

# Investment Dynamics in Poland



Presentation of EIB report

Warsaw, February 27, 2017

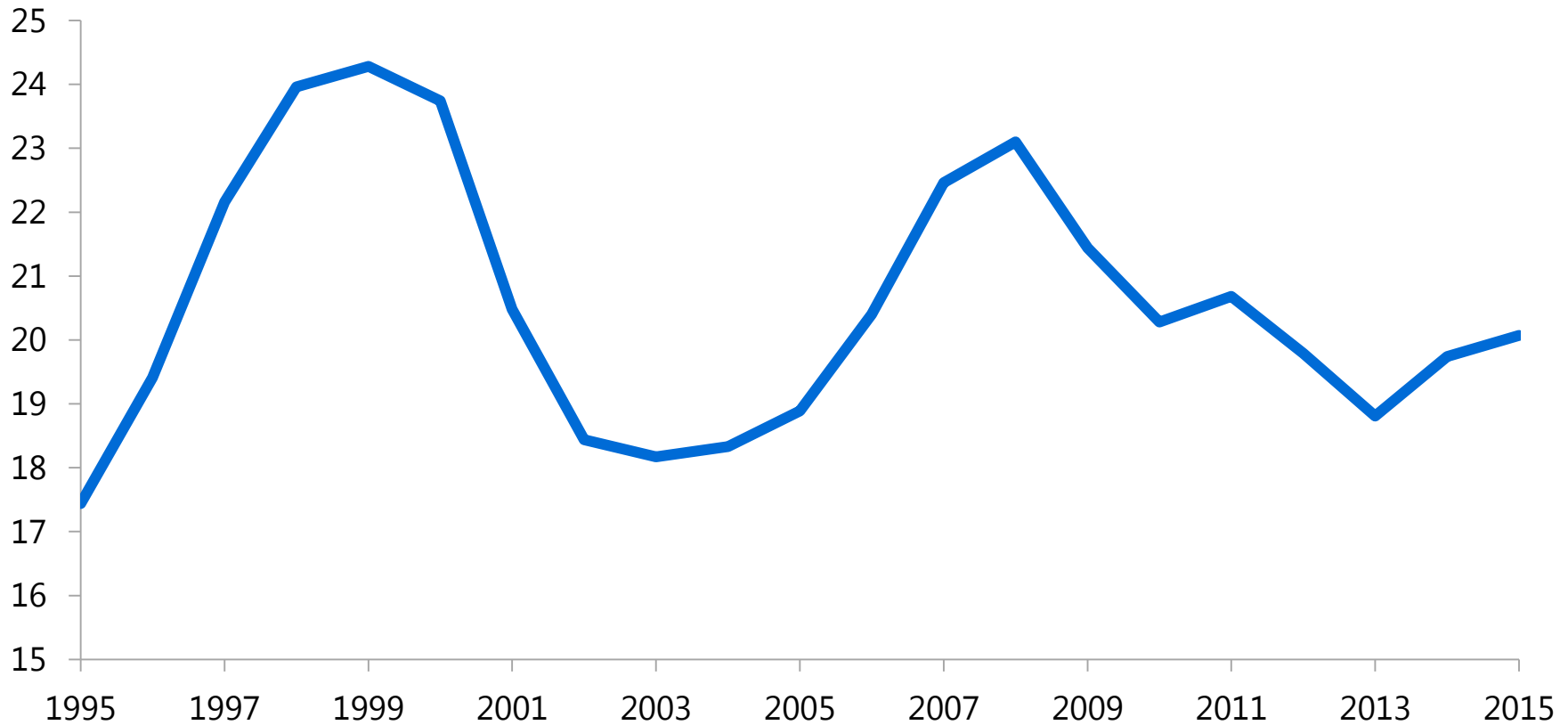
Bas B. Bakker

Senior Regional Resident Representative  
for Central and Eastern Europe

# Investment in Poland has not seen a clear trend



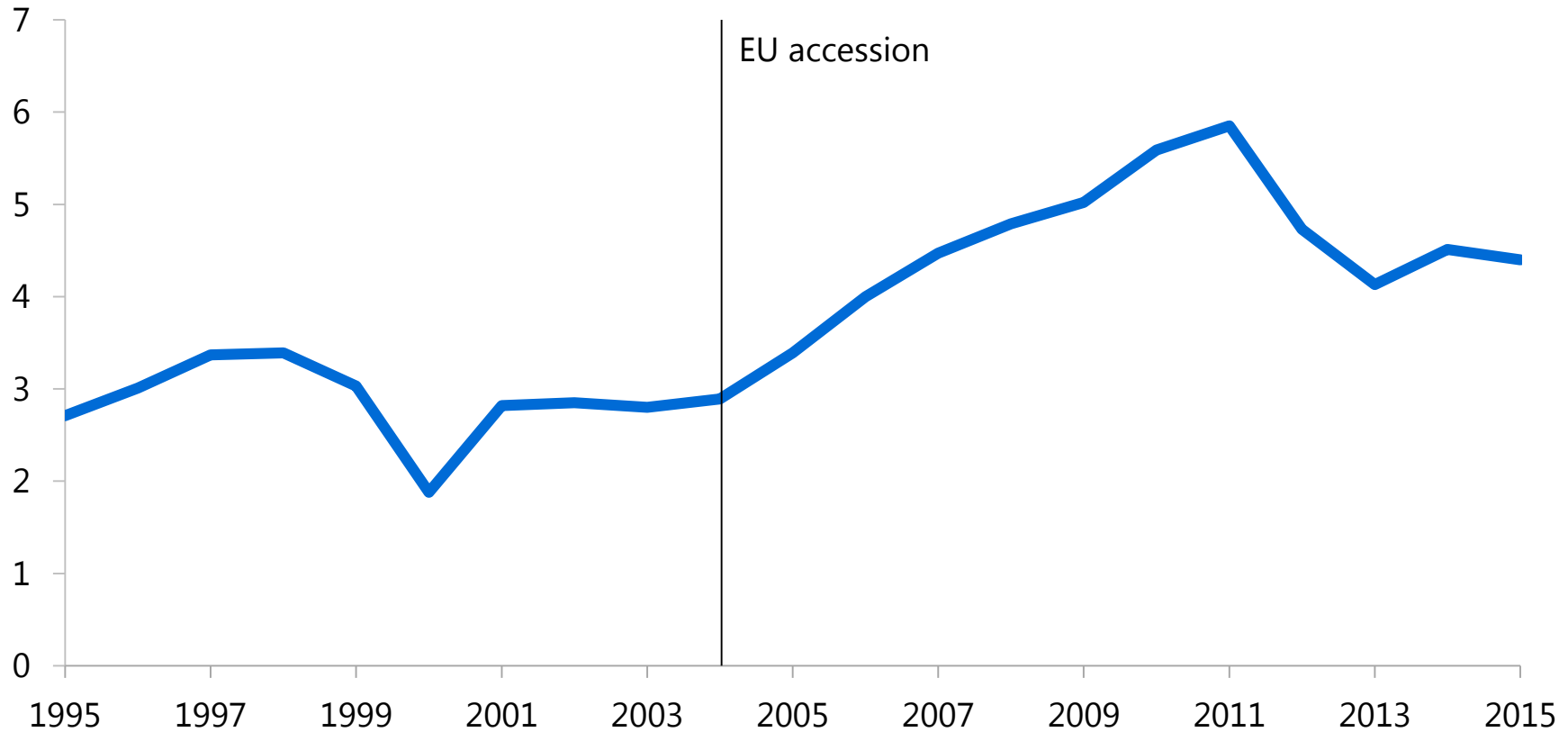
Investment rate  
(percent of GDP)



