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Competitiveness of the Polish economy – where are we and where could we go? Lessons drawn from GCR 2014-15

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Contents

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I

EOS sample in Poland – size, collection, quality

The EOS in Poland - general information

- Poland – quoted since 2005
- Now approx. 200 firms in the sample. One of the biggest samples of inspected firms (at the 6th place – after USA, China, Mexico, Russian Fed. and India)
- Data collection process in Poland – based on efforts of Regional Branches of the NBP
- Benefits of such system:
  - Very good quality of conducted surveys
  - Fulfilment of „Top 5” requirement
  - The sample constructed as a half-panel data (½ of the sample is rotated and ½ remains unchanged)
  - The structure of the sample fully reflected the sectorial contribution to GDP
  - 30% of foreign companies
- Stable size of the sample (approx. 200 enterprises) - benefits

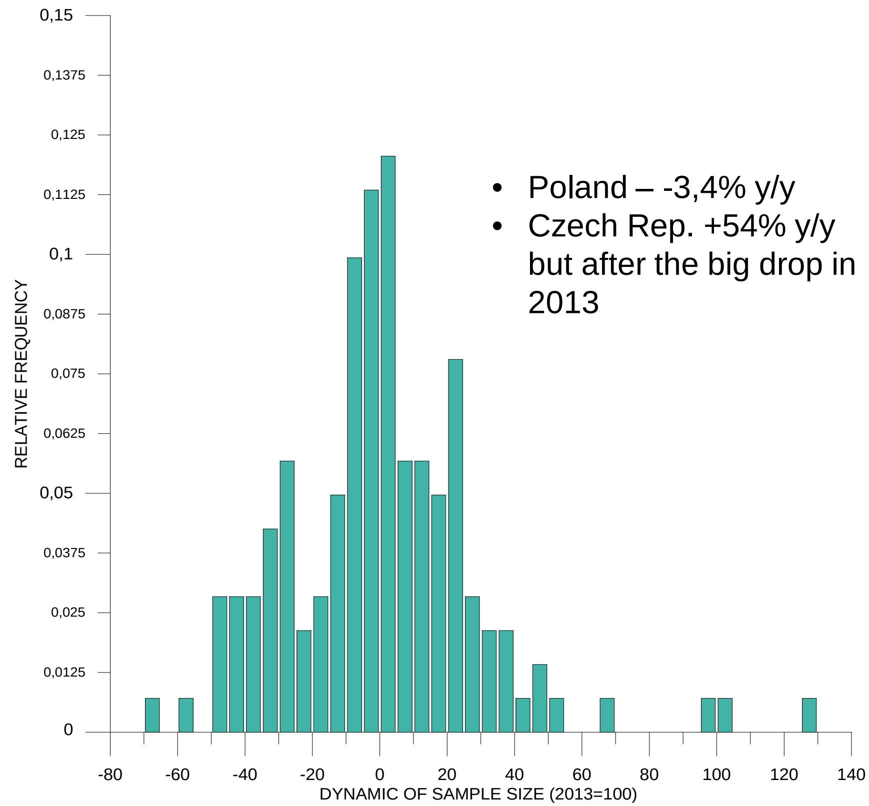

Fig. 1. The distribution of the dynamic of samples in GCR 2014-15 (y/y). Source: own calculations on GCR data

- Despite corrective procedures in GCR this is the methodological problem influencing negatively, in extreme cases, the quality of the survey results

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II

Poland – where we are. Main characteristics

Poland at the global perspective

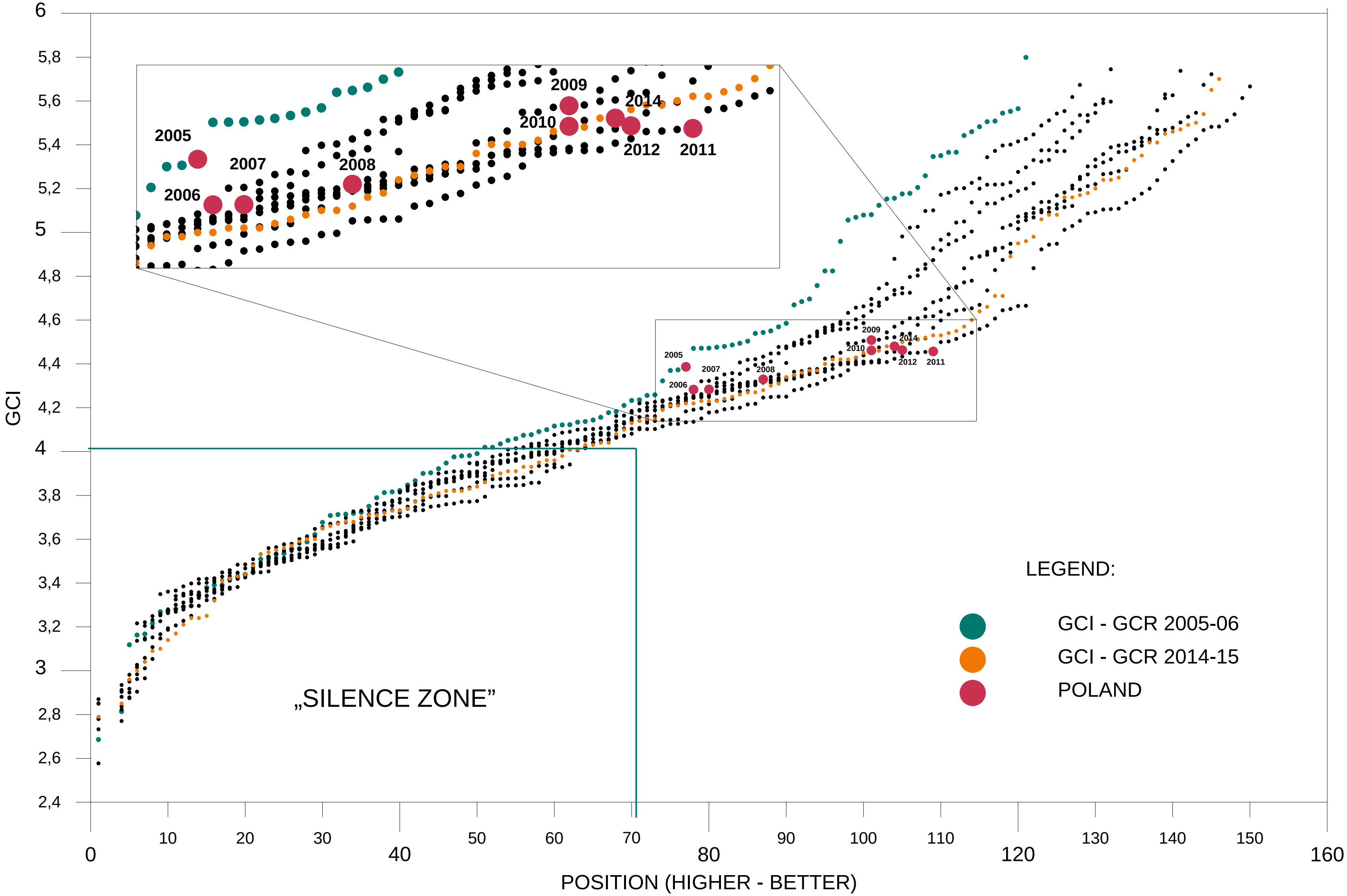

Fig. 2. GCI and the position in the ranking (World and Poland) since 2005

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Source: GCRs and own calculations

Poland at the global long-term perspective – cont.

