NATIONS UNIES | ?#W+)3=+==[y+ =!O33 | UNITED NATIONS

COMMISSION ECONOMIQUE POUR L'EUROPE | +%C?A+5E7!a]7?=?;3Q+E7!a 7?;3EE3a | ECONOMIC COMMISSION FOR EUROPE

SEMINAIRE | E+;3=!C | SEMINAR

COMMITTEE FOR TRADE, INDUSTRY AND ENTERPRISE DEVELOPMENT

Distr. GENERAL

Working Party on Industry and Enterprise Development

TRADE/WP.8/SEM.4/4
5 March 2002

Round Table on "Industrial Restructuring in European Transition Economies: Experience to Date and Prospects

Original: ENGLISH

Geneva, Switzerland, 12-13 February 2002

PANEL 1. INDUSTRIAL RESTRUCTURING: CAUSES, CONTENTS AND MODALITIES

Topic 1. Industrial Restructuring as a Means of Enhancing National Competitiveness: Overview of the Problem

POLAND'S EXPERIENCE IN TRANSFORMING THE ECONOMY*

by Mrs. **Ewa Freyberg**, Under-Secretary of State, Ministry of Economy
Poland

1. The transformation process in the economy

Since the beginning of the nineties Poland had entered transformation path from the command economy to a free market one. At the beginning of transformation Poland's economy exhibited in particular a large share of the public sector in all sections, except for agriculture, obsolete structure of fixed assets, poor competitiveness in manufacturing with output quality inadequate to the demands of the home and foreign market. The transformation process was accompanied by high level of inflation and unemployment – both registered and hidden, particularly in agriculture.

After the period of economic slump in 1990-1991, systematic transformation has resulted in economic growth in subsequent years, expressed in terms of the GDP volume.

In comparison with other Central and East European countries Poland is positively distinguished by three elements, i.e. the smallest drop in GDP during the transformation period, the shortest period of the decline and the quickest regaining of the GDP level from before the beginning of transformation in 1989.

GDP growth and its ownership structure

---

* This paper is presented as received from the author. Any remarks should be sent by e-mail to: ewafreyberg@mg.gov.pl.

GE. 01-

In 1992-1995 a steadily increasing GDP growth rate was noted, i.e. 2.6%, 3.8%, 5.2 % and 7.0% respectively in relation to the preceding year. In 1995 the GDP volume for the first time exceeded the level achieved in 1989. In 1996 GDP increased by 6.0% and in 1997 by 6.8%. In the following years the GDP growth rate decreased to 4.8% in 1998, 4.1% in 1999 and to 4.0% in 2000.

The major causes of Poland's economy slowdown in recent years were the crisis in Asia and Russia, as well as deteriorating economic trends in the EU Member States. In 2000 the economic slowdown resulted also from a decreasing domestic demand growth rate (2.5% in 2000 as compared with 4.8% in 1999, where the consumer demand growth rate decreased from 4.4% to 2.4% respectively and the investment demand growth rate deceased from 6.8% to 3.1%).

Despite a drop in the economic activity Poland still belonged to the group of fast developing countries, with the annual GDP growth rate in 2000 exceeding that in the EU Member States (3.3%).

Table 1. The dynamics of GDP and gross value added in 1993-2000
(%, previous year =100, fixed prices)

Specification	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
GDP	103.8	105.2	107.0	106.0	106.8	104.8	104.1	104.0
Gross value added:	103.5	104.9	106.7	105.3	106.5	104.7	103.7	103.7
- industry	108.6	110.3	110.4	107.6	110.3	104.3	103.0	106.5
- construction	101.1	102.7	105.8	102.8	113.6	109.3	103.5	99.3
- market services	98.5	X	104.4	105.2	104.4	104.8	106.0	104.2

In the nineties GDP per capita increased over twofold (from USD 4466 in 1991 to USD 9588 in 2000 (as per the currencies purchasing power parity).

Major changes were noted in the ownership structure of GDP generation. The role and significance of the private sector increased. Its share in generation of the value added in 1990 amounted to about 40% and in 2000 already to over 70%. This change related to all sections of the economy. Today the largest share of the private sector is recorded in trade (98.2%) and construction (97.1%). On the other hand, in industry – due to difficulties arising in restructuring and privatisation of such sectors as mining, steel and defence – this share amounts to 66.7%.

Table 2. The share of the private sector in generating the value added in the selected sections of EKD*)
(%, current prices)

Specification	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Value added total	60.7	62.7	67.1	69.5	70.4	71.2
Industry	44.6	49.8	60.0	64.0	65.5	66.7
Construction	89.4	90.7	94.8	95.9	96.4	97.1
Services total	62.5	63.0	64.8	66.8	67.6	68.3
Market services	81.3	82.4	84.0	84.7	85.1	86.4
Trade and repairs	97.1	96.1	97.1	97.4	98.1	98.2

Transport, warehousing & communication	36.2	36.5	39.0	42.6	43.7	44.7

*) *Polish version of NACE*

The process of transformation of the economy contributed to a gradual reduction of the role of industry in the economy in favour of an increased role of services. Also a favourable change was noted in the structure of industry consisting in decreasing the role of the mining and energy sector and an increased role of the processing industry.

