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ANALYZING CHANGES IN INTERNATIONAL COMPETITIVENESS POSITION OF VISEGRAD GROUP VIS-A-VIS EU-15 AFTER THE CRISIS 2007 AS MEASURED BY RCA INDEX

Abstract

The aim of this paper is to find out whether financial crisis of 2007-8 has changed the Visegrad Group – V-4 competitiveness position vis-a-vis EU-15. As we know the countries of Central Eastern Europe forming the so called Visegrad group – namely Poland, The Czech republic, Slovakia and Hungary – being since 2004 a new UE members, have been hit by the financial crisis of 2007 to some extend just as well as the old EU or EU-15 member states. In this paper we would like to investigate and compare how strongly the financial crisis have impacted the two set of countries or the two groups of EU members – old and new, when measured by their respective macroeconomic performance indicators of competitiveness as well as by the RCA indicators of international competitiveness position and trends in it since that time.

By the changes in competitiveness position on macro level we understand changes in „magic quadrangle" indicators such as: GDP growth changes, changes in inflation, in unemployment and changes in balances of current accounts. By the RCA positive changes or improvements we understand a growing number of goods or group of goods which contain a high innovative input measured in turn, by high R&D expenditures share in the final value of the exported goods.

JEL Classification Codes: **F10**.

Keywords: international competitiveness, GDP growth, RCA, financial crisis.

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Introduction

As indicated in the title of this paper we would like to investigate and measure the impact of the financial crisis of 2007 on changes in competitive positions of the two groups of EU members-old and new ones, namely – the so called Visegrad group (Poland, The Czech republic, Slovakia and Hungary) – being new UE members since 2004, and the old EU or EU-15 member states. This analysis might indicate which group of countries – V-4 or old EU has been less or more resistant to the negative effects of the crises on their economic performance and changes in their international competitiveness position.

To achieve this goal we have implemented a number of tools to assess competitiveness of these countries such as: economic growth performance as measured by magic quadrangle indicators (namely – changes in GDP, inflation, unemployment and current account), changes in productivity levels and tendency of its change, innovativeness and entrepreneurial attitude, and, finally, quality and scale of education indicators – all on macro level of aggregation.

As for mezzo and micro level, we have employed several performance indicators such as being used by World Bank methodology in their annual reports on „Ease of doing business". Finally, we had examined international competitiveness of both set of countries as measured by revealed comparative advantage – RCA indexes confronted against Standard International Trade Classification – SITC modified by high tech inputs factor. This last part has been treated by us in this paper as the main area of our research analyses because international competitive position change is the most important and/or the ultimate measure of the countries' economic policy effectiveness in the longer run.

1. How to measure Visegrad competitiveness; some methodological aspects

There is plenty of ways to measure countries economic power as well as their competitiveness – the problem is the scope of the analyses and selection of appropriate tools to do the job.

As for the scope we have macro approach, mezzo (sectoral and/or regional) and micro one and all may be equally important when we confront the power of two or more countries/economies to compare it for various reasons. Measuring prowess or effectiveness and flexibility gives the nominal economic power a dynamic dimension of its ingrained factors, which is necessary to have a better feeling of a value/weight of the accumulated potential.

Competitiveness, in turn, could be measured various ways as well. First, by analyzing the current results as an outcome of the accumulated assets strength or weight in the past – and that we can call competitive position or level of competitiveness, or, secondly, we may try to measure factors of competitiveness in a dynamic way by assessing the factors probable strength and its impact on an ability to maintain and/or to increase the already achieved competitive position.

The second approach can be called a long run ability to compete measure or competitiveness ability. The second approach is a bit more ambitious for it requires deeper or a kind of „tomographic" analysis of the significance of factors of competitiveness as opposed to „photo" type of approach when it comes to measuring competitiveness position, because the last method is usually based on statistical observations mostly. In our analyses in this paper, we will use both methods as to provide a kind of background information on the Visegrad countries and economic growth and competitiveness.

1.1. Measures of competitiveness related to macro level

No doubts the GDP and its level is critical to assess a country economic position vis-a-vis other countries and indirectly, its competitiveness, especially when we add GDP growth rates in the longer run as a criterion. When GDP growth rates excides that of other countries for a longer period that usually indicates a country more efficient use of resources, which leads to higher competitiveness as well. As the result, GDP per capita may be used as a proxy for competitiveness position because it comes as the result/except for countries of abundance of natural resources pc/of more efficient uses of assets due to better policies of the country in question.

Equally important of course is the structure of the produced GDP, which should change over time as to reflect the ever changing market requirements for technological upgrading due to new needs. A country ability for structural adjustment as reflected in GDP composition changed over time indicate usually a country ability to compete in the longer run as well.

For the positive GDP growth assessment as a criterion of economic power and competitiveness, we need to have other macro growth indicators to be positive as well. Namely, GDP growth should be assessed as a positive sign when it comes together with low or moderate inflation and when it creates more jobs helping to lower unemployment or to make it stay at the acceptable, say NAIRU level. Another indicator of healthy growth and competitiveness improvement could be a balanced balance of payment so that the country indebtedness is not to become a problem hampering growth and competitiveness in the longer run when its size, in proportion to GDP, exceeds the safe limits for a particular country [Bienkowski 1993, 1995].

The above elaboration on „Policy mix" and „Magic quadrangle" was important because it explains why we will use „Magic quadrangle" as a measure to asses economic potential and competitiveness position of a country. Simply, positive signs of „Magic quadrangle" indicators (GDP growth, inflation level, employment growth or unemployment level change and balance of payment) will be used as indicators of the rightness of choice and/or effectiveness of a country economic policy direction and, indirectly, a sound foundation for the country ability to compete in the longer run. We will examine and confront and Slovakia, Poland, Hungary and the Czech Republic versus EU-15 economies using this measure.

As for other macro indicators of the sectoral character on macro level we will use comparisons on productivity, innovativeness, science and education, to mention most important ones, to confront the two set of countries potential and competitiveness.

Productivity is usually one of the best indicators of economic power, prowess and competitiveness. It can be measured various ways: as GDP or production per capita, per number of actually employed labor, or per hour of work. The last measure seems to be most adequate for it is the best reflection of the efficiency of the economy. However, there is a caveat no to be missed if we want to make a final judgment on competitiveness of the country or industry or firm. Namely, we have to confront the productivity with the cost factor. The corrected measure is called unit labor cost-ULC and compares growth in productivity to the changes in the cost of labor or wages. For the country or a firm to be competitive in the longer run the best thing is when productivity grow faster than costs and therefore ULC<1 and is lower than in the country we compare it with. In other words, when confronting and/or comparing productivity levels and productivity growth rates between V-4 and EU-15 we will have to add the ULC as a measure of competitiveness as well. As we may see the productivity superiority is not enough when cost factors/wages, currency appreciation, etc., eat up the surplus and, as a result, production or a particular product will lose price competitiveness when ULC>1 or higher than that of competitors.

Innovativeness, science and education levels are equally important factors of power and competitiveness of countries. We will measure innovativeness by number of patents registered and implemented.

Science will be measured by R&D expenditures as share or % of GDP in both countries over time with an important division or distinction between the expenditures financed by private sector and by public money. As most economists and experts admit, the proportion between this two sources of financing are important because the efficiency, as measured by returns to investment, are higher when private sector takes biggest chunk of the financing. We will compare the R&D nominal values, its share in GDP in Slovakia, Poland, Czech Republic and Hungary vs EU-15 and take it into consideration when we compare science in both parties. [Bienkowski, Weresa, Radlo, 2009].

1.2. Measures of competitiveness related to micro levels

With respect to micro level of our analyses, we will concentrate on institutional environment of medium and small enterprises – SME to compare friendliness of the government policy towards SME business in Slovakia as well as in Poland, Hungary and the Czech Republic vs EU-15. For this analysis, we will employ the World Bank methodology as developed and mastered in the subsequent annual „Business Reports" in 2003–2014 when business environment in 185 countries of the world has been monitored and analyzed. We will enrich the observation by confronting the results with similar research works provided on annually bases by the Freedom House, The Heritage Foundation as well as by Fraser Institute. The comparative analyses will provide us with better sense of the institutional environment, in set of countries conducing to entrepreneurship on SME level, enhancing or hampering growth and competitiveness on mezzo and micro level.

1.3. Measures to assess international competitiveness

To assess competitiveness fully we will concentrate on the dominant goods which are technologically most advanced or which have a substantial high tech components because these are the categories which are growing faster than other demand segments on leading markets. The ability to follow and catch up with fastest growing segments can be a good proxy of the country international competitiveness. To conduct the analyses we will employ old but still valid Bella Balassa Revealed Comparative Advantage – RCA index to look for countries that is EU-15 and V-4 specializations, namely,

$$RCA = \frac{\frac{E_{ij}}{E_{it}}}{\frac{E_{nj}}{E_{nt}}}$$

where:
E – export,
i – country index,
n – set of countries,
j – commodity index (chosen commodity from SITC classification),
t – set of commodities (All SITC commodities).

And then we will confront RCA > 1 with the goods taken from Standard International Trade Classification – SITC tables which are considered as advanced technologically ones (Eurostat). That will allow as to assess competitiveness of the export composition during the analyzed period. Criterion being the bigger and/or growing share of respective RCA in respective countries export structure meeting the goods sophistication taken from SITC tables as described in the model[3].

2. Estimating competitiveness position of V-4 and EU – 15 in recent years and at present

2.1. V-4 economic potential and its effectiveness vis-a-vis EU-15

To begin with it is good to realize that we are to analyze small and medium countries of EU, recently being transformed from planned economies with all drawbacks or legacies of the previous system and its geopolitical dependency and therefore, or as the result, relatively poor in terms of GDP per capita and less technologically advanced or innovative. As we can see from the data depicted in Table 1 below even most developed countries of our concern like the Czech republic cannot much GDP pc levels of EU-15 average or R&D expenditures to GDP levels in countries in EU-15. Let us underline that GDP ppp total of V-4 represent less than ca 10,7% of the EU-15 GDP ppp total. The respective data for GDP ppp per capita (average for both group) in V-4 represent ca 54% of the EU-15 GDP ppp pc in 2014 (Table 1).

2.2. Measuring V-4 competitiveness by macro indicators

As described in the methodological part of the paper the first macro indicator of a country competitiveness illustrating it in a comprehensive way is the „magic quadrangle" one, which consist of GDP growth rate, inflation and unemployment levels and balance of payment situation at the same time. A country ability to maintain fast growth rate, low levels of inflation and unemployment as well as equilibrium in balance of payment situation in the longer run compared with the respective countries of reference, indicate competitiveness potential and/or a change of it over time. As we can see from the data depicted in the Table 2

[3] The RCA index as developed by Bella Bellasa decades ago have been used extensively since its invention. Yet sometime it has been used in the wrong way because the formula did not fit to explain some special cases. For example it has been used to assess socialists countries competitiveness which definitely have had based their specializations and therefore have structured their exports composition not in accord to normal or prevailing market condition but they had been allocating their factors of production in accord with respective sectors in accord to the s Yet, the remaining macro indicators at present (2014) demonstrate V-4 and compatibility with EU in terms of GDP rate of growth (even suppressing that of EU average), unemployment and inflation levels or the exposure to international transactions or globalization by being more open to international trade as measured by export plus imports to GDP ratio compared to EU average (Table 1).

Table 1. General Macroeconomic indicators for Visegrad group. 2014

	GDP, PPP	GDP per capita, PPP (average for groups)	GDP growth, annual, % (average for groups)	Foreign Trade (% of GDP) (average for groups)	R&D (% of GDP) (average for groups)	Inflation, GDP deflator, annual, % (average for groups)	Unemployment, total, % of labor force (average for groups)	Expenditure on education as % of total government expenditure (%) (average for groups)
Czech Republic	$319 billion	$30 407.4	2	161	1.91	2.5	6.2	10.4
Hungary	$243,7 billion	$24 720.6	3.7	171	1.41	3.2	7.8	9.4
Poland	$940,1 billion	$24 744.5	3.3	94	0.87	0.4	9.2	11.1
Slovak Republic	$150,1 billion	$27 711.5	2.5	180	0.83	–0.2	13.3	9.8
EU-15	$15495 billion	$4 216.81	1.4	53	2.02	0.9	10.2	–
V-4	$1652, billion	$26 396	2.875	151,5	1.255	1.475	9.125	10.175

Source: World Bank, 2016

Table 2. „Magic quadrangle" data for Visegrad Group and EU-15. Average for the period 2005–2014

Country	GDP growth, %	Inflation, GDP deflator, %	Unemployment, total (% of total labor force)	Current account balance (BoP, current US$)
Czech Republic	2.15	1.26	6.56	–3 685 046 937
Hungary	0.92	3.45	9.09	–2 342 560 636
Poland	3.84	2.46	10.53	–17 749 000 000
Slovak Republic	3.93	1.19	13.15	–2 305 343 853
V-4	2.71	2.09	9.8325	–6 520 487 857
EU-15	0.98	1.7	8	5 321 931 904

Source: World Bank, 2016.

below the V-4 magic quadrangle indicators cannot provide us with a definite answer which country of the group has perform better way on this comprehensive account compared with the rest of the group during the 2004–2014 period (Table 2).

Looking at the data on macro performance of V-4 and EU– 15 contained in Table 2, an analyzing them on individual bases on one hand we could see Poland and Slovakia performing better way with respect to GDP growth in 2004–2014 period over the remaining countries in question with Poland being even most stable during and after the big financial crisis of 2008–2010 (see Figure 1). Yet these countries have had the highest unemployment level at the same time and the levels remained the highest in the group up to 2014 (Figure 3). The only country which could be easily distinguished within the group is Hungary but in a negative way because the country GDP growth has been the lowest in the period, inflation was the highest in the group and unemployment was higher than in or the Czech Republic, almost matching that of Poland at that time.

Trying to answer the most important question in this paper that is on compering V-4 total and EU-15 countries performance by using magic quadrangle indicator we cannot come with the definite answer either. V-4 as a group grew faster that EU-15, yet both unemployment level an inflation level were higher in V-4 than in UE – 15 at that time. So that again, like on individual bases – the V-4 members countries provide us with uneven performance data on GDP, inflation, and unemployment levels and/or trends so that we cannot come with a definite judgment on superiority of either group with respect of macro indicators at this stage of our analyzes at the after the financial crises period (see Figure 1–3).

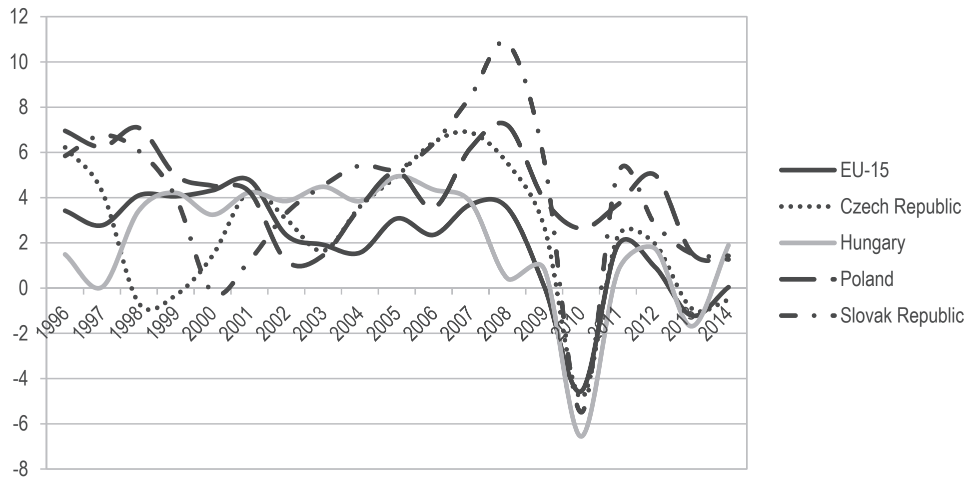

Figure 1. GDP growth, annual, %. Visegrad group vs. EU-15

Source: World bank, 2016.

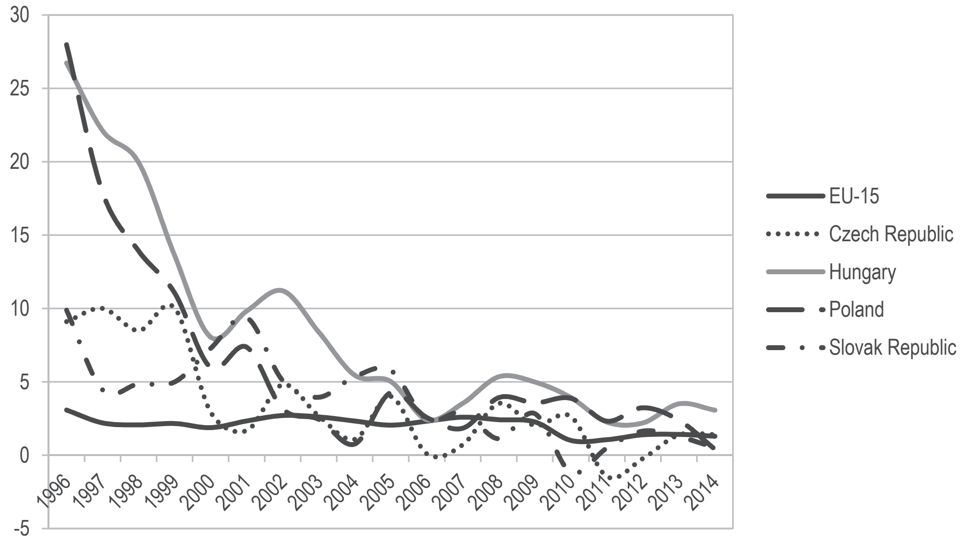

Figure 2. Inflation, GDP deflator, %, annual. Visegrad group vs. EU-15

Source: World bank, 2016.

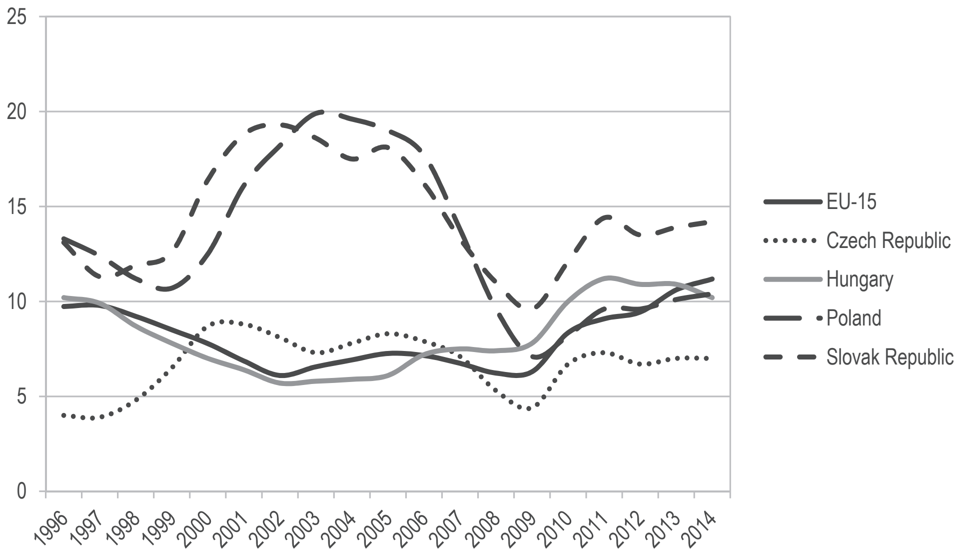

Figure 3. Unemployment, total (% of total labor force). Visegrad group vs. EU-15

Source: World bank, 2016.

The only indicator which illustrate 's superiority of EU-15 members over V-4 has been positive balance of payment situation – measured cumulative way at that time, but that is not enough to make a final judgement especially since by the end of the period analyzed all of the V4 counties have balanced or significantly improved their balances by 2014 (see Figure 4).

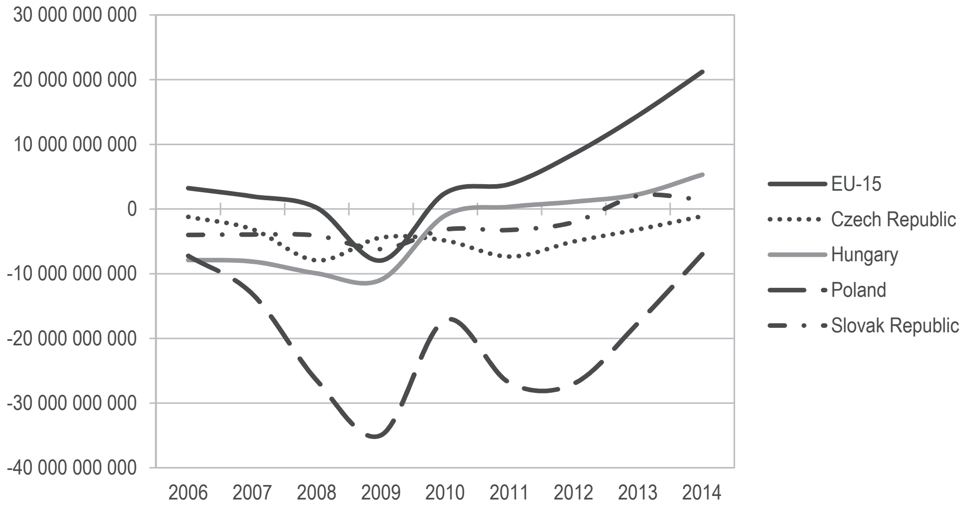

Figure 4. Current account balance (BoP, current US$). Visegrad Group vs. EU-15

Source: World Bank, 2016.

As the indicators of the magic quadrangle for V-4 and EU-15 in 2007–2014 presented the mixed results the conclusions related to comparative macro performance of the two groups of countries are mixed as well and not allowing us provide us with a definite answer at this stage who performed better way at that period similar mixed conclusion have to be drawn with respect to a kind of compressed or final macro indicator which is the GDP per capita change for the two groups of countries at that period as we could see that from the data depicted on Graph 5 below. As illustrated by the Graph 5 – both, EU-15 and V-4 have had reduced their GDP pc immediately after 2007–2008 (with the exception of Poland) and the decline lasted 2–3 years after the pick of the crisis with slight recuperation soon after 2009 in EU-15. As far as V-4 is concerned only Slovakia and Poland did relatively well and their GDP grew above the EU-15 rate at that period but the Czech Republic and Hungary have not been able to do so well following for most part the EU pattern (Figure 5).

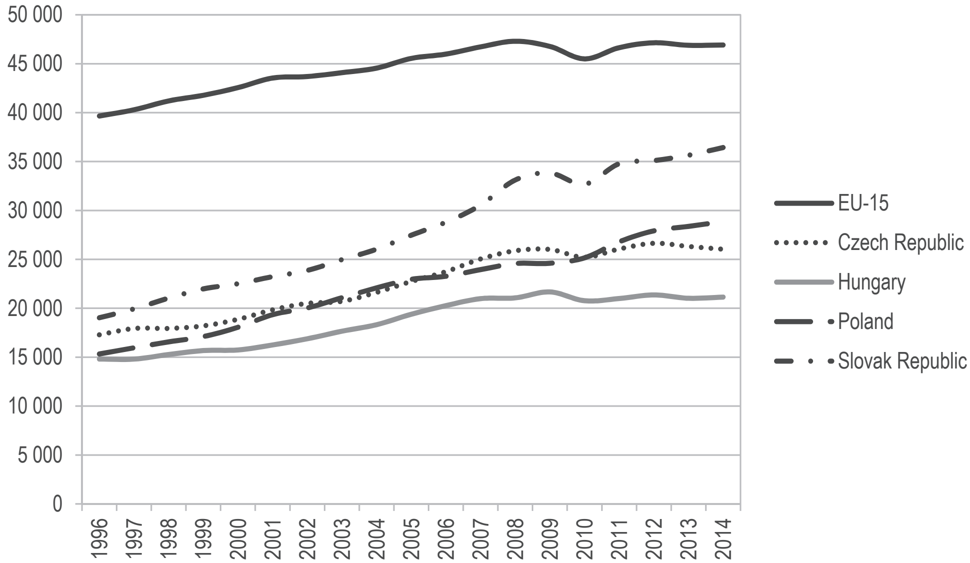

Figure 5. GDP per person employed (constant 1990 PPP $). Visegrad Group vs. EU-15
Source: World bank, 2016.

