



## CHAPTER 3

### “Strategy for Poland” and “Package 2000”

#### 3.1 Introduction

In 1993, the economic plans as implemented by the last coalition government were continued to consolidate economic stabilization through fiscal and monetary restraints; to promote further price and trade liberalization; to build up market institutions; and to pursue the privatization program in all tracks with a view to integrate more fully the Polish economy into the free economy and pave way to the integration into the European Union.

The post economy plan after 1993 was emphasizing on the medium and long-term economic policy of the country aiming at curing the adverse side effects of the policies as implemented during the early transitional period and making further progress for stabilization to consolidation. This new policy is embodied in two major policies: the “Strategy for Poland” and “Package 2000”<sup>42</sup>, a proposal made by Professor Dr. Grzegorz W. Kolodko, deputy Prime Minister and Minister of Finance and Chairman of the Economic Committee of the Council of Ministers. He also holds a professorship at the Warsaw School of Economics.

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<sup>42</sup> Kolodko W., Grzegorz, “Poland 2000: The New Economic Strategy”, Warsaw, 1996, p. 29

### 3.2 “Strategy for Poland”

With the objective to open a new stage of Polish transformation, this policy emphasizes on the strategic concept of economic development on a longer perspective for 1994 to 1996 which has three priorities:<sup>43</sup>

- Fast economic growth,
- System and micro-economic stabilization, and
- Improvement of living standards

The Fast Economic Growth is aimed to increase the Gross National Products (GNP) during the period 1994-1997 by c. 22%, that is by c. 5% per year. The program will support the policy of mobilization of domestic savings, which is supported by the medium-term financial strategy. Direct foreign investments will be the additional, auxiliary source for financing the growth.<sup>44</sup>

System and Micro-economic Stabilization will pacify the expectations of economic entities, both consumers and producers, and increase the degree to which changes in the economic situation could be forecasted. This aims to achieve a better micro-economic stabilization.

Improvement of the living standards will form the social core of the Strategy. Successful implementation of the Strategy will result in an almost 11% increase of the average wage and salary during the years 1994-1997 and a differential increase of the purchasing power of an

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<sup>43</sup> Ibid., p. 34

<sup>44</sup> Ibid., p. 35

average disability pension or old age pension after its real increase by c. 7% in 1994. An improvement of the living standards will result from fast economic growth and more fair distribution of the generated product than in the past. The distribution of incomes must guarantee everybody at least the elementary feeling of social security. It will also aim at the reduction of unemployment rate to 14% in 1997.<sup>45</sup>

### **3.3 Package 2000**

“Package 2000” is aimed to further develop the “Strategy for Poland” in terms of macroeconomic policy and structural changes required to achieve the government's objectives. The “Package” focuses mainly on the state budget. It aims at reducing both the size of the budget and its deficits in relation to the GDP.

Package 2000 seeks to address the new economic environment as a result of economic successes in the years 1994-1995 and in order to create a near perspective of joining the European Union. The Package covers the activities which belong only to two trends of economic policy, that is to macro-economic and fiscal policy. Its implementation will decrease the power of political conflicts and disputes over the present economic policy, and at the same time, will reduce the risk of economic destabilization.

The aim of the Package is to set fundamental objectives of economic tasks which are feasible and necessary to achieve during the years 1996-2000. Its success will drive Poland to join in the EU which is the key element of Poland in turning into the new century. It sets objectives of macro-economic consolidation of the country's economy

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<sup>45</sup> Ibid., p. 38.

for being the EU's member, creates perception of the set of means to achieve economic growth, both socially and politically, and sets regulations which protect the destabilization of country's economy.

The Package defines the way in which Poland will cope with challenges, take advantage of opportunities and combat threats facing the Polish economy.

Macro-economic policy as part of the Package defines the most important social objectives, basic means and rigid rules of economic policy in a perspective of Poland's joining the EU. There are two primary social objectives: to reduce the level of unemployment and to maintain the real consumption growth.<sup>46</sup>

To reduce the level of unemployment to around 10% until the year 2000, it will be necessary to create about 800,000 new work places for currently unemployed, plus about 1,000,000 places for new age groups that enter the labor market. It demands difficult conduction of a compact and consistent economic policy in the following four fields: economic growth stimulation, regional development, multifunctional development of rural areas, and improving of major infrastructures.

