

## Poland

Konrad Raczkowski and Grzegorz Gołębiowski

### The Polish Economy Before the Financial Crisis

The Polish economy has maintained a relatively high growth rate since 2004 (see Table 1). This rise has embraced all the major sectors of the economy, namely, services, manufacturing and construction. EU accession provided Poland with solid foundations for prosperity. Entering the institutional structures of the EU led to significant increases in exports which in turn stimulated the growth of production and employment. In consequence, domestic consumer demand was sustained.

**Table 1. Growth Rate of GDP and Domestic Demand in 2006–2008 (% , fixed prices)**

Year	Consumption			Accumulation		Domestic demand	Foreign trade		GDP
	K	Including		A	Including Ni		E	I	
		Ki	Kz						
2006	5,2	5,0	6,1	16,1	14,9	7,3	14,6	17,3	6,2
2007	4,7	5,0	3,7	23,7	17,6	8,6	9,1	13,6	6,7
2008	4,1	5,4	0,0	7,7	7,9	5,0	5,8	6,2	4,8

K=Overall consumption, Ki=Individual consumption, Kz=Collective consumption, A=Gross accumulation, Ni=Gross expenditure on fixed assets, E=Export of goods and services, I=Import of goods and services.

Source: *The first 5 years of Poland in the EU* (Warsaw: Ministry of Economy, 2009).

Rising domestic demand along with increasing use of EU funding stimulated a growth in investments in enterprise. The high level of investment growth (accumulation) attained a peak in 2007. It is worthwhile combining these facts with an analysis of supply factors for economic growth in Poland. The conclusions drawn in studies show that from this perspec-

tive the major stimulus was the rapid rise of the total factor productivity observed in Poland.<sup>1</sup>

In 2007, before the financial downturn brought about by the collapse of the real estate market in the United States the Polish economy was characterized by high domestic demand, rapid growth, a high rate of increase in investments and consumption (especially individual consumption), and a relatively solid total factor productivity accompanied these shifts.

### Impact of the Crisis on the Polish Economy

During the initial phase of the financial crisis (from mid-2007) many countries launched special bailout programs for financial institutions threatened by insolvency. These involved recapitalization of banks, direct budget loans for the financial sector and direct redemption of non-liquid (called toxic) financial assets from financial institutions. In successive phases, many governments initiated stabilization programmes. With respect to budget revenues, measures consisted of allowances and tax exemptions, whereas for expenditures the initiatives involved increasing public finance for investments (primarily structural).

The first symptoms of the financial crisis in Poland became apparent in mid-2008. To a large extent, this was connected to the psychological effect surrounding the crisis over liquidity in the banking sector. The Warsaw Stock Exchange followed the global pattern where all indexes plummeted (see Table 2).

**Table 2. Selected Stock Exchange Statistics in Poland, 2006–9**

Year	Capitalization of Domestic Companies (million zł)	Number of Companies	Trade in Shares (million zł)
2006	437,719	284	338,696
2007	509,887	351	479,480
2008	267,359	374	331,316
2009	421,178	379	351,885

Source: Warsaw Stock Exchange

<sup>1</sup> Adam Giegiel, "Dynamics of the Polish economy in the light of endogenic growth models," in Sylwia Pangsy-Kania and Krzysztof Piech, eds., *Innovation in Poland from the regional perspective: New theories, the role of EU funds and clusters* (Warsaw: Instytut Wiedzy i Innowacji, 2008).

During the period when the risk on the financial market increased, it became very difficult to acquire capital from the stock exchange market. Plans to offer new shares on the stock exchange failed. Most companies that sought to raise capital in this manner withdrew their offers. In 2007, 81 companies got listed in the stock exchange, resulting in an acquisition of capital on new stock issues amounting to 15.4 million zlotys. In 2008, the number of debuts dropped to only 33 and in 2009 further decreased to just 13. In 2008, the value of new share issues amounted to 3,665,000 zlotys. Share trading shrank in 2008, compared to the trading in 2007.

In 2008, when the symptoms of the financial crisis in Poland became obvious, there were strong adjustments to the rates of virtually all financial instruments traded on the securities market. This resulted in a decline of capitalization for domestic companies in 2008. It fell from 509,887,000 zlotys in 2007 to a total of 276,356,000 zlotys.

Companies faced difficulties raising capital. Investors were reluctant to purchase shares on the stock exchange. The high financial risks facing the banking sector led to a tightening of criteria for granting loans and an increase in margins. Following uncertainty in the wake of the collapse of the investment bank Lehman Brothers, transactions on the inter-bank market in Poland were limited to short-term transactions, mainly overnight. Banks ceased concluding transactions involving long-term deposits. The premium for credit risk included in short-term interest rates was far lower in Poland than both the American dollar and euro markets. Trade on the money market fell slightly. Yet it did not lead to an immediate rise in the number of business bankruptcies, even though their overall economic-financial standing deteriorated (see Table 3).

**Table 3. Number of Business Bankruptcies in Poland, 2006–9**

2006	2007	2008	2009
648	480	420	673

Source: Own study based on Euler Hermes 2010

What is just as interesting is that the number of companies that collapsed in Poland decreased in both 2007 and 2008. However, it should be underlined that these figures show the effects of the situation several months before. It can be partly explained by delays in management and

shareholders filing bankruptcies, and partly by administrative delay, for instance the time taken by a court to grant the relevant decree. Therefore, the almost 60 percent increase in the number of bankruptcies reported in 2009 is presumably a result of market problems faced in 2008. The estimated data for 2010, and the forecasts for 2011, show that the number of bankruptcies in Poland may soar in comparison with 2009 (perhaps up to 1500 bankruptcies by the end of 2010 and over 2000 in 2011).

If the unemployment rate in Poland over the same period is reviewed, a similar correlation is found. There was no increase in the number of people registering as unemployed until 2009 (see Table 4).

