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April 23, 1990

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: Poland - Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the first review under the stand-by arrangement for Poland, which has been tentatively scheduled for discussion on Monday, May 14, 1990. Draft decisions appear on pages 16 and 17.

Mr. Hole (ext. 8979) or Mr. Wolf (ext. 7413) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

POLAND

Staff Report for Review Under Stand-By Arrangement

Prepared by the European Department and the  
Exchange and Trade Relations Department  
(In consultation with other Departments)

Approved by Manuel Guitián and J. T. Boorman

April 20, 1990

I. Introduction

On February 5, 1990, at EBM/90/15, the Executive Board approved a 13-month stand-by arrangement for Poland for SDR 545 million, or 80.1 percent of quota (EBS/90/3, 1/3/90 and EBS/90/11, 1/18/90). Following approval, Poland made a first purchase of SDR 170 million, representing the first credit tranche, and Fund holdings of zlotys currently amount to 125 percent of Poland's quota. The next two purchases (each for SDR 93.75 million) are contingent inter alia on the completion of Board reviews. Discussions for the first of these reviews were held in Warsaw during March 20-28, 1990 by a staff team comprising Messrs. Hole (EUR), Allen (ETR), Flickenschild (ETR), Wolf (EUR), Lakwijk (EP, EUR), Ossowski (Resident representative) and, as administrative assistant, Ms. Greene (EXR). The staff met with the Deputy Prime Minister and Minister of Finance, Mr. Balcerowicz, the First Vice-President of the National Bank of Poland, Mr. Olechowski, and senior officials of government ministries and the National Bank. Mr. Basiuk, advisor to the Executive Director for Poland, attended the meetings as an observer.

The discussions were based on preliminary, and in some cases fragmentary, data for the opening months of the year. Considerable progress has been made since the turn of the year in developing an accelerated reporting system covering the monetary accounts, international reserves, fiscal developments, and prices. This system is fairly extensive and the data flowing from it form the basis for much of the quantification in this report. Important gaps, however, remain. Comprehensive data for end-March pertaining to the aggregates which are being monitored as performance criteria are expected to become available in early May; these will be set out in a supplementary paper, to be issued to Executive Directors prior to the Board review.

In the staff report on Poland's request for a stand-by arrangement, it was envisaged that the first review would in particular examine wage policy, budgetary developments, exchange rate policy, progress in liberalizing current international payments and reducing the reliance on

export quotas, the status of negotiations with the banks, and the timetable for privatizing state enterprises. In this connection, in a letter attached to the present report, the Deputy Prime Minister and the President of the National Bank specify a tax-free wage indexation coefficient that they are recommending the Government apply in May and June, and which will in part determine the performance test on wages in the second quarter. A decision is expected shortly from the Council of Ministers and will be communicated to Executive Directors in the supplementary paper that is to be circulated prior to Board discussion. In addition, the Deputy Prime Minister and the President of the National Bank propose a technical modification to the performance test on net international reserves.

In the IBRD, two project loans to Poland, totaling US\$360 million, were approved on February 6, 1990. Other possible project loans are in various stages of preparation. In addition, discussions are well advanced on a structural adjustment loan for US\$300 million, the core components of which are to be (i) enterprise restructuring, privatization, and private sector development; (ii) financial sector reform; and (iii) development of social safety nets.

## II. Performance to Date

The program on which the Polish government embarked on January 1, 1990 is designed to achieve two principal aims: to stabilize the economy quickly and decisively, bringing about a rapid and lasting deceleration in the rate of inflation, and to transform the economic system by moving progressively to market mechanisms. The stabilization component rests on three main pillars: using the exchange rate and wages as nominal anchors to break the momentum of inflation; reducing demand pressures and strengthening financial discipline by restoring the general government's fiscal position to approximate balance; and implementing a monetary policy that would create a barrier to the excessive growth of expenditure and induce a steady movement out of foreign currency deposits into zloty financial assets. The shift to market mechanisms encompassed both immediate measures to liberalize prices and the exchange and trade system and the introduction of a wide range of institutional changes that would be initiated in 1990 but implemented in full only over a longer period.

In view of the sweeping nature of the policy changes, the likely evolution of the economy during the program period was seen from the outset as being unusually difficult, if not impossible, to forecast with any precision. Following a sharp corrective adjustment in prices in January, however, it was anticipated that the rate of inflation would fall sharply, to a target of about 5 percent in March and a little over 1 percent a month in the second half of the year. Output was assumed to fall, possibly by up to 5 percent, in 1990 and unemployment to rise, perhaps to about 2 1/2 percent of the labor force. In view of the

opening up and initial restructuring of the economy, it was thought that the current account deficit in convertible currencies could widen by about half, to some US\$3 billion.

In approving the request for a stand-by arrangement, Executive Directors were unanimous in their praise for the authorities in introducing an unprecedented program to transform the economy. Despite the obvious considerable risks, they saw no viable alternative to a head-on approach and fully endorsed the priorities and pace of the program. Noting that the Government could be expected to come under significant pressure to relent on its policies during what would inevitably be a difficult transitional period, Directors counselled perseverance and were of the view that, with the continued understanding of the population, deft implementation of further reforms, and the full support of the international community, a successful outcome was attainable.

To date, program implementation has in fact been good, and a number of encouraging developments can be noted. In particular, inflation, after exceeding expectations in January and February, appears to be converging on the path foreseen in the program. The balance between demand and supply in the market has also improved considerably. The external accounts, meanwhile, have shown remarkable strength. Output, though, has fallen unexpectedly sharply and registered unemployment has risen more quickly than foreseen.

1. Program implementation

a. Nominal anchors

The two nominal anchors of the stabilization program--the exchange rate and wages--have held well so far. While the program allowed for net international reserves of up to US\$290 million to be used in the first quarter in support of the fixed exchange rate and a liberalized trade and payments system, in fact net reserves are provisionally estimated to have increased by as much as US\$1.5 billion (Table 1). A remarkably strong outturn on external trade (see below) was the principal factor, although there also appears to have been a not insignificant inflow of "mattress money" from residents, both to support consumption and to prepay bank credits following a sharp rise in interest rates on January 1.

In the parallel (household) foreign exchange market, the exchange rate has typically moved within a narrow range--being at a discount to the official rate during January and much of February, and at a small premium subsequently. Some speculative flare-ups occurred in late March--prompted largely by the Government's indication, at the outset of the program, that the official rate would be held "for three months"--which the authorities chose to counter by intervention. By the turn of

the month, however, these pressures 1/ had subsided, with the premium in the parallel market settling at around 2-3 percent.

