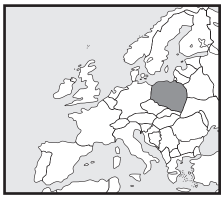
POLAND

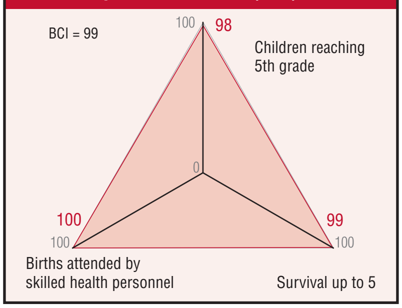
An even gloomier development picture



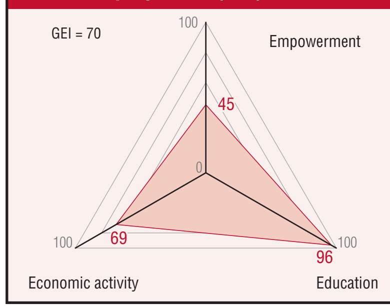
Even before the world financial crisis started to take its toll causing devaluation, increased unemployment and reduced income, investments and exports, Poland had already experienced rising wage and income inequality during its transition to a market economy. As the Government lacks transparency in its operations, there is no opportunity for public debate to discuss the measures taken to cope with the crisis, such as the use of loans from international financial institutions. At the same time, Polish society's patriarchal mentality and lack of social protection policies make women the first victims of the crisis.

KARAT Coalition/Feminist Think Tank
Ewa Charkiewicz
Polish Social Watch Coalition/International Commission of Jurists
Katarzyna Szymielewicz
NEWW Polska / University of Gdańsk
Dr Mariusz Czepczyński

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



Prior to the world financial crisis, Poland was an exemplary case of a successful neoliberal transition into the market economy. According to a recent report from the Organisation for Economic Cooperation and Development (OECD), Poland was second lowest among 30 member states in child poverty and fourth in income inequality, with the richest 10% of the population gaining a bigger share of market income and paying a lower share of the tax burden than in any other OECD state except Turkey.[1] Privatizations have affected most acutely the social sectors (pensions, health care and education), while state support has been extended to businesses (e.g., the Deputy Prime Minister has announced a plan to support companies that had engaged in risky currency options markets) but not to citizens.

This gloomy picture, however, is getting even darker as the crisis unfolds. The initial impact was a drastic devaluation of the Zloty (the national currency) – by approximately 25-30% within six months in relation to the euro and the Swiss franc – and a plunge in the Warsaw stock exchange. While this initially affected primarily Polish financial markets and companies involved in currency options, it has now begun to affect the national political debate, particularly with the more recent decrease in national revenues and decline in investments and exports. Further, contrary to initial (rather optimistic) scenarios, the financial crisis is having a significant impact on access to finance for both Polish businesses and consumers.

Unemployment

Recent labour market surveys indicate that unemployment has increased from 9% to 12% since the beginning of the crisis, including in white-collar positions. However, the actual numbers of people without any means of livelihood are higher, and only 15.5% of those unemployed are entitled to an allowance and eligible for public health care.[2] The rest are on their own.

In addition, the statistical average does not reflect the hardships in towns where one significant employer, from whom the majority of households derive their livelihoods, is closing due to plummeting orders or opportunistic manoeuvres: for example, some companies are reportedly blaming the financial crisis in order to lay off workers and cut costs.

The effects of the financial crisis are most severely felt by those who do not have any savings, means to produce their own food or rural family ties (despite being on the verge of extinction under pressure from large scale agriculture, smallholder farms still survive in Poland). However, the new middle class families are also in a tight spot, especially young couples with children who have incurred huge mortgages with adjustable interest rates, or in foreign currencies, to purchase their dwellings.

Access to finance and long-term growth perspectives

As a result of the so-called "credit crunch" (a sudden reduction of access to credit and an increase in its costs), the prospects for the country's economic growth have declined substantially: from a reported 6.5% in 2007 and 5.5% in 2008 to a prediction for 2009 ranging between 2.5% and 3.7%.[3]

Furthermore, Poland has started to be affected by a sudden halt in capital inflow, followed by increasing risk aversion among investors and the crowding-out effect, as competition grows among the strongest EU economies for public debt financing.[4] The situation has been further exacerbated by the foreign exchange crisis: the weakening Zloty had a damaging impact on companies that entered into currency options contracts as well as on persons repaying foreign currency mortgages.

