Services and the Country's Balance of Payments on the Example of Poland

Submitted 25/10/23, 1st revision 18/11/23, 2nd revision 25/11/23, accepted 20/12/23

Barbara Marciszewska¹

Abstract:

**Purpose:** The growing importance of services in the economy and in international trade constitutes a premise for undertaking this study which attempts to examine selected aspects of international trade in services and their share in Poland's balance of payments. Particular attention has been paid to the export and import of tourist services.

**Design/Methodology/Approach:** Achieving this goal required analyzing statistical data regarding world trade (OECD) and the Polish balance of payments (mainly based on the NBP reports). Qualitative methods (analysis of the subject literature) and general methods of statistical data analysis were applied.

**Findings:** The conducted research allowed for the conclusion that both in world trade and in Polish foreign trade, the share of services turnover is increasing, and the share of services in the Polish foreign trade turnover is close to the world average.

**Practical Implications:** It was also shown that, compared to trends in world trade, there is a positive trend in exports and imports of tourist services in Poland after the Covid-19 pandemic.

**Originality/Value:** The balance of services in the Polish balance of payments is positive, which proves the high competitiveness of services which contribute to the surplus of exports over imports of services to the greatest extent.

**Keywords:** Services, international trade, balance of payment, dynamics of the value of global trade in services, share of tourism in GDP.

**JEL Classification:** F13, F62, L81, Z32.

**Paper type:** Research article.

¹Gdynia Maritime University, Poland, b.marciszewska@wznj.umg.edu.pl;
1. Introduction

At the turn of the second and third decades of the 21st century, the global economy – both in the sphere of production, consumption and trade – faced new challenges. Among them, there is a need to strengthen cooperation in the field of trade in goods and services on the international market. The World Trade Organization (WTO) draws attention to the role of services in this respect, emphasizing that "to enable growth in services trade, and particularly in digitally delivered services, agreements are needed on services domestic regulation, e-commerce and investment facilitation – all of which have seen major advances at the WTO" (World Trade Report 2023, p. 111).

Therefore, services will continue to be an important component of international trade. The same document (World Trade Report 2023, p.16, https://www.wto.org/english/res_e/booksp_e/wtr23_e/wtr23_ch1_e.pdf) defines future directions of the development of international trade, which draws attention to the fact "that solving today's challenges actually requires more global openness, integration and cooperation, not less – which in turn depends on reforming the international trade and economic system".

This reform process must cover the exchange of both goods and services – in terms of their level, structure, and flow directions. In the Report, the major challenges were defined for global economy: national and economic security, poverty alleviation and environmental sustainability. International institutions and the principles of their operation should promote stability, trust and cooperation.

However, despite the many decades’ long openness of international trade markets to cooperation, the world is currently experiencing an increased degree of uncertainty and even a risk in shaping trade relations. The contemporary reality of international and global trade is affected by the economic crisis of 2009-2010, the Covid-19 pandemic and wars. In the region of Eastern and Central Europe, many new challenges stem from Russia's invasion of Ukraine, and the effects of the economic crisis caused by the above-mentioned pandemic, which has affected the condition of individual sectors of the world's economies with uneven strength, are still being felt.

Services belong to those sensitive products whose export and import were limited during the pandemic, among others, as a result of administrative restrictions on the movement of people. This situation had a negative impact on both the turnover of services in international trade and the balance of payments of the participating countries.

According to the WTO data, the value of global exports of services decreased from 6.1 trillion US dollars in 2019 to 4.9 trillion in 2020. This was the lowest level recorded since 2013. Such a deep decline was caused by the Covid-19 pandemic,
Barbara Marciszewska


The growing importance of services in the world economy, the need for their "revival" in many sub-sectors, and consequently in international trade, is an important premise for undertaking a research problem aimed to answer the questions: has the collapse in international trade in services recorded in recent years significantly affected the balance of payments of selected countries? Is the sector of tourism services – despite its sensitivity to restrictions on the movement of people – able to recover and have a positive impact on the balance of payments?

