Country in focus: Poland

WHY HAS FDI IN POLAND BEEN DECLINING OF LATE?

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Poland's FDI boom, driven by a one-off repositioning of supply chains following Russia's invasion of Ukraine, proved short lived: inflows have since been falling. While existing investors remain profitable and committed, new investment is being held back by rising labour costs, geopolitical uncertainty and global tariff volatility. Meanwhile, defence spending continues to rise and is increasingly shaping Poland's economic landscape.

The FDI boom is over

Over the past decade, Poland has been one of the most dynamic FDI destinations in the EU-CEE region, with inward flows averaging around EUR 14bn annually. Two important things happened in 2022: inflows surged to a record EUR 34.7bn (5.2% of GDP), driven by an initial near-shoring and friend-shoring impulse, as businesses repositioned their supply chains to mitigate geopolitical risks following Russia's invasion in Ukraine,[1] and at the same time defence spending started to rise steeply due to increased rearmament.

However, over the last two to three years the picture has altered considerably. FDI inflows fell to EUR 28.5bn in 2023, EUR 13.5bn in 2024 and EUR 14.9bn in 2025. Meanwhile, Poland's economy continued to grow markedly throughout this period – by 3.2% in 2024 and 3.6% in 2025, making the country's performance one of the strongest in the EU. In absolute terms, 2024-2025 FDI inflows were in line with the pre-2021 average. Yet in a growing economy, stagnating absolute inflows translated into a declining share of GDP: in both 2024 and 2025, the figure stood at just around 1.6% of GDP – the lowest level for ten years (Figure 1).

This suggests that the recent decline in FDI inflows has not been driven by any deterioration in Poland's economic performance. So, what were the reasons for the short-lived boom in 2022?

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1 Marek Grzegorczyk, Making the most of CEE's nearshoring potential, *Emerging Europe*, 31 October 2024, https://emerging-europe.com/poland-and-cee-can-win-nearshoring-investment/.

Figure 1 / Poland: Net inward FDI flows, 2015-2025; in EUR bn (left axis), and as % of GDP (right axis)

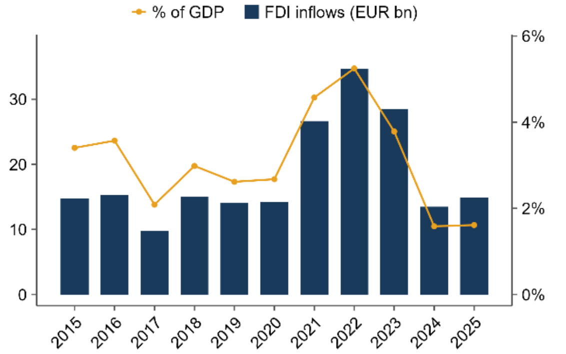
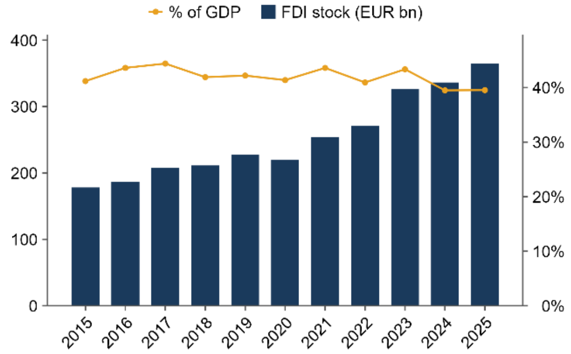


Figure 2 / Poland: Net inward FDI stock, 2015-2025; in EUR bn (left axis), and as % of GDP (right axis).

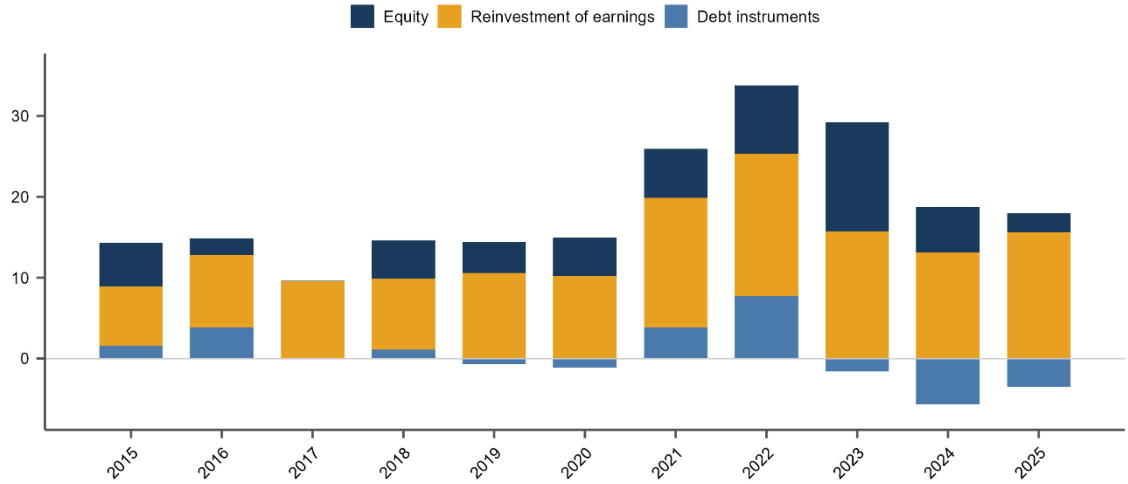


Note: According to BPM6, excluding special purpose entities.
Source: wiiw FDI Database; Eurostat.

