

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR POLAND

As approved by the Board of Directors at its meeting on 17 December 2013

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EXECUTIVE SUMMARY

Poland is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement Establishing the Bank.

Poland is an advanced transition country which has made significant strides in developing a well-functioning market economy embedded in a stable and accountable democratic political regime. Poland implemented the body of European Union market regulation prior to its accession in 2004, and has subsequently benefited from integration into the EU internal market through substantial capital inflows and growing trade shares with the rest of the EU.

Although the country came through the global financial and economic crisis without suffering a recession, Poland's future growth path now appears less assured than in the immediate aftermath of that crisis. European financial markets still pose risks, as evident in the disruptions to bank ownership to which the Bank helped respond. While a reform agenda is underway, consistent implementation may prove difficult. Substantial EU funds will continue to flow to Poland in the coming seven year financial perspective; however, absorption will be largely dependent on the state's capacity for mobilising off-budget co-financing.

Important sectors of the Polish economy require further modernisation, evident in low energy efficiency and below EU-average private sector involvement. Further restructuring and privatisation in some industrial and infrastructure segments is also needed. In this context the Bank remains highly additional in a number of sectors, and its engagement has been focused on sectors with the highest transition value. The Bank has provided policy advice and support to important reform initiatives, in areas such as capital market development, privatisation and sustainable energy.

While Poland is among the most advanced transition countries, transition gaps still remain. Furthermore, graduation has been delayed by the financial crisis. Poland remains committed to graduation which will constitute a recognition of its successful transition path to a well-functioning market economy and a good example for EBRD's other countries of operation. The Bank's priorities in Poland will be appropriately targeted to reflect this trajectory as well as the country's systemic importance in Central Europe, including promoting trade and investment linkages with the rest of the region. Reforms successfully implemented here will have visibility and wider significance in other countries confronting similar challenges.

Strategic directions

As Poland is an advanced transition country, the Bank's activities in the next Strategy period will be focused on a limited number of priorities, enabling it to provide support in those areas where transition challenges remain significant and where reforms can be deepened to improve energy efficiency, strengthen Poland's competitiveness and expand its export potential. In the new Strategy period the Bank will focus its activities on the following cross-cutting challenges in Poland:

- **Promoting the low carbon economy.** Coal still accounts for more than 80 per cent of Poland's primary energy supply and the economy remains among the least energy efficient in the EU. Promoting low carbon solutions, energy efficiency and reduction of green-house gas (GHG) emissions will therefore remain a key strategic priority for the Bank's operations over the coming years. The Bank will continue to support diversification of energy and fuel supplies (especially in renewable energy) and improving energy efficiency (both on the demand and supply side), together leading toward a more sustainable energy market in the country.
- **Enhancing the private sector's role in the economy.** The Polish state continues to play a significant role in the economy, notably in the power, chemical, natural resources, transport and municipal sectors. Accelerating the implementation of the structural reform agenda is crucial to consolidate transition and support the recovery that has slowed markedly. The Polish authorities have acknowledged the need to push ahead with greater market liberalisation. Moving Poland toward a more resilient economic model built on private investment and productivity increases will also require more innovation, providing risk capital and corporate restructuring (operational and financial), and will include supporting Polish companies in their regional expansion and cross-border investments.
- **Assisting in the development of a sustainable financial sector and capital markets.** Although the banking system remained sound in the course of the crisis, a number of systemic vulnerabilities emerged, especially banks' balance sheet mismatches, lack of sponsors liquidity support and the need for consolidation. In the current environment, high risk aversion by banks and deteriorating credit quality in the economy are leading to substantial financing constraints, in particular for small and medium sized companies and in the poorest regions. EBRD will assist in the development of a more sustainable financial sector by helping banks address crisis-inherited vulnerabilities and promoting the development of local currency capital markets in order to reduce the sector's dependence on foreign financial inflows.

To achieve these strategic priorities the Bank will work closely with other IFIs, commercial banks and other stakeholders to ensure the best use of EBRD funds. The Bank's approach will be selective, driven by market demand for projects where it can demonstrate both additionality and strong transition potential.

1. THE BANK'S PORTFOLIO

1.1. Overview over Bank activities to date

As at the end of June 2013 the Bank has signed a total of 314 projects with a Net Cumulative Business Volume of EUR 6,217 million. Approximately 40 per cent of the Bank's investments were made in the corporate sector, 30 per cent in the financial institutions sector, 18 per cent in the energy sector and 13 per cent into the infrastructure sector. 138 projects representing EUR 1,984 million and 32 per cent of the Bank's cumulative business volume were equity investments. Reflecting the Bank's strategic focus on the development of the private sector, the private sector share was 83 per cent.

The Bank portfolio at the end of June 2013 consisted of 118 operations totalling EUR 2,565 million. The portfolio is well diversified across sectors with the exception of infrastructure, where over the last couple of years the business volume stayed at a low level (in percentage terms). There is relatively high equity share compared to the Bank's average, at 38 per cent of the total portfolio.

Table 1: Cumulative Business Volume and Portfolio in Poland as of 30 June 2013

Sector	Net Cumulative Business Volume			Portfolio				
	Number of projects	EBRD signed	% of NCBV	Number of projects	Portfolio	% of Portfolio	Operating Assets	% of Operating Assets
<i>Amount in EUR million</i>								
Energy	19	1,094	18%	12	830	32%	320	18%
Natural Resources	2	319	5%	2	319	12%	0	0%
Power and Energy	17	775	12%	10	511	20%	320	18%
Financial Institutions	89	1,852	30%	28	636	25%	606	34%
Bank Equity	16	473	8%	4	174	7%	174	10%
Bank Lending	37	842	14%	13	287	11%	287	16%
Insurance, Fin Services	35	510	8%	10	149	6%	120	7%
Small Business	2	27	0%	1	25	1%	24	1%
ICA	168	2,459	40%	61	886	35%	720	40%
Agribusiness	26	314	5%	5	89	3%	74	4%
Equity Funds	47	536	9%	32	242	9%	129	7%
ICT	14	528	9%	5	220	9%	220	12%
Manufacturing & Services	53	838	13%	7	220	9%	215	12%
Property & Tourism	28	243	4%	12	114	4%	82	5%
Infrastructure	38	812	13%	17	213	8%	135	8%
MEI	32	447	7%	15	179	7%	129	7%
Transport	6	365	6%	2	34	1%	6	0%
TOTAL	314	6,217	100%	118	2,565	100%	1,781	100%

Table 2: Portfolio Development in Poland, 2010-2013

Amount in EUR million	2010	2011	2012	June 2013
Net Cumulative Business Volume	4,662.1	5,444.9	6,092.7	6,217.1
Number of operations	280	298	311	314
Current Portfolio Stock	1,738.3	2,276.0	2,563.4	2,565.2
Number of Operations	113	119	121	118
Operating Assets	1,292.8	1,661.3	1,830.4	1,781.4
% Undrawn	25%	27%	28%	30%
Annual Business Volume	643.2	891.4	672.3	182.0
Number of Operations	18	21	19	6
Gross Disbursements	431.1	628.2	555.2	120.8
Annual Cancellations	55.2	23.4	83.3	6.1
Private Sector Share (% Portfolio)	85%	89%	84%	83%
Non Sovereign (% Portfolio)	100%	100%	100%	100%

1.2. Implementation of the previous Country Strategy

The previous Strategy for Poland, approved in July 2010, was formulated during the global financial crisis and the economic recession in the European Union. At the time the Polish economy was affected by the turmoil on the financial markets, as the contraction of credit reduced the ability of Polish banks and companies to access the market. The Bank's engagement in Poland during the previous Strategy period supported transition despite the challenging wider macroeconomic environment. From June 2010 to June 2013, the Bank signed 46 projects with a total volume of just over EUR 2 billion.

Within this environment, the previous Strategy included crisis response measures and focused on the following strategic priorities:

- **Foster commercial banks' and leasing companies' continued lending to the corporate sector**, particularly to SMEs and micro enterprises. The focus was on improving banks' balance sheets by providing long term capital and funding, the availability of which remained limited. The Bank aimed to contribute to the deepening of the **local and regional capital markets** and lending in local currency.
- The Bank aimed to participate in **privatisations of state-owned companies**, for which the crisis lent both urgency and opportunities. The Bank also sought to selectively provide **higher-risk products** for local corporations to fund their investments, particularly those with a strong energy efficiency focus, leading to higher competitiveness and a better business climate. The Bank also set out to support the regional expansion of Polish companies through **cross-border investments**.
- In line with the identified remaining transition gaps for Poland, the Bank promoted investments in further diversification of **energy and fuel supplies** to contribute to energy security, and in the sustainable development of the energy sector by prioritising **renewable energy production and efficient use of energy**.

The Bank was particularly keen to address the demand side by **reducing energy waste, thereby reducing greenhouse gas emissions** and delivering an important contribution to combat climate change.

- Support the involvement of the private sector participation in public services in cooperation with the EIB as well as EU structural and cohesion funds, in particular **privatisations and private-public partnerships in transport and municipal and environmental infrastructure** projects to stimulate the development of revenue-backed financing and minimise reliance on sovereign guarantees while increasing supply of long-term finance.

Foster commercial banks' and leasing companies' continued lending to the corporate sector. Financial institutions remained a key area of the Bank's activity during the Strategy period with total commitments of EUR 696 million. The on-going Eurozone crisis has affected the Polish banking sector and resulted in some deleveraging, as a number of European parent banks decided to dispose of their Polish assets, not always successfully due to unfavourable market conditions. The Bank supported a new entrant on the Polish market, Santander Bank, in pursuing the merger of BZ WBK with Kredyt Bank. The Bank took also part in the IPO of Alior Bank, an innovative, fast-growing bank, where the strategic investor Carlo Tasara was forced by market conditions and the Polish Financial Supervision Authority (KNF) to list the bank on the Warsaw Stock Exchange (WSE). To buttress banking sector stability in light of the weakening parent bank situation, EBRD made equity investments to support sector stability and market consolidation in light of ownership changes following the withdrawal from Poland by some western European investors (e.g., AIB, KBC) which had become distressed as a direct result of the crisis.

An additional systemic risk in the Polish banking sector has been the lack of medium- to long-term liquidity (both in local currency as well as FX) necessary to address banks' balance sheet mismatches as well as lack of access to financing by corporates, especially MSMEs. In response, the Bank provided seven medium-term local currency credit lines to selected Polish banks and leasing companies to support their currency funding needs and at the same time promoting lending to MSMEs. Credit lines were provided, for example, to Millennium Bank, EFL, SG Equipment & Leasing and Masterlease. In addition the Bank implemented its long-term cross-currency swap programme providing CHF 2.4 billion (in nominal terms) of up to 10-year swaps to a group of five Polish banks in order to address structural currency mismatches in balance sheets, since for a number of years commercial banks actively provided mortgage loans in Swiss Francs and Euros. Weaker parent support and lack of wholesale funding combined with the more difficult access to the swap market caused major systemic problem in the Polish banking sector.

Local capital markets development. During the Strategy period, the Bank initiated work designated to support local capital market development, and entered into a policy dialogue with various stakeholders including the National Bank of Poland, the Polish financial regulator (KNF), the Polish Banking Association and the banking community. The aim was to support the authorities' clear ambition to diversify funding sources for the real sector and make the economy less bank-dependent. A well-developed local capital market would also be an important funding source for the Polish banking sector, especially when access to medium term liquidity for Polish

banks remains limited. The outcome however was less satisfactory than expected, out of 4 projects approved by the Bank during the strategy period only one materialised (securitisation of car loans by GetinNoble Bank). The other capital market projects did not materialise mainly due to the unfavourable market conditions. In addition the works undertaken by the Polish regulator to reform Polish capital market identified a number of necessary changes (both legal and structural), which will require substantial work going forward. The on-going pension fund reform is not helping in pursuing the planned changes, since it may negatively impact the functioning of the Polish capital market. Uncertainties regarding the future functioning of the second pension pillar, a key investor on the Polish debt capital market and the Warsaw Stock Exchange, puts KNF initiatives on hold.

Privatisation and restructuring of enterprises. The Bank continued its dialogue with the Polish authorities on privatisation and restructuring of corporate entities, especially in the chemicals and heavy industry. However the Bank took part only in three privatisation transactions: Polkomtel, privatisation of the mobile phone operator; Gamrat, a chemicals producer; and the partial privatisation of Grupa Azoty, a chemical conglomerate, as most planned privatisations were delayed. The Bank also supported on-going restructuring and refinancing of the steel and chemicals sectors working with its existing and new clients. The Bank launched an integrated approach for the private equity sector and entered into policy dialogue focusing on identifying local institutional investors and local capital market participants as potential private equity fund investors. Subsequent discussions may, however, be disrupted by on-going reform of the Polish pension scheme. Two regional private projects were signed during the Strategy period (Enterprise Investors Fund VII and Avalon MBO Fund II) as well as some specialised funds such as Meridiam Infrastructure Fundor Hines Property Fund.

Cross-border investments. In support of cross-border investments of Polish corporates into the region, the EBRD signed six transactions with Polish companies in Russia, Ukraine and the Western Balkans, primarily in the ICA sector. These projects contributed to knowledge sharing, export of industry best practice, setting business and corporate governance standards while contributing to the enhanced competitiveness of Polish corporates. Recent cross-border projects the Bank has done with Rovese and Barlinek helped these Polish groups in expanding their respective ceramic and wooden pellet production in Ukraine and Russia, closer to their target markets, bringing management and technical expertise to both locations. In the case of Asseco Southern Eastern Europe, the Bank supported a modern Polish IT company in expanding its services and know-how in the banking sector in the Balkan countries. Such co-operation on the one hand supported regional expansion of well managed and dynamic Polish corporates, on the other hand contributed to higher FDI inflow into other countries of operation.

