

# Investment and Investment Finance

the EU and the Polish story

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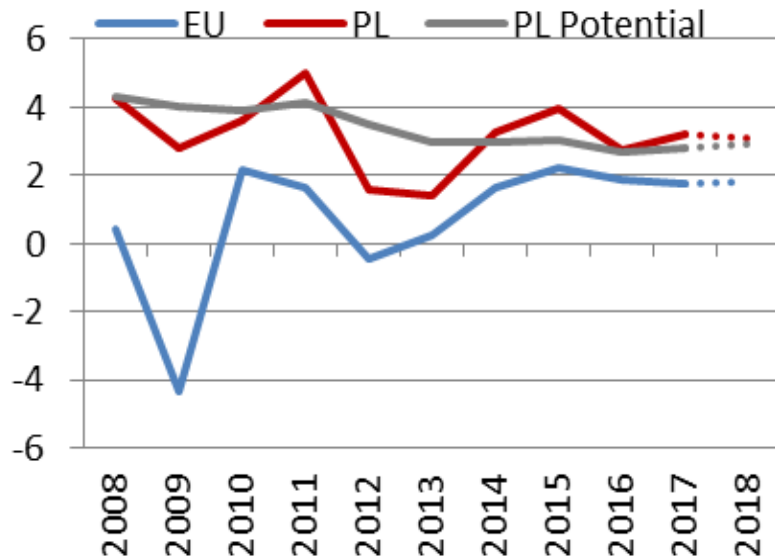
# Contents

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- **We look at investment dynamics in the EU and in Poland:**
  - “Investment and Investment Finance Report”
  - The new “EIB Investment Survey”
- **We see:**
  - A growth story engineered, filling structural investment gaps
  - Possibly at a turning point, with more to do in terms of intangibles, innovation and skills
  - The new Morawiecki Plan for investment a clear push
  - The business environment is crucial, as well as preventing distortions of market incentives
- **The EU and the EIB Group as partners**

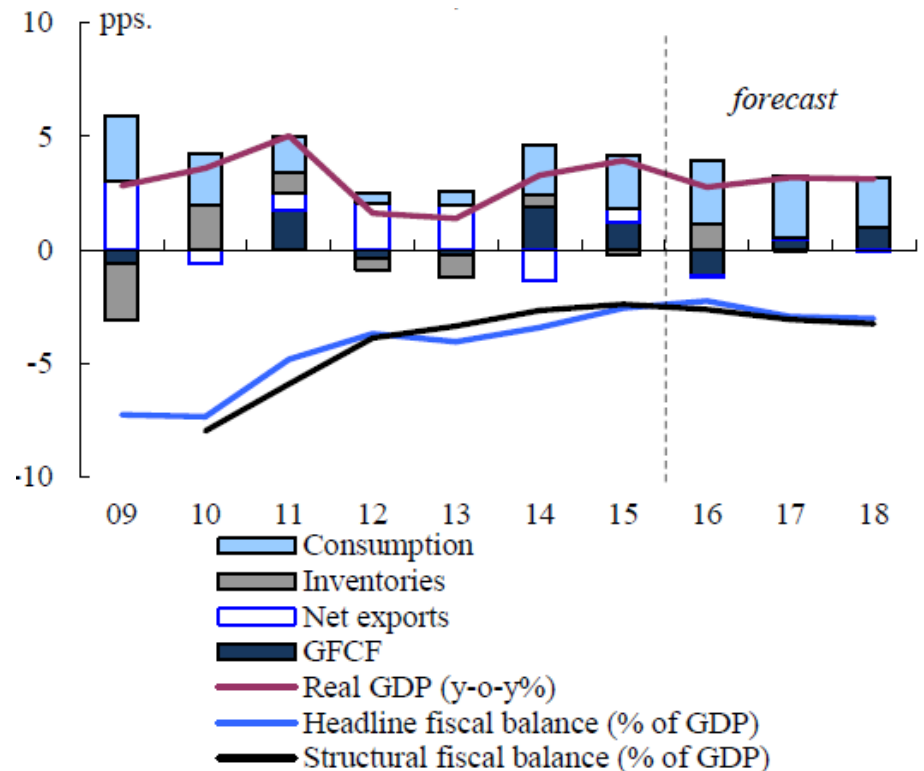
# A positive growth story engineered in the last years

Real GDP growth (%)



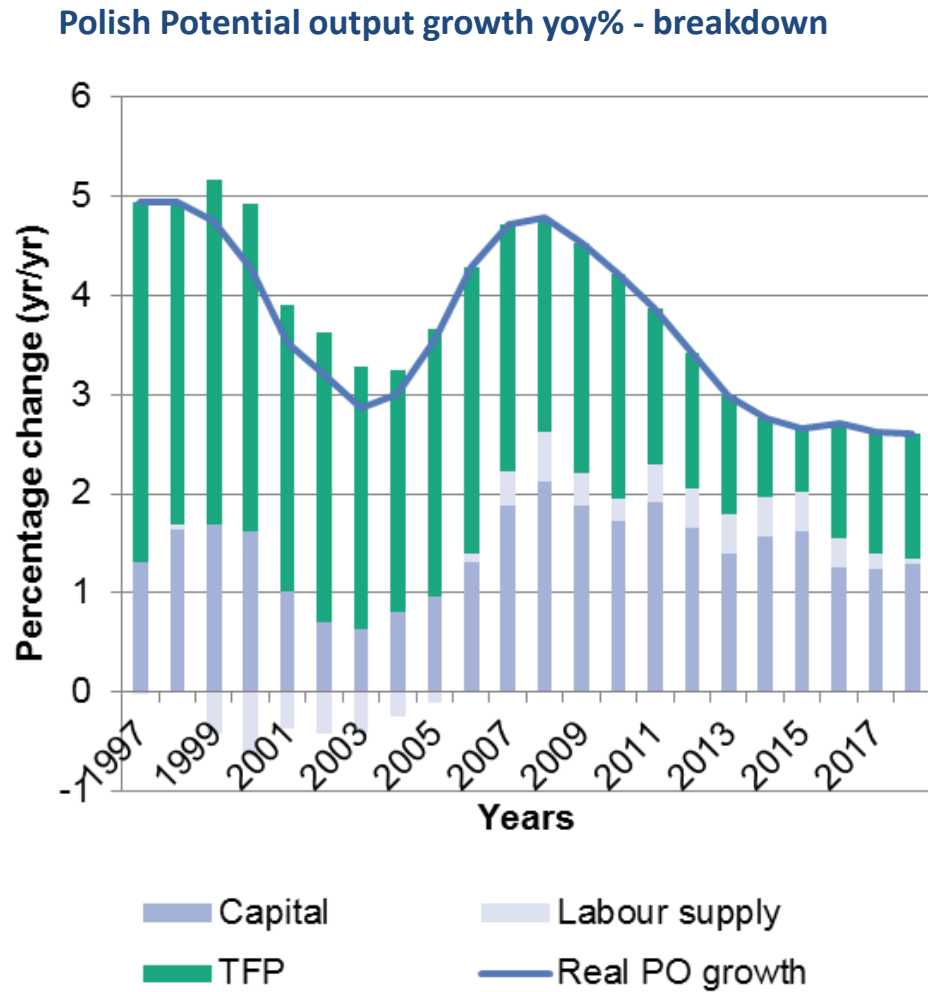
Contribution to growth and fiscal stance

