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Polish Economy during the Transition Period in 90.

Abstract

The aim of the paper is:

- *the evaluation of macroeconomic results of the transformation process in Poland with special reference to: the dynamics of GDP and gross value added, structure of GDP, fixed capital, inflation, labour market indices;*
- *the analyse of foreign trade structure from the point of view of the endowment of production factors;*
- *the presentation of basic problems in the present condition of economy and activities serving its improvement and conditions for the involvement of the new socio-economic programme for the years 2002–2005.*

1. Poland's development in the transition period

At the beginning of the 1990s Poland initiated a system transformation process to switch from a central command economy to a market economy. At the outset of transition the dominant characteristics of Polish economy were: large share of the public sector in all sections excluding agriculture, obsolete structure of fixed capital, low competitiveness of production that did not meet quality requirements of the domestic and foreign markets. The process of transition was accompanied by high inflation and high unemployment, both registered and hidden, especially in agriculture.

After a period of decline in the years 1990–1991 the system modification resulted in annual economic growth measured using the GDP value. In 1995 the GDP exceeded for the first time the 1989 level.

Compared with other Central and East European countries Poland is distinguished by three advantageous factors: the lowest fall in GDP in the transition period, the shortest time of the decline and the earliest return of the GDP amount to the level preceding 1989.

In the years 1992, 1993, 1994 and 1995 GDP grew faster and faster: 2.6%, 3.8%, 5.2% and 7.0%, respectively, with the point of reference being the previous year. In 1996 GDP grew 6.0% and 6.8% in 1997. In the next three years the rate of growth slowed down – in 1998 it dropped to 4.8%, then to 4.1% and in 2000 to 4.0%.

The major reason for the slackened activity of Polish economy in the recent years was crises in Asia and Russia, as well as souring business cycle in the EU countries. In 2000 the lower rate of economic growth was also due to the diminished rate of growth of domestic demand (2.5% in 2000 compared with 4.8% in 1999, with the rate of growth of consumer demand going down from 4.4% to 2.4%, respectively, and of investment demand from 6.8% to 3.1%).

Table 1. Dynamics of GDP and gross value added, years 1993–2000 (%, previous year =100, fixed prices)

Specification	1993	1994	1995	1996	1997	1998	1999	2000
GDP	103.8	105.2	107.0	106.0	106.8	104.8	104.1	104.0
Gross value added	103.5	104.9	106.7	105.3	106.5	104.7	103.7	103.7
- industry	108.6	110.3	110.4	107.6	110.3	104.3	103.0	106.5
- building	101.1	102.7	105.8	102.8	113.6	109.3	103.5	99.3
- market services	98.5	X	104.4	105.2	104.4	104.8	106.0	104.2

Source: According to the Ministry of Economy data (Raporty o stanie gospodarki), Warsaw, respective years.

Despite the lower economic activity Poland still belonged to the group of quickly developing countries, exceeding in 2000 the average rate of growth in the EU countries (3.3%).

Modifications in Polish economy were reflected both in the GDP *per capita*, that more than doubled in the decade of the 1990s (from US$ 4,500 in 1991 to over 9,588 in 2000)[1], and the ownership structure contributing to GDP. The role and significance of the private sector grew. Its share in GDP

[1] According to GUS (Central Statistical Office) – accounted according to the PPP of currencies.

accounted for 40.0% in 1990; in 2000 it was over 70%. This concerned all sections of economy. Today the highest shares of the private sector can be found in trade (98.2%) and building (97.1%). In industry it accounts for 66.7%, because of problems with restructuring and privatisation of sectors such as mining, steel and defence industry.

The growing role of the private sector in national economy is illustrated by the data below:

Table 2. Share of the private sector in the generation of gross value added in selected sections of Economic Classification of Activities (%, fixed prices)

Specification	1995	1996	1997	1998	1999	2000
Gross value added	60.7	62.7	67.1	69.5	70.4	71.2
Industry	44.6	49.8	60.0	64.0	65.5	66.7
Building	89.4	90.7	94.8	95.9	96.4	97.1
Total services	62.5	63.0	64.8	66.8	67.6	68.3
Market services	81.3	82.4	84.0	84.7	85.1	86.4
Trade and repairs	97.1	96.1	97.1	97.4	98.1	98.2
Transportation. warehousing and telecommunications	36.2	36.5	39.0	42.6	43.7	44.7

Source: According to the Ministry of Economy data (Raporty o stanie gospodarki) – respective years.

The process of economic transition contributed to a gradual limitation of the role played in economy by industry in favour of enhanced role of market services. Beside, an advantageous change took place as regards the internal structure of industry, limiting the significance of the mining and power sector and increasing participation of the manufacturing industry.

Table 3. Structure of GDP by sections, years 1996–2000 (%, fixed prices)

Specification	1995	1996	1997	1998	1999	2000
GDP, incl.:	100.0	100.0	100.0	100.0	100.0	100.0
Gross value added. incl.:	87.0	86.8	87.4	87.6	87.1	87.7
Agriculture, hunting and forestry	6.0	5.5	4.8	4.1	3.4	3.3
Industry	27.6	26.1	25.6	24.2	23.6	23.4
Building	6.3	6.5	6.9	7.6	7.7	7.3
Total services	47.1	48.7	50.1	51.7	52.5	53.8

Source: According to the Ministry of Economy data (Raporty o stanie gospodarki) – respective years.

Table 4. Structure of production sold, years 1995–2000 (%; current prices)

Specification	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total industry. incl.:	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Mining and quarrying	10.3	9.6	8.2	8.7	8.0	7.6	7.3	6.2	5.9	5.3
Industrial manufacturing	78.6	79.2	80.7	80.8	82.0	82.8	83.5	84.7	84.1	85.0
Production and supply of electricity, gas. water	11.1	11.2	11.1	10.5	10.0	9.6	9.2	9.1	10.0	9.7

Source: According to the Ministry of Economy data: (Raporty o stanie gospodarki) – respective years.

