Poland’s economy during the Global Financial Crisis

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Abstract
Poland is proclaimed to be the only European economy which during the Global Financial Crisis did not go into a recession and remained on the path of an economic growth\(^1\). This article will analyze main Poland’s macroeconomic indicators to present the economic condition of Poland before, during and after the crisis. Since the crisis was affecting the EU economy and its countries’ firms are major investors in Poland\(^2\), this paper includes a glance on the condition of indicators related to the FDI located in Poland. The analysis of macroeconomic condition of Poland based on indicators: GDP growth rate, inflation rate, unemployment rate, consumer confidence index and government expenditure on R&D did confirm that Polish economy during the Global Financial Crisis was not going through a recession. Third chapter of this paper is concentrated on FDI-related indicators. The FDI inflows to Poland did drop in 2008. However, these capital inflows started to rise in 2010 and from that time until 2012 it fluctuated with a growing tendency. The number of greenfield projects dropped in 2008 and started to regenerate in 2010. Number of entities with foreign capital exceeding 1 mln USD of shares was continuously rising. What may indicate that greater investors did not assess Polish economy as threatened by the crisis. The growing number of labor employment in Polish firms with foreign capital shares was rising. It may mean that foreign investors did not tend to reduce labor due to reorganizational practices. From the macroeconomic perspective the Crisis did not cause a recession of the Polish economy, but had slowed down its tempo of growth. The FDI-related analysis has shown that Polish FDI-related market was not affected in a way that would rise serious concerns about its further well-being. Most FDI related indicators are showing a growing tendency before, during and after the crisis begun.

I. INTRODUCTION
The Global Financial Crisis has led to a recession of almost every European economy. Poland is proclaimed to be the only European economy which during the Global Financial Crisis remained on the path of an economic growth\(^3\). In this article a short historical background related to Poland’s accession to the European Union will be outlined. This paper will also explain what is a financial crisis and present its destructive influence on economies, on the example of The Great Depression.

This article will analyze main Poland’s economic indicators to present the economic condition of Poland before, during and after the crisis. The crisis has caused the entire EU market to decline what is reflected on EU’s drop on outward FDI. Poland’s major investors are companies located in the EU countries. For this reason, apart from presenting the main macroeconomic data this paper will focus on the FDI inflows and an FDI-related market trends. This is to assess what changes has the crisis caused in Poland as a developing economy which growth is also driven by the EU’s outward FDI.

II. POLAND’S ACCESSION TO THE EU
The liberation of capital flows in Poland took place in 1990 and resulted in sudden FDI inflows to Poland. The capital allocation was unbalanced. The processes that were entailed by the liberation were rapid. Not always did Polish government have the parliamentary majority to implement reforms that could cover every requirement resulting from these immediate changes. At the time Poland was already recognized by multiple international economic institutions (OECD for instance) as an attractive market to locate FDI\(^4\). It was due to its economic transition that was initiated during 1989-1990.\(^5\) This recognition was based on three factors: relatively low cost of highly educated labor, promising market potential and abundance in various natural resources. It is worth mentioning that from the very beginning, the changes taking place in Poland were supported by developed countries which have
facilitated Poland’s accession to NATO and the EU. Before joining the EU Poland had to meet the requirements stipulated by the EU member countries. These requirements included achieving stable institutions that guarantee democracy, legality, human rights and respect for and protection of minorities. Poland had also to become a working market economy, capable of competing effectively on EU markets and be capable of accepting all the membership responsibilities, political, economic and monetary. After fulfilling the conditions in 2004 Poland became the member of the EU. Since that time, the rules of conducting business activities have been constantly being adapted to the EU standards. Currently, after years of constant change and improvement, regulations concentrated around running a business activity in Poland became integrated with those existing in the EU. By joining the EU Poland has opened its borders to trade and capital flows circulating within the EU market.6