GDP yoy%; fiscal balance % GDP



Source: European Commission, Ameco

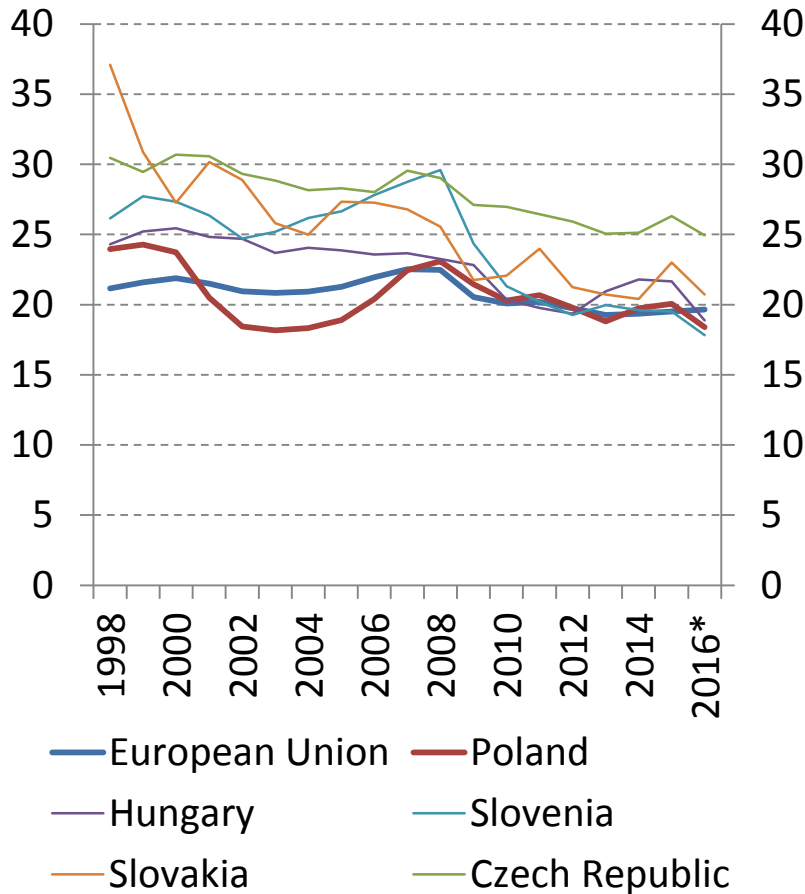
# Potential output – strong contribution from capital, very low contribution from labour



Source: EIB Potential Output model

# Investment/GDP has traditionally been lower than in the rest of the CEE-5 and structural gaps vs the EU still exist

Investment/GDP (%)

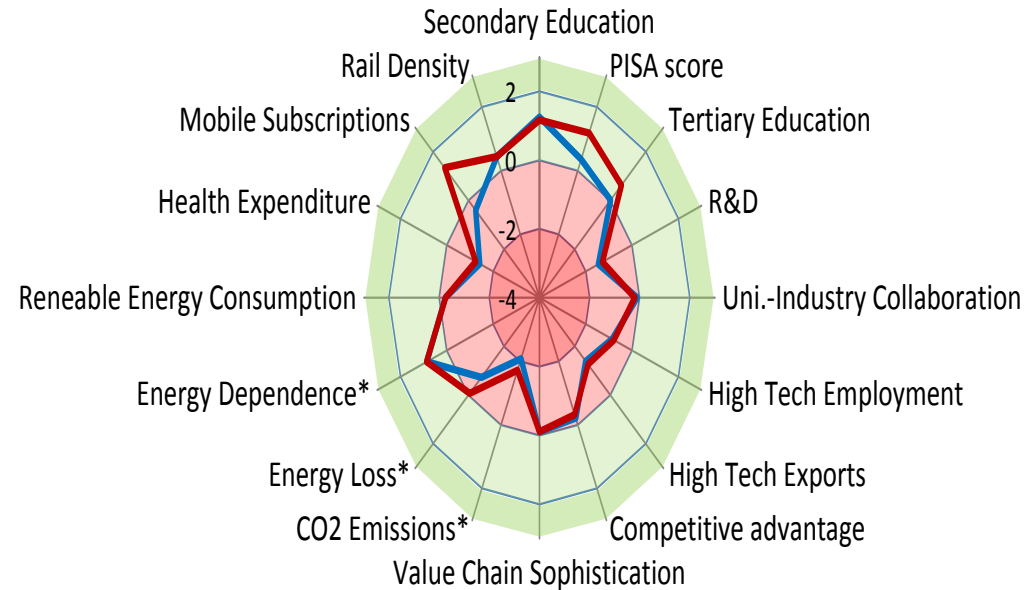


Source: Eurostat, European Commission and EIB elaborations  
\*estimate

## Structural strengths and weaknesses in Poland (distance from EU average in standard deviations.

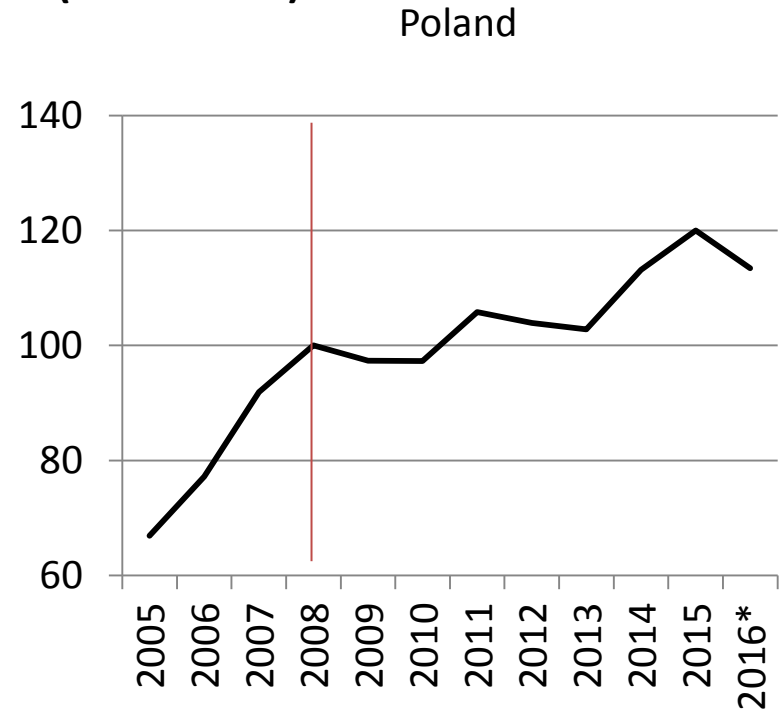
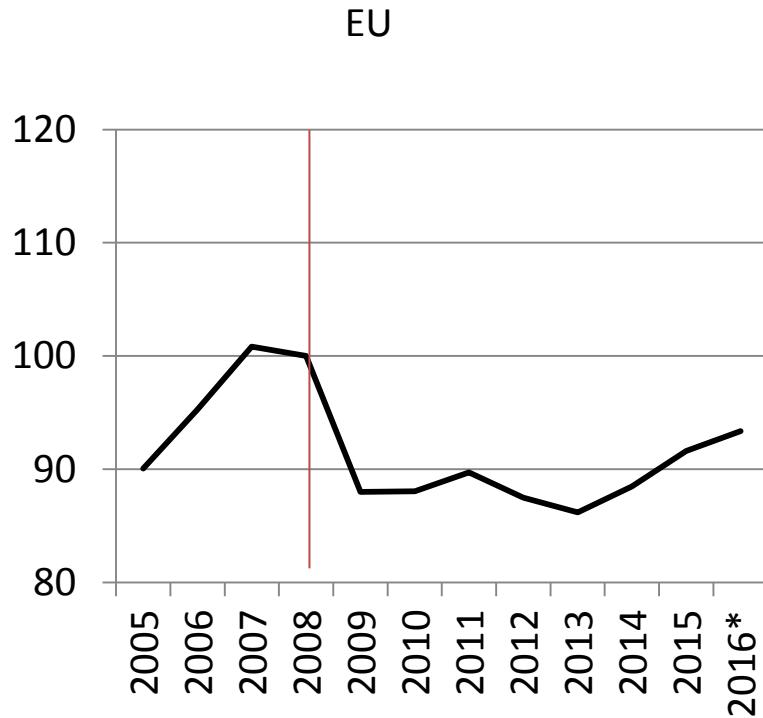
Low number stronger gap, blue: pre-crisis, red: post-crisis)

### Poland



# In contrast with EU dynamics, investment has been very resilient after the crisis, with 2016 explained by the EU funds cycle

