THINK Economic and Financial Analysis

Investment in Poland through the eyes of business

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Insights from a report by ING Bank Śląski and the European Economic Congress.

Past regression but hopes for a green, digital, and secure future

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For the third year in a row, we published a joint report by ING Bank Śląski and the European Economic Congress (EEC) – this time based on in-depth interviews with:

- 22 business leaders in Poland from various manufacturing companies, representing the following industries: engineering, electrical, chemical, transportation, apparel, food, construction, and mining
- heads of 3 foreign chambers of commerce (Germany, France and Italy)
- and a representative of the Association of Business Service Leaders ABSL.

These opinions were combined with macroeconomic and sectoral analysis by ING economists.

Full report in Polish was published in May; this article summarises its highlights.

Scope of the 2024 study: private investment

The joint project of ING Bank Śląski and the European Economic Congress (EEC) was conducted for the third year in a row. The 26 in-depth interviews were conducted by PTWP Group journalists in the first quarter of this year and were published on WNP.PL. The report summarised the collective voice of companies, juxtaposed with hard data and our economic analysis.

This year's survey concerns investment, an area crucial to the sustainable and balanced development of our country. Investments will determine the sustainability of Poland's economic recovery, perhaps even the prosperity of future generations (investments in energy and new industries). Nevertheless, we refer to the disruptions in global supply chains – which was the main theme in the previous two years – as the reaction of global and European companies triggered by them (nearshoring or friendshoring) may affect foreign and domestic investments in Poland.

We conducted several interviews (including Amica, representatives of the German and Italian chambers) with the same people interviewed in previous years, which allows for some 'comparisons over time', in particular an observation of the taming of uncertainty amid the continuation of the Russian war in Ukraine. The interviews were based on a uniform (though not identical) framework set of questions, which facilitated the establishment of a consensus and the isolation of discrepancies in views and expectations.

Why is the revival of private investment critical for Poland

The revival of private investment will determine the sustainability of economic growth in our country in the coming years, and perhaps even the prosperity of future generations, due to investments in zero-carbon energy and networks, as well as new industries and the implementation of artificial intelligence (AI) solutions.

In recent years, the Polish economy has grown mainly on the foundation of consumption. But investment has slowed down due to internal regulatory and tax impediments and the erosion of confidence in the institutions of the free-market economy. The situation was also aggravated by unprecedented external shocks (pandemic, Russian aggression against Ukraine).

But even in the difficult context of the Russian war in Ukraine and heightened geopolitical uncertainty, there have been opportunities to attract a new wave of foreign investors to Poland. On the other hand, the expected improvement in the investment climate, associated, among other things, with the unblocking of access to EU funds and the stabilisation of regulations and taxes, should support domestic investment.

We are already strongly connected to the global economy, so we can't abstract from what is forecast in it. And at the beginning of this year, due to the tense geopolitical situation and new black swans [events that almost no one expects, which are difficult to predict], such as the obstruction of shipping due to attacks by Yemeni Houthi rebels on merchant ships in the Red Sea area, a minor mood prevails. If the world increases trade this year, it will be little more than a weak 2023.

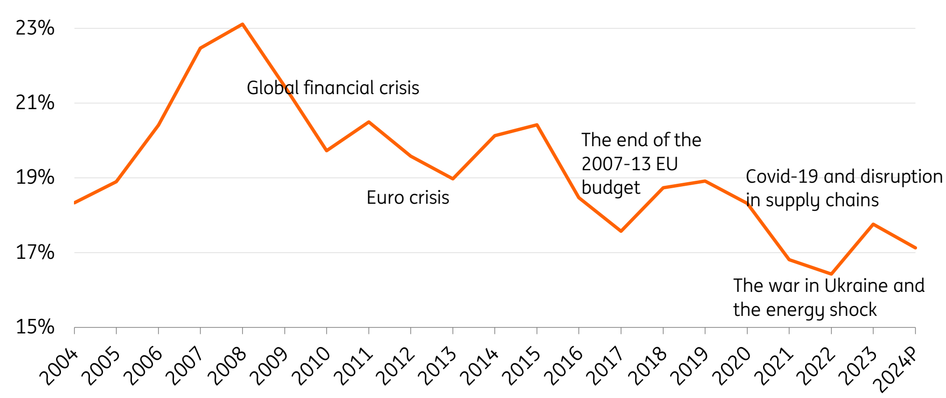
Piotr Iwo Chmielewski, Board member, Rohlig Suus Logistics

Long-term investment rate retreat since the global financial crisis began

In 2008, the investment rate in Poland reached 23% and has been on a downward trend ever since. In recent years, the investment activity of Polish companies has been strongly affected by negative shocks: the Covid-19 pandemic and Russia's attack on Ukraine. From conversations with companies, we know that such shocks have the effect of reducing or halting investment in the first reaction, but can later lead to increased investment to make companies more resilient in the future (e.g. investment in storage facilities in a pandemic or own energy sources after the Russian war in Ukraine).

