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POLISH EXTERNAL DEBT

ABSTRACT

The aim of the article is to present the growth of the Polish external debt, with special consideration of its causes and methods of debt reduction. In order to achieve the aim of the article, a research method of descriptive comparative analysis has been applied. In the conclusions of the paper it is stated – among others – that external credits have been taken in order to decrease economic disproportions between Poland and highly developed countries. Considering the necessity of debt repayment, the due amounts have already become a considerable developmental barrier and a burden not only for the state budget but also for business entities. Undoubtedly, Poland is going to take more credits and to issue foreign bonds in the nearest future. Their use may turn out to be an important factor which shall determine the economic situation of the country.

Keywords: external debt, reduction debt, causes of debt, Poland

1. INTRODUCTION

The accrual of the Polish external debt is a process lasting for several decades. This period can be divided into five basic stages:

1. up to 1970 – at that time the external debt was minimal, and it was not a burden for Polish economy. Poland hardly ever made use of any foreign credits then, exclusively for political reasons;
2. 1970s – external debts started to grow rapidly and in an uncontrolled way because of an easy access to foreign credits resulting from the growing prices of oil in the world, and because of a new economic policy which was open to the world and which assumed a dynamic development of the country, based on advanced technologies;

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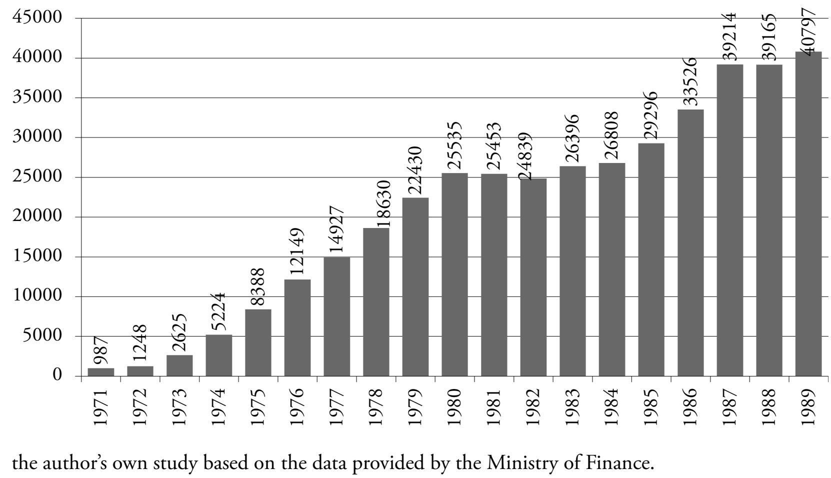
3. 1980s – despite reductions, Polish debts continued to grow systematically, mainly because of the fact that the country was not able to completely repay the mature installments and interests (only 1/3 of due amounts);
4. 1990s – the implementation of structural adjustment programmes made creditors reduce Polish external debts in an unprecedented way (the Paris Club reduced them by approximately 50%), however the problem of debt repayment remained unsolved;
5. the beginning of the 21st century – external debts have been going up dynamically, considering the limitation of the national capital, broadly understood requirements of the transforming economy and processes of integration (Górniewicz, 2015, p. 277).

2. EXTERNAL DEBT IN 1970S AND 1980'S

Until 1970s external debts did not come as a serious problem for Polish economy. Due to political reasons, the Polish People's Republic rarely took any credits from Western countries, and when it did, all due amounts were repaid in due time (Górniewicz, 2002, p. 77). In 1971 the foreign free-currency debt reached an approximate level of USD 987 million. In 1971 the debt started to grow quickly (see: Figure 1) and in 1979 it was increased by more than USD 20 billion.

Figure 1. The accrual of the Polish free-currency debt in the years 1971–1989 (in USD million)



Source: the author's own study based on the data provided by the Ministry of Finance.