1.1. Fixed capital and modernisation of economy

At the turn of the 1980s and 1990s over 20% of machines and equipment utilised in Polish economy had been produced before 1970 and approx. 60% in the 1970s. In 1991 an average, statistical rate of depreciation of machines and equipment was 72.6% (73.6% in industry). Around 42% of the resources were entirely depreciated.

At the same time the structure of economy was characterised by a high share of low-productivity industries. A large, around 40% share was represented by the capital-intensive fuels-power-steel complex, the result being high consumption of materials and power in the structure of economy.

The first years of the transition were characterised by a considerable drop in the growth capacity of economy (in the years 1990–1991 investment outlays fell with respect to the preceding year). A clear change in the tendencies occurred in 1994 and until 1999 investment outlays grew at a pace exceeding the GDP growth; in the years 1995–1997 their rate grew over three times as fast.

The rate of investment grew from 19.5% in 1991 to ca 25% in 2000, but it was still too low considering the restructuring and modernisation needs of economy in the period of transition.

Table 5. Dynamics of investment outlays and the rate of investment (previous year = 100, %)

Specification	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Investment outlays	95.6	102.3	102.9	109.2	116.5	119.7	121.7	114.2	106.8	102.7
Rate of investment	19.5	16.8	15.9	16.2	18.7	20.8	23.6	25.2	25.5	24.9

Source: According to the Ministry of Economy data (Raporty o stanie gospodarki) – respective years.

In that period investment demand recovered due to factors such as: improved financial results of enterprises, debt reduction campaign targeted to businesses, investment stimulating effects of the tax system, increased depreciation resulting from the revaluation of fixed assets and higher inflow of foreign capital. All this augmented financial resources allocated to development. Besides, another reason for the recovery of investment activities was increasingly efficient adjustment to market economy rules.

The decapitalization of productive assets was arrested. More investment contributed to partial replacement and modernisation of fixed assets. The rate of wear and tear of machinery and equipment went down to 58.5% in 2000, from 72.6% in 1991. In 2000 in industry the rate of wear and tear of machinery and equipment was 61.9% compared with 73.6% in 1991.

Improvement could be found in almost all branches of industry, though its scale varied. The largest improvement was recorded in branches of the manufacturing industry with participation of foreign capital (tobacco products, clothing, cellulose and paper, motor vehicles, foodstuffs and beverages). The structure of fixed assets was also rationalised, even though it was still characterised by a relatively low share of machinery and equipment (49.6% in 2000 compared with 39.2% in 1991). The structure of fixed assets in the private sector was more advantageous. A reflection of the role played in economy by foreign direct investments was their contribution to GDP. In 1996 their rate was 3.1%, in 1997 – 3.4%, and in 1998 it went up to 4 %. On the other hand, at the end of the 1990s FDI's share in total investments in Poland ranged from 23 to 25%, and regarding employment over 7%–12[2]. In Poland FDIs sought mainly labour-intensive and technology-intensive sectors. Their contribution to Poland's total exports reached ca 56% at the end of 2000 and with respect to import ca 54%[3]. An analysis of the structure of export and import in enterprises with foreign capital shows that the share of goods involving a higher level of manufacturing and technology was larger in the export of enterprises with foreign capital than in total Poland's export, which may indicate a higher competitiveness of exports produced by enterprises with foreign capital than by enterprises based on domestic capital only[4].

Questionnaire-based surveys conducted among foreign investors in Poland show that when deciding on relocating they were driven mainly by the following motivations: labour cost, economic development prospects of the country, large and absorptive domestic market, availability of skilled workforce, Poland's geographical position as a bridge between East and West)[5].

According to the PAIZ data (State Foreign Investment Agency) Poland is characterised by strong geographical variations in the distribution of enterprises with foreign capital. Most enterprises have been located in three provinces: Mazowsze, Silesia and Wielkopolska, which was determined by large, absorptive and developing local markets, skilled workforce and expanded economic infrastructure, as well as valid equipment in offices and manufacturing enterprises[6].

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[2] See: *Koncepcja średniookresowego rozwoju gospodarczego Polski do roku 2002*, Ministry of Economy, Warsaw 1999, *Raport w sprawie oceny korzyści i kosztów integracji Polski z Unią Europejską*, UKIE, Warsaw 2000.

[3] B. Durka, (ed.), *Inwestycje zagraniczne w Polsce*, IKCiHZ, Warsaw 2000, 2001, chapter 3.

[4] Z. Wysokińska, *Konkurencyjność w międzynarodowym i globalnym handlu technologiami*, op.cit., chapter V. The results are confirmed also by the report *Inwestycje zagraniczne w Polsce*, see above, p.14.

[5] J. Witkowska, Z. Wysokińska, *Motivations of Foreign Direct Investors and Their Propensity to Exports in the Context of European Integration Process*, University of Łódź 1997, chapter IV. See also J. Witkowska, *Motywacje inwestorów zagranicznych – aspekty porównawcze*, in: Z. Olesiński, *Bezpośrednie inwestycje zagraniczne w Polsce*, PWE, Warsaw 1998, pp. 70–84.

[6] According to PAIZ opinion.

1.2. Inflation

At the break of transition inflation in Poland (measured using growth in consumer goods and prices) was very high, its annual average was 583% in 1990 and 70.3% in 1991 (with respect to the previous year). Even though the rate of inflation was dropping throughout the period of transition, the pace of the decline was slower than expected.

Table 6. Annual average dynamics of consumer goods and prices (previous year = 100)

Specification	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1. Total	170.3	143.0	135.5	132.2	127.8	119.9	114.9	111.8	107.3	110.1
2. Goods	160.0	136.7	134.2	132.1	127.1	119.8	113.1	109.5	105.5	109.6
3. Services	231.5	167.6	138.1	132.6	129.4	120.1	119.3	117.3	111.1	111.0

Source: According to the Ministry of Economy data (Raporty o stanie gospodarki) – respective years.

Factors contributing to inflation were the power and material-intensive structure of economy, very high growth in the foreign exchange reserves, especially in the period 1994–1995, expensive bank loans, the indexation mechanism, relatively high taxes and insurance contributions that burdened businesses and increased costs then built into prices of final products, inflationary methods for financing the budget deficit, etc.

