

**ANALYSIS OF THE ECONOMIC ENVIRONMENT OF
INVESTMENT ACTIVITY IN THE REPUBLIC OF POLAND**

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Summary. *The article analyzes a group of factors that form the economic environment for investment activity in the Republic of Poland. According to the authors, the main economic forces influencing investment decisions include: GDP dynamics, inflation rate, central bank interest rate, stability of the national currency, availability of special taxation regimes, level of monopolization of the economy, capacity of the domestic market, cost of labor. The study revealed the main trends in the indicators, as well as the degree and direction of their impact on the investment climate of the country.*

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Introduction. The reforms carried out in Poland after the exit from the influence of the Soviet Union led to radical changes. One of the features of the Polish socio-economic transformation was the rapid implementation of economic liberalization, involvement in the world economy through the expansion of international trade, the movement of capital, and labor.

Foreign investment has been at the center of Poland's economic transformation since 1989. It is broadly welcomed not only as a source of finance, but also as a means of technology transfer, human resource development and Polish integration into global supply chains and research and development (R&D).

Level of competitiveness of a county in the capital, labor and innovation markets is largely determined by its investment attractiveness. In this regard, a comprehensive analysis of the investment climate is vital in making

the final decision on the implementation of capital investments for both domestic and foreign investors.

There are many approaches to assessing the investment climate of countries and regions. Considerable experience in this area has been accumulated in Western Europe and the USA. In most methodologies, the analysis of economic factors is central.

Within the frame of our research, as the main indicators of the development of the country's economic system were identified: GDP dynamics, inflation rate, refinancing rate, stability of the national currency, availability of special taxation regimes, level of monopolization of the economy, capacity of the domestic market and the cost of labor.

Objective. The main goal of research is to analyze the factors forming the economic environment of investment activity in the Republic of Poland, as well as to determine the degree and direction of their influence on the country's investment climate.

Materials and research methods. The research was conducted on the basis of evidence from the World Bank Group, the National Bank of Poland, Polish Investment and Trade Agency, Office of Competition and Consumer Protection and Statistics Poland.

The following methods were used in the study: analysis and synthesis, comparisons, abstract-logical, and others.

Research results and discussion.

GDP. Gross domestic product (GDP), is one of the most common indicators used to track the state of the national economy. It is perhaps the most closely-watched and important economic indicator for both economists and investors. From the investor's point of view, the positive dynamics of GDP is regarded as a favorable trend, despite the fact that in the long term it may lead to an increase in inflation and an increase in the interest rate.

According to the World Bank, in Poland, after a significant decrease in the GDP level in 2015, since 2016, there has been a positive trend in this indicator (Fig. 1).

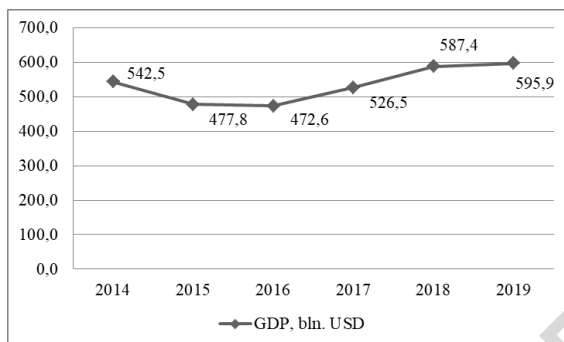


Figure 1 – Dynamics of GDP in Poland in 2014-2019, bln. USD

Source: prepared by the author based on: [2]

The decline that occurred in 2015 can be largely explained by the loss of the Russian market for Polish manufacturers. The reason for this was the restrictions on the supply of products from Western Europe, imposed by Russia in response to EU sanctions after the annexation of Crimea (the Crimean events) in 2014.

However, this had only a short-term negative effect on the Polish economy. The existence of a wide range of trading partners both within and outside the EU has allowed Poland to diversify its sales markets and, as a result, increase production output.

We can see a fairly rapid recovery. Poland has already reached the highest level of GDP in history, which at the end of 2019 amounted to 595.9 billion USD.

A similar situation is observed with respect to GDP per capita. Per capita GDP is a global measure for gauging the prosperity of nations and is used by economists, along with GDP, to analyze the prosperity of a country based on its economic growth.

The fact that the GDP per capita divides a country's economic output by its total population makes it a good measurement of a country's standard of living, especially since it tells how prosperous a country feels to each of its individual citizens.

In 2019, this indicator increased to the level of 15.7 thou. USD per capita, which also became a historical maximum (Fig. 2).

