



Center for Social & Economic
Research

**Income from the
Privatisation of State
Enterprises in Poland,
Hungary and the Czech
Republic in 1991-1994**

by

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Materials published in these series have a working papers character. They can be subject to further publication. The views and opinions expressed here reflect Authors' point of view and not necessarily those of CASE .

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Introduction

The Privatisation process of State enterprises, in countries once being members of the Council for Mutual Economic Aid, is perceived as the main element of structural changes, leading to the economic system transformation and economic development. Although, privatisation cannot be understood as the main factor for the development of the market economy, however, its accomplishment influences the success of the other transformation elements, such as macro-economic stabilisation and economic activities' liberalisation. Privatisation is a way of enforcing micro-economic changes in enterprises and introducing financial discipline. It gives a chance to increase productivity in the enterprises undergoing privatisation (as well as in economy) by establishing an atmosphere of competitiveness among them, and it also enables to eliminate subsidies (direct and indirect) from the State budget to an enterprise.

The first hypothesis, undergoing verification in this study, states that the direct income from the privatisation, that is cash revenues flowing to the State budget (or State organisations established in order to perform the privatisation), coming from the sale or lease of the State property, are of little importance in balancing the fiscal deficit, in Poland, the Czech Republic or Hungary, which has appeared during the transformation period in the said countries.

Moreover, the increasing importance of indirect and direct income from privatisation in tempering the effects of the fiscal crisis in Poland, shall be the second hypothesis being verified in this study. Tax revenues from private sector enterprises¹ (including privatised State enterprises) constitute indirect income from privatisation.

The condition of the State budget is the stimulating factor for the aim to achieve the highest income from privatisation in Poland and Hungary. In Poland, the income obtained from the sale of State enterprises to private investors becomes a direct income of the State budget or local budgets. A similar situation can be observed in Hungary, however the income transfer is performed parallel by two State organisations established to control the privatisation process - State Ownership Agency and State Holding². Nevertheless, in the Czech Republic, the pecuniary means obtained from the direct sale of State enterprises included in the grand privatisation, constitute the income of the National Ownership Fund (a State organisation established in order to conduct the privatisation) and they do not feed the State budget income, so practically they do not have any substantial meaning in balancing the fiscal deficit.

¹ This statement is reasonable if the definition of privatisation shall be understood very widely; that is the increase of the private sector share in the economy, and not only as a transfer of state enterprises to the private sector.

² In May 1995, the State Property Privatisation and Management Company were established in the place of State Ownership Agency and Holding.

1: HYPOTHESIS 1:

Independently from the privatisation methods used, the direct income obtained by the State budget from the State enterprises' privatisation, is insignificant and it is of small importance in balancing the budget in Poland, Hungary and the Czech Republic.

Table 1: Direct income obtained from the State enterprises' privatisation in Poland, the Czech Republic and Hungary. (R - total budget income).

		1991	1992	1993	1994
Poland	% GDP	0,2	0,4	0,5	0,8
	% R	0,8	1,5	1,7	2,5
Hungary	% GDP	1,22	2,3	3,8	0,74
	% R	2,35	4,12	7,1	1,43
Czech Republic	% GDP		3,29	2,64	3,22
	% R		6,95	5,3	6,61

Sources: Fiscal Crisis Database and Luca Barbone MultiQuery Database: A Tool for Cross-Country Comparisons, March 1995, M. Antczak "Zarys procesów prywatyzacyjnych w Republice Czech", CASE, Warsaw, November 1995.

1.1. Initial macro-economic conditions and choosing the privatisation method.

The choice of the right privatisation method is to serve the economic development and it should smooth the economic transformation effects. Poland, Hungary and the Czech Republic chose quite different privatisation paths. The choice depended on the economic and political conditions that governed those countries at the threshold of the transformation process. The differences in the initial position were visible not only in the macro-economic results, but also in politics (besides visible differences in natural resources and the size of

the economies³). While choosing the privatisation method, the attempt to the macro-economic balancing of the economy has been regarded as a priority, more in Poland and Hungary than in the Czech Republic. The macro-economic disequilibrium state has been present during the period preceding the privatisation in Poland (due to the highest inflation) and in Hungary (the highest budget deficit). A negative balance in the central budget has been maintained in a wider scope in Hungary since 1991 than in Poland (see section 1.1.1), which leads to the public debt increase, and the increasing cost of servicing debts constitutes a serious threat to the condition of public finances. Thus, the proceedings leading to the budget deficit limitation are essential. The necessity to decrease the relative deficit (in regard to the GDP), causes that one of the most important macro-economic aspects of privatisation is its influence on the State budget condition.

1.1.1. Poland.

The central budget deficit amounted to USD 2.9 bln (equal to 3.7 % GDP) in Poland in 1991. The comparative values for equivalent year in the Czech Republic - USD 0.4 bln (1.5 % GDP), Slovakia - USD 0.3 bln (1.08 % GDP) and Hungary - USD 1.5 bln (4.22 % GDP). The above figures placed Poland in an unfavourable position, forcing the acceptance of such reform rate and privatisation methods that would allow to obtain balance in a short period of time. Due to the budget deficit size, non-gratuitous privatisation was introduced, dominating over other methods of enterprise ownership transformation. The capital privatisation of one-person State Treasury companies, achieved by the direct sale of enterprises, ensures highest income to the budget, thus creating a chance to improve public finances condition

Political factors have also played a significant role while choosing the privatisation method in Poland. The economic system change at the end of the eighties and the beginning of nineties caused the unions to gain control over a number of enterprises, and what is more, employees regarded themselves as heirs of particular State property enterprises. That in turn, resulted in complications of the privatisation process, especially of big industrial plants. This is the reason why the privatisation of State enterprises demanded a compromise with the self-government movement. The privatisation by liquidation, with widely used lease⁴, became a very popular form of privatisation in regard to small and medium

³ The size of the economy has its weak and strong points. If the economy is weaker, there is a bigger possibility that western investments shall have bigger impact on the performance of the transformation process due to the greater share of foreign capital in the privatisation. Such conditions, together with good micro-economic effects of enterprises and a long-term tradition of co-operation with Western Europe countries, were created in Hungary. Simultaneously, the small size of the economy, discourage investors due to the small size of the domestic market.

⁴ Leasing is a technique of financing investments, which gives the investor of the estate owned by the State Treasury a possibility to use it. It can deal with the enterprises' property in whole, or with its independent parts. The State remains the owner, keeping the rights of ownership, and it bears the attached financial risk, as the commercial risk, connected with the enterprises' activity, is transferred to the lessee of the property. The attractiveness of the lease is enforced by the fact that it allows the commencement of the economic activity with a small value of own capital.

enterprises, in that situation. A maximum of 20 % of employees shares has been anticipated for the enterprises where capital privatisation (sale of shares to employees at preferential price) was used.

The highest in Central Europe inflation rate, amounting to 250 %, was registered at the threshold of economic reforms in Poland, in 1990. The high inflation level hindered the process of enterprises' evaluation, of those assigned for privatisation and of the property remaining as State property. Their real value underwent depreciation in time necessary for the performance of negotiations while selling the company; sometimes they lasted as long as 18 months.

The differences in initial macro-economic situations were also linked with the size of State ownership. In 1989, in Czechoslovakia it was almost 100 % of the national property, in Hungary about 90 %, and in Poland 70 %⁵. Excluding the agricultural sector, State ownership covered 90 % of production, and 85 % of investments were of public character in Poland in 1989. In 1991, the participation of the non-agricultural private sector increased to 24 % GDP, where the main part played retail trade and building industry. In 1990, about 38 % of the working population (outside agriculture) was employed by the private sector. At the end of 1990, when the process of ownership transformation began, 8441 State enterprises existed. After three years, in 2385 cases the privatisation has been concluded, and 1238 agricultural enterprises were transferred to the State Treasury Agricultural Ownership Agency⁶.

In the early nineties, Poland has been abundant in cheap working force, but lacking capital. As a result, such fields of production developed where the cheap production factor could be taken advantage of. In Poland it was retail trade, where the highest concentration of employment in the private sector was observed.

1.1.2. Hungary.

The list of Hungarian trumps was a little bit longer, in comparison with the Polish ones, at the initial point. Thanks to the reforms introduced systematically since 1968, the situation in Hungary at the threshold of system changes was not as complicated as it was in Poland. Both targets of the transformation (macro-economic balance and institutional changes) were treated parallel as priority.

In Hungary, the introductory restructurisation of enterprises and their wider autonomy were introduced by transformation. That is why the performance of enterprises was much more similar to the market economy model, in comparison with Poland or Czechoslovakia. The increase in autonomy of the State enterprises caused restructurisation processes from

⁵ Due to private agriculture sector.

⁶ "Prywatyzacja przedsiębiorstw państwowych" according to the data on December 31, 1993, published by GUS (Central Statistical Office).

the ranks, especially dealing with organisational structures⁷. State enterprises reacted with flexibility to the changing surroundings, contrary to the passive behaviour typical for Polish State enterprises. Thus, the private sector (excluding agriculture) was the widest. As a result of commenced reforms, the Hungarian economy system was much closer to the market economy model.

The Hungarian government was very concerned about repaying interior debts while introducing privatisation programme. It can be illustrated in the following manner - if the estimated book value of the enterprise amounted to about 1800 - 2000 bln HUF in 1991⁸, then the local authorities were to receive 300 - 335 bln, and 100 to 265 bln were to be assigned for the enterprise's creditors, prior owners, in the form of compensation, for employees' subventions, covering cost of ecological damage, and public purposes. The government wanted to assign 1400 bln HUF (78 - 70 %) for the repayment of interior debts and for covering privatisation expenses. In 1993, the government intended 62 % of the total gross income from privatisation, which is almost equal to the government's prior assumptions⁹, for the above.

Hungarian government, facing the existing macro-economic conditions and the necessity to repay interior and foreign debts, decided to introduce the capital privatisation¹⁰, as a dominant over other ways of privatisation and, thus, ensuring the highest income to the State budget as a result of enterprises' transformation.

1.1.3. Czechoslovakia.

The intervention of the Warsaw Pact forces, after the "Prague Spring", in 1968, scheduled Czechoslovakian economy for central planning in the highest extent among the three subject countries¹¹. Such conditions did not allow any place for the private initiative, and there was no talk about autonomy for enterprises. Czechoslovakia has the least experience in the introduction of reforms among all the three countries. Besides, it represented the highest level of industry concentration in huge plants. With the long tradition of conservative fiscal policy, the economy of Czechoslovakia reached the best macro-economic results in Eastern Europe at the end of the eighties. The inflation was below 4 % yearly, there was a strong positive balance of payments and a small (in 1991

⁷ In Hungary, the so-called holding structures and "common ownership", that came into existence at the threshold (or prior) of transformation processes, were the most characteristic ones.

⁸ OECD, 1991, page 107.

⁹ State Property Agency, October 1993.

¹⁰ Many joint-venture companies were established in Hungary. Their character was not very much different from the Polish liquidation path.

