

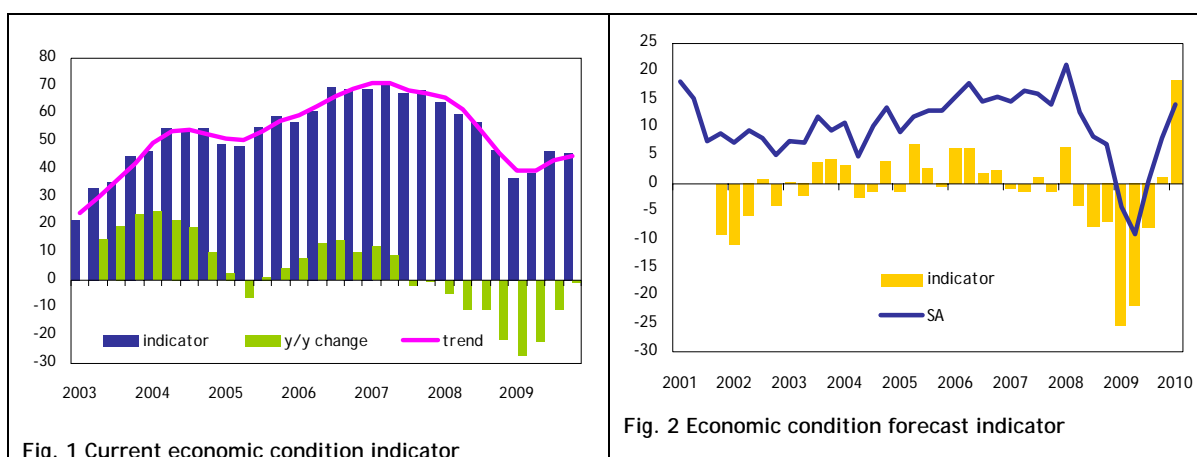
National Bank of Poland
Economic Institute
Bureau of Enterprises, Households and Markets

Economic climate in the enterprise sector in 2009 Q4 and expectations for 2010 Q1 *synthesis*

The report is based on the results of NBP quick monitoring carried out in December 2009 on a sample of 859 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 public statistics data, the following conclusions on economic climate may be formulated:

At the end of 2009 the pace of improvement in the economic situation of the enterprise sector slowed down slightly, yet was accompanied by increasingly optimistic expectations for the year 2010. Return to the growth path is being hindered by slow investment activity in the enterprise sector, growing unemployment and weak wage growth. At present, the fastest improvement rate is observed in manufacturing, in particular by exporters, i.e. the group of enterprises that was the most severely hit by the consequences of the global financial crisis. Despite gradual improvement, low demand remains the main problem of the enterprise sector, followed by exchange rate fluctuations and strong competition.



1. The demand barrier has weakened for the third consecutive quarter, yet problems in finding customers continue to be the biggest problem reported by the enterprise sector. This image is also consistent with the path of capacity utilisation. Its increase has been observed for the second quarter in a row, but it still remains below its average values. Reduction in the demand barrier has been observed in the majority of sections and classes, except for construction and, to a lesser degree, mining and power production and supply, where difficulties in finding customers have increased.

