

## **Analysis of the „Stability and Development Plan – strengthening the Polish economy in the time of the world financial crisis”**

On November 30<sup>th</sup> 2008 the Polish government presented the “*Stability and Development Plan – strengthening the Polish economy in the time of the world financial crisis*”. Its goal is to strengthen Polish economy in the face of the world credit crunch. The Plan describes the government’s both past and planned anti-crisis activities.

### **1. Main assumptions - summary**

Main assumptions of the Plan are following:

- Direct threat of the world financial crisis for the Polish economy is highly unlikely. Financial institutions, operating on the Polish market, were involved marginally in the high-risk operations, which were the reason of credit crunch in the United States and Great Britain. The quality of the Polish banks’ credit portfolio is much better than that of many western financial institutions. At the same time the fundamentals of the Polish economy are much stronger than in the economies hit by the credit crunch. It is forecasted that economic growth in Poland in 2009 will be below the long-run average but still higher than in the other EU countries.
- However, Poland is exposed to negative consequences of the crisis, because:
  - world crisis overlaps the cyclical economic slowdown that has been recorded in the Euro zone since autumn 2007;
  - foreign direct investments placed in the Central Europe are rapidly decreasing;
  - the cost of external financing has been increasing considerably;
  - decreasing propensity to consume in developed countries has a negative impact on imported Polish goods;
  - the credit availability has lowered (because of liquidity contraction on the inter-bank market and financial markets. Moreover banks are reluctant to undertake a credit risks).
- Till 2010 one of the two possible scenarios is expected to happen:
  - The first one assumes the gradual expansion of world financial crisis to the Polish economy and overlapping on the cyclical economic slowdown. It would mean that dynamics of the GDP growth would gradually decrease in 2009 and 2010;
  - The other one assumes that the world financial crisis will cause an additional adjustment impulse in the Polish companies in 2009. Thus, the slowdown in 2009 would be followed by a relative improvement of the economic situation in 2010.
- Instability of the world financial markets forced the Polish government and the National Bank of Poland to undertake activities aimed at strengthening the stability and economic growth in Poland. Generally, these activities are to strengthen confidence on the inter-bank market, to lower the cost of money and to increase investments and consumption. They contain such instruments as: higher bank guarantees, additional credit creation for small and medium-sized enterprises and rising the number of investments financed from EU funds.
- Polish economy will be supplied with the amount of 91.3 billion PLN<sup>1</sup>.
- Among activities that have been implemented, the following were listed: (1) maintaining the stability of public finances, (2) activities aimed at making the financial system stable (including guarantees for deposits, inter-bank credits, setting up a Financial Stability Committee and

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<sup>1</sup> Exchange rate of National Bank of Poland 1 EUR = 4.2256 PLN (NBP, Exchange rates table no 10/A/NBP/2009, 2009-01-15), <http://www.nbp.pl/Kursy/Kursya.html>, viewed 15 January 2009.

introducing a “Trust package“ of the National Bank of Poland) and (3) activities aimed at maintaining the economic growth (increasing consumer and investment demand).

- The activities listed in the anti-crisis plan include:
  - Increasing the credit availability to companies due to higher credit limits and warranties;
  - Support for financial market institutions;
  - Strengthening the system of warranties for small and medium-sized enterprises (SMEs);
  - Accelerating investments co-financed from EU funds;
  - Introduction of higher investment relief for newly set-up companies;
  - Reducing barriers for investments in telecommunication infrastructure;
  - Enabling the inclusion of R&D expenditures to the cost of obtaining revenue;
  - Support for investments into renewable energy resources;
  - Strengthening the position of energy buyers, strengthening the competitiveness, strengthening the power of the regulatory institution in order to protect the economy and households against an uncontrolled rise in energy prices;
  - Setting up the Social Solidarity Reserve.
- It was assumed that in case of the change of situation on the labour market, the activities financed from the Labour Fund addressed to the long term unemployed, would be intensified.
- It was agreed that legislation projects necessary to achieve the goals of the Plan would be accepted by the government till the end of December 2008.
- It was assumed that the constant monitoring of socio-economic situation would be carried out in order to work out the suitable solutions which are to neutralize the effects of the economic slowdown and to stimulate the economic development. Also the special task-force lead by the Finance Minister would be created, which task would be to analyze the economic situation and presenting recommendations to the government.