The investment rate in Poland recently (17.8% in 2023) has diverged significantly from the EU average (22.2%) and the CEE countries (26.3% in Hungary or 27.0% in the Czech Republic). This comparison is very telling even though investment growth in 2023 of 13.1% year-on-year was temporarily very solid. It was influenced by several factors (accumulation of investments by large companies, piling up of infrastructure investments due to the end of the EU's long-term budget, high subnational governments' spending ahead of local elections in early 2024, high military spending, and a 2% credit scheme for primary house buyers, available through end 2023. Such a solid investment growth will not be sustained this year and a decline in investment in the first quarter of 2024 and probably in the second quarter confirm that. Poland needs to accelerate investments in a sustainable manner.

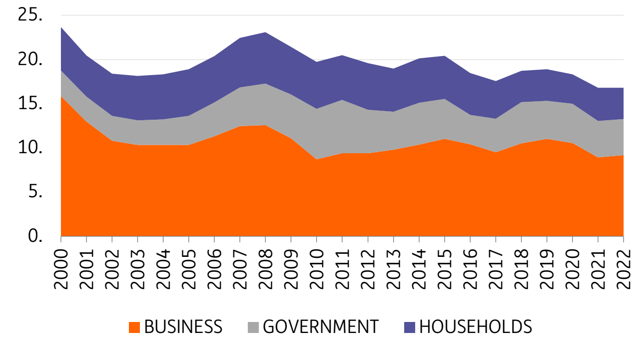
Investment rate in Poland, % of GDP



Source: CSO data, ING projection

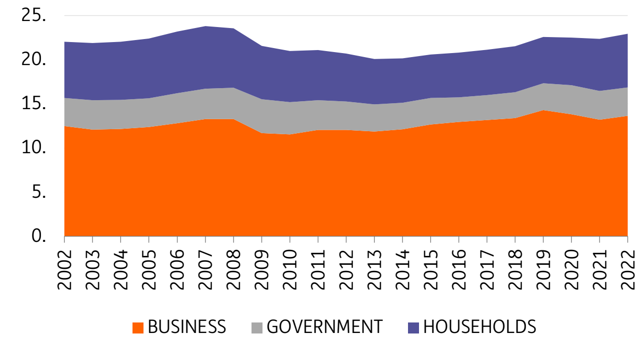
The historical decline in the investment rate in Poland was due to stagnant investment of private companies. Compared to the EU average, the lower investment rate in Poland over the last decade was mainly due to lower business investment in relation to GDP – orange area on the charts below. This was the main focus of our report. Public investment, which partly compensated for the gap in business investment, was at a higher level in relation to GDP than the EU average as Poland was catching up with its infrastructure, while household investment was generally at a lower level. We focus the key questions about the causes of the regression and the hopes for a rebound in investment in Poland on business investment.

Poland



Source: Eurostat

EU27



Source: Eurostat

(Former) Investment barriers

In their opinions on barriers to investment, companies operating in Poland clearly indicate what politicians should most avoid. Our survey is qualitative in nature, it is not a representative quantitative survey.

Representatives of companies listed among the key barriers (counting from those with the highest frequency):

- quality of regulation and stability of (administrative) law
- predictability and stability of taxes
- high investment costs and inflation
- shortage of specialists on the labour market
- high interest rates (financing costs)

Most common barriers to investment mentioned in interviews

Regulatory quality and stability of (administrative) law	• • • • • • • • • • • • • • •	15
Predictability and stability of taxes	• • • • • • • • • • •	11
High investment costs, inflation	• • • • • • • • • • •	11
Shortage of specialists on the labour market	• • • • • • • • •	9
High interest rates/high financing costs	• • • • • • • •	8
Commodity price volatility	• • • • • •	6
State of electricity networks, access to green energy	• • • • • •	6

Dot-plot: the number of dots indicates the number of interviewees who mentioned a barrier
Source: Assessment by ING Bank Śląski economists based on the interviews in the project.

The dot-plot diagram reflects the frequency of indications of a given investment barrier and is for illustrative purposes only. However, the indications of our group do not differ significantly from quantitative surveys, for example the CSO. Companies surveyed by the CSO also pointed to the inconsistency and instability of the law, although they complained mainly about costs and uncertainty.

