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Foreign Direct Investment Impact on the Polish Economy

Case Study

Ewa Sadowska-Cieslak

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CASE Foundation
Center for Social and Economic Analyses,
00-944 Warszawa,
ul. Sienkiewicza 12
Phone: (48-22)- 622-66-27
(48-22)- 828-61-33
E-mail: case@case.com.pl

Ewa Sadowska-Cie•lak
Senior Economist
National Bank of Poland
Research Department
Swietokrzyska 11/21
00-919 Warsaw
Phone: (48-22)-653-13-24
E-mail Ewa.Sadowska@nbp.x400.net.pl

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The aim of this publication is to show the foreign direct investment impact on the Polish economy and the changing legal, macroeconomic and infrastructure background in the 1994-1999 period.

1. Poland as FDI inviting country

During the transformation process - which has been launched in January 1990 - basic macroeconomic, legal and infrastructure conditions for market economy in Poland have been created. They directly resulted in the increase of foreign direct investment. Since 1995 considerable increase of FDI to Poland has been registered. Nevertheless the transformation process – also well advanced – has not been finished yet and further investments are needed to finalize the restructuring process.

The position of Poland as an interesting place for foreign investors was strengthened by:

- The OECD membership in November 1996. Fulfillment of the OECD high standards concerning economic regulations, the transparency of the procedures and stability of regulations, applying national treatment instrument and the consent to international control of the Polish economy raised the confidence of foreign investors to Poland.
- The relative resistance of the Polish economy to the financial crises in South - East Asia, Russia and Brazil proved the strength of the fundamentals of the Polish economy and also raised the confidence of foreign investors.

In the investors` opinion a high growth potential of the Polish economy is one of its major trump cards in attracting foreign investors, so answered, according to the A.T. Kearney report, 78 percent of the inquired big companies.¹ Another attracting factors are the stable economic and political situation in the country, relatively well-educated and not expensive labor and its big and expanding internal market. The expansion of the market has been resulting from the growing demand being both a consequence of high economic growth and the postponed demand. And last but not least, the geographical position, between the big and prospectus Russian and UE markets are additional incentives for investors both from EU and non-EU countries.

2. Foreign Direct Investment Regulations in Poland

2.1. Regulations

Investors may conduct the economic activity in Poland on the basis of the general regulations, concerning both residents and non-residents, such as Commercial Code, the Law on Economic Activity and all other laws regulating conducting an economic activity in Poland. There is one special regulation called “The Law on Companies with Foreign participation”, applying to non-resident investors, only.² This law defines the notion “foreign company”, which is similar to the OECD notion “non-resident”, and the allowed legal forms for conducting an economic activity by non-residents in Poland. According to this law foreign investors have the right to request the guarantees against nationalization from the government.

¹ See: Gazeta Wyborcza - a Polish daily - February 24, 2000

² The Law on Companies with Foreign Participation , Journal of Law No 60/1991, para 253

2.2. National Treatment Instrument

Polish government, becoming an OECD member in 1996, committed itself to apply the national treatment to all foreign investors, which means equal treatment with the national ones. Before applying this instrument foreign investors enjoyed lots of privileges over the domestic ones, but at the same time many restrictions were applied on them. Since Poland has become an OECD member foreign investors lost their privileges but also lots of restrictions were lifted. The only privilege they still enjoy is the duty-free import of the in-kind contributions to their companies starting operations in Poland. Some restrictions on the non-resident activities remained. Non-residents are not allowed to operate the branches of the mortgage banks. The branches of foreign banks are not allowed to manage the assets to domestic pension funds. The share of non-resident investors in the broadcasting companies is limited to 33 percent and in the companies rendering international telecommunication services, long-distance or mobile telecommunication service, or cable radio and television services the share of them is limited to 49 percent. Investment in an enterprise operating in the gambling and betting sector is limited to 49 percent. For the investment in an enterprise operating an airline an authorization is needed. There are also sharp restrictions on the real estate purchase by non-residents.

Nevertheless all those restrictions will have to be lifted before joining by Poland the European Union (with the exception of real estate purchase by non-residents, hopefully).

2.3. Real estate purchase by non-residents

A separate law originating still in 1920 and updated several times during the last years regulates real estate purchase by non-residents. Not much was liberalized, as the real estate purchase by non-residents is highly sensitive political issue in Poland. Under the current regulations non-residents may buy apartments without authorization only. Those of them, who have been living in Poland since at least 5 years and have got a residence allowance, do not need any authorization for purchasing real estates either. The next group of non-residents who does not need any authorization are those legal persons who purchase for their statutory purposes an underdeveloped lot not bigger than 0,4 ha in rural areas (excluding purchases of real estates situated in border areas, agricultural land, forests and water ways.). The purchase of other real estates requires a permit from the Ministry of Interior.

In the practice the Minister of Interior should issue the permits within 30 days along to the Administrative Code. All refusals may be claimed to the Upper Administrative Court.

