

## Economic Survey of Poland, 2010

**What explains strong relative performance during the crisis?**

**How to ensure a balanced recovery going forward?**

**What measures to credibly consolidate public finances?**

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### Summary

**Poland's economic performance in 2009 was strong**, given the global downturn. Although excess demand was substantial prior to the crisis, the external imbalance was modest relative to some neighbours' and contagion was contained. Macro-policy responses to the slowdown were largely appropriate, and the sharp depreciation of the zloty cushioned the impact of the foreign shock, but contributed to the postponement of euro adoption. The slowdown even cooled off residual inflationary pressure, while the swift turnaround in wages helped limit job losses. A number of issues should be addressed, however, to strengthen Poland's position in a globalising world and ensure sustainable growth, given the prospects of future euro adoption, persistently large EU transfers and desirable inflows of foreign direct investment.

**The risks of a boom in the medium term are growing.** Poland has become the largest recipient of EU cohesion funds, with EU transfers set to reach an annual average of 3.3% of GDP in the coming years. Combined with the impact of large inward FDI inflows, there are widespread high growth expectations, but destabilisation risks, especially as euro-adoption prospects are likely to induce a sharp fall in the cost of capital. Macro-policies should rely on a precise, forward-looking assessment of all the implications of such a combination and be used pro-actively to head off any nascent imbalances. Heightened credit demand and supply might also be contained by tighter prudential regulation.

**Fiscal discipline must be restored.** The 2003-08 economic expansion was not used to improve the structural budget balance, though early retirement pensions were slashed. Recent cuts in the tax wedge, welcome as such, were, however, not totally compensated and thus initially pro-cyclical. The cyclical and structural worsening of the fiscal position together threatens the Constitution's public-debt threshold. Consolidating public finance should be achieved by: broadening the tax base; reducing the generosity of support to farmers; extending the retirement age, especially for women; further diminishing early retirement; saving on disability benefits; and improving public-administration efficiency. At the same time, progress in pension reform should be preserved and consistency between the domestic and Maastricht definitions of the public debt ensured. The January 2010 consolidation plan includes some of these features as general proposals, but its effectiveness will depend on an early implementation of concrete measures.

*This Policy Brief presents the assessment and recommendations of the 2010 OECD Economic Survey of Poland. The Economic and Development Review Committee, which is made up of the 30 member countries and the European Commission, reviewed this Survey. The starting point for the Survey is a draft prepared by the Economics Department which is then modified following the Committee's discussions, and issued under the responsibility of the Committee.*

**The ground for euro adoption must be prepared.** The euro would speed convergence only under an appropriate institutional framework. Developing the capacity to stabilise the economy once monetary and exchange-rate policies are abandoned is the priority. Fiscal policy should be based on both a general government structural deficit rule and a multi-year nominal expenditure rule, with the creation of an independent fiscal council assessing and monitoring its effectiveness. Product markets should be made more responsive to shocks through more efficient utilities regulation, downsizing public ownership and easing regulation in retail distribution and professional services. The minimum wage should not be increased relative to the average wage but be differentiated across regions, based on local labour-market conditions. Labour mobility should be fostered by further deepening the rental market for housing and developing urban zoning plans.

**Broad structural reforms are needed to benefit more extensively from globalisation.** Poland has made impressive progress in developing international economic linkages. Yet much remains to be done to attract foreign investors, absorb FDI efficiently and improve export performance. The role of the state should be reduced through a transparent process of privatisation and a faster removal of administrative burdens. Infrastructure needs to be modernised, especially for transportation and broadband Internet. The innovation system should be beefed up by better matching demand and supply for skills, greater competition between higher education institutions and more support for commercial R&D. The foreign investment agency's power should be strengthened and export promotion efforts streamlined. Financial development could be enhanced through consolidation of the co-operative banks and improvement in the legal framework for collateral. Finally, support policies for small and medium-sized firms should be rationalised. ■