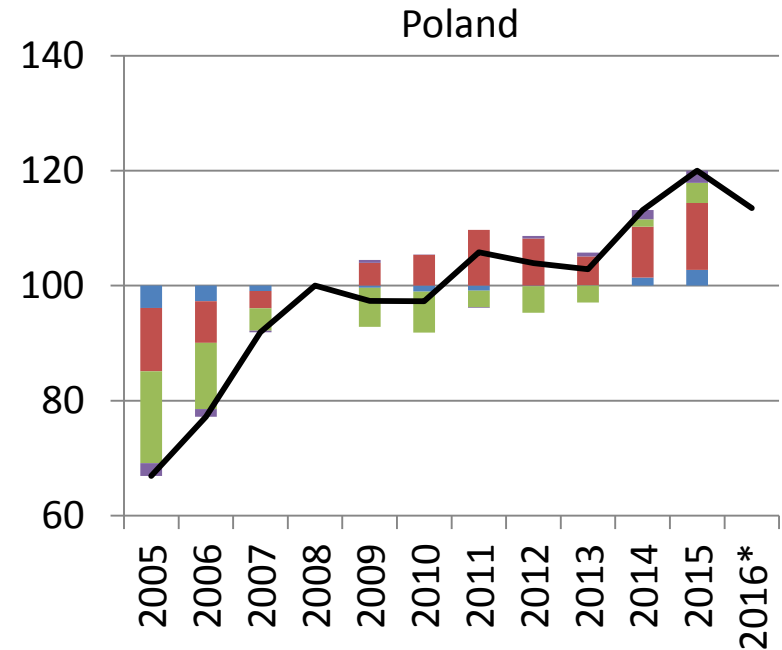
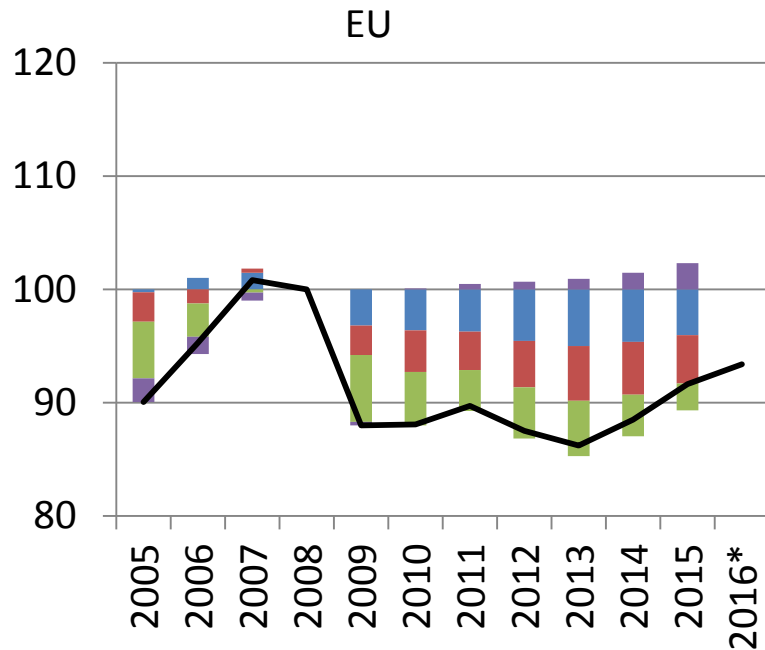
## Real investment (2008 = 100)



Source: Eurostat, European Commission  
\*estimate

# The key driver of investment has been other buildings and structures (infrastructure?), with machinery and eq. since 2014 and IPP very little overall

## Real investment by asset type (2008 = 100)



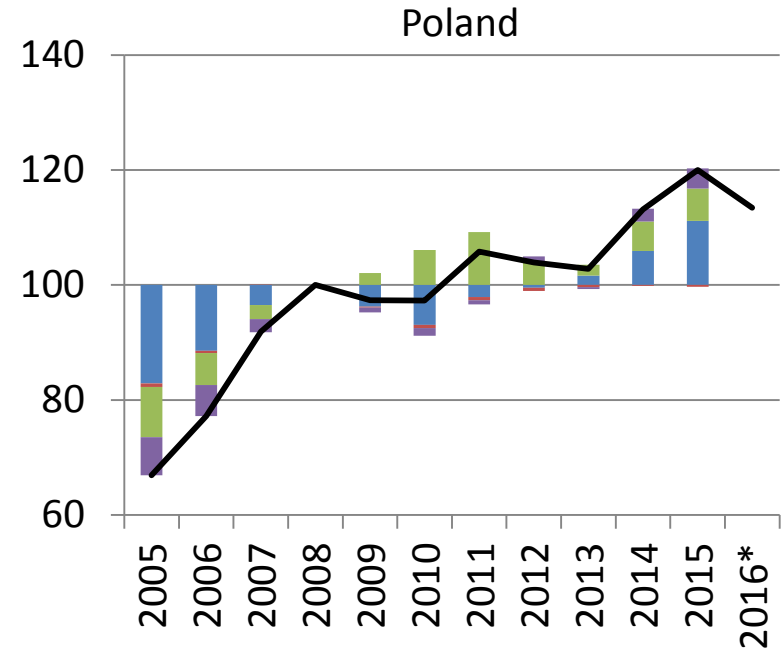
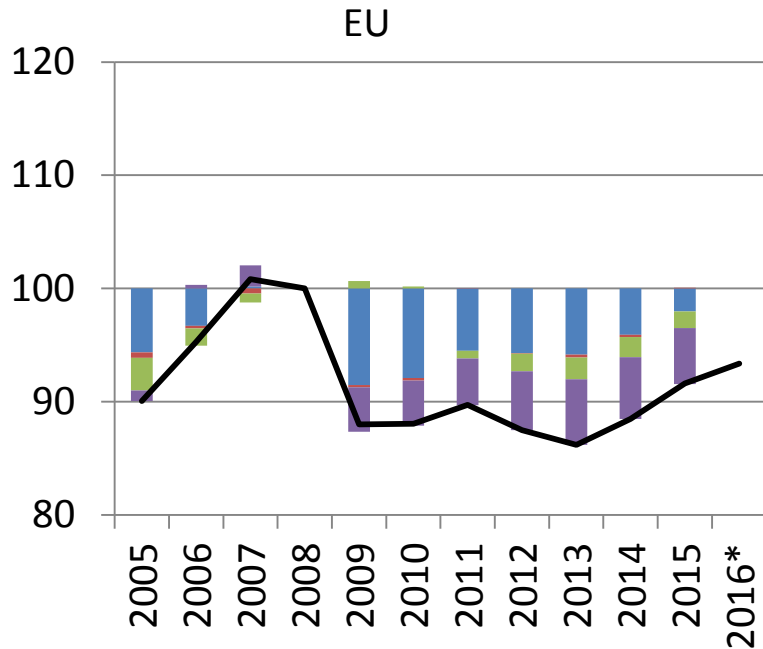
- IPP
- Machinery and equipment
- Other buildings and structures
- Dwellings
- Total

Source: Eurostat, European Commission

\*estimate

# A strong role of the public sector in supporting investment dynamics, in contrast with most of the EU

## Real investment by sectors (2008 = 100)



- Households
- Government
- Financial Institutions
- Corporates
- Total

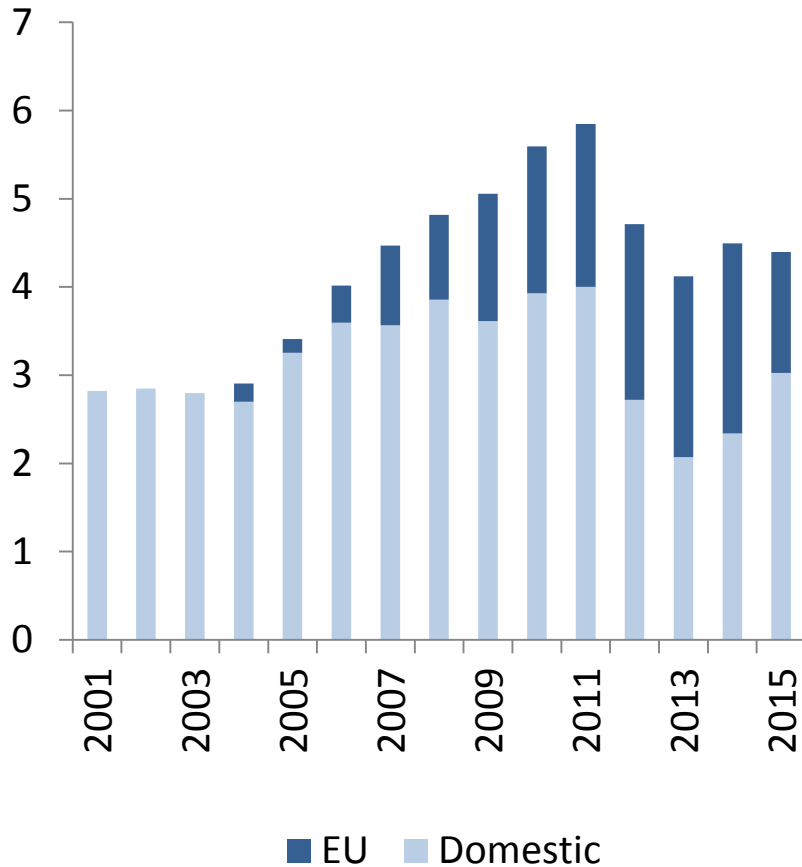
- The **public sector** has been driving investment growth between 2009-2013.
- The **corporate sector** has been providing a strong impetus since 2014.

