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Grzegorz W. Kolodko

STRATEGY FOR POLAND

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by Grzegorz W. Kolodko

Zycie Gospodarcze's note: The day after the parliamentary elections, SLD leaders offered Prof. Kolodko the post of deputy prime minister and minister of finance. (...) He neither accepted nor rejected the proposal, but he specified the conditions - especially programmatic and organisational - which would have to be met first. On October 19, he was formally asked by Prime Minister Pawlak to take the post of the minister of finance. Mr. Pawlak requested and received from Prof. Kolodko thesis of the economic programme Strategy for Poland, which were also made known to SLD leaders. At the final stage of forming his Cabinet, Prime Minister Pawlak said that "within the present coalition line-up", prof. Kolodko could not simultaneously hold the posts of deputy prime minister and minister of finance. This full text of the 44 theses of Strategy for Poland is Prof. Kolodko's first public statement on the subject.

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1. The major strategic direction for macroeconomic policy, including financial policy, should be to "flee by running forward". While the reforms of the 1980s marked a beginning of Poland's road to the market economy and democracy, and the changes of the past four years made this line irreversible, it should now be given a shape which is useful and acceptable to society.

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The slogan that man is the most important actor in the process of economic change must not be taken lightly. The main difference compared to the policy of recent years should be the lowering of social costs of the reform. While accepting the right idea of market-oriented transformation Polish society, in a democratic process, has rejected the excessive costs of the way the changes had been carried out previously. It is therefore imperative - while going on with the systemic transformations - to provide hopes for average citizens, young and old, in town and country, that their lives will cease to be swayed by forces beyond their control, that some state-guaranteed impassable limited of social regression emerge, and that prospects for a better future are drawn up.

The new government, while continuing the correct lines of transformation, should urgently distance itself from those obvious mistakes of the previous governments which can still be avoided - especially the discrimination of the state sector and an erroneous financial policy. Regrettably, many errors made by the previous governments - especially in connection with poorly-implemented policies of stabilisation and trade liberalisation - are irreversible now, and their negative consequences can at best be sought to be brought down to the minimum.

The coalition has and wants to reform the economy, wants to and can avoid its predecessors' errors in market-oriented transformation, and it intends and knows how to implement a long-term development strategy commensurate with the enormous challenges it is faced with. The first stage of this strategy should be implemented in 1994-1997.

2. The basic characteristics of the new economic policy to be implemented by the coalition are:

- social communication and accord;
- strong orientation to economic growth;

- great importance attached to the social aspects of systemic transformation;
- a public climate which renders possible undisturbed conduct of honest business operations;
- equal treatment of all forms of ownership (private, cooperative, state, mixes, foreign, joint ventures);
- an active role of the state in microeconomic restructuring;
- investment in human capital;
- macroeconomic stabilisation;
- an investment policy supporting Poland's economic competitiveness;
- an agricultural policy protecting the domestic farm market and oriented to farms consolidation;
- a trade policy aimed at an asymmetry in relations with the EC which is advantageous for Poland and at recapture of the lost markets in the East and in non-European developing countries;
- a harmony between state-budget spending on development and social spending;
- the balancing of public finances through faster growth in revenue than in expenditure, rather than through spending cuts;
- the absorption of the "second economy" into the official economy;
- wide incentives to attract foreign capital.

3. The key issue for the Polish economy and society in the years ahead is to effectively reform and balance state finances. This requires that the time horizon in which economic, and especially social goals are formulated and pursued is greatly extended. It is therefore imperative that economic policy be positioned within the framework of a long-term development strategy; only against this background should be state budget for 1994 and its outline for next years be compiled.

4. This task may by pursued only along the path of economic growth, which will be possible owing to a macroeconomic policy stimulating growth in domestic demand (especially investment demand), and major reorientation in the attitude taken towards the state sector. With full commercialisation and efficient management, this sector does stand development prospects. The Strategy for Poland must rest on a policy oriented to the stimulation of export- and investments-led growth. The promotion of competition (coupled with equal treatment of all forms of ownership, including foreign ownership) will lead to microeconomic restructuring - not through mass bankruptcy of state enterprises (which is also disastrous for the Treasury) and the loss of job by their employees, but through active estate support to such restructuring and employee retraining. Only then will there emerge a chance for gradual balancing of the economy, including public finances and the balance of payments.

5. Human capital is of fundamental importance for long-term economic growth. Spending on education, science, health care and culture must not be perceived as an onerous burden for the Treasury but as an investment in human capital, i.e., a condition of economic growth. A large portion of foreign aid resources must be directed to this goal, and the resources already granted must be allocated more effectively.

