

REPORT

MONETARY POLICY INSTRUMENTS OF THE NATIONAL BANK OF POLAND IN 2007

BANKING SECTOR LIQUIDITY

Warsaw 2008

Executive summary

Pursuant to Article 227 para. 1 of the Constitution of the Republic of Poland, the National Bank of Poland is responsible for the value of the Polish currency. The provisions of Article 3 of the Act on the National Bank of Poland of 29 August 1997 stipulate that “The basic objective of NBP activity shall be to maintain price stability, while supporting the economic policies of the Government, insofar as this does not constrain the pursuit of the basic objective of the NBP”. The basic tasks of the NBP are stipulated in the Act on the National Bank of Poland and in the Banking Act.

In 2007, the National Bank of Poland conducted the monetary policy within the framework of *Monetary Policy Guidelines for 2007* and *Plan of Activity for 2007*.

According to the guidelines of the monetary policy, the National Bank of Poland has an obligation to maintain the price stability with the use of short-term interest rates. By determining the **basic NBP interest rates**, the Monetary Policy Council sets the yields on the monetary policy instruments. Using the open market operations the central bank maintains the short-term interest rates at the level compliant with the pursued objective of the monetary policy. The basic NBP rate is the reference rate which determines the direction of the monetary policy. This rate influences the level of market rates with the maturity comparable to that of the basic open market operations. The NBP deposit and lombard rates determine the fluctuation band of *overnight* (O/N) interest rates in the interbank market. The band is symmetric against the reference rate forming a range of acceptable fluctuations of the short-term interest rates.

In 2007 the Monetary Policy Council raised the key NBP interest rates four times, each time by 25 basis points, with the fluctuation band for the short-term market rates unchanged at the level of +/- 1.5 percentage points. As a result, at the end of the year the basic interest rates were as follows: the reference rate – 5.00%, the lombard rate – 6.50% and the deposit rate – 3.50%.

Open market operations is the basic instrument used by the NBP to implement the adopted monetary policy guidelines and manage the banking sector liquidity. Within the framework of those operations, the NBP issues 7-day NBP bills once a week (on Fridays). In 2007 the minimum yield on the NBP bills was determined by the NBP reference rate.

The volume of open market operations conducted by the NBP depends on the level of the banking sector liquidity surplus resulting from factors beyond the control of the NBP. The surplus liquidity measured with the scale of the NBP bills issues maintained at the level of 19,302 million zloty on average in 2007 and was lower by 456 million zloty, (i.e. 2.3%) , than the average level in 2006.

In 2007, access to the basic open market operations was available for banks that met the requirements of the NBP and for the Banking Guarantee Fund. The group of the banks which were the most active in the money and FX markets obtained the status of the money market dealers authorising them to participate in fine-tuning operations.

Throughout 2007 no fine-tuning or structural operations were conducted by the NBP.

Standing facilities supplemented the basic open market operations. They allowed the commercial

banks to manage short-term liquidity using the marginal lending facility and the deposit facility. The banks compensated for the deficits in the liquidity with the marginal lending facility; its interest rate constituted the maximum cost of raising the short-term money in the market. The surplus of the liquidity at the end of the operating day was placed as overnight deposits by commercial banks with the NBP.

Table 1. Basic open market operations and standing facilities (2001 - 2007)

Period	NBP bills (annual average)	Standing facilities (annual average) in mln zloty		
		Deposit facility	Marginal lending facility	Balance (deposit / credit)
2007	19 302	530	18	512
2006	19 758	150	50	100
2005	16 699	162	29	133
2004	5 275	310	22	288
2003	6 251	167	34	133
2002	10 565	80	170	-89
2001	14 701	715	234	481

Source: NBP

The averaged **required reserve system**¹ was an additional instrument of the central bank's monetary policy used to stabilize the liquidity and reduce the short-term interest rates volatility in 2007. The commercial banks had an obligation to maintain their required reserves with the NBP either on current accounts or on required reserve accounts. The ratio on the required reserves in 2007 stood at 3.5% for liabilities, except for the funds raised through the sale of securities under repurchase agreements where it was 0%.

The NBP activities within the monetary policy operational framework in 2007 facilitated the maintenance of the **short-term interest rates** in the interbank market within the fluctuation band determined by the profitability of the standing facilities, i.e. at the level consistent with the inflation target set by the Monetary Policy Council.

The fluctuations of the market interest rates resulted from temporary distortions in liquidity conditions and reflected interbank market expectations for the change of the basic interest rates of the central bank. The average absolute deviation of the market rate with the maturity of one week (WIBOR SW) from the NBP reference rate amounted to 9 basis points in 2007 and was higher by 3 basis points than the average for 2006.

¹ Also known as *reserve requirement* or *minimum reserves*.

Table 2. Money market rates development (2001 - 2007)

Period	Average reference rate (in %)	Deviation of rates from reference rate in basis points (annual average)					Average deviation of banks' current accounts from req. reserve (in million zloty)
		O/N	SW	2W	1M	POLONIA	
2007	4.40	19	9			23	36
2006	4.06	10	6			16	35
2005	5.34	21	6			29	28
2004	5.79	40		10			24
2003	5.67	28		7			25
2002	8.82	90			32		43
2001	16.13	142			42		151

The average reference rate was weighted by the duration of its validity. The deviations of all rates from the reference rate were calculated according to a uniform basis of 365 days in a year.
Source: NBP

The main factor reducing the banking sector liquidity in that period was the increase in the currency in circulation. In the whole year, the average level of currency increased by 11,502 million zloty, i.e. 16.8%, while in the previous year the increase in the currency in circulation amounted to 15.6%. The increase in surplus of the banking sector liquidity was the result of the NBP foreign exchange transactions related to the flows of EU funds. Within the twelve months the purchase of foreign currencies by the NBP exceeded the sale by 2,937 million zloty on average.

As in previous years, also in 2007 the NBP provided commercial banks with information about the current liquidity situation in the interbank market. The data were presented on each operating day in the Reuters information service on the NBPM site.

The monetary policy operational framework used by the National Bank of Poland in 2007 was to a great extent consistent with the regulations in force at the Eurosystem.

Table of contents

Chapter I Banking sector liquidity.....	7
I.2 Liquidity situation in 2007.....	8
I.2 Impact of autonomous factors on banking sector liquidity in 2007.....	10
I.2.1 Currency in circulation.....	10
I.2.2 Purchase and sale of foreign currencies by the NBP.....	12
I.2.3 Public sector deposits held with the central bank.....	14
Chapter II Impact of monetary policy operating system on banking sector liquidity in 2007.....	17
II.1 Monetary policy instruments in 2007.....	17
II.1.1 Interest rates.....	17
II.1.2 Open market operations.....	18
II.1.3 Required reserves.....	20
II.1.4 Standing facilities.....	23
II.1.5 Other components of the NBP's influence on the money market.....	23
II.2 Developments in the interbank money market.....	24

Annexes

<i>Annex 1</i>	<i>Changes in the level of fluctuations of the shortest-term interest rates in the interbank market against the open market operations conducted in the years 2001-2007</i>
<i>Annex 2</i>	<i>NBP monetary policy instruments (1990 and 2007)</i>
<i>Annex 3</i>	<i>Absorption of short-term liquidity in operations conducted by the NBP.</i>
<i>Annex 4</i>	<i>Tenders for the NBP bills</i>
<i>Annex 5</i>	<i>Banks -Money Market Dealers in 2007</i>
<i>Annex 6</i>	<i>Daily information (as at month-end)</i>

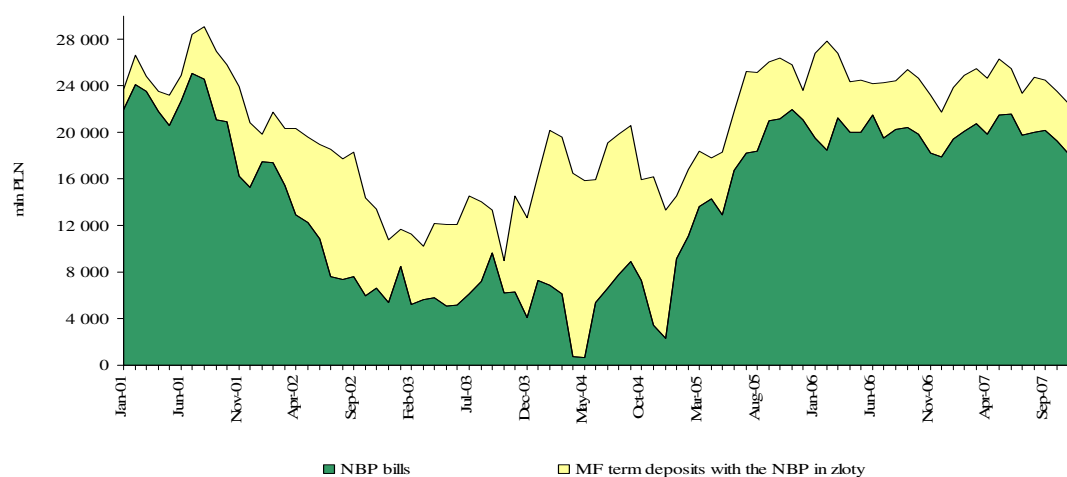
Chapter I Banking sector liquidity

The surplus of the liquidity measured by the NBP bills issues has been existed in the Polish banking sector since 1994. Before that year, the liquidity conditions were volatile and the central bank both provided liquidity to the banking sector and absorbed the surplus liquidity. The lowest volume of the NBP bills issue was recorded in April and May 2004 when it stood at 740 million zloty and 625 million zloty, respectively. At the same time the deposits of the Ministry of Finance (MF) with the NBP fluctuated between 15.2 and 15.8 billion zloty on average, in the period of maintenance the required reserve. The situation changed in 2005 being a result of the agreement between the NBP and the MF on depositing the MF funds on the zloty deposit accounts with the NBP. The volume of MF term deposits with the NBP was gradually reduced. It was further reduced in 2007 and amounted to 4.4 billion zloty on average. At the same time, though in 2005 and 2006 the level of the NBP bills amounted to 16.7 billion zloty and 19.8 billion zloty, respectively, it decreased slightly to 19.3 billion zloty in 2007. The surplus of the banking sector liquidity within that period was mainly caused by the increased purchase of foreign currencies by the NBP due to the the inflow of EU funds. The main factor that reduced the surplus of the liquidity in that period was the increase of the currency in circulation.