The importance of services, including tourism, in socio-economic development and international trade can be determined, among others, by relating them to the balance of payments (taking into account the trade balance of goods) and to the size of the Gross Domestic Product (GDP).

Importance of services in the economy and in international trade constitutes a premise for undertaking this study which attempts to examine selected aspects of international trade in services and their share in Poland's balance of payments. Particular attention has been paid to the export and import of tourist services directly before and after the Covid-19 pandemic.

The purpose of the study is to demonstrate the role of services in Polish foreign trade and in shaping the balance of payments. Particular attention has been paid to tourist services and their relation to two aspects of economic development: balance of payment and GDP. Achieving this goal required analyzing statistical data on world trade and on Polish balance of payments. Qualitative methods (analysis of subject literature) and general methods of statistical data analysis were applied.

The conducted research allowed for the recognition that both in world trade and in Polish foreign trade, the share of services turnover is increasing, and the share of services in the Polish foreign trade turnover is close to the world average. The role of tourism services in creation of GDP is lower than in other OECD countries.

2. Services in International Exchange and the Balance of Payments

In most developed economies, services are becoming increasingly important not only in the sectoral hierarchy, but also due to their place on international markets and the consequent source of GDP. Their scope as a generator of new jobs and the economic sector increasing its share in employment and wages is expanding.

Nakonieczna-Kisiel (2017, p. 171) points out that “in the years 2004-2015, sector III was the largest employer in Poland, because the number people employed there increased by nearly 24%. “This phenomenon was caused, among others, by Poland's accession to the European Union and the ongoing servitization process.
Goods still dominate global trade, despite the high dynamics of growth in the share of services in international exchange. Their share in the GDP of individual countries and their role in creating jobs are growing. The share of services in Poland's GDP was 57.6% in 2019. Services constitute 2/3 of the Polish GDP, and thanks to them, Poland has managed to achieve a positive balance in foreign trade in recent years (Kolasa, 2021).

In the Polish-language economic literature of the 21st century, there is a discussion on services as an object of international exchange, including those provided by natural persons (Bombińska, 2018; Bombińska, 2021) and their role in shaping the country's balance of payments (Kożłak, 2018; Nakonieczna-Kisiel, 2017; Sobański, 2007; Sobański, 2012).

Among others, the discourse addresses the need to analyze this balance, because “by analyzing the balance of payments, it is possible to learn about the type of transactions determining flows between the country and abroad and to understand the nature of the international connections of the national economy” (Sobański, 2012, p. 238). The above statement suggests that the balance of payments is a specific tool for assessing the connections of a given country with international markets and the desired directions of their development in the future.

The balance of payments constitutes the basic source of data on trade in services on the international market, and yet not all of their types can be easily distinguished in this statement, nor the volume of their turnover and percentage in the total international turnover can be discerned (tourism services are included in this group). Hence, there are difficulties in determining their share in the overall international trade turnover of a given country (Thalassinos et al., 2022).

The special place of services (including the tourism sector) in international exchange was commented on in a publication of the International Monetary Fund: “Better communication and transport have also facilitated the movement of people for the purposes of tourism, migration, employment, and trade” (BPM, p. 187). Its aim is “to provide practical advice on source data and methodologies for compiling statistics on the balance of payments and the international investment position” (https://www.elibrary.imf.org/display/book/9781484312759/9781484312759.xml).

Such wording of the purpose of the guide indicates its practical role in the collection and interpretation of statistical data for balances of payments – including in relation to services and their individual types. In relation to tourist services, attention is drawn to the use of satellite accounting (GMP6, p. 201).

Due to the fact that tourism has played an important role in economic and social development since the second half of the 20th century, many countries (including Poland) found it necessary to improve statistical research on tourism and they started
work on preparing a tourism satellite account based on the methodology recommended by the OECD (Dziedzic and Kachniewska, 1998).