Sustainable energy and energy efficiency. Sustainable energy remained a key priority for the Bank in Poland with a strong focus on energy efficiency and greenhouse gas emission reduction. The Bank completed nine transactions totalling EUR 697 million leading to a CO₂ emission reduction of approximately 2.8 million tonnes per year, including three projects in the renewables sector and one in a new gas-fired power plant (Stalowa Wola CCGT). The Bank's support and policy dialogue in this area were critical in light of regulatory uncertainties (mainly in renewable

energy, where the legal works is still on-going) and the reluctance of commercial banks to finance such projects. The Bank was also involved in works leading towards improvement of Poland's energy mix by supporting the development of the country's LNG terminal (the first in the region). Another important project in the energy sector helped to address bottlenecks in energy distribution accompanied by promoting smart grid solutions as well as significant CO₂ reductions (Energa smart grid project). The Bank worked intensively with the commercial banks and EIB in the energy sector, with the Bank's additionality stemming from project structuring, the ability to absorb certain risks and longer tenor.

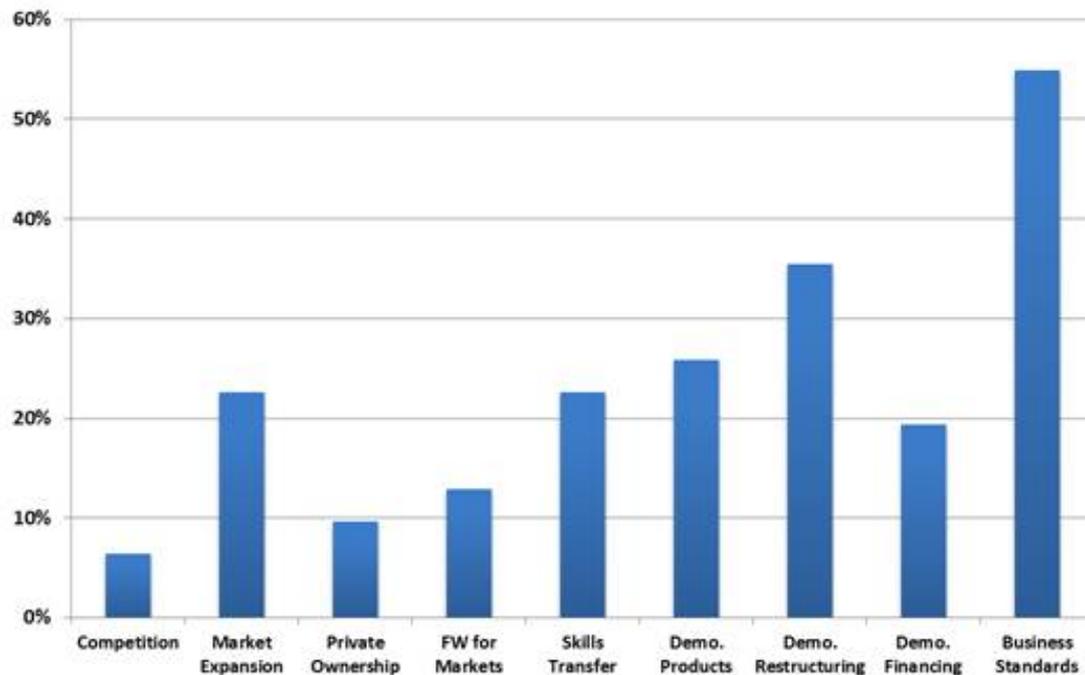
During the Strategy period the Bank also launched an energy efficiency facility for Polish financial intermediaries to be on-lent to SMEs and micro companies ("PolSEFF"). The Facility proved very successful, as the Bank signed cooperation agreements with three banks and three leasing companies for a total of EUR 180 million. To date over 1,000 loans were signed with SMEs, bringing annual energy savings of 202,900MWh. This has generated strong interest on the side of Polish authorities who wish to partner with the EBRD to launch a second similar framework.

Privatisations and private-public partnerships in transport and municipal and environmental infrastructure. The availability of long-term financing for infrastructure remained limited during the previous Strategy period. In the municipal sector, two urban transport projects in Warsaw gave an opportunity to provide long term financing based on best standards public service contracts while the Bank was also developing a methodology to determine the emission reductions of investments in public transport, aiming at their monetisation. The Bank succeeded also in financing its first PPP transaction (a parking facility in Wroclaw). However, the Bank's business volume in the infrastructure sector was smaller than expected (only EUR 75 million) due to the paucity of privatisations of municipal and transport assets and lack of PPP opportunities (also in such key areas like motorways). This situation may change as fiscal consolidation continues and local and central budgets can no longer afford to co-finance EU structural and cohesion funds. However, so far little progress has been witnessed and lack of long term bank funding combined with lack of private sector involvement in managing public infrastructure remains an issue.

1.3. Transition impact of the Bank's portfolio

During the previous strategy period the Bank signed 40 transition-rated operations in Poland. Among these new projects, 90 per cent had "Good" or "Excellent" transition impact potential, well above the Bank-wide target of 80 per cent. During the strategy period, three projects obtained "Excellent" transition impact ratings (Hines Property Fund, Ciech chemical company restructuring and Meridiam Infrastructure Fund). Out of 40 projects signed during the Strategy period only four projects across different sectors were rated "Satisfactory". During the Strategy period the Bank acted on a very selective basis having in mind the strategic priorities and the requirement of having projects with particularly high transition impact potential and where the Bank is playing an additional role.

Figure 1. Targeted transition objectives in Poland (share of projects), Dec 2010 – June 2013



The Bank regularly monitors all projects to ensure that transition impact expected from its activity is ultimately delivered. The transition performance of projects in the Poland portfolio is good. Out of 50 operations under implementation in the active portfolio at end-June 2013, 19 have already largely achieved their envisaged transition impact potential. This includes successful delivery of transition objectives through seven projects in infrastructure, from implementation of environmental programmes to achieving higher levels of commercialisation in urban transport. Seven operations in the financial sector have been fully successful in expanding financial products to underserved areas, in particular MSME finance and leasing services. 28 operations in the active portfolio are currently assessed as on track to achieving their envisaged transition objectives, mostly in the corporate and financial sectors.

Three operations have not been successful in delivering expected transition impact. An equity fund supported by the Bank failed to provide finance to start-up investees and could not participate in post-privatisation restructuring of companies in Poland as originally expected. The second operation, a property fund active in the country, also could not reach expected number of new developments and was unsuccessful in attracting new institutional investors into the country. Finally, a project in the manufacturing and services sector failed to achieve its envisaged transition objectives due to the negative impact of financial crisis and ensued change in the client's strategy.

The expected transition impact of the Poland's active portfolio, reflected numerically in the average rank, stood at 3.88 at end-June 2013, better than both the institutional target of 4.35 and the result for the whole portfolio of the Bank (4.06). 12 operations in Poland have been completed (i.e. fully re-paid) during the Strategy period. All of these projects have largely achieved their expected transition impact potential. This,

among others, includes successful delivery of rural finance to farmers across the country and provision of MSME sub-loans in targeted areas, and successful development of new renewable energy projects in the country.

It should be noted that the average size of a Polish transaction (approx. EUR 30 million during the strategy period) is relatively larger comparing to the Bank operations in general. Given the size of the Polish economy (the largest in the CEE) such projects are commensurate with the size of the corporate sector and the banking sector. The Bank has been striving to achieve sufficient size to ensure influence and deliver transition impact, while minimising the size through leverage and mobilisation of other financial sources. It is expected that larger transactions sizes (in EBRD terms) will remain a feature of the next strategy period.

2. OPERATIONAL ENVIRONMENT

2.1. Political context

The current government was formed following early elections in October 2007 and was re-elected in October 2011. It is a stable centrist coalition between two parties: the larger, more liberal Civic Platform (PO) headed by Prime Minister Donald Tusk, and the smaller centre-left agrarian Polish Peasant's Party (PSL).

In October 2011 the coalition became the first to be re-elected to government in the post-communist period. The two parties were able to reform the government with a small majority of 235 seats in the 460-seat parliament. The government is supported on a situational basis by a new parliamentary party, the left-liberal Palikot Movement (renamed 'Your Movement' in October 2013), which shares many of PO's policy priorities.

Tensions between the coalition partners have increased since the 2011 parliamentary elections, with PSL and PO disagreeing on a number of policy fronts: efforts to bring farmers into the general system of taxation, limits on the spending powers of local authorities, and the government's plans to raise the retirement age. PSL leader and Deputy Prime Minister Waldemar Pawlak, who enjoyed good working relations with PM Tusk, exited the government in early 2013 and has been replaced by Janusz Piechocinski from the same party.

A Cabinet reshuffle in February 2013 elevated Finance Minister Jacek Rostowski to Deputy Prime Minister, reflecting PM Tusk's determination to step up efforts to revive the country's flagging economic growth and accelerate the structural reform agenda. However, popular dissatisfaction with the government's prolonged austerity measures and lack of a coherent reform agenda have been growing, and in September 2013 led to large street protests.

The protesters demanded the resignation of PM Tusk and the reversal of a number of planned structural reforms, including the increase in the retirement age. The ruling coalition's majority has been reduced to just one seat after a number of defections, heightening the risk that the current governing coalition may abandon necessary but politically unpopular structural reform measures.

Prime Minister Tusk subsequently implemented a wide-ranging government reshuffle in November 2013, removing six ministers, including First Deputy PM and Finance Minister Rostowski. In addition, the reshuffle saw the replacement of the ministers for Administration, Environment, Science and Higher Education, and Sport.

See Annex 1 for a detailed assessment of the political context.

2.2. Macroeconomic context

Since mid-2012 economic growth has slowed considerably. Poland recorded annual average growth above 4 per cent in 2010-11, among the highest in the EU at the time. This resilience was in good measure due to temporary factors, such as public investment fuelled by EU funds, and some fortuitously timed fiscal easing just ahead of the crisis. Growth in 2013 is expected to be subdued, at just above 1 per cent.

Since mid-2012 the constraints on public investment have become increasingly binding, and throughout the year capital formation fell. Figures for the first quarter of 2013 underlined a drastic slowdown in domestic demand, as aggregate growth dropped to a mere 0.5 per cent in annual terms. Unemployment has again begun to rise, and remains persistently above 10 per cent, aggravating longstanding structural problems from low labour force participation and long-term unemployment.

After the 2009 recession in the EU, fiscal adjustment was initially delayed even though growth proved resilient over the following two years. The government then embarked on an ambitious austerity programme in late-2011. The initial package comprised long-delayed reforms in social expenditures, including a gradual increase in the retirement age to 67. The budget deficit of 3.9 per cent recorded last year is expected to remain unchanged this year, according to forecasts by the EU Commission. Poland therefore remains subject to the EU's Excessive deficit procedure, under which it will need to correct this deficit by 2014.

In September 2013 PM Tusk announced wide-ranging changes to Poland's private pension funds which are to take effect from mid-2014. These changes – which have not yet been approved by parliament – envisage a shift of over half of assets currently managed by the private funds (an amount roughly equal to the funds' aggregate holdings of government bonds at end-2012) into the state pensions system (ZUS) and will likely result in a considerable part of contributions being directed into ZUS (a full return to ZUS will be the default option unless members opt to remain in their funds). This would reduce state debt by about 8 per cent of GDP, and may significantly reduce the annual budgetary shortfall, although the budget is taking on additional liabilities for future retirement payments.

The central bank's rapid loosening of monetary policy since November 2012 is the only direct stimulus to the economy at the moment, and there has also been some relaxation in lending restrictions, in line with this phase of the credit cycle.

Given the likely budgetary constraints on public investment the government in October 2012 launched a substantial investment programme, consisting of two elements. 'Polish Investment Fund' will be an off-budget special investment vehicle

of about PLN 10 bn (EUR 2.5 bn) capitalised through state assets. The same amount will be injected into the state development bank, BGK. Both entities will fund infrastructure and energy projects, alongside private creditors and possibly European financial institutions.

A cyclical recovery can be expected to set in at end-2013. Trends in industrial production and consumption in the first half of 2013 and more up-to-date confidence indicators suggest a continued serious weakness in both consumption and private investment. This will likely result in growth of slightly above 1 per cent in 2013, and a further rise in unemployment. In 2014 growth will likely remain relatively subdued at about 2 per cent, as public expenditures remain restrained and public investment growth does not resume. Easing in monetary or financial policy are unlikely to provide further stimulus.

Over the medium term, Poland's trend growth will depend on further structural reforms, in particular enterprise restructuring and privatisation, and a greater private sector role in capital formation. Gains from economic convergence during the first phase of transition are close to being exhausted. Achieving further productivity gains through innovation and upgrading the technology and skills content of production will require a considerable further effort in structural reform. If these factors are supportive, growth in Poland could rise back toward previous trend rates of about 3 per cent towards the end of the Strategy period.

However, empirical research on a broad set of transition countries also underlines strong feedback effects from low economic growth to stagnation, and possibly reversals, in structural reforms. In this sense the present weak growth and the popular resistance to already implemented reforms bear the risk of derailing further reform efforts. Poland could then become trapped in an equilibrium of low growth and poorly reformed institutions.

See Annex 6 for a table with Selected Economic Indicators.

2.3. Structural reform context

Poland is an advanced transition country that has made significant strides in reform over the past two decades. However, state involvement in the Polish economy remains extensive, notably in the power and natural resources sectors, carbon intensity is very high, and the financial sector is ill-suited to meet the needs for long-term investment in the country.

The continued strong role of the state remains a transition challenge that cuts across several sectors. The current PO-PSL government has revived the privatisation process, which now benefits from streamlined procedures and greater transparency. The two-year privatisation programme up to end-2013 remains on track in terms of revenue targets, though important privatisation targets in the mining, chemicals and the potentially competitive network industries remain behind in this agenda.. The state stake in PKO BP, the country's largest bank, was reduced in July 2012 to below an outright majority, though the government retains management control.

