

REGULAR REPORT

FROM THE COMMISSION

ON

POLAND'S

PROGRESS TOWARDS ACCESSION

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A. Introduction

a) Preface

In Agenda 2000 the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership and that it would submit its first report at the end of 1998. The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*. Prior to those reports, implementation of the accession partnerships and progress in adopting the *acquis* will be examined with each applicant State in the Europe Agreement bodies. The Commission's reports will serve as a basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States' ability to meet the economic criteria and fulfil the obligations deriving from accession.

A dynamic approach should be maintained in assessing the progress made by applicant States in the regular reports which the Commission will submit to the Council.”

The European Council in Cardiff supported those conclusions, stating that “The Union’s priority is to maintain the enlargement process for the countries covered in the Luxembourg European Council conclusions, within which they can actively pursue their candidatures and make progress towards taking on the obligations of membership, including the Copenhagen criteria. Each of these candidate countries will be judged on the basis of the same criteria and will proceed in its candidature at its own rate, depending on its degree of preparedness. Much will depend on the efforts made by the candidate countries themselves to meet the criteria. All will benefit from strengthened relations with the EU including through political dialogue and tailored strategies to help them prepared for accession.”

In accordance with the guidance provided by these Council Conclusions, the progress report on Poland follows the same structure as the Opinion. It

- describes the relations between Poland and the Union, particularly in the framework of the Europe Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)
- assesses Poland’s situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)

- addresses the question of Poland's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

This approach ensures equal treatment for all the candidate countries. The report takes into consideration progress since the Opinion. It looks at whether intended reforms referred to in the Opinion have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. Each report contains a separate section which examines the extent to which Poland has addressed the short term priorities set out in the Accession Partnerships.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the Opinion, the economic assessment is based on a longer term evaluation of Poland's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. Only in this manner was it possible to objectively measure and compare concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the Opinion. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis* and the information provided in the context of the analytical examination of the *acquis* provided were additional sources of information. Council deliberations on the Opinion and the reports and resolutions of the European Parliament on the Commission Opinions¹ and in particular the report on the application of Poland for accession to the EU prepared by Ms. Hoff were taken into account in the preparation of the reports. The Commission also used assessments made by the Member States, particularly with respect to the political criteria for membership and the work of various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the IFIs as well as that of non-governmental organisations in preparation of the regular reports.

¹ European Parliament Doc. 224.339 'Report on the Communication from the Commission Agenda 2000' (Rapporteurs: A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens)

b) Relations between the European Union and Poland

The Enhanced Pre-Accession Strategy

On 30 March 1998 the accession process was formally launched by a meeting of the Ministers for Foreign Affairs of the fifteen EU Member States, the ten Central and East European applicant states and Cyprus. In advance of this meeting country specific Accession Partnerships were adopted to support the applicant countries in their preparations for membership. These documents set out the priorities for further work and the supporting financial assistance available from the EU. In May Poland presented the first version of a National Programme for the Adoption of the *Acquis* (NPAA) which describes in more detail the actions needed to reach the objectives set out in the Accession Partnership. Following the opening of the Intergovernmental Conference, Poland presented the main elements of its integration strategy at the opening session of the EU-Poland accession negotiations in Brussels on 31 March. An analytical examination of the *acquis* ("screening") started on 3 April. Pre-accession aid will be increased substantially. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agriculture and a structural instrument which will give priority to measures similar to those of the Cohesion Fund in environment and transport. The Phare programme will concentrate on institution building and investment in other areas.

Recent developments in bilateral relations

There have been difficulties in the implementation of the Europe Agreement by Poland, some of which have been resolved through the functioning of the various joint institutions.

The Association Council will meet in November 1998. An Association Committee meeting was held in March 1998. The system of subcommittees continues to function as a forum for technical discussions.

Since the issuing of the Opinion the Joint Parliamentary Committee comprising representatives of the Polish and European Parliaments met twice, in January and June 1998 and will meet in November. An Association Council Decision is being finalised to establish a Joint Consultative Economic and Social Committee.

Poland's trade with the EU has continued to increase its share of total trade. During the first five months of 1998 Polish exports to the EU accounted for 65 % of total exports (Germany 30%, Italy 6% and Austria 6 %). Imports from the EU amounted to 70 % (Germany 29 %, Italy 9 % and Austria 6 %) up from 64% in 1997. Poland's trade deficit with the EU widened from ECU 5.9 billion in 1996 to ECU 9.2 billion in 1997.

Under the Europe Agreement an adaptation protocol, covering in particular agricultural and processed agricultural products, has been signed to take into account the results of the Uruguay Round and the accession of Austria, Finland and Sweden to the EU.

A number of trade issues have been resolved through the consultation mechanisms provided for in the Europe Agreement (e.g. lifting of hides and skins and ferrous metal restrictions, removal of quota on spirits). However, the trend towards significantly improved co-operation identified in the Opinion has suffered some serious reverses (unilateral ban on Gelatine) with notable difficulties persisting in the field of processed and unprocessed agricultural products (spirits tariffs, livestock, fruit and vegetables). Meanwhile discussions continue regarding Poland's programme for the restructuring of the steel industry.

In the field of certification of industrial products, despite the long-standing difficulties which pre-dated the conclusion of an agreement in 1997, the signature and implementation of this agreement (Protocol on European Conformity Assessment Agreement) have stalled for more than a year. Delisting remaining products not subject to mandatory certification has not yet been made. The delay of this key reform which will have an important horizontal impact on Poland-EU trade and internal market preparation, presents evidence of a divergence between pre-accession policy and practice.

The 1998 Phare programme consists of a national allocation (150 MECU), based on the Accession Partnership priorities, to support in particular Justice and Home Affairs, agriculture, transport, as well as the participation in Community programmes and Tempus. Part of this amount is also foreseen for social accompanying measures for the restructuring of the coal and steel industries. An additional 53 Mecu have been allocated for a cross-border co-operation programme.

Under a new facility for large scale infrastructure projects, cofinanced by the European Investment Bank and the International Financial Institutions, 20MECU will be provided for Poland in 1998.

Poland also participates in and benefits from Phare funded multi-country and horizontal programmes such as customs, environment, small and medium sized enterprises, statistics, public administration reform and TAIEX.

The Commission decided to reduce the 1998 national Phare allocation for Poland by 34 MECU because of a lack of sufficient mature projects meeting the priorities of the Accession Partnership. Following this decision Poland made a number of significant changes in the management of the Phare programme.

B. Criteria for membership

1. Political Criteria

Introduction

In its 1997 Opinion on Poland's application for EU membership, the Commission concluded that:

“Poland presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights and respect for and protection of minorities”.

The Accession Partnership sets out the requirement to pay further attention to ensuring equal access to public services as a medium term priority.

Recent developments

The elections of September 1997 brought to power a new coalition government comprising Solidarity Electoral Action (AWS) and the Freedom Union (UW). Poland's political institutions continue to function properly in conditions of stability, including as regards cohabitation between the executive and the president. This stability has been consolidated with the entry into force of the new Constitution on 17 October 1997.

EU membership remains a top political priority for the government

1.1 Democracy and the Rule of Law

The Parliament

The Parliamentary process is based on stable institutions and continues to function satisfactorily.

The Executive

The executive continues to function in stable conditions and the principal reforms and developments are outlined below.

State Administration Reform

A fundamental reform of the state administration at central, regional and local levels has been decided and will enter into force on 1 January 1999. The reform will replace existing structures by devolving powers to three levels of self-government at regional (Voivodships), county (Poviats) and commune (Gminas) levels and by reducing the number of Voivodships from 49 to 16 provinces in the future. Regional self-government will be provided in the new 16 Voivodships through regional governors (Voivods) appointed by central government, and new elected regional Councils (Sejmiks). The Sejmiks will be responsible for the development and implementation of regional economic policies and will have independent legal identities and budgets. At county level, 308 Poviats plus 65 city Poviats will be created with an elected Poviats representation (average 100,000 inhabitants), fixed assets and their own revenues and primary responsibility for the provision of public services. At commune level, the 2489 Gminas will be given new budgetary resources and new tax-raising powers to undertake the provision of primary community services. The new system includes an "equalisation principle" that will allow a redistribution of revenues between regions. Elections to the new bodies have taken place on 11 October 1998.

Status of Civil Service

A significant reform of the status of civil servants is required to reinforce the efficiency of the administration and to ensure the development of an adequate pre-accession administrative capacity. The implementation of the 1996 legislation has not achieved the desired results. A relatively small number of civil servant appointments has been made since its introduction and a large number of state officials remain with a different status.

A revised law aimed at improving the current situation is under discussion. The draft 1998 Civil Service Act aims to establish an open, competitive, career system to replace the 1982 Law on state employees and the 1996 Law on Civil Service issues. This would provide a new two tier corps of civil service employees with provision for competitive examinations for permanent status. A core concern in the implementation of the new act will be equal provision of access to the public service on an open and independent basis to ensure continuity of administration in the years ahead. The issue of remuneration of civil servants is also addressed in the 1998 Act and will require further attention in the years ahead to ensure the recruitment and retention of a body of experienced officials.

The Judiciary

The difficulties and constraints identified in the Commission's Opinion remain a source of concern. The average time for processing court cases has progressively increased. Delays of up to 4 years in reaching first instance judgements in civil matters are not uncommon. In criminal procedures cases are frequently not processed for a similar period of years whilst the maximum duration of preventive detention before trial is 2 years. The treatment of cases relating to real estate issues is severely hampered by the poor state of the land register. The enforcement of court rulings and access to the courts have not improved since the Opinion.

However, the provisions of the 1997 Constitution set out a framework for significant reinforcement of the rule of law. Important developments during the last year include:

- the 1997 Constitution has enhanced the functioning of the rule of law in particular regarding the powers of the Constitutional Tribunal to resolve issues of conflict between different branches of the state authority and by providing citizens with judicial recourse in cases relating to the infringement of their Constitutional freedoms. The Constitutional Tribunal has exercised its functions in accordance with its invested powers.
- The principle of the independence of the judiciary has been clarified in the context of the Lustration process with the result that judges or prosecutors deemed to have worked with the Secret Services prior to 1989 may be barred from office if the due process of law arrives at that conclusion.
- A new Criminal Procedures Code, providing for improved operation of the criminal justice system in line with the European Convention on Human Rights provisions, entered into force on 1 September 1998. The new code includes a greater emphasis on defence rights and respect for human dignity, reduces maximum detention time from 72 to 48 hours, and provides alternative punishments to incarceration.
- A new Penal Code and Code of Penal Procedures adapted to conform to European Convention on Human Rights standards entered into force on 1 September 1998. The new code replaces capital punishment with life or 25 year imprisonment. A number of other significant changes are made which serve to reduce the age limit for prosecution of

minors on serious offences (15), to reduce the minimum period for detention (1 month), to reduce the maximum punishment threshold for certain serious offences and to increase penalties for serious crimes. The Code also introduces new categories of criminal offences (e.g. computer and environmental crime) and new procedures (mediation, settlement, trials in the absence of the accused). The Penal Code reform is timely and conforms to the principles of *nulla poena sine lege, lex retro non agit, and nullum crimen sine lege*, but continues to be subject to a lively political debate.

Further efforts are required to improve the status of judges, prosecutors and officials. In particular, the level of enforcement of judicial decisions and the length of judicial proceedings, particularly in commercial matters, require significant further efforts.

Anti-Corruption measures

The Opinion highlights the need to intensify the fight against corruption. However, the efforts undertaken by the Polish authorities since the Opinion have not responded adequately in relation to the importance of the issue and little progress has been made on the establishment of a genuine anti-corruption policy. The 1990 European Convention on Laundering, Search, Seizure and Confiscation of proceeds from crime is not yet ratified. Poland signed the OECD Convention on Corruption in December 1997.

Government policy on anti-corruption continues to be based on the 1992 Anti-corruption law and has been reinforced by a number internal control bodies which are being established in the administration. An Act regulating the conduct of civil servants regarding their engagement in economic activities entered into force on 1 January 1998. Significant further efforts will be required to ensure that adequate legal and institutional means are available for enforcing government anti-corruption policy in the administrative and economic life of the country.

1.2. Human Rights and the protection of minorities

It would appear that there have been no cases of inhuman and degrading treatment recorded in Poland since the Opinion. Poland has already acceded to most of the major human rights instruments. The 1997 Constitution provides explicit protection for the citizen's right to privacy.

The ECHR Conventions Protocols 6,7 and the Framework Convention for the Protection of National Minorities are not yet ratified. However, Poland has ratified Protocol 11 of the ECHR and the European Social Charter during the last year.