Unfortunately the picture do not change for the better when other macro indicators of V-4 of the sectoral character such as: expenditures on education as share in government expenditures, R&D expenditures to GDP ratio and, finally, the patents applications level to population ratio are confronted with similar indicators for EU-15 countries.

As indicated by the data depicted on Graph 6 in all V-4 the expenditures on education as share in governments expenditures total have been lower than in EU-15 countries in the period analyzed with periodical exception with respect to Poland but only for a few years in that period because in recent years the ratio in Poland has declined again to reach the below the EU-15 level again (Figure 6).

Similar negative tendency could be observed with respect to R&D expenditures levels in relation to GDP in V-4 countries as compared to EU-15 (Figure 7). The V-4 levels are 2–3 lower compared to those in EU-15. In recent 3–4 years the V-4 countries have increased the expenditures substantially nevertheless the level remained lower and not reaching even 50% of the EU-15 level with the Czech republic as being the only exception to that rule (Figure 7).

As the result of the low level of expenditures on educations as well as the low R&D expenditures to GDP ratio it comes as of no surprise that that level of patent application in V-4 – 4 countries has been substantially lower compared to EU-15 just as well. What is worrisome is the fact that in all V-4 countries with exception of Poland the level in not only significantly lower compared to EU-15 but there is no tendency observed for any change during the whole period analyzed (Figure 8).

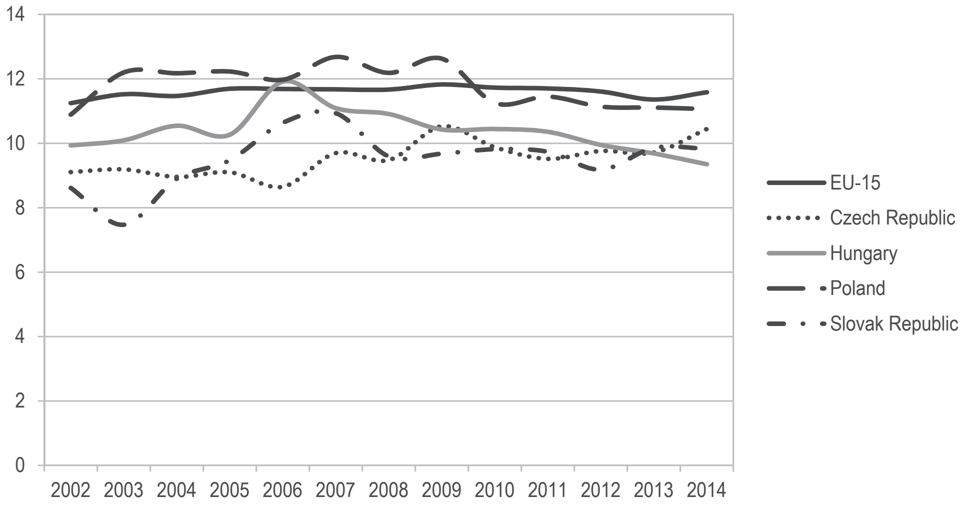

Figure 6. Expenditure on education as % of total government expenditures (%). Visegrad Group vs. EU-15

Source: World Bank, 2016.

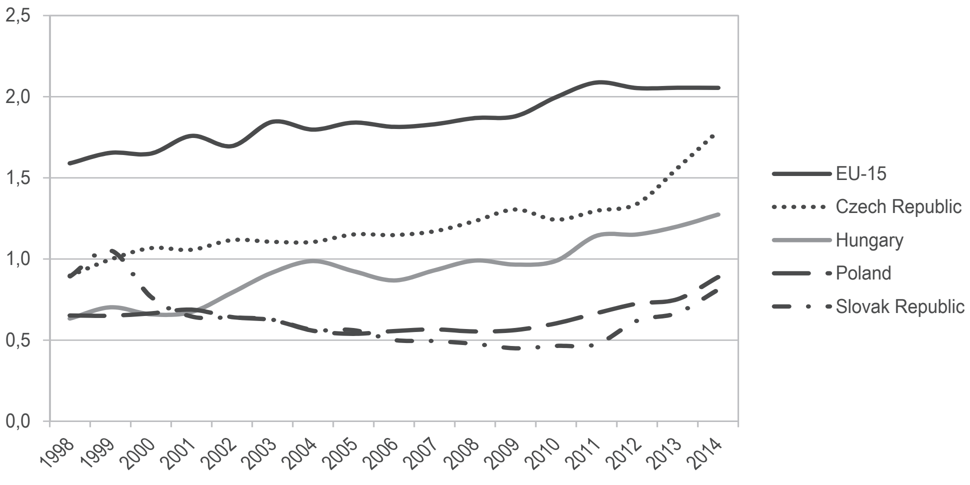

Figure 7. Research and development expenditure (% of GDP). Visegrad group vs. EU-15

Source: World bank, 2016.

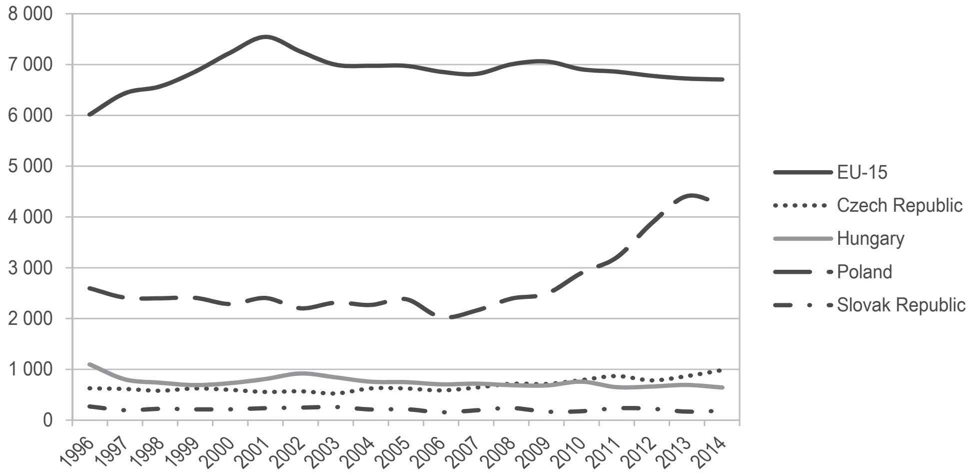

Figure 8. Patent applications, residents. Visegrad group vs. EU-15

Source: World bank, 2016.

To broaden the scope of measures aiming at assessing competitive position of V-4 vis-a-vis EU-15 one should add such indicators of growth an competitiveness determinants such as friendliness of institutional environment for business. As indicated by data depicted in Tables 3 below the indexes for V-4 are lower compared to EU-15 on both accounts. Although both groups of countries have improved their positions an some of them like Poland has done it in an impressive way, yet all V-4 countries have gotten lower score compared to EU-15 average (Table 3).This confirms EU-15 superiority over countries of the V-4 group in the analyzed period.

Table 3. Changes in ranking positions of countries as depicted in „Easy of doing business reports" of World Bank in 2007–2015 (lower-better)

	2007	2015	Delta
EU-15	32	26	6
Poland	75	25	50
Slovakia	36	29	7
Hungary	66	42	24
Czech Republic	52	36	16
V-4	57	33	24

Source: World Bank-Annual Report on „Easiness in doing business" in 2004–2015. Lower score means better position of a country in terms of friendliness to business.

3. Estimating international competitiveness of V-4 countries vis-a-vis EU-15 group in 2007–2014 as measured by RCA indexes confronted with current SITC – rev, 4 High Tech classification

In the next step of our research paper we would like analyze changes in export composition of both V-4 an EU-15 in 2007–2014 in order to find out whether the changes as reflected in changes of RCA indexes have indicated the countries movement towards improvement of export competitiveness or not. Since world demand pattern moves towards high tech goods rather than low tech goods over time we would like to find out whether V-4 and/or EY 15 have increased amount RCA > 1 in high tech sectors or group of high tech goods or not. If a country or a group of countries does it, that may indicate the country's ability to follow the ever changing world demand pattern and point at her higher competitive position and /or when the tendency continues, it may also illustrate and confirm a country ability to compete internationally in the longer run. As indicated in our introduction, when we discussed methodological issues, the international competitiveness of any economy should be assessed best way by selecting a country export specializations as measured by Reveled Comparative Advantage or RCA index first, and secondly, confront it with export composition as grouped by technological content or value added.

As the first step in this process of this in-depth analyses we have to start by selecting RCA> 1 in both in EU-15 and V-4 and, secondly, using EU Eurostat statistics, select from Standard International Trade classification – SITC the groups of goods, which are considered high tech because of the high R&D cost share content as % of the total value of the goods in question (see Table 4).

Table 4. High tech aggregation of products by SITC Rev.4 (see note below)

Group	Code	Tittle
Aerospace	(714-714.89-714.99)+	Aeroplane motors, excluding 714.89 and 714.99
	792.1+	Helicopters
	792.2+792.3+792.4+	Aeroplanes and other aircraft, mechanically-propelled (other than helicopters)
	792.5+	Spacecraft (including satellites) and spacecraft launch vehicles
	792.91+	Propellers and rotors and parts thereof
	792.93+	Undercarriages and parts thereof
	874.11	Direction finding compasses; other navigational instruments and appliances
Computers office	751.94+	Multifunction office machines, capable of connecting to a computer or a network
	751.95+	Other office machines, capable of connecting to computer or a network

Table 4. Continued.

Group	Code	Tittle
Machines	752+	Computers
	759.97	Parts and accessories of group 752
Electronics-telecommunica-tions	763.31+	Sound recording or reproducing apparatus operated by coins, bank cards, etc.
	763.8+	Video apparatus
	(764-764.93-764.99)+	Telecommunications equipment, excluding 764.93 and 764.99
	772.2+	Printed circuits
	772.61+	Electrical boards and consoles < 1000V
	773.18+	Optical fibre cables
	776.25+	Microwave tubes
	776.27+	Other valves and tubes
	776.3+	Semiconductor devices
	776.4+	Electronic integrated circuits
	776.8+	Piezoelectric crystals
	898.44+	Optical media
	898.46	Semiconductor media
Pharmacy	541.3+	Antibiotics
	541.5+	Hormones and their derivatives
	541.6+	Glycosides, glands, antisera, vaccines
	542.1+	Medicaments containing antibiotics or derivatives thereof
	542.2	Medicaments containing hormones or other products of subgroup 541.5
Scientific	774+	Electrodiagnostic apparatus for medicine or surgery and radiological apparatus
	871+	Optical instruments and apparatus
	872.11+	Dental drill engines
Instruments	(874-874.11-874.2)+	Measuring instruments and apparatus, excluding 874.11, 874.2
	881.11+	Photographiccameras
	881.21+	Cinematographic cameras
	884.11+	Contact lenses
	884.19+	Optical fibres other than those of heading 773.1
	(899.6-899.65-899.69)	Orthopedicsappliances, excluding 899.65, 899.69
Electrical	(778.6-778.61-778.66-	Electrical capacitors, fixed, variable or adjustable, excluding 778.61, 778.66,
	778.69)+	778.69
Machinery	778.7+	Electrical machines, having individual functions
	778.84	Electric sound or visual signaling apparatus

Table 4. Continued.

Group	Code	Tittle
Chemistry	522.22+	Selenium, tellurium, phosphorus, arsenic and boron
	522.23+	Silicon
	522.29+	Calcium, strontium and barium
	522.69+	Otherinorganicbases
	525+	Radioactive materials
	531+	Synthetic organic colouring matter and colour lakes
	574.33+	Polyethylene terephthalate
	591	Insecticides, disinfectants
Non-electrical	714.89+	Other gas turbines
	714.99+	Part of gasturbines
	718.7+	Nuclear reactors and parts thereof, fuel elements, etc.
	728.47+	Machinery and apparatus for isotopic separation
	731.1+	Machine-tools working by laser or other light or photon beam, etc
	731.31+	Horizontal lathes, numerically controlled
	731.35+	Other lathes, numerically controlled
	731.42+	Other drilling machines, numerically controlled
	731.44+	Other boring-milling machines, numerically controlled
	731.51+	Milling machines, knee-type, numerically controlled
Machinery	731.53+	Other milling machines, numerically controlled
	731.61+	Flat-surface grinding machines, numerically controlled
	731.63+	Other grinding machines, numerically controlled
	731.65+	Sharpening machines, numerically controlled
	733.12+	Bending, folding, straightening or flattening machines, numerically controlled
	733.14+	Shearing machines, numerically controlled
	733.16+	Punching machines, numerically controlled
	735.9+	Parts and accessories of 731 and 733
	737.33+	Machines and apparatus for resistance welding of metal, fully or partly automatic
	737.35	Machines and apparatus for arc welding of metal, fully or partly automatic
Armament	891	Arms and ammunition

Source: UNSTATS, 2016.

Note: High-technology trade is defined as exports and imports of products according the Standard International Trade Classification (SITC – Rev. 4) as listed below. This list, based on the OECD definition, contains technical products of which the manufacturing involved a high intensity of R&D.

At the second step of our analyzes, that is after knowing SITC categories which are considered high tech, we shall confront them with our RCA, s > 1 for V-4's and EU-15 and this way we could build tables containing the information with respect to their high tech exports during the time.

Table 5. RCA Poland

RCA in HIGH-TECH for Poland, 2007-2013							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Areocraft	0.19	0.25	0.55	0.82	0.76	0.79	0.86
Computer office machines	0.08	0.44	0.74	0.78	0.66	0.88	0.70
Electronics – Telecomunication	0.09	0.18	0.09	0.10	0.10	0.12	0.16
Pharmacy	0.15	0.12	0.12	0.14	0.13	0.18	0.18
Scientific instruments	0.18	0.22	0.19	0.38	0.26	0.25	0.50
Electrical machinery	0.23	0.57	0.16	0.16	0.18	0.16	0.18
Chemistry	0.34	0.33	0.33	0.36	0.40	0.43	0.45
Non electric machinery	0.43	0.44	0.33	0.29	0.31	0.52	0.64
Armament	**1.39**	**1.55**	**1.30**	0.94	0.29	0.25	0.42

Source: own calculations based on ComTrade, 2015.

Similar situation can be seen in Slovakia. Although, Slovakia cannot be considered as competitive according to used methodology in neither of high tech industries and don't show such outstanding results as Poland. Positive dynamic also can be observe in Computer office machines and Electronic–Telecommunication. Some kind of improvement also was seen in Scientific Instruments and Electric machinery. Yet none of the high tech categories has reached the RCA=1 level indicating very low competitiveness position of that country.

Table 6. RCA Slovakia

RCA in HIGH–TECH for Slovakia, 2007–2013							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Areocraft	0.02	0.01	0.08	0.07	0.02	0.04	0.01
Computer office machines	0.25	0.21	0.20	0.23	0.36	0.56	0.79
Electronics – Telecomunication	0.18	0.35	0.24	0.27	0.28	0.36	0.40
Pharmacy	0.12	0.09	0.07	0.08	0.10	0.06	0.07
Scientific instruments	0.14	0.19	0.13	0.21	0.15	0.21	0.28
Electrical machinery	0.21	0.51	0.26	0.23	0.30	0.29	0.37
Chemistry	0.14	0.15	0.18	0.14	0.10	0.11	0.12
Non electric machinery	0.38	0.40	0.30	0.36	0.45	0.43	0.49
Armament	0.86	0.42	0.78	0.66	0.65	0.56	0.58

Source: own calculations based on ComTrade, 2015.

The most outstanding results are shown by Hungary and Czech Republic. Both kept their positions and/or became competitive in 3 and 4 industries respectively. Positive dynamics can be also mentioned in several industries.

Table 7. RCA Czech Republic

RCA in HIGH-TECH for Czech Republic, 2007–2013							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Areocraft	0.41	0.32	0.58	0.37	0.34	0.30	0.36
Computer office machines	**2.08**	**2.10**	**2.01**	**2.28**	**2.71**	**3.58**	**2.96**
Electronics – Telecomunication	0.25	0.63	0.34	0.31	0.39	0.35	0.32
Pharmacy	0.22	0.23	0.24	0.25	0.25	0.22	0.25
Scientific instruments	0.37	0.39	0.37	0.59	0.43	0.42	0.76
Electrical machinery	**1.18**	**2.77**	**1.01**	**1.08**	**1.25**	**1.10**	**1.16**
Chemistry	0.25	0.21	0.24	0.25	0.26	0.29	0.29
Non electric machinery	**1.17**	**1.18**	**1.05**	**1.12**	**1.20**	**1.35**	**1.23**
Armament	**1.58**	**1.59**	**1.78**	**1.98**	**1.79**	**2.30**	**2.54**

Source: own calculations based on ComTrade, 2015.

Table 8. RCA EU-15

RCA in HIGH-TECH. EU-15, 2007–2013							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Areocraft	2.14	2.43	2.44	2.45	2.38	4.93	4.38
Computer office machines	**0.89**	**0.90**	**0.77**	**0.73**	**0.73**	**0.91**	**0.90**
Electronics – Telecomunication	**1.71**	**2.36**	**0.98**	**0.68**	**0.63**	**1.17**	**1.73**
Pharmacy	2.22	2.17	2.02	2.10	2.28	2.39	2.20
Scientific instruments	1.28	1.36	1.23	2.17	1.28	1.21	2.15
Electrical machinery	**0.77**	**0.66**	**0.68**	**0.65**	**0.66**	**0.62**	**0.60**
Chemistry	1.41	1.23	1.41	1.38	1.29	1.36	1.13
Non electric machinery	1.61	1.86	2.07	2.19	2.06	2.12	2.22
Armament	1.48	1.10	1.58	1.39	1.73	1.57	1.81

Source: own calculations based on ComTrade, 2015.

The slightly better RCA >1 for Hungary and the Czech Republic does not change the dismal picture of the V-4 countries as far as their international competitiveness position as measured by the RCA indexes.

As we can see from the data depicted in Table 10 the Visegrad group as total has only 1 category of goods which represent RCA > 1 thanks to the relatively good Czech and Hungarian export performance in this category. None of the remaining group of high tech goods have been able to cross the RCA=1.1 threshold (Table 10). What is more disturbing is the fact that at the same time of 2007 –2013 the EU countries have been able to increase their international competitive position vis-a-vis V-4 countries in a significant way. As illustrated by the data depicted on Graph 10 below the gap between V-4 an EU-15 in 2007–2013 in high goods has not only been significant at that time by what is most worrisome is that it has increased in recent years in a rather dramatic way indicating some structural problem in innovations in the V-4 countries. This negative tendency indicate and or suggest the source of the V-4 international competitiveness problems which in tern, requires further investigation and in depth research into the subject matter which is beyond the scope of this article, however.

Table 9. RCA Hungary

RCA in HIGH-TECH for Hungary, 2007–2013							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Areocraft	0.01	0.02	0.04	0.09	0.07	0.07	0.07
Computer office machines	**1.55**	**1.41**	**1.07**	**0.93**	**1.03**	**1.42**	**1.33**
Electronics – Telecomunication	0.80	1.59	0.89	0.85	0.87	0.58	0.49
Pharmacy	0.23	0.34	0.42	0.55	0.75	0.75	0.68
Scientific instruments	0.92	0.90	0.83	1.45	2.34	**1.05**	**1.96**
Electrical machinery	**1.01**	**2.59**	**1.12**	**1.11**	0.86	0.83	**1.04**
Chemistry	0.38	0.82	0.49	0.54	0.40	0.53	0.56
Non electric machinery	0.87	0.81	0.10	**1.02**	**1.14**	**1.43**	**1.34**
Armament	0.01	0.02	0.00	0.01	0.00	0.00	0.02

Source: own calculations based on ComTrade, 2015.

Table 10. RCA Vysegrad

RCA in HIGH-TECH for Vysegrad, 2007–2013							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Areocraft	0.19	0.19	0.39	0.56	0.37	0.37	0.42
Computer office machines	0.97	**1.06**	**1.06**	**1.12**	**1.25**	**1.67**	**1.42**
Electronics – Telecomunication	0.30	0.62	0.34	0.33	0.36	0.26	0.24
Pharmacy	0.29	0.30	0.29	0.32	0.37	0.36	0.35
Scientific instruments	0.40	0.42	0.37	0.65	0.71	0.45	0.82
Electrical machinery	0.66	1.59	0.61	0.62	0.64	0.58	0.64
Chemistry	0.30	0.37	0.32	0.34	0.32	0.36	0.38
Non electric machinery	0.75	0.74	0.50	0.71	0.78	0.94	0.92
Armament	0.99	**1.01**	**1.03**	0.96	0.70	0.82	0.93

Source: own calculations based on ComTrade, 2015.

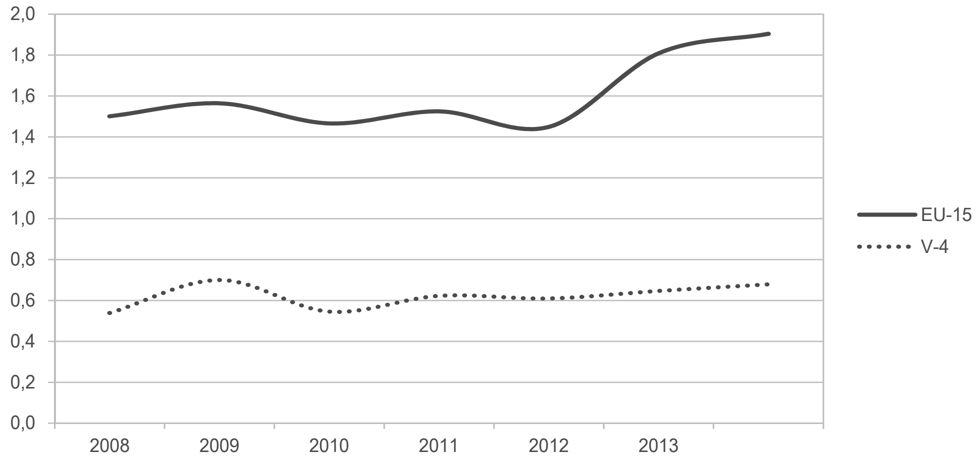

Figure 9. RCA in HIGH TECH export. V4 vs. EU-15. 2007–2013

Source: own calculations based on COMTRADE, 2015.

Conclusions

The observed and analyzed data and tendencies related to macro performance and international competitiveness position changes of countries of V-4 and EU-15 in the 2007 –2014 or after the financial crisis period, indicate different outcomes of the two group of countries on analyzed accounts.

On the first account that is on macro performance as measured by magic quadrangle indicators such as: GDP growth, inflation and unemployment levels and its changes, both V-4 and EU-15 have not shown a difference of significance which could prove superiority of either group because the vectors of change of the analyzed indicators were having opposite vectors of change compensating significance of each other ie., faster GDP growth of the V-4 countries and but their higher unemployment and/or inflation rates. As the result, the change in macro indicators of the two groups over the analyzed period does not provide any evidence which group has performed better way in that period. The only macro indicator from magic quadrangle group, that is balance of payment, illustrated EU significant advantage as reflected in big balances surpluses of EU-15 as opposed to permanent deficits of all V-4 countries with only some improvements in the last 2–3 years in the analyzed period. As for other macro indicators of sectoral character such as the role of education or R&D share in GDP or the patent levels to population in both V-4 and EU-15 have shown either small improvements or no improvements at all supporting view that both the level as well as improvements of V-4 on these account have not been significant enough to improve the V-4 competitiveness position as suggested by the macro indicators.