At the beginning of 1970s, as a result of a political breakthrough, the majority of the Comecon countries started to implement programmes for economic restructuring and modernisation of production. It was necessary, considering the fact that the pace of industrial production could not keep up with the global standards of quality and advancement. The Polish People's Republic started its attempts to implement "The Second Modernisation of Poland" programme (Klawe, Makać, 1987, p. 402). The new strategy assumed by the Polish People's Republic resulted mainly from the urge to overcome economic stagnation which resulted in a political and social crisis at the turn of the 1960s and 1970s. It came as a response to WładysławGomułka's policy (the First Secretary of the Polish United Workers' Party in 1956–1970) in which he avoided any indebtedness of the Polish People's Republic to foreign countries. As it turned out later, the strategy of taking credits was based on an erroneous assumption, in which it was claimed that the debt would be favourable for Poland because in the situation of high inflation in well developed countries any due installments would be lower than the real value of the credits taken. (Antowska-Bartosiewicz, Małecki, 1991, p. 5–6).

A new strategy assumed by Poland resulted also from the fact that at the beginning of the 1970s the generation of people born during the baby boom of the end of the 1940s and the beginning of the 1950s had just entered their working age. It became necessary to provide additional job vacancies for approximately 1.7 million people during the years 1971–75 and for 1.2 million people during the years 1976–80. Such an operation required a lot of investment, considering especially the fact that the job vacancies were supposed to be related mainly to the modern branches of industry (e.g. machinery, chemical industry). Hence, taking advantage of foreign credits might have been considered as well-justified (Górniewicz, 2015, p. 279).

The rapid growth of Polish external debts was affected by the factors related to the creditors and to the debtor itself. Among the external factors which were beyond of the state control, there was a several-fold increase in the price of oil at the end of 1973, which also occurred in other developing countries. It resulted in an unprecedented transfer of income. Having accumulated their wealth quickly, the OPEC countries made huge deposits in banks of Western Europe and the United States of America. Such an increase in deposits made banks search for debtors and offer easily available credits. Thus, similarly to other countries at that time, Poland was offered an easy access to credits. External debts were also incurred because of a severe and long-lasting economic recession in the West during the mid-seventies, and a lower rate of economic growth since the end of the recession. Resulting from such a situation, the inability to use productive capabilities in highly developed countries induced them to expand. Such an expansion could have been continued only with the support of credits, considering the lack of financial reserves in socialist and developing countries, that is namely: by an increase in their debts. It should be noticed here that Poland was offered much more favourable conditions to take foreign credits than other socialist countries at that time (Górniewicz, 2007, p. 58).

However, an increase in the Polish external debt resulted mainly from the reasons of internal nature. At that time, Polish economy was totally dependent on the political regime. The free market did not function at all, and competition was eliminated completely (Krawczyk, 1990, pp. 25–26). The observation of long-term processes of economic growth in the situation of permanent shortage of various resources, manifested by the permanent lack of stability, allows us to notice a continual increase in economic disproportions which finally resulted in a severe social and economic crisis. Apart from these factors, the planning system and management of national economy along with faulty agricultural policy also contributed to the crisis.

Having taken credits, Edward Gierek's team intended to provide means for quick and extensive modernisation of the whole economy. It was assumed that debts would be repaid with products manufactured with imported investment goods. The concept of "self-repaying credits" was promoted strongly, and in the understanding of the nomenclature of that time they were considered as free credits. Good results obtained during the first years of the five-year plan (1971–1975) encouraged the authorities to continue their programme of fast development and to increase their investment efforts. However, in 1975 a depreciation of the former outcomes of the reforms was started because the reserves of production capacities were running out. The concept of fast development which referred to the implementation of huge economic organisations and to the economy open for cooperation with foreign partners eventually failed. As a factor which was supposed to accelerate economic development, the internal debt was transformed into a barrier which hindered economic growth (Górniewicz, 2002, pp. 81–82).

Even the very use of credits was entirely improper. In accordance with some estimated data, only 20% of the credits taken in the 1970s were allocated to finance investment and to increase production capabilities (in spite of the fact that the strategy applied in the 1970s was based on quick development of economic capabilities, which were supposed to provide foreign currency to repay debts). Their main part (about 65%) was used to import raw materials and other elements required for production. The remaining part was used to purchase consumer goods, first of all, agricultural goods because national production of food could not keep up with growing consumption. Due to extreme economic inefficiency of real socialism in the country of vast agricultural potential (30% of citizens were farmers), there was a shortage of basic agricultural goods (Górniewicz, 2007, p. 59).