**Table 4. Unemployment Rate in Poland, 2006–9 (%)**

2006	2007	2008	2009
13.9	9.6	7.1	8.2

Source: Eurostat

The depreciation of the Polish zloty during the period of intensified symptoms of the crisis (see Table 5) was a mitigating factor behind the economic events described. It permitted the Polish economy to reap benefits from exports (the competitiveness of Polish products improved) and thus in part to appropriate financial resources resulting from stabilization programs implemented in other countries of the region, particularly in Germany. For example, it sustained demand for new cars in Poland throughout the second half of 2008. Many of the cars were purchased by foreigners entering Poland, mainly over the Western border.

**Table 5. Rate of the Zloty against the Euro**

2006	2007	2008	2009
3.8959	3.7837	3.5121	4.3276

Source: Eurostat

There were also, of course, negative effects to having this foreign exchange rate. The zloty's depreciation during the second half of 2008 brought about a rise of its value in debt denominated in foreign currencies and, in the case of enterprises, led to considerable losses in connection with option transactions that had been concluded earlier. This was reflected in

negative financial results for enterprises in late 2008 and at the beginning of 2009. The phenomenon was halted in the second quarter of 2009. This was possibly due to relatively stable sales performances as well as the return on sales.

The crucial reason behind the weakness of the Polish zloty was the pronounced deterioration of the economic situation in Hungary, Ukraine and the Baltic states that led to the sale of the majority of the region's currencies, including the Polish zloty. At that time there were, in principle, no fundamental factors hinting at vulnerability in the Polish economy that might trigger a depreciation of its currency. Therefore, the Polish government did not actively plan or undertake intervention. Or at least not on the same scale as many Western European states did. As part of anti-crisis initiatives the government offered virtually the only support programme for financial institutions.

The government activities within the above program (see Figure 1) included direct financial assistance by means of loans or sale of treasury securities for commercial banks with deferred payment through rescheduling or timing of repayments; recapitalization and financial assistance by BGK (Bank Gospodarstwa Krajowego), by means of transfer of treasury securities; official liquidation of government funds, for example, the National Housing Fund or EU Surety Fund, and providing the opportunities for takeover of financial institutions through mandatory redemption of shares by the State Treasury from shareholders.

The level of public debt remained stable at that time, with failure to take stimulus actions being one of the main factors. The deficit in public sector finance did not suffer any drastic changes in 2008 (see Tables 6 and 7).

**Table 6. Public Sector Finance Balance in Poland (as % of GDP)**

2006	2007	2008	2009
-3.6	-1.9	-3.7	-7.2

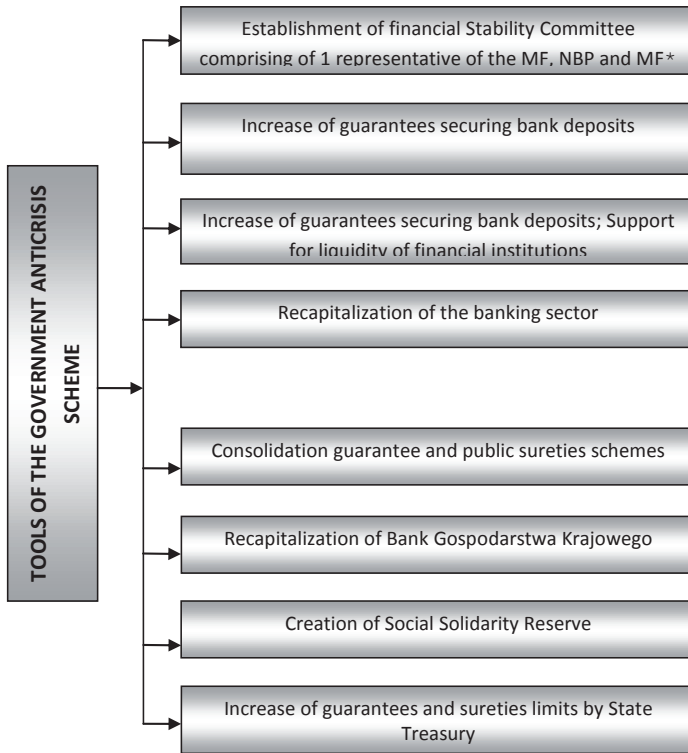
Source: Eurostat

**Table 7. Public Debt (General Government Debt) in Poland (as % of GDP)**

2006	2007	2008	2009
47.7	45.0	47.1	50.9

Source: Eurostat

**Figure 1. Tools for the Government's Anti-crisis Program in Poland**



\*MF=Ministry of Finance, NBP=National Bank of Poland, KNF=Polish Financial Supervision Authority

Source: Own study based on Grzegorz Gołębiowski and Kamilla Marchewka-Bartkowiak, "Financial crisis and public debt," in *Financial crisis – selected issues* (Warsaw: Wydawnictwo Sejmowe, 2009).

The dramatic rise in public sector debt observed in many EU countries creates a risk that the opportunities for economic growth will be limited, in both the medium and in the long term. It may adversely influence the level of individual consumption and the level of corporate investment. The debt increase needs to be set by cuts in public spending and when they appear insufficient, taxes need to be increased.

Despite the manifest rise in public sector deficit in Poland, and the rise in public debt in relation to GDP in 2009, the current credit rating for Polish government debt from Standard & Poor, Fitch and Moody's is an A. The sit-

uation in this respect is stable and this level has been sustained since 2007.<sup>2</sup> The deteriorated state of these linkages in 2009 urges the necessity to look for budget savings and will force implementation of reform schemes within public finances in the near future. The adopted budget act for 2010 provides for numerous savings in spending as well as an increase of VAT up to 23 percent.