In the years 2001 – 2007, the total annual average absorption of banking sector funds calculated as the total of the NBP bills issues and the level of the Ministry of Finance zloty term deposits with the NBP, fluctuated between 12.3 and 24.8 billion zloty, while in 2007 it amounted to 23.7 billion zloty on average. The share of the MF term deposits with the NBP in the total absorption of the funds in the abovementioned years fluctuated between 20% and 80% and decreased to 19% in 2007.

The figure below shows the surplus of the banking sector liquidity in the years 2001 - 2007.

Figure 1. Banking sector surplus liquidity (2001 - 2007)



Source: NBP

The system of the monetary policy instruments applied in recent years by the NBP includes the key interest rates, open market operations, required reserve system and standing facilities. The Monetary Policy Council's four decisions on the gradual increase of the reference rate from 4.00% to 5.0% at the end of 2007 reflected the tightening of the monetary policy.

The impact of changes introduced by the NBP with regard to the monetary policy instruments between 2001 and 2007 on the interest rates fluctuation in the interbank market is presented in Annex 1.

I.2 Liquidity development in 2007

In 2007 surplus liquidity of the banking sector, measured by the NBP bills issues, remained at the level of 19,302 million zloty on average and was lower by 456 million zloty, (i.e. 2.3%), than the average level in 2006. However, the liquidity development in the money market in the individual months of 2007 varied and resulted from the high volatility of the autonomous factors that were independent of the central bank.

The list below presents monthly changes of the most important autonomous factors in 2007 (change in the average level of the selected factor in a given month as compared to the previous month in absolute terms):

	<u>the smallest change</u>			<u>the largest change</u>		
	<i>in million zloty</i>	<i>in %</i>		<i>in million zloty</i>	<i>in %</i>	
– <i>currency in circulation</i>	16	0.1	(Feb 07)	2,509	3.1	(Dec 07)
– <i>(net) purchase/sale of foreign currencies</i>	20	0.3	(Jun 07 ²)	1,517	28.3	(Apr 07 ³)
– <i>public sector deposits in zloty with the NBP</i>	11	0.1	(Jul 07)	1,324	15.9	(Dec 07)
– <i>banks' required reserve</i>	6	0.1	(Sep 07)	382	2.3	(Dec 07)

The largest monthly fluctuations of the autonomous factors were usually recorded in December. Both in the case of the currency in circulation and the public sector deposits with the NBP it is a phenomenon characteristic for the last month of the year.

Throughout the whole 2007, the daily changes of the autonomous factors were larger than their monthly changes. The highest daily volatility was recorded among such factors as public sector deposits – 6.0 billion zloty, foreign currencies purchase – 1.8 billion zloty, the volume of currency in circulation – 1.1 billion zloty and foreign currencies sales – 1.0 billion zloty.

² Balance on the side of the sale of foreign currencies by the NBP.

³ Balance on the side of the purchase of foreign currencies by the NBP.

In the first half of 2007, the scale of open market operations displayed an increasing trend. The highest balance of NBP bills was recorded in June 2007 when the average NBP bills level amounted to 21.6 billion zloty. At the same time the MF zloty term deposits with the NBP remained at a low level, which additionally supported the increase in the NBP bills issue.

In the second half of 2007, owing to a rise in the volume of the currency in circulation, the surplus of the banking sector liquidity was reduced – the balance of the NBP bills issue decreased to 10.8 billion zloty (December 2007).

The list below presents the factors that determined the banking sector liquidity in 2007⁴.

Factors decreasing liquidity (in million zloty):

– currency in circulation increase	11,502
– banks' reserve requirements level increase	2,774
– deposit facility(compared to the previous year)	380
– refinancing loan repayment	373
– marginal lending facility	25
Total:	15,054

Factors increasing liquidity (in million zloty):

– net foreign currencies purchase by the NBP	6,254
– other items, net	4,302 ⁵
– payment of the NBP profit to the state budget	1,661
– NBP bills discount	825
– public sector deposits in zloty decrease with the NBP	639
– payment of interest on the required reserve	561
– payment of the interest on NBP bonds	356
Total:	14,598

⁴ The abovementioned factors determining the banking sector liquidity illustrate changes (decrease or increase) as an annual average in 2007 as compared to 2006. The description of the factors is presented in the further part of the Report.

⁵ The increase in the liquidity due to other net items resulted mainly from the payment of interests on the MF term deposits (both in zloty and in foreign currencies) with the NBP and the decrease in funds on the accounts of the Social Insurance Institution (ZUS) and the Social Insurance Fund (FUS).

I.2 Impact of autonomous factors on the banking sector liquidity in 2007

I.2.1 Currency in circulation

In 2007 the volume of currency in circulation stood at 79,806.5 million zloty on average in the reserve maintenance period. In the whole year the average increase in the currency in circulation amounted to 11,501.5 million zloty which means a growth of 16.8% as compared to the previous year.

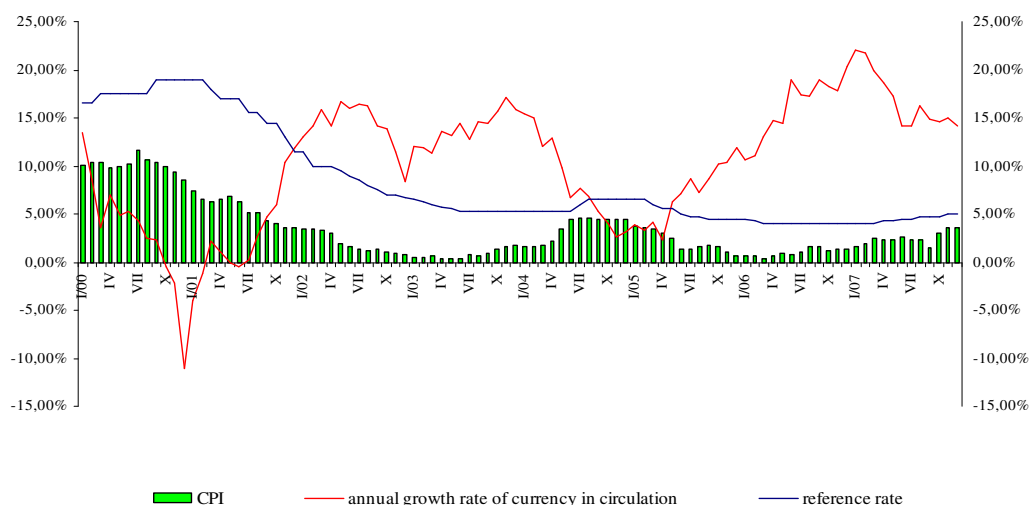
Significant changes in the growth rate of currency in circulation were observed at the beginning of the year. In January and February 2007 significant distortions of previous seasonality were observed since there was an increase in the volume of currency in circulation by 84.2 million zloty while in the previous years it was usually a period of considerable decrease in currency in circulation⁶.

In addition, as in the previous year, the economic growth rate remained high in 2007, which was mainly driven by the domestic demand, both the investment and the consumption demand. With the significant economic activity recorded throughout the whole year and intensive GDP growth⁷, a gradual decrease in the annual growth rate of the most liquid currency, i.e. currency in circulation, was observed. The high annual growth rate of currency in circulation was observed in the first half of 2007 which was mainly the continuation of the tendency from the previous year. In February 2007, the rate stood at 22.2%, while in July 2007 it amounted to 13.6%. In December 2007, the annual growth rate of currency in circulation for the average level of currency in circulation in a month amounted to 14.7%, while in the corresponding period of the previous year it stood at 18.8%.

⁶Between January and February 2006 the volume of currency in circulation decreased by 1,696 million zloty, while in 2005 it decreased by 1,730 million zloty in the corresponding period, and in 2004 this monetary aggregate decreased by 1,921 million zloty.

⁷ The real GDP growth rate (not adjusted seasonally, corresponding period of the previous year = 100) in subsequent quarters of 2007: 2007 Q1 – 7.2%, 2007 Q2 – 6.4%, 2007 Q3 – 6.4%, 2007 Q4 – 6.1%).

Figure 2. Growth rate of the currency in circulation against inflation and the NBP reference rate (2000 - 2007)



Source: NBP

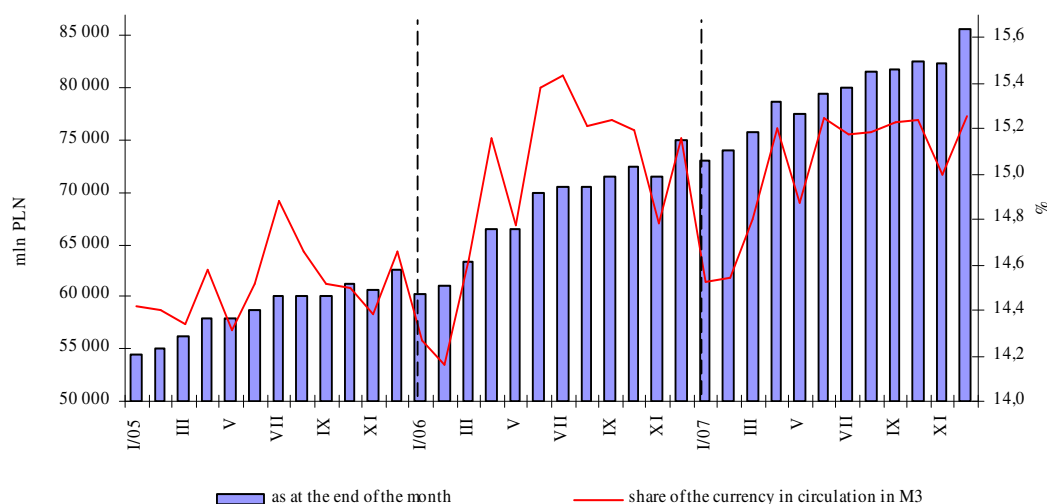
The analysis of the currency total structure shows that while in individual months of 2007 the share of the currency in the total supply of M3 aggregate remained at the level similar to the previous year (December 2007 – 15.3%, December 2006 – 15.2%), the index determining the share of the currency in circulation in the narrow monetary aggregate M1 was visibly smaller (December 2007 – 25.6%, December 2006 – 27.2%). This was the result of differentiated changes in the individual factors determining the above mentioned monetary aggregates.

