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POLAND

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production and Employment:			
Nominal GDP	135,600	146,031	158,780
Real GDP Growth (pct)	6.8	4.8	4.0
GDP by Sector (pct):			
Agriculture	4.8	4.2	N/A
Manufacturing	20.2	24.4	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	3,507	3,800	4,090
Labor Force (000s)	17,052	17,162	N/A
Unemployment Rate (pct)	10.3	10.4	11.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	29.0	25.2	N/A
Consumer Price Inflation	13.2	9.5	8.5
Exchange Rate (PZL/US$ annual average)			
Official	3.28	3.49	3.90
Balance of Payments and Trade:			
Total Exports FOB (US$ billions) 2/	27.2	30.1	28.0
Exports to U.S. (US$ billions)3/	0.7	0.8	0.5
Total Imports CIF (US$ billions)	38.5	43.8	42.1
Imports from U.S. (US$ billions)3/	1.2	0.9	0.5
Trade Balance (US$ billions)	-11.3	-13.7	-14.1
Balance with U.S. (US$ billions) 3/	-0.52	-0.1	0.0
External Public Debt (US$ billions)	38.5	43.0	N/A
Fiscal Deficit/GDP (pct)	2.8	2.7	2.8
Current Account Surplus/Deficit/GDP (pct) 4/	-3.0	-4.3	-6.8
Debt Service Payments/GDP (pct) 5/	3.5	3.2	3.4
Gold and Foreign Exchange Reserves			
(US$ billions) 6/	20.7	27.4	27.3
Aid from U.S. (US$ millions) 7/	52.7	62.7	26.3
Aid from Other Sources (US$ millions)	N/A	N/A	N/A

1/ 1999 figures are Polish Government estimates as of October 1999, unless otherwise noted.

2/ Polish Government trade figures, without transshipments via third countries.

3/ U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.

4/ Including estimated unrecorded trade.

5/ Debt service includes paid interest and principal.

6/ Data available through August 1999.

7/ U.S. Government estimate; includes economic and military assistance (USAID and FMF.)

1. *General Policy Framework*

In the past decade, Poland has transformed its economy with mostly sound financial policies and commitment to structural reforms (the government adopted into law reforms on regional government, health care, pension system, and education in 1998-1999 alone), making it one of the most successful and open transition economies. After four consecutive years of growth at about 6 percent or 7 percent per year, the Polish economy, affected by the Asian and Russian crises, slowed in 1998. By the end of 1999, the Polish economy is expected to see 3.5 percent to 4 percent growth, with 5.2 percent projected for 2000. The private sector is thriving as a result of privatization and liberalization, although Poland's large agriculture sector remains handicapped by surplus labor, inefficient small farms, and lack of investment. The (shrinking) shadow "gray economy" was estimated to generate around 17 percent of GDP in 1999.

Government Priorities: A member of the WTO, OECD, and NATO, Poland now considers membership in the European Union (EU) one of its highest priorities with a self-imposed accession date of January 1, 2003. The process is exacting a political toll (lack of effective support from the opposition and declining public support) and affects most economic policies, from the budget to reforms. By late 1999, Poland had provisionally closed eight of the 30 chapters. In addition, Poland has agreed to liberalization of its trade and investment regimes through international (WTO, OECD), regional (Central European Free Trade Agreement or "CEFTA"), and various bilateral agreements, including one concluded in 1999 with Turkey. Poland also seeks to improve bilateral economic relations with Russia, Ukraine and Belarus.

Fiscal Policy: The government seeks to reduce the central government budget deficit to 1.9 percent of GDP in 2000, and to eliminate it altogether by 2003. Financing comes principally from privatization revenues and the domestic non-banking private sector (e.g., insurance companies and pension funds). The constitution prohibits the National Bank of Poland (NBP) from financing the budget deficit. Reforms, generous social programs (disability, unemployment and welfare), and debt service obligations constitute the heaviest burdens on the budget. The 1998 Act on Public Finances, a framework for fiscal consolidation to manage public finances, clarifies the responsibilities of the various budgetary players, sets measures to improve transparency in public finances, establishes rules for local governments, and prepares for EU accession. It also establishes procedures to be followed if total public debt, including state guarantees, exceeds certain limits.

Monetary Policy: The independent Monetary Policy Council (MPC) sets monetary policy, implemented by the NBP, using an inflation target. The MPC’s goal for 2000 is to reduce inflation to between 5.4 and 6.8 percent. In the medium-term, the goal is to curb inflation to 4.0 percent or less by 2003. Tight fiscal policy reduced inflation from 600 percent in 1990 to below 10 percent in 1999. As inflation slowed in 1998, the MPC started to cut its intervention rates. However, a resurgence of inflation in late 1999, coupled with fears that rising household credit and growing off-budget spending could fuel inflation in 2000, led the MPC to sharply tighten monetary policy in November, raising key interest rates by

3.5 points. After a long period of appreciation, the Polish zloty fell from 3.5 to 4.0 against the dollar in early 1999, making U.S. exports to Poland less competitive.

