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STRUCTURAL ADJUSTMENT POLICY IN POLAND. THE RECENT ACHIEVEMENTS AND FUTURE CHALLENGES

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STRUCTURAL ADJUSTMENT POLICY IN POLAND. THE RECENT ACHIEVEMENTS AND FUTURE CHALLENGES

The feedbacks between economic and political developments are quite strong, and there can be no doubt that at the present stage of market transformation their effects are rather destabilising. A continuation of the present economic policy would only aggravate the already unsatisfied situation in both these fields. If we are to get out of the difficult situation, economic policy will need principal reorientation.

The goal should be to base the processes of gradual systemic transformation on growth tendencies in the real economy and to balance the economy as a whole, and the state budget in particular. Against this background, a new economic policy, based on a new social contract, has to be formulated. Naturally, it may turn out that the policy pursued in recent period is continued - but one should be aware of the consequences of such continuation (which requires both knowledge and imagination).

The starting point in formulating a new economic policy must be provided by a correct diagnosis of the present state of affairs. Here, opinions are so diverse as to make rational discussion very difficult to conduct (even if extreme views are eliminated). While not enlarging on the subject, let it only be noted that there is no unequivocal answer to the question about diagnosis. It would differ in accordance with different criteria, interests, sets of values and perception of facts and processes.

The Causes of Crisis of Slumpflation

At least five criteria should be mentioned, taking the form of methodology questions which arrange the subject matter of comparisons between the present situation and another point of reference. These are:

- How does the present state of affairs compares with the previous one?
- How does the present state of affairs compares with a hypothetical situation where the policy pursued in the previous period is continued?
- How does the present state compares with a hypothetical situation where a qualitatively different economic policy option is pursued (e.g., the replacement of the continuity scenario with reforms, but different from those actually introduced)?
- How does the present state of affairs compares with expectations?
- How does the present state of affairs compares with a hypothetical situation where, within the correct choice of passage to the market economy and democracy, an almost optimal economic policy is pursued?

Therefore, it is important to know what is compared with what. Depending on this aspect, it may be answered that things have changed to the better or to worse. The same people, if choosing different criteria, may give different replies. But the problem is far more complicated. Each of these five possibilities has to be viewed in two planes.

The first question is: from the viewpoint of whose interests is the answer sought? And the second question: are the opinions formulated in the context of the short or the long run? After all, workers' short-term expectations differ from long-term expectations of private businessmen. For the unemployment the present is right now worse that the past; for pensioners it will be in the future. The great diversity of opinions is thus understandable, especially so if it is remembered that a far-reaching redistribution of income and wealth is one of the major processes accompanying systemic transformation. And this process is going to continue, which is not without implications - also for economic policy.

If its future shape is to be formulated correctly, the fifth question should be answered (I have no doubts that a march towards the market economy and democracy, as quick as possible, is the only correct option). Therefore, when assessing the present situation, I will compare it - leaving aside, for simplicity's sake, the disputes over the actual figures for output fall, unemployment, etc. (see Table 1) - with a hypothetical situation which would be possible with a better economic policy.

Such assessment must be unequestionably negative. In-depth studies into the subject (Kolodko, 1991a; Calvo, Coricelli, 1991) show that more could have been obtained at a lower cost. It was possible to balance the goods market and more strongly to reduce inflation at a lower scale of recession and unemployment - and all this with greater progress in market transformation. The realities are different (worse) because economic policy makers have committed many technical errors, reflecting insufficient professionalism, and have exhibited lack of imagination and responsibility. They have been forewarned, and therefore these errors cannot be attributed to objective factors.

There is no single cause behind the problems afflicting the economy. Five their groups should be discerned.

First, there is the legacy of the past, the inertia of the processes still developing in an ineptly reformed centrally-planned economy (Kornai, 1991). If stuck to such economy, we would have recession anyway, given that, for various reasons, the dynamics of economic processes in the second half of the 1980s - in Poland, but also elsewhere - was slowing down.

The second group are external shocks, especially the disintegration of the CMEA - which, incidentally, could have been predicted, and whose negative consequences could have been jointly offset, if only partially - and the Gulf war (which, up to a certain moment, could not have been predicted).

