

Foreign investors in the Malopolska Region 2017

Summary

Editorial page

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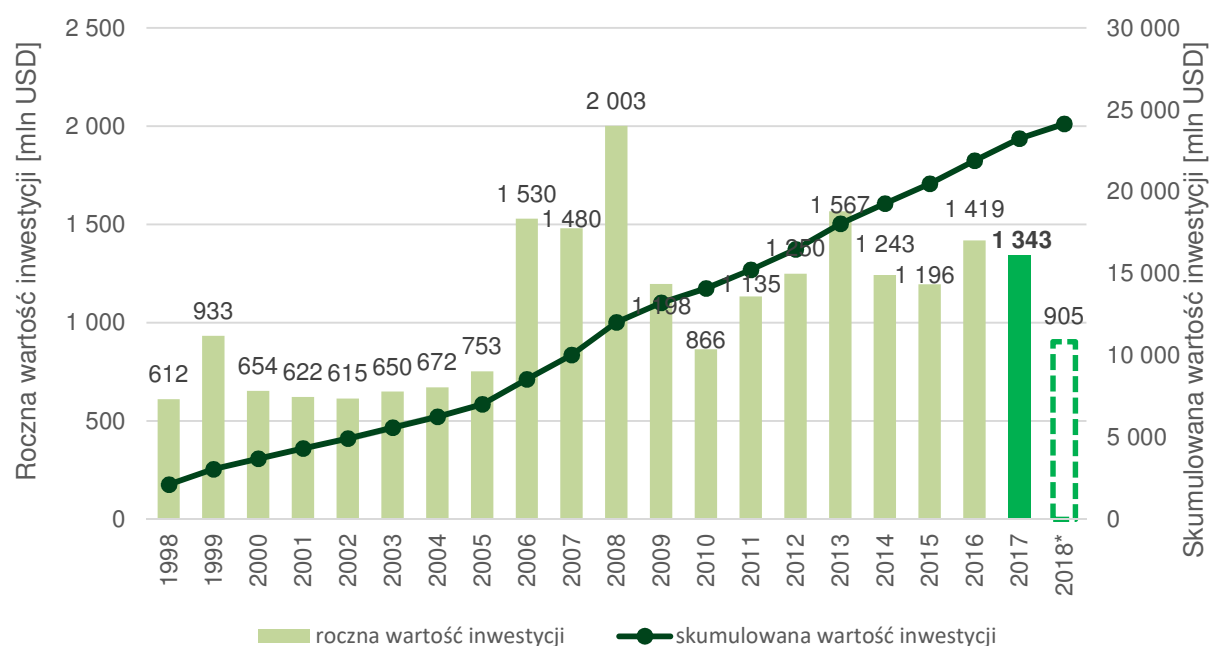
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Size and structure of investments

The value of foreign direct investments in the Malopolska Region in 2017 reached USD 1,343.4 million and was USD 76 million lower than in the previous year. The value of foreign direct investment should be regarded as a result like the trend in the inflow of investment in recent years. Since 2011, the investment stream has always exceeded at least \$ 1.1 billion. However, investment expenditures only twice in this period approached the record results from 2006-2008.

Figure 1. Volume of foreign investment in the Malopolska Region 1997-2011



Roczna wartość inwestycji [mln USD]	Annual investment value [million USD]
Skumulowana wartość inwestycji [mln USD]	Cumulative value of investments [million USD]
roczna wartość inwestycji	annual investment value
skumulowana wartość inwestycji	cumulative value of investments

*data for 2018¹

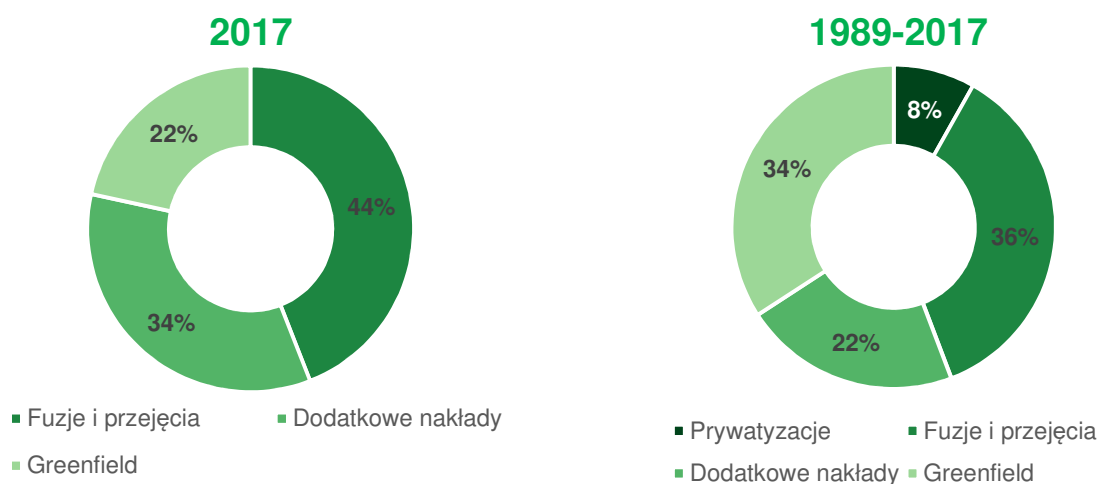
Source: own study

The total value of foreign capital invested in the Malopolska Region in 1989-2017 exceeded USD 23.2 billion. The value of investment outlays per capita of the cumulative value of foreign investments amounted to USD 6,841. On the other hand, the estimated value of foreign investments in 2017 is approximately USD 905 million. Such a result would allow the cumulative value of outlays to exceed the level of USD 24 billion in 2018, but it is quite low, as compared to the levels of forecasts in previous years.

