The condition of the non-financial enterprises in 2008 Q4 and expectations for 2009 Q1

synthesis

The report is based on the results of NBP quick monitoring carried out in December 2008 on a sample of 843 non-financial entities representing all sections of the Polish Classification of Activities (PKD – NACE equivalent) (excluding farming, fishing and forestry), both public and non-public sectors, SMEs and large entities.

In view of the results of NBP quick monitoring and the data of the public statistics, the following conclusions on economic climate may be drawn:

1. In 2008 Q4 a marked deterioration was recorded in the economic condition of the enterprise sector and concerns about its further worsening in 2009 Q1 mounted considerably.

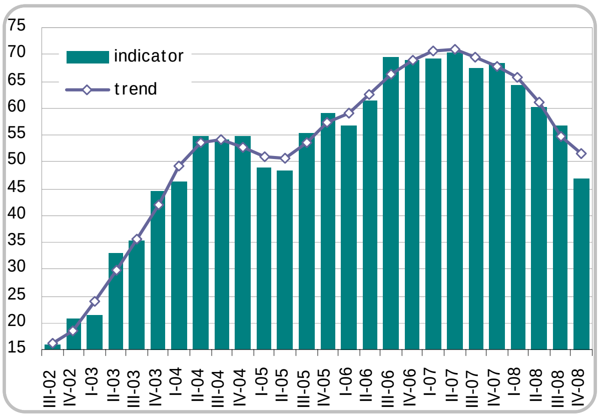

Fig. 1 Current economic condition indicator
(proportion difference: number of companies in a good and very good condition minus the number of companies in a poor, bad and very bad condition)

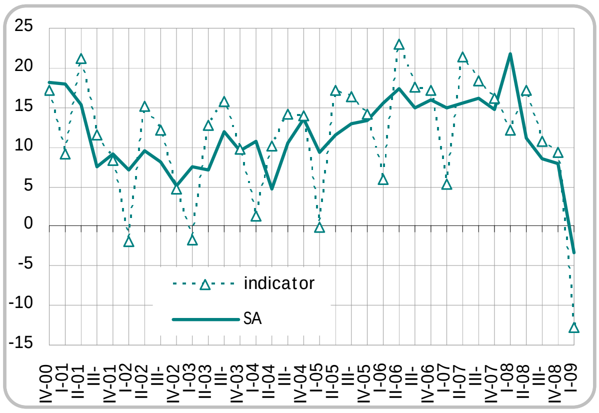

Fig. 2 Economic condition forecast indicator
(proportion difference: number of companies expecting an improvement in their condition minus the number of companies expecting a deterioration in their condition)

2. In the opinion of the surveyed enterprises, the last quarter brought a change in the causes of the arising difficulties – the exchange rate barrier and inflation barrier decreased markedly, while the demand barrier increased considerably, becoming a major problem for the surveyed enterprises. Additionally, due to difficulties with sales, inventories of finished goods started to build up in industry. Excessive inventories were reported by every fifth industrial enterprise.

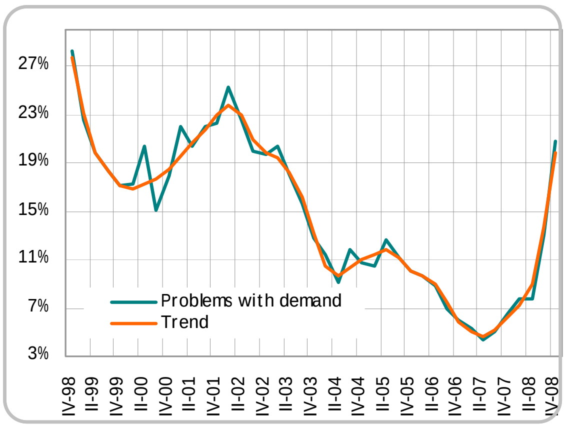

Fig. 3 Low demand as a growth barrier (percentage of companies reporting problems with finding buyers for their products)

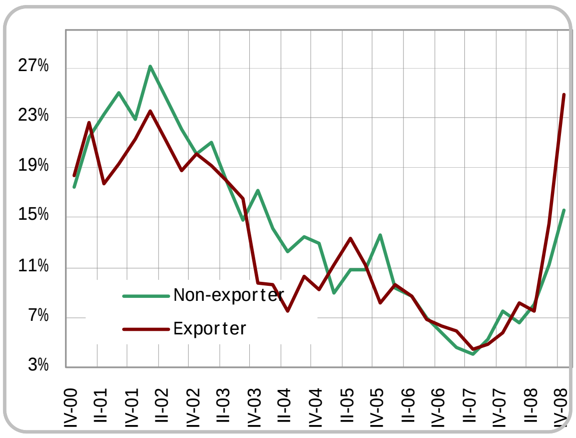

Fig. 4 Low demand as a growth barrier (percentage of companies reporting problems with finding buyers for their products) in the group of exporters and non-exporters

3. The strongest increase in demand barrier was recorded by exporters. There was a further significant deterioration of the export assessments and forecasts. Yet, at the same time, due to zloty depreciation the profitability of foreign sales increased considerably. Despite this increase, exporters' assessment of their situation was worse than in the previous quarter and markedly worse than that of the firms selling their products on the domestic market only.