**Table 8. Rate of GDP and Growth of Domestic Demand in 2009 (% , fixed prices)**

Years	Consumption			Accumulation		Domestic demand	Foreign trade		GDP
	K	Including		A	Including Ni		E	I	
		Ki	Kz						
2009	2.1	2.3	1.9	-11.6	-0.8	1.0	-7.9	-13.6	1.8

K= Overall consumption, Ki=Individual consumption, Kz=Collective consumption, A=Gross accumulation, Ni=Gross expenditure on fixed assets, E=Export of goods and services, I=Import of goods and services.

Source: *Poland 2010: Report on the state of the economy* (Warsaw: Ministry of Economy, 2010).

From a macroeconomic perspective, the Polish economy coped quite efficiently with the symptoms of the financial crisis. It lost its impetus only in 2009 (see Table 8). Then, as a result of adjusting reserves to a reduced level of economic activity, domestic demand ceased to be a key factor for economic growth and its share in GDP became negative (see Table 9).

**Table 9. Decomposition of GDP Growth in 2009 in Poland (%)**

Consumption (Overall consumption)	Accumulation	Net export	GDP
1.8	-2.9	2.9	1.81*

\* The GDP growth rate presented in the tables is calculated in accordance with GUS methodology. For the corresponding periods Eurostat announced: 6.2% (2006), 6, 8% (2007), 5.1% (2008), and 1.7% (2009).

Source: *Poland 2010: Report on the state of the economy* (Warsaw: Ministry of Economy, 2010).

<sup>2</sup> Elżbieta Glapiak, "Rating for Poland may be downgraded," *Parkiet*, November 5, 2010.

In 2009, external demand (net export) replaced domestic demand as the main driver for the economy and made a positive contribution over the year. This is a characteristic feature of recession.

Sustaining a positive level of consumption in Poland's relatively large internal market offers an opportunity to restore macroeconomic stability. We also need to underline that investments related to Euro 2012 and inflow of EU funds to Poland are significant.

### **Crime in Poland and Measures to Combat It**

Crime has become a serious threat not only to national states gathered in increasingly expanded social and economic organizations, but also globally. It definitely contains an aspect of pathology that destroys the legal order and undermines confidence in state institutions, fair competition and markets.

Even though crime has a long history in Poland as in other countries, it was not until the 1990s that it began to flourish and enjoy a dynamic development connected with herd behavioral patterns and organized forms. The key driving force behind criminal activities was the destabilization resulting from the wide scope of reforms aimed at transforming Poland from a command economy into a free market. Emerging criminal groups realized the potential in the turmoil that accompanied the transition and which facilitated crime. It should be noted that regime transformation made the financial system collapse and hyperinflation rose to a peak over 600 percent in 1990 (it declined in subsequent years to around 32 percent in 1994).

In 1992, having taken into account the growing threat of crime, a special group called "Marathon" was set up by the Police, with the aim of penetrating criminal groups. A new unit presented an analysis which indicated that there were 30 criminal groups active in Poland. They were involved in smuggling (mainly cigarettes and alcohol) and dealing in electronic equipment, fuel and cars. On January 1, 1994, the Organized Crime Prevention Bureau in the Major Police Headquarters was established and then in 1997 the Drug Trafficking Prevention Bureau, following the surge in smuggling and drug trafficking. The establishment of the Central Criminal Investigation Agency was the culmination for professional police units responsible for taking on organized and illicit drug crime. The agency was officially established on April 15, 2000 by the Police Chief Commandant.



It should be indicated that the Police is not the only organization dedicated to fighting crime in Poland. Nevertheless it was the strongest formation of security services assigned to upholding public order. Other services also tasked with combating criminal activities as part of their statutory duties include the Internal Security Agency, the Border Guard, the Customs Service, the Central Anti-corruption Bureau, and the fiscal inspection and tax administration authorities.

Contemporary crime has shifted away from its earlier fields of activity, which had their origins in the regime transformation of the 1990s. The earlier criminal groups were characterized by their centralized structures and primitive methods of operation and created many smaller groups that operated jointly in a variety of fields, but in a more prudent and calculated manner. Breaking up two major criminal groups from Pruszków and Wołomin did not eliminate crime, yet it considerably debilitated it and forced criminals to search for new methods and forms of illegal activities. So, in this context, it is hardly surprising that the UN World Drug Report 2008 ranks Poland among the countries with the lowest number of murders per 100,000 inhabitants. Nevertheless, it should be noted that within the period 1990–2002 the activities of criminal groups led to the deaths of several hundred people. These included Ireneusz Sekuła, a former deputy prime minister of Poland, Jacek Dębski, the sports minister, and Police Chief Commandant Jacek Papała, whose investigation has not yet been completed and those responsible for the crime have yet to be brought to justice.

Observing recent trends provokes the following question: Are the state authorities not very efficient or do criminals learn from their previous mistakes and operate skillfully in a world of criminal organizations thus avoiding responsibility? This question is justified all the more because even when members of organized criminal groups are put in jail, they remain in contact with the outside world and enjoy protection guaranteed by criminal groups. They also receive financial support for their families (coming from fees paid by other group members or from operating a business owned by an imprisoned person).

It is worrying that, this type of criminal activity was reported in a few provinces of Poland in the entertainment and service business sectors in 2009–10, despite suppression of primitive forms of crime relating to collecting extortion money. However, most criminals have changed considerably

and their methods of operation have evolved. By establishing a property security agency or debt recovery agency they attempt to escape responsibility or to reduce it significantly in the event of victims reporting the crime.<sup>3</sup>

Local criminal groups (frequently cooperating with partners from abroad – especially from post-Soviet Eastern Bloc countries) have gained a monopoly over people trafficking and have greatly increased their effectiveness. Poland has become a transit center for women from the former Soviet republics (mostly Belarus and Ukraine) from where they are sold on to Greece, Austria, Germany, Ireland, the UK and the Scandinavian countries.

