9/86

2

POLAND

1. Can the Minister be more specific on the policy intentions he mentioned this morning as to the scale of action contemplated or the pace at which measures are to be implemented?

[Implications for envisaged rate of inflation would be one guide as to how far and how fast price reforms are to be pushed.]

2. Do the Government's intentions yet translate into different Plan targets (including external targets) for 1986-90?

What is status of that Plan at present?

And Plan for 1987?

3. External cash flow 1986.

Is financing gap still put at US$600-700 million? How cover:

(a) Paris Club? (There are interest payments of US$500-550 million--representing half of the interest originally due in 1985 on the debt rescheduled from 1982-84--which the Polish authorities want to defer.)

(b) CMEA? (Principal payments due in 1986: $150 million.)

(c) Other creditors, including Middle East? (Principal payments due in 1986: $240 million.)

What position is being taken vis-à-vis western commercial banks (following signature of restructuring agreement in September)?

4. October 15 Board Meeting. The two representatives they mentioned this morning are unknown to us. Mention usefulness of preparing a written (buff) statement.

Mr. Whittome

Office Memorandum

DATE: September 30, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland

A second meeting was held between Messrs. Whittome, Schmitt and Hole and the Polish delegation on September 29, in the afternoon.

Minister Samojlik said that inflation was currently running at about 18 percent. For 1987 the authorities would not want the rate to accelerate and were targeting an increase of 17 percent. Wages were to rise no faster than the increase in the price level, excluding the price of tobacco and alcohol; this "modified" price index was projected to increase by 14 percent, implying a planned reduction in real wages of 3 percent. Relatively rapid increases in prices were foreseen for services, housing, and energy (some up to 50 percent). There would be a "big" increase in the retail price of coal and coke. Increases in procurement prices would be concentrated in the branches of industry where the current levels of subsidy were the highest. Altogether, the level of subsidies to enterprises were to be frozen in nominal terms at their 1986 level.

The Minister went on to say that in 1987 all tax reliefs would be liquidated except those linked with export performance. The depreciation of the zloty would also be speeded up, although no exact target figure would be mentioned. In addition, the authorities would aim to liquidate equalization accounts for all items except food exports. Finally there were a number of specific programs for speeding up exports of particular goods.

The Minister characterized these changes as "revolutionary" at least in comparison with the policies pursued before. He did not quantify their impact on the balance of payments but stated that the plan figures for 1987 should be viewed as the minimum attainable. Mr. Karcz explained that the program that the Minister had sketched out represented the more dynamic of the alternatives that he had submitted to the Government. This had been approved by the Government and by the Parliamentary Commission on the plan. It foreshadowed considerably more radical changes in financial and prices policies than the alternative.

Mr. Whittome remarked that, in general terms, this approach seemed to represent a better economic foundation for approaching the Fund than the traditional gradualist alternative. If the Board meeting on October 15 were to give a yellow light, it might be possible for a staff team to visit Warsaw toward the end of the year to begin to try and formulate a specific program. However there were a number of considerations of which all should be aware. The first was the political element, which shifted from time to time. Second the policy changes that Poland needed to make would realistically take several years to carry through; this did not obviously sit easily with traditional Fund practice and, in addition, would require considerable perseverance on the part of the authorities. Third there would have to be a cooperative approach involving the World Bank, governments, and the commercial banks. An important practical question was how this was to be organized. If the Polish program were sufficiently dramatic, it was possible that the Fund could seek to bring all the parties together. Alternatively, Poland would need to take the lead. Finally, even with the best will and a strong program, several months would probably be needed from the time of the first formal discussions for any stand-by arrangement to come into effect.

As to the upcoming Board meeting, the delegation was briefly advised about Board procedures. The Minister agreed that Mr. Dorosz (who was his deputy and spoke excellent English) and Professor Legatowicz (who was a "technical expert" from the University of Lodz) should come to Washington three or four days before the Board meeting and confer with the staff on the buff statement that was to be issued ahead of the discussion. The Minister also asked if arrangements could be made for Mr. Boniuk to attend the Board meeting.

Peter Hole

cc: Mr. Whittome

Peter, pl warn Leo's office 1/10

Mr. Whittome

Office Memorandum

MEMORANDUM FOR FILES September 29, 1986

Subject: Poland

Mr. Whittome met with Minister Samojlik and members of the Polish delegation this morning. Mr. Schmitt and I were also present.

The Minister said that the Article IV report was very close to the reasoning and goals of the Ministry of Finance. He recalled that at the time of the mission he had mentioned a number of tentative policy proposals. He could now say that the Government have decided to undertake a serious attempt to change drastically the present constraints on the economic system and would push through a second stage of the reform. In this context there was no fundamental divergence between the thrust of the staff report and the Government's own thinking. It would not, of course, be possible to implement all the action at once. But the aim was to reduce subsidies to one quarter of their present level, to adjust prices toward international levels, to continue to move the exchange rate toward its equilibrium level and, in 1987, to balance the budget. The Government would also want to look for a better result on hard currency trade. This would be a particularly difficult task but technical work on the measures needed to achieve it was now being initiated.

The Polish representatives at the October 15 Board meeting are to be Mr. Dorosz, Undersecretary in the Ministry of Finance, and a Professor Legotowicz (?). Both are unknown to the staff.

On representation, the Delegation feared that it was now too late to secure Polish inclusion in a constituency for the next two years. If a group did not open up in the next couple of days, Poland planned to abstain from voting for an Executive Director. It was mentioned again that exclusion from a constituency would create a very bad impression in Warsaw.

Peter Hole

cc: Mr. Whittome ✓

Office Memorandum

September 24, 1986

CONFIDENTIAL

MEMORANDUM FOR FILES

SUBJECT: Poland

Mr. Keller (ETR) called this morning to relay a message from Mr. Mountfield (UK Treasury).

Mr. Mountfield had heard from a Polish representative in London (name and position unknown) that there was a possibility of Poland announcing a three year moratorium on all debt service payments to western governments. The announcement could be made during the Annual Meeting.

Mr. Mountfield requested that this information be treated as highly confidential. Without knowing more about its source, it is, of course, difficult to know what weight to attach to it.

Jim Prust

cc. Mr. Whittome ✓
Mr. Hole
Ms. Swiderski

INTERNATIONAL MONETARY FUND

cc: PCH

OK

TO : Mr. Whittome

FROM: Peter Hole

Poland – Paris Club

I believe that I should go to the October 21 meeting.

When the Poles have agreed to the proposed date, I will initiate the necessary request for management approval.

24/IX

Mr Whittome

Office Memorandum

DATE: September 24, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland--Paris Club Meeting

Ms. Dillon briefed me on what was said concerning Poland at a heads of delegation dinner on September 15 and a tour d'horizon discussion on September 17. This note summarizes what was said in the two sessions.

The German delegation had been the most forward in urging a further attempt to reach agreement on 1986 maturities. They were inclined to view the lack of new money from the banks as a fait accompli with which official creditors would have to come to terms. In this situation, they would be prepared to consider rescheduling amounts related to the 1982-84 agreement (presumably meaning the US$500-550 million of 1985 moratorium interest on this agreement payable in 1986) as part of an overall agreement on 1986 maturities. Nevertheless, they wanted the Poles to make "every effort" to pay amounts due under the 1981 and 1985 agreements. Their main concern was to maintain momentum and to prevent the accumulation of an unmanageable amount of arrears.

To what extent other creditors shared the German views in detail is not clear but there was general willingness to have an October meeting; the letter sent by the Chiarman to the Poles suggesting such a meeting is attached. Three points in particular are of note in this letter. First, while concern is expressed at the build up of arrears on payments due under the 1981 and 1985 agreements, the letter falls short of saying that these arrears must be settled as a condition of any agreement. Secondly, in the pursuit of comparability of treatment the focus of attention has shifted somewhat from the commercial banks to "other" creditors (mainly CMEA and Middle Eastern countries and institutions). Thirdly, interest is now being expressed in the balance of payments outlook for 1987 as well as 1986. The Poles have been asked to circulate materials on all these topics prior to the October meeting. Fund staff involvement at this meeting was specifically requested; the Swedish delegation suggested that the Fund should be asked to prepare balance of payments projections for 1987.

The United States delegate (Mr. Milam) said that his government wished to see a regularization of financial relations with Poland but viewed the medium-term outlook as "terrible." He foresaw "incredible difficulties" in Poland's relations with the Fund and wondered whether it was in the best interests of western creditors to force Poland to have a program with the Fund. He also mentioned, but did not elaborate on, the need to try to find a "long-term solution."

In summing up the tour d'horizon discussion, the Chairman (Mr. La Jeunesse) said that it was important that Poland gain representation on the Fund's Executive Board. This topic was also mentioned at the dinner, apparently with a number of delegates agreeing that this was a worthy objective but professing their own country's inability to help.

The outstanding amount of arrears to the Paris Club may now amount to US$600-700 million (this is a personal estimate; no aggregate figure was mentioned at the meeting). There were no indications that any countries had received any payments since the settlement in July of amounts due at the beginning of the year on the 1981 agreement.

A Canadian delegation is to be in Warsaw this week for further discussion on the 1982-84 and 1985 bilateral agreements. Canada and Brazil are, I think, the only two countries not to have signed bilaterals for 1982-84 and 1985.

It was mentioned that in August the Chairman and Mr. Mountfield met with the Chairman of the Banks' Steering Committee. Mr. Mountfield volunteered that the banks had said they might extend new credits after the end of this year but no further details of this meeting were given.

J.P.

Jim Prust

Attachment

cc: Mr. Whittome ✓
Mr. Hole
Ms. Swiderski

The Chairman of the Group
of Creditor countries

September 18, 1986

Mr. Chairman,

During a meeting held recently in Paris, the creditor countries have examined thoroughly the situation of their relationship with your country as regards debt problems. They noted with great dissatisfaction that arrears are still accumulating, even on the 1981 and 1985 rescheduling agreements. They also noted that Poland has been unable to obtain any formal commitment with respect of new credits from the commercial banks in the agreement just signed, which, as you know, is not consistent with the principle of equal treatment as between creditors.

Given these circumstances the creditor countries wish to reexamine with you the present situation in order to reach a better understanding from both sides and possibly discuss solutions to the existing difficulties.

In this respect the creditor countries suggest to organize a meeting with your delegation in the week commencing on October 20, 1986.

For such a meeting to be really useful you are kindly requested to provide the creditor countries at least 10 days in advance with detailed written information concerning :

- the status of your relationship with the non Paris Club creditor countries (payments made, debt relief and new credits obtained).
- the status of your negotiations with the banks and prospects for new credits.
- balance of payments forecasts for the end of 1986 and for 1987 with detailed breakdown of payments made or to be made to the various categories of creditors.

Moreover I must stress that the clearance of arrears on previous agreements is regarded by the creditor countries to be of the utmost importance in normalizing their financial relations with your country. In this connection, I would like to remind you of the assurances you have given us in the meeting of July 17, 1986 as regards the 1981 and 1985 agreements.

I remain, as well as the secretariat of the Group, at your disposal for any preparatory contact that you might wish before this meeting .

Yours sincerely.

Subject

Office Memorandum

TO: The Deputy Managing Director
via Administration Department

DATE: September 24, 1986

FROM: L.A. Whittome

SUBJECT: Poland--World Bank Mission

A World Bank mission is to visit Poland for three weeks beginning October 20, 1986 for discussions connected with the preparation of the Bank's first Economic Memorandum on Poland. The discussions will focus, in particular, on the investment program, export promotion, and medium-term balance of payments targets. It would be very useful for a Fund staff member to participate in this mission and I would propose that Ms. Swiderski (EUR) join the Bank team for the period October 20-November 7, with the cost to be borne by the Fund. The Bank is fully agreeable. May I have your approval please?

cc: Director of Administration

Rockefeller Brothers Fund
1290 Avenue of the Americas
New York, New York 10104

EED

September 24, 1986

Dear Mr. Whittome:

Here is a brief sketch from last summer of our efforts relating to Polish agriculture. This will be revised soon in light of the recent withdrawal of the Polish Catholic Church from negotiations with the Polish Government about the establishment of the Polish Agriculture Foundation.

We have an understanding with the Polish Government that there is to be no publicity given to our discussions concerning the establishment of the Foundation for the Development of Polish Agriculture (FDPA) until the negotiations are completed and FDPA is ready to begin operations. Therefore, we would appreciate your viewing our materials and talks as private.

I look forward to our conversation on Poland scheduled for this Thursday afternoon at 5:15 pm in your office.

Sincerely,

Bill Moody

William S. Moody

Mr. L.A. Whittome
Counsellor and Director of European Department
International Monetary Fund
700 19th Street, NW
Room 9 - 120
Washington, DC 20431

August 18, 1986

Foundation for the Development of Polish Agriculture

Overview: Since 1982 the Rockefeller Brothers Fund (RBF) and the Rockefeller Foundation (RF) have sponsored an effort to create, under Polish law, a self-funded, self-sustaining foundation, the Foundation for the Development of Polish Agriculture (FDPA), to help rebuild agriculture in Poland, with special emphasis on the non-collectivized independent sector. Throughout this process, RBF and RF representatives have consulted with representatives of the Polish, West German and US Catholic Churches as well as the US Government (State Department, National Security Council and US Embassy in Warsaw).

Key Points:

Poland is the only country in the socialist bloc where agriculture has not been fully or largely collectivized: 75 percent of the farmland is in private hands and 80 percent of agricultural production comes from independent farmers, despite the fact that the Polish Government has systematically diverted available capital and technology into collectivized farms.

Poland is the first country in the socialist bloc to permit establishment of private, tax-exempt foundations. Under Polish law, such foundations can engage in socially and economically beneficial commercial activities as well as the usual range of philanthropic and charitable activities.

According to a report prepared in 1982 by Norman Borlaug, the Nobel Laureate and world famous agricultural expert, Polish agriculture has great potential for increasing high quality food production for both domestic consumption and foreign export, provided needed Western technologies, production inputs, scientific knowledge and know-how are made available.

The Polish Catholic Church, supported by the Vatican, Western Catholic Churches, and specific grants by the U.S. Government ($10 million), the Federal Republic of Germany (5 million DM), and the European Economic Community (4 million ECU), is seeking to create the Polish Agriculture Foundation (PAF). PAF would use Western grants and donations to purchase Western farm machinery and equipment that would be imported into Poland for sale to independent farmers. The local currency (zloty) proceeds would be used for philanthropic projects to improve the agricultural infrastructure in Poland.

FDPA--the Rockefeller-assisted initiative--and PAF--the Catholic Church foundation project--are separate and parallel efforts that can work together in many ways to improve the status of independent farmers (perhaps the strongest component of Poland's economy), the productivity of Polish agriculture and the well-being of the Polish people. Since its origin, the Rockfeller-sponsored effort has been in close contact with Polish, West German and US Catholic Church officials. As the efforts by RBF/RF representatives to assist the Church project have demonstrated, it is the ardent hope of the Rockefeller-related representatives that the Church foundation be established.

FDPA will fund its projects by raising money in the West on commercial terms, investing it in productive Polish agricultural projects, selling Polish agricultural products in the West, and using the hard currency proceeds, first, to repay investors and lenders, and, second, to fund nonprofit activities that will improve Polish agriculture, especially the private sector.

FDPA's governing body will be composed: 60% of Americans and West Europeans and 40% of Poles. By drawing the Polish members from a diversity of backgrounds, but none from the Polish Government, FDPA seeks independence and pluralism in its governing body. The stature and diversity of the American and West European members will open a wide range of opportunities to FDPA.

Net revenues, after repayment of loans and other expenses related to the implementation of projects, will be employed by FDPA exclusively for the benefit of Polish agriculture. No personal gain whatsoever will be allowed.

Examples of possible FDPA nonprofit activities include: technical assistance, education and training and scientific exchange programs related to potato breeding, milk handling, swine husbandry, fruit and vegetable processing and water conservation.

The first planned commercial FDPA project will be to increase exports of Polish ham to the United States by providing Polish farmers with needed imports of high protein concentrated feeds that are unavailable in Poland (it is expected that 90% of the pigs will be raised by independent farmers), and assisting the Polish ham packaging industry with certain supplies and capital improvements. Fifteen million dollars for concentrated feed imports and some processing improvements can increase Polish ham exports by 20,000 tons within two years, which would bring total Polish ham exports back up to the level attained in 1981. There is a readily available market in the U.S. at premium prices for this added quantity of Polish hams.

Summary: The proposed Foundation for the Development of Polish Agriculture (FDPA) offers a unique and creative approach to problems of economic development. During a recent visit to Warsaw, RBF/RF representatives and Polish Government officials reached agreement on the basic legal documents to establish FDPA. Several issues directly related to the launching of the foundation's first project on ham production and exportation--financing as well as tax and foreign exchange terms--remain to be resolved before FDPA can be activated. If the FDPA concept can be shown to be successful in Poland, it is an innovative model that could be adapted to other countries that need development assistance and have export products.

Other questions on the broader spectrum of US-Polish relations, including the status of the Catholic Church foundation, require further attention before FDPA can be activated. RBF/RF representatives are currently having discussions and are also planning future meetings on these matters with US Government officials, Polish, West German and US Catholic Church representatives as well as Polish-American leaders.

file Poland
Romania
Yugoslavia
Hungary

Office Memorandum

September 23, 1986

MEMORANDUM FOR FILES

Subject: Eastern Europe

Mr. Eichler, accompanied by Mr. Wood, called on me this morning. In a brief run through of the problems of eastern Europe he made the following points:

(a) Poland. He said that he assumed it would be very difficult for either the banks, the western Governments, or the Fund and the Bank to take a positsive lead in seeking to arrange a joint approach to Poland. If this were the case then any initiative would have to be taken from the Polish side. However, he did not believe they either had the will or the abilities to succeed in this manner. I asked him what it might be reasonable to expect the banks to contribute should there be some joint operation at a later stage. He said that he did not doubt that certain sums would be put on the table but he strongly suspected that most banks would share the Bank of America's view that no new money would be extended to Poland.

(b) Romania. He said that 95 percent of the banks in the syndicate had now agreed to the draft heads of agreement so that the rescheduling was final. Besides the separate treatment for a Bank of America loan falling due earlier this year, Mr. Eichler knew of no arrears affecting the Bank of America with Romania.

(c) Yugoslavia. He was pessimistic about the present stance of policy and the Bank of America were seeking not to increase exposure.

(d) Hungary. He thought that despite a lot of talk of reform, policy in his opinion, in its essence, has not been changed. Hungary therefore remained particularly exposed to difficulties and was presently beset with the fact that in respect of both agricultural goods and oil the previous ability to obtain hard currency directly or indirectly from the USSR had been much reduced or eliminated. He himself sensed some different sentiment toward Hungary in the banking community but he agreed that the Bank of America had always been relatively pessimistic on Hungary.

L.A. Whittome

cc: EED
CED

POLAND

Special Brief for Managing Director's Meeting with the Polish Delegation

Personalities: Mr. Bazyli Samojlik (pronounced SAM-OY-LICK), was recently appointed Minister of Finance. He is 43 years old, has an academic background and received part of his education at Harvard. He was most recently economic advisor in the office of the Prime Minister. Mr. Zbigniew Karcz (pronounced KARTCH), is Director of the Foreign Department in the Ministry of Finance and Poland's chief external debt negotiator. Mr. Wojtowicz is head of the Foreign Department in the National Bank of Poland.

Topics for discussion:

1. The central question is the pace of external adjustment. The draft plan for 1986-90--which is currently being critically examined within the Government--portends a widening of the current account deficit in convertible currencies to perhaps US$1 billion in the period up to 1990; the 1985 deficit was US$0.6 billion (0.8 percent of GDP). The staff made the point during Article IV discussions in July that such a possibilitiy would be unsatisfactory and inappropriate and urged measures to achieve a speedy movement of the current account into surplus. The staff report--which is to be considered by the Executive Board in mid-October--emphasizes the need, inter alia, for a sizable further depreciation of the zloty, domestic price reforms, and considerably tighter demand management and incomes policies.

2. The Polish delegation is likely to raise the question of Executive Board representation. The failure so far to secure agreement to join any constituency remains a politically sensitive matter in Poland. At present it seems that the Italian constituency just may change its mind, but this is being resisted by both Goria and Ciampi.

3. The Poles may seek to draw you out on a possible stand-by credit. I suggest that you say that it is first necessary to get the Board's reaction during the Article IV discussion but that if Executive Directors support the staff's position then it is clear that many changes in policy would be necessary before a stand-by could be usefully discussed.

September 1986

Attachment

ATTACHMENT

Poland--Debt Restructuring

1. In the period 1982-84, Poland signed four debt rescheduling agreements with commercial banks, the last covering original maturities due in 1984-87. All agreements rescheduled 95 percent of principal and, overall, provided relief of US$6.8 billion. In addition, under three of the four agreements revolving trade credits were extended in a cumulative amount of about US$0.9 billion.

2. An agreement with Paris Club creditors was signed in 1981 providing relief of US$2 billion. Following the introduction of martial law in Poland in 1981 there was a hiatus in rescheduling discussions with Paris Club creditors to whom, by end-1984, US$11 billion of arrears had accumulated. An agreement rescheduling 100 percent of most of these arrears was signed in July 1985. A further agreement signed in November 1985 rescheduled 100 percent of principal and interest due in 1985 (other than that related to previous reschedulings) giving debt relief of US$1.4 billion.

3. An agreement with Paris Club creditors on the rescheduling of 1986 maturities and various interest payment obligations was initialed in March of this year. This would give relief of about US$2.1 billion. Poland approached the Paris Club again in July requesting a modification of the initialed terms in view of their difficult payments situation. This request was rebuffed on the grounds that, consistent with comparability of treatment, any additional relief should be sought from other creditors, notably the commercial banks.

An agreement with commercial banks rescheduling 95 percent of principal due on previously rescheduled debt in 1986--and a somewhat smaller proportion in 1987--was signed in September 1986 giving relief in 1986 of US$0.8 billion. This amount is significantly below what Paris Club creditors deem consistent with comparability of treatment.

Together, the debt relief implied by the signed agreement with commercial banks and the initialed agreement with the Paris Club is equivalent to just over half of total debt service obligations due during the year. The debt service ratio in 1986 is estimated at 93 percent.

4. Debt service payments to other creditors--notably to CMEA and Middle Eastern countries--total about US$0.8 billion in 1986. The Polish authorities are reported to have made recent approaches to certain of these creditors for debt relief.

Brief for the Forty-First Annual Meeting

Membership: Poland rejoined the Fund on June 12, 1986, with a quota of SDR 680 million. Discussions for the first Article IV consultation were held in Warsaw in July 1986. Executive Board consideration of the staff report is scheduled for October.

Exchange rate: Since a major reform of the exchange system in 1982, all commercial transactions with non-CMEA countries have taken place at a single exchange rate. Exchange rates are set on the basis of a weighted basket of currencies with the value of the zloty in terms of this basket being adjusted at irregular intervals, in principle on the basis of the difference between rates of inflation in Poland and in her major trading partners. There was a substantial real appreciation of the currency between 1981 and 1983, which has been reversed subsequently. The latest adjustment of the exchange rate took place on September 1, when the zloty was devalued by 19.4 percent.

Political developments and personalities: In a government reshuffle of November 1985, General Jaruzelski relinquished his post as prime minister but retained the first secretaryship of the Communist Party and also became the formal head of state. His successor as Prime Minister, Mr. Zbigniew Messner, takes a close interest in economic matters. The recent quinquennial Party Congress emphasized the need to move ahead more rapidly toward a more market-oriented economic system. Mr. Bazyli Samojlik was recently appointed Minister of Finance and is Governor for the Fund. He has an academic background, received part of his education in the West, and was most recently a key advisor to the Prime Minister. Mr. Zbigniew Karcz, Director of the Foreign Department in the Ministry of Finance, is Alternate Governor for the Fund.

Balance of payments and external debt: During the crisis period of the early 1980s, Poland was forced to adjust its trade account in convertible currencies abruptly. Substantial trade surpluses were achieved in 1983-84 but, because of the high level of interest payment obligations on the external debt, the current account remained in deficit at an annual rate of about US$1 billion (1 1/2 percent of GDP). Despite a poor trade performance in 1985--with the volume of imports rising rapidly and that of exports declining--the current account deficit fell to some US$0.5 billion, largely on account of lower interest rates and a once-for-all increase in private transfer receipts.

With usable reserves depleted, Poland has had to reschedule debt service payments in every year since 1981. Through 1985, four rescheduling agreements had been signed with commercial banks and three with official creditors, each covering a sizable proportion of obligations.

In the first half of 1986 import volumes continued to grow and export volumes to decline, and for the year as a whole a broadly unchanged convertible current deficit is in prospect. In cash flow terms, officials expect that Poland will have about US$2 billion of funds to meet debt servicing obligations of about US$5.5 billion. Debt rescheduling agreements were initialed in March and June with the Paris

Club and with commercial banks, respectively, which together would provide relief of about US$2.8 billion--leaving a financing gap still of some US$600-700 million. New debt servicing arrears to official creditors have already emerged which prompted Poland to request additional relief at a Paris Club meeting in July. This initiative was rebuffed, with the Paris Club insisting that further relief be sought from the banks. The latter's reaction has, however, also been negative, and Poland proceeded in September formally to sign its draft rescheduling agreement with the banks on the original terms. The Paris Club, meanwhile, has indicated a readiness to consider a further meeting with the Poles later in the year in light of the situation at that time.

Since 1983 the balance of payments in nonconvertible currencies has recorded current deficits of around US$0.5 billion annually. There is pressure from CMEA partners for this account to move into balance and then surplus during the remainder of the decade.

Domestic economic developments

After a cumulative fall of about one quarter between 1978 and 1982, there has also been a partial recovery in output in recent years. In 1983-84 real GDP grew by some 5 percent annually. The rate of recovery slowed to 3 to 3 1/2 percent in 1985, as the rebound in production from its earlier dislocation tailed off, and may decline moderately further in 1986.

Some progress has also been made in strengthening the domestic financial situation. Very large price increases in 1982 served to substantially reduce the stock of excess liquidity and the general government budget has been brought into balance. However, shortages and excess demand pressures persist and even intensified in 1985 when credit policy eased appreciably and the increase in household incomes (about 24 percent) outstripped that in prices (15 percent) and real supplies.

In 1981-82 legislative and other measures were introduced which were designed to lead to a radical decentralization of economic decision-making to enterprises. Following major price and exchange measures in 1982, practical implementation of the reform blueprint has, at best, been slow. Administrative intervention by the central authorities remains considerable. Price controls are widespread and distortions substantial, the exchange rate is overvalued, and financial discipline remains weak.

In the draft five-year plan for 1986-90 the authorities, have adopted relatively modest targets for output, expenditure, and foreign trade. Output is expected to grow by only some 3 percent annually and the trade targets imply a widening current deficit with the convertible area. Some aspects of these targets were criticized as insufficiently ambitious at the recent quinquennial party congress and the Plan is currently being re-examined.

September 1986.

Mr. Whittome

Office Memorandum

September 18, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland

Ms. Dillon called from Paris to say that in yesterday's tour d'horizon discussion of Poland at the Paris Club it had been decided to invite the Poles to a meeting on Tuesday, October 21 to discuss their situation.

J.P.

Jim Prust

cc: Mr. Whittome ✓
Mr. Hole (o/r)

Office Memorandum

TO: Mr. Schmitt September 17, 1986

FROM: Jim Prust J.P.

SUBJECT: Poland - World Bank Report

We have recently received copies of the World Bank's first report on Poland; it consists of a main report and several annexes. The report is to be discussed at a meeting in the Bank on September 18 which Ms. Swiderski and I will attend.

I am attaching a copy of the concluding section of the main report. Considerable prominence is given to the exchange rate and related issues. In a passage starting on page 50 the case for a "correct" exchange rate is presented. Some statistical indicators of what actual rate this might translate into are then considered but no firm conclusions reached. Up to this point I see no particular problem. The report then (on page 53) goes on to present a case for a major expansion in the role of the foreign exchange retention (ROD) accounts. At the most basic level, I think this invites a question as to why the latter is necessary if one has already adopted the "correct" exchange rate. Moreover, retention accounts have their own potential problems which, I think, would need to be weighed seriously before deciding to rely on them as a major part of an export promotion strategy. As a minimum, it seems to me that we should argue for greater emphasis to be placed on exchange rate correction and for some greater acknowledgement of the potential defects of retention accounts.

In addition to the substantive issue, there is also the procedural question of whether it is appropriate for the Bank to take such a strong position on an essentially "Fund" matter. You should be aware that the Bank is considering showing the report, in something very similar to its present form, to the Poles and will canvass views on the desirability of doing this at Thursday's meeting.

I would welcome your guidance on both the above points. In conclusion, I should add that the general tenor of the Bank report is broadly in line with our own thinking.

Attachment

cc: Mr. Hole (o/r)
Ms. Swiderski

industry) and agricultural and food products the least, closely followed by light industry. The methodology underlying these estimates is not known to the authors of this report, and the estimates are not available for years after 1980. It is important to take a fresh and careful look at this question, and also to study the relative effective protection of individual sectors. In particular, it is necessary to determine to what extent the high relative cost of agricultural exports continues, and, if so, to what degree it reflects inefficiency and overpricing fostered by the current system of incentives. It must also be noted that even given Poland's chronic need for convertible foreign exchange, it is nevertheless possible that some exports are obtained at too high a price.

5. Critical Issues for Economic Policy

(a) Reform versus Central Direction

96. Poland has committed itself by both declaration and legislation to the adoption of a thorough-going system of market socialism with a significant private sector. As we document in Annex I, progress in implementation has been patchy, though not negligible. This mission shares the belief that this is the only route to steadily improving economic efficiency in the long run. While it is clear that the original transition period of 2-3 years was unrealistically short, especially in a period of economic crisis, it is essential that the policies which are implemented in the future are in keeping with the spirit of the reform, and do not work against it.

97. This is not going to be easy. Centrally-directed systems are relatively good at responding to situations where there is one over-riding priority - whether to win a war, or put a man into orbit. If a single objective comes to dominate economic policy - e.g. maximize the convertible currency trade surplus - a centrally-directed system might do it well, at least for a time. But in the longer run this would be at the expense of building an economic system which knew how to respond to any signals other than central direction. If there are continued further delays with the reform, then decision-makers will become even more sceptical about its reality. Decentralized decisions require both appropriate prices and decision-makers that look to these rather than to central direction. So we start from the position that the changes that have to be made must promote economic reform not retard it.

98. This is not to say that we believe that Poland could achieve the necessary modernization and economic restructuring simply by putting all of the reform measures into operation overnight, and ensuring that relative prices were based on international ones. It might be very difficult for macroeconomic policies to hold in check the forces making for a price explosion, since enterprises might be sceptical that effective financial discipline would be immediately achieved, and, given the loss in real consumption of so many Poles for so long, the pressure on enterprise managers to grant real wage increases whether they could afford them or not would be enormous. Moreover until financial discipline really takes hold, liberalization would make likely a massive surge in imports for which foreign

exchange was not available, so controls might eventually need to be reimposed in an arbitrary way. The financial impact of excessively rapid reform on enterprises and individuals would be extremely uneven, and there would be calls for government assistance, many of which would seem very justified in the short term. The very idea of reform could become discredited. Moreover even within economies with the strongest market orientation, it is argued that the restructuring of older industrial sectors requires government intervention if it is to proceed at an adequate pace and acceptable social cost. Poland's need to restructure and modernize its industry is as least as great as that of any country in the world. It cannot be done merely through price incentives, though it also cannot be done without them, even if supported by such indirect regulators as fiscal measures and credit policies. But the Government must ensure that the price incentives and indirect regulators are set so that central actions reinforce market signals rather than override them.

99. Nevertheless we do believe that Poland's long-term recovery depends on much faster implementation of the economic reform that has already been legislated. We therefore recommend that the Government establish a timetable for the dismantling of the relics of central allocation, to which it would aim to adhere. It should include all the items of the 1981 reform program. It would pay special attention to the establishment of effective factor markets, since restructuring will only take place if there are efficient mechanisms for transfering productive resources from unprofitable activities to profitable ones. This would include the development of securities markets, the vigorous application of bankruptcy laws, and perhaps also measures to improve the effectiveness of labor market institutions, to tie the interest of enterprise employees more closely to the long run economic health of their employer. Eventually domestic prices should be established by the forces of both national and international competition, but given the constraints imposed by the monopolistic industrial structure and the shortage of foreign exchange that rules out effective and widespread import competition in the near future, some price regulation will undoubtedly have to remain for some time.

100. Restriction of domestic absorption is critical, since even though the current account deficit is small in relation to GDP, it is already proving difficult to eliminate. Moreover the fears of future losses are not yet a deterrent to excessive enterprise investment, since the budget constraint is still widely considered "soft". Restructuring and modernization will require substantial additional imports. It is possible that some of the needed foreign exchange might be obtained from a curtailment of unprofitable activities and investment projects, but it is likely that the import bill will and should rise.

101. In addition to these general remarks, there are a number of specific issues that seem to be of considerable importance, and the remainder of this report is devoted to these. They should be viewed as an agenda for discussion, rather than a source of specific recommendations.

(b) Overcoming Obstacles to Export Expansion

(i) Ending Discrimination Against Convertible Currency Exports in the Management of Internal Supply

102. The discussion of the Foreign Trade System in Annex I suggests that under the present rules of supply management, trade is a residual of domestic production and consumption. For raw materials and semi-finished goods which are subject to central balancing, foreign trade flows are balancing items and automatically receive lower preference than domestic consumption. And under the present rules of trade management, trade flows with CMEA countries are determined by government-to-government agreements, and thus get favored treatment in the internal balances for scarce inputs. As a result, trade in convertible currency becomes a residual within the residual. Therefore, in spite of a greater weight given to convertible currency trade in the design of a number of export incentives, the actual priorities of allocation policy appear to be the reverse of what economic policy would demand. Eliminating this discrimination is partly a question of the priorities of those who make the decisions, but partly it is inherent in a system of allocation at discrete intervals by a central authority, which makes it difficult for enterprises to react rapidly to export opportunities. A reduction in the extent of the system, and its eventual abolition, will be needed.

(ii) Setting Appropriate Exchange Rates

103. In principle under the reform, the major export incentive should be relative profit, and therefore the most important incentive should be a correctly functioning exchange rate. In practice, the many elements in the Polish economic system that reduce the effectiveness of relative prices as instruments for resource allocation also reduce the effectiveness of the exchange rate. While the main thrust of the reform is to eliminate these elements, this process will take time. Even during that period, however, it is important that the exchange rate be set at the correct level - otherwise it will continuously work against the primary trade objectives, and give autonomous enterprises the wrong signals.

104. The correctness of the present exchange rate has been widely discussed. Most observers, including the Mission, believe that the zloty is seriously overvalued. This judgment was made before the recent devaluation of the zloty to 200 per $US. As noted below this is probably not enough, though it is a significant step in the right direction. One Foreign Trade Enterprise, which deals with more than 100 medium-sized and large firms, estimated that domestic prices exceed export prices in convertible currency markets in the range of 15-60%. The Minister of Finance recently stated, however, that "in 1984 the profitability (defined as the ratio between profits and costs) of hard currency exports was 11% while that of domestic sales was 4.5%; in 1985 the corresponding indicators were 12 and 5%".

105. The issue is of the greatest importance. The <u>prima facie</u> case for considering the zloty to be overvalued is strong. The rapid inflation of 1982-3 was not matched by a comparable devaluation of the zloty, so that compared with its value in the late 1970s and early 1980s, the zloty has appreciated in real terms in relation to foreign currencies. Using average trade weights of Polish trade with the five SDR countries 1983-5, producer

prices for Poland and retail price indices for Poland's trading partners, the zloty appreciated in real terms by 3% in 1981, by 20% in 1982, and by a further 9% in 1983. Effective depreciation by 2% in 1984, and 12% in 1985 did not offset this. At that point the zloty had shown an appreciation by over 25% since 1980. This did not itself prove the degree of overvaluation, but since Poland had a trade deficit of $800 million in 1980, the figure of at least one-third is not likely to be an overestimate. The September devaluation, coupled with the fact that Poland has allowed the zloty to move with the dollar means that there has been an effective trade-weighted devaluation compared to the average of 1985 of about 55%, and that the real effective rate is 13-15% ~~above~~ below its 1980 level.

106. According to existing Polish guidelines, the rate of exchange should be pitched at a level such as to make roughly 80% of exports profitable; the justification for this systematic overvaluation bias is that the remaining 20% of exports (mostly agricultural) are regarded as temporary, dictated by a payment crisis. But such a rule of thumb may prevent relative profitability from overcoming the many relative disincentives to convertible currency exports, and also from being a good guide to appropriate import substitution in other activities. In any case, it is believed that a rate of zl. 200 would be necessary to make 75% of exports profitable, of zl. 230 to cover 80 percent of exports, and that if the present trade balance were to be obtained by instant floating the equilibrium rate of exchange would be likely to be of the order of zl. 350 per $US. (These figures are the result of consultations with well-informed Polish specialists and officials but should be given no more than illustrative significance as an indication of order of magnitudes of present imbalance.)

107. The most important argument for devaluation is that stronger marginal incentives to export are needed to overcome the attractiveness of a domestic market widely characterized by shortage. It has been objected that exports already have high average profitability relative to domestic sales, so that devaluation would not introduce any <u>new</u> incentive to export. However, even if profit/cost ratios could be regarded as a reliable indicator of profitability in the use of capital and other resources, the existence of a gap between <u>average</u> profitability in foreign and domestic sales is not necessarily an argument against devaluation, which can still be required to improve the <u>marginal</u> profitability of export promotion and import substitution. One problem in looking only at the profitability of existing exporters - who are inadequate in scope and number - is that it disregards the more important question of how to obtain exports from the majority of firms that do not export. Moreover, given the imperfections of the Polish capital market, large profits by exporting enterprises are essential if investment is to flow into those enterprises in which Poland has a comparative advantage.

108. Devaluation is going to require major price adjustments not only of the goods and services actually traded, but also of prices of goods which require significant amounts of tradeables for their production. Empirical studies have suggested that in many cases the value of energy inputs (at international prices expressed in zlotys at the official exchange rates) is greater than the value of output at domestic prices. Obviously in these cases - which include a number of producers of steel, nitrogen, cement, aluminum and a few other primary products - a devaluation would widen further

the gap between current price and opportunity cost, making overdue price adjustments inevitable. These are urgent issues for further study and discussion.

(iii) Reducing Other Exchange Rate Distortions

109. Like all soft currencies the zloty can be converted into hard currency in black markets locally and abroad. Poland, however, in practice encourages the activation of such markets by allowing Polish citizens to hold hard currency accounts without disclosing the source (although slightly better terms are offered for hard currency which can be shown to have been legally acquired); by exchanging hard currency for Polish vouchers denominated in US dollars and which can be traded legally in the domestic market; and by selling imported and domestic scarce goods at particularly favorable prices against hard currency and dollar vouchers. Special state shops (Pewex) retail large amounts of such goods; in 1985, Pewex had a turnover of nearly $300m. Priority access to houses, cars and major durables can be obtained at a low price (i.e. at an exchange rate which overvalues hard currency) against total or part payments in hard currency or dollar vouchers. Dollar prices for luxury goods are extremely low, even by standards of duty- and tax-free shops elsewhere.

110. The unofficial valuation of dollar vouchers is published weekly in the Polish Consumer Association weekly (<u>Veto</u>). Since 1982 it has been about four times the official rate. Official treatment of currency holdings and vouchers and the privileged access to scarce goods in practice set an upper limit to the black market rate of exchange, equivalent to the purchasing power parity of the zloty with respect to the hard currency value in Pewex type transactions. Thus, if the price of a bottle of Polish vodka - which recently makes up about a quarter of Pewex retail sales - is 700 zlotys in domestic currency sales and the identical bottle costs one US dollar in Pewex shops, the black market rate of exchange for the dollar will never fall significantly below 700 zlotys to the dollar. This is an artificially high valuation of the dollar, which is an undesirable distortion just as the artificial overvaluation of the zloty in official exchange transactions; it exacerbates lack of confidence in the domestic currency, thus lowering the domestic demand for it and contributing to excess demand; it also provides a misleading benchmark in calculations by households and firms. There is a continuous danger of leakage of export earnings into the import of luxury goods. Since a major factor in supporting the artificially high black market rate for the dollar is the tax exemption of alcohol sales it seems desirable to raise drastically the dollar price of alcohol in order to bring the black market rate of the dollar down closer to a realistic rate. This operation would somewhat restore confidence in the domestic currency and have none of the side effects usually associated with price increases. This would only go a small way in establishing a realistic and reasonably uniform exchange rate, however, if combined with effective devaluation, and measures to make retention quotas marketable.

(iv) Widening the Use of International Prices

111. Under the principles of the reform, transactions between producing or consuming firms and Foreign Trade Enterprises (FTEs), and transactions with foreign customers or suppliers should be carried out at "transactions prices", i.e. prices determined in the world market (c.i.f. for imports and f.o.b. for exports) converted through official (now uniform) exchange rates. These prices are now applicable to roughly one third of total foreign trade turnover. In principle, it is clearly desirable to expose Polish firms to the direct influence of international prices. In practice, there is a reluctance to go further in introducing these, while so many other elements of the Polish economy remain distorted. However, unless enterprises are exposed to the correct opportunity costs for the Polish economy, they will not be able to make correct decentralized decisions, and at least some of the effect on incentives of choosing an appropriate exchange rate will be lost.

(v) Improving the Effectiveness of Foreign Exchange Retention Quotas

112. Poland introduced in 1982 a "retention quota" (known as ROD) scheme as a major new export incentive. Under this scheme, exporters have the option of buying back at the official exchange rate a share of their export earnings, and sometimes also a higher share of increases in their export earnings, thus freeing themselves of dependence from central allocations of foreign exchange. This facility is also an important element of flexibility because any bottleneck can usually be removed by importing necessary goods or services and the ability to use foreign exchange fairly freely introduces a strong degree of actual decentralization. The retention quotas range from 5 to 55% of export earnings and in 1985 financed about 18% of Polish imports. Enterprises can transfer their currency entitlements to cover the import requirement of their suppliers, but cannot make currency transfers to firms other than them. There is therefore no formal or informal market valuation of those entitlements.

113. The ROD scheme is highly attractive for enterprises, although the limitation of the use of accumulated credits to direct and indirect import needs creates a ceiling beyond which it has no further incentive effect. In principle, import substitution is penalized by this system relatively to export promotion, in view of the non-tradeability of the currency entitlements and the continued need for producers of import-substitutes to rely on administrative allocations of foreign exchange.

114. The drawbacks of ROD accounts, however, have derived more from their failure to operate according to their principles than from the design of the scheme. Problems have included: (i) delays in the opening of such accounts and in the crediting of currency entitlements; (ii) enterprise associations claiming credits formally belonging to individual exporting enterprises; (iii) enterprises have been unable to convert their entitlements for lack of zloty funds; (iv) enterprises have not been able to use fully, if at all, their entitlements for the purchase of investment imports through licensing; (v) worst of all, enterprises found that when they wanted to use their entitlements, the foreign exchange was not available because it had been pooled and preempted by the prior claims of essential centralized imports and debt service. (Twenty two out of a representative sample of 56 industrial

firms monitored by IGN have experienced one or more of these difficulties in 1985). The de facto rationing of the right to use ROD accounts is reportedly done once a week by Bank Handlowy's branch offices according to an ad hoc assessment of the priority of uses by the applicants. Such a procedure seriously undermines the effectiveness of the scheme as an export incentive.

115. There are several ways in which the scheme could be made to work more successfully. First, the present discretionary rates should be replaced by a flat rate unconnected to import content. A proposed introduction of an automatic minimum retention quota equivalent to 10% of the export value is clearly a first step in this direction. Second, the average (discretionary or flat) rate should be gradually increased by reduction of the other mechanisms of rationing access to foreign exchange.

116. Third, the character of ROD should be changed from claims to immediate crediting to foreign exchange accounts of firms, and steps taken to preserve their accessibility. In view of the erratic pattern of withdrawals should perhaps be backed by a reserve requirement in foreign exchange; the best solution to this awkward development is the conversion--through payments at the current rate of exchange--of options into currency deposits subject to such reserve requirements, to be held either with the Central Bank or with the BRE (the new Export Development Bank whose foundation was announced in June 1986.)

117. Fourth, firms should be given the right to sell unused foreign exchange to others at negotiated prices. Such changes, if introduced as a package, would have the effect of a partial devaluation of the zloty by establishing a parallel foreign exchange market. Although inferior on theoretical grounds to devaluation, it may be more easily introduced. The market-clearing rate that would appear might begin to approximate a true clearing rate for foreign exchange.

(vi) Encouraging Firms to Develop Foreign Markets

118. The profit differential reflects the fact that the domestic market is predominantly a sellers' market, whereas export markets in the convertible currency area are highly competitive buyers' markets. In addition to affecting the profit margins, this strongly influences the non-monetary costs and rewards of supply. In sellers' markets, the buyers have to make all the effort in matching supply and demand, and in the underlying shortage situation their leverage in demanding strict delivery schedules, quality standards and after-sales services is nil, whereas in buyers' markets the supplier initiative and his readiness to accept exacting terms are decisive for breaking into new markets or maintaining a market share. Improved macroeconomic management, greater effectiveness of rewards for success and penalties for failure, and removal of barriers to competition seem indispensable measures.

119. Most foreign trade activity is handled by Foreign Trade Organizations (FTEs) with producers of exportables as passive participants. While there are no obvious principle drawbacks in this organizational pattern of export marketing, the experience of market economies suggests that foreign trade under the autonomy of the export producer and import consumer firm is in the long run the more efficient arrangement in practice. Achieving this

would require major investment by producing enterprises in building up the expertise through costly trial-and-error and learning-by-doing. Obviously this cannot be achieved in the short run. Nevertheless the existing legal possibility of granting foreign trade licenses directly to enterprises should be pursued vigorously.

120. It should be noted here that, as described in Annex III, Poland has very recently passed a new law to encourage joint ventures between Polish and foreign partners, that in many ways should make investment in Poland attractive, and which provide generous export incentives. An obvious problem is that while many firms might seek to manufacture in Poland with an eye to the Polish or CMEA markets, repatriation of profits will require that there be export earnings in convertible currency. Can Poland be made attractive as a base for labor-intensive production aimed at, say, the European market? Average wages are less than $150 per month. The idea should not be dismissed.

(c) Sectoral Priorities:

121. These are dealt with much more extensively in the Annexes. They will also be dealt with more systematically by the next mission. Only a small number of issues will be highlighted here.

(i) Manufacturing: Eliminating Supply Bottlenecks

122. A number of objective constraints on output and efficiency are frequently mentioned in discussions with Polish administrators or enterprise managers. Those which seem to be particularly important in limiting the supply of exportables are discussed below. In the longer run, a greater reliance on market forces in the allocation process would be the most effective way of eliminating them. But even with the present system, while there is no general way of eliminating these difficulties just by changing regulations, these could be much reduced if there was a willingness to give convertible currency exports high priority within the allocation system. They include:

Equipment Deficiencies: Sometimes shortages of imported spare parts constitute the supply bottleneck. But more critical seems to be the lack of up-to-date equipment at critical process stages. This can reduce product quality severely to the point of turning a "hard" into a "soft" good, removing it from the list of tradeables in convertible currency.

Material and Components Shortages : A similar bottleneck is the availability of inputs of raw materials and components. In many instances reference is made specifically to imported inputs. This means that output and exports are below the level technically possible at given capacity because of the constraining effect of rigid technical coefficients. The option (if it exists) of resorting to inferior domestic or CMEA inputs may reduce the quality of output to such an extent that it is no longer tradable as a "hard good.

Product Design and Process Know-how. While foreign technological know-how was imported abundantly during the 1970s, its supply has reportedly almost dried-up by the mid-1980s, again reducing potentially exportable goods "soft goods".

Labor Shortages: Many Polish firms report that their volume of output is constrained by shortages of labor. Given the priority assigned for many goods to the supply of domestic demand and to meet CMEA targets, this factor would affect directly supply of exportables to convertible currency markets. And conceivably, in an acute labor shortage situation firms tend to be less critical in strict supervision of the work processes which is likely to reduce product quality as well. This mission has not been able to study the labor situation beyond the superficial discussion of Annex III, but intends to make it a high priority for future analysis.

(ii) Energy: Conservation

123. This was discussed extensively above, as a key element in improving Poland's trade balance. We do not need to do more than reiterate its importance.

(iii) Agriculture: Price Adjustments and Long-run Rationalization

124. As noted, there is a widespread sense of labor shortage in Polish industry. The 29% of the labor force in agriculture have an aggregate output that is only about one-third the output of the almost equal numbers in industry. Output per hectare of land and per worker are low not only by the standards of Western European countries but also by the standards of the majority of European socialist countries. Among the latter, Poland's rank in terms of productivity has declined in recent decades. In spite of several years of good weather, output per worker employed in agriculture was 4% lower in 1985 than in 1978.

125. The inefficiencies of Polish agriculture are encouraged by a distorted system of incentives, affecting markets for inputs, outputs, factors of production etc. These are not only within the sector itself, but include the overall distortions to the pattern of demand that result from continued shortages of other consumer goods. Massive subsidies, which in recent years have required some 17% of Central Government revenue, and have kept procurement prices, relative to input prices, well above international ones. A policy of income parity has saved the inefficient farmer, and reduced the incentive to economize on the use of scarce resources, such as labor. It has therefore made it difficult for efficient farmers to expand. The subsidies perpetuate the technological imbalance and dualism which characterizes agriculture. For example, by now the average level of tractorization approaches that of some countries Western Europe, while up to 1.2 million draft animals are estimated to be in use mainly by the small farmers. Tractors elsewhere in the economy remain underused, and the scarcity of land for fodder production suggests that the use of draft animal is socially expensive.

126. The issues in agriculture, such as poorly working factor markets, and a high level of subsidies, have parallels elsewhere in the economy, if not quite to the same extent. Changing these policies is not easy - there is often a particular social policy goal behind each distortion, but very often it might be achieved in a less inefficient way. For example, a policy that tries to maintain income parity for very small farmers, might be replaced by one that gave small farmers added incentives to reduce their dependence on agriculture by providing a wider range of alternative value-preserving assets if they chose to sell their land.

(d) Need for Further Review and reappraisal of investment priorities

127. Poland seems to have got very little mileage out of its investment program in recent years. In spite of investing over 20% of GDP, output is still lower than it was in the late 1970s. We noted above the very high proportions of investment have been locked up in ongoing projects, some of now quite ancient vintage; implementation times have been long, technology has become increasingly outdated. Nevertheless, our mission found substantial things to praise in parts of Polish industry. Our industrial consultant, a man of great experience, wrote "the quality and finish of their product output is good, and certainly acceptable to Western markets, all other things being equal or better, e.g. price. Their tractors, heavy machine tools, cold parts presses, tools, earth moving equipment, cables, sheet piling, non-ferrous products (bars, extrusions etc.), chemicals, e.g. fertilizers compare favorably with the corresponding products of foreign manufacture. An example of this industrial capability at advanced technical level is to be seen in the high quality and precision of very complicated dies for stamping at one end and heavy machining facilities at the other. Their automobiles (made under Fiat licence) are well made." But he found a visible technological gap opening in Polish industry in computer-assisted design, manufacturing, inspection and engineering. The managements that the mission met - though not likely to have been a random sample - were often good and technologically knowledgable. But it is necessary for them to have access to the most recent technology.

128. Moreover, Poland does have a program for restructuring its industrial investment away from its traditional patterns. The mission was not able to study this in any detail. But its potential success will be limited, unless investment can be steered into the most productive opportunities. Our mission was also unable to study the composition of the investment program in any depth. This will be a high priority for the next stage of the Bank's economic work.

Whittome

Office Memorandum

Septmeber 17, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland

On his last day in Washington, Mr. Krowacki again raised the question of Executive Board representation for Poland. He asked me to confirm various aspects of his understanding of procedural matters which, after talking to Mr. Lang (SEC), I did. He also asked if Mr. Whittome had any fresh information or advice to offer. After talking to Mr. Whittome, I called Mr. Boniuk on September 17 and made three points all of which had previously been made to the Poles: (i) it was worth pressing the Italians for a definite yes or no answer; (ii) it was also worth pressing the Dutch who might possibly, for various reasons, be receptive to Poland joining their constituency; (iii) as regards what authorizations Minister Samojlik should seek from the cabinet in Warsaw prior to coming to the Annual Meetings, there seemed no practical alternative to his seeking authority to explore a range of options, viz., joining the Italian or Dutch constituencies or abstaining in the vote and not joining any constituency. I stressed to Mr. Boniuk that, while there appeared to be a chance that options (i) or (ii) might succeed, there was no way for us to know how large that chance was.

J.P.

J. Prust

cc: Mr. Whittome ✓
Mr. Hole (o/r)
Ms. Swiderski

I have asked Mr Prust to ensure confidentiality on this issue. The staff have no mandate to enter into constituency questions

17/9

Subj

Office Memorandum

TO: EED

September 16, 1986

FROM: L.A. Whittome

SUBJECT: Poland

The Rockefeller Foundation has bowed out of the proposed agricultural venture in Poland and its interest has been taken over by the Rockefeller Brothers Foundation. There the man responsible is William Moody (397-4800 in New York). He will send a short summary paper and will try and call on us next week.

Mr Whittome

W

Office Memorandum

MEMORANDUM FOR FILES

September 10, 1986

Subject: Poland

I called on Mr. Foot at his request. He said that Deputy Prime Minister Szalajda, in a meeting with the British Ambassador in Warsaw, had said that the recent Fund mission had voiced no major reservations about the thrust of Poland's economic policies. This was clearly at odds with the brief I had given the U.K. office a few weeks ago and which they had relayed to London, and London was now seeking clarification. I said that the Deputy Prime Minister's remarks did not accord with the way we viewed matters, nor with the written summary assessment which had been left with Polish officials. I then briefly summarized the main issues at the present time and noted that the Government itself also seemed to be continuing its internal discussion of the economic policy strategy that needed to be pursued in the period ahead.