¹¹ Among the Eastern Europe countries, central planning was most clearly visible in Eastern Germany.

USD 8.8 bln¹²) foreign debt, and most important, the lowest budget deficit among the countries of the Wyshegrad Group (in 1991, USD 0.4 bln for the Czech Republic, USD 0.3 bln for Slovakia).

The macro-economic results mentioned above won for Czechoslovakia the first prize among the countries of the Wyshegrad Group. Thus, Czechoslovakia had the biggest chance for the market reforms to be successful. On the other hand, Czechoslovakian enterprises were not as well prepared for the acceptance of the market economy management rules, as they were in Poland or in Hungary. The change of the economic system, then the aim to balance the economy (with low inflation and small budget deficit), was much more important for Czechoslovakia.

The macro-economic conditions caused that the government of Czechoslovakia decided to introduce mass privatisation way of enterprises' transformation, as dominant over the other methods of privatisation. Due to the small budget deficit, there was no need for it to be balanced using marginal (in relation to the capital privatisation) revenues, that the method ensured. However, there was a need for structural reforms, as well as the necessity for the participation of all citizens in the privatisation process. That is why, the voucher privatisation, which possesses highest educational values, has been introduced as quickly as possible and with the biggest success in Czechoslovakia.

However, the need for the full restructurisation of enterprises has not been recognised in the Czech Republic, thus the role of foreign investors while choosing the privatisation strategy was underestimated.

1.2. Direct income from privatisation in Poland, the Czech Republic and Hungary.

The revenues in cash flowing to the State budget (or State organisations established in order to perform privatisation processes), originating from the sale or lease of State property, can be accounted for direct income from privatisation.

1.2.1. Poland.

The privatisation of State enterprises in Poland, taking into consideration income to the central budget, is based on the following legal acts:

- Resolution issued on July 13, 1990, concerning State enterprises privatisation (Journal of Law of 1990, No. 51, point 298; and of 1991, No. 60, point 253),
- Resolution issued on February 5, 1993, concerning ownership transformation of enterprises holding special place in the economy of the State.

¹² Estimation according to the Statistical Bulletin, Central Statistical Office 1993/3.

Basing on the above mentioned legal acts, from the point of view of public finances, two basic procedures are being used for the State enterprises:

1. Transformation of the enterprise into one-person State Treasury company and individual sale of shares or their contribution to the investment funds in order to perform privatisation. This method of privatisation has been called capital privatisation.
2. Enterprise liquidation in order to sell its estate, contribute to the company or lease. This is the so-called privatisation by liquidation¹³.

In Poland, 844¹⁴ enterprises were transformed into one-person State Treasury companies (359 of them into one-person State Treasury companies assigned for individual privatisation) during the years 1990 - 1994. According to the data on June 30, 1990, it constituted 7.2 % of all enterprises. 134 companies, 64 of them with foreign capital, have undergone privatisation using the capital method till the end of 1994. The highest number of companies that have undergone privatisation using the above mentioned method, was active in industry, transport and building industry.

The State budget has been fed with single (or instalments) revenues obtained from the sale of enterprises, exceeding many times yearly revenues from those enterprises, as a result of the performance of the capital privatisation process during the years 1990 - 1994. Taking into consideration the financial condition of big industrial enterprises (80 % of the total number of companies where capital privatisation took place) and its systematic aggravation, the sum of single revenues can be regarded as a success (approx. 1 % of the total State budget income, and in 1994 - 1.34 %, Table 2). Besides, the revenues from taxes are higher from companies where privatisation took place than the average in the State's economy, and it justifies a good long-term tendency. In 1992, a significant intensification of capital privatisation has been noticed. Shares or stocks of 46 companies have been sold, which constitutes 47 % of all companies where privatisation took place during the three years. The number of enterprises transformed into companies with the aim of their privatisation has been significantly lower in 1993 than in previous years (the revenues to the budget have also dropped), which showed that State enterprises waited for the organisation of common privatisation and for new legal acts describing the privatisation process.

In 1993, the importance of the income obtained from the capital privatisation also dropped in the State budgetary revenues from 1.00 % in 1992 to 0.95 %. However, in 1994, the importance of the revenues obtained due to capital privatisation has crucially risen in the created GDP (with simultaneous increase of GDP) up to 0.4 %, whereas the share of revenues from capital privatisation in the total value of the budget income was the biggest in 1994.

¹³ In the new privatisation resolution project, the term "direct privatisation" has been replaced with liquidation privatisation.

¹⁴ The data included in this paragraph has been laded from "Raport o prywatyzacji za 1994 r." published by the Ministry of Ownership Transformation.

In the frames of the capital privatisation the income amounted up to 8468 bln PLZ in 1994. The following elements constituted the above value:

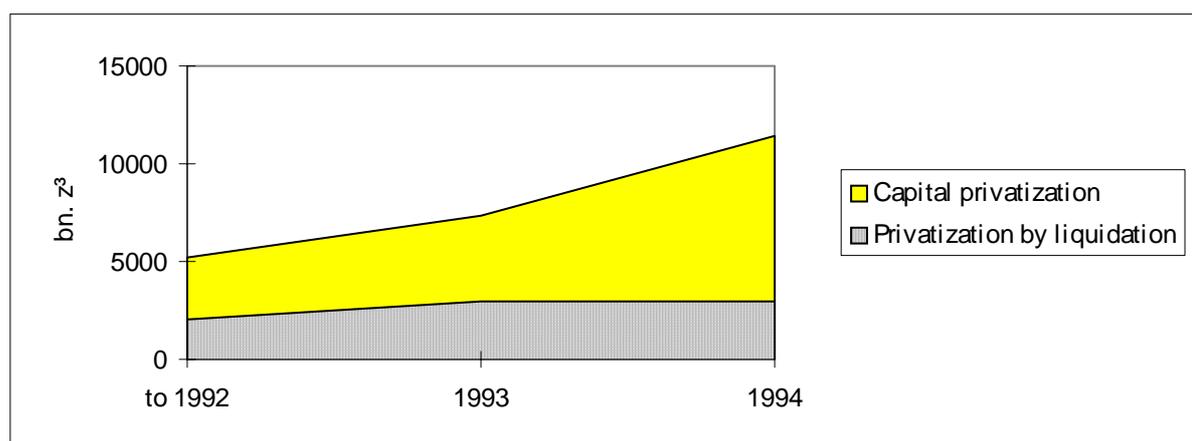
- sale of 36 one-person State Treasury companies,
- shares' sale continuation of 99 companies where the privatisation commenced before 1994; the income gained amounted to 1294 bln PLZ in 1994.

Table 2: Income from capital privatisation to the central budget in Poland (R - total of the budget revenues).

Year	Income from capital privatisation			Total income from privatisation	
	Bln PLZ	% GDP	% R	% R	
1991	1247	0.15	0.59	0.81	
1992	3129	0.27	1.00	1.55	
1993	4385	0.28	0.95	1.7	
1994	8468	0.40	1.34	2.5	
Total	17229	0.28	0.97	1.625	yearly average

Source: Prywatyzacja przedsiębiorstw państwowych GUS, 1992 - 1994, Raporty o przekształceniach własnościowych 1993, 1994 MPW. Own calculation.

Chart 1: Income from capital privatisation and privatisation by liquidation to the State budget in Poland between 1991-1994



Budgetary revenues from capital privatisation in the years between 1991 - 1994, amounted during a year approximately to 0.97 % (Table 2) of the total budget income. It should be stressed that the revenues obtained during the whole privatisation process show a growing tendency while the privatisation process covers more and more enterprises and the technique of the process improves (it is estimated that the income from the capital

privatisation itself shall increase if the privatisation of banks shall be continued, privatisation of telecommunication, oil industry and other monopolies commences).

In the years between 1991 - 1992, the revenues from privatisation by liquidation (performed on the legal ground of two resolutions: concerning State enterprises and concerning the privatisation of State enterprises) aggregated to 0.3 % of the budget income and in 1993 increased up to 0.7 %, while the revenues from the capital privatisation amounted to the yearly average of 0.97 % of the total budget income.

The income obtained from privatisation by liquidation (Table 3) consists of income from the sale of enterprises, lease payments and lease of State Treasury property. The income transferred by virtue of the above in the year 1991 and 1992 aggregated to 1628 bln PLZ, and in 1993 - 3288 bln PLZ, which constituted 42 % of the central budgetary revenues obtained from privatisation. The central budgetary revenues acquired from the sale or lease of the property belonging once to the liquidated State enterprises amounted to 3229 bln PLZ in 1994. The following were the elements that constituted budget income acquired from privatisation by liquidation in 1994:

- charge for the use of State Treasury property - 1951 bln PLZ, sale of estate elements - 1177 bln PLZ,
- payment of means left after the liquidation of enterprises - 86 bln PLZ,
- interest - 15 bln PLZ.

The participation of revenues obtained from privatisation of enterprises by liquidation, on the legal ground of the resolution concerning State enterprises (Article 19 of the resolution concerning State enterprises issued on September 25, 1981 - bankruptcy of an enterprise), has risen slightly from 11.7 % revenues from privatisation by liquidation, in the years 1991 and 1992, to 12.5 % in 1993. By virtue of the resolution concerning State enterprises' privatisation (Article 37 of the resolution concerning State enterprises' privatisation issued on July 13, 1991 - liquidation in order to perform privatisation), in 1994 the value of the estate that has undergone privatisation amounted to 2255 bln PLZ (Table 3). By virtue of Article 19 of the resolution concerning State enterprises' privatisation, in 1993 enterprises for the value of 412 bln PLZ have undergone privatisation, in 1994 this dropped to 138 bln PLZ.

Table 3: Revenues to the State budget from sale or lease of property belonging once to the liquidated State enterprises. (bln PLZ)

		together	from sale	from lease
Total	up to 1992	1628	386	1242
	1993	3288	1255	2033
	1994	3229	1177	1951
State enterprises liquidated on the legal ground of Art.19 of the Resolution concerning State Enterprises	up to 1992	192	190	2
	1993	412	337	75
	1994	138	112	26
State enterprises liquidated on the legal ground of Art. 37 of the Resolution concerning State Enterprises Privatisation	up to 1992	1436	196	1240
	1993	2876	918	1958
	1994	2255	350	1875

Source: Prywatyzacja przedsiębiorstw państwowych GUS, 1992, 93, 94.

In case of privatisation by liquidation in concordance with Art. 37 of the resolution concerning State enterprise's privatisation, revenues obtained from the lease of property have a significant importance in the income to the budget, but income from sale is more important in constituting revenues from the privatisation of enterprises in concordance with Art. 19 of the resolution concerning State enterprises. The process of enterprise privatisation basing directly on the resolution concerning State enterprises' privatisation proceeds quickly and effectively. This can be justified by the fact that liquidation has been finished in 85 % of the enterprises where this method of privatisation has been used. The percentage share of income from privatisation by liquidation has risen from 0.08 % GDP in the years 1991 - 1992 to 0.21 % GDP in 1993 and 0.15 % GDP in 1994.

