The Opportunity

Poland was the first country in Central Europe with a non-communist government. It was also the first to institute dramatic and broadly-based reforms that demonstrated a commitment to free markets and a western-style mixed economy. At the beginning of 1990 and with the approval and support of the International Monetary Fund, the new Polish government introduced a radical program of economic stabilization and adjustment that has been the driving force behind the country's recovery.

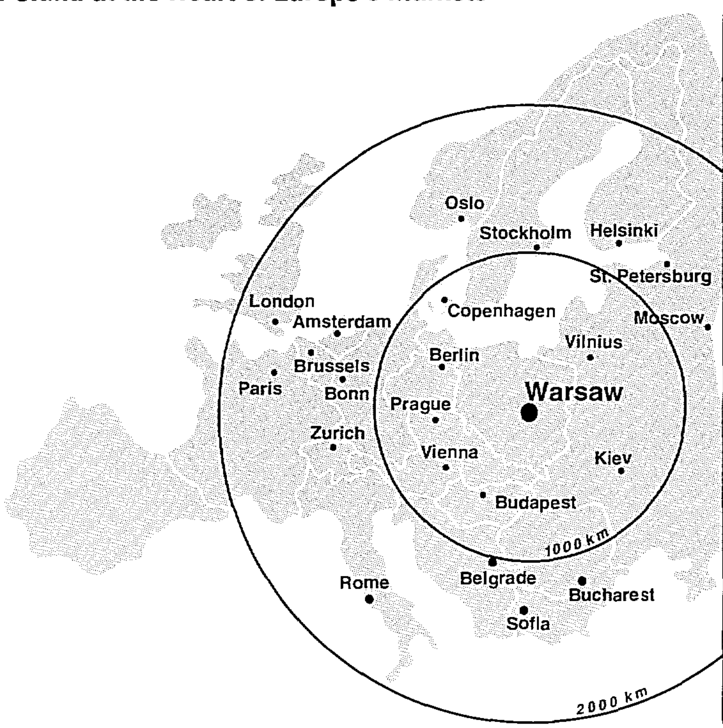
Poland's "shock therapy" dismantled most elements of the communist system. It eliminated subsidies, reformed the state budget, freed prices, reduced inflation, ended the state monopoly over foreign trade, stabilized the currency and made it domestically convertible. And it began the process of returning many state-owned enterprises to private control. This comprehensive transformation did not come without costs. Reforms have been associated with a deep recession that has seen a steep drop in the output of state-owned industries, a fall in consumer purchasing power, and a rise in unemployment.

Recent Successes

Despite some difficulties, the reforms are working, though perhaps not as quickly as the Poles would like. Certainly there are several encouraging signs. One is that prices are stabilizing. At the close of 1989, Poland was in the grip of hyper-inflation. As a result of the reforms, the inflation rate fell dramatically through 1990 and 1991.

Price stability has restored credibility to the Polish *zloty*. Artificially controlled under the communist government, the *zloty* was made domestically convertible on January 1, 1990. It is now possible to convert freely between the *zloty* and western currencies inside Poland though all business transactions within the country must occur in *zlotys*. Furthermore, all enterprises bringing hard currency into the country must convert them into *zlotys*, though they have the right to reconvert and withdraw the money so brought in. Since domestic convertibility was introduced, the exchange rate has remained stable with two corrective devaluations occurring in May of 1991 and February of 1992. So far, the

Figure 1.1
Poland at the Heart of Europe's Markets



Macro-regions and Capital Cities

Macro-region	Capital	Area thous. sq. Km	Population Large Cities	Population Rest	Administrative Regions
North	Gdansk	39.5	1.8	2.5	5
South-West	Wroclaw	40.5	1.2	3.2	7
Cen-West	Poznan	48.2	1.5	3.7	7
Centrum	Warsaw	39.3	4.2	2.5	8
North-East	Bialystok	46.1	.6	2.0	5
Cen-East	Lublin	31.6	.6	2.1	5
South-East	Kraków	38.7	1.9	3.6	8
South	Katowice	25.1	4.5	2.1	4
Total:		310.0	16.3	21.7	49

Source: Central Statistical Office, Hungary.