The supply of credit has been strongly limited in all segments of the credit market, and more than 80% of the banks have introduced far more rigorous criteria for extending credit of any type. In particular, they have increased the requirements concerning the level of security and, in the case of mortgage loans, the amount of the borrowers' own contributions. Also, almost every bank has raised its credit margins – from 1-2% in mid-2008 to 7-8% in the first quarter of 2009.[5] The cost of money in the interbank market has increased substantially due to an unprecedented decline in mutual trust between financial institutions. The Polish Financial Supervision Commission (FSC) has sharpened liquidity ratios and reporting obligations.[6] The banks' assessment of the prospects

1 Organisation for Economic Cooperation and Development. *Growing Unequal. Income Distribution and Poverty in OED Countries.* Paris: OECD, 2006. Available from: <www.oecd.org/dataoecd/48/56/41494435.pdf>.

2 National Statistical Office. "Registered Unemployment, first quarter 2008." See: <www.stat.gov.pl/cps/rde/xbcr/gus/PUBL_PDL_bezrobocie_rejestrowane_I-III_kw_2008.pdf>.

3 Estimates reported by web portal Bankier.pl. Available from: <euro.bankier.pl/news/article.html?article_id=1886336>.

4 Rybiński, K. *Finansowanie rozwoju Polski w kryzysie.* Ernest & Young, February 2009.

5 All data based on report by the National Bank of Poland. *Situation of the credit market in the first quarter of 2009*, Warsaw, January, 2009.

6 In July 2008, the Polish Financial Supervision Authority imposed an obligation on banks to maintain and report their quantity liquidity standards, thereby improving banks' liquidity and helping to contain the "confidence crisis". See: <www.knf.gov.pl/sektor_bankowy/Decyzje_stanowiska_nadzoru/uchwaly/index.html>.

of the economy is very negative, and they expect further restrictions in lending to enterprises.[7]

Consumers: the mortgage market standstill

The banks' prevailing policy of setting the required amount of own contribution at 30% rules out any possibility of purchasing their own homes for the majority of people, while there is already a shortage of around 2 million flats on the market.[8] The most likely result will be a drastic increase in rents, but the prices of apartments for sale will not necessarily fall quickly. Also, the costs of servicing foreign currency mortgage loans (79%–81% of the total credit portfolio in 2008)[9] drastically increased, due to the sudden drop in the value of the Zloty and a very unfavourable change in the banks' policy regarding the calculation of the spread.

The public believes that banks are manipulating the exchange rates at the clients' cost. At present the difference between the purchase and the selling rate can reach as much as 12%,[10] while even the Office of Competition and Consumer Protection is unable to impose exchange rate restrictions. Consumer groups are therefore forming through the Internet in order to purchase foreign currencies in wholesale quantities, hoping to negotiate the amount of spread and sometimes even renegotiate terms and conditions of credit agreements.[11]

Credit crunch and threat of massive bankruptcy

Already 15% of enterprises are having problems obtaining operating credit.[12] For every one out of two enterprises, banks have tightened the terms and conditions for lending, a situation that will certainly get worse in 2009. According to preliminary forecasts, banks will have 50% less funds for lending in 2009 than in the preceding year. It is very likely that they will start sending *en masse* calls to companies for repayment or renegotiation of loans, claiming default on the terms of the credit agreement.[13] In 2008, because of competitive pressure, banks granted a gigantic number of loans with minimum margins of interest, but those loans are now becoming a burden. Small and medium-sized companies that do not have significant security in their private capital are particularly threatened.

7 Financial Supervision Commission. *Informacja o sytuacji banków po trzech kwartałach 2008 r*. Available from: <www.knf.gov.pl/sektor_bankowy/Publikacje_nadzoru_bankowego/publikacje_sektora_bankowego/index.html>.

8 Online survey by Money.pl. Available from: <www.money.pl/banki/raporty/artykul/kredyty;hipoteczne;tylko;dla;bogatych,142,0,376462.html>.

9 Data from the Association of Polish Banks reported at a conference in December 2008. Available from: <www.zbp.pl/site.php?s=MTIyNTk0MTI=>.

10 Online survey by Money.pl. Available from: <www.money.pl/banki/wiadomosci/artykul/ciezki;los;posiadaczy;kredytow;banki;uderzaja;spreadem,207,0,383183.html>.