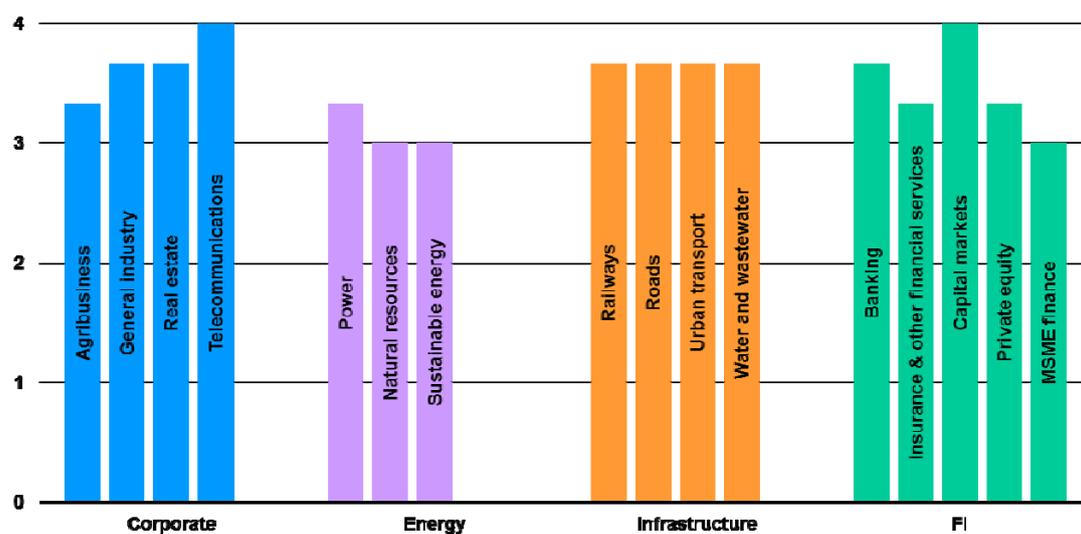
In the power sector the government's resolve to stimulate competition and unbundling has been erratic. The restructuring and privatisation of power companies remains a stated objective, and the Treasury remains committed to launching an initial offering of one of the firms, Energa, on the Warsaw Stock Exchange before year-end. The sector will require substantial investment in the coming years, including to meet EU climate change objectives. Cross-border energy infrastructure remains underdeveloped. In the natural resources, sustainable energy and power sectors, market structures are assessed as exhibiting 'medium' transition gaps.

The infrastructure sector has developed around a rapid absorption of EU structural funds, though as these funds come to an end under the current EU perspective and constraints in co-financing capacity by municipalities began to weigh, activity slowed drastically. Greater involvement of the private sector and full access of budget allocations at central and regional levels are needed. A new law on public private partnerships was passed, though private operations and financing in infrastructure remains miniscule.

The further development of capital market instruments could help bridge funding shortfalls, including for infrastructure investments. Further measures are required to make more sustainable long-term local currency instruments available to banks. To this end the release by the financial regulator in May 2013 of a set of reports on capital market instruments is a considerable step forward in reviving the regulatory agenda. Wide-ranging reforms to the mandatory pension funds were announced in September 2013. As their assets have been a key source of local institutional investment, amounting to over 17 per cent of GDP, this will entail a significant reversal in capital market development. The banking sector, while well-developed, would be ill-suited to meet Poland's growing need for long-term capital.

Figure 2 presents the EBRD's assessment of sectoral transition gaps, highlighting the largest gaps in the energy sector as well as some sub-sectors of financial institutions such as MSME finance. However, it is important to stress that these sectoral transition indicators do not reflect cross-cutting transition challenges in Poland in areas such as reducing the role of the state in the economy, large-scale privatisation, corporate governance and enterprise restructuring, where progress is still required for Poland to achieve the status of a well-functioning market economy.

Figure 2. EBRD transition indicators for Poland



Source: 2013 OCE Assessment of Transition Challenges

For a detailed assessment of the remaining sector transition challenges see Annex 2.

2.4. Business environment

Poland has a generally favourable business environment. However, despite recent improvements, it continues to lag behind all other countries in the CEB region. In the 2013 World Bank Doing Business index Poland showed the greatest improvement globally, but its ranking remains low. The economy advanced 19 positions to 55th place due in part to reforms that make it significantly easier to register property, enforce contracts and resolve insolvencies. Paying taxes, obtaining access to electricity and dealing with construction permits (which involves as much as 29 separate procedures, takes 301 days) remain areas of serious concern. On the other hand, availability of credit is assessed favourably.

In 2011, the government adopted an agenda on structural reform, and cutting ‘red tape’, covering e.g., the deregulation of the professions. In October 2012 parliament approved regulation that addressed numerous issues plaguing SMEs, importantly allowing cash accounting for VAT payments, and in January 2013 parliament approved the “Better Regulation Program” aimed at enhancing Polish regulations and increasing the quality and stability of the entrepreneurial environment.

The need to create a more competitive and innovative economy is a dominant theme in the government’s new strategic legislative framework. In January 2013, the Council of Ministers adopted the “Strategy for Innovation and Efficiency of the Economy: Dynamic Poland 2020.” The Strategy’s main objective is to foster a competitive, innovative and efficient economy based on knowledge and cooperation. The Strategy will be implemented through various executive programmes, of which the Enterprise

Development Program is the most important, as it targets the problems faced by entrepreneurs and companies.

Poland was ranked 41st in the latest Corruption Perceptions Index by Transparency International published in 2012, below the OECD average and the 17th rank in the EU. The shadow economy continues to be assessed as a serious problem, according to this report.

The latest round of the EBRD/World Bank Business Environment and Enterprise Survey (BEEPS) that surveyed 455 firms based in Poland between August 2008 and March 2009 identified high tax rates and as the major obstacle to doing business. 58.5 per cent of firms believed that tax rates are too high, while such a view is shared by only 40 per cent of firms in transition countries more broadly. Skills mismatches in the workforce were identified as the second greatest area of concern, a view shared by 36.5 per cent of firms in Poland versus 29 per cent in all EBRD countries of operations.

2.5. Social context

Poland has experienced significant progress in living standards since the beginning of transition. The UNDP Human Development Index (a measure of general wellbeing) has been improving since 1990 and ranked the economy 39th worldwide in 2012. However, when compared against other CEB countries Poland performs only better than Lithuania, Latvia, and Croatia. According to Eurostat, 17.7 per cent of population was at risk of poverty in 2011, a ratio slightly higher than the EU average. Following commonly used inequality statistics, Poland ranks relatively low. The Gini coefficient is in line with the EU average and significantly more balanced than that of the Baltic States.

The unemployment rate in Poland has continued to rise from 6.8 per cent in 2008 to 10.6 per cent in June 2013, according to the Eurostat definition (and to 13.2 per cent according to the national definition). The ratio is driven by youth unemployment, which nearly doubled during this period and reached 28 per cent, the second highest level in the CEB region.

Poland falls well short of the EU-wide target for labour force participation, with the employment rate at present standing at about 59.7 per cent, the 9th lowest in the EU, and well short of the 75 per cent EU target. This is due to continuing disincentives in the social security system, in particular due to generous early retirement benefits for certain groups.

The European Commission's 2012 Ageing Report suggests that over the next fifty years Poland's total population is foreseen to decrease by 14.6 per cent with a parallel drop in the total workforce of almost 36 per cent. As a result of these trends the dependency ratio (population aged 65 and over relative to the workforce 15-64) is expected to increase from 21 to 71 per cent between 2010 and 2060, resulting in serious strain for the public pension system. The fertility rate stands at only 1.29 births per women, the 3rd lowest in the EU, though recent initiatives, such as greater maternity benefits or encouragement for women to re-integrate into the labour force are designed to counter that trend.

Total health care expenditure stood at about 6.9 per cent of GDP in 2011 (one of the lowest among the CEB economies), of which public health spending was about 4.8 per cent. Population ageing and cost pressures will continue to exert pressure on expenditures on health and old-age care over the next 50 years, unless cost-mitigating measures are taken.

Education expenditure currently stand at 5.17 per cent of GDP, slightly below the EU average. In the 2009 OECD Programme for International Student Assessment (PISA), the country ranked 15th out of 66 with an above OECD-average rating for reading and science but with an average score for mathematics.

2.6. Legal context

Poland continues to make reasonably good progress towards developing a legal system comparable to international standards. The alignment of Polish law with that of the EU has been accomplished in many areas including capital movements, company law, competition law, free movement of goods and free movement of workers, while jurisprudence is developing around these legal changes, so there is still room for development. Notable recent advances have been reforms to concession laws and a related specific law dealing with public-private partnerships. An adequate legal and institutional framework for sustainable energy is also in place and reforms aimed at promoting energy efficiency have come into force in 2013.

Commercial legislation is perceived to be relatively advanced and clear for a country that is still in transition but improvements could be made in certain areas such as registration of mortgages. Poland has also a relatively well developed financial system although some legal and regulatory limitations impacting development of capital markets remain. For example, certain legal requirements affect the issuance of covered bonds, and transfers of collateralised loans are complicated and subject to cumbersome registration requirements.

Poland has fully liberalised its electronic communications market and continues implementation of the most recent EU framework applicable to that sector.

See Annex 3 for a more detailed assessment of the legal environment.

2.7. Energy efficiency and climate change context

Poland has made good progress in moving towards a lower carbon future, but much remains to be done, and Poland's carbon intensity remains one of the highest in the EU. The regulatory and institutional framework for moving towards a lower carbon future has been established, and a long-term policy is in place to ensure security of supply and continued reduction of the environmental impact of energy production and use.

Nevertheless, there is a considerable challenge in moving the high-carbon economy of Poland onto a sustainable low-carbon growth path, and the IEA identifies decarbonisation of the power sector as a key challenge: the CO₂ emissions per MWh are more than twice those of the average of European IEA member countries. Poland

also has one of the lowest GDP/CO₂ emissions ratios in the EU, indicating the considerable potential for improving energy efficiency in the country. The EBRD is well placed to support the Polish government in the delivery of these objectives.

Coal still accounts for more than 80 per cent of Poland's primary energy supply and the economy remains among the least energy efficient in the EU.

Phase III of the EU's Emissions Trading Scheme (ETS) will be a challenge for Poland's carbon-intense economy, especially as CO₂ prices are heavily correlated with the costs of energy production in Poland. The derogation from the ETS that Poland has negotiated with the EU may be difficult to sustain.

Meeting the government target of zero energy economic growth in Poland and the new energy efficiency targets of 13.06 Mtoe of primary energy savings by 2020, as per the new Energy Efficiency Directive (2012/27/EU) will require substantial investments both on the demand and the supply side (in terms of better grid management, smart grid solutions, better access for the renewable energy, highly efficient co-generation etc.). On the demand side, thermo-modernisation of buildings, improvements in rolling stock, energy efficiency solutions in industry (and SMEs in particular) as well as gradual modal shift in urban and national transport, will need to be developed.

The EU Industrial Emissions Directive will create an additional challenge as IED set more stringent emission reduction targets and higher environmental standards post 2016 for power generation units, CHPs and in all large industrial companies in the oil, gas and chemical sectors. Over the coming years a significant proportion of the country's obsolete power generation capacity is to be decommissioned or replaced also to fulfil EU accession treaty criteria.

3. STRATEGIC ORIENTATIONS

Poland's future developmental model now appears less assured than in the immediate aftermath of the global financial crisis. The ongoing European recession and financial market disruptions continue to pose risks to transition, as demonstrated by the bank ownership changes to which EBRD has helped respond. There remains an acute need for modernisation in key sectors of the Polish economy, evident in low energy efficiency and private sector involvement in some industrial and infrastructure segments. While the Polish authorities remain committed to a structural reform agenda, this now faces major challenges in the context of subdued growth and growing popular resentment. Changes to the operation of private pension funds, largely forced by fiscal pressures, are a reversal and may pose a risk to transition gains, in particular in the area of capital market development.

In this context the Bank remains additional, with an engagement focused on sectors with the highest transition value. The Bank's policy advice shall continue to make important contributions to reform initiatives, as has been the case in capital market development, privatisation, sustainable energy and innovation.

The Bank's additionality also stems from the shortening in maturities of bank funding and the limited market appetite for long-term debt financing. Substantial EU funds will continue to flow to Poland in the coming seven-year financial perspective. However, absorption will be largely dependent on the state's capacity for mobilising off-budget co-financing.

Poland is systemically important in Central Europe and therefore the reform agenda, if successfully implemented, will have visibility and wider significance in other countries confronting similar challenges. In the new Strategy period, the Bank will therefore focus its activities on the following cross-cutting challenges in Poland:

- **Promoting the low carbon economy.** Coal still accounts for more than 80 per cent of Poland's primary energy supply and the economy remains among the least energy efficient in the EU. Promoting low carbon solutions, energy efficiency and reduction of GHG emissions, thus combatting climate change, will therefore remain a key strategic priority for the Bank's operations over the coming years. The Bank will continue financing projects leading towards diversification of energy and fuel supplies, especially renewable energy, and improve energy efficiency on both the demand and supply sides.
- **Enhancing the private sector's role in the economy.** The Polish state continues to play a significant role in the economy, notably in the power, chemical, natural resources and municipal sectors. Accelerating the implementation of the structural reform agenda is crucial to support the recovery that has slowed markedly. The Polish authorities have acknowledged the need to push ahead with privatisation and greater market liberalisation. Moving Poland toward a more efficient and competitive economy will require more innovation, provision of risk capital and corporate restructuring (operational and financial), and will include supporting Polish companies in their regional expansion to other EBRD countries of operations.
- **Assisting in the development of a sustainable financial sector and capital markets.** Although the banking system remained sound in the course of the crisis, a number of systemic vulnerabilities emerged and remain obstacles, especially banks' balance sheet mismatches, lack of sponsors' liquidity support and the need for consolidation. In the current environment, high risk aversion by banks and deteriorating credit quality in the economy are leading to substantial financing constraints in some areas of the economy, thus deepening regional disparities in the country and worsening access to finance, particularly for small and medium sized companies. The EBRD will assist in the development of a more sustainable financial sector by assisting banks in addressing crisis-inherited vulnerabilities and promoting the development of local currency capital markets in order to reduce the sector's dependence on foreign financial inflows.

To achieve these strategic priorities the Bank will work closely with other IFIs, the EU, commercial banks and other stakeholders to ensure the best use of EBRD funds. As Poland is an advanced transition country, the Bank's approach will be focused and selective, driven by market demand for projects where it can demonstrate both additionality and transition potential, and where through its investments the Bank can contribute to closing the key outstanding transition gaps by promoting self-sustaining

change. In a context of narrowing transition gaps, the Bank will seek to demonstrate the potential for cross-cutting impact in multiple priority areas or for reducing the role of the state in the economy, while placing particular emphasis on additionality. In projects involving technical cooperation funds, the Bank will secure cost-sharing arrangements.

