

Exchange rate system and crisis – is monetary crisis possible in free float rate regime?

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Monetary crises which occurred in the last decade have afflicted mostly countries whose macroeconomic policies were based on fixed or strongly stabilised exchange rates. This experience have brought about discussions whether the choice of the exchange rate regime may make a currency more or less vulnerable to crises, and also indirectly influence the stability of a country's entire economic system; whether free float exchange rates regime may protect the economy from foreign currency crises, whether such a crisis is possible at all in the context of free float exchange rates.

In order to answer the questions, the article reviews the models of monetary crises in the context of the evolution of the exchange rates policies in the world in the recent years and international experience concerning the occurrence of monetary crises in different exchange rate regimes.

Two radically different models of exchange rate regimes are compared in order to reveal the characteristics which make the fixed exchange rate regime more vulnerable to and the free float exchange rate regime more resistant to monetary crisis.

The article outlines the trends observed in applying different exchange rate policies. In the recent years, a clear polarisation of exchange rate regimes has been recorded: the number of countries where radical versions of exchange rate mechanisms are applied increases,

while the number of those where mixed mechanisms are used decreases. Abandoning of mixed systems in favour of extreme systems – either fully fixed or fully free float mechanisms – is in fact a quality change in monetary policies. The countries which choose the currency board regime make their monetary policies strictly dependent on the policies applied by the country whose currency is chosen as an anchor, whereas the countries which introduce free float exchange rate regime gain autonomy in monetary policies. The polarisation of exchange rate regimes, and what follows the principles of monetary policies, leads to adopting policy rules which are more transparent and more credible.

The article undertakes to analyse Polish exchange rate policies from the point of view of vulnerability to crises and presents the experience gathered in the periods of considerable depreciation of Polish zloty exchange rates in foreign currency markets. Also the evolution of Poland's exchange rate policies is discussed. This historical presentation proves that Poland is one of the countries which have successfully passed from a fixed exchange rate system to mixed mechanisms and finally to a fully free float exchange rate system. This was possible thanks to the application at the right point of appropriate exit strategies and avoiding monetary crisis as defined by generally applied definitions quoted in the article.

The influence of the exchange rate policy onto international capital flow in 1990s

Tadeusz T. Kaczmarek

The article reviews exchange regime operations conducted in 1990s in different countries around the world in connection with the process of economic globalisation and liberalisation of capital flows.

The author analyses the possibility and usefulness of applying fixed exchange rates and their influence on credit policies of different groups of countries and

concludes that considerable capital flow in the international market requires applying free float rates. In the context, exchange rate policies in emerging markets and the increase in crisis emergence in 1990s are analysed.

The author concludes that there is no independent measurement which would allow to determine the

permissible exchange rate fluctuation range and is critical of the concept of taxing currency market transactions, i.e. of the so-called Tobin tax.

The Economic and Monetary Union and its attitude to free float rates is another important issue that the article addresses. Also the question of regional currency cooperation, and the attitude of EU candidate countries to exchange rates regimes is discussed.

In the conclusion the author emphasizes that the regional economic and currency exchange cooperation (ASEAN+3, NAFTA, MERCOSUR) is necessary for attaining a predetermined level of exchange rates fluctuations, and then combining the different systems into a macro-regional, stable exchange rate system.

The strengthening of the zloty in the Polish currency exchange market

Renata Karkowska

The article sets as its main goal presenting the phenomenon of the strengthening of the zloty in the Polish currency market. It opens with a brief history of the zloty exchange rate changes after April 12, 2000, when the floating rate was introduced, and the parity and the admissible +/-15% exchange rate fluctuations range were eliminated. In order to explain the strengthening of the zloty, the article analyses five major factors that influenced it:

- lowering of interest rates;
- budget deficit;
- inflation rate;
- investors' speculative activities following the Poland's EU accession process;
- liberalising of capital flow.