3. Services in Foreign Trade in 2019-2022: The Example of Poland

The phenomenon of servitization is a common feature of many countries that entered the path of accelerated development of the market economy after the political transformation phase of the 1990s. Among others, due to the specificity of services as a product (including the simultaneity of production and consumption) and due to creating by them competitive utilitarian values in relation to goods through their intangibility, services have begun to play an important role in shaping turnover on foreign markets. The relationship of the balance of payments to GDP remains a crucial indicator.

According to the Polish National Bank’s (NBP) data, the balance of trade in goods and services in relation to GDP in 2019 amounted to 5.2% (https://nbp.pl/wp-content/uploads/2022/11/raport_2019.pdf, p.112), while for the years 2020-2022 such analogous indicators are missing from NBP Annual Report.

The Polish National Bank’s data indicate that “in December 2022, the current account of the balance of payments recorded negative balances of trade in goods (PLN 12.7 billion), primary income (PLN 11.4 billion) and secondary income (PLN 0.4 billion) and positive balance of services (PLN 12.7 billion)” (https://nbp.pl/bilans-platniczy-polski-w-grudniu-2022-r/).

It is worth emphasizing that in 2019 the negative balance in foreign trade in goods was “compensated” by a positive balance in trade in services (https://nbp.pl/statystyka-i-sprawozdawczosc/statystyka-bilansu-platniczego/bilans-platniczy/dane-roczne/).

The above source indicates a similar situation in 2021 and 2022, while for 2020, surprisingly, a positive balance was shown in both the trade in goods and services, which may be related to the implementation of previously concluded contracts. The balance of services turnover in 2019-2022 had a growing trend (except for a slight decline in 2020) and in the following years amounted to 103,444, 101,991, 122,298, 171,082, respectively (in PLN million), which means an increase in the balance by over 65% in 2022 in relation to 2019, resulting from the significant advantage of exports of services over their imports.

The above data as well as increasing revenues from services on international markets – from PLN 270,541 million in 2019 to PLN 426,198 in 2022 suggest an increasing importance of the Polish services sector on the international market.

In 2019 (prior to the economic crisis related to the Covid pandemic), 81,515 thousand tourists visited Poland. In the first two years of the pandemic, 2020 and
2021, there was a significant decrease in the number of foreign tourist arrivals, amounting to 51,076 thousand in 2020, and 51,026 thousand in 2021 (Poland, OECD…, 2022).

However, international tourism departures in the corresponding years reached the level of 50,558 thousand in 2019, 26,893 thousand in 2020 and 24,220 thousand in 2021 (Poland, OECD…, 2022). These data prove that the number of foreign tourist arrivals clearly outweighs departures from Poland to other destinations, which in turn had a positive impact on the amount of incoming tourists’ expenses in Poland and, consequently, on the country’s balance of payments.

The year 2020 turned out to be a successful one in the context of the relationship between exports and imports of services. Wyżnikiewicz (2021, p. 1) notes in the commentary on the NBP data: “The surplus in trade in services remained at a high level with a simultaneous decline in the turnover. The effects of the pandemic and restrictions introduced by the authorities can be seen in the decline in turnover and balance from foreign travel. This decline in the balance was offset by an increase in the surplus in other business services, repairs and transportation services.”

The above statements suggest that 2020 saw a decline in international trade mainly due to the slowdown in foreign trips (imports of tourist services). However, it is important to realize that the arrivals of foreign tourists have not reached the level of 2019, thus determining the level of exports of tourist services. The same author states in her commentary on the NBP data that “The improvement in the current account balance was caused primarily by a 10-fold increase in the surplus in goods turnover” (Wyżnikiewicz, 2021, p. 1), which – together with other services, including transport – had a positive impact on the balance of payments.

In 2020, as a result of the favorable trade in goods on the international market, there was a positive trade balance, which was an important factor affecting the balance of payments. Therefore, despite the negative impact of the Covid-19 pandemic on the economy as a result of the restrictions introduced by the government, the year 2020 was distinguished by a positive balance of both trade and payments.