6. The highest priority must be accorded to export production. It must develop more rapidly than any other areas of the Polish economy. Its expansion is the goal to which many monetary and fiscal policy tools must be subordinated - especially the system of state credit guarantees and export-linked concessions. In addition to active search for Poland's more rapid inclusion into West European structures (integration with the EC), it is necessary perceptibly to invigorate trade with the East (including the Far East), as these areas offer much greater opportunities for profitable expansion of Polish exports (including food and produce exports).

Free trade zones must be created (e.g., with Kazakhstan, Malaysia or Taiwan) and also special economic zones along the eastern frontier, to ease expansion into markets of the former USSR. Such policy would also stimulate and inflow of West European capital, in view of the easier accessibility of eastern markets. The state must pursue an active policy in this respect and provide logistic support to the state and private sectors - e.g., by setting up institutions of mutual state-guaranteed insurance of business transactions. In order to service trade with countries of the former USSR more effectively, a transitional system of barter and self-liquidating transactions should be established, to strengthen the system of monetary settlements which is now not effective enough. The state must play an active role in this process.

7. Fight against unemployment must be a major priority of economic and social policy. Here, too, this goal may be pursued along the path of economic growth, even if recovery in production will not yet produce additional jobs (unemployment in Poland is structural, rather than caused by business-cycle factors). Therefore, priority must be accorded to job-creating investments, mainly in the export sector and in agriculture-servicing sectors. Here, too, Poland should seek to be included into the EC's Growth Initiative, which should be an important and urgent task for the government plenipotentiary for European integration. Of great importance will also be the system of labour redeployment/ retraining a small-business stimulation - e.g., through the capitalisation of unemployment benefits and formation of special economic zones in regions affected by high structural unemployment. Industrial policy must provide support for those sectors which create additional jobs, while raising the international competitiveness of Polish industry.

8. A factor of key importance for growth stimulation and efficiency improvement (and, consequently, for an increase in budget revenue) is an improvement in infrastructure. Further development of transport and telecommunications is particularly important. Poland should seek to join the EC's grand programme Growth Initiative, which concentrates international investment effort on the development of growth-stimulating infrastructure. In this context, and also with new jobs in mind, the programme for the construction of motorways and accompanying infrastructure should be dramatically intensified. In 1994-1997, the situation in this respect must change quantitatively, which should also have considerable multiplier effects in production.

9. Another driving force behind production and employment should be programmes of cheap housing construction. They should also be instrumental in stimulating up the propensity to save and curbing unemployment (also in small towns and the countryside). In addition to the programme already implemented at the Ministry of Construction and Land Use, the construction of one-family houses of the Finnish type (wood, plastics) in satellite residential estates should be launched on a large scale (also, as part of public works). Mortgage credit should be urgently introduced and offered on a large scale; and a savings institution should be created to service transactions of house purchase/sale (modelled on the UK's building societies).

10. Strong promotion by the state of the orientation to exports, investments and infrastructure will require increased financial resources - both foreign and domestic (including Treasury funds). Given that a sufficient increase in domestic savings is not possible in the short run, it is Poland's reason of state to ensure an inflow of foreign capital from private sources (of the order of US$ 1.5-2 billion annually in 1994-97). A condition for such inflow - especially as regards foreign direct investments which create new jobs and transfer new technology and management practices - is the conclusion, as soon as possible, of an agreement with the London Club on partial debt reduction, which is feasible. This should be followed by a daring programme of debt-to-equity swap, involving foreign stakes in privatised assets. This would not only improve efficiency, but also provide immediate relief for the Treasury. Also, a whole set of legal and organisational arrangements should be made to improve absorption of foreign credit and increase the efficiency of its employment. The new government should quickly take steps to allow foreign investors to acquire real property, including nonfarm land, and to provide strong guarantees that the relevant legal arrangements will remain stable.

11. An indispensable condition of sustained economic growth is the stability of law and the security of business operations. Immediate measures are needed to restructure and reduce uncollectible debts owed by enterprises to the Treasury, banks and to each other. Among other things, this requires an effective system of debt collection, the development of business-risk insurance institutions, and a higher quality of banking services. The existing policy instruments do not guarantee any effective solution to these problems. The basic method reducing the state-enterprise debt not related to mismanagement will be conditional conversion of its portion into special, long-term Treasury bonds, initially "frozen" and then successively released. This would improve the structure of commercial banks' assets.