Third, there are recessionary consequences of getting out of an economy of shortage (the effect of shortage removal) and of eliminating value-substracting production (Winiecki, 1991). These are the costs of transformation which it is not possible to eliminate entirely. But the magnitude of the resulting recession is by far higher than necessary. An excessive restrictiveness of financial policy, coupled with a simultaneous excessive liberalisation of trade and a too expansive policy of opening up the economy to foreign competition, have had the effect of eliminating a large portion of production which generated value added or which could have generated it if the pace of introducing world prices in some market segments had been slower.

POLAND

Main Economic Indicators

Table 1

	1989	1990	1991[a]
Population (end 1991, millions)		38.3	
GDP per capita (1991, US$)		1 798.7	
(Percent of Constant GDP)			
Consumption	66.3	64.2	75.5
Fixed Capital Formation	22.4	22.8	22.8
Export Goods & Non-factor Services	23.0	30.1	25.5
Imports Goods & Non-factor Services	20.8	21.2	23.1
(Grow Rates)			
Gross Domestic Product (SNA Basis)	0.3	-11.9	-8.0
Industrial Production	-0.8	-20.0	-19.1
Consumption	-1.5	-14.7	8.1
Private Consumption per Capita	0.0	-16.9	9.0
Fixed Capital Formation	-1.6	-10.6	-8.0
(Percentage Changes)			
Real Wages (average)	7.2	-29.7	3.2
Real Wages (end-of-period)	-22.7	-25.6	-4.3
Consumer Price Index (average)	245.6	600.1	76.4
Consumer Price Index (end-of-period)	640.3	249.3	60.4
Real Exchange Rate (average, 1989 = 100)	100.0	121.0	83.1
(Billion US$)			
Exports[b]	7.5	10.9	12.9
Imports[b]	7.2	8.6	13.9
(Percent od GDP)			
Current Account	-2.2	1.0	-1.8
Of Which: NICA	1.5	6.3	-0.4
International Reserves (Months of Imports G&S)	2.3	5.6	3.6
Total External Debt (Billion US$)	42.8	48.8	46.1[c]
Total External Debt (percent of GDP)	52.0	76.7	53.0[c]
Fiscal Indicators: (percent od GDP)			
General Government			
Total Revenues	32.7	44.5	33.6
Total Expenditures	37.9	42.0	37.9
Balance	-5.2	2.5	-4.3

[a] Preliminary
[b] Includes all transactions in convertible currency (including bilateral agreements).
[c] Reflects the first phase of the 1991 Paris Club debt reduction agreement.
Source: Poland (1992)

Fourth, virtually each case of stabilization involving macroeconomic control of demand from economic agents (even though exceptions do exist) entails recession and accompanying unemployment (Bruno et al., 1989). A post-socialist economy will not be spared this sequence (Kolodko, Kozierkiewicz, Paczek, 1992).

And fifth, there are the economic policy errors - at least of two kinds. Some of them result from the enormous extent of uncertainty, shortage of information and time, and pressures from conflicting interests. One such error was the clearly too steep devaluation of the zloty in January 1990. The other group are errors in the concept of economic policy, in the design of its tools and in the sequence of measures taken (Nuti, 1992).

It is not possible to analyse the regression and weigh up the impact of individual factors with accuracy. For political reasons, with no scientific rigours, some people take an extremist view and claim that only the first or only the last group of causes deserves attention. Others lay excessive emphasis on the second or third group. In this writer's view, none of these causes (and their delineation is not a sharp one) can explain the magnitude of the present crisis in a greater degree than 30-40%. But I ascribe major role to the economic policy errors, which have manifested themselves in three main planes of systemic transformation policy.

And so, the policy of macroeconomic stabilization was evidently overshot, the sequence of some measures was wrong (especially in monetary policy), and indispensable flexibility (mistaken for softness) was in short supply. Second, many errors were committed with respect to institutional changes - not because of the slowness, but rather incoherence and inconsistency, of these changes. And finally, the major fault in the sphere of microeconomic restructuring was, in fact, the absence of a policy to promote competition and the false assumption about automatism of desired microeconomic adjustments.

These errors were not born in a vacuum, but had deeper roots. It will be safe to assume that the entire policy of systemic transformation has been based on the neoliberal/ monetarist doctrine. With simplification, it provides for several major lines of transformation measures which determine the outcome - and this is failure rather than success - of the whole design.

