

**Information on the condition of the enterprise sector, including the economic climate in 2009 Q2 and forecasts for 2009 Q3**

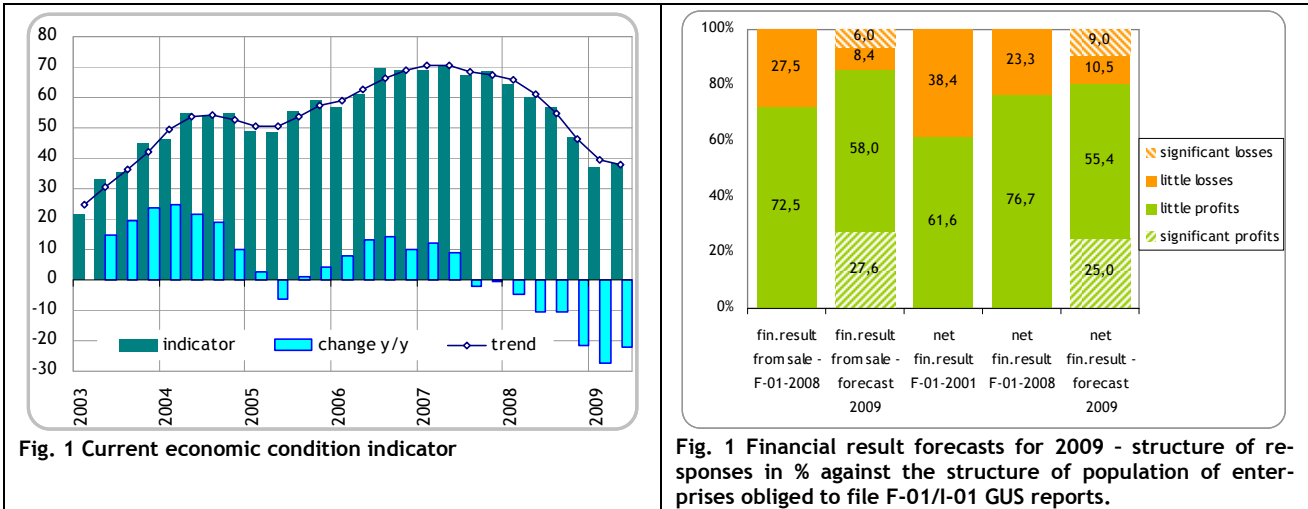
*synthesis*

*The report is based on the results of NBP quick monitoring carried out in June 2009 on a sample of 824 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:**

After first weak signs of reversing downward trends noted in the forecasts for Q2 of 2009, published in the previous Report, the enterprises' forecasts for Q3 saw intensified signs of approaching recovery - growth was observed in the majority of indicators. Despite growing optimism for the future, current assessments of the business climate remain weak. Improvement was observed in the predictions of economic situation, demand, employment, wages and, to a lesser degree, investment and credit availability; moreover, downward trend in prices eased and margins on the domestic market ceased to diminish. Improvement was noted both in the group of exporters and companies offering their products on the domestic market only. On the other hand, slight deterioration was reported in the debt payment capacity, margins on foreign sales ceased to grow and the expected duration of domestic economic slowdown extended. Low demand (despite its marked improvement), foreign exchange rate fluctuations, payment bottlenecks and difficulties in obtaining credit continued to be the main problems faced by the enterprises sector.

1. In the assessment of their own economic situation for Q2, the enterprise sector showed a slight rise in optimism for the first time in five quarters. Improvement was also noted in the forecasts of the situation for Q3 - forecasts of improvement outnumbered slightly. Moreover, enterprises showed considerable optimism in the assessment of their profits for the whole of 2009 - overwhelming majority of the surveyed enterprises expect a positive net financial result this year<sup>1</sup>.



2. Despite the signs of recovery, the forecasted economic slowdown duration extended as compared with the forecasts presented in the previous quarter (yet, the forecasts

improved in relation to the previous month<sup>2</sup>). These changes might have been driven both by changes in the enterprises' own condition as well as by changing information (available, *inter alia*, in mass media) about the extent and the dept of the observed economic slowdown.