The high import-intensity of production should be also noticed; production was implemented with the use of imported machinery and equipment which contributed to the development and modernisation of numerous industrial branches during the years 1972–75 and to a considerable increase in the rate of production growth at that time. Nevertheless, at the end of 1970s that factor lost its growth-inducing character. It transpired that the implementation of advanced technologies involved continually growing expenses on materials and spare parts imported from Western countries in order to maintain the achieved levels of production. The import was possible because of short- and medium-term credits which contributed not only to the increase in the debt but also to the worsening of its structure (Antowska-Bartosiewicz, Małecki, 1991, pp. 7–8).

The service of Polish external debt was handled entirely in convertible currencies until the end of 1980. During the years 1979–1980 the debt service used up almost 100% of income in convertible currencies obtained from export of goods and services. Hence, the debt service was possible only through taking new credits. The new credits were then used almost exclusively to repay mature capital installments and interests. Obviously, such a situation could not last long, even more so, because it worsened the debt structure. New credits had usually shorter repayment periods and their interest rates were higher than the rates of the previously taken credits. It immediately turned out that it was not a temporary lack of liquidity but a manifestation of an insolvency crisis. Despite the inflow of USD 5 billion in new credits in 1981, Poland repaid only 40% of due interests and principal installments. In the combination with economic sanctions implemented after the announcement of the Martial Law in December 1981, the inflow of new credits was suddenly decreased. Nevertheless, Poland had never declared a unilateral moratorium, and it continued its debt service at least partially (during the years 1982–1989 an average repayment of the due amounts reached the level of 20–30%, including 30–60% of due interests). At the end of 1981Polish free-currency debt reached the level of USD 25.9 billion; during the partial debt service during the years

1982–1989 the total amount of repaid principal installments and due interests was USD18.1 billion. In the meantime, at the end of 1989 the debt increased approximately by USD 41billion because of the capitalisation of due interests and penalties. It was a particularly unfavourable situation. On one hand, the economy was seriously burdened with its debt service which was USD 2 billion annually, on average. On the other hand, such sacrifices proved to be largely useless because the debt was still growing which caused further negative effects (Górniewicz, 2015, p. 281).

At the beginning of the 1980s, Poland commenced negotiations on the repayment of its external debt. In April 1981 a framework agreement was signed with the Paris Club on the refinancing or rescheduling of the debt repayment due for that year; the agreement was entered by the governments of fifteen creditor countries (the Federal Republic of Germany, Austria, Belgium, Denmark, Canada, the USA, France, Finland, Italy, Japan, Norway, Holland, Great Britain, Sweden and Switzerland). It was also agreed that the negotiations referring to the rescheduling of the subsequent payments should be continued. However, the negotiations were broken for the next two years after the announcement of the Martial Law in the Polish People's Republic on 13th December 1981. The creditor countries refused to provide new credits, and Poland suspended its external debt service. The negotiations with the Paris Club were resumed in 1983 and a year later the parties agreed on the bilateral conditions of the resumed agreement from 1981, and on the conditions of the restructuring of the debt repayments due in the years 1982–1984. The respective agreement was signed in January 1985. In July 1985 a new agreement was entered by 17 creditor countries on the restructuring and rescheduling of Polish financial liabilities which had been due in the years 1982–1984 until 1991. On 19th November 1985 a similar agreement on the rescheduling of Polish debt repayment due in 1985 for 10 years was signed (Karcz, 2006, pp. 21–28).

In 1986 the negotiations on the Polish debt repayment, the principal installments and interests which had been due in 1982–1984, were continued, and there were agreements signed with 14 countries. There were also agreements entered by 11 countries on the repayment of the principal installments and interests which had been due in 1985. Poland commenced its efforts to decrease its debt repayment to the Paris Club which was due in the years 1986–1987. In June 1986, after many years of negotiations, Poland rejoined the International Monetary Fund and the World Bank which made later negotiations much easier. In December 1987 a temporary agreement with the Paris Club was entered on the debt repayment due in 1987 and in 1988, at the total amount of USD 8.8 billion. The repayment was rescheduled to the years 1993–1997 (Górniewicz, 2012, p. 162).

