

# Macro and micro perspectives on investment

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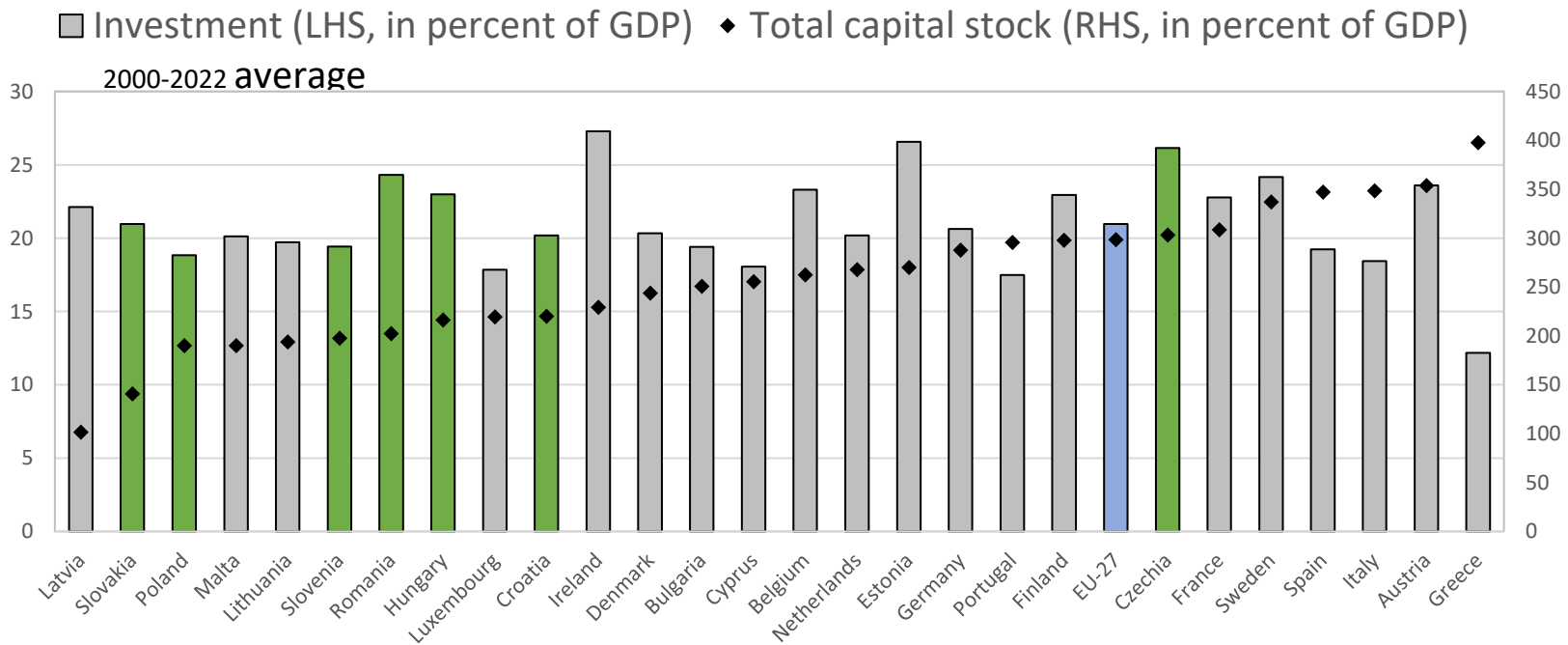
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# From a macroeconomic perspective....