According to the data published by the Ministry of Interior, in the 1990-1999 period, non-residents purchased about 17 thousand ha of real estates, which make 0.054 percent of the total area of Poland. In 1999 foreign investors were granted 1491 permits for purchase of ca. 4.7 thousands ha, out of which 119 ha were devoted to the gasoline stations and 81 ha to the supermarkets. In 1998 the companies with foreign capital participation were granted 1471 permits for purchase of ca 4 thousands ha, in 1997 – 1326 permits for 2.7 thousands ha. The private persons purchased 702 real estates in 1999, mainly houses and lots (ca. 353 ha all together). In 1998 they bought 718 real estates (making 370 ha). Most of them were the citizens of Germany, Sweden, United States and Ukraine.

Non-residents became also owners of shares and stock of the companies, which owe real estates. If non-residents want to take the control over such companies, they must apply for the permit to the Ministry of Interior. In 1999 the Minister of Interior granted 452 such permits, 384 among of them for non-resident legal persons. On this way non-residents purchased 8.3 thousands ha of land.

Using the possibility of buying real estates without any permit 16 foreign investors purchased all together 5.5 ha of land and 350 private persons, bought all together 138.2 ha of land, among of them 52 ha of agricultural land.³

³ See: Gazeta Wyborcza (a Polish daily newspaper), April 25, 2000

2.4. Taxes

Polish regulations do not offer any preferential tax treatment for the companies with foreign capital participation any more. But it does not mean that the companies with foreign capital participation do not profit from tax relief opportunities offered by the Polish tax system to all economic entities registered in Poland. Nevertheless, some of the companies with foreign capital participation have been still enjoying tax holiday offered them by the regulations being in force in the beginning of the transformation process. Those tax holidays expire soon.

3. Companies with Foreign Capital Participation in the National Economy

Almost 17 thousands investors originating from 106 countries had shares and stock in the companies with foreign capital participation by the end of 1998, which made slightly more than 15 percent of the total number of the economic entities reporting to the Main Statistical Office. The share of those companies in the national economy showed an increasing tendency comparing to the previous years (it amounted to 15.3 percent in 1997, to 14.6 percent in 1996 and to 12.5 percent in 1995). According to the National Bank of Poland reports, the number of the companies with foreign capital participation was even higher and amounted to 13185. The difference may result from the method applied by the NBP, as the NBP covers by its statistics also those companies, which after starting their activities have not yet reported to the MSO.

Table 1 (in the Annex) shows the number of the companies with foreign capital participation in 1992-1999 period. The second column shows the number of the companies registered in the MSO before they start their activities. These are the companies ready to start their economic activities, which means being registered in both the court and statistical registers, but not conducting their economic activities, yet. The third column shows the dynamics of the registration process. The fourth column shows the number of the companies reporting on their economic activities after the whole calendar year of their activity, by the end of the calendar year. The fifth one informs on the dynamics of the last and the sixth shows the share of the companies conducting the economic activity in the number of the registered companies. The presented data show that one third of the registered companies conduct the economic activity, only. The more, the share of the active companies in the number of the registered ones is on the declining trend. It may be explained either by the mergers of the companies not being reported to the first register or by closing some of them and not canceling them from the first register. Some of the companies registered in the first register never started their economic activities and this is most probably the main reason for such a big difference between the numbers showed in the last and the second columns.

The dynamics of the registered companies was the highest in 1993, under the old law on the companies with foreign capital participation, granting such companies tax holiday for 3 to 6 years. In 1994 the dynamics of the companies conducting the economic activity was the highest which might indicate that more than in the previous years companies started economic activities. In 1994 the share of active companies in the registered ones was the highest in the whole researched period. Since 1993 the dynamics both of the registration and active companies has been declining and stabilizing on one hundred and –teen and one hundred and some percent.

4. The FDI Inflows to Poland in 1992-1999

In 1992-1999 periods the dynamic FDI inflows to Poland were registered. This is shown in the table No 2 in the Annex. Especially high dynamics of inflows was observed at the beginning of the transformation process, the lowest one but still described by positive numbers (109 percent) in 1994 and 1997.

In 1999 foreign investors` interest in the Polish economy was higher then ever before measuring by the FDI inflow value. The value of the inflows amounted to US\$ 7.2 billion and was by 14 percent higher than the one the year before. And the inflows in 1998 reached already US\$ 6.3

billion and were higher by 30 percent in comparison to 1997. One of the main incentives for foreign investors locating their capital in Poland were both the prospects for high economic growth and the privatisation of the leading banks and other manufacturing companies.

In 1999 the equity capital was by 20.5 percent higher than one year before and the value of the equity paid in cash increased by 19 percent. At the same time the share of the in-kind equity increased by 43.4 percent. The balance of payments data indicate that in some past years the in-kind equity was replaced by the credits and loans granted by foreign partners to their companies in Poland. In 1998 the value of such credits went up by 15 percent compared to the year before, but in 1999 the tendency reversed.

According to the NBP's data the incoming foreign capital was mainly (87 percent of it) invested in the operating companies, increasing their own capital. US\$ 565 mln (13 percent of the inflows) were invested in the new set up companies which meant that the value of capital invested in setting up new companies went down by 48 percent comparing to the previous year. This tendency may show that the investors strengthened the already operating companies because of the long-term plans concerned the Polish market. So they must have well evaluated the development prospects of the Polish market.

