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December 20, 1985

To: Members of the Committee on Membership - Poland

From: The Committee Secretary

Subject: Poland - Calculation of Quota

A staff memorandum relating to the calculation of a quota for Poland is attached. This matter will be considered at a meeting of the Committee to be held on a date to be announced.

Mr. Pruet (ext. 7884) or Mr. Roncesvalles (ext. 7807) is available to answer technical or factual questions relating to this paper prior to the Committee discussion.

Att: (1)

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Members of the Executive Board
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Mr. Crévier (IBRD)

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INTERNATIONAL MONETARY FUND

Poland - Calculation of Ouota

Prepared by the European, Exchange and Trade Relations, and Treasurer's Departments

(In consultation with the Legal and Secretary's Departments)

Approved by L. A. Whittome and Walter O. Habermeier

December 19, 1985

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I. Background Information

In a letter dated November 6, 1981 (EBD/81/295, 11/10/81), the Government of the Polish People's Republic applied for membership in the Fund. There were subsequently several staff visits to Warsaw for discussions with the authorities; the most recent visit took place from September 17 to October 1, 1985. 1/

1. Area, population, and natural resources

The Polish People's Republic is located in northern eastern Europe with a coastline on the Baltic Sea and land borders with the German Democratic Republic, Czechoslovakia, and the U.S.S.R. In terms of both area and population, and apart from the Soviet Union, Poland is by a considerable margin the largest country in eastern Europe. It has an area of 120,727 square miles (312,683 square kilometers), of which approximately 60 percent is used for agricultural purposes. Most of the land area consists of plain with mountainous areas concentrated in the southern part of the country.

The population was 37.1 million at the end of 1984 with an average growth rate in the preceding five-year period of about 1 percent per annum. The working population on the same date was 17.7 million or just below 50 percent of the total. Agriculture and industry each account for roughly 30 percent of total employment.

Poland has a wide range of mineral deposits. The most significant mineral resource is coal which satisfies a large share of total energy requirements and is an important export item. There are also substantial deposits of copper, sulphur, zinc, lead, and iron ore and smaller quantities of various other metallic and nonmetallic minerals. Poland produces some natural gas but its known reserves of oil are relatively small.

2. The political system

Poland's Constitution states that the ultimate source of authority is the Polish people acting through their elected representatives to the Parliament. The Parliament is a unicameral assembly whose members, currently totaling 460, are elected for terms of four years. The main political party in the post-war period has been the Polish United Workers Party which plays a key role in national affairs and has continuously held a majority of parliamentary seats. The top organs of the party are the Political Buro and the Secretariat of the Central Committee. Two other parties are also represented in Parliament--the United Peasant Party and the Democratic Party. Some parliamentary deputies have no party affiliation or represent Christian-social organizations.

1/ The staff team on that occasion consisted of Messrs. Hole (EUR), Holder (LEG), Brimble (BUR), Roncesvalles (TRE), Manison (EUR), Prust (EUR), Boonekamp (ETR), Ms. Swiderski (EUR), Messrs. Friedman (SEC) and King (IBRD), with Mrs. Pabst (EUR) as secretary.

Immediately following each election, the Parliament elects from its members a 15 member Council of State that serves as its executive committee and the collective head of state. When the Parliament is not in session the Council of State may rule by decree. The Parliament also appoints the Council of Ministers which is headed by the Prime Minister and which is the supreme administrative body. Its members can be parliamentary deputies but this is not obligatory.

There are two tiers of regional administration. In the first place, the country is divided into 49 voivodships which are further subdivided into a much larger number of basic administrative units. The latter consist of municipal subdivisions in large cities, administrative units encompassing the whole of smaller cities, and rural communes. The legislative bodies at both the voivodship and local levels are called People's Councils whose members are popularly elected for terms of four years. The Council of Ministers appoints the chief executives in each voivodship who in turn appoint the chief executives of the local administrations within their voivodship.

Poland is a member of a number of international organizations, including the United Nations and most of its specialized agencies, the Council of Mutual Economic Assistance (CMEA) 1/ and the General Agreement on Tariffs and Trade. It is also a member of the Bank for International Settlements, and of the International Bank for Economic Cooperation and the International Investment Bank; the latter two organizations are based in Moscow.

Poland was an original member of the Fund but withdrew on March 14, 1950.

1/ Other participants in the CMEA are Bulgaria, Cuba, Czechoslovakia, German Democratic Republic, Hungary, Mongolia, Romania, U.S.S.R., and Viet Nam.

II. Overview of Economic Developments and the Economic System, 1945-85

1. 1945-70

The character of the Polish economy changed fundamentally in the years following World War II. Most of industry was taken into state ownership as were banks and other major financial institutions. In agriculture, a land reform involving substantial changes in the pattern of private ownership was followed by a program of collectivization. Although relatively little of the agricultural sector was in fact collectivized, the activities of private farmers were deeply influenced by state controls on the provision of inputs and the marketing and pricing of outputs. Central planning came to play an increasingly dominant role in economic management. A first national plan covering the period 1947-49 was followed by a six-year plan for the period 1950-55. Whereas the former was to a considerable extent indicative only, the latter relied on explicit central direction of economic activity, essentially through a system of monitoring and control of the flows of material inputs and outputs--the so-called "material balances" method--and of the allocation of labor.

The emphasis of policy during the first postwar decade was on achieving a rapid build up in industrial capacity through high rates of investment and a major transfer of labor from agriculture. This policy was essentially autarkic and foreign trade, especially with Western countries, was in general subordinated to the role of ensuring the availability of production inputs that could not be produced in sufficient quantities domestically.

The objectives of the Government's economic strategy were substantially achieved. Investment absorbed a growing share of resources and net material product (NMP) 1/ grew rapidly from its low post-war base--by over 2 1/2 times in the ten years to 1955 according to official statistics--with industry the most dynamic sector. Agricultural production also expanded rapidly in the early part of the period, but then stagnated in the first half of the 1950s. With the supply of food changing little, and with official policy according a relatively low priority to the provision of consumer goods, the standard of living is generally reckoned to have shown little improvement in the 1950-55 period. This contributed to rising social tensions which culminated in 1956 in an outbreak of labor unrest and a change in political leadership.

The new leadership sought to make substantial modifications in the system of economic management. This was most tellingly illustrated by policies toward the agricultural sector. The collectivization program was halted, some land was returned from state to private ownership, and

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1/ Net material product is equivalent to GDP less depreciation and the value added of nonmaterial services, plus nonmaterial services used as inputs in material production (see Table 5).

greater encouragement was given to private farming which, despite subsequent variations in official policy, has since retained a dominant position in the sector. Changes were also made affecting the industrial sector. The role of directives to enterprises from the central planning authorities, especially those expressed in physical terms, was reduced. Instead enterprise performance, notably for purposes of determining permitted remuneration levels, was measured more against financial targets, especially profitability. Effective decentralization, however, was not achieved. The central authorities, particularly the branch economic ministries, retained considerable powers, both by way of explicit directives and in setting and adjusting performance targets. These powers permitted the authorities to continue to intervene in all important aspects of enterprises' operations, including output and investment decisions, use of raw materials, techniques of production, and foreign trade. Price distortions also remained widespread, due partly to wide variations both in prescribed levels of profitability and in the incidence of taxation and subsidies, and partly to the fact that domestic prices continued to be divorced from foreign prices. Although some changes were made in the price structure to achieve a better reflection of relative scarcities, these were neither comprehensive nor sustained for fear of their possible inflationary impact.

While aggregate output continued to grow at a relatively rapid pace in the late 1950s and the 1960s, economic performance remained unbalanced. This reflected in part the large share of fixed investment and stock-building in domestic expenditure, continuing neglect of the range and quality of consumer goods, and the re-emergence of a less favorable attitude toward the private farm sector. At the same time, the rate of return on many investment projects remained disappointing. Against this background, renewed consideration was given to improving the economic mechanism, and a package of measures was formulated in 1969-70. A major component was a reform of prices. Subsequent increases in retail, and particularly food, prices in late 1970, however, led to industrial unrest and another change in political leadership.

2. The 1970s

The new political leadership introduced a fundamental change in economic strategy. The largely autarkic nature of previous development policies was abandoned and a program of modernization introduced that relied heavily on imports of western capital equipment and technology, financed by foreign credits. At the same time, in order to defuse social tensions and to spur productivity growth, the restrictive wage policy of former years was relaxed and the price increases announced in late 1970 were rolled back. Also, with a view to improving food supplies, renewed encouragement was given to private agriculture; in particular, in 1972 the system of compulsory deliveries to the State by farmers in the nonsocialized sector was abandoned.

The shift in development strategy was accompanied by certain modifications to the system of economic management. The dominant theme was again an attempt to devolve decision-making authority to enterprises. This was to be facilitated by the establishment--through mergers--of "large economic organizations" which, it was intended, should enjoy considerable autonomy vis-à-vis the central authority. In addition, the system of performance indicators to which enterprises were subject was greatly simplified. A pre-eminent role was in principle assigned to net value added, changes in which were to determine permitted increases in employee remuneration for each enterprise. Managerial bonuses, meanwhile, were to be related to profits (essentially net value added less wages). It was hoped by these means to create incentives for enterprises to maximize the efficiency of their operations. In the event, the performance coefficients remained subject to frequent change in the light both of bargaining between the enterprises and the central authorities and of changing policy priorities. A particular difficulty, in this connection, stemmed from the failure to implement a comprehensive price reform. With the structure of domestic prices continuing to embody serious distortions, the use of performance indicators expressed only in value terms gave rise to problems and frequent recourse was made to various ad hoc adjustments. Similarly, the ability of the large economic organizations to use their enhanced market power to secure price increases necessitated various administrative interventions to restrain the rise in wages and prices. In combination with the powers that the central authorities continued to enjoy in other areas, e.g., investment selection, this undermining of the intended role of value added in guiding enterprise behavior resulted in the perpetuation of an economic system that was, in effect, highly centralized.

Initially, the shift in economic strategy ushered in a period of very rapid expansion. During the first half of the 1970s net fixed investment rose in real terms by close to 20 percent a year on average and was accompanied by an increase in personal consumption of nearly 10 percent a year. While this spurred an upsurge in production, the rise in expenditure outstripped that in domestic output, and by the middle of the decade extremely large trade and current account deficits had emerged with the convertible currency area. In the process, external debt, which had been negligible at the beginning of the decade, reached nearly US$12 billion at the end of 1976.

The worsening imbalance in the external accounts prompted measures around the middle of the decade to restrain the rate of growth of domestic incomes and expenditure. After an unsuccessful attempt to raise consumer prices in 1976, the focus of expenditure-reducing policies fell on investment, which declined in volume from 1978 onwards. Mirroring this, the volume of imports also declined and the trade deficit in convertible currencies, after peaking at US$3 billion a year in 1975-76, was reduced substantially in 1977 and fell slightly further (to below US$2 billion) in 1978. This reduction, however, brought a smaller and more temporary decline in the current account deficit, as interest payments continued to increase, due both to the continuing growth in external indebtedness and to rising interest rates in international markets. In turn, external debt in convertible currencies continued to accumulate and by the end of 1979 was equivalent to some US$24 billion.

In seeking to insulate the population from the effects of the worsening economic situation, the authorities permitted consumption and real wages to continue to increase, albeit more slowly than previously. This policy, in conjunction both with a decline in agricultural output resulting from poor weather and reduced incentives and with the need to increase imports of animal feeds substantially in order to limit the fall in livestock herds, resulted in a sharp widening of the trade deficit in agricultural products and foodstuffs. At the same time, the trade balance in energy products weakened as coal exports leveled off in the face of rising domestic demand and as the terms of trade of coal against imported oil deteriorated. The resulting loss of foreign exchange necessitated a severe cut in imports of raw materials, components and spare parts. As a result, the growth rate of NMP slowed progressively from the middle of the decade onwards, and in 1979 a fall in output was registered for the first time in the postwar period (Table 1).

3. The 1980s

Poland entered the 1980s with a declining level of domestic output and an external situation that was clearly unsustainable. While other factors had exacerbated the problem, the essential shortcoming in economic performance in the previous decade was that the expenditures financed by the country's massive foreign borrowings had generated net foreign exchange earnings that fell far short of the levels required for an orderly and sustainable servicing of the external debt. At root was a greater diversion of resources to consumption than the low rate of return on the country's massive investment program warranted.

The relatively low efficiency of investment was closely related to the failure of the efforts at economic reform in the first half of the 1970s. Despite those efforts, the economic system remained in effect highly centralized; the ability of enterprises to obtain subsidies and tax relief from the budget and cheap credit from the banking system, as well as adjustments to performance targets, was altered little; and price distortions continued to be widespread. Against this background, enterprise financial discipline remained lax and the efficiency of resource use low. In project selection, in particular, inadequate account was taken of the effects on profitability of international price changes, notably for energy, from which the domestic economy continued to be largely insulated. The efficiency of investment was further reduced by long delays in project completion and in bringing installed equipment into operation.

A further major problem that intensified in the late 1970s and early 1980s was the imbalance in the market for consumer goods. Shortages, whose counterpart lay in an involuntary accumulation of financial savings, were widespread and impaired work incentives and morale. These developments reflected a chronic mismatching in the patterns of supply and demand in the consumer goods market, as well as the fact that price increases had been inadequate in the context of rising nominal demand and more slowly rising (or even declining) real supplies.

a. 1980-82

Poland's economic and social problems reached crisis proportions in the course of 1980-81. The unsustainability of the level of real wages, which had continued to increase despite the mounting difficulties, coupled with concerns about growing shortages and the overhang of liquidity in the economy, prompted the authorities to raise prices in mid-1980. This led to widespread industrial unrest. Compensatory wage increases were ultimately granted and wages in fact rose faster than prices in both 1980 and 1981. A formal accord between the Government and striking workers on the establishment of independent trade unions and other matters was signed at the end of August 1980. However, disagreements arose in the implementation of these accords and labor unrest continued. Martial law was imposed on December 13, 1981. 1/

The external payments situation, meanwhile, weakened rapidly. Despite a major cutback in imports and in the deficit on merchandise trade in 1980, the current account deficit in convertible currencies remained stubbornly high because of the rising level of interest payments. With the economy's debt servicing obligations reaching unmanageable levels, creditors became increasingly unwilling to extend new credits to meet maturing obligations. New capital inflows fell sharply in 1981 and debt servicing arrears were incurred which persisted despite debt rescheduling agreements with commercial banks and governments. Exports also declined steeply in 1981, partly as a result of growing dislocations in the domestic economy. These factors and the depletion of foreign reserves forced an even sharper reduction in convertible currency imports, which contributed to a marked steepening in the fall of domestic output.

In 1982, domestic economic activity and foreign trade with the convertible currency area continued to decline. However, in contrast to earlier years, the authorities succeeded in obtaining a more substantial contribution from household consumption to the reduction in domestic absorption. Administered prices were raised sharply at the beginning of 1982, and over the year as a whole consumer prices doubled and real wages fell by about one quarter. Although the decline in activity ended after mid-year, real NMP for the year as a whole registered a further drop, to a level which was almost one quarter below that in 1978 (Table 2).

b. Economic reforms

(1) Basic philosophy

The evident unsustainability of the economic situation in the early 1980s led not only to the introduction of measures aimed at short-run

1/ Martial law was lifted on July 22, 1983.

stabilization, but also to the design of plans for a fundamental reform of the economic system. As far as the industrial sector was concerned, the overall objective of the reform was once again a radical decentralization of decision-making authority. As a first step, there was to be a reduction in the number of the branch ministries and a dismantling of much of their role (including a reduction in their authority to issue directives to enterprises), as well as a dissolution of most of the large economic organizations. With these intermediate levels of authority removed, the main agents were to be the central planning authority and individual enterprises. Workers' councils and the workforce at large were to play an important role in the running of enterprises, notably in the appointment of managers and in the adoption of plans. The central authorities were to establish the broad objectives of policy which would continue to be incorporated in annual, five-year, and ten-year plans. However, the fulfillment of these plans would be achieved through the adjustment of indirect policy instruments--tax rates, credit policy, the exchange rate, etc.--rather than through direct central control. The corollary of the intended increase in the autonomy of enterprises was that they would receive less financial support from the central authorities; subsidies were to be reduced in conjunction with a radical restructuring of prices and changes in the rules for price formation, aimed at achieving a better reflection of relative scarcities. Credit policy would be more tightly regulated than previously and would operate as an independent constraint on enterprise behavior rather than the largely accommodating instrument that it had tended to be in the past.

(2) Legislation and implementation

In the period from September 1981 to February 1982 a considerable body of legislation codified the terms of the reform. This legislation paved the way for a fundamental change in the legal status of enterprises and in their operational objectives. In essence, it provided that enterprises were to be (i) independent, i.e., were to have the power to determine their own pattern of output and investment and to make their own pricing decisions; (ii) self-managing, ultimately by their own work force; and (iii) self-financing, i.e., were to be liable for their own obligations and could be declared bankrupt. Other laws established a new framework for setting prices and determining employee remuneration (in both of which areas enterprises were to enjoy increased autonomy), simplified and standardized the tax regime, and ended the monopoly that foreign trade organizations had previously enjoyed in the conduct of foreign trade. Further legislation sought to ensure that enterprise autonomy would be exercised in a context of financial discipline. Thus, a Banking Law established the groundrules for the operation of a less accommodating credit policy, and a Bankruptcy Law stipulated the procedures to be followed, including possible liquidation, in cases where enterprise performance was unsatisfactory.

Various other changes in policy made at about the same time complemented the establishment of the broad legislative framework. At the beginning of 1982 a unified exchange rate was introduced which applied to virtually all transactions with non-CMEA countries. The unified rate was set at a level which involved a considerable depreciation from the average of the various rates previously in effect. Secondly, as already noted, a major restructuring of prices took place in early 1982 which resulted in a sharp decline in real wages and in the real value of the household sector's monetary assets. There was a corresponding improvement in enterprise profitability and a reduction in the budget deficit. Thirdly, in order both to contain wage increases and to relate them more closely to changes in productivity, a Fund for Occupational Training (PFAZ) was introduced with a steeply progressive schedule of required contributions for enterprises in which the increase in employee remuneration exceeded a certain threshold or the recorded improvement in productivity.

The measures described above were mainly intended to improve the performance of the industrial sector. Important changes were also made in policies toward the agricultural sector. These involved an amendment to the Constitution recognizing the permanent role of the nonsocialized sector in Polish agriculture, as well as substantial increases in producer prices, an increase in the limit on the size of private farms, and various steps to ensure parity of treatment as between socialized and nonsocialized agricultural units.

From the outset, it was recognized that the realization of the objectives of the reform legislation--which is in the nature of enabling legislation--would take time. Moreover, it was always intended that the central authorities should, in certain circumstances, retain the possibility of direct involvement in enterprise affairs. For this reason provision was made for certain enterprises and sectors to be excluded, wholly or partly, from the terms of the basic legislation in exceptional circumstances, and for founding bodies (essentially the branch ministries) to require certain tasks to be carried out by enterprises under their control. Thus, the Council of Ministers retained considerable powers to amend the rules governing the financial management of enterprises in a wide range of industries, including the energy sector, agriculture, and foreign and domestic trade. Similarly, the Council of Ministers was empowered to decide by decree, but in agreement with the relevant trade unions, that appointments and dismissals of the managers of certain enterprises be made by the founding bodies rather than with the involvement of workers' representatives. Two other institutional developments have also served to dilute somewhat the effective autonomy of the enterprise sector. First, branch economic ministries, although reduced in number in 1981, have retained an important role. Second, in certain instances enterprises have been required to join industrial associations, to which, in turn, they may in some matters be administratively subordinate.

In the implementation of the reform legislation, conflicts with other policy objectives have also exerted a major influence on the pace at which the authorities have felt it appropriate to proceed with the dismantling of central controls. Most fundamentally, following the first steps to liberalize prices in 1982, it has been considered necessary for social reasons to restrain the rate of price increase. As a result of the measures taken in 1982, the proportion of total transactions taking place at prices under explicit administrative control was considerably reduced. Since 1982, however, that proportion has changed little, ranging from about one third for producer goods to almost one half for consumer goods. Moreover, since April 1983, changes in "contract" prices, which are in principle set at the discretion of individual enterprises, have in most cases been limited to those necessitated by changes in costs beyond the enterprises' own control and have, in the case of retail prices of manufactured goods, also been subject to a ceiling. As a result, prices for many products remain below market-clearing levels, and excess demand and shortages persist.

The reluctance to allow prices to rise to market-clearing levels has also affected external economic policies. Most notably, while the exchange rate has been adjusted more flexibly since 1982, it has, as a matter of policy, been maintained at a level at which a significant proportion of export transactions are not profitable. Consequently, export subsidies and inducements to exporters conferred through the tax system and through foreign exchange retention rights, as well as comprehensive import controls, have continued to be important policy tools in guiding foreign trade. The linkage of domestic prices to world prices has also remained weak as a result of the continued existence of other taxes and subsidies whose purpose is to equalize the prices received or paid for certain products in foreign trade with the comparable domestic prices.

In conjunction with the maintenance of price controls, the authorities have retained a number of nonprice instruments to ensure that sufficient resources are available for various priority purposes. Thus, about 60 percent of the total supply of basic raw materials and other production inputs remains subject to allocation through administrative means--compared with about 70 percent in 1982 and higher proportions before that--and the allocation of foreign exchange continues to be subject to a high degree of administrative intervention. Similarly, with a view to ensuring adequate production of certain essential items, two schemes have been in operation whereby the central authorities either instruct enterprises (under operational programs) or invite them to submit bids (under government contracts) to carry out certain tasks while ensuring the necessary access to inputs and foreign exchange. Since 1982 the scope of operational programs has decreased, while that of government contracts has tended to rise. Currently, the two schemes together cover about one quarter of industrial production. Significant central controls have also been retained over investment, with expenditure on investment projects started before 1982--which accounts for most investment expenditure--remaining subject to considerable influence from the central authorities.

Substantial progress was made in 1982 in streamlining the system of enterprise taxation and in reducing budgetary subsidies. As a proportion of GDP, subsidies to enterprises were reduced to about 10 percent, compared with almost 18 percent in 1981, and there was also a cutback in the relative size of subsidies to the population. With the greater emphasis subsequently on price stability, the relative importance of subsidies has since changed little, and even rose slightly in 1984. Transfers of resources within the enterprise sector through the budget thus remain important. Moreover, the incidence of profit taxation--and of payments of capital depreciation to the budget, as well as payments to the PFAZ--has remained both highly differentiated between sectors and individual enterprises and subject to relatively frequent adjustment. This reflects not only the use of exemptions and rebates to encourage particular activities, but also the important role that bargaining between the concerned parties continues to play in the determination of tax and other payments to the budget. These arrangements, which blur the link between the efficiency and the financial position of an enterprise, may have continued to limit the extent to which enterprises view themselves as being faced by a hard budget constraint. The conduct of credit policy and a muted application to date of the Bankruptcy Law, with very few enterprises having been liquidated, may have had a similar effect.

c. The current economic setting

Since the second half of 1982 there has been a steady recovery in economic activity. With improved labor discipline, a good agricultural performance, and some increase in imports, real NMP grew on average by about 6 percent a year in 1983-84. The growth in output, together with a reduced rate of stockbuilding, permitted significant increases in household consumption and fixed capital formation. Over the same period inflation declined substantially from its 1982 peak and--with the recourse to price controls--was in the range of 15-22 percent per year. Given that the recovery of output in 1983-84 was from an unusually low base, official plans anticipated a deceleration in the rate of real NMP growth to 3-3.5 percent in 1985. Developments in the first three quarters of the year, which were affected by an unusually harsh winter, cast some doubt on whether this target can be met. Contrary to plan objectives, inflationary pressures and market imbalances also appear to have increased; while wages rose at an annual rate of 20 percent in the first nine months of 1985 and the increase in prices was held to 15 percent, supply constraints limited the growth of real household expenditure to less than 2 percent.

The economy's external performance also recorded some improvement in the period immediately after 1982. The trade balance in convertible currencies strengthened further, with the surplus in 1984 reaching US$1.4 billion, or the equivalent of one quarter of merchandise exports. In contrast to earlier years, export growth contributed to this improvement. Even so, the overall external position remained extremely weak: in 1984, the convertible current account was still in sizable deficit (US$1.2 billion, or 1 1/2 percent of GDP); voluntary capital inflows were again negligible while capital repayment obligations remained large; external debt in convertible currencies, at about US$27 billion at the end of the year, was some four and a half times the level of convertible currency exports; and the debt service ratio was in excess of 100 percent of total current receipts in convertible currencies. In the first three quarters of 1985, moreover, the trade surplus fell back to an annual rate of about US$1 billion.

The essential question currently facing Polish policymakers is how to achieve the continuing adjustment in the current account of the balance of payments that the debt servicing profile requires while maintaining domestic expenditure at acceptable levels. It is recognized that a satisfactory reconciliation of these objectives will require an improvement in the economy's underlying efficiency and that this is likely to come only from further progress in implementing the economic reform launched in 1981-82. At the present time, the economic system differs in basic respects from that envisaged in the reform blueprint, essentially because the central agencies of the Government continue to exert major and direct influence on the allocation and pricing of resources at the microeconomic level. Although some further legislative steps are planned (notably to control monopolies and to encourage the growth of small businesses and joint ventures), further progress in liberalizing economic relations in line with the objectives of the reform is to rely mainly on a fuller realization of the possibilities inherent in the legislation already enacted.

III. Domestic Economy

1. Production

In recent years, the socialized sector of the Polish economy has contributed rather more than 80 percent of gross material product (Table 3) and employed a little over 70 percent of the labor force (Table 25). Two-thirds of the remaining output, generated by the nonsocialized (or private) sector, has originated from agriculture, with much of the balance being evenly distributed between small industrial and construction concerns.

The industrial sector currently accounts for about 50 percent of net material product (NMP) and 30 percent of employment--both somewhat smaller proportions than during the industrialization drive of the early 1970s. While agriculture's share in employment is broadly equal to that of industry, its contribution to total output is only about 17 percent; the latter share is much the same as in 1970, whereas the former is lower. The most cyclical sector, and until recently the third largest, is construction, which in 1984 contributed about 12 percent to output and employed some 7 percent of the labor force. As a result of the decline in construction activity in the late 1970s and early 1980s, its contribution to output was surpassed by the trade sector, whose share of NMP has risen to nearly 14 percent (Table 4).

a. Industry

State-owned and cooperative industry, which together comprise socialized industry, currently account for 98 percent of gross industrial output. Private industry is mainly concentrated in handicrafts and nonresident-owned manufacturing enterprises ("Polonia" enterprises). The most important branches of industry are food processing, engineering, and fuel and power, which together account for about 60 percent of gross production and employment in socialized industry (Table 7). Textiles, chemicals, and metallurgy, meanwhile, each contribute almost 10 percent to gross industrial output.

The industrial sector is characterized by a high degree of concentration. Prior to the 1982 reforms, enterprises were grouped together in compulsory cartel-like associations that were typically sole suppliers to a particular market. Since 1982 compulsory associations have, with certain important exceptions, 1/ been disbanded. However, in many cases enterprises have maintained their previous sectoral affiliations by forming voluntary associations. Industry faces little foreign competition on the domestic market and continues to be relatively inward looking, although the importance of exporting has increased in recent years. Exports currently account for some 12 percent of total sales of the industrial sector.

1/ Compulsory associations, which in essence function as an intermediate level of central administration, have continued to operate in coal mining, power generation, metallurgy, engineering and food processing.

Industrial production expanded rapidly during the postwar industrialization drive, recording average annual real rates of growth of 12 percent in the 1950s and 8 1/2 percent in the 1960s. In the latter part of the 1960s, however, the scope for sustaining an "extensive" growth strategy (based principally on large additions to factor inputs) diminished. At the same time, the authorities concluded that it was necessary both to raise the standard of living more perceptibly and to modernize a capital stock which was becoming increasingly obsolete. Against this background, at the beginning of the 1970s the Government adopted a new development strategy, based on large-scale imports of Western capital and technology, aimed at spurring growth by raising productivity.

A period of rapid economic expansion followed during the first half of the 1970s, with net value added by industry rising at an average annual rate of more than 10 percent (Table 4). In the process, however, the industrial sector developed two major imbalances: the expected increase in its foreign exchange earnings failed to materialize, and heavy industry grew at a significantly faster rate than light industries such as textiles and food processing. With personal incomes rising rapidly, shortages of consumer goods were exacerbated in the second half of the 1970s. These shortages were partly alleviated through imports which, in circumstances of a progressively tightening foreign exchange constraint, crowded out some imports of industrial raw materials. Correspondingly, the growth of value added in industry slowed during 1976-78 and in 1979 turned negative, declining by almost one quarter in the period through 1982 as the shortage of foreign exchange reached crisis proportions (Table 2). The downtrend was checked during the second half of 1982, most notably in the mining sector, and during 1983-1984 industrial output expanded by 5-6 percent a year, exceeding plan targets. With employment continuing to decline, the recovery entirely reflected an improvement in productivity. The fastest growth was recorded in the engineering and chemicals branches; output of light industry, by contrast, remained below planned levels.

During the first three quarters of 1985 the growth of industrial production slowed appreciably, in part as the result of a severe winter. On a gross basis, output increased by close to 3 percent year-on-year, or less than the target (4-4 1/2 percent) for the year as a whole. On current trends, real net material production in industry in 1985 is likely to remain about 12 percent below its level in 1978.

b. <u>Energy</u>

Poland is the world's fifth largest producer of hard coal. Its endowment of petroleum and natural gas, by contrast, is very limited, accounting for less than 5 percent of energy output. Coal currently meets nearly 80 percent of total domestic energy requirements, as well as being a major export item to both the convertible currency and nonconvertible currency areas. Until the late 1970s Poland was a net exporter of energy.

During the first half of the 1970s the supply of energy was sufficient both to meet domestic demand and to expand exports of coal. However, faster than planned increases both in total output and in the energy intensiveness of production led subsequently to shortages of energy and a leveling off in coal exports in the second half of the decade. In response, rationing of electricity was introduced and the workweek in the coal mines was effectively increased to seven days. Despite these measures and an increase in coal output to a record level in 1980, the overall trade balance in energy shifted into sizable deficit around the turn of the decade as coal production was increasingly redirected to the domestic market and as the terms of trade for coal against oil (which is mainly imported from the U.S.S.R.) weakened significantly.

The socioeconomic crisis of 1980-81 was reflected, in the energy sector, in a 16 percent reduction in coal output in 1981--following the return to a five-day workweek in late 1980--and in a halving in the volume of coal exports (Table 8). As a result, the trade deficit on energy products with the nonconvertible currency area rose to the equivalent of some US$2.5 billion in 1981, double its level in 1980. Energy trade with the convertible currency area, meanwhile, remained in surplus by about US$0.5 billion.

The 1980 level of coal output was not restored until 1984. Over the intervening period, however, the trade deficit on energy products with the nonconvertible currency area was narrowed to US$1.5 billion, and the surplus with the convertible currency area was increased to more than US$1 billion, largely through limitations on energy use by industry and the introduction of petroleum rationing at the retail level. In 1984 almost one quarter of coal production was exported--a proportion not witnessed since the mid-1970s--with nearly 70 percent of exports being channeled to the convertible currency area.

The energy intensity of production in Poland is high in comparison with that of other countries at a similar stage of development. This is associated partly with the fact that energy prices have traditionally been subsidized, and partly with the lack historically of other incentives for enterprises to economize on the use of production inputs. The energy intensiveness of production changed little, on balance, between 1970 and 1982--falling sharply during the first half of the 1970s and increasing thereafter--but in 1983-84 declined by some 8 percent as the result of limitations on the industrial sector's use of energy as well as the modernization and electrification of the railway system. Energy use in the household sector has increased steadily and in 1984 accounted for 44 percent of total energy consumption, compared with 36 percent in 1970.

During the 1970s domestic energy prices were changed on only two occasions and by considerably less than world prices. As part of the price reforms of the early 1980s, most energy prices were raised by 200-300 percent in 1981-82 followed by smaller adjustments in 1983-84 (Table 9). Despite these adjustments, in 1984 the average domestic price of hard coal to industrial users and households remained nearly 20 percent and 30 percent, respectively, below the average cost of production, and at about half the average world market price for Polish coal. Most crude oil is imported from the U.S.S.R. at a price based on a five-year moving average of world market prices. The domestic price of refined oil products generally covers average production costs.

In view of the limited scope for expanding coal production, more emphasis is to be placed in the future on energy conservation, including the gradual adjustment of coal prices to cover production costs and of other energy prices to world market levels. In addition, three nuclear-power plants are planned for the next decade, one of which is currently under construction and is expected to become operational by 1990.

c. Agriculture

(1) Structure and organization

The nonsocialized sector holds the predominant position in agriculture, with private farms accounting for nearly 80 percent of output and employment. Most of these farms are small with an average size of about 5 hectares. Because of the relatively low per capita income in agriculture, labor working on these farms is frequently employed also in other sectors of the economy. State farms account for most of the remainder of agricultural activity, although a small role is played by cooperatives. State agricultural holdings tend to be large, with over 60 percent of the farms exceeding 800 hectares.

Slightly more than half of the value of total agricultural output is from crops. Cereals, potatoes, vegetables, fruit and sugar beets are the major items (Table 11). Slaughtered livestock, principally pigs and cattle, together with milk account for over 80 percent of the value of animal production (Table 13). Only 5 percent of agricultural production is exported.