Investment ratios vary markedly across countries

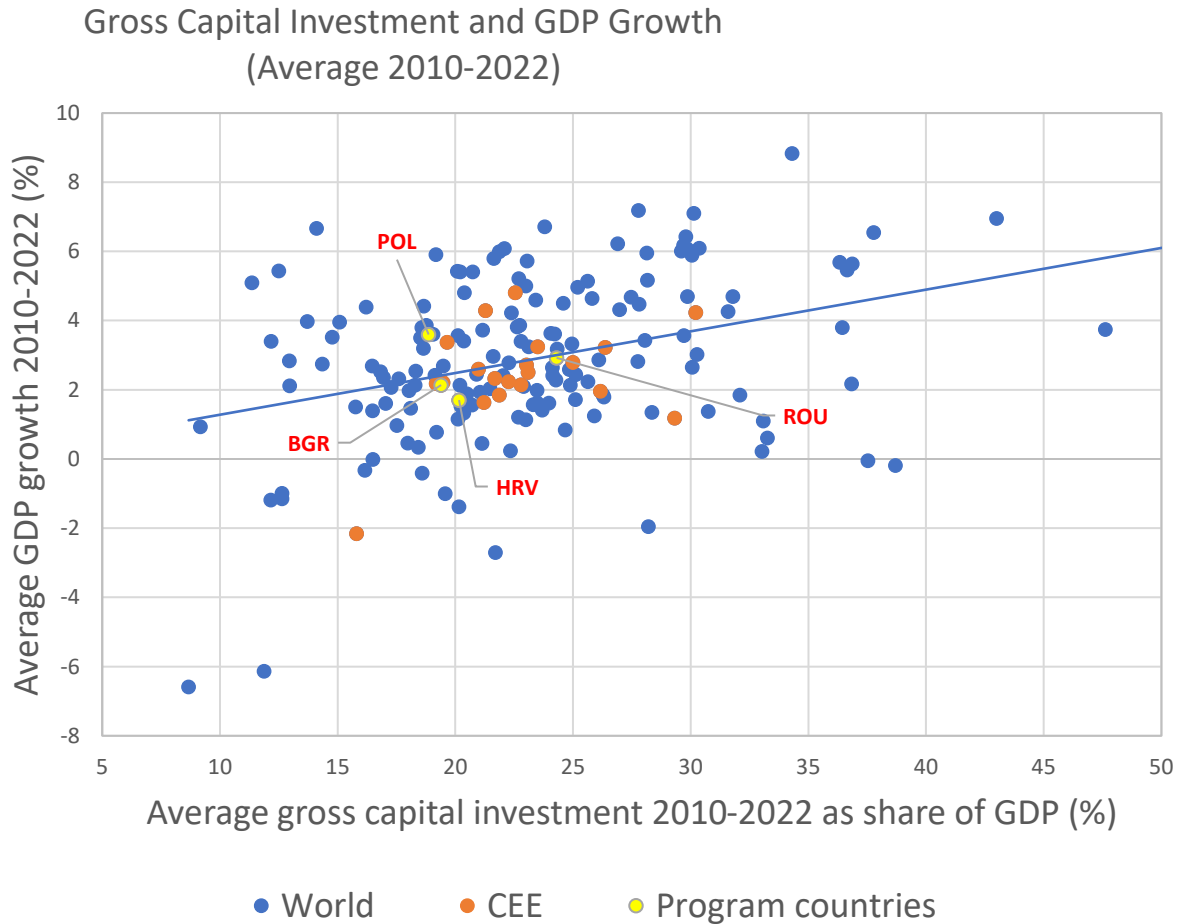
Investment and Net Capital Output Ratios



Sources: Eurostat and AMECO.

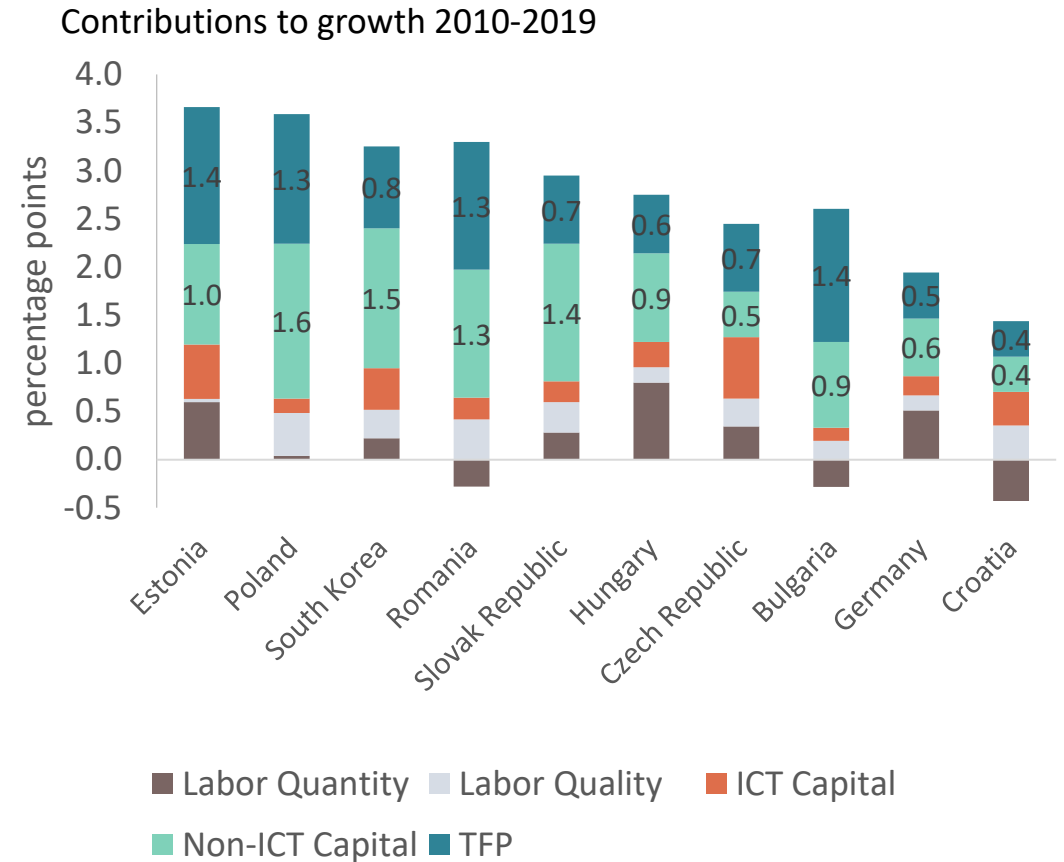
# From a macroeconomic perspective....