Poland has made substantial progress since the start of transition and is now among the most advanced transition countries. However, several transition challenges remain. Furthermore, graduation has been delayed because the conditions set out in the Bank's Fourth Capital Resources Review (CRR4) – namely, the improvement of global market conditions, the return of financial flows associated with reducing the Bank's additionality, the region's sustainable recovery and the reduced threat to transition – have not yet fully been realised in Poland. Poland remains committed to graduation which will constitute a recognition of its successful transition path to a well-functioning market economy and a good example for EBRD's other countries of operation. The Bank's priorities in Poland will be appropriately targeted to reflect this trajectory.

3.1. Promoting the low carbon economy

Key challenges

- Approximately 81 per cent of Poland's power generation capacity is based on hard coal and lignite and the country remains one of the most energy intensive economies in the EU. The share of renewable energy and gas-fired generation remains relatively low and this is a key challenge for Poland as it aims to meet EU 20/20/20 climate change targets. Power generation, distribution, and municipal infrastructure do not meet industry standards on carbon intensity.
- Meeting the government target of zero energy economic growth in Poland and the new targets of substantial primary energy savings by 2020, as stipulated by the new Energy Efficiency Directive, will require substantial investments. On the supply side, investment is required in grid management, including smart grid solutions, better access for renewable energy and more efficient co-generation. On the demand side, thermo-modernisation of buildings, improvements in rolling stock, energy efficiency solutions in industry as well as a gradual modal shift in urban and national transport will need to be developed.
- Some market mechanisms, especially in the gas sector, are still poorly functioning. Poland needs to liberalise gas prices, especially in the wholesale segment, and a new gas law is needed as part of the so-called Energy Triple Package, consisting of new regulation for gas, energy and renewable energy markets. Other steps to be taken include the incorporation of the pan-European gas network regulations and joint tariff methodologies.
- Poland remains poorly linked with the rest of Europe, which is one of the key bottlenecks in developing an open energy market in the country and the key concern as far as energy security is concerned. Substantial investment will be required to strengthen Poland's international energy connections.

Bank's operational response

In view of the challenges outlined above, and in line with international efforts to tackle climate change, Poland has the opportunity to become a model for successful transition toward a sustainable energy system. In line with the Bank's particular competencies in the field of sustainable energy, the EBRD will support Poland in substantially improving energy efficiency and energy saving.

The Bank will seek to finance projects aimed at reducing GHG emission and energy intensity. This may include renewable energy projects, gas-fired power generation, and support for best available techniques and environmental investments helping to meet the EU Industrial Emissions Directive. Such projects will have demonstration effects and contribute to bringing new investors into the renewable business (especially when the regulatory regime remains uncertain) as well as improving access to the grid. Such investments may also be associated with the development of carbon markets in the country.

The Bank will focus on promoting energy efficiency both on the demand side, working in particular with greening investments and SMEs (via financial intermediaries, e.g., potentially via Polseff 2) and may selectively work on the supply side, with the introduction of smart grid solutions. The Bank will engage in such operations when clearly additional and complementary to other financiers.

The Bank will aim to support private operators of energy infrastructure, for projects leading to the creation of open and competitive markets in energy, with liberalised energy and gas tariffs and third party access, facilitating the entry of new private players and the better integration of Polish gas and energy markets into regional and pan-European networks.

Any such financing will be provided alongside other IFIs (especially the EIB), commercial banks and other market participants, including possibly the capital markets. The Bank will participate when clearly additional, when it has the ability to drive transition impact, and is complementary to other financiers.

Policy dialogue and TC

The Bank will continue its policy dialogue with the Ministry of Economy and other stakeholders, promoting transparency and clarity of the renewable energy support system. The Bank will support the development of more market-based financing schemes for investments in renewables, subject to the presence of a stable regulatory framework and commercial co-financing.

EBRD may also consider involvement by working with the Polish Ministry of Environment and the energy regulator ("URE") in the regulatory shift towards promoting an 'energy efficiency' framework (e.g., in distribution tariffs), and will continue its dialogue on gas market liberalisation with the regulator and possibly PGNiG to support the full implementation of the open market Energy Directives.

3.2. Enhancing the private sector's role in the economy

Key challenges

- State involvement in the economy in Poland remains extensive, notably in the power and natural resources sectors and in heavy industry, transport and municipal assets. The government revived the privatisation process in 2010, although the share of the public sector in GDP remains relatively high at around 20 per cent. The privatisation programme will need support in the years ahead, and profound restructuring in some state companies will be necessary before privatisation is feasible. The lack of long-term funding and risk capital is a key obstacle to such restructuring.
- Reforms in the corporate sector have been slower than expected in recent years and the crisis has highlighted the significant remaining challenges. Companies are under pressure to adjust and realign to recent market developments, often facing the necessity of going through deep restructuring (both operational and financial) and reorienting their business to a more competitive environment. The success of such restructuring will be critical in the economic recovery process leading towards the improved competitiveness of the Polish economy.
- In the infrastructure sector, PPPs as well as private concessions remain underdeveloped. While infrastructure has been primarily funded by EU structural funds, this will increasingly shift from grants to financial instruments, including an increased role of off-budget/private financing in public investments and privatisation of municipal assets.
- Poland will soon exhaust its potential for growth that is driven by convergence with the core European economies. Poland's R&D spending is only 0.7 per cent of GDP, one of the lowest in the EU, falling well short of the EU-wide target of 3 per cent. Business R&D constitutes only 0.2 per cent of GDP. While there has been an increasing technology content of exports through a growing integration in supply chains, Poland remains much less developed in this regard than other countries in the CEB region, and also lags with regard to ICT development. To regain high trend growth the country needs to enhance competitiveness and productivity, through a stronger emphasis on innovation and investments in higher value-added industries that are more intensive in skills and technology.
- Risk capital remains underdeveloped and the private equity industry significantly lags other emerging markets. Funds operating in Poland and the region at large are facing challenges in raising equity, as foreign investors are reluctant to commit funds to a region perceived as limited in size and risky, while domestic institutional investors – importantly, pension funds – are constrained in their allocations to this asset class. A few small venture capital vehicles exist, although they are largely reliant on EU structural funds.

Bank's operational response

The Bank will seek opportunities to participate, principally with equity, in the privatisation of the remaining state- or municipally-owned companies. Such projects will be associated with corporate governance improvements. The Bank will also provide financing for private sector companies managing public infrastructure. This may be via a range of structures including public-private partnerships or other forms of contracts or financing instruments, including capital market solutions (e.g., project

or revenue bonds).

The Bank will very selectively consider engagement with companies that have strong growth potential and a sound underlying business, but require financial and operational restructuring, and where the Bank's role will be critical, alongside other financiers, to unlock new investments. The Bank will engage in such operations when they significantly contribute to the development of new and sustainable financing structures or products or would increase private competition.

The Bank will also seek to deepen its engagement in the knowledge economy, by financing investments in innovation, research and development, technology and communication infrastructure (in line with the EU digital agenda). The Bank will engage in such projects where clearly additional and if such operations significantly contribute to the development of either new products or services, or else sustainable financing structures.

Finally, in order to gain scale and promote knowledge-sharing across the region, the Bank will actively promote and support Polish companies investing in the region through cross-border transactions.

The above objectives will be pursued directly in selected cases as well as by investing in private equity funds (which will often have a regional coverage), which remain a key source of scarce equity financing and a potent agent of change in the companies in which they invest.

Policy dialogue and TC

The Bank will continue its dialogue with the State Treasury and local governments with regard to the privatisation of remaining state and municipally controlled companies, including involvement with public sector counterparts to develop feasible contracting structures and best practice PPPs. The new allocation mechanisms for EU structural funds will require greater use of commercial co-financing on which the Bank, together with the EIB, could advise and contribute.

The Bank will continue its policy dialogue as part of integrated approach in financing private equity, with the objective of mobilising local and regional institutional investors to participate in private equity fundraising.

Finally, the Bank will remain available to work with the authorities on the new 'Polish Investments' fund (a leveraged sovereign fund) on issues such as internal governance and investment principles. This may lead to future co-investment opportunities.

3.3. Assisting in the development of a sustainable financial sector

Key challenges

- Disruptions in the European banking industry continue to pose a systemic risk to Poland, given that about 70 per cent of Polish banking assets are foreign-owned, with about a third stemming from the Eurozone periphery. The regulator is concerned about the effects of deleveraging and disruptive ownership changes.

- Several commercial banks continue to run large mismatches in terms of maturities and open currency exposures as a result of historical FX lending. In addition there is a prevailing reliance on deposits and lack of medium/long-term financing instruments available to the Polish banking sector.
- Despite some attempts undertaken by the regulator there are no long-term funding instruments available for Polish banks addressing long-term liquidity mismatches. Mortgage bonds and securitisation are underdeveloped and capital markets are not offering appropriate instruments. The private bond market has not developed into a credible intermediary for effective and sustainable local currency savings and investment. The announced scaling back of the role of private pension funds, which have been a significant source of institutional investment, is a major setback for capital market development.
- Credit growth in consumer and MSME lending remains low (approximately two-thirds of Polish SMEs have not used external funding in the last five years). This continued trend deepens the still-strong regional disparities in the country, which need to be addressed. In this respect, banks, including cooperative banks (subject to reform and strengthening), can play a role in directing more lending to poorer regions where access to credit for micro and small enterprises is highly uneven.

Bank's operational response

The Bank will pursue opportunities to facilitate and accelerate the development of the debt capital market through subscription to bank and corporate bonds, structured instruments and asset-backed securitisation. The objective will be to support the development of alternative long-term funding instruments, mobilising a wider investor base – particularly in view of the likely diminished role of private pension funds – and ensuring increased market liquidity.

The Bank will work with selected banks and leasing companies in order to address past balance sheet mismatches, including through long-term cross-currency swaps or other structured products. In association with such products or on a stand-alone basis, the Bank will also seek to promote the development of sustainable, commercial lending to small businesses, with a strong focus on regional disparities, rural areas and financial inclusion.

Finally, the Bank will selectively consider requests to support ownership changes in the banking sector resulting from global strategic investors' repositioning in the region, which could promote competition as well as elicit synergies and efficiencies, utilising both equity and debt instruments.

Policy dialogue and TC

The Bank will continue advisory work under the L2C2 initiative on the future of the Polish capital market in light of ongoing pension fund reform. Engagement with the Financial Services Authority on covered bond issuance, use of collateralised transactions and market-based funding of mortgage instruments has been initiated. The Bank will also seek to provide advice on the restructuring of cooperative banks and financial inclusion.

3.4. Environmental and social implications of the Bank's proposed activities

Poland has made substantial progress in addressing its environmental legacies since joining the European Union and implementing EU Directives. Those legacies are mainly associated with the historic structure of the energy sector (coal-based) and poorly developed municipal and public infrastructure, notably in terms of waste management, wastewater and public transport systems. Those historic legacies, and the costs associated with addressing them, have been recognised as part of the EU Accession Treaty, which includes a number of derogations for the implementation of EU Directives. The Bank has assisted and continues to assist in the financing of projects aimed at attaining compliance.

Nevertheless significant challenges remain, notably in terms of restructuring the heavy industry, manufacturing and power sectors to attain EU environmental standards. The recent implementation of the EU Industrial Emissions Directive (IED) is a challenge to many operators, notably as existing facilities must comply with Best Available Techniques (BAT) post-2016. In other sectors, Poland faces the need to move away from a coal-based economy and implement state of the art non-coal-based generation assets, such as renewable generation. The investments needed will require substantial capital and know how. The Bank will assist in this process to help Poland implement a lower carbon strategy, and continue assisting with the restructuring of the industrial sector.

Gender

According to the assessment of gender gaps of the Strategic Gender Initiative (SGI), Poland is not amongst those countries where the gender gaps are the largest. However, subject to available human and financial resources and depending on opportunities, projects with a gender component might be considered in Poland on an exceptional basis. The Bank will endeavour to work with its clients in Poland, where appropriate, to encourage women entrepreneurs' access to finance, support equality of opportunity in the workplace and promote career advancement, and to ensure that women, as well as men, benefit equally from the Bank's investments.

See Annex 7 for an assessment of gender equality.

4. ACCESS TO FINANCE

4.1. Private sources of capital

Poland's sovereign rating stands at A- according to all three major rating agencies, only slightly lower than those of Estonia and Slovakia (by one to three notches). Unlike in the case of the other CEB economies, Poland's rating has been maintained throughout the 2008/09 crisis and its outlook was revised from stable to positive by Fitch Ratings in February 2013, although this was subsequently revised back to stable in August 2013.

Poland has benefitted from the global easing in monetary policy in the advanced countries, and the concomitant search for yield that has benefitted emerging markets.

Portfolio inflows to Poland increased to 3.4 per cent of GDP in 2012, as increase by nearly one percentage point over 2011. Given the significant financing needs following the crisis, the government has issued considerable amounts in both external Eurobond and domestic bond markets, with the domestic markets showing one of the highest foreign investor participations of any emerging market. Sovereign bond financing is therefore vulnerable to a reversal if monetary policies in the advanced markets. Maturities of government securities have increased steadily, although they are still short by comparison to other comparable emerging economies (Chile, Czech Republic, South Africa or Thailand). Debt securities issued by entities other than the government are only a minor share of the market, accounting for approximately 9 per cent of total issuances.

The stock of inward foreign direct investment is sizable (about 42 per cent of GDP, according to the 2011 international investment position). Inward flows of foreign direct investment (FDI) were substantial before the crisis (5.5 per cent of GDP in 2007), though then decreased to some 3 per cent of GDP between 2008 and 2011. Last year FDI inflows dropped further to only 0.7 per cent of GDP. Poland has been subject to wide swings in funding by foreign commercial banks. Net flows of other investment (largely consistent with bank-related transaction) fell from an inflow of some 5 per cent of GDP in 2008 to modest outflow of about 1 per cent of GDP in 2012.