Just as importantly, there has been a decline in the number of non-Polish citizens involved, both those suspected of committing the crime as well as their victims (see Table 10).

**Table 10. Data for Crimes Committed by Non-Polish Citizens and Affecting Non-Polish Citizens in the Territory of Poland (suspects, victims)**

COUNTRY	2007		2008		2009	
	Suspects	Victims	Suspects	Victims	Suspects	Victims
Armenia	121	7	118	4	86	15
Austria	10	22	9	18	2	8
Belgium	7	24	10	41	13	22
Belarus	354	72	206	34	142	47
Bulgaria	57	5	119	20	103	21
China	3	7	0	8	8	16
Croatia	4	0	2	1	3	2
Czech Republic	52	40	46	45	61	47
Denmark	7	28	9	25	8	18
Estonia	13	3	15	5	12	18
Finland	3	14	0	14	1	6
France	22	74	26	59	28	38
Greece	3	7	2	4	4	1
Georgia	22	1	17	0	62	1

<sup>3</sup> Report on operation of the Central Criminal Investigation Agency, KGP, Warsaw 2010.

Holland	19	84	15	54	12	36
Ireland	3	36	5	12	1	12
Israel	0	15	2	3	3	6
Kazakhstan	12	2	7	2	3	1
Lithuania	173	42	176	22	139	33
Latvia	32	25	30	9	28	8
Moldavia	16	3	12	2	7	2
Mongolia	19	1	11	2	14	4
Germany	193	690	168	434	164	308
Norway	4	49	5	40	2	35
Pakistan	8	4	7	1	9	4
Russia	172	79	169	32	180	39
Romania	55	14	170	11	134	14
Slovakia	48	78	67	22	49	16
Slovenia	1	3	0	2	2	1
Switzerland	1	21	9	11	18	14
Sweden	13	50	11	35	10	23
Turkey	13	12	21	8	12	16
Ukraine	588	160	398	88	459	137
USA	7	64	14	23	14	32
Hungary	14	13	16	6	11	8
United Kingdom	19	171	18	147	21	90
Vietnam	43	10	50	14	33	5
Italy	25	74	27	46	28	40
TOTAL *	2293	2161	2141	1463	2034	1296

\* In the "Total" column all non-Polish citizens have been taken into account including some from countries not specified in this table.

Source: Own study using data from the Major Police Headquarters, Warsaw

During 2007–9, Ukrainian, Russian and German citizens were among the largest group of suspects while the victims included German, Ukrainian and UK citizens. However, it is difficult to discern what percentage of the statistics refers to ordinary criminal acts which are not relevant to the

impact on crime in Poland. Nevertheless these acts may still be relevant due to the high number of reported crimes committed by Polish criminal groups, especially in cooperation with Russian-speaking partners. Based on statistics dealing with extradition, we may make assumptions that a large group of Polish nationals operate illegally outside the national borders of Poland – notably in France, Spain, the U.S., Italy and Scandinavian countries.

Criminal groups in Poland are predominantly active in drug trafficking and economic crime (which often involves public figures not previously associated with crime). A significant number of crimes against property were reported in 2007–9. Considering the financial crisis, concerns were raised over a high rate of fraud (over 153,500 cases) and computer fraud which maintained an unusually dynamic rate of progress over the whole period examined (see Table 11).

**Table 11. Crimes against property**

Type of crime	2007	2008	2009	Total
Theft	183,283	182,711	No data	-
Theft after breaking into premises	142,543	124,926	134,612	402,081
Robbery	17,872	16,320	15,740	49,932
Theft with use of violence	1126	979	1026	3131
Racketeering and extortion	1315	1160	1168	3643
Unlawful appropriation	17,126	17,842	19,900	54,868
Telephone tapping	134	116	151	401
Fraud including swindling	50,398	49,424	53,720	153,542
Computer-related offences	322	472	673	1467
Destruction or damage to property	71,347	76,063	77,067	224,477
Vehicle hijacking	4695	4422	4305	13422
Theft in forest (timber)	1725	1888	1762	5375
Dealing in stolen goods	3734	3170	3075	9979
Unintentional dealing in stolen goods	1200	1028	1126	3354

Source: Own study based on Polish crime statistics from the Major Police Headquarters covering the years 2007–9, KGP, Warsaw 2010.

Proceeds from criminal activities are primarily invested in:

- a. Currency exchange offices – often used for money laundering
- b. Loan and leasing companies – frequently granting conditional loans which lead to the takeover of the debtor's assets due to extortionate interest rates and default penalties
- c. Commission houses and pawn shops – mainly pawn shops specializing in private motor vehicles, often involved in receiving stolen goods and money laundering;
- d. Companies providing logistics services – used for smuggling
- e. Sports clubs – enabling money laundering or reclaiming undue VAT (frequently used as a source of financing athletes without the need to invest own funds derived from other proceeds)
- f. Real estate development companies – facilitating money laundering and financing investments using funds gained through criminal activities (covering up the fictitious loans with real loans secured from a bank)
- g. Trading with land, both building and agricultural land – enabling overpricing in transaction contracts
- h. Forcing companies in financial difficulties to enter bankruptcy and take over their fictitious or exaggerated debts
- i. Nightclubs, discos, restaurants – facilitating drug trafficking and money laundering; and
- j. Escort agencies – a source of stable income and venue for transfer of false invoices.

If proceeds of illegal activities are infused into the stream of commerce, legalized and then increased through legal business operations, they become assets used in legal transactions. This is a kind of added value which may lead to blurring of illegal – in view of profitable business activities, or more frequently, to expand illegal business on a larger scale (often in a illusory optimization of legal and tax measures), with the strong support of experienced legal, consultancy or tax companies.

