The literature on the economies in transformation and policy makers have strongly emphasized the role of exchange rates viewed as policy tools aimed at solving the economic imbalances inherited from central planning, such as: the monetary overhang and corrective inflation, non-existent policy credibility, depleted savings and deteriorating current account deficits.[1] At the beginning of the economic transformation the monetary authorities in post-communist countries were in a dilemma about the shape of exchange rate policy. The type of exchange rate regime depended on the main aims of monetary policy. On the grounds of observation, it is said that Polish exchange rate policy evolved in the direction of gradual flexibility in the following stages of transformation (figure 1).

<table>
<thead>
<tr>
<th>fixed</th>
<th>„crawling peg”</th>
<th>„crawling band”</th>
<th>floating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+/- 7%</td>
<td>+/- 10 %</td>
<td>+/- 12.5%</td>
</tr>
<tr>
<td>1990 -1991</td>
<td></td>
<td></td>
<td>+/- 15 %</td>
</tr>
<tr>
<td></td>
<td>1991 - 1995</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1995 – February 1998</td>
<td></td>
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<tr>
<td></td>
<td>October 1998 -1999</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1999 - 2000</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>2000 - 2002</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The time of approaching to the accession to the European Union and then the European Monetary Union should be considered carefully in order to prepare monetary policy including exchange rate policy for monetary integration with such a big economic area. It is a very complicated task because there is no clear model for the exchange rate regime which would correspond with all of the economic requirements, particularly in the changing economy.

The candidate countries are making gradual integration with the EU, according to the EU strategy. In Poland, there are three exchange rate regimes under discussion before introducing the EURO, that are characterized in the table 1.
These are:
- Exchange Rate Mechanism 2 (ERM 2),
- Currency board,
- Euroization.

So far, the conventional way to replace the national currency by the EURO is to join the ERM 2 by allowing the national currency to fluctuate within a band of +/- 15% from the figure agreed with the EU. The band width can be narrower than the one mentioned and of course less flexible. The Treaty and the Protocols do not formulate unambiguously the requirement of two years participation in ERM 2, but maintain the exchange rate fluctuations in the bands according to it. However there is a strong expectation that Poland will participate in ERM 2 by the EU authorities.

The ERM 2 provides detailed procedures for currency intervention and the rules of financing it. The very short term financing (VSTF) that is used when the market-rate achieves the extreme points of the band starts automatically and is nearly unlimited. Nearly, because if the VSTF threatens the inflation aim in Euroland, it will be abandoned.

The ERM 2 rules provide the following for Polish exchange rate policy in the near future:
- the parity exchange rate can be changed,
- stability of Polish market-rate in the framework of negotiated band will be subject to permanent monitoring,
- financial support and possibilities of currency interventions to defend the Polish zloty will be limited,
- The ERM 2 rules are similar to the „adjustable peg” rate mechanism, that is thought as particularly convenient for speculation.

One of two non-typical, but recently wide discussed variants of Polish exchange rate policy is the currency board. It is based on fixing the national currency against the one of another country, or area. In Poland it would only have any sense, if it concerned the European Union, because this is the area Poland is linked to politically as well as economically. In order to build credibility for this regime, the exchange rate should be fixed by legislation. The stronger obligation of the particular countries’ authorities to maintain the exchange rate at the proper level, the greater the credibility, what means faster benefits and fewer costs.

The main limitations that are connected to the currency board are based on the government necessity of leading responsible fiscal policy. Besides this the economy and particularly the labour market should be more flexible. Due to a fixed rate, strong flexibility of salaries and prices is required in order to contend with the possible external shocks. When the exchange rate is fixed, it can be only done by reducing the prices and salaries.

In Poland the conception of euroization is consistently promoted by A. Bratkowski and J. Rostowski. [2] The proposal is based on replacing the Polish zloty by the EURO as soon as possible. It means that cash in circulation and in the bank’s treasury would be replaced by the banknotes and coins of the new european currency. It would be bought for a part of very high foreign exchange reserves (figure 2). Simultaneously all money heldin polish zloty bank deposits, private agreements and liabilities would be converted into the EURO at the exchange rate chosen by the Polish government.
For Poland the main benefit of the euroization would be high exchange rate stability, which would eliminate the possibility of currency crises appearing, because the Polish zloty would not be the subject of speculation. The exchange rate risk would be limited as well. The access to foreign capital seems to be easier. Apart from indubitable benefits there are also substantial disadvantages and risks as the result of using this mechanism (see table 1).

