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World and Portuguese Economy

Comparison of Polish and
Portuguese Economy
with a historical perspective

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January 2022

When making an economic comparison of Portugal and Poland, it is worth paying attention to the historical background, demographics, the way of exercising power and the fact that Portugal is in the euro area and Poland remains with its currency. Maybe we will find some similarities, we will notice differences.

Portugal has its present territorial shape since 1249. Poland in its present shape has existed since 1945. When talking about the history of states, do we treat it as a curiosity? Can the geopolitical situation, politics and actions of states, the then authorities and decisions taken hundreds of years ago have an impact on the contemporary, not so distant history of the economy and societies? I believe that it is worth devoting a few words to a short historical outline.

Since the 10th century, when the state was founded, Poland has fought wars and battles of greater or smaller extent for many centuries. As an interesting fact, in the period from the 10th century to the end of the 16th century, the periods of peace ranged from one to seven years.

The 15th century marks the beginning of Portugal's overseas expansion. In 1418, Portugal took the uninhabited islands of Madeira, and in 1432, the Azores.

The beginning of the 16th century, 1501 saw the expansion of the sphere of influence on Mozambique. In the 17th century, Brazil becomes the overseas colony of Portugal, and in 1879 Portuguese Guinea. The territorial gains on the Indian peninsula and Macao were also important.

The acquisition of new territories contributed to the development of trade and profits from the exploitation of the natural resources of the subordinate territories. The further expansion of Portugal's influence was limited by the population, or rather by the army. The budgetary policy of the then Portuguese authorities also contributed to slowing down the conquest of overseas territories. Portugal has become one of the maritime powers alongside Spain and England.

What was the situation of Poland in the 17th century? Poland was losing its sovereignty and statehood. The reason was the weak position of the country in international politics and internal disputes of the then socio-political elite. The year 1772 is the First Partition of Poland. 1793 is a year of the Second Partition and finally 1795 - the Third Partition of Poland. Poland disappears from the map of Europe.

Let us remember that the 18th century was the beginning of the Industrial Revolution in England. 1914 - the outbreak of World War I. Poland does not exist as a state, but the hostilities take place on the territory previously belonging to Poland. Portugal also participates in hostilities, but the presence of troops is in France and Belgium. In 1918, after the end of hostilities, Poland regained its independence on 11th of November. The reconstruction of the Polish State begins. After the war, the number of people living in Poland decreased by 15%. Military operations covered 80% of the territory of Poland. The armies passing through the territory of Poland used the scorched earth tactic. Entire factories were transported from Poland. It is estimated that about 30% of the national property was destroyed.

Most industries needed to be rebuilt from scratch.

At that time, Portugal was shaken by internal problems. In 1926, there was a military coup lead by General A.D. Carmon. On 1st of September 1939, the World War II breaks out and Poland becomes the first target of Nazi Germany.

Portugal remains neutral. Despite the war conditions, Portugal managed to conduct commercial activities with great success. in the first period of the war, the main trading partner was Germany, which bought tungsten. It is estimated that the profit of Portugal amounted to about 200-250 tons of gold (this metal was used for settlements with Germany). In 1943, Great Britain also began to buy tungsten, and Portugal made the Azores military bases (they are still used by the USA) available to the Western Allies and thus avoided international isolation.

After the end of World War II, Poland found itself in a new geopolitical position. 1945 is once again a new frontier. Because of the agreements of the victorious powers, Poland remained under the influence of the Soviet Union, which was associated with the change of the system. The Nazi occupation and military operations on the territory of Poland once again caused enormous losses, not only economic. For comparison, Portugal was occupied in 1800-1814 by France and 1808-1814 by Spain during the Iberian War.

Polish economy during the Second World War was destroyed in, depending on the industry branch, 30-100%. The population of Poland in 1939 was about 35 million and in 1945 about 23,6 million. For comparison, the population of Portugal in 1940 was about 7,7 million and in 1950 about 8,5 million. Even though after 1945

Portugal and Poland found themselves on two different poles of the geopolitical map of Europe, many similarities can be found in the field of internal and economic policy.

The restriction of civil liberties and rights in Poland resulted from the constitutional assumptions, and in Portugal due to the exercise of power by the military junta. After 1945 in Poland the private economic sector ceased to exist, all branches of the economy and industry were nationalized. This does not mean that there was no economic development.

When analyzing the Polish economy, it is difficult to find a reliable economic coefficient to compare. It is also difficult to demonstrate economic profit based on a reliable currency - Poland and other countries of Central and Eastern Europe were in the sphere of influence of the Soviet Union. In settlements between these countries, a transfer ruble (artificial currency) was used and the most common was barter exchange of "goods for goods". During this period (1945 to 1989) shipbuilding, mining, energetic and metallurgical industries were highly developed in Poland.