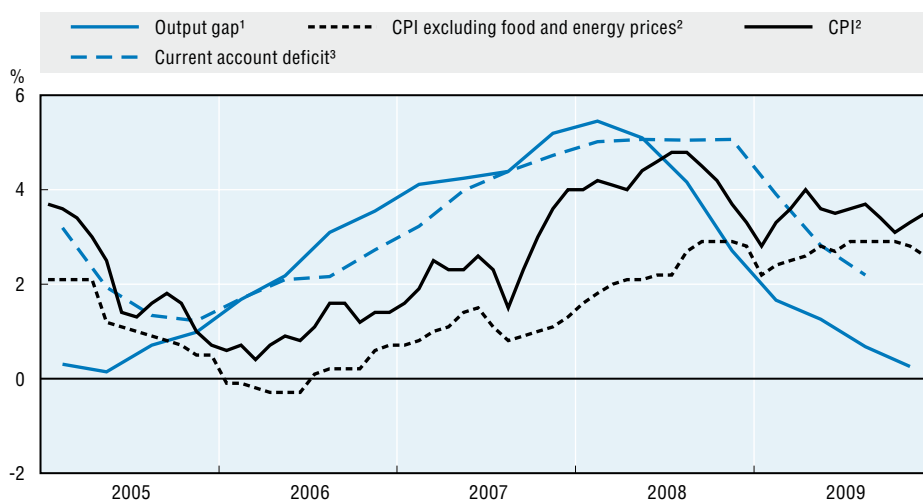
**What explains strong relative performance during the crisis?**

Despite a severe slowdown, Poland was less affected by the global recession than other OECD countries, especially in Eastern Europe. Indeed, it is expected to have recorded the best real growth outcome in the OECD in 2009 (at 1.7%), before recovering steadily towards 3% growth in 2011. Resilient final demand and the solidity of the financial system helped to contain the contagion of the economic crisis, which hit some other countries in the region so harshly. At the outset the economy had been suffering from significant excess demand, which has been eliminated by the slowdown, but external imbalances were not so large as to threaten stability.

Incipient capital outflows based on reduced appetite for the heightened risks nevertheless triggered a significant depreciation of the zloty, which cushioned the downturn, but also contributed to the postponement of euro adoption. The prominent role played by foreign-owned banks may have protected the financial system, while still limited financial development explains the low penetration of the complex financial products that were at the core of the global crisis. In this context, the flexible credit line agreed with the IMF in April 2009 helped to restore capital-market confidence. The real trade balance improved as a result of the exchange-rate depreciation: domestic producers became more competitive in both home and foreign markets, and import volumes fell more abruptly than exports, despite relatively robust private consumption. Domestic demand was supported by fortunate pre-crisis cuts in taxes and social contributions, and infrastructure investments related to EU funds and the 2012 European football championships. The labour market adjusted quickly through a rapid slowdown in real wages after hefty increases in 2008, thus limiting employment cutbacks.

As the downturn led to prospects of excess supply, the central bank (NBP) swiftly cut official rates by 250 basis points. Unconventional measures were also adopted to ensure liquidity in the domestic interbank market. Maturities for NBP repurchase agreement operations were extended, the range of accepted collateral broadened, and swap lines were negotiated with other European central banks. While excessive borrowing in foreign currency had been actively discouraged already in 2006, the Polish Financial Supervision Authority

**Figure 1.**  
**THE CRISIS HAS CURBED PREVIOUSLY GROWING IMBALANCES**



1. Quarterly data.  
2. Year-on-year growth rates, monthly data.  
3. As a percentage of GDP, quarterly data, four-quarter moving average.  
Source: National Bank of Poland (2009); OECD, OECD Economic Outlook Database.

convinced financial firms to retain their 2008 profits in order to strengthen their capital base and reinforced the supervision of both banks' balance sheets and their funding links with foreign parents. Guarantees for individual deposits were also raised to reassure depositors, and some other measures were introduced to strengthen the stability and maintain the liquidity of the domestic financial system. On the fiscal side, beyond the partly uncompensated tax cuts implemented since 2006 and the impact of automatic stabilisers, an anti-crisis plan worth about 0.7% of GDP was implemented, including such measures as co-financing of front-loaded investments related to EU funds, allowing firms to temporarily accelerate the depreciation of certain assets and facilitating the tax deductibility of R&D spending. ■