The remaining part of the income from privatisation acquired by the State budget are revenues from the privatisation of banks. In 1993, they amounted to 539.6 bln PLZ, in 1994 - 4252 bln PLZ.

The total value of the income obtained from privatisation in the amount of 1594.9 bln PLZ in 1994, was equal to 2.5 % of the total budget income. A significant increase has been noticed in comparison with 1993, when the same relation aggregated to 1.7 %. In the years 1992 - 1993, the average yearly income from privatisation in regard to the total budget income amounted to 1.625 % (Table 2). Nevertheless, the income acquired from privatisation is still not a very important factor influencing the condition of the State budget. This does not mean that little account is made over the revenues achieved; it rather points at the existing possibilities to increase them significantly in a near future, due to the increase of speed the privatisation is being performed with and the improvement of the efficiency of the privatisation processes. The potential income, linked with the continuation of the

privatisation of the banking sector, privatisation in such fields as tobacco industry, power engineering industry, telecommunication and with the tendency to enlarge the scope of privatisation, can be higher than that acquired up to the present moment. According to the data presented by the Ministry of Ownership Transformations¹⁵ the increase of the direct income from privatisation will not have long-term characteristics. We can anticipate higher income during the next 2 - 3 years, and then the income will drop as a result of offers' resource exhaustion - offering enterprises interesting from the point of view of privatisation.

However, it can not be expected that the State budget income from the sale of enterprises or lease of property, shall reach such a level that it will have a crucial influence on the State budget condition. Generally, direct revenues from privatisation are not of great importance to the budget and they appeared to be smaller than anticipated. The fact that in Hungary in 1993, direct revenues exceeded the level of 7 % of the total budget income, justifies the singular character of revenues acquired from a single sale transaction of a huge telecommunication concern MATAV.

Table 4. Direct income from the privatisation of State enterprises in Poland in the years 1991 - 1994 in bln PLZ. (R - total budget income).

	1991	1992	1993	1994
GDP	808800	1149442	1557800	2104073
Total income	210885	312775	459008	631252
Income from privatisation	1709	4844	7804	15949
- % GDP	0.2	0.4	0.5	0.8
- % R	0.8	1.5	1.7	2.5

Source: Fiscal Crisis Database and Rocznik statystyczny GUS 1995., own calculation

It should be underlined that there are no legal regulations in the Polish Law obligating the budget to manage the income from privatisation in a precisely described manner. The pecuniary means obtained from privatisation are rather of incidental character in regard to other budgetary revenues, and they are used for current demands of the budget. Besides, in the present situation, there are no extraordinary needs to balance the budget¹⁶, so urgent as they were at the beginning of economic transformations, in the aspect of deep macro-economic unbalance. There are no extraordinary expenses (besides the foreign debt

¹⁵ Raport o przekształceniach własnościowych 1994r.

¹⁶ In the future, there is a possibility of financing social security reform by virtue of revenues from privatisation of enterprises.

servicing and financing the social security reform) that should be incurred and covered with the means originating from privatisation. It seems that there is a necessity to cumulate revenues due to the small scale of income from privatisation.

The privatisation execution requests incurring of particular expenses. The best part of these expenses is covered by the enterprises that frequently enables them to obtain certain advantages in the form of restructurisation activities commenced before the privatisation process starts. In Poland, the budget covers part of the expenses incurred due to restructurisation of an enterprise. In 1994, the privatisation costs amounted to 267857 bln PLZ, equal to 55.5 % of the planned value¹⁷. A radical improvement of the relation between the expenses for privatisation and income from the privatisation has been noticed; from 8.5 % in 1993 to 3.2 % in 1994. The decrease of expenses for privatisation has been connected with, among others, the consulting companies choosing method procedure improvement and the method of their remuneration. As a great number of consulting companies appeared on the market, it allows to choose one in the best possible manner, and in consequence, the best and relatively the cheapest. Generally, lowering the costs of privatisation is a visible sign of improving the organisation of the process.

1.2.2. Hungary.

A special government agency State Property Agency has been established in Hungary in order to manage the privatisation processes, execute transformations and sale State enterprises. After transforming a State enterprise into a company, SPA becomes its owner and commences the sale of the company's stocks to the interested parties. Thus, SPA performs the role of the owner of State property, which has been located in companies assigned for privatisation and still remains State property. The Agency is also entitled to control all estate transactions executed by the company¹⁸. This means that every estate sale transaction or its contribution to the company, is subject to the Agency's control in concordance with the solidity of the estate evaluation performed and in concordance with the obligatory law regulations. Such transactions are valid in law after they have been approved by SPA. The employees of the prior State enterprise are entitled to purchase 20 % of the stocks at preferential prices. The debtors of the enterprise can receive shares of the company as a gratification of claims. The State can remain the owner of the majority, or not, of the shares in enterprises where privatisation took place.

When the Agency was established (1990) it played the role of the owner of the estate placed in 1848 State enterprises. Till April 1995, among them 695 (37.6 %) had undergone complete privatisation, 542 (29.3 %) were liquidated, and 611 still remain in the hands of SPA. The participation of State ownership in companies managed by SPA was

¹⁷ Data included in this paragraph are quoted after "Raport o prywatyzacji za 1994r.". The estimated income from privatisation and the expenses incurred are included in the Resolution on Budget for 1994.

¹⁸ On the legal ground of the resolution concerning the protection of State property, the Agency is obligated to supervise the activities of State companies, that have influence on the ownership status of companies managing property belonging to SPA.

systematically decreasing (80 % in 1990, 50 % in April 1995). In 1993, after the record year 1992, the privatisation process slowed down and the revenues flowing to the budget dropped. Few reorganisations of SPA took place, together with an anti-privatisation propaganda, as the parliamentary elections came closer. The fact is, that 80 % of big enterprises that had undergone privatisation is now in the hands of foreign companies.

In 1992, the State still owned approximately half of the assets (of 129 bln USD value equals to approx. 1 bln HUF). That is about 100 big and very big enterprises in a bad financial condition. They all are going to be restructured, and the ones of strategic importance the government decided to keep for a certain period of time, in concordance with the III Resolution issued in 1992¹⁹, the rest is undergoing privatisation. The best way of privatisation in regard to such enormous industrial enterprises, where there is lack of interested Parties, is the common privatisation and that is why the Hungarian government decided at the end of 1992 to reconsider, rejected before, method of privatisation.

Table 5: State Property Agency income from privatisation from 1990 till April 1995 in bln HUF.

	1990	1991	1992	1993	1994	IV.1995	Total
Dividends	-	0.94	4.74	2.40	1.96	0.55	10.59
Sale for exchange currency	0.53	24.61	40.98	25.50	6.10	1.41	99.13
Sale for HUF	0.14	4.82	17.51	15.30	14.10	2.88	54.75
Cash income	0.67	31.37	63.23	43.20	22.16	4.84	164.47
Non-cash income	-	1.01	11.59	38.60	75.11	8.41	134.72
Total Income	0.67	31.38	74.82	81.80	97.27	13.25	299.19

Source: Facts about the Privatisation, Weekly Privinfo, Budapest, May 1995.

The cash income of the State Property Agency from 1990 till April 1995 amounted to 164 bln HUF and it fed in whole the State budget. Generally, sale of property was executed in exchange currency (64 % of cash income²⁰). The non-cash income originated from the

¹⁹ Resolution concerning management and use of the estate permanently owned by the State.

²⁰ After subtracting dividends.

preferential method of privatisation (existence credit²¹, leasing, re-privatisation bonds, shares for employees, etc.) and they were not an element of budget income.

Passing of the resolution concerning management of the production estate being permanently owned by the State (Law on the Management and Utilization of Permanent State Property, No. LIII of 1992) as the reason for the establishing of a State super-holding Hungarian State Holding Company, that is responsible for the management of big State enterprises. The belief that the State should play an active role in strategic departments of the economy (power engineering industry, transport, insurance, banking) was the basis for the establishment of the above Holding. The Holding was the owner of controlling interest in all the main commercial banks (in concordance with the Hungarian banking law the participation of the State in financial institutions cannot exceed 25 %).

Table 6: Hungarian State Holding Company income from privatisation from 1992 till April 1995 in bln of HUF.

	1992	1993	1994	IV.1995	Total
Dividends	3.51	4.23	2.5	0.03	10.27
Sale for exchange currency	-	85.14	5.26	-	90.40
Sale for HUF	-	0.62	2.43	0.01	3.06
Cash income	3.51	89.99	10.19	0.04	103.73
Non-cash income	0.12	3.54	19.33	0.01	23.00
Total Income	3.63	93.53	29.52	0.05	126.73

Source: Facts about the Privatisation, Weekly Privinfo, Budapest, May 1995.

In 1992, the State Holding included in its shares holding 184 State enterprises (among them 160 big strategic enterprises). In May 1995, 158 enterprises from the above 184, were still managed by the Holding. In 1992, the State property equalled to approximately 92 % of the estate being managed by the Holding, and in April 1995 - approx. 74 %.

Between 1992 and April 1995, the total cash income of the State Holding aggregated to 103.7 bln HUF, and it fed the State budget. More than 80 bln HUF (70 % of the total cash income) originated from a single share sale transaction of the Hungarian telecommunication giant MATAV.

²¹ Low-interest, long-term credit, offered by commercial banks in Hungary to investors purchasing State property. E-credit has been operating since 1991 and it is re-financed by the Central Bank of Hungary.

Table 7: Budget income from privatisation in Hungary in bln HUF.

Year	SPA	Holding	Total
1990	0.67	-	0.67
1991	30.37	-	30.37
1992	63.23	3.51	66.74
1993	43.20	89.99	133.19
1994	22.16	10.19	32.35
IV. 1995	4.84	0.039	4.88
Total	164.47	103.73	268.2

Source: Monthly Bulletin of Statistics, Budapest 1993; State Property Agency, August 1993, Facts about Privatisation, Weekly Privinfo, Budapest, May 1995. Own calculation.

Table 8: Direct income from privatisation in Hungary between 1991 - 1994. (R - total budget income).

	1991	1992	1993	1994
GDP (bln HUF)	2476.7	2885.6	3502.6	4314.1
Total income	1292.1	1619.8	1914.8	2254.3
Income from privatisation	30.37	66.74	133.19	32.35
- % GDP	1.22	2.3	3.8	0.74
- % R	2.35	4.12	6.9	1.43

Sources: Fiscal Crisis Database and Luca Barbone MultiQuery Database: A Tool for Cross-Country Comparisons, March 1995, A. Ludanyi A Brief Overview of Hungarian Privatisation, Studies And Analyses 60 CASE, Warsaw, December 1995.

Approximately 38 % of the total income originated from the preferential sale (SPA and Holding). Since 1993, these privatisation methods have been more frequently used, but in 1994 the cash income has significantly dropped, which had a negative effect on the State budget income in 1994.

Due to the negative evaluation of the activity of two institutions dealing with privatisation and State property control, these institutions have been consolidated. In May 1995, State Property Privatisation and Management Agency have been established, in the place of SPA and Holding.