The biggest amount of the earnings reaching US\$ 888 mln was reinvested in 1995. Since those times the value of reinvested earnings has been going down by US\$ 644 mln in 1996, and by the next US\$ 219 mln in 1997. The decrease in the value of reinvested earnings was compensated by the increase in the value of loans and credits granted by foreign partners to their companies in Poland. In 1999 the companies with foreign capital participation registered US\$ 453mln loss. But among them were companies registering big profits, such as those in financial sector, foodstuff and chemical producers. The biggest losses producers were the trade and service sectors (US\$ 371 mln), which have been establishing themselves in the reported periods.

In the reported period the average capital invested in one company operating in Poland almost doubled what is the best sign of increasing confidence of foreign investors to the prospects of the Polish economy and of increasing competitiveness of it.

5. FDI Stock Level

The FDI stock value increased dynamically in the last eight years. The highest dynamics was registered in 1995 amounting to 206 percent. Since that time the dynamics slowed down but remained at fairly high levels reaching 116 percent in 1999.

According to the National Bank of Poland data (see table 4) the FDI stock level in Poland amounted to US\$ 26.075 billion by the end of 1999. US\$ 18.9 billion out of them were invested in the form of the equity held by foreign investors and US\$ 7.1 billion in the form of credits and loans granted by foreign investors to their companies operating in Poland. It meant that the equity paid in by foreign investors accounted to 72.8 percent in 1998 and credits and loans the remaining 27.1percent.

These developments show the increasing foreign investors' interest in the Polish economy.

6. The Structure of the Companies with Foreign Capital Participation by Value of the Foreign Capital

According to the 1998 Main Statistical Office data 59 percent of the invested foreign capital was invested in the companies being wholly owned by foreign investors. There were 6357 such companies. Almost the same number was reported for the previous year (60 percent).

There were 263 companies in which the share of foreign capital was lower than 10 percent of their equity. The value of this capital amounted to 0.1 percent of the total FDI value invested in Poland in 1998.

About 92 percent of foreign capital were invested in companies which equity exceeded US\$ 1 million and being wholly owned by foreign investors. The share of such companies in the overall number of the companies with foreign capital participation was relatively low and amounted to 7.5 percent of their total number. The number of such companies is showing a growing tendency (in 1997 there were 742 such companies and the capital invested in their equity amounted to 89 percent of the FDI total value).

In about 6000 companies the share of foreign partners amounted to between 10 and 99 percent and the value of capital invested in them varied from US\$ 6 thousand to US\$ 1 mln.

7. The Structure of the Companies with Foreign Capital Participation by Country of Origin of Foreign Partners

Almost all-foreign investors operating their companies in Poland originated from the OECD countries. It should strengthen the common feeling of the safety and security, as Poland - being a full member of the OECD - takes part in the work of this Organization, also this concerning the regulations of foreign capital flows and behaviour of foreign investors. So, in case of any problems there exists a forum for discussing and solving them. On the other hand – foreign investors may also feel secure because they know Poland behaves according to the acknowledged rules and vice versa, in case of any problems, the OECD may be a platform to discuss them.

The main foreign investors in Poland originated from Netherlands, Germany, United States and France. Investors from those countries invested US\$ 15.7 bln what was 69.7 percent of the FDI stock value. 28.5 percent on average out of this value was invested in the form of credits and loans granted to the companies set up in Poland. The share of credits and loans in the FDI stock value invested by investors differed from 40.5 percent for those originating from United Kingdom to 0.8 percent for those from South Korea. Nevertheless, the biggest part of those credits, amounting to US\$ 4.469 bln and making almost 70 percent of the total value of them originated from the Netherlands, Germany and the United States.

The credits and loans flow in one direction mostly – from foreign investors to their companies in Poland. The other way has not been used very frequently yet. By the end of 1998 the value of the credits and loans granted by the companies with foreign capital participation to their mother companies or investors amounted to US\$ 22 million vis a vis US\$ 6.4 billion of the received ones (see: table 5).

8. The Structure of the Invested Capital in Terms of the Conducted Economic Activity

The structure of the capital invested in Poland has been changing. The biggest part of the invested capital amounting to US\$ ca 8.7 bn was invested in the manufacturing sector, although the share of manufacturing showed a declining tendency in the last three years – from 59.3 percent to 54.5 percent - in the favour of the service sectors. Food processing sector attracted the biggest part of foreign investments amounting to US\$ 2.5 bn, what has made 15.4 percent of the FDI stock value by the end of 1998. The second most attractive for foreign investors was car producing sector which attracted US\$ 1.5 bn making 9.7 percent share. The third was chemicals and chemical products producing sector attracting US\$ 838 mln making 5.3 percent share. The above three sectors attracted a little more than 30 percent of the FDI stock value by the end of 1998.