- Hundreds definitions and measures of competitiveness. This interpretation – limited and based on immanent logic of GCR methodology.
- Limited comparability over time – due to the changes in methodology of GCI
- Poland at the edge of „silence zone" – region in which if you keep stable level of GCI you experience small changes of your position
- In consequence despite relative stable level of Polish GCI – Poland is placed at different positions
- Wining strategy should be active and based on score-gaining approach

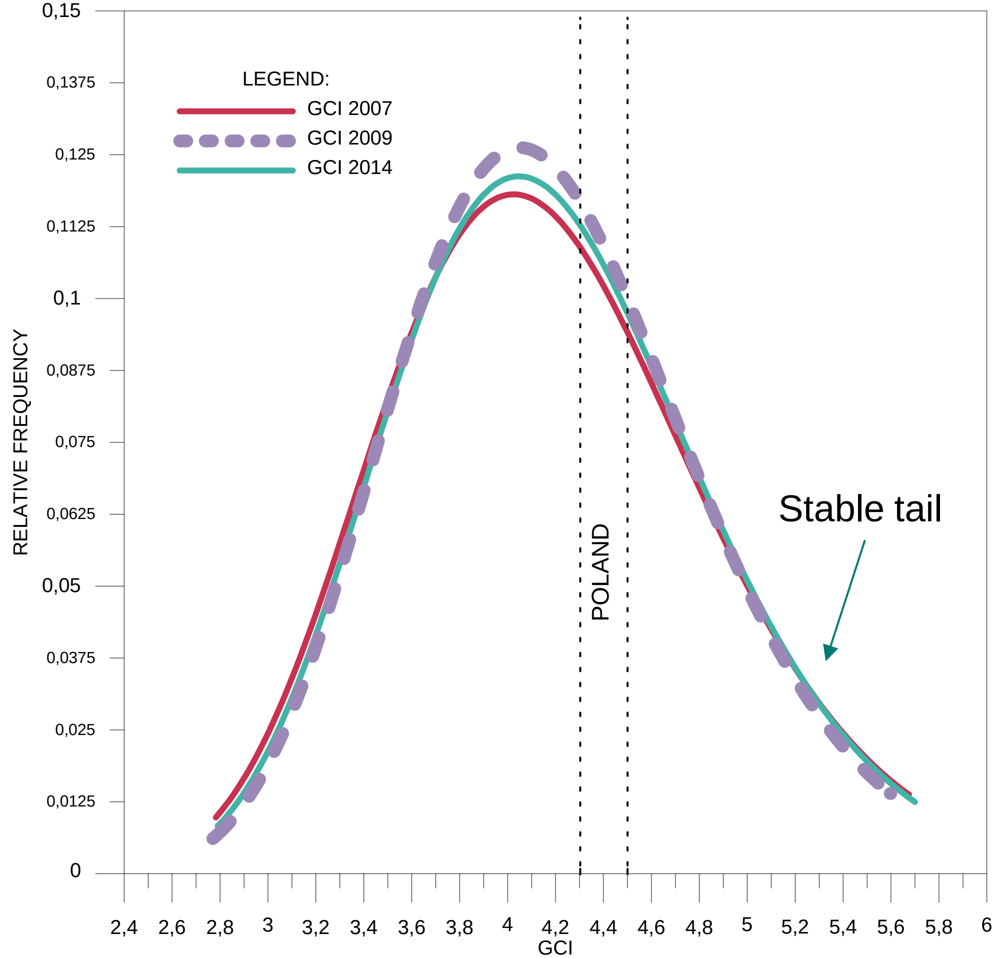


Fig. 3. Distributions of GCI in 2007, 2009 and 2014 (lognormal approximations)

Source: GCRs and own calculations

EUROPE – IN THE MIDDLE OF THE PACK

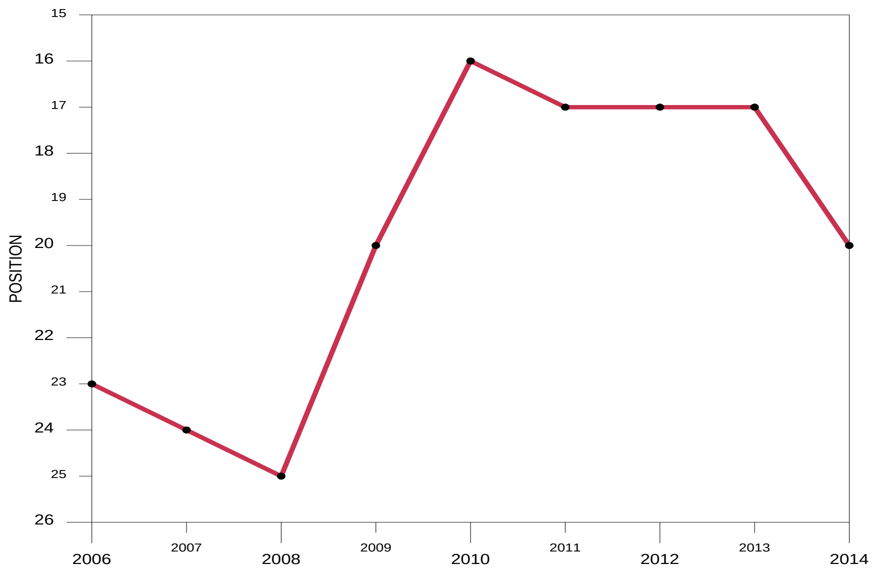
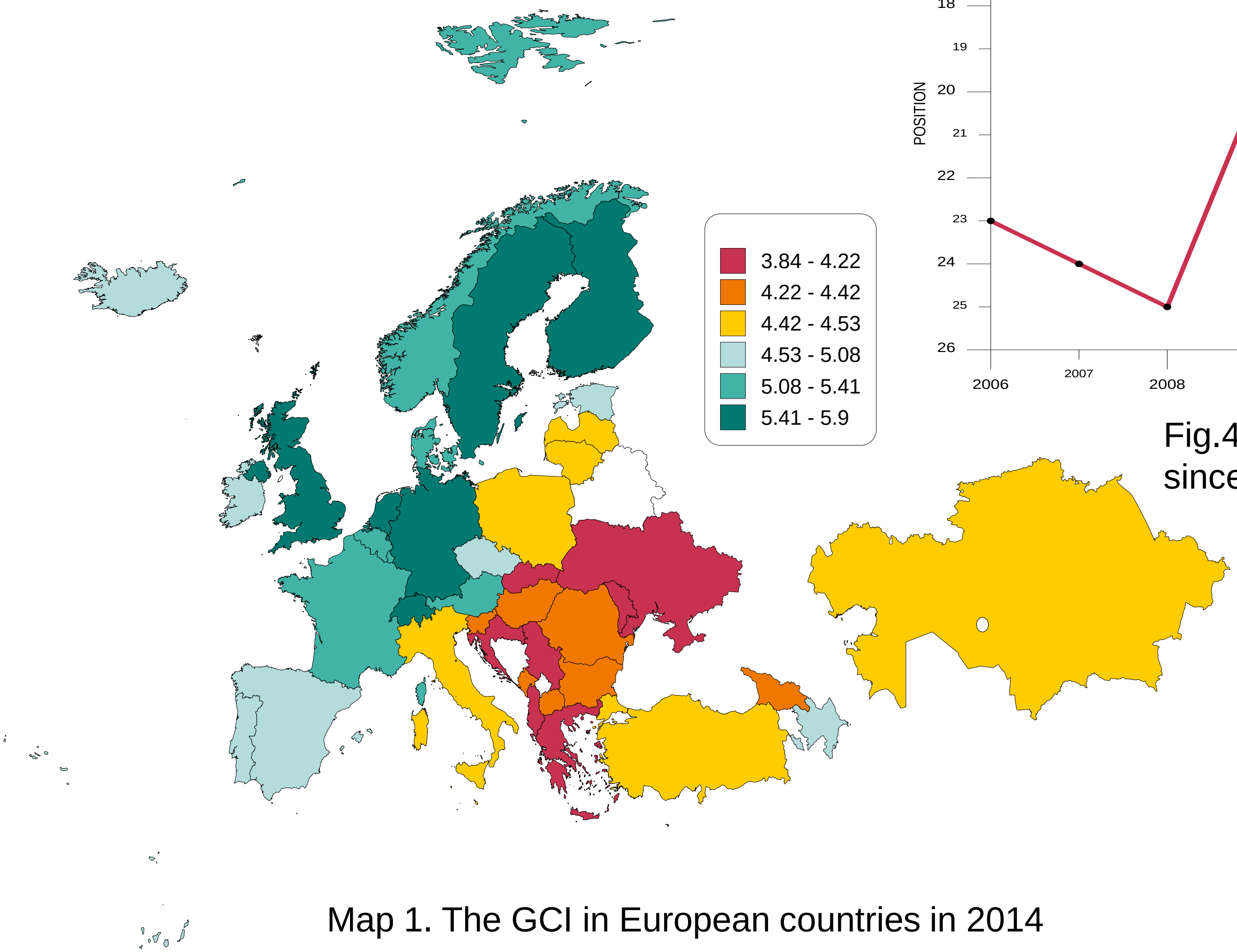


Fig.4. Rank of Poland in Europe since 2006



Map 1. The GCI in European countries in 2014

Source: GCRs for Poland. Own calculations.

