

The central bank and financial stability

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As a result of transformations in the international financial markets, financial stability, as broadly understood, is gaining more and more importance. Those transformations also influence the role of central banks and necessitate changes in their working methods. Since the low inflation rate has a very positive effect on the economy, the main objective of most central banks is to encourage the stability of prices.

In the light of the abovementioned phenomena, it seems reasonable to analyse the relations between financial stability and the stability of prices, and to address the question concerning the role that the central bank can play in ensuring financial stability. To achieve this, the major fields of activity of central banks in the context of financial stability have been defined and analysed. These major fields include: monetary policy which was given a special emphasis, guidelines concerning the credibility and transparency, the position of the central bank as “the bank of banks”

and its relationships with fiscal authorities. The authors of the paper aim at presenting ways in which, in the fields analysed, the central bank can promote the country's financial stability.

The key conclusions indicate the complementary nature of the main objectives – stability of prices and financial stability (taking into consideration the time horizon) – and the credibility of the statement that stability of prices is a prerequisite (a primary requirement which is essential, but not sufficient in itself) for financial stability. It is worth emphasising that the central bank plays an important and complex, though indirect role in ensuring financial stability. This stems from the fulfilment of its main responsibilities, hence all the attempts to burden the central bank with additional tasks in the field of supervising financial stability seem to be unreasonable. Much more importance should be attached to the basic role which the central bank plays in any financial system.

Methods of quantitative assessment of monetary and fiscal conditions and policy mix in acceding countries

Adam Kot

Due to the existence of certain trends in the development of the real exchange and interest rates in the countries due to enter the EU, a quantitative assessment of monetary and fiscal conditions carried out in these countries by means of methods used in the developed economies provides unreliable results. The paper presents an alternative method to determine the indices for the monetary condition indicator (MCI) based on the deviation of real effective exchange rate (REER) and the interest rate from the

existing trends. This allows the elimination of the increasing trends in the indices, which might suggest a more rigid policy, as well as the temporary leaps primarily caused by the statistical effect of the reference base. In addition, the paper deals with methods of determining the monetary policy conditions index, the policy mix index and a policy mix map, and emphasises the potential problems which may arise in connection with the interpretation of these data.

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

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.

The use of structural fund allotments to the less prosperous regions of the European Union in years 2000 – 2006

Dorota Czykier-Wierzba

At the end of 1990s, the structural policy of the European Union was modified once again. As a result, the number of priority objectives was reduced from six to three. Yet, the most important objective of this policy – Objective 1 – has remained unchanged. It still aims mainly at supporting the development and structural adjustment of regions whose development is lagging behind the general norm. In the years 2000 – 2006 about 69.7% of the disbursements of structural funds are to be allocated to helping these areas. The major beneficiaries here will be: Spain, Greece and Germany (eastern *Lands*). Countries which will receive financial aid from structural funds (in relation to Objective 1) may use it to develop infrastructure and human resources as well as to encourage investment in business.

The simulations that have been carried out show the positive influence which the structural funds have on macroeconomic indicators in the beneficiary countries. The available statistic data indicate that the regions which in years 2000 – 2006 will receive considerable support from the structural funds will enjoy an increase of GDP, a higher level of investment, greater employment opportunities and increasing foreign trade. These countries will also experience structural changes in their economies which will be reflected in changes in the structure of the GDP – the share of agriculture and industry in GDP will fall, while the share of the private services sector will increase.

Regulations on the currency market and the convertibility and exchange rate of the Polish Zloty in the years 1990 – 2002

Tomasz Kozłowski

The paper aims at analysing changes in regulations on international economic relations concerning the convertibility, exchange rate system and currency market in Poland in the years 1990 – 2002. This period was characterised by a gradual liberalisation with regard to every item of the balance of trade. At present, there are practically no restrictions in this field. At the same time, also the exchange rate system underwent changes. It was transformed from a fixed exchange rate into the floating one. The currency market developed as well, as is reflected in the increasing turnover observed.

