8 Which companies put the Polish economy in debt?

Introduction

In the considerable body of literature on Poland's external debt, most papers focus on the debt crisis of the 1980s and the debt restructuring agreements with the Paris and London Clubs in the 1990s. The reasons behind the increasing external debt in the 1970s and 1980s which led to the debt crisis are comprehensively described by W. Rydygier (1985), B. Sulimierski and K. Zabielski (1985), J. Sołdaczuk (1986), J. Raganiewicz (1990), I. Antowska-Bartosiewicz and W. Małecki (1992), S. Pangsy-Kania (2001b), and G. Górniewicz (2002). The methods of debt relief, conversion and restructuring are analyzed by W. Małecki (1994), B. Sulimierski in the reports of the Institute for Market, Consumption and Business Cycles Research, and by S. Pangsy-Kania (2001a) and B. Ptaszyńska (2011).

The issue of external corporate debt used to be given relatively little attention, mainly because until the late 1980s, foreign debt resulted almost entirely from government financial operations through authorized banks. At the end of 1989, external corporate debt (mainly commercial loans) was only USD 0.9 billion, i.e. only 2% of Poland's total external debt (*Bilans rozrachunkowy*, 1991).

With the transition beginning in 1989, the new capitalist-system businesses gained broad international contract opportunities. Since the mid-1990s, banks (including the National Bank of Poland) and businesses could operate independently in the world. The international activity of enterprises grew even more during the construction of the free trade zone with the European Union. At the end of 2001 the external corporate debt for the first time exceeded the government debt, increasing to over 49% of Poland's external debt. In the following years the share of corporate and government debt decreased, due to an increase in the debt of the banking sector (Górniewicz, 2008, Nakonieczna-Kisiel, 2009).

Corporate debt also grew, due to the massive privatization in the Polish economy that involved foreign direct investment. The role of FDI companies[1] in the Polish external debt has often not been analyzed, as until the sixth edition of the Balance of Payments Manual in 2009 (BPM6) (NBP, 2016), direct investment was not extracted from this category. Researchers only emphasized the impact of FDI credits on the structure of external debt instruments (Nakonieczna-Kisiel, 2009, 2014).

According to BPM6, the structure of external debt includes the category of "direct investment: intercompany lending", now added to the four previous entities – monetary authorities, central and local government, banks, and other sectors. In the previous version of the manual (BPM5) this had been included in the "other sectors" category. The new division resulted from the development of global-scale production networks and the emergence of special purpose entities (SPE) providing financial services to fellow companies, such as financing and asset holding (*Bilans płatniczy*, 2013). In this division it becomes crucial to establish the country of residence of the foreign investor, and divide their liabilities into three groups. The first includes obligations of Polish direct investment companies (daughter companies) to Polish direct investors (parent companies). The second includes the obligations of direct investment companies (Polish investment abroad) to foreign investors, and the third group includes obligations between fellow enterprises where the direction of capital transfer between the two entities is determined by the residence of the dominant entity in the group (Przystupa, 2015, p. 6). According to the new methodology, the title of bank sector was also changed into monetary financial institutions (MFI) apart from the central bank, and the non-governmental and non-bank sectors were named "other sectors".

In addition, BPM6 expanded the list of external debt instruments from five to seven. The original list contained four elements, i.e. currencies and deposits of non-residents in Polish banks, debt securities held by foreign

[1] In this paper the term "FDI companies" is used interchangeably with the notion of "foreign investors", while "domestic enterprises" means the same as "other sectors".

portfolio investors, trade credit, and accounts payable, and was augmented with other liabilities, SDRs, and insurance technical reserves. The previous fifth element on the list was removed, namely credits from direct investors that Polish enterprises obtained from their parent companies,. Insurance technical reserves reflect the foreign liabilities of insurers, liabilities of pension funds or the providers of guarantees to non-residents. Other foreign liabilities include those not included in other debt instruments, while SDR allocations include liabilities listed in the SDR section within the official reserve assets (NBP, 2016).