4. Incoming Tourism as a Factor Improving the Country’s Balance of Payments

There is an ongoing scientific discussion in the world literature on the relationship between the development of tourism and the structure and balance of the country’s balance of payments (Çelik et al., 2013), but there is still room for further research on these relationships.

Miočić and Čavlek (2015, p. 1) state that “The balance of payments is a macroeconomic statistical statement that systematically summarizes the economic transactions of a country with the rest of the world during a specific period of time.
This sentence suggests that such a balance includes both goods and services which are the subject of international trade. The specificity of tourism, which involves moving from the place of permanent residence to the place of temporary stay, determines that the export of tourist services is created by the arrival of foreign tourists to the country of stay – a tourist destination.

This means that tourist services provided to foreign tourists in the territory of the country of stay/tourist destination contribute to the increase in exports. Therefore, incoming tourism is a significant link in creating a positive balance of payments, even with a negative trade balance (Adamopoulos and Thalassinos, 2020).

On the other hand, already in the 1970s, there were views in the scientific discussion that signaled a need for a deeper analysis of the impact of tourism on the balance of payments. Among them was Airey (1978, Abstract), who investigated “the theme that the conventional approach to considering tourism in the balance of payments is too superficial and that what is needed is more perceptive research to reveal underlying reality.” This reality still requires in-depth research in the context of dynamic changes in the global tourism market, determined by the complex socio-economic and political environment.

When building an economy, Society 4.0 does not forget about organizing one's free time – mainly by traveling outside the place of permanent residence to another country. Among others, this is due to the fact that each trip has a very personal dimension for a specific tourist, shaping their personality; on the other hand, inbound tourism to a given country is an important part/aspect of its socio-economic development. “Inbound tourism is the act of someone traveling to a country other than that of where they live for the purpose of tourism [...] Many countries rely heavily on the demand from inbound tourists to fuel the development and operations of their tourism economy” (https://tourismteacher.com/inbound-tourism/).

Inbound tourism is economically significant for a country. The tourist countries economically rely on inbound visitors to drive their maintenance, growth, and development (https://travellezer.com/what-is-inbound-and-outbound-tourism/).

Tourism is seen as one of the “engines” of economic development especially at the regional (meso) level with a significant impact on the national (macro) level (Jackson et al., 2005). Activity within the tourism economy enforces the need for complementary development of different types of innovation (Golembski, 2007).

Inbound tourism is an important source of revenue for many countries – not only for those whose GDP is based on tourism. There are examples of European countries that significantly improved their balance of payments thanks to the development of inbound tourism (e.g. inbound business tourism to the UK: Table 1). However, the crisis caused by Covid-19 also had a negative impact on the foreign turnover of
many countries, as the decrease in the number of incoming tourists resulted in a reduction in their spending in the country of stay.