Factors restricting inflation growth were the income policy that started to reduce personal incomes of population and the monetary policy of the central bank that aimed to appreciate the zloty, both on the internal market and in relation to foreign exchange.

The nature of inflation changed over the course of transition. Between 1989 and 1990 it was clearly demand-induced. Its major source was disposable money in excess of the supply of goods and services. A jump in prices after their decontrol (almost 600% in 1990) quickly suppressed excessive demand. From mid–1991 the monthly growth rate of prices of consumer goods and services was one digit and inflation started to be cost-induced.

Despite these circumstances it in 2000 Poland managed to reduce its inflation to annual average of 10.1%, yet it continued to be two digit.

1.3. Labour market

In the years 1991–2000 the labour market experienced particularly strong changes in the number and structure of employment in national economy. The number of wage-earners dropped heavily (by 1.3 million persons), which was accompanied by a growing number of employers and self-employed persons.

Between 1991 and 2000 the total number of persons employed in national economy declined 6.1%. The major source of the demand for labour was the private sector, where the number of employees grew 3.3 million persons; at the same time the public sector shed 4.3 million workers. The share of private sector workers in the total number of employees grew from 48.9% in 1990 to 73.7% in 2000.

Table 7. Labour market, years 1991–2000

Specification	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Employed, million persons	15.44	15.01	14.76	14.92	15.13	15.49	15.87	15.83	15.60	15.16
Previous year = 100	95.6	97.2	98.3	101.1	100.3	102.4	102.5	99.7	98.6	97.2
Share of the private sector, %	54.3	56.0	58.9	60.6	62.8	65.1	69.4	70.9	72.7	73.7
Unemployed, thousand persons	2156	2509	2890	2838	2629	2360	1826	1831	2350	2703
Rate of unemployment (%)	12.2	14.3	16.4	16.0	14.9	13.2	10.3	10.4	13.1	15.1

Source: According to the Ministry of Economy data (Raporty o stanie gospodarki) – respective years.

The labour market transition varied in terms of its intensity. Especially favourable was the period 1994–1997 when the number of workers grew 1.1 million persons and the rate of unemployment dropped from 16% to 10.3%.

In the years 1991–2000 the structure of employment in national economy was modified: employment in the industrial sector declined from 32% to 26%, but it grew in the service sector from 41% to 46%. Employment in agriculture accounted for around 28% of total employment in national economy (unfortunately it was almost unchanged throughout the transition period). The service sector became the main engine of job creation.

In the years 1991–2000 the number of the working age population was steadily growing and the increment amounted to 1.7 million persons. At the same time national economy was shedding jobs. The coincidence of these two processes produced negative effects in the socio-economic sphere, i.e. it made unemployment grow.

The number of registered unemployed persons grew from 1.1m persons in 1990 to 2.7m in 2000 and the rate of unemployment from 6.5% to 15.1%, respectively. Rationalisation of the then implemented management processes liquidated excessive employment in many areas of economy and disclosed large hidden unemployment, particularly considerable in agriculture.

Polish unemployment is structural and its particularly negative features are high share of young jobless persons, large percentage of the long-term unemployed and high geographical variations in its distribution.

2. Foreign trade and the competitiveness of economy

2.1. Poland's foreign trade

In the lapsed decade Polish foreign trade underwent crucial changes. As result of over double growth in export (2.2 times) in export and over triple growth in import, according to the NBP data commodity turnover in 2000 reached the level of US$ 70 bn and the deficit was US$ 13.2 bn.

Table 8. Foreign trade according to NBP, US$ million

Year	Export	Import	Balance	Previous year=100	
				Export	Import
1991	12,760	12,709	51	117.5	146.9
1992	13,997	13,485	512	109.7	106.1
1993	13,585	15,870	-2,285	97.1	117.7
1994	16,950	17,786	-836	124.8	112.1
1995	22,878	24,705	-1,827	135.0	138.0
1996	24,420	32,574	-8,154	106.7	131.9
1997	27,229	38,549	-11,320	111.5	118.3
1998	30,122	43,842	-13,720	110.6	113.7
1999	26,347	40,727	-14,380	87.5	92.9
2000	28,256	41,421	-13,165	107.3	101.7

Source: According to the Ministry of Economy data (Raporty o stanie gospodarki) – respective years.

Table 9. Commodity structure of Poland's foreign trade by degree of utilisation of productive agents. years 1992–2000

Commodity group	Year	Import		Export	
		Value /US$ million/	Structure of goods/%/	Value /US$ million/	Structure of goods/%/
Total	1992	15912.9	100.00	13186.6	100.00
	1993	18834.4	100.00	14143.1	100.00
	1994	21569.1	100.00	17240.1	100.00
	1995	29049.7	100.00	22894.9	100.00
	1996	37136.7	100.00	24439.8	100.00
	1997	42307.5	100.00	25751.3	100.00
	1998	47053.6	100.00	28228.9	100.00
	1999	45911.2	100.00	27407.4	100.00
	2000	48940.2	100.00	31651.3	100.00
I Raw material	1992	5039.6	31.67	4308.1	32.67
Intensive	1993	5010.0	26.6	3566.9	25.22
	1994	5170.1	23.97	4158.3	24.12
	1995	6431.6	22.14	5158.2	22.53
	1996	8211.4	22.11	5137.4	21.02
	1997	8327.7	19.68	5720.8	22.22
	1998	7603.9	16.16	5301.4	18.78
	1999	7281.3	15.86	4577.8	16.70
	2000	9512.2	19.44	4941.1	15.61
II Labour	1992	2765.7	17.38	3112.0	23.6
Intensive	1993	4331.9	23.00	4472.0	31.62
	1994	5327.6	24.7	5834.0	33.84
	1995	7181.1	24.72	8166.6	35.67
	1996	8676.9	23.36	8992.1	36.79
	1997	9729.1	23.00	9497.1	36.88
	1998	11015.2	23.41	10314.8	36.54
	1999	10847.5	23.63	10228.5	37.32
	2000	9694.8	19.81	10754.4	33.98

Table 9. [Cont.]