As regards the second anchor, preliminary data for January-March show that enterprises increased wages by 18 percent, much less than they could have (31 percent) without triggering tax penalties under the incomes policy legislation, and correspondingly less than assumed under the program (Table 2). With consumer prices rising faster than anticipated, this resulted in a fall in real wages (excluding bonuses) of some 50 percent. Officials noted that, because of seasonally high compensation in December, real wages normally decline substantially at the beginning of the year and had, in fact, fallen by more than 35 percent during the first quarter of 1989. They also noted that labor disputes had been few. Even so, they were somewhat surprised at the extent to which nominal wage awards had undershot the norm and thought that some catch-up was perhaps likely in the period ahead. Sizable bonuses from 1989 profits--amounting to some 20 percent of the average monthly wage--were, however, estimated to have been paid out in March, which would have reduced the fall in total labor compensation in real terms.

b. Fiscal and credit policy

Financial policy has been tight and the fiscal and credit performance tests for the first quarter should all be comfortably met. Even with the substantial increase in net international reserves, in nominal terms broad money is provisionally estimated to have expanded only moderately faster than programmed. In real terms, it is likely to have fallen by more than 45 percent, compared with a projected decline of some 28 percent in the program.

The key development has been a dramatic, and unexpected, strengthening in the budget. At root has been a surge in central government revenue, the reasons for which are not yet fully clear. In large part, it appears to have reflected a much stronger financial performance by the enterprise sector in the latter part of 1989 than had been assumed at the time of program formulation. Thus, whereas Zl 9.6 trillion was collected in the form of advance tax payments in 1989, income tax due for 1989 is now estimated to be some Zl 15 trillion. Deeper cuts than anticipated in real labor costs in the opening months of 1990, meanwhile, have sustained a relatively high level of enterprise

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1/ It is worth emphasizing that while the parallel rate has considerable significance in a still substantially dollarized economy, the market is thin, with a turnover of typically less than US\$10 million a day. "Pressures" in the market should be seen in this context.

profitability 1/ and given rise to higher than forecast tax obligations from current earnings. At the same time, budget expenditure has been kept under tight control. While appropriations for salaries, investment and subsidies have been released in full, limits have been placed on all other expenditure items equivalent to 4.5 percent of 1990 budget allocations in January, 6.0 percent in February, and 6.5 percent in March. In January and February, moreover, authorized spending was not fully utilized.

In contrast to the strength of the central government's accounts, local governments have been in deficit. The position of the extrabudgetary funds, however, has also been strong. Consolidated data are not yet available, but estimates constructed from the financing side of the accounts suggest that in the first quarter the general government may have been in surplus by Zl 4-5 trillion 2/ (about 1 percent of possible 1990 GDP), compared with a programmed deficit 3/ of up to Zl 4 trillion.

While the Government thus reduced its net indebtedness to the banking system during the first quarter, credit to the nongovernment sector appears to have expanded broadly in line with program expectations in nominal terms (Table 3). Two phases may be distinguished here. First, in January, following a fourfold increase in interest rates on loans (to upwards of 40 percent a month), consequent on the increase in the National Bank's refinance rate on January 1 to 36 percent a month, credit to the nongovernment sector stagnated. New credits were broadly offset by loan repayments, financed by the liquidation of a sizable proportion of enterprise foreign currency deposits. Households, too, shifted out of foreign currency deposits into zloty deposits, albeit on a more modest scale. Beginning in February, however, in light of an improving outlook for inflation, monthly interest rates were brought down (the refinance rate being reduced to 20 percent on February 1 and 10 percent on March 1); the demand for credit resumed, and the shift out of foreign currency deposits tailed off. 4/ In addition, and as envisaged, banks capitalized 60 percent of interest on

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1/ Notwithstanding the relatively strong financial position of enterprises overall in late 1989 and early 1990, some 20 percent of firms have thus far failed to pay the dividend tax in 1990.

2/ Consisting of a reduction in net debt to the banking system of about Zl 3 trillion and the settlement of somewhat more than Zl 1.5 trillion of arrears to the nonbank sector. Net foreign financing is thought to have been negligible.

3/ For the "core" general government, covering 95 percent of total general government.

4/ Nonetheless, for the first quarter as a whole reverse currency substitution was substantial. Foreign currency deposits are provisionally estimated to have fallen by US\$1.2 billion and the share of zloty money in total broad money to have risen to nearly 50 percent at end-March 1990, from 28 percent at the beginning of the year (Table 2).

preferential credits to housing and agriculture, as well as a portion of interest on nonpreferential credits.

The accelerating trend of credit to the nongovernment sector in February and early March, combined with the quickening rate of overall monetary expansion, prompted the authorities to take precautionary restraining measures, particularly against a background of continued sizable excess liquidity in the banking system. With a view to neutralizing excess reserves, the National Bank offered 30-day fixed deposits at auction to the banks. The initial take-up, however, was disappointing, partly on account of the terms and partly due to the novelty of the instrument. This led the National Bank, as a temporary measure, to enter into a gentleman's agreement with the banks to limit their credit expansion during the remainder of March--an agreement which seems to have been observed. On April 1, against the background of the progress on inflation, the National Bank lowered its refinance rate from 10 percent to 8 percent a month.

At the same time that total domestic credit was thus held below the amount envisaged in the program, other assets of the banking system turned increasingly negative, probably reflecting increased profits from wider interest margins and contra items to capitalized loan interest. As a result, net domestic assets of the banking system may have risen by less than Zl 2 trillion over the quarter as a whole, or well below the performance ceiling of Zl 17.4 trillion.

c. Systemic change

While the principal focus of policymakers in early 1990 has been on stabilization, systemic reform has also advanced. In particular, new legislation has been put in place to accelerate demonopolization and expedite bankruptcy proceedings. While there have been no bankruptcies of state enterprises to date, a number of big conglomerates have already been broken up, notably in meat processing, sugar refining, interurban transport, and coal and steel. Officials expect to begin dissolving monopolies in the food distribution system, which fall under local government control, following municipal elections in late May. Further legislation is also well advanced to put private enterprise on an equal footing with the socialized sector and to eliminate restrictions on the purchase and sale of land. In addition, efforts are proceeding to modernize and strengthen the banking system and the instruments of monetary and prudential policy, with extensive technical assistance to the National Bank being coordinated by the Fund. At the same time, the World Bank is organizing assistance to the commercial banks. Preliminary proposals and options have also been formulated in detail, with input from the Fund, for the introduction of a personal income tax and a value added tax in 1991-92.