III. THE GLOBAL FINANCIAL CRISIS

The financial crisis is a situation in which the value of financial institutions or assets drop rapidly. It can have a disastrous impact on an economy as it took place in 1929 when The Great Depression has caused USA and Western European countries to plunge in debts. The Great Depression has caused the United States industrial production to fall by 46% and the unemployment to grow by 607% in 1929-1932. Even though The Great Depression had started in the USA’s Stock Market, it had instantly spread to European countries where it had also led to an economic recession. The unemployment rose by 232% in Germany and 214% in France. The Foreign Trade plunged by 60% in Great Britain and 61% in Germany.7

Nowadays, due to the ongoing process of globalization world economy’s financial systems are connected even stronger than before. States’ governments are becoming relatively less influential. Globalization from a financial viewpoint, is leading towards consolidation of economies into one global cluster. In this process leading to formation of one global economic system an economic openness of each country is essential.8 One of economic formations that were created in order to consolidate economies by offering member countries free trade, open capital flows, unrestrained labor migration, is the European Union.

Even though the Global Financial Crisis had its roots in the United States, it had an immediate impact on the EU member economies. This impact is reflected by basic economic indicators including FDI inflows. EU FDI flows to and from main economic partners has been considerably affected. In 2009, inward flows grew moderately (by 26%), while outward flows shrank by 28%. The decline in EU outflows was mostly because investment to the United States fell sharply — from EUR 148.2 billion in 2008 to EUR 79.2 billion in 2009. Meanwhile, US investment in the EU made a strong recovery, rising to EUR 97.3 billion, which is more than twice the 2008 figure (EUR 44.4 billion).9 In 2008 a very unexpected drop in FDI inflows to Poland took place. Sudden, unforeseen drop of FDI inflows may have a very strong negative effect on a developing economy. The Global Financial Crisis has resulted in such FDI drops in most of FDI receiving countries. In Poland this occurrence is estimated to be having mostly a short-term impact.10 During the crisis Poland seems to be exceptionally resistant to the global shock. What does the literature focused on this matter suggest is that the reason for this resistance is: stable banking system, currency depreciation and relatively low level of the general openness of Polish economy compared to other countries of Central-Eastern Europe. Among all the factors that were attracting foreign capital to Poland before and after the crisis most often repeatedly specified are: seeking for new market outlets and low prices of production resources. What is also very important in the investment decision making process is analyzing country’s political stability11.

To assess the overall impact that the Global Financial Crisis had on Polish economy, this paper will take into consideration main economic indicators to assess the overall macroeconomic condition of Poland before, during and after The Global Financial Crisis took place.

IV. MACROECONOMIC SITUATION OF POLAND IN THE PERIOD 2004-2012

In this chapter of the paper selected macroeconomic indicators will be presented to describe the overall economic condition of Poland before, during and after the crisis. These indicators are to show what was the general influence of the crisis on the Polish economy.
A healthy, developing economy is prior to other factors characterized by a GDP growth. Polish GDP in the last decade was continuously growing. Chart below shows how were the values of GDP growth rate of Poland and the EU 28 countries (EU 28) changing from 2004 to 2014. Poland’s GDP was growing since its accession EU in 2004 until 2014. When the crisis hit Poland’s economy the most – in 2009, it’s GDP growth rate accounted for 2.8%. During the entire period Polish economy was neither going through a stagnation nor experiencing a recession. The EU28 on the contrary, did. in 2009 (EU 28) have noted almost -6 percentage recession. In 2012 it’s growth rate dropped below 0% again and later EU 28’s economy slowly recovering from the recession in 2014 the growth rate was 1.4

Chart 1. GDP growth rate (%) of Poland and of the EU 28(2004-2012)

Source: Eurostat.com

The next indicator presented is the inflation rate. It is one of the indicators that is taken into the account when assessing economy’s investment attractiveness. The average value of the inflation rate indicator in the analyzed period was higher in Poland than in the rest of the EU 28. However, the difference is rather small. Polish inflation rate increased greatly after 2006. Starting from 2008 until 2012 the value was slightly decreasing. From 2007 until 2012 Poland’s inflation rate was higher than in the rest of EU countries.

