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POLAND

Key Economic Indicators

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

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP	157,300	155,600	160,200
Real GDP Growth (pct)	4.8	4.1	4.8
GDP by Sector (pct):			
Agriculture	4.8	4.5	N/A
Manufacturing 2/	36.3	36.5	N/A
Services	45.4	46.3	N/A
Government	13.5	12.7	N/A
Per Capita GDP (US$)	4,070	4,025	4,110
Labor Force (000s)	17,659	18,058	18,300
Unemployment Rate (pct; year-end)	10.4	13.0	14.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	25.2	19.2	32.0
Consumer Price Inflation (annual average)	11.8	7.3	9.8
Exchange Rate (PLN/US$; annual average)			
Official	3.49	3.97	4.38
Balance of Payments and Trade:			
Total Exports FOB (US$ billions) 3/	30.1	26.3	28.3
Exports to U.S. (US$ billions) 4/	0.8	0.8	1.0
Total Imports CIF (US$ billions)	43.8	40.8	42.0
Imports from U.S. (US$ billions) 4/	0.9	0.8	0.7
Trade Balance (US$ billions)	-13.7	-14.5	-13.7
Balance with U.S. (US$ billions) 4/	-0.1	0.0	0.3
External Public Debt (US$ billions)	34.1	32.1	30.2
Fiscal Deficit/GDP (pct)	2.7	2.8	2.3
Current Account Surplus/Deficit/GDP (pct) 5/	-4.3	-7.4	-7.0
Debt Service Payments/GDP (pct) 6/	3.2	3.4	4.0
Gold and Foreign Exchange Reserves (US$ billions) 7/	27.4	27.3	25.5
Aid from U.S. (US$ millions) 8/	62.7	26.3	10.0
Aid from Other Sources (US$ millions) 9/	200	300	820

1/ 2000 figures are Polish government estimates as of October 2000, unless otherwise noted.

2/ Manufacturing including construction.

3/ Polish government trade figures, without transshipments via third countries.
4/ U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.
5/ Including estimated unrecorded trade.
6/ Debt service includes paid interest and principal.
7/ Data available through August 2000.
8/ U.S. government estimate; includes economic and military assistance.
9/ EU declared assistance; includes PHARE; 2000 includes ISPA and SAPARD.

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 six to seven percent per year, the Polish economy slowed in 1998 to a growth rate of 4.8 percent, in large part due to the Asian and Russian crises. The decline continued in the first half of 1999; growth for the year was 4.1 percent. A rebound has been underway since mid-1999. By the end of 2000, the Polish economy is expected to see 4.5 to 5.0 percent growth, and growth around 5 percent is projected for 2001. The private sector is thriving as a result of privatization and liberalization, although Poland's agriculture sector remains handicapped by surplus labor, inefficient small farms, and lack of investment. The shadow "gray economy," which had been shrinking, is thought to be expanding and generated around 20 percent of GDP in 2000, up from 18 percent 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. The process (supported by the opposition and 50 percent of the population) affects most economic policies, from the budget to reforms. By fall 2000, Poland had provisionally closed 11 of 29 negotiating chapters. Poland hopes to close the remaining chapters by the end of 2001, in time for its desired accession date of January 1, 2003. In addition, Poland has agreed to liberalize its trade and investment regimes through international (WTO, OECD), regional (Central European Free Trade Agreement or "CEFTA"), and various bilateral agreements. Poland continues to seek improvement in bilateral economic relations with Russia, Ukraine and Belarus.

Fiscal Policy: The government seeks to reduce the public sector "economic deficit" to 1.6 percent of GDP in 2001, and to eliminate it altogether by 2003. Financing of the deficit 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: An independent, ten-member Monetary Policy Council (MPC) sets monetary policy, which is implemented by the NBP, using a formal inflation target. Increasingly restrictive fiscal and monetary policies reduced annual average inflation from 37 percent in 1993 to 7.3 percent in 1999. However, inflation accelerated in late 1999, a trend that has continued into 2000. As a result, the MPC missed its inflation target in 1999 and is likely to do so in 2000 as well. Its goal for 2001 is a twelve-month (December to December) CPI increase of six to eight percent, which the MPC believes is necessary to meet its medium-term target of inflation below four percent by 2003. The MPC has been tightening monetary policy over the past year to combat the resurgence of inflation. It raised interest rates by 3.5 percent in November 1999, by another 1 percent in February 2000, and an additional 1.5 percent in September 2000. As a result, real interest rates are high, running around eight to nine percent at the end of 2000. These high rates have been a drag on economic growth (although not as much as they would be in more developed countries, since the level of borrowing is relatively low) and have attracted significant amounts of short-term foreign investment, which has kept the Polish zloty relatively strong.

2. Exchange Rate Policies

On April 12, 2000 the NBP abandoned the crawling peg it had used since 1991 and allowed the zloty to float freely. The decision was in line with government plans to let the zloty find its equilibrium level before applying for participation in the European Exchange Rate Mechanism and then European Monetary Union. As the zloty had been floating within the 15 percent band for several years without NBP intervention, the decision to float did not have a significant impact on the foreign exchange market. The government reserves the right to intervene in the market to prevent destabilizing swings.