The centerpiece of reform--transformation of the ownership of enterprises and their progressive privatization--is turning out to be somewhat more difficult to agree and implement. A proposal for the more

or less immediate conversion of most state enterprises into joint stock companies--as a means for exercising more control and discipline over enterprises, regardless of whether they are to be privatized--met with insufficient support in Parliament. Draft legislation now before Parliament would permit such transformation individually for each enterprise as its privatization is proposed, and would authorize the establishment of an Agency for Privatization, under the Prime Minister's Office, which would develop proposals for privatization. The legislation would discontinue--in joint-stock companies--the management role now played by workers' councils, but would permit employees of an enterprise to buy up to 20 percent of the shares on a preferential basis (with the discount not to exceed the enterprise's annual wage bill).

The privatization program is expected to rely heavily on assistance from western investment banking firms and other experts in valuing enterprises, arranging foreign participation, and organizing the sale of securities. Given the substantial preparatory work and institution building that will be required, the present timetable envisages the sale of only a limited number of large companies during 1990. <sup>1/</sup> For the most part, these are expected to be relatively efficient companies and would be seen as pilot operations. On the basis of these operations, the plan is to re-examine the whole approach early in 1991, with the hope then of being able to move the process forward more rapidly.

While arrangements to provide retraining benefits or unemployment compensation for workers rendered redundant are in place, the development of social safety nets for the poorest segments of society has also moved more slowly than had been hoped. Discussions with the World Bank, in the context of a requested structural adjustment loan, are expected to lead to a more accelerated timetable here.

Liberalization of the exchange and trade system, on the other hand, has proceeded further than anticipated. The number of exports subject to quota was reduced substantially more in January than originally envisaged under the program and is to be reduced further in April. As a result, export quotas are expected to remain on only five items, <sup>2/</sup> as against approximately 100 in late 1989. All import quotas, meanwhile, have been removed, and a number of tariffs have been lowered or are in the process of being lowered, especially on inputs for agriculture. In addition, progress has been made toward terminating bilateral trade and payments agreements with a number of countries.

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<sup>1/</sup> Small enterprises can be privatized without going through the elaborate procedures foreseen in the Privatization Bill.

<sup>2/</sup> Coal, steel scrap, live animals, pork and sugar.



## 2. Recent economic trends

Inflation in January, at 79 percent, far exceeded the rate (45 percent) assumed in the program. The underestimate of the impact of the liberalization of prices, depreciation of the exchange rate, adjustment of interest rates, and increases in energy prices announced on January 1 appears to have been amplified by an initial withholding of produce by the farm sector, bottlenecks and lack of competition in the processing and distribution system, and an "overshooting" by monopolistic enterprises in adjusting prices. With producers quickly bumping up against demand barriers, however, prices declined in the latter part of January and rose only moderately in the course of February. Because of the carryover from January, the average increase in consumer prices in February amounted to 24 percent (compared with 15 percent in the program). But the within-month increase is estimated to have been no more than 4 percent. And preliminary data for March put both the within-period and the average rate of inflation at about 5 percent (Table 2).

Output, which was already falling in late 1989, appears, however, to have dropped sharply further. With consumer demand sagging--in the wake of sharply reduced real incomes and possibly significant anticipatory stocking-up in late 1989--and with most enterprises adopting a wait-and-see attitude, sold production of socialized industry was close to 30 percent lower in January-March than one year earlier. <sup>1/</sup> Registered unemployment, meanwhile, rose from a negligible level at the beginning of the year to 1.5 percent of the labor force at end-March.

Many of these figures need, however, to be interpreted with caution. In particular: (i) the output data measure "sold" production, cover only socialized enterprises, and compare periods in which seasonal factors may--because of policy reforms--have changed; (ii) neither the price data nor the production data fully reflect the considerable increase in "street" sales (by both producers and new middlemen) at much lower prices than in the formal retail outlets; such activity is currently estimated to account for about one third of all sales; and (iii) perhaps no more than a third of registered unemployed in fact represent workers laid off, the balance consisting of housewives and others who formerly did not work in the formal sector who have registered to become eligible for the new benefits. In short, inflation, the drop in production, and the shake-out of labor all appear to be somewhat overstated. Officials generally concurred with this view. They also considered,

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<sup>1/</sup> Month-on-month, sold production fell by 19 percent in January and 15 percent in February, before rising by 10 percent in March. In previous years, a sharp fall in January was typically followed by a strong and accelerating recovery in February and March. It is difficult, in the present changing environment, however, to gauge the extent to which the traditional seasonal pattern may have altered.

however, that inflation had yet to be rooted out, that production had fallen sharply, and that the labor market could be vulnerable when enterprises did begin to streamline their operations.

With domestic demand falling more sharply than anticipated, and with the unwinding of leads and lags following the January 1 devaluation also exceeding expectations, the trade balance in convertible currencies shifted into a surplus of US\$450 million in January-February, from a deficit of US\$50 million in the same period of 1989 (Table 4). Exports in U.S. dollar terms rose by 23 percent (year-on-year), while imports--the liberalization of trade and payments notwithstanding--fell by 21 percent. 1/ With the deficit on net invisibles changing little, the current account likewise improved strongly in January-February, moving into a small surplus. This contrasts with an originally anticipated deficit for January-March on the order of US\$1 billion.

Mirroring the weakness of imports and the retrenchment by enterprises in a period of major change and still sizable uncertainty, the utilization of foreign credits has thus far been modest. While gross official reserves increased by about US\$0.3 billion during January-March, net international reserves of the banking system are, as noted, estimated to have risen by as much as US\$1.5 billion, the divergence in part reflecting the absence, as yet, of clear guidelines on the permissible foreign exchange holdings of the banks.

Under the influence of supply difficulties in neighboring countries and weather-related reductions in the demand for energy imports, as well as weak domestic demand generally, the trade surplus in nonconvertible currencies has also strengthened far beyond expectation, reaching nearly US\$200 million in January-February, or close to double the target for the year as a whole. Moreover, pressures persist from enterprises for additional licenses (above the agreed inter-government protocol) to export to the Soviet Union.

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1/ Customs data, although not strictly comparable to payments data in terms of coverage, suggest a rather different picture, viz., little change in the volume of exports and a fall in the volume of imports of only 6-7 percent. Officials felt that the discrepancy was too large to be explained by leads and lags and differences in coverage but were unable to reconcile the two sets of data. Indications--on a payments basis--for March and early April, moreover, are that while imports may be beginning to pick up, export performance remained strong.

### III. Policy Issues and Outlook

The key issue confronting officials is the depth of the fall in output, which has raised questions about the tightness of macroeconomic policy. While it was accepted that the data currently available needed to be evaluated with care, the reality of the downturn in demand and activity was seen as being borne out by an accumulation of inventories of finished goods, the drop in imports, the quest by enterprises to find new markets abroad, and the modesty of wage awards in a period of substantial price adjustments. Although there had been no bankruptcies of state enterprises yet, it was anticipated that closures would begin to occur in the next few months. While the bankruptcy of insolvent enterprises would be welcomed, it was important that the process--including the knock-on effects--be manageable and that economic policy facilitate the restructuring of production and re-absorption of a good part of the resources that would be released.