Performance of the post-socialist countries since 2005

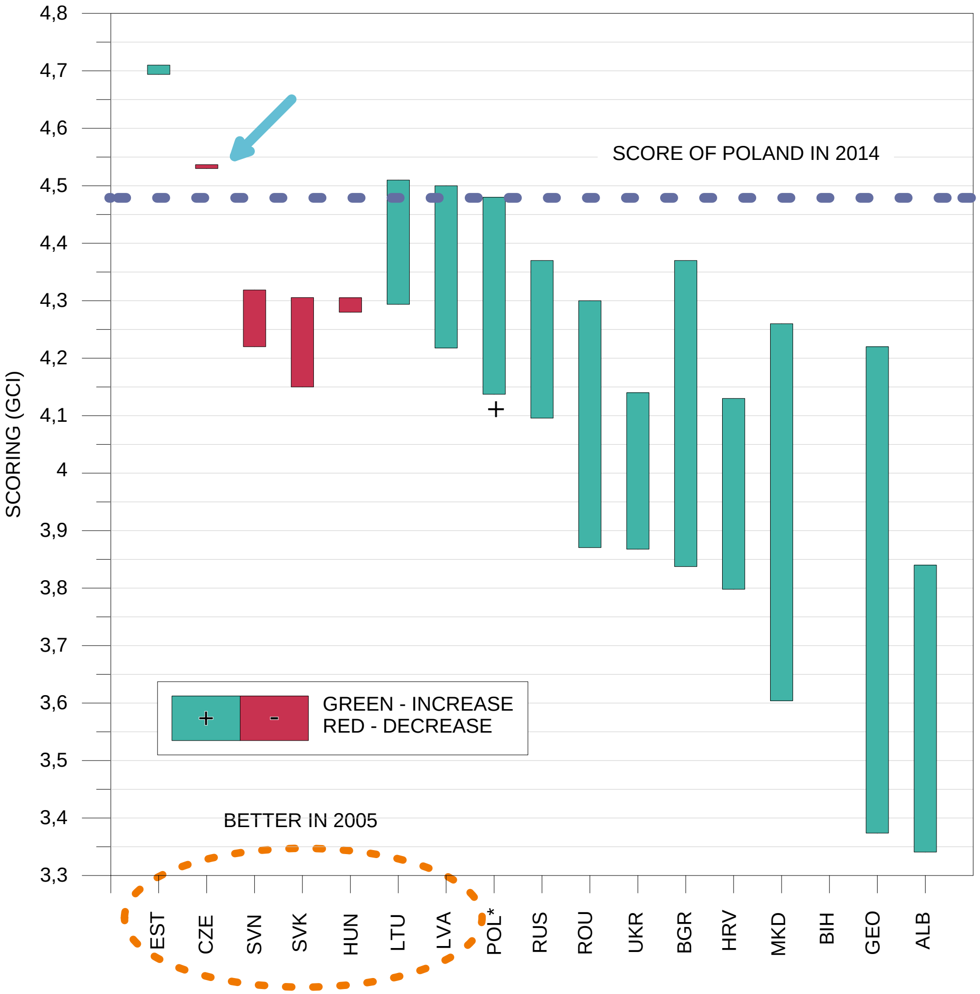
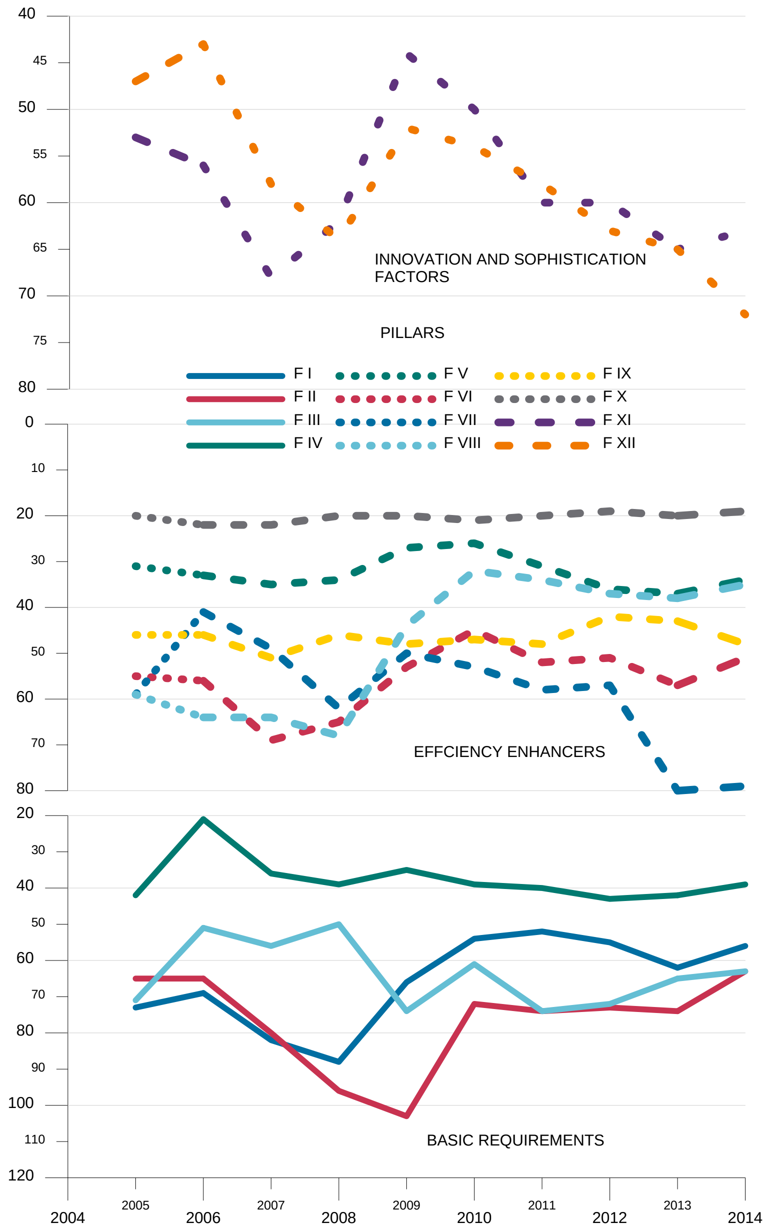


Fig. 5. Poland and the reference group - GCI in post-socialist countries

Source: GCRs and own calculations

- Length of green (red) bar represents country's gains (loses) in GCI score between 2005 and 2014
- Stable leading position of Estonia in this group - a big distance to Poland and to other countries
- In 2014 Lithuania, Latvia and Czech Republic outstripped Poland but differences are small
- In comparison to other countries in this group Poland performs well – the fact of superiority of Poland over competitors has been unchanged since 2005
- Evident impact of the low base effect – lower index in 2005 bigger growth of GCI during this period. Impressive increase in the case of most poorly assessed countries - Georgia

