

Foreign reinvestment in Poland

How often do foreign business reinvest their profits made in Poland?

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Introduction

The past three decades have been marked by a strong influx of foreign investment into Poland. According to the most recent data from the National Bank of Poland, at the end of 2020 the capital invested by foreign entities in Poland – in the form of fixed assets, stocks or debt instruments – amounted to EUR 939 billion. To put it into perspective, this is about 40 per cent of Poland’s GDP and nine times more than the Polish capital invested abroad.

Yet, the incoming foreign investment may be of a varied “quality” – more or less effectively contributing to the development of the local economy. It may serve as a catalyst, bringing the economy to a higher level, but (in extreme cases) it may also actually halt growth. One of the ways for measuring this effectiveness is by looking at reinvestment figures, i.e. how much of the profits generated by the enterprise, instead of going back into the foreign owner’s pocket, stays in the business and is reinvested in its growth. The higher the reinvestment rate, the greater the benefit to the economy.

How willing are foreign businesses in Poland to reinvest?
Has there been a change in recent years? What can be done to boost the reinvestment rate?

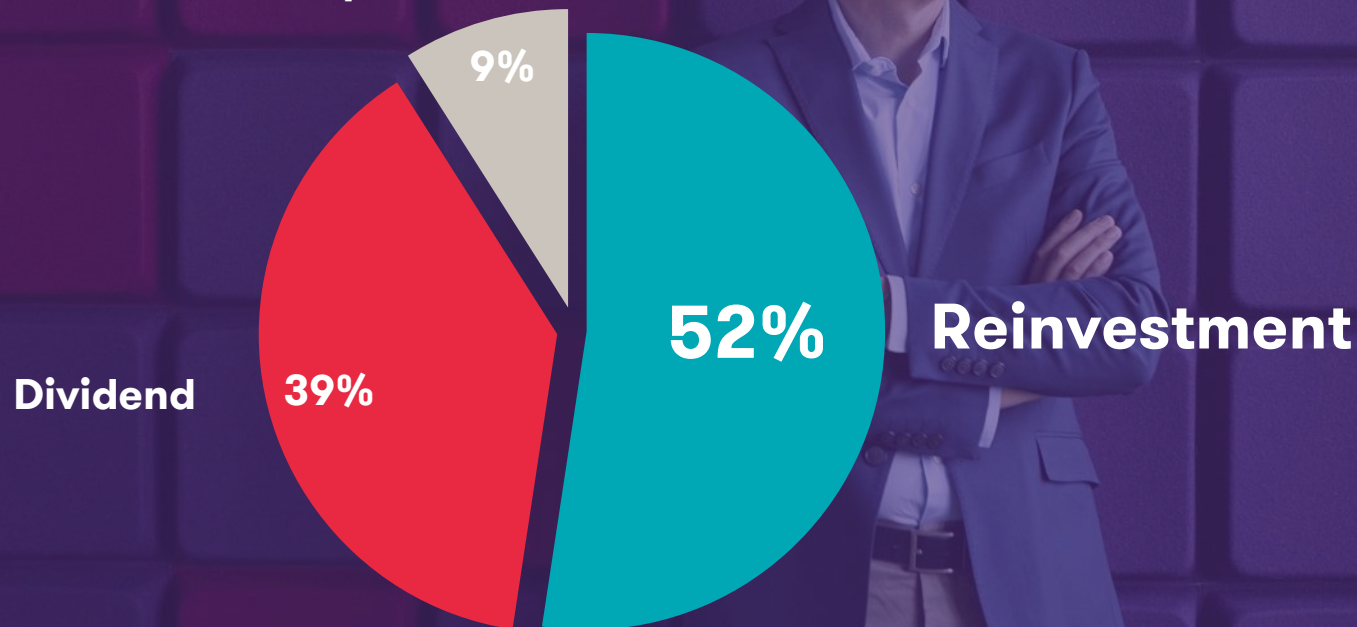
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How do foreign businesses in Poland allocate their profits?

