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POLAND: Economic Problems

[REDACTED]

Yesterday's announcement by the Polish Government that it had raised meat prices has triggered strikes by workers in Warsaw and three other places. The work stoppages take place against a background of severe external financial strains in Poland. Hard currency financial requirements to cover the expected current account deficit and amortize medium- and long-term debt probably will be over \$9 billion this year.

[REDACTED]

[REDACTED] Warsaw so far has responded only with minor changes in policy.

Warsaw had been preparing the population for gradual price rises, indicating that the so-called "commercial" stores would soon be selling one-third of all meat as well as other food products. Yesterday's announcement confirms that a higher share of meat would be sold in commercial stores, and some types of meat and poultry would only be sold there from now on.

The news of the disturbances in the wake of the price boosts is likely to complicate further Polish efforts to raise the money. The economy has shown some signs of recovering from last year's slump. Industrial production in the first quarter of 1980 was 9 percent above that of first quarter 1979. However, this mainly reflected a comparison with the very poor performance and heavy draw-downs of material stocks. Disruptions in the supply of vital industrial materials resulting largely from further cuts in Western imports rule out continued high growth for the rest of this year.

Despite bad weather in late spring, Poland could still have an average harvest this year. When Vice Minister Jagielski told Secretary of Commerce Klutznick that Poland expected another poor harvest, he may have been trying to influence the US decision on granting Poland's

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request for additional Commodity Credit Corporation credits--\$60 million this fiscal year and \$670 million in fiscal year 1981.

The most serious domestic problem the leaders face is imbalance in the consumer goods market. Demand--aggravated by rising wages and a high level of savings--continues to outstrip supplies of consumer goods, particularly food. Although Warsaw recently announced a consumer inflation rate of 7 percent in 1979, the real rate was at least twice as high. The outlook appears even more bleak in view of Warsaw's recent announcement of a downward revision of planned industrial growth targets and of a shift of domestic production to the export market.

#### Policy Moves

The government also has made limited attempts to improve bureaucratic efficiency by cutting administrative costs and by reducing personnel. To stimulate exports, the government has authorized greater autonomy in decisionmaking for 15 export-oriented enterprises.

Discussion of economic reform has revived, with the emphasis on a gradual approach. Changes in wholesale prices, reduction of subsidies, linking wages with productivity, and tighter bank control over investment and wages are being considered.

#### Balance of Payments

Despite Poland's claim that it can slash its hard currency current account deficit by \$1.5 billion, we believe the deficit--which includes interest on total debt--may well exceed last year's record of \$2.8 billion. Warsaw sharply reduced its trade deficit with non-Communist countries in the first four months of 1980. Sluggish growth in its Western export markets and difficulties in holding down imports make it highly doubtful, however, that Warsaw will realize its goal of a \$400 million trade surplus. Indeed, we expect a trade deficit of about \$1 billion. The amortization of medium- and long-term debt will approach \$6 billion, reflecting the shorter repayment periods on much of Poland's recent borrowing.

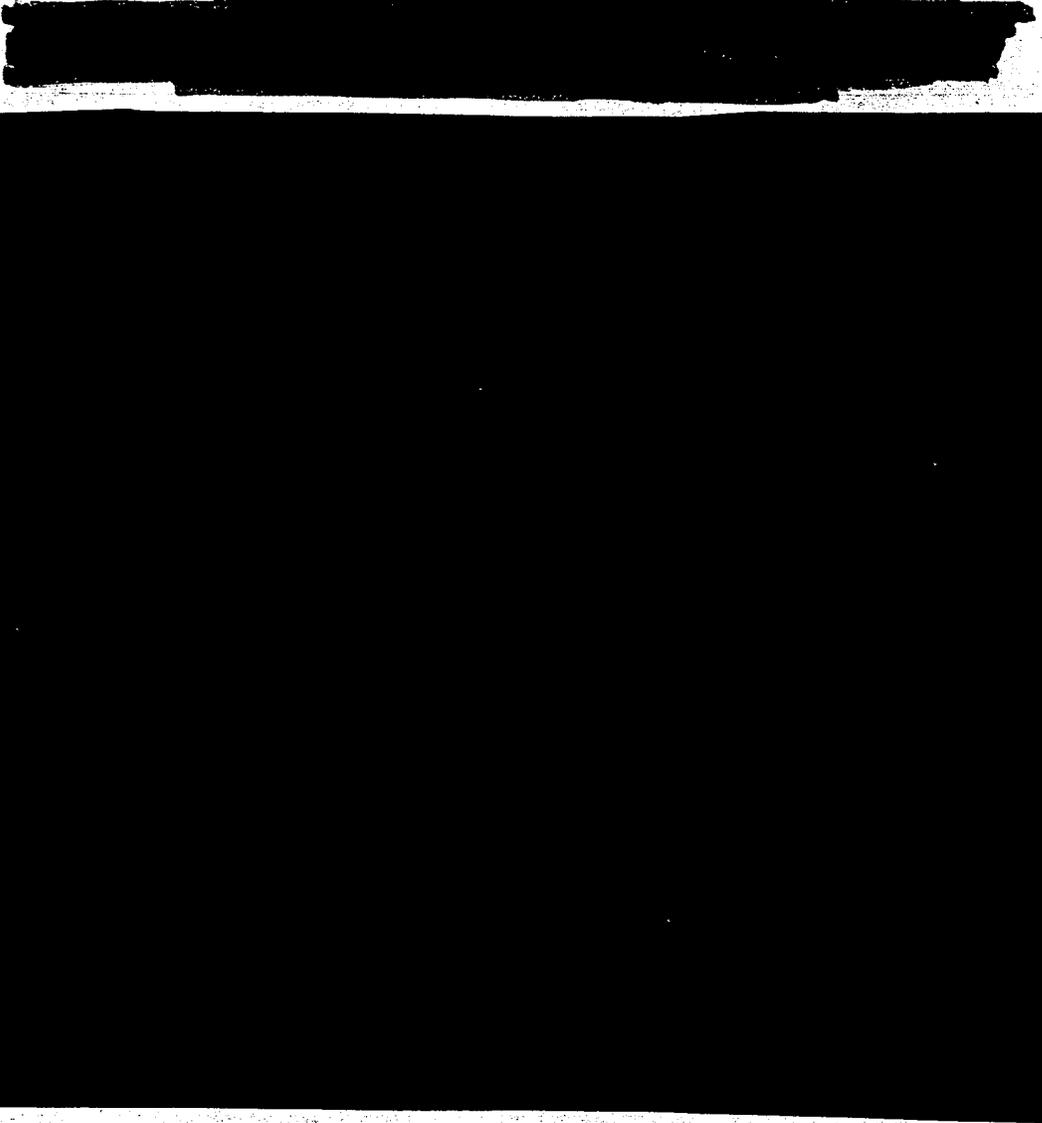
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We estimate that Warsaw's total financing needs this year will exceed \$9 billion--about \$2 billion more than the Poles claim. Of this, more than \$3 billion still has to be raised.



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