Similar conclusions could be drawn when looking at and analyzing some micro indicators such as institutional setting for business as presented by the World Bank in its annual reports on „Doing business ". The V-4 ranking position has been improving steady, yet their average position is still well behind that of the EU-15 level.

On the second account, critical to our analyzes, that of measuring changes in international competitiveness of V-4 an EU-15 after the financial crisis by the measuring RCA indexes and their relation to the SITC Rev,4 classification for high tech goods one has to admit that V-4 competitive position has been weak during the analyzed period and even deteriorated significantly in recent 2–3 years. The detailed data on RCA indexes in V-4 countries with respect to high tech goods share in their export composition in 2007–2014 compounded with poor high education, R&D and patent ratios indicate clearly that the V-4 countries have been struggling with innovativeness problem during the time with no success in sight. At the same time the EU-15 countries have increased their respective RCA > 1 indexes in high tech groups of goods of their exports indicating improvement of their competitiveness position vis-a-vis V-4 in the post crisis period.

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Annex

Table 1. High tech[4] aggregation of products by SITC Rev.4

Table 2. SITC Rev.3 – United Nations Statistics Division

0 – Food and live animals
00 – Live animals other than animals of division 03
01 – Meat and meat preparations
02 – Dairy products and birds' eggs
03 – Fish (not marine mammals), crustaceans, molluscs and aquatic invertebrates, and preparations thereof
04 – Cereals and cereal preparations
05 – Vegetables and fruit
06 – Sugars, sugar preparations and honey
07 – Coffee, tea, cocoa, spices, and manufactures thereof
08 – Feeding stuff for animals (not including unmilled cereals)
09 – Miscellaneous edible products and preparations
1 – Beverages and tobacco
11 – Beverages
12 – Tobacco and tobacco manufactures
2 – Crude materials, inedible, except fuels
21 – Hides, skins and furskins, raw
22 – Oil–seeds and oleaginous fruits
23 – Crude rubber (including synthetic and reclaimed)

[4] High-technology trade is defined as exports and imports of products according the Standard International Trade Classification (SITC – Rev. 4) as listed below. This list, based on the OECD definition, contains technical products.

24 – Cork and wood
25 – Pulp and waste paper
26 – Textile fibres (other than wool tops and other combed wool) and their wastes (not manufactured into yarn or fabric)
27 – Crude fertilizers, other than those of Division 56, and crude minerals (excluding coal, petroleum and precious stones)
28 – Metalliferous ores and metal scrap
29 – Crude animal and vegetable materials, n.e.s.
3 – Mineral fuels, lubricants and related materials
32 – Coal, coke and briquettes
33 – Petroleum, petroleum products and related materials
34 – Gas, natural and manufactured
35 – Electric current
4 – Animal and vegetable oils, fats and waxes
41 – Animal oils and fats
42 – Fixed vegetable fats and oils, crude, refined or fractionated
43 – Animal or vegetable fats and oils, processed; waxes of animal or vegetable origin; inedible mixtures or preparations of animal or vegetable fats or oils, n.e.s.
5 – Chemicals and related products, n.e.s.
51 – Organic chemicals
52 – Inorganic chemicals
53 – Dyeing, tanning and colouring materials
54 – Medicinal and pharmaceutical products
55 – Essential oils and resinoids and perfume materials; toilet, polishing and cleansing preparations
56 – Fertilizers (other than those of group 272)
57 – Plastics in primary forms
58 – Plastics in non–primary forms
59 – Chemical materials and products, n.e.s.
6 – Manufactured goods classified chiefly by material
61 – Leather, leather manufactures, n.e.s., and dressed furskins
62 – Rubber manufactures, n.e.s.
63 – Cork and wood manufactures (excluding furniture)
64 – Paper, paperboard and articles of paper pulp, of paper or of paperboard
65 – Textile yarn, fabrics, made–up articles, n.e.s., and related products
66 – Non–metallic mineral manufactures, n.e.s.
67 – Iron and steel
68 – Non–ferrous metals
69 – Manufactures of metals, n.e.s.
7 – Machinery and transport equipment

71 – Power–generating machinery and equipment
72 – Machinery specialized for particular industries
73 – Metalworking machinery
74 – General industrial machinery and equipment, n.e.s., and machine parts, n.e.s.
75 – Office machines and automatic data–processing machines
76 – Telecommunications and sound–recording and reproducing apparatus and equipment
77 – Electrical machinery, apparatus and appliances, n.e.s., and electrical parts thereof (including non–electrical counterparts, n.e.s., of electrical household–type equipment)
78 – Road vehicles (including air–cushion vehicles)
79 – Other transport equipment
8 – Miscellaneous manufactured articles
81 – Prefabricated buildings; sanitary, plumbing, heating and lighting fixtures and fittings, n.e.s.
82 – Furniture and parts thereof; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings
83 – Travel goods, handbags and similar containers
84 – Articles of apparel and clothing accessories
85 – Footwear
87 – Professional, scientific and controlling instruments and apparatus, n.e.s.
88 – Photographic apparatus, equipment and supplies and optical goods, n.e.s.; watches and clocks
89 – Miscellaneous manufactured articles, n.e.s.
9 – Commodities and transactions not classified elsewhere in the SITC
91 – Postal packages not classified according to kind
93 – Special transactions and commodities not classified according to kind
96 – Coin (other than gold coin), not being legal tender
97 – Gold, non–monetary (excluding gold ores and concentrates)
I – Gold, monetary
II – Gold coin and current coin

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Grzegorz Górniewicz[1]

THE PROBLEM OF GENERAL GOVERNMENT DEBT IN PIIGS GROUP COUNTRIES WITH THE SPECIAL ATTENTION PAID TO GREECE

Abstract

Commenced by the subprime mortgage crisis in US in August 2007, the global economic crisis led up to the deterioration of public finances in many European countries. The countries which suffered most from it were: Portugal, Ireland, Italy, Greece and Spain, which are jointly referred to as PIIGS group. Despite the fact that it is already 8 years that have passed from the onset of the crisis, the problem is still unresolved and there is the rumour of the critical situation of Greek economy.

The aim of this paper is to present the factors which contributed to the critical situation of PIIGS countries as well as to present the scale of the phenomenon and the attempts made to fight that crisis. The special attention was paid to the problem of public debt in Greece.

JEL Classification Codes: **G010**.

Keywords: public finance crisis, general government debt, Greece, PIIGS.

Introduction

The collapse of the mortgage market caused by the bursting of speculative bubble on the property market in U.S.A in August 2007 initiated the world economic crisis. It is commonly considered as the greatest recession since the times of Great Depression within 1929–1933.

The countries that were exceptionally strongly affected are Portugal, Ireland, Italy, Greece and Spain. Recently and with respect to the world financial crisis, the conventional term PIGS was coined, the term referring to the countries with difficult budget situations and high public debts. The term is an acronym whose

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successive letters are the initial letters of the names of the countries burdened most with the afore-mentioned problems (that is, P standing for Portugal, I for Ireland, G for Greece and S for Spain). A bit later, Italy joined the group and the acronym itself was extended into PIIGS.

The aim of this paper is to present the factors which contributed to the critical situation of PIIGS countries as well as to present the scale of the phenomenon and the attempts made to fight that crisis. The special attention was paid to the problem of public debt in Greece. To attain the presented goals, in this paper the comparative descriptive analysis was used.

1. Essence of public debt

In the professional literature, there are multiple definitions of public debt to be found (public or government or national debt), also known as government or national debt. According to the most succinct student-book definitions, public debt refers to financial liabilities of public authorities related to the loans taken (Owsiak 2005, p. 330). Other sources claim that public debt encompasses all the liabilities incurred by the Treasury, national earmarked funds having legal personality and by municipalities (Misiąg 1996, p. 31).

The definition of public debt sensu largo is to be found in the supplementary documents to the Treatise of Maastricht. According to the afore-mentioned definition, public debt means „the totality of liabilities of the Treasury to national and foreign entities related to loans taken in financial institutions and directly from the governments of member countries of Paris Club or these which were guaranteed or insured by the governments or their agendas as well as remaining-to-be-purchased treasury securities issued onto the foreign and national market and other registered liabilities of the Treasury" (Górniewicz 2012, p. 10).

The economical literature at large, particularly that on public finances, distinguishes a series of kinds of public debt. However, using the term „classifications" does not appear entirely justifiable. Perhaps from the point of view of methodology, at least equally proper is the use at that point the term „debt structures".

Assuming the criterion of the place of origin of creditors, one can distinguish the national and foreign debt. The former, also referred to as internal debt, encompasses the debt in relations to local entities, resulting mainly from treasury bonds still due to be redeemed. On the other hand, foreign debt (external debt) stems from the loans taken from international organizations, governments, banks and from the treasury bonds sold abroad.

Furthermore, professional literature also distinguish the following kinds of debt:
1) gross and net (gross net – receivables),

2) short-term debt also referred to as liquid debt (up to one year) and long-term debt also referred to as funded debt (more than one year),
3) nominal and real (taking inflation into consideration),
4) central (national) and local (local-governmental),
5) voluntary and compulsory debt (Górniewicz 2013, p. 24).

In developed and moderately developed countries with respect to their economies, public debt is a common phenomenon and it has been in effect for dozens of years. Despite the fact that the economic situation of these countries is different, it can be said that public debt has become the constant constituent of their public finances. The accumulation of public debt was the reason for much criticism expressed not only by economists but also by politicians. For these reasons it is worth acquainting oneself with the fundamental causes of indebtedness of particular countries.

The professional literature generally distinguishes the causes of the emergence of public debt:
1) long-standing budget deficit;
2) the period of increased public spendings (particularly periods of wars and deep economic crises);
3) the implemented economic doctrine which can consciously assume the long-standing budget deficit and public debt as tools of state interventionism;
4) the implementation of political goals of the ruling elite which does not decide on increasing the taxes and neither does it cut spendings (the theoretical justification of such a policy is public debt-neutrality thesis for both the economy and the society as such. If one assumes that thesis is correct, then it is more advantageous for the government to take new loans than to impose new taxes).
5) public authorities falling for the so-called debt trap (losing the ability of the due repayment of debt) (Owsiak 2005, p. 337).

A particularly important reason for the emergence of public debt seems to be budget deficit, being mentioned at the beginning. The elementary relation between debt and the state of budget is reflected in the following formula:

$$d = d_0 + r \cdot b$$

where:
d – the balance of government budget – conventionally conceived – in relations to national gross product.
d_0 – primary deficit or budget surplus (without the expenses for debt service) in relation to national gross product,
r – average interest rate in the public debt service
b – the level of public debt in relations to national gross product (Gotz-Kozierkiewicz 1994, p. 57).

The analysis of primary balance in the government budget is becoming the issue of utmost importance, the analysis of which sheds some light on its balancing. Primary balance provides an answer to the question how the equilibrium in the government budget would be shaped if there were no public debt and thus there would not be any necessity for its service. It also serves as basis for determining if the amount of debt does not threaten the budget solvency (Wernik 2001, p. 10).

The emergence of negative primary balance means exceeding safety threshold with respect to debt. On the other hand, the increasing primary surplus under the condition of total deficit means approaching balancing budget, which takes place at the moment of the equilibrium between the primary surplus and the expenses for debt service. It is to be emphasized that relatively high public debt does not directly threaten the solvency of the government budget if there is primary surplus in the budget (Ciak, Górniewicz 2002, pp. 97–98).

2. General government debt in PIIGS

The biggest general government debt among the analyzed countries could definitely be attributed to Italy. At the end of 2014, its amount surpassed 2.1 trillion Euros (see table 1). The close second was Spain with its debt amounting to one billion Euros. The third was Greece (over 317 billion Euros), fourth Portugal (225 billion Euros), fifth Ireland (less than 203 billion Euros). It is noteworthy that within 7 years the amount of Ireland general government debt it has grown four times.

Table 1. General government gross debt in billions euro

Years	Portugal	Ireland	Italy	Greece	Spain
2007	120.1	47.1	1605.9	237.5	383.8
2008	128.2	79.6	1671.1	261.6	439.7
2009	146.7	104.6	1769.7	298.7	568.7
2010	173.1	144.2	1851.2	321.6	649.2
2011	195.7	190.1	1907.5	355.9	743.5
2012	211.8	210.2	1988.9	304.7	890.9
2013	219.6	215.3	2068.7	319.2	966.2
2014	225.3	203.3	2134.9	317.1	1033.8

Source: my own work on the basis of the data by Eurostat http://ec.europa.eu/eurostat/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=teina225&language=en (access 08.06.2015)

The debt of a given country is not merely confirmed by its amount, but more importantly by its relation to the worth of gross national product (GNP). In period 2007–2014 what went worse was the ratio between general government gross debt to gross domestic product (for details look table 2). The increase of this ratio in Ireland was almost 5 times (4.6), in 2.7 in Spain and 1.9 in Portugal. The smallest increase was recorded in Italy (1.3) and, interestingly enough, in Greece (1.7). However, the worst index at the end of the 2014 year was recorded in Greece (177.1%). In each country the index definitely exceeded level established in Maastricht Treaty (60% GNP).

Table 2. General government gross debt in % GNP

Years	Portugal	Ireland	Italy	Greece	Spain
2007	68.4	24.0	99.7	105.8	35.5
2008	71.7	42.6	102.3	110.7	39.4
2009	83.6	62.3	112.5	127.1	52.7
2010	96.2	87.4	115.3	142.8	60.1
2011	111.1	111.2	116.4	171.3	69.2
2012	125.8	121.7	123.1	156.9	84.4
2013	129.7	123.2	128.5	175.0	92.1
2014	130.2	109.7	132.1	177.1	97.7

Source: my own work on the basis of the data by Eurostat http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teina225&plugin=1 (access 08.06.2015).

The primary reason for getting into debt is the occurrence of budget deficit. It is to be emphasized that budget deficits have recently been the constant phenomena in the countries in European Union. Maastricht Treaty stipulated that the relation of budget deficit to the worth of national gross product cannot surpass 3% GNP.

Table 3. Budget deficit in % GNP

Years	Portugal	Ireland	Italy	Greece	Spain
2007	–3	0.3	–1.5	–6.5	2
2008	–3.8	–7	–2.7	–9.8	–4.4
2009	–9.8	–13.9	–5.3	–15.7	–11
2010	–11.2	–32.5	–4.2	–11.1	–9.4
2011	–7.4	–12.7	–3.5	–10.2	–9.4
2012	–5.6	–8.1	–3	–8.7	–10.3
2013	–4.8	–5.8	–2.9	–12.3	–6.8
2014	–4.5	–4.1	–3.5	–3.5	–5.8

Source: my own work on the basis of the data by Eurostat http://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=en&pcode=teina200 (access 15.07.2015).

In 2007 year budgetary surpluses were recorded in Ireland and Spain. Permanent deficits in next years – were recorded in all PIIGS countries. The highest one has taken place in Ireland in 2010 year (32.5% GNP). In the last analyzed year (2014) all countries had higher budget deficits than they agreed to in Maastricht Treaty (see table 3). However, one can possibly see that the situation is somehow improving.

Until recently, Spain has been regarded as a dynamically developing country. It owed its favourable conjuncture mainly to then boom on the real estate market, which had a positive influence not only on developers but on civil engineering companies and the banks financing those investments (Sadecki 2010, pp. 57–58). The crash occurred already in October, 2008. The mortgage sales decreased then by 44%. Additionally, high unemployment rate (particularly in the civil engineering branch) limited the tax incomes and simultaneously increased the governmental spendings on allowances, which amounted to the serious budget problem. According to the predictions by Eurostat, Spanish civil engineering market is bound to shrink till 2012. The cabinet of Jose Luis Rodriguez Zapatero implemented radical budget cuts amounting to about 15 billion Euros, that is 1.1% GNP. Such actions added to the credibility of Spain in the eyes of financial investors. On the other hand, direct investors – to a considerable extent – left Spain – as well as the other member countries of PIIGS group. Foreign direct investment outflow additionally strengthened the descending trend and additionally solidified the economic recession. Spain is fourth country of Euro Zone, which has received international support (Górniewicz 2013, pp. 29–30).

From the end of the 80s, Ireland developed most among European Union member countries. At the beginning of XXI century, Irish economic growth was mostly based on civil engineering. For Irishmen, it was a period of genuine prosperity. However, when the demand for real estate collapsed (prices decreased by about 50%) the government in Dublin had to save the banking sector, burdened with the misfired loans for the real estate investors, from bankruptcy (Górniewicz 2011, p. 58).

Financial status of Ireland deteriorated in consecutive months. Ireland has received the loan from European Union and the loan from International Monetary Fund amounting to 85 billion Euros. The Prime Minister Brian Cowen's plan was presented 24 November 2010, which assumed the reduction of public spendings by about 10 billion Euros and the increase of tax income amounting to about 5 billion Euros. Recently in comparison with PIIGS countries situation of Ireland has improved.

In Portugal, the cabinet of the Prime Minister Jose Socrates started saving by reducing salaries of clerks and members of the parliament (MPs) by 5% and froze them for 3 years. Salaries of employees from the public sector earning over 1.5 thousand Euros a month were also decreased by the same percentage. Furthermore, the spendings on social benefits were drastically cut. Apart from the reduction of expenses, Portuguese government introduced additional income tax amounting to 1.5%. From 2011, VAT increased by 1% (21%) and big companies paid a new tax amounting to 2% of their income. These measures can potentially bring the savings and the income of 5.7 billion Euros – annually. Moreover, 17 national companies are about to be privatized for about 8 billion Euros (Walewska 2010, p. B7).

At the beginning of April 2011 Portugal asked European Union for a financial aid. In return, Portugal was obliged to privatize public sector amouting to 5 billion Euros. It sold in 2012 the part of Portuguese energy infrastructure (600 million euro), 21% equities in Energias de Portugal (national supplier of energy) valued for 2.7 bilion Euro and Aeroportos de Portugal (about 3 billion Euros) (The Guardian 2012).

Italian economy, being third best in Eurozone with respect to the value of national gross product, developed more slowly than expected. At the end of the first decade of XXI century, industrial production fell down whereas unemployment rate rose. In 2010, Italian public debt surpassed 1.7 billion euros, which amounted to 115% of national gross product. According to the president of the Central Bank, Mario Draghi, Italy was not competitive because of the misguided labour law, making its economy and small enterprises unable to compete on the global market, which eventually caused the inefficiency of financial sector (Werner 2010, p. A8). However, in comparison with PIIGS countries, Italian situation seemed relatively positive.

Table 4. Ratings for PIIGS countries in July 2015

	Standard & Poors		**Fitch**		**Moody's**	
Country	**Rating**	**Perspective**	**Rating**	**Perspective**	**Rating**	**Perspective**
Portugal	BB	Positive	BB+	Watch Negative	Ba2	Stable
Ireland	A+	Stable	A–	Stable	Baa1	Stable
Italy	BBB–	Stable	BBB+	Stable	Baa2	Stable
Greece	CCC–	Negative	CC	Negative	Caa3	Negative
Spain	BBB	Stable	BBB+	Stable	Baa2	Positive

Source: my own work on the basis of the data by Standard & Poors, Fitch and Moody's.

Financial status of country ratings in Portugal, Ireland, Italy and Spain was stable. In July 2015 Standard & Poors, Fitch and Moody's evaluated negatively Greek public finance (for details see table 4). It was completely understandable from the point of view of the crisis in this country.

Table 5. Long-terms interest rates in PIIGS group

Country	July 2014	June 2015
Portugal	3.69	2.93
Ireland	2.28	1.65
Italy	2.79	2.2
Greece	6.1	11.43
Spain	2.68	2.22

Source: my own work on the basis of the data by European Central Bank.

The credibility of individual countries is reflected by their respective long-terms interest rates. A country is more credible, when its interest rates are low because then the risk is the smallest. Recently all PIIGS countries (with the exception of Greece) have decreased long-terms interest rates (see table 5). It should be considered a good result. The result of Greece is tragic in comparison with the remaining PIIGS countries. In June 2015 year long-term interest rate has reached the level of over 11%. No other country in European Union recorded a half of that percentage. It resulted in the real threat of insolvency of Greece. Situation of this country will be presented in detail in the next section of this article.

3. The Case of Greece

In winter (2009–2010), there was a sudden increase of financial problems in Greece. The revelation of hoaxes and statistical manipulations – often euphemistically referred to as „creative accounting" – delivered the final blow to this heavily indebted and a highly corrupted country. Goldman Sachs helped Greece with their operations – or actually frauds. This investment bank was accused by the American Securities and Exchange Commission (SEC) of the frauds and unethical practices. The Greek government tried to improve the situation by initiating spending cuts. Despite the fact that these were inadequate, they infuriated Greek citizens being accustomed to high social welfare services (Nelson, Belkin, Jackson 2015, p. 1). The riots made people appreciate the real essence of debt crisis. People became aware of the fact that the threat to the stability of Eurozone is not only Greece but also the other ineptly governed and highly indebted countries such as Spain, Ireland, Portugal and Italy. The revelation of the scale of the problem forced the European politicians to design a plan of saving not only Greece but also the whole Euro Zone (Górniewicz 2011, pp. 55–56).

At the beginning of May, 2010, Eurozone heads of state gathered at 2010 Brussels and International Monetary Fund summit eventually ratified the assistance packet for Greece amounting to 110 mld Euros until 2012. The price incurred on

Greece for the support by International Monetary Fund was drastic budget reforms. The plan assumed decreasing the budget deficit from 13.6% of the national gross product in 2009 to 2.6% in 2014 (Górniewicz 2012, p. 102).

The reduction of budget spending included: the reduction by 30% of Christmas bonuses, the 12% reduction of the severance pay for the former employees of the public sector, the reduction of incentives, freezing the pensions in public sector and all government-controlled pensions as well as 5% reduction of public investments and some cuts in educational sector. On the other hand, budget revenues increased: VAT from 19% to 21% and excise tax for fuels, cigarettes, alcohol; also, luxury duty increased (relating to such commodities as cars worth more than 17 000 euro, boats, helicopters, gemstones and noble metals (Górniewicz 2011, pp. 56–57).

In 12 February 2012 Greek member of Parliament have voted for savings programme and also asking for next aid. The programme included:
- decrease of employment in public sector about 150 thousand persons,
- freezing salaries in public sector,
- decrease of minimal wage about 20%,
- limitations of pay rises, pension services and of benefits for the unemployed.

This program had to bring savings amounting to 14 billion Euros.

In 21 February 2012 ministers of finance of Euro Zone countries have agreed upon conceding of second aid package for Greece to equal euro 130 billion Euros. Private creditors (mainly banks) will additionally cut down about 53.5% the value of Greek bonds. Greece was obliged to decrease public debt in 2020 year for 121% GNP (Górniewicz 2014, p. 49).

In January 2015 in Greece there were parliamentary elections, which was won by leftist, populistic SYRIZA. This party was opposite to savings and foreshadowed renegotiations agreements with European Union. In 5 July 2015 the referendum proceeded. Greeks have rejected international assistance in it. A bit sooner (that is a few days before the referendum), Greeks did not pay the installment to the International Monetary Fund. Despite it, next negotiations have proceeded. In 13 July leaders of Euro Zone member states agreed upon third assistance packet for Greece (about 86 billion Euros, first installment equal to 26 billion Euros). In return for loans, Greeks were obliged to introduce reforms: increasing VAT and retirement age, liberalization of labor market, abolishing price controls, reform of medicine market and privatization of energy system. Besides, Greeks had to establish trust system, which would administer Greek assets of the value 50 billion Euros, harbours, energy companies, water-supply and banks. Besides Greek government agreed on selling 14 regional airports for 1.23 billion Euros. The buyer will be a German company Fraport (Słojewska 2015, p. B1).