XII Pillars of competitiveness – historical perspective

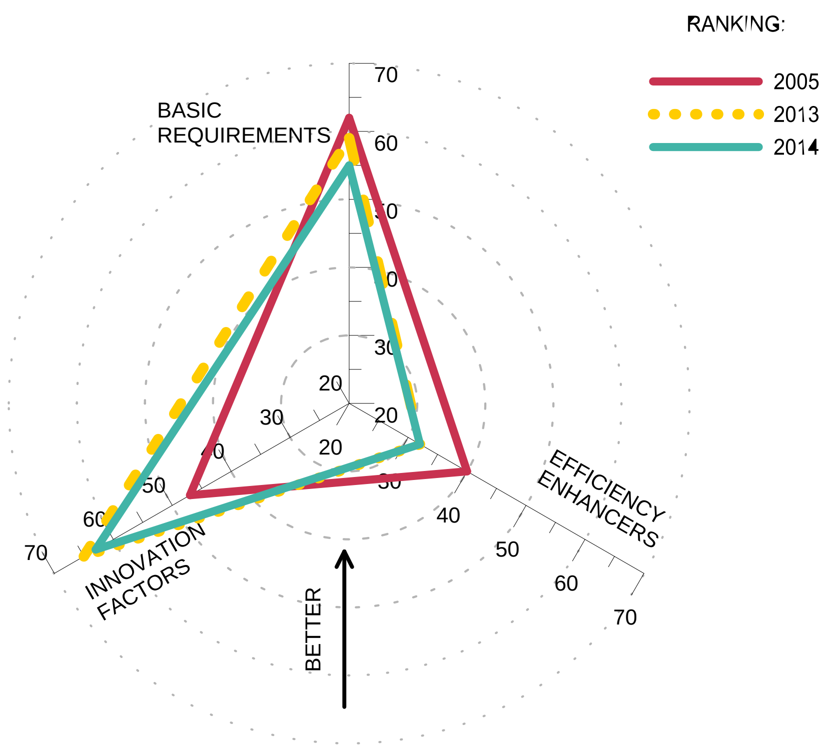


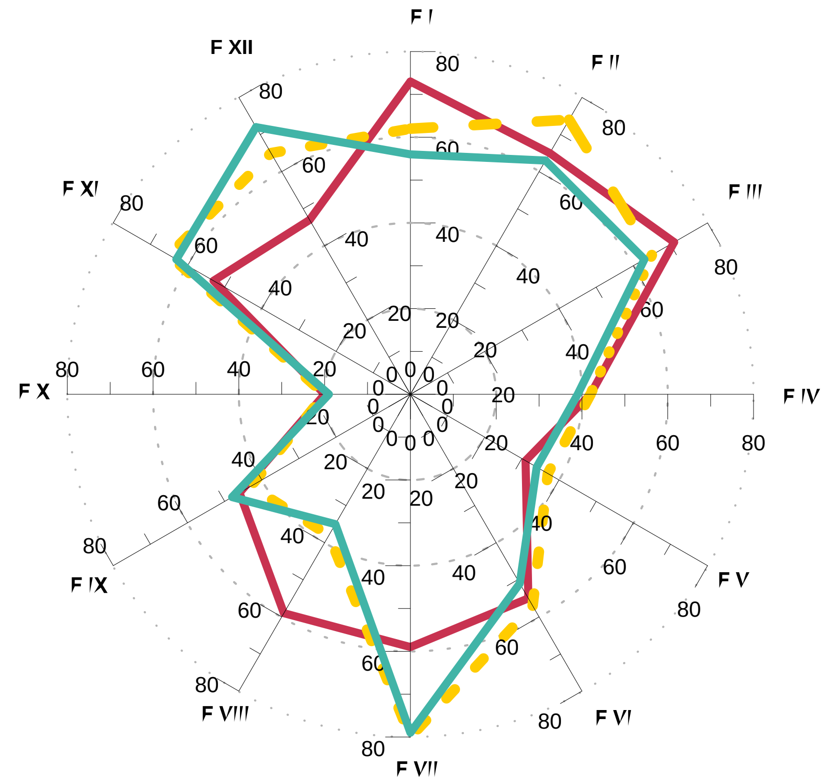
- Visible convergence within the group of basic factors. Dominance of health and primary education
- In the group of efficiency enhancers – leading and stable position of market size, very good – of the high education. Biggest improvement in the level of financial market development. Deterioration in efficiency of labour market
- In the case of innovation and sophistication factors – systematic decline since 2009 below starting positions

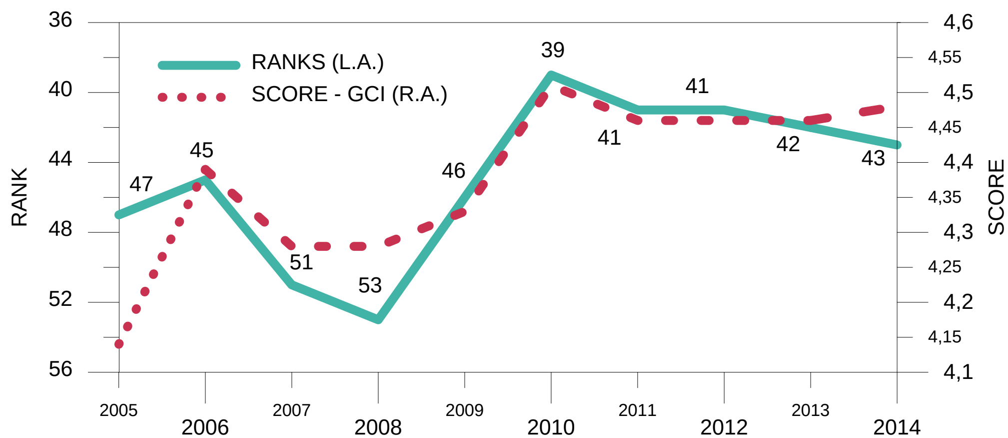
Fig. 7. Poland – XII pillars evolution since 2005

Source: Global Competitiveness Reports, WEF.

Competitiveness of Poland – main characteristics







PILLARS:

FI – INSTITUTIONS
FII – INFRASTRUCTURE
FIII – MACROECONOMIC ENV.
FIV – HEALTH, PRIM. EDUC.
FV – HIGHER EDUC.
FVI – GOODS MARK. EFFICIEN.
FVII – LABOUR MARK. EFFICIEN.
FVIII – FINANCIAL MARK. DEVELOP.
FIX – TECHNOLOGICAL READINESS
FX – MARKET SIZE
FXI – BUSINESS SOPHISTICATION
FXII - INNOVATION

Source: GCRs for Poland. Own calculations.

Poland: intensity of barriers and advantages – synthetic measures

- Ratio of very serious weaknesses – fluctuating over time around 15%. Situation worse than in 2007
- Ratio of moderate weaknesses- around 40%
- Nearly systematic fall of the ratio of strength – to 15%
- But closer analysis points to differences between group of respondents. For example:
  - Tax regulations are more complicated for foreigners
  - Access to financing is poorer for domestic firms
  - This access is easier for biggest firms
  - Low labour costs are exceptionally beneficial for foreigners