It is true that the investment rate in Poland has fallen dramatically in recent years. The reasons for this are complex – and not only 100 per cent dependent on domestic factors. However, the instability of the law, conflict with the European Union, bureaucracy and administrative processes, monetary policy and high inflation, limited availability of well-prepared and developed investment areas, limited tools to stimulate investment by Polish companies have all contributed significantly to this state of affairs.

Robert Chryc-Gawrychowski, CEO, Northvolt Systems Poland

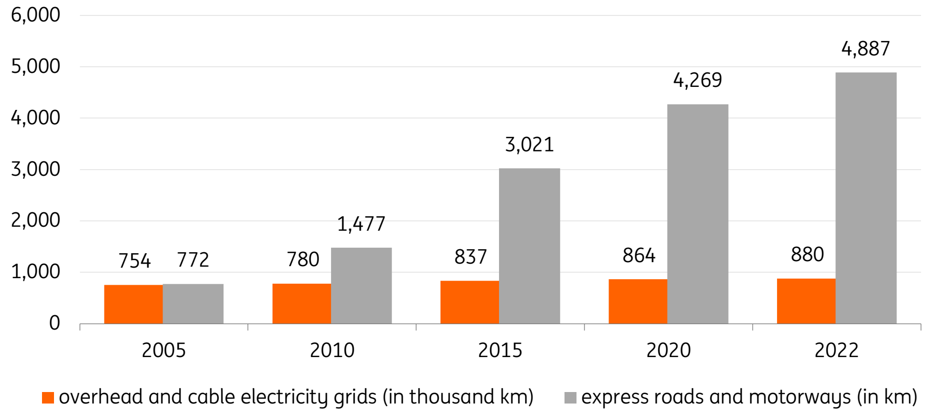
For our industry, predictability and legal and tax transparency remain key. And regulations have been changing so rapidly that they have made it difficult to plan further activities, while at the same time regulations have been lacking in many important aspects.

Paweł Panczyj, Board member, director of strategy and development, ABSL

Underinvestment in electricity grids

Underinvestment in electricity grids has often been cited as a major barrier to RES connectivity. The rate of grid investment over the last two decades contrasts with the rate of investment in express roads and motorways. Their construction has remained a priority for changing governments and has relied on stable sources of funding, particularly EU funds. This has allowed the length of express roads and motorways to increase sevenfold (to 5,000 km) over two decades, while the length of transmission and distribution networks has not changed significantly during this period.

Length of express roads and motorways (in km) and length of electricity grids in Poland (in thousand km) since 2005



Source: Ministry of Climate and Environment and Ministry of Infrastructure

Freezing indigenous capital; savings in financial instruments

Company representatives generally considered refraining from investment from an individual or sector specificity. Some argued that freezing money goes against the essence of doing business. In some industries, however, not reacting would mean going out of business. This was the case, for example, in ports – in the context of rising freight demand and the need to stay ahead of market trends. Faced with disruptions in global supply chains, some companies were forced to freeze more money in working capital (shopping around just in case), which reduced the space for financing investments.

The uncertainty and risks associated with the unpredictability of the law led some companies to freeze funds in financial instruments. This generally meant a lower rate of return, but with lower risk. Our interviewees indicated that capital may have been frozen by companies with stable growth, waiting for developments and planning investments for the future. Such an explanation would imply a temporary hibernation of the incredible entrepreneurial spirit in Polish companies, rather than a permanent change in attitude to a more precautionary and pro-consumption attitude. Some interviewees suggested that Polish companies may have invested in real estate abroad.

SMEs more risk averse in investment activity

Some interviewees see the large share of SMEs, including family businesses, as a factor explaining the lower investment rate (e.g. Eurowafel, Amica). Compared to large companies, this is supported by the following factors:

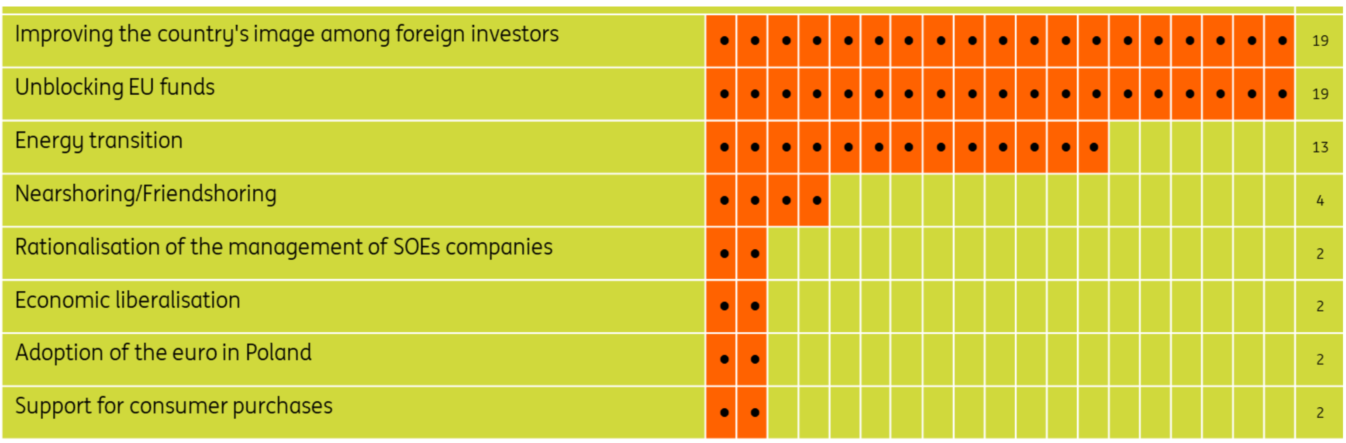
- limited access to capital (high cost of financing)
- high taxes and labour costs
- bureaucratic barriers
- less willingness to take risks
- limited resources for research and development (R&D)

> *It seems to me that in SMEs people make very rational decisions. If they have hesitations about what is going to happen with the 'legislative layer', they are automatically less willing to make investments than the big players, because they have to risk their capital directly. Unfortunately, some of the PiS government's actions were probably socially correct, but someone overlooked, for example, the dramatic impact of the minimum wage increase on small and medium-sized businesses... These companies are not able to raise prices as much as wages change. And in three or four years they have grown by almost 100 per cent. It has become very difficult to compensate for this component in company costs – especially when you also add in the huge increase in energy costs.*
>
> **Robert Stobiński**, Board member, Amica

New hopes for a revival in investments

Polish entrepreneurs pin high hopes on the unblocking of EU funds, including from the KPO, and the improvement of Poland's image on the international arena. Regarding these two effects, Polish business speaks almost with one voice.

Hopes for trend reversal in investment in 2024/25



Dot-plot: the number of dots indicates the number of interviewees who mentioned a barrier
Source: Assessment by ING Bank Śląski economists based on the interviews in the project.

The rise in valuations of Polish assets in recent months and the zloty strengthening reflects the improved perception of the Polish economy by foreign investors. Although most of our interviewees are positive about the changes in Poland's global image, many remain cautiously optimistic about the possibility of translating only an improved perception into investment activity.

The zloty appreciation in recent months is linked to the unblocking of the inflow of EU funds, and the increase in the value of the Warsaw Stock Exchange index discounts the expected improvement in the general legal and tax environment for business.

> *Today we have a new opening. The fact that trade between Poland and Germany is mutually beneficial, and that we are strongly linked economically, is again seen as an asset and not as an obstacle… This will be a major boost for investment development in Poland (…)*
>
> *The global climate for Poland is very good. Poland is a great country for reshoring. It is perfectly suited for investments from the Far East to be located here. It is also important that the more Western involvement in Poland, the greater the security also in case of a military threat to our country.*
>
> **Marek Staszek**, President, DB Cargo Poland

Poland has a unique geographic location to play a bridging role in Europe, through its proximity to the east of the continent and strong strategic and political ties with the US, which can be a magnet for greater involvement of US companies in Poland. An example of Poland's strategic choice as a good place for investment is Intel's investment in Miękinia near Wrocław, already announced after the outbreak of the Russian war in Ukraine.

> *Poland is still a country with a dynamically developing economy, a large market with a strong position in NATO and the European Union. Major global players such as PepsiCo, Intel and Daimler Chrysler are investing in our country.*
>
> **Artur Popko,** President, Budimex

EU funds will support investment, but side effects may emerge from 'short expiry date' of the RRF

The unblocking of EU funds from the new financial perspective 2021-27 and the Recovery and Resilience Facility (RRF) provides solid support for Poland's economic growth and credit ratings globally, as has been repeatedly signalled by the rating agencies. Without breaking the deadlock in relations with the EU, Poland risked a significant drop in inflows this year, which is a transitional year between the end of the old and the start of the new financial perspective. RRF loans will play a large role in the structure of funds; the ratio of grants to loans in KPO is 42:58. Our interviewees have a clear preference for non-reimbursable funds from the EU, though.

Already this year, RRF flows will facilitate high public borrowing needs and budget liquidity management, large disbursements will gradually be used for projects. However, the impact of EU funds on GDP, particularly on investment, will be delayed until 2025 and 2026. This is due to the approximately two-year delay in the implementation of this facility.