# As increase in government investment...



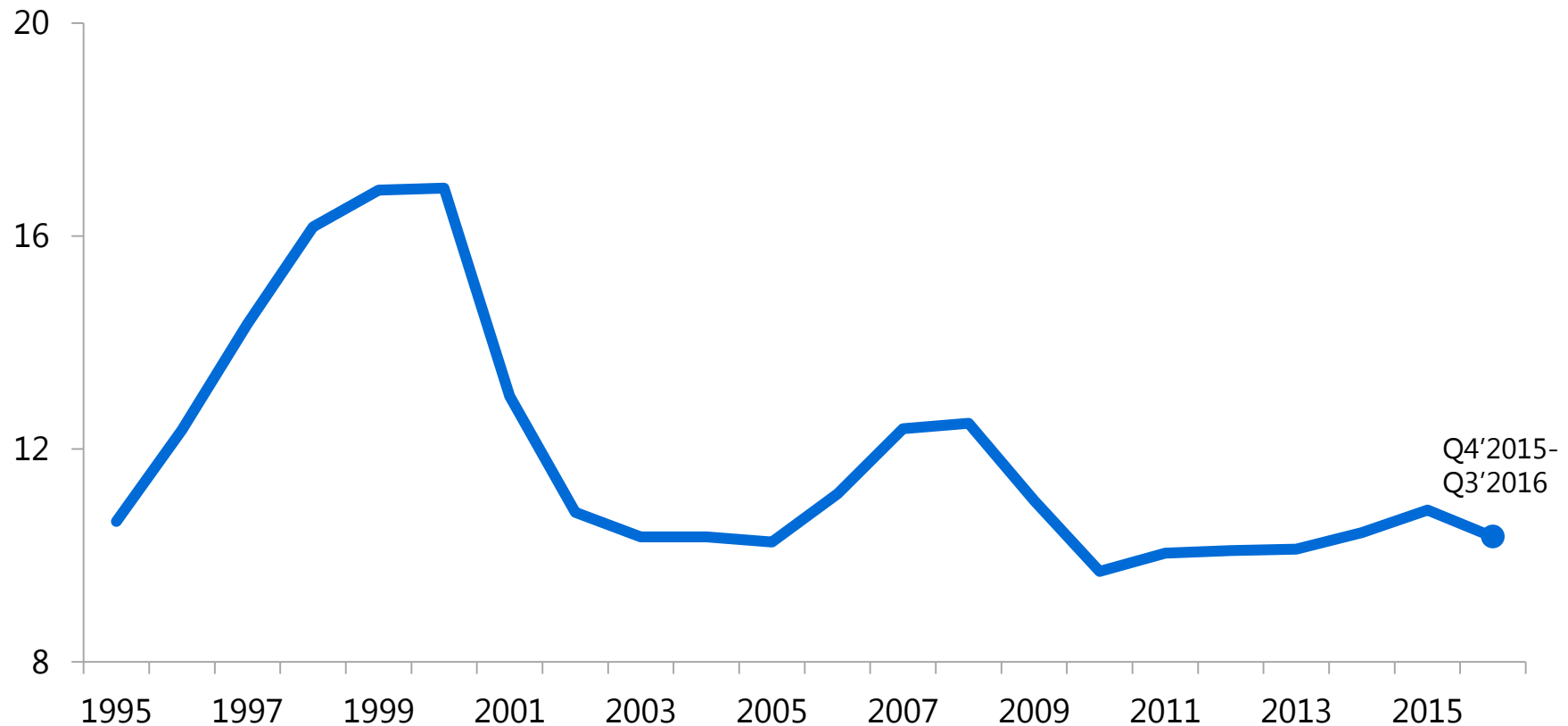
Government investment  
(percent of GDP)



...was offset by a decline in business investment.



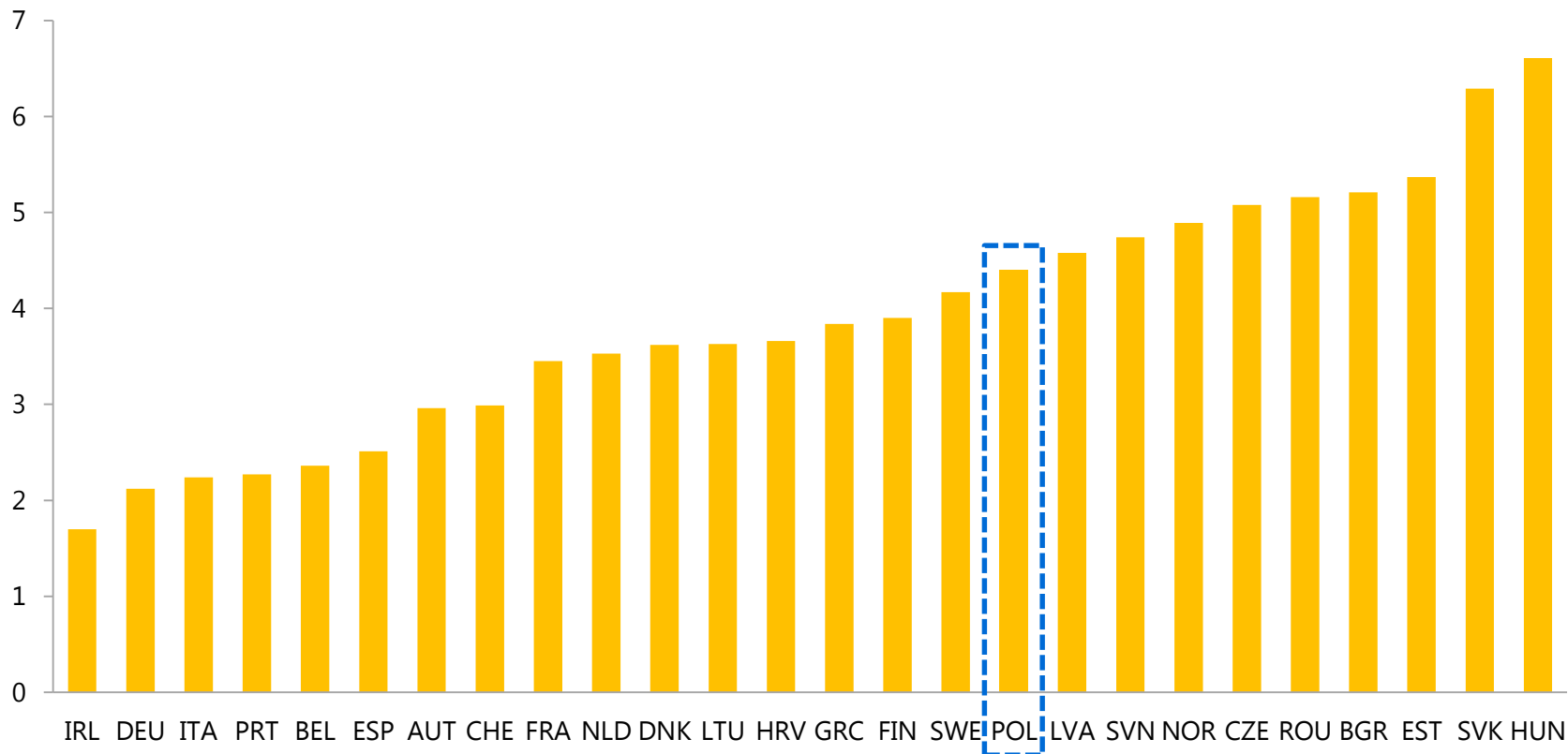
Business investment  
(percent of GDP)



Compared with other European countries, government investment is relatively high ...  
(it has been cut in many other countries)



Government investment in 2015  
(percent of GDP)

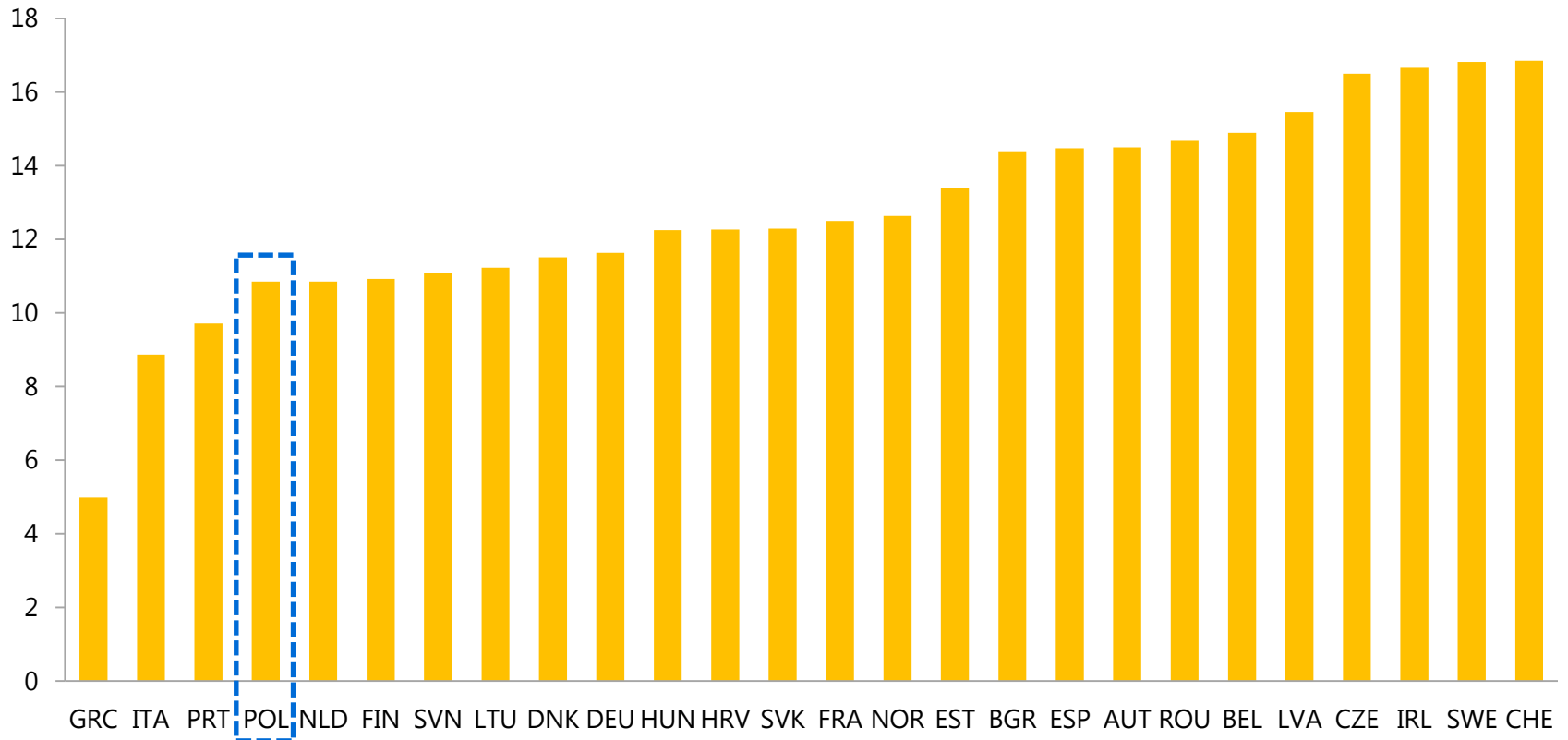


Note: For BGR and HRV data for 2014.

...while business investment is relatively low



Business investment in 2015  
(percent of GDP)

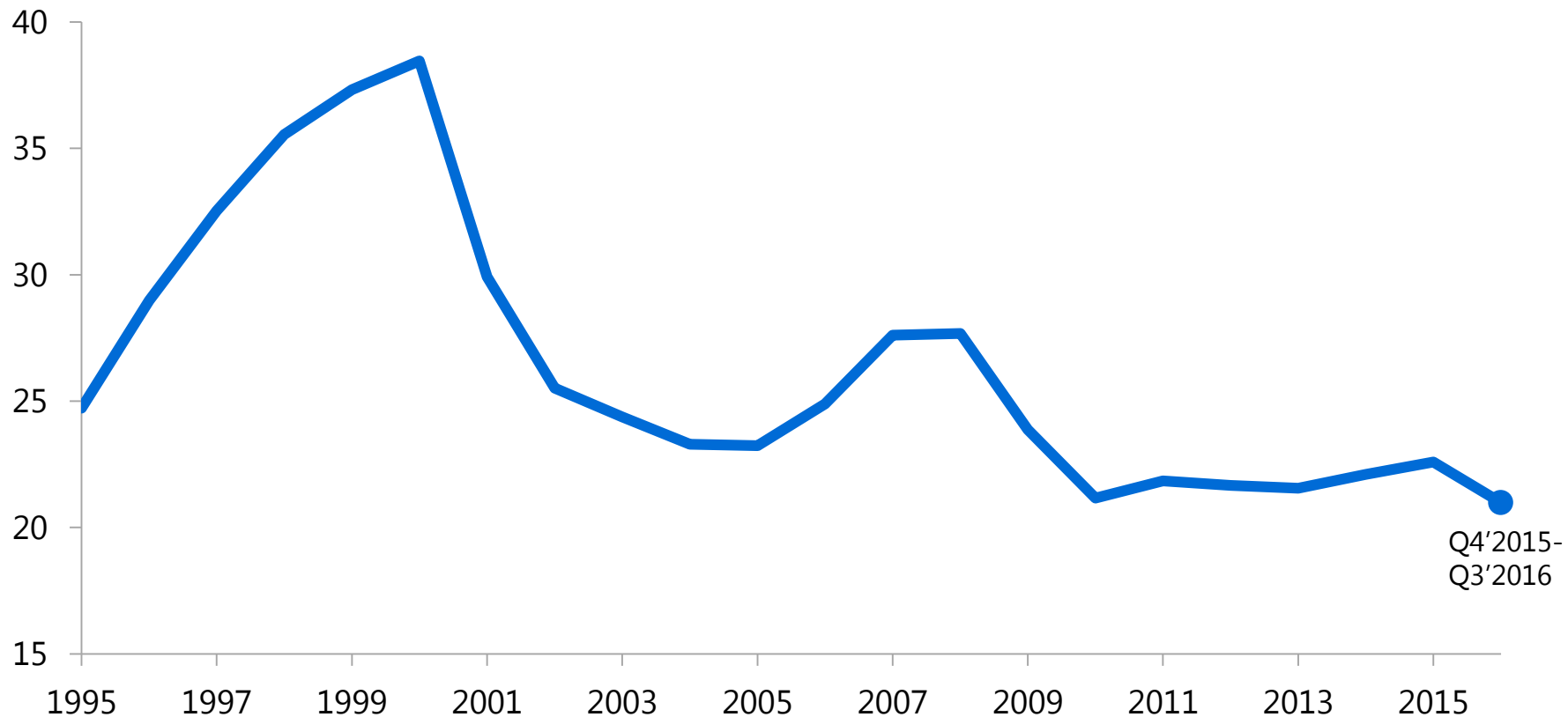


Note: For BGR and HRV data for 2014.

# 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?



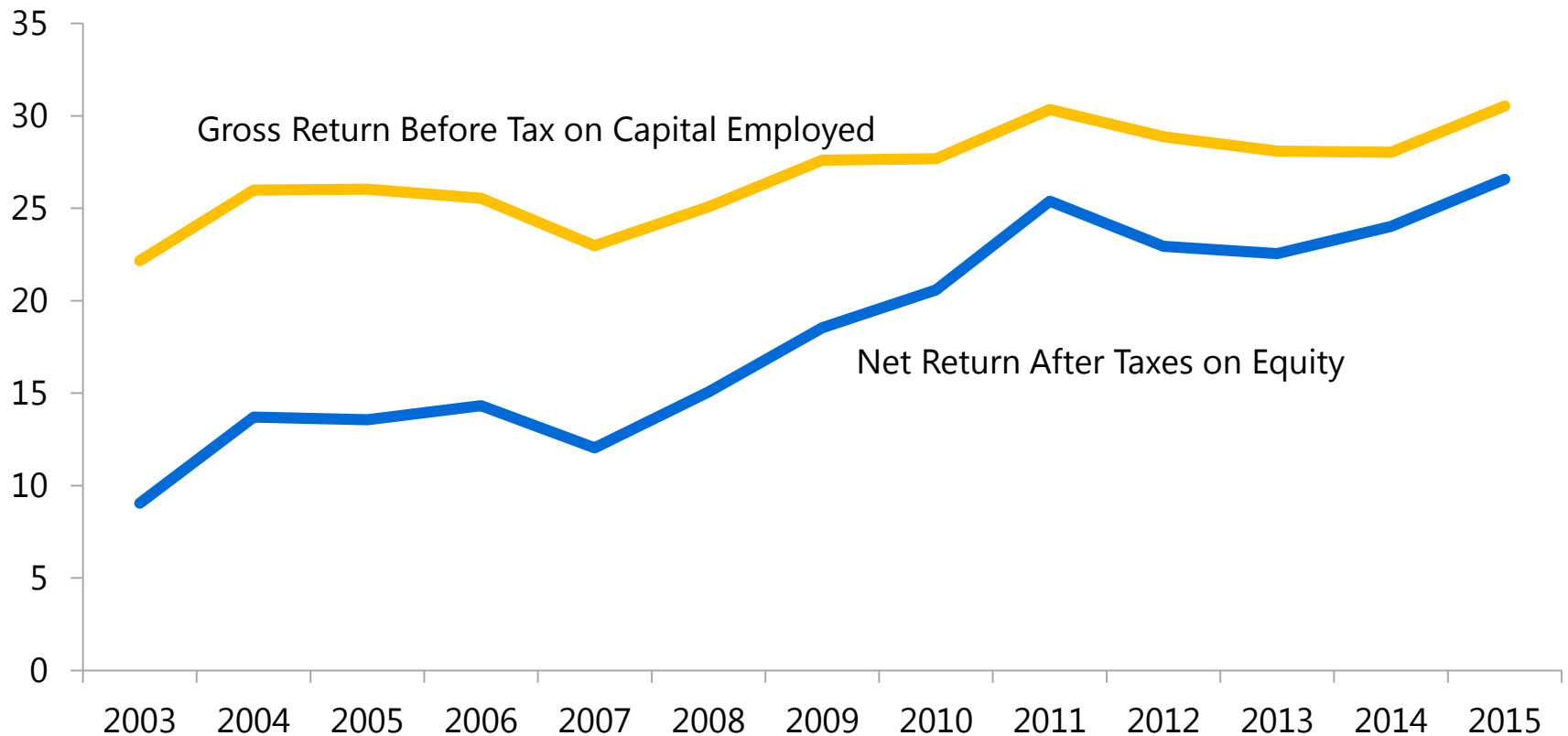
- Is return on investment low?
  - Are profits paid out as dividend instead?
  - Are firms over-indebted?
  - Is demand too low?
  - Other factors?
- 
- Preliminary thoughts—will be topic of IMF Article IV mission in Spring.