## 2. Tasks being implemented

Task	Goals	Progress	Potential effect
<b>Maintaining the stability of public finances</b>	Maintaining budget deficit at the 18.2 billion PLN level in 2009, in line with the assumption of the Draft Budget Act for the year 2009	Budget Act for the year 2009, 9 January 2009. The Budget Act for the year 2009 contains government amendment regarding forecasted GDP growth (change from 4.8% to 3.7%) and lowering the tax revenues and expenditures (about 1.7 billion PLN). Thus, the budget deficit will remain unchanged.	Probable decrease in the interests rates by the Monetary Policy Council  Lowering the costs of public debt management
<b>Activities aimed at stabilization of the financial system</b>	To guarantee the bank deposits	The Act of 2 October 2008 on the change of the Act on Bank Guarantee Fund and other acts (Journal of Laws of 2008 No 209, item 1315). It raised the Fund's guarantee - since 28 November 2008 the public guarantee has covered in 100% monies up to a sum of PLN equivalent of EUR 50 000. Moreover, BGF may get a loan from the state budget.	The guarantee before 28 November 2008 covered: 100% monies up to a sum of PLN equivalent of EUR 1000, 90% monies of a sum equivalent of EUR 1000 – 22 5000. Raising the guarantee sum has strengthened the trust of Polish society to the banking system, thus increasing the propensity to save.

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	Guarantees for inter-bank's loans	On 9 January 2009 the Polish Parliament passed the Act on granting the support for financial institutions by the State Treasury. The support will be available to the banks, co-operative savings and credit unions, investments funds, brokerages, insurance companies and retirement funds residing in Poland.	The Act aims at improving liquidity on the inter-bank market. The support will be granted by Finance Minister, on behalf of State Treasury (according to the procedure, a financial institution will have to apply to Finance Minister for the support). The support may consist in, among others, guarantying the repayment of the credit granted to the banks by other banks. Finance Minister will demand providing security guarantying repayment of the full sum of support, including interest. Banks will pay a commission for the warranty.  The support may be granted not longer than till 31 December 2009.
	Setting up the Financial Stability Committee	The Act of 7 November 2008 on Financial Stability Committee (Journal of Laws of 2008 No. 209 item 1317). This Act introduced legal foundations for the Committee's operation.	Activities undertaken by the Financial Stability Committee should result in Poland's higher competitiveness on the European and world financial markets.
	National Bank's of Poland „Trust Package”	National Bank of Poland introduced „Trust Package” on 14 October 2008; it has been carried out since then. Activities undertaken within the package are aimed at market animation, maintaining the liquidity on the financial and currency market and on good relationships among banks.	Implementation of the package enables banks to collect money (in PLN and foreign currencies) and gives better opportunities in terms of maintaining bank's liquidity.

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<b>Activities aimed at maintaining the economic growth</b>	Consumer demand increase	Introduction of cuts in tax and para-tax burden: <ul style="list-style-type: none"><li>– Lowering pension insurance contribution (since 2008),</li><li>– Introduction of tax relief for children upbringing within Personal Income Tax (since 2008),</li><li>– Introduction, since 2009, of two-tier tax scale with two tax rates: 18% and 32% (previously 19, 30 and 40%).</li></ul>	Increase of households' disposable income (at more than 35 billion PLN).
	Investment demand increase:		An increase in global demand generated by enterprises.

	<p><i>Elimination of the barriers hindering the investments co-financed from EU structural funds</i></p>	<p>Changes in the Polish law:</p> <p>The Act of 4 September 2008 on changing the Act on Public procurement (Journal of Laws of 2008 No 171, item 1058)</p> <p>The Act of 3 October 2008 on the accessibility to information about environment and its protection, the role of society in environment protection and about assessment of influence on environment (Journal of Laws of 2008 No 199, item 1227)</p> <p>The Act of 7 November 2008 on changing some acts with regard to implementation of structural funds and Cohesion Fund (Journal of Laws of 2008 No 216, item 1370)</p> <p>Priority programmes of the National Fund for Environmental Protection and Water Management planned to implementation in 2009</p> <ul style="list-style-type: none"> <li>– Programmes co-financing water, soil and air protection, for which EU funds were granted within ISPA or Cohesion Fund in 2000-2006 period</li> <li>– Programmes co-finances from the UE funds.</li> </ul>	<p>For the economic growth it is of a key importance to have at one's disposal EU structural funds, especially these allocated for the infrastructure development. These funds should amount for several percent of GDP in coming years – experts emphasize that these funds will be an important injection maintaining economic growth in Poland.</p>
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	<i>More flexibility in the legal framework regarding public-private partnership</i>	On 21 November 2008 Polish Parliament passed the Act on public-private partnership. Its aim is to reduce administrative barriers that hinder investments involving public institutions and private companies.	As many experts have claimed, previous Act did not serve its role. New regulations should raise involvement of private companies in the infrastructural and construction investments. According to the new Act on public-private partnership, investments within PPP may be supported from the EU funds.
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**3. Anti-crisis Plan**