Table 3. GDP structure by section in 1996-2000
(%, current prices)

Specification	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
GDP in which:	100.0	100.0	100.0	100.0	100.0	100.0
Gross value added, in which:	87.0	86.8	87.4	87.6	87.1	87.7
Agriculture, hunting and forestry	6.0	5.5	4.8	4.1	3.4	3.3
Industry	27.6	26.1	25.6	24.2	23.6	23.4
Construction	6.3	6.5	6.9	7.6	7.7	7.3
Services total	47.1	48.7	50.1	51.7	52.5	53.8

Table 4. The structure of the sold industrial output in 1995-2000
(%; current prices)

Specification	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Industry total, of which:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Mining and quarrying	10.3	9.6	8.2	8.7	8.0	7.6	7.3	6.2	5.9	5.3
Industrial processing	78.6	79.2	80.7	80.8	82.0	82.8	83.5	84.7	84.1	85.0
Production, and supply of electricity, gas and water	11.1	11.2	11.1	10.5	10.0	9.6	9.2	9.1	10.0	9.7

Fixed assets and the process of modernisation of the economy

On the turn of the eighties and nineties over 20% of machines and equipment in Poland's economy originated from before the year 1970 and about 60% from the seventies. In 1991 the average statistical age of

wear and tear of machines and equipment was 72.6%, and in industry 73.6%. About 42% of these assets were fully depreciated.

At the same time the assets structure exhibited a high share of low productivity industries. A large, about 40% share, was that of highly capital intensive fuel and energy and steel complex, which resulted in highly material and capital intensive structure of the economy.

The initial years of transformation were characterised by largely deteriorated development capabilities of the economy (in 1990-1991 investment outlays decreased as compared with the preceding year). A major change in the trend was noted in 1994 and until 1999 investment outlays were increasing at a rate exceeding that of GDP and in 1995-1997 the growth was over three times faster.

The investment rate increased from 19.5% in 1991 to about 25% in 2000, however, it is too low in relation to the restructuring and modernisation needs of the economy in transition.

Table 5. The dynamics of investment outlays and investment rate
(previous year = 100, %)

Specification	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Investment outlays	95.6	102.3	102.9	109.2	116.5	119.7	121.7	114.2	106.8	102.7
Investment rate	19.5	16.8	15.9	16.2	18.7	20.8	23.6	25.2	25.5	24.9

A revival of the investment demand in that period was stimulated by such factors as improvement of the financial results of enterprises, debt rescheduling of economic entities, tax system conducive to investment, an increase in depreciation as a result of revaluation of fixed assets, as well as an increased foreign capital inflow. All these factors contributed to increasing financial resources earmarked for development. The revival of investment resulted also from better adjustment to market economy rules.

The process of depreciation of capital (productive fixed assets) was halted. An increase in investment contributed to partial restoration and modernisation of fixed assets. The level of wear and tear of machines and equipment decreased to 55.5% in the year 2000 against 72.6% in 1991. In 2000 the level of wear and tear of machines and equipment amounted to 61.9% against 73.6% in 1991.

Improvement was noted almost in all industrial branches, with a different scale of improvement. The largest improvement was noted in these branches of the processing industry, which absorbed foreign capital (manufacture of tobacco products, clothes, cellulose and paper products, motor vehicles, food articles and beverages). Also the structure of fixed assets by type in industry improved, although it still exhibits a relatively low share of machines and equipment (49.6% in 2000 against 39.2% in 1991). A better structure of fixed assets exists in the private sector.

Inflation

At the outset of transformation inflation in Poland in terms of price increase of consumer goods and services was very high and in 1990 amounted to 583% on annual average basis and in 1991 to 70.3% (in relation to the preceding year). Although within the entire period of transformation inflation decreased, the drop was slower than expected.

Table 6. Annual average dynamics of prices of consumer goods and services (previous year = 100)

Specification	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1. Total	170.3	143.0	135.5	132.2	127.8	119.9	114.9	111.8	107.3	110.1
2. Goods	160.0	136.7	134.2	132.1	127.1	119.8	113.1	109.5	105.5	109.6
3. Services	231.5	167.6	138.1	132.6	129.4	120.1	119.3	117.3	111.1	111.0

The factors which had impact on inflation included energy and material intensive structure of the economy, a very high growth in currency reserves, especially in 1994-1995, high price of bank credits, indexation mechanism, relatively high tax and insurance burden on economic operators, leading to costs increase and including them into the prices of final products, inflationary methods of budgetary debt financing.