Chart 1. Income earned in 2020 by foreign investors in Poland

Interest on invested capital



Source: Own calculations based on NBP data

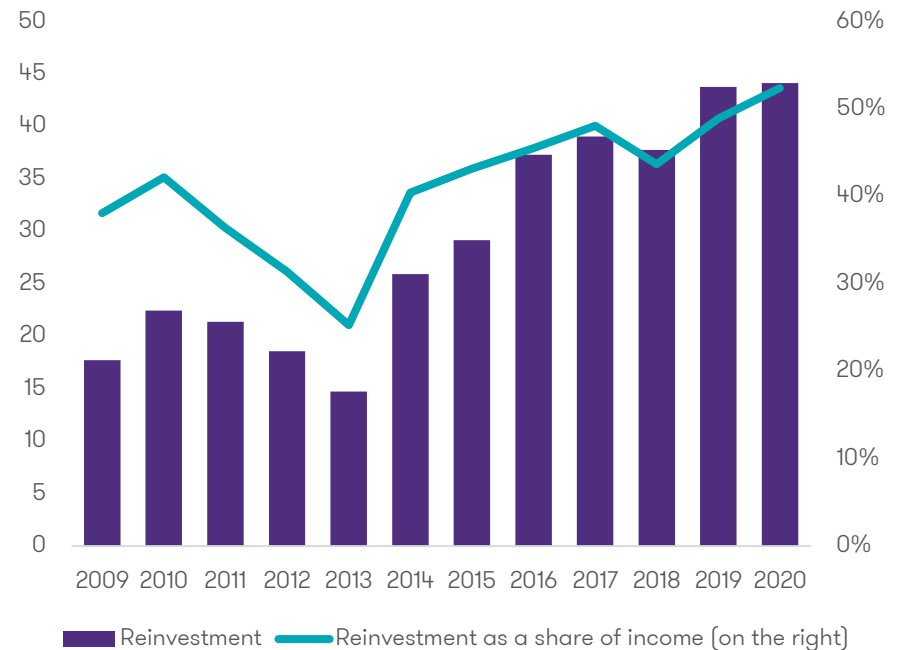
Reinvestment on the rise

Foreign businesses are more likely to keep their profits in Poland than transfer them abroad. In 2020, they reinvested PLN 44 billion, that is as much as 52% of their earnings.

Poland is becoming an increasingly attractive destination for foreign investors. In 2020, through their enterprises operating in Poland, foreign investors generated profits of PLN 84 bn. Out of that amount, as much as 52% (PLN 44.2 bn) was kept in Poland and reinvested in the growth of the Polish branches. This is the highest figure since at least 2003, the first year for which comparative data of the National Bank of Poland are available. To put into perspective, only a few years ago the reinvestment rate usually reached about 25–40%.

This would suggest that the Polish economy – with its economic development, growing internal market and gradually approaching status of a developed economy – enables investors to earn attractive rates of return. Although studies show (e.g. the Investment climate in Poland survey by Grant Thornton, Polish Investment and Trade Agency and HSBC) that foreign investors complain about the high volatility and unpredictability of legal provisions in Poland (especially with respect to tax law, as evidenced by the Polish Deal) and shortages of qualified staff, they are nevertheless convinced that the decision to enter the Polish market was right.

Chart 2. Foreign reinvestment in nominal terms (PLN bn) and as a share of profits of foreign investors (%).



Source: Own calculations based on NBP data

Less and less dividends

At the same time, foreign businesses are less and less keen to transfer their earnings abroad. In 2020, the dividend rate fell to as little as 39%.

The rise in reinvestments takes place mainly at the expense of declining dividends. Foreign businesses are less and less willing to pocket the profits made in Poland. In 2020, the amount transferred abroad in the form of dividend totalled PLN 32.5 bn, equivalent to 39% of their net income. In nominal terms, this is the lowest figure in five years, and percentage-wise – the lowest since at least 2003, that is in the entire history of the study. For the sake of comparison, in 2010–2015 the dividend rate on the income earned by foreign investors amounted to 45–62%.

The “scissors” of the reinvestment rate and dividend rate have never been open this wide, with the former exceeding the latter so much. This shows that foreign businesses are increasingly certain in treating the Polish economy and their Polish branches as a long-term investment. They are more committed to developing the assets held in Poland, and less to generating short-term profits in Poland and using them to finance their expansion at home or in other international markets.

Chart 3. Reinvestment and dividend relative to the overall income of foreign investors (%).



Source: Own calculations based on NBP data

“Profit shifting” is a myth

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In public discourse, it is often alleged that foreign investors treat the Polish economy and their Polish branches instrumentally, “draining” them financially and shifting the profits generated in Poland abroad, so as to fund their (supposedly often unprofitable) parent companies in home markets. Our report furnishes another proof that it is not the case. A strong majority of foreign investors treat the Polish economy very seriously, as a long-term prospect. The reinvestment rate is not only growing steadily, but has in fact recently significantly surpassed the scale of dividends. All this in spite of the fact that the majority of investors included in



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our study opened their branches in Poland more than 10 or even 20 years ago. After such a long time, one could definitely expect them to think about cashing in their profits. And yet, they prefer to continue developing their businesses here, because they are convinced it will enable them to generate even higher earnings in the future. In other words, they are not the type of investor who would pull their money out of Poland at the first sign of a market downturn or other turbulence. They form a natural part of the Polish economy, significantly contributing to its growth.

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Germany and Portugal reinvest the most

In 2020, German investors reinvested close to PLN 9 billion.

Relative to income, Irish businesses reinvest the most – as much as 99 per cent.