<b>Task</b>	<b>Goals</b>	<b>Progress</b>	<b>Potential effect</b>
<b>Higher credit availability to the companies due to higher credit limits and warranties</b>	Increasing funds for State Treasury warranties, endowed in the Budget Act for the year 2009, up to 40 billion PLN.	According to the Budget Act for the year 2009, warranties may be granted by the State Treasury up to 40 billion PLN (art. 6)	Higher limit for the warranties should result in higher availability of credits to the enterprises.
<b>Support for financial market institutions</b>	Project of the legal act ensuring solvency of financial institutions and their ability to finance the economy.	The assumptions of the legal act planned by the government, which allows for nationalization of the financial institutions, are not known yet. One of the government representatives argues that this way of bank capitalization is at present possible according to the Code of Commercial Partnerships and Companies.	Ensuring additional support (apart from maintaining liquidity) of the State Treasury for financial institutions operating on the Polish market.
<b>Strengthening the system of warranties for SMEs</b>	Implementation of the package strengthening the system of credit warranties:		It is anticipated that the average value of the warranty will amount 50% of the loan. Implementation of the package should allow to safe loan creation up to 20 billion in 2009.

	<p><i>Rising BGK's (National Possessions Bank) assets to 2 billion PLN</i></p> <p><i>Introduction, in the form of Regulation of the Council of Ministers, a programme describing a model, standards, development path and rules of monitoring of warranty activities.</i></p> <p><i>Amendment of the Act of 8 May 1997 on warranties granted by State Treasury and some legal entities</i></p>	<p>Ministries of Treasury, Economy and Finance are discussing the issue of capitalization of Bank Gospodarstwa Krajowego (BGK). Accomplishment of this process requires legislative solutions, procedural and logistic preparation.</p> <p>The work on the law that will enable entrepreneurs to get a loan warranty from BGK up to 50% of the loan, is in progress.</p> <p>Regulation has not been passed yet.</p> <p>Project of the amendment is not yet known</p>	<p>Capitalization of the BGK is assumed to raise loans availability to entrepreneurs, which will help to maintain the investments dynamics in 2009.</p> <p>Improvement of functioning of the warranty activities.</p> <p>Enabling, among others:</p> <ul style="list-style-type: none"> <li>- Granting warranties by institutions belonging to the system, in line with the rules listed in the government programme,</li> <li>- Implementation of the new products (i.e. warranties of leasing, factoring, capital investments),</li> <li>- Extension of the beneficiary group of warranties,</li> <li>- Increase in the maximum amount of warranty</li> <li>- Creation of the system of local and regional warranty funds</li> </ul>
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	<i>Amendments of the Acts on voivodship self-government and poviast self-government, which will enable capital investment consisting in creating warranty funds in the form of companies</i>	Projects of the amendments are not yet known.	Enabling capital investments consisting in creating warranty funds in the form of companies
<b>Accelerate investments co-financed from EU funds</b>	Changing legal acts regarding the use of EU funds in order to make the system of implementation cohesion policy co-financed from EU funds more efficient.	<p>Act of 7 November 2008 on changing some acts with regard to implementation of structural funds and Cohesion Fund (Journal of Laws of 2008 No 216, item 1370). The aim of this Act is to ensure the efficient use of EU budget funds and their effective spending. This Act changed, among others, Act on public finances and Act on principles of conducting the development policy.</p> <p>In December 2008 Ministry of Regional Development prepared a plan of increase the number of investments co-financed from EU funds to achieve 16.8 billion PLN level of spending to the end of 2009. The Ministry is to prepare a quarterly information about realization of the plan and present it to the Council of Ministers.</p>	Increase in the planned amount of funds to be spent in 2009, accepted by the European Commission. Higher sum of spending should neutralize negative effects of the financial crisis.
<b>Introduction of higher investment relief for newly set-up companies</b>	Amendment of the Act on corporate income tax	The draft of the amendment of the Act on personal income tax and Act on corporate income tax, which is discussed between ministries now, does not take into account goals of the <i>Stability and Development Plan</i> . Thus this activity has not been undertaken yet.	Increase of propensity to invest of the Polish firms, especially small businesses.