### How to ensure a balanced recovery going forward?

Poland has become the largest beneficiary of EU cohesion policy in absolute terms. Over 2009-15 EU transfers will represent an average of 3.3% of GDP per year (including Common Agricultural Policy transfers). They provide a unique opportunity to modernise the economy, but absorbing them efficiently and managing the macroeconomic repercussions will be a challenge. While various leakages will dampen the demand effect, these transfers are expected to raise real growth by an average of 0.5 to 1.5 percentage points per year. Unless there is available slack, this will generate inflationary pressure, especially if this period coincides with euro-adoption prospects that might raise investors' confidence, leading to a real exchange-rate appreciation, a shift in activity in favour of the non-tradable sectors and an enlarged trade deficit.

In this context, the authorities will have to strive to maintain a balanced growth path. Structural policies to accompany EU transfers should focus on ensuring a smooth labour- and product-market reaction to the stimulus. Due to co-financing rules, EU funds tend to boost national budgetary expenditure and could induce a pro-cyclical fiscal stance, in turn requiring an offsetting fiscal tightening. *Macro-policies should be based on precise assumptions related to the EU-transfers path, and the risks of overheating should be carefully monitored.*

As Poland has successfully avoided a major negative output gap, and given the projected pick-up in growth, the 3.50% level of the main official interest rate implies an accommodative stance going forward. In principle, it would be best if fiscal policy were tightened decisively without delay. Should such a consolidation not be forthcoming, however, *it would fall to monetary policy to tighten at an early stage*, with the exact pace depending on economic prospects and forthcoming data. *Moreover, the continuity of monetary policy should be enhanced by introducing overlapping terms to the appointments of Monetary Policy Council (MPC) members*, as recommended in previous Surveys. ■

### What measures to credibly consolidate public finances?

The authorities did not use the exceptional 2003-08 expansion to improve the fiscal position in a sustainable way, resulting in the need to use privatisation receipts in the recent period of lower stock prices so as to meet fiscal targets. Indeed, the measures taken in 2007-09 to reduce the tax wedge across the board are welcome, since they tend to boost employment, though the tax wedge remains larger than the OECD average and progressivity remains relatively low. However, as they were not totally financed in the budget, they resulted in a pro-cyclical fiscal expansion between mid-2007 and mid-2008, with the underlying general government balance deteriorating by around two percentage points of GDP.

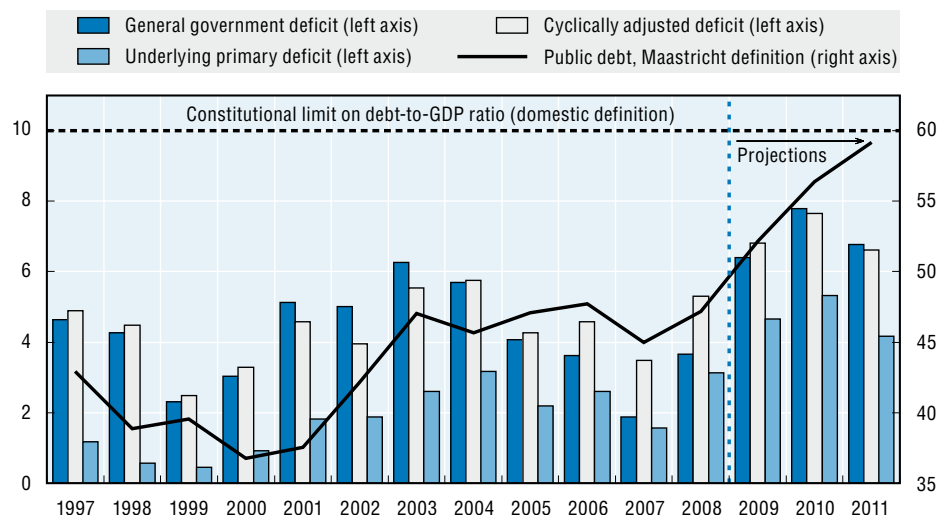
Subsequent attempts to cut spending and raise revenues through an ambitious privatisation programme have not been sufficient to contain the debt level decisively below the precautionary thresholds of 50% and 55% of GDP,