Previously it was mentioned that some decisions made hundreds of years ago may have future repercussions. That is what was happening in Portugal - the colonies are fighting for independence. Angola, Portuguese Guinea and Mozambique in the years 1961-1964 waged independence wars with Portugal. It was so costly for Portugal that the budget was wrecked. Until the 1970s, Portugal's economic structure was based on agriculture and colony exploitation. In Portugal, in 1974, officers from the Armed Forces Movement of the MFA made a coup of the so-called The Carnation Revolution (Revolução dos Cravos). This led to the overthrow of the dictatorship of M. Caetano - A. Salazar's successor. Therefore, civil and political liberties and decolonization of Portuguese possessions in Africa and Asia were restored. In 1975, banks and major companies in industry, transport and energy were nationalized. Land reform was carried out. In the years 1976-1985 the democratic principles of exercising power were consolidated. Since 1989, the re-privatization of enterprises taken over by the state after 1974 began. A similar process began in Poland in 1989, when the systemic changes of which Poland was the precursor took place in Central and Eastern Europe.

On the 12th of June 1985 the Treaty of Accession of Portugal to the European Communities (the EEC became the European Union in 1993) is signed in Lisbon, in the Monastery of the Hieronymites (Mosteiro dos Jerónimos). Mário Soares, then-Prime Minister of Portugal, at the signing ceremony said:

“ For Portugal, joining the EEC represents a crucial step towards a progressive and modern future. But let us not assume that this is an easy step. It will demand a great deal from the Portuguese people, even as it opens up vast development opportunities for us. ”

The Treaty of Accession comes into force 1st January 1986.

On the 26th of March 1995 Portugal becomes a member of the Schengen Area and in 1999, on January 1st, Portugal joins the euro area. European currency replaces Portuguese escudo.

Poland has been a member of the European Union since May 1, 2004 under the Accession Treaty signed on April 16, 2003 in Athens. Republic of Poland entered the Schengen Agreement on 21st of december 2007.

Poland is not yet a member of the euro area. The Polish zloty (PLN) is not yet within the exchange rate mechanism (ERM II).

Table 1.

	EU member	Schengen Area	Euro Zone
Poland	2004	2007	-
Portugal	1986	1995	1999

Information on economic processes in countries belonging to European Union is provided by the statistics of national accounts. The international standard is determined by the System of National Accounts (SNA), introduced by the UN in the middle of the 20th century.

Since 2004 a period of many changes in economic situation can be noticed. In 2004–2018, GDP in the EU increased by around 20%. Poland was one of the countries which recorded the highest growth (about 70%–80%). The global crisis, that began in 2008, resulted in the economic slowdown. At that time, Poland was

the only Member State in which the uninterrupted GDP growth maintained. Most of the countries (except for Greece) returned quite quickly to the pre-crisis growth.

