Restrictiveness of the monetary and fiscal policy and policy mix in Poland, the Czech Republic and Hungary

Adam Kot

The paper presents the monetary and fiscal condition indicators as well as policy mix indicators for Poland, the Czech Republic and Hungary, calculated according to the methods suggested in *Methods of quantitative Assessment of monetary and fiscal conditions and policy mix in acceding countries* („Bank i Kredyt” No. 6/2003). The Monetary Condition Indicator (MCI) is based on the deviation of the real effective exchange rate and the real interest rate. Calculated in such a way Poland's MCI seems to be of greater statistical significance and to better reflect the actual monetary conditions than the MCI calculated by various institutions. In addition, the paper shows that the MCI is quite insensitive to changes in the weight value considered to be characteristic of exchange and interest rates. In Poland, the monetary policy has become more and more relaxed for over a year, whereas in the Czech Republic and Hungary it has been tightened. Fiscal condition indicators and the analysis of the policy mix show that in Hungary the co-ordination of the policies of the central bank and the Ministry of Finance is better in Hungary than in Poland.

Loans and financing in agriculture on the eve of accession to the European Union. Part II

Jacek Kulawik

Accession to the European Union gives Poland an opportunity to increase incomes and financial flow in agriculture. Yet, the EU's support is not unconditional and therefore, the actual amount of financial transfers is uncertain.

In times of political and economic transformation, considerable progress was achieved in terms of developing and enhancing the financial infrastructure in Polish agriculture. Nevertheless, due to the extensive loans, it is significantly monopolised, inefficient and outdated. Certain deregulations of the agricultural financial markets will have to be introduced after Poland's accession to the EU, which may put some banks in quite a difficult situation. The main problems they will face are: the reduction of banks' operating costs, arranging for the inevitable fall in the interest-rate margin and finding new profitable sections on the market.

The Polish agricultural financial market will undergo serious changes in coming years. This should also involve changes in quality. It is necessary to create a model that would unify markets, institutions and instruments to maximise the share of the rural population in the positive effects of general economic growth and development in order to reduce poverty in rural areas, to enable a proper level of nutrition and to decentralise the management of all natural and man-made resources.

Some controversial aspects of "The Monetary Policy Strategy beyond 2003"

Karol Lutkowski

One of the issues tackled in the new manifesto of the Monetary Policy Council – *The Monetary Policy Strategy beyond 2003* – is the prospect of replacing the national currency with the Euro, which is the final step on the way to full integration of the Polish and EU economies and the fulfilment of our obligation under the Treaty of Accession. According to the scenario presented in the *Strategy*, Poland should be ready to enter the Euro area as early as in 2007. This means, that soon after Poland joins the European Union, the Polish Zloty will enter the European Exchange Rate Mechanism (EERM) in its current, modified form. Such a standpoint raises serious doubts whether the haste to meet the nominal convergence criteria and to replace the national currency with the pan-European one would create optimal initial conditions for a high GNP growth rate and for a stable and reasonable level of employment. Though this paper highlights the great significance that the EU membership has for Poland and the potential future benefits of the common currency, it also emphasises the fact that at present the mechanisms of the Monetary Union are under enormous pressure and they may be soon modified. What is more, even if the system remained unchanged, as long as the Polish economy does not undergo major transformations which would encourage exports or, in other words, until the real, not just nominal, convergence takes place (though this term should not be understood as fast redressing of disparities in economic development between the old and new Member States of the EU), the common currency system, as it is today, may pose considerable threats to Poland. Faced with several other internal and external factors, particularly the globalisation of finance markets and the growing susceptibility of our economy to the influx of „flying capital", we should not disregard the threats stemming from the real appreciation of the exchange rate and its consequences for competitiveness, economic growth and the level of employment. Therefore the author supports the idea of joining the EERM, but he suggests that its implementation should be deferred until the Polish economy undergoes some major structural transformations. A skilfully implemented active exchange rate policy could minimise this delay. The author presents the basics of such an exchange rate strategy, emphasising its advantages and relative safety.