20 August 2015, Greek Prime Minister Aleksis Cipras was dismissed and he appealed to the President to call the earlier-than-scheduled Parliamentary elections. In the forthcoming days, there was a conspicuous slow-down of the reforms in in the country (Walewska 2015, p. B6).

In 2015 among Greek creditors the biggest share had Euro Zone (above 193 billion Euros). In this group the biggest amounts belong to: Germany (56.6 billion Euros), France (42.4 billion euro), Italy (37,3 billion Euros) and Spain (24.8 billion Euros). It should be noticed, that all countries of PIIGS Groups, except for Ireland, are creditors of Greece. Besides, important part of debt was possessed by International Monetary Fund (32.3 billion Euros) and the European Central Bank (20 billion Euros). Table 6 presents the details.

Table 6. Greek creditors

Specification	Debt in billions of Euros
EURO ZONE	193.8
Germany	56.6
France	42.4
Italy	37.3
Spain	24.8
Netherlands	11.9
Belgium	7.2
Austria	5.8
Finland	3.7
Slovakia	1.5
Portugal	1.1
International Monetary Fund	32.3
European Central Bank	20.0
Greek banks	10.9
Bank of Greece	4.3
external banks	2.4

Source: my own work on the basis of the data by Euronews www.euronews.com (access 05.06.2015).

Greek ministry of finance dealing with the structure of government debt has differentiated three areas. The first area was fixed and floating rate. In 2010 it was fixed rate that prevailed. The situation has been changed in next years. It must be judged negatively. Second area concerned the tradability of debt. In 2010 year what prevailed was the tradable, but later the non-tradable one. Third area concerned currencies in which Greece was in debt. Within whole analyzed period Euro predominated (see table 7).

Scientific research demonstrates that high level of debt negatively affects economic growth (Reinhard, Rogoff, 2010). In reality, in Greece big debt accompanied economic recession. In order to implement reforms, the drastic budget spendings cuts were implemented. From the onset of the crisis gross domestic product has fallen by about 1/4. Only high economic growth could cause solvency of Greece. According to forecasts of European Commissions in 2015 year GNP will grow about 0.5%. It is undoubtedly not enough.

Table 7. Composition of general government debt in %

Specification	**2010**	**2012**	**2014**	**2015***
A. Fixet rate	70.7	32.7	33.2	33.9
Floating rate	29.3	67.3	68.8	66.1
B. Tradable	84.0	34.3	25	26.1
Non-tradable	16.0	65.7	75	73.9
C. Euro	98.2	96.7	95.7	95.7
Non-euro zone currencies	1.8	3.3	4.3	4.3

* Data finally march 2015
Source: my own work on the basis of the data by Hellenic Republic Public Debt Bulletin, no 61, March 2011; Hellenic Republic Public Debt Bulletin, no 69, March 2013; Hellenic Republic Public Debt Bulletin, no 76, December 2014 and Hellenic Republic Public Debt Bulletin, no 77, March 2015.

Conclusions

At the beginning of the second half 2015 it was not possible to ascertain that crisis of public finance has taken place in PIIGS countries. Situation of Greece seemed particularly critical still. Its public debt surpassed 170% GDP. Economy of this country was in recession for 6 year and it has shrunk by about 1/4. Many weeks lasted next negotiations as to how to escape uncontrolled insolvency. There was a real threat for Greece to be expelled from Euro Zone (Grexit) and to return to old currency of this country (drachma).

The Process of exiting Euro Zone sparked off bank panic, disturbances, riots and breakdown of economy. However, to remain in the Zone, Greece will probably have to increase taxes and decrease public spendings. It means economic stagnation and high unemployment. It concerns not only Greece but also other countries of PIIGS group.

The economic crisis in Greece has also evolved into a broader political crisis in Europe. Analysts argue that the acrimonious debates among European leaders about the appropriate crisis response have heightened political tensions to a degree that could negatively impact the EU over the longer term.

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PROBLEMS WITH FULFILMENT OF STABILIZATION PACT IN THE FACE OF THE FINANCIAL CRISIS OF THE EUROZONE

Abstract

The main aim of the rules of fiscal policy of European Union is to identify and limit the negative impact of wrong policies of some of the member states on the functioning of the remaining countries of the Eurozone. In order to limit possible threats institutional and legal regulations were put in place in form of Stability and Growth Pact. Its main aim was to discipline the fiscal policies led by the countries of the Eurozone. The debt crisis in the Eurozone proved, that the convergence criteria of the Maastricht Treaty and the Stability and Growth Pact were not sufficient t provide stability of public finances in the counties of the Eurozone. It is thus justified to launch an analysis concerning the debt situation of the Eurozone and its further existence. What is also to be analyzed are the problems resulting from the non-adherence of the countries of Eurozone to the Stability and Growth Pact. The analysis was conducted on the basis of literature study and analysis of statistical data.

JEL Classification Codes: **E62**.

Keywords: Stability and Growth Pact, fiscal union, debt crisis, excessive deficit procedure.

Introduction

The creation of EMU in 1999 was accompanied by very high risk of instability of the common currency of the member states in the result of lack of uniform political power that would supervise and monitor the common currency. The stability of Euro can be safeguarded not only through monetary policy, but most of all by fiscal policies led independently by the respective member states of the

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Eurozone. Stable and strong currency must find support in stronger fiscal discipline accomplished by the member states (Giżyński 2012). The member states can't be left fully autonomous. That is why some limits were imposed, and applied to the whole Union, on the member states for keeping and safeguarding the aforesaid assumtions.

1. The fiscal policy of the economic and monetary union

Within the EMU there is currently the complete monetary union in force and the incomplete economic one, as a result of, among others, lack of fiscal federalism. The criterion connected with fiscal policy of the monetary union leads to the following implications: 1/ it is desirable for the large proportion of the state budgets to be passed on to the centralized budget within the whole union, 2/ the national fiscal policy of the member states shall be applied in a flexible way, that is in set situations the member states shall be entitled to increase budget deficits (Burawski, 2005). The Eurozone is a unique structure that is far from being an optimal currency area, understood as a group of countries adopting a common currency and creating a monetary union (Księżyk, 2012). It is thus evident, that the member states, pursuant to the Stability and Growth Pact (hereinafter the SGP) have to avoid budget deficits.

The aforesaid Stability and Growth Pact concerns all member states of the European Union, but its repressive part, that imposes sanctions on countries with excessive deficits only applies to the states of the Eurozone. The SGP is thus to secure that the fiscal policy of the member states will not cause tensions between the countries participating in the EMU. Decentralization of the fiscal policy may lead to appearance of excessive budget deficits (Burawski, 2005, p. 41). This means that the negative effects in form of budget deficit on the part of one of the member states may cause adverse effects in another member state.

Analyzing the above the difficulties of the European countries that appeared after the outbreak of the global financial crisis do clearly point to the fact, that lack of common fiscal policy bears negative consequences for the stability of the Eurozone. That is why the precondition for further budget integration is the stronger political intervention, that is the abandonment of some of sovereignty of the member states (Skiba, 2011). The member states should no longer wait with the necessary institutional reforms and national rules, aiming at the enhancement of the positive influence of their fiscal policies on economic growth.

On the other hand the full coordination of economic policy on the union scale of the Eurozone would require major changes in form of larger budget, common responsibility for the public debt and more coordinated tax system. The larger coordination of the fiscal policy in the Eurozone is required for prevention of future situations similar to those current ones (Skrzypczyńska, 2012).

As the EMU was introduced, together with a single currency, there are recurrent opinions saying that a uniform fiscal policy should also be introduced – at least in the Eurozone. The EU budget is very small, which makes the EU's efforts aimed at fiscal federalism justified, as in reality they would mean that the central budget would be substantial in relation to the GDP of the respective country, with a level of 20 to 30% (Oręziak, 2007; Szeląg, 2003). After the introduction of Euro the differences in taxation levels of businesses in the respective countries became even more visible. This means there is the need for more stricter economic coordination and political integration, with the concurrent harmonization of the tax rates within the EU. Due to that the need emerges for further, wholesome harmonization of regulations and tax rates for indirect taxes (VAT) to a degree that harmonization is required for proper functioning of the internal market. In this context we also see the question of reforming the commercial taxes, through the introduction of uniform, consolidated taxation base and/or establishment of the European commercial income tax (Szeląg, 2003). The harmonizing directed at increase or decrease of tax rates remains debatable. Some of the states wish not to lower the taxes due to the fact that it lowers the income of their budgets. As long taxation issues remain at the discretion of the respective countries, EU initiatives can be effectively blocked.

2. Stability and Growth Pact

Due to the lack of uniform fiscal policy and thus the threat of instability of Eurozone, practically from the very beginning of the monetary union the discussions indicated the need of creation and implementation of mechanisms for prevention of excessive budget deficits or excessive public debt.

The decentralized fiscal policy, left at the national level is currently the main source of problems of the Eurozone.

The annual European Union budget accounts for just 1% of its GDP: EUR 145 bn. in 2015 (http://europa.eu/pol/financ/index_pl.htm) in relation to the government budgets of the member states that account for 30 to 50% of their GDPs or even more. The EU budget should be balanced and the disciplining function in this area is to be held by the provisions of the treaty.

The Stability and Growth Pact (hereinafter: the SGP) was intended as the main tool for coordination and active stabilization of fiscal policy.

This Pact, forming the continuation and solidification of the resolutions of the Maastricht Treaty which formed the basis for introduction of common currency and a warranty of financial stability of the Eurozone in the conditions of independence of fiscal policy of the member states of the monetary union (Lubiński, 2011). The SGP was in the first place intended as a safety measure for balancing the public finances and leveling excessive budget deficits and public debts.

In 1997 the European Council issued three acts that constitute the Stability and Growth Pact, which in turn consists of the preventive and repressive parts.

In the preventive part of the Pact the regulation no. 1467/97 (Council Regulation (EC) no. 1466/97 of 7 July 1997 on the strenghtening of the surveilance of budgetary positions and the surveilance and coordination of economic policies) imposed the duty of annual preparation of stability and convergence programs on countries from outside the Eurozone (See also: Skiba, 2011). These programs include the analysis of the situation of the public finances for the current and previous period and the project of medium-term budget plans. In case of large differences between the accomplished and planned targets the European Council has the competences to issue recommendations for the member state, through which it obliges the state, pursuant to the Resolution of the European Council of 17 June 1997 (Resolution of the European Council on the Stability and Growth Pact Amsterdam, 17 June 1997) a member state is obliged to „undertake corrective budgetary actions necessary for achievement of its stability and convergence goals" (Resolution of the European Council on the Stability and Growth Pact Amsterdam, 17 June 1997).

Within the repressive part of the Pact the regulation no. 1467/97 (Council Regulation (EC) no. 1467/97 of 7 July 1997 on speeding up and claryfying the implementation of the excessive deficit procedure) foresees sanctions against countries that fail to adhere to the budget criteria, allowing for excessive budget deficit or public debt, in excess of 3 and 60% respectively.

Penalties may be imposed on countries that fail to adhere to preventive regulations, as set in the SGP.

Table 1. Public debt in the Eurozone in the years 1999–2014 (% GDP)

Years	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public debt	72.4	69.9	68.6	68	69.2	69.6	70.5	68.6	66.3	70.1	79.9	83.8	86	89.3	91.1	92.1

Source: Own summary on the basis of Eurostat statistical data, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde410&plugin=1 (acces-sed: 24.11.2015).

Table 2. Budget deficit in the Eurozone in the years 1999–2014 (% GDP)

Years	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Budget deficit	-1.3	-1.0	-1.9	-2.6	-3.2	-3.0	-2.6	-1.5	-0.6	-2.2	-6.3	-6.2	-4.2	-3.7	-3.0	-2.6

Source: Own summary on the basis of Eurostat statistical data, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde410&plugin=1 (acces-sed: 24.11.2015).

In case of Eurozone states these penalties may take the form of a warning or, finally, the form of financial penalties of:

– 0.2% of GDP if the preventive or corrective regulations are breached;
– 0.5% of GDP in case of numerous breaches of corrective regulations (http://ec.europa.eu/economy_finance/economic_governance/sgp/index_pl.htm).

The Stability and Growth Pact came in force in relatively beneficial economic conditions (of 1999-2001) and due to that there were no problems connected with adherence to it in that period. The circumstances changed in the beginning of 2001, when an economic slowdown occurred, with consequence in form of excessive budget deficits in Eurozone (Lubiński, 2011), (see: tables 1 and 2).

3. Problems with completion of Stability and Growth Pact

The debt crisis that started in Greece and then spread on to other Eurozone countries revealed the shortcomings of the process of stabilization of economic situation with means of fiscal policy.

The inefficiency of SGP was first manifested in 2003 when the Council of the European Union decided to reject recommendations of the European Commission to initiate the excessive deficit procedure after threat of financial sanctions being imposed on Germany and France, as both countries failed to introduce the ordered corrective actions for their excessive budget deficits (Pszczółka, 2012). It was then assumed that the excessive deficit procedure should not be introduced in situation of a deep recession of a country.

In consequence of the actions of the Council the credibility of the Stability and Growth Pact suffered significantly.

In the result the Pact was revised in 2005. Changes were introduced regarding procedure. Mid-term budget obligations were added to the preventive part, in order to take the situation of the country in question into account, and the repressive part saw revision of excessive deficit procedures, that in case of substantial deterioration of economic situation do excuse the state from application of the aforesaid procedure (Bukowski, 2007). Thus the rules of the Stability and Growth Pact were largely weakened and made much more flexible.

The reform did not induce the improvement of fiscal discipline in the individual countries of the Eurozone. There were still breaches of the rules of the SGP and all too frequent crossing of the reference values. This led to systematic growing of public dept in the Eurozone to such an extent, that some of the states, e.g.: Greece, Portugal, Italy were on the verge of bankruptcy already in 2009 (Rosati, 2013).

The difficulties with enforcement of the SGP rules led to a situation in which practically the majority of Eurozone countries exceeded the 3% GDP threshold in the years 2009-2011 (see table 3).

Table 3. Budget deficit in the Eurozone countries in the years 2009–2011 (%GDP).

State	2009	2010	2011
Austria	-5.3	-4.4	-2.6
Belgium	-5.4	-4	-4.1
Cyprus	-5.5	-4.8	-5.7
Estonia			1.2
Finland	-2.5	-2.6	-1
France	-7.2	-6.8	-5.1
Greece	-15.2	-11.2	-10.2
Spain	-11	-9.4	-9.5
Holland	-5.4	-5	-4.3
Ireland	-13.8	-32.3	-12.5
Luxemburg	-0.5	-0.5	0.5
Malta	-3.3	-3.2	-2.6
Germany	-3.2	-4.2	-1
Portugal	-9.8	-11.2	-7.4
Slovakia	-7.9	-7.5	-4.1
Slovenia	-5.9	-5.6	-6.6
Italy	-5.3	-4.2	-3.5

* Grey color marks the areas in excess of the allowed reference values.
Source: Own summary on the basis of Eurostat statistical data, http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tsdde410&plugin=1 (acces-sed: 24.11.2015).

In the aspect of deepening debt of the Eurozone countries the second reform of the Stability and Growth Pact was conducted in 2010-2011, that introduced changes in the field of so called economic management. Two new rules were introduced: 1/ expenditure and 2/ defining the pace of debt reduction in case of exceeding the allowed limits (Marchewka-Bartkowiak, 2012). The reform aimed at stricter financial discipline in the Eurozone.

Another step in reply to the debt crisis of the Eurozone was the strengthening of GSP in its fiscal area, through the 2012 adoption of the so called „six pack", which was rooted in the „fiscal pact" that is the Treaty on stability, coordination and governance in the Economic and Monetary Union (Skrzypczyńska, 2012), which came in force in 2013 forming a separate modification to the GSP.

The above setting has the main aim of increasing the budget discipline, coordination of economic policies and improvement of debt situation in Eurozone.

As newest data suggest, according to Commission forecast the deficit in Eurozone is to fall to 1.7% of GDP in 2016 from 1.9% of GDP in 2015. At the same time the public debt should also fall to a level slightly below 90% of GDP in 2016, compared to 91.1% of GDP in 2015. The forecasted data presents an improvement of debt situation of the Eurozone.

Conclusion

What contributed to the financial crisis of the Eurozone was the way the fiscal policy was managed, remaining on the national level, in some of the member states of the Euroland. Lack of proper and appropriately early disciplining of individual countries for their breaches of the reference values, and the poor macroeconomic policies of countries contributed to the fact that the majority of the Eurozone countries failed to fulfill the convergence criteria at the very introduction of Euro.

It is also worth stressing that the growing financial unbalances in individual member states were also the result of wrong institutional system. The main point was to be the Stability and Growth Pact, with its imperfections revealed as early as in 2003 by the controversial situation of Germany and France and the overthrowing of the recommendations of European Commission that wanted to impose financial penalties on both countries. This event marked the definite undermining not just of the importance of the Pact, but also European institutions as such.

The safeguards introduced in SGP and its later amended revisions were insufficient. This finds confirmation in the budget deficit or public debt levels of some of the member states of the Eurozone.

In current situation the financial crisis has shaken the very existence of the monetary union. And in analyzing the above situation one must find that the lack of coordination of fiscal policies, which may become a chance for effective actions fighting the second wave of the economic crisis, has undermined the stability of the Eurozone and its common currency.

If the debt of the Eurozone will continue to grow it is worth to consider one of the two following scenarios: either the individual countries will start to leave the monetary union or full fiscal coordination in form of a fiscal union will occur.

The current crisis has decisively shown the instability of a balance in form of a monetary union devoid of its fiscal element. According to the B. Ballasay scheme during the integration process the economies drop successive privileges and close cooperation, passing subsequent stages from the customs union, through free trade zone, common market, monetary union up to political union. Euro proved to be a currency for good economic situation only. In face of turmoil of world economy the weaknesses of the optimal currency zone of the Eurozone were exposed (Gotz, Budnikowski 2012).

In sum- deeper coordination of fiscal and monetary policies is required most of all in the era of growing budget deficits and in order to avoid situations similar to that faced by the Eurozone now.

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DEVELOPMENT OF FOREIGN EXCHANGE MARKET AFTER THE COLLAPSE OF BRETTON WOODS SYSTEM

Abstract

Decline of Bretton Woods system allowed for constituting a new multi-currency system. Since the beginning of the 1980s a spectacular growth in turnover on Forex international market of foreign exchange has been observed. According to data included in BISE reports, mean daily turnover on this market increased from USD 590 billion in 1989 to USD 5.345 billion in 2013.

Polish market of foreign exchange is also undergoing transformations. The fact that Poland can participate in transactions on Forex international market is a result of several successively occurring processes. Decreasing the distance that separated Polish market of foreign exchange from markets of highly developed economies is their result. Achievements of recent years caused significant transformations of quantitative character. Since the beginning of 1998 until 2013, activity on Polish market of foreign exchange grew from USD 2.7 billion to USD 7.6 billion.

The goal of the paper is to show evolution of foreign exchange market with special focus on changes occurring on Polish market of foreign exchange.

JEL Classification Codes: **F31, F33, G15**.

Keywords: Bretton Woods, Liberalization, Foreign Exchange Market, Currency Markets, Multi-currency system, Polish Forex Market.

Introduction

Mutual convertibility of currencies is really necessary. Firstly it contributes to development of international trade, enhancement of international labour division and effective use of possessed savings, while bringing benefits to the whole international community at the same time.

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The goal of the paper is to comprehensively present the evolution of foreign exchange market and transformations that have occurred over several recent years on Polish exchange market that enabled its establishment and development.

The thesis is assumed in the paper that Polish exchange market has significantly evolved since 1970s and it is becoming increasingly more integrated with foreign exchange market.

Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity („the triennial survey"), on which the analysis is based, is done every three years by the Bank of International Settlements (BIS) in cooperation with national Central Banks of each country. The survey concerns the rate of the development of the foreign exchange market. The BIS Triennial Central Bank Survey is the most comprehensive source of information on the size and structure of the global foreign exchange market (FX).

Central Banks and monetary authorities and other authorities in 53 jurisdictions participate in the survey. These institutions collected data from about 1.300 banks and other institutions active at the foreign exchange market. The latest survey of the turnover took place in April 2013.

1. Short characteristics of Bretton Woods system

Negative effects of the Great Depression of 1929 urged to look for new solutions also in the sphere of foreign exchange system. It was necessary to create a new monetary system that would determine formal grounds for international monetary cooperation, stimulate economic development and facilitate foreign exchange. Therefore, in July 1944 in Bretton Woods, 44 countries signed an agreement the aim of which was to organise international relationships in the sphere of foreign exchange. The third foreign exchange system was established. In the literature of the subject it is often referred to as Bretton Woods system or dollar-gold system (Oziewicz, 2006, p. 168).

The most important principles of Bretton Woods system included, among others:

1. Universal application of pegged exchange rates.
2. American dollar was the only currency convertible to gold at the rate of USD 35 an ounce (USD 1 = 0.888671 gram of pure gold). Other member states made exchange rates of their currencies against dollar pegged.
3. Federal reserve was obliged to buy dollars for gold at the request of central banks of the signatory states.
4. Deviation from monetary parity could amount to ±1%. Currency interventions were allowed for the purpose of its protection.
5. Change in monetary parity was exclusively allowed in the case of lack of balance of payment.

6. The so-called external currency convertibility that prohibited application of discriminating exchange practices was applied.
7. Every country united within IMF could freely implement monetary policy (Jurek, 2008, p. 225; Bożyk, Misala, Puławski, 2002, p. 191–192; Oziewicz: 2006, p. 168; Bordo, 1993, p. 25–28; Pełka, 2004, p. 55).

Together with the occurrence of Bretton Woods system, International Monetary Fund and Bank for Reconstruction and Development, currently referred to as World Bank were also established (Drabowski, 1979, p. 219). Bretton Woods system was the so-called three-part exchange system that is presented in figure 1.

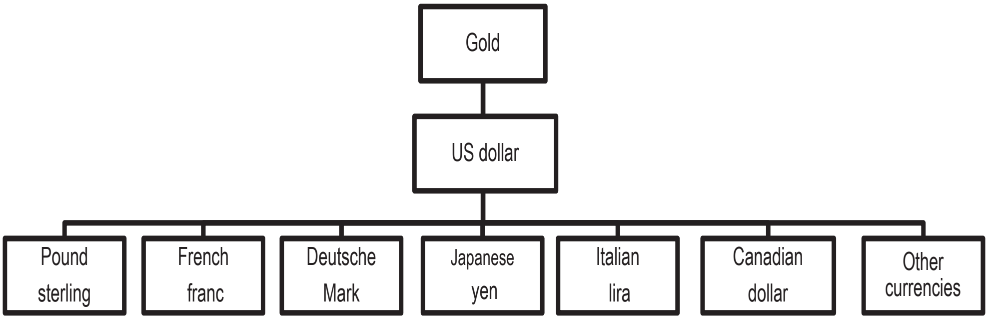

Figure 1. Three-part Bretton Woods monetary system
Source: Burda, Wyplosz, 2013, p. 767.

In this system two types of money, e.g. gold and American dollar performed the role of global currency (Pera, 2006, p. 103). The value of the currency was defined by the relationship of particular currencies towards American dollar, and not to gold. Therefore success of Bretton Woods system was determined by the condition of American economy. Already in 1960s first disturbances in functioning of the system occurred (Laidi, 2009: 3). Consequently on 15th August 1971 the president of the USA, R. Nixon, suspended convertibility of dollar into gold (Bordo, 1993, p. 3; Lutkowski, 1998, p. 108–109). The major reasons for this decision included:
– considerable and long-term deficit in balance of payment;
– remarkable decrease in gold reserves;
– dynamic growth of liabilities of the United Sates.

All the attempts to rescue the dollar-gold system did not bring expected results. As a result, before the end of 1972 the exchange rates of pound, franc, yen and lira were realised. In successive years a remarkable number of highly-industrialised countries also realised the exchange rates of their currencies. Consequently, Bretton Woods system collapsed.