The involvement of foreign investors in the financial intermediary sector was growing faster than the in the manufacturing one. In the 1996-1998 period the foreign capital value invested there increased by 2.4 times and amounted to US\$ 3 bn by the end of 1998 which has made 19 percent of

the FDI stock value compared to 14.4 percent by the end of 1996. The engagement in the banking sector amounted to US\$ 2.748 bn out of which 93.5 percent was invested in the own capital of the banks and the remaining part (6.5 percent) in the loans. The share of foreign capital in the banking sector increased by over 56 percent in 1998 in comparison to the previous year. The foreign capital was invested mainly in the privatized banks but also new foreign-owned banks were set up, especially specialized ones, such as banks financing car or other consumer goods purchases.

Another big beneficiary of foreign capital inflows to Poland was the trade and service sector. Foreign investment into this sector doubled in the 1996-1998 period and amounted to US\$ 2.7 bn by the end of 1998. Their share in the FDI stock value increased from 15.4 percent in 1996 to 17.2 percent in 1998.

Foreign capital doubled its investment in the real estate servicing sector as well. Its value amounted to US\$ 664 mn by the end of 1998 what did not mean any significant increase in its share in the FDI total value (from 3.8 percent to 4.1 percent in 1996-1998 period).

In the construction sector foreign investments amounted to US\$ 323 mln and doubled in the period mentioned above. Its share accounted to 2 percent in the FDI total value by the end of 1998 and remained at the same level.

Foreign investments in the transportation, storage and telecommunications sector were small and amounted to US\$ 279 mln by the end of 1998 because of the lack of the regulations, especially in the telecommunications. The situation changed during 1999 and the foreign investment into this sector started growing.

The share of other sectors of the national economy in the FDI total value was declining in the 1996-1998 period, what does not mean that the investments itself were declining. The investments in those sectors were proportionally smaller than in these mentioned above and in comparison to the previous years. In the 1996-1998 period the investments in terms of their value rose in each of the "other sectors", e.g. in rubber and plastics production they increased by US\$ 92 mln, in machinery production by US\$ 67 mln and in the textiles production by US\$ 11 mln. In some economic activities, such as energy, gas and water supply foreign investments played a marginal role what resulted mainly from insufficient regulations for privatization and restructuring of these sectors. Some progress in this field was noted in 1999 and one can expect growing investments into these sectors.

The presented structure of foreign capital in terms of sectors of the national economy shows that the invested into the Polish economy capital plays an important role in changing this structure. The growing involvement of foreign capital into the service sector is contributing to the convenient changes of the Polish economy especially in the context of the tendencies observed in the world economy (more than 60 percent of the US GDP has been produced by the service sector). It is also good for the Polish economy that foreign investors slowed down investing in the sectors losing their international competition position due to the changes of the profitability in spite of the fact that it causes temporary problems on the local labor markets. From the long-term perspective Polish economy will benefit from this kind of investment policy.

9. FDI Companies` Incomes

In 1994-1998 periods the incomes of the companies with foreign capital participation six-folded and amounted to PLN 270.8 bn what made 26.7 percent of the total income value of all companies operating in Poland by the end of 1998. In 1998 the incomes increased by 38.8 percent comparing to the previous year. Almost half of them (49.4 percent) were produced by the manufacturing sector, 33 percent by the trade and repair one, 7.6 percent by the transportation, storage and telecommunication, 4.6 percent by the real estate and companies services and 1.2 percent by the financial intermediaries.

In 1998 the incomes of the companies with foreign capital participation operating in the manufacturing made 13.2 percent out of the total incomes in the national economy, of those operating in trade and repair – 8.8 percent, in real estates and companies servicing - 1.2 percent and in construction - 0.6 percent.

10. Exports and Imports by Companies with Foreign Capital Participation

The companies with foreign capital participation create the group of both the biggest exporters and the biggest importers in the Polish economy.

10.1. *Exports*

The export value by those economic entities increased from US\$ 2.2 bln in 1993 up to US\$ 14.1 bln in 1999, which is more than by six times within six years. The companies with foreign capital participation produced 51.5 percent of the overall Polish exports starting from 16 percent in 1993.

In 1999 there were seven companies with foreign capital participation on the list of the top 20 Polish exporters. The list was lead by the automobile company with foreign capital participation. Its export value amounted to about US\$ 880 million. The next company with foreign capital participation was listed fourth and was exporting electronic equipment. Its export value exceeded US\$ 570 million. The next companies with foreign capital participation were listed on the eight, ninth and tenth position on the top 20 list of Polish exporters. They exported electrical and electronic products and cars. So, they exported the technology intensive products.

Looking at the FDI inflow and export values one can observe that the last ones are twice as big as the inflows almost every year. In 1999 export value was higher than the inflows by 94.4 percent.

In 1993 one invested dollar created US\$ 1.32 of exports, the next year US\$ 1.63, the years after US\$ 2.16, 2.07, 2.25, 2.12 and 1.94 respectively.

10.2. *Imports*

The import value by the companies with foreign capital participation doubled in the 1995-1999 period and reached US\$ 25.6 bln. The share of the companies with foreign capital participation in the overall import value amounted to 55.7 percent and showed an upward tendency starting from 42.4 percent in 1995. But the data show that imports by those companies stabilized last year. In the real terms the value of imports increased by 1.9 percent in 1999 compared to 1998 only while the exports value by 4.5 percent.

The import structure showed a rather positive picture from the macroeconomic point of view: the share of the investment goods amounted to 15.7 percent of the imports by those companies and 62.9 percent – supplying materials, what indicates for conducting large investment activities. The remaining 21.3 percent were the consumer goods imported mostly by big supermarkets and car dealers. The same indicators for all Polish companies read as follows: 16.8, 63.5 and 19.5 percent.

10.3. *Trade balance*

Despite rising import values the share of the companies with foreign capital participation in the overall Polish trade deficit went down from 70.9 percent in 1995 to 62 percent in 1999 and it stabilized at the level of the previous year the last one.

10.4. *The structure of exports and imports*

The analyses of the export structure showed that those companies are important exporters on the level of branches and commodity groups. Exports are highly concentrated on 11 commodity groups, which made 75 percent of the export earnings of those companies by the end of 1998. These were:

- Machinery and electrical equipment and their parts (their export value amounted to US\$ 2.4 bln, 70 percent of the output was exported)
- Cars and their parts (US\$ 1.7 bln, 85 percent)
- Textiles and cloth (US\$ 1.5 bln, 48 percent), out of which chemical fibres (85 percent of the output is exported),
- Furniture (US\$ almost 1 bln, 43 percent)
- Foodstuffs (US\$ 737 mln, 52 percent)
- Plastics and products thereof (US\$ 577 mln, 55 percent)
- Paper and cardboard (US\$ 489 mln, 76 percent)
- Chemical products (US\$ 459 mln, 28 percent)
- Wood and products thereof (US\$ 376 mln, 35 percent),
- Leather and products thereof (US\$ 169 mln, 45 percent)

Imports were also highly concentrated on seven main commodity groups, which created 85 percent of the total imports by the companies with foreign capital participation. The import structure by the end of 1998 was as follows:

- Machinery and equipment (import value US\$ 8.1 bln, 60 percent of the Polish imports of them),
- Cars and their parts (US\$ 3.4 bln, 76.7 percent of the Polish imports of them),
- Chemical products (US\$ 2.9 bln, 62 percent), out of which mainly pharmaceutical products (US\$ 980 mln),
- Noble metals and products thereof (US\$ 1.9 bln, 52 percent),
- Plastics and products thereof (US\$ 1.6 bln, 54%),
- Textiles and cloth (US\$ 1.5 bln, 44 percent),
- Wood pulp (US\$ 974 mln, 55 percent).

11. Employment

The companies with foreign capital participation employ 15.5 percent of the total number of employees in Poland. In the 1995-1998 period the employment more than doubled. Most were employed by the manufacturing sector, but in the last years the share of this sector in the total employment was declining from 70 percent to 61.3 percent.

The employment dynamics was lower than the FDI inflows dynamics (employment dynamics 132, 106, 130, 123 percent beginning from 1995 and FDI inflow dynamics 206, 146, 127, 154 percent respectively). This indicates for more technology than labor-intensive investments.

In 1994-1998 periods the FDI value per one employee increased considerable, from US\$ 10 thousand in 1994 through US\$ 15.8, 21.8, 21.3 up to 26.7 thousand in 1998. These developments confirm the change of investments from labour- to more capital intensive ones. The indicators showing the employees number per one million of invested dollars confirm the above – this indicator declined from 98.6 employees in 1995 to 37.4 in 1998.

In the same period the productivity of the companies measured by income value per one employee increased by 2.2 times. In 1998 the average incomes per one employee in the national economy amounted to PLN 187.3 thousand while the same indicator for the companies with foreign capital participation amounted to PLN 322 thousand (by 72 percent higher).

12. Summary

During the transformation process basic macroeconomic, legal and infrastructure conditions for market economy in Poland have been set up.

In the investors' opinion – besides creating stable macroeconomic and legal conditions for conducting an economic activity - a high growth potential of the Polish economy is one of its major trump cards in attracting foreign investors. Another attracting factors are the stable economic and political situation in the country, relatively well-educated and not expensive labour and big and expanding internal market. The expansion of the market has been resulting from the growing demand being both a consequence of high economic growth and the postponed demand. And last but not least, the geographical position, between the big and prospectus Russian and UE markets are additional incentives for investors both from EU and non-EU countries.

Investors may conduct the economic activity in Poland on the basis of the general regulations, concerning both residents and non-residents, such as Commercial Code, the Law on Economic Activity and all other laws regulating conducting an economic activity in Poland.

Foreign investors enjoy national treatment in Poland, with very few exceptions notified with the OECD. Sharp restrictions remained on the real estate purchase by non-residents only, which is a high sensitive political issue in Poland.

Polish regulations do not offer any preferential tax treatment for the companies with foreign capital participation any more. Foreign investors do not enjoy any preferential treatment at all.