In 2017, 122 investors in the Malopolska Region incurred expenditure exceeding USD 1 million. Among them, there were as many as 28 investors who engaged amounts in excess of USD 10 million. There were 7 investments exceeding USD 50 million. However, they were mostly investments related to mergers and acquisitions.

¹ The forecast is based on publicly available data sources in relation to investment plans by investors operating in the Malopolska Region as well as disclosed and finalized mergers and acquisitions.

Figure 2. Foreign investors' expenditures in 2017 and in the years 1989-2017 by type (%).



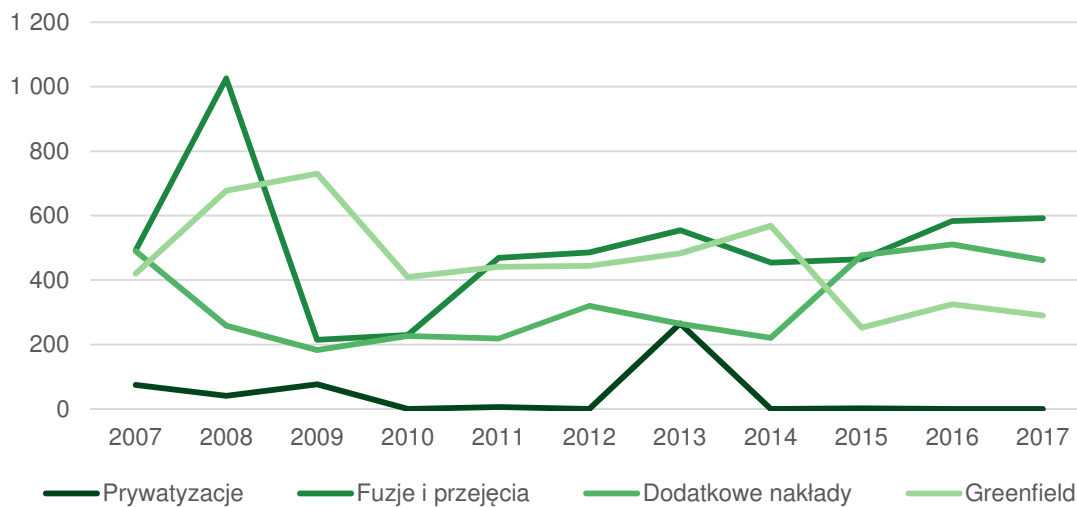
Source: own study

Fuzje i przejęcia	Mergers and acquisitions
Dodatkowe nakłady	Additional expenses
Greenfield	Greenfield
Prywatyzacje	Privatization

In 2017, mergers and acquisitions were dominant among the types of investment expenditure. The expenditures amounted to over USD 591 million and were higher by USD 8 million than in the previous year. In the entire structure of investments in 2017, it was also 3 pp. more than a year earlier. However, the global value of outlays is lower, which is influenced by the lower value of greenfield investments² and reinvestment. The value of additional expenditures amounted to almost USD 462 million and decreased by almost USD 49 million. In turn, the expenditure on new facilities is almost USD 290 million, USD 35 million less than in 2016. In the entire structure, it is respectively 34% and 22% of the value of direct foreign investments. Although the composition of the types of expenditure has not changed diametrically, there has been a noticeable trend for several years to increase the share of mergers and acquisitions at the expense of other types of investments. There were no privatization investments. Currently, they are already incidental.

² Due to the difference in the methodology used in estimating greenfield expenditure in different editions of the report, comparing the values over the years should be approached with great caution.

Figure 3. Smount of expenditure in 2007-2017 by type (in million USD)



Source: own study

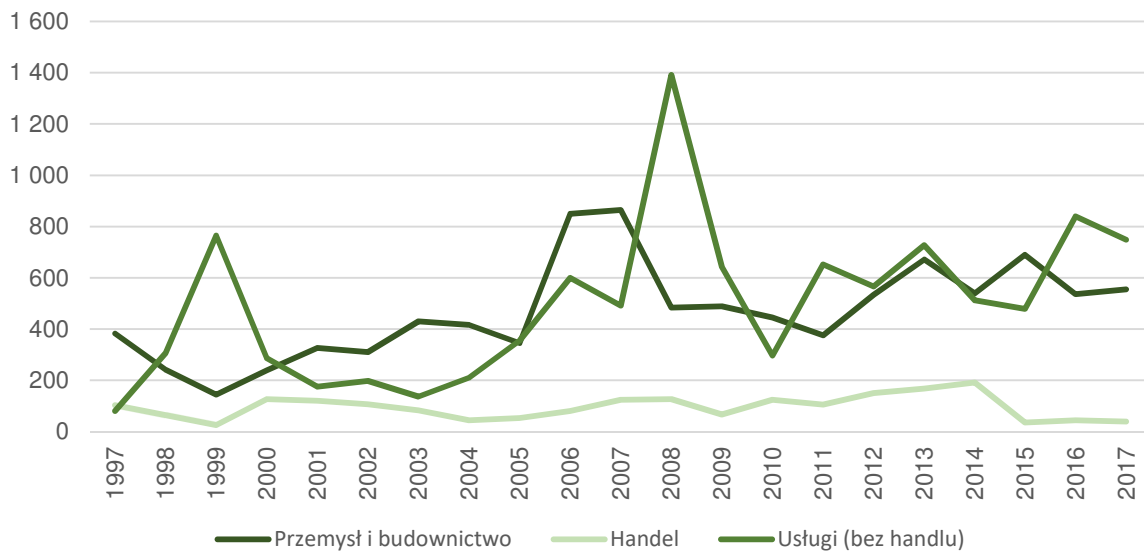
In the entire period 1989-2017, the largest part of the capital was allocated to mergers and acquisitions and investments in new facilities (36% and 34% respectively). About 22% of outlays were allocated to additional expenditure on additional investment in the activities of already operating companies. In the 19 years covered by the analysis, privatizations accounted for about 8% of the value and in recent years have already expired (the last major privatization took place in 2013).