However, the negotiations with private creditors, namely with commercial banks were different. Bankers were not really prone to believe that the negotiations would be successful. A citation from *the Financial Times* seems to prove it well: *They received money from us but they are unable to give it back. We will agree to wait or we will consider that money lost. And nobody wants to lose such amounts* (Głuchowski, 1993, p. 57). Initially, the negotiations with Poland in London were attended by 460–500 representatives of the creditor banks (it is possible to find various numbers from that range in the expert literature), but none of them was willing to assume the role of a negotiator on behalf of other banks. However, it was difficult to evade that representation for the largest banks, such as Bank of America, Dresdener Bank, Lloyds Bank and Manufactures Hanover Trust.

Despite the Martial Law in Poland, the first agreement was signed in April 1982. The subsequent agreements were then signed in 1984 and 1987. Generally, those agreements referred to the rescheduling of the debt repayment to the next 8–10 years, on average (Górniewicz, 2007, pp. 68–69).

3. POLISH DEBT IN THE FIRST YEARS OF TRANSFORMATION

From the foreign creditors' point of view, the political changes initiated in 1989 positively affected the situation of Poland. At that time some favourable circumstances occurred to renegotiate the repayment of the external debt and to take new credits for the requirements of the transforming economy.

Differently from other heavily indebted countries, the incorporation of Poland into Brady's plan could not actually mean that the problem of the Polish external debt would be solved(Berger 1990: 48)[1]. Approximately 70% of the total Polish debt was to be repaid to government creditors, and in such a case there were no mechanisms of debt reduction for the countries of a medium income level. Therefore, the government led by T. Mazowiecki initiated a number of operations which prevented economy from rapidly growing destabilization. At the same time the assumptions for the reform programme approved by the IMF were developed, and the plan came into operation at the beginning of 1990. Its main objectives included fast stabilisation of economy, especially putting an end to inflation and starting the process of economic system restructuring (Górniewicz, 2002, pp. 92–93).

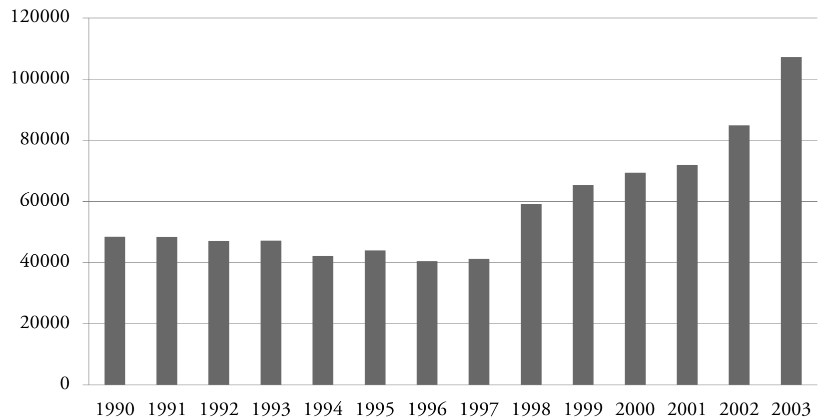
Taking into account the fact that the Western creditors were not ready to seriously consider the possibilities of Polish debt reduction, the initial negotiations were first of all focused on the solutions which would minimise current debt repayments. As a result, in October 1989 the commercial banks agreed to reschedule the principal installments and 85% of interests which were due in the last quarter of that year. It should be noticed that it was the first time when the partial rescheduling of due interests was achieved, based on an agreement with that group of commercial banks (Górniewicz, 2012, pp. 163–164).

[1] On 10th March 1989, the American Secretary of State, Nicolas Brady made an important suggestion referring to the solution to the problem of external debts incurred by developing countries of a medium income level. Considering the debt structure of that group of countries, the concept could be applied only for private banks. Brady's plan was to make the funds coming from the International Monetary Fund and the World Bank as well as from the governments of some industrial countries (mainly Japan) available for the debtor countries which were implementing the programmes of economic reforms agreed with the Monetary Fund and the World in order to finance operations which were related to debt reduction and debt service. A significant novelty in Brady's plan was the recognition of the fact that it was necessary to accept partial cancellation of the external debt by a technique referred to as a market-based menu approach. It involved the following:
1) the conversion of the current debt into capital shares (direct of portfolio investments) in the debtor country (*debt for equity swaps* - D/ES);
2) swapping the current debt for bonds issued by the debtor country(debt for bond swaps);
3) buying out their own debts for cash by the debtor countries (debt buy-back);
4) swapping the debt for export income (debt for exports swaps);
5) swapping the debt for investments in the protection of natural environment(debt for nature swaps);
6) Swapping the debt for the local currency (debt for local currency swaps).