The factors, which curbed inflation, included amongst others income policy towards the citizens aimed at reduction of personal income growth and monetary policy of the central bank aimed at consolidation of the Polish zloty (PLN), both on the home market and in relation to foreign currencies.
The nature of inflation changed in the course of the transformation process. In 1989-1990 it was expressly demand based. The basic cause of inflation was that of excessive money supply in relation to the supply of goods and services. A price hike upon imposition of market rules (by almost 600% in 1990) rapidly eliminated excessive demand. From mid-1991 onwards a one-digit monthly price increase for consumer goods and services was noted and inflation started to evolve towards the cost based inflation.
Despite these conditions in 2000 inflation was successfully reduced to 10.1% on the annual average basis, however, it remained a two-digit one.

The labour market

In 1991-2000 the labour market exhibited particularly radical changes regarding the number and structure of employment. There was a sharp decline in the number of hired labour (by about 1.3 million people) accompanied by a growth in the number of employers and self-employed.
In 1991-2000 total employment in the economy decreased by 6.1%. The main source of demand for labour was the private sector where employment increased by 3.3 million people against a drop in the public sector by 4.3 million people. The share of the private sector employment in the total employment increased from 48.9% in 1990 to 73.7% in 2000.

Table 7. The labour market in 1991 - 2000

Specification	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Employment (million people)	15.44	15.01	14.76	14.92	15.13	15.49	15.87	15.83	15.60	15.16
Previous year = 100	95.6	97.2	98.3	101.1	100.3	102.4	102.5	99.7	98.6	97.2
Share of the private sector %	54.3	56.0	58.9	60.6	62.8	65.1	69.4	70.9	72.7	73.7
Unemployment,	2156	2509	2890	2838	2629	2360	1826	1831	2350	2703

thousand people										
Unemployment rate %	12.2	14.3	16.4	16.0	14..9	13.2	10.3	10.4	13.1	15.1

The process of the labour market transformation was varied in terms of its intensity. The period 1994-1997 was particularly positive, when employment increased by 1.1 people and the unemployment rate decreased from 16% to 10.3%.

In 1991-2000 positive transformations were noted in the structure of employment in the national economy: the share of employment in the industrial sector decreased from 32% to 26% and increased in the service sector from 41% to 46%. In the agricultural sector employment oscillated around the level of 28% of total employment (unfortunately, almost with no change during the whole transformation period). The services sector was the main source of new jobs creation.

In 1991-2000 a steady increase in the number of people in the productive age was noted, the increment amounting to 1.7 million people. At the same time the number of jobs decreased. Confrontation of these two processes had a negative impact on the socio-economic sphere resulting in unemployment growth.

The number of registered unemployment increased from 1.1 million people in 1990 to 2.7 million people in 2000 and the unemployment rate from 6.5% to 15.1% respectively. Rationalisation of the economic processes resulted in liquidation of excessive employment in many sections of the economy and revealed high level of hidden unemployment, still of major significance in agriculture.
In Poland unemployment is of structural character and among its most striking features is a large share of young people, and high percentage of permanently unemployed, as well as strong geographical diversification.

Integration with the world market

In the past decade significant transformations in Poland's foreign trade occurred. As a result of almost 2.2-fold increase of export and over 3-fold increase of import, the volume of trade in 2000 according to the National Bank of Poland (NBP) figures reached the level of about USD 70 billion and the trade deficit amounted to USD 13.2 billion.

Table 8. Foreign trade turnover, NBP figures, USD million

Year	Export	Import	Balance	Previous year = 100	
				Export	Import
1991	12,760	12,709	51	117.5	146.9
1992	13,997	13,485	512	109.7	106.1
1993	13,585	15,870	-2,285	97.1	117.7
1994	16,950	17,786	-836	124.8	112.1
1995	22,878	24,705	-1,827	135.0	138.0
1996	24,420	32,574	-8,154	106.7	131.9
1997	27,229	38,549	-11,320	111.5	118.3
1998	30,122	43,842	-13,720	110.6	113.7
1999	26,347	40,727	-14,380	87.5	92.9
2000	28,256	41,421	-13,165	107.3	101.7

The deficit was an effect of insufficient export growth, which did not respond to fast import growth – natural in the transformation period – and especially import of investment and intermediate goods. In fact, during the whole transformation period the import structure was not changing. The largest share was that of import of intermediate goods – about 65%. Import of investment goods accounted for about 15% and consumer goods for about 20% of total imports.

Poor competitiveness of the domestic output, revealed at that period and the resulting need for its fast modernisation, inability of the domestic industry to satisfy the increased consumer demand, as well as consolidation of the Polish zloty (PLN) in relation to the major currencies basket, constituted the main set of causes for trade imbalance increase almost during the entire past decade.