2. Exchange Rate Policies

Since 1991, the NBP has managed the exchange rate by a crawling peg mechanism against a basket of reserve currencies (45 percent U.S. dollars, 35 percent German marks, and the rest in pounds sterling and French and Swiss francs). As of 1999, the basket is composed of 55 percent euros and 45 percent dollars. The MPC now depreciates the central parity rate for the zloty by 0.3 percent per month, but allows the currency to float within a 15 percent band around that rate. The NBP plans to float the zloty in 2000 to let it find its equilibrium level before applying for participation in European Exchange Rate Mechanism (ERM2) and then EMU.

Poland achieved current account convertibility in 1995, eliminated the requirement for Polish firms to convert their foreign currency earnings into zlotys in 1996, removed most limits on capital account outflows by Polish citizens in 1997, and enforced a new foreign exchange law in January 1999. Restrictions were removed on foreign exchange transactions for resident portfolio investments, investment in OECD issued securities, and operations in negotiable securities, including collective investment securities, with some exceptions, such as transactions in debt instruments with a maturity of less than one year and derivatives. The law authorizes further liberalization measures, but also contains safeguards to allow the government to temporarily re-establish restrictions under certain circumstances, such as extraordinary risk to the stability and integrity of the financial system. By January 2000, Poland's remaining restrictions on capital movements, other than foreign direct investment flow and short-term capital flow, should be limited to real estate investment abroad and in Poland. The current foreign direct investment restrictions are foreign acquisitions of certain categories of real estate, indirect ownership of Polish insurance companies, air and shipping transport, broadcasting, certain telecommunication services, and gaming.

3. Structural Policies

Prices: Most price subsidies and controls disappeared during Poland's 1990 economic shock therapy, although those on public transportation and some pharmaceuticals continue. The government hopes to eventually eliminate all controls, providing interim support for coal and some agricultural products, and allowing new regulatory bodies to play a central role in setting prices in the energy and telecommunications sectors.

Taxes: A government tax reform package debated in late 1999 aimed to cut income tax rates, eliminate exemptions, and bring the VAT into line with EU rules. After weeks of intense debate parliament approved the reform proposals; the president, however, refused to sign into law the revisions to personal income taxes. The corporate income tax will be reduced to 30 percent in 2000 from the 1999 level of 34 percent; personal income tax rates of 19, 30 and 40 percent will remain in effect in 2000. Under pressure from the EU, Poland will likely amend the rules on its special economic zones that provide foreign investors with tax breaks, resulting in the closure of some zones and no access for new entrants to others.

Regulatory Policies: Primary concerns are current product certification standards and the continuing lack of an independent regulatory commission for telecommunications.

4. Debt Management Policies

Poland's foreign debt situation improved with rescheduled agreements with the Paris Club (1991) and the London Club (1994), reducing Poland's debt by nearly half. By end-1999, Poland's total official foreign debt was $32 billion, including $23 billion to the Paris Club, $5 billion in Brady bonds (London Club), $2.3 billion to other institutions (IMF, World Bank, EBRD and BIS), and $0.8 billion in Rebounds and Yankee bonds. Since 1995, Poland has held investment grade ratings from various agencies, boosted by a return to international capital markets with a $250 million Eurobond flotation. In October 1999, Poland received a Moody’s rating of Baaa1 and a Standard and Poor’s rating of BBB. Debt servicing remains relatively low both in relation to government expenditure (12 percent) and GDP (3 percent to 4 percent). Foreign debt servicing represents a sustainable proportion of exports of goods and services; as of late 1999, the private sector has an estimated $11 to $12 billion in foreign debt. Having prepaid all outstanding IMF drawings in 1995, Poland’s total state debt (foreign and domestic) shrank to 44 percent of GDP by the end of 1998.

5. Aid

The U.S. gave Poland $26.3 million in aid in 1999, $20 million of which was SEED Act funds to help Poland's transition to a free market democracy. The remaining $6.3 million was military and other aid. 2000 will be the last year for SEED Act assistance to Poland; military aid will continue.