11 Dominiak, T. "Polacy buntują się przeciwko bankom." *POLSKA The Times*, 25 February 2009.

12 Survey conducted by the Polish Confederation of Private Employers Lewiatan. See: <www.pkpplewiatan.pl>.

13 Niklewicz, K, Samcik, M and Hałabuz, N. "*Znikają ce tanie kredyty*." *Gazeta Wyborcza,* 24 February 2009.

On top of the credit crunch, thousands of companies fell into the trap of currency options and are now struggling on the verge of bankruptcy. Encouraged by the banks, companies were buying options in massive amounts to protect their export profits. After the rapid devaluation of the Zloty they not only lost all invested capital but have also amassed a huge amount of debt due to poorly protected contracts.

The democratic deficit

Other major problems include the fall in State income and the rising costs of servicing the public debt. They go hand in hand with the prevailing democratic deficit: there was no public debate on the new emergency loan from the World Bank in the amount of EUR 3.75 billion, and the State's activities are largely opaque to the media, elected politicians and the public. When the Depository Trust & Clearing Corp., which operates as a central registry of credit swaps trades, published its details, including the top 1,000 contracts, it turned out that the Republic of Poland and other sovereign states engaged in derivatives trading as much as the private sector. Since the early 2000s the OECD, the World Bank and the International Monetary Fund (IMF) have organized trainings and seminars for finance ministry officials to persuade them to engage in creating and dealing in markets for state debt. When the State operates like a commercial firm, it abandons its citizens, especially those who do not generate income for the State or market.

Gendered effects

In 1989 and 1990, when Poland embarked on the free-market road, the first casualties were women garment workers, as inefficient factories closed and nothing replaced them. Today the revamped garment sector, where women again predominate, is shrinking again as import orders (mainly from Germany) fall and local subcontractors downsize or close, resulting in an estimated net job loss of 40,000.[14]

Trapped in the grey economy

The decrease in family incomes due to the economic crisis might cause pauperization of whole social groups, particularly among the lower and middle classes. It is very likely that this will in turn have a more significant impact on women, since they traditionally are the main responsible for family well-being (this is particularly true among the lower income groups). According to some analysts, crises amplify the grey (informal) sector in the Polish economy as many, especially small entrepreneurs try to minimize labour costs and avoid taxation and other costs associated with formal employment. It seems very likely that the growth of the grey economy will affect women more than men, as they are more often engaged in low paid jobs, especially in the private service sector (e.g. in retail).

14 Brzoska, P. "Lodz cienko przedzie, szwaczki znow traca prace." *Polska – Dziennik Łódzki*, 29 December 2008. See: <www.polskatimes.pl/dziennikldzki/pieniadze/74052,lodz-cienko-przedzie-szwaczki-znow-traca-prace,id,t.html>.

Limits for generating income

The shrinking means of livelihood transfer the social costs of the financial crisis to households and to women in particular. Some 60%–70% of the unpaid work to sustain and care for families is done by women.[15] Class, ethnicity, age and geographical location differentiate this gendered impact of the financial crisis; for instance, due to high housing rental costs, the labour market mobility of inhabitants in small towns in economically depressed areas is limited. For women of reproductive age, institutionally entrenched obligations to provide care work in the household further limits their ability to seek alternative means of generating income.

Women's organizations

Many women's rights organizations, including NGOs, have already felt the loss of funding as donations from private companies and individuals have declined significantly, and Government funding will also decrease given the projected drop in GDP for 2009 has forced cuts on many budget programmes. The budget of the Civic Initiatives Fund, a government-run programme that supports non-profit organizations, is being halved. While it prioritizes a neo-liberal agenda (diversity management, discrimination, entrepreneurship) and shifts NGOs to the role of service providers as the State withdraws from the social sector, the Fund has provided important resources for sustaining NGO activities. It is very likely that the local authorities' funding for local NGOs will diminish as well.

Further, the economic crisis is already having a negative impact on the ability of women's NGOs to raise money, from both private and public donors, for their own share in a project co-funded by the European Commission. This is particularly alarming since, while the EU funds created new opportunities for NGOs in Poland, neither the State nor local authorities have developed the required mechanisms for financially supporting NGOs that secure EU funding.

A grim scenario

It is possible that a long-lasting and worsening economic situation might cause social and political conflicts during the coming years. Potential economic polarization, increased unemployment and the collapse of financial markets and the public budget might be followed by the rise of radical, conservative, right-wing attitudes and parties. A rise in neo-conservatism might promote traditional, patriarchal values, while limiting women to their traditional 'kitchen, children and maybe church' role. In addition, because they are considered much more important, economic issues might dominate the public discourse and cause further marginalisation of social and gender issues. ■

15 Budlender, D. "The statistical evidence of care and non-care work in six countries." Geneva: United Nations Research Institute for Social Development (UNRISD), 2008.