This said, officials recognized that these were very early days, and they were not prepared to speculate on the outlook for the year as a whole on the basis of three months' data. Time was needed for the economy to adjust and not simply stabilize. While the fall in activity might be indicative of the extent of former output that was uneconomic under a market system and had to be shed, it was viewed more as a reflection of the fact that enterprises, applying cost-plus pricing, had yet to respond to the new realities and streamline their operations. Indeed, officials saw the battle with the enterprise sector to induce a change in behavior as only now being joined.

While encouraged by the progress in curbing inflation, and while expecting the rate of price increase to fall further in the second quarter, <sup>1/</sup> officials also considered it much too soon to declare inflation beaten. In this connection, they were well aware of the experience elsewhere of easing painful but needed policies prematurely. They also recognized that a number of built-in stabilizers should shortly come into play, notably a possible weakening of the budget as revenue from currently-generated enterprise incomes declined; the release in March of wage bonuses from 1989 profits which would likely be sizable also in April and May; and an already programmed increase in net domestic credit of 10-11 percent in real terms during the second quarter.

With these considerations in mind, officials stated that it was not their intention to alter course as regards macroeconomic policy. Reflation at the present time, without prior structural change, would, they considered, only lead to a resurgence of the previous economic problems. Should the budget, in particular, weaken significantly, they

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<sup>1/</sup> If price increases from March onward were to correspond exactly with the programmed path, the within-year rate of inflation in 1990 would approximate 160 percent, against 94 percent in the program and 640 percent during 1989.

stand ready to reduce government expenditure further, as necessary. In this connection, it may be recalled that in requesting a stand-by arrangement, the authorities undertook to present a revised budget to Parliament by the end of March which would be consistent with the lower rate of inflation targeted in the Government's program. Because, however, parliamentary approval of the original budget for 1990 was obtained only in late February, and because by that time it had become apparent that inflation during 1990 would likely exceed both the assumption underlying the original budget (140 percent) and the target in the program (94 percent), a revised budget has not been presented to Parliament. Officials nonetheless emphasized that the originally-approved budget would continue to be implemented in such a manner that the fiscal performance tests would be observed.

Although determined not to veer from the programmed course of macroeconomic policy, officials also consider it important to avoid deepening the recession. To this end, they are looking to complement a policy of overall restraint with positive incentives both for enterprises to improve their efficiency and for enterprises with a future to expand. Various initiatives are under consideration in this connection, including modifying the scope of restrictions on wage increases, organizing groups of foreign management consultants to help enterprises mobilize for new markets, imposing restructuring on enterprises that fail to meet their fiscal obligations, and liberalizing further the law on joint ventures.

In the field of wage policy, consideration is being given to two modifications to existing legislation in order to provide production incentives and, in particular, facilitate the development of the private sector. One is to exempt enterprises with less than 100 workers from the tax on above-norm wage increases. The second is to allow enterprises that satisfy certain criteria--in particular making timely dividend payments to the budget (which is viewed as indicative of viability) and not abusing any monopoly power--to pay bonuses from 1990 profits in the course of this year. Concerning the tax-free wage index coefficient itself--which was set at 30 percent of contemporaneous inflation for January and 20 percent for February, March, and April--the view of officials, now that inflation has been brought down, is that this could be raised to 60 percent for May and June, as envisaged at the outset of the program.

As regards external policy, officials see no need to move from a fixed exchange rate for the time being. Clearly, with faster-than-assumed inflation in January and February, the enhanced competitiveness with which Poland embarked on its program has been eroded more than foreseen--measured, that is, in terms of relative prices. Measured in terms of relative wage costs, on the other hand, the reverse appears to be the case. External performance, meanwhile, has been strong, with no immediate strain in prospect. And, abstracting from the temporary, expectations-driven demand for dollars in late March, developments in the exchange rate in the parallel market do not suggest that the

official rate is inappropriate. Accordingly, officials see the possibility for the exchange rate to continue to serve as a firm anchor against inflation.

As in the case of output, officials have not yet prepared a revised balance of payments forecast for 1990. While acknowledging that the outturn of the current account in both convertible and nonconvertible currencies should now be significantly stronger than originally foreseen, they remain of the view that substantial debt and debt service reduction is needed if the current account in convertible currencies is to be brought into approximate balance by 1993, as targeted, and if the restructuring of the Polish economy is not to be seriously impeded. Following the agreement of the Paris Club in February to a generous, and in certain respects unprecedented, restructuring of Poland's debt obligations through the program period--under which, inter alia, Poland will not be required to make any payments on pre-cutoff date debt to official creditors in 1990 (see EBS/90/41, 3/6/90) 1/--Polish officials are now seeking comparable relief on medium- and long-term debt to the commercial banks. In addition, they have approached the banks for debt and debt service reduction. Two rounds of discussions have been held so far. During the latest (in March), the banks' initial proposal--which was not accepted--would have entailed larger debt service payments by Poland than assumed under the program and more favorable treatment of the banks than official creditors. There are some indications that differences between the two sides have since begun to narrow, and a third round of discussions is expected in coming weeks. Discussions are also proceeding with CMEA creditors, again with the aim of obtaining full debt-service relief in 1990. 2/

In the attached letter to the Managing Director, the authorities have indicated that pending an agreement with the banks, and while no payments are being made to the banks on medium- and long-term debt, they intend to ensure that Poland's net international reserves develop more favorably than targeted in the stand-by program by an amount corresponding to the difference between the temporary accumulation of arrears and the debt relief assumed in the program. For the six months January-June 1990, the amount in question would be US\$51 million.

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1/ The Agreed Minute specified that all bilateral agreements in respect of previous multilateral agreements should be concluded by March 15, 1990 and that bilaterals in respect of the current agreement should be concluded by end-July. At the time of the discussions in Warsaw, bilateral agreements in respect of previous multilateral agreements had still to be signed with one country, although the delay was seen as nonproblematic; and discussions were scheduled to begin shortly on bilaterals in respect of the February 1990 agreement.

2/ Poland's external debt in convertible currencies at end-1989 totaled an estimated US\$40.6 billion. Of this, US\$27.7 billion represented claims of official creditors, US\$9.2 billion claims by commercial banks, and US\$2.1 billion claims by CMEA creditors.