While the sovereign has enjoyed good access to the capital markets, Polish non-sovereigns have faced difficulties in issuing medium-term debt both in the international and domestic markets. Banks have very limited access to Eurobond markets: there have been just a handful of issuances by Polish entities since 2008. International banks increasingly tend to issue covered bonds in search of investor appetite and lower margins. With regard to local capital markets, sovereign issues have dominated the local bond market. It is estimated that the state issues account for approximately 98 per cent of the debt capital market in Poland. The share of outstanding corporate debt issues in Poland is below five per cent of GDP. Poland's money and capital market development requires determined action in order to reduce vulnerabilities and enhance growth potential.

Private equity funding is also very limited. Following the events of 2008-09 fundraising was pushed back to pre-2004 levels and private equity managers now struggle to raise new funds. This is the result of two factors: the difficult exit environment, which leads to frequent extensions to portfolios built prior to 2008 and limit realised investments' track record; and the fact that post-2008 investments (most made in 2011-2012 window) still remain immature and thus do not offer fund managers commercially compelling follow-on fundraising stories. Institutional investors are currently deferring their CEE exposure decisions in response to the eurozone's situation and more attractive emerging markets like China, India and Latin America. As a result the availability of private equity money is constrained (especially with regard to SMEs and mid-cap companies), while the investment in private equity funds is predominantly supported by IFIs (in particular EBRD and EIF). Moreover the transition of risk capital providers from IFIs and western investors to local institutional investors has not yet taken place, with Polish pension funds unable to invest in offshore structures and unwilling to take these risks.

Private pension and investment funds in Poland are also limited in scale and scope. The assets of mutual funds amounted to EUR 39bn at the end of June 2013. Mutual funds proved to be very exposed to macroeconomic cycles and volatile investors in times of crisis. Mutual funds predominantly invested in liquid investments in order to deal with the investors' demand for winding down their investments. Open pension funds in June 2013 managed assets of EUR 65bn and, thanks to the steady inflow of cash, have been able to invest in listed securities, thus providing a counter-cyclical buffer during economic downturn. However, due to government reforms of the private pension funds, limiting future pension contributions from clients, and further planned reforms including the transfer of assets from the open pension funds to state Social Security, reliance on pension funds' capital in future will be seriously curtailed.

4.2. Cooperation with the European Union

Poland has drawn on substantial grant funds under the EU's structural and cohesion policy, which are widely credited with sustaining strong growth in public investment. The EU has committed EUR 67.3 billion to Poland under the European Regional Development Fund (ERDF), European Social Fund (ESF) and the Cohesion Fund (CF) over the period 2007-2013. According to data from the National Information System, since the start of programmes until November 2013, 91,834 contracts for co-financing were signed with beneficiaries, for the amount of EUR 90.2 billion (i.e., 91.1 per cent of 2007-2-13 allocation) with an amount of co-financing on the part of the EU of EUR 62.2 billion, which constitutes 92.4 per cent of allocation for the 2007-2013 period. Cooperation between the European Commission and the Bank and the respective Polish managing authorities during the previous strategy period resulted in co-financing for several projects under the EU structural and cohesion funds. These were prominent in the MEI and energy sectors, and several credit lines were co-financed by the EIB as well as commercial banks.

Another area of co-operation is JASPERS, a joint initiative of the EC, the EBRD and the EIB that is assisting in enhancing the necessary administrative capacities in preparing EU funded projects. The programme is supported by experts from the EC, the EIB and the EBRD, who help prepare projects ranging from transport infrastructure to municipal environment and energy efficiency/renewable energy.

The current commitment of the EU for the new budget perspective 2014-2020 includes EUR 73 billion for the cohesion and structural funds, which represents a decline in real terms from the EUR 67.3 billion in the previous seven year funding period. This will require further cooperation with the Commission on implementation of projects, with an need for more direct involvement of the private sector. Since Poland's budgetary constraints (both at the central and municipal levels) will limit the ability of traditional co-financing through own budgetary contributions in absorbing EU grant funds, new solutions and new structures will need to be envisaged, (hybrid financing structures, PPPs, sale of assets, etc.). The Bank will work alongside other institutions (especially the EIB) on supporting the new ways of utilising EU funds through financial instruments, acting as a catalyst for change.

EIB

Cooperation between EBRD and EIB has been very successful to date. Both institutions have different but complementary mandates in Poland and have focused on comparative advantages, often related to project risk profiles and transactions structures. This cooperation is likely to continue as important investments are still expected and the availability of long-term funding remains limited. It has to be noted that an average EBRD transaction in Poland is EUR 25-35 million and this is substantially smaller than the average EIB loan ticket. EIB's annual business volume expectation for 2013 is EUR 5.5 billion, comparable to the EBRD commitment in Poland in recent years. Over last 5 years, the EIB committed over EUR 22.8 billion in Poland. Therefore both institutions will remain focused on their comparative advantages, with the EIB focusing primarily on large sovereign (and regional) infrastructure projects (with the EIB individual loan size going up to EUR 700 million). EIB is however limited to financing up to 50 per cent of a project's total investment costs, therefore there are often opportunities for the EIB and the EBRD to work together

EBRD started working with "Marguerite", an infrastructure fund established by the EIB and six European financial institutions focusing on capital-intensive infrastructure investments. The Bank has already co-financed its first investment with Marguerite in Poland, a wind farm Kukinia (together with PKO BP) for a total amount of EUR 210 million, and will be willing to support further co-investments by providing debt and/or equity instruments alongside the Fund.

The European Investment Fund (EIF), part of the EIB Group providing capital to SMEs by investing in private equity funds, is a longstanding co-investor with EBRD. Since the private equity sector suffers lack of funding, EBRD and EIF work together on co-investments in private equity fund raisings. Like the Bank, EIF usually takes an anchor investor role in funds' first closings. In 2012 EBRD and EIF worked on two private equity projects: Avallon II and Concordia 21. Thus co-operation is expected to continue in the next Strategy period.

4.3. MDB finance and collaboration with other IFIs

The Bank will continue to pursue active coordination with other IFIs and the EU to enhance the leverage of its investment financing.

World Bank

The World Bank's new Country Partnership Strategy (CPS) for Poland 2013-2017 includes IBRD lending of about US\$ 3.2 billion (since 2009 the World Bank invested over USD 6 billion in Poland).

Under the new strategy, the World Bank Group will support the Government's shared prosperity agenda and help foster sustainable income growth for the 40 per cent of the population with the lowest income. This work will include activities that improve competitiveness (business environment, innovation support, public finance), equity and inclusion (labour market, reduction of regional disparities, health and aging), and sustainability (climate change policy, flood protection, resource-efficient

infrastructure). The new strategy programme is aligned with the Government's own priorities as well as with the EU 2020 agenda of smart, sustainable, and inclusive growth. The World Bank Group is planning to continue to provide financial support with a planned lending envelope of US\$ 3.2 billion. The financial support may be adjusted throughout the new strategy period to reflect the country's economic circumstances, the speed of the government's reforms, as well as the availability of IBRD resources. The International Finance Corporation (IFC), which focuses on private sector development, will seek to strengthen Poland's private sector through development of critical infrastructure, including via public private partnerships, as well as through climate-friendly investments, and support to Polish companies investing in other emerging markets.

ANNEX 1 – POLITICAL ASSESSMENT

Poland is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with Article 1 of the Agreement establishing the Bank.

Since the restoration of independence in 1989, Poland has made significant progress in building its democratic institutions. With an established track record of multiple peaceful transfers of political power between parties and coalitions, Poland's democratic political system can now be considered to be largely consolidated, although some challenges remain in the areas of public governance and the fight against corruption.

Free Elections and Representative Government

Free, fair and competitive elections

Elections in Poland at all levels – local, regional and national – are free, fair and competitive. Since the restoration of independence in 1989, Poland has held eight parliamentary elections, five presidential elections, six rounds of local elections, two elections to the European Parliament and three national referenda. Domestic and international observers have consistently judged Poland's post-independence elections to be free and fair, although international observers have raised some concerns about certain technical aspects of the voting procedures, such as group and open voting which undermines the principle of the secrecy, as well as the potential perception of bias and government influence in the National Broadcasting Council which might affect election outcomes.¹

Elections in Poland since the restoration of independence in 1989 have included a broad range of political parties representing a wide spectrum of political views, thus offering voters a genuine electoral choice. National, regional and local elections have been highly competitive. As a result, elections at the national level have resulted in a regular alteration in power of centre-left and centre-right parties.

Separation of powers and effective checks and balances

Poland established a multiparty, mixed parliamentary-presidential democracy on the restoration of independence in 1989. The Polish Constitution provides for formal institutional checks and balances within the political system, and these are generally effective, providing effective constitutional checks and balances on the exercise of power across the three branches of government.

The president, who is directly elected for a five-year term, has relatively limited executive powers. While these formally include the authority to nominate the prime minister and the members of the Cabinet, who are then subject to approval by the lower house of parliament, in practice the selection of prime ministerial nominees is usually left in the hands of the parliamentary parties. The president also has the

¹ See, for example, the OSCE's Office of Democratic Institutions and Human Rights (ODIHR) Election Assessment Mission Report for the October 2011 parliamentary elections, available online at <http://www.osce.org/odihr/elections/87024>.

constitutional authority to initiate legislation and to veto it; presidential vetoes can be overturned by a vote of two-thirds of MPs in the presence of at least half of the statutory number of members of parliament.

The judiciary is independent and professional, and generally provides an effective check on executive and legislative powers. While periodic cases of corruption among judges are reported, these are relatively rare, resulting in above average public trust in the courts.

The legislative branch, the National Assembly, is bicameral, with the lower house (the *Sejm*) composed of 460 members elected by proportional representation in multimember constituencies for a four-year term. The upper house, the Senate, has 100 constituency-based members elected on the basis of multiple member pluralities in constituencies of two to four members. The legislature is able to hold the Government to account through its approval of the Prime Minister, who in turn appoints the Cabinet. In addition, the *Sejm* is able to hold the Government to account through the mechanism of 'no confidence' votes.

The Government is also accountable to the electorate, first and foremost through the ballot box, but also through multiple access points to political decision-making by ordinary citizens and civil society organisations.

Effective power to govern of elected officials

Poland's elected officials have full effective powers to govern, and there are no formal constraints on their powers to govern effectively. Poland's armed forces are fully subject to civilian control and do not play a significant role in political or fiscal decision-making processes.

Civil Society, Media and Participation

Scale and independence of civil society

Polish civil society is large, diverse, vibrant and independent of the state. Civil society organisations (CSOs) have become more important in recent years as Polish citizens' identification with established political parties has declined. CSOs have relatively good access to political decision-making and the law-drafting process, and experts from the CSO community are often consulted on major government proposals.

Poland remains an overwhelmingly Catholic society and the Catholic church plays an important role in Polish social and indeed political life. Business associations and trade unions also have some influence over the policy-making process, although the influence of trade unions has declined in recent years as Poland's economy has shifted from its traditionally strong manufacturing industrial base to more of a modern services sector orientation.

Financial support to civil society organisations, particularly those with membership-based funding structures, declined during the economic crisis, but has since recovered somewhat. Tax measures are in place to incentivise donations to CSOs, although the public donor base remains fairly narrow.

Independent pluralistic media that operates without censorship

The Polish Constitution guarantees freedom of expression, and legal protection for investigative journalists exists and is generally observed in practice. The media in Poland are generally independent, pluralistic and robust, and operate without formal state censorship.

Defamation and public insult continue to be criminal offences, potentially affecting freedom of speech, especially during election periods.

The economic slowdown in recent years has constrained advertising revenues for Poland's mass media, which as a result has become more reliant on advertising commissioned by state institutions and state-owned enterprises, raising some concerns about the media's independence.

Multiple channels of civic and political participation

Polish citizens enjoy a number of channels of civic and political participation. It is easy and uncontroversial to become a member of a political party, although political party membership is below the EU average and identification with political parties is declining. Poland's robust civil society provides another channel of civic and political participation, although mass membership in these organisations remains limited.

Freedom to form political parties and existence of organised opposition

Polish citizens are free to form political parties and a series of opposition parties and groups (many of whom have held political office) have been organised, well resourced, and enjoyed popular support. The political party system is relatively cohesive, with two major parties dominating national politics for the past decade.

The current coalition government has been in power since October 2007 despite the global economic downturn, buoyed by Poland's relatively strong performance (particularly in relation to regional peers). However, popular disaffection and disillusionment with the ruling Civic Platform, in particular, has risen in recent years as the government has come to be seen as failing to deliver on its structural reform commitments.

Rule of Law and Access to Justice

Supremacy of the law

The Constitution of Poland is the supreme law of the land, and all political forces accept the supremacy of the Constitution and the laws of Poland as well as the European Union. No bodies or individuals are deemed to be above domestic or international law.

Independence of the judiciary

The independence of the judiciary is enshrined in the Polish Constitution and generally upheld in practice. As noted above, the judiciary is independent and professional, and generally provides an effective check on executive and legislative powers. While periodic cases of corruption among judges are reported, these are relatively rare, resulting in above average public trust in the courts.

Government and citizens equally subject to the law

The Polish Constitution guarantees all citizens equality before the law and that guarantee is generally upheld in practice.

Effective policies and institutions to prevent corruption

Corruption remains a moderate challenge in Poland, despite significant and sustained government- and EU-supported programmes to combat corruption and improve the quality of public governance. Little progress has been made in recent years, according to Transparency International's Corruption Perceptions Index (CPI), which has ranked Poland 41st globally and 20th in the EU for a number of years (although the methodology and number of countries included in the index has changed over time, making comparisons through time problematic).

Civil and Political Rights

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

The fundamental freedoms of speech, information, religion and conscience, movement, association and assembly are guaranteed by the Polish Constitution and supporting legislation, and are generally observed in practice.

Political inclusiveness for women, ethnic and other minorities

The Polish Constitution provides for equal treatment for women and ethnic and other minority groups, and these protections are generally upheld in practice.

Freedom from harassment, intimidation and torture

The Constitution of Poland provides for citizens' freedom from harassment, intimidation and torture by the state, and these freedoms are generally observed in practice.