The decrease in the growth rate of currency in circulation observed in individual months of 2007 mainly resulted from the increase in the interest on household deposits⁸ offered by the commercial banks, which in turn resulted from the growth of money market interest rates on the one hand, and from stronger competition for the relatively cheap source of financing increased lending, on the other hand. It resulted in the increase in the alternative cost of the currency maintenance. As a result, a gradual reallocation of the investment portfolio of the population was observed.

At the same time, the improvement in commercial banks' offers allowed retail customers to obtain higher liquidity of deposited funds than it was the case with traditional accounts and was an incentive to change the most liquid financial assets of the population held in the form of cash on savings accounts.

⁸ In 2007, the total average interest on zloty household deposits amounted to 3.1% which means a growth of 23 basis points as compared to the average interest on zloty household deposits in 2006.

Figure 3. Level of currency in circulation and its share in the M3 broad monetary aggregate (2005 - 2007)



Source: NBP

In addition, the factors which contributed to the decrease in the currency in circulation growth rate were, as in previous years, systematic development of the non-cash payment market and the development of the ATM network.

An upward trend was observed in the consecutive months of 2007 with regard to both the number and the value of transactions conducted with the use of various types of cards.

In 2007, as in previous years, currency in circulation was under a significant impact of seasonal factors. A strong rise in the currency in circulation was observed before Christmas, Easter and in holiday months.

I.2.2 Purchase and sale of foreign currencies by the NBP

In 2007, the purchase and sale of foreign currencies by the NBP resulted in the increase in the banking sector liquidity by 6,254 million zloty (the annual average).

Purchase of foreign currencies by the NBP was related to:

- the use of EU funds within the framework of assistance funds – 14,273 million zloty (as compared to 15,043 million zloty in 2006);
- the exchange of funds coming from loans from the international financial organisations for zloty and the repayment of loans granted from the governments of other countries – 1,353 million zloty;
- exchange of a part of funds from the issue of bonds to the foreign markets for zloty – 36 million zloty.

Sale of foreign currencies by the NBP resulted from:

- the currency exchange of the membership fee paid to the European Commission account – 10,280 million zloty (as compared to 8,803 million zloty in 2006);

- the services to the central budget units the accounts of which are maintained with the NBP – 2,796 million zloty;
- the purchase of foreign currencies by the Ministry of Finance to service foreign debt of the State Treasury – 1,157 million zloty.

Foreign currency operations conducted by the central bank - purchase and sale of foreign currencies in 2007:

Transactions related to the membership in the European Union

The majority of foreign exchange transactions conducted by the central bank was related to servicing foreign currency purchase transactions, related to the use of the EU funds in the Polish zloty, transferred by the European Commission in euro, .Structural funds and the Common Agricultural Policy had the major share in those transactions (49.9% and 49.0% of converted funds respectively).

The sale of foreign currencies by the central bank in 2007 was related mainly to the exchange of a part of the Polish membership fee paid to the EU in zloty. In the previous year, the European Commission exchanged the proceeds from the membership fee paid in zloty only with the NBP.

In 2007 the European Commission started to transfer funds from the EU budget established within the framework of the Financial Perspective 2007-2013. By the end of 2007 a sum exceeding 1,500 million euro had been transferred to fund accounts with the NBP.

Foreign operations of the State Treasury

The operations related to the servicing of foreign liabilities and receivables of the State Treasury, consisting in the purchase and sale of foreign currencies by the NBP, influenced the banking sector liquidity. Foreign exchange transactions in 2007 were conducted pursuant to the agreement on the purchase and sale of foreign currencies for servicing foreign liabilities and receivables of the State Treasury concluded between the Ministry of Finance and the NBP.

Box 1. Agreement on the purchase and sale of foreign currencies

On 22 December 2006, the Ministry of Finance and the NBP signed an Annex to the agreement of 12 January 2004 on the purchase and sale of foreign currencies for servicing foreign liabilities and receivables of the State Treasury and on servicing principles.

The annex introduced limits on the value of foreign exchange transactions in 2007: the purchase of foreign currencies by the NBP up to 4,000 million euro and the sales up to 4,000 million euro, with the accumulated absolute difference between the sales amount and the purchase amount as at the end of the year not exceeding an equivalent of 1,500 million euro.

In 2007 the agreement was executed in 9.25% as regards the purchase of foreign currencies by the NBP, and 7.69% as regards the sale. The value of transactions amounted to 1,389 million zloty as regards the purchase (1,386 million zloty in the framework of the Agreement and 3 million zloty outside it) and 1,157 million zloty

as regards the sale. The foreign exchange operations related to the repayment of State Treasury liabilities to foreign creditors were executed not only through the purchase of foreign currencies in the NBP, but also with the use of the funds from the MF foreign currency account held with the NBP. The account was credited with proceeds from the issue of Treasury bonds to the foreign markets.

In 2007 the value of bonds issued by the Ministry of Finance that were earmarked for foreign markets amounted to 1,500 million euro, 1,500 million Swiss franc and 50,000 yen. The funds were transferred to the MF currency account with the NBP and amounted to the equivalent of 10,325 million zloty. In addition, the MF currency account was credited with the loans raised from the international financial organisations amounting to 1,531 million zloty. These amounts and the funds from the previous year (1,104 million zloty) were used to cover the liabilities due to creditors from the Paris Club (6,431 million zloty), the London Club (242 million zloty), liabilities related to foreign bonds of the State Treasury (3,254 million zloty), foreign loans, shares and other liabilities (2,332 million zloty).

In addition to foreign exchange operations related to the servicing of foreign liabilities and receivables of the State Treasury and the transactions related to the EU funds, the central bank conducted foreign exchange operations with entities authorised to purchase from or sell foreign currencies to the central bank pursuant to the bank account agreement.

I.2.3 Public sector deposits held with the central bank

The public sector deposits held with the central bank include primarily: the funds on current account of the central budget units, the term deposits and the special fund resources.

In 2007 the average level of the public sector deposits amounted to 8,131 million zloty and was lower by 639 million zloty than in the previous year (8,770 million zloty).

The changes in the level of the public sector deposits with the NBP resulted from the flows of funds between the banking sector and the public sector. The changes in the level of the public sectors deposits were influenced by: the volume of central budget incomes and expenditures; the settlements of the Treasury Securities issues and repurchase; the payments resulting from servicing other transactions related to meeting the borrowing needs of the public sector; the use of EU funds, the levels of the limits for the MF zloty term deposits with the central bank, the flows of funds between Poland and the European Union (payment of Poland's membership fee to the EU budget).

In 2007 the share of MF zloty deposits in central budget deposits decreased for yet another year and amounted to around 54.0%, as compared to 57,8% in 2006.

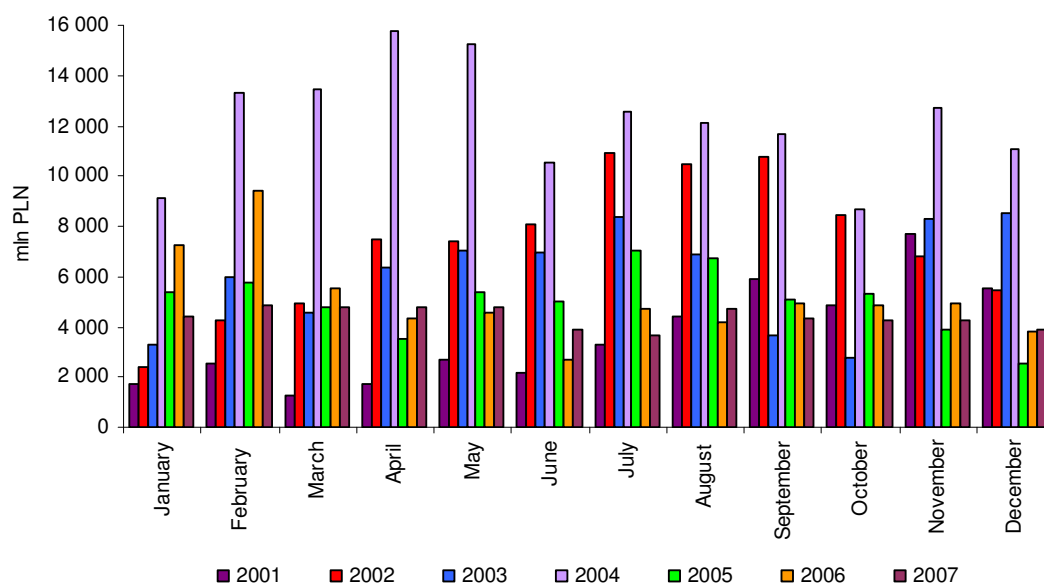
Box 2. MF term deposits held with the NBP in 2007

Pursuant to Article 164 of the Public Finance Act, in 2007, as in the previous years, the Minister of Finance was entitled to place the interest-bearing surplus funds deposits in the Polish zloty with the NBP or Bank Gospodarstwa Krajowego.

The detailed principles for depositing such funds with the NBP were specified in the framework agreement on depositing funds of the Ministry of Finance on zloty denominated term deposit accounts with the NBP concluded between the Ministry of Finance and the NBP on 18 December 2006.

In 2007 the limit of the MF term deposits with the NBP calculated according to daily balances amounted to 5 billion zloty from 1 January to 30 September and 4,5 billion zloty from 1 October to 31 December.