Until 1972 agricultural output was in principle sold to government purchasing agencies under a compulsory delivery system, although in practice the coverage of the system was never complete. Since the abolition of this system, about 70 percent of output destined for the market (or about half if allowance is made for intermediate consumption--see Table 14) has continued to be sold to the State on the basis of contracts with government purchasing agencies. Administratively set prices are in force for more than 70 percent of products purchased by these agencies. These prices are adjusted once a year, although seasonal pricing is applied to certain products. Following the 1982 price reforms, the differential between free market and state purchase prices narrowed sharply for most products (Table 15). Although the former typically remain higher than the latter, farmers contracting to deliver to state agencies also receive certain benefits in the form of tax rebates and access to inputs and production-related services. Most state purchasing centers also act as wholesalers for the retail market. Agricultural exports are normally channeled from government purchasing centers to foreign trade organizations.

Virtually all agricultural inputs are priced administratively and most are subsidized by the State. The State also directly controls their distribution. Inputs such as feedstuffs and coal are distributed through the government purchasing centers. Others, such as tractors and combine harvesters, are distributed on a regional basis and then allocated by town councils. Yet others, such as fertilizers and pesticides, are distributed geographically according to a given plan, but sold freely in the local markets on a first-come first-served basis.

(2) Developments

For much of the 1945-70 period, apart from a short period after 1956, agriculture was neglected in favor of a policy of rapid industrialization. During the first half of the 1970s improvements were introduced including the elimination of mandatory deliveries to the State, large increases in procurement prices and increased access to credits and inputs. In addition, weather conditions were generally good, and a quickening in the rate of growth of gross agricultural production (to 4 percent a year) resulted. This, however, rested largely on increased inputs; on a value-added basis, net output over the period 1971-75 rose by barely 1 percent a year (Table 4). The growth in net value added accelerated somewhat during 1976-78 but then fell by 20 percent over the next two years. The latter development reflected a combination of bad weather conditions, reduced incentives for private agriculture and decreasing productivity on State farms. In an attempt, in the face of poor cereal crops, to prevent a rapid fall in the livestock population--which had been increased substantially as a deliberate policy in the first half of the 1970s--the Government increased imports of grain and animal feeds from an average of 3.5 million tons per annum in 1971-73 to 9 million tons per annum in 1978-80. Together, the fall in exportable output and the increase in imports of agricultural inputs propelled the trade balance in agricultural products with the convertible currency area from a small surplus in the early 1970s into a deficit of almost US$2 billion by 1980.

The weak performance in the late 1970s led to a turnaround in agricultural policy in the early 1980s. Procurement prices were raised substantially and subsequently adjusted more frequently. Policy guidelines were recast to provide for equality of treatment of all agricultural entities--socialized or nonsocialized--with respect to the availability and cost of bank credit, access to inputs, and opportunities to market their production. In July 1983, the Constitution was amended to recognize family-run farms as a permanent element of the Polish economy. The general economic reforms of 1981-82 also ended the privileged status of state farms and provided for an increase in their decision-making autonomy and a reduction in their operational subsidies. At the beginning of 1985 a land tax reform was carried out, equalizing the tax burden for all sectors in agriculture.

In part as a result of these policy changes, but also because of better weather conditions, agricultural output has made a strong recovery since 1981. Yields for cereals have increased without interruption and in 1984 record levels were also reached for fodder crops and sugar beet. Since 1983 there has also been an upturn in animal production. In all, real NMP in the agricultural sector increased by 5 percent a year during 1982-84, which left the level of output only 6 percent below its 1978 peak (Table 2). The strong crop performance also lessened the dependence on imported animal feeds, facilitating a reduction in the trade deficit in agricultural products with the convertible currency area to less than US$0.5 billion by 1984.

In contrast to the slowdown evidenced in the rest of the economy in 1985, indicators for the first three quarters of the year point to a continued good agricultural performance, with the livestock herd increasing further and the cereals harvest thought to be close to that attained in 1984.

d. Construction

The construction sector grew more rapidly than other sectors during the first half of the 1970s, recording an average rate of growth in net output of more than 12 percent a year. This performance was attributable both to the greater emphasis given to residential construction (following its neglect in the 1950s and 1960s when attention had focused on building up the industrial base), and to an upturn in activity associated with the investment boom. Growth continued at more moderate rates in the period through 1978, after which the sector was affected earlier and more severely than other sectors by the economic downswing of the late 1970s and early 1980s. Between 1979 and 1982 net output declined by 50 percent. In response to the growing housing shortage, increasing resources were once again channeled to residential construction as the economy began to recover after 1982. Together with a general upturn in investment, this underpinned an increase in construction output of some 8 percent a year in both 1983 and 1984. In the first nine months of 1985, in line with the general deceleration in economic activity, the growth in construction output slowed sharply.

2. The distribution system

a. Intermediate products

Prior to 1982 all basic inputs were allocated centrally. The branch ministries allocated the inputs to enterprise associations which, in turn, distributed them among individual enterprises. Following the introduction of reforms in 1982, inputs which were in short supply continued to be channelled to the State and centrally allocated. In 1984, the distribution of 130 categories of inputs, accounting for about 60 percent of total raw and intermediate products used by the economy, remained centrally controlled.

In the first two years following the implementation of the reforms, enterprises were required to submit requests for centrally allocated inputs to the authorities. In 1984 significant changes were made in this operating mechanism: most importantly, the allocation of inputs was shifted from an enterprise basis to a sectoral basis, and for most inputs the process was delegated to state trading organizations. 1/ There are currently 28 trading organizations that have a license to deal in centrally allocated inputs, with each organization being assigned a specific commodity group. The trading organizations' first priority is to service production under government contracts and operational programs. These are arrangements under which the central authorities either instruct enterprises (operational programs) or invite them to submit bids (government contracts) to carry out certain tasks while ensuring the necessary access to inputs and foreign exchange. Together, the two schemes absorb about 40 percent of centrally-allocated inputs (25 percent of total inputs used by the economy) and account for about one quarter of industrial production. Allocation of the remaining centrally-controlled inputs is based on the central material balances prepared by the Planning Commission and the Materials Ministry.

Inputs that are not covered by the central allocation system are handled by over 100 trading organizations which deal exclusively in intermediate products. While these organizations typically specialize by categories of products, there is usually more than one trading organization for a purchasing enterprise to choose from.

b. Retail products

The distribution of retail products has remained basically unchanged for many years. There are three major retail trading organizations, currently accounting for 85-90 percent of retail turnover. Each operates its own retail outlets. One specializes in foodstuffs, a second in industrial products, and the third in serving rural areas. Over the past few years these organizations have become less specialized and have also lost some of their market shares to newly-established, small-scale trading organizations.

Two rationing systems exist at the retail level. The first involves rationing products geographically through the local governments, which in turn allocate the products to the trading organizations. Currently, 95 commodity groups are rationed in this way, accounting for about 25 percent of total retail sales. These products are considered to be in the shortest supply and are all covered by government contracts. The second system consists of limiting the individual consumption of certain products by a card system. While in 1982 ration cards were distributed for 23 products, by late 1985 the number of products so rationed had been reduced to 3 (most meats, chocolate, and petroleum).

1/ An important exception is energy products.

3. Domestic demand

a. Investment

(1) Structure

Approximately 80 percent of investments are undertaken by the socialized sector. Investments in the "material" (or productive) sphere account for some two thirds of fixed capital formation, with 70 percent of these outlays being in industry and agriculture (Table 16). Three quarters of outlays in the nonmaterial sphere are for housing and community services.

Prior to 1982, investment decisions in the socialized sector were for the most part centrally controlled. A key element of the 1982 economic reforms was the decentralization of the investment decision-making process with the intention of increasing its efficiency. Investments were divided into two categories: those that would continue to be centrally planned, and those that would be controlled only indirectly through the use of policy instruments. Centrally-planned investments take two principal forms: projects that influence the structure of the economy or require large capital outlays, and projects in such areas as health and social welfare, education and culture. The former are concentrated in the development of infrastructure and of raw material and energy sources and are financed largely by bank credit. The latter are financed almost entirely by the budget. In 1984, centrally planned investments accounted for about 16 percent of investments in the socialized sector. A further 13 percent of such investments, undertaken by local authorities, also remained directly under the control of the State inasmuch as almost 90 percent of the financing was provided by the State budget.

(2) Enterprise finances

Enterprises rely primarily on internally-generated funds to finance investment, but have significant recourse also to bank credit and to budgetary and extrabudgetary funds. On average, during 1982-84 these three sources of funds financed, respectively, 64 percent, 17 percent, and 10 percent of socialized enterprises' total outlays for capital expenditures and transfers to certain special purpose funds combined (Table 17).

The principal sources of internally-generated funds are after-tax profits and depreciation provisions retained by enterprises. Enterprises have the right to use their after-tax profits at their own discretion after complying with certain legal requirements. Under Polish accounting practice, an enterprise's after-tax profits correspond to its gross operating surplus 1/ plus subsidies received from the budget less the

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1/ Derived after the payment of those indirect taxes that are charged to costs (e.g., wage and real estate taxes, social security contributions) and of legally required allocations to the enterprise's social, housing and other special purpose funds.

payment of turnover tax and income (profit) tax (Table 18). The first call on after-tax profits is to the reserve fund, which is used to cover operating losses; the balance in the reserve fund must be kept at a level equivalent to at least 2 percent of operating costs. The second call is to meet payments to the Occupational Training Fund (PFAZ) on account of excessive wage increases (see section 5 below). Enterprises are also required to establish a development fund--financed from profits plus amounts retained for depreciation--to pay for investment outlays; at a minimum, this fund must have sufficient resources to cover the repayment of investment credits from the banking system. The remaining after-tax profits can be freely used for supplementary allocations to the various enterprise funds, as well as for payments of employee and management bonuses. Following an exceptional loss in 1981, the financial performance of socialized enterprises strengthened markedly in 1982, and in both 1983 and 1984 their after-tax profits increased by 35 percent.

(3) *Instruments of control*

With the shift away from direct central control over capital outlays, increased reliance is being placed on the use of credit and fiscal policy to regulate the level of investment. In contrast to the previous system of extending bank credit automatically to projects specified by the plan, since 1982 credit policy in respect to new investment projects has in principle been more selective. The bulk of credit, however, continues to be used to finance projects initiated prior to the reforms, with some 90 percent of investment outlays at present constituting expenditures on existing projects.

With regard to new requests for investment credits, the main criteria now being applied by the banks relate to the implementation period of the project (which under present rules should be less than two years), the repayment period of the credit (less than five years), the proportion of the project to be financed by credit (in general, not more than 30 percent), and the viability of the borrowing enterprise. Interest rates have been increased somewhat but remain substantially below market-clearing levels, so that credit has had to continue to be rationed. In this process, priority in the distribution of new investment credits is currently assigned to projects associated with the development of exports and consumer products (notably foodstuffs) and with the modernization of the capital stock. Fiscal instruments to regulate the level of investment consist principally of the income tax and a tax on enterprises' provisions for depreciation. Income tax rebates and preferential rates of charge on depreciation provisions--which are granted widely at the individual enterprise level 1/--as well as direct assistance from the budget, constitute the principal means to influence the structure of investment.

More recently, two new instruments to regulate investment have been introduced on a temporary basis. First, since 1984 investments valued at over Zl 500 million and in need of budgetary support have required

1/ As against a nominal rate of tax on depreciation provisions of 50 percent, the effective rate in 1984 was 23 percent.

the approval of both the Chairman of the State Planning Commission and the Minister of Finance. Second, beginning in 1985, a compulsory deposit, equivalent to up to 50 percent of the value of the project, is required for investments in construction. The deposit is refundable on completion of the project provided that the investment is completed on time. The first regulation was introduced to limit enterprises' investment activity to targeted levels; the aim of the second was to reverse the bias toward investing in building rather than in machinery and equipment.

(4) Developments

In the first half of the 1970s, real fixed investment (NMP basis) exceeded even the Plan's most ambitious targets, expanding at an average annual rate of 20 percent. With the subsequent progressive tightening of the foreign exchange constraint, investment growth slowed markedly in 1976-77 and turned negative in 1978, cumulatively declining by more than 60 percent in 1978-82. As a result, the ratio of net fixed investment to net material product fell back to 17 percent in 1982, from a peak of nearly 30 percent in 1975.

Following the bottoming out of the economic downturn in the second half of 1982, net fixed investment increased by 23 percent in 1983-84. While this left the level of fixed investment still 55 percent below its 1977 peak, the recovery in 1983-84 was considerably stronger than planned. The overfulfillment of targets stemmed almost entirely from investment activity by enterprises and mainly reflected pressures to complete projects already started, the ample liquidity of the enterprise sector, and concern that unspent funds might be taxed away in one form or another. In the first eight months of 1985, the growth of investment appears to have have slowed considerably, but still exceeded plan targets by a sizable margin.

Over the 1980-84 period, the share in total investments of outlays in the material sphere declined from 73 percent to 66 percent (Table 16). The redistribution of resources was mainly from industry to housing, health and education. The relative importance of the nonsocialized sector in investment activity also grew markedly over this period--from about 12 percent in 1980 to 20 percent in 1984--the gains being virtually all in agriculture and housing.

In the late 1970s and early 1980s, the rate of stockbuilding was reduced significantly, reflecting the shortages of raw materials and the sharp reduction in imports. Stocks reached their lowest level in 1981. Subsequently, while there has been some rebuilding of inventories--notably in 1982--over the 1980-84 period as a whole, stockbuilding did not contribute to output growth.

b. Consumption

Real consumption also rose rapidly during the first half of the 1970s, expanding at an average annual rate of nearly 9 percent in the wake of sharp increases in basic wages and social welfare payments. With the worsening of external and internal imbalances in the second half of the decade, these high rates of spending could not be sustained. The downward trend, however, came later and was less severe than in the rest of the economy as efforts were made initially to protect living standards from the effects of expenditure cutbacks. Thus, consumption continued to grow during the second half of the 1970s and also in 1980 (by more than 4 percent a year in real terms on average), and it declined in 1981-82 by an amount (some 16 percent) which was less than the fall in output and considerably less than the fall in investment. As a result, the share of consumption in domestic expenditure (in nominal terms) increased to nearly 75 percent in 1982, from 65 percent in 1975. With the upturn in economic activity after mid-1982, consumption resumed its growth, increasing cumulatively by more than 10 percent in 1983-84 and broadly maintaining its share of domestic expenditure. In 1984 real per capita consumption was 56 percent higher than in 1970 but 10 percent lower than the peak reached in 1980.

By the beginning of the 1980s the consumer market was characterized by severe disequilibria as the result of both higher-than-targeted increases in nominal incomes and sharp reductions in output. The resulting increase in forced savings was reflected in a rise in the household savings rate from about 9 percent on average during the 1970s to nearly 16 percent on average in 1981-82 (Table 19). The subsequent upturn in output and marked increases in prices helped to mitigate the imbalance between nominal incomes and available supplies, with the result that the savings rate fell back to 9 percent in 1983 and to under 8 percent in 1984. While shortages of consumer goods continued, they were substantially less acute and less generalized than in 1981-82. They were also attenuated by a flourishing black market.

Estimates for the first nine months of 1985 indicate that the imbalance in the consumer market widened anew. While the supply of consumer goods was only about 2 percent higher than in the corresponding period of 1984, the increase in total household incomes exceeded the rise in prices by some 8 percentage points.

4. Prices

a. The system before 1982

Prior to 1982 the majority of prices were centrally determined. They were changed infrequently and typically did not reflect relative scarcities. Consumer and producer prices were separated by a wide range of taxes and subsidies, and most domestic prices were insulated from international price developments by equalization payments. Attempts to raise the prices of basic foods in 1970, 1976, and 1980 met with popular resistance and were ultimately rescinded. Despite the rise in international energy and raw material prices during the 1970s, retail prices increased on average by less than 3 percent a year in 1971-75 and by 7 percent a year in 1976-80. In an attempt to prevent a widening of the disequilibria in the markets, in 1981 producer prices were raised by more than 10 percent and retail prices by more than 20 percent.

b. <u>The 1982 price reforms</u>

Reform of the price system was a central element of the package of measures introduced in 1982 aimed at improving the allocation of resources and at reducing imbalances between demand and supply in the domestic market. The intention was to take a first step in raising prices toward market-clearing levels and to establish a price determination mechanism that was more responsive to market forces. Over time, procurement prices of basic inputs were to be adjusted to world market levels so that they would better reflect relative world scarcities. A major exception to this principle was made in the case of coal, where the intention was to raise prices sufficiently to cover production costs, which are significantly lower than world prices. The passing on of increases in input prices to the producer level was to be less than complete in order to encourage enterprises to reduce the material-intensity of their production. With respect to consumer prices, the prices of foodstuffs, which were generally below the comparable producer prices, were to increase by more than the retail prices of industrial goods, which generally exceeded their producer prices. Consistently with the above principles and with the change in the exchange rate, both retail and producer prices more than doubled in 1982.

The 1982 reform also replaced the previous system of price determination with three categories of prices: administrative, regulated, and contract prices. Administrative prices are set by the State in a manner akin to that which existed for most products before 1982. They apply to four categories of goods: (1) consumer goods and services that are of basic importance in daily consumption; (2) basic intermediate goods; (3) basic agricultural produce purchased by the socialized sector; and (4) alcoholic beverages, tobacco products, and postal and telecommunication services. In 1984 these goods constituted 47 percent of the value of consumers' total expenditure, 72 percent of wholesalers' purchases of agricultural products, and 34 percent both of producers' sales of manufactured goods and of producers' purchases of raw and basic materials (Table 20). Administrative prices are normally adjusted once a year. The full transmission of international price movements to domestic products subject to administrative pricing may, however, be spread over a number of years. For exports, if the foreign price exceeds (is less than) the domestic price, a tax (subsidy) is in principle levied (granted) so as to equate the two prices; for imports, the converse applies.

Regulated prices are set by producers on the basis of costs and are closely monitored by the authorities. From the beginning, this system of price determination was considered a temporary intermediate stage in the move from administrative to contract pricing. The share of expenditures covered by these prices has fallen significantly since 1982 and is now very small.

Contract prices are, in principle, to be set freely in the market place with the transmission of foreign price movements to domestic prices being unimpeded. In 1984 contract pricing applied to 50 percent of the value of retail products and 63 percent of the value of both sales by producers of manufactured goods and purchases by producers of basic and raw materials. The Office of Prices requires notification of all increases in these prices within two weeks after their implementation. If the increases are deemed unjustified, the enterprise may be fined for earning undue profits.

In practice, contract prices have become increasingly regulated. However, differing treatments are accorded to producer and retail prices. Regarding the former, in 1983 the government introduced a price freeze for the three-month period May-July; since then, price rises resulting from changes in costs of production that are considered to be beyond the control of the enterprises have been permitted, with no limit on such increases. In 1984, similar controls were extended to retail prices of manufactured goods that are subject to contract pricing, except that a ceiling on the permissible rise in prices of these goods was set at 10 percent per year. Taking into account products that are exempted from these price controls, approximately one half of the retail products that are subject to contract pricing are currently regulated.

c. Developments

The price reforms became operational at the beginning of 1982 and for the year as a whole retail prices increased by 101 percent (136 percent for foodstuffs) and producer prices in industry by 122 percent (Table 21). In response to the resultant sharp reduction in real incomes, and in line with the policy of spreading out subsequent price adjustments, in 1983 the Government temporarily froze the prices of certain basic goods and services and imposed controls on all producer prices. Correspondingly, inflation at the retail and producer levels moderated to 22 percent (12 percent for foodstuffs) and 15 percent, respectively. Although administrative prices of most products were raised in 1984, the extension of price controls to certain consumer products reduced price increases at the retail level to 15 percent, which was broadly in line with the growth of producer prices. In the first nine months of 1985 the annual rate of inflation at the retail level was again about 15 percent.

The wedge between producer and retail prices for intermediate products is negligible in Poland, reflecting the small amount of turnover taxes charged on these products. As regards consumer products, in 1984 retail prices were on average nearly 20 percent higher than producer prices as a result of the high rate of turnover taxes on such items as cosmetics, fuel, cigarettes, alcohol and automobiles which more than offset the subsidies for basic goods and services. Consumer price subsidies are granted mainly for foodstuffs, 1/ energy products, and transportation services. As a share of private consumption expenditure, subsidies on these products have declined steadily since the beginning of 1982, from over 16 percent in 1981 to less than 10 percent in 1984, due largely to a reduction in the subsidization of meat (Table 22).

1/ In 1984 producer prices for foodstuffs were on average 30 percent higher than the corresponding retail prices.

5. Incomes

a. Structure of household incomes

In 1984 wages earned in the socialized sector accounted for a little over half of total personal money incomes. Social benefits 1/ and incomes of the nonsocialized sector accounted, respectively, for nearly 20 percent and 15 percent of such incomes, with the remainder consisting of miscellaneous items, including interest on deposits and foreign currency receipts (Table 19). Relative to 1980, the share in total incomes of wage earnings in the socialized sector was lower by nearly 10 percentage points, most of the redistribution being reflected in a higher share for social benefits. The relative significance of incomes earned in the nonsocialized sector—which rose temporarily in 1981-82 due to significant increases in agricultural product prices--differed little in 1984 from its 1980 level.

b. The system of wage remuneration

For most of the postwar period prior to 1982--with the exception of two brief periods around 1956 and 1973--the system of wage remuneration in the socialized sector was based on wage tables established by the State. The tables were differentiated by branch of economic activity and were changed infrequently. Factors determining a worker's pay included his skills and seniority level as well as the physical effort and extent of responsibility associated with his job. As a result of the inherent rigidities in the system, it was not possible to differentiate the remuneration of two workers with the same qualifications but different productivity performance. Basic wages have traditionally been supplemented by premia payments charged to costs. Schedules for these payments were set up in an analogous manner to the basic wage tables.

In conjunction with the overall package of economic reforms, in 1982 all socialized enterprises were obligated to adopt a new system of wage determination. Enterprises were given the freedom to establish their own wage grids within the bounds of the minimum and maximum wage rates set by the center, and within the centrally established principles for job grading. Furthermore, enterprises were given complete autonomy in determining premia payments over and above those guaranteed by state legislation (e.g., seniority benefits, severance payments, etc.). With the minimum and maximum wage rates having been frozen since 1982, an increasing share of remuneration--estimated to have reached almost one half by the first half of 1984--has stemmed from premia.

In 1984 the authorities sought to broaden the scope of wage reform. Enterprises that were deemed financially sound were given the autonomy to design their own wage structure without being bound by national wage tables, provided that basic requirements such as the right to earn the minimum wage and to receive certain social benefits were respected.

1/ Old age, disability and other pensions account for nearly 70 percent of cash benefits.

While there are no limits on the hourly pay of blue-collar workers, the maximum income of white-collar workers is indirectly constrained by the director's salary, which currently ranges between Zl 21,000 and Zl 30,000 per month. One of the aims of liberalizing the system of wage determination further was to decrease the relative importance of premia payments (e.g., for senority) that were unrelated to productivity developments and to increase that of basic wages. To this end, the wage base to which the fixed schedule for such premia is applied is frozen at the level existing at the time that the enterprise adopts a new pay system.

Approximately 80 percent of workers in the socialized sector are eligible to be covered by the new system of pay. The main sectors that do not qualify are budgetary units, state administration, and transportation. As of September 1985, 4.7 million of the 9.5 million eligible workers were operating under a new wage system.

Concurrently with decentralizing the wage determination process in 1982, the authorities introduced a new tax--in the form of levies of the PFAZ (State Fund for Occupational Training)--as an instrument for controlling excessive wage increases in the socialized sector. Since 1982 the operating mechanism of the PFAZ has been modified on several occasions. In its present form, tax-exempt increases in the wage bill are linked to an indicator of output growth (in principle, net sales in constant prices) by a specified coefficient. PFAZ is a progressive tax levied on the zloty amount of wage increases, with the rates ranging from 40 percent for the first percentage point increase over the tax-exempt threshold to 500 percent for the sixth and each subsequent percentage point increase beyond the threshold.

In practice, exceptions to the basic rules and exemptions for preferential sectors have been pervasive in the implementation of the PFAZ. The coefficient between tax exempt wage increases and output gains has ranged between 0.5 and 0.8, and for particular sectors--which are considered to have little potential for increasing their output--it has been 1.0. Certain enterprises are entitled to grant PFAZ-free wage increases up to a certain amount prior to the operation of a coefficient relating wage increases to output gains, and certain activities--e.g., exporting--enjoy preferential coefficients. Measurement problems have also led to differentiation in treatment, with, for example, gross production rather than net sales being used as the indicator of output in approximately half of the socialized sector.

c. Developments

Between 1970 and 1976 real wages in the socialized sector increased at an average annual rate of more than 8 percent, or broadly in line with the productivity gains resulting from a massive influx of western capital equipment. In response to the subsequent slowdown in economic activity and the emergence of inflationary pressures, in 1976-78 the authorities introduced measures that held the level of real wages essentially unchanged. Incomes of the population--which increased at an average annual rate of nearly 10 percent in 1970-76 and 4 percent in 1976-78--consistently outpaced the growth of real wages in the socialized sector because of relatively rapid increases in social benefits and in other nonwage incomes.

Real wages turned sharply upward during 1979-81, in marked variance with the development of productivity. Thus, while output declined by over 19 percent between 1978 and 1981, real wages in the socialized sector and real incomes of the population increased by nearly 11 percent and by 15 percent, respectively. In 1982, the substantial adjustments in retail prices more than reversed this gain. Real wages in the socialized sector fell by one quarter (Table 23), and real incomes of the population by close to 20 percent.

With the improvement in market conditions in 1983-84, wage policy was redirected to maintaining the purchasing power of the population. In the event, real wages in the socialized sector increased by 1-2 percent a year, while gains in labor productivity averaged close to 6 percent. Real incomes of the population stagnated in 1983, largely as a result of a marked fall in income in the nonsocialized agricultural sector and some reduction in the real value of social benefits, but rose by 3 percent in 1984 under the influence of a strong increase in nonwage incomes.

In the first nine months of 1985 the growth of nominal (real) wages accelerated to close to 20 percent (4 percent), compared to about 16 percent one year earlier. This partly reflected the carryover effect from the last quarter of 1984--when significant wage increases were granted--as well as monetary incentives offered in the first half of 1985 to spur increases in productivity following the severe winter.

6. Employment

During the 1970s employment grew at an average annual rate of 1 1/2 percent. The socialized sector's share of employment rose from 68 percent in 1970 to 75 percent in 1977, as the development of the industrial sector was given priority over private agriculture, but subsequently fell back slightly. In 1981, in order to guard against open unemployment arising from the implementation of economic reform, the authorities introduced a temporary early retirement scheme. In the aftermath of the social unrest of 1980, an agreement was also signed with the labor movement which, among other things, granted Saturdays as holidays and provided paid child upbringing leave for up to three years after maternity leave. Largely reflecting these measures, by 1984 employment and manhours worked in the socialized sector were 4 percent and 20 percent, respectively, lower than in 1980 (Table 25). Against this background, unemployment has remained negligible and labor shortages have been widespread since the bottoming out of the recession in the second half of 1982.

IV. Financial System

During most of the postwar period financial policies have had the largely passive function of promoting the flows of funds necessary to carry out the directives laid down in central plans. These directives largely determined the amount and distribution of bank credit to the enterprise sector--which was the main factor governing monetary developments--as well as the structure of the budget, the main purpose of which was to redistribute enterprise resources in line with the requirements of the plan. In turn, and given the relative inflexibility of prices and of the supply of goods and services through normal channels, the impact on prices and activity of changes in the money supply has been muted. Periods of relatively rapid monetary growth have, in these circumstances, typically led rather to the accumulation of involuntary savings and to increased activity in the markets making up the "second economy." By the same token, with the existence of direct controls on such variables as incomes, prices and foreign trade, budgetary policies have generally been little used for demand management purposes.

An important aim of the economic reforms launched in 1981-82 was that financial policies should play a greater and more independent role in economic management. Credit allocation was to be based on stricter economic criteria than previously, including more active use of interest rate policy. Similarly, the budget was to play an enhanced role as an instrument of macroeconomic stabilization and a smaller role in the discretionary intermediation of resources within the economy. So far these objectives have been only partially achieved.

1. Public finance

a. Institutional and legal framework 1/

The government sector comprises the central government, the local authorities, and a number of extrabudgetary funds.

The state budget covers the financial operations of the central government and the local authorities. In recent years the latter have accounted for approximately one third of total budgetary expenditure. Their expenditures are financed by certain revenues which accrue directly to them 2/ and by transfers from the central government. The major

1/ This section summarizes arrangements currently in force following the introduction in 1984 of laws on the drawing up and implementation of the state budget and on the status and operations of local authorities.

2/ The main such items include: (i) 85 percent of revenue from the tax on wages; (ii) the whole of receipts of real estate taxes paid by socialized entities; (iii) taxes paid by enterprises whose founding body is a local authority and by cooperatives established within a given local jurisdiction; (iv) the proceeds of turnover tax and income tax from all nonsocialized enterprises operating within a given local authority jurisdiction; and (v) proceeds from the equalization tax (essentially a tax on individual income above a certain amount) and the tax on agricultural land.

component of the latter is an amount equivalent to a certain proportion, which is set for five years at a time, of the sales revenue of enterprises in the socialized sector. Other transfers, although in principle also taking place according to a pre-established schedule covering several years, tend in fact to be adjusted annually in the light of evolving circumstances.

There are 23 extrabudgetary or so-called "special purpose" funds under the control of central government agencies, and others which are under the control of the local authorities. The largest fund is the Pension Fund, which in 1984 accounted for almost 60 percent of the total expenditure of extrabudgetary funds. Other funds generally have responsibility for carrying out expenditures related to various social, educational, and cultural matters. The funds receive transfers from the budget, which are counted as budgetary expenditures, as well as revenue from contributions and levies from the nongovernment sector. Typically, any financial surpluses are retained by the funds in question; an exception is the Fund for Occupational Training (PFAZ) which transfers a large part of its surpluses to the budget.

The state budget, which is on a calendar year basis, requires approval by Parliament, as does any increase in total expenditures or in the deficit above the budgeted level. Any major change in the allocation of expenditures from that approved in the annual budget law must be approved by the parliamentary committee responsible for budgetary matters. More minor changes may be made on the authority of the Minister of Finance, who also enjoys discretion in the application of tax exemptions and rebates and in adjusting rates of turnover tax, but has no discretion to raise other taxes.

b. <u>Overall budgetary trends</u> 1/

During the 1970s the scale of budgetary operations increased substantially in relation to aggregate economic activity. As a proportion of GDP, budgetary expenditure rose from less than 40 percent in 1970 to almost 50 percent in 1980 (Table 26). There was, however, a broadly matching increase in revenue as a result of which the budget remained in surplus; only in 1980 did it move into deficit. The rise in the relative size of budgetary expenditures was entirely accounted for by increases in direct subsidies to enterprises and to the population, which rose from the equivalent of 13 percent of GDP in 1970 to almost 29 percent in 1980.

Since 1980 the budget has continued to be in deficit. Apart from relatively small amounts of net foreign financing, the deficit has been

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1/ Unless otherwise indicated, the discussion in the remainder of this chapter refers to the operations of the state budget.

covered by net borrowing from the domestic banking system. 1/ Reflecting the acute dislocation of economic activity and the collapse of enterprise profitability, the deficit peaked at the equivalent of 11.5 percent of GDP in 1981. Subsequently, it was sharply reduced and has since been in the range of 2-3 percent of GDP. With revenues tending to rise somewhat more slowly than aggregate incomes, this improvement was entirely due to a decline, notably in 1982, in the relative size of budgetary expenditures. This development, in turn, was largely attributable to the reduction in the relative size of subsidy expenditures that followed the approximate doubling of the price level in 1982. In that year subsidies to the population were reduced by over 20 percent in real terms and an even larger reduction in subsidies to the enterprise sector, of almost one half in real terms, was made possible by a major improvement in profitability, of which the increase in prices was a main cause.

Changes in the budgetary position since 1982 have been less dramatic. In 1983 there was a further contraction in the size of budgetary expenditures in relation to GDP (of 5 percentage points) but this was not matched by a commensurate reduction in the relative size of the deficit because of the relatively slow growth in revenues. In 1984 both revenues and expenditures grew by 26 percent in nominal terms, or at about the same rate as nominal incomes. For 1985, revenues and expenditures are budgeted to increase by 18 percent and 17 percent, respectively, which again is broadly in line with the forecast growth in nominal incomes.

While the decline in the relative size of the state budget deficit since 1982 has been relatively modest, the deficit of the general government (including the extrabudgetary funds) has continued to decline, both in absolute and relative terms, through 1984. As a proportion of GDP, the general government deficit fell from more than 10 percent in 1981 to 2.5 percent in 1982 and further to 0.5 percent by 1984, largely because the extrabudgetary funds received increasing net transfers from the state budget at the same time that their current transactions with the non-government sector moved from deficit into surplus (Table 27). To a large extent, these developments reflect changes in the position of the Pension Fund.