2. „Forex" foreign exchange market and its development

It can be stated that the decline of Bretton Woods system brought deregulation of currency exchange rates (Zembura, 2010, p. 432–433). In this way this started the emergence of the fourth system of foreign exchange. Jamaica Agreement that was ratified in 1976 became the basis for a new foreign exchange order. The new monetary system was also referred to as contemporary system of foreign exchange or multi-currency system (Nosiadek, 1996, p. 170).

The most important principles of multi-currency system concerned:

1. Pegged currency rates ceased to be binding. All member states were completely free to choose the rules of currency exchange rates.
2. The role of gold was limited through abolishment of the obligation to determine monetary parity in gold.
3. Official price of gold was abolished and central banks were allowed to apply market price of gold.
4. The way in which financial and economic policy was pursued was to provide internal and external stability.
5. SDRs were considered to be the major component of exchange rate reserves (Jurek, 2005, p. 22–23; Budnikowski, 2003, p. 363).

Establishment of multi-currency system allowed for emergence and development of foreign exchange market. Introduction of the amendment to IMF Statute enabled legitimisation of floating exchange rates which resulted in successive realisation of mutual currency exchange rates by particular countries (Janicka, 2009, p. 177–178). Control over the flow of capital was also abolished in time, which facilitated access to foreign capital.

Foreign exchange market described with the notion of Forex (Foreign Exchange) is the largest financial market in the world that is distinguished by the greatest dynamics, liquidity and size of turnover (Zembura, 2011, p. 114). The main features of contemporary market of foreign exchange include the following among others:

- Foreign exchange market is the market of global range and is not geographically located. Monetary transactions are conducted in various world regions.
- The market is decentralised with respect to economic, technological and geographical characteristics.
- This market is the place where the so-called contracts of exchange rate differences, that is Contract for Difference constitute majority of transactions;
- The market is the OTC market, which represents a non-stock exchange market of the over-the-counter type (OTC-market);
- foreign exchange market operates 24 hours a day;
- foreign exchange market is the market that is not controlled by any international institution. Every country conducts individual control over functioning of the foreign exchange market in its own country. In Poland this control

is exercised by Komisja Nadzoru Finansowego [Polish Financial Supervision Authority] (Świerkocki, 2011, p. 188; Zembura, 2011, p. 201; Oziewicz, 2006, p. 178; Bieliński, 2013, p. 208; Mayo, p. 18; Jagerson, Hansen 2011, p. 5; Rubaszek, Serwa, 2009, p. 22).

Starting from the 1980s regular increase in the volume of turnover conducted on foreign exchange market can be observed (figure 2). The only decline in turnover that occurred in 2001 was associated with introduction of Euro currency on 1st January 1999.

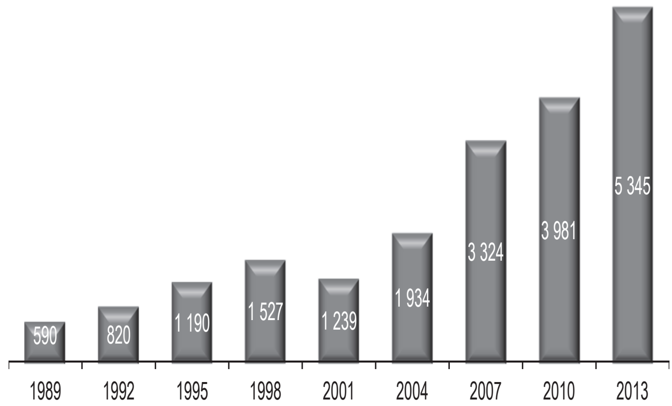

Figure 2. Development of foreign exchange market between 1989 and 2013 in USD billion

Source: BIS, 1996, p. 3; BIS, 2013, p. 3.

Forex foreign exchange market has been developing all over the world. However the largest share currently falls to the European countries (figure 3).

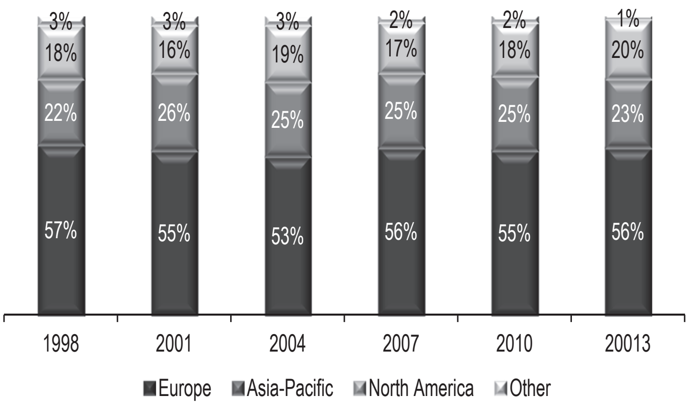

Figure 3. Share of particular world regions in foreign exchange market between 1998 and 2013 in %

Source: BIS, 2013, p. 14.

Contemporary foreign exchange market has been developing also with respect to offered instruments. Nowadays it also offers the possibility to invest through such instruments as: Spot transactions (spot), outright forwards, foreign exchange swaps (fx swaps), cross-currency interest rate swap (CIRS, currency swaps) and currency options(fx options, options) (Bank For International Settlements – BIS, 2013, p. 18). Development of individual instruments is shown in figure 4.

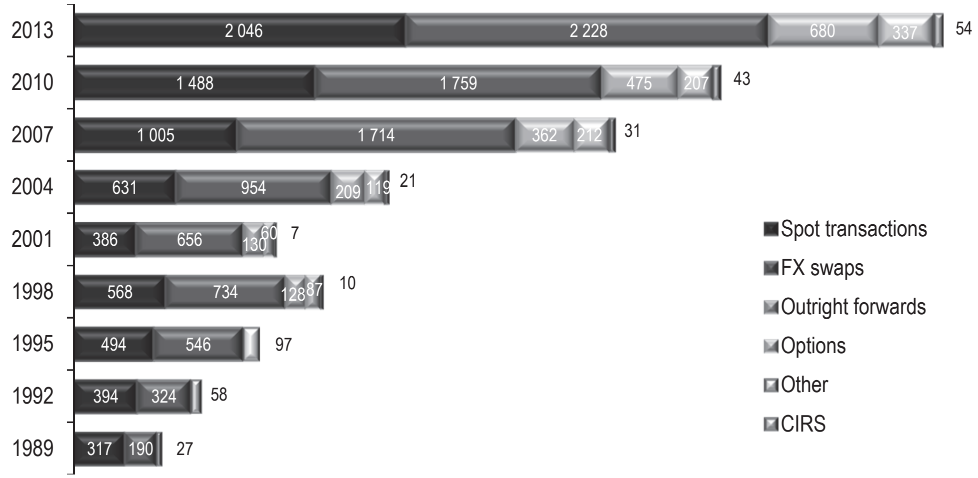

Figure 4. Development of individual transaction instruments on Forex market between 1989 and 2013 in USD billion

Source: BIS, 2002, p. 5; BIS, 2013, p. 9.

Over the years the largest increase was reported by investments on swap transactions. They grew by over 1170%. On the other hand cash transactions reported increase by 645%. The percentage share of individual instruments is shown in figure 5.

The most important entities on foreign exchange market include:

1. Large commercial banks (e.g. Bank of America, Barclays, Credit Suise, Goldman Sachs, HSBC, Société Générale, BNP Paribas, Getin Noble Bank, Raiffeisen Bank, JPMorgan, Citigroup, Deutsche Bank) (Chisholm, 2009, p. 89). In Poland 18 banks declare active participation in Forex market.
2. Central banks of particular countries.
3. Other financial institutions.
4. Non-financial institutions (non-financial customers).
5. Speculators and arbitrageurs.

Development of foreign exchange market would not be possible without several successively occurring processes including:

– decline of Bretton Woods system,

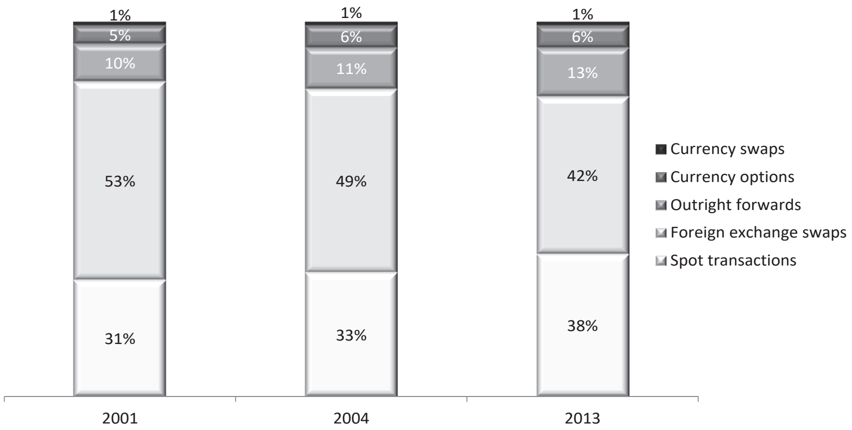

Figure 5. Share of individual instruments in transactions on Forex market in percent.

Source: BIS, 2013, p. 9.

- signing Jamaica Agreement,
- approval of the 2nd amendment to IMF,
- facilitated access to the latest technologies, mainly to tele-information technologies,
- dynamic development and universal access to the Internet that allows for making investments from any place in the world;
- omnipresent computerisation of societies.

3. Polish Forex market and its development

Before 1989 turnover on the foreign exchange market had still been dominated by the practice of state monopoly. Transformations on Polish market of foreign exchange started after 1989. At that time the most important events aiming at liberalisation of Polish law on foreign exchange, and at the same time constituting the foundation stone for development of Polish market of foreign exchange included:

1. Ensuring internal convertibility to Polish zloty (January 1990).
2. Introduction of partial convertibility of Polish zloty according to the standards of International Monetary Fund (June 1995).
3. Ensuring external convertibility to Polish zloty (January 1999).
4. Realisation of exchange rate of Polish zloty (partial – in May 1995 and full in April 2000).
5. Adjustment of Polish law on foreign exchange to OECD standards (before January 2000).
6. Complex liberalisation of Polish law on foreign exchange (July 2002) (Pluciński, 2004, p. 430).

The possibility of establishment of Polish market of foreign exchange was also determined by transformations of Polish system of exchange rate. It is presented in table 1.

Table 1. Transformations of the Polish system of exchange rate mechanism between 1990 and 2002

Time	Exchange rate system
1.01.1990 – 14.10.1991	**Fixed exchange rate system** – devaluation of exchange rate of Polish zloty by 31.6% – exchange rate towards American dollar was 0.95 for USD 1 – devaluation of exchange rate of Polish zloty by 16.8% – fixed exchange rate towards the basket of five currencies: American dollar constituted 45% of this basket, German mark 35%, pound sterling 10% and French franc and Swiss franc, 5% each
15.10.1991 – 15.05.1995	**Crawling peg exchange rate system** – devaluation of the exchange rate of Polish zloty by 8% – monthly rate of devaluation was decreased to 1.2% – the band of permissible fluctuations in exchange rate was extended to ±2%
16.05.1995 – 11.04.2000	**Crawling band system** – a new basket of currencies was determined: euro constituted 55% of this basket and American dollar constituted 45%, – monthly rate of devaluation was decreased to 0.3%, – permissible fluctuations in the exchange rate of Polish zloty increased to ±15%,
Since 12.04.2000 Since 1.01.2002	**System of independent floating exchange rate** – complete deregulation of Polish zloty and adoption of floating exchange rate since then exchange rate of Polish zloty is shaped under the influence of demand and supply on currency market – Polish zloty became a fully convertible currency with members of the EU, EEA and OECD.

Source: Pluciński, 2004, p. 429; Rubaszek, Serwa, 2009, p. 29; Jurek, 2008, p. 333–334.

Emergence and development of Polish market of currency was the consequence of events described before. Establishment of appropriate institutions, application of regulations existing in market economy and also deregulation of market mechanisms allowed for inclusion of Polish market of foreign exchange in the group of already developed currency markets.

Transformations that have taken place over the recent years brought significant changes of quantitative and qualitative nature. From the beginning of 1998 until 2013 the volume of turnover on Polish market of foreign exchange increased from 2799 USD million to 7564 USD million. It was a growth by over 280% (figure 6).

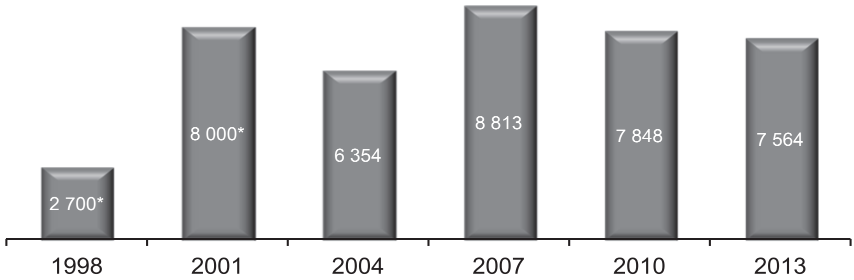

Figure 6. Development of Polish market of foreign exchange between 1998 and 2013 (in USD million)

*concerned only transactions on inter-bank market of foreign exchange.
Source: BIS, 1999, p. 11; BIS, 2002, p. 12; NBP, 2007, p. 2; NBP, 2010, p. 3; NBP, 2013, p. 4.

Dynamic growth of turnover on Polish market of foreign exchange was reported in 2001. This increase was mainly caused by:
- the possibility of legal functioning of foreign financial institutions such as banks and insurance companies in Poland (since 1999);
- high interest rates that encouraged foreign investors to invest in Poland.

Decline in turnover on Polish market of foreign exchange observed between 2007 and 2013 should not be really surprising. It ought to be remembered that between 2007 and 2009 majority of economies, especially American and European, faced the global financial crisis and then they had to face its consequences both in financial and real spheres.

Over the analysed years majority of transactions on Polish market of foreign exchange were concluded with financial entities (table 2).

More transactions were concluded through financial entities with non-residents than with residents, whereas through non-financial entities more transactions were concluded with residents than non-residents (table 3).

Table 2. Subjective structure of transactions on Polish market of foreign exchange between 2004 and 2013 (in USD million)

Counterparty	Years							
	2004		2007		2010		2013	
	Amount	%	Amount	%	Amount	%	Amount	%
with financial institutions	5 707	90	7 793	88	7 076	90	6 504	86
with non-financial customers	647	10	1020	12	772	10	1060	14
TOTAL	**6 354**	**100**	**8 813**	**100**	**7 848**	**100**	**7 564**	**100**

Source: NBP, 2004, p. 3; NBP, 2007, p. 3; NBP, 2010, p. 4; NBP, 2013, p. 5.

Table 3. Value of transactions concluded with residents and non-residents on Polish market of foreign exchange between 2004 and 2013 (in USD million)

Years	with financial institutions		with non-financial customers		TOTAL
	Resident	Non-resident	Resident	Non-resident	
2004	737	4 970	6 37	10	6 354
2007	914	6 879	997	23	8 813
2010	1 350	5 726	760	12	7 848
2013	1 182	5 322	1 048	12	7 564

Source: NBP, 2004, p. 3; NBP, 2007, p. 3; NBP, 2010, p. 4; NBP, 2013, p. 5.

In general, the share of transactions with non-residents is significantly higher than with residents (figure 7).

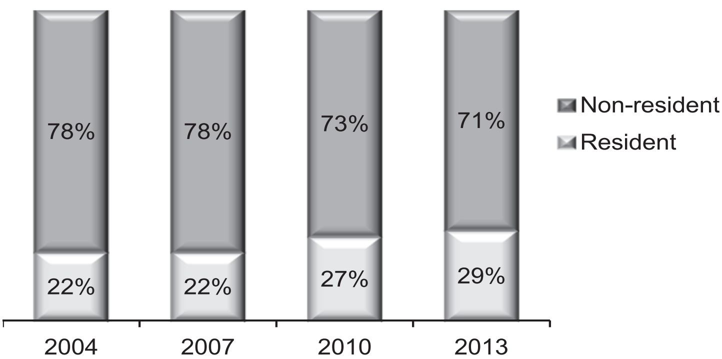

Figure 7. Share of transactions with residents and non-residents on Polish market of foreign exchange between 2004 and 2013 in %

Source: NBP, 2004, p. 3; NBP, 2007, p. 3; NBP, 2010, p. 4; NBP, 2013, p. 5.

Qualitative development of Polish market of foreign exchange is noticed while analysing its individual instruments. Specific development of Polish market of foreign exchange, with available instruments taken into consideration, is shown in figure 8. Figure 9 presents the share of individual instruments in transactions in total in percent.

The largest development was reported by swap transactions, with 60% share in market. Significant interest in this type of instruments mainly results from various possibilities of their application. Foreign banks applied foreign exchange swaps to manage liquidity in Polish zloty, or to purchase government bonds denominated in Polish currency (NBP, 2013, p. 10).

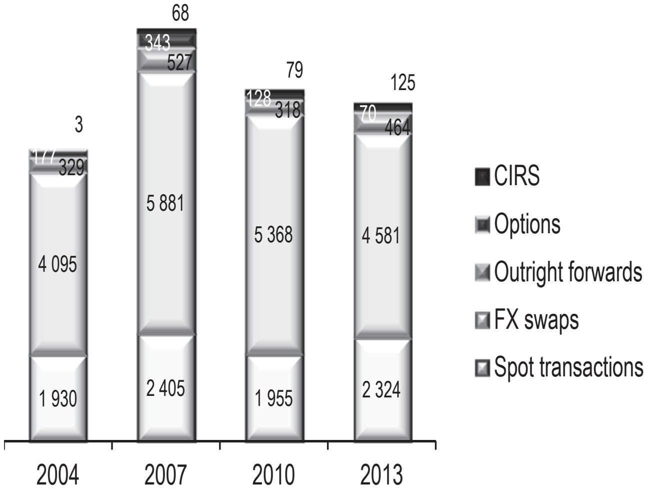

Figure 8. Development of particular transaction instruments on Polish market of foreign exchange between 2004 and 2013 (in USD million)

Source: NBP, 2004, p. 3–6; NBP, 2007, p. 3–7; NBP, 2010, p. 4; NBP, 2013, p. 5.

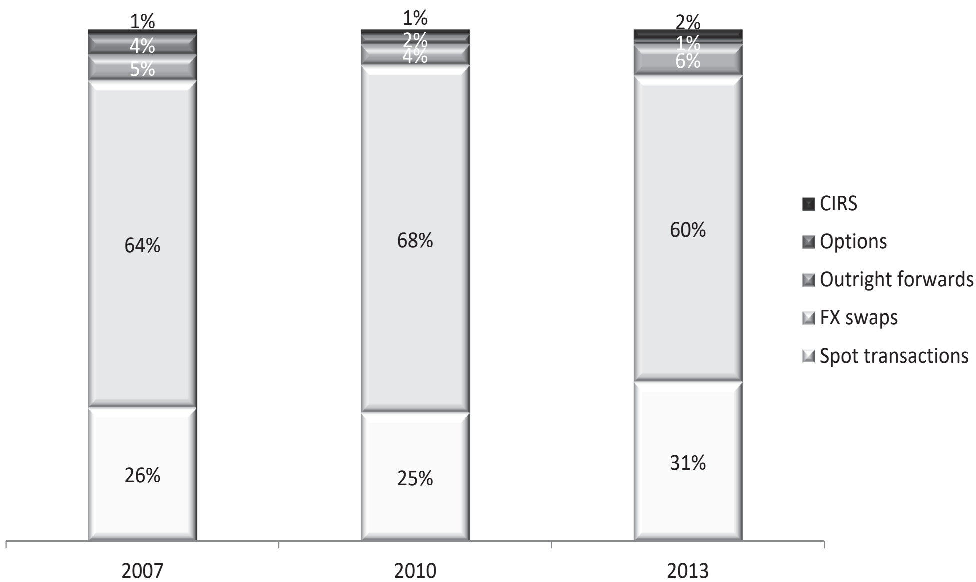

Figure 9. Share of particular instruments in transactions on Polish market of foreign exchange in %

Source: NBP, 2004, p. 3–6; NBP, 2007, p. 3–7; NBP, 2010, p. 4; NBP, 2013, p. 5.

Option transactions are the least popular. Regular decrease of their value can be clearly observed. After negative experiences with option transactions between 2008 and 2009, investors still distrustfully approach option transactions as a tool of minimisation of exchange rate risk.

Table 4 shows how turnover on Polish market of foreign exchange was shaped between 2004 and 2013. The entity in transaction and particular instruments are taken into consideration.

Table 4. Subjective structure of transactions on Polish market of foreign exchange between 2004 and 2013 (in USD million)

Foreign Exchange	Years							
	2004		2007		2010		2013	
	Resident	Non-resident	Resident	Non-resident	Resident	Non-resident	Resident	Non-resident
Spot transactions	**624**	**1306**	**806**	**1599**	**755**	**1200**	**1086**	**1238**
with financial institutions	314	1300	309	1586	296	1197	398	1227
with non-financial customers	310	6	497	13	459	3	688	11
Outright forwards	**300**	**29**	**440**	**87**	**293**	**25**	**451**	**13**
with financial institutions	12	25	21	86	72	24	157	12
with non-financial customers	288	4	419	1	221	1	294	1
FX swaps	**450**	**3645**	**665**	**5216**	**998**	**4370**	**666**	**3915**
with financial institutions	411	3645	584	5270	970	4362	621	3914
with non-financial customers	39	0	81	9	28	8	45	1
CIRS	**1**	**2**	**43**	**25**	**2**	**77**	**0**	**125**
with financial institutions	0	2	28	25	2	77	0	125
with non-financial customers	1	0	15	0	0	0	0	0
Options	**59**	**118**	**228**	**115**	**62**	**66**	**26**	**44**
with financial institutions	4	116	16	111	10	66	6	44
with non-financial customers	55	2	212	4	52	0	20	0

Source: NBP, 2004, p. 3–6; NBP, 2007, p. 3–7; NBP, 2010, p. 4; NBP, 2013, p. 5.

Apart from segment development, observed qualitative transformations also included:

– limiting the position of central bank on Polish market of foreign exchange;
– growing awareness of investors towards exchange rate risk they are exposed to:

– regular growth of customer segment.

The factors affecting development of Polish market of foreign exchange include:

– ensuring complete convertibility for Polish zloty;
– transformations towards liberalisation of exchange rate policy;
– amending Polish Foreign Exchange Law;
– accession of Poland to European Union.

Conclusions

On the basis of the presented analysis the following conclusions can be formulated:

– Since the beginning of transformation, Polish market of foreign exchange has been developing smoothly and dynamically.
– Large share of transactions with non-residents is a characteristic feature of Polish market of foreign exchange. This proves that Polish market of foreign exchange is gaining increasingly more qualities typical of exterritorial market. This means that fluctuations of exchange rate are really correlated with changes in financial parameters that occur on international market of foreign exchange.
– Polish market of foreign exchange is becoming more and more mature which enables its closer relations with international market of foreign exchange (Matkowska, 2013, p. 354–355; Bilski, Janicka, Konarski, 2013, p. 29).

It ought to be explicitly acknowledged that emergence and development of Polish market of foreign exchange has been determined by transformations occurring in recent years. Decreasing the distance between Polish market of foreign exchange and markets of highly-developed economies will be the consequence of these changes.

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CSR REPORTING IN FINANCIAL INSTITUTIONS

Abstract

Financial institutions are entities of public interest for which reputation and good image are important considerations. Therefore, reporting of socially responsible actions appears a natural consequence of their public initiatives. As any legal regulations that would make CSR reporting obligatory are absent, not all financial institutions draft such reports, although they are perceived as major sources of information to be used in decision-making processes.

