

The arbitrage at the interest rate market (the example of the FRA and the bond markets)

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The article presents results of the research for the relationship between the changes in bond yields and FRA rates. The established models check not only the strength of relationship, but also show the causality of changes at the both markets.

The intuition suggests that long-term interest rates at the bond market should fix into term FRA rates (because they represent expected short-term interest rates). The empirical research generates the opposite direction at the financial market in Poland. There can be considered a few sources of such behaviour. First, we can see differences in

investment horizon. It is longer for the dealers at the bond market and the bond market is much more liquid. The size of "gravity" of the bond market influences the benchmarks at other interest rate instruments markets.

Research results show that there existed and exists arbitrage possibilities between bond and FRA markets. However, the analysis proves that recently the arbitrage spread has gradually narrowed and the time to perform the arbitrage has shortened. It allows observing the growing effectiveness of the Polish interest rate market.

WTO and financial services: liabilities of European countries in the transformation period

Michał Kruszka

The primary task of the World Trade Organisation (WTO) is to lay down standards which would create a free and unrestricted international exchange of goods, services and intellectual property products. *General Agreement on Trade in Services* (GATS) is the obligatory component of the WTO's legal system which sets the rules for the flow of services, including the financial ones.

An analysis of the liabilities concerning insurances, bank deposits and loans declared by the

European countries in the transformation period justifies an opinion that these countries adopted a model of relatively open markets, where foreign competitors and their offers are treated in a way similar to domestic ones. Yet, total liberalization of the financial sector is not intended, although integration with the European Union will cause a considerable increase in the extent of such liberalization, as compared with the current situation.

Simple disinflation model

Wojciech Pacho

The paper presents a simple disinflation model existing within the mainstream economy, based on a traditional view that rigid wages and rigid prices hamper attempts to reduce the inflation rate. This results in temporary increase in the unemployment rate and in fluctuations of the production growth rate. The presented model is based on the principle of interchangeability of inflation and unemployment. This interchangeability shows the necessity for temporary slowdown in the production growth rate in order to achieve a lasting decrease in the inflation rate because prices and wages do not immediately adjust to the narrower money supply. The model consists of three basic equations illustrating the

principle of interchangeability of inflation and unemployment rate. The first equation shows the negative ratio between the change in the inflation rate and the change in the unemployment rate. The second one illustrates the ratio between the change in the production growth rate and the unemployment rate. The third describes the aggregated demand in the form of the ratio between the change in the total production rate and inflation rate with a given money supply growth rate. The three equations constitute a comprehensive, though considerably simplified macroeconomic model of long-term production, inflation and unemployment adjustments.

The "euro-zone" countries' and Poland's compliance with the financial requirements of the Maastricht Treaty in their budget policy

Jolanta Ciak

The establishment of the Economic and Monetary Union (EMU) on January 1st 1999 had a considerable effect on economic policies (in budget policy, in particular) of the "euro-zone" countries. Although the budget policy remained a domestic matter, it came under a joint control and coordination.

The need to ensure a rule-based, stable and coordinated functioning of the European Union had an effect on the member states' attitude towards the degree of exposing their domestic financial matters to the external interference. The "euro-zone" countries recognize and accept the need for intervention from the EU institutions, particularly as far as the public finances are concerned.

Excessive state budget deficit and total public debt are of primary importance here, since they may have a negative influence on the Economic and Monetary Union as a whole.

Within the last few years the "euro-zone" countries have aimed at keeping the ratio of their budget deficits to GDP below the referential 3% of GDP. Some of them have even reported a positive

balance of their budgets. As for Poland – an applicant state to the EU, and soon also to the Economic and Monetary Union – the ratio of budget deficit to GDP is unfortunately much higher.

On the other hand, the public debt and its ratio to GDP all combined put Poland in a much better situation. Poland has been in compliance with the requirements of the Maastricht Treaty (stating that the ratio of public debt to GDP should not be higher than 60% of GDP) for quite a long time now and was the third country, after Luxemburg and Ireland, to achieve this aim (2002).

Although some of the "euro-zone" countries postulate relaxation of the timetable towards budget balance, the European Commission and the European Council remain rigid and unbending. Their policy aims at minimizing the problems which Germany – the initiator of the current Stability and Growth Pact – and probably France are facing at the moment. The growth of the above mentioned ratios in these two countries may bring about instability of their public finances.

Changes in the supervisory measures in the European Union banking services sector in light of current tendencies in its development

Alina Szypulewska-Porczyńska

Integration of the banking services markets in the EU is accompanied by adjustments in the regulation system. This is particularly visible in the growing importance of the international institutions cooperating in this field. The key EU institution dealing with system security is the European Central Bank's Committee on Banking Supervision. Nevertheless, banks in the EU, particularly on an everyday basis, are still being supervised mainly by competent domestic authorities. Although the primary tasks of supervisory authorities in various countries are generally the same, there are certain differences in the ways these tasks are approached and handled. In the majority of the EU member

states, supervisory measures are taken by their central banks. Yet, in the last few years, in a growing number of countries the supervision of the banking system has been exercised by institutions established to control and monitor the entire finance market. Such an integrated model of supervision seems to be better suited to the real changes which are taking place, and specifically the emergence of financial conglomerates or development of financial innovations. Consequences of the limited influence on market structure of the freedom connected with uniform bank charter pose a considerable challenge to the EU. This problem could be partly solved by the introduction of unified safety standards.

The importance of depreciation assets for Polish companies' capital investment financing – survey results

Jolanta Iwin

Depreciation of fixed assets in companies constitutes a kind of separate finance category. By making a capital investment, a company receives two kinds of depreciation assets: assets resulting from unlocking value due to the depreciation allowance and assets resulting from the reduction of the tax base – a tax depreciation shield. Therefore, it should be assumed that as a result of unlocking value effect and tax effect from depreciation, depreciation assets (which are the major source of financing capital investments in companies) constitute a company's capital whose value and nature are of particular importance to Polish companies.

The survey results presented in this paper show the relations between the value of the

depreciation assets and the volume of capital investment in Polish companies. It was found that the depreciation allowance used to establish depreciation capital is of vital importance, as it constitutes a source of investments made by the Polish companies. The companies included in the survey recognize the importance of depreciation assets for capital investment financing, but only to a very limited degree. They do not make use of the accelerated depreciation in order to advance the return of the capital invested in tangible assets, to increase the value of depreciation assets, or to reduce the extent of depreciation assets erosion resulting from inflation and income tax.