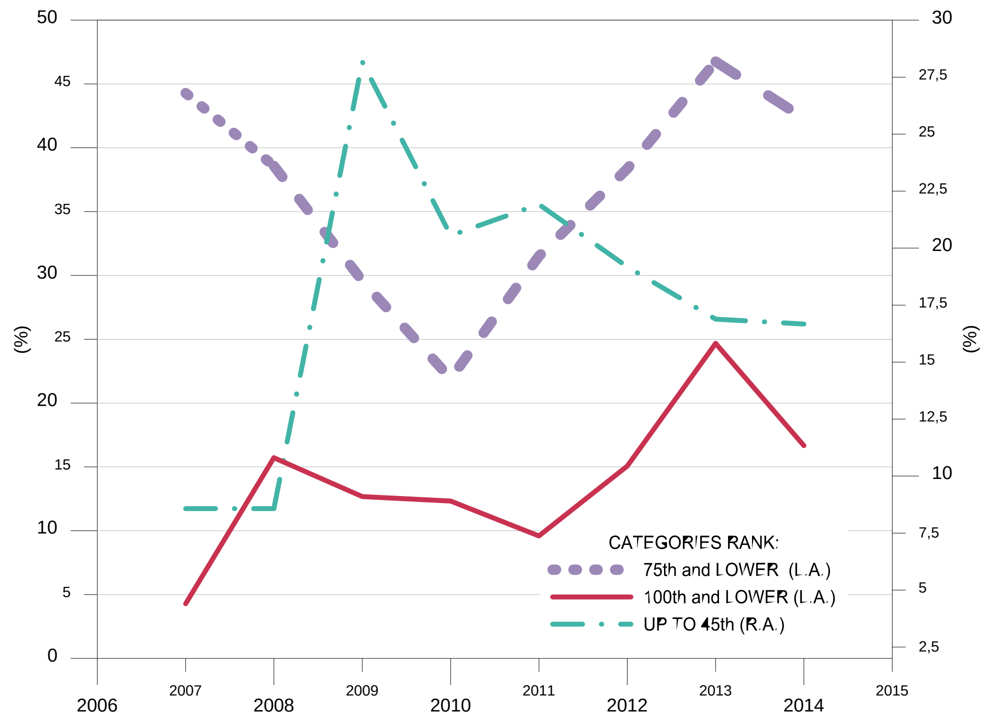


Fig. 8. Strengths – weaknesses ratios

Source: GCR 2014-15 and own calculations

Poland - the most problematic factors for doing business

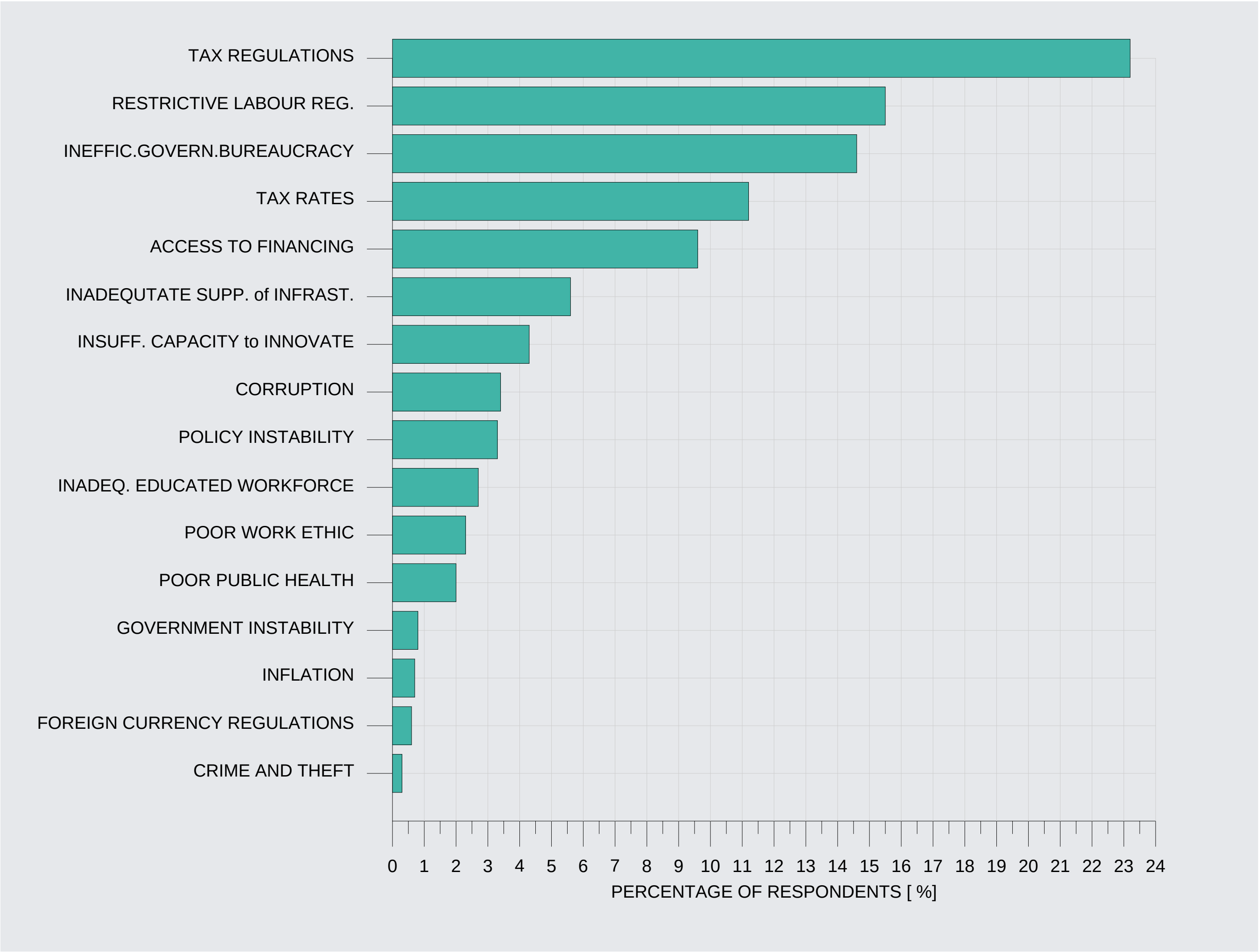


Fig. 9. Poland – most problematic factors in 2014

Source: GCR 2014-15

Strengths-weaknesses matrix

- Strengths:
  - High level of efficiency (32th)
  - Big internal market
  - Well developed financial sector and high stability of this sector
  - Good level of local suppliers quantity and quality
  - Well educated labour force
  - Flexibility of wage determination
  - Stable macroeconomic fundamentals (inflation – in the first position), high country credit ratings
  - Good investor protection
  - Low trade tariffs
  - Stable political system
  - Relatively small level of corruption
  - Small level of the threat of terrorism and crimes

- Weaknesses:
  - List of barriers – very stable
  - Unsatisfactory level of innovation and business sophistication (72th and 63th) – small spending on R&D, unsatisfactory venture capital availability, low level of control of international distribution
  - Room for institutional improvement (grater transparency of some policies, complicated tax regulations, smaller burdens of government regulations, rationalization of public spending)
  - Deficit of social capital in some areas (better communication between entrepreneurs and government, insufficient level of social trust)
  - Leakage of well educated labour force – limited capacity to attract and retain talents

III

Poland – how hard is going on?