# The return on capital has been rising



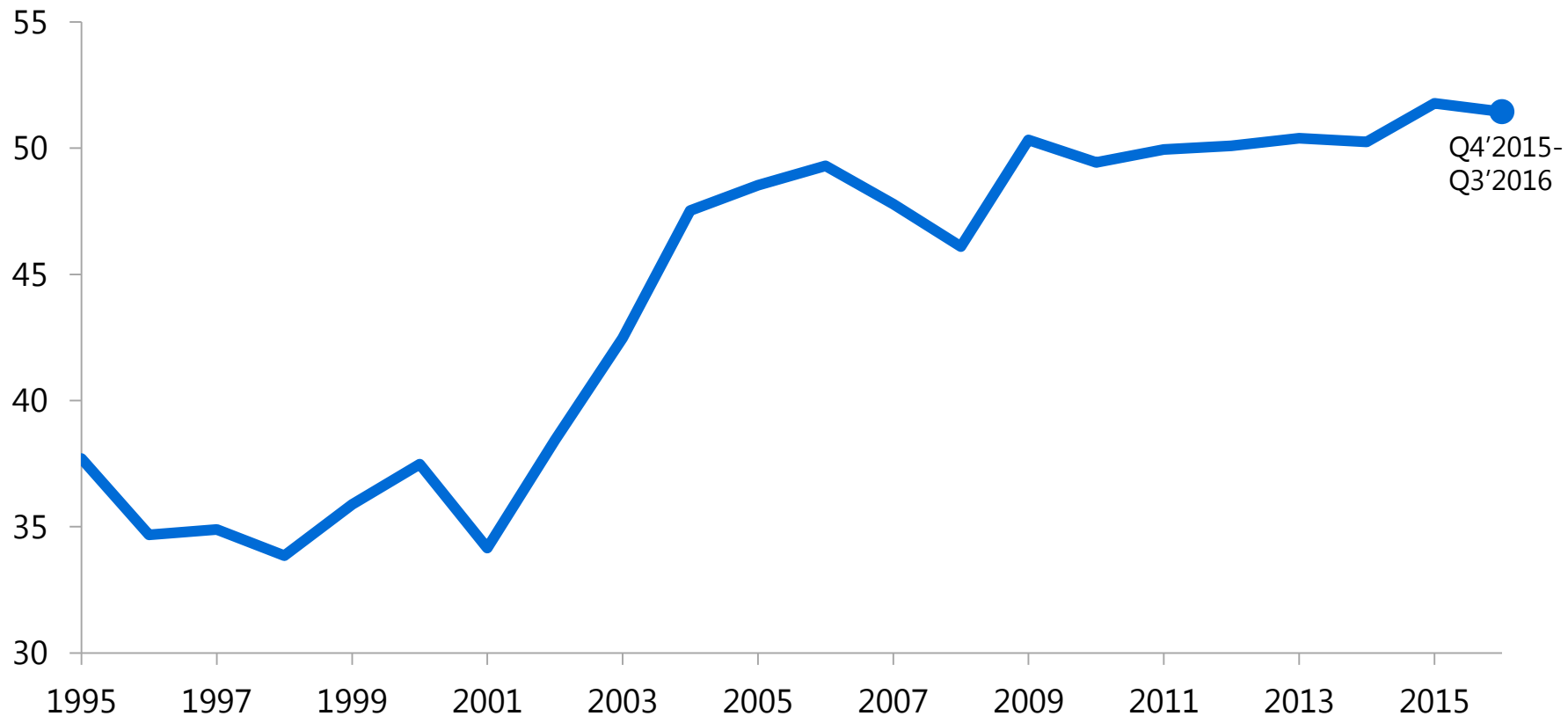
Return on capital employed and return on equity in non-financial corporations (percent)



# And the profit share is near two-decades high



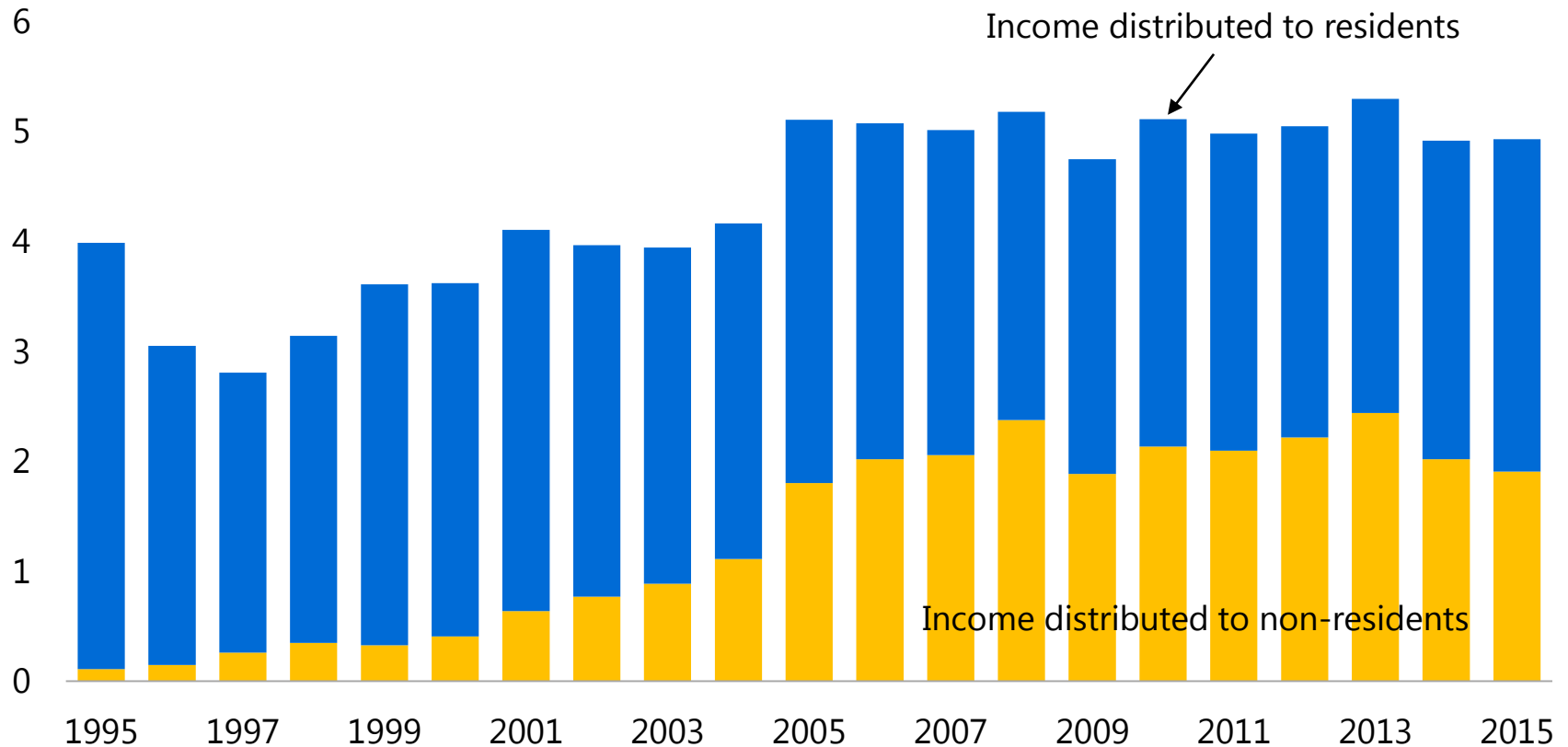
Gross profit share of non-financial corporations  
(percent of GVA)