Structural changes in Poland's economy, improved competitiveness, especially seen in the activity of companies with foreign capital participation, contributed to structural transformation in Poland's export.

In the past decade the share of technologically intensive products increased (e.g. the group of electric machinery products, tools and measurement instruments, electric industry products) from about 19% in 1992 to over 35% in 2000. At the same there was a drop in the share in export of sensitive, low processed goods: mineral products (from 13.8% in 1992 to 5.6% in 2000) and metallurgical products (from 19.5% in 1992 to 12.7% in 2000).

From the standpoint of the past decade it can be said that the opening up of the economy to international trade stimulated the process of its modernisation. A high dynamics of import of investment and intermediate goods was a factor conducive to growth of the production and export potential of Poland's economy.

Competitiveness of Poland's economy

Competitiveness of the economy means its ability to develop under the conditions of an open economy. The competitiveness level is testified in the first place by general performance of a particular economy in comparison with other economies. Poland's economy should be regarded as a highly open one.
Imposition of convertibility of the Polish zloty (PLN) and a gradual reduction of import tariffs until their complete abolition for imports of industrial products from the EU and CEFTA countries in the nineties exposed the majority of Polish manufacturers to external competition and especially the competition arising on the EU single market.

Under the conditions of an ever-opening economy competitiveness of Poland's industry had undergone a verification exercise. Some of industrial companies were liquidated, some deeply restructured.
In 1992-1998 the share of Poland's exports of the respective commodity groups in imports of the EU Member States from non-EU countries was different. A large share was noted mainly as regards labour intensive products (furniture, men's and women's wear of woven fabric, knitted fabric, technical woven fabric and tapestry), whereas goods with larger input of technology and human capital accounted for a relatively low share (below 0.5%).

Poland's share in world's export increased from 0.43% in 1989 to 0.52% in 1999 and in imports from 0.34% to 0.82% respectively.

High competitiveness of import on Poland's market resulted from high domestic output costs and its relatively poorer quality. A survey of the relation between prices obtained by Polish exporters for individual commodity groups and average prices obtained by other, non-EU exporters reveals that in 1997 Poland achieved the prices higher than those achieved by other non-EU exporters on the EU market only in the case of traditional, low processed goods. On the other hand, the products of science intensive goods exhibit a very low price level in Poland's export and no improvement of the situation has been observed. The situation of

individual sections in general does not exhibit any substantial changes, only a definitely worse situation can be observed as regards the prices of food products.

A comparison between the branches in terms of the index of revealed comparative advantages and the level of inter-sectoral trade indicates that Poland's economy exhibited the largest advantages in traditional sectors with prevailing unskilled labour force. Also of large significance is export of certain products manufactured on the basis of natural materials excavated in Poland. And finally, Poland occupies a relatively strong position in few highly capital intensive branches of the processing industry.
In terms of production means creating competitiveness the situation is diverse. A positive trend is a systematic, however slow, growth of technological progress resulting from investment activities in Poland. In 1997 a drop in the share of R&D expenditures in GDP was halted at the level of 0.72%, which is several times lower than that in developed economies.

Certain symptoms of improvement of the level of education and vocational preparation of the employees can be observed. Poland represents a good level of employee education in comparison with other countries at a similar level of development. Despite good performance of Poland's economy in recent years and improvement of the quality of the means of production, its competitiveness has not reached a very high level yet.

Poland as compared with other Central and East European countries

The pace of transformation process in the countries of Central and East Europe was different and it had various effects. After a period of drop in output and GDP, which affected almost all countries, Poland most quickly managed to regain the growth path and reach the level from before the start of the crisis. Despite consecutive changes of governments representing various political options, the reform aimed at transformation of the economic system into a free market one was pursued in a consistent way. A relatively stable economic growth in Poland has maintained since 1992, whereas other countries did not manage to avoid serious economic slump, such as in the case of Hungary and the Czech Republic.
In 2000 Poland was in the group of countries representing a high GDP growth rate (4%), and took the position after Hungary (5.2%), Bulgaria (5%), and Slovenia (4.8%). Despite stable growth, in Poland the GDP per capita level (in 2000) amounted to USD 9588 (as per the currency purchasing power parity), whereas in Slovenia it exceeded USD 16,000, in the Czech Republic amounted to USD 14,285 and in Hungary to USD 12,435.

In 2000 Poland’s export in absolute terms was at the level close to that in the Czech Republic or Hungary but in terms of the per capita level it amounted only to USD 819, whereas in Slovakia to USD 2193, in Hungary 2802 and in Slovenia USD 4387. In 1999 in relation to GDP export in Poland accounted for 26.1%, whereas in the Czech Republic 62.7%, Slovakia 61.5%, Slovenia 56.7% and in Hungary 50.6%. Also as regards foreign capital acquisition in Poland, despite the highest inflow in terms of volume (about USD 50 billion at the outset of transformation), the per capita level amounted to USD 1,3 thousand. We occupied a position after Hungary (USD 1.9. thousand) and the Czech Republic (USD 2.2. thousand).