Increase in demand associated with acquisitions of companies and real estate is a natural stage in the development of the economy. Despite this expectation, one should also expect an upward trend in the reinvestment of existing companies and outlays on new facilities. In this segment, we can observe a slight stagnation and a reversal of trends from previous years (a reversal of the proportion of greenfield outlays and reinvestments in relation to acquisitions). What is more, only 1/3 of the value of foreign direct investments in the Malopolska Region includes a completely new facility. The remaining 2/3 is the expansion of *greenfield* facilities that have been built in recent years.

Foreign investments by sectors

The sector structure of investments is dominated by sectors related to industry and construction (sections B-F) and non-trade services (sections H-S). Investment outlays for industry oscillate around USD 555 million. The investment stream in the case of services is an amount close to USD 748 million. In the case of the first sector, outlays on industrial processing dominate, and in the case of services - activities related to servicing the real estate market. Trade expenditures play a marginal role and they are about USD 40 million. The high share of investments in industry and construction resulted mainly from additional expenditure on the expansion of existing plants, and in services - primarily from mergers and acquisitions on the real estate market.

Figure 4. Inflow of investments to the Malopolska Region by year and sectors of the economy (in million USD)



Przemysł i budownictwo	Industry and construction
Handel	Trade
Usługi (bez handlu)	Services (no trade)

Source: own study

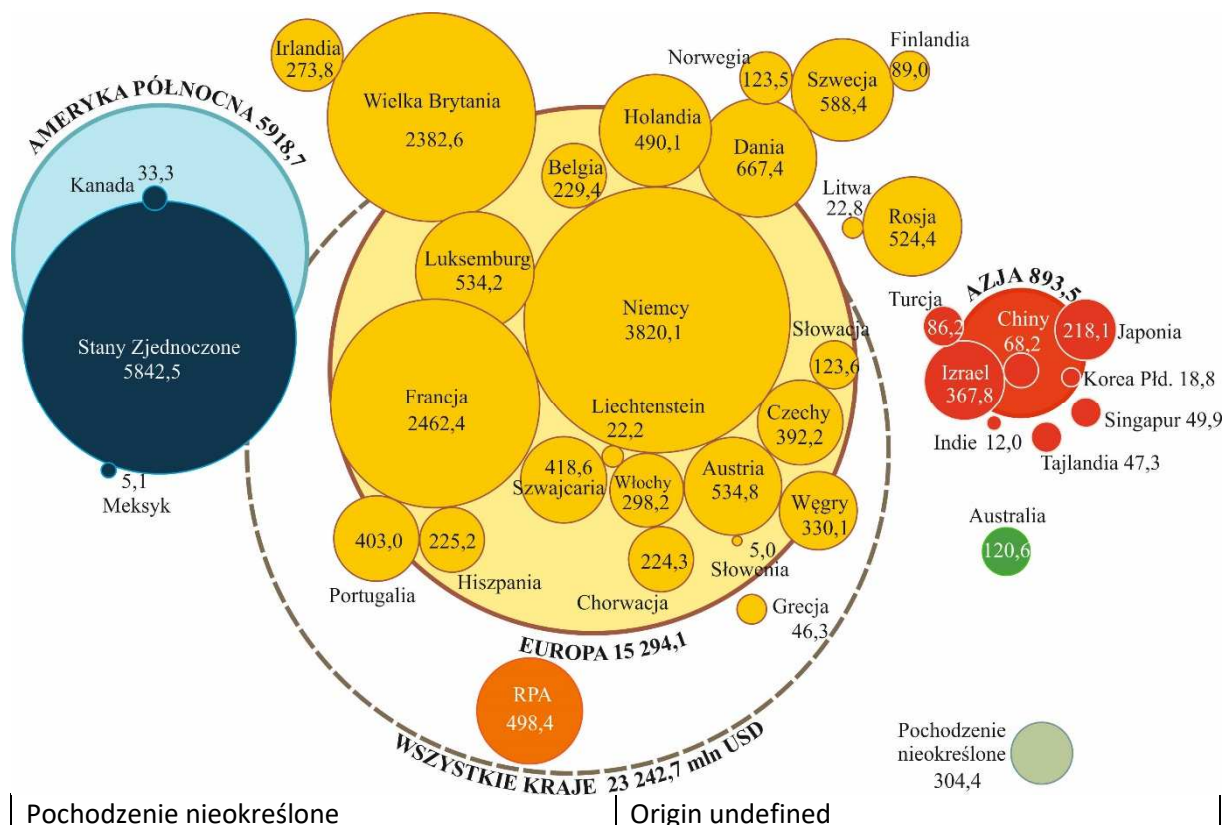
The structure of outlays is dominated by services which accounted for almost 57% of the investment stream. Within this sector, the most prominent position is related to real estate services (section L). The industry covers just over 41% of the investment value.³ Within this sector, a significant part of projects was related to the industrial processing section (section C). In turn, outlays in trade are less than 3%. This may be partly due to a change in the trade execution model. The largest outlays are incurred by specialized development companies that rent space to commercial entities. In earlier years, commercial companies often realized real estate investments themselves.

