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REMARKS

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I do not want to enter into details and figures, which are always boring, but I want to concentrate on some main issues. As was already explained, I am not a lawyer, and I think that the lawyers who consider this topic tend to look into the law, into the papers, which is perhaps very good. But if we talk about trade and investment opportunities, I think addressing the overall situation of the country is perhaps most important for the foreign investors or foreign businessmen to take advantage of existing possibilities.

So I would like to say a few words about the overall context of my country, and definitely, please, do not think that I am participating in a beauty contest in competition with Hungary and Czechoslovakia saying well, please come to this country or another one. I think that is not the idea. The idea is just to present you with the existing situation. We have some similarities, but we also have some differences in approach. And I will just concentrate on my country without making any reference to other countries. It is up to you to judge what is the present situation of development in our countries.

Dramatic and radical changes have been taking place in Poland during the last two years. After many long years, democracy, freedom, and justice are coming to the fore, and the process is irreversible. This situa-

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tion is unprecedented in world history. The changeover is complex and difficult. We face a far-reaching transition from the centrally planned, command economy to the free market system. There is a long and painful road ahead of us with poor infrastructures, antiquated telecommunications systems, disastrous environmental problems, and underdeveloped banking and securities systems.

Last November's presidential election in Poland was the first democratic election in our country in a half century. Unfortunately, some Poles unrealistically expected that the end of communism would immediately bring Western living standards. The reality is different: we have to cope with inefficient agriculture, misdirected investments, and an obsolete industrial system. The government is faced with populist opposition fueled by resentment of the loss of job security.

The new Polish President, Lech Walesa, by appointing Jan Krzysztof Bielecki as his new Prime Minister, signaled that he was ready to accelerate the transition to a free market economy in order to meet social expectations as soon as possible. Mr. Bielecki, one of Poland's young radical economists, supported by his Vice-Prime Minister Laszek Balcerowicz, continuing in his job and known for the "Balcerowicz Plan," declared that one of the most important tasks of his government would be awakening individual ambitions and national aspirations, thus giving new dynamics to the reforms.

Economic policies of the Polish Government are aimed at achieving two fundamental objectives. In the short run, the objective is rapid deceleration of high inflation and general stabilization of the Polish economy. In the long run, the objective is an irreversible transformation of the Polish economic system into a free market economy. Implementation of both policy objectives has been taking place simultaneously since January 1, 1990.

In the short term, the most important problem for us is the stabilization of the economy. Fighting inflation is perhaps the most urgent problem for us. If we cannot manage with this, it will be very difficult to implement the other part of the program, a profound, in-depth transformation of our economy. To this end, short term policy consists of very tight monetary and fiscal policies. The government has to act within a balanced budget, strictly controlled by the Polish Parliament, the Sojm. Subsidies and tax rebates have been liberalized, while salaries in state-owned enterprises are strictly controlled. In the private sector, there is no control over salaries and wages.

One instrument of this tough monetary policy is to maintain a positive real interest rate. Credit and loans have become costly because of the Central Bank policy aimed at maintaining a positive real interest rate.

At present, the prime rate is seventy-two percent annually.

The stabilization program rested on the maintenance of the fixed exchange rate and a restrictive wage policy as nominal anchors to break the momentum of inflation. More than fourteen months after implementation, the results of the program are promising. While output fell more than foreseen, real GDP is estimated to have declined by about twelve percent in 1990, and unemployment rose from negligible levels at the beginning of 1990 to five percent of the labor force at year end. Inflation declined sharply—albeit less than targeted—from 78.7 percent on monthly basis in January 1990 to 1.8 percent in August and to about 5 percent at the end of the year. It should be emphasized, however, that while the overall output was down by about twenty-five percent, the output of the private sector increased by eight percent. At the same time, there was a marked improvement in the balance of trade and in the balance of payments with a surplus of about 2.5 billion dollars.