In majority, the income from privatisation originated from capital privatisation, and it was in concordance with the financial priority of the Hungarian government. In yearly average, approximately 3.7 % of the total budget income of Hungary originated from the income from privatisation. The above was possible due to the enormous flow of foreign capital, especially from Germany (25 %), USA (24 %), Austria (14 %), France (7 %) and Great Britain (7 %), as well as due to offering the best enterprises acting in the market surroundings and frequently holding monopolistic positions (MATAV - telecommunication). In effect, till the end of 1993, approx. 2.5 bln USD has flown to Hungary in the form of direct investments, international institutions' credits and private companies. Till the end of 1994, the total value of foreign direct investments has amounted to 8 bln USD, including 3 bln USD regarded as a direct consequence of the privatisation process. Until April 1995, as a result of privatisation activities, the value of the foreign direct investments in Hungary aggregated to 427.5 bln HUF.

During four years (1989 - 93) the participation of the private sector in creating the GDP has risen twice and it exceeded 50 % in 1993, and 61 % in 1994. Until the end of 1994, the majority of tobacco, spirit, sugar, textile, building, meat processing, chemical, motor-cars and telecommunication industry plants have undergone privatisation.

Summarising, the budget income from privatisation (mainly capital privatisation) amounted in Hungary in yearly average to 3.7 % of the total budget income, which constitutes over twice as much as at the same period of time in Poland²². The Hungarian government more frequently than the Polish government granted tax exemptions to foreign investors, thus the tax revenues from enterprises were nominally lower in 1993 than in a previous year, but only for approx. 2.2 % (the inflation level in 1993 amounted to 22.5 %). Simultaneously, the subsidies for production granted to State enterprises dropped nominally by over 26 %²³. Hungarian enterprises received financial support, technology and know-how transfer. The small capacity of the Hungarian market and the economic recession in Western Europe does not allow for the full usage of these factors, but time works in favour of Hungary.

1.2.3. The Czech Republic.

The Czech privatisation programme contemplated the execution of privatisation using methods that do not predict large revenues to the State budget, due to the balanced macro-economic situation. In the Czech Republic, contrary to Poland and Hungary, there was no urgent need to balance the budget. The decision was made to execute privatisation on State property as quickly as possible, leaving the restructurisation of enterprises to future owners and underlining the decrease of social expenses for the process, as well as other social aspects of common enfranchisement such as increase of awareness in regard to ownership

²² In Hungary, income from capital privatisation constituted over 80 % of the whole income from privatisation, and in Poland 65 %. Such results are the effect of a wide range of privatisation methods in Poland, and in Hungary - the flow of foreign capital.

²³ Monthly Bulletin of Statistics, 11/1993, Budapest.

and the possibility to freely manage owned property. Besides, mass privatisation was cheaper from standard methods by the enterprises' evaluation expenses.

The mass privatisation has been executed with the help of companies and investment funds, where individual investors could invest their vouchers. Every citizen received 1000 investment points (for a low payment), with which he could purchase (individually or through investment funds) stocks of these enterprises that were assigned for voucher privatisation. In average, 30 % of the enterprises undergoing voucher privatisation stocks have been predominated for mass privatisation. However, there were companies which stocks in the whole (precisely 97 %, because 3 % of the value of each enterprise has been assigned for the reprivatisation fund) have been exchanged to vouchers, and they become the property of individual investors or investment funds, that through the activity on the capital market shaped their market value rate. The income from privatisation of big State enterprises did not affect the budget; it constituted the income for the National Property Fund, State organisation established in order to execute the privatisation of enterprises and the control of private companies. The Fund is the owner of 20 % of the book value of enterprises undergoing privatisation. In the Czech Republic, the control of State over the privatisation process is also visible in the fact that the government remains the owner, in average, of 40 % of shares in each, big commercial bank.

The newly created private sector is distinguished for the specific position in respect of the big, commercial banks. In the mass privatisation process, big banks, through their privatisation funds, become the most important owners of the private property. Thus, the future of the private sector in the Czech Republic depends on the banks, banking system reform and the capital market development. Besides, the Czech enterprises are regarded as private ones, even when the government is in possession of 20 % of the shares, 40 % is held by the bank owned in-half by the State, and the remaining 20 % is held by small private investors. Clearly the State's control in each company undergoing privatisation has been extensively limited, but not on the whole.

The privatisation scope in Czechoslovakia covered all the sectors of economy, excluding nuclear power plants, mining industry and railway, considered by the government as strategic. The privatisation has been executed also in some public utility plants and monopolies, such as telecommunication, water supply systems and power plants. A radical privatisation plan of Czech enterprises assigned all industrial plants and almost all State enterprises.

Generally, the large privatisation (excluding mass privatisation) dealt with light industry enterprises of average size, and it was executed with most efficiency in comparison with the rest of the Wyshegrad Group countries, mainly due to the lack of opposition on the side of the employees.

The privatisation of big enterprises was executed on the legal ground of the following legal acts:

- Law No. 104/1990 "Concerning joint-stock companies",
- Law No. 111/1990 "Concerning State enterprises",

- Law No. 92/1991 "Concerning the transfer of the State property to other entities",
- Law No. 171/1991 "Concerning the size of the State's control over the property transferred to other entities".

In concordance with the Law (No.92/1991) the privatisation of big enterprises in the Czech Republic was executed in accordance to the following methods:

1. Sale of an enterprise or its part through"

- direct sale of its assets to local or foreign investors,
- public offer,
- auction (according to the same conditions as the small privatisation).

2. Transformation of an enterprise into a joint-stock company with the following possibilities of allocating stocks:

- a) distribution through vouchers,
- b) sale by financial institutions,
- c) sale to the employees,
- d) sale to local and foreign investors,
- e) transfer to municipal institutions, retirement funds, local authorities, social security institutions and banks (so-called free transfer),
- g) number of shares can permanently or periodically be placed in the National Property Fund,
- h) besides, at least 3 % of the shares of each enterprise is reserved for the restitution of property, and more than 3 % is reserved if there is a real possibility that part of the estate will have to undergo reprivatisation.

In order for the Ministry of Privatisation to approve the ownership transfer of the enterprise, a privatisation project has to be submitted, which may include a combination of the mentioned above methods of large privatisation, as well as mass privatisation, the so-called voucher privatisation, (in average 30 %). A number of stocks of the enterprise undergoing privatisation may be reserved for vouchers²⁴, a part (of stocks or estate) may be sold in the direct sale (to local or foreign investors), and part may be freely transferred to constitute municipal property. It is important, that the sale of coupons is only one of the methods used in the Czech process of large privatisation.

²⁴ Thus, such an enormous union of large privatisation with voucher privatisation.

The privatisation plan of January, 1991, assumed two stages of the privatisation process. The first stage commenced in June, 1991, when the preliminary list of enterprises assigned for privatisation in the first place was presented. In September, 1991, the evaluation of the first stage enterprises took place. It was planned that 3 thousand²⁵ Czech State enterprises shall undergo privatisation (among 5 thousand that existed), 2/3 of that number have been assigned for the large privatisation, and the rest for the mass privatisation. The first stage was concluded in October, 1991, by submitting all the privatisation projects to the Ministry of Privatisation and to the branch Ministries. It dealt with the sale of 1777 units (among 3.5 thousand existing ones) in the Czech Republic and 623 units (among 1900) in Slovakia. The second stage of the large privatisation commenced in June, 1992 and it dealt with 861 enterprises.

The main problem of the large privatisation in the Czech Republic were the delays in the realisation of privatisation transactions. Frequently, it took a year between the establishment of the contract and fulfilling its conditions (payment). Such delays (often caused by the imperfection of the legal system) introduced confusion in statistical data.

The transformation of enterprises into joint-stock companies had the biggest share in the ownership transfer of the State property, in concordance with the large privatisation. At the end of 1994, this method was used in 83.5 %, and it slightly dropped in 1992 in favour of the growth of importance of direct sales, which was visible in the increase of flow of revenues from privatisation to the National Property Fund.

During the first stage of privatisation, the Ministry approved transformation forms for over 2200 enterprises, which total value of estate amounted to 468.9 bln CZK²⁶. At the end of 1993, the estate assigned for privatisation was evaluated for 871.6 bln CZK, in actual prices. This value represents approximately 70 % of the estate previously belonging to State enterprises. Until the end of 1994, Ministry of Privatisation approved the privatisation forms for about 94 % of the enterprises' estate, for those enterprises for which privatisation projects were submitted in the first and second stage of the large privatisation. The value of the whole approved estate amounted to 896 bln CZK, which represents 80 - 90 % of the property of the previous State sector.

²⁵ Data included in this paragraph concerning the number of enterprises that have undergone privatisation has been taken from the "Privatisation in Czechoslovakia: Constraints and Preliminary Impacts" Oliver Bouin, CEFRES, Prague, August 1992.

²⁶ Exchange rate in 1993 was 29 CZK, and in 1994 28.5 CZK.

Table 9. Large privatisation methods in the Czech Republic (data aggregated for each year).

	Property approved for privatisation in bln CZK			share in %
	1992	1993	1994	
Sale of an enterprise	40.5	71.3	107.5	10.5
including direct sale	26.5	46.3	61.4	6.8
Transformation into a joint-stock company	418.7	754.3	748.2	82.5
including vouchers from the first phase		258.8	212.0	23.6
including vouchers from the second phase			155.0	17.3
Free transfer	9.6	30.0	38.0	4.2
Restitution		16.0	15.8	1.8
TOTAL	468.8	871.5	896.0	100

Source: Ministry of Privatisation of the Czech Republic, own calculation.

Table 10. National Property Fund income from large privatisation.

	NPF real income
1992	26.5 bln CZK
1993	24.4 bln CZK
1994	34.2 bln CZK
Total	85.1 bln CZK

Source: Alena Buchtikova, "Privatisation in the Czech Republic", Studies and Analyses 53, CASE, Warsaw, 1995.

Such far advanced privatisation process in the Czech Republic does not mean that the ownership rights had been transferred in full to the private sector. The National Property Fund, responsible for the realisation of approved by the Ministry of Privatisation projects, till the end of 1994 executed privatisation in 2/3 of the estates assigned for privatisation. 1/3 had undergone privatisation during the first and second phase of voucher privatisation, 1/3 using standard methods (including simple shares transfer, free transfer and restitution), and the remaining 1/3 of the estate assigned for privatisation still remains in the hands of the National Property Fund. It means that, including the property of the companies that were not assigned for privatisation, 40 % of the estate of prior State enterprises still remains in the hands of the State.

Due to its specific character (distribution of investment points for the purchase of shares of enterprises undergoing privatisation) mass privatisation, although covered 30 % of the property assigned for privatisation, did not generate any income for the National Property Fund. Privatisation funds, operating on the capital market, regulated the market price of the vouchers, but it should be remembered that they were originally sold for free-of-charge investment points. The NPF income originates from standard privatisation methods of big enterprises, specifically from the direct sale to local or foreign investors. The participation of foreign investors played a significant part in the privatisation program realisation. Since 1990 till 1994, 3 bln USD fled into the Czech Republic in the form of foreign direct investments.