³ It is worth noting that the construction industry does not include investment activities related to the construction of housing estates and office buildings. In the first case, it was assumed that the investor is the future residents who ultimately incur the construction costs. In the latter case, the properties are built for a commercial purpose to function on the real estate market and / or for sale to another investor.

Countries of origin of capital

European investors stand for the highest percentage (39.4%) of foreign investments in 2017 in the Malopolska Region. Out of the total FDI investments of USD 1,343.3 million, this amounts to USD 528.7 million for entrepreneurs with European capital. The value and share of European capital are much worse than in 2016 (approx. 50% and USD 711 million). The most capital from European countries came from France (USD 137 million), followed by Great Britain (USD 81 million), Germany (USD 58 million). Last year, the countries also incurred the largest expenditure from European countries. The decline in the share of investments with European capital coincided with a significant increase in capital inflows from North America. In 2017, the expenditures of North American companies amounted to almost USD 389 million (almost all capital came from the United States). Progressive investment outlays from Asian countries deserve attention. In 2017, they exceeded the USD 100 million barrier, and the share in investments increased from 3.9% in 2016 to 8.3%. This is due to several factors: increases in the value of expenditures, as compared to previous years (Israel, China), the maintenance of considerable expenditures from 2016 (Japan), the emergence of a new direction of capital inflow (Thailand).

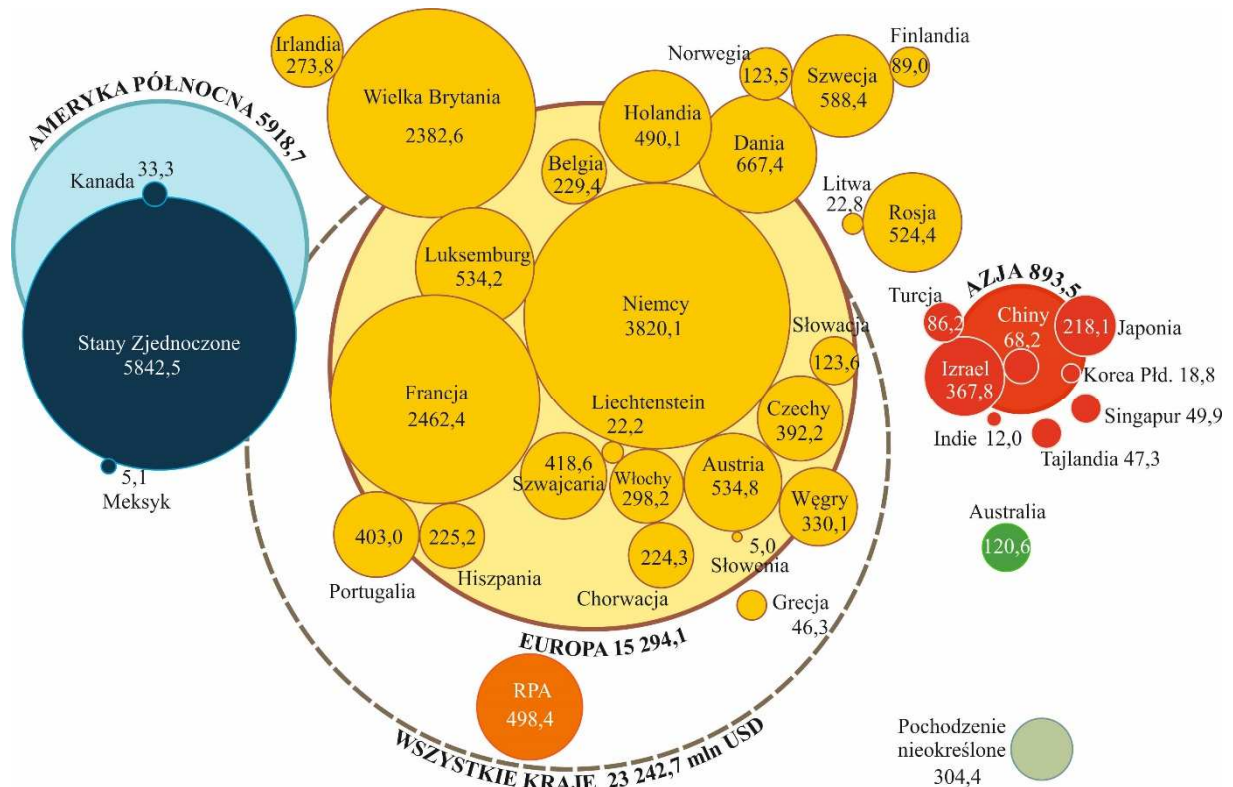
Figure 5. Directions of FDI inflow to the Malopolska Region in 2017 in USD million



Source: own study

A significant increase in outlays that cannot be clearly assigned to a given country (international capital) is another especially important trend that has emerged in the inflow of FDI. The amount of such capital in 2016 exceeded USD 266 million. It is caused by the increasing activity of investment funds and international capital groups with diversified sources of capital. The expenditures relate primarily to acquisitions of companies and real estate.