Peter Hole

cc: Mr. Whittome ✓

cc: Copy EED

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FROM DEUTSCHE BUNDESBANK FFM
TO INTERNATIONAL MONETARY FUND
TREASURER'S DEPARTMENT
WASHINGTON, D.C.

INCOMING CABLE/TELEX

NO. 94
TEST [redacted] NO AMOUNT

RE: YOUR CABLE SDR NO. 47 OF SEPT. 3RD, 1986
USE OF SDRS IN PRESCRIBED OPERATIONS WITH POLAND

WE UNDERSTAND THAT THE PROPOSED OPERATION IS INDEED EQUAL TO OUR FORMER ARRANGEMENT WITH THE FUND TO ASSIST MEMBERS WHICH HAVE INSUFFICIENT RESERVES TO COMPLETE QUOTA PAYMENTS UNDER THE EIGHTH GENERAL REVIEW (SEE OUR CABLE NO 148 OF MAY 20, 1983 TO THE FUND). ACCORDINGLY, WE EXPECT THAT THE FUND WILL AGAIN ENSURE THAT THIS VERY SHORT-TERM SDR LOAN BY GERMANY TO POLAND WILL HAVE NO FINANCIAL CONSEQUENCES FOR THE POSITION OF GERMANY IN THE SDR DEPARTMENT.

ON THIS BASIS THE DEUTSCHE BUNDESBANK IN CONCURRENCE WITH THE GOVERNMENT OF THE FEDERAL REPUBLIC OF GERMANY WOULD LIKE TO NOTIFY THE FUND AS FOLLOWS:

1. GERMANY INTENDS TO LEND SDR 25,000,000 TO POLAND IN ACCORDANCE WITH THE FUND'S DECISION AUTHORIZING LOANS OF SDRS. THE LOAN IS TO BE REPAID SAME VALUE AND IS MADE WITH NO INTEREST OR OTHER COST.

2. ACCORDINGLY, PLEASE DEBIT OUR SDR ACCOUNT WITH SDR 25,000,000 AND CREDIT SAME TO SDR ACCOUNT OF POLAND VALUE SEPTEMBER 12, 1986.

3. GERMANY INTENDS TO ACQUIRE SDR 25,000,000 FROM POLAND IN REPAYMENT OF THE ABOVE LOAN IN ACCORDANCE WITH THE FUND'S DECISION AUTHORIZING THE USE OF SDRS IN SETTLEMENT OF FINANCIAL OBLIGATIONS.

4. ACCORDINGLY, PLEASE DEBIT THE SDR ACCOUNT OF POLAND WITH SDR 25,000,000 AND CREDIT SAME TO OUR SDR ACCOUNT, VALUE SEPTEMBER 12,1986.

NOTENBANK+

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☑ CHECKS
☐ DOES NOT CHECK, IT HAS BEEN SERVICED.
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Polska Rzeczpospolita Ludowa
Minister Finansów

Warszawa, dnia 19 r.

NOTIFICATION THAT THE MEMBER AVAILS ITSELF OF THE TRANSITIONAL ARRANGEMENTS SET FORTH IN ARTICLE XIV, SECTION 2

The Government of the Polish People's Republic avails itself of the transitional arrangements in Section 2 of Article XIV of the Articles of Agreement of the International Monetary Fund.

Warsaw, September 8 , 1986

DRAFT
Confidential

POLAND: A FIRST REPORT

(IBRD).

September 8, 1986

prepared as basis for Oct/Nov.
IBRD mission, on which
Ms. Swiderski reports (attachment) ⊗

⊗ see Nov. 17, 1986

Country Programs Department I
Europe, Middle East and North Africa Region

Executive Summary

(i) The purpose of this report is to assess the Polish economic situation and prospects at the time of its readmission to the Bank, with particular reference to the elements that would determine its creditworthiness for World Bank lending. Preliminary analyses of particular productive sectors and of the working of the economic system are made in accompanying Annexes, which serve as background to this report, and as a basis for the next round of economic and sector work. The actual question of creditworthiness, other issues affecting the eligibility of Poland to borrow from the Bank, and the implications of the findings of this report for a possible strategy of Bank assistance to Poland are dealt with in a separate memorandum.

(ii) With a population of 37 million, Poland has a large and diversified economy. In 1985, 29% of the labor force of 17 million was in industry, including mining and energy. Almost as many were engaged in agriculture. The former, however, produced 49% of national output (Net Material Product) and the latter only 16%, indicating a big disparity in productivity. The structure of manufacturing is strongly biased towards heavy industry. Engineering accounts for a third of industrial employment and a quarter of industrial output. Recent shortages of imported parts, components, and licenses have weakened industrial competitiveness, although the mission was favorably impressed with evidence of a good base of managerial and technical skills. Poland remains a major coal producer and net energy exporter, but is investing heavily to maintain output at present levels. Its domestic energy use is lavish and, compared to both world prices and marginal costs, is heavily subsidized; in contrast to most countries, it has been growing at the same rate as national output.

(iii) About 75% of agriculture is in private hands, whether measured by land area or output. Many holdings are still very small--two-thirds are below 7 ha. A great deal of low-productivity labor is locked up in small farms, while in cities, advertised job vacancies greatly exceed applicants. Years of discrimination against private agriculture were formally ended by a 1983 constitutional amendment guaranteeing its permanence and the government is committed to a policy of income equality between farm and non-farm sectors. To achieve this, procurement and input prices are set at levels which imply a very high level of protection and budgetary subsidization.

(iv) Total merchandise exports were 15.5% of GDP in 1985, imports 14.8%. About half of the Polish trade is with CMEA (COMECON) countries, of which 60% is with the Soviet Union, and is denominated in transferable rubles (TR). Exports to CMEA countries are dominated by engineering products, and these are also major imports. So too are raw materials and fuels--oil and natural gas account for 30%. Roughly 40% of Polish trade involves genuinely convertible currencies. The remaining 10% involves bilateral clearing arrangements, denominated in convertible currencies. Coal is the largest export to the "convertible currency area" (i.e., including the clearing arrangements) (23% in 1985) but engineering (18%) and metallurgy (12%) are important. Food and agriculture, engineering products, and chemicals are roughly equal in importance as convertible currency imports. The improvement of agriculture's net trade deficit from $2.5b. in 1981 to $200m. in 1985 has been a major element in the achievement of a substantial trade surplus.

(v) A program of economic reform introduced in 1982 has caused the economic system to depart quite a long way from a traditional centrally planned economy. The blueprint for the reform is a fairly radical version of market socialism—in most ways as advanced as the present stage of the Hungarian reform. Plans have in principle become indicative, and enterprises have much more control over decisions on output, wages and the use of retained profits and export earnings than they did before. A small non-agricultural private sector is booming. But the introduction of the reform at a time of crisis understandably inhibited the central authorities from relaxing control over the allocation of key inputs. The autonomy of self-managed enterprises is still restricted in other ways as well, and their activities remain largely guided by the relevant branch ministry. Foreign exchange allocation is still tightly controlled, and many enterprises have not had full access to their retention quotas. Many prices are still regulated, often on a cost-plus basis. Opportunities to declare enterprises bankrupt are taken only rarely--they are more often kept going with subsidies and tax exemptions.

(vi) The reform was designed in 1981, a year of great internal political turbulence and external debt crisis, the first of the 1980s. This crisis had its roots in the early 1970s, when a radical change of policy led Poland to borrow heavily abroad to finance a program of extensive investment. Incomes and output rose rapidly. Exports also rose, and Poland increased its market shares, but this growth was insufficient. In 1975 and 1976 the trade deficit in convertible currencies reached nearly 3 billion dollars. During 1976-80, the growth in both investment and output was cut back. Stock accumulation began to fall in 1977, fixed investment in 1978; by 1982, total investment was half its 1977 peak. A 1976 attempt to curb consumption growth, however, by raising meat prices, led to rioting and was reversed. Consumption continued to rise until 1980. Rising demand for meat was fostered by a shortage of other consumer goods; successive years of poor harvests led to increasing trade deficits in food and agriculture. Although the trade deficit in 1977-79 was reduced to about 2 billion dollars a year, this modest improvement was largely offset by the rising interest burden. The external debt which had been US $1.1 billion in 1971 and $12 billion in 1976 reached $24 billion in 1979. By 1980, the country devoted 96% of its convertible earnings from exports of goods and non-factor services to debt service. In that year new medium- and long-term borrowing financed 84% of imports of goods and non-factor services.

(vii) The years 1980-2 were years of economic crisis and political turbulence. Total output in 1982 fell to only 76% of its 1978 level. Since 1982 there has been some recovery, but there are signs that it is slowing. The growth of output was 6% in 1983, 5.6% in 1984 and 3% in 1985. In 1985 it was only back to 88% of its 1978 level. Investment suffered the deepest decline. In 1982, fixed investment was only about 55% of its 1978 level. In 1985 it was still about 30% below that level. Cuts in the investment program during 1978-81 were made in a rather haphazard fashion. In 1981, however, a State Commission was established to make a systematic review of all ongoing projects. By 1983 it had frozen or abandoned projects with a value of over one-third of the socialized sector fixed investment undertaken in 1981-3. Quite a number of these projects were subsequently resumed, however, and a major difficulty in restructuring investment or allowing its pattern to be largely determined in the decentralized way anticipated by the reform has been that a very large part of it has been preempted by projects started several years earlier, in very different economic circumstances. The impact of the investment program on modernizing the economy has been further weakened by the fact that industrial investment, especially that requiring imports, has been disproportionately reduced.

(viii) Consumption fell 14% from its 1980 peak to 1982. There was then some recovery, but in 1985 per capita consumption was still 9% below its level in 1980. There are many shortages and although the rationing imposed in 1982 has been much reduced in scope, it still covers meat, chocolate and gasoline.

(ix) Facing debt service requirements that were clearly unmeetable (eventually debt service due was 155% of 1981 exports of goods and services), in April 1981 Poland obtained agreement through the Paris Club on the rescheduling of 90% of its obligations to Western official creditors falling due in the last tree quarters of 1981. A special consortium of commercial banks (the London Club) was formed, and an agreement on rescheduling the unmet 1981 maturities was signed in April 1982, and on 1982 maturities, the following November. Bank reschedulings have thereafter continued smoothly as needed. The July 1984 agreement rescheduled all the maturities due in 1984 through 1987. Agreements on the further rescheduling of 95% of the rescheduled 1981-2 maturities falling due in 1986 and 1987 is expected to be signed in September 1986. Since 1982 most auditors and regulatory authorities have begun to require loan loss provisions against Polish medium- and long-term debt, and most banks are believed to have written off at least 50% of their debt. In these circumstances, it has been virtually impossible for them to consider new medium- and long-term lending to Poland, but since November 1982 they have been regularly agreeing to place a large proportion (initially 50% and subsequently increased) of interest actually paid into a six-month trade credit facility, which currently has over $800 million in it, and is regularly fully utilized.

(x) After the Polish authorities declared Martial law in December 1981, Western official creditors broke off talks with Poland for nearly two years. Poland made no payment to its official creditors during 1982-4. Only in July 1985 was a new agreement covering 100% of the 1982-4 maturities and delayed interest signed. The effect of the 5-year grace period and 10-year maturity was to put nearly $11 billion of maturities into the 1990-5 period in one fell swoop. Similar arrangements have been made for the 1985 maturities in November 1985, and for the 1986 maturities in March 1986 (though the latter was initialed only, and signing is contingent on completing all bilateral agreements on both previous reschedulings, and also on getting the banks to accept less generous terms. Added to the rescheduling of Bank maturities, this means that Poland is due to amortize about $20 billion in the years 1990-96. The official creditors imposed restraints on export credits soon after the declaration of Martial Law. Poland has recently received small amounts from Austria and West Germany, with the promise of some from Britain when the bilateral agreement for 1985 is completed.

(xi) In spite of these repeated reschedulings, and the failure of Poland to meet her interest obligations in full, Poland has been devoting a very substantial proportion of her export earnings to debt service. Although it was obviously impossible to maintain payments at their 1980 proportions, debt service paid as a percentage of exports of goods and non-factor services was 63% in 1981, 43% in 1982, 37% in 1983, 27% in 1984 and 44% in 1985. Some modest repayments since 1981, and in many cases reimbursement of banks under various official guarantee programs, have led to a substantial reduction in commercial bank exposure. In contrast, official debt has tended to increase, partly because more of the debt originally classified as unguaranteed turned out to have official guarantees, and in part because of the capitalization of accumulated interest arrears, and interest on late interest, since 1982. Of the $24.6 billion owed to Western creditors at the end of 1985, $18 billion was to official creditors. Polish convertible currency debt is some 40% of GDP, which is substantially less than for many countries. The issue looks quite different in terms of debt service as a proportion of export earnings. The reason is that convertible currency exports have fallen to only 8% of GDP, down from nearly 16% in 1980.

(xii) The draft Plan 1986-90 has not yet been officially finalized. It envisages that material output should increase by 16-19% over the Plan period, about 3.0-3.4% per year, and will then approximate its 1978 level by 1990. Investment is projected to increase at a rate slightly faster than total output, and consumption slightly slower. This would bring investment back to its 1980 level, which is well below what it was in 1972. The achievement of the upper end of the range of alternative consumption projections would bring per capita consumption in 1990 back to its 1980 level. The mission was told that the Plan had been explicitly based on the assumption of no change in Poland's international economic relations.

(xiii) The mission was told of various balance of payments forecasts, not all consistent with each other, but understood that there was not as yet either a consensus or a decision on a firm forecast. Some three weeks later, however, a Fund Article IV Consultation mission was given a set of official projections. The export projections assume a rate of convertible currency growth in volume averaging 3.7% a year between over the period 1985-90. Import growth is assumed to average 4.5% a year. Some year-to-year variation in growth rates is assumed to permit the average trade balance to remain more-or-less constant at $1.3--$1.4 billion. The resulting current account balance, however, worsens slightly. These projections have been modelled with RMSM, the Bank's standard accounting framework for macroeconomic forecasting. Assumptions about output and investment growth were those of the draft Plan. Annual and sectoral export growth rates and elasticities were then adjusted to create an approximate replica of the official projections. It is assumed that debt service not paid is automatically rescheduled. The official projection then shows a rising debt service ratio--to 84% by 1990, while the debt service ratio actually paid falls from 30% to 25% over the period. Extrapolating into the 1990s, shows an increasing debt service burden, and a widening gap between debt service owed and the amount that Poland is able to pay.

(xiv) Even this gloomy projection could not be described as secure. In 1985, convertible currency exports fell by 3.6% in volume. This reflected domestic competition for coal exports during a very harsh winter, but also diminishing competitiveness for other exports, especially engineering. Exports are exhibiting very similar trends in 1986. If these trends were to continue throughout the Plan period, without a change in other Plan forecasts, the debt service ratio would again exceed 100% in 1990, and the trade balance would disappear by 1992. While the official scenario is not so alarming, it is headed in the same direction, and therefore is not sustainable as a long-run proposition. Some kind of adjustment must take place.

(xv) What sort of adjustment would be most desirable? Reverting to the official projection, the sensitivity of the 1990 current account projection to alternative assumptions about the external interest rate, export growth, import elasticity and GDP growth was explored. The trade-offs appear to be as follows: a $500m improvement in the current account in 1990 could be obtained by a rise in annual export growth rates of 1.4% above their base level, or by a fall in import elasticity of 0.6, or by a 1.3% annual fall in GDP. This analysis suggests strongly that the adjustment cannot be primarily by lowering GDP. Although demand management policies will be extremely important, the amount that income would have to fall to reduce domestic absorption enough to eliminate the current account deficit, in the absence of policies directed at export expansion or import reduction would be extremely high. There are similar limitations on what can be done to reduce imports, especially since intermediate products constitute 75% of total (convertible currency) imports. Further compression of investment goods could threaten the ability of the economy to compete internationally and so have a devastating and ultimately self-defeating effect on Polish economic performance. Priority must be given to increasing convertible currency earnings. This is the only plausible route that could not only put Poland into a position where it could pay interest on its debt, but could actually pay back some of the principal.

(xvi) On what then do the official export forecasts rest? There would be little change in the overall structure of exports to socialist countries, but imports would grow much slower than exports, so that the present negative trade deficit equivalent to $262 million in 1985 would become a surplus equivalent to $650 million by 1990. The structure of convertible currency exports, on the other hand, changes markedly. Coal exports are expected to decline by 5.1% per year, since growing domestic demand, and some restoration of CMEA exports would displace convertible exports at a time of virtual output stagnation. Implicit in this scenario is that Poland would become a net energy importer by the end of the decade with increased imports of oil and natural gas and reduced exports of coal. These trends are forecast to continue in the 1990s. Exports of metallurgical products would stagnate, and light industrial exports, surprisingly, would grow only slowly. Exports of chemical and wood products would grow fastest, but engineering and agricultural products would also grow faster than average. This assumes that engineering can reverse the downward trend it has exhibited since 1980, and that food and agricultural exports can continue to grow in spite of poor market prospects.

(xvii) In trying to achieve better export performance than that of the official projection, it is important to keep in mind the need to improve long run efficiency and to put into place the capacity and incentive structure that will make the improved performance sustainable. This means that the implementation of the economic reform should be enhanced rather than overridden, even if this implies greater short-run risk to the balance of payments. To this end, the Government should establish a timetable for the dismantling of the remaining system of central allocation. It should include all the items of the 1981 reform program. Special attention should be paid to the establishment of effective factor markets, to allow the transfer of productive resources from unprofitable activities to profitable ones. The fears of future losses are not yet a deterrent to excessive enterprise investment, since the budget constraint is still "soft"; there must be a much greater willingness to apply bankruptcy and liquidation among the restructuring measures. Interest rates must become positive in real terms. While some price regulation is likely to remain in a highly monopolistic economy that cannot yet afford to risk-free import competition, this should be gradually reduced. Although the current account deficit is small in relation to GDP, it is already proving difficult to eliminate, and restructuring and modernization will require substantial additional imports, so restriction of domestic absorption is critical. Moreover, one of the most severe deterrents to exporting is a state of shortage in the domestic market.

(xviii) Special attention needs to be paid to various obstacles that now impede the expansion of convertible currency exports. The first is the low priority that exports receive in the management of internal supply. Eliminating discrimination against them is partly a question of the priorities allotted to them at the time of the decision, but partly is inherent in a system of allocation at discrete intervals by a central authority, which makes it difficult for enterprises to react to some fleeting export opportunity. A reduction in the extent of the materials allocation system, and its eventual abolition, will be needed. Giving exports only low priority has had the effect of denying enterprises the foreign exchange for spare parts, or key materials and components, or access to new technology, which if it does not stop production altogether can have the effect of lowering product quality.

(xix) The exchange rate appears to be overvalued. The small real depreciation in 1984 and 1985 has not, at least until the devaluation of September 1, 1986, offset the very large appreciation that took place in 1982 and 1983. Official policy recognizes that for social reasons some 20% of exports, primarily in agriculture, will for the time being remain unprofitable. It appears, however, as though the proportion of unprofitable is substantially greater than this. In addition stronger marginal incentives to export are needed to overcome the attractiveness of a domestic market widely characterized by shortage. Although it is sometimes argued that exports already have high average profitability relative to domestic sales, devaluation can still be required to improve the marginal profitability of export promotion and import substitution. Moreover, comparing the profitability of existing exporters disregards the more important question of how to induce the majority of firms that do not now export to do so.

(xx) Provided the exchange rate is kept realistic, the exposure of Polish firms to international prices should be increased. In addition enterprises should be allowed and encouraged to pursue their own search for markets rather than relying solely on foreign trade enterprises. The current possibility of granting foreign trade licenses directly to enterprises should be pursued vigorously. Enterprises should have greater safeguards that they will be able to have access to their right to purchase foreign exchange up to an agreed value of their exports, as and when they need, which has not recently been the case. The proportion of exports that earns firms these rights is at present discretionary; present rates should be replaced by a flat rate unconnected to import content. The average rate should be gradually increased by reduction of the other mechanisms of rationing access to foreign exchange. Firms should be given the right to sell unused foreign exchange to others at negotiated prices. Any distortions that flow from an unofficial exchange rate of four times the official one could be greatly reduced by raising dollar prices in hard currency shops.

(xxi) Special efforts should be made to improve energy conservation. Unlike most industrialized countries, energy use per unit of NMP was higher in 1985 than in the 1977-80 period and has remained virtually constant since 1981. The mission believes that there is scope for improved productivity but it would probably involve importing machinery from the convertible currency markets. There is also ample room for domestic savings of energy. This would entail raising prices, which are currently very heavily subsidized. The mission believes that it might be possible to improve output growth by raising productivity and to maintain imports and consumption at 1985 levels, thereby permitting an increase in net exports of up to 34m. tons coal equivalent worth $1.4 billion during the plan period at current export prices, and 12 Mtce p.a. thereafter, i.e., about $500 million p.a. (These figures should not be considered more than very rough, but they do indicate the importance of the issue.)

(xxii) Agriculture is another sector where a distorted pattern of incentives, and the absence of an adequate labor market, is fostering inefficiencies and waste of resources of a kind seen frequently in industrialized countries but which Poland cannot afford. While a policy of income parity with other sectors is understandable on social grounds, it should not be carried to such an extreme as to slow the movement of labor from low-productivity agriculture to high-productivity industry. There is currently great danger of this.

(xxiii) There is an urgent need to reappraise the ongoing investment program. In spite of investing over 20% of GDP, output is still lower than it was in the late 1970s. Very high proportions of investment have been locked up in ongoing projects, implementation times have been long, and technology has become increasingly outdated. The mission was not able to study the investment program in any depth, or the specific projects that have been proposed as part of a restructuring program. This should be a high priority for the next stage of the Bank's economic work.

INTERNATIONAL MONETARY FUND

Mr. Whittome

For information.

cc: Peter,

Do you know the Rockefeller man? If so could you phone him & see what he knows & where their project stands. If not, I will

11/9

Peter Hole

SOURCE The Wall Street Journal-Europe **FILE #** September 8, 1986

COMMENTS........

Jaruzelski's Harvest

The announcement the other day by Poland's Roman Catholic primate, Jozef Cardinal Glemp, that the Agricultural Development Fund was canceled slipped through the Western press with only the scattered headline here and there. This was the fund that was launched to bring in as much as $2 billion in aid to Polish agriculture, the majority of which is in the hands of small private farmers. Certainly the cardinal's announcement was greeted with little fanfare, especially compared to all the encomiums heaped on General Jaruzelski two summers back when he met with the pope in Warsaw and endorsed the plan. For some reason the West does not seem much interested in following through on what becomes of Communist promises.

Probably the general and his subordinates never had any intention of keeping their word on the agriculture fund, and there is no way now to revive it. But with Poland's new membership in the IMF and the government's promises to reform its economy, it's worth going over the fund's history. At the least it might teach Western politicians to be a little more cautious in accepting any talk of "reform" or "normalization" at face value.

The fund began in 1982 with a plea from Cardinal Glemp for Western help for Polish farmers, three-quarters of whom are private. Eventually, after General Jaruzelski's meeting with the pope, the fund received the formal endorsement of the Polish government. Of course, that was before the savage murder of Father Popieluszko, the arrests of various Solidarity members and the general incorporation of martial-law measures into Poland's legal system. Quite simply, the government pulled off the classic con: Loudly endorsing the idea of the fund, the bureaucracy then made sure it never got off the ground. The government did this through incessant nitpicking and maneuvers to ensure that the government retain real control of the money. Since the whole purpose of the Western aid was that the government not be involved, the church finally abandoned the plan last week when it realized it would never have one that would be independent. The upshot is that church-state relations are on the rocks again and Poland's farmers are out the $28 million in pledges that had been given thus far. Yesterday thousands of Polish farmers attended a harvest celebration where the government's farm policies were criticized, and today their bishops are expected to release a formal statement on the matter. Meanwhile, in another area of the country, the general himself was celebrating what he declared was a bountiful harvest.

The dismal denouement of the Agricultural Development Fund has a special significance today because of Poland's recent readmission into the IMF. Angling for badly needed Western credits and loans, the Jaruzelski government has promised the IMF it will loosen its stranglehold on the Polish economy. But if the fate of the farm program is any precedent, it shows that the authorities will make whatever promises they need to make to get whatever money they can get, only to break these same promises whenever they see fit. The reason they can do this is that there will always be someone in the West to argue for bailing them out yet again.

Last spring, as the government was again stonewalling, we noted that past experience demonstrated that Communist regimes have a distressing record of being willing to forgo any benefit–no matter how large–if it appears to threaten their political control. And, after listening to the views of labor union leader Lech Walesa, we argued in an editorial called "Poland: Ominous Harvest?" that the fate of the Agricultural Development Fund would be a good indication of what Warsaw's real priorities are.

Sadly, the events of the past week confirm that these priorities remain repression-as-usual. Cardinal Glemp wisely realized that Poles were better off without the $28 million in pledges if it just went to perpetuate the existing system, so he called it off. That's a principle we hope the IMF keeps in mind when General Jaruzelski begins his inevitable pitch for more money. Clearly a regime that has no difficulty backing out of an agreement with a powerful and popular church is going to have no problem making a mockery of any IMF conditionality.

cc PCH

INTERNATIONAL MONETARY FUND

TO : Mr. Whittome

FROM: Peter Hole

Poland

OK
Please bring them in to see me for a courtesy visit on the morning of the 8th.

Attached is the broad program arranged for Sept. 8-15 for our two visitors from Warsaw.

I would propose to offer them an official lunch on the Monday — asking Mr. Boniuk, Mr Rust and Mr. Swiderski along also.

PH
29/viii

emphasis on Rate of growth
Consultation

Spain

with Ministry of read

Visit of Messrs. Krowacki and Fraczak

Monday September 8

10:00 a.m. European Department (Mr. Hole)

2:30 p.m. IBRD (Mr. King)

Tuesday September 9

10:15 a.m. Secretary's Department (Mr. Lang)

3:00 p.m. External Relations Department (Mr. Newman)

Wednesday September 10

10:00 a.m. Treasurer's Department (Mr. Chandavarkar)

p.m. Treasurer's Department

Thursday September 11

10:00 a.m. Exchange and Trade Relations Department (Mr. Boorman)

p.m. Exchange and Trade Relations Department

'86 $1.2 bn trade ($1.5 dollar)

but if c cal for worse
∴ clearing/compensation agts
account for 30%.

Friday September 12

10:00 a.m. Bureau of Statistics (Mr. McLenaghan)

p.m. Bureau of Statistics

Monday September 15

a.m.

3:00 p.m. IMF Institute (Mr. Lobo)

Growth should be safeguarded
& looked at again
Solve debt problem in cc

sit diff in Paris Club
when repay arrears
& rescheduled debt

talks in creditors & banks & Poles under Fd

with those have rescheduled 95% of debt due 86 & 87
for 4 yrs

Banks will not extend new credits till global position
improves

cc FED

Rcv: @1IM/7.00847 Line: 7

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IMF CABLE ROOM

1986 SEP -8 AM 8: 23

09/08 0747
64111 IMF UW

INTERNATIONAL MONETARY FUND 731685

WASHINGTON

ATTN.MR.L.A.WHITTOME

DIRECTOR OF THE EUROPEAN DEPARTMENT

I WOULD LIKE TO INFORM YOU THAT AS OF THE 8TH OF SEPTEMBER 1986 GOVERNOR OF POLAND IN THE FUND SIGNED ON BEHALF OF POLAND ´´NOTIFICATION THAT THE GOVERNMENT OF THE POLISH PEOPLE´S REPUBLIE AVAILS ITSELF OF THE TRANSITIONAL ARRANGEMENTS IN SECTION 2 OF ARTICLE XIV OF THE ARTICLES OF AGREEMENT OF THE INTERNATIONAL MONETARY FUND.

ZBIGNIEW KARCZ

ALTERNATE GOVERNOR OF POLAND IN I M F

64111 IMF UW

815592 MINF PL
Time: 08:03 09/08/86 EST
Connect Time : 112 seconds

ORIG: EUR

CC: MD
DMD
ETR
FAD
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TRE
MR. R. BROWN

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1986 SEP -8 PM 2: 57
EUROPEAN DEPARTMENT

INCOMING CABLE/TELEX

→ MD ①

Office Memorandum

→ Mr. Whittome
c/c Secretariat

TO:	The Managing Director The Deputy Managing Director ✓	September 5, 1986
FROM:	L. A. Whittome	
SUBJECT:	Poland - Exchange Arrangements	

I attach, for your approval, a short paper on the recent devaluation of the Polish zloty. The draft has been cleared with Mr. Brau (ETR) and Mr. Liuksila (LEG).

Attachment

cc: Mr. Brown

1986 SEP -5 PM 5:14

cc: KPD

Office Memorandum

To: Treasurer
Internal Auditor
Director, European Department
Director, Exchange and Trade Relations Department
Director, Legal Department

Date: September 5, 1986
12:00 Noon

for B. J. Owen
From: The Secretary

Subject: Poland - Representative Rate for the Polish Zloty

This is to advise you that within the time specified no Executive Director has expressed an objection to the matter set out in EBD/86/237 (9/2/86).

Accordingly, the Executive Board's approval is assumed and will be so recorded.

RECEIVED
1986 SEP -8 PM 2: 58
EUROPEAN DEPARTMENT

Mr. W~~h~~ittome

Office Memorandum

MEMORANDUM FOR FILES

September 3, 1986

Subject: Poland

Mr. Machowski telephoned to say that he was now feeling much better and was anxious to proceed with his consultant's report, if this remained of interest to us. I said that he should proceed and we agreed that he should deliver a first draft toward the end of October.

Peter Hole

cc: Mr. Whittome ✓

BANK HANDLOWY W WARSZAWIE S.A.
Established 1870

ul. Chałubińskiego 8, Skr. poczt. 129
00-950 Warszawa

Tadeusz Barłowski
President

Warszawa, 1986.09.02

Mr. L.A. Whittome
Director
European Department
INTERNATIONAL MONETARY FUND

WASHINGTON D.C. 20431
U.S.A.

RECEIVED
1986 SEP 11 AM 11: 44
EUROPEAN DEPARTMENT

Dear Mr Whittome,

Mr. K. Glazewski has passed to me your kind congratulations expressed in your letter of August 8th addressed to him.

I would like to take this opportunity to assure you that the further development of the cooperation between our two Institutions is a vital point of my interest.

Hoping that the opportunity may arise for us for a personal meeting, I remain with my best regards,

yours sincerely

RECEIVED
1986 SEP 11 PM 12: 38
EUROPEAN DEPARTMENT

Office Memorandum

RECEIVED
1986 SEP 2 AM 10:30
EUROPEAN DEPARTMENT

To: The Acting Managing Director August 29, 1986

From: W.O. Habermeier

Subject: <u>Poland - Representative Rate for the Polish Zloty</u>

The attached paper establishing the representative rate for the currency of Poland is for your information. The paper has been agreed with the Legal, European, and Exchange and Trade Relations Departments and will be issued to the Executive Board for lapse-of-time decision.

Attachment

cc: The Managing Director (o/r)
Mr. Finch
Mr. Gianviti
Mr. Whittome
Mr. Brown

INTERNATIONAL MONETARY FUND

Poland - Representative Rate for the Zloty

Prepared by the Treasurer's Department

(In consultation with the Legal, European, and Exchange
and Trade Relations Departments)

Approved by W.O. Habermeier

August , 1986

Poland became a member of the Fund on June 12, 1986 with a quota equivalent to SDR 680,000,000.

As mentioned in the attached telex from the authorities, the currency of Poland is the zloty and the zloty's exchange rates against convertible currencies are determined on the basis of a weighted basket of currencies. As of August 28, 1986, the rates of exchange quoted by the National Bank of Poland were ZL 160.42 per U.S dollar 1 buying and ZL 162.04 per U.S dollar 1 selling for spot exchange transactions in the domestic official exchange markets.

Consultations have taken place with the authorities of Poland concerning the determination by the Fund of a representative rate for the Polish zloty. It is considered that the representative rate under Rule 0-2(b)(i) for the Polish zloty against the U.S. dollar is the midpoint of the buying and selling rates for spot delivery of U.S. dollars in the official exchange market quoted by the National Bank of Poland. It is understood that the National Bank of Poland will promptly inform the Fund of any change in the representative rate.

In view of the foregoing, the following draft decision is proposed for adoption by the Executive Board:

> The Fund finds, after consultation with the authorities of Poland, that the representative rate under Rule 0-2(b)(i) for the Polish zloty against the U.S. dollar is the midpoint of the buying and selling rates for spot delivery of U.S. dollars in the official exchange markets quoted by the National Bank of Poland. The National Bank of Poland will promptly inform the Fund of any change in the representative rate.

Attachment

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RCA AUG 28 0940
248331A IMF UR

814681E NBP PL

WARSZAWA 86.08.28

INTERNATIONAL MONETARY FUND
TRASURER'S DEPARTMENT
WASHINGTON
USA

REF: CONSULTATION FOR DETERMINING A REPRESENTATIVE RATE FOR THE CURRENCY OF POLAND

1. THE CURRENCY OF POLAND IS THE ZLOTY. THE ZLOTY'S EXCHANGE RATES AGAINST CONVERTIBLE CURRENCIES ARE DETERMINED ON THE BASIS OF A WEIGHTED BASKET OF CURRENCIES. AT PRESENT THE RATES OF EXCHANGE QUOTED BY THE NATIONAL BANK OF POLAND ARE ZL 160,42 PER US DOL. 1/BUYING/ AND ZL 162,04 PER US DOL. 1 /SELLING/ FOR SPOT EXCHANGE TRANSACTIONS IN THE DOMESTIC OFFICIAL EXCHANGE MARKETS.

2. THIS IS TO PROPOSE THAT THE FUND FIND THE MIDPOINT OF THE BUYING AND SELLING RATES FOR SPOT DELIVERY OF U.S. DOLLARS IN THE OFFICIAL EXCHANGE MARKET QUOTED BY THE NATIONAL BANK OF POLAND TO BE THE REPRESENTATIVE RATE FOR THE ZLOTY UNDER RULE O-2 /B/ /I/ OF THE FUND'S RULES AND REGULATIONS.

3. WE WILL INFORM THE FUND OF ANY CHANGE IN THE REPRESENTATIVE RATE FOR THE ZLOTY DESCRIBED ABOVE.

ANDRZEJ ILCZUK
DEPUTY DIRECTOR
FOREIGN DEPARTMENT
NARODOWY BANK POLSKI

Received in cable room August 28, 1986, 10:55AM

Mr. Whittome

Office Memorandum

MEMORANDUM FOR FILES August 29, 1986

Subject: Poland

Mr. King telephoned to bring us up-to-date on the Bank's timetable.

1. Mr. King and one colleague will pay a short visit to Warsaw from September 10-12.

2. An internal staff meeting has been tentatively arranged in the Bank for September 18 to discuss the draft report originating from the Bank's earlier visit to Warsaw. As I will be away on leave, I said that Mr. Prust would attend that meeting.

3. The next full mission to Poland was expected to take place from October 20 to November 8. Mr. King invited us to participate and I have asked Ms. Swiderski if she would do so. The main focus of the mission will be on the investment program and on ways to increase hard currency exports.

checking on getting approval ao

I sketched out the timetable from our side and said that I would shortly be sending a draft of our report for their information and comment.

cc: Mr. Whittome

cc EZD

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EUROPEAN DEPARTMENT

AUG 28 1986

Sir:

This will acknowledge and thank you for your letter dated August 6, 1986 advising the Fund of the appointment of Mr. Bazyli Samojlik, Minister of Finance, as Governor of the International Monetary Fund for the Polish People's Republic.

Very truly yours,

Joseph W. Lang, Jr.

Joseph W. Lang, Jr.
Acting Secretary

Mr. Marian Orzechowski
Minister of Foreign Affairs
Ministry of Foreign Affaris
Al. 1 Armii Wojska Polskiego 23
00-580 Warsaw, Poland

CC: MD
DMD
EUR
SEC
MR. R. BROWN

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August 26/86

Office Memorandum

cc: PCH

cc: HBJ
8/28

To: Mr. Whittome

From: Peter Hole

Subject: Poland

August 27, 1986

1. As foreshadowed in previous meetings with Mr. Karcz, two officials from the Polish Ministry of Finance--Mr. Krowacki and Mr. Fraczak--will visit Washington from September 8 to 15, to become better acquainted with the Fund and to prepare the ground for the Polish delegation's participation in the Annual Meeting. Mr. Krowacki will likely head a new unit, under Mr. Karcz's direction, which will coordinate relations with international organizations.

OK
LDW 27/8

I would think that after spending the first half day with the European Department, they might usefully spend a half day with SEC, a full day each with TRE, ETR and BURSTAT, and a half day with EXR. They should also call on the IMF Institute. If you agree, I will put together such a program.

2. Mr. Boniuk has passed on the message that Poland expects to be in a position to pay its portion of the reserve asset subscription on September 12. This will be accompanied by a same-day operation with cooperating member countries to pay the other part. I learned this morning that TRE had already made soundings with Germany, Italy and the U.K. concerning the latter operation; also that the Italians foresee no problems.

Mr. Hole

Office Memorandum

TO: Mr. Whittome

August 26, 1986

FROM: Hans Schmitt HS

SUBJECT: Poland--Targets and Instruments

Attached please find five memoranda for files sketching my first impressions of the relationship between policy instruments and targets in Poland. On the prior question of how one might go about setting targets in the first place, you already have an earlier memorandum that I prepared before leaving for Warsaw ("Poland--Negotiating a Program," June 25, 1986), the substance of which was incorporated in the briefing paper, and now also in the draft Staff Report. Much of what is contained in the present set of five has also been incorporated in the draft Staff Report. I would like here to comment briefly on some of the issues raised in them.

The main policy instruments used by the Polish authorities to achieve particular outturns in economic performance differ virtually not at all from those one might have chosen for the same purpose in ordinary market economies. This goes in particular for the so-called "reforms" of 1982. The first of the attached memoranda ("Poland--Economic Performance 1980-1985," July 22, 1986) observes that the recovery in the external balance was associated, at least until 1985, with a parallel recovery of domestic production. The second memorandum ("Poland--Stabilization Policy 1982," July 24, 1986) shows that much of this improvement was based on (i) a drastic reduction in, and perhaps elimination of, an overhang of excess liquidity in the economy, and along with it, (ii) a substantial shift in the distribution of income from wages and consumption to profits and savings. Both corrections were achieved by a once-over doubling in the price level such as might have been accomplished in market economies by a drastic depreciation of the currency.

What distinguishes Poland from other countries is that the price level was doubled without a commensurate depreciation of the zloty. The exchange rate was moved just enough to increase import unit values by about the same percentage as unit labor cost, or by about half the increase in the domestic price level. Competitiveness (as measured by relative unit labor cost) was thus roughly left intact when it should have been substantially improved. Competitiveness (as measured by the local currency price of exports relative to prices charged on domestic sales) deteriorated sharply. Implicitly the Polish authorities treated import unit values as a cost item on a par with unit labor cost, restraining both in order to improve profits on home sales. At a time when the restoration of production to supply the domestic market seemed an urgent priority, this outlook may have had some limited short-run plausibility.

However, the longer-term consequences for the balance of payments turned out to be very much those that would have been predicted for a typical market economy subject to the same policy impulses. After an initial recovery associated with the restoration of production, exports have stagnated; market shares lost in 1980/81 have not been recovered; and the demand for imports remains very high in relation to supply. The authorities did attempt to compensate for the exchange rate disadvantage by turning net taxes on exports into net subsidies from 1982 onward, and to do the reverse for imports, but not by enough to undo the damage ("Poland--Fiscal Operations 1980-1985," August 25, 1986). More broadly, the "reform" that would have forced enterprises to rely more on internal financing, stalled as it should have done. Without a prior correction of the exchange rate, a rigorous self-financing requirement would have favored the nontradable sector in the allocation of resources at the expense of the tradable sector, the exact opposite of what would have been required to further external adjustment.

Against this background the third memorandum ("Poland--Economic Priorities 1986-1990," July 27,1986) calls for a substantial devaluation of the zloty. Two conceptual obstacles to such a change of policy in Poland need first to be cleared up. First, exchange rate policy in Poland is expressed in terms of the proportion of actual exports that it allows to be profitable; since 1982 the objective has been 75-85 percent though in practice it has been more like 60 percent. Second, nearly two-thirds of exports have to be centrally allocated to prevent, it is said, excessive exports from draining the domestic market. To the extent that this is a problem at all, it must concern intramarginal exports, thus reducing exports below the low level to which price incentives alone would already have held them. However, it seems to me rather more likely that central allocation, like subsidies, was required to maintain exports in the face of highly adverse price relationships. Correcting these relationships will require more than allowing all current exports to become profitable; exchange depreciation will have to produce an additional margin of profitability to stimulate new exports not currently on the list at all.

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To achieve a significant increase in exports, resources, among them labor, will have to be allowed to move between firms and sectors of production. The fourth memorandum ("Poland--Labor Markets 1980-1985," August 18, 1986) addresses the question of labor mobility directly. The Polish authorities took some important steps after 1982 to promote it. In 1982 all socialized enterprises were given the freedom to establish their own wage grids within maxima and minima set by the center; in late 1984 financially "sound" enterprises were given autonomy to determine their own maxima, and thus to draw labor from the rest of the economy. But when this system began to work in 1985 the authorities lost the courage of their convictions. In a setting where price relationships, especially the exchange rate, are still seriously distorted, one is apt to sympathize with them, on the grounds that financial "soundness" is unlikely to reflect economic priority at all closely. However, what the authorities did about it, namely to ease credit standards for "unsound" enterprises, so they could compete more effectively for labor with the "sound" ones, was equally indefensible.

An easing of credit standards caused credit expansion in 1985 to accelerate well beyond the underlying increase in producer prices ("Poland--Economic Priorities 1986-1990," July 27, 1986). It thus threatened to recreate the liquidity overhang which had been largely absorbed three years earlier by a once-over doubling of the price level. Once again the consequences were much like those one would have expected in an average market economy subject to the same policy impulses. There was a prompt acceleration in inventory accumulation following two years of steady decline, and price inflation, which had moderated in the preceding two years, also picked up promptly, undergirded by the rise in unit labor cost, which jumped to over 16 percent from less than 10 percent the year before. Although the authorities concede that the economy is now seriously overheated, measures to restrict aggregate demand--other than by further price increases--do not appear to be on their agenda. It would seem imperative nevertheless to tighten credit restraints substantially, in support of the now long overdue devaluation of the zloty and a prompt realignment of domestic prices with it.

Correcting the exchange rate will provide the necessary basis for further progress in making enterprises more reliant on their own financial resources, and less on fiscal subsidies. The fifth memorandum ("Poland--Fiscal Operations 1980-1985," August 26, 1986) shows that much had already been achieved before the "reform" process stalled. In the context of the 1982 stabilization program, subsidies were cut from over 60 percent of current state enterprises to well below 50 percent; subsidies to enterprises and other economic units accounted for over 13 percentage points of this drop. It would help next to have the flow of saving through the banking system drawn to profitable enterprises rather than drawn to unprofitable ones as is often the case at present ("Poland--Economic Priorities 1986-1990," July 27, 1986). Unfortunately, the pattern of interest rates is still such that potential savers do better to hold their savings in goods rather than deposits, and such that even unprofitable borrowers can afford to pay interest at rates that remain substantially negative.

Attachments

cc: Mr. Hole
    Mission members

July 22, 1986

MEMORANDUM FOR FILES

Subject: Poland--Economic Performance 1980-85

This memorandum traces the main outlines of the adjustment process in Poland over the 1980-85 period to see how closely it may have followed the classical pattern. Some impressions may be derived from this review regarding the course that further adjustment might take should it be required. In two subsequent memoranda we will attempt (i) to identify the main policy initiatives that have contributed to the adjustment process so far, and (ii) to define the main policy adjustments that may be required to improve performance in the period ahead.

For durable results an adjustment effort must improve the trade-off between the growth of output and the external balance on current account. Poland did relatively well on this score between 1981 and 1984. The growth of real GDP recovered from a negative 10 percent to a positive 5.6 percent per annum; at the same time the deficit on external current account, in convertible currencies, narrowed from the equivalent of 5.5 percent of GDP to only 1.5 percent (Table I.1). An improved external balance was thus associated with higher not lower output growth. Much of the explanation doubtless lies in the restoration of civic order. The drop in output after 1978 was associated with labor unrest particularly in sectors producing exportables such as coal; the subsequent restoration of output under martial law was accordingly concentrated in the same sectors. The question is whether the structure of production was merely restored to its original position in the process.

As the external deficit was unsustainably large even before the disorders set in, a more fundamental shift in the structure of production is certainly required, to sectors that are better suited to international trade from sectors that are less so. Available evidence, though weak, suggests an incipient trend in that direction. By 1985, industrial production as a whole had barely recovered to its level in 1980 (Table I.2). However, omitting metallurgy as a special case, three out of the top four exporting sectors had more than recovered their 1980 production levels, while only two out of the bottom four had. Even including metallurgy, three out of the five top exporting sectors had more than recovered, while only two of the bottom five had. We need to ask, then, whether the structure of economic incentives has changed meanwhile, in a way that will reinforce these incipient shifts over time. As a first check we note that prices rose faster on average for the top five exporters than for the bottom five. But this is a topic that will be examined in greater detail in the next memorandum.

To ensure continued economic growth in the longer run, the necessary shift of resources into the balance of payments should shield investment, as much as possible. Consumption in fact bore the major burden of adjustment in Poland as shown by the decline in its ratio to GDP (Table I.3). Of course, the drop in consumption started from a relatively high base. In the decade to 1980, real consumption per capita had risen 31 percent ~~higher~~ more in Poland than it had among its major trading partners, at least in convertible currencies, and still remained 14 percent higher in 1985 despite the adjustment effort to date. Real wages in the socialized sector dropped proportionately more to contribute to this result; they fell back to just match the performance of Poland's major convertible currency trading partners by 1985. On both these scores there would seem to be room for further adjustment. In hard economic terms, the case for concessional financing of Poland's consumption levels, through debt relief or otherwise, cannot yet be said to be overly strong.

Hans Schmitt

Attachment

cc: Mission members

Table I.1. Poland: Real Output Growth and the External Current Account, 1978, 1980-85

(In percent)

Year	Real Rate of Growth of GDP	Ratio of External Current Account 1/ to GDP	Real Rate of Growth of Exports 2/ of Goods and Nonfactor Services
1978	1.7	-4.3	...
1980	-4.3	-4.6	...
1981	-10.0	-5.5	-18.2
1982	-4.8	-3.3	6.2
1983	5.6	-1.4	9.2
1984	5.6	-1.5	11.9
1985	3.2	-0.5	...

Source: Polish authorities.

1/ With the convertible currency area only.
2/ To all destinations.

Table I.2 Poland: Rates of Increase in Real Output and Prices, and the Share of Gross Output Exported, by Sector

(In percent)

Production Sector	1983 Share of gross output exported 1/	1980-1985 Cumulative rates of growth in real gross output 2/	1979-84 Cumulative rates of growth in real net material product	1979-85 Cumulative rates of increase in producer prices
Transport and communications	14.7	...	1.9	...
Industrial products	11.3	--	-12.7	293.0
Machinery and equipment	21.1	6.6	...	204.5
Fuel and energy	14.6	3.2	...	482.8
Chemicals	14.3	3.6	...	242.3
Metallurgy	14.2	-11.0	...	358.2
Light industrial products	6.4	-1.3	...	232.7
Wood and paper	5.3	5.3	...	240.7
Food processing	3.0	-1.8	...	353.6
Minerals	2.7	-4.5	...	244.3
Others	1.6	4.8	...	...
Construction services	3.8	...	-37.2	360.0
Agricultural products	1.2	...	3.1 3/	270.6

Source: Polish authorities.

1/ To both the convertible and nonconvertible currency areas.
2/ Socialized sector only.
3/ Including forestry which in 1983 exported 5.8 percent of its gross product.

Table I.3. Poland: Real Consumption per Capita and Real Wages Relative to Trading Partners, 1980-85

(Index 1970 = 100)

Year	Share of Consumption in GDP	Real Per Capita Consumption			Real Wages 1/		
		Poland	Partners	Ratio	Poland	Partners	Ratio
1980	76.1	173.1	131.7	131.4	172.1	135.5	127.0
1981	83.6	163.5	131.3	124.5	180.8	138.1	130.9
1982	70.9	143.1	131.4	108.9	136.2	139.7	97.5
1983	73.6	150.0	134.2	111.8	138.8	141.2	98.3
1984	73.3	155.2	135.4	114.6	140.4	141.0	99.6
1985	...	157.9	138.2	114.3	145.2	144.5	100.5

Source: Polish authorities.

1/ In socialized sector only.

H - Schmitt

July 24, 1986

MEMORANDUM FOR FILES

Subject: Poland--Stabilizaton Policy, 1982

A previous memorandum traced the adjustment process in Poland in 1980-85. While considerable progress was achieved toward restoring growth with external equilibrium, the evidence for a fundamental shift of resources into exportables remained weak. In this memorandum we examine the contribution of economic policy to this result, in particular the contribution of the stabilization program of 1982. A third and final memorandum will attempt to identify the modifications in the present policy mix that may be required if further external adjustment is to be achieved in the period ahead.

A key component in the 1982 stabilization program was a drastic reduction in the stock of liquidity held in the economy. The presence of a liquidity overhang was seen as a threat to an orderly recovery of production following the disturbances of 1980 and 1981. The real stock of money--that is M2 deflated by the consumer price index--was reduced by a third (Table II.1). This cut was achieved by a dramatic increase in the general price level rather than by cancelling any part of the nominal money stock outstanding. The effect was nevertheless comparable to that of a major currency reform though perhaps with a different distributional impact. The real stock of money has started to rise again since then, at rates below the growth of real GDP or industrial production in 1983 and 1984, but above them in 1985. To the extent that the overhang was absorbed one source of excess pressure on the balance of payments has also been eliminated.

The jump in the price level that cut the real money stock also improved the profit position of enterprises very sharply. Producer prices--those directly set by the authorities as well as those with more leeway--rose on average 122 percent in 1982 over the year before (Table II.2). The increase in costs, on the other hand, was quite firmly held in check; unit labor costs in particular were limited to a rate of increase of only 53 percent. The profit margins that were thus opened up provided the basis for major economic reforms aimed at making enterprises self-managing and above all self-financing, and budgetary subsidies were substantially cut. The increase in profits also contributed the major share to the increased saving required for external adjustment. Remarkably, as producer prices rose steadily by a cumulative 54 percent over the next three years, unit labor costs also rose, more erratically but by a similar cumulative

52 percent. Profit margins held, therefore. The economic reform, however, has stalled.

Associated with a sharp reduction in excess liquidity, a strengthened self-financing requirement would have helped to shift resources to more profitable sectors of production from less profitable ones. It would then have been the more important for the structure of relative prices accurately to reflect allocative priorities. In fact, the rise in 1982 of the fixed investment deflator by 28 percent relative to the consumption deflator clearly indicates the relative priority assigned to investment at the time (Table II.3). A similar priority was not assigned to net exports over supplies to the domestic market. Export unit values along with import unit values lagged far behind increases in the domestic price level, discouraging exports and encouraging imports (Table II.2). In the circumstances of the time the overriding objective was to restore production for the domestic market, and in this context import unit values were considered a cost item as much as unit labor costs.

The improvement in the external balance owed much, therefore, to a continued rationing of imports, and to the fact that despite a plethora of special incentives, nearly two thirds of exports still have to be centrally allocated. To compensate themselves for the loss, exporting enterprises may well have raised their prices on domestic sales higher than they would otherwise have done.

Hans Schmitt

Attachments

cc: Mission members

Table II.1. Poland: Changes in the Real Money Stock and in Real Output, 1980-85

Year	Nominal Money Stock 1/	Retail Price Index	Real Money Stock 2/	Real GDP	Industrial Production
1980	13.1	9.4	3.4	-4.3	-4.1
1981	20.5	21.2	-0.6	-10.0	-14.6
1982	33.2	100.8	-33.7	-4.8	-4.5
1983	25.2	22.1	2.5	5.6	5.8
1984	15.3	15.0	0.3	5.6	5.4
1985	19.5	14.8	4.1	3.2	3.9
Cumulative 1980-82	81.5		-31.9	-18.0	
Cumulative 1983-85	72.5		7.0	15.1	
Cumulative 1980-85	213.2		-27.1	-5.6	

Source: Polish authorities.

1/ Average annual holdings by households and enterprises combined.
2/ Deflated by retail price index.

Table II.2. Poland: Price and Cost Inflation, 1980-85

(Annual percent changes)

Year	Retail Price Index	Producer Price Index 1/	Unit Labor Cost 2/	Import Unit Values 3/	Export Unit Values 3/
1980	9.4	4.2	18.1	24.4	25.2
1981	21.2	10.5	48.7	9.6	10.4
1982	100.8	122.3	53.2	54.4	55.6
1983	22.1	15.3	19.6	4.1	-3.6
1984	15.0	14.5	9.5	18.3	18.9
1985	14.8	16.3	16.1	24.1	30.5
Cumulative 1980-82	166.0	156.0	169.0	110.5	115.1
Cumulative 1983-85	61.2	53.5	52.0	52.8	49.7
Cumulative 1980-85	329.0	293.0	309.0	221.6	202.0

Source: Polish authorities.

1/ In industry only.
2/ Socialized sector in local currency.
3/ Local currency, converted at the commercial exchange rate.

Table II.3. Poland: Investment Expenditure Volumes and Prices

(*In percent*)

Year	Share of Gross Domestic Investment in GDP	Change in Volume of Fixed Investment	Change in Fixed Investment Deflator Over Consumption Deflator
1980	26.3	...	(2.2)
1981	18.5	-19.1	-18.8
1982	28.0	-13.7	28.9
1983	25.0	8.8	-0.6
1984	26.3	9.8	0.8
1985	27.4	...	4.0
Cumulative 1980-82			(7.0)
Cumulative 1983-85			4.2
Cumulative 1980-85			(11.5)

Source: Polish authorities.