12. A major policy issue - in the time horizon extending beyond 1997 - is the form of the social security system. Its main element in the short run must be the reduction of the number of recipients (not the level of benefits), while retaining the system whereby benefits are financed out of current contributions. This will also require unpopular decisions (e.g., starting the process of equalising retirement age for women and men; abandoning customised arrangements for individual sectors; making it more difficult to combine pension with work). But in Polish conditions, private social insurance agencies (especially private pension funds) are not a proper option for the coming years. They would not operate smoothly in an inflationary environment, and could not be established without major state support in the interim period.

13. In order to coordinate effectively the steps which have to be taken in this field, a government plenipotentiary for social security reform should be appointed, as an secretary of state at the Ministry of Finance (or Ministry for Labour and Social Policy). Given the importance of the problem and the need for many inter-ministerial consultations, he should be vested with broad powers.

14. The absorption of the second economy into the regular economy is a task which should be pursued with full political and organisational determination. It requires a coordinated government programme, whose main elements should be set in motion in a shock operation right in the first months of the coalition government. These elements include legal action, the broadening (rather than curtailment) of lump-sum tax arrangements, improvement of tax and customs services, elements of tax-offences abolition, severe criminal-law punishment, periodic bans on the conduct of business operations, forfeiture of property acquired in effect of tax fraud, and promotional/educational activity. These, however, should be long-term measures, carried out with unyielding determination. Only after some time will budget revenue increase on this account; but it should be drawn upon only when the money actually flows into the state coffers.

15. The dynamically growing private sector should be won over to the coalition's new economic policy, to be pursued by means of broadening the tax base rather than raising individual taxes. The sector will then be an allay in the government's measures to enforce honest tax payment (it is better when more firms pay lower unit taxes, than when fewer firms pay higher taxes). The upper rate on income tax must not be increased to 50%. The fiscal effects of such an operation would be negligible, while the political effect would be to scare off business. Actually, the coalition should announce an intention to reduce the tax burden, subject to the continuation of strong growth trends and depending on the pace at which the second economy is integrated into the official economy. Initially, the main instrument of such policy will be tax concessions linked to investments, exports and job creation, and also (temporarily, in 1994-95) spending on the purchase of government securities. In the longer run, the absolute level of tax rates would be reduced, especially for higher income earners.

16. The room for manoeuvre in budgetary policy is very narrow. Against public expectations, some revaluation arrangements and mechanisms should be suspended, and then changed, so as to adjust them to the state's real financial potential. The policy of previous governments only messed up things, leaving public finances in a dramatic condition in which the legally contracted obligations cannot be met. The crisis of public finances is so deep that it is not possible physically to increase government-sector salaries and pensions to a degree announced by previous governments, demanded by the present coalition parties, or expected by the interested social groups. The only course to real increase in revenue is that of economic growth and a reform of the government sector whereby average pay could be increased by reducing surplus employment (it is still present in the government sector). A stark conflict can be seen here between the pay level and the level of employment, and society must be informed about it. Illusions must be countered with a clear presentation of public finances, and an assessment of potential for change for the better in the longer run.

17. Indexing these incomes to and adjusting them for inflation is a highly undesirable policy. This formula will not solve any problems and it will render sustaining the growth trends impossible. Under an alternative option which is both desirable and feasible, such illusory rises (which would soon lose their real dimension) will be replaced with Treasury bonds (issued with zero-coupons, but indexed to producers' prices) convertible into shares in privatised enterprises. The bonds should be immediately admitted for unrestrained trading on the secondary market, to enable real incomes of these groups of society to be raised through income distribution rather than through inflationary growth. These instruments will invigorate the capital market and boost the accumulation and concentration of privatisation-supporting capital.

18. In the short run, certain income effects (modest in scale) could be obtained through increasing selected excise levies (traditionally, on alcohol and tobacco products) and administering certain fiscal charges capable of producing immediate effects, such as exit fees: US$ 15 at airports and Zl 200,000 (US$ 10) at all other border crossings. These incomes could be allocated to re-rating up, immediately, the lowest disability and retirement pensions and to state-sponsored infrastructure investment in the border crossing points.

19. Starting from the next year (and under an appropriate budget-related legislation to be enacted still in 1993) net capital gains, including net profit from stockmarket transactions, should become taxable. There is no justification for treating differently the dividend and capital gain. In fact, capital gains should be included in the personal income tax base, just like other personal incomes are (particularly wages and salaries). This arrangement will not handicap the development of the capital market, nor will it discourage foreign capital (foreign investors should be offered more advantageous terms, in the form of a temporary exemption from this tax valid at least between 1994 and 1997). In contrast, under no circumstances should interest on bank deposits be made taxable, as such an arrangement would disturb the feeble downward trend on the interest rate and it would impair the already low propensity to save.