Areas of convergence and limits of progress

- It is not a formal analysis of variance – but some practical illustration of the problem
- Big differences between means of GCI computed for the first 4 tens of general classification – small probability of promotion to the higher group
- Biggest gap - between 3rd and 4th groups
- Poland is in the 5th ten. It is on the border of harder promotion area. We belonged to the 4th group (in 2009) but for one year only
- Avoiding the trap of „medium level of competitiveness” - it is a real challenge for Poland

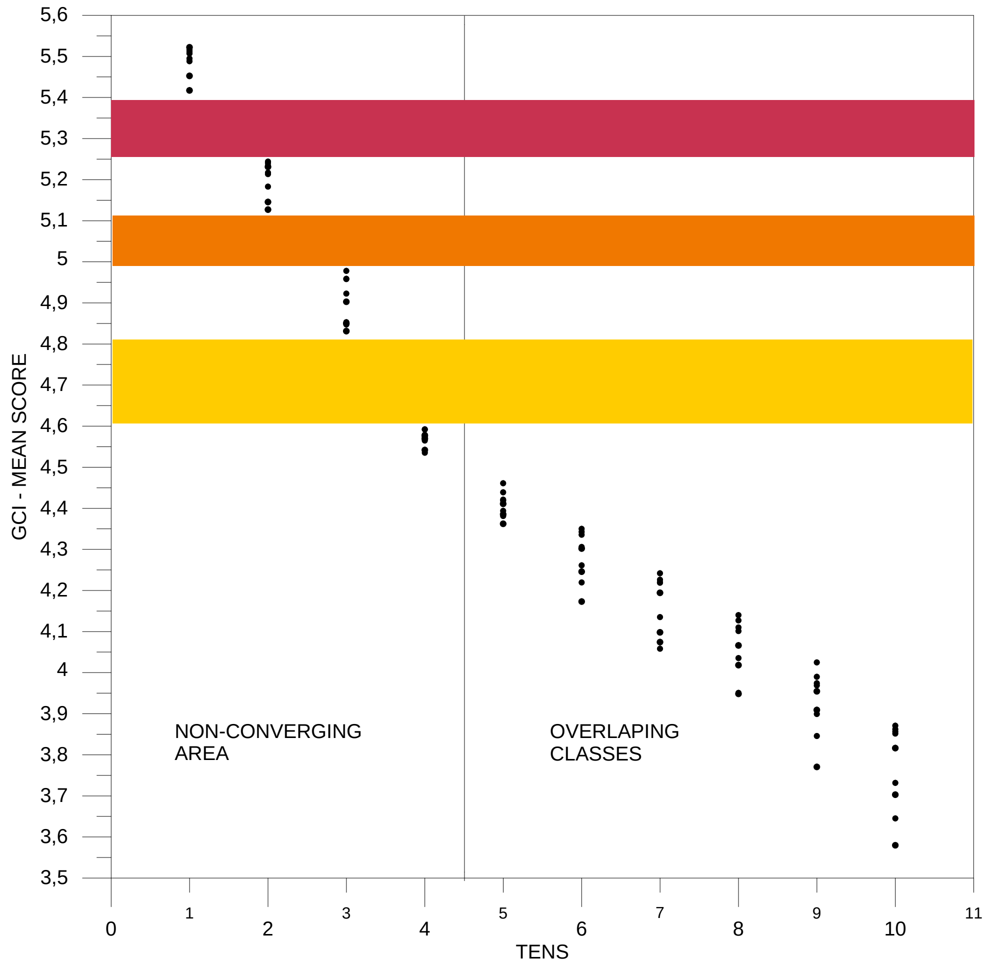
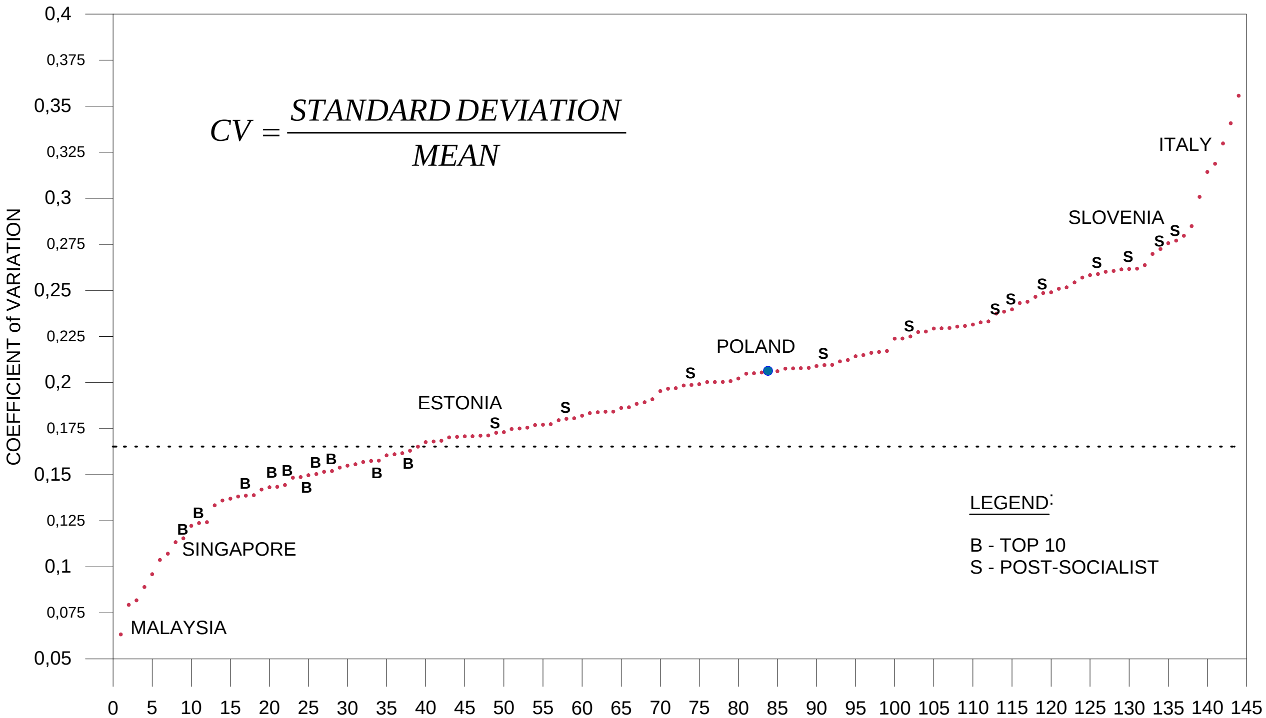


Fig. 10. GCI means by tens of classification since 2005

Source: GCR 2014-15 and own calculations

Dispersion of individual scores – is it some clue?



- For each country cv for individual factors (EOS) are computed
- Poland is in the middle of this peloton – indication of dispersion of respondents opinion

Level of GCI	CV of individual responses	Interpretation
High	**Small**	Very good and stable position with bright perspectives
High	**High**	Very good but at risk of deterioration
Medium	**Small**	Good position with real perspectives of improvement
Medium	**High**	Good position but at risk of the trap of competitiveness or threat of further deterioration
Low	**Low**	Poor and locked

Fig. 11. CV for EOS categories in 2014

Source: GCR 2014 and own calculations

Pessimistic bias?

- Some things are better than they look
- We use simple and crude measure of „pessimism” – difference between average country’s position in ranking for questionnaire-based categories and appraisals based on hard-data
- Country is classified as pessimistic one when this distance is positive
- Poland belongs to the group of pessimists – our average rating for statistically measured categories (40-45) is greater than based on surveys (60-75)
- Such pessimism is widely spread over Europe – highest ratio since 2006