Figure 6. Directions of FDI inflow to the Malopolska Region in 1989-2017 in million USD



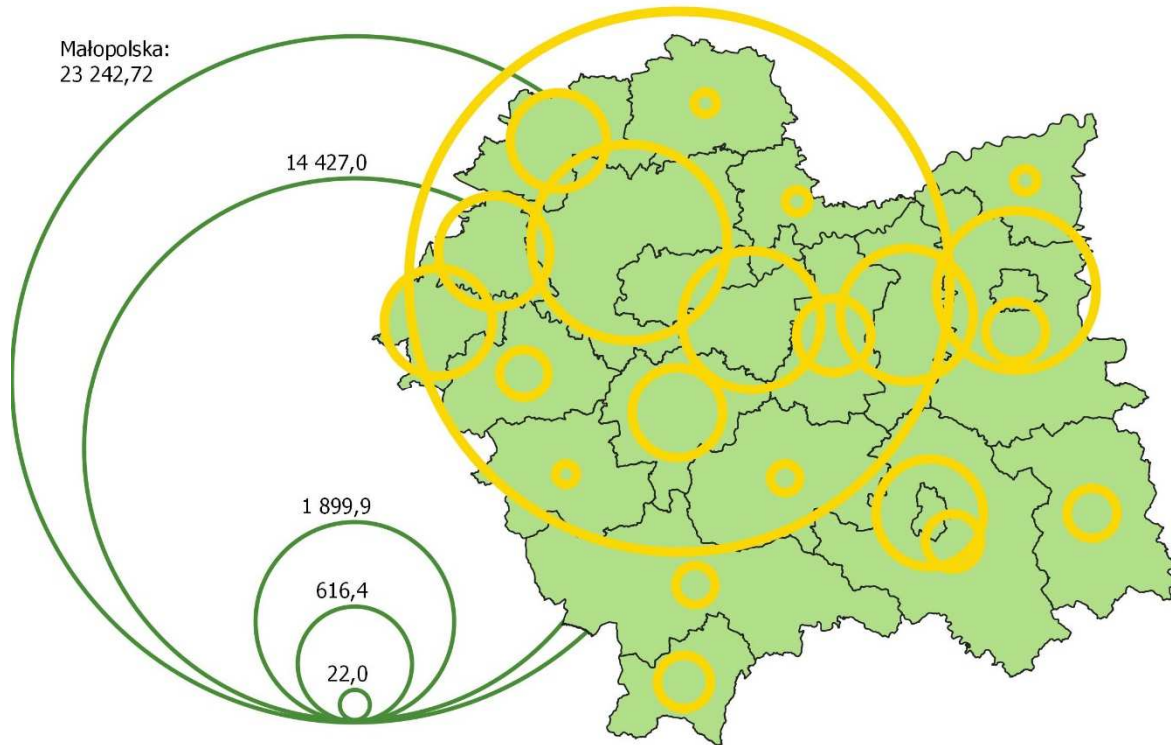
Source: own study

When analyzing the structure of foreign direct investment in the long run, four main directions of capital inflow to the Malopolska Region can be seen. The United States is still the undisputed leader in the period 1989-2017. Entrepreneurs from this country invested more than USD 5.8 billion in the years, which constitutes a quarter of total foreign expenditure. Entrepreneurs from the most developed European countries: Germany (16% share), France (10%) and Great Britain (10%) had an incredibly significant impact on the economy of the Malopolska Region.

Distribution of foreign investments

In 2017, the total value of investment expenditure incurred by investors with foreign capital since 1989 has exceeded USD 23 billion. Only 8 poviats account for over 91% of this amount. The largest part of the stream of foreign investments - 62% - went to Krakow. Almost 8.2% of the cumulative expenditure incurred in the Region since 1989 had flowed to the Krakow poviat, and 5.4% to Tarnów.

Figure 7. Total value of foreign investments in the poviats of the Malopolska Region in 1989–2017 in million USD