Commodity group	Year	Import Value /US$ million/	Import Structure of goods/%/	Export Value /US$ million/	Export Structure of goods/%/
III Capital Intensive	1992	1931.8	12.14	2692.7	20.42
	1993	2467.3	13.10	3023.8	21.38
	1994	2756.5	12.78	3632.5	21.07
	1995	4067.0	14.00	4485.1	19.59
	1996	5678.1	15.29	4548.3	18.61
	1997	7108.7	16.8	5011.7	19.46
	1998	8464.9	17.99	5216.7	18.48
	1999	8436.3	18.38	5320.8	19.41
	2000	9110.6	18.62	6594.2	20.83
IV Technology–intensive, easy to imitate	1992	2511.1	15.78	929.7	7.05
	1993	3103.9	16.48	834.4	5.90
	1994	3643.0	16.89	984.4	5.71
	1995	5051.7	17.39	1444.7	6.31
	1996	6172.8	16.62	1558	6.37
	1997	7210.4	17.04	1878.7	7.30
	1998	8220.3	17.47	2091.8	7.41
	1999	8706	18.96	1990.7	7.26
	2000	9296.8	19.00	2433.1	7.69
V Technology–intensive difficult to imitate	1992	3475.4	21.84	2074.3	15.73
	1993	3870.5	20.55	2238.9	15.83
	1994	4566.2	21.17	2618.8	15.19
	1995	6222.4	21.42	3631.1	15.86
	1996	8277.5	22.29	4195	17.16
	1997	9828	23.23	3630.2	14.10
	1998	11659.9	24.78	5298.6	18.77
	1999	10558.4	23.00	5283.5	19.28
	2000	11247.5	22.98	6921.9	21.87

Source: Author's calculations based on official GUS data GUS, Warsaw, respective years:

Key to the grouping of goods: type of products: *(I) RAW MATERIAL INTENSIVE PRODUCTS*: food and livestock SITC 0, inedible raw materials excluding textile raw materials SITC 2–26, fuels and lubricants excluding electricity SITC 3–35, edible oils and fats SITC 4, chemical fertilisers SITC 56; *(2) LABOUR INTENSIVE PRODUCTS*: textile raw materials SITC 26, industrial products involving lower technologies excluding rubber products, iron and non-ferrous metals SITC 6–(62, 67, 68), other industrial products excluding precise instruments, optical devices and equipment SITC (Rev.) 8–86, SITC (Rev. 2) 8–(87,88), SITC (Rev. 3) 8-(87,88); *(3) CAPITAL INTENSIVE PRODUCTS*: beverages and tobacco SITC 1, electricity SITC 35, dyes, tanning agents SITC 53, volatile oils and odorants SITC 55, rubber products SITC 62, iron and steel SITC 67, non-ferrous metals SITC 68, road vehicles SITC, Rev. 732, 733, SITC (Rev. 2) 78, SITC (Rev. 3) 78; *(4) TECHNOLOGY INTENSIVE PRODUCTS, EASY TO IMITATE*: organic chemicals SITC 51, inorganic chemicals SITC (Rev.) 51, SITC (Rev. 2) 52, SITC (Rev.3) 52, medicinal and pharmaceutical products SITC 54, resins, plastics SITC (Rev.) 58, SITC (Rev. 2) 58, SITC (Rev. 3) 57, 58, other chemical products SITC (Rev.) 59, SITC (Rev. 2) 59, SITC (Rev. 3) 59–593, office machines and computers SITC (Rev.) 714, SITC (Rev. 2) 75, SITC (Rev. 3) 75, telecommunications devices and equipment SITC (Rev.) 724, SITC (Rev. 2) 76, SITC (Rev. 3) 76; *(5) TECHNOLOGY INTENSIVE PRODUCTS, DIFFCULT TO IMITATE*: explosives and pyrotechnic substances SITC (Rev.) 57, SITC (Rev. 2) 57, SITC (Rev. 3) 593, transportation machines and facilities excluding office machines and computers, telecommunications devices and equipment and road vehicles SITC (Rev.) 7-(714, 724, 732, 733), SITC (Rev. 2) 7-(75, 76, 78), SITC (Rev. 3) 7-(75, 76, 78), precise instruments, appliances and optical devices, clocks and watches SITC (Rev.) 86, SITC (Rev. 2) 87, 88, SITC (Rev. 3) 87, 88., more information on this subject in: Z. Wysokińska, Konkurencyjność w międzynarodowym i globalnym handlu technologiami, PWN, Warsaw, 2001, chapter V.

The reason for the deficit was that export growth lagged behind the dynamic growth in import, especially of investment and intermediate goods, natural in the period of transition. The structure of imports essentially remained unchanged throughout the decade of transition. Import of intermediate goods accounted for the largest share, i.e. ca. 65%. Investment imports represented ca 15%, and consumer imports about 20% of total imports.

The restructuring of Polish economy and its growing competitiveness, particularly observable in operations of enterprises with foreign capital, contributed to structural changes in Polish export. These are presented in Table 9.

In the last decade major changes were represented by a growth in the share of technology-intensive products (for instance the group of electromachinery products, measuring instruments and devices, electrotechnical products) from ca 19% in 1992 to more than 35% in 2000. At the same time the share of sensitive low-manufactured products in export was dropping: mineral products (from 13.8% in 1992 to 5.6% in 2000) and metallurgic products (from 19.5% in 1992 to 12.7% in 2000).

Opening of economy to international exchange energised the process of its modernisation. High dynamics of import of investment and intermediate goods was a factor that supported the growth of production and export capacity of Polish economy.

Analysis presented in table 9 shows that changes in the structure of export that occurred in Poland in the 1990s should be evaluated on the whole as positive. They reduced participation of raw material-intensive industries and sectors, typical of underdeveloped economies, in order to retain a relatively high share of labour-intensive sectors, which was determined by the fact Poland's comparative advantage built on labour costs lower than in the developed countries. Yet, in 1998 that share contracted which proved a gradual loss of the competitive advantage of labour intensive goods exported to industrialised countries under the so-called outside processing.