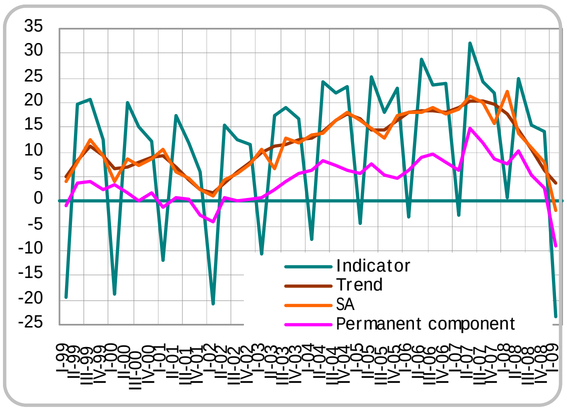

Fig. 5 Total demand forecast indicator, permanent component and the total demand forecast trend

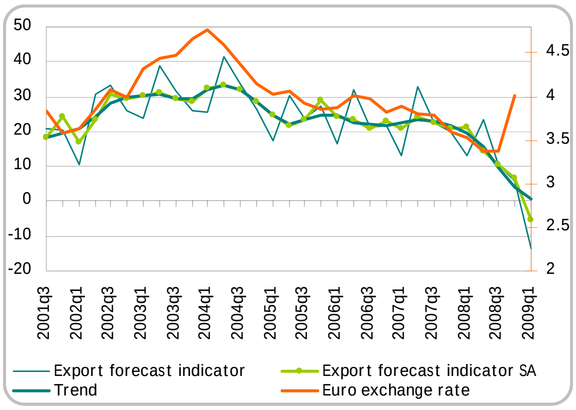

Fig. 6 Export forecast indicator and Euro exchange rate

4. Companies oriented exclusively at the domestic market, including, in particular, *Construction* and *Services,* also recorded an increase in demand barrier. Yet, in the opinion of the surveyed enterprises, no deterioration was noted in the current assessment of the economic situation in the sections *Construction, Services* and *Trade*, which remained relatively good. Still, those enterprises are pessimistic about the possibility of maintaining a good condition in the nearest future.

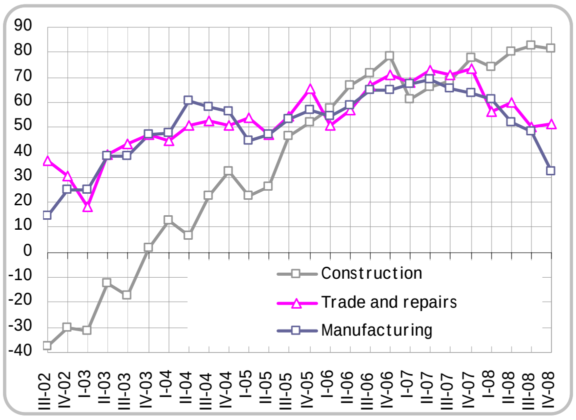

Fig. 7 Current assessment of the economic condition in the section *Construction, Trade* and *Manufacturing*

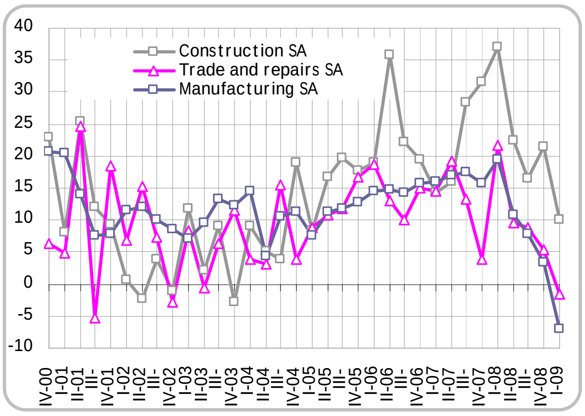

Fig. 8 Economic condition forecasts in the section *Construction*, *Trade* and *Manufacturing*

5. Employment in the enterprise sector may be expected to fall. Every fourth company in the sample declares staff reduction and only 5% of enterprises declare staff increase. The employment decline is mainly connected with the anticipated fall in demand and expected

reduction in the output level. Falling demand is mainly reported by the largest enterprises in the sample and the *Manufacturing* section.