Source: Eurostat, European Commission  
\*estimate



# The EU funds play a key role in supporting public investment

**Public investment/GDP (%) in Poland by source**



- Poland is one of the largest recipient of the EU structural funds.
- EU financing played a role in increasing public investment after in 2009-2011...
- ...and in maintaining a relatively high level of public investment in the subsequent period of fiscal consolidation.
- 2016 a peculiar year, following the end of the previous cycle of EU structural funds allocation, with recovery on the cards.

Source: Eurostat, European Central Bank

# EIB Investment Survey

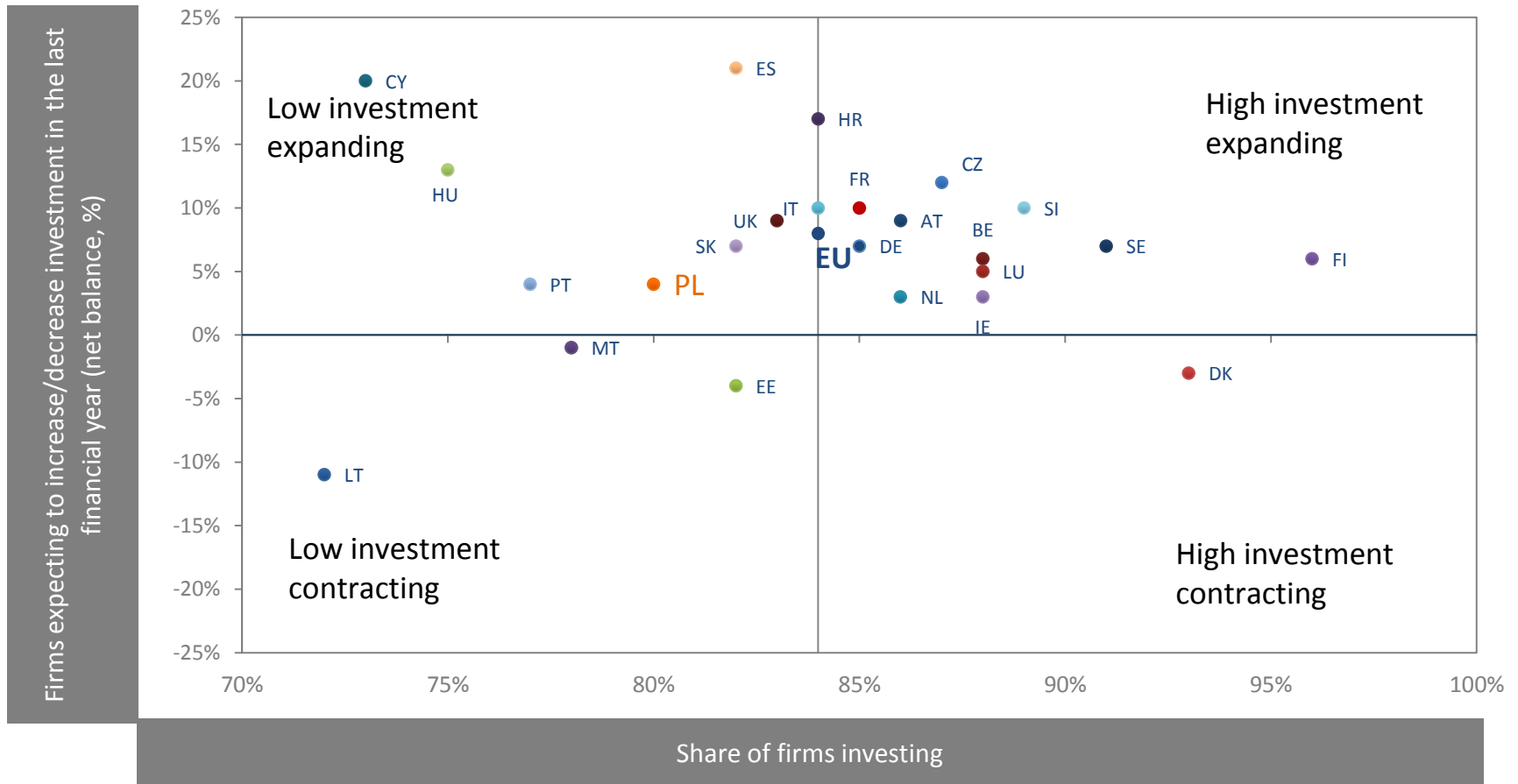
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## The EIB Investment Survey (EIBIS) 2016

- Some 12,500 completed telephone interviews in total
- Survey of non-financial corporate sector (with 5+ employees)
- Covering manufacturing, services, construction and infrastructure sector
- Representativeness at high scientific standards for:
  - the EU 28 (as a whole)
  - each Member country (separately)
  - 4 industry grouping (within each Member country – for most countries), and
  - 4 size classes (within each Member country – for most countries)
- Implemented once a year (panel plus cross-section) – 1<sup>st</sup> run summer 2016
- In Poland, 479 firms have been asked.

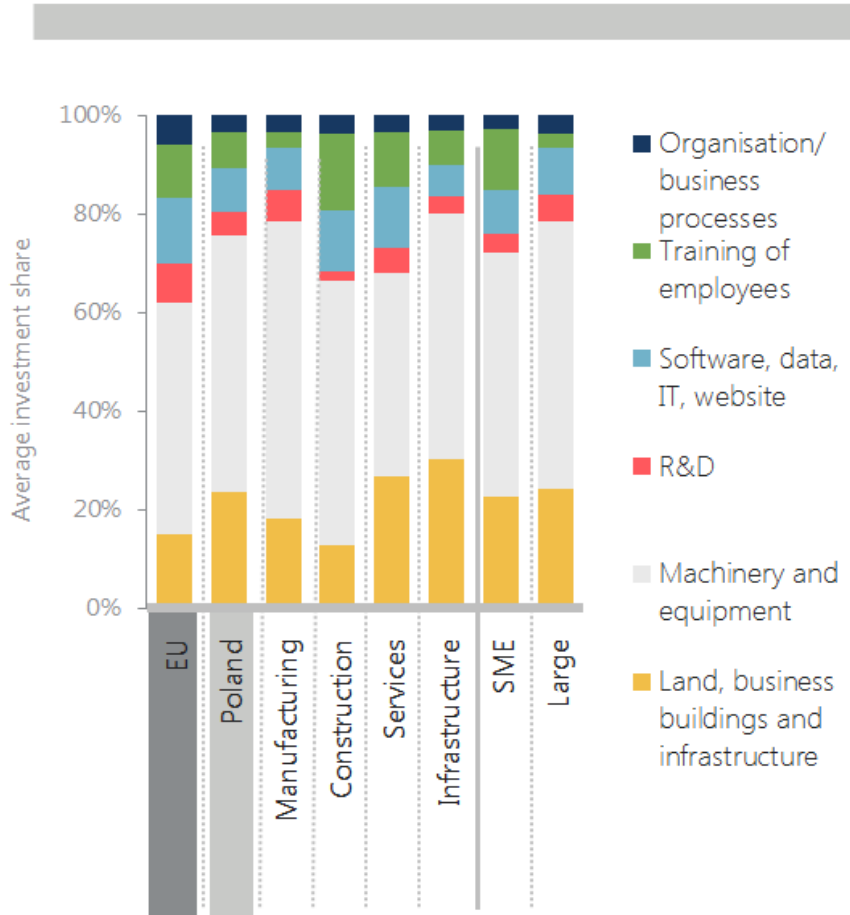
# When firms investment is considered Poland is in the “low, but expanding” quadrant of the investment cycle

