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19 September 2001

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## Voting Amid a Slowdown

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*The winners of Poland's elections will have to deal with a slowing economy and a gloomy electorate.*

by [Magdalena Szarafin](#)

WROCLAW, Poland--It has not been an easy summer for the Polish government. The economy has slowed, massive flooding has ravaged the countryside, and public finances appear to have slipped out of control. In response to these difficulties, the government has jettisoned one of its ministers and is now desperately adding up every last zloty in the public purse to come up with a realistic draft budget for next year.

Add to all of this the ruling Solidarity Electoral Action's (AWS) dismal approval ratings in opinion polls and the 23 September election starts to seem less like a vote and more like a way of putting the government out of its misery.

The governing AWS may even have trouble winning the minimum 8 percent necessary for coalitions to gain seats in parliament. In contrast, the opposition coalition of the Democratic Left Alliance (SLD), which itself was swept out of power four years ago, and the Labor Union (UP) have been running at 47-50 percent in recent polls. Another opposition formation, the Polish People's Party, has been getting 9-11 percent in polls.

The SLD-UP coalition's main rival on the right is now the Civic Platform (PO), the party of Andrzej Olechowski, who placed second in last year's presidential election. But the PO appears to be far from mounting a serious challenge to the SLD-UP coalition, running at 12-14 percent in recent polls. The AWS-led coalition has been slumping at 8-9 percent in the polls and the Freedom Union (UW) has been hovering below the 5 percent threshold for single parties.

### FIRST PROBLEM

Whichever party forms the next government will immediately have its hands full in dealing with the state budget for next year. While the current AWS government has pledged to put together a draft budget by 30 September, it is clear that the new cabinet which emerges from the elections will have to deal with the situation as well.

Meanwhile, the current government is balancing the prospect of massive spending cuts and finding new revenue in order to meet next year's target deficit of less than 40 billion zlotys. Both economists and politicians alike have said that letting the deficit balloon too much beyond that target could lead to an economic crisis and damage the country's image among foreign investors.

The situation has contributed to a gloomy mood in the country at large. An opinion poll conducted by Pentor earlier this summer found that 58 percent of respondents consider the economic situation in the country to be

negative, while only 7 percent said it was positive. Another poll conducted by CBOS in August found that 75 percent of respondents said the country was heading in the wrong direction, 14 percent said it was heading in the right direction, and 10 percent said they were not sure.

Certainly, part of the reason behind the dramatic unpopularity of the governing AWS has been the spate of corruption scandals associated with its time in office. On the other hand, it is fair to say that AWS has sacrificed some of its popularity on the altar of introducing various tough economic reforms and restructuring programs in traditional sectors to increase productivity, which has inevitably thrown many people out of work. The official unemployment rate in the summer was around 16 percent.

#### THE SLOWDOWN

The labor market has not been helped by the slowdown in economic growth. The economy grew by 4.1 percent in 2000, but the quarterly rate of growth fell from 6.0 percent in the first quarter of 2000 to 2.4 percent in the fourth quarter. And the slow growth has continued this year. While the government had originally predicted the country's real gross domestic product to grow by about 4.5-5.2 percent in 2001, it has had to scale back those expectations and now forecasts growth of 2.3-2.5 percent this year. As for next year, the government now sees growth picking up to 2.5-3.0 percent in 2002, but former Finance Minister Jaroslaw Bauc has estimated that GDP growth will reach only 1.7-2.9 percent next year.

The slowdown began last year, as the Polish central bank responded to high inflation by raising interest rates. Since then, the Monetary Policy Council of the central bank has moved to ease rates again, but the country's chronically high unemployment levels and weak consumer demand have continued to erode growth. All of this has been accompanied by external shocks in the form of the slowing world economy and the economic crises in emerging markets like Argentina and Turkey.

Many of the country's key companies have had dismal results in the first half of 2001 and some have had to resort to lay-offs or postponements of investment plans. Bank loans for new business investment have become particularly expensive, with interest rates at leading Polish banks reaching as high as 20 percent per annum. The Warsaw Stock Exchange has been performing dismally as well, falling 30 percent in the last few months.

External shocks and interest rates aside, domestic analysts as well as international financial institutions have also laid some of the blame for the current situation and the high unemployment rate on the country's rigid labor market. Despite the government's reforms in this area, labor costs are still considered to be exorbitantly high in Poland, mainly due to high social insurance costs. High labor costs combined with the fact that many companies must still rely on out-of-date technology contributes to Poland's relatively low productivity, which still lags substantially behind productivity in Western countries despite recent improvements.

In a report from May this year, the International Monetary Fund identified the rigid labor market as a key contributor to the country's high unemployment. The fund recommended various reforms, including a revision of the labor code to allow more flexibility between employers and employees to agree on contracts as well as minimizing the burdens of red tape on small enterprises.

In addition, some analysts have noted the need for reducing the burden of social insurance and taxes on employers, providing loans for the creation of new jobs, grants for re-training programs, as well as government investment in infrastructure projects to increase employment and spur the economy at a time of weak demand.

#### HOLE IN THE BUDGET

The slowing economic growth has predictably had an impact on public finances. In August, the Finance Ministry announced that the 2002 budget deficit would balloon to 88 billion zlotys--or about 11 percent of GDP--unless the government undertook substantial measures to slash spending and boost revenues. Only a few days earlier, Polish government officials had said the budget deficit could reach 34-36 billion zlotys in 2002.

Finance Minister Jaroslaw Bauc blamed the budget shortfall on the slowdown in the economy as well as on various bills pushed through the Sejm, Poland's parliament, which would add another 15 billion zlotys in government spending. But the independent economic think-tank NOBE has placed part of the blame on the ministry itself for the errors it made when it prepared the 2001 budget, which left an additional financial gap of 20-25 billion zlotys in 2002. NOBE also argues that the central bank made policy errors, which led to very high interest rates that inflated the public debt and reduced tax revenue.

In response to the problem, Bauc's ministry recommended a package of measures, including spending cuts, to bring the budget back into line, but members of his own party disagreed with him. On 28 August, Buzek dismissed Bauc and replaced him with Deputy Finance Minister Hanna Wasilewska-Trenkner. Solidarity's political rivals accused the party of scapegoating Bauc for the government's problems just weeks before the election.

In response to the financial problems, President Aleksander Kwasniewski convened a meeting of the Cabinet Council on 4 September to discuss the situation. The president said a deficit of almost 90 billion zlotys would be unacceptable for Poland's economy and for the country's image abroad. After the meeting, he added that he was optimistic that the situation would be resolved, and the government pledged to put together a budget by the end of the month.

#### ELECTIONS LOOM AHEAD

But with the elections slated for 23 September, it was unclear whether the government would be successful in its bid to get a handle on state finances. Solidarity's competitors in parliament were already positioning themselves for the elections and the government's efforts to put through legislation to restrict or delay spending were running into stiff criticism from the opposition.

The SLD has been particularly loathe to work with the government in advance of the elections. SLD leader Leszek Miller, whose party is likely to be asked by the president to form the next government, has said that the SLD would appoint Kwasniewski's economic adviser, Marek Belka, to the post of finance minister.

The SLD has acknowledged that there is no simple way of increasing budget revenues in order to increase spending. The party has recommended a combination of solutions, starting with greater export promotion and state help for Polish exporters and ending with eventual changes in the tax system. The SLD has suggested lowering taxes for investors and providing tax exemptions as incentives for greater investment. But it has declined to give details on how it will bring the deficit back down to a reasonable size for the 2002 budget.

Meanwhile, the Civic Platform (PO) has called for a new style of politics. Pawel Piskorski argues that the SLD has simply benefited from the mistakes of the governing parties. The PO has offered voters a liberal-conservative program, centered on reducing taxes and scaling back the state's role in the economy. At the same time, the party has tossed some rhetoric off in the direction of poorer segments of society, saying the government should help to create "opportunities for the equal development" of all people.

In any case, the polls clearly indicate that the SLD-UP is headed for a major election victory and some observers have said the only question left is whether it will win an outright majority or not. An outright majority would allow the SLD-UP to govern on its own and might make it easier for the new cabinet to deal with the country's economic problems. But those problems are not easy by any measure.

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