## The Financial Crisis and Organized Crime in Poland

*The only surprise about the economic crisis of 2008 was that it came as a surprise to so many.*<sup>4</sup>

*It seems necessary now, more than ever before, to reconstruct the financial system, in the public sphere and also within individual households while supervising all the incoming assets, at both domestic and international levels.*<sup>5</sup>

The financial crisis is an undeniable fact. The devastation it caused across the world provokes thoughts of the necessity to change the concept of social, economic and state development. The crisis inspired the need for a new approach to problem-solving methods but, worst of all, it undermined confidence in public institutions and human relations in all fields of business. The number of crimes detected involving corruption among civil servants, protection payment or unlawful use of an official position in order to gain financial benefit, clearly exposes the system's significant vulnerability to abuse (see Figure 2).

In the new reality formed by the crisis it seems that criminal acts in the financial sphere may be fully-fledged yet not completely diagnosed and penalized. Peter Gottschalk divides financial crime into four main types:

- a. Fraud: advance fee, bank, check, click, consumer, credit card, embezzlement, hedge fund, identity, mortgage, occupation, subsidy
- b. Theft: art, cash, identity, intellect, inventory
- c. Manipulation: bankruptcy, bid, competition, computer, currency, cyber, extortion, ghost, invoice, laundering, tax
- d. Corruption: bribery, kickbacks, organization, public<sup>6</sup>

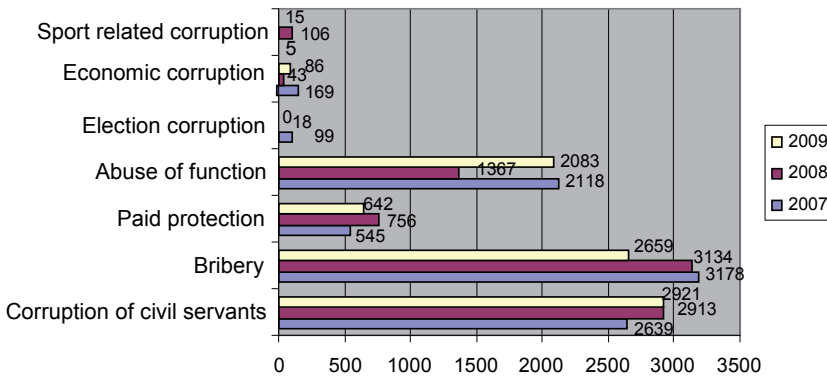
<sup>4</sup> Joseph E. Stiglitz, *Freefall: America, Free Markets, and the Sinking of the World Economy* (New York: Norton & Co., 2010), p. 1.

<sup>5</sup> Konrad Raczkowski, "Transnational organized crime. An economic security threat in the Baltic Sea Region," Institute for Security and Development Policy, *Stockholm Paper* (October 2010), p. 7.

<sup>6</sup> Petter Gottschalk, *Policing Financial Crime, Intelligence Strategy Implementation* (Boca Raton: BrownWalker Press, 2009), p. 15.

It is important to note that this simple division includes several types of crimes which may bring profits only in the final stage of committing the unlawful act.

**Figure 2. Number of Corruption Crimes of Detected in Poland, 2007–2009**



Source: Own study based on Polish crime statistics from the Major Police Headquarters for 2007–9, KGP, Warsaw 2010

The financial crisis facilitated the advancement of crimes involving trade in money and securities. Presumably new methods for detecting this type of crime, using more advanced technical equipment and more efficient schemes for sharing the information, have increased the statistical rates of detectability, which could have been underestimated in previous years. An exceptional threat in this category of crime is that posed by counterfeiting money and securities (see Table 12). As can be seen, there were 23,500 crimes of this kind committed with a marked increasing dynamic, during the period 2007–9.

It should be underlined that, since 2009, the Polish Police have implemented new IT and organizational tools to combat the crime of counterfeiting money and to improve information sharing. To this end, people who released forgeries into circulation were monitored, and bank reports indicating signs of forged money were subject to analysis (rapid exchange of information between banks and the police). The Polish Financial Supervision Authority and the Association of Polish Banks requested all bank head offices to make optimization steps to shorten the time needed to report banknote counterfeiting cases to the police.

**Table 12. Crimes against Trading with Money and Securities**

Type of crime	2007	2008	2009	Total
Counterfeiting of money and securities	7163	7804	8556	23523
Fabricating information in securities trade	3	0	1	4
Passing counterfeit money into circulation or security previously obtained as an original	425	221	231	877
Counterfeiting of official security paper	18	12	12	42
Counterfeiting of official mark	39	18	7	64
Counterfeiting of measurement tools	76	56	100	232
<b>IN TOTAL</b>	<b>7724</b>	<b>8111</b>	<b>8907</b>	<b>24742</b>

Source: Own study based on Polish crime statistics from the Major Police Headquarters 2007–9, KGP, Warsaw 2010

The police enjoyed success when counterfeit money was seized at the production stage and thus before it was distributed and could enter into circulation. It is crucial to point out that the Central Criminal Investigation Agency of the Major Police Headquarters initiated proceedings in 2007 that, in April 2009, resulted in the destruction of a group of dealers involved with counterfeit euro banknotes, the largest and first ever in EU history. The counterfeit currency distributed during the period 2002–8 numbered tens of thousands of notes in denominations of 50 and 100 euros in a number of countries including Spain, Holland, Poland and Italy. As a result of this operation, 27 people were detained. This action ranked as one of the most spectacular ones conducted by, and under the auspices of, Europol since its establishment.<sup>7</sup>

It is estimated that notes in denominations of 100 zloty, as well as 50 and 100 euro, are the notes most preferred by counterfeiters. The court proceedings and the judgments handed down explicitly disclose that the production of the counterfeit notes remained solely within Polish criminal groups.

<sup>7</sup> Europol Overview – Crimes in Europe, Haga 2010, p. 33.



