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NBP Quick Monitoring Survey

Economic climate in the enterprise sector in 2014 Q2 and forecasts for 2014 Q3

*The report is based on the results of the **NBP Quick Monitoring Survey** conducted in **June 2014** on a sample of **1340 non-financial** enterprises representing all sections of the NACE-equivalent Polish Classification of Activity (excluding farming, fishing and forestry), both the public and private sectors, SMEs and large companies. Data were additionally sourced from the results of the **NBP Annual Survey** conducted in **April – May 2014** on a sample of **1107 non-financial** enterprises.*

In Q2, respondents from the non-financial entities sector reported a slight improvement in their condition, as well as a marked improvement of economic climate in the country and perspectives for improvement for the next year. Faster economic growth should be accompanied by the greater investment activity and relatively high profitability of companies, especially those selling in foreign markets. On the other hand, factors stabilizing the growth include not growing sales and only slight improvement in the labor market.

Figure 1 Current assessment of economic condition

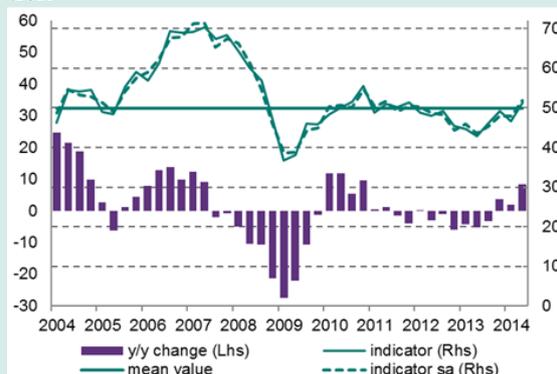
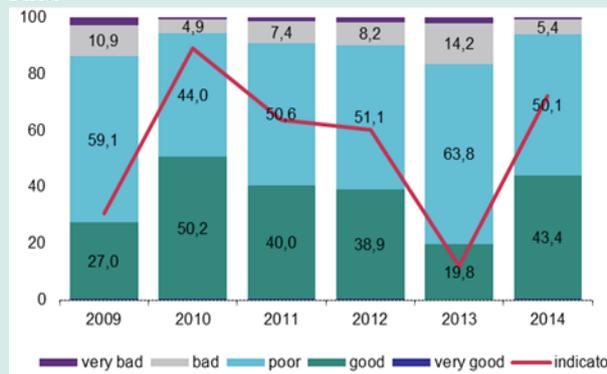


Figure 2 Assessment of economic condition in Poland



Despite some problems, in particular the decline in exports to the Russian and Ukrainian markets, the demand for enterprise products is gradually improving. This is shown both by the weakening of the demand barrier and an increase in capacity utilization. Most of the surveyed industries and categories of enterprises declared that finding customers becomes easier; such opinions were also expressed by construction companies. Prospects for growth in sales in the coming months are relatively good, as evidenced by high values of indicators, however, there is evidence of their stabilization, which may indicate a slowdown in pace of growth.

Figure 3 Demand barriers

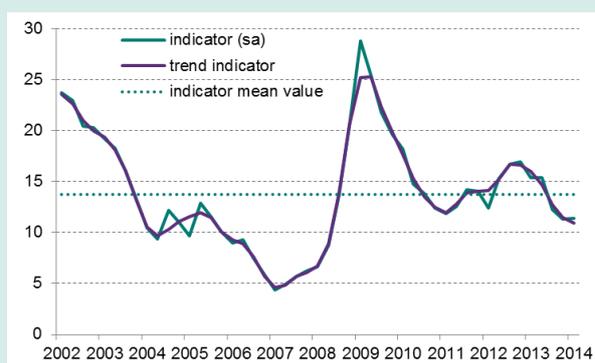
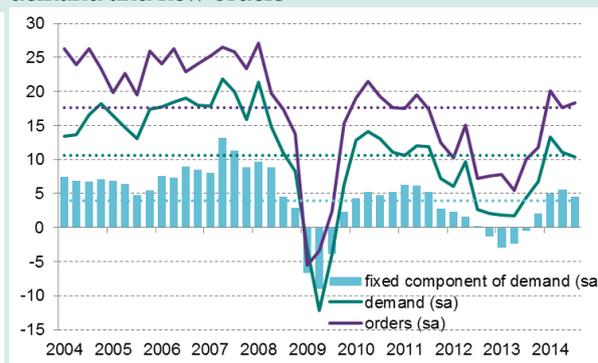