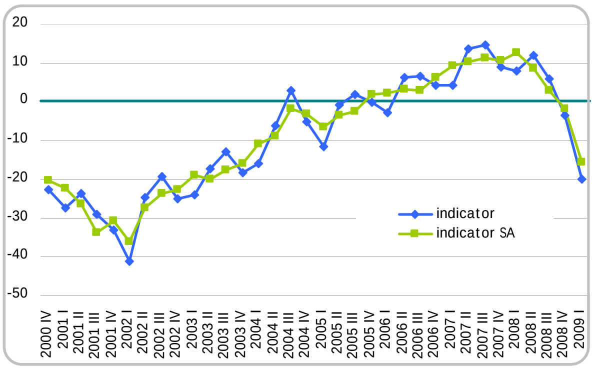

Fig. 9 Employment forecast indicator

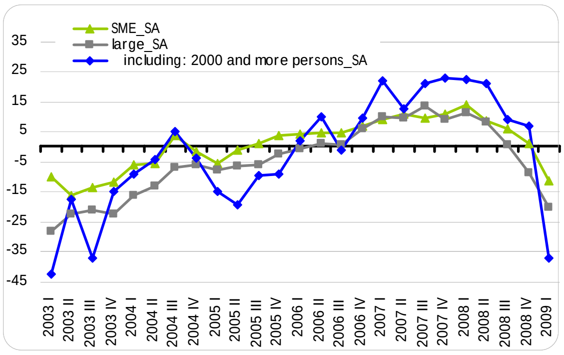

Fig. 10 Employment forecast indicator in size classes

6. The upward pressure on wages has abated. Considerably fewer enterprises have announced plans to increase employment in 2009 Q1 than in the corresponding period of the last year. Wage increase translates into prices to a lesser extent. Improvement was also seen in the relation between wage growth and labour productivity; nonetheless, the companies in which wages grew faster than productivity in the previous year still prevail.

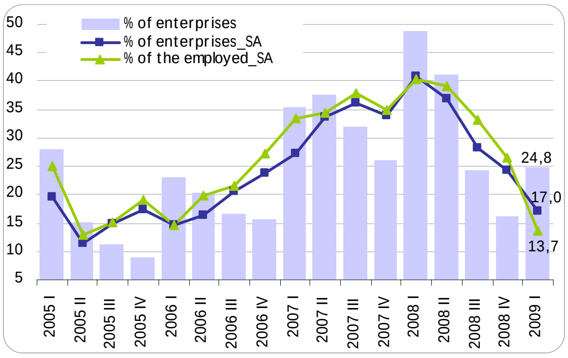

Fig. 11 Proportion of enterprises planning wage increases and proportion of employees benefiting from wage increases

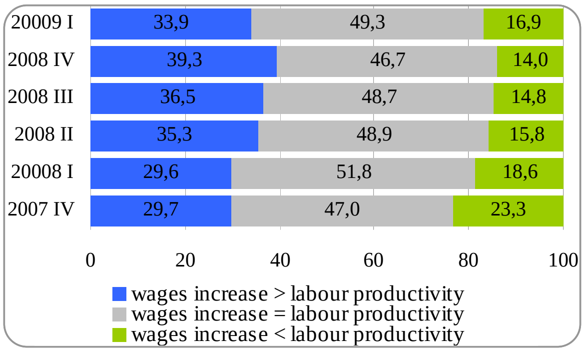

Fig. 12 Assessment of the relation of wage growth to labour productivity growth during the year (sample limited to enterprises where wages have increased)

7. The surveyed enterprises plan to invest in 2009 less than in the previous years. This results mainly from the lack of the need to increase the enterprises' manufacturing potential, lower expected demand and higher costs of credit. The number of the newly planned investment projects has considerably fallen and the number of companies planning to reduce their expenditure on investment in progress has increased. The fact that no large company is going to fully abandon its investment in progress is a positive sign, together with the fact that the number of projects aimed at upgrading, repair or replacement of worn out production assets has been maintained at the level consistent with the previous year's level.