This paper aims to analyse benefits of CSR reporting in light of specialist literature and surveys and to evaluate trends of CSR reporting by financial institutions, with particular reference to standards in place.

Both the literature review and empirical research have helped to verify the following hypotheses:

- *(H1) – communication with stakeholders is the prime reason for compiling CSR reports – this is corroborated by both the review of specialist literature and an empirical survey conducted in 2013 by Ernst&Young and Boston College Center for Corporate Citizenship among members of the Center for Corporate Citizenship and Survey Sampling International (SSI).*
- *(H2) – financial institutions as entities of public interest account for a substantial share of reporting organisations – financial institutions drafting CSR reports submitted to GRI (Global Reporting Initiative) in 2005–2014 have been analysed in this perspective. Numbers and structures of the reports are evaluated with regard to global regions and sizes of financial institutions. To assess importance of a financial institution among reporting entities, numbers of financial institutions compiling CSR reports are analysed in reference to all reporting organisations. Details concerning CSR reports are divided into those drafted in conformity with GRI guidelines and those following other rules and guidelines – this part of the study was designed to examine the extent of standardisation of CSR reports.*

JEL Classification Codes: **M14**, **M41**.

Keywords: corporate social responsibility, reporting, management, financial institutions.

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Introduction

CSR (*Corporate Social Responsibility*) reporting is a major element of communication with stakeholders and meets demand for non-financial reports. Principles of reporting non-financial information are not regulated, however, and the reporting consequently follows a variety of rules and guidelines, which prevents comparability, transparency and evaluation of progress on implementation of CSR ideas. Practice of organisations publishing their CSR actions shows this information is provided via: mass media, financial statements, with random and incomplete CSR information, social reports or integrated reports. Thus, these are highly different practices, due to lack of uniform principles which would regulate CSR reporting globally, continentally or nationally. Enterprises compile CSR reports in accordance with a variety of guidelines, e.g. Global Reporting Initiative (GRI), ISO 26000, Global Compact, Carbon Disclosure Project, etc. The issue of insufficient transparency of non-financial information, caused both by the regulatory gap and by market imperfections, is one of the subjects addressed by research undertaken by the European Commission (Report on Corporate Social Responsibility: promoting society's interest and a route to sustainable and inclusive recovery (2012/2097/INI). Report on Corporate Social Responsibility: accountable, transparent and responsible business behaviour and sustainable growth (2012/2098/INI).

A consequence of that study, as well as a solution to the issue of principles of CSR reporting, is the Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, applicable to large enterprises of public interest, whose provisions must be introduced by the member states until 6 December 2016 with regard to the business year beginning 1 January 2017 or during the calendar year of 2017.

This paper is aimed at analysing benefits of CSR reporting in the light of specialist literature and surveys and at assessing trends in CSR reporting by financial institutions, in particular concerning the standards in place.

In connection to this objective, the following hypotheses were posited:

1. Communication with stakeholders is the prime reason for compiling CSR reports (H1).
2. Financial institutions as entities of public interest account for a substantial share of reporting undertakings (H2).

To verify hypothesis (H1), specialist literature was reviewed and a survey conducted in 2013 by Ernst&Young and Boston College Center for Corporate Citizenship among members of the Center for Corporate Citizenship and Survey Sampling International (SSI) was employed.

To verify hypothesis (H2), financial institutions drafting CSR reports in 2005–2014 and submitted to GRI (Global Reporting Initiative) have been analysed.

Numbers and structures of the reports are evaluated with regard to global regions and sizes of financial institutions. Principles of classifying organisations according to GRI assumptions are presented in Table 1.

Table 1. Principles of classifying organisations according to GRI assumptions

Size of organisation	Headcount	Revenue	Balance sheet total
SME	Up to 250	Up to € 50 m	Up to € 43m
Large	Above 250	Above € 50m	Above € 43m
MNE	Above 250 (of various nationalities)	Above € 50m	Above € 43m

Source: GRI.

In order to estimate significance of financial institutions among reporting undertakings, numbers of financial institutions compiling CSR reports were compared to all the reporting organisations. Details concerning CSR reports were divided into those drafted in line with GRI guidelines and in line with other principles and guidelines – this part of the study was designed to appraise standardisation of CSR reports.

1. Reasons for compiling CSR reports – review of specialist literature

CSR reporting is part of a strategy of corporate social responsibility that helps to monitor its assumptions, goals and progress on implementation; as such, it appears a key part which provides organisations with a range of benefits as it boosts their credibility, improves relations with the environment and creates an image of an organisation respecting socially responsible actions.

The review of specialist literature shows benefits of CSR reporting can be grouped as follows:

– Meeting of stakeholder needs, a form of communication with stakeholders (Idowu, Towler 2004, Rourke 2004, Idowu, Papasolomon 2007, Birth et al. 2008, Sweeney et al. 2008, Gao 2009, Sutantoputra 2009, Marais 2012).

– Improvement of an enterprise's image and reputation (Porter, Kramer 2007, Sutantoputra 2008, Adams 2008, Vanhamme, Grobben 2009, Muller et al. 2009, Aros, Crowther 2010, Hildebrand et al. 2011).

– Increase of brand value (Brown, Dacin 1997, Rourke 2004, Chomvilailuk, K. Butcher 2010).

– Aid with achievement of goals and realisation of enterprise strategy – an element of strategic management (Jones et al. 2007, Tewari 2011, Pollach 2012, Hinson, Kodua 2012).

– Increase of profitability and minimisation of risk (Rourke 2004, Margolis et. al. 2007, Birth et al. 2008, Plumlee et. al. 2010, Dimson et. al. 2012, Lang et. al.2012).

- Allowing for comparative analysis of CSR (Douglas et.al. 2004, Delbard 2008, Juscius, Sneideriene, Griauslyte 2014).

Specialist literature also offers views that CSR reporting is needless and has no positive impact on image of an undertaking (Jones, Comfort, Hillier 2007, pp. 329–340, Maignam 2001, pp. 57–72, Pelsmacker, Driesen, Rayp 2005, pp. 363–385).

J. Fijałkowska (2015, p. 42) cites certain empirical sources affirming a substantial effect of CSR reports on market behaviour and lists the following benefits of such reporting:

- Acceptance for actions, creation of a positive image and strong reputation of an organisation (Vanhamme, Grobben 2009).
- Improved image of a business in problematic circumstances (Porter, Kramer 2007, Mullerat 2009, Aros, Crowther 2010).
- Strengthening of market standing of a product. brand or an entire business (Brown, Dacin 1997).
- Increase of brand value (KPMG 2008).
- Restoration of trust in an organisation despite occasional slips or failures – the market is quicker to forget and forgive (Ashforth, Gibbs 1990, Suchman 1995).
- Lower risk of losing customer trust in an organisation and its products, even in adverse situations (Coombs, Holladay 1996, Dawar, Pillutla 2000, Dean 2004, Klein, Dawar 2004)

The list of sources cited by J. Fijałkowska, which affirm impact of CSR reports on market behaviour, must be extended with research by:

- M. D. Patten (1990, pp. 575–587) – indicating dependences between socially responsible disclosures and market responses.
- M. Freedmann, A.J. Stagliano (1991, pp. 68–83) – a comparison of investor responses and different scopes of disclosures.
- R. Chomvilailuk, K. Butcher (2010, pp. 397–418) – indicating dependences between CSR and brand value.
- C. Hoffmann, C. Fieseler (2012, pp. 138–155) – indicating effect of non-financial information of enterprise valuation.

It should also be noted some research has pointed to the following dependences between CSR reporting and financial results of reporting organisations:

- D.O. Rourke (2004) – growth of investment value, assistance with risk management.
- J.D. Margolis et al. (2007) – increase of goodwill.
- G. Birth et al. (2008) – higher share prices, lower prices of products.
- M. Plumlee et al. (2010) – improved cash flows and financial liquidity.
- E. Dimson et al. (2012) – higher prices of shares in large enterprises.
- K. Lang et al. (2012) – improved cash flows and financial liquidity.

Thus, benefits of CSR reporting can be divided into the following, inter-related groups:

- Market – related to impact of CSR reporting on market behaviour, primarily expressed as improved image of an organisation and stronger market position of a product, brand or an entire organisation.
- Financial – related to impact of CSR reporting on financial results of a reporting organisation, primarily expressed as higher share prices, increased goodwill and improved cash flows and financial liquidity.
- Impact benefits of CSR reporting have on an organisation:
  - Internal benefits – the reporting helps to streamline a range of processes in an enterprise as problems are diagnosed. It also allows for adequate relations between marketing positioning of a brand and its production, which affects evaluation of products and thereby demand, market share and profits of an enterprise.
  - External benefits – the reporting is part of an enterprise's information policies that helps to build reliability of actions and strengthen relations with stakeholders, manage reputational risk and build competitive advantage.

Classification and types of benefits of CSR reporting are summarised in Table 2.

Table 2. Classification and types of benefits of CSR reporting

Type of benefits	Classification criteria			
	Market	Financial	Internal	External
Transparent communication with stakeholders	+			+
Risk management		+	+	+
Competitive advantage	+	+		+
Higher value of brand, product, whole organisation	+	+		+
Improved image and reputation of enterprise. Management of reputation risk	+			+
Increased profitability		+	+	
Lower risk of losing trust in organisation	+			+
Higher share prices		+		+
Improved cash flows		+	+	
Improved financial liquidity		+	+	
Higher value of investments		+	+	+
Streamlining of processes in organisation			+	
Element of information policies	+			+
Rising demand, market share	+		+	+

Source: the author's own compilation.

Analysis of the literature review demonstrates reasons for CSR reporting and the resultant benefits evolved over the time under examination, therefore, it seems reasonable to summarise them in a chronological order (Table 3).

Table 3. Reasons for CSR reporting in chronological order

Year	Author	Reasons for CSR reporting				
		Communication with stakeholders	Improved image and reputation of enterprise	Increased brand value	Increased profitability and minimised risk	Other
1990	M.D. Patten	+	+			
1990	B.E. Ashforth, B.W. Gibbs	+	+			
1991	M. Freedman, A.J. Stagliano	+	+			
1996	W.T. Coombs, S.J. Holladay		+		+	
1997	T.J. Brown, P.A. Dacin		+	+		
2004	S.O.Idowu, B.A. Towler	+				
2004	O. Rourke	+		+	+	
2004	A.Douglas, J.Doris, J.Brian					+
2006	M.E. Porter, M.R. Kramer	+	+			
2007	J.D. Margolis, J.P. Walsh, H.A. Elfenbein	+	+			+
2007	S.O.Idowu, I.Papasolomon	+				
2007	J.D.Margolis, H.A. Elfenbein, J.P.Walsh				+	
2007	P.Jones, D.Comfort, D.Hillier					+
2007	M.E. Porter, M.R. Kramer		+			
2008	G. Birth, L.Illia, F.Laurati, A. Zanparini	+			+	
2008	O.Delbard					+
2008	L.Sweeney, J. Coughlan	+				
2008	C.Adams		+			
2009	Y.Gao	+				
2009	A.W.Sutantoputra	+	+			
2009	J.Vanhamme, B.Grobben		+			
2009	R. Mullerat		+			
2010	R. Chomvilailuk, K. Butcher			+		
2010	M.Plumlee, D.Brown, R.M.Hayes, R.S.Marshall				+	+
2010	G.Aros, D.Crowther		+			
2011	D.Hildebrand, S.Sen, C.B.Bhattacharrya		+			
2011	R.Tewari					+
2012	M.Marais	+				
2012	E.Dimson, O.Karakas, X.Li				+	
2012	M.Lang, K.V.Lins, M.Maffett				+	
2012	I.Pollach					+
2012	R.E.Hinson, P.Kodua					+
2012	C. Hoffmann, C. Fieseler				+	+
2014	V.Juscius, A.Sneideriene, R.Griauslyte		+			+

Source: the author's own compilation.

The review of literature concerning benefits of CSR reporting shows information requirements of stakeholders were the prime reason for the reporting indicated at the initial development stages of the process of non-financial information disclosure. Improved image and reputation of enterprises, creation of brand value, as well as enhancing profitability and minimisation of risk began to be cited in time. CSR reports became major sources of information for broadly-defined stakeholders, serving purposes of enterprise management and generation of benefits like improvement of financial performance, which is corroborated with research by J.D. Margolis et. al. (2007), pointing to dependences between environmental reporting and goodwill; studies by E. Dimson et. al. (2012) mentioning higher share prices of large enterprises employing CSR; research of M. Plumlee et. al. (2010) indicating improvement of cash flows in enterprises which have implemented CSR; of K. Lang et. al. (2012) underlining relationships between CSR and financial liquidity of enterprises. The need began to be stressed to standardise CSR reports with a view to assuring their comparability.

2. Causes of CSR reporting in the opinion of entrepreneurs

A survey of reasons for CSR reporting has been conducted by EY and Boston College Center for Corporate Citizenship. It involved 579 respondents, including 391 working for organisations compiling CSR reports and 188 employees of organisations not drafting such reports.

Causes of CSR reporting in the opinion of entrepreneurs are shown in Table 4.

Table 4. Reasons for drafting CSR reports (%)

Reasons for drafting CSR reports	By size of enterprise		By type of enterprise		By type of business					
	Annual revenue below $ 5m	Annual revenue above $ 5m	Public	Private	FI	H	I	M	P	U
Transparent communication with stakeholders	79	59	79	60	69	56	73	83	81	89
Risk management	48	33	39	49	41	29	42	40	41	52
Needs of stakeholders	46	25	38	29	22	8	38	45	27	38
Competitive advantage	67	59	57	52	58	46	66	53	59	37
Brand/ reputation	4	–	2	1	5	–	3	1	–	8
Corporate culture	6	7	7	8	12	5	10	6	5	5
Other	11	8	13	5	–	–	–	–	–	–
I don't know	4	6	7	8	–	–	–	–	–	–

FI – Finance and insurance; H – Healthcare and social work; I – Information technology; M – Manufacturing; P – Professional scientific and technical services; U – Mining.

Source: the author's own compilation on the basis of: EY and Boston College Center for Corporate Citizenship (2013).

Analysis of the reasons for CSR reporting demonstrates:

- Transparent communication is the prime reason. indicated by all the undertakings surveyed, evidence that the reporting is a key part of enterprise information policies and is mainly perceived as part of information.
- The undertakings queried see the reporting as a key part of risk management, which contributes to more efficient enterprise operations (internal benefits), to reliability with stakeholders and to competitive advantage (external benefits).
- CSR reporting is not perceived as a marketing tool that would contribute to brand building (4% of large enterprises and 5% of finance and insurance undertakings). It should be expected this consideration will gain more appreciation in time.
- Some entities are not convinced CSR reporting is reasonable (4% of large and 6% of smaller undertakings, 7% public and 8% private entities). This shows that lack of compulsory reporting undermines its sense; besides, the undertakings surveyed use other forms of communication with their stakeholders and regard them as sufficient.

It is also interesting to analyse reasons for which CSR reports are not drafted by 30% of the entities (Table 5).

Table 5. Reasons for not drafting CSR reports (%)

Reasons for not drafting CSR reports	Public	Private
Nobody needs such information	26	45
Impossibility of preparing CSR reports	51	18
CSR reports are compiled, but not published	19	29
This information is proprietary	6	18

Source: the author's own compilation on the basis of: EY and Boston College Center for Corporate Citizenship (2013).

The examination shows 51% of public and 18% of private undertakings that do not report point to lack of sources to base such reporting on – clear evidence of the need for a clear definition of principles for their compilation, or reporting standards. 45% of private and 26% of public entities that fail to report indicate lack of stakeholders' interest as the cause – proof they do not understand the idea of CSR and significance of the associated information policies. These enterprises are not aware of the potential benefits to be derived from CSR reporting.

Generally speaking, introduction of obligatory CSR reporting and definition of its standards would foster the idea of CSR and improve information policies of enterprises to make them comparable and comprehensible.

3. CSR reporting by financial institutions in 2005–2014

This part of the study is intended to verify the hypothesis (H2), stating financial institutions as entities of public interest account for a substantial share of reporting undertakings. To this end, numbers and structures are analysed of financial institutions compiling CSR reports submitted to GRI (Global Reporting Initiative) in 2005–2014 and divided into reports drafted in conformity with GRI guidelines and those following other standards.

The following were studied in particular:

- Numbers and structures of CSR reports by financial institutions per size (Tables 6 and 7).
- Numbers and structures of CSR reports by financial institutions per global regions (Tables 8 and 9).
- Share of financial institutions in CSR reporting globally (Table 10).
- Share of financial institutions in CSR reporting in Poland (Table 11).

This research demonstrates:

- Large undertakings, i.e. those employing more than 250, with revenue above € 50m and balance sheet totals above € 43m as classified by GRI, constitute the largest group among financial institutions submitting CSR reports. Their share tended to decline in the period examined, particularly among financial institutions reporting as per GRI standards (in 2005 – 77.8%, including 74.6% as per GRI; in 2014 – 73%, including 14.35% as per GRI) – Table 6 and 7.
- A growth trend is notable among MNE, that is, employing more than 250 (of various nationalities) with revenue above € 50m and balance sheet totals above € 43m as classified by GRI (in 2005 – 17.76%, including 17.76% as per GRI; in 2014 – 22.28%, including 14.82% as per GRI) – Table 6 and 7.
- Small and medium-sized financial institutions, namely, employing fewer than 250, with revenue below € 50m and balance sheet totals below € 43m as classified by GRI, account for approximately 6% of all reporting financial institutions in the entire period of the study (in 2005 – 4.77%, including 4.77% as per GRI; in 2014 – 6.71%, including 5.77% as per GRI) – Table 6 and 7.
- Analysis of reporting principles indicates a shrinking proportion of reports drafted as per GRI standards (in 2005 – 96.83%, in 2014 – 79.25%), combined with growing importance of other reporting guidelines and standards – Table 7.
- European financial institutions most frequently compile CSR reports, though a clear declining trend can be noted (in 2005 – 66.67%, including 66.67% as per GRI; in 2014 – 37.17%, including 30.42% as per GRI) – Table 8 and 9.
- Numbers of Asian financial institutions reporting on CSR have been growing distinctly (in 2005 – 1.59%, including 1.59% as per GRI; in 2014 – 25.43%, including 20.59% as per GRI), and so have numbers of institutions from Latin America (in 2005 – 4.76%, including 4.76% as per GRI; in 2014 – 15.91%, including 14.82% as per GRI) – Table 8 and 9.

Table 6. Numbers of CSR reports by financial institutions in 2005–2014 per size.

Specification	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Large – as per GRI standards	376	346	287	265	219	149	127	95	71	47
Large – as per other standards	92	86	76	68	22	18	8	6	3	2
MNE – as per GRI standards	95	91	72	62	46	43	33	21	15	11
MNE – as per other standards	35	32	22	24	4	4	3	2	0	0
SME – as per GRI standards	37	35	29	23	18	11	10	5	4	3
SME – as per other standards	6	9	4	9	2	1	0	1	0	0
All financial institutions – as per GRI standards	508	472	388	350	283	203	170	121	90	61
All financial institutions – as per other standards	133	127	102	101	28	23	11	9	3	2

Source: the author's own compilation on the basis of GRI data.

Table 7. Structure of CSR reports by financial institutions in 2005–2014 per size (%)

Specification	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Large – as per GRI standards	58.66	57.76	58.57	58.76	70.42	65.92	70.20	73.08	76.34	74.60
Large – as per other standards	14.35	14.36	15.51	15.08	7.07	7.96	4.42	4.62	3.23	3.17
MNE – as per GRI standards	14.82	15.19	14.69	13.75	14.79	19.04	18.23	16.15	16.13	17.76
MNE – as per other standards	5.46	5.35	4.49	5.32	1.29	1.77	1.66	1.54	0.00	0.00
SME – as per GRI standards	5.77	5.84	5.92	5.10	5.79	4.87	5.52	3.85	4.30	4.77
SME – as per other standards	0.94	1.50	0.82	2.00	0.64	0.44	0.00	0.76	0.00	0.00
All financial institutions – as per GRI standards	79.25	78.80	79.18	77.60	91.00	89.82	93.92	93.08	96.77	96.83
All financial institutions – as per other standards	20.75	21.20	20.82	22.40	9.00	10.18	6.08	6.92	3.23	3.17

Source: the author's own compilation on the basis of GRI data.

Table 8. Numbers of CSR reports by financial institutions in 2005–2014 by global regions

Specification	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Africa – as per GRI standards	28	25	26	26	12	13	12	6	7	6
Africa – as per other standards	28	29	26	39	3	1	0	0	0	0
Asia – as per GRI standards	132	120	79	71	52	35	19	13	5	1
Asia – as per other standards	31	26	26	19	7	7	4	2	0	0
Europe – as per GRI standards	195	183	164	159	136	104	96	74	54	42
Europe – as per other standards	42	31	20	20	12	11	4	3	1	0
Latin America – as per GRI standards	95	91	72	51	48	23	16	10	6	3
Latin America – as per other standards	7	8	11	8	2	2	1	2	1	0

Table 8. Continued.

Specification	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
North America – as per GRI standards	42	38	36	31	24	18	19	10	9	4
North America – as per other standards	20	26	15	13	2	2	2	2	1	1
Oceania – as per GRI standards	16	15	11	12	11	10	8	8	9	6
Oceania – as per other standards	5	7	4	2	2	0	0	0	0	0
All financial institutions – as per GRI standards	508	472	388	350	283	203	170	121	90	61
All financial institutions – as per other standards	133	127	102	101	28	23	11	9	3	2

Source: the author's own compilation on the basis of GRI data.

Table 9. Structure of CSR reports by financial institutions in 2005–2014 by global regions (%)

Specification	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Africa – as per GRI standards	4.37	4.17	5.31	5.76	3.86	5.75	6.63	4.62	7.53	9.52
Africa – as per other standards	4.37	4.84	5.31	8.65	0.96	0.44	0.00	0.00	0.00	0.00
Asia – as per GRI standards	20.59	20.03	16.12	15.74	16.73	15.49	10.50	10.00	5.38	1.59
Asia – as per other standards	4.84	4.35	5.31	4.22	2.25	3.10	2.21	1.54	0.00	0.00
Europe – as per GRI standards	30.42	30.55	33.47	35.25	43.73	46.02	53.04	56.92	58.06	66.67
Europe – as per other standards	6.55	5.18	4.08	4.43	3.86	4.87	2.21	2.31	1.08	0.00
Latin America – as per GRI standards	14.82	15.19	14.70	11.31	15.43	10.18	8.84	7.69	6.45	4.76
Latin America – as per other standards	1.09	1.33	2.24	1.77	0.64	0.88	0.55	1.54	1.08	0.00
North America – as per GRI standards	6.55	6.34	7.34	6.87	7.72	7.96	10.50	7.69	9.67	6.35
North America – as per other standards	3.12	4.35	3.06	2.88	0.64	0.88	1.10	1.54	1.08	1.59
Oceania – as per GRI standards	2.50	2.50	2.24	2.67	3.54	4.43	4.42	6.15	9.67	9.52
Oceania – as per other standards	0.78	1.18	0.82	0.45	0.64	0.00	0.00	0.00	0.00	0.00
All financial institutions – as per GRI standards	79.25	78.80	79.18	77.60	91.00	89.82	93.92	93.08	96.77	96.83
All financial institutions – as per other standards	20.75	21.20	20.82	22.40	9.00	10.18	6.08	6.92	3.23	3.17

Source: the author's own compilation on the basis of GRI data.

Shares of financial institutions in the overall numbers of reporting undertakings globally ranged around 25% in the entire period analysed, with the exception of 2009, where it reached 29.19%, which could be explicated by the financial crisis and the urge for financial institutions to show they are socially responsible. This means financial institutions are a significant group among entities compiling CSR reports – Table 10.

