

# Productivity and Financial Wealth in Poland

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Productivity is considered an important determinant of a country's long-term economic growth potential. It determines the competitiveness of an economy with respect to the rest of the world. This helps in allocating available resources to productive activities, thereby facilitating well-functioning markets and inclusive economic growth. A lot of studies suggest ways to improve productivity in order to facilitate a higher economic growth and greater welfare. However, it is essential to recognize the fact that the financial wealth of individuals in a country also plays a major role in determining its prosperity. So, specific policies to encourage asset accumulation should be put in place alongside those targeting productivity. This report analyses the productivity and financial wealth in Poland to consider a more holistic way of improving national welfare.

## Productivity and Competitiveness in Poland

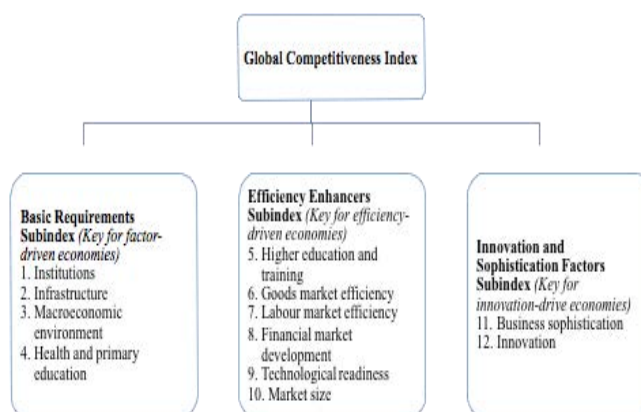
According to the Global Competitiveness Report, 2014, 'competitiveness' has been defined as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be reached by an economy. It also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. So,

a more competitive economy is one that is likely to grow faster over time.

## Stages of Growth

12 pillars of competitiveness have been identified, for three stages of growth: factor-driven, efficiency-driven, and innovation-driven growth, as shown in Figure 1.

Figure 1: The Global Competitiveness Index Framework



Although all pillars matter to a certain extent for every country, the relative importance of each one depends on a country's particular stage of development. Detailed pictures of the Global Competitiveness Index (GCI) rankings and scores for the pillars in Poland have been depicted in Figure 2 and Figure 3. At present, Poland is in the stage of transition from an efficiency-driven to an innovation-driven economy. It ranked 52nd with respect to the other countries in terms of

GDP per capita, which was \$13,394 in 2013. It has already developed efficient production processes with a high product quality. At this point, the driving forces of competitiveness in the country are higher education and training, efficient goods market, the ability to harness the benefits of existing technologies, and a large domestic or foreign market. But with the high wage levels associated with the second stage, the corresponding standard of living and growth can be sustained only with continued structural reforms geared toward strengthening its innovation and knowledge- driven economy. To progress further and to transit to the final stage of growth, companies must compete by producing new and unique goods using the most sophisticated production processes and by innovating new ones. The country can build on a fairly well educated population, well- developed financial markets, and a market that is by far the largest in Eastern Europe. Transport infrastructure, however, despite notable improvements, remains weak by European standards. Some aspects of institutions, such as the burden of its regulations, its rather inefficient legal framework for settling business disputes, and difficulties in obtaining information on government decisions for business also need to be addressed on a priority basis. And as the country slowly emerges from the economic slowdown of 2012 and 2013, Poland should focus on further improving labor market efficiency and strengthening business sophistication as well as on its business sector's capacity for innovation.

Figure 2: GCI Rankings for the Pillars in Poland



Figure 3: Scores for the Pillars in Poland (1-7)



## Global Competitiveness Index (GCI)

Many countries in Eastern Europe, including Poland, score relatively low in the GCI. However, Poland has been adopting and implementing the reforms necessary to become more productive and its overall ranking improved from 48 (scoring 4.3) in 2005-06 to 43 (scoring 4.48) in 2014-15. A more detailed picture of the rankings and scores has been presented in Figure 2 and Figure 3.

Figure 4: GCI Rankings for Poland

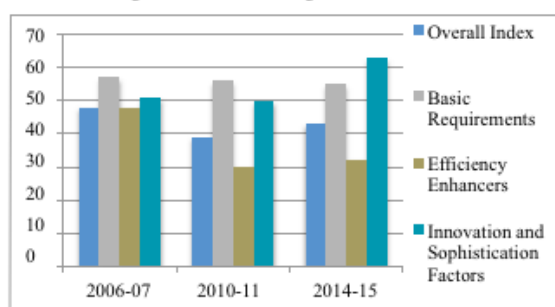
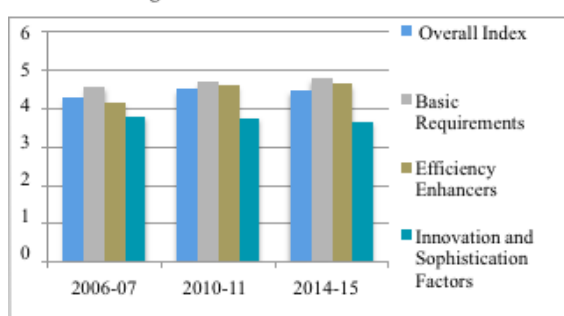


Figure 5: GCI Scores for Poland



Although there is a need to improve productivity and competitiveness in Poland, there are some limitations to considering this as the ultimate means for a greater welfare. Enhancing productivity needs be accompanied by transformations that adapt to the new technological, geopolitical, and ecological reality to ensure that progress translates into higher human development for all. Moreover, productivity does not directly translate into a higher economic growth. The link between economic growth, and overall prosperity and welfare may also be broken due to different factors such as wealth.

## Financial Wealth in Poland

Human welfare partly consists of access to assets. Assets capture the long-term, dynamic nature of financial welfare because they reflect lifetime financial accumulation. Financial wealth accumulation is done for various reasons, such as to smooth out the variability of current income, to store for future

consumption, and for transmission of advantages to future generation. So, personal financial assets are a better indicator to measure a society's prosperity rather than real estate because they serve the purpose of meeting future consumption in a better way, with lesser risks of dwindling value.

## Financial Assets v/s Gross Domestic Product (GDP)

Even though the proportion of GDP in the world's poor regions is increasing rapidly with respect to the richer regions, the same pace is not observed in the increase in proportion of financial assets in the poor regions. While incomes and assets are closely linked, there is a certain time lag involved: households have to exceed a certain income level before accumulating any wealth at all. So, the substantial assets available in the richer countries are the result of cumulative economic successes of the past, and decades of saving efforts, often spanning several generations. Thus, it will take Poland a few more years to increase the magnitude of growth of financial assets, because it became a free market economy only in the 1990s. This accumulated financial wealth is an important consideration in determining the welfare of a country.

## Analysis of Data on Financial Wealth in Poland

According to the Global Wealth Report 2014 by Allianz, Poland is classified as a 'middle wealth country' (countries with average net per capita financial assets of between \$6,732 and \$40,393). The average net financial wealth per capita was estimated at \$10,406, much lower than the OECD average of \$42,903 (ranking 30th out of 36 countries) in 2013. Even though

private financial wealth in the country grew at a slow rate of 9.8 percent in 2013, it was more than double the rate of economic growth (2.3 percent) and higher than the average of 7.1 percent in Eastern Europe. The liabilities increased by 1.25 percent from 2013 to 2014 and are now estimated at \$190,420. Households' financial assets and liabilities in Poland have been summarized in Table 1 for the first quarters of the years 2010 to 2014.

**Table 1: Households' Financial Assets and Liabilities in Poland (in dollars)**

| Type Stocks      |                                                     |           |         |         |         |         |
|------------------|-----------------------------------------------------|-----------|---------|---------|---------|---------|
| Frequency        |                                                     | Quarterly |         |         |         |         |
| Time             |                                                     | Q1-2010   | Q1-2011 | Q1-2012 | Q1-2013 | Q1-2014 |
| Transaction      |                                                     |           |         |         |         |         |
| Financial Assets | Investment fund shares                              | 23351     | 28122   | 23295   | 27115   | 35112   |
|                  | Net equity of households in life insurance reserves | 23153     | 25483   | 22714   | 22816   | 25040   |
|                  | Net equity of households in pension funds           | 69237     | 84004   | 79215   | 86095   | 54134   |
| Liabilities      | Loans                                               | 149370    | 172026  | 171545  | 169124  | 19042   |

## Bank Deposits

Extremely low interest rates not only have a long-term impact on asset accumulation, but also have direct implications in terms of income: interest payments on bank loans are lower, but so are the interest payments

received on bank deposits. Poland has benefited from net interest gains on the whole. Households have gained around EUR 1,000 per capita or more.