The Perverse Effect of Fiscal Adjustment

The most important assumption - a shock stabilisation therapy - is in itself correct, but it was wrongly turned into practice (Kolodko, 1991b). Another assumption is about almost instantaneous deregulation of the economy. Here, too, the idea is generally correct, but, expect for eastern Germany, unfeasible. Its realisation must be spread in time, and measures have to be taken rapidly but gradually. A next assumption has to do with a rapid opening up of the economy to outside world and its exposure to foreign competition. On the surface, this direction is correct, but the extent of the opening up and exposure should be moderate (otherwise the destruction of the real sphere of the economy is excessive - this time, even in eastern Germany). And finally, there is the assumption that rapid privatisation will allegedly increase allocation efficiency and give production effects soon. This is a highly questionable expectation. It may materialise but does not have to - and in post-socialist economies in the process of transformation it is in fact very unlikely. The supply-boosting effects of privatisation are contingent, among other factors, on appropriate macro- and microeconomic policies, and they will emerge neither automatically nor quickly.

The neoliberal/monetarist doctrine behind the concept of macroeconomic stabilisation and institutional changes in the post-socialist economy - which lays behind the IMF approach towards transition to a market economy - is tainted by a logical contradiction. Macroeconomic stabilisation always requires a higher reduction of state expenditures than revenues (at the starting point, expenditures usually exceed revenues, which produces a deficit). But the institutional changes made on the basis of the neoliberal/monetarist doctrine lead (in the medium term) to a greater reduction of revenues than spending.

Trends in this field are presented in Figure 1. In Poland in 1990, the extent to which real expenditures (Es) were reduced was greater than that of the reduction of the Treasury's real revenues (Rs), i.e. Es > Rs. On this occasion, as recently as in February 1991, the Minister of Finance was speaking in the Sejm, without appropriate prudence, about "sound public finances", even though they were "sick". In only a slightly longer period, it turned out that revenues fell down much more steeply than expenditures (Et < Rt).

It is because this contradiction that we have a perverse effect of fiscal adjustment: the effort to balance state finances leads to their deficit. The Polish case is so crystal-clear (Figure 2) that it maybe quoted in textbooks on the subject. The discussed contradiction is to some extent unavoidable (Tanzi, 1992); but its scale has changed in time and in space, which is largerly a consequence of economic policy errors.

What is the path along which the Polish economy has moved to the present situation? It is best illustrated by the growth of slumpflation in the past two years - a fall in output (and increase in unemployment) has been accompanied by inflation, with the price level rising as much as almost 20 times in the course of the inept implementation of the neoliberal/ monetarist concept. This is worth remembering. At the same time, output (measured by GDP) dropped by over 20%, and unemployment rose from null to 12% (and, if agriculture is excluded, to about 18%). Along this path - which may be called a post-communist snail's curve (its shape pointing to some regularities of the process under review) - there were periods marked by positive tendencies. These however, especially as regards the move downward to the right (in quarterly terms), were short-lived and passing (Figure 3).