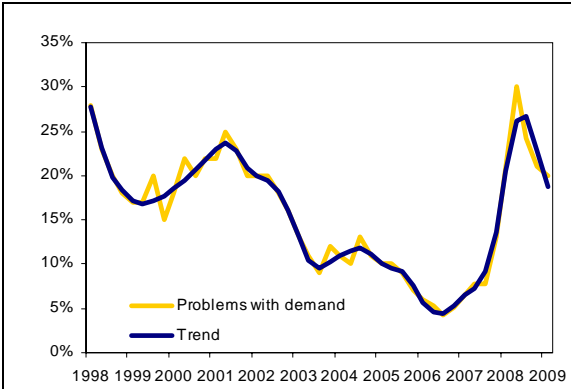


Fig. 3 Low demand as a growth barrier

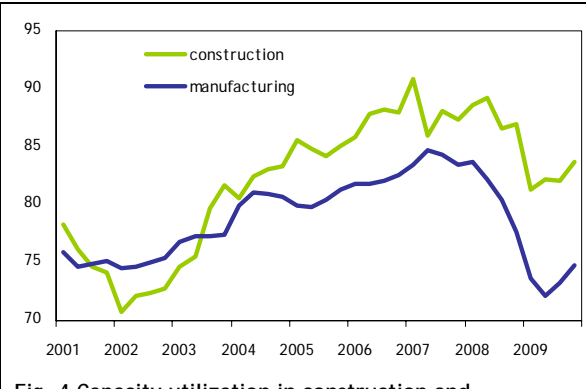


Fig. 4 Capacity utilization in construction and manufacturing

2. Forecasts and expectations regarding demand, orders and output have improved markedly for another quarter. Increased optimism has been recorded in the majority of sections and classes. Despite a slight decline in optimism as regards demand and orders, construction companies declare further output growth. This is consistent with the persistently high (significantly above its long-run average) level of capacity utilisation in this sector.