The broad changes in the budgetary position in recent years have been in line with the objectives of the economic reform. The intermediation of resources through the budget has been reduced, with a corresponding improvement in the structure of relative prices. At the same time, a larger

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1/ The data for borrowing by the state budget from the banking system as recorded in the budgetary accounts (Table 27) do not exactly match the data for changes in the net position of central and local budgetary units with the banking system as recorded in the consolidated balance sheet of the banking system (Table 32). The discrepancy largely reflects differences in classification between the two accounts and the fact that the budget accounts--though prepared on a cash basis--are not closed until 12 days after the end of the calendar year.

role has been assumed by the budget in demand management. Thus, policy decisions regarding pricing and other matters have been taken with more explicit regard to their budgetary impact, and tax policy vis-à-vis the enterprise sector has been formulated with the deliberate purpose of limiting that sector's liquidity and thus restraining investment demand and the scope for wage increases. Despite these changes, however, budgetary operations in Poland, as in other socialist countries, continue to be planned and coordinated with a view to achieving a variety of very specific effects at the microeconomic level. This phenomenon is manifested not only in a relatively high level of budgetary subsidies, but also in a very considerable differentiation of tax rates and exemptions among sectors and enterprises.

c. The structure of budgetary expenditure

Current expenditures account for the large majority (over 85 percent in 1984) of total budgetary outlays (Table 29). Subsidies are the dominant component and accounted for nearly half of current outlays in 1984. Other important items are purchases of goods and services, payments of wages and salaries, national defense and public security, and transfers to extrabudgetary funds and other organizations, which each accounted for roughly 10 percent of current budgetary outlays in 1984. Budgetary expenditure on investment and modernization finances the whole of investment by government units and a part of that by various public utilities and suppliers of important public services, as well as certain investments by other enterprises on a discretionary basis. Budgetary investment financing is provided in the form of grants and currently accounts for approximately one quarter of the economy's total fixed investment.

Subsidies are divided into two groups--those to the population (i.e., subsidies for which the population is the immediate beneficiary) and those to socialized enterprises. There has been a considerable shift in recent years in the composition of subsidies to the population. Whereas in 1980 about 55 percent of such subsidies were accounted for by foodstuffs, by 1984 the corresponding share had fallen to 32 percent (Table 30). This reflected a substantial reduction, both in absolute and in relative terms, in subsidies on meat products, which was only partly offset by increased outlays to subsidize dairy products and cereals. Subsidies on housing 1/, meanwhile, rose from less than 17 percent to 36 percent of total subsidies to the population.

1/ Including, inter alia, subsidies for state, communal, and cooperative housing, and subsidization of interest payments and principal repayments on housing loans contracted by private individuals.

Subsidies to enterprises are dominated by two items--subsidies to the coal mining industry 1/ and on foreign trade 2/--which in 1984 together accounted for over 60 percent of the total (Table 31). Another sizable item is subsidies on foreign debt service payments which are paid to Bank Handlowy (the foreign trade bank). Prior to 1983 all such payments on financial credits contracted by Bank Handlowy were covered by budgetary subsidies, but an increase in the interest rate paid on the bank's deposits at the National Bank of Poland has since been instrumental in allowing some portion of these payments to be covered from Bank Handlowy's own resources.

Commodity-specific subsidies are generally paid to producers rather than to retailing institutions; an exception is coal for household use, which is subsidized through the distribution network. There is a standard rate of subsidy per unit of output for each subsidized item which is based on "warranted production costs." Based on this and on the volume of production, an allocation is made to branch ministries to cover all the concerned producer enterprises. Within certain limits, the branch ministry may vary the rate of subsidization between individual enterprises.

d. The structure of budgetary revenue and the revenue system

There have been few major changes in the structure of budgetary revenue in recent years. Tax revenues (including social security contributions paid to the budget) currently account for over 90 percent of total revenue (Table 28). The most important single source of revenue is the turnover tax which provides over one third of total revenue. The next most important source is the taxation of enterprise profits (income tax), whose share in total revenue has risen appreciably in recent years, reflecting improved profitability. Other major sources of tax revenue are social security contributions, wage taxes, and taxes and other levies on foreign trade. Tax revenues from the nonsocialized sector and the population are relatively minor. Nontax revenues have declined in relative importance in recent years largely because of the effects of changes in the structure of interest rates on the profitability of financial institutions.

The principal features of the main taxes are as follows:

(1) Turnover tax. The turnover tax is levied on the value of sales of goods and services of enterprises in the socialized sector and is paid from their profits, i.e, it is not regarded as a cost of production.

1/ Prior to 1982, subsidies to coal mining were provided in the form of blanket grants to cover operating losses which in 1980 and 1981 were the main components of the line "other subsidies to enterprises" in Table 31. Since 1982, however, such subsidies have been granted at specified rates per unit of output and are separately identified.

2/ The system for the subsidization and taxation of foreign trade is described in chapter V, section 3d.

The rate of taxation varies from 5 percent to 85 percent, with a weighted average rate in 1984 of about 30 percent. Certain basic items, including most foodstuffs, are exempt. The most common rates are 5 percent for services and 10 percent for commodities. Higher rates apply to such items as cosmetics, fuel, cigarettes, alcohol, and automobiles that are considered to be luxuries. The Minister of Finance has the authority to vary turnover tax rates during a budget year.

(2) Income tax. Income tax is levied on the profit of socialized enterprises. Costs that are considered unjustified, for instance penalty charges for late delivery or poor product quality, are also included in the tax base. In 1984 a linear rate of income tax (60 percent) was in principle introduced in place of the progressive rate structure previously in force; this rate was raised to 65 percent in 1985. However, in order to avoid excessive changes in tax rates, the rate of tax applicable to each enterprise is to be gradually adjusted from the old effective rate (i.e., that applicable in 1983) to the new unitary rate over a period of three years. Thus in 1984 the overall effective rate of income taxation was 57 percent compared with the "theoretical" rate of 60 percent.

There are numerous rebates and tax drawbacks designed to encourage the development of particular sectors of the economy. In 1984 these are officially estimated to have resulted in foregone revenue of Zl 133 billion, of which Zl 52 billion was in respect of export promotion; these amounts represented 19 percent and almost 7 percent, respectively, of actual income tax revenues in that year. Income tax rebates to encourage exports take three forms. First, a tax rebate is given in respect of, on average, 5 percent of the value of exports expressed in domestic currency. Secondly, a certain proportion (30 percent in 1984, raised to 35 percent in 1985) of the growth in convertible currency exports (calculated at constant exchange rates) can be deducted from an exporting enterprise's income tax liability. Thirdly, in January 1985 a scheme was introduced whereby tax rebates of up to 30 percent of the cost of a project may be granted to encourage export-oriented investments. Incentives, in the form of relief from the terms of the standard income tax regime, are also used to encourage investment in particular sectors of the economy. Tax relief may also be granted in certain circumstances to enterprises that are experiencing difficulty in meeting their obligations to repay bank credit.

(3) Wage tax. All wages and salaries (i.e., employee remuneration excluding bonuses and other payments out of enterprise profits), with certain relatively minor exceptions, are taxed at a rate of 20 percent. Payments of wage tax are made by the employer and are treated as a cost of production.

(4) Real estate tax. A real estate tax is applied at a rate of 2 percent to the depreciated value of structures, buildings, and land that are used by socialized enterprises for nonagricultural purposes. Payments of real estate tax are also treated as a cost of production.

(5) Social security contributions. For the socialized sector, social security contributions are levied at a rate of 43 percent on wages and salaries (defined in the same way as for wage tax assessment). Of this total, 15 percentage points accrue to the budget and the remainder to the State Retirement Fund.

(6) Levy on provisions for capital depreciation. Provisions for capital depreciation by enterprises whose founding body is a unit of the central government are in part transferred to the budget; the remainder is retained by the enterprises. The proportions in which this division is made are decided by the Council of Ministers and specified in the annual plan. In 1984 the standard proportion of depreciation provisions paid to the budget was raised to 50 percent in order to prevent the revaluation of the capital stock that was conducted in that year giving an excessive boost to enterprise liquidity; this requirement remains in effect in 1985. However, several enterprises in priority sectors are wholly or partly exempt from this requirement such that in 1984 only 23 percent of total eligible depreciation allowances actually accrued to the budget. The conditions needed to qualify for an exemption were tightened in 1985.

(7) Taxation of the nonsocialized sector and of households. Nonsocialized enterprises and unincorporated business are subject to similar taxes to those levied on the socialized sector. However, in the case of small businesses, taxes may be paid on the basis of a standard assessment schedule for particular types of activity rather than on the basis of complete accounting records. The taxation of agriculture was fundamentally reformed in 1985 and a land tax introduced with specified rates per unit of area depending on the type of land. There is no income tax on the population's regular earnings from employment in the socialized sector as such, but an "equalization tax" at progressive rates is imposed on earners of high incomes (i.e., incomes that exceed twice the average earnings in the socialized sector) whether they work in the socialized or nonsocialized sector. Moreover, incomes of employees in the nonsocialized sector, and of employees in the socialized sector from supplementary work done under contracts, are subject to taxation. The population is also subject to inheritance taxes and taxes on various capital assets (such as buildings, land, and automobiles); arrangements governing the latter are to be substantially changed in 1986.

2. Money and Credit

a. The banking system

Poland's banking system comprises four major banks, all of which are State-owned: the National Bank of Poland, Bank Handlowy Warsaw, the Bank PKO, and the Bank of the Food Economy.

The National Bank of Poland (NBP) is the central bank. In this capacity, it issues currency, acts as the Government's bank, refinances the three other banks, holds the official reserves of gold and part of the official foreign exchange reserves, administers the foreign exchange regulations and, in consultation with other banks, is responsible for the preparation of the annual credit plan. The NBP is also Poland's largest commercial and savings bank, providing banking services to socialized and nonsocialized enterprises through an extensive network of operational branches and to households through a similar network of so-called National Savings banks. Generally, branches of the NBP are assigned groups of enterprises in particular localities. As a result, enterprises deal with one bank in their domestic financial operations and there is very little competition between bank branches to attract business.

Bank Handlowy is a commercial bank that provides financing and settlement services to enterprises with respect to foreign trade transactions, in domestic and foreign currencies. In 1984 the bank serviced over 95 percent of Poland's foreign settlements and held virtually all foreign currency deposits of enterprises. The bank also undertakes the contracting and servicing of most of Poland's foreign debt. The Bank PKO specializes in providing foreign exchange services to the household sector. It holds foreign currency-denominated deposits of residents and most of the accounts of nonresidents. It has the authority to extend and also to contract foreign loans and, in addition, finances domestic operations involving the sale of consumer goods, real estate, and services against payments in convertible currencies. The Bank of the Food Economy provides commercial banking services to the agricultural sector and rural households. This is accomplished, in part, through its capacity as the central organizational, financial, and audit unit for a network of over 1,600 associated cooperative banks.

b. Financial assets

The financial system in Poland is characterized by a limited range of assets and the separation of payments transactions into two distinct circuits.

Virtually all monetary assets held by entities in the socialized sector consist of bank deposits. Almost 80 percent of such holdings--including not only cash and demand deposits, but also special funds accounts and investment accounts, which are in practice available without penalty on demand--represent narrow money. The remaining 20 percent (quasi-money holdings) is made up of time deposits and foreign currency deposits. Abstracting from fluctuations in holdings of the latter, the broad structure of socialized entities' monetary assets has changed relatively little in recent years (Table 32).

The composition of monetary assets held by households and the nonsocialized sector has also been relatively stable, with some 60 percent of such assets typically taking the form of savings deposits and about 35 percent currency. Except for some use of consumer credit and a very limited use of checking accounts, all payments by households and the nonsocialized sector are made with currency. All payments within the socialized sector, by contrast, take the form of bank deposit transfers. A clear separation of the means of payment thereby results between the consumer goods market and the producer goods market.

The main determinant of the household sector's currency holdings is the development of personal incomes. While the authorities have sought to keep the growth of incomes in line with changes in the available supplies of goods and services in the consumer market, in the past this goal was not always achieved and involuntary savings by households resulted. The savings instruments available to households include interest-bearing passbook accounts, fixed-term deposit accounts, and accounts earmarked for purchases of automobiles and housing. Households are also free to maintain foreign currency accounts with Polish banks. At the end of 1984 deposits in these latter accounts totaled nearly US$1 billion, or about 6 percent of households' total money holdings. An unknown amount of foreign currency is also held outside the banking system.

Until 1982 active use was not made of interest rates or other policy instruments to attract household wealth into the banking system. Since 1982, however, deposit interest rates have been raised, savings deposits revalued by 20 percent (in the wake of the sharp rise in prices in 1982), and the range of savings instruments broadened. To date, however, household deposit rates have remained negative in real terms, generally by a sizable margin (Table 36). Efforts have also been made to encourage enterprises to channel surplus funds into time (or "fixed") deposit accounts, with the decision in 1982 to begin paying interest on such accounts. At the end of 1984, time deposits accounted for 15 percent of the total monetary holdings of entities in the socialized sector (against 11 percent in 1980-81).

c. Role and instruments of credit policy

Enterprises in Poland depend importantly on bank credit as a source of outside finance. There is no capital market and, thus far, inter-enterprise credits have been virtually nonexistent.

Prior to 1982, the principal objective of credit policy was to accommodate the financing requirements of the economic plan. In practice, bank credit was extended liberally with a view to ensuring that the plan's production and investment requirements would be achieved. Thus, bank credit in real terms expanded at an average annual rate of 15 percent during the 1970s.

As part of the recent economic reform legislation, the Banking Law of 1982 provides banks, and in particular the NBP, with greater autonomy. Under this Law, the NBP ceased to be formally subordinate to the Ministry of Finance, and was given responsibility for the formulation of the annual credit plan which, although coordinated with the economic plan, is no longer viewed as automatically accommodating the requirements of the latter. The credit plan and the corresponding projections of household income and expenditures are presented by the President of the NBP to the Council of Ministers and, upon its approval, to the Parliament. In contrast to the State budget, which cannot be changed during the year other than by the passage of a new law, the credit plan takes the form of a parliamentary resolution whose targets--except for credits to households and to State budgetary entities--are not binding. The plan specifies the target levels of investment credits for each industrial activity and the target levels of working capital credits by sector.

The Banking Law calls for the application of lending criteria that are compatible with the self-financing principle for enterprises. As noted in Chapter III, the principal criteria presently governing the extension of credit for new projects relate to the profitability of the borrowing enterprise, the gestation period of the proposed project, the repayment period of the credit, and the proportion of the investment to be financed from internal sources. Investment credits are extended only to profitable enterprises and only within the estimated limits of an enterprise's ability to repay. 1/ Priority is given to loans to finance modernization investment with the prospect of quick returns, as opposed to loans for the completion of unfinished investment projects and for working capital purposes. These guidelines are, however, waived in the case of centrally-directed operational programs (see Chapter III), where credits are extended solely on the basis of need, and also in the case of projects approved prior to 1982. In addition, preferential access to credit is granted to foreign trade enterprises, the food processing industry, and production for export.

The 1982 reforms envisaged a more active interest rate policy to ration credit more efficiently and discourage recourse to bank finance. In line with this, the basic rate on bank credits to enterprises has been raised in steps since 1982, from 8 percent to 12 percent (Table 37). Many bank credits, however, enjoy preferential rates, and in the first half of 1985 the average interest rate on all loans to entities in the socialized sector was less than 6 percent. 2/ The cost of bank finance has thus remained negative in real terms and has had little influence on credit flows. In these circumstances, and in the absence of other policy instruments, direct controls on bank credit have remained the main instrument of monetary management.

In line with efforts to strengthen enterprises' financial self-reliance, a Bankruptcy Law came into effect in October 1983. The law provides for a three-stage process in dealing with enterprises experiencing financial difficulties. During the first stage, the Managing Director of the enterprise is required to draw up a financial recovery program, which must be approved by the enterprise's founding body, by its self-management

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1/ Where these criteria are not met, but an investment project is considered warranted for social or structural reasons, financing is to be provided directly from the budget. During a transitional period, however, such projects are being financed in full by bank credits, against a guarantee by the budget for the amount in excess of the enterprise's repayment capacity.

2/ This was less than the average interest rate on bank deposits (7-7 1/2 percent). Interest rate subsidies from the budget to the banking system thus continued to be needed.

body, and by its bank if the program requires credit financing. Such a program must provide for the enterprise to achieve a significant improvement in its financial position within two years. If the program is not accepted. or if after two years the financial position of the enterprise has not improved, the second stage is reached under which the founding body is required to appoint an "Extraordinary Commission" to take over the management of the enterprise or liquidate the enterprise. If it should not prove possible to restore financial viability, the founding body is obliged, under the third stage, to begin proceedings to liquidate the enterprise. In early 1985 some 1,000 enterprises with financial difficulties were being investigated under the Bankruptcy Law. Of these, 227 were subject to one of the stages described above: 156 enterprises were operating under an approved rehabilitation program, 11 enterprises were under the supervision of an Extraordinary Commission, and 60 enterprises were being considered for liquidation.

d. Recent trends

The 1970s were characterized by a rapid rate of monetary expansion, with broad money increasing at an average annual rate of 16 percent, or some 5 percentage points faster per year than the average growth of nominal GDP. At root was an increase in domestic credit of 20 percent a year, only part of which flowed out through the balance of payments. During 1980-81 credit expansion remained in the order of 20 percent which, in circumstances of a sharp fall in domestic economic activity, added substantially to excess liquidity in the economy. In total, broad money increased by more than 40 percent between end-1979 and end-1981, compared with a cumulative increase in nominal GDP over the same period of only 13 percent.

In 1982 a sizable monetary correction ensued. While the growth of the main money and credit aggregates accelerated, nominal GDP more than doubled under the influence of very substantial adjustments in prices. As a result, the ratio of GDP to broad money recovered to close to its level of the mid-1970s. During 1983-84 credit policy remained relatively restrictive and the income velocity of broad money rose further. As against an increase in nominal GDP of close to 25 percent a year over this period, domestic credit increased by 11 percent a year and broad money by some 15 percent a year.

The main change in the structure of domestic credit in recent years has stemmed from the recourse of the central government to the banking system, following the shift of the budget into deficit. At the end of 1984, credit to the government accounted for 9 percent of gross domestic credit of the banking system, compared with zero percent in 1980. Socialized enterprises remained the dominant users of bank credit at end-1984, absorbing 85 percent of the total (against 95 percent at end-1980), with the remainder of such credits divided fairly evenly between nonsocialized enterprises (including agriculture) and households.

Similarly, the most striking development in the composition of the domestic liabilities of the banking system in recent years has been a sharp rundown in the central government's deposits, from 29 percent of the banks' total domestic liabilities at the end of 1978 to 14 percent at the end of 1981 and less than 5 percent at end-1982 (Table 34). Much the larger part of the reduction between end-1978 and end-1981 (some 11 percentage points) was mirrored in an increase in the share of such liabilities held by households and the nonsocialized sector. Occurring at a time when, judging from the movement of the income velocity of money, substantial excess liquidity was being created, and at a time when consumption expenditure was severely constrained by the declining availability of goods and services on the market, the increase in the share of monetary liabilities held by households and the nonsocialized sector is widely believed to have reflected a sizable involuntary accumulation of monetary assets. This, in turn, may have led to increased activity and price levels in the unofficial markets comprising the "second economy." Tentative estimates by the NBP put the liquidity overhang in the household sector at about Zl 500 billion (or the equivalent of some 14 percent of private consumption expenditure) at the end of 1982 and Zl 600 billion (11 percent of consumers' expenditure) at the end of 1984. In 1983 and 1984 additions to the overhang are thought to have been significantly smaller than in earlier years as the result of a closer matching of household income growth with the rate of increase in prices and in the supply of goods and services.

In contrast to developments in government deposits and household liquidity, the financial asset holdings of socialized enterprises have exhibited considerable stability in relation to domestic bank liabilities in recent years. Except in 1982, when there was a substantial increase in enterprise liquidity as a result of the emergence of a sizable financial surplus in their operations, broad money holdings of socialized enterprises have been between 20 percent and 22 percent of domestic bank liabilities since 1980. Notwithstanding the tendency in recent years for such holdings to fall in relation to GDP, enterprises are generally considered still to be amply endowed with liquidity.

Preliminary data for the first half of 1985 indicate a marked acceleration in the rate of monetary expansion (with broad money rising at an annual rate of 23 percent), an appreciable increase in the monetary asset holdings of both households and enterprises, and a renewed widening of the imbalance in the consumer goods market.

V. Balance of Payments and External Debt

1. Statistical note

Analysis of developments in Poland's foreign trade and balance of payments is complicated by the difficulty of valuing transactions denominated in nonconvertible currencies on a comparable basis with transactions denominated in convertible currencies. While price and value data for Poland's trade with nonsocialist countries in convertible currencies substantially reflect the operation of competing market forces, similar data for intra-CMEA trade in nonconvertible currencies--which accounts for the larger part of Poland's total trade--reflect the operation of different price-determination procedures. The prices of certain traded goods within the latter area are set by reference to a five-year moving average of world market prices; other prices involve a considerable element of bilateral bargaining. In consequence, transactions prices for homogeneous goods, when converted at the applicable exchange rate, may and do differ substantially between the two areas. Aggregation of trade and payments data for the two areas has thus been avoided to the extent possible in the accompanying set of tables.

2. Overview

In the first 25 years after World War II, Poland's external current transactions were relatively small in scale and broadly in balance with both the convertible and nonconvertible currency areas. Beginning in 1970, in a major shift in policy strategy, a program of economic modernization was initiated which relied heavily on imports of capital goods and technology from the West, financed by foreign loans. In the event, this program failed to generate export earnings on the anticipated scale. As a result, the current account deficit in convertible currencies mounted rapidly, reaching US$3 billion (9 percent of GDP) by 1975 (Table 38). Subsequent steps to restrain domestic demand led to a marked slowing of import growth, but the effect on the current balance was largely offset by sharply rising interest payments on a burgeoning external debt. The current account deficit thus changed little, oscillating between US$2.5 billion and US$3.5 billion during the second half of the 1970s. By the end of the decade external debt in convertible currencies had reached US$24 billion, equivalent to three times the level of total current receipts in such currencies.

Mirroring the build-up in debt, but also as the result of a marked rise in international interest rates, in 1980 debt servicing obligations in convertible currencies increased by nearly US$2 billion, to the equivalent of almost 100 percent of external current receipts. In meeting these obligations, the Government severely depleted its foreign exchange reserves. In 1981, external liquidity pressures became overwhelming when a further sharp increase in debt servicing obligations coincided with a collapse in creditor confidence which was reflected both in a drop, by close to half, in the inflow of new medium-term credits and in a sizable outflow of short-term capital (Table 39). In these circumstances, a considerable proportion of payments due to Western governments and banks in 1981 was rescheduled. Original principal maturities due to banks in each of the years 1982-84 were also subsequently rescheduled. Despite the debt relief, and despite an improvement in the trade balance after 1981, payments arrears accumulated in 1981 and increased steadily over the three following years as inflows of medium-term credits all but ceased. At the end of 1984, total external payments arrears in convertible currencies amounted to US$11.8 billion; of this total, US$11.1 billion (consisting of US$7.2 billion of principal arrears and US$3.9 billion of interest arrears) was owed to official creditors. The latter arrears to official creditors were rescheduled during 1985.

In response to the payments crisis, there has been a significant, albeit erratic and inadequate, improvement since 1979 in the trade and current account balances with the convertible currency area. Thus, the trade balance swung from a deficit of US$2.2 billion in 1979 into a surplus of US$1.4 billion in 1984, underpinning a reduction in the current account deficit of US$2.3 billion, 1/ or the equivalent of some 4 percentage points of GDP. The improvement rested principally on a large cut back in imports, with the volume of imports from nonsocialist countries (a rough proxy for the convertible currency area) falling by nearly one half on balance over the five-year period while the volume of exports remained essentially unchanged. In 1984, however, the current account remained in deficit, by US$1.2 billion (1 1/2 percent of GDP).

In contrast to the development of the balance of payments in convertible currencies, the current account in nonconvertible currencies was broadly in balance over the 1970s and then weakened perceptibly--freeing resources for the Polish economy--in the early 1980s. In 1982, however, a strong recovery in the volume of exports to socialist countries, coupled with a further decline in the volume of imports from such countries, was instrumental in reversing most of the earlier increase in the current account deficit, and in 1983-84 the deficit stabilized at a relatively low level (Table 41).

In the first nine months of 1985 the trade surplus in convertible currencies ran some US$400 million behind the level recorded in the same period of 1984, as severe winter weather adversely affected the supply of exportables and as the pace of implementation of adjustment policies slowed. In this period the volume of exports in convertible currencies is estimated to have fallen by some 2 percent, year-on-year, while import volume rose by nearly 10 percent. The reduced trade surplus is being

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1/ In their national presentation of the balance of payments, the Polish authorities record as interest payments only payments actually made and not accrued obligations. In that presentation, the current account in convertible currencies in 1984 is thus shown as having been in surplus (Table 40).

broadly offset by lower interest payment obligations and by a once-for-all increase in receipts from private transfers following a change in exchange control regulations. The current account deficit in nonconvertible currencies, meanwhile, appears to be developing in line with original plans, and for the year as a whole could be reduced by up to US$200 million.

3. Foreign trade

a. Commodity structure

The commodity composition of Poland's foreign trade is summarized in Tables 43, 44, and 45. Exports are heavily concentrated on machinery, transportation equipment, and other capital goods and manufactured products. Among the most important individual export items are coal, copper, sulphur, silver, processed fruit, meat products, rolled steel and metal products, ships and electrical machinery. The commodity composition of imports is somewhat more broadly distributed. Crude oil and petroleum products are by far the most important individual items, followed by natural gas, wheat, and iron ore.

During the 1970s electrical engineering equipment constituted the fastest growing export component to both socialist and nonsocialist countries. In trade with the latter group of countries, exports of fuel also rose relatively rapidly in this period, but declined markedly around the turn of the decade as coal production fell precipitously. Conversely, in response to the more difficult domestic supply situation, and with rising oil prices, the share of fuel in imports from both areas rose very rapidly in the late 1970s and early 1980s. As a result, the trade surplus recorded in energy products in the early 1970s turned into a rising deficit--incurred entirely with the nonconvertible currency area--which by 1981 exceeded US$2 billion (4 1/2 percent of GDP). Similarly, the relatively weak performance of the agricultural sector led in the course of the 1970s both to a marked reduction in the share of foodstuffs and agricultural products in exports to nonsocialist countries and to an increase in their share in imports from such countries. Reflecting this, the trade balance in foodstuffs and agricultural products with the convertible currency area, which was in small surplus at the beginning of the 1970s, weakened progressively, reaching a deficit in 1981 of some US$2.3 billion (more than 4 percent of GDP).

A reversal of many of the foregoing trends started in 1982. With a recovery in coal production, the share of fuels in exports to both the socialist and nonsocialist areas increased substantially between 1981 and 1984, while good grain harvests have contributed to a lowering of the share of food and agricultural products in imports from nonsocialist countries. By contrast, the proportion of exports accounted for by the machinery and engineering sector has fallen since 1981 as shortages of raw materials and component parts, together with technological deficiencies, have undermined export performance.

b. Direction of trade

Developments in recent years in the direction of Poland's foreign trade are shown in Table 46. As noted above, the major part of Poland's trade is with socialist countries, particularly with fellow members of the CMEA. The four major individual trade partners in 1984 were the U.S.S.R. (36 percent of imports and 30 percent of exports, respectively), the Federal Republic of Germany (7 percent and 9 percent), Czechoslovakia (6 percent and 6 percent), and the German Democratic Republic (6 percent and 5 percent).

c. Trends in volume and prices

Changes in the value, price and volume of Poland's exports and imports in recent years are shown in Table 47. Since 1970, four different phases may be distinguished.

The early 1970s were characterized by two features: an unusually rapid growth in the volume of trade with both socialist and nonsocialist countries, and an extraordinarily unbalanced development of trade with the latter group of countries. The second characteristic was reflected both in an average rate of growth in the volume of imports of 27 percent a year between 1970 and 1975 as compured with an average growth rate in the volume of exports of 8 percent a year, and in a shift of the trade balance in convertible currencies from approximate equilibrium to a deficit of some US$3 billion over the same period.

During the second half of the 1970s the growth of foreign trade slackened perceptibly. In the wake of action to restrain domestic demand, the volume of imports from nonsocialist countries fell in each year after 1976, underpinning a reduction in the convertible currency trade deficit to US$2.2 billion by 1979. As domestic activity slowed, the rate of growth in the volume of exports to and imports from socialist countries also decelerated, but in a more balanced fashion, with the result that the imbalance in trade in nonconvertible currencies remained small.

The period 1980-82 was marked by a major decline in the volume of foreign trade, especially with nonsocialist countries. The backdrop was the emergence of a liquidity crisis in convertible currencies which--despite the relief afforded by debt restructuring agreements--dictated a reduction in the volume of imports from nonsocialist countries of more than 50 percent. This impinged on exports to nonsocialist countries (which fell in volume by some 20 percent) but nonetheless shifted the convertible currency trade balance into small surplus in 1982. Trade with the socialist countries also declined in volume terms during 1980-81, but in contrast to the pattern with nonsocialist countries there was a net transfer of resources to Poland as the volume of exports fell by some 25 percent while the volume of imports declined only marginally. In 1982 exports to socialist countries rebounded strongly and the trade deficit in nonconvertible currencies, after increasing by US$1.1 billion in 1980-81, was reduced by US$0.8 billion.

During 1983-84 the volume of trade with both groups of countries expanded anew. The recovery in coal production, combined with good harvests and a more stable domestic economic environment, permitted an increase in the volume of exports of more than 16 percent and 22 percent, respectively, with socialist and nonsocialist countries. Despite a relatively sharper deterioration in the terms of trade in 1983 than in earlier years, this increase in export volume underlay an improvement (to US$1.4 billion) in the convertible currency trade surplus and the maintenance of a broadly unchanged deficit in nonconvertible currencies while, at the same time, facilitating an increase in the volume of imports from each area totaling nearly 15 percent over the two years.

d. Exchange rate policy and export incentives

Prior to the end of 1981 Poland had a complex exchange rate system, with four different rates quoted against the U.S. dollar and three rates against the transferable ruble (Table 55). Of the rates quoted against the U.S. dollar, the most important was the commercial rate, at which at least 90 percent of convertible currency transactions took place. Foreign trade transactions were also subject to taxes and subsidies, one aim being to achieve a broad equalization of foreign with domestic prices. On January 1, 1982, the rates against the U.S. dollar were unified at Zl 80 per US$1 and the rates against the transferable ruble were unified at Zl 68 per TR 1. As compared with the relevant commercial rates in effect at the end of 1981, these changes represented a depreciation of the zloty of about 31 percent and 35 percent against the U.S. dollar and transferable ruble, respectively.

Since the unification, the zloty's exchange rate against currencies other than those of the member countries of the CMEA, Albania and the Democratic People's Republic of Korea has been determined on the basis of a weighted basket of currencies, each with a share of at least 1 percent in external current settlements with the convertible currency area. The basket's composition and the currency weights are set monthly, based on the previous calendar month's convertible currency current account. The zloty's value in terms of the basket is adjusted periodically, on the basis primarily of the difference between foreign and domestic trade prices, and with a view to securing the profitability of 75-85 percent of exports. The latter target (or "submarginal" exchange rate policy) was adopted in order to prevent the emergence of excess profits for major exporters and to contain the degree of imported inflation. Since January 1982 the zloty has been devalued on six separate occasions, each of more than 5 percent, with the latest change being effected in June 1985. Notwithstanding these depreciations, and largely because of rapid domestic inflation, the annual average (trade-weighted) effective exchange rate of the zloty appreciated in real terms by 25 percent in 1982 and 17 percent in 1983 before depreciating by 1 percent in 1984.

Transactions with member countries of the CMEA are for the most part denominated in transferable rubles, and with Albania and the Democratic People's Republic of Korea in clearing rubles. Zloty exchange rates for the transferable and clearing rubles are set at the same level. The rates are changed periodically, with the same objective and according to the same criteria used to determine changes in the zloty's value against the convertible currency basket. Since January 1, 1982 the rates have been devalued on three occasions, with the last change also taking effect in June 1985.

While the authorities have followed a more active exchange rate policy since the beginning of 1982, the extent to which, and the speed with which, domestic prices have been adjusted following an exchange rate change has varied from one product to another. For goods with administratively-set prices, adjustments have typically been either phased in gradually over several years or made at the beginning of the following calendar year. For goods that come under the "contract" (free) price regime, by contrast, the response of domestic prices to an exchange rate change should, in principle, be more immediate.