Investment is crucial for growth

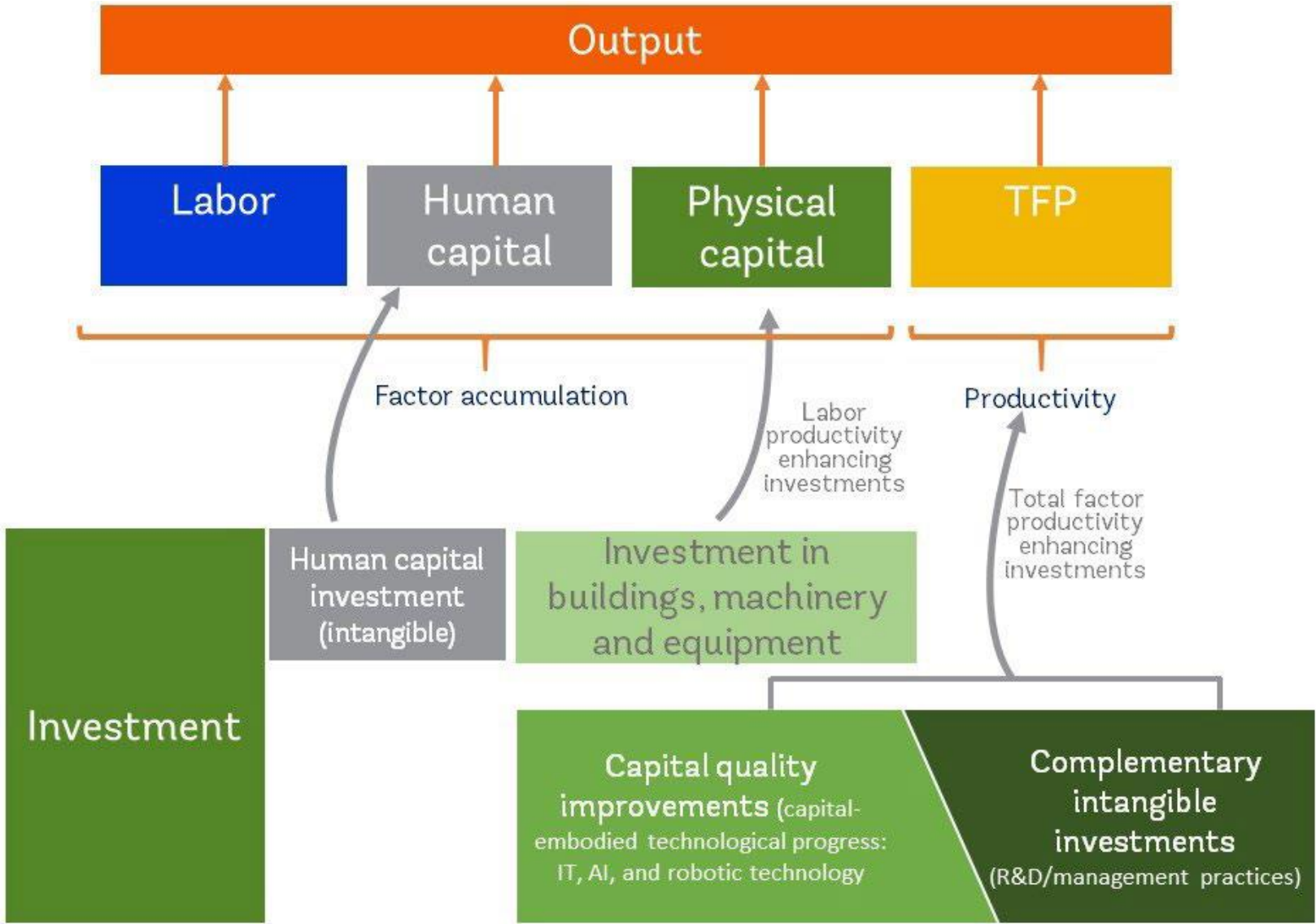


Source: Eurostat and World Bank.

