

In 2002, a roughly 18% growth was recorded in the number of holders of accounts operated under the alternative cash service.⁴⁵ There were some 1,540 institutions serviced in this manner.

⁴² Regulation of the Minister of Labour and Social Policy on the organisation, detailed principles and scope of operation of the national office and field offices of the Guaranteed Employee Benefit Fund (*Dziennik Ustaw* no. 24/2002, item 249), of March 12, 2002.

⁴³ *Dziennik Ustaw* no. 200, item 1685.

⁴⁴ *Dziennik Ustaw* no. 122, item 1335.

⁴⁵ Due primarily to the revised location of the Counties Sanitary and Epidemiological Stations within the public administration structure. As of January 1, 2002, these institutions became central government institutions.

Alternative cash services are provided to account holders where particular government institutions have offices outside towns where the NBP offices providing cash services are located. 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, due to a further reduction in the proportion of instructions involving cash withdrawals, the associated fees paid by the NBP to other banks were around 11% lower than in 2001, amounting to 12.5m zloty.

As was the case in previous years, 49 NBP field offices, and 39 as of November 1, 2002, transferred funds from from the central account of central government to local government accounts at the commercial banks. These transfers involved:

- proportional revenues attributable to 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.

Beginning August 2002, district shares in the revenues from personal income tax receipts were transferred to local government accounts at commercial and cooperative banks directly by the State Budget Department at the Ministry of Finance, using electronic banking.⁴⁶

The number of transactions dropped in 2002. One of the reasons for this decrease in the number of orders was some customers (the Social Insurance Agency and Farmers' Social Insurance Trusts) discontinuing submission to the NBP of individual transfer orders, pursuant to Resolution no. 49 of the Supervisory Board of the National Clearing House.

Detailed figures on the number, composition and growth of transactions settled by the Bank are given in Table 17.

Table 17

Payment instructions forwarded and received, 2001–2002

Period	Payment instructions handled				Growth	
	forwarded		received		2002 = 100	
	2001	2002	2001	2002	forwarded	received
1st quarter	9,448,903	8,376,920	35,409,698	26,574,012	88.65	75.05
2nd quarter	9,744,641	8,337,606	33,471,938	26,087,293	85.56	77.94
3rd quarter	7,989,870	7,434,131	31,053,626	24,187,752	93.04	77.89
4th quarter	7,253,908	6,182,336	28,631,751	22,664,253	85.23	79.16
Total	34,437,322	30,330,993	128,567,013	99,513,310	88.08	77.40

Source: NBP.

7.2. Administering the foreign borrowings of the Polish Government

In executing the agreements concluded with the Minister of Finance, the NBP supervised the repayment by banks of the loan finance extended to them under the World Bank facilities taken out by the Polish Government to fund the "Agricultural Development" and "Financial Institutions Development" programmes. The banks settled their liabilities to central government as scheduled.

⁴⁶ Other orders have been transferred using electronic banking, beginning January 1, 2003.

7.3. Handling the international claims and liabilities of central government

In its capacity as a financial agent to the Government of the Republic of Poland, pursuant to the agreements concluded with the Minister of Finance in the years 1995–2001, in 2002 the NBP continued to handle the international claims and liabilities of central government arising on loan agreements with international financial organisations concluded or guaranteed by the Polish Government, those stemming from Polish membership in such organisations, and credit facilities and loans extended by governments of other countries.

The services thus provided by the Bank involved 47 government loan agreements, 46 Government guarantee agreements and 6 agreements making available loan finance to domestic institutions.

In its capacity as depositary for the European Bank for Reconstruction and Development, the World Bank, and for the agencies of the latter (the International Development Association and the Multilateral Investment Guarantee Agency), the National Bank administered 31 debt notes in 2002 in connection with Poland's membership in these organisations.

7.4. Organising trading in Treasury securities

7.4.1. Treasury bill tenders

In 2002, the NBP in its capacity as issuing agent for Treasury securities organised 49 tenders for Treasury bills (compared to 50 in 2001). The supply of T-bills on offer totalled 45.8bn zloty, a decrease of 3.8bn zloty from the previous year. Nominal demand for these bills amounted to 145.8bn zloty.

The value of bids accepted came to 45.7bn zloty (as against 50.3bn zloty in 2001).

7.4.2. Work on the "Treasury Security Dealer" system

In 2002, the NBP played an active part in work conducted at the Ministry of Finance on the development of a new Treasury Security Dealer system (DSPW). The system was incorporated as one of key tasks under the *Strategy for managing the public sector debt*. The primary assumption behind this system is to isolate a group of banks (so-called primary dealers) which, in exchange for specific privileges, such as purchasing exclusivity in the primary market for Treasury securities, are obliged to ensure liquidity, efficiency and transparency of the market for Treasury securities. The NBP was involved in developing the selection criteria for the dealer banks and the principles and procedures for assessing the candidate banks. The NBP provided the Ministry of Finance with monthly activity assessments of the banks applying for the status of Treasury security dealers in the market for Treasury bills, in the primary market for Treasury securities and in the market for derivatives. At the same time, to impart more transparency to securities trading,⁴⁷ the NBP assumed the role of an organizer of Treasury security fixing on an electronic platform selected by the Ministry of Finance. In connection with the above, the NBP played a part in developing the Rules of the Electronic Treasury Security Market and the Rules of the Treasury Security Fixing. NBP representatives also participated in monthly meetings of the banks applying for the status of Treasury security dealers, held by the Ministry of Finance.

⁴⁷ This refers to the obligation of Treasury security dealers to provide on the organised electronic secondary market (CeTO) daily quotations of purchase and sale prices for Treasury bonds (of base issues, primarily), the obligation to carry out transactions based on the price accepted on CeTO, and inform the market of such quotations on-line.

7.5. Increasing the efficiency of public debt management

7.5.1. Exchange of zero-coupon conversion bonds for assimilation bonds

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 the corresponding 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. Until the redemption of these securities by the Ministry of Finance on October 10, 2002, the NBP had sold them in tenders under the *outright* operation for a total of 639m zloty, while the pool of funds earmarked for redemption amounted to 1,181.84m zloty.

7.5.2. 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 continued the performance of bond switching operations initiated in the fourth quarter of 2001. In 2002, the NBP held a total of 26 bond switching tenders (as against 5 in 2001) and one tender for bond buyback only.

In 2002, the Ministry of Finance bought back bonds to a face value of 9,701.55m zloty, providing in return bonds to a value of 9,823.02m zloty.

MOST IMPORTANT NBP ACTIVITY IN 2002

- In 2002, the NBP serviced 3,300 customers and operated 8,600 accounts.
- In 2002, the *enbepe* electronic banking system was launched for 1,020 holders of accounts at the NBP, which represents a significant improvement in the quality of customer service.
- New solutions were implemented supporting the provision of alternative cash service to customers.
- In January 2002, the Bank began the implementation of the Bank Account Number standard adopted by the entire banking system.
- The NBP participated in work carried out at the Ministry of Finance on the development of a "Treasury Security Dealer" system. The system was launched on April 26, 2002.
- The NBP has started organising Treasury security fixing.
- In 2002, the number of the NBP field offices operating central government accounts decreased.

LEGISLATIVE ACTIVITY

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

In 2002, the directing bodies of the National Bank of Poland and the Commission for Banking Supervision issued 114 legal instruments. A schedule of these instruments published in *Monitor Polski* and *Dziennik Urzędowy Narodowego Banku Polskiego* is given in Appendix 5 to the present Report.

8.2. Draft legislation developed at the NBP

8.2.1. Bill Amending the Act on the National Bank of Poland

The Bill Amending the Act on the National Bank of Poland was referred 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 Bill was re-submitted to the Sejm for consideration as a Government Bill.

The purpose of the Bill was to harmonise, in terms of the institutional, personal and financial independence of the NBP, the legal status of Poland's central bank with the legal norms applicable in the European Union, and in particular with the provisions of the Maastricht Treaty and the Statute of the European System of Central Banks and of the European Central Bank.

The provisions of the Bill included the following:

- establishing legal grounds for the NBP membership in international financial institutions and for associated financial settlements,
- introducing the principle that the NBP Management Board members are appointed for a specific term of office,
- rescinding the right of a government's representative to attend the meetings of the Monetary Policy Council,
- introducing the principle that provisions on the NBP financial management should conform to the standards applicable in the European System of Central Banks.

In 2002, NBP representatives were involved in legislative work carried out by the Sejm concerning three bills submitted by deputies on changes to the Act on the National Bank of Poland currently in force. The comments submitted by the NBP to the above draft legislation related to the unconstitutionality and inconsistency with the laws of the European Union of certain proposed provisions in particular those aiming to limit the independence of Poland's central bank.

8.2.2. Bill Amending the Banking Act

In 2002, the Bill Amending the Banking Act, the Civil Code and the Act on the Operations of Cooperative Banks, their Affiliation and Affiliating Banks was drafted at the NBP, and subsequently forwarded to further legislative work in 2003.⁴⁸

The provisions of the Bill included the following:

- establishing, by statute, legal grounds for new developments in the activity of the banking system, such as *outsourcing* and claim securitisation,
- implementing the provisions of Directive 2001/24/EC of the European Parliament and of the Council of April 4, 2001 on the reorganisation and winding up of credit institutions,
- incorporation of the requirements laid down by the Basle Committee on Banking Supervision in 25 *Core Principles for Effective Banking Supervision*.

⁴⁸ For more information cf. Chapter "Banking Supervision".

8.3. NBP participation in work on drafting government regulations

Pursuant to the Act on the National Bank of Poland, the NBP cooperated with the government agencies, issuing opinions on draft legal instruments on economic policy and the banking system. In 2002, the National Bank of Poland issued its opinion on the following draft legal instruments⁴⁹ referred to it by supreme and central government and administrative agencies:

- 516 drafts received prior to being examined by the Committee of the Council of Ministers (303 in 2001),
- 276 drafts received in the course of interdepartmental consultations (264 in 2001).⁵⁰

Among the draft legal instruments referred to the NBP, draft legislation developed by the Sejm (261), draft ordinances of the Council of Ministers (471) and draft resolutions of the Council of Ministers (50) were most common.

In 2002, NBP representatives participated in 3 meetings of the Council of Ministers, including 51 meetings of the Committee of the Council of Ministers, in over 110 meetings of Sejm committees and subcommittees and meetings of Senate committees reviewing draft legislation.

8.4. 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 2002, those pieces of legislation that are particularly noteworthy include the following:

8.4.1. Adopted draft legislation

- The Foreign Exchange Act of July 27, 2002⁵¹
- The Act on Electronic Payment Instruments of September 12, 2002⁵²
- The Act Amending the Act on Combating the Use in Financial Trading of Assets Derived from Illegal or Undisclosed Sources of September 27, 2002.⁵³ The amendments are designed to adjust the legal provisions to the changed substantive and legal conditions related to preventing and combating money-laundering in Poland and other countries. The revision comprises the following changes:
 - it extends the scope of the subject-matter of the Act to include the issues involved in the prevention of acts of terrorism, to implement the provisions of Resolution no. 1373 of the Security Council of the United Nations on combating international terrorism and the recommendations of the Financial Action Task Force on Money Laundering, operating under the auspices of OECD (FATF),
 - institution of account blocking, i.e. temporary prevention of disposal and utilisation of all assets collected at such accounts, should there be well-founded grounds for suspecting that the trading at such accounts is connected with the offence of money laundering, as defined in Article 299 of the Penal Code or execution of an act of terrorism,

⁴⁹ The NBP also issued its opinion on 259 drafts of other government legislation.

⁵⁰ The difference between the number of drafts on which the Bank issued an opinion prior to meetings of the Committee of the Council of Ministers and the number on which an opinion was provided in the course of interdepartmental consultations is attributable, among other things, to the fact that in 2002 not all of the drafts to be examined by the Committee of the Council of Ministers were referred to the NBP, while subject to interdepartmental consultations.

⁵¹ Published in *Dziennik Ustaw* no. 141, item 1178. Cf. Chapter "Foreign exchange operations".

⁵² Published in *Dziennik Ustaw* no. 169, item 1385. Cf. Chapter "The development of the payment system".

⁵³ Published in *Dziennik Ustaw* no. 180, item 1500.

– the National Bank of Poland and the Commission for Banking Supervision were recognised as institutions cooperating with the General Inspector for Financial Information in preventing the offence specified in Article 299 of the Penal Code or acts of terrorism.

- **The Act Amending the Personal Income Tax Act of September 12, 2002.**⁵⁴ The amendment includes the following provisions:
 - the banks are required to draw up and submit to tax offices monthly statements on open and closed bank accounts held by persons pursuing business activity,
 - the banks are required to carry out transfer orders involving claims to which provisions of the Act apply within 5 business days of the day of debiting the bank account,
 - a possibility is envisaged to carry out payment instructions for the benefit of tax authorities in electronic form using electronic software made available, for example, by the banks, with the settlement of payments due performed under an interbank system for electronic settlements or via the NBP inter-branch electronic settlement system.
- **The Act Amending the Act on Mortgage Bonds and Mortgage Banks, and amending other acts, of July 5, 2002.**⁵⁵ The primary purpose of the amendments is to offer the possibility of extending credit facilities by mortgage banks in the real estate market.
- **The Act on Bank Gospodarstwa Krajowego, and amending other acts, of March 14, 2003.** This Act is aimed at settling the legal status of Bank Gospodarstwa Krajowego (BGK) as a state bank carrying out the tasks on the commission of the Ministry of Finance. The Act includes provisions on BGK involvement in:
 - providing banking services to the public finance sector,
 - supporting government social and economic programmes,
 - assisting in the development of local government and regional development.

In the course of legislative work on the draft Act, the National Bank of Poland proposed, inter alia, for the Bank Gospodarstwa Krajowego to obtain a license to open and operate current accounts of government special-purpose funds on the day of Poland's membership in the Economic and Monetary Union, and not on the effective date of the Act.

8.4.2. Draft legislation under review

- **The Bill Amending the Act on the Operations of Cooperative Banks, their Affiliation and Affiliating Banks.**⁵⁶
- **The Bill Amending the Penal Code, the Code of Penal Procedure, the Executive Penal Code, the Act on State's Evidence and the Banking Act.** The purpose of the Bill is to alter penal law in general so as to provide more effective tools for combating corruption-related crime. Proposed amendments to the Banking Act are aimed at granting courts and prosecutors full access to information constituting banking secrecy on the institution of any penal or penal and fiscal proceedings, with no limitations in this regard. The National Bank of Poland pointed to the risk involved in granting such broad and unlimited powers, especially to prosecutors. At the same time, the Bank proposed legislative changes widening the access by courts and prosecutors to the banking secrecy, mainly with regard to corruption-related crime.
- **The draft Bankruptcy and Rehabilitation Act.** The Bill strives to establish rational conditions for satisfying, to the largest possible extent, creditors with the assets of insolvent debtors, at the same time providing for a possibility of preserving the enterprise's business both in the course of rehabilitation proceedings, under an arrangement concluded in bankruptcy, and after the conclusion of bankruptcy proceedings. The provisions of the Bill include:

⁵⁴ Published in *Dziennik Ustaw* no. 169, item 1327.

⁵⁵ Published in *Dziennik Ustaw* no. 126, item 1070.

⁵⁶ Cf. Chapter "Banking Supervision".

- the incorporation of some regulations contained to date in the Act on Settlement Finality in Payment and Securities Settlement Systems, and on the Principles for Supervision of those Systems⁵⁷ of September 24, 2001,
 - the introduction of provisions bringing the draft into compliance with Directive 2001/24/EC of the European Parliament and of the Council, on the reorganisation and winding up of credit institutions,
 - the incorporation of regulations on the so-called "netting in bankruptcy".
- **The Bill Amending the Consumer Credit Act.** The Bill extends consumer rights under concluded and executed agreements. The Bill:
 - excludes from the scope of the Act some types of credit facilities, e.g. revolving loans earmarked for the purchase of real estate and perpetual usufruct, construction, extension or repair of a residential housing building,
 - establishes explicit terms for the termination of loan agreements by lenders and a time frame for such termination.
 - **The draft Act on Postal Services.** The Bill introduces changes in the market for postal services, by laying down legal grounds for the postal activity and determining the principles for developing competition on this market. In the course of legislative work on the draft document, a provision was removed, in agreement with the NBP, that classified transfers of bank payment instructions between banks, via a clearing house, as non-postal services. At present, this activity is carried out by the National Clearing House (KIR SA). The reliance of the interbank exchange of payment instructions on postal services would upset the efficiently operating existing transfer system.

In the section of the Bill relative to the amendments to the Act of July 30, 1997 on the State Public Utility Enterprise "Polish Post Office",⁵⁸ a provision was incorporated, pursuant to which the Polish Post Office would be able to perform *outsourcing* services for the benefit of:

- all banks – in the form of services actually related to the operation of bank accounts, granting of cash credits and loans, and carrying out operations involving bills of exchange and cheques,
- Bank Pocztowy SA – provided it holds 50% of votes at the General Meeting, in the form of banking services specified in the Banking Act, based on the authorisation granted by the Bank, within the scope laid down in the permit issued by the Commission for Banking Supervision.

According to the NBP, the Bill should also contain provisions ensuring its compliance with the requirements of Directive 5/97/EC of the European Community, on cross-border credit transfers

MOST IMPORTANT NBP ACTIVITY IN 2002

- The NBP participated in drafting numerous pieces of legislation on the operations of the banking system, including those designed to harmonise the Polish law with the regulations in force in the European Union.

⁵⁷ Published in *Dziennik Ustaw* no. 123, item 1351.

⁵⁸ Published in *Dziennik Ustaw* no. 106/2000, item 675, no. 120/2000, item 1268.

STATISTICAL
AND ANALYTICAL ACTIVITY

9.1. Economic analyses and research

In 2002, the analytical and research work of the National Bank of Poland (NBP) focused on conducting ongoing analyses, carrying out macroeconomic research and developing economic and monetary forecasts. These served to project monetary and foreign exchange policy, and assisted the NBP Management Board and the Monetary Policy Council (MPC) in everyday decision-making.

For the purposes of the NBP Management Board and MPC, analytical and forecasting materials were prepared that were indispensable for the development of:

- *the Monetary policy guidelines for the year 2003,*
- *the Report on the Performance of Monetary Policy Guidelines in 2001,*
- *the Inflation Report, 2001, and the Inflation Reports for the first, second and third quarters of 2002,*
- *quarterly and annual balance of payments forecasts,*
- *an opinion on the draft Budget for 2003,*
- *monthly reports for meetings of the NBP Management Board and Monetary Policy Council Inflationary Processes in the Economy and Monetary Policy.*

9.1.1. Analytical and forecasting work and research

The following analytical and forecasting work was conducted in 2002:

- Developing strategies and analysis of monetary policy implementation.

In performing this task in November 2002, material was compiled for MPC on basic issues related to the monetary policy strategy, and the *Monetary policy strategy beyond 2003* was developed.

- Analysing the restrictive nature of the monetary policy.

The execution of the task involved the development and presentation during an internal seminar of new concepts of quantitative measurement of the restrictive nature of the monetary policy. Work was also done on the application of the concept of natural interest rate in Polish conditions.

- Analysing Poland's way to the euro area membership, with a review of the terms of Poland's participation in ERM II, including the development of pre-accession scenarios for the EMU.

The task involved the drawing up of a report on macroeconomic conditions for Poland's entry into the euro area, and on the prerequisites for Poland's safe participation in ERM II. Poland's preparations leading to the entry into the euro area are monitored with reference to meeting convergence criteria.

- Analysing exchange rate policy in the approach to the euro area.

The task consisted in preparing comparative analyses of the exchange rate policy in Denmark and Sweden, and of the foreign exchange chamber system taking Lithuanian economy as a model. An analysis was performed of the prospects of Poland's participation in ERM II.

- Compilation of the document *Immediate Policy Challenges Stemming from Poland's Future EMU Accession.*

The report discusses costs and benefits of Poland's accession to the euro area and the country's ability to meet the criteria of nominal convergence in medium term. It emphasizes a long-term positive balance of potential economic consequences stemming from Poland's membership of EMU. The conclusions confirm that joining the euro area at the earliest possible date is in the interest of Poland.

- Compilation of the document *Poland: National Bank of Poland, The Road to the Euro: The Case of the CEC5.*⁵⁹

⁵⁹ Poland, the Czech Republic, Hungary, Slovakia, and Slovenia.

The NBP developed its preliminary position on Poland's entry into the euro area under a Bank for International Settlements (BIS) project on the assessment of the positions of central banks of five accession countries (the CEC5 group) in connection with the monetary integration.

- Examining dependencies between the structure of the economy and macroeconomic balance and economic growth.

Systematic research focused on GDP analysis and forecast, potential gross domestic product and other aggregate macroeconomic categories, in particular output, investment and savings. The analyses of movements in the sectoral structure of the economy yielded, inter alia, a comparative report on work efficiency in the sections of the Polish industry against the background of the Organisation for Economic Cooperation and Development (OECD) countries in the years 1995–2000.

- Examining structural conditions for high unemployment rate in the economy. The non-accelerating inflation rate of unemployment (NAIRU) was estimated using various methodologies. The results of research will be published in the report *Unemployment and estimated NAIRU* in Poland.
- Analysing processes of generating and distributing income in the enterprise sector (including economic processes at the industry level).

The task involved analyses of trends in movements in income generation and distribution, taking place in selected sections of the economy, mainly in terms of their impact on economic growth and situation of public finance. Quarterly analyses were also made of corporate creditworthiness on the basis of the figures from the 10 largest Polish banks. Research covered collective analyses of movements in corporate creditworthiness, as well as analyses of the status and structure of indebtedness of entities considered not creditworthy.

- Constructing a model of general equilibrium, and estimating and calibrating its sub-blocks. A concept and an outline of the general balance model were formulated. The model's constituents, such as imports equation, capital formation equation and GDP equation were matched with the figures.
- Stochastic forecasting of Consumer Price Index (CPI) and its constituents.

Stochastic forecasts of CPI and its constituents are presented on a quarterly basis. Forecasts determine the range of possible scenarios and associated probabilities.

- Analysing the core inflation.

Five core inflation indices are calculated on a monthly basis. New measures of core inflation were also developed, eliminating the shortcomings of commonly applied core inflation measures.

- Developing inflation analyses and forecasts.

The inflationary processes in the Polish economy were analysed. The subject-matter were trends in inflation levels measured using Consumer Price Index, factors determining price movements in various groups of goods and services, as well as the impact of these factors on the overall price growth. At the same time, for the purposes of monetary policy, cyclical inflation forecasts were developed for future periods and for selected categories of consumer prices, based on available knowledge of future factors affecting price movements.

- Analysing household disposable incomes, consumption and savings.

The task encompassed analytical work on trends in various categories of household incomes, directions of their spending and savings accumulated by households. Preparations were also initiated for future research into the financial status differentiation within the household sector.

- Launching a system for examining consumer climate.

In 2002, a preliminary concept for a system examining consumer climate was developed by the National Bank of Poland. The system will rely on the results of research conducted by external institutions and the figures gathered at the NBP. The target system is to allow

formulating general assessments and forecasts of the situation of the household sector in the future. In 2002, co-operation was established with the Central Statistical Office (GUS) designed to incorporate the findings of research on consumer climate carried out by GUS into the NBP analyses and research.

- Analysing the global economic situation, including economic growth rate, prices of raw materials, interest rates and currency exchange rates.

During the year, the scope of analyses of the impact of external factors on the Polish economy significantly expanded, and was reflected in such studies as *the pass-through effect*, the impact of economic growth in the euro area on Polish exports, the impact of the disparity of Polish and external interest rates on the zloty exchange rate.

- Analyses and forecasts of the balance of payments.

Under this thematic block, new forecasting methods were developed (based on econometric models) for such items as exports, imports and portfolio investment. In order to improve the quality of analyses and forecasts, the information base was expanded to include detailed figures on Polish foreign trade and data on the external economic situation.

- Analyses of official reserve assets.

The year 2002 saw the research on safe levels of NBP currency reserves step up. The deliverables included a statement on the factors determining the desired level of official reserve assets in the period preceding Poland's accession to the euro area.

- Analyses and forecasts of currency exchange rate.

The levels of the real zloty exchange rate and competitiveness of Polish foreign trade were monitored. In 2002, research was initiated on the real exchange rate of long-term balance. Research methods and findings, in the form of a preliminary assessment of the scale of deviation of the current zloty rate from the balanced rate, were presented to the NBP senior management and International Monetary Fund (IMF) representatives.

- Analysis of the financial condition of the public finance sector, examination of relationships between monetary and fiscal policies.

In the course of analytical work and research concerning the public finance sector and ties between monetary and fiscal policies, the existing database as well as the scope of analyses and forecasts were expanded, to include the remaining elements of the public finance sector, i.e. agencies and funds. A model was developed enabling the calculation of the structural central government deficit and the economic deficit of the entire sector.

- The development of a new version of the Small Structural Inflation Model (SSIM), the Small Structural Monetary Transmission Model (SSMTM) and a new analytical scheme.
- Empirical research into the monetary transmission mechanism in Poland founded on the theoretical background of the new neoclassical synthesis and a new Keynesian economy.

The studies were presented both at home and abroad (e.g. at the ECB, at the NBP conference in Falenty, at the Warsaw University), with their findings incorporated in numerous publications in Polish and English.

Analytical work also included:

- Analysis of household expectations regarding the general economic situation, factors determining consumption, impact of central government deficit on the propensity to save,
- Analysis of the impact of interest income taxation on budgetary receipts and propensity to save,
- Analysis of the sensitivity of currency deposit growth in the non-bank sector to movements in currency exchange rates.

9.1.2. Analytical work related to the launch of the euro

In 2002, NBP continued its analytical work related to the changeover. The third edition of the study *Analysis of the impact of the introduction of the euro on the Polish banking system* was published. The material for the report was developed on the basis of surveys conducted at the 12 major Polish commercial banks. The review comprised formal and legal issues, modifications of bank offers, organisational and technical aspects, and payment systems. Additionally, the NBP's role was presented in the preparations to the changeover of the national currencies of the EMU member states into the euro.

9.1.3. Analyses and research into the development and stability of the financial system

At the NBP, analyses and studies of the banking system and financial markets are carried out, as well as analytical work concerning stability of the financial system. Below the key tasks completed by the NBP in 2002 are presented:

- Participation of NBP representatives in an international project involving central banks of the Czech Republic, Poland, Slovakia, Slovenia and Hungary entitled *Stability and Structure of Financial Systems in CEC5*.
- Having organised in the early 2002 of an International Monetary Fund's technical mission for the methods of risk modelling and estimation of associated potential losses for the banking sector, and having shared know-how with IMF and experts from the Bank of Finland, the NBP continued its work on market risk modelling. Under a twinning agreement, cooperation was established with the experts from the Bank of France. At the same time, contacts were initiated with specialists from the Bank of Portugal. The above projects advanced research into credit risk in banking activity. Work is under way on the application of new techniques linking the quality of banks' credit portfolios to the macroeconomic condition and the condition of particular industries.
- Medium-term studies were undertaken on individual components of the financial sector such as the banking sector, the insurance sector, pension funds, and credit intermediaries. Research focused, inter alia, on the effectiveness of the banking sector, review of bank characteristics affecting the mechanism for transmitting monetary policy impulses (with findings published in *Materiały i Studia*), banking risk modelling. Medium-term work was conducted in order to publishing in 2003 another edition of the *Report on Financial System Stability*.
- Work was begun on the development of a report on currency crises in the world. The deliverables include a version of the document which closes the first stage of studies on the probability of external balance disturbances. The above paper can feed into research under the implementation of a long-term objective which is to establish an early warning system of macroeconomic indices against potential crises in the currency market.
- Preliminary theoretical analyses on the role of the central bank as lender of last resort and the experiences of other countries in handling crises in the banking system attended the development of a comprehensive workplan for the NBP to deal with systemic threats.
- The NBP Management Board and the MPC are provided with reports on the currency market, the situation in the Czech and Hungarian finance markets and a *Report on financial markets* on a regular basis.

9.2. Statistical activity

The statistical activity conducted at the National Bank of Poland in 2002 involved day-to-day responsibilities in gathering, developing and making available the necessary statistical information. This information fosters the conduct of monetary policy. It also provides market participants with the necessary insight for informed decision-making. In parallel, work was conducted related to the need for bringing statistics into line with the requirements of the EU institutions. The scope of these responsibilities has been expanding dramatically in recent years. The cooperation with the European Central Bank designed to prepare the NBP for operation within the European System of Central Banks (ESCB) has been especially active.

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

The standard statistical responsibilities of 2002 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 in order to monitor monetary developments,
- the processing and interpretation of data on corporate finances,
- the optimizing of the 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.

These activities fed into a number of 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 the Council of Ministers following examination and approval by the NBP Management Board.
- 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 distributed among members of the Council of Ministers and representatives of other central government offices. This document included a full presentation of the "international investment position", drawn up in accordance with the standards of the International Monetary Fund (IMF).
- 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. Next, this fed into a number of other statistical reports and analytical materials, including the *Report on monetary processes (compiled using interim figures)*.
- Quarterly reports on the economic situation in the corporate sector.
- An annual report on the condition of non-financial institutions, developed on the basis of the NBP surveys and data collected by the Head Statistical Office (GUS).
- Quarterly information bulletins, drawn up on the basis of data gathered by GUS, on revenues, costs and earnings in the corporate sector, financial liquidity and cash stocks held by businesses, characteristics of the labour market and investment activity in the corporate sector.

The data obtained from the banks and other institutions, following appropriate development, were forwarded to international organisations such as the IMF, World Bank, OECD, BIS, the bodies of the European Union, last but not more and more extensively to the European Central Bank. This allows the NBP to meet reporting requirements imposed by these institutions.

9.2.2. Statistical information for external recipients

The NBP makes a point of providing adequate information to the business community and economists. This objective is served by numerous publications and in recent years also by the NBP web site, which is systematically updated. This modern communication medium expedites rapid and simultaneous dissemination of information among all recipients. An essential part of the NBP web site represents the "Statistics" section containing numerous statistical compilations regarding movements in monetary aggregates and levels of the balance of payments. A portion of the statistical section of the web site is updated on a regular basis, and expanded to include new analytical materials. Relevant information is published according to a data release schedule, also

included on the web site and updated on an ongoing basis. The use of the web site materially facilitates the correspondence to the requirements of the SDDS system (*The Special Data Dissemination Standard*) developed by the International Monetary Fund. When joining the system in 1996, Poland declared its commitment to strictly observe the principles for publishing statistical data, primarily to allow all users simultaneous and equal access to statistical information.

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

In 2002, the National Bank of Poland continued to step up adjustment efforts within its scope of responsibilities, as Poland embarked on the last stage of preparations for EU membership. An important adjustment area are the statistics developed for the purposes of the European institutions, in particular the European Central Bank. The work was performed at the same time in two areas, namely, monetary and bank statistics, and balance of payments statistics.

9.2.3.1. Adjustment of monetary statistics

In the area of monetary statistics, work focused on restructuring the bank reporting system as required. Beginning with balance-sheet data at the end of March 2002, the banks submitted information to the NBP in the revised reporting format. The changes involved primarily 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 standards for classifying business entities in Poland were agreed with the Central Statistical Office and the Ministry of Finance, and additionally consulted with the European Central Bank.

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 the new, harmonised version of M3. This, in turn, enabled, inter alia, the publication of monetary data in the same format as that officially approved in the Eurosystem countries. Information on movements in monetary aggregates were systematically forwarded to the European Central Bank, allowing the monitoring of Poland's potential share in the volume of M3 money supply calculated for the euro area.

At the same time, arrangements were also under way for providing the European Central Bank with additional statistical information not previously collected. These preparations principally involved:

- widening of the scope of so far collected balance-sheet data to include new analytical cross-sections,
- preparation of transaction statistics not previously developed,
- a thorough revision of interest rate statistics.

One of the ECB requirements is the systematic updating of the list of monetary financial institutions. The NBP, similarly to other candidate countries, updates the list on a quarterly basis. The list is placed on the ECB web site. At the NBP, work is under way on mapping out the target procedure for ongoing updates of the list, as required by the ECB.

In 2002, the NBP continued its work to put in place statistics on securities issues that correspond to ECB requirements. As a result, the scope of relevant reporting data sourced from the banks was expanded. Efforts were also undertaken to establish a securities data base. Finally, preparatory work was conducted in connection with the development of statistics for "other financial intermediaries", also in response to the ECB requirements.

Another updated version of the section of the ECB methodological manual was developed, containing a description of practices adopted by the candidate countries in the area of monetary and banking statistics (*Money and Banking Statistics in the Accession Countries: Methodological*

Manual, Volume I). In 2002, the ECB requested the accession countries to provide a description of locally applied statistical practices in respect of "other financial intermediaries", financial markets, securities issues, derivatives and interest rates. The NBP submitted to the ECB the requisite materials developed in cooperation with the Ministry of Finance, the Securities and Exchange Commission, the National Securities Depository and the Warsaw Stock Exchange. These represent Poland's contribution to the development of *Current Framework for Statistics on Other Financial Intermediaries, Financial Markets and Interest Rates in the Accession Countries: Methodological Manual, Volume II*, scheduled for publication in the first half of 2003.

With respect to balance of payments statistics, in 2002 a new system was put in place for gathering data on foreign portfolio assets (data securities issued by foreign entities) held by Polish residents. The system collects data separately for each security and makes use of the securities database ("characteristics database"). This type of data collection system is the model preferred by the ECB. With the system running, the NBP can participate in integrated research into portfolio investment (Coordinated Portfolio Investment Survey – CPIS) organised by the IMF.

9.2.3.2. Adjustment of balance of payments statistics

In 2002, a chapter was developed of the second edition of *Accession Countries Manual on Balance of Payments and International Investment Position Statistics (BoP Book)*. It contains a description of the balance of payments methodology across the candidate countries. The NBP drew up the section on the Polish practice in this regard.

The NBP was also involved in the development of the study *Bond Markets and Long-Term Interest Rates in European Union Accession Countries*, published by the ECB in June 2002. It discusses the findings of the study carried out jointly by the ECB and Eurostat on the structure of the capital market in the accession countries. The first part of this publication covers the market for debt securities (volume of trading, primary market, secondary market), interest rates and a brief discussion of the legal environment, whereas the second constitutes a statistical annex. The data shown in the document were sourced from the NBP, Ministry of Finance, and Fitch Polska S.A.

Additionally, the NBP participates in work designed to develop time series for long-term interest rates ultimately serving to verify the convergence criterion.

9.2.3.3. Sharing know-how

The EU institutions are more and more frequently inviting the NBP representatives for seminars and meetings of working groups examining the issue of adjusting the candidate countries to the requirements applicable in statistics. Such contacts provide a vehicle to present the status of adjustment measures implemented in Poland, and at the same time to share know-how with representatives of other European countries. This working experience proved to be instrumental in the course of adjustment efforts. In 2002, the NBP delegations attended seminars organised by the European Central Bank and Eurostat on the requirements of monetary and balance of payments statistics.

Adjustment work was conducted, for example, in cooperation with the experts of the Bank of France and the Bank of Italy in the framework of the Phare 2000 programme and a concluded twinning agreement.

9.2.4. Other activity

In 2002, work was carried out on extending the scope and improving the analytical tools employed in examining the financial condition of enterprises. Surveys of the ongoing condition of businesses were carried out under the NBP "rapid monitoring" and an annual corporate survey. The research sample was expanded to cover some 700 businesses. At the same time, new techniques were put in place for data selection and analysis. The program of corporate

econometric studies was also developed. Arrangements were launched for the institution of panel research, together with work on the establishment of an information system on the economic situation at a regional level. The system, designed in cooperation with 16 NBP regional offices, is to support the decision-making process under the pursued monetary policy.

In 2002, work was continued on the development at the NBP of an integrated economic data base (ZBDE) which is supposed to provide an easily accessible source of information. The data base is to comprise:

- Domestic data:
 - monetary statistics,
 - balance of payments and international investment position,
 - real sector of the economy, taxes and budget, condition of businesses and economic situation;
- Review of international data.

The data model, providing a basis for describing economic indices placed in ZBDE, will rely on the international GESMES terminology applied by the EU institutions.

Preparatory work was also performed related to the NBP participation in the Macroeconomic Data Base, at the invitation of the Bank for International Settlements in Basle (BIS). The NBP will provide the BIS with the required time series. On the other hand, the data collected by the BIS will become an important component of the international section of the NBP data base.

MOST IMPORTANT NBP ACTIVITY IN 2002

- Intensive work was conducted to bring monetary and balance of payments statistics into line with ECB requirements. In March 2002, the reporting format of the information forwarded to the NBP by the banks was revised to adjust the sectoral classification of the economy to comply with the ESA 95 standards, as required within the European Union. The modifications allowed the introduction of a new, harmonised M3 aggregate. In parallel, preparations were under way for the sourcing of additional statistical information for the ECB.
- Regular analytical and research work was conducted, much of it linked to Poland's future participation in the euro area.
- The scope of research into financial system stability was extended.

EDUCATION AND INFORMATION

10.1. Collaboration in staff training for the banking sector

In 2002, the NBP initiatives to assist the development of the banking sector included:

- organising training courses for commercial bank staff on balance of payments statistics;
- organising in-house training for students specialising in subjects related to the banking system or central banking (68 trainees), and also organizing internships for students from foreign universities, allowing them to collect material for their theses;
- organising internships for staff from the Ministry of Finance, the Central Statistical Office, civil servants, students from the National School of Public Administration, and monthly internships for Ph.D. students;
- cooperating with other banks in admissions to the Post-Graduate Banking Course at the Warsaw School of Economics (through participation of NBP representatives in the Programme Commission of the Course).

10.2. NBP publications and web site

As in the previous years, publishing activity of the NBP in 2002 comprised various periodic publications, including the *NBP Annual Report*, the *Inflation Report*, the *Monetary Policy Guidelines for 2003*, the *Report on the Performance of Monetary Policy Guidelines*, the *NBP Information Bulletin*, and the *Bank i Kredyt* monthly. Studies were also published in the *Materiały i Studia* research series. A number of brochures were printed on collector's coins issued in 2002.

In 2002, two new NBP periodicals were published for the first time, namely, the *Report on Financial System Stability* (January 2000 – June 2001) and the *Polish financial market in the years 1998–2001*.

A detailed list of publications can be found in Appendix 6 of this Report.

Additionally, in 2002 the NBP co-financed the publication of the biography of Władysław Grabski.

During the year, work was continued on the expansion of the NBP web site to include additional sections. Modification of the web site is envisaged, combined with significant improvement in its functionality, in accordance with the relevant trends.

The extension in 2002 of the number of publications and releases, both in mass media and on the official web site, concerning day-to-day activity of the NBP aimed to enhance the transparency of its operations and to provide information on economy, at the NBP's disposal, to the largest possible audience.

10.3. Media support to NBP directing bodies

The media support provided to the President of the NBP, the NBP Management Board and the Monetary Policy Council included the organisation of twenty-four press conferences and meetings with media representatives – sixteen involving members of the MPC.

In cooperation with the World Bank and EBRD, conferences combined with the presentation of reports of both organisations (*Transformation – the first 10 years* and *Transition Report 2002*) were also held.

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

10.4. "Euro 2002" information and promotion campaign

As an Official Partner of the ECB, in 2002 the NBP carried out its information and promotion campaign devoted to the euro currency. The campaign was conducted via radio, TV and press, NBP publications, and also made use of academic conferences and seminars.

The strategy of the campaign was the same as in 2001 and focused on building positive image of the euro as Poland's future currency and sharing with society the basic facts related to the exchange of the national currencies in 12 EMU countries. The 2002 campaign presented the appearance and security features of euro notes and coins and informed about the ways of exchanging EMU national currencies in Poland into the euro.

In 2002, greater emphasis was placed on mass communication via public TV channels with which agreements were signed for broadcasting information materials. Wider cooperation was established with local media, daily press in particular.

In the first stage of the campaign 14 brief factual films containing basic facts on the currency changeover were broadcasted. The films were re-broadcasted free of charge by both channels of the Polish public television.

The second stage of the mass media campaign targeted tourists travelling to the EMU countries who would be the first to encounter euro notes and coin. The campaign was conducted at the turn of June on public television and radio, and supported by publications in the most popular weeklies and on-board magazines distributed in aeroplanes.

The third stage of the campaign in December 2002 involved the completion of the process of replacing EMU currencies with euro in Poland.

On the occasion of the 10th edition of Poland's largest fund-raising campaign held by the charity foundation "The Great Christmas Aid Orchestra", the NBP came forward with an initiative to collect coins in the national EMU currencies being withdrawn from circulation, to be subsequently exchanged by the Bank into euro with no commission charged. The resulting proceeds were then transferred to the "Orchestra". The idea evoked a positive social response. A total of approximately €1,792,000 was collected, representing 25% of all proceeds of the 10th edition of the "Orchestra".

NBP experts also participated in "Euro Day" organised by the public television. They attended numerous meetings and seminars, in the course of which they presented issues related to the introduction of the euro and the Economic and Monetary Union.

Since the beginning of the information campaign, regular surveys of public opinion were carried out demonstrating, inter alia, the level of Poles' knowledge regarding the introduction of the euro and sources of information on the currency changeover. As of the beginning of the campaign, the number of respondents able to quote the exact starting date of the currency changeover in the EMU countries rose 64 percentage points (to 88%).

