Investment Dynamics in Poland

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Investment in Poland has not seen a clear trend
As increase in government investment...
...was offset by a decline in business investment.
Compared with other European countries, government investment is relatively high... (it has been cut in many other countries)

Note: For BGR and HRV data for 2014.
...while business investment is relatively low

Note: For BGR and HRV data for 2014.
The gross investment rate of non-financial corporates is near record lows

Non-financial corporations investment (percent of GVA)
Why is business investment so low?

- Is return on investment low?
- Are profits paid out as dividend instead?
- Are firms over-indebted?
- Is demand too low?
- Other factors?

- Preliminary thoughts—will be topic of IMF Article IV mission in Spring.
The return on capital has been rising
And the profit share is near two-decades high.

Gross profit share of non-financial corporations (percent of GVA)

Q4'2015-Q3'2016
There has not been much increase in distributed income
The bulk of increased profits have been retained

Saving and reinvested earnings on FDI in non-financial corporates
(percent of GVA)
Debt of non-financial corporations is low, both in terms of GDP.

Gross debt-to-GDP ratio of non-financial corporations (percent)

Note: For LVA data for 2004 and 2015.
...and in terms of debt to income.

Gross debt-to-income ratio of non-financial corporations (percent)

Note: For LVA and LTU data for 2004 and 2015; for BGR, HRV and ROM.
One factor that might hold back investment is slow growth in export markets.

Dynamics of exports of goods and services (percent y/y, 5-year rolling average)
Another factor is less incoming FDI
Global policy uncertainty might also play a role.

Economic Policy Uncertainty (EPU) and VIX Index (Index values)

- Global EPU-PPP adjusted
- European EPU
- VIX (rhs)

Events:
- US elections
- Brexit vote
Capital stock per capita in Poland is still relatively low.
Investment needs remain large: infrastructure less developed than in Western Europe.

Colored lines denote railways with maximum speed above 200 km/h.
And housing conditions need improvement
Capital accumulation will face headwinds in the future

- Tight labor market will increase wage pressure, reducing corporate profits
- The next EU funds perspective will most likely be less generous for NMS
EU funds are a significant contributor to capital accumulation.

Sources of capital accumulation in Poland (percent of GDP)

Investment rate in Germany

Thank you