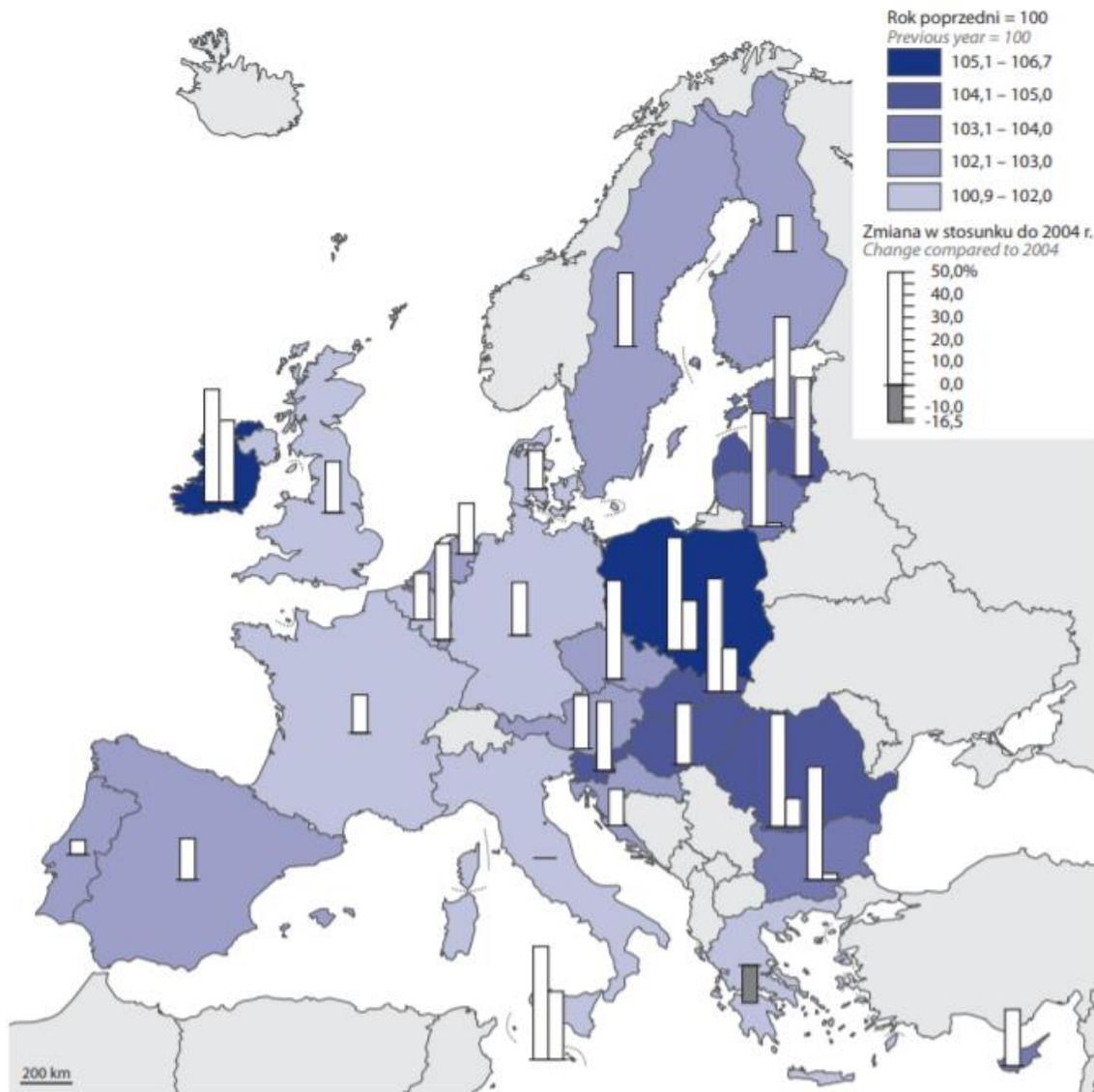
It is interesting to see how much Poland and Portugal benefit from being members of European Union and how much both of the countries contribute to the common budget of European Union. Below the comparison of figures for Portugal and Poland in 2018.

Table 2.

	Total EU spend	% of the local economy	Total contribution to EU budget	% of the local economy
Portugal	€ 5.011 billion	2.55%	€ 1.699 billion	0.86%
Poland	€ 16.350 billion	3.43%	€ 3.983 billion	0.84%

The EU countries are very diverse in terms of GDP per capita. In the countries which joined the EU in 2004 or after 2004, the GDP is much lower than in the "old" EU countries. Due to the economic growth, the majority of new members of the European Union is currently closer to the average value for the EU than it was in 2004. The situation in Poland has improved significantly, with GDP per capita for 2018 increasing to 70% of the EU average (it was 50% in 2004).

Gross domestic product in 2018



Source: stat.gov.pl

After a short historical outline, we can move on to the present economic and social situation. According to World Bank data for 2020, the population of Portugal was 10.31 million and Poland was 37.95 million. Portugal's GDP is 231.3 billion USD and Poland 594.2 billion USD. Data on GDP per capita, per capita, per capita PPP vary depending on the method of calculation and reporting (World Bank or International Monetary Fund).

The World Bank for 2020 reports GDP per capita for Portugal USD 22,439.88 and for Poland USD 15,656.18.