Chart 2. Inflation rate in Poland and in the EU 28 (2004-2012)

Source: Eurostat.com

There are several measures of consumer confidence. All the measures are designed to determine how consumers feel about their economic prospects in the coming months. The theory is that when consumers feel more confident, they are more likely to spend their salary on consumer goods.
Conversely, they are less likely to spend when they feel less confident. Also, because markets are forward looking, there is a tendency for stock prices to reflect the future opinions of consumers today. Changes in the activity level of consumers have a direct impact on corporate profits and the level of stock prices. Confidence indicators are produced to reflect overall perceptions and expectations at the individual sector level in a one-dimensional index. Each confidence indicator is calculated as the simple arithmetic average of the (seasonally adjusted) balances of answers to specific questions chosen from the full set of questions in each individual survey. The data are published as balance i.e. the difference between positive and negative answers (in percentage points of total answers), as index, as confidence indicators (arithmetic average of balances). Therefore, the higher the indicator’s value the better for the economy.

The chart below shows that on the average the consumer confidence index was lower in Poland along the entire analyzed period. At the end of 2006, 2007 and 2008 EU’s CCI was lower than in Poland. 2 years before the crisis has reached Europe and in its first year the EU’s indicator dropped to a level lower than in Poland. However, this critical level does not remain as low in further years. Therefore, consumer confidence was generally lower in Poland before and after the crisis begun.

Chart 3.
Consumer confidence index in Poland and in the European Union (2004-2012)

![Chart showing consumer confidence index in Poland and the European Union (2004-2012)](chart)

Source: Eurostat.com

The last macroeconomic indicator analyzed in this section is the unemployment rate. Perhaps the most important indicator of the health of the economy is employment. Because consumers make up nearly 70% a country’s economic activity, the state of the labor market is of paramount importance to the overall well-being of the economy. This means that a weakening or strengthening labor market can influence the economy. For example, a weakening labor market often translates into lower corporate profits. The basic premise is that when people are out of work, they cannot buy homes or make the necessary purchases that drive corporate profits.

Before Poland’s admission to the EU in 2004 its unemployment rate was reaching 20%. This is commonly recognized as a very high level. In the following years the unemployment rate was decreasing. FDI inflows have created numerous workplaces and led to the decrease of unemployment rate. Another important factor that helped in this process is economic migration of Polish citizens to Western-European countries that occurred after Poland’s admission to the EU. From 2008 until 2012 the unemployment rate was maintained at a relatively stable level. The crisis did not cause the unemployment rate in Poland to significantly grow, still it may be responsible for stopping the unemployment rate from further decreases.
R&D expenditure represents one of the major drivers of economic growth in a knowledge-based economy. As such, trends in the R&D expenditure indicator provide key indications of the future competitiveness and wealth of the EU. GERD includes total intramural expenditure on R&D performed within a country, funded nationally and from abroad but excludes payments for R&D performed abroad. The next indicator presented is the government expenditures on R&D. Throughout the entire analyzed period this indicator in both Poland and the EU was growing. There are not a clearly visible significant drops in these values in 2008 or 2009. It may be a sign that the crisis has not reduced governments’ spending on R&D.

Foreign capital plays a crucial role in the economic development of the receiving country, especially in the form of FDI. Foreign Direct Investment (FDI) is the category of international investment made by an entity resident in one economy (direct investor) to acquire a lasting interest in an enterprise operating in another economy (direct investment enterprise). The lasting interest is deemed to exist if the direct investor acquires at least 10% of the voting power of the direct investment enterprise.

Global Financial Crisis resulted in shrinking of global capital flows. When it comes to the global economy the changes were unbalanced and every economy was impacted unequally strong. The economies that suffered the most in comparison to the global perspective are the members of EU including Poland.
In the chart above it can be seen that (excluding 2005) until 2007 the FDI inflow to Poland was rising, after 2007 FDI inflows started to plunge. After 2010 FDI inflows went back to the path of grow until 2012 when the value fell to the lowest level in the analyzed period of time. The latest decline may be related to EU’s decline of the GDP growth that occurred in 2012.

