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FROM THE SCIENTIFIC COUNCIL

Dear Ladies and Gentlemen

We are delighted to present the next edition of our ‘Journal of Financial Management and Sciences’. Judging from the number of articles remitted to the editor, including ones from foreign authors, the Journal has found a place in the highly competitive market of publications devoted to economic issues. We hope that this not only continues, but as expressed earlier, the Journal will be in the midst of discussions on key, world economic issues. We hope you enjoy reading it and we await your comments, not only positive but also critical.

Janusz Ostaszewski,
Chairman of the Scientific Council and Dean of the Faculty

Ryszard Bartkowiak,
Vice-Chairman of the Scientific Council and Vice-Dean of the Faculty
Poland’s Fiscal Exposition and Its Impact on Economic Growth and the Well-Being of Its Citizens

1. The share of public sector spending in GDP in selected OECD countries. Poland as a welfare state and its impact on economic growth

To commence the deliberation on the redistribution of GDP by the public finance sector, it is worth considering, primarily, what the share of the state financed spending in GDP is. After all, one should be aware that the redistribution considered from the perspective of spending determines the state fiscal needs. It is in the properly structured public finance system that the scale of state spending should have an impact on the state fiscalism level. Never should this relation be accounted for in the opposite order, i.e. spending should not be derived in advance (without learning what the needs are on the side of spending) from the tax system constructed before.

In order to draw correct conclusions in relation to the scale of fiscalism in Poland (as in any other country), the analysis of the share of spending financed by the public finance system, should be considered on account of the following:

• GDP redistribution in Poland in relation to that in other countries, not only in Europe,
• needs in the field of the desired rate of growth,
• the direction of the allocation of public funds – the state as an investor in business areas such as the development of infrastructure or the construction of houses as well as the welfare state, e.g. financing current social expenses,
• historical conditioning forming the entitlement mentality of citizens towards their own state and determining a definite scale of fixed expenses, otherwise called determined expenses,

1 This article is a supplement to the article written by J. Ostaszewski entitled The Level of Fiscality in Poland against the Background of other Countries and its Impact on Economic Development and Polish Welfare, published in Journal of Management and Financial Sciences, Volume I, Issue 1 (October 2008).
The GDP volume in Poland in comparison with other countries, which indicates, among others, Poland’s economic potential as well as the contrastive analysis of GDP per capita in relation to which comparisons are made, which describes the diversified level of the wealth of nations. The contrastive analysis itself of GDP redistribution in Poland in relation to the redistribution in other countries may not be enough, as drawing conclusions only on the basis of the existence or non-existence of excessive fiscalism may lead to false conclusions, which has nothing to do with a diligent approach to the analysed macroeconomic phenomena.

Aware of the necessity of a multifaceted analysis, we will begin our deliberation on the GDP distribution in Poland with the contrastive analysis of the share of public spending in GDP based on the data published by the OECD.

The scale of GDP distribution in Poland against the background of other countries can be considered through the analysis of public sector spending, presented in Table 1. The table shows the percentage share of public sector spending in GDP in the period of 1991–2010 in 28 selected OECD countries. In OECD Euroland countries (in the table: Eurozone – 12 countries) this indicator amounted to 46.8% in 2008, and in Poland to 43.1%. In the period of 1995–2008 the eurozone budget redistribution declined by 6.4% points; totally in OECD countries the decline amounted to 0.2% point, and in Poland the decline in the share of public spending in the GDP amounted to 4.6% points.

Expressed in this way, the decline of GDP redistribution by the units of public finance system was not high in Poland in comparison to other European OECD countries whose data are presented in Table 1. From among all the countries mentioned there in the analysed period, the decline in GDP redistribution (expressed in percentage points) higher than in our country was seen in as many as ten European countries, i.e. Austria (7.8% points), the Czech Republic (12.3% points), Denmark (7.8% points), Finland (13.1% points), Germany (10.8% points), Hungary (5.4% points), Holland (10.9% points), Norway (10.9% points), Slovakia (13.7% points), Sweden (13.4% points) as well as Canada (8.8% points). The revealed results reflect the general tendency to reduce the share of public spending in GDP, especially well seen in welfare state countries, and also the necessity of the further rationalisation of Poland’s public spending policy.
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*Table 1. Public sector spending in GDP percentages (nominally)*
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* Data concern the state budget, local self-governments and the social insurance sector.

Source: OECD Economic Outlook 2009/1, No. 85, Database, Annex, Table 25.
The rise in the share of spending in GDP in the analysed period occurred only in the following four European countries: Iceland (39.1% and 57.7%), Luxembourg (39.7% and 40.7%), Portugal (43.4% and 45.9%), United Kingdom (44.1% and 48.1%). In other non-European countries in Table 1, the rise in the budgetary redistribution occurred in two countries: Japan (36.5% and 37.1%) and South Korea (19.8% and 30.3%).

Among all European OECD member countries in Table 1 (22 countries), the GDP redistribution scale (spending) lower than in Poland occurred in 2008 in 7 countries: Switzerland (32.9%), Slovakia (34.9%), Norway (40.0%), Spain (40.5%), Luxembourg (40.7%), Ireland (41.0) and the Czech Republic (41.7%).
It is worth noting that in non-European OECD member countries whose data is published in Table 1, in 2008 the share of spending in GDP was lower than 40% (except for New Zealand – 41.1%) and fluctuated between 30.3% (South Korea) to 39.7% (Canada).

It is worth pointing to the tendency that has been emerging since 2007. The comparison of the GDP redistribution in 2008 over 2007, shows clearly the phenomenon occurring in the majority of OECD member countries consisting of increasing public spending in GDP, which means, among other things, the growth in the role of the state in the economies of these countries, caused to a large extent by the economic crisis.

Comparing the data in Table 1 and Figure 1, and attempting to draw conclusions as to the scale of the problem, one must not forget the needs of the countries which, due to their character and outlay volumes involved, can practically be met only in the centralised form. And here, Poland appears as a considerably under-invested country. First of all, the state of the material infrastructure of all types and insufficient investment in human capital are economic growth inhibitors. However, the observations made concerning a relatively low GDP redistribution scale in Poland, based only on simple comparative activity, without thorough analysis e.g. of the level of GDP per capita are misleading, because this level of redistribution does translate in Poland into a high level of prosperity. Such a situation results, among other things, from the structure of the budget spending, characteristic of the welfare state, which is the proverbial “ball and chain” hindering dynamic economic growth. An extremely high share of fixed expenses in the spending total (over 73% in 2007, no 2008 data), to be discussed in the latter part of the article, and first of all their character: classical of the welfare state, result in the fact that the comparison itself of GDP redistribution in Poland with that in other countries does form a basis of satisfaction or reassurance. Frequently we spend too much, taking into account, among others, the wealth of other nations we wish to compare ourselves with. In our case, it is necessary to observe the spending policy carried out by the countries achieving over 7% of economic growth\(^2\) in the past and in the long term too, or the ones achieving

\(^2\) It should be kept in mind that after 2007 the rate of economic growth slowed down, and in some countries there is a recession as a result of the world economic crisis. The forecasting of the future macroeconomic relation is very difficult and may be encumbered with considerable error. It is not known how long the crisis may last and what its final effects may be as referred to the economic growth of individual countries. In 2009 the forecasts for Poland are more and more optimistic. No symptoms of economic recession are predicted, whereas the GDP growth rate will clearly slow down in comparison with the results achieved in the period of 2005–2008. Compare: B. Cieszkowska, Jeszcze się nie cieszmy głośno. Rozmowa z Marcinem Mrowcem głównym ekonomistą banku Pekao S.A.
it presently. The so-called eurosclerosis should not shield our eyes: our eyesight and our minds should turn to the so-called economic tigers, which have climbed quickly or are climbing the ladder at present in order to achieve a superior goal, i.e. the achievement of the desired level of wealth. In all these countries cuts were made in budget spending, which in turn was reflected in lower fiscalism. Lower taxes belong to the most important driving mechanisms for economic systems.

At the same time, one should be aware that the welfare state inhibits these economies which should develop rapidly, because private spending is much more effective than public spending, which is confirmed in the majority of cases by business practice.

If we focus our attention on Poland, we can see that the share of spending in GDP at the level 43.1% is too high and that the spending is relatively much higher than the burdens in countries such as: Sweden, Denmark and France observed when they had a similar level of GDP per capita to the one achieved in Poland at present

Table 2. GDP change rate expressed in percentages in real terms (year after year) in selected Asian countries

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Source: own material based on: World Economic Outlook, Crisis and Recovery, April 2009, International Monetary Fund, p. 73.


There is a certain regularity in the development of economies in the world. The countries commencing from a low level of development (measured e.g. by GDP per capita), in order to climb to the desired level of wealth of the nation, in the long term must maintain a high growth rate exceeding 7% or even 8% (year after year), paying close attention to the fact that the inflation rate should not exceed the threshold set by the rational monetary policy implemented in the country.

**Figure 2. GDP change rate expressed in percentages in real terms (year after year) in selected Asian countries**

![GDP Change Rate Graph](image_url)

Source: own material based on: World Economic Outlook, Crisis and Recovery, April 2009, International Monetary Fund, p. 73.
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<td>-4.1</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: OECD Economic Outlook 2009/1, No. 85, database, Annex Table 1.
Having achieved the determined level of GDP per capita, they could afford to slow down the high growth rate in order not to overheat the economy, which results in the appearance of an inflationary impulse. Certainly, it is to be remembered that the economic growth slowdown in recent years results, among others, from the wobbly economic systems of some countries in the world or the decline in certain business areas, and recently from the international economic crisis. Poland, with the present fiscal position, which results in 80–90% from the development of the welfare state: the state planning its budget spending does not allocate as an investor considerable funds to build the infrastructure, if it does it will stay far behind some of its neighbours. We will develop, but at a much slower pace than other countries.
Figure 4. GDP change rate expressed in percentages in real terms (year after year) in selected OECD countries in the period of 2006–2010

Source: own material based on: OECD Economic Outlook 2009/1, No. 85, database, Annex Table 1.
Table 4. GDP change rate expressed in percentages in real terms (year after year) in selected European countries admitted to the EU in 2004 and 2007

<table>
<thead>
<tr>
<th>Country/year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>9.2</td>
<td>10.4</td>
<td>6.3</td>
<td>−3.6</td>
<td>−10.3&lt;sup&gt;a&lt;/sup&gt;</td>
<td>−0.8&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Latvia</td>
<td>10.6</td>
<td>12.2</td>
<td>10.0</td>
<td>−4.6</td>
<td>−13.1&lt;sup&gt;a&lt;/sup&gt;</td>
<td>−3.2&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Lithuania</td>
<td>7.8</td>
<td>7.8</td>
<td>8.9</td>
<td>3.0</td>
<td>−11.0&lt;sup&gt;a&lt;/sup&gt;</td>
<td>−4.7&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>6.3</td>
<td>6.8</td>
<td>6.0</td>
<td>3.2</td>
<td>−2.7&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.3&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Hungary</td>
<td>3.9</td>
<td>4.0</td>
<td>1.2</td>
<td>0.61</td>
<td>−6.3&lt;sup&gt;a&lt;/sup&gt;</td>
<td>−0.3&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Poland</td>
<td>3.6</td>
<td>6.2</td>
<td>6.6</td>
<td>5.0</td>
<td>−1.4&lt;sup&gt;a,b&lt;/sup&gt;</td>
<td>0.8&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Slovakia</td>
<td>6.5</td>
<td>8.5</td>
<td>10.4</td>
<td>6.4&lt;sup&gt;c&lt;/sup&gt;</td>
<td>−2.6&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.7&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>6.2</td>
<td>6.3</td>
<td>6.2</td>
<td>6.0</td>
<td>−1.6&lt;sup&gt;a&lt;/sup&gt;</td>
<td>−0.1&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Malta</td>
<td>4.0</td>
<td>3.3</td>
<td>4.2</td>
<td>2.5</td>
<td>−0.9&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.2&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Romania</td>
<td>4.2</td>
<td>7.9</td>
<td>6.2</td>
<td>7.1</td>
<td>−4.0&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.0&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Slovenia</td>
<td>4.3</td>
<td>5.9</td>
<td>6.8</td>
<td>3.5</td>
<td>−3.4&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.7&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Legend:
<sup>a</sup> Forecast data.
<sup>b</sup> Polish forecasts of GDP changes in 2009 differ from Eurostat forecasts and assume GDP growth of about 1%–1.4% in the analysed year. The International Monetary Fund intends to raise the 2009 forecasts for Poland, JP Morgan claimed (when the book was being written) that the GDP change in Poland will not amount to minus 1%, but to 0%.
<sup>c</sup> Estimated data.


Figure 5. GDP change rate expressed in percentages in real terms (year after year) in selected European countries admitted to the EU in 2004 and 2007

In 2009 the World Bank published another annual report "Doing Business 2010" devoted to business conditions in 183 countries. On the count of the ease of doing business, Poland was ranked 72.

Table 5. Poland’s position in ranking Doing Business 2007–2010

<table>
<thead>
<tr>
<th>Item</th>
<th>Number of countries examined</th>
<th>Poland’s position in the ranking concerning the ease of doing business (synthetic indicator)</th>
<th>Poland’s position on account of 10 indicators of leading significance for doing business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doing Business</td>
<td></td>
<td>1  2  3  4  5  6  7  8  9  10</td>
<td>1  2  3  4  5  6  7  8  9  10</td>
</tr>
<tr>
<td>2007</td>
<td>175</td>
<td>75</td>
<td>114 146 49  86  65  33  71 102 112  85</td>
</tr>
<tr>
<td>2008</td>
<td>178</td>
<td>74</td>
<td>134 156  81  81  25  33 133  42  68  91</td>
</tr>
<tr>
<td>2009</td>
<td>181</td>
<td>72</td>
<td>145 157  69  86  27  38 147  41  71  85</td>
</tr>
<tr>
<td>2010</td>
<td>183</td>
<td>72</td>
<td>117 164  76  88  15  41 151  42  75  85</td>
</tr>
</tbody>
</table>

Legend:
1)* starting a business, 2)* construction permits and concessions, mainly to construct buildings and premises; 3)* employing and dismissing staff; 4)* registration of property; 5)* obtaining credit; 6)* protection of investors; 7)* taxes; 8)* trading across borders; 9)* enforcement of contracts; 10)* closing a business.


This means maintaining the place obtained in ranking Doing Business 2009 and an improvement of only 3 places in comparison with Doing Business 2007 (see Table 5; it is worth indicating that the comparison is encumbered

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5 In its ranking of countries from the perspective of the ease of doing business, the World Bank considers in its methodology the indicator calculated for each country, based on business 10 characteristics, i.e. the ease of starting a business, degree of difficulty in obtaining necessary permits (administrative decisions, mainly construction permits etc.), ease of hiring and firing staff, complexity of procedures connected with purchasing and registration of property (legal security), ease of obtaining credits, protection of investors’ interests (transparency of transactions, opportunity to settle business matters on your own, flexibility in dismissing board members who made mistakes in running the company), ease of paying taxes, difficulty in foreign exchange, enforcement of contracts (mainly efficiency of legal procedures), ease of going through procedures connected with bankruptcy or liquidation of companies.
with error due to the extension of the list of analysed countries). It does not mean that we are not reforming our economy, it means that others are doing it with more speed. It is worth noting that on account of the ease of doing business in Doing Business 2010, our country has been outdistanced by, among others, such countries as: Estonia (24 position), Lithuania (26), Latvia (27), Slovakia (42), Bulgaria (44), Hungary (47), Slovenia (53), Romania (55). From among the countries admitted to the European Union, Poland is only better than the Czech Republic, which is ranked 74 in the World Bank’s Doing Business 2010. This result does not instil optimism, on the contrary, the reflection is as follows: Poland should reform its economy as soon as possible, getting rid of barriers, frequently administrative and legal, which inhibit the development of entrepreneurship in our country. Analysing different areas that have an impact on the ease of doing business and taking into account the changes that took place in the period in between the results of rankings in 2010 and 2007, we can see that Poland fell from 114th place down to 117th in the area of the ease of starting business, from 146th down to 164th in relation to obtaining building permits, concessions etc., from 49th down to 76th with reference to the flexibility of hiring and firing staff, from 86th to 88th in matters of complexity of procedures of acquiring and registering property, from 33rd down to 41st in the area of protection of investors’ interests, from 71st down to 151st concerning the transparency, clarity and ease of paying taxes based on the current tax law.

In three following areas Poland ranked higher, i.e. the ease of obtaining credit: shifted from 65th place to 15th, freedom and flexibility of concluding and executing contracts: from 102nd place to 42nd and enforcing contracts: from 112th place to 75th. As far bankruptcy and closing procedures go, Poland maintained its position: 85th.

There is a reflection to be mentioned here: is it correct to call Poland a welfare state? I think that, when analysing the constitutive elements indicated by L. Balcerowicz to determine this kind of state, there can no terminological doubt it is. The problem appears, though, when we compare the quality and level of benefits rendered by our state in relation to benefits rendered by countries called welfare states in the 1970s. The quality and value of benefits offered by our state are at a grossly low level. It may turn out that without radical system changes, our state will be able to meet its liabilities. Already now, different signals are being sent from a number of analysts dealing with the Polish economic condition and they forecast that in the nearest future the standard of living of the so-called baby boomers may dramatically decline.
Let me emphasise it, these are not catastrophic visions, but forecasts based on simulations carried out by economists\(^6\).

In the literature and budget practice it is assumed that the factor to determine the level of state budget spending is the so-called fixed expenditure (frequently called determined expenditure). These are the expenses that must be financed because they are a result of legal regulations or prior liabilities within the legal framework.\(^7\) In other words, the finance minister must not effect the volume of determined expenses, even if the minister is of a different opinion. The level of fixed expenses and their share in the spending total indicate the degree to which we have to deal with the welfare state, which is often rightly identified as a wasteful state slowing down the GDP rate growth otherwise possible to obtain.

In the period of 2002–2003 the share of fixed expenses in public spending total rose clearly. It was the result of rising costs connected with the implementation of social insurance reforms, health service reform and systemic solutions to financing some expenses. 2004 saw a slight decline in these expenses, however, the share of legally determined expenses in the spending total in 2005 and 2006 rose again and amounted to 72.5% and 74.3% accordingly.

In 2007, like before, the structure of the state spending was determined by the share of fixed expenses. The proportion between expenses that are absolutely indispensable and the remaining ones is presented below. In 2007 the expenses in the group of the legally determined amounted to 73.1% of the total budget spending. This year there has been a decline in the share of legally determined expenses in the total budget spending, though their nominal value has risen again. It results from the above, the share of legally determined expenses in 2007 was 1.2 percentage points lower than in 2006. The rise in determined expenses in 2006 was, first of all connected with higher subsidies for the Social Insurance Fund (FUS), connected with the revaluation of pension benefits, to follow the rise in prices and services together in 2004 and 2005 above 05%, which launched a revaluation according to the Act of 16 July 2004, article 5 about the change of law on old age and disability pensions from FUS, rise in spending to service the public debt as well as a higher subsidy

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\(^7\) M. Markiewicz, J. Siwińska, Wydatki sztywne budżetu państwa (State budget fixed expenses), Studia i Analizy (Studies and Analyses), CASE – Centrum Analiz Społeczno-Ekonomicznych, Warsaw 2003, p. 6.
for local governments. In comparison to 2006, the expenditures were higher by 11.5%, which means that they were higher in real terms by 8.8%.

The most considerable items among determined expenses were the ones devoted to:

- subventions for local governments (19.9%),
- public debt servicing (15%),
- subsidies for Social Insurance Fund (13%),
- national defence (8.9%),
- subsidies for the Agricultural Social Insurance Fund (8%),
- contributions to the European Union budget (5.8%),
- refunded expenditure from the European Union budget (4.1%).

In 2007 the remaining spending accounted for 26.9% of the state budget spending total. This spending was higher by 18.5%, in real terms 15.6% over 2006. The remaining spending includes first of all: remuneration and real spending (current) of budget entities, subsidies for local governments, subsidies for entities of the public finance sector (subsidies for universities, scientific and research institutions etc.), subsidies for economic entities outside public finance spending and property spending.

A considerable share of fixed expenses leaves little space for manoeuvre to develop an active government policy in relation to the state budget. They are the proverbial “ball and chain” to take away from our economy the opportunity of faster development than so far. Though, it is the higher dynamics of GDP growth, especially per capita growth that will decide the wealth of the Polish nation in comparison to others. The share of over 73% of fixed expenses in the total spending and their character enforces reflection: our country is too much of a welfare state, but the quality of services rendered by this welfare state leaves a lot be desired, not to say bluntly that we spend too much. It is true, we spend too much, and the relation between the outlays and effects cannot be accepted by economists. It is the structure of fixed expenses (subventions for local governments, subsidies for FUS and KRUS) that prove the ineffectiveness of systemic solutions which result in a higher level of fiscalism in Poland and inhibit the growth rate. If the fixed expenses were dominated by e.g. state outlays to finance infrastructure of all kind to give rise to private investment, then the spending policy could be assessed in a different way. The change in the structure of fixed expenses could indicate that the state as investor wants to make up for the historically inherited arrears. However, it is not like this. We devote huge amounts to consumption, which makes us retreat from the so-called economic tigers in as far as the wealth of the nation goes and we do not come closer to rich countries satisfactorily. It should be remembered,
among other things, the divergence of the GDP per capita volume in Poland in relation to other European Union member countries.

2. GDP redistribution with tax and quasi-tax revenue considered

Focusing here on, first of all, tax revenues (compare: Table 6)\(^8\), it can be noticed that in the period of 1991–2010 there are multi-directional tendencies in the world in the area of the share of public finance revenues in GDP.

It appears from the data in Table 6\(^9\) that in 1995-2008 the share of taxes in GDP in the OECD eurozone countries (12 countries) changed insignificantly declining by 0.7% point (45.6% and 44.9%), in the OECD countries totally the redistribution rose by 0.2% point (38.0% and 38.2%), and in Poland the share of public duty in GDP declined by 4.1 percentage points (43.3% and 39.2%). Expressed in this way, the decline in GDP redistribution by the public finance system in Poland was relatively high in comparison to other European countries and non-European OECD member countries, whose data are presented in Table 6. From among all enumerated countries in the analysed period, only Slovakia and Ireland had a larger decline in GDP redistribution than our country, 12.5 and 5.3 percentage points respectively.

The rise in the share of taxes and quasi-taxes in GDP in the analysed period occurred in as many as 10 of the following European countries: Belgium (47.5% and 48.8%), France (48.9% and 49.3%), Greece (36.7% and 39.9%), Iceland (36.2% and 43.5%), Italy (45.1 and 45.6%), Luxembourg (42.2% and 43.2%), Norway (54.2% and 58.8%), Portugal (38.4% and 43.2%), Switzerland (33.0% and 33.9%) and the United Kingdom (38.2% and 42.6%). In other non-European countries in Table 7 the rise in budget redistribution occurred in 3 countries: Australia (34.5% and 35.2%), Japan (31.4% and 34.4%) and South Korea (23.6% and 33.5%). The data presented in Table 6 indicates that in 2008 the lower share of fiscal revenues in GDP than in Poland occurred only in the four following European countries: Slovakia (32.7%), Ireland (33.8%), Switzerland (33.9%) and Spain (36.6%). In the group of non-European countries mentioned in Table 6, two countries had a higher share of taxes and quasi-taxes in GDP: Canada (39.8%) and New Zealand (44.0%).

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\(^8\) Table 6 presents tax and quasi-tax revenues of the state budget, local self-government budgets and social insurance sector. The non-tax incidence includes revenues on account of surpluses of public institutions, revenues from property titles as well as penalties and fines.

### Table 6. Taxes and other budget revenues in % GDP (nominally) ![Table](https://example.com/table6.png)
## continued Table 6

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>30.3</td>
<td>31.1</td>
<td>31.6</td>
<td>32.4</td>
<td>33.0</td>
<td>33.5</td>
<td>32.7</td>
<td>33.8</td>
<td>33.8</td>
<td>35.2</td>
<td>34.7</td>
<td>35.0</td>
<td>34.6</td>
<td>34.2</td>
<td>34.6</td>
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<td>34.2</td>
<td>33.9</td>
<td>33.7</td>
<td>33.7</td>
</tr>
<tr>
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<td>38.7</td>
<td>37.3</td>
<td>37.8</td>
<td>38.2</td>
<td>38.0</td>
<td>38.4</td>
<td>39.4</td>
<td>39.8</td>
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<td>40.6</td>
<td>39.0</td>
<td>38.7</td>
<td>39.5</td>
<td>40.8</td>
<td>41.6</td>
<td>41.4</td>
<td>42.6</td>
<td>39.5</td>
<td>40.2</td>
</tr>
<tr>
<td>United States</td>
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<td>32.8</td>
<td>33.0</td>
<td>33.4</td>
<td>33.8</td>
<td>34.3</td>
<td>34.6</td>
<td>35.1</td>
<td>35.2</td>
<td>35.8</td>
<td>34.9</td>
<td>32.5</td>
<td>31.9</td>
<td>32.1</td>
<td>33.4</td>
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<td>34.5</td>
<td>33.1</td>
<td>31.3</td>
<td>31.5</td>
</tr>
<tr>
<td>Eurozone</td>
<td>44.7</td>
<td>45.8</td>
<td>46.6</td>
<td>46.0</td>
<td>45.6</td>
<td>46.4</td>
<td>46.7</td>
<td>46.3</td>
<td>46.8</td>
<td>46.3</td>
<td>45.4</td>
<td>45.0</td>
<td>44.7</td>
<td>44.9</td>
<td>45.4</td>
<td>45.5</td>
<td>44.9</td>
<td>44.9</td>
<td>44.1</td>
<td></td>
</tr>
<tr>
<td>OECD total</td>
<td>37.5</td>
<td>37.8</td>
<td>37.8</td>
<td>38.0</td>
<td>38.5</td>
<td>38.7</td>
<td>38.8</td>
<td>39.0</td>
<td>39.2</td>
<td>38.7</td>
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<td>37.0</td>
<td>37.1</td>
<td>37.9</td>
<td>38.8</td>
<td>38.8</td>
<td>38.2</td>
<td>37.1</td>
<td>36.8</td>
<td></td>
</tr>
</tbody>
</table>

Important: Data concern the state budget, local government budgets and premiums for social insurance sector. Non-tax budget revenues concern revenues from property titles (together with dividends and other transfers from the sector of public enterprises), lease rents, penalties, fines etc.

Source: OECD Economic Outlook 2009/1, No. 85, database, Annex Table 26.
3. GDP per capita in Poland compared to other countries

Among EU member countries in 2006 (25 countries), we had the lowest nation wealth index (compare: Tables 7 and 8). The data in Table 7 indicates that GDP per capita measured in the standard of purchasing power in 2006 achieved in Poland 52.3% of the European Union average (average for 27 countries = 100). In this respect we held the last place in the Union. It is worth indicating that, a year before, Latvia had a worse score.

In 2007 only Romania and Bulgaria had worse results than ours, countries that were admitted in this very year. In 2007 we were the poorest EU country
besides Bulgaria and Romania. In 2008 we started to catch up with the rich Union. The Eurostat data indicates that in 2008 we outdistanced Latvia (we came close to the position held in 2004), achieving the level of GDP per capita of 57.5% of the Union average. In the analysed period we almost achieved a very important threshold, not only in symbolic terms: 50% of the standard of living of Germans (115.8% of the Union average). It is a great achievement, taking into consideration historical data indicating a considerably larger gap between Poland and the largest European economy. According to the forecasts, in 2009 we will outstrip Lithuania and we will catch up with Hungary. It is to be emphasised that the better ranking of Poland among the EU countries does not result from a large GDP growth rate in our country but primarily because Poland coped better with the economic crisis. There has been no economic recession in Poland and we do not predict it will occur in the years to come. In comparison to the current economic tigers of our region, i.e. Latvia, Lithuania and Estonia, which at the moment are experiencing a serious economic breakdown (compare: Table 4), in Poland there is only a slowdown in the GDP growth rate. In the analysis of gap bridging between Poland and rich European Union countries, a moment of symbolic significance will come when Poland catches up with a country from the so-called old Union on account of GDP per capita. Polish economists predict that in 10 years at the latest we will catch up with Portugal in the standard of living10.