The share of financial institutions in the overall numbers of reporting undertakings in Poland fluctuated in the time examined (e.g. 16.67% in 2014, 2012 – 6.67%, 2009 – 20%), due to the fact that few CSR reports are drafted in Poland (in 2005 – 0%, 2014 – 1.19% of all CSR reports globally), as well as low commitment of financial institutions to the process of CSR reporting (in 2014, merely 5 financial institutions filed their CSR reports with GRI). This means financial institutions are a major group among reporting undertakings in Poland and their numbers are bound to rise in future. The current situation is certainly an initial stage in development of CSR reporting in Poland, as evidenced by both the total numbers of CSR reports drafted and the share of financial institutions in the reporting generally – Table 11.

Notably, all CSR reports compiled by financial institutions in Poland have followed GRI guidelines.

Table 10. Share of financial institutions in CSR reporting globally in 2005–2014

Specification	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Numbers of CSR reports globally – as per GRI standards	3917	3761	3333	2886	2194	1687	1270	808	576	389
Numbers of CSR reports globally – as per other standards	1201	1005	945	777	239	134	107	89	55	23
Share of financial institutions – as per GRI standards (%)	12.97	12.55	11.64	12.13	12.90	12.03	13.39	14.98	15.63	15.68
Share of financial institutions – as per other standards (%)	11.07	12.64	10.79	13.00	11.72	17.16	10.28	10.11	5.45	8.70

Source: the author's own compilation on the basis of GRI data.

Table 11. Share of financial institutions in CSR reporting in Poland in 2005–2014

Specification	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Numbers of CSR reports in Poland – as per GRI standards	30	26	15	14	11	5	0	2	1	0
Numbers of CSR reports in Poland – as per other standards	5	2	0	0	1	0	0	0	0	0
Share of Poland in global CSR reporting – as per GRI standards (%)	0.77	0.69	0.45	0.49	0.50	0.30	0.00	0.25	0.17	0.00
Share of Poland in global CSR reporting – as per other standards (%)	0.42	0.20	0.00	0.00	0.42	0.00	0.00	0.00	0.00	0.00
Numbers of CSR reports by financial institutions in Poland – as per GRI standards	5	5	1	0	1	1	0	0	0	0
Numbers of CSR reports by financial institutions in Poland – as per other standards	0	0	0	0	0	0	0	0	0	0
Share of financial institutions in CSR reporting in Poland – as per GRI standards (%)	16.67	19.23	6.67	0.00	9.09	20.00	0.00	0.00	0.00	0.00
Share of financial institutions in CSR reporting in Poland – as per other standards (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Source: the author's own compilation on the basis of GRI data.

Conclusion

The review of literature and the empirical study of motivations for CSR reporting and trends in reporting of non-financial information have helped to verify the hypotheses:

1. Communication with stakeholders is the prime reason for compiling CSR reports (H1). This is implied by the review of specialist literature, with a majority of authors believing this is the main reason for drafting CSR reports. Those indicating other causes point out this is the prime reason which occurs in combination with other causes.This is reaffirmed by the survey of enterprises compiling CSR reports – this motivation is most commonly indicated by all groups of undertakings queried.
2. Financial institutions as entities of public interest account for a substantial share of reporting organisations (H2).The research shows the share of financial institutions in CSR reporting globally ranged about 25% in 2014. In Poland, financial institutions preparing CSR reports accounted for 16.67% of all the reporting entities in 2014. They can be regarded, therefore, as a major group of CSR reporting undertakings. This should be expected to improve in future as, in accordance with the Directive 2014/95/EU, financial institutions as entities of public interest will be obliged to include non-financial information in their operation disclosures, including information necessary to understand development, performance and position of an undertaking, as well as impact of its operations, concerning environmental, social, respect for human rights, countering bribery and corruption issues as a minimum.

Continuing research should verify principles of reporting by financial institutions, with particular reference to the standards in use, which would help to develop standards specific to the financial sector and thus contribute to improved transparency and comparability of the reports.

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FINANCIALISATION PHENOMENON FROM THE PERSPECTIVE OF THE REGULATION SCHOOL

Abstract

Within heterodox trend, since 1970s the French Regulation School has been conducting a research program that emphasises the importance of emergence and adjustment of institutions in the process of regulation of capitalism.

The goal of the paper is to present changes in institutional structure from Fordism to contemporary system determined by the process of financialisation of economies from the perspective of the Regulation School.

The structure of the paper is subordinated to the thesis that in regulationists' interpretation, determinants of Ford's regime generated dynamic economic growth, whereas contemporary structure of institutional forms, based on financialisation is not conducive to long-term and stable economic growth. In the first part of the paper the research program of the Regulation School is comprehensively discussed. Then institutional forms and their specific structure in Fordism are described. The last part is focussed on the most important changes in contemporary institutional structure that result from the process of financialisation of economies.

JEL Classification Code: **B500, B520, B590, E020, P190**.

Keywords: French School of Regulation, Regulation School, Theory of Regulation, Institutions, Financialization, Fordism.

Introduction

On the grounds of contemporary French heterodox economics, the Regulation School explains social and economic phenomena and problems of capitalist economies while referring to the concepts of institutional forms. Regulationists emphasise the role of emergence and adjustment of institutions in the process of

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capitalism regulation and also importance of institutional hierarchy. In regulationists' interpretation, the structure of fundamental institutional forms defines specific character of economic growth. The structure of institutions, typical of post-war period in majority of market economies, was conducive to dynamic and permanent economic growth. New economic reality associated with the phenomenon of globalisation, internationalisation, but mainly with financialisation of economies, affects modifications in local, regional and also international dimensions. Within conducted studies, Regulationists analyse whether contemporary system based on predominance of financial sector can create stable conditions for economic growth.

The goal of the paper is to present changes in institutional structure from Fordism to contemporary system determined by the process of economy financialisation, from the perspective of the Regulation School.

The thesis assumed in this paper can be formulated in the following way: In regulationists' interpretation, determinants of Ford's regime generated dynamic economic growth, whereas contemporary structure of institutional forms, based on financialisation, is not conducive to long-term and stable economic growth.

1. The Regulation School and its research program

The Regulation School, also referred to as the theory of regulation, occurred in 1970s together with the end of the period of rapid post-war economic growth (*Trente Glorieuses or Golden Age of Capitalism*), and entering one of the greatest crises of the 20th century.

The origins of emergence of this school and its research program resulted from specific economic context associated with transition from dynamic expansion of post-war period to economic stagnation. Dilemmas resulting from inadequacy of Keynes's theory and ineffectiveness of tools it proposed within economic policy and also the problem of neoliberal economics in the interpretation of crisis and the phenomenon of stagflation influenced shaping of theoretical context

Similarly to Keynes's followers, Regulationists explained the reasons for crisis and stagnation in the countries of consolidated market economy by endogenous determinants and changes, and not by exogenous shocks as it was expected by neoliberal economics.

The beginning of regulation approach is determined by Michel Aglietta's publication of 1976, entitled *Régulation et crises du capitalism* (The first edition was translated as *A Theory of Capitalist Regulation: The US Experience*). It can *de facto* be considered the cornerstone of the school. Aglietta's work opened the way to economic studies, the starting point of which was the problem of crises, and theoretical approach drew inspiration from many economic trends and schools.

Explaining the fundamental notion of regulation seems to be a crucial issue. From the point of view of the French school of economic thinking, regulation is perceived as a group of procedures and individual or collective behaviours that allow for recreation of social relationships through historically determined institutional forms (Boyer, 2003, p. 164).

Regulation is perceived in a different way on the grounds of Anglo-American economics. It refers to active and aware activity by the state or other regulatory agencies for the purpose of improvement of coordinating function of market, or as a political and administrative interference in market processes. Such an approach constitutes the basis for research conducted within the theory of regulation based on public interest or economic theory of regulation[2].

Undertaking a very comprehensive analysis of the research program, three levels of Regulationists' analysis can be indicated. Since the very beginning the issues concerning capitalist system and inconsistencies that occur within it, have been the focus of research. The first level of analysis concerns the methods of production and their explanations. In this sphere Regulationists assume that the problems and shortcomings of the system of capitalist economy, and actually the capitalism approached as a production method[3], result from the specific character of regulation method and accumulation system, and also from the evolution of these categories. The second level concerns the study of social and economic regularities that allow for accumulation in long term.

Regulationists propose economic analysis, in which institutions approached as rules of the social game referring to customs, beliefs, convictions, laws and state regulations that determine behaviours of economic entities in this way, while guaranteeing regulation of conflicts and social reproduction, are the starting point (Boyer, 2003).

While looking for endogenous reasons for crises, the theory of regulation recognises the necessity to explicitly determine the role of institution and hierarchy of institutional forms. The third dimension of analyses concerns the very identification of institutional forms that determine existing social and economic regularities, and allow for regulating capitalism in a particular time and space. The major goal of Regulationists in this sphere is to look for cohesion of institutional determinants and conditions of capital accumulation (Boyer, Saillard, 1995, p. 60-61).

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[2] More on the subject of comparison of approaches to regulation on the grounds of French and Anglo-American economics vide Pęciak, R. (2013). Theory of regulation as a subject of economic analysis, Економічні науки. Вісник Чернівецького Торговельно-Економічного Інституту, Випуск IV (52), Чернивци 2013, pp. 21-29.

[3] The notion of „production method" refers to the way in which society is organised, and also in which relationships between individuals, nature and production are regulated.

Regulationists indicate five elementary institutional forms that determine social organisation. The forms are associated with:

- **form of monetary system** – it refers to operating monetary system, payment system, monetary policy, etc.;
- **form of wage relation** – it particularly refers to shaping of wages, working conditions, employment, labour organisation, etc.;
- **form of competition**, it determines commercial relationships, and in a narrow approach, production concentration, shaping of prices and competition between workers;
- **international regime** – it includes relationships between national economy and other countries, among others;
- **form of state interventions** – it comprises the methods of state interference and a set of institutionalised agreements between social groups.

Within the framework of the research problems, which the school of regulations deals with, there are primarily:

- macroeconomics theory, economics methodology, history of economic thoughts;
- issues of labour market and wages;
- economic policy;
- monetary system, including international system;
- globalization and its consequences;
- developmental problems, especially concerning low-developed countries;
- developing economies (especially in Latin America, Asia and countries in transition);
- problem of social inequalities and polarization in the world;
- environmental issues.

2. Structure of institutional forms as a determinant of functioning of economic system

In neoclassical model, market economies oscillate around Warlas's and Marshall's balance in a long term. This principle, restored within neoclassical paradigm in Arrow-Debreu's model, accepted the status of fundamental assumption in mainstream economics, i.e. the so-called „fundamental theory". As opposed to this principle, considering long-term economic growth, Regulationists attribute large importance to institutional forms while emphasising the role of emergence and adjustment of institutions in the process of capitalism regulation.

Similarly to institutionalists, Regulationists assume that institutions affect decrease in uncertainty that is inseparably associated with reproduction process. The principle of economic effectiveness is not the only principle that determines shaping of institutions because not only economic determinants form the basis of economic institutions (Boyer, 2003, p. 3).

Institutional forms occur as a result of social conflicts; they pervade with political sphere while finding their reflection and legitimization in legislation and legal regulations, and then they affect economic dynamics (Boyer, 2003, p. 4).

Regulationists show how institutionalised compromises shaped the system of accumulation. First, in an extensive way, then in intense way, and finally intense with mass consumption within the so-called Fordism (Boyer, 2003, p. 7).

Regulationists notice changeability of institutions in time and space. Inside the society, within the framework of functioning of operating institutions, new rules of behaviours can occur and others can be modified without discrediting capitalist order. These rules include for example regulations concerning labour conditions or structures determining relations with foreign countries.

Institutional forms function in dynamic and changing environment that affects these forms from its side while interacting with them. In this way functioning of institutions forms a system. Operating of a particular system of accumulation is determined by coherence of these institutional forms (Boyer, 1990).

Therefore accumulation system is characterised by specific, relatively stable institutional structure. Stability of institutional forms results from complementary nature of macro-institutions that are shaped by hierarchized, specific social, political and technical relationships. Depending on shaping of institutional forms and their hierarchy, various accumulation regimes, as well as regulation methods can exist (Boyer, 2003).

Regulationists admit that changes in economic sphere affect shaping of institutions. Institutional forms co-exist, but not necessarily in a harmonious way, while determining economic growth or recession. Structural crises are usually overcome through restructuring and modification of institutional forms. This restructuration aims at minimising imbalance that occurs, but is also a reaction to social and political conflicts that are consequences of this imbalance (Boyer, 2003, p. 7). In this interpretation, the theory of the Regulation School occurs as a theory that not only ascertains the importance of institutions, but also as a doctrine that analyses evolution of institutions.

Institution stability within institutional architecture that reflects the method of regulation and not institution optimisation is the key issue for school (Boyer, 2003, p. 15). Hierarchy of institutional forms is not universal either, but it changes in time and space (Boyer, Saillard, 1995, p. 543).

Analysis of institutional structure existing in the period of post-war economic growth is the starting point for Regulationists' research. This typical production system that gained the name of Fordism constitutes a specific relationship between production and consumption, or actually, synchronisation of mass production with mass consumption. This economic model was based on mass production that was accompanied by cost reduction, and thus decline in prices of consumption goods and services. Wage relationships within which collective negotiations and specific relations allowed for regulating interactions between an organisation and workers were the fundamental institutional form. Growing wages with simultaneous fall of prices of goods and services allowed for generating consumption capabilities while enabling new investments. Intensive Fordist regime, with high labour efficiency and wages, offered opportunities to increase consumption while enabling the process of accumulation. Beside wage relationship, the state and economic policy it pursued was attributed crucial importance in institutional hierarchy. It particularly concerned the sphere of welfare state where it successively implemented expanded system of social benefits. Economic space in international dimension was generally limited to national economy, which allowed for effective policy of support for social protection. Such an institutional structure generated long-term economic growth based on existence of institutional coherence and also coherence based on distributive model that allowed for social reproduction in medium term (Clévenot, 2008).

Although Regulationists indicate numerous alternatives of Fordism, decisive importance of institutional form associated with wage relationships was their common feature (Clévenot, 2008).

Regulationists' research show that the end of the 1960s brought suppression of the dynamics of growth. It was reflected in restraint of increase in labour productivity, gradual market saturation, problems in the sphere of production absorption or the phenomenon of demand fluctuation.

Significant changes were also observed in the sphere of wage relationships. Development of syndicalism that was accompanied by shaping of strong and independent trade union movement, determined by workers' concentration and stiffness of Fordism in factories, became the reason for social pressure and trade union movements. Lack of acceptance for labour conditions, but also rejection of the model of work typical of Fordism and Taylorism, resulted in the system erosion. Social structures that regulated functioning of the system started to be gradually replaced by neoliberal solutions manifested, among others, by increasingly more flexible labour market.

In the sphere of institutional form of the state, solutions that undermined the grounds of *welfare state* implemented within Ford's model occurred. Technological revolution, development and expansion of markets, including markets of international scope, problems associated with workers' management and control, and increasingly higher competition on global scale infringed the relatively solid institutional structure.

These elements became the sign of the times and a turning point for Fordism model, the institutional specificity of which generated long-term economic growth. Finally, energy shocks and collapse of Breton Woods international monetary system in the 1970s brought the model breakdown and changes in institutional structure.

3. New accumulation system based on financialisation

Since the beginning of 1980s, capitalist economies were experiencing a series of changes that completely modified contemporary economic system, bringing the occurrence of new conditions of economic growth. Changes in the system of capitalist economy that have been observed in recent decades are characterised by three parallel processes: neoliberalism, globalisation and financialisation.

According to Regulationists, current system of accumulation that is a successor of production system in Fordism is a system the analysis of which does not refer to production sector any longer, but to financial sector. Changes in the sphere of regulation method occur as a result of the following processes, among others:
- accelerated globalisation process,
- technological and information revolution,
- increase in competition and intensification of competitiveness,
- new production order associated with development of information technology and ICT sector, among others,
- implementation of new forms of state intervention,
- special importance of financial sector.

All these phenomena affected changes in the sphere of shaping the hierarchy of institutional forms. New institutional dimension that was characterised by commercial and financial liberalisation, and also new institutions in the sphere of wage relationships, constituted the basis of a new system that undermined Fordism (Clévenot, 2008).

From the point of view of contemporary economies, the process associated with financing, financisation or financialisation is particularly important. Although there is no consent as for the very notion, all definitions consistently emphasise growing significance of financial sector and financial criteria in functioning of contemporary economies (Ratajczak, 2012b, p.169). They refer to the process of economy financialisation that can be defined as „the increasing role of financial motives, financial markets, financial actors and financial institutions in the operations of the domestic and international economies" (Epstein, 2005, p. 3). The phenomenon of financialisation is broadly understood as the process of separation of markets and financial institutions that should support production and consumption processes, from real processes (Flejterski, 2010, p. 138). Separation of financial processes from the real sphere of economy, and increase in financial assets that frequently exceed GDP of a specific country is the result of this process (Ratajczak, 2012a). Financial sphere is becoming a sector that is starting to be a predominant subject of social and economic life instead of providing support for real processes (Gostomski, 2014, p. 299).

Economists referring to Marx's tradition conduct similar discussions. For them the occurrence of a new, hybrid stage of monopolist capitalism which they call monopolist and financial stage of capitalist economy is the result of financialisation (Foster, Magdoff, 2009, p. 77). Already in the late 1970s and the early 1980s Harry Magdoff and Paul Sweezy noticed the phenomenon of financialisation of accumulation process. These economists were the first who emphasised „the significance of the dual reality of stagnation and the financial explosion" while adopting the thesis according to which financial explosion became the reaction (response) to stagnation of economies of that time (Foster, Magdoff, 2009, p. 69).

Similarly to Regulationists, Paul Sweezy called the trends that have occurred since the breakdown of 1970s „financialisation of capital accumulation process" (Sweezy, 1997, p. 3). He approached this phenomenon as the driving force for economic growth that was manifested by rapid growth of financial profits in this sector.

Regulationists and other heterodox economists admit that recent decades qualitatively shape a different kind of capitalism. For Regulationists „new economy" based on sophisticated instruments of financial engineering and opening of economies and liberalisation associated with international capital flow constitutes the basis of economic growth system. It is based on finacialisation within which the increase in significance of „finances" is strictly and inseparably associated with the new stage of internationalisation, i.e. financial globalisation (Chesnais, 2001).

Aglietta calls the new system „patrimonial capitalism" (*capitalism patrimonial*) (Aglietta, 1998). Robert Boyer writes about „finance-led growth regime" (*capitalisme financiarisé*) (Boyer, 2000; Boyer, 2009; Guttmann 2008) assuming that a typical regime based on financialisation developed only in the United States (Boyer, 2000). Other authors propose the notion of „finance-dominated accumulation regime" (*régime d'accumulation financiarisé*) (Lordon, 1999; Chesnais, 2001; Stockhammer, 2007).

According to Aglietta departing from Ford's capitalism is characterised by new growth regime that was shaped in the USA and has been expanding due to exchange internalisation, but also changes (expansion and individualisation) of working system and wage system. Emphasising growing role of finance sector (mainly in the USA), market of financial assets (*marchés d'actifs*), and also „institutional investors in finances and enterprise management as superior level of regulation" in recent decades, Aglietta analyses „patrimonial capitalism" (*capitalism patrimonial*) stressing the importance of transformations in entrepreneurial model (Aglietta, 1998). Remarkable growth of value of financial assets that is accompanied by „democratisation" of financial markets through pension and investment funds is the expression of growth of importance of financial sector (Clévenot, 2008). Expansion of stock value by means of pension and investment funds brought clear changes in the sphere of enterprise goals. In Fordism, where permanent compromise between enterprise management and workers was the enterprise goal, this compromise could work to the detriment of stockholders. Contemporary system allows for more effective protection of stockholders. Responsibility of the management board to stockholders, transparency and stock-related value perform a significant role and the rate of stock payback and stock value are the criterion of company effectiveness. The new system generated changes in codification of wage systems and emergence of new solutions of stock-option (option for stock), changes in the sphere of capital accumulation in the system of social benefits, making remuneration system flexible and individualisation of wages (Clévenot, 2008).

As a result of search for increase in competitiveness and necessity of cost reduction, employment model of Ford type was replaced by flexible forms in the sphere of labour market. New, flexible forms generate decline in employment and larger flexibility of organisational system and the system of employment, but at the same time significant diversity in wages, working conditions or expansion of informal economy. These elements imply inefficiency of trade unions in the sphere of protection of workers' rights, particularly on the world scale.

Liberalisation of international financial flows and increase in innovations within financial engineering performed determining role in the dynamics of the 1990s. Expansion of ICT sector and emergence of new markets of NASDAQ type let quickly mobilise capital between individual economies and individual entities, and also diversify financial instruments. This contributed to development of financial sector even more. It is the financial sector that shapes internationalisation because its speed of reaction is incomparably larger than production sector, production investments or innovations (Boyer & Souyri, 2001, p. 11).

Expansion of ICT sector and automation, made production process flexible, enabled fragmentation and production relocation, transfer of selected business processes abroad (offshoring) or separation of some implemented tasks from enterprise organisational structure, and subcontracting their execution to other entities (outsourcing). Globalisation affects increase in competitiveness and financial pressure in enterprises, which brings stricter discipline in the sphere of costs, while allowing for maintenance of higher return rates.

Deregulation and internationalisation processes decrease capability of a national state to pursue effective *welfare state* policy, and consequently to implement social cohesion. Increasingly more frequently the postulates of the minimal state with neoliberal economic policy occur in the place of social solutions, and determinants of economic growth are marked with severe social inequalities.

All five institutional forms evolved. The following can be indicated among the most important features of modified institutional forms (Boyer, 2000, p. 114):

– *wage-labour nexus* form – characterised by employment flexibility, profit sharing but also growing importance of pension funds particularly in the presence of problems of national social security systems;
– form of competition – mainly takes place through financial markets but is characterised by trends towards oligopoly;
– monetary regime – the goal of monetary policy is not mainly price stability any longer but the stability of financial markets and preventing the emergence of financial bubbles;
– state (society relation) – national states are under scrutiny of financial markets while searching for credibility in the sphere of government actions;
– insertion into the international regime – in this sphere, trends towards global finance are the strongest.

However coherence and dynamics of economic growth regime is subject to high risk of systemic financial instability. Accumulation system based on financialisation brings greater instability of institutional forms.

In the contemporary system based on financialisation, wage relationship that constituted predominant form in Ford's regime, is found in the position that is subordinated towards pressure brought by transformation in the sphere of other institutional forms. This institutional form is particularly associated with insertion into the international regime (Boyer, 2000, p. 112). Currently wage relationship has become only a variable that is getting adjusted (Clévenot, 2008). Ford's employment model is collapsing as a result of search for cost reduction and flexibility, while giving way to flexible employment model and workers' insecurity. Monetary regime is becoming a guarantor of monetary and financial stability, and the state is searching for reliability (Aglietta, 1998).

Bursting speculative bubbles that bring threats of increasingly more serious consequences and larger stagnation or slow economic growth that will be accompanied by growing surplus of productive capacity and unemployment or part-time employment are consequences of financialisation.

Crashes that have occurred on American market, firstly in dot-com market, then on market of mortgage credits of subprime type that expanded to other markets, as well as other economies, form not only a serious shock for economies, but, according to Regulationists, signal a new stage of development of contradictions of capitalist economy system. In accordance with Regulationists, current structure in the sphere of redistribution is characterised by significant growth of inequalities that is disadvantageous from the point of view of social reproduction.

Relatively stable institutional hierarchy is a quality of accumulation system. According to Regulationists, accumulation regime must overcome existing contradiction to make it last in a long term. However, regime based on financialisation shaped the structure that only allows for overcoming the so-called small crises but is not capable of surviving in long term. Therefore it cannot be approached as accumulation regime, but only as economic growth regime (Clévenot, 2008), that does not guarantee long-term and stable growing trend of contemporary economies.