20. It is in this context that the budget as the pivotal government document for the next year must be considered. The 1994 budget must be passed on the statutory deadline, a requirement which necessitates an appropriate modification of the legislative schedule for sending the budget to the Sejm (e.g. through setting the deadline at December 1 rather than November 15). Then a provisional budget for the first quarter will not be necessary. As the budget will probably need to be revised during implementation, it is advisable to avoid duplicating the same difficult and highly unproductive discussions on the same issues.

21. Ensuring that additional budget revenues (if any) are diverted basically to development, and only in exceptional cases to consumption, is a high priority task. The coalition must demonstrate that it understands the need for such an allocation pattern and that, unlike its predecessors, it is capable of administering it, thus building foundations for future prosperity. The longer-term approach must apply also in this case. The implementation of the Strategy for Poland promises that social needs will be satisfied better in the four-year period, but not in each and every year - the least of all in 1994, because of the destitute condition of the economy and state finances this coalition has inherited.

22. Given the very stern budget constraints, social security programmes must be streamlined in 1994. The scope for re-locating budget resources is negligible, but even then the government should make efforts to divert a share of budget resources from national defence and state administration (through liquidating and merging some ministries, reducing these agencies' staffs, and renting their premises on commercial terms) to education and applied scientific research.

23. Validating arguments for a higher budget deficit is the urgent need for more development-enhancing expenditure, e.g. on expediting the construction of motorways; promoting exports; supporting residential construction and infrastructure. The resulting increase in the deficit could be financed with the issue of special Treasury bonds with the privatisation option (there will be much demand for these papers), a mode financing which, while not adding to future public debt, will reduce future budget incomes by potential earnings from the shares taken up by bondholders who exercise their options. More such instruments should be made available to foreign investors.

24. Tentative macroeconomic accounts indicate that the budget deficit will be higher in 1994 than in 1993. This is unavoidable because by now the economy is largely confronting results of earlier developments. The maximum 1994 deficit threshold should be determined by the viability of financing the deficit by means of increasing the already too high public debt. Realistically, the households sector's effective demand for government bonds could rise if these instruments offered more personal income tax benefits: from the present equivalent of the average four months' pay (at end-of-preceding-year figures) deductible from the personal income tax base, to 6-8 times the average pay.

25. While there is an allowable margin for the monetisation of the budget deficit, it is limited to 1-1.5% of GDP (or between Zl 20 trillion and Zl 30 trillion, at 1994 prices). The 1994 budget deficit must not be higher (for reasons which include political considerations and image-building) than the one effectively realised in 1992, i.e. 6.2% GDP (or, at the International Monetary Fund's most up-to-date figures, 6.9%), which deficit was allowed and approved by the IMF. Moreover, a correctly measured budget deficit should not include budget-financed productive investment or infrastructure projects, to the extent that this outlays contribute to improving the economy's overall performance efficiency. At this methodology is used by the EC for monitoring the implementation of the Maastricht criteria, it could at least be taken into account in Poland negotiations with the IMF.

26. Under another workable interpretation, additional budget spending to the order of 1-1.5 percent of GDP, financed with the NBP's money issue, could be perceived as financed from the state's issue incomes rather than from the budget deficit (regrettably, this arrangement would probably involve inflationary implications). This short-term, exceptional money issue policy option would be conditional upon the NBP's approval, but the central bank might accept it if the IMF did, which is likely.

27. In next years the budget deficit must be systematically brought down. In the first place, the primary budget deficit (i.e. exclusive of domestic and foreign debt servicing expenditure) must be eliminated already in 1994, which target is both feasible and desirable. In negotiations with the IMF, balanced primary incomes and expenditures (and, starting from 1994, the progressively higher surpluses generated) must be emphasised as the fundamental argument indicating that, were it not for the public debt accrued in past, Poland (and its coalition government) would have no deficit today, nor in future.

28. In a growth-enhancing budget these proportions will not stoke inflation in the long run and, on these grounds, they are likely to be approved by the IMF - a prerequisite for the second stage of the Paris Club debt reduction and for all the resulting implications to the inflow of foreign capital and Poland's overall external economic, trade and financial relations.

29. The new government must carry through promptly (already in 1993) a re-privatisation law designed in a way ensuring that the state budget is in no way encumbered with additional expenditure. This legislation will prepare the field for accelerated investment, including the arrival of foreign capital.

30. In the medium term, the government should take steps to secure higher privatisation revenues for the budget. While privatisation should be subjected to the efficiency criterion, there still are opportunities for increasing budget incomes from this source. Following the implementation of the National Investment Funds (NFI) law (on the NIFs establishment and privatisation), changes in the property pattern should continue, for instance through commercial sale of state-held equity shares. The Sejm must outline the general framework for ownership changes, but implementing decisions must remain with the government.