10.5. Conferences and academic seminars organised by the NBP

In 2002, two academic conferences were organised and numerous seminars and analytical workshops on banking activity and monetary policy. The Bank also edited and published research papers in the *Materiały i Studia* series and in *Bank i Kredyt*.

- On March 21–22, the National Bank organised an academic conference on the experience of the OECD and developing countries in combating inflation, creating new jobs and laying foundations for sustainable economic growth. The conference's guests included Tomasso

Padoa-Schioppa, member of the Management Board of the European Central Bank, Jakob Frenkel, president of Merrill Lynch International, Val Koromzay of the Organisation for Economic Cooperation and Development, together with renowned specialists from central banks and academic centres from the United States, the United Kingdom, Ireland, the Netherlands, Portugal, Italy and Chile.

- On October 24-25, an international academic conference was organised by the NBP entitled "Structural reforms and monetary policy". The purpose of the meeting was to present the findings of research into factors conditioning monetary policy, resulting from structural changes in the economy. Within two days, three sessions by subject matter were held, namely, "Structural change and effectiveness of monetary policy", "Labour market and monetary policy", "Fiscal determinants of monetary policy". The conference was attended by over 200 guests, including academics from many foreign universities and research institutes, members of bank and financial institution management boards, representatives of the business world and public administration, other central banks (including the US Federal Reserve and the European Central Bank), international financial institutions and NBP.
- A total of 14 open academic seminars were held at the NBP, at which presentations were given by representatives of various departments of the Bank, by lecturers from Polish universities, and also by international guests. Seminars were devoted to issues such as monetary policy, NBP adjustments to conform to the standards of the European Union, public debt management and liberalisation of capital flows. A list of seminar topics can be found in Appendix 7 of this *Report*.
- Six internal analytical workshops were organised at the NBP, during which a method of conducting scientific research was presented and an opportunity to master one's research skills and tools was offered.

10.6. Economic Education Programme

In 2002, the National Bank of Poland embarked on the implementation of the Economic Education Programme, the primary purpose of which is to raise the level of economic knowledge within society, and disseminate information on the central bank and on the banking system.

Under the Programme, the NBP takes measures designed to disseminate economic information, to foster understanding of market economy mechanisms and economic processes taking place in Poland and to develop skills necessary for efficient operation in the market economy.

The assumptions behind the Programme were developed on the basis of a review of educational efforts taken by other central banks, public opinion polls and the analysis of projects implemented by institutions and NGOs operating in Poland.

10.6.1. Grant competitions

In June 2002, the NBP held two grant competitions to co-finance projects in economic education. The topics given to mass media were as follows: "Savings – an investment in your future. Stable currency - a precondition for saving". Ninety-one applications were submitted for media competition, of which 47 projects were awarded co-financing. Topics for non-government organisations were as follows: "The euro – the single currency of united Europe", "Economic activeness and entrepreneurial spirit" and "Financial institutions in Poland". Eighty-eight applicants out of 392 were awarded co-financing.

10.6.2. Educational programmes for schools and the youth

Similar to many other central banks in the world, the NBP prepared a special educational offer targeting the youth and university students. The findings of the surveys conducted among students of secondary schools and university students showed demand for information on economic issues. In 2002, the following projects were carried out:

- A competition for pupils from high schools and colleges for a dissertation entitled "Importance of strong and stable currency for economic development". The competition was organised in cooperation with the National Centre for Teacher Training and the daily *Gazeta Wyborcza*.
- The "Euromanager" competition for university students. In 2002, the NBP was involved in the implementation of the Polish edition of an international competition based on an interactive corporate management simulation game.
- A competition "Master Economics" targeting district public libraries, organised in cooperation with the National Library. The purpose of the competition was to disseminate economics among the youth. In October 2002, 30 libraries all over Poland carried out educational projects on economics targeting young people. A total of 20,000 pupils from 220 schools were in attendance.

10.6.3. Scholarship programme

In 2002, the NBP, together with its partners from the Agricultural Property Agency of the State Treasury (AWRSP), the Polish-American Freedom Foundation, the Educational Enterprise Foundation and non-government organisations affiliated by the Academy for Development of Philanthropy in Poland, put in place the first Polish bridging scholarship programme. The project was designed to support young people from rural areas and small towns through funding scholarships for the initial year of university studies. A promise of a scholarship helps with insufficient income young people to take the decision to pursue master degree studies at state and private universities and offers equal opportunities to those wishing to obtain a university diploma. Some 3,100 high school pupils who had successfully passed their A-levels in 2001 applied for scholarships under the programme. Out of this number, 1,444 applicants passed entrance examinations and were admitted to a university.

10.7. 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 2002, 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 has access to the catalogue of the Central Library via the local area network. In 2002, the Library continued to subscribe to the databases *ABI/INFORM* and *Business Periodical on Disc*, and to the *Financial Times*, *JUSTIS CELEX* and *SCAD*. Access to all databases at the NBP Central Library is free of charge and open to everyone. The development of the collections held at the Library in recent years is summarised in Table 18.

Table 18

Collections held at the NBP's Central Library

Type of publication	December 31, 2000	December 31, 2001	December 31, 2002
Self-contained publications	77,659 volumes	81,399 volumes	85,462 volumes
Serial publications	32,068 volumes	32,797 volumes	33,300 volumes
Total current periodicals	488 titles	473 titles	398 titles

Source: NBP.

During the year, over 14,000 copies of books and periodicals were borrowed from the Library. High readership was recorded, similarly to 2001 when almost 15,000 copies had been borrowed. The reading room was visited by over 7,000 people, who were supplied with more than 32,000 copies of books and periodicals (these statistics do not include current periodicals, bank reports and other publications freely available on shelves).

The Library was automated under the "Co-Liber" computer system in 1993. The present database contains 1,784 titles of periodicals (33,760 issues), 36,195 titles of books (53,522 volumes) and 1,355 articles concerning banking taken from Polish periodicals.

In 2002, inquiries on the collections of the NBP Central Library were made possible via electronic mail at biblioteka@nbp.pl.

MOST IMPORTANT NBP ACTIVITY IN 2002

- The NBP embarked on the implementation of the Economic Education Programme, the primary purpose of which is to raise the level of economic awareness within society.
- The "Euro 2002" information and promotion campaign was continued.
- Open academic seminars were organised on issues such as monetary policy and NBP adjustments to conform to the standards of the European Union

INTERNATIONAL ACTIVITY

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

11.1.1. Negotiations on Polish membership in the European Union

The summit of the European Council held in Brussels on October 24–25, 2002, confirmed to conclude the accession negotiations in December 2002 and, provided the commitments undertaken during negotiations had been fulfilled, Poland along with other candidate states from Central and Eastern Europe would join the EU on May 1, 2004. The adopted schedule streamlined and stepped up negotiations and implementation of the adjustment measures.

In 2002, Poland continued negotiations on EU membership initiated back in 1998. In the first half of 2002, during the Spanish presidency, five areas of negotiation were concluded, i.e. "Fisheries", "Free movement of capital", "Transportation policy", "Taxes" and "Institutions", and in the second half of 2002, during the Danish presidency, the remaining six titles were closed, i.e., "Competition policy", "Justice and internal affairs", "Agriculture", "Regional policy", "Financial and budgetary provisions" and "Other" (under this chapter, negotiated issues included the amount of capital that the NBP would have to transfer to the ECB on Poland's accession to the EU).

At the summit of the European Council in Copenhagen held on December 13, 2002, Poland and nine other candidate states (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Slovakia, and Slovenia) closed their accession negotiations. The NBP was involved in the negotiations on Poland's membership in the European Union as an institution supporting the government side.

11.1.2. Adjustment measures related to Poland's integration with the EU

Workplan for strengthening Polish administration and judicial system, foreseeing the fulfilment in 2002 of the commitments undertaken during negotiations, was the basic strategic document. The paper was developed by the Polish government in cooperation with the European Commission and adopted by the Council of Ministers on April 16, 2002. The workplan enumerates key tasks that must be implemented in order to develop the effective law enforcement institutions next to the accession. Among the tasks directly involving the NBP, the following were mentioned:

- In the area "Freedom to provide services" – strengthening of monitoring and regulatory bodies, with particular reference to financial government services,
- In the area "Economic and monetary union" – allowing NBP more autonomy.

In line with the suggestions and recommendations of the *Peer Review Report on Effective Financial Services Supervision in Poland* published by the European Commission on April 24, 2002, following the review conducted in October 2001, the most important tasks to be implemented by Poland in 2002 in order to strengthen supervisory institutions were identified. These tasks were reflected in the *Workplan for strengthening Polish administration and judicial system*.

In the *Regular report on Poland's progress towards accession* of October 2002, the European Commission rated highly both the organisational abilities and professionalism combined with commitment displayed by the Polish banking supervision staff.

The year 2002 saw further implementation of priorities contained in the *National Programme of Preparations for Membership in the European Union*. In the case of the NBP, this involved "Harmonising Polish banking legislation with Community legislation", "Adjustments to monetary policy and exchange rate policy", "Preparing the National Bank of Poland for operation within the European System of Central Banks", "The NBP information campaign on the euro" and "Preparations for bringing euro notes and coin into circulation".

In August 2002, the NBP joined in the consultations between Poland and the EU on the review of the degree of consistency of Polish banking legislation with the *acquis communautaire*. The assessment of consistency was included in the Report of the European Commission on the harmonisation of banking legislation with the provisions of the codified Directive 2000/12/EC".

As of July 2002, the NBP was involved in work of the Interministerial Team for reviewing Polish legislation for consistency with the provisions of the Treaty establishing the European Communities. The rulings of the European Court of Justice were under review. The first stage of the Team's work involved rulings on freedom of establishment, whereas the second stage related to the freedom to provide services. In some 200 reviewed documents, no inconsistencies were detected between the Polish regulations governing the operations of the banking sector and the Community law. The only disputed issue still not settled in the discussions held with the European Commission is the provision of Article 30 para. 1 subpara. 3 of the Banking Act of August 29, 1997, concerning the requirement for bank management board candidates, appointed by the approval by the Commission for Banking Supervision, to speak Polish.

In 2002, the NBP joined in the development of the final version of the Accession Treaty. Primarily the treaty provisions in the area of NBP competence, that is "*Freedom to provide services*", "*Free movement of capital*", "*Economic and monetary union*", "*Financial and budgetary provisions*", "*Statistics*" and "*Consumers and health protection*" were reviewed for consistency with the agreements made during negotiations. Additionally, the general provisions of the Accession Treaty were subject to consultation.

In 2002, the NBP also analysed documents published by the EU on progress made towards accession by each of the candidate countries, and also those associated with EU enlargement.⁶⁰

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

The meetings of the NBP Management Board in 2002 examined issues relative to the European integration, including adjusting the NBP to conform to the ESCB standards. The work on bringing the NBP into line with the requirements set for ESCB members was carried out on the basis of the objectives and tasks set forth in the *NBP workplan for the years 2002–2004*.

Adjustment work has been conducted since July 20, 2001, under a twinning agreement with the Bank of France (as lead bank) and the Bank of Italy (as cooperating bank). In 2002, work under the PHARE 2000 programme involved 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.

During the year, 59 study visits, seminars and visits by foreign experts were held at the NBP. Work on one of the seven chapters of the agreement (regarding a system for monitoring capital flows involving portfolio investment) was completed in October 2002. Work on the remaining chapters will be completed in 2003. The implementation of the project is monitored on an ongoing basis. The NBP supplies the European Commission with quarterly reports on project co-financing and six-month reports on the status of project implementation.

11.1.4. Other activity at the NBP

In line with an initiative of the European Commission, the candidate countries were committed to develop *Pre-Accession Economic Programmes* (PEPs) as of 2001. These are medium-term programmes (with a 5-year horizon, currently covering the years 2001–2005),

⁶⁰ Among other things, the results of monitoring the implementation of the commitments undertaken by candidate countries in the course of accession negotiations contained in the *2002 Regular Report on Poland's progress towards accession*.

and the issues addressed include general macroeconomic questions, public finances and structural reform. In 2002, the NBP took part in drawing up the sections of Poland's *Pre-Accession Economic Programme "Macroeconomic assumptions"*, *"Monetary and exchange rate policy"* and *"Financial sector structural reform"* (with respect to the banking system). The PEPs are designed to prepare candidate countries for effective coordination of economic policy at the EU level. Following the EU accession, Poland will be expected to develop a Convergence Programme for the EU members not yet included in EMU scheme (countries with a derogation), whilst a Stability Programme will be mandatory after joining the EMU.

11.2. Collaboration with international economic and financial institutions

11.2.1. The Organisation for Economic Cooperation and Development

In the course of the implementation of the tasks resulting from Poland's membership in the OECD, the NBP collaborated closely with the National Coordinator of Cooperation between the Republic of Poland and the OECD, the Ministry of the Economy, the Ministry of Finance and the Permanent Representative of the Polish Government to the OECD. In 2002, NBP representatives took part in the following OECD targeted committees and working groups:

- The Economic Policy Committee:
 - OECD Working Group on Short-Term Economic Projections (STEP),
 - OECD Working Group no. 1 on Macroeconomic and Structural Policy Analysis,
- The Economic and Development Review Committee,
- The Capital Flows and Invisible Transaction Committee,
- The Financial Markets Committee:
 - OECD Working Group on Financial Statistics.

In February, Poland hosted the second OECD mission preparing another review of the Polish economy under the Economic and Development Review Committee (EDRC). The meetings with a group of experts from the National Bank of Poland focused on the most recent economic developments, issues related to the situation of the banking sector, and monetary policy questions. The meeting of the EDRC on June 10, 2002, had the 7th review of the Polish economy on the agenda, the primary theme being the reform of public expenditure. The reform provides for the enhanced cohesion of the central government budget (through the inclusion of extra-budgetary funds) and its reorientation towards a medium-term horizon.

On May 6 and November 5, meetings of Poland's Interministerial OECD Working Group were held at the Ministry of the Economy between the Republic of Poland and the OECD, chaired by the National Coordinator of Cooperation. NBP representatives have been involved in the activity of the Group.

Under collaboration with the OECD, the National Bank cyclically forwarded figures on the Polish banking sector, to be published by the OECD, and developed information on derivatives statistics.

11.2.2. The World Bank

In April 2002, a Meeting of the World Bank Member Group and the International Monetary Fund was held in Washington. The National Bank of Poland was represented by the NBP President, acting the Polish Governor at the World Bank. The annual meeting of the World Bank Board of Governors concluded to initiate work on the new CIS-7 debt relief initiative, specifically to assist the seven poorest countries of the Commonwealth of Independent States.

In April 2002, Pietro Veglio (Switzerland) became the new Executive Director of the Swiss Constituency at the World Bank, with Poland aboard.

In September 2002, the annual meeting of the World Bank Board of Governors and the IMF was held in Washington to discuss programmes implemented jointly by both institutions to combat poverty. The follow-up discussions involved primarily the HIPC initiative (Debt Relief Programme for Heavily Indebted Poor Countries). At the Board of Governors' meeting, the NBP President delivered an address on behalf of Poland, during the plenary session. The leading theme of his appearance was the evolution of the financial sector in the economies of Central European countries, and the prevention of poverty expansion in the world. The speech addressed the problems of developing countries, i.e. corruption, ineffective public finance policy and protectionism.

In December 2002, the Board of Executive Directors adopted the Country Assistance Strategy (CAS) for Poland for the financial years 2003–2005. The strategy focuses on the improvement of effectiveness of central government spending and the stimulation of the private sector to support the economic growth in Poland. The World Bank intends to earmark a total of US\$1.2bn in the years 2003–2005 under the Country Assistance Strategy for Poland for the implementation of projects in the areas of education, health, road network, mining, and rural areas. The amount of planned assistance was agreed within government limits and included in the borrowing plan of the Polish Government. The success of individual projects depends on the adoption and implementation of adequate structural reforms. In the event of failure to fulfil all requisite assumptions, the CAS is revised, which may result in the reduction of the awarded funds.

11.2.3. The International Monetary Fund

On the basis of Poland's participation in the IMF's plan of financial transactions ("operating budget"), as agreed 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 2002 the IMF utilised the funds it held in account at the NBP, totalling €150.4m, as financial support to economic reforms in Turkey and the former Yugoslavia.

As a part of consultations conducted pursuant to Article IV of the IMF's Statutes in February 2002, a regular IMF mission visited Poland. The purpose of the visit was to update the Fund's representatives on Poland's current economic situation, plans regarding economic, budgetary and monetary policies, and also to gather statistical data for the IMF annual report on Poland. In September 2002, a second consultative mission visited Poland to assess the implementation of the economic policy in the previous year and to formulate macroeconomic guidelines for the following year. The representatives of the NBP and members of the Monetary Policy Council attended the meetings held with the IMF missions. In 2002, the IMF made a positive assessment of the monetary policy pursued in 2001, the maintenance of stable price levels, accurate setting of inflation targets and absence of direct interventions regarding the zloty exchange rate. The Polish banking system was deemed stable. Progress was also pointed out in the work on mitigation of banking activity risk.

In 2002, NBP representatives attended a number of IMF-organised training seminars on monetary and financial policy, international financial law and accounting.

11.2.4. The European Bank for Reconstruction and Development (EBOR)

On April 4–5, Ms. Noreen Doyle EBRD First Vice-President paid a visit to Warsaw, at the invitation of the local EBOR office. On that opportunity she met the NBP President to discuss the EBOR's envisaged capital exposure to Bank Gospodarki Żywnościowej as well as the general standing of BGŻ. The future of PKO BP SA and the EBOR's potential exposure to its privatisation was also debated.

On April 9 – 10, the NBP President visited the EBOiR's Head Office in London. While in London, the President met Mr. Jean Lemierre, EBOR President, and next Mr. Kurt Geiger, head of the EBOR's team for financial institutions.

On April 22–24, the NBP with the European Bank for Reconstruction and Development, the World Bank and the International Monetary Fund co-organised a seminar *Comparative Experiences in Confronting Banking Sector Problems in Central/Eastern Europe and Central Asia*. The seminar examined the development of a relevant legal, institutional and regulatory framework to handle problems of insolvent banks (for example, during a systemic crisis).

The annual meeting of the Board of Governors of the European Bank for Reconstruction and Development was held in Bucharest on May 19–20, 2002. The meeting brought together the representatives of all the Bank's member countries and organisations. The President of the NBP, along with the accompanying delegation, attended the plenary sessions, and also selected meetings with foreign partners.

11.2.5. The Bank for International Settlements, Basle

In 2002, the NBP President attended the meetings of the Board of Governors of BIS in Basle on March 11, May 13, September 9 and November 11.

On April 15–16, the Spring Central Bank Economists' Meeting took place. The agenda included development of financial markets, inflation, economic growth and monetary policy. The meeting was attended by representatives of the NBP analytical departments.

In June 2002, Mr. A. Crockett, BIS General Director visited *Warsaw at the invitation of the NBP President and delivered a lecture "International experiences with inflation"* to the NBP staff.

On July 7–8, the 72nd BIS General Meeting of Shareholders was held in Basle; at the meeting, presidents of central banks (BIS members) approved the allocation of the dividend for 2001/2002. The meeting also adopted the 72nd Annual Report, approved the Bank's balance sheet at March 31, 2002, and its profit and loss account. The latter showed a net profit, after deduction of the costs of administration, of 225.7m gold francs (1 gold franc = US\$ 1.94149), and this was distributed as follows: 52.6m gold francs were assigned to a dividend payment, payable in Swiss francs, of SFr 380 per share (with the NBP receiving SFr 3.04m); 26.9m gold francs was transferred to the general reserve fund, 3m gold francs was transferred to the "special dividend reserve fund"; and 143.2m gold francs was transferred to the free reserve fund.

In 2002, the NBP staff attended a number of training sessions and seminars organised by the BIS in cooperation with the Financial Stability Institute and the Joint Vienna Institute.

11.2.6. The European Central Bank

In 2002, the NBP continued its collaboration with the ECB, dating back to February 2000. In October, the National Bank hosted an official delegation from the ECB. In the course of the meetings, ECB representatives declared their intent to establish closer cooperation, in particular with respect to legal matters, monetary and credit policy, research activity, the payment system, statistics, accounting and reporting, IT and telecommunications, and public relations. The tightening of cooperation with the ECB is attributable to the fact that, following the signing of the Accession Treaty, the President of the NBP will participate in the work of the ECB's General Council in the capacity of an active observer. A similar status will also be granted to NBP representatives involved in the work of various committees and working groups of the ESCB. With the accession, the status of an observer will be automatically transformed into that of a full member. Pre-accession participation in the work of the ECB's General Council and of the ESCB committees and working groups will allow the NBP representatives to adequately prepare for effective involvement in the operations of all the above decision-making and expert bodies.

11.2.7. The International Bank for Economic Cooperation (MBWG)

The year 2002 saw no major progress in settling the debt of MBWG nor in resolving the problem of the recovery of past due claims on MBWG debtors. In spite of allocating funds for that purpose in the 2002 budget, the Russian Federation failed to carry out the first stage of its debt restructuring programme, i.e. to appropriate its debt to the west European creditors from MBWG liabilities and to convert it into the Russian Federation's government bonds.

The Polish delegation participating in meetings of the MBWG Board was led by the NBP.

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

In 2002, the NBP continued its collaboration with central banks:

- The NBP maintained its bilateral cooperation with a group of central banks from Eastern Europe and Asia through organizing study visits for the staff of these banks. In 2002, contacts were also established with the central bank of Kyrgyz Republic and a cooperation schedule was agreed for 2003.
- In January 2002, NBP representatives paid a visit to the People's Bank of China; as a result a plan of bilateral cooperation for the years 2002–2003 was developed.
- In July 2002, the NBP President and the General Inspector of Banking Supervision were hosted by the National Bank of Lithuania. During the visit, an agreement was signed between banking supervision agencies of Poland and Lithuania.
- In 2002, the Polish banking supervision authorities together with the United States Agency for International Development (USAID) developed a programme of technical and training assistance for banking supervisors from the countries of Central and Eastern Europe. The NBP's Training Initiative for Banking Supervision (TIBS) was put in place. Under this initiative, two seminars were organised in 2002 focusing on practical utilisation of the experiences of Polish banking supervision. The first of the TIBS seminars was held in June and was devoted to the optimisation of the examination process. The second, in November, addressed issues related to credit risk which still represents a major challenge for many countries of our region. The training courses were attended by representatives of the following countries: Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Georgia, Hungary, Lithuania, Latvia, Macedonia, Moldavia, Romania, Russia, Slovakia, Slovenia, Ukraine and the former Yugoslavia.
- Direct collaboration with banking supervision agencies of other countries is gaining importance, and in particular with Dutch, Austrian, Irish and US counterparts. Cooperation was carried on in mortgage banking with the Association of German Mortgage Banks and HypZert GmbH. As a part of bilateral cooperation with the People's Bank of China, two seminars were organised for the representatives of the Chinese banking supervision, on the operations of the Polish banking supervision and methods for handling distressed banks.

MOST IMPORTANT NBP ACTIVITY IN 2002

- The NBP participated in the negotiations on Poland's EU membership as an institution supporting the government side. The Bank was also involved in work on the development of the Accession Treaty.
- In the framework of a twinning agreement, the NBP continued adjustment work to conform to the ESCB requirements.
- The IMF made a positive assessment of the monetary policy pursued by the NBP.
- The European Commission rated highly the organisational ability and professionalism of the Polish banking supervision staff.
- Closer cooperation was established with the ECB.
- A training initiative was undertaken for banking supervisors from the countries of Central, Eastern and Southern Europe.

THE INTERNAL DEVELOPMENT OF THE NBP

12.1. Human resource management

12.1.1. NBP staffing

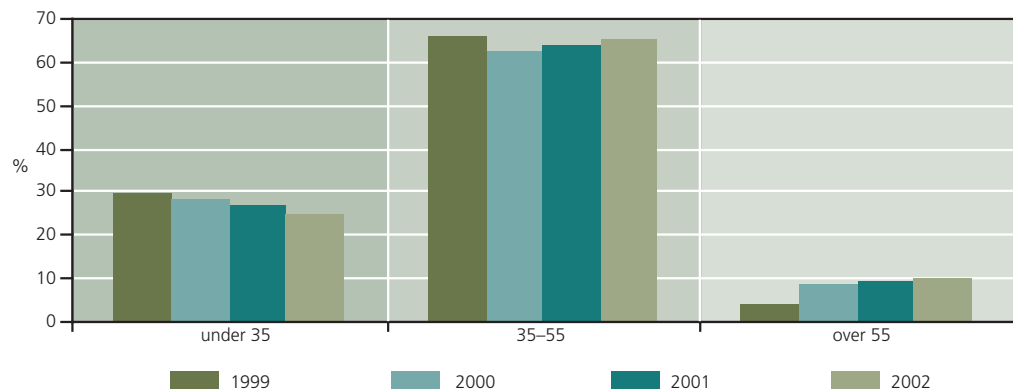
Average staffing at the NBP in 2002 amounted to the equivalent of 6,331 full-time posts, a decline of 41 posts compared to 2001.

The majority of staff were women, accounting for 72.4% in non-manual posts (as against 73% in 2001) and 24% in manual and related posts (compared to 24.9% in 2001).

The proportion of the staff up to the age of 35 in the age structure of the Bank's employees (cf. Fig. 13) is on the decrease (25%). The relevant percentages stood at 31.7% in 1997, 29.7% in 1999, 28.4% in 2000, and 26.9% in 2001. Employees over 55 years of age represented 10% of total staff (9.3% in 2001).

Figure 13

Age structure of NBP staff



Source: NBP.

In 2002, the number of employees with higher education continued to rise, and at the year's end stood at 2,316, i.e. 49% of those employed in non-manual posts (compared to 46.1% in 2001). The proportion of staff who had not completed their secondary education came to 3.8% (4.3% in 2001).

12.1.2. Developing staff qualifications

12.1.2.1. Basic forms of developing staff qualifications

In 2002, staff training continued to receive major attention at the NBP. A total of 10,510⁶¹ NBP employees (8,942 in 2001) received training, up by 18% over 2001.

The training activity took many different forms:

- Training sessions at the NBP involving local and foreign lecturers (7,626 employees).
- Seminars, workshops and conferences organised by domestic (external) training institutions (588 employees).
- Training organised by central banks and international financial institutions (246 employees), study abroad at other central banks and consultations with foreign experts at the NBP (128 employees, 68 of which took part in the Phare programme). This training covered primarily macroeconomic issues, statistics, risk management, central bank management and other issues related to central banking.

⁶¹ Some members of staff took part in more than one training event.

- Professional development: post-graduate courses (173 employees), Ph.D. courses (20 employees), training for legal counselors (4 employees), college and university courses (for bachelor and master degrees – a total of 483 employees), and secondary education (31 employees).
- Language instruction (528 employees) in three languages: English, German and French. As from 2002, no language courses for beginners have been provided. Instead, emphasis has been put on improving selected language skills, also under specialist language instruction, and preparation for specialist examinations.
- The development of staff qualifications was also carried out through a programme of professional training via courses and seminars held at training centres of the NBP Head Office. The training courses primarily touched upon the problems of European integration, preparing the NBP for operation within the ESCB, legal and IT matters prevailing. The syllabuses focused on advanced research techniques and methodologies, issues of financial and financial markets' stability, statistics, matters related to banking supervision, and risk management. A number of mandatory training courses covered particular areas of law such as the safeguarding of restricted information, the protection of personal data, the protection of bank property, foreign exchange law, and amendments to the tax legislation.
- In 2002, specialist training courses were organised for the staff of the General Inspectorate of Banking Supervision (GINB) on the issues related to the New Capital Accord, the conduct of consolidated supervision, electronic banking, market risk management, bank accounting, the auditing of bank systems' security and amendments to the Polish law and their impact on the development of the banking sector. In 2002, 14 GINB staff were awarded licences of banking supervision inspectors.

Training diversified also into all forms of professional development to the staff of wound up NBP field offices. In total, 683 employees of sub-branch offices and teams were trained, 629 of which attended various professional courses and 54 pursued post-graduate courses.

In effect, the standards of specialist training raised and the number of NBP staff invited to join working groups of the European Central Bank increased.

12.1.2.2. Staff designated for liaison with the ESCB and international supervisory institutions

A number of advanced training courses was organised in 2002, specially, to answer the training needs of the NBP Head Office staff designated for direct liaison with both the ECB and the ESCB, and international supervisory institutions.

In mid-2002, a review of the composition of this group was carried out in order to ensure more effective professional training, and to adjust the training offer to the tasks of the members of the group within the EU structures. The group is made up of over 340 persons who are given priority during recruitment for courses held abroad, locally organised specialist training sessions and advanced language instruction.

12.1.2.3. Training under the Phare 2000 programme

As a separate category of training courses study visits were organised of the NBP staff to the central banks of the EU member states and specialist seminars at the NBP involving foreign experts from the above-mentioned banks, both within the framework of the Phare 2000 programme. A total of 368 staff pursued this form of training in 2002. Training under the twinning agreement was devoted in full to the issues of adjusting the NBP to the requirements of the ESCB.

12.1.3. Other personnel issues

- In 2002, work was initiated on a test launch of the Competence Management System at the NBP. The project involves a group of 114 NBP employees. The program will allow the determination of professional career development paths for the selected staff. The system will also make training more effective through improved management of the training

process, accurate assessment of training needs and a proper selection of professional development initiatives for individual employees.

- In July 2002, the NBP organised a youth camp for the children of employees of central banks of Italy, France, Portugal, the Czech Republic, Greece and Poland.

12.2. Premises and equipment

The capital spending performed during the year in performance of the Bank's investment projects amounted to 262,158,000 zloty. The structure of investment spending made in 2002 reflects the operating strategy covering the following major areas:

- the adjustment of NBP telecommunications and IT infrastructure the systems operating at the affiliated central banks,
- the upgrading and enhancement of security facilities safeguarding the premises and systems of the NBP,
- the expansion and modernisation of the existing buildings and premises adapting them to the functions fulfilled by the NBP,
- the mechanisation of bank vaults as well as cash and vault operations,
- the improvement of health and safety conditions for NBP staff, comprising:
 - the modernisation of fire protection facilities, ventilation and air-conditioning systems, water supply and sewage systems, and central heating systems,
 - the modernisation of the Bank's buildings and premises, together with their surroundings.

These capital projects yielded the following results:

- the existing IT and telecommunications systems were further expanded and upgraded in order to conform to the requirements of the European Union and to technological standards of other central banks,
- the Bank premises were expanded and modernised,
- further security facilities were installed at Bank premises to protect against robbery, burglary and fire, a special communication system was put in place for the purpose of safeguarding cash in transit, and the adaptation of designated zones and locations to conform to security requirements was continued,
- there was further improvement in:
 - the technical condition of functional solutions in bank buildings and premises, together with their surroundings,
 - working conditions and interior design.

In 2002, the NBP marketed its interests in the following companies: the International School of Banking, Telbank, KUKI (the Export Credit Insurance Corporation), and Computerland in observance of legal requirements and following the principle of good management.

In November 2002, the Minister of the Economy entrusted CENTRAST S.A., an NBP affiliate with the performance of tasks under Article 23 of the Act on electronic signatures of September 18, 2001.

12.3. IT support to the banking system and NBP

All the areas of NBP activity receive IT support. In 2002, work was continued primarily in connection with adapting IT systems to correspond to the requirements resulting from:

- Poland's integration with the European Union, in particular the NBP's entry into the European System of Central Banks,
- the support for the new Public Finance Act and the restructuring of the NBP field office network,

- the modernisation of the existing telecommunication and IT infrastructure in response to the need for more effective operations of IT systems and for the maintenance of a technological level consistent with the standards adopted by other central banks,
- ensuring the adequate level of security of NBP systems.

In order to achieve in 2002 the objectives mentioned above:

- the enbepe electronic banking facility was launched at NBP offices and for 1,020 customers,
- IT systems from wound up sub-branch teams and sub-branch offices were transferred to regional offices,
- a new "Egeria" Personnel and Payroll IT system was put in place and substantial progress was made in the implementation a new Internal Economy System,
- IT system for managing foreign exchange reserves was on the approach to its production phase
- development of the Integrated Accounting System was continued,
- work was conducted to enhance the reliability of SORBNET, SKARBNET and SEBOP systems,
- 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 sub-branch offices,
- in order to ensure data security and access control, the launch of a test version of Public Key Infrastructure was initiated, the standard of anti-virus protection, security and speed of data transfer (including transfer via the Internet) was raised,
- development and modernisation of many other IT systems of the NBP was conducted, and the development of a Monitoring and Management Centre (MMC) for the NBP IT system was continued.

12.4. Safety and security

The year 2002 witnessed further work on raising security standards at the NBP.

12.4.1. Protection of restricted information

Numerous measures were taken in 2002 in the area of protecting restricted information, primarily in:

- personal safety (including the conduct of background checks and the issue of security certificates),
- better organization of distribution and storage of restricted documents,
- training for the staff having access to restricted information.

In 2002, progress in installing telecommunication and IT systems for the processing of restricted information was achieved. The efforts involved:

- bringing into operation the relevant systems at the Chancellery of the NBP Secret Head Office;
- developing documents on the Specific Security Requirements for systems designated to process restricted information at the NBP Head Office and at other NBP organisational units, and submitting them for approval to the Internal Security Agency, as defined under the Act on the Protection of Restricted Information;
- training was organised for the NBP staff members designated as system administrators or telecommunication and IT security inspectors.

12.4.2. Protection of personal data

In 2002, work was continued pertaining to personal data protection, including:

- the introduction of modifications to relevant internal regulatory acts,
- the management of procedures maintaining security of IT systems processing personal data,
- training staff members responsible for processing personal data.

12.4.3. Security of persons and property

Tasks designed to upgrade the level of technical security standards were performed at NBP bank premises. In 2002, most organisational units completed investment projects aimed at bringing their technical security standards into line with statutory requirements. As a result, the security standards for the NBP premises no longer differ from the solutions applied at most central banks of the EU member states.

12.5. Internal audit

The internal audit in 2002 covered:

- the review of 23 subject areas specified in the *NBP Audit Plan for 2002* (compared to 20 in 2001). This involved a total of 63 audit reviews and one explanatory proceeding, with the review covering the organisational units of the NBP Head Office as well as other organisational units of the Bank.
- follow-up activity monitoring the performance of audit suggestions and recommendations.

The findings of these audit reviews confirmed that the business of the National Bank was generally of a positive standard. No major threats to the Bank's operations were identified. Instead, improvement was noted with regard to functional internal control mechanisms.

- in parallel to the audit activity, work was continued in order to move from a compliance-based framework to a risk-based audit function, this particularly involved:
 - development of drafts of relevant internal regulations of the NBP,
 - continued collaboration with the Bank of Italy (under the twinning agreement) aimed at bringing the NBP into line with the requirements of the European System of Central Banks in the area of internal control and internal audit,
 - completion of a substantial portion of the cooperation programme with the US Federal Reserve (Chicago), which supported the NBP's activity designed to establish risk-oriented internal audit function.

12.6. Organisational changes

12.6.1. Reorganisation of the NBP field office network

In 2002, the process of restructuring the NBP field network entered a decisive phase. It was designed to streamline the NBP staffing and employment structure, to prepare the Bank for implementing tasks under the European System of Central Banks and to adapt the network of offices to a new administrative division of the country.

On October 31, 2002, ten sub-branch teams ceased to operate. Their responsibilities had been taken over by regional offices. The process was completed on January 31, 2003 when 22 sub-branch offices were disbanded. Thus, the NBP structure was downsized to 16 regional offices, one per province, and its headcount cut by 1,227 full-time posts.

The employees of wound up sub-branch offices were provided with an opportunity to obtain additional training and professional development, at the expense of the NBP.

A substantial proportion of the assets of liquidated sub-branch offices was transferred to the Treasury and Bank Gospodarstwa Krajowego (9 buildings).

- sub-branch offices in Kalisz, Tarnów and Bielsko-Biała were transferred to Bank Gospodarstwa Krajowego,
- fourteen sub-branch offices were transferred to the State Treasury:
 - those in Słupsk, Częstochowa, Nowy Sącz, Zamość, Krosno, Przemyśl, Jelenia Góra, Ostrołęka, Płock, and Radom became the property of the Ministry of Justice
 - those in Suwałki, Gorzów Wielkopolski, Wałbrzych and Legnica were taken over by the Ministry of Internal Affairs and Administration,
- the assets of the sub-branch office in Toruń were leased to Nicolas Copernicus University in Toruń.

12.6.2. Changes at the NBP Head Office

In order to improve the quality of analyses and forecasts developed by the NBP and to expand research areas, organisational changes were implemented at the NBP Head Office in 2002. These changes yielded the following:

- the Macroeconomic and Structural Analysis Department develops monetary policy guidelines and prepares relevant analyses and forecasts; it is assigned analytical responsibilities involving, inter alia, structural reform, condition of the central government sector and the labour market;
- the Financial System Department implements tasks in the area of analyses and studies on the banking system and financial markets, and new analytical responsibilities involving stability of the financial system;
- the Macroeconomic Research Office conducts medium- and long-term macroeconomic studies, primarily in the area of monetary policy transmission mechanism which is indispensable in projecting monetary policy and ongoing NBP activity.

12.7. Launching a quality management system pursuant to the PN-EN ISO 9001:2001 standard for electronic banking

The ISO series 9000 standards represent an internationally recognised set of standards applied in the development and assessment of quality management systems.

In 2002, the NBP initiated efforts to obtain a certificate of compliance with the requirements of PN-EN ISO 9001:2001 standard for one of its areas of activity, namely, the operation of bank accounts by means of electronic banking. The launch of the system will optimise management and enhance the quality of NBP customer service provided to central government institutions and government special-purpose funds.

The NBP is planning to obtain the certificate of compliance with PN-EN ISO 9001:2001 standard in 2003.

MOST IMPORTANT NBP ACTIVITY IN 2002

- The adaptation work on the NBP IT system to conform to the requirements of the ESCB was continued.
- Work was conducted to raise security standards in force at the NBP.
- Under the twinning agreement, work was continued to move from a compliance-based framework to a risk-based audit function.
- Following the restructuring of the NBP field network, the NBP structure was downsized to 16 field offices, one per voivodship, at January 31, 2003.
- The NBP initiated efforts to launch a quality management system for electronic banking, based on PN-EN ISO 9001:2001 standard.
- Work was commenced on a pilot launch of a Competence Management System at the NBP, in order to determine professional career development paths for the Bank's staff.

BALANCE SHEET
AND PROFIT & LOSS ACCOUNT

13.1. Balance sheet of the NBP at December 31, 2002

The total assets of the National Bank of Poland, which at the end of December 2001 stood at 135,992,180 thousand zloty, subsequently declined by 2,665,040 thousand zloty (2.0%) at year end in 2001, to stand at 133,327,140 thousand zloty on December 31, 2002.

TOTAL ASSETS	Balance in zloty, at	
	January 1, 2002	December 31, 2002.
	135,992,180,208.00	133,327,139,823.82
I. Primary assets	133,812,697,682.06	131,142,498,634.28
1. Gold and gold receivables conforming to international standards of purity	3,646,282,190.73	4,353,033,973.75
2. Foreign currency balances and claims on foreign institutions denominated in foreign currency	107,319,595,382.90	114,918,307,263.84
3. Claims on domestic institutions denominated in foreign currency	244,858,097.22	145,360,744.68
4. Lending to domestic banks denominated in Polish currency	4,301,020,534.11	3,809,631,494.42
5. Other claims on domestic banks denominated in Polish currency	1,280,699,561.31	1,280,372,410.16
6. Domestic debt securities	17,020,241,915.79	6,635,792,747.43
II. Other assets	2,179,482,525.94	2,184,641,189.54
1. Tangible fixed assets & assets in course of construction	736,627,623.70	923,510,553.32
2. Intangible assets	35,020,312.12	100,567,689.13
3. Financial fixed assets	234,911,582.84	262,446,771.20
4. Accrued income & prepaid expense	30,134,279.40	5,527,213.18
5. Currency revaluation accounts	136,912,108.79	84,714.83
6. Miscellaneous claims & inventories	1,005,876,619.09	892,504,247.88

Source: NBP.