Another breakthrough in the relations with the government creditors was an agreement signed in Paris, in February 1990. The agreement was underlain by the prior agreements with the IMF on the programme of economic restructuring for Poland, supported additionally by the Stabilisation Fund at the amount of USD 1 billion. Despite all the efforts made by the Polish party, the agreement did not assume any debt reduction, however it did assume favourable conditions of restructuring, and it introduced a repayment moratorium by the end of March 1991, that is namely for the period of the economic programme implementation. Therefore, in 1990, despite the lack of repayment to the Western governments, Poland was provided with a full access to new credits guaranteed by the governments of the creditor countries, and to the credits provided by international financial institutions. At the same time, the negotiations on the extensive solution to the problem of the Polish external debt were still continued (the Paris agreement of February 1990 established a Working Group)

In May 1990, during the spring meeting of the Interim Committee of the International Monetary Fund and the World Bank, held in Washington, the Polish Deputy Prime Minister, L. Balcerowicz officially postulated a reduction of 80% of Polish external debt to the governments of the creditor countries and the commercial banks. The issue was put on the agenda during the most serious political talks at that time. It was also intensively discussed in Washington during the session of the IMF Board of Governors and the World Bank in October. Due to the consistent implementation of economic reforms, as well as to the support provided by the IMF and the World Bank, Poland was granted some unprecedentedly favourable terms of debt reduction. As a results, during the negotiations held in Paris (March-April 1991), the scope and terms for the reduction and restructuring of the Polish external debt payable to seventeen countries were agreed upon. The Paris agreement assumed debt reduction at the minimal level of 50% of the net present value (NPV). The creditor countries were given a possibility to agree for a larger reduction on voluntary and mutual basis, and also to swap 10% of the payable debt for other mutually agreed purposes (Górniewicz, 1998, p. 22).

Figure 2. Polish external debt in the years 1990–2003 (in USD million)



Source: the author's own study based on the Statistical Yearbook for 1996, Central Statistical Office,Warszawa 1997, p. 489, and http://www.nbp.pl/home.aspx?f=/statystyka/zadluz.html (2012, March 16).

Considering the discussed period of time, the lowest level of the Polish external debt was recorded in 1996 (approximately USD 40.4 billion). Then it was rapidly increased, and at the end of 2003 it exceeded the amount of USD 100 billion (see: Figure 2). Apart from the above-mentioned reductions, there were two more factors which affected a decrease of the debt. The first one referred to the financial settlement with Russia. As a result of an agreement which was signed in November 1996 by the government of Poland and Russia on the settlement of mutual indebtedness (a zero-plus option), the Polish free-foreign currency debt was decreased by USD 2.3 billion. The other factor was related to the exchange rate differences which reduced the external debt by USD 1.5 billion. It should be mentioned that there was also a minor factor which contributed to the increase of the external debt, namely: the inflow of foreign capital (new credits). It eventually increased the debt by USD 256 million (Górniewicz, 2002, p. 99).

In the 1990s, similarly to other countries of Central and Eastern Europe, Poland took advantage of an opportunity to take new credits and to use non-returnable aid funds. As it is widely known, supporting the balance of payments of a country which has been making efforts to stabilise its economy comes as a standard form of foreign aid. In order to control the hyperinflation and to provide support to the processes focused on the introduction of internal convertibility of the Polish zloty, the Stabilisation Fund was established at the amount of USD 1 billion. The Fund involved donations from Great Britain, the USA and Australia and granted loans. In 1990 Poland entered a stand-by agreement with the International Monetary Fund, for the amount of USD 700 million, and additionally it was offered a possibility of taking an adjustment credit from the World Bank at the amount of USD 300 million. However, the promised and granted foreign support did not mean an automatic transfer of financial means to a particular country. Therefore, the Stabilisation Fund was not used because the operation of the introduction of the convertible Polish zloty turned out to be successful. The agreement with the IMF was suspended because Poland was not able to meet the agreed requirements (which referred, among others, to the exceeding of the agreed amount of the budget deficit) (Górniewicz, 2002, pp. 10–103).

