

Nordic investment in Poland Outlook

This report was prepared in light of the growing importance of Poland as a Foreign Direct Investment (FDI) destination and the intensive economic cooperation between Poland and the Nordic countries, in order to present the most important trends in the cooperation between the regions.

The report shows statistics for each Nordic country as well as for a region as a whole, however the purpose of the report is to show the importance of Scandinavia as an economic partner and the potential of this region for Poland. The report's analysis concerns 4 Nordic countries - Denmark, Finland, Norway and Sweden. Whenever the following analysis refers to 'Scandinavia', it can be taken to mean all 4 of the above-mentioned countries.

This analysis was developed in line with the data of the National Bank of Poland, Ministry of Economy of Poland, Central Statistical Office in Poland and Polish Information and Foreign Investment Agency.

The report's main focus is the 7-year-period between 2002 and 2008, which shows the development of economic relations before and after the membership of Poland in the European Union.

1. Poland as the destination of FDI

1.1. Poland in the polls

Countries striving for FDI must offer a high quality environment for these investments. There is a whole range of numerous crucial factors that contribute to investor decision making process regarding investment location. The image of Poland as an FDI destination has been confirmed for years by a large number of different polls. The magnitude of this potential is especially valuable in this time of global economic crisis.

Table 1. Investment attractiveness of Poland according to selected polls

Ranking prepared by	Investment attractiveness acc. to	Poland's ranking	Crucial factors in Poland's placement
United Nations Conference on Trade and Development (UNCTAD)	World Investment Prospects Survey 2009-2011	11th of 30 globally	Size of local market and the growth of market. The production market for EU ¹
World Economic Forum	The Global Competitiveness Index 2008-2009	53rd of 134 globally	Highly assessed in category of health and primary education. The lowest score in category of infrastructure ²
Ernst & Young³	The number of FDI projects, 2008	5th in Europe	176 FDI projects, 21% increase in comparison to 2007
	The number of jobs created by FDI, 2008	2nd in Europe	15,512 jobs created, a decrease in comparison to 2007
Federation of European Employers (FedEE)	Total labour cost in relation to its quality, 2007	1st of 31 European countries	A positive assessment of labour supply, relation employee-employer and labour market flexibility ⁴

¹ Polish Information and Foreign Investment Agency, http://www.paiz.gov.pl/nawosci/?id_news=2174&lang_id=

² See *The Global Competitiveness Report 2008-2009*, World Economic Forum, Switzerland 2009.

³ See *The Investment Attractiveness of Europe 2008 Report*, Ernst & Young, 2008.

⁴ Federation of European Employers, <http://www.fedee.com/countryratings.shtml>

PricewaterhouseCoopers⁵	Level of investment risk 2009	3rd for services, 5th for production (of 20 countries)	Improvement of 10 positions in services sector
OECD⁶	Decrease in non-salary labour costs 2008	1st of 30 member countries	3.2% decrease in tax wedge

The high position of Poland in many polls (see Table 1 above) indicates that it is a very competitive economy in comparison to others all over the world and confirms that Poland indeed presents a very stable and FDI friendly environment.

It is also worth mentioning that the country is often listed as a leader in the Central and Eastern parts of Europe, which contributes to the strengthening of the positive image of the Baltic Sea Region as a FDI destination. Besides, in recent years Poland has been regarded as an excellent location for shared service centres⁷. Among investors planning to build service centres, interest in Poland has been growing for several years. International concerns are increasingly often putting Poland on the list of countries to which it is worth relocating non-production divisions, such as accounting or call centres.⁸

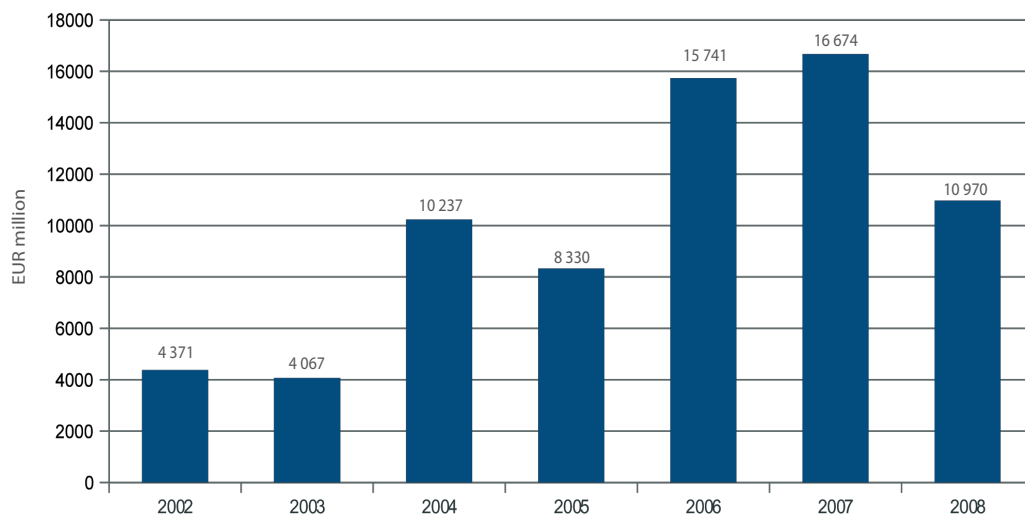
Poland competes for the name of FDI leader with the Czech Republic and Slovakia. Apart from those two economies, Bulgaria and Romania - two of the newest European Union member states - were also featured for their lower labour costs, and that has contributed lately to this race⁹.

1.2. FDI flows to Poland

Since 1996 the position of Poland as an FDI destination has been more and more strengthened. This not only reflects the numerous economic and political changes that have happened during these years due to membership in international organizations (EU, OECD, NATO), but has also improved the image of Poland as a stable and foreign capital-friendly economy.

Moreover, the increase in number of FDI flows is a result of the much better socio-economic conditions in Poland.

Chart 1. Total flows of FDI to Poland in 2002-2008 (EUR million)



Source: Polish Information and Foreign Investment Agency

⁵ See Balancing Risk & Renard. *The PricewaterhouseCoopers EM20 Index 2009 Interim Update*, www.pwc.com/en_PL/pl/publikacje/em20-2009.pdf

⁶ See *Taxing Wages 2007/2008*, OECD, 12 May 2009

⁷ See *Poland as the destination for shared Service Centers*, KPMG, 2009.

⁸ *Warsaw Business Journal's guide to Investing in Poland 2010*, s.5

⁹ See *Foreign Direct Investment in Central, East and Southeast Europe, 2009: FDI in the CEECs under the Impact of the Global Crisis: Sharp Declines*, the Vienna Institute for International Economic Studies, 2009.

During the first part of the analysed period a weak global economic activity, shrinking privatization sources in the light of the war in Iraq and the growing anxiety regarding terrorist attacks in countries of main investors contributed to a decline in a number of FDI flows to Poland¹⁰.

Then, a significant 100% plus increase of FDI to Poland occurred in 2004 when Poland joined the European Union. This level was reached mainly due to reinvested profits and a decline in corporate tax.

A good world economic situation in 2004-2007 let the number of FDIs to Poland steadily increase. The flow of FDI was especially high in 2006-2007, while 2007 was the year when the biggest level of FDI flow to Poland was recorded. A one-year-fall of FDI in 2005 was a result of smaller investments in the equity capital and reinvestment earnings¹¹. As a consequence of the global economic crisis, the FDI flow to Poland in 2008 was around one third lower than in 2007.

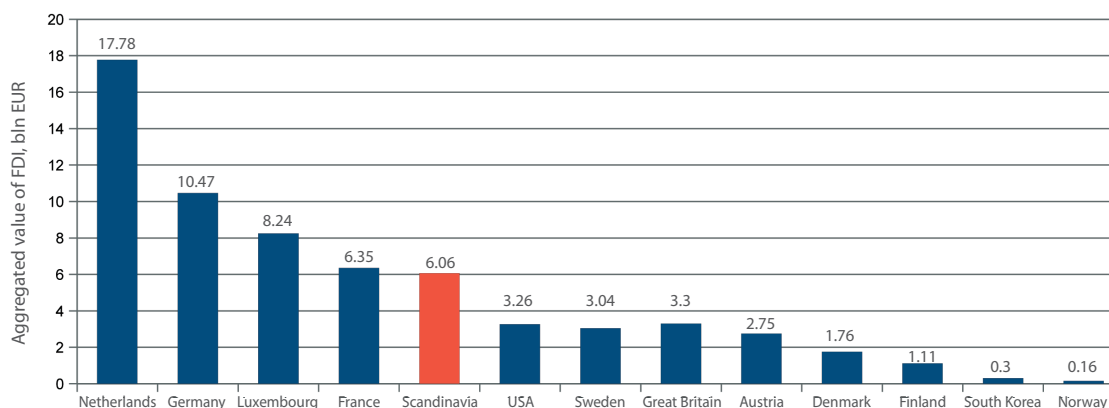
According to the National Bank of Poland the estimated FDI inflow to Poland as of the end of October 2009 reached over 6 billion EUR, which accounts for 68% of the figure for the same period the year before.¹²

Still Poland is even expected to strengthen its position and attract more direct investment during the global crisis.

1.3. The country of origin of major investors in Poland

Current FDI in Poland comes from 62 world economies¹³. More than 80% of FDI value has its origins in EU countries, but the US also has a significant contribution (See Chart 2).

Chart 2. The country of origin of main investors in Poland in 2002-2008



Source: SPCC on the basis of the data provided by the National Bank of Poland

In terms of aggregated value of FDI between 2002 and 2008 in Poland, the biggest investors came from the Netherlands, Germany and Luxembourg. That last country has been improving its significance since 2005. Among the Nordic economies it is Sweden that has the highest value of FDI. This country has been gaining more market share since 2004.

¹⁰ *Bezpośrednie inwestycje zagraniczne w Polsce na koniec 2003 roku*. Ministerstwo Gospodarki i Pracy, Departament Analiz i Prognoz Ekonomicznych, Warszawa 2004, s. 8.

¹¹ *Zagraniczne inwestycje bezpośrednie w Polsce w 2005 r.*, Narodowy Bank Polski, Warszawa 2007, s. 15.

¹² PAIIZ, <http://www.paiz.gov.pl/index/?id=227e072d131ba77451d8f27ab9afdfb7#3>

¹³ *Zagraniczne inwestycje bezpośrednie w Polsce w 2007 r.*, Narodowy Bank Polski, Warszawa 2009.

Table 2. Foreign direct investment in Poland, flow in 2007 and 2008 (million EUR)

Country of origin	flow in 2007	flow in 2008	number of entities 2007
DENMARK	471,7	191,0	674
FINLAND	291,4	261,8	167
NORWAY	154,4	50,4	295
SWEDEN	813,2	1110,7	646
SCANDINAVIA	1730,7	1613,9	1782
FRANCE	1891,0	566,8	1075
GERMANY	2967,7	1618,6	5576
GREAT BRITAIN	647,7	317,9	960
LUXEMBOURG	1006,2	1339,8	626
NETHERLANDS	1738,2	1604,5	2011
USA	847,2	364,4	664

Source: NBP and Central Statistical Office

In terms of the value of investments in 2007, the most investments came from Germany, France, Netherlands, Scandinavia and Luxemburg.

In 2008, with the general decline in the value of investments, FDI from Scandinavia exceeded the value of investments from France and the Netherlands and Scandinavians became the second largest investors, just after the Germans.

In terms of the number of entities in Poland in 2007, Scandinavian companies were just after the German and Dutch companies (see Table 2).

1.4. FDI main economic activities

In 2002-2007 the highest number of FDIs were in the sector of manufacturing, especially in production of motor vehicles and metal goods. There was a significant increase in the number of FDIs in services, while they fell in agriculture and fishing (See Table 3).

Table 3. FDI flows into Poland broken down by economic activities in 2002-2007

	mIn EUR	%
Manufacturing	17632,4	33
Financial intermediation	10462,3	19
Trade and repairs	9271,6	17
Transports, communication	1973,4	4
Construction	868,9	2
Electricity, gas and water supply	2393,3	4
Real estate, renting and business activities	11758,3	21
Hotels and restaurants	226,9	0
Mining and quarrying	113,5	0
Agriculture and fishing	232,1	0

Source: SPCC on the basis of the data provided by the National Bank of Poland

Among the FDIs in Poland, 33% were made in manufacturing, 19% in financial intermediation, and 17% in the range of trade and repairs. The importance of real estate activities has grown significantly (21%). Around 4% of FDI each took place not only in electricity, gas and water supply but also in transport and communication. FDI in construction was around 2% while less than 1% occurred in hotels and restaurants, mining and quarrying, agriculture and fishing.