Those positive trends are accompanied by some adverse effects: recession, unemployment, a decrease in standard of living of households, and a decrease in imports. The price that we have paid for this very tough monetary policy is very high from a social point of view. First, the output declined by about twenty-five percent last year. Second, the standard of living of the population was decreased by about one-third or thirty percent. Unemployment has appeared and at present is about 1.2 million people or about six to seven percent of our labor force. This is not very high in macroeconomic terms. But if you take into consideration that in some regions the unemployment rate is about thirty percent, this is a serious social and economic problem.

Some signs of recovery, however, have been noticed in the last quarter of 1990. While our objective is to achieve annual economic growth of five to six percent, the recovery in output will be hindered in 1991 by adverse external shocks, particularly the dismantling of the CMEA and chaos in the Soviet Union. As a result, our economic growth in 1991 will probably not exceed two to three percent.

Long-term policy is aimed at complete change in legislation in order to make it compatible with a market economy. Needless to say, the concept of central planning has been entirely abandoned, and the process of demonpolization and decentralization has begun. The parliament was adopted new laws on banking, foreign exchange, customs, foreign direct investments, antimonopoly, property rights, and privatization. A completely new tax system based on the value added principle will be introduced as of June 1, 1991. Modern, Western-type personal income and corporate income tax systems will be introduced as of January 1, 1992.

With the introduction of a simultaneous decontrol of domestic prices and external transactions on current account, state-run monopolies at home were, and still are, subject to competitive pressure from foreign firms. At the same time, encouragement was given to new small private business. Of course, parallel privatization of both of large-scale enterprises and small workshops, restaurants, services is now an end in itself, but a means to achieve better performance in the economy.

Since we were not able to demonopolize the economy within a very short period, we decided to open our economy to foreign competition. The foreign trade regime has been entirely liberalized. No special permits or licenses are required to conduct foreign trade operations with the exception of radioactive materials. All quantitative restrictions on imports have been abolished. No export subsidies are applied.

We maintain some constraints in exports when we have international commitments. For instance, we have a textile agreement with the United States and some other countries. We have quotas with these countries which we must distribute. This is a very serious problem. For instance, in 1991, the number of proposals to export to western countries exceeds by ten times the quotas that we have received from Western countries. People sometimes think incorrectly that it is the ministry that limits the exports on textiles, steel, and other products.

The customs tariff system is liberal. The average tariff incidence is about ten percent. For many products, duty is established in a very low level in order to enhance competition in the domestic market.

As of January 1, 1990, the foreign exchange regulations have undergone radical transformations. The present system is based on partial convertibility of the domestic currency. Current account convertibility means that in foreign trade you have practically full convertibility. When you export something, you will receive only domestic currency, but if you want to import products or services, the bank cannot refuse payment. If you have enough domestic currency, you just pay in domestic currency, and the bank will pay the supplier for their goods, commodities, or services.

We maintain the policy of a fixed exchange rate. As of January 1, 1990, we introduced the new exchange rate, which has not been changed in what is now fifteen months. The stabilization fund of one billion dollars that was granted to Poland by some developed countries upon the initiative of President Bush remains untouched. The black market for foreign exchange had been entirely eliminated.

COMECON, as a trade and economic organization, has practically ceased to exist. As of January 1, 1991, all the financial settlements between Poland and its Eastern European partners are implemented in convertible currencies. Trade is conducted on the international market with prices determined by the interested parties on both sides. Poland can no longer be treated as a "state-trading country." We have undertaken the necessary steps to change our protocol of accession to GATT accordingly.

Poland, along with Hungary and the Czechoslovakia, is negotiating with the EC for an association agreement that will perhaps be finished by mid-1991. The ultimate goal is to establish a free-trade zone and become a full member of the EC by the end of this century. This does not preclude maintaining good trade and economic relations with other countries.

On the question of foreign investments, I want to be very blunt with you. The policy of the government is that foreign direct investments and portfolio investments in our privatized companies are very important, but will not be the panacea to solve our problems. Our internal problem is how to cope with the economy, and we must rely mainly on our own resources. But, of course, foreign investments and foreign business will be welcome in Poland if they come.

Transition to the economy is open to the world, with a transparent, market-oriented system as a sound reference for foreign investment in Poland. The policy of the government is to grant national treatment to foreign investments. Fully foreign owned businesses are permitted in Poland. Foreign investors may conduct business in any branch of the economy.