The purpose of this article then is to show first how the share of Polish companies in Poland's foreign liabilities changed after the inclusion of the category FDI in the external debt structure, and secondly, how the foreign debt structure changed following the increase in the number of external debt instruments. The analysis used statistical methods (mainly concerning dynamics and structure), and descriptive and comparative methods. The research period covers 2004–2016, as the NBP had only published statistics on these phenomena according to the new methodology since 2004.

1. Results of research

In 2016, the total external debt of Poland amounted to nearly $337 billion, more than 2.5 times more than in 2004. The dynamics of the debt growth varied between sectors, but it was the highest for direct investors. At the end of 2016, the foreign debt in FDI companies, at more than $82 billion, was almost 4 times greater than in 2004 ($22 billion). The growth of domestic company liabilities has been clearly lower and decreasing since 2010. As a result, the value of domestic corporate debt in 2016 ($54 billion) was only 50% higher than in 2004 ($35 billion) (cf. Table 1).

The tendencies in the growth rate of liabilities of enterprises have been reflected in changes in their share in the country's total debt. The high dynamics in the growth of direct investors' liabilities have been accompanied by an almost systematic increase in their share in total Polish debt (from about 17% to nearly 25%, i.e. by 7.6 percentage points [pp], see Table 2). The increase in the liabilities of the new sector was mainly associated with liabilities to parent companies and those between fellow companies. However,

Table 1

Poland's external debt by sector (US $ million)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Government sector	57,752	58,750	67,904	78,470	66,961	86,846	111,704	116,704	151,872	154,121	145,744	136,382	127,697
NBP	142	2,009	1,227	8,280	2,409	5,374	6,895	5,040	5,556	7,602	5,792	5,469	21,414
MFIs	14,789	15,027	23,372	40,164	60,041	61,839	69,136	66,178	64,402	67,294	60,915	54,627	51,684
Other sectors	35,484	34,722	43,362	59,733	66,977	72,386	59,573	61,478	63,639	64,292	57,687	53,207	53,592
Direct investors	22,017	22,573	34,130	46,957	48,628	54,047	71,875	74,939	83,492	90,774	86,564	80,282	82,433
Total	130,182	133,081	169,995	233,604	245,016	280,492	319,323	324,339	368,961	384,083	356,702	329,967	336,816

Source: www.nbp.pl.

Table 2

Structure of Poland's external debt by sector (%)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Government sector	44.4	44.1	39.9	33.6	27.3	31.0	35.0	36.0	41.2	40.1	40.8	41.3	37.9
NBP	0.1	1.5	0.7	3.5	1.0	1.9	2.1	1.5	1.5	2.0	1.6	1.7	6.4
MFIs	11.4	11.3	13.7	17.2	24.5	22.0	21.7	20.4	17.5	17.5	17.1	16.6	15.3
Other sectors	27.2	26.1	25.5	25.6	27.3	25.8	18.7	19.0	17.2	16.7	16.2	16.1	15.9
Direct investors	16.9	17.0	20.1	20.1	19.8	19.3	22.5	23.1	22.6	23.6	24.3	24.3	24.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: own calculations based on www.nbp.pl.

the share of liabilities to parent companies, especially after the outbreak of the financial crisis, has been declining (from around 99% in 2009 to 41% in 2016), while those between fellow companies increased from 0% in 2004–2009 to around 50% in the next years. On one hand, these tendencies reflect the increasing involvement of direct investors in the fragmentation of production (Ambroziak, 2015) and, on the other, their interest in investing in the Polish economy. The external liabilities of Polish investors has been small. Their share in the total debt of direct investors in 2004–2009 did not exceed 1%, and ranged from 6 to 9% in 2010–2016 (cf. Table 3).