TOTAL LIABILITIES & CAPITAL	Balance in zloty, at	
	January 1, 2002	December 31, 2002
	135,992,180,208.00	133,327,139,823.82
I. Notes & coin in circulation	43,130,281,319.78	46,745,018,382.98
II. NBP debt securities issued & outstanding	24,167,138,533.14	20,953,028,898.64
III. Liabilities denominated in Polish currency, excluding those given under items I and II	31,381,941,358.53	25,991,101,603.49
1. Liabilities to domestic banks	22,333,608,145.86	15,536,121,015.73
2. Liabilities to domestic government sector	3,886,153,195.55	5,656,716,735.36
3. Liabilities to other domestic institutions	2,272,282.41	3,014,846.96
4. Liabilities to foreign institutions	5,159,907,734.71	4,795,249,005.44
IV. Liabilities denominated in foreign currency, excluding those given under item II	6,139,547,806.31	2,307,859,362.74
1. Liabilities to domestic institutions	3,806,591,433.03	1,757,482,618.01
2. Liabilities to foreign institutions	2,332,956,373.28	550,376,744.73
V. Other liabilities	5,793,853,532.89	5,199,709,718.44
1. Deferred income & accrued expense	4,064,757,218.93	3,891,389,536.13
2. Special funds	14,212,397.46	46,321,276.45
3. Miscellaneous liabilities	87,389,442.74	275,334,130.19
4. Revaluation accounts	1,627,494,473.76	986,664,775.67
VI. Reserves	20,988,901,599.72	25,544,698,461.18
1. Currency revaluation reserve	20,988,901,599.72	25,424,612,752.48
2. Specific provisions	0.00	120,085,708.70
VII. Core capital	1,694,410,444.78	1,748,332,557.04
1. Registered equity	400,000,000.00	400,000,000.00
2. Reserve capital	1,294,410,444.78	1,348,332,557.04
VIII. Earnings	2,696,105,612.85	4,837,390,839.31

Source: NBP

13.2. Profit & loss account at December 31, 2002

Item	zloty figures per year	
	2001	2002
I. Interest, discount & premium income	7,142,220,659.71	5,665,206,399.16
II. Interest, discount & premium expense	5,872,295,613.56	3,106,417,326.95
III. Net interest, discount & premium income / expense (I - II)	1,269,925,046.15	2,558,789,072.21
IV. Net income / expense on financial operations	-129,980,820.76	559,778,995.12
V. Movements in valuation allowances against financial assets	1,371,982,626.90	1,543,993,091.48
VI. FX gains / losses, net	1,176,417,116.91	1,187,765,026.51
VII. Fee & commission income	18,171,774.46	13,352,114.53
VIII. Fee & commission expense	19,340,273.32	19,707,061.16
IX. Net fee & commission income / expense (VII - VIII)	-1,168,498.86	-6,354,946.63
X. Income from financial fixed assets	7,925,040.78	40,902,029.25
A. Net income / expense on banking activity (III + IV + V + VI + IX + X)	3,695,100,511.12	5,884,873,267.94
XI. Other operating income	34,472,034.70	53,950,126.14
XII. Other operating expense	3,004,086.49	1,862,342.56
XIII. Depreciation charges	94,901,374.84	111,057,457.06
XIV. General expense	935,436,543.63	868,255,886.27
1. Personnel expense	403,053,397.19	401,999,965.85
2. Administrative expense	392,869,238.04	393,825,380.58
3. Purchases of domestic notes & coin	139,513,908.40	72,430,539.84
XV. Movements in provisions	0.00	-120,256,582.14
1. Income from release of provisions	0.00	3,106.34
2. Provisioning expense	0.00	120,259,688.48
B. Net income / expense on ordinary operations (A + XI - XII - XIII - XIV +/- XV)	2,696,230,540.86	4,837,391,126.05
XVI. Extraordinary gains	0.00	0.00
XVII. Extraordinary losses	124,928.01	286.74
C. Extraordinary gains / losses, net (XVI - XVII)	-124,928.01	-286.74
D. EARNINGS (B + C) (PROFIT)	2,696,105,612.85	4,837,390,839.31

Source: NBP.

13.3. Movements in assets and liabilities

The movements seen in the balance sheet at the end of 2002 relative to December 31, 2001, were chiefly attributable to the following:

in terms of assets:

- a decrease in domestic debt securities of 10,384,449 thousand zloty, or 61%, which was traceable primarily to the sale and purchase of Treasury conversion bonds of a book value of 4,937,377 thousand zloty and the purchase of dollar-denominated Treasury bonds issued in 2001 and worth 4,423,166 thousand zloty;
- an increase in foreign currency balances and claims on foreign institutions of 7,598,711 thousand zloty, or 7.1%, principally due to increased exposure to foreign debt securities held in the NBP portfolio and foreign exchange differentials. In book value terms, the dollar and sterling portfolios grew respectively 1,668.2m and 185.8m, whereas the euro portfolio shrank 323.7m;

in terms of liabilities:

- a decrease in liabilities denominated in Polish currency of 5,390,839 thousand zloty, or 16.2%, mainly due to a fall in the time deposit balances held by domestic banks;

- a decrease in liabilities denominated in foreign currencies of 3,831,689 thousand zloty, or 62.4%, which was associated with the reduction in balances held on central government accounts in foreign currencies and the balances of time deposits denominated in foreign currencies with a debt securities repurchase agreement;
- a decrease in NBP debt securities issued and outstanding of 3,214,110 thousand zloty, or 13.3%, resulting from a reduction in the scale of open market operations in the final days of December 2002;
- an increase in capital and reserves of 4,600,719 thousand zloty, or 20.3%, caused by a rise in the currency revaluation reserve, in connection with an increase in official reserve assets denominated in foreign currencies;
- an increase in notes and coin in circulation of 3,614,737 thousand zloty, or 8.4%, with the reasons for this including the diminished appeal of holding funds in bank accounts (due to falling interest rates);
- an increase of 2,141,285 thousand zloty, or 79.4%, in earnings generated in 2002 over the 2001 figure.

Table 19

Movements in assets and liabilities, 2000–2002

Item	Balance at			Change	
	31/XII/2000	31/XII/2001	31/XII/2002	31/XII/2002 - 31/XII/2001	
	thousand zloty				%
ASSETS					
I. Primary assets	140,990,795	133,812,698	131,142,499	-2,670,199	98.0
of which:					
1. Gold and gold receivables conforming to international standards of purity	3,734,977	3,646,282	4,353,034	706,752	119.4
2. Foreign currency balances and claims on foreign institutions denominated in foreign currency	116,422,251	107,319,596	114,918,307	7,598,711	107.1
3. Claims on domestic institutions denominated in foreign currency	376,248	244,858	145,361	-99,497	59.4
4. Lending to domestic banks denominated in Polish currency	5,221,595	4,301,020	3,809,632	-491,388	88.6
5. Other claims on domestic banks denominated in Polish currency	1,281,539	1,280,700	1,280,372	-328	99.9
6. Domestic debt securities	13,954,185	17,020,242	6,635,793	-10,384,449	39.0
II. Other assets	2,089,136	2,179,482	2,184,641	5,159	100.2
TOTAL ASSETS	143,079,931	135,992,180	133,327,140	-2,665,040	98.0
LIABILITIES & CAPITAL					
I. Notes & coin in circulation	38,564,112	43,130,281	46,745,018	3,614,737	108.4
II. NBP debt securities issued and outstanding	33,738,053	24,167,139	20,953,029	-3,214,110	86.7
III. Liabilities denominated in Polish currency	22,940,307	31,381,941	25,991,102	-5,390,839	82.8
IV. Liabilities denominated in foreign currency	6,437,340	6,139,548	2,307,859	-3,831,689	37.6
V. Other liabilities	6,704,247	5,793,853	5,199,710	-594,143	89.7
VI. Capital & reserves	29,683,848	22,683,312	27,293,031	4,609,719	120.3
VII. Earnings	5,012,024	2,696,106	4,837,391	2,141,285	179.4

Source: NBP

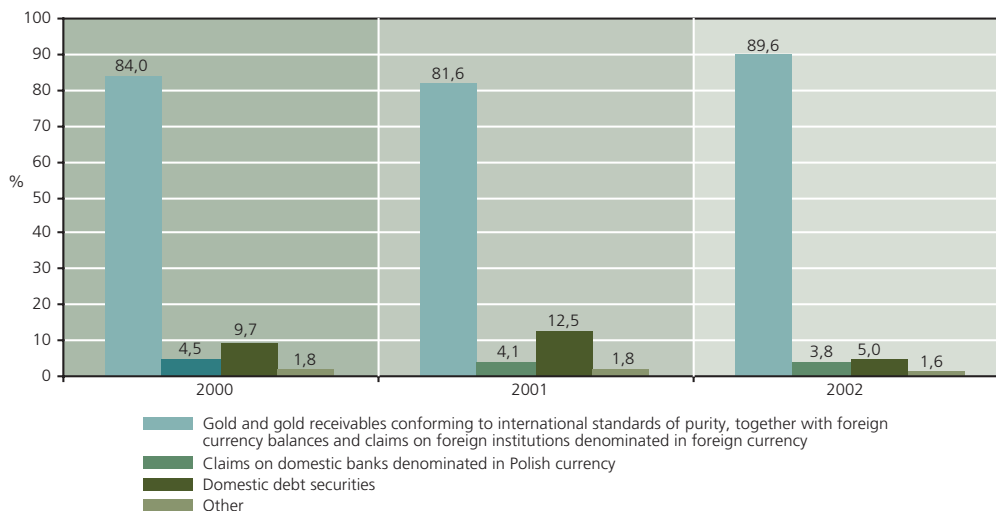
The prime component of assets are foreign currency balances and claims on foreign institutions denominated in foreign currency, which in 2002 accounted for over 86% of the Bank's assets. This represented an increase of 7.4 points compared to 2001.

By contrast, the share of domestic debt securities in total assets fell 7.5 points relative to 2001.

Movements in the structure of the Bank's assets in the years 2000–2002 are depicted in Figure 14.

Figure 14

Movements in structure of assets, 2000–2002



Source: NBP.

As regards the Bank's liabilities and capital, the largest item were notes and coin in circulation, accounting for 35.1% (an increase of 3.4 points compared to December 31, 2001).

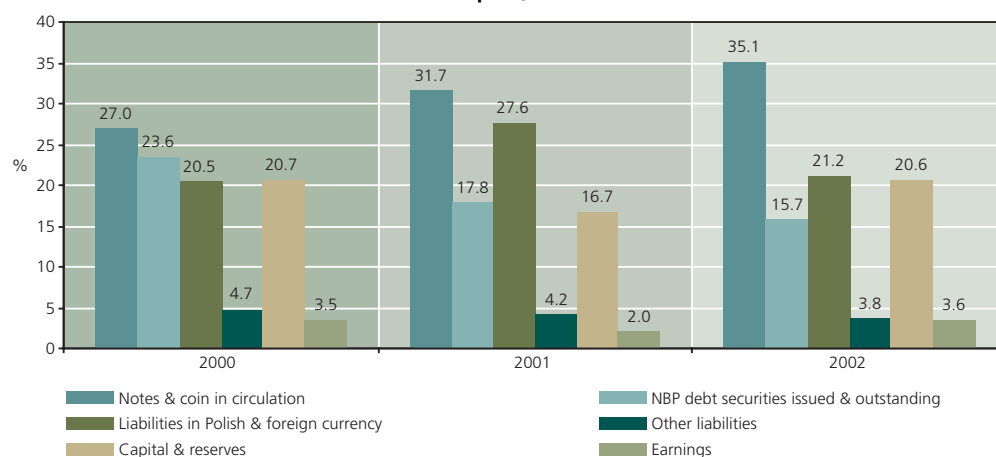
The second biggest item within liabilities and capital were liabilities denominated in the Polish currency (down 3.6 points in relative terms compared to 2001).

Similarly, the relative share represented by NBP debt securities issued and outstanding increased 2.1 points, while that of reserves and capital grew 3.9 points, chiefly due to an increase in the currency revaluation reserve.⁶²

Movements in the structure of the Bank's liabilities and capital in the years 2000–2002 are portrayed in Figure 15.

Figure 15

Movements in structure of liabilities & capital, 2000–2002



Source: NBP.

⁶² Assets and liabilities & capital denominated in foreign currencies must be converted into Polish currency for reporting purposes. An increase or decrease in the zloty value is shown in the currency revaluation reserve. The currency revaluation reserve constitutes the NBP safeguard against FX risk and offers protection against other losses. It is but an item on the liabilities & capital side of the Bank's balance sheet (a book entry rather than cash set aside by the NBP on a special-purpose account).

13.4. Movements in profit and loss account

In 2002, the operations of the National Bank of Poland yielded a profit of 4,837,391 thousand zloty. This was 2,141,285 thousand zloty (79.4%) more than the profit generated in 2001.

Table 20

Movements in profit & loss, 2002

Item	Year		Change		Structure	
	2001	2002			2001	2002
	thousand zloty				%	
Earnings	2,696,106	4,837,391	2,141,285	79.4	100.0	100.0
1. Net income / expense on banking activity	3,695,101	5,884,873	2,189,772	59.3	137.1	121.7
of which:						
net interest, discount & premium income / expense	1,269,925	2,558,789	1,288,864	101.5	47.1	52.9
net income / expense on financial operations	-129,981	559,779	689,760	-	-4.8	11.6
net movements in valuation allowances against financial assets	1,371,983	1,543,993	172,010	12.5	50.9	31.9
net FX gains / losses	1,176,417	1,187,765	11,348	1.0	43.6	24.6
net fee & commission income / expense	-1,168	-6,355	-5,187	444.1	-	-0.1
income from financial fixed assets	7,925	40,902	32,977	416.1	0.3	0.8
2. Net income / expense on other operating activity	-998,870	-1,047,482	-48,612	4.9	-37.0	-21.7
of which:						
other operating income / expense, net	31,468	52,088	20,620	65.5	1.2	1.1
depreciation charges	94,901	111,057	6,156	17.0	3.5	2.3
general expense	935,437	868,256	-67,181	-7.2	34.7	17.9
difference in reserve value	0	-120,257	-120,257	-	-	-2.5
3. Net income / expense on extraordinary operations	-125	0	125	-100.0	-	-

Source: NBP.

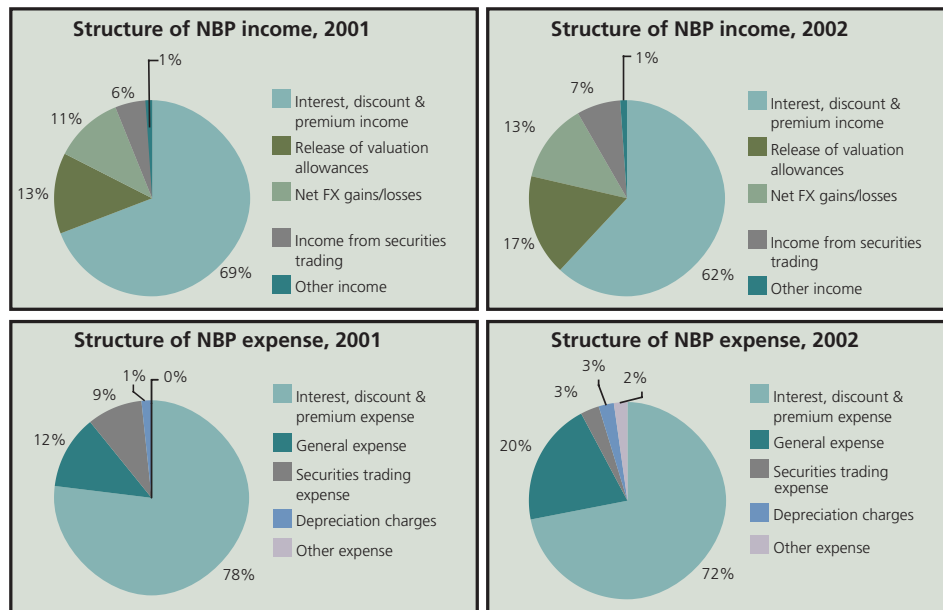
The higher earnings recorded in 2002 relative to the previous reporting period can be ascribed to an increase in net income on banking activity, which was up 2,189,772 thousand zloty. The movement in net income on banking activity can primarily be traced to the following:

- an increase of 1,288,864 thousand zloty in net interest, discount and premium income, accompanied by a simultaneous decline of 2,765,879 thousand zloty in the corresponding expense item and of 1,477,015 thousand zloty in the corresponding income item),
- an increase of 689,760 thousand zloty in net income on financial operations,
- an increase of 172,010 thousand zloty in net income arising on movements in valuation allowances against financial assets.

In 2002, the total income of the NBP was spread unevenly during the year, due primarily to movements in net income on financial operations, net FX gains and valuation allowances against financial assets. As a result, its lowest value (581,187 thousand zloty) was recorded in May, while the highest (1,108,459 thousand zloty) – in September. The distribution of expenses was more stable, with their lowest level in November (269,401 thousand zloty), chiefly attributable to persistently low interest, discount and premium expense on securities and bank accounts, and the highest in April (475,942 thousand zloty), caused mainly by a one-off contribution to the Bank Guarantee Fund (95,537 thousand zloty) and high cost of handling securities. Due to the trends in NBP income and expenses described above, the lowest earnings (159,244 thousand zloty) were generated in April, while by far the highest ones (786,581 thousand zloty) in September.

Figure 16

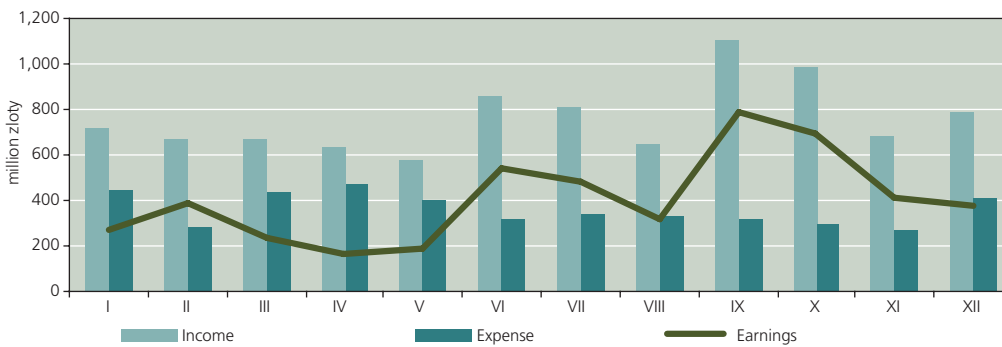
NBP income and expense structure, 2001–2002



Źródło: dane NBP.

Figure 17

NBP income, expense and earnings, 2002



Source: NBP.

13.4.1. Net income/expense on banking activity

13.4.1.1. Net interest, discount and premium income/expense

The increase in interest, discount and premium income of 1,288,864 thousand zloty was associated with a 2,765,879 thousand zloty decline in the corresponding expense item, caused, to a large extent, by NBP interest rate cuts and non-renewal in 2002 of the time deposit agreement concluded with PKO BP SA, under the bank's rehabilitation programme. The decrease in interest, discount and premium expense was reduced by a 1,477,015 thousand zloty in the corresponding income item, attributable chiefly to the lowering of interest on foreign financial instruments and the outright sale of Treasury conversion bonds, which led to a reduction in interest income from the bonds in question.

Table 21

Net interest, discount & premium income/expense

Item	Year		Change		Structure	
	2001	2002			2001	2002
	thousand zloty				%	
Net interest, discount & premium income / expense	1,269,925	2,558,789	1,288,864	101.5		
Interest, discount & premium income	7,142,221	,665,206	-1,477,015	-20.7	100.0	100.0
1. Income:	2,071,869	1,477,691	-594,178	-28.7	29.0	26.1
a) interest receivable on funds held on bank accounts	1,427,906	897,972	-529,934	-37.1	20.0	15.9
b) interest receivable on loans and advances	588,273	521,177	-67,096	-11.4	8.2	9.2
c) other income	51,537	58,215	6,678	13.0	0.7	1.0
d) income receivable on past due claims	4,152	328	-3,824	-92.1	0.1	-
2. Securities income	5,070,352	4,187,516	-882,836	-17.4	71.0	73.9
Interest, discount & premium expense	5,872,296	3,106,417	-2,765,879	-47.1	100.0	100.0
1. Interest expense	1,488,447	767,913	-720,534	-48.4	25.3	24.7
a) interest payable on funds held on bank accounts	1,466,826	736,684	-730,142	-49.8	25.0	23.7
b) interest payable on loans and advances	338	193	-145	-42.9	-	-
c) other expense	21,283	31,037	9,754	45.8	0.4	1.0
2. Interest, discount and premium expense on NBP securities	4,383,848	2,338,504	-2,045,344	-46.7	74.7	75.3

Source: NBP.

13.4.1.2. Net income/expense on financial operations

Table 22

Net income/expense on financial operations

Item	Year		Change		Structure	
	2001	2002			2001	2002
	thousand zloty				%	
Net income / expense on financial operations	-129,981	559,779	689,760	-		
Gains on securities trading	571,130	654,849	83,719	14.7	100.0	100.0
of which:						
foreign securities	568,873	621,203	52,330	9.2	99.6	94.9
domestic securities	2,257	33,646	31,389	1390.7	0.4	5.1
Losses on securities trading	701,111	95,070	-606,041	-86.4	100.0	100.0
of which:						
foreign securities	40,048	20,336	19,712	-49.2	5.7	21.4
domestic securities	661,063	74,733	-586,330	-88.7	94.3	78.6

Source: NBP.

The net income on financial operations was principally the end result of reduced expense involved in the trading of domestic securities subject to outright sale, and increased market prices of foreign securities.

13.4.1.3. Movements in valuation allowances against financial assets

Table 23

Movements in valuation allowances against financial assets

Item	Year		Change		Structure	
	2001	2002			2001	2002
	thousand zloty		%			
Movements in valuation allowances against financial assets	1,371,983	1,543,993	72,010	12.5	100.0	100.0
Income on release of valuation allowances	1,372,006	1,543,993	171,987	12.5	100.0	100.0
Expense of charges to valuation allowances	24	0	-24	-100.0	-	-

Source: NBP.

In 2002, only valuation allowances against Treasury conversion bonds were released (due to their sale or lasting increase in market value).

13.4.1.4. Net FX gains/losses

Table 24

Net FX gains/losses

Item	Year		Change		Structure	
	2001	2002			2001	2002
	thousand zloty		%			
Net FX gains / losses	1,176,417	1,187,765	11,348	1.0		
Gains	1,194,924	1,194,546	-378	-0.0	100.0	100.0
of which:						
gains on exchange operations	51,128	41,336	-9,792	-19.2	4.3	3.5
release of currency revaluation reserve	577,580	534,632	-42,948	-7.4	48.3	44.8
gains on revaluation of assets & liabilities denominated in foreign currencies	566,216	618,578	52,362	9.2	47.4	51.8
Losses	18,507	6,781	-11,726	-63.4	100.0	100.0
of which:						
losses on exchange operations	10,102	5,255	-4,847	-48.0	54.6	77.5
losses on revaluation of assets & liabilities denominated in foreign currencies	8,405	1,526	-6,879	-81.8	45.4	22.5

Source: NBP.

The level of net FX gains obtained in 2002 was determined by the gains on the revaluation of assets and liabilities denominated in foreign currency associated primarily with more extensive purchases of capital instalments of dollar-denominated Treasury bonds issued in 1991, and with a decline in the income recognized on the release of the currency revaluation reserves held at the NBP (as a result of the lower sale of foreign currency to the Ministry of Finance for the servicing of Poland's sovereign external debt).⁶³

⁶³ The currency revaluation reserve is released:

- in the case of sale of foreign currency assets against Polish currency:
 - to the banks – on the interbank foreign exchange market,
 - to the Ministry of Finance – for the servicing of the country's sovereign external debt,
- in the case of the NBP posting a loss on operating activity.

13.4.1.5. Net fee & commission income/expense

Table 25

Net fee & commission income/expense

Item	Year		Change		Structure	
	2001	2002			2001	2002
	thousand zloty				%	
Net fee & commission income/expense	-1,168	-6,355	-5,187	444.1		
Income	18,172	13,352	-4,820	-26.5	100.0	100.0
of which, receivable from:						
domestic banks	10,498	4,942	-5,556	-52.9	57.8	37.0
foreign banks	92	139	47	51.1	0.5	1.0
government sector	5,313	6,101	788	14.8	29.2	45.7
other parties	2,268	2,169	-99	-4.4	12.5	16.2
Expense	19,340	19,707	367	1.9	100.0	100.0
of which, payable to:						
domestic banks	17,355	17,428	73	0.4	89.7	88.4
foreign banks	1,985	2,279	294	14.8	10.3	11.6

Source: NBP.

Fee and commission income is earned by the National Bank on the provision of banking services to the banking sector and government special-purpose funds. Fee and commission expense is incurred principally as a result of 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. The decrease in fee and commission income resulted from a reduction in the scale of concluded purchase and sale transactions between the commercial banks and the National Bank, due primarily to the introduction of the euro as the currency applicable in the countries of the Economic and Monetary Union.

13.4.1.6. Income from financial fixed assets

Table 26

Income from financial fixed assets

Item	Year		Change		Structure	
	2001	2002			2001	2002
	thousand zloty				%	
Income from financial fixed assets	7,925	40,902	32,977	416.1	100.0	100.0
of which:						
shares sold	0	2,553	2,553	-	-	6.2
dividends received	7,925	38,349	30,424	383.9	100.0	93.8
of which, received from:						
IKUKE S.A. [the Export Credit Insurance Corporation], Warsaw	241	0	-241	-100.0	3.0	-
KIR S.A. [the National Clearing House], Warsaw	188	625	437	232.4	2.4	1.5
BPT TELBANK SA, Warsaw	1,100	5	-1,095	-99.5	13.9	-
BIS	6,396	37,718	31,322	489.7	80.7	92.2

Source: NBP.

The dividend income from the Bank for International Settlements (BIS) in Basle is made up of paid dividend of 8,555 thousand zloty and the income related to the changes in principles for valuating BIS shares denominated in gold francs, of 29,163 thousand zloty.

13.4.2. Other operating income/expense, net

Table 27

Net income/expense on other operating activity

Item	Year		Change		Structure	
	2001	2002			2001	2002
	thousand zloty				%	
Net income/expense on other operating activity	-998,870	-1,047,482	-48,612	4.9		
I. Other operating income	34,472	53,950	19,478	56.5	100.0	100.0
II. Other operating expense	3,004	1,862	-1,142	-38.0	100.0	100.0
III. Depreciation charges	94,901	111,057	16,156	17.0	100.0	100.0
IV. General expense	935,437	868,256	-67,181	-7.2	100.0	100.0
1. Personnel expense	403,053	402,000	-1,053	-0.3	43.1	46.3
of which:						
salaries	339,741	337,289	-2,452	-0.7	36.3	38.8
associated payroll expense	63,313	64,711	1,398	2.2	6.8	7.5
2. Administrative expense	392,869	393,825	956	0.2	42.0	45.4
of which:						
materials and energy	31,654	31,935	281	0.9	3.4	3.7
employee benefits	36,453	38,341	1,888	5.2	3.9	4.4
official travel	9,020	8,825	-195	-2.2	1.0	1.0
external services	134,395	154,271	19,876	14.8	14.4	17.8
taxes & official charges	7,947	11,074	3,127	39.3	0.8	1.3
other banking expense	163,997	101,447	-62,550	-38.1	17.5	11.7
other administrative expense	5,001	17,800	12,799	255.9	0.5	2.1
of which:						
expense of bank information and promotion, and educational activity	4,087	15,554	11,467	280.6	0.4	1.8
charges to special-purpose funds	4,401	30,133	25,732	584.7	0.5	3.5
3. Purchases of domestic notes & coin	139,514	72,431	-67,083	-48.1	14.9	8.3
V. Difference in reserve value	0	-120,257	-120,257	-	100.0	100.0

Source: NBP.

The increase in total depreciation charges was determined primarily by higher depreciation charges for intangible assets. This was chiefly associated with the advancing process of IT systems implementation at the NBP designed to enhance the efficiency of the Bank's operations (including improvement in customer service) and bring it into line with the requirements of the European Central Bank.

In 2002, the Bank's general expense, comprising personnel and associated payroll expense, administrative expense and purchases of notes and coin, came to 868,256 thousand zloty, which reveals a reduction of 67,181 thousand zloty (7.2%) compared to 2001. This was chiefly due to a 67,083 thousand zloty reduction in the expense of purchasing notes and coin. Combined personnel & associated payroll expense and administrative expense declined 97 thousand zloty compared to the previous reporting period.

The decline in personnel and associated payroll expense in 2002 is the result of the restructuring of the National Bank, initiated in 2002, and of the freezing of salaries at the same level as in 2001.

Administrative expense was related to the continuation of old and performance of new responsibilities outlined in the *NBP Workplan*, which involved, among other things, the expansion of the Bank's activity in the field of information technology with a view to optimising management (e.g. work on the Integrated Accounting System, the Own Economy System). Additionally, the NBP

conducted an informational and educational campaign concerning the European integration and, following the example of central banks of other countries, carried out educational programmes to raise the level of economic awareness in the society. 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 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 in order to conform to the standards of the European System of Central Banks (joint financing under PHARE 2000 Programme).

Lowering the expense of purchasing notes and coin was chiefly due to the implementation of measures designed to optimise the reserves of notes and coin managed by the NBP.

13.4.3. Movements in provisions

The difference in reserve value in 2002 amounting to –120.257 thousand zloty was due to the expense of establishing specific provisions for future liabilities to employees under jubilee awards, old age and disability pensions, for disputed liabilities created in 2002, and severance pay for employees from liquidated NBP Sub-branch Offices.

13.4.4. Profit and distributions

In 2002, the profit of the National Bank of Poland totalled 4,837,391 thousand zloty, an increase of 2,141,285 thousand zloty compared to the figure recorded in the previous reporting period. Once the Bank's *Annual Financial Report for the year 2002* is 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 4,837,391 thousand zloty will thus be divided as follows: appropriations to capital of 156,528 thousand zloty, and a transfer of earnings to the Treasury of 4,680,863 thousand zloty.

BALANCE OF PAYMENTS
OF THE REPUBLIC OF POLAND
2002

14.1. Summary

An analysis of the balance of payments figures on a cash basis for 2002 leads to the following conclusions:

1. The current account deficit in 2002 amounted to €7,188m, representing a decrease of 10.1% compared to 2001.
2. This decline in the current deficit allowed an improvement in the ratio of the deficit to GDP, which came down from 3.9% in 2001 to 3.6% in 2002.
3. The balance on current transactions was assisted by a reduction in the deficit on trade in goods. The improvement in the trade balance (goods) is attributable to stronger growth in exports than in imports.
4. The negative balance on income increased markedly, while the surplus on unclassified current account transactions decreased. The balances on the remaining items of the current account were similar to those a year previously.
5. The total capital invested in Poland by non-residents was down 16% on 2001.
6. The inflow of foreign direct investment fell 45% compared to 2001. This was primarily due to privatisation tailing off.
7. As a result, the part played by direct investment in funding the current deficit declined. This fell to 60.3% in 2002, as against 97.8% in 2001.
8. The tendency for non-residents to withdraw from investments in equity securities continued.
9. Non-resident investment in debt securities rose over two and half times compared to 2001. Non-residents mainly targeted Treasury bonds, offered for sale on both the domestic and international markets, which was related to heavy government borrowing requirements.
10. The increase in external financing for the general government sector through security issues was accompanied by a decrease in loan obligations. External loan financing came to a negative €538m, chiefly as a result of repayments of large principal instalments to the creditors of the Paris Club.
11. Polish corporates reduced the funding of their borrowing requirements abroad, both under loans and debt securities issued on international markets. Incoming corporate loan finance amounted to €489m in 2002, which was 69.1% less than the previous year. At the same time, the banking sector also scaled back its debt. In 2002, net lending to Polish banks from abroad came to a negative €486m.
12. There was a decrease in the foreign investment of Polish residents, principally because of a €3.2bn decline in the deposits held by Polish banks at banks abroad.
13. An analysis of safety indicators, such as the ratio of the current account deficit to GDP, reserve assets in months of imports, and also the index of macroeconomic vulnerability to crisis, demonstrates that the level of safety did not deteriorate. However, these indicators fail to take account of adverse changes in the composition of incoming foreign investment, involving a reduction in foreign direct investment and a greater inflow of portfolio investment.

14.2. Current account

14.2.1. Current account balance improves

The year 2002 brought an improvement on the current account of the balance of payments. The current account deficit narrowed by €804m, or 10.1%, compared to 2001, to stand at €7,188m

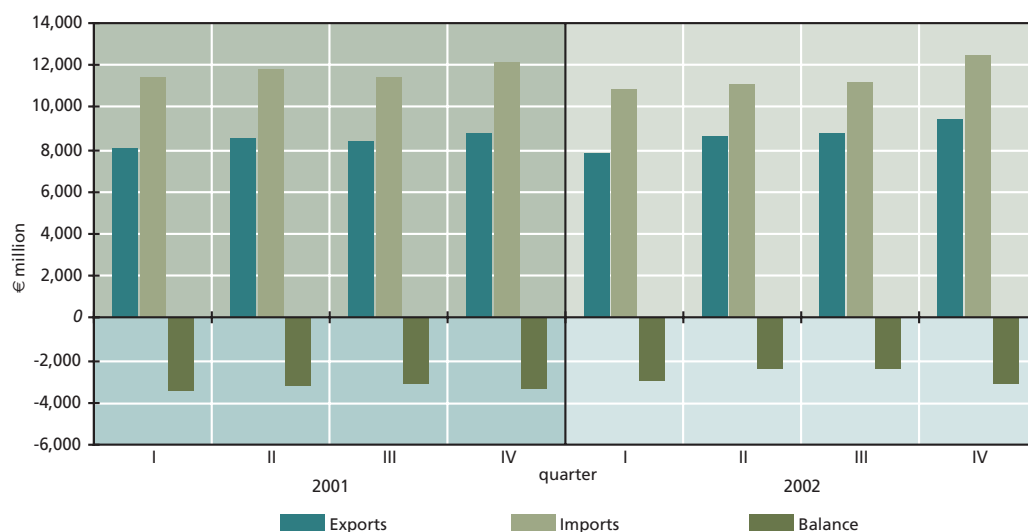
Table 28

Current account componente (€ million)

	2001	2002	Change (2002–2001)
Current account balance	-7,992	-7,188	804
Trade balance	-14,117	-12,040	2,077
Goods: net	-13,025	-10,966	2,059
Services: net	-1,092	-1,074	18
Income: net	-1,027	-1,681	-654
Current transfers: net	2,237	2,299	62
Unclassified current account transactions: net	4,915	4,234	-681

Figure 18

Goods



The main reason for the positive changes recorded on the current account was a substantial improvement in the balance on goods (reducing the trade gap by €2,059m, or 15.8%). The smaller deficit on trade in goods was the effect of export receipts rising 2.7%, while import payments dipped 2.4%.

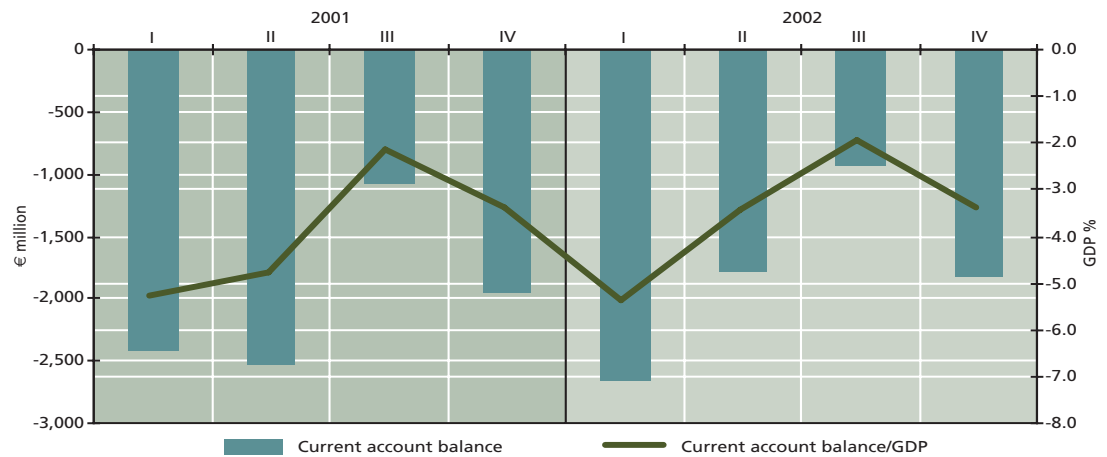
A slight improvement was also seen in the balance on current transfers (up €62m), and also on trade in services (where the deficit came down €18m).

The balances on the remaining components of the current account were worse than a year earlier. This primarily refers to the shortfall on income, which widened from €1,027m to €1,681m, an increase of 63.7%.

The changes affecting the current balance outlined above impacted the relationship between the current deficit and gross domestic product (GDP). During the second and third quarters of 2002, this ratio was on the mend, whereas in the fourth it slipped to 3.4% (the same value as in the corresponding period of the year before). Over the year 2002 as a whole, the ratio came to 3.6%, representing an improvement of 0.3 points.

Figure 19

Current account balance to GDP (by quarter, NET)



14.2.2. Rise in goods receipts

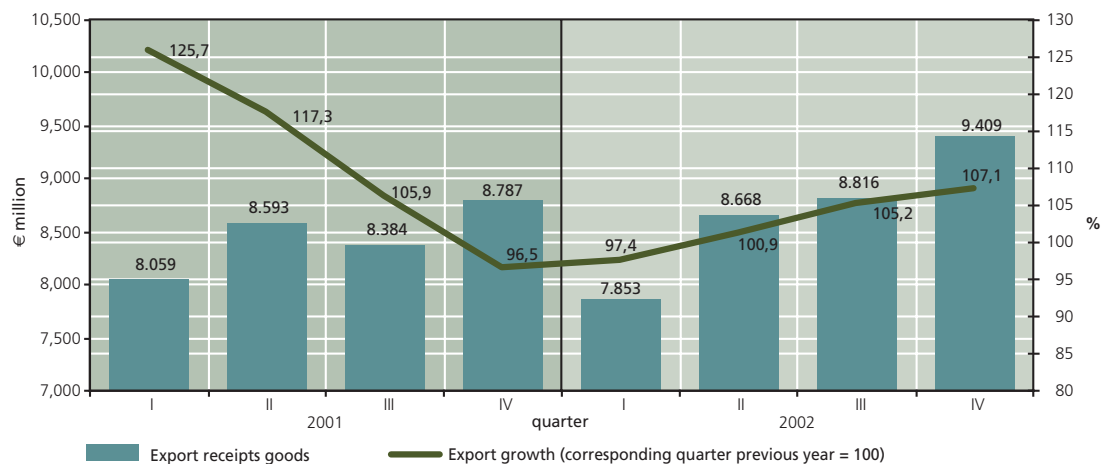
On a cash basis, the value of goods exports in 2002 totalled €34,746m, equivalent to US\$ 32,945m. As stated in euros, this signifies an increase compared to 2001 of €923m, i.e., 2.7%. Growth was stronger in dollar terms, amounting to US\$ 2,670m, or 8.8%.

A distinct upward trend is visible in exports during 2002. This is confirmed both by an analysis of export growth rates and by trend analysis using the Hodrick-Prescott filter.

The analysis of growth rates indicates that the downward trend observable in 2001 was reversed, with an uptrend emerging from the second quarter of 2002 onwards.

Figure 20

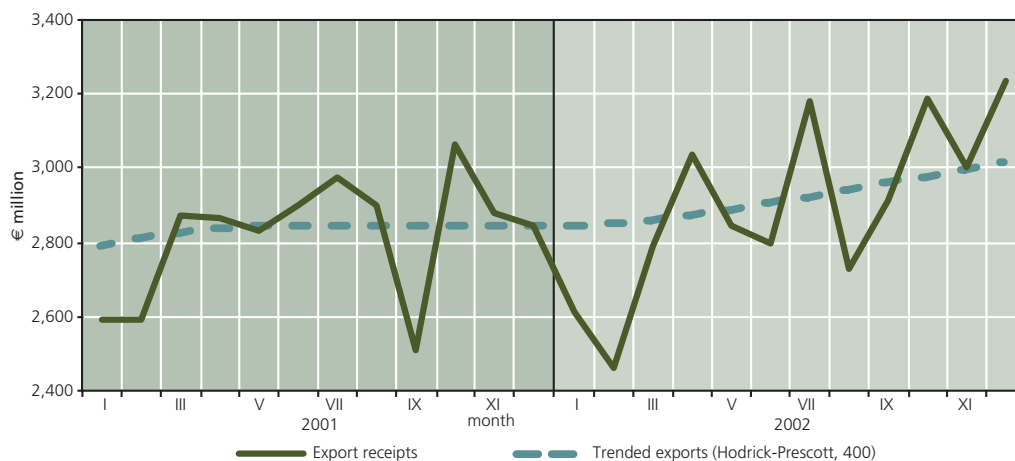
Export growth, cash basis



Trend analysis using the Hodrick-Prescott filter reveals that the tendency for exports to stabilise characteristic of 2001 was transformed into an upward tendency in 2002.

Figure 21

Trended exports, cash basis



Foreign trade statistics compiled on the basis of customs data indicate that the value of goods exports in 2002 came to €43,499m, giving an increase compared to the previous year of €3,304m, or 8.2%. Expressed in dollars, exports in 2002 amounted to US\$ 41,010m, having thus risen US\$ 4,918m on the year before, or 13.6%.

Table 29

Geographical breakdown of exports (customs data)

Region	2001	2002	Change (2002-2001)	Growth* (2002/2001)	Share in exports, 2002
	€ million			%	
Total	40,195	43,499	3,304	108.2	100.0
European Union	27,822	29,914	2,092	107.5	68.8
of which: Germany	13,819	14,070	251	101.8	32.3
EFTA	989	1,163	174	117.6	2.7
Other developed countries	1,350	1,585	235	117.4	3.6
Central and Eastern Europe	7,384	8,263	880	111.9	19.0
of which: Czech Republic	1,595	1,737	141	108.9	4.0
Russia	1,182	1,415	233	119.7	3.3
Developing countries	2,649	2,573	-76	97.1	5.9

The data in the table were first calculated in euros and then rounded to million euros; this is the reason for any inconsistencies.