From among the countries admitted to the European Union on 1 May 2004 and on 1 January 2007, the relation of GDP per capita (data concerning 2008) to the EU average (average for 27 countries = 100) is as follows:

- Cyprus 94.6%,
- Slovenia 89.8%,
- Czech Rep. 80.4%,
- Malta 76.4%,
- Slovakia 71.9%,
- Estonia 67.2%,
- Hungary 62.9%,
- Lithuania 61.3%,
- Poland 57.5%,
- Latvia 55.7%,
- Romania 45.8%,
- Bulgaria 40.1%.

10 J. Bielecki, Doganiamy bogatą Unię (We are catching up with the rich Union), „Dziennik”, 11.08.2009, p. 3 and Orłowski, Za 20–30 lat mamy szansę prześcignąć Niemców (In 20–30 years we will have a chance to outstrip Germany), „Dziennik”, 11.08.2009, p. 3.
Table 7. GDP per capita in PPS in EU member countries and other selected countries in the world, EU27 = 100

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
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<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>(27 countries)</td>
<td>104.9</td>
<td>105.0</td>
<td>105.0</td>
<td>104.8</td>
<td>104.6</td>
<td>104.4</td>
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<td>115.4</td>
<td>114.9</td>
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<tr>
<td>(15 countries)</td>
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<td>115.7</td>
<td>115.5</td>
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<td>113.5</td>
<td>112.6</td>
<td>111.8</td>
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<td>110.6</td>
<td>110.2</td>
<td>109.7</td>
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<td>Eurozone</td>
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<td>113.1</td>
<td>112.9</td>
<td>112.5</td>
<td>112.1</td>
<td>111.3</td>
<td>110.5</td>
<td>109.4</td>
<td>109.6</td>
<td>109.2</td>
<td>108.9</td>
<td>108.3</td>
</tr>
<tr>
<td>Euro area 16 (BE, DE, IE, GR, ES, FR, IT, CY, LU, MT, NL, AT, PT, SK, SI, FI)</td>
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### Tabela 8. GDP per capita in PPS in 27 EU member countries, EU27 = 100

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<sup>a</sup> forecast data

<sup>b</sup> estimated data


The leaders in the discussed area in 2008 are: Luxembourg (252.8% of EU average), Ireland<sup>11</sup> (139.5%) and Holland (134.6%).

The above data cannot instil optimism as they show enormous discrepancies in the well-being of nations, European Union members and the distant place held by Poland at the background of it. That is why the comparison of global fiscalism in Poland against the background of other countries does not reflect the real situation in Poland. Countries that have a higher share of expenditure or taxes in GDP than Poland climbed the ladder of wealth relatively quickly. Our country, if it does not want to be an outsider, must increase the speed significantly in the area of economic

<sup>11</sup> In 2009 the position of Ireland may deteriorate considerably due to the effects of crisis, especially strong in this country.
growth, and the average scale of GDP redistribution in comparison to other countries should not be treated as an excuse or reassurance. We must take radical steps, possibly unpopular, aiming at cutting expenses financed by the public finance sector.

4. Changes in taxes and quasi-taxes to reduce the grey economy

Considering the GDP redistribution in Poland, it should be pointed out that a large share of the grey economy in the creation of GDP is a significant ailment of our economic system. According to estimates made by Austrian professor Friedrich Schneider, in Poland in 2007 26.5% of GDP was created in the grey economy (see Table 9). It is a lot, taking into account that out of 21 OECD countries presented, 8 countries have a smaller scope of informal economy. With reference to the Central and Eastern European EU countries, the situation is worse only in Bulgaria (39.4%), Romania (37.4%), Latvia (37.1%), Estonia (36%) and Lithuania (28.2%). Taking into account countries of the former Soviet Union, the size of the grey economy is even larger, or better to say enormous.

Professor F. Schneider divides the European Union countries into four groups. The first group consists of: Austria, Holland, The United Kingdom, France, Ireland and Germany, where the share of the grey economy in GDP does not exceed 15 per cent. The second group includes Finland, Denmark, Sweden and Belgium (from 15 to slightly over 19 per cent), the third: the Czech Republic, Portugal, Slovakia, Spain, Italy, Hungary, Greece, Poland and Slovenia (20–30 per cent) and fourth: Romania, Bulgaria and the Baltic states (over 30 per cent)\(^2\).

Table 9. Volume of the grey economy in 25 selected countries of Central and Eastern Europe and former Soviet Union countries, expressed in GDP percentages

<table>
<thead>
<tr>
<th>No.</th>
<th>Country/year</th>
<th>Grey economy (in GDP percentages) evaluated with MIMIC method and demand for cash money</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1990/00</td>
</tr>
<tr>
<td>1</td>
<td>Albania</td>
<td>33.4</td>
</tr>
<tr>
<td>2</td>
<td>Armenia</td>
<td>46.3</td>
</tr>
<tr>
<td>3</td>
<td>Azerbaijan</td>
<td>60.6</td>
</tr>
<tr>
<td>4</td>
<td>Belarus</td>
<td>48.1</td>
</tr>
</tbody>
</table>

\(^2\) T. Chrościcki, Szara strefa w polskiej gospodarce na tle innych krajów (Grey economy in Poland at the background of other countries), „Nowe Życie Gospodarcze”, 16 May 2007.
continued Table 9

<table>
<thead>
<tr>
<th>No.</th>
<th>Country/year</th>
<th>Grey economy (in GDP percentages) evaluated with MIMIC method and demand for cash money</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1990/00</td>
</tr>
<tr>
<td>5</td>
<td>Bosnia and Herzegovina</td>
<td>34.1</td>
</tr>
<tr>
<td>6</td>
<td>Bulgaria</td>
<td>36.9</td>
</tr>
<tr>
<td>7</td>
<td>Croatia</td>
<td>33.4</td>
</tr>
<tr>
<td>8</td>
<td>Czech Republic</td>
<td>19.1</td>
</tr>
<tr>
<td>9</td>
<td>Estonia</td>
<td>38.4</td>
</tr>
<tr>
<td>10</td>
<td>Georgia</td>
<td>67.3</td>
</tr>
<tr>
<td>11</td>
<td>Hungary</td>
<td>25.1</td>
</tr>
<tr>
<td>12</td>
<td>Kazakhstan</td>
<td>43.2</td>
</tr>
<tr>
<td>13</td>
<td>Kyrgyzstan</td>
<td>39.8</td>
</tr>
<tr>
<td>14</td>
<td>Latvia</td>
<td>39.9</td>
</tr>
<tr>
<td>15</td>
<td>Lithuania</td>
<td>30.3</td>
</tr>
<tr>
<td>16</td>
<td>Macedonia</td>
<td>34.1</td>
</tr>
<tr>
<td>17</td>
<td>Moldova</td>
<td>45.1</td>
</tr>
<tr>
<td>18</td>
<td>Poland</td>
<td>27.6</td>
</tr>
<tr>
<td>19</td>
<td>Romania</td>
<td>34.4</td>
</tr>
<tr>
<td>20</td>
<td>Russia</td>
<td>46.1</td>
</tr>
<tr>
<td>21</td>
<td>Serbia and Montenegro</td>
<td>36.4</td>
</tr>
<tr>
<td>22</td>
<td>Slovakia</td>
<td>18.9</td>
</tr>
<tr>
<td>23</td>
<td>Slovenia</td>
<td>27.1</td>
</tr>
<tr>
<td>24</td>
<td>Ukraine</td>
<td>52.2</td>
</tr>
<tr>
<td>25</td>
<td>Uzbekistan</td>
<td>34.1</td>
</tr>
<tr>
<td>26</td>
<td>Unweighted average</td>
<td>38.1</td>
</tr>
</tbody>
</table>

Source: F. Schneider, The size of shadow economy for 25 transition countries over 1999/00 to 2006/07: What do we know, Department of Economics Johannes Kepler University of Linz, March 2009.

The indicators published by professor Schneider are much higher than estimates made by other persons or scientific institutions. A report published in May 2004 undersigned by the European Commission contained far more cautious conclusions.

The authors of this report assessed that the biggest size of the grey economy was in Bulgaria (up to 30 per cent of GDP), Romania (22 per cent), Greece (above 20). Lithuania (nearly 19), Latvia and Hungary (18). In Austria it amounted to only 1.5 per cent, in Holland and The United Kingdom 2 per cent and in Sweden 3 per cent. According to these calculations, in Poland
the share of the grey economy in GDP was more than twice smaller than
the result from the data published by professor Schneider published at the
same time\textsuperscript{13}. According to the Central Statistical Office (GUS), in 2006 the
grey economy accounted for 15.9\% of GDP, whereas the 2008 estimates of the
European Commission assess the scale of this phenomenon at 15\% of GDP\textsuperscript{14}. Whereas according to the Social and Economic Analysis Centre the economy hidden from the taxman may be even double in size\textsuperscript{15}. Thus, it may be said that depending on the institution examining the grey economy, the estimates fluctuate from 15\% to 30\% of GDP\textsuperscript{16}.

\textbf{Figure 7. Volume of the grey economy in 21 OECD countries in 2007, in GDP percentages}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{grey_economy_graph.png}
\caption{Volume of the grey economy in 21 OECD countries in 2007, in GDP percentages}
\end{figure}


\begin{itemize}
\item[13] Ibid.
\item[14] A. Błaszczyk, P. Mazurkiewicz, Szara strefa szybko się rozrasta (Grey economy is growing fast), „Rzeczpospolita”, 20.03.2009.
\item[16] M. Chądzyński, Państwo musi działać zdecydowanie aby zwalczać szarą strefę (State should be firm in order to fight grey economy). Rozmowa z wiceministrem gospodarki A. Szejfeldem (Interview with Deputy Minister for Economy A. Szejfeld), „Gazeta Prawna”, 5.01.2009.
\end{itemize}
The opinions obtained by GUS in 2004 on the reasons for undertaking unregistered jobs prove that the factors making people work in the grey economy are: no formal job to be found and difficult material position (insufficient income). Next: “high insurance premium” and “employer offers higher remuneration without registering the contract of employment”. The reply least frequently indicated by the respondents was: “reluctance to permanent commitment to the workplace”\(^{17}\).

The question asked by the Polish Confederation of Private Employers: what part of employment and what part of turnover they hide from the taxman, small and medium sized companies assessed the scale of the phenomenon as follows: 18.6% in the area of employment and 20.2% in the area of achieved turnover\(^{18}\). Most illegal employment and hidden revenues are to be found in construction, transport and storage areas as well as wholesale and retail trade.

The disease is similar to cancer, which dismantles our economy slowly but efficiently. Our leadership centres seem to be defenceless, which is proved by, and results in, reaching into the taxpayers’ pockets to easily enforce the public duty. This sort of policy is unacceptable as it leads in a straight line to the collapse of the whole economic system. In order to patch the budget gap, the state increases individual fiscalism, not making any radical steps to broaden the palette of taxpayers. It is worth returning to the concept of Finance Minister Grzegorz Kołodko of 2002. This concept was not all bad, it resembled spot actions though, which did not make up a comprehensive strategy, but only this strategy can bring notable effects. In this context we opt for tax abolition for the grey economy. This price is worth paying in order to reduce GDP in the area not controlled by our fiscal authorities. The solution does not require strict sanctions against entities remaining in the grey economy. The “guarantee” should not come in the form property statements resembling the solutions applied in Poland in the 1950s or 60. The guarantee of fighting the grey economy should consist of the determination and consistence of leadership centres in our country, and genuine finance police with wide powers to fight business crime committed by Mafia like structures constitutes the proper tool. The first symptom to convince us that there is a political will in actions of our political and economic elites to fight the grey

\(^{17}\) T. Chrościcki, Szara strefa w... (Grey economy in...), op. cit.

\(^{18}\) Kondycja małych i średnich przedsiębiorstw u progu 2003 r. (SME condition at the beginning of 2003). Raport z II edycji badań przeprowadzonych przez ASM – Centrum Badań i Analizy Rynku, na zlecenie Polskiej Konfederacji Pracodawców Prywatnych, Warszawa, luty 2003 r. (Report on the 2 part of research carried out by Market Research and Analysis Centre commissioned by the Polish Confederation of Private Employers).
economy will be to “tighten” the eastern border of the country as a result of, among other things, full computerisation of all border crossings.

The Polish tax system has often been criticised on account of its instability, i.e. frequent changes that often confuse both taxpayers and treasury authorities. It is not without reason that current tax solutions are criticised as unclear, not really transparent, which creates a lot of opportunities to evade taxes. The complexity of the tax law still creates suitable conditions to evade paying taxes, which is perceived as dishonest and contributing to the pathological phenomena in the economy. Too complicated and hardly legible tax solutions are the factor encouraging treasury abuses. They hinder effective control. It should be emphasised that Poland had the largest decline in the Doing Business World Bank ranking in relation to transparency, clarity and the ease of paying taxes on the basis of the current law: the decline accounted for 80 places, from the 71st place in Doing Business 2007 down to 151st in Doing Business 2010.

The high complexity of the Polish tax system translates into a long time necessary to settle all formalities connected with paying taxes, which no doubt hinders the development of entrepreneurship in our country and creates an unfavourable climate for foreign investment.

According to World Bank Doing Business 2010 report mentioned before, in Poland an entrepreneur must make 40 tax payments a year (the most among all countries belonging to EU 8 countries), and needs 395 hours a year to settle all formalities, which positions us in a disgraceful second place, with the Czech Republic in front taking more than 600 hours, Table 10.

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of tax payments</th>
<th>Time (in hours)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>10</td>
<td>81</td>
</tr>
<tr>
<td>Lithuania</td>
<td>12</td>
<td>166</td>
</tr>
<tr>
<td>Poland</td>
<td>40</td>
<td>395</td>
</tr>
<tr>
<td>Hungary</td>
<td>14</td>
<td>330</td>
</tr>
<tr>
<td>Slovenia</td>
<td>22</td>
<td>260</td>
</tr>
<tr>
<td>Latvia</td>
<td>7</td>
<td>279</td>
</tr>
<tr>
<td>Slovakia</td>
<td>31</td>
<td>257</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>12</td>
<td>613</td>
</tr>
<tr>
<td>OECD (average)</td>
<td>12.8</td>
<td>194.1</td>
</tr>
</tbody>
</table>

From among EU-8 countries the pattern to follow in this area is Estonia, where the entrepreneur is obliged to make 10 tax payments a year, which takes only 81 hours.

The lack of clarity in the current tax law, despite the reduction in preferential treatment in the form of tax exemptions and reliefs, creates opportunities for dishonest taxpayers to evade taxes. Also different tax rates and developed progressive brackets encourage actions aimed at evading the legal regulations, resulting in a taxpayers desire to be classified in the most privileged category or bracket. These are controversial operations and putting it colloquially they are on the brink of the law. Thus, it is indispensable to simplify law and make it more transparent.

It seems then, that the most effective form of taxation is the linear tax of a lower rate than the current one (19%) in relation to legal persons and flat tax\textsuperscript{19} in the case of physical persons.

With reference to legal persons, the simplification of the tax system should consist of the liquidation of specially privileged entities, e.g. protected labour entities and making the notion of taxable expenses more transparent and also the simplification of tax procedures, which would enable us to eliminate incentives for entrepreneurs to enter the grey economy and increase the budget revenues through absorption of a part of the informal sector\textsuperscript{20}. The reduced tax rate of 15% could contribute to improved entrepreneurship and leaving the shadow economy.

Illegal employment is a segment of the unofficial economy. The most important cause of the development of the grey economy on the labour market lies in the heavy burdening of labour costs with taxes and quasi-taxes, which concern both non-pay elements of labour costs and gross pay. The lack of acceptance of a large tax wedge will grow on the part of employees if the satisfaction with services and benefits resulting from taxes and quasi-taxes will be low. Then, high labour costs will even have a stronger impact on the attractiveness of informal work and the due tax will not come to the financial sector, contributing, among other things, to the multiplication of public finance problems.

\textsuperscript{19} Linear tax (proportional) means that everybody pays the same rate. The tax with one rate accompanied by progression caused by tax free amount is called flat. It should be added that in nearly all EU countries that introduced one tax rate, taxpayers are allowed a tax free amount. Thus, in fact the construction of flat tax, not linear is applied. Bulgaria is an exception, where the tax free amount is granted only to the disabled. More: P. Russel, Podatek liniowy (Linear tax), Biuro Analiz Sejmowych (Parliamentary Analysis Bureau), September 2008, p. 3.

\textsuperscript{20} In Russia after the introduction of linear tax, billions of dollars started to come back, previously allocated in Cyprus, and the PIT budget revenue rose by 30%. In Poland the reduction in CIT by 8 percentage points in 2004 influenced the rise in this tax budget revenue. It may prove that a lot of entities left the grey economy after such a large abrupt reduction in corporate income tax.
Penalising more severely for illegal employment seems to be the quickest and the most efficient method. However, tightening restrictions without the opportunity to enforce them may only cause the expansion of an underground economy. Apparently, it could be more appropriate to reduce taxes and quasi-taxes which make labour costs high. It would encourage legal forms of employment. At the same time, there should be a correct relation between taxes paid and services and benefits financed with them.

The informal economy cannot be liquidated entirely. There will always be people who will not be inclined to pay even the lowest possible tax. However, it may be reduced, among other things, by creating fiscal incentives to leave the informal economy and enter the formal one. The legal economy should be made more attractive.

Assessing the Polish tax system, one may draw a conclusion in relation to the need for further liberalisation and simplification of it in such a way that it would reduce and not expand the grey economy. At the same time, it should be more restrictive in the area of tax frauds as well as taxpayers’ education oriented. It seems that a flat tax on personal income without any exemptions and reliefs, with simple and understandable regulations reducing the necessity of numerous interpretations of tax law with a reduced tax rate for legal persons, will limit the inclinations to tax frauds and in the long run it should result in the rise in tax revenue.

5. Conclusions

To conclude the considerations made so far, let us express the opinion that the best remedy for the ailments of the Polish economy is to stimulate entrepreneurship in order to create the wealth of the nation, i.e. to maintain a much higher economic growth rate than at present. GDP growth in 2006, 2007, 2008 (year over year) at the level of 6.2%. 6.6% and 5% respectively, is insufficient to effect durable and satisfactory changes on the labour market and to place Poland among the best developed countries. What we mean is maintaining GDP growth rate above 7% in the long run. At this point, Horace’s motto, cherished by medical doctors, comes to mind: Primum non nocere. We, as economy and economic doctors, should have this motto at heart and wherever possible entrepreneurship should be spread.

A thorough diagnosis of our economy made at annual conferences organised by the Department of Finance, Warsaw School of Economics in the period of 2002–2009 indicates the following entrepreneurship development barriers:

- unstable rules of running business, low quality of law manifested in unclear regulations and standards and all the time insufficient legal security concerning the application of tax regulations. When reforming the tax system we suggest the liquidation of dualism in the rules of taxing business entities (PIT or CIT) through a uniform tax system in relation to business activity; a separate system should determine the taxation of hired labour. We are for the most comprehensive use of business lump sum taxation; it would liquidate arguable problems of tax deductible expenses and cause the simplification of the whole system of business taxation. We are calling for uniform taxation rules of the parties of leasing agreements for all kinds of fixed assets. The discrimination of car taxes in the area of tax on goods and services should be removed,
- excessive individual tax burden, high labour costs and too high GDP redistribution by the public finance system with more than 73% share of fixed expenditure in the budget spending total (welfare state model),
- considerable level of GDP creation by the grey economy, i.e. beyond the fiscal system,
- too weak protection of creditors in civil and legal claims. According to the World Bank data, it appears that in Poland, the entrepreneur who wants to recover his dues must carry out 38 complicated formal actions from the moment of filing the suit against the debtor up to the moment of passing the sentence; in 2006 the creditor waited from the date of filing the suit until receipt of money on the average 980 days. In comparison to other countries we do not rank the highest. From among the countries analysed by the World Bank in the report Doing Business 2007, Poland

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24 Despite changes in tax law as of 1 January 2005.
25 O nowy ład podatkowy (To achieve a new tax order), Study from the series „Przedsiębiorczość” (Entrepreneurship) ed. by J. Ostaszewski, SGH, Warsaw 2007.
took 112th place out of 175 countries examined by the World Bank. It appears that in New Zealand the waiting time for such a decision comes in up to 109 days, in Lithuania 166 days, in Estonia 275 days and in Slovakia 565. This situation creates an unfavourable investment climate in our country. According to the ranking Doing Business 2008, 2009 and 2010, Poland made progress in the discussed area: the time of civil and legal claim completion was shortened to 830 days. However, a period of more than 2 years to recover the amount due should be regarded definitely too long,

- limited access to capital, especially in small sized companies,
- excessively bureaucratised procedures to start a company; according to the report Doing Business 2010, in order to start a company in Poland 6 procedures should be completed, which take 32 days and costs 17.9% GNI per capita; there is a wide scope of rationing of our business life, although


28 We hope that the principle of registering a company at a single counter, announced for a number of years, will come into effect at last. As of 31 March 2009 new regulations of the Act of 19 December 2008 became effective in relation to the change in law on business freedom and changes in some other laws (Dz.U. (Law Journal) 2009, No. 18, item 97), They introduce the principle of a "single counter" registration of businesses on the territory of the Republic of Poland. Among others on the basis of art. 13 of the above mentioned act of 19 December 2008, the regulations of the Act of 29 June 1995 were amended in relation to public statistics (Dz.U. No. 88, item 439, with later amendments) in the part concerning the national register of business entities REGON. In this connection as of 31 March 2009, according to art. 42, section 7 of the act on public statistics, submitting the application for REGON registry entry as well as the application for changes of qualities included in the register is effected: for entrepreneurs who are physical persons on the basis of regulations on business activity, for entrepreneurs subjected to registering on the basis of the Act of 20 August 1997 on National Court Register (Dz.U. of 2007, No. 68, item 86, i.e. with later amendments). According to the idea of one counter; an entrepreneur who is a physical person, submits in town hall/local government office an application for the entry in the register EDG-1, which is later transferred to the statistical office, on the basis of which the identification number REGON is issued. In the case of entrepreneur who is not a physical person, application RG-1 is to be submitted in the relevant Economic Department of the National Court Register, which sends the documents to the statistical office in order to be given the identification number REGON. All the process of entering the REGON register assumes the personal contact of entrepreneurs with statistical offices. After the entry of the entrepreneur to the REGON register has been completed, the statistical office sends the entrepreneur a certificate about the REGON identification number. Only the change in the data to be compulsory entered to REGON register, which are not subject to simultaneous registration in business register or respectively in entrepreneurs' register is subject to the law on public statistics (art. 42 section 8 of the act on public statistics). In this case, entrepreneurs are obliged to submit application RG-1 in the territorially relevant statistical office. Additionally, the amendment of 19 December 2008 cancelled the necessity of using the REGON number certificate by the entities obliged to the entry in the REGON register in official business contacts and those connected with business turnover as well as indicating the number in company seals and forms (repeal section 3 in art. 43).

29 GNI means National Gross Income per capita.
concession is required only in six business areas. (it is estimated that over 60 areas of economic life is subjected to administrative impact),

• deterioration of the Polish corporate order, i.e. in the case of discrepancy between the interests of capital providers and policies of supervisory bodies, the company is sick in the area of corporate order, hence its strategy is ineffective.

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11. O nowy ład podatkowy (To achieve a new tax order), Study from the series „Przedsiębiorczość” (Entrepreneurship) ed. by J. Ostaszewski, SGH, Warsaw 2007.

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Introducing the Euro in Poland within a Currency System Perspective

1. Introduction

Financial law is part of public law, which comprises the total body of legal norms applicable to public finance. No one all-embracing part of that law is believed to exist\(^1\). Separate branches of financial law are commonly seen to cover:

- budget law, comprising revenue and expenditure law,
- tax law,
- public debt law, regulating the withdrawal and repayment of public loans and borrowings,
- local government finance law, with elements of budget law and public debt law,
- public business organisations finance law,
- social security finance law,
- banking law,
- public trading of securities law,
- penal tax law,
- foreign exchange and currency law.

Currency law underwent extremely significant changes in the 20th century, as international currencies appeared side by side with national currencies. The euro is one\(^2\). The introduction of the euro was hailed as an epoch-making event. Recorded history knows only one case of a common currency introduced, when emperor Justinian decreed that Roman coins alone were to be legal tender everywhere across the lands he ruled. Since the Roman empire at the time was virtually identical to the civilised world, the situation now in Europe is oddly reminiscent of what happened under Justinian.

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2. Polish currency law

Poland’s own currency law also changed fundamentally in the 20th century. Currency solutions binding in Poland during the two decades between the two world wars were dropped after WWII, with the foundation of the National Bank of Poland. The NBP was vested with the right to issue currency, yet not fully as a monopoly because the right to issue treasury bills was reserved for the State Treasury.

Major changes in the currency system of socialist Poland evolved with the 1950 enactment of restrictive regulations revamping the monetary system, as the principle of cash payment limits was discarded. Cash liabilities were repayable with any kind of notes and coin, with no limit on the amounts. The 1950 law established the right to issue currency as an exclusive competence of the NBP. The design and denomination of notes and coins were to be specified by the Minister of Finance. The Minister of Finance was further charged with the competence of introducing regulations on accepting and replacing damaged, worn or counterfeit notes and coins. The Council of Ministers, the Minister of Justice and the NBP were accorded competence with respect to the replacement of notes, and the payment of amounts owed, in the new currency. Generally, through its dual channel of substituting new for old banknotes the reform was designed to crush the private sector and to mince the resources of the affluent.

A turning-point in the currency system came with changes enacted in 1982. The new banking legislation furnished a formal legal basis for the NBP to become independent of the Finance Ministry. The NBP President shall be appointed and dismissed by the Sejm, at the request of the Prime Minister. In this way the President of the Central Bank ceased to serve as a Deputy Minister of Finance. The Central Bank was granted broader competence in determining and in the delivery of monetary policy guidelines. The NBP submitted these policy guidelines (after consideration thereof by the Council of Ministers) for information to the Sejm, therefore it was the Sejm that ultimately decided the monetary policy to be pursued.

A real breakthrough in central banking – and therefore, a revamp of the state currency system – came in the late 1980s. Previous administrative methods, which amounted to a rigid directive oversight of NBP branches, were superseded with instruments which had proved their efficiency in democratic systems, one of them being the exchange rate. The developing economy, the growing financial markets, combined with the indispensable regulations to European Union standards, made changes in banking law necessary, and so a new law was enacted as the foundation of Poland’s currency law.

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One of the primary jobs the Central Bank faced within the new system, which started to operate in 1990, with respect to the issue of currency function, was to put through a redenomination of the złoty. Redenomination would be defined to mean a currency reform where the currency unit in circulation is dropped and a new currency unit of greater purchasing power is introduced instead. Any value expressed in currency is recalibrated in the process in proportions determined for the old to the new units.

The National Bank of Poland, as of 1 January 1995, introduced into circulation the new monetary unit the proportion being 10,000 old złoty for 1 new złoty, including the new one being marked with the abbreviation PLN. The new introduced notes and coins were legal tender, in circulation alongside the old currency for two years, that is to say, until the end of 1996. The old currency lost its status as legal tender as of 1 January 1997. The new notes and coins, it was established, had naturally replaced the bulk of the old currency (during the years 1995–1996). The statistics of the 1 January 1990 showed the value of old notes and coins not yet returned to the central bank, i.e., those not replaced within those two years, accounted for approximately 3% percent of the total cash in circulation at that time. Under art. 3. subpara. 2 of the Redenomination of the Złoty Act of 7 July 1994, the old notes and coins could be returned for new ones, with an unlimited amount, until the close of 2010.

The National Bank of Poland has exclusive rights to issue the currency of the Republic of Poland. Such banknotes and coins constitute legal tender within the territory of Poland and no one may refuse to accept payments in banknotes and coins in cash transactions. It should be pointed out that the issue of notes and coins (cash) is one item and the issue of money another. The issue of money means an increase in the total money (cash as well as non-cash) in circulation. Such issues are usually undertaken on borrowings from banks, and their size at the moment is equal to the difference between the total sum of fresh bank loans and the sum of total loans borrowers paid off on time (issue of money on credit).