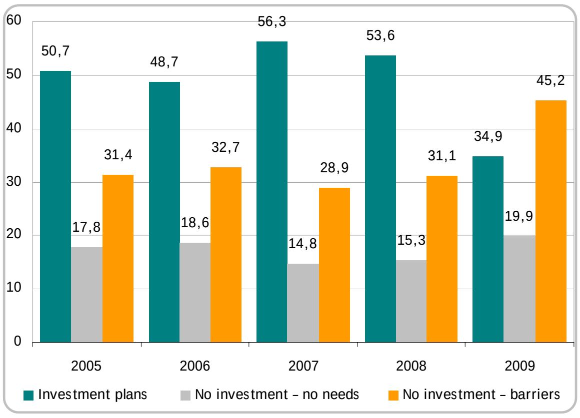

Fig. 13 Plans to commence major investment projects within a year

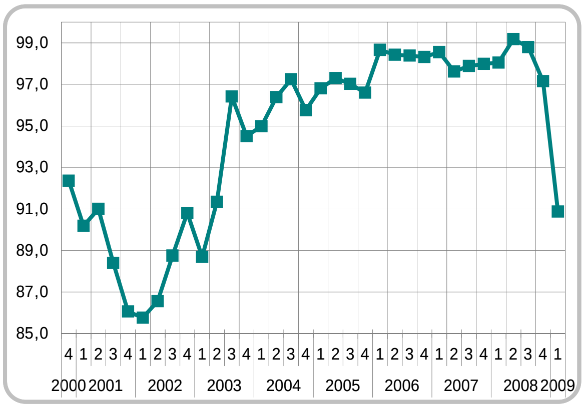

Fig. 14 Investment continuation indicator (subgroup of investors)

8. Enterprises plan to increase their bank debt at a pace similar to the one recorded in the previous quarter. Assessments of the capacity to make repayments on the already contracted loans remained very good, although credit became more expensive for enterprises. The difficulties in obtaining loans for reasons beyond the enterprise's control increased slightly (the number of loan refusals increased among enterprises with good creditworthiness). High loan rejection rate was reported mainly by large enterprises which used to obtain loans more easily and on better terms and conditions. On the other hand, the difficulties affecting the group of the smallest enterprises where the loan granting conditions were the least favourable did not increase (there was no rise of the loan rejection rate). Also the fact that the cases of banks cancelling the already granted loans were very rare is a positive sign.

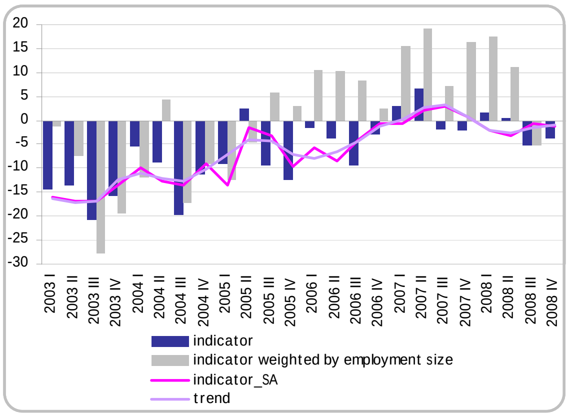

Fig.15 Loan debt forecast indicator (proportion of responses: debt increase – debt decrease)

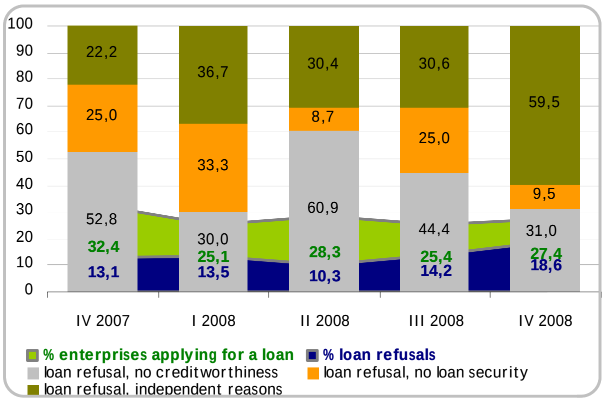

Fig 16. Share of enterprises applying for a loan and percentage of enterprises (in the sample of enterprises applying for a loan) refused the loan, including the reasons for refusal

9. The average length of non-bank loans repayment was 37 days, and that of debt collection 42 days. Every third company thinks that this period has become longer as compared with the previous quarter, in 50% of cases both the period of repayment of payables and that of settlement of receivables have extended. In the opinion of the

surveyed enterprises, financial liquidity of the enterprise sector remains high, and the timeliness of trade payables settlement improved slightly during the last quarter.

