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

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Mr. Chairman, Distinguished Governors, Ladies and Gentlemen,

It is the last time I have the pleasure to attend the Annual Meetings in my capacity as the Governor of the World Bank for Poland. Therefore, I would like to use this opportunity to – personally – thank again the Bank, the Fund, and their staffs for assistance they provided in Poland's transition process that started in 1989. At the same time, I would like to wish both institutions every success in pursuing their important mandates in the future.

Today, Poland is a very different country from what we have inherited after the collapse of socialism in 1989. We are a market economy, member of the OECD and the European Union. With the average annual growth rate over the last 14 years close to 4.5 percent, Poland almost doubled its income level. The economy continues to expand – the most recent data indicates a 5.5 percent GDP growth in the 2nd quarter of 2006, inflation remains low, and the external balance is under control. However, much remains to be done to ensure sustained catching up with the developed countries. The achievements of the last 17 years must be preserved and strengthened while reforms such as the consolidation of public finances, deregulation, privatization and the improvement of the effectiveness of the judiciary system should be implemented.

The transition from central planning to a market economy offers some lessons that are of more general nature.

First, the performance of transition countries differs greatly with respect to both economic and non-economic indicators. What explains this differentiation? One is tempted to look for the differences in the initial conditions. However, according to thorough empirical research, unfavorable initial conditions should not become an excuse, as their negative effects decline over time. The differences in the longer-term growth are mostly due to different policies: the greater the extent of market-oriented reforms and the more successful the macroeconomic stabilization, the better the growth record. Countries that catch up with reforms tend to catch up with growth as well, as the cases of Lithuania, Slovakia and Armenia confirm.

Second, better economic outcomes tend to be associated with better non-economic ones, because some economic reforms are crucial to both. For example, market-oriented reforms increase, inter alia, the energy efficiency of the economy and health indicators of the population.

Third, despite a popular belief, it is not excess of market-oriented reforms, but a deficit of some of them, which is at the root of serious social problems, such as high structural unemployment. This is true both for developed and transition economies, as shown by the World Bank, EBRD and OECD research.

Fourth, empirical analyses deny the opinion that faster growth caused by reforms results in higher income inequality. The opposite is true. Empirical research shows that countries that lag behind with respect to market-oriented reforms have recorded both higher increases and a higher level of income inequality than the leaders of reforms.

Turning to the Bank and the Fund, let me note that it is crucial for them to remain focused on the stability and growth agenda. Other Bank operations, e.g. in health and social sectors, are very important for poverty reduction, improved living standards, and the achievement of the Millennium Development Goals. However, without solid economic growth, these operations would not be sustainable or there would not be enough resources to scale them up sufficiently to meet the needs.

Finally, may I suggest that both institutions strengthen their role of early warning systems with respect to individual countries. This may be their comparative advantage as financial markets by their very nature react only to the accumulation of bad policies and then they usually overshoot. The Fund and the Bank should, in my view, focus more on institutional underpinnings of stability and growth, improve their communication skills and address not only governments, but also the public opinion in their client countries.