Investment cycle by country

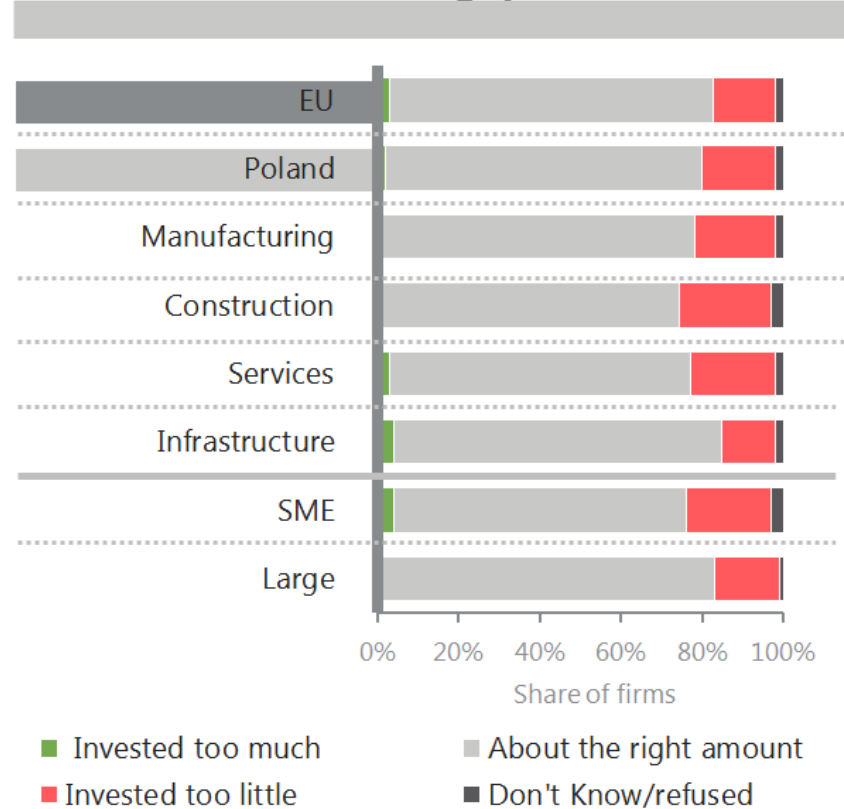


# Polish companies invest little in intangible assets and are more likely to believe that they invested too little in the last 3 years than the EU average

## Investment areas



## Perceived investment gap



**Base:** All firms who have invested in the last financial year (excluding don't know/refused responses)

Q. In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

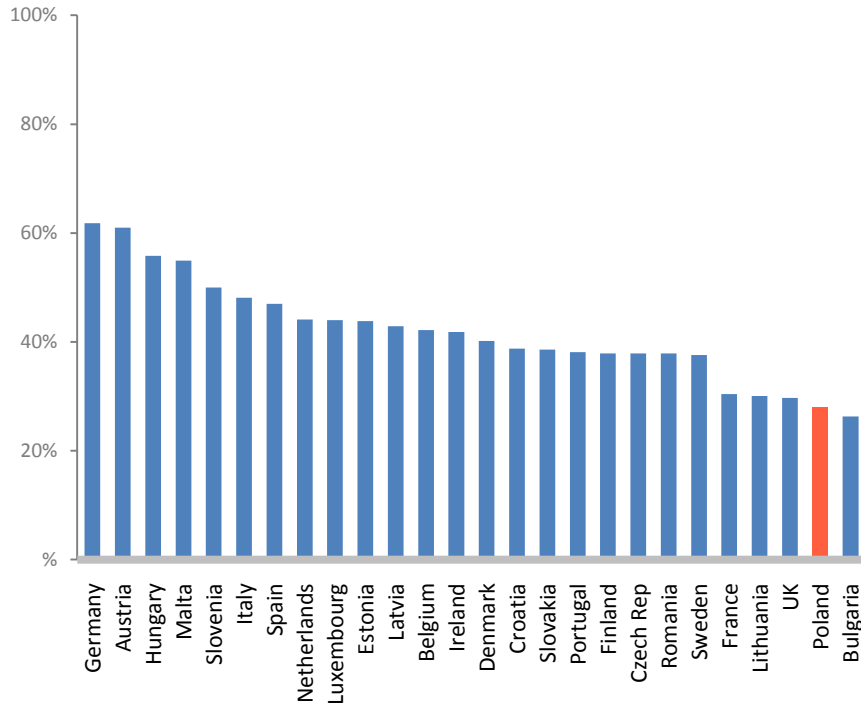
02/03/2017

**Base:** All firms (excluding 'Company didn't exist three years ago' responses)

Q. Looking back at your investment over the last 3 years, was it too much, too little, or about the right amount to ensure the success of your business going forward?

# Poland scores low when it comes to quality of the equipment and energy savings

## Average share of state-of-the-art machinery and equipment

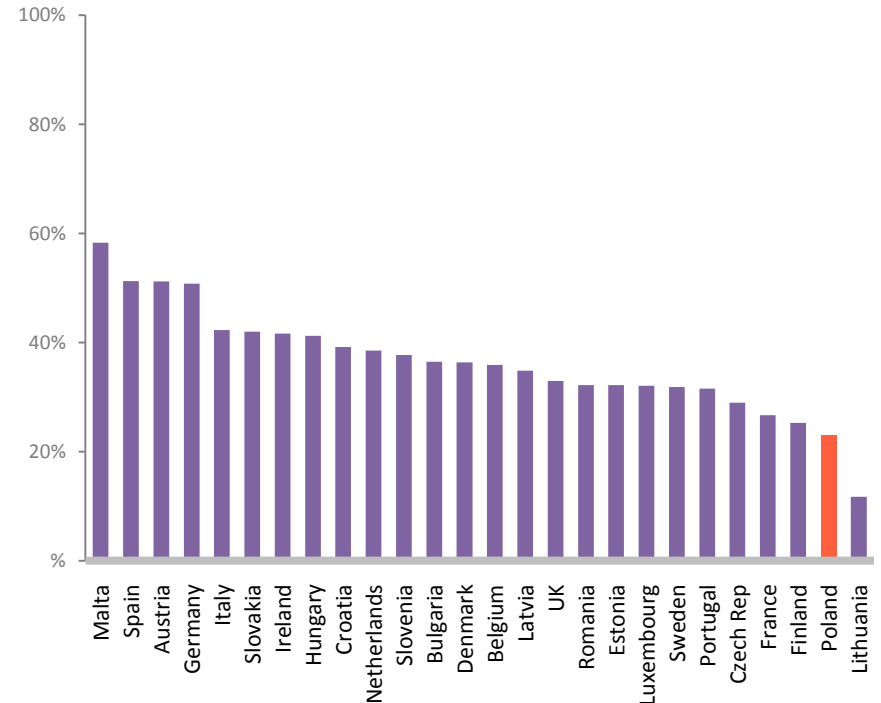


**Base:** All firms

Q. What proportion, if any, of your machinery and equipment, including ICT, would you say is state-of-the-art?

Data not shown for Greece and Cyprus, as the Greek translation may have influenced interpretation of the question. This will be addressed in the next round of interviews.

## Average share of building stock meeting high energy efficiency standards



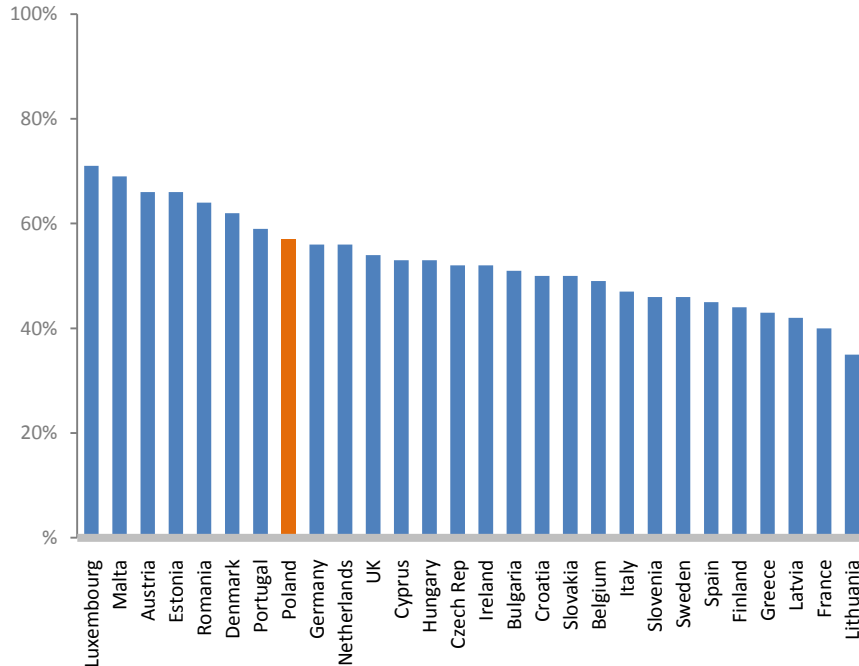
**Base:** All firms

Q. What proportion, if any, of your commercial building stock satisfies high or highest energy efficiency standards?

Data not shown for Greece and Cyprus, as the Greek translation may have influenced interpretation of the question. This will be addressed in the next round of interviews.