#### IV. Staff Appraisal

On the evidence currently available, the ambitious program launched by the Polish government at the beginning of this year seems, as regards its immediate aims, to be essentially on track. While the initial burst of corrective inflation in early January was substantially greater than anticipated, the rate of price increase has since converged to the path targeted; wage increases have been modest and labor disputes few; the exchange rate anchor has proved robust; the external accounts have shown remarkable strength; the share of foreign currency-denominated deposits in broad money has declined appreciably; and market balance has improved considerably, with shortages much reduced. Output, though, has fallen sharply further, causing consternation. Systemic reform, meanwhile, is proceeding, although progress in some areas is likely to prove slower than had earlier been hoped.

The staff appreciates the concern about the development of output. To a large extent, the depth and duration of the downturn will, however, depend on how quickly economic agents adjust. This process is unlikely to be hastened by a departure from the macroeconomic program. Rather, perseverance and a steady hand are needed if inflation is to be brought durably under control, the credibility of policy maintained, and attitudes and behavior changed.

This, the authorities recognize. Three points are nonetheless worth emphasizing. First, the overperformance of fiscal and credit policy to date relative to the program appears in large part to reflect a stronger liquidity position of enterprises than had been assumed earlier, not an over-absorption of currently generated financial resources. Second, by the same token, wage bonuses that are now beginning to be released from 1989 profits are likely to be substantially larger than anticipated, with implications for demand. Third, all this being so, considerable caution is warranted in utilizing the leeway that now exists under the fiscal and credit ceilings during the second quarter. Given the possible emergence of pressures on the budget, this suggests the need for having contingency measures ready which could be taken promptly if needed. Given, at the same time, the considerable excess reserves of the banking system, it also suggests the need for an active auctioning of securities to sterilize reserves and restore bite to the National Bank's refinance policy. Maintenance of interest rates at positive levels in real terms would be an essential corollary.

In the period ahead, it is desirable not only that restructuring begin to get under way and imports, accordingly, begin to recover, but also that pressures on domestic costs continue to be contained. A key barometer in this context will be the development of broad money. The authorities should be wary of allowing this to expand faster in nominal terms in the second quarter than is assumed for that period in the program.

What action might hasten the economy's recovery? One thing would be not only the removal of formal impediments to the exploitation of new economic opportunities--such as the legislation now under consideration to do away with preferences for the socialized sector and limits on the sale and ownership of land--but also more active policies to facilitate change. In particular, bureaucratic obstacles need to be further reduced, the development of small and medium-sized enterprises more positively promoted, and a more flexible foreign trade infrastructure nurtured. Also, various deterrents to foreign investment, ranging from accounting standards developed under central planning to restrictions on profit remittances, need urgently to be addressed. The imbalance between changes in these areas and the stance of macroeconomic policy is clearly one factor that is exposing the economy to higher transition costs. At the same time, the larger systemic changes--ownership transformation and privatization, in particular--need to be pursued with vigor if the economy's potential supply response to the stabilization and liberalization measures introduced in January is not to be frustrated. Indeed, without accelerated progress in restructuring, the stabilization effort itself is likely to come under increasing strain.

The authorities are currently considering--as one possible initiative--certain modifications to the scope of wage policy, precisely with a view to providing incentives to production. Carefully monitored, the exemption of small-scale enterprises from the tax on above-norm wage awards might not be without merit. Permitting enterprises to pay bonuses from current profits--a second modification under consideration--seems to the staff more questionable; in the absence of fully audited accounts and more confidence regarding enterprise financial discipline, it could risk diluting wage policy significantly and injecting too much additional purchasing power into the economy. The intention to raise the tax-free wage index coefficient to only 60 percent in May and June should, meanwhile, continue to exert downward pressure on inflation.

As regards the other nominal anchor against inflation, the staff endorses the decision to hold the exchange rate unchanged beyond the end of the first quarter. Indeed, the staff would see merit in maintaining the exchange rate anchor as long as conditions permit--as long, that is, as the need for an exchange rate change of any significance does not build up. Such an approach, which the development of the external accounts lends credibility to, would have implications for financial policy, in particular monetary policy--adding still further importance to the need to develop money market instruments and to improve the flexibility of interest rates. Structural rigidities may continue, in 1990, to limit the extent to which inflation can be reduced, as was anticipated in the program. In due course, this could warrant a reconsideration of exchange rate management; but this would not seem to be an issue at present.

A more immediate issue--given the present strength of the balance of payments--is whether it is not time to unify the exchange market, bringing transactions currently undertaken in the parallel market into the official market. The staff believes that this is feasible and would be appropriate. In particular, it would defuse the undue prominence that is given at times to fluctuations in the rate in the much thinner parallel market, as well as further bolstering confidence in the program generally.

In contrast to the strengthening of the external accounts in convertible currencies, developments in trade with the nonconvertible area pose a difficult dilemma. Although no agreement has yet been reached, it is generally accepted that at least a partial switch toward more market-based trading arrangements will be made among CMEA countries in 1991. In the meantime, many Polish enterprises see the CMEA, and particularly the USSR, as an easy market. Acceding to pressures from enterprises for additional export licenses to the CMEA area would only delay structural change and, through its monetary impact, pre-empt room for credit to be extended to more viable enterprises. Refusing such licenses, on the other hand, could lead to the closure of a number of enterprises that in the long run might well be viable suppliers to the large USSR market. It would seem to the staff that this dilemma might be eased if, as a minimum, no subsidies were given to further exports to the CMEA area.

Progress in liberalizing the exchange and trade system has been more rapid than envisaged in the program. This applies in particular to steps to reduce reliance on export quotas, foreign trade licensing, tariff protection, and bilateral payments arrangements. In addition, the parallel exchange rate has remained closely aligned with the official rate. The staff welcomes these developments and the authorities' readiness to contemplate further liberalizing steps, and it encourages the authorities to take advantage of the unexpectedly comfortable external payments situation to make further headway in this area. An important step, besides unification of the official and parallel exchange markets, would be the elimination or easing of the remaining restrictions on payments and transfers for current international transactions.

The multiple currency practice arising from the trading of Bank PKO S.A. coupons will disappear over time as a result of the authorities' action to discontinue issuing these coupons from January 1, 1990. In view of this measure and the authorities' intention to keep the parallel rate to well within 10 percent of the official rate, the staff recommends the approval of the multiple currency practices arising from the operation of the parallel market and the foreign exchange coupon scheme until the completion of the next Article IV consultation with Poland or February 28, 1991, whichever is earlier.



Finally, on data, the accelerated reporting system that officials have set up is a major step forward and a considerable aid to timely analysis. It is however important, particularly in the current situation of rapidly altering developments, to build on this, fill in major gaps, and develop the system further. More generally, with the changing economic system in Poland, there is an increasingly urgent need to look again at the coverage of many statistical series--not least in the areas of national accounting, production, retail sales and prices.