* corresponding period previous year = 100

Source: Foreign Trade Data Centre (CIHZ).

In analysing the geographical breakdown of Polish exports, it is noticeable that the determining role in export growth was played by sales to the European Union, which accounted for 63.3% of the total increase in Polish exports. Compared to 2002, exports to the EU countries were up €2,092m, or 7.5%. The largest increases, by value, were in exports to France (up €447m, or 20.6%), Sweden (€317m, or 29%), Germany (€251m, or 1.8%), the UK (€249m, or 12.4%) and Italy (€226m, or 10.4%).

Another group of countries displaying strong growth in the value of goods purchased from Poland are those of Central and Eastern Europe (taking 19% of total Polish exports). In 2002, exports to these countries grew €880m compared to the previous year, or 11.9%. The greatest increases in exports were to Russia (up €233m, or 19.7%), to Lithuania, the Czech Republic and Hungary, where exports rose some €140m (growth of 16.9%, 8.9% and 16.7%, respectively), and to Ukraine, where exports were up €130m (11.8%). Within this region, a decline was seen in exports to Belarus (down €33m, or 10.8%).

Major changes in the value of exports to countries in other regions involved increases in exports to Norway (up €317m, or 70%) and to the United States (up €212m, or 22.3%). Decreases in exports, on the other hand, were mainly recorded for Iceland and the developing countries, with the largest decline in the latter category observed in exports to Liberia, India, Mexico and Algeria.

Table 30**Commodity structure of exports (customs data)**

Section no.	SECTION	2001	2002	Change (2002-2001)	Growth* (2002/2001)	Share in exports, 2002
		€ million			%	
I	Live animals; animal products	1,040	962	-78	92.5	2.2
II	Vegetable products	815	913	98	112.1	2.1
III	Fats and oils	30	22	-8	74.0	0.1
IV	Prepared foodstuffs	1,492	1,568	75	105.0	3.6
V	Mineral products	2,440	2,347	-93	96.2	5.4
VI	Products of the chemical industry	1,981	2,145	164	108.3	4.9
VII	Plastics and rubber and articles thereof	1,893	2,215	322	117.0	5.1
VIII	Raw hides and skins, articles thereof	352	357	5	101.5	0.8
IX	Wood and articles of wood	1,266	1,402	136	110.7	3.2
X	Pulp of wood, paper, paperboard and articles thereof	1,438	1,646	208	114.5	3.8
XI	Textiles and textile articles	3,178	3,052	-126	96.1	7.0
XII	Footwear and headgear	336	341	5	101.5	0.8
XIII	Articles of stone, ceramic products, glass	901	1,003	101	111.2	2.3
XIV	Pearls, precious stones and metals, articles thereof	225	249	24	110.6	0.6
XV	Base metals and articles thereof	4,713	4,957	244	105.2	11.4
XVI	Machinery and mechanical appliances, electrical equipment	8,427	9,593	1,166	113.8	22.1
XVII	Transport equipment	6,214	6,910	696	111.2	15.9
XVIII	Optical, photographic, measuring & checking instruments and apparatus	241	301	60	124.9	0.7
XIX	Arms and ammunition	5	5	0	102.2	0.0
XX	Miscellaneous manufactured articles	3,195	3,497	302	109.4	8.0
XXI	Works of art, collectors' pieces and antiques	8	9	1	110.1	0.0
0	Products n.e.s.	4	4	0	100.0	0.0
	TOTAL EXPORTS	40,195	43,499	3,304	108.2	100.0

The data in the table were first calculated in euros and then rounded to million euros; this is the reason for any inconsistencies.

* corresponding period previous year = 100

Source: Foreign Trade Data Centre (CIHZ).

A commodity breakdown of Polish exports shows the dominance of "machinery and mechanical appliances, electrical equipment" (22.1% of exports) and "transport equipment" (15.9%), both of which exhibited growth in sales abroad (of €1,166m and €696m, respectively, or 13.8% and 11.2%). The growth in exports for these product sections was stronger than for exports overall (8.2%), thereby boosting their share in the structure of total exports (by 1.1 and 0.4 points, respectively). The sharpest rise by value in these sections was registered on the following items: "parts and accessories for motor vehicles"; "other vessels"; "internal combustion

engines"; "television receivers"; "motor vehicles for the transport of goods", "insulated wire, cable and other insulated electric conductors" (growth ranging from €335m to €118m). By contrast, a significant fall in exports within these sections was seen in "motor cars (motor vehicles for the transport of persons)" (down €96m, or 6.1%) and "aircraft (aeroplanes, helicopters)" (down €73m, or 51.9%).

In addition to the categories mentioned above, the largest increases in exports, by value, were recorded in the following sections:

- "plastics and rubber and articles thereof" (up €322m, or 17%); this mainly comprised "retreaded or used pneumatic tyres, of rubber",
- "miscellaneous manufactured articles", including "furniture, prefabricated buildings and toys" (up €302m, or 9.4%),
- "base metals and articles thereof" (up €244m, or 5.2%); this mainly comprised "structures and parts of structures, of steel".

Meanwhile, the steepest decreases in exports, by value, were reported in the following sections:

- "textiles and textile articles" (down €126m, or 3.9%), which is mainly traceable to a drop in exports of "textile garments and undergarments" (down €148m, or 9.7%),
- "mineral products" (down €93m, or 3.8%), chiefly due to a fall in exports of "coal, briquettes, solid fuels manufactured from coal" (down €153m, or 15%),
- "live animals; animal products" (down €78m, or 7.5%), principally due to lower exports of "milk and cream" (down €115m, or 45.2%).

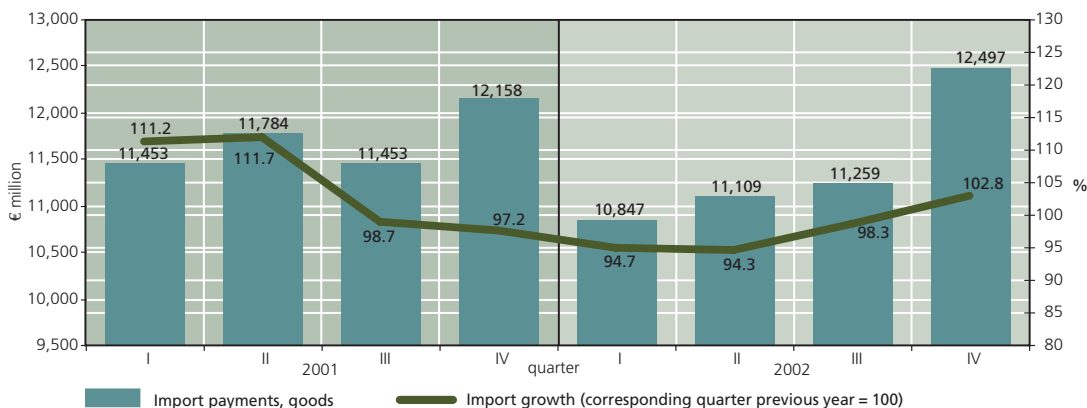
14.2.3. Decline in value of goods imports

The trade statistics on a cash basis show payments for goods imports in 2002 amounting to €45,712m, which represents a decline on the previous year of €1,136m, or 2.4%. When expressed in US dollars, on the other hand, there was an increase of US\$ 1,347m (3.2%), while the value of imports last year totalled US\$ 43,297m.

An analysis of import growth in 2002 indicates that imports trended downwards until mid-year, and then trended upwards from the third quarter onwards. Meanwhile, a comparison of the particular quarters of the years 2001 and 2002 demonstrates that in the first three quarters of 2002 the value of imports was lower than in the corresponding period of the previous year, while in the fourth quarter imports were 2.8% higher.

Figure 22

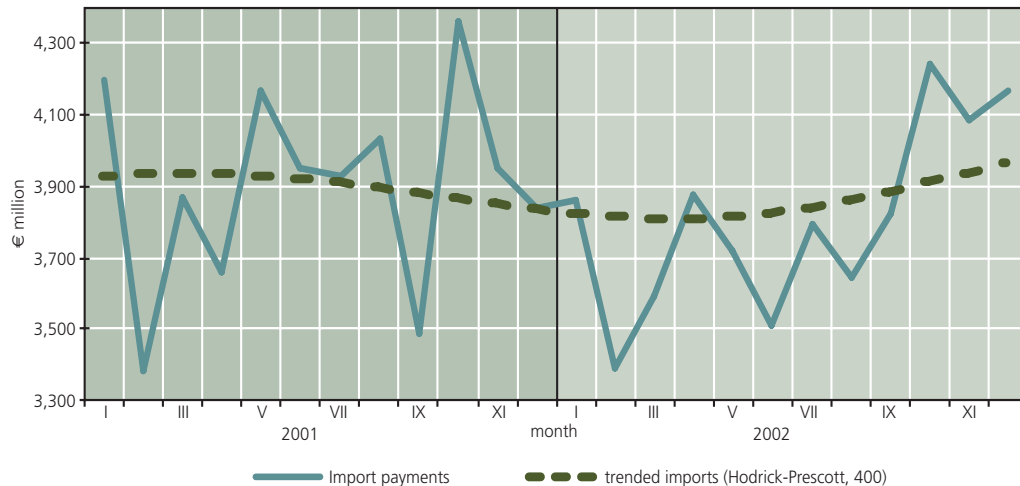
Import growth, cash basis



Trend analysis using the Hodrick-Prescott filter also shows a downward trend in imports from the beginning of 2001 until mid-2002, whereupon import payments began to grow.

Figure 23

Trended imports, cash basis



Customs statistics indicate that imports rose €2,446m in 2002 compared to 2001, an increase of 4.4%, to stand at €58,480m. Stated in dollars, imports were up US\$ 4,838m in 2002, or 9.6%, amounting to US\$ 55,113m.

A geographical breakdown of imports in 2002 reveals that the increased value of imports compared with the previous year was primarily attributable to a rise of €1,677m, or 4.9%, in the value of goods purchased from the European Union (Poland's principal trade partner, which accounted for 61.7% of total Polish imports). The increase in imports from the EU countries represented 68.6% of overall import growth. The greatest rises in imports, by value, were in trade with Germany (an increase of €794m, or 5.9%), which constitutes the largest supplier of goods to Poland (providing 24.3% of total Polish imports), and then Italy (up €262m, or 5.7%) and France (up €258m, or 6.8%). The most significant decreases in imports from EU countries were in those from the UK (down €55m) and Finland (down €36m).

One group of countries that saw the value of goods taken by Poland diminish compared to the previous year were those of Central and Eastern Europe (a decline of €170m, or 1.7%). This was chiefly due to lower purchases from Russia, the third largest source of Polish imports, with a share of 8% in total imports (imports from Russia fell €268m, or 5.4%), from Lithuania (down €106m, or 34.4%) and from the Czech Republic (down €43m, or 2.2%). By contrast, imports from Hungary increased (up €99m, or 11.2%), as did those from Belarus (up €78m, or 48.3%).

In terms of countries in other regions, the most important changes that should be noted in the value of imports involved an increase in those from China (up €393m, or 21.7%), Turkey (up €225m, or 50.5%) and Norway (up €166m, or 30.4%), and a decrease in goods imported from Brazil (down €178m, or 41.5%).

The growth in the value of total imports seen in 2002 primarily stemmed from higher purchases of capital goods (19.2% of total imports) and consumption goods (21.5%). The increase in capital goods imports amounted to €995m, or 9.8%. This chiefly concerned "passenger ships, cargo ships, ferry-boats" (up €593m, or 80.3%) and "motor vehicles for the transport of goods" (up €257m, or 67%). Imports of consumption goods rose €909m, or 7.8%. The main contribution to this came from higher imports of "passenger motor cars" (up €461m, or 20.6%), "products of the chemical industry" (up €160m, or 6.6%), and "textiles and textile articles" (up €120m, or 20.9%). Meanwhile, imports of the predominant product category, i.e., of production supplies (inputs for "intermediate

consumption", which constituted 59.3% of total imports), went up €570m, or 1.7%. This small growth in imports of production supplies was the combined effect of increased imports of certain goods, coupled with a steep drop in imports of "petroleum gases and other gaseous hydrocarbons", which fell €277m, or 23.3%, and of "petroleum oils and natural gas condensates, crude", which came down €143m, or 4.4%. It is worth noting that oil prices decreased 3.2%, while gas prices sank 29.8%. The rise in imports of production supplies principally involved "base metals and articles thereof" (up €243m, or 5.9%), "machinery and mechanical appliances, electrical equipment" (up €212m, or 4.8%), "plastics" (up €203m, or 6.9%), "products of the chemical industry" (up €176m, or 4.9%), and "pulp of wood and paper", (up €134m, or 7.8%).

Table 31**Geographical breakdown of imports (customs data)**

Region	2001	2002	Change (2002-2001)	Growth* (2002/2001)	Share in imports, 2002
	€ million			%	
TOTAL	56,034	58,480	2,446	104.4	100.0
European Union	34,401	36,079	1,677	104.9	61.7
of which: Germany	13,427	14,220	794	105.9	24.3
EFTA	1,318	1,547	229	117.4	2.6
Other developed countries	3,488	3,468	-20	99.4	5.9
Central and Eastern Europe	10,162	9,991	-170	98.3	17.1
of which: Czech Republic	1,937	1,895	-43	97.8	3.2
Russia	4,929	4,661	-268	94.6	8.0
Developing countries	6,666	7,396	730	110.9	12.6

The data in the table were first calculated in euros and then rounded to million euros; this is the reason for any inconsistencies.

* corresponding period previous year = 100

Source: Foreign Trade Data Centre (CIHZ)

14.2.4. Steady increase in proportion of goods trade settled in euros

In 2002, the majority of foreign trade in goods was settled in euros, i.e., around 60%. The share of the euro in settling trade in goods has been rising systematically, and in 2002 went up 5.6 points in exports and 5.4 points in imports. However, it should be underlined that in real terms the growing contribution of the euro to goods settlements came to 3.1 points in exports and 2 points in imports, whereas the remaining increase in the role played by the euro in settling trade payments is traceable to the conversion to the single currency of the particular national currencies of the euro area.

Table 32**Currency composition of trade in goods**

	EXPORTS			IMPORTS		
	2001	2002	Change in share (2002-2001)	2001	2002	Change in share (2002-2001)
TOTAL	100.0	100.0	-	100.0	100.0	-
of which: EUR	54.7	60.3	5.6	54.2	59.6	5.4
USD	33.7	29.8	-3.9	31.8	28.5	-3.3
PLN	4.1	4.9	0.8	4.6	6.5	1.9
GBP	2.1	2.3	0.3	2.0	1.7	-0.3
SEK	1.0	0.9	-0.1	1.1	1.1	0.0
DKK	1.0	0.8	-0.2	0.9	0.7	-0.2
CHF	0.5	0.4	-0.1	1.1	0.9	-0.2

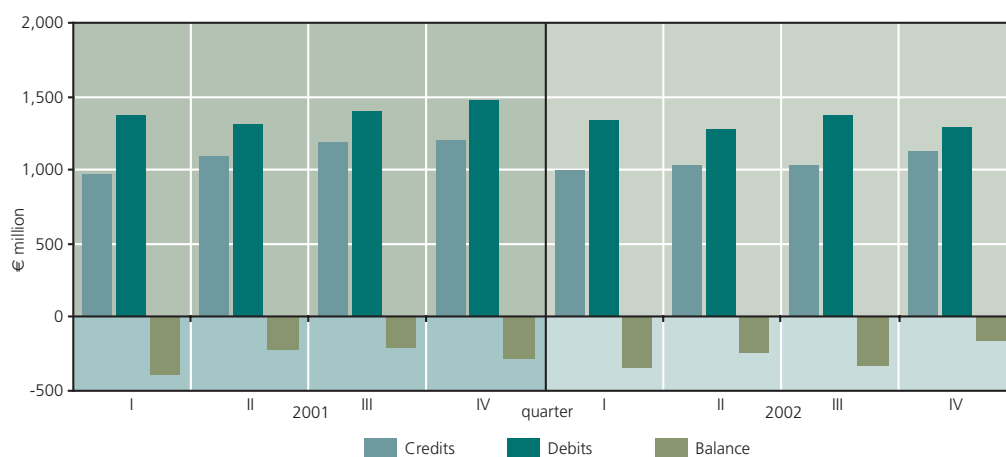
The growing part played by the euro was accompanied by a parallel decline in the role of the US dollar (down 3.9 points in exports and 3.3 in imports), although a significant proportion of trade continues to be settled in this currency (29.8% of exports and 28.5% of imports). A characteristic feature is also the steady rise in the share of Polish foreign trade settled in zloty.

14.2.5. Deficit on services stabilises

As is traditional, the balance on trade in services in 2002 was negative, with a deficit of €1,074m. Compared to the previous year, there was a small improvement in this net figure, of €18m, or 1.6%. This was the result of a 4.8% decline in debits on service imports, with a simultaneous reduction of 5.5% in credits on service exports.

Figure 24

Services



An analysis of the structure of trade in services shows a positive and rising surplus on transportation and on travel, while the remaining categories of services were in deficit.

A particularly high shortfall was recorded on "other business services",⁶⁴ where the deficit rose fourfold, the result of both an 11.2% increase in imports and a 13.6% decrease in exports.

A widening of the deficit was also reported in personal, cultural and recreational services, and on insurance and reinsurance.

The largest improvement in the net position was registered in the following areas:

- financial services, where the deficit narrowed €153m thanks to debits dropping 53.2%, although credits were down 29.9%;
- travel, where the balance improved €84m. This came about due to a 2.8% rise in credits and a 5.3% fall in debits on foreign travel settled by payments via the Polish banking system;
- construction services, where credits were up 7.5%, with debits down 17.2%. The end result was a reduction of €59m in the deficit on this item;
- transportation, where the surplus rose €46m as imports came down 4.2% and exports went up 1.3%.

⁶⁴ The category of "other business services" includes merchanting, operational lease services, legal and accounting consultancy, etc.

Table 33

Components of the balance on services (€ million)

	2001	2002	Change (2002-2001)
Total services	-1,092	-1,074	18
1. Transportation	425	471	46
2. Travel	-22	62	84
3. Communication services	-65	-34	31
4. Construction services	-210	-151	59
5. Insurance services	-89	-129	-40
6. Financial services	-210	-57	153
7. Computer and information services	-187	-155	32
8. Royalties and licence fees	-461	-422	39
9. Other business services	-123	-478	-355
10. Personal, cultural and recreational services	-47	-95	-48
11. Government services n.i.e.	-103	-88	15
12. Other	0	2	2

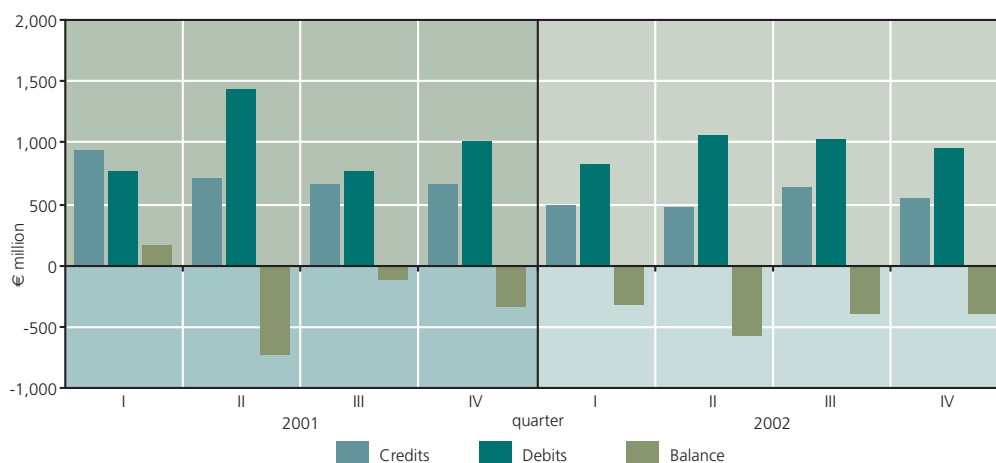
14.2.6. Mounting deficit on income

The year 2002 brought a deficit on income of €1,681m. A year previously, the negative balance had been 38.9% smaller, at €1,027m. This increase in the deficit was primarily due to substantially lower credits on residents' investment income, earned on assets held abroad.

The total inflow of income to Polish residents in 2002 amounted to €2,158m, a decline of 27.0% on the year before.

Figure 25

Income



One of the reasons for larger credits on income being reported a year previously was that in the first quarter of 2001 the Treasury had carried out a one-off transaction involving the sale of a considerable holding of 30-year zero-coupon US government bonds, which had collateralised Polish Brady bonds that were redeemed early. The interest on these US government bonds, totalling US\$ 242m, was taken as an outflow to income on portfolio investment, thereby substantially increasing the debits on income in 2001.

Another factor behind the fall in credits on income in 2002 was the progressive reduction in market interest rates for major world currencies. For example, the average (arithmetic mean) for three-month Euribor had been 4.26% in 2001, yet in 2002 it stood at 3.32%. A more evident drop took place in US dollar rates. Three-month Libor, which had averaged 3.78%, slipped to 1.80%. Short-term Libor and Euribor are very frequently used as the base rates for variable-coupon bonds and floating-rate bank deposits. As regards long-term rates, the average yield on five-year euro area government bonds dipped from 4.36% to 4.29%, while for the corresponding US government bonds the decline was from 4.50% to 3.79%. Average market rates for the dollar, euro and zloty are presented in Table 34.

Table 34**Market interest rates, euro and US dollar (average values for 2001 and 2002)**

		2001	2002	Change (pct. points)
EURIBOR	1M	4.332	3.306	-1.026
	3M	4.264	3.322	-0.942
	6M	4.157	3.358	-0.799
EUR T-BONDS	2Y	4.028	3.677	-0.350
	5Y	4.356	4.289	-0.067
	10Y	4.819	4.808	-0.012
LIBOR USD	1M	3.884	1.771	-2.113
	3M	3.782	1.802	-1.981
	6M	3.732	1.895	-1.837
USD T-BONDS	2Y	3.807	2.632	-1.174
	5Y	4.500	3.789	-0.711
	10Y	4.999	4.611	-0.388
WIBOR PLN	1M	17.070	9.309	-7.761
	3M	16.701	9.062	-7.639
	6M	16.238	8.810	-7.428
PLN T-BONDS	2Y	14.814	8.213	-6.601
	5Y	12.564	7.994	-4.570

Source: Bloomberg, NBP calculations.

The greatest decreases in credits were seen in the items that account for the largest proportion of those credits, i.e., in portfolio investment income (58.1% of total credits in 2002), which was primarily income on debt securities, and in other investment income (26.1% of total credits), which mainly consisted in income on deposits placed at banks abroad. The size of credits under both of these income items is closely connected with the level of interest rates on foreign markets.

A substantial share of credits on both portfolio investment income and other investment income comprised income earned by the NBP on the reserve assets.

Debits arising on the income of non-residents amounted to €3,839m in 2002 and were similar to those reported in 2001 (slipping a mere 3.7%). A sizeable portion of income debits arose on interest payments by the Treasury to the creditors of the Paris Club (included under "other investment income") and to non-residents holding bonds issued by the Treasury on either international markets or the domestic market (included under portfolio investment income). The decline in interest rates both for the major world currencies and for the zloty acted to reduce the interest payments made under both of the above-mentioned items of income.

For this reason, debits on other investment income fell 19.1%. These constituted 33.0% of total debits.

Table 35

Income

	2001	2002	Change (2002-2001)	Growth (2002/2001)
	€ million			%
CREDITS	2,958	2,158	-800	73.0
Compensation of employees	215	276	61	128.4
Direct investment income	72	41	-31	56.9
Portfolio investment income	1,595	1,254	-341	78.6
Other investment income	1,052	564	-488	53.6
Other income	24	23	-1	95.8
DEBITS	3,985	3,839	-146	96.3
Compensation of employees	222	234	12	105.4
Direct investment income	982	1,211	229	123.3
Portfolio investment income	1,184	1,083	-101	91.5
Other investment income	1,567	1,268	-299	80.9
Other income	30	43	13	143.3
BALANCE	-1,027	-1,681	-654	—
Compensation of employees	-7	42	49	—
Direct investment income	-910	-1,170	-260	—
Portfolio investment income	411	171	-240	—
Other investment income	-515	-704	-189	—
Other income	-6	-20	-14	—

Compared to 2001, an increase of 23.3% took place in the direct investment income transferred abroad by foreign investors. This increase was caused by the transfer of earnings that were not reinvested in Poland. Direct investment income accounted for 31.5% of all debits on income in 2002.

It is worth noting that a change has been under way in the composition of non-resident holdings of Polish Treasury bonds. The share in these holdings of zloty-denominated bonds has risen (from 45% at the beginning of 2001 to 53% at year end 2002). The value of this non-resident zloty bond portfolio increased some 50% in 2002 compared to 2001. The interest rates available on zloty bonds, and thus the size of the interest payments made, while lower than in 2001, continued to be higher than in the case of bonds denominated in foreign currencies. The larger value of these holdings and the relatively high coupons payable represented the prime reasons for the fairly small, 8.5% decrease in debits on portfolio investment income, which constituted another significant component of total debits on income in 2002 (28.2%).

14.2.7. Slight increase in surplus on current transfers

Current transfers represent a component of the balance of payments which for many years has recorded a surplus, helping improve the current account balance overall. In 2002, the surplus on current transfers came to €2,299m, which in comparison with 2001 constitutes a small increase of €62m, or 2.8%.

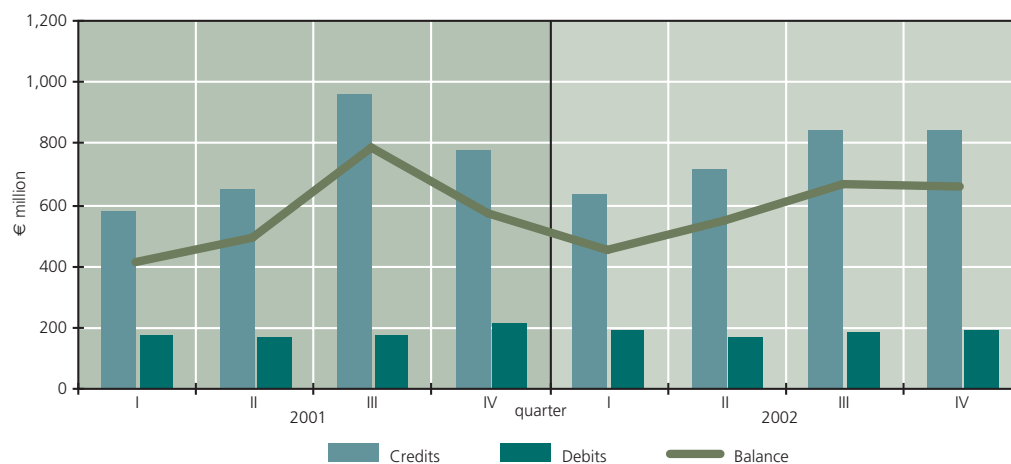
Credits on current transfers totalled €3,028m, a rise on the previous year of €60m, or 2.0%.

Credits on general government transfers amounted to €587m, thereby going up €138m on the year before, or 30.7%, which can mainly be traced to gifts and non-refundable assistance received. The largest part of these transfers were gifts and non-refundable assistance from the institutions and countries of the European Union, which stood at €582m.

Compared to the previous year, credits on private transfers (80.6% of all credits on current transfers) declined €78m, or 3.1%. The prime factor behind this decrease in credits on private transfers was the smaller inflow of funds under compensation payments for the forced labour of Poles during World War II. In 2002, the funds remitted to this end came to €243m, representing a fall of €94m, or 27.9%, relative to 2001.

Figure 26

Current transfers



Debits on current transfers amounted to €729m in 2002, thus edging down €2m, or 0.3%, on the year before.

Table 36

Current transfers

	2001	2002	Change (2002-2001)	Growth (2002/2001)
	€ million			
CREDITS	2,968	3,028	60	102.0
General government transfers	449	587	138	130.7
Private transfers	2,519	2,441	-78	96.9
DEBITS	731	729	-2	99.7
General government transfers	138	129	-9	93.5
Private transfers	593	600	7	101.2
BALANCE	2,237	2,299	62	-
General government transfers	311	458	147	-
Private transfers	1,926	1,841	-85	-

14.2.8. Fall in surplus on unclassified current account transactions

The balance on unclassified current transactions⁶⁵ stood at €4,234m in 2002,⁶⁶ which signifies a reduction in this surplus of €681m, or 13.9%, compared to 2001.

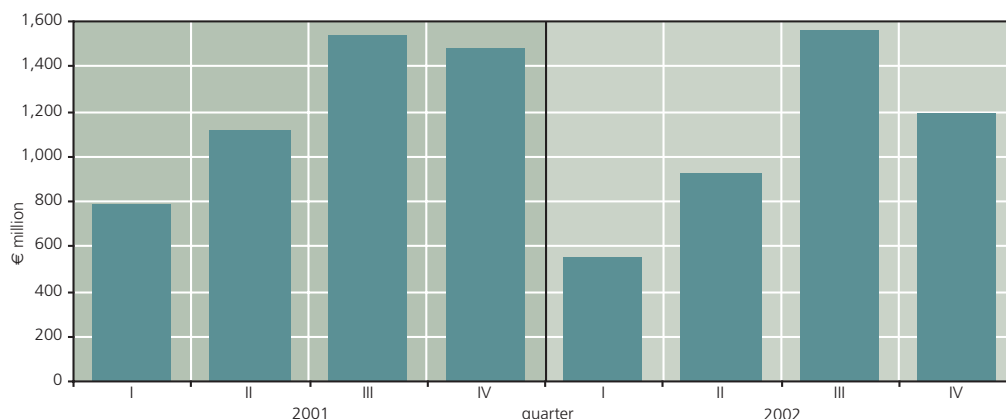
In the course of 2002, it was only in the third quarter that the balance on unclassified current transactions was higher than in the corresponding period of the previous year (an increase of 1.8%). In the remaining quarters, the balance was lower than in 2001 (down 30.2% in Q1, 16.6% in Q2 and 19.4% in Q4).

⁶⁵ The balance on unclassified current transactions reflects the net inflow of foreign currencies (notes and coin) to the cash desks of Polish banks under transactions performed between residents and non-residents which have not been recorded under the standard components of the balance of payments.

⁶⁶ This sum includes an adjustment of €426m performed in January 2002 by increasing the balance on unclassified current account transactions and decreasing net errors and omissions. The purpose of this adjustment was to eliminate the effect of the exchange into euros of the national currencies of the countries of Economic and Monetary Union, so that the balance on unclassified transactions reflects the level of transactions conducted with non-residents. From the perspective of the year 2002 as a whole, the size of this adjustment appears to have been too small.

Figure 27

Unclassified current account transactions, NET



In estimating a breakdown of the balance on unclassified current account transactions, a major item are net revenues on foreign travel. Initial estimates by the Institute of Tourism indicate that receipts from travel to Poland were lower in 2002 than they had been a year earlier. Nonetheless, the sharp downward trend witnessed for several years in receipts from foreign travel was halted. According to the Institute of Tourism, expenditure on foreign travel to Poland came to US\$ 8.7bn in 1997, US\$ 8.0bn in 1998, US\$ 6.1bn in each of the years 1999 and 2000, US\$ 4.8bn in 2001 and US\$ 4.5bn in 2002.

The level of inflows and outflows associated with foreign travel is largely contingent on the number of cross-border travellers registered in a given period on Poland's borders. Figures from the Border Guards indicate that the year 2002 saw a 17.4% drop in the number of foreign nationals cleared to enter Poland, with the largest fall (26.8%) recorded in the first quarter, whereas the decrease in the fourth quarter was 3.3%.⁶⁷ At the same time, the number of Poles travelling abroad shrank 15.2% in 2002 (11% in Q1, 10.5% in Q2, 13% in Q3 and 26.1% in Q4). There is reason to believe that these changes in the relative numbers of travellers visiting the country and Poles going abroad will have a positive impact on net receipts from foreign travel, helping to arrest the decline in the surplus registered here. This surplus is estimated to have gone down some US\$ 0.1bn in 2002. In previous years, the decrease was much greater.

A significant role in reducing the surplus on unclassified current account transactions in 2002 compared to the previous year was played by the large number of cars brought into Poland in the first quarter by households. These purchases were chiefly made for cash, which signifies a contraction in the surplus on unclassified transactions related to trade in goods. The surplus was also depressed by the need to replenish part of the foreign currency stocks that were exchanged into zloty in 2001 because of EMU national currencies being withdrawn from circulation. This refers to persons who traditionally hold part of their savings in foreign currencies, and also to Poles frequently travelling abroad.

14.3. Financial account

The balance on the financial account in 2002 was positive, at €6,935m.

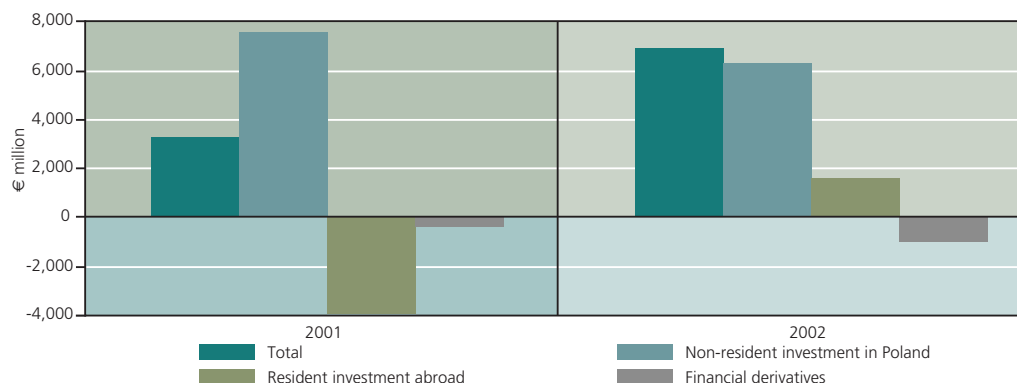
The inflow of net investment by non-residents ebbed compared to 2001. The balance on this investment amounted to €6,330m. A year previously, non-residents had invested a net €7,532m in Poland.

⁶⁷ Informacja o sytuacji społeczno-gospodarczej kraju za rok 2002 ["Report on the country's socio-economic situation in 2002"], Central Statistical Office (GUS), January 2003.

The smaller influx of funds invested by non-residents in Poland in 2002 primarily stemmed from the progressive reduction in incoming foreign direct investment. At the same time, substantial growth was seen in non-resident portfolio investment, together with a smaller outflow of capital on loans received, although these developments failed to offset the adverse impact of the fall in direct investment

Figure 28

Financial account components



In contrast to 2001, the balance on resident investment abroad had a positive effect on the financial account balance. In 2002, residents scaled back their net foreign investment by €1,602m. The rapid withdrawal by residents of deposits placed at foreign banks, which was the determining influence on the balance of resident investment abroad, was accompanied by increased investment in foreign securities.

The balance on financial derivatives in 2002 came to a negative €997m. This represents a substantial increase on 2001, when the balance was also negative, yet to the tune of €351m.

14.3.1. Non-resident investment in Poland

In 2002, the balance on non-resident investment in Poland stood at €6,330m. This inflow of capital was down 16.0% on a year earlier, when it had come to €7,532m. The composition of inward investment also changed significantly. In contrast to 2001, when the great majority of investment was long-term (direct investment and long-term loans), in 2002 the proportion of long-term capital was almost matched by short-term investment (portfolio investment, short-term loans, and currency and deposits). This can principally be traced to the large part played by portfolio investment. Long-term investment by non-residents amounted to €3,319m in 2002, and represented 52.4% of incoming capital (in 2001, the corresponding ratio had been a huge 80.5%). The remainder comprised funds invested short term.

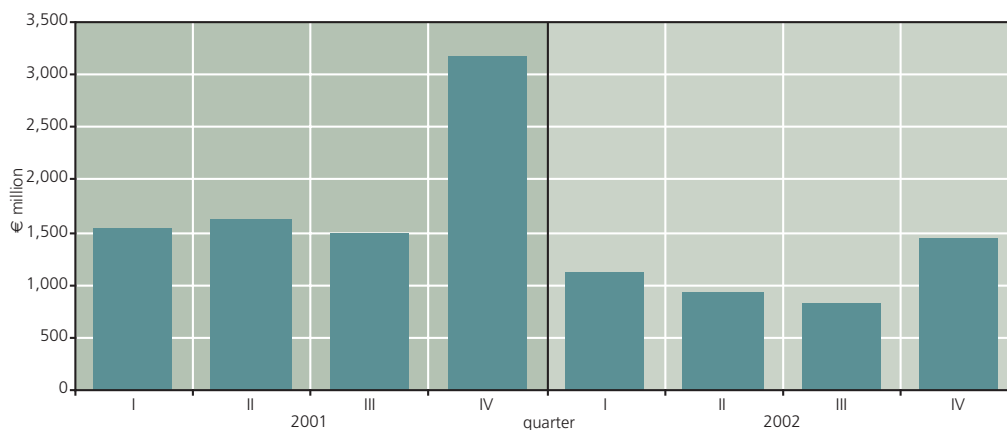
Table 37

Foreign investment in Poland (€ million)

	2001	2002	Change (2002-2001)
Non-resident investment in Poland	7,532	6,330	-1,202
Long-term investment	6,061	3,319	-2,742
Foreign direct investment in Poland	7,815	4,335	-3,480
Loans received, maturing in over 1 year	-1,754	-1,016	738
Short-term investment	1,471	3,011	1,540
Foreign portfolio investment in Poland (liabilities)	1,090	3,113	2,023
Loans received, maturing in up to 1 year	-96	479	575
Currency and deposits	477	-581	-1,058
Miscellaneous	0	0	0

14.3.1.1. Further reduction in inflow of foreign direct investment

The net inflow of capital arising on foreign direct investment in Poland in 2002 came to €4,335m. This sum was €3,480m lower than the previous year, a drop of 44.5%. Despite this, incoming net direct investment accounted for 68.5% of the balance of all foreign investment in Poland. The inflow of capital waned from one quarter to the next (€1,132m in Q1, €937m in Q2 and €826m in Q3). A certain reversal of this trend occurred in the fourth quarter, when the inflow of investment amounted to €1,440.

Figure 29**Foreign direct investment, NET**

The incoming investment assigned to increasing the equity capital of Polish corporates and banks (via share purchases) stood at €3,220m, down 50.6% on 2001.

This marked reduction in inward investment was the result of the privatisation process being arrested. Towards the end of 2002, the privatisation of the Stoen power company in Warsaw was carried out, and this had a positive effect on net investment in the fourth quarter. This was the sole privatisation of a large state enterprise in 2002.

Another factor in the decline in incoming foreign direct investment, one connected with the global slowdown in economic growth, was the worsening condition – with losses reported – of certain serious foreign direct investors in banking, telecommunications and the motor vehicle industry.

Table 38**Foreign direct investment**

	2001	2002	Change (2002–2001)	Growth (2002/2001)
	€ million			%
Foreign direct investment	7,815	4,335	-3,480	55.5
Equity capital	6,512	3,220	-3,292	49.4
Intercompany loans	1,303	1,115	-188	85.6

The remaining component of foreign direct investment in Poland (other than equity capital investment) constituted capital inflows in the form of loans extended by non-residents to corporates and banks. The net value of this investment stood at €1,115m, a decrease of 16.4% compared to the previous year.

A strong increase in loan finance provided by foreign direct investors was recorded in the banking sector, where the value of drawings of loans had been insubstantial the year before.

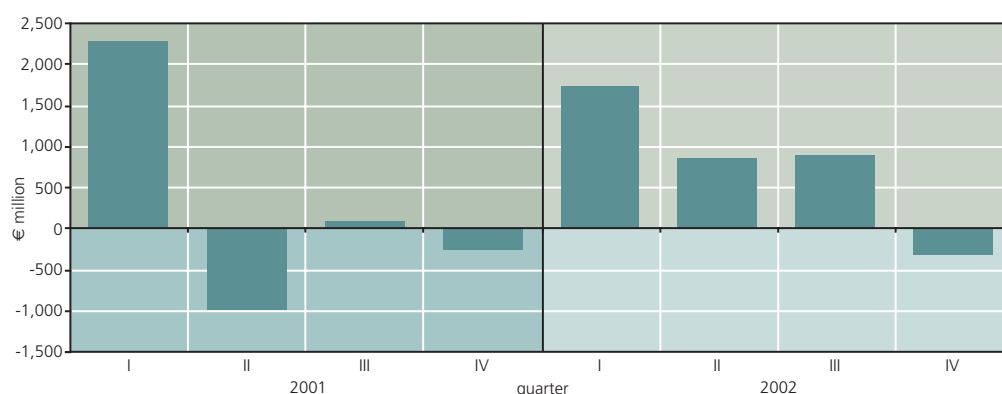
Nonetheless, the inflow of direct investor loans continued to be greater in the corporate sector (the non-government, non-banking sector), constituting 55.9% of the total amount invested. At the same time, the loan finance received by this sector from direct investors was halved compared to 2001.