A more basic interference with--and also supplement to--the role of the exchange rate stems from the operation of an Equalization Settlement System for a significant proportion of foreign trade transactions with both socialist and nonsocialist countries. Under this system, a subsidy (tax) is applied to (levied on) the transaction price received by an exporter or paid by an importer in order to equalize that price (converted into zlotys at the commercial exchange rate) with the price on the domestic market. All goods traded internally at administrative prices are, in principle, subject to the system. On a case-by-case basis, foreign trade taxes and subsidies may also be applied to goods subject to contract prices. In 1984, more than 40 percent (15 percent) of exports to, and more than 30 percent (45 percent) of imports from, nonsocialist (socialist) countries were subject to either taxes or subsidies. In the process, exporters received net equalization subsidies of some Zl 165 billion; this compared with net subsidies of about Zl 20 billion in 1982, with much of the increase reflecting larger subsidies to agricultural exports and to exports to the CMEA area. Importers, by contrast, paid net equalization taxes of about Zl 45 billion (Zl 20 billion in 1982). 1/

Exchange rate policy and the operation of the Equalization Settlement System are also currently buttressed by a number of specific incentives for exporters, which are thought to be necessary to lessen the disincentives to exporting that arise in circumstances of excess demand on the domestic market. First, since 1982 enterprises have been granted retention quotas on the foreign exchange earned from their sale of

1/ In 1980, exporters paid net taxes on an equalization nature of some Zl 35 billion; importers received net subsidies of an equalization nature of about Zl 115 billion.

goods and services in convertible currencies. An enterprise's quota is normally determined in proportion to the (convertible currency) import intensity of its production. The average retention rate is currently about 20 percent. The foreign exchange "retained" under this scheme is not owned by the enterprise; rather, the enterprise has priority rights to purchase foreign exchange up to its cumulated retention claims. An enterprise may use these rights to obtain foreign exchange for the purchase of production-related imports from the convertible currency area either for its own purposes or for those of its suppliers, but for no other purpose. In 1984, the use by enterprises of such priority rights absorbed some 15 percent of foreign exchange applied to the purchase of imports from the convertible currency area. Second, as described in chapter IV, enterprises are entitled to income tax rebates based both on the absolute value and on the incremental value of their exports. Exporters also generally benefit from preferential treatment in the application of PFAZ levies on wage increases. Third, exporters are accorded priority access to, and preferential interest rates on, bank credits.

4. Invisibles

In the early 1970s Poland ran a small surplus on net invisibles in convertible currencies which largely reflected a net surplus on transportation account and sizable inflows from private transfers. In 1974 rising net interest payments led to a deficit on this account, and thereafter the deficit grew rapidly, reaching US$1.8 billion in 1980 as net interest payments rose to US$2.3 billion under the influence both of a sharply rising level of external debt and of a steady increase in the level of international interest rates. 1/ Although net transfer receipts also grew rapidly--to over US$650 million by 1980--these could only partly offset the surge in interest payments (Table 39).

Since 1980, the balance on invisibles in convertible currencies has continued to be dominated by Poland's substantial accrued interest obligations. Between 1981 and 1984 the deficit on this account ranged between US$2.1 billion and US$2.5 billion, with net interest payments obligations averaging US$2.8 billion (or the equivalent of 54 percent of average receipts from merchandise exports) per year. Interest payments actually made, by contrast, fell continuously over this period, with actual payments declining from US$2.5 billion in 1980 (100 percent of obligations) to US$1.2 billion (40 percent of obligations) in 1984 (Table 48). In the process, interest arrears totaling an estimated US$4.1 billion accumulated by end-1984.

1/ The implicit average interest rate on Poland's debt in convertible currencies increased from less than 4 percent in 1973 to 6 percent in 1976, 7 percent in 1979, and 10 1/2 percent in 1980. In 1984, the corresponding figure (partly estimated) remained 10 1/2 percent.

In contrast to the account in convertible currencies, net invisibles in nonconvertible currencies remained in surplus from 1970 to 1984 (Table 38). While there was a net deficit on the travel account and net interest payments increased, the shipping and transportation account remained in strong surplus (Table 41).

5. Capital account and external debt

a. In convertible currencies

The main counterpart to the current account deficit with the convertible currency area during the 1970s was large net inflows of medium- and long-term capital. Gross drawings on medium- and long-term credits rose from under US$300 million in 1971 to US$8.7 billion in 1980, with an increasing part of the disbursements in the latter part of the period being used to finance the repayment of earlier borrowings. In the process, medium- and long-term debt rose from US$2.6 billion at the end of 1973 to US$22 billion at end-1980 (Table 49), and the debt service ratio escalated from about 25 percent to nearly 100 percent of external current receipts (Table 48). Short-term credits played a lesser role in financing the current account deficit, with cumulative net inflows amounting to only US$3 billion during 1971-79 and falling back in 1980.

Rising concern about the sustainability of the balance of payments situation came to a head in 1981 and was manifested both in a sharply reduced availability of new credits and in a further sizable outflow of short-term capital. Disbursements of medium- and long-term credits fell to US$4.9 billion, a sizable proportion of which reflected drawings on previously contracted loans. Subsequently, suppliers' and financial credits all but dried up, with the result that drawings on medium- and long-term credits by 1984 amounted to only US$218 million. In these circumstances, the major source of trade financing in the period since 1982 has been short-term revolving credit facilities provided by Western banks. Net use of these facilities during 1982-84 amounted to nearly US$800 million. Reflecting these various developments, as well as the relief afforded by a number of debt restructuring exercises (see below), the balance on capital transactions (on an accruals basis) swung from a surplus of US$2.2 billion in 1980 into a deficit of US$2.1 billion in 1982 (Table 39). In 1983 the deficit declined by US$0.8 billion, and in 1984 capital transactions were in approximate balance.

Between end-1980 and mid-1985 total external debt in convertible currencies increased by a further US$3.5 billion, to US$27.6 billion. This was substantially less than the cumulative current account deficit over the same period. The disparity largely reflects the fact that approximately one half of the debt is denominated in currencies other than the U.S. dollar, most of which have depreciated substantially against the U.S. dollar since 1980 (see footnote 1 to Table 49). The bulk of Poland's debt at end-June 1985 was of a medium- and long-term nature, with the larger part of such debt consisting of claims held or guaranteed by governments or official agencies (Table 49). A geographical breakdown by creditor countries of the main part of the debt is shown in Table 50.

With the deterioration in the capital account, payments by Poland to service its external debt were reduced sharply after 1980 and fell substantially short of payments due. From US$8.1 billion (100 percent of payments originally due) in 1980, total debt service payments actually made were cut back to US$3.7 billion (41 percent of payments due) in 1981 and to US$1.6 billion (26 percent of payments due) in 1984 (Table 48). The balance was met both by rescheduling principal and interest payments and by incurring arrears, especially to official creditors. Of total original payments falling due during 1981-84, approximately 30 percent were serviced, 30 percent were rescheduled and 40 percent were unpaid. In 1984, Poland's total debt service obligations corresponded to 104 percent of external current receipts (55 percent after allowing for debt rescheduling).

The maturity schedule of medium- and long-term debt outstanding (excluding capitalized interest arrears) at end-June 1985 is set out in Table 51. This indicates a steady reduction in amortization payments due over the remainder of the decade, with a concentration of maturities in 1986-88. A further bunching of maturities is likely to occur in the early 1990s.

b. In nonconvertible currencies

Prior to 1980, Poland's debt in nonconvertible currencies remained small. With the emergence of substantial current account deficits with the nonconvertible currency area in 1980 and 1981, however, such debt increased significantly, to US$2.6 billion 1/ or the equivalent of some 50 percent of merchandise export receipts in nonconvertible currencies. The deficits were to a large extent financed with short-term credits from the International Bank for Economic Cooperation (IBEC), with the credits extended in 1981 being converted in 1982 into two- to three-year credits.

During 1982-84, the current account in nonconvertible currencies remained in deficit, albeit at a much reduced level. While this added to Poland's external indebtedness in transferable rubles, in U.S. dollar terms the level of debt changed little (Table 49), as the U.S. dollar appreciated vis-à-vis the transferable ruble. At the end of 1984 total debt in nonconvertible currencies amounted to US$2.8 billion, the equivalent of about 45 percent of exports in such currencies.

1/ Converted from transferable rubles using cross rates derived from the commercial rates of the zloty vis-à-vis the transferable ruble and the U.S. dollar.

c. Debt rescheduling

Beginning in 1981, in the face of unmanageable debt servicing obligaions, the Government of Poland entered into a series of debt rescheduling exercises with Western governments, Western banks and the CMEA.

Three debt restructuring agreements have been concluded with Western official creditors, the terms and conditions of which are summarized in Table 52. Considerable arrears were incurred by Poland in implementing the first agreement (of April 1981), and as an integral part of the second agreement (of July 1985) Poland undertook to settle all such arrears, including late interest due thereon, in various stages during 1984-85. This is estimated to involve cash payments by Poland totalling some US$0.8 billion. In addition, the July 1985 agreement provides for 50 percent of the moratorium interest due in 1985 on the 1982-84 debt consolidation to be paid on December 31, 1985. This is estimated to involve a further cash payment of some US$0.6 billion.

At a meeting in November 1985 a third agreement was reached with the intergovernmental group of creditors, this time to reschedule 100 percent of the original principal maturities and interest due to the participating creditors in 1985 over a ten-year period, with a five-year grace period. This agreement provides debt relief of some US$1.4 billion in 1985.

Original principal maturities due to Western commercial banks (and not guaranteed by governments) from March 1981 through December 1987 have been rescheduled in four separate agreements, details of which are set out in Table 53. All agreements other than the first have been supplemented by separate agreements providing for short-term credit facilities.

In 1984 there were also a number of agreements rescheduling or restructuring debt obligations in convertible currencies due to the U.S.S.R., IBEC and the International Investment Bank (IIB). These agreements rescheduled certain principal maturities originally due during 1981-84, plus interest arrears to the U.S.S.R. and the IIB, (together totaling some US$1.7 billion) and restructured certain loan payments due to IBEC during 1984-87. Following these reschedulings, at the end of 1984 all payments to entities in the CMEA area were reported to be current.

6. International reserves and foreign assets

Poland's gross external reserves in convertible currencies amounted to US$1.3 billion at the end of 1984 (Table 54). This total comprised 472,000 ounces of gold valued at US$400 per ounce (US$189 million), foreign exchange holdings of the National Bank of Poland amounting to US$138 million, and foreign exchange assets of other state banks totaling US$968 million. Reflecting the severe external payments difficulties in recent years, Poland's state banks have been required to raise substantially the collateral set aside against credits provided to finance imports. Consequently, a large proportion of the rise in foreign exchange reserves since 1980 represents advance deposits made on the opening of letters of credit and other deposits required by overseas commercial banks.

In addition to external reserves, Polish banks and enterprises hold other assets in convertible currencies, consisting primarily of loans and trade credits extended abroad. Such claims at the end of 1984 amounted to some US$1.1 billion. Claims in nonconvertible currencies on the same date totalled US$0.5 billion and comprised mainly short-term assets in transferable and clearing rubles, surplus positions held by foreign trade organizations on bilateral clearing accounts in foreign banks, and claims of enterprises in the form of export bills and suppliers' credits.

VI. Exchange and Trade System

1. Exchange arrangement

The currency of Poland is the zloty (100 groszy = 1 zloty). The principles guiding the determination of the exchange rate are set out in Chapter V. The National Bank of Poland (NBP) quotes exchange rates for the ECU, and for 29 "market-economy" currencies. 1/ Buying and selling rates are set with margins of 0.5 percent about the middle rate, except for notes and coins, for which the margins are 2 percent. Rates are set at least once a week, on Tuesday, and become effective when they are published the next Monday. Provision exists to reset the quoted rates intra-weekly if exchange rates on international markets move by more than 1 percent. Rates for currencies in the basket are usually based on the exchange rates between these currencies in international markets on the day the rates are set. Rates for other currencies are based on the quoted rate for the U.S. dollar and the dollar rates for the relevant currencies in international markets. The buying and selling rates for spot transactions in U.S. dollars on August 31, 1985 were Zl 151.93 and Zl 153.45, respectively, per US$1.

The NBP does not quote forward exchange rates. There are no taxes or subsidies on purchases or sales of "market-economy" currencies for normal business transactions, but a 100 percent surcharge is applied on their sale to tourists traveling abroad.

The NBP sets official rates for transferable and clearing rubles and publishes them each Monday. Exchange rates for transferable and clearing rubles are set at the same level, and remain constant for extended periods of time. Buying and selling rates are set with margins of 0.5 percent about the middle rate. On August 31, 1985, zloty buying and selling rates against transferable and clearing rubles were Zl 87.56 and Zl 88.44, respectively.

The NBP also quotes weekly exchange rates for the zloty against the currencies of CMEA member countries, Albania, and the Democratic People's Republic of Korea. These rates are based on multilateral and supplemental bilateral agreements with the socialist partners, and are used for noncommercial settlements. Buying and selling rates (including for notes and coins) are set with margins of 0.5 percent about the middle rate. A 30 percent surcharge is applied on the sale of these currencies for private trips abroad.

1/ Australian dollar, Austrian schilling, Belgian franc, Canadian dollar, Danish krone, deutsche mark, Finnish markka, French franc, Greek drachma, Indian rupee, Italian lire, Iranian rial, Irish pound, Japanese yen, Kuwaiti dinar, Lebanese pound, Libyan dinar, Luxembourg franc, Netherlands guilder, Norwegian krone, pound sterling, Portuguese escudo, Saudi Arabian riyal, Spanish peseta, Swedish krona, Swiss franc, U.S. dollar, Turkish lira, and Yugoslav dinar.

2. Administration of control

The authority to make basic changes in the Exchange Regulation Law lies with the Parliament. Regulations to implement the law are promulgated by the Council of Ministers and the Ministers of Finance and Foreign Trade. The authority for the enforcement of the foreign exchange regulations rests with the Minister of Finance. The Minister of Finance exercises related functions mainly through the President of the NBP.

Foreign trade is a state monopoly. In practice, therefore, only economic units authorized to do so by the Ministry of Foreign Trade (MFT) may effect exports and imports. At end-August 1985, 347 units were authorized to engage in foreign trade on a permanent basis, 61 of which were specialized foreign trade organizations (FTOs). An FTO is generally authorized to trade in all goods, subject to the limitations of its charter and its rights as specified by the MFT. No FTO has a monopoly in any one item, except where it trades in goods (such as coal) that are basic to the economy. Most of Poland's trade is channeled through FTOs.

In addition to the FTOs, 286 economic units had specific trading rights. Of these units, 89 were (or were affiliated with) major producing and servicing companies. Thirty-eight of the 286 units were legal entities, such as small-scale producers and cooperatives. The remainder were individuals, of which 16 were foreign residents established in Poland. Subject to an appeal in the administrative courts, the MFT is empowered to withdraw the trading right of any unit that ceases to meet the conditions stipulated in that unit's trading authority.

3. Prescription of currency

Payments to and from countries with which Poland has multilateral and bilateral agreements are made in the currencies and in accordance with the procedures set forth in those agreements. 1/ If there are no specific agreements, or if trade takes place outside the scope of the agreements, settlement is made in a convertible currency.

1/ At the end of August 1985, Poland had bilateral payments agreements with Albania, Bangladesh, Brazil, the People's Republic of China, Colombia, Ecuador, Iceland, India, the Islamic Republic of Iran, Democratic Kampuchea, the Democratic People's Republic of Korea, Lao People's Democratic Republic, Lebanon, and Nepal. Poland also had trade agreements with bilateral payments features for certain commodities with Afghanistan, Argentina, Bangladesh, Mexico, and Pakistan. Except for Albania, the People's Republic of China, India, Democratic Kampuchea, the Democratic People's Republic of Korea, Lao People's Democratic Republic, and Nepal, settlements under bilateral agreements were in U.S. dollars. Settlements with the People's Republic of China were in Swiss francs, with India in Indian rupees, with Nepal in pounds sterling, and in clearing rubles with Albania, Democratic Kampuchea, the Democratic People's Republic of Korea, and Lao People's Democratic Republic.

4. Resident and nonresident accounts

a. Resident accounts

Polish residents (natural persons) can hold foreign exchange in the form of currency, stocks, bonds, etc. Three types of foreign currency accounts are available: convertible currency accounts "A" and "N," and socialist currency accounts "S."

(1) Accounts "A" can be freely credited with convertible currency brought or transferred from abroad and/or deposited with a declaration of the sources of the funds (i.e., royalties, copyrights, gifts from nonresidents). Account holders can use the funds freely to, for example, finance tourist travel abroad by them and their next of kin, buy foreign exchange coupons for use in hard currency stores, and effect gifts to family members. The funds on deposit cannot be used for settlements between individuals. Withdrawals in zlotys, converted at the prevailing exchange rate, are freely permitted. Interest is paid in foreign exchange at internationally competitive rates.

(2) Accounts "N", which came into effect on April 1, 1985, can be freely credited with convertible currency without the requirement that the source of the funds be declared. Funds on deposit in these accounts do not earn interest, and may not be transferred or used to finance travel abroad. After one year, the funds on deposit are transferable to an individual's account "A". In all other respects, the modalities of an account "N" are identical to those for an account "A".

(3) Accounts "S" can be credited with socialist country currencies derived from wages, property sales, inheritances, etc., and with transfers from other accounts "S". These funds earn interest, are freely transferable to other socialist countries, and may be freely withdrawn in any socialist country currency, with conversion at the national currency rates quoted by the NBP.

As described in Chapter V, enterprises may earn foreign exchange retention rights against exports in convertible currencies. These rights are held as claims in "ROD accounts". The accounts do not yield interest on call deposits, but, for deposits of US$5,000 or more, they bear interest at competitive rates.

Resident individuals and enterprises may hold foreign exchange accounts abroad with the express permission of the NBP. Such permission is only granted on "proof of necessity."

b. Nonresident accounts

Nonresident juridical and physical persons are free to keep both convertible currency and zloty accounts.

(1) Nonresidents may maintain convertible currency accounts ("C" accounts) at the NBP, the Bank Handlowy, and the Bank PKO. These accounts can be credited with funds brought or transferred into Poland, with transfers from other "C" accounts, and with convertible currency amounts legally acquired in Poland. Deposits are freely transferable abroad, and may be used for purchases from hard currency stores and for gifts to residents. The funds earn interest, payable in foreign currency, at the same rates as account "A" deposits.

(2) Nonresidents are free to open and hold zloty accounts. To ensure compliance with the foreign exchange law, depositors may be asked to declare the source of their zlotys. Drawings on a zloty account require a foreign exchange permit, which is normally granted without restrictions for any internal disbursements. Permits for transfers to nonresidents are granted only for transfers to family members. Apart from zlotys legally earned in Poland, these accounts may also be credited with foreign exchange converted to zlotys at the current exchange rate. Permits for conversion back to foreign exchange or for foreign exchange transfers abroad are normally granted. These accounts do not pay interest; however, nonresidents may also deposit their earnings on savings bank books, which do yield interest.

5. Imports and exports

All imports and exports are subject to a licensing requirement. Licenses are issued by the MFT or by its "full powers" agent employed by the economic unit applying for the license. Only economic units with permanent trading rights may have an MFT licensing agent in residence. These agents issue licenses in the context of a "general authorization," granted to an economic unit by the MFT, which remains valid until the end of the calendar year in which it is issued and specifies the type and amount of the goods. General authorizations are not issued for certain goods. 1/ The MFT must render its decision on the issuance of a general authorization within ten days after an application is filed. The same time limit applies to decisions on the granting of import and export licenses. For statistical purposes, the importation of services requires a license issued by the MFT. No further license is required from the foreign exchange authority for export or import and the performance or use of related services. 2/

1/ Such as those in the area of construction engineering, building technology, and leasing transactions.

2/ Under the penal code, trade in certain goods is prohibited for social reasons.

General authorizations and licenses are readily granted at no cost, provided the relevant regulations are observed and National Plan allocations are not abridged. 1/ Contracts do not become valid, nor may payment orders be drawn, until a license has been issued, except for intergovernmental agreements and instantaneous contracts, such as those of a metals exchange. A license application must be filed within seven days after agreement on a contract is reached. A license remains valid until the final delivery date for the goods, or until the date of final payment. 2/ Customs have the authority to inspect all relevant documents and to issue instructions for eliminating irregularities.

In the event of changes in the contracted provisions, the authorities must be notified of the needed changes in the license within seven days of receipt of the documentation. In the case of a more than 5 percent change in the foreign currency price, and/or errors in data, a new license must be issued. If a license is not fully utilized, the holder must declare this to the authorities within 14 days. 3/ Settlement in foreign exchange is authorized and effected upon receipt, and according to the terms, of valid documents for settlement.

There are no import quotas. The (annual) National and five-year Plans determine import needs by commodity groupings and value. The National Plan allocates the financing for the purchase of the imports into various pools, the size of which is changeable intra-yearly, depending on the availability of foreign exchange and emerging needs. Normally, some 50 percent of convertible currency imports are financed centrally; the State distributes these imports to the enterprises. Enterprise "ROD" accounts are usually expected to finance 15-20 percent of imports. The larger portion of the remaining foreign exchange expected to be available for imports is allocated to the control of branch ministries for enterprise needs related to government contracts and operational programs. The branch ministries also control exchange for their own needs, such as the financing of consumer goods imports by the Ministry of Internal Trade for on-sale to the public. The residual is allocated to the relevant branch ministries for the import needs of the "nonproduction" sphere.

Poland has been a member of the GATT since 1967. Its transitional membership period is still in force. Separate tariff rates apply to imports from countries to whom Poland has granted most-favored-nation status. These rates also apply to imports from GATT members. Imports from developing countries enjoy some preferential tariff treatment.

1/ See below.
2/ In specific cases, the license validity may be extended.
3/ Such a declaration is not necessary if the underutilization amounts to less than Zl 50,000, or does not exceed 5 percent of the price or volume stated in the license.

Travelers may generally import noncommercial goods free of customs duty. Quantity limits may be set on a commodity-by-commodity basis. There are no special regulations on border trade, and no direct taxes on exports. Imports are subject to stamp duties and to turnover taxes at rates akin to those on domestic goods. Exporters are entitled to turnover tax refunds, certain import-duty rebates, and certain income tax drawbacks. As detailed in Chapter V, certain foreign trade transactions are subject to the Equalization Settlement System.

Most trade with Albania, CMEA countries, and the Democratic People's Republic of Korea, is conducted under bilateral agreements negotiated annually in the framework of five-year bilateral trade and payments agreements. Imports from these countries may be exempted from customs duties.

Unless specifically exempted, all foreign currency export receipts must be declared, repatriated, and surrendered to the Polish foreign exchange banks. Exchange received under contractual payment terms must be surrendered immediately; otherwise within one month of its receipt.

Nonresidents may take souvenirs not exceeding Zl 2,000 in value out of Poland free of customs duty. However, they may export goods bought in hard currency stores up to the value of foreign currencies declared at the point of first entry and adjusted for reasonable living expenses.

6. Invisibles

Payments for invisible expenses from merchandise transactions are freely granted, together with the licensing requirement to import. All other invisible transactions are carried out under either a general or an individual permit. Foreign exchange for such payments is made available automatically once the transaction has been authorized.

In principle, permission for tourist travel to countries outside the CMEA area, Albania, and the Democratic People's Republic of Korea, is granted only if means of support abroad is assured. This requirement can be met in one of three ways: (1) living expenses abroad are covered by nonresidents; (2) living expenses abroad are covered by a resident's own funds in a resident account in foreign convertible currencies, or, in special cases, from an allowance obtained from the NBP; or (3) travel is with an authorized tourist group. NBP allowances are subject to a 100 percent foreign exchange tax. For official and business travel, separate allowances are established by the Ministry of Finance to reflect reasonable costs.

Minimum spending or conversion requirements of up to US$15 per day apply to nonresident travelers to Poland. When leaving Poland, tourists from convertible currency area countries can reconvert zlotys up to the equivalent brought into Poland, provided the amount is no more than that originally converted into zlotys less the required conversion amounts. Without a foreign exchange permit, residents may bring into or take out of the country domestic currency in an amount not exceeding Zl 3,000 a person. Nonresidents from CMEA countries may bring into or take out of the country zlotys up to the amount certified by their domestic banks.

Special exchange regulations apply to residents visiting CMEA countries: they are allowed Zl 30,000 each every two years, 1/ and they may use funds in their accounts "S." Part of the travel allowance may be in the currency of the country of repatriation in amounts determined by that country's regulations. For the rest, travelers must acquire travelers' checks in the currency of destination. All conversions are effected with a 30 percent surcharge.

Under certain circumstances, foreign exchange may be made available for study abroad. Students' living expenses and tuition fees abroad must be covered by scholarships or financial support from nonresident relatives. Transfers abroad by nonresident workers in Poland are determined on the basis of agreements between domestic and foreign institutions or enterprises. Nonresident employees of joint ventures may transfer abroad up to 50 percent of their income.

Profits on direct investment by nonresidents can be transferred abroad up to a maximum annual amount of 10 percent of invested capital. If the investment yields a convertible currency export to import surplus in any fiscal year, up to 50 percent of the surplus can be transferred abroad, provided the transfer does not exceed 50 percent of net profit after taxes. The Minister of Finance may permit a transfer in excess of 50 percent of the surplus. On liquidation, the investor can transfer abroad the proceeds from the sale of the remaining assets sold in foreign currency.

7. Capital

Parliament annually sets an upper limit on Poland's permissible external indebtedness. Under the provisions of the banking law, the NBP, Bank Handlowy, and Bank PKO are empowered to borrow abroad and to extend foreign credits. The Minister of Finance sets limits on the foreign borrowing of the banks.

With approval from the Minister of Finance, socialized enterprises may take financial loans from foreign banks. Subject to approval by the Minister of Foreign Trade, in consultation with the Minister of Finance, socialized enterprises are allowed commercial credits granted by foreign banks or suppliers to finance imports. To borrow abroad, a socialized enterprise also requires the consent of its own bank.

1/ Children up to age 7 are entitled to half the allowance.

The government has set general directives for extending commercial credits relating to foreign trade activities. Socialized enterprises may only extend such credits with approval from the Minister of Foreign Trade, who prescribes the contractual conditions in each case. Negotiable export documents are discountable by the Bank Handlowy.

Direct investment by nonresidents is allowed in the field of small industry. A permit is required from the Voivodship on whose territory the investment is to be located. It is valid for up to 20 years, and is issued after the investor has lodged a convertible currency founder's deposit of at least Zl 6.9 million (at the March 31, 1985 rate of exchange) with the Bank PKO. The investor is obliged to import inputs in kind in the form of machinery, materials, technology, etc. The value of such goods cannot be lower than the minimum founding deposit, which yields interest according to the normal bank rate and can be withdrawn after the Voivodship certifies that the investment project is complete. Such enterprises have increased from 259 in 1982 to 683 in 1984, and their combined turnover has risen from Zl 17 billion in 1982 to some Zl 80 billion in 1984.

Nonresident investors in small industry can obtain zloty credits from the Bank PKO to finance both current production destined for the domestic market and exports, and for investment outlays associated with such production. These credits cannot exceed 30 percent of working capital for current production, and are limited to a maximum of 30 percent of the estimated cost of the project for investments. Nonresident investors are exempt from income tax for three years, provided that one third of taxes that would be due are invested in Poland. The normal tax rate for nonresident investors is 80 percent, but allowances are granted if production is directed to final domestic consumption and/or for export, and when new investments are undertaken. In the latter case, allowances of up to 50 percent of the cost of the project may be granted. In practice, the effective tax rate has averaged 60-65 percent of income. For export production, the investor receives the general exemption from custom duties on imports related to such production.

Foreign investment by residents must be approved by the relevant Minister, and by the Minister of Finance in his capacity as the foreign exchange authority. All categories of capital transfers by residents, including gifts, require a foreign exchange permit. For certain categories, such as inheritances, transfers are authorized on the basis of agreements with other countries. Emigrants to CMEA countries may take all their financial assets out of Poland. Emigrants to other countries must obtain an individual permit from the NBP to take out their convertible currency deposits with domestic banks. Other financial assets of such emigrants may be deposited in a nonresident zloty account.

There is no capital market in Poland, and no transactions are effected in securities. Except in the form of an inheritance, nonresidents may only acquire real estate or other immovable property in Poland with the permission of the foreign exchange authority.

8. Gold

Residents may hold gold in any form. Trading in gold, other than jewelry, is subject to permission from the foreign exchange authorities. Only one enterprise, viz., Jubiler, has general permission to buy and sell in gold in any form.

VII. Quota Range

The quota for a new member should be reasonably related to the quotas of existing members considered to be in a broadly comparable economic situation at the time the quotas of all members were last calculated and adjusted. To achieve this it is first necessary to make quota calculations for the prospective member using the quota formulas that were agreed in connection with the Eighth General Review of Quotas. These calculations should employ data for the prospective member that are consistent with those used in the latest quota calculations for existing members. Secondly, as discussed below, the results of the quota calculations are compared with those for existing members of comparable size and characteristics in order to help fit the calculated quota into the structure of actual quotas.

1. Data used for quota calculations

Quota calculations for Poland have been made on the same basis as the quota calculations made in connection with the Eighth General Review. 1/ The economic data used for these calculations (see Table I) ended in 1980, the cutoff date used for the Eighth General Review, and were provided by the Polish authorities.

Table I. Poland: Data Used for Quota Calculation

(In millions of SDRs)

GDP at current market prices, 1980	43,573
Reserves, 1980 monthly average	255
Current payments, average 1976-80	13,638
Current receipts, average 1976-80	11,092
Variability of current receipts, 1968-80	235

The data to be used in the calculations raised a number of issues, which are commented on below:

(i) GDP data - Poland's national accounts are compiled and published in terms of net material product (NMP). The Polish authorities have, however, provided data to make the adjustments necessary so that the GDP equivalent of the Polish national accounts can be obtained in a manner which closely corresponds to the method of compilation used by the United Nations in its system of national income accounting (SNA). The adjustments that have been applied to reconcile the differences

1/ The quota formulas and their use in deriving a calculated quota are set out in Appendix I.

between SNA and NMP definitions take into account production in the nonmaterial sector--mainly value added in services provided to the public (health, education, culture, housing, public administration, defense, and finance).

For the purposes of making quota calculations for Poland, the GDP figure (Zl 2,511.2 billion) was converted into SDR equivalents using the average commercial exchange rate of the zloty against the U.S. dollar. As indicated in Section V, the commercial rate against the U.S. dollar was used for the settlement of trade with Western countries outside the CMEA area. Poland also maintained a rate of exchange for the transferable ruble for the settlement of trade with the CMEA countries under bilateral arrangements, as well as exchange rates for the national currencies of member countries of the CMEA for certain noncommercial transactions. 1/

In 1980, the applicable exchange rates existed in conjunction with a widespread system of taxes and subsidies. The effects of these taxes and subsidies have been examined in order to assess whether they would affect the conversion rate to be applied to the GDP figure that enters into the quota calculations. This examination revealed that approximately 80 percent of Poland's export trade with convertible currency countries in 1980 was judged to be profitable (before taxes and subsidies) at the commercial exchange rate against the U.S. dollar, and the net effect of taxes and subsidies (on exports and imports) was found to have been relatively small in that year. In general, the extent and pattern of foreign trade taxes and subsidies in 1980 would suggest that the degree of overvaluation of the zloty was not large in that year, despite the subsequent considerable depreciation in nominal terms of the commercial exchange rate against the U.S. dollar. In view of these considerations, it seems reasonable to use the commercial rate for the zloty in 1980 for the purpose of converting GDP expressed in terms of local currency into SDR equivalents. 2/

(ii) Official reserves - Reserves available to the authorities for balance of payments purposes in 1980 consisted of gold and convertible foreign exchange held by the National Bank of Poland and other official banks. The monthly average level of these reserves in 1980, with gold valued at SDR 35 an ounce, was SDR 255 million (see Section V).

1/ The exchange rates prevailing in 1980 were as follows:

Zl 44.28 per U.S. dollar (average commercial rate)
Zl 31.76 per U.S. dollar (noncommercial rate, at year-end)
Zl 44.44 per transferable ruble (average commercial rate)
Zl 21.23 per U.S.S.R. ruble (noncommercial rate, at year-end)

2/ The use of a somewhat different rate for the zloty for purposes of converting GDP into SDR equivalents has only a limited effect on the quota calculations, reflecting the working of the multiplicative factor in the quota formulas.

(iii) External trade in goods and services - While data on trade and other current payments and receipts with convertible currency countries were provided in terms of U.S. dollars, data on transactions with Poland's CMEA partners were, however, compiled in terms of tranferable rubles. In order to determine the SDR equivalents of these transferable ruble transactions, they were first converted into zlotys at the transferable ruble/zloty commercial rate and then into U.S. dollars at the U.S. dollar/zloty commercial rate. In the view of the staff, this method of conversion seems appropriate because it tends to reflect the average costs of earning or saving one unit of foreign exchange (U.S. dollars or transferable rubles).

2. Quota calculations

The results of the quota calculations made for Poland are shown in Table II. Following established practice, a calculated quota range, amounting to SDR 1,314-1,477 million, has been derived from the results of the calculations based on the one hand from the Bretton Woods formula (reduced), and the average of the two lowest of the four remaining calculations on the other; the upper end of the calculated range, i.e. SDR 1,477 million, is regarded as the calculated quota for Poland.

Table II. Poland: Quota Calculations 1/

(In millions of SDRs)

Bretton Woods formula, reduced	1,477
Bretton Woods formula, reweighted and modified	
Scheme III	1,590
Scheme IV	1,423
Bretton Woods formula, linear, reweighted and modified	
Scheme M4	1,357
Scheme M7	1,271
Average of the two lowest of the reweighted and modified formulas	1,314

1/ The formulas used in these calculations are set out in Appendix I.

Calculated quotas as determined under the Eighth General Review exceed on average the actual quotas resulting from that review by a large margin. 1/ In these circumstances, it is not appropriate to

1/ The ratio of actual quotas to the calculated quotas was 43 percent for all members and 58 percent for the non-oil developing countries as a group.

regard the absolute size of the calculated quota as necessarily indicative of the size of the initial quota of a new member. The calculated quota for a member can be regarded instead as a composite index of a country's economic size which, taken together with the calculated quotas of other members, is a useful indicator of the relative position of a prospective member within the Fund as a whole and, more particularly, within a group of existing members of broadly similar economic size and character.

After account is taken of the fact that actual quotas are on average much smaller than calculated quotas, the quota of a new member should be fitted in the range of actual quotas of existing members of comparable economic size. In this connection, it will be noted that existing quotas are the result of both past policies regarding quota increases and the evolution of the economies of the existing members since they joined the Fund. Intervening changes in quota shares for members do not usually fully reflect the changes in the economic situations of the members that occurred during the years between quota reviews partly because uniform general quota increases have outweighed selective quota increases in the past. As a consequence, relatively large differences exist between members' shares in actual and in calculated quotas, and in view of these differences it is the practice to compare data and the calculated quota for the prospective member with those of a fairly wide range of existing members.

3. Comparisons of quota calculations for Poland with those for broadly comparable members

The list of countries shown in Table III includes those members whose calculated quotas, GDP, or current account data fall within a range of the order of one-third around the corresponding data for Poland.

As can be seen from the table, Poland is somewhat below the median in terms of GDP for the members listed. Poland's GDP is of the same order as that of Venezuela (actual quota SDR 1,372 million), Turkey (SDR 429 million), Korea (SDR 463 million), Norway (SDR 699 million), and Romania (SDR 523 million). Poland has a somewhat higher ranking, near the 70th percentile, in terms of total current account. Its total current account data are relatively close to those for Nigeria (SDR 850 million), Mexico (SDR 1,166 million), Venezuela (SDR 1,372 million), and Iraq (SDR 504 million). It can also be seen that Poland has a stable external trade that is large relative to GDP--its ratio of current receipts to GDP is close to those for Venezuela (SDR 1,372 million), Sweden (SDR 1,064 million), Denmark (SDR 711 million), and Finland (SDR 575 million). Poland has exceptionally low reserves and variability of current receipts in comparison with virtually all the members listed.

TABLE III. DATA USED IN EIGHTH REVIEW QUOTA CALCULATIONS FOR POLAND AND COMPARABLE DATA FOR EXISTING MEMBERS OF SIMILAR SIZE AND STRUCTURE

(IN MILLIONS OF SDRS UNLESS OTHERWISE NOTED)

MEMBERS WITH CALCULATED QUOTAS, GDP, OR CURRENT ACCOUNT DATA THAT ARE WITHIN ONE-THIRD OF THOSE FOR POLAND 1/	ACTUAL QUOTA	CALCULATED QUOTA	RATIO OF ACTUAL TO CALCULATED QUOTA	GDP	RESERVES	CURRENT PAYMENTS	CURRENT RECEIPTS	TOTAL CURRENT ACCOUNT	VARIABILITY OF CURRENT RECEIPTS
IRAQ	504.0	2,712	0.19	31,795	20,514	8,624	13,719	22,343	1,585
MEXICO	1,165.5	2,534	0.46	143,169	2,021	14,335	10,870	25,204	688
NIGERIA	849.5	2,491	0.34	69,023	6,476	12,814	12,717	25,532	1,579
VENEZUELA	1,371.5	2,329	0.59	46,121	5,686	12,047	11,369	23,416	1,537
AUSTRIA	775.6	2,246	0.35	59,240	4,031	18,815	17,005	35,820	488
NORWAY	699.0	2,076	0.34	44,045	3,928	16,811	15,229	32,040	628
KUWAIT	635.3	2,013	0.32	20,182	2,473	6,000	14,383	20,383	1,520
LIBYA	515.7	1,933	0.27	25,785	8,095	6,867	11,254	18,121	1,299
SOUTH AFRICA	915.7	1,913	0.48	61,447	1,099	13,036	14,023	27,059	809
KOREA	462.8	1,905	0.24	44,933	2,300	15,203	13,464	28,667	653
ARGENTINA	1,113.0	1,903	0.58	118,090	6,757	6,712	6,524	13,236	519
DENMARK	711.0	1,898	0.37	51,073	2,141	16,459	14,530	30,989	397
INDONESIA	1,009.7	1,841	0.55	53,656	4,109	10,837	11,014	21,851	950
YUGOSLAVIA	613.0	1,427	0.43	53,335	809	11,504	10,184	21,688	300
ALGERIA	623.1	1,377	0.45	30,700	2,800	8,810	7,265	16,074	718
FINLAND	574.9	1,291	0.45	28,363	1,477	9,759	9,437	19,196	416
MALAYSIA	550.6	1,192	0.46	18,210	3,392	7,396	7,669	15,065	500
ROMANIA	523.4	1,036	0.51	43,120	416	8,074	7,270	15,344	180
HUNGARY	530.7	1,017	0.52	16,974	1,236	8,922	8,145	17,067	177
TURKEY	429.1	868	0.49	45,167	893	5,426	3,745	9,171	246
GREECE	399.9	838	0.48	31,136	824	6,908	5,774	12,683	130
POLAND	--	1,477	--	43,573	255	13,638	11,092	24,730	235

1/ EXCLUDED FROM THIS LIST ARE CHINA, INDIA, SINGAPORE, AND THE UNITED ARAB EMIRATES BECAUSE THE RELATIONSHIPS BETWEEN ACTUAL AND CALCULATED QUOTAS FOR THESE COUNTRIES ARE SUBSTANTIALLY DIFFERENT FROM THOSE OF THE OTHER MEMBERS IN THE TABLE. SINGAPORE AND THE UNITED ARAB EMIRATES DID NOT CONSENT TO QUOTA INCREASES PROPOSED FOR THEM UNDER THE EIGHTH QUOTA REVIEW.

It may be recalled that GDP and current account data are the principal factors in determining members' calculated quotas, with each factor accounting for about 40 percent of the total of calculated quotas. The remaining 20 percent weight in the overall structure of calculated quotas is attributable to variability (about 15 percent) and reserves (5 percent) regarding which, as already noted, Poland ranks at or very close to the bottom among the members shown in Table III. It should be noted in this connection that while variability and international reserves are not measures of relative economic size, these variables are considered to have an important bearing on the size of individual members' quotas. Reserves normally provide an indication of a member's ability to help finance the Fund. The coefficient for variability was reduced by 20 percent when the quota formulas were revised in 1983, but the variability factor was still considered a useful indicator of the extent of potential changes in members' external positions which affect both their need for and ability to provide Fund resources. Poland's low reserves and relative stability of its external receipts, as well as the particular weighting features of the quota formulas, would tend to place Poland's rank in terms of the more comprehensive measure of the calculated quota in the lower half of the group of countries listed in Table III. 1/

It would seem from the above comparisons that Poland's quota could fall within a very wide range. However, if all the various indicators are taken together, as customarily reflected by the calculated quotas, Poland ranks 14th among the 22 countries in Table III (or at about the 35th percentile). As can be seen from that table, and taking into account that Poland's economic size and the characteristics of its economy as reflected in the factors used to calculate quotas, including the large share of trade relative to GDP, Poland's initial quota would seem to be broadly comparable with Yugoslavia (actual quota SDR 613 million), Algeria (quota SDR 623 million), Norway (SDR 699 million), Denmark (SDR 711 million), and Austria (SDR 776 million). The range encompassed by the actual quotas of these members, SDR 613-776 million is, however, rather wide.

In these circumstances, it seems appropriate, as has been done in other similar cases, to examine other approaches that bear on the question of how to fit the initial quota for Poland into the somewhat disparate structure of actual quotas while still reflecting its actual economic size in relation to other members:

(i) Poland's share in the total of calculated quotas amounts to 0.701 percent; applying this proportion to the total of actual quotas would yield an initial quota for Poland of SDR 630 million. 2/

1/ The median actual quota for countries in the lower half of the table lies below SDR 613 million (Yugoslavia).

2/ It may be noted that this calculation is equivalent to applying the actual ratio of actual to calculated quotas for all members (43 percent) to Poland's calculated quota.

(ii) If the median ratio of actual to calculated quotas for the members listed in Table III were applied to Poland's calculated quota, this would yield a quota of SDR 665 million; excluding the industrial countries in the list, the same calculation would yield a quota of SDR 680 million; 1/

(iii) If the ratio of actual to calculated quotas of Eastern European members (48 percent) were applied to Poland's calculated quota, this would yield a quota of SDR 710 million; and

(iv) If the ratio of actual to calculated quotas for those non-oil developing countries with quotas below SDR 2 billion (53 percent) was applied to Poland's calculated quota, the initial quota would be of the order of SDR 780 million.

The above calculations based on ratios of actual to calculated quotas of all members and of various broadly comparable groups of countries yield a relatively wide range of SDR 630-780 million.

(v) Poland is an original member of the Fund and its quota of $125 million was indicated in Schedule A of the Articles of Agreement. Poland withdrew from the Fund in 1950. As in the case of China, quota calculations have been made on the assumption that Poland remained as a Fund member. The calculations are presented in Appendix II and yield a range of SDR 750-1,057 million. As was indicated when such an exercise was made for China in 1980, such calculations can be none other than hypothetical as both the membership and the structure of quotas have significantly changed as compared to that in 1950; consequently these calculations are not taken into account in the further analysis. 2/

4. Suggested quota range

The foregoing analysis has yielded fairly wide ranges of SDR 613-776 million and SDR 630-780 million, within which the quota of Poland might be determined. In determining the ranking of a prospective member, it will be recalled that differences in quotas between members of 5 percent or even less have been the object of considerable debate in the context of past quota reviews and by various membership committees. It is, therefore, desirable to pinpoint more closely where, within the range, the quota of Poland might lie. The following considerations might facilitate this process.

1/ The ratios of actual quotas to calculated quotas for the members listed in Table III average 42 percent and typically range from 34 to 52 percent with a median of 45 percent. Excluding the industrial countries thus listed, the median ratio of actual to calculated quota is 46 percent.

2/ China was an original Fund member that did not participate when the first seven quota reviews were conducted; its quota remained at SDR 550 million until September 1980.

In their discussions during the Eighth Review and in recent membership committees, Executive Directors have stressed the principle of adjusting shares in actual quotas toward the corresponding shares in calculated quotas. A quota based on Poland's share in calculated quotas would be in the order of SDR 630 million. A quota of this magnitude may, however, be regarded to be on the low side taking into account Poland's relatively high ranking in terms of its external trade compared for example to that of Algeria and Yugoslavia (quotas of SDR 623 million and SDR 613 million respectively). Likewise, a quota toward the upper end of the range, i.e. a quota of SDR 776-780 million, would seem too high. It would yield a ratio of actual to calculated quota of 53 percent for Poland which is significantly above the ratio of 43 percent for all Fund members; the corresponding share in the total of actual quotas would exceed by about 24 percent Poland's share in the total of calculated quotas. Such a high share would further tend to distort the quota structure. It would also imply a quota for Poland significantly higher than the quotas of several countries listed in Table III, such as Norway and Denmark not to mention Korea.

It would not seem appropriate, therefore, to pitch the initial quota either toward the upper or toward the lower end of the fairly wide range noted above. The following observations might help to narrow the range further.

(i) It would be reasonable to regard Poland as a developing country. As discussed in subsection 3 above, if the median ratio of actual to calculated quotas of the members generally classified as developing in Table III were applied to the data for Poland, an initial quota of SDR 680 million would result.

(ii) If the ratio of actual to calculated quotas of comparable Eastern European members were used to provide an indication of Poland's initial quota, this would yield a figure of SDR 710 million.

The calculations provide a relatively narrow range of SDR 680-710 million. In fitting a quota for Poland within this range, it may be noted that a quota for Poland within a slightly narrower range may be appropriate, say, a range of SDR 690-710 million. A quota in that range would rank Poland's ratio 7th or 9th, i.e., within the upper part of Table IV compared to its ranking in terms of the calculated quota (14th). *While the actual quota share would be larger than Poland's* share in calculated quotas, a quota in either of the two narrow ranges just mentioned is not judged to be excessive in relation with other comparable members. On balance, the various considerations outlined above would suggest that a quota of the order of SDR 690-710 million would seem to fit reasonably well into the overall structure of Fund quotas.

Table IV. Shares in Calculated and Actual Quotas of Members Broadly Comparable with Poland

(In percent or as indicated)

Member	Calculated quota share	Actual quota share	Ratio: Actual quota share to calculated quota share	Ratio: Actual to calculated quota
Iraq	1.2963	0.5645	0.435	0.186
Mexico	1.2114	1.3055	1.078	0.460
Nigeria	1.1905	0.9515	0.799	0.341
Venezuela	1.1133	1.5362	1.380	0.589
Austria	1.0735	0.8688	0.809	0.345
Norway	0.9921	0.7830	0.789	0.337
Kuwait	0.9622	0.7116	0.740	0.316
Libya	0.9239	0.5776	0.625	0.267
South Africa	0.9144	1.0257	1.122	0.479
Korea	0.9106	0.5184	0.569	0.243
Argentina	0.9097	1.2467	1.370	0.585
Denmark	0.9071	0.7964	0.878	0.375
Indonesia	0.8801	1.1310	1.285	0.548
Yugoslavia	0.6822	0.6866	1.007	0.430
Algeria	0.6582	0.6979	1.060	0.452
Finland	0.6169	0.6440	1.044	0.445
Malaysia	0.5697	0.6167	1.083	0.462
Romania	0.4950	0.5863	1.184	0.505
Hungary	0.4860	0.5944	1.223	0.522
Turkey	0.4147	0.4806	1.159	0.495
Greece	0.4005	0.4479	1.118	0.477
Total for members listed above	17.6084	16.7714	0.952	0.406
Of which:				
Developing countries	14.0188	13.6794	0.976	0.416
Non-oil developing countries	6.9943	7.5089	1.074	0.458
Eastern European countries	2.0780	2.3480	1.130	0.482
Industrial countries	3.5897	3.0921	0.861	0.368
Poland	0.7010	--	--	--
(Suggested quota range)		(0.767-0.789)	(1.09-1.13)	(0.47-0.48)

VIII. Initial Subscription Payment

In September 1979, the Executive Board endorsed a set of guidelines for determining the proportion of the subscription that should be paid in reserve assets by a new member. 1/ Guidelines 3 provides that "the amount of the subscription to be paid in reserve assets shall be determined in the light of all the payments of reserve assets made by existing members and the country's external reserve position at the time of membership." A reasonable approximation of the proportion of the subscription paid in reserve assets in the past was considered to be the average of all reserve assets actually paid in terms of the quotas of all members since their membership. Following the completion of payments for quota increases under the Eighth General Review and taking into account subscriptions by countries that have since become members, the proportion of reserve asset payments by all members is 22.7 percent of total quotas.

A reserve asset payment creates a reserve position in the Fund of the same amount and thereby represents a diversification of a country's external reserves that can be mobilized in case of a balance of payments need without cost and at very short notice. Consequently, the payment of a reserve asset does not generally impose an undue burden on the country.

Paragraph 6 of the guidelines states that "there may be circumstances where the new member has a reserve level somewhat below the average level of all members or when other features of its external financial position would seem to call for some mitigation of the payment." 2/ As indicated earlier, Poland's external reserve position has been very weak in the recent past. One third of its gold holdings were sold to meet its current obligations in 1980-81. The significant increase in its foreign exchange holdings in 1981-84 reflected Poland's

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1/ See "Guidelines for Determining the Amount of Reserve Assets to be Paid in Connection with Subscription," Executive Board Decision No. 6266-(79/156), adopted September 10, 1979.

2/ Paragraph 5 of the guidelines states that "Consideration may be given, at the request of a prospective new member, for a payment of reserve asset greater than the average size of payments in terms of all quotas," and "in exceptional circumstances and in light of the actual and prospective balance of payments and gross reserve position of the prospective member (including its ability to acquire or mobilize external financial assets and also any allocations of SDRs that might be in prospect) at the time its application is being considered, the size of the reserve asset payment may be reduced, provided that it is not less than the equivalent of 10 percent of the member's gross reserves or 10 percent of initial quota, whichever was the higher." So far two members were prescribed, at their request, lower reserve asset payments in accordance with this guideline--Belize (18.3 percent) and Vanuatu (15 percent).

need to hold reserves in the form of prepayments for letters of credit to finance its trade transactions, rather than to any substantial fundamental improvement in its external position. As at the end of August 1985, Poland's gross reserves available for balance of payments purposes, including its gold holdings valued at SDR 35 per fine ounce, stood at SDR 907.7 million, or the equivalent of one month's imports at the 1984 level. This is substantially lower than the average reserve holdings for all members which amounted to the equivalent of nearly three months' imports in 1984. On the other hand, it would seem possible to arrange, with the cooperation of another member, for the financing of Poland's reserve asset subscription through a same-day borrowing of SDRs and its repayment from use of the reserve tranche created by the reserve asset payment. Such arrangements have been provided to new members which did not have sufficient reserves at the time that they needed to pay the subscription. 1/ Such an arrangement presumes that Poland became a participant in the SDR Department. Poland could also make the reserve asset payment in the currencies of other members specified, with their concurrence, by the Fund. It is the staff's understanding that Poland would wish to join the SDR Department.

In view of the above considerations, it is suggested that the reserve asset payment for Poland be set at the average level made by all member countries as mentioned above, namely, at 22.7 percent of its initial quota.

Consistent with the past practice, and in order to permit sufficient time for the completion of necessary legal and technical arrangements, including the designations of the fiscal agency and depository and the opening of accounts, it is suggested that Poland be required to pay its subscription within a period of six months after it becomes a member of the Fund.

1/ This arrangement had been used in connection with subscription payments for quota increases under the Eighth General Review and more recently in the case of Mozambique's payment of its initial quota.

Eighth Review Quota Formulas

The symbols used in the specification of the formulas below are: Y = GDP, R = average reserves, P = current payments, C = current receipts, and VC = variability of current receipts. The adjustment factor is applied to each of the four modified formulas (i.e., Schemes III, IV, M4, and M7) so that the total derived under each formula at the time of the Eighth Review equaled that derived under the Bretton Woods formula. For each Fund member the calculated quota is derived at the larger of (i) the Bretton Woods formula or (ii) the average of the lowest two results of the other four formulas. The total of calculated quotas for members that participated in the Review was SDR 209,144.5 million.

Bretton Woods: $(0.01Y + 0.025R + 0.05P + 0.2276VC) \times (1 + C/Y)$

Scheme III:

$(0.0065Y + 0.0205125R + 0.078P + 0.4052VC) \times (1 + C/Y)$
Adjustment factor: 0.87556413

Scheme IV:

$(0.0045Y + 0.03896768R + 0.07P + 0.76976VC) \times (1 + C/Y)$
Adjustment factor: 0.8455136

Scheme M4:

$0.005Y + 0.042280464R + 0.044\,(P + C) + 0.8352VC$
Adjustment factor: 0.89705949

Scheme M7:

$0.0045Y + 0.05281008R + 0.039\,(P + C) + 1.0432VC$
Adjustment factor: 0.89571728

Hypothetical Calculations Based on Poland's Original Quota

Poland was an original member of the Fund with a quota of $125 million which was indicated in Schedule A of the original Articles of Agreement. As indicated during the consideration of a special quota increase for China in 1980, some calculations could be made on the assumption of hypothetical average increases applied to the member's original quota. 1/ Similar calculations have been made for Poland. It is, of course, necessary to assume, which may be implausible, that Poland would have been offered, and would have accepted, the full amount of such average increases at the times they occurred.

If the overall quota increases of 60.7 percent in 1959, 30.7 percent in 1965, 35.4 percent in 1970, 33.6 percent in 1978, 50.9 percent in 1980, and 47.5 percent in 1983, were applied to Poland's original quota of SDR 125 million, Poland's quota would have increased to SDR 1,057 million. If only equiproportional quota increases of 50 percent in 1959, 25 percent in 1965, 25 percent in 1970, 21 percent in 1978, and 50 percent in 1980, were applied to Poland's original quota, Poland's quota would have increased to SDR 532 million with the completion of the Seventh Review. Under the Eighth Review, the traditional distinction between the equiproportional and selective increases was effectively replaced by a distribution formula under which all members received selective increases based on their shares in the total of calculated quotas. If Poland had been a member at the time of the Eighth Review, it would have received an equiproportional increase amounting to 19 percent plus a "selective" quota increase of about SDR 120 million, which would have been based on a share in total calculated quotas of .701 percent and the total of selective increases of all Fund members of approximately SDR 17.4 billion. On this basis Poland's quota would have increased to SDR 630 million if only the equiproportional increase was applied, or to SDR 750 million if both the equiproportional and selective increases were applied.

It is important to stress, as in the earlier case of China, the hypothetical nature of these calculations. It is also worth noting that Poland's relatively large size would in all likelihood have affected all members' relative positions and it also cannot be presumed that the historical quota increases would have been structured as they were if Poland had remained a member of the Fund.

1/ China was an original Fund member that did not participate when the first seven quota reviews were conducted. Poland withdrew from the Fund in 1950.

Table 1. Poland: Selected Economic Indicators, 1978-84

(Percentage change unless otherwise indicated)

	1978	1979	1980	1981	1982	1983	1984 1/
Domestic indicators (in real terms)							
Gross domestic product (SNA basis)	...	...	...	-10.0	-4.8	5.6	5.6
Net material product	3.0	-2.3	-6.0	-12.0	-5.5	6.0	5.6
Consumption	1.7	3.1	2.1	-4.6	-11.5	5.8	4.4
Gross fixed investment	0.9	-7.3	-12.3	-19.1	-13.7	8.8	9.8
Industrial production (gross)	4.9	2.7	—	-10.8	-2.1	6.4	5.2
Agricultural production (gross)	4.1	-1.5	-10.7	3.8	-2.8	3.3	5.7
Consumer prices	8.1	7.0	9.4	21.2	100.8	22.1	15.0
Average monthly wages in the socialized sector (nominal terms)	6.3	9.0	13.4	27.3	51.3	24.5	16.3
Household incomes (nominal terms) 2/	9.1	9.9	12.8	31.5	65.8	22.3	17.9
Fiscal indicators							
State budget revenues	11.0	4.2	5.6	-5.4	109.4	12.6	25.7
State budget expenditures	12.0	11.6	12.3	17.7	75.5	11.0	26.1
State budget balance (as a percentage of GDP)	4.6	1.7	-1.2	-11.5	-2.9	-2.1	-2.2
Direct subsidies (as a percentage of total expenditures)	51.3	55.0	57.9	58.0	44.6	40.0	41.4
Monetary indicators							
Domestic credit	...	11.1	18.9	19.9	23.6	11.1	10.8
Money and quasi-money	...	11.1	12.1	27.3	40.1	15.4	14.0
External indicators in convertible currencies (in terms of U.S. dollars)							
Exports	12.5	15.1	21.1	-31.2	-9.3	6.3	9.9
Imports	7.0	15.4	-0.1	-28.8	-25.5	-9.7	4.2
Trade balance							
In billions of U.S. dollars	-1.88	-2.19	-0.79	-0.75	0.32	1.04	1.36
In percent of GDP 3/	-3.3	-3.6	-1.4	-1.4	0.5	1.4	1.8
Current account balance							
In billions of U.S. dollars	-2.49	-3.47	-2.61	-2.97	-2.15	-1.09	-1.17
In percent of GDP 3/	-4.3	-5.7	-4.6	-5.5	-3.3	-1.4	-1.5
External debt							
In billions of U.S. dollars	20.8	23.8	24.1	25.9	26.5	26.4	26.9
In percent of GDP 3/	36.2	39.0	42.5	48.2	40.5	34.9	35.7
External arrears							
In billions of U.S. dollars	—	—	—	3.5	8.1	10.2	11.8
Commercial exchange rate depreciation (-) or appreciation (+) against U.S. dollar	4.9	2.4	-9.3	-13.6	-39.6	-7.4	-19.4
External indicators in nonconvertible currencies (in terms of U.S. dollars) 4/							
Exports 5/	18.1	7.6	-8.5	-19.7	10.0	4.3	5.1
Imports 5/	14.1	9.6	0.7	-10.2	-4.6	5.6	3.2
Current account balance (in billions of U.S. dollars)	0.03	-0.08	-0.69	-1.27	-0.38	-0.47	-0.49

Sources: Central Statistical Office, Rocznik Statystyczny; and data provided by the authorities.

1/ Provisional.
2/ Includes income in kind.
3/ Gross domestic product in zloty terms is converted into U.S. dollars at the commercial exchange rate.
4/ Transactions in nonconvertible currencies were converted from transferable rubles into zlotys at the TR/Zl commercial rate, and then into U.S. dollars at the Zl/US$ commercial rate.
5/ Balance of payments basis.

Table 2. Poland: Development of Selected Indices, 1970-84

(1970 = 100)

	1970	1975	1978	1980	1982	1984 1/
Real net material product	100.0	159.4	184.1	169.1	140.6	157.3
Industry	100.0	166.7	201.0	189.5	154.5	172.3
Agriculture	100.0	105.3	115.5	92.1	98.0	108.5
Consumption	100.0	151.5	179.0	188.4	159.0	175.6
(Consumption per capita)	(100.0)	(145.7)	(167.3)	(173.3)	(143.4)	(155.8)
Fixed investment	100.0	244.5	238.9	150.7	91.5	112.5
Real household disposable incomes 2/	100.0	161.8	189.3	200.4	179.6	184.4
Consumer prices	100.0	113.3	134.1	157.0	382.0	536.5
Employment	100.0	109.2	112.7	114.2	112.0	112.0
Exports (in U.S. dollars) 3/						
To convertible currency area	100.0	333.4	437.0	609.4	380.6	444.5
To nonconvertible currency area 4/	100.0	255.1	413.0	406.6	359.3	414.7
Imports (in U.S. dollars) 3/						
From convertible currency area	100.0	612.1	631.8	728.5	384.0	361.6
From nonconvertible currency area 4/	100.0	227.0	387.1	427.5	366.2	415.6

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Provisional.
2/ Includes income in kind. Deflated by the consumer price index.
3/ Balance of payments basis.
4/ Transactions in nonconvertible currencies were converted from transferable rubles into zlotys at the TR/Zl commercial rate, and then into U.S. dollars at the Zl/US$ commercial rate. Due to a change in exchange rate regimes in 1970, the 1971 TR/US$ cross commercial rate was imposed in that year.

Table 3. Poland: Breakdown of Gross Material Product (GMP) by Social Sectors, 1970-84

	In Billions of Zlotys at Current Prices	In Percent of Total GMP				
	1984 1/	1970	1975	1980	1982	1984 1/
Socialized sector	6,200.2	81.0	84.8	83.4	80.5	81.3
State sector	5,487.7	71.8	76.1	73.5	71.1	72.0
Cooperatives (including agricultural associations)	687.0	8.9	8.4	9.5	9.1	9.0
Other 2/	25.5	0.3	0.3	0.4	0.3	0.3
Nonsocialized sector	1,419.8	19.0	15.2	16.6	19.5	18.7
Of which:						
Agriculture	917.5	13.5	10.9	11.1	13.6	12.0
Total	7,620.0	100.0	100.0	100.0	100.0	100.0

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Provisional.
2/ Economic units subordinated to social organizations.

Table 4. Poland: Net Material Product, 1971-84

	In Billions of Zlotys at Current Market Prices 1983	1984 1/	(Percentage Change at Constant Prices) Annual Average 1971-75	Annual Average 1976-80	1980	1981	1982	1983	1984 1/
Sources									
Industry	2,967.9	3,561.8	10.8	2.6	-4.1	-14.6	-4.5	5.8	5.4
Agriculture and forestry	1,088.5	1,256.4	1.3	-2.6	-13.8	1.7	5.3	5.8	5.6
Construction	644.3	832.9	12.4	-4.9	-21.4	-25.1	-8.4	7.7	8.1
Transportation and communications	318.3	420.3	12.6	4.1	7.4	-9.0	-13.4	10.0	9.5
Trade	802.2	982.3	11.1	3.2	0.1	-7.4	-13.0	4.3	3.5
Other services	102.8	128.1	14.1	9.0	1.2	1.2	-19.3	9.8	5.7
Net material product	5,924.0	7,181.8	9.8	1.2	-6.0	-12.0	-5.5	6.0	5.6
Uses									
Consumption	4,437.5	5,340.9	8.7	4.5	2.1	-4.6	-11.5	5.8	4.4
Of which: Private consumption	3,749.6	4,455.8	8.5	4.3	2.3	-4.1	-14.6	6.2	3.8
Investment	1,393.0	1,750.8	18.1	-11.8	-29.6	-27.6	-6.6	4.9	7.3
Of which: Fixed investment	1,053.6	1,274.7	19.6	-9.2	-25.4	-24.2	-19.9	9.5	12.3
Total domestic expenditure	5,830.5	7,091.7	11.6	-0.2	-6.0	-10.5	-10.5	5.6	5.0
Net exports of goods and material services, losses, and unallocated items 2/	93.5	90.1	-1.6	0.6	0.3	0.8	4.4	0.9	0.9
Of which:									
Exports of goods and material services	1,192.4	1,515.6	10.9	4.9	0.1	-18.2	6.2	9.2	11.9
Imports of goods and material services	1,070.2	1,346.3	17.5	1.6	-0.9	-19.7	-13.4	5.8	9.4
Net material product	5,924.0	7,181.8	9.8	1.2	-6.0	-12.0	-5.5	6.0	5.6

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Provisional.
2/ Percentage changes are expressed in terms of the contribution of the real trade balance to real growth and exclude losses and unallocated items.

Table 5. Poland: Derivation of Gross Domestic Product, 1980-84 1/

(In billions of zloty; at current market prices)

	1980	1981	1982	1983	1984
1. Net material product	1,991.7	2,160.4	4,753.0	5,924.0	7,181.8
2. Depreciation charges	244.4	258.0	284.4	304.0	438.2
3. Gross material product (1+2)	2,236.1	2,418.4	5,037.4	6,228.0	7,620.0
4. Value added of nonmaterial services 2/	329.9	403.2	618.5	860.1	1,177.4
5. Consumption of nonmaterial services in the sphere of material production 3/	15.3	26.6	46.2	76.5	100.1
6. Other differences 4/	39.5	42.4	63.3	87.6	121.4
7. Gross domestic product (3+4-5-6)	2,511.2	2,752.6	5,546.4	6,924.0	8,575.9

Source: Data provided by the Polish authorities.

1/ The purpose of this table is to show the relationship between net material product (the concept used by the Polish authorities) and gross domestic product on a systems of national accounts (SNA) basis. Data for 1984 are provisional.

2/ Services in the nonmaterial sphere comprise (1) those directed to specific users; and (2) those directed to society as a whole. The first group includes services of the following sectors: (1) housing; (2) education; (3) culture; (4) health and social welfare; (5) physical education, sports and tourism; and (6) nonmaterial communal services (e.g., fire brigade, sanitation, cemeteries). The second group includes services of: (1) scientific institutes; (2) public administration; (3) police and national defense; (4) finance; (5) social and political organizations; and (6) religious organizations.

3/ This was not treated as intermediate consumption in the gross material product concept.

4/ Allowances for business trips, expenditure on social and cultural services to employees, imputed gross output of financial institutions destined for enterprises.

Table 6. Poland: Gross Domestic Product, 1/, 1980-84

	(In Billions of Zlotys at Current Market Prices)					(Percentage Change at 1982 Prices)			
	1980	1981	1982	1983	1984 2/	1981	1982	1983	1984 2/
Consumption	1,910.3	2,301.3	3,931.2	5,096.6	6,228.8	-3.7	-11.0	5.1	4.6
Government consumption	230.8	260.3	454.5	609.7	801.2	-4.5	2.4	3.1	7.5
Private consumption	1,679.5	2,041.0	3,476.7	4,486.9	5,427.6	-3.6	-12.5	5.4	4.3
Gross fixed investment	621.2	513.9	1,117.4	1,394.5	1,780.9	-19.1	-13.7	8.8	9.8
Stockbuilding 3/	40.5	-5.8	433.2	339.4	476.1	-1.2	2.3	-0.5	-0.6
Total domestic expenditure	2,572.0	2,809.4	5,481.8	6,830.5	8,485.8	-8.7	-9.3	5.2	5.0
Exports of goods and services 4/	706.8	638.4	1,077.8	1,192.4	1,515.6	-18.2	6.2	9.2	11.9
Imports of goods and services 4/	780.3	696.5	961.8	1,070.2	1,346.3	-19.7	-13.4	5.8	9.4
Trade balance 3/	-73.5	-58.1	116.0	122.2	169.3	0.7	3.8	0.8	0.8
Unallocated items 3/	12.7	1.3	-51.4	-28.7	-79.2	-1.9	1.1	0.4	-0.1
Gross domestic product	2,511.2	2,752.6	5,546.4	6,924.0	8,575.9	-10.0	-4.8	5.6	5.6

Source: Data provided by the authorities.

1/ On an SNA basis.
2/ Provisional.
3/ Percentage change figures are expressed in terms of the contribution to the change in real GDP.
4/ Exports and imports of nonmaterial services are included as a residual in unallocated items. Their relative size is considered to be small.