The present law on foreign investments will be further liberalized and make investments more attractive to foreign businessmen. This law will allow the full remittance of profits and dividends; abolish the minimum level of 50,000 US dollars for foreign investments. No permit will be required unless investment is undertaken in a sector determined by the government as "sensitive." In such cases, authorization by the Foreign Investment Agency still would be necessary. Foreign investments are encouraged by tax holidays up to five years if they are export-oriented, contribute to the implementation of modern technologies and management techniques, contribute to protection of the environment, and are located in preferential branches of the economy in accordance with the priorities established by the government.

The contribution to a company's equity may be made both in money and in kind. Debt-to-equity swaps are possible, but they require a permit from the Minister of Finance. Taxes and other charges that are imposed on foreign companies are exactly the same as those that are applicable to domestic companies. These taxes are clearly defined in the law passed by the parliament and cannot be changed by the government or local authorities. The corporate income tax is forty percent of the taxable income. Real estate may be acquired by foreigners upon receiving the permission of the Minister of Interior.

Foreign investors in Poland will find an extensive industrial base. There is a readily available infrastructure for investments as there are many companies with unutilized production capacities and skilled, relatively cheap, and young labor forces. Poland is a market of thirty-eight million consumers and is close to the vast Soviet market. The safety of investments is assured by agreements on the promotion and protection of foreign investment concluded with eleven countries, including the United States.

By the end of 1990, a total of 2799 foreign companies were registered in Poland with equity amounting to 550 million US dollars. German firms dominated the market with 981 registered firms that amounted to thirty-five percent of the total. Swedish firms occupied the second place, with 256 companies and equity amounting to 32.4 million US dollars. American companies were third, with 214 companies registered, or 7.6 percent with total equity amounting to 29.4 million US dollars. Johnson and Johnson, Coca Cola, Reynolds Tobacco, Phillip Morris, Marriott, Hyatt, Hewlett Packard, Unisys, DHL, and Levis Strauss are among the most important American companies that are already present in Poland.

Fundamental reform of the state-owned sector is crucial to a sustained improvement in the efficiency of the economy. To this end, we have embarked upon a privatization program designed to privatize as many enterprises as possible during 1991-1993. Four forms of privatization can be distinguished: one, the "commercialization" of enterprises; two, mass privatization; three, traditional privatization of large enterprises; and four, the privatization of small- and medium-sized enterprises.

In 1991, our specific targets include privatizing fifteen percent of the state enterprises as measured by book value and a mass privatization through the distribution of vouchers to the public. As an introduction to a large-scale privatization program, by mid-1991 about five hundred large- and medium-sized enterprises will be converted into wholly state-owned joint stock companies. A further five hundred enterprises will be similarly "commercialized" by the end of the year. Under the mass privatization program, around one hundred large enterprises are to be privatized by the end of 1991. Furthermore, forty to fifty large enterprises are to be privatized through conventional means. In order to accelerate this process, the provision of the privatization law requiring approval for a foreign purchase of more than ten percent of an enterprise being privatized is to be removed. A new accounting and reporting system compatible with Western standards will soon be introduced. A privatization program for state-owned commercial banks will be initiated in 1991. We also envisage the establishment of a secondary bill market.

All these ambitious tasks, however, will not be feasible without a substantial reduction of Poland's debt burden amounting at present to about 56 billion US dollars. No serious businessman knowing that we are almost bankrupt as a country will want to invest. The domestic and foreign investment needed to restructure the economy and generate adequate export growth will not be forthcoming. This is why we have made concrete proposals aimed at radical reduction of our debt of roughly eighty percent. Progress has been made in discussion with commercial banks and Paris Club creditors, but the final decision has not been made as yet.

We are fully aware that only we, Poland, can make the required changes and the transformations into the market economy possible that will make reform succeed, but assistance from Western countries can prove instrumental in this process. What is needed from the West is debt relief, access to international markets, and encouragement of private enterprise and investment. Otherwise, the democratic euphoria of the past two years could become an angry disappointment.