Cash money is issued when the bank of issue or the State Treasury issue cash money in the form of banknotes and coins. Empowerment to issue cash money is stipulated within supreme regulations of law, which in this country are acts of law passed by the parliament (the Sejm). The issue of coins and the introduction of coins being legal tender in this country (as in the UK, the United States) is not charged to the Central Bank (as it is in Poland) but is a privilege of the State. Such privilege, it is cautioned, may tend to exceedingly generate inflation, so various legal instruments are applied to restrict the issue of coins by the Treasury.
The amount of money in circulation should, as a matter of principle, be adequate to the sum of total goods and services that are offered for sale at the moment, and to the circulation speed of money, on the market. The higher the velocity money circulation the smaller the amount of money that is needed on the market. Too much money in circulation encourages inflation. Inflation drives up the average price index, which entails a drop in the purchasing power of money.

3. The present currency situation

Accession to the Euro zone became more of a dilemma with the arrival of the economic and financial crisis circa 2008 to 2009. If you consider the following facts you can see Poland that was not spared the crisis.

In recent weeks, Polish currency and the exchange rate came under attack from Western investors. They carried the brunt of the rush to clear portfolios from Polish paper, buying pounds, Euros or dollars from the proceeds of the złoty. That, combined with pangs of panic among domestic players, made the early February stock indexes plummet to below the November bottom of bear, the lowest point for nearly five years, as the złoty quotations were pressed down to the 2004 level, when the Polish currency took off for its triumphant climb following European Union accession. The złoty is visibly weaker, not as much as the Hungarian forint or the Czech koruna and the even surprisingly stable Brazilian real or the Mexican peso. Late in January 2009 the złoty was losing even to the Ukrainian hryvna, even while it was our neighbour who found itself on the verge of financial breakdown! The Warsaw Exchange, in turn, had dropped to become the weakest, adjacent to the Russian market, share market in the world, while the exchanges in Budapest or Prague defended themselves successfully against further weakening.

To sell orders from London or New York Wall Street undercut the złoty to what were unthinkable lows only shortly before – by mid-February the Euro had risen to nearly 4.70 to the złoty, the dollar to PLN 3.65 zł, the Swiss franc to a huge PLN 3.15. Even worse, few experts would now stake all their money on our currency as it was already past the apex of sales. Quite a few experts expected the hard bottom may be hit in the spring only.

It is a bitter feeling to see yourself suddenly as a world outsider, especially if you were the front runner before. Poles live on their belief – reinforced by the government and by most analysts and international organisations – even though the global crisis forecasts keep worsening our economy, it stands out strong, not
only against the backdrop of our neighbours but even the largest economies of the West. The Polish economy is believed to rest on what are solid foundations, our banks, unlike the foreign financial institutions that control them, have no toxic assets in their portfolios, and even in the bleakest scenarios our GDP is likely to grow at a positive rate in 2009, 2–3 percentage points above the rates in most countries in Europe. Just a couple of days ago, European Commission experts positioned Poland in a group of 6 among the 25 EU countries that do not face recession, and most analysts estimate our GDP growth at least at 1–2 percent. Therefore, if the economy is nowhere near a breakdown, why is the domestic financial market? Why have foreign investors and increasingly pure speculators aimed primarily at our currency and at shares on the Polish stock market?

The hot capital circulating across the world, which in the world crisis is encountering less and less opportunity to make a profit, the very foundations of the economy are not as important as the moment cracks begin to appear in it. When that happens further pretexts are found for the speculation gamble, which only deepens the cracks. There is no denying that a great many weaknesses have come to light recently, and moreover the helmsmen of the Polish economy and finance, as well as a number of banks and businesses have done a lot to give speculators reasons to weaken our currency and stock market. Indeed, they enticed speculators into undertaking their games.

One such enticement, unwittingly of course, came as a result of the activities of the Monetary Policy Council [RPP], the body which sets interest rates in Poland. It can be recalled that as Central Banks across the world hurriedly cut prime rates last autumn, our RPP was emerged in debate if the rates should perhaps be raised given a risk of rising inflation. It was as though global trends had no bearing on Poland at all. When afterwards it soon became clear that preventing a collapse of the economy is more important than stemming inflation, which had begun to slide anyway, the RPP was bewildered by the market and their hasty and unprecedented radicalism in cutting rates.

To say that this is the main reason why the złoty is weakening would be rather far-fetched, because at a time when financial markets are in turmoil globally, the link between the exchange rate levels and the attractiveness of a national currency is weak. Yet there is no denying that the RPP’s growing nervousness along with investors’ bewilderment at what the next moves of the council might be, prompted Western speculators to turn their backs on the increasingly unattractive treasury bills and on the currency itself. Uncertainty is the best nourishing soil for speculation.

Poland’s own enterprises and banks had their own share in the drastic weakening of the złoty. I refer to the notorious currency options, a device which
served as a betting undertaking for the future exchange rate of the złoty against the principal currencies. Such instruments are designed to help exporters to secure their inflows with exchange rate risk. However, from the spring of last year when the złoty was the primary strongest currency in the world such instruments became a subject of speculative gambles to managers of thousands of Polish businesses whose knowledge of currency markets or risks implicit in currency options was low.

Within this situation, Western investment banks introduced and spread the instruments throughout our market via Polish banks. Even though, as early as the autumn, after the first powerful wave of the złoty weakening made it clear to banks and businesses, that currency options would incur losses, the problem was only acknowledged in December. The exact amount those losses is yet impossible to say (towards the close of 2008 the loss was an estimated PLN 5–7 bln), yet it is understandable, with each weakening wave of the złoty, the loss increases. Uncertainty as to the ultimate scale of losses is again an ideal opportunity for speculators to abolish the złoty. This is true in particular of those who gambled on the exchange rate of our currency, obviously in their apposing direction, and so now new record levels of weakness only increase their profits.

Nor should we forget Polish enterprises’ indebtedness abroad. In recent years Polish firms increasingly took out loans in foreign currencies, effectively tripling their aggregate foreign debt from 2004. At the end of September last year, following the first stage of the weakening złoty, Polish enterprises’ foreign debt on aggregate corresponded to nearly EUR 84 bn. It is easy to estimate the amount to which it has grown to date, if the Polish currency has lost nearly 40 percent to the euro, and nearly one half of its value against the dollar. Many enterprises will have a tough time shouldering the burden of such debts with the avalanche of service costs through the time of economic downturn, especially if it lasts longer than one year and the exchange rate of the złoty stays close to its present level for a relatively long time. This is going to hamper, in particular firms in sectors that have been hit hardest by the global recession and sliding sales, to mention, as an example, the motor industry.

The fast-weakening złoty is also becoming a major problem to the government. The currency debt of the general government sector is only one fourth of the whole public debt, however, that is around EUR 54 bn. The finance ministry estimates the debt service cost of this debt as approximately EUR 3.34 bn this year alone, the equivalent of PLN 11 bn at the mean yearly exchange rate of the common currency (PLN 3.35) assumed in this year’s state budget. At the present rate (around PLN 4.6 for the euro) the government is obliged to spend an extra PLN 4 bn on servicing the debt. One must ask if that is still
not the end of weakening of the national currency? Cross your fingers that the untoward trend in its quotations will end eventually.

Fortunately a weakening złoty is not only a harbinger of misfortune. It may help many domestic producers, e.g., of footwear or clothing, stand up to competition from what until recently used to be cheap imports. Imports are bound to grow in price as the euro or the dollar are more expensive. Cosmetics sales are a case in point. A weak złoty is also good to those exporters, say producers of medical equipment or repair service providers to energy suppliers, who obtain orders from foreign parties and have no problems with currency options.

The weak złoty has also a beneficial effect on the economy as a whole, as EU funds turned over to Poland in Euro are recorded in the domestic currency. We are able to obtain PLN 600 mn more in arrears from the years 2004–2006 alone, which we are allowed to use by June. Two or three times again that amount may be earned in extra funds within the whole year, if we are able to take advantage of the EUR 8–10 bn Euro donated in EU funding.

Gains and losses though are increasingly difficult to forecast on the basis of a weak złoty. Most analysts expect our currency to have strengthened by the end 2009 from its present levels, but nobody now upholds forecasts of only a couple of months before when exchange rates were expected to be at PLN 3.5–3.6 for the Euro and PLN 2.7–2.8 for the dollar. It would not be worse for the złoty to inch up close to PLN 4 to the Euro and to PLN 3 for the dollar. This is a feasible level to attain, if you consider the still solid foundations of the economy or the still moderate current account deficit (some 5 percent), which normally is the decisive factor concerning the condition of the currency.

The problem now lies in the conditions which are based in Poland and in the world which are considered as not normal and nor are they likely to normalise for some time. People are increasingly anxious when observing the difficulties of banks, massive redundancies, the break down of currencies, and increasingly, emotional reactions prevail over common sense as people demonstrate in the streets. If we do not want people staging demonstrations on the streets or storming banks in Poland we must at least stop provoking Western speculators. Most crises begin with currency collapse.

4. Introducing the Euro: effects

The Euro as an international currency takes on the role of money not only within the area where it is issued but also within the international turnover of those conducting transactions between international trade partners and between
entities involved in various international financial transactions\textsuperscript{4}. Next to the Euro the US dollar, pound sterling, the Swiss franc and the Japanese yen hold the status of international currency. These currencies are believed to have the following common features:

- they are accepted as a means of payment in international settlements,
- they are substitutes of world money,
- they are created by countries that now hold the biggest shares in world GDP and world exports and are now trading outside the country of issue,
- they have the trust of participants in national trade.

The potential benefits of one common currency in a particular area were first pointed out by Robert Mundell in 1961. He is the author of a theory of optimum currency areas. In conjunction with Robert Fleming they found that the world economic area should be divided into several areas, each with one currency of its own. One defined zone would then encompass countries connected not only by geography but also by the free flow of labour and the convergent character of their economies. In 1969, Mundell called for the introduction of a common currency. The Euro became fact in 1999 and Mundell was awarded the Nobel prize for his work.

With the Euro introduced as a common currency a natural finishing touch was given to the EU internal market, of which Poland has become a part. What the Euro achieves, above all, is it clears mutual transactions of the uncertainty which is bound to subsist where different national currencies are functioning at the same time.

Basic effects of introducing the Euro include certain benefits where Poland may gain directly. These include:

1) The elimination of instability and the uncertainty about nominal exchange rates, with the net effect of greater efficiency. This will only be possible to achieve where inflation can be maintained at the same level across the EU for a sustained period of time. The yearly premium should then average an estimated 1–1.5% GDP for the entire EU. Should the premium be reduced for risk, which is one of the three components of the interest rate (next to the rates of inflation and of profit), interest rates should drop by 1–1.5%, which assists in boosting investment.

With the instability and uncertainty about nominal exchange rates eliminated, it will no longer be necessary to secure exchange rate fluctuation, with businesses saving money. Currency fluctuations early in

\textsuperscript{4} See: Euro od A to Z, the National Bank of Poland, Warszawa 2003, p. 172.
1995 alone cost Europe two percentage points in GDP growth and 1.5 mn jobs. Also, the sudden currency rate swings on foreign exchange markets might annihilate several years of struggle for stronger competitive positions in a matter of hours.

The disappearance of exchange rate risks and a greater certainty in calculations and planning would benefit mostly export firms, which are involved in tough competition against countries with a tendency to devaluate currencies and those businesses which feeling elevated costs, deterred them from engaging in international co-operation.

2) Savings resulting from the lower costs of currency conversion and other transaction expenses. Costs now incurred in converting one currency to another in trade transactions or information costs of the ongoing observation of currency fluctuations and forecasting such fluctuations will be saved. With the advancing integration of banking systems and the strengthened links between domestic payment systems across Europe, and with the adoption of the common payment system TARGET, substantial savings are likely to result in international settlements costs and clearing time. Such gains should benefit in particular, small businesses.

3) Greater efficiency of the internal market, which will certainly be assisted by greater price transparency. Now, it is necessary to include in calculations, Exchange rates, transfer costs and conversion fees, which require complicated calculations. Such lack of price transparency largely explains the existing price differences found for one and the same product. The Euro will thus, enable consumers to calculate and compare the real prices of goods and services, which in consequence leads to tougher competition between the producers of homogeneous goods and services and, for consumers, a richer market offer, lower prices and higher quality.

The hazards of a common currency should be a top priority on the list of concerns of any business organisation for two reasons: the potential risk of slimming its present capital and a potential loss of the firm’s competitive position. Extraordinary losses liable to be the result upon the introduction of the Euro will affect the goodwill of the institution affected thereby. Given that it is necessary to develop prognostication tools which will identify hazards associated with the introduction of the Euro. Key factors in the secure monitoring of risks in planning and completing the passage to the Euro are effective communication and co-ordination, which forces enterprises to accumulate all their divisions together and engage and co-operate in the job.
5. Conclusions

Observing the angle of currency law, the important thing to remember is that in joining the Economic and Monetary Union countries, waives the possibility of making decisions in their own name. We would be represented in the European Central Bank by the NBP President, yet decisions would be taken by a majority of votes. The introduction of a common currency means the liquidation of Poland’s monetary autonomy. When a country abandons its own currency the country cannot conduct any exchange rate policy or currency reserve policy, as both policies are to be decided by the European Central Bank. Adoption of the common currency makes the Polish economy dependent on the business cycle within the EU. The common currency will also result in the subordination of Poland’s financial and budget policies to the European Central Bank.

In mid-2008, Poles were much less keen to adopt the Euro than earlier in the year. A GFK poll showed only 17 percent of respondents wanted the Euro to replace the złoty as soon as possible. Others wanted such a move either to be suspended or were against the common currency. This compared to a strong 26 percent of respondents, and a cautious 39 percent, supporting the adoption of the common currency at the beginning of the year.

The change of mind was attributed by economists to the general macroeconomic situation in Poland and in the world. The economic crisis has only made Poland’s road to the Euro a longer process. Rather than 2012 the year 2015 is being envisaged for the Euro. Economists are of the opinion that the process may last even longer. A study published by the Warsaw School of Economics (SGH) Institute for Economic Development suggests that replies appear different when respondents look at their personal situation and do not refer to the macroeconomic perspective. Individual consumers, when asked to say if they wanted the Euro introduced at the beginning of the second quarter, reported, in more than one half of replies, one fifth of which were in favour of the adoption as soon as possible. Among them were, above all, those who took out mortgage loans in foreign currencies and for them the common currency means smaller instalments. The GFK poll also showed that the strongest support for a fast-track adoption of the euro was among the young, people up to 39 years of age, and of office and clerical personnel.

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Dealing with Over-indebtedness: Approaches in Selected Developed Countries and in Poland

1. Introduction

Over-indebtedness is described by various definitions in available literature. Often enough over-indebtedness is associated with low income households, but excessive indebtedness can affect people at different income levels, if they are careless about their personal finances or are given to excessive consumption. In Poland, over-indebtedness was long ignored as a major problem, yet as the indebtedness levels rose strongly with growing housing and consumer loans and on credit card debt at prosperous times many people just found themselves unable to pay off their debts on time as the economy slowed down. That is reason enough to look at practical solutions different countries chose to apply to deal with the problems of people excessively in debt, in particular because that issue has never been tackled in a major discussion in Poland yet.

The idea of the article is to present a review of solutions, preventive and/or remedial in character, applied in several developed countries that had to deal with the problem of over-indebtedness earlier. We assumed that the development of financial knowledge and a responsible decision-making process in respect of the debt needs to be supported by ongoing efforts at every stage of the financial life of households (what is called the life cycle approach) as well as by the appropriate forms of communication.

We have done our best to make sure that the picture of actions taken to deal with over-indebtedness was accurate. We cannot rule out that new initiatives and solutions have appeared in the wake of the crisis that are not discussed herein.

The article has two main parts, beyond the introduction and conclusions. In the second part we review definitions of the notion of “over-indebtedness” which identify the problem. The latter one presents a review of the solutions

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1 This article is based on a study report: M. Iwanicz-Drozdowska (ed.), A. K. Nowak, A. Matuszyk, R. Kitala, Produkty finansowe i edukacja finansowa w Polsce na tle wybranych krajów rozwiniętych, Raport z badań statutowych Nr 04/S/0010/08, Warsaw 2008–2009.
applied in various countries to combat over-indebtedness, as a backdrop for Polish experiences in that respect.

2. Definitions of over-indebtedness and the scope of analysis

A European Commission ordered project\(^2\) intended to propose a common EU definition and approach to the measurement of over-indebtedness. It was completed in 2008. In reviewing the situation in the particular EU countries the authors of a final report found a multiplicity of such definitions. As it is not our aim to provide such a review we will focus on highlighting the main definitions presented in the report. It should be clear that any definition of over-indebtedness that is adopted implies a specific mode of measurement, and thus the scale, of the problem.

In 2000 the Economic and Social Committee proposed the definition which described over-indebtedness as a situation in which a household is unable to pay off, on a structural and ongoing basis, its short-term debt because of insufficient earnings, financial investments and other typical sources of income, after paying necessary subsistence costs, without having to take out fresh cash advances to pay off previous commitments. In 2007, in turn, a panel of EU experts found that approaches to over-indebtedness keep changing continuously. The over-indebtedness problem should be viewed not merely as difficult credits but also as difficulty in paying day-to-day bills\(^3\).

Following the review of definitions a common framework to develop an EU wide definition was proposed, yet no specific definition was put forward. The framework towards a definition comprised the following elements\(^4\):

- over-indebtedness should be studied at the household level,
- studies should cover all contracted commitments of the households, including mortgages, consumer loans, rentals, utility and telephone bills etc.,
- the household’s inability to meet commitments should be persistent and ongoing,
- the household must be unable to meet contracted commitments without reducing its minimum standard of living expenses,
- the household is unable to remedy the situation by recourse to (financial and nonfinancial) assets and other financial sources, e.g. credit, and so the household is illiquid.


\(^3\) Ibidem, p. 33. A review of definitions applied in EU countries is provided further down in the report.

\(^4\) Ibidem, p. 37.
Over-indebtedness may affect, not only people with low income, but also individuals with high income spent on excessive consumption. Once one has found oneself in a situation of over-indebtedness one may subsequently face financial exclusion, which shows especially when one finds it increasingly difficult to obtain access to, or are denied, credit. Over-indebtedness is also linked to what is referred to as household bankruptcy\(^5\).

Given that the situation on the financial market (in particular, the development of that market and its services on one hand, and the recurring crises on the other) helps spread over-indebtedness, various initiatives were launched in many countries in order to contain it. Such initiatives are usually preventive measures (and so help broaden people’s financial awareness through information campaigns and financial education) or remedial measures, these latter applied where the phenomenon has already appeared\(^6\).

Studies conducted to date in Poland\(^7\) indicate that the financial literacy level among Poles is low, this is visible primarily in the inability of many people to plan their finances (especially over a long time horizon) or to tackle sudden financial shocks, but also in the lack of entrenched saving habits and in the widespread mistrust of financial institutions, all of which indirectly strengthen the risk of over-indebtedness spreading quickly. Additionally, a study made by the Research Centre on Economic Behaviour (Centrum Badań nad Zachowaniami Ekonomicznymi)\(^8\) together with the Warsaw School of Social Sciences and Humanities, showed that 45% of Poles polled in the study had larger financial problems now than before the crisis, 26% of Poles were in arrears with their debts, and 56% just could not cope with the problem. Problems with the payment of credit card debts were declared by a 1/3 of those polled. Before the Polish economy slowed down household indebtedness grew significantly – say authors of Social Diagnosis 2009 – in 2007 the average indebtedness to the monthly income of the households stood at some 6.6, and in 2009 at 9.6 or so. Household commitments were on average larger than savings\(^9\).

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\(^6\) Remedial measures may include, among other things, enactment of clear and transparent regulations concerning effective debt clearance and the possibility to declare consumer bankruptcy.

\(^7\) Studies conducted in Poland in the years 2004–2005 within the framework of a Microfinance Opportunities project entitled, Edukacja finansowa dla osób o niskich dochodach, and results of studies of the Kronenberg Foundation presented among other things in, Co wiedzą Polacy o finansach, „Rzeczpospolita”, 9 September 2009.


Measures taken to contain over-indebtedness were studied for Poland and for the following countries: Germany, Austria, Switzerland, Ireland, The United Kingdom, The USA, Canada and Australia. These countries were chosen for the study for the following reasons:

• the type of financial system the given country represents (bank-based systems or market-based systems), with the USA, the UK, Australia and Canada representing market-based systems, and Germany, Austria, Ireland and Switzerland representing systems based on banks,

• the degree of the financial market services’ development – all the studied countries represent high levels of market development, the most advanced are the British and the American markets, and Germany and Austria representing good EU averages in that respect,

• the over-indebtedness problem – it affects, among others, many citizens in the USA, the UK and Ireland,

• last but not least, the availability of the materials in foreign languages we speak – that was important because most of the materials used in the study were taken from the analysed country.

3. Measures applied in selected developed countries, and in Poland

This analysis was based on the publicly available sources, without study visits. The source materials used in the analysis differ strongly in quality and detail from case to case, so the analyses of the particular countries differ in scope as well as in details. The “risk factors” related to over-indebtedness are much the same in all the selected countries: unemployment, protracted illness, disability, poor education, no credit awareness, or single parenthood. Firstly, we present the solutions applied in the German-speaking countries.

3.1. Germany

Measures applied in Germany are designed both to fight over-indebtedness and to cushion its adverse effects. The belief that financial education can help stop over-indebtedness from spreading, and, on the other hand, that alerting the community to the importance of consumer rights may help people protect themselves actively against the effects of over-indebtedness, is widespread in that country.

Many of those who fell into the “debt trap” by taking out housing loans or medical treatment loans were unable to pay because of insufficient earnings. Nowhere in Europe are there more households in the debt trap than in Germany. There are more than 3 million such households, 8.1% of the total number of households in Germany.
One financial institution that helps excessively indebted people use their financial resources reasonably is the EthikBank. From 2002, EthikBank, an agency of Volksbank Eisenberg AG of Turingia, has offered clients a micro account called a EthikBank Girokonto ohne Schufa. It is a savings account aimed at people with bad credit histories in the SCHUFA, the German credit information agency, who were turned down by other banks or had their accounts closed, also due to over-indebtedness. However, such an account cannot be opened without prior approval by a bankruptcy trustee, who must confirm that a debt restructuring agreement has been concluded, or in certain cases without a court decision declaring the consumer bankrupt. The EthikBank operates now in Germany and Austria.

With regards to preventive activities, Germany’s General Credit Protection Association (Schutzgemeinschaft für allgemeine Kreditsicherung, SCHUFA) is a good example. The SCHUFA collects personal data, i.e., information such as address, birth date, running current accounts, loans granted, loans paid off, or defaults. The SCHUFA co-operates with the commercial and co-operative banks, leasing companies and entities financing instalment sales. Such entities, based on information the SCHUFA provides them with, are then in a position to quicken their loan decision process. SCHUFA is a credit information agency, but it also conducts educational activities for children and young people, mainly to alert them to the dangers of excessive debt making. The SCHUFA distributes information and general educational materials to schools, and its website provides a glossary of basic financial terms and a discussion forum.

The next project worth mentioning is the Financial Driving License (FinanzFührerschein), one of several projects conducted by VSE Schuldnerhilfe, an organisation working to help heavily indebted people and to combat over-indebtedness. The organisation targets young people, school and college students. The financial “driving license” program gives the young an opportunity to get some understanding of finances, which they may find useful in daily life. A test is held at the end of the training course and successful participants are given documents certifying the financial knowledge level they have attained. The financial “driving license” was offered in three separate versions: a FinanzFührerschein® for young people aged 16–19; a Kleiner FinanzFührerschein® for children aged 13–15, and a FinanzFührerschein-Online-shopping for participants between the ages of 16–25.

10 Schutzgemeinschaft für allgemeine Kreditsicherung – SCHUFA, the German equivalent of the Polish Consumer Credit Information Office (Biuro Informacji Kredytowej, BIK).
11 http://ethikbank.de (7 November 2009).
13 http://www.schuldnerhilfe.de/finanzfuehrerschein/ (7 November 2009).
Then there is a project called Süßes Leben – überquellendes Kinderzimmer, which is co-financed by money provided under a UN Decade of Education for Sustainable Development programme (2005–2014). This project is aimed at children and their parents and seeks to educate people about consumption awareness. Children, from their earliest days watch parents choosing financial products or their consumer behaviour. The programme provides for group meetings and workshops during which parents are told that celebrations of the child’s birth, Christmas or other holidays are not grounds for demonstrating the consumption potentials of the family. Parents are encouraged to exchange experiences to obtain a better perspective on their practices and thus a more realistic assessment of their value.\(^4\)

More financial advisory institutions have joined in efforts to tackle problems of excessively indebted people. Several types of such institutions are active there, among them a Federal Debtor Advisory Association (Bundesarbeitsgemeinschaft Schuldnerberatung), a Federation of Consumer Organisations (Bundesverband der Verbraucherzentralen), and a Debtor Advisory Work Group of Associations (Arbeitskreis Konto der Arbeitsgemeinschaft Schuldnerberatung der Verbände). A complete list of institutions providing debt handling advice can be found on a website of debt advice providers in Germany (Adressenverzeichnis der Schuldnerberatungsstellen in Deutschland) currently under development. They provide help to excessively indebted people who fell victim to the so-called “debt trap” and are unable to cope with their current financial burdens (remedial activities). Such institutions can use restructuring techniques and loan consolidation tools to prepare debt reduction plans for their clients. They educate and show their clients the kind of problems and risks that may befall them (preventive activities). They also provide assistance to people harmed by financial institutions. Some 100 thousand suits against financial institutions are known to be filed in Germany each year.\(^5\)

Other preventive activities undertaken in Germany include the imposition of legal caps on maximum interest rates on loans and borrowings, even though that particular tool has its weaknesses. Limits capped on interest rates tend to push individuals in a weak situation in terms of income or assets out of the

\(^{14}\) Information on the project called Süßes Leben – überquellendes Kinderzimmer, can be found among other things on the Bildung für nachhaltige Entwicklung (Education for sustainable development) portal: http://www.bne-portal.de/coremedia/generator/unesco/de/05_UN_Dekade_Deutschland/02_DekadeProjecte/Ausgezeichnete_20Projecte/projecte/1043_20a_C3_BC_C3_9Fes_20Leben_20_20_C3_BCberquellende_20Kinderzimmer_20_20Konsumbewusste_20Erziehung_20der_20Kinder,sourcePageId=31590.html (7 November 2009).

\(^{15}\) K. Dayson, Financial Exclusion and the Growth of CDFIs. This document is available at: www.socialeconomybristol.org.uk/content/Financial_Exclusion_Intro_Karl_Dayson.pdf (23 August 2008).
regulated market and then such individuals may start borrowing from entities that are not compromised under binding regulations or even from unlicensed lenders. That solution has one weakness – as Germany has no clear regulations that define interest rate levels, which makes such solutions largely ineffective in practice. Much the same is true of the other German-speaking country we studied, Austria. In Germany, courts merely set a ceiling on interest rates on lombard loans, or predatory lending (double the average interest rates on a consumer loan). If that value is exceeded, a judicial process may be instituted.

Work preparatory to a reform of legal regulations applicable to consumer bankruptcy is under way in Germany.\(^6\)

### 3.2. Austria

Over-indebtedness in Austria is measured, among other things, by the number of preliminary consultations where people are advised on the possibilities of reducing their indebtedness. In 2006, nearly 50 thousand such consultations were recorded, of which 82.6% were with people between 20–50 years of age. 26.4% of consumers in Austria must make ends meet on a monthly disposable income of under 690 euro (what they describe as a non-executable minimum living wage). A further 30.2% consumers are in the income class of between 691 to 1 000 euros.\(^7\)

The measures taken in Austria to address the over-indebtedness problem are both preventive and supportive in character, as they are designed to help people heavily in debt tackle their difficulties. Next to the government, many non-profit organisations and representatives of business firms mainly in the financial services sector are involved in such activities.