However, companies see some risks related to the cumulation of projects under RRF in a short period of time. More than 10 years ago, Poland experienced an accumulation of public investments in connection with the preparations for EURO 2012. As a result of the short period of RRF implementation (formally until the end of 2026), the situation may repeat itself. This would have an impact on price increases, the availability of workers, and the timeliness of construction work.

Energy transition as a lever for investment and economic competitiveness

Most of our interviewees hope that the acceleration of the energy transition will provide a strong investment boost to Poland. Accelerating the energy transition in Poland is necessary to:

- reduce uncertainty (resulting from fluctuations in global fuel prices)
- avoid high costs (resulting from high CO2 allowance prices) and
- meet ESG requirements (which will permanently remain a corporate megatrend – with implications for trade and foreign investment).

Investment in zero-carbon technologies in power generation (renewables and nuclear) remains the essence of the transition, with electrification as a channel for decarbonisation in transport, buildings or industry. Zero-carbon technologies in energy are mature, proven and now relatively cheap.

> *If we do not accelerate the energy transition and continue to lag behind many EU countries, we will gradually worsen the competitiveness of Polish companies and the economy. The energy transition strengthens economic development also because it means a significant investment stimulus.*
>
> *It is important to maintain, as part of the energy transition process, equal access to the implementation of investments – regardless of the ownership of the companies involved. We have to remember that the competitiveness of all investment processes in the area of transformation can only be ensured by the participation of private business.*
>
> *When we do this and have a lot of energy from RES, energy prices will be stable – I estimate that they will be lower than today, but energy storage costs and higher system service costs will come in. However, according to many studies, the total energy costs of the 'RES – energy storage – flexible demand' solution will be less than the current costs...*
>
> **Jarosław Bogacz**, Vice president, KENO

Access to green energy is a prerequisite for foreign investors interested in reducing the carbon footprint of their entire supply chains. Following the normalisation of fuel prices on world markets during 2023, we have returned to the electricity market price relationships we saw before the war. With relatively high prices of CO2 emission allowances, the wholesale market price of electricity in Poland is recently higher than in Germany or Scandinavia. This poses a risk for competitiveness of Poland's manufacturing base.

For further RES expansion in Poland, it is necessary to relax grid constraints as soon as possible and to increase network capacity, especially distribution networks, energy storage, and distributed off-grid solutions. Both capacity and grid expansion can benefit from widely available financing: public, including EU, and private, including bank loans.

Nearshoring and friendshoring – a complex and gradual process

Already in last year's survey, our interviewees argued that nearshoring would be a gradual process, already realised through supplier diversification, and in the medium to long term, foreign investment could be expected to increase.

In the first phase, nearshoring consisted of supplier diversification rather than the cancelling of existing suppliers. Some interviewees (Bewa) saw greater nearshoring activity in the aftermath of the Covid-19 pandemic, but with the situation stabilising, interest in moving sourcing closer to the market declined.

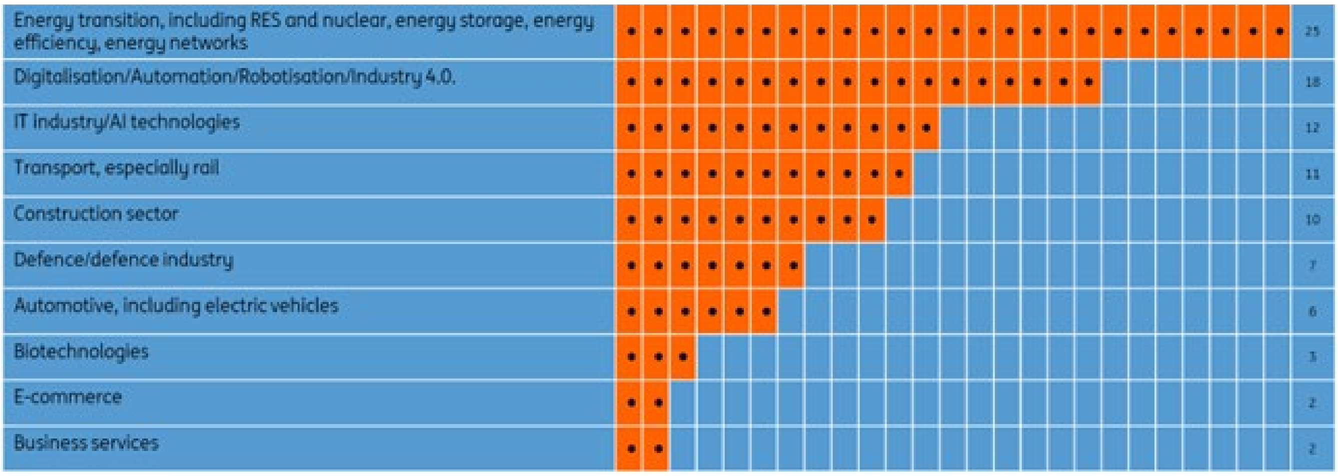
Nearshoring has an important sectoral dimension: there are more opportunities in high-tech industries (automotive, machinery manufacturing, semiconductors), less in light industries (clothing, footwear) and energy-intensive industries, where Asian countries have global comparative advantages.