2. Nordic FDI in Poland in 2002-2008

2.1. The FDI flows and dynamics of growth in Poland in 2002-2008

The most Nordic FDI happens to have occurred in the countries that are located nearby their borders. The destiny for these FDIs are usually members of the EU which are also main trading partners for the Nordic economies. Nevertheless, Denmark, Finland, Sweden and Norway are the investor countries of main importance for Poland (See Chart 2), and their FDI has stayed at a relatively high level for many years (See Chart 3).

However, Poland is not the main destination for Nordic FDI.

In the case of Denmark, almost half of its investment is located in Sweden, Great Britain and Germany. Moreover, many are also located in Norway and the United States¹⁴.

The following countries are the main recipients of most Finnish FDI: Sweden, Belgium, the Netherlands, Germany, Great Britain, France, Denmark and Estonia. Apart from the EU countries, a lot of Finnish FDI is in the United States, Switzerland, Canada, Norway, Russia and China¹⁵.

¹⁴ See Carlsen M., Melgaard A., Globalisation and Danish Direct Investments, [in:] Monetary Review, Danmarks Nationalbank, 2nd Quarter 2008, p. 54.

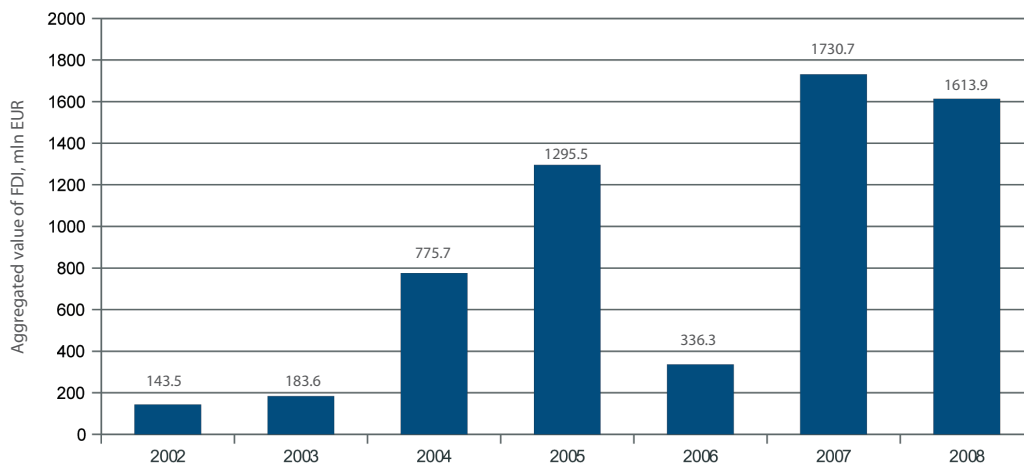
¹⁵ Suomen Pannki, <http://www.bof.fi/en/tilastot/maksutase/kuviot.htm>

Those FDI that come from Sweden are mostly in the United States. Besides which, Swedish companies also like to invest in Finland, Great Britain, Denmark, Norway, Switzerland, Germany, Belgium, the Netherlands and Malta¹⁶.

The biggest value of Norwegian FDI, nearly 1/5, has Sweden as the destination. Around half of it takes place in the Netherlands, the United States, Denmark and Great Britain. More FDI from Norway goes to France, Germany and Finland than to Poland¹⁷.

A significant increase in the number of Nordic FDI in Poland happened in 2000. This arose from a 645,8 million EUR flow of Swedish FDI to the telecommunication and energy markets¹⁸ and initiated a positive period for the flow of Nordic FDI to Poland in following years (See Chart 3).

Chart 3. Nordic FDI flows into Poland in 2002-2008



Source: SPCC on the basis of the data provided by the National Bank of Poland

Since 2002 the value of FDI flows from Denmark, Finland, Sweden and Norway into Poland has significantly increased. There were two falls in 2006 and in 2008 (See Chart 3).

Decline in 2006 resulted from the process of shares transfer in telecommunication and banking sector. The decline in 2008 shows general decreasing tendency of decreased number of investments resulting from economic crisis.

2007 set a new record for Nordic FDI flows that amounted to 1,730,7 million EUR, which was in-line with the global tendency.