6. Significant Barriers to U.S. Exports

Tariffs: In 1999, Poland entered a new stage of free trade in industrial products with the EU, EFTA and CEFTA countries. Currently, 73 percent of all industrial imports from these countries are duty free, 23 percent fall under MFN tariffs, and about 3 percent are subject to the GSP system. The exceptions are tariffs on cars (to be eliminated in 2002), steel products, gasoline and fuel, and heating oils. As a result of required Uruguay Round implementations, Poland reduced tariffs in 1999 on many agricultural products, but simultaneously increased tariffs on others, e.g., pork and malt. While Poland's EU association agreement established preferential tariffs for non-agricultural, EU-origin imports into the Polish market, Poland has maintained its higher MFN tariffs for U.S. and other non-EU products. All U.S. exporters within a broad range of industry sectors have complained that the differentials have diminished their business prospects and ability to compete against EU-origin products which enter Poland duty-free. The U.S. and Polish governments are currently discussing possible resolutions to this issue. In late 1999 the Polish Government announced plans to raise agricultural tariffs from current applied levels to Poland's WTO bound levels, which in many cases are much higher.

Import Licenses: Licenses are required for strategic goods on Wassenaar dual use and munitions lists, as well as for beer, wine, fuel, tobacco, dairy products, meat, poultry, semen, and embryos. The plant quarantine inspection service issues a mandatory phytosanitary import permit for the import of live plants, fresh fruits and vegetables into Poland. U.S. grain and oilseed exports to Poland have been hampered by Polish regulations requiring zero tolerance for several common weed seeds. Certificates from the Veterinary Department in the Ministry of Agriculture are also required for meat, dairy and live animal products. Poland intends to implement regulations on biotechnology and genetically modified organisms, following EU norms. Import licenses for dairy cattle genetics already have limited U.S. access to the Polish market.

Services Barriers: Poland has made progress, but many barriers remain, especially in audio-visuals, legal services, financial services, and telecommunications. In November 1997, the government enacted a rigid 50 percent European production quota for all television broadcasters, raising concerns about certain liberalization commitments undertaken by Poland upon joining the OECD. However, legislation introduced into Parliament in late 1999 would require broadcasters to meet the 50 percent quota only where practical, bring Polish regulations into line with EU directives. In January 1998, new laws on banking and the central bank came into force. As a condition of its accession to the OECD, Poland agreed to allow firms from OECD countries to open branches and representative offices in the insurance and banking sector starting in 1999, as well as subsidiaries of foreign banks. The government began privatizing the state telecommunications monopoly in October 1998, and agreed to open domestic long-distance service to competition in 1999 and international services in 2003. Local telephone service licenses are being awarded, but interconnection remains the domain of the state monopoly.

Standards, Testing, Labeling, and Certification: One Polish regulation which may adversely affect U.S. exports is a requirement for some 1,400 products sold in Poland to obtain a safety "B" certificate from a Polish test center. Enforcement of this regulation has been postponed each year since 1995, and following an August 1999 amendment, products fall into two groups: those requiring a B certificate, and those for which producer conformity declaration is sufficient. Under the "B" rule, the EU "CE" mark and ISO 9000 can accelerate the certification process. Poland wants a mutual recognition agreement with the EU, but this would require enacting a new law on product liability. In the past, U.S. companies complained about the complexity and slowness of the testing process, as well as vague information on fees and procedures, but recently these complaints have been fewer. Phytosanitary standards on weed seeds have had a major adverse impact on the ability of U.S. farmers to export certain grains to Poland.

Investment Barriers: Polish law permits 100 percent foreign ownership of most corporations, although some obstacles remain for foreign investment in certain "strategic sectors" such as mining, steel, defense, transport, energy, and telecommunications, and certain controls remain on other foreign investment**.** Broadcasting legislation still restricts foreign ownership to 33 percent (although proposed legislation would increase this to 49 percent for terrestrial broadcasting and 100 percent for satellite) and foreign stakes in air and maritime transport, fisheries, and long-distance telecommunications are confined to 49 percent. No foreign investment is currently allowed in international telecommunications or gambling. The government is working on privatization of telecommunications, steel mills, and energy, as well as a restructuring plan for the defense industry that calls for significant foreign investment. As a result of OECD accession, foreigners in Poland may purchase up to 4000 square meters of urban land or up to one hectare of agricultural land without a permit. Larger purchases, or the purchase of a controlling stake in a Polish company owning real estate, require approval from the Ministry of Interior and the consent (not always automatic) of both the Defense and Agriculture Ministries.

Government Procurement Practices: Poland's government procurement law is modeled on the UN procurement code and is based on competition, transparency, and public announcement, but does not cover most purchases by state-owned enterprises. Single source exceptions to the stated preference for unlimited tender are allowed only for reasons of state security or national emergency. The domestic performance section in the law requires 50 percent domestic content and gives domestic bidders a 20 percent price preference. Companies with foreign participation organized under the Joint Ventures Act of 1991 may qualify for "domestic" status. There is also a protest/appeals process for tenders thought to be unfairly awarded. As of September 1997, Poland has the status of an observer to the WTO's Government Procurement Agreement (GPA).