In spite of that almost 17 thousands investors originating from 106 countries hold shares and stock in the companies with foreign capital participation by the end of 1998, which made slightly more than 15 percent of the total number of the economic entities reporting to the Main Statistical Office.

In the reported 1992-1999 period the average capital invested in one company operating in Poland almost doubled what is the best sign of increasing confidence of foreign investors to the prospects of the Polish economy and of increasing competitiveness of it.

The FDI stock value increased dynamically in the last eight years and amounted to US\$ 26.075 billion by the end of 1999 (according to the balance of payments data).

Almost all-foreign investors operating their companies in Poland originated from the OECD countries (with a small, amounting 0.5 percent of the total investors number exception).

59 percent of the invested foreign capital was invested in the companies being wholly owned by foreign investors, out of them about 92 percent was invested in companies which equity exceeded

US\$ 1 million. The share of such big-size companies in the overall number of the companies with foreign capital participation was relatively low and amounted to 7.5 percent of their total number.

The biggest part of the foreign capital amounting to US\$ ca 8.7 bn was invested in the manufacturing sector, although the share of manufacturing in the overall foreign capital value showed a declining tendency. In the last three years it declined from 59.3 percent to 54.5 percent - in the favour of the service sectors. In the last three years the involvement of foreign investors in the financial intermediary sector was growing faster than the in the manufacturing one what was linked to the privatisation of the state-owned banks and inviting foreign investors to the insurance sector and pension funds. One example: the share of foreign capital in the banking sector only increased by over 56 percent in 1998 in comparison to the previous year.

The structure of foreign capital in terms of sectors of the national economy shows that the invested into the Polish economy capital plays an important role in changing its structure. The growing involvement of foreign capital into the service sector is contributing to the convenient changes of the Polish economy especially in the context of the tendencies observed in the world economy.⁴ It is also good for the Polish economy that foreign investors slowed down investing in the sectors losing their international competition position due to the changes of the profitability in spite of the fact that it causes temporary problems on the local labour markets. From the long-term perspective the Polish economy will benefit from this kind of investment policy. From the short-term point of view it creates certain problems, especially on the labour market.

In 1994-1998 periods the incomes of the companies with foreign capital participation six-folded and amounted to PLN 270.8 bn what made 26.7 percent of the total income value of all companies operating in Poland by the end of 1998.

The companies with foreign capital participation create the group of both the biggest exporters and the biggest importers in the Polish economy.

The export value by those economic entities increased from US\$ 2.2 billion in 1993 up to US\$ 14.1 billion in 1999, which six-folded within six years. The companies with foreign capital participation produced 51.5 percent of the overall Polish exports starting from 16 percent in 1993.

In 1999 there were seven companies with foreign capital participation on the list of the top 20 Polish exporters. Exports are highly concentrated on 11 commodity groups, which made 75 percent of the export earnings of those companies by the end of 1998.

The import value by the companies with foreign capital participation doubled in the 1995-1999 period and reached US\$ 25.6 bln. The share of the companies with foreign capital participation in the overall import value amounted to 55.7 percent. Imports were also highly concentrated on seven main commodity groups, which created 85 percent of the total imports by the companies with foreign capital participation.

The companies with foreign capital participation employ 15.5 percent of the total number of employees in Poland. The employment dynamics was lower than the FDI inflow dynamics. This indicates for more technology than labour-intensive investments.

The FDI value per one employee increased considerable, from US\$ 10 thousand in 1994 through US\$ 15.8, 21.8, 21.3 up to 26.7 thousand in 1998. These developments confirm the change of investments from labour- to capital intensive ones. The indicators showing the employees number per one million of invested dollars confirm the above – this indicator declined from 98.6 employees in 1995 to 37.4 in 1998.

⁴ Nowadays more than 60 percent of the GDP of the United States has been produced by the service sector.

* * *

So, all together 15 percent of the total number of the companies active on the Polish market employ 15.5 percent of the total number of the workforce. They produced 26.7 percent of the total income value of all companies operating in Poland by the end of 1998, exported 51.5 percent of the overall Polish exports and imported 55.7 percent of the overall Polish imports by the end of 1999.

Table 1. The number of the companies with the foreign capital participation in 1992-1999 period

| Years | The number of the companies registered in the MSO before starting the economic activities | The dynamics of the registration process | The number of the companies reporting to the MSO after at least one year activity | The dynamics of the reporting process | The share of the active companies in the number of the registered ones (In percent) |
|-------|---|--|---|---------------------------------------|---|
| 1992 | 10817 | 100 | 2462 | 100 | 23 |
| 1993 | 15814 | 146 | 2743 | 111 | 17 |
| 1994 | 20324 | 128 | 8775 | 319 | 43 |
| 1995 | 24635 | 121 | 10235 | 117 | 41 |
| 1996 | 29157 | 118 | 11307 | 110 | 39 |
| 1997 | 32942 | 115 | 12377 | 109 | 37,5 |
| 1998 | 36850 | 112 | 12649 | 102 | 34,3 |
| 1999 | 40412 | 110 | x | X | X |