In 2000 the rate of registered unemployment in Poland amounted to 15,1% and was among the higher values. The highest unemployment rate in 2000 was recorded in Slovakia (18.6%) and the lowest in Hungary (6.5%).

The inflation curb has varied in different countries. In 2000 inflation in Poland amounted to 10.1% on the annual average basis, decreasing from peak hyperinflation figures at the start of the transformation. By way of comparison, the inflation rate in the Czech Republic amounted to 3.9% and in Romania to 45.7%.

Poland's evaluation by OECD

Poland has been the OECD member since 1996. Membership in this organisation gathering 29 most developed countries in the world in addition to a prestige, is also of great importance in the context of Poland's integration with the structures of developed economies and in particular it is a major step towards membership in the European Union.

In the OECD cyclical surveys of economies of its members and selected non-members, carried out every 1.5 years, a complex and detailed analysis is made of the macroeconomic policy, structural change and development trends.

So far six economic surveys have been made on Poland, which were completed with publication of the OECD reports. The reports underline that ten years after the start of the economic transformation process, Poland in many aspects is perceived as a country with one of the best economies in Central and Eastern Europe, with a solid basis for development. Among achievements in the economy the private sector occupies a dominant position. An important element indispensable for the success of transformation are also investments made by foreign entities, the largest among the Central and East European countries in terms of the volume of the invested capital.

2. Major issues of the present condition of the economy and its improvement efforts. The socio-economic programme for the years 2002-2005

The present economic situation of Poland

The events in 2001, both on the international and domestic scale have caused a very difficult situation of Poland's economy. A definitely worse external environment, deterioration of economic results in the USA and progressing development slowdown in Western Europe, and especially in Germany, as well as the war against terrorism, have had a negative impact on the world development capacities and are not without effect as regards the situation in Poland.

The IMF projection of November 2001 (i.e. after the attack on the USA on September 11th 2001) envisaged the global economic growth at the level of 2.4% in 2001 and 2002. An explicit downward trend of economic growth was projected to 1.1% in the USA in 2001 and 0.8% in 2002 and for the EU Member States a drop to 1.7% in 2001 and 1.4% in 2002. The projections from before September 11th 2001 envisaged the global growth of 2.7% in 2001 and 3.6% in 2002.

Despite a solid basis of development of Poland's economy the year 2001 was one of the worst in the entire 10-year transformation period.

In the first place a deep public finances crisis unveiled, in the form of budgetary gap amounting to ca. PLN 90 billion. A serious concern was given by unemployment growth – 3115 million people were unemployed and the unemployment rate amounted to 17.4%. There are regions where this rate is twice as high as the country average. The GDP growth rate deteriorated to 1.1%, the domestic demand decreased by 2% and the investment demand by 10.7%. The drop in investment demand can have a strong adverse effect on future development and possibilities of new job creation. To overcome this situation the government is planning to implement new regulations in support of investors (a draft regulation has been submitted for the parliamentary work).

Deterioration of economic conditions had the strongest adverse effect on industry (the sold production decreased by 0.2%) and construction (a drop by 4%). The financial standing of enterprises worsened dramatically and arrears in payments were increasing.

On the other hand inflation curb was significant (to 5.5% on the annual average basis against 10.1% in the year 2000, which allowed for reduction of interest rates by the Monetary Policy Council by 750 base points in 2001, i.e. by 7.5% total.

The present standing of the economy is a result of excessively slow changes in restructuring and privatisation of sectors (such as coal mining, steel, defence industry), absence of changes in the public finance system (an excessively high share of transfers for social purposes in budgetary expenditures), conducting four, defectively organised, reforms at the same time, which increased the volume of budgetary expenditures, as well as lack of changes on the labour market towards greater flexibility of employment.

The present condition was also the result of tight monetary policy of the National Bank of Poland (NBP), since 1998, in response to the symptoms of "overheating" of the economy and a growing current accounts deficit, which in the opinion of NBP could increase inflationary pressure and pose the threat of a monetary crisis.

In such a situation the most urgent task of the new government was adoption of a repair programme stabilising public finances and limiting redistribution of income (in the 2002 budget), as well as presentation of a medium-term development policy of the state, oriented towards triggering activity and entrepreneurship, creating conditions for sustainable development and increasing the number of jobs.

Information about the socio-economic programme for 2002-2005

On January 30th 2002 the government presented the socio-economic programme for 2002-2005, which sets the following strategic goals:

- gradual regaining the path of the 5% GDP growth within 2 years,
- vocational activation of citizens and increasing employment,
- effective absorption of the EU funds and their utilisation for the country's development.