While the financial crisis persisted, from 2007–10, the financial market was targeted for numerous unlawful actions. The entire capital market on the Warsaw Stock Exchange, as well as the investment fund market, reported numerous criminal activities, namely:

- a. Manipulation of financial instruments by an organized group of investors (artificial price creation for a given financial instrument)
- b. Frauds connected with sale offers of financial instruments and securities offered without fair and accurate information on financial standing of the issuer
- c. Exploitation of confidential information to facilitate plans to increase share capital, carry out investment on the real estate market using abundant financial resources, forecast financial results that are connected to previous periods or technological modernization of a certain enterprise.
- d. Reinvestment of proceeds of criminal activities into other financial instruments on the Warsaw Stock Exchange – in this way covering traces of transactions made and consequently legalizing the capital.<sup>8</sup>

Another significant category of crimes was reported in economic trade, especially with regard to credit frauds (see Table 13). This type of crime has been defined in Article 297 of the Penal Code, as follows: any person who submits false documents to secure a loan, money credit, credit guarantee, subsidy, aid or public contract, for himself or a third party, and those certifying untrue information or unreliable, written statements regarding circumstances that have significant relevance to obtaining a loan, money credit, credit guarantee, subsidy, aid or public contract is liable to a penalty of custodial sentence of three months to five years.<sup>9</sup> It appears that even though banks apply more efficient security measures when assessing credit risk, the occurrence of this type of crime may grow in coming years. The *modus operandi* for criminal activity is basically exploitation of false documents by substituted persons.

---

<sup>8</sup> Analysis of threats to the Warsaw Stock Exchange, KGP, Warsaw 2010, pp. 23–27.

<sup>9</sup> See Art. 239 of the Penal Code, Journal of Laws of 1997 r., No. 88, item 553.

**Table 13. Crimes against Trading**

Type of crime	2007	2008	2009	Total
Abuse of confidence	795	539	551	1885
Loan frauds	5989	6098	6599	18686
Insurance frauds	83	48	64	195
Money laundering	167	180	159	506
Prevention or curtailment of creditors' satisfaction	2380	1915	1692	5987
Leading to bankruptcy or insolvency	56	48	34	138
Preferential treatment of selected creditors	60	38	34	132
Unreliable keeping of documentation	71	37	41	149
Usury	31	30	23	84
Prevention of tenders	84	77	48	209
Removal or counterfeiting of goods labelling	139	639	590	1368
TOTAL	9855	9649	9835	29339

Source: Own study based on Polish crime statistics from the Major Police Headquarters 2007–9, KGP, Warsaw 2010

The other key factor contributing to the increase of loan frauds is the financial crisis prompted the Polish Financial Supervision Authority to introduce a great many restrictions concerning the granting of loans – a recommendation for foreign currency loans applicable since mid-2010 as well as the one for loans in zloty applicable from December 23, 2010.<sup>10</sup> It implies an increase in personal contribution (especially in the case of loans in currencies other than Polish zloty) and an increase of net household revenue required when applying for a loan (this was also linked to amount of spending resources available) and an obligatory duty to purchase insurance for a low contribution. This would, for example, increase the cost of a 75,000 euro loan by 4000 euro.

<sup>10</sup> Recommendation T regarding good practice with regard to management of the risk of retail loan expositions, Polish Financial Supervision Authority, Warsaw 2010, pp. 7–10ff.

A third factor behind the increase in loan fraud is a combination of the repayment problems faced by bank customers with existing loans and the fact that timely repayment of instalments allows disbursement of a subsequent advance on the loan. According to data from the Polish Financial Supervision Authority, for the first half of 2010 the value of possible default on consumption loans totalled 23.5 billion zlotys (about 5.6 billion euro) and mortgage loans totalling four billion zloty (about one billion euro).<sup>11</sup>

One of the criminal activities having to be tackled by the State Treasury relates to fraudulent reclaiming of value-added tax (VAT). Owing to insufficient legislative regulations it is a relatively easy scam, conducive to embezzlement within intra-Community trade as well as intra-Community supply of goods.<sup>12</sup> The most serious threats in relation to fraudulent reclaims in this respect involve:

- a. Use of a banking system to record fictitious economic transactions in which financial resources are legalized and then transferred to tax havens
- b. Significant fraudulent reclaim of VAT in transactions of international trade (direct marketing of goods without payment of excise duty, carrying-out fictitious transactions based on forged documents)
- c. Decreasing liabilities with respect to due income tax or duty customs value,
- d. Large-scale fraudulent reclaim of VAT in trade involving scrap metal, manufactured goods from the metal industry (frequently combining legal and fictitious invoices with the intention to impede control)
- e. Overestimating VAT together with an excise duty within illegal production, smuggling and trade in tobacco and alcohol products

---

<sup>11</sup> Statistics of loan liabilities incurred in Poland, Polish Financial Supervision Authority, Warsaw 2010, pp. 12ff.

<sup>12</sup> For a basic description of carousel frauds in the EU countries, see Konrad Raczkowski and Artur Krukowski, "Management of Tax Security Knowledge in Intra-Community Trade," in Konrad Raczkowski, Walter Kegö, Marian Žuber, eds., *Different Faces of Security: From Knowledge to Management* (Stockholm: Institute for Security and Development Policy, 2010), pp. 184f.

- f. Organizing carousel frauds aimed at reclaiming VAT (by repeated import of the same goods and then their sale by the intermediary unaware of the scam to another dummy company that reports taking the goods abroad, which entitles it to reclaim the VAT. After a few or several such transactions the dummy company retaining the VAT disappears)
- g. Fraudulent reclaim of VAT and excise duty, typically in a simulated trade with liquid fuels or another economic trade.