Conclusion

Within heterodox trend, since 1970s the French School of Regulation has been conducting a research program that is focussed on the analysis of capitalist system. Endogenous nature of crises occurring in this system leads to adaptive processes and evolution of the system.

The economists of the Regulation School attributes special importance to institutional forms, coherence of institutional conditions and dynamics of institution changes. Analysis of institutional structure lets understand specific character of a particular capitalist system and consequently, explain reasons for crises. Regulationists explain the features of accumulation systems and changes occurring in all institutional spheres. Analysis of Fordism in which specific shaping of hierarchy of institutional forms became the basis of dynamic economic growth is the starting point. In Ford's model, wage relationships were a variable determining institutional hierarchy.

Regulationists try to find a successor of unprecedented synchronisation of mass production and consumption from decomposition of Ford's accumulation regime. In 1990s, on the rise of globalisation process in which financial globalisation and phenomenon of economies financialisation are important features, evolution of structural forms (institutional forms) and specific determinants was observed. This brought shaping of a new system in which economic growth was mainly based on financial sector, and particularly return of funds invested by institutional investors. In finance-led regime, hierarchy of institutional forms was transformed: financial sector performs a special role that, in the period of Ford's model, was attributed to wage-labour-nexus.

Majority of Regulationists agree that finances are nowadays an element organising (structuring) re-composition of contemporary capitalist system. As opposed to Fordism, the method of regulation „conducted" by financial sector is characterised by financial but also economic instability that is more and more frequently reflected in speculative bubbles. Their consequences affect real economy.

Regulationists' attitude can be reflected by the following quotation: „One era is over, the next is opening; it is very uncertain as it is shaped by complicated interactions between political strategies, social conflicts and changes in economic paradigms" (Boyer, 2009). These very interactions are studied by Regulationists while searching for stable conditions of economic growth.

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EXPANSION STRATEGIES AS AN EFFECTIVE WAY OF COMPETITION ON THE GLOBAL MARKET ON THE EXAMPLE OF THE ROYAL DUTCH SHELL INVESTMENTS ON POLISH MARKET

Abstract

The article is an attempt to present the results of the analysis of the activities of transnational corporation which is Royal Dutch Shell in response to the challenges resulting from the use of global strategy. Dynamic changes occurring in the contemporary world economy in recent decades tend to reflect on the fundamental determinants of the development strategy in the new conditions. The aim was to show how the applied strategy affects the development of the corporation and what its characteristics are. An important element of the analysis is also an attempt to identify challenges and indicate possible directions of further development of the corporation. The study was based on available sources of literature and papers as well as official materials prepared by the company. The ongoing process of globalization means that transnational development strategy becomes a very important factor that can positively influence and contribute to achieve the so-called competitive advantage. Despite the global nature of the decisions and the strong pressure to reduce costs, the benefits of foreign direct investments are one of the key elements of the future development of Poland.

JEL Classification Code: **E220, F210, L190, Q430**.

Keywords: Expansion strategies, transnational corporations, foreign investments, Royal Dutch Shell.

Introduction

The phenomenon of liberalization on a global scale, observed in recent years, indicates a trend towards unification of markets, products and management sys-

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tems, which leads to the gradual integration of domestic enterprises with the external environment. It should be stressed that the unification of markets, production, and internal harmonization of prices is progressing at an increasingly faster pace. The classic relationships e.g. the demand to supply are subject to modification and change their character. Decisions in production, consumption and management are taken beyond the framework of national economies and companies are forced to make decisions regarding the adjustment process, to keep and develop their adaptability. The article is an attempt to present the results of the analysis of the activities of transnational corporations, which is the Royal Dutch Shell in response to the challenges resulting from the usage of global strategy. The aim was to show how the applied strategy affects the development of the corporation and what its characteristic features are. An important element of the analysis was also an attempt to identify problems and indicate possible directions of further development of the corporation. The study was based on available sources of literature and papers as well as official materials prepared by the company. The ongoing process of globalization means that transnational development strategy becomes a very important factor that can positively influence and contribute to achieve the so-called competitive advantage. Properly defined and programmed development strategy of the corporation allows making the right decisions, which optimally enable the realization of the desired results. The current assessment of this condition allows to determine the level of corporate development, allowing managers to anticipate the next stages, which depending on the business goals, can be modified accordingly, taking into account the changing external and internal environment conditions.

1. Expansion strategies of transnational corporations

„Strategy is the art of creating value" (Zorska, 2000, p.146), through proper planning concept for company development in the long term with regards to „the appropriate configuration of resources and changing environment" (Olszanowska, 2005, p. 291). Only few authors underline in their definitions the meaning of changes in the external environment as the important factors shaping the strategy. G. Gierszewska recognizes the organization's strategy as a general program of defining and implementing business objectives as well as the discharge of their mission (Gierszewska, 2003). Similarly M. Romanowska sees the action program, setting out the main goals of the organization and ways of achieving them (Romanowska, 1998). A. Kozminski defines strategy as consciously adopted and consistently implemented way to keep sustainable competitive advantage for the company (Kozminski, 1999). A. Zorska argues that in order to gain a competitive advantage it is required to integrate and coordinate the set of activities (action, moves), undertaken for the use of core competencies and to obtain advantage of it (Zorska, 2000). In its approach, the author takes into account the possibility of modifying the existing competence in the course of strategy implementation as necessary elements for the development of the organization in the long term due to changes that take place in its environment. This concept seems to be particularly relevant to the requirements arising from the global perspective of the business, as it allows for the recognition of internationalising the company's activities as the development stage rather than a separate strategic concept.

Along with changes in the market arising as a result of on-going globalization processes, there is a need for different perspective on the importance of the organization's strategy (Owl, 2006). Strategic remodeling of the value chain became especially crucial for multinational companies, operating on a global scale. The liberalization of the rules of functioning of the world economy (reducing the severity of barriers to international transactions) resulted in the recovery of global markets and the development of the corporate system of production process organization. The result of the production system internationalization is the realocation of corporations elements of the production process (including service functions) in different markets spread throughout the world (in order to benefit from differences in costs, resources and logistics). In this way transnational corporations, thanks to the coordination of activities in many markets, have become the best companies that use sources of advantage, offered by the global business space (international competition). This is of course reflected in the development strategies of multinational corporations. These strategies underwent evolution as a result of exploration of new forms of managing their distributed operations.

Assuming that internationalization is the only possible path of the proper existance of the organization, internationalization should be considered as a component of the overall strategy of enterprise development. In the case of transnational corporations it represents an inherent growth path. Methods and forms of international engagement should be subordinated to the primary objective which is the improvement of the competitive position (Pierścionek, 2006). Given the pressure on costs and the need to diversify the local offer, the literature distinguishes four expansion strategies of transnational corporations (Rosińska-Bukowska, 2009, pp. 169–170):

- International strategy, which is based on the centralization of operational decisions with little pressure on costs,
- A multinational strategy, applicable when it is necessary to adapt to local markets and at the same time pressure on costs is small,
- Global strategy, used by very fierce competition and low pressure to suit local markets.
- Transnational strategy, implemented with very strong pressure on costs and at the same time clearly accents the need for local adjustment.

The above division is the result of the assumption that the markets in which the company operates are generally characterized on the basis of the analysis of two parameters: the price sensitivity in the process of competition and sensitivity to adapt the product to the individual requirements of local markets. The interdependency matrix for the used strategy according to these two parameters is presented in Table 1 (Pierścionek, 2006, p. 471).

Table 1. Matrix – dependence on market characteristics and corporate strategy.

<table>
<tr><td rowspan="2">PRESSURE FOR COSTS (Prices)</td><td>HIGH</td><td>GLOBAL STRATEGY</td><td>TRANSNATIONAL STRATEGY</td></tr>
<tr><td>LOW</td><td>INTERNATIONAL STRATEGY</td><td>MULTINATIONAL STRATEGY</td></tr>
<tr><td colspan="2" rowspan="2"></td><td>LOW</td><td>HIGH</td></tr>
<tr><td colspan="2">PRESSURE ON LOCAL PRODUCT ADJUSTMENTS</td></tr>
</table>

Source: Pierścionek Z. (2006), *Strategie konkurencji i rozwoju przedsiębiorstwa*, PWN, Warszawa.

The choice of strategy used by the company is determined by the characteristics of the markets in which the firm operates. For example, if a company operates on thirty different markets, and most of these customers require products and services that significantly differ from each other, the company must implement the multinational strategy, if the price pressure is not high or transnational strategy, if the pressure on prices is high. On the other hand, when customers in most markets accept the same standardized product and services, the company uses international strategy, if the pressure on prices is low and the global strategy if the pressure on prices is high (Pierścionek, 2006).

Only 10–15% of transnational corporations use global and transnational models to compete in international markets. 85–90% of the corporations use a multinational or international strategy, probably because they are considered to be relatively the easiest (low pressure on costs, relatively low requirements for skills and qualifications) (Rosińska-Bukowska, 2009).

2. Global strategy on the example of Royal Dutch Shell

2.1. The foundation and core business of Royal Dutch Shell

Royal Dutch Shell Group is now one of the largest transnational corporations in the world. Despite the enormity of the scale, in which Shell operates, thanks to the long-term presence in the markets of many countries individual companies operating within the Shell Group etched permanently into the local economic landscape of these countries. Being present in more than 150 countries, Shell is trying to work with the specific characteristics of local markets, social and environmental conditions. According to the data at the end of 2013, Shell Group employed more than 100 000 employees worldwide (official materials of Shell Poland Ltd, 2013). The company manages more than 10% of the world reserves of oil and natural gas. Shell owes its current position to its tradition and experience gathered in more than 100 years of activity. Group revenues at the level of $ 368 billion in 2013 are the second score in the world after ExxonMobil ($ 370 billion) (www.parkiet.com, 2015).

The functioning of the company started in fact in 1833, when the founder of the company – Marcus Samuel – opened a small shop in London with antiques and oriental seashells. Over time, the small store turned into company Royal Dutch Shell Group, which was created in 1907 following the merger of the Dutch oil company Royal Dutch Petroleum Company and the English trading company Shell Transport & Trading Company. The decision to merge these two companies fell into a turning point for the global oil industry, and was associated with a mass production of cars, started in 1909. Demand for oil products began to grow fast. The new company developed very dynamically. In 1914, Royal Dutch Shell Group was coming oil already in several places around the world – including the USA, Romania, Russia, Egypt, Venezuela and Trinidad. In 1929, Shell started operating also in the chemical industry. In the 50s and 60s of the twentieth century oil production and sale of petroleum products began to grow rapidly. Shell supplied almost 15% of oil products in the world. This period was also very important because of the development of research on the usage of gas as an alternative energy source (official materials of Shell Poland Sp. z o.o., 2013).

Since the 90's Shell focuses its activities on the extraction, processing and sale of petroleum products, as well as on the adjustment of their activities to the needs and challenges of the new millennium. Shell consolidates its leading position acquired over the years in the field of petroleum products through policies for sustainable development based on awareness of obligations in relation to the surrounding environment, through actions related to the regeneration of the areas destroyed by oil production, educational campaigns regarding safety or social actions. This kind of activity is worldwide, but also often very local such as educational campaign for kindergardens in Zabierzów (near Cracow), referring to safety while driving (so-called „Safety braces").

2.2. Employees, mission and future

Innovative technology helps to shape the future of energy – this is a short description of the long-term strategy of the company. Shell Group's activity is based on openness to new energy sources and focused on the most efficient use of current resources, which also helps to develop global economies.

The number of technical staff exceeded in 2013 the number of 30 000 people. Their objective is to develop and deliver technology solutions then used in energy projects around the world. About 10% of the technical staff conducts research and development in technology centers located in 11 countries. Huge spending on research and development meet the growing demand for energy while responsibly allowing fulfilling social or ecological functions. Shell Group currently works on the development of technologies that can shape the future of energy in the world, e.g. through research on the Tar Sands in Canada, which may prove to be an alternative to petroleum in connection with the steadily rising prices of the latter. Shell technical centers in Houston (USA), Amsterdam and Rijswijk (Netherlands) conduct innovative projects, develop new technologies and improve existing ones. Other resorts – located among others in the UK, Canada, France, Germany, India, Norway, Oman, Qatar and Singapore – focus their efforts on product development, support for marketing and on providing specialist support in regional operations, dependening on the sources and methods of the extraction of energy resources.

In all the research centers Shell place specialists from different scientific areas whose main aim is to improve planning, while using the latest technology. Geologists, geophysicists and engineers have the ability to connect using three-dimensional virtual reality systems to work simultaneously on the design of wells. Shell is the largest investor in the field of scientific research and development among the major oil companies. In 2009 company allocated nearly $ 1.2 billion on research and development of technologies necessary to produce greater quantities of cleaner energy and more efficient fuels and products for customers (www.shell.pl, 2015).

2.3. Characteristics of the global strategy on the example of Royal Dutch Shell

Global strategy is based on the assumption that the markets in which the company exists or intends to enter, are homogeneous (consumer preferences, socio-political, cultural rights are similar or identical). This assumption means that the company produces and sells identical products in all markets, and conducts uniform marketing. For the purposes of the article the author has chosen the following features of global strategy, reflecting the global operations of Royal Dutsch Shell on the international market (Pierścionek, 2001):

1) participation in the market,
2) the ownership of the product and promotion strategy,
3) the rules of business location,
4) the rules of competitive moves,
5) sources of competitive resources and skills,
6) the distribution of competence in the management system.

Table 2. Characteristics of global strategy

Characteristics	Global strategy
Participation in the market	– With global scope and level – Uniform distribution of shares in foreign markets
The ownership of the product and promotion strategy	– Product & promotion are homogeneous (fuel
The rules of business location	– Location of production concentrated (p.3.2) – Concentrated location of R&D (p.3.2)
The rules of competitive moves	– Coordinated competitive moves
Sources of competitive resources and skills	– Concentrated in selected countries (the transfer of skills from the corporate parent to other selected locations, out-sourcing of finance and accounting)
The distribution of competence in the management system	– Centralized strategic and operational decision-making process

Source: Pierścionek Z. (2001), *Zarządzanie strategiczne w przedsiębiorstwie*, PWN, Warszawa.

Participation in the market is global, if the following conditions are met (Pierścionek, 2001, p. 373):
- The share of the company in the global market is significant,
- The company has a significant share in the markets of most competitive countries in the world (in the countries of the Triad), ie. the countries with the global strategic importance,
- The distribution of market shares of individual countries is relatively even (global balance).

Obtaining a significant share of the world market means on the one hand – a large-scale operation of the company (worldwide) provides therefore the effects of large-scale production, research, supply and sales. On the other hand it gives the effect of marketing in the form of strengthening the company's image as the one which sarrounds most of the countries in the world. The global company must be present on the markets of major economic powers of the world, namely the United States, Japan and European Union countries. Having most shares localized this way results from the global strategic importance of these countries. These are the markets with the highest competitiveness, which is the main source of innovation. Royal Dutch Shell owns shares in most countries of the world, and the distribution of shares in the markets of individual countries, characteristic for the global strategy, is close to equal.

The basic characteristic of a global strategy, used by Shell is using the same product and the same promotion policy in all markets in which the company sells its products. The product of the same quality features, offered unchanged on all markets, is called a global product. Marketing strategy in all markets is therefore also the same. This applies above all to these policy elements used to promote a product, like brand politics, services related to the product, packaging, choice of promotion forms. Global product is a standard product that meets the standards of global technology, safety or environment. Homogeneous product and marketing are connected with scale effects and the effects of the global production location and other activities of the company which create the value chain (Pierścionek, 2001, p. 376).

Global strategy is characterized by concentrated model of business location. Extremely globalized pattern of location of the company on the international scene is the location of production in only one selected country, and the location of the other businesses in other countries; every activity in different country. In practice, production in the framework of the global strategy is localized in several countries, similarly to other activities (see p.3.2).

The main criterion for country selection regarding the location of production and service activities is primarily the most advantageous relationship of skills of the workforce to its costs. It assumes such a location that will provide highly qualified staff, with simultaneously low labor costs. Other criteria for the location of production activities are conditions of infrastructure in the country, the stability of the economy, ie. steady growth, the financial system, stability, economic policy, a favorable tax regime, environmental regulations etc. An example is the outsourcing of finance and accounting centers in the US, UK, Poland, India and the Philippines. Thanks to these decisions, the company can significantly reduce costs, while maintaining an equal price level. These criteria consist of the so-called investment attractiveness of the country. Additionally important is the location of the country in relation to sources of supply of raw materials, materials, parts and components and to the markets in other countries.

2.4. Effects of global strategy in the international market and in Poland

Global strategy provides Royal Dutch Shell the competitive advantage, especially in competitive factors such as price, modern product, quality of the product, the quality and intensity of the promotion, the scale of market presence, product brand and reputation of the company. The sources of these effects are as follows (Rymarczyk, 2004, p. 76):

1. Large scale of production, specialization and standardization,
2. The effects of product range,
3. The optimal location of production,
4. The concentration of research and development,
5. The concentration of marketing activities and other activities of the value chain,
6. Enterprise bargaining position with suppliers and customers,
7. Participation in the global market,

8. Coordinated and integrated competitive moves,
9. Internalization (international turnover inside the corporation).

Similar attributes of transnational corporations, proving their uniqueness in comparison to those located on the less advanced level, are mentioned by M. Rosińska-Bukowska (Rosińska-Bukowska, 2012, pp. 23–24). Global strategy is to concentrate production in one or several countries, which means the production on a large scale. The effects of large-scale production, in the form of cost reductions result from a smaller share of fixed costs, higher productivity of labor, specialization and standardization of the production (Rosińska-Bukowska, 2009). Another important source of reduction in production costs is the location of production and services in countries where the ratio of labor force to its costs is the most favourable, meaning: preferred tax laws, customs, environmental protection, the cost of supply of raw materials and energy. Used global strategy thus allows for an effective pricing strategy. Focusing research and development activities in selected countries (USA, Netherlands) means the possibility of employeeing highly qualified professionals, equipping them with high quality equipment and granting a high budget, which is the basis for the development of new products and technologies (Menkes, Gardocka, 2010).

A global company, which is the Royal Dutch Shell uses several centers in the world located, among others, in Britain, Canada, France, Germany, India, Norway, Oman, Qatar and Singapore, to develop promotion strategy. These centers focus their efforts on product development, marketing support and on providing specific technical assistance to regional operations. Created product of a very high quality, is the same as presented in all markets where the company operates. The advantage of this is a very high quality promotion and creation of a global brand. There is no risk of maladjustment to customers' needs in certain countries due to the specificity of goods offered by the company. Global participation in the market has the marketing effect because of the widespread presence on the market and has a positive impact on the company's reputation. Internalization is an important source of competitive advantage of Royal Dutch Shell. Transactions between subsidiaries of foreign corporations are the basis of its existence and expansion. Internalization means the internal flows in corporations on both products and services between foreign branches. Flexible transmission of products and services to foreign branches allows for commercial cost reduction as well as the reduction of taxes (already mentioned outsourcing of finance and accounting) (Stabryła, Malkus, 2012).

Shell sought to make the social responsibility of the business to create the basis for the so-called soft value added. Promotion to the position of global orchestrator in business network has forced corporation to improve its image. Shell emphasizes its contribution to environment protection, promotion of human rights and investing in environmentally friendly technology. More often company comes with initiatives aiming to improve relations with local communities. All activities such as: extension of the renewable energy, a number of environmental initiatives and special offers for customers which have to convince them to use „cleaner" products, are part of the planned investment in the image of a socially responsible organization. Undoubtedly, this is of course marketing, but at the same time it forces business partners to apply these principles, which means the creation of a kind of code of good practices in the Shell's network. This in turn provides evidence that Royal Dutch Shell operates as a conscious orchestrator in global business network (Rosińska-Bukowska, 2012).

In Poland Royal Dutch Shell ownes a network of petrol stations, numbering 40 000, and additionally offers the possibility of refueling at more than 10 000 partner stations. Poland, in terms of the number of stations, is ranked as third in Europe, after the Netherlands and Germany. Such a wide range means that this network is also one of the largest in the world. Royal Dutch Shell, through direct investments on the Polish market, has become one of the main leaders of the petroleum industry in a short time. Efforts to keep accurate investment decisions, marketing, service and long-term global strategy allows the company to diversify its business, which last effect has become an investment in self-service stations, by buying NESTE network in 2013. Shell Poland Sp. z o.o. invested also in the reconstruction and rebranding of shops at stations, creating them under a new brand Deli2Go. This action also had a worldwide reach. The company positions its fuel products as directed for more demanding customers (Shell V-Power), further expanding the global perception of the brand as a luxurious one, through the production of fuel for the Ferrari and by sponsoring international and local sport events.

In 2007, Royal Dutch Shell opened a center of finance and accounting in Zabierzów near Krakow. Its aim was, in addition to the assumed lower maintenance costs of its activities, the diversity and risk reduction by using several centers located in various parts of the world. Polish market is to foreign investors, including Royal Dutch Shell, a very attractive and perspective one due to its size and absorbency. In addition, bureaucracy reduction and simplified tax system create an enormous incentive for potential investors. GDP growth forecasts for this year and the next two years oscillate around 3 percent. This is a very good result in comparison with other countries of the European Union (www.wprost.pl, 2015). Subsequent arguments that determine the investment attractiveness of Poland are certainly a convenient location in the center of Europe, low political risk, lowering trade barriers, political and economic progress, integration processes, tax benefits in economic zones, cost reduction of the transmission of information resulting from technological progress and available and well trained – thanks to the many academic centers – human resources – employees with relatively low labor costs. That resulted in the decision of Royal Dutch Shell to locate permanently its center of finance and accounting in the Lesser Poland Economic Zone (Krakow Business Park in Zabierzow), and the further development plans for that center. At the end of December 2015, 2 thousand people were employed in Krakow Business Park and plans for the coming years are to increase of another 500 people.

Conclusions

The acceleration of technological progress expressed in the shortened life cycle of products on the market, and the life cycle of the technology, the emergence of entirely new technologies and products increase the costs of research and development. These phenomena contribute to the growth of globalization potential, as companies tend to expand to as large number of markets as possible to amortize their costs. In this way, the high expenditure on research is a factor prompting corporations to further globalization. Another incentive to globalization is to differentiate the costs of different activities in different countries. The stronger differentiation of costs in different countries, the greater is the incentive to further globalization. The emergence of global companies in the sector means that the intensity of competition increases significantly. Competition between the company which applies the global strategy and the company which does not apply it, places the second one on the lost position. In this situation, competition from global firms becomes a factor inducing globalization. Global strategy is a difficult strategy: it requires advanced management skills in foreign markets, ability to select the optimal location of production and other activities in the international system, the capacity to build a global marketing strategy, finance, human resources, research and development, skills to create global competitive moves. A competitive advantage can be achieved and maintained only by this company, which will develop and consistently apply the variant which will be adapted to its potential of globalization and its ability to develop and implement a program of key competencies in the international system. Global strategy creates much better conditions than other expansion strategy to develop these key competences. The aim of the analysis was to refer to global strategy used by the Royal Dutch Shell on the example of the Polish market. The specificity of the Polish market and its attractiveness compared to other countries is conducive to locating foreign investment by multinational corporations. It is obvious that not only corporations gain during their presence in foreign markets. Also, the host country of foreign investment in the form of a business corporation gains through increasing competitiveness in the domestic market, the improvement of the situation on the labour market by increasing employment in the branches or training the local staff. Incomming investments often relate to high-tech and

R & D, which in turn is conducive to narrowing the technological gaps between the countries, and consequently favors the creation of further developments. Poland is the undisputed leader in place when it comes to attracting foreign investment and is an example for the countries of Central and Eastern Europe. Over 4.71 billion EUR flowed to Poland in the context of foreign direct investment in 2013 (www.paiz.gov.pl, 2015).

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