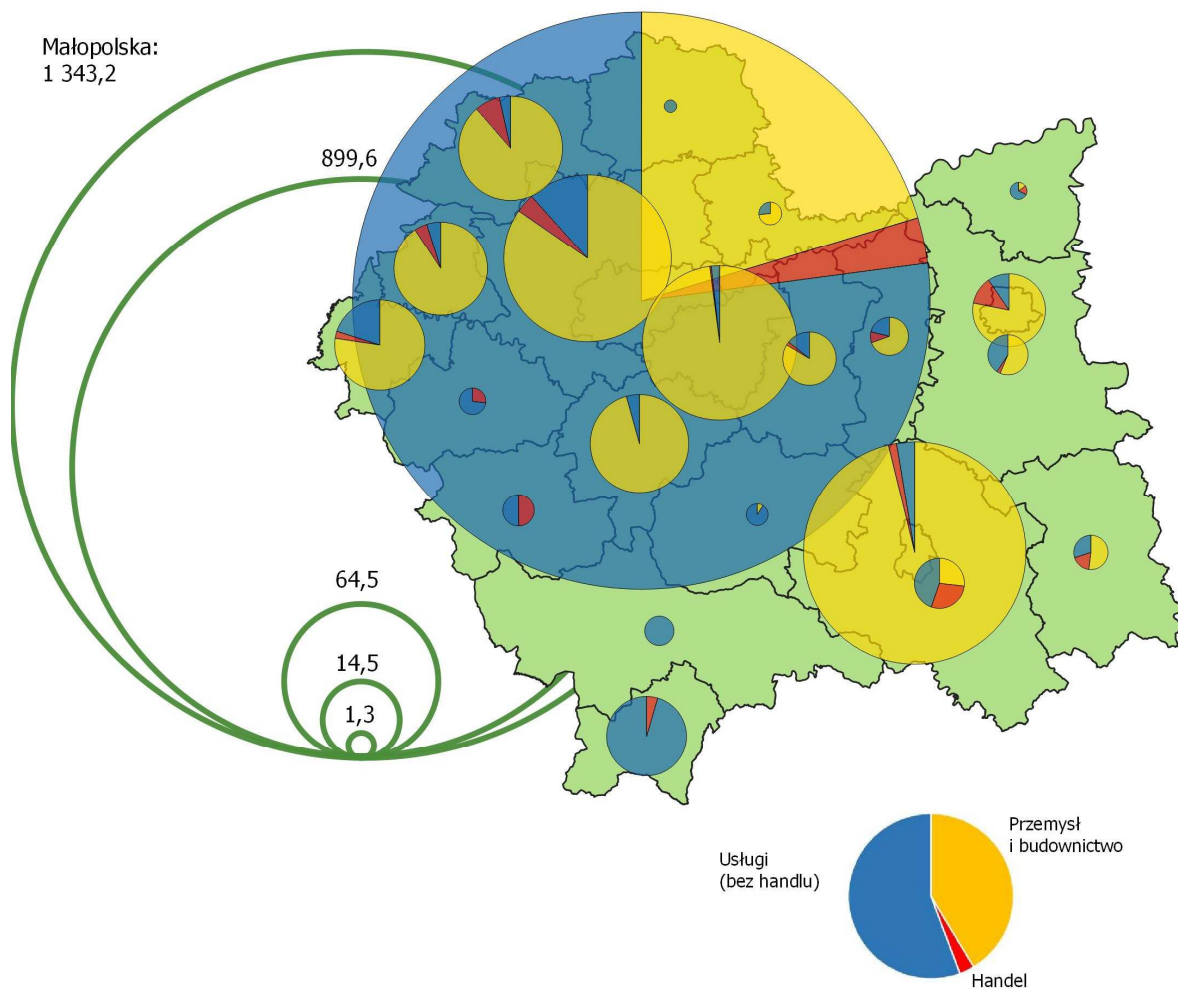


Source: own study

A relatively large part of the investment expenditure stream also went to the Wieliczka and Brześć poviats, and the Chrzanów and Oświęcim poviats located in the western part of the Region. In terms of the total amount of investment outlays, Nowy Sącz also stands out. The smallest part of the cumulative expenditure went to the Sucha Beskidzka poviat and the Miechów, Dąbrowa and Proszowice poviats located in the northern part of the Region.

In 2017 alone, the largest capital expenditure was also incurred in Krakow. Almost USD 900 million went to the capital of the Region, which accounted for 67% of investment expenditure incurred this year in the Malopolska Region by investors with foreign capital. The value of investment expenditures that flowed into Nowy Sącz, next in the ranking, is over USD 133 million, i.e. almost 10% of the entire stream of foreign investments in 2017. The value significantly exceeds the capital expenditure incurred in the city in previous years - in 2015 and 2016 they oscillated around USD 10 million, and thus did not exceed 1% of the total capital commitment of foreign investors. The total capital expenditure incurred in 2017 consists mainly of the acquisition of *SGL Carbon Polska S.A.* plants by the investment fund *Triton Partners Limited*.