Drivers of long-term growth: Capital deepening - through investments, mainly in non-ICT - and TFP have contributed most to long-term growth



But micro agents (firms) are behind these investments...



Sources: World Bank’s calculation with data from the WEO database 2021, IMF. Penn World Tables 9.1

# Increasingly investment in intangible forms of assets such as:

- **Software and databases**
- **Innovative property** –R&D, designs
- **Economic competencies** –branding, marketing, organizational practices

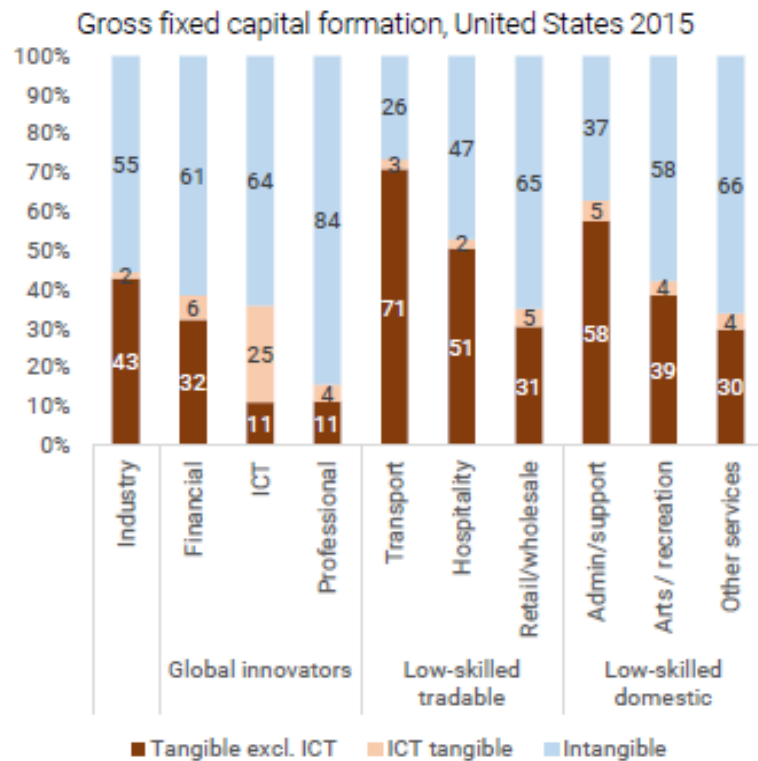
(see e.g., Brynjolfsson et al., 2021; Hsieh and Rossi-Hansberg, 2021; Atkin et al., 2020; Verhoogen, 2020)

Data on emerging (and developing economies) remains scarce but suggest **underinvestment** in intangibles:

- The adoption of structured management practices is lower; (Bloom et al. 2016)
- Lower levels of investment in software and R&D.(Cirera & Maloney 2017)