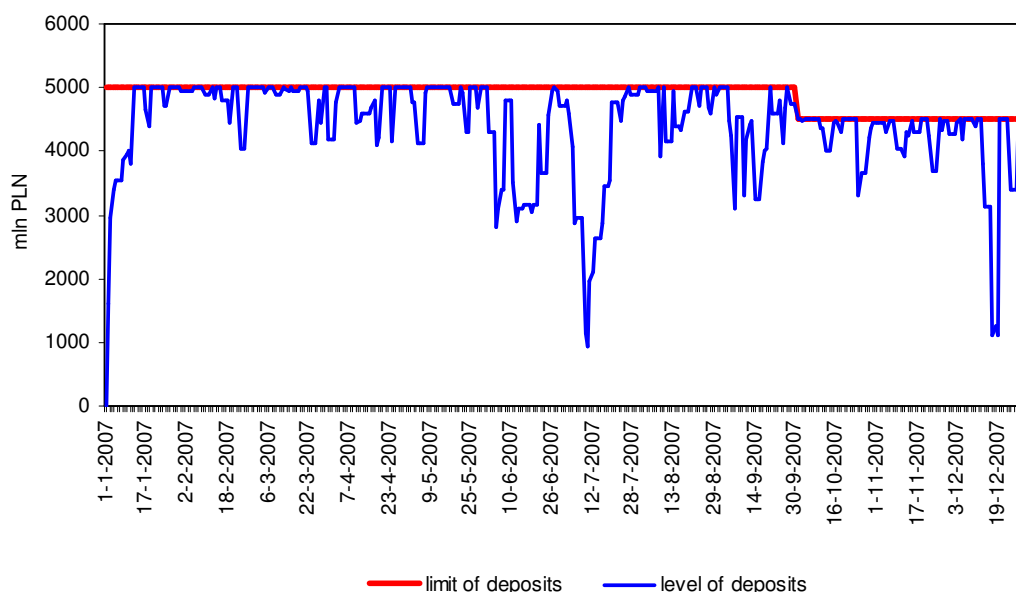
Figure 4. Average level of the Ministry of Finance term deposits with the NBP in individual months of 2001-2007



Source NBP

In 2007 the Ministry of Finance held funds on the term deposit zloty accounts with NBP amounting to the yearly average of 4,394 million zloty which was the lowest amount recorded in six years' time. It is connected with the introduction of a daily limit for MF term deposits with the NBP which is gradually lowered year by year. The amount of deposits in 2007 accounted for 90,1% of the set daily limit of deposits, set forth in the *Monetary Policy Guidelines for the Year 2007* at the level of 4.9 billion zloty. In the previous year the Ministry of Finance used 80,7% of the daily limit of deposits on average, at the level of 5.6 billion zloty. The more intensive use of the limits available for the years 2006-2007 resulted from lowering the deposit limits year by year, and in consequence from changing the way of fund management by the Ministry of Finance.

Figure 5. Use of MF term deposit limit with the NBP in 2007



Source: NBP

The introduction of the deposit limits led to the decrease in the share of the term deposits in the total volume of central budget deposits and reduced the fluctuations of budget deposits held with the NBP which in turn supported the stabilisation of interest rates in the money market.

In 2007, as in the previous year, a part of surplus funds of the central budget was placed in the interbank market through Bank Gospodarstwa Krajowego. Conditional liquidity transactions of the buy-sell-back type were concluded with banks acting as Government securities dealers. Such transactions were collateralised with both the Treasury bills and Treasury bonds. In addition, in 2007 the Ministry of Finance continued to deposit funds in the interbank market of non-collateralised term deposits.

The scale of operations conducted in the Polish zloty between the Ministry of Finance and commercial banks increased from February to May 2007 with the largest accumulation of the deposits taking place in May. Similarly to the previous year, the equally high accumulation was recorded in November of 2007. The high level of deposits stemmed from the increase in the incomes of the State Budget.

As a result of reducing the daily limit for MF term deposits with the NBP were transferred to the interbank market which forced the NBP to absorb surplus funds.

Pursuant to *Resolution 71/2005 of the Management Board of the NBP of 23 December 2005 on terms and conditions of accepting the term deposits in zloty by the NBP, the maintenance periods and the interest principles*, other ministries (in addition to the Ministry of Finance) continued to deposit their surplus funds with the NBP. Those deposits amounted to 154 million zloty per year (annual average), which constituted a growth by 16 million zloty compared to the previous year.

Chapter II Impact of monetary policy operating system on banking sector liquidity in 2007

II.1 Monetary policy instruments in 2007

II.1.1 Interest rates

Interest rates are the primary instrument, set forth in the *Monetary Policy Guidelines*, for implementation of the monetary policy of the NBP. In 2007 the Monetary Policy Council increased the NBP basic interest rates four times.

In April 2007 the reference rate was increased from 4.00% to 4.25%, the lombard rate – from 5.50% to 5.75%, and the deposit rate – from 2.50% to 2.75%. In June 2007 interest rates were raised by another 25 basis points, the reference rate – from 4.25% to 4.50%, the lombard rate – from 5.75% to 6.00%, and the deposit rate – from 2.75% to 3.00%. In August 2007 interest rates were further raised: the reference rate from 4.50% to 4.75%, the lombard rate – from 6.00% to 6.25%, and the deposit rate – from 3.00% to 3.25%. The last increase of the basic interest rates in 2007 took place in November, and interest rates were set at the following levels: the reference rate – 5.00%, the lombard rate – 6.50%, and the deposit rate – 3.50%. The fluctuation band for short-term market rates remained unchanged at +/-1.5 percentage points.

Box 3. NBP interest rates

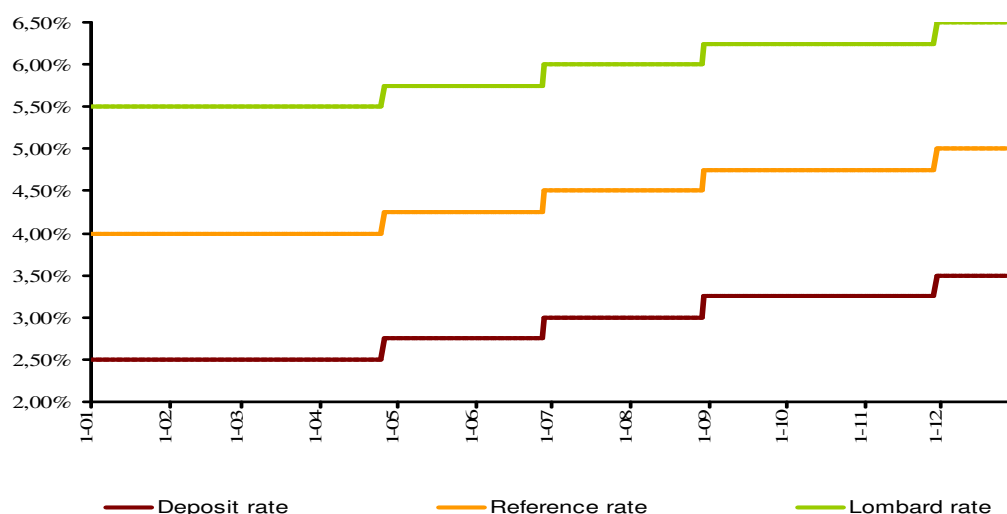
The NBP reference rate determines the minimum yield of the basic open market operations affecting at the same time the interest rate on deposits in the interbank market with maturity similar to that of open market operations.

The NBP lombard rate indicates the cost of financial means offered by the central bank.

The NBP deposit rate specifies the profitability of the overnight deposits with the NBP.

The NBP deposit and lombard rates define the fluctuation band for the O/N rate, which is symmetric against the central bank reference rate.

Figure 6. NBP interest rates in 2007



Source: NBP

II.1.2 Open market operations

Open market operations are instruments designed to maintain short-term interest rates at the level defined by the Monetary Policy Council.

Open market operations have been conducted pursuant to *Resolution 14/2005 of 20 December 2005 on the principles of conducting open market operations*, and *Resolution of the Monetary Policy Council of 27 September on adopting the Monetary Policy Guidelines for 2007*.

Basic operations

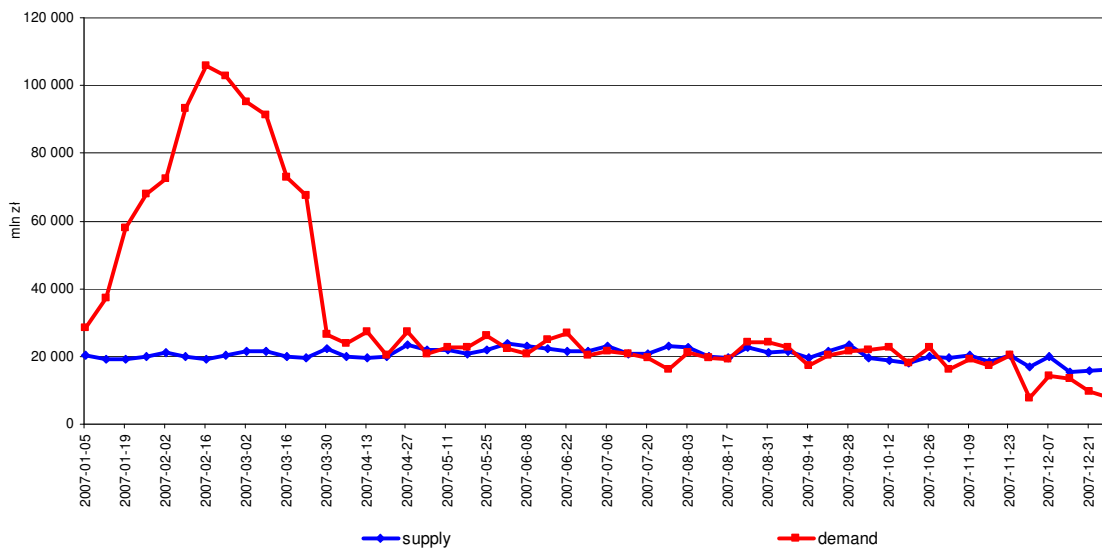
In 2007 the NBP conducted open market operations issuing the NBP bills with 7-day maturity. In 2007, as in the previous year, all banks participating in the SORBNET system that had an account with the Securities Register held with the NBP and had the ELBON application had access to the basic open market operations. At the same time, it was decided that the group of the most active banks in the money and foreign exchange markets would be authorised to participate in fine-tuning operations.

In the previous year basic open market operations were conducted regularly on a weekly basis, on Fridays. The yield on the NBP bills was set in the course of tenders, and its floor was determined by the NBP reference rate.

In 2007 the central bank supplied the NBP bills of the nominal value of 1,063.8 billion zloty whereas the market demand amounted to 1,702.0 billion zloty. As in 2006, the demand for the NBP bills exceeded their supply, and the relation between these two came to 160%. The NBP accepted bids of the nominal value of 997,5 billion zloty.

In 2007 demand of banks for the NBP bills was diverse. In Q1 it tended to exceed the supply. From the beginning of Q2 a reduction in demand notified by banks in the course of successive tenders was observed (more and more often the value of notified demand was lower than the pool of bills offered by the central bank). The relation of demand to supply for the first half-year stood at 229%, while in the second half-year it dropped significantly to 91.4% This trend was intensified in November (when underbidding occurred in the course of three out of four tenders) and, in much larger scale, in December 2007. In the last month of 2007 the ratio of demand to supply stood at just under 67%.