Directions of changes in the European Union finance market

Leokadia Oręziak

The finance market is one of the key elements of the European Union Common Market in goods and services. Its proper functioning determines the growth of effectiveness of companies in the Member States. This objective is of particular importance since, in accordance with the strategy accepted by the European Council in 2000 in Lisbon, by 2010 the EU is set to become the world's most dynamic economy. The finance market will play a significant part in the adjustment process which has been undertaken by the Member States as a means to achieve this ambitious goal. Integration of the national finance markets into one EU market should help companies to attract capital and provide investors with a wider range of deposit types. Since 1999, when *The Financial Services Action Plan* was introduced, a number of directives have been issued, designed to remove obstacles hampering the harmonious development of the EU finance market. Several new directives concerning this goal are imminent. In the longer perspective, the functioning of this market is likely to be significantly influenced by the anticipated reform of the EU decision-making system.

One-factor Vasiček and CIR interest rate models – an empirical analysis based on data from the Polish Treasury Bond Market

Marcin Stamirowski

The subject of the paper is a thorough empirical analysis of the one-factor interest rate models: the Vasiček Model (1997) and the Cox, Ingersolla and Rossa Model (1985). The study was based on data collected between November 1999 and December 2002 on the Polish T-bond interbank market. The estimation of the parameters for the models in the real probability measure was based on the time-series of the overnight rate, calculated according to the Svensson Model (1994). The λ parameter, which determines the level of the market risk price in both models, was estimated by means of adjusting the theoretical bond-prices to the zero-coupon curve on the basis of the Svensson Model.

The calibrated models served as a basis for the calculation of the market risk price, for the construction of the zero-coupon yield curves and for the estimation of the implied distribution of short-term interest rates.

The analysis led to the three main conclusions. Firstly, in both cases, the estimated parameters reflect the observed overnight rate dynamics adequately. The analysis of the market risk price in particular helped to identify the exact periods when investors showed increased risk aversion. Secondly, due to the significant flattening of the yield-curve, neither of the models analysed is able to serve as a tool for the precise evaluation of interest-rate-based financial instruments. Thirdly, in the light of the methodology of the analysis, the distribution of the short-term interest rate should not be perceived as reflecting market expectations, but rather as prognoses based on historical data.

Banking supervision and corporate governance versus the competitiveness of the banking sector

Krzysztof Zalega

The paper presents an analysis of the mutual relations between banking supervision and corporate governance with regard to the competitiveness of the banking sector. The author advances an apparently controversial thesis that, despite numerous substantial differences between these two supervisory systems – particularly in terms of regulation (provisions, norms, standards), persons involved and supervisory measures – as far as the level of development and stability of the banking sector are concerned, they can be considered equal.

The author proves that the common ground between both systems is their effectiveness, which is assessed on the basis of competitiveness among the entities supervised. To be considered effective, to safeguard the deposits placed in the banks and to ensure the stability of the banking system, the banking supervision system should foster competitiveness in the banking sector. The best evidence for the effectiveness of banking supervision is a strong capital base and modern management system which are the key features characterising a stable and competitive banking sector. Mitigation of the risks connected with routine bank activities is not the only reason for

applying the prudential standards. By imposing various restrictions on banks based on market mechanisms, the banking supervision system should promote market discipline in the banking sector. Competent managing staff, high quality risk management, transparency and responsibility: these requirements as laid down by the banking supervision system, foster the effectiveness and stability of banks. Hence, the supervision enhances the competitiveness of the banking sector, thus improving the stability and safety of the whole finance system.