¹⁶ Statistics Sweden, http://www.scb.se/Pages/ProductTables___215231.aspx

¹⁷ Statistics Norway, http://www.ssb.no/english/subjects/09/03/urland_en/tab-2005-04-12-03-en.html

¹⁸ Money.pl <http://www.money.pl/gospodarka/wiadomosci/artykul/rekordowe;zagraniczne;inwestycje;w;2000;roku10;6;mld;usd,191,0,38847.html>

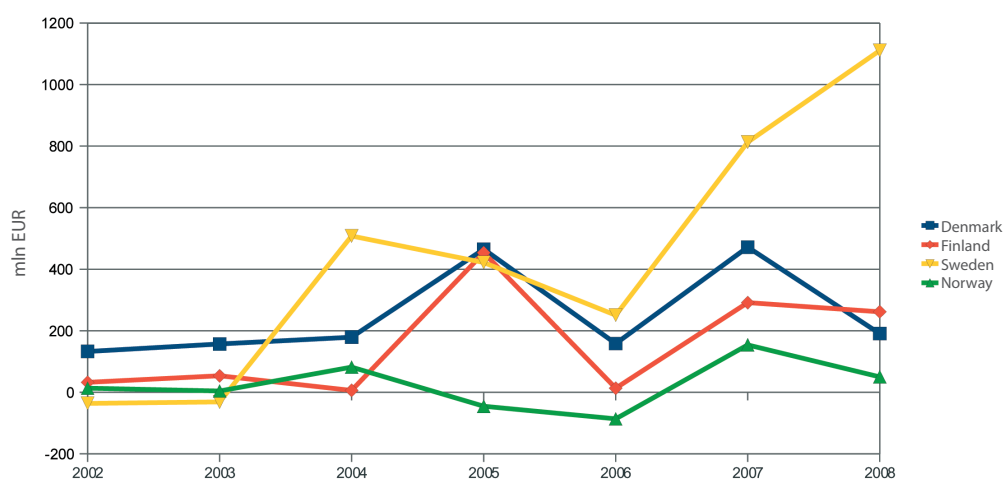
Table 4. Nordic FDI growth dynamics in 2002-2008

	2003	2004	2005	2006	2007	2008
	2002=100	2003=100	2004=100	2005=100	2006=100	2007=100
Denmark	118	114	259	34	298	40
Finland	164	12	7319	3	2191	90
Sweden	87	1624	83	59	324	137
Norway	32	1905	55	10	179	33
Scandinavia	128	422	167	26	515	93

Source: Own calculations based on NBP data

Every year from 2002 to 2008 the value of Nordic FDI in Poland gradually rose. The trend was breached temporarily in 2006 but the FDI growth rate was 60% bigger a year later, and in 2008 (See Table 4).

Chart 4. FDI of Nordic countries in Poland, 2002-2008



In 2002-2008 the development of Nordic FDI in Poland was affected in a similar way. The value of FDI increased over many years, securing a much bigger figure at the end of 2007 (See Charts 3 and 4). These were the FDIs from Sweden (EUR 813 mln), Denmark (EUR 472 mln), Finland (EUR 292 mln), and Norway (EUR 155 mln), which were the highest value FDIs.

Danish FDI had been increasing gradually for the first two years of the period analysed, reaching the highest number (EUR 157 mln) in 2003. Besides, its much faster growth was observed in 2005 and 2007 respectively (See Chart 4 and Table 4).

The size of Finnish FDI flows fluctuated over the period analysed. In 2002 it was more than EUR 30 mln while in 2004 just EUR 6,2 mln. A year later the Finnish record growth was set and it reached a level of more than EUR 450 mln (See Chart 4). At the end of 2006, in line with the global tendency (See 1.2), the Finnish investments experienced a decline to EUR 13.3 mln which means they were even smaller than in 2002.

However, it was Sweden whose FDI investment position in Poland was completely changed (See Table 4). During the first two years an outflow of capital in the amount of EUR 35 mln was observed (See Chart 4).

In 2004 this phenomenon broke down, and Swedish investments reached the highest level within the group of Nordic economies (See Chart 4), with slightly more than 500 million EUR. Although there was some decline in the following two years, their value had been increased since 2006 (See Table 4), providing Sweden with the status of biggest foreign investor from Scandinavia.

The growth of Norwegian FDI in Poland was very uneven in the period analysed. It often happened that its growth was smaller than in previous years (See Table 4). The outflow of FDI was observed twice; in 2005 and 2006 (See Chart 4). In spite of this though, from 2006 the amount increased and reached around 155 million EUR at the end of 2007. Those numerous changes did not contribute to significant improvement of the Norwegian investment position in Poland (See Table 4).