One action of a preventive character is an initiative of the Ministry of Labour, Social Affairs and Consumer Protection with the Ministry of Justice. The second one established a Consumer Protection Department where one of five divisions deals with financial services and consumer protection.\(^8\) That particular division of the ministry distributes various educational and information booklets presenting financial products and financial problems. The booklets can be accessed on the ministry’s website, or they can be ordered and obtained in paper form by mail. On the other hand, the Ministry of Justice is the lead body in work to prepare legislative bills in social law, consumer rights and consumer bankruptcy.\(^9\)

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\(^6\) For more information see the website: www.meine-schulden.de, as at 12 August 2008, and: www.sozialnetz.de/ca/tp/imn (15 August 2008).

\(^7\) Réseau Financement Alternatif, Country report II – Austria, RFA 2007, document accessible through the website: www.fininc.eu (23 August 2008).

\(^8\) www.bmsk.gv.at (3 September 2008).

\(^9\) www.bmj.gv.at (3 September 2008).
One non-profit organisation to mention in this case is the Working Group Debt Advice (ASB). The organisation has been in operation for nearly fifteen years. From 2003 it has been operating as a non-profit limited liability organisation, and it is co-financed by the federal Ministry of Justice and Ministry of Labour, Social Affairs and Consumer Protection. The main aims of this organisation are defined as active participation in legislative work related to the financial services market, fighting financial exclusion, participation in the European Consumer Debt Network\(^20\), and a role in implementing in Austria a project called FES – Financial Education, and ensuring better access to adequate financial services\(^21\).

Savings banks in the Tirol province came forward with an unusual initiative called “debt-trap-cabaret”. It was a show in which the “debt trap” problem was brought closer to more than five hundred school and college students\(^22\). Most educational programmes target young people as a group for which the risk of over-indebtedness derived from a poor knowledge of finance increases sharply from 0 to 100% before people come of age.

As for remedial activities, an ASB co-ordinated program called Debt Shredder (Schulden-Shredder) should be mentioned. It is designed to facilitate the access to the labour market for people heavily in debt who, moreover have no standing job or are facing redundancy. Two special groups comprised under the programme are ex-convicts and individuals previously self-employed but currently having trouble finding jobs. The Debt Shredder programme assists the jobless and temporary workers in declaring consumer bankruptcy\(^23\).

A further initiative designed to help heavily indebted people was an EU project dubbed FES financed with EU funds in 2005–2007 within the framework of a Second Transnational Action Programme to Combat Social Exclusion\(^24\), which was co-ordinated, among others, by Schuldnerberatungen GmbH, a limited liability company in Austria. This organisation helps individuals who have fallen into the “debt trap”. Advisers working for the organisation assist people in designing loan

\(^{20}\) The European Consumer Debt Network is a network of organisations fighting the problem of the over-indebtedness and financial exclusion, which works on regulating issues connected with debt, financial education and financial awareness; distribution information on new debt advice centres, www.ecdn.eu (7 November 2009).

\(^{21}\) The quarterly journal ASB-Informationen has been published from 990, and the relevant information is published on the portal: www.schuldnerberatung.at (7 November 2009).

\(^{22}\) The show was part of a „Crazy horror toads show” in June 2006.

\(^{23}\) It was a crossborder project, with educational institutions from Germany involved as well.

restructuring plans and alert them to the risks and problems connected with over-indebtedness. They offer no legal advice to their clients though.

As in Germany, in Austria, work on the reform of legal regulations applicable to consumer bankruptcy has been undertaken. That work may facilitate the fight against over-indebtedness in the country.

### 3.3. Switzerland

Statistics released by Postfinanz Schweiz indicate that the proportion of excessively indebted people in the age class of 16–25 has been growing substantially in Switzerland over the past decades. Experts estimate that 30% of people aged 16–25, spend more money than they have at their disposal (especially teenagers of poorer families). This is happening because only 12 years ago the question of indebtedness was usually shunned. The present life style which condones living on credit causes young people often to fall into the debt trap and have trouble with paying their obligations on time.

For this reason activities undertaken in Switzerland are mainly preventive in character, also some initiatives to help people already excessively in debt are being undertaken. Switzerland has nearly 30 organisations that offer financial education and advice to fight with over-indebtedness, they target mainly children, young people and also adults. It seems that the main emphasis is on activities of a remedial character.

In Switzerland, various advisory institutions joined the fight against over-indebtedness. Some of the largest ones are as follows: Schuldenberatung Schweiz, Verein Schuldensanierung Bern, Fachstelle für Schuldensfragen, Steinemann Lebensqualität, Plusminus, Neustart, Fondation GAD Stiftung, SOS Dettes Bienne-Jura Bernois/Schuldenberatung Biel-Berner Jura, and Caritas. Similarly, as in the case of Germany, a complete list of institutions providing advisory services to those in debt can be found on the Internet address book on debt advice providers (Schuldenberatungsstellen der Schweiz) now under development. They offer assistance to those heavily in debt. Such institutions can use restructuring techniques and loan consolidation tools to prepare debt reduction plans for their clients, and provide information on consumer bankruptcy declaration procedures. They educate their clients and alert them to the types of problems and risks that may occur. They also provide assistance to people harmed by financial institutions.

26 For more information see the website: [www.meine-schulden.de](http://www.meine-schulden.de), as at 23 August 2008 and: [www.sozialnetz.de/ca/tp/inn](http://www.sozialnetz.de/ca/tp/inn) (23 August 2008).
Jugendverschuldung.ch.vu was the name of an initiative launched by a school of commerce in Luzern (Kaufmännisches Bildungszentrum Luzern) to assist individuals who had fallen into the debt trap or who manage their personal finances erratically. A number of institutions and organisations were involved in the Jugendverschuldung-Schweiz project, among them the web portal mymoney.ch, but also Valiant Holding Privatbank, Bundesamt für Kultur, Dienst für Jugendfragen, Justizdepartement Basel-Stadt, Neuapostolische Kirche Schweiz, Kirchenrat des Kantons Zürich, Kantonale Jugendkommission Bern, GGG Gesellschaft für das Gemeinnützige und Gute.

The Schulgemeinde Wallisellen Online Forum deserves to be mentioned as an Internet forum to discuss issues related to the education of the young, including questions on how to manage their personal finances, issues of financial education, and over-indebtedness.

Another debt management advice organisation (Verein Schuldensanierung Bern) maintains a separate portal (www.schuldenhotline.ch) for people looking for advice on financial problems and who may find there tips on how to avoid financial problems and how to handle them. Activities of this organisation are focused on general financial education and are expected to contribute substantially to raising financial literacy levels among the Swiss.

Switzerland has a specific law on consumer bankruptcy regulations (Bundesgesetz über Schuldenbetreibung und Konkurs, SchKG). The Act came into force on 1 January 1892 and has gone through many amendments since.28

3.4. Ireland

To discuss activities, of a preventive and remedial nature, taken in Ireland to fight over-indebtedness, the first name to mention is the Money Advice and Budgeting Service (MABS) (www.mabs.ie). This project was launched in September 1992 and financed by the government. The idea to start the project was born as a response to the findings of a study Ireland’s Combat Poverty Agency released in 1988 on moneylenders giving loans to low income families (Moneylending and low income families). As the indebtedness of low income people to non-banking moneylenders grew into a serious social problem the government set aside the necessary funds and established MABS.29 People in need of help or keen to avoid over-indebtedness can turn to MABS for advice and improve their financial knowledge at the same time. The purpose and scope of activities of MABS: “MABS is a national, free,
confidential and independent service for people in debt or in danger of getting into debt”, is on display in many places.

It should be emphasized that MABS undertakes activities designed both as remedial measures to help to solve existing problems connected with over-indebtedness and educational activities to give people the chance to avoid over-indebtedness in the first place.

In 2005, the Irish Banking Federation in conjunction with MABS ran a pilot programme called the Debt Settlement Pilot Scheme\(^{30}\) (financed by the banking federation), for the purpose of developing instruments making possible an amicable (out of court) solution to the over-indebtedness problem. The key assumptions were as follows:

- an agreed finite repayment period, say of up to 5 years, after which residual debt is written off,
- exclusion of the dwelling (house), thus securing the home against enforced sale,
- a “fresh start” for the debtor who successfully completes the agreed repayment programme.

MABS has received positive feedback from its clients. Some three in four (73%) debtors supported by MABS have paid or are currently paying off their debts, 70% state that they can manage their finances better and 82% claim to have “greater peace of mind”. Furthermore, as many as 90% of creditors were pleased with the service MABS provides. The only recommendations to the MABS strategy were to put greater weight on developing the knowledge and skills required to avoid getting into debt, and to step up promotion efforts for MABS services to the target groups\(^{31}\).

Financial institutions themselves joined in the activities of a preventive character designed to contain the rise of over-indebtedness. In 2006, for example, credit unions operating in Ireland come forward with a programme called “Keep the wolves from the door”, to discourage low income people from borrowing from moneylenders\(^{32}\) at extortionate rates. The project was run in the fourth quarter of 2006, because many families do fall into debt at the end of the year as they pay their expenses just before Christmas\(^{33}\). The underlying idea of the project was to tell people in financial need that they could get money to finance their holidays not only from the moneylenders but from other sources as well, such


\(^{32}\) In Britain moneylenders are also called door-step lenders.

as the credit unions. The initiative turned out to be valuable both to citizens and to institutions offering loans and cash advances.

3.5. The United Kingdom

In the United Kingdom, activities undertaken are of a preventive and remedial character. In Britain such initiatives are often launched as joint undertakings by the government and non-government organisations, so they have a nationwide relevance.

One of the most active organizations in this respect is the Money Advice Trust (MAT), which works with the declared purpose of providing free and independent money advice to UK citizens. Founded in 1991, it has actively co-operated with the government, leading money advice agencies and with the private sector. The organisation works to contribute to reducing unmanageable debt of UK consumers and to provide free legal advice to people heavily in debt. Apart from this, the organisation also offers different types of high-quality training for money advisers.34

A UK based campaign called Debt on Our Doorstep works to prevent the spread of the debt trap and to promote the responsible financing of consumer needs. The following organisations joined in the campaign: National Housing Federation, Oxfam and Citizens Advice Scotland, credit unions and many local organisations and social groups. Debt on Our Doorstep is part of a growing international movement which champions the cause of lending which does not lead to people getting trapped in a spiral of increasing indebtedness. The campaign is represented in a European Coalition for Responsible Lending, founded in Brussels in 2006.35

Another initiative was co-operation of ICAEW36 with the East London based Poplar Housing Regeneration and Community Association, which works with the community around Canary Wharf, an area in London with the highest proportion of unemployed and financially excluded people in the UK capital. Some actions organised in co-operation with the association included, 1) a financial education programme prepared for tenants under which, a subsequent study found, reduced rental arrears to 75%, 2) a “Fun with Money” programme for 8–13-year-old children, which teaches them how to grasp and understand basic terms of money management.37

34 www.moneyadvicetrust.org (7 November 2009).
36 The Institute of Chartered Accountants in England and Wales.
Some of the institutions involved in providing educational courses to fight over-indebtedness include the British Bankers’ Association and the Financial Services Authority.

The United Kingdom is a good example to show that an efficient model of public and private sector co-operation for the purpose of improving the financial awareness level among citizens is perfectly feasible. Owing to the educational efforts demonstrating how to manage the money one has efficiently, the indebtedness level among young people has dropped (by even 75%). This should be remembered by other countries (including Poland) as an important lesson which can be, and should be learnt when undertaking similar financial education programmes.

3.6. The USA

A 2005 study found that current account balances of American households showed a 10–12 thousand USD debt on average, and that in order to pay off their outstanding credit an average working 25–34-year-old American has to spend as much as 25 cents from every 1 dollar they have earned. Every household holds on average 9 credit cards. In 2004, Americans spent more than USD 24 billion in credit card fees (an 18% increase in comparison with 2003 figure). In 2007, nearly 1.5 million families filed for bankruptcy.

In the United States, it was the administration that took measures to contain the above-indicated developments, in the first place to fight over-indebtedness (mainly through educational activities), but also to cushion the impact of excessive indebtedness.

In 2003, acting pursuant to the Financial Literacy and Education Improvement Act, Congress founded a Financial Literacy and Education Commission. Congress then charged the US Treasury Department with the duty to support the work of the Commission, and the Treasury Department then created an Office of Financial Education to support the Commission. The US Treasury Secretary sits on the Commission. In addition to the Treasury Department, the following Federal agencies are represented on the Commission: The Federal banking agencies (as defined in Section 3 of the Federal Deposit Insurance Act) – the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of

40 The Financial Literacy and Education Improvement Act was part of the Fair and Accurate Credit Transactions (FACT) Act of 2003 (PL 108-159). Source: www.mymoney.gov/flc.pdf (7 November 2009).
Thrift Supervision (OTS) – the National Credit Union Administration (NCUA), the Securities and Exchange Commission (SEC), and representatives of the departments (among others, education, agriculture, health and human services etc.)\textsuperscript{41}.

One non-profit NGO in the USA is the Institute for Financial Literacy, with its declared mission to provide effective financial literacy education (including education against excessive debt) available to all American adults. The Institute accomplishes this mission by providing a developing financial education through publication of materials in its National Standards in Adult Financial Literacy Education, maintaining a Library of Personal Finance, and providing professional development through training courses in its Center for Financial Certifications. A division of the Institute for Financial Literacy is the Center for Consumer Financial Research. Established in 2007, the mission of the Center for Consumer Financial Research is to expand and disseminate the body of independent, unbiased research within the field of financial literacy and publishing findings of research into consumer financial behaviour. The Center conducts among other things studies of natural persons bankruptcy which is especially important because the USA with its huge 12.7\% excessively indebted households is one of the countries with the highest such proportion.

Preventive initiatives in the USA should also be mentioned in connection with educational projects of the American Bankers Association (ABA). The ABA accomplishes all initiatives in that respect via its Education Foundation. The Foundation conducts a number of different forms of financial education, as when it produces programmes and materials for banks which help bankers communicate better with clients, it offers information courses for children and young people on managing personal finances, or it publishes the latest information on its website to help clients understand current financial market developments, but above all, it provides broad information on loans and ways to avoid the debt trap. Remarkably, information on loans is also published in Spanish\textsuperscript{42}.

3.7. Canada

A poll conducted in Canada in 2006 commissioned by Capital One Canada\textsuperscript{43} on over-indebtedness showed that\textsuperscript{44}:

\begin{itemize}
  \item \textsuperscript{41} http://www.asiaing.com/taking-ownership-of-the-future-the-national-strategy-for-financial-lit.html (7 November 2009).
  \item \textsuperscript{42} http://www.aba.com (7 November 2009).
  \item \textsuperscript{43} Capital One Canada – an international financial holding which in Canada specializes in offering credit cards. Source: http://www.capitalone.ca (14 March 2009).
  \item \textsuperscript{44} The poll was conducted from May 25 to May 29, 2006 and is based on a randomly selected sample of 1002 adult Canadians. Ipsos-Reid Canada is a leading survey-based market research company. Source: http://www.ipsos.ca/reid/fs/pressrelease.cfm (14 March 2009).
\end{itemize}
1) only 25% of Canadians understood the current interest rate on the credit card they use the most often,

2) more than half (63% of Canadians) said that they knew what a credit score is but only 36% knew their personal score. Almost four out of 10 Canadians (36%) never review their credit report and only 20% check their credit report once a year.

Official Canadian statistics show that a total 98 450 consumer bankruptcy petitions were filed in Canada in 2006, of which 79 218 were recorded as bankruptcies and 19 232 cases ended in debtor-creditors settlement agreements, while in 2008 that number dropped, to a total 90 610 bankruptcy petitions filed, of which 65 431 were bankruptcies and 25 60 settlement agreements.

As the USA, Canada has a separate law on bankruptcies of consumers and businesses (the Bankruptcy and Insolvency Act). This Act enacts quite restrictive regulations, so as to prevent abuse by consumers. Under that law, in cases where a debtor is in a position to pay off even part of their obligations such a debtor may not be declared bankrupt but shall seek settlement with their creditors (in other words, settlement agreement with creditors is an alternative to bankruptcy). Where agreement is reached with creditors, a debtor may ask for help from licensed advisers/trustees in bankruptcy. Such advice will help restructure the debt, mostly payable every month for a period of 5 years. The law allows consumers to exercise their right to get rid of their debt burden, which helps them start a new stage in life and financial stabilisation. So the initiatives undertaken in that country to tackle the problem of the over-indebtedness concentrate primarily on remedial actions and on mitigating their effects.

Canada has an Office of the Superintendent of Bankruptcy Canada (OSB), which is one of the agencies supervised by Industry Canada, one of the Canadian government departments. It seeks to collect information on the insolvency process, information on the forms of minimising the effects of over-indebtedness alternative to bankruptcy, and provides access to a professional money advisor who may help avoid bankruptcy in the future.

One of the institutions in Canada that addresses problems of people with unmanageable debt is the Financial Consumer Agency of Canada (FCAC). An independent body, it was established in 2001 by the federal government.

to strengthen the oversight of the rights of financial service consumers and to expand consumer education in the financial sector.

Another institution in Canada dealing with the problems faced by heavily indebted people is the Investor Education Fund (IEF). One remarkable feature on its website is a “guide” for excessively indebted people who are pondering filing for bankruptcy.

3.8. Australia

A 2005 Australian poll showed that excessive indebtedness is caused mainly by the “unhealthy” ways of thinking about people’s finances, with a “living for today” perspective and “aspiration” spending among them. Events outside people’s control such as job loss, poor health, personal relationship breakdown and lack of financial skills and knowledge, also contribute to people experiencing financial difficulty. Therefore in Australia, as in other countries included in this study, a number of initiatives were found to work for the purpose of combating over-indebtedness. It should be emphasized though that most initiatives are preventive in character, even though unlike such activities undertaken in the countries presented before the Australian initiatives are more than just educational in character.

A study project called Family Income Management (FIM) was introduced in three project settings, namely Aurukun, Coen, and the Mossman Gorge Community in Northern Queensland. The aim of the project is to develop the capacity of individuals and families of the indigenous population of the areas to effectively manage income and saving to achieve improved living standards.

The programme offered by a financial services group called National Australia Bank (NAB), was created to give Australians access to equitable and fairly priced banking services. In April 2006, NAB announced a 30 million Australian dollars investment to support further development of non-profit programmes connected with microfinance, to help low income people obtain access to cheap loans and insurance. Since 2007 NAB has also offered loans to micro businesses.

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50 Information on the IEF was presented in the previous section.
52 Patrons of the project: Indigenous Enterprise Partnerships, the Department for Families, Community Services and Indigenous Affairs, Centrelink Australia, community partners, and Westpac Banking Corporation.
53 National Australia Bank (NAB) is among Australia’s biggest financial institutions and banks in terms of capitalisation and number of clients. In 2008, NAB ranked 17th on a list of world banks by capital size.
Progress Loans is a programme, which gives people on low incomes and with limited access to bank credit opportunities to take out small loans to pay for essential household items\(^5\). The programme is focused on people living in Victoria, south-east Australia, and the loans they offer are between 500 and 3,000 Australian dollars. It is a joint programme of the ANZ Banking Group and the Brotherhood of St Laurence\(^6\). The Progress Loans programme was launched in May 2006 in response to a study which showed that many Australians struggle to access appropriate low-cost, fair and safe financial services. Since its inception the programme and the activities have been praised by those who benefited from it.

The aim of the Barnardos\(^7\) and HSBC Financial Literacy Project is to focus on philanthropy in promoting financial literacy\(^8\). The project was launched in March 2006. It helps families struggling with, or vulnerable to, excessive debt and families where the debt can affect the well-being of children. HSBC provides access to basic education and helps families reduce indebtedness, which gives them a chance to stop the spiral of debt.

### 3.9. Poland

Even a short time ago, Polish society was not really concerned about the problem of over-indebtedness. But with the growing uncertainty on financial markets and as individuals increasingly buckle under the burden of debt, also on housing loans, more and more experts are being heard to talk about the growing problem of over-indebtedness. According to the report published by BIG InfoMonitor in February 2010\(^9\), for the last two years the number of people in arrears has grown from 1.19 million to 1.73 million Poles. The volume of arrears\(^10\) has grown in the same period from 6.16 billion PLN to 16.78 billion PLN.

In Poland, problems of excessively indebted people have for some time now been addressed by a Society for Promotion of Financial Education (SKEF), which has links to a system of Co-operative Credit Union Associations (SKOK). In co-operation with the SKOK system, SKEF also offers consumer arbitration services. Under co-financing from EU resources (Transition Facility 2004, TF2004/\(11\)

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\(^6\) Brotherhood of St Laurence is a charitable institution based in Melbourne, Victoria, Australia. For more information see the website: [www.bsl.org.au](http://www.bsl.org.au) (7 November 2009).

\(^7\) Barnardos is a charitable institution working in Australia for more than 20 years now. It describes its job as building relations between children, young people, their families and the community; for more information on the organisation see its website: [www.barnardos.com](http://www.barnardos.com) (7 November 2009).


\(^10\) Regarding credits, loans, alimony and day-to-day bills.
016-829.02 April 04/Kon/05) a network of centres for financial and consumer advice (ODFiK – Ośrodki Doradztwa Finansowego i Konsumenckiego, www.odfik.skef.pl) was created. They began operating in 2001. Until recently there were 7 centres operating in major cities in Poland, now 4 are operating (in Gdynia, Katowice, Cracow and Warsaw). Besides, the SKEF website features brief notes on simple financial products.

When referring to the over-indebtedness problem in Poland it should be understood that this country has a separate act called anti-usury law, the Polish parliament, the Sejm, enacted it on 7 July 2005, in addition to a 2009 consumer bankruptcy act. Financial institutions have found a way to avoid the mandatory interest rate caps, e.g. selling credit insurance. The consumer bankruptcy act came into force a short time ago, but because of its fairly restrictive requirements it is not believed to work effectively as a way to relieve excessively indebted people of their problems. Recently the Polish Financial Supervision Authority approved new regulation for banks (Regulation T) to counter the risk of a customers’ over-indebtedness because of banks’ liberal credit policy. This regulation was heavily criticised by banks. On one hand it may protect bank customers from excessive debt and burden for a households’ budget, but on the other hand it may force them to borrow money from unregulated financial intermediaries, which offer loans at high interest rates.

Due to the slowdown in the economy and the growing problem of bad debts, several interested parties have of late actively alerted the public to the exigency of responsible borrowing, and of handling one’s debts. The Polish Bank Association (ZBP), and the Credit Information Office (BIK), for example, have launched their information and educational services. A new portal, www.naszedlugi.pl, providing information and educational services, began in November 2009. With the growing problem of over-indebtedness, one may expect more and more such initiatives, but their number itself is not as important as the target group. The vast majority of such activities is focused on Internet resources, but as the community in Poland at large is not yet as much at home on the web as people in developed countries the likelihood to get the message with the required information across to the interested people and to those in need appears to be limited.

4. Conclusions

In most of the studied countries, problems of excessively indebted people are tackled mainly by promoting financial literacy through various initiatives designed to educate people in all age groups in handling personal finance (activities of
a preventive purpose). One factor inducing people to get them trapped in excessive
debt is when they are ignorant, even of the basics of personal finance and when
they do not understand that borrowing money outside the banking sector or
the network of credit unions means high costs. Over-indebtedness often leads
to financial exclusion.

Educating people to responsible borrowing both *ex ante* and *ex post* should
induce citizens to manage their financial resources sensibly. The purpose of *ex post*
activities is to “cushion” the impact of ignorance and its consequences (activities
of a remedial purpose).

We assumed that the development of financial awareness and responsible
decision-making in managing one’s debts requires ongoing work at every
stage of the financial life cycle of households, as well as appropriate forms of
communication. Our analysis of programmes different countries have launched in
that respect has found a rich mixture of various activities undertaken. Against
that backdrop the initiatives undertaken in Poland can be described as modest
(see Table 1), in that preventive and remedial initiatives are few. It is fair to
say, though, that that the emerging problem of over-indebtedness has stirred
institutions operating around the banking sector to become active in that field.

### Table 1. Evaluation of initiatives undertaken to deal with over-indebtedness

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<th>Country</th>
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<tr>
<td>Grade for dealing with over-indebtedness</td>
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* – single initiatives/programmes,
** – many initiatives/programmes,
*** – many initiatives/programmes, also with significant government participation.
Source: Authors own preparation.

Particularly valuable initiatives are those that encourage people to act
with reasonable caution in borrowing from their earliest years. Development of
certain behaviour in children and young people should prove useful to them in
later life when they have to take financial decisions of their own. Then, again,
someone who has developed some “sound reason” in financial matters should
be able to garner more knowledge (on their own or with help from independent
advisers) they can use to make rational decisions.

Preventive activities can be really effective provided they are transmitted
in a correct form of communication. The Internet as a source of information
on managing one’s personal finance will not work for each social group. An
interesting communication technique perhaps is the theatrical formula of a stage
show of “scenes from life” of excessively indebted individuals, for that can be a straightforward way of getting the message across to people in the audience. Such a form of communication is better than the web in that it reaches out directly to the people it is addressed to. Much the same is true of independent personal advice with regards to managing personal finances. For an interested person to take advantage of such advice he or she must be aware of its availability, a circumstance that needs to be properly advertised.

It should be noted that in the countries studied, combating excessive indebtedness is a concern not only of government institutions or non-profit organisations but of banks as well. In the USA, Canada, or the United Kingdom, a broad range of such initiatives are undertaken. On the other hand, the EU authorities have been taking action which seem to indicate that they are increasingly concerned about the problem of over-indebtedness. Some evidence thereof is perhaps a list of projects and expert reviews ordered by the European Commission, and the fact that it included (only once) queries concerning over-indebtedness and financial exclusion in its 2008 study of living conditions of households in the EU (EU SILC, 2008). Financial education (also with a view to fighting over-indebtedness before it develops into a major problem) should be in the focus of interest in the developing and constantly growing financial services market in the European Union. The EU authorities should also support the emerging platforms of co-operation, which help organisations from different countries exchange experiences. The European Consumer Debt Network, of which Poland’s SKEF is a member, is a good case in point. It would be a good idea to draw up a plan of activities in that respect, and to secure support from the European Union for it. One important thing in that respect, is to avoid, e.g., some mistakes the Americans committed and therefore the financial education programme did not obtain a positive rating. What is to be appreciated is the effectiveness of the actions actually completed, and not alone the slogans declared.

Every country studied here developed its own solutions to counteract the spread of over-indebtedness and one common model is difficult to identify. As mentioned before, the activities undertaken are conducted both at the initiative of public authorities and private institutions (often in public-private partnership undertakings also). Yet in all the countries, calls are heard for more action to be taken, as well as that financial assistance should be increased for the purpose of educating citizens, because the costs and effects of over-indebtedness often eclipse the costs of education itself.
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**Taxing Business in Poland: Taxes Levied on Immovable Property Held**

1. Introduction

The literature of this subject discusses property taxes usually from the angle of the active entity, which in this case are active local authorities empowered to levy taxes. Discussions of the topic from the angle of the passive entity, that is, the person subject to a tax obligation, are not frequently found in the available literature.

It is fair to say that if what are called tax levy points (potential points at which it is possible to levy tax) are taken into account, the base of taxation is normally associated with flows of income, consumption, savings and investments\(^1\). But it is also possible that tax will be levied on a taxpayer’s resources, that is to say, on property such people have garnered in the past.

This report, the first part of a study undertaken to define the role of property taxes in Poland, presents:

- a general description of property taxes,
- a detailed economic and legal analysis of taxes chargeable on real property held by businesses, or immovable property tax, agricultural tax and forest tax.

In connection with the functions of property tax, it is necessary to present the specific features of such taxes. In turn, within the legal structure of taxes charged on real property, elements of the structure of taxes are highlighted and the presence of them is vital in taxation recognition.

2. The essentials of property taxes

Several classifications of taxes into groups of tax types are found in the appropriate literature. In this discussion of property taxes let us observe, above all, the object criterion and the economic criterion. It is fair to say, with some simplification, that

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\(^1\) A detailed discussion of the structure of the tax system from the angle of the taxation point in circular movement is given by F. Grądalski, Wstęp to teorii opodatkowania, Oficyna Wydawnicza Szkoły Głównej Handlowej w Warszawie, Warsaw 2004, p. 95 ff.
the premises considered decisive of the choice of a concrete form of tax justify
the view that the two criteria are closely linked. In either case, the basic issue is,
what objects are to be chosen for taxation.² From the angle of objects subject to
levy, taxes may be charged on income, assets and on turnover and expenditure.
As for the economic criterion, the most important objective to secure is a clear
definition of the object of taxation. Firstly, note the distinction between income
tax (the chargeable object is the property at the moment of its production) and
capital tax (the chargeable object is the existing property) and turnover and
expenditure tax (where the object chargeable with tax is the property spent).