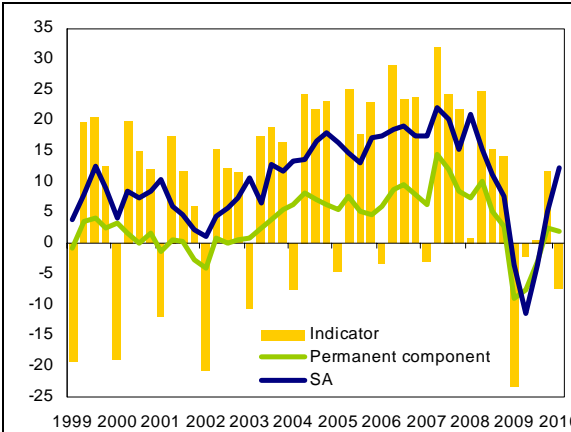


Fig. 5 Demand forecast indicator

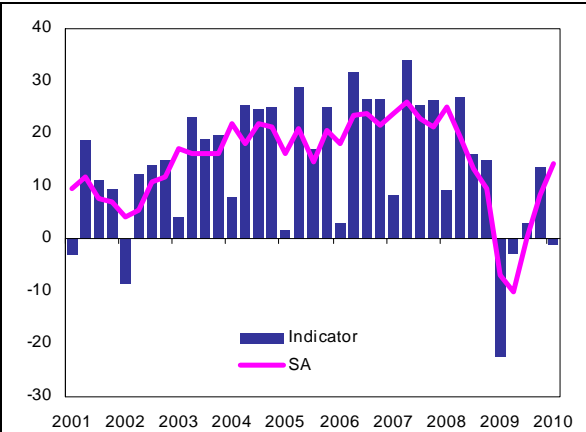
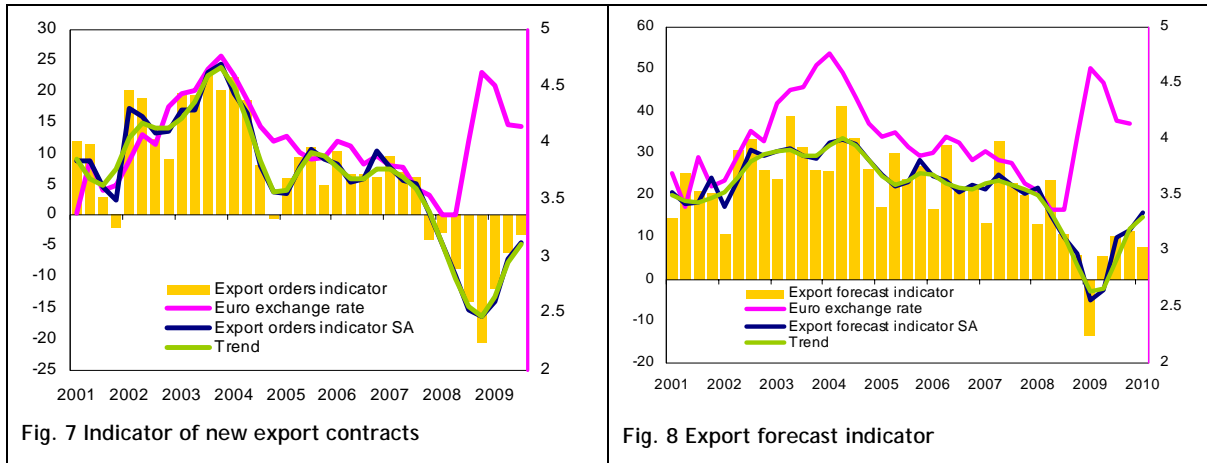
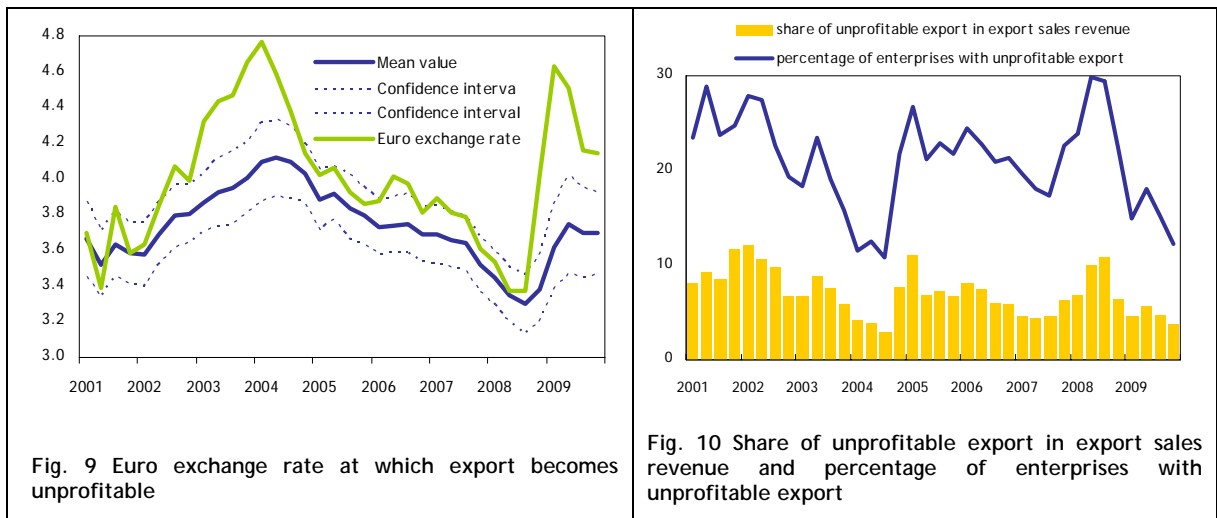


Fig. 6 Output forecast indicator

3. 2009 Q4 brought a rise in the export activity of the enterprise sector, accompanied by reinforced expectations of further improvement in 2010 Q1. However, the scale of exports still remains below its average values and the situation of exporters, despite a marked improvement, remains worse than the situation of enterprises offering their products in the domestic market only.



4. The profitability of foreign sales (especially as regards exports settled in the euro) has continued at a high level. Likewise, the percentage of enterprises making profits from exports remains high. Although the majority of exporters have recorded a decline in export margins and the barrier of foreign exchange rate has increased, the scale of problems in achieving full profitability from foreign sales remains significantly below its long-run average.



5. For the third consecutive quarter, optimism in employment plans has increased, even though less conspicuously than three months ago.¹ However, the surveyed enterprises continue to intend to lay off employees more often than to create new jobs, although the scale of layoffs is currently on a more moderate trend than was observed during the slowdown of 2001-2002. A slight employment increase may be expected mainly in the enterprises which have already overcome the difficulties resulting from the financial crisis. In the enterprises which continue to struggle with

¹ Employment is subject to considerable seasonal fluctuations and Q1 usually brings a decline in employment. The same was true about 2009 Q1.

problems, but also in those unaffected by the crisis, employment reduction plans still outweigh the plans to increase the number of employees.