> *Our country is an attractive destination for investors from Western Europe also because of its geographical location and proximity to key markets. Nearshoring and friendshoring are becoming increasingly attractive strategies for companies from the Old Continent that want to reduce production costs and increase flexibility in supply chain management.*
>
> **Magdalena Cumanis**, Director of ESG and press communication, Ciech

Areas of Poland’s new investment strategy

The voice of Polish business leaders indicates that basing Poland's investment strategy on areas important for the future, such as energy and digital transformation, automation, robotisation, AI solutions, and even semiconductor production, the expansion of electricity grids and the modernisation of railway transport, are the most promising in terms of investment revival.

Sectors most likely to see investment rebound



Dot-plot: the number of dots indicates the number of interviewees who mentioned a barrier
Source: Assessment by ING Bank Śląski economists based on the interviews in the project.

Green and digital transformation are EU priorities, so the unlocking of EU funding for Poland reinforces expectations for investment in these areas. The construction sector should benefit from the increase in infrastructure spending. Our interviewees also frequently mentioned investments in the IT sector, including those related to the implementation of AI solutions.

Risks on the horizon

External and internal risks limit realisation of hopes for investment recovery. However, Polish companies are well aware of geopolitical realities and tensions (weakening and fragmentation of global trade) and the country's labour market conditions (demographics, surging labour costs and their impact especially on the SME sector) or the still relatively high interest rates. Our interviewees also see the risks of holding back on investment in anticipation of EU funding, which could lead to an accumulation of projects in 2025-26.

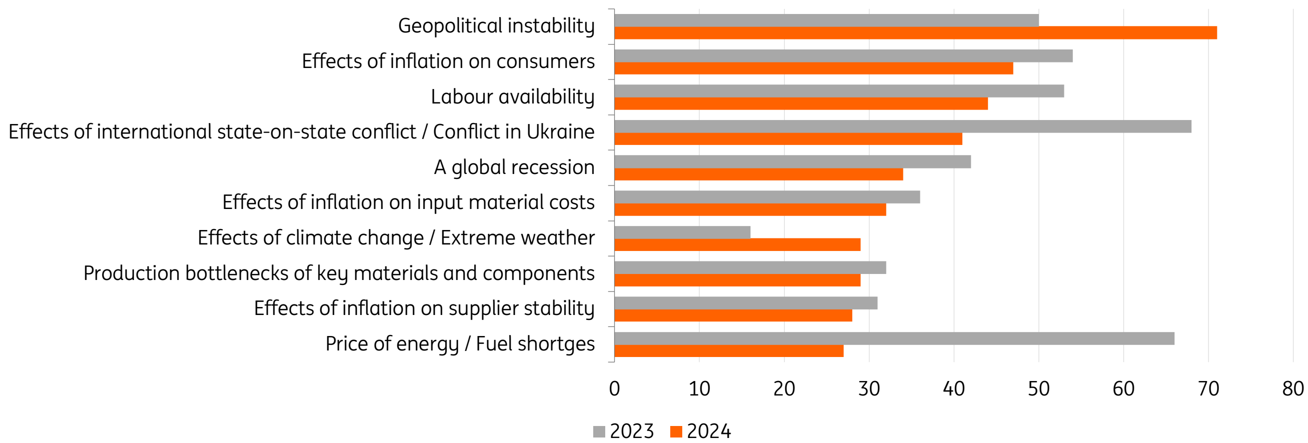
External and internal risks to Poland's investments revival

Tight labour market/increasing cost of labour	12
Demography	11
Prolonged war in Ukraine	9
Waiting for preferential EU funding	6
High interest rates	6
Uncertainty in the world, stagnation in Germany	4
Risk of stagnation in the domestic economy	3

Dot-plot: the number of dots indicates the number of interviewees who mentioned a barrier
Source: Assessment by ING Bank Śląski economists based on the interviews in the project.

According to the latest Reuters Events survey of global supply chain experts, the key source of disruption this year is geopolitical instability. Another source of increasing disruption is the impact of climate change/weather anomalies. The war in Ukraine continues to be a disincentive to invest in Poland.

Main potential sources of disruption in global supply chains, in % of survey responses (Reuters)



Source: Alex Hadwick, The state of European supply chains 2024, Reuters Events survey of European supply chain experts, N=203, March 2024.

> *Poland and Polish companies have been actively investing in Ukraine. I imagine that when this conflict is over, companies from the transport, processing or construction sectors will move there again. However, companies that strategically treated the Ukrainian market before the war may be in a situation where they will no longer wait for a breakthrough at the front and will look for new sources of income themselves.*
>
> **Andrzej Kobielski**, Vice president, Enter Air

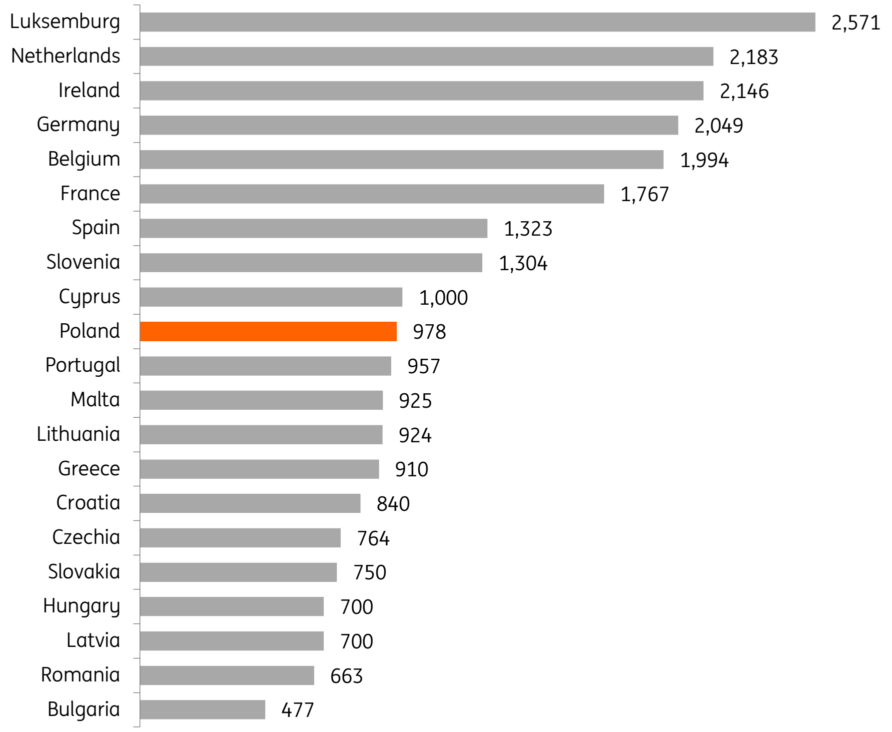
Polish business sentiment rippled in the wake of reports from the Ukrainian frontline. Ukraine's success on the frontline in repelling the Russian invasion during 2022 and mid-2023 raised hopes for investment in Ukraine's reconstruction. But a change in the situation on the frontline cooled this enthusiasm in the second half of 2023 and early 2024. The possible involvement of Polish companies in the reconstruction of Ukraine will depend on security guarantees. However, a positive scenario for Ukraine would have negative side effects for the Polish labour market.

Shortage of skilled workers and rising labour costs

Rising labour costs are the leading internal risk to hopes of an investment rebound. Following an increase in the minimum wage of almost 20% in 2024, which, with the appreciation of the zloty against the euro, meant an increase of around 25%, Poland was among the top ten EU countries with the highest minimum wage. In doing so, it was clearly ahead of all countries in the CEE region; the minimum wage in Romania is one-third and in Bulgaria one-half lower than in Poland.

Nevertheless, our country remains relatively attractive in terms of average labour costs per hour (hourly wages, employers' social security contributions, taxes and subsidies). In 2024, they reached €14.5 per hour and were the seventh lowest in the EU, less than half the EU average of €31.8 and less than a third of German rates (€48.1). However, labour costs in Romania or Bulgaria are significantly lower than in Poland.

Minimum wage in the EU in 2024 (in euros)



Source: Eurostat.

Access to skilled labour is a growing barrier. Poland has built its competitiveness over the years on cheap labour; now the time has come to create competitive advantages based on innovation. After all, we are a well-educated nation, with a wealth of experience and skills.

The Polish economy has a problem with improving productivity, increases in the minimum wage go against this improvement, so we are reducing the competitiveness of the economy (...).