ANNEX 2 – ASSESSMENT OF TRANSITION CHALLENGES

The table and the supporting text below provide an overall assessment of Transition Challenges by sector, based on the Office of the Chief Economist’s 2013 Assessment of Transition Challenges. There are two separate scores for each sector, rating market structures and market-supporting institutions.

Sectors	Market structure	Market-supporting institutions
Corporate sectors		
Agribusiness	Small	Small
Manufacturing and Services	Small	Small
Real estate	Small	Small
Telecommunications	Small	Negligible
Energy		
Natural resources	Medium	Medium
Sustainable energy	Medium	Small
Power	Medium	Negligible
Infrastructure		
Water and Wastewater	Small	Small
Urban Transport	Small	Small
Roads	Small	Small
Railways	Small	Small
Financial sectors		
Banking	Small	Small
Insurance and other financial services	Small	Small
MSME Finance	Medium	Small
Private Equity	Small	Small
Capital Markets	Small	Small

Agribusiness

Market structure: *Small*

Market institutions: *Small*

Key challenges: (i) accelerate the sales of direct and indirect stakes held by the state in the agro-processors; (ii) enhance competition in some of the sub-sectors where the market is dominated by few players

Poland has made noticeable improvements both in terms of market structure and competitiveness as well as market governing institutions in the agribusiness sector. Since accession to the EU in 2004, Poland has been integrating into the EU’s CAP. The country is receiving substantial EU agricultural support but there is still a need to improve the governance of subsidy allocation. In particular, public entities managing state land and not otherwise involved in farming should be excluded from EU farm aid and no payments should be made in relation to unutilised land. The country continues to grant substantial direct subsidies to farmers’ social security system. Land tenure remains very fragmented and there is a strong need for farm consolidation. Following EU accession, Polish farmers increased their profitability, competitiveness and incomes, cementing the country’s transformation from an importer to net exporter of agricultural products. Privatisation of agribusinesses is advanced but the state still retains control in a number of agri-processors, many of which had to be restructured

due to the economic slowdown and volatility of commodity prices. The retail sector is well developed with many big foreign players present. The main provider of credit to the rural sector, BGZ, was privatised in 2004 and successfully restructured by its new owner Rabobank with the assistance of EBRD. However, Rabobank has recently launched the process for disposing its entire stake in BGZ, which in case of a shift in the bank's strategy under new ownership could result in a deterioration of rural sector's access to financing.

Manufacturing and Services

Market structure: *Small*

Market institutions: *Small*

Key Challenges: (i) accelerate the restructuring and privatisation of state-owned enterprises; (ii) improve corporate governance and transparency of enterprises to attract equity capital for higher risk investments in R&D; (iii) improve the business environment by streamlining administrative procedures; (iv) support improvement of energy efficiency in the industry through replacement of outdated technologies.

Reforms in the Manufacturing and Services sector have been slower than expected in and the crisis shed light on the remaining challenges. Companies are under pressure to adjust and realign themselves with recent market developments. Privatisation and consolidation processes are crucial in securing sustainable financing for planned investment programmes. State-owned enterprises in chemical (where the fertilisers industry was consolidated under Grupa Azoty), pharmaceutical and consumer goods sectors still require wide-ranging restructuring and privatisation, once market conditions improve. The government's privatisation plan for 2012-2013 lists some 300 companies available for sale. For a great majority the government plans a complete exit, whereas in those considered 'strategically important' it would retain a controlling stake. Given new EU legislation coming into force, such as the industrial emission directive, competitiveness and energy efficiency will need to improve, especially in energy intensive industries such as the chemical sector. In the 2013 Doing Business report, Poland jumped 19 positions to the 55th place thanks to reforms that made it easier to register property, pay taxes, enforce contracts and handle bankruptcy. However, further improvements are required in administrative procedures for new business registration, licensing, tax payments and conditions for the expansion of private enterprises, especially as investors' appetite and FDI continue to be weak.

Real estate

Market structure: *Small*

Market institutions: *Small*

Key challenges: (i) increase market penetration of innovative, energy efficient and sustainable construction technologies outside major cities; and (ii) streamline the construction permit process.

The real estate sector is well developed. Regional cities (Kraków, Katowice, Poznań, Tricity, Łódź) have attracted more international companies, but there are still large development discrepancies when compared with the capital. Primary and secondary legislation supporting the sustainability of real estate are well developed and public

awareness of the sustainability issues is also good. However, relatively little progress has been made regarding refurbishments of existing commercial buildings. Property registration in Poland eased in 2011 as its land registry was computerised. Building permits do however remain a bottleneck (according to the World Bank Doing Business 2013, it takes 29 procedures and 301 days to obtain a permit). The sector is undergoing substantial adjustment caused by the economic slow-down and lack of financing from the market, as many banks closed business lines in property and construction. There are some attempts today to look for private sector participation in state property area, e.g. privatisation of state holding PHN or PPPs. Although major international players have been expanding their operations, there is still room for development and know-how transfer in tourism, especially in rural areas.

Telecommunications

Market structure: *Small*

Market institutions: *Negligible*

Key challenges: (i) continue developing the infrastructure (broadband internet), including the efficiency of the infrastructure; (ii) increase competition in the fixed line segment (iii) increase the efficiency of telecommunications infrastructure (technology improvements, green ICT solutions etc.).

The telecommunications sector is regulated by the Office of Electronic Communications (UKE). The regulatory framework is advanced and aligned with the EU requirements. The main competitive safeguards have been implemented, although the use of local loop unbundling has remained relatively rare and access to the incumbent's backbone network is still restricted. In the fixed line segment, the privatised incumbent, Telekomunikacja Polska (TP, owned by France Telecom and now operating under the brand Orange), competes with alternative operators but still controls a major share of the market. In the mobile segment, there is intense competition between four leading operators, Orange, Polkomtel, T-Mobile and Play, a number of smaller players and a number of MVNOs. Fixed broadband internet penetration remains significantly below the EU average, but it should increase as the incumbent TP was forced by the regulator to open its network. Mobile broadband is relatively more developed, with a penetration level close to the EU average. While carrier-neutral data centres started emerging, collocation and hosting space in relation to the country's population is low by Western European standards. The use of e-commerce is increasing but from a relatively low base.

Natural Resources

Market structure: *Medium*

Market institutions: *Medium*

Key challenges: (i) restructure and improve the efficiency as well as the corporate governance of state-owned companies in the mining and oil and gas sectors and take steps to privatize them in the future; (ii) facilitate the entry of new private players in the mining sector and in the gas market; (iii) develop market-enabling institutions (e.g. gas exchange) and complete liberalisation of gas tariffs; and (iv) improve standards of reporting and overall transparency in the extractive sector.

Poland is the largest coal producer in the EU. The country is currently developing its first LNG terminal, with the aim of diversifying its gas supplies and reducing its dependence from Russian imports.

State Treasury still controls or holds shares in multiple natural resources and mining companies (PGNiG, Lotos, OLPP, PKN Orlen, PERN). In March 2011, the government announced a privatization plan for 2012-2013. It includes the privatisation of Ośrodek Badawczo-Rozwojowy Przemysłu Rafineryjnego S.A. and Rafineria Nafty "GLIMAR" S.A. in the oil sector. In the mining sector, it is aiming to include i.e. Węglkokoks S.A., Jastrzębska Spółka Węglowa S.A., Katowicki Holding Węglowy S.A. and Kompania Węglowa S.A.. Although there were plans to privatize Grupa Lotos, the second largest oil refiner group in which the government still retains a 53 per cent shareholding, the new privatization plan indicates that as an '*entity of key importance*', it will remain under the supervision of the Minister of Treasury.

The Polish gas market is in theory open and all customers can choose their supplier. In practice, PGNiG dominates the upstream oil and gas segment, is the main importer and controls gas storage and distribution through its regional subsidiaries. An amendment to the Energy Law was adopted by the Polish government in July 2013 (called as 'Mini-tri-Pack') aimed at ensuring compliance with the EU directives. A gas exchange was launched in Poland in December 2012, but it is still at a start-up phase. On 1 January 2013, the gas market was liberalised for industrial consumers; the next step can be the liberalisation of the market for households.

Either via PGNiG or through new laws imposing a minimum level of state ownership, the state may also be positioning itself to ensure control over a significant share of the growing upstream shale gas market. Despite the fact that the regulatory and concession regimes are deemed fair, transparency and accountability in the sector are considered to be low. Although decreasing, state subsidies to the mining industry are still an issue. Foreign companies initially interested in shale gas extraction in Poland have considerably reduced their activity in the Polish market.

Sustainable Energy

Market structure: *Medium*

Market institutions: *Small*

Key challenges: (i) remove barriers to grid access for new renewable energy producers; (ii) restructure distortionary energy efficiency and renewable energy subsidies in order to encourage faster implementation of commercially viable investments; (iii) enable credible green investment schemes.

The legal and institutional framework for sustainable energy is established but currently faces considerable policy uncertainty and energy intensity and renewables' penetration are lagging well behind the EU averages (a further concept was proposed by the Ministry of Economy in September 2013). Support systems for energy efficiency and renewable energy are converging with EU practices, although independent renewable power producers face difficulties with access to the grid which is controlled by the four vertically integrated regional energy companies. In December 2011 the government announced plans to alter the renewable energy support system. Various details of proposed changes to the renewable energy support system were

discussed since then. The new draft law proposal is currently being discussed by the government but has not yet been submitted for parliamentary consideration. This has added to regulatory uncertainties in the sector and has held back new foreign direct investments in renewables.

The Green Certificates scheme is expected to be continued in a slightly modified form applicable for new investments. The second National Energy Efficiency action plan, based on a system of white certificates and insulation projects, was adopted in April 2012. To support renewables, Poland has introduced quota obligations on electricity supply companies, which must be filed with tradable certificates of origin (GCs). Certificate prices provide substantial additional cash flow to renewable energy project, on top of the obligation to purchase energy at the wholesale price. The GCs are freely traded on the Power Exchange and in the OTC market. A Climate policy is in place but the country is unlikely to fully achieve EU 20/20/20 targets. Attempts have been made to sell AAUs, and relevant agreements had been signed with buyers from Spain, Ireland and Japan. Key challenges include the removal of regulatory uncertainties and barriers to grid access for RE projects and development of capacity in EIA of RE investments in line with EU standards.

Power

Market structure: Medium

Market institutions: Negligible

Key challenges: (i) increase private sector participation in generation and retail energy supply; (ii) increase cross border energy trading and regional integration; and (iii) remove end user price regulation.

To date, three out of four vertically integrated groups in the Polish power sector have been listed, including two that still remain majority state-owned, and one that was privatised in 2010. However, in spite of these successful IPOs the Polish power sector is still largely state-controlled. In March 2012, the government announced its intention to privatise state utilities Energa and Enea before the end of 2013. This timetable appears to have slipped further, as most recently the IPO for only one of the companies, Energa, was confirmed. Regulated electricity prices remain in place for household consumers, and are not expected to be liberalised before mid-2014. The government is also subject to infringement proceedings for failure to appropriately implement rules aimed at increasing the capacity and transparency of gas and electricity markets; and failure to provide an adequate alternative dispute settlement system for consumers. The derogation for implementation of ETS Phase III has been agreed with the EU, and the free allocation of CO₂ emission rights will gradually decrease and finally cease in 2020. A fully independent regulator is in place and tariffs, with the exception to households, are largely cost-reflective. However, strengthening of the regulator's powers so it can require incumbents to invest in transmission and distribution capacity is required.

Water and wastewater

Market structure: *Small*

Market institutions: *Small*

Key challenges: (i) improve private sector involvement and PPP structures for municipal services; (ii) improve public service contracts and their full deployment in smaller utilities; (iii) develop a multi-year incentive based tariff methodology for the utility companies and their managers; (iv) increase deployment of utilities revenue bonds as the source of long term funding.

Local infrastructure services have been decentralised and are today controlled and serviced by municipal joint stock companies, which are, with few exceptions, privately operated. The overall situation of the water network is adequate, however currently only about 28 per cent of the population in rural areas have access to a sewerage network, Commercial financing of municipal infrastructure is available, although longer tenors remain a challenge. Municipal utility revenue bonds have been introduced but are underutilised as a source of long term financing. Tariffs are approved by municipal authorities every year, although political pressure against tariff increases is visible with negative consequences on the financial sustainability of the operators. The legislation provides for private sector participation on the basis of a contract concluded with the local government. The tariffs allow for cost recovery and subsidies are gradually becoming less common.

Urban Transport

Market structure: *Small*

Market institutions: *Small*

Key challenges: (i) liberalise urban transport sector; (ii) improve public service contracts and their full deployment in smaller towns; and (iii) further develop PPP structures for municipal services.

Local infrastructure services are decentralised, controlled and serviced by municipally-owned companies, municipal departments or private operators. Urban transport markets have been partially liberalised in several large cities, e.g. about one quarter of Warsaw's urban bus market is operated by the private sector. Commercial financing of municipal infrastructure and services is prevalent in the major cities. Public transport services are mainly provided on the basis of short and medium-term contracts. These provide neither sufficient funding to enable rolling stock replacement, nor incentives for improving efficiency. The PSC approach is still new and municipal payment delays/default remain a major risk for operators. In the parking sector, there is still room for further private sector involvement in off-street parking.

Roads

Market structure: *Small*

Market institutions: *Small*

Key challenges: (i) develop and sustain PPP projects; (ii) introduce incentive-based long-term road management contracts; (iii) enhance government's regulatory capacity.

Road maintenance of public roads has been contracted out to the private sector. Maintenance and repair contracts are primarily short term. The procurement standards and government supervision capacity remain a challenge. There have been very few PPP projects (A2 and A4), as most attempts have encountered major difficulties during implementation. Both attempts to launch two tenders (A1 and A2) under the PPP frame were unsuccessful and there are currently no plans for further PPPs. Road safety remains an issue as institutions are underdeveloped and safety records are much below EU-15 standards.

Railways

Market structure: *Small*

Market institutions: *Small*

Key challenges: (i) establish financial sustainability in all unbundled entities (particularly for passenger/ regional services); (ii) privatise freight entities; (iii) enhance competition; and (iv) increase importance of the railway regulator and improve effectiveness of regulation.