Civil and Political Rights

Basic rights continue to be respected and some developments were registered in the last year, in particular:

- The office of Commissioner for Civil Rights Protection (CCRP) has been established. With a staff of 190, the CCRP office is functioning well and has made a significant

contribution to the protection of citizens' rights. The CCRP is appointed by the Sejm for a five year tenure, his decisions are not subject to appeal, citizens are entitled to free access and the Commissioner enjoys high public confidence. The CCRP has reported that further efforts are required to improve provisions for legal recourse for members of certain professional groups (armed forces, civil servants, medical profession) who have been subject to disciplinary measures.

- The 1998 Data Protection Law sets out the improved provisions in this area and has led to the establishment of a General Inspector for Data Protection. The Commissioner for Civil Rights Protection has prepared an assessment of the procedures and practices on wire-tapping and control of private correspondence and a review of the Law on Access to Information is under consideration regarding the provisions for "disclosure of financial information to the state authorities".
- An important debate has developed regarding the 1997 "Lustration" or Vetting Act which requires that those holding or seeking elected posts and senior government judicial, or public media positions would submit declarations as to whether they were agents for the security police from 1944-1990. An admission of involvement would not automatically debar the individual from office. The Vetting Act provides for a Vetting Court which has not been established due to the absence of sufficient judges for the 21 person body and the Act is therefore not enforced. Should Poland decide to adopt this legislation efforts will be required to ensure that the law is implemented in accordance with full respect for human rights and the due process of law.

As far as freedom of expression is concerned, Poland continues to have a lively and active press. The provisions of the Penal code regarding the liability of journalists to prosecution due to "slander and abuse" of the public authorities does not in practice appear to have caused problems for journalists' rights to freedom of speech.

Poland's non-governmental organisations continue to play an important and influential role in national debate.

Given the significant increase in asylum applications between 1994 (598) and 1997 (3531) the treatment of asylum seekers remains an important issue. In general, asylum procedures are carried out in accordance with the law but further efforts are required to improve the speed of processing. A Refugee Council has been established under the 1997 Aliens Act to treat asylum appeals.

Economic Social and Cultural Rights

Basic social, economic and cultural rights continue to be guaranteed.

Nevertheless, Human Rights organisations have expressed their concerns about the need to make progress on national policies improving the treatment of women.

Minority Rights and Protection of minorities

The respect for and protection of minorities continues to be assured and in particular:

- the 1997 Constitution's explicit protection for minorities appears to be functioning well.
- policy towards the Germanophone minority continues to be constructive with continuing special rights to electoral representation resulting in 2 members of the Sejm being elected. The proposed territorial reform will further the inclusion of the Germanophone minority through the creation of the region of Opole.

The President and Government of Poland have worked constructively to meet the concerns of the Jewish community. In particular, the Polish Government has made commitments to contribute to an international assistance fund for victims of Nazi oppression.

It has also to be recalled that the 1998 Penal code provides for penalties against those who use the mass media to "advocate discord" on national, ethnic, racial or religious grounds.

1.3 General evaluation

Developments in Poland confirm the conclusion of the Opinion that Poland fulfils the Copenhagen political criteria and its institutions continue to function smoothly. Important progress has been made in dealing with the weaknesses identified in the Opinion, in particular as concerns civil rights protection and legislative measures regarding penal and criminal proceedings.

2. Economic criteria

2.1. Introduction

In its 1997 Opinion on Poland's application for EU membership, the Commission concluded : "Poland can be regarded as a functioning market economy"; it "should be well able to cope with competitive pressure and market forces within the Union in the medium term".

In examining the economic developments in Poland since the Opinion, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires :

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion.

2.2. Economic developments since the Commission published its Opinion

In the period since mid-1997, the Polish economy continued to show high growth. Unemployment fell below 10% in May 1998 and the inflation rate should reach single digits by the end of the year. The monthly devaluation of the zloty has been reduced to 0.5%. The

lower government deficit should allow for a further relaxation of monetary policy in due time, without putting the reduction of inflation at risk. The Russian crisis should not interrupt these favourable developments, although it may take somewhat longer than previously expected to curb the widening of the trade and current account deficits. Poland has embarked upon a wide-ranging and broadly coherent set of further reforms. Their implementation will have public finance implications, and may still run into serious opposition.

Macroeconomic developments

Real GDP increased by 6.9% in 1997 – between 1 and 2 percentage points higher than expected by most forecasters when the Opinion was written. Industrial and construction output, including assembly production, grew particularly fast. In the first nine months of 1998, real GDP continued to grow at the same pace. Following a notable increase in building permissions, construction activity grew by about 15% in the first eight months of 1998 compared to the same period of 1997. Industrial output growth slowed down to 6% this year. Throughout 1998 business confidence indicators in both sector have been lower than in the same months of 1997, foreboding a slowdown in the growth of economic activity that has recently taken place.

During the second half of last year, exports began to grow faster than imports and this trend has continued into the first half of 1998. Even after taking into account the possible impact of the Russian crisis, it seems likely that the current account deficit will not widen much beyond 4% of GDP; the deficit of 3.2% of GDP in 1997 was already smaller than expected. Thus far, the trade deficit in 1998 has been only slightly larger than in 1997. Contrary to earlier indications, the surplus on unrecorded trade with neighbouring countries has hardly decreased. The corresponding surplus on unclassified transactions on the balance of payments offsets the trade deficit for the largest part, and the remaining part is covered by the net inflow of foreign direct investment (FDI).

Since February 1998, year-on-year inflation has consistently fallen, and is now definitely back on track to reach single digits by the end of the year. Average real wages increased by about 5% in the first part of this year, which was low in comparison to productivity growth but moderate enough in view of the possible slowdown in economic growth.

The fall in inflation and the better-than-expected out-turn on the government budget during the first part of this year allowed the Monetary Policy Council (RPP) to cut, in mid-July, the rediscount and Lombard rates of the central bank by 200 basis points to 21.5% and 24%, respectively. The RPP also reduced the minimum money market intervention rate twice this year; it is now at 18%. This still leaves real interest rates at a higher level than two years ago, but if there was a possibility to ease interest rates earlier this year this has been interrupted by the depreciation of the zloty in the aftermath of the financial crisis in Russia.

Poland: Main economic trends		1994	1995	1996	1997	1998 latest	
Real GDP growth rate	<i>per cent</i>	5.2	7.0	6.1	6.9	5.9	Jan-Jun
Inflation rate							
annual average	<i>per cent</i>	32.2	27.8	19.9	15.0	12.9	Jan-Aug
December-on-December	<i>per cent</i>	29.4	21.9	18.7	13.2	11.1	Aug-on-Aug
Unemployment rate, end-year							
ILO definition	<i>per cent</i>	14.4	13.3	12.3	11.2		
registered	<i>per cent</i>	16.0	14.9	13.2	10.3	9.5	Aug
General government budget balance	<i>per cent of GDP</i>	-2.4	-2.1	-2.5	-3.1		
Current account balance	<i>per cent of GDP</i> <i>billion ECU</i>	1.0	0.7	-2.4	-3.2		
				-1.1	-3.8	-2.5	Jan-Aug
Foreign debt							
debt/export ratio ¹	<i>per cent</i>	221	169	145	123	115	Jul
gross foreign debt	<i>billion ECU</i>	35.5	33.6	31.8	33.6	35.6	Jul
Foreign direct investment inflow							
net inflow according to EBRD	<i>per cent of GDP</i>	0.6	1.1	1.8	2.2		
balance of payments data	<i>million ECU</i>	456	867	2159	2682	2395	Jan-Jul

Source: Commission services, national sources, EBRD
¹ Gross hard currency debt as a percentage of exports of goods and services

In the currency turmoil following the Russian crisis, the zloty depreciated by almost 10% and fell back to central parity. It returned to several percentage points above parity in the course of September, after the RPP decided to reduce the monthly devaluation of the zloty against the basket of currencies to 0.5% as a sign of its willingness to fight inflation. This was the third reduction this year. At the end of February, the monthly crawl was reduced from 1 to 0.8%, together with a widening of the band to +/-10% of the central parity. In mid-July, it was reduced to 0.65%. In early October, the RPP announced its preference for a double-currency basket, based on the euro and the dollar. The final decision rests with the government.

Based on the assumption of 6.1% real GDP growth and average annual inflation decreasing to 8.1% at the end of 1999, the draft budget for 1999 plans a reduction of the state budget deficit, excluding privatisation revenue, from 2.8% in 1998 (14.4 billion zlotys) to 2.15% in 1999. These assumptions were reasonably cautious, but expected economic growth is down by 1% in connection with Russia's crisis. The lowering of the budget deficit should allow a further relaxation of monetary policy, without putting the reduction of inflation at risk. It should also help to curb the widening of the trade and current account deficits.

In March, the Ministry of Finance presented its Medium-term Financial Strategy, which includes the best possible estimate of the general government deficit in accordance with EU definitions. At more than 3% of GDP, this deficit was on the high side, taking into account Poland's extended period of high economic growth is taken into account. In the medium-term strategy, it is assumed that the deficit would be reduced to 2% in 1999, and that it would be eliminated by 2003.

Structural reforms

Since the publication of the Opinion, Poland has started a number of reforms which are likely to bear heavily upon the state budget. In July 1998, the President and Parliament agreed on a

territorial decentralisation plan, which involves a reduction of the number of provinces to 16. This is the first time that a consensus was reached between the ruling coalition and the opposition, and there is some hope that this will facilitate the implementation of other reforms. The government is reviewing the system of public finance, and it approved a privatisation plan with links to pension reform. Poland provided the Commission with details of its steel restructuring programme and is discussing the restructuring of the coal mining sector with the World Bank.

In July 1998, the Polish government adopted a plan to sell most of the remaining state assets by the end of 2001. Among the state-owned enterprises to be privatised are some of the largest companies in Poland, including the two steel mills – Huta Katowice and Huta Sendzimir – that fell under the steel restructuring plan discussed with the Commission. The plan for this year also foresees a partial sell-off of state telecoms and the privatisation of the second largest fuel refinery. The national airline LOT and the insurance giant PZU would follow next year, together with the company that is to be formed out of the merger of part of the largest refinery with the biggest fuel retailer. The plan would be completed with the privatisation of the railways and the last remaining state banks – the savings bank PKO BP and the group of co-operative agricultural banks BGZ – by the end of 2001. The government is in the process of selling its stakes in three other banks.

The total revenue expected from the privatisation plan, which concerns some 1800 companies and 35% of Polish employees, amounts to some 100 billion zlotys (ECU 25 billion). Some 40 billion of this will be needed to cover the claims by the owners of property confiscated by the communist regime. Another 20 billion zlotys will be used to satisfy the Constitutional Court rulings to compensate employees and retired workers for not receiving the mandatory wage and pension increases to which they were entitled in the past. A similar amount is needed to create the second pillar of the pension system – privately managed pension funds to complement the existing system. Polish workers between the ages 30 and 50 will have the option to join such a fund or stay with the revamped pay-as-you-go system; those under 30 are obliged to choose a fund, whilst those over 50 will stay with the old system. While funding will have to be shifted from the state to the private sector, the government faces a substantial financing gap on existing pension arrangements. It aims to use privatisation revenue to fill this gap, and possibly other shortfalls.

In addition to the costs of territorial and pension reform, the Polish government will have to finance defence spending to upgrade its armed forces to NATO standards and the cost of the restructuring of the steel sector .

Polish citizens have until the end of this year to convert their privatisation certificates into shares in the 15 National Investment Funds. These National Investment Funds were created in 1995 to fund the privatisation of about 500 enterprises. Since June, they are listed on the Warsaw Stock Exchange (WSE).

Poland: Main indicators of economic structure in 1997		
Population	<i>million</i>	38.7
GDP per head	<i>PPS-ECU</i>	7500
as % of EU-15 average	<i>per cent</i>	40
Share of agriculture in:		
gross value added	<i>per cent</i>	5.9
employment	<i>per cent</i>	20.5
Investment-to-GDP ratio	<i>per cent</i>	21
Gross foreign debt/GDP	<i>per cent</i>	28
Exports of goods & services/GDP	<i>per cent</i>	26
Stock of foreign direct investment ¹	<i>billion ECU</i>	7.6
	<i>ECU per head</i>	198
<i>Source: Commission services, national sources, EBRD</i>		
¹ <i>FDI stock converted at end-1997 exchange rate of 1ECU=\$1.10421</i>		

The regional distribution of unemployment remains uneven, but the rapid reduction in unemployment in recent years has been country-wide. The unemployment rate in the country as a whole fell from 13.2% at the end of 1996 to 10.5% at the end of 1997, and then to 9.8% in May 1998. In many urban areas the labour market is actually tight, whereas in northern Poland regional unemployment rates, though falling, can still be higher than 25% due to the collapse of state farms and the closure of obsolete factories. Total employment increased by 0.6% only in 1997, which corresponds with about 95,000 jobs. The largest part of these were created in the services sector. The discrepancy between the net inflow into the employed labour force and the outflow of registered unemployed can be explained by the fact that there is little incentive to stay registered since unemployment benefits are low and 70% of the unemployed receive no benefits at all.