From 2002 to 2008 the Swedish investment position in Poland improved. This country seems to account for the biggest share of Nordic investments in Poland. It is also the only country which didn't decline its investments in 2008. The share of Danish investments in Poland has decreased significantly in comparison to the first years of the period analysed (See Table 4), though the share of FDI in Poland from Finland and Norway has not changed much. In period analysed it has slightly increased.

2.2. Branches of economic activities in Poland of Nordic investors

The branches of economic activities in Poland where Nordic investors run their businesses did not change so much during the years analysed (See Table 5).

Table 5. The number of companies from each Nordic country broken down by economic activity in Poland, 2006.

Economic activity	Denmark	Finland	Sweden	Norway	Total
Manufacturing:	32	13	41	9	95
<i>Transport equipment</i>	0	0	4	1	5
<i>Food products</i>	10	2	5	2	19
<i>Non-metal goods</i>	5	3	1	3	12
<i>Chemical products</i>	1	0	5	0	6
<i>Pulp and paper, publishing and printing</i>	2	3	9	1	15
<i>Rubber and plastic products</i>	3	2	2	1	8
<i>Metal products</i>	3	2	6	1	12
<i>Mechanical products</i>	5	1	9	0	15
<i>Textiles and wearing apparel</i>	3	0	0	0	3
Financial intermediation	5	2	4	0	11
Trade and repairs	6	1	6	1	14
Transports and communication	3	0	0	1	4
Construction	1	0	3	2	6
Electricity, gas and water supply	3	1	3	0	7
Real estate, renting and business activities	3	0	0	0	3
Hotels and restaurants	1	0	0	1	2
Mining and quarrying	0	1	0	0	1
Agriculture and fishing	1	0	0	0	1
Total	55	18	57	14	144

Source: SPCC on the basis of PAIIZ data

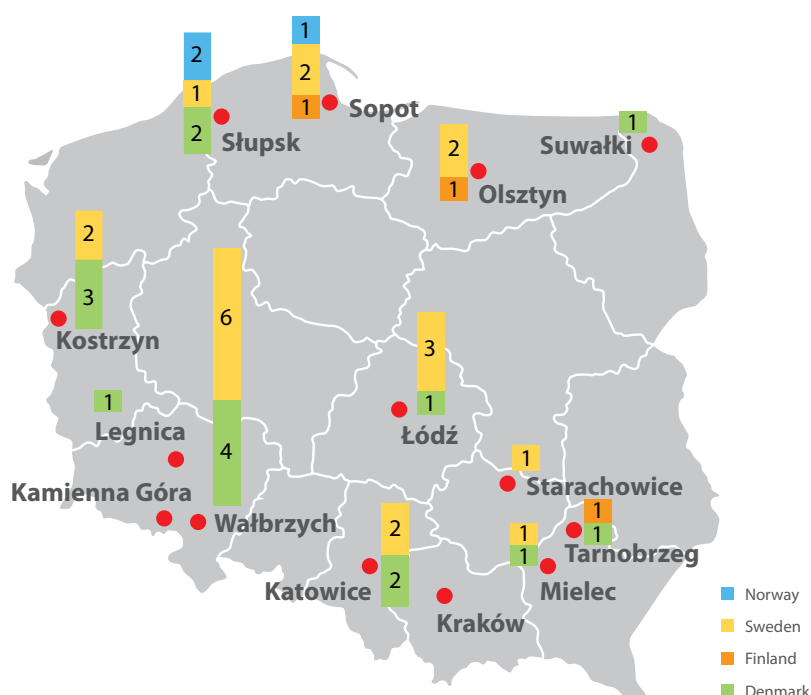
Among 144 Nordic companies¹⁹ doing their businesses in Poland in 2006, the majority (65%), were in manufacturing. Within this, around 20% were involved in food, beverages and tobacco products, whereas 5% fewer were active not only in pulp and paper, publishing and printing industries, but mechanical production too (See Table 5). Apart from manufacturing, nearly 10% of Nordic entrepreneurs' activities take place in trade and repairs branches while 8 % operate in financial intermediation.