Table 7. Poland: Production Developments in Industry, 1971-84

	Real Gross Production (In Percent of Total) 1984 1/	Employment (In Percent of Total) 1984 1/	Annual Percentage Change in Gross Production (In Constant Prices) Annual Average 1971-75	Annual Average 1976-80	1981	1982	1983	1984 1/
Food processing	23.2	12.0	8.9	2.4	-8.6	-5.6	5.8	3.2
Electro-engineering	23.7	32.6	14.4	7.0	-12.0	-0.9	6.9	7.1
Fuel and power	15.6	13.7	6.6	3.3	-10.6	6.2	4.4	2.9
Textiles and leather products	9.2	15.6	8.9	3.4	-10.1	-7.0	3.9	7.2
Metallurgy	8.8	5.1	9.9	3.3	-17.2	-2.7	6.7	3.4
Chemicals	8.5	6.7	12.0	4.3	-11.4	0.1	8.1	5.0
Minerals	3.7	5.6	8.9	3.3	-14.3	2.0	5.9	4.3
Wood and paper	4.4	5.3	9.5	4.1	-10.9	-0.8	9.5	4.1
Other	2.9	3.4	6.6	6.3	6.7	-22.6	8.6	14.3
Total - socialized sector	100.0	100.0	10.5	4.6	-11.4	-2.5	6.2	4.9
Total - economy as a whole			10.4	4.7	-10.8	-2.1	6.4	5.2
Of which:								
Mining			9.4	1.5	-12.9	14.5	4.1	3.2
Manufacturing			10.6	4.9	-10.7	-3.0	6.6	5.8
Memorandum items:								
Total net output of socialized industry (constant prices)			11.0	2.4	-15.0	-4.8	5.3	4.8
Employment in socialized industry			2.7	0.3	-1.1	-5.1	-1.4	-0.7
Net output per unit of labor in socialized industry (constant prices)			8.0	2.1	-14.1	0.3	6.8	5.6

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Provisional.

Table 8. Poland: Sources and Uses of Energy Supply, 1970-1990

(In millions of tons of coal equivalent)

	1970	1975	1980	1981	1982	1983	1984 1/	Plan 1985	Target 1990
1. Domestic production	135.7	164.8	175.3	149.1	169.6	172.0	175.1	175.5	184.2
Solid fuels	129.8	156.6	167.9	141.6	163.3	166.1	168.6	169.6	178.2
Oil and oil products	0.6	0.8	0.5	0.4	0.3	0.3	0.3	0.2	0.1
Natural gas	5.9	6.8	6.1	6.4	5.5	5.1	5.7	5.3	5.5
Other (e.g., hydro electricity, nuclear power, etc.)	0.4	0.6	0.8	0.7	0.5	0.5	0.5	0.4	0.4
2. Imports	15.0	24.7	34.0	29.8	29.1	29.7	30.6	31.6	35.3
Solid fuels	1.2	1.1	1.0	1.1	1.0	1.0	1.0	1.1	1.1
Oil and oil products	12.6	20.6	26.7	22.5	21.3	21.4	22.2	23.3	23.5
Natural gas	1.1	2.8	6.0	6.0	6.4	6.8	6.8	6.8	8.8
Other	0.1	0.2	0.3	0.2	0.4	0.5	0.6	0.4	1.9
3. Exports	33.1	42.7	32.8	16.6	29.1	35.2	42.8	38.2	36.1
Solid fuels	31.3	40.3	30.4	15.4	27.5	33.2	40.3	37.7	38.0
Oil and oil products	1.7	2.1	2.0	1.0	0.7	0.5	0.5	0.5	0.1
Natural gas	—	—	—	—	—	—	—	—	—
Other	0.1	0.3	0.4	0.2	0.9	1.5	2.0	—	—
4. Changes in stocks	0.1	1.1	0.2	—	8.1	3.8	-5.8	-2.4	-2.0
Solid fuels	0.2	0.7	-0.8	0.1	7.6	4.9	-5.9	-2.4	-2.0
Oil and oil products	-0.1	0.4	1.0	-0.1	0.5	-0.6	0.1	—	—
Natural gas	—	—	—	—	—	—	—	—	—
5. Consumption and losses in the energy sector	36.0	44.8	54.0	48.6	50.2	52.9	54.4	...	...
6. Total domestic consumption (= 1+2-3-4-5)	82.5	100.9	122.3	113.7	111.3	109.8	114.3	...	...
By source									
Solid fuels	43.5	45.3	52.1	46.9	47.0	44.8	46.9	...	...
Oil and oil products	7.8	13.3	16.4	15.4	13.5	14.0	13.9	...	...
Natural gas	4.8	7.5	10.0	10.5	10.2	10.2	11.0	...	...
Other 2/	26.4	34.8	43.8	40.9	40.6	40.8	42.5	...	...
By user									
Industry	39.2	47.0	57.7	52.5	48.3	47.3	49.1	...	...
Construction	1.0	2.2	2.7	2.5	2.3	2.4	2.6	...	...
Agriculture	1.5	2.6	3.9	3.7	3.5	4.1	4.5	...	...
Transportation	10.8	10.6	9.4	8.6	8.3	8.3	7.9	...	...
Households	30.0	38.5	48.6	46.4	48.9	47.7	50.2	...	...

	1975/1970	1980/1975	1982/1980	1983/1982	1984/1983
	(Cumulative percentage change)				
Memorandum item:					
Domestic energy consumption per unit of material output	-23.3	14.2	9.4	-6.9	-1.4

Source: Staff compilation from data provided by the authorities.

1/ Provisional.
2/ Defined to include electricity and heat generation, over 95 percent of which is based on coal.

Table 9. Poland: Energy Prices, 1970-84

	1970	1975	1980	1981	1982	1983	1984
I. Coal and electricity							
Average transaction price for hard coal exports (zlotys per ton)	...	...	2,205	3,364	5,196	4,510	4,904
Average price received by coal producers for hard coal exports (zlotys per ton)	...	...	596	644	2,657	2,980	3,277
(As a percent of export prices)	...	...	(27.0)	(19.1)	(51.1)	(66.1)	(66.8)
Average domestic price of hard coal to final users 1/ (zlotys per ton)							
For industrial users	338	372	454	452	1,858	1,682	2,531
For household users	650	650	650	650	2,200	2,200	2,200
Average cost of production of hard coal (zlotys per ton)	339	453	785	1,115	2,014	2,519	3,118
(As a percent of domestic industrial prices)	(100.3)	(121.8)	(172.9)	(246.7)	(108.4)	(149.8)	(123.2)
Average domestic price of electricity to final users 2/ (zlotys per one thousand kilowatt hours)							
For industrial users	432	437	496	506	1,784	1,956	2,258
For household users	900	900	900	900	1,800	1,800	1,800
II. Petroleum products							
Average domestic price of refined oil products to final users							
Gasoline (94) (zlotys per litre)	6.50	11.00	18.00	32.00	32.00	40.00	50.00
Diesel fuel (zlotys per litre)	2.20	7.00	14.00	25.00	25.00	32.00	32.00
Heavy oil (zlotys per kilogram)	1.65	5.10	5.10	5.10	16.10	20.10	20.10
Heating oil (light) (zlotys per kilogram)	1.20	3.80	3.80	3.80	11.15	13.90	13.°

Source: Data provided by the authorities.

1/ The average domestic price of hard coal is markedly less than the average price received for hard coal exports largely on account of quality differentials.
2/ Virtually all electricity is coal based.

Table 10. Poland: Distribution of Agricultural Land Holdings, 1970-84

	In Thousands of Hectares	In Percent of Total			
	1984 1/	1970	1975	1980	1984 1/
Socialized sector	4,451	19.0	21.0	25.5	23.6
Of which:					
State agricultural holdings	(3,543)	(15.4)	(17.1)	(19.5)	(18.8)
Cooperative farms	(704)	(1.3)	(1.7)	(4.0)	(3.7)
Agricultural associations	(86)	(0.5)	(1.2)	(1.4)	(0.5)
onsocialized sector	14,425	81.0	79.0	74.5	76.4
Total	18,876	100.0	100.0	100.0	100.0
Memorandum item:					
Arable land	14,535	100.0	100.0	100.0	100.0
Socialized sector	3,379	17.7	19.9	24.7	23.2
Nonsocialized sector	11,156	82.3	80.1	75.3	76.8

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Provisional.

Table 11. Poland: Production and Yields of Selected Crops, 1971-84

	Annual Average 1971-75	Annual Average 1976-80	1980	1981	1982	1983	1984 1/
				(In thousands of tons)			
Production							
Cereals	20,933	19,495	18,336	19,721	21,166	22,099	24,392
Of which:							
Wheat	(5,605)	(5,089)	(4,176)	(4,203)	(4,476)	(5,165)	(6,010)
Rye	(7,679)	(6,474)	(6,566)	(6,731)	(7,792)	(8,780)	(9,540)
Barley	(3,181)	(3,560)	(3,419)	(3,540)	(3,647)	(3,262)	(3,555)
Oats	(3,158)	(2,434)	(2,245)	(2,731)	(2,608)	(2,377)	(2,604)
Potatoes	47,083	42,742	26,391	42,562	31,951	34,473	37,437
Sugar beets	13,848	14,149	10,139	15,867	15,085	16,364	16,048
Oil plants	573	655	583	505	445	566	934
Fodder-root crops	7,827	9,055	8,044	11,722	10,541	10,351	10,891
Meadow hay	14,700	14,328	12,381	14,749	12,902	14,542	15,493
Straw (from four cereals)	28,889	21,334	20,315	20,497	20,923	24,407	27,859
Vegetables	3,813	4,183	3,847	5,087	4,204	4,368	5,282
Tree Fruits	900	1,363	1,215	1,006	2,457	2,160	1,923
				(Yield per hectare in quintal)			
Yields							
Cereals	25.4	24.8	23.4	24.9	26.1	27.3	29.9
Of which:							
Wheat	(28.2)	(29.3)	(26.0)	(29.6)	(30.7)	(33.6)	(35.2)
Rye	(23.1)	(21.6)	(21.6)	(22.4)	(23.8)	(25.5)	(26.9)
Barley	(28.6)	(27.6)	(25.9)	(27.3)	(29.5)	(29.7)	(33.7)
Oats	(24.5)	(22.8)	(22.5)	(23.6)	(24.0)	(22.8)	(27.9)
Potatoes	177	177	113	189	147	155	174
Sugar beets	309	280	221	338	306	336	340
Oil plants	17.9	19.0	17.3	17.5	16.4	21.7	22.3
Fodder-root crops	315	352	313	430	366	401	433
Meadow hay	58.8	57.4	50.0	59.4	51.9	58.3	62.2
Straw (from four cereals)	37.5	30.1	29.2	29.8	29.7	34.3	38.5

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Provisional.

Table 12. Poland: Selected Data on Livestock Production, 1970-84

(In thousands of heads)

	1970	1975	1980	1981	1982	1983	1984 1/
Livestock herds 2/							
Cattle	10,844	13,254	12,649	11,797	11,912	11,269	11,197
Of which:							
Cows	(6,082)	(6,146)	(5,956)	(5,757)	(5,835)	(5,776)	(5,759)
Pigs	13,446	21,311	21,326	18,480	19,471	15,587	16,657
Of which:							
Sows	(1,505)	(2,035)	(2,427)	(2,184)	(1,962)	(1,613)	(1,765)
Sheep	3,199	3,175	4,207	3,886	3,899	4,104	4,534
Horses	2,585	2,237	1,780	1,726	1,734	1,600	1,537
Hens (in millions of heads)	76.7	88.8	76.1	65.5	60.9	56.4	62.7
Production of livestock producers							
Slaughtered livestock (liveweight in thousand tons)	3,053	4,214	4,397	3,522	3,630	3,512	3,554
Of which:							
Cattle (excluding calves)	(924)	(1,325)	(1,345)	(969)	(1,251)	(1,209)	(1,289)
Calves	(136)	(94)	(76)	(78)	(100)	(93)	(83)
Pigs	(1,654)	(2,299)	(2,216)	(1,740)	(1,894)	(1,786)	(1,643)
Sheep	(47)	(44)	(59)	(53)	(52)	(53)	(61)
Horses	(64)	(77)	(75)	(45)	(40)	(72)	(92)
Poultry	(198)	(343)	(599)	(615)	(265)	(269)	(363)
Cow milk (in millions of litres)	14,499	15,883	16,000	14,880	14,833	15,613	16,243
Hen eggs (in millions)	6,941	8,013	8,902	8,816	7,633	7,642	8,202
Wool (greasy in tons)	8,939	3,450	12,725	11,187	12,482	13,213	15,344

Sources: Central Statistical Office, Rocznik Statystyczny 1984; and data provided by the authorities.

1/ Provisional.
2/ As of June of each year except for hens, data for which are for end of years.

Table 13. Poland: Agricultural Production, 1970-84

(In billions of zlotys at current prices)

	1970	1975	1980	1981	1982	1983	1984 1/
Gross agricultural production	310.7	484.6	755.0	1,305.3	1,838.1	2,085.5	2,333.1
Crops	180.3	263.4	399.1	744.1	1,029.0	1,192.4	1,313.3
Of which:							
Cereals	53.0	66.3	85.8	176.2	299.4	352.3	384.0
Of which:							
Wheat	(18.0)	(20.8)	(21.4)	(38.9)	(63.7)	(90.3)	(94.2)
Rye	(15.9)	(18.5)	(27.4)	(59.7)	(108.5)	(137.8)	(149.0)
Barley	(7.6)	(13.2)	(18.6)	(34.3)	(56.8)	(52.9)	(64.5)
Oats	(8.7)	(8.3)	(8.7)	(21.2)	(34.7)	(34.5)	(37.2)
Potatoes	37.0	61.0	83.4	185.8	245.6	249.0	255.5
Industrial crops	17.3	28.5	28.7	67.6	89.2	108.9	132.7
Of which:							
Sugar beets	(7.7)	(15.0)	(14.4)	(42.0)	(50.6)	(55.6)	(59.4)
Vegetables	11.8	19.2	40.8	60.5	92.7	112.9	152.1
Fruit	6.5	11.2	22.1	34.5	72.5	72.2	79.8
Meadow hay	11.1	16.2	28.9	45.2	40.0	56.5	57.4
Animal production	130.4	221.2	355.9	561.2	809.1	893.1	1,019.8
Of which:							
Livestock slaughtered	61.8	115.1	187.4	256.6	418.7	444.1	496.4
Of which:							
Cattle including calves	(15.9)	(32.7)	(49.2)	(62.4)	(124.7)	(134.6)	(161.8)
Pigs	(38.2)	(68.0)	(106.9)	(149.8)	(247.8)	(248.7)	(254.1)
Poultry	(5.4)	(9.7)	(22.3)	(33.9)	(30.2)	(39.9)	(55.5)
Change in livestock herds	-2.7	0.5	-20.4	8.1	-19.4	-15.8	6.0
Cow milk	39.2	58.4	104.7	190.7	252.5	296.0	336.2
Hen eggs	12.6	17.3	28.5	40.7	73.0	80.8	86.1
Memorandum items:							
Gross agricultural production	310.7	484.6	755.0	1,305.3	1,838.1	2,085.5	2,333.1
Socialized sector	(47.1)	(96.1)	(171.6)	(258.3)	(363.2)	(431.1)	(503.2)
Nonsocialized sector	(263.6)	(388.5)	(583.4)	(1,047.0)	(1,474.9)	(1,654.4)	(1,829.9)
Net agricultural production	113.8	166.4	246.3	558.1	731.5	879.5	1,014.8
Socialized sector	(7.5)	(16.7)	(16.6)	(57.2)	(71.9)	(108.6)	(155.3)
Nonsocialized sector	(106.3)	(149.7)	(229.7)	(500.9)	(659.6)	(770.9)	(859.5)

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Provisional.

Table 14. Poland: State Purchases of Principal Agricultural Products, 1970-84

(In thousands of tons, unless otherwise indicated)

	Total State Purchases	Of which: From Non-socialized Economy	Proportion of Total Agricultural Output Purchased by the State Sector (In percent of total) 1/			
	1984 2/		1970	1975	1980	1984 2/
Total agricultural production (in billions of zlotys)	1,097	795	36.7	46.4	47.7	47.0
Cereals	6,148	3,674	26.5	26.2	22.6	25.2
Of which:						
Wheat	(1,680)	(1,107)	(37.0)	(38.0)	(23.7)	(28.0)
Rye	(3,155)	(2,022)	(19.5)	(24.0)	(20.5)	(33.1)
Barley	(694)	(447)	(31.3)	(23.5)	(27.3)	(19.5)
Oats and mixed grain	(164)	(69)	(10.1)	(4.4)	(6.5)	(3.2)
Pulses	33.1	28.0	28.3	36.4	59.5	32.3
Potatoes	4,367	3,402	10.8	11.1	13.0	11.7
Sugar beets (in million tons)	16	13.2	100.0	100.0	100.0	100.0
Rape and agrimony	949	290	91.5	94.5	98.6	96.0
Vegetables	1,106	1,042	22.7	28.4	25.9	20.9
Fruit	1,244	1,158	43.4	51.8	45.0	53.4
Meadow hay	19	19	0.8	0.7	0.6	0.1
Cattle excluding calves (liveweight)	1,206	858	89.1	93.1	94.7	93.6
Calves (liveweight)	41	38	47.9	51.4	39.2	43.1
Pigs	1,168	117	68.9	85.7	84.6	71.1
Poultry	243	167	45.0	67.4	81.6	66.8
Cow milk (in million liters)	11,507	9,582	36.6	51.1	62.6	70.8
Hen eggs (in million pieces)	2,934	2,318	36.2	35.8	40.4	35.8
Wool (greasy, in tons)	14,303	9,361	96.7	97.2	98.1	93.2

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Output is expressed in terms of gross production, which includes own and intermediate consumption.
2/ Provisional.

Table 15. State Purchase Prices and Free-Market Prices for Selected Agricultural Products, 1970-84

(Average prices in zlotys)

	State Purchase Prices	Free 1/ Market Prices	Ratio of Free Market Prices to State Purchase Prices						
	1984 2/		1970	1975	1980	1981	1982	1983	1984 2/
Wheat (per quintal)	2,227	2,814	1.26	1.23	1.72	1.74	2.38	1.38	1.26
Rye (per quintal)	1,756	2,135	1.45	1.26	1.72	1.49	2.01	1.28	1.22
Barley (per quintal)	2,137	2,477	1.15	1.11	1.56	1.60	1.87	1.21	1.16
Oats 3/ (per quintal)	1,699	2,332	1.57	1.33	1.81	1.82	2.15	1.40	1.37
Potatoes 4/	873	1,114	1.34	1.25	0.92	1.59	1.10	1.34	1.28
Cattle other than calves (liveweight per kilogram)	116	114	0.92	0.82	0.97	1.14	1.10	1.03	0.98
Calves (liveweight per kilogram)	125	160	1.50	1.08	1.28	1.33	1.25	1.21	1.28
Pigs 5/ (liveweight per kilogram)	151	186	1.14	1.07	1.21	1.50	1.36	1.24	1.23
Cow milk (per liter)	20.74	22.0	1.21	1.09	1.04	0.96	1.05	1.05	1.06
Hen eggs (per piece)	9.42	13.0	1.22	1.20	1.34	1.75	1.50	1.45	1.38

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Prices obtained by individual farmers in free-market transactions.
2/ Provisional.
3/ State purchase price data refer to prices for oats and mixed grain.
4/ State purchase price data refer to prices for edible potatoes.
5/ State purchase price data refer to prices for porker pigs.

Table 16. Poland: Sectoral Breakdown of Investment, 1970-84 1/

	(In Percent of Total at Current Prices)			(Percentage Change at 1982 Prices)			
	1970	1980	1984 2/	1981	1982	1983	1984 2/
Material sphere	77.4	73.1	66.1	-23.5	-15.5	7.8	13.7
Industry	38.8	34.6	28.5	-27.2	-12.9	6.2	13.7
Food processing	(3.0)	(2.8)	(3.3)	(3.5)	(-10.6)	(3.5)	(11.2)
Electro-engineering	(8.1)	(8.3)	(6.4)	(-23.2)	(-22.7)	(17.0)	(12.0)
Fuel and power	(10.0)	(11.9)	(9.9)	(-30.7)	(-1.6)	(-3.0)	(8.3)
Metallurgy	(5.0)	(3.8)	(1.7)	(-51.0)	(-38.1)	(5.0)	(30.5)
Chemicals	(5.0)	(3.5)	(2.9)	(-26.3)	(-13.6)	(13.1)	(14.0)
Minerals	(3.1)	(1.3)	(1.1)	(-32.1)	(-15.0)	(14.8)	(29.8)
Textiles and leather products	(2.5)	(1.3)	(1.5)	(-21.0)	(-11.7)	(19.5)	(42.2)
Agriculture	16.1	16.1	17.2	-12.7	-15.6	4.5	4.0
Of which: Nonsocialized	(5.8)	(5.5)	(9.4)	(8.0)	(-1.5)	(9.0)	(3.4)
Forestry	0.4	0.5	0.9	-5.2	-4.1	37.1	16.7
Transport and communications	12.1	10.0	7.1	-37.3	-28.6	11.0	37.3
Construction	4.0	4.5	2.2	-42.7	-47.9	19.3	30.0
Trade	2.4	1.9	2.5	-4.0	-5.7	22.6	10.2
Community services	3.2	4.9	7.1	-7.9	—	9.5	12.5
Other	0.4	0.6	0.6	-15.2	-20.5	18.9	33.3
Nonmaterial sphere	22.6	26.9	33.9	-19.7	-4.7	12.4	7.3
Housing and nonmaterial community services	16.0	21.0	25.7	-20.4	-6.4	11.7	3.5
Of which: Nonsocialized	(6.0)	(5.7)	(9.1)	(-10.8)	(11.2)	(7.0)	(-2.3)
Science and technology	0.7	0.4	0.3	-13.8	-24.0	-13.2	21.2
Education	2.6	1.4	2.6	-6.3	16.0	24.1	16.3
Culture	0.4	0.3	0.2	-43.6	-13.6	26.3	25.0
Health and social welfare	1.1	1.6	2.7	-9.8	19.0	19.1	17.7
Tourism and recreation	0.8	1.3	1.2	-24.8	-32.3	15.9	18.5
Other	1.0	0.9	1.2	-25.0	15.2	-5.8	38.6
Total	100.0	100.0	100.0	-22.3	-12.1	9.4	11.4

	1970	1980	1982	1983	1984 2/
			(In percent of total at current prices)		
Memorandum item:					
Investment breakdown by entity					
Socialized sector	88.5	88.4	79.5	78.5	80.5
State entities 3/	...	...	15.2	12.6	12.6
Local authorities 4/	...	...	11.8	11.6	10.5
Cooperative residential construction	...	11.4	12.4	12.4	11.9
Socialized enterprises	...	...	36.7	38.7	41.8
Other 5/	...	...	3.4	3.2	3.7
Nonsocialized sector	11.5	11.6	20.5	21.5	19.5
Total	100.0	100.0	100.0	100.0	100.0

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ In the Polish classification, investment outlays are classified by the type of enterprise rather than by the type of activity.
2/ Provisional.
3/ Centrally planned investment projects based on government decisions and those realized by budgetary entities subordinate to ministries.
4/ Investments by local authorities include investments by territorial organs, budgetary entities subordinate to voivodships, and municipal residential construction.
5/ Investments realized by various institutions financed with target and social funds (e.g., investments of National Fund for Healthcare and Public Initiative Projects).

Table 17. Poland: Financial Operations and Investments of Socialized Enterprises and Cooperatives, 1982-84 1/

	(In Billions of Zlotys At Current Prices)			(In Percent of Total)		
	1982 2/	1983	1984 3/	1982 2/	1983	1984 3/
Sources of funds	962	1,361	1,719	100.0	100.0	100.0
Internally generated funds	643	824	1,104	66.8	60.6	64.2
Retained profits	(365)	(510)	(659)	(37.9)	(37.5)	(38.3)
Retained portion of capital amortization provision	(201)	(213)	(306)	(20.9)	(15.7)	(17.8)
Basic allocation to social and housing fund	(36)	(50)	(57)	(3.7)	(3.7)	(3.3)
Other internally generated funds	(41)	(51)	(82)	(4.3)	(3.7)	(4.8)
Net borrowing from banks	172	281	297	17.9	20.6	17.3
Change in outstanding credits	(488)	(364)	(395)	(50.7)	(26.7)	(23.0)
Change in deposits (increase -)	(-316)	(-83)	(-98)	(-32.8)	(-6.1)	(-5.7)
Budgetary and extrabudgetary funds	147	256	318	15.3	18.8	18.5
Investment financing from state budget	(86)	(109)	(136)	(8.9)	(8.0)	(7.9)
Other 4/	(61)	(147)	(182)	(6.4)	(10.8)	(10.6)
Uses of funds	962	1,361	1,719	100.0	100.0	100.0
Investment	434	581	782	45.1	42.7	45.5
Stockbuilding	544	551	532	56.5	40.5	30.9
Expenditure on social and housing funds	54	82	122	5.6	6.0	7.1
Other 5/	-70	147	283	-7.2	10.8	16.5

Source: Staff compilation from data provided by the authorities.

1/ Includes socialized enterprises, residential construction and agricultural cooperatives as well as other cooperative enterprises.
2/ Data for 1982 may not be fully comparable with those of later years because of substantial changes in institutional arrangements and accounting practices.
3/ Provisional.
4/ Includes receipts from a variety of extrabudgetary funds.
5/ Includes expenditure from various special purpose funds maintained by enterprises, changes in receivables and other unsettled claims, changes in cash holdings, membership fees in various organizations, miscellaneous transactions, and statistical discrepancies.

Table 18. Poland: The Allocation of the Gross Operating Surplus of Socialized Enterprises 1/

(In billions of zlotys at current prices)

	1980	1981	1982	1983	1984 2/
1. Gross operating surplus	296	-161	1,356	1,640	2,042
2. Payments of turnover tax and other taxes and levies on the gross operating surplus	635	625	651	989	1,201
3. Subsidies 3/	553	770	672	734	938
4. Balancing item	-8	-16	7	-11	1
5. Profits liable to income tax (1-2+3+4)	206	-32	1,384	1,374	1,780
6. Payments of income tax	122	85	846	645	814
7. Profits after tax (5-6)	84	-117	538	729	966
8. Payments to Occupational Training Fund (PFAZ)	--	--	54	69	137
9. Profits distributed to employees and management 4/	16	15	119	150	170
10. Profits retained by enterprises (7-8-9)	68	-132	365	510	659
11. Allocation to reserve funds	3	4	44	70	84
12. Allocation to development funds	65	-136	286	388	453
13. Supplementary allocations to housing and social funds	--	--	12	32	51
14. Other allocations	--	--	23	20	71

Source: Staff compilation from data provided by the authorities.

1/ Includes socialized enterprises, cooperatives for housing construction, agricultural cooperatives, and other cooperative enterprises, but excludes financial institutions. There have been major changes in institutional arrangements and accounting practices in recent years which affect the comparability of data for different years. This particularly applies to comparisons between either 1980 or 1981 and later years. Transactions are recorded on an accruals basis. Entries for particular items involving transactions with the state budget may not therefore be identical to the comparable entries in the budgetary accounts which are on a cash basis.

2/ Provisional.

3/ Includes all subsidies for which payments are made from the budget to enterprises. This treatment differs from that in the budgetary accounts where a distinction is drawn between subsidies to the enterprise sector and subsidies to the population; the latter are subsidies from which the population is the direct beneficiary even though the corresponding disbursement from the budget may be to an enterprise. Subsidies in this table do not include those which involve a disbursement from the budget to a financial institution.

4/ Basic allocations to the reserve and development fund have priority over the distribution of profits to employees. For expositional purposes, however, profits retained by enterprises (line 10) were grouped together.

Table 19. Poland: Income, Expenditure, and Financial Position of Households, 1980-84

(In billions of zlotys at current prices)

	1980	1981	1982	1983	1984 1/
1. Nominal personal money incomes 2/	1,505.5	1,976.6	3,234.8	3,966.2	4,697.6
Payments from Wage Fund	(935.5)	(1,187.7)	(1,735.9)	(2,197.0)	(2,541.5)
Social money benefits	(188.8)	(258.6)	(619.2)	(738.5)	(867.0)
Incomes from nonsocialized agriculture	(169.3)	(276.2)	(449.0)	(469.8)	(506.0)
Incomes from other private sector activities	(51.6)	(76.1)	(118.2)	(158.4)	(178.0)
Other money incomes	(160.3)	(178.0)	(312.5)	(402.5)	(605.1)
2. Taxes and other charges on personal incomes	21.1	24.5	25.6	38.9	58.0
3. Disposable money income (1-2)	1,484.4	1,952.1	3,209.2	3,927.3	4,639.6
4. Consumption and other current money expenditures 3/	1,356.4	1,623.9	2,751.7	3,569.3	4,280.5
Goods	(1,148.0)	(1,388.1)	(2,388.1)	(3,066.9)	(3,649.3)
Services	(185.7)	(213.2)	(315.9)	(445.5)	(562.2)
Other	(22.7)	(22.6)	(47.7)	(56.9)	(69.0)
5. Savings (3-4)	128.0	328.2	457.5	358.0	359.1
6. Borrowing from banks (net)	1.4	2.3	29.0	42.4	46.2
Gross borrowing	(13.5)	(14.6)	(40.3)	(56.7)	(64.1)
Gross repayments	(12.1)	(12.3)	(11.3)	(14.3)	(17.9)
7. Capital expenditure on physical assets (net)	38.4	48.1	94.9	109.6	122.1
Purchases	(42.4)	(49.4)	(96.2)	(115.5)	(128.7)
Sales	(4.0)	(1.3)	(1.3)	(5.9)	(6.6)
8. Change in gross holdings of financial assets (5+6-7)	91.0	282.4	391.6	290.2	283.2
Currency	(54.9)	(104.7)	(193.5)	(98.9)	(101.8)
Bank deposits	(36.1)	(177.7)	(198.1)	(191.9)	(181.4)
Memorandum items:					
Incomes and expenditure in kind	362.4	457.0	816.3	1,036.5	1,293.9
Social benefits	(207.7)	(250.2)	(452.8)	(612.2)	(786.9)
Agricultural income	(85.3)	(135.9)	(218.5)	(235.9)	(257.0)
Implicit income from owner-occupied housing	(12.4)	(12.6)	(23.4)	(29.6)	(58.4)
Other	(57.0)	(58.3)	(121.6)	(158.8)	(191.6)
Savings rate (in percent of disposable money income)	8.6	16.8	14.3	9.1	7.7

Source: Staff compilation from data provided by the authorities.

1/ Provisional.
2/ Excluding incomes in kind.
3/ Including consumption of nonmaterial services; excluding expenditure in kind.

Table 20. Poland: Distribution of Prices by Category, 1982-85

(In percent of the total value of sales for the relevant items covered by each category of prices)

		Administrative Prices	Regulated Prices	Contract or "free" Prices 1/
Prices for consumer goods	1982	35	15	50
and services - total	1983	45	15	40
	1984	47	3	50
	Plan 1985	47	3	50
Of which:				
Foodstuffs	1982	60	6	34
	1983	59	6	35
	1984	61	4	35
	Plan 1985	65	2	33
Producer prices				
Agricultural products	1982	65	--	35
	1983	72	--	28
	1984	72	--	28
	Plan 1985	72	--	28
Manufactured goods	1982	32	8	60
	1983	32	13	55
	1984	34	3	63
	Plan 1985	34	3	63
Procurement prices	1982	20	5	75
(raw and basic materials)	1983	32	13	55
	1984	34	3	63
	Plan 1985	35	2	63

Source: Data provided by the authorities.

1/ Since April 1983 there has been a freeze on all producer prices unless the increase was considered to be beyond the control of the manufacturer (e.g., increases in the prices of raw materials). In 1984 analogous restrictions were imposed on retail prices of manufactured consumer goods with the maximum price increase being limited to 10 percent. Retail prices exempted from these price controls account for approximately one half of retail expenditure.

Table 21. Poland: Price Developments, 1980-85

(Percentage change)

	1980	1981	1982	1983	1984 1/	Plan 1985
Implicit price deflator of gross material product	5.7	21.9	118.9	16.6	16.0	...
Retail price index	9.4	21.2	100.8	22.1	15.0	12.0-13.0 2/
Of which: foodstuffs	(12.8)	(22.5)	(136.3)	(11.9)	(16.8)	(9.0-11.0)
Cost of living index of households of employees in the socialized sector	9.1	24.4	101.5	23.1	15.7	...
Of which: foodstuffs	(13.3)	(22.2)	(139.9)	(12.9)	(17.7)	...
Producer prices 3/						
Industry	4.2	10.5	122.3	15.3	14.5	...
Fuel and power	(1.1)	(8.2)	(242.5)	(12.7)	(15.5)	...
Metallurgy	(11.9)	(2.2)	(125.4)	(17.5)	(24.5)	...
Electro-engineering	(1.3)	(3.5)	(99.2)	(12.1)	(13.2)	...
Chemicals	(2.7)	(1.3)	(114.2)	(10.5)	(14.4)	...
Minerals	(0.3)	(0.7)	(181.2)	(14.3)	(15.3)	...
Wood and paper	(1.8)	(2.6)	(125.9)	(6.2)	(12.0)	...
Textiles and leather products	(6.2)	(6.3)	(66.6)	(26.7)	(15.2)	...
Food processing	(6.6)	(26.2)	(130.8)	(18.8)	(12.2)	
Construction	1.8	4.2	174.0	13.3	18.0	13.0
Agriculture	11.9	62.2	55.6	11.4	7.1	
Gross investments	2.2	2.2	151.9	14.7	16.3	12.0
Material inputs	5.2	16.4	96.7	11.9	13.1	...
Memorandum item:						
Retail price index (percentage change through the year - fourth quarter over fourth quarter	9.6	36.5	90.5	18.3	14.6	...