**Table 1. Inbound Tourism to Great Britain 2019-2022**

<table>
<thead>
<tr>
<th>Data</th>
<th>Quarter</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visits (000)</td>
<td>Jan–Mar</td>
<td>8,332</td>
<td>6,994</td>
<td>245</td>
<td>3,743</td>
</tr>
<tr>
<td></td>
<td>Apr–Jun</td>
<td>10,364</td>
<td>346</td>
<td>7,957</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jul–Sep</td>
<td>11,864</td>
<td>2,040</td>
<td>9,496</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oct–Dec</td>
<td>10,297</td>
<td>3,753</td>
<td>9,598</td>
<td></td>
</tr>
<tr>
<td>Nights (000)</td>
<td>Jan–Mar</td>
<td>50,657</td>
<td>48,012</td>
<td>11,969</td>
<td>36,558</td>
</tr>
<tr>
<td></td>
<td>Apr–Jun</td>
<td>69,214</td>
<td>14,775</td>
<td>63,065</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jul–Sep</td>
<td>102,784</td>
<td>31,896</td>
<td>91,255</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oct–Dec</td>
<td>66,973</td>
<td>34,882</td>
<td>71,987</td>
<td></td>
</tr>
<tr>
<td>Spend (£m)</td>
<td>Jan–Mar</td>
<td>4,805</td>
<td>4,344</td>
<td>287</td>
<td>2,852</td>
</tr>
<tr>
<td></td>
<td>Apr–Jun</td>
<td>6,896</td>
<td>545</td>
<td>6,847</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jul–Sep</td>
<td>9,193</td>
<td>1,775</td>
<td>9,066</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oct–Dec</td>
<td>7,555</td>
<td>3,039</td>
<td>7,732</td>
<td></td>
</tr>
<tr>
<td>Sample</td>
<td>Jan–Mar</td>
<td>6,720</td>
<td>5,917</td>
<td>1,346</td>
<td>8,097</td>
</tr>
<tr>
<td></td>
<td>Apr–Jun</td>
<td>8,455</td>
<td>3,994</td>
<td>12,934</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jul–Sep</td>
<td>9,731</td>
<td>6,167</td>
<td>11,670</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oct–Dec</td>
<td>9,167</td>
<td>9,425</td>
<td>11,694</td>
<td></td>
</tr>
<tr>
<td>Total Visits (000)</td>
<td></td>
<td>40,857</td>
<td>6,994</td>
<td>6,384</td>
<td>31,244</td>
</tr>
<tr>
<td>Total Nights (000)</td>
<td></td>
<td>289,628</td>
<td>48,012</td>
<td>93,522</td>
<td>262,864</td>
</tr>
<tr>
<td>Total Spend (£m)</td>
<td></td>
<td>28,448</td>
<td>4,344</td>
<td>5,646</td>
<td>26,497</td>
</tr>
<tr>
<td>Total Sample</td>
<td></td>
<td>34,073</td>
<td>5,917</td>
<td>20,932</td>
<td>44,395</td>
</tr>
</tbody>
</table>

*Source: Office for National Statistics. International Passenger Survey
https://www.visitbritain.org/research-insights/inbound-visits-and-spend-annual-uk*

The above data not only clearly indicate the dependence of the volume of incoming traffic since the pandemic, but they also indicate that its pre-pandemic level has not yet been achieved.

Comparison of the number of tourists coming to Poland in the corresponding years indicates a similar direction of changes, although the data indicate a faster “revival” of tourism after the pandemic.

According to Sas (2023, https://www.statista.com/statistics/445585/poland-outbound-tourist-expenditure/), the expenses of tourists coming to Poland in 2018–2022 were as follows (in millions of PLN):

- 2018 – 19,622.8
- 2019 – 21,158.2
- 2020 – 13,354.7
- 2021 – 15,470.6
- 2022 – 26,351.5
Therefore, foreign tourists’ expenditures in Poland in 2022 exceeded their level from 2019 by 24.5%. Analyzing the pace of the “revival” of the tourist traffic after the Covid-19 pandemic, it can be assumed that the tourism sector, despite its high sensitivity to uncertain conditions and after going through previously unforeseen threats, will be susceptible to the use of new solutions thanks to which, on the one hand, it will become competitive on the international market, and on the other hand, it will be satisfying for the consumer.

The above assumption is justified not only by overcoming the pandemic crisis or the war-affected environment (as a result of Russia's invasion of Ukraine), but it is also a sphere of services for organizing people's free time – time that requires and, simultaneously, awaits the fulfillment of people's deepest desires and challenges. Meeting them depends on following the development of technology and using it for the benefit of people – tourists, because only then can this type of services increase the income from their export.

In 2013, Vujovic et al. (2013) discussing the situation of the tourism sector in the era after the economic crisis stated, “However, despite all the economic crises and other problems, the only economic activity (or a model of economic development) that, regardless of any shifts in the economy and at all levels going forward is tourism.” (see: Conclusion).

In the face of the recent crises related to the Covid-19 pandemic and Russia's invasion of Ukraine, this thesis cannot be considered as a direct reflection of the complexity of the socio-economic situation of many countries, including tourism. Indeed, tourism suffered during the pandemic and under the pressure of war, but it is true that it quickly began to recover, which is confirmed by, among others, data on tourist arrivals to Poland in 2020.