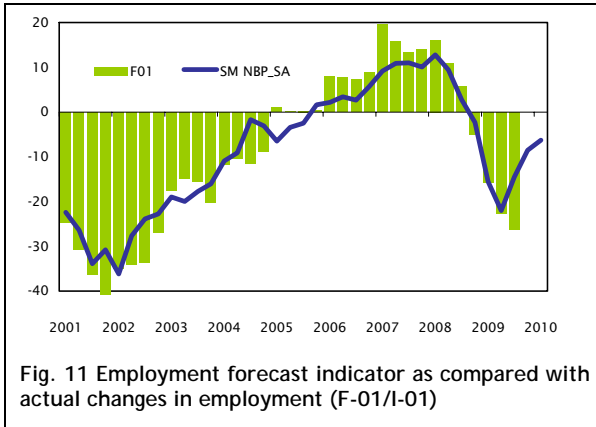


Fig. 11 Employment forecast indicator as compared with actual changes in employment (F-01/I-01)

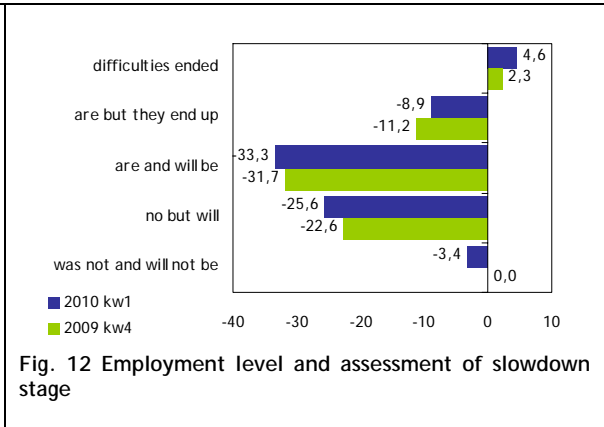


Fig. 12 Employment level and assessment of slowdown stage

6. 2010 Q1 may bring further decline in wage growth. Wage increases are planned by a smaller number of enterprises than in the corresponding period of the previous year, while the companies intending to increase wages report lower increases than those observed in the past few quarters. On the other hand, the decline in the number of enterprises intending to decrease wages of their employees is a positive sign.

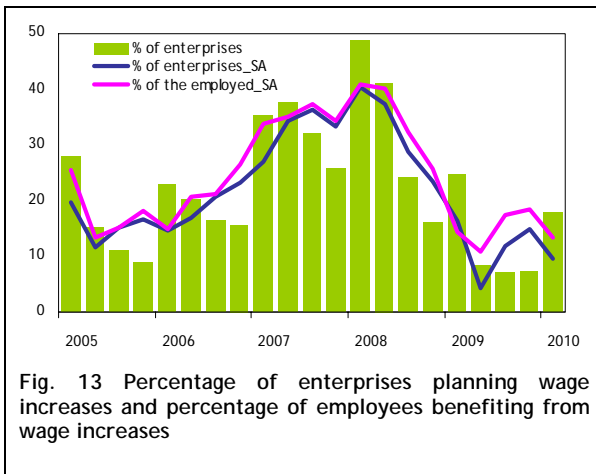


Fig. 13 Percentage of enterprises planning wage increases and percentage of employees benefiting from wage increases