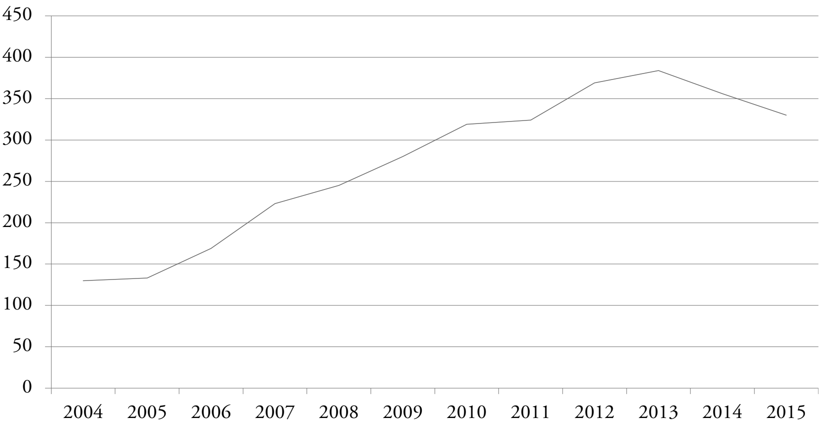
The role of the European Bank of Reconstruction and Development (EBRD) should be also mentioned here. The main goal of that institution is to finance economic development of Central and Eastern European countries through the support provided to efficient economic initiatives (mainly in the private sector). In Poland the activities of the EBRD have been focused on the aid provided to various branches of industry, such as metallurgy, production of cars, glass and paper, agriculture, protection of natural environment and real estate market. Moreover, the EBRD has participated in the ownership transformation and in the aid granted to the banking sector (among others, the purchase of shares in the Wielkopolski Bank Kredytowy S.A., a loan for AmerBank), it has also granted capital support to insurance institutions and supported the public sector (loans for the development of residential construction, heat engineering, motorway construction and modernisation of the railways) (Górniewicz, 2002, p. 104).

4. DYNAMIC GROWTH OF POLISH EXTERNAL DEBT AFTER JOINING THE EUROPEAN UNION

As it is widely known, on 1st May 2004 Poland joined the European Union, and in this way it became a more reliable country than it had been ever before. Thus, the access to external credits became easier and the demand for Polish bonds grew up at that time. Furthermore, Polish local self-governments started to take external loans in order to receive the financial means required for the acquisition of equity indispensable to receive the EU funds.

During the analysed period (2004–2015) an increase in the Polish external debt by over 250% was recorded. A greater dynamics of debt growth was observed only during the 1970s, but then the scale of that phenomenon was incomparably smaller. In 2004 the amount of the external debt was slightly over USD 130 billion, and at the end of 2015 it was almost USD 330 billion (see: Figure 3). It should be noticed that during the last two years of the analysed period a downturn in the external debt was recorded. It mainly resulted from an increase in the exchange rate of the American dollar. If the debt were presented in the Polish zloty or in Euro there would not be any decrease observable.

Figure 3. Polish external debt (gross, in USD billion)



Source: the author's own study based on the data provided by the National Bank of Poland https://www.nbp.pl/home.aspx?f=/statystyka/zadluz.html (2016, Dec.10).

The largest share of the Polish external debt falls on the government sector (see: Table 1). In 2004 the debt of that sector was USD 57.1 billion, and in 2015 it was USD 136.4 billion. The debt reached the highest level in 2013 (USD 154.1 billion). The domination of the long-term debt could be observed during the whole analysed period, mainly in debt securities. Undoubtedly, it should be viewed as a positive phenomenon because long-term debts are generally considered as safer.

The government's debt management strategy in the coming years is to reduce cost of debt service to the minimum during the long period of time by application of budgetary limitation of the following:

1) refinancing risk,
2) exchange rate risk,

3) interest rate risk,
4) liquidity risk of the state budget,
5) other types of risk, in particular credit and operational risk,
6) distribution of debt servicing costs over time (Strategia, 2017, p. 22).