Figure 8. Volume and structure of foreign investments in 2017

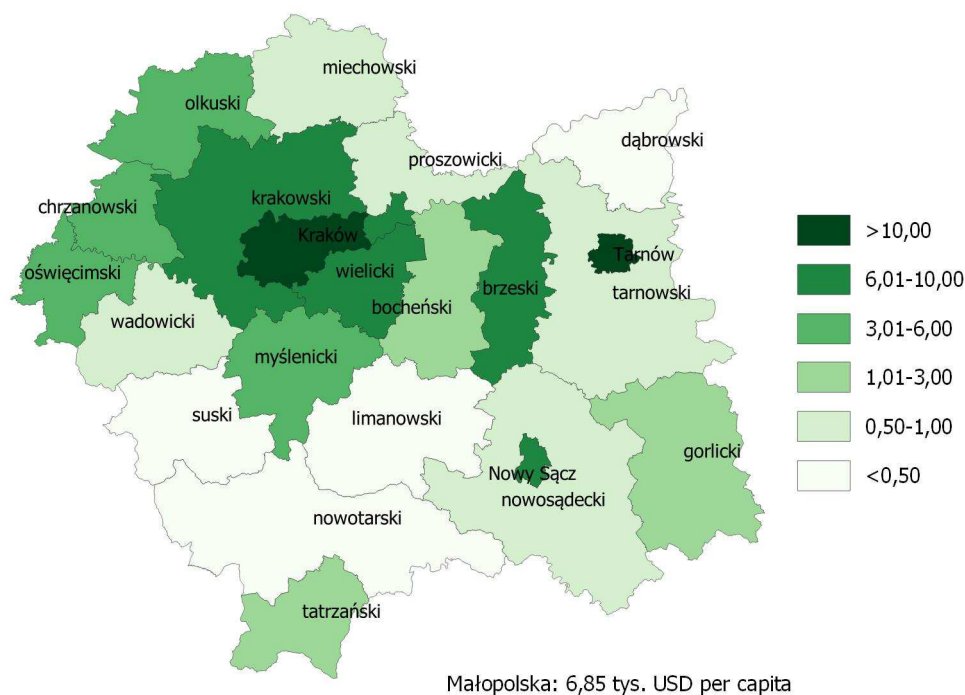


Source: own study

As in previous years, high capital expenditure was also incurred in the Krakow and Wieliczka poviats. More than USD 75 million went to the Krakow poviat, and almost USD 65 million to the Wieliczka poviat. More than USD 20 million was invested in the following poviats: Olkusz, Myślenice, Chrzanów and Oświęcim. In the Tatra poviat and Tarnów, the capital commitment of investors exceeded USD 10 million. In 9 Małopolska poviats, the expenditure incurred by investors with foreign capital in 2017 was higher than in 2016. The lowest outlays, not exceeding USD 2 million, were allocated to agricultural areas - to Miechów, Dąbrowa and Proszowice poviats, as well as to the Limanowa and Wadowice poviats.

In 2017, the volume of foreign investments per capita of the Region amounted to USD 396. Investment outlays, for Nowy Sącz in 2017, translated into the highest value of foreign investments per capita in the Region - almost USD 1.6 thousand. The next places in this ranking were: Krakow with a value of approx. USD 1.2 thousand, Wieliczka poviat - USD 515 and Krakow poviat - USD 276.

Figure 27. Volume of foreign investments in 1989–2017 per capita



Source: own study

Value of investment outlays incurred in the Malopolska Region in 1989-2017 per capita is USD 6.8 thousand. The value of investment outlays per capita was higher in Krakow and Tarnów - 18.8 thousand USD and 11.5 USD thousand, as well as in the poviats of Brzesko, Wieliczka and Krakow. In Nowy Sącz, the value of investment outlays per capita is like that for the entire Region. Relatively high investment expenditures per capita, exceeding 3.5 thousand USD, were also recorded in the poviats located in the western part of the Region: Chrzanów, Olkusz and Oświęcim. In the poviats: Sucha Beskidzka, Limanowa, Nowy Targ and Dąbrowa Tarnowska, the cumulative value of investments per capita did not exceed USD 500.

Investments in new facilities (*greenfield*)

Expenditure on greenfield investments since 1989 in 2017 exceeded the value of USD 7.9 billion. The amount accounts for approximately 34% of the cumulative stream of foreign investments that went to the Region during this period. Expenditures on new facilities accounted for over 90% of the capital invested in 1989-2017 in the Wieliczka powiat, as well as more than 70% in the Limanów and Myślenice poviats. At least half of the investment expenditures that went to the following poviats: Oświęcim, Tarnów, Dąbrowa, Tatra, Sucha Beskidzka and Brzesko were involved in *greenfield* facilities. In Krakow alone, expenditure on *greenfield* investments accounted for approximately 27% of the total capital invested in the city, while in the Krakow powiat - 45%. A higher share of investments in new facilities in the suburbs than in the city itself can also be observed in the case of Tarnów. More than 55% of the funds invested in 1989-2017 in the Tarnów powiat and slightly more than 17% in Tarnów itself were involved in *greenfield* investments.

Employment in companies with foreign capital

Companies with foreign capital play an important role in the Malopolska Region labour market. According to the results of the survey, employment in companies with foreign capital covered in the survey in 2017 was at the level of 138.9 thousand people (in 2016 this number oscillated around 128 thousand people, which gives approx. 8% increase per year).

For comparison, the data of the Central Statistical Office⁴ shows that at the end of 2017, the number of employees in entities with foreign capital in the Malopolska Region amounted to 132.2 thousand people.

According to the PKD section, the highest employment in companies with foreign capital occurs in manufacturing. In 2017, over 46,000 people worked in this section, which constituted 33.4% of the total. By far the most important departments are metal production (over 10,000 people and 22% share in employment in industry) and the production of motor vehicles, trailers and semi-trailers, excluding motorcycles (every 5th person working in industrial processing).

Section J - information and communication is next, where 18.6% of the employees work. Out of the 25.9 thousand working in the section, as many as 63.4% work in the department related to software and IT consultancy. Enterprises offering jobs in this industry operate mainly in Krakow and its immediate vicinity (Zabierzów, Węgrzce), where as many as 40 of them operate and employ 16.1 thousand employees.

The third section of the PKD with 16.0% of the employed is wholesale and retail trade; repair of motor vehicles, including motorcycles. For this section, the dominance of one department is even more evident, namely retail trade excluding motor vehicle retail, where 8 out of 10 people work.