Reading studies in the literature on tax chargeable on property one may
have the feeling that such texts tend to emphasise not so much definitions
as models and types of tax. Most writers agree that property taxes are not
homogeneous in nature. Thus, objects tax chargeable may include: all or part of
a property held (these are taxes charged on the assessed value of a property);
changes in the value of property (taxes connected to the transfer of property,
e.g., an extraordinary increase in property assets, property sales).

In describing the group of property taxes in tax systems today the following
factors should be taken into consideration:

* the connection to their regulation with other legal standards, e.g., with
civil law,
* the frequency cycle of taxing property (standing, periodic, one-time
taxation),
* the source of tax coverage (income or a source other than property – which
are called nominal taxes; property – which are called real taxes),
* possible structures (including the tax burden in costs of business activity;
an element of the entity’s profit distribution, in the form of profit or
income),
* their connection with corporate finance (direct effects – they tend to
reduce profit before tax as they add to operating costs; indirect effects
– they tend to reduce the base of taxation in income taxes because they
are tax deductible costs)³,
* the tax assessment basis adopted (value before tax, or liabilities of the
taxpayer or of the given property are ignored; net value, or such debt
categories included in assessment),
* the character of the base of taxation (natural or value assessed),

² More on this: S. Dolata, Podstawy wiedzy o podatkach i polskim systemie podatkowym, Wydawnictwo
Uniwersytetu Opolskiego, Opole 1999, p. 78 ff.
³ J. Ickiewicz, Podatkowe i niepodatkowe obciążenia przedsiębiorstw, Oficyna Wydawnicza Szkoły
• the character of the amount of tax rates or the percentage, expressed accordingly),
• property tax models (real property taxes; industrial taxes; extraordinary one-time property taxes; inheritance taxes and other extraordinary increases in property estate)4,
• the role in the system of public income sources (at present property taxes feed the budgets of local government authorities).

Against the backdrop of specific features of the property tax system the following points should be made.

First, property taxes are of paramount importance as fiscal instruments of local government authorities. They are treated as autonomous local taxes (revenues from such taxes feed solely local offices of the public authorities, as local legislative bodies are empowered to decide certain structural elements of tax) which are the basic source of financing local government entities.

Secondly, a basic feature of property taxes is their low flexibility, which is observed in their poor and usually belated responses to changes in business cycles in the economy. Bearing in mind one of A. Wagner’s taxation principles5, the flexibility principle (which says taxes should respond to the changes of phases in the business cycle of the economy), such inflexibility can be seen as a deficiency of taxes. However, one can find opinions of certain economists who consider that feature to hold certain advantages also. For example, commenting on agricultural tax M. Pietrewicz observes that the “inflexibility” of the agricultural tax contributes to an intensification of production and modernisation of farms which is conducive to cost retrenchment and productivity growth, because such actions lead to a relative reduction of the tax burden6.

Thirdly, the justification and possible consequences of taxing property amassed in the past. It is true to say that the object chargeable for any of the property taxes is the property of taxpayers in possession of it. To recall the above-mentioned criteria of the classification of taxes, the structure of property is differentiated, which means that any possible tax may be assessed for property that already exists, property at the moment it is being produced, and property that has been expended. Tax theory however, lays down a principle that says that no tax should be charged on property that was garnered in the past. Attempts to

impose taxes “on the property” are usually met with critical reactions, because of the adverse effects such a policy is liable to produce. What legislators, who ignore this principle business, fail to see is the point of trying to generate income. At a macro scale, F. Grądalski notes, this kind of policy tends to bring forward a threat to the economy embarking on a restricted reproduction path. In extreme cases, taxpayers finding themselves in no position to pay their heavy tax liabilities will be forced to retreat from business and to sell out the assets they use in operations.

Fourth, the burden of property taxes for businesses. Similarly as income tax, property taxes are classed with direct taxes. This means that they are incomparably less easy to shift than indirect taxes. But it would be a gross simplification to say that this alone shows how heavy property taxes burden businesses. The important point to indicate in that connection is the structural form of such taxation adopted by law. Solutions where liabilities are recognised in business operation costs enable the chance to shift such tax on buyers (e.g., by raising the prices of products sold or services rendered). No such possibility is provided in solutions where property tax is an element of profit or the income distribution of a business. The line of business operations or of the property used is not without avail, either.

Poland’s property tax system, similar to those in other European Union countries, functions as a collection of separate taxes including real property tax, agricultural tax, forest tax, transport tax, inheritance and gift tax and tax on civil law transactions.

3. The legal structure of taxes levied on real property held

3.1. Taxpayers

The characteristic description of property taxes presented above shows that specific solutions adopted by the law depend on the regulations in the Civil Law Act, which largely predetermines the meaning of any particular structural element of tax.

Taxes charged on immovable property held (real property tax, agricultural tax, forest tax) are payable by taxpayers having a legal title to:

• real property – in immovable property tax,
• land – in agricultural tax,
• forest – in forest tax,

or by those holding the above taxable objects without any legal title to them.

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Taxpayers under the law, that is to say, natural persons, juridical persons and organisational units without personality in law, are obliged to pay taxes whether or not given immovable real property items do generate earnings to holders. The very fact that such an immovable property item is being held is sufficient – because the taxes have the character of property tax.

The basic categories of a taxpayer, described in the terms “natural person” and “juridical person”, are defined in the Civil Code. A provision in art. 8 of the Civil Code states that every person has a legal capacity from birth. A natural person ceases to exist at death. Under art. 33 of the act, the State Treasury and organisational units which are accorded personality in law by special regulations are also juridical persons. An organisational unit’s status of juridical personality may be declared directly in an act of law or can be inferred from its entry in an official register (the National Court Register, KRS). This category of units includes, above all, commercial law companies and state enterprises.

One deficiency which hinders the regulations in relation to the definition of taxpayer categories is the wording “thereof”. As the catalogue of taxpayers also includes organisational units without personality in law (including partnerships without personality in law) one may erroneously surmise that such entities are also taxpayers of property tax. However, that is obviously impossible in the case of a civil law partnership, for it is not the partnership but the partners thereto as co-owners or co-holders who are taxpayers on account of owning or possessing and using such immovable property. Other partnerships without personality in law which are governed by the Commercial Companies Code, sometimes referred to as flawed juridical persons (registered partnerships, professional partnerships, limited partnerships, mixed joint-stock and limited partnerships) may be separate taxpayers. The right delimitation of the scope of taxpayer categories obliged to pay property tax is of paramount importance in the cases of further elements of the taxation technique, namely tax liability, tax payment mode, and tax payment deadlines. This is so because they are all different for juridical persons, organisational units without personality in law, and for natural persons. The differentiating criterion there is thus the nature of the entity holding immovable property items that are under tax obligation. Thus, tax obligation in respect of property tax is based on the strength of an administrative act or a constitutive decision issued by the relevant tax authority (in relation to natural persons) or on the strength of the law, without a need for such a decision to be issued (in relation to juridical persons and organisational units without personality in law). That is why natural persons are also required to report to the tax office any immovable property item they may own or possess detailing any data that may be necessary to assess tax:
real property tax, agricultural tax and forest tax. Other entities are obliged to file their respective tax returns.

Let us also look at special solutions in respect of the taxpayer definition. The basic principle is, tax obligation in respect to immovable property arising from ownership or possession. In its present wording, which has been in force since 2003, the applicable regulation makes it possible to answer, unequivocally, the question who is under tax obligation, in a situation where, apart from the owner, there is also an autonomous holder who possess the same object. Naturally enough, the taxpayer is the owner of the real property, unless the same immovable property items are held by an autonomous holder. Then the tax obligation will be incumbent on the autonomous holder (tax priority falls on autonomous holders). The legal order that was in force by the end of 2002 provided no precise definition thereof, which bred doubts and differences in interpretation. The variety of views on the quoted provision eventually led the case to be taken to the Constitutional Tribunal for pronouncement. In its 6th September 1995 resolution the Constitutional Tribunal pronounced, among others, that “both the systemic interpretation, which takes into consideration provisions of the Constitution and other provisions in the 2th January 1991 act, and the purpose and historical interpretation, make it necessary to assume that in a situation where an autonomous holder of immovable property is not the owner thereof, as referred to in art. 2 sub paragraph 1 of the 12th January 1991 act, the tax obligation is incumbent upon the autonomous holder. The tax authority may not choose the taxpayer at its discretion”9.

To further mention the taxation co-owners and co-holders. In all the cases of property tax studied, where a taxable object is co-owned (is co-possessed), then it is a separate taxable object as a whole, and the related tax obligation is jointly and severally incumbent on all co-owners or co-holders. The law provides for certain exceptions with exception in respect of immovable property tax and agricultural tax. In the case of immovable property tax, special principles of real property taxing apply where separate ownership titles have been registered for premises. In such situations taxpayers are all owners of the premises in point on a pro rata basis corresponding to their respective fractional titles resulting from the ratio of the usable floor area of the premises to the usable floor area of the whole building. In the case of agricultural tax, on the other hand, chargeable on land that constitutes a farm holding, the obligation to pay tax is incumbent on the person, the co-owner or the co-holder, who runs the holding in its entirety.

Special regulations are also those that concern immovable property owned by the State Treasury or local government entities. Where the holding of immovable property results in a contract concluded with the owner (state-owned or municipal property) or the Agricultural Property Agency (Agencja Nieruchomości Rolnych), then the tax obligation is on the holders. In the case of such real property being held with no legal title, the tax obligation is on the holders, except for real property belonging to the Agricultural Ownership Resources of the State Treasury (ZWRSP) and real property under the management of Lasy Państwowe, the State Forest authority. In such circumstances, the taxpayers are, the organisational units of the Agricultural Property Agency and of the State Forest authority, respectively.

3.2. The scope of property taxation

The first characteristic of the studied group of taxes is the foremost importance of the object of taxation. The solution adopted in respect of the object of taxation determines the way taxpayers are identified. As a rule anyone can be identified as a taxpayer based on a statement of holding an object of taxation.

Various immovable property items are subject to different forms of property tax:

- land, buildings or parts thereof, structures or parts thereof connected with the conduct of business – are taxable through immovable property tax,
- land (farm land), and tree-covered and bush-covered stretches on agricultural land – in agricultural tax,
- forests – in forest tax.

In the structure of immovable taxable objects subject to property tax the law singles out certain real property objects and structural objects, largely with reference to the Civil Code., The following real property items are identified in the legal sense in art. 46 of the Civil Code: land being part of the Earth’s surface, buildings permanently fixed to ground, and parts of such buildings subject to special regulations. Immovable objects taxable with property tax, is stated, may include constructions that are not necessarily “real property items” within the meaning of the term in civil law. Since the term “immovable real property” is not equated with the notion of a taxable object, it is eminently important to ensure that the quoted terms are used with utmost precision. As for the other element of taxable objects, that is to say, the term “building object”, should be used in the meaning given to it its definition in the Building Law act.

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10 Wstęp to nauki polskiego prawa podatkowego, op. cit., p. 163.
As for land itself, it should be clear that the three applicable acts of law are seen as regulating in an all-embracing manner the question of taxation of land in Poland. The local taxes and duties act\textsuperscript{12} stipulates that all land is subject to real property tax as a matter of principle, save when it is taxable under agricultural tax or forest tax. Agricultural tax\textsuperscript{13} and forest tax\textsuperscript{14} regulations identify the following items as taxable objects: land classified in the land and property register as agricultural land or as tree-covered and bush-covered land on farm land; forest land classified in the land and property register as forests. It is noted in this connection, that the assessment basis of the considered taxes is exactly in the data recorded in the land and property register. It is the offices which maintain the registers that decide which category any given area of land should be classified. Thus if a piece of land is classified as farm land then it is subject to agricultural tax, and if it is classified as forest then it is subject to forest tax. Accordingly, for any given land to be taxed as immovable property tax it is necessary to determine if that particular area is not subject to taxation with alternative property taxes. This rule has been incorporated in the local taxes and duties act, because agricultural land, tree-covered and bush-covered land on farm land and forests is not taxable with immovable property tax, except for same land used for the conduct of business activity. This means that when an object of taxation, or land, is held for the conduct of business activity other than agricultural or forest activity within the statutory meaning of these terms such land is subject to immovable property tax. It is important to note that the definitions of agricultural activity and forest activity in the respective agricultural tax and forest tax acts are identical with the definitions of the lines of activity in the local taxes and duties act. The legal analysis carried out justifies the following conclusion: the boundaries of taxable objects subject to immovable property tax, agricultural tax and forest tax, respectively, are clearly staked out in three acts of law.

In the property taxes studied, the base of taxation is primarily natural in character, that is to say, the law takes into account the natural features of objects to be taxed such as, for example, surface area. In one tax only, namely the immovable property tax, is the base of taxation partly subject to ad valorem assessment. However, this should not be viewed as the classical system of real property tax which determines the tax liability on a given object by assessing its value. This is so because the economic value of the property, or the price that


real property obtains in market trade, is ignored, and the depreciation approach, or determining the value for income tax assessment, is applied instead.

Let us now look in detail at the approach of how the base of taxation is treated in the particular taxes.

In the immovable property tax, it depends on the character of the given property. For land, the base of taxation is surface area, for buildings or parts of buildings is it the usable floor area (in both cases, it is the quantity). For structures or parts thereof connected with the conduct of business, it is value, which is assessed by the application of a specific appraisal method imposed by law, namely the asset depreciation method, or, in certain cases listed in the act, value market (ad valorem assessment). To recall previous remarks regarding the limitations of property tax administration on a value-based base of taxation, note that the scope of decision-making of businesses is thus narrowed down substantially. First, the base of taxation of the structures or parts thereof regressed to their value as at 1st January of the tax year, which is the reference point for calculating depreciation in that year. Secondly, fully depreciated structures obtain their base of taxation determined based on their value as of 1st January of the year in which the last depreciation write-off was recognised on the books. Thirdly, it is only in situations where such structures are not subjected to depreciation (the assumptions made versus the economic reality?), the base of taxation is taken to be their market value as assessed by the taxpayer.

In other property taxes, base of taxation is less diversified and is assessed entirely based on natural features of the property to be taxed.

In agricultural tax, accordingly, the base of taxation is the number of so-called “accountable hectares” (for farmland) or the number of physical hectares (for other types of land). The accountable hectare is a device used to reflect the income a farm makes. However, if that were indeed so, the structure adopted in the act would impart a property-income character on agricultural tax. Literature on the subject, however, is not short on sceptical comments on attributing such a role to agricultural tax, because the underlying assumption that income levels in farms today are decided on surface area and the category of agricultural usable land is basically wrong. I subscribe to this view, and I would like to point out that the method of appraisal adopted in this case is classified as soil quality classification [bonitacja], a procedure for calculating the number of accountable hectares based on area, the type and quality of usable agricultural land as recorded in the land register and then classifying the given property to one of four tax regions. This differentiation of the coefficients adopted in the act is a consequence of the

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differences in quality of what is classified as agricultural production space and the economic conditions. However, the ground study findings raise doubts of whether the assumptions adopted in the structure of that particular tax vindicate the purported equalisation of the natural and economic conditions of farming in agriculture, as well as the diversification of farm tax burdens in particular tax regions

Forest tax, at present, provides the least involved procedure to determine the base of taxation. As a matter of principle, the base of taxation is the number of physical hectares as recorded in the land and property register. Therefore, what types of trees are growing on the property is of no importance. In recollection, though, under the law in force at the end of 2002 forest tax followed the solution adopted in agricultural tax, i.e. to use the number of accountable hectares as well

3.3. Tax rate amount and type

In property taxes, there are amount tax rates and percentage tax rates, depending on the base character of taxation. Amount tax rates are used in the cases of the natural bases of taxation. Percentage tax rates, on the other hand, are used in solutions which provide a value-assessed base of taxation. In the latter type of tax rates, where taxes are assessed on the value of the property, or property under assessment, tax rates are generally pro rata in character. It also seems worthwhile to mention that amount rates of property tax assessed from the value of the property as defined in the relevant legal regulations are but maximum rates for every tax year. In practice they are determined by local authorities within the statutory limits, with the effect that tax burden levels differ from case to case in particular local government units.

In real property tax, amount rates and percentage rates are used because of the differentiated character of the base of taxation.

The value of amount rates is determined with reference to the type of property (land, buildings or parts thereof) and purpose (not utilised for business activity, utilised for business activity, utilised for business activity given preferential treatment under the law) to be taxed. Maximum amount tax rates in 2007–2010 are shown in Table 1. The percentage tax rate applied to taxable structures is 2% of their value.

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16 M. Podstawka, System finansowy w rolnictwie na tle integracji Polski z UE, Wyd. Fundacji Programów Pomocy dla Rolnictwa (FAPA), Warsaw 2000, p. 111.
17 The number of physical hectares was multiplied by the respective coefficients, whose value depended on the tree species in the tree-covered area and on quality grades attributed to the main tree species.
18 At present, i.e., from 1 January 2003, the only limitation is the ceiling on real property tax. So any tax rate a commune council may enact may never top such ceilings. Before, by end 2002, commune councils were forbidden to enact tax rates lower than 50% of maximum rates.
The data presented in the table below show that rates grew annually. Rates are subject to indexation by the CPI recorded for the first half year in which rates changed from the same period in the previous year.

**Table 1. Maximum yearly amount tax rates levied on immovable property in 2007–2010**

<table>
<thead>
<tr>
<th>Immovable property type</th>
<th>Rates in 2007</th>
<th>Rates in 2008</th>
<th>Rates in 2009</th>
<th>Rates in 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land utilised for business activity</td>
<td>0.69 (per 1 m² area)</td>
<td>0.71 (per 1 m² area)</td>
<td>0.74 (per 1 m² area)</td>
<td>0.77 (per 1 m² area)</td>
</tr>
<tr>
<td>Land by lakes and reservoirs</td>
<td>3.65 (per 1 ha area)</td>
<td>3.74 (per 1 ha area)</td>
<td>3.90 (per 1 ha area)</td>
<td>4.04 (per 1 ha area)</td>
</tr>
<tr>
<td>Other land</td>
<td>0.34 (per 1 m² area)</td>
<td>0.35 (per 1 m² area)</td>
<td>0.37 (per 1 m² area)</td>
<td>0.39 (per 1 m² area)</td>
</tr>
<tr>
<td>Residential buildings or parts thereof</td>
<td>0.57 (per 1 m² usable area)</td>
<td>0.59 (per 1 m² usable area)</td>
<td>0.62 (per 1 m² usable area)</td>
<td>0.65 (per 1 m² usable area)</td>
</tr>
<tr>
<td>Buildings or parts thereof utilised for business activity</td>
<td>18.60 (per 1 m² usable area)</td>
<td>19.01 (per 1 m² usable area)</td>
<td>19.81 (per 1 m² usable area)</td>
<td>20.51 (per 1 m² usable area)</td>
</tr>
<tr>
<td>Buildings or parts thereof occupied for the purpose of business activity in the turnover of qualified seed material</td>
<td>8.66 (per 1 m² usable area)</td>
<td>8.86 (per 1 m² usable area)</td>
<td>9.24 (per 1 m² usable area)</td>
<td>9.57 (per 1 m² usable area)</td>
</tr>
<tr>
<td>Buildings or parts thereof occupied for the purpose of business activity in providing health care services</td>
<td>3.75 (per 1 m² usable area)</td>
<td>3.84 (per 1 m² usable area)</td>
<td>4.01 (per 1 m² usable area)</td>
<td>4.16 (per 1 m² usable area)</td>
</tr>
<tr>
<td>Other buildings or parts thereof</td>
<td>6.23 (per 1 m² usable area)</td>
<td>6.37 (per 1 m² usable area)</td>
<td>6.64 (per 1 m² usable area)</td>
<td>6.88 (per 1 m² usable area)</td>
</tr>
</tbody>
</table>

Source: own data calculated based on: The Finance Minister’s Announcement of 25 October 2006 on maximum yearly tax rate amounts in local taxes and duties (M.P. of 27 October 2006 No. 75 item 758); Finance Minister Announcement of 26 July 2007 on maximum yearly tax rate amounts in local taxes and duties in 2008 (M.P. of 3 August 2007 No. 47 item 557); Finance Minister Announcement of 29 July 2008 on maximum yearly tax rate amounts in local taxes and duties in 2009 (M.P. of 14 August 2008 No. 59 item 531) and Finance Minister Announcement of 3 August 2009 on maximum yearly tax rate amounts in local taxes and duties in 2010 (M.P. of 18 August 2009 No. 52 item 742).

Within the object to be taxed, which is land, the law distinguishes between rates for land utilised for business activity, other land (e.g., held by public benefit organisations for the purpose of conducting paid statutory activities, land on which residential buildings are placed), and land underwater. The highest rates apply for land utilised for business activity.
Much higher tax rates are also applied in cases of buildings, or parts thereof, utilised for business activity. But the differentiation in respect of that particular object to be taxed progresses. Generally, buildings, or parts thereof, utilised for business activity were set basic rates (PLN 20.51 per 1 m² usable area in 2010). Other buildings, or parts thereof, listed in the act of law carry preferential rates. Preferential rates are applied to the following cases of business activity:

- a preferential rate, 20.3% of the basic rate in 2010, is provided for buildings or parts thereof utilised for business activity in the provision of health care services. When it comes to identifying those parts of a building where a reduced rate can be justifiably applied a problem may arise. With reference to court judgments it has to be demonstrated clearly that there is unquestionably a direct connection between the given premises in the building or part thereof with the provision of health care services. It follows that preferential rates may not apply in cases, for example within administrative, utility or social premises,

- a preferential rate, 46.7% of the basic rate in 2010, is provided for buildings or parts thereof, utilised for business activity in respect of qualified seed material distribution. As in the above-discussed preferences, in this case, preferential rates may apply solely to that part of a building which is held for the purpose of qualified seed material distribution. Where a building is held in its entirety for this purpose, the whole building can be charged at a reduced rate for immovable property tax. If this is not the case, it is necessary to determine the proportion of the part of the building (the usable floor area) which is held for the conduct of that business – and only in this part of the building will the preferential rate apply.

Various suggestions towards a projected reform of property taxes are being raised in the available literature. Up to the present day discussions focused on the authority of local government entities to levy tax are ongoing. One factor determining the income of communes, has authors have pointed out, are the level of tax rates adopted by commune councils. Commune councils are free as to their choice of strategy in determining tax rate levels. This circumstance is not without avail to businesses operating in the local area, nor to the local tax base. Nowhere, are local tax policy instruments (upper tax rates reduction, tax relief, exemption, or remission) employed more freely than in immovable property tax. Communes take advantage of their power to reduce rates incomparably more often than other solutions, which include mostly discretionary tax assessment and tax

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relief or exemption. For example, the reduction of the upper rates of immovable property tax accounted for tax revenue declined 17–18.5% in 2003–2006. In agricultural tax, the only rate applied is the amount rate, which, as afore-mentioned, is a consequence of adopting a natural base for tax assessment. The rate in agricultural tax is now linked solely to the current price of a quintal of rye (mean rye procurement price for the first three quarters of the year preceding the given tax year). Table 2 shows mean rye procurement prices in the first three quarters in the years 1996–2008.

**Table 2. Mean rye procurement prices in the first three quarters in the years 1996–2008**

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</thead>
<tbody>
<tr>
<td>Price per 1q; from 2005, per 1dt (in PLN)</td>
<td>34.88</td>
<td>37.65</td>
<td>33.4</td>
<td>29.11</td>
<td>35.82</td>
<td>37.19</td>
<td>33.45</td>
<td>34.57</td>
<td>37.67</td>
<td>27.88</td>
<td>35.52</td>
<td>58.29</td>
<td>55.80</td>
</tr>
</tbody>
</table>


Agricultural tax rate for a land tax year held by agricultural farms is the cash equivalent of 2.5 q of rye per 1 accountable hectare (PLN 139.50 in 2009). The tax rate on land outside an agricultural farm, on the other hand, is the cash equivalent of 5 q of rye per 1 physical hectare (PLN 279 in 2009).

Mean procurement prices of rye in 1996–2008 changed over time, albeit only slightly in the period of 1996 to 2006. The rate of change was a mere +1.8%, which translated into small changes in respect of tax revenues. The last two years, however, that is to say, the period of up to 2008, saw the rate of change surge to +60%. The main reason for the steep rise was the situation on agricultural markets, more precisely a small crop yield in Europe, low inventories, and also currency rates which prompted Polish producers to export their output. Therefore, demand for Polish grain rose. Such changes, naturally, enhanced the economic situation of farms, however, they also had an effect on farm liability.

Commune councils may establish the procurement price of rye being the reference base for agricultural tax assessment, and in actual practice the councils do take advantage of that possibility. However, it is fair to ask the price of but one, in many types of agricultural products, as an optimum solution. It seems

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21 From 2005 prices have been quoted in decitons (dt), a measure that has superseded the quintal.
such doubts are not unfounded if one considers that rye is but a small share of the global value of agricultural production. In the context of specific features the agricultural business has, at present, and is likely to have in the future, hence a misguided solution.

In forest tax, also, the amount rate alone is applied. It is the cash equivalent of 0.220 m$^3$ timber, per 1 physical hectare (PLN 33.60 in 2009). VAT on timber sales is not added to the mean timber selling price forest inspectorates acquired for the first three quarters preceding the tax year. Table 3 presents mean timber selling prices calculated at mean timber prices for the period of the first three quarters.

**Table 3. Mean timber selling price in 1998–2008**

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean timber selling price (in PLN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>128.97</td>
</tr>
<tr>
<td>1999</td>
<td>123.63</td>
</tr>
<tr>
<td>2000</td>
<td>127.96</td>
</tr>
<tr>
<td>2001</td>
<td>126.07</td>
</tr>
<tr>
<td>2002</td>
<td>111.21</td>
</tr>
<tr>
<td>2003</td>
<td>107.70</td>
</tr>
<tr>
<td>2004</td>
<td>120.40</td>
</tr>
<tr>
<td>2005</td>
<td>131.35</td>
</tr>
<tr>
<td>2006</td>
<td>133.70</td>
</tr>
<tr>
<td>2007</td>
<td>147.28</td>
</tr>
<tr>
<td>2008</td>
<td>152.53</td>
</tr>
</tbody>
</table>

Source: www.stat.gov.pl

Forest tax regulation accedes a preferential rate, at 50% of the basic rate. This rate cannot be applied, except in the cases of protected forests and forests included in nature reserves and national parks.

Communes are also permitted to reduce fixed timber prices for the needs of forest tax. Observing the curve of change in mean timber selling prices one notices two distinct sub-periods. Initially, between the years 1998–2004, where they present a differentiated picture of change to that respect. In the next sub-period (2005–2008) prices rose all the time, having grown to more than 16% by 2008, from 2005.

### 3.4. Tax preferences for business activity

Tax preferences are often a hotly debated and controversial issue, albeit being an optional issue of the structure of tax. This is certainly true of property taxes, which, unlike e.g. income tax, seem to conform to the following pattern:
exemptions, of payers and objects to be taxed, are of primary importance, while
tax relief instruments are clearly less important. In this text, we confine ourselves
to the preferences provided for entities conducting business operations. A further
feature of property taxes is the circumstance that tax preferences are subject
to regulation not only in the relevant tax law acts but also in local regulations
created by the offices of local authorities who are empowered to do so.

The tax preferences applied in property taxes levied on business operators
are extremely limited in scope compared to other taxes. We have to deal, clearly,
with an optional element in the legal structure of the tax in that case. One
special instance of such tax preferences is the investment allowance provided
for in the agricultural tax.

