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May 24, 1995

To: Members of the Executive Board

From: The Secretary

Subject: Republic of Poland - Change in the Crawling Peg Rate

The Secretary has received the following memorandum dated May 23, 1995 from Mr. Link:

I wish to inform you that effective May 16, 1995, the National Bank of Poland introduced a system which allows the zloty to fluctuate by 7 percent on both sides of a pre-determined central rate. At the same time the Polish central bank has maintained the crawling peg mechanism under which the zloty's central rate is devalued, currently by 1.2 percent a month to match domestic inflation.

The communication received from the authorities of the National Bank of Poland states that

the National Bank of Poland publicly committed itself to keep exchange rate fluctuations on the domestic foreign exchange interbank market within a band of +/-7 percent around the central rate, which is now the only reference rate for establishing the band. Transactions between the banks and the NBP are currently effected through the mechanism of fixing. Banks send their offers denominated in US dollars and German marks to the NBP, specifying direction, amount and the proposed exchange rate of transactions. On that basis the National Bank of Poland balances the market choosing the exchange rate at which it conducts transactions with banks that send offers. This mid rate is the official rate of exchange set by NBP on the basis of fixing, and is also used for valuation of foreign exchange assets and liabilities and accounting purposes.

The currency composition of the basket and principles of devaluation of the central rate remain unchanged.

The change of Poland's exchange arrangements presented above also removes the multiple currency practice, which had existed since March 6, 1995, due to the extension of the NBP's buy/sell spread on the interbank foreign exchange market from 1 percent to 4 percent.

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