It needs to be pointed out that introduction of the euroization as well as the currency board may not be feasible because it will be not supported by the EU. Although the currency board can be Poland’s own responsibility, the euroization is impossible to use and this was confirmed by the European Commision in a special document called „Exchange Rate Strategies for EU Candidate Countries”.[3] The following objections were indicated:

- disagreement with the union law,
- disagreement with the rules of the negotiation’s process,
- disagreement with the economic logic of accession to the EU.

A premature fixing of polish zloty is a serious disadvantage of all three variants. If Poland decides to apply ERM2 soon after accession to the EU, it may be accomplished in a real and nominal appreciation. It can be caused by convergence play and expectations of increased flow of direct investment and transfers of capital. The free market rate of the Polish zloty is an operation going exactly in an opposite direction than the one required before accession to the EMU. This mechanism is only of a temporary character. The moment for starting gradual fixing of the rate will depend on many factors, such as:

- macroeconomic situation,
- estimation of benefits going for rapid introduction of the EURO,
- the threat of the currency crises appearing,
- political determination.

The most likely course of action is polish participation in ERM2, but a rush does not seem advisable. It would be better to wait a year, or two, after accession to the EU. Thanks to this, the indicated central rate will be closer to a macroeconomic equilibrium level.

REFERENCES


### Table 1. Comparison of the possible variants of Polish exchange rate policy

<table>
<thead>
<tr>
<th>Name</th>
<th>The essence of functioning</th>
<th>The main aims of introduction</th>
<th>Disadvantages</th>
<th>Advantages</th>
</tr>
</thead>
</table>
| Currency board | - legal, strict connecting a national money to gold’s and convertible currencies’ resources remaining at the monetary authorities disposal,  
- the settlement of fixed national exchange rate against the international currency,  
- a money supply indicated by the changes of central bank’s exchange reserves level, while the central bank can not influence on the amount of money. | The legal guarantee of monetary policy enough toughness by depriving the government of possibilities of financing national budget’s deficit by issuing more money. | - depriving the National Bank of Poland an influence on exchange rate and monetary policy,  
- the macroeconomic results of fixing the Polish rate can be unexpected,  
- increased bank’s and currency crises,  
- unhelpful in solving pivotal problems of the Polish economy, in particular privatization,  
- a requirement of holding a high level of currency reserves. | - allowing an achievement of low and stable inflation and interest rates,  
- reducing of the exchange rate risk,  
- increasing the trust to the national currency. |
| Euroization  | - Unilateral replacing the Polish zloty with the EURO before Poland’s accession to the European Union,  
- All the prices and liabilities counted for the EURO  
- Polish banknotes and coins in circulation until their withdrawal by the NBP. | Give Poland a status of a monetary stabilized country. | - contradictory to European Treaty and the equal treatment of current and new member rules,  
- difficulties with choosing the proper polish exchange rate against the EURO,  
- high cost connected to buying a cash in the European Central Bank (ECB) | - eliminating of the currency crises,  
- low and stable inflation is guaranted,  
- inflow of the foreign capital,  
- reducing the exchange rate risk. |
| ERM2        | - allowing the national currency to fluctuate within a band of +/- 15% from the central rate agreed with the EU,  
- detailed procedures for currency intervention and the rules of financing it. | Changing of Polish monetary policy strategy towards introduction a fixed rate of the Polish zloty against the EURO with simultaneous using a credibility of ERM2 for strenghten a position of zloty. | - difficulties with settlement the adequate equilibrum rate of exchange before the introduction of the ERM2  
- does not protect from the speculative attacks,  
- the possibilities of considerable exchange rate fluctuation, depended on the band width. | - a traditional accepted by the EU authorities way preceding the introduction of the EURO,  
- give a great range of autonomy in the monetary policy,  
- the possibility of obtaining a financial help from ECB |