Table 11: Direct income from the State enterprises privatisation in the Czech Republic between 1991 - 1994 in bln CZK. (R - total budget income).

	1991	1992	1993	1994
GDP	716.6	803.3	923.1	1060.0
Total income		381.1	459.9	517.28
Income from privatisation		26.5	24.4	34.2
% GDP		3.29	2.64	3.22
% R		6.95	5.3	6.61

Source: Fiscal Crisis Database and Luca Barbone MultiQuery Database: A Tool for Cross-Country Comparisons, March 1995, M.Antczak "Zarys procesów prywatyzacyjnych w Republice Czech", CASE, Warsaw, November 1995.

Part of the revenues (approx. 20 %) is permanently kept by the Fund on special accounts in the main Czech banks. The rest of the income is assigned for infrastructure investments, environment protection and for lowering social costs of system transformation.

It is worth noticing, that the income from privatisation reached such big values in the Czech Republic. What is more, initially it has not been anticipated as the main target; non-equivalent method was more in favour. The income obtained from the enterprise sale in comparison with the created GDP and total value of budget income was the highest from all the countries of the Wyshegrad Group. The average yearly income acquired from the large privatisation flowing to the National Property Fund, amounted up to 6.28 % of the total budget income, that is 4 times more than in Poland and almost twice as much as in Hungary. Only in 1993, in Hungary, the percentage share of revenues from privatisation in the created GDP exceeded the values in the Czech Republic and aggregated to 3.8 %, whereas the share of the income from privatisation in the created GDP in Poland never exceeded 1 %, and in 1994 was equal to 0.8 %. In the Czech Republic, this indicator circulated around 3 %.

The experience derived from the Czech privatisation shows that the execution of the enterprises mass privatisation encourages investors to invest more actively in the Czech Republic than in their country, where the mass privatisation, as a method not contributing any income to the State budget, has been initially rejected. This is probably derived from three main facts:

1. Potential investors instead of allowing for the number of shares of the enterprise to be assigned for vouchers or transferred to the State Treasury, (which is rather common in the Czech Republic), prefer to chose "the lesser of two evils" and they invest themselves, thus generating higher profit for the NPF. The mass privatisation, which creates anonymous and dispersed ownership structure of the enterprises undergoing privatisation, induce investors to increase their participation particularly in those companies where the element of vouchers in respect to the total number of shares is small. Investors who hold the majority of shares can decide about the future of the company, methods of its management and they can participate in the profit in a wider extent than those investors who hold smaller packets of shares.
2. Privatisation projects are prepared very carefully in order to execute the mass privatisation, and they are a good source of information for the investors. Each project includes a value stating in what extent shares or stock of the enterprise are going to be assigned for vouchers. The Ministry of Privatisation approves projects and the sale is performed by the National Property Fund, which is interested in increasing its income from privatisation. Common privatisation does not ensure revenues, so NPF is inclined to sell the shares of the enterprises using standard methods in a wider extent than it was described in the project. It generates higher income than it was previously predicted.
3. Common access to the privatisation projects of enterprises assigned for common privatisation, evokes interest of a bigger number of investors thus influencing the market value of the enterprise in the opinion of potential investors. As a result, a bigger number of shares is sold to private investors or such shares are sold at a higher price, which influences the NPF income increase.

1.3. Justification for Hypothesis 1.

One of the basic explanations of the hypothesis stating that the income from privatisation has little significance in balancing the macro-economic situation, results from the differences in the evaluation of the property assigned for privatisation. There are at least three methods of evaluation. The first one is the book value originating from the end of the eighties. In the conditions of macro-economic unbalance and with the high level of inflation (especially in Poland and in Hungary), the book value had to be re-evaluated. The first chance to recount the book value of the property assigned for privatisation was commercialisation. The process of transforming an enterprise into one-person State Treasury company covered all enterprises denominated for privatisation in Hungary and the Czech Republic, whereas in Poland only those enterprises were commercialised which were

to undergo capital privatisation or common privatisation or were to be restructured. Thus, re-evaluation of the value of an enterprise's property in Poland (performed few times on the legal ground of the resolution issued by the Council of Ministers) was performed only in respect to a number of enterprises. Until the end of 1994, 844 enterprises (approx. 18 %)²⁷ included in the ownership transformation programme have been transformed into one-person State Treasury companies. The market value of an enterprise has been established at the time when at least a sale of the part of an enterprise has been concluded. Thus, the sale of the rest of the property took place at the price originally set. The estate evaluation methods are often mixed in the privatisation statistics without stating precisely at what stage of transformation (of the economy and of the enterprise) the evaluation has been performed.

The experience collected in Hungary shows that the differences between the book value and the market value changed periodically: until 1992 - the sale price of the companies exceeded the book value even by 20 - 30 %, and from 1992 - the market value of the companies undergoing privatisation began to drop in respect to the book value, or even it was lower. There are two possible explanations to the phenomenon:

1. At the beginning of the privatisation process, enterprises with better macro-economic results were more sought after by investors²⁸, with the still existing capital resources (not used up yet). Together with the growing recession, investors lost gradually their interest.
2. The value of the State property gradually undergoes depreciation for economical and "outside" economy reasons.

The phenomenon described above causes the decrease, due to the diminution of the market value of the property assigned for privatisation, of the potential income obtained from the sale of the property. The percentage income from privatisation participation increase in the State budget and in the creation of the GDP is the result of the steady development of the privatisation process, showing in the yearly increase of the number of companies included in the ownership transformation processes.

Thus, taking into consideration views presented above, direct income obtained from the privatisation of State enterprises cannot rise dramatically in a short period of time, and it cannot have a "short-term" impact on the budget condition, as it cannot significantly influence the decrease of the budget deficit.

²⁷ Data included in the "Prywatyzacja przedsiębiorstw państwowych" as on 31.12.1994., GUS, Warsaw 1995.

²⁸ Similar phenomenon has been noticed in the Czech Republic and Slovakia, where for the first stage of the voucher privatisation such enterprises were assigned which it was predicted would not cause any problems while executing their privatisation.

2: HYPOTHESIS 2:

In Poland, the indirect income from privatisation, in a longer period of time compensates for the lost revenues flowing to the State budget due to dividends from the State enterprises initial fund. The improvement of the financial results of the private sector enterprises and the growth of that sector, contribute to the farther increase of the budget income.

The impact of the privatisation on the condition of the budget is not limited only to the income from sale, lease or leasing of the estate's elements being in possession by the State Treasury, nor to the expenses connected with the above, which are reflected in the budget. The second, crucial factor is the change in relations between the different types of taxes flowing to the budget from the public and private sector enterprises. They include: income tax, dividends, remuneration increase tax²⁹ and indirect taxes, paid by the private sector enterprises. The dividends from the enterprise's initial fund encumber only State enterprises, that is why the loss of revenues, in respect to the above, is frequently accounted for the privatisation costs. Not denying the decrease of real³⁰ income from the dividends, it is necessary to point out that the basic reason for the introduction of dividends³¹ was the

²⁹ From April 1 1994, the remuneration increase tax has been suppressed, and until July 1994 there was no obligatory form of control, of system character, of shaping the wages. In the second half of the year, the method of shaping wages by negotiations has been introduced. The income originating from the sanction fee for passing the limit of remuneration increase amounted to 879 bln PLZ.

³⁰ Real expression of all economic values analysed in this study reflects the prices as in 1991.

³¹ In 1989, a dividend in the amount of 44 % of the initial fund value has been introduced. That kind of fiscal encumbrance (similar to the income tax paid by enterprises) was very characteristic for the specific Polish situation due to the huge public sector. The dividend was a kind of warning and cover for State enterprises. It encumbered especially new enterprises, which had higher initial funds contrary to long-existing enterprises. The dividend enforced maximisation of production efficiency on an enterprise. In 1989 and 1990, with hyperinflation, the real value of the initial fund not re-evaluated dropped, which was the reason for the reduction of revenues from dividends flowing to the central budget. Additionally, the reason for the decrease of revenues from dividends in 1990, was the decrease of the dividend's rate to 40 % in that year. In 1991, re-evaluation of enterprises' estate took place (including initial fund), thus the dividend rate has been reduced to 22 %, and it was obligatory until June 1992. The inflation in 1991 dropped to about 60 % for a year, which even with the decrease of the dividend rate, caused considerable increase of revenues from dividends flowing to the central budget. In June 1992, the dividend rate has been reduced again to 10 %. In 1993, the interest rate has not been changed.

regulatory function, not the fiscal one. The dividend was to stimulate the increase of efficiency in taking advantage of the State enterprises' estate³².

While evaluating the extent of indirect revenues flowing to the State budget from the public and private sector, one has to remember about the character and structure of both sectors. The State still owned difficult to perform privatisation on, and capital intense branches of the economy, such as: mining industry, power industry, municipal enterprises, heavy industry, pharmaceutical industry, copper industry or heavy chemical industry. Some of the branches of the public sector are very profitable, that is why they constitute a very powerful tax potential. In Poland, which at the threshold of structural reforms had big resources of cheap work force, development of capital intense branches of economy had been observed. The newly arising private sector quickly developed trade, services, catering business and small production. Private agriculture is also included in the private sector, as it is exempted from income tax, thus it does not contribute to the budget income increase. Profitability of the private sector enterprises is still lower on the average than in the public sector, but private enterprises demonstrate improvement of financial effects. This, together with the development of the private sector influences strengthening of the tax potential. It gives a chance for the increase of budget income and for the compensation of the lost revenues from dividends.

2.1. Indirect income from privatisation originating from direct tax revenues in Poland.

Since 1992, the revenues to the budget from State enterprises initial fund dividends have been decreasing quicker than the direct income from privatisation has been growing. It means that the predicted drop in revenues from the executed privatisation, caused short-term diminution of budget income (taking into consideration only income from privatisation). In 1994, revenues from the payments from dividends (Table 12) dropped to 1 % of the total income (from the level of 7.6 % in 1991), whereas direct income from the privatisation increased in 1994 up to 2.5 % of the total budgetary revenues, but it has not compensated the loss of revenues from dividends. Taking into consideration the fact that privatisation is a long-term process, the decrease in revenues from dividends appeared gradually, and the loss of revenues is also insignificant. Simultaneously, it can be expected that the privatisation of enterprises shall lead to the increase of profits of those enterprises, as well as, of tax revenues flowing to the State budget.

