

CIACO NID 81 [REDACTED]

July 07, 1981

SPECIAL ANALYSES

POLAND: Economic Slide Continues

Poland's party congress will take place against a background of economic disarray. The disorganized and demoralized Warsaw leadership has been unable to gain control over the economy or to convince workers of its competence and good faith. [REDACTED]

The decline in output is accelerating. The labor force is working a shorter week and absenteeism has increased substantially. The hard currency squeeze has caused a painful cutback in imports of industrial materials and spare parts, and domestic raw materials, particularly coal, are in short supply. [REDACTED]

Agriculture is the one bright spot, with favorable weather and higher procurement prices pointing to increases in the production of most crops, including grain. Even so, rationing is still necessary and food lines remain long. [REDACTED]

The regime has attempted to pacify the population by increasing imports of consumer goods from non-Communist suppliers. Imports of producer goods from the West, however, are down, forcing some industries to operate at only 20 to 30 percent of capacity. [REDACTED]

The Financial Picture

Even with the extensive debt relief it has already received, Poland still faces debt service obligations of about \$2 billion in the second half of 1981. Since hard currency imports are now running about \$500-600 million a month, Warsaw cannot cut back enough to cover a significant portion of this bill without causing another decline in domestic economic activity and more serious shortages of critical consumer and industrial goods. [REDACTED]

Some sort of suspension of debt service payments seems likely in the next few months. The Soviets apparently have no intention of providing more hard currency

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aid. Western banks have refused to increase their net Polish exposure and there is no indication that Western governments are prepared to extend additional large-scale aid. [REDACTED]

Prospects for Recovery

Even if funds are provided, economic recovery will be difficult to get started. [REDACTED]

The role of Solidarity will be crucial. It now appears willing to go along with moderate and gradual retail price hikes--unlikely to be introduced before September--in return for adjustment in incomes of lower paid workers and progress toward a greater role for workers in management. There is no sign, however, that the union is ready to support the tough austerity measures needed for optimum recovery. [REDACTED]

Another problem is that as long as Polish workers view their leaders as self-serving, corrupt, and incompetent, they are unlikely to put forth greater effort on the production line or accept a standard of living that, at best, will rise only moderately over the next several years. There may be some room for optimism if--after the party congress--the populace considers that prospects are better for institutionalizing some of its hard-fought political objectives. [REDACTED]