Here is a detailed description of the investment allowance, with reference
to the respective basic features of tax relief.\footnote{The catalogue of tax relief features is borrowed from the study, Wstęp to nauki polskiego prawa
podatkowego, \textit{op. cit.}, p. 84–85.}

1) Authorisation is provided in (art. 13) of the agricultural tax act.
2) Taxpayers who are obliged to pay agricultural tax have title to an
investment allowance. Because of that investment allowances are granted
on request, and it is necessary in this case for every interested party
to engage themselves in seeking such relief. A taxpayer has to file an
application for tax relief, and the tax office is obliged to apply such
relief once an event making the case eligible for application of relief,
has been confirmed.
3) The basic condition of taking advantage of such relief is for the taxpayer
to have actually spent the money on a purpose indicated by law. Expenses
that justify the application of investment allowance include the following
items: expenses incurred in building or modernizing livestock buildings,
objects serving the purpose of environmental protection, purchases and
installation of certain reclamation or energy-generating equipment.
Assuming that this particular financial tool is one of a basic set of
economic policy tools one can name the purpose of such expenses, namely
that they stimulate growth in certain lines of agricultural production.
That this is an efficient tool is by no means certain though, if one
realizes the heavy tax burden agriculture now bears. There is no denying
that taxpayers at present are paying relatively low agricultural tax
liabilities. Such a situation usually undercuts the stimulating effect
of tax preferences. Confronting the specific solutions adopted to stake
out conditions of application and the mode of clearance of investment

allowances with the rationale behind the tax relief, it is to be noted that:

- **Tax relief in the form of investment allowance is granted only after the undertaking has been completed.** In that situation the business operator will do all to finish the investment project, which in the case of its completion strengthens the economic potential of the business and is also likely to reduce future tax liabilities to be paid.

- **The most important formal conditions of becoming eligible for relief and of losing a right to relief were defined in a balanced approach,** which compared to other investment allowances functioning in other taxes puts them way ahead of long-standing taxation practices. In most cases business operators desiring to obtain investment allowances had to meet a number of conditions both before they could take advantage of such relief and for a definite period after they had been granted it. Often, businesses seeking investment allowances ran bad risks (reimbursement of the benefits earned by paying due tax but with interest, And which did not leave the financial situation of the business unaffected) in case they failed to meet certain requirements. But the very definition of investment allowance in agricultural tax makes it clear that one condition for such tax relief to be applied is, understandably, to complete an investment undertaking such as is included in the catalogue defined by the law (art. 13 subpara. 1 of the agricultural tax act). Taxpayers forfeit their right to be granted such tax relief if they sell the object or the equipment in the title of which the relief was granted, and also when they use the object or equipment for other purposes than those specified in the act. It is important to note, however, that such forfeiture of right does not mean that the beneficiary is being denied the entire value of the tax relief granted but only the unutilised portion of the allowance.

- **The structure of tax relief adopted in the regulation provides for relatively good stability (title of tax relief, amount thereof – 25% of investment expenditure as supported by documents in the form of invoices for investment related expenses deducted from the tax liability to pay, maximum period of time to take advantage of investment allowances is 15 years),** which reduces the scale of the uncertainty of businesses.

4) The portion of the equivalent of eligible expenses set forth in the law (25%) does reduce agricultural tax. However, whether an allowance will or will not be utilised in full is decided not only to the solutions in respect
of the tax itself (15-year period) but also land resource businesses held, which does affect tax assessment.

4. A summary

The problems of property taxes presented in the first part of the article have theoretical, as well as, practical implications. In developing an efficient and reasonable taxation model it is necessary to grasp the essential meaning of property taxes, their importance to local authorities, and their impact on the management of finance and business.

Major structural elements of real property, agricultural and forest taxes were addressed and analysed within the second section. While the relevant legal regulations are established in separate acts of law, it was assumed that, together, they should be presented. This was possible due to the fact that only one subgroup of property taxes were analysed – taxes levied on real property held.

In this part of the article the author sought to demonstrate that:

• Initially, the structure of the particular taxes levied on real property held is largely determined by the specific character of the object to be taxed. Such structure is more complex in immovable property tax more than in other types of property tax, because of the scope of taxation, that is to say, land, buildings and structures utilised for business activity held by taxpayers. The structure in other taxes is fairly uniform, for example, in agricultural tax the law provides for the physical surface area and also for a specific institution of accountable hectares,

• secondly, the eligibility of taxpayers for property tax levied on immovable property held by others appears to be of secondary meaning. The decisive factor is that the object to be taxed is held in ownership or in possession (by an autonomous holder, irrespective of whether or not such a person is the actual owner),

• thirdly, in taxes levied on real property held, rates are basically amount rates because natural bases of taxation are more common here. In each of the taxes, preferential rates are used in addition to basic rates. To what extent individual local government offices make use of local tax policy instruments is difficult to say. That depends on the type of commune (whether urban or rural), the financial situation of communes, the scale of investment tasks implemented, and, more importantly, the mode of approaching tax, whether from the angle of its fiscal function alone or also from those of other non-fiscal functions. Clearly, the reduction of
upper rates are absolutely the tax administration tool communes mostly used. The effects of various decisions in respect of immovable property tax are demonstrated in the largest portion all local taxes. Another feature pointed out in this discussion are that the rates in taxes were determined by reference to the price of rye (in agricultural tax) or the price of timber (in forest tax). The main concern here is that this solution was adopted to work on the agricultural tax, which is obviously an anachronism,

• fourthly, in taxes levied on real property held tax preferences are of little importance. The motivation function of taxes was thus reduced to a minimum. Investment allowances have been left as the only incentive for businesses in regulations set forth in the acts of law studied, for they tend to reduce future agricultural tax liabilities. In practice, however, this tool is hardly efficient.

Bibliography

20. www.stat.gov.pl
1. Introduction

The interest in unofficial forms of business appeared in the developed capitalist countries in the late 1960’s and early 70’s and mainly resulted in publications on irregularities on the labour market (in Italy, West Germany and the United States) as well as tax fraud, first of all in the Anglo-Saxon and Scandinavian countries. On a broader scale research of the unofficial economy developed in the late 1970’s and in the 1980’s, with a considerable rise in the number of publications on the subject.

In Polish literature on economics the interest in unofficial business appeared in the early 1980’s and henceforth a lot of newly coined notions became popular, e.g. parallel economy, secondary business circulation, side job economy, fourth sector, shadow economy and many other notions referring to unregistered business. The growth in interest in the unofficial economy in this very period was not accidental. The economic crisis, chronic market imbalance and inefficiency of the official economy resulted in satisfying the consumption needs of a considerable part of households, as well as other entities and became the domain of the unofficial economy. It was particularly conspicuous in the closing stages of the centrally planned economy at the end of the 1980’s. The system transformation and shift to a new economic order resulted in radical changes in the functioning of business entities and their political, social and economic environment. The framework development of the new system and the building foundations of the market economy resulted in far reaching changes within the conditions of entities in the unofficial economy, which in turn launched adjustment processes within the informal sector. Certain forms characteristic of the socialist “economy of shortages” disappeared irreversibly, e.g. currency black market. Whereas some different features typical of developed market economies emerged, e.g. tax, insurance and stock market frauds, moonlighting etc.

The growth in interest in unofficial forms of economic activity bore fruit in publications describing different aspects of the underground trend of economic
The present paper discusses the causes and forms of the shadow economy in Poland, their social and economic implications and the ways to reduce the size of the unofficial economy.

2. The notion of a shadow economy

A great variety of terms referring to unregistered business, frequently colloquial, makes it difficult to coin an explicit, synthetic and commonly accepted definition and leads to terminological controversies and arguments. Certain terms to describe the unofficial economy emphasise some features that a relatively cohesive definition of this phenomenon may be based on. In first place, the following features are worth mentioning:

• running a business unofficially and also sometimes illegally,
• no opportunity to observe phenomena and processes making up the unofficial economy (hence terms like shadow economy, hidden economy, submerged economy etc.),
• statistical intangibility of the size and effects of the unofficial economy,
• no state supervision and regulation.

The above features result in differentia specifica of the unofficial economy and constitute a starting point for many authors to put forward their own definition of this phenomenon. The literature gives many different, often close but sometimes mutually exclusive definitions of the unofficial economy. The diversity of definition perspectives results from the different goals wishing to be achieved by researchers, disparate perceptive views of the social and economic situation, different methodological assumptions and research conventions. Similarly, the criteria of isolation and the classifications of phenomena which make up the unofficial economy differ depending upon whether or not there are attempts to set relations between the official and unofficial economy, or assess the redistributive effects and the impact on state sector effectiveness, or eventually assess the macroeconomic and social effects of the second, underground trend of economic life.

The notion of an unofficial economy (shadow economy) refers to the phenomena of a heterogenic nature with a common denominator not easily found. For the purpose

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1 The review of Polish publications on grey economy are to be found, among others, in: B. Mróz, Gospodarka nieoficjalna w systemie ekonomicznym (Unofficial economy in the economic system), Szkoła Główna Handlowa, Warsaw 2002 and „Przyczyny pracy nierejestrowanej w Polsce” (Reasons for unregistered labour in Poland), ed. M. Bednarski, E. Kryńska, K. Pater, M. Walewski, Warsaw 2008.

2 In order to refer to unofficial business activity there are to be used notions like shadow economy, unofficial economy, informal economy, underground economy, shadow economy, second economic circulation etc.
of further deliberation we accept the definition according to which the shadow economy is unregistered business aimed at achieving material benefit in a natural or monetary form and contributing to value making or redistributive effects.

3. Reasons for the development of a shadow economy

A shadow economy is, nowadays, an inseparable component of the economic landscape of the contemporary world. It appears with different intensity in all economic systems, in highly developed countries, those which are transforming their economies as well as poor and economically backward ones. According to the experts’ estimates, on the average, in the world about one third of the GDP is generated in the unofficial sector, which employs considerably more than one third of workforce. The universal character of the phenomenon of the shadow economy makes economists, sociologists and psychologists look for the reasons behind unregistered forms of business.

The literature on the causes of unofficial business indicates diversified conditions and factors, favouring the development of an informal economy. Depending on the culture, the membership of research schools and research methodology applied, there are various sets of reasons mentioned as favourable to the involvement of consumers and business entities in the unofficial economy.

Different authors attempt to systemise the causes of the unofficial economy and put forward their own typology of motives behind the involvement of individuals and firms in informal business. For instance P.M. Gaudemet mentions four major causes of tax evasion, the most important form of an unofficial economy. The causes are moral, political, economic and technical.

The moral causes are connected with the spiritual condition and level of awareness of society. The literature uses two notions describing the attitude of citizens to paying taxes. The first one is tax mentality understood as the attitude of citizens towards the volume of taxes and the very necessity of carrying the tax burden. For large societies, the sense of the necessity of

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3 More on the subject of terminological arguments, semantic controversies and the scope of shadow economy, see: B. Mróz, Gospodarka nieoficjalna w systemie ekonomicznym (Unofficial economy in the economic system), op. cit., chapter 1.


5 Por. A. Gomułowicz, J. Malecki, Podatki i prawo podatkowe (Taxes and tax law). Published by Ars boni et aequi, Poznań 1998, p. 162.
fulfilling the tax responsibility is considerably weaker than the awareness of other liabilities. Moreover, tax evasion does not bring any moral discomfort to tax payers, on the contrary, some of them have a sense of satisfaction, and the closest environment treat evasion as a symptom of resourcefulness. This sort of mentality is characteristic of a considerable part of Polish society. This conduct and tax mentality have their roots in insufficient identification with the state and treating tax as a tedious and unjust tribute, especially if, from the subjective perspective, the tax burden is excessive.

The second term used in literature to describe citizens’ attitudes to taxes is tax morality understood as internal consent to meet tax liabilities and the acceptance of the role of state in this respect. More or less conscious promotion of the attitude of tax insubordination, the climate of consent to evasion and avoidance of fiscal burdens lead to the erosion of tax morality. Unfavourable impact on tax morality is also exerted by frequent changes in tax regulations and high rates of tax, as well as high maintenance costs (or subjective citizens’ opinions on them) of business and fiscal administration give tax payers a psychological excuse to evade taxes.

There is a connection between the social morale and the less exposed political causes of entering the unofficial economy, including tax avoidance. They result from the conflict between public and private life spheres. It is most frequently a conflict following the social protest against the omnipotence and domination of all sort of state institutions or departments, often bureaucratised, corrupted and inefficient. Critics of statism claim that the development of the shadow economy results from excessive taxation (ambiguous as it may sound) as well as an excess of interventionism and the state regulatory function to overwhelm citizens with a multitude of diverse norms, rules and orders. The psychological reaction to the excess of state institutions, which hinders individual initiative and business freedom, is “escape in privacy”, which is reflected among others in the renaissance of the significance of households and neighbourly cooperation.  

Some authors underline the cultural conditioning of certain social phenomena and behaviours, including tax avoidance. They point to the fact that members of the societies with a legalist mentality are more willing to meet their citizen obligations, whereas the inhabitants of other countries, e.g. in the area of the Mediterranean culture show more thoughtlessness in this respect. However, there is no credible empirical research to confirm this regularity.

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There are also technical reasons mentioned that favour tax evasion. They are first of all, complicated and non-transparent tax systems as well as numerous reliefs and preferences.

The majority of authors regard as most important the economic causes of involvement in an unofficial economy. The most frequently mentioned economic reasons for involvement in the hidden economy are:

- a natural tendency on the part of individuals and business entities to optimise outlay-effect relations according to the paradigm in economics of *homo oeconomicus* (or to simplify, the natural human desire to achieve maximum profits with the lowest possible outlay),
- elevated taxes and salary social contributions forcing both employers and employees to allocate at least part of their business to the unofficial economy,
- inferior incomes in the official sector, or no income at all as a result of unemployment: the unofficial economy creates a unique opportunity to earn some kind of income.

Some consider the economic causes in a macroeconomic context, linking the inclination to meet tax liabilities with the general economic situation and climate of social optimism. Some authors treat the microeconomic dimension as decisive and according to them, the tendency to pay taxes is determined, first of all, by the economic and financial situation of a given business entity. If an individual or a business entity is in a good situation, they are willing to pay taxes, whereas the weak financial position of companies or consumers (households) favours financial malpractices.

F. Schneider, the renowned world expert in this area points out the following shadow economy causes:

- avoiding paying personal and corporate income tax, VAT and other taxes and charges in order to increase profit (saving motive),
- avoiding paying obligatory social insurance premiums motivated also by the desire to increase income; saving prospect, especially in the face of economic crisis, is tempting for many business entities,
- aspiring to bypass the standards and legal regulations in relation to the labour market, e.g. minimum wage, safety regulations etc.,
- desire to avoid certain administrative procedures, e.g. those connected with statistical reporting or bookkeeping etc.,

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7 It seems that such an interpretation is a considerable simplification to say the least. Actually, the decisive significance is the relation between the potential profit resulting from tax evasion as well as severity and inevitability of tax evasion sanctions. Tax morality and effectiveness of tax collectibility play an important role too.

• no sense of guilt; the shadow economy is perceived as a natural element of social life, compensating the citizens and business entities against the deficiencies of state machinery. Such an attitude is found, first of all, in some countries of Central and Eastern Europe, also in Poland, where the service quality of public institutions is regarded insufficient and where little trust is placed in state organisations. It is of no small significance that benefits from the shadow economy are instantaneous, whereas benefits offered by the state are indirect, collective and deferred in time,
• easy access, resulting from e.g. a large number of cash transactions and a poorly developed system of non-cash turnover\(^9\), the growth of free time due to early retirement in some countries etc.,
• low disclosure risk due to the weakness and ineffectiveness of the inspection institutions, including customs services, fiscal administration etc.\(^{10}\).

Table 1. Major causes of development of shadow economy in view of empirical research

<table>
<thead>
<tr>
<th>Factors to influence the shadow economy</th>
<th>Impact on shadow economy (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>a)</td>
</tr>
<tr>
<td>Growth in tax liabilities and social insurance contributions</td>
<td>35–38</td>
</tr>
<tr>
<td>Intensity of regulations</td>
<td>8–10</td>
</tr>
<tr>
<td>Social transfers</td>
<td>5–7</td>
</tr>
<tr>
<td>Specific regulations on the labour market</td>
<td>5–7</td>
</tr>
<tr>
<td>Public sector services</td>
<td>5–7</td>
</tr>
<tr>
<td>Tax morality</td>
<td>22–25</td>
</tr>
<tr>
<td>Total impact</td>
<td>80–94</td>
</tr>
</tbody>
</table>

a) average value from 15 researches.
b) Average value of empirical results from 28 researches.


\(^9\) According to estimates by F. Schneider and A. T. Kearney included in the report made to order of Visa Europe, if not for the rise in the number of electronic card payments in Poland in recent years, shadow economy could be higher by about 23 bn zlotys and could exceed 30% of GDP. Compare: F. Schneider, A. T. Kearney, The Shadow Economy in Europe. Using payment systems to combat the shadow economy, 2009.

\(^{10}\) Ibidem, p. 4.
It seems that the above mentioned causes of unregistered forms of business activity exist also in Poland but they are relatively less numerous than in developed and highly affluent economies. Under Polish conditions, the migration into a shadow economy is favoured by the following factors (Table 2):

- relatively low level of income and the wealth of people,
- difficulty in procuring a job on the official market (resulting from, among others, unemployment or lack of structural adjustment of supply to demand),
- high taxes and labour costs (social insurance costs etc.) as well as other tax-like liabilities,
- unclear, unstable, frequently amended tax law regulations,
- inflexible labour law regulations,
- diversified VAT and excise tax rates for similar assortment groups,
- non-transparent regulations on conducting businesses,
- individualist mentality of Poles, lack of state instinct,
- carefree conduct of the majority of Polish people, shortage of business education, no imagination and prospective thinking (e.g. in relation to future pensions).

Table 2. Causes of unregistered work in Poland (in %)

<table>
<thead>
<tr>
<th>Causes</th>
<th>Percentage of respondents pointing to the given cause</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>in 1995</td>
</tr>
<tr>
<td>Insufficient income</td>
<td>63.0</td>
</tr>
<tr>
<td>No opportunity to find employment</td>
<td>38.9</td>
</tr>
<tr>
<td>High taxes</td>
<td>24.2</td>
</tr>
<tr>
<td>Higher remuneration without contract</td>
<td>16.2</td>
</tr>
<tr>
<td>High social security premiums (ZUS)</td>
<td>16.0</td>
</tr>
<tr>
<td>Fear of certain benefits losses</td>
<td>10.3</td>
</tr>
<tr>
<td>Family or life situation</td>
<td>8.7</td>
</tr>
<tr>
<td>Reluctance to join the workplace permanently</td>
<td>1.3</td>
</tr>
<tr>
<td>Others</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: on the basis of special module research of unregistered labour carried out by the Central Statistical Office (GUS), in 1995, 1998 and 2004 within systematic research on people’s business activity (BAEL). The nationwide research included over 11,000 households, i.e. over 25,000 people at the age of 15 or older.
4. The shadow economy in Poland – a side effect product of the process of system transformation?

The transition from a centrally planned economy to a market economy is a difficult and long lasting process. The development of the new economic order and creation of the institutional base of the market economy requires time, change in business entities operation reinforced habits and the mentality of people in different social roles (employees, clerks, consumers etc.). No wonder, the first phase of the systemic transformation in Poland and other post-communist countries during which the foundations of the new economic system were built, is referred to as the period of “system vacuum” or “system interregnum”. During that period the old system together with its institutional infrastructure and the whole baggage of legal and social norms regulating the behaviour of economic agents fell apart, the new one was only in statu nascendi.

The decomposition of social norms bonding together the old system was perfect fuel for the development of new behaviour in the field of economy and the expansion of different, frequently ingenious and “innovative” forms of unregistered profits acquisition not to be reflected in official statistics. The forms and causes of the shadow economy changed: the forms, whose source used to be the ”economy of shortages”, were replaced by new methods of making informal profits by both common citizens and the representatives of the political and business elites. It may be assumed that in the process of development of the new economic order in Poland a significant role was played by the accumulation of capital in the shadow economy and its partial allocation in official business.

In this context, it is extremely significant to identify the mechanisms of an accelerated accumulation of capital which has occurred (and is still in progress) in Poland and other post-communist countries. It is of special significance to discover to what extent the new social and wealth stratification is based on meritocratic criteria (business efficiency, professional expertise, initiative, diligence, creativity etc.). Also one has to calculate to what extent it results from the secret mechanisms and pathological phenomena to accompany them (informal lobbying, shadow economy, corruption, clientelism, nepotism etc.)\(^\text{11}\). It is an exceptionally difficult task, due to the complexity and vulnerability of the issue including methodological problems and a variety of barriers to carry out reliable empirical research to verify the suggested hypotheses.

The quick liberalisation of post-communist economies, offered exceptionally favourable conditions for the owners of considerable capital to act. The dynamics and intensity of the economic reforms were not accompanied by sufficiently fast institutional changes or the development of a new system of values, as a result of which the “ethical infrastructure”, which is an axiological basis for the new economic order, was retarded. It is reflected in the evolutionary attitude of many social groups towards money and material goods. Within the reality of coarse socialism a lot of money and its owners were ideologically suspected, whereas in the new circumstances of the market economy in Poland, people making a fortune were put on a pedestal as a pattern of success and resourcefulness. In the face of the urgent demand for capital, arduous work through generations and the slow accumulation of capital were not a particularly attractive pattern to follow. Mass imagination was attracted by quick and spectacular business careers (frequently rooted in the informal economy), exemplifying a “bootblack to millionaire” myth deeply ingrained in the common awareness. It can be said that there is an atmosphere of social consent for becoming rich rapidly per fas et nefas, and the acceptance of a “short cut” method as a way to great fortunes, which created favourable conditions for various forms of the second economy.

5. Estimates and manifestations of the shadow economy in Poland

Unregistered business is an important element of the economic reality in Poland and other post-communist countries undergoing the period of system transformation. Economists and business analysts raise the alarm due to the worrying dynamic growth rate causing a number of negative phenomena in the official sector and contributing to the decline in the macroeconomic performance of the economy. According to the Central Statistical Office (GUS), in 2000 the share of the shadow economy in GDP amounted to 17%, in 2004 it fell to 14.5%, and in 2005–2006 reached 15.9% of GDP. The Austrian researcher F. Schneider estimates the size of unregistered business in the Polish economy considerably higher. According to him the share of the shadow economy in 2005 amounted to 27.5% of GDP. Irrespective of the divergence in estimation of the phenomenon, 

13 Divergences result from different methodology of estimation of the size of shadow economy. F. Schneider makes use of a Multiple Causes, Multiple Indicators model (MIMIC), trying to account for the illegal part of shadow economy (e.g. transfers resulting from corruption phenomena), whereas GUS, according to the practice of statistical reporting in the EU member countries accounts only for the legal part of hidden economy.
its scale is undoubtedly considerable and exerts a significant impact on Polish companies as well as consumers and households (see Tables 3, 4, 5).

Table 3. Percentage share of informal economy in GDP in Poland in the period of 2000–2006 (according to GUS estimates, in current prices)

<table>
<thead>
<tr>
<th>Description</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of shadow economy in GDP in which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– hidden production in registered firms</td>
<td>11.7</td>
<td>11.6</td>
<td>10.2</td>
<td>10.7</td>
<td>9.6</td>
<td>11.0</td>
<td>11.2</td>
</tr>
<tr>
<td>– unregistered labour</td>
<td>5.3</td>
<td>5.2</td>
<td>5.2</td>
<td>5.1</td>
<td>4.9</td>
<td>4.9</td>
<td>4.7</td>
</tr>
</tbody>
</table>


Table 4. GDP and the informal economy in Central and East European countries according to estimates submitted by F. Schneider (2005)*

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (in bn euros)</th>
<th>Shadow economy size</th>
<th>Shadow economy size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>bn euros</td>
<td>% GDP</td>
</tr>
<tr>
<td>Poland</td>
<td>244</td>
<td>67</td>
<td>27.5</td>
</tr>
<tr>
<td>Romania</td>
<td>80</td>
<td>28</td>
<td>35.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>89</td>
<td>22</td>
<td>24.7</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>100</td>
<td>18</td>
<td>18.0</td>
</tr>
<tr>
<td>Croatia</td>
<td>31</td>
<td>11</td>
<td>35.5</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>22</td>
<td>8</td>
<td>36.4</td>
</tr>
<tr>
<td>Slovenia</td>
<td>28</td>
<td>8</td>
<td>28.6</td>
</tr>
<tr>
<td>Slovakia</td>
<td>39</td>
<td>7</td>
<td>17.9</td>
</tr>
<tr>
<td>Lithuania</td>
<td>21</td>
<td>6</td>
<td>28.6</td>
</tr>
<tr>
<td>Latvia</td>
<td>13</td>
<td>5</td>
<td>38.5</td>
</tr>
<tr>
<td>Estonia</td>
<td>11</td>
<td>4</td>
<td>36.4</td>
</tr>
</tbody>
</table>

* estimates used the MIMIC method (Multiple Causes, Multiple Indicators)

Table 5. The shadow economy in selected industries/business areas in Poland (in 2005)*

<table>
<thead>
<tr>
<th>Industry/business area</th>
<th>Volume of GDP (m euros)</th>
<th>Size of shadow economy (m euros)</th>
<th>Share of shadow economy in GDP (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and forestry</td>
<td>11 018</td>
<td>1 653</td>
<td>15</td>
</tr>
<tr>
<td>Industry</td>
<td>45 247</td>
<td>10 859</td>
<td>24</td>
</tr>
<tr>
<td>Construction</td>
<td>14 729</td>
<td>5 892</td>
<td>40</td>
</tr>
<tr>
<td>Retail and wholesale trade, car repair, personal belongings and household equipment</td>
<td>46 313</td>
<td>11 578</td>
<td>25</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>3 016</td>
<td>422</td>
<td>14</td>
</tr>
<tr>
<td>Transport, storage management and communication</td>
<td>17 690</td>
<td>1 769</td>
<td>10</td>
</tr>
<tr>
<td>Private households employing workers</td>
<td>1 425</td>
<td>214</td>
<td>15</td>
</tr>
<tr>
<td>Entertainment, massage, prostitution, household services and others</td>
<td>–</td>
<td>36 846</td>
<td>–</td>
</tr>
</tbody>
</table>

* estimates made use of the MIMIC model (*Multiple Causes, Multiple Indicators*); because of no compatibility of the proposed classification in the table with GUS terminology in GDP disaggregation into individual industries/business areas, the concept of gross value added was used (value of produced goods and services minus costs of their production).

Source: see the table above.

The majority of unregistered production and sales is made in legally working companies. Research carried out at the end of 2002 proves that companies conceal 20.2% of their turnover from the taxman and employ 18.8% of staff “under the table”\(^\text{14}\). The largest part of the income is concealed by the Construction Industry (26%), Commercial (21.3%) and Transport companies (20.9%), it reveals reference, to a lesser extent, to manufacturing companies (14%). Unreported business turnover is made first of all in small companies; large companies are less capable of concealing their turnovers due to the necessity of more detailed bookkeeping and more frequent inspections\(^\text{15}\).

\(^\text{14}\) The date may be inflated, as in the survey entrepreneurs made estimates of hidden turnover and employment in rival companies.

\(^\text{15}\) P. Blajer, W. Zieliński, Szary cień coraz dłuższy (Grey shadow to be longer and longer), „Rzeczpospolita”, 10.03.2003.
As mentioned before, the shadow economy includes a wide spectrum of the diverse aspects of business which are out of the statistical register and at the same time creates new value or results in income redistribution. The task to form a complete register of unreported business in Poland is as ambitious as unfeasible. In further deliberations, we will focus on these business forms which are the most frequent and seem, relatively, the most significant.

All forms and methods of unregistered business, sometimes ingenious and sophisticated, are encompassed into two categories:

• tax avoidance and tax evasion;
• unregistered labour (work “under the table”).

Tax avoidance and evasion have accompanied man since the institution of tax appeared as a benefit in favour of the community as a whole, represented by the state and its fiscal machinery.

Tax avoidance consists of the reduction in tax liability, in an artificial way, to the lowest possible tax level. It takes on the form of fabrication and an adjustment of circumstances to the situation which is the most favourable for the taxpayer. For example, owners can ostensibly divide their property among family members, the volume of manufacturing or services can be reduced, the company location may be shifted, e.g. to tax havens.

It is very difficult to set the border between tax avoidance and tax evasion. In fiscal services practice, the following criteria are used and they may be useful in the following respect:

• taxpayer’s motives or intentions,
• the fictitious character of the activity,
• the size of benefits gained thanks to tax avoidance,
• the evaluation of the relevant authorities.