The main instrument of economic policy to overcome the above mentioned unemployment will be the stimulating of high rate of capital investment, enlargement of industry, improving of the "gray zone" and decreasing of unit work costs which will ensure an increase of new permanent work places.<sup>47</sup>

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<sup>46</sup> Ibid., pp. 111-113

<sup>47</sup> Ibid., p. 115

Along with the creation of new work places, social objectives will be implemented. The success of such implementation will be based on these fundamental means: maintaining high rate of economic growth and export increase and fast growth investment. This means the national product must be accumulatively increased by about 1/3 and GDP should not be less than 5.4% in the year 2000 (See Figure A.)

GDP growth will depend on exports. The growth rate of exports is required to be growing at the rate of 10% annually.<sup>48</sup> This will require the improvement of a higher quality Polish products; changes in the structure of exports for the processed goods; eliminating trade barriers within WTO; improving the trade with other neighboring countries; developing the insurance of export contract; standardizing exchange rate policy; subsidizing the credits financing investment export; facilitating the investment allowances in income tax and neutralizing indirect taxes to exporters; and granting permission for resident business operators to maintain foreign currency bank accounts.

Growth in investment which requires to rise by about 11% annually<sup>49</sup> will be the second factor to improve economic (See Figure B). However, investment growth will need the introduction of restructuring and modernizing of business process; regional competitive growth; multifunctional development of rural areas; infrastructures for transportation means; housing development; and banking facilities.

Stimulating of country's economic growth will need the reduction of inflation; budget deficit; public debt and re-distributional function of State budget.

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<sup>48</sup> Ibid., p. 117.

<sup>49</sup> Ibid., p. 118.

Inflation reduction is the task which will be the condition to pave the way for Poland to reach permanent economic growth, and European standards. At the end of the year 2000, the annual inflation should not be higher than 5-7% (See Figure C).<sup>50</sup> This will correspond with the requirements under the Maastricht Treaty. To reduce inflation, there must be a consistent reduction of monopolization in the economy and elimination of non-profitable enterprises; stimulating of productive capacity of production and efficiency in international trade; improving pay condition to employees; maintaining consistent fiscal policy of the Central Bank; improving of labor skill and reducing personal costs; reducing tariff rates on capital goods and abolition of import duty.

Reduction in budget deficit, the standard rules of the EU must be also brought into consideration along with others: improving or restructuring the business entities which are in the deficit position; privatizing the public sectors into an efficient bodies; decreasing of the "gray zone"; and reforming the social security system. The first three factors will result in the tax effectiveness while the last factor will rationalize State's expenditures.

Reduction of public debt will have to be carried out along with the reduction of budget deficit. It must be made in relation to the GDP, which would result in strong economic growth and international creditability.

Re-distributional function of State budget will help improve the country's economy and improve the quality of life in the society. This will involve the rational changes in a sphere of public expenditure, and gradual reduction in tax burden for people and companies.

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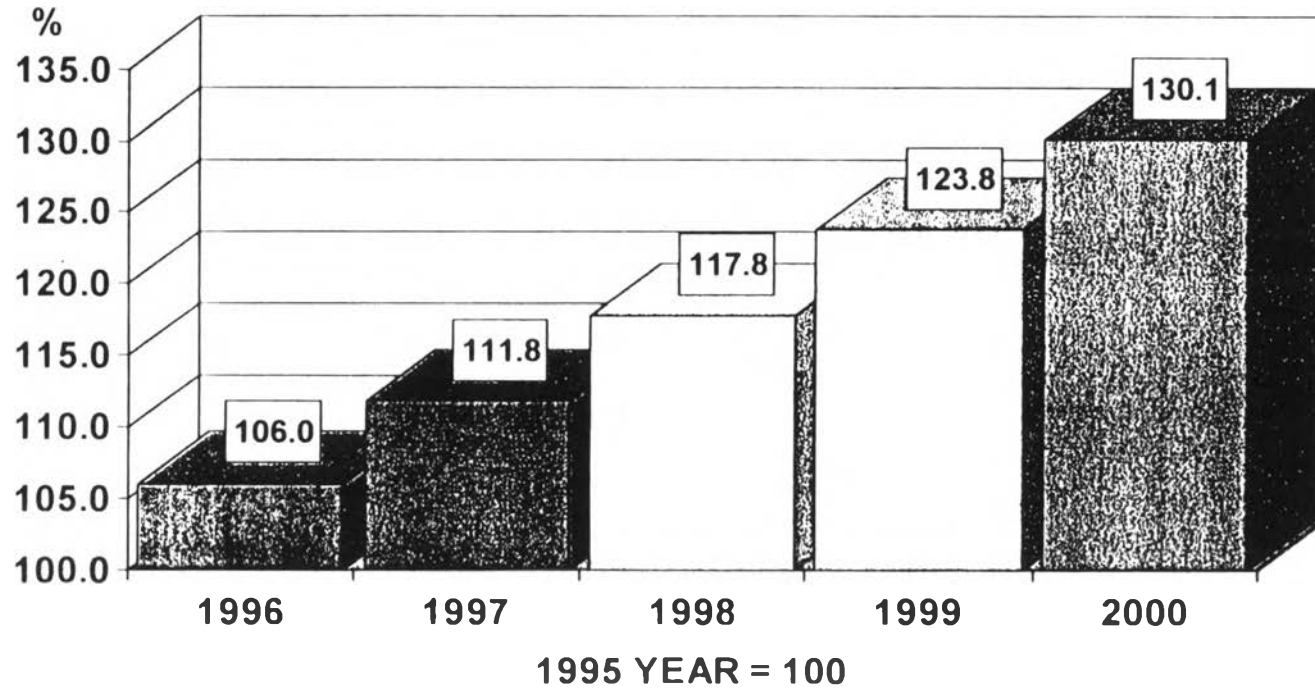
<sup>50</sup> Ibid., p. 119.