H. Schmitt

July 27, 1986

MEMORANDUM FOR FILES

Subject: Poland--Economic Priorities, 1986-1990

In the first of two previous memoranda we saw that, though visible progress was achieved in 1980-85 toward restoring growth with external equilibrium, the evidence for a fundamental shift of resources into exportables in Poland remained weak. In the second memorandum we found that the stabilization program of 1982 had placed a strikingly low priority on export promotion in favor of production for the domestic market. In this concluding memorandum we seek to identify the major new policy initiatives that may be required if external adjustment is to be put on a firm and durable basis.

An immediate concern will have to be the external debt that was built up during the period of disequilibrium. The external balance on current account will first have to swing into surplus, to demonstrate that Poland is capable of repaying as well as incurring external debt, before new deficits can be financed by fresh inflows of voluntary capital. To achieve such a surplus the expansion of domestic demand must for a time be held below the expansion of GDP. The control of domestic demand was materially strengthened in 1982 when the stock of domestic liquidity was reduced by one third in relation to nominal GDP (Table III.1). In the following two years credit expansion appears to have been sufficiently restrained to avoid fresh accumulations of excess liquidity. In 1985, however, the contribution of credit expansion to the growth in the money stock was pushed substantially beyond the rate of increase in producer prices, and as a first reaction inventory accumulation in industry jumped. Domestic credit expansion will have to be more firmly restrained in Poland if domestic demand is to be properly controlled in the period ahead.

A fundamental priority for the longer run will need to be the expansion of exports. The potential growth of the economy will be higher if it is export-led because of the benefits of specialization which increased trade will yield. The higher the growth rate of exports and of GDP, the lower also will be the burden that external debt service will place on the growth of domestic demand. To promote exports, and to economize as much as possible on imports, their prices will have to be raised relative to those charged on domestic sales. Unfortunately, those prices lost ground substantially in the context of the 1982 stabilization program (Table

III.2). Apparently the authorities have already become aware of the need to correct this error--in 1984 and 1985 together export unit values rose by nearly 17 percent in relation to producer prices and by 22 percent in relation to unit labor cost. To fully undo the damage inflicted in the years 1981-83 together, these figures should be raised to 71 percent and 64 percent, respectively. No amount of special incentives has yet compensated exporters for this price disadvantage. To correct it in one go may be unnecessarily disruptive especially if more yet were to prove necessary. But a firm timetable should certainly be set.

The distribution of the restraint that will meanwhile have to be placed on domestic demand must be a third area of concern. A careful review of the productivity of individual investments will test the scope for economizing on total investment with minimum loss to long-term growth; by the same token a higher yield in terms of long-term growth may reconcile consumers to some minimum degree of short-term restraint. The allocation of investment can be improved, once the price disadvantage of exporting has been corrected, by tying a larger proportion of investment to the self-financing capabilities of individual enterprises, rather than to their access to public subsidies. That shift is already in train in Poland. It would help next to have the flow of savings through the banking system drawn to profitable enterprises rather than directed to unprofitable ones as is often the case at present. Unfortunately, the pattern of interest rates is still such that potential savers do better to spend their money on goods rather than to deposit it, if they cannot take it abroad instead, and such that even unprofitable borrowers can afford to pay interest rates that remain substantially negative in real terms (Table III.3).

Hans Schmitt

Attachments

cc: Mission members

Table III.1. Poland: Credit Expansion and Monetary Growth, 1980-85

(*In percent*)

Year	Growth of the Nominal Money Stock 1/	Change in Money Balances to GDP 2/	Contribution of DCE to Money Growth 3/	Change in Producer Price Index	Change in Value of Inventories 4/
1980	12.6	11.9	31.0	4.2	...
1981	27.5	10.6	35.5	10.5	10.6
1982	37.6	-34.0	36.0	122.3	95.8
1983	16.2	0.2	16.7	15.3	14.2
1984	14.5	-6.9	15.7	14.5	12.6
1985	23.9	-1.0	23.8	16.3	20.1

Source: Polish authorities.

1/ Percent change through the year in the broad money stock (M2).
2/ Percent change in the ratio of the average money stock to GDP.
3/ Credit increment during the year as percent of initial money stock.
4/ Percent change through the year in current prices in socialized industry.

Table III.2. Poland: Trade Volumes and Prices, 1980-85

(In percent)

Year	Growth in the Volume of Exports 1/	Growth in Export 1/ Volumes Relative to GDP	Rise in Export Unit Values 2/	Rise in Export Unit Values Relative to Unit Labor Costs	Rise in Export Unit Values Relative to Producer Price Index
1980	...	...	25.2	18.1	20.2
1981	-24.1	-37.1	10.4	-25.8	--
1982	5.8	11.1	55.6	1.6	-30.0
1983	14.9	8.8	-3.6	-19.3	-16.4
1984	12.4	6.4	18.9	8.6	3.8
1985	-3.6	-6.6	30.5	12.4	12.2
Cumulative					
1981-83				-39.2	-41.5
1984-85				22.1	16.5
1983-85				-1.5	-3.3

Source: Polish authorities.

1/ In convertible currencies.
2/ In local currency.

Table III.3. Poland: The Exchange Rate and the Yield on Deposits, 1980-85

(*In percent*)

Year	Change in Commercial Exchange Rate for the U.S. dollar	Local Currency Yield on Deposits Held Abroad 1/	One Year Local Deposit Rate for Households 2/	Rate on Investment Credits to Enterprises 3/
1980	10.3	19.5	6.5	8.0
1981	15.7	26.8	6.5	8.0
1982	65.5	74.8	10.0	9.0
1983	8.0	15.0	10.0	9.0
1984	24.1	32.2	10.0	12.0
1985	29.4	35.6	10.0	12.0

Source: Polish authorities.

1/ Percent change in commercial exchange rate plus one-year Eurodollar deposit rate.

2/ On twelve-month savings deposits.

3/ In the socialized sector, with the exception of mining and power industries, state farms, and cooperative farms.

Mr. Schmitt

Office Memorandum

August 18, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland--Labor Markets, 1980-1985

In a set of three previous memoranda we concluded that, to promote exports in Poland and to economize as much as possible on imports, prices in foreign trade will have to be substantially increased relative to those charged on sales to the domestic market. To achieve this result domestic costs, particularly labor cost, will have to be kept from rising in tandem with the general price level as the exchange rate depreciates. In this memorandum recent developments in the labor market are reviewed in order to judge the prospects for wage restraint in Poland, and to identify the major policy instruments available to strengthen it in the proximate future.

As a first step we compare movements in unit labor costs with those in producer prices over the period 1980-85. Table IV.1 shows that the dramatic jump in producer prices associated with the 1982 stabilization program outdistanced labor costs by a wide margin. Real unit labor costs dropped by nearly one third as a result. This margin was on balance maintained over the three following years by discouraging increases in nominal wages at least through 1984, but also by raising prices--to undo the effects on purchasing power of wage increases that could not be resisted. From over 50 percent in 1982 the rise in nominal labor costs slowed to less than 10 percent in 1984 before rebounding strongly to 16 percent in 1985. In response price inflation also continued at a relatively high rate, and in 1985 in fact accelerated. We need ~~therefore~~ to know why wage restraint ~~came~~ unravelled in 1985.

In the view of the Polish authorities a competitive bidding up of wages can be traced to shortages of manpower that they feel have intensified during the last three years. Table IV.2 shows registered job vacancies reaching a maximum in 1985, and registered job seekers a minimum. The decline in socialized sector employment bottomed out in 1982 and has since been reversed, at the same time that employment in the nonsocialized sector has stabilized. In order not to lose workers drawn by higher pay elsewhere, many enterprises granted wage increases in 1985 which they could not afford, and which were accommodated by an easing of credit standards by banks. To minimize this phenomenon legislation is now being considered to impose fines on workers changing jobs. To ease the underlying shortage of labor, incentives for working overtime have already been introduced, older workers have been encouraged to postpone retirement, and pensioners have been encouraged to return to the work force. Measures to restrict demand--other than by letting prices rise--are not on the agenda.

A more fundamental method for reconciling wage pressures with price stability would be through productivity increases. Table IV.3 shows that taking socialized industry alone, increases in productivity per hour worked have averaged just over 5 percent annually since 1982, but may well slow down now the recovery phase has been completed. It is at any rate manifest that further increases will be undermined by placing barriers such as fines in the way of labor mobility just when it seems to be catching on. In 1982 all socialized enterprises were given the freedom to establish their own wage grids within maxima and minima set by the center; in late 1984 financially sound enterprises were given autonomy to determine their own maxima, and thus to draw labor from the rest of the economy. In 1982 also, a tax was imposed on wage increases in the socialized sector going beyond ceilings linked to output growth. The deterrent effect of this tax has apparently begun to fray--particularly in 1985--under the pressure of demand.

The regulations in effect in Poland allow enterprises to pass cost increases beyond their control directly into prices. Wage increases are judged to be within their control and thus cannot be passed on. This matters little as long as higher wage costs can be financed through easier access to credit. That credit will therefore have to be restricted if wage increases are to be contained ~~at all~~.

Hans Schmitt

Attachments

cc: Mr. Whittome
Mr. Hole
Mission members

Table IV.1. Poland: Labor Costs and Producer Prices

(*Percent changes year-on-year*)

Year	Nominal Unit Labor Costs 1/	Producer Prices 2/	Real Unit Labor Costs 3/
1980	18.1	4.2	13.3
1981	48.7	10.5	34.5
1982	53.2	122.3	-31.1
1983	19.6	15.3	3.7
1984	9.5	14.5	-4.3
1985	16.1	16.3	-0.2
Cumulative:			
1981/82			-0.9
1983/85			-0.1

Source: Polish authorities.

1/ Socialized sector.
2/ In industry.
3/ Deflated by producer prices.

Table IV.2. Poland: Labor Market Indicators

(In thousands)

Year	Registered Job Vacancies	Registered Job Seekers	Total Employment 1/	Socialized Sector Employment	Nonsocialized Sector Employment
1980	98	10	17,769	12,798	4,971
1981	119	26	17,655	12,525	5,130
1982	248	9	17,629	12,197	5,432
1983	234	5	17,654	12,238	5,416
1984	262	5	17,722	12,324	5,398
1985 2/	266	4	17,915	12,452	5,463

Source: Polish authorities.

1/ End-of-year data not converted to a full-time equivalent basis.
2/ Provisional.

Table IV.3. Poland: Labor Productivity

(Annual percentage changes)

Year	Productivity Per Worker 1/	Workers Employed 2/	Hours Worked 3/	Productivity per Hour Worked 4/
1980	-4.3	-0.2	-3.4	-1.1
1981	-14.1	-1.1	-16.5	1.8
1982	0.3	-5.1	-11.0	7.0
1983	6.8	-1.4	--	5.3
1984	5.6	-0.7	-0.9	5.8
1985	5.0	-1.2	-1.2	5.0

Source: Polish authorities.

1/ Net output per unit of labor in socialized industry in constant 1980 prices.
2/ Employment in socialized industry.
3/ In material sphere of industry. For 1985 it is for the material sphere of socialized sector excluding agriculture.
4/ Implied by preceding three columns.

Office Memorandum

August 26, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland--Fiscal Operations, 1980-85

In a set of three previous memoranda we observed that the sharp increase in the general price level in 1982 outdistanced labor costs by a wide margin. The profit margins that were thus opened up provided the basis for major economic reforms aimed at making enterprises self-managing and above all self-financing thus reducing their need for budgetary subsidies. In this second of two sequels we examine the role of public finance in the allocation of resources in Poland, both before and after the 1982 stabilization program, to see how its contribution to external adjustment may be enhanced in the period ahead.

The major function of the State budget in Poland has been to redistribute resources through transfers and subsidies. Table V.1 shows that in the crisis period through 1981 transfers and subsidies reached nearly three-fourths of current expenditures. Though this proportion was taken down in the context of the 1982 stabilization program, transfers and subsidies remain at just under two-thirds of current expenditures a predominant concern for the State budget. Transfers alone in fact increased, not only to other government units but even more to households, in the form of social insurance and welfare benefits which were raised to take account of a doubling in the general price level that year. However, the decline in subsidies more than offset the increase in transfers--they were cut from over 60 percent of current expenditures before, to well below 50 percent after 1982. The largest decline was in subsidies to enterprises and other economic units--they dropped by 13 percentage points in relation to current expenditures. The subsidies that remain in this category are largely to foreign trade, and to coal.

The total expenditures of the general government--including the extrabudgetary funds that finance expenditure for cultural, educational and social purposes--fell in relation to GDP from over 60 percent in the crisis years to about 50 percent in 1982 and after, as shown in Table V.2. Revenues continued to fluctuate narrowly around 50 percent of GDP throughout. The stability of the revenue ratio is noteworthy considering how pervasive, and often ad-hoc, tax reliefs and exemptions appear to be in Poland; on the profit tax alone such reliefs and exemptions in effect added 7 percent to enterprise subsidies in 1982, and no less than 23 percent in 1985 (Table V.1)! Their allocative effect remains to be examined. Meanwhile, the constancy of the revenue ratio helped in cutting back the general government deficit from over

10 percent of GDP to below 1 percent in 1982, and to cause it to disappear altogether in 1985. To be sure, not all extrabudgetary funds are included in the general government budget; together, however those excluded are estimated to have been in substantial surplus in 1985. All told, therefore, the public sector in Poland has not in recent years claimed a significant part of the domestic supply of credit, nor added significantly to the country's burden of external debt.

The Polish authorities have not set any target to which public expenditures have to be kept in relation to GDP. A further reduction is nevertheless implied in the objective to increase the financial autonomy of enterprises--the centerpiece of economic reform--and to phase out the remaining enterprise subsidies in the process, notably those on foreign trade and on coal. Table V.3 shows how, in 1982, net taxes were turned into net subsidies for exports and the reverse for imports correcting, if only in part, the effects of the very sharp real appreciation of the zloty in that year. The major unfinished business for reform in Poland--interpreting reform in terms mainly of external adjustment--would therefore seem to lie in correcting the distortion in the prices charged on foreign trade, relative to those charged on domestic transactions, through an appropriate depreciation of the zloty. Once that is done no economic justification remains for subsidies to exports, nor for any unusual taxes on imports. Since abolishing both would reduce revenue more than expenditure, offsetting actions elsewhere will probably be called for.

I attach a memorandum by J. Prust in which he expands, and in some instances qualifies, the observations I have made here.

Hans Schmitt

Attachments

cc: Mr. Whittome
Mr. Hole
Mission members

HOS/poltabV1
8/20/86

Table V.1. Poland: State Budget Operations 1/

(In zloty billions)

	1980	1981	1982	1983	1984	1985
Expenditure	1,243	1,463	2,568	2,850	3,595	4,345
Current expenditure	1,138	1,364	2,300	2,468	3,143	3,754
Transfers	110	147	454	474	561	680
Population 2/	31	43	203	212	230	226
Other government 3/	79	104	251	262	331	454
Subsidies	720	849	1,146	1,140	1,487	1,721
Population 4/	300	363	573	576	749	860
Enterprises & other econ.units 5/	420	486	574	564	738	861
Other	308	368	700	854	1,095	1,353
Capital expenditure	105	100	268	382	452	591
Revenue	1,214	1,149	2,405	2,708	3,403	4,224
Balance	-29	-316	-163	-143	-192	-121
Memorandum item:						
Tax exemptions and reliefs 6/			40.3	84.3	133.1	201.3
Of which for exports			16.9	32.6	52.5	71.9

Source: Polish authorities.

1/ Central government and the local authorities.
2/ Social insurance and welfare benefits.
3/ To extrabudgetary funds and other organizations to finance expenditures for cultural, educational, and social purposes.
4/ Subsidies mainly on housing, food, transport, and fuel.
5/ Subsidies mainly on foreign trade and fuel.
6/ On profits taxes only.

HOS/poltabV2
8/20/86

Table V.2. Poland: General Government Accounts 1/

(In percent of GDP)

Year	Expenditure	Revenue	Deficit	Domestic Bank Financing	Foreign Financing
1980	...	...	...	...	...
1981	60.5	49.9	10.6	9.8	1.0
1982	52.8	50.3	2.5	0.9	1.7
1983	49.0	48.2	0.8	0.4	0.5
1984	50.1	49.6	0.5	0.2	0.5
1985	50.7	50.7	--	-0.2	0.5

Source: Polish authorities.

1/ Includes central government, local authorities, and extrabudgetary funds.

HOS/poltabV3
8/20/86

Table V.3. Poland: Taxes and Subsidies on Foreign Trade

(In zloty billions)

	1980	1981	1982	1983	1984	1985
Exports						
Levies and taxes 1/	74.5	77.2	69.9	55.0	67.8.	101.9
Refunds in port duties and turnover tax	8.9	7.4	4.9	1.6	1.1	--
Subsidies	38.8	32.9	90.8	156.9	232.3	284.0
CMEA	...	...	40.1	50.8	75.8	93.1
Agricultural and food	...	...	36.8	61.7	96.1	134.5
Shipbuilding	...	...	4.9	11.6	15.9	12.0
Net charge	26.8	36.9	-25.8	-103.5	-165.6	-182.1
Imports						
Equalization levies	3.9	4.4	84.9	93.1	107.4	130.7
Import duties	31.8	24.9	26.6	29.2	41.0	64.9
Turnover tax	35.4	38.7	11.4 2/	115.1	180.1	201.1
Total charge	71.1	68.0	122.9	237.4	328.5	396.7
Subsidies	119.7	132.9	63.7	48.1	61.1	82.6
Net charge	-48.5	-64.9	59.2	189.3	267.4	314.1

Source: Polish authorities.

1/ Including raw material tax phased out in 1982.

2/ Changeover in accounting system may have caused some of the yield to have been booked in 1983.

Office Memorandum

To: Mr. Schmitt

August 25, 1986

From: J. Prust J.P.

Subject: Poland - Fiscal Operations

There is no denying the improvements in the budgetary position since 1982 that are documented in your memorandum. This applies both to effects on the level of aggregate demand--as measured by the budget deficit--and to effects on the composition of demand--as measured, above all, by the decline in the relative importance of subsidies and their present confinement to relatively few items. Nevertheless, I think much may still need to be done in both areas.

In gauging the appropriate size of the budget deficit, a crucial factor is the possible need to absorb excess liquidity or, to put the point more neutrally, to create as many of the conditions as possible to prevent unplanned increases in the velocity of monetary circulation in some putative post-reform period. This is a big issue and not one which I want to go into here. My main point, though, is that some liquidity absorption could well be prudent and an increase (reduction) in the budget surplus (deficit) would seem a natural way to achieve it.

There is also a more specific conjunctural concern about the budget deficit. At the general government level the major contribution to reducing the deficit since 1982 has been from the extrabudgetary funds. During the recent mission the Poles spoke of a planned depletion in the assets of the Pension Fund--the largest of the extrabudgetary funds--through 1990. If this materializes the general Government's position could deteriorate considerably unless there are offsetting measures.

My second main point concerns the extent to which the budget is still an agency for the discretionary intermediation of resources. It is very hard to tell. On the one hand one can argue, very much as you do, that subsidies (in particular those to enterprises) have fallen in relation to all the key aggregates with which they might be compared and that they are now localized, with coal and agricultural exports accounting for a high proportion. Moreover, one should not overdramatize the importance of tax exemptions: they exist in all countries and, although--as for income tax relief for exporters, for example--there may be more efficient ways of getting the same result, there is no reason to suppose that they necessarily contribute to a weakening of financial discipline. There are, though, a number of other considerations to set against this relatively sanguine assessment. I will list the main ones that occur to me but in no paricular order of importance:

(i) We know relatively little about the granting of income tax concessions for purposes other than export promotion except that they are used to encourage "high priority" activities. Such concessions in 1985 amounted to Zl 130 billion.

(ii) There are very large exemptions from the requirement to transfer one half of capital amortization provisions to the budget. In 1985 enterprises retained Zl 349 billion of their amortization provision and only Zl 63 billion was transferred to the budget, i.e., there were exemptions from the standard provisions that cost the budget about Zl 140 billion.

(iii) Exemptions from the PFAZ (levy on excessive wage increases) appear to have been sustantial in 1985. The Wage Fund grew by 5.7 percentage points, or about Zl 145 billion, more than planned. Despite the fact that PFAZ rates were steeply progressive--up to a maximum of 500 percent on the sixth and each subsequent percentage point increase above the authorized threshold--budget revenues from the PFAZ were only Zl 132 billion. There were certain clearly authorized exemptions to assist recovery from the effects of the 1985 winter. Nevertheless, the main point is that the effective rate of taxation was less than 100 percent when it "should" have been several times higher.

(iv) We know relatively little about the provision of investment financing to enterprises from the budget. In 1985 such financing was budgeted at Zl 171 billion.

(v) The role of extrabudgetary funds--both those officially classified as such and those that have an indeterminate status--in intermediating resources is a topic needing further investigation. The funds that we know little about (the "extra-extra-budgetary funds") may, as you say, be in surplus and their absolute size may be small. But this does not say very much about the scale or nature of their operations. Moreover, NBP officials spoke during the mission of access to extrabudgetary funds by enterprises as being a serious impediment to an effective tightening of credit policy.

(vi) In certain sectors at least, tax liabilities are assessed for a group of enterprises in the aggregate with the distribution of the total liabililty within the group left to those immediately concerned (see Ms. Swiderski's memoranda on meetings on energy during the recent World Bank mission).

What is clear from the above is that the amount of discretionary financial assistance from the budget--apart from subsidies and apart from relief granted to exporters--is very large. In particular, it is large in relation to enterprise profits. The total amount of items on the above list that can be quantified was Zl 441 billion in 1985; this is equivalent to almost 20 percent of enterprise profits before income tax and 39 percent of after-tax profits. Moreover, I suspect that in practice it is not the aggregate numbers that one should be looking at but rather at the scale of relief that may be available to enterprises that are in financial difficulty, i.e., abstracting from the perverse effects of misaligned prices on profitability, those whose operations most need restructuring. The ratio of financial relief from the budget to profits for this subset of enterprises could look considerably worse than the aggregate ratios.

I am not sure that all this leads very far because budgetary actions are only one of very many ways of weakening financial discipline. It would be a Pyrrhic victory to block all the budgetary loopholes only to find that credit policy, for example, had taken over from the budget as the main source of ad hoc financial relief. But it does seem to me that the scale of financial intermediation though the budget is now so great that, as a minimum, some further investigation would be in order before we can safely conclude that its effects are basically benign.

Finally, let me make two technical points. First, you asked why subsidies on foreign trade in Table V.3 are less than subsidies to enterprises in Table V.1. The answer is that the latter also includes other subsidies, in particular for coal mining and agriculture (Zl 314 billion in 1985). Secondly, I suspect it may be a little misleading to regard transfers to "other government" (Table V.1) as transfer payments proper. I understand that to a large extent these payments finance expenditure of extrabudgetary entities that in many countries would be the responsibility of the central government proper.

cc: Mr. Hole
Ms. Swiderski
Mr. Sheehy
Mr. Wolf

Office Memorandum

TO: Mr. Schmitt

DATE: August 13, 1986

FROM: K. A. Swiderski KAS

SUBJECT: Poland--Memo on the Labor Market

I have just two comments on your draft note on labor markets dated August 11, 1986.

1. Your note does not discuss the reasons for the emergence of the acute labor shortage in 1982-85 and whether this was, indeed, the only factor putting pressure on wages. This would appear to be relevant in determining a menu of policy options from which to choose in the future. One possible story explaining events over this period could be the following:

a. Labor market aspects

In 1982 producers' excess demand for labor increased on three accounts:

(i) various schemes were introduced to stave off unemployment in the reform period (e.g., early retirement, three years of paid maternity leave) with the result that the supply of labor declined in 1982-83 before turning up in 1984; over the entire period it fell by nearly 2 percent, compared with an increased supply of other inputs.

(ii) the introduction of central allocation of labor produced hoarding tendencies.

(iii) the price of raw and basic intermediate goods rose by 30 percent more than the price of labor as a result of their adjustment toward world levels (I suspect this was also true for the capital/labor price ratio). To the extent that producers respond to relative price changes, and in view of the fact that labor's share of total costs was small to start with, this would have contributed to increasing the excess demand for labor.

Evidence of the increased tightness of the labor market in 1982 is the marked widening of the gap between new staff requested by enterprises from labor exchanges and the number of registered job seekers (your Table IV.2).

b. Aggregate demand aspects

Following an exceptional loss in 1981, the profit position of enterprises improved significantly in 1982, with increasing profits being recorded thereafter. This was reflected in strong investment demand pressures. In the event, while private (total) consumption was

4(0) percent lower in 1985 relative to 1981, total (fixed) investment was 13(4) percent higher. Over the same period material output increased by 9 1/2 percent.

c. Structural changes in the wage system

The link between wages and productivity levels has traditionally been weak. In an effort to address this issue, and in the spirit of the economic reforms, enterprises have gradually been given greater autonomy since 1982 to design their own wage structure without being bound by national wage tables. A tax on excessive wage increases was to serve as the main instrument of wage control, although exceptions to the basic rules and exemptions for preferential sectors have been pervasive in the implementation of the tax. At the same time the pricing (and allocation) of other inputs has remained quite centralized. In these circumstances, the resulting trade off between providing incentives for higher productivity, through decentralization of the wage system, and controlling wage costs has proved to be steep.

The interaction of the three above factors--which were backed by accommodating financial policies, particularly in 1985--has resulted in wage increases consistently exceeding planned levels and, at least in the official market, some widening of the imbalance between nominal incomes and available supplies. Some price accommodation, however, has maintained the increase in real wages to less than 3 percent in each year.

The circumstances described above, the low foreseeable increase in the working age population, together with the likely decision to further increase raw and basic material prices (in the aggregate as opposed to only relative changes) toward world market levels--which would decrease the relative price of labor further--would suggest the implementation of some combination of the following policy options.

(1) more effective wage controls, which in the Polish case would imply streamlining the existing system and removing the plethora of exemptions. In the long run wage controls would defeat efforts to increase efficiency; over time increased reliance would have to be placed on the enforcement of a tight budget constraint.

(2) the imposition of a tax on labor to offset the relative price effects of labor vis-à-vis other inputs described above.

(3) more restrictive demand management. Given the relative buoyancy of investment demand, measures to restrict the latter would have to be focused on.

2. I think you underestimate the potential there is for larger increases in labor productivity (though I think it would be a risky

strategy to rely on considerable improvements on this front during the period of a program). Many Poles would argue that one of Poland's main problems is its apathetic work force.

(i) the motivational element is weak; a very substantial share of remuneration continues to be unrelated to output developments.

(ii) press clippings frequently cite cases where workers are idle for long periods of time because the required materials have not arrived or the machinery is not working, or where it is the practice to leave the office during regular hours to take care of one's own business.

(iii) the average sick leave taken by a worker in the socialized sector is four weeks per year. Unjustified leave per worker amounts to one week. This is over and above a normal vacation of four weeks.

One question that puzzles me is why enterprises prefer to seek additional labor rather than focus on measures that would improve labor productivity. I suspect that this is related to the rigidities that are still inherent in the wage system and labor code as well as the absence of the unemployment threat.

cc: Mission members

cc: EED

RECEIVED
1986 AUG 26 PM 12:00
EUROPEAN DEPARTMENT

AUG 26 1986

Dear Mr. Minister:

On behalf of the Executive Board and staff, I wish to welcome you into the International Monetary Fund as Governor for the Polish People's Republic.

Sincerely yours,

Richard D. Erb
Acting Managing Director

Honorable Bazyli Samojlik
Governor of the International
Monetary Fund for Poland
Ministry of Finance
ul. Sweitokrzyska 12
00-044 Warsaw, Poland

CC: MD
DMD
EUR
SEC
MR. R. BROWN

MDennison:mc
August 25/86

Office Memorandum

August 21, 1986

MEMORANDUM FOR FILES

SUBJECT: Annual Meeting--Poland

During the Annual Meeting the Polish delegation will be split between hotels. The two Governors and their Alternates will be staying at the Sheraton but the remainder of the delegation will be staying at the Highland on Connecticut Avenue. The whole delegation is expected to arrive on September 26.

L.A. Whittome

cc: Mr. Lang
Mr. Hole

cc [illegible]

AMBASADA
POLSKIEJ RZECZYPOSPOLITEJ LUDOWEJ
W WASZYNGTONIE
—
EMBASSY
OF THE POLISH PEOPLE'S REPUBLIC
2640 · 16TH STREET, N.W.
WASHINGTON, D. C. 20009
TELEPHONE 202/234-3800

August 22, 1986

LIST OF THE MEMBERS
of the Delegation of the Polish People's Republic for 1986 Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank and affiliates

Chairman:

1. Mr. Bazyli SAMOJLIK, Governor of the International Monetary Fund, Minister of Finance of the Polish People's Republic /since July 17, 1986/.

Members:

2. Mr. Zdzisław PAKUŁA, Temporary Alternate Governor of the International Bank for Reconstruction and Development, First Deputy to the President of the National Bank of Poland.
3. Mr. Zbigniew KARCZ, Alternate Governor of the International Monetary Fund, Director of the Foreign Department of the Ministry of Finance.
4. Mr. Grzegorz WOJTOWICZ, Alternate Governor of the International Bank for Reconstruction and Development, Member of the Board, Director of the Foreign Department, National Bank of Poland.
5. Mr. Stanisław PAWLAK, Advisor to the Fund and Bank, Director of the International Organizations Department, Ministry for Foreign Affaires.
6. Mr. Stanisław RĄCZKOWSKI, Advisor to the Fund and Bank, Advisor to the Chairman of the Planning Commission.
7. Mr. Jan BONIUK, Advisor to the Fund and Bank, Counsellor /Financial Affaires/, Embassy of the Polish People's Republic in Washington, D.C.
8. Mr. Krzysztof KROWACKI, Advisor to the International Monetary Fund, Advisor to the Minister of Finance.

9. Mr. Mieczysław FRĄCZAK, Advisor to the International Monetary Fund, Advisor to the Minister of Finance.
10. Mr. Andrzej ILCZUK, Advisor to the International Bank for Reconstruction and Development, Deputy Director of the Foreign Department, National Bank of Poland.
11. Mr. Jacek CZABAŃSKI, Advisor to the International Monetary Fund, Chief legal Advisor to the Ministry of Finance.

Washington, D.C.
August 22, 1986

subject

Office Memorandum

TO: Mr. Grosche August 21, 1986

FROM: L.A. Whittome

SUBJECT: Poland

I should warn you in advance that Mr. Boniuk, the Economic Counselor at the Polish Embassy in Washington will be contacting your office in the coming days to ask you to arrange for a meeting between the Polish Minister of Finance, Mr. Bazyli Samojlik and your Minister during the time of the Annual Meeting. Minister Samojlik would be accompanied by Mr. Karcz and perhaps by one other official. Mr. Samojlik speaks good English and I understand that he hopes for a meeting of approximately 20-30 minutes.

Office Memorandum

TO: Mr. Nebbia August 21, 1986

FROM: L.A. Whittome

SUBJECT: Poland

I should warn you in advance that Mr. Boniuk, the Economic Counselor at the Polish Embassy in Washington will be contacting your office in the coming days to ask you to arrange for a meeting between the Polish Minister of Finance, Mr. Bazyli Samojlik and your Minister during the time of the Annual Meeting. Minister Samojlik would be accompanied by Mr. Karcz and perhaps by one other official.

Mr. Samojlik speaks good English and I understand that he hopes for a meeting of approximately 20-30 minutes.

Subject

Office Memorandum

TO: Mr. Huang

August 21, 1986

FROM: L.A. Whittome LAW

SUBJECT: Poland

I should warn you in advance that Mr. Boniuk, the Economic Counselor at the Polish Embassy in Washington will be contacting your office in the coming days to ask you to arrange for a meeting between the Polish Minister of Finance, Mr. Bazyli Samojlik and your Minister during the time of the Annual Meeting. Minister Samojlik would be accompanied by Mr. Karcz and perhaps by one other official.
Mr. Samojlik speaks good English and I understand that he hopes for a meeting of approximately 20-30 minutes.

subject

Office Memorandum

TO: Madame Ploix

August 21, 1986

FROM: L.A. Whittome

SUBJECT: Poland

I should warn you in advance that Mr. Boniuk, the Economic Counselor at the Polish Embassy in Washington will be contacting your office in the coming days to ask you to arrange for a meeting between the Polish Minister of Finance, Mr. Bazyli Samojlik and your Minister during the time of the Annual Meeting. Minister Samojlik would be accompanied by Mr. Karcz and perhaps by one other official.

Mr. Samojlik speaks good English and I understand that he hopes for a meeting of approximately 20-30 minutes.

Subject

Office Memorandum

TO: Mr. Lankester

August 21, 1986

FROM: L.A. Whittome

SUBJECT: Poland

I should warn you in advance that Mr. Boniuk, the Economic Counselor at the Polish Embassy in Washington will be contacting your office in the coming days to ask you to arrange for a meeting between the Polish Minister of Finance, Mr. Bazyli Samojlik and the Chancellor during the time of the Annual Meeting. Minister Samojlik would be accompanied by Mr. Karcz and perhaps by one other official.

Mr. Samojlik speaks good English and I understand that he hopes for a meeting of approximately 20-30 minutes.

Subject

Office Memorandum

TO: Mr. Perez

August 21, 1986

FROM: L.A. Whittome

SUBJECT: Poland

I should warn you in advance that Mr. Boniuk, the Economic Counselor at the Polish Embassy in Washington will be contacting your office in the coming days to ask you to arrange for a meeting between the Polish Minister of Finance, Mr. Bazyli Samojlik and the Minister of Finance of Mexico during the time of the Annual Meeting. Minister Samojlik would be accompanied by Mr. Karcz and perhaps by one other official. Mr. Samojlik speaks good English and I understand that he hopes for a meeting of approximately 20-30 minutes.

cc: HBJ
8/19.
cc HBJ
9/25

Office Memorandum

TO: Mr. Whittome

DATE: August 19, 1986

FROM: Peter Hole

SUBJECT: Paul McCarthy's Article

I would not propose to comment on the first ten pages of Paul McCarthy's article other than to say that I was puzzled by his final point on page 5 and to underscore his point on page 9 that the policy of denying Poland new credits may no longer be viable--for a reason he does not mention, namely that the Poles (having paid US$2 billion a year in debt service over the past four years with no new credits to show for it) are edging away from their previous approach toward their debt obligations and toward a Peruvian approach.

The ZCT notion is an intriguing, and in many ways a creative, one. It is also, of course self-serving--representing one banker's views of how the banks might position themselves ahead of the arm-twisting that would accompany a Fund arrangement for Poland. Herein lie a number of questions

- the concept seems to envisage both collateralization of new bank credits and a Fund program. Is this not excessive?
- should the Fund, having agreed a program, be indifferent to the terms of complementary financing--specifically to an effective interest rate which would be 20 percent higher than it would otherwise be?
- should we be indifferent to efforts to provide financing which, by its nature, is not reschedulable, or not easily reschedulable?

Looking at the idea from the banks' standpoint, McCarthy is surely right in suggesting that the attitude of the regulators will be crucial. Interestingly, he no longer mentions the possibility of collateralizing the outstanding stock of bank debt through the separate purchase by Poland of a jumbo ZCT. This would be a nonstarter for the Poles. Yet would banks or the regulators be receptive to providing new money without addressing the problem of the old debt?

An alternative, of course, would be a moratorium on all principal payments on the stock of existing debt for, say, 10-15 years. Wiping the slate clean for such a period would help concentrate Polish minds on the task at hand and might clear the way for new credits, on market terms, following the negotiation of a Fund program.

All this said, the ZCT idea is an interesting one, well worth exploring further.

cc: Mr. Schmitt

Mr. Whittome

Office Memorandum

August 18, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland--Labor Markets, 1980-1985

In a set of three previous memoranda we concluded that, to promote exports in Poland and to economize as much as possible on imports, prices in foreign trade will have to be substantially increased relative to those charged on sales to the domestic market. To achieve this result domestic costs, particularly labor cost, will have to be kept from rising in tandem with the general price level as the exchange rate depreciates. In this memorandum recent developments in the labor market are reviewed in order to judge the prospects for wage restraint in Poland, and to identify the major policy instruments available to strengthen it in the proximate future.

As a first step we compare movements in unit labor costs with those in producer prices over the period 1980-85. Table IV.1 shows that the dramatic jump in producer prices associated with the 1982 stabilization program outdistanced labor costs by a wide margin. Real unit labor costs dropped by nearly one third as a result. This margin was on balance maintained over the three following years by discouraging increases in nominal wages at least through 1984, but also by raising prices--to undo the effects on purchasing power of wage increases that could not be resisted. From over 50 percent in 1982 the rise in nominal labor costs slowed to less than 10 percent in 1984 before rebounding strongly to 16 percent in 1985. In response price inflation also continued at a relatively high rate, and in 1985 in fact accelerated. We need therefore to know why wage restraint came unravelled in 1985.

In the view of the Polish authorities a competitive bidding up of wages can be traced to shortages of manpower that they feel have intensified during the last three years. Table IV.2 shows registered job vacancies reaching a maximum in 1985, and registered job seekers a minimum. The decline in socialized sector employment bottomed out in 1982 and has since been reversed, at the same time that employment in the nonsocialized sector has stabilized. In order not to lose workers drawn by higher pay elsewhere, many enterprises granted wage increases in 1985 which they could not afford, and which were accommodated by an easing of credit standards by banks. To minimize this phenomenon legislation is now being considered to impose fines on workers changing jobs. To ease the underlying shortage of labor, incentives for working overtime have already been introduced, older workers have been encouraged to postpone retirement, and pensioners have been encouraged to return to the work force. Measures to restrict demand--other than by letting prices rise--are not on the agenda.

A more fundamental method for reconciling wage pressures with price stability would be through productivity increases. Table IV.3 shows that taking socialized industry alone, increases in productivity per hour worked have averaged just over 5 percent annually since 1982, but may well slow down now the recovery phase has been completed. It is at any rate manifest that further increases will be undermined by placing barriers such as fines in the way of labor mobility just when it seems to be catching on. In 1982 all socialized enterprises were given the freedom to establish their own wage grids within maxima and minima set by the center; in late 1984 financially sound enterprises were given autonomy to determine their own maxima, and thus to draw labor from the rest of the economy. In 1982 also, a tax was imposed on wage increases in the socialized sector going beyond ceilings linked to output growth. The deterrent effect of this tax has apparently begun to fray--particularly in 1985--under the pressure of demand.

The regulations in effect in Poland allow enterprises to pass cost increases beyond their control directly into prices. Wage increases are judged to be within their control and thus cannot be passed on. This matters little as long as higher wage costs can be financed through easier access to credit. That credit will therefore have to be restricted if wage increases are to be contained at all.

HS

Hans Schmitt

Attachments

cc: Mr. Whittome
Mr. Hole
Mission members

HOS/poltabIV1

Table IV.1. Poland: Labor Costs and Producer Prices

(Percent changes year-on-year)

Year	Nominal Unit Labor Costs 1/	Producer Prices 2/	Real Unit Labor Costs 3/
1980	18.1	4.2	13.3
1981	48.7	10.5	34.5
1982	53.2	122.3	-31.1
1983	19.6	15.3	3.7
1984	9.5	14.5	-4.3
1985	16.1	16.3	-0.2
Cumulative:			
1981/82			-0.9
1983/85			-0.1

Source: Polish authorities.

1/ Socialized sector.
2/ In industry.
3/ Deflated by producer prices.

Table IV.2. Poland: Labor Market Indicators

(In thousands)

Year	Registered Job Vacancies	Registered Job Seekers	Total Employment 1/	Socialized Sector Employment	Nonsocialized Sector Employment
1980	98	10	17,769	12,798	4,971
1981	119	26	17,655	12,525	5,130
1982	248	9	17,629	12,197	5,432
1983	234	5	17,654	12,238	5,416
1984	262	5	17,722	12,324	5,398
1985 2/	266	4	17,915	12,452	5,463

Source: Polish authorities.

1/ End-of-year data not converted to a full-time equivalent basis.
2/ Provisional.

Table IV.3. Poland: Labor Productivity

(Annual percentage changes)

Year	Productivity Per Worker 1/	Workers Employed 2/	Hours Worked 3/	Productivity per Hour Worked 4/
1980	-4.3	-0.2	-3.4	-1.1
1981	-14.1	-1.1	-16.5	1.8
1982	0.3	-5.1	-11.0	7.0
1983	6.8	-1.4	--	5.3
1984	5.6	-0.7	-0.9	5.8
1985	5.0	-1.2	-1.2	5.0

Source: Polish authorities.

1/ Net output per unit of labor in socialized industry in constant 1980 prices.

2/ Employment in socialized industry.

3/ In material sphere of industry. For 1985 it is for the material sphere of socialized sector excluding agriculture.

4/ Implied by preceding three columns.

File

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

August 8, 1986

Dear Mr. Glazewski:

Thank you for your recent letter informing me of your decision to resign from the Presidency of Bank Handlowy. May I take this opportunity to wish you very well in your new assignment and to assure you that, for our part, we look forward to the continuation of the same constructive relations with Bank Handlowy under your successor as we hve enjoyed in the past.

With kindest regards,

Sincerely yours,

L. A. Whittome
Director
European Department

Mr. Kazimierz Glazewski
Bank Handlowy W. Warszawie S.A.
ul. Chatubińskiego 8 Skr. poczt. 129
00-950 Warszawa
Poland

INTERNATIONAL MONETARY FUND

Mr Hole o/r

What [illegible] lies behind this?

Should I reply?

30/7

L. A. Whittome

BANK HANDLOWY W WARSZAWIE S.A.
Established 1870

ul. Chałubińskiego 8 Skr. poczt. 129
00-950 Warszawa

Kazimierz Głażewski
President

Warszawa, 1986-07-25

RECEIVED
1986 JUL 30 PM 2:35
EUROPEAN DEPARTMENT

Mr. L. Whittome
Director
INTERNATIONAL MONETARY FUND

WASHINGTON D.C. 20431
U.S.A

Dear Mr. Whittome,

I take liberty to inform you that in view of a proposal of a new assignment I have presented to the Board of the Bank my resignation from the position of President of Bank Handlowy w Warszawie S.A. as of 25th July, 1986.

Taking this opportunity I would like to express my appreciation for the cooperation which in a not-too-easy situation for Bank Handlowy has been extended to the institution I represented and to me personally. Therefore with further stabilization of Poland´s financial cooperation with abroad, particularly after my country has been admitted to the International Monetary Fund and the World Bank, I can see still unexplored possibilities to expand the cooperation.

Simultaneously I wish to inform you that according to the decision taken by the Board of the Bank, as of today Mr. Tadeusz Barłowski, former Vice President has been appointed President of Bank Handlowy w Warszawie S.A.
I believe that his extensive and long experience in the field of foreign financial relations will contribute to a further strengthening of confidence and thus to an expansion of our mutual cooperation.
Would you please extend to him the same generous support which you accorded to me.

Assuring you of my utmost attention I remain with best regards,

Office Memorandum

TO : Mr. Whittome

DATE: August 6, 1986

FROM : Leo Van Houtven

SUBJECT : Appointment of Polish Governor

Thank you for your note of July 28, 1986. I checked into the matter and found that there was a longer delay than normal in sending the welcome letter off to Mr. Nieckarz. The routine is to dispatch these welcome letters within a few days of the appointment and, hence, there is less opportunity for the sort of slip that occurred in the case of Poland. As it happened, Warsaw did not seem to be too concerned. Mr. Boniuk dropped in this week and volunteered that we would be getting a new appointment of a Governor; he said that Warsaw did understand that the appointment of a Governor continued until the Fund received notice to the contrary.

RECEIVED
1986 AUG -7 PM 3: 33
EUROPEAN DEPARTMENT

cc: Mr. Dennison
Mr. Brown

cc EED

Minister Spraw Zagranicznych 499838

Warsaw, August 6, 1986. 499838

RECEIVED
1986 AUG 25 PM 2:17
EUROPEAN DEPARTMENT

ORIG: SEC(MRS. LONG)
CC: MD
DMD
EUR
SEC
MRS. DJEDDAOUI
INST
MR. R. BROWN

Sir,

I wish to inform you that Mr. Bazyli SAMOJLIK has been entrusted with the function of the Minister of Finance in the Government of the Polish People's Republic as of 17 July, 1986. Therefore the Government appointed him as Governor of the International Monetary Fund, with effect from that date.

The Alternate Governor remains unchanged.

w/z
Marian Orzechowski

Mr.Jacques de Larosiere
The Managing Director
International Monetary Fund
Washington, D.C.20431

RECEIVED
INTERNATIONAL
MONETARY FUND
1986 AUG 22 PM 5:43
COMMUNICATIONS
DIVISION

✓

Office Memorandum

TO: The Managing Director
The Deputy Managing Director

August 6, 1986

FROM: L.A. Whittome LAW

SUBJECT: Poland

Poland has yet to be accepted into any Fund constituency. This is widely regarded as regrettable. The U.S. has taken the view that it is a matter that has to be settled among the European constituencies.

The subject was discussed during a recent meeting of the Monetary Committee. That meeting concluded that Poland fitted best into the Scandinavian constituency. When this possibility was raised earlier the Scandinavian countries were unanimously and firmly opposed--I understand that this remains their position.

A possible fall back position that is being discussed would involve Romania moving from the Dutch to the Italian constituency so making room for Poland to join the Dutch constituency.

cc: Mr. Van Houtven
Mr. Brown
EED

Office Memorandum

August 5, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland

I told Mr. Templeman that we had not discussed any request for Fund credit with the Poles. I added that it had for long been understood between the Polish authorities and ourselves that it would be necessary to complete the first Article IV consultation and assess the views expressed by Executive Directors before any thought were given to a possible stand-by application. I added that I did not doubt that nevertheless the Poles were already making plans for such an application.

Mr. Templeman for his part told me that he had now been informed that the draft bill being presented by Mr. Kemp seemed to instruct the Administration to oppose any request by the Government of Poland for credit in a number of institutions amongst which the Fund was not included. Mr. Templeman thought, however, that this was an oversight which would be corrected shortly. He said the Administration were preparing the information necessary to come to a decision on this matter.

L.A. Whittome

cc: EED

cc: HOS
PCH
HBJ

cc: HBJ

9125.

CHEMICAL BANK

Financial Institutions Division
277 Park Avenue, New York, NY 10172
Tel: (212) 310-7908

Paul McCarthy
Vice President

RECEIVED
1986 AUG -4 PM 2: 30
EUROPEAN DEPARTMENT

July 30, 1986

Dear Alan

Enclosed, for your information, is a draft copy of my article entitled, "Poland: The Long Road Back to Creditworthiness."

I hope you find it of interest. Should you have any remarks or questions on it, please call me.

In the meantime, I look forward to seeing you Wednesday, August 20, at 10:00 a.m.

Sincerely,

Paul

Mr. Alan Whittome
Director and Counselor
INTERNATIONAL MONETARY FUND
700 19th Street, N.W.
Room 9120
Washington D.C. 20431

Please do not quote or distribute any part of this paper without the permission of the author.

Lynne,
May I have
back for
August 19th
H.

POLAND: THE LONG ROAD BACK TO CREDITWORTHINESS

by
Paul I. McCarthy
Vice President & Region Head
Eastern Europe Group
Chemical Bank
New York

July 21, 1986

The views expressed are the author's and not necessarily those of Chemical Bank. The author wishes to thank Kevin John Windorf for his editorial and research assistance and Denise C. Gonzalez for her secretarial services.

I

Poland defaulted on its debt to Western commercial banks and governments in March, 1981. In December of that same year, the country was placed in the straightjacket of martial law. The coupling of these events left the country with a demoralized workforce, seething political and foreign policy troubles, sinking productivity and doubtful global export competitiveness.

(INSERT CHART #1)

Since 1981, Poland's debt to Western creditors has mounted. Western governments, in turn, initiated a series of diplomatic and economic sanctions -- U.S. denial of Most Favored Nation tariff treatment and a ban from 1982-1984 on Paris Club debt negotiations -- which have exacerbated the country's debt problems and prevented access to investment capital for future growth.

In response to these developments, Western banks pursued a strategy based on negotiating a series of debt rescheduling agreements with the Polish government which called for the country to make net payment outflows. During the period 1981-1985, the banks were successful in negotiating five such rescheduling agreements wherein Poland's financial obligations to the banks exceeded the banks' commitments to the country. In other words, no new credits were made available to Poland over this period.

In essence, the banks got a free ride during this period because the government creditors were not simultaneously negotiating comparable rescheduling agreements with Poland. As a result, Poland made no payments -- either interest or principal -- to the Paris Club member governments thereby significantly increasing its debt to them. Western government exposure increased further as commercial banks submitted claims for reimbursement under the various official guarantee programs (i.e., Eximbank, Hermes, COFACE and ECGD).

(INSERT CHART #'s 2 & 3)

Another factor contributing to the decline in Western bank exposure has been the ability or, in the case of American banks, the need to write off a substantial portion of the loans.

Although the Paris Club member governments decided to reopen negotiations in 1985 and, in fact, have concluded two agreements with Poland covering maturities due in 1982-1986, they have almost uniformly (Austria and FRG being the exceptions) resisted making new money available. The banks, too, have refused to make new loans a part of the debt rescheduling process. Even the very recent bank agreement, covering obligations due in 1986-1987, does not include new money.

Thus, Poland is at a watershed point with its Western creditors while facing critical political and economic decisions at home. The Polish economy needs a major structural reform and new investment is needed desperately. Without reform and access to new capital, Poland's chance of regaining competitiveness in finishe goods will slip away, perhaps for decades. If the Polish government refuses to undertake a reform program, Western banks and governments will continue to refuse to make new loans available and, in the case of banks, continue to write off their current portfolios.

Clearly, the future actions of Western lenders are interrelated with Poland's handling of its domestic difficulties. New money will be unlikely until the Polish government can assure political stability. Political stability cannot be guaranteed unless the government can fundamentally overhaul the economy and provide the proper environment for long-term dynamism and growth. The economy cannot be structurally reformed without the support of the Polish people and the workforce.

The dilemma facing the Polish government is obvious. Decisive and farsighted policies are necessary. If courageous action is not taken soon, it will probably not be until the late 1990's before Poland's aggregate production levels compare with those of 1978. Moreover, regaining creditworthiness may take even longer.

Beyond his need to overcome domestic problems, Jaruzelski must coalesce the disparate foreign interests into supporting his future internal policies. European governments and banks seek the establishment of normal commercial and financial relations. American banks, under regulatory pressure, continue to write off Polish loans and are reluctant to increase their exposure. The U.S. government has mixed goals: On one hand, it favors the normalization of diplomatic and commercial relations; yet on the other, it wants the current Polish government to include the Church and the workers in national economic decision making. If the Polish government does not move definitively in this direction, U.S. policy may continue to harbor uncertainty and economic stagnation.

The final elements in the complex equation to resolve Poland's economic problems are the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). Each of these financial institutions must respond to their respective constituencies and global priorities. The ability of these institutions to play a constructive role in developing a growth oriented approach to the Polish economy is contingent upon the following four actions occurring within the next two years.

Firstly, the Polish government must become the legitimate representative of the people. In other words, a social compact between the Church, labor and the government must be established. The major domestic constituencies must work collectively in the pursuit of a strong economic recovery.

Secondly, the Polish economy must undergo fundamental reform. But any structural change will risk failure if prescribed without the support of the Polish people.

The third step is for Poland to favorably influence foreign policy, financial and trade support and understanding from Western governments, as well as from the IMF and the IBRD.

The final step is the ability of Poland to refocus the efforts and interests of Western commercial banks on an economic growth approach, instead of the current arrangement which focuses on draining the country of as much cash as possible.

II

The first stride of Poland's effort to regain its creditworthy status was taken with its recent reentry into the IMF and the IBRD. IMF efforts need to be focused on quickly implementing a meaningful short-term economic adjustment program; support from the IBRD would then follow with a forward-looking development program.

The IMF program, geared towards influencing the lending decisions of Western creditors, would seek:

- a significant increase in Poland's current account surplus (minus interest payments) over the next two years;
- Poland's cooperation in actively devaluing the zloty over the same time period;
- the rationalization of domestic consumer and producer prices (Increases in both categories will have to be substantial to better reflect world prices);
- the gradual elimination of federal budget subsidies to both consumers and industry; and
- the guarantee of Polish financial policymakers that new credits, from either banks or governments, will receive preferential treatment over the repayment of old obligations.

8 IMF negotiations have already begun. The first step to an eventual Standby Program is an Article IV Consultation Report. This report will be submitted to the IMF Board for approval by mid-October of this year. If the Board approves the report, negotiations on a Standby Program could begin immediately. Although negotiations would be difficult, a Standby Program could be in place by the second half of 1987.

Admittedly, the above conditions are difficult and certainly carry major political and social consequences. It will not be easy for Poland's policymakers or current creditors to agree to such conditions. However, the IMF has a major bargaining chip in that it controls the single commodity that Poland currently needs the most and is least able to obtain. The Fund can provide substantial credits, ranging to $700 million annually over the next two to three years. If Poland were to agree to the above conditions and the immediate economic results were positive, IMF loans could begin attracting new credits from banks and governments. The stage would thus be set for the second level of Polish economic development -- long-term growth.

From the point of view of Western lenders, it is crucial to learn the IBRD's intentions in Poland sooner rather than later. As the goal of the IMF is that of economic stabilization and adjustment, the role of the World Bank in today's new policy environment is to create the necessary framework for long-term economic growth.

Such framework would include the following areas of involvement:

- The IBRD can offer assistance in rationalizing Poland's investment policies. Critical major new investments must be based on new product development and future market share opportunities. The IBRD can supply market research and advice.
- Substantial amounts of new equity capital must be attracted. Since Poland's current joint venture laws are inadequate, the IBRD can assist Polish policymakers in introducing the necessary legal amendments in order to maximize the possibility of attracting new capital.
- The IBRD can provide assistance on targeting the modernization of specific plants within a given industrial group.
- Since labor forces will be relocated as a result of the above investment and modernization decisions, the IBRD can help design and organize the loan operations necessary to support the new infrastructure, i.e., housing, health care, etc.
- The IBRD can also aid in the development of critically important programs for management and worker retraining.