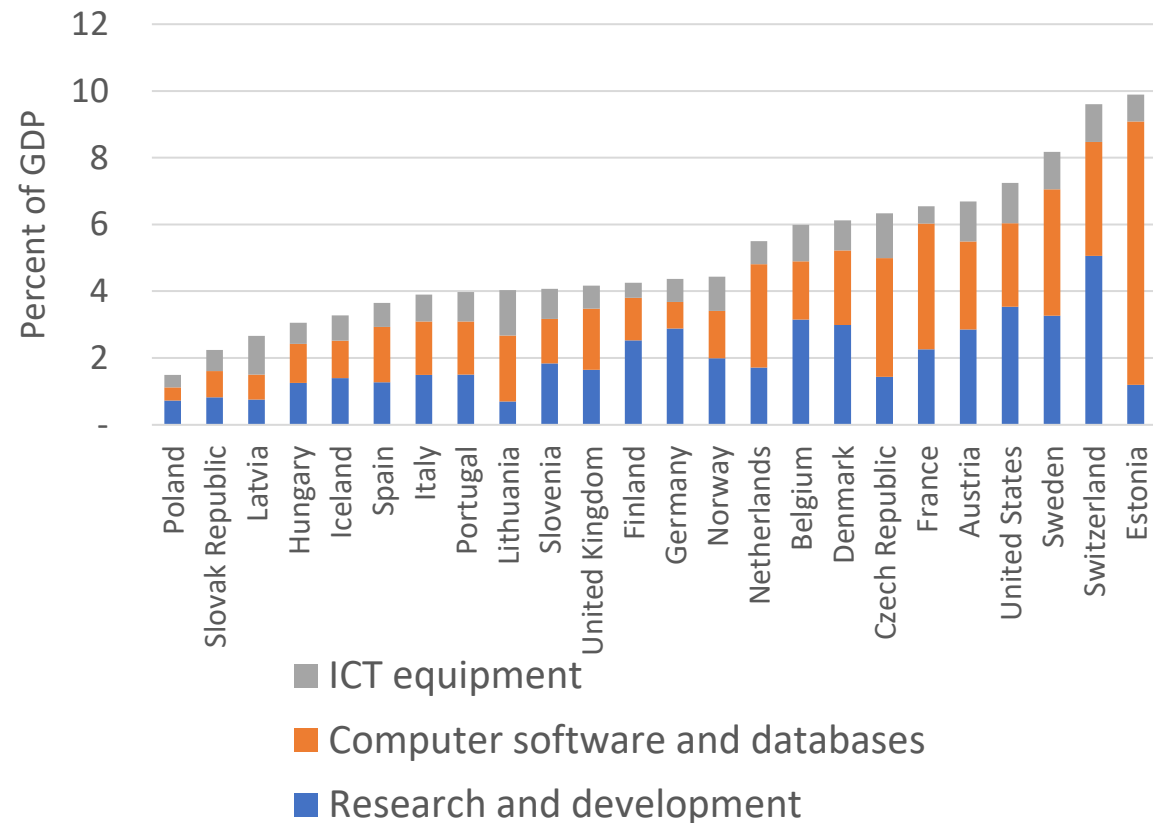
# The importance of intangible investment as a driver of growth

In the US, intangible investment is a large share of overall investment (especially in “global innovator” services)



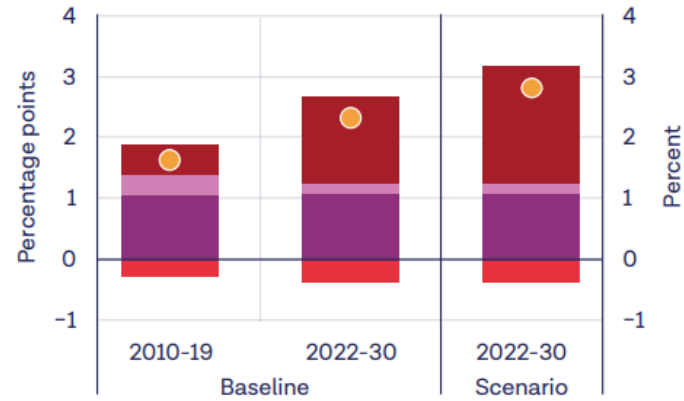
Source: Nayyar & Davies (2022), calculations based on OECD data and INTAN Invest (Corrado et al. 2016)

Investment in ICT equipment, R&D, and Software and databases



# Potential to boost growth through investment in digital technologies

a. Bulgaria: Potential growth, baseline vs. scenario



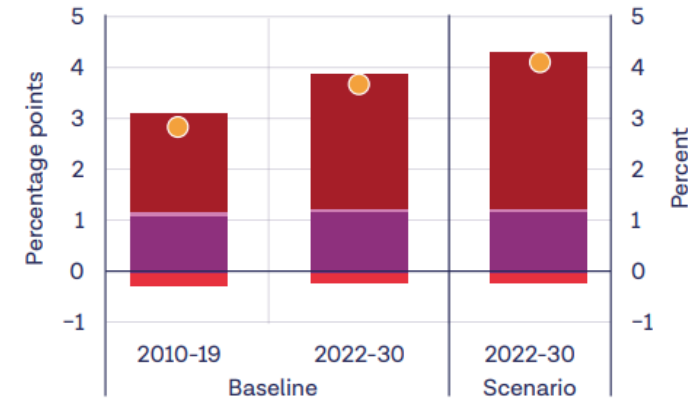
b. Croatia: Potential growth, baseline vs. scenario