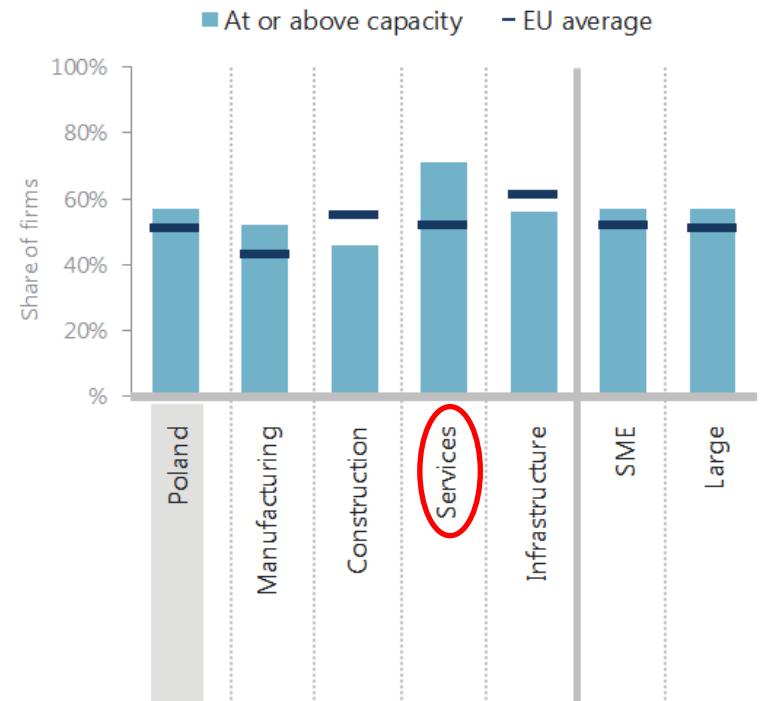
# Almost 60% of firms operate at full capacity, above the EU average of 51%

## Share of firms at or above full capacity



**Base:** All firms (data not shown for those operating somewhat or substantially below full capacity)  
 Full capacity is the maximum capacity attainable under normal conditions e.g., company's general practices re  
 Q. In the last financial year, was your company operating above or at maximum capacity attainable under nor

## Share of firms at or above full capacity



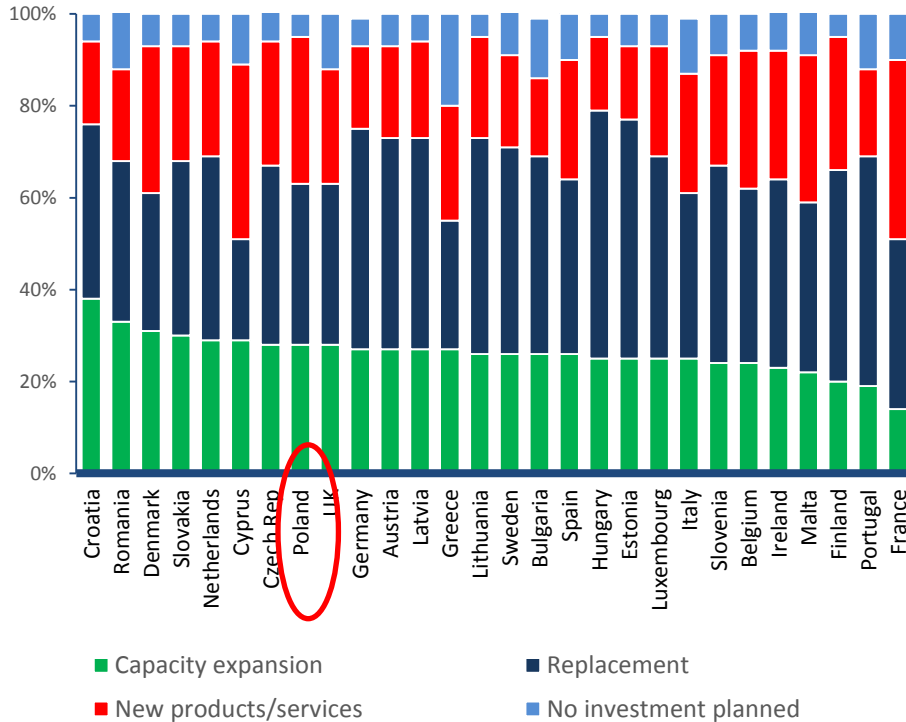
**Base:** All firms (data not shown for those operating somewhat or substantially below full capacity)

Full capacity is the maximum capacity attainable under normal conditions e.g., company's general practices regarding the utilization of machines and equipment, overtime, work shifts, holidays etc.

Q. In the last financial year, was your company operating above or at maximum capacity attainable under normal circumstances?

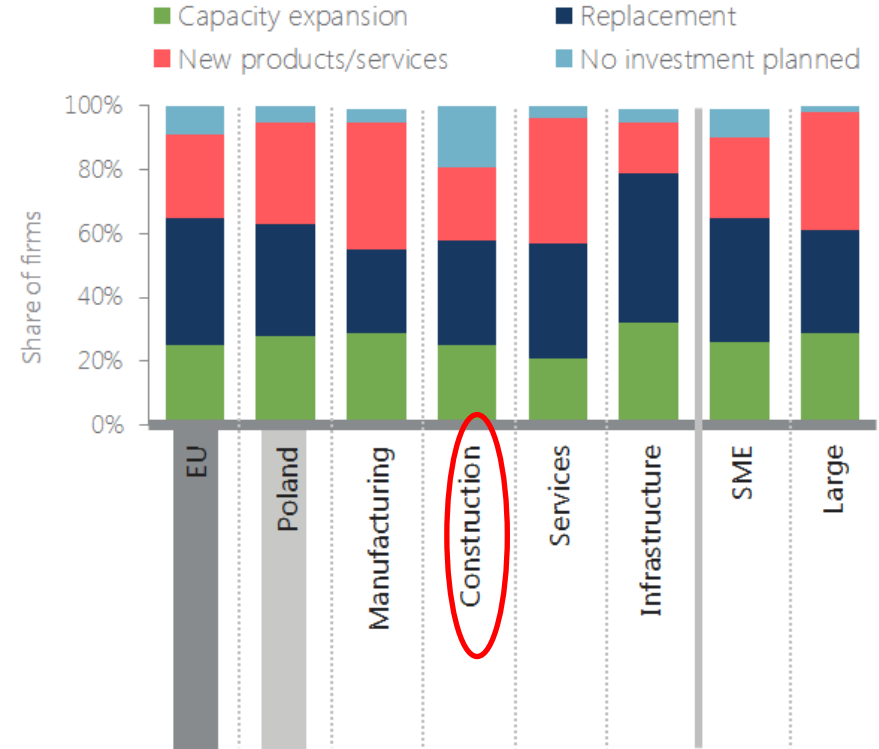
# Looking forwards Polish firms (particularly large) are more likely to invest in new products and services than the EU average

EU Countries Future investment priorities



Base: All firms (excluding don't know/refused responses)