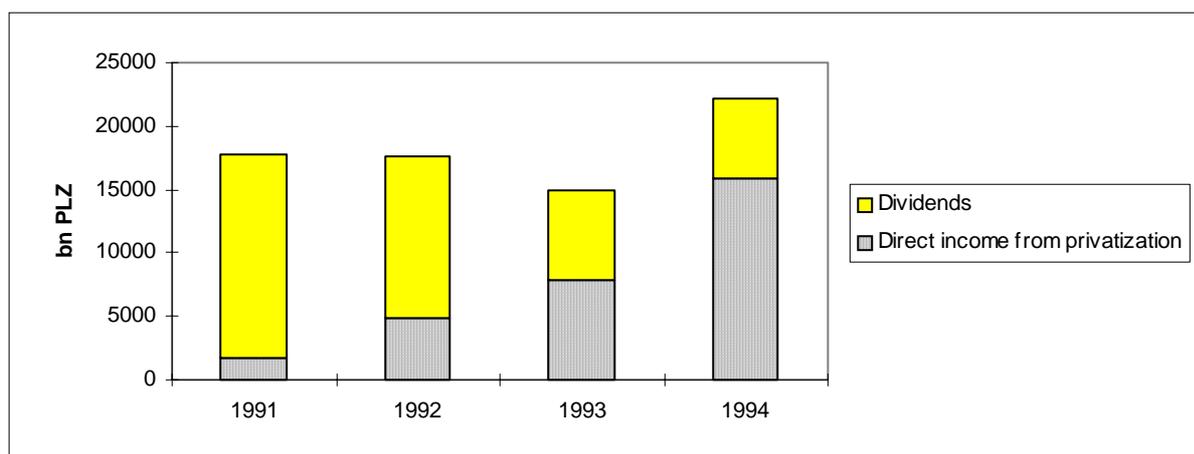
³² L.Balcerowicz, Prywatyzacja a podatki, *Życie Gospodarcze* 1994, no.30 p. 9.

Table 12: Revenues to the State budget from sale, lease or leasing of the State property (direct income from privatisation) and dividends from the initial fund of enterprises in Poland between 1991 - 1994 in bln PLZ. (R - total of budgetary revenues.)

	Direct income from privatisation	% R	dividend	% R
1991	1709	0.8	16123	7.6
1992	4844	1.5	12728	4.1
1993	7804	1.7	7104	1.5
1994	15949	2.5	6279	1.0

Source: Wyniki finansowe podmiotów gospodarczych za IV kwartał 1991, 92, 93, 94r., Bilansowe wyniki finansowe podmiotów gospodarczych za 1991, 92, 93, 94r., GUS, Warsaw. Own calculation.

Chart 2: Budgetary revenue from dividends and privatisation between 1991-1994



In the period of time between 1991 - 1994 a real (in comparison to 1991) decrease of income flowing to the State budget from the corporate income tax from enterprises in the Polish economy³³ has been noticed. This is the result, among others, of the general change in the structure of State budget income, observed at that time. The tax revenues dropped with the increase of non-tax payments. In 1991, the payments due to corporate income tax amounted to 20.4 % of the total budgetary revenues³⁴, in 1992 dropped to 13 %, in 1993 to 11.4 %, and in 1994 to 9 % of the income in total. In 1994, public sector, from which revenues dropped by 51 %, had a significant influence on the decrease by 43 %, in comparison with 1991, of real revenues from corporate income tax. The State budget income from the income tax paid by the private sector increased in all sectors of economy over six times. The highest increase, 15 times, of real revenues paid by the private sector

³³ Budgetary revenues from the income tax paid by legal and natural persons dropped.

³⁴ In 1991, income of the State budget from the dividend and remuneration increase tax were almost equal to the income obtained from the income tax.

has been noticed in transport (Table 13), industry (10 times) and trade (3 times). The revenues from that tax contributed by the public sector seemed quite differently. The highest decrease, in respect to 1991, of revenues paid by the public sector has been observed in building industry by 92 %, industry by 46 % and trade by 38 %. An increase by 3 % of revenues from the income tax contributed by public sector enterprises has been visible in Transport.

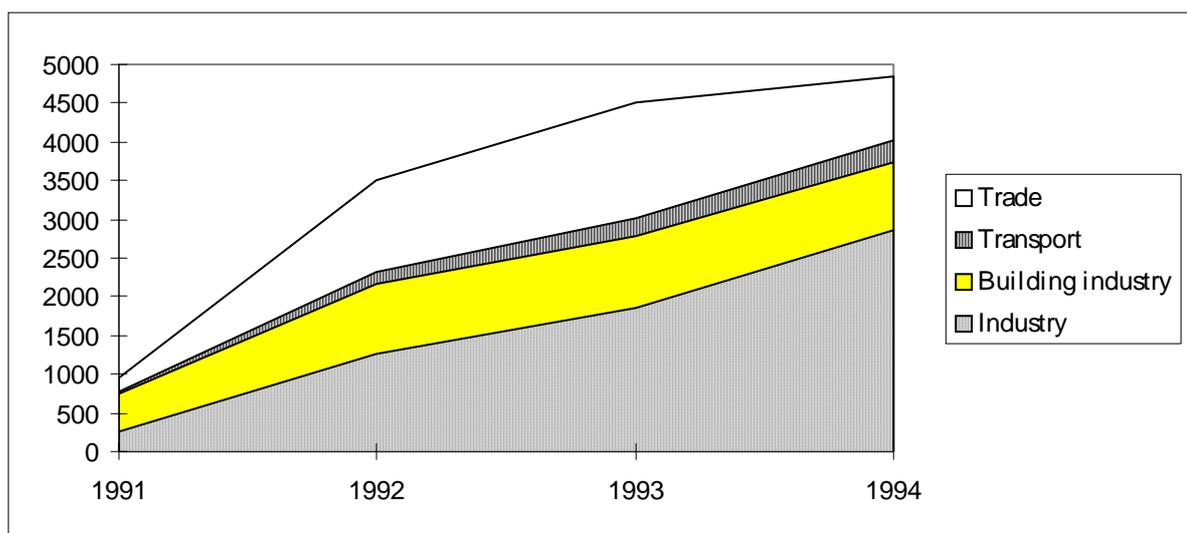
Table 13: Real (expressed in prices as in 1991) revenues from income tax contributed by private sector enterprises in main branches of the economy. (bn PLZ.)

	Total	Industry	Building industry	Transport	Trade
1991	1087	262	496	17	187
1992	1751	1261	915	140	1194
1993	4982	1857	920	228	1510
1994	6124	2852	878	286	836

Source: Wyniki finansowe podmiotów gospodarczych za IV kwartał 1991, 92, 93, 94r., Bilansowe wyniki finansowe podmiotów gospodarczych za 1991, 92, 93, 94r., GUS, Warsaw. Own calculation.

The diagram clearly illustrates the increase of real income of the State budget from the income tax contributed by the private sector enterprises.

Chart 3: Real budgetary revenues income tax paid by private sector enterprises between 1991-1994 (in bn PLZ)



Income tax is a tax on the acquired profit (gross profit), which is obligatory for the economy subject to be contributed to the State budget, after taking into consideration all the exemptions granted. In regard to the tax exemptions granted to the newly established

companies, it should be underlined that the level of the exemption cannot be identified with the lost tax revenues. Probably, without the possibility to obtain tax exemptions, many of the existing and contributing taxes companies, would not even come to existence, thus the income generated by them could be treated as lost.

The corporate income tax paid by the enterprises included in the ownership transformation process since 1991, constituted a significant part of tax revenues paid by private sector enterprises and all enterprises in the Polish economy. The participation of the corporate income tax, paid by private sector enterprises systematically increases (also in real values), which is not only a result of the number increase of companies undergoing privatisation, but also a result of their financial condition improvement. The data included in Table 14 justifies the above. In 1991, the participation of the private sector in the creation of the GDP amounted to 42.1 % and this sector contributed to the budget (from the income tax from legal persons) revenues equal to 0.1 % of the GDP. In 1992, real tax revenues from the private sector enterprises doubled. The participation of the private sector in the creation of GDP increased up to 47.9 % in 1993, that is in respect to 1991, by 5.8 percentage point, while at the same period of time the participation of corporate income tax revenues³⁵ of the private sector in GDP increased over 6 times.

Table 14: Nominal budgetary revenues from personal and corporate income tax from all public and private sector enterprises in particular branches of economy. The participation of the public and private sector in the creation of the GDP. R - total budget income.

	Income tax	% R	% GDP	
Total				
1991	43023	20.4	5.3	
1992	40717	13.0	3.5	
1993	52651	11.4	3.4	
1994	56765	9.0	2.7	
Public sector				
1991	37929	18.0	4.7	
1992	35293	11.3	3.0	
1993	43649	9.5	2.8	
1994	42570	6.7	2.0	
Private sector				Participation of the private sector in the creation of GDP
1991	1087	0.5	0.1	42.1 %
1992	2425	0.8	0.2	45.2 %
1993	9002	2.0	0.6	47.9 %
1994	14195	2.2	0.7	46.4 %

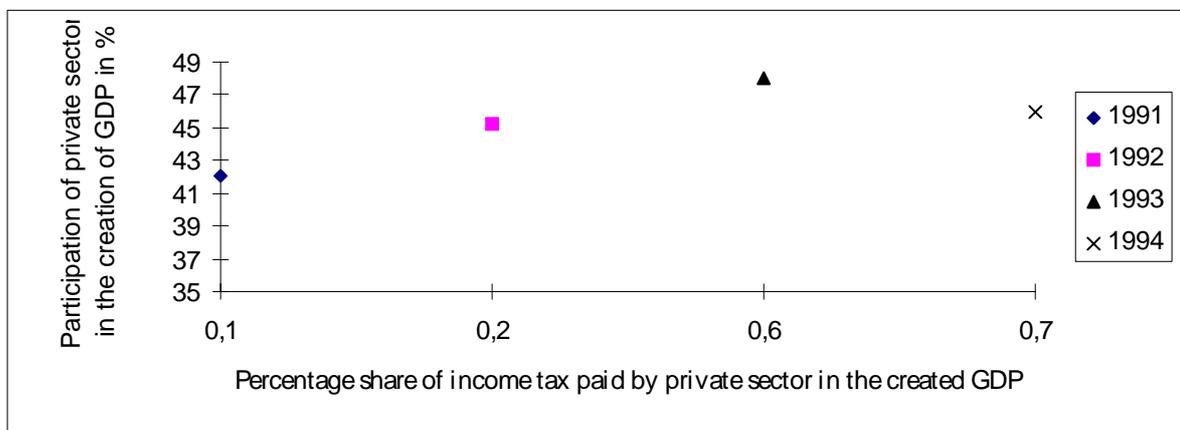
Source: Wyniki finansowe podmiotów gospodarczych za IV kwartał 1991, 92, 93, 94 r., Bilansowe wyniki finansowe podmiotów gospodarczych za 1991, 92, 93, 94r., GUS, Roczniki Statystyczne GUS 1991 - 1995, Warsaw. Own calculation.

In 1994, the participation of tax revenues from the private sector was still growing up to 0.7 % of the GDP, while the decrease in participation of the private sector in the creation of GDP has been noticed. Such a high growth of real tax revenues (Table 13) shows the

³⁵ Additionally, the participation of budgetary revenues from the income tax from natural persons increased. This concerns also revenues from private enterprises managed by natural persons.

efficiency improvement of private sector enterprises, as well as, strengthening of the tax apparatus.