# There has not been much increase in distributed income



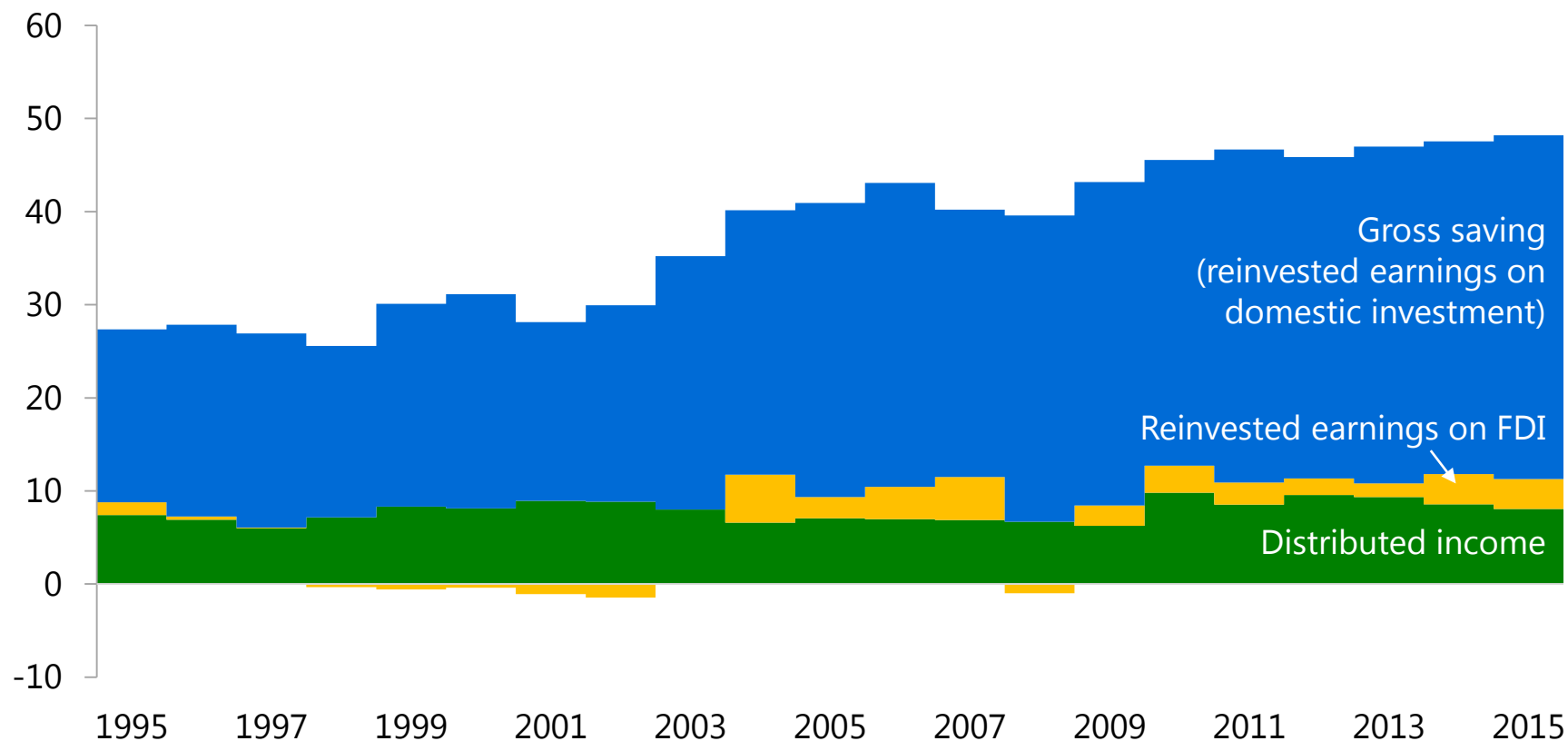
Distributed income  
(percent of GDP)



# The bulk of increased profits have been retained



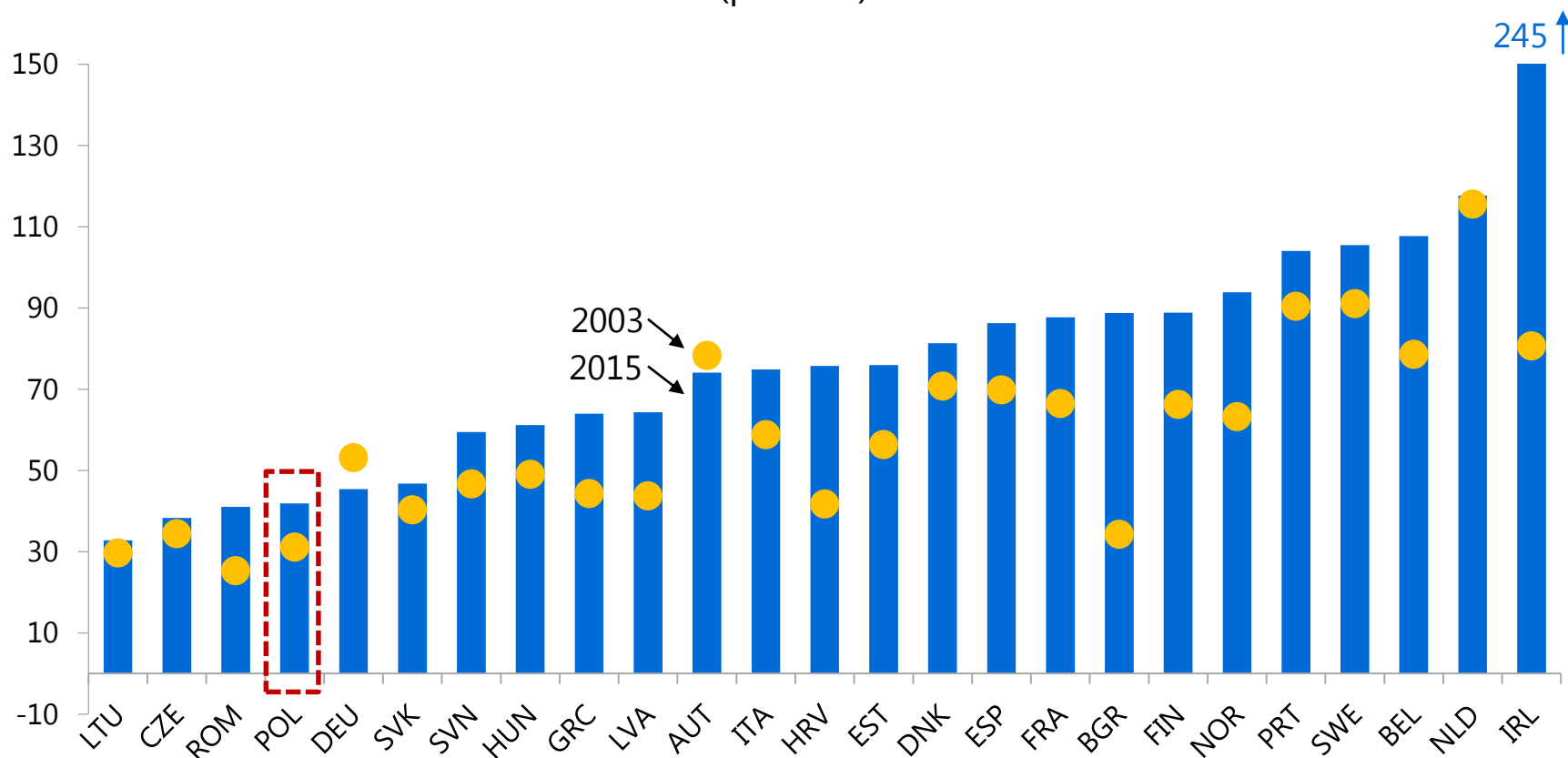
Saving and reinvested earnings on FDI in non-financial corporates  
(percent of GVA)