Operating and policy setting functions have been separated and core railway businesses have been unbundled and ancillary services have been divested. The privatisation of core railways has been significantly delayed and a number of regulatory and market weaknesses remain. Partial privatisation of PKP Cargo has been initiated and it is envisaged that it will be concluded in 2013. The regional and commuter railways have been transferred under municipal responsibility, but further restructuring is needed. With the entry of foreign operators to the Polish railway market competition intensified, and the market share of the PKP group declined to some 50 per cent. Although an independent regulator was established its competencies remain limited and its ability to effectively regulate the market remains untested. Overall, governance remains relatively poor and government interference remains significant in PKP decision making process.

Banking

Market structure: *Small*

Market institutions: *Small*

Key challenges: (i) improve funding structure to address currency mismatches and lack of medium/long term financing available to the sector; ii) rebalance the financing and ownership structure in the sector in the light of withdrawal of some weaker parent banks and ongoing deleveraging by European banks; and iii) improve cooperative banks to better serve rural areas and micro-clients, segments in which these clients are the principal provider of credit.

The Polish banking system is well developed, with almost 65 per cent of the market controlled by foreign banks and about 25 per cent of assets remaining in state-controlled banks. Main areas of concern remain: the high loan/deposit ratio, maturity and currency mismatches, and growing NPL portfolio. State ownership in the banking sector is limited, with only two commercial banks, PKO Bank Polski SA (the largest bank, with 15.2 per cent market share) and BOS (1.3 per cent market share), remaining under state control. In mid-2012, the Government sold 7.6 per cent of PKO,

and in January 2013, another 12.2 per cent was sold by the Treasury and state-owned BGK. These sales reduced public ownership to 31 per.

Foreign investors have remained interested in the Polish banking sector. During 2012, Santander bought Kredyt Bank, KBC's subsidiary in Poland, and merged it into Bank Zachodni WBK to create Poland's third biggest bank. Raiffeisen Bank International completed the acquisition of Polbank, formerly the subsidiary of EFG Eurobank, and merged the bank into Raiffeisen Polska to create the 6th largest bank. The regulator remains nevertheless concerned over what can become disruptive ownership changes. KNF, the Polish bank regulator, has encouraged banks to increase reliance on medium term funding, through issuance of bonds and in particular local capital market issues, though this agenda will be undermined by the imminent curtailment of private pension funds. To address funding needs for fx-denominated assets, Polish state banks have been able to tap the Eurobond markets, including USD and CHF issues by PKO BP and a EUR issue by BOS.

Supervision and risk management indicators suggest the system is faring reasonably well in comparison to that in other CEB countries. Following a first surge immediately after the 2009 European crisis, NPLs in the corporate sector have again shown a renewed increase recently. Fresh corporate credit extended in the year to mid-2013 has been negligible.

Insurance and other financial services

Market structure: *Small*

Market institutions: *Small*

Key challenges: (i) bring insurance legislation and regulation fully to IAIS standards (ii) establish a stable framework for private pension funds, and (iii) broaden the scope for market-based funding of mortgage instruments and develop local currency mortgage products.

Non-bank financial services are reasonably well established in Poland. Insurance penetration is moderate by OECD standards. Insurance premia stand at 3.9 per cent of GDP and are fairly evenly contributed across the life and non- life segments. The government's share in the sector stood at less than 30 per cent at end-2012. The Polish life segment is dominated by foreign players, with only 6 out of the 48 life insurers operating in the market being domestic (in the non-life segment, around one third of the 33 companies are domestic).

A three-pillar pension system has been in place since 1999. The funds are sizable, with assets under management of about 17 per cent of GDP, nearly entirely invested within Poland. Under proposals announced by the government in September 2013 the role of mandatory pension funds will be significantly scaled back, with about half of assets under management to be returned to the state pension provider. The recent proposals risk undermining the role of pension funds in supporting domestic capital market development.

Leasing and non-bank consumer finance markets are competitive and well developed, although Polish penetration rates in the leasing sector lag CEB peers, at around 4 per cent of GDP. The sector remains focused on vehicle leasing (51 per cent in 2012

volume) although machinery leasing remained a source of growth. Leasing companies are struggling to obtain financing, their parent support is limited due to thin capitalisation and wholesale funding remains closed (except for IFIs). The mortgage market is relatively small and a secondary mortgage finance market has yet to develop.

Micro, Small and Medium-sized enterprises

Market structure: *Medium*

Market institutions: *Small*

Key challenges: (i) increase availability of specialised lending for SMEs and external equity in particular for start-ups; and (ii) develop venture capital funds investing in enterprises in early stages of development.

Lending to the MSME segment remained fairly constant, at 17.9 per cent of domestic credit to private sector at the end of 2012. Overall lending to the MSME as percentage of GDP has increased to 8.8 in 2012. While overall non-performing loans stand at 8.9 per cent, the ratio of impaired loans for the SME sector is around 13 per cent (PLN 163.8 bn).

The vast majority of the MSME funding is provided by banks and leasing companies. MFIs represent a very small share of lending (around USD 318 million at the end of 2012). The share of loan applications rejected by banks stood at 14 per cent, just under the EU average.

About 20 per cent of loan applications filed by SMEs in the last three years were rejected because of the absence of required collateral. To this end, a government programme (*De Minimis*) was activated in March 2013. Under this programme, MSMEs can seek guarantees for loans, while banks are stimulated to increase lending by being offered various benefits. This will complement the already existing guarantee programme through BGK, in which the 16 participating banks have already committed PLN 9.7 bn for the provision of guarantees. This could potentially lead to a substantial increase (around 25 per cent) in the present portfolio of working capital loans to the SMEs, and a 10 per cent increase in total lending to SMEs.

Polish SMEs can also access JEREMIE funds in the form of loans and guarantees through the Holding Fund agreement with the National Capital Fund- KFK, through the Development of Eastern Poland Operational Programme, and through regional programmes partnered with the BGK. At end-2012, EUR 277.6 mn had been utilized, or around 81 per cent of the total available EUR 341.2 mn, the highest absorption rate in CEE.

Financing of start-ups through the banking system remains practically unavailable and access to external equity is non-existent. In 2012, amendments have been made in the bankruptcy and reorganisation law to simplify procedures and extend more rights to secured creditors. In 2013, the Ministry of Finance started to work on regulating guarantees, and passed a new law, which will include provisions to create the National Guarantee Agency (NGA). The NGA will be responsible for setting up a country-wide counter guarantee system, which will increase SME's access to finance.

Private equity

Market structure: *Small*

Market institutions: *Small*

Key challenges: (i) develop local institutional investor base; and (ii) further encourage international institutional investor participation.

Poland has among the most developed private equity markets in the Bank's countries of operations, owing to a relatively large market, which offers a range of investment opportunities, institutions that conform well to OECD Principles of Corporate Governance, and an active local equity market which offers good exit potential for those companies that can access this route. The number of market participants is high, with some 15 country dedicated fund managers and around 25 regional funds. However, Poland continues to lag significantly behind Western Europe. The number of transactions remains limited, with active capital estimated at only 0.96 per cent of GDP and capital available for investment equivalent to only an estimated 0.21 per cent of GDP. According to the Polish Private Equity Association, total capital raised in 2012 amounted to EUR 467 mn.

Around 73 per cent of net committed capital is currently invested in buyout strategies, with growth funds and mezzanine accounting for the rest. Venture capital has not emerged yet and infrastructure capital accounts for smaller fractions. Small capital and distressed capital are negligible.

Polish pension funds have very limited ability to allocate funds to private equity, and cannot invest in real estate or infrastructure funds or any forward looking commitment structures. The proposed changes to the pension system may preclude this important set of investors from contributing to the development of the private equity sector. Lack of the local private equity investors' base proves critical to the stability and sustainability of the private equity industry - the managers raising their funds may rely solely on imported capital, being exposed to the foreign investors' regulatory requirements, their own capital constraints, as well as the competition with other emerging markets. The local, government supported initiatives (KFK, Polish Growth Fund of Funds, Bridge VC) are only emerging and their investment activity will depend on the participation of more experienced, institutional investors in the new, local fundraising initiatives.

With the Alternative Investment Fund Managers Directive that was to be transposed into national law and come into effect as of 22 July 2013, EU private equity funds and their investment managers will face a tighter regulatory framework.

Capital markets

Market structure: *Small*

Market institutions: *Small*

Key challenges: (i) broaden the listed market with additional issues, especially corporate bonds and mortgage bonds (ii) deepen the interbank market and increase the use of collateralised transactions (iii) develop the institutional investor base, including pension funds.

Money and government bond markets are among the most developed in the EBRD region and there is a well-capitalised and liquid stock exchange. Although the infrastructure for corporate bonds is in place these may be catalysed by changes in the rules regarding issuance of mortgage bonds by universal banks, and by further development of the institutional investor base.

The Polish Treasury bill and government bond market is one of the most liquid in CEE with yearly turnover ratios in excess of 20 times. Inter-bank unsecured deposit market liquidity decreased as a result of continued global risk aversion and banks continued to prefer short-term deposits, with overnight deposits amounting to 92% of overall the overall inter-bank turnover structure as of September 2011. Broader use of collateralised transactions, especially tripartite repos, could help improve the liquidity of the money market and thus enhance the reliability of reference rates to be used for pricing other instruments.

In 2012, the outstanding sovereign bonds totalled USD 170.8 billion, while Eurobonds stood at USD 64 billion. Maturities of government securities have increased steadily but with average of 7 years in 2011 are still short relative to other comparable emerging markets. By contrast, the corporate bond market, with the outstanding amount of only 2.1 per cent of GDP, is underdeveloped compared to other high-middle income emerging economies. The corporate issues have been relatively small, with an average issue size of just above PLN 43 million and only a handful of larger issues that could attract international institutional investor interest and form the basis for a secondary market. Since September 2009, WSE has provided the Catalyst bond trading platform, now the second largest bond market in Central and Eastern Europe after CEESEG Vienna in terms of the number of series introduced on the market. During the three years since the start of its operation, the total value of bonds listed on Catalyst amounted to PLN 600 billion, of which Treasury issues represented 90 per cent by value. The bond trading volume in relation to the total value of issues remains very small.

The municipal bond market is underdeveloped, although bonds now account for almost 20 percent of total outstanding local government debt. The share of municipal bond segment in the entire bond market was about 13.27% at the end of 2012.

With domestic equity market capitalisation at 36 per cent of GDP and turnover ratio of 43%, the public equity market remains among the largest and most liquid in the region. As of July 2013 there were 889 listed companies: 442 on WSE and 447 on NewConnect, the organized alternative trading system of the WSE. The stock exchange has attracted 45 foreign companies to list on WSE. These made up 36.6% of the total market capitalisation.

In mid-2013 the financial regulator (KNF) advanced the discussion around local capital market development through the release of a number of working group reports, including on securitization and mortgage refinancing.

ANNEX 3 – LEGAL TRANSITION

This annex contains analytical data on various legal sectors directly relevant to the EBRD investment strategy for the new period. It is based on assessments conducted by the EBRD legal experts under the Bank's Legal Transition Programme. In this context, legislation on energy efficiency and renewable energy will play an important role in the Bank's plans to promote a low carbon economy in Poland. Legal rules pertaining to public-private partnerships (PPPs) will be relevant to the transformation of the role of the state in the economy, while laws and institutions relating to mortgages and capital markets will be crucial to the Bank's objective to assist in the development of a sustainable financial sector. Finally, the regulatory framework for electronic communication is relevant to the promotion of a new growth model.

Energy efficiency and renewable energy

The adoption of the Energy Efficiency Law in 2011 (the "Energy Efficiency Law") significantly upgraded the legal framework for the EE sector. The Energy Efficiency Law has introduced a system of white certificates certifying reductions in energy consumption. A tender for obtaining white certificates was launched for the first time at the end of 2012. From 1 January 2013, all utilities selling electricity, natural gas and heat to customers (among others) have obligations to hold white certificates. The Energy Efficiency introduces a requirement for energy utilities to provide customers with a comparison of the current electricity consumption to the same period in the previous year. The energy utilities will also be required to provide information on the average electricity consumption of other customers (within the same customer's group), energy efficiency measures and technical characteristics of energy-efficient appliances. Further efforts need to be made to ensure that the right incentives have been put in place for increasing energy efficiency in all sectors and reducing the country's reliance on coal. Further promotion of the energy saving company (ESCO) model and energy performance contracting will be required in order to attain the country's goal in achieving high energy savings in both the public and the private sectors. Establishment of an ESCO fund would be an appropriate measure to support these measures. Public awareness campaign should be part of the country's efforts towards promoting energy efficiency at a household level

A draft Renewable Energy Sources Law is currently under consideration by the Polish parliament, with the aim of finally transposing the EU renewable energy requirements into the national level and ensuring sustainable energy prices in the long run. The draft law focuses on providing fifteen-year guaranteed support scheme for renewable energy (RE) operators, with levels of support depending upon the type of energy generation technology and the installed capacity. Another new feature of the draft law is imposed limits on the right of RE producers to acquire certificates of origin if the produced energy is sold at a price higher than 105% of the inflation indexed purchase price. Further, the draft law provides that the substitution fee will no longer be indexed every year and thus, certificates' value may be decreased at least by inflation. Finally, the draft law introduces a new mechanism for determining guaranteed price for green energy which cannot exceed the average sale price for power in the market announced by the head of the Polish energy regulatory authority and therefore may to a large extent vary from the fair market value. The investors' community has already expressed concerns about some of the contemplated provisions.

Public-private partnerships/concessions

The PPP Law of 2008 and the Concession Law of 2009 have substantially changed the legal landscape for concession and PPP in Poland. The legal framework has largely been made comparable with the requirements of the EC Directives and look naturally in conformity with the latter. There are, however, a number of areas that although are regulated seemingly in conformity with the EC Directives still leave gaps and therefore, room for improvement. There is no explicit PPP policy that would provide for a long term commitment vis-a-vis PPP in Poland, set out its principles and institutional framework. It should be useful to have developed one, in addition to developing a project pipeline, in order to make a stronger statement to sponsors and financial institutions.