14.3.1.2. Strong influx of portfolio investment

A very significant contribution to incoming foreign investment in 2002 was made by portfolio investors. The net investment in Polish securities performed in 2002 by non-residents amounted to €3,113m. This represented half of the overall inflow of capital under non-resident investment in Poland in 2002. This sum was almost three times greater than in 2001, when foreign portfolio investment stood at €1,090m.

Figure 30

Foreign portfolio investment, NET



The scale of net foreign portfolio investment was principally related to non-resident investment in debt securities, primarily in Treasuries. Net inward investment in Polish debt securities in 2002 came to €3,706m.

In the period under examination, and particularly from January to May 2002, non-residents focussed their attention on Treasury securities denominated in zloty and traded on the domestic market. A shift has taken place in the structure of non-resident holdings of Treasury bonds. The share of zloty-denominated paper in foreign investor T-bond portfolios went up from 45% at the beginning of 2001 to 53% at year end 2002.

Despite the interest rate cuts carried out by the NBP, the further slide of market rates on the major world markets meant that the rates offered by the Treasury on zloty-denominated bonds remained relatively high in the first half of the year and attractive to non-residents. In addition, the high government deficit generated fears as to the future stability of the Polish economy, making it necessary to offer comparatively high rates in order to draw in the capital needed to refinance the public debt and ensure those acquiring bonds the requisite premium for their investment risk. Yet another reason for the increased investment in Polish Treasuries was the tendency of institutional investors to restructure their portfolios in favour of debt securities due to the situation prevailing on global equity markets.

The largest inflow of investment in Polish debt securities took place at the turn of the first and second quarters. In March 2002, this inflow came to €1,354m. At that point, the Treasury went to the international markets to issue euro-denominated Eurobonds to a face value of €750m. Net incoming investment also ran high in April, at €820m. At this juncture, foreign investors took advantage of weaker demand on the part of domestic banks to buy up Treasuries at lower prices.

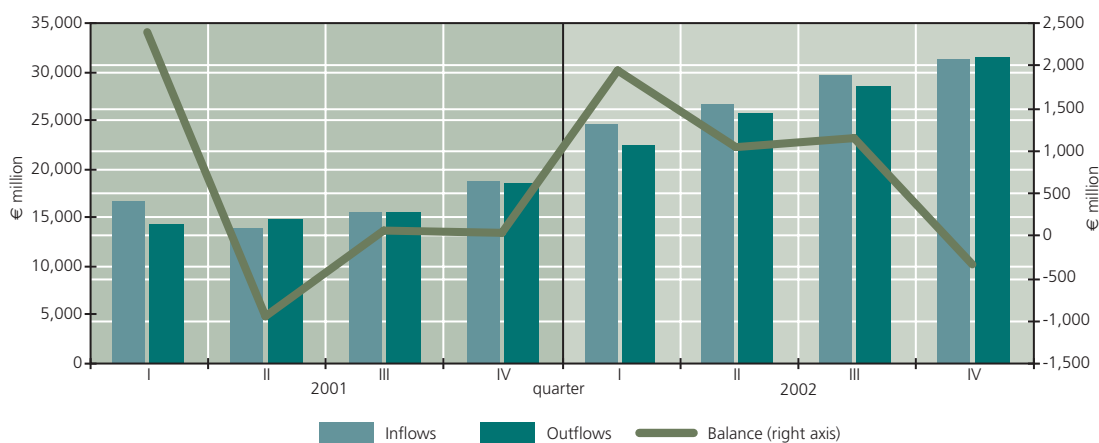
Table 39

Foreign portfolio investment

	2001	2002	Change (2002-2001)	Growth (2002/2001)
	€ million			%
INFLOWS	69,463	116,346	46,883	167.5
Equity securities	4,748	4,256	-492	89.6
Debt securities	64,715	112,090	47,375	173.2
OUTFLOWS	68,373	113,233	44,860	165.6
Equity securities	5,101	4,849	-252	95.1
Debt securities	63,272	108,384	45,112	171.3
BALANCE	1,090	3,113	2,023	—
Equity securities	-353	-593	-240	—
Debt securities	1,443	3,706	2,263	—

Figure 31

Investment in polish debt securities



In the third quarter, the net inflow of investment in Polish debt securities was maintained at a level similar to the second quarter and considerably lower than in the first. However, in distinction to the second quarter, this investment was not driven primarily by purchases of debt securities denominated in zloty, but by new Treasury Eurobond issues on international markets. The first issue in the third quarter, to a value of US\$ 1,000m, was conducted in July, while the second, to a value of US\$ 400m, took place in September. However, the inflow of investment in Polish debt securities in July totalled just €249m. This testifies to the size of the outflow of capital as non-residents pulled out of investments in other Polish debt securities, primarily zloty-denominated T-bonds. This withdrawal of capital was rooted in investor uncertainty connected with the replacement of the Minister of Finance and the Government's future economic policies. In the subsequent months of the third quarter, a small amount of inward investment was observable in debt securities issued on the domestic market.

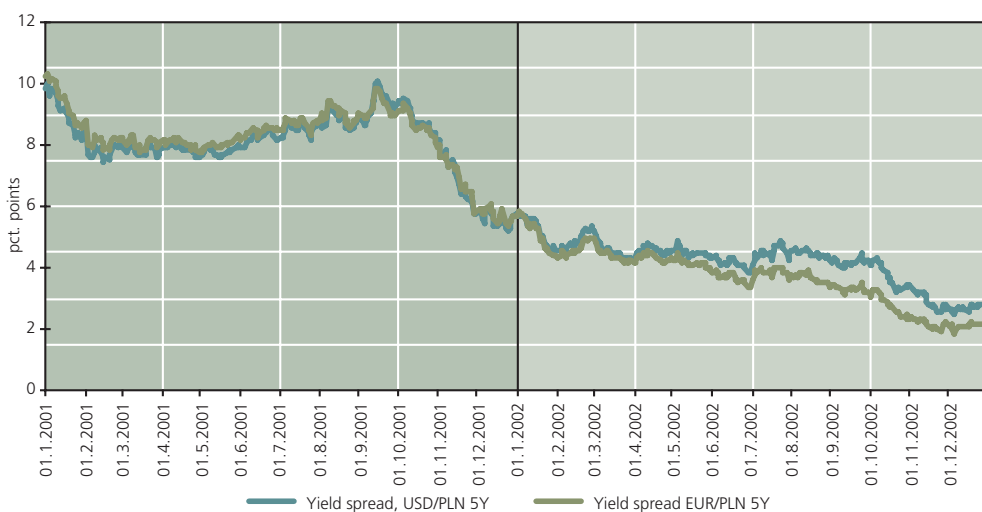
In the fourth quarter of 2002, the balance on portfolio investment was negative, with a net outflow of €372m. October saw the early redemption of dollar-denominated Polish Brady bonds, to a face value of US\$ 1,300m, causing a negative balance that month of €850m. In November, the Treasury issued sterling Eurobonds to a face value of £400m. However, net investment that month came to only €369m, signifying a large withdrawal of capital invested in zloty-denominated paper.

The medium-term reason for the reduced interest shown by non-residents in zloty-denominated T-bonds in the second half of the year was the fall in yields on these bonds, which proceeded more rapidly than the decline in yields on comparable bonds issued by the US government or euro area

governments. For instance, the quarterly average yield spread between five-year bonds issued by the Polish Treasury and by euro area governments was a mere 2.36% in the fourth quarter, whereas in the third quarter it had been 3.61% and in the second it had been 4.08%, while in the first it had been 4.84%. The corresponding differentials between yields on five-year Polish T-bonds and comparable US government bonds stood at 3.12%, 4.38%, 4.42% and 5.01%, respectively. The investment risk of Polish debt securities was raised in the third quarter by certain rating agencies, which temporarily downgraded their view of Polish Treasury debt. In the fourth quarter, an additional risk factor emerged in the heightening threat of military conflict in Iraq, which increased investment risk on most government debt markets.

At the end of 2002, the outstanding debt on zloty-denominated Treasury securities held by non-residents had risen some 50% compared to 2001.

Figure 32
Interest rate differentials



Source: Bloomberg, NBP calculations.

The year 2002 brought an outflow of capital invested by non-residents in Polish equity securities. Net inward investment in this period was a negative €593m. A year previously, the balance had also been negative, showing an outflow of €353m. In contrast to debt securities, the value of trading (inflows and outflows) associated with investment in Polish equities is relatively small, and has been exhibiting a slow downward trend.

Figure 33
Investment in polish equity securities



The Polish equity market continues to be marked by the low liquidity of most shares, which constitutes a major factor aggravating the risk of investing in Polish equities. Many high-cap companies have a disproportionately low "free float", as measured by the value of the shares held by small investors. This stems from the capital structure of these companies, which are controlled by majority shareholders, primarily foreign direct investors. In consequence, most of the shares in a company of this kind are not freely traded on the stock exchange. Reduced liquidity is also attributable – in addition to the state of global business activity – to domestic investors shifting from the spot market to the futures market, in particular to contracts on the WIG-20 index. The available data do not allow a judgement on whether this tendency also involves non-residents.

An increasingly important role on the Polish equity market is being played by domestic institutional investors, chiefly by open-ended pension funds. The latter have more and more capital at their disposal from the monthly pension contributions they receive, and have the greatest impact on the share price of WIG-20 companies, draining these shares from the market. The result of this is that share price behaviour is not linked with the real financial condition of the companies concerned (their shares are overpriced) and also frequently diverges significantly from movements on foreign stock markets. The unpredictability of the Warsaw Stock Exchange constitutes yet another element of investment risk. The pension funds also reduce the free float of the Polish equity market – already small – because of the statutory constraints on these funds investing their assets outside Poland.

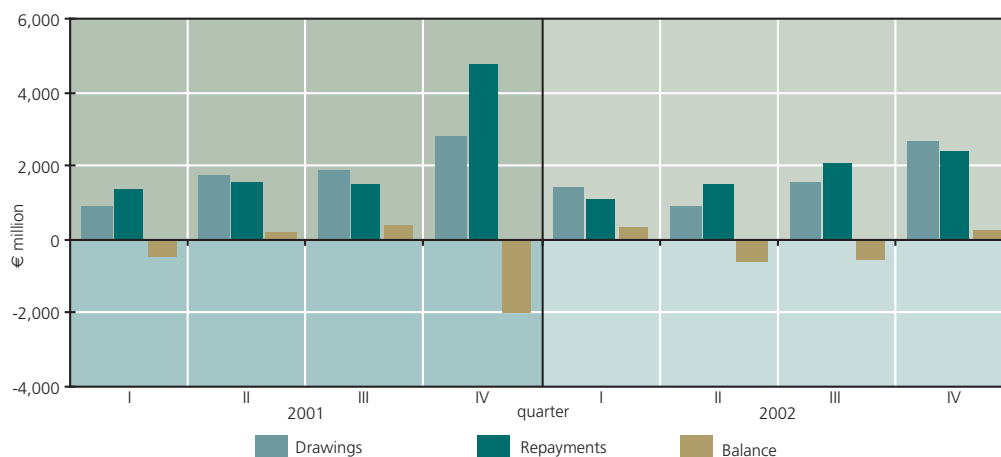
14.3.1.3. Negative balance on foreign loans

The year 2002 saw a net outflow of €537m in capital invested in Poland under foreign loans received. In 2001, the relevant financial outflow amounted to €1,850m.

This net outflow mainly involved the general government and banking sectors.

Figure 34

Loans received



Figures on the general government sector indicate an increase in drawings of new loans compared to the previous year. In 2002, drawings totalled €1,331m, representing a rise on the year before of €846m, or 174.4%. Government repayments stood at €1,869m, which was 52.2% less than in 2001. This decline in repayments compared to the previous year is traceable to that year's high statistical reference point. In the fourth quarter of 2001, the Polish Government had repaid €2,785m in loan obligations to the Government of Brazil. If this one-off repayment item were excluded, government loan repayments in 2002 would

have risen €746m. The large expense of external debt service primarily involves the repayment of obligations to the creditors of the Paris Club. In 2002, the Government also drew and then partially repaid a short-term loan. This loan, extended by the Government of Ireland, constituted a bridge facility to finance the early repayment of Brady bonds prior to a new Eurobond issue.

In 2002, corporates reported a €489m inflow of capital under foreign loans. The year before, the net financial inflow on this had amounted to €1,584m. Corporate drawings of new loan finance stood at €3,506m, having declined €1,289m on the previous year, or 26.9%. The repayment of loans taken out earlier by corporates also fell. In 2002, these came to €3,017m, a drop compared to 2001 of €194m, or 6.0%.

Drawings of foreign loans by Polish banks decreased. In 2002, the new loan finance received by this sector stood at €1,764m. This represents a contraction relative to the previous year of €316m, or 15.2%. At the same time, a small, 8% increase was seen in repayments. The end result was a net financial outflow from the banking sector of €486m.

Table 40**Loans received**

	2001	2002	Change (2002-2001)	Growth (2002/2001)
	€ million			%
DRAWINGS	7,360	6,601	-759	89.7
National Bank of Poland	0	0	0	—
General government sector	485	1,331	846	274.4
Long-term	485	436	-49	89.9
Short-term	0	895	895	—
Banking sector	2,080	1,764	-316	84.8
Long-term	2,072	1,764	-308	85.1
Short-term	8	0	-8	0.0
Other sectors	4,795	3,506	-1,289	73.1
Long-term	4,071	2,517	-1,554	61.8
Short-term	724	989	265	136.6
REPAYMENTS	9,210	7,138	-2,072	77.5
National Bank of Poland	7	2	-5	28.6
General government sector	3,908	1,869	-2,039	47.8
Long-term	3,908	1,266	-2,642	32.4
Short-term	0	603	603	—
Banking sector	2,084	2,250	166	108.0
Long-term	2,005	2,243	238	111.9
Short-term	79	7	-72	8.9
Other sectors	3,211	3,017	-194	94.0
Long-term	2,462	2,222	-240	90.3
Short-term	749	795	46	106.1
BALANCE	-1,850	-537	1,313	—
National Bank of Poland	-7	-2	5	—
General government sector	-3,423	-538	2,885	—
Long-term	-3,423	-830		
Short-term	0	292		
Banking sector	-4	-486	-482	—
Long-term	67	-479	-546	
Short-term	-71	-7	64	
Other sectors	1,584	489	-1,095	—
Long-term	1,609	295	-1,314	
Short-term	-25	194	219	

All loans received by the National Bank of Poland are long-term.

14.3.1.4. Fall in foreign deposits at Polish banks

In 2002, the balance on non-resident holdings of currency and deposits at Polish banks was a negative €581m.

Figure 35**Currency and deposits, NET**

The attendant financial outflow was chiefly associated with the repayment of obligations under repurchase agreements concluded by the National Bank of Poland. Foreign deposits at commercial banks dropped €114m in 2002.

14.3.2. Resident investment abroad

14.3.2.1. Decrease in resident investment abroad

In 2002, Polish investment abroad shrank €1,602m. This decline in Polish assets abroad was principally related to a reduction in the deposits held by Polish banks at foreign banks. In 2002, Polish banks withdrew placements at foreign banks totalling €3.2bn. This therefore represented a major change compared to 2001, when Polish banks had increased their foreign assets held in the form of deposits (a difference of €7.1bn).

Polish portfolio investment abroad grew €1,208m in 2002. Investment in foreign securities, mainly long-term debt securities and equities, was chiefly undertaken by the non-government and non-banking sector. Polish banks also altered the composition of their assets, decreasing their deposits while increasing their holdings of debt securities.

The foreign direct investment carried out by Polish residents in 2002 amounted to €329m, net. The balance on loans extended to non-residents came to a negative €56m.

Table 41**Resident investment abroad* (€ million)**

	2001	2002	Change (2002-2001)
Resident investment abroad	-3,906	1,602	5,508
Polish direct investment abroad	-73	-329	-256
Polish portfolio investment abroad	29	-1,208	-1,237
Loans extended	-4	-56	-52
Currency and deposits	-3,859	3,195	7,054
Miscellaneous	1	0	-1

* In the case of resident investment abroad, a minus sign signifies a financial outflow.

14.3.3. Financial derivatives

In 2002, the balance arising on settlements involving financial derivative transactions between residents and non-residents came to a negative €997m. This constitutes a substantial increase on 2002, when the balance was also negative, but stood at €351m.

Table 42

Financial derivatives, NET (€ million)

	2001	2002	Change (2002 – 2001)
Financial derivatives	-351	-997	-646

Most of the payments registered in this respect entailed the performance of FX swaps and interest rate swaps transacted on the interbank market. The resulting negative balance may be interpreted as the net loss incurred by residents on settling derivatives positions that crystallised in the course of 2002. However, it should be borne in mind that the payments data also include flows arising from the opening of derivatives positions and interim settlements on them, even although the instruments concerned did not mature until future periods.

14.4. Overall balance of payments and level of foreign exchange reserves

In 2002, the overall balance of payments, measured as the sum of current account transactions, capital and financial account transactions, and net errors and omissions,⁶⁸ stood at €687m.

Figure 36

Official reserve assets



As a result of the various transactions performed, the official reserve assets rose €675m. Transaction items contributing to this increase in the reserve assets included the proceeds of

⁶⁸ Part of the transactions included in net errors and omissions will be reclassified to standard components of the balance of payments in the balance of payments on a transactions basis, following receipt of additional information provided directly by corporates.

government bond issues on international markets, to a value of €737m in March, US\$ 1bn in July, US\$ 400m in September and £396m in November, and also the income obtained on these assets, held by the NBP. Transactions decreasing the official reserve assets in 2002 comprised the ongoing servicing of government external debt (interest payments and principal repayments to the creditors of the Paris Club, together with interest payments on Brady bonds and their early redemption).

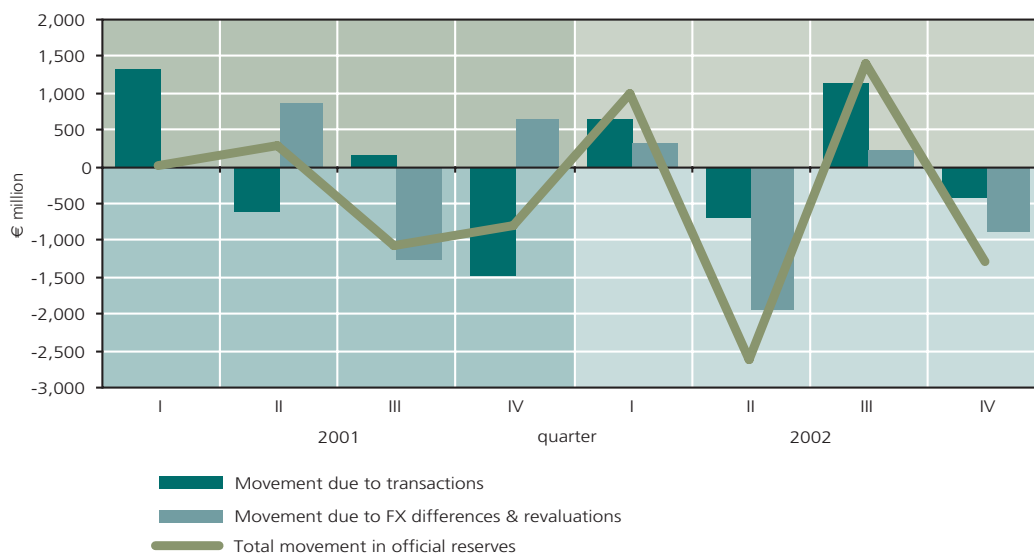
Table 43

Official reserve assets (quarter end) (€ million)

	2001				2002			
	I	II	III	IV	I	II	III	IV
OFFICIAL RESERVE ASSETS	31,737.1	31,999.0	30,893.9	30,066.7	31,028.1	28,393.6	29,767.7	28,450.0
Monetary gold	965.9	1,055.9	1,057.9	1,035.3	1,143.4	1,062.4	1,089.3	1,082.8
SDRs	21.7	24.8	26.3	39.4	41.8	41.7	45.4	46.9
Reserve position in IMF	318.8	365.5	402.1	522.6	524.3	516.0	645.5	622.4
Foreign exchange	29,387.8	29,384.7	27,253.3	26,747.2	28,022.7	25,367.9	27,120.9	25,504.1
Other claims in convertible currencies	1,042.9	1,168.1	2,154.3	1,722.2	1,295.9	1,405.6	866.6	1,193.8

Figure 37

Movements in official reserve assets



However, in addition to the transactions recorded in the balance of payments, the level of the official reserve assets was also affected by revaluations and FX differences. These resulted in a decline in the reserves of €2,292m. The main reason for the movements elicited by FX differences was the strengthening of the euro against the US dollar. At year end 2002, the euro had gained 14% compared to the end of the previous year.

All in all, as a result of the transactions recorded in the balance of payments, revaluations and FX differences, the official reserve assets declined €1,617m in the course of 2002, to stand at €28,450m at period end.

14.5. Balance of payments ratios

Table 44

Selected balance of payments ratios

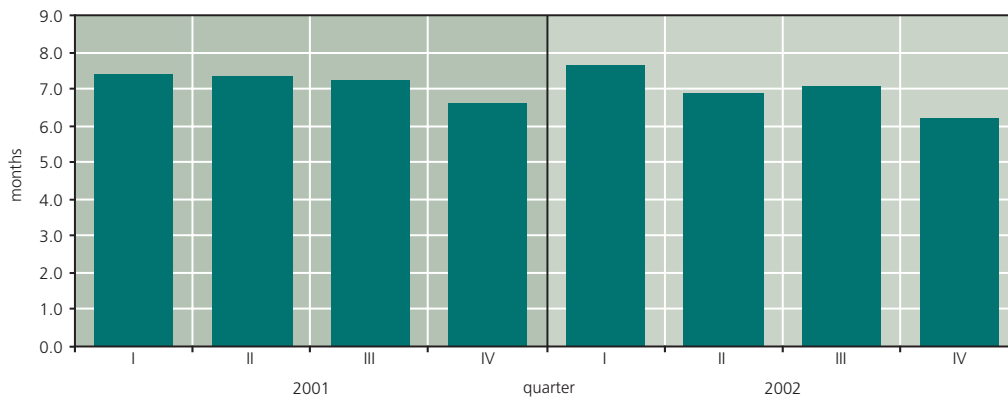
	Ratio	2002			
		I quarter	II quarter	III quarter	IV quarter
1. Current account balance Gross domestic product	%	-5.4	-3.5	-2.0	-3.4
2. Balance on goods and services Gross domestic product	%	-6.8	-5.3	-5.9	-6.1
3. Official reserve assets Imports of goods and services (monthly average)	months	7.6	6.9	7.1	6.2
4. Foreign direct investment, net Current account balance	%	-42.6	-52.6	-88.6	-79.3
5. Official reserve assets Broad money (M3)	%	34.9	35.3	37.8	35.6
A. Current account balance	€ million	-2,659	-1,780	-932	-1,817
B. Balance on goods and services	€ million	-3,337	-2,675	-2,770	-3,258
C. Exports of goods and services	€ million	8,858	9,709	9,855	10,539
D. Imports of goods and services	€ million	12,195	12,384	12,625	13,797
E. Foreign direct investment, net	€ million	1,132	937	826	1,440
F. Official reserve assets, period end	€ million	31,028	28,394	29,768	28,450
G. Gross domestic product	€ million	49,111	50,823	46,673	53,090
H. Broad money (M3)	€ million	89,025	80,425	78,674	79,985
J. Period average exchange rate, PLN/EUR		3.6214	3.7148	4.0823	3.9978

An analysis of balance of payments ratios leads to the following conclusions:

- the ratio of the current balance to GDP deteriorated slightly in the fourth quarter of 2002 compared to the third, giving a deficit of 3.4%. This ratio showed a deficit of 3.6% in annual terms in 2002, representing an improvement on 2001 of 0.3 points;
- the proportion of the current account deficit funded by direct investment dwindled in the fourth quarter of 2002 relative to the third, coming to 79.3%, thus standing at a level similar to the average for 2001. On an annual basis, this ratio came to 60.3%, thereby dropping compared to 2001, when this ratio had been 97.8%. The decline in this ratio is due to the substantial decrease in the inflow of foreign direct investment to Poland;
- the ratio of reserve assets over imports of goods and services worsened somewhat, yet remained high. In the fourth quarter of 2002, the reserves were capable of financing 6.2 months of imports;
- the ratio of official reserve assets over broad money (M3) improved by 3.1 points at year end 2002 compared to year end 2001, running at 35.6%. This was linked to a steeper decline in money stocks than in reserve assets.

Figure 38

Official reserve assets over average monthly imports of goods & services





APPENDICES

APPENDIX 1

Consumer prices in 2002

The development of the twelve-month Consumer Price Index was marked with two distinct periods in 2002. Between January and April, inflation stood at about 3%, in May it fell sharply to 1.9%, and it continued falling in the subsequent months of the year. In December 2002, the twelve-month Consumer Price Index stood at to 0.8% and was 2.8 points lower than at the end of 2001.

The CPI growth of 0.8% at the end of 2002 came as the result of the following:

- a fall of 2.7% in food and non-alcoholic beverage prices, which caused the CPI to shrink 0.8 points;
- a growth of 2.7% in officially controlled prices, which contributed 0.7 points to the CPI;
- an increase of 2.1% in the prices of other goods and services, which caused price growth of 0.9 points.

The development of particular groups of prices is illustrated in Table 45 and Figure 39.

Table 45

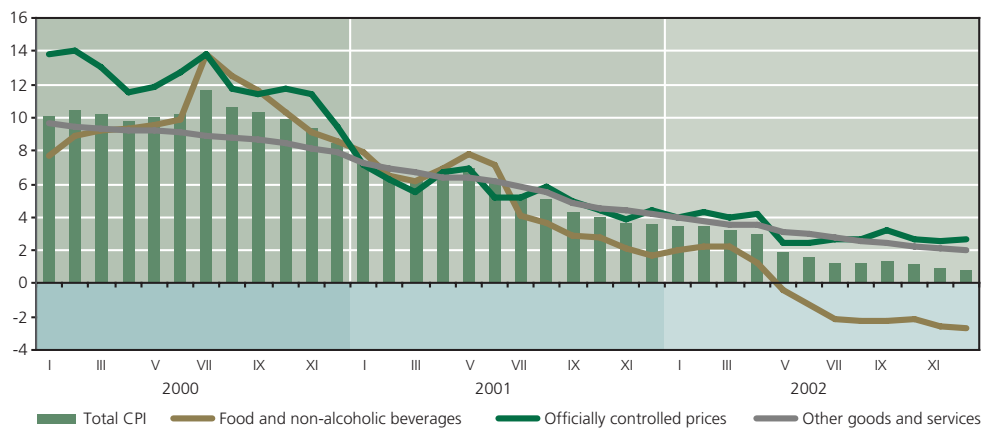
Price growth, basic categories of consumer goods and services

Item	2000	2001	2002				Annual average
	XII	XII	III	VI	IX	XII	
	corresponding period of previous year = 100						
Total:	108.5	103.6	103.3	101.6	101.3	100.8	101.9
including:							
- Food and non-alcoholic beverages	108.5	101.6	102.2	98.7	97.8	97.3	99.3
- Officially controlled prices	109.5	104.5	104.0	102.4	103.2	102.7	103.1
including fuel	111.0	89.1	96.2	96.8	101.4	107.6	99.2
- Other goods and services							
including:	107.9	104.2	103.5	103.0	102.4	102.1	102.9
- Non-food articles	105.9	103.0	102.3	101.9	101.3	101.0	101.8
- Services	111.3	106.3	105.4	104.7	104.1	103.8	104.7

Source: GUS, NBP calculations.

Figure 39

Annual inflation and annual growth in main price categories, 2001–2002



Source: GUS, NBP calculations.

Prices of foodstuffs and non-alcoholic beverages fell 2.7% at the end of December 2002, whereas in 2001 they had risen by 1.6%.

Almost all groups of food prices (excluding fish and fruit) contributed to the decline in the total inflation:

- meat prices (down 6.8% during the year) – contributed 0.58 points;
- vegetable prices (down 3.9%) – 0.1 points;
- milk and dairy product prices (down 2.3%) – 0.09 points.

The situation in agriculture was influenced by: high cereal yields, increasing number of pigs (caused by the improved profitability of pig farming in 2001) and the rising poultry production, with cattle breeding showing a downward trend. The plentiful supply of the majority of agricultural produce kept its prices low, both in procurement and at open air markets. This phenomenon was most evident on the markets for live pigs and pork, dairy products and potatoes.

In 2002, the annual growth rate of **officially controlled prices** also decreased – over the year it ranged from 2% to 4% (versus 4% – 7% a year earlier), amounting to 2.7% at the end of December 2002. However, it was still the highest of all basic price groups. In this group, the prices of energy and transport services grew faster than average. The high growth in hot water prices and central heating fees was maintained.

The change in the prices of alcohol and tobacco products, in which excise tax is the dominant element, ranged from a 3% – 5% growth in the first three quarters to a 2% – 3% fall in the last months of 2002, when the excise tax on spirits was cut by 30%.

For a greater part of 2002, the change in fuel prices acted to reduce the total rate of price increase, as these prices were lower than a year ago and rose on a slower rate than the CPI. However, fuel prices started growing in August and by December 2002 were 7.6% higher than a year before.

Throughout 2002, price growth slowed systematically in the group of **other consumer goods and services**. In December 2002, the total price growth in this group (2.1%) was half of that in December 2001 (4.2%). The growth of service prices included in this group slowed down in 2002, but this deceleration was not as great as in the case of goods prices. The services group covers both services for which demand is inflexible (or even static) and services that react strongly to demand changes, like tourist and hotel services. Services for which the demand is inflexible, like those related to housing occupancy, displayed a much faster price growth than average in the service category, mainly as a result of the lack of competition.

APPENDIX 2

GDP and domestic demand

In 2002, domestic demand was higher than in 2001. This increase stemmed from consumption growing faster than in the previous year, while capital formation continued to shrink. Another factor having a positive impact on economic growth was the improvement in net exports, observed for the third year in a row.

Growth rates of the GDP, domestic demand and the relationship between them in 1996-2002 are shown in Table 46, and the contribution of particular demand components to GDP growth – in Table 47 and Figure 40.

Table 46

GDP and domestic demand, 1996–2002

	1996	1997	1998	1999	2000	2001	2002
	previous year = 100, constant prices						
GDP	106.0	106.8	104.8	104.1	104.0	101.0	101.3
Domestic demand	109.7	109.2	106.4	104.8	102.8	98.0	100.8
Consumption	107.2	106.1	104.2	104.4	102.5	101.7	102.9
Personal consumption	108.7	106.9	104.8	105.2	102.7	102.0	103.3
Social consumption	102.1	103.2	101.6	101.3	101.5	100.6	101.4
Capital formation	119.5	120.8	113.8	106.1	103.9	87.4	92.7
Gross fixed investment	119.7	121.7	114.2	106.8	102.7	91.2	92.8
Tangible current asset growth	115.8	105.5	105.5	90.1	136.7	6.3	80.3
Exports	112.0	112.2	114.3	97.4	123.2	103.1	108*
Imports	128.0	121.4	118.5	101.0	115.6	94.7	106*
	percentage of GDP, current prices						
Domestic demand	101.6	104.3	105.2	106.4	106.6	103.7	103.4
Consumption	79.7	79.7	79.0	80.0	81.6	82.7	84.2
Capital formation	21.9	24.6	26.2	26.4	25.0	21.0	19.2
Net exports	-1.6	-4.3	-5.2	-6.4	-6.9	-3.7	-3.4

* NBP preliminary estimates.

Source: GUS.

Table 47

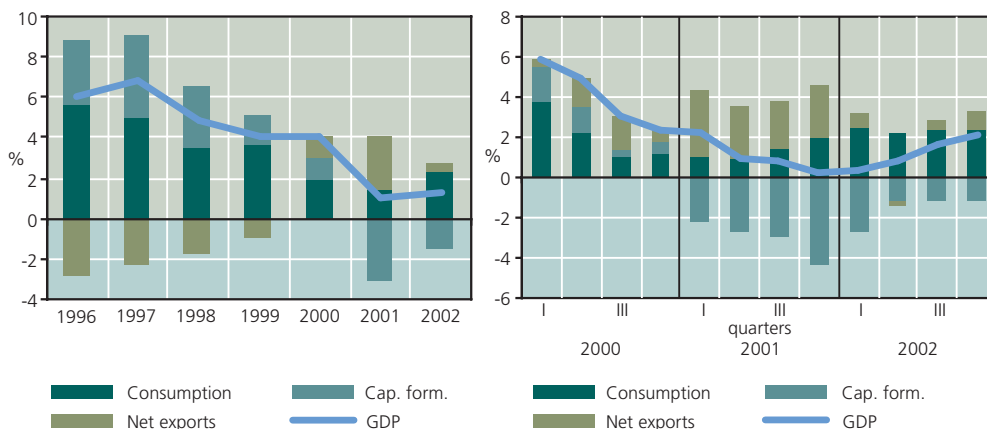
Proportion of final demand components in GDP growth

	1996	1997	1998	1999	2000	2001	2002
GDP	6.0	6.8	4.8	4.1	4.0	1.0	1.3
Domestic demand	8.8	9.1	6.6	5.1	3.0	-1.6	0.8
Consumption	5.6	5.0	3.5	3.6	2.0	1.4	2.3
Personal consumption	5.3	4.4	3.1	3.2	1.7	1.3	2.1
Social consumption	0.3	0.6	0.4	0.4	0.3	0.1	0.2
Capital formation	3.2	4.1	3.1	1.5	1.0	-3.1	-1.5
Gross fixed investment	3.1	4.0	3.0	1.6	0.7	-2.0	-1.5
Tangible current asset growth	0.1	0.1	0.1	-0.1	0.3	-1.0	0.0
Net exports	-2.8	-2.3	-1.8	-1.0	1.0	2.6	0.5

Source: NBP calculations based on GUS data.

Figure 40

Proportion of final demand components in GDP growth



Source: GUS, NBP calculations.

The fall in capital formation observed in can be traced to the continued cuts in fixed investments. The central and local government and households scaled back their investment spending, but the fall in spending was mainly the result of companies reducing their investment activity. This can be traced to pessimistic assessment of future demand, caused by the global economic slowdown and slow growth in domestic demand. Pessimistic foreign demand expectations caused a further cut in the capital expenditure of companies with foreign equity investments. During the year, companies reported a gradual increase of their used production capacity, which can be seen as an indicator of production growth.

Regardless of the deteriorating situation on the labour market and income from employment decreasing once more in real terms, individual consumption growth went up in 2002. Apart from the decreasing propensity of households to save, the faster consumption growth probably stemmed from an increase in income from the non-registered economy.

Social consumption grew at a slower rate than personal consumption in 2002.

Exports soared in 2002, in particular in the second half of the year. This led to an increase in consumption and in imports. However, imports increased at a slower rate than exports. As a result, the negative net exports decreased. This more favourable balance of trade brought about a further reduction in external disequilibrium. The proportion of foreign savings financing capital formation fell from 6.3% in 2002 and over 3% in 2001 to approximately 2.5% in 2002.

In subsequent quarters of 2002, the growth in GDP and domestic demand gathered momentum. The economic growth rate, slightly higher than in 2001, was a result of the decreasing industrial output trend being overcome in Q3 and Q4 of 2002. Apart from the increased personal consumption, this resulted from good export figures, with exports increasing despite poor foreign demand (particularly in Germany, where recession was noted).

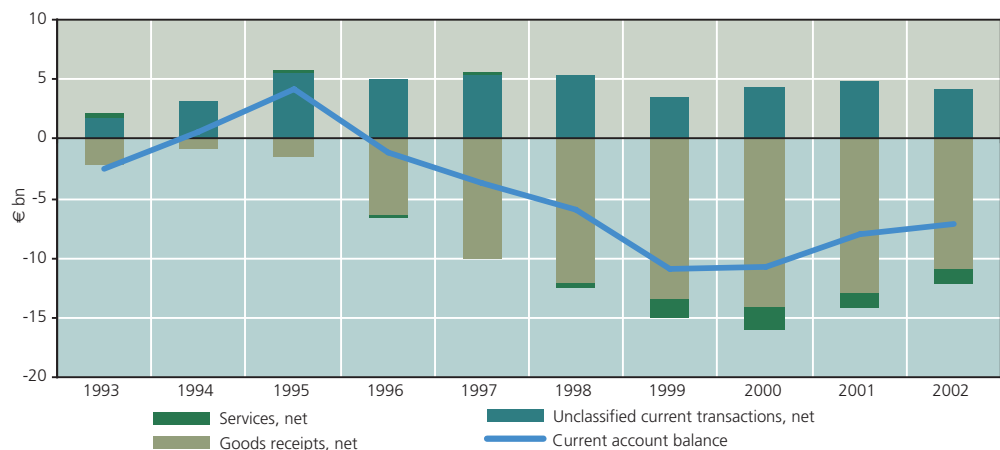
APPENDIX 3

External Disequilibrium

The year 2002 was the third subsequent year to see a fall in the current account deficit of the balance of payments. The deficit shrunk by €0.8bn compared to 2001 (and by as much as €3.74bn on 1999), to €7.2bn. This means that the proportion of the deficit to GDP was reduced from 7.5% in 1999 to 3.6% in 2002. This lower current deficit was mainly due to the reduced deficit in the trade in goods (Figure 41). The remaining current account elements (apart from transfers, whose level was similar to that in 2001) led to an increase in the current account deficit. The income deficit increased by €0.7bn, from €1.0bn to €1.7bn, while the surplus of unclassified trade transactions fell by €0.7bn – from €4.9bn to €4.2bn.

Figure 41

Current account balance, 1993–2002 (annual figures)



Source: NBP.

Just as in 2001, the improved balance of payments for goods (up by €2.1bn in 2002) was due to exports growing faster than imports. The US dollar weakened against the euro, and this had a strong impact on the development of trade values in 2002, hence the growth expressed in euro was lower than that expressed in the US dollar and zloty.⁶⁸

The first half of 2002 saw the continued shrinking of export receipts expressed in euro (down 0.8% against the first half of the previous year), which began in Q4 2001. However, in the second half of 2002 export growth clearly gathered speed: exports increased by 7.1% in Q4 2002 compared to the corresponding period of 2001. The falling trend of imports was maintained until Q3 2002. In Q4 2002, the value of imports rose by 2.8% against the corresponding period of the previous year.

The weaker growth of Polish exports in the first half of 2002 resulted from the economic downturn in the European Union, major market for Polish exporters. Poorer demand in Germany, which purchases almost one third of Polish exports, hampered export growth the most. In 2002, Germany saw its economic growth hit the lowest level since 1993. Zloty depreciation, which

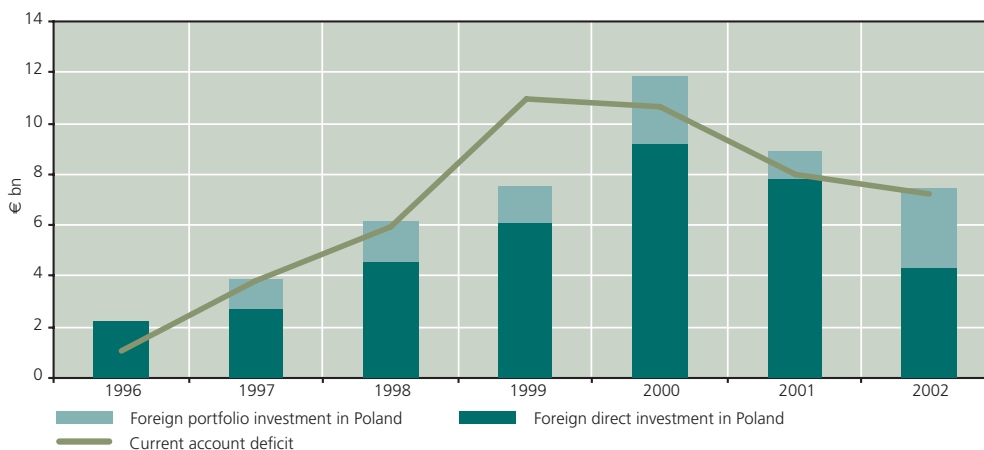
⁶⁸ In 2002, export receipts in euro were 2.7% higher on the previous year. This growth was almost three times slower than in 2001 (9.9%). In contrast, euro payments for imports were 2.4% lower than in the previous year, whereas in 2001 this value had increased by 4.2%. Exports denominated in the US dollar increased 8.8% in 2002, the growth being greater than in 2001 (7.1%). The situation of imports was similar, as their dollar value grew 3.2% in 2002, against 1.3% in 2001. The growth of trade in goods expressed in zloty was also higher. In 2002, the zloty value of exports increased by 8.2% (against 0.7% in 2001) and of imports by 2.7% (against -4.6%).

intensified throughout 2002, had the effect of boosting export growth in the second half of the year. Better growth in foreign sales also stemmed from changes in the structure of goods exported, with a rising share of machinery and transport equipment. This rise was linked to the increasing role of foreign equity companies in the Polish trade.