What especially deserves a positive evaluation in the 1990s was the growing share of the so-called technology-intensive goods in the structure of export, also to the EU, EFTA and CEFTA countries. Though such structural changes do not ensure a sufficient competitiveness of Polish export of technologically-intensive goods to Western Europe and CEFTA, the tendency might become a factor supporting higher competitiveness of Polish exports in the future, should it become consolidated.

2.2. Changes in Poland's foreign trade in environmental and hazardous goods

Below presented are the main conclusions derived from a research commissioned by the Ministry of Environment involving two classes of goods present in Poland's foreign trade, that is environmental and hazardous goods. The analysis made by the author based on the most recent OECD's recommendations published in: „Environmental Goods and Services Industry – Manual for Data Collection and Analysis", OECD-EUROSTAT,WTO, Paris, 1999. Hereunder we present the analysis' results for the years 1993–2000.

Regarding the first class of goods classified as environmental goods and services we can observe that their share was steadily growing both in Poland's total import in the years 1993–1996 and, to a larger degree, in its import from the European Union. This upward trend collapsed in the years 1997–2000, yet the value of the goods for both types of import was considerably higher in absolute terms than at the beginning of the 1990s. Regarding the dynamics of environmental imports it was high throughout the period in question. This import almost tripled in the years 1992–1997, but in the period 1998–2000 its value was only ca twice as high as in 1992. In the case of purifying technologies and products the import almost quadrupled.

On the other hand, in Poland's export the share of the goods grew from 2.87% in 1992 to 3.33% in 1998. The period 1999–2000 was marked by a downward trend and in 1999 the share dropped to 2.6% and then 2.31%. In export to EU the growth in the share of environmental goods was somewhat smaller than in total Poland's export of these goods. In 2000 this trend reversed and the share of environmental goods in Poland's export to the EU exceeded that in total export. The proportion of environmental goods in export to the EU grew from 2.95% to 3.36% in 1996, then, in 1998 it somewhat declined to 3.15%. In the year 1999 it reached the nadir of 2.24% and following that, in the year 2000, it slightly increased to 2.67%. On the whole in the period in question the export of the goods was around double. Purifying technologies and products showed particularly high dynamics of export growth, although the absolute value and the share of these goods in export were small and the lowest among the three analysed groups.

The major trends characterising environmental goods in Poland are generally positive and they evidence a pro-environmental development of economy toward „cleaner" and environmentally safe technologies.

The analysis of the class of goods labelled as hazardous for the environment focused on foreign trade in products of the following industries: mining, metallurgy, chemical, cellulose and paper, power, construction materials, means of transport. The analysis was made at the six HS level according to official GUS data reported to OECD/UN. It provided the following conclusions:

- In the period 1992–1998 the share of hazardous goods in Poland's export was steadily dropping for all examined directions of trade, which should be viewed as a positive phenomenon. In total export this drop accounted for over 10 percentage points, (i.e. the share of this group of goods declined from 56.6% in 1992 to 46.06%). In 2000, however, the share grew again to almost 50%. In export to the EU countries the share's decline was even lower and exceeded 12 percentage points (from 57.24% in 1992 to 45.13% in 2000).
- In Poland's import from the analysed areas groups of hazardous industrial goods produced in the following industries had the largest shares: mining and power, chemical industry, wood industry, cellulose-paper, construction materials, metallurgy and means of transport. In the years 1992–1998 in the structure of export of hazardous goods prevailed, for the three analysed directions of trade, products of: mining and power industries' products, metallurgy, chemical industry products (with a downward trend of the latter), products of the means of transport industry, wood and cellulose and paper industries, cast iron and steel products (upward trend of their share), construction materials (with a relatively stable trend of their share in total export). In Poland's total import the downward trend of the hazardous goods' share was weaker than in export. Regarding total import the decline was over

4 percentage points to the year 1998 (from 46.86% in 1992 to 42.39% in 1998) and then a growth to 47.53% was recorded in 2000, which exceeded the share in the starting period. With respect to import from the EU, the decline in the share did not reach even 1% in the years 1992–1998 (from 41.64% to 40.82%), but in the year 2000 the discussed share grew to 43.48%, which exceeded the starting 1992 share by almost 2 percentage points. In absolute terms Poland's total export and import of hazardous goods, as well as that to and from OECD and EU, grew considerably in the period 1992–2000, even though the dynamics was much lower than the dynamics of total Poland's foreign trade[7]

2.3. Competitiveness of economy in the 1990s with elements of evaluation and forecast, years 2001–2002

The competitiveness of an economy is represented by its capacity to expand in the open market environment. The degree of competitiveness is primarily evidenced by the general condition of a given economy compared with other countries. Polish economy deserves to be considered widely open. Introduction of the convertibility of Polish zloty and gradual reduction in import tariffs until their complete abolishment in the import of industrial goods from the EU and CEFTA countries made a majority of Polish manufacturers face external competitors in the 1990s, particularly these in the EU countries. In 1991 the eastern market collapsed which especially affected export of the electromachinery industry whose products were not in demand on other markets. With the economy opening wider and wider the competitiveness of Polish industry was put to a test. Part of industrial enterprises was liquidated, other underwent profound restructuring. After the Europe Agreement became effective in the 1990s, shares of particular groups of goods exported from Poland rated very differently in the external import of the EU countries. And so, shares of mainly labour-intensive goods (furniture, men's and ladies' wear made of woven fabric, knitted fabric and industrial fabric and tapestry) were large, whereas goods involving higher technology and more sophisticated human capital were still relatively unpopular (below 0.5%)[8]. In the years 1999–2000

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[7] Z. Wysokińska, *Impact of Environmental Standards on Sustainable Competitiveness in Foreign Trade, The Case of Enterprises In Poland As a Country in Transition*, IT&FA Congress, Proceedings, Washington D.C., 2001.