Source: Działalność gospodarcza spółek z udziałem kapitału zagranicznego – Main Statistical Office, respective years, The Small Yearbook of Statistics, MSO – respective years, Information on the socio-economic situation, 1999 – MSO

Table 2. The Foreign Direct Investment Inflows to Poland in 1992-1999 (in US\$ mln)

| Kind of inflows/ Year | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 1997: 1996 in % | 1998: 1997 in % | 1999: 1998 in % |
|---|------|------|------|------|------|------|------|------|------|-----------------------|-----------------------|-----------------------|
| Equity (in cash) | 177 | 298 | 892 | 884 | 1807 | 2845 | 2663 | 4323 | 5143 | 93,6 | 162,3 | 118.9 |
| In kind equity | 91 | 135 | 217 | 212 | 298 | 314 | 453 | 281 | 403 | 144 | 62 | 143.4 |
| Reinvested earnings | 66 | 154 | 199 | 382 | 888 | 244 | 25 | -264 | -453 | 10,2 | X | X |
| Credits and loans directly linked with FDI | 25 | 91 | 407 | 397 | 666 | 1095 | 1767 | 2025 | 1256 | 161,3 | 115 | 62.0 |
| FDI Inflows Total | 359 | 678 | 1715 | 1875 | 3659 | 4498 | 4908 | 6365 | 7270 | 109,1 | 130 | 114.2 |
| Dynamics of FDI Total Inflows (previous year=100) | 100 | 188 | 252 | 109 | 195 | 122 | 109 | 130 | 106 | 109,1 | 130 | 114.2 |

Source: Foreign Direct Investment in Poland in 1998, National Bank of Poland, 1999

Table 3. FDI value per one company in 1992-1998

| Years | Number of companies conducting economic activities | The value of invested capital in US\$ mln | The average capital value per one company in thousands US\$ |
|-------|--|---|---|
| 1992 | 2462 | 678 | 275 |
| 1993 | 2743 | 1715 | 625 |
| 1994 | 8775 | 1875 | 213 |
| 1995 | 10235 | 3659 | 357 |
| 1996 | 11307 | 4498 | 397 |
| 1997 | 12377 | 4908 | 396 |
| 1998 | 12649 | 6365 | 503 |

Source: own calculations based on the NBP' and MSO' data

Table 4. Foreign Direct Investment Stock Level in 1992-1999 (in US\$ mln)

| Years | Equity of Foreign Investors in the Companies in Poland | Equity share in the FDI Stock Value (In percent) | Credits and loans granted by foreign investors to their companies in Poland | The share of credits and loans in the FDI Stock Value (In percent) | FDI Stock Value | The FDI Stock Level Dynamics (The previous year=100, in percent) |
|-------|--|--|---|--|-----------------|--|
| 1992 | 1.135 | 82,8 | 235 | 17,2 | 1.370 | 100 |
| 1993 | 1.661 | 72,0 | 646 | 28,0 | 2.307 | 168 |
| 1994 | 2.840 | 75,0 | 949 | 25,0 | 3.789 | 164 |
| 1995 | 6.130 | 78,1 | 1.713 | 21,8 | 7.843 | 206 |
| 1996 | 8.697 | 75,8 | 2.766 | 24,1 | 11.463 | 146 |
| 1997 | 10.125 | 69,4 | 4.462 | 30,5 | 14.587 | 127 |
| 1998 | 16.063 | 71.4 | 6.416 | 28.5 | 22.479 | 154 |
| 1999 | 18.986 | 72.8 | 7.089 | 27.1 | 26.075 | 116 |

Source: Foreign Direct Investment in Poland in 1998, National Bank of Poland - Warsaw 1998, and Balance of Payments on the Transaction Basis and the Balance of Foreign Assets and Liabilities of the Republic of Poland, National Bank of Poland, Warsaw, 1999.

Table 5. The Structure of Foreign Direct Investment Stock Levels according to the countries of origin of foreign investors

| Countries of origin | The value of paid-in equity (in US\$ mln) | Inter-company Credits and Loans (in US\$ millions) | | | | FDI Stock Levels (In US\$ millions) |
|-------------------------------|---|--|---|------------------------------|--|-------------------------------------|
| | | Credits granted by foreign shareholders | Credits granted to foreign shareholders | Net value (in millions US\$) | The share of credits in FDI Stock Level (in percent) | |
| TOTAL | 16.063 | 6.438 | 22 | 6.416 | 28,5 | 22.479 |
| Out of it: EUROPE | 12.838 | 5.438 | 13 | 5.425 | 29,7 | 18.263 |
| In Europe: Netherlands | 4.160 | 2.263 | 1 | 2.262 | 35,2 | 6.422 |
| Germany | 3.442 | 1.378 | 5 | 1.373 | 28,5 | 4.815 |
| France | 1.539 | 261 | 2 | 259 | 14,4 | 1.798 |
| United Kingdom | 483 | 328 | 0 | 328 | 40,4 | 811 |
| Austria | 472 | 221 | 0 | 221 | 31,8 | 693 |
| Italy | 550 | 55 | 0 | 55 | 9,1 | 605 |
| Denmark | 422 | 180 | 0 | 180 | 3,0 | 602 |
| Belgium & Luxembourg | 470 | 123 | 1 | 122 | 2,1 | 592 |
| Sweden | 322 | 220 | 0 | 220 | 40,5 | 542 |
| Switzerland | 315 | 147 | 3 | 144 | 31,3 | 459 |
| Ireland | 162 | 72 | 0 | 72 | 30,7 | 234 |
| Finland | 90 | 34 | 0 | 34 | 27,4 | 124 |
| Norway | 64 | 55 | 0 | 55 | 46,2 | 119 |
| NORTH AMERICA | 2.081 | 846 | 8 | 838 | 28,7 | 2.919 |
| Out of it: United States | 2.033 | 842 | 8 | 834 | 29,1 | 2 867 |
| ASIA | 765 | 18 | 1 | 17 | 2,7 | 782 |
| Out of it: South Korea | 635 | 5 | 0 | 5 | 0,8 | 640 |
| Japan | 111 | 8 | 0 | 8 | 6,7 | 119 |
| OTHERS | 112 | 13 | 0 | 13 | 1,0 | 125 |