which are meant to trigger correcting measures. Indeed, adding the effect of the slowdown to the deterioration of the structural position resulted in a general government deficit of over 7% of GDP in 2009. General government debt is projected by the OECD to reach 56.5% of GDP in 2010, threatening the Constitution's 60%-of-GDP debt limit in 2011 if no consolidation measures are undertaken. As a result, in order to get around that constraint the government recently debated whether to shift back part of the contribution to open pension funds into the social security's first pillar. This would have reversed a significant part of the pension reform designed in 1999 and led to the replacement of explicit pension liabilities (government bonds purchased by pension funds) with implicit ones (notional accounts indexed on government bond yields). *The recent shelving of that idea is welcome*, given that it would have undermined the commitment to the reformed pension system and may have lessened incentives to lower the deficit down the road.

In late January 2010 the Prime Minister presented the Plan for the Development and Consolidation of Finances 2010-11, which remains to be approved by the government. Some of the foreseen consolidation measures are broadly in line with the recommendations included in this Survey: strengthening fiscal institutions; completing the pension reform; broadening tax bases; and generating substantial privatisation revenues. The Plan is essentially a set of proposals (without any accompanying draft legislation, many of them being subject to further public debate) to contain the increase in the general government deficit and public debt, and create conditions for meeting the long-term development objectives pursued by the authorities. Its success will depend on the degree of ambition shown in the implementing legislation, which is expected to be adopted by the end of 2010. The concomitant update of the Convergence Programme, which projects a reduction of the Maastricht deficit from 7.2% of GDP in 2009 to below 3% in 2012, without providing quantified concrete measures, is disappointing to the extent that the main part of the effort is back-loaded to 2012, threatening the overall credibility of the commitment to resolutely restore sound public finances.

Greater fiscal discipline is a pre-requisite to both internal and external balance. Ensuring sound public finances will require structural reforms. For example,

**Figure 2.**  
**PUBLIC DEBT AND FISCAL DEFICITS**  
**As a percentage of GDP**



Source: OECD, OECD Economic Outlook 86 Database.

Poland's numerous farmers benefit from an overly generous special social security system, which provides inappropriate incentives to stay in the sector (at least officially) and weighs on public expenditure. Reforming this extensive safety net will be sensitive, however, and costly. With the long-term objective of aligning it with the general scheme, *subsidies should be gradually reduced by better linking contributions to incomes, while adopting complementary measures to develop transport and telecommunication infrastructure, and enhance access to education in rural areas.* Increasing employment rates at older ages, which are among the lowest in the OECD, would also greatly facilitate the management of fiscal policy. The tightening of access to early retirement achieved by the 2008 bridge-pension reform is an important and welcome step; it is officially expected to save PLN 2 billion in 2009 and PLN 6 billion in 2010. Although the "50+ Programme", designed to raise older workers' labour-market participation, also goes in the right direction, *the statutory retirement age for women should converge steadily with that for men, which should itself be indexed according to increasing life expectancy. Early retirement should also continue to be reduced.* For example, while all pensions paid from the general scheme will become actuarially neutral from 2014, some special regimes applying to certain occupations, beyond farmers, such as miners, soldiers and police officers still encourage early retirement.

Cutting the structural deficit should also be achieved by *broadening the tax base.* In that regard, calculation and publication of the list of tax expenditures would be useful in identifying areas where savings could be made. The VAT treatment of certain professional services should be improved (such as by the requirement to use cash registers as envisaged in the consolidation plan) in order to enhance tax collection, while the option of choosing to pay a lump-sum income tax without keeping accounting books should be restricted in order to link tax receipts more closely to earnings. Farmers should also be made liable for the income tax rather than the lump-sum agriculture tax. These measures should be accompanied by better administrative enforcement. Moreover, receipts can be raised in less distortionary ways such as by *reforming property taxes and introducing a carbon tax.*