# Debt of non-financial corporations is low, both in terms of GDP....



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

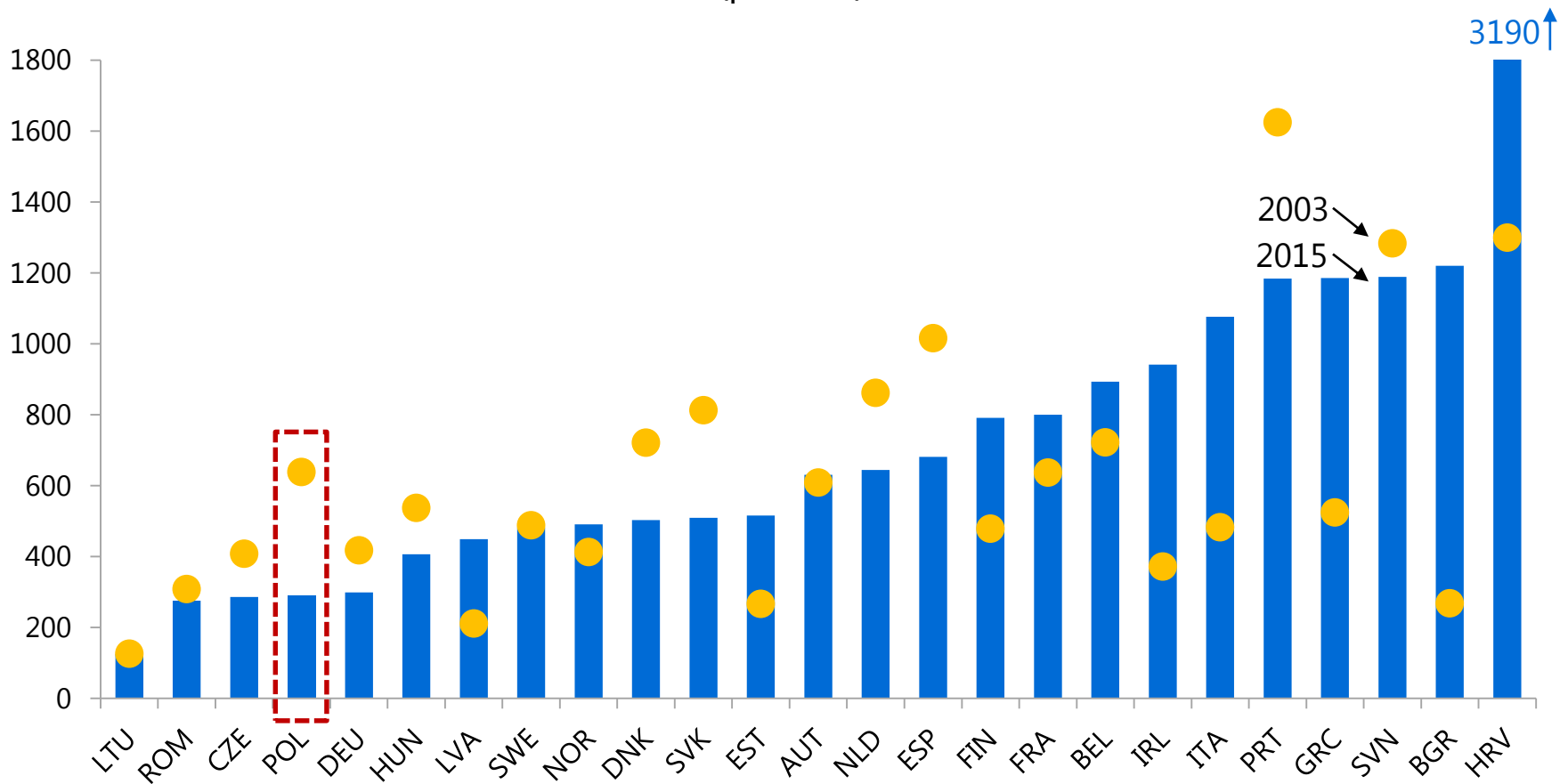


Note: For LVA data for 2004 and 2015.

# ...and in terms of debt to income.



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

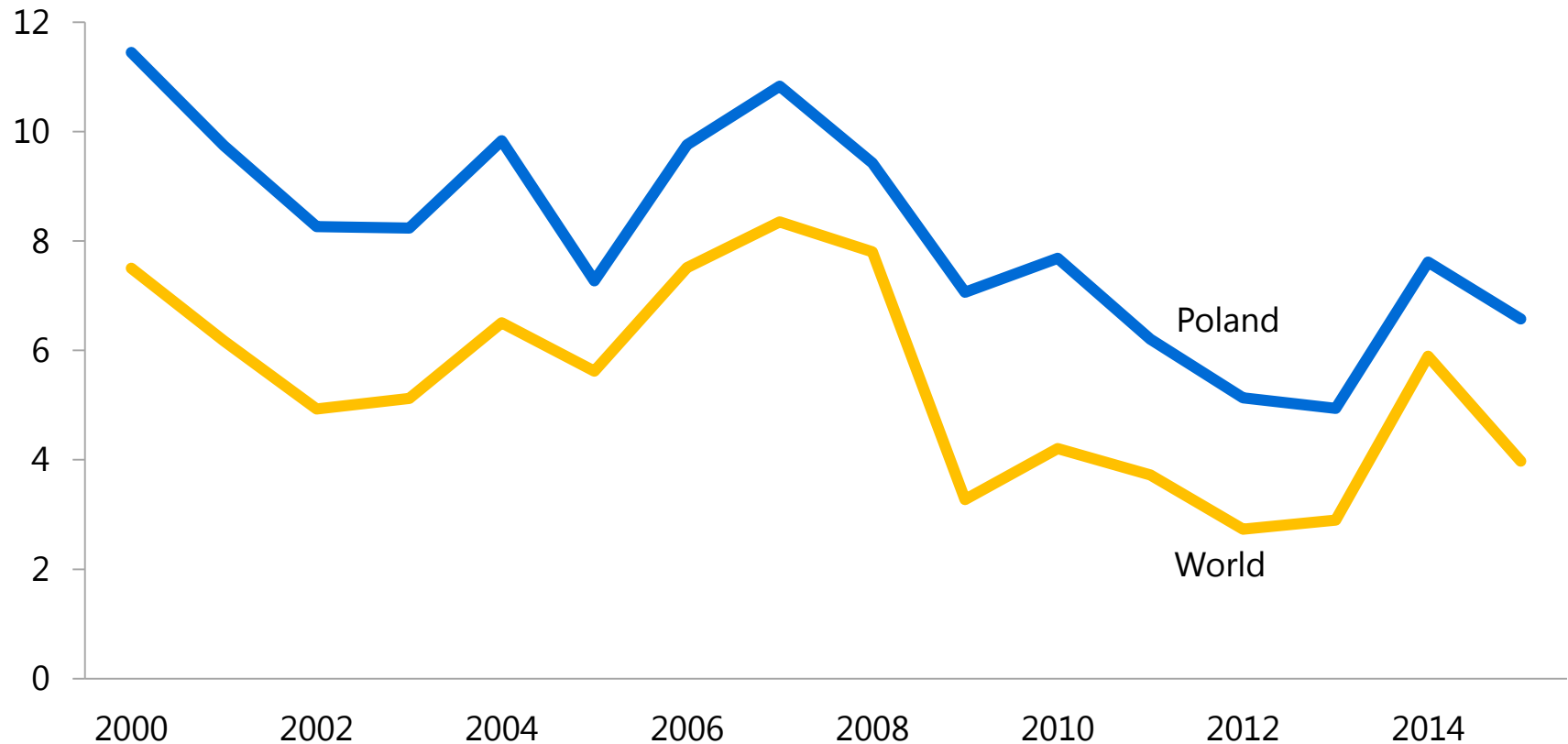


Note: For LVA and LTU data for 2004 and 2015; for BGR, HRV and ROM.