Implementation of these goals requires creating adequate conditions. A definition of these conditions has been included in three major parts-pillars of the Programme.

The first part is a presentation of the public finances strategy, which contains amongst others a change in the budget construction rules, sources of acquisition of public funds for development, changes in the tax system, which should contribute to stimulating growth and unemployment curb, development of financial markets, as well as the factor decisive for macroeconomic equilibrium.

The second part of the Programme is the economic growth strategy, containing projects of undertakings relating to structural changes in the economy, which will occur as a result of modernisation of the economy and restructuring of sectors, innovation and ownership transformations. It also contains undertakings relating to improvement of competitiveness of the domestic output and services, development of the rural areas and agriculture and the regional policy.

An integral part or the programme are: the *"Entrepreneurship first" package*, *The first job*, *Programme for infrastructure* and *Restructuring of selected sectors of the economy*, which contain legal, procedural and tax instruments for improvement of difficult situation of enterprises and activation of their operations.

The detailed tasks under the *"Entrepreneurship first" package* have been grouped into the following thematic blocks: simplification of the tax system, labour costs reduction and greater flexibility of labour relations, simplification of the social security and health protection systems, simplification of procedural

regulations, new legal regulations (in the first place elaboration of draft regulation on economic self-government and on the economic information exchange.

The *"First job" package* contains instruments for combating unemployment among the school graduates, which is a priority among instruments for combating unemployment. The proposed actions contained in the package will be launched in the following four segments: small and medium-sized enterprises, self-employment, education, and voluntary service.

The programme for infrastructure contains undertakings for expansionary stimulation of economic growth through increasing the scale and acceleration of the growth pace of construction of dwellings, motor ways and domestic roads, telecommunication and improving the railway transport.

The restructuring of selected sectors of the economy document contains undertakings, which are aimed at achieving profitability of selected sectors and enterprises, so that they would not constitute a burden for the economy due to the need for subsidising or their inability to repay debts.

The further part of this paper contains a description of the detailed programme of restructuring of selected sectors and plans in the area of implementation of innovation.

The third part of the Programme is a strategy for integration with the EU, determining the system for utilisation of the EU assistance and structural funds and their absorption into the development of Poland's economy. Also a sequence of accession events in the period covered by the programme has been presented.

The socio-economic programme has been supplemented by a list of drafts of 76 regulations and 16 governmental documents, which are of programming and analytical character and whose adoption and implementation is a condition of the Programme's success.

The Programme realisation is also conditioned on elaboration of effective methods of co-operation between the government and the Monetary Policy Council. The expected effects of the Programme realisation include a gradual GDP growth according to the following scenario: 1% in 2002, 3% in 2003, 4% in 2004 and 5% in 2005-2006.

Restructuring of the selected sectors

In the transformation period Poland’s industry exhibited the following characteristics:

- dynamic privatisation processes in the state-owned industry,
- development of the private sector, mainly the small and medium-sized enterprises,
- undertaking restructuring tasks in sensitive sectors, such as coal mining, iron and steel industry, defence industry.

As the strategic goal of industrial policy an improvement of international competition has been adopted, translated as the ability of Polish companies to compete in terms of price, quality, technical and exploitation parameters, as well as the terms and conditions of trade transactions on the domestic and foreign market.

Structural transformations whose major aim is to improve competitiveness of the economy, focus on four main priorities:

- modernisation of the economy,
- restructuring of selected sectors of the economy,
- creating conditions for development of innovative enterprises,
- structural transformation.

The objective of restructuring of the selected sectors is to achieve their profitability, so that they would not constitute a burden for the economy. This objective concerns in the first place to the coal sector, the iron and steel sector and industrial defence potential.

Coal mining

Transformation of the mining industry started in 1990 and actions in that time were aimed at adaptation of the sector to functioning in a market economy.

Since 1998 the reform programme has been implemented in accordance with the governmental programme of June 1998 *"The coal mining reform in Poland in the years 1998-2002"*, along with its update from December 1999.

The reform implementation is assisted by the law dated November 26th 1998 on adaptation of hard coal mining to the functioning in a market economy and special rights and tasks of mining communes, amended in December 2000.

The major characteristics of the reform are:

- adaptation of economic entities in the coal sector to the functioning in a market economy and maintaining competitiveness of Polish coal on the home market,
- satisfying until 2010 the domestic demand for coal and exports justified on economic basis, while
- meeting the environment protection and competitiveness criteria as set by the EU and with an open market for all energy carriers and respecting the mutual benefits principle.