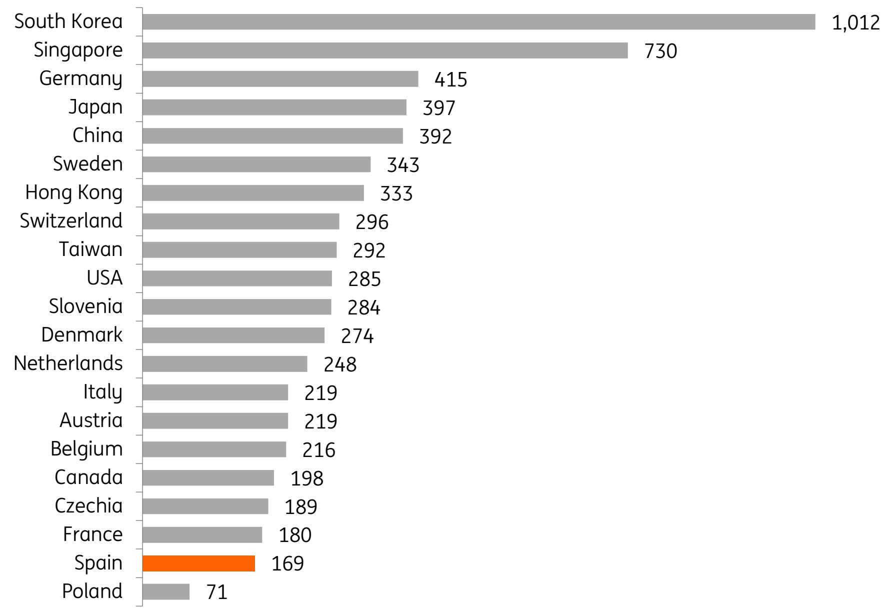
Demography also remains a challenge for the labour market.

On the one hand, it is an ageing population, and on the other hand, a change in work culture among the younger generation. Loyalty to the employer has changed.

Adam Jędrzejczak, CEO, Danfoss Poland

The response of companies to tensions on the labour supply side, will be investments in automation and robotisation. The space is enormous. Poland is among the least robotised countries in the world, with just 71 robots per 10,000 workers, compared to a global average of 151 and more than 1,000 in South Korea.

Number of robots per 10,000 workers in 2022

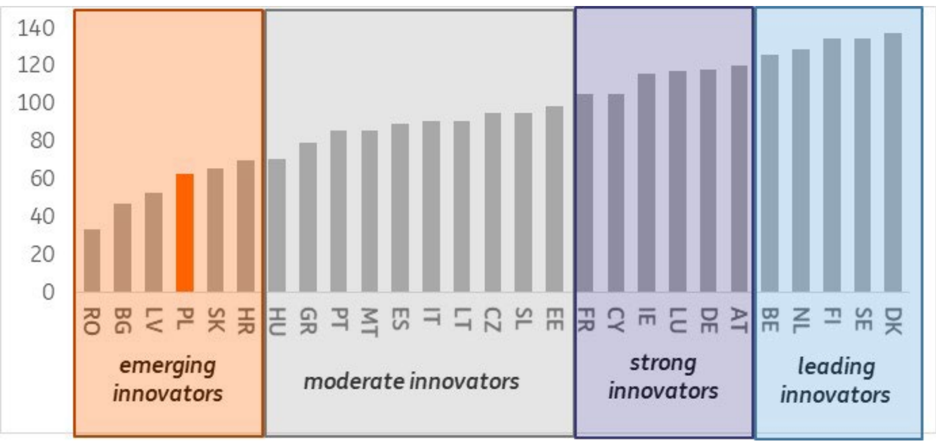


Source: World Robotics 2023, Eurostat

Relatively low innovation potential. But investment in semiconductors could change that.

Access to skilled workers determines investment in high-tech industries and technological progress in traditional sectors. Green and digital transformation are creating demand for engineers, technicians, specialists, which requires reform of Polish vocational schools and universities. Some companies point to the need to seek skilled workers from abroad.

EC Innovation Index (EU=100, 2023)



Source: European Commission

For example, in clean energy technology manufacturing, European workers lack skills. Due to the fact that for years batteries have been produced primarily in Asia, Europe and Poland lack specialists in this field. Finding experts with knowledge and experience in, for example, cell chemistry, battery control system design, or functional safety is extremely difficult.

Intel's record investment may change Poland's specialisations and catalyse innovation

Intel's record investment juxtaposed with Poland's abundance of IT professionals boosts opportunities to build semiconductor specialisation and catalyse innovation. There are about 1 million IT developers in the CEE region, of which about 300,000 in Poland that have skills appreciated in global competitions and rankings. By comparison, there are about 600,000 of them in California.

Intel's US$4.6 million investment (with the possibility of expansion) is the largest greenfield investment in Poland. It creates opportunities for building a new industry and higher technological advancement of Polish production and exports. Together with an existing silicon wafer factory in Ireland and a factory under construction in Germany, Intel's Polish plant will create the first supply chain of its kind in the EU in semiconductor chip manufacturing.

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