On the spending side, although Poland has managed to reduce the inflow of disabled pensioners by tightening eligibility criteria, *a re-evaluation of the large stock of benefit recipients with permanent eligibility built up under earlier lenient criteria could generate additional savings.* Moreover, cutting the wage bill and *increasing public-administration efficiency by linking career development to performance more systematically* would also help to restore fiscal sustainability. All these measures would help Poland meet the Maastricht deficit and debt criteria, which must be satisfied for successful adoption of the euro. ■

### How to best prepare for the adoption of the euro?

Entering the euro area should enhance trade and financial integration, intensify competition and accelerate convergence in living standards. Reduced transactions costs, the disappearance of currency risk and lower interest rates will all tend to support economic growth. However, the potential gains are not something the authorities can take as given: they must first design the institutional settings that would allow the realisation of these gains and ensure smooth management of the significant impacts of the whole process. In November 2009, the Polish authorities established an organisational structure for euro adoption. *Preparing the ground through implementing a series of key structural reforms would enhance real and nominal convergence, thus making an eventual announcement of the date for adopting the euro more credible.* Setting another adoption date prematurely risks damaging the authorities' reputation.

Given the level of the remaining income gap vis-à-vis the euro area, the substantial room for further real and nominal convergence raises important issues. Economic catch-up tends to be associated with real exchange-rate appreciation, thus creating inflationary pressure in a monetary union. Lower real interest rates will boost investment and domestic durables consumption, providing an important demand stimulus that will attract foreign suppliers and investors, leading to a deterioration of the trade balance and possibly a distorted allocation of resources. Closing off the possibility of managing specific shocks via interest- or exchange-rate changes puts fiscal policy at the centre of macro-stabilisation, while it is up to structural policy changes to ensure the economy can better absorb economic shocks.

Fiscal policy therefore needs to be made more counter-cyclical: at a minimum the working of the automatic stabilisers should not be obstructed and possibly enhanced by measures that would increase progressivity in the tax/benefit system. A rule specified in terms of a ceiling on the structural general government deficit consistent with the medium-term objective of the Stability and Growth Pact of a deficit no greater than 1% of GDP could help achieve this by, for example, preventing a pro-cyclical easing being masked by exceptional revenues during an expansion. A complementary expenditure rule with multi-year limits on the value of general government expenditure, excluding cyclically sensitive items (in particular, unemployment benefits), would strengthen the government's capacity to stabilise the economy. The creation of an independent fiscal council to monitor and assess the implementation of these rules would enhance the overall credibility of the fiscal framework. Indeed, implementing such a deficit rule would require an analysis of the cyclical and structural components of the overall deficit, which should be kept at a safe distance from potential political pressures, as such analysis raises complex technical issues. Fiscal policy also has to be carried out more transparently. Objectives and communication should not apply only to the state budget, but refer explicitly to the Maastricht definition of the general government balance. Likewise, the consolidated public debt should be monitored based on the same definition as Eurostat. In particular, the National Road Fund, which is being increasingly used to finance the heavy transport infrastructure needs and whose debt might already amount to more than 2% of GDP in 2010, should be included in the national definition.

More competitive product markets and greater flexibility in labour markets would enable faster price adjustments and reallocation of resources in response to shocks. Stringent product-market regulations are restraining competition in various areas, including network industries, retail distribution and professional services. *Regulated prices that are below cost-recovery levels, especially in utilities, should be corrected and efficient regulation developed to stimulate the needed investments to modernise these sectors. Public ownership in the potentially competitive segments of network industries (electricity, gas, airline, rail and post) should be phased out. In retail distribution, the administrative costs related to the registration and issuance of licenses and permits should be reduced. Finally, regulations on educational requirements and licensing in professional services raise barriers to entry and should be eased.*

Reducing wage rigidities will also facilitate any future need to correct real exchange-rate overvaluation. Although the labour market is not excessively rigid and the wage-bargaining system is largely decentralised, the government remains heavily involved in minimum-wage negotiations. Since 2005, the minimum wage has increased by 14% relative to the average wage, leading the ratio between them to exceed the OECD average. *Policy makers should refrain from further raising the minimum-to-average wage ratio and remove the rule that it has*

to reach 50% in the future compared with 40% in 2009, since the current level may already be harming employment prospects for low-skilled workers. Also, given the strong regional disparities in unemployment rates and low internal labour mobility, *the authorities should consider introducing differentiated regional minimum wages based on local labour-market conditions.* Also, while some laudable measures are being taken to deepen the rental market, which will help to stimulate regional labour mobility, *more could be done in this direction by continuing to exert pressure on local authorities to develop urban zoning plans.*

In the run-up to the euro, real interest rates might fall significantly below their natural levels, threatening to destabilise the economy, as the experience of other EU countries suggests. Too low interest rates and a rapid discounting of the resulting permanent income gains by households provide incentives to raise spending significantly, possibly triggering a credit boom through the expansion of consumption and housing loans. Moreover, such circumstances, combined with positive market sentiment and rising inflows of foreign investment, could result in a strengthening of the currency that may be too rapid relative to fundamentals. In turn, this would harm external price competitiveness and, at the same time, distort the allocation of resources towards construction, real estate and other sheltered activities, slowing aggregate productivity gains if competition in these non-tradable sectors is limited. This process could be magnified by the impact of EU transfers if the decision is taken to adopt the euro before implementing the fiscal and structural reforms discussed above.

Some additional changes might offset these destabilising effects of a boom-bust scenario. These include policies to promote competition in services. Beyond those, *macro-prudential regulations could be strengthened to contain uncomfortably high credit demand and supply.* This could be achieved through both dynamic provisioning for banks and higher capital requirements, which would reduce the pro-cyclicality of credit supply. The probability of a housing and/or consumption boom could also be reduced by: introducing limits on both loan-to-value and loan-to-income ratios; removing support for housing demand, such as the reduced VAT rate on new purchases and the tax breaks applying to mortgage interest rates; and by ensuring vibrant competition in construction. Moving property taxes to a market-value basis could lead to a useful increase in receipts while providing more efficient market signals to construction activities. However, if all these changes prove to be insufficient, fiscal policy would need to be more pro-active. ■

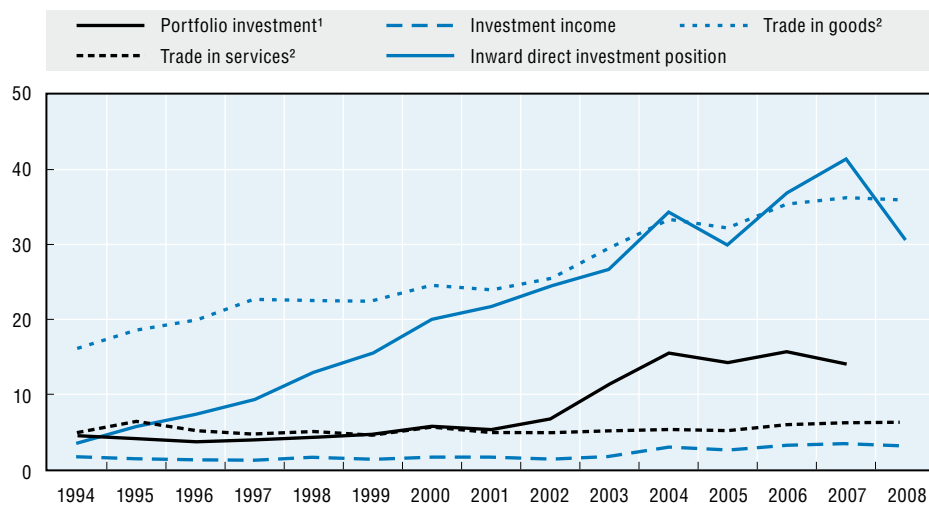
### What policies to make the most of globalisation?

Poland has made tremendous progress in increasing international linkages in capital, product and labour markets, as reflected by significant shifts in specialisation towards sectors with underlying comparative advantages. Yet, while maintaining macroeconomic stability is a prerequisite, a wide range of reforms could enhance participation in the globalisation process beyond EU integration, so as to better allocate resources, exploit economies of scale and speed up technology diffusion. These include the product- and labour-market reforms discussed above that would help to respond to the ongoing structural changes that characterise globalisation. Given that investment needs easily exceed the flow of available domestic saving, attracting FDI is key. However, the positive effects of foreign capital inflows depend on the capacity of domestic firms to absorb them, and an appropriate institutional setting is necessary to extract all the benefits. Also, while globalisation tends to magnify economic inefficiencies, major obstacles that prevent firms from developing their full potential in export markets should be removed.

The privatisation process should be reinvigorated and its credibility strengthened. Poland is the OECD country where the grip of the state on the economy is the tightest, and privatisation was largely stopped in the mid-2000s. While sales of public firms directly attract foreign investors, privatisation also represents a commitment to market-economy principles, which tends to raise investors' confidence. Beyond generating public revenues, greater private ownership would provide more scope to boost investment in a fiscally constrained environment, in addition to improving the governance of state-owned enterprises and productive efficiency more generally. The government recently designed an ambitious privatisation programme involving the sale of 802 firms aimed at generating proceeds representing 2.7% of annual GDP between mid-2009 and end-2010. The plan fell short of its objectives for 2009, in part no doubt because of stock-market weakness. To ensure success this year reasonable asking prices will have to be set. In any case, *the whole approach should be transparent and consistent, and avoid overly generous compensation to the specific interests affected by the sales.* Investors might not be inclined to participate in partial privatisations that leave open the possibility of future state intervention. In particular, the "golden veto" legislation by which the Treasury was allowed to maintain a privileged position in strategic state-controlled enterprises for public interest reasons may have *de facto* restricted FDI and lowered the market value of these companies. The Sejm has just passed a new law that abrogates the 2005 Golden Veto Act, which had been viewed by the European Commission as incompatible with EU law. In its place the new legislation, based on a December 2008 EU Directive, allows the government to implement various measures to protect critical energy infrastructure.

Improving the business environment has appropriately received increased attention by policy makers. However, despite the creation of a system of one-stop shops, starting a company is still too costly and takes too long because multiple procedures involving numerous decision-making entities have been maintained. Formalities to start up a business, get construction permits and register properties are excessive, risking corruption to get around them. *Ongoing progress achieved under the implementation of the "Better Regulation" programme, aimed at improving the regulatory environment for doing business, should be extended.* More

**Figure 3**  
**GLOBALISATION TRENDS**  
**IN POLAND**  
**As a percentage of GDP**



1. Assets + liabilities in absolute terms divided by 2 and by GDP.

2. Imports + exports in absolute terms divided by 2 and by GDP.

Source: IMF, Balance of Payments Database; OECD, National Accounts Database.

generally, *inefficient government bureaucracy hampers economic activity, and tax and legal regulations should be made more transparent and predictable.*

Modernising infrastructure would boost potential output growth and allocate resources more efficiently. Insufficient quantity and quality of motorways and under-investment in the maintenance of existing transport infrastructure have combined with increasing transportation needs to make the development of road and rail networks a priority in order to reduce costs and attract foreign investors. As 40% of the EU funds allocated for 2007-13 will be used to develop transport, enhancing the capacity to absorb these funds efficiently will be essential. Progress has been made, and should be continued, to: improve the legal framework for public procurement and the issuance of building permits; enhancing co-ordination between all public and private parties involved in the process; systematically defining project priorities based on cost-benefit analysis; and facilitating the issuance of temporary permits for foreign workers to avoid future labour shortages in construction-related activities.

Broadband Internet is insufficiently developed mainly due to the control maintained by the incumbent operator (TPSA) and the inability of the regulator (UKE) to ensure effective competition in the market. Discriminatory treatment of alternative operators limits the use of the incumbent's infrastructure, and it is too soon to assess whether the recent agreement reached between the incumbent and UKE will succeed in ensuring equal access. Despite recent improvements to the regulatory framework, *the power of the regulator should be strengthened further. Moreover, UKE should proceed with the functional separation of the incumbent, the effective unbundling of the local loop and the implementation of a wholesale pricing scheme that is consistent with costs and conducive to long-term investments.*

The gap between the skills needed by firms and those provided by the education system has grown despite rising educational attainment. Recent measures encourage training at work; however, *a comprehensive and flexible lifelong strategy should be developed. Students should be encouraged to study science and technology, and the links between employers and the education system should be strengthened.* The currently discussed reform of the higher education system could foster FDI absorption and export performance by: *systematically assessing the quality of higher education institutions and putting financing of public and private institutions on an equal footing; simplifying the student-loan scheme; and allocating academic positions based on transparent and competitive procedures.*

Investment in R&D is low compared with other OECD countries in the region as a result of insufficient linkages between firms and universities, and the relatively limited technological content of the industrial specialisation. *One direct way to boost R&D expenditure would be to increase tax credits, especially given their currently low levels compared to the OECD average, so long as there is adequate monitoring and evaluation of its efficiency.* Also, the quality of public research institutions is instrumental to increase the return on R&D investment. Current efforts to concentrate the public funding of research should be intensified in order to link resources to performance more systematically, thereby helping the best centres to reach a critical mass. *Researchers should be encouraged to move in and out of businesses, and financial incentives provided to develop scientific partnerships between firms and universities, and to promote international research collaboration.*

Expanding the financial capacity of the foreign investment agency (PAIiZ) might boost FDI inflows significantly. PAIiZ's resources do not compare favourably with those of its competitors in neighbouring countries, and empirical evidence suggests that the size of such agencies' budgets contributes heavily to inward FDI, especially when funds are targeted at activities to

improve the quality of the investment and business climate. Moreover, PAIiZ could be turned into an independent agency so as to participate more efficiently in the decision-making process, with the power to make binding offers to foreign investors without resorting to lengthy approvals by ministries or other relevant authorities.

While the number of export promotion agencies has grown at a fast pace worldwide over the last two decades, this function remains fragmented in Poland. *The creation of such an agency would bring together these activities in one place with an exclusive focus on export promotion and branch offices in key trading-partner countries.* Such an agency could encourage SMEs to co-operate to access foreign markets and offer training support to overcome barriers related to managerial skills needed for engaging in export activities and to the acquisition of knowledge of international markets. It could also seek to raise Polish exporters' awareness of the prohibition against bribing foreign public officials in international business transactions under Polish law and Poland's commitments to combat such bribery under the OECD's Anti-Bribery Convention. Also, *the web presence of export promotion activities should be aligned with international best practice.*

*Financial development should be encouraged* as a way to channel savings towards the most productive projects. The financial system has already been modernised significantly, in part due to the increasing role of foreign banks, but margins remain large, suggesting that competition is insufficient. Banking infrastructure is underdeveloped in rural areas. *Co-operative banks should be consolidated to reduce fixed costs and facilitate access to credit.* Moreover, the legal framework for collateral suffers from the inefficiency of the commercial court system, which generates huge uncertainties for creditors in recovering pledged assets. Recent legislation aimed at simplifying procedures goes in the right direction, but *enforcement should be strengthened and the senior position of the state to call collateral removed.* The planned privatisation of the Warsaw Stock Exchange is of key importance, as it has the potential to enhance the Polish market's integration within the network of European stock exchanges, broaden the listed companies' shareholders base, improve liquidity and provide greater finance for SMEs.

Compared to other OECD countries, including those in Eastern Europe, the distribution of Polish enterprises is heavily skewed toward small firms, suggesting that important obstacles prevent them from developing their businesses. These structural weaknesses might explain why exporters have trouble reaching distant markets. Previous OECD work focusing on Polish SMEs has argued that *the fragmentation of support policies among various entities should be reduced and co-ordination among them improved.*

This is particularly the case for the government financing schemes that provide guarantees and facilitate access to finance. The loan and guarantee funds should be rationalised, and their operation and fees standardised through consolidation or increased co-operation. SMEs often lack basic skills in business and financial management, accounting and marketing. Hence, public support should target these areas for SME training. This applies as well to vocational training for which participation is heavily skewed against SME employees compared to other Eastern European countries. ■

### For further information

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