The restructuring of the coal and steel sectors will have major social consequences, as will have the reform of agriculture. According to the most recent government plan, the number of coal miners would have to be reduced from the present 240 thousand to about 130 thousand in 2002. On top of that, about half of the 90 thousand steel workers will have to find new jobs when the industry switches to higher-quality production.

The share of agriculture in total production decreased from nearly 13% in 1989 to slightly over 6% in 1997. Since the beginning of transition, agricultural trade has been hampered by the low quality of the goods. Nevertheless, the agricultural sector still employs roughly one quarter of the labour force, although presumably much of this is part-time. Since subsidies for agricultural products have been cut back substantially, and rents and the prices of gas, water and other necessities have increased, the real income of farmers remains very low.

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

The existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

Most prices in Poland are no longer publicly administered, but some markets are still distorted because particular enterprises are allowed to operate on a loss-making basis. Market mechanisms were introduced in the agricultural sector earlier than in other parts of the economy. Intervention prices apply to a number of agricultural products.

Tariffs on trade with the EU have been progressively dismantled in the framework of the Europe Agreement. However, Poland did not keep its commitment to reduce the tariff on steel imports to 3% this year. On 1 July, import duties were reduced to 4% as part of the deliberations on the steel restructuring programme. A reduction to 3% is now scheduled for 1999, and Poland intends to eliminate the steel import duties by 2000.

In August 1998, the government adopted amendments to the law on land and real estate ownership which leaves a great deal to be done in the area of liberalisation. Nearly 70% of total employment in Poland is in the private sector, which generates over 65% of GDP. In addition, there exists a dynamic network of businesses in the informal sector. This may explain why the transition process, after the initial shock therapy, has run reasonably smoothly, but it also reduces the ability of the government to raise the necessary revenue to pay for its reform and public investment plans. One of the main challenges for the Polish authorities is thus to bring the grey part of the economy into the open.

The privatisation of the larger enterprises has been slow, but the government has well targeted plans for selling most of its assets by 2001. Ninety percent of the total book value of the remaining 3000 state enterprises is accounted for by 420 large enterprises. The government's privatisation plans for 1998-2001 concern more than 1000 state enterprises, in sectors such as coal mining, steel, heavy chemistry and energy. The list of companies considered as strategic for the national economy consists of just 44 firms.

The high growth potential of the Polish economy and the prospects for further consolidation in the financial sector have raised its attractiveness to foreign investors. Domestic and foreign banks and insurance companies are seeking to exploit the market opened up through pension reform. More than 10 billion zlotys is expected to flow into the second pillar of the pension system in its first year of operation, possibly swelling to an accumulated total of 90 billion in 2005. A consortium of foreign banks and consultants has been invited to advise the Ministry of Finance on the privatisation of PZU, which controls two thirds of the life and non-life insurance markets in Poland. It is expected that the development of this market will give an impetus to the development and opening up of other financial markets, such as the securities market. As yet, there are no publicly traded corporate bonds and only a few municipal bonds. The over-the-counter exchange, which was established in 1996, has so far attracted only 13 listings.

Poland introduced a wide range of legal reforms early in transition, and continued to add to the existing legal framework. At the beginning of 1998, a new law on the central bank and

new banking laws came into effect, as well as legislation in the fields of securities, capital markets and acquisitions by foreigners.

Although economic policy is heavily debated in Poland, there is a broad consensus to maintain monetary and fiscal rectitude. In the brief period of its existence, the Monetary Policy Council has established its authority. It took decisions to reduce the rate of the monthly devaluation of the zloty, to widen the fluctuation band and to lower interest rates. Poland has no outstanding obligations to the IMF. The government has formed a task force to prepare a medium-term economic strategy that will be the basis for a Joint Assessment of economic policy priorities with the Commission.

The Polish economy is a functioning market economy. Poland has strengthened its macroeconomic stability and its legal framework. Privatisation is continuing at a steady pace but needs to be speeded up. The financial sector is developing and increasingly attracts the interest of foreign strategic investors.

The Capacity to Cope with Competitive Pressure and Market Forces within the Union

Poland's ability to fulfil this criterion depends on the existence of market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Evidence of this is provided by both the volume and the range of products traded with EU Member States.

Poland has a dynamic market economy, characterised by a high degree of macroeconomic stability which is conducive to economic growth. Characteristic of the Polish economy is the dichotomy between the private sector, which is dominated by small firms, and the larger enterprises, of which many are still state-owned and loss-making.

The rise in domestic demand in 1997 was driven by private investment, which in real terms was 22% higher than the year before, repeating or even improving on investment growth between 1995 and 1996, and raising investment to nearly 21% of GDP. From a macroeconomic point of view, it is important to note that the increase in investment was no longer accompanied by a decline in the savings rate – private consumption in 1997 grew at the same pace as GDP.

Foreign direct investment (FDI) into Poland was relatively low until 1997, but it increased substantially during the past two years. The inflow of FDI in the first half of this year was as large as for the whole of 1997, which would bring the accumulated inflow since 1990 at ECU 13 billion according to EBRD estimates. In qualitative terms, FDI is playing a key role in the development of the Polish economy. More than 10% of total equity, and some 5% of overall employment, is connected with foreign capital. Moreover, the share of companies with foreign participation in investment outlays is approaching 50% in the manufacturing sector

and in trade and services. Interestingly, average labour productivity in these companies is reported to be twice as high as in the economy as a whole.

The boom in the emergence of small private enterprises is continuing, reflecting both the creation of new enterprises and the registration of successful ones operating previously in the grey zone of the Polish economy. Poland's growth performance largely rests on the activities of small and medium-sized enterprises (SMEs), and 90-95% of the registered SMEs have only 1-5 employees.

The access of households and small enterprises to banking credit seems to be improving – some guarantee funds for the loans of SMEs have been set up, the taxation of individual entrepreneurs has been streamlined, and a central register for claims on movable property has been established. However, the financial mediation between private saving and the financing of SMEs remains inadequate and underdeveloped. Moreover, increasing the transparency and implementation of the taxation system further, and reducing the “red tape” that is still hampering market access, would help to improve the business environment.

The employment offered by SMEs, up to now mainly in manufacturing and services, will be critical to absorb workers losing their job due to restructuring. The traditionally important agri-food business faces considerable pressure due to the rapid entry of multinational companies and foreign retail chains. Apart from agriculture, the need for restructuring is severe in the coal, steel and defence industries. Because of the local importance of these industries, their transformation can have painful regional consequences, in particular in eastern and southern Poland. The best illustration of what can be achieved by rigorous privatisation is still provided by the different fate of the Gdansk and Szczecin shipyards, as the privatised Szczecin yard has performed well in stark contrast to the Gdansk shipyard.

Poland's infrastructure for communications, energy provision and transportation is obsolete, and requires urgent upgrading. There is also a great need to address environmental concerns. While private investment opportunities in these fields have been held back by the slow pace of restructuring and privatisation, government investment has been limited by the commitment to fiscal restraint. Private-public partnerships are increasingly promoted as possible modes of infrastructure financing, but especially in the area of urban and municipal renewal are faced with uncertainty about the financial implications of public administration and territorial reform.

Research and development is still regarded as a matter for the state budget rather than an activity which should be carried out within the enterprise sector. Poland has established a program for technology transfer to small and medium-sized enterprises with the explicit objective of regional distribution. Improvements in infrastructure, transport and telecommunications could also help to spread economic development more equally across the country.

Trade integration with the EU has remained high – roughly two thirds of Polish trade is with the EU, and the largest part of this concerns manufactured goods. The Polish balance of payments includes a large surplus on unclassified transactions on the current account. In 1997, this surplus covered about half of the ECU 9,2 billion trade deficit. There is a need to resolve problems related to illicit trade, serious under-reporting of the value of imports and corruption. It is estimated that some 25% of trade on the eastern borders, and 15-20% of trade on the border with the EU, goes unrecorded.

Poland's export performance has improved further since the Opinion, but there is scope to enhance the competitiveness of specific sectors. The restructuring of traditional sectors such as coal and steel and the modernisation of agriculture need to be pursued with vigour. Steps should be taken to facilitate the access of SMEs and new firms to financial markets. This could also help to alleviate the social consequences of restructuring. Progress in the implementation of pension reform provides an opportunity to gear up the development of the financial sector. Nevertheless, the Polish economy as a whole can be regarded as well able to cope with competitive pressure and market forces within the Union in the medium term.

2.4 General evaluation

Poland can be regarded as a functioning market economy, and it should be well able to cope with competitive pressure and market forces within the Union in the medium term, provided that it strengthens the pace of economic restructuring and continues to avoid reversals in trade policy.

Since the Opinion macroeconomic stabilisation has strengthened. There has been progress in the implementation of pension reform; the financial sector underwent further reforms and attracts increasing interest from foreign investors. Poland's export performance has improved to the extent that the widening of the trade and current account deficits could be curbed in the next few years.

Priority must be given to the implementation of reforms, in particular the privatisation of state enterprises, coal and steel restructuring and the modernisation of agriculture. The evolution of public finances linked to administrative and territorial reforms should be closely watched. Progress in the implementation of pension reform should be used to gear up the development of the financial sector and the access of small, medium-sized and new firms to financial markets should be improved.

3. Ability to assume the obligations of membership

This section aims to up-date the Commission's Opinion of 1997 as concerns Poland's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1997 Commission's Opinion on Poland's application for EU-membership, the Commission concluded that

“If Poland continues its efforts on transposition of the *acquis* relating particularly to the single market, and intensifies work on its implementation, Poland should become able to participate fully in the single market in the medium term. Particular effort and investment will be needed to meet the *acquis* in sectors such as agriculture, environment and transport”.

The presentation below of the different subject matters follows the same structure as the 1997 Opinion, but the general descriptions of each sector have been omitted. Instead, the report

focuses on the progress made since July 1997. Under each heading an analysis of legislative decisions and progress in implementing and enforcing legislation are reported.

3.1. Internal Market Without Frontiers

As explained in the Opinion, the Union's internal market is defined in Article 7a of the Treaty as an area without internal frontiers in which the free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislations but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

General Framework

In the field of Public Procurement amendments improving the competitive aspects of the Polish public procurement system entered into force late in 1997. However, a further modification of the public procurement Act is necessary to ensure compatibility with the *acquis*. At the level of implementation some progress has been noted with an increase in the number of tenders advertised and submitted, and in the number of open procedures.

Poland has now acceded to all industrial property conventions administered by WIPO (World Intellectual Property Organisation) and mentioned in Article 66 of the Europe Agreement. A border enforcement system valid for copyright and industrial property has been in force since 1 January 1998.

Since 1994, no changes have been introduced to adapt copyright legislation to the *acquis* communautaire. Very important efforts are still required to render the Polish intellectual property legislation compatible with the Community law. Significant attention will be required in monitoring progress in this field particularly with regard to the enforcement of intellectual property legislation .

No significant developments have taken place in the area of Company Law since mid-1997. Further efforts are required to fully harmonise Polish Company Law legislation with Community laws in the short term.

Implementation in practice of the existing accounting rules which are broadly in line with the *acquis*, is still a source of concern, notably with regard to a transitional shortage of qualified auditors and efforts should be pursued if it is to be solved in the medium term.

The adoption in August 1997 of an Act on personal data protection, largely inspired by the Community legislation, has addressed an important legislative vacuum. The Law on Personal Data Protection prohibits processing personal data revealing a wide range of personal data and

provides safeguards through the right of individuals to inspect the processing of data and to protect information which may determine their identity. The position of Inspector General of Personal Data Protection appointed by the Sejm was created in 1998.

The parties to the Lugano Convention on jurisdiction and enforcement of judgements in civil and commercial matters have agreed that Poland should accede in the short term to the Convention.

The Four Freedoms

Free Movement of Goods

The Accession Partnership short term priorities in the field of Certification and Standardisation have not been fulfilled. Delays have occurred in signing and implementing the Protocol on European Conformity Assessment. The failure to adopt framework legislation on Conformity Assessment, Standardisation, Producer Liability and General Product Safety has impeded the subsequent adoption of sectoral legislation and New Approach directives. The existing infrastructure in the fields of standardisation, certification and accreditation has not been adapted.

In the fields covered by the New Approach Directives, there has been no progress in transposition or implementation

Free Movement of Capital

The Opinion concluded that Poland's efforts to liberalise capital movements have met with considerable success, even if further efforts are still required to assume fully the Community *acquis*, especially in the real estate area.

Since mid-1997, the following changes have been made:

- Entry into force of the new Foreign Exchange Law which will fully free current transactions and a substantial portion of capital transactions, while most remaining restrictions between Poland and the OECD countries are to be abolished by the end of 1999.
- The functioning of the banking system was fundamentally modernised through the Act on the National Bank and the Act on the Banking Law, which were designed with reference to European Union and the OECD standards.
- A new Law on Public Trading came into force in January 1998 to reflect the broadening of capital market activities as well as the need to comply with OECD liberalisation obligations.
- A new Law on Investment Funds is effective since February 1998 and allows greater investment opportunities by creating new categories of funds, partially based on the provisions of the EU UCITS Directive.