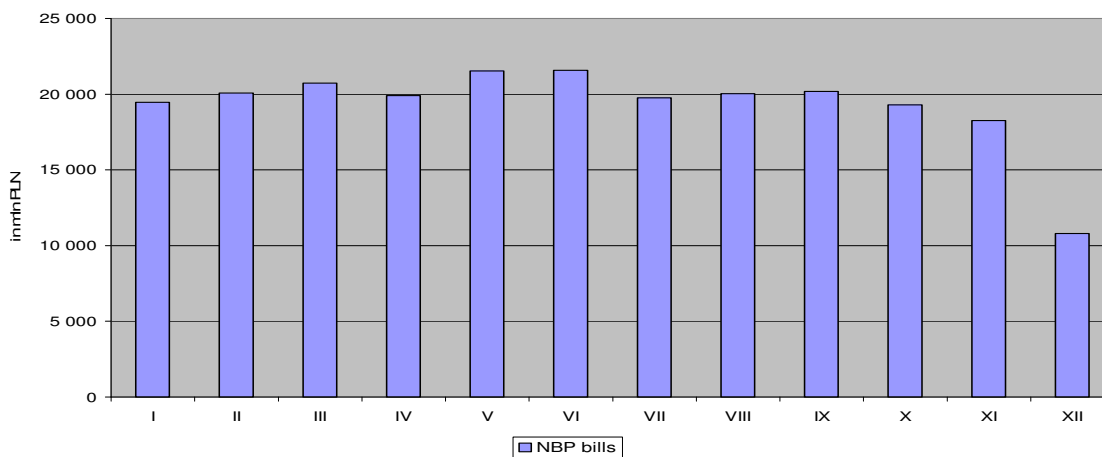
Figure 7. Demand and supply during tenders for the NBP bills in 2007



Source NBP

The volume of open market operations on 31 December 2007 amounted to 7,769 million zloty and was lower by 10,631 million zloty than the year before. In annual average terms, the volume of the operations was lower by 456 million zloty compared to the previous year and amounted to 19,302 million zloty.

Figure 8. Average monthly issue of the NBP bills in 2007



Source NBP

Fine-tuning operations

In 2007 the National Bank of Poland had the right to conduct fine-tuning operations. Such operations could be initiated in the case of unexpected, short-term changes in banking sector liquidity leading to undesirable, from the monetary policy point of view, fluctuations of the short-term interest rates. These could include both absorbing and providing operations, i.e. the issue of the NBP bills, repo operations, and early redemption of NBP bills. The group of the most active banks in the money and foreign exchange markets was authorised to participate in the fine-tuning operations⁹. The NBP did not conduct any fine-tuning operations in 2007.

Structural operations

Structural operations are aimed at a long-term change in the banking sector liquidity.

If needed, the central bank could conduct operations consisting in earlier repurchase of its own bonds (the portfolios of the commercial banks contain bonds amounting to 7,816 million zloty), the purchase and the sale of securities in the market, or the issue of the long-term debt securities. No structural operations were conducted by the NBP throughout 2007.

II.1.3 Required reserves

For the purpose of the short-term interest rates stabilisation, the National Bank of Poland used the averaged system of the required reserves provision. Banks were obliged to maintain the average quantity of funds on accounts with the NBP in the reserve maintenance period on the level not lower than the value of the required reserves.

Box 4. Required reserves

Domestic banks, branches of credit institutions and branches of foreign banks are all subjects of the system of the required reserves provision. Required reserves are maintained on the current accounts of banks with the NBP or the required reserve accounts. The affiliated cooperative banks maintain the required reserves through the affiliating bank.

Required reserves are calculated on the basis of repayable funds accumulated on bank accounts and the funds obtained from the sales of securities. Funds received from other domestic bank and/or obtained from abroad for a period of at least 2 years, as well as accumulated on savings and settlement accounts with housing credit associations and personal retirement accounts are excluded from the reserve base.

Required reserves are calculated and maintained in zloty. The required reserve ratios were not changed in 2007 and stood at:

⁹ The list of the banks is presented in Annex 5.

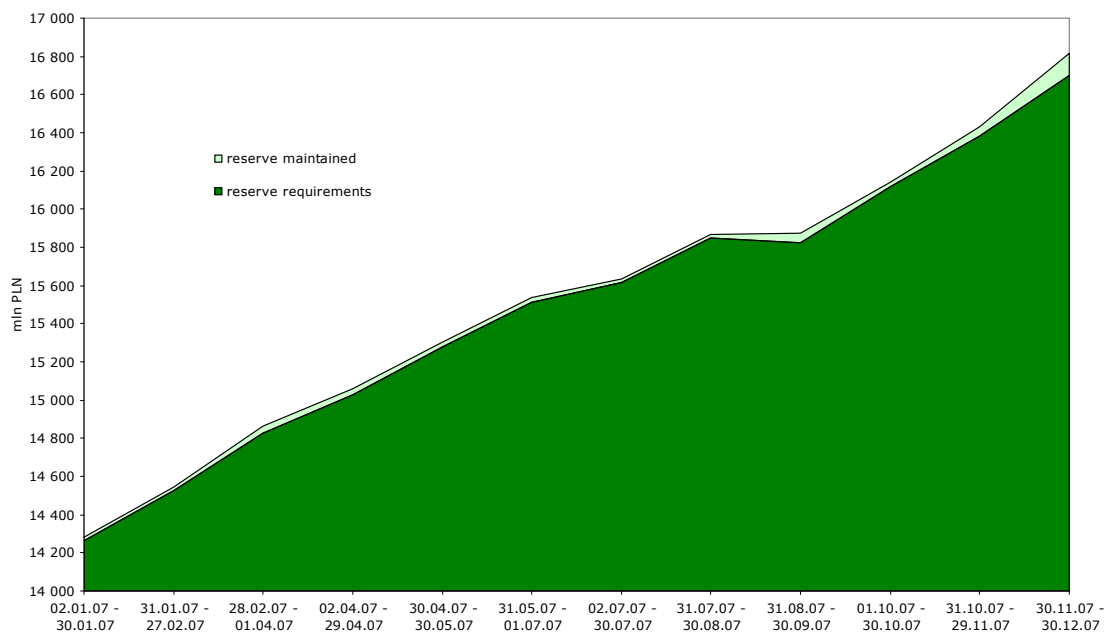
- 0% for funds obtained from the sale of securities under the repurchase agreements (repo transactions);
- 3,5% for other liabilities constituting the reserve base.

All banks deduct the equivalent of 500,000 euro from the calculated required reserves. Funds of the required reserves bear interest at the level of 0.9 of the rediscount rate.

The principles for calculating and maintaining the required reserves by banks are specified in the *Resolution 15/2004 of the Management Board of the NBP of 13 April 2004, with later amendments*, and the *Resolution 1/2004 of the Monetary Policy Council of 30 March 2004 on the rates of the banks' required reserves and on the remuneration on the required reserves*.

The level of the required reserves stood at 16,966 million zloty on 31 December 2007. It increased by 2,996 million zloty (21.4%) as compared with the level on 31 December 2006.

Figure 9 Changes in the level of required and maintained reserves in 2007



Source: NBP

The increase in required reserves was determined by a growth in deposits (by 20.3%) that constitute the basis for calculating their level.

The average level of funds on the banks accounts slightly exceeded the required level of the reserves in all the required reserve maintenance periods, by 36 million zloty, i.e. by 0.23%, on average.

In individual periods the excess ranged from 16 million zloty (0.11%) in January to 113 million zloty (0.68%) in December. The persistent marginal differences between the maintained and the required reserves in individual maintenance periods resulted from:

- using the instruments that facilitate the management of funds on the NBP accounts by banks (the intra-day credit, the deposit facility and the marginal lending facility),
- the introduction of the remuneration on the maintained reserves funds only to the amount of the required reserves (from May 2004).

In 2007 there were 7 cases observed when the required reserves were not maintained on the required level by the banks, i.e. 13 less than in the previous year.

II.1.4 Standing facilities

Standing facilities enable commercial banks to deposit fund surpluses with the NBP (deposit facility) and supplement shortage of the liquidity on the short-term basis (marginal lending facility) on an overnight term. These operations, performed on the initiative of the commercial banks, contribute to the stabilisation of the liquidity conditions in the interbank market and to the stabilisation of fluctuation of the overnight market rates.

Deposit facility enables commercial banks to place their surplus of the liquid funds on the term deposit accounts with the central bank, to be returned on the following operating day. The highest amounts were placed by the commercial banks in the last days of the required reserve maintenance periods.

The highest daily level of the overnight deposits stood at 11.8 billion zloty and was recorded on 28 December 2007. The average daily level of the overnight deposits stood at 535.1 million zloty in 2007, whereas in 2006 it amounted to 149.9 million zloty.

Marginal lending facility is a source of overnight liquidity for commercial banks. It is collateralised with Treasury securities (a pledge), and its interest rate determines the cost of raising funds with the central bank. In 2007 the total annual use of the marginal lending facility amounted to 11.4 billion zloty, as compared to 15.5 billion zloty in 2006, whereas the average daily use stood at 31.3 million zloty, as compared to 42.6 million zloty in the previous year.

II.1.5 Other components of the NBP's influence on the money market

Intraday credit facility in zloty

The intraday credit facility is one of the most important components of the whole settlement system. It enables banks to support liquidity management during the operating day, ensuring at the same time, smooth interbank settlements. It is a non-interest bearing credit, and is collateralised with Treasury securities, and is subject to repayment at the end of the same operating day on which it is taken out.

In 2007 forty two commercial banks had an access to the intraday credit facility (as compared to 43 banks in 2006). Its use grew by 15.2% in comparison with 2006. The daily liquidity supply of the banks by means of the intraday credit facility ranged from 10.4 to 18.7 billion zloty, and its average daily balance stood at 12.7 billion zloty. Throughout the year two banks repaid the intraday credit on the following operating day in the total amount of 80.4 million zloty.

Intraday credit facility in euro

The intraday credit facility in euro, serving the role of an instrument ensuring the liquidity of settlement in the SORBNET – EURO system, is subject to repayment by the end of the same operating day on which it is taken out. The intraday credit is collateralised with Treasury bonds subject to MTS-CeTO fixing and valuated in the full compliance with the Eurosystem standards. As in the previous

year, only one bank used the intraday credit facility in 2007. Its average daily debt with the NBP stood at the same level as in 2006, i.e. at 0.6 million euro.