Customs Procedures: Since signing the GATT customs valuation code in 1989, Poland has a harmonized tariff system. The customs duty code has different rates for the same commodities, depending on the point of export. Poland's Association Agreement with the EU, the CEFTA agreement, FTAs with Israel, Croatia, Latvia, Estonia and Lithuania (and Turkey, for implementation in January 2000), as well as GSP for developing countries, grant firms from these areas certain tariff preferences over U.S. competitors. Some U.S. companies have criticized Polish customs' performance, citing long delays, indifference, corruption, incompetent officials, and inconsistent application of customs rules. A new customs law took effect January 1998, but some problems remain, including the amount of paperwork required and the lack of electronic clearance procedures.

7. Export Subsidies Policies

With its 1995 accession to the WTO, Poland ratified the Uruguay Round Subsidies Code and eliminated earlier practices of tax incentives for exporters, but it still offers drawback levies on raw materials from EU and CEFTA countries which are processed and re-exported as finished products within 30 days. Some politically powerful state-owned enterprises continue to receive direct or indirect production subsidies to lower export prices. Poland’s past policy of rolling over unused WTO sugar subsidy allowances to be used in combination with a given year’s allowances appears to be no longer relevant. Polish industry and exporters criticize the government for too little export promotion support. The one existing export insurance scheme has very limited resources, and rarely guarantees contracts to high-risk countries such as Russia, placing Polish firms at a disadvantage to most western counterparts.

8. Protection of U.S. Intellectual Property

Poland has made major strides in improving protection of intellectual property rights. The U.S.-Polish Bilateral Business and Economic Treaty contains provisions for the protection of U.S. intellectual property. It came into force in 1994, once Poland passed a new Copyright Law that offers strong criminal and civil enforcement provisions and covers literary, musical, graphical, software, audio-visual works, and industrial patterns. Amendments to the Copyright Law, designed to bring it fully into compliance with Poland's obligations under TRIPS, were pending in Parliament in late 1999. The amendments would provide full protection of all pre-existing works and sound recordings. Likewise, Parliament was set to consider new legislation on patents and trademarks which would bring Poland's industrial property protection up to TRIPS standards. Poland needs to provide for civil ex parte searches as required by its TRIPS obligations.

Despite this legal foundation, Poland continues to suffer from high rates of piracy. Most of the pirated material available – particularly CDs and CD-ROMs – is imported from factories in the former Soviet Union. Industry associations estimate 1998 levels of piracy in Poland to be: 40 percent in sound recordings, 25 percent in motion pictures, and 60 percent in software. While enforcement has improved in recent years, the cumbersome judicial system remains an impediment. Criminal penalties will increase and procedures for prosecution will be somewhat simplified when the pending legislation takes effect in 2000. Poland is currently on the "Special 301 Watch List" due to inadequacies in laws currently on the books and ineffective enforcement.

9.Worker Rights

Poland's 1996 Labor Code sets out the rights and duties of employers and employees in modern, free-market terms.

a. The Right of Association: Polish law guarantees all civilian workers, including military employees, police and border guards, the right to establish and join trade unions of their own choosing, and the right to join labor organizations and to affiliate with international labor confederations. The number of unions has remained steady over the past several years, although membership appears to be declining.

b. The Right to Organize and Bargain Collectively: The laws on trade unions and resolution of collective disputes generally create a favorable environment to conduct trade union activity, although numerous cases have been reported of employer discrimination against workers seeking to organize or join unions in the growing private sector.

c. Prohibition of Forced or Compulsory Labor: Compulsory labor does not exist, except for prisoners convicted of criminal offenses.

d. Child Labor Practices: Polish law strictly prescribes conditions in which children may work and sets the minimum age at 15. Forced and bonded child labor is effectively prohibited. The State Labor Inspectorate reported increasing numbers of working children and violations by employers who underpay or pay late.

e. Acceptable Conditions of Work: Unions agree that the problem is not in the law, which provides minimum wage and minimum health and safety standards, but in insufficient enforcement by too few labor inspectors.

f. Rights in Sectors with U.S. Investment: Firms with U.S. investment generally meet and can exceed the five worker rights conditions compared to Polish firms. In the last several years, there have been only a few cases where Polish unions have charged such companies with violating Polish labor law, and cases have been largely resolved. Existing unions usually continue to operate in Polish enterprises that are bought by American companies, but there tend to be no unions where U.S. firms build new facilities.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		797
Food & Kindred Products	150	
Chemicals & Allied Products	106	
Primary & Fabricated Metals	35	
Industrial Machinery and Equipment	4	
Electric & Electronic Equipment	1	
Transportation Equipment	-15	
Other Manufacturing	517	
Wholesale Trade		247
Banking		423
Finance/Insurance/Real Estate		(1)
Services		85
Other Industries		104
TOTAL ALL INDUSTRIES		1,698

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.