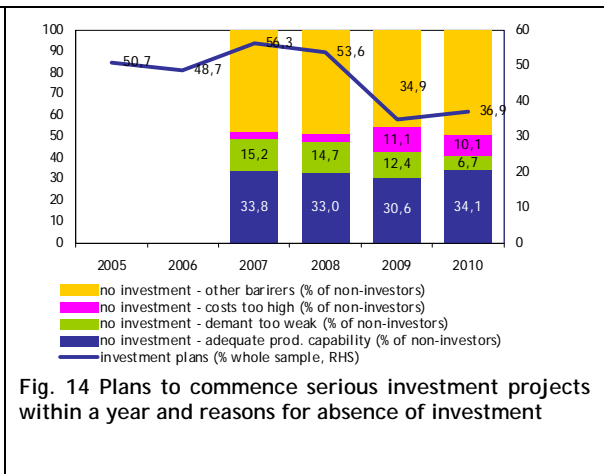
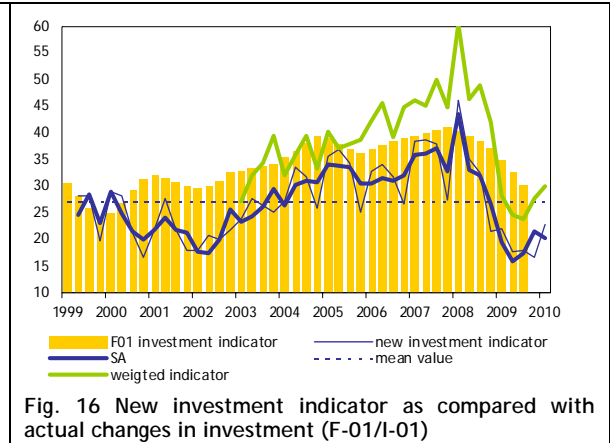
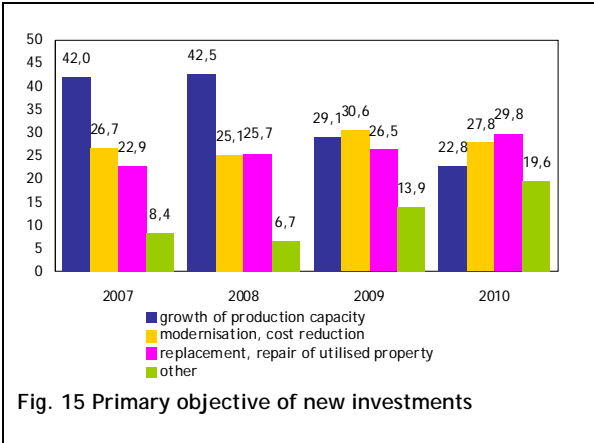
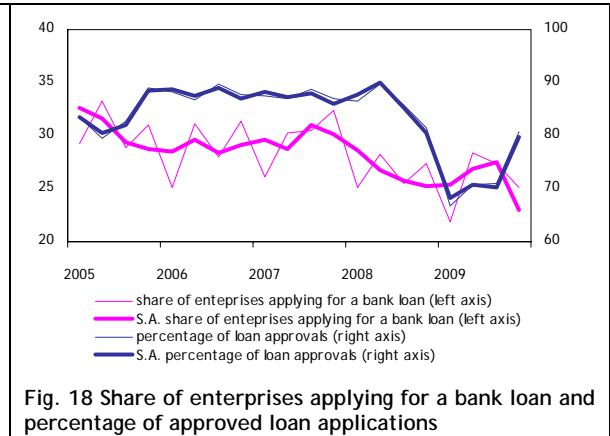
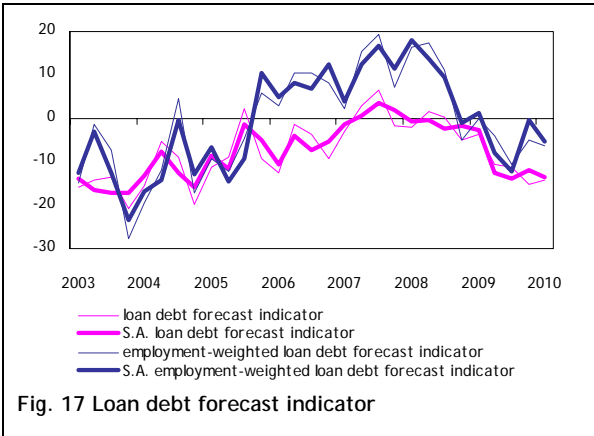