Future investment priorities

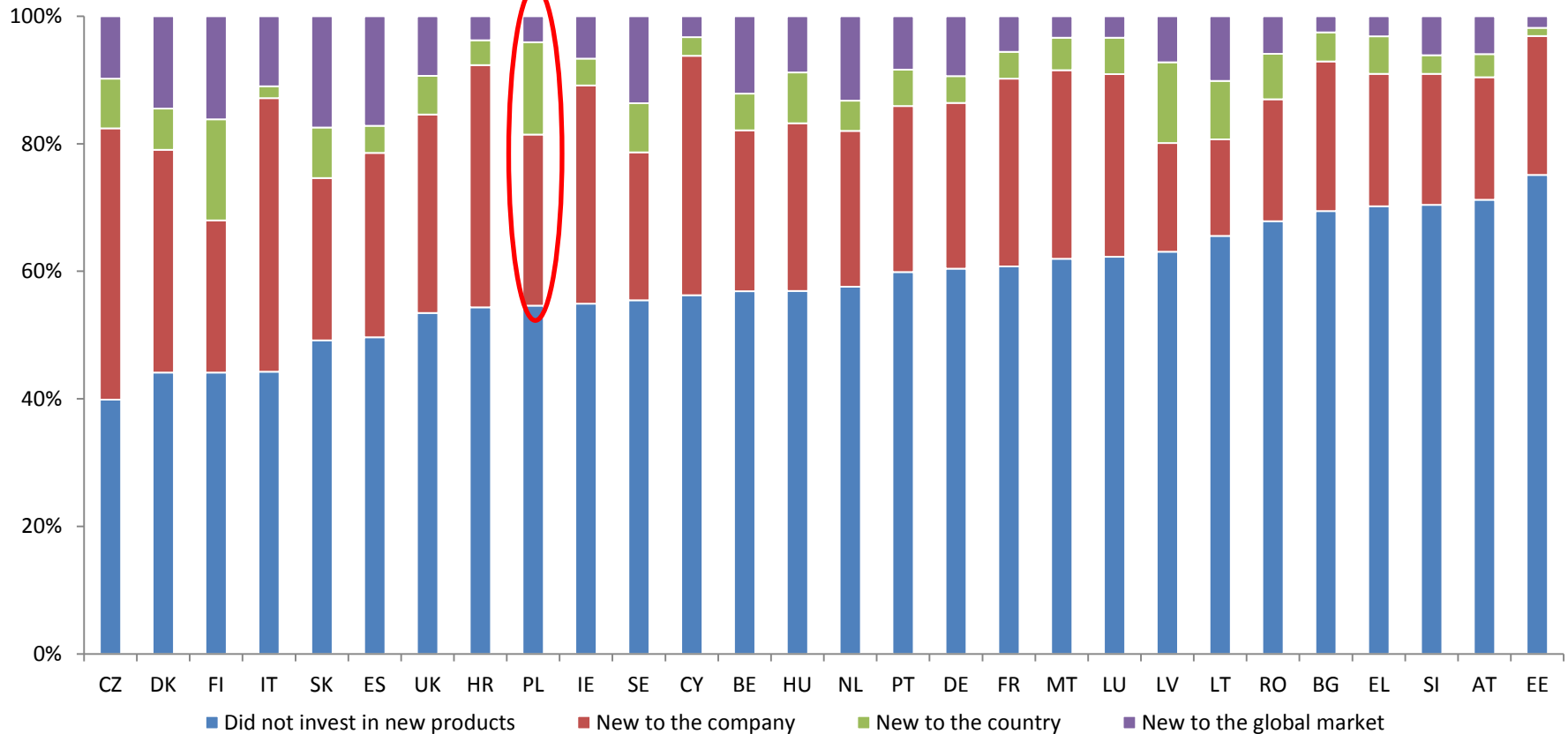


Base: All firms (excluding don't know/refused responses)

Q. Looking ahead to the next 3 years, which of the following is your investment priority (a) replacing existing buildings, machinery, equipment, IT (b) expanding capacity for existing products/services (c) developing or introducing new products, processes, services?

# Polish firms are likely to innovate, but mostly adapting innovation new to the company or the country, with little global innovation

Investment in new products, process or services that are new to the company, new to the country or new to the global market?



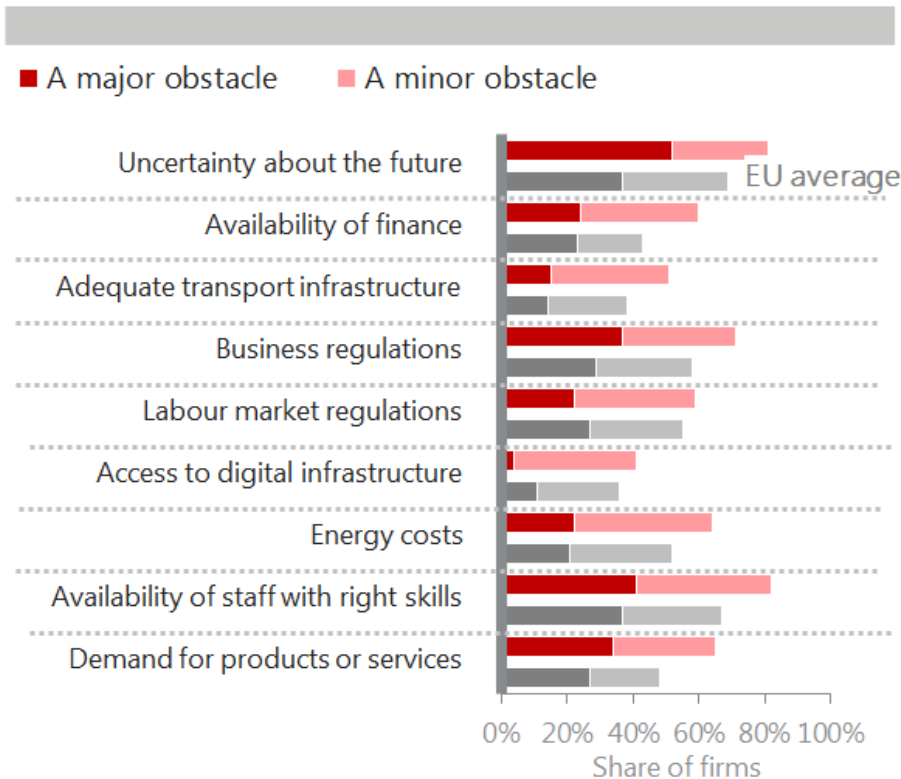
Base: All firms that invested in the last financial year (excluding don't know/refused responses)

Q. Were the new products, process or services (a) new to the company; (b) new to the country; (c) new to the global market?



# Uncertainty and availability of staff are the key barriers of investment, but business regulation and energy costs also play a role

## Long term barriers to investment



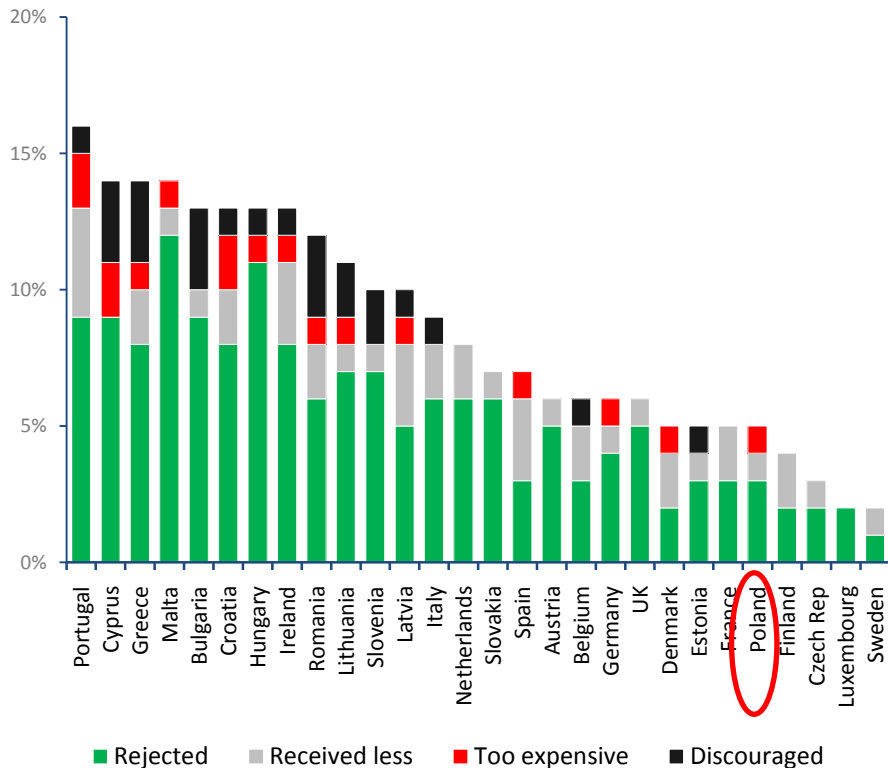
- In line with their EU peers, **uncertainty about the future and availability of staff with the right skills** are considered as the main structural barriers to investment.
- **Business regulations, energy costs and availability of finance** more a concern than for the EU overall