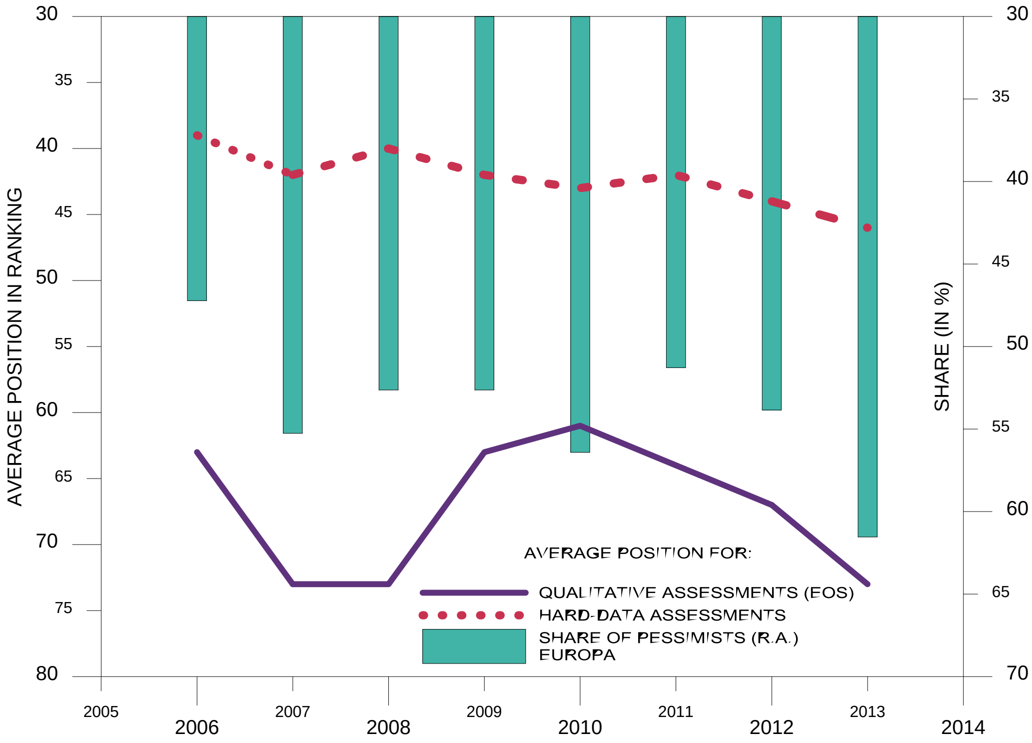
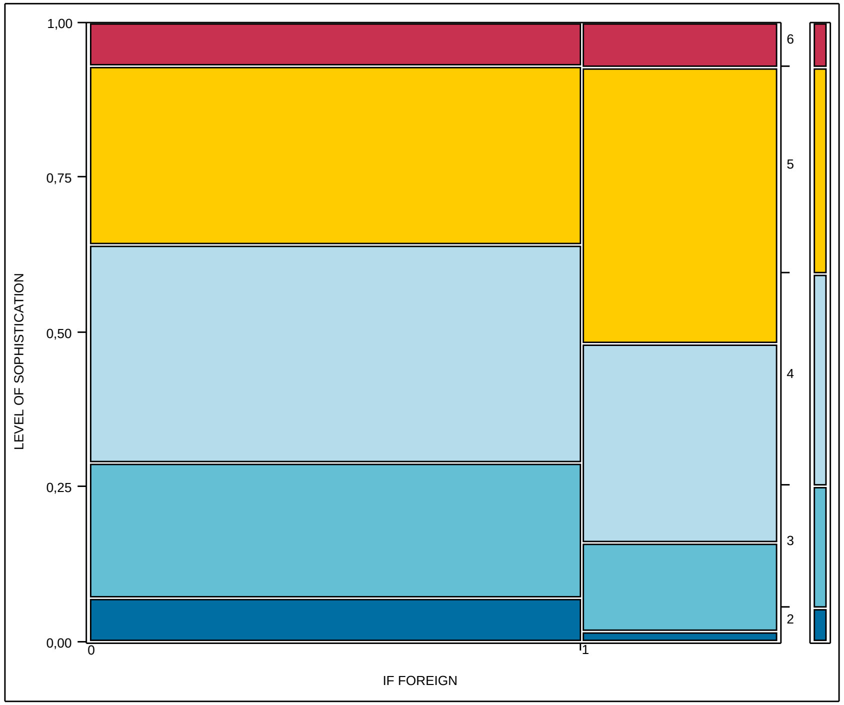


Fig. 12. Qualitative and quantitative assessments

Source: GCR and own calculations

Further examples of „pessimistic bias”



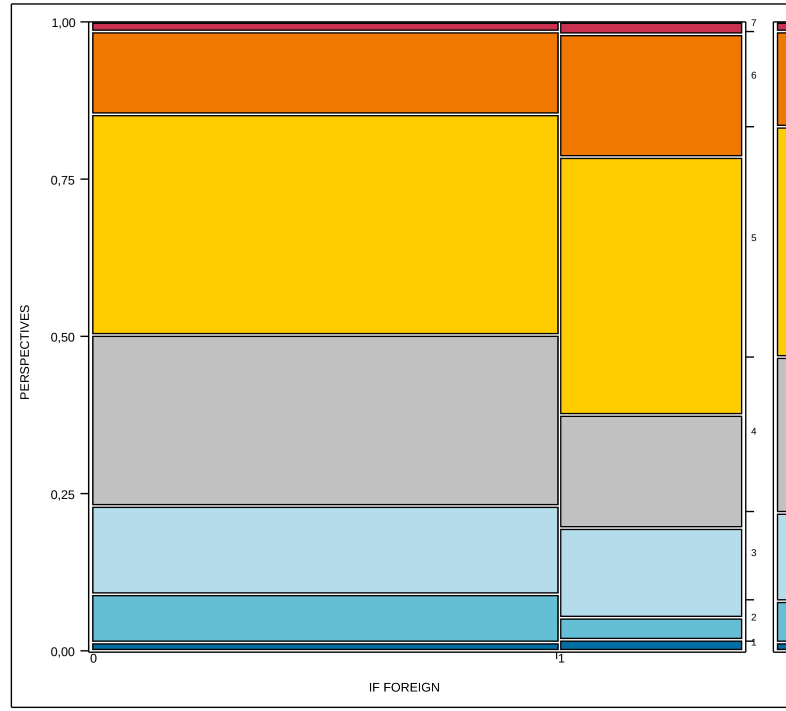


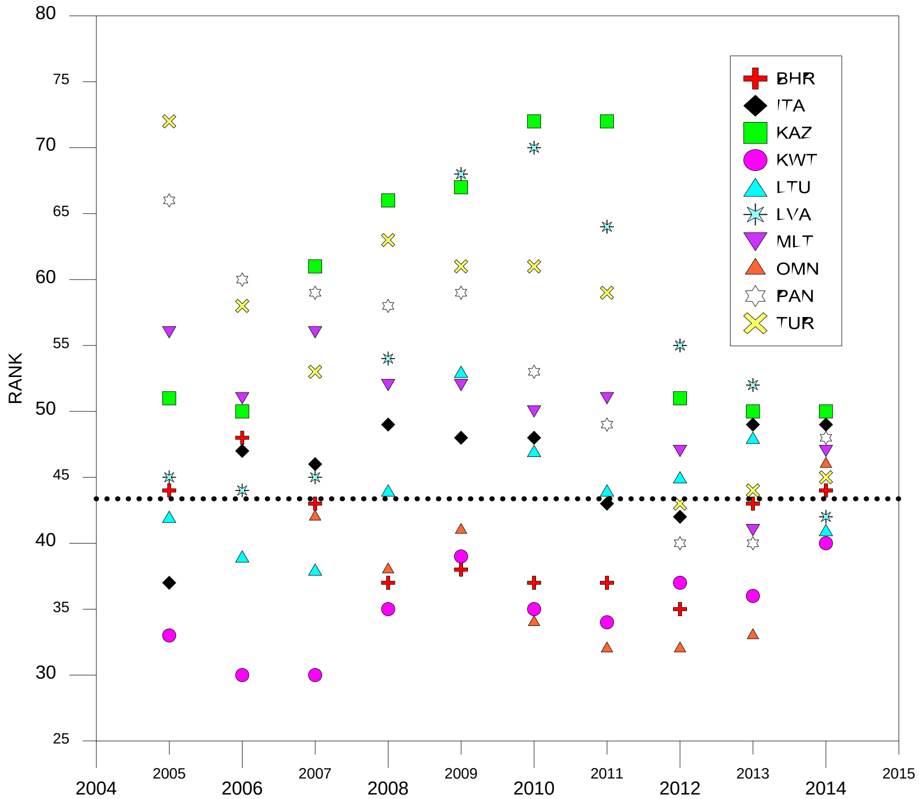
Fig. 13. Structures of responses to the questions about the level of sophistication of production processes (left) and about perspectives for innovating companies (right) by ownership (foreign=1 and domestic=0).

Source: EOS 2014 for Poland. Own calculations.

4.09 In your country, to what extent can new companies with innovative ideas grow?
8.05 In your country, how sophisticated are production processes?