Source: Foreign Direct Investment in Poland in 1998, National Bank of Poland 1999, own calculations

Table 6. The Structure of the FDI by the Branches of the National Economy

| Kinds of Economic Activity | Foreign Direct Investment Total Value | | | | | |
|--|---------------------------------------|----------------------|------------------|----------------------|------------------|----------------------|
| | 1996 | | 1997 | | 1998 | |
| | Millions of US\$ | The Share in percent | Millions of US\$ | The Share in percent | Millions of US\$ | The Share in percent |
| TOTAL | 8.697 | 100,0 | 10.125 | 100,0 | 16.063 | 100,0 |
| MANUFACTURING | 5.160 | 59,3 | 5.641 | 55,7 | 8.748 | 54,5 |
| Out of the above: Food processing | 1.258 | 14,5 | 1.390 | 13,7 | 2.476 | 15,4 |
| Car production | 801 | 9,2 | 836 | 8,3 | 1.561 | 9,7 |
| Chemicals and chemical products production | 503 | 5,8 | 598 | 5,9 | 838 | 5,3 |
| Wood and wood pulp production, publication and printing activity | 528 | 6,1 | 594 | 5,9 | 789 | 4,9 |
| Rubber and plastics production | 390 | 4,5 | 373 | 3,7 | 482 | 3,0 |
| Metal Production | 276 | 3,2 | 313 | 3,1 | 411 | 2,6 |
| Machinery | 192 | 2,2 | 165 | 1,6 | 259 | 1,6 |
| Audio, TV and Communication Equipment | 102 | 1,2 | 139 | 1,4 | 200 | 1,2 |
| Textiles production | 152 | 1,7 | 141 | 1,4 | 163 | 1,0 |
| Other manufacturing services | 958 | 10,9 | 1.092 | 10,7 | 1.569 | 9,8 |
| FINANCIAL INTERMEDIARIES | 1.270 | 14,6 | 1.796 | 17,7 | 3.053 | 19,0 |
| TRADE AND SERVICES | 1.335 | 15,4 | 1.704 | 16,8 | 2.767 | 17,2 |
| REAL ESTATES SERVICING AND RENTAL | 331 | 3,8 | 408 | 4,0 | 664 | 4,1 |
| CONSTRUCTION | 178 | 2,0 | 182 | 1,8 | 323 | 2,0 |
| TRANSPORTATION, STORAGE AND TELECOMMUNICATIONS | 276 | 3,2 | 254 | 2,5 | 279 | 1,7 |
| OTHERS | 147 | 1,7 | 140 | 1,5 | 229 | 1,5 |

Source: Foreign Direct Investment in Poland in 1998, National Bank of Poland, Warsaw 1999

Table 7. Exports, imports and foreign trade balance of the companies with foreign capital participation in 1993-1999

| Kind of .../Years | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|--|-------|-------|--------|--------|---------|---------|---------|
| FDI Inflows (in billions of US\$.) | 1.715 | 1.875 | 3.659 | 4.498 | 4.908 | 6.365 | 7.270 |
| Exports in billions US\$ | 2.270 | 3.060 | 7.936 | 9.315 | 11.077 | 13.527 | 14.134 |
| The Share in Total exports (in percent) | 16,0 | 17,7 | 38,1 | 38,1 | 43,0 | 47,9 | 51,5 |
| Imports (in billions of US\$) | | | 12.305 | 17.720 | 21.120 | 25.121 | 25.612 |
| The Share in Total Imports (in percent) | | | 42,4 | 47,7 | 49,9 | 53,3 | 55,7 |
| Foreign Trade Balance of the Companies (in billions of US\$) | | | -4.369 | -8.405 | -10.043 | -11.594 | -11.479 |
| The Share in the Total Foreign Trade Balance(in percent) | | | 70,9 | 66,2 | 60,6 | 61,5 | 62,0 |

Source: Foreign Direct Investment in Poland – Foreign Trade Research Institute, Warsaw, editions 1996 – 1999