Effective corporate governance is transparent, it mitigates the risks and fosters effective management. It makes companies more attractive for potential investors and more competitive and thus ensures their development and stability. As for the banking sector, effective corporate governance aims at placing the position of all the banks' stakeholders on an equal footing, which reduces the threat of inner conflicts. Thus, it ensures the safety of the money located in banks and guarantees the stakeholders profits from the invested capital. Effective corporate governance ascertains the cautious and competent management of banks and high professional and ethical standards on the part of the managing staff. This reduces the threat of financial instability to banks and other related entities and to the finance system as a whole. Therefore, effective corporate governance in banks enhances banking supervision and ensures the stability of the banking system. Banking supervision authorities need to realise the need for effective corporate governance. Promoting effective corporate governance can be beneficial not only to the banks’ stakeholders and management, but also to the state, because it regulates the finance markets.

The crisis of banking and financial systems in Japan - how to resolve the problem

Jolanta Młodawska

The article is composed of four parts:

1) introduction (specifying) socio-economic conditions of Japan in the end of the 90-ties of the XX century;

2) analysis of institutional system, according to features leading to crisis and long-lasting slump;

3) factors determining the Japanese deflation and methods to cushion it by the means of monetary and exchange rate policies;

4) final conclusions on speeding up economic growth and ceasing the price decline.

In the traditional model with consideration to features of the Japanese business sector, the focus is first of all, on cross-shareholding which decreases danger of hostile takeover and with assistance of main bank system – has strengthened the financial power of postwar capital groups. Simultaneously, the inefficiency of the debated system, seen as practicing sale of ailing firms at the internal market of a closed industry group is being argued.

Other drawbacks in the structure of private sector could be summarized as: full-life employment, seniority – based promotional system "from within", enterprise work unions, as well as minor role of the outside shareholders. In turn, disadvantages in institutional system of banks cover: the scheme of convoy, with its disapproval of bankruptcy as well as holding of shares in firms by banks and vice versa.

In the Japanese monetary policy zero interest rates have been applied, but they neither brought recovery nor accelerated credit action (liquidity trap according to Keynes). This is why, in this article, we recommend greater emphasis being put on inflation targeting. On the other hand, options in the field of exchange rate policy, have been evaluated as discouraging, because possible devaluation of the Japanese yen, might result in trade friction with major Japan’s partners.

So the most important recommendations in order to solve the bank and financial crises include the following: observing not only macroeconomic, but also microeconomic growth factors; diminishing government intervention; consolidation of capital market and conducting changes in a bank system itself.

Human memory traces and investigating misuse of electronic banking

Ryszard Jaworski

When electronic recording and transfer of information takes place, there are no traces left which would make it possible to identify the person recording or transferring information. Even if it is possible to identify the device – i.e. the computer used for the transfer, but not always the actual user. Computers guarantee almost total anonymity. A potential deceiver may take advantage of the situation and burden an innocent person operating the computer with illegal activities of the former. Such cases seriously disrupt the operation of the institutions using electronic transfer technology, particularly banks.

The only link between a human being and an electronic document is the memory trace. It can be examined by means of a polygraph, popularly known as a "lie detector". Polygraph tests can be used to prove that a given computer was operated by another person than the authorised one. The author presents an example illustrating the use of the polygraph. A second example shows that the traditional investigative techniques used by the police can be time-consuming, may violate personal rights of many people, or involve the exposure of confidential bank information.

Even though polygraph tests do not always result in the recovery of money or in punishing the perpetrator, they have other positive effects: innocent people are not at risk of losing their jobs, potential suspects are exonerated and employees regain the trust of the management.

Even "traditional" theft is unusual in banks and it is hardly ever done just for money. Usually people succumb to such temptations in situations when they are sure that the actual perpetrator will never fall under suspicion. Therefore, such cases require different approach and investigating methods. Polygraph tests are the optimal investigation technique here, particularly in the case of people who have been wrongly accused. The above advantages of polygraph tests have been recognised by the authors of the amendment to the Polish Criminal Code, which now allows the use of polygraph tests to reduce the number of potential suspects or, in other words, to exclude those wrongly accused. From the ethical point of view, the use of lie detectors is justified because actual perpetrator charges an innocent person with legal and civil liability and causes harm to his colleagues, to the company and its customers.