Poland: Social and economic crisis intensifies as inflation surges past 25-year highs

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In Poland, the social and economic situation continues to deteriorate. The effects of high interest rates, the war in Ukraine and inflation, which has exceeded 25-year highs, threaten to plunge the country into a deep recession.

Inflation, already 8.6 percent at the end of last year, has climbed to nearly 18 percent despite a government "inflation shield." Inflation in many other eastern and southeastern European countries is even higher. Even so-called core inflation, which does not take into account the strongly fluctuating prices of food and energy, has exceeded the symbolic 10 percent level.

Poland is not a member of the euro zone. The Polish central bank has raised the primary interest rate in steps to 6.75 percent. This is significantly higher than the ECB's prime rate, which was most recently 1.25 percent. The Polish central bank has recently refrained from further interest rate increases as the rate hikes to date have already caused a significant economic slump.

Fixed interest rates are rare in Poland, so interest rates on existing loans are rising and new investments are becoming more expensive. To date there have been only limited declines in in the sale of consumer goods, but this is mainly due to the high number of Ukrainian refugees (2.6 million according to the UNHCR) currently living in Poland.

A look at the construction sector in particular reveals how devastating the impact of rising interest rates on the Polish economy have been. Compared to the previous year, a drastic 46 percent decline in new residential construction was recorded in August. Since many Polish companies lease their vehicles and machinery, they are also faced with rising costs.

The International Monetary Fund (IMF) has again cut Poland's growth forecasts for this year and next: to 3.8 percent for this year and to 0.5 percent for 2023. According to the rating agency Moody's, Poland's GDP will shrink by 0.2 per cent year-on-year in 2023.

Pawel Borys, president of the Polish Development Fund, posted a gloomy forecast on Twitter. After returning from the IMF and World Bank annual meetings, he wrote that the mood was "as bad as during the 2009 and 2012 crises." Borys believes that a recession in Germany and Italy will also rebound onto the Polish economy and lead to further growth in unemployment and public debt.

For Poland, the depreciation of the zloty (PLN), which in the last year dropped in value from PLN 3.9 to PLN 5 per dollar, means a rise in the price of imported products, especially from the US, where Poland has signed multibillion-dollar arms purchases. Many Polish companies pay for imported raw materials and components from the Far East in dollars and accept payment for the export of finished products to Western Europe in euro, which "shrinks margins very quickly" due to the dollar's "stronger position," as Piotr Soroczy?ski, chief economist of the Polish Chamber of Commerce, commented.

The social consequences of the crisis have already been devastating. The newly released poverty report ("Poverty Watch 2022") by the European Anti-Poverty Network provides a glimpse of the rampant spread of poverty in Poland over the past year. According to Prof. Ryszard Szarfenberg, while it has declined in recent years, poverty now wears "the face of an elderly and disabled person."

About 1.6 million Poles live below the subsistence level. For a one-person household, this is PLN 692 (about $145) per month. This excludes the homeless population, which is not recorded in the statistics. Approximately 4.6 million Poles live in relative poverty, that is, they earn less than 50 percent of the average monthly income. That was PLN 6,688 ($1,480) in September 2022, nominally up 14.5 percent from a year earlier. In view of inflation, however, real wages fell by around 3 percent.

Whereas children and large families used to be the focus of the poverty report, the share of extremely poor children has fallen considerably—from 700,000 in 2015 to 333,000 in 2021— partly due to the 500Plus childcare allowance introduced by the PiS government. However, almost one million children continue to live in relative poverty.

In addition, there are 246,000 elderly people over 65 who live below the subsistence level. Seniors are increasingly asking for food assistance, Szarfenberg points out. Those most affected are those who have no pension entitlement and live on social assistance. This was increased only slightly from PLN 645 to PLN 719 ($143 to $159) in February 2022, despite high inflation.

Szarfenberg considers an increase in poverty of more than 2 percentage points to be likely in the coming year. According to the professor, the main reason is the failure to adjust social benefits to inflation. He points out that family benefits have not been adjusted since 2016.

In fact, the minimal increase in social assistance has already been surpassed several fold by rising prices. Although the government tried to counteract this with its "inflation shield," the reduction of the value-added tax from 23 to 8 percent and the elimination of the fuel tax, gasoline and diesel prices have reached record highs. Since September, prices have risen by around 170 percent, with a liter of diesel costing PLN 8 ($1.77).

Even a ton of black coal costs PLN 2,000 ($443), twice as much as a year ago, despite state subsidies. Prices on the free market are now PLN 4,000 ($885) and above. In search of cheap coal for the winter, some stand in line for hours or drive hundreds of kilometers to the Czech Republic or Slovakia, where it is still somewhat less expensive.

In response, the government has again legalized the purchase of brown coal by the power plant operator PGE, which was prohibited because of its high emission of pollutants. Its price lies between 190 and 500 PLN per ton ($42-$111), but when burned produces a fourth the heat compared to black coal. Moreover, burning brown coal releases three times more sulfur and five times more mercury into the air.

Rising energy costs have already resulted in cut budgets.

The Jagiellonian University in Krakow, for example, announced that it would no longer be holding its central lectures in person, instead holding them online from October onward because of the rise in electricity prices, which have increased almost 700 percent. There are similar reports from other universities.

Schools and daycare centers were also asked by their municipalities to develop cost-cutting plans, all while repeating platitudes that "the children need to be warm" and that "no distance learning" would be implemented. Shopping centers and retail chains have also announced energy saving measures for lighting and heating.

However, the most severe impact is in the increased price of food. In the first half of 2022, the price of butter rose by 48 percent, meat by 31 percent, and fruit by 24 percent. By September the price of cooking oil had increased by 62, salt, milk, and pasta by 37, flour and rice by 20, and sugar by 100 percent. As a result, the incidence of grievous shoplifting increased 27 percent and petty shoplifting 13 percent in the first half of the year. As the industry magazine *Wiadomo?ci Handlowe* reported, stores have responded with increased use of anti-theft devices, even on butter.

Opposition parties, together with the unions, are organizing a series of innocuous protests to serve as lightning rods for the rising storm of social conflict. At the same time, they support the government's war course against Russia and attack the PiS from the right on economic and social policy. They say that state subsidy policies, rising social spending and, in particular, the 500Plus child benefit and overly hesitant interest rate hikes by the central bank are to blame for the misery.

Under the slogan "United and angry at PiS," pro-opposition groups demonstrated in several cities in recent weeks against increased energy prices and inflation. In each case, only a few hundred participants showed up.

For National Education Day, the opposition also organized protests against the policies of Education Minister Przemys?aw Czarnek under #KartkaDoCzarnka (Red Card for Czarnek). The teachers' unions, confronted with a veritable exodus of personnel due to deplorable working conditions, organized a parallel week-long "education village" in front of the ministry and protested last month, drawing a small rally demanding a 20 percent pay raise.

The unions used the same method to stifle protests by nurses, paramedics and doctors a year ago. After tens of thousands protested in Warsaw, the unions staged a so-called "White City" while negotiating with the government for weeks, only to quietly take down the camp having achieved nothing.

NSZZ "Solidarno??," one of Poland's three major trade union confederations, has now announced "the biggest demonstration in Warsaw in years" for November 17. Talks with the government on wage increases, capping energy prices and lowering the retirement age have broken down, the union said. Miners, steel and auto workers, as well as state employees and police officers, are to be mobilized for the protests.