Figure 4 Forecasts for aggregate demand, fixed demand and new orders



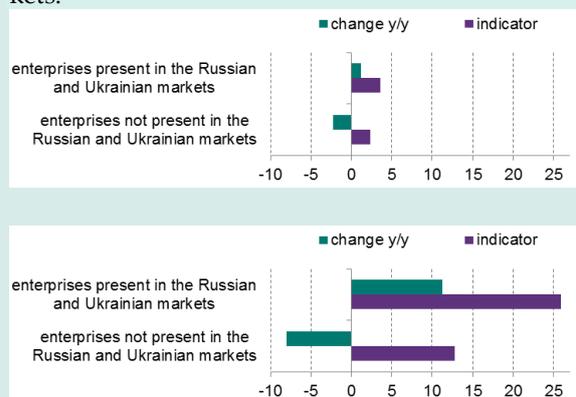
Also exporters do not expect further acceleration of sales growth. Such forecasts, however, are accompanied by a marked increase of indicator of new export contracts. This inconsistency may be due to companies entering smaller markets (as to the value of sales), e.g. in Africa or Asia. It is worth noting that the situation of exporters remained clearly better than that of companies selling exclusively domestically. The Russian-Ukrainian crisis has not significantly affected the

level of sales and the condition of companies present in these markets. The resistance of enterprises to declines in export to Russia and Ukraine results, among others, from the selection mechanism. After 1998, export to these countries is undertaken by stronger and larger companies, which also sell in many other countries, and therefore have more diversified sales. Therefore, these companies have slightly better results and forecasts than other companies in the sample, which indicates a moderate scale of the problems associated with the Russian-Ukrainian crisis and confirms their relatively small exposure to export to these markets.

Figure 5 Export contracts, new export contracts, and export forecast



Figure 6 Export contracts (upper figure) and export forecasts (lower figure) by “presence” of enterprises on the Russian and Ukrainian markets.



Profitability in the corporate sector remains relatively high, but this applies mainly to the more profitable export sales. Exporters have been enjoying a favorable level of exchange rates in the past few years, which ensured the profitability of the vast majority of exports. Therefore, the percentage of exporters and the share of export in sales continue to grow.

Figure 7 Profitability of exports



Figure 8 Changes in profit margins



Negative changes in the margins on export sales were observed in Q2 (however, margins on domestic sales also decreased). The reduced margins were attributable, among others, to declining inflation and strong pressure on price reductions resulting from strong competition. Because of the improvement in the overall assessment of economic climate recorded at the same time, the profitability of sales is not threatened.

Figure 9 Employment forecasts

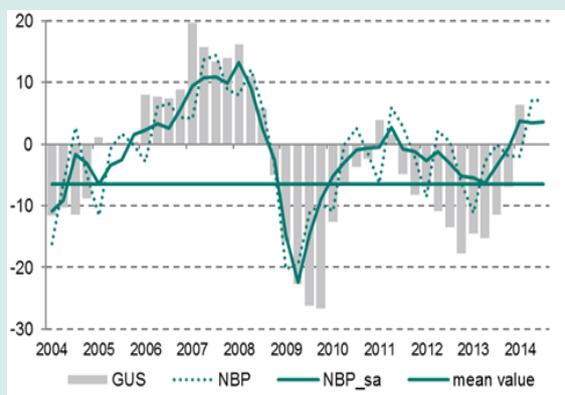
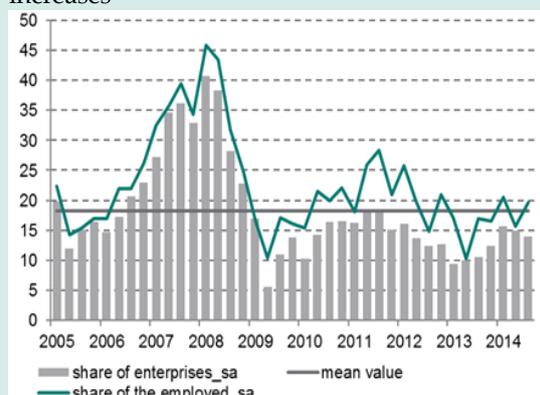


Figure 10 The share of enterprises planning wage increases



Employment growth in Q3 is expected to remain at the level from Q2. This is indicated by a similar share of companies planning to increase the number of full-time jobs compared to the previous quarter. The increase is envisaged mainly in the private sector, especially in companies with foreign capital. Plans of employment increase are also declared by companies from the manufacturing sector, from the construction and business services sectors as well as the largest enterprises. On the other hand, reductions in employment are possible in the electricity and mining industries.