3. Nordic investments in Special Economic Zones in Poland

One of the key investment incentives in Poland is the possibility of investing in one of the 14 special economic zones. Any special economic zone is subject to preferential tax treatment. An entrepreneur can get the following privileges: tax exemptions (corporate or personal income tax), land fully prepared for investment at competitive prices, and free-of-charge assistance in dealing with formalities connected with investment and property tax exemptions (within some municipalities).²⁰

Until July 2009, Nordic companies have been permitted to run their businesses in 12 out of 14 special economic zones. The highest number of these (10), are located in Wałbrzych Special Economic Zone (See picture 1).

Picture 1. The number of permissions in Special Economic Zones given to Nordic countries, as of June 2009



Among the 42 Nordic companies that take advantage of the SEZs, 20 that come from Sweden, 16 from Denmark, 3 from Norway and 3 from Finland²¹ (See picture 1). No Nordic investors have started their activity in the Kamienna Góra Special Economic Zone or Kraków Technology Park Special Economic Zone. The Finnish investor from Pomeranian Special Economic Zone was awarded by Polish Information and Investment Agency with the Investment of the Year for 2009 award, for the biggest investment.

¹⁹ Every year, the Polish Information and Foreign Investment Agency conducts a survey that major foreign investors in Poland take part in. Its FDI value is higher than USD 1 mln. The number 144 in Table 5 accounts for the only part of Nordic companies in Poland (See table 2).

²⁰ *Warsaw Business Journal's guide to Investing in Poland 2010*, s.5

²¹ SPCC's research based on SEZ's websites and telephone interviews.

4. Summary

The dynamics of Nordic FDI investment growth in 2002-2008 prove that Danish, Finnish, Swedish and Norwegian entrepreneurs are more and more often choosing Poland as a destination for their project. They run their businesses in major branches of the Polish economy, providing it with enhancement and employment growth. In the period analysed one could observe a significant improvement in the Swedish investment position. The country in line with Denmark are the most active Nordic investors in Poland. The other two Nordic countries, that is Finland and Norway, are investing more and more in Poland, too.

Nordic companies present in Poland account for around 10% of all foreign companies in Poland.

At the same time, Nordic companies account for 19% of investors with capital higher than 1 million USD.

Nordic countries are important trade partners for Poland, and not only in FDI statistics but also as foreign trade partners. Scandinavia is a crucial partner for Poland (See Table 6).

Table 6. Export and import of goods in Poland, 2008 (mln EUR)

Country	Export	Import	Balance	Export %	Import %
DENMARK	2 251,3	1 731,9	519,4	1,94	1,22
FINLAND	998,5	2 130,0	-1 131,5	0,86	1,50
NORWAY	1 944,1	1 911,5	32,6	1,87	1,34
SWEDEN	3 690,7	2 948,6	742,1	3,17	2,07
SCANDINAVIA	8 884,60	8 722,00	162,6	7,84	6,13
EU	90 457,0	88 171,1	2 285,9	77,82	61,90
FRANCE	7 210,4	6 723,4	486,9	6,20	4,72
GERMANY	29 124,1	32 755,2	-3 631,1	25,05	22,99
GREAT BRITAIN	6 700,0	4 040,5	2 659,5	5,76	2,84
USA	1 688,7	3 135,0	-1 446,3	1,45	2,20

Source: Ministry of Economy in Poland

The mission of the SPCC is to use the strong economic position of Scandinavia in Poland for the benefit of our members and to become a strong voice for Nordic investors and significant business society in Poland.

5. Additional information

Foreign Direct Investment (FDI) occurs when a resident of one country invests in the business of a different economy's resident (the enterprise of direct investment) in order to take long term advantage of the capital invested.

The direct investor has either at least 10 per cent of the shares of the business, or is privileged to 10 per cent of votes during a board meeting²².

There are various forms of FDI, and all of these support a country's economic development. FDIs are greenfield investments, joint ventures of foreign and Polish investors, founding a 100 per cent share of foreign investors, capital privatization effects, private company mergers and takeovers, direct privatization²³.

²² See *Zagraniczne inwestycje bezpośrednie w Polsce w 2003 r.* Narodowy Bank Polski, Warszawa 2003, s. 28.

²³ Dziemianowicz, W., *Inwestycje zagraniczne jako czynnik rozwoju polskich regionów. Ekspertyza dla Departamentu Koordynacji Polityki Strukturalnej Ministerstwa Gospodarki i Pracy i Polityki Społecznej.*

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