In 2010, having observed a massive scale of reclaim of VAT from the Tax Office, law enforcement authorities undertook a series of actions to determine when the tax is due and when it is claimed on the basis of criminal activity with the effect of fraudulent tax reclaim from the State Treasury. There are several such tax investigations pending at this time and a large number of similar cases are subject to prosecution or court proceedings. While outlining the extensive scale of fraudulent VAT reclaim, it is worth noting that in June 2010 the Internal Security Agency, in cooperation with employees of the Fiscal Control Office and I Tax Office in Śląsk, succeeded in a most spectacular detection of this crime in terms of financial losses and damage inflicted. Seven individuals were detained and charged with accusations of money laundering and operating in an organized criminal group. An assessment from the investigation revealed that the group's activity could bring an estimated loss to the State Treasury amounting to 100 million zlotys, about 25 million euro. It was a classic example of a criminal organization operating by establishing a few business entities in Latin American countries and then reporting fictitious trade of scrap metal to the value of 500 million zlotys accrued over just a few months.<sup>13</sup>

In principle, the institutions in Poland responsible for preventing tax crime (including VAT) are the tax administration authorities, fiscal control and, first and foremost, the customs administration – not forgetting the Police and the Internal Security Agency. The system of public institutions needs to be modernized in order to be able to respond to the challenges of tax crime in this new world. This could then lead to a reduction in the liabilities due to the State Treasury. Such reorganization should be the product of a reform of the whole public finance sector in Poland, which at the end

---

<sup>13</sup> Information from the General Inspector of Financial Information concerning securities of financial resources on bank deposits, GIIF, Warsaw 2010.

of the second quarter of 2010, revealed a debt of 746.1 billion zlotys, corresponding to 53.7 percent of GDP for the last four quarters.<sup>14</sup>

Ultimately, it should be noted that committing criminal acts with the assumption that an unlawful act will not be discovered requires both adequate information and the knowledge of how to actually carry it out. Information is a peculiar immaterial wealth which alongside economic progress and the development of means and forms of social communication acquires increasingly greater significance, transforming aspects of many traditionally organized economies.<sup>15</sup> Information is assessed by measuring data values it creates and by measuring the quality of the data's contents. This permits us to ascertain whether the information given for a particular purpose is valuable or useless.<sup>16</sup> Information is the basis for making decisions and precise information minimises the risk of taking actions that are not rooted in fact. For this reason, during the financial crisis in Poland a strong increase in crimes against information was observed, especially crimes involving the infringement of correspondent secrecy, preventing or impeding the use of information and violating information data (see Table 14).

**Table 14. Crimes against Information Protection**

Type of crime	2007	2008	2009	Total
Disclosure of state secrets	14	12	16	42
Disclosure of official and professional secrets	133	121	155	409
Infringement of confidential correspondence	616	694	982	2292
Preventing or impeding the use of information	244	366	555	1165
Violation of information data	26	40	63	129
<b>TOTAL</b>	<b>1033</b>	<b>1233</b>	<b>1771</b>	<b>4037</b>

Source: Own study

<sup>14</sup> Debt of public finance sector, Department of the Public Debt, Ministry of Finance, Warsaw 10/12/2010, pp. 1–3.

<sup>15</sup> Bogdan Stefanowicz, *Introduction to IT* (Warsaw: Akademicka Oficyna Wydawnicza PLJ, 1998), p. 31.

<sup>16</sup> For a description of information converted to knowledge, see Konrad Raczkowski, *Knowledge management in customs administration in a system of socio-economic security* (Warsaw: Difin, 2010).

Crime against information protection in Poland is also connected with the intensification of a power struggle between certain groups and a decline in work ethics. We can only assume that most such infringements will never be reflected in statistics for individuals, because individual victims of such crimes hardly ever decide to bring cases to court.

We may conclude that there are many types of crime committed in Poland. The financial crisis has somehow fomented unlawful and herd behaviour, at least in respect of fraud and similar abuses. The scale of financial crime appears far larger than previously assessed. The financial supervision authority in Poland, like similar bodies throughout the world, tolerated embezzlements and speculative attacks carried out by banks and financial institutions themselves. Therefore it became quite a challenge to undertake actions against seemingly unethical, immoral and legally dubious (sometimes with conscious assumption to transgress law) transgressions by ordinary citizens holding the illusory, if occasionally genuine, conviction that if others do it, it cannot be unlawful.

The financial crisis in Poland is in fact a pentagonal crisis referring to the crisis in finance, economy, global order, global elites (including national elites) as well as civilization.<sup>17</sup>

It may be observed that the financial crisis substantially drove the dynamics for offences against trade in money and securities, economic trade, information protection and property as well acts of corruption (see Figure 3).