In 2002, the way in which the current account deficit was financed took a turn for the worse (Figure 42). The inflow of long-term foreign capital in the form of direct investment of €4.0bn financed 56% of this deficit (against 97% in 2001). The fall in the amount of incoming capital was accompanied by a deterioration in its structure, in with the proportion of loans received from direct foreign investors rising from some 16% in 2001 to about 28% in 2002. At the same time, the importance of net portfolio investment as a source of financing the current account deficit increased. The net inflow of equity in the form of portfolio investment amounted to €1.9bn in 2002 (against €1.1bn in 2001).

Figure 42

Current account deficit and the inflow of foreign investment, 1993–2002 (annual figures)



Source: NBP.

The year 2002 saw a significant improvement in early warning indicators which indicate the probability of disruptions to financial market caused by the external disequilibrium and the methods of its financing. Indicators related to current transactions, i.e. the proportion of the current account balance and balance of trade to GDP as well as the proportion of foreign debt service to exports, were more favourable than in 2001. On the other hand, indicators showing the proportion of current account deficit financed by direct investments, the proportion of current account deficit not financed by direct investment to the GDP and the level of import coverage by foreign exchange reserves (in months of imports) all deteriorated compared to 2002 (Table 48).

Table 48

Selected early warning indicators

Early warning indicator	2001	2002
Current balance/GDP (%)	-3.9	-3.6
Trade balance/GDP (%)	-6.4	-5.5
Direct investment/Current balance (%)	96.9	55.7
Current balance less direct investment/GDP (%)	-0.1	-1.6
Foreign debt service/exports (%)	52.8	47.8
Official reserve assets as months of imports	7.7	7.5

Source: NBP calculations based on figures and estimates in euro.

APPENDIX 4

Money supply

There were two main trends in the money supply in 2002: a fall in the M3 broad monetary aggregate and shifts in its structure caused by increases of narrow money supply measures – the M1 aggregate and cash in circulation.

Table 49

Money supply, 2001–2002

Item	2001		2002		
	balance		growth	nominal annual growth	real annual growth ¹
	in billion zloty			%	
I. M1 money supply	118,3	136,3	18,0	15.2	14.3
II. M3 money supply	328,4	321,6	-6,9	-2.1	-2.9
1. Cash in circulation (excluding vault cash)	38,2	42,2	4,0	10.4	9.5
2. Deposits and other liabilities	290,1	277,5	-12,6	-4.3	-5.0
2.1. Households	203,9	195,9	-7,9	-3.9	-4.7
2.2. Non-monetary financial institutions	10,6	7,2	-3,4	-31.7	-32.3
2.3. Corporates	54,3	55,0	0,7	1.3	-0.8 ²
2.4. Non-commercial institutions serving households	9,8	8,3	-1,5	-15.5	-16.2
2.5. Local government	7,7	8,4	0,7	9.7	8.9
2.6. Social insurance funds	3,8	2,7	-1,1	-28.5	-29.1
3. Other M3 components	0,2	1,8	1,6	755.1	649.1

¹ CPI used as the deflator.

² Industrial output price index used as the deflator.

Source: NBP.

In 2002, the M3 money supply declined by 6.9bn zloty, i.e. 2.1% in nominal and 2.9% in real terms. This M3 fall was mainly due to a decrease in the banking system liabilities to households. Liabilities to non-monetary financial institutions, non-commercial institutions serving households and local government institutions shrank as well. However, the balance of liabilities to enterprises, the balance of notes and coin in circulation and the remaining M3 components went up. This significant growth in the remaining M3 components was brought about by some commercial banks, which issued bonds directed towards households towards the end of the year. Though these bonds actually were equivalent to time deposits, they allowed their holders to avoid paying the tax on interest income.

When analysing the M3 decrease in 2002, one should bear in mind that it excludes liabilities with maturity in excess of 2 years, as well as such close substitutes for bank savings as investments in treasury securities or purchases of investment fund units. The introduction of the interest income tax at the end of 2001 significantly increased the popularity of these forms of savings. In 2002, the assets managed by investment funds and the value of treasury bonds held by households increased by some 14bn zloty in total, while deposits with maturity in excess of 2 years went up 1.4bn zloty. The M3 measure taken, together with the two above categories, increased some 2% in 2002, but their annual growth rate, just as the growth rate of the M3 money supply, was slowing down throughout 2002.

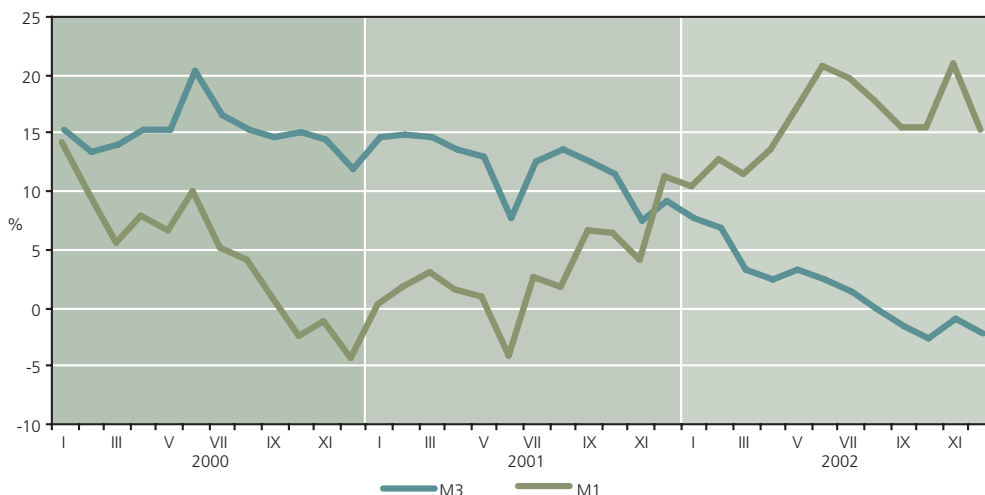
In 2002, the weak M3 growth was accompanied by a fast rise in narrow money measures. The M1 aggregate, which combines notes and coins in circulation and current deposits with the banking system, went up by some 18bn zloty in 2002 (an increase of 15.2% in nominal and

14.3% in real terms). The fast growth of the M1 aggregate was due to shifts in the maturity structure of the M3 money supply, in which the more liquid components increased. The higher liquidity of the M3 was mainly caused by a fall in interest rates, which made time deposits less appealing.

The proportion of foreign currency deposits to total deposits of the banking sector remained at a stable level of approximately 17% in 2002. The exchange rate volatility did not have a significant impact on the money supply.

Figure 43

Annual growth rates of M3 and M1



Source: NBP.

Total claims of the banking sector rose by 12bn zloty in 2002 (5.2% in nominal and 4.4% in real terms) and constituted the main factor of money creation. However, their annual growth slowed down systematically over the year.

Table 50

Structure of claims, 2001–2002

Item	As of:		Annual growth	
	31. XII. 2001	31. XII. 2002	nominal	real ¹
	mld zł		%	
Total claims	232,2	244,3	5.2	4.4
1. On households	82,7	89,8	8.6	7.7
2. On non-monetary financial institutions	10,6	10,3	-2.9	-3.7
3. On corporates	127,6	129,5	1.4	-0.8 ²
4. On non-commercial institutions serving households	1,1	1,0	-10.9	-11.7
5. On local government institutions	8,4	11,3	33.7	32.6
6. On social insurance funds	1,7	2,4	42.7	41.6

¹ CPI used as the deflator.

² Industrial output price index used as the deflator.

Source: NBP.

In 2002, claims on households increased 7.1bn zloty (7.7% in real terms). The volume of housing loans rose very fast – its growth accounted for 87.7% of the growth of total claims on households and amounted to 6.2bn zloty (43.6% in real terms). Because of the difference between the interest rates on loans in the zloty and in the foreign currencies, households took on more

foreign currency loans. The proportion of foreign currency claims on households increased from 17.7% in December 2001 to 22.9% in December 2002. Loans for buying housing property represented the majority of total loans to private individuals (32.4% of total claims in December 2002). Sole proprietors (employing up to 9 people), who are included in the household category, mainly took out investment loans (36.0% in December 2002) and working capital loans (26.4%).

Corporates showed less interest in contracting new loans in 2002 than in previous years. Claims on corporates rose 1.8% in 2002 (a fall of 0.8% in real terms), while they had amounted to 4.6bn zloty in 2001. At the same time, the proportion of irregular classifications at banks increased in 2002 (from 17.8% in December 2001 to 20.7%⁶⁹ in December 2002), which stemmed from excessive lending expansion in previous years, leading to reduction in loan availability. The rationing of loans was also compounded by the increasing budget deficit, mainly financed by treasury securities, which constitute an investment alternative to bank loans.

Claims on other entities rose by 3.1bn zloty in 2002, with the greatest growth noted in claims on local government institutions – up 2.9bn zloty (32.6% in real terms). This growth was comparable to that observed in previous years.

⁶⁹ Pre-audit figures.

APPENDIX 5

Schedule of implementing regulations issued in 2002
by directing bodies of the National Bank of Poland
and the Commission for Banking Supervision
(regulations promulgated)

- 5.1. Regulations of the President of the National Bank of Poland
- 5.2. Resolutions of the Monetary Policy Council
- 5.3. Resolutions of the Management Board of the National Bank of Poland
- 5.4. Resolutions of the Commission for Banking Supervision

Appendix 5.1

Regulations of the President of the National Bank of Poland

	No.	Date adopted	Effective date	Title (subject matter)	Where published
1	1/2002	10.01.2002	17.01.2002	laying down the specimens, alloy, fineness, weight and issue quantity of coins with the face value of 2 zloty, 20 zloty and 100 zloty and the date of their introduction into circulation	Monitor Polski no. 2, item 43
2	2/2002	20.02.2002	26.02.2002	laying down the specimens, alloy, fineness, weight and issue quantity of coins with the face value of 2 zloty and 10 zloty and the date of their introduction into circulation	Monitor Polski no. 9, item 174
3	3/2002	28.03.2002	15.04.2002	laying down the specimens, fineness, weight and issue quantity of coins with the face value of 100 zloty and the date of their introduction into circulation	Monitor Polski no. 14, item 231
4	4/2002	18.04.2002	08.05.2002	laying down the specimens, alloy, fineness, weight and issue quantity of coins with the face value of 2 zloty, 10 zloty and 100 zloty and the date of their introduction into circulation	Monitor Polski no. 16, item 268
5	5/2002	06.05.2002	01.07.2002	on the method of numbering bank accounts kept by banks	Dziennik Urzędowy NBP no. 8, item 26
6	6/2002	06.05.2002	23.05.2002	laying down the specimens, fineness, weight and issue quantity of coins with the face value of 10 zloty and 200 zloty and the date of their introduction into circulation	Monitor Polski no. 19, item 337
7	7/2002	24.05.2002	01.07.2002	on the method of numbering banks and their organisational units	Dziennik Urzędowy NBP no. 8, item 27
8	8/2002	27.05.2002	01.06.2002	amending the Regulation on the authorisation to take decisions concerning foreign exchange permits	Dziennik Urzędowy NBP no. 8, item 28
9	9/2002	26.08.2002	4.09.2002	laying down the specimens, alloy, fineness, weight and issue quantity of coins with the face value of 2 zloty and 10 zloty and the date of their introduction into circulation	Monitor Polski no. 37, item 587
10	10/2002	07.09.2002	10.08.2002	amending the Regulation on the means and method of counting, sorting, packaging and package-marking of banknotes and coins and performing activities to supply those denominations to banks	Dziennik Urzędowy NBP no. 13, item 35
11	11/2002	26.09.2002	01.10.2002	on the authorisation to take decisions on individual permits and permits for conducting bureau de change	Dziennik Urzędowy NBP no. 15, item 40
12	12/2002	04.10.2002	14.10.2002	laying down the specimens, alloy, fineness, weight and issue quantity of coins with the face value of 2 zloty and 20 zloty and the date of their introduction into circulation	Monitor Polski no. 46, item 684
13	13/2002	25.10.2002	06.11.2002	laying down the specimens, alloy, fineness, weight and issue quantity of coins with the face value of 2 zloty and 10 zloty and the date of their introduction into circulation	Monitor Polski no. 52, item 735
14	14/2002	06.11.2002	01.01.2003	amending the Regulation in the method of conducting inter-bank settlements	Dziennik Urzędowy NBP no. 18, item 48
15	16/2002	25.11.2002	11.12.2002	laying down the specimens, alloy, fineness, weight and issue quantity of coins with the face value of 2 zloty and 20 zloty and the date of their introduction into circulation	Monitor Polski no. 58, item 791
16	19/2002	11.12.2002	03.01.2003	on the scope of information submitted by banks to the Banking Guarantee Fund	Dziennik Urzędowy NBP no. 20, item 53
17	20/2002	18.12.2002	08.01.2002	laying down the specimens, alloy, fineness, weight and issue quantity of coins with the face value of 2 zloty and 10 zloty and the date of their introduction into circulation	Monitor Polski no. 61, item 877

Appendix 5.2

Resolutions of the Monetary Policy Council

	No.	Date adopted	Effective date	Title (subject matter)	Where published
18	1/2002	29.01.2002	31.01.2002	on the principles of conducting open market operations	Dziennik Urzędowy NBP no. 2, item 2
19	2/2002	30.01.2002	31.01.2002	on the rediscount rate, reference rate, refinance rate and the NBP deposit rate	Dziennik Urzędowy NBP no. 2, item 3
20	3/2002	24.04.2002	24.04.2002	on approving the annual financial statements of the National Bank of Poland as of 31 December 2001	Dziennik Urzędowy NBP no. 7, item 12
21	4/2002	25.04.2002	26.04.2002	on the rediscount rate, reference rate, refinance rate and the NBP deposit rate	Dziennik Urzędowy NBP no. 7, item 13
22	5/2002	16.05.2002	16.05.2002	on accepting the report on the implementation of monetary policy guidelines in 2001	Monitor Polski no. 22, item 393
23	6/2002	16.05.2002	16.05.2002	on evaluating the activities of the Management Board of the National Bank of Poland with regard to implementing monetary policy guidelines in 2001	Monitor Polski no. 22, item 394
24	7/2002	16.05.2002	16.05.2002	on approving the report on activities of the National Bank of Poland in 2001	Dziennik Urzędowy NBP no. 8, item 16
25	8/2002	29.05.2002	30.05.2002	on the rediscount rate, reference rate, refinance rate and the NBP deposit rate	Dziennik Urzędowy NBP no. 8, item 17
26	9/2002	26.06.2002	27.06.2002	on the rediscount rate, reference rate, refinance rate and the NBP deposit rate	Dziennik Urzędowy NBP no. 9, item 29
27	10/2002	26.06.2002	15.07.2002 with effect from 27.06.2002	amending the Resolution laying down monetary policy guidelines for 2002	Monitor Polski no. 30, item 483
28	11/2002	28.08.2002	29.08.2002	on the rediscount rate, reference rate, refinance rate and the NBP deposit rate	Dziennik Urzędowy NBP no. 11, item 31
29	12/2002	24.09.2002	1.01.2003	on specifying the ceiling on liabilities arising as a result of the National Bank of Poland contracting loans and advances from foreign banking and financial institutions	Dziennik Urzędowy NBP no. 14, item 36
30	13/2002	25.09.2002	1.01.2003	laying down monetary policy guidelines for 2003	Monitor Polski no. 45, item 678
31	14/2002	25.09.2002	26.09.2002	on the rediscount rate, reference rate, refinance rate and the NBP deposit rate	Dziennik Urzędowy NBP no. 14, item 37
32	15/2002	23.10.2002	24.10.2002	on the rediscount rate, reference rate, refinance rate and the NBP deposit rate	Dziennik Urzędowy NBP no. 16, item 41
33	16/2002	22.10.2002	22.10.2002	on approving the adjusted financial plan of the National Bank of Poland for 2003	Dziennik Urzędowy NBP no. 17, item 43
34	17/2002	26.11.2002	26.11.2002	on approving the financial plan of the National Bank of Poland for 2003	Dziennik Urzędowy NBP no. 18, item 46
35	19/2002	27.11.2002	28.11.2002	on the rediscount rate, reference rate, refinance rate and the NBP deposit rate	Dziennik Urzędowy NBP no. 18, item 47
36	20/2002	17.12.2002	01.01.2003	on the principles of conducting open market operations	Dziennik Urzędowy NBP no. 20, item 52

Appendix 5.3

Resolutions of the Management Board of the National Bank of Poland

No.	Date adopted	Effective date	Title (subject matter)	Where published	
37	3/2002	15.02.2002	31.03.2002	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. 5, item 9
38	5/2002	21.02.2002	22.03.2002	amending the Resolution on the issue of NBP money-market bills and trading in these bills	Dziennik Urzędowy NBP no. 4, item 7
39	9/2002	15.03.2002	15.03.2002, applies to the reserve requirements to be maintained from 31 March 2002, except for par. 1 subpar. 2, which comes into effect as of 31 March 2002	amending the Resolution on the procedures and principles for the calculation and maintenance of the reserve requirements by banks.	Dziennik Urzędowy NBP no. 6, item 11
40	16/2002	28.05.2002	01.06.2002	amending the Resolution establishing "Regulations for the operation of treasury bill accounts and deposits by the National Bank of Poland"	Dziennik Urzędowy NBP no. 8, item 18
41	17/2002	28.05.2002	01.06.2002	amending the Resolution on the operation of the Central Treasury Bill Register	Dziennik Urzędowy NBP no. 8, item 19
42	19/2002	28.05.2002	01.06.2002	amending the Resolution establishing "Regulations on unconditional sales to banks and purchases from banks by the National Bank of Poland of treasury securities by auction"	Dziennik Urzędowy NBP no. 8, item 20
43	21/2002	28.05.2002	01.06.2002	amending the Resolution establishing "Regulations for bank refinancing by the National Bank of Poland under lombard facilities"	Dziennik Urzędowy NBP no. 8, item 21
44	22/2002	28.05.2002	01.06.2002	amending the Resolution on the issue of NBP money-market bills and trading in these bills	Dziennik Urzędowy NBP no. 8, item 22
45	24/2002	28.05.2002	01.06.2002	amending the Resolution establishing "Regulations for intra-day bank refinancing by the National Bank of Poland"	Dziennik Urzędowy NBP no. 8, item 23
46	26/2002	28.05.2002	01.06.2002	amending the Resolution on the procedures and principles for the calculation and maintenance of the reserve requirements by banks.	Dziennik Urzędowy NBP no. 8, item 24
47	27/2002	28.05.2002	01.06.2002	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 risks within the banking sector	Dziennik Urzędowy NBP no. 8, item 25
48	44/2002	02.09.2002	03.10.2002	amending the Resolution establishing "Regulations for the operation of treasury bill accounts and deposits by the National Bank of Poland"	Dziennik Urzędowy NBP no. 13, item 33
49	45/2002	06.09.2002	09.09.2002, applies to reserve requirements to be maintained from 30 November 2002	amending the Resolution on the procedures and principles for the calculation and maintenance of the reserve requirements by banks.	Dziennik Urzędowy NBP no. 12, item 32
50	46/2002	17.09.2002	30.09.2002	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 risks within the banking sector	Dziennik Urzędowy NBP no. 13, item 34
51	49/2002	23.09.2002	01.10.2002	amending the Resolution establishing "Regulations for the execution 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. 14, item 38
52	51/2002	23.09.2002	01.10.2002	on the method of calculating and announcing current foreign exchange rates	Dziennik Urzędowy NBP no. 14, item 39
53	60/2002	28.11.2002	01.12.2002	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. 19, item 49
54	62/2002	06.12.2002	01.01.2003	amending the Resolution establishing "Regulations for the operation of treasury bill accounts and deposits by the National Bank of Poland"	Dziennik Urzędowy NBP no. 20, item 50
55	63/2002	06.12.2002	07.01.2003	Amending the Resolution on on the method of calculating and announcing current foreign exchange rates	Dziennik Urzędowy NBP no. 20, item 51

Appendix 5.4

Resolutions of the Commission for Banking Supervision

	No.	Date adopted	Effective date	Title (subject matter)	Where published
1	1/2002	10.01.2002	28.01.2002	on the list of documents to be enclosed to applications to the Commission for Banking Supervision for permits to establish a bank, for the consent to the appointment of bank management board members and to the report on the composition of the management board submitted by the bank supervisory board to the Commission for Banking Supervision	Dziennik Urzędowy NBP no. 1, item 1
2	3/2002	6.02.2002	22.03.2002	amending the Resolution on procedures for the performance of banking supervision	Dziennik Urzędowy NBP no. 4, item 6
3	4/2002	6.03.2002	30.03.2002	on procedures for the performance of banking supervision	Dziennik Urzędowy NBP no. 6, item 10
4	5/2002	18.11.2002	28.11.2002	laying down the specimen register of mortgage bond security	Dziennik Urzędowy NBP no.18, item 45

APPENDIX 6

NBP publications and web site in 2002

Title	Subject matter	Language
PERIODICALS		
Report on financial system stability (January 2000 – June 2001) published every 18 months	A review of major financial market segments, including the equity and inter-bank markets, an analysis of threats to their stability and their sensitivity to external stress. Includes a description of the principles of co-operation between institutions supervising financial markets and guarantees for deposits. Section II discusses ownership management at banks as well as the Commercial Companies and Partnerships Code in the light of OECD Corporate Supervision Principles.	Polish
Yearbooks		
Annual Report, 2001	General description of economic and financial results, the banking sector development, NBP activities, the balance sheet of NBP and the banking system, as well as the balance of payments of the Republic of Poland.	Polish English
Report on NBP Operations in 2001	Details on the performance of particular central bank functions in 2001, the NBP balance sheet and profit and loss account.	Polish
Monetary Policy Guidelines for 2003	Presents the monetary policy guidelines laid down annually by the Monetary Policy Council. Contains a description of the internal and external conditions determining the monetary policy, its targets and instruments for their achievement.	Polish English
Report on the Implementation of Monetary Policy Guidelines in 2001	Discusses the performance of the inflation target, the development of monetary aggregates, monetary policy instruments, and describes the performance of other monetary policy tasks.	Polish
Financial Market in Poland (1998 – 2001)	Describes the situation of particular segments of the national financial market. Discusses financial instruments of particular markets, their sizes, organisation, investor structure, their degree of development and barriers hindering it.	Polish English
Balance of Payments, Transaction Basis, together with Balance of Foreign Assets and Liabilities of the Republic of Poland	Balance of payments details on a transaction basis and a balance of foreign assets and liabilities with an analytical and methodology section.	Polish
Foreign Direct Investment in Poland	An analysis of the inflow of direct investment during the given period.	Polish
Corporate Finances in 2001, with Particular Focus on Monetary and Credit Policies (in the Light of Surveys and GUS Data)	A summary of the results of annual surveys of a group of enterprises and the GUS Central Office of Statistics data.	Polish
Report on Activities of the Commission for Banking Supervision in 2001	Describes the main directions of banking supervision activities divided into the following areas: licensing, analysis, concerning the cooperative banking sector, inspections, regulation, international liaisons and training. It also presents the current composition of the Commission as well as the legal basis for and procedures of its activities. Also contains a list of matters considered by the Commissions and resolutions taken.	Polish English
Open Market Operations on the background of the banking system liquidity in 2001	This report presents the development of the liquidity situation of the banking sector in Poland in 2001. It focuses on a description of instruments used by the National Bank of Poland to stabilise inter-bank rates. Available only on the NBP website.	Polish
Quarterlies		
Inflation Report	Describes inflation trends in a given period, the monetary aspects of inflationary processes as well as non-monetary, internal and external conditions affecting inflation.	Polish English
Balance of Payments of the Republic of Poland	Balance of Payments data recorded by the Polish banking system in the given period.	Polish
Preliminary Information on Corporate Sector Finances (special focus on business climate)	Analyses the business climate in the corporate sector based on results of NBP early monitoring, results of business climate surveys by other domestic institutions and currently available GUS surveys.	Polish

Appendix 6 – cont.

Title	Subject matter	Language
Summary Evaluation of the Situation of Polish Banks	Evaluation of the financial situation of the banks, developed by the General Inspectorate of Banking Supervision on the basis of data from bank reports. Provides a summary presentation of the principal components of banks' assets, liabilities and off-balance items, including the quality of assets and the level of provisioning, and also the banks' capital base, ownership structure and capital adequacy ratio.	Polish, half-yearly editions also in English
Monthlies		
Information Bulletin	Basic information on the overall economic and financial performance in Poland, and on the monetary policy of the central bank. Quarterly editions also contain a descriptive section on general macroeconomic trends, the money supply and money-creation factors, the balance of payments and basic monetary policy instruments.	Polish English
Preliminary Information	A summary publication containing preliminary economic results, the banking system, the balance sheet of the National Bank of Poland as well as the balance of payments of the Republic of Poland.	Polish English
Bank and Credit (Bank i Kredyt)	Analytical articles on the financial sector, especially the banking sector, plus informative articles. Presents the most important issues connected with the activities and strategic intentions of NBP as a central bank. Contains an educational insert, the "ABC of the Euro".	Polish, summaries in English
NBP Official Journal (Dziennik Urzędowy NBP) No. 1-20	Enactments concerning the operation of banks: regulations of the President of the National Bank of Poland, resolutions of the Monetary Policy Council, resolutions and regulations of the Commission for Banking Supervision, resolutions of the Management Board of the National Bank of Poland as well as announcements on establishments, liquidations and bankruptcies of banks, interest rates on the refinancing and lombard loans, the bill of exchange discount and rediscount rate and rates of bank reserve requirements.	Polish
Financial Markets (Rynki finansowe)	Monthly analysis of the situation on financial markets, with current information on interest and exchange rates, investor expectations and behaviour. Available only on the NBP website.	Polish
AD HOC PUBLICATIONS		
National Bank of Poland: Plan of Activities, 2002–2004	Basic objectives and major tasks of NBP to be executed in 2002–2004.	Polish English
Polish Payment System (System płatniczy w Polsce)	A description of the Polish payment system with ample statistics, including comparative analyses of Poland and other pre-accession countries.	Polish
The Polish Banking System in the Nineties	A presentation of the major directions of banking sector change in 1990s. The English language copies have been distributed to all ESCB central banks, including the ECB. This publication is used for professional contacts with representatives of foreign financial and banking institutions.	Polish English
NBP Role in the European Integration	A presentation of the basic NBP tasks in the process of European integration. The English language copies have been distributed to all ESCB central banks, including the ECB. This publication is used for professional contacts with representatives of foreign financial and banking institutions.	Polish English
Materials and Studies No. 136-153 in Polish No. 21-26 in English	A 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 editions in English
NBP website		
http://www.NBP.pl	Presents the Bank, its organisational structure and operating principles, legislation, statistical information (including NBP base interest rates), notes and coin issued by NBP, a list of banks operating in Poland, publications and current news of NBP. Web pages on "Economic Education", "The Euro 2002", "NBP conferences" and "Vacancies at NBP".	Polish English

APPENDIX 7

List of open seminars held at NBP in 2002

1	The relationship between real interest rates and inflation. The role of the natural interest rate.
2	Harmonising monetary policy instruments in accession countries with the ECB system.
3	Estimating the money demand function and household consumption function in Poland in 1967–2000.
4	The objectives and independence of the policy for public debt management – an analysis of European Union member states.
5	Using Divisi indices to model the relationship between the money supply and inflation.
6	Corporate governance as a premise for financial system stability.
7	The role of security in refinancing operations of the central bank.
8	Real wage rigidity and Poland joining the EMU.
9	Corporate surveys by NBP.
10	Perspectives for banking and financial market development.
11	The Monetary Policy Strategy and the Operational Framework of the Central Bank: the Case of the Eurosystem.
12	The monetary policy transmission mechanism – the modern theoretical framework, new empirical results for Poland.
13	Theoretical and practical aspects of capital flow liberalisation – a case study of the Polish liberalisation.
14	The new Foreign Exchange Law.

APPENDIX 8

Voting of Monetary Policy Council Members on Resolutions
in 2002

Date of resolution	Subject	Decision of MPC	Voting by MPC Members	
			for:	against:
29.01.2002	on the procedures for conducting open market operations	to modify the system of open market operations	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski D. Rosati G. Wójtowicz W. Ziółkowska	
30.01.2002	cutting the reference rate by 2 points and the lombard rate by 2.5 points	motion failed to receive a majority of votes	D. Rosati G. Wójtowicz W. Ziółkowska	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski
30.01.2002	lowering the reference rate by 1 point	motion failed to receive a majority of votes	B. Grabowski C. Józefiak W. Łączkowski	L. Balcerowicz M. Dąbrowski J. Krzyżewski J. Pruski D. Rosati G. Wójtowicz W. Ziółkowska
30.01.2002	on the rediscount rate, reference rate, refinancing rate and NBP deposit rate	reference rate cut by 1.5 point and the lombard rate by 2 points	L. Balcerowicz J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
27.03.2002	cutting all interest rates by 1 point	motion failed to receive a majority of votes	D. Rosati G. Wójtowicz W. Ziółkowska	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski
24.04.2002	accepting the NBP annual financial statement as of 31.12.2001		L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski G. Wójtowicz W. Ziółkowska	
			D. Rosati was absent from the meeting	
25.04.2002	cutting the reference, rediscount and refinancing rate by 1 point, keeping the NBP deposit rate unchanged	motion failed to receive a majority of votes	J. Krzyżewski G. Wójtowicz W. Ziółkowska	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
			D. Rosati was absent from the meeting	
25.04.2002	on rediscount, reference, refinancing rates and the NBP deposit rate	reference rate lowered by 0.5 point, rediscount and refinancing rates by 1 point, interest rate on time deposits with NBP unchanged	L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski	M. Dąbrowski J. Pruski G. Wójtowicz W. Ziółkowska
			D. Rosati was absent from the meeting	

Appendix 8 – cont.

Date of resolution	Subject	Decision of MPC	Voting by MPC Members	
			for:	against:
16.05.2002	accepting the report on the implementation of monetary policy guidelines in 2001		L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski G. Wójtowicz	D. Rosati W. Ziółkowska
			M. Dąbrowski was absent from the meeting	
16.05.2002	evaluating the activities of NBP Management Board aimed at implementing monetary policy guidelines in 2001		L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski D. Rosati G. Wójtowicz W. Ziółkowska	
			M. Dąbrowski was absent from the meeting	
16.05.2002	approving the report on NBP operations in 2001		L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski D. Rosati G. Wójtowicz W. Ziółkowska	
			M. Dąbrowski was absent from the meeting	
29.05.2002	lowering the reference rate by 0.75 point, the rediscount and refinance rate by 1 point and the NBP deposit rate by 0.5 point	motion failed to receive a majority of votes	D. Rosati G. Wójtowicz W. Ziółkowska	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski
29.05.2002	on the rediscount, reference, refinance rates and the NBP deposit rate	all base interest rates lowered by 0.5 point	L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski D. Rosati G. Wójtowicz	M. Dąbrowski W. Ziółkowska
26.06.2002	cutting all base interest rates by 1 point	motion failed to receive a majority of votes	D. Rosati G. Wójtowicz W. Ziółkowska	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski
26.06.2002	on the rediscount, reference, refinance rates and the NBP deposit rate	all base interest rates lowered by 0.5 point	L. Balcerowicz B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski J. Pruski
26.06.2002	amending the Resolution establishing monetary policy guidelines for 2002	to change the 2002 inflation target to 3% +/- 1 point	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski	D. Rosati G. Wójtowicz W. Ziółkowska

Appendix 8 – cont.

Date of resolution	Subject	Decision of MPC	Voting by MPC Members	
			for:	against:
19.07.2002	lowering all base interest rates by 0.5 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
28.08.2002	cutting the reference rate by 0.75 point and the lombard rate by 1 point while keeping the NBP deposit rate unchanged	motion failed to receive a majority of votes	G. Wójtowicz W. Ziółkowska	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski
28.08.2002	on the rediscount, reference, refinance rates and the NBP deposit rate	reference rate lowered by 0.5 point, rediscount and refinance rates by 1 point, the NBP deposit rate kept unchanged	L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski G. Wójtowicz W. Ziółkowska	D. Rosati was absent from the meeting
25.09.2002	establishing monetary policy guidelines for 2003		L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski G. Wójtowicz W. Ziółkowska	D. Rosati was absent from the meeting
25.09.2002	on the rediscount, reference, refinance rates and the NBP deposit rate	all base interest rates cut by 0.5 point	L. Balcerowicz C. Józefiak J. Krzyżewski W. Łączkowski G. Wójtowicz W. Ziółkowska	M. Dąbrowski B. Grabowski J. Pruski
22.10.2002	approving the adjusted financial plan of the National Bank of Poland for 2002		L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski D. Rosati G. Wójtowicz W. Ziółkowska	
23.10.2002	on the rediscount, reference, refinance rates and the NBP deposit rate	reference rate cut by 0.5 point, rediscount rate by 0.75 point, refinance rate cut by 1 point, NBP deposit rate left unchanged	L. Balcerowicz J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski

Appendix 8 – cont.

Date of resolution	Subject	Decision of MPC	Voting by MPC Members	
			for:	against:
26.11.2002	approving the financial plan of the National Bank of Poland for 2003		L. Balcerowicz M. Dąbrowski B. Grabowski C. Józefiak J. Krzyżewski W. Łączkowski J. Pruski D. Rosati G. Wójtowicz W. Ziółkowska	
27.11.2002	cutting all base interest rates by 0.5 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
27.11.2002	on the rediscount, reference, refinance rates and the NBP deposit rate on	all base interest rates cut by one quarter of a percentage point	L. Balcerowicz J. Krzyżewski D. Rosati G. Wójtowicz W. Ziółkowska	M. Dąbrowski B. Grabowski C. Józefiak W. Łączkowski J. Pruski
17.12.2002	on procedures for conducting open market operations		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	2001	2002		
		XII	I	II	III
1. Industrial output					
a) current prices	million zloty	38,682.0	36,693.1	35,906.7	39,807.4
b) constant prices					
- the same month previous year = 100	%	95.2	98.6	100.2	96.9
- previous month = 100	%	95.7	95.0	97.7	110.8
2. Construction output					
a) current prices	million zloty	5,268.2	1,887.7	2,230.5	2,634.8
b) constant prices					
- the same month previous year = 100	%	89.4	78.7	86.4	85.6
- previous month = 100	%	139.6	35.8	118.2	117.9
3. Consumer Price Index					
a) the same month previous year = 100	%	103.6	103.4	103.5	103.3
b) previous month = 100	%	100.2	100.8	100.1	100.2
c) December previous year = 100	%	103.6	100.8	101.0	101.2
4. Producer Price Index					
a) the same month previous year = 100	%	99.6	100.0	100.2	100.3
b) previous month = 100	%	99.7	100.1	100.2	100.2
5. Construction Price Index					
a) the same month previous year = 100	%	102.3	102.2	102.0	102.0
b) previous month = 100	%	100.1	100.2	100.2	100.2
6. Number of employed, corporate sector total	thousands	5,094	5,118	5,112	5,105
7. Average employment, corporate sector total	thousands	4,952	4,940	4,931	4,924
8. Number of unemployed	thousands	3,115.1	3,253.3	3,277.9	3,259.9
9. Unemployment rate	%	17.5	18.1	18.2	18.2
10. Average monthly employee earnings, gross, corporate sector	zloty	2,474.11	2,187.76	2,189.14	2,252.19
11. National Budget revenue & expenditure					
a) revenue	million zloty	140,526.9	10,250.3	20,997.9	31,275.3
b) expenditure	million zloty	172,885.2	17,213.5	34,665.6	47,712.1
c) financial surplus/deficit and net foreign lending/borrowing	million zloty	-43,670.8	-7,020.7	-13,723.9	-16,892.6
12. Corporate financial performance					
a) total revenues	million zloty	965,074.6	.	.	220,773.3
of which: sales of goods & services	million zloty	575,511.2	.	.	137,058.1
b) total operating costs	million zloty	958,785.7	.	.	216,281.6
of which: cost of sales	million zloty	595,100.2	.	.	140,027.9
c) pre-tax profit/loss	million zloty	6,366.4	.	.	4,518.0
d) statutory deductions	million zloty	8,919.8	.	.	2,793.7
e) net profit/loss	million zloty	-2,553.3	.	.	1,724.3
f) cost to sales ratio	%	99.3	.	.	98.0
g) net margin	%	-0.3	.	.	0.8
h) quick liquidity ratio	%	76.6	.	.	74.9
i) total current assets	million zloty	297,066.2	.	.	273,779.5
j) accounts receivable and associated claims	million zloty	125,455.5	.	.	121,534.4
k) accounts payable	million zloty	123,974.5	.	.	113,406.6

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
38,089.6	37,429.1	38,648.2	39,832.0	39,581.5	42,875.1	44,839.6	42,187.8	41,461.1
100.3	95.8	102.1	105.7	98.9	106.6	103.2	103.1	105.2
95.6	98.3	103.2	102.6	98.8	108.1	104.4	94.4	97.5
2,803.1	3,119.8	3,412.1	3,597.4	3,540.9	3,993.7	4,190.2	3,461.8	4,738.4
93.8	90.6	86.9	96.0	92.0	93.9	91.2	91.4	89.6
106.3	111.6	109.1	105.2	98.4	112.9	105.0	82.8	137.1
103.0	101.9	101.6	101.3	101.2	101.3	101.1	100.9	100.8
100.5	99.8	99.6	99.5	99.6	100.3	100.3	99.9	100.1
101.7	101.5	101.1	100.6	100.2	100.6	100.9	100.8	100.8
100.4	100.5	101.2	101.7	101.3	101.1	101.7	101.7	102.2
100.3	100.1	100.2	100.8	100.4	100.3	100.0	99.5	100.1
101.7	101.2	101.3	101.3	101.1	100.8	100.7	100.6	100.4
100.1	99.8	100.2	100.1	100.0	99.9	99.9	99.8	99.9
5,089	5,080	5,078	5,064	5,055	5,049	5,054	5,042	4,999
4,907	4,896	4,898	4,883	4,876	4,864	4,870	4,862	4,839
3,203.6	3,064.6	3,090.9	3,105.3	3,105.6	3,112.6	3,108.1	3,150.8	3,217.0
17.9	17.3	17.4	17.5	17.5	17.6	17.5	17.8	18.1
2,226.45	2,254.83	2,232.05	2,288.90	2,252.72	2,301.92	2,263.31	2,343.45	2,532.41
43,373.3	53,537.9	65,111.0	79,833.1	91,929.9	104,392.2	117,520.4	130,473.9	143,519.8
63,284.1	76,522.4	90,033.5	105,429.9	119,209.5	133,538.9	151,577.4	167,546.7	182,922.4
-18,102.0	-21,216.6	-23,179.0	-21,641.5	-23,320.3	-25,901.0	-30,733.6	-33,724.4	-35,954.6
.	.	450,644.6	.	.	694,332.2	.	.	962,823.6
.	.	278,344.4	.	.	429,305.1	.	.	591,916.6
.	.	444,348.6	.	.	683,926.8	.	.	955,745.3
.	.	285,486.3	.	.	438,645.5	.	.	606,689.0
.	.	6,358.1	.	.	10,553.7	.	.	7,312.4
.	.	4,812.1	.	.	7,436.9	.	.	9,271.8
.	.	1,546.0	.	.	3,116.8	.	.	-1,959.5
.	.	98.6	.	.	98.5	.	.	99.3
.	.	0.3	.	.	0.4	.	.	-0.2
.	.	76.4	.	.	77.3	.	.	72.9
.	.	281,188.6	.	.	285,790.8	.	.	290,409.0
.	.	125,627.9	.	.	127,988.6	.	.	126,997.6
.	.	118,113.2	.	.	121,472.8	.	.	130,520.7

TABLE II

Financial Market – Basic Information

	Unit	2001	2002		
		XII	I	II	III
1. Lombard rate	%	15.5	13.5	13.5	13.5
2. Rediscount rate	%	14.0	12.0	12.0	12.0
3. Refinancing rate	%	15,5/16,5	13,5/14,5	13,5/14,5	13,5/14,5
4. Deposit rate	%	7.5	6.5	6.5	6.5
5. Minimum yield on 28-day open market operations (reverse repo rate)	%	11.5	10.0	10.0	10.0
6. Reserve requirement					
a) Reserve requirement ratio on zloty deposits					
– demand	%	5.0	5.0	4.5	4.5
– time	%	5.0	5.0	4.5	4.5
b) Reserve requirement ratio on foreign currency deposits (zloty equivalent)					
– demand	%	5.0	5.0	4.5	4.5
– time	%	5.0	5.0	4.5	4.5
7. Total required reserves held	million zloty	13,668.4	14,500.0	13,200.9	13,200.9
a) current account	million zloty	12,288.6	13,111.0	13,200.9	13,200.9
b) declared vault cash	million zloty	1,379.8	1,388.9	0.0	0.0
8. Treasury bill tenders					
a) Number of tenders during month		4	4	4	5
b) Face value of bills offered for sale	million zloty	5,300.00	5,400.00	4,900.00	6,100.00
of which:					
– 2-week	million zloty	-	-	-	-
– 3-week	million zloty	-	-	-	-
– 6-week	million zloty	-	-	-	-
– 8-week	million zloty	-	-	-	-
– 13-week	million zloty	300.00	300.00	-	200.00
– 26-week	million zloty	300.00	100.00	1,200.00	900.00
– 39-week	million zloty	1,500.00	-	-	-
– 52-week	million zloty	3,200.00	5,000.00	3,700.00	5,000.00
c) Demand declared by bidders (at face value)	million zloty	13,515.61	18,097.42	11,653.16	13,946.52
of which for:					
– 2-week	million zloty	-	-	-	-
– 3-week	million zloty	-	-	-	-
– 6-week	million zloty	-	-	-	-
– 8-week	million zloty	-	-	-	-
– 13-week	million zloty	615.02	1,462.76	-	456.02
– 26-week	million zloty	812.84	557.23	3,353.88	2,528.75
– 39-week	million zloty	3,996.76	-	-	-
– 52-week	million zloty	8,090.99	16,077.43	8,299.28	10,961.75
d) Face value of bills sold	million zloty	6,249.97	5,400.00	4,896.97	6,097.52

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
12.5	12.0	11.5	11.5	10.5	10.0	9.0	8.75	8.75
11.0	10.5	10.0	10.0	9.0	8.5	7.75	7.50	7.50
12,5/13,5	12,0/13,0	11,5/12,5	11,5/12,5	10,5/11,5	10,0/11,0	9,0/10,0	8,75/9,75	8,75/9,75
6.5	6.0	5.5	5.5	5.5	5.0	5.0	4.75	4.75
9.5	9.0	8.5	8.5	8.0	7.5	7.0	6.75	6.75
4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
12,927.3	12,915.2	12,915.2	13,059.2	13,059.2	13,148.3	13,114.6	13,114.6	13,038.8
12,927.3	12,915.2	12,915.2	13,059.2	13,059.2	13,148.3	13,114.6	13,114.6	13,038.8
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	4	4	5	4	5	4	4	3
2,700.00	2,800.00	3,000.00	3,000.00	2,400.00	5,800.00	3,400.00	3,200.00	3,100.00
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
200.00	100.00	100.00	300.00	-	200.00	200.00	-	200.00
100.00	-	-	-	-	-	-	-	-
-	-	-	-	-	1,300.00	-	-	-
2,400.00	2,700.00	2,900.00	2,700.00	2,400.00	4,300.00	3,200.00	3,200.00	2,900.00
8,705.59	8,101.83	10,214.84	12,202.32	10,833.01	20,525.61	13,460.67	9,492.33	8,527.70
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
563.97	361.66	367.76	1,163.21	-	1,593.78	1,142.00	-	469.40
426.38	-	-	-	-	-	-	-	-
-	-	-	-	-	1,427.26	-	-	-
7,715.24	7,740.17	9,847.08	11,039.11	10,833.01	17,504.57	12,318.67	9,492.33	8,058.30
2,700.00	2,799.86	3,000.00	3,000.00	2,400.00	5,733.98	3,400.00	3,200.00	3,100.00

TABLE II – cont.