Chart 4: Relation between the share of revenues from income tax in respect to the GDP, to the participation of private sector in the creation of the GDP

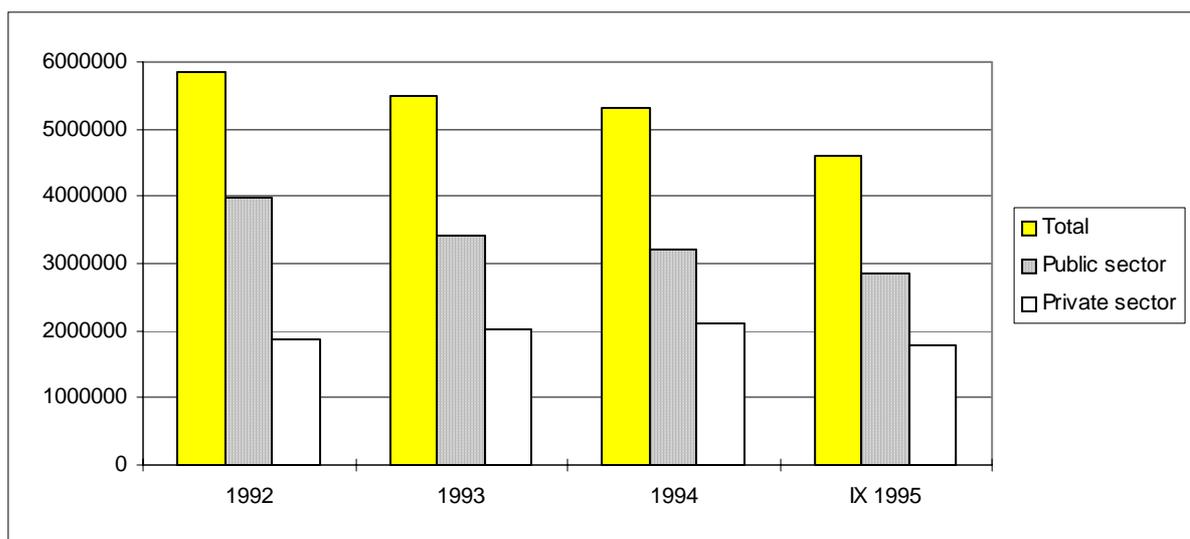


The personal income tax from persons employed in companies being privatised, should be accounted as indirect income from privatisation of enterprises. Due to the improvement of the financial condition of privatised companies, increase of budgetary revenues from income tax paid by these companies and an increase of tax revenues paid by employees, should be anticipated, especially as the number of people employed in the private sector is growing and it is falling in the public sector (Table 15). The above and improving micro-economic effects of the private sector, through the wage increase, may generate increased revenues from personal income tax from persons employed in private companies.

Table 15: Working force in the public and private sector, in big- and medium-size enterprises, that is employing more than 5 people.

	1992	1993	1994	IX.1995
Total	5839003	5497872	5328219	4617288
Public sector	3981070	3411420	3212716	2846552
Private sector	1857926	2026730	2115503	1770736

Source: Wyniki finansowe podmiotów gospodarczych za IV kwartał 1991, 92, 93, 94r., Bilansowe wyniki finansowe podmiotów gospodarczych za 1991, 92, 93, 94r., GUS, Warsaw. Own calculation.

Chart 5: Working force in private and public sector

Revenues from the personal income tax from natural persons employed in the private sector, not included in the analysis, should be added to the tax revenues contributed by that sector. Many private individual enterprises, the so-called family businesses, which are not subject to corporate income tax. Personal income tax from persons of the private sector, however are not possible to identify in the statistics including joint data for both sectors. However, it should be remembered, that personal income tax from persons employed in the private sector, although not included in this analysis, constitute a significant source of revenues of the State budget. Simultaneously, with the private sector development and the rationalisation of the tax apparatus, those revenues will bear more and more significance.

Table 16: Percentage share of the corporate and personal income tax in the creation of GDP in the years 1990 - 1994.

Years	1990	1991	1992	1993	1994
Corporate income tax	26.8	5.8	3.3	4.2	3.2
Personal income tax	1.1	0.3	5.4	9.1	8.2

Source: Roczniki statystyczne GUS, 1991 - 1995, Warsaw. Own calculation.

The phenomenon of the "grey zone", where taxes are not paid or they are lowered, is regarded as the budget cost of privatisation. Most frequently, it is true in respect to the private sector. In the initial stage of the privatisation the economy subjects multiplication process has been observed. Those subjects were a difficult object of taxation due to their

lack of activity control. Newly established or privatised companies increased their costs' level of obtaining income, thus lowering the basis for taxation. This is clearly visible in the costs' level indicator³⁶, which in all departments of economy³⁷ (excluding building industry) is higher in the private sector than in the public sector, and it does not decrease with the improvement of the financial condition (Table 17). The avoidance of paying taxes in many cases is also the result of tax regulations, which encourage to take advantage of the income acquiring costs category. The costs' level indicator of building industry enterprises in the private sector grew by almost 3 percentage points in 1992.

Table 17. Cost level indicator change of all enterprises, public and private sector enterprises from the end of 1992 till September 1995, in chosen departments of economy.

	Total	Industry	Building industry	Transport	Trade
Total					
1992	96.2	96.7	95.2	98.3	98.3
IX.1995	95.3	95.6	97.2	92.6	97.5
Public sector					
1992	96.0	96.5	96.4	98.4	97.3
IX.1995	94.4	95.3	99.8	91.9	96.4
Private sector					
1992	99.0	98	93.9	97.7	99.4
IX.1995	96.4	97.5	96.3	95.9	98

Source: Wyniki finansowe podmiotów gospodarczych za IV kwartał 1991, 92, 93, 94r., Bilansowe wyniki finansowe podmiotów gospodarczych za 1991, 92, 93, 94r., GUS, Warsaw.

One of the reasons why some enterprises lower the taxes to be paid, is probably the fact that the tax apparatus does not operate very effectively as the number of privatised

³⁶ Costs' level indicator is the relation between acquiring income from the business activity on the whole and income from the business activity on the whole expressed in percentage.

³⁷ Since 1994 EKD classification is obligatory, according to which section "industry" has been divided into the following parts: mining, production and electric power and gas supply. As the same groups were included in the "industry" in the previously obligatory classification, these groups are treated also as "industry" in this study.

companies is rapidly growing. "Strengthening" the tax apparatus and a more effective manner of collecting taxes that feed the State budget should be the reaction to the above. It should be pointed out that the rapid development of the new private companies' sector, even in cases when payment of taxes is avoided either by these companies or their employees, carries positive effects for the economy, thus for the budget. They generate new work places, supply new goods and services, generate budgetary revenues, among others, through indirect taxes included in the price of goods and services. It has been noticed lately, that the process of small companies' activities concentration shall have an impact on the improvement of the tax discipline, which in turn shall contribute to the tax revenues increase for the State budget. On the other hand, there is an on-going process of learning how not to pay taxes by State companies, which is clearly visible in the previous USSR states.

The State enterprises' privatisation influences budget balancing, not only from the income side, but it also limits expenses. One of the main targets of executing privatisation of State enterprises is the aim to balance the State's budget, not only in respect to the direct and indirect income (increase of tax income from enterprises, their employees and indirect taxes), but also in respect of the privatisation process influence on the government's expenses increase limitation (by eliminating subventions for State enterprises). If we accept the fact that the State enterprises' privatisation leads to the improvement of their performance, then the newly created private sector creates new work-places in a far bigger extent than the public sector. Thus, the private sector creates more possibilities for the work place market development in comparison with the public sector³⁸. This influences limitation of unemployment in the national economy, which allows to decrease expenses for social benefits, for example unemployment allowance.

Data included in Table 18 illustrates the improvement of privatised enterprises financial condition. The gross profit³⁹ in real expression (profit or loss) of all enterprises has been systematically improving after a drop of real value by 2.5 times, which was observed in 1992 in comparison with 1991. At the introduction of system changes, the worsening financial results of enterprises reflected the then existing state of macro-economic unbalance; the profitability of enterprises dropped rapidly, especially in the public sector. The economic stabilisation programme that has been introduced, system reforms, including privatisation, contributed to the improvement of big enterprises' condition and to the increase of their profits. The real gross profit in 1994, grew almost twice in comparison to 1992, gaining the similar level as in 1991. Satisfactory financial results of enterprises in the private and public sector contributed to that growth.

³⁸ In a short period of time privatisation leads to the drop in a number of work places, although the new private sector development creates a chance for the decrease of unemployment, as well as it creates possibilities for illegal employment.

³⁹ The gross profit is the enterprises' business activity result, corrected by the profit balance and extraordinary losses.

Table 18: Gross profit in bln PLZ and the return of equity of enterprises in the private and public sector between 1991 - 1994.

	Gross profit in bln PLZ	Capital Return Rate
Total		
1991	67439	
1992	40070	0.04
1993	60616	0.07
1994	132275	0.15
Public sector		
1992	38561	0.05
1993	41222	0.07
1994	89183	0.17
Private sector		
1992	6509	0.02
1993	19394	0.06
1994	43092	0.11

The return of equity is the relation between enterprise's profit and its own funds, and it expresses the ability of the given sector to the development.

Source: Wyniki finansowe podmiotów gospodarczych za IV kwartał 1991, 92, 93, 94r., Bilansowe wyniki finansowe podmiotów gospodarczych za 1991, 92, 93, 94r., GUS, Warsaw, Own calculation.

Analysing the values included in Table 18, we can easily notice that the gross profit of private sector enterprises has increased in 1994 for about 4 times in comparison to 1992, while in the public sector the improvement of the result is insignificant and it was nearly 40 %. The biggest improvement of the gross profit in comparison to 1992 has been noticed in the industry. In private sector enterprises by 4.6 times, in public sector enterprises by 4 times. In the building industry the gross profit decreased in the public sector (in 1994 - gross real loss amounting to -568 bln PLZ), as well as in the private sector, where the gross profit in 1994 dropped in real value by 57 % in comparison to 1992.