POLONIA rate

At the beginning of 2005, the NBP introduced POLONIA (Polish Overnight Index Average) rate. It is the average overnight rate weighted with the volume of transaction in the interbank deposit market. Its level reflects real interest rates on the short-term interbank deposits. Owing to its structure (similar to that of EONIA rate functioning in the Eurosystem), it makes a better indicator than WIBOR O/N of the actual cost of overnight deposit. The POLONIA rate is published on the Reuters website (NBPS) by the NBP on a daily basis at 5 p.m.¹⁰. During the period of 11 months its average absolute deviation from the NBP reference rate remained close to the amount reached in 2006, e.g. about 17 basis points. Only in December 2007 the deviation grew as compared to the previous year¹¹, which in consequence raised the average absolute deviation of that rate from the NBP reference rate in 2007 to the level of 23 basis points (with the NBP reference rate being calculated on the basis of 365 days in a year).

Publishing information on Reuters website

In 2007, as in the previous year, the NBP provided banks, on the NBPM page of Reuters website, with information about the current liquidity scenario in the market, including data on:

- banks' current account balances, the deposit facility with the NBP, and the marginal lending facility granted by the NBP on a daily basis,
- the level of the reserves required in a given maintenance period,
- banks' average current account balances in a particular maintenance period,
- forecast of the average daily balance on the current account from the day of the NBP bills issue (within basic operations) until the day preceding their maturity.

II.2 Developments in the interbank money market

In 2007 the NBP had an influence on the level of the market rate with a maturity of one week (WIBOR SW) by conducting regular open market operations. Throughout the year the WIBOR SW rate remained close to the reference rate within the fluctuation band determined by the lombard and deposit rates. The average deviation of WIBOR SW from the NBP reference rate amounted to 9 basis points in 2007 and was higher than in the 2006 rate by 3 basis points (the NBP reference rate was calculated on the uniform basis of 365 days in a year). The increase in the NBP reference rate was due to expectations as to the increase of basic interest rates by the Monetary Policy Council during the

¹⁰ POLONIA fixing is conducted by the NBP on each operating day at 4.45 p.m. Each participant of the fixing is required to submit to the central bank a list of O/N transactions conducted with other participants and routed for settlement on a particular day by 4.30 pm. The list includes the amount of zloty deposits, the rate at which the transactions has been concluded, and the name of the bank – counterparty to the overnight transaction.

¹¹ The situation in December 2007 is described in Chapter II.

year. The increases made by the MPC in 2007 were partly discounted by the FRA and OIS market since the end of 2006.¹²

In 2007 the scale of the NBP interest rate growth expected by the markets increased, *inter alia*, due to the fact that inflation rises was a stronger than expected by investors. Apart from the assessment of the economic situation, the level of future interest rates in Poland was also influenced by the events in the international financial markets.

The shortest POLONIA and WIBOR O/N rates posted much higher fluctuation. Due to their one day maturity, they were more sensitive to changes in the current liquidity developments in the banking sector.

The average deviation of WIBOR O/N from the NBP reference rate in the 11 months of 2007 amounted to 15 basis points, but in December 2007 the deviation increased to 67 basis points, which led to the increase in the yearly average deviation to 19 basis points (at the calculation basis of 365 days in a year).

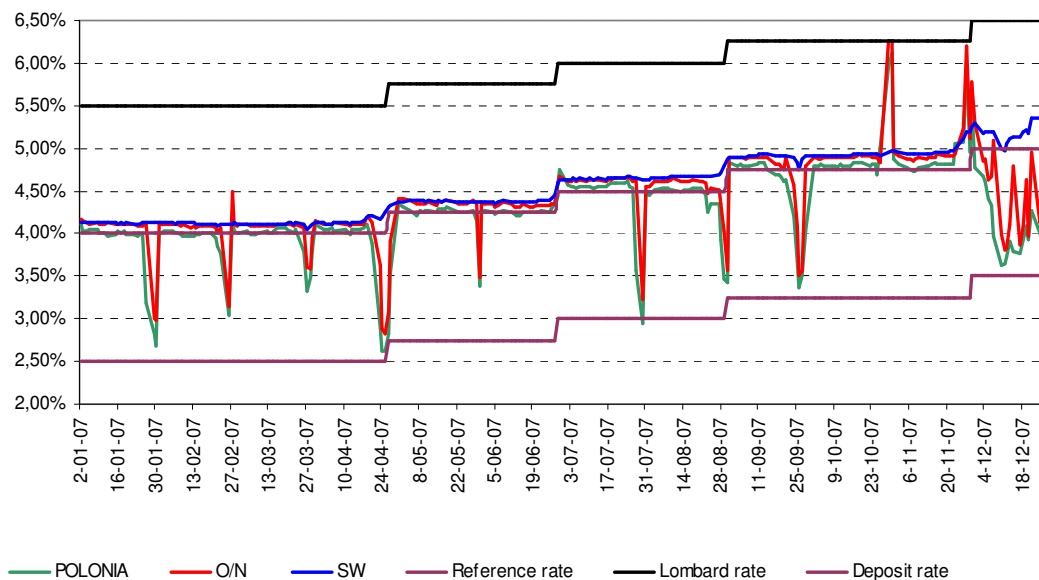
The averaged system of maintaining the required reserves allows commercial banks to flexibly adjust the level of current account balances on the given day to their liquidity needs. The effect is that during most of the reserve requirement maintenance period there were no significant fluctuations of the short-term rates.

The fluctuation of short-term market rates takes place at the end of the reserve requirement maintenance period, when banks are under the obligation to meet the requirements connected with retaining the average level of current account balances on the required level.

¹² FRA (Forward Rate Agreement) – a fixed-term contract that determines the interest rate and protects the buyer of a FRA contract against the increase or the seller against the decrease in future interest rates.

IRS (Interest Rate Swap) – a financial contract between two parties that wish to exchange two payment streams of future interest (usually payments at a fixed interest rate for payments at a variable interest rate).

Figure 10. WIBOR and POLONIA fluctuations against NBP interest rates in 2007



Source: NBP

The largest financial flows (*inter alia* between the banking sector and the central budget) take place always at the end of the month, causing the strongest fluctuations of banks' current account balances. Commercial banks have the possibility to use standing facilities.

Should a surplus of the liquidity occur in the whole banking system, banks use the deposit facility at the end of the reserve requirement maintenance period. In 2007 such situation occurred in every reserve requirement maintenance period. The average level of the deposit facility in individual months fluctuated between PLN 51 million (in November) and PLN 2,964 million (in December).

The financial shortages in commercial banks may be levelled by using the marginal lending facility in the NBP. Such loan was used in four reserve requirement maintenance periods (only once in a higher amount – PLN 190 million on average in October).

Much higher use of the deposit facility by banks on the last days of required reserve maintenance periods caused a deviation of shortest-term rates (POLONIA and WIBOR O/N) in the interbank market below the reference rate.

Standing facilities are relatively costly (the marginal lending facility determines the ceiling on the cost of the *overnight* money in the market) or entail lost profits (the deposit facility determines the lowest return on *overnight* deposits).

Since mid-2007, commercial banks started to invest their funds in open market operations more carefully in view of the crisis in external markets. This was particularly visible in a lower demand for the NBP bills in individual tenders¹³, which led to a surplus of funds held by banks in current accounts against their required reserves and in consequence resulted in placing higher deposits with the NBP in

¹³ In the second half of 2007 the demand for NBP bills was lower than the number of NBP offers in 18 out of 26 tenders.

the last days of the reserve maintenance period. This also caused higher fluctuations of O/N rates in respect of the reference rate at the end of the month.

Figure 11. Use of standing facilities offered by the NBP against the deviation of WIBOR rates from the NBP reference rate in 2007



Source: NBP

The phenomenon intensified significantly in the last month of the year. December is a month when the banking sector's liquidity is usually limited in comparison with the previous months. One of the main factors influencing the lower liquidity is the seasonal increase in currency in circulation. Simultaneously, the diversified liquidity is accompanied by an increased transfer of funds related to the necessity to account for the final dates of settlements. Most transactions related *inter alia* to central budget flows are effected in the last days of the year, which causes significant daily fluctuations of banks' current accounts with the NBP. Banks aim at retaining more funds on current accounts than in previous months for prudential reasons.

Similar situation took place in December 2007, when – apart from the influence of the above-mentioned factors on the low average level of the NBP bills – changes in the banking sector consisting in a spin off of one of the banks and a take over of its assets by another bank exerted additional influence. This contributed to limiting demand for the NBP bills during the first tender in the December requirement reserves maintenance period as well as lowering the total value of the NBP bills in the banks' portfolio by almost PLN 8.6 billion on a given day.