However, Grzegorz W. Kolodko, deputy Prime Minister and Minister of Finance, did not have the opportunity to implement "Package 2000" as his term in office had ended in 1997.

His successor, Mr. Balcerozicz, Minister of Finance, in the present government, initiated the implementation of a more rapid economic reforms in the areas of privatization, pension, health and education.

Figure A

### GROSS DOMESTIC PRODUCT GROWTH

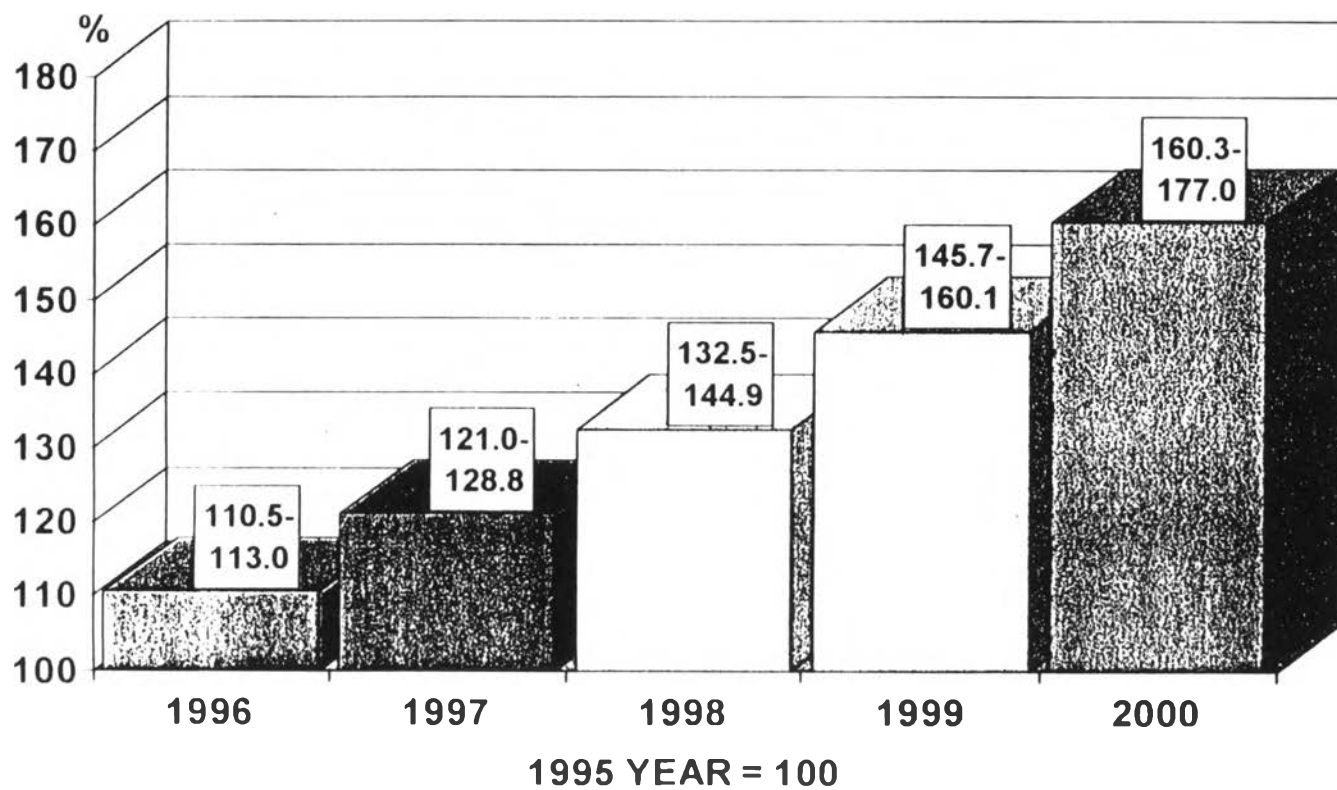


Source : Poland 2000 , Warsaw 1996



Figure B

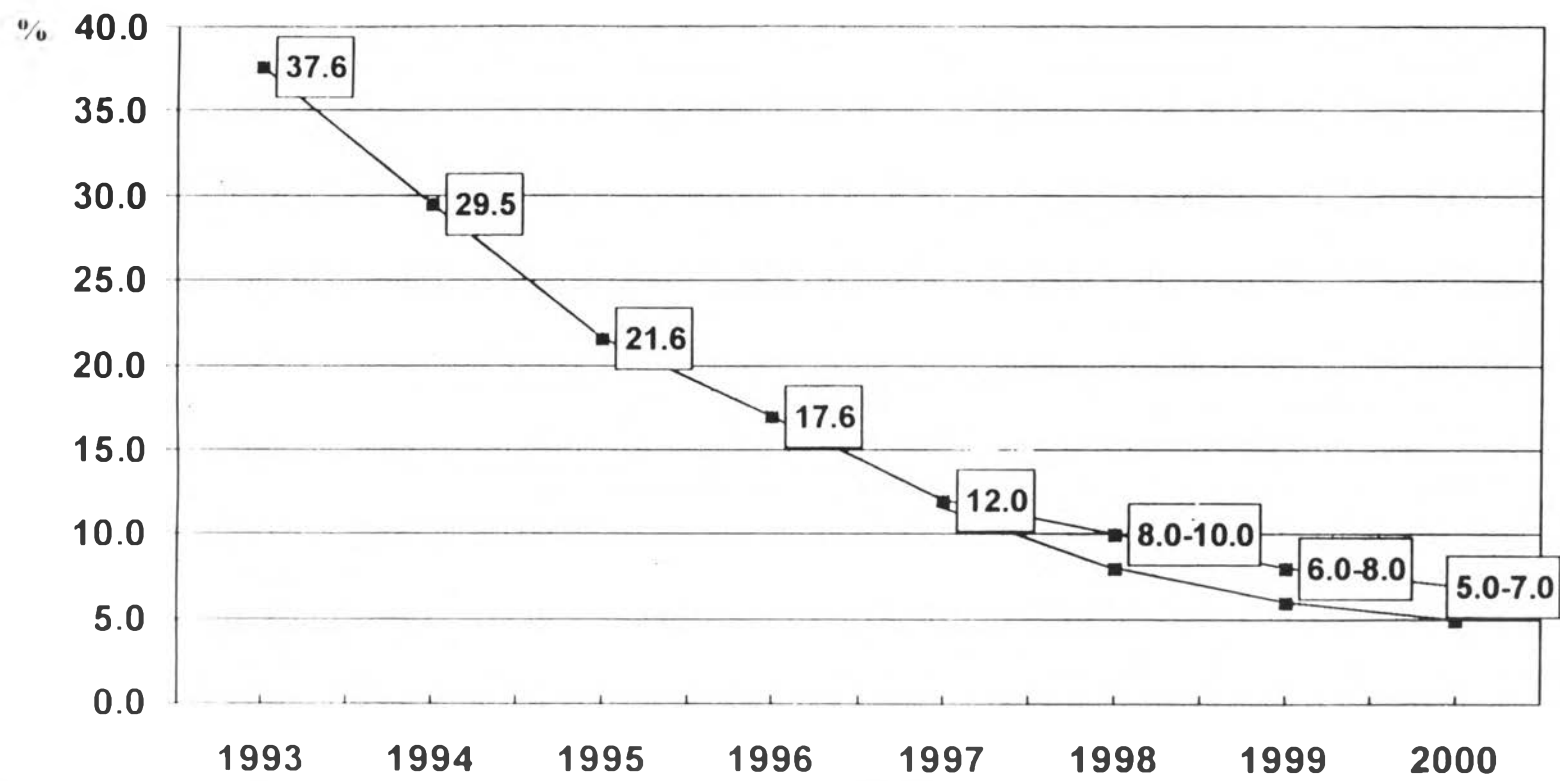
### INCREASE IN INVESTMENTS



Source : Poland 2000, Warsaw 1996

Figure C

**INFLATION RATE (DECEMBER/DECEMBER)**



Source : Poland 2000, Warsaw 1996