The falling rate of growth of domestic company liabilities reduced the share in Poland's total external debt from over 27% in 2004 to about 16% at the end of the analyzed period, i.e. by as much as 13.7 pp. This has been due mainly to the separation of entities with foreign capital in the new balance of payments, because the government's share in Poland's liabilities has decreased by 6.5 pp, while the that of MFIs increased by 3.9 pp and the share of NBP has grown by 1.6 pp (with the exception of 2016).

The analysis of external debt instruments in this study had to be limited to the period 2013–2016, as the NBP only started to publish relevant data regarding direct investors as late as 2013. The data in Table 4 shows that the external debt of domestic companies is associated with 6 instruments, compared to 4 for foreign direct investment companies. In both sectors, the sequence of instruments has been similar, but with different proportions.

Foreign loans have been the greatest proportion of liabilities, although showing a slight decrease in domestic enterprises (from almost 70% in 2013 to 67% in 2016). In FDI companies the trend has been the reverse (from 69% to almost 72%). The reduction in the role of this instrument in domestic companies can be attributed to a slowdown in economic activity, from 3.3% in 2014 and 3.9% in 2015 to 2.8% in 2016, related mainly to a decrease in investment outlays (by 5.5% in 2016, compared to a growth of 10% in 2004 and 6.1% in 2015) (*Biuletyn*, 2017). The most important reason for the decrease in investment was not the bad financial condition of Polish companies, but rather the slowdown in implementation of projects co-financed from the EU funds as a result of the transition from the old to the new financial perspective (Piotrowski, 2017, p. 129). This reduced the demand of companies for

Table 3

Subject structure of direct investor liabilities (%)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Direct investors in direct investment enterprises	99.3	99.1	99.3	99.2	99.1	99.0	42.0	38.1	37.3	39.5	41.1	40.5	41.4
Direct investment enterprises in direct investors	0.7	0.9	0.7	0.8	0.9	1.0	6.8	6.3	6.7	6.6	8.3	8.4	9.0
Between fellow enterprises	0.0	0.0	0.0	0.0	0.0	0.0	51.2	55.6	56.0	53.9	50.5	51.1	49.6
Total direct Investment	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: own calculations based on www.nbp.pl.

Table 4

Percentage structure of external debt instruments in domestic and foreign direct investment companies

	2013	2014	2015	2016	2013	2014	2015	2016
Currency and deposits	0.0	0,0	0.2	0,0	–	–	–	–
Debt securities	1.7	1.8	2.3	1.8	7.5	7.9	7.0	5.0
Loans	69.6	69.2	69.2	67.1	69.0	70.1	69.4	71.6
Trade credits	26.6	25.8	26.4	28.2	16.6	15.4	15.7	16.0
Other debt liabilities	1.5	2.5	1.3	2.0	6.9	6.7	7.8	7.2
Insurance technical reserves	0.6	0.6	0.6	0.8	–	–	–	–
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: own calculations based on www.nbp.pl.

loans on the world market for project pre-financing and own contribution. The access of these entities to foreign loans was also limited by the increased needs of the government sector and the depreciation of the zloty exchange rate in particular in 2016, which resulted in an increase in servicing costs.

Direct investors had the incentive to take loans due to the ease of obtaining them within capital groups and the large demand for them among their subsidiaries. After all, the primary function of the special purpose entities is to raise capital on behalf of and for the benefit of other entities in a capital group. Granting a loan to a daughter company gives the investor direct benefits in terms of increased security and reduced tax burdens. Interest on a loan granted to a daughter company decreases the parent company's income, which allows it to reduce the declared profit.

Second place in the structure of foreign liabilities of both domestic and FDI enterprises is taken by foreign trade credit, with an increase from above 26 to 28% in domestic companies and significantly lower and more stable in FDI companies at around 16%. The high share of trade credits has been associated with the high growth rate of Polish imports; in 2016 especially consumer goods, mainly cars (mostly used cars), followed by increased imports of automotive parts for the growing number of cars assembled in Poland (Mroczek, 2017, p. 165). The stable trade credit in the analyzed period can be attributed to the falling share of investment goods in Polish imports, related to the slowing down inflow of direct foreign investments to Poland after the outbreak of the financial crisis.