When the Global Financial Crisis erupted the number of greenfield projects was falling down and in 2009 the value fell to the lowest level in the entire analyzed period of time. After 4 years lasting downfall of greenfield projects. In 2009 number of greenfield projects started to increase again and kept this tendency until 2012.

In the terms of Poland’s investment attractiveness in conditions created by the Global Financial Crisis what can be added is the growing number of entities where the foreign capital inflows surpassed 1 million. Even in the first period of Global Financial Crisis the number of these companies was growing what can indicate that in the period of high uncertainty a foreign capital coming from bigger investors was being located in Poland.
Chart 7. Number of entities with foreign capital exceeding 1 million USD of shares (2005-2012)


Growing number of greater entities where the value of invested capital surpasses 1 million USD is profitable to the Polish economy. It is due to the fact that the presence of more significant investor in a region can stimulate regions investment activity and also may combat the unemployment rate by creating new workplaces. On the other hand, such an investment may create a company that might be a danger to the local entrepreneurship and lead the local firms’ profitability downturn.

Chart 8. Number of labor employed in Polish firms with foreign capital shares (2004-2012)


Transnational corporations in the EU were heavily affected by the crisis. The crisis has worsened their financial condition what has significantly changed their operational and investment strategies. The preceding is of a major importance from the perspective of the investment receiving country. Very often it forcesfirms to undertake restructuring practices such as massive workers’ dismissals.\textsuperscript{14} What is seen on the chart above is that the number of labor employed by firms with foreign capital was rising in 2006-2008. In 2009 number dropped, but it does not have a strong relation to Poland’s unemployment rate that after 2008 started to stabilize. Most likely the cause of this occurrence was the necessity of undertaking reorganizational practices that were embracing changes in the structure and count of labor\textsuperscript{15}.

VI. CONCLUSION

The Global Financial Crisis had its impact on economies worldwide. European Union countries have been affected especially strongly what can be seen on the sudden drop of the EU GDP’s growth rate that occurred in 2008 and 2009. Polish GDP growth rate during the Crisis was positive, what indicates the economy was constantly developing during the time period. Other macroeconomic indicators did
not show that Poland was in a recession or its market was experiencing serious threats. Some of indicators did not show any greater dependence on the crisis. One of them is the government spending on R&D. It was increasing in an unchanged tempo. Some indicators such as the unemployment rate or the inflation rate show major fluctuations in the entire period of time and were influenced by the crisis at the same time. Among these fluctuations there are observable shocks that most likely the crisis is responsible for. The unemployment rate is a key example of the preceding. The unemployment rate in Poland was decreasing from 2004 to 2008 until the Crisis occurred. From that time on it was slightly increasing again, with a growth rate similar to EU’s one. However, the values of the unemployment rate that increased subsequently to the crisis are not higher than the unemployment rate in Poland from before the crisis (2004/2005).

Since the Crisis was affecting the EU member states and firms that are located in these countries are major investors in Poland, this article included an analysis on the condition of indicators related to the FDI located in Poland. The analysis of the foreign capital in Poland showed that FDI inflows did drop in 2008. However, they started to rise in 2010 and from that time until 2012 it fluctuated with a tendency of a growth. The number of greenfield projects dropped in 2008 and started to regenerate in 2010. Number of entities with foreign capital exceeding 1 mln USD of shares was continuously rising. What may indicate that greater investors did not assess Polish economy as threatened by the crisis. The growing number of labor employment in Polish firms with foreign capital shares was rising. It may mean that foreign investors did not tend to reduce labor due to reorganizational practices. From the macroeconomic perspective the Crisis did not cause a recession of the Polish economy, but had slowed down its tempo of growth. The FDI-related analysis has shown that Polish FDI-based market was not affected in a way that would rise serious concerns about its further well-being. Most FDI related indicators are showing a growing tendency before, during and after the crisis begun.

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