The remaining restrictions on short-term capital movements should be lifted before the end of 1999, as indicated in the Polish OECD liberalisation timetable. Investments in real estate by non-residents are still characterised by significant limitations.

These changes should help to move Poland's financial markets towards more maturity in terms of product range, markets and institutional organisation, and allow for a full implementation of the Community *acquis* in the field of capital movements.

Free Movement of Services

The privatisation process in the banking sector is progressing, with concrete evidence provided by the sale of majority stakes in Bank Handlowy and Powszechny Bank Kredytowy in 1997. Since mid-1997, a series of laws, notably a new Banking Act and an Act on the National Bank of Poland, have been adopted which approximate further the Polish legislation with the Community *acquis*. The new Banking Act will allow branching from foreign banks as of 1 January 1999 and provisions on large exposures and on money laundering have been strengthened. As a result of the new legislation, some of the attributions of the NBP have been devolved to a Council for Monetary Policy and a Banking Supervision Commission and the Ministry of Finance has been empowered to issue secondary legislation.

In the field of payment systems, efforts have been made but should be continued in view of the implementation of the real-time gross settlement system.

A new law on public trading of securities and a Law on investment funds came into force in the beginning of 1998, thereby aligning further the Polish legislation with that of the EU.

In the field of Insurance, legislative developments have been limited to the elimination of some restrictions on reinsurance operations. Regarding the problem of money-laundering, the Polish Government has yet to establish a State Agency of Financial Information. In June 1998 the Banking Supervision Commission adopted guidelines on the treatment of money laundering cases

Free Movement of Persons

(a) Free Movement of persons, Freedom of establishment and Mutual Recognition of Diplomas and Qualifications

Since the Opinion no progress of note has been achieved in this field. Concerning the mutual recognition of qualifications and diplomas, the task of compliance requires a considerable intensification of efforts although the basic legislative framework exists .

(b) Abolition of Checks on Persons at Internal Frontiers

Steps on visa policy are covered in section 3.7 on justice and home affairs.

Competition

On 2 June 1998 the Polish Government approved the strategy for 'Counteracting Monopolies and Strengthening Competition Practices' which provides a rather general outline of broad policy without detail at the level of legislation and enforcement. The Office for Competition and Consumer Protection has been active, issuing 199 decisions in 1997 whilst the Anti-Monopoly Court has begun to function with 49 cases processed. On Mergers and Acquisitions

a total of 1387 cases were considered in 1997. Liberalisation/privatisation is concentrating on certain sectors only whilst in some important sectors (financial services, postal services), progress is slow. Restructuring efforts need to be continued in certain sectors (steel, coal, shipbuilding) with a view to increasing competitiveness. The role, functioning and powers of the Office for Competition and Consumer Protection need to be reinforced and the number and qualification of staff need to be increased. Expertise should be reinforced at all levels (judiciary, sub-national administration).

In the State aid area, although co-operation with the Polish authorities has been intensified since the Opinion, the adoption of a satisfactory State Aids law and the setting up of an independent State Aid Monitoring Authority are still awaited. State aid remains the area in which a qualitative leap is needed. Greater attention needs to be paid to distortion of competition arising from indirect aids (in the form of e.g. tax-relief, debt write-off, tax arrears write-offs) and from aids given by sub-national authorities. Operating aid should be closely controlled and subject to conditions. Special regimes (Economic Zones, ...) should be brought into conformity with the *acquis*. Transparency has been improved through the draft State aid report on aids granted in 1996, which presented an improvement on the previous text as it broadly followed the methodology of the Commission's surveys. However, the next State aid inventory should be further fine-tuned to ensure full transparency, and further efforts are required to improve the gathering and flow of statistical data, particularly at the sub-national level.

Conclusion

It is regrettable that Poland's commitments to transpose and implement the *acquis* in the field of Conformity Assessment and Standardisation have not been fulfilled, since this is a short term priority in the Accession Partnership. Significant efforts are required to bring the Polish programme back on track given the amount of legislation required to adopt sectoral and New Approach directives. Poland continues to make a phased liberalisation of capital movements but the timetable for future liberalisation remains to be clarified. Some work remains to be done to transpose the directives on bank accounts, supervision on a consolidated basis and on capital adequacy. A firm timetable for introducing the principle of mutual recognition in Polish legislation on securities markets awaits adoption. Significant efforts remain to be undertaken down to the level of programming approximation of the *acquis* concerning the mutual recognition of professional qualifications and diplomas.

Considerable work remains to be done to prepare appropriate institutional structures to manage standardisation, certification, accreditation and market surveillance activities. Particular attention will be required to ensure that the measures adopted, notably in the field of intellectual and industrial property rights (including border enforcement) and of data protection are effectively implemented. Attention is required to ensure that the implementation provisions of the Foreign exchange legislation attain the liberalisation goal in practice. Further efforts are required to establish and adequately resource a State Agency of Financial Information to deal with money laundering issues.

The short term Accession Partnership priorities in the field of state aids and antitrust/merger legislation will most probably not be fulfilled. In the field of antitrust/merger legislation, the enforcement of the current antitrust law should concentrate efforts on hard-core cartels and important mergers. On State aids, substantial improvements are urgently needed in legislation and enforcement. To ensure effective State aid control, the adoption of a legislative

framework together with the establishment of an independent State aid monitoring authority is urgently required.

3.2 Innovation

Information Society

Poland participates in the joint high-level committee on information society and actively supports the development of the information society.

The Polish Government is in the process of finalising key policy and institutional elements for the implementation of a Global Information Society Strategy including the finalisation of the policy entitled “ Objectives and Directions of the Information Society in Poland”. The telecommunications network continues to constrain information society development.

Education, Training and Youth

In July 1998 the Sejm adopted the basic principles of reform of the educational system amending the 1991 Educational System Act. The new Act includes provisions on new school structures, the reallocation of management responsibilities to regional and local authorities, the redistribution of financial resources and the decentralisation of education management.

Continued major efforts will be required to ensure that alignment in the field of mutual recognition of diplomas will progress. Significant further efforts are also required in the field of vocational training.

As of 1 March 1998 Poland is participating in the Socrates, Leonardo and Youth for Europe Community programmes and National Agencies have been established for each programme’s promotion and information.

Research and Technological Development

In September 1997 Poland asked for full association with the Fifth Framework Programme. Three rounds of exploratory talks aiming at preparing the negotiations have already taken place.

Research is mentioned as a priority in the National Programme for the Adoption of the *Acquis*.

Telecommunications

There has been little progress in this sector which is of vital importance to the economic development of Poland. Regrettably no new law has been brought into operation and the dominant position of the single state-owned operator TPSA remains substantially the same. A new operator is Cenertel controlled by TPSA. Some positive signs have been noted including the setting up of time-table for the first step in the privatisation of TPSA and the preparation of tendering for some local telephone services operators and for licences for long distance call

provisions. Progress is required to accelerate the enactment of the new telecommunications law and its implementing regulations and to ensure the establishment and independence of a National Regulatory Authority with a view to the implementation of ONP provisions and lines..

Difficulties outlined by the Polish authorities regarding the transfer of frequencies currently in military use need to be addressed through the application of appropriate available technical means. Special attention should be paid to alignment with the *acquis* communautaire with regard to the provision of a universal telecommunications service and the liberalisation of the telecommunications market..

Supplementary effort is also required for further alignment in the postal sector and significant attention will be required at the level of implementation.

Poland has asked for a transitional period in telecommunications.

Audio-visual

While some developments have taken place since 1997, further amendments are required to align broadcasting legislation with the Television Without Frontiers legislation in particular with respect to transfrontier satellite broadcasting. The National Broadcasting Council has extensive powers of implementation and monitoring, which are used to good effect. However, sustained efforts will be needed in the medium term to ensure full legislative alignment.

Conclusion

Progress is being made in information society and research and technological development. Further efforts are needed in the fields of education, training and youth. Limited progress has been achieved in the legal alignment in telecommunications and audio visual. Poland has requested a transitional period of yet undetermined length for full access for certain frequency bands for mobile communications.

3.3. Economic and Fiscal Affairs

Economic and Monetary Union

Poland has made good progress in preparing for integration and participation in Economic and Monetary Union.

The Polish authorities operate a clear exchange rate policy based on a crawling peg. At the end of February, the National Bank's monetary policy committee decided to cut the rate of crawl, while widening the band to 10% on either side. The rate of crawl has been further reduced twice, since then.

The transmission of monetary policy decisions to the banking sector is slow. The rapid rate of credit expansion over the last year raises some concerns on the monitoring of banks, even though the overall ratio of bad loans to total loans is decreasing.

Significant progress has been made on the compatibility of Central Bank legislation with the *acquis*. After the adoption of the Constitution in April 1997, a new National Bank of Poland Act passed Parliament in August 1997 and took effect in January of this year. The law has

created a monetary policy council and has set price stability as the central bank's primary objective. This new legal framework enhances the central bank's independence, as it no longer needs to obtain parliamentary approval for its monetary guidelines. In addition, loans or transfers from the Central Bank to the government are prohibited as from October 1998.

Taxation

Since 1997 Poland has continued to align its VAT legislation to the requirements of the EU. Recent changes include reducing the scope of the application of the reduced rate, starting the process of elimination of the application of zero rates, eliminating discrimination as regards the taxation and the application of the lump sum VAT. Progress remains to be undertaken regarding the application of different rates for national productions and similar imports and the absence of the right of deduction for input VAT in relation to international services.

The adjustment of Poland's excise duty law and the implementation of the Community provisions on Excise Duty suspension require further efforts. Moreover, new regulations introduced at the beginning of 1998 seek to remove differences in the taxation of imports and domestic products and to align alcoholic drinks taxation very closely to the Community model. Reforms in the field corporation tax, income tax and property tax have been carried out, including a reduction in the tax rates as regards corporation and income taxes.

Conclusion

Substantial efforts are still required in the field of VAT and excise duties. This is in particular the situation as regards the current discrimination against imports, and the introduction of a VAT refund scheme for foreign taxable persons not established within Poland. Moreover, improvements in administrative capacity related to the implementation of the Community *acquis* should also be strengthened as well as arrangements for administrative co-operation and mutual assistance.

Statistics

The Polish Central Statistics Office is committed to the adoption and the implementation of the statistical *acquis* communautaire including the non-binding acts. The necessary administrative structures are largely in place. Progress is still required in some areas including agricultural statistics where more information is now available from the 1996 Agricultural census. Further efforts are necessary in order to improve industrial statistics as well as the updating of the business register. Improvements are also required in the methodology applied to elaborate statistics on public debt and public deficit, and the valuation of government accounts. Particular attention is needed regarding estimations of the hidden economy. Progress is also required in the elaboration of regional and a careful and timely preparation of the trade statistics systems will be required with a view to accession.

3.4. Sectoral Policies

Industry

Poland adheres to the principle of a horizontal industrial policy, but specific policies are maintained for some sectors, such as shipbuilding and maritime industries, steel, mining, energy, defence industries, salt, asbestos and coke. A horizontal industrial competitiveness policy has been gradually developed in a number of policy documents adopted by the Polish government which appear to indicate that Polish industrial policy is broadly compatible with EU industrial competitiveness policy. A number of issues have arisen since July 1997, which raise questions concerning the implementation of industrial policy.

A restructuring programme for the steel sector adopted by the Polish government on 30 June 1998, meeting the short term priority in the Accession Partnership. The compatibility of the programme with the Europe Agreement is being assessed.

In the automobile sector, the current licensing system for the import of duty free parts was introduced in January 1998. Given the need to provide economic operators with a stable and predictable business and investment environment it is necessary to clarify whether and in what form this system would remain in force in 1999. A further issue in this sector is the gap between different tariff levels.

Conclusion

Poland has made progress in fulfilling the short term Accession Partnership priorities in the area of industrial restructuring (coal and steel). Major efforts are required to ensure the effective implementation of the Steel Restructuring Programme

Agriculture

Agricultural Situation

In 1997, agricultural production was slightly lower than in 1996 (0.9%) and 10% lower than in 1989. Meanwhile farm incomes fell for the second year running and farm structures did not change significantly. The official agricultural trade deficit has been reduced considerably in 1997, from 1.1 billion ECU in 1996 to 430 MECU in 1997, mainly due to a 20 % increase in exports. In particular, exports to the countries of the former Soviet Union increased considerably and accounted for 44 % of Polish agricultural exports in 1997. Agricultural exports to the EU have been falling sharply (only 39% of Polish exports in 1997). Poland's official agricultural trade balance with the EU continued to be negative.