# One factor that might hold back investment is slow growth in export markets



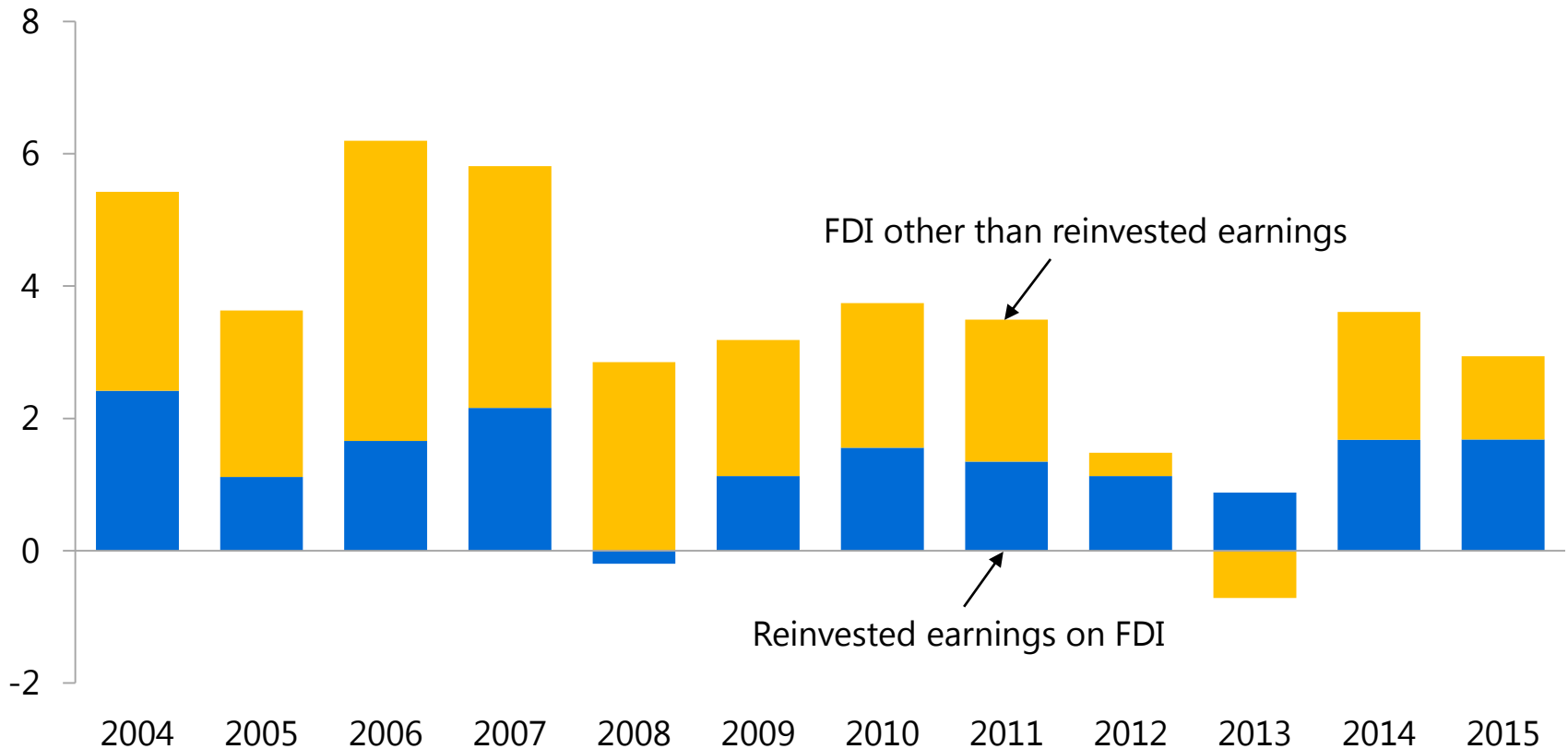
Dynamics of exports of goods and services  
(percent y/y, 5-year rolling average)



# Another factor is less incoming FDI



FDI inflow  
(percent of GDP)

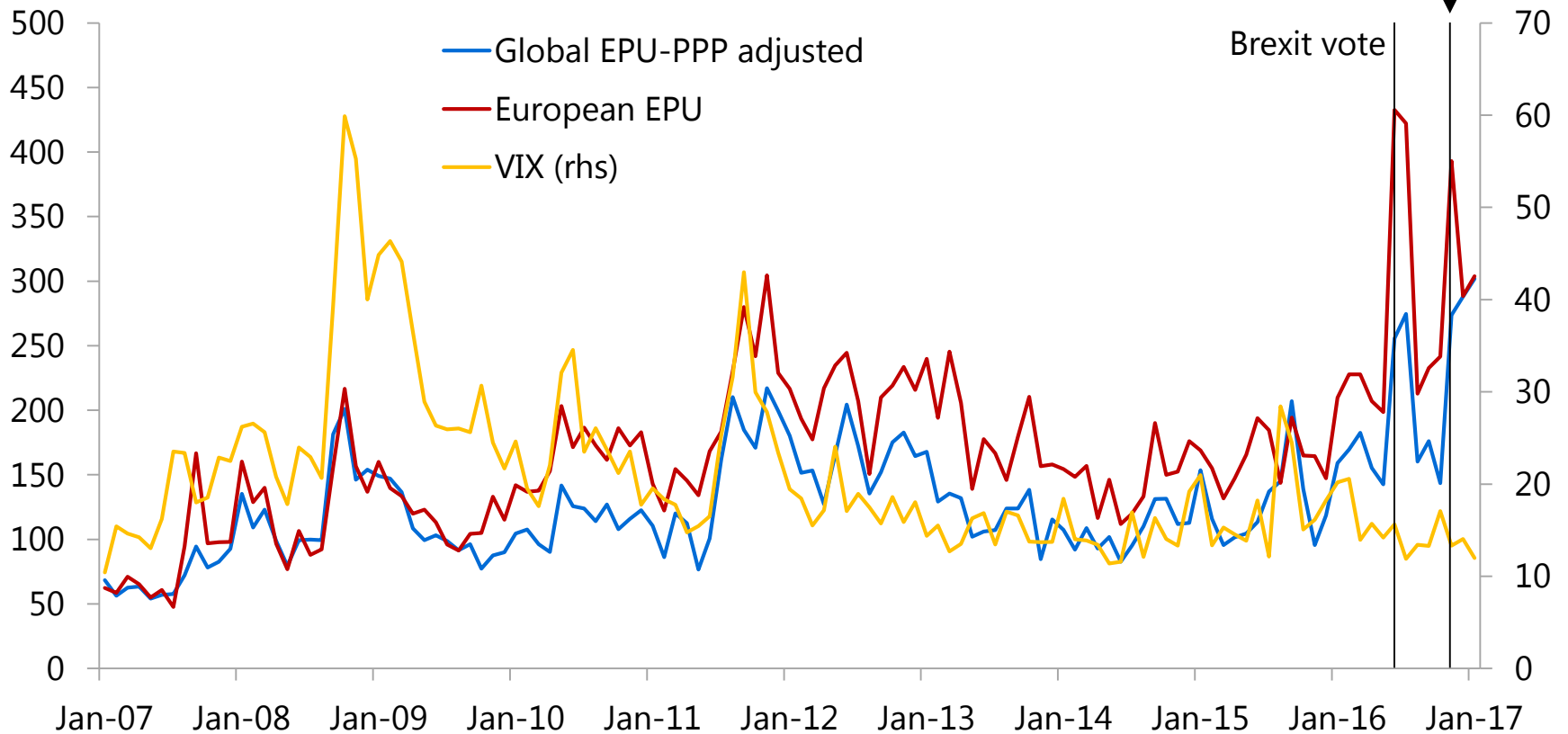




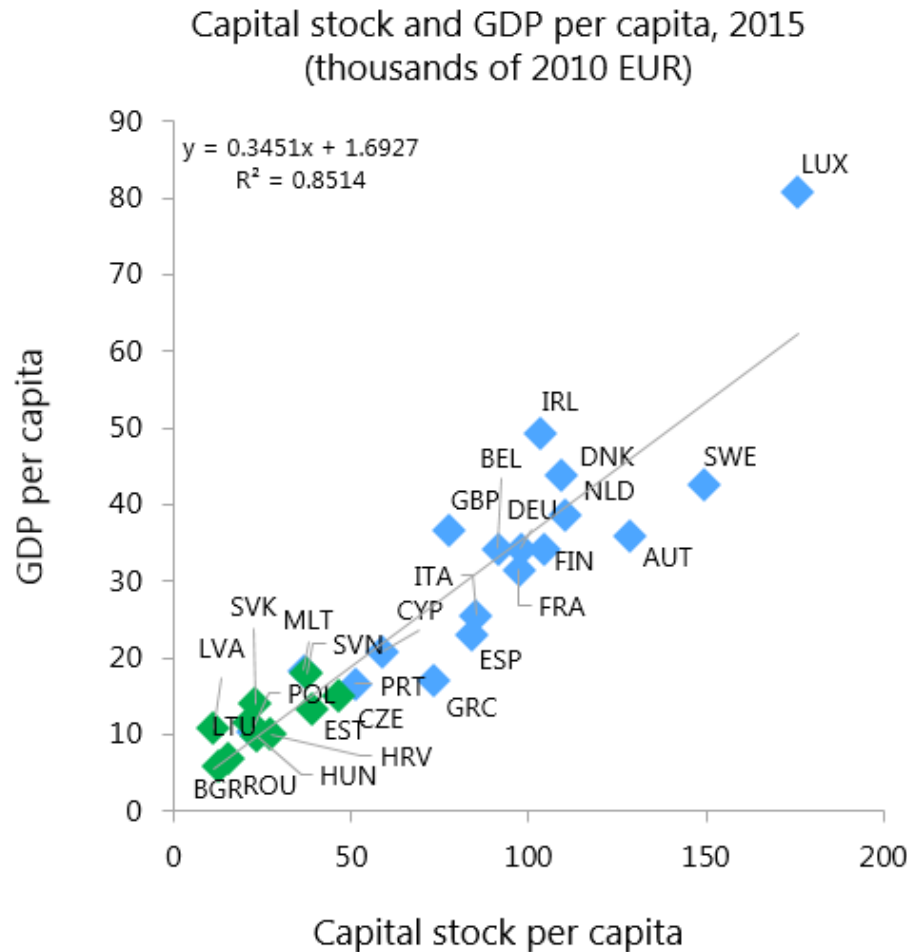
# Global policy uncertainty might also play a role