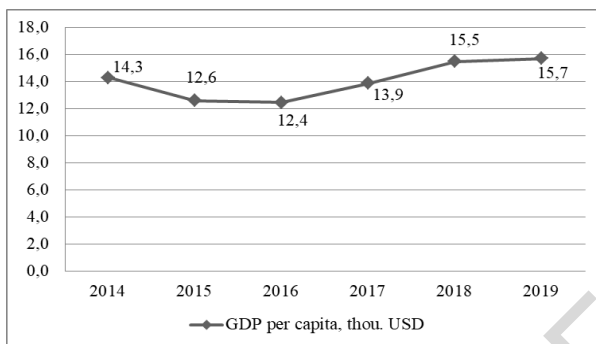


Figure 2 –GDP per capita in Poland in 2014-2019, thou. USD

Source: prepared by the author based on: [3]

Despite the positive dynamics, this value remains below the EU average – 34.9 thou. USD. At the end of 2019, Poland was ranked 24th among the 27 countries of the European Union, ahead of only Bulgaria, Romania and Croatia.

The above statistics show that the Polish economy is strong enough and capable of quick recovery. This, definitely, has a positive assessment on the part of investors when deciding on capital investment.

Inflationary development

The change in the inflation rate in Poland is, in fact, a reaction to the change in GDP. This is confirmed by the fact that the reduction in the value of GDP in 2015 led to a decrease in the general price level, i.e. deflation, which continued in 2016, until the economy entered a stage of active recovery (Fig. 3).

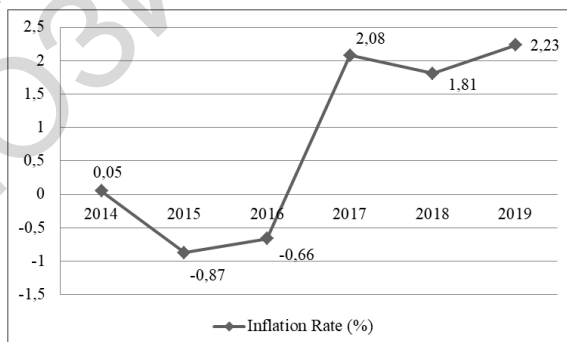


Figure 3 – Inflation rate dynamics in Poland in 2014-2019, %

Source: prepared by the author based on: [8]

The negative inflation rate, as a rule, is understood by investors as a negative phenomenon. The reason is that when the prices of goods fall, consumers start to postpone shopping, hoping to get the product even cheaper over time. This leads to the situation when production does not receive the necessary financial resources. Over the long term, this can lead to stagnation.

The economic recovery resulted in a rise in prices. At the end of 2019, the inflation rate was 2.23 %, which is close to its normal level. Moderate growth in consumer prices is generally viewed positively by investors.

Reference rate

The benchmark for investors in the field of the cost and availability of financial resources in Poland is the bank interest rate of the national bank (Narodowy Bank Polski). In fact, this rate shows the bank's expectations regarding changes in both individual indicators and the general macroeconomic state of the economic system. A reference rate is an interest rate baseline used to set other interest rates. Various types of transactions use different reference rate benchmarks.

Poland is not a member of the Eurozone, and therefore the policy of the European Central Bank does not have such a significant influence on it as on many other EU countries. In such circumstances, the base rate of the Narodowy Bank Polski has a significant impact on investment decisions.

According to the statics, in the Republic of Poland, there is a long-term trend towards a decrease in the reference rate (Fig 4).

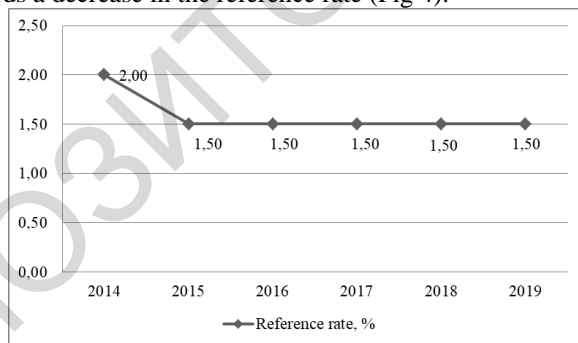


Figure 4 – Reference rate dynamics in Poland in 2014-2019, %

Source: prepared by the author based on: [7]

After another decline in February 2015 from 2.00 to 1.50 %, this indicator remained unchanged for a long time. Then, in 2020, the National Bank of Poland reduced the reference rate three times in March, April and May. As a result, starting from May 2020, the reference rate has stabilized at 0.1 %.