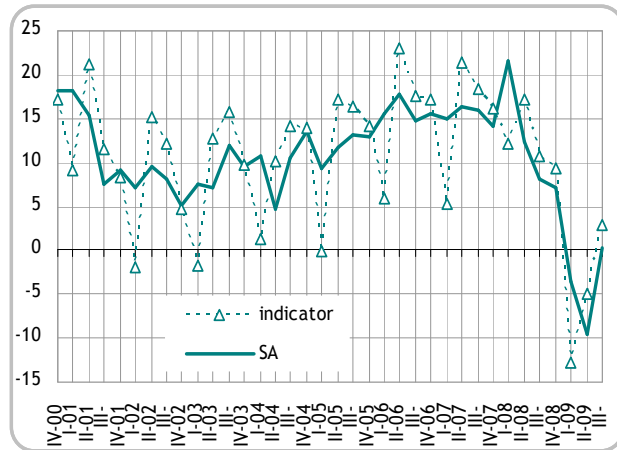


Fig. 3 Economic condition forecast indicator

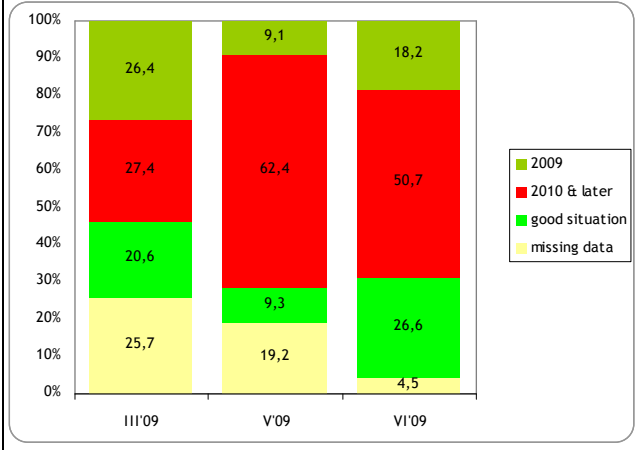


Fig. 4 Economic slowdown horizon

3. The assessments and forecasts of demand and new orders improved. As a result, the production forecast indicator also increased and the fit of inventories to the needs of the surveyed enterprises improved, mainly as a result of depletion of excessive inventories of finished goods. Despite growth, demand assessments and forecasts remained at low levels. Persisting difficulties in finding customers point to further decline in capacity utilization. Yet, the scale of decline of this indicator (after seasonal adjustment) was lower than in the preceding quarter.

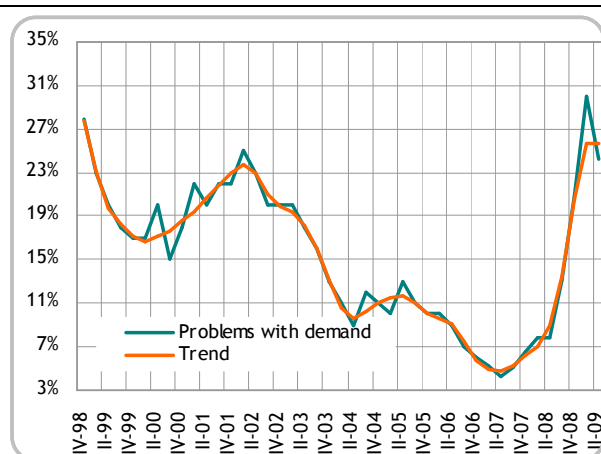


Fig. 5 Low demand as a growth barrier (percentage of companies reporting problems with finding buyers for their products)