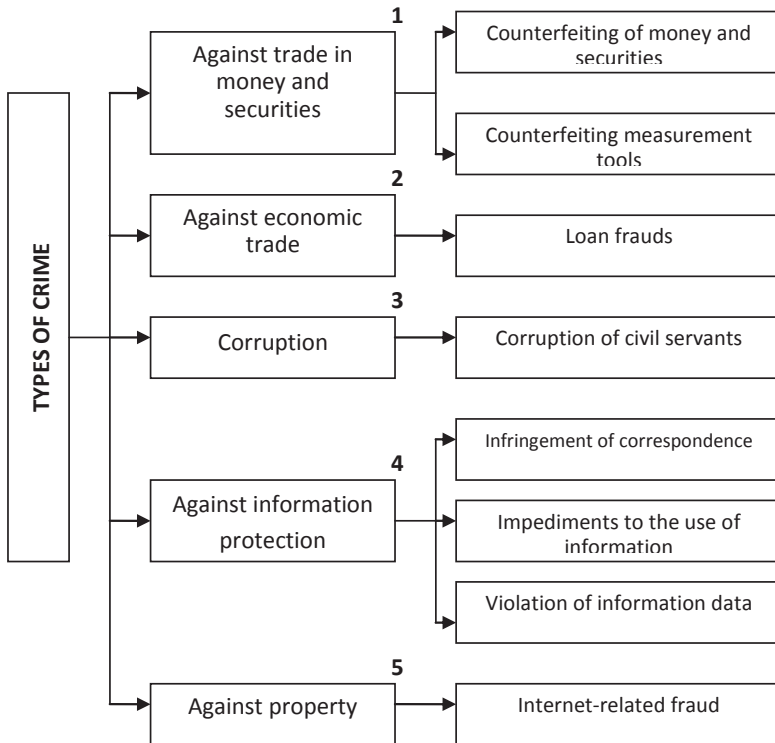
It appears that the low efficiency of measures taken by prosecutors' offices and courts, attributed to delays in dealing with the cases, and conflicting legal interpretation of offences, may have provided an additional inducement to unlawful but profitable activities. Deficiencies in the justice system, even in cases where the law enforcement authorities perform effectively, will definitely enhance the significance of criminal cartels and syndicates. Since these groups hold large, and legalized, funds, they will continue to assume power and influence (aided by the imposition of arbitrary and appropriate legal solutions that favour them). The coming years will show both the efficiency of methods adopted to combat the global

---

<sup>17</sup> See Antoni Kukliński, "Enigma of the 20th century," *Newsletter of the Polish Economy Society*, with assistance of the Polish Association for the Club of Rome, PTE, Warsaw 6(50) 2010, p. 26.

crisis (interconnected with the economies of individual countries) and the effectiveness of the preventive and systemic measures to be carried out by Poland within its legislature and organizations.

**Figure 3. Rank Characteristics of Different Types of Crime that Increased during the Financial Crisis, 2007–9**



Source: Own study

## Conclusions and Recommendations

In summary of the opinions and judgments presented here concerning the financial crisis in Poland and the operation of criminal groups, we may sketch two pictures of the situation. The first one appreciates the value of actions initiated by public authorities in confrontation with financial and economic threats. The other focuses on pure and measurable<sup>18</sup> indicators of

<sup>18</sup> Peter M. Gutmann, "The Subterranean Economy: Redux," in Wulf Gaertner and Alois Wenig, eds., *The Economist of the Shadow Economy* (Berlin: Springer Verlag, 1985), p. 15.

mid- and long-term trends for events triggered by taking definite decisions to implement changes, systemic reforms and preventive measures (in terms of prevention the results could well be extremely disappointing).

The financial crisis showed that our familiar image of the world at the end of the 20th century will change forever. Therefore, each country should search for new patterns and standards not corresponding to the previous ways of thinking but grasping future innovations. We cannot allow ourselves to be locked into current thinking as its formulas and tactics will soon be outdated. In addition, organized crime has been regarded as the fastest evolving business sector for a number of years. It is estimated that global profits from this activity may amount to US\$500 billion per year. For this reason, we should not view the police statistics optimistically, even if they appear to indicate a decline in crime. The apparent decline is undoubtedly due to the statistics only relating to specific areas, for example, the number of murders committed. However this kind of interpretation of statistics would be naïve, arising, as it would, from a lack of systemic analysis of the economic return rate for costs incurred in committing a given offence.

Criminals have learned a lesson from history that the most brutal criminal behavior rarely brings financial benefits (more often it is simply a goal in itself) and they may make more money from economic activities that are legal, semi-legal and illegal. Certainly the black economy stemming from such activities is currently a real problem and its magnitude is hard to estimate unequivocally. P. M. Gutman defines this type of economy (informal, unregistered) as a wide spectrum of economic activities which defy fiscal registration and to a large extent they are not included in the statistics.<sup>21</sup> This definition implies a possibility to conduct a two-factor analysis in which informal economy represents economic activity not reported in the statistics and whose size is not indicated in official statistics related to calculating the domestic product, even through application of differentiated calculating methodology.<sup>19</sup> Therefore it also appears desirable to include postulates when calculating domestic product, thus providing an opportunity to assess the black economy (unofficial economy).

At the same time, the scale of the economic crisis and its implications may be so globally immense in the future that recommendations regarding

---

<sup>19</sup> Konrad Raczkowski, *Knowledge management in customs administration in a system of socio-economic security*, (Warsaw: Difin 2010).



the prevention of illegal phenomena need to be systemic – down to the level of individual countries. For this reason it becomes necessary to undertake the following preventive initiatives.

1. To implement reforms of the public finance sector (whilst also reorganizing the organizations and task structures of the administration itself).
2. To introduce a new model of management in the public domain that is oriented towards knowledge management and knowledge materialization (beginning with the arduous but necessary creation of a new organization culture in society and new state structures adjusted to both current and future assignments).
3. To implement precise and coherent legislative regulations to categorize unlawful acts that are not completely identified or included in currently applicable law (tight cooperation with the European Union as to formulating common standards; to implement simplified principles for settling accounts by taxpayers and mitigating sanctions for errors that were not the result of intentional attempts to perpetrate a criminal act).
4. To facilitate more effective cooperation and information sharing between national law enforcement authorities and security and public order services and to improve international cooperation.
5. To establish the Financial Security Institution (FSI) to replace fiscal control offices and incorporate the tax-customs apparatus, the Police, Internal Security Agency and internal analysts of the financial markets (and assigning new powers and advisory roles, management control and supervision control over the organization of budget units and budgets for local government plants, executive agencies, budget economy institutions, state special funds and the entire capital market; to perform a key financial security advisory function for the prime minister and the president of the Republic of Poland).
6. To replace the basic index used to measure economic progress (GDP) with new development measures that take heed of issues of economic growth (including the unofficial economy), social justice, quality of governance and economy management as well as public matters, such as issues concerning the protection

of cultural values and care for nature. For example, the index of gross national happiness – National Happiness.