The opportunities to avoid taxes vary in different countries and depend on the tax regulations. Sometimes tax avoidance is possible within the existing law, especially when it is not precise, giving rise to ambiguous interpretations, which is very often the case in Poland. It happens, e.g. that conduct follows the letter of law but is against its spirit, i.e. the legislator’s intentions. In such a case, legal sanctions against the taxpayer abusing the law are out of the question. What remains to be accomplished is to modify the regulations as to make the impunity of tax avoidance impossible.

Tax evasion is illegal, against the tax law, thus it bears the hallmarks of a crime which is connected with criminal liability. Physical persons evade taxes through falsifying tax return files, making a statement contrary to the actual state, withholding some information, abusing regulations on money exchange etc.

The most typical forms of tax evasion in Poland are:
• hiding the source of income, or taxable incomes and gains despite the liability (withholding the object of taxation); concealing the business run: partially or as a whole (understating output, turnover or sales),
• artificial inflation of the costs of production or deductible costs,
• failing to disclose the full amount of taxable income, making deductions from fictitious expenses, inflating expenses or making deductions that are not due,
• deductions on account of fictitious offspring or amortisation of non-existent machines and equipment,
• failing to pay taxes subtracted from an employees’ wages,
• making use of loopholes and ambiguities in the tax law.

The methods of tax evasion mentioned above do not exhaust all possibilities in this area. Loopholes in regulations and the inventiveness of Polish taxpayers favour new forms of tax evasion. The repertoire of these forms is always being modified and enriched with new methods of gaining unreported incomes. Changes in the forms of the shadow economy and the geography of its occurrence result from impulses emitted via the corporate environment as well as from the changing conditions in the official sector (fluctuations of the unemployment rate, changes in tax regulations, tariffs etc.).

The other important collective category within which are included the diverse aspects of unregistered business i.e. work “under the table”. Empirical research carried out in Poland proves that the most frequent motive for taking on a job under the table is the necessity of making both ends meet and to bolster family budgets, meeting current consumption needs, lack of other opportunities to find a job as well as excessive taxes.

The survey commissioned by the “Rzeczpospolita” newspaper in April 2004 indicates that nearly 21% of working people had some income from the shadow economy within the 12 months prior to the survey. This, in turn, means that about 12% of Poles worked without paying taxes and insurance premiums in the discussed period. The groups which admit working under the table are, self-evidently, unemployed (27%) and private firms staff (18%). Obtaining unregistered jobs was declared also by 20% of retail staff and unskilled workers. The fact to be emphasised is that unregistered work was admitted by nearly 27% of young people (between the ages of 18–24), of which over 30% run independent households. In the light of the survey results, inhabitants of the Pomorski region (almost 27%) and the Małopolski region (19%) admitted most frequently to “under the table” work, whereas the unregistered work most seldom admitted to was observed in the Wielkopolski region (2.3%)16.

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16 Praca nierejestrowana w Polsce w 2004 r. (Unregistered labour in Poland in 2004), GUS, Warsaw 2005 and A. Błaszczak, Powolne wychodzenie z cienia (Coming slowly out of the shadow), „Rzeczpospolita”, 17.06.2004.
The significance of the unregistered labour market for Polish consumers and households is confirmed by the survey carried out within the project commissioned by the Ministry of Labour and Social Affairs on the causes of unregistered labour in Poland. The research was carried out during the period of May – April 2007 and the undertaking of unregistered work was declared by 432 out of the total number of 9038 respondents ranging from the age of 15 and over, i.e. 4.4% of the examined sample.

According to recent research of the economic activity of the population (BAEL), based on the a household survey carried out in the second quarter of 2009 in Poland, there were nearly 15.9 m working people in Poland, i.e. 0.8% more than in the first quarter of 2009 and 1% more than in the second quarter of 2008. At the same time, the registered employment in companies declined by 0.13% and 0.5% respectively. The analysis of the above figures leads to an obvious conclusion that there is a growth in employment in the shadow economy, which is to be treated as a symptom of adaptive behaviour on the part of consumers and companies in face of the economic crisis. In July 2009, out of nearly 247,000 people that were eliminated from the employment register, 7,700 refused to take employment or training, and 86,800 did not confirm readiness to look for a job. This behaviour of workers is parallel to the crisis adaptation strategies of companies, which look for savings, among others, in the costs of employment. Some entrepreneurs, especially small ones, try to reduce the costs hiring labour “under the table”. Besides, companies, mainly in the service sector, try to conceal part of their income from the taxman through understating their taxable income.

The above tendencies were confirmed by the research of the scope of involvement of Polish consumers in shadow economy in relation to the economic crisis, carried out at the turn of April and May 2009. The research indicated that 11.3% respondents were looking for a job in the shadow economy as a way of coping with the effects of the economic crisis.

The involvement in the unofficial labour market may be characterised by different degrees of the breach of the existing norms and legal regulations. To start with relatively “innocent” methods such as undertaking additionally

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18 Compare: A. Cieśłak, A. Fandrejewska, Kryzysowa ucieczka w szarą strefę gospodarki (Crisis escape to the shadow economy), „Rzeczpospolita”, 7.09.2009.


paid jobs during working hours, eventually being engaged in the underground segment of the shadow economy, e.g. in manufacturing and the distribution of drugs. Particular attention should be paid to the following forms of engagement in the shadow economy:

- work under the table in different forms and time,
- hiring children, juveniles and the jobless,
- work from home,
- “work theft” (doing additional jobs during the working hours of the official job),
- “theft of means of work” (e.g. making use of medical equipment in state run hospitals and clinics in private medical practice),
- different kind of unreported additional jobs, including private lessons\(^{21}\),
- work for underground firms producing:
  - legal products with turnover approved: transactions uninvoked or underinvoked,
  - fake products (brand piracy),
  - forbidden products, whose production and distribution is severely penalised (e.g. weapon or drugs).

In the era of globalisation, liberalisation, capital flows, trade contact intensification and transborder exchange, the unregistered exchange with other countries is playing a more and more significant role as a form of the shadow economy. The most frequent forms of unreported incomes in this area are:

- underinvoking or overinvoking of export or import transactions,
- smuggling, both wholesale, on a large scale, and the so-called ant smuggling involving frequent border crossing.

The experience in many countries, including Poland’s experiences of the last years, proves that leaving some business areas to the discretion and free interpretation of administrative officials favours the development of a variety of business pathologies\(^{22}\). In Poland there is an elaborate and not too clear system of concessions, which in connection with implicit regulations on, e.g. tender organisations gives rise to corruption and malpractice. For instance, the public procurement law possesses many loopholes so that one selected bidder

\(^{21}\) Compare: more on the subject: E. Putkiewicz, Korepetycje – szara strefa edukacji (Private lessons – educational shadow economy), Instytut Spraw Publicznych (Institute for Public Affairs), „Analizy i Opinie” (Analyses and opinions), No. 56, December 2005.

\(^{22}\) R. Klitgaard says in this connection: “Both experience and theory indicate that organisation are most susceptible to corruption in the areas where business entities have monopolistic positions in relation to customers, dispose of more discretion (...) and take actions difficult to audit”. Compare: R. Klitgaard, Gifts and Bribes, in: Strategy and Choice (ed. R. J. Zeckhauser), The MIT Press, Cambridge, Massachusetts, London 1991, p. 225.
may be given preferential treatment, there is also the phenomenon of tender fabrication.

There has been a lot of discussion lately in Poland concerning a well developed shadow economy in the health service and the whole system of medical care. The inefficient and indebted public health service creates many opportunities to gain additional unregistered incomes by doctors, nurses and the management staff of hospitals and other medical care outlets (see Table 6). It often happens that expensive specialist equipment owned by state hospitals is offered outside official working hours to all sort of foundations that render paid medical services, or it is used for diagnostic purposes within a doctors’ private practices.

Table 6. Medical services price list within the Polish shadow economy

<table>
<thead>
<tr>
<th>Kind of medical service</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unfounded arrangement for pension</td>
<td>4,000–10,000 zlotys (about 000–2500 euros)</td>
</tr>
<tr>
<td>Unfounded arrangement for sick leave</td>
<td>100–150 zlotys (about 25–37 euros)</td>
</tr>
<tr>
<td>Caesarean birth on request</td>
<td>1,500–10,000 zlotys (about 370–2500 euros)</td>
</tr>
<tr>
<td>Admission to a ward</td>
<td>about 1,000 zlotys (about 250 euros)</td>
</tr>
<tr>
<td>Heart valve, no waiting</td>
<td>5,000–10,000 zlotys (about 1250–2500 euros)</td>
</tr>
<tr>
<td>Heart examination, no queuing</td>
<td>3,500 zlotys (about 875 euros)</td>
</tr>
<tr>
<td>Nursing care after an operation</td>
<td>50–100 zlotys (12–25 euros) a day (24h)</td>
</tr>
<tr>
<td>Midwife care after delivery</td>
<td>150 zlotys (37 euros) a day (24h)</td>
</tr>
</tbody>
</table>

Source: Sick health service, „Plus Minus” (TV business programme) of 8 February 2005 (http://www.tvp2.pl).

The opportunities to make illegal profits appear especially when it is for clerks to decide how to dispose of state property which is subject to privatisation or reprivatisation as well as how to distribute public funds is also another question. Advantageous orders in state run firms are often connected with informal commissions amounting from 5 to 15% of the contract value. As already mentioned, the concession system and the procedure of making administrative decisions affecting business, especially concessions to run some kinds of business, create an exquisite opportunity to abuse. It often occurs that in order to be granted them, applicants must meet certain conditions, and the ultimate positive decision depends on a clerks’ discretion and goodwill and these have their own price.

There are many examples of incredible inventiveness and ingenuity on the part of entities engaged in the shadow economy in the field of distribution and the exchange of goods. In this area, there is a considerable part of unregistered business, which results from low entry barriers and the relatively easy operation in the field of distribution and the exchange of goods. Unregistered manufacturing
is connected with a considerably higher risk and the higher costs of remaining hidden.

Besides the above mentioned forms of gaining unregistered profits, all the time there are new ways of cheating the taxman resulting partly from implicit legal regulations full of loopholes, exceptions and contradictions. These may include among others:

• insurance, sick allowance and unemployment benefit and pension extortion;
• illegal arbitration and insider trading;
• embezzling public money;
• abuses and pathologies in the process of privatisation of public property, e.g. “pumping out” assets from state enterprises to private companies;
• VAT return extortion;
• fake products and brand piracy, to avoid payment of royalties resulting from protection of intellectual property, copyright and patents;
• abuse connected with the refund of certain expenses (e.g. medicines, travel costs petrol);
• white slavery trade and new forms of sex business;
• illegal trade in radioactive wastes and rubbish\(^{23}\).

A complete register of all manifestations of unregistered business in Poland is impossible to form due to the abundance and diversity of economic engagement within the unofficial economy, continual changes on the map of the shadow economy and its incredible internal dynamics. It does not excuse researchers, financial market analysts and business policy architects from their duty of tracking trends and changes in this area, which is undoubtedly an intellectual challenge of considerable practical significance.

6. Ways to reduce the size of the shadow economy

A considerable size of the shadow economy results in many negative after effects for the official sector reducing the macroeconomic performance of the economy. The most conspicuous consequences are manifested in the form of lost or reduced budget incomes and have their implications within the field of public finance. Thus, on the agenda there is the problem of the necessity of coping with the after effects of development within different forms of the informal sector, which is a serious challenge for the state economic policy.

\(^{23}\) Compare: B. Mróz, Gospodarka nieoficjalna w systemie ekonomicznym (Unofficial economy in the economic system), op. cit., p. 38.
It seems that the prerequisite to reduce the shadow economy is to restructure the official economy and to create an appropriate institutional and legislative infrastructure. It is indispensable to curb statist tendencies and to introduce, to a greater extent, the processes of business deregulation. Admittedly, the introduction of lower taxes and social security contributions, frequently suggested by entrepreneurs, is desirable, though it would be naive to think that it will automatically reduce the “work under the table”.

Planning solutions aiming at curbing unofficial forms of business, one should consider the following circumstances:

• growth in the size of the unofficial economy (caused among others, by elevated taxes and social security burdens) which causes the erosion of the tax base and lower budget revenues, contributing to budget deficit and making the fiscal administration continue the raise of taxes, which in turn motivates consumers and economic entities to engage in the shadow economy; which gives rise to the classical mechanism of a vicious circle,

• the shadow economy deforms official economic factors and may contribute to the mystified perception of reality. The erroneous depiction of the unemployment rate, income and consumption levels seriously hinder an effective economic policy.

Government and administration policy in relation to different forms and segments of the unofficial economy should be active and should make use of a diversified instrumentarium of economic and administrative methods and legal regulations. There is no doubt that underground criminal business should be combated with energy and resolution. Whereas small informal entrepreneurship should be treated in a much more lenient way, aspiring to their absorption within the official economy. The state should avoid excessive regulatory pressure, resulting in the transfer of businesses and citizens to the shadow economy. Nevertheless, wherever possible the state should help, leaving an appropriately large margin for individual business freedom. The intervention of the state in the sphere of market laws, especially when unfounded and undertaken inaccurately, may prompt citizens and business entities to migrate into the shadow economy and favour the development of black markets for certain goods and services. It is worth remembering that inept intervention may bring more harm than good,

24 I. Jędrasik-Jankowska is right to observe this when saying that it cannot be expected that after lowering social security premiums, employees’ wages will rise by this amount; “(...) it is an illogical assumption that the employer wants to be a generous uncle and insists on lowering (liquidating) social security premium in order to to raise employees’ wages”. Compare: Czy praca „na czarno” jest uczciwa (Is work “under the table” honest?), „Rzeczpospolita”, 12.04.1996.

and sometimes it may bring even a counter effect. There are some situations in which bureaucratic regulations with reference to one segment create favourable conditions for the development of the shadow economy not only in this particular segment, but also in other business areas.

Consistent and effective policy in relation to unofficial forms of business is not an easy task. It concerns both the conceptual phase (planning policy mix) and the implementation, which as a rule gives rise to most problems. Selecting the policy mix with reference to the assumed goals, one should remember not only the volume of the unofficial economy measured with the percentage share in GDP, but also its impact on income redistribution processes and the implications for micro- and macroeconomic effectiveness. It is especially important to form a careful selection and proportions between “hard” repressive tools and “soft” ones like e.g. creating favourable conditions for small and medium sized companies, educational campaigns etc.

There are two economic policy functions in relation to the shadow economy to be distinguished: preventive and corrective. The former means the selection of such goals and implementation tools of economic policy which would minimise the probability of the appearance of undesired side effects, e.g. in the form of proliferation of the shadow economy. It is important to use such instruments and mechanisms (e.g. in the form of correctly planned tax systems) as to prevent ex ante, an undesired and pathological phenomena in the economy. The corrective function of economic policy should consist of the neutralisation and limitation of negative after effects of the unofficial economy. Those will be actions taken ex post, aimed to collect and analyse information about the shadow economy, to form its peculiar business and territorial map, to calculate methods in order to discover unregistered business forms, and eventually to undertake action adequate to the irregularities discovered.

The occurrence of different forms of the unofficial economy (including tax fraud) results in definite consequences for the policy of creating incomes for different social groups and requires adequate planning and pro-development tax systems. It should be remembered that the inclination to respect tax law regulations depends to a large extent on the social perception of the regulations in this area (whether or not they are perceived as rational, just, entrepreneurship oriented etc.). Other factors are not insignificant too:

- general assessment of the economic policy,
- efficiency of the state in the provision of public goods,
- the state of public finance,
- the relation between direct and indirect taxes,
- the level of tax rates and the progression of the tax scale degree,
- scope of tax relief and preferences.
Some forms of the unofficial economy in Poland (in particular tax evasion) appear in the junction of companies and households. In transactions between firms there are generally mechanisms which protect against such practices, built in e.g. the procedure of VAT return in the successive phases of processing (in chain links of value added). In transactions consisting of the direct sales of goods and services by firms to households, the continuity of record of business turnover is broken. It results in the fact that households as final consumers as a rule do not need invoices and receipts for tax deductions, which provokes some firms to non-invoiced sales.

From the point of view of an effective informal economy prevention it is difficult to set the optimal level of tax rates and also to determine the progression scale in relation to personal income. This dilemma consists, among others, in the contradiction between the pro-effective and redistributive function of taxes. There is a common opinion that the reduction of the progression scale results in curbing the shadow economy, however the practice of economic policy and empirical examples of some countries (e.g. Scandinavian) indicate that this interdependence is not always the case. Similarly, it cannot be claimed a priori that if we lower the level of tax rates, the scope of the shadow economy will decline automatically.

In Poland, as in other countries enduring a system transformation period, the relation is to be seen between budget revenues and the state of public finance on the one hand and the volume of the unofficial economy on the other. Without saying, the shadow economy depletes budget revenues in relation to tax avoidance, social security premiums etc. A more thorough analysis, however, shows also a positive impact the shadow economy can indirectly exert on the state budget. The unofficial sector can perform the function of the social mollifier, cushioning frictions and tensions in the official sector through absorption of the unemployed. It enables, at least partly, to relieve the state budget, while the income gained in the shadow economy may help to stimulate consumption demand for products from the official sector too and, as a consequence to contribute budget revenue growth e.g. from direct taxes. It is especially seen in the countries with a fragmented business structure, where a great number of small sized companies provide the base of a shadow economy. The meaning is, besides strengthening a state and energetic combat against business crime, that also the necessity for a reasonable and well balanced economy, aimed at removing reasons for unregistered business

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and making use of entrepreneurship and capital found in the shadow economy that we are able to improve the effectiveness of the whole economy.

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1. Introduction

Factoring services have been known in the world for centuries. Some sources point to their beginning in ancient times, others look for the roots of factoring at the time of colonisation. Some others believe that the 19th century United States is the motherland of modern factoring, where the first factoring houses appeared to deal with the initial mediation in the trade of goods brought by the European traders and taking over the risk of debtors’ default, i.e. American purchasers of these goods. Services offered by factors differed, depending on the place and time. All the authors dealing the factoring issues agree that the scope of services offered by factors most similar to the ones offered currently was represented by the American factors.

Factoring is a complex heterogeneous service, which is connected to the history of its development, as well as the legal regulations applied to it. Due to its complexity, it is an extremely flexible service able to meet the needs of entities making use of it. The development of factoring is a derivative of development of entrepreneurship in the area. As it is the entrepreneurs that are the factoring services clients. However, where its beginnings in the United States and Europe is considered, it is clear that the needs to be met by the factor were different. On the American market, which seemed to be an excellent market for European traders, the factor started with trade mediation, storage of goods and taking over customer credit risk, and it was what the European traders expected. They were ready to do business with importers in America but they did not want to leave Europe and they had no experience in relations with local business entities. Factors did not finance their customers at the beginning, they only


helped them do business on the new markets without taking the risk of default. In Europe factoring started to develop after World War II and the reasons for development were different. In the 1950s there was a big demand for capital, and entrepreneurs were short of cash. The first factors in Europe were the representatives of American factoring companies. To start their business on the new market they performed a financial function. They were not ready to offer a protective function until some time elapsed and they gained experience.

Thus, factors entering new markets behave in a different way than before, as the needs of potential customers, i.e. enterprises, are different and factors do not know the entities on the local market. The development of factoring on such markets faces a lot of problems that do not appear on the developed markets. The factoring market in Poland is a good example of an emerging market.

The article presents the factoring transaction effectiveness model, whose application may contribute to the removal of some elements hindering the popularisation of factoring services as new products on the market.

2. The Polish factoring market to exemplify emerging markets

In the long term, factoring consists of cooperation between a company and a specialised factoring company. It involves transferring a company’s receivables due from customers to the factoring institution, financing them by the factoring institutions before the date of payment and a number of services rendered by it in favour of this company, whether or not connected with the transfer of receivables⁢.

The first factor began his factoring business in Poland in 1989, immediately after the system transformation took effect⁴. Thanks to the changes begun in 1989 and the introduction of market economy, entrepreneurship started to develop together with the demand for services to support it. At the beginning, factoring services were rendered, besides corporate credit, by banks. After some time banks started to do factoring business outside the bank structures and set up specialised factoring companies. In 1994 the first factoring company was founded, and another one a year later. These were: the factoring company of Bank Handlowy and the international factoring institution Heller, i.e. Handlowy–Heller (at present ING Commercial Finance Polska) and the company belonging to BRE Bank and Austrian factoring bank Intermarket AG – Polfactor.

⁴ GUS (Central Statistical Office), (Factoring companies activity in 2008), p. 6.
The volume of factoring turnover in Poland in the period of 1996–2008 and its dynamics are shown in Table 1.

Table 1. Factoring turnover in Poland in the period of 1996–2008 in millions of zlotys

<table>
<thead>
<tr>
<th>Year</th>
<th>Factoring turnover in m zlotys</th>
<th>Turnover growth dynamics year to year (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>357</td>
<td>–</td>
</tr>
<tr>
<td>1997</td>
<td>885</td>
<td>248</td>
</tr>
<tr>
<td>1998</td>
<td>1564</td>
<td>177</td>
</tr>
<tr>
<td>1999</td>
<td>2275</td>
<td>145</td>
</tr>
<tr>
<td>2000</td>
<td>6624</td>
<td>291</td>
</tr>
<tr>
<td>2001</td>
<td>7891</td>
<td>119</td>
</tr>
<tr>
<td>2002</td>
<td>10331</td>
<td>131</td>
</tr>
<tr>
<td>2003</td>
<td>11992</td>
<td>116</td>
</tr>
<tr>
<td>2004</td>
<td>13209</td>
<td>110</td>
</tr>
<tr>
<td>2005</td>
<td>14175</td>
<td>107</td>
</tr>
<tr>
<td>2006</td>
<td>25575</td>
<td>180</td>
</tr>
<tr>
<td>2007</td>
<td>30717</td>
<td>120</td>
</tr>
<tr>
<td>2008</td>
<td>47900</td>
<td>156</td>
</tr>
</tbody>
</table>

Average annual turnover growth rate: 58%


Factoring in Poland is developing dynamically, which is confirmed by the information on its turnover. The data on factoring turnover in Poland were first published only in 1996, i.e. after the first factoring companies appeared. And in 2006, for the first time, the Central Statistical Office published its factoring report. For 12 years, when it was possible to assess the turnover, it rose on the average of over 58% annually.
3. Favourable factors and obstacles in the development of factoring services in Poland as an emerging market

There are many points favouring factoring in Poland. They include:

- a great number of micro-, small- and medium-sized companies in Poland, typical factoring customers. At the end of 2008 there were over 3,752,000 of them, which accounted for 99.87% of all registered companies in Poland,
- high demand for capital as a source of financing of current activity among entrepreneurs in connection with market changes as well as the development of a company’s growth in their turnover,
- high demand for capital as an effect universality of trade credits, which is reflected in extension of liabilities turnover,
- difficult access to bank credit for small and medium sized companies which have no collateral and have been on the market for a short time,
- lower availability of bank credit in the period of crisis, especially in the SME sector,
- payment grid-locks in settlements between companies, intensified especially in a time of economic slowdown, to appear also in the period of a good economic situation as a result of insufficient use of available debt management instruments,
- Poland’ entry to the European Union because Europe is the world leader in the volume of factoring turnover, with the old Union members in the lead,
- New Capital Agreement, i.e. Basel II, makes debtors’ credit rating obligatory, and factoring as a revolving credit substitute contributes to a better rating as a result of better corporate liquidity without growth in indebtedness,
- the existence of Polish Association of Factors, whose statutory activity includes popularisation of factoring services in Poland.

Despite many favourable conditions for the development of factoring in Poland as well as a high average annual turnover growth, it is to be observed that factoring services have been poorly used on our market. It is reflected in the number of companies making use of these services. In 2008 there were in Poland 4789 factorees, i.e. customers of factoring institutions. Taking into account the number of micro-, small and medium sized companies in Poland, factoring services were used in 2008 by only below 0.3% of them.

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5 Przedsiębiorczość w Polsce (Entrepreneurship in Poland), Ministerstwo Gospodarki (Ministry for Economy), Warsaw, July 2009, p. 129.
6 GUS, Działalność przedsiębiorstw faktoringowych 2008 r. (Factoring companies activity in 2008), p. 9.
The most important obstacles to popularisation of factoring in Poland are connected with the young age of the factoring market in Poland:

- Lack of knowledge of factoring in the business environment, which makes companies reluctant to use factoring not as a result of conscious decision, but because they do not grasp the idea and they do not know what effects may be brought by factoring used by their company,
- little transparency of factoring fees to enlarge the effect of no knowledge of factoring services among business people and to arouse mistrust.

The lack of knowledge in the business environment and mistrust will become less significant as time elapses. Time itself is important and it acts in favour of factoring, however, in order to speed up this process, steps to popularise factoring services should be taken, which is being done at present by, among others, the Polish Association of Factors.

The small transparency of factoring fees is a different story. The most essential anxiety on the part of entrepreneurs who have never made use of this kind of service is the one concerning their profitability. Factors do not help them dispel the doubts as the structure of factoring fees is not really transparent. The basic problem connected with the cost of factoring is a commonly held view saying that they are high. The entrepreneurs themselves are not able to calculate the amount as they do not know the gist of the transaction. Thus, they are afraid of making use of factoring.

Factors do not make standard offers in which potential customers could at least approximately determine the costs of transaction and dispel their doubts. Potential customers who turn to a factor to enquire about costs, will hear that the factor will be able to determine the costs only after acquiring enough information from the entrepreneur and after the analysis of the factoring application, as the price of factoring services is always set on an individual basis. At the stage of introductory conversation, the customers do not know yet what the service consists of or how much it may cost. That is why they do not want to devote their time to it.

In order to dispel potential customers’ doubts and help them make a positive decision to submit a factoring application, at the stage of introductory talk, factors should make a general noncommittal quotation so that the entrepreneurs are able to estimate possible costs.

4. Factoring transaction costs

Factoring transaction costs usually include interest and commissions. Commissions split into preparatory commission, administrative commission and commission
for taking over the risk of a debtor’s default. Factors often do not describe individual elements of commission and charge them jointly, calling them the factor’s operational margin. Unfortunately, it does not make the transparency of fees any clearer. The interest is fairly easy to estimate for the company, it is enough to quote the price brackets, i.e. the minimum and maximum interest applied by the factor, usually based on WIBOR rates increased by the risk margin. What appears difficult is the valuation of commission amounts, which in the case of factoring have a big impact on the level of the total cost.

In order to increase the transparency of fees and thus eliminate an entrepreneurs’ mistrust towards new services, it is necessary to inform them of the way they are calculated. If factors could easily give estimates without going into details of the transaction, known only to entrepreneurs at the initial stage, the mechanism of the estimate calculation could facilitate the initial contacts with customers.

Factoring fees charged by factors as well as elements that have impact on their level are presented below in Figure 1.

The factoring interest depends on three major elements: level of cost of finance acquired by the factor for factoring activity, factor’s profit margin and margin for risk of default or delayed payment. The preparatory and administrative commissions depend on labour intensity. The preparatory commission on labour intensity of actions that precede signing the factoring agreement, preparation and signing agreement and launching the transaction. The administrative commission depends on the labour intensity of transaction handling.

Preparatory commission is charged in percentages on the amount of the factoring limit granted to all debtors. The rate applied is the result of several elements, the most important one is the number of debtors because each of them must be assessed in the way as the factoring customer, i.e. factoree. The more debtors, the higher the preparatory commission.

Administrative commission is charged in percentages for every receivable purchased. The major element in determining its level is the number of invoices submitted for purchase within the granted limit.

Del credere commission is charged in percentages for every purchased receivable, if the factor takes over a customer default risk. The level of del credere commission depends on the risk connected with the transaction.
Figure 1. Factoring fees charged by factors and elements to influence their level

Source: own material.
5. Factoring transaction valuation model

In handling individual factoring transactions there are three phases of a factor’s activity – initial, handling and debt recovery. They are presented in Figure 2.