c. Poland: Potential growth, baseline vs. scenario



d. Romania: Potential growth, baseline vs. scenario



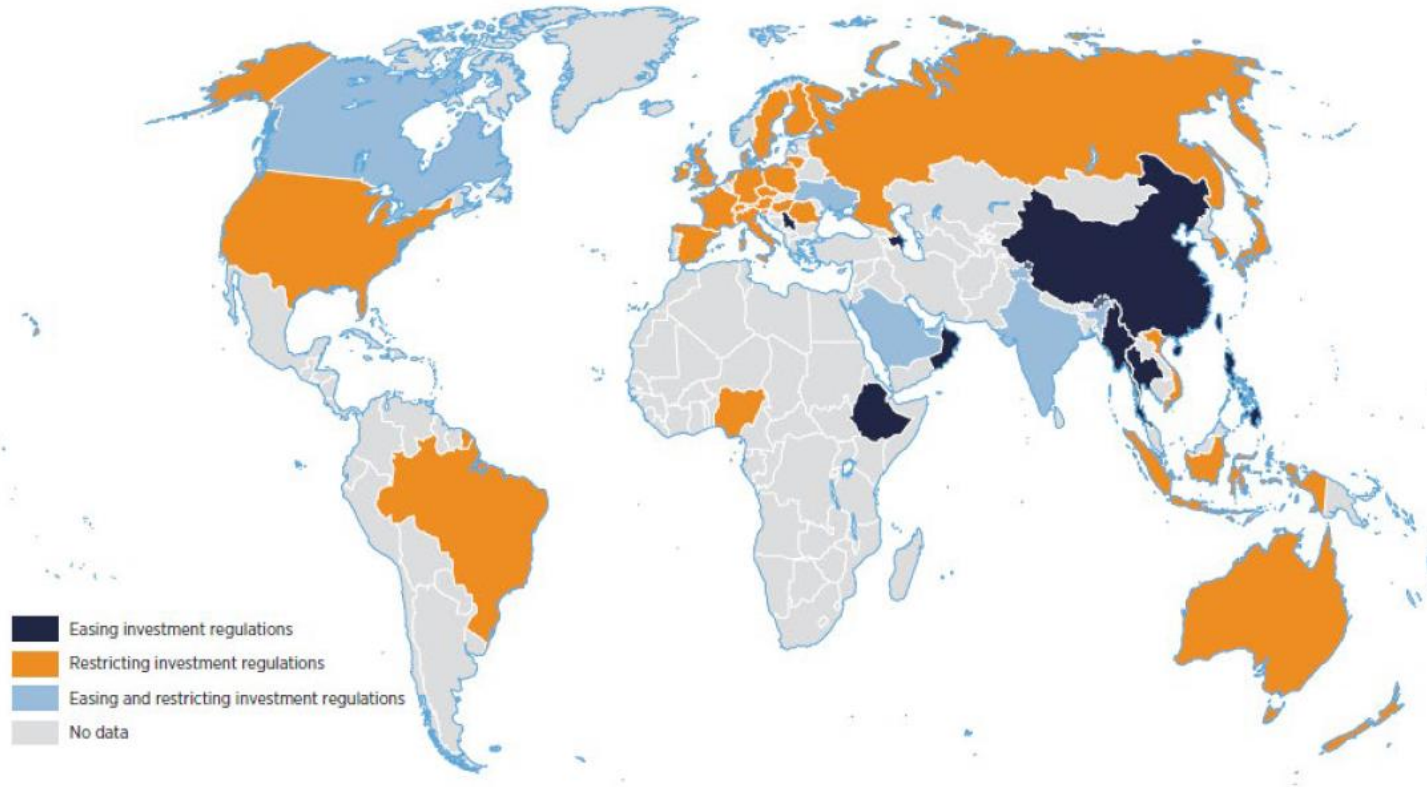
■ Labor ■ Capital ■ Gov Capital ■ TFP ● Potential output (RHS)

Sources: Oxford Economic Model; World Bank.

Note: Figures show period averages.

Many countries have adopted more restrictive trade and investment policies since the outbreak of COVID-19. Several additional growing trends will continue to shape investment, including FDI...