Figure 1

Fiscal implications of transition

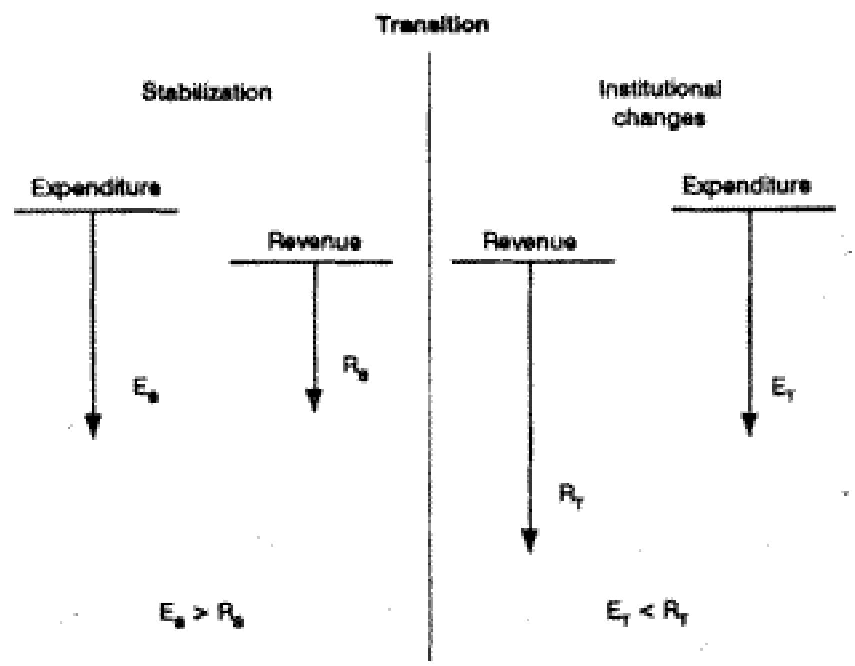
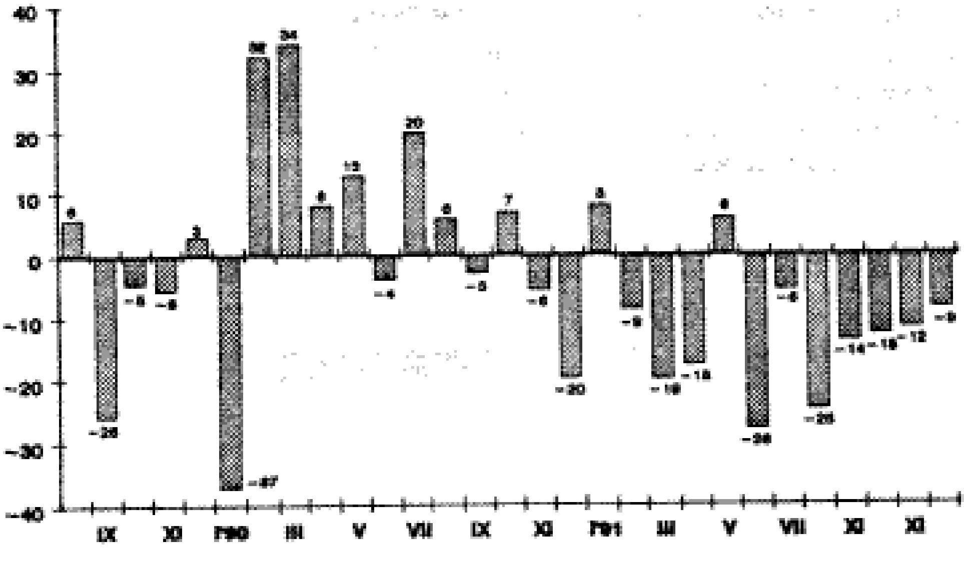
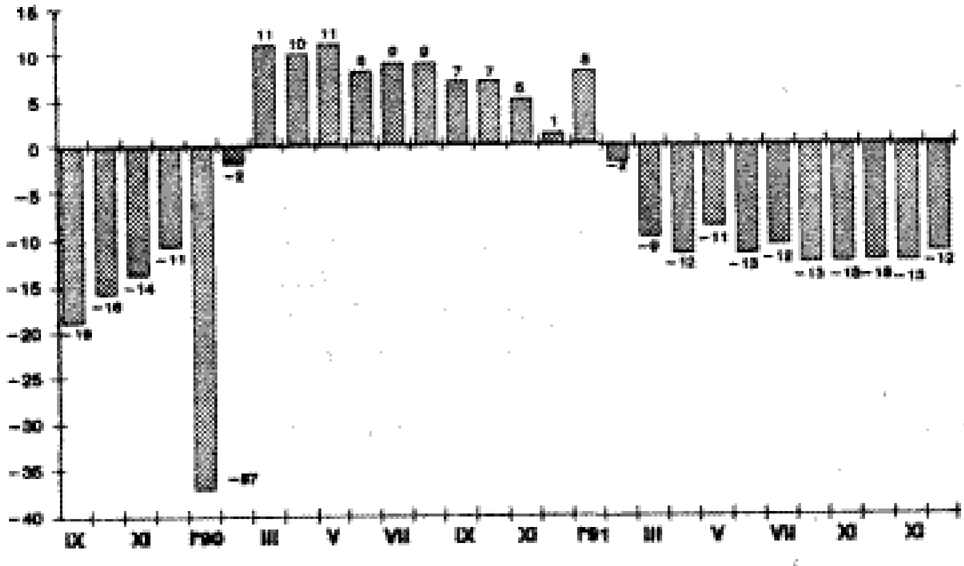


Figure 2

State budget deficit
(% of expenditure)