An important element of this analysis, apart from the coherent presentation of the changes concerning the above-mentioned phenomena, is the emphasis on

the factors underlying these changes. A significant part of the paper has been devoted to the study of results and effects that deregulation has brought in the aforementioned areas. As for the convertibility of the Polish Zloty, it has a direct influence on the structure of the balance of payments, particularly on the capital account and on individual values which determine the country's international investment status (due to the lack of data, the analysis of this particular category has only been possible since 1994). As regards the exchange rate system, the direct outcome of the changes is the fluctuation of the Polish currency. As a result of the gradual increase in the flexibility of the Zloty exchange rate, the amplitude of its fluctuations has been far wider.

Modelling credit portfolio risk

Wojciech Kuryłek

Many achievements in the modelling of risk, which are connected with the development of financial mathematics are primarily related to market risk rather than credit risk. Nevertheless, recent years have seen a growing interest arising in credit risk, mainly caused by the increasing competition in the banking sector, the blooming secondary credit market based on securitisation, as well as the development of credit derivatives.

Models describing the risk of a single loan (so-called scoring methods) are considerably more developed and more often applied than the models which concern the risk of the whole credit portfolio. Despite the fact that, in most cases, a profit or a loss generated by a bank depends on a skilful risk management of a whole credit portfolio, the development of methods supporting these decisions is obstructed by a number of factors. Key problems

include low availability of data that inhibits scientific research and difficulties in applying the classical theory of Markowitz' portfolio analysis in practice and they arise primarily from the very low liquidity of the loans and the absence of some unambiguous methods to measure return on loans and the risks of individual credit contracts. However, it was the classical theory formulated by Markowitz which underlay the development of the first models describing behaviour of credit portfolio risk by Gollinger, Morgan and Altman. However, for the reasons stated above, these models could not serve as the basis for the development of commonly used commercial products. Their fate was also shared by the models prepared by Bennet, Chirinko and Guilla, in which they tried to show the connections between the macroeconomic processes and the quality of credit portfolio. Only the most recent models such as CreditPortfolioView, Credit

Metrics or CreditRisk+ have fully complied with the demands of the market. Their success can be attributed to the fact that they have been developed by commercial companies for commercial purposes. However, the origins of these approaches vary. The first above-described model is an econometric model, which uses Monte Carlo methods; the second one is based on the use of the enterprise behaviour model

proposed by Merton, while the third relates directly to actuarial mathematical techniques. They use Value at Risk as the base measurement of the credit portfolio risk and refer to Monte Carlo methods to a larger or smaller extent. The article offers a detailed analysis of all the above-mentioned approaches, both theoretical ones as well as those that have been adopted in practice.

Obstacles to the development of the Polish share market

Agnieszka Grąt

Every well-developed economy is characterised by its fully established and developed capital market. One of the main purposes it serves is the redistribution of the capital. The surplus on savings spent by investors on shares can be used by companies to finance their investment projects. Another important function of the capital market is the valuation of the capital on the secondary market which, in Poland, is handled by the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie) and where public trading of securities takes place. Due to the centralisation of shares trading on the Stock Exchange, companies can be in contact with a considerable number of prospective investors.

The paper presents the most important factors which, according to the author, hamper the development of the share market in Poland. Those factors can be categorised as follows:

- factors connected with supply,
- factors connected with demand,
- factors connected with legal aspects (trading security).

Overcoming the obstacles to the development of the share market have become the main objective of all institutions active on the capital market as well as of the Polish Government. Co-operation in this field may result in the successful removal of barriers currently hampering the development of the share market and in preventing the Polish Stock Exchange from marginalisation.

ERRATA

do artykułu Lidii Adamskiej pt. „Procesy konsolidacji giełd w Europie z perspektywy Giełdy Papierów Wartościowych w Warszawie”, opublikowanego w nr. 5/2003 „Banku i Kredytu”.

Schemat 2 na s. 53 powinien mieć następującą postać:

Schemat 2 *Modele konsolidacji giełd i instytucji rozliczeniowych na rynku europejskim*