[8] Z. Wysokińska, J.Witkowska, *Tendencje popytu na wybranych rynkach zagranicznych*, Wydawnictwo UŁ, Łódź 1998, pp. 25–120.

export of textile and clothing products soured, which should be connected with a partial loss of price competitiveness of this industry, especially with respect to goods under the so-called outside processing. At the same time, in 2000 the favourable situation in the trade in furniture stabilised and electromachinery products showed positive changes (particularly high increase in the export of diesel engines).

Poland's share in the world export grew in the 1990s following the introduction of Europe Agreement from 0.43% in 1989 to 0.52% in 1999 and regarding import from 0.34% to 0.82%.

High competitiveness of imports on the Polish market resulted from the high costs of domestic production and its relatively low quality. A research in the ratio of prices paid to Polish exporters for particular groups of goods to average prices offered to other exporters from outside the European Union shows that in 1997 Polish exporters were paid higher prices than other exporters on the EU market only for traditional, relatively low-manufactured products. On the other hand science-intensive products exported from Poland had very low prices and no clear improvement could be observed. In general, positions of particular sections did not show major changes, we can only observe a definitely worse prices of food products[9].

A comparison of branches in terms of their comparative advantage rates and levels of intra-branch trade indicates that Polish economy enjoyed its largest comparative advantages in traditional sectors dominated by unskilled workforce. Of large importance was also the export of some products manufactured using raw materials extracted in Poland. Finally, Poland holds a relatively strong position in the few capital-intensive branches of the manufacturing industry[10].

Regarding productive agents that underlie competitiveness this situation is not explicit. A positive tendency is the slow but steady growth in the share of R+D outlays in GDP. But its amount of 0.72% is several times as low as in the developed countries.

In the case of higher education in 1990 the gross enrolment ratio (the ratio of the number of persons studying at a given level of education to the number of population at age corresponding to that level) was only 13.3%, but it to grew 37% in 1999. This resulted from the triple growth in the number of students in the 1990s (from 384,300 in 1990 to 1,414,300 in 1999). According to the assumptions underpinning the educational policy the enrolment ratio in

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[9] *Raport o stanie gospodarki w roku 1998*, Ministry of Economy, Warsaw 1999, pp. 201–208, *Raport o stanie handlu zagranicznego*, Polska 2001, pp. 43–45.

[10] J. Kotyński (ed.), *Korzyści i koszty członkostwa Polski w Unii Europejskiej*, IKC HZ, Warsaw 2000 – summary.

the age group 19–24 years will be gradually growing, to reach the level of 50% at the end of 2006. Despite the fast growing number of students per 10,000 of population (from 134 in 1990 to 329 in 1998.), our country still differs from the developed countries in this respect.

Some symptoms of improving level of education and vocational training of workers can be observed. Poland has a relatively well educated workforce compared with other countries at a similar level of development. Despite good results achieved by Poland's economy in the recent years and improvements in productive agents the economy's competitiveness has not reached a high level yet.

Even though the year 2000 was another period of growth in Polish economy recorded after 1992, but according to GUS Polish GDP grew 4.0%, i.e. as much as in the year 1999 (4.1%), which means that it was 1.2 percentage point below that assumed in the budget law (5.2%). Despite the slowdown, the rate of Poland's economic growth continued to be high and in the year 2000 it considerably exceeded the average rate of GDP growth in the EU countries (3.3%). Only three countries in this organisation showed GDP growth higher than Poland: Ireland (8,6%), Luxembourg (7.8%) and Finland (5.7%). Also set against the CEE countries with an extremely high increase in GDP, Poland's economic growth deserves a positive evaluation. Higher rate of GDP growth than Poland could be found in Russia, Hungary, Estonia, Latvia and Slovenia, similar Bulgaria and the Ukraine, and lower in Czech, Belarus, Lithuania, Slovakia and Romania.

On the supply side the economic growth was mostly determined by factors such as: growth in investment outlays, changes in the number of workers and higher productivity of labour.

On the demand side the GDP growth in 2000 was impacted by variations in the domestic demand (investment and consumer) and external demand. Yet, the year 2000 was the first year after 1994 when the rate of domestic demand (2.8%) was lower than the rate of GDP growth (4.0%). This contributed both to a slower accumulation (from 6.1% in 1999 to 4.2% in 2000) and, primarily, to a lower increase in consumption (from 4.4% to 2.4%). This considerable drop in the latter factor resulted from lower growth in gross wages in real terms (both across the economy and in the sector of enterprises), as well as the 2.4% decline in average gross old age and disability pensions in real terms (compared with their 3.9% growth in 1999). Other factors of impact were: growing rates of unemployment and lower households' interest in consumer loans considering their higher interests, accompanied by a slackened increase in incomes.

In the year 2000 changes in foreign demand supported Polish economy growth. It was proved by the considerable increase in export in USD terms, amounting to over 15%. However, this increase did not directly translate into a higher rate of GDP growth because of two reasons: insufficient exports, that did not cover growing import needs of the economy and unusually large decline in the growth of domestic demand. However, the growth in export allowed to maintain GDP growth in 2000 at a level close to that in 1999.

In 2001 the rate of GDP growth with respect to 2000 seriously declined. The major reason for this slowdown was limited domestic demand resulting from the monetary policy. In 2001 the GDP growth in real terms was estimated at ca 1.1%

Forecasts of the major elements of economic growth in 2002 indicate that this year economy will grow at a rate similar to that in 2001 and, assuming a continued and relatively high growth in exports – the annual GDP growth will be around 1.2 %.

In 2001 production sold of industry dropped 0.2% compared with 2000, but the productivity of labour increased, measured by production sold of industry *per capita*; last year it was ca 5.0% higher, with average employment lower 5.1%. A lack of clear impulses that might contribute to the recovery of the domestic demand does not promise a high growth in production sold this year. Its estimated 2002growth is ca 2.0 %.