31. To this end, organisational changes must be brought in promptly, with priority accorded to establishing the Treasury and appointing the minister of the Treasury who will exercise the owner's functions with regard to the management and privatisation of the state's property. A step in this direction must be made immediately, pre-announced in the prime minister's inaugural policy address and signalled by the appointment of the government's plenipotentiary for organising the Treasury, in the rank of a secretary of state at the Ministry of Finance. The Treasury should be established in the first half of 1994, to take over and expedite debt reduction programmes in the state-owned sector (in particular in strategic industries, such as coal mining and the defence industry, which industries will be restructured rather than liquidated) and in agriculture and the agricultural environment. In addition, as the Treasury identifies sectors and state-owned enterprises excluded from privatisation and designed to operate in a longer run as state-owned firms, the resulting workforce and management stabilisation (including long-term managerial contracts based on the profitmaximising criterion) will enable these entities to attain desirable standards of management.

32. Eliminating inconsistencies and conflicting interests of industrial policy, privatisation, and foreign trade policy is the second important organisational prerequisite for implementing the development strategy presented here. To this end, the Ministry of Trade and the Economy (MHiG) must be established at the earliest possible date, definitely at the beginning of the coalition government's term. This matter should be decided immediately, through the appointment from among the new Cabinet ministers of the government's plenipotentiary for organising the MHiG and through setting a first-half-of-1994 deadline for this project. Cohesive structural and trade policies are indispensable to improving the Polish economy's competitive position and to balancing, in the long-term perspective, both the budget and the current account.

33. The successful implementation of the Strategy for Poland will rest on four institutional pillars. Next to the Ministry of Finance and the Treasury and the Ministry of Trade and the Economy, there will be the Ministry of Labour and Social Policy whose position must be reinforced - and balancing this government triad (with the Central Planning Office focused on strategic studies, macroeconomic forecasting and regional planning) will be the National Bank of Poland. The central bank's autonomy must be guaranteed, even if it periodically makes the government's economic policy more difficult. In the long run, this autonomy is a prerequisite for macroeconomic stabilisation - otherwise economic growth will be neither lasting nor balanced.

34. Cooperation between the Ministry of Finance (and the whole Cabinet) and the National Bank of Poland in restructuring state-owned enterprises' debt to the commercial banks is a critically important factor which needs improvement. As regards monetary policy, measures should be taken towards encouraging lower interest rates capable of reducing inflation expectations, but a modest above-inflation real interest rate level should be guaranteed. In addition, already in 1994 a flexible exchange rate mechanism must be adopted, with exchange rates determined by the interbank market and influenced by the central bank's intervention instruments.

35. In 1994 the denomination of the zloty must be performed at long last, preferably at a 1:10,000 rate. This operation will produce a psychological effect, but its foremost objective is to reduce costs and improve techniques of cash transactions.

36. Advisory support is important for the government. Accordingly, the Consultative Economic Council should be revived urgently as an independent expert body reviewing the state's economic policy and recommending alternative solutions. Not only must the Council be representative of the entire Polish economic community, but it should also be a vehicle of social communication and an instrument of educating the society in social and economic issues.

37. In addition, Polish Institute for Research in Economic Development (PIRG) should be established on the basis of the hitherto ministerial organisations, as an elite research centre. The PIRG would be concerned with socioeconomic application research projects supporting the government's policy through critical reviews. The work of institute (patterned, for instance, on experiences of the Korea Development Institute) should be financed from the budget and from EC aid funds. The latter have been largely wasted so far, through their misallocation to projects irrelevant to challenges confronting the state's socioeconomic policy.

38. Because of its future-oriented option, the Strategy for Poland programme package (particularly if promptly implemented) promises to strengthen the coalition government's credibility not only with the majority of the Polish society, especially with younger generations, but also with international economic and financial circles. Good cooperation with international finance centres is imperative for the success of Poland's economic Policy.

39. As the Strategy for Poland is implemented, appropriate trends of the macroeconomic proportions must be preserved. In particular, macroeconomic instruments and financial and trade policies must be used to ensure the following performance averages in the years 1994-97:

- investment rising ahead of national income;

- private investment rising ahead of state-financed investment;
- foreign investment rising ahead of domestic investment;
- investment in the export-oriented sector rising ahead of aggregate investment;
- private sector's output rising ahead of the state sector's;
- exports rising ahead of imports;
- budget incomes rising ahead of budget spending;
- budget spending on development rising ahead of social spending.