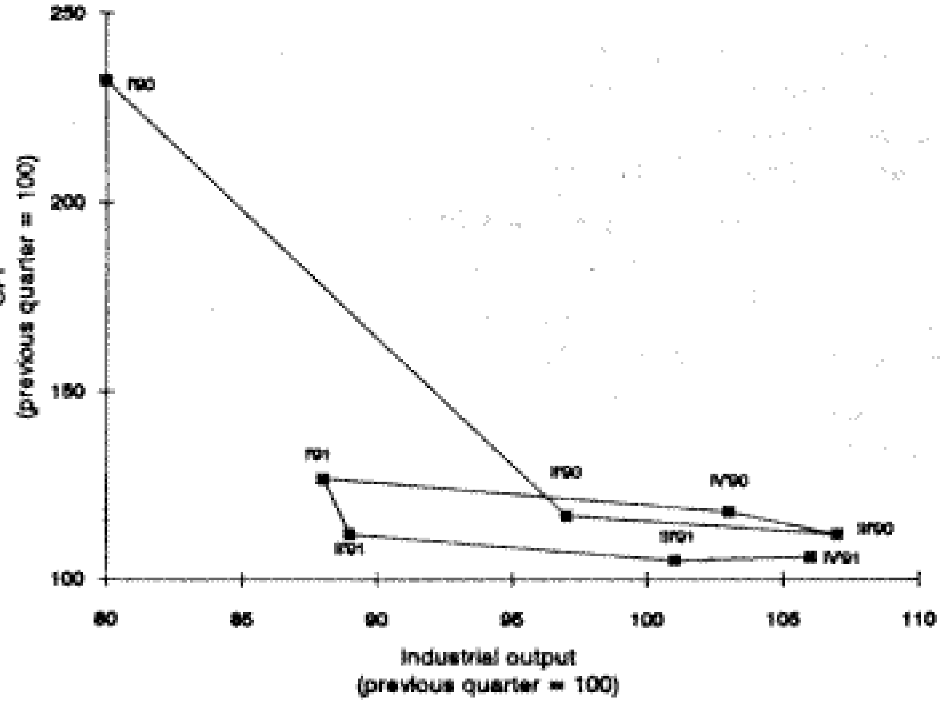




Source: Ministry of Finance

Figure 3

Polish slumpflation 1990-91: the snail curve



Source: Central Statistic Office, Warsaw. Own Calculation.

This direction (downward to the right) represents a checking of resession (or even growth in output) with a simultaneous reduction of inflation. It is to be regretted that precisely because of the erroneous economic policy the direction downward to the right is not a durable feature. This is because the economy is very strongly entrenched in slumpflation syndrome. Still worse - and this has to be emphasised once again - the continuation of the policy pursued in the recent past will only consolidate the destructive economic processes.

It is obvious that the present deep and far-reaching crisis of the Polish economy is of a different character than that which reached is apogee in 1989. At that time, we had the syndrome of shortageflation, i.e. simultaneous existence of inflation and shortages (Kolodko, McMahon, 1987). Output was still growing at a small rate (0.2% rise in GDP) an unemployment did not exist. What we have now is the syndrome of slumpflation - a qualitatively different situation. A major, if not the most important thesis of this paper is that while the present recession has basically been caused by measures taken on the demand side (which is related to the recovery from a mixed price/repressed inflation, i.e., from shortageflation), then its overcoming will require ingenious economic policy measures on the supply side.

The Reorientation of Economic Policy

The observation of an internal contradiction of the neoliberal/monetarist doctrine, coupled with the above conclusion about the need to shift emphasis in policy away from the demand towards the supply side, leads us to the proposal of major reorientation of economic policy, on the micro- and macro-level alike.

The reorientation of economic policy means the necessity of abandoning the neoliberal/ monetarist concept in favour of an interventionist/budgetary concept.

This requires not so much a modification (correction) of the economic policy pursued so far, as a qualitatively new aporoach, with all its consequences.

The new economic policy (NEP), instead of continuing the present disastrous line, should take the current situation into account in a comprehensive manner. And this will require a realistic diagnosis of the present state of affairs and its complex causes. Therefore, NEP may only be designed after answers are produced to the questions posed previously: what is the present state of affairs and how it came about? It may only add that in cursory answers to these questions, as presented previously, are based on in-depth, extended and documented research. I therefore assume these answers as proved, regretting that - for reasons of space - they cannot be enlarged upon.

NEP should revolve around the formation of a mechanism of economic growth coupled with a durable economic equilibrium. When recovering from slumpflation, the main stress in the formation of such mechanism (in conditions of market transformation) must be laid on the long-term balancing of the state budget (accompanied by a simultaneous external balancing of the economy). Regrettably, a short-term balancing is now impossible.

