# Recession in Poland

The struggle to reform Poland's economy has not been cost-free. Although no longer plagued by shortages of consumer goods or hyperinflation, Poles have experienced a pronounced drop in their real incomes. The government has removed controls on prices while imposing heavy taxes on wage rises that exceed anti-inflationary guidelines. Since the end of central economic planning, the introduction of market pricing, and the abolition of subsidies, Polish enterprises are finding that they cannot simply muddle through. Companies that cannot compete are being allowed to fail.

Despite the inevitable dislocation caused by economic reform, there are encouraging signs which point to success:

- Polish exchange rates have remained stable following devaluation in May, 1991. As of February 26, 1992, the exchange rate stood at 13,360 *zlotys* to the US dollar.
- The government's reserves of hard currency remain strong, totalling $US 6.5 billion at the end of 1991.
- Real incomes are finally beginning to rise at approximately the same rate as inflation, and consumption is beginning to recover.
- Private savings continue to grow in nominal terms, and private savings denominated in hard currency are stable, totalling $US 5.7 billion at the end of 1991.
- The supply of and demand for goods and services remained in rough balance.
- Though not yet won, the war on inflation has succeeded in ending the hyperinflation experienced at the end of 1989 and beginning of 1990.

Recession is a typical by-product of programs aimed at halting inflation and balancing government budgets. In Poland, the problem has been compounded by the need to expose enterprises to the full shock of international competition. The country's state-owned firms were deprived of price controls, subsidies, protected markets, and artificially low input costs. Once these were removed, the production of state firms plummeted because there were few buyers for their products. Prime Minister Jan Krzysztof Bielecki put it with disarming frankness: "a 30% drop in the production of goods that cannot sell", he said, "cannot be called a recession, but simply a return to normality."

Poland's Central Statistical Office estimates that Gross Domestic Product fell 11.6% in 1990 and a further 7 to 8% in 1991. The performance of different sectors, however, varied widely. For example, production in manufacturing and transportation declined steeply, while construction and agriculture more or less held their own. Trade, services, and communication, meanwhile, recorded actual increases in production.

## Industry

Industrial production fell 24% in 1990 and a further 14% in 1991. The fall was caused by a variety of factors including the war against inflation, the restructuring and marketization of the sector, and a fall in domestic demand as a result of the recession. The most important single factor, however, was the collapse of trade with the former Soviet bloc which had constituted the single largest customer for Poland's industrial exports. The hardest hit were light manufacturing, which fell by 48% in 1991, and electrical machinery, which contracted by 42%. These two sub-sectors were among the most closely involved in intra-bloc trade. Least affected were paper and wood products, and fuel and energy.

The collapse of state-owned production was mitigated to some extent by the growth in private-sector production, which reached almost a quarter of the total, compared to only 16% in 1989. Another mitigating factor was an expansion of 55-60% in the sector's hard-currency exports. There are also some encouraging signs of an overall recovery. November 1991 was the fourth month in which average daily industrial production increased.

## Construction

The recession has been less severe in building and construction than in other sectors. Contraction in this sector began in August of 1988, but some recovery was already observable in the second quarter of 1991, as general contractors found increasing demand for renovations of commercial and public buildings. This new demand arose partly from the privatization of the retail sector.

The construction sector as a whole contracted by only 2% in 1991. In fact, the last quarter of the year saw a modest upturn in overall construction activity. The