The external debt of the National Bank of Poland was relatively low, however, the same thing could not be stated in the case of other banks, referred to as monetary financial institutions (MFI). The debt of that sector grew dynamically, except for the years 2011–2012 and 2014–2015. The long-term debt dominated also in that sector, although its advantage over the short-term debts was not as distinctive as in the case of the government sector. The most important position in the MFI debts was taken by credits and loans.

Table 1. Polish external debt divided by sectors (gross, in USD billion)

Gross external debt, divided by sectors	2004	2005	2006	2007	2008	2009
Governmentsector	57,1	58,7	67,9	78,5	66,9	86,8
National Bank of Poland	0,1	2,0	1,2	8,2	2,4	5,3
MFI, excluding the National Bank of Poland	14,8	15,0	23,4	40,1	60,0	61,8
Othersectors	35,5	34,7	43,3	59,7	66,9	72,4
Direct investments: debtinstruments	22,0	22,5	34,1	46,9	48,6	54,0
Total	130,2	133,0	169,9	223,9	245,0	280,3

Gross external debt, divided by sectors	2010	2011	2012	2013	2014	2015
Governmentsector	111,8	116,7	151,8	154,1	145,7	136,4
National Bank of Poland	6,9	5,0	5,5	7,6	5,8	5,5
MFI, excluding the National Bank of Poland	69,1	66,2	64,4	67,3	60,9	54,6
Othersectors	59,6	61,4	63,6	64,3	57,7	53,2
Direct investments: debtinstruments	71,8	74,9	83,5	90,7	86,5	80,3
Total	319,3	324,3	368,9	384,1	356,7	329,9

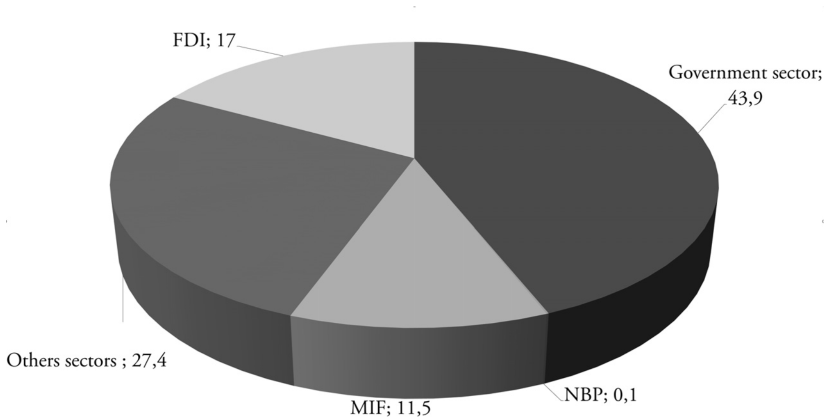
Source: the author's own study based on the data provided by the National Bank of Poland https://www.nbp.pl/home.aspx?f=/statystyka/zadluz.html (2016, Dec.10).

In the years 2004–2015 the debt related to the foreign direct investment (FDI) was increased almost by four times. At the end of the analysed period it exceeded the amount of USD 80 billion, and it reached the peak in 2013 (USD 90.7 billion). The debt referring to the direct investment included the following positions: among other entities in the group, the direct investor in the direct investment entities and the direct investment entities in direct investors.

During the analysed period of time the debt of the other sectors was also increased, however its dynamics was not as significant as in the above-mentioned cases. In 2004 the debt reached the amount of USD 35.5 billion. Then the debt was growing until 2009 when it exceeded the amount of USD 72 billion. At the end of the discussed period of time the external debt of other sectors reached the amount of USD 53.2 billion.