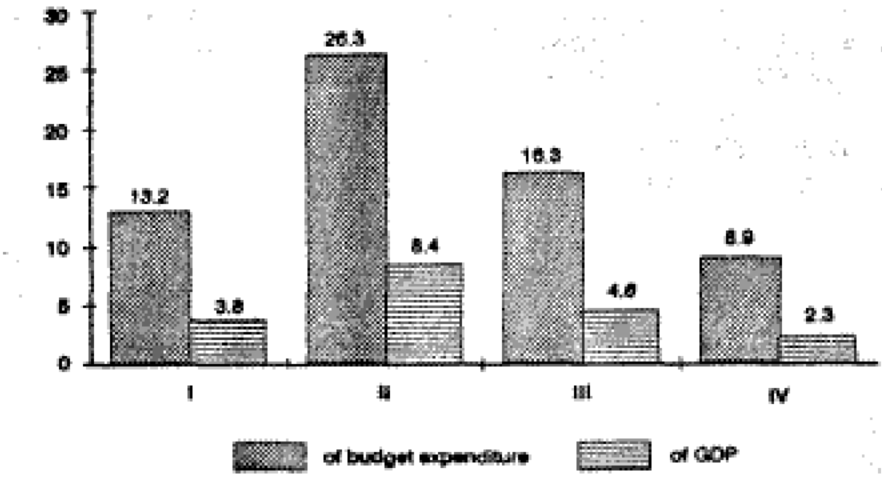
And it was within our reach - but an erroneous policy led to a structural crisis of public finances. Worse still, the present situation is in many respects more difficult than it was two years ago. This is not only because there was no budget deficit then, but also because it is not possible now to introduce a cold-turkey fiscal adjustment to stabilise the economy. Today, given the radical reduction of subsidies and other state aid, the cold-turkey approach would boil down to major one-off cuts in expenditures (Kolodko, Kozierkiewicz, 1992). The current state of affairs vis a vis the state budget and forecasts for 1992 are presented in Figure 4.

It may only be added that many experts consider further fall in GDP by 11% next year to be most realistic scenario. In such a situation, with state expenditures kept at last year real level (already curtailed by excessive recession), the deficit would equal 26% of these expenditures or more than 8% od GDP. In absolute figures, this translates into around Zl 100 trillion. Even if all possible (and limited) opportunities of noninflationary deficit financing are taken into account (e.g., by public debt, internal and external), the scale of probable budgetary cuts will bring about civilisation degradation of society.

Still worse, the starting point is so dramatic that even within an urealistic assumption of a 10% growth in real GDP in 1992 (adopted here just to lay bare the problem), the deficit would still represent 2% od GDP (nearly 9% of expenditures) or Zl 33 trillion. The design of NEP must thus link gradual balancing of the budget (this may take 3 to 5 years) with economic growth.

Figure 4

State Budget deficit (in %)



I. 1991.
II. GDP decrease in 1992 by 11%.
III. GDP decrease in 1992 by 1%.
IV. GDP growth in 1992 by 10%.

Source: Ministry of Finance and own calculation.

The main elements of new economic policy are presented below in 16 theses. The point of departure is provided by:

- The assumption about the necessity of gradually balancing the budget and - in the period of getting closer to this goal - of minimising the inflationary financing of the deficit. The remaining theses are these:

- The budget-balancing process must not be launched without a switch to economic growth. The opinion that the economy is in a good condition but the public finance is in poor health because of the ineffectiveness of the fiscal apparatus (e.g., in effect of delays in otherwise necessary fiscal reforms) is wrong.

- Economic growth in the years ahead will not be possible unless public sector output grows. The claims that privatisation (or, rather, de-nationalisation) will accelerate economic growth in the short run is false. In the interim period, de-nationalisation may only accelerate desired structural changes, which will bear fruit later. Still worse, the initial consequence of privatisation will be an increase in unemployment, which will temporarily worsen the budgetary situation.

- As far as systemic changes are concerned, the major problem is not de-nationalisation but corporatisation (commercialisation), or the enforcement on state enterprises of efficient behavioral patterns (coupled with active support of the expansion of the already existing private sector). In the discussed time horizon, the sector of state enterprises will be of key importance for state revenue. In step with acceleration of privatisation processes, the patterns and relationships may and should change, but even with the farthest-reaching scenario of such acceleration, the bulk of the revenue will come from taxes paid by state enterprises.