Purchases of investment goods accounted for ca 59% of total outlays compared with 55% in 1999. The share of imported machinery and equipment in purchases of investment goods declined from 34.7% in 1999 to 27.6% in 2000 – they were installed mainly in manufacturing industry. The highest dynamics of investment outlays (in current prices – for enterprises employing over 49 persons) was recorded the real property service industry and business services, science (67% increase) and transportation, warehousing and telecommunications (31.5%)[11]. In manufacturing industry, after a period of a very high dynamics of investment in the years 1997–1998, investment outlays dropped ca 5% in 1999 and approx. 4% in 2000.

The share of private sector's organisations in total investment outlays of the examined enterprises grew from 61% in 1999 to 66.9% in 2000. In that year ca 26,900 investment projects were started, i.e. around 17% more than the year before. The total estimate value of the initiated investment projects was 26.3 billion zlotys and it was 4.3% lower than in 1999. In the total value of investment outlays incurred in 2000 by enterprises, organisations with foreign

[11] In addition growth was recorded in the section of mining and quarrying (7.4%) and in the section – supply of electricity, gas, steam and hot water (6.5%).

capital accounted for ca 38% (those with foreign capital exceeding US$ 1m). Their investment outlays remained at the 1999 level (in fixed prices).

According to PAIZ data in 2000 Poland received a total of US$ 10.6 bn in FDI (compared with US$ 8.3 bn in 1999). This means a US$ 2.3 bn growth compared with the previous year. The cumulated value of foreign investments in Poland (including estimated values of investment projects below US$ 1 million) was US$ 49,392,500 at the end of 2000 compared with US$ 38,913,000 at the end of 1999. The major items in the structure of these investments were (by sections of economic activity):

42.5% – manufacturing activity;
22.7% – financial intermediation;
12.2% – transport and telecommunications;
8.7% – trade and repairs;
5.4% – building.

Other sections of economy accounted for 8.5% of FDI. In the year 2000 the group of the 10 largest investors in Poland comprised: France Telecom, Citibank, Vattenfall, Bank Austria, Telia, General Motor Corporation, General Electric, Philips, Alstom and Shell.

A positive tendency in the year 2001 was the rate of export growth, that largely exceeded the rate growth of import, as 2001 export accounted for US$ 36,030m (according to SAD data) and it was 13.8% higher than the year before. In that period import was estimated at US$ 50,278.4m and it grew 2.7%. Trade deficit amounted to US$ 14,248.4m and it was US$ 3,040.5m smaller than in 2000. It is estimated that the declining demand in the EU countries and persisting weak domestic demand will make 2002 export equal US$ 38.5 bn (ca 6.9% growth), and import US$ 52.5 bn (5.0% increase). Trade deficit amount to ca US$ 14 bn.

Receipts from the export of goods (according to the NBP balance of payments) amounted to US$ 30,282m in 2001, i.e. 7.2% more than the year before. In the period payments for imports were US$ 41,962m, i.e. 1.3% more than the previous year. Trade deficit was US$ 11,680m, that is US$ 1,488m less than the year before.

According to forecasts made by the Analysis Department, Ministry of Economy, the 2002 export will grow around 6.0% and it will be ca US$ 32 bn; import may amount to ca US$ 44 bn, that is 4.5% more than in 2001. The annual 2002 trade deficit should not exceed US$ 12 bn.

This explicit improvement in the balance of trade is due to trade with Germany. Export to Germany grew 12.1% and amounted to US$ 12,383.9m and import reached US$ 12,059.4m, being 3.1% higher than the year before. The 2001 balance of trade with Germany was positive and amounted US% 324.5m (year before it was US$ –658.2m).

In trade with the CEFTA countries export's value grew 18.1% and it amounted to US$ 3,143.5m, whereas import increased 8.1%, to be US$ 3,742.9m. The balance of trade declined US$ 200.1m and it was US$ –599.4m. The favourable trends in foreign trade in 2001 were produced by the high rate of export's growth accompanied by a moderate rate of import's growth. The slight increase in import resulted mainly from the weaker demand for investment and intermediate goods. Declining investments of enterprises, lower output and deterioration of the financial standing of businesses were the major reasons for the lower growth rate of import of investment and intermediate goods.

The slackened rate of export growth in the second half of 2001 resulted from both external and internal factors, such as:

- A clearly souring business cycle in the euro markets (GDP growth rate dropped from 3.4% in 2000 to ca 2% in 2001) and especially in Germany (from 3.0% to 1.0%).
- Strong position of Polish zloty vis-à-vis US dollar. The annual average official US dollar exchange rate in 2001 was 4.0939 PLN and it was ca 5.8% lower than the year before.
- The improved competitiveness of goods exported from Poland was determined by the pro-export restructuring of production. In the structure of traded goods the share of relatively manufactured products was over 66%, and the high manufactured goods accounted for 40% (electromachinery products).

The tendency to appreciate Polish zloty impaired the profitability of export and it posed a serious barrier to export growth. The adversary effects were especially suffered by businesses with exclusively Polish capital, particularly SMEs. Enterprises with foreign capital are less sensitive to unfavourable external conditions (foreign exchange rates, expensive loans) or to souring business cycle on foreign market, considering their close ties with mother-companies that give them access to supplies, production, markets, as well as cheaper sources to fund their operations.

These unfavourable determinants, observable already at the end of 2001, will be of impact on the foreign trade turnover in 2002. Consequently, the 2002 export (calculated based on SAD data) is estimated at US$ 38.5 bn (ca 7.0% growth), and import US$ 52.5 (around 5.0% growth). The predicted deficit of US$ 14m will be close to that in 2001.