40. The overall design of the state's development strategy and of a supporting financial policy must comply with certain non-rescindable conditions. The most critical of these include:

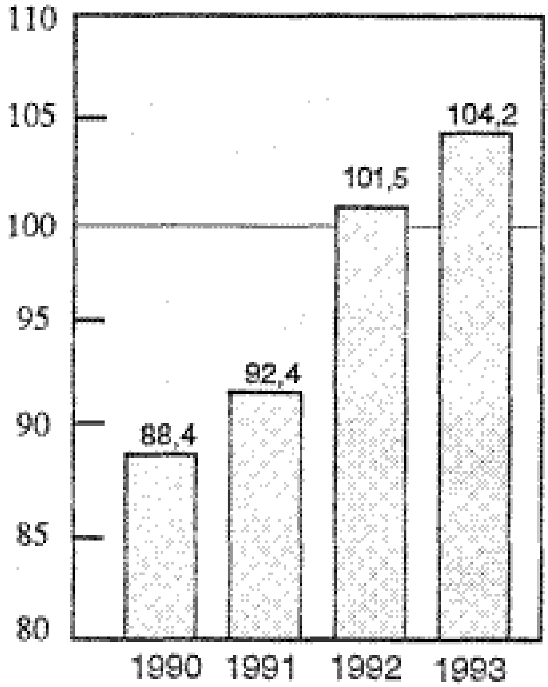
- the continuation of privatisation processes, with equal treatment accorded to all forms of ownership, and of commercialisation of the state-owned enterprises;
- maintaining macro-scale financial discipline;
- full deregulation of prices, discontinuing all forms of administrative price controls (except for the state's intervention meant to discouraging monopolistic practices);
- sustaining and expanding the convertibility of the domestic currency, gradual liberalisation of capital transactions;
- implementing international agreements and pursuing cooperation with the IMF and Paris Club.

41. Broad public involvement in the implementation of the strategy for Poland is necessary, through such vehicles as local government, regional initiatives, and projects undertaken by citizens to further their interests - yet with active political, logistic, and financial support provided by the state and its agencies. While it is doubtful whether the creation of *powiats* (new administrative entities) could further these goals, that new administrative pattern would certainly absorb vast resources (many times over the previous government's estimates) which can be more usefully employed to serve local and regional public initiatives. For this reason, that particular administrative reform should be discontinued and such limited resources and logistic support as are available should be diverted to development-oriented initiatives of local governments.

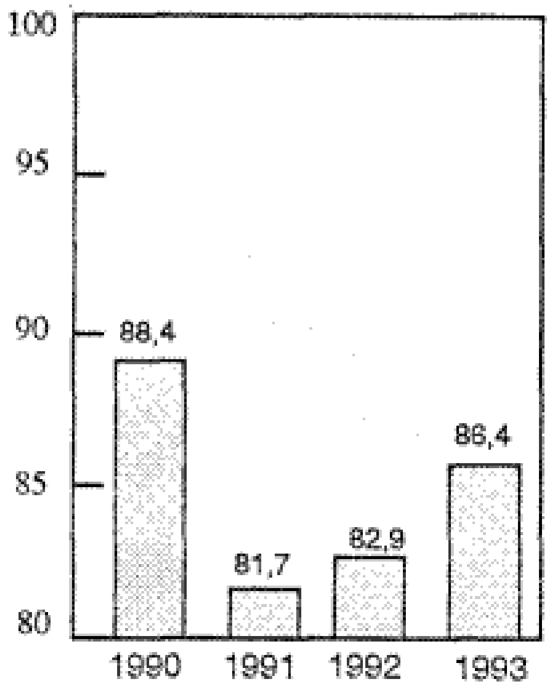
42. This is a very demanding programme, a major political challenge to the ruling elites. Only by pursuing an enlightened policy - and by rallying to the programme - can the ruling coalition meet the targets identified here, of rehabilitating the financial system on the path of fast, export-oriented growth. These efforts must be backed up by a professionally organised system of social communication. Unlike its predecessor's, this coalition's economic policy will be developed in consultation with the public rather than against it. Successes will be called successes - and failures will be admitted as failures rather than paraded as achievements. To this end a steady dialogue must be maintained with the public and the policy-makers must carefully follow public opinion. In doing so, rather, than use popularity rankings of media-promoted politicians as a means of judging the public's sentiments, they will rely on critical analyses of the sources of popular discontent which, unfortunately, will not abate.