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 2001, 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 remaining restrictions on foreign direct investment concern 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, coal, and some pharmaceuticals continue. The government hopes eventually to 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. The government has also taken steps to promote greater competition in the Polish markets for oil and telecommunications services, where price rises contributed considerably to inflation in 2000.

Taxes: A tax reform package approved in late 1999 significantly reduced corporate income taxes and streamlined exemptions; VAT rates were also revised to meet EU rules (a companion bill to reduce and simplify personal income taxes was vetoed by the president). The corporate income tax rate was reduced to 30 percent in 2000 and will fall to 28 percent in 2001, 24 percent in 2003, and 22 percent in 2004. Personal income tax rates of 19, 30, and 40 percent will remain unchanged in 2000, but the government plans to propose reforms to the personal income tax system in 2001. Under pressure from the EU, Poland amended the rules governing special economic zones (SSEs) that permit tax breaks for foreign investment. These new regulations, which await final parliamentary and presidential approval, are less advantageous for investors than the old rules, but more compliant with EU mandates. Under the new regulations, which should be implemented January 1, 2001, companies registered in SSEs will be eligible to receive grants amounting up to 50 percent of initial capital.

Regulatory Policies: Poland's regulatory regime is being harmonized with EU standards. Existing regulatory structures are variously faulted for the excessive burden imposed on businesses, lack of transparency and predictability, and lack of effectiveness. An independent regulator for the telecommunications sector will begin functioning in 2001. Current concerns include product certification standards and pharmaceutical registration and pricing mechanisms, which effectively impede market access.

4. Debt Management Policies

Poland improved its foreign debt situation through rescheduling agreements with the Paris Club (1991) and the London Club (1994), which reduced Poland's debt by nearly half. As of July 2000, Poland's total official foreign debt was $30 billion, including $21.5 billion to the Paris Club, $2.1 billion to other institutions (IMF, World Bank, EBRD and BIS), $5.3 billion in Brady Bonds, and $1.1 billion in other foreign bonds. On October 31, 2000 Poland intends to buy back Brady Bonds worth almost $1 billion. This move will reduce Poland's debt to around $29 billion and will increase its creditworthiness. Since 1995, Poland has held investment grade ratings from various agencies. In October 2000 Poland had 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 to 4 percent), although amortization payments are scheduled to rise significantly in the next few years. Foreign debt servicing represents a sustainable proportion of exports of goods and services. As of mid-2000, the private sector had an estimated $24 billion in foreign debt. This is relatively low, but the pace of its growth in recent years is of concern to government officials. Poland's total state debt (foreign and domestic) amounted to 41 percent of GDP in June 2000.

5. Aid

In September 2000 Poland formally graduated from USAID assistance following a very successful decade in which nearly $1 billion in U.S. aid helped support Poland's economic and social reform. Remaining Fiscal Year 1999 funds are being used to support several programs that will wind down in late 2000 and early 2001. While it will not receive new bilateral economic aid from the United States, Poland will continue to benefit from certain U.S.-sponsored regional assistance projects, law enforcement training and cooperation programs, and military assistance programs. In 2000 the United States provided Poland with law enforcement programs worth about $260,000 and military assistance programs totaling about $9.7 million. Poland also benefits from increasing flows of EU assistance under the PHARE, SAPARD, and ISPA programs. However, most of the funds pledged by the EU remain in the pipeline. In the first nine months of 2000, the Polish National Fund for EU Aid received $44 million from the EU, up from $16.8 million in 1999. This sum does not account for a number of ongoing projects, which receive money directly from the EU.

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, 77 percent of all industrial imports from these countries are duty free, 20 percent fall under MFN tariffs, and about three 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 Uruguay Round commitments, 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. U.S. exporters within a broad range of industry sectors have complained that the differentials, which continue to grow as Poland's tariffs on EU goods move toward zero in preparation for joining the EU, have diminished their business prospects and ability to compete against EU-origin products, many of which enter Poland duty-free. The U.S. and Polish governments are continuing to discuss possible solutions to this issue, but progress in 2000 has been inadequate. In late 1999 the Polish government significantly raised some agricultural tariffs from 1999 applied levels to Poland's WTO bound levels. In 2000 Poland and the EU reached a new agreement liberalizing agricultural trade in which both sides agreed to eliminate tariffs and export subsidies on a range of agricultural goods traded between the two.

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 (GMO), following EU norms. New regulations are expected in mid-2001. Import licenses for dairy cattle genetics have already 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 made by Poland upon joining the OECD. However, legislation passed by the Parliament in 2000 requires broadcasters to meet the 50 percent quota only where practical, thereby bringing 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 allowed firms from OECD countries to open branches and representative offices in the insurance and banking sector 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. Several competitors now provide local phone service and are also licensed to provide domestic long distance service, but the state-controlled telecommunications firm retains its monopoly over interconnection and international long distance.