Financial Market - Basic Information

	Unit	2001	2002		
		XII	I	II	III
of which for:					
– 2-week	million zloty	-	-	-	-
– 3-week	million zloty	-	-	-	-
– 6-week	million zloty	-	-	-	-
– 8-week	million zloty	-	-	-	-
– 13-week	million zloty	300.00	300.00	-	197.52
– 26-week	million zloty	293.01	100.00	1,200.00	900.00
– 39-week	million zloty	2,091.63	-	-	-
– 52-week	million zloty	3,565.33	5,000.00	3,696.97	5,000.00
e) Yield on bills purchased, weighted average	%	10.85	9.66	9.76	9.70
of which for:					
– 2-week	%	-	-	-	-
– 3-week	%	-	-	-	-
– 6-week	%	-	-	-	-
– 8-week	%	-	-	-	-
– 13-week	%	11.06	10.14	-	9.69
– 26-week	%	11.16	9.86	9.97	9.80
– 39-week	%	10.90	-	-	-
– 52-week	%	10.78	9.63	9.70	9.69
Bills outstanding from tender sales at month end (purchase prices)	million zloty	30,542.46	34,532.42	35,555.03	37,293.26
9. Tenders for NBP money-market bills					
a) Number of tenders during month		6	12	4	5
b) Face value of bills offered for sale	million zloty	12,500.00	31,000.00	13,200.00	17,500.00
of which for:					
– 1-day	million zloty	-	-	-	-
– 7-day	million zloty	-	-	-	-
– 14-day	million zloty	3,500.00	-	-	-
– 28-day	million zloty	9,000.00	31,000.00	13,200.00	17,500.00
c) Demand declared by bidders (at face value)	million zloty	14,791.21	56,169.40	9,208.30	18,932.40
of which for:					
– 1-day	million zloty	-	-	-	-
– 7-day	million zloty	-	-	-	-
– 14-day	million zloty	7,655.91	-	-	-
– 28-day	million zloty	7,135.30	56,169.40	9,208.30	18,932.40
d) Face value of bills sold	million zloty	10,270.90	28,371.10	9,204.00	15,586.20
of which for:					
– 1-day	million zloty	-	-	-	-
– 7-day	million zloty	-	-	-	-
– 14-day	million zloty	3,500.00	-	-	-
– 28-day	million zloty	6,770.90	28,371.10	9,204.00	15,586.20
e) Yield on bills purchased, weighted average	%	11.52	11.54	10.07	10.08
of which for:					
– 1-day	%	-	-	-	-
– 7-day	%	-	-	-	-

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
200.00	100.00	100.00	300.00	-	200.00	200.00	-	200.00
100.00	-	-	-	-	-	-	-	-
-	-	-	-	-	767.06	-	-	-
2,400.00	2,699.86	2,900.00	2,700.00	2,400.00	4,766.92	3,200.00	3,200.00	2,900.00
9.59	9.36	8.61	8.36	7.82	7.24	6.77	5.95	5.77
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
9.67	9.44	8.70	8.53	-	7.38	7.05	-	6.11
9.63	-	-	-	-	-	-	-	-
-	-	-	-	-	7.22	-	-	-
9.58	9.36	8.60	8.34	7.82	7.24	6.76	5.95	5.75
39,006.55	39,997.71	40,998.39	41,222.07	40,808.81	40,037.12	39,200.76	39,009.83	38,536.10
-	-	-	-	-	-	-	-	-
4	5	4	4	5	4	5	4	4
14,100.00	17,300.00	6,600.00	9,000.00	10,600.00	5,600.00	8,500.00	4,400.00	7,600.00
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
14,100.00	17,300.00	6,600.00	9,000.00	10,600.00	5,600.00	8,500.00	4,400.00	7,600.00
17,127.02	23,842.84	6,321.46	11,215.25	20,230.58	26,150.40	21,218.61	41,416.75	12,615.50
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
17,127.02	23,842.84	6,321.46	11,215.25	20,230.58	26,150.40	21,218.61	41,416.75	12,615.50
14,100.00	17,300.00	5,604.10	9,000.00	10,600.00	5,600.00	8,500.00	4,400.00	7,252.20
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
14,100.00	17,300.00	5,604.10	9,000.00	10,600.00	5,600.00	8,500.00	4,400.00	7,252.20
10.07	9.55	9.09	8.59	8.45	7.99	7.32	6.99	6.75
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-

TABLE II – cont.

Financial Market – Basic Information

	Unit	2001	2002		
		XII	I	II	III
– 14-day	%	11.55	-	-	-
– 28-day	%	11.51	11.54	10.07	10.08
f) Bills outstanding from tender sales at month end (purchase prices)	million zloty	6,710.83	22,444.31	10,619.19	9,884.48
10. Outright sales of securities by NBP					
a) Number of tenders		3	5	4	4
b) Face value of securities allotted for sale	million zloty	900.00	1,500.00	1,200.00	1,200.00
c) Face value of bids submitted by banks	million zloty	543.00	2,891.00	2,088.00	1,908.00
d) Face value of bids accepted	million zloty	194.00	990.00	752.00	385.00
e) Value of bids accepted	million zloty	198.80	1,008.93	760.07	398.28
11. Data on trading sessions of Warsaw Stock Exchange					
a) Number of companies at month end		230	231	231	231
b) Capitalisation at month end	million zloty	100,497.03	120,546.91	114,601.90	113,027.68
c) P/E ratio at month end		65.9	76.0	36.6	55.8
d) Warsaw Stock Exchange Index (WIG) at month end		13,922.16	16,062.79	15,278.59	15,026.43
e) WIG monthly average		13,928.53	15,610.51	15,356.53	15,178.31
f) Second-Tier Market Index (WIRR) at month end		1,763.73	1,696.68	1,685.89	1,617.92
g) WIRR monthly average		1,756.91	1,737.79	1,678.52	1,630.56
h) Monthly turnover	million zloty	3,959.8	7,010.7	4,480.5	3,774.3
i) Turnover ratio	%	2.1	3.2	2.1	1.7

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
-	-	-	-	-	-	-	-	-
10.07	9.55	9.09	8.59	8.45	7.99	7.32	6.99	6.75
13,990.40	17,172.48	5,564.76	8,940.29	9,040.74	5,565.41	8,451.89	7,359.95	7,214.32
4	3	4	4	4	4	5	4	3
1,024.27	900.00	1,200.00	1,200.00	995.27	1,200.00	1,500.00	1,200.00	900.00
874.00	1,711.00	2,623.00	1,712.00	2,522.00	2,059.00	2,303.00	1,511.00	940.00
139.27	345.00	300.00	610.00	480.27	615.00	78.00	600.00	0.00
142.22	350.68	307.28	648.28	485.09	614.75	78.88	623.36	0.00
230	230	230	226	225	223	220	216	216
118,144.59	120,167.30	108,937.82	100,152.66	105,066.82	100,277.07	109,962.78	113,523.43	110,564.59
64.8	89.4	92.1	82.0	237.1	249.2	277.4	16,349.1	29,052.4
15,122.14	15,643.00	14,192.94	12,907.61	13,433.85	12,797.28	14,093.23	14,662.91	14,366.65
15,040.35	15,325.46	15,160.81	13,494.08	13,091.15	13,076.40	13,362.27	14,209.20	14,536.51
1,510.21	1,539.97	1,516.65	1,356.04	1,291.36	1,285.30	1,359.94	1,385.55	1,365.62
1,560.01	1,507.43	1,545.02	1,431.22	1,301.16	1,292.97	1,289.43	1,372.47	1,347.42
3,686.4	3,749.9	3,378.5	4,160.1	3,428.0	3,248.0	3,779.0	3,722.0	3,312.0
1.7	1.7	1.5	2.1	1.8	1.7	1.9	1.8	1.6

TABLE III

PLN/USD and PLN/EUR Exchange Rates, 2002 (in zloty)

Month	NBP average exchange rates end of month			Average monthly rate	
	PLN/ 1 USD	PLN/1 EUR	USD/1 EUR	PLN/1 USD	PLN/1 EUR
December 2001	3.9863	3.5219	0.8835	4.0144	3.5829
January 2002	4.1637	3.5929	0.8629	4.0649	3.5951
February	4.2046	3.6410	0.8660	4.1871	3.6414
March	4.1321	3.6036	0.8721	4.1427	3.6295
April	3.9802	3.5910	0.9022	4.0590	3.5947
May	4.0311	3.7782	0.9373	4.0454	3.7026
June	4.0418	4.0091	0.9919	4.0247	3.8474
July	4.1685	4.0810	0.9790	4.1177	4.0877
August	4.1420	4.0809	0.9852	4.1789	4.0852
September	4.1482	4.0782	0.9831	4.1499	4.0738
October	4.0324	3.9793	0.9868	4.1230	4.0454
November	4.0078	3.9809	0.9933	3.9557	3.9593
December	3.8388	4.0202	1.0473	3.9114	3.9876

TABLE IV

Weighted Interest Rates on Zloty Deposit Offered
by Commercial Banks*

	2002									
	III	VI	V	VI	VII	VIII	IX	X	XI	XII
Households deposits										
Current accounts (private entrepreneurs and farmers)	1.2	1.2	1.1	0.8	0.7	0.7	0.5	0.4	0.4	0.4
Checking accounts – ROR (individuals)	2.5	2.4	2.2	1.9	1.8	1.8	1.6	1.2	1.2	1.2
Time deposits:										
– 1 month	6.8	6.7	6.3	5.7	5.3	5.3	4.9	4.4	4.1	4.0
– 3 months	6.7	6.6	6.3	5.5	5.2	5.2	4.7	4.3	4.0	3.9
– 6 months	7.1	7.0	6.7	5.8	5.4	5.4	4.9	4.5	4.2	4.1
– 1 year	7.5	7.4	7.0	6.4	5.9	5.9	5.4	5.0	4.7	4.6
– 2 years	7.8	7.7	7.4	7.0	6.5	6.5	6.0	5.5	5.1	5.1
– over 2 years	7.9	7.7	7.4	7.1	6.6	6.6	6.1	5.6	5.3	5.2
Total households time deposits	7.1	7.0	6.6	6.0	5.6	5.6	5.1	4.6	4.3	4.2
Non-financial corporations deposits										
Current accounts	1.3	1.2	1.1	0.9	0.7	0.7	0.6	0.5	0.4	0.4
Time deposits:										
– 1 month	7.2	7.1	6.6	6.2	5.7	5.5	5.0	4.6	4.3	4.3
– 3 months	7.1	7.0	6.7	6.1	5.7	5.8	5.2	4.7	4.3	4.2
– 6 months	7.5	7.3	6.9	6.2	5.9	5.8	5.3	4.8	4.4	4.2
– 1 year	7.6	7.4	7.3	6.5	6.0	6.0	5.5	5.1	4.8	4.4
– 2 years	8.4	8.5	8.3	7.0	6.6	6.6	6.1	5.4	5.3	5.0
– over 2 years	9.2	8.2	8.1	8.0	7.7	7.6	7.4	6.8	6.3	6.1
Total non-financial corporations time deposits	7.2	7.1	6.7	6.2	5.8	5.6	5.1	4.6	4.3	4.3
Total	7.1	7.0	6.7	6.0	5.6	5.6	5.1	4.6	4.3	4.2

* Data for December 2001, January and February 2002 are not comparable due to changes in sector classification.

TABLE V

Weighted Average Interest Rates on Zloty Lending Offered
by Commercial Banks*

	2002									
	III	VI	V	VI	VII	VIII	IX	X	XI	XII
Non-financial corporations loans										
Overdrafts	13.0	12.8	12.6	12.2	11.8	11.4	11.1	10.3	10.6	10.3
Original maturity of:										
– 1 year	13.1	12.8	12.6	12.2	11.8	11.5	11.1	10.3	10.1	9.9
– 2 years	13.9	13.7	13.1	12.9	12.4	12.3	11.9	10.8	10.8	10.9
– 3 years	13.8	13.8	13.5	12.9	12.5	12.3	11.9	11.4	11.0	11.7
– 5 years	13.8	13.5	13.4	12.8	12.5	12.2	11.8	11.0	11.0	10.9
– over 5 years	14.4	14.2	14.1	13.8	13.4	13.1	12.9	12.2	12.0	11.7
Total	13.4	13.2	13.0	12.5	12.1	11.9	11.5	10.7	10.7	10.6
Households loans										
Overdrafts	18.0	18.0	18.0	17.7	17.5	17.5	17.5	17.9	17.7	17.6
Consumer loans with original maturity of:										
– 1 year	19.0	19.0	18.9	18.8	18.6	18.4	18.4	18.1	18.1	18.1
– 2 years	19.1	19.0	18.6	18.8	18.6	18.5	18.6	18.3	18.4	18.4
– 3 years	20.6	20.6	20.0	19.9	19.6	19.4	19.2	18.9	18.9	18.9
– 5 years	16.1	16.7	16.4	15.8	15.6	15.6	15.6	15.6	15.5	15.6
– over 5 years	16.8	16.8	16.8	16.2	16.4	16.4	16.3	15.9	15.9	16.0
Total	18.5	18.5	18.3	18.1	17.9	17.8	17.8	17.5	17.5	17.5
Housing loans with original maturity of:										
– 1 year	10.3	10.3	9.9	9.8	9.6	9.5	9.3	9.0	8.9	8.7
– 2 years	10.5	10.4	10.0	9.9	9.7	9.6	9.5	9.2	9.0	8.8
– 3 years	10.3	10.3	9.9	9.8	9.6	9.5	9.5	9.2	9.0	8.8
– 5 years	10.4	10.4	10.0	9.9	9.7	9.7	9.6	9.3	9.1	8.9
– over 5 years	12.4	11.2	10.9	10.9	10.4	10.3	10.3	9.6	9.5	9.4
Total	11.1	10.6	10.3	10.2	9.9	9.8	9.7	9.3	9.2	9.0
Loans to private entrepreneurs with original maturity of:										
– 1 year	14.5	14.2	14.2	13.7	13.4	13.1	12.8	12.5	12.3	12.2
– 2 years	15.2	14.7	14.8	14.2	13.9	13.7	13.4	13.0	13.1	13.0
– 3 years	15.1	14.8	14.6	13.8	13.5	13.4	13.4	13.2	13.0	12.6
– 5 years	13.9	13.8	13.7	13.5	13.1	13.0	12.8	12.6	12.4	12.2
– over 5 years	13.8	14.0	13.6	13.4	13.3	13.0	12.6	12.3	12.3	12.1
Total	14.4	14.3	14.2	13.7	13.4	13.1	12.9	12.6	12.5	12.3
Agricultural loans with original maturity of:										
– 1 year	13.0	12.3	11.8	11.2	10.9	10.1	9.6	8.8	8.5	8.5
– 2 years	13.6	12.1	11.6	11.2	11.1	10.3	9.8	8.9	8.7	8.6
– 3 years	13.5	12.1	11.6	11.0	10.8	10.3	9.8	9.0	8.7	8.6
– 5 years	13.4	12.0	11.6	11.0	10.8	10.3	9.8	9.0	8.8	8.5
– over 5 years	13.4	12.1	11.6	11.1	10.9	10.3	9.8	8.9	8.7	8.5
Total	13.4	12.1	11.7	11.1	10.9	10.3	9.8	8.9	8.7	8.5
Other loans with original maturity of:										
– 1 year	22.0	22.1	22.2	21.3	21.2	21.2	20.9	20.6	20.6	20.7
– 2 years	20.4	20.6	20.3	19.6	19.4	19.8	19.5	19.3	19.5	19.5
– 3 years	19.8	19.9	19.6	18.7	18.5	18.6	18.3	18.5	18.5	18.3
– 5 years	19.4	20.1	19.3	18.8	18.6	18.7	19.2	19.1	19.0	19.0
– over 5 years	20.1	20.3	20.3	20.6	20.2	19.9	19.6	19.5	19.2	19.2
Total	21.3	21.4	21.4	20.6	20.5	20.5	20.3	20.1	20.1	20.1
Total households loans	17.0	16.9	16.8	16.3	16.1	16.0	15.9	15.6	15.5	15.4
Total loans to non-financial corporations and consumer	14.4	14.2	14.0	13.5	13.2	12.9	12.6	12.0	11.9	11.9
Total zloty loans	15.0	14.9	14.7	14.2	13.9	13.7	13.4	12.9	12.8	12.8

* Data for December 2001, January and February 2002 are not comparable due to changes in sector classification.

TABLE VI

Aggregated Balance Sheet of Other Monetary Financial Institutions (million zloty)
ASSETS

	2001	2002		
	XII	I	II	III
Loans to domestic residents	284,502.3	275,195.6	287,320.9	277,797.5
- Monetary financial institutions	55,200.1	45,744.6	57,304.4	50,793.5
- General government	11,233.4	9,997.0	9,760.3	9,684.5
- Other domestic residents ¹	218,068.8	219,454.0	220,256.2	217,319.5
Holdings of securities other than shares issued by domestic residents	91,499.6	108,433.0	97,229.9	98,821.9
- Monetary financial institutions	24,636.9	34,590.5	23,981.0	24,027.4
- General government	62,907.1	69,571.2	69,125.8	71,119.5
- Other domestic residents ¹	3,955.6	4,271.3	4,123.1	3,675.0
Holdings of shares/other equity issued by domestic residents	7,061.7	6,907.0	6,959.3	7,054.8
- Monetary financial institutions	1,050.4	1,078.9	1,083.1	1,136.1
- Other domestic residents ¹	6,011.3	5,828.1	5,876.2	5,918.7
External assets	61,108.9	59,002.8	59,168.5	60,491.4
Fixed assets²	25,101.4	24,989.6	25,106.6	25,317.4
Remaining assets	29,302.8	27,734.3	27,184.2	26,760.6
Total assets	498,576.7	502,262.3	502,969.4	496,243.6

¹ Non-monetary financial institutions and non-financial sector.

² Excluding financial fixed assets, included in line "Holdings of securities other than shares issued by domestic residents".

TABLE VI

Aggregated Balance Sheet of Other Monetary Financial Institutions (million zloty)
LIABILITIES

	2001	2002		
	XII	I	II	III
Deposits of domestic residents	353,506.9	353,031.0	352,530.9	347,727.6
- Monetary financial institutions	39,970.8	43,616.0	42,095.5	39,911.9
- Central government	6,400.3	6,749.5	6,707.2	9,173.0
- Other domestic residents ¹	307,135.8	302,665.5	303,728.2	298,642.7
- overnight	79,235.6	74,658.9	77,042.9	75,350.7
- with agreed maturity	227,899.3	227,973.0	226,679.0	223,162.6
- redeemable at notice	0.0	0.0	0.0	28.3
- repurchase agreements	9.0	33.6	6.3	101.1
Debt securities issued	1,969.2	1,999.6	1,709.7	1,717.1
Capital and reserves	69,468.5	67,743.7	68,345.4	69,673.2
Tier-1 capital	37,034.8	37,326.9	37,439.8	38,647.5
Tier-2 capital	2,964.8	918.0	912.4	1,016.2
Reserves	29,468.9	29,498.8	29,993.2	30,009.5
External liabilities	32,390.1	31,487.6	32,168.2	33,088.6
Remaining liabilities	41,242.0	48,000.4	48,215.2	44,037.1
Total liabilities	498,576.7	502,262.3	502,969.4	496,243.6

¹ Non-monetary financial institutions, local government, social security funds and non-financial sector.

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
270,191.6	274,098.9	288,536.9	282,504.4	285,326.3	290,856.0	288,626.9	287,584.7	288,246.5
43,555.4	43,159.6	51,709.8	42,646.1	44,233.9	47,159.5	46,468.0	44,570.4	46,744.0
9,260.6	10,500.1	11,520.9	12,395.3	12,303.7	12,675.0	13,145.7	13,060.2	14,524.9
217,375.6	220,439.2	225,306.2	227,463.0	228,788.7	231,021.5	229,013.2	229,954.1	226,977.6
101,002.4	105,208.4	97,117.2	103,456.8	101,781.7	100,054.1	99,599.1	105,210.4	99,751.3
27,648.0	30,995.9	19,381.5	22,686.2	22,988.5	19,630.4	19,556.6	21,666.2	21,414.7
69,733.6	71,319.4	74,892.5	77,670.0	76,182.4	77,440.6	76,762.8	80,012.4	74,835.4
3,620.8	2,893.1	2,843.2	3,100.6	2,610.8	2,983.1	3,279.7	3,531.8	3,501.2
7,115.9	7,234.6	7,327.9	7,226.0	7,286.4	7,607.5	8,125.0	7,986.1	7,226.2
1,203.0	1,250.1	1,275.6	1,291.5	1,294.5	1,277.0	1,246.6	1,241.1	1,212.7
5,912.9	5,984.5	6,052.3	5,934.5	5,991.9	6,330.5	6,878.4	6,745.0	6,013.5
63,385.6	62,639.3	60,905.7	55,733.5	55,778.3	54,022.7	55,290.4	51,354.6	52,621.7
25,517.4	25,670.3	25,877.3	26,475.6	26,640.8	26,826.5	27,060.2	27,011.7	27,387.8
26,446.6	27,165.8	29,031.1	27,639.0	27,049.0	27,414.5	29,170.3	27,453.4	26,809.2
493,659.5	502,017.3	508,796.1	503,035.3	503,862.5	506,781.3	507,871.9	506,600.9	502,042.7

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
342,532.7	351,097.5	350,739.6	347,181.0	347,308.0	347,848.2	346,085.8	344,424.8	341,996.8
36,733.5	40,032.9	40,294.9	34,983.6	36,900.3	39,359.2	36,926.8	38,664.8	34,798.5
9,208.4	9,730.6	9,908.1	9,941.9	9,816.3	9,958.9	10,183.3	10,169.0	9,915.8
296,590.8	301,334.0	300,536.6	302,255.5	300,591.4	298,530.1	298,975.7	295,591.0	297,282.5
75,953.4	81,469.9	84,526.8	86,398.7	83,611.0	84,992.5	84,365.7	88,046.5	92,991.4
220,380.5	219,308.9	215,647.9	215,685.2	216,793.0	213,469.9	214,542.2	207,476.4	204,222.3
17.8	17.6	20.7	49.8	83.4	67.7	67.8	68.1	68.8
239.1	537.6	341.2	121.8	104.0	0.0	0.0	0.0	0.0
1,746.7	1,800.4	1,808.1	1,762.4	1,801.3	1,512.4	1,527.1	2,355.2	3,102.8
70,708.6	71,676.6	73,966.7	74,791.3	74,995.9	75,972.8	76,682.8	77,071.1	77,535.5
39,199.8	39,422.1	40,530.8	40,583.1	40,450.6	40,496.1	40,779.7	40,764.4	41,094.6
1,015.8	1,015.2	951.7	935.9	965.4	938.4	1,003.4	809.1	785.2
30,493.0	31,239.3	32,484.2	33,272.3	33,579.9	34,538.3	34,899.7	35,497.6	35,655.7
33,674.4	33,287.4	34,743.5	34,049.2	35,116.6	34,543.4	34,385.5	34,514.4	34,814.8
44,997.1	44,155.4	47,538.2	45,251.4	44,640.7	46,904.5	49,190.7	48,235.4	44,592.8
493,659.5	502,017.3	508,796.1	503,035.3	503,862.5	506,781.3	507,871.9	506,600.9	502,042.7

TABLE VII

Balance Sheet of the National Bank of Poland (million zloty)
ASSETS

	2001	2002		
	XII	I	II	III
Loans to domestic residents	5,846.6	9,212.9	5,809.0	5,852.3
- Other monetary financial institutions	5,823.8	9,190.8	5,786.7	5,829.5
- General government	0.0	0.0	0.0	0.0
- Other domestic residents ¹	22.8	22.1	22.3	22.8
Holdings of securities other than shares issued by domestic residents	18,694.0	18,288.0	17,734.9	17,030.9
- Other monetary financial institutions	209.0	203.7	202.4	202.5
- General government	18,485.0	18,084.3	17,532.5	16,828.4
Holdings of shares/other equity issued by domestic residents	495.6	493.8	494.8	494.8
- Other monetary financial institutions	0.0	0.0	0.0	0.0
- Other domestic residents ¹	495.6	493.8	494.8	494.8
External assets	111,339.2	115,237.3	116,747.0	117,364.2
Fixed assets²	1,276.7	1,274.9	1,278.5	1,290.8
Remaining assets	706.3	696.1	681.0	914.4
Total assets	138,358.4	145,203.0	142,745.2	142,947.4

¹ Non-monetary financial institutions and non-financial sector.

² Excluding financial fixed assets, included in line "Holdings of shares/other equity issued by domestic residents".

TABLE VII

Balance Sheet of the National Bank of Poland (million zloty)
LIABILITIES

	2001	2002		
	XII	I	II	III
Currency in circulation	43,130.3	40,465.2	41,389.5	43,128.5
Deposits of domestic residents	28,263.0	24,713.4	30,392.6	31,333.8
- Other monetary financial institutions	20,567.7	10,702.9	20,383.1	15,070.3
- Central government	6,845.2	13,719.9	9,566.7	15,598.4
- Other domestic residents ¹	850.1	290.6	442.8	665.1
Debt securities issued	24,167.1	34,254.7	23,774.5	23,139.5
Capital and reserves	4,073.4	3,912.5	3,707.5	3,842.8
Tier-1 capital	1,707.3	1,695.1	1,695.0	1,694.4
Reserves	2,366.1	2,217.4	2,012.5	2,148.4
External liabilities	7,492.9	7,803.2	7,535.7	7,175.0
Remaining liabilities	31,231.7	34,054.0	35,945.4	34,327.8
Total liabilities	138,358.4	145,203.0	142,745.2	142,947.4

¹ Non-monetary financial institutions, local - government, social security funds and non-financial sector.

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
5,632.9	5,706.5	8,205.1	5,516.2	5,523.4	5,427.0	5,369.4	7,194.9	5,256.7
5,610.2	5,683.3	8,181.1	5,492.6	5,499.9	5,403.4	5,346.1	7,172.3	5,234.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
22.7	23.2	24.0	23.6	23.5	23.6	23.3	22.6	22.7
14,011.1	13,752.4	13,520.5	10,760.6	10,297.5	9,636.7	7,695.1	6,987.8	6,765.6
202.5	202.5	202.5	199.6	199.6	199.7	199.7	190.3	186.2
13,808.6	13,549.9	13,318.0	10,561.0	10,097.9	9,437.0	7,495.4	6,797.5	6,579.4
494.8	494.8	225.8	225.8	225.8	225.8	225.8	225.8	225.2
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
494.8	494.8	225.8	225.8	225.8	225.8	225.8	225.8	225.2
113,869.0	116,327.5	119,301.0	127,379.6	126,934.0	126,634.8	123,116.6	123,464.0	119,562.7
1,295.0	1,312.6	1,320.6	1,333.4	1,341.8	1,353.1	1,374.9	1,394.8	1,680.0
717.4	721.0	608.6	600.3	563.1	510.4	518.0	625.6	657.6
136,020.2	138,314.8	143,181.6	145,815.9	144,885.6	143,787.8	138,299.8	139,892.9	134,147.8

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
44,166.7	43,905.8	44,934.3	45,547.5	45,757.0	45,951.5	46,207.2	45,733.7	46,745.0
21,135.6	18,323.5	30,657.5	28,129.4	28,060.5	28,969.7	25,561.7	25,377.8	22,734.8
10,689.4	7,050.7	17,867.2	11,265.2	11,176.8	11,515.4	13,010.0	11,616.4	15,312.9
10,094.7	10,964.4	12,467.3	16,476.7	16,441.7	17,022.1	12,033.0	13,201.2	6,336.1
351.5	308.4	323.0	387.5	442.0	432.2	518.7	560.2	1,085.8
27,345.9	30,621.5	19,015.2	22,476.1	22,641.2	19,076.4	19,041.5	21,020.1	20,953.0
3,605.1	3,511.6	3,387.3	3,344.8	3,227.2	2,980.8	2,975.6	2,867.2	2,569.0
1,694.4	1,694.4	1,694.4	1,748.3	1,748.3	1,748.3	1,748.3	1,748.3	1,748.3
1,910.7	1,817.2	1,692.9	1,596.5	1,478.9	1,232.5	1,227.3	1,118.9	820.7
7,731.3	6,804.4	6,152.4	6,565.5	5,640.4	5,764.8	7,309.4	7,803.4	5,345.7
32,035.6	35,148.0	39,034.9	39,752.6	39,559.3	41,044.6	37,204.4	37,090.7	35,800.3
136,020.2	138,314.8	143,181.6	145,815.9	144,885.6	143,787.8	138,299.8	139,892.9	134,147.8

TABLE VIII

Consolidated Balance Sheet of Monetary Financial Institutions
(million zloty)

ASSETS

	2001	2002		
	XII	I	II	III
Loans to domestic residents	229,325.0	229,473.1	230,038.8	227,026.8
- General government	11,233.4	9,997.0	9,760.3	9,684.5
- Other domestic residents ¹	218,091.6	219,476.1	220,278.5	217,342.3
Holdings of securities other than shares issued by domestic residents	85,347.7	91,926.8	90,781.4	91,622.9
- General government	81,392.1	87,655.5	86,658.3	87,947.9
- Other domestic residents ¹	3,955.6	4,271.3	4,123.1	3,675.0
Holdings of shares/other equity ² issued by other domestic residents ¹	6,506.9	6,321.9	6,371.0	6,413.5
External assets	172,448.1	174,240.1	175,915.5	177,855.6
Fixed assets ³	26,378.1	26,264.5	26,385.1	26,608.2
Remaining assets	25,092.4	24,721.7	24,410.9	23,336.3
Aktywa ogółem	545,098,2	552,948,1	553,902,7	552,863,3

¹ Non-monetary financial institutions, and non-financial sector.

² Including rights issues, units in investment funds and financial fixed assets.

³ excluding financial fixed assets, included in line "Holdings of shares/other equity issued by domestic residents".

TABLE VIII

Consolidated Balance Sheet of Monetary Financial Institutions
(million zloty)

LIABILITIES

	2001	2002		
	XII	I	II	III
Currency in circulation	38,213.60	36,756.50	37,935.20	38,789.80
Deposits of central government	13,245.5	20,469.4	16,273.9	24,771.4
Deposits of other domestic residents ¹	307,985.9	302,956.1	304,171.0	299,307.8
- overnight	80,083.5	74,946.9	77,482.9	76,013.0
- with agreed maturity	227,901.5	227,975.6	226,681.8	223,165.4
- redeemable at notice	0.0	0.0	0.0	28.3
- repurchase agreements	9.0	33.6	6.3	101.1
Debt securities issued	1,290.4	1,460.1	1,300.8	626.7
Capital and reserves	72,491.5	70,577.3	70,969.8	72,379.9
External liabilities	39,883.0	39,290.8	39,703.9	40,263.6
Remaining liabilities	72,473.7	82,054.4	84,160.6	78,364.9
Excess of inter-MFI liabilities	-485.4	-616.5	-612.5	-1,640.8
Total liabilities	545,098.2	552,948.1	553,902.7	552,863.3

¹ Non-monetary financial institutions, local government, social security funds and non-financial sector.

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
226,658.9	230,962.5	236,851.1	239,881.9	241,115.9	243,720.1	242,182.2	243,036.9	241,525.2
9,260.6	10,500.1	11,520.9	12,395.3	12,303.7	12,675.0	13,145.7	13,060.2	14,524.9
217,398.3	220,462.4	225,330.2	227,486.6	228,812.2	231,045.1	229,036.5	229,976.7	227,000.3
87,163.0	87,762.4	91,053.7	91,331.6	88,891.1	89,860.7	87,537.9	90,341.7	84,916.0
83,542.2	84,869.3	88,210.5	88,231.0	86,280.3	86,877.6	84,258.2	86,809.9	81,414.8
3,620.8	2,893.1	2,843.2	3,100.6	2,610.8	2,983.1	3,279.7	3,531.8	3,501.2
6,407.7	6,479.3	6,278.1	6,160.3	6,217.7	6,556.3	7,104.2	6,970.8	6,238.7
177,254.6	178,966.8	180,206.7	183,113.1	182,712.3	180,657.5	178,407.0	174,818.6	172,184.4
26,812.4	26,982.9	27,197.9	27,809.0	27,982.6	28,179.6	28,435.1	28,406.5	29,067.8
23,002.3	23,803.4	25,926.7	24,450.6	23,934.4	23,904.0	25,514.1	24,447.6	22,914.5
547,298.9	554,957.3	567,514.2	572,746.5	570,854.0	572,878.2	569,180.5	568,022.1	556,846.6

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
40,005.00	39,822.40	41,221.30	41,758.80	42,079.30	41,930.60	42,033.00	42,102.30	42,192.70
19,303.1	20,695.0	22,375.4	26,418.6	26,258.0	26,981.0	22,216.3	23,370.2	16,251.9
296,942.3	301,642.4	300,859.6	302,643.0	301,033.4	298,962.3	299,494.4	296,151.2	298,368.3
76,302.2	81,775.4	84,847.2	86,783.7	84,050.2	85,422.0	84,881.5	88,603.7	94,074.3
220,383.2	219,311.8	215,650.5	215,687.7	216,795.8	213,472.6	214,545.1	207,479.4	204,225.2
17.8	17.6	20.7	49.8	83.4	67.7	67.8	68.1	68.8
239.1	537.6	341.2	121.8	104.0	0.0	0.0	0.0	0.0
1,242.1	1,223.5	1,239.3	1,352.7	1,254.4	758.7	812.3	1,518.8	2,454.9
73,110.7	73,938.1	76,078.4	76,844.6	76,928.6	77,676.6	78,411.8	78,697.2	78,891.8
41,405.7	40,091.8	40,895.9	40,614.7	40,757.0	40,308.2	41,694.9	42,317.8	40,160.5
77,032.7	79,303.4	86,573.1	85,004.0	84,200.0	87,949.1	86,395.1	85,326.1	80,393.1
-1,742.7	-1,759.3	-1,728.8	-1,889.9	-1,656.7	-1,688.3	-1,877.3	-1,461.5	-1,866.6
547,298.9	554,957.3	567,514.2	572,746.5	570,854.0	572,878.2	569,180.5	568,022.1	556,846.6

TABLE IX

M3 and Counterparts (million zloty)
M3

	2001	2002		
	XII	I	II	III
1. Currency in circulation (excluding vault cash)	38,213.5	36,756.6	37,935.2	38,789.8
- Currency in circulation (including vault cash)	43,130.3	40,465.2	41,389.5	43,128.5
- Cash in banks vaults	4,916.7	3,708.7	3,454.3	4,338.7
2. Overnight deposits and other liabilities	80,083.5	74,946.9	77,482.9	76,012.9
- Households	44,226.8	43,890.1	45,414.4	45,843.8
- of which individuals	36,413.8	37,178.4	39,146.8	39,269.4
- Non-monetary financial institutions	2,139.1	2,020.6	2,441.0	2,216.5
- Non-financial corporations	24,837.8	20,344.5	19,757.9	18,313.6
- Non-profit institutions serving households	2,772.2	3,044.1	3,052.5	2,565.7
- Local government	4,763.3	4,828.3	5,747.6	6,105.8
- Social security funds	1,344.2	819.3	1,069.6	967.5
M1 (1 + 2)	118297	111,703.5	115,418.1	114,802.7
3. Deposits and other liabilities with agreed maturity up to 2 years and blocked deposits	209,901.3	210,479.9	209,191.6	204,192.3
- Households	159,635.6	162,393.3	161,912.7	161,860.9
- of which individuals	157,608.2	160,110.2	159,843.0	159,673.2
- Non-monetary financial institutions	8,475.2	6,633.6	6,941.0	3,598.5
- Non-financial corporations	29,420.0	29,000.4	27,456.7	27,852.7
- Non-profit institutions serving households	7,015.6	6,928.6	7,061.6	6,356.4
- Local government	2,893.8	3,309.6	3,803.8	3,458.9
- Social security funds	2,461.1	2,214.5	2,015.9	1,064.9
4. Deposits redeemable at notice up to 3 months	0.0	0.0	0.0	16.9
M2 (M1 + 3+ 4)	328,198.3	322,183.4	324,609.7	319,011.9
5. Repurchase agreements	0.9	33.6	6.3	101.1
6. Debt securities issued with maturity up to 2 years	234.7	221.5	220.3	258.8
M3 (M2 + 5+ 6)	328,433.8	322,438.4	324,836.3	319,371.8

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
40,005.0	39,822.4	41,221.3	41,758.7	42,079.3	41,930.6	42,033.0	42,102.2	42,192.7
44,166.7	43,905.8	44,934.3	45,547.5	45,757.0	45,951.5	46,207.2	45,733.7	46,745.0
4,161.7	4,083.4	3,713.0	3,788.7	3,677.7	4,020.9	4,174.2	3,631.4	4,552.3
76,302.2	81,775.3	84,847.2	86,783.8	84,050.2	85,422.0	84,881.6	88,603.7	94,074.2
45,263.7	46,728.8	47,226.2	47,970.9	48,150.3	47,488.8	47,154.6	49,193.1	49,545.5
38,853.3	40,073.2	40,708.1	41,164.1	41,267.2	40,673.7	40,121.2	42,250.8	41,198.6
2,395.8	2,614.9	3,565.2	3,516.0	2,974.5	2,565.4	2,962.4	3,393.5	3,324.6
19,282.4	22,373.0	23,998.4	24,931.7	22,743.5	24,490.6	23,879.6	24,359.9	29,733.6
2,653.9	2,758.4	2,848.0	2,893.1	2,880.4	3,060.6	2,883.6	2,946.2	3,183.8
5,952.0	6,455.4	6,384.5	6,514.4	6,310.0	6,820.1	7,078.7	7,438.1	6,549.5
754.3	844.8	825.0	957.6	991.6	996.5	922.7	1,272.9	1,737.3
116,307.2	121,597.7	126,068.5	128,542.5	126,129.5	127,352.6	126,914.5	130,705.9	136,266.9
201,236.9	200,433.4	195,851.3	195,612.7	196,649.3	193,286.0	194,117.8	186,778.0	183,456.4
160,057.1	159,542.4	158,422.9	158,102.6	157,062.5	155,374.5	153,689.4	148,167.6	146,329.6
158,060.6	157,722.8	156,665.8	156,435.6	155,402.7	153,783.5	152,102.7	146,607.0	144,633.3
3,656.8	3,212.5	3,114.8	2,771.1	3,039.3	3,080.7	3,067.3	3,305.2	3,922.4
27,318.0	27,792.1	24,563.5	25,583.8	26,937.7	25,714.5	28,092.7	26,415.0	25,279.6
5,964.4	5,480.6	5,380.3	5,281.6	5,414.2	5,194.7	5,504.5	5,279.5	5,088.6
3,023.5	3,340.2	3,109.8	3,050.5	3,178.2	3,023.5	3,123.7	2,970.3	1,854.6
1,217.1	1,065.5	1,260.0	823.0	1,017.3	898.1	640.2	640.5	981.7
17.0	17.2	20.7	48.5	81.9	52.2	52.4	52.8	53.5
317,561.2	322,048.3	321,940.5	324,203.7	322,860.6	320,690.8	321,084.8	317,536.8	319,776.9
239.1	537.6	341.2	121.8	104.0	0.0	0.0	0.0	0.0
135.1	160.4	148.5	173.5	168.8	159.3	161.5	831.9	1,778.5
317,935.3	322,746.3	322,430.2	324,498.9	323,133.4	320,850.2	321,246.2	318,368.7	321,555.3