- These two questions are focused on the situation in the specific country. In EOS „country” is defined locally (where respondent works)
- But more optimistic assessment by foreigners (red, yellow and orange rectangles) and not so much pessimistic (blue rectangles)
- Possible impact of incomprehension

Competitors pressure?



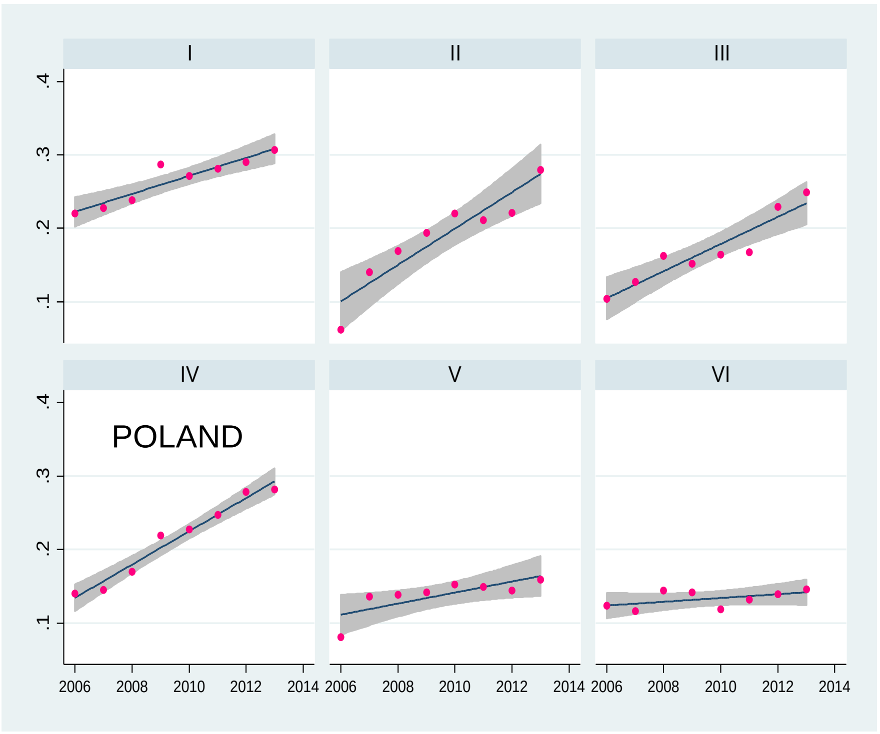


Fig. 14 Positions of our closest neighbors between 2005 and 2014 (left) and GCI coefficient of variation in groups of competitors (right)

Source: Global Competitiveness Reports, WEF. Own calculations

- In the Polish group – cv is rising over time. It is an indicator of possible movements
- In some moment of the past position of our competitors higher than Polish one

Coming back to the origins: what lies behind different growth paths?

- Competitiveness and convergence – bi-directional relations
- Absolute (upper) and relative measures (bottom) of convergence
- Visible convergence of Poland in both perspectives
- If compared to Greece - two processes:
  - Big deterioration of the competitiveness of Greece economy – to the bad position (48th in 2005, 96th in 2012 and 81th in 2014)
  - Some improvement of the relatively stable and fairly-good position of Poland (47th in 2005 and 43th in 2014)
- Steeper dynamic of Polish convergence – after accession

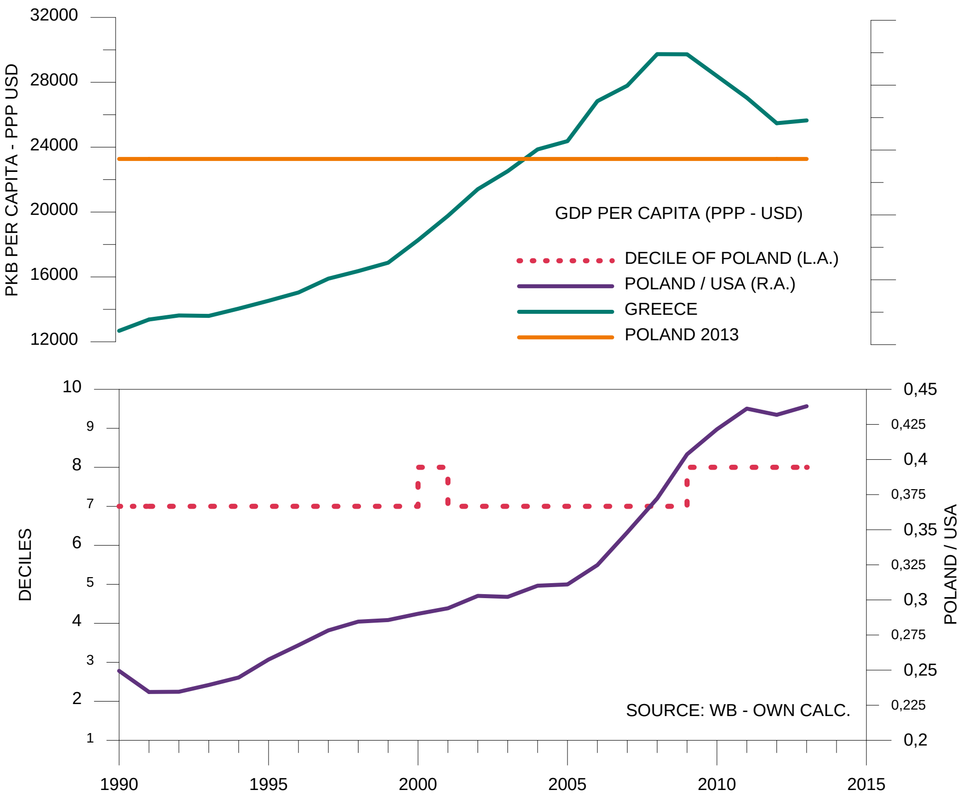


Fig. 15. Absolute and relative measures of convergence

Source: The World Bank database. Own calculations.

How easy is to change the rank?

Table. 2 Transition matrix for the GDP/per capita deciles in 1990-2012

	ATTAINABLE DECILE									
STARTING DECILE	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1	**83,8**	15,3	0,3	0,04		0,1	0,1	0,1	0,4	
2	15,3	**65,4**	13,7	3,1	1,0	0,3	0,2	0,2	0,8	
3	0,9	13,2	**67,3**	17,4	0,9	0,2				
4	0,2	1,3	17,3	**65,5**	13,5	0,8	1,2	0,1	0,2	
5			0,9	15,2	**65,1**	16,1	2,7	0,04		
6			0,1	1,0	14,9	**58,9**	19,8	4,8	0,4	
7				0,5	2,2	19,2	**62,3**	15,4	0,4	
8						1,3	16,2	**73,9**	8,6	
9						0,04		6,9	**78,9**	14,1
10									14,2	**85,8**

Source: The World Bank and own calculations

- Probabilities computed for the period: 1990-2012 . GDP/per capita (PPP) as a measure of wealth
- Probabilities computed for all events of such kind: if you are at any time during this period in starting decile and subsequently in attainable decile
- Poland moved form 7th decile to the 8th decile – it is a success for countries belonging to this group (only 16% of winners)
- It is harder to go up from 8th group (8,6% of winners but smaller risk of loosing this position)

IV

Conclusions

Final remarks

- Overall position of Poland in this ranking – relatively stable (at the beginning of 5th ten) but it is not at the peak of the potential
- In many areas of competitiveness – big improvement is achieved. But EOS points to an uneven development
- Effective strategy of gaining visible progress should be oriented toward more complex and coordinating efforts and policies in different dimensions of competitiveness
- Construction and implementation of such strategy in the case of Poland – big challenge. Without success – threat of „middle competitiveness trap”. Good (and „pearls”) but below ambitions and capabilities
- „Pessimistic bias” – more information, education and promotions. NBP is active in these fields
- Cooperation of all stakeholders is necessary – our meeting is an example of such initiative

We protect the value of money