In the period from January 1998 to August 2001 a reduction of the production capacity by 30.6 million t.p.a. was achieved. Coal production was terminated in 13 coal mines completely closed down and in 10 partially closed down. A further capacity reduction was achieved through liquidation of production regions, fields and levels (by 5.16 million t.p.a) and shortening of the exploitation front in operating collieries (by 3.92 t.p.a.). As at the end of August 2001 employment in the hard coal sector amounted to 149.2 thousand people and it decreased by 94.1 thousand people, i.e. by 38.7%. Employment reduction did not involve obligatory redundancies. In the implementation of this task a very efficient instrument was the *"Miners' Social Package"*, which was used by 64.7 thousand people.

The effect of the reforms has been a reduction of the average unit cost of coal sales and a steady improvement of the income from coal sales and the net financial result. Achievement of the main tasks as defined in the hard coal restructuring programme update is a proof of the adequacy of the restructuring efforts.

The steel sector

Poland's iron and steel industry entered the period of systematic transformation with an excessive output, inadequate to market demand, ineffective structure and largely excessive employment.

The document *"The steel and iron* industry *restructuring programme"* adopted by the Council of Ministers in June 1998 and positively evaluated by the European Commission, created a chance for achieving competitiveness of production with a simultaneous concentration of product sales on the home market. The main tasks in the programme include improvement of economic efficiency, extension of the product range and change of the ownership structure.

But the programme's implementation started in a particularly difficult period of economic decline on the steel market and a drop in steel product prices. Such a situation had a serious negative impact on the financial standing of steel mills and limited the scope of the planned investment. Also the effects of privatisation were below expectations. This had made it necessary to update the restructuring programme and to put forward a proposal regarding product consolidation of the sector and to verify the scope of investment. The product consolidation is advisable due to trends observed in the steel industry elsewhere in the world.

These views were reflected in the governmental document *"Steel and iron industry restructuring programme – the 2001 update"*, dated June 2001 and the law dated August 24th 2001 on restructuring of the steel and iron industry. Pursuant to these assumptions the product consolidation of the separate steel mills shall provide conditions for effective competition for the domestic steel sector under the conditions of a market economy. The programme envisages continuation of the restructuring exercise until 2005, including also employment restructuring.

Implementation of restructuring tasks in the steel sector encountered difficulties arising from the present poor financial condition of Poland's economy and from the fact that the restructuring exercise is also conducted in other sectors. Mutual penetration of debts of enterprises brings about a situation where radical financial restructuring in one sector may ruin the possibility of restructuring in another.

Employment restructuring, carried out in a coherent way and assisted from public funs, is a major success in the Programme's implementation. The major quantitative change occurred in 1999-2000, i.e. upon entry into force of the *"Steel Social Package"*. It provides for the use of social umbrella instruments and determines their funding. Until the end of 2001 the package was used by about 17.5 thousand people.
During the restructuring process a possibility occurred of maintaining about 22.5 thousand jobs in spin-off companies established in steel mills. At the present stage of employment restructuring it is envisage that mechanisms of vocational activation will be used as specified in the law with a considerable involvement of regions into the activities aimed at vocational activation on the labour market and development of small enterprises.

It should be pointed out that Poland's steel sector now stands a chance of achieving full competitiveness on an open market on the condition that fast consolidation of the major production potential o Poland's steel mills would be made.

Industrial defence potential

At the outset of the nineties the defence industry experienced a decline in economic trends which then transformed into a permanent structural crisis lasting till the present day. This is expressed as a drop in output, reduced use of the productive capacity, employment reduction and a dramatic deterioration of the economic and financial standing of enterprises in this sector.

Restructuring efforts made on the basis of the *"Programme of defence industry restructuring and support to technological modernisation of Poland's Armed Forces"* adopted by the Council of Ministers in February 1999 were without success. The major shortcoming of the programme was the assumption that sector's debt rescheduling will be possible without adaptation of its ownership structure, production profile and employment to actual orders portfolio.

The sector's economic and financial results achieved in 2001 – which exposed a number of companies to a real threat of bankruptcy – prove without any doubt the necessity to radically accelerate the restructuring process, especially as regards capital consolidation, adaptation of the production structure to actual demand of customers and reduction of costs of operation. This is the only way to meet the criteria of the sector's economic efficiency and to provide for profitability of military production, at the same time extending the

product line and modernising the products in response to the expectations of the Armed Forces and in line with the competitiveness criteria on international market.

In 2002 the industrial defence potential should be consolidated. This will allow for a separation of part of the sector's assets being in good economic and financial condition and compact in terms of technology and production. On this basis in 2003 two capital groups will be established to deal with implementation of major programmes of modernisation of the technological component of Poland's Armed Forces.

Creating conditions for implementing innovation

Improving innovativeness of the economy at the present stage of its development should rest on the following premises:

- knowledge and skills belong to economic categories, whereas transfer of knowledge and technology should be made with the use of the market mechanisms,
- in addition to its organisational initiative, the role of the state is to initiate actions allowing for making a rational use of the intellectual potential of the R&D base in new ownership structures, whereas the tendency for broad decentralisation should operate in relations between this base and the rest of the economy.