**Base:** All firms (data not shown for those who said not an obstacle at all/don't know/refused)

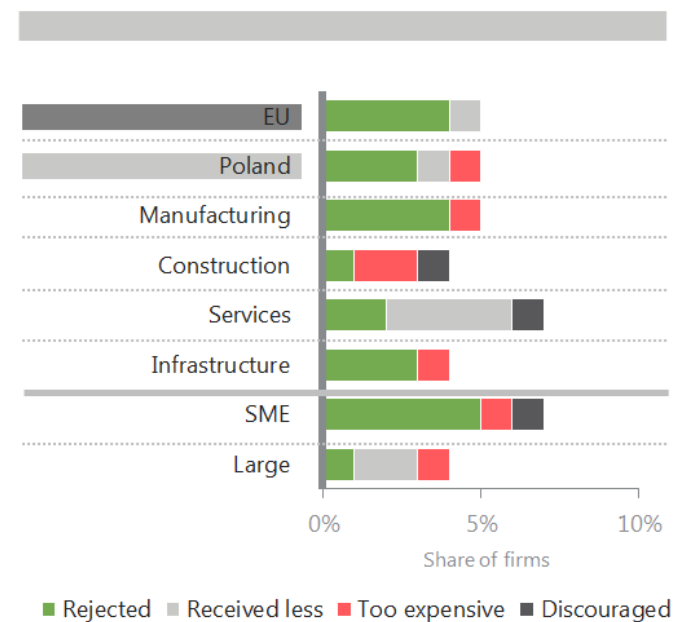
Q. Thinking about your investment activities in Poland, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

# For firms that invest finance is not an issue. Only 5% of the firms that have invested in Poland consider themselves to be credit constrained, but firms in services and SMEs are more likely to be finance constrained

EU countries - Share of finance constrained firms



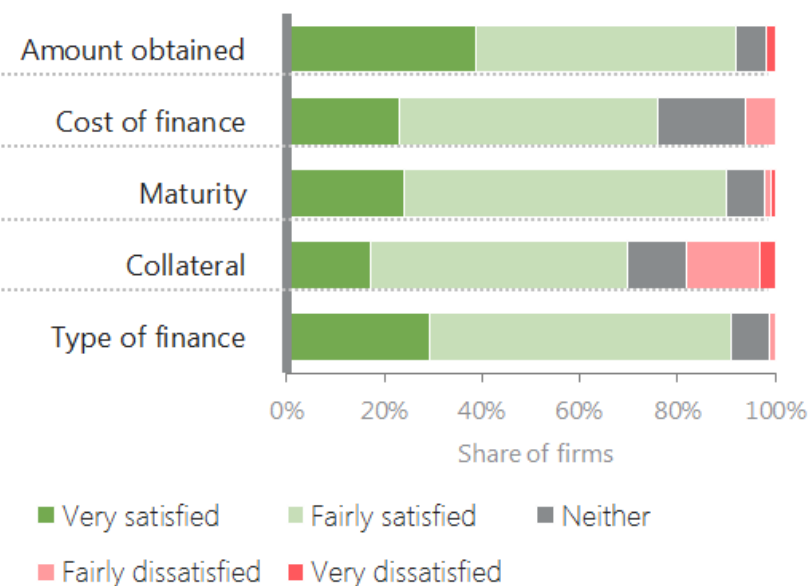
Share of finance constrained firms



**Base:** All firms  
 Finance constrained firms include: those dissatisfied with the amount of finance obtained (received less), firms that sought external finance but did not receive it (rejected) and those who did not seek external finance because they thought borrowing costs would be too high (too expensive) or they would be turned down (discouraged)

# Firms are relatively less satisfied with credit conditions when collateral requirements are considered. Grants represent a tangible share of financing

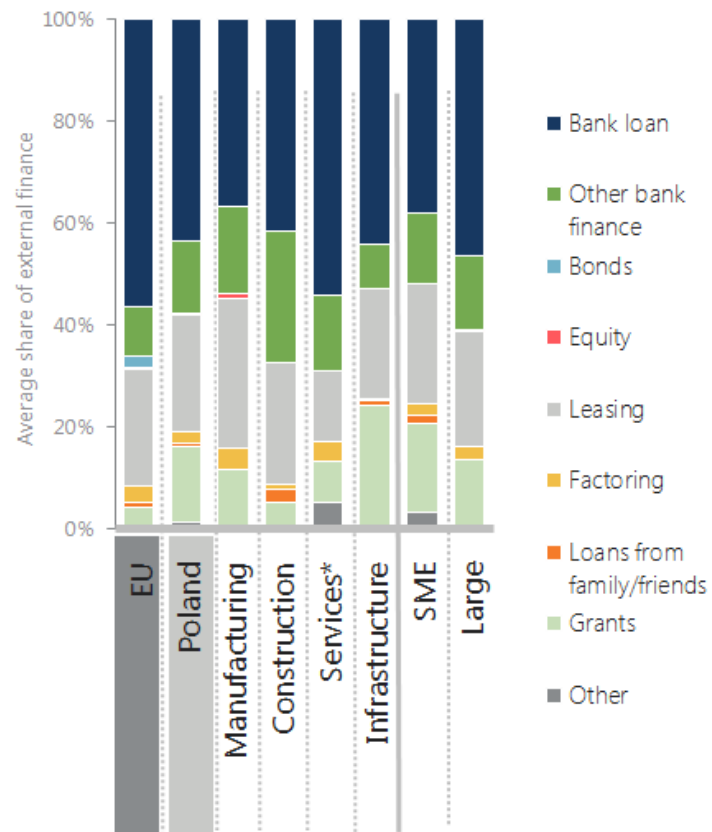
## Satisfaction with external finance



**Base:** All firms who used external finance in the last financial year (excluding don't know/refused responses)

Q. How satisfied or dissatisfied are you with ...?

## Type of external finance used for investment activities



**Base:** All firms who used external finance in the last financial year (excluding don't know/refused responses)

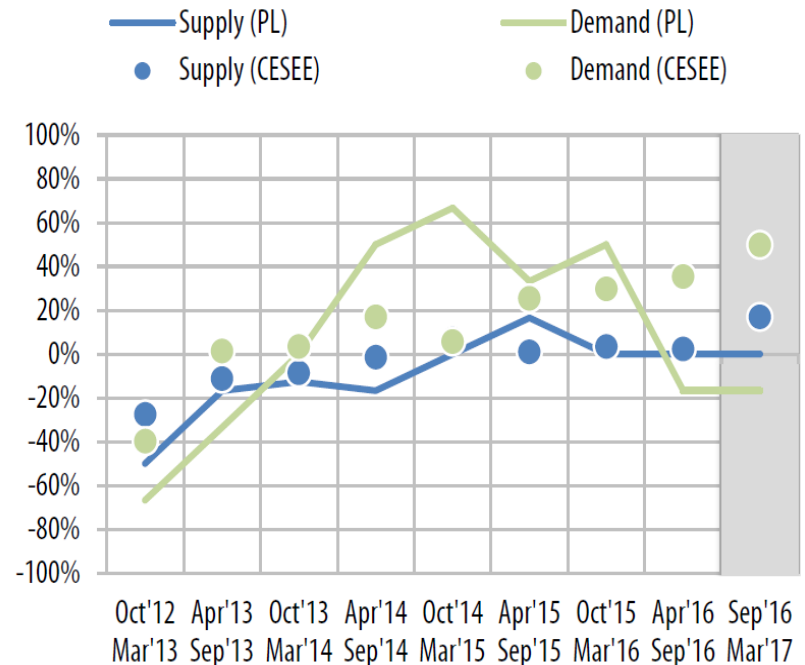
Q. Approximately what proportion of your external finance does each of the following represent?

\*Caution: very small base size of less than 30

# Relatively healthy banking sector

- **Healthy banking system**
- **Heightened regulatory uncertainty**
- **Credit growth has been positive so far**
- **EIB Bank Lending Survey (H2 2016):**
  - demand more than supply a constraint in H2 2016
  - Domestic factors more restraining than international factors on the supply side (difference from other CESEE countries)

## CESEE Bank lending survey - Poland



Source: EIB – CESEE Bank Lending Survey.

Note: All indicators in net percentages; Supply/Demand: positive figures refer to increasing (easing) demand (supply)

# Conclusions

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- **A growth story engineered in the last years**
- **Remaining infrastructure gaps call for full exploitation of the EU Funds potential**
- **The EIB Investment Survey confirms the recovery in business investment was already starting in 2016, with more to do in terms of R&D and innovation**
  - Low perceived quality of the capital stock and high share of firms at full capacity suggest more investment
  - Push for more R&D and Innovation key
  - Poland potentially further benefiting from importing innovation, other than only aspiring at the global innovation frontier
- **Keeping an investors friendly environment remains crucial**
  - Impediments to investment range from uncertainty, lack of skills, as well as business regulation and energy costs
- **The new Polish Investment Plan tackles all the key areas: innovation, R&D, skills, as well as infrastructure and business environment**
- **Proper implementation is crucial, avoiding distortions of market incentives**
- **The EIB Group as a solid partner for Poland in the process**