The development of artificial intelligence will undoubtedly strengthen the position and role of tourist services in foreign trade. Therefore, we should agree that “in the tourism industry we will be able to travel in a completely different way, not only by navigating through various portals and booking hotel rooms and airline tickets, but also through simple requests addressed to artificial intelligence” (Badowski, 2023, p. 2).

Artificial intelligence will provide services, but it cannot replace humans in building relationships with tourists. In this sector, people will still determine the attractiveness of the service for tourists and, therefore, shape the trade in services on foreign markets.

5. Tourism and Gross Domestic Product (GDP)

In most economically developed countries, tourism has a noticeable share in generating GDP, although its amount depends on the specificity of the tourism
policy of a given country, in particular the role of this sector in the economy. The value of tourism revenues is directly related to the number of tourists visiting a given country and is the basic determinant of the share of tourist services in GDP.

Taking into account the current process of "revival" of tourism after the exceptionally unfavorable phenomena and processes of the last three years, one can assume that, as a sector, tourism should be included in the strategic development documents of countries that suffered as a result of the Covid-19 pandemic or Russia's attack on Ukraine.

This direction of action is presented, among others, by an OECD report: “Tourism has been hard hit by the crisis triggered by the COVID-19 pandemic, demonstrating its importance as a driver of economic prosperity, jobs, income and well-being. Just as the sector is starting to bounce back, the economic and social fallout from Russia’s war in Ukraine is dealing a fresh blow to recovery prospects” (Executive Summary, 2022).

Given this statement, the priorities of the tourism policy, reforming this sector and analyzing good practices of selected countries in the development of the economic and social functions of tourism, become particularly important. The available OECD data (Figure 1) indicate a lower percentage of the share of tourism in creating GDP in 2020 compared to 2019 for selected countries (Spain has the highest one – over 5%, while Chile the lowest one – over 1%).

According to the report of the Polish Economic Institute, Polish tourism generated approximately 1.3% of GDP in 2018: “The direct added value generated by the tourism industry amounted to 1.3% in 2018. GDP. The average value for OECD countries is 4.4%” (Polski Instytut Ekonomiczny, 2022).

The importance of tourism for socio-economic development cannot be perceived only through the prism of its contribution to the creation of GDP. Its important economic function lies in the creation of jobs, and a social function, e.g. in education in culture or development of competences in the field of social communication. According to the Polish Economic Institute, “in 2018, the tourism industry generated a total of PLN 140.92 billion in added value. […].

The industry is also an important element of the labor market in Poland and maintains a total of nearly 1.36 million jobs (Polski Instytut Ekonomiczny, 2022). According to the above-cited report, one zloty involved in the tourism sector contributed to generating PLN 4.3 of added value in the economy.

This coefficient is noteworthy and indicates the need to recognize tourism as one of many development priorities in the strategic documents of countries that see opportunities for the future in this sector.
6. Conclusion

The analysis of statistical data shows that tourism is an economic sector that suffered during the Covid-19 pandemic, but has been effectively rebuilding its condition since 2022. Through the development dynamics, this service sector can increase its share in GDP, because paradoxically, the effects of the Covid-19 pandemic and of the Russia's invasion of Ukraine have become a source of unsatisfied tourist needs of society.

Stimulating the export of services to build a positive balance of payments requires taking into account the economic role of this sector in the strategic priorities of countries and regions. The development of services— including tourist services— and
their place in international trade are factors that create new jobs and shape the condition of the economy. It was also shown that, compared to trends in world trade, there is a positive trend in exports and imports of tourist services in Poland after the Covid-19 pandemic.

The balance of services in the Polish balance of payments is positive, which proves the high competitiveness of services which contribute to the surplus of exports over imports of services to the greatest extent. Considering the fact that in a globalized world, services deliver key inputs and thereby provide crucial support to the rest of the economy (Key Figures on Europe…), the research problem of this study – the role of services in the contemporary post-pandemic economy – is justified by a necessity to recover and develop the service sector.

References:


Internet Sources: