

Bohdan Wyżnikiewicz

Challenges for the Polish Economy

The year 2004 poses many more challenges for the Polish Economy than previous years. The most important challenge is to consolidate economic recovery, which began in mid-2003 after 10 quarters of stagnation.

Sustained economic recovery is threatened by several important factors. The first is an over-regulated economic system that hampers the development of enterprise and makes entrepreneurs unwilling to increase employment. Another factor is the still low propensity to invest. The investment rate fell from 25 percent in 1999 to just over 18 percent in 2003. Support from foreign investors is weakened by the fact that the privatization of state-owned enterprises has practically been put on hold, accompanied by the less favourable conditions for starting new investment projects by foreign capital.

Another threat to permanent recovery is the poor condition of public finances. The budget deficit will probably reach 7 percent of gross domestic product in 2004, creating a situation in which an alarming relation of public debt to GDP will require drastic steps, in keeping with the provisions of the constitution. The government's risky strategy calls for a deliberately high deficit in 2004 so that key social needs are met prior to EU accession, and then the deficit is offset using future transfers from the Union, among other instruments.

Unbalanced public finances add to the restrictiveness of the central bank's monetary policy. As a result, interest rates are high due to the huge needs of the budget, while the enterprise sector is left with little and expensive credit. The situation is additionally complicated by the largely unpredictable – especially recently – exchange rates, which leads to a situation in which the zloty is weakening against the euro, while gaining against the dollar.

However, favorable integration with EU structures remains the most important challenge for the Polish economy. The reservations expressed by the European Commission about Poland's insufficient preparation for integration with the Union have produced a response in the form of official optimism and statements that everything is under control and that any delays will be made up for in time.

However, it seems that the mental preparation of entrepreneurs for open competition in the single European market and the understanding of the new rules and conditions among the public are actually more important than the timely preparation of a legal and economic infrastructure. In my opinion, in the initial period of Poland's presence in the EU, Polish entrepreneurs will have to take lessons in integration, and for many these lessons may prove painful.