Standards, Testing, Labeling, and Certification: Harmonization of standards, certification, and testing procedures with those of the EU, including greater reliance on voluntary standards, is now the main objective of Polish standards policy. Under the 1997 European Conformity Assessment Agreement, Poland agreed to introduce an EU-compatible certification system; to gradually align its regulations and certification procedures with the those of the EU; to remove from mandatory certification those products free from certification requirements in the EU; and to automatically provide a “B” safety certificate to EU products subject to mandatory certification. However, there have been delays in implementing these commitments. Currently, many Polish product standards are mandatory and must be certified by accredited Polish testing agencies. A Polish "B" safety certificate has been required since 1997 for imports and domestic products and affects about one third of all products marketed in Poland. Poland does not automatically accept the EU "CE" mark or other international product standards, nor self-certification by manufacturers. Non-acceptance of many international standards, certification, and conformity testing procedures are associated with long delays, involving expensive testing processes. Poland has bilateral mutual recognition agreements on standards and conformity testing procedures with Ukraine, China, Belarus, Germany, the Czech Republic, the Russian Federation, Italy, and Switzerland, which allow the importation of certain products from these countries based on conformity statements issued by the foreign producer. Phytosanitary standards on weed seeds have had a major adverse impact on the ability of U.S. farmers to export grains to Poland.

Investment Barriers: Polish law permits 100 percent foreign ownership of most corporations. However, some obstacles remain for foreign investment in certain "strategic sectors," such as mining, steel, defense, transport, energy, and telecommunications, while certain controls remain on other foreign investment**.** Broadcasting law still restricts foreign ownership to 33 percent (although proposed legislation would allow EU-based firms to purchase a 100 percent stake), while foreign ownership of air and maritime transport, fisheries, and long-distance telecommunications is confined to 49 percent. The cap on foreign ownership in telecommunications, however, will be lifted January 1, 2001. No foreign investment is currently allowed in gambling. The privatization of the energy, steel, and telecommunications sectors envisions significant foreign investment, as does a restructuring plan for the defense industry. As a result of OECD accession, foreigners in Poland may purchase up to 4,000 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, Lithuania, and Turkey, 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 WTO accession, 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. Polish industry and exporters criticize the government for too little export promotion support. Poland's export insurance agency has limited resources and rarely guarantees contracts to high-risk countries such as Russia, placing Polish firms at a disadvantage to most western counterparts. However, the agency announced in 2000 it would expand the availability of contract insurance for trade with Poland's eastern neighbors. Poland also committed in October 2000 to provide $85 million in loans to finance environmentally friendly investments by Polish firms in China.

8. Protection of U.S. Intellectual Property

Poland has made major strides in improving the legal framework of intellectual property rights protection. 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, and audio-visual works, as well as industrial patterns. Amendments to the Copyright Law, designed to bring it fully into compliance with Poland's TRIPS obligations, were enacted in July 2000. The amendments provide full protection of all pre-existing works and sound recordings. Parliament also passed a bill on patents and trademarks to bring Poland's industrial property protection up to TRIPS standards, but the President sent it to the Constitutional Tribunal for review.

Despite this legal foundation, Poland still suffers from high rates of piracy. Most pirated materials available, particularly CDs and CD-ROMs, are produced in the former Soviet Union. Industry associations estimate 1999 levels of piracy in Poland to be: 30 percent for sound recordings, 20 to 25 percent for motion pictures, 60 percent for business software, and 80 percent for entertainment software. While enforcement has improved in recent years, the cumbersome judicial system remains an impediment. Criminal penalties increased and procedures for prosecution were somewhat simplified when the Amendments to the Copyright Law took effect. Poland is currently on the "Special 301 Watch List" due primarily to ineffective enforcement.

Separately, pharmaceutical producers are affected by inadequate data exclusivity and patent protection for their products. Test data submitted to the government to register a drug generally receive only three years of data exclusivity. Moreover, in a number of cases firms have been allowed to register drugs based on test data submitted by a different firm less than three years previously. The government plans to harmonize its laws on drug registration and reimbursement and data exclusivity with EU laws by the end of 2000. To join the EU, Poland will also have to change its law to provide for supplemental protection certificates (patent extensions). However, issues related to harmonizing Poland's patent protection system with EU directives are being negotiated as a part of Poland's accession process.

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 officers, 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 under 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 or exceed the above five worker rights standards. 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—Stock of U.S. Direct Investment on a Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		51
Total Manufacturing		985
Food & Kindred Products	116	
Chemicals & Allied Products	276	
Primary & Fabricated Metals	20	
Industrial Machinery and Equipment	31	
Electric & Electronic Equipment	1	
Transportation Equipment	-7	
Other Manufacturing	547	
Wholesale Trade		294
Banking		409
Finance/Insurance/Real Estate		63
Services		63
Other Industries		47
TOTAL ALL INDUSTRIES		1,911

Source: U.S. Department of Commerce, Bureau of Economic Analysis.
Note: Negative values may indicate either cumulative losses or the U.S. parent company's liabilities to its foreign subsidiary (e.g., loans extended to the parent company) in excess of its original investment.