Figure 11 Average and median of the planned wage increase

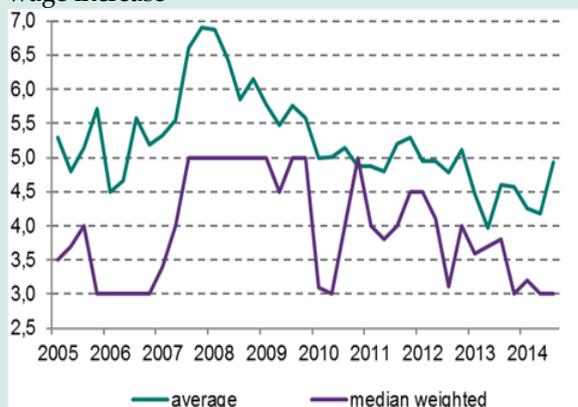
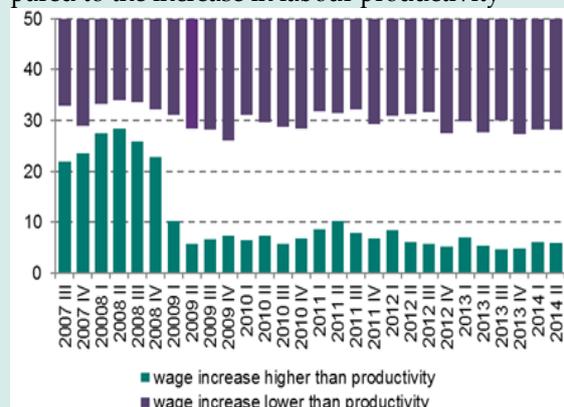


Figure 12 Assessment of the wage increase compared to the increase in labour productivity



Plans regarding wages show similar, low tendency to their increase as in the previous quarter. Such intentions are justified, among others, by non-growing employees' pressure on wage increases and very low inflation. It is worth noting, however, that the analyzed indicators have stabilized and no longer show any further downward trend. Further wage increases will be most likely determined both by further improvement of the economic conditions of companies and rising employees' pressure on wage increases (so far not observed).

Figure 13 Share of enterprises planning to commence investment projects

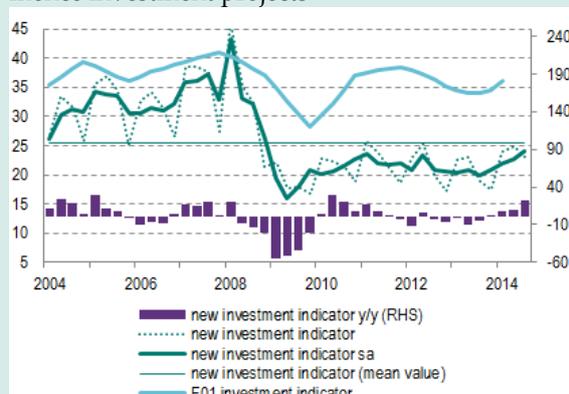
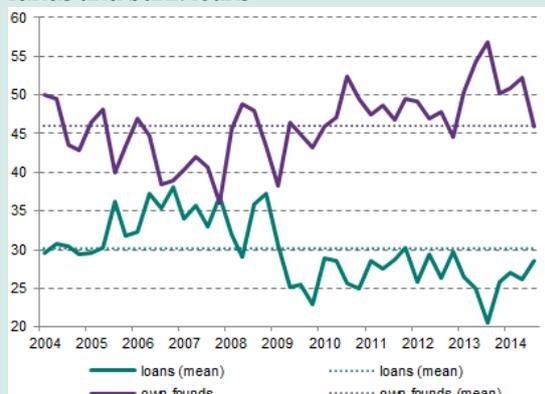


Figure 14 Financing of new investments with own funds and bank loans



Companies announce a further gradual increase in investment activity for 2014 Q3. Expansion is envisaged mostly by large companies, in industry sector and among exporters, i.e. enterprises in very good economic condition. Investment revival is reflected in the improvement of the situation in companies offering investment products. An increase in the share of projects financed by bank loans may also be discerned, which indicates a larger scale of planned investments. Most companies will still use own funds in financing new projects, which is due to large accumulated funds, precaution taken by companies after the turmoil in global markets, and historically low ratio of expenditures to companies' assets.