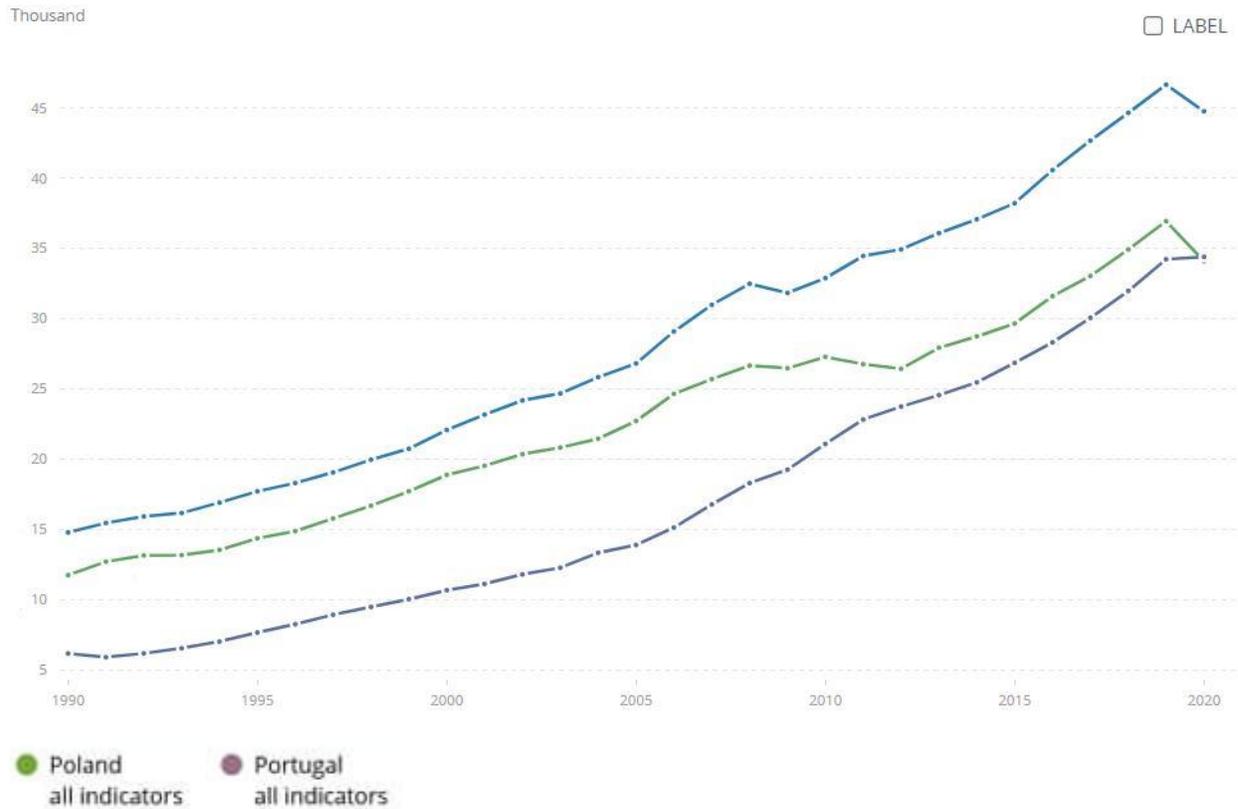
The International Monetary Fund for 2020 provides the following: PPP GDP for Portugal USD 36,130 and for Poland USD 36,100. It should be noted that Portugal is in the Euro Zone and Poland has the domestic currency of PLN.

GDP per capita, PPP, chart as per 2020:

GDP per capita, PPP (current international \$) - European Union, Portugal, Poland

International Comparison Program, World Bank | World Development Indicators database, World Bank | Eurostat-OECD PPP Programme.

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Source: World Bank

Portuguese and Polish economies have a very similar structure - more than half of GDP is obtained from services (trade, tourism), industry accounts for 30-40%, agriculture and forestry 6-10%.

The last two years caused by the COVID-19 epidemic have had a negative impact on the global economy. It has stopped tourist traffic, gastronomy, interrupted supply chains and started rising energy prices in recent months. Demography, democracy, the rule of law and legal conditions for running a business are very important factors for each country and economy. Both Portugal and Poland struggle with negative natural growth.

The Economist Intelligence Unit gives Portugal's democracy index for 2020 as full democracy (26th place in the year-to-year growth for 2015-2020). For Poland, this is a flawed democracy (50th place in the ranking, a year-on-year decline for 2015-2020). In terms of the ease of doing business and bureaucratic time-consuming, Poland ranks last but one in the European Union. In 2022 Poland may become the least friendly country for entrepreneurs in the European Union.

The last few months brought a lot of concern among the public due to rising inflation and the cost of servicing the state debt. How does the comparison between Poland and Portugal look like?

Table 3.

	PORTUGAL	POLAND
Inflation y-t-y as per 30.11.2021	2.6%	7.8%
Core inflation	1.1%	4.5%
Inflation m-t-m	0.5%	1.0%
Food inflation	0.49%	5.0%
Inflation y-t-y as per 31.12.2021	2.8%	8.6%

The public debt	135% GDP 277.5 bln EUR	Official 57.4% GDP 1.4 tln PLN (340 bln EUR)
		With hidden debt 212.4% 5 tln PLN (1.1 tln EUR)

