THE REPUBLIC OF POLAND

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Area and Population

Poland is the largest country in Central Europe with a total land area of approximately 314,000 square kilometres. It shares land borders with Germany, the Czech Republic, Slovakia, Ukraine, Belarus, Lithuania and the Kaliningrad enclave belonging to the Russian Federation. Its population of approximately 38.6 million (as at 31st December, 1996) makes it the most populous country in Central Europe. Approximately 62 per cent. of the population live in urban areas. The capital of Poland, Warsaw, has a population of approximately 1.6 million and is the largest city.

Approximately 99 per cent. of the population is ethnically Polish and speaks Polish as a first language, and more than 90 per cent. of the population is Roman Catholic.

Constitution, Government, Political Parties and International Organisations

Between the conclusion of the Second World War and 1989, the Polish Government was dominated by the communist Polish United Workers' Party which, in the early 1950s, adopted the Stalinist system of de facto one-party rule. During this period, the Polish Government followed a policy of rationalisation of industry, expropriation of large landholdings, a centrally planned economy and the suppression of political dissent. During the 1960s and 1970s frequent political and economic crises occurred.

In 1980, Solidarity, the first independent trade union in the Soviet bloc, was formed. Despite its attempts to suppress Solidarity, the Polish Government's position was continually weakened by the faltering economy. In April 1989, forty years of communist rule came to an end when the communist government and the democratic opposition led by Solidarity agreed to a power sharing arrangement and to partially competitive elections for a bicameral Parliament. The result of these elections was a substantial victory at the national level for Solidarity. In addition, in May 1990 the parties and movements connected with Solidarity won control of the majority of local governments. In November 1990 Lech Wałęsa, the leader of Solidarity, was elected as President in the first free national election for President since the Second World War.

In 1993, members of the Social Democracy of the Republic of Poland ("SDRP"), many of whom were also members of the former communist party in Poland, together with a number of individuals associated with labour unions and small left wing political parties (collectively, the "Democratic Left Alliance"), gained control of the Sejm, the lower house of Parliament in Poland, after forming a governmental coalition with the Polish Peasants Party ("PSL"). The coalition between the Democratic Left Alliance and the PSL still has a majority in the Sejm. New Parliamentary elections are to be held no later than September 1997 (the exact date has not yet been specified) and, as a result, the composition of the Sejm may be subject to change.

A new constitution was recently adopted for the Polish state by referendum, although it essentially ratified arrangements in respect of the structure of the branches of government which had been in place previously. The new constitution establishes Poland as a democratic republic with a bicameral parliament, a president as head of state, a council of ministers and an independent judicial system. The bicameral parliament is elected for a four-year term. The upper chamber is called the Senate and consists of 100 members. The lower chamber consists of 460 members and is called the Sejm. The president is elected by direct vote for a five year term and may only be re-elected once.

Poland is divided into 49 administrative divisions known as Voivodships. Each Voivoidship is headed by the Voivod, who acts as the regional representative of the national government. The basic units of truly local government, however, are the gminas, which are governed by directly elected local officials and are financially autonomous.

Economic Overview

In the late 1980s, the Polish economy was dominated by the state sector and exhibited high inflation, administratively controlled prices, recession, increasing levels of external debt and multiple reschedulings of official and commercial debt, a large State budget deficit and a restrictive foreign exchange regime. A significant proportion of international trade was denominated in non-convertible currencies.

On 1st January, 1990, the first post-communist government introduced the "Economic Transformation Programme" (also known as the "Balcerowicz Plan" after the first post-communist Minister of Finance). The radical economic reform programme was designed to stabilise the economy and promote structural reforms. Key elements included the reducing of subsidies to state enterprises, the elimination of administrative controls on most prices, introducing limited internal convertibility of the złoty and the opening up of the economy to foreign competition. After a significant decline in gross domestic product ("GDP") in real terms, a sharp rise in unemployment in 1990 and 1991 and an acceleration in inflation in 1990 (all of which were developments common to many other economies in Central Europe at that time) Poland became the first country in the region to return to growth, with positive and increasing rates of GDP growth for the years 1992 to 1996.

Currently, the private sector accounts for approximately 50 per cent. of gross national product and more than 60 per cent. of employment and the Polish economy is generally characterised by lower rates of inflation than previously, almost complete freedom of prices from administrative control, sustained growth, liberalised rules on foreign exchange transactions and a rising level of foreign exchange reserves.

During this period of reform, successive governments have supported structural transformation of the economy directed at reforming state-owned enterprises, selling certain state-owned assets, modernising the banking system and creating a modern capital market. The process of structural reform is ongoing and not all stated government goals have been achieved. In particular, the goal of selling state-owned assets through privatisation began slowly and is only partially complete.