Under its new leadership, the IBRD must forge a bond between itself and the IMF that will result in both institutions cooperating, rather than competing against each other. There must be a joint effort to assist debtor countries (in this case, Poland) to open their economies to world market forces in order to establish the foundation for long-term economic growth.

To be successful, both institutions must agree that it is in their mutual interests to pool their considerable resources and better coordinate their respective goals in debtor countries. Also, member governments must be willing to insist on more integrated efforts between the IMF and the IBRD in solving individual sovereign debtor problems. The most important element of this cooperation is the acceptance of member governments to allocate increased funding for joint IMF/IBRD activities that differentiate remedies by country.

The acceptance of differentiation by debtor country is the key variable in the problem of Poland's road to economic recovery. Will governments be able to agree, for example, that the problems of Poland are different from those of Mexico? And as a result, will they act individually and in concert with the IMF and the World Bank to support new constructive financial programs? More precisely, can the U.S. government's policy towards Poland be changed? Can, or will, the U.S. government adopt a more "dynamic" policy rather than its current "quiescent" one?

Although not as significant a debtor problem to the U.S. as Mexico, Poland remains a relatively important country, at least in terms of our East-West interests. Over the past 700 years, Poland has been the fulcrum over which European politics, both East and West, has evolved. It has been this historical fact that has driven American policy in the post-war period until 1981. In fact, since succumbing to Communism, Poland has been the cornerstone of U.S. policy in Eastern Europe. Since the end of World War II, the U.S. has tried to draw Poland closer to the West and further away from Moscow. The reality is that the U.S. cannot fully detach Poland from Moscow. However, the U.S. must continue to encourage Poland to maintain its vital ties to the West -- politically, economically, culturally and financially.

Although very supportive of the U.S. policy towards Poland since 1981, our Western allies are beginning to disagree with specific American actions. They question why the United States, in the Paris Club forum, has insisted that Poland make certain repayments to Western governments, while domestically denying that same country the ability to make other repayments by withholding Most Favored Nation tariff treatment. In addition, our allies are perplexed to find the motives behind the U.S.'s abstention from the vote to readmit Poland; if the U.S. continued to believe that Poland did not deserve readmittance to the IMF/IBRD, a "no" vote should have been cast since an abstention is the equivalent of a "yes" vote.

Since 1981, U.S. policies have been designed to 1) keep Poland's traditional trading partners [i.e., Western Europe] in agreement on the need for sanctions without insisting that they subrogate their national economic security interests to those of the United States, and 2) avoid discouraging Polish policymakers, but at the same time, impose the essential sanctions -- MFN and credit denial -- in order to pressure the regime to reform and create a workable, representative political coalition.

The policy of denying Poland market access and new loans may no longer be viable. More and more, America's allies are increasingly insisting that U.S. policy towards Poland be changed. Western Europe persists that support in Latin America is dependent upon America's understanding of debt problems in Europe. U.S. debt policy, clearly a national security issue, must increasingly merge our interests in Latin America (Mexico) with those of our European allies in Europe (Poland). In other words, if the U.S. expects assistance from Europe with its debt problem in Latin America, our allies expect comparable help from the United States on debt problems (Poland) that are, in a relative sense, equally important. Therefore, U.S. policy towards Poland must change, and it will be no surprise to see this change set in motion over the next twelve months.

III

A serious restructuring effort deals not only with redesigning a country's debt repayment stream, but also with assisting the debtor in attracting new financial capital needed to fuel economic growth. For Poland, the creditors have thus far been willing only to reorder the sequence of the country's debt repayments. The inability or unwillingness to deal with the issue of new credits has recently put the banks in the position of having to renegotiate the terms of the 1981 and 1982 Rescheduling Agreements. The need to amend original rescheduling agreements (and this will continue to be the case) is an admission that their terms were unrealistic from the outset. Therefore, it seems clear that new alternatives to the Polish debt situation must be explored.

In considering new loans for Poland, banks will insist upon the following conditions:

- o An IMF Standby Program must be successfully negotiated.
- o Paris Club members must agree to make new loans available.
- o New bank loans must be collateralized.
- o Banking regulators must be willing to provide regulatory relief on new bank loans.
- o Any new loans must be for specific purposes and proven capable of producing net new export revenue streams.

If these conditions are met, a considerable number of banks could be persuaded to arrange new credit packages for Poland over the next two to three years. Yet the key to developing any new money operations is the ability of Poland to collateralize such loans. At present, Poland would be incapable of providing such security to banks as it is not creditworthy and its economy is too weak to support substantial new loans which would only add to the mountain of already unserviceable foreign debt. But new loans must be collateralized. Therefore, in order to overcome this economic paradox, a new sovereign debt financial instrument must be created.

New loans to Poland can be collateralized through the use of U.S. Zero Coupon Treasury Bonds (ZCT's), or their European or Japanese equivalent. Under this scheme, lenders advance the debtor monies in order to purchase a government security that has a value at maturity equivalent to the original amount of the loan. Below is a chart that illustrates the design of this plan:

(INSERT CHART #4)

In the above example, the banks would arrange a loan totalling $500 million for Poland. Poland, in turn, would be required to purchase with $106 million of the $500 million a series of 20-year maturity ZCT's having a combined worth of $500 million at maturity, and assign those ZCT's to the banks as collateral for the original loan.

This new instrument offers banks and Poland many advantages not provided for in any current sovereign rescheduling agreement. The disadvantages of this approach are clearly overshadowed by the benefits.

	Advantages	Disadvantages
Poland:	Obtain significant new money more rapidly than would otherwise occur.	
	Although debt would increase and therefore, interest payments rise, the relative borrowing costs on the new debt would be lower than the same charges on uncollateralized loans.	
	Source of final repayment is not the debtor. Full principal is repaid at final maturity of the ZCT.	
Banks:	Collateralized loans are better than unsecured sovereign loans.	Assets increase.
	Source of repayment is not Poland.	Must rely on Poland for interest payments.
	Earnings can be realized on what would otherwise be "non-performing" loans.	

	Advantages	Disadvantages
U.S. Government:	Create additional demand for Treasury Bonds. Provide definition for commercial bank involvement in the Baker Plan.	

This ZCT approach has undeniable benefits: For the debtor, new funds would be available for a long period at relatively low interest rates; for the lender, the final source of repayment is not the borrower -- principal is repaid from the value of the ZCT at maturity. The only risk the banks would have is that of the debtor defaulting on interest payments.

The success of this plan depends on whether banking regulators would consider loans backed with ZCT's as collateralized assets, thus allowing them to be carried as "performing" loans on the balance sheets of financial institutions. Banking regulators could have two possible interpretations of the classification of loans backed by ZCT's. First, regulators could opine that such loans are collateralized only to the extent that the value of the ZCT's appreciates over time. Thus, as illustrated by the above New Money Option, the bank loan of $500 million would only be partly collateralized in year one, i.e., for $106 million. In year 10, (depending on whether interest rates are rising or falling) almost 50% of the loan would be collateralized ($240 million). Alternatively, regulators could take a much more liberal approach and decide that since the ultimate source of repayment is the U.S. Treasury rather than the original borrower (Poland), the new loans could be classified as "performing."

The importance of the ZCT scheme is that, as a new financial instrument, it represents the type of creative alternative needed to stimulate economic progress in debtor countries. The banking community must explore such initiatives and be willing to set another precedent in Poland. Since most banks worldwide have written off at least half of their Polish exposure, they should have greater flexibility in developing longer term recovery programs.

A reason some banks may resist setting precedents in Poland is the fear that similar actions would be called for in other debtor countries of greater consequence: Mexico, Brazil and Argentina. As long as banks continue to be hesitant about setting precedents in any one country, the debt rescheduling process worldwide will continue to be based on uniform approaches despite the differentiating needs and problems of debtors. This blind obsession with uniformity must stop. It should be reminded that many of the original and productive ideas on debt rescheduling were established in the Polish debt negotiations. Namely:

- Rescheduling agreements were entered into without IMF involvement in the country.
- Although the governments own 60% of the Polish debt, the banks have negotiated restructuring agreements without comparable arrangements between Poland and the Paris Club.
- The first Multi-Year Rescheduling Agreement (MYRA) was negotiated with Poland.
- Poland was the first country with which the banks agreed to partly capitalize interest payments. (This was achieved by returning a certain percentage of interest payments in the form of short-term trade credits.)
- Polish restructuring agreements were the first to require some principal repayments as part of the up-front settlement costs.

All of the above precedents were established in order to address the Polish financial situation. Many of them have since been used successfully in other countries.

IV

In the end there remains the question of what Poland can and will do to help itself. Poland's destiny is in its own hands, but whose hands will determine that future? Will it be the Jaruzelski government or the Church? Will the sanctioned workers' councils exert considerable policy influence? Or is it possible that Solidarity will surface again as a major political force?

In answering these questions, the Jaruzelski government has two choices: It can move ahead alone and attempt to apply its will unilaterally on the Polish people, or it can establish a representative political coalition among the major constituencies to work together in support of the government's programs and policies. (A non-representative government will continue to suffer from an absence of both internal and external support.)

Since the imposition of martial law, this first approach seems to have been relatively successful. Although the formal Solidarity Labor Union appears to have been smashed and replaced by officially sanctioned workers' groups, this or any subsequent Polish government must prove its ability to return the country to the productive economic status it enjoyed in the 1970's.

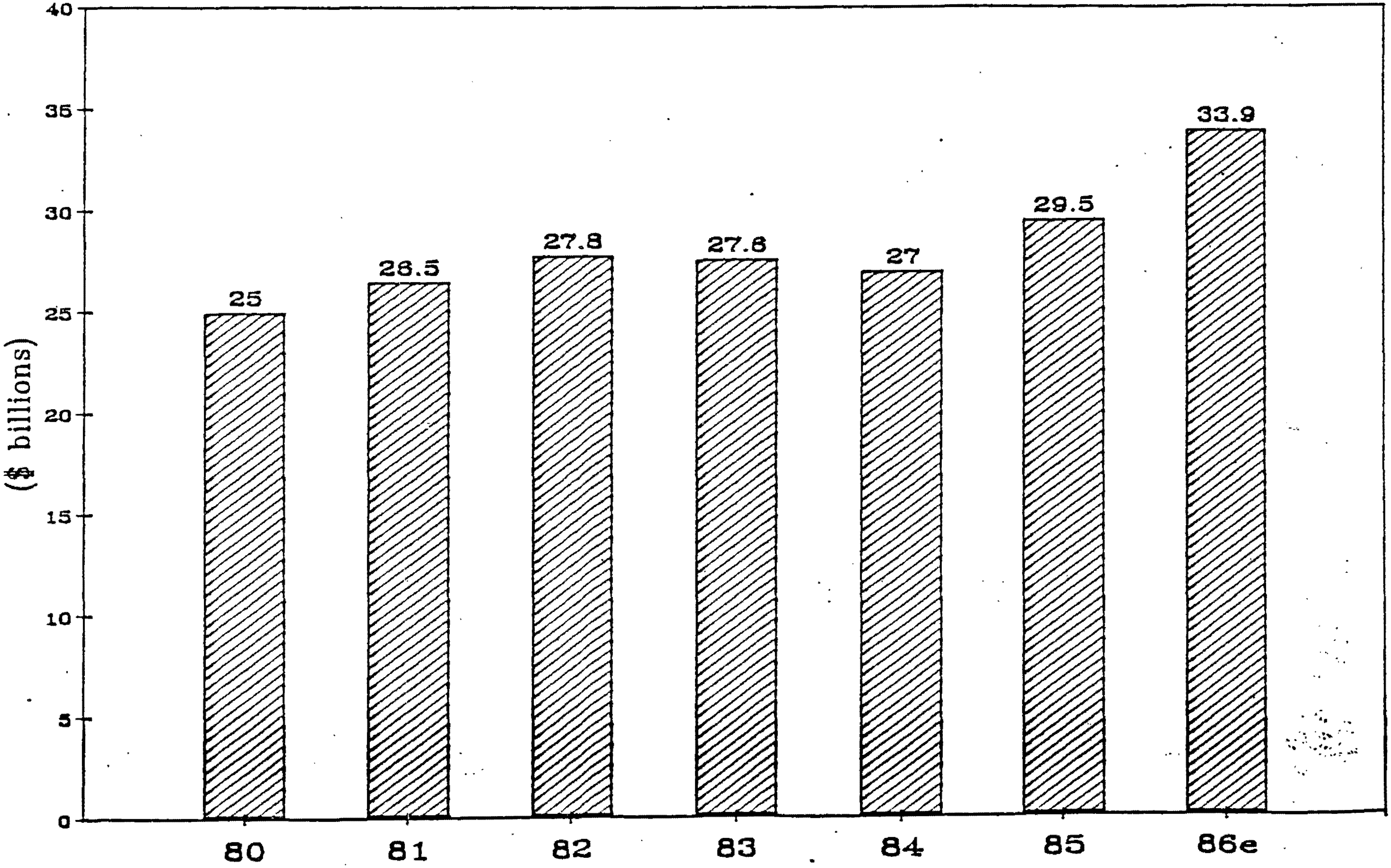
Soviet General Secretary Gorbachev's visit to Warsaw this past summer to attend the Polish Party Congress appears to have been a clear demonstration of Moscow's confidence in General Jaruzelski. Jaruzelski may have enough internal and external support, therefore, to take the steps he now considers necessary to deal with his country's economic malaise.

However, if Jaruzelski seeks reform without enfranchising the major constituencies, he risks failure. Meaningful reform will require the support of the Polish people, as further substantial cuts in living standards would be inevitable. On the other hand, if he finds a way of providing official representation for the workers and the Catholic Church on matters of economic importance, Jaruzelski stands to become a national and international hero.

In conclusion, the road to the restoration of Poland's creditworthiness is a long and difficult one. Creative solutions, policy adaptations and outright changes on the part of the institutions and governments, both East and West, are necessary for success. The task is not impossible and the time is ripe for bold alternatives and new initiatives to be championed.

CHART #1

POLAND'S TOTAL DEBT TO THE WEST



Source: PlanEcon, Inc.

CHART #2

WESTERN BANK EXPOSURE TO POLAND

(ex US Banks)

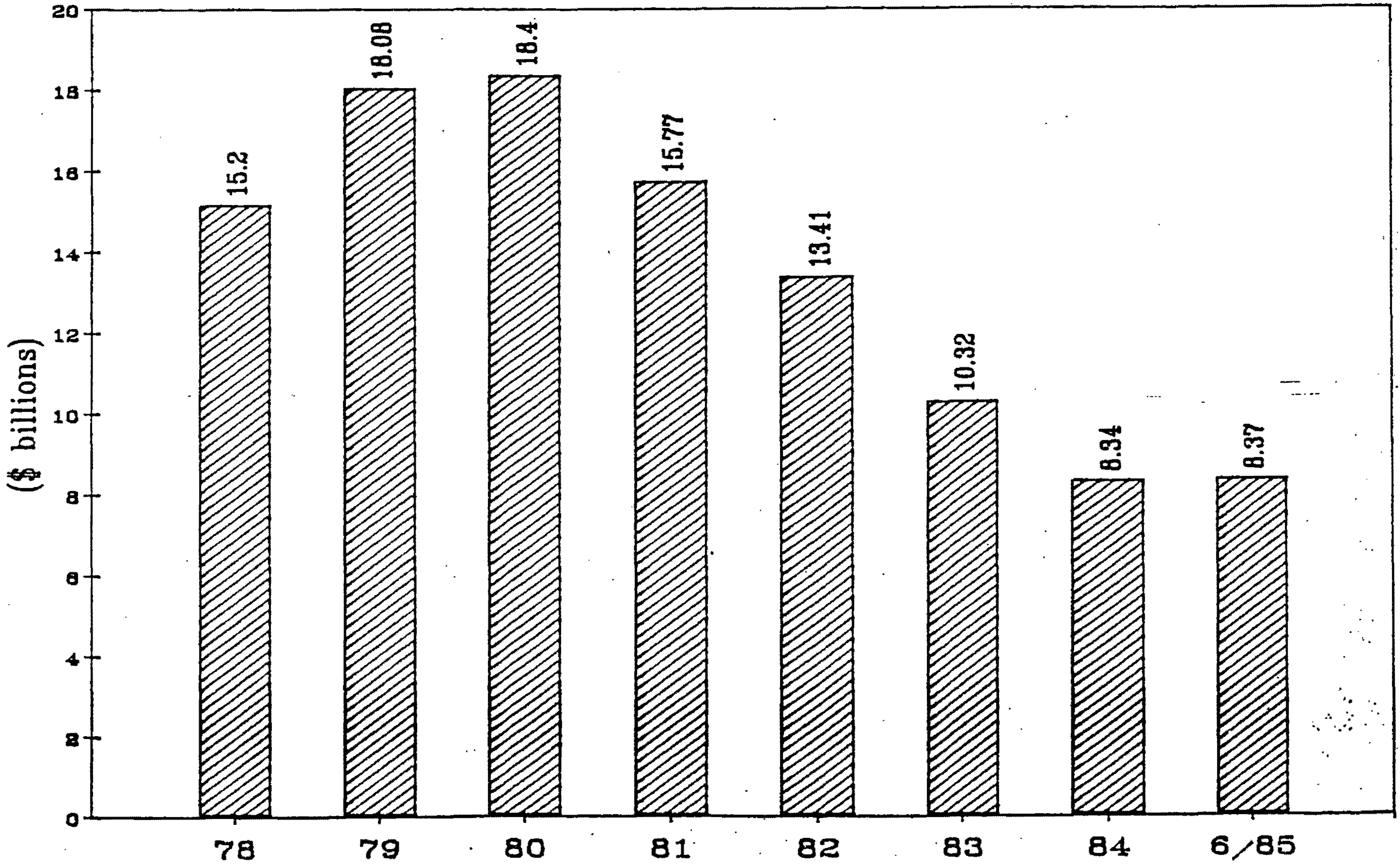
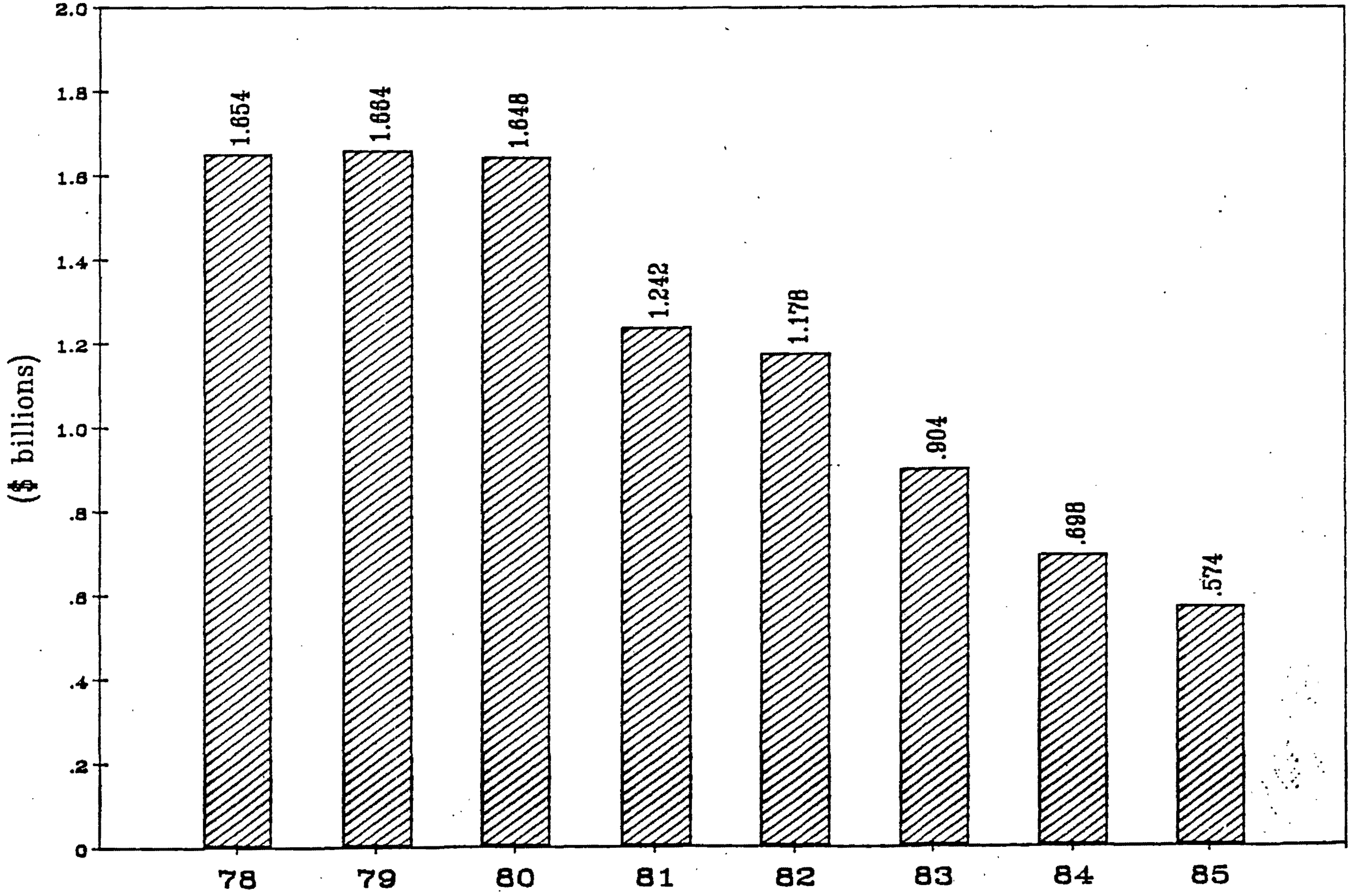


CHART #3

US BANKS' EXPOSURE TO POLAND



Source: Country Exposure Lending rvey, U.S. Federal Reserve Board

Chart #4

New Money Option - ZCT

Years	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Additional Financing	394	394	394	394	394	394	394	394	394	394	394	394	394	394	394	394	394	394	394	394	394
Zero Coupon Value **																					
- Beginning Period	106	110	119	129	139	151	163	176	190	205	222	240	259	280	302	327	353	381	412	445	481
- Year-End	110	119	129	139	151	163	176	190	205	222	240	259	280	302	327	353	381	412	445	481	500
- YE Unsecured Balance	390	381	371	361	349	337	324	310	295	278	260	241	220	198	173	147	119	88	55	19	0
- Percentage Unsecured	98.9	96.7	94.2	91.6	88.7	85.7	82.3	70.7	74.9	70.7	66.1	61.2	55.9	50.2	44.0	37.4	30.1	22.3	13.9	4.8	0.0
Secured Debt Interest *	4	8	9	9	10	11	12	13	14	15	16	17	19	20	22	24	26	28	30	32	17
Unsecured Interest **	16	33	32	31	30	29	28	27	26	24	23	21	20	18	16	14	11	9	6	3	0
Total Interest	20	41	41	40	40	40	40	40	40	39	39	39	38	38	38	37	37	37	36	36	17

* Restructured Debt to Banks
** Zero Coupon Bought on July 1, 1986 & Maturing on June 30
 - Years to Maturity = 20
 - Yield on Zero = 8.05%

* Libor = 7.00%
** Libor + Spread of 1.13%

Discount Rate = 7.00%

Chron.

Office Memorandum

TO: Mr. Hole

July 31, 1986

FROM: J. Somogyi

SUBJECT: Poland - Use of Fund Resources

Mr. Templeman called about a possible Polish request for a use of Fund resources. He said that Rep. J. Kemp was drafting legislation aimed at preventing the Fund from lending to Poland. The United States Executive Director's office was preparing a note on the subject in which they were about to state that the Poles had so far not asked for money. Mr. Templeman would appreciate it if you could advise him on the latest in the matter upon your return from the mission.

INTERNATIONAL MONETARY FUND

LAW

Re: "Reforms" in Poland.

For the most part I got the strong impression that "reforms" were little more than incantation, and a lot of incoherent rhetoric, in Poland.

Of substance was perhaps only the notion that enterprises should be more "self-financing" - i.e. less dependent on government subsidies and "directed" bank credits - but this would be an unmitigated *disaster* from the point of view of rational allocation, unless relative prices accurately reflected economic priorities *first* - and in this context the exchange rate looks to be the price most to be corrected (by a wide margin), and at the same time least likely to be changed by more than a token amount.

I tried to sketch this out in my second memo "Poland - stabilization policy, 1982 (July 24, 1986), in which I quite deliberately shunned using the word "reform" in the title. We would do well, I think, to jettison any concern with "reforms" and identify specific policy imperatives instead.

31 July 1986

INTERNATIONAL MONETARY FUND

HOS

Pl see WSJ of 30/7 p 19.

This is – in a sense the second step of what you began to preach in Warsaw through the seminars. But apart from your reference to the exchange rate I see not

L. A. Whittome

INTERNATIONAL MONETARY FUND

thing of what precisely the reforms should be or have they entered. ?

L. A. Whittome

Office Memorandum

TO: Mr. Van Houtven July 28, 1986

FROM: L.A. Whittome

SUBJECT: Poland--Minister of Finance

I notice that on July 22 the Managing Director signed a letter to Mr. Nieckarz as Minister of Finance of Poland welcoming him as a Governor of the Fund. The only trouble is that Mr. Nieckarz was replaced as Minister of Finance on July 17 and this was announced in a variety of western newspapers on July 18. Of course it may well be that the Poles have yet to announce that he has been replaced as Governor of the Fund but our letter seems a but curious and must have given rise to some wry comments!

cc: Mr. Brown

LFT July 18, 1986.

rms control talks

IC CORRESPONDENT

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between the number of weapons and the tests needed, the New York Times said. Some tests, for instance, involved tactical weapons that would not be covered in a new strategic arms treaty.

Supporters, on the other hand, said that the US could reduce its testing without hurting its security and that the proposal could slow Soviet weapons development. They said that the Soviet test ban proposal had increased public interest in the issue and that the US idea might be a way of responding to popular concern over continuing nuclear tests.

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tween Nato and the Warsaw Pact which began in 1973 and are concerned exclusively with conventional forces.

The aim of the negotiations, where some progress has been made recently towards narrowing the gap between the Western and Eastern position, is to seek security at a lower level of forces. The main problem has been the East's great superiority in manpower and conventional forces in the Central European area and the geographical advantage of the Warsaw Pact forces.

2. The conference on Confi- ice and Security Building asures and Disarmament in ope (CDE), known simply as the Stockholm Conference. This is part of the so-called Helsinki process, which owes its name to the Conference on Security and Co-operation in Europe (CSCE) which a Final Act was signed in Helsinki in 1975 by 35 participating countries including the US and Canada and all European countries except Albania.

The Final Act includes a principle that states should refrain from the threat or use of force and contains a detailed section on confidence-building measures, including the notification of major military manoeuvres.

3. The 40-nation Conference on Disarmament in Geneva, which is the main forum for discussing a total ban on chemical weapons and where Britain last week tabled an important compromise proposal on verification procedures.

While for many years the link between all these various negotiations has been at best tenuous, it has become increasingly clear that both the Western allies and the Soviet bloc now see nuclear and conventional arms negotiations as being closely interdependent.

The Nato members, in particular, feel that they would be at a great disadvantage if deep reductions in nuclear weapons were not accompanied by substantial cuts in conventional forces in Central Europe.

If, as seems probable, agreements can be reached fairly quickly on confidence-building measures in Stockholm and on banning chemical weapons, both the US and the Soviet Union now appear to be confident that the beneficial effects would soon make themselves felt in the nuclear arms control talks in Geneva.

---

performance in part to prompter deliveries.

The decree seemed intended to warn ministries once again that they must meet targets this year. While industrial production so far is well above the planned level of 4.3 per cent for 1986, there are no grounds for "complacency and euphoria."

New Polish Finance Minister

By Christopher Bobinski
In Warsaw

THE POLISH Parliament was expected yesterday to approve the replacement of Mr Stanislaw Nieckarz as Finance Minister by Mr Bazyli Samojlik. The latter, 43-year-old academic from the Warsaw School of Planning and Statistics, has most recently been heading the Prime Minister's team of personal advisers.

Mr Nieckarz, who held the post from 1982 during which time Poland endured Western credit sanctions and a long drawn out application for membership of the International Moneary Fund, has long been criticised for his fiscal policies.

Poland, with a $31.4bn external debt, continues to struggle with debt servicing commitments and has relied on a rescheduling process with Western governments and banks to bridge shortfalls despite annual hard currency trade surpluses in excess of $1bn.

Mr Zbigniew Messner, the Prime Minister, in making the move is responding to criticism expressed at the recent Communist party congress that economic reforms were being introduced too slowly. Finance Ministry policies under Mr Nieckarz's direction have been attacked by reformers for over-burdening profitable enterprises while subsidies to loss-makers have been paid out on too great a scale.

Parliament, meanwhile approved a law that will free more than 200 political prisoners, including some leaders of Solidarity. The amnesty, which formally comes into effect on July 23, will also free some 20,000 minor criminal offenders.

The move boils down to an offer of freedom to detained Solidarity leaders as well as their remaining colleagues in the underground if they agree to recognise their defeat and cease their activities.

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programme

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Commission says its new approach does not "compromise the principle of Community preference."

The Commission's other ideas are designed mainly to increase its control over the management of the programme—at the moment, for example, deliveries are handled by the relevant EEC intervention agencies. As one official put it yesterday, "we are trying to shorten the link between the EEC and the final beneficiary."

Andreotti bid faces failure

PRIME MINISTER - designate Giulio Andreotti appears to have failed so far in his bid to form a government but there are some signs that Italy's feuding political parties may be moving towards a compromise, **Reuter reports from Rome.**

He said he would report back to Preisdent Francesco Cossiga today, a day later than originally expected. He has run into a solid wall of opposition from the Socialists whose leader, Mr Bettino Craxi, resigned as Prime Minister last month.

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atened by 'spy' affair

FINANCIAL TIMES (USPS
190640) is published daily

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INTERNATIONAL MONETARY FUND

Mr Hole o/R

What [illegible] lies behind this?

Should I reply?

30/7

L. A. Whittome

BANK HANDLOWY W WARSZAWIE S.A.
Established 1870

ul. Chałubińskiego 8 Skr. poczt. 129
00-950 Warszawa

Kazimierz Głażewski
President

Warszawa, 1986-07-25

RECEIVED
1986 JUL 30 PM 2: 35
EUROPEAN DEPARTMENT

Mr. L. Whittome
Director
INTERNATIONAL MONETARY FUND

WASHINGTON D.C. 20431
U.S.A

Dear Mr. Whittome,

I take liberty to inform you that in view of a proposal of a new assignment I have presented to the Board of the Bank my resignation from the position of President of Bank Handlowy w Warszawie S.A. as of 25th July, 1986.

Taking this opportunity I would like to express my appreciation for the cooperation which in a not-too-easy situation for Bank Handlowy has been extended to the institution I represented and to me personally. Therefore with further stabilization of Poland´s financial cooperation with abroad, particularly after my country has been admitted to the International Monetary Fund and the World Bank, I can see still unexplored possibilities to expand the cooperation.

Simultaneously I wish to inform you that according to the decision taken by the Board of the Bank, as of today Mr. Tadeusz Barłowski, former Vice President has been appointed President of Bank Handlowy w Warszawie S.A.
I believe that his extensive and long experience in the field of foreign financial relations will contribute to a further strengthening of confidence and thus to an expansion of our mutual cooperation.
Would you please extend to him the same generous support which you accorded to me.

Assuring you of my utmost attention I remain with best regards,

MINISTER FINANSÓW
of the Polish People's Republic

Warszawa, July 23, 1986

499505

RECEIVED
1986 JUL 30 PM 4:42
EUROPEAN DEPARTMENT

cc: ERD

ORIG: SEC
CC: EUR
MR. FRIEDMAN

Dear Mr. Leo Van Houtven,

Taking into consideration a fact, that Poland, despite its efforts, has not yet established its permanent representation in the International Monetary Fund, I would like to confirm, that Mr. Jan Boniuk, Financial Counsellor at the Embassy of the Polish People's Republic in Washington D.C., is authorized, until the question of our representation through the constituency is solved, to communicate with the International Monetary Fund on behalf of the Minister of Finance.

Sincerely yours,

RECEIVED
INTERNATIONAL
MONETARY FUND
1986 JUL 30 PM 3:07
COMMUNICATIONS
DIVISION

Bazyli Samojlik

Mr. Leo Van Houtven
Secretary
of the International Monetary Fund

cc: RBSD

JUL 23 1986

Dear Mr. Karcz:

On behalf of the Executive Board and staff, I wish to welcome you into the International Monetary Fund as Alternate Governor for the Polish People's Republic.

Sincerely yours,

J. de Larosière
Managing Director

Honorable Zbigniew Karcz
Alternate Governor of the International
Monetary Fund for Poland
Ministry of Finance
ul. Sweitokrzyska 12
00-916 Warsaw, Poland

CC: MD
DMD
~~EUR~~
SEC
MR. R. BROWN

MDennison:mc
July 12/86

CC: RED

JUL 22 1986

Sir:

This will acknowledge and thank you for your letter dated June 24, 1986 advising the Fund of the following appointments by your Government:

Governor of the Fund - Mr. Stanislaw Nieckarz
Minister of Finance

Alternate Governor of the Fund - Mr. Zbigniew Karcz
Director of the Foreign Department
Ministry of Finance

Very truly yours,

Joseph W. Lang, Jr.

Joseph W. Lang, Jr.
Acting Secretary

Mr. Henryk Jaroszek
Deputy Minister
Ministry of Foreign Affairs
Al. 1 Armii Wojska Polskiego 23
00-580 Warsaw, Poland

CC: MD
DMD
~~EUR~~
SEC
MR. R. BROWN

MDennison:mc
July 21/86

Mr [illegible],
Was Nieckarz
in office on the
22nd?

24/7

CC: RRD

JUL 22 1986

Dear Mr. Minister:

On behalf of the Executive Board and staff, I wish to welcome you into the International Monetary Fund as Governor for the Polish People's Republic.

Sincerely yours,

J. de Larosière
Managing Director

Honorable Stanislaw Nieckarz
Governor of the International
Monetary Fund for Poland
Ministry of Finance
ul. Sweitokrzyska 12
00-916 Warsaw, Poland

CC: MD
DMD
EUR
SEC
MR. R. BROWN

MDennison:mc
July 21/86

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

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3		7/16/86

To

Name of addressee (type)

Mr. James Prust
c/o Paris Office
International Monetary Fund
Paris, France

Facsimile telephone number

From

Name of sender (type)

Saumya Mitra
Northern European Division
International Monetary Fund
Wash. D.C.

Text or special instructions

Department and division (type)	Extension (type)
EUR, NED	8825

Authorized by (type)	Signature
L. A. Whittome	

SEC-56, Rev. 1
11-13-85

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

July 16, 1986

Mr. James Prust
c/o Paris Office
International Monetary Fund
Paris, France

Dear Jim:

The attached explains all. Mr. Whittome has asked me to ensure that you are briefed on this point whilst you are in Paris. It should be understood that Finland has not yet taken an official position on this either vis-à-vis Poland (I am told) nor the staff but there can be little doubt as to what they will want.

Yours
Saumya

Saumya Mitra

Attachment

Office Memorandum

CONFIDENTIAL
July 15, 1986

MEMORANDUM FOR FILES

SUBJECT: Finland - Bilateral Payments Arrangements with Poland

Mr. Puro (Finnish advisor at the Nordic ED's office) telephoned me this morning to say that his authorities were increasingly concerned about the bilateral agreement with Poland that was developing more and more to Finland's disadvantage. They were taking the position that the arrangement be wound up and, now that Poland was a member, sought the assistance of the Fund. They felt that Poland was likely to resist any suggestions that the arrangement be terminated. At his request, I explained the usual position taken by staff and the Board on existing bilaterals involving new members and referred to the Hungarian bilateral, now abolished, with Finland. I understood that the missions to Poland and Finland would take the usual staff position, but I cautioned him by pointing out that this restriction paled into insignificance when compared to the real economic difficulties faced by Poland. Although the Board and the staff were generally willing to tolerate bilaterals for at least a transitional period, I thought the next mission to Finland would be able to lend support to his authorities' position.

He emphasized his was an informal approach and I said I was speaking equally unofficially.

SM

Saumya Mitra

cc: Mr. Whittome
Mr. Schmitt (o/r)
Mr. Hole (o/r)
Mr. Knöbl (o/r)
Mr. Somogyi

Office Memorandum

Sey

TO: Mr. Whittome

DATE: July 16, 1986

FROM: Janos Somogyi JL

SUBJECT: Poland--Bilateral Payments Agreements with Finland

Before his departure for Warsaw, Mr. Hole told me that Mr. Prust would call the Front Office from Paris on Thursday (7/17/86) afternoon (Washington time), on which occasion the mission could be advised about management's reaction to the briefing paper. The call might also provide a good opportunity to let the mission know about the strong wish expressed by the Finns to have their bilateral payments agreement with Poland terminated whereas the Poles seem to be reluctant (see attachment).

Attachment

cc: Mr. Hole

Office Memorandum

CONFIDENTIAL
July 15, 1986

MEMORANDUM FOR FILES

SUBJECT: Finland - Bilateral Payments Arrangements with Poland

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He emphasized his was an informal approach and I said I was speaking equally unofficially.

SM

Saumya Mitra

cc: Mr. Whittome
Mr. Schmitt (o/r)
Mr. Hole (o/r)
Mr. Knöbl (o/r)
Mr. Somogyi ✓

cc: HOS

Office Memorandum

To: Mr. Whittome Thanks July 11, 1986

From: Hans Schmitt

Subject: Poland - Medium-Term Scenarios

It will be useful for us to give an impression of the numbers involved in the trade-off between domestic and external performance targets in Poland. The attached table presents a rough first attempt at providing the necessary quantification.

We postulate a 3 percent real annual growth of GDP as the constraint within which feasible combinations between improvement in the external current account and growth in domestic demand must be found. In scenario A we find that a target surplus on external current account equal to US$2.5 billion in 1990--equivalent to roughly half the debt falling due that year and to 3 percent of 1990 GDP in constant 1985 dollars--will leave room for an average annual growth in real domestic demand of just under 2 percent. Alternatively, scenario B indicates that setting a 3 percent floor on the average annual growth in real domestic demand--roughly equal to the average annual growth in real domestic demand among Poland's main trading partners--will permit no improvement at all in the external current account deficit in constant 1985 dollars.

Having set out the numbers in this way permits us to discuss the assumptions and procedures used in such a way as will not only improve the numbers themselves, but more significantly our understanding of them. The following are some of the first questions that come to mind:

1. If we use precise figures for the 1985 base year, rather than the stylized orders of magnitudes given in the table, will the outcome be materially different?

2. Is there any way in which we can improve upon the exchange rates --towards the dollar and implicitly also towards the ruble--used to produce the accounts in zloty and in dollar terms in the table?

3. Since the two scenarios give different paths for the external balance on current account, the two paths for debt service must also differ; this may alter both the target external balance for scenario A, and the path for factor services and transfers in both scenarios.

4. We have assumed so far that the capacity growth rate of GDP remains at 3 percent independent of the development of the external balance; any possible relationship between the two requires further exploration.

5. We have so far disregarded the possible effects of systemic reform on the capacity growth of GDP in Poland; what rate of GDP growth would ease the GDP constraint enough to allow simultaneous achievement of the current account and domestic demand targets specified in the table? Is it achievable?

Attachment

cc: Mr. Hole
Mr. Prust
Ms. Swiderski
Mr. Sheehy
Mr. Wolf

Poland: Medium-Term Scenarios, 1985-1990

	1985 (stylized) 1/		1990 in constant 1985 $ billion 2/	
	in Zl. billion	in $ billion	Scenario A 3/	Scenario B 4/
GDP	10,300	70.0	81.0	81.0
Domestic demand (D/D)	10,200	69.5	76.5 5/	80.5 6/
Current account (C/A)				
Goods and non-factor services	100	0.5	4.5	0.5
Factor services and transfers	-250	-1.5	-2.0 7/	-2.5 7/
Goods, services transfers	-150	-1.0	2.5 5/	-1.0 6/

1/ And rounded to the nearest half billion.

2/ With GDP growth constrained to 3.0 percent per annum in real terms.

3/ With targets for the external current account of zero for the non-convertible currency area, and a surplus for the convertible currency area equal to one-half the external debt falling due in 1990, here approximated as equal to US$2.5 billion.

4/ With a target for the growth of domestic demand equal to the average among Poland's main trading partners, here approximated as 3 percent per annum.

5/ The average annual rate of growth 1985-1990 would come to just under 2 percent, and the 1990 current surplus to 3 percent of GDP.

6/With an average 3 percent annual growth of domestic demand, there would be no improvement at all in the external current deficit in constant 1985 dollars.

7/ With a worse path for the current account in Scenario B we assume a higher debt service burden.

Mr. Whittome

Office Memorandum

DATE: July 11, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland--Medium-Term Scenarios

This brief note builds on the analysis contained in Mr. Schmitt's memo of July 11 and sets forth: (1) the investment-consumption trade-off implicit in his stylized medium-term scenario A (GDP growth rate of 3 percent; 1990 overall current account surplus of US$2.5 billion in 1985 prices); and (2) the investment-consumption trade-off implicit in a scenario C that assumes a GDP growth rate of 4 percent in response to the more buoyant external balance (at the same level as in scenario A) and more far-reaching economic reform (see points 4 and 5 in Mr. Schmitt's memo).

The preliminary Party program published in March contained 1986-90 average annual growth targets of 3.0-3.5 percent for NMP, 2.7-3.2 percent for domestic demand, 2.5-2.7 percent for consumption, and 3.5 percent for investment.

In scenario A, investment growth of, say, 5 percent per annum yields consumption growth of only 1.0 percent. In scenario C, with GDP 1/ growing at 4 percent annually, domestic expenditure reaches US$80.5 billion in 1990, equal to the level achieved under the less ambitious external balance scenario (B) in Mr. Schmitt's memo. In this case of more rapid growth, investment growth of 5 percent is consistent with consumption growth of 2.3 percent, only slightly below the lower bound of the preliminary FYP figure.

T. Wolf

Attachment

cc: Mr. Whittome ✓
    Mr. Schmitt
    Mr. Hole
    Mr. Prust
    Ms. Swiderski
    Mr. Sheehy

1/ The difference between GDP and NMP is ignored here.

Table. Poland: Trade-Off Between Investment and Consumption in 1990 for Scenarios A and C

Average Annual Growth Rate for Investment	Average Annual Growth Rate for Consumption	
	Scenario A 1/	Scenario C 2/
2.0	2.0	3.3
3.0	1.7	3.0
4.0	1.3	2.7
5.0	1.0	2.3
6.0	0.7	2.0
7.0	0.3	1.7
8.0	--	1.3
9.0	-0.3	1.0
10.0	-0.7	0.7

1/ Same assumptions as in Mr. Schmitt's memo. The weights for investment and consumption in domestic expenditure are 0.25 and 0.75, respectively (actual proportions of national income utilized in 1984).

2/ GDP growth of 4 percent per annum.

Office Memorandum

TO: Mr. Whittome

July 10, 1986

FROM: Hans Schmitt

SUBJECT: Poland: Adjustment Programs

The attached is the draft of only half a memorandum--the other half may not get done before I leave for Warsaw though I shall try.

It represents an attempt to get hold of some relationships between targets and instruments in Poland, but should be seen as a coherent set of questions for the present, rather than a presentation of final answers.

Such questions about relationships are more easily pursued in the context of Article IV discussions, before we actually negotiate UFRs, but quantification should be our goal even now.

Although only half the text of the complete memo is attached, a full set of charts comes with it. I have already had some discussions on the charts with Peter which proved very helpful.

cc: Mr. Hole
Mr. Prust
Ms. Swiderski
Mr. Sheehy
Mr. Wolf

TO: Mr. Whittome July 10, 1986

FROM: Hans Schmitt

SUBJECT: Poland: The Adjustment Process

A further strengthening of its external balance seems to be required before Poland can again be creditworthy in international markets. In setting the appropriate external targets, and in identifying the policies required to get us there, a review of what has already been achieved and how, should be useful. This memorandum traces the main lines of the adjustment process in 1980-85 with that objective in mind.

1. Economic Performance

In this section we examine the extent to which the adjustment process in Poland has followed the classical pattern.

For durable results an adjustment effort must improve the trade-off between the growth of output and the external balance on current account. Chart I.1. shows that Poland did rather well on this score between 1981 and 1984. The growth of real GDP swung from a negative 10 percent to a positive 5.6 percent per annum; at the same time the deficit on external current account in convertible currencies, narrowed from the equivalent of 5.5 percent of GDP to only 1.5 percent. An improved external balance was thus associated with higher not lower output growth. Much of the explanation may lie in the restoration of civic order. The drop in output after 1978 was associated with labor unrest particularly in sectors producing exportables such as coal; the subsequent restoration of output under martial law may have been concentrated in the same sectors. The question is whether it was also undergirded by appropriate changes in economic incentives.

A sustainable improvement in the trade-off between growth and the balance of payments requires a shift in the structure of production to sectors that are better suited to international trade, from those that are less so. Chart I.2. shows that for seven out of the ten sectors shown, Poland did passably well on this score, too--a greater export-intensity was associated with a higher growth of output. Taking all ten together, however, the average trend has been slightly perverse. Wood and paper, and other manufacturing, grew too rapidly, and metallurgy shrank when it should have expanded. Overall the rate of growth over the period seems rather low. The incidence of labor unrest apart, we need to ask again whether the structure of economic incentives was changed in a way that would support a continued shift of resources into exportables, beyond the military phase. We need particularly to know whether this is the case for exports to the convertible currency area; the trends shown apply to all exports taken together.

A shift of resources into the balance of payments necessarily reduces the supply of goods and services for absorption at home. Chart I.3 shows that consumption bore a substantial share of the burden of adjustment in Poland. Of course the drop in consumption started from a relatively high base. In the decade to 1980, real consumption per head had risen 31 percent higher than it had among Poland's major Western trading partners, and still remained 14 percent higher in 1985 after the adjustment had run its course. Real wages dropped proportionately more to contribute to this result; they fell back to just match the performance of Poland's major western trading partners by 1985. On both these scores there would seem to be ample room for further adjustment in Poland. On welfare grounds, the case for concessional financing of Poland's consumption levels through debt relief, cannot be said to be particularly strong.

2. Policy instruments, 1982

In this section we review the key elements in the stabilization program of 1982 that contributed to the adjustment process we have just examined.

A major component of the 1982 stabilization program was a sharp reduction in the stock of liquidity held in the economy. Chart II.1 shows that in the year in which output began to recover the real stock of money--that is M2 deflated by the retail price index--was reduced by about a third. This dramatic cut was achieved by a sharp increase in retail prices rather than by cancelling any part of the stock of money outstanding. The effect was nevertheless comparable to that of a major monetary reform. The real stock of money has started to rise again since then, at rates below the growth of industrial production or real GDP in 1983 and 1984, but accelerating past the rate of growth of output in 1985. The Polish authorities are clearly persuaded that an overhang of excess liquidity constitutes an obstacle to effective adjustment in Poland; whether all of the excess was wiped out in 1982, or whether more remains to be dealt with later, is a question to which we shall return below.

A surprising gap in the 1982 stabilization program concerns the adequacy of the exchange rate action taken. Chart II.2. shows that there was no significant improvement in the ratio of export unit values to unit labor cost; indeed, over the three-year period 1981-83 there was a substantial deterioration in that ratio, and by implication a substantial squeeze on profits in the export sector. This was particularly unfortunate at a time when major economic reforms were being initiated, aimed at making enterprises self-managing and self-financing. Associated with the elimination of excess liquidity, a strengthened self-financing requirement would have favored more profitable sectors in the allocation of resources over less profitable ones. The profit squeeze in the export sector has had a clearly perverse effect from this point of view, and perhaps helps to explain both the sluggishness of export growth, and the retention of an elaborate tax and subsidy system in that sector.

A third main component of the 1982 stabilization program was the stimulus it gave to investment. Chart II.3. shows that the ratio of gross domestic investment in GDP was maintained at just short of 30 percent over the entire adjustment period. All of the improvement in the balance on external current account was therefore achieved by an increase in domestic savings, at the expense of consumption. A good part of the underlying recovery in the volume of investment was

? apparently facilitated by a very sharp increase--by 60 percent--in the investment deflator relative to the consumption deflator. Associated with the elimination of excess liquidity in 1982, a drastic improvement in the financial position of investment goods producers relative to the consumer goods producers, was well designed to support high levels of investment. The composition of investment, on the other hand, was adversely affected by the profit squeeze on exports. Investment activity concentrated mainly on completing projects begun before the adjustment program was initiated.

3. The price system

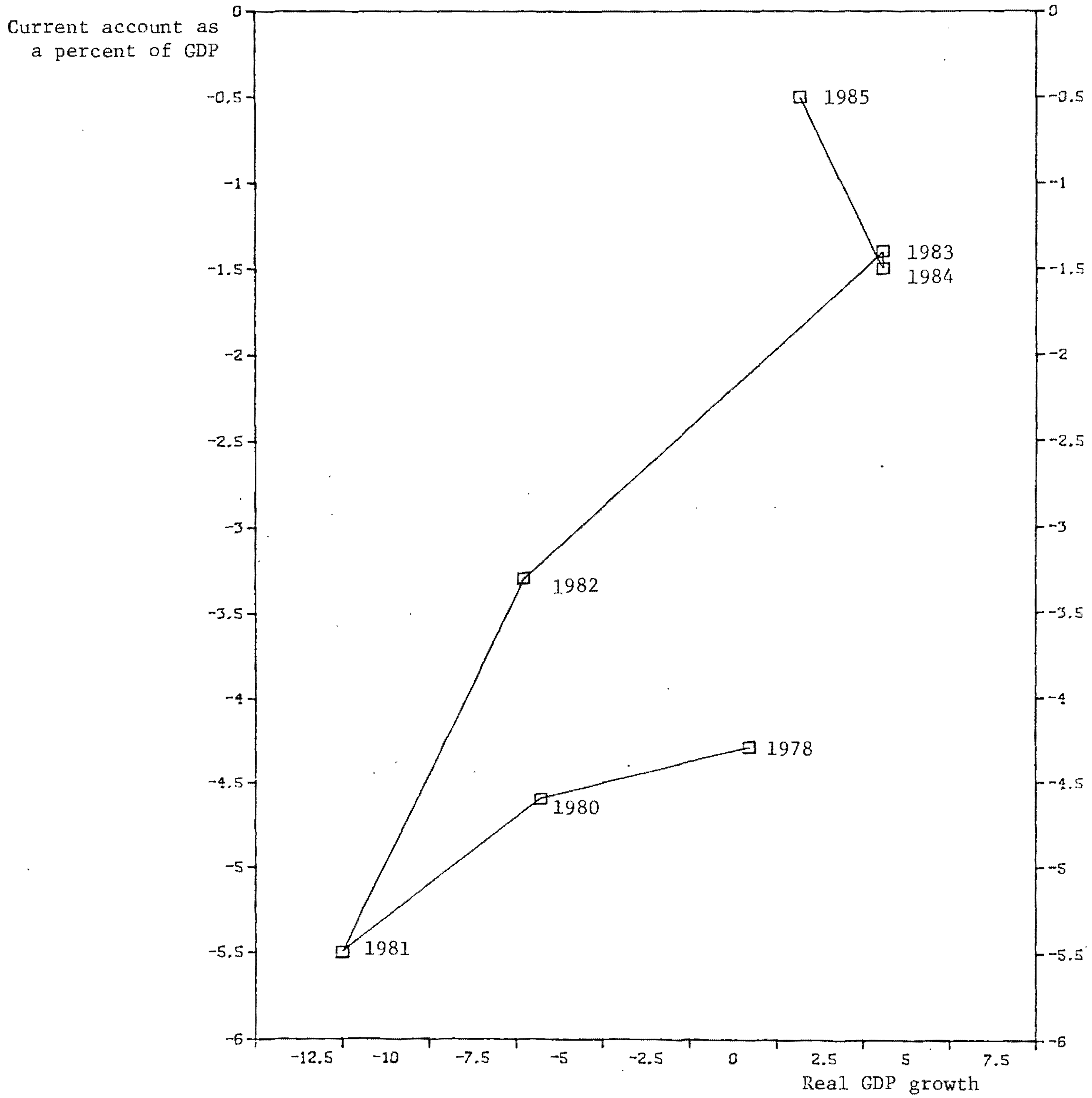
In this section we examine more closely the way in which price changes were relied upon to achieve both expenditure reducing and the expenditure switching effects in Poland.

In an economy such as Poland's prices appear to be set autonomously; they do not readily respond to changes in other economic variables. Chart III-1 shows...

CHART I.1.