#### Easing and restricting investment regulation across the world

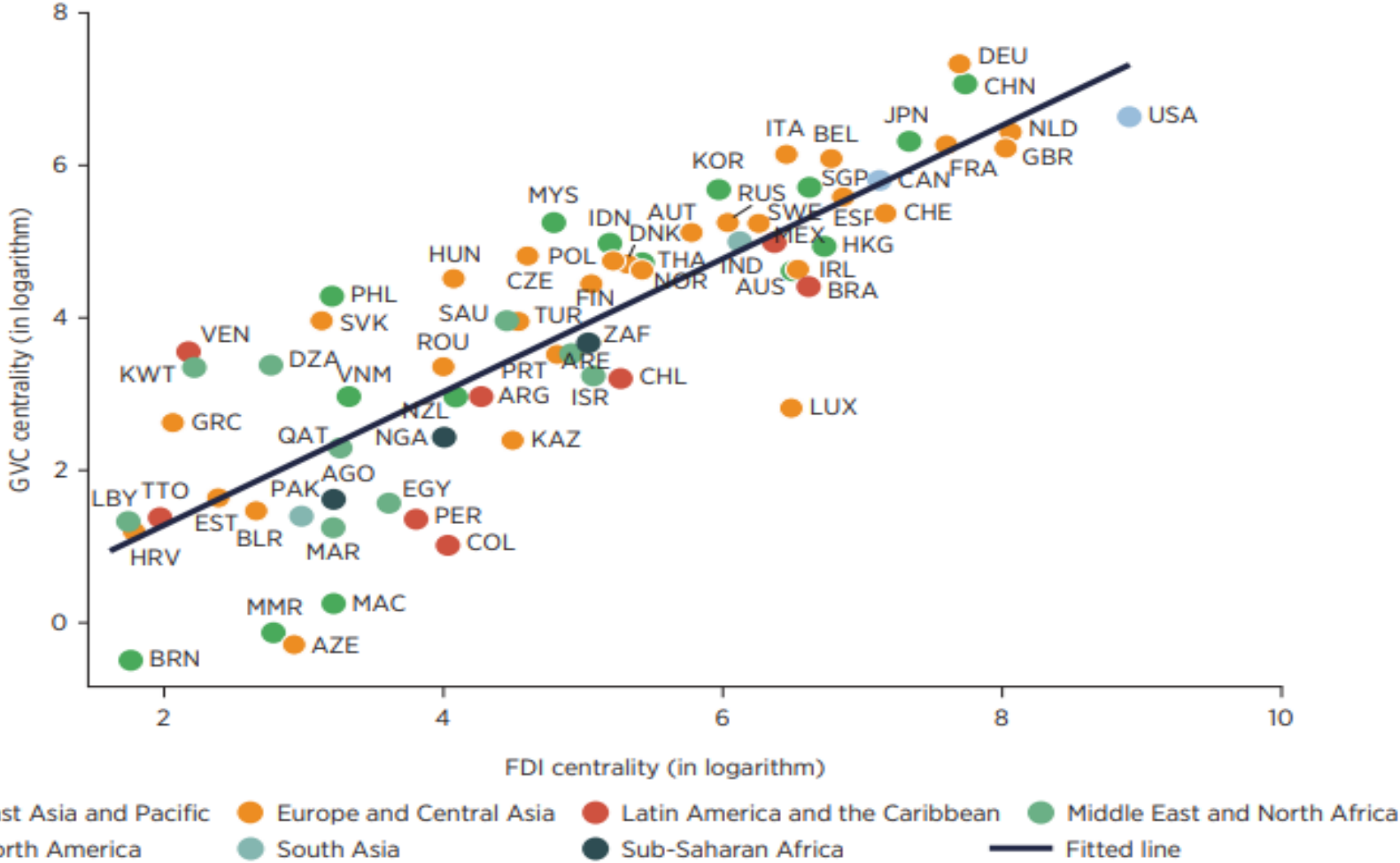


- Rising importance of services
- New technologies
- Sustainability considerations
- Geographic shifts of FDI (nearshoring)
- Re-emergence of industrial policies (IRA, GIP)
- Heightened uncertainty
- Rising protectionism

Source: Qiang, Liu and Steenberg (2021). Note: Updated January 13, 2021.



# Opportunities: GVC networks but FDI is very important - mutually reinforcing



Source: An Investment Perspective on Global Value Chains, World Bank 2021, calculations based on United Nations Conference on Trade and Development–Eora Global Value Chain database and International Monetary Fund bilateral foreign direct investment database.