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<b>Reducing barriers for investments in telecommunication infrastructure</b>	Implementation of the Action Plan prepared by the Council of Ministers Committee for Informatisation and Communication. The Action Plan recommends legal changes leading to reduction of investment barriers in the IT sector in the following legal acts: Act on spatial planning, Geodesy and Cartography Law, Environment Protection Law and Building Law.	Changes have not been proposed yet.	Increase of investment demand, especially in the ICT sector.
	Launching new projects within public-private partnership regarding (among others) ensuring broadband Internet access, building new generation access infrastructure that ensure high-speed connectivity (faster than the existing infrastructure).	No information available.	Increase in investment demand in the telecommunication, energy, construction and services sectors.

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	<p>Launching <i>Digital Poland</i> programme, which aim is to integrate public and private initiatives in order to improve as quick as possible Internet accessibility and prepare projects for digital television.</p>	<p>Prime Minister Regulation No 144, of 23 December 2008, created the Inter-department task-force for implementation of the <i>Digital Poland</i> programme (this task-force is an advisory body for the Prime Minister). Its task includes, among others: analyzing access to broadband services in Poland; legal, financial and technical possibilities of successful implementation of the <i>Digital Poland</i> programme.</p>	<p>Acceleration and better coordination of activities on IT development and IT investments.</p>
<p><b>Enabling the inclusion of R&amp;D expenditures to cost of obtaining revenue</b></p>	<p>Implementation of the facilitating system for entities conducting R&amp;D activities.</p>	<p>In the planning phase.</p>	<p>Supporting entrepreneurs by enabling full and immediate settlement of cost of R&amp;D activities.</p>
<p><b>Support for investments into renewable energy resources</b></p>	<p>Support for investments into renewable energy resources in form of loan granted from public funds.</p>	<p>Priority programmes of the National Fund for Environmental Protection and Water Management planned to be implemented in 2009 include, among others, co-financing ventures regarding production and distribution of energy from renewable resources.</p> <p>In December 2008 <i>Programme of National Fund for Environmental Protection and Water Management supporting investments in renewable energy resources and high-efficient Cogeneration objects for 2009-2012</i> was prepared. The Programme put into action the government recommendation presented in the <i>Stability and Development Plan</i>, helping in this</p>	<p>Launching investments into renewable energy resources of total amount of 1.5-2.5 billion PLN. It should result in higher demand on construction and assembly services.</p>

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		<p>way producers and investors, who have an influence on environment protection in Poland, to hold out the crisis.</p> <p>In December 2008 the Institute of Renewable Energy commissioned by the Ministry of Economy prepared a report <i>Possibilities of the usage of renewable energy resources in Poland to 2020</i>.</p>	
<p><b>Strengthening the position of energy buyers, strengthening the competitiveness, strengthening the powers of the regulatory institution in order to protect the economy and households against an uncontrolled rise of energy prices</b></p>	<p>The so called „Liberalizing package” for electro-energetic sector including proposals of changes in the Act of 10 April 2004 -Energetic law. The package assumes:</p> <ul style="list-style-type: none"> <li>– strengthening the power of energy buyers</li> <li>– strengthening competitiveness</li> <li>– strengthening the powers of the regulatory institution in order to protect the economy and households against uncontrolled rise of energy prices</li> </ul>	<p>Preparatory activities.</p>	<p>Implementation of the planned regulations should not increase a burden imposed on companies in the energy sector but should result in better market transparency, lowering the monopolistic power of enterprises and price pressure (thus stopping price increase for industry and households).</p>
<p><b>Setting up the Social Solidarity Reserve</b></p>	<p>The Reserve (1.14 billion PLN) is a part of the central (State) budget. It will be financed from the rise of excise on alcoholic drinks and cars with engines</p>	<p>The Reserve was created in the central budget for 2009 on the basis of Finance Minister Regulation of 16 December 2008 on changing the regulation of decreasing the excise rates (Journal of Laws of 2008 No 223, item 1471).</p>	<p>Reserve funds will be used to counteract social problems caused by the global economic slowdown and will finance such initiatives like subsidizing incomes of the households living under the poverty line, support for children and dependants, especially</p>

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	capacity above 2000 cm3.		the older ones.
<b>Improvement of position of persons in a particularly difficult situation on the labour market</b>	In case of negative changes of situation on the labour market, the activities financed from the Labour Fund, addressed to the long term unemployed, would be intensified.	Not implemented – there has been no such a need yet.	Improvement position of persons in particularly difficult situation on the labour market.

#### 4. Conclusions

As it was presented in the above assessment, not all of the legislative projects (acts and regulations) listed in the *Stability and Development Plan – strengthening the Polish Economy in the time of the world financial crisis* were passed by the government till the end of December 2008.

Up to now there is no information about setting up a special task-force lead by the Minister of Finance with the role of analyzing the economic situation and presenting recommendations to the government.

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