The article presents the characteristics of each of the factors, and follows with an analysis supplemented with examples and graphs.

Also ways of counteracting the appreciation of the exchange rate, and the instruments that the central bank has at its disposal to weaken the currency, are presented. Those include:

- direct NBP interventions in the currency market; and
- influencing the market to assure investors that no further lowering of interest rates is planned in the future.

Monitoring the exchange rates of other emerging markets currencies demonstrates that the phenomenon of appreciation is recorded not only in Poland, but also in the Czech Republic and in Hungary. Therefore it seems justified to claim that the increase in the exchange rate of those countries' currencies is motivated by a common factor: the approaching accession to the European Union.

The instrumental role of authorised banks in foreign currency operations

Tadeusz Borkowski, Stefan Jerzak

The act Foreign Exchange Law of July 27, 2002 (Dziennik Ustaw no. 141, item 1178), which became effective on October 1, 2002 has assigned a special instrumental role to authorised banks, both Polish and branches of foreign banks, operating in Poland. The instrumental role is directly related to foreign currency transactions with entities abroad and in Poland, and it consists in:

- active participation in the Polish foreign currency market;
- serving as an agent in money transfers conducted by Polish residents, and in particular cases also non-residents;
- participation in recording the amounts of Polish or foreign currency carried or transferred abroad.

The banks' active role in Poland's foreign currency market is carried out through the delegation to conduct within the territory of Poland, alongside currency exchange offices, the purchase and sale of foreign currency to individuals, legal entities, and other entities, regardless of their currency status, i.e. to both residents and non-residents, or the aim of such operations. This follows from the statutory regulations in the case of Polish banks or the contents of the authorisation granted in the case of branches of foreign banks. Such an organisation of Poland's foreign currency market resulted from, among others, the necessity to neutralise the consequences of a full liberalisation, including that of the deposit money flow. At present, such money can be freely transferred abroad, thanks to the services of banks and other professional institutions located in European Union, European Economic Area or Organisation for Economic Cooperation and Development countries.

Services of the authorised banks acting as agents in conducting the transfer of money abroad, and in particular cases also in financial settlements with non-residents in Poland, is safeguarded by the principle of exclusivity and the penalties provided by the provisions of The Treasury Penal Code modified by the above-mentioned act. The aim of granting instrumental

exclusivity in this respect, and setting the maximum currency threshold at the equivalent of 10,000 euros, was to channel institutionally the outflow of foreign and Polish currency from the Polish currency area. This was also a tool which was to enable the National Bank of Poland to gather data in the scope necessary for drawing up the balance of payments and the balance of foreign claims and liabilities of the Republic of Poland, thanks to introducing the obligation of exhaustive reporting by the residents. The legislators eliminated the purely controlling responsibilities of the foreign currency operations that were entrusted to the banks by previous foreign currency acts. The effective regulations also emphasize the residents' obligation to specify each time the reason for transferring money abroad and recording the transfers in qualified cases, i.e. if the transfer exceeds the foreign currency threshold or at the bank's demand.

The banks' instrumental role was defined as the verification of the residents' compliance with the obligation and the verification activity was divided into two stages. The first of those covers verifying the compliance of the legal title specified each time a money transfer is requested, and the second in verifying the compliance of the documents presented with the legal title specified. Conducting both operations is a challenge for the bank's operational personnel, who have to be qualified for full identification of the legal title and have a comprehensive knowledge of the analysis procedure of documentation materials in this respect.

The act does not directly oblige the banks to issue certificates for the transfer or carrying abroad of foreign or Polish currency by Polish residents or non-residents. The banks' role in this respect is an indirect consequence of the implementing regulations included in the ordinances of the Finance Ministry of September 6 and 16, 2002 (Dziennik Ustaw no. 154, items 1276 and 1277). Nevertheless, it is a significant procedural and recording element in foreign currency operations with the abroad.