Fig. 14 Plans to commence serious investment projects within a year and reasons for absence of investment

7. The number of enterprises planning to commence new investment projects in 2010 is only slightly higher than in 2009, yet markedly below levels of 2007-2008. Not only the number of enterprises planning new investments is lower than in the period of economic boom, but also the scale of those investments will be smaller. Investments are currently aimed at repairing or replacing assets rather than the expansion of the company's production potential. This results from uncertain, in the assessment of enterprises, outlook for economic recovery and a relatively low level of production capacity utilisation. A positive signal is a decline in the number of abandoned investment projects. Low investment activity is observed especially in the SME sector, and in sections Trade and Construction.



8. Enterprises' interest in increasing their indebtedness to banks remains low, below its 5-year average. Debt reduction is planned in the majority of sections and classes, except for construction, where a slight growth in loans is possible. The high demand for credit in construction companies is accompanied by greater difficulties in maintaining an adequate liquidity level.



9. 2009 Q4 brought a rather significant improvement in the access to credit, though it still fell short of the level observed before September 2008. This easier access resulted from a lower number of loan applications rejected for reasons independent of the economic condition of the enterprise, that is the reasons which constituted the most important cause of difficulties in obtaining bank financing in the first half of 2009, when recession intensified (and problems appeared with timely repayment of incurred loans).

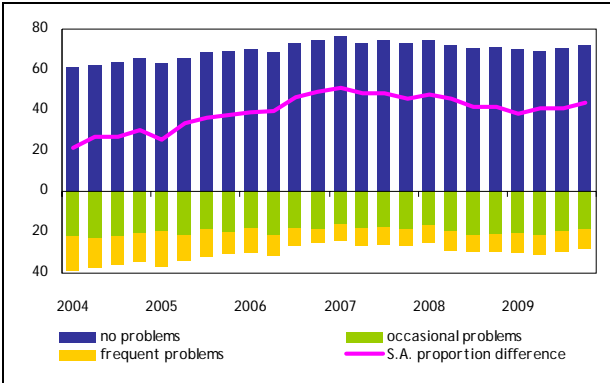


Fig. 19 Financial liquidity of enterprises

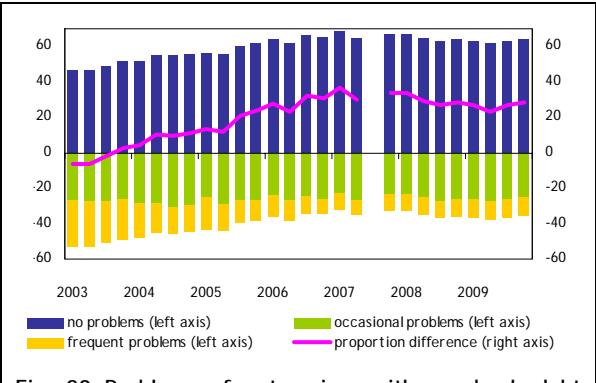


Fig. 20 Problems of enterprises with non-bank debt repayment

10. 2009 Q4 brought an improvement in the assessment of liquidity and capacity for a timely settlement of liabilities towards suppliers, with the number of borrowers repaying their bank loans on time stabilising at the level of 90%. Difficulties with maintaining liquidity and insufficient monetary funds are currently reported by approx. 30% of enterprises in the sample, that is two times less than in the previous stage of economic slowdown in 2001-2002. Thus, the enterprise sector has retained a relatively high capacity of self-financing, while own funds remain the most frequently used source of financing investments.