Efforts should be made to change the model of the R&D base financing in the economy – from the subject to object based financing. Subject based financing not only allows for waste of means but also causes apathy and frustration of the respective circles. This is also connected with abandonment of the subordination of the R&D units to respective public administration bodies. The unavoidable effect of such a model will be liquidation of a number of R&D units and dismissal of part of the employees.

To alleviate the negative effects of such transformations one can assume that the role of the State in the initial stage would be stronger than required by the actual needs (grants, appropriated projects instead of financing the statutory activity). This would mean a necessity for undertaking actions aimed at creation of the conditions for emergence and development of object-based consortia, integration of actions and financial means of science, business and industry, as well as providing incentives for establishing private R&D firms, especially by the staff of liquidated scientific institutions of the Polish Academy of Sciences or universities.

An important action will be to create conditions for emergence of small firms acting as intermediaries in finding contacts between the R&D base and economic entities. Their task would be not only putting together investors and contractors but in the first place searching for funds, consulting services, advice or training.

Industrial and technology parks should be created on a broader scale, utilising the base of the liquidated enterprises and liquidated or reducing their activity R&D entities. They can be a place for innovative enterprises, private R&D firms, intermediary institutions and institutions dealing with promotion and advice.

Privatisation

Privatisation as an inseparable element of systematic transformation constitutes an instrument of long-term economic policy. Its basic goal is to create a basis for acceleration of economic development, restructuring and modernisation of the economy.

On the economy side the goal is to improve competitiveness and as a result improvement of economic efficiency and development of the capital market. On the social side the goal is to create conditions stimulating new jobs creation as a basis for improvement of the standard of living.

At the present stage of transformation privatisation is regarded as an instrument of restructuring and supporting the selected branches of the economy. Proceeds from privatisation will be used in part for eliminating the budgetary deficit in the scope resulting from the statutory obligations of the State. These proceeds will be used to a growing extent for financing of the economic revival and should become the source of the initial capital of financial institution supporting entrepreneurship.

One of the basic methods of privatisation has been and will be indirect privatisation consisting in purchase of the Treasury shares in companies established as a result of commercialisation, by persons other than the Treasury. This type of privatisation is carried out through public offer, public tender and negotiations commenced on the basis of public invitation. Combination of two privatisation forms, i.e. public offer and public invitation for tender will continue.

It is envisaged that in 2002 the direct privatisation process will be carried out in about 90 companies, including such important sectors as energy, steel industry, gas, defence, heavy chemical synthesis, transport, as well as sugar industry, alcohol industry and health resorts.

The second important privatisation method is indirect privatisation. The Treasury is checking on formal, substantive and legal grounds if the submitted privatisation applications are justified, with particular emphasis on the existing liabilities for employees, environment protection issues, cultural heritage protection and investment commitments.

It is estimated that in 2002 direct privatisation will cover about 200 enterprises. The Minister of the Treasury will continue the action of providing support to heads of voivodships in searching for investors for the privatised state-owned enterprises – mainly through press announcements and information in the web sites. In addition, the Minister of the Treasury co-ordinates the programme of supporting privatisation initiatives. The programme is aimed at rendering assistance for the founding bodies and state-owned enterprises in initiation privatisation processes of small and medium-sized enterprises at the level of regions.

Actions are envisaged to be undertaken to settle the issue of reprivatisation. It should be carried out in the scope corresponding to the present poor financial situation of the State. Pursuant to the law on commercialisation and privatisation of state-owned enterprises work is under way on creation of the Treasury reserve in the form of 5% shares belonging to the Treasury in each company emerging as a result of commercialisation. The shares may be sold and the proceeds from sales are transferred to a special account called the Reprivatisation Fund. The Fund provides for payment of indemnity to former owners of the property taken over by the Treasury.

In addition, there is a need to create a reserve of the Treasury assets (real estate and capital assets) for coverage of future obligations of the Treasury, which will arise after entry into force of the reprivatisation law.

An inseparable element of privatisation of state-owned enterprises is rendering the shares to employees with no charge. In 2002 the so far existing partial forms of enfranchisement will continue, consisting in rendering up to 15% of shares of the privatised enterprises to employees and farmers and fishermen.

A comprehensive mechnism of financing restructuring and growth

To implement the programme of growth stimulation and restructuring of the economy, creation of a complex financing mechanism is envisaged (financial engineering) relating to the use of funds from various sources:

- the state budget funds,
- local governments funds,

- funds gathered in open pension funds,
- funds from the so called 3rd pillar of pension funds,
- savings in the form of bank deposits,
- the EU assistance funds.