POLAND

Real Output Growth and the External Current Account 1/, 1980-85

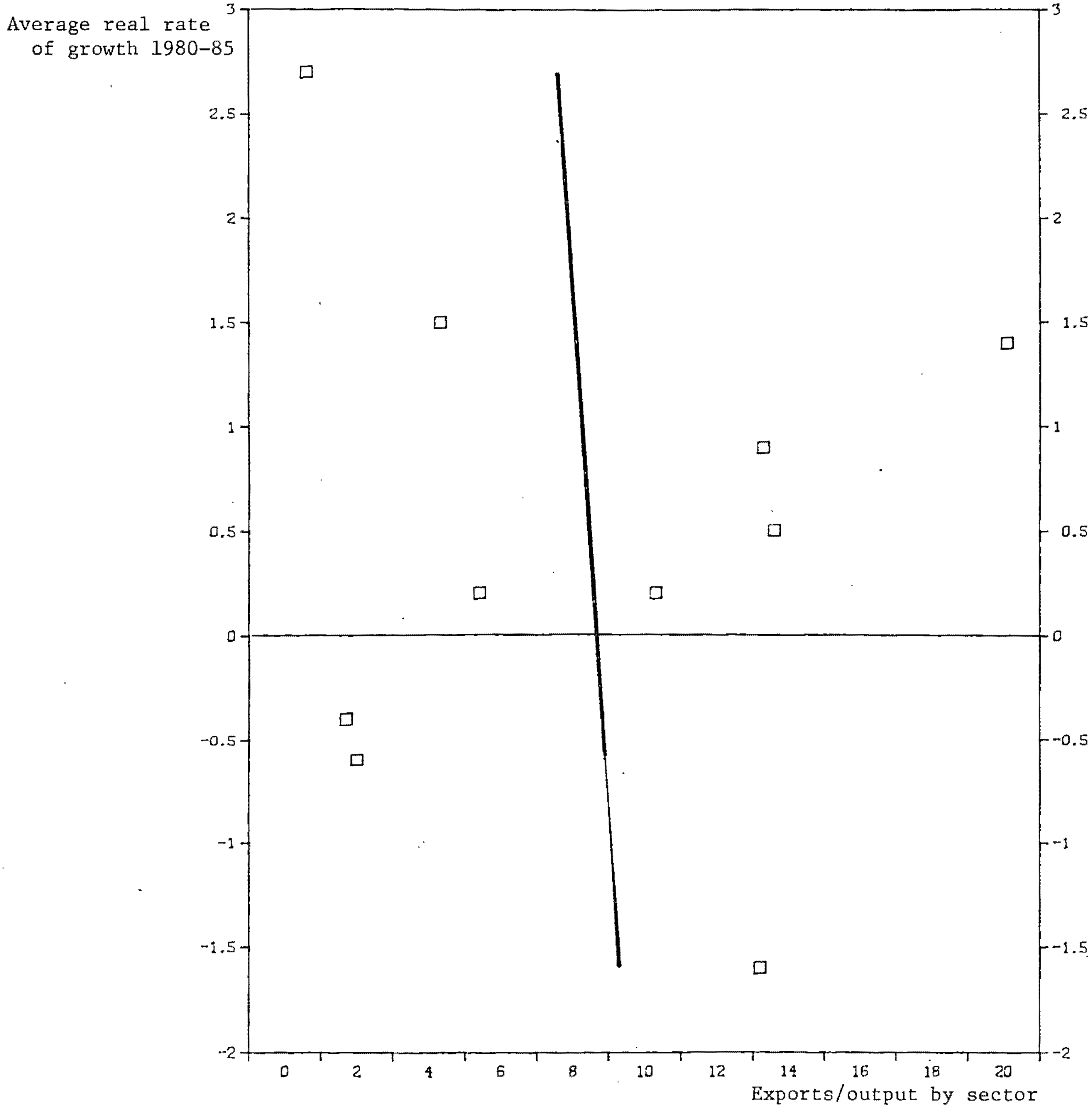


1/ With the convertible currency area.

CHART I.2.

POLAND

The Relationship Between Real Rates of Growth and the Share of Exports 1/ in Total Output, by Industrial Sector



1/ To both the convertible and nonconvertible currency areas.

CHART I.3.

POLAND

Real Consumption per Capita and Real Wages in Poland Relative to Its Trading Partners, 1980-85

(Index 1970=100)

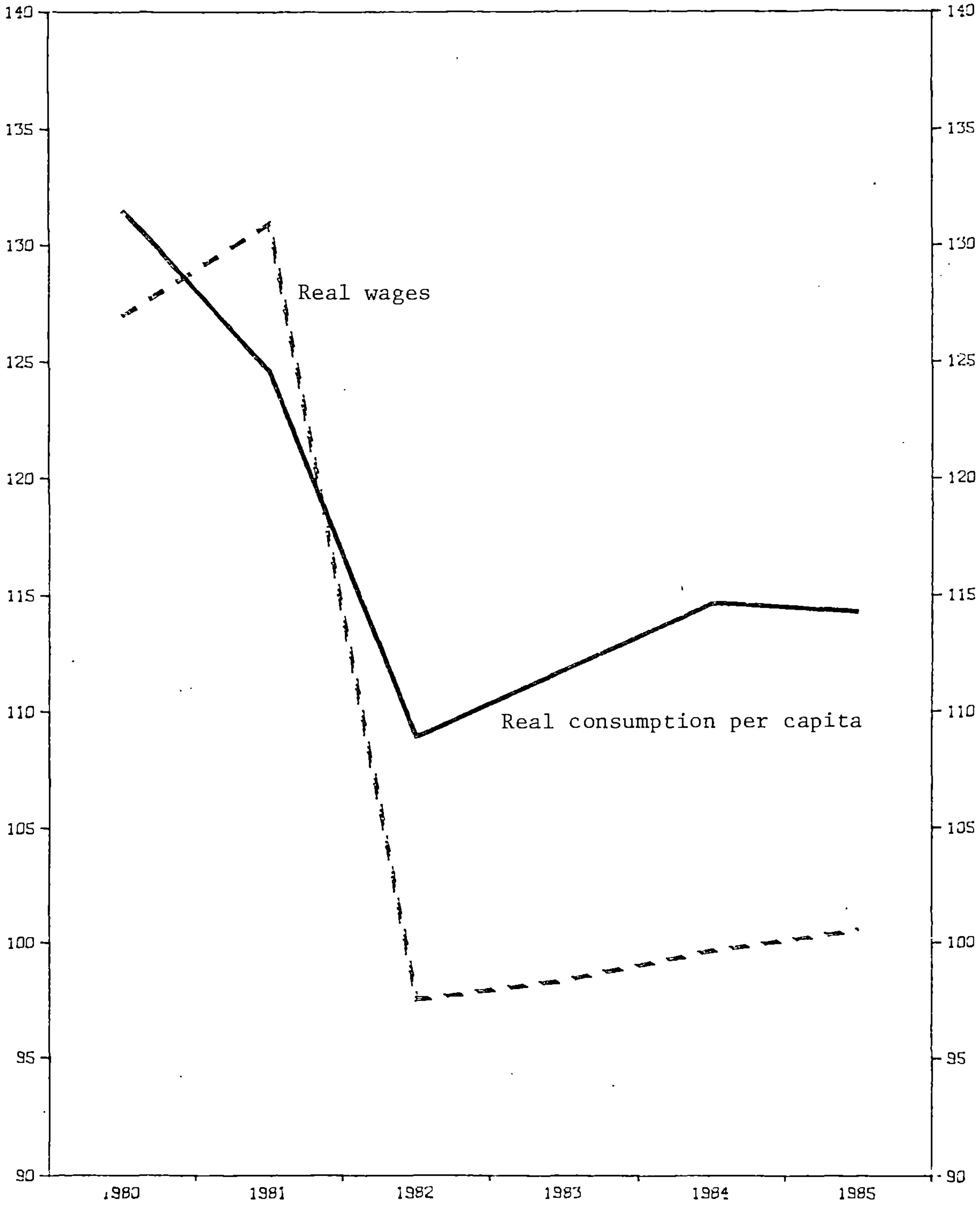


CHART II.I.

POLAND

Real Rates of Growth in Output and Money

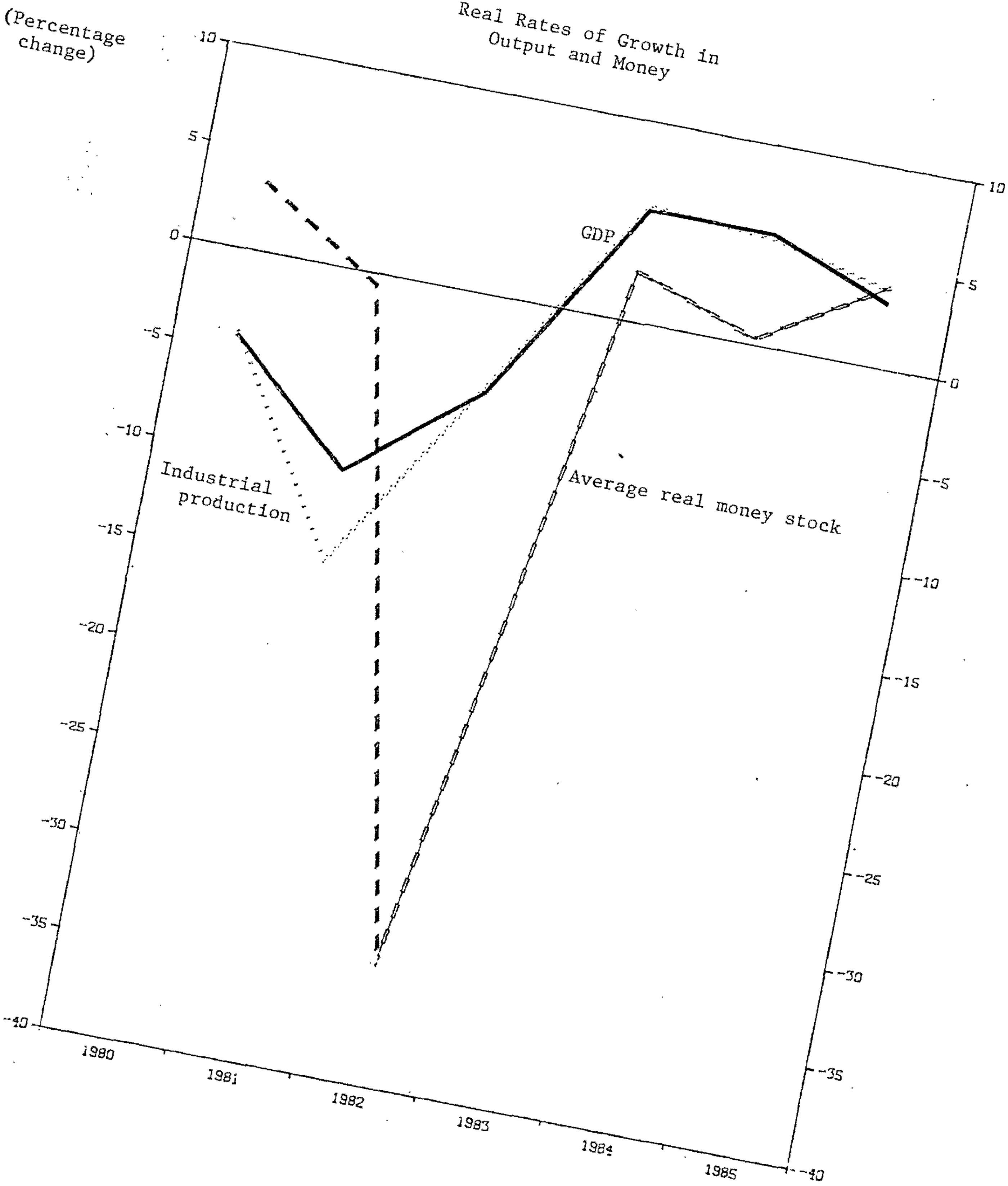
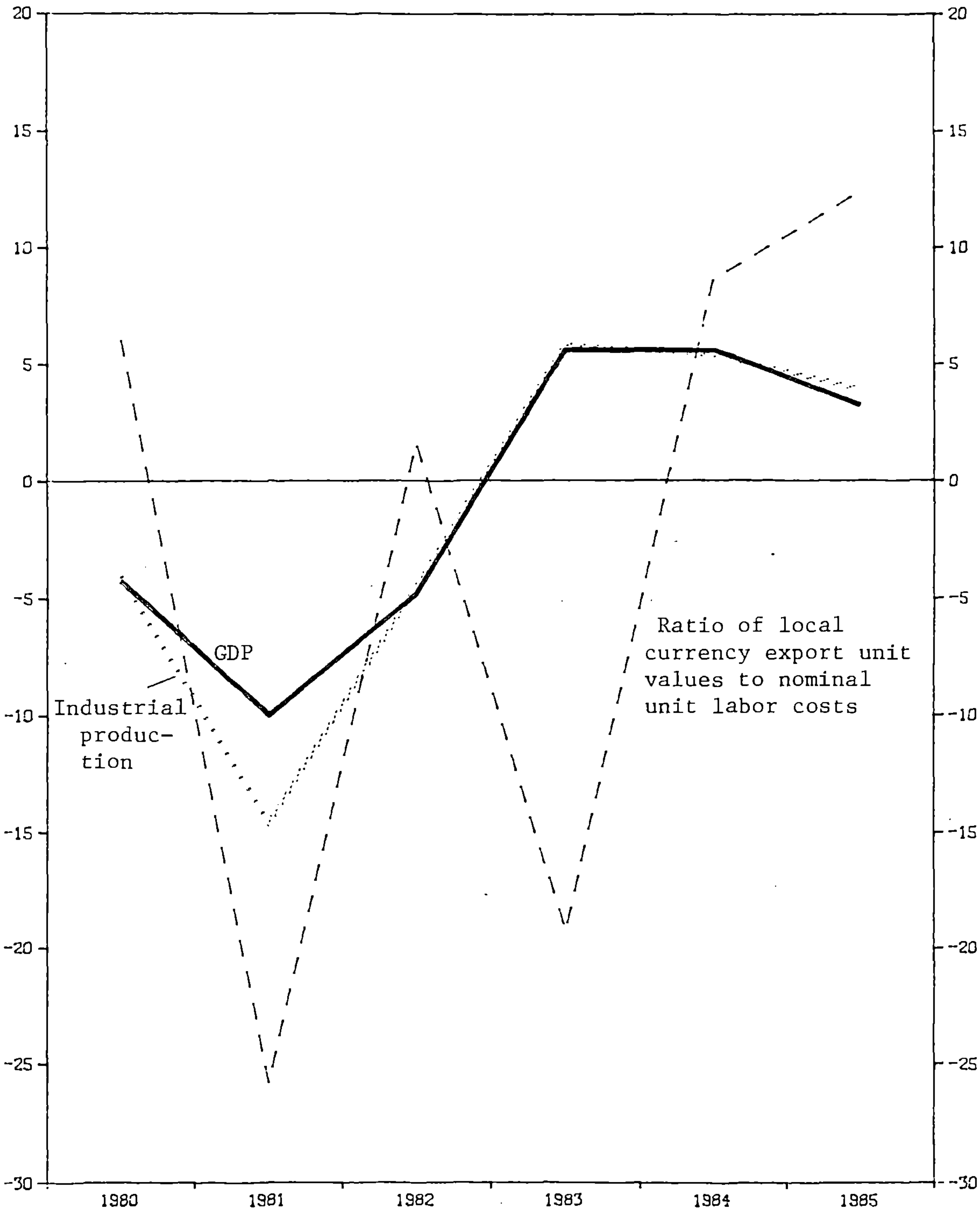


CHART II.2.

POLAND

Real Rates of Growth of Output in the Ratio of Local Currency Export Unit Values 1/ to Unit Labor Cost



1/ For exports to convertible currency area.

CHART II.3.

POLAND

Real Growth and Ratio to GDP

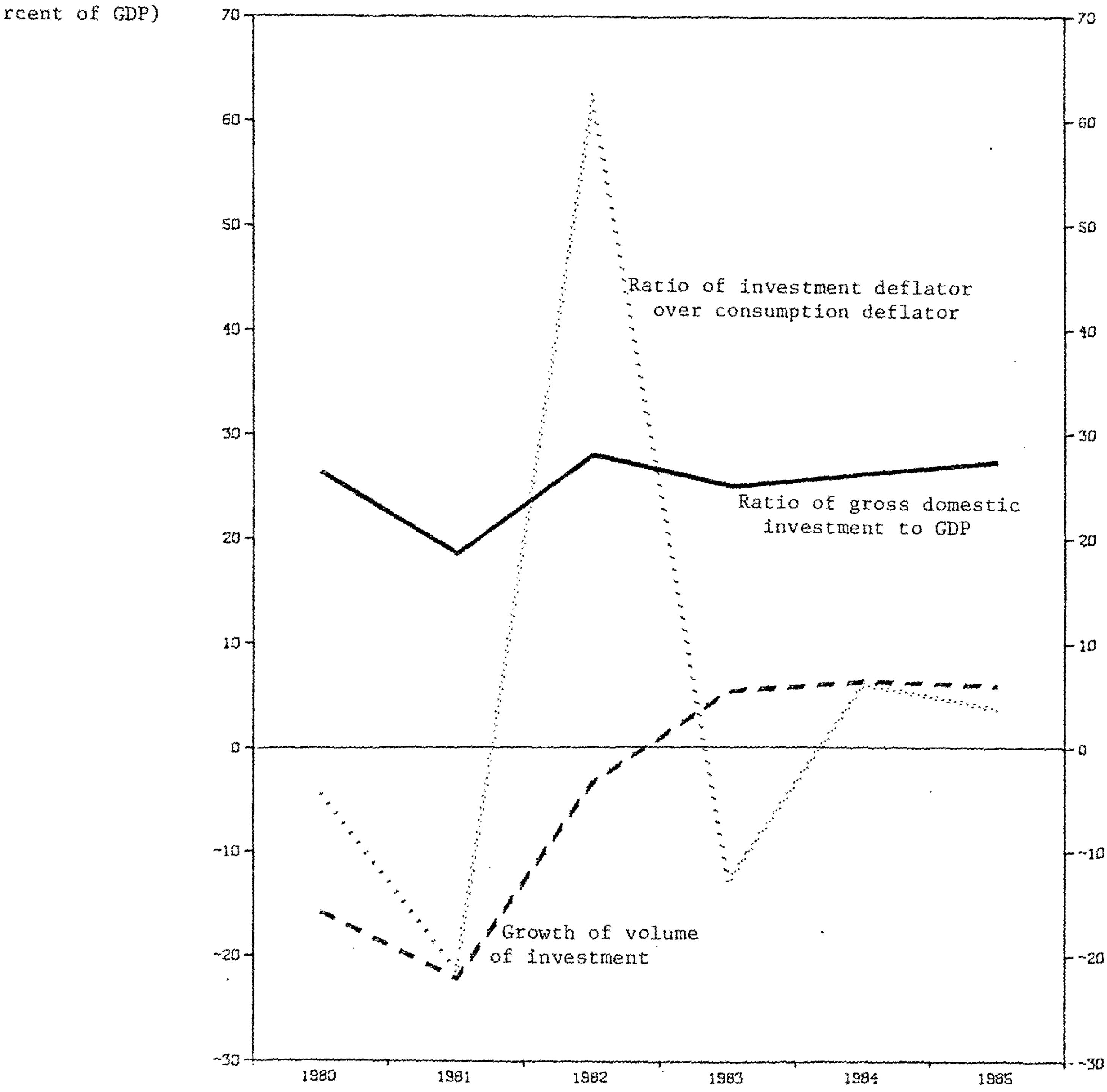


CHART III.~~2~~1.

POLAND

Inflation and Monetary Expansion, 1980-85

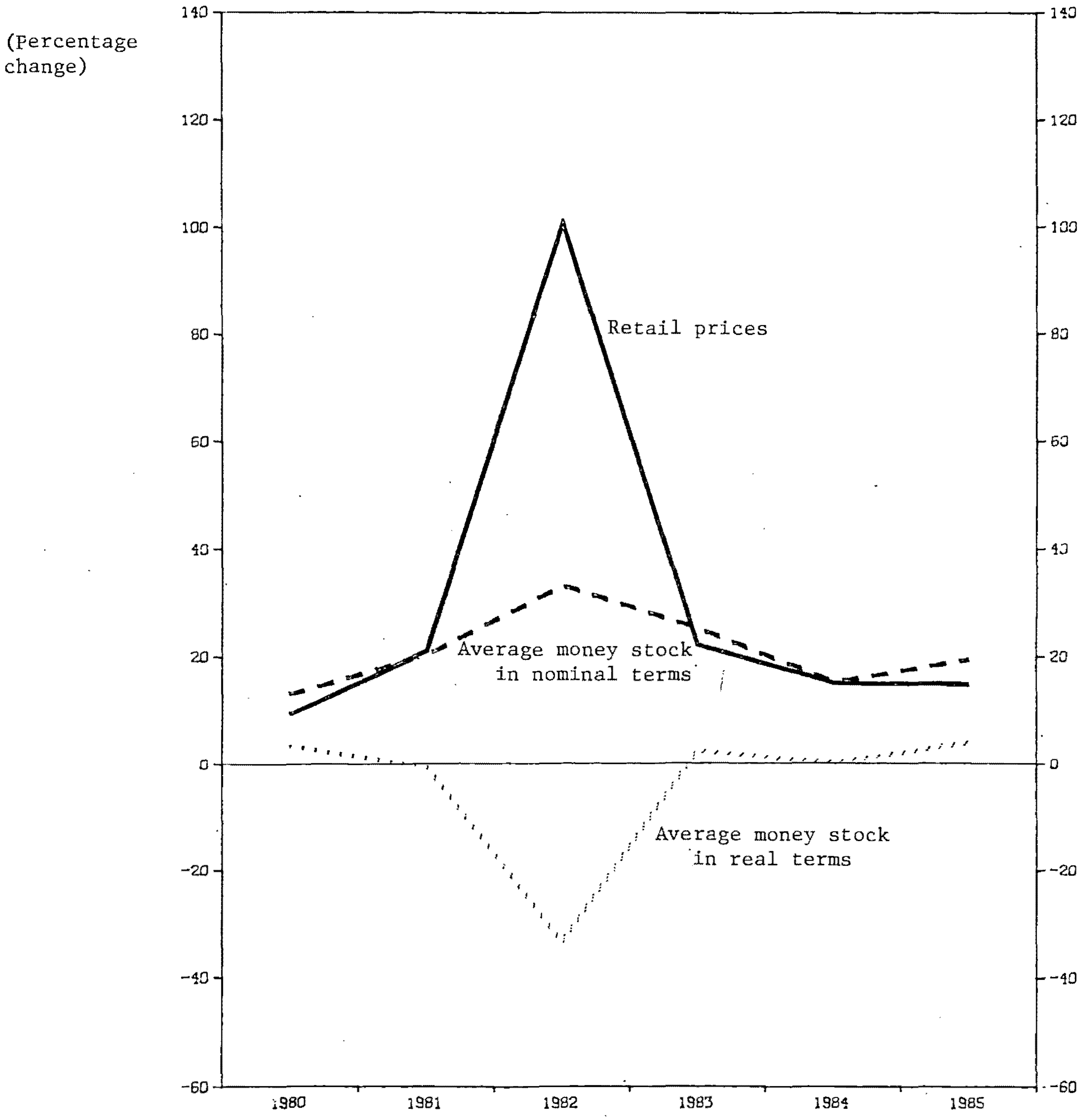
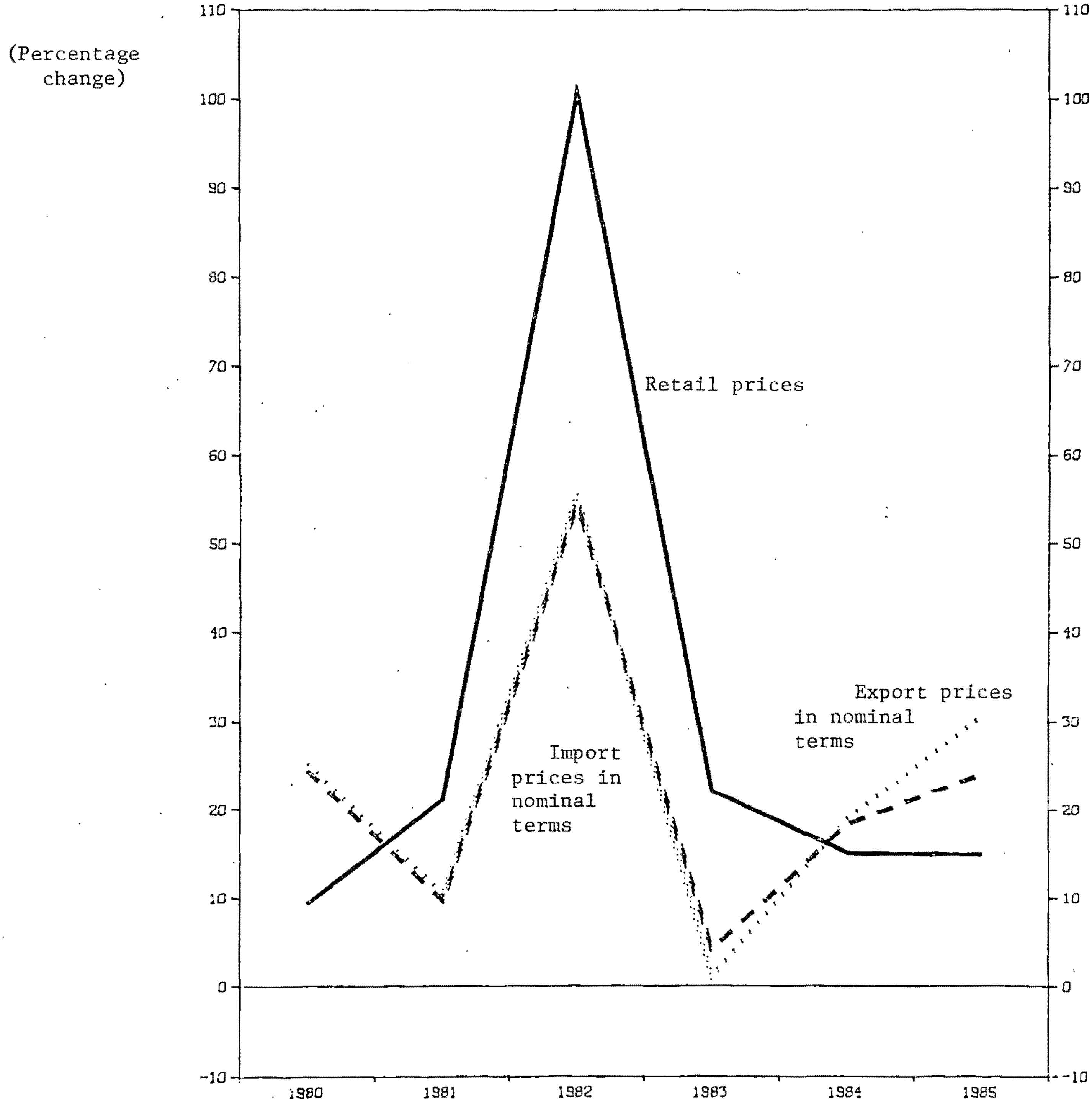


CHART III.~~1~~.2.

POLAND

Inflation and the Rate of Change in Local Currency
Prices of Exports and Imports 1/ (at transaction prices), 1980-85



1/ To and from the convertible currency area.

CHART III.3.

POLAND

Inflation and the Rate of Change in Unit Labor Costs in the Socialized Sector, 1980-85

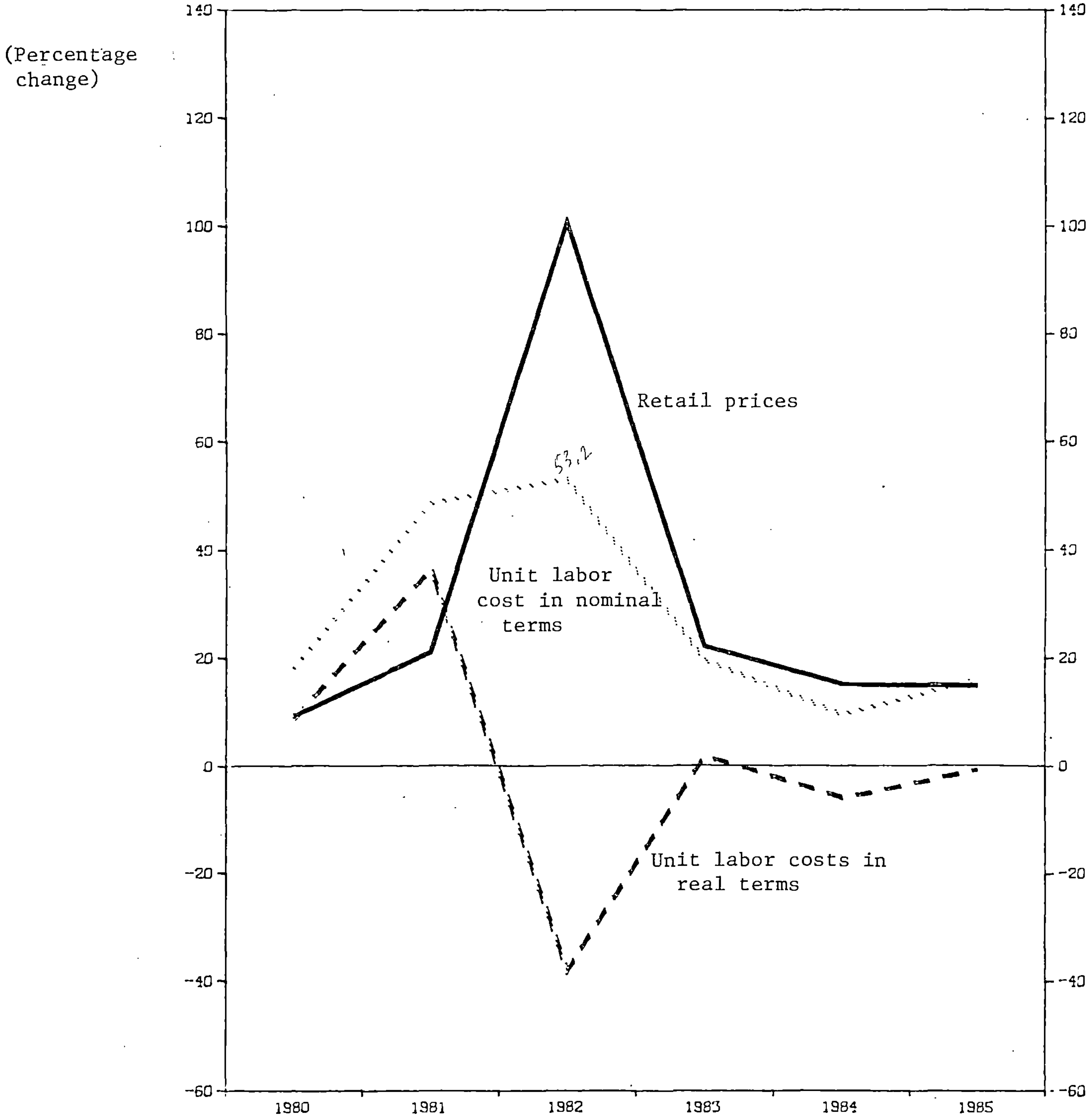


CHART IV.1.

POLAND

The Contribution of Credit Expansion to Monetary Growth, 1980-1985

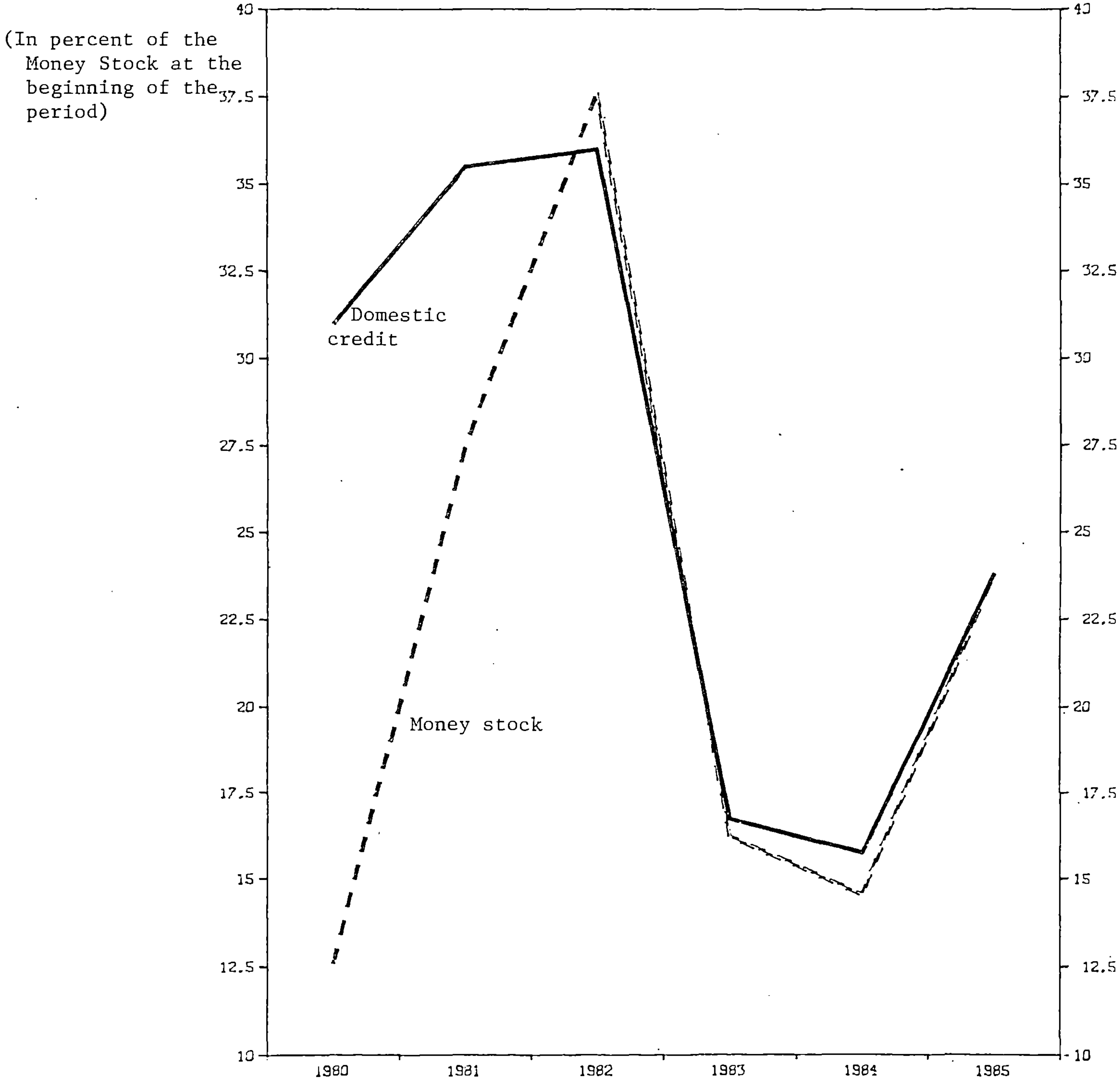


CHART IV.2.

POLAND

Selected Rates of Return on Deposits, 1980-85

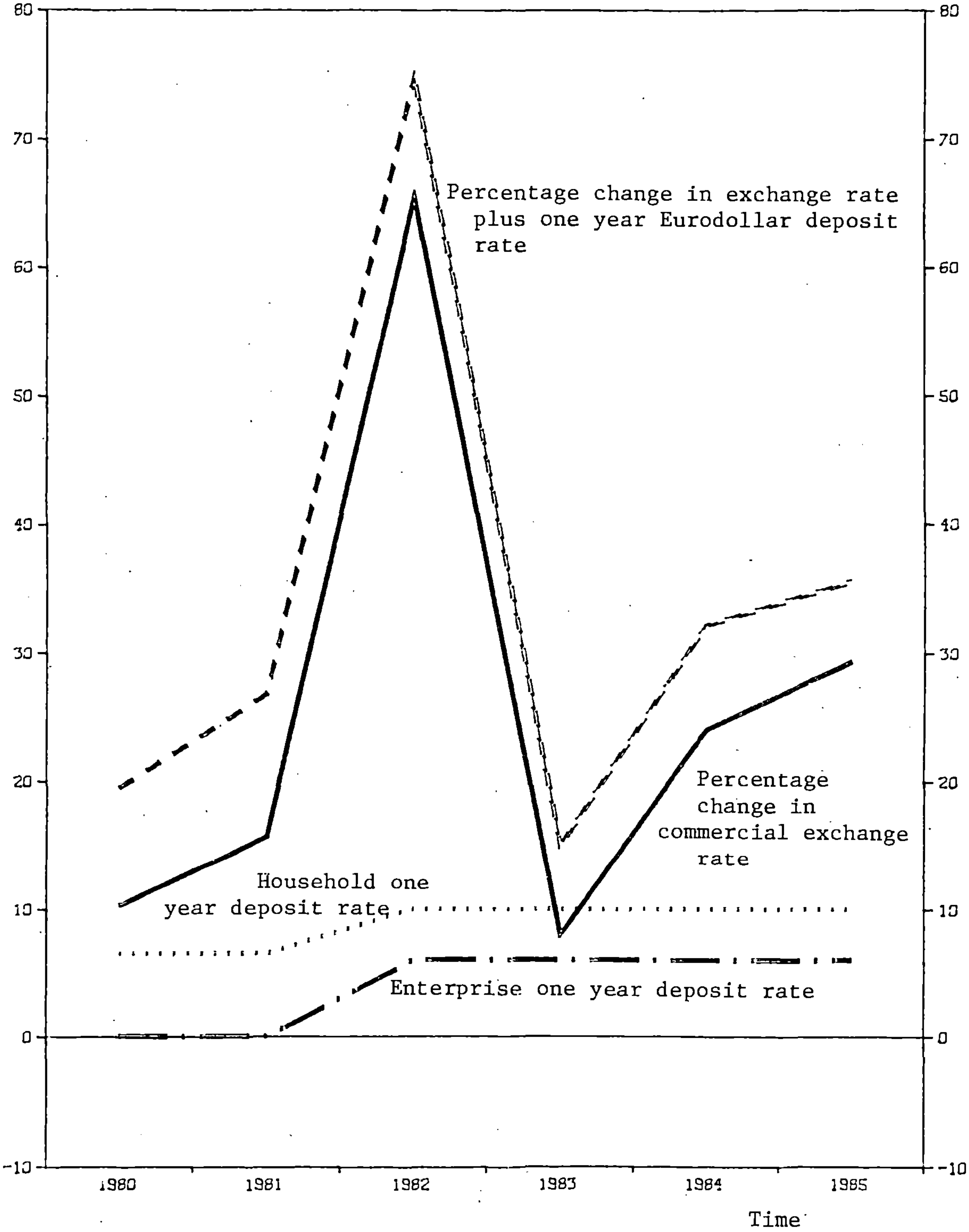
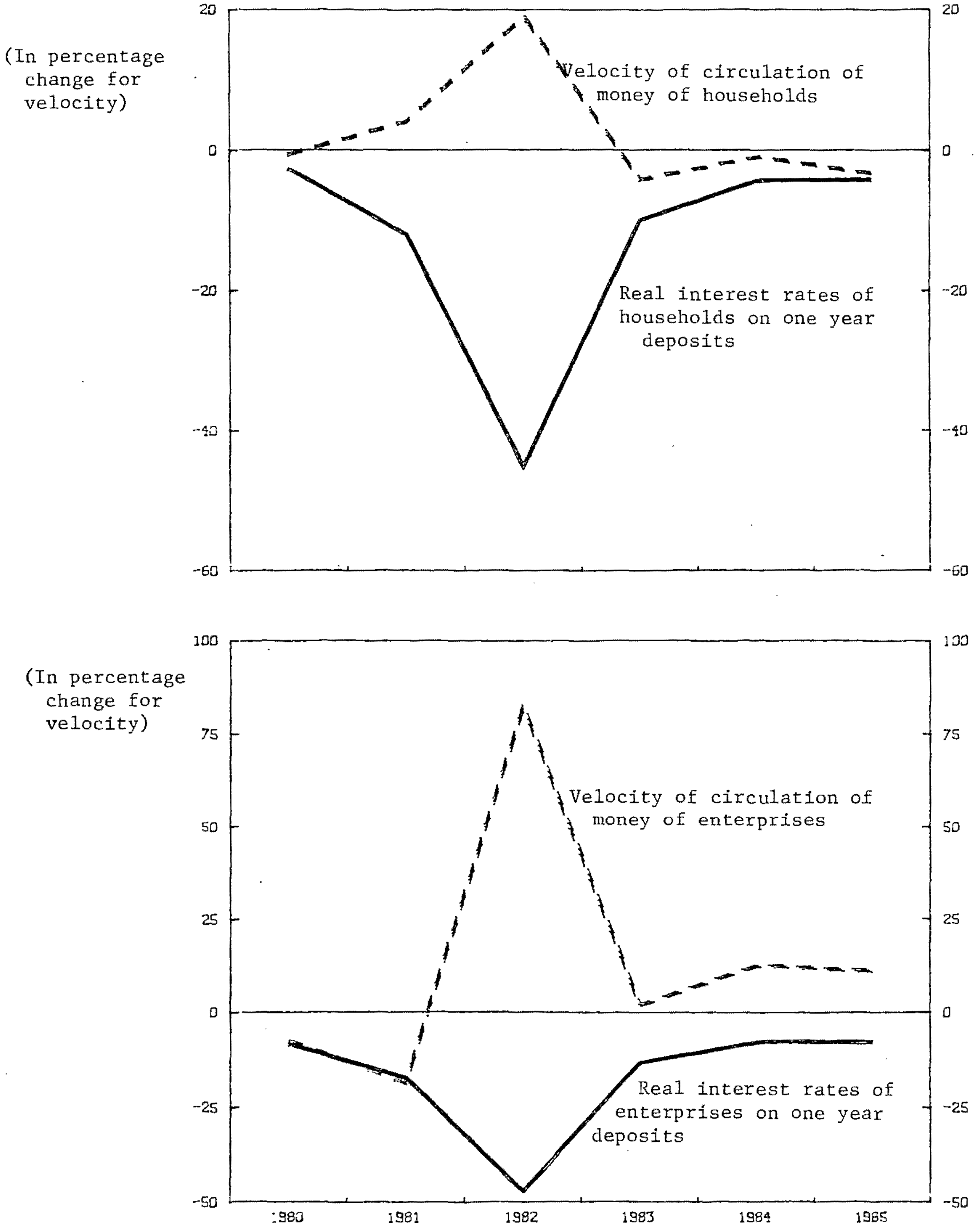


CHART IV.3.

POLAND

Real Interest Rates and Changes in the Velocity of Circulation of Money, 1980-85



cc Mr
[illegible]

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

RECEIVED
1986 JUL 14 PM 2:55
EUROPEAN DEPARTMENT

DATE : July 10, 1986 CONFIDENTIAL

TO : Mr. Philippe Nouvel, Chief, EM1DA

FROM : Timothy King, Senior Economist, EM1DA MTK

EXT. : 32495

SUBJECT: POLAND: Economic Mission - Back-to-Office Report[1]

1. Messrs King, Khan, Noman, Nuti and Schrenk assembled in Warsaw on June 2, and were joined by Mr Reekie and Sir Monty Finniston about a week later. We were also joined by Messrs Hasan and Ms Swiderski (IMF) on June 13, and by Mr Harris on June 17. All except Ms Swiderski remained to brief Messrs Lari, Dewey, Nouvel and Segura on June 21-2, prior to wrap-up discussions led by Mr Lari on June 23-4, in which several mission members also participated. The Mission benefitted from the visit to Poland of Messrs Dickerson and Ganguli for transport seminars organised by ECE and UNDP, since both were able to hold discussions in the Ministry of Transport and make some field visits in addition to the seminars.

2. For the most part, the mission itself went very smoothly. When Mr Nouvel and myself were in Warsaw in early May, I left a suggested program of meetings for the first two weeks in considerable detail, and the National Bank of Poland had followed this very closely. Moreover, the selection of individuals within each ministry was usually appropriate, and there was general willingness to schedule additional meetings with the same or different personnel where necessary. The Planning Commission was outstanding in this respect. Predominantly we were briefed by Department Directors (one level below Vice-Ministers). While obviously there was variation in the quality and personal attitude of individuals that we met, most were very forthcoming with information, and candid about the mistakes that had been made in the past, about the present difficulties of the economic situation and also about the differences of view that exist within the Government and bureaucracy about critical issues of economic management and priorities for the forthcoming plan. There was a genuine interest in our own views on some of these. Both the Minister of Transport and the Deputy Minister separately asked for meetings with Messrs. Dickerson and Ganguli, and discussed informally and at length priorities for railway modernisation.

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[1] En route to Poland, I had a valuable discussion of the Polish situation with Professor Brus in Oxford, and on my return through London I met Peter Mountfield of the British Treasury. I report below on the latter meeting.

3. We had requested several field trips - for Mr Khan in agriculture and Sir Monty Finniston in industry particularly, but also for Mr Reekie, and, out of Krakow, for the rest of the mission as well. The host ministries had been asked to make a choice of what we saw, and generally chose well.

4. We met a variety of economists outside the Government. We had requested some of these meetings through the National Bank of Poland. But some were due to long-standing friendships of Messrs Nuti and Lari, and these gave us greater insights into views held by those who in varying degrees are out of sympathy with the present administration. One must not gloss over the fact that less than five years ago the Government felt it necessary to impose Martial Law to curb popular demand for political change (and perhaps also to find a way out of economic chaos) and deep divisions within Polish society undoubtedly continue to exist. There are worries in academic circles about further loyalty screening of individuals during the autumn. Nevertheless the debate about economic policy is at least as open as in any other socialist country - and it appears to be possible for an individual professor to be simultaneously a member of a quasi-official consultative body on the economic reform, an outspoken critic of the next Five-Year Plan in a newspaper interview and a contributor to the underground press. One was continually struck by this, in part because the turbulence of recent Polish history might have led one to expect the opposite, but also because the same is not true for all socialist member countries of the Bank.

5. In sum, therefore, within the constraints faced by a small mission in dealing with a large and - except for Mr Nuti - unfamiliar economy, we can have no complaints about our ability to gather information and opinions from a variety of sources. In several respects we were able to go further than I had expected. Indeed it is likely that we collected more information than we can fully use in the time available for the first report; but it should both improve the quality of the analysis and also enable us to be much more focussed in the next phase of our economic work - which the Poles and ourselves have agreed will be an economic mission starting in late October.

Findings

6. The Mission focussed primarily on the current working of the economy, and especially on the present and prospective measures of economic reform, and on economic prospects over the period of the Five-Year Plan 1986-90. (Although the Plan period is already underway, there is still no final agreed Plan - indeed, there are still major disagreements over such fundamentals as expected or target trade balances). We spent very little time on the problems of 1986, which are severe - a Fund Article IV mission in July will presumably focus on this subject - and relatively little on the prospects for the 1990s. Given the manifest need for restructuring, this is something that should get greater attention from the October mission.

7. I was able to incorporate the main features of the Plan and the Planning Commission's trade forecasts into a RMSM (the Bank's standard accounting framework for macro-economic projections). In addition to the Planning Commission's forecasts, the Finance Ministry maintains its own balance of payments projections. The Ministry believes that the country can achieve signicantly faster export growth (accompanied by more rapid import

growth) than does the Planning Commission - about 7% in real terms for exports in convertible currencies and 5% for imports, compared with about 3.7% for each in the Planning Commission's projections. The Ministry's forecasts also contain estimates of anticipated reschedulings and new credits, and while its staff was prepared to discuss these with us, they were not prepared to give us a more up-to-date or detailed set of consistent forecasts than the ones prepared last December and used in debt negotiations from January to March. There are also certain difficulties in arriving at a firm maturity schedule. One is that Bank Handlowy records a rescheduling only after a full bilateral agreement has been signed, so a large part of the official debt is still simply recorded as "delayed." In practice, however, multilateral agreeements have been reached with both bank and official creditors, including for 1986, (with the banks, also covering 1987 as well) at least to the initialling stage. An added problem is that there have been frequent revaluations of the debt to reflect exchange rate changes, and this is a potential source of inconsistency between maturity forecasts and debt totals if these are taken from different sources.[1/] Since Poland has virtually no access to new credit, debt management consists of rescheduling negotiations. There is no mystery about the Polish debt - just the complexity that has come from the accretion of a large amount of arrears, followed by an almost continuous process of rescheduling. We are planning to use maturity schedules that reflect initialled agreements rather than either legally final ones or ones that reflect further readily anticipated reschedulings, and we do have adequate data for this, though I am seeking further clarification on a few individual items.

Several of our mission meetings discussed the implications of the trade and debt projections for Polish macro-economic and trade policies, and for prospective creditworthiness. This will be the central focus of our first Main Report. The questions highlighted in the Issues Paper still appear to be the critical ones, but I shall not attempt to address them here. Although I do not think there will be any surprises, I think I would prefer to write the Report before announcing its conclusions.

8. It is worth noting, however, that the mission did bring certain key questions into sharper focus than they received in the Issues Paper. They include:

(i) the critical importance of energy conservation. In the 1980s, Poland has not followed other countries in conserving energy, and the energy intensiveness of GDP has risen. Poland does not anticipate any increase in coal output during the next few years - it is a matter of having to run quite hard to stay in the same place. Increasing domestic use therefore implies a sharp drop in prospective exports, and on present trends Poland would be a net energy importer by 1990. Coal prices, however, are very heavily subsidised, and demand management could have quite direct results;

[1/] At one point, I wondered whether, since Poland is a new country to the Bank, we could not set a precedent and put all of her balance-of-payments data into SDRs. But, alas, this would be like trying to change the Bank's official language to Esperanto.

(ii) although it still seems to be generally true that the solution to Polish problems should not lie simply in across-the-board reduction in domestic absorption, there are areas other than energy where there are trade-offs between domestic (and CMEA) absorption and convertible currency exports. It is widely thought that the high level of demand and profitability of the domestic market is a deterrent to exporting. In this respect the level of the exchange rate - almost certainly overvalued - is of importance, and further reforms to the pricing system are needed. The question of export incentives is obviously critical, and links both the work of the mission on the macro balance, and on economic reform. We shall take this up much more extensively on the October mission;

(iii) incentives and inefficient energy use are not, of course, the only barrier to expanding exports. The ability of industrial enterprises to obtain parts, equipment and recent licenses, and thus to remain technologically up-to-date, has suffered greatly from the foreign exchange famine of recent years. Polish industry is predictably backward in its use of electronics. On the other hand, it would be wrong to view it as a total disaster area - Poland remains a major exporter of manufactures, especially of engineering products, and the technical staff of enterprises visited were usually of high quality and well aware of what was needed to restore their international competitiveness. In the longer run, a great deal of restructuring of industry will be necessary, and the October mission will look in greater depth at the program we heard described to us only briefly. In the interim, however, the mission felt that it was probable that financing of selective imports to maintain the export capacity of the existing industrial structure could have a high return in convertible exports earnings;

(iv) the inefficient use of investible resources. In spite of its extraordinary cutback in investment as part of its stabilisation program, Poland has been investing over 20% of its GDP. Unfortunately much too much has been in continuing large projects begun earlier, in spite of fairly sophisticated attempts to reappraise the whole investment program during 1981-3. The quality of the investment program during the next Plan seems dubious in at least some respects - e.g. the pace of electrification of the railways - and this should be examined much more closely during the October economic mission. On the whole, infrastructure does not itself appear likely to pose a significant constraint on continued economic expansion, and further savings may be feasible here - though it is possible that key cost-reducing investments could improve international competitiveness;

(v) more generally, the markets for productive factors work badly in Poland, as in most socialist countries. There is very little interfirm mobility of capital, and bankruptcy is still very rare. The felt shortage of labor is extraordinarily pronounced in urban areas. Labor issues are highly complex, and are bound up with housing and agricultural policies as well as those more conventionally considered labor and wage policies. They are also politically sensitive, but there seems no desire to steer us away from them, and they are clearly central to the possibility of long-term restructuring. Factor markets will also be studied much more intensively during the October mission; and

(vi) one of the outcomes of the Solidarity period was a recognition by the Government that both politically and economically more had to be done for the private farmer, and the Mission was impressed - indeed, alarmed - by the extent to which a policy of income equalisation between town and countryside has already been successful. At the margin, the <u>level of agricultural subsidisation</u> is very high - making for the inefficient use of productive factors and giving rise to a fiscal burden that Poland can ill afford. Presumably the right policy is not to revert to to the policies of the 1970s in which the need for food imports contributed massively to the debt crisis, but ways have to be found to improve the efficiency of factor use in agriculture.

<u>Wrap-Up Meetings</u>

9. Concluding discussions, led by Mr Lari, were held with Vice-Ministers of Agriculture, Chemicals and Light Industry, Metallurgy and Engineering, Fuel and Energy, and Foreign Trade, with the Minister of Finance, with a Deputy Chairman of the Planning Commission (Mr Zajchowski) and with Mr Baka, the President of the National Bank of Poland. (As expected, the latter was subsequently named Governor of the World Bank for Poland.) The above points were among those which were stressed from our side. In most meetings, we asked the views of the Polish side on the exchange rate, and/or on prospects for "hardening the soft budget constraint". I was struck by the degree of consensus that the present exchange rate is overvalued - a view that had been widely expressed to us earlier. The National Bank of Poland, which has formal responsibility for the rate, seemed least convinced, and surprisingly unclear on what principles the rate should be determined. We were asked for our views and the possibility of assistance in this area. I suggested that the Fund mission would be well equipped to help in this regard, and that Tom Wolf, in particular, would be the right person to consult. There is perhaps less agreement about whether the present export retention scheme should be expanded into a broader market for a portion of foreign exchange earnings, but this is a matter of great practical importance at the present time.

10. On issues of the "soft budget constraint", Poland has made little use of either the letter or the spirit of the bankruptcy provisions of the law (which for some time have been as stringent as that which Hungary is still trying to legislate). More generally, few people would deny that the working of the economic reform itself has been far from satisfactory - the tightness of the economic situation has not been conducive to either liberalisation or true decentralisation. The more severe critics believe that true autonomy of enterprises requires the consolidation of the remaining branch ministries into an industrial ministry on the Hungarian model, and they also point to problems of political interference, especially at a local level. On the other hand, even these critics pay the reform the compliment of taking it quite seriously, while the authorities generally appear to agree that its implementation needs to be greatly strengthened during the coming years.

Some Next Steps

11. Mr Dickerson gave a seminar on World Bank procurement, under the auspices of the Ministry of Foreign Trade, and this was much appreciated. We have promised that the Bank will lay on a more formal seminar on the opportunities that Bank membership provides for Polish enterprises to bid on Bank-financed contracts, no earlier than September but as soon thereafter as possible. Mr Dickerson will notify the appropriate Bank staff.

12. Bank Handlowy, the Foreign Trade Bank will have responsibility for debt reporting, and they had been studying materials left on our previous visit. As expected, they have no basic problem with the system, especially that for reporting new loan drawings - would they had something to draw - but they need guidance in handling the thousands of individual past loans, now generally rescheduled. I promised that somebody from the External Debt Division would visit them, no earlier than September but as soon thereafter as possible.