- Growth in the state sector, which is pivotal for NEP (and which would be coupled by a still higher growth in the expanding private sector), may be attained by applying an appropriate set of fiscal policy tools (including the removal of the Treasury dividend), monetary policy, and competition promotion policy, including in particular appropriate industrial and trade policies.

- The chance of foreign debt reduction must be linked to the restructuring of uncollectible debts of some enterprises to banks and to the Treasury. The arguments and techniques are similar as in the case of outstanding bad external debt of the state (of which enterprise debts are partial reflection). Difficult, assiduous and risky measures are thus necessary to bring order to the financial relations between (a) the Treasury and the enterprises; (b) the enterprises and the banks; and (c) among enterprisers. The restructuring of debts payable and receivable at these levels is an absolutely necessary element of an anti-recession programme. Such restructuring should be conditional, i.e. based on positive programmes of physical restructuring. Arrangements with creditors provide one of numerous methods. A big role may by played by the swap of debt to banks for equity, which again requires acceptance of a given restructuring programme.

- The acceleration of privatization (de-nationalisation) processes must be constantly viewed through the prism of fiscal consequences. In the short run (following the loss od potential revenue from the so-called dividend, i.e. asset's tax and wage growth tax) and even in the medium term, the net budgetary consequences of accelerated privatisation (lower revenue from temporarily lowered output necessitated by time-consuming restructuring of privatised enterprises, and increased spending on growing unemployment) will be negative. This is by no means an argument against privatisation, but rather a call for prudence.

- Revenue from sale of state assets (they assumed to reach about 10 trillion zloties in 1992, however they are left out in budgetary-deficit forecasts presented in Figure 4) should be used primarily to finance capital and infrastructural spending, rather that current expenditure under a deficit budget.

- Even if the path of economic growth is entered succesfully, there is no chance for a balanced budget before 1994-95. Therefore, efforts should be taken to increase the effectiveness of the fiscal apparatus. While questioning the opinion that the economy is healthy and only the budget is bad (the budgetary crisis is actually a reflection of real processes), there is a need for a greater tax discipline, higher tax-paying culture, and the institutionalisation of the second economy (Poland, 1992). But it should be remembered that even if tax revenues from this source were doubled, there would be no qualitative change in the picture.

- The fiscal reforms, now under preparation, should be accelerated, especially as regards personal income tax and value added tax. In the short run, and especially in 1992, they will produce only redistributive and inflationary - but not fiscal - effects. The introduction of VAT alone - if it was introduced in 1992 - would give an inflationary impulse of an estimated 8% - which in itself is risky from the viewpoint of continuation of necessary stabilisation efforts. Only later may the significant reforms of 1992-1993 produce significant effects (by setting in motion appropriate allocation processes). This is all the more reason why they should not be postponed - although one should not cherish illusions as to their major budgetary consequences in near future.

- The implementation of the measures previously mentioned will make still the Polish economy face a state budget deficit requiring drastic cuts in budgetary spending. This will require a great deal of prudence and right political decisions.

However, an economic programme should be worked out prior to the cuts. Cuts alone - if it is not proved that everything has been done to minimise the extent of deficit through positive fiscal adjustment - will not provide an economic programme measuring up to present challenges. As regards the reduction of domestic expenditures, the bureaucratic egalitarianism, reflected in equal cuts in various parts of the government sector, should be rejected. There is no doubt that - while real expenditures have to be reduced everywhere - greater savings should be made in expenditures on national defence than on education. There is still some room for that. Later, there will appear the previously mentioned manifestations of civilisational degradation. But cuts in defence spending will be unacceptable to many, which will provide a major source of growing (not only economic) tensions in the years ahead.

- The budget deficit has to be financed - in as great degree as possible - in a noninflationary manner. In normal conditions - which are not the case in Poland - the major part is played here by public debt, drawn in the open market. This method must be taken advantage of (preparations are underway), but it should not be expected to produce enormous funds. The future governments are going to inspire very limited public confidence, which will automatically translate into limited confidence in Treasury bonds. The most dubious assumption - along with one about the scale of growth/recession in 1992 - is that about funds from the issue of domestic public debt. Another problem - one whose successive settlement provides a major aspect of NEP - results from a contradiction between (a) rising financial resources in an open market; (b) the financing of privatisation by the households sector; and (c) the broadening of the banking sector's monetary base (by stimulating an increase in households' deposits at banks) and its use to credit the restructuring and growth of the real sphere of the economy.