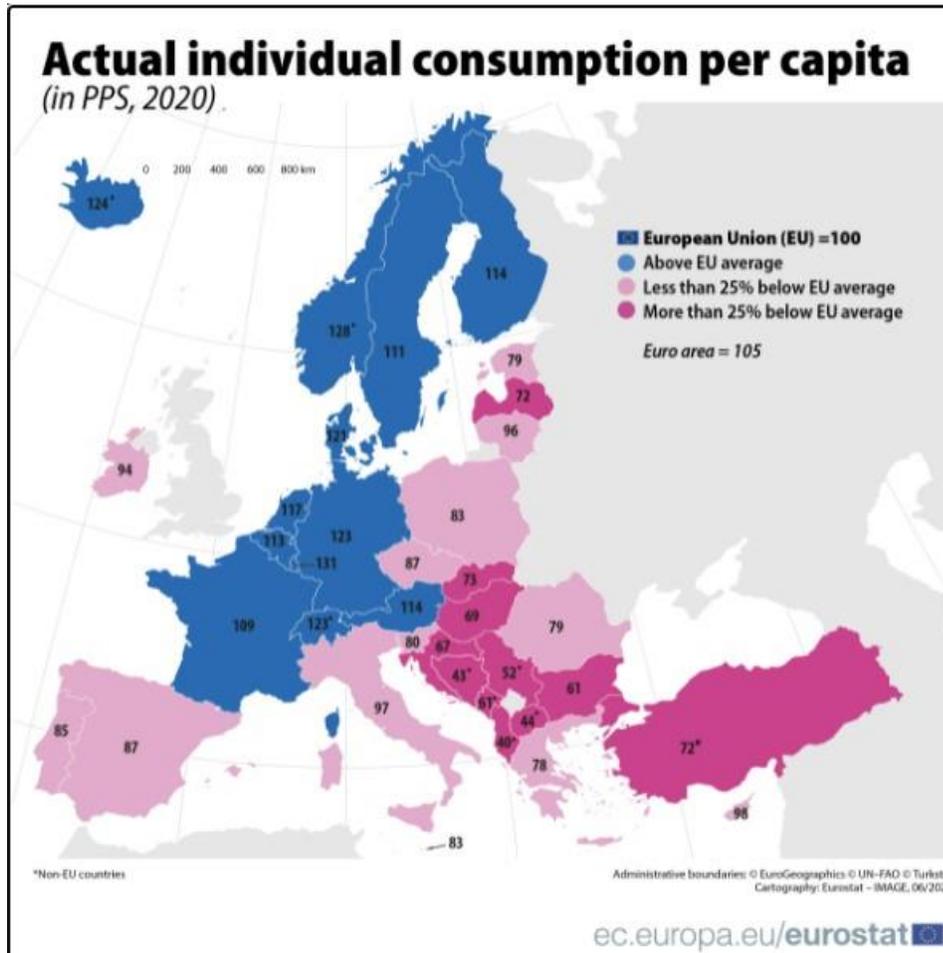
In the last two years, hidden debt, that is, beyond the control of the parliament, increased in Poland by around EUR 100 billion. According to the latest data for November 2020, the year-to-year for food products is an increase of 11%, average fat products 60%, meat 20%, dairy products 16-25%, vegetables 25-40%.

What is the standard of living, daily living costs and what are the economic prospects? Portugal and Poland have a similar unemployment rate of 6 and 5.5% respectively.

The minimum wage in Portugal is € 775.83, the average salary is € 1188 (data for 2019). In Poland, these values are € 604 and € 1,132. The cost of living is at a

comparable level. Of course, many basic products and services are more expensive in Portugal, but when compared directly, it should be recalled that Portugal is in the Eurozone.

Map of actual individual consumption per capita in PPS, as per 2020:



Source: Eurostat

Despite the increase in the minimum wage in Poland expressed in PLN, converted into euro, it is falling year to year. The perspective of the coming months may cause a further increase in prices in Poland. A negative trade balance and a depreciation of the currency will contribute to price increases. At the present time, Poland is recording the lowest level of investment in 20 years and the highest inflation in this period. Core inflation is a product of the actions of the government and the Central Bank, it is independent of external factors. In Poland, it is largely influenced by the inflow of money under social programs and the

expansion of the state administration. It is money that cannot be covered by the increase in labor productivity. At the same time, there is an increasing fiscalism of the state, which causes an increase in the costs of production and economic activity.

The economic crisis, the decline in GDP because of the COVID-19 epidemic has affected all countries. The European Union has mobilized funding under the reconstruction programs. These measures depend, inter alia, on compliance with the rule of law by member states. The long-lasting dispute between Poland and the European Commission resulted in the suspension of payments for Poland. Poland is accused of not respecting EU and national laws, even the constitution in the field of civil rights, the judiciary and the tripartite division of powers.

What impact will the lack of these funds have on the economy, inflation and living standards? The coming years or even months may provide an answer to these questions.

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