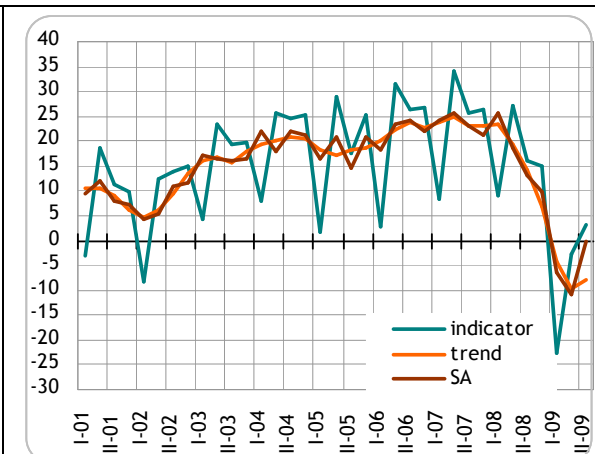


Fig. 6 Forecast output index

<sup>1</sup> F-01/I-01 data suggest that in the previous stage of economic slowdown (in 2001) a positive net financial result was generated by much fewer enterprises, namely 62% of enterprises. In 2009, 80% of the surveyed enterprise expect to generate net profit.

<sup>2</sup> In the period April - May 2009, the NBP Annual Survey (launched in 1995) was conducted, which included also the question to assess the duration of economic slowdown. Forecasts formulated in this period pointed to a steep decline in optimism as compared with the forecasts formulated in March 2009 in the NBP Quick Monitoring.

4. Improved outlook for demand was reported by both exporters and enterprises selling their products on the domestic market only. Yet, the assessments of the current export sales showed only a slight improvement, and the balance of these assessments remains negative, i.e. companies reporting exports decline prevail in the sample. Still, the outlook for export sales improved for the second consecutive quarter, which might be connected with the dynamic search for new markets<sup>3</sup>. Also the weak currency, which has a positive impact on price competitiveness of the domestic production, is favourable for exporters.

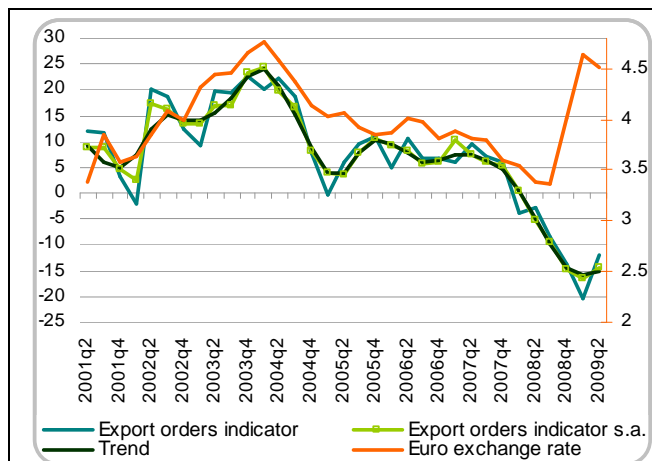


Fig. 7 Index of new export contracts and Euro exchange rate

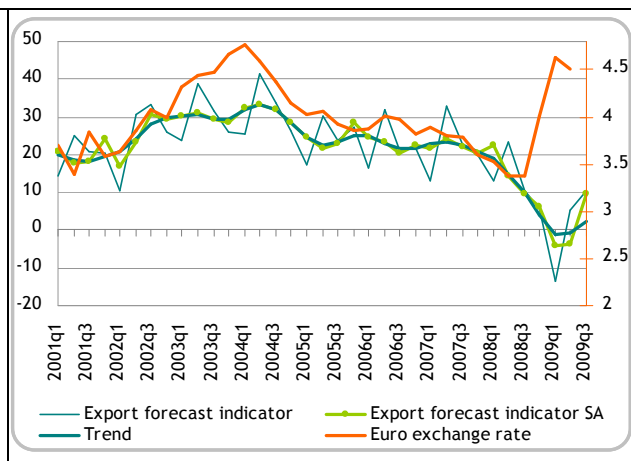


Fig. 8 Export forecast indicator and Euro exchange rate

5. The group of specialized exporters reported further rise in profit margins on foreign sales which was primarily explained by the favourable exchange rate of the zloty against foreign currencies. On the other hand, non-specialized exporters noted a decline in margins which was explained by declining demand and rising production costs. In the group of domestic market oriented enterprises, the downward trend in profit margins, observed since the end of 2008, eased. Specialized exporters, which were hit by the crisis in the international markets in the first place and suffered the most severely (which was visible in their worsening situation), reckon with the possibility of incurring losses in 2009 more frequently than other companies. Yet, also this group is observing signs of recovery.