#### V. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

##### 1. Review Under Stand-By Arrangement

1. Poland has consulted with the Fund in accordance with Paragraph 4(b) of the stand-by arrangement for Poland (EBS/90/11, Supp. 2) and Paragraph 20 of the memorandum attached to the letter dated December 22, 1989 from the Deputy Prime Minister and Minister of Finance and the President of the National Bank of Poland.
2. The letter dated April 17, 1990 from the Deputy Prime Minister and Minister of Finance and the President of the National Bank of Poland shall be annexed to the stand-by arrangement for Poland, and the letter and Memorandum dated December 22, 1989 shall be read as modified and supplemented by the letter dated April 17, 1990.
3. Accordingly, paragraph 4(a)(i) and (v) of the stand-by arrangement for Poland are amended to read:  
  
"(i) The limit on the development of wages referred to in paragraph 11 and Appendix A of the Memorandum, as modified by the letter of April 17, 1990; or"

"(v) The target for the minimum cumulative change in net international reserves in convertible currencies of the banking system referred to in paragraph 19 and Appendix E of the Memorandum, as modified by the letter of April 17, 1990; or"

4. The Fund finds that the first of the reviews contemplated in Paragraph 4(b) of the stand-by arrangement has been completed.

## 2. Exchange System

Poland maintains multiple currency practices arising from the operation of a parallel exchange market and a convertible foreign exchange coupon scheme, both of which are subject to approval under Article VIII, Section 3. In view of the authorities' intention not to allow the divergence of the parallel rate from the official rate to become significant and the measure the authorities have taken to phase out the coupon scheme, the Fund grants approval of these multiple currency practices until the completion of the next Article IV consultation with Poland or February 28, 1991, whichever is earlier.

April 17, 1990

Dear Mr. Camdessus:

In the Memorandum of Economic Policies, dated December 22, 1989, that we transmitted to you in connection with the request for a stand-by arrangement with the Fund, we set a coefficient for the tax-free increase in enterprise wage bills only for the first four months of 1990 and undertook to specify the coefficient that would apply during the remainder of the program on the occasion of the reviews of the program with the Fund. In the light of the much lower rate of inflation that now prevails, and following recent discussions with Fund staff, we intend to propose that the Government allow enterprises to raise their wage bills in May and June by an amount corresponding to 60 percent of the contemporaneous rate of inflation; any excess of wage bill increases above that amount would continue to be subject to high and steeply progressive taxation.

We also intend to adjust the end-June target for net international reserves in light of the fact that discussions with the commercial banks on restructuring debt service obligations due in 1990 are still ongoing. Pending an agreement with the banks on the refinancing of interest due in 1990 on medium- and long-term debt, and while no interest payments are being made to the banks on this debt, we intend to ensure that Poland's net international reserves develop more favorably than targeted in the stand-by program by an amount corresponding to the additional cash-flow relief (over and above that assumed in the program) that is entailed by the temporary accumulation of arrears. For the six months January-June 1990, the amount in question would be US\$51 million, which would lower the permissible fall in net reserves in convertible currencies under the program over the same period to US\$114 million.

Sincerely,

Leszek Balcerowicz  
Deputy Prime Minister  
and Minister of Finance

Wladyslaw Baka  
President  
National Bank of Poland

Table 1. Poland: Short-Term Indicators I

EXTERNAL	1989	1990		
	Dec.	Jan.	Feb.	Mar.
(Zloty per US\$1)				
Official exchange rate, average	5,235	9,500	9,500	9,500
Parallel market rate, average	...	9,342	9,455	9,632
Parallel market rate, end of period	...	9,352	9,530	9,718
(In US\$ million)				
Change in gross official reserves	+234	-55	+122	+248
Purchase of foreign exchange by				
National Bank from foreign exchange banks	...	71	334	247
Change in net international reserves				
of banking system	-50	+491	+657	+400
	1989	Jan.-Feb. 1990	Jan.-Mar. 1990	
	1988	Jan.-Feb. 1989	Jan.-Mar. 1989	
(Percentage change)				
Convertible currency area (BOP basis)				
Exports (US\$ value)	5	23	...	
Imports (US\$ value)	16	-21	...	
Nonruble area (customs basis)				
Exports (US\$ value)	3	-3	7	
(volume)	—	—	8	
Imports (US\$ value)	6	-8	-21	
(volume)	6	-6	-20	
Ruble area (customs basis)				
Exports (TR value)	2	1	1	
(volume)	—	-4	-3	
Imports (TR value)	-7	-18	-29	
(volume)	-3	-19	-25	

Source: Data and estimates provided by the authorities.

Table 2. Poland: Short-Term Indicators II

DOMESTIC ECONOMY

	<u>Dec. 1989</u>	<u>Jan. 1990</u>	<u>Jan.-Feb. 1990</u>	<u>Jan.-Mar. 1990</u>
	<u>Dec. 1988</u>	<u>Jan. 1989</u>	<u>Jan.-Feb. 1989</u>	<u>Jan.-Mar. 1989</u>
(Percentage change)				
Sold production of socialized industry	-4	-29	-30	-30
Consumption by industry of electricity	-6	-7	-8	...

	<u>1989</u>	<u>1990</u>		
	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>
Registered unemployment (thousands)	9.6	55.8	152.2	266.6
Ratio of job vacancies to registered unemployment	26.5	0.6	...	0.1

(Monthly percentage change)

Consumer prices, average	18	79	24	5
Consumer prices, within month	...	99	4	5
Average wages, excluding bonuses	48	2	5	10
Average wages, including bonuses	48	3	15	35

MONEY AND CREDIT

	<u>Dec. 1989</u>	<u>Mar. 1990</u>
	<u>Dec. 1988</u>	<u>Dec. 1989</u>
(Percentage change in real terms)		
Credit to government, net	-39	-79
Credit to nongovernment	-60	-37
Money and quasi-money	-54	-47

	<u>1989</u>	<u>1990</u>		
	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>Mar.</u>
Share of zloty-denominated money in total money (in percent)	28 1/	38	45	49
Refinance rate of National Bank (percent per month)	8	36	20	10

Source: Data and estimates provided by the authorities.

1/ Foreign currency deposits valued at the exchange rate of January 2, 1990.