I assume that, a priori, (a) + (b) + (c) = 1, but also that skilfull coordination of fiscal policy, monetary policy (regarding both the money supply and the exchange rate) and income policy within NEP may lead to a real increase in the sum (a) + (b) + (c), i.e. to a durable increase in economic agents' propensity to save. If such effect is not obtained, there will be no positive way of the present crisis syndrome, especially because of serious crowding out effect and its pro-recessionary implications.

- Public debt may should be drawn also abroad. An attempt at this should be made, but expectations should be realistic. Poland's already very low credibility (lower than that e.g., Hungary or Czecho-Slovakia) has been additionally weakened by the outcome of the parliamentary election (29 parties all together in the lower House, the Sejm) and the resulting danger of political instability. And it is known that this instability is in itself a factor not conductive to growth.

External Aspects of New Economic Policy

- The NEP package may obtain external institutional support, including financial support. It is not true that international Monetary Fund will accept only the so-called continuation of the recent economic programme.

This is shown by international experience, and the experience of some countries in our region, especially Hungary. The IMF will accept any credible programme offering a major chance of achieving: (a) external equilibrium; (b) domestic equilibrium; (c) economic growth; and (d) market transformation. More than that, if rhetorics and propagandistic/political elements are left out, it will turn out that the IMF virtually no longer accepts the present government programme, which drastically crushes almost all performance criteria adopted just a year ago.

The fundamental role in this field for many years ahead will be played by the balancing of the budget. This is one of the reasons why it should provide the axis of NEP. Any programme without IMF seal of approval will remain unapplicable. Without such approval, we will have no grounds to expect the reduction of a portion of official debt (which, after all, is conditional) but also will stand no chance of having the debt to commercial banks reduced (e.g., through debt-for-equity swap, which would additionally bolster privatisation processes).

Negotiation with the IMF over the NEP package would also give rise to the question of a new stabilisation loan. But this time, the main purpose of the conditional stabilisation loan should be to support measures preventing the collapse of public finances. The loan, even if it were lower than 2 years ago, when it remained unused, would also have psychological and political importance. But it is no accident that I mention it only at this point of NEP outline.

- The process of budget deficit financing will be finally crowned by central bank credit (although, if NEP implemented, its scale would systematically decrease, till final disapearance). Under the present circumstances, this arrangement will of course be a negative one. The central bank will be faced with a sharp choice: either to credit the government sector by restricting the supply of money for current operations and, still worse, investments (primarily though high interest rates with all their consequences to enterprises' demand for money and to their production), or to agree on the monetisation of the remaining portion of the budget deficit with its inflationary effects.

Depending on the size of deficit to be financed with bank credit, such monetisation may prove unavoidable. In the period ahead, it will provide an alternative to unavoidable cuts in budgetary spending. So it is only now, towards the end of NEP presentation, that I take up the question of "easing or not easing" monetary policy. Its possible easing (only, if it proves inescapable) may only crown the reasoning, not begin it. The perception of this question at the beginning of reasoning constitues an error of falsely located dilemma, upon which the neoliberal/monetarist doctrine is based. This error is all the greater as, according to that doctrine, the dilemma of contradictions arising out of necessary adjustments is to be resolved by market forces. But the snag is that the economy is still a hybrid, being neither a centrally-planned nor a market economy.

- The passage to the market economy requires a strong state and wise policies, especially financial and monetary policies, but also industrial and agricultural policies. It would be fine if the state could draw its strength from public support. Therefore, NEP should be based on board consensus.

On the other hand, it is necessary that the ruling elities (or those aspiring to rule) should enter into a consecutive, future-oriented agreement among themselves and with society. The continuation of an economic policy based on the neoliberal/monetarist concept would make such social contract impossible. It could then turn out that the path to the market is not compatible with democracy. This must be stated unambiguosly. But NEP based on the interventionist/budgetary option provides room for mutual support of market transformation and democracy.

On the other hand, the transformation of the system would be rendered much more difficult, if not impossible, if it were to be implemented without - or, still worse, against - international financial circles. Therefore, only those programmes are politically feasible which may be implemented with simultaneous approval by society and international financial institutions, the IMF in the first place. This must be stated unequivocally, as it will determine the constraints on any reasonable policy. Regrettably, not only the economic situation is bad. So much again depends on policy, and not only on economic policy.

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