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Provisional.
2/ In the first nine months of the year the cost of living index for households of employees in the socialized sector increased at an annual rate of 14 percent.
3/ For industry producer prices are defined by the index of sales prices for the output sold; for agriculture and construction it is the price index of gross output produced.

Table 22. Poland: Subsidies of Selected Retail Products, 1980-84 1/2/

	In Billions pf Zlotys				
	1980	1981	1982	1983	1984 3/
Foodstuffs	163.9	213.5	211.0	235.7	240.5
(In percent of final foodstuffs expenditure) 4/	(31.7)	(32.3)	(16.0)	(15.8)	(13.5)
Of which:					
Meat and meat products	66.2	71.6	57.3	39.3	36.7
Dairy products	44.1	72.7	79.1	97.7	105.1
Grain products	17.8	14.2	44.9	74.5	73.6
Nonfoodstuffs and services	31.3	42.7	127.7	98.1	132.1
(In percent of final nonfoodstuffs and services expenditure) 4/	(4.2)	(4.7)	(10.0)	(5.4)	(6.1)
Of which:					
Coal and coke	4.9	6.1	37.7	35.9	45.1
Passenger transportation	22.8	33.4	85.2	57.5	81.0
Memorandum item:					
Total consumer price subsidies					
In percent of total private consumption expenditure from personal incomes 4/	15.4	16.2	13.1	10.1	9.4

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Excluding housing subsidies.
2/ Retail subsidies are typically paid at the producer level to cover costs of production.
3/ Provisional.
4/ Excluding expenditure on alcohol.

Table 23. Poland: Developments in Real Incomes of the Population 1/2/

(Percentage change)

	1980	1981	1982	1983	1984 3/
Average wages in the socialized sector 4/	3.6	5.0	-24.7	1.9	1.2
Social money benefits	5.7	13.0	19.2	-2.3	2.1
Incomes of the nonsocialized sector	1.9 5/	31.6	-19.8	-9.3	-5.3
Other nonwage incomes	2.0 5/	-8.4	-12.6	5.5	30.7
Total real incomes	3.1 5/	8.3	-18.5	0.4	3.0
Memorandum item:					
Retail price index	9.4	21.2	100.8	22.1	15.0

Sources: Central Statistical Office, Rocznik Statystczny, 1984; and data provided by the authorities.

1/ Deflated by the retail price index.
2/ Excludes income in kind.
3/ Provisional.
4/ Excluding employment effects.
5/ Based on the Polish definition which includes income in kind, borrowing, and revenue from the sale of physical assets. In subsequent years, excludes these items, affecting the rates of growth by less than 1 percent.

Table 24. Poland: The Population, Labor Force, and Employment, 1970-84

(In thousands of persons; end of year)

	1970	1975	1980	1981	1982	1983	1984 1/
Population	32,658	34,185	35,735	36,062	36,399	36,745	37,063
Of which:							
Working age 2/	18,324	19,962	21,211	21,409	21,547	21,663	21,740
Inactive persons and dependents	(3,162)	(3,680)	(4,778)	(4,980)	(5,184)	(5,092)	(4,754)
Active labor force	(15,162)	(16,282)	(16,433)	(16,429)	(16,363)	(16,571)	(16,986)
Nonworking age	14,334	14,223	14,524	14,653	14,852	15,082	15,323
Of which:							
Active labor force	(1,244)	(1,200)	(1,336)	(1,226)	(1,266)	(1,083)	(736)
Total employment 3/	16,406	17,482	17,769	17,655	17,629	17,654	17,722
Of which:							
In the socialized sector	(10,233)	(12,216)	(12,798)	(12,525)	(12,197)	(12,238)	(12,324)
Memorandum items:							
Registered job seekers (as of end-year)	79	15	10	26	9	5	5
Registered job vacancies (as of end-year)	40	95	98	119	248	234	262

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Provisional.
2/ The working age for men (women) is defined to be between the ages of 18 and 64 (59).
3/ Data on employment as of end of the year are not converted to a full-time equivalent basis.

Table 25. Poland: Employment by Sectors

(Yearly averages)

	1970	1984 1/	1981	1982	1983	1984 1/
	(In percent of total)		(In thousands of persons)			
Employment - Total	100.0	100.0	17,419.9	16,995.6	16,950.7	16,998.0
Socialized sector	68.0	71.7	12,720.3	12,184.0	12,147.7	12,190.6
Industry	28.0	27.0	4,940.2	4,659.1	4,605.0	4,584.9
Construction	6.6	6.4	1,187.0	1,108.3	1,088.3	1,091.6
Agriculture	5.3	6.0	1,143.8	1,060.8	1,032.0	1,014.2
Forestry	1.2	0.9	152.9	153.5	157.8	160.7
Transport and Communications	6.1	6.1	1,096.9	1,049.9	1,045.1	1,043.2
Trade	6.9	7.4	1,307.3	1,260.7	1,259.5	1,252.9
Services	13.9	17.9	2,892.2	2,891.7	2,960.0	3,043.1
Nonsocialized sector	32.0	28.3	4,699.6	4,811.6	4,889.4	4,807.4
Of which:						
Agriculture	29.0	23.2	4,054.1	4,113.1	4,030.0	3,950.0
Industry	1.3	2.4	297.0	327.0	368.5	413.2
Construction	0.5	0.9	107.1	115.2	130.6	151.5
				(Percentage change)		
Employment - total			0.5	-2.4	-0.3	0.3
Socialized sector			—	-4.2	-0.3	0.4
Of which:						
Industry			-0.7	-5.7	-1.2	-0.4
Construction			-3.8	-6.6	-1.8	0.3
Agriculture			0.4	-7.3	-2.7	-1.7
Services			1.5	—	2.4	2.8
Nonsocialized sector			2.0	2.4	-0.2	0.1
Of which:						
Agriculture			1.2	1.5	-0.2	-2.0
Memorandum item:				(Percentage change)		
Total manhours worked in the socialized sector (*excluding agriculture*) 2/			-13.7	-8.5	0.8	-0.2

Sources: Central Statistical Office, Rocznik Statystyczny, 1984; and data provided by the authorities.

1/ Provisional.
2/ Material sphere of production only.

Table 26. Poland: Major Budgetary Aggregates in Relation to Gross Domestic Product

(In percent of GDP at current prices)

	1970	1975	1978	1980	1981	1982	1983	1984
Total revenue	40.4	42.6	46.7	48.3	41.7	43.4	39.1	39.0
Of which:								
Turnover tax on socialized sector	(11.9)	(13.8)	(14.1)	(16.6)	(14.8)	(11.5)	(13.6)	(13.4)
Income tax on socialized sector	(8.3)	(11.2)	(10.0)	(7.5)	(3.7)	(13.8)	(9.1)	(8.7)
Total expenditure	39.3	41.5	42.1	49.5	53.2	46.3	41.2	41.2
Of which:								
Purchases of goods and services and payments of wages and salaries	(7.5)	(6.7)	(6.1)	(7.2)	(8.0)	(7.3)	(7.0)	(6.8)
Subsidies to the population	(2.1)	(5.7)	(9.3)	(11.9)	(13.2)	(10.3)	(8.3)	(8.6)
Subsidies to enterprises and other economic units	(11.0)	(11.5)	(12.3)	(16.7)	(17.6)	(10.3)	(8.1)	(8.5)
Investment and capital modernization	(5.2)	(7.1)	(4.7)	(4.2)	(3.6)	(4.8)	(5.5)	(5.2)
State budget surplus/deficit (-)	1.1	1.1	4.6	-1.2	-11.5	-2.9	-2.1	-2.2
General government surplus/deficit (-) 1/	...	...	...	-1.9	-10.6	-2.5	-0.8	-0.5

Source: Staff compilation from data provided by the authorities.

1/ See Table 27.

Table 27. Poland: Summary of the Government's Financial Operations

(In billions of zlotys)

	1980	1981	1982	1983	1984	Budget 1985
A. State Budget 1/						
Revenue	1,214	1,149	2,405	2,708	3,403	4,023
Expenditure	1,243	1,463	2,568	2,850	3,595	4,196
Deficit (-)	-29	-316	-163	-143	-192	-173
B. Extrabudgetary funds 2/						
Revenue	173	266	516	812	1,087	...
Of which:						
Transfers from State Budget	(26)	(41)	(124)	(137)	(180)	(...)
Expenditure	191	243	492	727	938	...
Of which:						
Transfers to State Budget	(—)	(—)	(10)	(46)	(60)	(...)
Surplus/deficit (-)	-18	23	24	85	149	...
On transactions with State Budget	(26)	(41)	(114)	(91)	(120)	(...)
On other transactions	(-44)	(-18)	(-90)	(-7)	(29)	(...)
C. General government						
Revenue 3/	1,361	1,374	2,787	3,337	4,250	...
Expenditure 3/	1,408	1,665	2,926	3,394	4,293	...
Deficit (-)	-47	-291	-139	-57	-43	...
Financing of deficit						
Domestic bank financing (net)	49	271	50	26	18	...
State Budget	(31)	(287)	(64)	(104)	(150)	(134)
Extrabudgetary funds	(18)	(-16)	(-14)	(-78)	(-132)	(...)
Foreign financing of State Budget (net)	-2	29	99	38	42	39
Other 4/	—	-9	-10	-7	-17	...
Memorandum item:						
State Budget deficit (-) (national definition) 5/	-26	-125	-81	-25	-68	-138

Source: Staff compilation from data provided by the authorities.

1/ The State Budget includes the budget of the central government and the budgets of local authorities. Revenue and expenditure data presented here are net of transfers between the two levels of government. In 1984 expenditure by local authorities was Zl 1,060 billion, equivalent to 30 percent of total State Budget expenditure. Revenue accruing directly to local authorities (including their share in wage tax receipts) was Zl 615 billion, equivalent to 18 percent of total state budget revenue. The difference between local authority expenditure and revenue was almost entirely covered by transfers from the central government.

2/ Including extrabudgetary funds under the control of central government and those under the control of local authorities.

3/ Exclusive of transfers between the State Budget and extrabudgetary funds.

4/ Reflects acquisition of nonmonetary assets by extrabudgetary funds. Data are not available on the change in these funds' asset holdings in 1980 and it has been assumed that their deficit in that year was entirely reflected in a decline in domestic bank deposits.

5/ The difference between this line and the deficit as shown in section A of the table mainly reflects the inclusion of foreign financing and the drawdown of accumulated bank deposits as revenue items in the national presentation of the State Budget.

Table 28. Poland: State Budget Revenues 1/

(In billions of zlotys)

	1980	1981	1982	1983	1984	Budget 1985
Total revenue	1,214.0	1,148.7	2,404.9	2,707.9	3,403.0	4,023.2
Tax revenue	978.4	917.0	2,163.5	2,515.6	3,131.3	3,741.8
From the socialized sector 2/	885.5	802.8	2,014.8	2,180.7	2,648.4	3,235.1
Turnover tax	416.0	406.2	638.3	952.2	1,170.4	1,318.7
Income tax 3/	188.3	100.6	766.6	630.0	756.4	995.1
Wage tax	134.3	150.8	207.3	268.3	318.1	373.5
Real estate tax	5.7	6.0	34.7	50.1	105.2	107.2
Charge on capital depreciation 4/	26.9	21.6	44.1	45.8	65.2	94.8
Taxes on levies on foreign trade	110.2	107.5	181.4	177.3	216.2	298.0
Other 5/	4.1	10.1	142.4	57.0	16.9	47.8
Social security contributions 6/	64.0	80.3	100.1	255.5	354.0	364.4
From the nonsocialized sector	14.3	15.1	27.8	44.1	71.7	88.0
From the population	14.6	18.8	20.8	35.3	57.2	58.4
Nontax revenue	235.6	231.7	241.4	192.3	271.7	281.4
Transfers from financial institutions	153.3	142.0	158.9	59.4	81.4	39.5
Transfers from the Fund for Occupational Training (PFAZ)	--	--	10.0	46.0	60.0	57.0
Other	82.3	89.7	72.5	86.9	130.3	184.0

Source: Staff compilation from data provided by the authorities.

1/ In the Polish presentation of budgetary data, revenues also include receipts of foreign credits and the drawdown of government deposits with the banking system. In addition, in the Polish presentation, taxes and levies on foreign trade have not been included in the revenue accounts since 1981 but are netted against foreign trade subsidies in the expenditure accounts.

2/ In Polish usage only receipts of turnover tax, income tax, wage tax, and real estate tax from the socialized sector are regarded as tax revenues. All other revenues from this sector are regarded as nontax revenues.

3/ Taxation of enterprise profits.

4/ A certain proportion, which may vary between enterprises and sectors, of total provisions by enterprises for capital amortization is paid to the budget.

5/ Includes receipts from a stabilization tax which was imposed as a once-for-all levy on enterprises in 1982.

6/ A certain proportion of social security contributions accrues to the State Budget and the remainder to the Pension Fund, which is an extrabudgetary fund.

Table 29. Poland: State Budget Expenditures 1/

(In billions of zlotys)

	1980	1981	1982	1983	1984	Budget 1985
Total expenditure	1,243.0	1,463.2	2,567.5	2,850.4	3,595.0	4,195.9
Current expenditure	1,138.4	1,363.6	2,299.7	2,468.1	3,143.1	3,656.4
Purchases of goods and services	93.2	105.9	221.1	260.2	317.1	431.5
Payments of wages and salaries	87.2	113.6	183.7	224.1	279.1	329.0
Social insurance payments to the Pension Fund in respect of government employees	16.4	26.3	43.8	81.8	107.1	126.3
Social insurance and welfare benefits paid to the population	31.0	43.2	203.3	211.7	229.5	231.1
Subsidies	719.9	848.8	1,146.2	1,140.1	1,486.6	1,671.8
To the population	(300.0)	(363.3)	(572.6)	(576.2)	(748.6)	(806.7)
To enterprises and other economic units	(419.9)	(485.5)	(573.6)	(563.9)	(738.0)	(865.1)
Transfers to other units 2/	79.4	104.2	250.9	261.5	330.7	365.9
National defense and public security	91.1	103.4	232.7	258.7	337.2	384.4
Other 3/	20.2	18.2	18.0	30.0	55.8	116.4
Expenditure on investment and capital modernization	104.6	99.6	267.8	382.3	451.9	539.5
Investment	71.4	67.2	183.0	292.6	349.0	444.0
Modernization and repair	33.2	32.4	84.8	89.7	102.9	95.5

Source: Staff compilation from data provided by the authorities.

1/ In the Polish presentation of budgetary expenditure data, repayments of principal on the government's foreign borrowing are included as an expenditure item. In addition, after 1981 the Polish presentation shows subsidies to enterprises and other economic units are shown net of taxes and levies on foreign trade.

2/ Consists mainly of transfers to extrabudgetary funds and other organizations to finance expenditures for various cultural, educational, and social purposes.

3/ Includes interest payments on foreign credits contracted by the government and lending minus repayments of foreign credits extended by the government.

Table 30. Poland: Subsidies to the Population

(In billions of zlotys)

	1980	1981	1982	1983	1984	Budget 1985
Subsidies on foodstuffs	163.9	213.5	211.0	235.7	240.5	301.6
Of which:						
Meat products	(66.2)	(71.6)	(57.3)	(39.3)	(36.7)	(57.3)
Dairy products	(44.1)	(72.7)	(79.1)	(97.7)	(105.1)	(110.0)
Cereals	(17.8)	(14.2)	(44.9)	(74.5)	(73.6)	(69.6)
Subsidies on other consumer goods	8.5	9.3	42.5	40.6	51.1	61.3
Of which: Coal and coke	(4.9)	(6.1)	(37.7)	(35.9)	(45.1)	(54.7)
Subsidies on inputs used in nonsocialized agriculture	31.6	18.2	29.7	30.3	55.0	58.6
Subsidies on passenger transportation	22.8	33.4	85.2	57.5	81.0	75.3
Subsidies on housing 1/	50.0	60.7	168.2	174.1	270.3	266.8
Other subsidies to the nonsocialized agricultural sector 2/	23.2	28.2	36.0	38.0	50.7	43.1
Total	300.0	363.3	572.6	576.2	748.6	806.7

Source: Staff compilation from data provided by the authorities.

1/ Includes, inter alia, subsidies for state, communal, and cooperative housing, and subsidization of interest payments and principal repayments on housing loans contracted by private individuals.
2/ Includes, inter alia, subsidization of interest payments and principal repayments on loans to the nonsocialized agricultural sector.

Table 31. Poland: Subsidies to Enterprises and Other Economic Units

(In billions of zlotys)

	1980	1981	1982	1983	1984	Budget 1985
Subsidies on material inputs and the transportation of goods	21.5	16.8	123.9	160.8	193.6	245.8
Of which:						
Coal	(--)	(--)	(83.7)	(97.3)	(154.0)	(206.3)
Construction materials	(7.2)	(6.5)	(1.5)	(--)	(--)	(--)
Transportation of goods	(0.6)	(0.9)	(26.1)	(49.0)	(21.6)	(20.9)
Subsidies on foreign trade 1/	168.2	173.7	159.7	212.4	300.0	349.0
Subsidies on foreign debt service payments	80.9	93.3	152.1	70.0	80.5	87.5
Subsidies to agricultural units in the socialized sector	37.9	29.5	22.2	36.7	65.9	80.7
Other subsidies to enterprises 2/	90.0	156.2	72.7	38.9	43.5	41.1
Subsidies to other economic units 3/	21.4	16.0	43.0	45.1	54.5	61.0
Of which:						
For road maintenance	(15.3)	(11.3)	(31.9)	(33.1)	(41.0)	(47.0)
Total	419.9	485.5	573.6	563.9	738.0	865.1

Source: Staff compilation from data provided by the authorities.

1/ In the Polish presentation of budgetary data, subsidies on foreign trade after 1981 are shown net of various taxes and levies also imposed on foreign trade. In the years 1980-82, this line includes a very small subsidy for trade promotion funds in addition to the subsidies on current trade operations which is the sole component of the line in other years.

2/ Includes mainly noncommodity specific subsidies to cover enterprise losses.

3/ Subsidies to units performing an economic function which are not formally classified as enterprises.

Table 32. Poland: Consolidated Balance Sheet of the Banking System

(In billions of zlotys)

	1978	1980	1981	1982	1983	1984
Assets	2,892.2	3,538.7	4,257.0	5,638.9	6,786.7	8,116.0
Credits to the socialized sector	2,578.5	3,079.7	3,305.0	3,788.0	4,145.7	4,538.6
Working capital credits	1,258.7	1,516.2	1,651.0	1,941.3	2,091.3	2,233.5
Investment credits	1,319.8	1,563.5	1,654.0	1,846.7	2,054.4	2,305.1
Credits to nonsocialized entities	96.0	109.7	116.3	147.6	175.7	209.8
Agriculture	94.6	107.3	113.3	140.3	162.6	195.4
Working capital credits	(33.1)	(35.4)	(37.7)	(43.4)	(43.5)	(46.3)
Investments credits	(61.5)	(71.9)	(75.6)	(96.9)	(119.1)	(149.1)
Nonagricultural small enterprises	1.4	2.4	3.0	7.3	13.1	14.4
Credits to households	41.7	46.5	48.4	76.0	118.9	162.5
Installment purchases of goods and services	(17.4)	(18.6)	(18.7)	(40.5)	(66.5)	(85.1)
Housing (construction and repair)	(23.6)	(27.3)	(28.5)	(34.1)	(50.6)	(74.6)
Other	(0.7)	(0.6)	(1.2)	(1.4)	(1.8)	(2.8)
Credits to central government	—	—	195.0	216.0	319.3	464.6
Total domestic credit	2,716.2	3,235.9	3,664.7	4,227.6	4,759.6	5,375.5
Other domestic assets	82.1	122.0	331.8	1,042.1 1/	1,532.0 1/	2,091.6 1/
Total domestic assets	2,798.5	3,357.9	3,996.5	5,269.7	6,291.6	7,467.1
Total foreign assets	93.9	180.8	260.5	369.2	495.1	648.9
Liabilities	2,892.2	3,538.7	4,257.0	5,638.9	6,786.7	8,116.0
Resources of the socialized sector	548.6	703.2	827.3	1,141.3	1,251.7	1,348.7
Cash holdings	21.3	26.4	31.5	41.0	55.1	59.4
Demand deposits	148.2	169.4	233.8	357.1	378.3	459.5
Special funds accounts	173.7	237.3	229.9	348.9	362.3	410.0
Investment accounts	122.9	141.4	157.5	126.4	128.0	134.6
Fixed deposits	74.8	76.1	88.4	129.5	153.5	201.7
Foreign currency deposits	7.7	52.6	86.2	138.4	174.5	83.5
Resources of the nonsocialized sector and households	616.8	795.4	1,088.0	1,502.8	1,813.9	2,151.1
Cash holdings	185.1	266.0	370.7	564.2	663.1	764.9
Demand deposits	5.5	6.9	13.8	13.9	17.3	23.7
Savings deposits	409.0	492.9	664.7	866.9	1,058.2	1,237.3
Of which: Checking accounts	(8.0)	(15.6)	(25.4)	(39.3)	(48.7)	(60.7)
Foreign currency deposits	17.2	29.6	38.8	57.8	75.3	125.2
Resources of financial institutions	108.1	137.8	143.4	155.4	246.1	257.2
Deposits of the State Insurance Institute	36.6	39.5	45.8	55.1	70.7	92.3
Banks' own funds	71.5	98.3	97.6	100.3	175.4	164.9
Interbank and interbranch settlements	103.9	79.1	147.4	225.3	265.3	262.3
Central government deposits 2/	655.9	515.5	403.4	197.4	282.2	414.2
State budgetary units	(606.3)	(499.6)	(371.3)	(157.5)	(182.4)	(189.2)
State Fund for Occupational Training (PFAZ)	(—)	(—)	(—)	(24.2)	(40.5)	(70.4)
Pension funds	(49.6)	(15.9)	(32.1)	(15.7)	(59.3)	(154.6)
Local government deposits	36.0	44.0	39.6	103.2	98.8	89.7
Other domestic liabilities	17.0	35.6	12.1	54.5	303.3	351.8
Total domestic liabilities	2,086.3	2,310.6	2,661.2	3,379.9	4,261.3	4,881.0
Total foreign liabilities	805.9	1,228.1	1,595.8	2,259.0	2,525.4	3,235.0

Sources: Central Statistical Office, Concise Statistical Yearbook of Poland, and Statistical Yearbook of Poland; and information provided by the National Bank of Poland.

1/ Includes increases in claims on the Central Government due to the assumption of the foreign exchange risk by the State of foreign currency liabilities held by banks.
2/ Includes all deposits administered by the Central Government.

Table 33. Poland: Monetary Survey

(In billions of zlotys at end of period)

	1978	1980	1981	1982	1983	1984
1. Foreign assets	93.9	180.8	260.5	369.2	495.1	648.9
2. Domestic credit	2,060.3	2,720.4	3,261.3	4,030.2	4,477.7	4,961.4
Claims on central government (net) 1/	-655.9	-515.5	-208.4	18.6	37.1	50.4
Claims on rest of domestic economy	2,716.2	3,235.9	3,469.7	4,011.6	4,440.6	4,911.0
3. Broad money (= 1+2-4-5)	1,261.8	1,572.2	2,000.7	2,802.4	3,235.1	3,687.8
Money 2/	724.5	907.1	1,102.2	1,594.0	1,751.6	2,002.5
Quasi-money holdings 3/	537.3	665.1	898.5	1,208.4	1,483.5	1,685.3
4. Foreign liabilities	805.9	1,228.1	1,595.8	2,259.0	2,525.4	3,235.0
5. Other items (net)	86.5	100.9	-74.8	-662.0	-787.7	-1,312.5

Source: Staff compilation from data provided by the authorities.

1/ Credit to the Central Government budget minus bank deposits of state budgetary units, pension funds, and the State Fund for Occupational Training (PFAZ).

2/ Includes cash, demand deposits, savings deposits on checking accounts, special funds and investment accounts of entities in the socialized sector, and deposits of local governments.

3/ Includes fixed deposits, savings deposits, foreign currency deposits and deposits of the State Insurance Institute.

Table 34. Poland: Composition of Domestic Liabilities of the Banking System

(In percent of total)

	1978	1980	1981	1982	1983	1984
Liabilities to the socialized sector	26.3	30.4	31.1	33.8	29.4	27.6
Cash	1.0	1.1	1.2	1.2	1.3	1.2
Demand deposits	7.1	7.3	8.8	10.6	8.9	9.4
Special funds and investment accounts	14.2	16.4	14.6	14.1	11.5	11.2
Fixed deposits	3.6	3.3	3.3	3.8	3.6	4.1
Foreign currency deposits	0.4	2.3	3.2	4.1	4.1	1.7
Liabilities to the nonsocialized sector and households	29.6	34.4	40.9	44.4	42.6	44.1
Cash	8.9	11.5	13.9	16.7	15.6	15.7
Demand deposits	0.6	1.0	1.5	1.6	1.5	1.7
Savings deposits	19.3	20.6	24.0	24.5	23.7	24.1
Foreign currency deposits	0.8	1.3	1.5	1.6	1.8	2.6
Other liabilities	44.1	35.2	28.0	21.8	28.0	28.3
Of which:						
Deposits of central government and budgetary units	29.1	21.6	14.0	4.7	4.3	3.9
Other general government deposits	4.1	2.6	2.7	4.2	4.7	6.4
Total domestic liabilities	100.0	100.0	100.0	100.0	100.0	100.0

Source: Staff compilation from data provided by the authorities.

Table 35. Poland: Sources of Monetary Expansion

(In percent of broad money at beginning of period)

	1979	1980	1981	1982	1983	1984
Credit to socialized enterprises	23.5	18.2	14.3	24.1	12.8	12.1
Net credit to government	-2.5	12.3	19.5	11.3	0.7	0.4
Other domestic credit	1.1	0.4	0.5	3.0	2.6	2.4
Net foreign liabilities less other domestic assets 1/	-11.0	-18.8	-7.0	1.7	-0.7	-0.9
Rate of change of broad money	11.1	12.1	27.3	40.1	15.4	14.0

Source: Staff compilation from data provided by the authorities.

1/ Other domestic assets largely consist of valuation adjustments which have their accounting counterpart in an increase in net foreign liabilities.

Table 36. Poland: Interest Rates on Bank Deposits

(In percent per annum)

	End of period					March
	1980	1981	1982	1983	1984	1985
Demand deposits						
Households						
Current accounts	2	2	3	3	3	3
Saving/passbook accounts	3	4	6	6	6	6
Enterprises	—	—	2	2	2	2
Time deposits of households fixed for at least:						
One year	6.5	6.5	10	10	10	10
Two years	6.5	6.5	...	...	...	...
Three years	8	8	13	13	13	13
Time deposits of enterprises fixed for at least:						
Six months	...	...	5	5	5	5
One year	...	...	6	6	6	6
Two years	...	...	8	8	8	8
Three years	...	...	...	...	...	9
Five-year premium interest-bearing accounts 1/	8	8	13	13	13	13
Housing deposits 2/						
Old scheme (before end-1982) 3/	3	3	6	6	6	6
New scheme 3/	...	...	...	15	15	15
Advanced payments for automobile purchases 4/						
Delivered in 1982-85	...	4	6	6	6	6
Delivered in 1986-89	...	5	10	10	10	10
Premium savings bonds 1/	4	4	6	6	6	6
Deposit bonds 1/						
Two years	...	9	13	13	13	13
Five years	9	9	15	15	15	15
Foreign exchange deposits of individuals 5/						
Current accounts	4	5	5	5	5	5
Fixed for at least:						
Six-months 6/	6	8	8	8	8	8
One year	7	9	9	9	9	9
Two years	8	10	10	10	10	10
Three years	9	11	11	11	11	11
Foreign exchange deposits of enterprises						
Current accounts	—	—	—	—	—	—
Fixed for at least:						
Six months	...	...	4	4	4	4
One year	...	...	6	6	6	6
Three years	...	...	8	8	8	8
Five years	...	...	...	...	...	10

Source: Data provided by the Polish authorities.

1/ With premature withdrawal, no interest is paid.
2/ Banks are required to pay an additional 1.5 percent per annum to housing cooperatives for the financing of their social and educational facilities.
3/ Under the old scheme premiums are given to cover increases in housing costs; no premiums are provided under the new scheme which bear higher interest rates for housing deposits.
4/ Banks pay an additional 2 percent per annum to a transportation development fund.
5/ Rates apply to foreign exchange accounts denominated in convertible currencies ("A" accounts). For currencies of the CMEA member countries ("S" accounts) current accounts receive 3 percent per annum and one-year deposits 4.5 percent.
6/ Only available to nonresidents.

Table 37. Poland: Interest Rates on Bank Credits

(In percent per annum)

	End of period					March
	1980	1981	1982	1983	1984	1985
Credits to the socialized economy						
Investment credits: for central and enterprise investments	8	8	9	9	9-12 1/	9-12 1/
With the exception of credits for:						
Mining and power industries	3	3	3	3	3	3
State farms	3	3	6	6	6-8 2/	6-8 2/
Cooperative farms	2	2	6	6	6-8 2/	6-8 2/
Investment credits for housing cooperatives 3/	0-6.6	0-6.6	0-4	1-3	1-3	1-3
Working capital credits to state and cooperative units	8	8	9	9	9	9-12
With the exception of credits to:						
Domestic trade units	6	6	6	6	6	6
Farm units						
For financing seasonal stocks	...	...	...	...	4	5
For financing other stocks and current assets	2	2	7	7	7-9	9
Exports to the convertible currency area	8	8	9	9	9-12 4/	9-12 4/
Food processing units						
For financing reserves and seasonal stocks	4	4	...	...	4	5
For financing other stocks and current assets	8	8	9	9	9	8
Credits to the nonsocialized economy						
Agricultural credits						
Of which:						
Investment	3-7.5	3	6	6	8	8 5/
Working capital	1-7	4	7	7	9 5/	9 5/
Nonagricultural credits						
Investment credits for preferential production including handicrafts	5	5	8	8	11	11
Other investment credits	7	7	9	9	12	12
Working capital credits						
For preferential production	6	6	8	8	11	11
Other working capital credits	9	9	9	9	12	12
Credits to households						
Installment purchases of manufactured goods	6	3	6	6	6	9
Housing construction	4.5-6.6	4.5-6.6	3	3	3	3
Cash credits	12	12	15	15	15	15
Credits for financing state budget deficit	--	--	--	--	--	--

Source: Data provided by the Polish authorities.

1/ Investment credits extended after January 1, 1984 are charged an interest rate of 12 percent per annum.
2/ Credits extended after January 1, 1984 are charged an interest rate of 8 percent per annum.
3/ Interest rates on credits extended to cooperatives for housing construction vary according to whether they are single or multi-family units; for multi-housing units the interest rate is 1 percent per annum, whereas for single family units it is 3 percent.
4/ A deduction of 3 percentage points is provided for the financing of inventories and current assets.
5/ For credits extended to farmers working in difficult soil conditions the rate of interest is 6 percent, whereas for working capital credits connected with outlays for biological advances the rate is 5 percent.

Table 38. Poland: Current Account of Balance of Payments in Convertible and Nonconvertible Currencies, 1971-84 1/2/

(In millions of U.S. dollars)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 3/	1982 3/	1983	1984
Exports f.o.b.															
In convertible currencies	1,460	1,774	2,515	3,871	4,357	4,528	5,076	5,711	6,574	7,965	5,482	4,974	4,685	4,980	5,471
In nonconvertible currencies	1,585	2,006	2,475	2,956	3,893	4,790	5,334	6,302	6,780	6,205	4,982	5,483	5,772	6,020	6,329
Imports f.o.b.															
In convertible currencies	1,351	2,019	3,995	6,029	7,358	7,482	7,097	7,594	8,766	8,757	6,233	4,616	4,362	3,941	4,108
In nonconvertible currencies	1,776	2,117	2,674	2,963	3,744	4,879	5,595	6,383	6,998	7,049	6,331	6,038	6,292	6,641	6,854
Trade balance															
In convertible currencies	109	-245	-1,480	-2,158	-3,001	-2,954	-2,021	-1,883	-2,192	-792	-751	358	323	1,039	1,363
In nonconvertible currencies	-191	-111	-199	-7	149	-89	-261	-81	-218	-844	-1,349	-555	-520	-621	-525
Services and unrequited transfers, net															
In convertible currencies	70	127	159	-37	-160	-117	-425	-605	-1,277	-1,820	-2,217	-2,474	-2,471	-2,129	-2,536
Of which:															
Interest payments, net	-33	-34	-78	-264	-470	-631	-868	-1,170	-1,637	-2,335	-3,012	-2,876	-2,874	-2,534	-2,929
In nonconvertible currencies	109	28	63	17	85	89	80	108	136	156	84	144	141	153	36
Of which:															
Interest payments, net	-4	-10	-17	-27	-27	-20	-20	-34	-29	-22	-48	-87	-89	-58	-92
Current Account															
In convertible currencies	179	-118	-1,321	-2,195	-3,161	-3,071	-2,446	-2,488	-3,469	-2,612	-2,968	-2,116	-2,148	-1,090	-1,173
In nonconvertible currencies	-82	-83	-136	10	234	--	-181	27	-82	-688	-1,265	-411	-379	-468	-489

Source: Staff compilation from data supplied by the Polish authorities.