In June 1994, the Council of Ministers and Parliament approved Poland's first medium-term economic programme for the years 1994 to 1997. The programme is embodied in a document prepared by the Minister of Finance at the time, Grzegorz Kolodko, called the "Strategy for Poland". The Strategy for Poland identifies several key systemic challenges facing the Polish economy in the medium term, including reform of the social security system, reform of laws governing wage negotiations and labour relations, especially with respect to employees of state-owned enterprises, acceleration of the privatisation process, further reform of the financial sector, with particular attention to the recapitalisation of certain banks, reduction of unemployment and further reductions in inflation.

An extension to this programme has been the "Strategy for Poland, Package 2000" (the "Package 2000") adopted by the Polish Government in May 1996. The Package 2000 envisages lowering tax rates on personal and corporate income, an overall reduction of government and a decrease in its participation in the GDP. According to the Package 2000, the inflation rate is targeted to fall to less than 5 per cent. by the year 2000 and GDP is projected to grow in real terms at an average rate of 5.4 per cent. over the years 1996 to 2000. Both the Strategy for Poland and the Package 2000 constitute official government policy, although they do not have the force of law.

Recent Economic Performance

Gross Domestic Product

In 1996, unofficial preliminary estimates of the Central Statistical Office indicate that GDP grew by 6.0 per cent. in real terms, following increasing real growth rates of 2.6 per cent. in 1992, 3.8 per cent. in 1993, 5.2 per cent. in 1994 and 7.0 per cent. in 1995. A period of deep recession from 1989 to 1991, during which real GDP fell by almost 19 per cent., was primarily the result of the Economic Transformation Programme implemented in 1990, which resulted in a fall in real household income and a reduction of private consumption and domestic investment. During 1990 and 1991, the transition to world prices in trade settlements with countries belonging to the Council of Mutual Economic Assistance (the "CMEA"), an economic and trade organisation sponsored by the former Soviet Union, and the recession in some western countries also contributed to the fall in real GDP. The 1997 State budget assumes growth in real GDP for the year of 5.5 per cent.

The members of the CMEA or COMECON included Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania, Cuba, Mongolia and Vietnam.

The following table illustrates nominal and real GDP during the years 1992 to 1996.

Gross Domestic Product

	1992	*1993*	*1994*	*1995*	*1996*
Nominal GDP (PLN millions)	114,944	155,780	210,407	286,000	361,800
$ billion equivalent	84.33	85.85	92.69	118.0	134.2
Real GDP per cent. change(1)	2.6	3.8	5.2	7.0	6.0
Per capita GDP (PLN).	2,996	4,051	5,454	7,408	9,350
$ equivalent.	2,195	2,230	2,399	3,056	3,468
Population (million)	38.418	38.505	38.581	38.609	38.639

(1) At constant 1992 prices

Inflation

Although inflation has generally declined since prices were liberalised in late 1989, the rate of inflation in Poland is still high compared with Western Europe or the United States. The 1997 State budget includes an assumed rate of inflation for 1997 of 13 per cent. The following table sets forth the annual rates of consumer price inflation and producer price inflation as measured by percentage changes on an end-of-year to end-of-year basis for the years 1992 to 1996.

Inflation: Annual Consumer and Producer Prices

	1992	*1993(1)*	*1994*	*1995*	*1996*
Consumer Prices (CPI) (per cent.)	44.3	37.6	29.5	21.6	18.5
Producer Prices (PPI) (per cent.)	31.5	35.9	27.9	18.9	10.5

Notes:

(1) 1993 figures include VAT with a maximum rate of 22 per cent.

Source: Central Statistical Office

The average annual increase in the CPI fell from approximately 585.3 per cent. in 1990, to 70.3 per cent. in 1991, 43.0 per cent. in 1992, 35.3 per cent. in 1993, 32.2 per cent. in 1994, 27.8 per cent. in 1995 and 19.9 per cent. in 1996. The average annual increase in the Producer Price Index ("PPI") fell from 622.4 per cent. to 12.1 per cent. over the same period.

Employment

Before 1989, unemployment was not officially recognised in Poland and over employment existed in many enterprises. By the end of the first quarter of 1994, registered unemployment had reached 2,950,000 (16.7 per cent. of the labour force), but by the end of that year it had decreased for the first time since 1990 to 2,838,300 (16.0 per cent. of the labour force). At 31st December, 1995 and 1996, registered unemployment was 2,628,800 (14.9 per cent. of the labour force) and 2,359,500 (13.6 per cent. of the labour force), respectively.

Strikes, a frequent form of political and economic protest in the 1980s, have changed in nature and frequency during recent years. The number of strikes in Poland was 6,351 in 1992, 7,443 in 1993, 429 in 1994, 42 in 1995 and was unofficially estimated at 21 in 1996. The number of labour days lost through strikes has declined from 2,360,392 in 1992 to 580,429 in 1993, 561,802 in 1994, 56,308 in 1995 and was unofficially estimated at 75,047 in 1996.