Restructuring foreign debt – process amelioration concepts

Miroslaw Pawliszyn

The persistently unfavourable global economic conditions have led to decreasing the capital flow towards emerging market countries, which influences their economic situation and provokes fears that many of them may face difficulties in respecting their liabilities resulting from the debts incurred. Therefore, both public and private institutions have a very significant role in drafting emergency plans for a debt crisis situation. Such activities have been conducted for a number of years, but in the present context of the world economy, they gain a particular importance.

The economies of the emerging market countries are dependent on the financing by investors from developed countries, who have a surplus of funds. In 1990s, most states stopped financing their needs by seeking bank credit and started instead to issue bonds in the international market. Despite a number of advantages generated by this approach, such a diversification of financing sources and the increasing

number of debt instruments may be a considerable obstacle in reaching debt restructuring conditions which would be acceptable for all creditors.

The article presents three basic concepts of solutions which would allow for an efficient management of the debt restructuring process:

- 1) the Sovereign Debt Restructuring Mechanism - SDRM, proposed by IMF specialists;
- 2) collective action clauses and their new proposals; and
- 3) the Interim Debt Claim, proposed by JP Morgan.

The article focuses on the collective action clauses, as all factors indicate that those will play a major role in debt restructuring processes in the coming years. Additionally, the article quotes selected examples of sovereign debt restructuring in the context of applying collective action clauses. The article concludes with an attempt of determining the directions in which work on sovereign debt restructuring will evolve.

Abstract control of contract models – interpretation doubts resulting from legal changes

Agnieszka Świstak

The paper is an attempt of answering the question whether the changing legal framework, mostly in the field of entities' rights and duties, may be the basis of questioning the validity of the contract model considered abusive (inadmissible) in another legal context. Considering that the character of abstract model control was wrongly interpreted even by the Monopoly Court, as testified to by its early rulings, similar misinterpretations of the model nature are to be expected in actual practice. Such misinterpretation may be expressed through negating the effects resulting from including in rulings registry of clauses of contract models considered inadmissible. Regardless of the fact that legal effects of declaring such models abusive are obvious, no actual effect of the abstract control on the models used by

professionals in actual operations will be observed. However, it is to be expected that at least in the initial period, the influence will be quite limited. It should also be assumed that attempts to justify the state of affairs will be undertaken, the most frequent of which will undoubtedly consist in providing various interpretations, including those suggesting that declaring a model as abusive is null as a result of legal modifications.

Doubts such as those mentioned above may and probably will be expressed also by banks, which apply models on a large scale. At the same time, those models are more and more often criticised as being illegal. The most controversial models are those constructed on the basis of the general authorisation to collect commissions and fees for banking operations.

Operational risk in the derivative markets – classification and limiting methods

Agnieszka Wojtasiak

In 1990s a considerable part of financial disasters related to derivatives was caused by operational risk. The losses incurred as a result of operational risk by institutions like Barings Bank, Daiwa Bank or Procter&Gamble are an example of the phenomenon. Such events contributed to the increase in the significance of the operational risk in comparison to other types of risk which entities operating in the derivative market face.

The goal of the article is to provide a comprehensive classification of operational risk in the derivative market and discuss selected methods of reducing the risk. The different kinds of operational risk are classified into the following categories:

- risk due to relations with the environment, entailing for instance the damage to the company's reputation;
- risk due to personnel activity, resulting from conscious or accidental actions of the employees to the employer's detriment;

- risk due to technology applied, concerning faulty technological solutions in the conducted transactions;

- risk due to documentation procedures, related to keeping records.

Managing the operational risk is conducted both within the institution and through interactions with the environment. The internal control and regulations in the organisation attempt to create methods, tools and procedures for the analysis and control of the operational risk, limiting human error scope and preparing instruments for managing documentation risks. Limiting the operational risk is also based on maintaining appropriate relations with the environment, which consist mostly in adapting to operational risk regulations. The article also discusses selected documents citing the international standards on operational risk management.