This dynamic indicates the assessment of the prospects for the country's economic development as stable.

Stability of the national currency

Over the past ten years, the Polish zloty has fluctuated against the euro within the range of 3.91 to 4.66 PLN per EUR. The minimum value was noted in April-May 2011, the maximum in March 2021. A similar situation is observed in relation to the US dollar. The range of fluctuations was from 2.65 (April 2011) to 4.29 (March 2021) PLN per USD.

Despite the existing fluctuations in the exchange rates of major currencies and the general tendency towards an increase in their value, we can characterize the position of the Polish zloty as stable.

Tax treatment

Poland is moving towards expanding tax privileges for both domestic and foreign investors.

The Act of the 10th May 2018 amended the instruments of income tax exemption (CIT or PIT) in order to adjust the provisions to the current market situation and entrepreneur's needs. The major difference introduced is that the tax exemption is now available across the entire territory of Poland, for companies carrying out new investments, on publicly as well as privately owned land. At the same time, the currently binding Special Economic Zone (SEZ) permits, already granted to investors within the old SEZs shall remain in force until 2026

The amendment of 31 July 2019 also allowed support for investments in areas with undeveloped mineral deposits, thus significantly expanding the offer of locations, in which entrepreneurs can be granted tax exemption [9].

The adopted act is the basis for the transformation of the entire territory of the Republic of Poland into a free economic zone. Taking into account the geopolitical position of the country and current trends in the development of the world economy, this decision of the Sejm, in our opinion, can be called fundamental from the point of view of the prospects for attracting foreign investment.

This approach could be successfully implemented on the territory of the Republic of Belarus.

The level of monopoly in the economy

The Republic of Poland is actively working to counteract the emergence of monopolism.

The Polish Antimonopoly Office was established on 13 April 1990 under the Act on Counteracting Monopoly Practices. It was the first institution of this kind in the post-communist countries. In 1996 the Anti-monopoly Office was renamed into Office of Competition and Consumer Protection (UOKiK).

Another turning point in the Office operations was the enactment of the Act amending the Act on Competition and Consumer Protection ("Act") in

2001. The Act put into order the existing solutions, taking into account the need to harmonize the national regulations with the EU legislation. Upon the Poland's accession to the European Union in 2004 the President of the Office of Competition and Consumer Protection ("Office") obtained a new tool for combating illegal restrictive agreements – the Leniency Program. In 2007, the current Act on Competition and Consumer Protection was passed, and in 2015 it was significantly amended, which introduced, inter alia, two-stage procedure in merger control cases. Then the President of the Office was also given power to impose financial fines on individuals responsible for participating in competition restrictive agreements. The Act also established the institution of voluntary submission to punishment. 2017 saw the launch of the Whistleblower Program [11].

Thanks to the activities of the Office, the market-driven economy can develop freely to the benefit of both fair businessmen and consumers who, as a result, get wider choice, high quality products at an affordable price.

According to the Office of Competition and consumer Protection more than 4 thousand decisions on anti-competitive practices and more than 12 thousand decisions on merger, demerger and transformations – are the outcome of 30 years of work of the Polish anti-monopoly office [11].

Over the years, the President of the Office has gained new powers in the field of broadly understood competition protection. Between 2002 and 2019 The President of the Office issued 3485 merger control decisions, 1599 decisions on the abuse of dominant market position and 404 decisions on competition restricting agreements.

The plan of the new president of the Office, Andrzej Madała, envisages strengthening the office's activity combating negative impacts on the markets, primarily involving:

- Protection of consumers and households

- Preventing payment gridlocks and mitigating their impacts

- Exploitation of contractual advantages by large enterprises in trading in agri-food products

- Combating bid-rigging in public tenders

- Application of compliance programs and increasing the effectiveness of the office's activities, including more efficient proceedings

- Approval of aid programs for Poland [5].

The Office is particularly closely committed to the activities of the European Competition Network (ECN). The Office became ECN member on par with the Poland's accession to the EU in 2004. The network consists of the European Commission and the competition protection authorities of the Member States.

The representatives of the UOKiK are involved in the ECN activities participating in working groups on cartels or vertical agreements and in sector subgroups concerning, inter alia, banking, energy, food, media and the digital sector.

The work carried out by the Office of Competition and Consumer Protection allows us to say that there is a strong organization on the territory of Poland, the main purpose of which is to prevent the emergence of monopolistic conducts and to promote the development of competition. The presence of such a structure as UOKiK in the country has a positive impact on the investment climate.