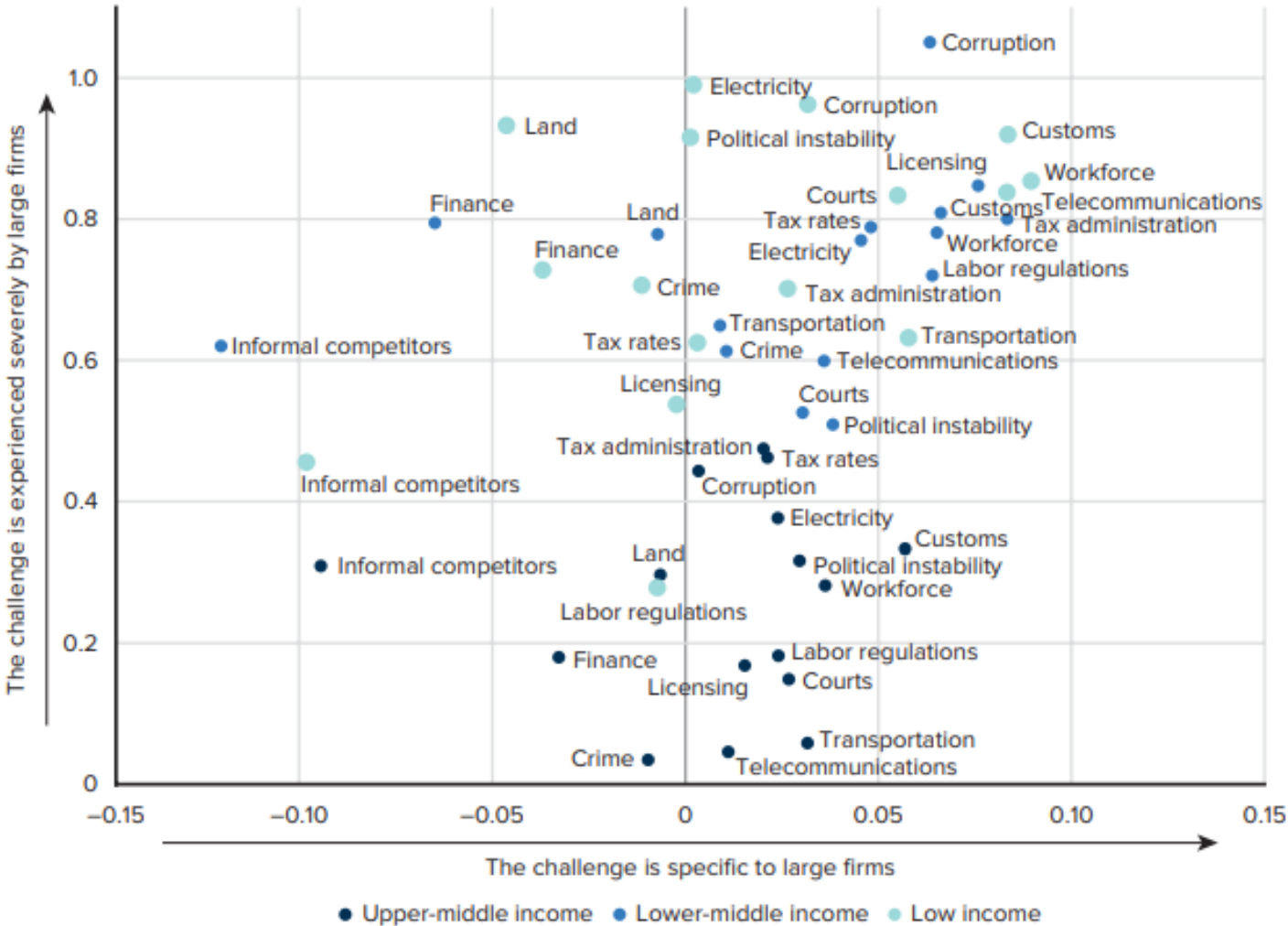
Note: The x axis shows countries’ weighted degree in the 2017 adjusted foreign direct investment network in natural logarithm. The y axis shows each country’s weighted degree in the 2017 global value chain network in natural logarithm.

To conclude....

- Investment ratios are low in some of the CEE countries, and there is a private sector investment “deficit”, with lower capital output ratios
- Capital deepening has continued to play an important role in supporting growth, but it was mainly in non-ICT
- CEE investment in intangibles has been relatively low (ICT equipment, R&D, and Software and databases, etc.) even though there is empirical evidence that intangible capital deepening is an important driver of growth (US, Euro area)
- New trends shaping investment (rising importance of services, New technologies, sustainability considerations, nearshoring, industrial policies)

Thank you!

# Business environment, correlated distortions, and incentives for investments



Source: Large Firms report (Ciani et al. 2020).