Figure 15 Influence of forward guidance on investment plans (AR NBP)

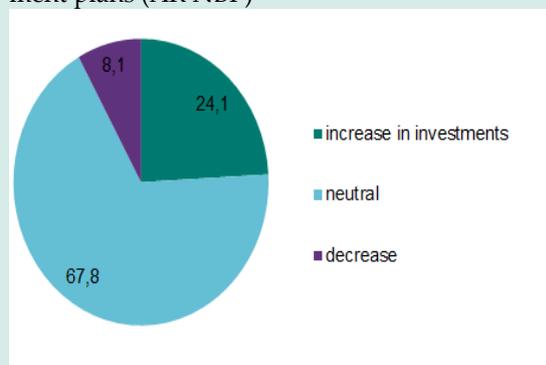
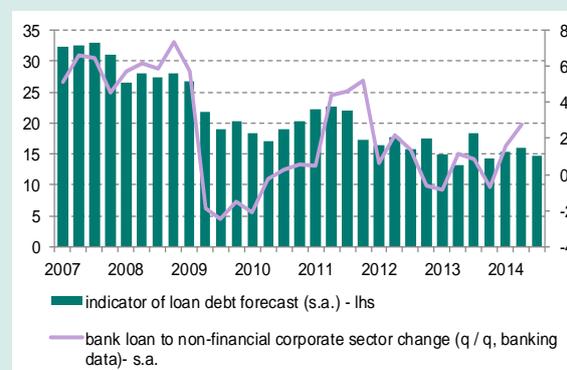


Figure 16 Demand for loans



Forecasts for Q3 suggest a continued low demand for loans. Forecasted debt stabilized, however, in recent quarters, and it seems that the downward trend observed since the outbreak of the international financial crisis halted. The acceleration of loan growth should be fuelled by low interest rates, as well as the prospect of stable interest rates in a longer perspective (according to the announcement of the Monetary Policy Council applicable at the time of the survey). Yet, so far they have had only a small (positive) impact on credit decisions undertaken by enterprises. Similarly, the extension of the government program *The Portfolio Guarantee Line De minimis* with guarantees for investment loans may encourage, or at least facilitate, the development of the SME sector. Furthermore, availability of bank loan to enterprises remains very high (as indicated persistently small rejection rate), which may be an additional incentive for potential borrowers.

Figure 17 Share of firms that applied for a bank loan and share of accepted loan applications

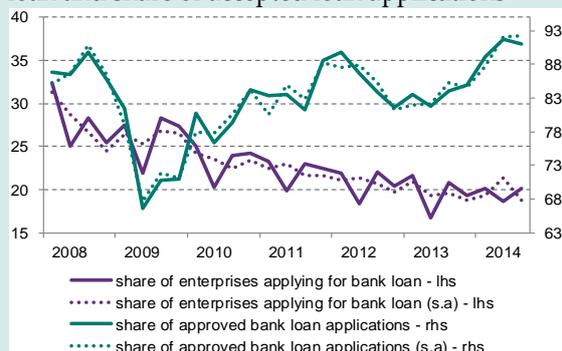
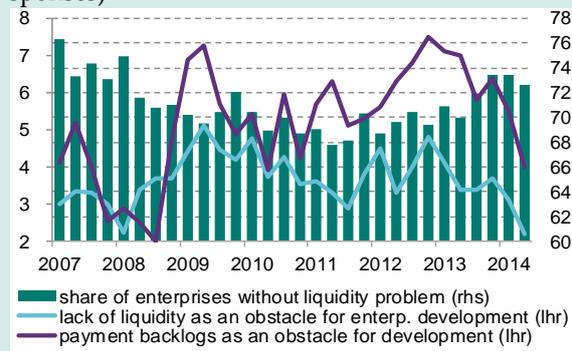


Figure 18 Liquidity of enterprises (share of responses)

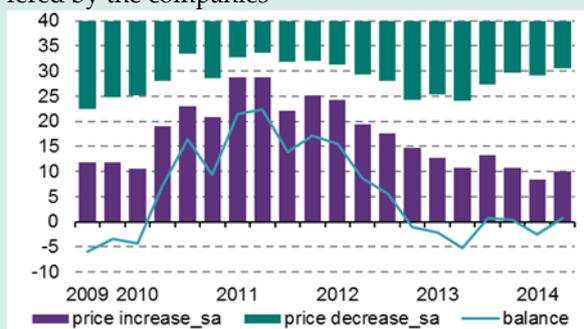


The improving situation in the corporate sector is accompanied by companies' good liquidity situation and a reduced scale of payment backlogs. In the last quarter, the ability to repay bank loans continued to improve, but the quality of servicing commercial liabilities slightly deteriorated.

Figure 19 Forecasts of price increases in raw materials



Figure 20 Price changes of products/services offered by the companies



There is no visible increase in inflationary pressures. The majority of indices run at very low levels, showing further downward trends or stabilization. Also enterprises with good economic standing do not show signs of increasing inflationary pressure.

Figure 21 Price forecasts of goods and services



Figure 22 Forecasted changes in CPI