Market capacity

The internal market of the Republic of Poland, with a population of about 37.8 million people, is more than four times larger than the market of the Republic of Belarus in terms of capacity. Nevertheless, Poland, like Belarus, is a small economy.

Speaking about the market capacity, it is important to understand that the borders of the Polish market are not defined by state borders. Since 2004, the country has been a full member of the European Union. This means that goods and services produced on the territory of Poland get unhindered access to the markets of another 26 EU member states.

Thus, starting a business on the territory of the Republic of Poland, an investor gets direct access to the single European market with a population of over 447 million people and a total GDP exceeding 15 trillion USD

The cost of skilled labor

Speaking about the cost of labor, it should be noted that in Poland, as in many other EU countries, there is an increase in both the minimum and average wages.

In 2019, minimum gross wage and salary increased compared to 2018 by 150 PLN and amounted to 2 250.00 PLN, it is about 522 EUR at the official rate of the Polish National Bank. As of January 2021, the minimum wage in Poland has increased to 614 EUR. For the countries of the European Union, this indicator varies from 322 EUR (Bulgaria) to 2202 EUR (Luxembourg).

Average monthly gross salary in the national economy in Poland in 2019 were about 4920 PLN. It increased by 7.2 % compared to 2018. An increase was recorded in all PKD (NACE) sections, and ranged from 1.8 % in the “Other service activities” section to 9.8 % in the “Human health and social work activities section”.

These indicators remained diverse across sections of economy. Thus, in 2019, they ranged from 3231 PLN in the “Accommodation and catering” section to 8441 PLN in the “Information and communication” section [1].

For the convenience of analysis, all EU countries in which the minimum wage is established, we have divided into three groups, in accordance with the rules of economic and mathematical analysis:

- 1st up to 955 EUR;
- 2nd from 956 to 1579 EUR;
- 3rd over 1579 EUR.

The Republic of Poland, as well as 12 other countries, falls into the group with a relatively low level of minimum wage up to 955 EUR, taking the eighth place.

In comparison with the bordering partner countries of the European Union, Poland is ahead of the Czech Republic, slightly inferior to Slovakia and Lithuania, and significantly behind Germany (Fig. 5).

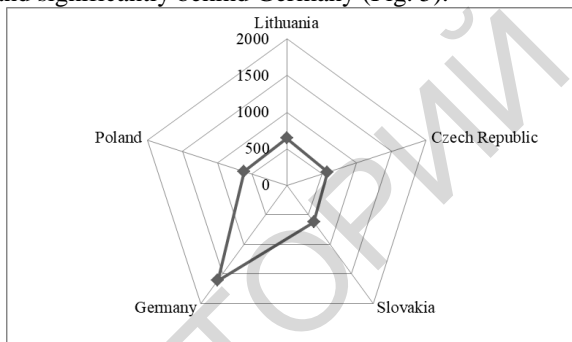


Figure 5 – Comparative analysis of the minimum wage in 2021, EUR

Source: prepared by the author based on: [6]

At the same time, Poland has a highly qualified workforce. As much as 17 % of people aged over 13 have completed higher education, with a considerably higher education level among women (19 %, compared with 14.8 % among men). What is more, the qualification levels of the Polish workforce are constantly increasing [4].

Speaking about the eastern neighbors, it should be noted that the level of the minimum wage in them is, on average, more than three times lower than in Poland.

Analysis of the cost of labor in Poland, allows us to conclude that the country in this regard has a certain competitive advantage relative to most partners in the European Union. It should also be remembered that because of the absence of any barriers to the workforce within the EU, the resources required for the project can be attracted from any of the 27 partner countries.

Conclusion. The conducted research allows us to conclude that to date the Republic of Poland has formed a fairly stable economic environment for

investment activities, capable of rapid recovery in the event of a negative impact of external factors.

This fact is confirmed by the patterns revealed in the analysis of changes in the main indicators of the country's economic development. The loss of the Russian market in 2014 resulted in a short-term reduction in GDP and a decline in the price level on the domestic market. In the process of recovering and growing production, we are in evidence an increase in purchasing activity, and as a consequence of the price level. The central bank's response to the recovery process was a reduction in the refinancing rate. Such self-regulation of the economic system indicates its market character.

Market nature of the economy, as well as the growing GDP, the low level of inflation and the base interest rate, the availability of tax privileges, the measures taken to combat monopolism, the relatively low cost of labor, access to the European Union market, make the country highly attractive for foreign capital.

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