TABLE IX

M3 and Counterparts (million zloty)
M3 Counterparts

	2001	2002		
	XII	I	II	III
Net external assets	132,565.1	134,949.3	136,211.7	137,592.0
- External assets	172,448.1	174,240.1	175,915.6	177,855.6
- External liabilities	39,883.0	39,290.8	39,703.9	40,263.6
Credit to other domestic residents	238,726.2	240,355.7	240,883.0	237,776.5
Loans to other domestic residents	226,831.9	228,349.4	228,925.0	226,171.9
- Households	82,699.6	82,719.9	82,578.0	85,887.9
- of which individuals	55,278.6	55,256.6	55,207.6	55,445.3
- Non-monetary financial institutions	8,930.2	8,765.4	8,735.4	8,474.7
- Non-financial corporations	125,319.2	126,813.9	127,865.3	122,230.1
- Non-profit institutions serving households	1,142.5	1,177.0	1,099.8	749.7
- Local government	7,036.3	7,024.7	6,977.7	7,092.3
- Social security funds	1,704.0	1,848.5	1,668.8	1,737.2
Holdings of securities other than shares	5,387.5	5,684.4	5,587.1	5,191.3
- issued by non-monetary financial institutions	1,639.6	1,439.0	1,453.6	1,403.7
- issued by non-financial corporations	2,316.0	2,832.3	2,669.5	2,271.2
- issued by Local government	1,431.8	1,413.1	1,463.9	1,516.3
Holdings of shares/other equity	6,506.9	6,321.9	6,371.0	6,413.4
- Non-monetary financial institutions	3,686.9	3,564.8	3,641.4	3,995.9
- Non-financial corporations	2,820.0	2,757.1	2,729.5	2,417.6
Credit to central government, net	69,207.7	66,896.7	70,034.4	62,515.2
Credit to central government	82,453.3	87,366.2	86,308.2	87,286.5
- Loans	998.8	919.3	958.2	654.9
- Debt securities issued	79,960.3	86,242.4	85,194.4	86,431.6
Deposits of central government	13,245.7	20,469.5	16,273.8	24,771.3
Longer-term financial liabilities	90,491.6	88,073.1	88,460.1	91,364.4
Deposits with agreed maturity over 2 years and deposits redeemable at notice over 3 months	18,000.1	17,495.8	17,490.3	18,984.5
- Households	15,671.4	15,124.3	15,138.2	15,224.6
- of which individuals	15,602.3	15,052.2	15,063.4	15,121.5
- Non-monetary financial institutions	1,847.7	1,846.2	1,876.5	2,974.3
- Non-financial corporations	421.6	465.3	404.5	586.5
- Non-profit institutions serving households	59.4	59.9	71	88.8
- Local government	0	0	0	110.4
- Social security funds	0	0	0	0
Debt securities issued with maturity over 2 years	0	0	0	0
Capital and reserves	72,491.5	70,577.3	70,969.8	72,379.9
Fixed assets (excluding financial fixed assets)	26,378.1	26,264.5	26,385.1	26,608.2
Other items (net)	-47,951.6	-57,954.7	-60,217.8	-53,755.7

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
135,848.9	138,875.0	139,310.8	142,498.4	141,955.2	140,349.3	136,712.2	132,500.8	132,023.9
177,254.6	178,966.8	180,206.7	183,113.1	182,712.3	180,657.5	178,407.1	174,818.6	172,184.4
41,405.7	40,091.8	40,895.9	40,614.7	40,757.1	40,308.2	41,694.8	42,317.8	40,160.5
237,199.3	240,692.2	245,857.8	249,092.0	249,918.2	253,117.2	252,489.3	253,061.2	250,494.2
225,700.9	229,814.8	235,164.9	238,235.9	239,457.3	241,877.4	240,366.6	240,768.5	238,718.3
85,845.9	86,585.4	86,773.6	87,996.0	88,500.1	89,498.1	89,344.5	89,380.1	89,777.5
55,985.4	57,395.9	58,928.1	60,300.0	60,965.5	62,101.6	62,227.4	62,218.9	63,111.6
8,515.8	9,121.9	9,672.0	9,973.2	9,910.0	10,044.9	9,571.0	9,537.3	9,584.1
122,311.5	124,000.8	128,129.5	128,739.3	129,596.0	130,691.5	129,201.2	130,120.7	126,621.5
725.1	754.2	755.1	778.1	806.2	810.6	919.6	938.6	1,017.2
7,113.0	7,306.9	7,642.9	7,892.9	8,044.3	8,240.2	8,455.3	8,599.7	9,286.3
1,189.6	2,045.5	2,191.7	2,856.4	2,600.8	2,592.1	2,874.8	2,192.1	2,431.7
5,090.7	4,398.1	4,414.9	4,695.7	4,243.2	4,683.5	5,018.4	5,321.9	5,537.2
1,483.6	1,144.3	911.2	991.9	838.9	959.8	987.1	949.5	674.2
2,137.2	1,748.7	1,931.9	2,108.7	1,772.0	2,023.4	2,292.6	2,582.2	2,826.9
1,469.9	1,505.1	1,571.7	1,595.1	1,632.3	1,700.3	1,738.7	1,790.1	2,036.1
6,407.7	6,479.2	6,278.1	6,160.4	6,217.8	6,556.4	7,104.3	6,970.9	6,238.7
4,023.9	4,078.7	3,956.4	3,867.1	3,892.5	4,511.3	4,381.1	4,332.2	4,425.4
2,383.8	2,400.5	2,321.7	2,293.2	2,325.2	2,045.0	2,723.2	2,638.6	1,813.3
63,727.1	63,816.8	65,949.6	61,863.3	60,048.6	60,039.1	62,118.7	63,918.0	65,933.6
83,030.2	84,511.9	88,325.0	88,281.9	86,306.5	87,020.0	84,335.0	87,288.2	82,185.6
780.6	1,014.4	1,539.3	1,510.4	1,557.3	1,730.3	1,698.9	2,159.9	2,708.1
82,072.2	83,364.3	86,638.7	86,635.8	84,648.0	85,177.3	82,519.5	85,019.7	79,378.7
19,303.1	20,695.1	22,375.4	26,418.6	26,258.0	26,980.9	22,216.3	23,370.2	16,252.0
92,257.8	92,816.9	95,877.7	96,920.9	97,076.6	97,878.7	98,854.5	99,413.8	99,675.9
19,147.1	18,878.8	19,799.3	20,076.3	20,148.0	20,202.1	20,442.7	20,716.6	20,784.1
15,509.1	15,389.4	16,014.7	16,245.0	16,352.6	16,557.0	16,846.9	17,090.4	17,090.0
15,411.2	15,299.4	15,942.8	16,168.7	16,269.2	16,462.7	16,753.1	16,991.1	16,985.7
2,936.7	2,972.2	3,075.6	3,103.6	3,106.9	2,939.3	2,866.9	2,880.8	2,895.2
534.3	417.7	588.5	605.3	571.8	583.1	588.4	611.3	671.8
83	59.3	76.7	80.2	74.4	86.5	99.2	90.5	96.8
84.1	40.1	43.7	42.2	42.3	36.2	41.3	43.6	30.2
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
73,110.7	73,938.1	76,078.4	76,844.6	76,928.6	77,676.6	78,411.8	78,697.2	78,891.8
26,812.4	26,982.9	27,197.9	27,809	27,982.6	28,179.6	28,435.1	28,406.5	29,067.8
-53,394.5	-54,803.7	-60,008.3	-59,842.9	-59,694.6	-62,956.3	-59,654.6	-60,104	-56,288.4

TABLE X

Reserve Money and Counterparts (million zloty)

	2001	2002		
	XII	I	II	III
External assets, net	103,846.3	107,434.1	109,211.4	110,189.2
Official reserve assets	105,891.7	109,690.2	111,197.3	111,812.9
- USD million	26,563.9	26,344.4	26,446.6	27,059.6
Refinancing credit	5,583.3	8,941.7	5,535.2	5,582.0
- Rediscount credit	48.0	13.0	0.0	0.0
- Lombard credit	0.0	3,393.5	0.0	130.0
- Credit for rehabilitation programmes	0.0	0.0	0.0	0.0
- Credit for central government investment projects	4,253.0	4,253.0	4,253.0	4,169.9
- Other credit	1,280.7	1,280.7	1,280.6	1,280.6
- Overdue credit	1.6	1.6	1.6	1.6
Open market operations (net)	-6,770.9	-21,145.6	-10,704.0	-9,961.9
- Auction credit	0.0	0.0	0.0	0.0
- Auction deposits	0.0	0.0	0.0	0.0
- NBP bills	-6,770.9	-21,145.6	-10,704.0	-9,961.9
Credit to central government, net	11,622.2	4,368.4	7,963.5	1,230.1
Other items (net)	-54,582.9	-48,430.4	-50,237.4	-48,994.2
Central Bank reserve money	59,698.0	51,168.2	61,768.6	58,045.2
- Currency in circulation (including vault cash)	43,130.3	40,465.2	41,389.5	43,128.5
- Bank current accounts	16,395.0	10,478.1	20,156.1	14,780.0
- Reserve requirements accounts	172.7	224.8	223.0	136.8

TABLE XI

Poland: Balance of Payments on a cash basis
(in millions of EUR)

	I QUARTER		II QUARTER
	2001	2002	2001
A. CURRENT ACCOUNT	-2,421	-2,659	-2,533
Trade balance	-3,394	-2,994	-3,191
Goods: exports	8,059	7,853	8,593
Goods: imports	11,453	10,847	11,784
Services: net	-385	-343	-219
Services: credit	980	1,005	1,091
Services: debit	1,365	1,348	1,310
Income: net	163	-319	-722
Income: credit	929	497	714
Income: debit	766	816	1,436
of which: due and paid	764	814	1,433
Current transfers: net	406	446	486
Current transfers: credit	579	635	651
Current transfers: debit	173	189	165
Unclassified transactions on current account: net ¹	789	551	1,113

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
106,137.7	109,523.1	113,148.5	120,814.1	121,293.6	120,870.1	115,807.3	115,660.6	114,217.0
108,359.6	110,955.8	113,832.4	122,143.3	121,676.1	121,398.7	117,934.4	118,291.6	114,374.6
27,224.7	27,524.9	28,163.8	29,301.5	29,376.2	29,265.4	29,246.7	29,515.3	29,794.4
5,412.9	5,482.2	7,977.7	5,288.8	5,297.2	5,200.5	5,191.9	7,018.8	5,090.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	71.0	2,649.6	0.0	8.4	0.0	0.0	1,827.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
4,130.7	4,130.7	4,047.6	4,008.4	4,008.4	3,920.1	3,911.5	3,911.5	3,809.6
1,280.6	1,280.5	1,280.5	1,280.5	1,280.5	1,280.5	1,280.4	1,280.4	1,280.4
1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
-14,100.0	-17,300.0	-5,604.1	-9,000.0	-9,100.0	-5,600.0	-5,500.0	-7,400.0	-7,252.2
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
-14,100.0	-17,300.0	-5,604.1	-9,000.0	-9,100.0	-5,600.0	-5,500.0	-7,400.0	-7,252.2
3,713.8	2,585.4	850.7	-5,915.7	-6,343.8	-7,585.1	-4,537.6	-6,403.7	243.3
-46,322.6	-49,347.7	-53,606.7	-54,380.4	-54,389.7	-55,423.5	-51,758.9	-51,627.4	-50,248.2
54841.8	50943.1	62766.1	56806.8	56757.3	57462	59202.6	57248.3	62049.9
44,166.7	43,905.8	44,934.3	45,547.5	45,757.0	45,951.5	46,207.2	45,733.7	46,745.0
10,590.2	6,991.7	17,790.5	11,244.8	10,977.0	11,484.8	12,972.2	11,495.4	15,304.9
84.9	45.6	41.4	14.6	23.2	25.7	23.3	19.2	0.0

II QUARTER	III QUARTER		IV QUARTER		4 QUARTERS	
2002	2001	2002	2001	2002	2001	2002
-1,780	-1,083	-932	-1,955	-1,817	-7,992	-7,188
-2,441	-3,069	-2,443	-3,371	-3,088	-13,025	-10,966
8,668	8,384	8,816	8,787	9,409	33,823	34,746
11,109	11,453	11,259	12,158	12,497	46,848	45,712
-234	-209	-327	-279	-170	-1,092	-1,074
1,041	1,188	1,039	1,203	1,130	4,462	4,215
1,275	1,397	1,366	1,482	1,300	5,554	5,289
-577	-123	-385	-345	-400	-1,027	-1,681
478	653	632	662	551	2,958	2,158
1,055	776	1,017	1,007	951	3,985	3,839
1,052	773	1,010	1,004	950	3,974	3,826
544	782	659	563	650	2,237	2,299
713	958	840	780	840	2,968	3,028
169	176	181	217	190	731	729
928	1,536	1,564	1,477	1,191	4,915	4,234

TABLE XI – cont.

Poland: Balance of Payments on a cash basis
(in millions of EUR)

	I QUARTER		II QUARTER
	2001	2002	2001
B. CAPITAL AND FINANCIAL ACCOUNT	2,705	2,428	1,210
Capital account	-4	-20	-4
Financial account	2,709	2,448	1,214
Direct investment: net	1,461	1,141	1,663
Polish direct investment abroad	-73	9	46
Foreign direct investment in Poland	1,534	1,132	1,617
Portfolio investment: net	2,521	1,660	-1,090
Polish portfolio investment abroad (assets)	251	-70	-97
Equity securities	1	-23	-59
Debt securities	250	-47	-38
Foreign portfolio investment in Poland (liabilities)	2,270	1,730	-993
Equity securities	-92	-195	-22
Debt securities	2,362	1,925	-971
Other investment: net	-1,134	461	193
Polish assets	-964	369	-27
Long-term credits extended	-57	-5	-9
Drawings	99	72	66
Repayments	42	67	57
Short-term credits extended	8	29	0
Drawings	18	29	26
Repayments	26	58	26
Other assets	-915	345	-18
Currency and deposits	-915	345	-17
Other	0	0	-1
Polish liabilities	-170	92	220
Long-term credits received	-356	217	285
Drawings	850	1,267	1,587
Repayments	1,206	1,050	1,302
of which: due and paid	1,206	1,050	1,300
Short-term credits received	-85	97	-95
Drawings	68	141	176
Repayments	153	44	271
Other liabilities	271	-222	30
Currency and deposits	271	-222	30
Other	0	0	0
Financial derivatives net	-139	-814	448
C. NET ERRORS AND OMISSIONS¹	1,043	881	723
OVERALL BALANCE	1,327	650	-600
D. FINANCING OF OVERALL BALANCE	-1,327	-650	600
Official reserve assets	-1,319	-647	603
Credits from IMF	0	0	0
Exceptional financing	-8	-3	-3

¹ 1 In January 2002, the balance of payments data were revised, and namely Unclassified transaction on current account were increase by EUR 426 million and Errors and omission decreased by EUR 426 million. This represented an attempt to eliminate effects of an exchange of EMU Member States national currencies into euro so that Unclassified transactions reflect the volume of transactions with nonresidentsat, the level near to previous years' volume.

II QUARTER	III QUARTER		IV QUARTER		4 QUARTERS	
	2001	2002	2001	2002	2001	2002
618	1,235	2,859	-1,872	1,022	3,278	6,927
16	-1	19	12	-23	3	-8
602	1,236	2,840	-1,884	1,045	3,275	6,935
921	1,475	645	3,143	1,299	7,742	4,006
-16	-18	-181	-28	-141	-73	-329
937	1,493	826	3,171	1,440	7,815	4,335
396	-11	557	-301	-708	1,119	1,905
-447	-96	-317	-29	-374	29	-1,208
-129	2	-116	-19	-16	-75	-284
-318	-98	-201	-10	-358	104	-924
843	85	874	-272	-334	1,090	3,113
-182	48	-254	-287	38	-353	-593
1,025	37	1,128	15	-372	1,443	3,706
-429	365	1,553	-4,659	436	-5,235	2,021
285	27	2,086	-2,898	399	-3,862	3,139
-12	28	-34	17	-22	-21	-73
62	34	86	54	35	253	255
50	62	52	71	13	232	182
4	5	1	4	-17	17	17
22	24	14	51	54	119	119
26	29	15	55	37	136	136
293	-6	2,119	-2,919	438	-3,858	3,195
293	-7	2,119	-2,920	438	-3,859	3,195
0	1	0	1	0	1	0
-714	338	-533	-1,761	37	-1,373	-1,118
-599	273	-502	-1,956	-132	-1,754	-1,016
726	1,622	1,261	2,569	1,463	6,628	4,717
1,325	1,349	1,763	4,525	1,595	8,382	5,733
1,308	1,349	1,747	4,509	1,595	8,364	5,700
9	84	-22	0	395	-96	479
203	232	307	256	1,233	732	1,884
194	148	329	256	838	828	1,405
-124	-19	-9	195	-226	477	-581
-124	-19	-9	195	-226	477	-581
0	0	0	0	0	0	0
-286	-593	85	-67	18	-351	-997
480	11	-780	2,363	367	4,140	948
-682	163	1,147	-1,464	-428	-574	687
682	-163	-1,147	1,464	428	574	-687
685	-160	-1,144	1,467	431	591	-675
0	0	0	0	0	0	0
-3	-3	-3	-3	-3	-17	-12

TABLE XII

Poland: Official Reserve Assets (in million of EUR)

	2001	2002		
	XII	I	II	III
OFFICIAL RESERVE ASSETS ¹	30,066.7	30,528.1	30,538.8	31,028.1
MONETARY GOLD	1,035.3	1,082.2	1,134.1	1,143.4
SDR	39.4	39.7	42.0	41.8
RESERVE POSITION IN THE IMF	522.6	528.0	526.3	524.3
FOREIGN EXCHANGE	26,747.2	27,063.8	27,085.3	28,022.7
OTHER CLAIMS	1,722.2	1,814.4	1,751.1	1,295.9

¹ As of the end of month.

2002								
IV	V	VI	VII	VIII	IX	X	XI	XII
30.175,3	29.367,4	28.393,6	29.929,7	29.816,0	29.767,7	29.637,0	29.714,7	28.450,0
1,130.2	1,152.9	1,062.4	1,029.5	1,050.5	1,089.3	1,062.4	1,062.7	1,082.8
41.1	42.7	41.7	41.8	45.4	45.4	45.3	48.2	46.9
515.5	528.1	516.0	645.4	644.6	645.5	643.3	639.0	622.4
26,396.7	26,153.9	25,367.9	26,610.7	26,819.8	27,120.9	26,410.0	26,467.3	25,503.8
2,091.8	1,489.8	1,405.6	1,602.3	1,255.7	866.6	1,476.0	1,497.5	1,193.8

TABLE XIII

Poland: External Debt*

Based on data available on 23 March 2003

Items	Stock at end of period in millions of EUR					
	1997	1998	1999	2000	2001	2002
Monetary authorities	716	792	1,835	468	615	105
Other investment	716	792	1,835	468	615	105
Loans	52	27	23	16	9	6
Currency and deposits	664	765	1,812	452	606	99
Central and local government¹	31,144	29,196	31,963	35,451	33,093	34,125
Debt securities ^{2, 3}	7,078	6,026	6,888	9,923	11,600	14,280
Bonds and notes	6,648	5,713	6,744	9,753	11,335	14,017
Money-market instruments	430	313	144	170	265	263
Other investment	24,066	23,170	25,075	25,528	21,493	19,845
Loans	24,042	23,168	25,073	25,526	21,491	19,836
Other liabilities	24	2	2	2	2	9
Banks	3,334	4,393	6,527	6,574	7,547	6,991
Loans from direct investors (Intercompany loans)	28	137	144	209	146	459
Debt securities	442	202	10	118	268	187
Bonds and notes	277	184	10	118	268	187
Money-market instruments	165	18	0	0	0	0
Other investment	2,764	4,054	6,373	6,247	7,133	6,345
Loans	999	1,784	3,663	3,864	4,164	3,579
Currency and deposits ⁴	1,765	2,270	2,710	2,383	2,969	2,766
Other liabilities	0	0	0	0	0	0
Other sectors	9,751	16,251	24,718	32,176	40,010	37,027
Loans from direct investors (Intercompany loans)	3,916	5,324	7,018	9,512	11,434	10,335
Debt securities	314	1,212	2,692	3,618	4,697	4,064
Bonds and notes	294	1,137	2,669	3,510	4,682	3,953
Money-market instruments	20	75	23	108	15	111
Other investment	5,521	9,715	15,008	19,046	23,879	22,628
Trade credits ^{4, 5}	1,686	3,048	5,199	6,033	7,390	7,482
Loans	3,835	6,667	9,694	12,774	16,080	14,687
Other liabilities	0	0	115	239	409	459
TOTAL EXTERNAL DEBT	44,945	50,632	65,043	74,669	81,265	78,248
of which:						
- long-term	40,299	43,427	53,882	64,404	68,708	65,978
- short-term ⁴	4,646	7,205	11,161	10,265	12,556	12,270

* Compiled in compliance with the requirements of international organizations (IMF, OECD, World Bank), which are described in "Methodological Notes".

¹ From 1999 data were adjusted to include external debt of local government.

² From 1999 – the stock of securities issued on domestic market (Treasury bonds and Treasury bills) – according to Ministry of Finance information "Zadłużenie Skarbu Państwa".

³ The stock of securities issued on international markets (Brady bonds and Eurobonds) was adjusted with the stock of such securities held by Polish residents.

⁴ Since information on the breakdown by maturity on trade credits, and currency and deposits is not available the total amount was included into short-term debt.

⁵ In March 1999, regulations imposing reporting obligations on non-residents with regard to information for the balance of payments and international investment position purposes were changed. The scope of reporting units was extended, and penalties for noncompliance introduced. In this context, the NBP has received data from units not covered by the reporting obligation in the past. Accordingly, the figure for outstanding trade credits for 1998–1999 has changed. Since it was not possible to adjust data for 1996²–1997, adjusted time series are presented for 1998–2002.

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 and assembly; 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) and construction output and assembly (item 2) refer to business undertakings employing more than nine persons.
5. Figures on industrial output (item 1) and construction output and assembly (item 2) are given net of output VAT and excise duty, but inclusive of product subsidies on goods and services, using core (underlying) prices.
6. Figures on construction output and assembly (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 and assembly (item 2) are not seasonally adjusted.
8. Figures on the employed persons, paid employment and wages and salaries in the corporate sector (items 6, 7 & 10) refer to business undertakings employing more than nine persons. However, these figures do not include those employed abroad, and in social, political organisations, trade unions and other.
9. Figures on the employed persons in the corporate sector (item 6) refer to month end.
10. Figures on the number of unemployed persons (item 8) refer to persons registered as unemployed persons at district employment offices at month end.
11. The unemployment rate (item 9) represents the proportion of registered unemployed persons in the civilian working population.
12. Revenues from privatisation are excluded from current central government receipts, although they constitute a source of financing for the government deficit (item 11).
13. Financial results of non-financial enterprises (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 11, provided by the Warsaw Stock Exchange).

1. Interest rates in Table II are presented on an annual basis as obtaining the last day of a month, except for the weighted average yield on treasury bills or NBP money market bills purchased, where they are given as a monthly average.
2. Two levels of interest rates shown in one cell (item 3 – refinancing rate) means that the first rate refers to the refinancing credit to finance central investment projects with the State Treasury sureties. This is equivalent to the lombard rate. The second rate is 1 percentage point higher and is applicable to other refinancing credits.
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. Total required reserves (item 7) refer to the volumes declared by the banks and required on the last day of the month. As of February 28, 2002, required reserves are kept exclusively on the accounts held at the NBP.
5. Figures for Treasury bill tenders (item 8, excluding the bills outstanding from tender sales at month end) are taken from the tenders held during the given month. The average yields on bills purchased are weighted with the share of bill sale for bills with different maturity in the total value of bills purchased. The balance of bills outstanding at month end is computed in consideration of maturities, as calculated from the date following the tender at which the bills were sold. The above balance does not comprise outstanding bills not sold at tenders.
6. Figures for tenders for NBP money market bills (item 9, excluding the balance of bills outstanding at month end) are taken from the tenders held during the given month. The average yields on bills purchased are weighted according to the proportion of sold bills of particular maturities in the total value of bills purchased.
7. Information on trading sessions on the Warsaw Stock Exchange (item 11) is disclosed on the basis of the Warset stock exchange system introduced in November 2000.
8. The Warsaw Stock Exchange Index (items 11d & 11e) and the Warsaw Second-Tier Market Index (items 11f & 11g) are calculated according to a so-called capital formula reflecting 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 on the Exchange on April 16, 1991, while the Warsaw Second-Tier Market Index stood at 1,000 points at year end 1994.
9. The ratios given refer to companies quoted on all tiers of the exchange.
10. The P/E ratio (item 11c) represents the ratio of market price to net earnings and is calculated as a product 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.
11. The turnover ratio (item 11i) represents the ratio of the value of shares sold to the average market value of shares listed in a given month.
12. Monthly turnover (item 11h) and the turnover ratio refer to both continuous trading and the uniform daily price system.

TABLE III

PLN/USD and PLN/EUR Exchange Rates, 2002

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

1. The NBP average exchange rate is the official rate used for statistical and accounting purposes.
2. PLN/USD and PLN/EUR average exchange rate and USD/EUR relation is calculated as the arithmetic average of the NBP average exchange rates for a month (based on daily rates).

**SECTORAL CLASSIFICATION OF ENTITIES
APPLIED IN TABLES IV, V, VI, VII, VIII, IX, AND X**

financial sector – comprises the following sub-sectors:

- monetary financial institutions¹ (including the central bank and other monetary financial institutions). *At present, in Poland, the concept of other monetary financial institutions applies to banks only;*
- insurance corporations and pension funds;
- other financial intermediaries (including SKOK [Co-operative Saving and Credit Unions], financial leasing companies, factoring companies, brokerage offices, investment funds and financial vehicle companies);
- financial auxiliaries (including bureaux de change, bourses, hire purchase institutions);

non-financial sector – comprises the following sub-sectors:

- state-owned corporations;
- private corporations and cooperatives;
- private entrepreneurs;
- farmers;
- individuals;
- non-profit institutions serving households.

In Table IX, "M3 and Counterparts", receivables and liabilities of banks in respect of the non-financial sector are presented in accordance with EU standards, i.e. sub-divided into three sectors:

- **households** - comprising:
 - individuals;
 - farmers;
 - private entrepreneurs (natural persons conducting business activity on their own account employing a maximum of nine persons, owners inclusive);
- **non-financial corporations** - comprising:
 - state-owned corporations;
 - private corporations and cooperatives (including private entrepreneurs employing more than nine persons);
- **non-profit institutions serving households** (separate legal entities which serve households and which principal revenues, excluding those derived from occasional sales, are generated from households' voluntary contributions in cash or in kind, from central and local government subsidies and from proprietary income);

¹ Monetary financial institutions (MFI) shall be financial institutions whose business consists in receiving deposits and/or close substitutes for deposits from entities other than monetary financial institutions and, for their own account, in granting credits and/or in making investments in securities.

general government – comprises the following sub-sectors:

- central government (including public governing bodies, government administration bodies, state control and law protection bodies, courts and tribunals, state universities, state institutions of culture and welfare, etc.);
- local government (including local administrative offices [at commune (gmina) and district level], local parliaments, public elementary schools, institutions of culture financed by local governments, welfare institutions, etc.);
- social security funds (comprise the Social Security Fund and the Farmers' Social Security Fund and the funds under their management, the healthcare funds).

More detailed information on the sectoral classification of particular entities and monetary aggregates is to be found on the NBP web site at www.nbp.pl ⇒ statystykafi szeregi czasowe ⇒ statystyka pieniężna i bankowa (statistics ⇒ time series ⇒ monetary and banking statistics).

TABLE IV

Weighted Interest Rates on Zloty Deposit Offered by Commercial Banks

Weighted interest rates are calculated on the basis of the rates quoted by 11 commercial banks, these including:

Powszechna Kasa Oszczędności – Bank Polski SA,
Bank Handlowy w Warszawie SA,
ING Bank Śląski SA,
Bank Przemysłowo-Handlowy PBK SA,
Bank Zachodni WBK SA,
BRE Bank SA,
BIG Bank Gdański SA,
Bank Polska Kasa Opieki SA,
Kredyt Bank SA,
Bank Gospodarki Żywnościowej SA,
Raiffeisen Centrobank SA.

For residents, these banks held 82.4% of household zloty deposits and 83% of corporate zloty deposits at the end of March 2002.

Interest rates offered by banks are derived from monthly reporting to the NBP as on the last day of each reporting month. Interest rates are quoted on a per annum basis, net of capitalisation. The banks provide interest rate on the product with the largest share in a given item category. In the calculation, floating interest rates have been given priority. Fixed interest rate is taken into account only when floating interest rate is not available. A bank offering no product in a given category is not included in the calculation.

The presentation of the weighted average interest rates in the Polish banking system introduced in March 2002 was modified according to the principles of sectoral classification of the national economy.

As it is impossible to make comparisons with the figures for December 2001, and January and February 2002, Table IV contains figures for the period from March to December 2002.

TABLE V

Weighted Average Interest Rates on Zloty Lending Offered by Commercial Banks

In general, weighted average zloty lending rates at commercial banks are calculated in the same way as the weighted average zloty deposit rates at commercial banks presented in Table 4. They refer to the same group of banks, and their share in lending to non-financial corporations amounted to 83% and in household lending – to 65.9%. As a rule, interest rates offered to customers with highest creditworthiness are included in the reports sent to the NBP.

As it is impossible to make comparisons with the figures for December 2001, and January and February 2002, Table IV contains figures for the period from March to December 2002.

General Remarks on TABLES VI, VII and VIII

1. Figures refer to the balances of accounts at the end of each reporting months and have been derived from balance sheet provided by the banks under the "Bank Reporting System" (BIS) and the NBP balance sheet.
2. The information was presented in accordance with the standards of the European Central Bank.
3. Tables VI, VII and VIII present assets on a gross basis, i.e. net of provisions, accumulated depreciation, or write-downs (except for securities at market price).
4. Apart from external assets/liabilities & capital and reserves, all categories reflect operations with residents.

TABLE VI

Aggregate Balance Sheet of Other Monetary Financial Institutions – Assets and Liabilities

1. The item **loans to domestic residents** comprises current accounts, required reserves, open market operations, deposits, credit, purchased debt, exercised guarantees and sureties other claims, interest due and claims in securities purchased under repurchase agreements.
2. Holdings of securities other than shares issued by domestic residents held by the other monetary financial institutions.
3. **Holdings of shares/other equity issued by domestic residents** include shares, pre-emptive rights, units in investment funds, investment certificates and financial fixed assets (shares and interest).
4. **External assets** include all assets pertaining to non-residents in zloty and foreign currency.
5. **Fixed assets** include total fixed assets exclusive of financial fixed assets.
6. **Remaining assets** include vault cash i.e. cash and other cash equivalents held at other monetary financial institutions, other claims and interest accrued from all sectors, settlement accounts, settlements with sundry counterparts, accrued expense and deferred income, other financial assets, other assets, other operations, interest on repurchase agreements.
7. Deposits and other liabilities to domestic residents include overnight deposits, deposits with agreed maturity, blocked deposits, deposits redeemable of notice, loans received, including refinancing loans, auction deposits (open market operations) and liabilities related to cash collateral (classified as "with agreed maturity"), other liabilities (where no maturity breakdown is possible classified as "overnight") and repurchase agreements.

8. **Debt securities issued** represent liabilities on own debt securities issued by other monetary financial institutions.
9. **Capital and reserves** divide into: a) statutory fund comprising tier-1 capital, paid-in share capital, own shares, registered equity, general risk reserves, reserve capital and profit/loss of preceding periods, b) tier-2 capital i.e. revaluation reserve and other supplementary funds specified by the resolution of the Commission for Banking Supervision (assigned to both residents and non-residents), c) reserves including specific provisions, accumulated depreciation and write – off due to irretrievable loss of value, provisions for mortgage bonds (residents and non-residents), specific provisions for off-balance-sheet liabilities (residents and non-residents), general risk reserve (residents and non-residents).
10. **External liabilities** include all liabilities to non-residents in zloty and foreign currencies, except for reserves listed in item 9 which involve both residents and non-residents.
11. **Remaining liabilities** include accrued interest expense on the above categories of liabilities, settlement accounts, liabilities to creditors, accrued expense and deferred income, reserved revenues, other liabilities from financial instruments, other liabilities, foreign exchange gains/losses from conversion of subordinated loan capital, risk provision and expense not associated with core activity of the reporting bank, subordinated loan capital, other operations, interest on subordinated loan capital, profit/loss during approval procedures, current year profit/loss.

TABLE VII

Balance Sheet of the National Bank of Poland – Assets and Liabilities

1. The item **loans to domestic residents** comprise receivables from loans granted, including rediscount, lombard, refinancing for central government investment projects, loans granted under foreign credit facilities, auction deposits (open market operations), other loans and receivables from current account and time deposits, as well as interest due on the above-listed operations.
2. **Holdings of securities other than shares issued by domestic residents** represent securities held by the National Bank of Poland.
3. **Holding of shares/other equity issued by domestic residents** – at the moment, these only include financial fixed assets (equity) for the NBP.
4. **External assets** include all assets pertaining to non-residents in zloty and foreign currencies.
5. **Fixed assets** include total fixed assets exclusive of financial fixed assets.
6. **Remaining assets** include interest due on the above operations, deferred costs, interoffice settlements, other assets exclusive of fixed assets.
7. **Deposits of domestic residents** represent liabilities on overnight deposits, deposits with agreed maturity, required reserve, auction deposits (open market operations), separated funds and other deposits.
8. **Debt securities issued** represent liabilities on own debt securities issued by the NBP.
9. **Capital and reserves** in the case of the NBP are divided into stated capital, i.e. registered equity and reserve capital, and reserves which include specific provisions, charges to provisions/accumulated depreciation and valuation allowances.
10. **External liabilities** include all liabilities pertaining to non-residents in zloty and foreign currencies.
11. **Remaining liabilities** include interest on the above categories of liabilities, deferred income, inter and intra - MFI settlements, other liabilities and profit/loss.

TABLE VIII

Consolidated Balance Sheet of Monetary Financial Institutions – Assets and Liabilities

1. Table VIII contains consolidated balance sheet data for all monetary financial institutions and corresponds to the table entitled *The Banking System: Commercial Banks & NBP – Assets, Liabilities & Capital published in the Statistical Annex to the Annual Report for the year 2001*.
2. In assets and liabilities of the above-mentioned balance sheet, operations between domestic MFIs have been netted out. The balance on the above operations, shown on the liabilities side, has been calculated using the following algorithm: *Deposits of other monetary financial institutions* (Table VII – Liabilities) less *loans to other monetary financial institutions* (Table VII – Assets), plus *deposits of monetary financial institutions* (Table VI – Liabilities) and less *loans to monetary financial institutions* (Table VI – Assets).
3. *Other assets* (assets) and *notes and coin in circulation* (liabilities) were net of vault cash held by other monetary financial institutions.
4. On the liabilities side, debt securities issued by domestic monetary financial institutions and held by this sector were deducted from debt securities issued. Capital and reserves were presented in the same way, i.e. shares and other equity issued by domestic monetary financial institutions, included in the assets of the sector, were deducted from capital and reserves.

TABLE IX

M3 and Counterparts

Figures contained in Table IX were shown using a new methodology.

As of March 2002, the basic monetary aggregate used by the NBP to measure the money supply is M3. Within M3, M1 aggregate is identified as a measure of the most liquid kind of money, used directly in transactions, and M2 aggregate – an indirect measure of money supply.

TABLE XI

Poland: Balance of Payments on a cash basis

1. **The balance of payments on a cash basis** constitutes a statistical presentation of the payments settled via the Polish banking system (complemented with the figures described in Point 2 below), 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: current account, capital and financial account, net errors and omissions, and financing of the overall balance, including the official reserve assets.
2. **The source of data for the Polish balance of payments on a cash basis** are the reports of Polish banks licensed to carry out foreign exchange operations and the associated settlements. The data concerned refer to transactions in foreign currency and zloty on the accounts held by the 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 includes:

- 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 with non-residents from countries where the national currency has not been recognised as a convertible currency (Ordinance of the Minister of Finance on the performance of certain provisions of the Foreign Exchange Act, January 8, 1999, § 3 para. 2 subpara. 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 each transaction was settled, and are then converted 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 value-added processing, costs of overhauls of means of transport, input goods procured in ports by carriers, and the import and export of non-monetary gold, i.e. gold that is not a component of the official reserve assets.
 - "**Services**" comprise payments related to transportation services, foreign travel services, postal, courier and telecommunications services, insurance and reinsurance services, financial services, construction services, computer and information services, copyright royalties, patent and license fees, other business services, personal, audiovisual, cultural and recreational services, and services related to the maintenance of representative offices.
 - "**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, taxes and charges collected by the Polish general government sector and also transfers of other sectors, including funds transfers involving workers' remittances, legacies, old-age and disability pensions, taxes and charges collected by foreign governments, deposits and withdrawals from the personal foreign currency accounts of Polish residents, where these are performed via accounts held abroad by the Polish
 - 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 and withdrawals from the personal foreign currency accounts of Polish residents, where these are performed via the foreign currency desks of the 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 debt notes) and short-term securities (money market instruments, such as Treasury bills and commercial paper).

Within the item **"portfolio investment"**, 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 on 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 receivable accounts. "Currency and deposits" comprise the balances arising on operations conducted on bank accounts abroad and at the cash desks at 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. Long-term credits received by the government sector also include transactions involving the cancellation, conversion, rescheduling and capitalisation of credit 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 instrument is derived from the price of other financial instruments or commodities, or the value of economic indicators or market indices. Derivatives include such instrument 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 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 XII

Poland: 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 of Poland.

TABLE XIII

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".

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 instruments have been included in the concept of external debt:

- loans from direct investors;
- 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).

ABBREVIATIONS

AAN	Supervisory Profile
BAN	Bank Account Number
BFG	Bank Guarantee Fund
BIC	Bank Identification Code
BIS	Bank for International Settlements
bp	base point
CAEL	Capital adequacy, Asset quality, Earnings and Liquidity
CPI	Consumer Price Index
DAI	Dealer Activity Index
DSPW	Treasury Security Dealer system
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EEA	European Economic Area
EMU	Economic and Monetary Union
ERM II	Exchange Rate Mechanism II
ESA 95	European System of Accounts 1995
ESCB	European System of Central Banks
ESs	Executive Summaries
EU	European Union
FP	Labour Fund
FRA	Forward Rate Agreement
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GINB	General Inspectorate of Banking Supervision
GUS	Central Statistical Office
IBAN	International Bank Account Number

Abbreviations

IEDB	Integrated Economic Data Base
IMF	International Monetary Fund
IPI	International Payment Instruction
IRS	Interest Rate Swap
ISO	International Organisation for Standardisation
KDPW SA	National Securities Depository
KIR SA	National Clearing House
KNB	Commission for Banking Supervision
KNUiFE	Insurance and Pension Fund Supervisory Board
KPWig	Securities and Exchange Commission
KRUS	Farmers' Social Insurance Trusts
MF	Ministry of Finance
MP SA	State Mint
MPC	Monetary Policy Council
NAIRU	Non-Accelerating Inflation Rate of Unemployment
NBP	National Bank of Poland
NCA	New Capital Accord
OECD	Organisation for Economic Cooperation and Development
OFE	Open-ended Pension Fund
PBA	Polish Banking Association
PFRON	National Rehabilitation Fund for the Disabled
PKN	Polish Committee for Standardisation
PWPW SA	Polish Securities Printing Works
RTGS	Real-Time Gross Settlement
RWEF	Report on Economic and Financial Indices
SDDS	Special Data Dissemination Standard
SGH	Warsaw School of Economics
SKOK	Co-operative Savings and Credit Unions

SORBNET System for Operating Bank Accounts at NBP Head Office

SWAT Secure Wireless Access Technology

TARGET Trans-European Automated Real-time Gross settlement Express Transfer

ZUS Social Insurance Agency

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