The appreciation of the Zloty and fall in EU prices reduced the differential between Polish and EU agricultural commodity prices. The intervention agency has encountered considerable problems in 1998 due to the high prices paid to buy in cereals last year, and subsequent difficulties in disposing of its stock. The Polish Government has invoked the WTO Special Safeguard Clause in relation to imports of common wheat in order to protect the domestic market.

The period has been marked by certain specific problems which have disrupted external trade in some sectors. In late 1997 the EU introduced a ban on imports of dairy products from Poland after it was discovered that the control system did not meet EU standards and could not guarantee product quality. In the meantime, the Polish government has remedied its

veterinary inspection in this respect, partly as a result of the coming into force of the new Veterinary Act, and domestic sanitary inspection of dairies and milk processing plants has been improved. Imports of a range of products from the EU have been disrupted since Poland introduced restrictions on imports of beef gelatine and goods which may contain it. A variety of persistent problems have also occurred in relation to phytosanitary requirements, and complicated and cumbersome procedures for import and transit certification.

During 1997-98 10 new wholesale markets were established and support was provided for the establishment of producer groups and associations. During 1997-98 a market information system to monitor domestic and international prices was instituted and a monitoring system for import prices of perishable products was implemented.

Agricultural Policy

The adoption by the Government in April 1998 of a medium-term strategy for agriculture and rural development has marked a first step towards the establishment of a coherent structural and rural development policy to deal with the problem of the heavy dependence of rural areas on agriculture. However, significant efforts are required to identify in detail the components of an adequate policy in this area. The new strategy is not currently being translated into higher spending on agriculture and food. In 1997, 690 MECU of budget funds was spent on programmes for the restructuring and modernisation of agriculture and this is forecast to go down to 584 MECU under the 1998 Government budget. Substantial funds from the central government budget (72 %) continue to be spent on farmers' pensions and these amount to three times the expenditure on agricultural restructuring. A major change in the budgetary structure in this respect is not expected in the short term.

The new Veterinary Act of April 1997 entered into force in December 1997 and constitutes the basis for implementation and enforcement of veterinary requirements and establishes the State Veterinary Inspectorate. Progress has also been made on implementing legislation, including designation of 39 border inspection posts where veterinary control will take place. Laws on livestock breeding and reproduction and animal welfare have also been adopted. Legislation which will enable some upgrading of slaughterhouses and dairies to meet EU standards has been adopted.

At the beginning of 1998, the Ministry of Agriculture and Food was reorganised, as a first step in strengthening of the administrative structures to ensure the necessary capacity to implement and enforce the policy instruments of the Common Agricultural Policy. The Ministry has 16 working groups to examine the entire *acquis* and its enforcement. The results of the 1996 agricultural census were published and should facilitate the formulation of an appropriate agricultural and rural development policy.

Poland's agri-food industry has been strengthened by considerable injections of capital, however, much remains to be done to reach EU standards especially in basic processing such as slaughterhouses, liquid milk treatment and grain milling. Only 109 agri-food companies were still state owned at the end of 1997. These were mainly in spirits, grain and milling, meat and fruit and vegetable processing, and sugar. Profitability in the sector continues to increase mainly as a result of foreign investment. In 1998 the Government also agreed to the restructuring (and future privatisation) of the Bank for Food Economy, which has been a main lender to the agricultural sector in the past. This should improve the quality and level of agricultural credit in Poland once the restructuring plan is implemented. Land privatisation

and privatisation of former state owned farms has continued at a slow rate and mainly in the form of lease or rental agreements.

Conclusion

Regarding the Accession Partnership short term priorities significant further progress is required in the alignment of Polish legislation and in the economic integration of the agricultural and rural sectors. Current provisions for a rural development policy fall far short of the requirements facing Poland in preparing for accession. The restructuring of the agri-food industry requires further efforts in order to become more competitive. The upgrading of veterinary and phytosanitary facilities to EU standards remains a core priority.

Considerable progress is required in the establishment of sectoral market organisations, and in enforcing those laws which have been passed. Significant efforts are still required to strengthen administrative capacity in particular relating to the management of the CAP administration and in the veterinary administration at the central level.

Fisheries

Little tangible progress has been made in the fisheries sector during the last year. No start has yet been made regarding implementation of the Government's pre-accession proposals in this respect and adoption of the *acquis* in this field is only in the initial stages.

Progress required in the field of Fisheries regarding the transposition of the *acquis* is considerable, and as the Screening process has demonstrated the degree of progress required may have been underestimated in the Opinion. In the medium term, Poland needs to make further progress in modernising the sector and creating structures which correspond to the features of the EU fishing industry. The Polish fleet will require a modernisation programme to make it competitive and to respect the EU's multiannual guidance policy as well as EU regulations covering hygiene and safety.

Energy

A new energy law into force in December 1997 creating a basis for progressive approximation with the EU's internal energy market rules. However, most of the secondary legislation necessary to make the Energy law effectively operational is still awaited. Poland's energy economy is highly dependent on solid fuels, but coal production is being reduced.

A Government Programme for reform of the Coal Mining Industry from 1998 to 2002 was published in July 1998 and foresees a systemic restructuring of this key heavy industry . There is also a clear link between coal sector restructuring and price setting and attention is required to ensure that coal pricing for exports reflects market conditions. In the oil and heat sector prices have been recently liberalised. Energy prices have been increased but prices for households (for social reasons) do not yet cover costs. Poland's energy markets are protected from outside competition by limitations on licensing. The privatisation process for oil refineries is advanced.

Poland continues to prepare integration in the internal energy market also through the further development of energy networks. In the electricity sector progress has been made on the Baltic Ring and for definitive interconnection with the Western European networks. These efforts promise to strengthen regional collaboration and help to integrate regional electricity markets and to prepare for the internal energy market. Progress on the gas pipeline Russia-Belarus-Poland-EU is also to be noted. Oil stocks of approximately 30 days are available whilst legislation providing for the *acquis* requirement of 90 days is not yet adopted.

Conclusion

Progress has been good, but more remains to be done. The implementation of the planned coal sector reforms will be crucially important. Matters such as preparation for the internal energy market including the adjustment of monopolies, restructuring of the power sector, access to networks and energy pricing, the progressive lifting of import restrictions for oil products, emergency preparedness including the building up of mandatory oil stocks, state interventions in the coal sector and the development of energy efficiency and fuel quality standards still require close scrutiny and further progress. It is recommended that a more detailed energy section of the National Programme for the Adoption of the *Acquis* be developed.

Transport

Since the Opinion, the pace of adaptation to the European Union requirements concerning the transport sector has increased rapidly in terms of legislation, infrastructure development and operation of transport enterprises. The Accession Partnership requires that medium term efforts in adoption of the *acquis* should be placed on road transport (market access, safety and taxation) and rail transport and on ensuring the necessary investment for transport infrastructure, in particular the extension of the trans-European networks.

As far as taxation and VAT for road and combined transport is concerned, a new law implemented since January 1998 abolishes the lump sum levy for EU hauliers. Since December 1997 a 'vignette' system for road transport has been introduced the system has been modified in April 1998, lowering rates for day-and week-cards. Concerning road haulage significant efforts will be required to meet the challenge posed by the heavier load limits required by the European Union and the further growth of truck volumes which membership will induce. This implies in particular, the need to accelerate the modernisation of road infrastructure which even in present circumstances is insufficient, taking into account the Transport Infrastructure Needs Assessment (TINA).

A new Railway law was adopted in November 1997, separating infrastructure from operations and introducing a license system.

Conclusion

Although progress has been achieved, considerable efforts are required in the modernisation of the Pan-European transport infrastructure, the approximation of laws and standards regarding free movement of passengers and goods.

Further institutional support and training is required for civil servants and carriers dealing with European integration issues.

Small and Medium Sized Enterprises

Small and Medium Sized enterprises continue to be the engine of the expanding Polish economy. The establishment of a legal framework for the National Credit Guarantee Fund in liaison with the 1998 Banking Law has extended the credit base nation-wide for the provision of guarantees to SMEs and other economic operators. Poland's participation in the Third Multiannual Programme for SMEs is expected in 1998.

3.5 Economic and Social Cohesion

Employment and Social Affairs

The evolution of the employment situation has been characterised by a steadily decreasing rate of registered unemployed to below 10%. Given the impact of a rapidly changing market economy on the labour market, further attention is required to address the medium term supply of appropriate vocational skills particularly in regions most likely to be affected by economic transition.

In January 1998, the law on the reform of the health care system (on the agenda since 1989) was adopted. There are still serious shortcomings in the existing labour legislation, such as the need to transpose the directive on employer insolvency. The principles of equal opportunities are reflected in Polish law, but significant problems remain in their implementation. Provisions which entered into force in 1996 are not in line with the parental leave Directive.

Conclusion

Little tangible progress has been achieved in transposition. Poland should increase its efforts in the social field, particularly in the areas of health and safety, public health, labour, and equal opportunities. Furthermore, the relevant institutions require strengthening. Poland's administrative capacity requires significant reinforcement in the National Labour Office and with regard to labour inspection. The social dialogue needs strengthening particularly in regard to employers' organisations.

Regional Policy and Cohesion

The Opinion concluded that Poland would, in the medium term, be ready to participate in EU structural policy provided progress was achieved notably in strengthening the legal, institutional and budgetary structures within this field. Poland has achieved some progress in addressing these priorities

The territorial State Administration reform will enter into force on 1 January 1999 and should have a significant positive effect on the development of a genuine regional policy approach in Poland.

No central co-ordinating Ministry has been designated in Poland to date to assure badly needed co-ordination, even though a specific Government Committee on Regional Policy has

recently been created.. Poland's regional development strategy is still at a conceptual stage. Financial procedures remain weak as do financial instruments for regional intervention. Furthermore, Poland's co-financing capacity remains difficult to identify. Progress is also required on monitoring and control procedures.

Conclusion

Poland has achieved some progress in developing the capacity to participate in EU structural policy. However, many problems remain and efforts need to be accelerated if Poland is to be ready for participation by the date of accession. Institutional structures and Ministerial responsibilities need to be strengthened and clarified to ensure effective co-ordination and implementation.

3.6 Quality of Life and Environment

Environment

In the environmental field, Poland has made limited legislative progress since 1997. Measures adopted with a view to aligning Polish legislation to the *acquis* include the Decision on the list of hazardous waste, the sewage sludge Directive and the sulphur, lead and nitrogen dioxide Directives. The Accession Partnership requested Poland to continue transposition of framework legislation as a short-term priority, but this core priority will not be fulfilled this year. Furthermore, Poland's National Programme for the Adoption of the *Acquis* does not propose target dates for the transposition and the implementation of fundamentally important framework legislation.

Poland has partially transposed the water framework directive and the waste framework Directives. However, there are no activities foreseen for the development of the monitoring infrastructure in the air and water sectors. Most sectors still present a very low level of approximation especially in the noise, chemicals, air and water sectors.

Poland has not started developing directive-specific implementation programmes.

Major investments are needed. Poland should work in close cooperation with the International Financial Institutions in this regard.

Conclusion

The overall framework is poorly developed and it is hard to see how much progress can be made in the short term. Poland's National Programme for the Adoption of the *Acquis* needs to be considerably improved and it should cover the whole of the *acquis* including clear transposition and implementation dates for each EU legal act. The level of transposition is better in the nature protection and waste sectors whilst much effort is still needed in the chemical, noise, air and water sectors.

Regarding implementation and enforcement, Poland should concentrate its efforts on reinforcing the monitoring infrastructure in the air and water sectors as well as on strengthening capacity at regional and local levels. If the legislative work is not speeded up, full transposition could take longer than foreseen in the Opinion.

Consumer Protection

Poland has made little progress in the adoption and application of the *acquis* in the field of consumer and health protection since the Opinion. Delays in transposing the General Product Safety *acquis* continue to have a negative impact on the fulfilment of Poland's consumer protection policy. Existing legislation on Misleading Advertising and Price Indication requires further alignment. The Office for Competition and Consumer Protection has elaborated a programme for a consumer protection policy for 1998-1999 which was approved by the government. Consumer protection offices at regional level, consumer organisations and consumers' education still need to be further developed.

In view of the fact that consumer protection is a medium term priority in the Accession Partnership, Poland will have to make substantial efforts in this field. Consumers are reasonably represented through a number of active consumer organisations but there is still a need to improve the regulatory basis of relations between government and consumer organisations, and to improve the efficiency of the institutional structures.

3.7 Justice and Home Affairs

In its Opinion in July 1977 the Commission drew attention to the challenges facing Poland on drugs, border controls, immigration and international crime. The short-term objectives of the accession partnership put the emphasis on border controls, including the reform of visa policy.

The adoption on 29 April of a personal data protection law was a substantial horizontal measure; this is to be supplemented by rules for databases containing personal data..