Gross Domestic Product (GDP)
1989-1993

previous year = 100

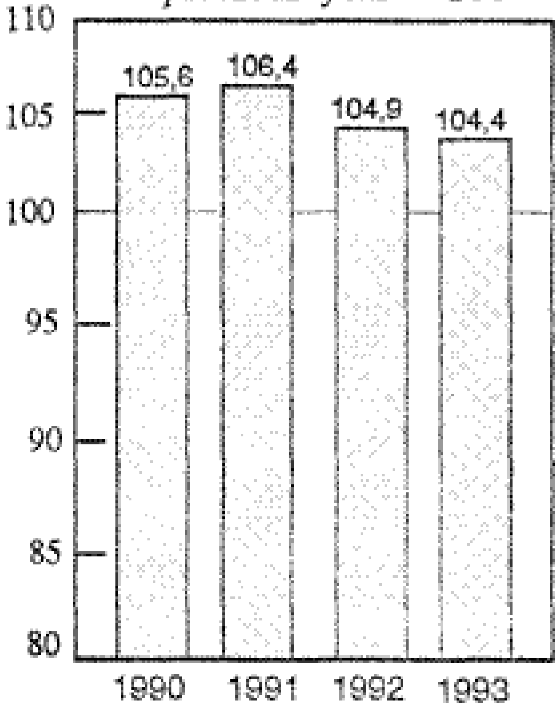


1989 = 100

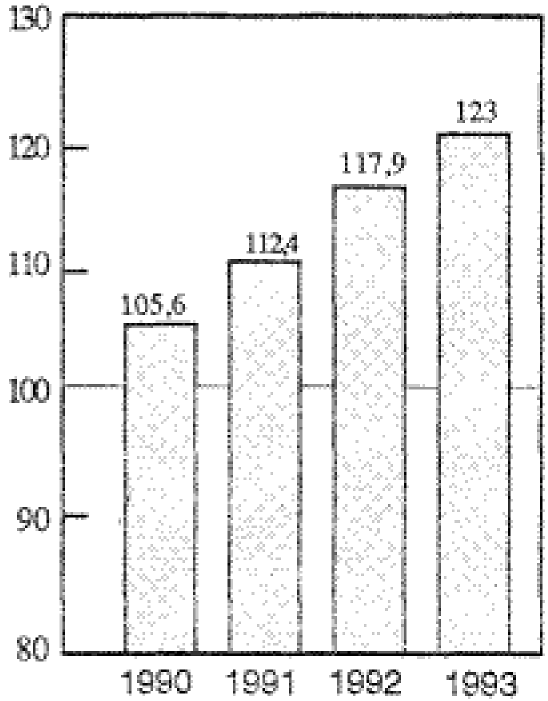


1994-1997

previous year = 100



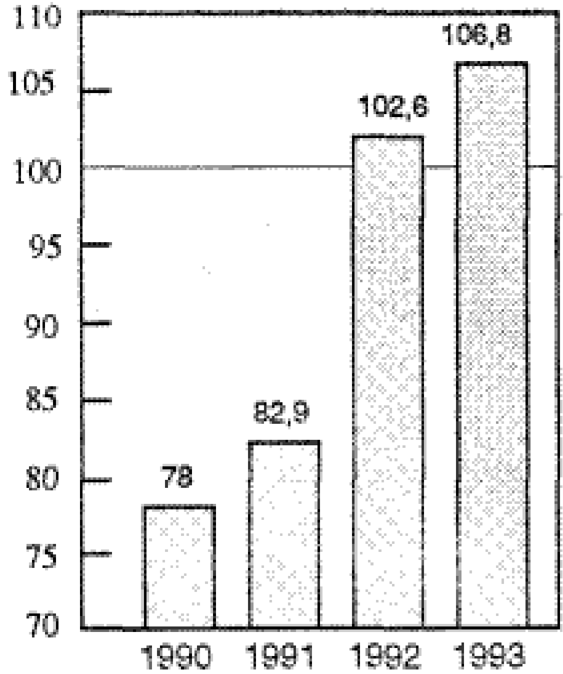
1993 = 100



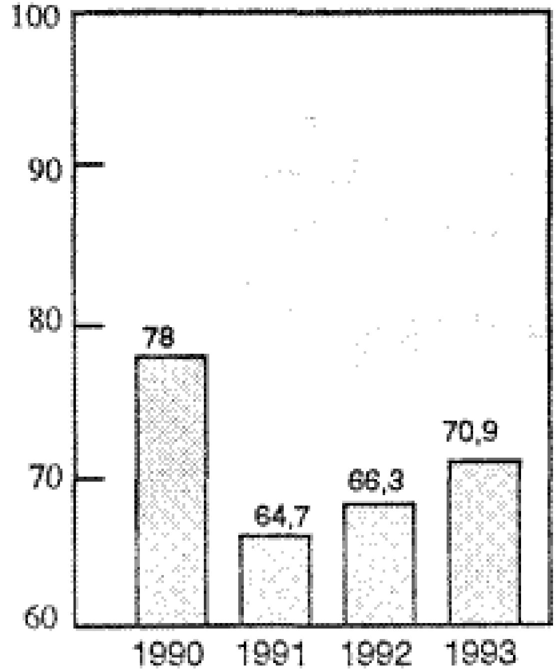
Industrial Output

1989-1993

previous year = 100

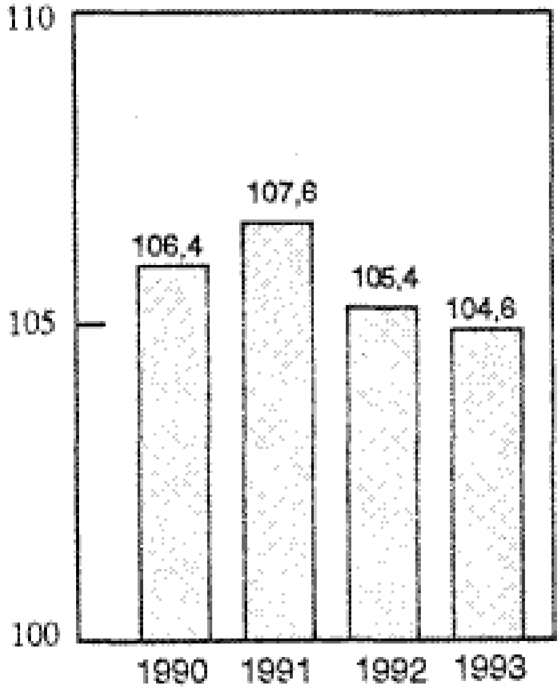


1989 = 100

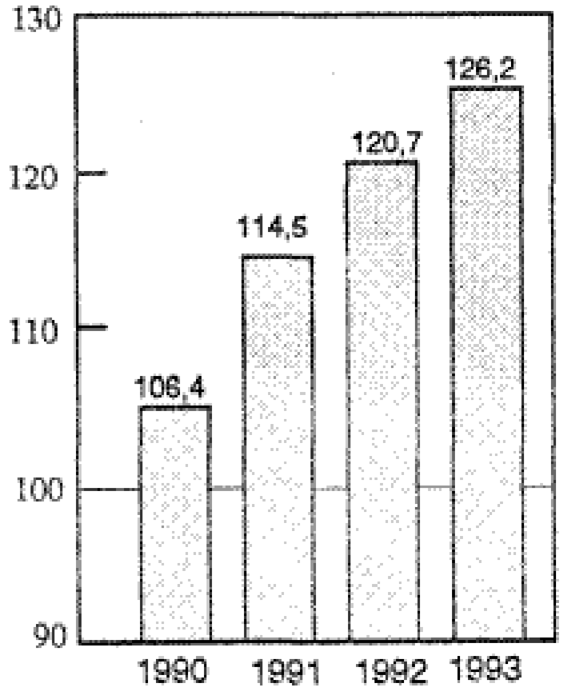


1994-1997

previous year = 100



1993 = 100



43. The implementation in the years 1994-97, of the Strategy for Poland will perceptibly improve society's living standards. A dynamically rising industrial output (at about 6% a year, on average, i.e. over 26% in the four years), coupled with a rapid increase in the output of agriculture and other branches of the economy, will produce a GDP growth estimated at 23% over the next four years (5.6% a year, on average). In the past four years (1990-93) GDP plummeted about 14%. In 1997 per-capita GDP will exceed US$ 3,000 (at 1993 prices). As the share of investment in GDP rises to about 25% and investment efficiency improves, conditions will have been established for this rapid growth to continue in successive years. Real pay and households' consumption will also rise perceptibly. In addition, Poland will progress to generating steady foreign trade surpluses. Assuming that an agreement is reached with the London Club and an export-encouraging strategy is pursued, the ratio of foreign debt to GDP will drop from 0.57 in 1993 to about 0.41 in 1997. The inflation rate will contract to a third of the original level, i.e. from 43% in 1992 to about 14% in 1997. Growth in anemployment will tail off already in 1994, to be followed by declining unemployment rate.

44. All in all, the Strategy for Poland promises substantial growth opportunities accompanied by declining inflation and unemployment rates and a chance for gradually restoring the public finance and balance of payments equilibrium. Moreover, it provides a sound basis for a longer-term social and economic development.

Warsaw: October 21, 1993

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