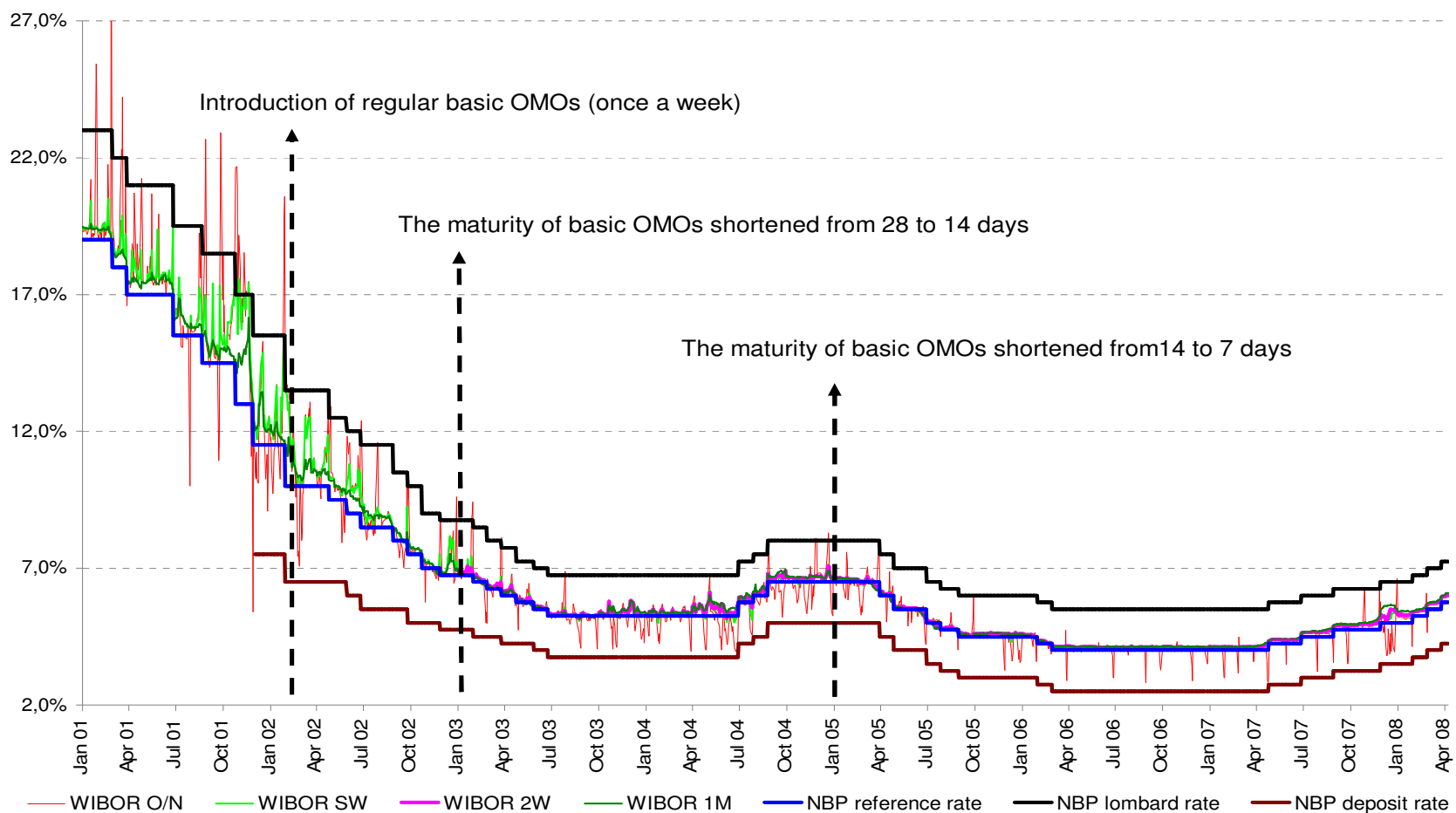
At the first tender in the December period of required reserve maintenance the banks purchased the NBP bills to the amount of 44.1% of the NBP offer. It resulted in the occurrence of a very high positive deviation of the average level of current account as compared to the required reserve.

This situation had a large impact on subsequent tenders. With the view to decrease the high positive deviation of the banks' current account, the NBP adjusted the supply of NBP bills accordingly. Nevertheless, during subsequent tenders the banks still reported a much lower demand than the offered volume (48.6% - 85.6%). This resulted in the maintaining significant surplus of the liquidity in the banking sector. At the same time, the banking sector increased the liquidity by means of absorbing the funds offered by the Ministry of Finance in the market. Since 6 December 2007 banks regularly place deposits at the end of day with the NBP.

As a result of significant the liquidity surplus the shortest rates in the interbank market remained below the reference rate (POLONIA rate throughout the whole required reserve maintenance period, while WIBOR O/N only twice exceeded the level of 5%). In consequence, the absolute deviation of the shortest-term rates in December increased significantly as compared to the previous month (POLONIA by 89 basis points and WIBOR O/N by 46 basis points) and the deviation of average rates in a year increased as compared to the previous year.

It seems highly probable that the liquidity of the Polish interbank market was also influenced by the subprime market crisis in the USA which, due to the fact that European banks were among the buyers of mortgage securities in the US market, also spread to the European money market. In the case of the Polish interbank market, the most important factors influencing the liquidity were the quality factors. The information from the US subprime market had an impact on the behavior of the banks in Poland that preferred higher current liquidity, even at the expense of losing the revenues from the participation in the open market operations. The quantitative impact of the crisis on the subprime market on the reduction of the participation in the open market operations in December is hard to estimate.

Annex 1. Changes in the level of fluctuations of the shortest-term interest rates on the interbank market against the open market operations conducted in the years 2001-2007



Annex 2. NBP monetary policy instruments in the years 1990 - 2007

Item	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Required reserves																		
Issue of NBP bills																		
Issue/repurchase of NBP bonds																		
Repo/reverse repo																		
Outright																		
Loans for central investments																		
Rediscount loan																		
Marginal lending facility																		
Deposit facility																		
Loan limits																		
Deposits for households																		
Intraday credit																		

Annex 3. Absorption of short-term liquidity in operations conducted by the NBP with the banking sector and the MF (in million zloty)

	Average level of NBP bills	Average level of overnight deposits	Average level of marginal lending facility	Total
2007	1	2	3	1+2+3
I	19 472	413	0	19 885
II	20 089	75	0	20 164
III	20 739	217	-2	20 954
IV	19 900	670	0	20 570
V	21 526	53	0	21 579
VI	21 573	147	-14	21 706
VII	19 758	959	0	20 718
VIII	20 025	200	0	20 225
IX	20 176	343	0	20 519
X	19 290	267	-190	19 367
XI	18 254	51	-16	18 289
XII	10 797	2 964	0	13 761
on average *	19 302	530	-18	19 814

*/ - all these data are monitored in the required reserve maintenance periods, on average.

	Share of the average level of NBP bills in liquidity absorption	Share of the average level of overnight deposits in liquidity absorption	Share of the average level of marginal lending in liquidity absorption	Total
2007				
I	97,92%	2,08%	0,00%	100,00%
II	99,63%	0,37%	0,00%	100,00%
III	98,97%	1,04%	-0,01%	100,00%
IV	96,74%	3,26%	0,00%	100,00%
V	99,76%	0,24%	0,00%	100,00%
VI	99,39%	0,68%	-0,06%	100,00%
VII	95,37%	4,63%	0,00%	100,00%
VIII	99,01%	0,99%	0,00%	100,00%
IX	98,33%	1,67%	0,00%	100,00%
X	99,60%	1,38%	-0,98%	100,00%
XI	99,81%	0,28%	-0,09%	100,00%
XII	78,46%	21,54%	0,00%	100,00%

Annex 4. Tenders for NBP bills

	Tender data	Payment date	Nominal value of sales offers (m zloty)	Nominal value of offers to buy (m zloty)	Nominal value of accepted offers (m zloty)	Average accepted price (for 10,000 zloty)	Value in sales (m zloty)	Average yield on bills (annual) (365/360)
1	07-01-05	07-01-05	20 300	28 320	20 300	9992,22	20 284	4,00%
2	07-01-12	07-01-12	19 000	37 125	19 000	9992,22	18 985	4,00%
3	07-01-19	07-01-19	19 200	58 042	19 200	9992,22	19 185	4,00%
4	07-01-26	07-01-26	20 000	67 776	20 000	9992,22	19 984	4,00%
5	07-02-02	07-02-02	21 000	72 334	21 000	9992,22	20 984	4,00%
6	07-02-09	07-02-09	20 000	93 131	20 000	9992,22	19 984	4,00%
7	07-02-16	07-02-16	19 000	105 749	19 000	9992,22	18 985	4,00%
8	07-02-23	07-02-23	20 500	102 865	20 500	9992,22	20 484	4,00%
9	07-03-02	07-03-02	21 600	94 988	21 600	9992,22	21 583	4,00%
10	07-03-09	07-03-09	21 500	91 074	21 500	9992,22	21 483	4,00%
11	07-03-16	07-03-16	19 800	72 961	19 800	9992,22	19 785	4,00%
12	07-03-23	07-03-23	19 500	67 413	19 500	9992,22	19 485	4,00%
13	07-03-30	07-03-30	22 200	26 298	22 200	9992,22	22 183	4,00%
14	07-04-06	07-04-06	20 000	23 744	20 000	9992,22	19 984	4,00%
15	07-04-13	07-04-13	19 500	27 240	19 500	9992,22	19 485	4,00%
16	07-04-20	07-04-20	20 000	20 386	17 386	9992,22	17 372	4,00%
17	07-04-27	07-04-27	23 400	27 395	23 400	9991,74	23 381	4,25%
18	07-05-04	07-05-04	22 000	20 559	20 559	9991,74	20 542	4,25%
19	07-05-11	07-05-11	22 000	22 608	22 000	9991,74	21 982	4,25%
20	07-05-18	07-05-18	20 800	22 550	20 800	9991,74	20 783	4,25%
21	07-05-25	07-05-25	21 700	26 039	21 700	9991,74	21 682	4,25%
22	07-06-01	07-06-01	23 800	22 177	22 177	9991,74	22 158	4,25%
23	07-06-08	07-06-08	23 000	20 880	20 880	9991,74	20 863	4,25%
24	07-06-15	07-06-15	22 200	24 921	22 200	9991,74	22 182	4,25%
25	07-06-22	07-06-22	21 600	26 749	21 600	9991,74	21 582	4,25%
26	07-06-29	07-06-29	21 600	20 217	20 217	9991,25	20 200	4,50%
27	07-07-06	07-07-06	22 900	21 356	21 356	9991,25	21 338	4,50%
28	07-07-13	07-07-13	20 700	20 773	20 700	9991,25	20 682	4,50%
29	07-07-20	07-07-20	20 700	19 433	19 023	9991,25	19 006	4,50%
30	07-07-27	07-07-27	23 000	16 243	16 143	9991,25	16 129	4,50%
31	07-08-03	07-08-03	22 500	21 241	20 741	9991,25	20 723	4,50%
32	07-08-10	07-08-10	20 000	19 362	19 362	9991,25	19 345	4,50%
33	07-08-17	07-08-17	19 700	19 061	19 061	9991,25	19 045	4,50%
34	07-08-24	07-08-24	22 600	23 993	22 600	9991,25	22 580	4,50%
35	07-08-31	07-08-31	21 000	24 213	21 000	9990,77	20 981	4,75%
36	07-09-07	07-09-07	21 300	22 791	21 300	9990,77	21 280	4,75%
37	07-09-14	07-09-14	19 500	17 397	17 397	9990,77	17 381	4,75%
38	07-09-21	07-09-21	21 600	20 436	20 436	9990,77	20 417	4,75%
39	07-09-28	07-09-28	23 500	21 502	21 502	9990,77	21 482	4,75%
40	07-10-05	07-10-05	19 500	21 838	19 500	9990,77	19 482	4,75%
41	07-10-12	07-10-12	18 700	22 658	18 700	9990,77	18 683	4,75%
42	07-10-19	07-10-19	18 200	18 069	17 969	9990,77	17 952	4,75%
43	07-10-26	07-10-26	19 900	22 750	19 900	9990,77	19 882	4,75%
44	07-11-02	07-11-02	19 500	15 931	15 731	9990,77	15 716	4,75%
45	07-11-09	07-11-09	20 500	19 334	19 334	9990,77	19 316	4,75%
46	07-11-16	07-11-16	18 400	17 082	16 982	9990,77	16 966	4,75%
47	07-11-23	07-11-23	20 500	20 507	20 500	9990,77	20 481	4,75%
48	07-11-30	07-11-30	17 000	7 492	7 492	9990,28	7 485	5,00%
49	07-12-07	07-12-07	20 000	14 215	13 993	9990,28	13 979	5,00%
50	07-12-14	07-12-14	15 500	13 268	13 268	9990,28	13 255	5,00%
51	07-12-21	07-12-21	15 900	9 732	9 732	9990,28	9 723	5,00%
52	07-12-28	07-12-28	16 000	7 769	7 769	9990,28	7 761	5,00%
	Total 2007:		1 063 800	1 701 987	997 510		996 661	

Annex 5. Banks - Money Market Dealers in 2007

Box 8. Money Market Dealers

Since 1 January 2006 the access to the basic open market operations has been granted to any bank which:

- participates in the SORBNET system,
- has an account with the Securities Register maintained with the NBP;
- has ELBON application.