Table 3. Poland: Summary Monetary Program and Banking System Accounts

	1989 1/ QIV	1990 1/ QI      QII      QIII      QIV			
(In billions of zlotys; end period)					
<u>PROGRAM 2/</u>					
Net international reserves	15.4	12.7	13.9	16.1	17.8
(In millions of U.S. dollars) 3/	(1,626)	(1,336)	(1,461)	(1,691)	(1,871)
Net domestic assets 3/	80.4	97.8	105.3	110.5	119.3
of which: net credit to government 3/	3.6	6.6	5.1	3.6	3.6
Money and quasi-money	95.8	110.4	119.1	126.5	137.0
(Percentage change from end of preceding period in real terms)					
Net domestic credit		-8.5	10.6	5.9	10.7
Of which:					
To nongovernment		-9.9	15.3	9.0	11.4
Money and quasi-money		-27.7	4.3	3.4	5.7
<hr/>					
December 31, 1989-March 31, 1990					
Program				Preliminary estimate 4/	
<hr/>					
(Change, in trillions of zlotys)					
<u>ESTIMATED ACTUAL</u>					
Net international reserves		-2.8		14.2	
(In millions of U.S. dollars)		(-290)		(1,500)	
Net domestic assets		17.4		1.6	
Credit to government		(3.0)		(-3.0)	
Credit to nongovernment		(15.5)		(13.5)	
Other assets		(-1.1)		(-8.9)	
Money and quasi-money		14.6		15.8	

Sources: Data provided by the authorities, and staff estimates.

1/ Nominal zloty figures calculated on the basis of net foreign assets and foreign currency deposits valued at Zl 9,500=US\$1; real percentage changes calculated on basis of projected exchange rates and programmed inflation rates.

2/ Revised from Table 6 of EBS/90/11 to reflect actual starting-point data for end-1989.

3/ Cumulative quarterly change in 1990 subject to a performance test.

4/ Based on data from the accelerated reporting system.

Table 4. Poland: Balance of Payments in Convertible Currencies

(In millions of U.S. dollars)

	1989 Revised	1990 Program	January-February 1989 1990	
Exports	7,575	7,700	1,124	1,384
Imports	-7,335	-8,500	-1,174	-930
Trade balance	240	-800	-50	454
Nonfactor services (net)	-228	-430	-29	-28
Interest receipts	382	385	49	77
Interest payment obligations	-3,469	-3,638	-583	-732
Transfers (net)	1,232	1,450	208	296
Private	(1,144)	(1,000)	(208)	(225)
Official	(88)	(450)	(--)	(71)
Current balance	-1,843	-3,033	-405	67
Medium- and long-term capital (net)	-1,474	1,302	-326	-1,076
Drawings	226	1,450	37	39
Loan repayment obligations	-1,668	-2,802	-376 <sup>1/</sup>	-1,110 <sup>1/</sup>
Export credits extended, etc.	36	50	13	-5
Short-term capital <sup>2/</sup>	-281	-200	-20	-661
Overall balance	-3,530	-4,535	-751	-1,670
Debt relief	382	8,743	--	5,507
Balance of payments financing	215	360	--	11
of which: IMF	(--)	(575)	(--)	(226)
Change in arrears	3,192	-3,963	700	-3,781
Change in gross reserves (-, increase)	-259	-605	51	-67
Memorandum items (-, decrease)				
Change in net international reserves				
of the banking system	405	245	...	1,148
Change in gross official reserves	259	605	-51	67
Change in other foreign assets				
of the banking system	156	--	...	803
Change in short-term liabilities				
of the banking system, including				
balance of payments financing	10	360	...	-278

Source: Data provided by the Polish authorities.

<sup>1/</sup> Based on original maturities before rescheduling, with corresponding offset in items "Debt relief" and "change in arrears."

<sup>2/</sup> Including errors and omissions.

Poland - Fund Relations

(As of March 31, 1990)

I. (a) Date of membership: Poland was an original member of the Fund but withdrew from membership on March 14, 1950. Poland rejoined the Fund on June 12, 1986.

(b) Status: Article XIV.

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 680 million

(b) Total Fund holdings of currency: SDR 850 million (125 percent of quota).

(c) Fund credit: SDR 170 million of which credit tranche SDR 170 million (25 percent of quota).

(d) Reserve tranche position: none

III. Stand-by Arrangement

Dates: February 5, 1990 - March 4, 1991

Amount: SDR 545 million

Amount drawn: SDR 170 million

IV. SDR Department

(a) Net cumulative allocation: none

(b) Holdings: SDR 513,296

V. Financial Obligations due to the Fund

	4/1/90- (SDRs) 12/31/90	1/1/91- 12/31/91	1/1/92- 12/31/92	1/1/93- 12/31/93
Repurchases	--	--	--	63,750,000
Interest charges (provisional)	12,276,377	16,915,005	16,922,725	15,389,564
Total	12,276,377	16,915,005	16,922,725	79,139,564



B. Nonfinancial Relations

VI. Exchange rate arrangements

The currency of Poland is the zloty. Exchange rates of the zloty to make payments and transfers for most current international transactions with the convertible currency area are set and monitored on the basis of a basket of convertible currencies the share of which in Polish external current account transactions are not lower than 1 percent. Buying and selling rates are set with margins of 0.5 percent around the middle rate (except for notes and coins, for which the margins are 2 percent), which on March 30, 1990 was Zl 9,500 = US\$1. The cross rates of the U.S. dollar with other convertible foreign currencies are monitored closely with a view to adjusting the exchange rates of the zloty against these currencies whenever their exchange rates against the U.S. dollar in foreign markets move out of line with these cross rates. Individuals may make payments and transfers which are not eligible for foreign exchange at the official rate with foreign exchange acquired in a parallel market in which the exchange rate of the zloty is determined freely by supply and demand. On March 30, 1990 the middle rate of this exchange rate was Zl 9,718 per U.S. dollar.

Exchange rates for the transferable ruble and the clearing ruble--used for trade and financial settlements with CMEA member countries and settlements under some clearing arrangements, respectively--are set at the same level, with margins of 0.5 percent around the middle rate. On March 30, 1990 the middle rate for the transferable ruble was Zl 2,100 = TR 1. Exchange rates are also quoted for the zloty against the currencies of other CMEA member countries, Albania and the Democratic People's Republic of Korea for the purpose of noncommercial transactions; these rates are based on multilateral and supplemental bilateral agreements.

VII. The last Article IV consultation was concluded at EBM/90/15 (2/5/90). Poland is on a 12-month consultation cycle. The following decision was taken by the Board on February 5, 1990:

1. The Fund takes this decision relating to Poland's exchange practices subject to Article VIII, Sections 2(a) and 3, and in concluding the 1989 Article IV consultation with Poland, in the light of the 1989 Article IV consultation with Poland conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Poland's exchange restrictions and multiple currency practices are maintained under Article XIV, Section 2, except that the multiple currency practices listed below, as well as restrictions on certain payments and transfers by enterprises are subject to approval under Article VIII, Section 2(a). The multiple currency practices that arise from the operation of the parallel exchange market, the convertible foreign exchange coupon scheme, and the

currency-specific surcharges on foreign exchange sales for travel to CMEA countries that are members of the Fund are subject to approval under Article VIII, Section 3. The latter practice constitutes a discriminatory multiple currency practice, which the Fund urges Poland to eliminate. The Fund also encourages Poland to take the necessary steps to avoid the emergence of broken cross rates. The Fund welcomes the Government's intention to reduce reliance on the other restrictions subject to Article VIII and on bilateral payments arrangements and hopes that early progress can be made in this respect. In the meantime, the Fund grants approval of the multiple currency practices that arise from the operation of the parallel market and from the convertible foreign exchange coupon scheme until May 15, 1990.