Reinvested earnings the only stable FDI component

A closer look at the components of FDI inflows – broken down into equity, reinvestment of earnings and debt instruments – provides significant insight into investment behaviour over recent years (Figure 3). While the first phase (2015-2020) was characterised by stability and reinvestment dominance – indicating sustained structural confidence – the following phase (2021-2023) saw a broad-based surge across all three components. Most telling in the years 2021-2022 was a sharp spike in debt instruments, pointing to an increase in capital injections from parent companies to their subsidiaries – probably attributable to funding for capacity expansion, as firms repositioned their supply chains.

Figure 3 / Poland: Inward FDI flows by component, 2015-2025, in EUR bn



Source: wiiw FDI Database.

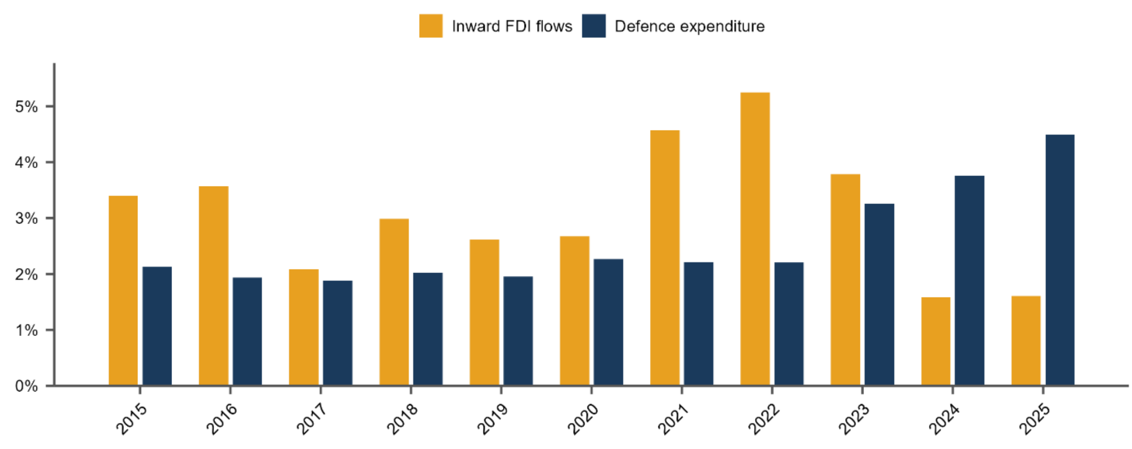
Then, in 2024-2025, FDI inflows dropped back to pre-2021 levels, although the composition did shift dramatically. Debt instruments turned sharply negative (to the tune of EUR 5.7bn in 2024 and EUR 3.5bn in 2025), which meant that intra-group loans were actively being repaid upward to the parent companies. Yet reinvestment of earnings remained robust, essentially sustaining total inflows almost single-handedly (Figure 3). This signals financial normalisation after the exceptional lending surge in 2021-2022, rather than any retreat by investors. The sustained reinvestment of earnings confirms that foreign investors remain profitable and committed to Poland. On the other hand, the collapse in fresh equity injections (from EUR 5.7bn in 2024 to EUR 2.4bn in 2025) suggests that new greenfield decisions are being delayed. This can arguably be traced back to a situation where potential new foreign investors are reluctant to enter Poland, owing to the uncertainty surrounding rising labour costs, geopolitical risk and global tariff volatility.

FDI inflows decline as defence spending is ramped up

The discrepancy between commitment and caution is perhaps best illustrated when FDI inflows are juxtaposed with another investment story that has been unfolding simultaneously in Poland: increased defence spending. While FDI inflows as a share of GDP have reached their lowest level for ten years, the share of defence spending has increased sharply since 2022. In the years following 2023, defence spending has exceeded FDI inflows, and the gap has been widening, reaching 2.89 percentage points by 2025 (Figure 4).

Although these two trends are driven by different forces (while private investors respond to cost structures, uncertainty and the expectation of returns, the state responds to an existential security imperative), they are not independent of one another. It was indeed the same geopolitical shock – the start of the Russia-Ukraine war – that initially drove both upward simultaneously. However, the FDI surge proved short lived, and once the adjustment following the shock was complete, FDI inflows fell back, whereas defence spending continued to rise, leading to the visible divergence from 2024 onward.

Figure 4 / Poland: Inward FDI flows vs defence expenditure, 2015-2025, as % of GDP



Source: wiiw FDI Database, Eurostat, SIPRI Military Expenditure Database (share of GDP, NATO definition).

Conclusions

The FDI component analysis shows that foreign investors have not abandoned Poland: the reinvestment of earnings remains robust, which confirms sustained profitability and structural commitment. However, the collapse in fresh equity injections implies that new investment decisions are being actively deferred. The 2022 boom in FDI inflows was largely a one-off response by existing investors to the geopolitical shock, reflecting a temporary surge in intra-group lending and supply chain repositioning. Furthermore, the opposing trajectories of defence spending and FDI inflows reflect a fundamental reorientation of Poland's economic model towards a more security-anchored economy. Given the current geopolitical situation, it is reasonable to assume that this trend will continue over the next few years. Apart from that, rising labour costs add a further structural headwind that is independent of geopolitics and will persist independently of how the security situation evolves.