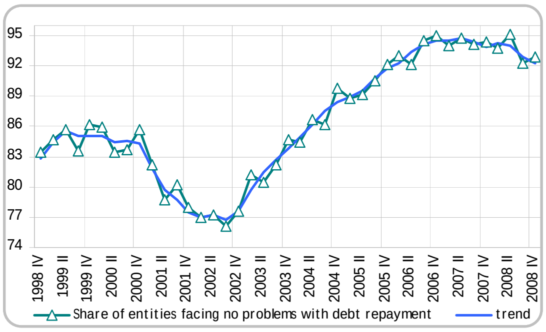

Fig. 17 Share of entities making loan repayments in accordance with loan contracts

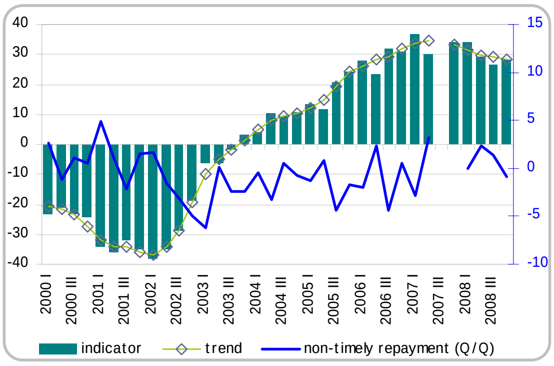

Fig. 18 Non-bank debt repayment indicator (percentage of responses: timely repayment minus non-timely repayment)

10. Profit margins on production for domestic market have continued to fall slightly, although the situation was diversified among different sectors (in *Construction* and *Services* margins were higher than in 2007, while the sections *Manufacturing, Trade, Real estate activities* and *Transport* recorded a drop in margins). As in the previous quarter, the drop of margins was mainly driven by the increase in prices of production factors. As a result of zloty's depreciation, quarter-over-quarter margins on foreign sales improved considerably (although remained lower than in the corresponding period of the previous year).

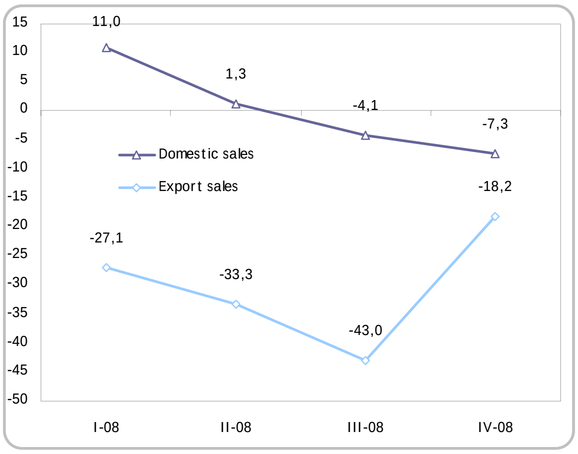

Fig 19. Changes in margins on domestic and foreign sales (percentage of enterprises declaring margin increase minus percentage of enterprises declaring margin reduction)

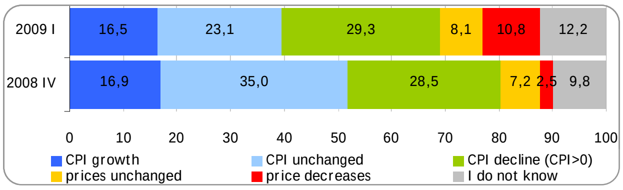

Fig. 20 Forecast of annual CPI changes as compared to the previous quarter

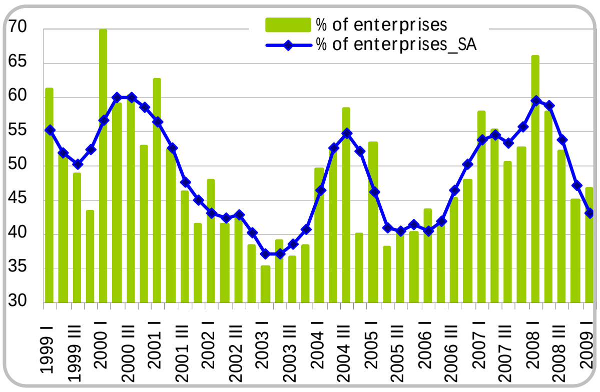

Fig. 21 Percentage of enterprises planning to increase prices for their products and services

11. Inflationary expectations of surveyed enterprises decreased – the respondents expect a decline in the growth of consumer goods and services prices and plan lower price

increases of their own products (without any significant change in the growth rate of prices of commodities and raw materials). Slower price growth is announced by exporters, especially specialized ones. Enterprises supplying mainly to the domestic market declare higher price increases than in the previous quarter. Price increase will differ considerably among PKD sections. *Manufacturing* has reported falling price growth. In construction sector the average of planned price increases fell to 0. On the other hand, *Electricity, gas and water supply, Trade* and *Other services* are expected to record faster price increases than in the previous quarter.