Other foreign debt liabilities represented the third group of debt instruments, but of low importance. Their share in foreign debt of FDI enterprises was about 7–8%, and 3 to 6 times smaller in domestic companies.

The use of debt securities was small but also higher for direct investors than for other sectors. At the end of the analyzed period, liabilities under this category did not exceed 5% in FDI companies, and 2% in domestic enterprises. Foreign investors were not interested in investing in debt securities of relatively unknown Polish companies or in acquiring them, as they preferred bonds issued by the State Treasury with relatively high profitability (Michalski, 2017, p. 60).

The additional two new financial instruments, i.e. currency and deposits, as well as insurance technical reserves, have been used only by domestic companies. However, their share in external debt has been almost symbolic; generally 0% for currency and deposits, and not more than 1% for insurance technical reserves. This was related to the OFE reform which has reduced the activity of pension funds and insurers operating in Poland.

Conclusions

This analysis showed that the share of direct investors in the structure of Poland's external debt has increased, while that of domestic enterprises has declined. As a result, at the end of 2016, the debt of FDI companies was half greater than in domestic enterprises. Both sectors accounted for 2/5 of the country's foreign liabilities, 2.5 pp more than the debt of the general government. The structure of foreign debt was similar in both sectors. It was dominated by loans, with a less significant role of trade credits. Both these instruments accounted for more than 95% of external debt of domestic enterprises and 85% in FDI companies. This shows the low significance of the new financial instruments. The debt structure of domestic companies is dangerous because it exposes them to potentially high exchange rate risks. As regards FDI companies, it may undermine the positive impact of direct investment on the Polish economy. Debt of direct investors should be monitored and its scale taken into account in government policy (especially tax policies).

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Summary. Since 2009 a new Balance of Payment Manual (BPM6) has been in operation. It has extracted additional entities and instruments generating external liabilities. The aim of research is an attempt to answer a question 1) how has a position of domestic companies changed following extraction of a new entity – foreign direct investors, and 2) what has changed in the structure of foreign liabilities following the increase of a number of financial instruments. Results of research show that in the structure of Polish external debt the role of a new entity has increased at the expense of unrelated companies and government sector. The structure of foreign liabilities was dominated by credits and loans and trade credits. New financial instruments have not been used or have been used in a limited range.

Keywords: Poland’s external debt, sectoral structure of foreign debt, structure of financial instruments

JEL classification: F34

Jakie przedsiębiorstwa zadłużają polską gospodarkę?

Streszczenie. Od 2009 roku obowiązuje nowy podręcznik bilansu płatniczego, międzynarodowej pozycji inwestycyjnej i zadłużenia zagranicznego (BPM6). Wyodrębnia on dodatkowy podmiot i nowe instrumenty generujące zobowiązania zagraniczne. Celem opracowania jest próba odpowiedzi na pytania: 1) jak zmieniła się rola przedsiębiorstw krajowych w zobowiązaniach Polski po wyodrębnieniu nowego podmiotu – inwestorów bezpośrednich oraz 2) jakie przekształcenia zaszły w strukturze zobowiązań obu podmiotów po zwiększeniu liczby instrumentów finansowych. Z badań wynika, że w strukturze zadłużenia zagranicznego Polski istotnie wzrosło znaczenie nowego podmiotu, głównie kosztem podmiotów niepowiązanych kapitałowo, i sektora rządowego.

Struktura zobowiązań obu podmiotów została zdominowana przez kredyty i pożyczki oraz kredyty handlowe. Nowe instrumenty finansowe nie były wykorzystywane, a jeśli już, to w bardzo ograniczonym zakresie.

Słowa kluczowe: zadłużenie zagraniczne Polski, struktura podmiotowa zadłużenia, struktura instrumentów finansowych

Klasyfikacja JEL: F34