Some General Observations

Economic and Sector Work

13. Poland will be an interesting country to work with. The quality of dialogue on matters of economic policy should be as high, open and as free from dogma as anywhere. Perhaps to some degree we met a self-selected collection of people, but given the way in which our program was drawn up, I don't think that it could have been very unrepresentative. The interest in our views seems to be genuine, not merely polite. What are the prospects of this bearing fruit in effective action? The references that were frequently made to the "lobbies", referring mostly to coalitions of enterprises and branch ministries, were not encouraging. Moreover, the roles of both military and Party are difficult for outsiders to assess. But I was more struck by the fact that there appears to be genuine indecision about what to do, and about who, in a situation of somewhat half-baked economic reform, should carry responsibility for seeing that it gets done. The postwar history of unpredicted but devastating hostile public reactions to Government measures must also serve as a deterrent to bold action. But in a Bank department that contains both Yugoslavia and Egypt, one should not overdo the impression of political weakness or indecision - by the standards of many Bank countries, if not by those of Hungary or Korea, Poland is probably pretty technocratic.

Potential Project Identification and Appraisal

14. On our earlier visit, Mr Nouvel and I had gone some way to dampen any excessive expectations about the likely speed with which the Bank could process any loans to Poland, regardless of other obstacles. But leaving aside issues of creditworthinesss and other potential constraints on lending, I was impressed by how quickly it would be possible to move. The Planning Commission's project appraisal techniques are those of UNIDO, complete with use of world prices. There is a credit window which provides enterprises with foreign exchange credits, for which the enterprises take the foreign exchange risk. The Council of Ministers have just approved in principle the establishment of an Export Development Bank designed to encourage small and

medium sized enterprises to export to convertible currency markets. All in all, neither the institutional structure nor the intellectual tradition should be serious obstacles to Bank operations.

Visit to Peter Mountfield, U.K. Treasury

15. As part of the preparation of the Report and its supporting documents, we are trying to touch base with Poland's present creditors, both official and unofficial, in part to get alternative perspectives on the Polish situation, and in part to learn of their reactions to, and expectations from, Bank-Fund membership.

16. Mr Mountfield has been involved with Polish debt issues since 1980. At the time that Martial Law was declared in December 1981, he, and some of the other European official creditors, were already thinking in terms of some sort of "rescue package" for Poland, that would involve very long-term debt rescheduling or restructuring - something that Martial Law made moot. Although he did not think highly of the quality of Polish economic decision-making, he was impressed - and, indeed, a bit surprised - by the determination of the Poles to face up to their obligations in the absence of any new credit. He did think that the time had come again to think in terms of a rescue package. He did not know what would be involved - perhaps rescheduling over a 20-30 year period. The major obstacle to this would of course be the likely US position. Although the British Government was not going to rush to sign up for some sort of rescue package, he did believe that a Fund program, and support for restructuring activities by the Bank, would be essential ingredients to such a package, and so the British would strongly favor the Bank's beginning to work on what would be required.

17. This is so close to my own thinking as to what we should be striving for, that I must point out that Mr Mountfield's remarks were made without any prompting from me.

Cl. w. & cc: Messrs. Lari (EM1); Hasan (EMN); Harris, Reekie, Dickerson, Ganguli (EMP); Schrenk, Khan (CPDBA); Noman (WAN)

cc: Messrs./Mmes. Wapenhans, Reitter, Dhanji (EMNVP); Harrison, Moreau, Favilla, Fernandes (EM1); EM1DA Staff; V. Rajagopalan, Dewey, Goffin, Pranich, Zaidan, Liebenthal, Segura, Abe, Ljung, McKechnie, Prosser (EMP); Dubey, Kavalsky (CPP); Chopra, Hope (EPD); Jamison (EDT); Fitchett (AGREP); Hole, Swiderski, Wolf, Prust, Schmitt (IMF); Hadler (PBD)

TKing:bhn

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approved by DMD, please circulate

①

Office Memorandum

→ MD
CK
TADE
July 13, 1986

TO: The Acting Managing Director

DATE: July 10, 1986

FROM: L. A. Whittome

SUBJECT: Poland - Notification of Exchange Arrangements

I attach for your approval a paper on the initial notification by Poland of the exchange arrangements that it intends to apply under Article IV. The paper has been cleared with Mr. Boorman (ETR) and Mr. Francotte (LEG).

Attachment

cc: The Managing Director (on return)
Mr. Brown

1986 JUL 10 PM 5:47
OFFICE OF THE
DEPUTY MANAGING DIRECTOR

7/10/86

INTERNATIONAL MONETARY FUND

OK - good

TO : Mr Whittome

FROM: Peter Hole

1) HOS to seek
2) floater

Poland

The IBRD told me this afternoon that they would now like to accept the invitation to participate in our July mission. I said that their participation would be welcome.

The man they have designated is a senior economist in Mr Lari's Department. He would join the mission for only part of the visit, probably the latter part. Details have yet to be arranged.

PH.

10/vii

INTERNATIONAL MONETARY FUND

TO : Mr. Whittome

FROM: Peter Hole

Poland

I attach a note on an interesting initiative by the Polish authorities.

Would we want to have a view on this at all, please?

9/vii

cc: HOS
PH

I wld welcome your advice. I wld have thought that any appointment that strengthens relations between Poland & the international community should be welcome to us. I would have thought also that the Poles should pay "him"; as tends to take people one pays more seriously & also he will feel greater involvement. ? ? ? / 8

Office Memorandum

CONFIDENTIAL

To: Mr. Hole

Date: July 8, 1986

From: T. Wolf TMW

Subject: Poland: Proposal to Mr. Rudcenko to be Consultant to Ministry of Finance

Mr. Jan Vanous has informed me that Mr. Stan Rudcenko (Bankers Trust, London) was recently asked by Mr. Nieckarz if he would be willing to serve the Ministry of Finance as a consultant on international financial relations and on relations with the Fund.

Mr. Rudcenko is apparently a citizen of the United Kingdom but employed by a U.S. bank and consequently he is in the process of sounding out both the U.S. and U.K. governments on the advisability of his serving in such a capacity. Apparently Mr. Rudcenko is also interested in indirectly sounding out the Fund on this matter, including whether such a consultantship, were it to occur, should be "formal" (i.e., on a retainer basis, with Bankers Trust presumably receiving the payment) or arranged in a more informal manner. This is the main reason for Mr. Vanous' call to me.

Apparently a decision in this regard is unlikely to be made soon, but I did tell Mr. Vanous that someone would be back in touch with him in due time regarding the Fund's position, if any.

Mr. Whittome

For information.

8/vii

cc: PH

But we need to offer to explain & answer queries.

8/7

INTERNATIONAL MONETARY FUND

7/7

Peter:

I received a copy of this memorandum this morning. Apparently Mr. Bonnik is content with the arrangement described in the memo.

This copy is for your information

Ken. Friedman

Kenneth S. Friedman

[redacted]

→ Mr Friedman

Office Memorandum

TO : Mrs. Gertrude Long

DATE: July 2, 1986

FROM : Mrs. Peggy Thompson

SUBJECT : Documents for Embassy of the Polish Peoples Republic

The following arrangements have been made to provide Mr. Jan Maciej Boniuk, Counselor (Financial Affairs), Embassy of the Polish Peoples Republic with Fund documents. The arrangements were made as a result of conversations with Mr. Lang and Mr. Boniuk.

The Embassy will receive one copy of all documents (French and English) listed on the Daily Documents List distributed by our unit. In addition, they will receive one copy (English only) of all Buff documents. Mr. Boniuk will pick the documents up once a week - starting sometime after July 21, 1986. Mr. Boniuk will call either myself or Mila to let us know that he will be coming to pick the documents up. I have made arrangements for the package of documents to be left with the security people stationed next to the Guard Desk on the 19th Street side. The package will be addressed to Mr. Boniuk and will have either my name or Mila's as the originator of the package.

Mr. Boniuk has received a package of documents (with daily list attached) for the dates June 23-June 27, 1986. This package did not include Buff documents. A package will be prepared and left at the desk by 4:30 p.m. July 3, 1986 which will contain documents issued June 30, 1986 through 3:00 P.M. on July 3, 1986. Copies of all Buff statements issued between June 23 and July 3 at 3:00 P.M. will be included, with exception of Buff 86/117 on Italy which was given to Mr. Boniuk this morning by Mr. Lang.

In order that we may make this operation as routine as possible I have talked to Carol Ball about putting Mr. Boniuk on the same distribution lists that all Executive Directors are on, for documents.

✓ cc: Mr. Joseph Lang

Office Memorandum

July 2, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland

Mr. Boniuk called on me this afternoon to say that he would be leaving this weekend for two weeks in Warsaw. He said that the purpose of his visit is to brief himself on the results and possible consequences of the recent Congress. He added that the Ministry of Finance is setting up a bureau in Warsaw to look after cooperation with the Fund and the Bank.

He then took with me a series of points:

1. They will send a couple of people to Washington for a stay of one or two weeks in order to get acquainted with the Fund and the Bank. They will bear the costs.

2. He enquired about Institute courses and I would ask Mr. Hole to ensure that before Mr. Boniuk leaves he is given details of pending courses for which we still have vacancies. We should also please get in touch with Mr. Teyssier (I will do this if you think it advisable) to seek to try and ensure that the early candidates from Poland are given preference.

3. Recruitment. He said that Warsaw hoped that we would take Poles on the staff of the Fund. I said that I thought it would be premature to press this point and I reminded him of our requirements. I fear the point will not go away.

4. He enquired about the people being added to the July mission and I gave him very general answers. I notice that he had also noted that all the Fund staff would be traveling on Pan Am. I assured him that this was for capitalistic not bureaucratic reasons.

L.A. Whittome

cc: Mr. Schmitt
Mr. Hole

Office Memorandum

June 30, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland

I took the opportunity in a discussion with the Managing Director today to warn him that the Poles had raised the possibility of a bridging finance loan with the BIS, during the June meeting of the BIS. I said that when Mr. Karcz asked my opinion on this issue today, and in particular whether in arranging his cash flow for 1986 he would be well advised to count any receipts from the BIS, I told him that this, in my opinion would be most unwise for I saw no probability that such a loan would materialize in 1986.

The Managing Director again said that he thought that any discussion of a lending operation this year would be inappropriate.

L.A. Whittome

cc: Mr. Hole

Office Memorandum

TO: Mr. Whittome

FROM: Hans Schmitt

June 25, 1986

SUBJECT: Poland--Negotiating a Program

Adjustment means moving to a tenable external position; for it to be tenable in Poland it must be acceptable both to bankers abroad and to labor at home. At the moment the requirements of each seem to be incompatible with the other. Bankers require a surplus on external current account large enough to ensure the progressive repayment of debt, and an adjustment in domestic demand (and in wages) large enough to produce it. Labor requires a minimum growth in wages (and in domestic demand) and a deficit on external current account large enough to finance any shortfall in GDP to support it. We need to find where, if anywhere, the twain can meet.

The distance between the requirements of labor and of the bankers can perhaps be narrowed by an increase in productivity. A realignment of domestic prices aimed at improving the current wasteful pattern of resource use, may create resources that can be shifted to the balance of payments at minimum cost to the level of domestic absorption. To achieve such a reallocation of resources, an accelerated decentralization of decision-making power to enterprises is often urged, which would give greater scope to market forces in setting relative prices. It is difficult to know just how much reform will produce how much of a boost to output over time. But we probably cannot escape the need to make a judgment.

To negotiate a sensible program of adjustment we must first attempt to quantify the perimeters of the problem. The attached table offers a framework for doing so. The two columns identify the limit set by the potential growth of GDP, which is assumed to be higher with structural reform, and lower without. The first row specifies what room is left within the GDP constraint for the growth of domestic demand, if we fix a target surplus for the current account that might satisfy the bankers. The second row specifies the outturn for the current account balance, once we fix a floor for the growth of domestic demand that is meant to satisfy labor. The three variables together must satisfy the national accounting identity.

What might be the objectives of the two contenders, labor and the banks, if each were unconstrained by the other? As to the banks we may be certain that, after the current account surplus reaches a certain point in relation to the debt falling due, the rest can be financed by voluntary capital inflows. Until we have a better idea of where that point lies, we split the difference, and assume that the current account must reach half the debt falling due in the year in which repayments reach their maximum. As to the objectives of labor, unconstrained by those of the banks, we may initially assume that they would be satisfied by a growth in domestic demand at the same rate as the average among Poland's trading partners. Both of these assumptions and their implications are meant to be subjects for discussion.

Setting out the perimeters in this way should help to focus efforts to find a solution on its most essential requirements. It will also serve to constrain discussion within a coherent framework. It may be hoped that the process of negotiation will lead to revisions in the assumptions, and progressively narrow the gap among the major contenders, until agreement on a program can be reached. For this to be possible the trade-offs between domestic demand and the external current account must be clearly understood by all parties, as must be the likely impact on that trade-off of an improvement in productivity stemming from accelerated reform.

May we have your reactions, please.

cc: Mr. Hole

CORRECTED

Poland - Scenarios

	Low Growth 1/	High Growth 2/
with C/A target 3/	DD path	DD path
with DD floor 4/	C/A outturn	C/A outturn

1/ Without "reform".
2/ With "reform".
3/ Current account (C/A) at one half the repayments falling due in the peak year.
4/ Same rate of growth of domestic demand (D/D) as average of trading partners.

Minister Spraw Zagranicznych 499082

Warsaw, June 24, 1986.

CC: EED

RECEIVED
1986 JUL -1 AM 10: 03
EUROPEAN DEPARTMENT

Sir,

The Government of the Polish People's Republic appoints:

Mr Stanisław NIECKARZ,
Minister of Finance
as Governor of the International Monetary Fund
and

Mr Zbigniew KARCZ,
Director of the Foreign Department
in the Ministry of Finance
as Alternate Governor of the International Monetary Fund

with effect from 24 June, 1986.

499082

w-/z H. Jaroszek
for: Henryk Jaroszek
Undersecretary of State

MINISTERSTWO SPRAW ZAGRANICZNYCH

Mr J. de Larosiere
The Managing Director
International Monetary Fund
Washington, D.C.20431

RECEIVED
INTERNATIONAL
MONETARY FUND
1986 JUN 30 PM 4:51
COMMUNICATIONS
DIVISION

Orig: SEC (Mrs.Long)
cc: MD
DMD
EUR
SEC
Mrs. Djeddaoui
INST
Mr. Brown

Subject

Office Memorandum

TO: Mr. Hole

June 24, 1986

FROM: Hans Schmitt HS

SUBJECT: Poland--Summary Charts

Attached please find a specification of the twelve charts we spoke about; the "T" figures with each refer to the tables in the statistical appendix to the Quota paper which could be the basis for them. Perhaps if Karen looked at this list before our scheduled meeting we could proceed more expeditiously? Thanks.

Attachment

Poland: Summary Charts, 1980-85

A. Performance

1. plot ratios of external current account to GDP, against annual growth rates of GDP for each year; date points and connect chronologically (T6).

2. plot average annual real growth by economic/industrial sector over the period as a whole, against the ratio of exports to output for each sector in a reference year; show scatter and linear regression line (T7;44).

3. plot growth in real consumption per capita in Poland relative to the average for its trading partners for each year, and the same for real wages, in the same chart (T6;23).

B. Inflation

1. plot the inflation rate (RPI) with the rate of expansion of nominal money (M2), and of real money, quarterly over a year earlier (T21;33).

2. plot the inflation rate (RPI) with percent changes in local currency import unit values, both nominal and real, quarterly over a year earlier (T21;47,55).

3. plot the inflation rate (RPI) with percent changes in unit labor costs, nominal and real, quarterly over year earlier (T21;3,23).

C. Growth

1. plot national savings (gross domestic investment plus the external balance on current account) with gross domestic investment, both in percent of GDP, annually (T6).

2. plot percent changes in real GDP, and in industrial production separately, with the percent expansion in the real money stock (M2 deflated by RPI?), annual averages or quarterly over year earlier (T6,7;33).

3. plot percent change in real GDP, and separately in industrial production, with the difference between local currency export unit values and unit labor costs, annual averages or quarterly over year earlier (T6,7;47;3,23).

D. Money

1. plot average real interest rates (12 month deposit rate deflated by RPI?), and the percent change in the annual average income velocity of money (GDP/M2), annually (T36;33,6).

2. plot DCE over M2 at the beginning of the period, with the increment of M2 over M2 at the beginning of the period, quarterly over a year earlier (T35).

3. plot the percentage change in the commercial exchange rate (local currency price of foreign exchange basket?), with the same plus the Eurodollar deposit rate, and local (12-month?) deposit rates, quarterly over year earlier (T55;36).

THANK YOU.

P 17

Office Memorandum

Thanks
AW

TO: Mr. Whittome
DATE: June 24, 1986
FROM: K.A. Swiderski KAS
SUBJECT: Poland--Special Economic World Bank Mission

I joined a World Bank economic mission in Poland during the third week of their month long stay for about one week (June 13-June 20). The mission's mandate was to focus on assessing Poland's creditworthiness and its per capita income, although there was a strong tendency to shift to sectoral issues in anticipation of formulating a lending program in the course of the next fiscal year. Work on per capita income had already been done by another group in the Bank (EPD), indicating that Poland's level of per capita income was well under 80 percent of the graduation ceiling. The more delicate issue regarding Poland's eligibility to borrow from the Bank, thus, appears to rest with an evaluation of its creditworthiness, the basis for discussions to be provided by the report of the mission. It is hoped that by the Annual Meetings the decision will be made as to whether the Bank should treat Poland as a potentially normal borrowing member, allowing for more substantive discussion with the Poles on the future course of their relationship with the Bank. A second economic mission is envisaged in the second half of October. Participants in the recent discussions with the Polish authorities included Messrs. Hasan (Chief Economist, EMNVP), Dewey (Assistant Director, EMP), Nouvel (Division Chief, EMI), Reekie (Division Chief, EMP), Harris (Division Chief, EMP), Dickerson (Division Chief, EMP), and Mr. Lari (Director, EMI) who was to present a summary assessment of the mission's preliminary findings in the final week.

The idea of Fund/Bank collaboration gained momentum over the course of the mission. There was a realization that the Fund had acquired a considerable amount of knowledge on Poland over the last several years which the Bank would like to tap. Moreover, it was considered essential that the two institutions present the authorities with a consistent set of policies. By the end of my stay it was agreed that it would be a good idea for a Bank representative to participate in the forthcoming Fund mission (previously the offer had been declined).

The mission did not appear to have been given any clear direction as to how to approach the creditworthiness issue. The situation was made more difficult by the upcoming change in the Bank's president and the lack of clarity in the U.S. position. While there are other examples of member countries receiving Bank loans which could be judged as uncreditworthy, Poland distinguishes itself by being both a new member and a highly politicized case. The idea of a Fund program as a pre-condition to Bank lending was mentioned on several occasions. It was my impression that Mr. Lari would be very cautious in his final remarks placing more emphasis on establishing a solid working relationship with the authorities rather than committing himself in any direction at this stage.

I don't take to this idea — or am I wrong ?

Assuming a decision is made to lend money to Poland, it would be unlikely that the first disbursement would take place before the end of 1987. A meeting of the previously named Bank participants prior to the mission tentatively agreed that sectoral adjustment loans would, in the circumstances, be inappropriate and that the focus should be on project lending. This would require sending an appraisal team into the field following the October economic mission, the average time between an appraisal mission and a Board discussion being about 8-9 months (this could be even longer for a new member) followed by an additional 2-3 months prior to the first disbursement. An import loan (which does not require an appraisal team) could, on the other hand, be processed very quickly--within 3-4 months--however, this type of loan has not been favored recently.

Three sectoral specialists in the areas of agriculture, energy, and industry participated in the mission. Several of the Bank participants initially held the view that agriculture would be an attractive--and politically marketable--sector for the Bank to initiate its project lending; this, however, is being refuted by the agricultural specialist. His tentative assessment points to an agricultural sector that is too large in relation to Poland's stage of development (17 percent of NMP and 30 percent of employment) with little additional net export possibilities. It has been made an economically viable sector by a policy of subsidization, income parity with the rest of the economy, as well as by the persistence of excess demand for nonfoodstuffs which has kept the demand for foodstuffs at artificially high levels. This assessment is likely to be toned down in the report, particularly because of the predominance of the private sector in agriculture (80 percent of the work force) as well as the operation of two agricultural funds outside of Poland (sponsored by the Church and Rockefeller Foundation) to help Polish agriculture. The analysis also abstracts from constraints such as the housing shortage and the fact that a large share of private agriculture is being operated on a part-time basis.

The specialist in energy, on the other hand, was much more optimistic about the future export performance of Polish coal than are the authorities. Even at the existing exchange rate, average coal costs (although underestimated) are 45 percent lower than world prices. In contrast with what is generally perceived to be the case, Poland is not yet operating in very deep seams and is not expected to in the near future. His recommendations would be to focus on an energy conservation program (including a realignment of prices) and a program of equipment modernization, both of which could bring quick returns in a 2-3 year period and a major boost to exports. His major concern was with the central allocation of resources.

The specialist in industry was an outside consultant (Mr. Finniston, former Chairman of British Steel) whose findings were mostly summarized in terms of observations. Among them can be listed (i) the sharp differences in the quality of capital stock in high priority enterprises compared to other enterprises, (ii) an apparent hoarding of labor, and (iii) the lack of horizontal communication among enterprises which contrasts with the strong vertical ties with the branch ministries. He was confident that with financial assistance to modernize the capital stock, the industrial sector's export prospects were promising.

As regards developments in the first five months of 1986, the economy appears to be slightly more buoyant than a year earlier--reflecting a milder winter and a pick up of imports (7 percent in real terms)--with industrial and retail sales increasing by 5 1/2 percent and 4 1/2 percent, respectively. Incomes of the population continue to grow above targeted levels, increasing by nearly 7 percent in real terms. On the external front, the trade balance with the convertible currency area (on a customs basis) recorded a surplus of US$245 million which is about US$100 million short of the previous year surplus--about one half of the shortfall being accounted for by the EC embargo in May--with exports declining in real terms by 1/2 percent and imports increasing by over 3 percent. As a result of external payment difficulties, the use of foreign exchange through the retention scheme has been severely restricted since the end of 1985.

I had the opportunity of getting together with several private individuals--mostly university professors outside of the economic field--that are acquaintances of mine. The common feeling was one of disillusionment, with efforts being redirected to taking care of one's own personal affairs; while the Polish people had been successful in toppling the leadership on several occasions (1956, 1970, and 1980), they had failed to affect the "nomenklatura" which is the main organ that runs the country. Getting things done depended on one's connections and what one had to offer in exchange. They viewed the main economic problem in Poland as the lack of an incentive system to promote work. Previously, the main reason for saving was the desire to purchase a car and a house. These aspirations had suffered a setback in the recent period. Deposit accounts for the purchase of a car were no longer being accepted and cars were now only available in dollar shops or in the black market; the higher price together with the rationing of gas had reduced the demand for cars. The waiting list for state housing has increased to 18-20 years; private homes sell for dollars in the range of US$25,000-50,000 which is out of the reach of most of the population. They felt that any excess liquidity of the household level was held by 3-10 percent of the population in the highest income bracket. Most everything could be bought in the black market for a price (including search costs); the privileged group (i.e., Directors) received special access to durables which they often retraded in the black market. They, however, did not believe that most of the population could afford black market prices. As regards private enterprise, the three year tax holiday had ended for many of them and the government was clamping down on enterprises deemed to be earning excessive profits.

Finally, there are a considerable number of articles in the press on the implications of a Fund program with Poland, which is associated with a sizable devaluation of the zloty/U.S. dollar rate. Even Mr. Sadowski--Undersecretary of State (ambassador-at-large for the reforms)--ventured to say that his estimate of the appropriate rate would be in the range of 300-350.

cc: Mr. Hole
Mr. Schmitt
Mr. Prust
Mr. Wolf
Mr. Sheehy

Mr Whittome

Office Memorandum

TO: Mr. Hole

June 23, 1986

FROM: Hans Schmitt

SUBJECT: Poland--Adjustment Scenarios

What might be the most useful external scenarios to discuss with the Poles? I think perhaps the four identified in the attached tabulation might be strong candidates. They are designed to exhibit some basic trade-offs in the choice among strategies of adjustment.

cc: Mr. Whittome (on return)
Mr. Rose
Mr. de Fontenay

CORRECTED

Poland - Scenarios

	Low Growth 1/	High Growth 2/
with C/A target 3/	DD path	DD path
with DD floor 4/	C/A outturn	C/A outturn

1/ Without "reform".
2/ With "reform".
3/ Current account (C/A) at one half the repayments falling due in the peak year.
4/ Same rate of growth of domestic demand (D/D) as average of trading partners.

cc: 1212①

MEMORANDUM

June 16, 1986

To:
MD
DMD
EUR
ETR
EXR
FAD
INST
LEG
RES
SEC
TRE
BUR
PUBLICATIONS
CABLE ROOM
MR. R. BROWN

W

From: Communications Division

Subject: Designation of Member, Depository, and Fiscal Agency - Poland

We have been advised of the designation of the member, depository, and fiscal agency addresses for Poland. Please note the addresses indicated on the attachment.

Attachment

INTERNATIONAL MONETARY FUND

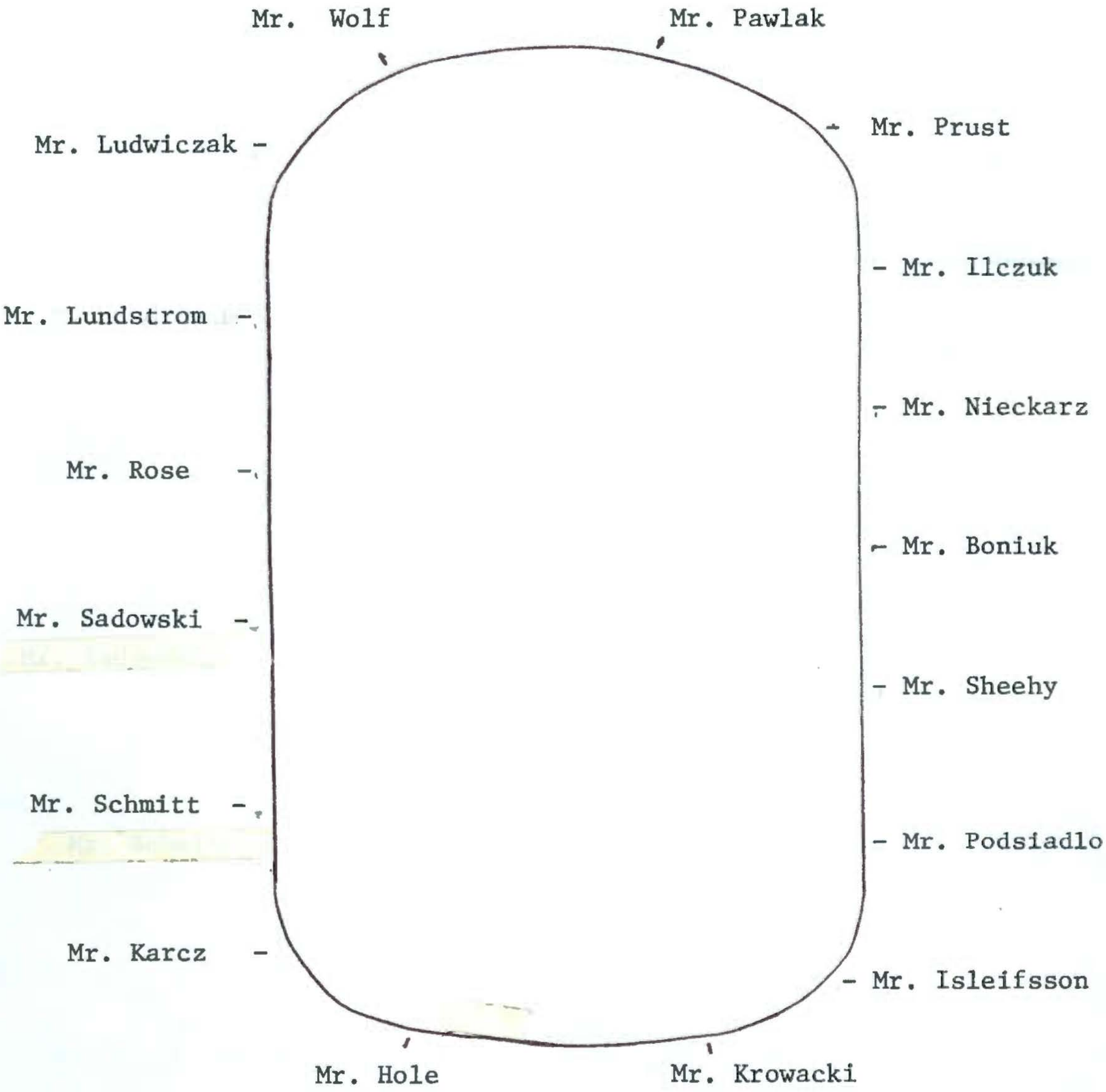
REPORT OF IMF MEMBERS, DEPOSITORIES & FISCAL AGENCIES

POLAND

MEMBER	DEPOSITORY	FISCAL AGENCY
National Bank of Poland ul. Swietokrzyska 11/21 P.O. Box 1011 00-950 Warsaw Poland	National Bank of Poland ul. Swietokrzyska 11/21 P.O. Box 1011 00-950 Warsaw Poland	National Bank of Poland ul. Swietokrzyska 11/21 P.O. Box 1011 00-950 Warsaw Poland

file copy

LUNCH FOR THE POLISH DELEGATION - Thursday, June 12, 12:30 p.m. Dining Room No. 1



Subject.

Office Memorandum

ccs copy pe, IFS ✓

June 9, 1986

To: The Managing Director
The Deputy Managing Director

From: Brian Rose BR

Subject: Poland

I attach a short brief for your lunch with the Polish Minister of Finance on June 11.

Attachment

cc: Mr. Finch
Mr. Habermeier
Mr. Van Houtven
Mr. Brown
EED

Brief for Managing Director's Lunch for a Polish Delegation on June 11, 1986

1. The delegation will be headed by Mr. Stanislaw Nieckarz [pronounced NEE-EZ-KARSH], Minister of Finance, and will also include Mr. Zbigniew Karcz, Director of the Foreign Department in the Ministry of Finance and Poland's chief external debt negotiator, whom the Managing Director has already met; Mr. Stanislaw Pawlak, senior legal official in the Ministry of Foreign Affairs; Mr. Zdzislaw Ludwiczak, Chargé d'Affaires ad interim at the Polish Embassy in Washington; and two other officials. Mr. Nieckarz retained his portfolio, which he has held since 1982, in a recent ministerial reshuffle; formerly he was deputy head of the National Bank of Poland. Mr. Nieckarz does not speak English but the other members of the delegation do. We understand that the Minister will not be meeting with any U.S. government officials during his visit to Washington; arrangements are being made, however, for Mr. Karcz to meet with Mr. Dallara.

2. Poland applied for re-admission to the Fund in November 1981. The membership committee was chaired by Mr. Lundstrom and voting by the Board of Governors was completed on May 27. Members representing 8 percent of the voting power, but not including any industrial countries, did not participate in the vote. The United States did participate but abstained. All other countries cast affirmative votes. Poland is to sign the Articles of Agreement on June 12. Its quota will be SDR 680 million.

3. No Executive Director has agreed to represent Poland. Polish officials have approached a number of countries, including Italy, Belgium, and Canada, with a view to joining a constitutency at the next election of Directors. These approaches have made little headway. The Italians have not given an outright rejection but, for the time being, the matter seems to be stalled.

4. A staff team is to visit Warsaw for about three weeks in July to conduct Article IV consultation discussions. Executive Board discussion of the staff report could take place some time in October after the Annual Meetings.

5. A staff team from the Bureau of Statistics visited Warsaw in December 1985 and work is proceeding aimed at the early publication of a country page for Poland in IFS.

6. Poland's signature of the World Bank Articles of Agreement has tentatively been set for June 27. A World Bank mission to assess creditworthiness is currently in Poland and is to be followed by another mission in October which is to produce a full economic report.

7. Poland's external financial position remains extremely weak with a debt service ratio (on the basis of accrued obligations) of about 85 percent and an external debt in convertible currencies of some US$30 billion (equivalent to about 40 percent of GDP). The trade surplus in convertible currencies has changed little since 1983 although, largely on account of lower interest rates, the current deficit fell appreciably in 1985. For 1986 the authorities' forecasts suggest a current account deficit of US$0.6 billion or about 3/4 percent of GDP. Access to new borrowing is very limited and, before debt relief, the financing gap in

1986 seems likely to be about US$3.5 billion. Poland has thus again sought substantial debt relief. An agreement with commercial banks, covering 1986 and 1987 and providing relief--all of it with respect to previously rescheduled maturities--of about US$0.9 billion in 1986, is in prospect. An agreement with Paris Club creditors governing payments due in 1986 and providing relief of some US$1.9 billion was initialled in March but has not been signed pending settlement of certain arrears and the signature of a number of bilateral agreements related to the two multilateral rescheduling agreements concluded in 1985.

8. The profound economic crisis of the early 1980s prompted the most serious effort at economic reform in Poland's postwar history. The basic thrust of the large body of reform legislation introduced in 1981-82 lay in a radical decentralization of power to enterprises and a corresponding increase in their financial autonomy. Supporting measures, including major price and exchange rate adjustments, were introduced at the same time. It was always recognized that implementation of the reform blueprint would be an extended process but increasingly, and especially in the last half year, it has become apparent that the momentum for putting the reform into practice has dissipated. There has been a creeping recentralization of economic structures with the power of the central authorities in directing the allocation of resources becoming increasingly explicit; the application of financial policies remains very discriminatory and is the subject of intensive bargaining between enterprises and the central authorities; finally, prices remain under virtually comprehensive control. The government, at the highest levels, remains formally committed to implementation of the

reform but has been unable to muster much support for the introduction of what must inevitably be contentious measures in other quarters.

The Party's quinquennial Congress will be held at the end of June and can be expected to address the issue of economic reform in the context of its consideration of the draft Five Year Plan for 1986-90.

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT
WHEN ALIGNING INTO LINE 23

DISPATCHED IMF
1986 JUN -9 PM 3:20

MARK XX FOR CODE
( ) CODE

DISTRIBUTION

START ADDRESS IN THE BOX

TIMOTHY KING
WORLD BANK STAFF
VICTORIA INTERCONTINENTAL, ROOM 600
WARSAW, POLAND

START TEXT HERE

FLIGHT TO WARSAW ON JUNE 13 IS BA 692. MOVING ON AND ARRIVING IN KRAKOW ON LOT FL 619 AT 9.10 PM (CONFIRMED) OR PREFERABLY FL 615 AT 5.50 PM (WAITLISTED). STAYING AT HOLIDAY INN (FIRST) OR CRACOVIAK (SECOND).

REGARDS,

KAREN SWIDERSKI

INTERFUND

DO NOT TYPE HERE

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS ↑ TEXT MUST END HERE ↑

TELEX NO.: 867 812516

DRAFTED BY NAME (TYPE): KAREN SWIDERSKI LHC

EXT.: 8804 DEPT.: EUR DATE: 6.9.86

AUTHORIZED BY NAME (TYPE): PETER HOLE

AUTHORIZED BY NAME (TYPE):

(**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

Log ~~[illegible]~~ 9674

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

SEC. 48 REV 1
11-18-82

1. (a) Should any freeing up of the economy be attempted before the domestic liquidity position is under fair control? Both personal and company circuits.

(b) How can one judge the degree of excess liquidity?

(c) How can it be controlled?

2. (a) Can decentralization function with so many sectoral ministries?

(b) If these are abolished how quickly can one move to financial restraints that will be effective?

(c) In seeking more competition where is the priority? Financial sector? Industry?

3. (a) What are the risks of greater labor mobility?

(b) What are the powers of local authorities? Of trade unions? Of Solidarity?

1) ~~Flatters~~ 2) ~~[illegible]~~

cc: Mr. Ungerer
EED

Office Memorandum

TO : Mr. de Fontenay

DATE: May 29, 1986

FROM : C. Tognetti

SUBJECT : Correspondence with World Economy Research Institute, Poland

For your information, I attach copies of correspondence which has recently taken place between Professor Rosati of the above-mentioned Institute and the Fund.

Attachments

May 28, 1986

Dear Professor Rosati:

I acknowledge your request dated May 8, 1986 for further information concerning our program. I am pleased to send you a copy of our IMF Institute Program for 1987.

Sincerely yours,

G. M. Teyssier
Director
IMF Institute

Attachment

Professor D. Rosati
Director
World Economy Research Institute
Central School of Planning and Statistics
Al. Niepodleglosci 164
02-554 Warsaw
POLAND.

CTognetti/emcc
5/28/86

SUBJECT COPY

WORLD ECONOMY RESEARCH INSTITUTE

CENTRAL SCHOOL OF PLANNING AND STATISTICS
AL.NIEPODLEGŁOŚCI 164
02-554 WARSAW,POLAND
PHONE 491251 EXT.370,371
TELEX 81 6031 SGPIS PL

ACTION

Warsaw, 8 May, 1986

1. Mr Teyssier
2. files
cc Mr Tognetti (for ACTION)
Circ file
Mr Whitfield

Gerard M.Teyssier
Director
IMF Institute
International Monetary Fund
Washington D.C. 20431

Dear Sir,

Thank you very much for your letter of April 8, 1986 replying our information on the establishment of WERI at the Central School of Planning and Statistics in Warsaw.

We are very much interested in your programme and if it is possible would like to receive more detailed information about it. In hope that Poland will soon be readmitted to the IMF, it would be helpful to know what are the possibilities of participating in your programme. On our part, we are also engaged in a number of training courses for industrial projects preparation, technology transfer and planning methods designed for participants from the developing countries. It is being conducted in the Central School of Planning and Statistics partly in cooperation with UNIDO.

Thank you once again and awaiting your reply.

Yours sincerly

Professor Dariusz Rosati
Director of WERI

RECEIVED
MAY 27 1986
10:45 AM
IMF Institute

April 8, 1986

Dear Dr. Rosati:

Thank you very much for your letter of February 28, 1986, informing us of the establishment of the Central School of Planning and Statistics.

The IMF Institute, which I direct, is a department of the International Monetary Fund, engaged essentially in training middle-to senior-level officials of IMF member countries. The research which we carry out is related to the training of these officials.

Sincerely yours,

Gerard M. Teyssier
Director

Dr. Dariusz Rosati
Director of WERI
World Economy Research Institute
Central School of Planning and Statistics
Al.Niepodleglosci 164
02-554 Warsaw
POLAND

CTognetti /UTW/emcc
4/8/86

CHRONOLOGICAL COPY

5

WORLD ECONOMY RESEARCH INSTITUTE

CENTRAL SCHOOL OF PLANNING AND STATISTICS
AL.NIEPODLEGŁOŚCI 164
02-554 WARSAW,POLAND
PHONE 491251 EXT.370,371
TELEX 81 6031 SGPIS PL

Warsaw, 28 February, 1986

Mr. Gerard M. Teyssier
Director,
The IMF Institute
19th and H st. NW.
Washington D.C. 20433

Dear Sir,

We have the pleasure to informe you that the World Economy Research Institute has been established at the Central School of Planning and Statistics in Warsaw. This shall be viewed as a major effort aimed at the strengthening and expanding of research activities in the area of international economics and business, with special emphasis given to the influence of the external environment on the Polish economy. Within this framework WERI has been assigned co-ordinating reponsibilities for a large government sponsored research project covering the period 1986-1990.

The Institute publishes an annual report on the current trends in the world economy and their implications for the economic situation in Poland. Starting this year we will publish also the English version, dealing mainly with the Polish economy.

One of the leading research projects undertaken by WERI is "The foreign indebtedness and sources of external financing of economic growth". Special interest is given to the burden of foreign debt, potential solutions to this problem and alternative sources of external financing. A special Research Working Group has been established by WERI for co-ordination of works this area. The results of research activities are published in the WERI Working Papers, also available in English.

Regarding other activities, WERI organizes workshops and seminars, also with foreign participants, engages in training and offers consulting services within the area of its specialization.

MAR 20 1986
3:20 PM

As a newly founded organization we are interested in establishing close contacts with different institutions abroad, designed to facilitate the exchange of information, data and publications essential for conducting and promoting our research activities. We are open to participate in studies carried out by other institutions, conduct special research on request form external sources, engage in joint projects, etc.

In hope that our activities will be of interest to you, we are looking forward towards a close working relationship with your institution.

Cordially yours,

Dr.Dariusz Rosati
Director of WERI

subject

Office Memorandum

To: The Deputy Managing Director
via Administration Department

May 29, 1986

From: L.A. Whittome

Subject: Poland - World Bank Mission

A World Bank mission to Poland is planned for a period of four weeks in June with a focus on assessing Poland's creditworthiness; the report of the mission will provide the basis for discussions, to be initiated prior to the Annual Meetings, regarding Poland's eligibility to borrow from the Bank. It would be very useful for a Fund staff member to participate in this mission and I would propose that Ms. Swiderski (EUR) join the Bank team during the third week of their stay for about one week (June 14 to June 20). The Bank is fully agreeable. May I have your approval please?

cc: Director of Administration

Office Memorandum

May 27, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland

I spoke to Mr. Wapenhans and said that I had suggested to Mr. Hole that a member of the Fund's Polish team be attached to some part of the forthcoming stay of a Bank mission to Poland and I again repeated our invitation for a Bank person to join the Fund team in July. I told Mr. Wapenhans that I thought it most important not only for reasons of substance but also for reasons of presentation that the cooperation between the Bank and the Fund on Poland be seen to be extremely close. He agreed.

I then asked Mr. Wapenhans what he hoped to get from the Bank visit in June and he said that what he wanted was sufficient material to enable them to make a recommendation to their new President by the time of the Annual Meetings as regards the medium- and long-term creditworthiness of Poland. He said that this was the first essential step to allow any bank lending to get off the ground. Once this question had been decided, and of course it would require heroic assumptions about such matters as reform and the rescheduling of existing debt, then it would be possible to establish a sensible pattern of lending (projects or SALs) and also some tentative time path. He said that they would take with them members of the Agriculture and Industry Departments as well as an expert on energy, in order to seek preliminary answers to the potential for economic development in these areas in Poland.

L.A. Whittome

cc: EED

√

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

May 6, 1986

Dear Dr. Sar:

Thank you very much for your letter of April 25 and for the various materials enclosed with it. ⓧ

I was particularly interested to learn that discussions on the Polish Agricultural Project to be supported by the Rockefeller Foundation and Rockefeller Brothers Fund are at a decisive stage. If I may take up your kind offer, I should be grateful if you would let me know in due course about the outcome.

Sincerely yours,

L. A. Whittome
Counsellor and Director
European Department

Dr. Marcin Sar
East European Editor
International Reports
200 Park Avenue South
New York, NY 10003

ⓧ sent to EED.

INTERNATIONAL MONETARY FUND

TO : Mr. Whittome

FROM: Peter Hole

I attach a draft reply to Dr. Sar.

The materials enclosed with Dr. Sar's letter do not appear to call for any comment: the analysis of Polish affairs in the Country Risk Guide and the journal article on Soviet foreign policy do not contain any surprises.

Our contacts with Dr. Sar have up to now been in his capacity as Project Coordinator for the Rockefeller-supported Polish Agricultural Project. It appears that, while retaining this position, he is now also East European editor for International Reports.

6/v

INTERNATIONAL REPORTS A subsidiary of the Financial Times

200 Park Avenue South
New York, N.Y. 10003
(212) 477-0003 Telex 233139
FAX: 212 489 7637

04.25-86

Dear Mr. Whittome,

Let me inform you that the Rockefeller Foundation- Rockefeller Brothers Fund Polish Agriculture Project In entering its decisive stage. We will know in 2-3 months whether we have a deal. I will gladly keep you informed about further developments.

In the meantime, I am taking the liberty of enclosing few of my recent write-ups on centrally planned economies - one is on Poland.

With best regards,

Marcin Sar

Project Coordinator

Office Memorandum

To: Mr. Whittome Italy

April 29, 1986

From: Jim Prust J.P.

Subject: Staff Visit to Poland

I asked Mr. Lang (SEC) on what authority the Managing Director was able to approve official travel to nonmember countries. Mr. Lang referred me to rule N-16(a) which says:

> "Official travel shall be undertaken by persons of the staff of the Fund only with the approval of the Managing Director."

The rule makes no distinction between travel to member and nonmember countries and, subject to the need to consult with Executive Directors where applicable, gives the Managing Director authority to approve official travel at his own discretion.

A copy of the rule N-16 in its entirety is attached.

Attachment

cc: Mr. Hole (o/r)

LAW
Jim asked if travel arrangements can be made.
L.
"yes"
30/4

N-12. The Managing Director shall inform the Executive Board at least two weeks in advance of any action to appoint or dismiss any person at or above the rank of division chief or receiving a salary equal to or exceeding that of a division chief. Such information shall not be necessary for other appointments or dismissals by the Managing Director.

Adopted as N-13, September 25, 1946, amended July 1, 1959, and June 22, 1979

N-13. The Managing Director is authorized to issue General Administrative Orders concerning general personnel policies that have been approved by the Executive Board.

Adopted as N-14, September 25, 1946, amended June 22, 1979

N-14. Persons on the staff of the Fund shall have the right to associate in order to present their views to the Managing Director and the Executive Board, through representatives, on matters pertaining to personnel policies and their conditions of service.

Adopted June 22, 1979

N-15. Appropriate procedures shall be established for the consideration of complaints and grievances of individual persons on the staff of the Fund on matters involving the consistency of actions taken in their individual cases with the regulations governing personnel and their conditions of service.

Adopted June 22, 1979

N-16. (a) Official travel shall be undertaken by persons on the staff of the Fund only with the approval of the Managing Director.

(b) The Managing Director shall inform the Executive Board of all such travel at least once a month and in such manner as indicates the purpose of the travel.

(c) (i) Official travel by persons on the staff of the Fund to a member's territory shall be undertaken only after consultation with the Executive Director appointed, elected, or designated by the member.

(ii) In addition, normally, meetings of persons on the staff of the Fund with officials of a member to discuss official business shall be held only after consultation with the Executive Director appointed, elected, or designated by the member.

(d) The advance approval of the Executive Board shall be necessary for technical services by persons on the staff of the Fund in response to requests by national or international agencies. In addition, such approval shall be necessary for participation by persons on the staff of the Fund in the deliberations of national or international agencies, or in conferences, in which the views of the Executive Board on the subject matter of the deliberations or conferences are to be presented.

(e) For the purpose of this Rule N-16, official travel shall be deemed not to include travel solely in accordance with the provisions of staff benefit policies.

Paragraph (a) adopted as N-15(a), September 25, 1946, amended February 11, 1948, and June 22, 1979; paragraphs (b), (c), and (d) adopted as N-15(b), (c), (d), February 11, 1948, amended June 22, 1979; paragraph (e) adopted June 22, 1979

O—VALUATION OF THE SDR, VALUATION OF CURRENCIES IN TERMS OF THE SDR, FREELY USABLE CURRENCY, PROCEDURES FOR EXCHANGE OF CURRENCY, AND OPERATIONAL BUDGET

Valuation of the SDR

O-1. The value of the SDR shall be the sum of the values of the following amounts of the following currencies:

cc: RED

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

RECEIVED
1986 APR 22 AM 9:49
EUROPEAN DEPARTMENT

April 11, 1986

Dear Mr. Brzezinski:

Thank you for your letter of March 25 concerning Dr. Jedrzej Krakowski, and the further information that you enclosed. We shall be in touch with Dr. Krakowski and certainly keep in mind the possibility of making use of his knowledge as the technical work on Poland proceeds.

Yours sincerely,

Jacques de Larosière

J. de Larosière
Managing Director

CC: MD
DMD
ADM
LEG
SEC
EUR
MR. R. BROWN

Mr. Zbigniew Brzezinski
Center for Strategic and
International Studies
1800 K Street, N.W.
Suite 400
Washington, D.C. 20006

INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

MANAGING DIRECTOR

CABLE ADDRESS
INTERFUND

April 11, 1986

Dear Mr. Brzezinski:

Thank you for your letter of March 25 concerning Dr. Jedrzej Krakowski, and the further information that you enclosed. We shall be in touch with Dr. Krakowski and certainly keep in mind the possibility of making use of his knowledge as the technical work on Poland proceeds.

Yours sincerely,

J. de Larosière
Managing Director

Mr. Zbigniew Brzezinski
Center for Strategic and
International Studies
1800 K Street, N.W.
Suite 400
Washington, D.C. 20006

Office Memorandum

RECEIVED
INTERNATIONAL MONETARY FUND
1986 APR -8 AM 10: 30
OFFICE OF
THE MANAGING DIRECTOR

TO: The Managing Director
The Deputy Managing Director

April 7, 1986

FROM: L.A. Whittome

SUBJECT: Poland

I attach for your consideration a draft reply to Mr. Brzezinski. Mr. Brzezinski's letter to you only reached my desk today.

Attachment

cc: Mr. Brown

POL COR: pch-memo3
3/7/86

April 7, 1986

Dear Mr. Brzezinski:

Thank you for your letter of March 25 concerning Dr. Jedrzej Krakowski, and the further information that you enclosed. We shall be in touch with Dr. Krakowski and certainly keep in mind the possibility of making use of his knowledge as the technical work on Poland proceeds.

Yours sincerely,

J. de Larosière

Managing Director

Mr. Zbigniew Brzezinski
Center for Strategic and
International Studies
1800 K Street, N.W.
Suite 400
Washington, D.C. 20006

INTERNATIONAL MONETARY FUND

TO : Mr. Whittome

FROM: Peter Hole

1. I attach a draft of a reply ~~that~~ for the Managing Director to send to Mr. Brzezinski: The person being sponsored by Brzezinski has been — and presumably still is — very active in Solidarity. The draft reply more or less commits us to meeting with him, but to nothing more.

2. Mr. Newman (EXR) has asked whether I would speak informally, on a background basis, about Eastern Europe with a Mr. Morgan of the BBC.

Would you consider this appropriate?

cc: Yes
7/4

LAW
7/iv

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS IN THE BOX

DR. HEINRICH MACHOWSKI
DEUTSCHES INSTITUT FUR WIRTSCHAFTSFORSCHUNG
KONIGIN-LUISE-STRASSE 5
1000 BERLIN 3, WEST GERMANY

DISPATCHED IMF
1986 APR -3 PM 2:27

MARK XX FOR CODE
( ) CODE

2

DISTRIBUTION

DO NOT TYPE HERE

START TEXT HERE

THIS IS TO CONFIRM THAT IT WOULD STILL FIT OUR TIMETABLE IF YOU WERE ABLE TO COMPLETE THE POLISH PAPER AND SEND IT TO US IN MAY.

WITH BEST WISHES FOR A FULL RECOVERY.

PETER HOLE
INTERFUND

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS

TEXT MUST END HERE

A
B
C TELEX NO.:
D DRAFTED BY NAME (TYPE): PEEER C. HOLE EXT.: 8811 DEPT. EUR DATE: 4/2/86
E AUTHORIZED BY NAME (TYPE): PETER C. HOLE AUTHORIZED BY NAME (TYPE): (**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

F Log B4206

SEC. 48 REV 1
11-18-82
G SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

→ EUR.

RUSH!

Executive Memorandum

The Heritage Foundation

214 Massachusetts Avenue N.E. Washington, D.C. 20002 (202)546-4400

cc: HOS
EE

Number

3/31/86 112

THE U.S. SHOULD KEEP THE IMF DOOR LOCKED WHEN POLAND COMES KNOCKING

At its joint meeting with the World Bank on April 9 to 11, the International Monetary Fund (IMF) will be asked to approve Poland's request for membership. It appears that the U.S., which contributes 20 percent of IMF funds, will vote to admit Poland. Admission of Poland, however, would violate the free market goals that the U.S. should be promoting through the IMF. With Poland in the IMF, and World Bank membership likely to follow, U.S. taxpayer's dollars would be used to prop up a faltering flawed economy and would ease the financial burden on Poland's actual ruler, the Soviet Union.

Much controversy surrounds the IMF's role in resolving the world debt crisis. One thing is certain: IMF activities must promote a free market--between countries and within countries. Anything else would oppose basic U.S. interests and justly call into question continued American participation in and funding of that organization.

Poland is a communist totalitarian dictatorship with Soviet style central planning. The state owns most of the means of production, and usually determines wages and prices. The repression of the Solidarity trade union reveals the regime's determination to deny workers and producers any economic decision-making power. Poland's system, in short, is a slap in the face to free market principles.

Since Poland's imposition of martial law in 1981, that country's creditors have balked at extending new loans. But this would change were Poland to join the IMF and World Bank. Poland could utilize the resources of these organizations to finance its $30 billion foreign debt. To channel funds to cover the bad debts of a failed communist economy, however, denies these funds to needy and deserving Latin American countries and to the Philippines. Scarce resources should not be squandered on a hopeless economic failure such as Poland.

The Reagan Administration hopes, with World Bank help, to promote such growth policies as privatizing state-owned enterprises and reducing state economic regulation as a means of helping debtor countries. Yet Poland's freedom to change, even if it wished to, is strictly limited. The USSR could not tolerate a prosperous, market-oriented Poland. Poland, moreover, is tied closely to the USSR through membership in the Council for Mutual Economic Assistance, a means by which the Soviet Union exploits its satellites. The IMF, World Bank, and U.S. are having enough trouble promoting economic change in freer, nontotalitarian debtor nations. To think that change can be imposed on Poland is fantasy.

Poland could not be a member in good standing of the IMF since its economic statistics simply cannot be trusted. In Communist countries supply and demand do not determine the prices of goods and services. Such figures are invented by central planners. As former Polish ambassador to Japan Zdzislaw Rurarz told the Senate Banking Committee in late 1985: "all the statistical data officially published [by the Polish government]...are more or less 'doctored.'" The IMF would have no way to determine Poland's true economic condition.