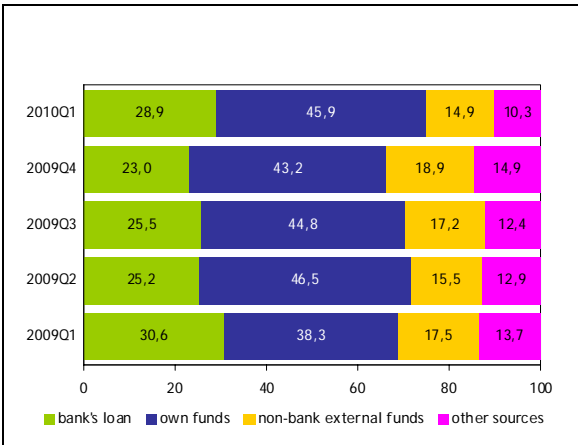


Fig. 21 Main source of financing newly planned investments. Sub-group of investors

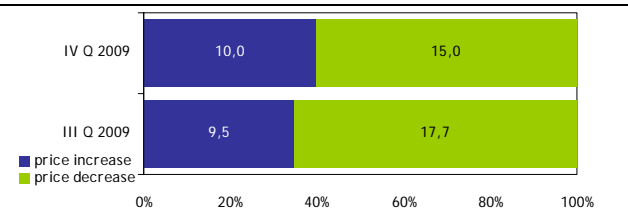


Fig. 22 Percentage of companies increasing and reducing prices

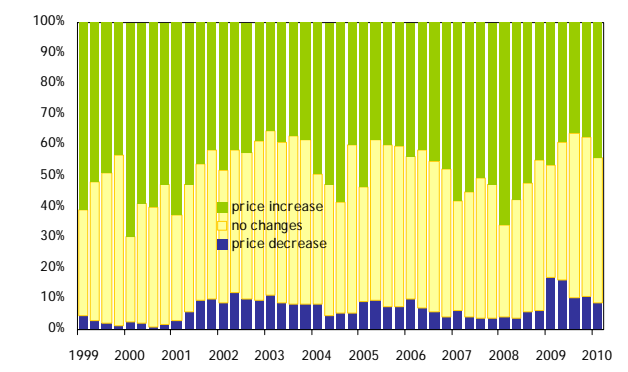


Fig. 23 Percentage of enterprises forecasting price increases and reductions

11. In 2009 Q4 enterprises reducing their prices still outnumbered those increasing them, although the difference diminished slightly as compared with the previous quarter. Forecasts suggest further growth in the percentage of companies raising the prices of

their products. Higher price increases are intended in both manufacturing and construction. On the contrary, the scale of planned price increases in trade decreased in relation to the previous period.

12. At the end of 2009, similarly as in 2009 Q3, half of enterprises were implementing measures aimed at reducing their costs. This was connected with shrinking profit margins and an attempt to prevent their further reduction. However, such measures do not produce the expected results in the short run. Similarly as in the previous quarter, more important from the point of view of raising the enterprise's profit margin (and having an immediate effect) are price increases.

Tab. 1 Barriers to development

frequency of problems reported during the quarter:	low demand	exchange rates, incl. fluctuations	growing competition	payment bottlenecks liquidity problems	increase in prices of raw materials	bad economic situation, crisis	unclear legal regulations, changes in legal regulations	difficulties in obtaining a loan
minimum and maximum value in history of quick monitoring survey studies	4,3 \ 30,0	8,6 \ 26,8	5,4 \ 21,2	4,9 \ 21,2	2,7 \ 17,5	1,0 \ 21,6	4,3 \ 17,2	0,9 \ 7,6
2008 Q1	7,8	17,7	6,7	4,9	14,7	1,1	6,1	1,0
2008 Q2	7,8	15,5	5,7	5,7	17,5	2,5	5,0	1,1
2008 Q3	13,1	16,6	7,8	5,1	16,9	4,5	4,3	1,8
2008 Q4	20,8	10,3	6,2	7,2	7,2	12,9	4,5	3,6
2009 Q1	30,0	14,4	7,3	9,4	10,0	11,5	4,9	6,3
2009 Q2	24,3	13,7	5,8	10,4	6,9	10,9	4,7	7,6
2009 Q3	21,3	11,5	8,5	8,6	7,6	6,1	5,0	4,5
2009 Q4	20,0	13,0	9,3	7,6	6,9	6,9	5,4	4,4