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



# Capital stock per capita in Poland is still relatively low



# Investment needs remain large: infrastructure less developed than in Western Europe



Railways



Highways



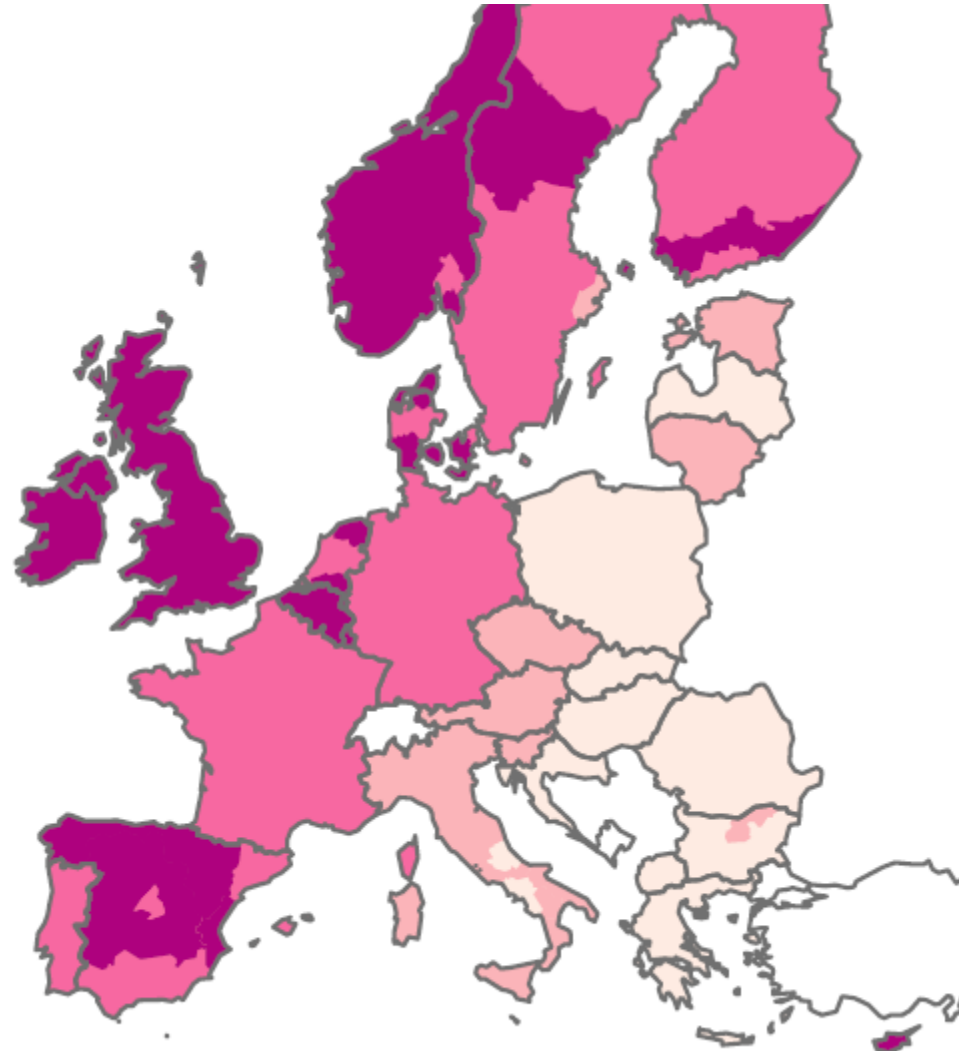
Colored lines denote railways with maximum speed above 200 km/h

# And housing conditions need improvement



Number of rooms per person

- under 1.2
- 1.2 to < 1.6
- 1.6 to < 2
- over 2



# Capital accumulation will face headwinds in the future

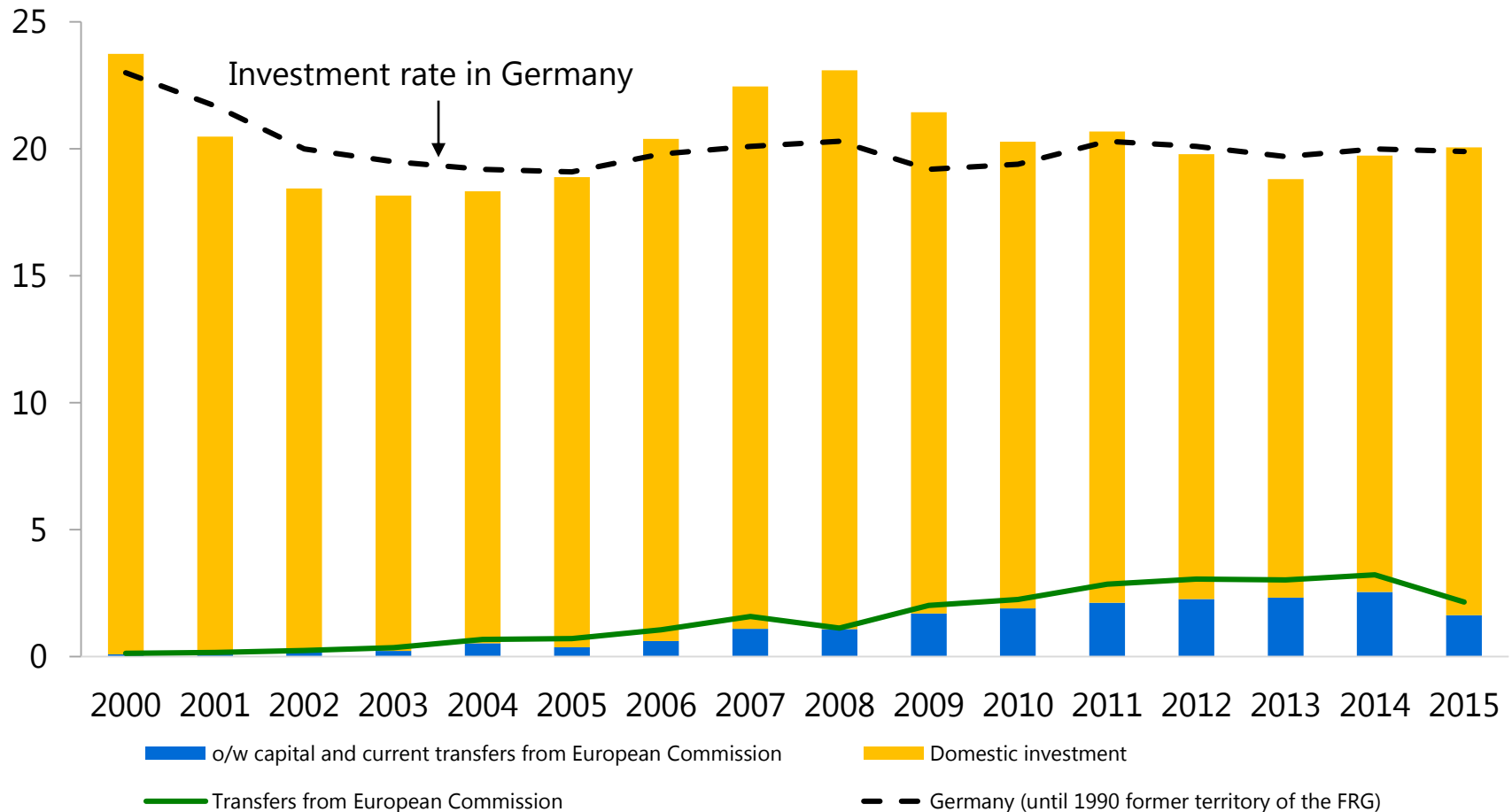


- Tight labor market will increase wage pressure, reducing corporate profits
- The next EU funds perspective will most likely be less generous for NMS

# EU funds are a significant contributor to capital accumulation



Sources of capital accumulation in Poland (percent of GDP)





Thank you