Foreign Exchange Controls

The convertibility of the złoty is regulated by the Foreign Exchange Law of 2nd December, 1994 (the "Foreign Exchange Law"). The Foreign Exchange Law consolidates all existing foreign exchange rules and regulations, extends full internal convertibility of the złoty to all types of current account transactions, clarifies the status of foreign exchange banks, provides for use of the złoty in foreign trade transactions and includes special drawing rights at the IMF ("SDRs") and the European Currency Unit ("ECU") within its definition of foreign currency.

Poland has a policy of "internal convertibility" of the złoty, whereby Polish residents may engage in some foreign exchange transactions and hold foreign currency without special permits. Polish business entities are entitled under this policy to purchase foreign currencies from licensed foreign exchange banks in order to pay for imports of goods and services. Pursuant to regulations promulgated by the Ministry of Finance under the Foreign Exchange Law, a number of other foreign exchange transactions are generally permitted to be undertaken without the necessity of obtaining special foreign exchange permits from the NBP. These include the purchase and sale of treasury securities, securities listed on the Warsaw Stock Exchange and the extension of trade credits and other securities. Such regulations also permit Polish businesses to borrow from abroad by issuing debt instruments with a maturity greater than one year. On 1st June, 1995, Poland formally acceded to the obligations under Article VIII of the IMF Articles of Agreement, providing for full current account convertibility of the złoty.

Foreign shareholders in a Polish company wishing to transfer outside Poland the dividend income derived from their shareholding are required, under the Law on Companies with Foreign Participation of June 1991, as amended, to use such income or proceeds to purchase the relevant foreign currency from an authorised foreign exchange bank. In order to obtain such currency, the company must first have paid any taxes due (such as the tax withheld on the dividends) and the foreign shareholder must obtain a certificate from the company confirming the approval of the annual financial report of the company by the shareholders at the annual meeting of shareholders. However, when shares are admitted to public trading a dividend is automatically paid to the investment account of each shareholder with its brokerage firm. The National Securities Depositary of Poland ("NSD") is responsible for servicing the issuer's obligations to its shareholders. In particular, brokerage houses and custodians are obliged to determine the foreign exchange status of their foreign clients receiving dividends from a local company and to calculate the amount of tax to be withheld by the paying company. The NSD aggregates the related data received by it from its members and notifies the local company paying dividends of the amount to be transferred to the NSD for the benefit of the shareholders. A dividend properly announced and paid to the investment account of a foreign shareholder may then be freely converted into foreign currency at any foreign exchange bank and transferred abroad. Once purchased, such foreign currency may be freely transferred out of Poland without further restrictions.

Foreign shareholders in a Polish company wishing to transfer outside Poland the proceeds of sale of their shareholding, may freely exchange such amounts into foreign currency at any foreign exchange bank and transfer them abroad, if they paid for their shares using proceeds from the exchange of foreign currency at a foreign exchange bank.

The Mass Privatisation Programme

The Polish Mass Privatisation Programme ("MPP") was established by the Law on National Investment Funds of 30th April, 1993 and comprises 15 National Investment Funds ("NIFs"). The shares of the NIFs were made available to all adult citizens of Poland in the form of Participation Certificates. Each adult citizen was entitled to purchase from the Polish government, one Certificate (each a " Certificate") at a price of PLN 20. The Certificates were available from 22nd November, 1995 to 21st November, 1996 and it is estimated that approximately 95 per cent. of those eligible to purchase a Certificate did so. Each Certificate represents one share in each of the 15 NIFs. The Certificates have been traded on the Warsaw Stock Exchange since 15th July, 1996.

The assets of the NIFs consist principally of shares in 512 companies contributed by the State Treasury. The shares of each of these companies were initially held as follows: one NIF, the lead NIF, owned 33 per cent.; the other fourteen NIFs owned 27 per cent. between them; the employees of each company received 15 per cent. and the State Treasury initially retained 25 per cent., which it intends to reduce over time. Each NIF's portfolio initially comprised between 33 and 35 lead shareholdings and between 477 and 479 minority holdings.

For each company in the MPP, the lead NIF is expected to provide a guiding hand to help the company improve its performance and thus its value. The NIFs are able to organise the sale of shares to trade investors or to float companies on the Warsaw Stock Exchange. A number of companies have been sold and others are due to be floated. The NIFs are also free, within broad limits, to engage in other investment activities in respect of Polish companies.

The shares of each NIF are quoted on the Warsaw Stock Exchange. The prospectuses for all 15 NIFs were approved by the Securities Commission of Poland ("Polish Securities Commission") on 3rd April, 1997 and the first trading session took place on 12th June, 1997. Owners of Certificates may retain their Certificates (which will continue to be traded) or may, prior to 31st December, 1998, voluntarily exchange their Certificates for shares in each NIF. On 31st December, 1998 the Certificates are expected to be mandatorily exchanged for such shares.