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September 13, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Polish People's Republic - Staff Report for
the 1988 Article IV Consultation

The attached supplement to the staff report for the 1988 Article IV consultation with the Polish People's Republic has been prepared on the basis of additional information. A revised proposed decision appears on page 3.

Mr. Wolf (ext. 7413) or Mr. Boote (ext. 8801) is available to answer technical or factual questions relating to this paper prior to the Board discussion on Wednesday, September 14, 1988.

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INTERNATIONAL MONETARY FUND

POLISH PEOPLE'S REPUBLIC

Staff Report for the 1988 Article IV Consultation -
Supplementary Information and Modification to Proposed Decision

Prepared by the Staff Representatives for the
1988 Consultation with Poland

Approved by Massimo Russo and J. T. Boorman

September 12, 1988

I. Supplementary Information

The Polish authorities have provided additional information on developments in the first half (and in some cases first seven months) of 1988.

1. External developments

There was a fall in the current account deficit in convertible currencies from around US\$400 million in the first half of 1987 to below US\$200 million in the first half of 1988. The bulk of this improvement resulted from a 40 percent increase in the trade surplus to over US\$600 million. On a payments basis and in U.S. dollar terms, the data show a continuation of the rapid trade growth of 1987: exports rose by 21.8 percent in the first half of 1988 compared to the first half of 1987 while imports rose by 18.6 percent. A second reason for the fall in the current deficit in the first half of 1988 was a further rise (of around 15 percent) in net receipts from private transfers. Poland's convertible currency external debt is reported to have fallen by around US\$1 billion in the first half of 1988 to about US\$38.5 billion due mainly to the appreciation of the U.S. dollar against other currencies over this period. Convertible foreign exchange reserves rose a further US\$250 million in the first half of 1988 to reach US\$1,750 million.

In nonconvertible currencies, the current account deficit rose in the first half of 1988 to around US\$100 million, compared to a deficit of around US\$20 million in the first half of 1987. The trade deficit increased from around US\$30 million in the first half of 1987 to around US\$100 million in the first half of 1988 as a result of a surge in imports of over 20.6 percent in volume terms and despite a further improvement in the terms of trade (reflecting the lower price of energy imports).

2. Domestic developments

During the first seven months of 1988, industrial production sold rose by 5.6 percent (4.9 percent after adjustment for the actual number of working days) over the comparable period of 1987. The average monthly wage in the five main branches of the socialized sector, including premia paid from profits, increased by 60 percent in the first seven months of 1988 compared to the same period of 1987. Total money incomes of the population rose by 65 percent, while money expenditures of the population grew by 57 percent. These year-on-year increases for wages, overall incomes and money expenditures are all higher than those recorded in the first quarter of 1988. Price information for the first seven months is not available but in the first half retail prices increased by 49 percent over the comparable period of 1987 (the comparable rate of increase in the first quarter was 45 percent). Real household expenditure rose by 3 percent in the first seven months and real investment by 13 percent in the first half.

For the first seven months of 1988 the state budget was roughly in balance, with budget revenues running ahead of plan due to an acceleration of turnover and profit taxes. In view of expected expenditure overruns and to limit the size of the state budget deficit for the year as a whole, the Council of Ministers issued a decree in August establishing a stabilization tax equal to 5 percent of the increase in net fixed assets of enterprises during the first three quarters of 1988, to be paid in three equal monthly installments in October-December 1988.

Domestic credit increased by 21 percent in the first half of 1988, which was roughly equal to the credit growth originally planned for the year as a whole. The broad money supply, including foreign currency deposits, grew by 24 percent over the same period. The zloty-denominated portion of the money supply held by households increased by 22 percent the first half; an increase of only 20 percent had been planned for the year as a whole.

II. Modification to Proposed Decision

The following modified decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Poland's exchange measures subject to Article VIII, Sections 2(a) and 3 in concluding the 1988 Article XIV consultation with Poland and in the light of the 1988 Article IV consultation with Poland conducted under Decision No. 5392 - (77/63), adopted April 19, 1977, as amended (Surveillance Over Exchange Rate Policies).
2. The restrictions on the making of payments and transfers for current international transactions, and the multiple currency practices which are described in detail in SM/88/184, are maintained by Poland in accordance with Article XIV, except for the multiple currency practices connected with the foreign exchange auctions and the convertible foreign exchange coupon scheme which are subject to approval under Article VIII, Sections 2(a) and 3. The Fund encourages the authorities to accelerate the process of simplifying and eliminating the very complex multiple currency practices. Moreover, the Fund urges the authorities to take early steps to eliminate the exchange restrictions evidenced by payments arrears and bilateral payments arrangements, and the multiple currency practices maintained and adapted under Article XIV, including those evidenced by broken cross rates. In the meantime, the Fund grants approval of the existing multiple currency practices until December 31, 1988.

