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Statement by the Hon. **LESZEK BALCEROWICZ**,
Governor of the Bank for the **REPUBLIC OF POLAND**,
at the Joint Annual Discussion

Statement by the Hon. Leszek Balcerowicz,
Governor of the World Bank for the Republic of Poland,
At the Joint Annual Discussion, October 3, 2004

Mr. Chairman, Fellow Governors, Ladies and Gentlemen,

I am pleased to participate in the Annual Meetings during the 60th anniversary of the World Bank and the International Monetary Fund. The year 2004 is of paramount importance for Poland, which – together with the other seven Central European transition economies and Malta and Cyprus – has joined the European Union. This is a sign that the transition process which started in 1989 from a communist command economy to a market-based system is well advanced. I would like to use this opportunity to express my appreciation and gratitude to the Bank and the Fund for their outstanding contribution to reforms in Poland.

Poland is ready to share lessons learned during the transition process with other countries and has already begun to do so. In 2002, in cooperation with the United States Agency for International Development (USAID), Poland established the *Training Initiative for Banking Supervision* (TIBS) – a training centre and forum for banking supervisors of Central, Eastern, Southern Europe and Central Asia to share practical experiences relative to advancing their supervisory framework and capacity. TIBS holds two one-week training seminars in Poland each year and is starting to arrange training sessions for banking supervisors in other countries, like recently in Kiev. Poland also organizes study visits and internships for staff of governmental agencies in Poland and sends Poland's experts to other countries to help in strengthening institutional capacity and provide advisory assistance. In 2004, a conference on exchange rate regimes and monetary policy for officials from countries of Southern and Eastern Europe and Central Asia was organized in Warsaw together with the Swiss National Bank. Poland is ready to scale up these training and technical assistance activities, including in cooperation with the Bank and the Fund.

The lessons learned by Poland and the other transition countries are like those of other emerging economies: to succeed in convergence and thus to reduce poverty, a country needs an institutional system with a rationally limited state, which gives rise to an open market economy within the rule of law or the successful transition to such a system.

It means that an appropriate program of reforms must free up the forces of growth by strengthening the propelling institutions as well as ensure a stable macroeconomic framework by enhancing the stabilizing institutions and good monetary and fiscal policies. Let me focus here on of the first category of actions, which in recent years have regained much deserved ground in economic debates on development. In order to stay within time limits, I will concentrate only on four key principles.

- First, the state needs to grant its citizens and entrepreneurs a large scope of real economic freedom. The creation and development of private companies in virtually all sectors of the economy should not be restricted. The economy must be open to foreign trade and investment.
- Second, the rights and freedoms of entrepreneurs must not be attenuated by excessive regulation. Governments must recognize that overcomplicated regulations are damaging to economic development and very often fail to achieve their declared goals. Such burdensome regulations should also be seen as a major cause of corruption. This includes *inter alia* the overregulation of the labor market by restrictive labor practices and too much job protection, which contribute to unemployment.
- Third, governments need to strengthen their capacities to protect the property rights of all its citizens, not only the privileged minority.
- And fourth, taxes should be low and simple and public finances should be healthy. Many governments impede long-term development by having excessively high public expenditures that result in increased taxation and/or unsustainable fiscal deficits and can also be linked to unemployment, tax evasion, and the growth of a shadow economy.

Thus, I would like to commend the World Bank for focusing on the need to improve the investment climate as indicated by the *Elements of the Growth Agenda* paper submitted for the Development Committee meeting and the fact that this is the topic of this year's *World Development Report*. I would like to especially praise and thank the Bank for launching the *Doing Business* project. By benchmarking and providing comparable, systematic data on how burdensome and costly the observance of the existing regulations is, *Doing Business* gives valuable information on which areas of firms' institutional environment constitute major barriers to growth. Therefore, it is a useful tool for defining priority areas for the reforms necessary to improve the investment climate. The information provided by the *Doing Business* report that demonstrates the weaknesses in a country's business environment may not be enjoyable to everyone, but it is crucial for creating incentives to undertake needed reforms. Everybody needs right incentives, politicians and policymakers, too.