Hungary's IMF and World Bank memberships indicate what can be expected if Poland is admitted. Before Hungary's 1982 admittance, a World Bank estimate, based on Hungarian economic statistics, indicated a per capita GDP of at least $4,190 annually, above the cutoff point for Bank loans. But after 1982, a Bank recalculation, also based on Hungarian figures, found the per capita to be only $2,100. Financial assistance was then extended. Poland's economic problems, including its $30 billion foreign debt, appear far worse than Hungary's.

The Soviets now share part of the financial burden of Poland's economic mess. IMF aid to Poland, therefore, would only ease the burden on the USSR. Do U.S. taxpayers really want to help the Soviet government?

While some of the Polish government's most public human rights abuses have slackened, mainly because Solidarity has been crushed, freedom of speech, association, and other rights are still curtailed. Political prisoners still fill prisons. Poland should not be rewarded for eliminating political dissent.

IMF and World Bank memberships will not help the oppressed Polish people. Membership in the groups simply will strengthen Poland's totalitarian dictatorship, force U.S. taxpayers to cover its debts, and remove an economic burden from the shoulders of the Soviet Union.

Edward L. Hudgins, Ph.D.
Policy Analyst

---

1. For further information:

John P. Hardt and Jonathan Sanford, "An Assessment of GNP Per Capita Estimates of the World Bank for Hungarian Loan Eligibility" (Washington, D.C.: Congressional Research Service, May 12, 1983, revised June 23, 1983).

"Country Reports on Human Rights Practices for 1985," U.S. Department of State Report submitted to the House Committee on Foreign Affairs and the Senate Committee on Foreign Relations, February 1986.

cc: Mr Prust

INTERNATIONAL MONETARY FUND

I agree but any papers should be published as DMs
3/5

Mr. Whittome:

I have spoken to Mr. Lobo (INST). He tells me that no reply has yet been sent and that EUR's views on how best to respond would be welcome.

My suggestion would be that they send a few relevant papers — I [illegible]'t know of any offhand myself but others must — with a short covering letter.

Dr. Kutkowski is not known to us but the Foreign Trade Institute, of course, is.

Jim Prust

J.P. 4/3/86

INTERNATIONAL MONETARY FUND

Mr. Whittome

For information

26/III/86

Peter Hole

RECEIVED
1986 ~~MAR 32~~ Apr. 1 PM 4:43
EUROPEAN DEPARTMENT

PH
What happened ?

/Mw 2/4

dr Witold Rutkowski
Foreign Trade Research Institut
ul. Świętokrzyska 12
00-916 Warszawa 51
Poland.

Warszawa, 4 March 1986.

The Director
IMF Institute,
International Monetary Fund,
Washington D.C. 20431,
U.S.A.

Dear Sir,

I am the research worker of the Foreign Trade Research Institut in Warsaw and I have been alloted the research on the possibilities to make Polish Zloty convertible currency.

I am looking for the Fund related research in the field of attaining convertibility in selected countries. I am particularly interested the Fund's eventual support and assistance in realization of such enterprise.

Could you be kind enough to help me and to inform me how I may find and use such materials.

Looking forward to hearing from you

I remain

Yours sincerely,

RECEIVED
MAR 25 1986
3:15 PM

cc Mr Lobo (ACTION) in consultation w/ Mr Tun Wai
External Relations & other Depts.
European Dept.

Rowland Evans and Robert Novak

Solidarity Does Not Exist?

Unreported statements by a Treasury official that Poland is beyond American help and that Lech Walesa's Solidarity movement "does not exist" are infuriating Polish American leaders.

Harvey Shapiro, the respected deputy director of the Office of East-West Economic Policy, pulled no punches in describing Poland as a basket case nearly beyond economic redemption. He shocked the International Human Rights Committee of the American Bar Association, which sponsored his March 17 talk, by saying that although martial law "has been lifted in form, it has been essentially retained in substance."

When he followed that up by saying that "Solidarity does not exist," Jan Nowak, the knowledgeable former Radio Free Europe official, jumped to his feet. "It does!" he proclaimed.

That rebuke exposes the chasm between a dynamic policy aimed at encouraging change in the client state Moscow knows is its most vulnerable point and a quiescent policy expected of Treasury's numbers-crunchers.

With the disclaimer that his views were not necessarily those of the Treasury or the administration, Shapiro seemed to rule out any U.S. aid or easing of sanctions for Poland's ravaged economy. He did not mention President Reagan's pledge, made on three separate occasions, that if the military-communist regime of Gen. Wojciech Jaruzelski eased up on human rights, the United States would reciprocate, starting by easing sanctions.

But Shapiro told the lawyers that "it would be very difficult to justify" aid with commodity credit loans, with Export-Import Bank loans, with farm surplus loans, or with the Treasury's Economic Stabilization Fund. With those methods out, only a congressional aid package, unlikely in the era of Gramm-Rudman, would be left.

Shapiro insisted U.S. aid would "simply aggravate" Poland's economic mess unless "underlying structural changes" were made. Yet with Secretary of State George Shultz's strong backing, the United States is trying to arrange a multibillion-dollar loan package to Mexico with no real prospect of "structural changes" in Mexico's economy.

Poland is not Mexico. But to leaders of the Polish American community, Mexico makes the case that political considerations can outweigh economic factors in terms of America's own interest. Moreover, what happens in Poland, the fulcrum of Moscow's Eastern European empire, could be as important in terms of East-West relations as the future of Mexico is to the United States.

That was the original case made by President Eisenhower in 1956. After the first major anti-Soviet upheaval swept Poland, Eisenhower launched the carrot-and-stick policy to edge Poland into a closer relationship with the West. Every president since then has pushed the same strategy, but probably none so motivated by anticommunist convictions as Ronald Reagan.

There has been no public response from the State Department or the White House to Shapiro's talk. He ignored post-martial-law changes such as record numbers of churches being built, the visit to Poland by the pope, the fact that Solidarity founder Lech Walesa holds regular press conferences and has never been brought to trial. None of these is conclusive. Together they suggest subtle U.S. responses are needed, but not of the type suggested without rebuttal by Shapiro.

As for Solidarity's "death," one underground Solidarity newspaper has a circulation of 20,000, is financed by thousands of small contributions from Solidarity underground members and gives its readers a biweekly summary of world news. Another, with a circulation between 28,000 and 40,000, reports details of political and economic life inside Poland.

If Solidarity is dead, Polish American leaders ask, how is it able to publish whatever it wants underground? And despite several amnesties, they privately ask Shultz whether Poland should get some credit arrangements of the kind granted Moscow, where sanctions for the Afghanistan invasion and Poland's martial law have ended.

To the Soviets, such reluctance to loosen American purse strings may be a political bonus. To Jaruzelski, it is a sweet propaganda excuse for economic deterioration. To Treasury money-men, it is business as usual. But to Polish Americans, it is a symptom that the administration's policy is in a rut when it should be bobbing and weaving, looking for subtle openings to exploit.

LAW

Office Memorandum

To: Mr. Rose

March 17, 1986

From: Jim Prust J.P.

Subject: Poland--Meeting of Official Creditors

Together with Ms. Dillon (ETR) and Mr. Byrne (Office in Europe), I attended a meeting of official creditors on Poland in Paris on March 6-7. The chairman was Mr. Trichet and the Polish delegation was headed by Mr. Karcz.

After two full days of discussions an agreement on 1986 maturities was initialled under which US$1.9 billion of estimated total debt service payments to official creditors of US$3.3 billion would be rescheduled. The two main components of the rescheduled amount are (1) interest payments in 1986, totalling over US$1 billion, on maturities rescheduled under the 1982-84 agreement signed in July 1985 and (2) repayments of principal and payments of interest on hitherto unrescheduled maturities in 1986, totalling about US$0.8 billion. Amounts covered in item (1) are to be repaid between 1987 and 1990 whereas those covered in item (2) are to be repaid between 1991 and 1996.

These terms are somewhat more generous than those previously considered by the official creditors and the United States and Canada only supported them with some reluctance. The main reason for offering relatively generous terms was a desire to reach agreement on a 1986 rescheduling ahead of the commercial banks and to prevent the latter from getting into a position from which they could effectively dictate the extent of official debt relief. As you know, rescheduling discussions are also taking place with the banks. The Poles reported on their most recent meeting with the commercial banks, held in Frankfurt on February 24-25: the banks had agreed only to reschedule three quarters of principal falling due in 1986 (giving debt relief of US$600 million) whereas, in line with the comparability principle espoused by official creditors, they had been approached for a package that would have given total debt relief of about U$1.1 billion. 1/ A further meeting between the Poles and the commercial banks is to take place in Zurich this week.

Needless to say, it is not yet clear where all this leaves the overall external financing position in 1986. All forecasts of debt service payments will also need to be revised to take account of recent

---

1/ At their January meeting, official creditors had suggested that the financing gap in 1986 be shared by official creditors and commercial banks in a ratio of 3:2, this having been approximately the ratio of their respective exposures in Poland in early 1981 (i.e., before the first debt rescheduling).

exchange rate and interest rate movements. However, forecasts provided by the Poles in January indicated total debt service payments in 1986 of US$5.7 billion of which US$2 billion would be met from the surplus on trade, non-interest services, and transfers. The initialled agreement with official creditors would, as described above, give relief of US$1.9 billion and an additional US$0.6 billion of relief already appears to be effectively on offer from commercial banks. Thus, if the Polish forecasts were realized for the current account items, a further US$1.2 billion would appear to be needed from new loans, from additional debt relief from commercial banks and "other" creditors, and from other sources to close the financing gap. This would appear to be a difficult, but not necessarily impossible, undertaking. It is noteworthy that total debt service payments to socialist countries (in convertible currencies only) and to "other" creditors are estimated by the Poles to amount together to over US$1 billion in 1986 before any debt relief.

Final signature of the 1986 Agreement with official creditors is dependent on the remaining outstanding bilaterals under the 1982-84 and 1985 agreements being signed and on debt service payments, notably of principal amounts due at the beginning of the year under the 1981 Agreement, being comprehensively brought up to date. The Poles appeared to anticipate a speedy resolution of these outstanding issues with final signature of the 1986 multilateral agreement possibly taking place in late April.

cc: Mr. Hole
Ms. Dillon
Mr. Byrne

Mr. Whittome

Office Memorandum

DATE: March 13, 1986

MEMORANDUM FOR FILES

SUBJECT: Poland

Mr. Rolland, of the French Treasury, telephoned to let us know of the contents of a telex which Mr. Trichet was about to send to each of the 17 creditor countries of Poland which had been represented at last week's meeting in Paris. The message is prompted by the forthcoming meeting between Polish officials and the commercial banks on Tuesday in Zurich. It proposes a presentation which creditor countries may wish to draw on if they should speak with commercial banks in their own countries. There are five points which, freely translated, are as follows:

1. With the agreements initialed last week in Paris, creditor countries will bear their share "and even more" in the global effort requested in 1986 by Warsaw from all categories of creditors.

2. Creditor countries will be providing Poland with the equivalent of a very important amount of new money since they have agreed to consolidate not only US$800 million of maturities falling due in 1986, but also US$1.1 billion of moratorium interest falling due in 1986.

3. Considering the principle of comparability of treatment, commercial banks should do a similar effort vis-à-vis Poland. On the basis of debt outstanding in 1981--at the beginning of debt restructuring negotiations with Poland--this would suggest a 60/40 division of the burden between creditor countries and commercial banks. On this basis, the commercial bank's efforts should reach approximately US$1.3 billion. If the banks were to consolidate US$800 million in principal payments due, new money to be provided should therefore amount to approximately US$500 million.

4. As far as the creditor countries are concerned, those countries consider the effort of US$1.9 billion foreshadowed bv last week's agreement to be the maximum they can do. "This is a final effort."

5. The common interest of all categories of creditors implies that an agreement be reached between the commercial banks and Poland parallel to that recently initialed in the Paris Club.

The foregoing message is, of course, not being communicated to the Poles.

Peter Hole

cc: Mr. Whittome ✓

Mr. Whittome

2

Office Memorandum

MEMORANDUM FOR FILES

March 7, 1986

Subject: Poland

Mr. Prust called again this afternoon to report on today's meeting of the Paris Club.

1. A rescheduling agreement for 1986 has been initialed (not signed) providing debt relief of US$1.95 billion.

2. The financial package consists of three main items: (i) a rescheduling of 100 percent of payments (principal and interest) on original maturities due in 1986 (debt relief of about US$790 million); (ii) a rescheduling of 100 percent of the interest due in 1986 on 1982-84 maturities (debt relief of about US$1 billion); and (iii) a rescheduling of 100 percent of the capitalized 1985 interest previously due on December 31, 1986 to 1987 (debt relief of about US$130 million).

3. Signature of the agreement is dependent on (i) settlements of all outstanding payments, in particular those related to the 1981 agreement that were due at the beginning of the year; and (ii) signature of the remaining bilateral agreements associated with the multilateral 1982-84 and 1985 agreements. Mr. Karcz is operating under the assumption that signature of the agreement will be possible by the end of April.

4. US$515 million of moratorium interest, whose payment was deferred to the end of March 1986, is to be paid in full in two installments (in August and in November). This item had been included in the debt relief package requested by the Poles in January.

5. A press release will be issued which mentions that Fund members attended as observers.

Karen A. Swiderski

Karen A. Swiderski

cc: Mr. Whittome
Mr. Hole

Office Memorandum

MEMORANDUM FOR FILES

March 6, 1986

Subject: Poland

Mr. Prust called from Paris to report on today's meeting of a working group of official creditors.

1. The discussion centered on a financing gap of US$2.8 billion, the same figure that was presented in January based largely on Polish forecasts that assume voluntary medium- and long-term capital inflows of almost US$1 billion.

2. The distribution of financial assistance as between official creditors and commercial banks was assumed to be in the ratio of 60:40 as agreed upon in January.

3. The US$1.7 billion financial package proposed by the official creditors consists of (i) a rescheduling of 90 percent of payments (interest and principal) on original maturities due in 1986 (debt relief of about US$710 million); (ii) a rescheduling of 85 percent of the interest due in 1986 on 1982-84 maturities (debt relief of about US$875 million); and (iii) payments on some portion of the downpayment may in fact be "unofficially" postponed to 1987.

4. US$515 million of moratorium interest, whose payment was deferred to the end of March 1986, is to be paid in full at the end of April 1986.

5. The package is to be presented to the Poles tomorrow.

Karen A. Swiderski

Karen A. Swiderski

cc: Mr. Whittome
Mr. Hole

Mr. Whittome

Office Memorandum

MEMORANDUM FOR FILES February 10, 1986

Subject: Poland--Visit of Commercial Bankers on February 7, 1986

A meeting had been arranged between Mr. Whittome and six commercial bank representatives. Bad weather prevented Mr. Whittome and three of the bankers from attending. In the event, Mr. Meissner (Chemical Bank), Mr. Minneman (Chase Manhattan), and Mr. Murphy (Bankers Trust) met with Mr. Schmitt, Mr. Hole and myself for about three quarters of an hour.

Mr. Meissner said that an initial meeting between the Poles and the banks' International Coordinating Committee (ICC) had taken place in Vienna on January 28. The U.S. banks' committee on Poland had met on the previous day (February 6) in New York. In Vienna the Poles had made four requests:

a. Restructuring of the US$800 million of principal falling due in 1986 as an eight-year "bullet" loan to be repaid in 1993.

b. Consolidation of outstanding revolving credits (amounting to about US$850 million) into a five-year "bullet" loan. (In the near term this would have limited balance of payments impact but, by removing the need for six monthly repayment of borrowed amounts, it should permit a greater utilization of the available credits.)

c. A revision of interest rate terms on existing reschedulings. The current spread is 1 3/4 points and the Poles wanted something closer to what they regarded as the "proper market rate." Meissner mentioned that the spread for Mexico was 1 1/8.

d. US$260 million in new money in 1986 to "put back" the principal repayment under the 1981 agreement received in December 1985. (The Poles had given the impression that this request was being made under pressure from the Paris Club.)

Meissner described the U.S. banks' reaction to the proposal as generally positive. A factor weighing in Poland's favor was its good record in honoring its commitments to the banks; the impression given was that Poland was up to date on all payments due. However, it appeared that, while U.S. banks may be willing to consider refinancing a certain proportion of principal maturing in 1986, their reaction to the other three points in the Polish proposal was less favorable.

Transformation of revolving credits into medium-term loans would require a build up in ATRRs (Asset Transfer Risk Reserves); currently, revolving credits--although classified as "substantial"--were the only category of claim on Poland for which such reserves were not required. ATRRs were now required to be at a level equivalent to 35 percent of exposure on Poland; it was generally reckoned that this ratio would be raised to 50 percent in March. In short, consolidation of the revolving credits would destroy the only reason that U.S. banks had for extending them in the first place.

Revision of the interest terms of existing restructuring agreements would--apart from the question of whether banks would agree to the substance of the proposal--be very difficult to organize. 95 percent of the signatories to the existing agreements would have to concur which raised many problems (see below).

There was a general sentiment against any increase in exposure to Poland and thus the request for new money (point 4) seemed unlikely to make any headway.

Meissner said his comments related only to the attitudes of U.S. banks. Indications were that European banks would take a tougher position. Most of them had accumulated substantial reserves against their East European loans. He specifically mentioned German banks (provisioning of at least 50 percent and perhaps 100 percent of claims) and Scandinavian banks (100 percent provisioning). More generally, the current environment did not encourage a very positive response to the Polish request. There was no political pressure to help Poland. Poland's economic performance was seen to be lagging and the hopes entertained of the reform not to have been fulfilled. Finally, the perception was that Poland's data base, at least regarding the external financial situation, was weak; there was reluctance to get involved in the solution of a problem whose magnitude was not known.

There was some discussion of the organizational problems of constructing a new package. One difficulty was that there had been considerable retrading of claims on Poland as well as outright writing off. Moreover, certain signatories to the rescheduling agreements were only "creditors of record" who in turn had liabilities in respect of Polish loans to third parties. The result was that many of the original signatories may be either not interested or not competent to agree to a change in terms. Thus it would be hard to secure agreement of the necessary 95 percent of the signatories for any financial package prepared in the form of an amendment to existing rescheduling agreements. On the other hand, there were likely to be many signatories to existing agreements who would not want to be involved in a completely new rescheduling. Thus an attempt to construct an agreement on 1986 maturities de novo could be equally problematic.

Meissner said that the ICC was to meet in Frankfurt on February 24 to try to agree a negotiating position and would meet with the Poles on February 25. He anticipated lengthy discussions with the Paris Club on burden sharing.

The usual questions were asked about Poland's application to join the Fund and the usual answers given.

Jim Prust

cc: Mr. Whittome ✓
Mr. Schmitt
Mr. Hole
Ms. Swiderski
Mr. Sheehy
Mr. Wolf

Mr. Whittome

Office Memorandum

MEMORANDUM FOR FILES January 23, 1986

Subject: Poland

Mr. Prust telephoned from Paris to report on today's meeting of a working group of official creditors with Polish representatives.

1. There had been a long discussion of the 1985 outturn and the prospects for 1986. Many loose ends remained and the working group had concluded that it would be premature now to try and set performance criteria for 1986, especially given that the Poles had yet to begin discussions with commercial banks.

2. At tomorrow's meeting of the creditor group as a whole, Trichet would convey the general message that Poland's economic performance over the past year had been unsatisfactory.

3. There seems to be an expectation among some of the participants (e.g., the Secretariat and the British) that the membership process in the Fund will proceed slowly, extending beyond the spring.

4. The Poles made a formal request for debt relief in 1986, to consist of three parts: (a) a rescheduling of the US$550 million of moratorium interest due by end-March over a four-year period, with one quarter to be paid in 1986 (debt relief in 1986, US$400 million); (b) a rescheduling of 87 1/2 percent of interest due in 1986 on 1982-84 maturities (debt relief, US$900 million); and (c) a 100 percent rescheduling of principal and interest on maturities originally falling due in 1986 (debt relief, US$600 million). The Poles indicated that they also intended to ask the banks for a full rescheduling of principal payments due in 1986, which would give debt relief of some US$800 million. Reschedulings on this scale would cover the financing gap presently foreseen by the Poles. However, the Polish numbers assume new capital inflows of close to US$1 billion and an improvement in the trade surplus of US$0.5 billion in 1986.

5. Karcz had said to the working group that he was satisfied with the survey of the Polish economy contained in the staff's report to the Membership Committee. He did not comment on the recommended quota. Krowacki, however, told the British privately that 700 was not enough.

Peter Hole

cc: Mr. Whittome

INTERNATIONAL MONETARY FUND

TO : Mr. Whittome

FROM: Peter Hole

re the attached

A number of questions — of basic importance — arise concerning the consistency of some of the monetary data that were collected with figures for the foreign reserves, external debt and budget accounts.

We have spoken with the Bureau but will need to take up these matters with the Poles. They are of sufficient importance to need attention before the Article IV and would be an additional item to be covered in any March (?) visit.

PH
6/ii

cc: RED

Office Memorandum

CONFIDENTIAL

TO: Mr. Whittome
DATE: January 17, 1986
FROM: Werner Dannemann WD
SUBJECT: Poland: Minutes and Documents of Statistical Mission

I am enclosing two copies of the minutes and documents of the meetings held during the recent statistical mission to Poland. These comprise 12 minutes of the general meetings and three minutes which summarize several meetings, which were held with national technicians in the areas of balance of payments statistics, government finance statistics and money and banking statistics.

We shall be preparing data for a draft country page in IFS in readiness for an eventual inclusion of Poland as a Fund member. The minutes and documents contain sensitive information.

cc: PH

Pl let me know if there is anything here of which I should be aware.

23/1

Attachments

cc: Mr. Hole

RECEIVED
1986 JAN 21 AM 10: 13
EUROPEAN DEPARTMENT

Office Memorandum

CONFIDENTIAL

TO: Mr. Whittome

DATE: January 17, 1986

FROM: Werner Dannemann WD

SUBJECT: Poland: Minutes and Documents of Statistical Mission

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Attachments

cc: Mr. Hole

PH

Pl let me know if there is anything here of what I should be aware.

23/1

RECEIVED
1986 JAN 21 AM 10: 13
EUROPEAN DEPARTMENT

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meeting No. 1
at the Ministry of Finance

December 2, 1985 at 10:00 a.m.

Polish Representatives	IMF Representatives
Mr. Zienkowski, Director, Central Statistical Office (CSO) Mr. Szybisz, Director, CSO Mr. Lichocki, Division Chief, Ministry of Finance Mrs. Rubel, Advisor, National Bank of Poland (NBP) Mr. Ilczuk, Deputy Director, NBP Mr. Klingier, NBP Mr. Sala, Director, Bank Handlowy Mr. Tomorowicz, Economist, State Planning Commission Mr. Wezlavoryl, Economist, Ministry of of Foreign Trade	Mr. Dannemann Mr. Brimble Mr. Gürgen **World Bank Representative** Mr. Park

Mr. Zienkowski welcomed the Fund mission to Poland and inquired whether the work program presented to the staff was agreeable. Mr. Dannemann thanked the authorities for receiving the mission and the arrangements made, and suggested that an extra day might be set aside for the staff to present statistical methodologies employed by the Fund in reviewing and publishing data reported by member countries. In addition, Mr. Dannemann inquired whether it would be possible to meet officials from Polish commercial banks during the course of the mission; the authorities replied that this would be possible and that such officials would attend meetings of the Ministry of Finance on the subject. Mr. Dannemann gave a brief description of the Fund's statistical publications and manuals and handed out copies of them, including relevant publications of the World Bank.

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meeting No. 2
at the Ministry of Finance

December 2, 1985 at 2:30 p.m.

Polish Representatives	IMF Representatives
Mr. Zienkowski and 17 officials mainly from the Ministry of Finance, National Bank of Poland, and Central Statistical Office	Mr. Dannemann Mr. Brimble Mr. Gürgen
	World Bank Representative
	Mr. Park

Mr. Zienkowski invited Mr. Dannemann to address the meeting. Mr. Dannemann discussed the following points:

1. Procedures used by Fund member countries in reporting data to the Fund's Bureau of Statistics;

2. Methodologies in various fields of statistics that guide the statistical work of the Fund;

3. Statistical technical assistance programs and IMF Institute courses;

4. Fund publications and tapes copied to subscribers;

5. Data transmission techniques used by the Fund;

6. Organization of the Bureau of Statistics and its relations with other Fund departments, bureaus, and with other international institutions.

A number of questions were raised, including the protection of the confidentiality of data provided to the Fund. Mr. Dannemann addressed the issues in some detail.

Mr. Brimble gave a presentation and answered questions on the concepts of financial statistics as embodied in the draft manual A Guide to Money and Banking Statistics in International Financial Statistics.

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meeting No. 3
at the Ministry of Finance

December 3, 1985 at 9:30 a.m.

Polish Representatives	IMF Representatives
Mr. Raczkowski, Advisor, State Planning Comission and 14 officials from the Ministry of Finance, the National Bank of Poland, and the Central Statistical Office	Mr. Dannemann Mr. Brimble Mr. Gürgen
	World Bank Representative
	Mr. Park

Mr. Gürgen gave an outline of the concepts of balance of payments statistics as embodied in the Fund's Balance of Payments Manual and discussed the data reported by countries in Balance of Payments Statistics and International Financial Statistics. Problems and questions raised by Polish officials were discussed at some length, particularly in regard to Polish balance of payments accounts and official concepts.

Mr. Park discussed the World Bank's uses of national accounts data for various operational purposes. He highlighted two broad aspects of the Bank's use of such data: the first in regard to determining the eligibility of member countries for different kinds of financial assistance, and the second for the analysis of macroeconomic situations to carry out policy dialogues with national governments and to provide background information for the assessment of project feasibilities. He emphasized the importance of per capita GNP calculations in U.S. dollars as a principal criterion for determining the degree of urgency in a country's need for development and the terms of Bank assistance in general. He explained the Bank's method for calculating per capita GNP. In response to questions concerning exchange rates used as GNP conversion factors, he emphasized the desirability of the use of exchange rates consistent with distortion-free domestic prices. He expressed the Bank's wish to collect relevant information, particularly on the price, external trade, and exchange rate regimes governing the Polish economy. He also outlined the requirements of Bank borrowers to provide information on external debt.

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meeting No. 4
at the Ministry of Finance

December 3, 1985 at 2:30 p.m.

Polish Representatives

Mr. Zienkowski, Director, Central Statistical Office and 14 officials from the Ministry of Finance, the National Bank of Poland, and the Central Statistical Office

IMF Representatives

Mr. Dannemann
Mr. Brimble
Mr. Gürgen

World Bank Representative

Mr. Park

1. Money and Banking Statistics

Mr. Zienkowski and other officials raised further questions on the consolidation of the monetary survey accounts and the Fund's approach to the compilation of such data from a functional rather than institutional point of view. He proposed a discussion along the lines of a flow of funds matrix (Attachment). Adjustments for incorporating monetary authority functions of the central government and of deposit money banks were explained at some length.

2. Government Finance Statistics

This methodology of the Draft Manual on Government Finance Statistics was discussed in terms of the coverage of government, basis of data, analytical framework, and classification. Questions were raised about the treatment of certain government agencies such as additional pension funds to which employees can contribute; some of the issues will have to bee examined in further communications on the subject. The Fund's system for the reporting of data was explained (regular official correspondence, exchange of documents, compilation of derivation statements, submission of questionnaires).

Attachment

ATTACHMENT

Financial Relationships Between the Sectors of an Economy

Assets / Liabs	Monetary Authority	Dep. Mon. Banks	Central Govt.	Insur. & Pension Funds	Enterps. & Hshlds.	Rest of World	Total
Monetary Authority	--	80	55	--	10	100	245
Dep. Mon. Banks	10	40	--	50	132	83	315
Central Govt.	5	--	--	--	60	70	135
Insur.& Pension Funds	10	50	40	--	40	--	140
Enterps. & Hshlds.	110	75	--	50	--	20	255
Rest of World	110	70	40	40	13	--	273
Total	245	315	135	140	255	273	

▨ Items eliminated in consolidation at the monetary survey level.

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meeting No. 5 at the Central Statistical Office

December 4, 1985 at 10:00 a.m.

Polish Representatives

Mr. Stanislaw Paradysz, Vice-President, Central Statistical Office (CSO)
Mr. Tadeusz Kania, Director, Internatl., Statistics Division
Mr. Witold Dziewaltowski, Director, Industry Division
Mr. Jan Kordos, Director, Social Research Division
Mr. Jan Korwin-Szymanowski, Vice-Director, Means of Production and Finance Division
Mr. Apoloniusz Ohryzko, Director, Foreign Trade Division
Mr. Jerzy Radecki, Director, Means of Production and Finances Division
Mr. Andrzej Jakubowicz, Adviser of the President of CSO
Mr. Kazimierz Antonik, Vice-Director National Economy Balances and Prices Division
Mr. Zbigniew Bobrowicz, Vice-Director, Foreign Trade Division

IMF Representatives

Mr. Brimble
Mr. Gürgen

World Bank Representative

Mr. Park

Mr. Brimble described the Bureau's system for reporting data by countries and elaborated on the various report forms used for this purpose. He gave information on the types and functions of Bureau correspondents in various fields of statistics in reporting countries.

Mr. Paradysz gave a detailed presentation on the organization (see Attachment) and activities of the CSO, after which Mr. Ohryzko discussed the foreign trade statistics of Poland. He mentioned that the statistics are derived from information contained in invoices for exports and imports. Foreign trade statistics for exports and imports are valued on a f.o.b. basis and are expressed in terms of zlotys.

He indicated that transactions with CMEA countries are valued differently from those with free market economies and that data for the two trade areas should not be aggregated. In addition, beginning with January 1982, there is a break in the series for both areas due to different conversion procedures. Mr. Ohryzko also indicated that the trade data are compiled on the basis of country of settlement and that data by country of origin and destination are not available.

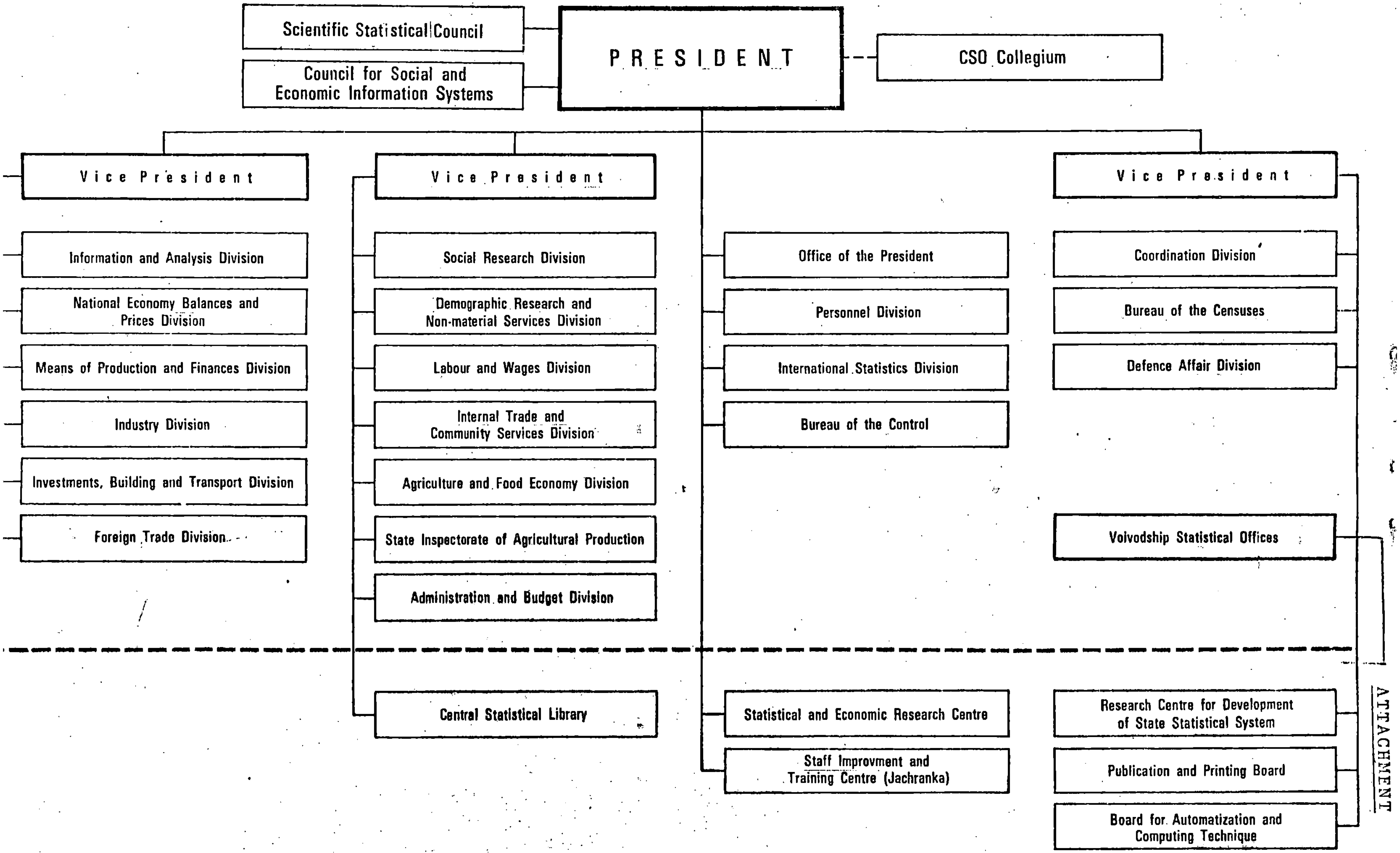
In response to a question from Mr. Gürgen, Mr. Ohryzko replied that Polish foreign trade statistics include the following:

a. Re-exports;
b. Bunker fuel;
c. Gold and other precious metals and stones;
d. Military goods;
e. Goods sent to Polish embassies abroad; and
f. Goods received by foreign embassies in Poland.

It was also learned that, net value added in processing without change of ownership is included in exports or in imports as the case may be. Mr. Ohryzko also indicated that even though imports are valued f.o.b. in trade returns, data on freight and insurance are available.

Attachment

ORGANIZATIONAL SCHEME OF STATE STATISTICS IN POLAND



INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meeting No. 6
at the National Bank of Poland

December 4, 1985 at 3:00 p.m.

Polish Representatives	IMF Representatives
Mr. Wojtowicz, Director, Foreign Department, National Bank of Poland (NBP) and eight officials mainly from the NBP	Mr. Dannemann Mr. Brimble Mr. Gürgen
	World Bank Representative
	Mr. Park

Exchange rates and conversion factors

Mr. Wojtowicz summarized the exchange rate developments in Poland over the last ten years or so. Mr. Dannemann stated that the mission was interested in actual exchange rates as well as appropriate conversion factors that could be used for Fund statistics and Fund publications; the latter were thought to be prevailing rates at which international trade is transacted and converted into national currency without regard to the two trading partner blocks that have trade with Poland. Such conversion rates would be used for translating national currency data into international units of account such as the U.S. dollar or the SDR for intercountry comparison. In response to questions regarding the desirability of compiling balance of payments data in terms of U.S. dollars instead of converting data from transaction currencies into national currency and then reconverting them into U.S. dollars, Mr. Wojtowicz said that direct dollar comparability would be technically feasible and that the Fund would be informed of a decision to that effect, taking into account adjustments to be made for broken exchange rates.

Mr. Park explained that the per capita GNP data in U.S. dollars as used by the World Bank meant to measure the relative volume of newly produced goods and services available to residents of individual countries; including the home country, suggesting that international prices could be used to aggregate the volumes of individual goods and services for each country. He noted the different price structures of the two large economic blocks of trade partners, i.e., the convertible currency area and the CMEA area and inconsistency of the relationship between the exchange rates separately applied to the blocks (zloty-U.S. dollar rate and zloty-transferable ruble rate) with that of the direct U.S. dollar transferable ruble rate. He indicated that the prices of the same commodities in domestic currency terms could differ significantly if traded in the different blocks. Mr. Wojtowicz responded that the Polish authorities were implementing a price equalization system to remove price differentials arising from the present exchange rate and trade regime, at least in statistical terms. Given the complexity of the issue, Mr. Park wished to resume the discussion with the NBP after a meeting with the Central Statistical Office on the prices used in national accounts data. He was particularly interested in the relationship between domestic prices and foreign trade prices for similar or identical goods and services.

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meeting No. 7
at the National Bank of Poland

December 5, 1985 at 2:30 p.m.

Polish Representatives

Mr. Wojtowicz, Director, Foreign Department, National Bank of Poland (NBP)
Mr. Klezinorek, Director, NBP
Mr. Bien, Advisor to the Governor, NBP
Mr. Ilczuk, Deputy Director, NBP
Mr. Klingier, Deputy Director, NBP
Mr. Przywecki, Deputy Director, NBP
Mr. Gawor, Expert, NBP
Mr. Glazer, Deputy Director, Bank Polska Kasa Opieki SA
Ms. Olton, Expert, Bank Polska Kasa Opieki SA
Mr. Zielinski, Deputy Director, Bank Handlowy
Ms. Karczewka, Deputy Director, Bank Handlowy
Mr. Balasienur, Deputy Director, Bank Gospodarki Zywnosciowej

IMF Representatives

Mr. Dannemann
Mr. Brimble
Mr. Gürgen

Money and Banking Statistics

Mr. Brimble indicated that the Bureau places emphasis on a functional rather than institutional breakdown of monetary accounts. In order to achieve this, the mission would like to discuss data on the deconsolidated accounts of the National Bank of Poland and the three commercial banks. Mr. Dannemann indicated that the compilation criteria require a breakdown of assets between the domestic and foreign economic sector; identification of liabilities by liquidity created through the acquisition of assets; and information on interbank accounts. He discussed the cut-off dates for IFS and mentioned the desirability of compiling monthly data on money and banking statistics.

Mr. Wojtowicz said he would make arrangements with the representatives of all banks at the meeting and proposed a timetable for the preparation of the necessary documents.

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meeting No. 8
at the Ministry of Finance

December 9, 1985 at 9:30 a.m.

Polish Representatives

Mr. Zienkowski, Director, Central Statistical Office (CSO)
Mr. Kania, Director, CSO
Mr. Raczkowski, Advisor, State Planning Commission
Mr. Bien, Advisor to Governor, National Bank of Poland (NBP)
Mr. Ilczuk, Deputy Director, NBP
Mr. Lichocki, Senior Specialist, Foreign Department, Ministry of Finance (MOF)
Mrs. Fiszor, MOF
Mrs. Gasiovowska, MOF

IMF Representatives

Mr. Dannemann
Mr. Brimble
Mr. Gürgen

World Bank Representative

Mr. Park

Mr. Dannemann expressed his appreciation for the cooperation the mission staff have received from the Polish authorities and indicated that much progress have been made in meetings on government finance statistics, money and banking statistics, and exchange rates and conversion factors. He added that a large volume of information is available in Poland for the creation of a Fund data base and its maintenance for Fund staff and Fund publications.

Topics to be covered in the second week of the mission were discussed and a program of meetings on various subjects was scheduled.

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meeting No. 9
at the Central Statistical Office

December 9, 1985 at 2:30 p.m.

Polish Representatives

Mr. Tadeusz Kania, Director
International Statistics Division,
Central Statistical Office (CSO)
Mr. Jan Kordos, Director, Social
Research Division, CSO
Mr. Apoloniusz Ohryzko, Director,
Foreign Trade Division, CSO
Mr. Andrzej Jakubowicz, Advisor
to the President of CSO
Mr. Zbigniew Bobrowicz, Vice-Director,
Foreign Trade Division, CSO

IMF Representative

Mr. Dannemann

World Bank Representative

Mr. Park

1. Foreign trade statistics

Mr. Dannemann made brief introductory remarks, which included, among other things, the Fund's interest in data on the value, volume, and prices of foreign trade of individual countries. Mr. Ohryzko said that the CSO could provide the Fund with foreign trade data monthly. He felt that there would be no problem in presenting total trade flows in national currency terms but proposed to present foreign trade data in U.S. dollars separately for the convertible currency area and the transferable ruble (TR) area. He reasoned that when converting the trade data with TR area from zlotys to U.S. dollars at the official zloty/U.S. dollar exchange rate, the resulting data, particularly on value and prices, could be misleading. This was mainly because the official zloty/U.S. dollar rate is inconsistent with the cross zloty/TR/U.S. dollar rate and also because the transaction prices for the intra-TR area trade are moving averages for the past five years as distinct from current international market prices. Mr. Dannemann suggested that the CSO might attempt to derive the U.S. dollar values of Polish trade with the TR area by first converting the zloty values into TR at the official zloty/TR rate and then from TR to U.S. dollars at the direct TR/U.S. rate. Mr. Ohryzko responded that the CSO was mandated to use the official zloty/ U.S. dollar and Zloty/TR rates, not the TR/U.S. dollar rate. Mr. Dannemann offered to have the General Economy Division of the Fund's Bureau of Statistics send to the CSO, documentation dealing with similar problems for Hungary, which the Polish officials mentioned in the discussion, and countries with multiple exchange rate systems.

2. Consumer price index

Mr. Dannemann explained that the consumer price indexes of interest to the Fund are those compiled on the basis of the recommendations of the International Labour Office (ILO). Mr. Kordos responded that the CSO follows the ILO's recommendations: it surveys retail prices monthly and computes the index based on previous year's basket weights. The annual household survey covering 20,000 households throughout the country provides the weights. The continuing basket update makes possible the compilation of Paasche, Laspeyres, and Fisher indexes. However, it was explained that the Fund would give preference to Laspeyres indexes which the CSO currently publishes quarterly and annually. The CSO could provide the Fund with the monthly price indexes. Responding to further questions, Mr. Kordos explained that the price indexes cover the self-consumed agricultural products which are evaluated at the retail market prices; that separate weights are applied to the products of the same kind if their prices differ according to different marketing channels ("socialized" distribution system, "private" market, black market); that no price imputations are made for the services provided free or at prices much below the cost; and that the imported goods were excluded so far, but planned to be included in the near future.

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meetings No. 10
at the Ministry of Finance

December 11, 1985 at 2:30 p.m.

Polish Representatives	IMF Representative
Mr. Raczkowski, Advisor, State Planning Commission	Mr. Dannemann
Mr. Zienkowski, Advisor Central Statistical Office	World Bank Representative
	Mr. Park

Issues on Converting Polish GNP into U.S. Dollars

Mr. Dannemann opened the discussion by stating, among other things, that the mission's interest in Polish exchange rate data was in assessing their suitability as the GNP conversion factor for past years. In this regard, Mr. Park noted the following:

1. Most of the domestic prices are controlled (e.g., administrative prices, regulated prices, and some of the "contract" prices) and thus do not accurately reflect market operations in Poland;

2. There are two segregated markets for foreign exchange: one for the convertible currencies and the other for the transferable ruble, both of which are subject to various controls. The exchange rates applied in the two markets are not consistent with each other;

3. Various trade restrictive measures (e.g., administrative allocation of foreign exchange, import tariffs, contributions to the Price Equalization System, etc.) create divergencies between the international prices of traded goods and their corresponding domestic market prices.

Mr. Park said that it would be essential for the determination of the appropriate GNP conversion factor to assess the extent of possible distortions in domestic market prices. The officials replied that the official exchange rate of zloty to the U.S. dollar would be the appropriate GNP conversion factor because it was applied to actual foreign transactions in convertible currencies. Mr. Park pointed out again the divergencies between the domestic market prices, on which the country's national accounts were compiled, and the international prices as converted at the official exchange rate; he requested the Polish officials to obtain the information on the average ratios of the net indirect taxes (indirect taxes minus subsidies) to the market prices for the traded and other goods and services in the economy. He handed to the Polish officials, for their information, a Bank document on the related methodological issues, which had been discussed in a seminar of the Bank's Executive Board and later published in the proceedings of a seminar organized by Economic and Social Commission for Asia and Pacific (ESCAP).

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meeting No. 11
at the Central Statistical Office (CSO)

December 12, 1985 at 9:30 a.m.

Polish Representatives	IMF Representative
Mr. Witold Dziewaltowski, Director of Industry Division, CSO	Mr. Brimble
Mr. Boguslaw Szybisz, Director of National Economy Balances and Prices Division, CSO	**World Bank Representative**
Ms. Bozena Jakobiak, National Economy Balances and Price Division, CSO	Mr. Park
Mr. Andrzej Jakubowicz, Advisor to the President of CSO	

1. Producer Price Indexes

Mr. Dziewaltowski explained that beginning 1982, the CSO has been compiling producer price indexes through a monthly survey of 1,100 industrial (mining and manufacturing) public enterprises (before 1982, the price indexes had been based on government list prices). The sample enterprises account for 20 percent of the total (5,500 enterprises) and about 60 percent of production.

In the selection of the sample enterprises, special consideration was given to the large-size enterprises and the diversity of the subindustries represented. Prices of 7,000-8,000 items are surveyed through the questionnaire method. About 50 percent of the prices in the index are "contract" prices, about 40 percent "administrative" prices and the remaining 10 percent "regulated" prices, the latter being determined by the Prices Office on the basis of costs/profits of the enterprises. The individual items are weighted by amounts of sales through the Paasche formula, while further aggregations are done through the Laspeyres formula with 1982 as the base year. The resulting producer indexes are only published annually.

2. National Accounts Data

Mr. Szybisz described briefly the availability, the coverage and the sources of the data. It was learned that the preliminary estimates of the net material product (NMP) become available February-April the following year and final estimates are available in August. The GDP estimates become available in September. The national accounts data cover the production of the registered economic entities only; and the basic data come from reports by the enterprises, the government budget, and the associations of various private businesses and from a survey of the agricultural sector (the details are included in the CSO document, "Production and Distribution of Material Goods and Non-material services, 1979-81"). He then answered the questions submitted earlier by Mr. Park (see attached questionnaire). The estimation of gross output for the external trade sector and of capital depreciations in the nonmaterial sectors were discussed at length. The external trade sector covers only activities of the foreign trade enterprises; the foreign trade activities directly carried out by the production enterprises are included in the production sectors in which they are classified. The gross outputs of the foreign trade enterprises comprise various service charges plus the gross trade margins; the latter include such indirect taxes as customs duties, turnover taxes and contributions to the Price Equalization System. The depreciation of capital stocks in the nonmaterial sectors is estimated by applying the average depreciation rate to the value of the capital stock by different types. The values of the capital stocks are periodically revalued; the most recent revaluation was carried out in 1982.

Attachment

ATTACHMENT

Questionnaire on Polish National Accounts

1. Have there been any significant changes in the national accounting methodology that is described in "Production and Distribution of Material Goods and Non-material Services, 1970-81 (Warsaw, June 1983)?" If so, please describe the changes.

2. If the final estimates of Polish Gross Domestic Product (GDP) for 1984 are available, please provide the data by industrial origin and expenditure categories at both current and constant prices.

3. Have the discontinuous time series (1970-75, 1975-80, 1980-84) of the GDP estimate been now properly linked? If so, please provide the continuous time series. If not, please quantify roughly the degree of the discontinuities between the time series for major GDP components and total GDP.

4. How are the gross output and value added estimated for the external trade sector?

5. If the domestic market prices of traded goods include indirect taxes (e.g., turnover taxes, import duties, contribution to the Price Equalization System) or subsidies, what are the ratios of the indirect taxes or subsidies to the production cost plus the normal profits on the average, separately for the goods traded with convertible currency area and those with the CMEA countries for 1982, 1983, and 1984?

6. What role do the different indirect taxes play in the determination of market prices?

7. What are the methods and data sources for estimating the value added of the non-socialized, non-material service sectors?

8. How much are the imputed gross output of the financial institutions as a whole and their operating surplus plus payments of wages and salaries for the years, 1980 through 1984?

9. What is the relationship between the capital depreciation included in the imputed value of housing and social services and the corresponding replacement costs?

10. If the imputed value added of the owner-occupied housing is not estimated, please provide the estimates for the years, 1980 through 1984.

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Meeting No. 12
at the Ministry of Finance

December 13, 1985 at 10:00 a.m.

Polish Representatives	IMF Representatives
Mr. Karcz, Director, Foreign Trade Department of the Ministry of Finance (MOF) and 18 officials from MOF, the National Bank of Poland, State Planning Commission, and the Central Statistical Office	Mr. Dannemann Mr. Brimble Mr. Gurgen
	World Bank Representative
	Mr. Park

Mr. Karcz expressed his regrets for not being in Warsaw during the mission's discussions with the Polish authorities as he was in Washington, D.C. conducting talks with Fund officials. Mr. Dannemann expressed his appreciation for the cooperation the mission members have received in Poland and indicated that the available data base in all fields of statistics was very good and that reporting by Poland to the Fund could be organized in a very effective manner.

Mr. Karcz indicated that the Ministry of Finance will coordinate all communications with the Bureau of Statistics and that all correspondence should be addressed to him. In the case of membership, he said that they are planning to set up a special unit in the Ministry of Finance that will coordinate all communications with the Fund and the Bank. Mr. Karcz stated that all available data could be published in Fund publications, although he presumed that confidential data would be protected. In order to explain in the immediate future the differences between data provided by Poland to various users, and data published in Fund publications, he would like to receive a reconciliation between the two sets of data. He mentioned that there is an implicit understanding between Poland and the Paris Club, that in the long run the data published in Fund publications would meet the basic data requirements of the Paris Club.

On the question of confidentiality, Mr. Dannemann referred to the excellent record of the Bureau of Statistics and emphasized that the confidentiality of data would be respected. On the differences between national and Fund presentations, he said that deviations of national data from international standards are highlighted in Fund publications. He confirmed that the Bureau would clear with Polish authorities the presentation of national data in Fund statistical publications prior to their publication.

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Summary of Technical Meetings on Money and Banking Statistics at the National Bank of Poland

December 6-14, 1985

As arranged during Meeting No. 7 at the National Bank of Poland, at 2:30 p.m. on December 5, 1985, the following meetings were held with representatives of the three commercial banks to discuss their balance sheets:

Friday, December 6 at 2:30 p.m. - Mr. Balasianer, Bank for Food Economy
Tuesday, December 10 at 9:30 a.m. - Mr. Zielinski, Bank Handowly
Tuesday, December 10 at 2:30 p.m. - Mrs. Glazer and Mrs. Olton, Bank Polska Kasa Opieuisa

Three further meetings were held with officials of the National Bank of Poland on Wednesday, December 11, 1985 at 2:00 p.m., on Thursday, December 12, 1985 at 3:00 p.m., and Saturday, December 14, 1985 at 11:00 a.m. to discuss the balance sheet of the National Bank of Poland and the appropriate procedures for producing data on the accounts of the monetary authorities, the deposit money banks and the monetary survey in Poland. The following staff of the National Bank attended some or all of the above meetings. Messrs. Wojtowicz, Bien, Ilczuk, Klingier, Przywecki, Gawor, Mrs. Rubel, and Mrs. Szerepaniak.

A brief description of the subject matter discussed during the above meetings and a copy of the balance sheet of each bank, together with tables on the monetary authorities and deposit money banks accounts are contained in Attachments I through V.

ATTACHMENT I

Narodowy Bank Polski (National Bank of Poland--NBP)

The organization of the NBP comprises the President and a Board of Management (consisting of four vice presidents and six department directors). The NBP has several departments the most important of which are the Foreign Department, the Credit Department, and the Planning Department. As Chairman of the Banks' Council, the President of the NBP coordinates the country's monetary and credit policies. The NBP has an extensive branch network, with 650 branches covering the 49 voivodships. The bank's profits accrue to the government and are paid over to the budget in advance on a monthly basis.

Apart from the monetary authorities' functions of issuing currency, acting as the government's banker, and supervising the banking system, the NBP also grants credits to the socialized enterprises and to the population. The former accounted for two thirds of the banks total assets in 1984. On the liabilities side the currency in circulation comprised over 16 percent of the total, while deposits of the nonbank, nongovernment sector of the economy accounted for some 46 percent of the total. Thus, an important and large part of the activities of the NBP are of a commercial banking nature rather than central banking.

Compared with Bank Handlowy the foreign exchange holdings of NBP were relatively small at end 1984 and therefore in compiling a monetary authorities' account, it is necessary to include the holdings of Bank Handlowy and Bank PKO. At the same time it is necessary to exclude the commercial banking activities of the NBP from the monetary authorities account and include them in the accounts of the deposit money banks. The necessary adjustments for end 1984 and June 1985 can be seen in the tables in Attachment V.