#### VIII. Technical Assistance

Over the past 18 months, the following technical assistance was provided:

Bureau of Statistics: A mission from the Bureau of Statistics visited Poland in October 1988 to discuss monetary and government finance statistics.

Central Banking Department: Missions from the Central Banking Department visited Poland in May-June 1989 to assist the authorities in designing new monetary control procedures and strengthening banking supervision; in November 1989 to discuss earlier recommendations and the scope for further technical assistance to be delivered by several cooperating central banks; in December 1989 to discuss the development of research and statistical capabilities to implement monetary policy; in January 1990 to develop further and coordinate technical assistance efforts with the view to facilitating the effective implementation of monetary policy and modernizing the operations of the National Bank of Poland; and in March/April 1990 to assist with modernizing accounting and auditing procedures and reviewing foreign exchange operations.

Fiscal Affairs Department: Missions from the Fiscal Affairs Department visited Poland in September 1989 to advise the authorities on the implementation of a personal income tax system; and in October-November 1989 to review the fiscal structure, to recommend structural fiscal reforms, and to assist the authorities in the formulation of the 1990 budget.

Poland: Fund Position, 1989-91

	Oct.- Dec. 1989	Jan.- Mar. 1990	Apr.- June	July- Sept. 1990 1/	Oct.- Dec.	Jan.- Mar. 1991 1/
(In millions of SDRs)						
Purchases	--	170.0	93.8	93.8	93.8	93.8
Ordinary resources	--	170.0	93.8	93.8	93.8	93.8
Borrowed resources	--	--	--	--	--	--
Repurchases	--	--	--	--	--	--
Tranche policies	--	--	--	--	--	--
Special facilities	--	--	--	--	--	--
Net purchases/repurchases (-)	--	170.0	93.8	93.8	93.8	93.8
Total Fund credit outstanding (end of period)	--	170.0	263.8	357.5	451.3	545.0
Tranche policies	--	170.0	263.8	357.5	451.3	545.0
Special facilities	--	--	--	--	--	--
(In percent of quota) 2/						
Total Fund credit outstanding (end of period)	--	25.0	38.8	52.6	66.4	80.1
Tranche policies	--	25.0	38.8	52.6	66.4	80.1
Special facilities	--	--	--	--	--	--

1/ Projections.

2/ Poland's quota is SDR 680 million.

Poland: Selected Economic Indicators, 1985-90

(Percentage change unless otherwise indicated)

	1985	1986	1987	1988	Prel. 1989 <sup>1/</sup>	Program 1990
<b>Domestic indicators</b>						
(In real terms)						
Gross domestic product (SNA basis)	3.6	4.2	2.0	4.1	—	-5
Net material product	3.4	4.9	1.9	4.9	—	...
Consumption (material)	2.9	4.8	2.8	2.9	-1	-5
Gross fixed investment	4.4	4.5	4.1	6.1	-4	—
Industrial production (gross)	3.8	4.3	3.2	4.6	-3	...
Agricultural production (gross)	1.1	5.2	-6.8	1.5	...	...
(In nominal terms)						
Consumer prices	15.1	17.7	25.2	60.2	241	395
Average monthly wages in the socialized sector	18.8	20.4	21.1	81.9	268 <sup>2/</sup>	240 <sup>2/</sup>
Household incomes <sup>3/</sup>	18.7	22.4	25.9	83.8	...	...
<b>Fiscal indicators (in percent of GDP)</b>						
State budget revenues	40.4	39.9	34.2	35.5	30.9	34.6
State budget expenditures	41.6	41.0	37.7	37.0	39.0	35.4
State budget balance	-1.2	-1.1	-3.5	-1.4	-8.1	-0.8
General government balance	...	-0.3	-0.8	—	-8.3	-0.1
<b>Monetary indicators (end of period)</b>						
Domestic credit (net of general government deposits)	18.1	16.9	17.8	46.4	201.9	129.9
Money and quasi-money	26.7	34.1	58.3	133.0	241.3	59.6
<b>External indicators in convertible currencies (in terms of U.S. dollars)</b>						
Exports <sup>4/</sup>	-3.8	3.8	15.9	17.6	4.5	2.0
Imports <sup>4/</sup>	2.2	6.2	19.7	23.1	16.3	13.3
Trade balance						
In billions of U.S. dollars	1.1	1.0	1.0	0.9	0.2	-0.8
In percent of GDP <sup>5/</sup>	1.5	1.4	1.6	1.4	0.3	-1.9
Current account						
In billions of U.S. dollars	-0.6	-0.7	-0.4	-0.6	-1.8	-3.0
In percent of GDP <sup>5/</sup>	-0.9	-0.9	-0.6	-0.8	-2.6	-7.1
External debt (end of period) <sup>6/</sup>						
In billions of U.S. dollars	29.7	33.5	39.7 <sup>7/</sup>	39.1	40.6	43.1
Ratio to exports of goods and nonfactor services in convertible currencies	5.2	5.7	5.8	4.9	4.9	5.1
External debt service ratio <sup>8/</sup>						
Due	88	105	91	85	79	...
Paid	35	30	23	20	19	...
Commercial exchange rate depreciation (-) against U.S. dollar	-22.7	-16.0	-33.9	-38.4	-70.2	-85.1
<b>External indicators in nonconvertible currencies (in terms of U.S. dollars) <sup>9/</sup></b>						
Current account balance (in billions of U.S. dollars)	-0.6	-0.3	-0.2	0.3	0.3	0.1

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

<sup>1/</sup> Staff estimates based on discussions with officials.

<sup>2/</sup> In the five main areas of the socialized sector.

<sup>3/</sup> Income accruing from savings bonds issued in 1982 (to provide partial compensation to savers for the large increase in prices in that year) is distributed over the period 1982-85 even though the bonds and accumulated interest income could not be encashed before 1985.

<sup>4/</sup> Balance of payments basis.

<sup>5/</sup> Gross domestic product in zloty terms is converted into U.S. dollars at the commercial exchange rate.

<sup>6/</sup> Including arrears.

<sup>7/</sup> Includes an estimated US\$0.5 billion of late interest due on certain rescheduled debt.

<sup>8/</sup> In percent of exports of goods and nonfactor services in convertible currencies.

<sup>9/</sup> 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.