Figure 2. Phases of factor’s activity

<table>
<thead>
<tr>
<th>Phase 1. Initial stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>• introductory talk</td>
</tr>
<tr>
<td>• determination of conditions</td>
</tr>
<tr>
<td>• drawing up a factoring application</td>
</tr>
<tr>
<td>• factoring agreement</td>
</tr>
<tr>
<td>• launching a transaction</td>
</tr>
<tr>
<td>• periodical review</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Phase 2. Handling</th>
</tr>
</thead>
<tbody>
<tr>
<td>• purchase of receivables</td>
</tr>
<tr>
<td>• handling of receivables purchased</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Phase 3. Debt recovery</th>
</tr>
</thead>
<tbody>
<tr>
<td>• informative activities</td>
</tr>
<tr>
<td>• reminders and collection letters</td>
</tr>
<tr>
<td>• negotiations and agreements</td>
</tr>
<tr>
<td>• receivables recovery</td>
</tr>
</tbody>
</table>

Source: own material.

The preparatory commission should cover the costs of the initial phase. In order that the factor does not make a loss on the transaction, the administrative commission should cover the costs of the handling phase, and del credere commission should cover the costs of the final phase, i.e. debt recovery. Based on the principles of cost calculation and the assumption that the amount of preparatory and administrative commission is based on labour intensity and the amount of del credere commission is risk based, a model of factoring effectiveness valuation can be created to simplify the transaction valuation.

Such a model was calculated on the basis of the observation of the division of labour for some years in factoring institutions in Poland. The observation proved that, in factoring institutions which had been doing business for some time, so they are not in the commencement phase, employees devote about 75%
of time to handling the factoring transactions, and 25% of time for drawing up factoring applications and periodical assessment of factorees and debtors.\(^7\).

In order to make a standard offer which factors will be able to present to their new potential customers, it is necessary to calculate normative costs of all the phases. The normative cost of the first phase is an average cost of one entity in the initial stage. The normative cost of the second phase is the average cost of servicing one invoice at the given factor. The costs of the third phase are risks calculated on the basis of four partial analyses – creditworthiness valuation (composed of credibility valuation and factoree solvency, valuation and solvency of debtors, valuation of the quality of cooperation between the factoree and debtors, valuation of the business area and the valuation of macroeconomic elements), the duration of the period of invoice payment. The crediworthiness valuation is given the weight of 40%, with the remaining valuations given 20% each. In this way, one can calculate the weighted class of risk for the given transaction, which determines the level of del credere commission. The factor determines the number of risk classes and the level of commission in each class. The potential client at the stage of the initial talk is informed that the level of commission depends on the level of risk, which is expressed by the weighted class of risk resulting from risk valuation in four areas. At the same time, the client is shown the table presenting the classes of risk and levels of commission corresponding to them.

**Formula 1. Formula to calculate the level factoring costs incurred by a company on account of all commissions**

\[
\text{Factoring costs on account of commissions} = Preparatory commission + Administrative commission + Del credere commission
\]

\[
= \left[\frac{\text{JKNF1}}{\text{NUCP1}} \times \text{(number of factorees + number of debtors in the given transaction)}\right] + \left[\frac{\text{JKNF2}}{\text{NUCP2}} \times \text{(number of invoices + (percentage share in the number of invoices \times number of invoices))}\right] + \left[\frac{\text{WSPKR}}{\text{WIRRC}} \times \text{factoring turnover}\right]
\]

Where:

- **JKNF1/** – normative unit cost of the first phase, i.e. average cost of valuation of one entity (debtor of factoree)
- **JKNF2 /NUCP2**– normative unit cost of the second phase, i.e. average cost of handling of one invoice
- **WSPKR/WIRRC** – weighted interest rate of risk class, i.e. the level of interest rate depending on the class of risk to which the transaction is qualified

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\(^7\) K. Kreczmańska-Gigol, Opłacalność faktoringu dla przedsiębiorcy i faktora (Profitability of factoring for entrepreneurs and factors), Difin, Warsaw 2007, p. 125.
Preparatory commission should at least cover the cost of phase 1. Administrative commission should at least cover the cost of phase 2. Del credere commission should at least cover the cost of default risk. The level of charges are calculated according to formula 1.

The normative unit cost of the first phase is calculated according to formula 2, and the normative unit cost of the second phase is calculated according to formula 3. Normative unit cost should be calculated periodically, e.g. once a quarter or once a month. It will make the costs connected with the calculation lower, and at the same time it verifies the level of the unit cost of valuation of an entity and invoice handling as often as necessary.

**Formula 2. Calculation of normative unit cost of phase 1**

\[
\frac{JKNF1/NUCP1}{\text{number of factorees} + \text{number of debtors}} = 25\% \times \frac{\text{cost total in the given period} - \text{financial costs in the given period}}{\text{number of factorees} + \text{number of debtors}}
\]

Where:

- **JNKF1** – normative unit cost of phase 1, i.e. average cost of valuation of one entity (debtor or factoree)

**Formula 3. Calculation of normative unit costs of the second phase**

\[
\frac{JKNF2/NUCP2}{\text{number of invoices in the given period}} = 75\% \times \frac{\text{cost total in the given period} - \text{financial costs in the given period}}{\text{number of invoices in the given period}}
\]

Where:

- **JNKF2** – normative unit cost of phase 2, i.e. average cost of handling of one invoice

Minimum percentage level of del credere commission should be equal to weighted interest rate of risk class (WSPKR/WIRRC), which is calculated according to formula 4. The weighted risk class is calculated according to formula 5.
Formula 4. Calculation of weighted interest rate of risk class

\[
WSPKR = \frac{MSPnKR}{MIRlRC} + [(\frac{WKR}{WRC} - nKR/lRC) \times \frac{MWPwKW}{MCViHC}]
\]

Where:
- \(MSPnKR/MIRlRC\) – maximum interest rate in the risk class lower than weighted risk class expressed in full numbers,
- \(WKR/WRC\) – weighted risk class,
- \(nKR/IRC\) – lower risk class expressed in whole numbers,
- \(MWPwKW/MCViHC\) – maximum commission value in the class higher than weighted risk class expressed in whole numbers.

Formula 5. Calculation of weighted risk class

\[
\text{Weighted risk class} = (8\% \times \text{risk class resulting from valuation of credibility and solvency of factoree}) + (8\% \times \text{risk class resulting from valuation of credibility and solvency of debtors}) + (8\% \times \text{risk class resulting from valuation of cooperation between factoree and debtors}) + (8\% \times \text{risk class resulting from valuation of business area}) + (8\% \times \text{risk class resulting from valuation of macroeconomic factors}) + (20\% \times \text{risk class resulting from invoice payment duration}) + (20\% \times \text{risk class resulting from the number of debtors}) + (20\% \times \text{risk class resulting from the number of invoices})
\]

* The formula assumes the risk weights on the basis of a 4 year research carried out by the author of the article through case analysis method in two factoring companies. The analysis focused on factoring fees default cases, their causes and frequency.

The company made familiar at the stage of the initial talks with the principles of calculation of individual fees has some notion of future costs and may avoid speculating on this subject or resigning in fear of high costs.
6. Conclusion

Launching a new product on the market in connected with the risk resulting from a potential clients’ unfamiliarity with it. An air of mystery around the product price is a flaw not a virtue and it may hinder the development of services on the new markets. That is why it is in the interest of factors as well as the whole economy to increase the transparency of fees. When factoring has become a well-known product on the market, its price will be known too, and the way of calculation will stop being a mystery to clients. At the initial stage however, it is essential to create incentives for its development and remove all obstacles that may hinder the comprehension of the new service.

The transparency of fees will make dishonest competition impossible on the part of factors and all the participants of the factoring market will benefit from this. First of all, it is to the benefit of entrepreneurs. Having learned about the principles of the calculation of fees, they will not be anxious about them any more and the decision on whether or not to make use of the service will be made consciously.

The effects the presented model may contribute on the new markets are, first of all: a reduction in losses on account of individual transactions by the factor and factoree, higher profitability for the factor and factoree, better transparency of factoring charges, as a result of which there will be familiarity with factoring transactions on the part of entrepreneurs and a growth in popularity of factoring in the business environment.

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1. Introduction

The proper understanding of the monetary transmission mechanism is an important rationale for undertaking research worldwide (see e.g. Mojon and Peersman, 2001). The literature offers many methodological approaches to assessing an impact of central bank actions on the economy. There are approaches making use of economic activity data collected at a high aggregation level (i.e. the national accounts). On the other hand, there are many papers using disaggregated data (often using data at the level of individual economic agents) in order to better understand the strength and timing of the influence of the individual channels within the transmission mechanism (see e.g. Gertler and Gilchrist, 1994). It is important to stress that comparing directly the research results of the two mentioned approaches might be difficult. For example, it might not be straightforward to answer a question whether reactions of the economic agents observed at the microeconomic level could transfer into economically significant reactions of macroeconomic aggregates.

This paper makes an attempt, taking into account recent findings of the relevant literature, to analyse the monetary transmission mechanism, making use of data for particular divisions of the manufacturing industry (according to NACE classification) in the Polish economy. Such an approach allows better understanding of the reaction of the economy to shocks generated by the central bank. The appropriateness of such a more detailed approach seems to be especially important in the view of the recent developments in the global economy. These developments can have important economic consequences for opportunities of finding appropriate sources of financing by firms operating in different industries. Especially in the recently observed environment the reactions of corporates to changes in monetary policy restrictiveness might depend on the structure of financing. Due to this fact the presented analysis relates the reactions to monetary

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1 The paper draws on a Polish version published as Chmielewski (2009).
policy shocks at the level of particular divisions of the manufacturing industry to a typical balance sheet structure observed in these divisions. The concluding section offers proposals for some possible directions of future research.

The paper has the following structure. First, the research methodology is described. Next, the analysis of the monetary transmission mechanism making use of vector autoregression (VAR) models is presented. First, results based on a traditional specification (based on highly aggregated data) are presented. Next, the model is augmented with variables representing the level of output at the divisions of the manufacturing industry. Results obtained from the more general specification allow presenting differences in the reactions to monetary policy shocks of firms belonging to different divisions. Finally, the responses, obtained from the disaggregated data specifications, are compared with some indicators of the balance sheet structure. The conclusions from the presented research are summarised in the last section.

2. Methodology

There exists more and more literature aimed at analysing the impact of monetary policy on the economy (see e.g. the review presented by Christiano et al., 1999). Within this research stream many alternative methodological approaches have been proposed. This paper concentrates on the empirical research based on vector autoregression (VAR) models.

The fundamental question in the analyses of monetary policy effects is how to define and identify a monetary policy shock. There seems to be a consensus (e.g. Christiano et al., 1999) that changes in the value of an instrument used by monetary policy makers may be decomposed into two components. Primarily, a systematic (endogenous) response to developments in the economy observed by policy makers. Such endogenous response is often interpreted in terms of a “reaction function” of the monetary authority, based on an “information set” consisting of variables observed by the policy makers. The other component is the true shock – a part that cannot be explained in terms of systematic responses to economic conditions. The reaction of the economy to such shock (i.e. non-systematic component of the changes in monetary policy instruments) is usually of greatest interest to a researcher. By definition, the exogenous monetary policy shock is orthogonal to variables in a policy makers’ information set. This non-systematic component can be interpreted as an exogenous decision of the policy makers. Since this shock (“exogenous decision”) is orthogonal to the publicly known policy makers’ information set, it constitutes a surprise for the agents in
the economy and might be a basis for the decisions not anticipated before (e.g. change in investment or consumption).

To correctly estimate the monetary policy shocks one needs to identify variables that form the information set of the policy makers, since the decisions regarding changes in the value of a monetary policy instrument are conditioned to the variables from this set. Therefore, in an estimated system of equations the variables can be divided into three groups. The first group are the information set: the variables for which current values are observed by the monetary authority and taken into account when changing the monetary policy instrument. The second group includes the monetary policy instruments. For the central banks using direct inflation targeting strategy (as e.g. the National Bank of Poland) this a chosen short-term interest rate. The final group consists of variables that are observed by the policy makers with some lag. Thus, the current values of the third group variables do not directly influence monetary policy instruments.

A possible way of conducting an empirical analysis on this subject is by using vector autoregression (VAR) models. If we denote a vector of analysed variables values at time $t$ by $Z_t$, by $B_i$ a matrix of parametres to be estimated and by $u_t$ a vector of error terms, we can denote a VAR model as:

$$Z_t = B_1 Z_{t-1} + \ldots + B_q Z_{t-q} + u_t.$$ 

Such a specification is not enough to identify structural shocks since the elements of $u_t$ may, in general, result from all the fundamental (structural) shocks (Christiano et al., 1999). But it is possible to recover the fundamental shocks of interest by imposing some additional structure on $u_t$. It is possible to group the variables as presented above. Let us assume that the relationship between the residuals $u_t$ and the fundamental (structural) shocks $\epsilon_t$ is specified by a matrix $A$ as:

$$Au_t = \epsilon_t.$$ 

Now it is necessary to impose enough restrictions on the matrix $A$ to make the whole estimated system identifiable One of the possibilities is a recursiveness assumption, equivalent to the variable grouping described above. In such a case the identification is obtained by using the Cholesky decomposition, with an appropriate ordering of the variables. In this approach, variables that are placed before the monetary policy instrument (usually a short-term interest rate) are assumed to enter the information set of the policy maker in their contemporaneous values. On the other hand, variables placed after the monetary policy instrument are observed by the policy-makers with a lag.
Once the monetary policy shock is identified, its impact on other variables can be analysed. The standard way of presenting the results is a impulse response function. It is customary to apply a one standard deviation shock. This paper focuses on the reaction of other variables to the shocks generated by monetary policy, although the analysis of shocks stemming from other sources can also be considered.

### 3. Analysis of transmission mechanism based on VAR models

This chapter deals with econometric analysis based on the methodology presented above, using estimated VAR models.

In the first place, the results presented will refer to the specification based exclusively on highly aggregated data, as commonly used in the literature. In order to obtain comparability with specifications presented in the later part of the text, the model based on monthly data has been estimated. The index of the manufacturing industry output was chosen as a variable representing the level of business activity. The price level is traditionally represented by the CPI index. The decision to choose this index is due to the fact that the inflation target is determined by the Monetary Policy Council in terms of CPI inflation, thus it should be the category in the decision makers’ reaction function. Variable illustrating changes in the monetary policy restrictiveness is a monthly average value of WIBOR1M. The model uses also the nominal effective exchange rate index\(^2\). Data referring to the industrial output index as well as the price level were seasonally adjusted. All variables except for the WIBOR1M were taken in logs. The VAR model was estimated on levels of variables defined in this way\(^3\). Such approach was used, e.g. by Peersman and Smets (2001).

The final specification of the VAR model was estimated using data from January 1999 to September 2008. This means that the estimation sample covers relatively homogenous period when the Monetary Policy Council followed direct inflation targeting strategy with no foreign exchange interventions\(^4\). The

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\(^2\) The convention that the effective rate index growth means the appreciation of the zloty was applied.

\(^3\) The literature often points to the appropriateness of additional use of a commodity price index (as an exogeneous variable) in order to eliminate the price puzzle effect. Due to a relatively small and statistically insignificant scale of this effect in the estimated model, the final version presented does not take such an index into account. Including a commodity price index did not change qualitative conclusions in comparison with the presented version.

\(^4\) Attempts to estimate the model using a sample beginning earlier led to unstable results. This might be a result among others of the impact of structural changes in the economy, which were occurring within the sample period.
comparison of characteristics of different model versions led to a conclusion (based on information criteria for number of lags and tests for residuals autocorrelation and heteroskedasticity) that it is optimal to use 3 lags of the variables.

Further results are based on the estimated VAR model and the Cholesky decomposition used to identify shocks with the following ordering of variables: industrial (manufacturing) output, the CPI index, the WIBOR 1M interest rate and the nominal effective exchange rate index. Figures 1 to 4 present the impulse response functions (deviation of a given variable as a result of a shock from its model-implied path without a shock) as a result of the one standard deviation shock to a given variable. The impulse response functions are presented together with confidence bands (+/−2 standard deviations). The time axis presents months from the impulse (shock) occurrence.

The results show that the model results are in conformity with the economic intuition and the obtained VAR model has the important features pointed out by the economic theory as crucial for the monetary transmission mechanism\(^5\). In particular, there was a statistically significant response of the industrial output to the interest rate shock. The price level response to the monetary impulse occurs with a substantial lag. An important role of the exchange rate channel in the transmission mechanism in Poland was also confirmed. The nominal interest rate shock (that can be interpreted as an increase in monetary policy restrictiveness) leads to a decrease (as compared to the lack of such a shock) in the industrial output and (with some lag) to a decrease in the price level. An unexpected increase in the short-term nominal interest rate results also in the exchange rate appreciation.

On the other hand, the exchange rate appreciation shock results in a slowdown in economic activity (as measured by the industrial output) and a decrease in the price level. According to the model, the exogenous exchange rate appreciation shock leads to a decrease in the short term interest rate. This result suggests that the Monetary Policy Council when making decisions might look at the overall restrictiveness – taking into account both internal (the interest rate) and external (the exchange rate) price of the local currency.

\(^5\) One of the papers discussing the result of research on transmission mechanism in Poland (for shorter time series, compared with the present paper) based on VAR models is e.g. Łyziak et al. (2008).
Figure 1. Impulse response functions – industrial output

Source: own material.

Figure 2. Impulse response functions – price level (CPI)

Source: own material.
Figure 3. Impulse response functions – interest rate (WIBOR1M)

Source: own material.

Figure 4. Impulse response functions – nominal effective exchange rate

Source: own material.
On the basis of the model presented above, a number of augmented models were built, motivated by approach proposed by Dedola and Lippi (2005). The extension consisted of adding a variable to the VAR model presented above. The additional variable used in the model was the output index for different divisions of the manufacturing industry (according to NACE classification, Eurostat data). Thus, a number of new VAR models were obtained, the only difference being the additional measure of output for manufacturing industry divisions.

According to the research problem put forward at the beginning, the responses of output of individual divisions to the monetary policy shock were analysed. Due to the limited scope of the present paper, only selected results can be presented. For each of the analysed augmented models, an analysis of the impulse response functions was conducted. The special emphasis was devoted to shocks to the variables that are important from the monetary policy point of view (i.e. the interest rate and the foreign exchange rate). More detailed analysis of the impulse response functions will be provided for the divisions having relatively high share in the output of the manufacturing industry. The most important data and the obtained results are presented in Table 1.

**Table 1. Selected data for models in the extended version (in %)**

<table>
<thead>
<tr>
<th>Division</th>
<th>Share in the output of manufacturing</th>
<th>Minimal value of the reaction function to the exchange rate shock</th>
<th>Minimal value of the reaction function to the interest rate shock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>100.0</td>
<td>−1.02</td>
<td>−0.86</td>
</tr>
<tr>
<td>Manufacture of food products and beverages</td>
<td>19.7</td>
<td>−0.36</td>
<td>−0.43</td>
</tr>
<tr>
<td>Manufacture of tobacco products</td>
<td>0.6</td>
<td>−1.67</td>
<td>−4.20</td>
</tr>
<tr>
<td>Manufacture of textiles</td>
<td>1.4</td>
<td>−1.21</td>
<td>−0.58</td>
</tr>
<tr>
<td>Manufacture of wearing apparel</td>
<td>1.1</td>
<td>−0.61</td>
<td>0.17</td>
</tr>
<tr>
<td>Manufacture of leather and related products</td>
<td>0.5</td>
<td>−1.32</td>
<td>−0.96</td>
</tr>
<tr>
<td>Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials</td>
<td>3.5</td>
<td>−0.95</td>
<td>−0.56</td>
</tr>
</tbody>
</table>

Because of similar results in extended models and the limited scope of the paper, reaction functions discussed before are not repeated. In the Cholesky decomposition the additional variable was placed as last in order. The analysis of other approaches to shock identification, e.g. the ones suggested by Raddatz i Rigobon (2003), will be the subject of further research.
The last two columns of Table 1 show minimal values of the impulse response functions of the output in individual divisions to the interest rate and nominal exchange rate shocks. These values mark the deepest output response in a given division after the shock. The analysis of these values together with the information presented in Fig. 1 indicates that the dispersion of responses
in relation to that observed for the whole manufacturing industry may be of economic significance.

Figures 5 and 6 present impulse response functions of the output to the interest rate and nominal exchange rate shocks in divisions having the largest share in the manufacturing industry output. The impulse response functions in the analysed group are generally similar. The division where behaviour clearly differs from that of other members of the group is “the manufacture of motor vehicles, trailers and semi-trailers”.

**Figure 5. Functions of response to output impulse in selected sections after interest rate shock (WIBOR1M)**

The analysis of the results presented in Figures 5 and 6 together with the data presented in Table 1 indicate a differentiation of responses in individual divisions to the shocks generated by monetary policy and changes in the exchange rate. There is a question then about the source of this differentiation. The literature indicates that the structure of financing, typical of a given business area may play a significant role here. It was suggested by, among others, Dedola and Lippi (2005). The comparison of a maximum scope of output response of individual
business areas with selected factors of balance sheet structure connected with the structure of financing is presented in Figure 7.

**Figure 6. Functions of output impulse response of selected sections after nominal effective exchange rate shock (appreciation)**

![Graph of functions of output impulse response](image)

Source: own material.

The results presented show that on average in the case of divisions characterised by lower financial liquidity indicators, the effect of shock is bigger. This interdependence is especially clear in the case of interest rate shocks and second degree financial liquidity indicator.

**Figure 7. Selected indicators depending on the balance sheet structure with the deepest output response of individual divisions to selected shocks**

![Graph of selected indicators](image)
The preliminary results suggest a possibility of the relationship between the balance sheet structure (linked to the typical pattern of activity financing) and the size of the reaction to the interest rate and exchange rate shocks. Such a result might be interpreted as a confirmation of the important role played in the Polish economy by additional channels of the monetary transmission mechanism, as for example the balance sheet channel and the bank lending channel. Additionally, the analysis of the disaggregated data might be useful from monetary policy of view especially in the observed recently environment of financial market disorder and the change in the business cycle stage.

4. Summary

The presented research was aimed at a preliminary analysis of output sensitivity in the manufacturing industry divisions to the shocks generated by monetary policy. Because of the essential role played by the exchange rate in the transmission mechanism, the analysis was supplemented with the investigation of the effects of the nominal exchange rate shock. The VAR model based results confirm the differentiation of responses in different divisions, observed also in other countries. A preliminary analysis indicates that the structure of financing typical of individual business areas may be an important factor explaining the dispersion of the size of their responses.

The results obtained so far indicate the appropriateness of further research in the discussed area. One of the threads of further research may be the use
of alternative approaches to identification of shocks in the model (e.g. based on Raddatz and Rigobon, 2003). It would be interesting to make a deeper analysis of factors to explain the differentiation of responses within individual business areas.

The research results are interesting from the perspective of the research on the transmission mechanism of monetary policy impulses in the Polish economy. The knowledge of differentiation at the division level of responses to monetary policy shocks conditioned by the impact of the structure of financing may be especially significant in the context of currently observed distortions on the financial markets as well as changes in the credit policies of financial institutions.

Bibliography


Summary

Janusz Ostaszewski, Piotr Russel

Poland’s Fiscal Exposition and Its Impact on Economic Growth and the Well-being of Its Citizens

The article aims at showing Poland’s fiscal exposition against the background of other European and non-European countries, as well as its impact on the economic growth and the well-being of its citizens. The most important conclusions to be drawn from the analysis carried out by the authors are as follows:

• the 43% share of public spending in GDP is too high and the expenses are relatively much higher than those in such countries as: Sweden, Denmark or France examined when these countries had a level of GDP per capita similar to the one currently achieved in Poland,
• dominating share of fixed expenses in the budget spending total prevents the Polish economy from faster economic growth than up until now,
• the structure of fixed expenses (among others subvention for local governments, subsidies for the Social Insurance Fund (FUS), subsidies for Agricultural Social Insurance Fund (KRUS) indicates ineffective systemic solutions, which as a consequence increases the level of fiscalism in Poland hindering the economic growth rate,
• in order to make the economic growth in Poland dynamic, it is necessary to take actions to reduce expenses financed by the public finance sector,
• changes must be introduced into the Polish tax system in order to reduce the volume of the grey economy.

At the same time, the article presents suggestions of changes to modify the existing fiscal system in Poland, the implementation of which should stimulate entrepreneurship and dynamise the economic growth of the country.

Jan Głuchowski

Introducing the Euro in Poland within a Currency System Perspective

While the vast majority of opinions favour the introduction of the euro currency in Poland, the concrete date is being disputed. The present currency system in Poland is based on the regulations of the Law on the National Bank of Poland of 29 August 1997. The choice between the national currency: the zloty and the euro became especially significant in face of the 2008/2009 financial crisis. Besides potential threats connected with the introduction of the euro in Poland, direct benefits are to be expected.

Małgorzata Iwanicz-Drozdowska, Radosław Kitala, Anna Matuszyk, Agnieszka K. Nowak

Dealing with Over-indebtedness: Approaches in Selected Developed Countries and in Poland

This article presents findings of an analysis of efforts undertaken in Poland and selected developed countries to minimise the impact of over-indebtedness.
The main aim was to present major initiatives of a preventive or remedial character that were taken in the studied countries. Such actions were undertaken by public as well as private institutions. All the activities presented were designed to improve people’s knowledge of finance and help them to make responsible decisions when taking out credit.

Each of the countries discussed has developed their own solutions to raise financial literacy among its citizens, so one model common to all would be difficult to find. However, in all these countries calls are heard for more such actions to be taken, because the costs and consequences of financial exclusion often exceed the costs of education. The situation now on the financial market, with the development of financial services, changes taking place in global financial markets (including the recent subprime crisis), have shown how important it is to be familiar at least with the basics of personal finance.

Pawel Felis

**Taxing Business in Poland: Taxes Levied on Immovable Property Held**

This article is intended to be the first part of a study undertaken to describe the role of property taxes in Poland. In this article the author discusses the general characteristics of property taxes, and the proceeds to a detailed analysis of economic legal taxes levied on real property held by businesses, that is to say, immovable property tax, agricultural tax and forest tax. It was assumed that in connection with the functions of property tax, it is necessary to present the specific features of such taxes. Within the legal structure of taxes charged on real property, in turn, elements of the structure of taxes are highlighted and their presence is decisive in recognising the observation of taxation. While the relevant legal regulations are laid down in separate acts of law, it has been assumed that they should be presented together. This was possible due to the fact that only one subgroup of property taxes was analysed – taxes levied on real property held.

Bogdan Mróz

**The Shadow Economy in Poland: Causes, Manifestations, Economic and Social Effects**

In modern economies there are different forms of unregistered business which play a significant role in the everyday operation of business entities (in particular small and medium enterprises as well as households). In Poland, as in other post-communist countries, the share of the shadow economy in GDP is considerable and according to the Central Statistical Office in the last decade it oscillated within 5–7%. The article attempts to identify the causes of the shadow economy and to shed some light on its major manifestations in Poland, especially those which appeared in the systemic transformation. The estimates of the unregistered economy in Poland were also presented and the ways to reduce the size of the shadow economy were characterised and recommendations for economic policies put forward.
Katarzyna Kreczmańska-Gigol

Transaction Valuation Model to Support the Development of Factoring Services on the New Markets

Factoring has been known in the world centuries, however it is continuously developing and appearing in new countries. In Poland factoring services started to develop together with the system transformations and entrepreneurship development in 1989. Despite the period of 20 years which has passed, factoring is developing dynamically and the Polish market is still an emerging market. One of the most essential obstacles in the development of this market in Poland is the lack of knowledge of factoring services in the business environment as well as the non transparency of fees. In order to increase the transparency of fees, a factoring transaction valuation model created by the author may be used. It may be applied not only in Poland but also on each emerging market.

Tomasz Chmielewski

Impulse Response to Monetary Policy Shocks at the Industry Level

The aim of the paper is to extend the understanding of the monetary transmission mechanism by analysing the impact of central bank policy shocks on the output of the particular divisions of the Polish manufacturing industry. The analysis is carried out in the context of the widely used in literature approach to the research on the monetary transmission mechanism based on the vector autoregression models (VAR). The additional use of information at a more disaggregated level should enable a better understanding of the monetary transmission mechanism. Such an approach to the analysis of the monetary transmission mechanism can disclose the differences in the reactions of particular sectors of the economy to the decisions of the central bank depending on the balance sheet structure typical to particular sectors of the economy and being a result of the typical structure of financing. This aspect is especially interesting in the light of recent events on the financial markets.