ATTACHMENT I

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BALANCE SHEET OF THE NARODOWY BANK POLSKI

/in billions of zlotys/

ASSETS	31.12.1984		30.06.1985	
1. Credits to the state budget		464,6		665,3
2. Credits to domestic banks of which:		696,2		582,6
- Bank of the Food Economy /refinancing/	682,1		570,8	
- cooperative banks	14,1		11,8	
3. Credits to the socialized units of which:		3.339,3		3.602,3
- working capital credits	1.372,4		1.522,5	
- investment credits of enterprises	1.353,2		1.414,2	
- investment credits of housing cooperatives	613,7		665,6	
4. Credits to the population of which:		149,9		167,5
- for purchases of goods and services	71,6		76,4	
- investment-repairs credits	77,5		90,3	
- other credits	0,8		0,8	
5. Foreign currencies of which:		34,8		39,2
- gold	12,7		11,5	
- foreign money	14,0		17,2	
- foreign traveller's cheques	7,0		9,0	
- other foreign currency assets	1,1		1,5	
6. Current accounts and foreign currency deposits of which:		174,9		154,6
- in the Bank Handlowy	98,7		31,8	
- in foreign banks	76,2		122,8	
7. Other assets of which:		191,3		329,7
- claims of the state budget	149,6		279,4	
- the Bank PKO bonds	11,4		16,0	
- other assets	30,3		34,3	
8. TOTAL ASSETS		5.051,0		5.541,2

ATTACHMENT I

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/in billiona of zlotys/

LIABILITIES	31.12.1984		30.06.1985	
1. Notes and coins in circulation		838,5		948,3
of which:				
- cash in other banks	14,3		17,1	
2. Accounts of state budget		267,3		182,3
of which:				
- local budgetes	101,3		69,5	
3. Accounts of other domestic banks		1.349,6		1.327,1
of which:				
- Bank Handlowy w Warszawie S.A.	81,6		169,7	
- deposit of the Bank Handlowy w Warszawie SA	1.250,0		1.139,1	
- Bank PKO SA in Warszawa	14,1		13,2	
- Cooperative banks	3,9		5,1	
4. Accounts of socialized economy units		557,7		643,3
of which:				
- demand deposits	286,4		335,5	
- term deposits	24,0		25,1	
- deposit of the polisch National Insurance	92,3		98,9	
- investment accounts	89,7		110,8	
- investment accounts of house-buildin cooperatives	21,2		21,8	
- current accounts of social and professional organizations	44,1		51,2	
5. Special funds accountes		540,5		653,8
of which:				
- central budget	282,7		375,4	
- local budget	30,4		34,1	
6. Accounts of nonsocialized economy units		2,8		3,8
7. Current accounts of the population		11,4		11,7

8. Savings deposits		1.058,9		1.177,8
of which:				
- demand deposits	566,2		648,9	
- time deposits	476,4		508,9	
- saving on checking accounts	16,3		20,0	
9. Foreign currency liabilities		81,3		119,5
10. Foreign currency accounts /residents/		40,1		88,1
11. Bank's funds		44,9		46,2
of which:				
- Statutory	20,0		20,0	
- Reserve	21,4		21,4	
- Investment	1,8		2,1	
- others	1,7		2,7	
12. Interbank and interbranch settlements		248,3		281,9
of which:				
- credit settlements	301,3		340,9	
- debit settlements	53,0		59,0	
13. Other liabilities		9,7		57,4
14. LIABILITIES TOTAL		5.051,0		5.541,2

ATTACHMENT II

Bank Handlowy w Warsawie SA

The bank was established in 1870 as a commercial bank. There are at present four branches in Poland other than the Head Office in Warsaw, one foreign branch, four affiliates, and two representative offices abroad. In recent years Bank Handlowy has specialized in the field of financing foreign trade. Its main customers are the foreign trade enterprises for whom it holds deposits and grants working capital credits. The main items in the balance sheet relate to foreign liabilities and to deposits with the National Bank of Poland and the long-term settlements item, which is in effect a claim on government arising from changes in the foreign exchange rate. The latter reflect revaluations of foreign liabilities which are made on a quarterly basis.

The foreign trade enterprises, of which there are about 100, are obliged to hold their accounts at the Bank Handlowy. There are three main types of account: (1) demand deposits--for day to day settlements; (2) time deposits--comprising resources to cover repayment of trade credit; and (3) special funds--comprising resources for social, development and trade risk funds.

ATTACHMENT II

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Balance Sheet of the Bank Handlowy w Warszawie S.A.
/in billions zlotys/

	1984	1985-June
ASSETS	3,709.7	4,641.8
Credits to the socialized sector	268.9	308.5
Working capital credits	268.9	308.5
Total domestic credits	268.9	308.5
Other domestic assets	3,112.0	3,938.3
Cash	1.8	2.5
Accounts in NBP	1,331.9	1,362.8
Long-term settlements	1,507.2	2,229.0
Other items x/	271.1	344.0
Total domestic assets	3,380.9	4,246.8
Total foreign assets	328.8	395.0
of which in non-convertible currency	77.2	127.2
LIABILITIES	3,709.7	4,641.8
Resources of the socialized sector	311.5	297.2
Demand deposits	55.2	60.6
Time deposits	156.9	177.4
Special funds accounts /enterprises only/	16.5	17.8
Investment accounts	0.3	0.2
Foreign currency deposits	82.6	41.2
Resources of the nonsocialized sector	8.6	9.7
Demand deposits	7.1	6.0
Time deposits	1.5	3.7
Resources of financial institutions	249.4	349.4
Bank own funds	83.2	105.0
Interbank and interbranch settlements	166.2	244.4
Other domestic liabilities x/	158.9	222.5
Total domestic liabilities	728.4	878.8
Total foreign liabilities:	2,981.3	3,763.0
of which over 1 year	2,463.1	3,135.9
foreign liabilities in non-convertble currency	161.5	270.6

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x/ of which 3/4 concerns current settlements with central budget and 1/4 inter-time settlements

ATTACHMENT II

Additional Information on Balance Sheet of Bank Handlowy

		1984	June 1985
1.	Other domestic assets		
	Other items	271.1	344.0
	of which Claims on government	194.3	250.9
	Bills receivable	59.4	59.4
	Other assets	27.4	33.7
2.	Other domestic liabilities	158.9	222.5
	of which Liabilities to government	108.1	161.0
	Bills payable	40.9	36.6
	Other liabilities	9.9	24.9
3.	Interbank/interbranch settlements	166.2	244.4
	of which Liabilities to N.B.P.	98.7	31.8
	Liabilities to P.K.O.	98.3	158.5
	Net settlements	-30.8	54.1

ATTACHMENT III

Bank Polski Kasa Opieki S.A. (PKO)

The bank was established in 1929 in order to provide financial services to Polish emigrants, in particular deposit facilities for Pollonia businesses. The bank's first foreign branch was opened in Paris in 1929 and as at the end of 1984 besides the head office in Warsaw, there were 69 branches and regional offices in Poland, two foreign offices, and six foreign affiliates. After the second world war the bank recommenced its domestic activities, funds were channeled from Poles abroad through the bank and the domestic export facility began in 1948. Until 1974 the bank conducted this facility directly, but since then the Pewex and Bantone outlets have taken over, with bank staff handling the cash. In 1970 a foreign currency deposit facility was introduced for residents and in June 1985 these deposits constituted over 60 percent of the bank's liabilities. The bulk of the assets of the bank comprise deposits with the National Bank of Poland and the Bank Handlowy.

It was established that in the bank's annual consolidated balance sheet, the foreign assets of the Paris branch are included. It was agreed that these should be excluded in the monetary survey data. About 10 percent of the bank's liabilities constitute bank notes, "Bons Towarowy," which are denominated in U.S. dollars and cents and can be used only for purchasing domestic exports at the Pewex and Bantone outlets. By accepting these notes depositors receive 10 percent more at face value than if they withdraw U.S. dollar notes and coin.

ATTACHMENT III

CONFIDENTIAL

BANK POLSKA KASA OPIEKI SA

in billion of zlotys

	1984	1985 June
Assets	145.9	234.5
Cash on hand	1.0	3.6
Credit to the socialized sector	3.5	3.3
Working capital credits	3.5	3.3
Investment credits	-	-
Credit to the nonsocialized entities	0.7	0.6
Agriculture	-	-
Working capital credits	-	-
Investment credits	-	-
Nonagricultural small enterprises	0.7	0.6
Credits to households	-	-
Installment purchases of goods and services	-	-
Housing /construction and repair/	-	-
Other	-	-
Credits to the budget	-	-
Total domestic credit	4.2	3.9
Interbank and interbranch settlements	113.1	177.0
Other domestic assets	1,9	10.1
Total domestic assets	120.2	194.6
Total foreign assets	25.7	39.9

Interbank and interbranch settlements of which:	113.1	177.0
balances with National Bank of Poland	14.8	15.0
balances with Bank Handlowy	98.3	158.5
interbranch balances	-	3.5

	1984	1985 June
Liabilities	145.9	234.5
Resources of the socialized sector	4.0	5.7
Cash holdings	-	-
Demand deposits	1.8	1.5
Special funds accounts	0.3	0.8
Investment accounts	-	-
Time deposits	-	-
Foreign currency deposits	1.9	3.4
Resources of the nonsocialized sector and households	96.7	168.1
Cash holdings	-	-
Demand deposits	4.2	4.0
Savings deposits	-	-
of which:		
Savings on checking accounts	-	-
Foreign currency deposits	92.5	164.1
Resources of financial institutions	-	-
Deposits of the State Insurance Institute	-	-
Bank's own funds	6.4	11.0
Interbank and interbranch settlements	-	-
Centralized settlements accounts	-	-
Budgetary units and local budgets accounts	-	-
Central	-	-
Local	-	-
The State Fund for Occupational Activation /PFAZ/	-	-
Pension Funds	-	-
Bank's vouchers in circulation	23.0	27.8
Other domestic liabilities	5.2	12.7
Total domestic liabilities	135.3	225.3
Total foreign liabilities	10.6	9.2

Bank Gospodarki Zwynosciowej (Bank of the Food Economy--BFE)

The bank was established by the Council of Ministers in 1975 and besides being a state bank, it also coordinates and supervises the cooperative banking system in Poland. The BFE network comprise 49 voivodship branches, and there are also 46 subbranches which provide banking services to agriculture, the food processing industry, forestry, and related units. While the BFE provides refinancing facilities to the cooperative banks, the bulk of its operations comprise the granting of credits to the socialized sector, over two thirds of which are refinanced by the National Bank of Poland (NBP). On the liabilities' side, the BFE maintains deposit facilities for the cooperative banks and for the units of the socialized sector and there is a statutory fund, which is financed by contributions from the Treasury and the cooperative banks.

Cooperative Banks

The cooperative banking system which comprises 1,642 banks and 474 branches provides services to the nonsocialized sector (mainly rural), to the rural population, to socialized economic units operating in rural districts and to rural administrative governments. The BFE acts as the central union of the cooperative banks and supervises their operations through the Council of Cooperative Banks.

ATTACHMENT IV

Balance of the Bank of the Food Economy
and of the Cooperative Bank

in millions of zloty

Assets	BFE		CB	
	1984	First half of 1985	1984	First half of 1985
I. Cash	1	3	11.449	13.335
II. Interbank Settlements			3.376	.6.031
III. Refinancing credit of cooperative banks	14.595	27.378		
IV. Credits to the socialized sector	928.531	814.441	1.112	1.876
- working capital credits	593.726	471.781	992	1.749
- investment credits	334.905	342.660	120	127
V. Credits to the nonsocialized entities	-	-	224.516	267.227
1/ Agriculture	-	-	143.936	173.962
- working capital credits			46.284	64.361
- investment credits			97.652	109.601
2/ Nonagricultural small enterpises			13.669	17.046
3/ Credits to households			15.431	16.355
- cash loans			257	278
- instalment purchases of goods and services			15.174	16.077
4/ Housing /construction and repair/			51.480	59.864
Total domestic credits	943.226	841.819	225.628	269.103
Other domestic assets	72.528	92.119	180.543	149.923
- of which Cooperative Banks deposits	-	-	128.357	104.866
- settlements with the State Budget	50.410	50.700	–	–
Balance sum	1015.755	933.941	420.996	438.392

Liabilities	BFE		CB	
	1984	First half of 1985	1984	First half of 1985
I. Credit from the NBP /refinancing/	682.051	605.781	-	-
II. Resources of cooperative banks	128.357	106.060	-	-
III. Resources of the socialized sector	145.260	149.364	61.566	65.354
1/ cash holdings	-	-	-	-
2/ demand deposits	59.763	53.265	33.008	45.214
3/ special funds accounts	61.473	63.880	19.164	10.751
4/ investment funds	24.024	32.219	9.384	9.389
5/ time deposits	-	-	-	-
6/ foreign currency deposits	-	-	-	-
IV. Resources of the nonsocialized sector and households			258.843	283.193
1/ savings deposits of which:			207.342	190.636
- saving on checking accounts			41.603	35.340
- demand deposits			6.579	7.904
2/ time savings of the population			51.505	92.557
V. Currency accounts resources			-	-
VI. Resources of financial institutions: - banks own funds /created according to the Statutes/	20.575	21.213	15.203	16.195
VII. Interbank and interbranch Settlements	16.794	14.480	14.090	9.766
VIII. Resources of budgetary units			1.725	5.525
- central budget			155	130
- local budgets			1.570	5.395
IX. PFAZ /Fund of Professional Activation/	-	-	-	-
X. Pension Fund	-	-	-	-
XI. Other domestic liabilities of which:	22.718	37.043	69.569	58.359
- refinancing credit of the Cooperative Banks	–	–	14.595	27.378
- settlements with the State Budget	4	20	7.146 ~~8.871~~	7.506 ~~13.031~~
Balance sum	1015.755	933.941	420.996	438.392

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ATTACHMENT IV

BANK OF THE FOOD ECONOMY

in billions of zlotys

	1984	first half of 1985
Other assets	22,1	41,4
Payment of profit to the budget	17,7	25,5
Other liabilities	22,7	37,0
Profit	21,6	36,7

COOPERATIVE BANKS

	1984	first half of 1985
Other assets	52,2	45,1
Settlements on account of revalorization deposits	22,6	15,2
Investment activity	3,9	4,6
Fixed assets	6,3	6,3
Distribution of financial effect	2,0	1,1
Domestic participations	4,0	4,3
Assets on account of real estate sales	7,3	7,5
Other liabilities	70,0	58,4
Revalorization bonds	22,6	-
Other liabilities of operation activity	13,4	20,3
of which:		
sums to be explained	11,4	18,4
Investment activity	1,5	1,6
Financial effect	4,1	1,5
Refinancing credit	14,6	27,4

ATTACHMENT V

The Accounts of the Monetary Survey

The attached three tables which were left with officials of the National Bank of Poland during the mission, demonstrate the procedures and methodology for compiling data for the accounts of the monetary authorities, the deposit money banks, and the monetary survey. The data in these tables relate to end 1984 and June 1985 and have been derived from the balance sheets in Attachments I through IV. As mentioned in Attachment I, the most important adjustments relate to the inclusion in the monetary authorities' account of the foreign exchange holdings of Bank Handlowy and Bank PKO, with a suitable offset in the deposit money banks' account, and the inclusion in the latter of the commercial banking activities of the NBP.

Table 1A. Poland: Monetary Authorities' Account, December 1984

(In billions of zlotys)

	National Bank of Poland	Bank Handlowy	Bank Polski Kasa Opieki	Total
Assets				
Foreign assets	122.1	328.8	25.7	476.6
Gold	23.8	--	--	
Foreign exchange	98.3	328.8	25.7	
Claims on government	614.2	--	--	614.2
Credit to state budget	464.6	--	--	
Claims on state budget	149.6	--	--	
Claims on banks	2,148.9	--	--	2,148.9
Bank of Food Economy	682.1	--	--	
Cooperative banks	14.1	--	--	
Bank Handlowy	98.7	--	--	
PKO bonds	11.4	--	--	
NBP (commercial banking operations)	1,342.6	--	--	
Total Assets = Liabilities	2,885.2	328.8	25.7	3,239.7
Liabilities				
Reserve money	2,188.1	328.8	25.7	2,542.6
Currency outside banks	824.2	--	--	
Currency in banks	14.3	--	--	
Balances of banks	1,349.6	328.8	25.7	
Central government deposits	448.7	--	--	448.7
State budget	166.0	--	--	
Special funds	282.7	--	--	
Local government deposits	131.7	--	--	131.7
State budget	101.3			
Special funds	30.4			
Foreign liabilities	81.3	--	--	81.3
Other items (net)	35.4	--	--	35.4
Bank funds	44.9	--	--	
Other liabilities	9.7	--	--	
Less: other assets	-30.3	--	--	
Gold valuation adjustment	11.1	--	--	

FE rate: Zl 126.24 to US$1

Table 1B. Poland: Monetary Authorities' Account, June 1985

(In billions of zlotys)

	National Bank of Poland	Bank Handlowy	Bank Polski Kasa Opieki	Total
Assets				
Foreign assets	180.5	395.0	39.9	615.4
Gold	30.0	--	--	
Foreign exchange	150.5	395.0	39.9	
Claims on government	944.7	--	--	944.7
Credit to state budget	665.3	--	--	
Claims on state budget	279.4	--	--	
Claims on banks	1,949.3	--	--	1,949.3
Bank of Food Economy	570.8	--	--	
Cooperative banks	11.8	--	--	
Bank Handlowy	31.8	--	--	
PKO bonds	16.0	--	--	
NBP (commercial banking operations)	1,318.9	--	--	
Total Assets = Liabilities	3,056.0	395.0	39.9	3,509.4
Liabilities				
Reserve money	2,275.4	395.0	39.9	2,710.3
Currency outside banks	931.2	--	--	
Currency in banks	17.1	--	--	
Balances of banks	1,327.1	395.0	39.9	
Central government deposits	488.2	--	--	488.2
State budget	112.8	--	--	
Special funds	375.4	--	--	
Local government deposits	103.6	--	--	103.6
State budget	69.5	--	--	
Special funds	34.1	--	--	
Foreign liabilities	119.5	--	--	119.5
Other items (net)	87.8	--	--	87.8
Bank funds	46.2	--	--	
Other liabilities	57.4	--	--	
Less: other assets	-34.3	--	--	
Gold valuation adjustment	18.5	--	--	

FE rate: Zl 159.00 to US$1.

ATTACHMENT V

Table 2A. Poland: Deposit Money Banks' Account, December 1984

(In billions of zlotys)

	National Bank of Poland 1/	Bank Handlowy	Bank Polski Kasa Opieki	Bank of Food Economy	Coop Banks	Total
Assets						
Reserves	—	1,662.5	139.8	14.6	139.8	1,956.7
Cash	—	1.8	1.0	—	11.4	
Balances at NBP	—	1,331.9	14.8	—	—	
Adjustment for foreign assets	—	328.8	25.7	—	—	
Balances with banks	—	—	98.3	14.6	128.4	[241.3]
Claims on government	—	1,701.5	—	68.1	22.6	1,792.2
Long-term settlements	—	1,507.2	—	—	22.6	
Other claims	—	194.3	—	68.1	—	
Claims on rest of economy	3,489.2	268.9	4.2	928.5	232.9	4,923.7
Credits to socialized sector	3,339.3	268.9	3.5	928.5	1.1	
Credits to other	149.9	—	.7	—	231.8	
Total Assets/Liabilities	3,489.2	3,632.9	144.0	1,011.2	395.3	8,672.6
Liabilities						
Credit from NBP	1,342.6	98.7	—	682.0	—	2,123.3
Credit from banks	—	98.3	—	128.3	14.6	241.2
Demand deposits	791.6	79.1	6.3	145.3	111.9	1,134.2
Socialized sector demand	286.4	55.2	1.8	59.8	33.0	
Socialized sector special fund	227.4	16.5	.3	61.5	19.2	
Socialized sector invest. accts.	110.9	.3	—	24.0	9.4	
Socialized sector state insurance	92.3	—	—	—	—	
Socialized sector local gov't.	—	—	—	—	8.7	
Non-socialized sector demand	74.7	7.1	4.2	—	41.6	
Time/savings/F/C deposits	1,106.7	241.0	117.4	—	239.8	1,704.9
Socialized sector time	24.0	156.9	—	—	—	
Socialized sector F/C deposit	—	82.6	1.9	—	—	
Non-socialized sector time	—	1.5	—	—	51.5	
Non-socialized sector F/C deposit	40.1	—	92.5	—	—	
Savings deposit/PKO banks	1,042.6	—	—	—	188.3	
PKO bonds	—	—	23.0	—	—	
Liabilities to central government	—	108.1	—	—	.2	108.3
Foreign liabilities	—	518.2	10.6	—	—	528.8
Long-term foreign liabilities	—	2,463.1	—	—	—	2,463.1
Other items (net)	248.3	26.4	9.7	55.6	28.8	368.8
Other liabilities	—	50.8	5.2	22.7	25.2	
Interbank settlement	248.3	-30.8	—	16.8	10.7	
Bank's funds	—	-83.2	-6.4	20.5	15.2	
Less other assets	—	-76.8	-1.9	-4.4	-22.3	

1/ Commercial banking operations only.

ATTACHMENT V

Table 2B. Poland: Deposit Money Banks' Account, June 1985

(In billions of zlotys)

	National Bank of Poland 1/	Bank Handlowy	Bank Polski Kasa Opieki	Bank of Food Economy	Coop Banks	Total
Assets						
Reserves	--	1,760.3	217.0	27.4	118.2	2,122.9
Cash		2.5	3.6	--	13.3	
Balances at NBP		1,362.8	15.0	--	--	
Adjustment for foreign assets		395.0	39.0		--	
Balances with banks		--	158.5	27.4	104.9	[290.8]
Claims on government	--	2,479.9	--	76.2	15.2	2,571.3
Long-term settlements		2,229.0	--	--	15.2	
Other claims		250.9	--	76.2	--	
Claims on rest of economy	3,769.8	308.5	3.9	814.4	276.6	5,173.2
Credits to socialized sector	3,602.3	308.5	3.3	814.4	1.9	
Credits to other	167.5	--	.6	--	274.7	
Total Assets/Liabilities	3,769.8	4,548.7	220.9	918.0	410.0	9,867.4
Liabilities						
Credit from NBP	1,318.9	31.8	--	605.8	--	1,956.5
Credit from banks	--	158.5	--	106.0	27.4	291.9
Demand deposits	898.0	84.6	6.3	149.4	113.6	1,251.9
Socialized sector demand	335.5	60.6	1.5	53.3	45.2	
Socialized sector special funds	244.3	17.8	.8	63.9	10.8	
Socialized sector invest. accts.	132.6	.2	--	32.2	9.4	
Socialized sector state insurance	98.9	--	--	--	--	
Socialized sector local gov't.	--	--	--	--	12.9	
Non-socialized sector demand	86.7	6.0	4.0	--	35.3	
Time, savings, and f/c deposits	1,271.0	222.3	195.3	--	247.8	1,936.4
Socialized sector: time	25.1	177.4	--	--	--	
Socialized sector: f/c deposit	--	41.2	3.4	--	--	
Non-socialized sector: time	--	3.7	--	--	92.5	
Non-socialized sector: f/c deposit	88.1		164.1	--	--	
Savings deposit	1,157.8	--	--	--	155.3	
PKO bonds	--	--	27.8	--	--	
Liabilities to central government	--	161.0	--	--	.1	161.1
Foreign liabilities	--	627.1	9.2	--	--	636.3
Long-term foreign liabilities	--	3,135.9	--	--	--	3,135.9
Other items (net)	281.9	127.5	10.1	56.8	21.1	497.4
Other liabilities	--	61.5	12.7	37.0	23.5	
Interbank settlement	281.9	54.1	-3.5	14.5	3.8	
Bank's funds	--	105.0	11.0	21.2	16.2	
Less other assets	--	-93.1	-10.1	-15.9	-22.4	

1/ Commercial banking operations only.

Table 3. Poland: Monetary Survey

(In billions of zlotys)

	December 1984	June 1985
Foreign assets (net)	-133.5	-140.6
Foreign assets (MA)	476.6	615.4
Foreign assets (DMB)	--	--
Less: Foreign liabilities (MA)	-81.3	-119.5
Less: Foreign liabilities (DMB)	-528.8	-636.3
Domestic credit	6,765.4	8,039.9
Claims on government (net)	1,849.0	2,866.7
Claims on government (MA)	614.2	944.7
Claims on government (DMB)	1,792.2	2,571.3
Less: Government deposits (MA)	-448.7	-488.2
Less: Liabilities to government (DMB)	-108.3	-161.1
Claims on rest of economy (DMB)	4,923.7	5,173.2
Money	2,090.1	2,286.7
Currency outside banks (MA)	824.2	931.2
Demand deposits (DMB)	1,134.2	1,251.9
Local government deposits (MA)	131.7	103.6
Quasi-Money	1,704.9	1,936.4
Time, savings, F/C deposits (DMB)	1,704.9	1,936.4
Long-term foreign liabilities (DMB)	2,463.1	3,135.9
Other items (net)	373.8	540.3
Other items (net) (MA)	35.4	87.8
Other items (net) (DMB)	368.8	497.4
Interbank adjustments	-30.4	-44.9

MA = Monetary authorities' account
DMB = Deposit money banks' account

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Summary of Technical Meetings on Government Finance Statistics at the Ministry of Finance

December 5-13, 1985

Polish Representatives	IMF Representatives
Ministry of Finance: State Budget Department	Mr. Brimble Mr. Gurgen
Mr. S. Tyminski, Director	World Bank Representative
Mrs. M. Panczyk, Chief Accountant	
Mr. K. Piechote, Head of State Budget Section	Mr. Park
Mr. S. Zarmoch, Chief Specialist	
Mr. W. Dlugolech, Local Budget Department	

Fiscal Department:

Mrs. A. Biernacka, Deputy Director

(Not all representatives attended all meetings)

At the first meeting on December 5, 1985 (9:30 a.m.), Mr. Brimble explained the Fund's system for collecting and publishing government finance statistics. The contents of the GFS questionnaire were discussed and a set of statistical tables was handed to Mr. Tyminski. In commenting on data provided to earlier Fund missions, the following areas of further work were identified:

1. The reconciliation of government finance data with the government data found in money and banking statistics.

2. The establishment of separate data for the central and local governments.

3. The identification of the Special Purpose Funds and the assembly of information on their accounts to permit a consolidation at the appropriate level of government.

4. The completion of the three parts of the Fund's GFS questionnaire for one and possibly two years as a first step.

It was learned that the instructions for completing the GFS questionnaire, which were brought during the September staff visit, had already been translated into the Polish language and will facilitate work on completing the questionnaire.

Local governments

It was established that there are two levels of local government in Poland:

1. The Voivodships--some 49 in number, which are comparable to county governments in other countries.

2. The towns and communes covering the urban and rural districts of the country.

At both levels, government is exercised by People's Councils, and the scope of operations and financial structure are defined by law. The main types of revenue available to local authorities are listed in Attachment I. At the planning stage the budgets of local governments are in balance, but in execution surpluses and deficits arise. Thus, as a general rule, these revenues cover 90 percent of expenditures, with the remaining 10 percent being financed by transfers from the central government. On the expenditure side, education and health are the most important categories. Local governments finance nearly all education at the elementary level, and approximately 75 percent of the nations' public expenditure on health. It was learned that comprehensive and detailed data are available for the local government sector, and that a functional classification of expenditure is published in the Central Statistical Offices' Statistical Yearbook. Thus, the preparation of separate data for local government in the GFS questionnaire will be possible.

Extrabudgetary funds

The Special Purpose Funds are the main extrabudgetary funds and a brief description of the financial sources and uses of these funds is set out in Attachment II.

It was also established that there are certain activities of a government nature which appear in the budget on a net basis although there is no specific fund set aside. Mr. Tyminski gave as examples state-run nurseries and kindergardens, schools, hospitals, and similar institutions, where in addition to the normal activity, some industrial activity such as canteens and horticultural production is also involved. It was explained that under the Fund's concepts, industrial activity should be included in government accounts only on a net basis, while the financing of any government activity should be included on a gross basis. Mr. Tyminski confirmed that the information for grossing up such transactions is available and would be included in the data being prepared. The techniques of consolidation of extrabudgetary accounts with budgetary accounts to produce data for total central government were also discussed. The need to establish the coverage of the central and local government sectors was explained, and a provisional reply to Table 1 of Part 1 of the GFS questionnaire was discussed (see Attachment III).

Statistical tables

There were detailed discussions of the statistical tables of the GFS questionnaire. The contents and definitions of the various items of revenue were explained and the officials indicated that it would be possible to provide the data in the format requested by the Fund for both central and local governments. It was learned that the state enterprises are subject to financial control through the Supreme Chamber of Control, established by Parliament. This body also advises Parliament during the state budget authorization process. Treasury Chambers have been established in the 49 Voivodships to exercise financial control on behalf of the Supreme Chamber of Control and they operate under the general supervision of the Ministry of Finance.

It was established that the State Budget accounts, which cover both central and local governments relate to the calendar year. They are on a cash basis and although there are short delays in finalizing the accounts, there is no complementary period. Thus, there is no booking back so that payment is booked in the year in which it is made even though it may be in settlement of a transaction relating to the budget of the previous year.

ATTACHMENT I

Poland: Revenue of Local Governments

The main revenues available to local governments in Poland to finance their expenditures are as follows:

1. Tax Revenue

a. Tax on enterprises, which have been established by local government--this refers particularly to public utilities.

b. Tax on cooperatives established at the local government level.

c. Tax on wages--85 percent of this tax accrues to local governments.

d. Tax on real estate.

e. Tax on income of non-socialized sector within the jurisdiction of the local government.

f. Tax on turnover of the local non-socialized sector.

g. Tax on agricultural land.

h. Other taxes set by local government--e.g., dog tax.

2. Non-Tax Revenue

a. Fees and fines levied under various local government laws.

b. Share in central government revenue--this is established under the five-year plan and is based on the gross sales of those enterprises established by local government.

Poland: Special Purpose Funds

The following funds are linked with central/local government budgets. Data are available on an annual and semi-annual basis.

A. Central Government

1. Pension funds

These are the largest single group and comprise three funds:

a. General Pension Fund

Receipts: contributions paid by enterprises in both the public and private sector based on 43 percent of their payroll. (28 percent points of the 43 percent accrues to the Pension Fund; the rest as paid over to the Central Government to finance family allowances).

Payments: pensions.

b. Social Security Fund for Farmers

Receipts: contributions from family farms determined by the amount of agricultural tax paid, by the size of the farm, and the level of sales of products to the state; intragovernmental transfers.

Payments: pensions.

c. War Veterans Fund

Receipts: intragovernmental transfers.

Payments: pensions for veterans and some fringe benefits.

2. Alimony fund

Receipts: intragovernmental transfers and funds recovered from delinquent spouses, the latter accounts for about two thirds of total revenue.

Payments: child support.

3. State Fund for Occupational Activation (PFAZ)

The objective is to provide training for relocation of employees and for the apprenticeship of new employees; the main emphasis at present is on the latter.

Receipts: contributions from the less productive enterprises.

Payments: expenditures on training.

Revenues have generally been higher than expenditures and it has been decided that beginning January 1986 revenues will go directly to the budget and that henceforth the fund will be financed by budget transfers.

4. Fund for Voluntary Work Brigades (OHP)

Organizes groups of uneducated youths for employment in enterprises.

Receipts: intragovernmental transfers

Payments: expenditure for training and providing initially the basic necessities for the employees.

5. 25 research and development funds

These funds have been established by the central government.

Receipts: intragovernmental transfers and enterprises' contributions based on the turnover of each enterprise.

Payments: expenditure on research and development in industry. The funds are coordinated by the Committee for Scientific and Technical Progress.

6. Fund for cultural development

These operate at the central and local government levels and are under the general supervision of the Minister of Culture.

Receipts: budget transfers derived from 13.6 percent of tax on salaries and wages.

Payments: expenditure on cultural activities.

7. Fund for development of the arts and for development of literature

The fund has been created to promote the arts and it is self financing.

Receipts: 5 percent fee on the copyright and sales of books, the copyright of which has expired.

Payments: expenditure on art and literature promotion.

8. Anti-alcoholic funds

These funds operate under the Ministry of Health at the central and local government levels.

Receipts: intergovernment transfers based on three percent of the volume of alcohol sales.

Payments: expenditure on rehabilitating alchoholics.

9. Funds for sports

These funds operate at the central and local government levels.

Receipts: intragovernment transfers (50 percent) and sports lottery (50 percent). Local funds are financed up to 50 percent by central government transfers.

Payments: expenditure on professional sports, capital projects, etc.

10. Tourism and recreation fund

The fund relates to resident tourism and recreation only.

Receipts: intragovernment transfers, but beginning 1986, by a charge on currency exchange and by loan repayments.

Payments: loans to tourist operators and leisure organizers at subsidized interest rates.

11. Fund for water economy

Receipts: fees and charges from use of water from state-owned facilities (water supply and sewage disposal), as well as penalty fees for misuse of water facilities.

Payments: expenditures and intergovernmental transfers (30 percent to central fund to finance flood damage).

12. Funds related to economizing resources

a. Fund for recycling materials

Receipts: intragovernment transfers and contributions from enterprises.

Payments: expenditures to enterprises which properly use recycling procedures.

b. Central saving fund

Receipts: contributions from enterprises which are excessive users of energy and raw materials.

Payments: expenditures on research and development and to upgrade projects to economize on energy and raw materials.

13. Fund for geological work

Receipts: contributions by enterprises engaged in mining (one percent of sales volume--except coal 0.2 percent and oil, and gas three percent).

Payments: expenditure on exploration and development.

14. Fund for development of silk industry

Receipts: charge on sale of silk (value-added tax which does not go through the budget).

Payments: expenditure on research and development.

15. Fund for market development

Receipts: penalty charges on enterprises for poor quality products.

Payments: expenditure on research.

16. Fund for quality control

The purpose of this fund which only commenced operating in 1985, is to improve current servicing and to provide funds to enterprises.

Receipts: enterprise contributions.

Payments: subsidies to enterprises.

17. Fund for prevention of drug abuse

This fund which is to be set up in 1986, will be financed by budget transfers equal to one percent of volume of sales of alcoholic beverages.

18. Fund for servicing foreign debt

This fund will be established, in 1986; at present this activity is financed through budget and the National Bank of Poland.

B. Local government

1. Real estate and housing funds

Receipts: intragovernmental transfers (70 percent) and sales of land, leasing charges on land and fees on excess holding of land, etc.

Payments: housing loans (for those unable to use cooperative funds), purchase of land, subsidized loans to housing cooperatives, and rent for low incomes.

2. Small enterprises funds

Receipts: enterprise contributions and intragovernmental transfers.

Payments: expenditure to assist small local enterprises in socialized sector and cooperatives.

3. Commune and town funds

These funds provide subsidies to town and commune, budgets obtain (2,500).

Receipts: agricultural tax (40 percent), contributions from local agricultural enterprises, and other user fees.

Payments: expenditures on agriculture, highways, roads, water supply to farmers, social assistance grants, cultural activities, welfare payments, and family allowances for farmers.

4. Funds for protection of arable land

Receipts: fees based on use of arable land for other purposes.

Payments: expenditures for land reclamation and adaption of agricultural land. At present all are local funds, but a central fund is being set up by contributions from the local authorities, for reallocation of resources between voivodships.

5. Fund for renovation of monuments (voivodship level only)

Receipts: voluntary contributions and donations and intragovernmental transfers.

Payments: expenditures on renovation.

6. Environmental protection funds

Receipts: fees and charges on pollution, waste, etc., and intragovernmental transfers.

Payments: expenditure on sewage treatment and to research and development.

7. Funds for development of urban sewage systems

These are local funds but there is also a central fund financed by contributions from local budgets. They were established only very recently.

8. Other minor funds of local govenrment

e.g., voluntary contributions funds for purposes specified by donor.

ATTACHMENT III

Poland: Coverage of Government

(Draft reply to Table I of the GFS questionnaire)

1. Central government

   a. Units covered by state budget (central government)

President and Council of State, Council of Ministers, Sejm, Judiciary, 24 Ministries, Planning Commission, Price Office, Bureau for Denominational Affairs, State Atomic Agency.

   b. Units covered by own budgets

      (1) 3 pension funds

      (2) --- special purpose funds (central government level) 1/

2. Local government

   a. Units covered by state budget (local government)

      (1) 40 Voivodships

      (2) Towns and communes

   b. Units covered by own budget

      --- special purpose funds (local government level) 2/

1/ List attached
2/ List attached

INTERNATIONAL MONETARY FUND

Poland: Staff Visit

Minutes of Technical Meetings on
Balance of Payments
at the Ministry of Finance

December 9-12, 1985

Polish Representatives

Mr. Raczkowski, Advisor,
State Planning Commission
Mrs. Rubel, Advisor to President,
National Bank of Poland (NBP)
Mr. Bien, Advisor to the Governor, NBP
Ms. Mayewska, Balance of Payments
Section, NBP
Ms. Karczewka, Deputy Director,
Bank Handlowy
Mr. Luowikoski, Bank Handlowy

IMF Representatives

Mr. Dannemann
Mr. Gürgen

Four technical meetings were held at the Ministry of Finance to discuss the coverage and methodology of balance of payments statistics in Poland. During the meetings the coverage and methodology of Poland's balance of payments statistics were reviewed in detail and the mission's findings and recommendations (attached) were presented. The Polish authorities suggested minor amendments to the description of the coverage and methodology of Poland's balance of payments statistics and stated that the recommendations were reasonable and that they would study them.

Attachments

I. Balance of Payments Compilation

The Balance of Payments Section of the Naradowy Bank Polski (NBP) is responsible for the compilation of Poland's balance of payments statistics. Two versions of balance of payments statistics are compiled. The first one which is not regularly published is based on accruals and shows transactions on a gross basis. The second one is on a cash basis derived mainly from exchange record and is published in the NBP's Information Bulletin - 1985. The description below relates to the published second version of balance of payments statistics. The Balance of Payments Section receives data from Bank Handlowy W Warszawie SA (BH) which maintains the exchange record by supplementing its own data on foreign exchange transactions with data received for similar transactions from Bank Polska Kasa Opieki SA (PKO) and the NBP. The balance of payments statements are prepared monthly but only annual figures in transferable rubles are published covering transactions in nonconvertible currencies (Attachment 1), and in U.S. dollars covering transactions in convertible currencies (Attachment 2).

The balance of payments compilation for some items is based on the principle of transactions in foreign exchange rather than on the principle of residency. In addition, the entries for shipment and other transportation, postal services, and insurance are recorded as net credits or net debits. Attachment 3 shows a comparison of data for shipment and other transportation account as compiled in the two versions of balance of payments statistics.

Prior to 1982, the transaction in zlotys were converted into transferable rubles via the official rate as shown in Attachment 1, and transactions in convertible currencies were converted from transactions currencies into zlotys and reconverted into U.S. dollars via the foreign exchange zloty rates shown in Attachment 2. Beginning 1982, prevailing commercial exchange rates are used to convert transaction currencies into zlotys and weighted annual commercial exchange rates are used for conversion into transferable rubles and into U.S. dollars.

II. The Sources and Coverage of Balance of Payments Statistics

This section provides information on the current sources and coverage of balance of payments statistics and on the practice followed in the compilation of data. The classification and numbering of items follow the national presentation of balance of payments statistics, which are shown in Attachments 1 and 2. All data are derived from the exchange record unless otherwise specified. The description below applies, in general, to balance of payments presentations with the convertible and nonconvertible currencies.

A. Current Account

Merchandise exports f.o.b. and imports f.o.b.

There are two sources of data on merchandise transactions for Poland: (1) the foreign trade statistics compiled by the Central Statistical Office (CSO); and (2) the balance of payments data compiled by the NBP. The CSO compiles data on exports and imports on the basis of customs declarations. The data are published in the Monthly Bulletin of Statistics by the CSO. The statistics include all goods that are cleared by customs, whether or not subject to customs duty. NBP compiles data on exports and imports for inclusion in the balance of payments, mostly on the basis of invoices that are submitted to the authorized banks (NBP, BH, and PKO) normally at about the time goods are shipped. Merchandise exports and imports in both sources of data are valued on an f.o.b. basis. For purposes of balance of payments compilation the NBP prefers to use its own exchange record data.

Merchandise items include transactions in merchanting; fish caught in high seas and sold directly to other countries; processing without a change of ownership; goods sent to Polish embassies and consulates abroad; goods received by foreign embassies and consulates in Poland; and barter trade. Information on barter trade is received by BH from enterprises engaged in foreign trade. It is estimated that approximately 70 percent of all barter transactions are recorded in the balance of payments. In addition, imports of goods for sale in PEWEX and duty free shops are included in imports. Merchandise data are valued on an f.o.b. basis a small amount of exports may be recorded on a contractual value basis which may include freight. The data for convertible currencies include transactions within swing limits under bilateral payments agreements in nonconvertible Indian rupees.

Shipment and other transportation

The data cover receipts for services rendered by national carriers, including oil and gas pipeline, from nonresidents less their payments abroad recorded as a net credit or as a net debit as the case may be; and net payments to foreign carriers recorded in the same manner. Insurance on merchandise is not included in this item. The item also includes receipts for bunker fuel, stores for ships, and small repairs performed to foreign carriers. Net receipts and payments on major repairs and renovations are recorded in the merchandise item. In addition, this item includes net receipts or payments on postal communication services.

Travel

The entries cover purchases by authorized banks and authorized agents of foreign exchange from foreign travelers, including students, and sales of foreign exchange to Polish individuals for travel abroad. Expenditures by foreign travelers in PEWEX shops are not included in this item.

Interest payments

The entries cover interest received and paid by the residents of Poland. Interest which has become due, but not paid, are not included in this item. However, beginning with next year, the authorities are planning to include these amounts in their balance of payments presentation.

Others

The following transactions are included in this item:

Advertising, exhibitions, and fairs;
Construction and other technical services;
Commissions and agents fees;
Insurance;
Direct investment income (excluding reinvested earnings);
Portfolio income;
Licenses, patents, and copyrights;
Embassy, consular, and other representative office expenses abroad and in Poland; and
Contributions to current budgets of international organizations.

Unrequired transfers, net

Private

The entries include private donations, pensions, social security, alimony, and receipts of foreign exchange for goods sold in PEWEX shops. Contra-entries for goods in kind and migrants transfers are not included in this version but are included in the first version of the balance of payments presentation.

Official transfers

Includes payments to nonresidents for the nationalization of property, repayment of pre-war Polish bonds, and gifts and donations by the government to other countries.

B. Long-term Capital, net

Credits received

Drawings and repayments of long-term loans received by the resident official sector, deposit money banks, and enterprises are covered in this item. Data are available by sector. Repayments due, but not made, are not included in this version, but the authorities are planning to include them in their balance of payments presentation that will be published next year.

Repayments covered by refinancing

This item covers the repayment of loans that were refinanced. The loans are shown in "Group F, Exceptional Financing."

Credits extended

Drawings and repayments on long-term loans extended by the resident official sector, deposit money banks, and enterprises are covered in this item.

Other capital, net

This item includes direct investment abroad by Polish enterprises, and direct investment by nonresidents in Poland including purchases and sales of real estate. There are approximately 650 direct investment enterprises, which are mostly small, operating in Poland and 60 Polish direct investment enterprises, including banks, operating abroad. In the case of banks, only equity participation is recorded in this item. In addition, capital contributions to international organizations are included.

C. Short-term capital, net

Credits received

This item covers bank deposits of nonresidents and commercial credits including trade credits received.

Revolving credits received

These are credits that revolve every six months and are received by resident banks from foreign commercial banks.

Credits extended

This item covers bank deposits abroad and commercial credits, including trade credits extended.

Payments agreement assets and liabilities

Asset and liability balances arising from bilateral payments agreements are shown here on a net basis.

Banking accounts

Short-term assets and liabilities of the NBP, BH, and PKO are shown in here on a net basis. This item mainly relates to working balances.

D. Financial items, net

The following are included in this item:

Freely disposable accounts;
Arbitrage gains and losses;
Settlements in foreign exchange with bilateral agreement countries over swing limits;
Adjustments such as foreign exchange received or paid for returned imports or returned exports;
Counterpart to valuation changes in reserves (except for monetary gold); and
Net errors and omissions.

Transactions in Freely Disposable Accounts, which cover A and N accounts, involve resident-resident transactions.

E. Counterpart items

The entry shown for 1980 relates to the counterpart of valuation changes in monetary gold.

F. Exceptional Financing

Rescheduled and refinanced repayment obligations by foreign creditors are shown on a net basis in this item.

G. Changes in Reserves

This item covers total changes in monetary gold and only those foreign exchange reserves that require central government approval before utilization. Other foreign exchange assets of NBP are included in the item "Banking accounts" as shown in Group C of the national presentation. The authorities are planning to revise their concept of international reserves to include, in addition to total foreign exchange assets of NBP, foreign exchange assets of the BH and the PKO which are under the effective control of NBP. The outstanding amounts of international reserves prepared according to the new concept is shown in Attachment 4.

III. Stock Data

Outstanding amounts on external assets and liabilities of the resident official sector, banking sector, and enterprise sector are available to the balance of payments compilers. There are some issues associated with the identification of the correct outstanding debt being renegotiated with foreign creditors. However, these are expected to be resolved within the course of discussions with the creditors.

IV. Areas for Improvement and Suggestions

The balance of payments statistics of Poland, as they are now compiled, give a reliable picture of the country's external transactions. The suggestions made in this section aim at further improvements in the compilation and presentation of balance of payments data.

a. In order to avoid having two national presentations of balance of payments data, one prepared on the basis of cash transactions and the other on the basis of accruals, it may be preferable to use the available data to produce one statement where all transactions of Poland with the rest of the world are presented. This new presentation would eliminate the recording of some invisible transactions on a net basis.

b. In order to reduce conversion problems and to eliminate the break in the series for the years before 1982, it may be preferable to compile balance of payments statistics for convertible currencies in terms of U.S. dollars and for nonconvertible currencies in terms of transferable rubles. This would eliminate the conversion problems involved in going from transaction currencies into zlotys and from zlotys into U.S. dollars and into transferable rubles.

c. As mentioned above, the authorities are planning to record in the balance of payments statement arrears on interest and principle on a gross basis. In addition, they are also planning to include in international reserves, all foreign exchange assets of NBP together with foreign exchange assets of the two commercial banks which are under the effective control of NBP, and these assets are available for use in case of a balance of payments need. The revisions would enhance the analytic usefulness of Polish balance of payments statistics.

d. At present, the balance of payments compilation for some items is based on the principle of transaction in foreign exchange rather than on the principle of residency. This results in recording of some resident-resident transactions that are not appropriate for inclusion in balance of payments. Therefore, it may be desirable to institute measures in order to obtain data on the basis of residency.

e. In order to measure certain transactions such as receipts and payments on travel that are not routed through official channels, it may be considered to use statistical techniques such as surveys.

f. Finally, classification adjustments that are necessary to bring Polish balance of payments statistics on to an internationally comparable basis are relatively straightforward to implement and the underlying principles for the adjustments are known by the national balance of payments compilers.

ATTACHMENT 1

POLAND'S BALANCE OF PAYMENTS WITH NONCONVERTIBLE AREA COUNTRIES, 1980-1984

(in millions of transferable rubles)

Item	1980	1981	1982	1983	1984
A. CURRENT ACCOUNT	— 685	—1 456	— 513	— 701	— 927
Merchandise exports, fob	6 181	5 726	6 839	7 542	8 534
Merchandise imports, fob	7 021	7 278	7 532	8 440	9 518
Trade balance	— 840	—1 552	— 693	— 898	— 984
Services: credit	531	511	622	757	789
Shipment and other transportation	273	371	446	495	483
Travel	125	11	11	16	28
Interest payments	3	2	7	30	17
Others	130	127	158	216	261
Services: debit	380	417	449	566	739
Shipment and other transportation	67	73	79	89	115
Travel	206	200	137	226	313
Interest payments	25	57	116	114	159
Others	82	87	117	137	152
Unrequited transfers, net (Private)	+ 4	+ 2	+ 7	+ 6	+ 7
B. LONG TERM CAPITAL, net	— 224	+ 483	+ 27	— 62	+ 38
Credits received long and middle term	— 194	+ 475	— 79	— 104	— 15
Drawings	170	675	1 389	601	652
Repayments	364	200	1 468	705	667
Credits extended long and middle term	— 35	— 8	+ 92	+ 24	+ 30
Repayments	13	11	102	37	37
Drawings	48	19	10	13	7
Other capital, net	+ 5	+ 16	+ 14	+ 18	+ 23
C. SHORT TERM CAPITAL, net	+ 919	+ 988	+ 463	+ 718	+ 844
Credits received	+ 800	+ 1 200	+ 700	+ 200	+ 1 008
Credits extended	—	—	—	—	—
Payments agreement assets and liabilities	+ 119	— 212	— 237	+ 518	— 164
D. FINANCIAL ITEMS, net	— 10	— 15	+ 23	+ 45	+ 45
TOTAL, Groups A through D	—	—	—	—	—

Conversion rate:					
from foreign exchange złotys into transferable rubles	4.444	4.444			
from zlotys into transferable rubles			68.000	68.000	71.344

POLAND'S BALANCE OF PAYMENTS WITH CONVERTIBLE AREA COUNTRIES, 1980-1984 (in millions of US dollars)

Items	1980	1981	1982	1983	1984
A. CURRENT ACCOUNT	— 2 612	— 2 059	— 1 016	+ 62	+ 787
Merchandise exports, fob	7 965	5 482	4 974	5 402	5 828
Merchandise imports, fob	8 757	6 233	4 616	4 317	4 372
Trade balance	— 792	— 751	+ 358	+ 1 085	+ 1 456
Services: credit	1 090	814	577	800	735
Shipment and other transportation	630	370	272	405	278
Travel	144	95	59	69	81
Interest payments	136	169	86	161	183
Others	180	180	160	165	193
Services: debit	3 563	2 776	2 269	2 198	1 866
Shipment and other transportation	772	342	234	435	420
Travel	46	32	23	24	25
Interest payments	2 471	2 272	1 862	1 591	1 248
Others	274	130	150	148	173
Unrequited transfers, net	+ 653	+ 654	+ 318	+ 375	+ 462
Private	+ 526	+ 331	+ 318	+ 375	+ 462
Official	+ 127	+ 323	—	—	—
B. LONG TERM CAPITAL, net	+ 2 884	+ 1 333	— 950	— 2 218	— 3 258
Credits received long and middle term	+ 3 064	+ 1 752	— 944	— 2 151	— 3 084
Drawings	8 669	4 930	1 474	565	218
Repayments	5 605	1 400	268	387	243
Repayments covered by refinancing	—	1 778	2 150	2 329	3 059
Credits extended long and middle term	— 165	— 420	— 5	— 69	— 176
Repayments	135	133	153	113	131
Drawings	300	553	158	182	307
Other capital, net	— 15	+ 1	— 1	+ 2	+ 2
C. SHORT TERM CAPITAL, net	— 485	— 703	— 14	+ 122	+ 169
Credits received	— 721	— 839	— 92	— 260	— 170
Revolving credits received	—	—	+ 196	+ 338	+ 240
Credits extended	— 21	— 2	— 18	— 4	— 33
Payments agreement assets and liabilities	— 37	+ 74	— 92	— 70	+ 17
Banking accounts	+ 294	+ 64	— 8	+ 118	+ 115
D. FINANCIAL ITEMS, net	— 371	— 446	— 66	— 175	— 630
TOTAL, Groups A through D	— 584	— 1 875	— 2 046	— 2 209	— 2 932
E. COUNTERPART ITEMS (Valuation changes in reserves)	+ 235	—	—	—	—
TOTAL, Groups A through E	— 349	— 1 875	— 2 046	— 2 209	— 2 932
F. EXCEPTIONAL FINANCING (Refinanced maturity loans)	—	+ 1 778	+ 2 050	+ 2 208	+ 2 938
TOTAL, Groups A through F	— 349	— 97	+ 4	— 1	+ 6
G. CHANGES IN RESERVES	+ 349	+ 97	— 4	+ 1	— 6
Monetary gold	— 29	+ 102	—	—	—
Foreign exchange reserves	+ 378	— 5	— 4	+ 1	— 6

Conversion rate:					
from foreign exchange zlotys into US dollars	3.054	3.361			
from zlotys into US dollars			84.823	91.617	113.715

ATTACHMENT 3

SHIPMENT AND OTHER TRANSPORTATION

in millions of US dollars

	Gross recording Balance of transactions		Net recording Balance of payments	
	Credit	Debit	Receipts	Payments
1968	360	171	285	105
1969	388	185	304	107
1970	420	220	335	126
1971	446	243	353	135
1972	517	283	402	159
1973	627	409	484	228
1974	803	625	593	357
1975	858	721	650	361
1976	919	777	675	446
1977	999	787	715	517
1978	1,118	912	816	618
1979	1,282	1,161	933	816
1980	1,474	1,305	1,027	870
1981	1,600	1,221	861	438
1982	1,272	908	629	297
1983	1,287	1,096	772	501
1984	1,459	1,145	581	492

International Reserves in Convertible Currencies, 1979-1984

/in millions of US dollars/

At end of period	1979	1980	1981	1982	1983	1984	VIII/1985
International reserves in convertible currencies	832,4	430,6	465,8	835,3	954,0	1.294,8	1.111,5
Gold /mln.of US dollars/ 1/	267,3	303,0	188,0	188,5	188,8	188,8	188,8
Gold /mln. troy ounces/	1.285,1	757,6	470,3	471,4	471,9	472,0	472,1
Foreign Exchange	565,1	127,6	277,8	646,8	765,2	1.106,0	922,7
Held by National Bank of Poland	491,4	63,6	71,3	65,2	60,3	137,8	307,3
Held by other banks	73,7	64,0	206,5	581,6	704,9	968,2	615,4

1/ Valuation of gold: 1979 US dollars 208/ozs
1980-1984 US dollars 400/ozs

ATTACHMENT 4

Office Memorandum

TO : Mrs. Djeddaoui

DATE: January 14, 1986

FROM : Peter Hole

SUBJECT : Poland

I should be grateful if the attached memorandum could be circulated to the Executive Directors. It follows the language used in EBS/85/130.

Attachment

CONFIDENTIAL

To: Members of the Executive Board January 14, 1986

From: The Secretary

Subject: Poland - Meeting on Official External Debt Service

An invitation has been received from the Chairman of the "Participating Creditor Countries" 1/ for the Fund staff to attend meetings in Paris on January 23-24, 1986 between representatives of the creditor countries and of the Government of the Polish People's Republic to discuss matters related to Poland's external debt service obligations. The Managing Director has accepted this invitation and arrangements are being made for Mr. Prust, European Department, Ms. Dillon Exchange and Trade Relations Department, and a staff member from the Office in Europe to attend the meetings.

Further meetings of the "Participating Creditor Countries" on Poland may be held later this year to which it is understood that the Fund staff would also be invited. Arrangements for staff attendance at such meetings will be made accordingly.

1/ Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Italy, Japan, The Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, and the United States of America.

Office Memorandum

cc. PH

To: Mr. Whittome January 2, 1986

From: Wm. C. Hood Wm. C. H

Subject: Poland

The program of work relating to Poland that in all probability now lies ahead is indeed somewhat daunting. As you state in your memo, it probably involves a considerable effort of organizing data and familiarization with the working of the economy, then Article IV consultations and subsequently negotiations on a possible stand-by arrangement.

The Research Department is pleased that you have found Mr. Wolf's contributions to be useful in the past. We think it would be in the interest of the Fund to accede to your request that his services be made available in connection with the work and the missions that you have outlined. Accordingly, we shall be prepared to work out with you the further details of the commitment of time he and we would expect to make to his work on Poland.

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