In 2017, over 70% of employment in companies with foreign capital was generated by European investors, they employed a total of 98.8 thousand people. The next place in terms of importance for the Malopolska Region labor market was taken by American capital. Employing about 30 thousand people, investors from the US concentrated more than 21% of jobs in companies with foreign capital in the Region. Both in the case of companies with European and American capital, employment increased, as compared to 2016 (from 94.3 thousand and 27.6 thousand people, respectively). About 40% of jobs in companies with capital from European countries are each in the industrial and services sectors. More than 70% of jobs in companies with US capital are concentrated in the service sector.

Among European investors, the largest number of jobs is offered by companies with British (16.5% of all employees in enterprises with foreign capital), French (14.8%) and German (9.2%) capital. Investors from Great Britain employ more than 8.5 thousand people in the industrial and commercial sectors. French capital is over 8.5 thousand jobs in services and almost 8 thousand in industry. In the employment structure of companies with German capital, industry has the largest share (almost 37%), followed by trade (almost 35%).

Export in companies with foreign capital

In 2017, the value of revenues from sales abroad achieved by enterprises with foreign capital operating in the Malopolska Region amounted to USD 12.6 billion⁵. More than half of this value (52%)

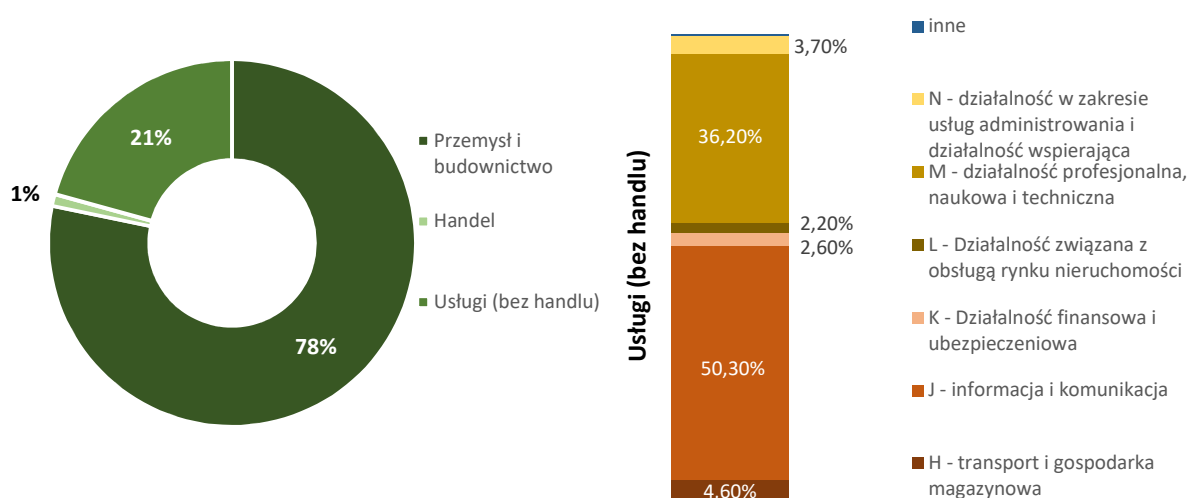
⁴ The data on employment in companies with foreign capital provided by the Central Statistical Office (GUS) is based on the enterprise method and does not meet the OECD criteria (minimum 10% of shares held by a foreign investor). Therefore, they may differ from the data collected by the authors of the report.

⁵ Information on the territorial structure of sales revenues was obtained for 396 identified investors with foreign capital, 200 of which showed sales abroad.

is attributable to enterprises that in 2017 incurred investment expenditures lower than USD 5 million, and 1/3 are revenues from sales abroad of the largest investors - companies with investment expenditures exceeding USD 10 million.

The vast majority of this amount are revenues from exports of enterprises from the industry and construction sector (USD 9.9 billion). Enterprises from this sector, which incurred capital expenditures exceeding USD 10 million in 2017, achieved revenues from sales abroad in the amount of almost USD 4.3 billion. A similar value of exports was generated by industrial companies, their capital expenditure in 2017 did not exceed USD 5 million (USD 4.2 billion).

Figure 38. Structure of revenues from export sales of enterprises with foreign capital by sectors of the economy and PKD section of the service sector in 2017



inne	other
N – działalność w zakresie usług administrowania i działalność wspierająca	N - activities in the field of administration services and support activities
M – działalność profesjonalna, naukowa i techniczna	M - professional, scientific and technical activities
L – działalność związana z obsługą rynku nieruchomości	L - real estate activities
K – działalność finansowa i ubezpieczeniowa	K - financial and insurance activities
J – informacja i komunikacja	J - information and communication
H – transport i gospodarka magazynowa	H - transport and warehouse management

Source: own research.

The value of exports of enterprises from the service sector accounted for over 1/5 of the total value - USD 2.6 billion. Companies operating in section J (information and communication) generate over a half of the export volume of service enterprises with foreign capital. The value of sales revenues in companies in this section amounted to USD 1.3 billion. Section M (professional, scientific and technical activities) is another section whose share in the value of exports of service enterprises with foreign

capital was large. In 2017, the companies achieved revenues from sales abroad of almost USD 950 million, which accounted for over 36% of the export value of service companies with foreign capital.