In addition, there remains some uncertainty with the security issues necessary for the financing, in particular, the concept of step-in right is not well known to the PPP Law. The ability of public authorities to provide financial or economic support for the implementation of PPP project seems unclear, thus questionable. In addition, Poland has yet to ratify the 1965 Washington Convention on the Settlement of Investment Disputes (ICSID).

There have been developments in terms of institutional infrastructure. In particular, in 2008 there was a PPP Centrum established with the objective to promote public-private partnership in Poland. This is a non-profit governmental agency that accumulates and disseminates international PPP best standards and practice in Poland. In addition there exist a PPP Platform in a form of a Task Force whose aim is said to provide support project implementation, training, stakeholders networking and initiate and support pilot public-private partnership projects. Ministry of Regional Development as well as the National Directorate for Roads both have specialist PPP Departments while the Ministry of Economy holds a register of PPP projects. However, a national operational PPP Unit seems to be missing in the country.

Despite the relative novelty of the PPP framework in Poland, there have been about a couple of dozens of projects prepared and are at different stages of implementation in practice in recent years on the basis of the PPP Law.

Mortgage law

A mortgage is established on its entry in the land and mortgage register maintained by the court with jurisdiction over the local area where the property is located, with retrospective effect from the date the motion to register the mortgage was filed (the registration process takes up to six months). The mortgage application to the court must be accompanied by a statement of the owner or the perpetual usufructuary of the real estate regarding the establishment of the mortgage. This statement must generally be made in the form of a notarial deed, although a non-notarised statement in writing is sufficient if the lender (mortgagee) is a Polish bank or a Polish branch of a credit institution. Reports from users state that the processes for registration of mortgages in the mortgage registers should be made faster.

Mortgage can secure a future claim but the maximum amount must be identified. A claim secured by a mortgage can be transferred without the mortgage. However, if the claim is transferred together with the mortgage this claim is effectively transferred only if mortgage re-registration occurs, that is, the purchaser is entered in the land and mortgage register as the new mortgagee.

A mortgage is enforced through court enforcement proceedings. A court enforcement officer (bailiff) supervised by the court conducts enforcement proceedings. Enforcement begins by summoning the debtor to pay the debt. If the debtor fails to do so, the court enforcement officer starts a real estate appraisal procedure. On the creditor's application, the bailiff can take legal possession of the real estate and obtain an appraisal, after which it can be sold through public auction.

Capital markets

Poland's relatively well developed financial system and capital markets (including underlying legislation) provide a strong base on which further improvements can be made. Money and government bond markets are among the most developed in the EBRD region and there is a well-capitalised and liquid stock exchange.

The legal framework governing capital markets is robust. Polish regulations have adopted Basel I and Basel II capital adequacy frameworks. The local debt capital markets of Poland function well in many areas. For instance passporting of securities, as established in the Public Offering Act generally works well and is used by debt issuers in Poland, contrary to other EU member states where implementing passporting is sometimes problematic.

The regulations of pension funds, insurance companies and open-ended investment funds (which are active and important players on the Polish financial markets) encourage these entities to invest in debt securities issued by the State Treasury, municipalities, and also securities listed on a regulated market in Poland (primarily the WSE). This needs maybe a word of update.

However, there are some legal and regulatory limitations impacting development of capital market in Poland. There are legal and regulatory, including taxation, issues that hamper issuance of covered bonds; currently universal banks are not allowed to issue covered bonds, which can only be issued by specialised banks.

Further, a transfer of collateralised loans is complicated and each transfer needs to be re-registered in the court relevant to the seat of underlying assets; there are 360 courts dealing with a registration and time for registration varies much among such courts. A simplified process of transferability of collateralised loans would be essential to facilitate long term funding of the mortgage loan portfolio as well as encourage asset-based securities issuances. The appropriate legislative and regulatory framework providing for swift transfer of loans secured by a mortgage or, to a lesser extent, registered pledge would facilitate covered bond issuance or securitisation transactions.

There is an on-going reform but with a very limited progress. Last year, the PFSA established three working groups focusing on development of capital markets: working group on mortgage bonds, working group on assets backed securities and

working group on other capital market matters. The Polish Banking Association is involved in work of these groups and work of such groups remains on-going and inconclusive. The EBRD, through the LC2 Team and the Warsaw Resident Office, is engaged in discussions and has expressed recommendation for capital market development.

Electronic communications

The main legal basis for electronic communications regulation is the Telecommunications Act 2004, as amended. The most recent amendments were made to accommodate the 2009 revisions to the European Union (EU) framework, following infringement proceedings by the European Commission. Those proceedings were withdrawn in February 2013. Like the others EU member states, Poland has fully liberalised its electronic communications market. The market is actually very competitive with seven mobile network operators and a number of alternative operations competing with the incumbent in fixed telephony and broadband.

The main reform efforts are understood to be centred on continuing vigorous implementation of the most recent EU framework (2009). In common with most EU member states, among Poland's challenges into the future is keeping pace with the evolving EU framework and ensuring its effective implementation as part of the EU Digital Agenda. Of particular importance in this respect are the regulatory enablers surrounding Poland's initiatives on broadband, including the 2008 government "Strategy for the Development of the Information Society in Poland until 2013" and the long-term strategy "Poland 2030.

ANNEX 4 – TECHNICAL COOPERATION

TC COMMITMENTS BY DONOR THROUGH EBRD, 2010-2012

Donor	TC Commitments (€)
EBRD Shareholder Special Fund	120,600
EU	8,205,957
Grand Total	8,326,557

TC COMMITMENTS BY SECTOR THROUGH EBRD, 2010-2012

Sector/Team		TC Commitments (€)
Chief Economist	Chief Economist	74,000
Environment	Environment	46,600
Financial Institutions		8,205,957
Grand Total		8,326,557

Note: Commitment values based on year end or period end data for each year.

* This sector category encompasses direct assistance to SMEs and indirect assistance through policy dialogue between the EBRD, the authorities and commercial/business associations (e.g. Investment Councils)

ANNEX 5 – SELECTED ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013
							<i>Projection</i>
Output and expenditure	<i>(Percentage change in real terms)</i>						
GDP	6.8	5.1	1.6	3.9	4.5	1.9	1.2
Private consumption	4.9	5.7	2.1	3.2	2.6	0.8	na
Public consumption	3.7	7.4	2.1	4.1	-1.7	0.0	na
Gross fixed capital formation	17.6	9.6	-1.2	-0.4	8.5	-0.8	na
Exports of goods and services	9.1	7.1	-6.8	12.1	7.7	2.8	na
Imports of goods and services	13.7	8.0	-12.4	13.9	5.5	-1.8	na
Industrial gross output	9.3	2.5	-3.9	10.8	7.1	1.8	na
Labour Market¹	<i>(Percentage change)</i>						
Gross average monthly earnings in economy (annual average)	8.7	9.7	4.9	5.0	5.5	4.3	na
Real LCU wage growth	6.0	5.3	0.9	2.3	1.5	0.6	na
	<i>(In per cent of labour force)</i>						
Unemployment rate (end-year)	8.2	7.0	9.0	9.5	9.9	10.4	na
Prices	<i>(Percentage change)</i>						
Consumer prices (annual average)	2.6	4.2	4.0	2.7	3.9	3.7	1.5
Consumer prices (end-year)	4.2	3.3	3.8	2.9	4.5	2.2	na
Fiscal Indicators	<i>(In per cent of GDP)</i>						
General government balance	-1.9	-3.7	-7.4	-7.9	-5.0	-3.9	na
General government revenues	40.3	39.5	37.2	37.6	38.4	38.4	na
General government expenditure	42.2	43.2	44.6	45.4	43.4	42.3	na
General government debt	45.0	47.1	50.9	54.8	56.2	55.6	na
Monetary and financial sectors	<i>(Percentage change)</i>						
Broad money (M2, end-year)	13.4	18.6	8.1	8.8	12.5	4.6	na
Credit to the private sector (end-year)	33.5	29.5	9.9	8.8	9.9	8.3	na
Non-performing loans ratio (end-year)	5.3	4.7	7.9	8.8	8.2	8.9	na
Interest and exchange rates	<i>(In per cent per annum, end-year)</i>						
Local currency deposit rate ²	4.1	5.5	5.0	4.4	4.9	5.2	na
Foreign currency deposit rate ³	3.4	3.6	0.8	0.4	0.9	0.5	na
Local currency lending rate ²	5.6	7.6	6.8	7.0	7.6	7.2	na
Foreign currency lending rate ³	5.7	6.0	4.0	3.6	3.7	3.5	na
Monetary policy rate (end-year)	5.0	5.0	3.5	3.5	4.5	4.25	na
	<i>(Zlotys per Euro)</i>						
Exchange rate (end-year)	3.6	4.0	4.1	4.0	4.5	4.1	na
Exchange rate (annual average)	3.8	3.5	4.3	4.0	4.1	4.2	na
External sector	<i>(in per cent of GDP)</i>						
Current account	-6.2	-6.6	-4.0	-5.1	-4.9	-3.6	na
Trade balance	-2.9	-4.0	0.1	-1.2	-1.2	-0.2	na
Merchandise exports	34.0	33.3	32.8	35.3	37.9	38.4	na
Merchandise imports	38.0	38.3	33.9	37.2	40.2	39.9	na
Foreign direct investment	5.5	2.8	3.0	3.0	3.7	0.7	na
Gross reserves, excluding gold (end-year)	14.8	11.2	17.7	19.4	19.0	na	na
External debt stock	54.9	46.2	65.0	67.1	62.6	68.4	na
Memorandum items	<i>(Denominations as indicated)</i>						
Population (end-year, million)	38.1	38.1	38.2	38.5	38.5	38.5	na
GDP (in billions of Euro)	311.0	363.2	310.7	354.6	370.9	381.2	na
GDP per capita (in Euro)	8,200	9,500	8,100	9,200	9,600	9,900	na
Share of industry in GDP (in per cent)	31.8	31.7	32.6	32.2	33.0	32.5	na
Share of agriculture in GDP (in per cent)	4.3	3.7	3.6	3.7	4.0	3.9	na
FDI (in million of Euro)	17,222	10,118	9,392	10,559	13,564	2,653	na
External debt/exports of goods and services (in per cent)	133.9	114.4	163.8	159.8	137.8	143.1	na
Broad money (M2, end-year in per cent of GDP)	47.7	52.2	53.6	55.3	57.9	59.0	na

Source: Eurostat, CEIC and OCE calculations

¹ Figures do not include emigrant workers abroad.

² Average MFI interest rates on outstanding amounts, overnight and overdraft excluded

³ Average MFI interest rates on new loans and deposits, EUR

ANNEX 6 – GENDER EQUALITY

Gender Inequality and Human Development

According to the UNDP 2012 Human Development Index (HDI), Poland is among those countries with a very high human development index. It is ranked 39th out of 187 countries, which is above the regional average for EBRD and around the regional average for Central Europe and the Baltic States. The HDI is comprised of three dimensions: health, education and decent standard of living. The country ranks even better in terms of the UNDP Gender Inequality Index (GII), at 24th globally. The GII is a composite measure which captures the loss of achievement, within a country, due to gender inequality and uses three dimensions to do so: reproductive health, empowerment, and labour market participation.

Labour force participation and gender pay gap

According to the Central Statistical Office of Poland, in 2012 48.1 per cent of women aged 15 years or older participated in the labour force as compared to 64.3 per cent of males in the same age group. The female employment rate was about one quarter lower than the male employment rate (42.9 per cent of females and 58.2 per cent of males were employed). The unemployment rate for the last quarter of 2012 was at 13.2 per cent with no significant gender gap observed amongst the unemployed. According to the 2012 report “Women and Men on the Labour Market” of the Central Statistical Office, in 2010 women earned on average 15 per cent less compared to men when gross monthly earnings were taken into consideration.

According to UNESCO statistics, there are no gender gaps reported in primary and secondary school enrolment. However, the share of female graduates out of total tertiary students is higher compared to that of men (59 per cent for women and 41 per cent for men). Of note is that while 80 per cent of the graduates in the education sector were females, only 33 per cent of students who graduated from engineering, manufacturing and construction courses were females. Gender differences in the field of study often determine labour market outcomes. For example, according to the 2012 report “Women and Men on the Labour Market”, in 2011 a much higher proportion of men compared to women were employed in manufacturing, construction, transport, information and communication sectors, while women dominated other areas such as education, human health and social work.

According to the IFC/World Bank Women, Business and the Law database, in Poland the mandatory minimum length of maternity leave is 140 days while paternity leave is seven days. From June 2013 maternity leave was extended to six months (20 weeks of maternity leave and the six weeks of additional maternity leave) and can be extended for a further 26 weeks (parental leave). The parental leave may be used by either parent. Both maternity and paternity leave are fully paid. The Labour Code mandates equal pay for equal work. Women are also legally protected under non-discrimination practices in hiring on the basis of gender. Despite the fact that both men and women are entitled to parental leave or flexible work-time arrangements in Poland, these benefits are almost exclusively used by women. For example, according to the Central Statistics Office of Poland, in 2010 22, 5 per cent of the surveyed women reduced their working hours due to childcare while only 3 per cent of surveyed men did so.

Entrepreneurship, access to finance

According to the World Bank's Global Financial Inclusion database (surveying approximately 1,000 people using randomly selected nationally representative samples), in 2011 about 85 per cent of male adults and 78 per cent of females held an account at a formal financial institution. About 15 per cent of the surveyed men used the account for business purposes whilst only six per cent of females did so.

According to the 2012 Global Entrepreneurship Monitor (GEM) report for Poland, women evaluate their entrepreneurial knowledge and capabilities lower than men and they are more afraid of failure in business than men are. This translates into significant differences in the entrepreneurship of men and women in Poland. A significant gender gap exists for early stage entrepreneurial participation in Poland. For example, the Total Early-Stage Entrepreneurial Activity (TEA) of people between the ages 18 and 64 who are in the process of starting a business and those running businesses that are less than three and a half years old are almost three times as high as those of women's (13.9 per cent for men and 5.05 per cent for women).