Immigration / border control

A new Aliens Act came into force on 27 December 1997 aligned on EU law, particularly in terms of admission rules. There are as yet no implementing provisions. There has been steady progress on visa policy, one of the short-term priorities of the accession partnership. Waiver agreements with Armenia, North Korea and Vietnam have been rescinded, but the more urgent situation with Russia, Ukraine and Belarus has yet to be settled. The same applies to re-admission agreements with those countries, though Poland has shown its intention to press ahead by concluding a re-admission agreement with Lithuania. A step towards tackling the crucial issue of border controls has been taken by giving border guards new powers.

Asylum

The 1997 Aliens Act also contains clauses on the right of asylum and refugee status. Work should continue to bring about full alignment on the EU *acquis* and satisfactory implementation of the practical provisions, particularly as regards processing of asylum requests. The surge in such requests calls for the allocation of adequate administrative and human resources, with the emphasis on the training of staff responsible for processing of the requests. It would be useful to set up a special office to deal with all asylum-related issues.

Police

Since the Commission drafted its Opinion Poland has concluded bilateral agreements with Germany and Italy to tackle organised crime. The new criminal code and procedure which came into force on 1 September should also help, though more effort and money and better interdepartmental coordination are still needed if the present, overly bureaucratic procedures are to become more efficient. More highly qualified and better-paid personnel are needed to cope with the changing nature of organised crime; training could be improved by practical measures under the recently-concluded cooperation agreements with the training bodies in France, Germany and the Netherlands.

Though the 1990 Council of Europe Convention on Money Laundering has not yet been ratified, significant steps have been taken, including a clause in the new criminal law requiring notification of all transactions over PLZ 20 000. It would be desirable to back this up by creating a financial investigations unit and aligning on the provisions in force in the EU. As regards measures to tackle corruption, Poland has signed the OECD Convention of 17 December 1997 on Combating Bribery in International Business Transactions and is expected to ratify it at the end of this year. Moreover, an office of internal affairs dealing with corruption has been operating since May.

Drugs

Under the law adopted in April 1997 a Drugs Council has been set up under the Prime Minister. Its status and objectives need to be laid down in greater detail to ensure that there is no duplication of effort with the interministerial task force coordinating the fight against drugs, which seems to have done useful work on policy formation. To give effect to the objectives of the April 1997 law a comprehensive multidisciplinary strategy needs to be formulated, including designation of a national contact point for information on drugs. Given the scale of drug production and consumption in Poland a great deal still needs to be done to tackle the problem more vigorously at the national level.

Judicial cooperation

On the civil side the process of ratification of the 1998 Lugano Convention is under way and Poland is building on its cooperation agreements. On the criminal side Poland signed the additional protocol to the Council of Europe Convention on the Transfer of Sentenced Persons on 19 February.

Conclusion

One of the short-term priorities in the accession partnership was better border control, particularly with Belarus and Ukraine, and alignment on the EU's visa arrangements. Progress has been recorded in both these areas.

Broadly speaking Poland has made progress in most areas since the Commission Opinion. The exception is the fight against drugs, where a great deal of effort still needs to be made.

To achieve the partnership's medium-term objectives, however, these gains, where they take the form of adoption of legislation, need to be followed up swiftly by implementing provisions (e.g. the data protection act and the aliens act), better administrative organisation and additional resources, particularly in the area of asylum and organised crime.

3.8 External Policies

Trade and International Economic Relations

Poland is a member of the WTO and has introduced new regulations in 1998 concerning protective measures against unfair foreign competition. On accession Poland would become party to the Community's various preferential agreements, and with this in mind the Polish authorities are in the process of negotiating free trade agreements with third countries (Estonia, Israel the Faeroe Islands and Morocco). Additional protocols to CEFTA have been signed with Slovenia and Lithuania. Negotiations on an FTA with Turkey would provide for the cumulation of rules of origin and would be a significant bilateral step forward. Further attention will be required in this area given the requirement to terminate such agreements on accession. New Polish anti-dumping legislation entered into force on 1 January 1998.

Development

Poland has continued to play a constructive regional and international role in the field of development and no particular problems are envisaged.

Customs

In the customs field in general, limited progress has been made. The new Customs Code accompanied by executive legal acts, entered into force in January 1998. However, the implementing provisions of the new Customs Code are not fully aligned with standard EU procedures and significant difficulties continue to be encountered by EU operators. The requirements for further alignment relate to customs procedures, the application of an integrated customs tariff and the setting up of a binding tariff information system. Partial alignment with the EU *acquis* has been reached in the field of combating counterfeited and pirated goods. The ordinance of the Council of Ministers which entered into force on 1 January 1998 needs further amendment. There are problems with the implementation of the new system of cumulation of origin based on Protocol 4 of the Europe Agreement, particularly in the application of the "no drawback rule".

No significant progress can be seen in the uniform application of customs rules and procedures through the regional customs authorities. The Polish customs administration has not yet succeeded in developing a convincing integrated strategy for accession to meet the organisational, management, staff, training and equipment requirements for a modern, professional administration. There are still lengthy delays at customs posts. The computerisation of customs service needs to be strengthened.

Conclusion

The Polish customs administration still needs to undertake serious efforts for further alignment with EU legislation. Attention needs to be paid to implementation and to technical and administrative modernisation at central, regional and border level. The difficult circumstances which economic operators experience regarding delays and difficulties in the new system should be addressed. Significant efforts are required to reinforce the professional capacity of the customs service, to improve the standard of information systems and to set in place an adequate risk analysis system.

Common Foreign and Security Policy

Poland has continued to participate actively in the multilateral political dialogue within the framework of the Common Foreign and Security Policy (CFSP) since July 1997. It participates in the regular meetings of political directors, European and associate correspondents and in CFSP working groups. However, Poland diverged from the EU's demarche on Belarus following the expulsion of European diplomats.

At the Madrid summit on 8-9 July 1997 Poland was invited to start negotiations on membership of NATO. The accession protocol has been duly drafted and the process of ratification is continuing.

Poland's notable record of facilitating regional security has been reinforced with a positive chairmanship of the OSCE in 1998. In terms of regional foreign policy Poland's constructive relations with Lithuania have continued to deepen.

With the exception of the above-mentioned divergence on Belarus, Poland has continued to align with the CFSP *acquis*.

3.9 Financial Questions

Financial Control

With regard to external financial control no particular developments can be reported. There seems, however, to be an important risk of overlap in mandate and controls between the Supreme Chamber of Control and existing public internal control organisations.

With regard to the internal financial control, there is no central independent internal control body. Each budget spending ministry or agency is responsible for conducting some sort of internal control, but there is no legal act consistently regulating the internal control of public expenditure. The existing Law on Public Finance is at present being scrutinised for new

solutions and legal instruments relating to internal financial control. However, the process of implementing public internal financial control systems needs constant attention by the Polish authorities.

The Administrative Cooperation agreement with the Commission (September 1998) will provide for cooperation measures on public internal control and will support preparations for accession.

The implementation of the Law on Public Finance and the provision of an adequately paid administrative capacity to ensure effective management remain key priorities during the pre-accession strategy.

Conclusion

Some progress has been made in addressing the Accession Partnership short term priority regarding financial control. However, significant efforts are required to ensure that the implementation of the public finances act and the provision of an adequately resourced administrative capacity address this important pre-accession priority in the perspective of the management of pre-accession funds and Structural Funds.

3.10 General Evaluation

Poland has a mixed record in legislative transposition and implementation. Progress in the adoption of internal market legislation has not proceeded satisfactorily due to delays in adoption of the new approach and related institutional structures in the standards and certification area. There is also a need to set up a credible system of state aid control. A key weakness in the general record on approximation is environment where only limited progress has been made. On the other hand, Poland has demonstrated a willingness to tackle key industrial issues such as coal and steel restructuring.

While Poland has partially addressed the short term Accession Partnership priorities in the areas of economic reform and industrial restructuring particularly by submitting a steel restructuring plan by the 30 June deadline in the Accession Partnership, internal market and regional development, insufficient attention has been paid to the agriculture, environment and institutional and administrative capacity priorities. Poland has also shown determination in meeting the short term Accession partnership priority in justice and home affairs, particularly in the area of border management where first results are already visible.

4. Administrative Capacity to Apply the *Acquis*

This chapter updates the information given in the Opinion. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, but the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

In this year's report the Commission has worked with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on whether these bodies have sufficient legal powers to implement the *acquis*, on staffing levels and on staff qualifications and on budget availability. In some cases it is already possible to give information on the quality of decisions being taken. The Commission intends to further develop this aspect in future reports.

In its Opinion the Commission concluded that "further administrative reform will be indispensable if Hungary is to have the structures to apply and enforce the *acquis* effectively".

4.1 Administrative Structures and Capacity

The absence of a coherent and effective national policy for the recruitment, remuneration, training and development of the Civil Service remains a significant constraint on Poland's preparations for membership. The currently binding Act on Civil Service adopted by the Sejm on 5 July 1996 not been implemented as intended. There are ongoing problems in maintaining institutional continuity at management level due to changes of key administrative personnel with successive changes in government. There is a need to further develop a coherent integrated pre-accession strategy, focusing on upgrading knowledge of the *acquis* and foreign languages in particular at middle management level, to enable the administration to implement the *acquis*. The administration's capacity to cope with the management of pre-accession issues in the framework of the newly restructured regions of the state administration from 1 January 1999 will require significant attention.

The new law aims to replace existing legislation with a view to ensuring more transparent, open and competitive recruitment of civil servants, strengthened stability and neutrality of the post of the Head of Civil Service, competitive terms and procedures for appointments (clear rules for announcements of vacancies in the press), and obligatory training as the initial phase of employment, concluded by an exam. As with the previous legislation, the effectiveness of this legal framework will greatly depend upon whether it is applied in an independent manner.

The European Integration Committee Secretariat (UKIE) responsible for the co-ordination and management of pre-accession issues, employs 270 persons, and issued 1,100 opinions on the compliance of draft legislation prepared by the government. The overall supervision of both the negotiations and the work of the UKIE is carried out directly by the Prime Minister whose role reinforces the functioning of the office. However, the co-ordination of the overall pre-accession process and the preparations to negotiations continues to involve three different decision making bodies. In 1998 the Government created a special body co-ordinating preparations for negotiations - the Inter-Ministerial Team for Preparation of Negotiations composed of Task Forces dealing with particular areas and created the Negotiating Team to assist the Government Plenipotentiary. Currently the Negotiating Team consists of 18 members, usually at Deputy Minister level.

4.2 Administrative and judicial capacity: key Areas for the Implementation of the *acquis*

The uniform application of EC law : Little progress has been made to remedy the difficulties and constraints in the judiciary identified in the Opinion. Although the number of judges (1997 7633: 1996 7222), and Prosecutors (1997 4991 : 1996 4766) have increased, significant further efforts are required to improve the administration of the judicial system. The planned introduction of a system of borough courts to deal with petty claims is likely to contribute to the overall efficiency of the system of justice in Poland. The average time for processing court cases has progressively increased whilst in criminal procedures cases are often not processed for long periods. Moreover, the enforcement of court rulings and access to the courts continues to present problems. Nevertheless, general plans are under discussion for a thorough review of the judicial system but significant concrete efforts and resources will need to be provided to ensure that Poland meets the requirements of accession.

Single Market :The Polish Committee for Standardisation employs 300 persons and is the only standards body in Poland operating on the national level. Currently of the 18 000 Polish Standards, only 11% are fully harmonised European Standards. In the area of standardisation significant efforts are required to increase familiarisation with EU practice and to speed up the adoption of European standards.

As provided for by the Law on Testing and Certification, the Polish Centre for Testing and Certification (227 persons) combines the function of accrediting the testing laboratories and certification bodies with the function of quality systems certification and auditors certification. The PCBC also carries out product testing and certification. Poland lacks a uniform product and service conformity assessment system. In addition, the Polish system is slow, costly and its administration is non-transparent. The implementation of a revised administrative structure separating accreditation and testing functions and of related procedures necessary to implement the producer liability approach remain an urgent requirement.

On Metrology, the Central Office of Measures is a central organ of the state administration competent which is subdivided into 35 specialist laboratories and which supervises 9 regional verification offices, 63 local verification offices, 2 regional assay offices and 6 local assay offices. The Central Office of Measures employs 382 persons, while 1822 regional and local offices employ persons. Further efforts are required to improve the administration of metrology issues.

The Copyright Law Unit in the Ministry of Culture and Arts is Poland's intellectual property rights body and comprises 5 persons dealing with 606 cases in 1997. Significant efforts are required to reinforce the administrative capacity in this sector.

The Patent Office (400 staff) is Poland's Industrial Property Surveillance Body with a high proportion of highly trained experienced staff although only one person deals entirely with European Integration issues. The Patent Office has handled an increase in applications to 52,000 in 1998 from 48,400 in 1997. Given the constantly expanding range of tasks which the Patent Office faces, the institution requires strengthening of its human and computerisation resources particularly in the dealing with the *acquis*.