The rules for the participation in the basic open market operations are set forth in the *Regulations for the NBP maintenance of securities' accounts and depositories and for the handling of operations on securities and their registration on accounts and depositories thereof* introduced by way of Resolution No. 29/2003 of the NBP Management Board of 12 September 2003 (as amended).

At the same time it was assumed that the access to the fine-tuning operations would be granted to the most active banks in the money and FX markets, which enter into agreements on performing the function of a Money Market Dealer with the National Bank of Poland.

The other functions of Money Market Dealers are as follows:

- participation in the fixing of WIBOR and WIBID reference rates,
- provision of information to the NBP about the O/N transactions concluded on a given day, on the basis of which the POLONIA rate is fixed,
- provision of information and data to the NBP about the current and forecasted liquidity of the bank and about the situation in the money, FX and bond markets.

Candidates for the Money Market Dealers are evaluated by the NBP on the basis of the uniform criteria of the Dealer Activity Index (IAD), covering the following issues:

- bank's offer and settlement potential,
- bank's activity in the interbank deposit market,
- bank's activity in the repo and sell/buy/back transactions market,
- bank's activity in the interest rate derivatives (FRA, IRS) and in the FX swap markets.

Money Market Dealers in 2007:

1. PKO Bank Polski SA
2. Bank Handlowy w Warszawie SA
3. ING Bank Śląski SA
4. Bank BPH SA
5. Bank Zachodni WBK SA
6. Bank Gospodarstwa Krajowego
7. BRE BANK S.A.
8. Bank Millennium SA
9. Bank PEKAO SA
10. Kredyt Bank SA
11. Societe Generale SA Oddział w Polsce
12. Bank Gospodarki Żywnościowej SA
13. BNP Paribas S.A. [Oddział w Polsce](#)

Annex 6. Daily information (as at month-end)

Items	XII 2006	I 2007	II 2007	III 2007	IV 2007	V 2007	VI 2007	VII 2007	VIII 2007	IX 2007	X 2007	XI 2007	XII 2007
(m zloty)													
CENTRAL BUDGET:													
revenues	201 084,99	15 639,46	39 942,94	57 313,43	80 289,87	97 099,62	114 252,64	131 965,24	151 949,76	169 501,27	189 835,61	215 535,52	240 853,43
expenses	222 956,93	19 389,90	41 418,16	60 709,83	83 416,56	102 464,74	119 120,57	137 239,67	157 203,64	174 864,75	199 669,98	221 838,12	252 907,22
deficit(-)/surplus(+)	-21 871,94	-3 750,44	-1 475,22	-3 396,41	-3 126,69	-5 365,11	-4 867,93	-5 274,43	-5 253,88	-5 363,47	-9 834,37	-6 302,61	-12 053,79
central budget funds	5 614,87	2 267,32	1 496,46	1 117,28	1 646,61	1 304,72	1 566,64	1 731,99	1 725,13	1 831,43	1 752,50	2 125,00	13 282,40
MF foreign currency account	1 244,04	6 224,84	5 238,95	3 703,10	754,56	3 767,74	3 705,44	3 680,15	3 545,36	3 038,78	1 117,99	1 050,78	612,01
MF zloty term deposits	0,00	4 959,41	4 999,41	4 199,41	4 999,41	4 999,41	4 709,41	4 999,41	4 990,41	4 739,41	4 450,41	4 259,41	0,00
CURRENCY IN CIRCULATION	75 377,24	73 450,87	74 394,48	76 074,77	78 919,27	77 837,29	79 801,30	80 405,48	81 986,19	82 117,32	82 914,93	82 669,66	85 994,30
CURRENT ACCOUNT	11 698,61	15 504,62	14 861,09	13 790,09	12 475,39	16 187,04	14 710,69	21 292,58	15 818,02	12 679,91	15 544,07	28 254,67	16 998,12
balance deviation from required reserve	224,11	978,52	33,65	102,72	-2 795,48	676,29	80,60	5 442,90	-8,92	267,16	-834,60	11 534,93	22,97
REFINANCING LOAN	5 440,17	2 230,44	2 240,66	2 184,40	2 136,48	2 147,32	2 212,63	2 043,22	2 053,58	1 970,42	1 949,61	1 959,17	3 398,59
marginal lending	3 186,24	0,00	0,00	25,60	0,00	0,00	148,00	0,00	0,00	0,00	0,00	0,00	1 552,00
rediscount	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
INTRADAY CREDIT DEPOSIT FACILITY	16 289,62	13 420,99	13 419,28	13 542,42	14 205,50	12 414,27	11 522,68	11 387,84	12 861,51	12 539,41	12 259,74	11 494,36	12 842,08
DEPOSIT FACILITY	2 647,74	1,44	3,34	1 071,61	2,67	3,14	1 526,57	2,00	1,03	2 130,53	0,49	1,29	301,48
OPEN MARKET OPERATIONS*/	18 400,00	20 000,00	20 500,00	22 200,00	23 400,00	21 700,00	20 217,25	16 143,20	21 000,00	21 501,90	19 900,00	7 492,20	7 768,80
repo	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
NBP-money market bills<7 days	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
NBP-money market bills 7 -days	18 400,00	20 000,00	20 500,00	22 200,00	23 400,00	21 700,00	20 217,25	16 143,20	21 000,00	21 501,90	19 900,00	7 492,20	7 768,80
POLONIA**/	5,11%	4,01%	4,02%	4,10%	4,35%	4,28%	4,75%	4,47%	4,83%	4,03%	4,87%	4,77%	6,47%
WIBOR													
O/N	4,18%	4,10%	4,10%	4,14%	4,41%	4,35%	4,68%	4,56%	4,89%	4,80%	4,95%	5,30%	6,63%
T/N	4,11%	4,11%	4,10%	4,11%	4,41%	4,37%	4,66%	4,58%	4,89%	4,90%	4,95%	5,31%	5,30%
SW	4,11%	4,12%	4,12%	4,12%	4,37%	4,37%	4,63%	4,63%	4,90%	4,91%	4,98%	5,29%	5,32%
2W	4,11%	4,12%	4,12%	4,12%	4,37%	4,38%	4,64%	4,66%	4,90%	4,92%	4,98%	5,30%	5,37%
1M	4,12%	4,13%	4,12%	4,15%	4,39%	4,40%	4,64%	4,69%	4,91%	4,95%	5,02%	5,48%	5,52%
3M	4,20%	4,19%	4,22%	4,24%	4,40%	4,44%	4,71%	4,81%	5,03%	5,10%	5,21%	5,56%	5,68%
12M	4,51%	4,44%	4,57%	4,63%	4,75%	4,82%	5,14%	5,26%	5,47%	5,45%	5,56%	6,03%	6,19%
WIBID													
O/N	3,90%	3,94%	3,95%	3,93%	4,21%	4,20%	4,46%	4,39%	4,70%	4,50%	4,75%	5,03%	6,33%
T/N	3,91%	3,95%	3,96%	3,95%	4,22%	4,21%	4,47%	4,41%	4,71%	4,70%	4,75%	5,04%	5,00%
SW	3,94%	3,97%	3,97%	3,97%	4,19%	4,22%	4,46%	4,46%	4,71%	4,72%	4,78%	5,09%	5,12%
2W	3,95%	3,97%	3,97%	3,98%	4,19%	4,22%	4,46%	4,48%	4,71%	4,73%	4,78%	5,10%	5,18%
1M	3,96%	3,98%	3,98%	3,99%	4,20%	4,23%	4,47%	4,51%	4,73%	4,76%	4,82%	5,28%	5,32%
3M	4,01%	4,02%	4,04%	4,04%	4,22%	4,25%	4,53%	4,63%	4,83%	4,90%	5,01%	5,36%	5,48%
12M	4,31%	4,24%	4,37%	4,44%	4,56%	4,62%	4,95%	5,07%	5,27%	5,25%	5,37%	5,83%	5,99%
USD/PLN (fix)	2,9105	3,0400	2,9699	2,9058	2,7859	2,8415	2,7989	2,7653	2,7990	2,6647	2,5155	2,4589	2,4350
EUR/PLN (fix)	3,8312	3,9320	3,9175	3,8695	3,7879	3,8190	3,7658	3,7900	3,8230	3,7775	3,6306	3,6267	3,5820
EUR/USD	1,3163	1,2934	1,3191	1,3316	1,3597	1,3440	1,3455	1,3706	1,3658	1,4176	1,4433	1,4749	1,4710
official reserve assets (as at the end of the month)													
m zloty	141 113,7	155 684,1	151 419,50	147 570,30	145 083,80	156 754,70	152 375,10	155 122,00	157 341,70	155 382,60	151 254,10	167 741,80	160 090,10
m euro	36 832,8	39 594,1	38 652,10	38 136,80	38 301,90	41 046,00	40 462,90	40 929,30	41 156,60	41 133,70	41 660,90	46 251,90	44 692,90
(-purchase) sale of foreign currency	-657,33	-926,88	461,50	-1 402,04	-2 263,05	-47,04	212,10	433,25	-542,63	350,70	877,75	101,39	712,17

*/ - Open market operations are reported as at nominal value.