## Wealth Distribution

The share of the top population decile in net financial assets in 2013 was approximately 48 percent in Poland, with a decrease of around 2 percentage points since 2000, thereby assigning it to the category of relatively egalitarian societies. This homogenous distribution is probably because there has not yet been much time available to accumulate private assets, as it became a free market economy only in the 1990s; hence no marked differences have emerged so far.

Thus, in Poland, as the total assets are experiencing a growth, more and more people seem to participate in this prosperity. So in order to achieve more even wealth distribution, policymakers should not aim to limit asset growth by imposing taxes and levies, but rather to foster asset growth as a whole.

## Financial Wealth v/s Productivity

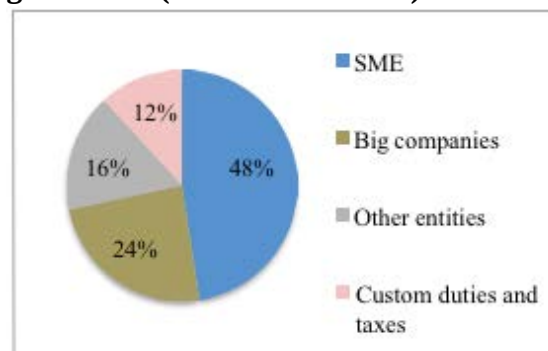
Wealthier economies have a comparative advantage in sectors with financial imperfections because wealthier entrepreneurs are better able to overcome incentive problems in borrowing-lending relations. Smaller firms are more likely to be financially constrained, as many of these are family firms, with personal wealth of the owners determining the amount that can be borrowed from the bank. Wealthier entrepreneurs are less dependent on external finance, thus mitigating the agency problem in credit contracts.

This low failure rate translates into lower lending rates, inducing an expansion of

production in the small-firm sector. Moreover, in the large-scale sector, it takes longer for a talented-but-poor entrepreneur to self-finance the capital needed for operating at a profit-maximizing scale. The selection of entrepreneurs into the large-scale sector is also based more on individuals' wealth (or self-financing capability) and less on their entrepreneurial talent or productivity. With financial frictions in the form of collateral constraints, entrepreneurs' production and individuals' occupational decisions are constrained by their available wealth. This leads to a distortion of allocation of capital, and talent (with talented-but-poor individuals delaying their entry and incompetent-but-rich entrepreneurs remaining in business for longer), as well as the number of production units for a given distribution of entrepreneurial talent. This lowers sectoral and aggregate productivity.

Figure 6 depicts a detailed picture of the composition of revenues generated in Poland. The Small and Medium Enterprises (SME) sector generates almost 50 percent of the GDP, partly owing to the moderate level of financial wealth in the country. Thus, a greater financial asset accumulation is essential for giving a boost to both small-scale and large-scale sectors, thereby enhancing the welfare and prosperity.

**Figure 6: Composition of revenues generated (as a % of GDP) in Poland**



## Conclusion

Even though productivity is an extremely important factor in determining an economy's growth, some focus needs to be shifted towards financial assets too. Analyzing the case of Poland, it can be observed that there may be a slow translation from productivity to economic growth and welfare if the level of financial wealth and the pace of its accumulation is sluggish in the economy. Thus, focusing solely on improving productivity through its different pillars would not be a good strategy for an economy.

A higher pace of growth of Poland's economy can be achieved via a larger growth in the financial assets, as this will give a boost to all the sectors. Therefore, it is equally important to implement certain policies targeted towards enhancing the financial wealth in the country.

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