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Statement by Valeriano F. García
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Poland - Country Assistance Strategy Progress Report

Since 1990 Poland has had a sound market-oriented program, wherein a rapid growth and stabilization brought down inflation to a single digit. In spite of last year's Russian crisis, growth is yet in the positive range, foreign direct investment has continued, and the international community has given its support. Also, negotiations are under way for Poland to become a member of the European Union.

Because we are broadly in agreement with the staff paper, we underline some points only to emphasize them: privatization; the macro-front; further improvements to build up a modern society which can be effectively integrated into Europe; and working on the governance areas, among others.

We are concerned by the pressure on the state budget, resulting from the introduction early this year of reforms in the health and pension systems as well as the impact of government aid to farmers to compensate the loss of Russian markets, and additional aid for miners. Furthermore, government revenue has been reduced after approval by the Parliament of controversial tax-cutting policies.

In the monetary front, the concern is mainly focused on the exchange rate appreciation, the high interest rate, and the recent capital controls. This situation has left no room for complacency, so it is important to pursue the whole structural reform, focusing on the medium term, to achieve a reasonable trend of growth and stability.

On the area of privatization, we commend the authorities' commitment and their efforts to carry out a structural reform. In this regard, the government hopes to double last year's privatization revenues. But it is important to remember that many of the remaining state-owned assets may require large injections of fresh capital. The sale of a 25-35% tranche of Telecoms,

which estimated worth is 4 to 5 billion dollars, was launched in early August. This sale is a strategic step, in addition to the Polish State Railways (PKP) restructuring and privatization to increase PKP's competitiveness as EU accession approaches.

The government is also accelerating privatization of the banking sector to attract new funding and know-how. The disposal of a 52% stake in Bank Pekao, which is a former foreign currency savings institution and has around 20% of the sectors' deposits, loans and assets, generated over one billion dollars in revenue. The government also intends to sell up to 80 % of the Wroclaw-based Bank Zachodni, and preparation for privatization of PKO BP, the state savings bank and the country's second largest bank in terms of assets, is under way. This privatization program includes insurance companies and LOT Polish Airlines before the end of the year. We welcome the authorities' efforts in this regard.

As far as EU accession is concerned, Poland has completed EU negotiations on 7 of 32 accession chapters: science, education, small and medium-sized enterprise development, statistics, telecommunications, industry policy and consumer protection. This shows an important advance and calls for persevering in this regard. We understand that the negotiation is not an easy task, because several issues will touch sensitive areas and involve political agreement. We encourage the authorities to persist in this important task.

We welcome the Bank's CAS Progress Report, which summarizes the effectiveness of the Bank and the Polish authorities in their common effort to put in track this CAS. The report is accurate and timely. Consequently, we encourage the Polish authorities to follow this interesting, though not easy, process of transformation.