The Office of Public Procurement (UZZP) (60 staff) ,an independent agency, plays a policy making and coordinating role for the Polish public procurement market and is not a central-purchasing agency. The number of cases handled by the UZZP was almost four times more

than in 1995 with a caseload rising from 2800 in 1995 to 8700 in 1997 with 1005 appeals filed in 1997. Therefore, the administrative capacity of Office requires reinforcing in the years to come. The State authority responsible for the protection of personal data is the Inspector General of Personal Data Protection who has been operational since August 1998. Staffing is planned to grow from 20 to 50 persons by the end of 1998 with a registered caseload to date of 100 complaints, and 21 applications for the registration of databases. Due to its very recent creation it is difficult to assess the performance of the Data Protection Inspector General.

Regarding Poland's Financial supervision authorities, the Commission of Securities and Exchanges is a governmental agency whose activities are overseen by the Prime Minister. The Commission which adopts resolutions within its jurisdiction The reinforcement of supervisory capacity in the financial services sector has been prioritised in the new Banking Act which will strengthen supervision through the General Inspectorate for Banking Supervision which currently has 475 staff (150 in Warsaw, 325 in the different provinces). Further attention is required to ensure that these regulatory bodies have adequate resources and skills.

Competition :The Office for Competition and Consumer Protection (OCCP) is a governmental agency, employing 192 staff at Head Office and in nine regional branch offices. The OCCP's high turnover in staff due to low remuneration remains a significant constraint on its effective functioning. In 1997, in respect of mergers and transformation cases, the Office processed 1387 cases and issued 1225 opinions. Concerning monopolistic practices 319 investigations were carried out with 210 official proceedings resulting in administrative decision and 57 cases appealed to the Antimonopoly Court. The Antimonopoly Court is a department of the Voivodship Civil Court in Warsaw served by six judges, only two of whom are permanently delegated to this activity. The Court may overrule OCCP decisions or may refer them back to the OCCP for re-examination whilst its own judgements may be appealed in the Supreme Court. The role of the OCCP as a key body in the implementation and enforcement of the *acquis* underline the urgency of significantly reinforcing its role, staffing levels and competencies.

The State Aids unit in the Ministry of Economy employs 6 people. Whilst in the Ministry of Finance a group of experts dealing with public finances have developed a system of monitoring public aid. The nomination and adequate staffing of an independent and powerful state aid monitoring authority remains a vital issue for Poland's administrative preparations for accession.

Telecommunications : There has been little progress in telecommunications regulation since the Opinion. An independent Telecoms Regulatory office has not yet been established although foreseen in legislation due for adoption in 2000. Interim regulatory capacity remains inadequate and significant progress will be required in the short term to ensure that a regulatory policy and institutional framework adequate to the requirements of membership are developed without further delay.

Indirect Taxation : The Ministry of Finance is the supreme body responsible for the tax administration, including the administration of indirect and direct taxes. It supervises the operation of provincial fiscal chambers (49) and tax offices (355) which employ approximately 40,000 people, as well as fiscal control services which employ more than 8,500 people at 49 tax audit offices. The tax administrations deals with tax declarations of more than one million businesses and some 23 million individual taxpayers. In spite of high staffing

numbers, the tax administration continues to give rise to complaints due its excessive red tape and lack of transparency

Agriculture : The State Veterinary Administration operates through the Veterinary Department in the Ministry of Agriculture and Food Economy and at regional level through the veterinary inspectorate in each vovoidship. From 1999, the State Veterinary Administration will become a separate administrative body. The department has 25 staff in headquarters, of which 16 are veterinarians. At regional level there are a further 5677 staff, of whom 2112 are veterinarians. At headquarters, the department is seriously understaffed and a strengthened staff capacity and skills base is necessary. Meanwhile considerable efforts are required to upgrade laboratories and border inspections posts.

The State Phytosanitary Administration reports to the Ministry of Agriculture and Food Economy. It has 34 employees in headquarters and a further 1779 employees in its regional inspectorates. To facilitate implementation, efforts are required to strengthen the consultation mechanisms between the administration, the seed industry, plant protection companies, farmers' organisations and other concerned bodies.

Fisheries : The Government has decided to transfer responsibility for fisheries policy from the Ministry of Transport to the Ministry of Agriculture. Currently its capacity to administer the policy is very limited with only 5 officials and 30 inspectors dealing with administration and control issues.

Transport : Regarding the Transport Safety Inspectorate, no progress has been achieved since the Opinion in establishing such a body, nor is it envisaged to create one until 2000. This is reflected in Poland's roads and accident death rate and should be addressed as a matter of urgency..

Employment and Social Affairs : The National Labour Inspectorate which employs 1970 people, including 1164 labour inspectors and staff supervising inspections is responsible for the supervision and control of the observance of the labour code and health and safety regulations by the enterprises under its supervision. The ratio of inspectors per enterprise is comparable to the average ratio in the EU whilst the number of inspections is considerably less (EU average 300 visits per year: Poland 80). Polish labour inspectors concentrates on legislative enforcement rather than prevention. On 1 September 1998 a new law amending the fines and procedural administrative responsibilities of labour inspectors entered into force and this should improve the use and impact of labour inspection in Poland particularly in improving preventive measures which is an urgent matter given the record number of work related accidents(120.000) in 1997.

Regional Policy and Cohesion : The administrative responsibility for managing regional policy is not yet clearly defined. Responsibility is split between the Government Centre for Strategic Studies (GCSS), the Ministry of Economy and the Ministry of Labour. In the GCSS and the Ministry of Labour, an internal department responsible for regional development policy has been created with 23 staff employed in the relevant department. Significant attention is required to address the administrative deficits in the elaboration, co-ordination and implementation of regional policy.

Environment : In the field of environment, the Ministry of Environmental Protection, Natural Resources and Forestry (300 staff, 2/3 with higher education) is responsible for environmental protection in Poland and includes a 10 person European Integration team.

The State Inspectorate for Environmental Protection (SIEP) (approximately 2500 staff) is responsible for the enforcement and monitoring of environmental law. Attention needs to be addressed to improving staff qualifications and to deal with the high staff turnover due to the low salaries. The new state monitoring programme has been elaborated, and the “repair programme” preparing entities to meet the IPPC directive requirements has been implemented.

The National Fund for Environmental Protection and Water Management (197 staff) is an independent financial institution set up to promote projects in the field of ecology supported by means derived from fees and penalties for use of the environment, repayment of loans and financial transaction. The National Fund for Environmental Protection concluded 611 agreements in 1997.

Regarding implementation and enforcement, Poland should concentrate its efforts on reinforcing the monitoring infrastructure in the air and water sectors as well as strengthening capacity at regional and local levels.

The recent law on “ State Administration Reform” will heavily impact on Poland’s implementing and enforcement structures by transferring a lot of responsibilities to the regional, county and municipal level. Although the overall reform is assessed positively for environmental management, these changes require a rapid adaptation of the regional and local administrations to their new responsibilities, including their ability to implement and manage large-scale investment projects.

Consumer Protection : Since October 1996 the OCCP has been responsible for consumer protection and the supervision of the State Trade Inspection. The Consumer Policy Department (9 staff) processed (through mediation or explanation) about 2300 consumer complaints with its branch offices processing 400 consumer complaints. The Consumer Policy administration requires significant reinforcement.

Justice and Home Affairs : A law adopted in August 1997 introduced the office of judicial clerk (referendarz). This new function will relieve judges of purely administrative duties. Nonetheless, the main challenges ahead include the need to reduce the duration of judicial proceedings, upgrade the judiciary’s technical resources and infrastructure, adopt appropriate measures to strengthen the implementation of judicial decisions, and adopt a national training programme for judiciary. Whilst official data regarding the length of procedures indicate an average of 5 months for a case to be terminated, the reality suggests that procedures can take several years. As a result of the heavy workload of courts and tribunals and the general lack of infrastructure and technical means, the treatment of cases suffers considerable delays which increase every year to reach a record of 6 years in Warsaw.

In 1998 policing staffing levels increased to 199.894, whilst crime clear up rates reached 54% in 1997. Further efforts are required to improve professionalism in the police forces and to improve coordination under the new state administration structures. Some progress has been achieved in the fight against organised crime with the establishment of a special police

unit staffed by 1200 police officers. An internal control mechanism has been set up within the Police HQ in view of combating corruption and developing ethical standards.

Border Management staffing amounts to 10.460 Officers out of which 3050 are conscripts and 3700 civilians. Significant constraints remain due to the lack of infrastructure at the Polish Eastern Border and significant needs remain for further training and equipment. There is a general need to develop a comprehensive concept of border management integrating the functions of threat assessment, crisis management and rapid reaction.

Customs : Although the Customs sector employs currently some 14000 staff in the Central Board of Customs, in 19 regional customs offices and 400 customs stations at Poland's land borders and coastline, no significant progress can be noted in the uniform application of customs rules and procedures through the regional customs authorities. Significant attention is required to improve the operations of the customs service.

Financial Control : The Supreme Chamber of Control (NIK), the body responsible for the external, ex-post control of budget discipline is independent of government and subordinate to the Parliament. It employs 1633 employees, of which 873 in the Headquarters and 760 in regional branches. Further progress is required to reinforce external financial control capacity. Internal financial control is carried out by ministries and other institutions dealing with public funds. A special role in the control of budget is played by the control units of the Ministry of Finance and the Supreme Chamber of Control

4.3 Twinning

In order to help candidate countries meet the challenge of strengthening their administrative capacity and adapting their administrations to implement the *acquis* the Commission and the Member States are developing a process of twinning under the Phare programme. In the EU the *acquis* is implemented in the Member States by national administrations (at central, regional and local level) and by agencies, professional bodies and the private sector. This vast body of administrative and technical expertise is now being made available to the candidate countries. Initially twinning will cover four sectors – agriculture, environment, finance and justice and home affairs but will gradually be extended to the whole of the *acquis*.

Poland is participating actively in twinning.

4.4. General evaluation

Poland has experienced difficulties in implementing planned public administration reforms which are needed to lay the foundation for further improvement of administrative capacities in specific sectors of the *acquis*. Progress in strengthening the capacity of the judiciary has been limited. Efforts need to be made to enhance the capacity of the Polish administration to implement and enforce legislation in key internal market areas (standards and certification, intellectual property protection) and customs. Progress has been made in the regional development and financial control areas. There is a need to consolidate the functioning of administrative structures in a sustainable manner.

C. Conclusion

Poland continues to fulfil the Copenhagen political criteria.

Poland can be regarded as a functioning market economy, and it should be well able to cope with competitive pressure and market forces within the Union in the medium term, provided that it strengthens the pace of economic restructuring and continues to avoid reversals in trade policy.

Its rhythm of transposition is uneven and there are gaps in administrative and institutional capacity in certain key areas, in particular environment, standardisation and state aid control. Progress to date in industrial restructuring and justice and home affairs should be maintained. Nonetheless the Commission considers that Poland's progress will, if sustained, enable it to take on the obligations of membership in the medium term.

D. Accession Partnership and National Programme for the Adoption of the *Acquis* : Global Assessment of Implementation

The purpose of the Accession Partnership is to set out in a single framework the priority areas for further work identified in the Commission's Opinions; the financial means available to help the candidate countries implement these priorities and the conditions which will apply to

that assistance. Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis* setting out how it would deal with the Accession partnership, the timetable for implementing its priorities and outlining human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

1. Accession Partnership : Assessment of short-term priorities

The Accession Partnership sets out the following short term priorities for Poland:

- **Economic reform** : establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe agreement; acceleration of the privatisation/restructuring of state enterprises (including telecoms), and the sound development of the financial sector, including acceleration in a transparent manner of banking privatisation and improving bankruptcy proceedings.
- **Industrial restructuring** : adoption by 30 June 1998 and start of implementation of a viable steel sector restructuring programme, pursue restructuring in the coal sector.
- **Reinforcement of institutional and administrative capacity** : in particular improvements in the areas of customs, state aid controls, justice and home affairs ministries and services, financial control, veterinary and phytosanitary controls, (particularly as regards facilities at the external borders), environment, taxation and regional policy.
- **Internal Market** : including certification and standardisation (further alignment of legislative measures and conclusion of a European Conformity Assessment Agreement), further alignment in the areas of intellectual and industrial property, public procurement and liberalisation of capital movements, the adoption of a law on state aid, and strengthening of monitoring authority, finalisation of inventory.
- **Justice and home affairs** : develop more effective border management and control systems in particular of the borders with Belarus and the Ukraine and align visa regimes with the EU.
- **Agriculture** : establish a coherent structural and rural development policy; adoption of implementing regulations and implementation and enforcement of veterinary and phytosanitary requirements particularly with regard to the inspection and control arrangements for protecting EU external borders. In particular, upgrading of certain food processing establishments (milk and meat sectors) and certain testing and diagnostic facilities.
- **Environment** : continue transposition of framework legislation, establishment of detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.