Threats. An evaluation of the present condition and development tendencies of Polish economy discloses the following threats to its stable growth in the future:

- Growth in unemployment, becoming now the primary social and economic problem. The rate of unemployment is expected to go up even higher, as demographic forecasts indicate a growing number of persons entering the working age, who will be more and more present on the labour market in years to come.
- The persisting large deficit of the balance of payments on current account. Even though in the years 2000 and 2001 Poland succeeded in reducing the deficit, it is not certain that this tendency will continue. At the core of the deficit there is a deep disequlibrium in the foreign trade balance. Poland still spends much more on import than it earns on export.
- Unfavourable economic conditions for the functioning of enterprises, especially the maintaining high interest rates when inflation is going down, unjustified appreciation of zloty, observable disproportion of returns from capital invested in manufacturing and in the banking-financial system, which results in investing disposable funds in profitable financial operations rather than development of production and technological progress.
- Declining rate of growth of investment outlays, which hampers modernisation of the productive agents and creation of new jobs.
- Insufficient progress in modernising production processes and enhancing the competitiveness of Polish economy, as well as establishing export specialisations.

3. Basic problems in the present condition of economy and activities serving its improvement. Socio-economic programme for the years 2002–2005

3.1. Poland's present economic condition

Developments in the year 2001, both on the international arena and in Poland caused that the position of Polish economy is very difficult today. The definite deterioration of the external environment, souring economic results in the USA and Western Europe's growth losing its momentum, especially in Germany, as well as the war waged against global terrorism impair the development prospects of the world and they also affect Poland.

The IMF forecast dated November 2001 (i.e. following events of 11 September in the USA) assumed a global economic growth at 2.4% in 2001 and 2002, but a clear decline in the rate of growth was forecasted for the USA – 1.1% in 2001 and 0.8% in 2002, and regarding the EU countries 1.7% in 2001 and 1.4% in 2002. Forecasts from before 11 September viewed the global growth as 2.7% in 2001 and 3.6% in 2002.

Despite the solid growth foundations in Polish economy the year 2001 was one of the worst in the history of over 19 years of transition.

First and foremost, public finance was hit by a deep crisis, the so-called budget hole was estimated at PLN 90 bn. The number of unemployed persons grew dramatically, amounting to 3,115,000 persons, and the rate of unemployment accounted for 17.4%; there are regions where the rate is twice as high as the national average. The rate of GDP growth declined to 1.1%, internal demand dropped 2%, investment demand 10.7%. The lower investment demand may produce far-reaching unfavourable consequences for the future development and the capacity to create new jobs. To overcome the situation the government intends to enact new laws to support investors (a draft of a relevant law is being worked upon at the Parliament).

The souring economic conditions affected industry the most strongly (production sold declined 0.2%) and building (a 4% drop). Financial standing of enterprises deteriorated considerably, outstanding payments were building up. However, inflation was considerably suppressed to annual average of 5.5%, compared with 10.1% in 2000. This provided the Monetary Policy Board with an argument for reducing interest rates in 2001 by 750 base points in total (7.5%).

Polish economy owes its present state to changes being introduced at half speed to the restructuring and privatisation of sectors (such as hard coal mining, ferrous metallurgy, defence industry), neglected changes in the public finance system (too large share of social transfers in the budget expenditures), concurrent introduction of expensive and poorly prepared four reforms that increased the scale of budget expenditures, and to refraining from modifying the labour market rules in order to make employment more flexible. The present condition is also a result of the NBP's strict monetary policy pursued since 1998, being a response to the symptoms of "economic overheating", and the building up negative balance of payments on current account, which in the NBP's opinion might increase the inflationary pressure and the risk of currency crisis.

Considering the circumstances, the most urgent activity to be taken by the new government was launching a reparatory programme to stabilise public finance and limit the scale of redistribution of receipts (the 2002 budget) as well as presenting a medium-term socio-economic policy of national development, targeted to unleashing energy and entrepreneurship, provision of conditions for stable growth and creation of jobs.

3.2. Information on the Socio-Economic Programme 2002–2005

On 30 January 2002 the government presented a Socio-Economic Program for the Years 2002–2005, that assumed as its strategic goals:

- a gradual return to 5% GDP growth within 2 years,
- economic activation of the society and increase in employment;
- effective absorption of EU funds and using them to develop the country.

These goals are achievable when adequate conditions are provided. The conditions have been defined in the three basic pillars of the programme.

Part 1 presents the public finance strategy that includes changes in the budget rules, sources of public funds to be allocated to developmental goals, changes in the tax system that should become a factor facilitating growth and the combat against unemployment, development of financial markets as well as factors deciding about the macro economic balance.

Part 2 of the Programme is the economic growth strategy that provides proposals of activities aiming to introduce changes to the structure of economy that will result from the modernisation of economy and restructuring of sectors, innovation and ownership restructuring, and also presents activities tending to enhance the competitiveness of domestic production and services, development of rural areas and regional policy.

Integral part of the Programme is package such as: „*Entrepreneurship Above All*", „*First Job*", „*Programme For Infrastructure*" and „*Restructuring Of Some Sectors Of Economy*", including legal, procedural and tax instruments expected to improve the difficult position of enterprises and to stimulate their activity.

Detailed solutions inside the package „*Entrepreneurship Above All*" have been divided into five groups of subjects, namely:

- simplification of the tax system;
- reduction in labour costs and making labour relations more flexible;
- simplification of the social and health insurance system;
- simplification of procedural regulations, and
- new laws (here the main proposal is to prepare a draft law on the business self-government and a draft law for business information exchange).

The package „*First Job*" provides instruments for combating unemployment among school leavers, that are of priority among instruments designed to counteract unemployment. Activities included in the package are to be launched in the four segments: small and medium-sized enterprises; self-employment; education; volunteerism.

The „*Programme For Infrastructure*" includes actions to energise economic growth by expanding and accelerating the scale and rate of residential building, construction of freeways and national roads, telecommunications and streamlining the railway transport.

The „*Restructuring Of Some Sectors Of Economy*" presents certain solutions that are expected to make selected sectors and enterprises profitable, so that they do not present a burden for economy, connected with the need to subsidise them or with their inability to repay liabilities.

The third part of the Programme is „*Strategy For European Integration*" that provides a system for utilising the EU aid and structural funds for the development of Polish economy. Besides, it presents a sequence of accession-related activities for the years covered by the Programme.

As a result of the Programme implementation a gradual GDP growth is expected, phased as follows: 1% in 2002, 3% in 2003, 4% in 2004 and 5% each year in the years 2005–2006.

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