1/ Transactions in nonconvertible currencies were converted from transferable rubles into zlotys at the TR/ZL commercial rate, and then into U.S. dollars at the ZL/US$ commercial rate.
2/ Differences from figures derived from the national presentation are explained in the footnotes to Tables 39 and 41.
3/ There is a break in the series in 1982; data for currrent receipts and payments in convertible currencies to the left of the line include transactions within swing limits under bilateral payments agreements with "market economy" countries; in the data to the right of the line, such transactions are included in current receipts and payments in nonconvertible currencies.

Table 39. Poland: Balance of Payments in Convertible Currencies, 1/ 1979-84

(In millions of U.S. dollars)

	1979	1980	1981	1982 1/	1982 1/	1983	1984
A. Current account	-3,469	-2,612	-2,968	-2,116	-2,148	-1,090	-1,173
Merchandise exports f.o.b.	6,574	7,965	5,482	4,974	4,685	4,980	5,471
Merchandise imports f.o.b.	8,766	8,757	6,233	4,616	4,362	3,941	4,108
Trade balance	-2,192	-792	-751	358	323	1,039	1,363
Services: credit	926	1,090	814	577	558	773	717
Shipment and other transportation	581	630	370	272	256	388	262
Travel	124	144	95	59	59	69	81
Interest receipts	69	136	169	86	85	153	183
Others	152	180	180	160	158	163	191
Services: debit	2,732	3,563	3,685	3,369	3,347	3,277	3,715
Shipment and other transportation	738	772	342	234	224	426	412
Travel	31	46	32	23	23	24	25
Interest payment obligations (before debt relief) 2/	1,706	2,471	3,181	2,962	2,959	2,687	3,112
Others	257	274	130	150	141	140	166
Unrequited transfers, net	529	653	654	318	318	375	462
Private	526	526	331	318	318	375	462
Official	3	127	323	—	—	—	—
B. Medium- and long-term capital account, net	3,821	2,884	478	-2,393	-2,409	-893	-39
Actual loan drawings	8,358	8,669	4,930	1,474	1,474	565	218
Loan repayment obligations (before debt relief) 3/	-4,445	-5,605	-5,811	-5,911	-5,911	-3,642	-3,113
Debt relief 4/	—	—	1,778	2,050	2,050	2,208	2,938
Principal	(—)	(—)	(1,369)	(2,050)	(2,050)	(2,208)	(2,471)
Interest	(—)	(—)	(409)	(—)	(—)	(—)	(467)
Other capital, net	7	-15	1	-1	-1	2	2
Export credits extended (net)	-99	-165	-420	-5	-21	-26	-84
C. Revolving credits (net)	—	—	—	196	196	338	240
D. Short-term capital, errors and omissions, valuation changes	-191	-674	-1,017	89	137	-262	-366
Overall balance (items A through D)	161	-402	-3,507	-4,224	-4,224	-1,907	-1,338
E. Change in reserves (-, increase)	-161	402	-35	-369	-369	-119	-340
F. Change in arrears 4/	—	—	3,542	4,593	4,593	2,026	1,678
Interest 2/	—	—	500	1,100	1,100	1,100	1,400
Principal	—	—	3,042	3,493	3,493	926	278

Source: Staff compilation from data provided by the authorities.

1/ Differs from the national presentation of the balance of payments in convertible currencies (Table 40) because firstly, current and capital account transactions within swing limits under bilateral payments agreements with "market economy" countries have been excluded for the years after the break year 1982; these transactions are included in the balance of payments in nonconvertible currencies. Secondly, the current account presentation above includes all accrued interest payment obligations (including rescheduled and estimated unpaid interest), whereas the national presentation includes only interest actually paid.

2/ Estimates of unpaid interest are very tenative as agreement has not been reached with a number of creditors on estimates of penalty interest on payments arrears.

3/ Includes unpaid principal repayment obligations.

4/ In each of the years 1981 to 1984 agreements for rescheduling the bulk of the annual principal obligations due to banks were signed. However, these rescheduled obligations are treated as arrears until the effective operational date of the agreement, which for reschedulings with western commercial banks was in the year subsequent to the signing of the agreement.

Table 40. Poland: Balance of Payments in Convertible Currencies, National Presentation 1/

(In millions of U.S. dollars)

	1979	1980	1981	1982	1983	1984
A. Current account	-3,469	-2,612	-2,059	-1,016	62	787
Merchandise exports, f.o.b.	6,574	7,965	5,482	4,974	5,402	5,828
Merchandise imports, f.o.b.	8,766	8,757	6,233	4,616	4,317	4,372
Trade balance	-2,192	-792	-751	358	1,085	1,456
Services credit	926	1,090	814	577	800	735
Shipment and other transportation	581	630	370	272	405	278
Travel	124	144	45	59	69	81
Interest receipts	69	136	169	86	161	183
Other	152	180	180	160	165	193
Services debit	2,732	3,563	2,776	2,269	2,198	1,866
Shipment and other transportation	738	772	342	234	435	420
Travel	31	46	32	23	24	25
Interest payments	1,706	2,471	2,272	1,862	1,591	1,248
Other	257	274	130	150	148	173
Unrequited transfers, net	529	653	654	318	375	462
Private	526	526	331	318	375	462
Official	3	127	323	—	—	—
B. Medium- and long-term capital, net	3,821	2,884	-431	-3,493	-2,036	-1,998
Actual loan drawings	8,358	8,669	4,930	1,474	565	218
Repayments	4,445	5,605	3,178	2,418	2,716	3,302
Of which:						
Actual principal repayments	(4,445)	(8,669)	(1,400)	(368)	(508)	(364)
Rescheduled and refinanced repayment obligations	(—)	(—)	(1,778)	(2,050)	(2,208)	(2,938)
Debt relief 2/	—	—	1,778	2,050	2,208	2,938
Of which:						
Interest	(—)	(—)	(409)	(—)	(—)	(467)
Principal 2/	(—)	(—)	(1,369)	(2,050)	(2,208)	(2,471)
Unpaid repayment obligations	—	—	3,542	4,593	2,025	1,678
Of which:						
Interest 3/	(—)	(—)	(500)	(1,100)	(1,100)	(1,400)
Principal	(—)	(—)	(3,042)	(3,493)	(926)	(278)
Credits extended, net	-99	-165	-420	-5	-69	-176
Other capital, net	7	-15	1	-1	2	2
C. Short-term revolving credits	—	—	—	196	338	240
Inflow	—	—	—	196	878	1,180
Outflow	—	—	—	—	540	940
D. Short-term capital account, net	-63	-779	-767	-202	-334	-186
E. Financial items, errors, and omissions, valuation changes, net	-128	105	-250	291	63	-181
Overall balance (items A through E)	161	-402	-3,507	-4,224	-1,907	-1,338
F. Change in reserves (- increase)	-161	402	-35	-369	-119	-340
G. Change in arrears	—	—	3,542	4,593	2,026	1,678
Interest 3/	—	—	500	1,100	1,100	1,400
Principal 2/	—	—	3,042	3,493	926	278

Source: Staff compilation from data provided by the authorities.

1/ Differences with the presentation in Table 39 are explained in footnote 1 to Table 39.
2/ See footnote 4 of Table 39.
3/ Because bilateral agreements with official creditors have yet to be completed estimates of penalty interest on payment arrears are very tentative.

Table 41. Poland: Balance of Payments in Nonconvertible Currencies, 1979-84 1/2/

(In millions of U.S. dollars)

	1979	1980	1981	1982 1/	1982 1/	1983	1984
Current account	-82	-688	-1,265	-411	-379	-468	-489
Merchandise exports, f.o.b.	6,780	6,205	4,982	5,483	5,772	6,020	6,329
Merchandise imports, f.o.b.	6,998	7,049	6,331	6,038	6,292	6,641	6,854
Trade balance	-218	-844	-1,349	-555	-520	-621	-525
Services: credit	540	534	445	499	518	589	513
Shipment and other transportation	271	274	323	357	373	384	319
Travel	125	125	10	9	9	12	17
Interest receipts	2	3	2	6	7	31	12
Others	142	132	110	127	129	162	165
Services: debit	405	381	362	360	382	441	482
Shipment and other transportation	60	68	63	63	73	75	80
Travel	248	207	174	110	110	168	196
Interest payments	32	25	50	93	96	84	104
Others	65	81	75	94	103	109	102
Unrequited transfers (private)	1	3	1	5	5	5	5
Medium- and long-term capital, net	-178	-225	420	22	38	-89	-68
Credits received	-161	-195	413	-63	-63	-77	-8
Drawings	177	171	587	1,114	1,114	446	409
Repayments	338	366	174	1,177	1,177	523	417
Credits extended	-27	-35	-7	74	90	-25	-74
Repayments	22	13	10	82	142	60	56
Drawings	49	48	17	8	52	85	130
Other capital, net	10	5	14	11	11	13	14
Short-term capital, net	229	923	859	371	303	485	542
Credits received	221	803	1,044	561	...	...	...
Credits extended	--	--	--	--	--	--	--
Payments agreement assets and liabilities	8	120	-185	-190	...	...	...
Financial items, net	31	-10	-14	18	38	72	15
Total	--	--	--	--	--	--	--

Source: Staff compilation from data supplied by the Polish authorities.

1/ There is a break in the series in 1982; data to the right of the line include transactions within swing limits under bilateral payments agreements with "market economy" countries, together with related capital account transactions; to the left of the line, such transactions are excluded.

2/ Differs from the national presentation of the balance of payments in nonconvertible currencies (Table 42) in two respects: (1) In the national presentation all data through 1981 were converted from transferable rubles into U.S. dollars using cross rates derived from the "accounting" rates of the zloty vis-à-vis the transferable ruble and U.S. dollar (which corresponds closely with the US$/ruble rate quoted by the International Bank for Economic Cooperation): in the staff presentation the data were converted using cross rates derived from the "commercial" rates of the zloty vis-à-vis the transferable ruble and U.S. dollar. Since the change in exchange rate regimes in 1982 both the national and staff presentations have converted the data at the cross "commercial" rate. In 1981 the cross "accounting" rate was TR 1 = US$1.32; the cross "commercial" rate, by contrast, was TR 1 = US$0.87. (2) For the years 1982 to 1984 the staff presentation includes transactions within swing limits under bilateral payments agreements with "market economy" countries and related capital account transactions in the national presentation they are included in the balance of payments in convertible currencies.

Table 42. Poland: Balance of Payments in Nonconvertible Currencies, 1979-84, National Presentation 1/

(In millions of U.S. dollars)

	1979	1980	1981	1982	1983	1984
Current account	-105	-996	-1,924	-412	-520	-582
Merchandise exports, f.o.b.	8,812	8,994	7,571	5,482	5,598	5,354
Merchandise imports, f.o.b.	9,095	10,217	9,623	6,038	6,265	5,972
Trade balance	-283	-1,223	-2,052	-556	-667	-618
Services: credit	703	774	677	500	562	495
Shipment and other transportation	352	397	491	357	367	303
Travel	163	181	15	9	12	17
Interest receipts	3	5	3	6	23	12
Others	185	191	168	128	160	163
Services: debit	526	552	551	360	420	464
Shipment and other transportation	78	98	96	63	66	72
Travel	322	300	264	110	168	196
Interest payments	41	36	76	93	85	101
Others	85	118	115	94	101	95
Unrequited transfers/private	1	5	2	4	5	5
Long-term capital	-231	-326	638	23	-46	24
Credits received	-208	-282	-627	-62	-77	-8
Drawings	230	248	892	1,114	446	409
Repayments	438	530	265	1,176	523	417
Credits extended	-36	-50	-10	74	18	18
Repayments	28	19	15	82	28	23
Drawings	64	69	25	8	10	5
Other capital, net	13	6	21	11	13	14
Short-term capital, net	298	1,338	1,306	371	533	534
Credits received	288	1,164	1,586	561	143	633
Credits extended	—	—	—	—	—	—
Payments agreement assets and liabilities	10	174	-280	-190	385	-99
Financial items, net	-38	-16	-20	18	33	24

Source: Data supplied by the Polish authorities.

1/ Differences with the presentation in Table 41 are explained in the footnotes to Table 41.

Table 43. Poland: Commodity Composition of Merchandise Exports and Imports, 1971-84

(At current prices; SITC classification) 1/

		1971	1975	1980	1984	1983	1984
		(In percent of total)				(Percentage change from preceding year)	
Merchandise exports		100.0	100.0	100.0	100.0	3.2	1.5
0-1	Foodstuffs, beverages, and tobacco	13.5	9.4	7.6	7.9	20.4	9.2
2.	Raw materials, excluding fuels	4.7	4.4	5.6	6.8	4.9	16.7
3.	Fuels	14.5	21.6	15.4	17.5	16.5	2.4
5.	Chemicals	8.0	7.8	5.3	6.1	19.4	11.2
7.	Machinery, capital, and transportation equipment	35.2	35.1	39.8	38.6	-2.3	-5.7
4, 6-8	Other industrial and manufactured products	24.1	21.7	26.3	23.1	-3.4	5.5
Merchandise imports 2/		100.0	100.0	100.0	100.0	2.6	0.5
0-1	Foodstuffs, beverages, and tobacco	13.3	9.9	15.0	10.9	-34.0	13.2
2.	Raw materials, excluding fuels	17.2	12.2	11.0	11.5	-11.1	4.9
3.	Fuels	5.4	8.3	17.1	22.6	22.9	-10.6
5.	Chemicals	7.4	7.6	8.6	8.5	-4.4	-1.4
7.	Machinery, capital, and transportation equipment	32.9	37.1	30.3	27.1	6.9	10.4
4, 6-8	Other industrial and manufactured products	23.8	24.9	18.0	19.4	17.1	-5.0

Sources: Central Statistical Office, Statistical Yearbook of Foreign Trade; and data supplied by the Polish authorities.

1/ Based on U.S. dollar value data. Trade data with socialist countries were converted from transferable rubles into U.S. dollars using cross rates derived from the commercial rates of the zloty vis-à-vis the transferable ruble and U.S. dollar.

2/ Imports c.i.f. for 1980 and subsequent years.

Table 44. Poland: Composition of Exports to and Imports from Nonsocialist Countries, 1/ 1970-84

	1970	1975	1980	1984	1983	1984
	(In percent of total at current prices; Polish classification)				(Percentage change from preceding year) 2/	
Exports	100.0	100.0	100.0	100.0	0.6	5.2
Fuel and power	15.1	29.3	21.7	22.6	11.8	6.2
Metallurgy	12.9	7.3	13.9	12.4	22.9	-1.0
Electrical engineering including construction	15.6	23.4	28.1	27.4	-13.7	-8.2
Chemicals	8.8	10.5	8.1	9.8	-2.9	15.9
Paper and wood	5.7	3.2	4.1	3.2	9.8	8.8
Light industrial products	6.8	6.0	7.1	5.6	-14.4	11.3
Food	23.3	13.2	10.0	10.9	11.2	15.0
Agricultural products	8.3	3.3	3.8	4.1	20.6	20.5
Other	3.5	3.0	3.3	4.0	-1.1	83.9
Imports	100.0	100.0	100.0	100.0	1.0	3.7
Fuel and power	1.1	5.4	11.9	7.9	54.8	-38.2
Metallurgy	14.9	18.5	10.1	10.0	6.7	5.5
Electrical engineering including construction	23.7	36.7	21.5	21.7	7.2	19.3
Chemicals	17.3	14.7	18.3	24.4	-3.4	5.2
Paper and Wood	3.9	2.2	1.8	1.1	-23.9	14.9
Light industrial products	8.8	4.6	5.1	8.3	73.5	4.8
Food	11.5	5.6	10.0	13.0	-36.9	53.0
Agricultural products	13.2	9.7	18.7	10.6	-33.1	-19.3
Other	5.0	2.6	2.6	3.0	9.6	-1.8

Sources: Central Statistical Office, Statistical Yearbook; and information provided by the Polish authorities.

1/ All countries not included in Table 45.
2/ In U.S. dollar values terms, f.o.b.

Table 45. Poland: Composition of Exports to and Imports from Socialist Countries, 1/ 1970-84

	1970	1975	1980	1984	1983	1984
	(In percent of total at current prices; Polish classification)				(Percentage change from preceding year) 2/	
Exports	100.0	100.0	100.0	100.0	5.5	-1.5
Fuel and power	11.0	13.8	8.2	13.0	24.2	-2.9
Metallurgy	7.4	6.5	4.6	6.3	34.2	-8.4
Electrical engineering including construction	56.4	53.4	63.4	59.4	1.5	-1.1
Chemicals	8.1	8.5	8.9	9.8	17.6	-2.3
Paper and wood	1.7	1.2	1.0	0.9	-3.5	6.0
Light industrial products	9.4	10.3	9.8	5.0	-32.9	-5.6
Food	2.2	3.1	2.0	2.3	35.2	-3.0
Agricultural products	2.6	2.3	0.9	1.6	26.9	24.3
Other	1.2	0.9	1.2	1.7	22.0	25.9
Imports	100.0	100.0	100.0	100.0	4.7	-1.3
Fuel and power	9.2	14.2	23.1	32.0	10.0	-4.5
Metallurgy	19.0	16.3	11.2	9.2	-6.8	-5.8
Electrical engineering including construction	45.2	45.3	45.8	35.6	6.9	5.7
Chemicals	7.7	8.2	7.3	6.7	-6.2	-12.8
Paper and Wood	2.4	2.4	2.2	2.5	-1.9	-0.5
Light industrial products	5.9	4.1	3.8	4.5	28.4	-17.9
Food	2.8	2.8	2.6	3.8	-21.0	-2.7
Agricultural products	4.2	3.6	1.5	2.5	11.1	30.6
Other	3.6	3.1	2.5	3.2	9.0	11.3

Sources: Central Statistical Office, Statistical Yearbook; and information provided by the Polish authorities.

1/ CMEA countries (i.e., Bulgaria, Cuba, Czechoslovakia, the German Democratic Republic, Hungary, Mongolia, Romania, the U.S.S.R. and Vietnam), China, the Democratic People's Republic of Korea, and Yugoslavia.
2/ In U.S. dollar value terms, f.o.b.

Table 46. Poland: Geographic Origin and Destination of Foreign Trade, 1970-84 1/

	Share (In Percent) 1984	1970 = 100 1970	1975	1980	1984
Total foreign trade	100.0				
Socialist countries 2/	57.8	100	251	439	409
Of which: CMEA	(53.3)	(100)	(251)	(439)	(395)
Nonsocialist countries	42.2	100	452	661	391
Of which:					
Developed countries	(32.1)	(100)	(487)	(647)	(371)
Developing countries	(10.1)	(100)	(311)	(717)	(470)
Merchandise exports	100.0				
Socialist countries 2/	53.1	100	272	434	413
Of which: CMEA	(49.0)	(100)	(272)	(435)	(401)
Nonsocialist countries	46.9	100	322	585	430
Of which:					
Developed countries	(34.6)	(100)	(322)	(581)	(403)
Developing countries	(12.3)	(100)	(320)	(599)	(527)
Merchandise imports	100.0				
Socialist countries 2/	63.0	100	232	444	406
Of which: CMEA	(58.0)	(100)	(231)	(443)	(389)
Nonsocialist countries	37.0	100	599	747	347
Of which:					
Developed countries	(29.5)	(100)	(665)	(719)	(337)
Developing countries	(7.5)	(100)	(298)	(875)	(394)

Sources: Central Statistical Office, Statistical Yearbook of Foreign Trade; and data provided by the Polish authorities.

1/ Based on U.S. dollar value data. Trade data with socialist countries were converted from transferable rubles into U.S. dollars using cross rates derived from the commercial rates of the zloty vis-à-vis the transferable ruble and U.S. dollar. For 1970, in order to avoid a break in the series, the 1971 TR/US$ cross commercial rate was applied.

2/ CMEA countries, China, the Democratic People's Republic of Korea, and Yugoslavia.

Table 47. Poland: Changes in the Value, Price and Volume of Exports and Imports, 1/ 1970-84

(In percent)

	Annual Average 1970-75	Annual Average 1975-80	1981	1982	1983	1984
Exports						
To socialist countries 2/						
Value	22	10	-22	17	5	-1
Price	9	6	-6	--	-3	-9
Volume	12	3	-17	17	8	8
To nonsocialist countries						
Value	26	13	-27	-4	1	5
Price	17	7	-4	-5	-11	-4
Volume	8	5	-22	1	12	9
Imports						
From socialist countries 2/						
Value	18	14	-10	-2	5	-1
Price	9	8	-4	4	--	-10
Volume	8	6	-6	-6	5	9
From nonsocialist countries						
Value	43	5	-36	-31	1	4
Price	13	8	-7	-8	-5	-3
Volume	27	-3	-32	-24	7	7
Terms of trade						
Vis-à-vis socialist countries	--	-1	-2	-3	-3	1
Vis-à-vis nonsocialist countries	4	-1	-2	-3	-6	--

Sources: Central Statistical Office, Statistical Yearbook of Foreign Trade; and data provided by the Polish authorities.

1/ Exports f.o.b., imports f.o.b., valued in terms of U.S. dollars. Data for socialist countries were converted from transferable rubles into U.S. dollars using cross rates derived from the commercial rates of the zloty vis-à-vis the transferable ruble and U.S. dollar.

2/ Comprise CMEA countries, China, the Democratic People's Republic of Korea, and Yugoslavia.

Table 48. Poland: Servicing of Medium- and Long-Term Debt in Convertible Currencies

	1970	1975	1980	1981	1982	1983	1984
			(In billions of U.S. dollars)				
Total debt service payments due	0.4	1.4	8.1	9.0	8.9	6.3	6.2
Principal	0.3	0.9	5.6	5.8	5.9	3.6	3.1
Interest	0.1	0.5	2.5	3.2	3.0	2.7	3.1
Total debt service paid	0.4	1.4	8.1	3.7	2.3	2.1	1.6
Principal	0.3	0.9	5.6	1.4	0.4	0.5	0.4
Interest	0.1	0.5	2.5	2.3	1.9	1.6	1.2
			(In percent of exports of goods and services in convertible currencies)				
Total debt service due	24	30	96	156	172	113	104
Total debt service paid	24	30	96	63	43	37	27
Principal	(20)	(19)	(67)	(24)	(7)	(9)	(6)
Interest	(4)	(11)	(29)	(39)	(36)	(28)	(21)
Debt service rescheduled	--	--	--	31	40	39	49
Increase in arrears	--	--	--	62	89	37	28

Source: Staff compilation from data provided by the authorities.

Table 49l. Poland: External Debt

(In billions of U.S. dollars: end-period)

	1979	1980	1981	1982	1983	1984	June 1985
In convertible currencies							
Short-term	2.9	2.0	1.1	1.1	1.3	1.3	1.1
Medium- and long-term	20.9	22.1	24.3	23.6	22.4	21.5	21.7 1/
By maturity:							
1-5 years	11.1	12.5	10.9	10.7	8.5	7.2	6.6
Over 5 years	9.8	9.6	13.4	12.9	13.9	14.2	15.1
By type:							
Guaranteed	...	...	11.3	11.9	12.5	12.6	12.9
Nonguaranteed	...	...	11.2	9.8	8.3	7.4	7.4
Commercial credits 2/	...	...	1.8	1.9	1.6	1.5	1.4
By creditor:							
Suppliers credits	1.8	1.7	1.8	1.9	1.6	1.4	1.4
Government credits	0.2	0.1	0.1	0.1	0.2	0.3	...
Bank credits	18.9	20.3	22.4	21.5	20.6	19.7	...
Interest arrears	—	—	0.5	1.6	2.7	4.1	4.8
Total	23.8	24.1	25.4	26.5	26.4	26.9	27.6
In noncovertible currencies 3/							
Short-term	0.2	0.8	1.0	0.5	0.2	0.6	0.4
Medium and long-term	0.8	0.6	1.6	2.4	2.5	2.2	2.5
Of which:							
1-5 years	0.4	0.2	0.7	0.7	0.6	0.3	0.6
Over 5 years	0.4	0.4	0.9	1.7	1.9	1.9	1.9
Total	1.0	1.4	2.6	2.9	2.7	2.8	2.9
Total Debt--all currencies	24.8	25.5	28.0	29.4	29.1	29.7	30.5
Short-term	3.1	2.8	2.1	1.6	1.5	1.9	1.5
Medium-term 4/	21.7	22.7	25.9	27.8	27.6	27.8	29.0
Memorandum item:							
Ratio of debt in convertible currencies to exports in convertible currencies	3.4	3.0	4.4	5.1	4.6	4.5	

Source: Staff compilation from data provided by the authorities.

1/ Currency of denomination was as follows: U.S. dollar, 50.5 percent; Deutsche mark, 17.3 percent percent; Swiss franc, 11.7 percent; French franc, 5.7 percent; Austrian schilling, 5.5 percent; pound sterling, 2.8 percent; Canadian dollar, 2.1 percent; Japanese yen, 2.2 percent; other currencies, 2.2 percent.

2/ Believed to be largely nonguaranteed.

3/ The external debt in nonconvertible currencies was converted from transferable rubles into U.S. dollars using cross rates derived from the commercial rates of the zloty vis-à-vis the transferable ruble and U.S. dollar; prior to 1982 the period average exchange rate was used.

4/ Includes interest arrears.

Table 50. Poland: External Medium- and Long-Term Debt in Convertible Currencies--End-June 1985 1/

(In millions of U.S. dollars)

	Government Guaranteed	Non-Guaranteed	Total 1/
Western industrial countries	9,219	5,898	15,117
Germany	1,730	1,375	3,105
United States	1,798	985	2,783
France	1,236	656	1,892
United Kingdom	936	565	1,501
Austria	1,464	251	1,715
Italy	744	282	1,026
Japan	140	617	757
Switzerland	286	271	557
Canada	254	308	562
Sweden	217	122	339
Netherlands	102	140	242
Belgium	105	108	213
Spain	43	150	193
Denmark	53	33	86
Norway	80	11	91
Finland	30	7	37
Luxembourg	1	17	18
CMEA countries	1,258	910	2,168
Polish banks abroad	1	129	130
Middle Eastern countries	596	103	699
Other countries	1,854	380	2,234
Of which:			
Brazil	1,630	--	1,630
Argentina	--	237	237
Total bank and state credits	12,928	7,420	20,348
Commercial credits			1,386
Total			21,734

Source: Staff compilation from data provided by the authorities.

1/ Includes unpaid principal but excludes interest arrears outstanding.

Table 51. Poland: Maturity Schedule of Medium- and Long-Term External Debt in Convertible Currencies at End-June 1985

(In millions of U.S. dollars)

	1985 1/	1986	1987	1988	1989	1990	Later Years	Delayed 2/
Total principal payments due 3/	1,160	2,727	2,200	2,198	1,714	910	3,390	7,435
To official creditors	668	1,649	862	769	661	215	1,863	6,241
To banks	405	1,003	1,295	1,403	1,038	695	1,527	54
To other creditors	87	75	43	26	15	--	—	1,140

Source: Data supplied by the Polish authorities.

1/ Principal maturing during second half of 1985.
2/ Principal arrears outstanding at end-June 1985 and not yet rescheduled.
3/ Excludes interest arrears.

Table 52. Poland: Terms and Conditions of Restructuring of Debt to Official Creditors

Date of Agreement and Type of Debt Rescheduled	Basis	Debt Relief Provided	Grace Period	Maturity	Interest Rate
		(US$ billions)	(In years)		
Agreement of April 1981: Principal and interest due to Western official creditors between May 1 and Dec. 31, 1981 as well as outstanding interest arrears at May 1, 1981	90 percent of principal and interest 1/	2.0 1/	4 1/2	8	...
Agreement of July 15, 1985: 2/ Principal and interest due to group of Western official creditors from 1982 and 1984	100 percent of principal and interest	10.8 3/	5	10	...
Agreement of November 19, 1985: Principal and interest due to group of Western official creditors between January 1 and December 31, 1985	100 percent of principal and interest	1.4 4/	5	10	...

Source: Data supplied by the Polish authorities.

1/ In 1981 bilateral agreements were signed with all Western official creditors except one providing for debt relief of US$1,778 million, of which US$1,369 million represented principal maturities and US$409 million interest due.

2/ Full implementation of the agreement required that arrears arising from the April 1981 debt rescheduling agreement, including late interest, be cleared. Also, it was required that 50 percent of the interest due in 1985 on the consolidated debt be paid on December 31, 1985, while the other 50 percent was to be paid in four equal and successive annual installments beginning on December 31, 1986.

3/ Comprises US$7.2 billion of principal payments and US$3.6 billion of interest payments, including estimated late interest.

4/ Comprises US$1.1 billion of principal payments and US$0.3 billion of interest payments.

Table 53. Poland: Terms and Conditions of Bank Debt Restructuring Agreements 1/

Date of Agreement and Type of Debt Rescheduled	Basis	Debt Relief	Grace Period	Maturity	Interest Rate
		(US$ million)	(In years)		(In percent; agreed spread over U.S. prime or LIBOR)
Agreement of April 1982 2/ Medium-term debt due March 26, 1981-Dec. 1981	95 percent of principal	1,957	4	7	1 3/4
Agreement of November 1982 3/ Medium-term debt due in 1982, including US$0.7 billion in arrears on unrescheduled maturities due in 1981	95 percent of principal	2,225	4	7 1/2	1 3/4
Agreement of November 1983 4/ Medium-term debt due during 1983	95 percent of principal	1,192	4 1/2	9	1 7/8
Agreement of July 1984 5/ Rescheduling of maturities falling due in 1984 through 1987	95 percent of principal	1,382	5	10	1 3/4

Source: Information provided by the Polish authorities.

1/ Dates refer to time when agreements were signed.

2/ Short-term facilities and interbank deposits were specifically excluded from the agreement, but it was recommended that banks "maintain short-term facilities at realistic and workable levels."

3/ A six-month trade credit, revolving up to three years, was extended under a separate agreement; the amount of the credit was equivalent to 50 percent of interest due, and in effect amounted to US$335 million.

4/ A six-month trade credit, amounting to US$180 million, and revolving up to five years, was extended under a separate agreement.

5/ The short-term revolving credit facility of US$335 million that was provided under the 1982 agreement was renewed over a period of up to five years. In addition, banks agreed to provide a new six-month credit facility amounting to 4.5 percent of their base exposure revolving up to three to four years.

Table 54. Poland: External Reserves and other Foreign Assets

(In millions of U.S. dollars)

At End of Period	1979	1980	1981	1982	1983	1984	August 1985
Official external reserves							
Gold 1/	267.3	303.0	188.0	188.5	188.8	188.8	188.8
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)
	832.4	430.6	465.8	835.3	954.0	1,294.8	1,111.5
Other foreign assets in convertible currencies							
Held by National Bank of Poland	35.1	33.5	33.5	32.0	31.0	29.3	...
Held by other banks	489.2	584.5	572.5	434.8	380.0	294.9	...
Other 2/	607.7	760.8	980.6	874.3	796.9	819.1	...
	1,132.0	1,378.8	1,586.7	1,341.1	1,207.9	1,143.3	...
Foreign assets in nonconvertible currencies							
Held by National Bank of Poland	--	--	--	--	--	--	--
Held by other banks	85.5	128.1	99.8	129.3	127.0	112.6	...
Other 2/	272.0	347.0	255.5	204.2	297.5	397.7	...
	357.5	475.1	355.3	333.5	424.5	510.3	...

Source: Data supplied by the Polish authorities.

1/ Gold was valued at US$120 per ounce at end-1978; at US$208 per ounce at end-1979; and at US$400 per ounce from 1980 onwards.

2/ Mainly holdings of foreign trade enterprises.

Table 55. Poland: Exchange Rates

	1970	1975	1978	1979	1980	1981	1982	1983	1984	June 1985
					(In Polish zlotys per U.S. dollar)					
Basic rate 1/2/	4.00	3.32	3.166	3.089	3.054	3.361	...	...	...	...
Special rate (non-commercial rates) 3/	24.00	19.92	31.66	30.01	31.76	34.90	...	...	...	...
Commercial rate 1/	24.00	49.80	41.158	40.157	44.283	51.25	84.82	91.62	113.72	159.00
Tourist rate 1/	54.00 48.00 4/	49.80	63.32	60.02	63.52	69.80	...	...	...	...
					(In Polish zlotys per transferable ruble)					
Basic rate 1/2/	4.44	4.44	4.44	4.44	4.44	4.44	...	...	...	...
Commercial rate 1/	44.44	44.44	44.44	44.44	44.44	44.44	68.00	68.00	71.34	88.00
Noncommercial rate 3/	30.08	19.70	21.23	21.23	21.23	23.16	...	...	...	...

Source: Data supplied by the Polish authorities.

1/ Middle rates, average per annum.
2/ The "basic rate" served essentially as an accounting rate for converting transactions in foreign currencies into foreign exchange zlotys. The latter unit was used to measure external accounts transactions. This rate was dispensed with at the end of 1981.
3/ Rates as of end-year.
4/ Up to the equivalent of US$500; 54.00 over the equivalent of US$500.