Progress concerning the short term priorities of the Accession Partnership can be summarised as follows

- **Economic reform** : Poland has elaborated a medium-term economic strategy and a joint assessment with the Commission is under preparation. The privatisation and restructuring process of some state enterprises has been initiated in particular through the adoption by the

Polish Government of Restructuring plans for the Coal and Steel sectors. Considerable further efforts in enterprise restructuring will be needed during several years. The financial sector has been considerably strengthened by the framework legislation, however more progress is required in the privatisation of banking.

- **Reinforcement of institutional and administrative capacity :** Poland needs to make considerable further efforts to increase the institutional and administrative capacity of its central and newly devolved administration. Special efforts need to be done in the establishment and reinforcing of supervisory and enforcement bodies.
- **Internal Market :** Significant legislative steps are required in the field certification and standardisation, public procurement and liberalisation of capital movements and in the adoption of a compatible law on state aid. Institutionally, attention is required to implement the above legislative steps and further efforts are need in the effective administration of the *acquis*. Further efforts need to be made in the area of state aid control and the establishment of a state aid inventory remains a priority.
- **Justice and Home Affairs :** Poland has made considerable progress through the adoption of the Aliens Act but needs to concentrate financial and technical resources on the administrative reinforcement of border management. The plight of the judiciary remains a source of significant concern and the training and remuneration of judges and prosecutors requires reinforcement.
- **Agriculture :** In Agriculture, some progress has been made with the reorganisation of the veterinary services. However, the elaboration of an adequate pre-accession rural development policy remains a fundamental requirement for the preparation of Polish agriculture for membership. Considerable efforts and significant resources are required to continue the upgrading of certain food-processing establishments.
- **Environment :** As little progress has been achieved in the field of Environment, a concerted effort is now required to demonstrate Poland's ability to cope with the obligations of Membership in this key sector.

While Poland has partially addressed the short term Accession Partnership priorities in the areas of economic reform, industrial restructuring (particularly as regards coal and steel), justice and home affairs, internal market and regional development, insufficient attention has been paid to the agriculture, environment and institutional and administrative capacity priorities.

2. National Programme for the Adoption of the *Acquis* Assessment

The Polish National Programme for the Adoption of the *Acquis* is a wide-ranging document which appears to address many issues including many of the priorities set out in the Accession Partnership. A Revised timetable of Approximation of legislation setting out a rolling programme of transposition of the *acquis* is awaiting imminent adoption.

There are however, some elements included in the Accession Partnership, for which the National Programme for the Adoption of the *Acquis* does not provide any or sufficiently detailed information such as Telecoms Universal Service provision, Health and Safety

Legislation, Monetary Policy, Mutual Recognition of Professional Qualifications and a timetable for adoption of the Environmental *acquis*. Some important issues which are not clearly referred to such as the treatment of *Special Economic Zones* in State Aids and restrictions on *Acquisition of Property by Foreigners* in Capital Movement. In other sensitive areas it is evident that an over optimistic assessment of the state of alignment is made (Audio-visual *TSF directive*).

A number of other AP priorities do not appear to arise in the National Programme for the Adoption of the *Acquis* including many of the Political Criteria from AP Annex, and more directly “Strengthening Parliamentary Lawmaking Procedures”, “Property Ownership”, “Improving Tax-Gathering capacity”. Furthermore, it is apparent that there is some incoherence between the National Programme for the Adoption of the *Acquis* and the Polish position in the context of Screening (e.g. Telecoms access to military frequencies/Fisheries - Basic Fisheries Regulation).

The scope of the National Programme for the Adoption of the *Acquis* commitments is variable with clear commitments to the achievement of certain objectives in some sections but with a lack of clarity as to the nature and degree of the commitment in others. Precise statements on timing and calendars for the alignment with the EU law are quite heterogeneous sector by sector. The quality of commitments given in some areas (e.g. Regional Policy Payments structure/Public Procurement) and their absence in others (e.g. Environment/JHA) makes it difficult to assess the National Programme for the Adoption of the *Acquis* foreseen calendar and is therefore difficult to assess the commitments made. Implementation structures are normally foreseen, with the degree of information varying from sector to sector. However, some implementation perspectives do not include the role of other key legislative actors (e.g. Consumer Protection - no reference to Consumer protection Organisations and bodies).

One new issue which could be considered in subsequent revisions is the impact of the restructuring of the decentralised governmental administration (Voivodships/Powiats) which is currently under discussion and which will have a significant impact on a number of *acquis* sectors (e.g. Regional Policy /Customs). Enforcement requires more detailed attention as an issue. Information on budgetary requirements is extremely variable. In some sectors it is absent (e.g: Regional Policy no State Budget information/Civil Service Reform no assessment/Consumer Protection no budget) or it is very partially reflected without precisely indicating the time periods covered (e.g. Environment - large investment budget without any timescale). The preparation of a budgetary impact analysis for the approximation process is a key issue to be addressed to ensure that both further revisions and Poland’s pre-accession approximation strategy will be sustainable

Future revisions would shed additional light on Poland’s programme of alignment through the introduction of more specific references to timing, budgetary impact, and the exact scope of commitment. Future revisions may benefit from the results of the Screening process. On the basis of a revised version, the Commission will take a position on the National Programme for the Adoption of the *Acquis* and will communicate it to the Council. This assessment is expected to take place during the second half of 1998 at the time of the re-examination of the Accession Partnerships.

Annex

STATISTICAL DATA

STATISTICAL DATA

	1993	1994	1995	1996	1997
	in 1000				
Basic data					
Population (end of period)	38505	38581	38609	38639	38660
	in 1000 hectares				
Total Area	31269	31269	31269	31269	31269
	in Bn Zloty				
National Accounts					
Gross Domestic Product at current prices	155.8	210.4	288.7	362.8	445.1
	in Bn ECU				
Gross Domestic Product at current prices	73.4	77.8	91.0	106.0	119.7
	in ECU per capita				
Gross Domestic Product at current prices	1900	2000	2400	2700	3100
	in % of Total Gross Value Added				
- Agriculture	:	7.4	7.5	6.9	:
- Industry	:	33.2	33.8	31.5	:
- Construction	:	6.7	6.0	6.2	:
- Services	:	52.7	52.7	55.3	:
	as % of Gross Domestic Product				
- Final consumption expenditure	:	:	80.6	82.6	83.1
- household and NPISH	:	:	63.1	65.1	65.5
- general government	:	:	17.6	17.5	17.6
- Gross fixed capital formation	:	:	16.9	19.0	20.8
- Exports of goods and services	:	:	25.9	24.8	26.4
- Imports of goods and services	:	:	24.6	27.6	31.5
	% change over the previous year				
Gross Domestic Product	3.8	5.2	7.0	6.1	6.9
	in Purchasing Power parities				
Gross Domestic Product per capita	5300	5700	6200	6900	7500
	% change over the previous year				
Inflation rate					
Consumer Price Index	35.3	32.2	27.8	19.9	15.0
	in millions of ECU				
Balance of payments					
-Exports of goods	11599	15431	19144	21703	:
-Imports of goods	14592	15914	20403	27442	:
-Trade balance	-2993	-483	-1258	-5739	:
-Services, net	487	2388	2704	2681	:
-Income, net	-3085	-2155	-1525	-847	:
-Net current transfers	649	1053	732	1334	:
-of which government transfers	119	108	187	65	:
-Current account balance	-4943	802	653	-2571	:
-Reserve assets (incl. gold)	3833	4896	11381	14380	18719
-Reserve assets (excl. gold)	3668	4749	11242	14241	18481
	in % of Gross Domestic Product				
Public Finance					
General Government Deficit/Surplus	:	-2.4	-2.1	-2.5	:
Gross foreign debt	54.5	37.7	27.7	24.4	:

	1993	1994	1995	1996	1997
Financial indicators					
Monetary Aggregates					
	in Bn ECU				
- M1	8.3	9.2	11.5	13.7	18.6
- M2	23.5	25.8	32.1	37.9	45.5
- Total credit	26.6	27.4	30.2	35.6	42.1
% per annum					
- Lending rate	35.3	32.8	33.5	26.1	:
- Deposit rate	34	33.4	26.8	20	:
ECU exchange rates					
	(1ECU=..National currency)				
- Average of period	2.121	2.703	3.172	3.423	3.911
- End of period	2.381	2.998	3.244	3.603	3.88
- Effective exchange rate	61	48.5	42.4	39.7	36.8
Foreign Trade					
	in millions of ECU				
Imports	16084	18140	22209	29247.5	37307.3
Exports	12078	14499	17504	19247.9	22707.3
Balance	-4006	-3641	-4706	-9999.6	-14600
	corresponding period of the previous year = 100				
Terms of trade	107.8	101.3	101.7	97.3	99.4
	as % of total				
Imports with EU-15	57.6	56.4	63.4	63.9	63.8
Exports with EU-15	64.3	62.0	69.3	66.3	64.2
Demography					
	per 1000 of population				
Natural growth rate	2.7	2.5	1.2	1.1	:
Net migration rate	-0.4	-0.5	-0.5	-0.3	:
	per 1000 live-births				
Infant mortality rate	16.1	15.1	13.6	12.2	10.2
	at birth				
Life expectancy : Males	67.4	67.5	67.6	68.1	68.5
Females	76.0	76.1	76.4	76.6	77.0
Labour market					
	in % of labour force				
Economic Activity rate (ILO methodology)	60.9	60.2	58.8	58.2	57.7
Unemployment rate (ILO methodology) : Total	14	14.4	13.3	12.3	11.2
< 25 years	30	32.5	31.2	28.5	24.8
> 25 years	11.7	11.9	10.9	10.1	9.3
Average employment by NACE branches (LFS)					
	in % of total				
- Agriculture and Forestry	:	:	:	22.1	20.5
- Industry	:	:	:	25.5	25.4
- Construction	:	:	:	6.2	6.6
- Services	:	:	:	46.2	47.5
Infrastructure					
	in Km per 1000 Km2				
Railway network	80	78	77	75	75
	in km				

Length of motorways	:	:	246	258	:
Industry and Agriculture	previous year = 100				
Industrial production volume indices	105.6	113.1	110.2	109	111.2
Gross agricultural production volume indices	106.8	90.7	110.7	100.7	99.1

Methodological Notes

Gross domestic Product per capita in PPS : Revised data using the new PPP results from the 1996 International Comparison Project.

Reserve assets : are end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

General government deficit / surplus : is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts.

Monetary aggregates : are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government and private sectors. It should be noted that the problem of measuring the circulation of foreign currency in some Applicant Countries may affect the reliability of the data.

Interest rates : Annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Exchange rates : Where available, the ECU exchange rates are those officially notified to DG II. The effective exchange rate index is weighted by major trading partners, with a base year of 1990.

Imports and exports (current prices) : The data is based upon the "special trade" system, according to which, external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licences, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). *Trade Classification:* Merchandise trade flows are recorded according to Combined Nomenclature (CN). Imports are recorded on CIF basis and are captured with the date on which the commodities cross the customs border. Exports are recorded on FOB basis and are captured with the date on which the commodities cross the customs border. Eurostat has converted the National Currency to the US dollar by applying the International Monetary Fund annual average exchange rates.

Terms of trade : Transaction price indices of exports and imports are calculated on the basis of observations of prices of selected commodities on the lowest PCN level,

using data regarding external trade turnover (exports - fob, imports - cif). Annual price indices are compiled using the structure of turnover value in the surveyed year as the system of weights:

Imports and exports with EU-15 : Source: Comtrade database. Data for years 1993 and 1994 refer to trade with EU-12 only.

Economic activity rate (ILO Methodology) : Percentage of labour force in the total population aged 15+. This rate is derived from LFSS (Labour Force Sample Survey) observing the following ILO definitions and recommendations:

Labour force: employed and unemployed persons in the sense of the ILO definitions stated below.

The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed: (i) have no work, (ii) are actively seeking a job and (iii) are ready to take up a job within a fortnight.

Unemployment rate (by ILO methodology) : - Percentage of the unemployed labour force. This rate is derived from LFSS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above)

Average employment by NACE branches (LFS) : This indicator is derived from LFSS (Labour Force Sample Survey) observing the ILO definitions and recommendations.

Industrial production volume indices : Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E).

Data on industrial production relate to sold production (sales) for domestic and external destination as well. Data cover all entities with more than 5 employees.

Sources

Basic data, National Accounts, Foreign trade, Demography, Labour market, Infrastructure, Industry and Agriculture : New Cronos.

Reserve assets and Financial indicators : Where possible Eurostat B-4's questionnaire on monetary and financial statistics has been used as the source. Applicant Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission (DG II) is used as the source for exchange rates against the ECU, where possible

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source.

Concerning general government deficit / surplus, Applicant Countries are presently unable to provide reliable data. Unit B-4 is working closely with these countries with the aim of improving their national accounts based government finance statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).