

● POLAND

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NEW CREDIT FORMS FOR POLISH FOREIGN TRADE ENTERPRISES

Summary: This paper discusses directives issued last June by the Ministries of Foreign Trade and Finance which introduced important changes in the credit procedures followed by enterprises engaged in foreign trade. Among other things, the Foreign Trade Ministry regulation places commercial credits entirely in the hands of the managements of these enterprises. The Ministry of Finance order allows above-plan purchases abroad on credit of raw materials needed to finish production of goods which will contribute to increasing exports. Both regulations serve to enhance the operational flexibility of the foreign trade enterprises.

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Two ministerial orders⁽¹⁾ issued last June by the Ministers of Foreign Trade and of Finance, made significant changes in the credit procedures of foreign trade enterprises. These changes pertain to:

- a) the internal settlement of foreign credits granted and received (Ministerial Order of 21 June 1966);
- b) the conditions and procedure for allotting foreign currency credits by the Commercial Bank in Warsaw for the production of export goods, assuring a rapid realization of incoming foreign drafts which were not foreseen in the original plans (Ministerial Order of 8 June 1966).

The New Foreign Trade Ministry Order

The basic changes provided by the 21 June Ministerial Order include the following:

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- (1) Ministerial Order No. 40 of the Minister of Foreign Trade, issued 8 June 1966 and No. 73 of the Minister of Finance, issued 21 June 1966. The discussion is based on a report by Andrzej Dutkiewicz, "New Credit Forms for Polish Foreign Trade Enterprises" appearing in Rynki Zagraniczne, page 3, issue No. 108, 1966.

- A new system of division of credit types into three groups, namely state, commercial and bank credits. (Formerly the term "commercial credit" included credits granted by the banks).

2210011003 - The transfer of commercial credits entirely into the hands of foreign trade enterprise managements. This means that enterprises which import goods with the aid of commercial credit shall have to bear the cost of this credit, while the enterprises which export goods on credit terms shall benefit from the interest accrued on the sums they have lent. (Previously, the costs entailed when buying imported goods on credit were refunded to the business enterprises, while the receipts obtained from the interest paid to them for the exported commodities sold on credit were not allowed to remain with the business enterprises granting the credit.)

- An increase in the importance of discounting credit paper is provided, and the bank discounts are to become one of the main sources for financing exports by the foreign trade enterprises. The right to discount credit instruments is to apply to all foreign notes. The foreign trade enterprises are to be directly responsible for assuring repayment of the credits granted (this is a precondition for a credit instrument to qualify for the discounting privilege provided by the bank); the enterprises, moreover, shall bear the discount charge and the bank interest rate will depend, among other factors, on the length of time for which the credit has been granted, the geographical location of the country receiving the exports, and the type of the exported goods.

This new regulation will enable the foreign trade enterprise to form its own commercial policy. Credit is to be treated as part of the sale or purchase conditions. All the advantages and risks attached to its use in accordance with the general rules of commercial practice, are to rest with the foreign trade enterprise (insuring repayment, the determination of the profit-margin on the credit operation, the possibility of choice between the "cheaper" and the more expensive credit terms, and so on). Simultaneously, the role played by the bank as a control institution influencing the financial policies of the foreign trade enterprises will be enhanced.

By increasing the operational flexibility of foreign trade enterprises, the terms of the new regulation should have a beneficial effect. They also represent a genuine step forward toward the goal of fitting Polish foreign trade operations more closely to the requirements of an enlarged commercial exchange with the Western countries.

The Ministry of Finance Regulation

The order of the Ministry of Finance concerns the introduction of a new form of credit for foreign currency drafts. These credits are to be earmarked for above plan imports of raw materials, particularly for those materials needed to produce goods which will

increase exports and bring unplanned foreign currency earnings. The new credit arrangement will provide a way out of the current impasse, where the lack of certain raw materials (frequently representing a small fraction of the total value of the final product, such as materials used for the packaging employed in some final finishing process) stands in the way of the export of a given item. For example, the final product might be: preserves for which cans or wrapping materials are lacking; leather goods lacking metal parts or good quality metal fixtures; and textiles lacking desirable dyeing materials.

Under the new regulation, foreign purchase on credit of basic raw materials, foreign licenses, models and patterns will be allowed. Most probably, the purchase of foreign licenses will provide the largest single element for which foreign currency credits will be sought. Nevertheless, the lack of materials needed to provide the finishing touch on a number of manufactured goods has in the past frequently represented a serious handicap to increased exports of Polish goods.

To qualify for the new type of credit provided by the regulation, the foreign trade enterprises must guarantee that the time interval between the granting of the credit and the receipt of the extra quota of foreign exchange resulting from the sale of the finished goods exported will not exceed 12 months, or at the most 18 months. The Commercial Bank reserves the right of inspection to verify that the credit-granted has been used for the purpose originally specified.

Both of the ministerial orders follow the recommendations of the Fifth Plenary Session of the PUWP Central Committee, which dealt with foreign trade problems and was held in December 1965. They represent a significant step in the direction of further commercializing foreign trade operations and provide foreign trade enterprises with a degree of flexibility they did not previously enjoy.

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