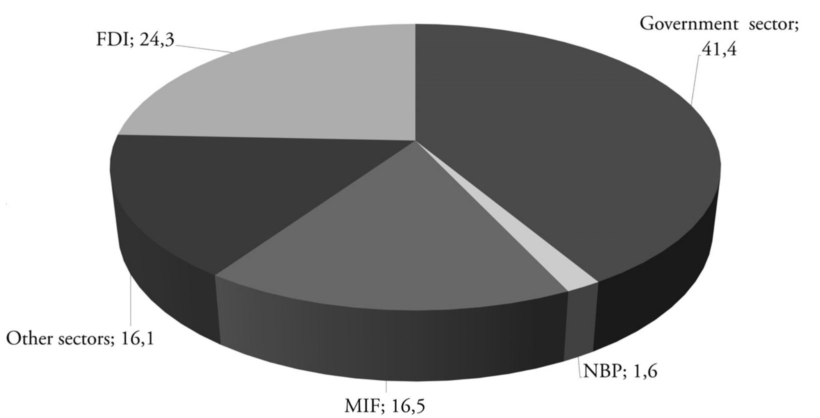
While analysing the percentage share of the particular sectors in the Polish external debt at the beginning and at the end of the discussed period of time, it is possible to state that some changes can be observed, however their scale is not very significant. Both in 2004 and in 2015 the largest share of the debt fell on the government sector (respectively: 43,9% and 41,4%). At the beginning of the analysed period of time the second position was taken by the other sectors (27,4%). However, in 2015 they moved to the fourth position (16,1%), giving their place to foreign direct investments (24,3%) and Monetary Financial Institution (MFI) (16,5%). The share of the National Bank of Poland (NBP) in the Polish external debt was definitely the smallest. In 2004 it was only 0,1%, and in 2015 it reached the level of 1,6% (see: Figure 4 and 5).

Figure 4. The share of the particular sectors in the external debt in 2004 (in %)



Source: the author's own calculations based on the data provided by the National Bank of Poland https://www.nbp.pl/home.aspx?f=/statystyka/zadluz.html (2016, Dec.10).

Figure 5. The share of the particular sectors in the external debt in 2015 (in %)



Source: the author's own calculations based on the data provided by the National Bank of Poland https://www.nbp.pl/home.aspx?f=/statystyka/zadluz.html (2016, Dec.10).

The growth of the Polish external debt results from several fundamental reasons. One of them is the application of a new, broader definition of the government debt presented in the Act of Public Finance. The new definition is consistent with the requirements of international organisations, such as IMF, OECD and the World Bank. The second important reason for the growth of the Polish external debt during the recent years is related to new credits which have been taken for broadly understood requirements of the system transformation and considerable strengthening of the Polish zloty in relation to the American dollar.

However, the most important reason for the increase in the Polish external debt is the above-mentioned growth of the external debt incurred by the banking sector and domestic enterprises. The reason for which Polish enterprises have incurred debts is related to more attractive credit terms which they have been offered by foreign banks, in comparison to these offered by national banks, particularly lower interests. As a result, the costs of the funds acquired from the foreign entities have still been lower than the costs incurred in the case when the domestic sources have been used. Another important reason – considering the debtors' point of view - is related to favourable exchange rates in the recent years. It is related to the lowering of the debt converted into the Polish zloty as it gets stronger in relation to other currencies in which the debt has been stated (Górniewicz, 2015, p. 288).

At the end of the first quarter of 2009 an important event took place. At that time Poland eventually finished the repayment of the non-market external debt of the State Treasury which was payable to the Paris Club associating government creditors. On 31st March the last installment at the amount of USD 886 million was repaid. The debt came as a result of an agreement signed in 1991 by 17 creditor countries on the restructuring and reduction of the Polish debt which had been incurred in 1970s and the repayment of which had been suspended during the 1980s. In 1991 the debt exceeded the amount of USD 32 billion. In October 2012 Poland repaid the last installment (at the amount of USD 297 million) of the debt payable to the London Club, namely: it bought out the Brady bonds. In this way Poland finally freed itself from the debt which had been incurred during the socialism period (Górniewicz, 2015, p. 288).

5. CONCLUSIONS

The growth of the Polish external debt comes as a process which was started at the beginning of the 1970s by an increase in credits which had been taken. The external credits were expected to contribute to a decrease in economic disproportions between Poland and highly developed countries, however they soon turned out to be a significant developmental barrier. Undoubtedly, the necessity to repay due amounts negatively affected the rate of the national economic growth, the transformation of the system and later processes of integration (coming as a considerable burden for the state budget and the financial situation of business enterprises).

Enterprises and banks have used foreign loans because of more favorable conditions than in the country. From this point of view, the external debt is more profitable than domestic ones.

In the nearest future Poland will certainly take new external credits, and it will issue Treasury bonds. Their purpose and the efficiency of their use shall significantly affect the economic situation of the country. The external debt should be actually viewed as a permanent phenomenon.

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