The gross profit is the basis for the calculation of yet another enterprise's condition micro-economic indicator. The return of equity (Table 19) is the relation between the enterprise's profit and its own funds, and it expresses the ability of a given sector to development. Since 1992, a gradual improvement of the above indicator can be noticed, especially in the private sector enterprises. On this ground, we can conclude that the profitability of the private sector investments is increasing, which creates possibilities for a

quicker development. Increase of the number of people employed in the private sector and the tax revenues increase flowing to the State budget, that may even have a more significant importance than indirect income, are the effects of the quicker development. Thus, we can conclude, that the public sector does not create so many possibilities for the economy development as the private sector does. So, we should aim at including other fields of the economy, still in the hands of the State, in the process of privatisation

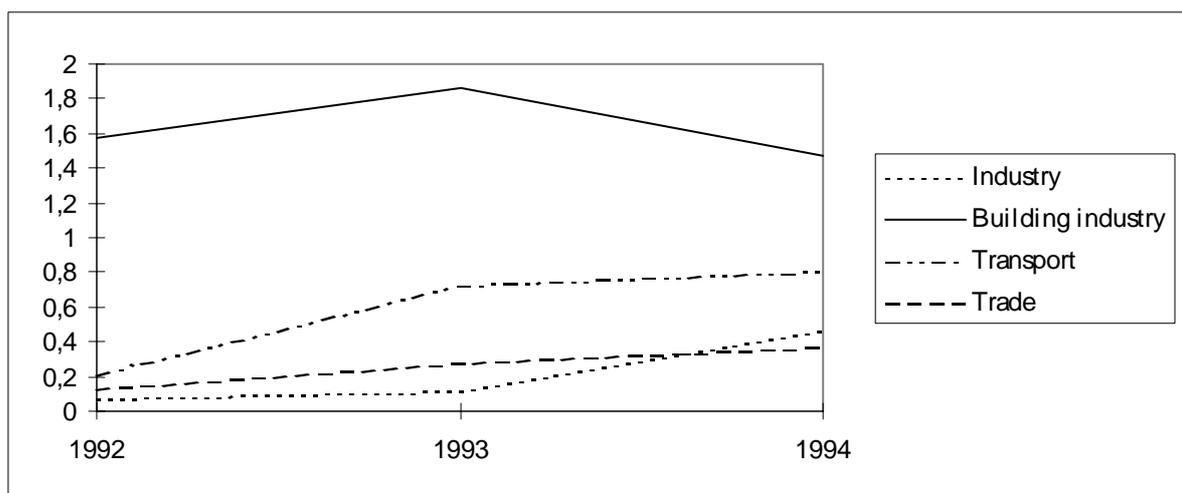
The biggest increase of the return of equity in the private sector appeared in industry, trade and transport. Negative values appeared only in the public sector in the building industry and in the private sector in communication (where the profitability of the public sector is 10 times bigger than the average in the whole economy).

Table 19: Capital return rate in private sector enterprises in the main departments of economy.

	Total	Industry	Building industry	Transport	Trade
1992	0.02	0.07	1.57	0.21	0.13
1993	0.06	0.12	1.86	0.72	0.28
1994	0.11	0.46	1.47	0.80	0.37

Source: Wyniki finansowe podmiotów gospodarczych za IV kwartał 1991, 92, 93, 94r., Bilansowe wyniki finansowe podmiotów gospodarczych za 1991, 92, 93, 94r., GUS, Warsaw.

Chart 6: Return of equity in private sector enterprises between 1992-1994



2.1. Indirect income from privatisation originating from indirect tax revenues, in Poland.

The increasing income obtained from the sale of private sector enterprises is the basis for the increase of budgetary revenues acquired from indirect taxes.

The income obtained from the private sector sale increased twice, while from the public sector insignificantly (by 7 %). In total, income from the sale of products increased by 14 % in the analysed period. The real income increase obtained from the sale of products can be indebted only to the private sector, as the sale in the public sector remained at the same level (approximately) in the years 1992 - 1994.

The increase of real income acquired from the sale of products in the private sector increases its tax potential. The expanding private sector creates more possibilities for the increase of budgetary revenues from indirect taxes (generally VAT), in comparison with the public sector. The State still owns, subject to high excise duty tax, tobacco⁴⁰ and spirit industry. That is why the participation of the public sector in the budgetary revenues from indirect taxes is still enormous and it exceeds private sector, which has developed most quickly in those branches of the economy that are free from the excise duty tax and VAT.

Table 20: Income from the products sale of all enterprises in the public and private sectors between 1991 - 1994. Bln PLZ.

	Income from sale at actual price	Income from sale at prices as in 1991
Total		
1991	974137	974137
1992	1146900	828087
1993	1444321	799292
1994	2189632	944621
Public sector		
1992	905317	653658
1993	1068769	591460
1994	1411864	609087
Private sector		
1992	241583	174428
1993	375551	207831
1994	777768	335534

Source: Wyniki finansowe podmiotów gospodarczych za IV kwartał 1991, 92, 93, 94r., Bilansowe wyniki finansowe podmiotów gospodarczych za 1991, 92, 93, 94r., GUS, Warsaw. Own calculation.

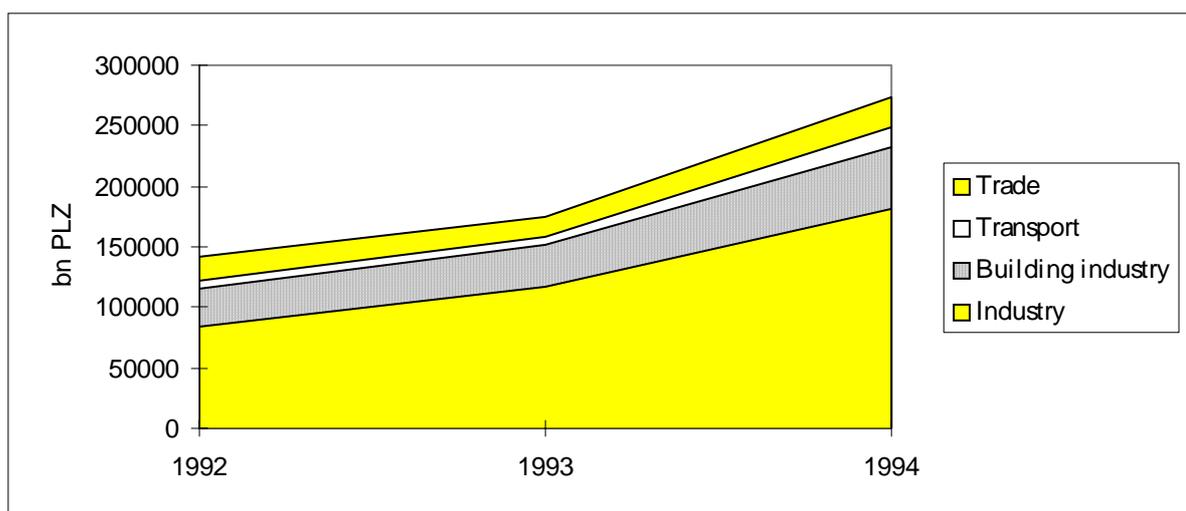
⁴⁰ At the end of 1995, privatisation of the tobacco industry commenced.

Table 21: Real income from the sale (at prices as in 1991) in chosen departments of the private sector between 1992-1994. Bln PLZ.

	Total	Industry	Building industry	Transport	Trade
1991	174428	83328	32210	6843	19510
1993	207831	117228	34036	7724	16525
1994	335534	181342	50642	17142	24715
Real increase from 1992	92 %	117 %	57 %	150 %	26 %

Source: Wyniki finansowe podmiotów gospodarczych za IV kwartał 1991, 92, 93, 94r., Bilansowe wyniki finansowe podmiotów gospodarczych za 1991, 92, 93, 94r., GUS, Warsaw. Own calculation.

Chart 7: Real income from sale in private sector departments between 1992-1994



The biggest increase of real income in the private sector has been noticed in transport (2.5 times) and industry (by 117 %). Real income from product sale dropped by 50 % in public building industry, while it grew by 57 % in the private building industry. Particularly important is the increase of real revenues acquired from sale in the private trade and industry. Indirect taxes included in the prices of products sold by private entities, shall feed the State budget in a bigger extent than the public sector, which income from sale in trade and industry remained at the unchanged level since 1992. Real revenues, acquired from the product sale, increased in the public sector only in transport (by 40 %). This is the result of a high 22 % VAT tax for transport services. The increase of income acquired from the public transport sale created possibilities for the increase of revenues from indirect taxes in that sector, however, private transport obtained a more significant increase of income from sale.

Conclusion.

The fiscal crisis provoked by the system transformation in the direction of market economy, reflected itself in the high level of budget deficit in the countries of the Wyshegrad Group. This was clearly visible in Poland and Hungary. The budget deficit in those countries has increased mainly due to extensive growth of government expenses. In such a situation, preventive actions should have been undertaken in order to limit the increase of expenses, and simultaneously, to enlarge the central budget income. The State enterprises' privatisation is one of the factors that smoothens the effects of the fiscal crisis during a longer period of time. It influences the budget income side (income from sale and tax revenues from private sector enterprises), as well as the expenses side (by eliminating State subventions for State enterprises).

Direct income from privatisation contributing to the State budget does not have crucial meaning in balancing budget deficit in Poland and Hungary. Pecuniary means obtained from the sale of State property do not compensate in full extent lost revenues from dividends on the initial fund of privatised enterprises in Poland. Nevertheless the private sector development, the increase of real budgetary revenues from the income tax contributed by private sector legal persons did not cover losses evoked by the public sector tax revenues decrease. It could be concluded, not taking into consideration improving financial results of private sector enterprises, that privatisation evoked short-term diminution of State budgetary revenues in Poland.

The analysis performed in the hereby study confirms that the private sector creates more development possibilities for highly profitable sectors of the economy, thus, more significant increase of budgetary revenues than the public sector and due to the tax revenues constitutes a source of means smoothening the fiscal crisis effects.

The improvement of the profitability and gross profit indicators of enterprises, as well as the increase of real income acquired from the sale of private sector products, strengthens their tax potential. As the result of improving the efficiency of privatised companies, income from tax revenues contributed by the private sector between 1991 - 1994, increased by 6 times (in real value). Above all that, there was an on-going process of increased participation of the income tax contributed by private sector legal persons in the GDP, with a noticeable in 1994 drop in the participation of the private sector in the creation of GDP.

The higher return of equity in private sector enterprises confirms its bigger investment credibility than in the public sector. More rational utilisation of own funds by privatised companies encourages to investment, which in turn, creates possibility to enlarge the number of work places, and it not only limits unemployment, but it also influences the decrease of budget expenses.

In some states of the former USSR and Bulgaria, where the State enterprises' privatisation process is executed at a much slower pace than in the Wyshegrad Group countries, the financial condition of enterprises and the resulting public finances condition, is much more complicated. This can be an additional argument "for" the presented hypotheses.

The following conclusions can be drawn from the performed above analysis, dealing with budgetary revenues from privatisation in Poland:

1. Whereas, direct income from State enterprises privatisation is insignificant and it does not have a crucial meaning in the budget deficit balancing, and the participation of tax revenues contributed by private sector enterprises increases the total of budget income, thus the privatisation should be executed quickly, irrespective of the sale price.
2. Conclusion drawn from the experience of the privatisation in the Czech Republic; quick, non-equivalent privatisation helps to increase income from privatisation in a bigger extent than the capital privatisation in Poland or Hungary. Income from the privatisation of big, State enterprises in the Czech Republic has been few times higher than revenues in the remaining countries of the Wyshegrad Group.
3. Indirect income from privatisation appeared to play a significant role in State budget balancing and in smoothening the fiscal crisis effects.
4. The privatisation of the economy, through the increase of indirect revenues contributed by private sector enterprises, meaningfully smoothened the decrease of fiscal revenues of the State budget in Poland.

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