The approach to reinvesting by investors from different countries varies widely. As it turns out, in nominal terms the highest amounts of profits by far are reinvested by businesses from Germany. In 2020, they retained PLN 8.9 bn in their Polish branches, and over the past five years – as much as PLN 48.6 bn. By comparison, in 2020 the total foreign direct investment in Poland amounted to PLN 54 billion, which means that as much as one sixth of the overall foreign capital invested in Poland originated from reinvestment by companies with German capital.

On the other hand, if we consider the reinvestment rate, that is compare the amount reinvested to the total income generated in Poland, it turns out that the most “loyal” foreign investors in Poland in 2020 came from Ireland. They reinvested an astounding PLN 700 million out of the PLN 706 million of income, meaning that in their case the reinvestment rate amounted to 99%. Other notable countries are Sweden, Denmark and the United Kingdom, ranking high in both lists.

Table 1. Reinvestment by foreign businesses in Poland in 2020 by country of origin*

Amount (in PLN bn)		Share of income	
Germany	8.9	Ireland	99%
France	2.7	Japan	83%
United Kingdom	2.2	Denmark	77%
Switzerland	1.9	Sweden	75%
Sweden	1.5	Latvia	67%
Denmark	1.4	United Kingdom	67%
Italy	1.3	Spain	62%
USA	1.0	Portugal	62%
Spain	1.0	USA	58%
Belgium	0.7	Germany	55%
Ireland	0.7	Israel	54%
Czech Republic	0.5	Switzerland	52%
Finland	0.3	Italy	52%
Norway	0.2	Czech Republic	50%
Japan	0.2	France	46%

Source: Own calculations based on NBP data

*The Netherlands, Cyprus, Luxembourg and Malta were left out the compilation, because business performance may be inflated due to the favourable tax conditions in those countries. A significant portion of reinvestments credited to those countries may in fact originate from elsewhere.

Electronics plough back the most

Foreign investors involved in the manufacture of electronics reinvested as much as 92% of their profits in 2020. In nominal terms, the highest amounts are retained in Poland in trade – PLN 9 bn.

Significant differences in the approach to reinvesting can also be observed between different business sectors. In nominal terms, the highest amounts of profits are retained in Poland by foreign trading companies – in 2020 they reinvested PLN 9.2 bn, totalling PLN 39 billion over the past five years.

Relative to earnings, the top of the list is occupied by manufacturers of electronic equipment – computers, telephones, precision electronics etc. In the period under consideration, foreign owners in this sector decided to keep in Poland as much as 92% of earnings – PLN 698 million out of PLN 759 million profits.

The lowest rates of reinvestment are observed in agriculture – in 2020, agricultural reinvestments were downright negative, amounting to PLN -7.9 million against profits of PLN 172 million. Reinvestments in construction are likewise very modest – foreign companies reinvested PLN 293 million in Poland, i.e. only 10% of the profit generated.

Table 2. Reinvestment by foreign businesses in Poland in 2020, by selected business sectors

	Amount (in PLN m)	Share of income
Manufacture of electronic products	698	92%
Manufacture of pharmaceutical products	1413	84%
Human health and social work activities	357	83%
Financial and insurance activities	7795	82%
Sewerage, waste management	292	73%
BPO, SSC	3126	70%
Education	15	67%
Transport and warehouse management	1592	62%
Information and communication	4132	58%
Manufacture of rubber and plastic products	1582	57%
Manufacture of machinery and metal products	1796	52%
Trade (retail and wholesale)	9104	51%
Manufacture of food products	3025	50%
Real estate services	2495	44%

Source: Own calculations based on NBP data

Reinvestment is a treasure for the economy

Reinvestments by foreign businesses provide an enormous benefit to the economy. It is much easier to convince a company already doing business in Poland to retain its earnings here, than to find a brand new foreign investor and convince them to build a factory in Poland.

That is why Polish authorities should devote their efforts not only to seeking new investors, but also to creating the right conditions and incentives for the existing investors, in order to convince them to keep in Poland as much of their profits as possible.



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In these efforts, special emphasis needs to be placed on the businesses which are already seen to be willing to reinvest, whose actions prove that they treat their presence in Poland as a long-term venture. They are here to stay, to grow, they are not after short-term gains or using their Polish branches as a source of financing for current operations of the head office.

It is gratifying to see that this is how the Polish market is treated by investors from Germany – Poland’s main trading partner. Both in nominal and relative terms (compared to earnings), their reinvestment figures are very high. It shows that they are investors we can rely on now and in the future.

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We look forward to hearing from you

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About us

Grant Thornton is one of the leading audit and advisory organizations in the world, with a presence in 140 countries and headcount of more than 56,000 employees. We have been in Poland for 28 years. Our team of 750 employees supports clients in such areas as audit, tax advisory services, transaction advisory, payroll & HR outsourcing, as well as accounting outsourcing.