<sup>3</sup> This is suggested by the results of the NBP Annual Survey, which shows that about 60% of surveyed enterprises adjust to the economic slowdown by searching for new markets.

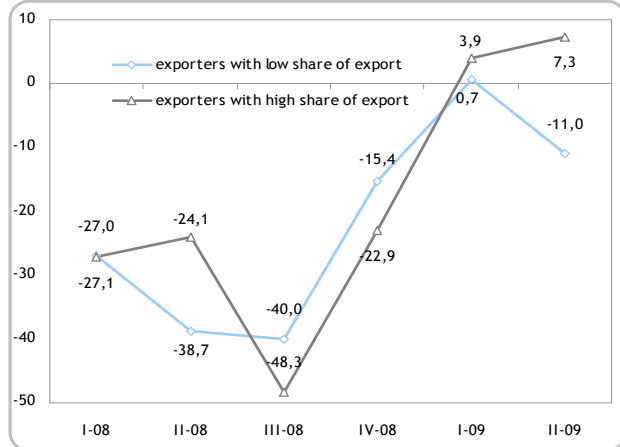


Fig. 9 Changes in margins on foreign sales

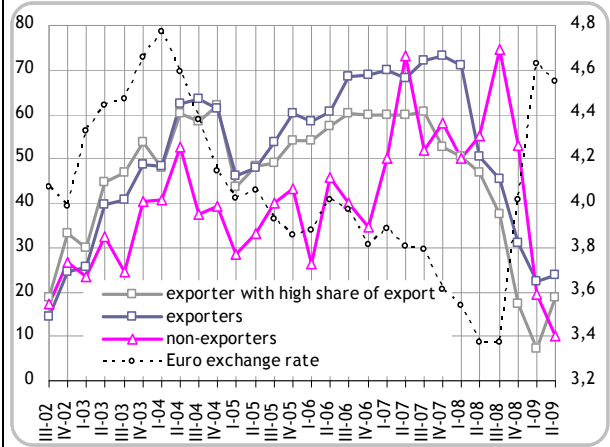


Fig. 10 Current economic condition indicator in the group of exporters and non-exporters (Manufacturing)

6. Improvement was observed in the forecasts of employment - the number of respondents planning to increase employment grew, and the number of enterprises intending to reduce employment declined. Yet, companies reducing their staff continue to prevail in the sample. Staff reduction plans are mostly announced by enterprises in good economic situation and by companies whose production capacity utilisation is close to maximum. Plans to increase employment are mainly announced by service companies from the section *Real estate services* and *Hotels and restaurants*. Employment forecasts also improved in *Manufacturing*, yet staff reduction plans in this group continue to prevail.

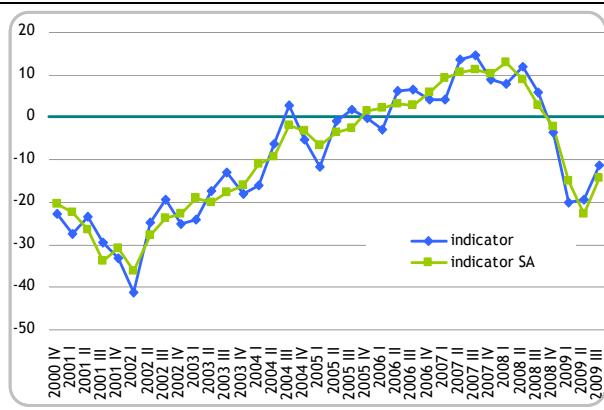


Fig. 11 Employment forecast indicator

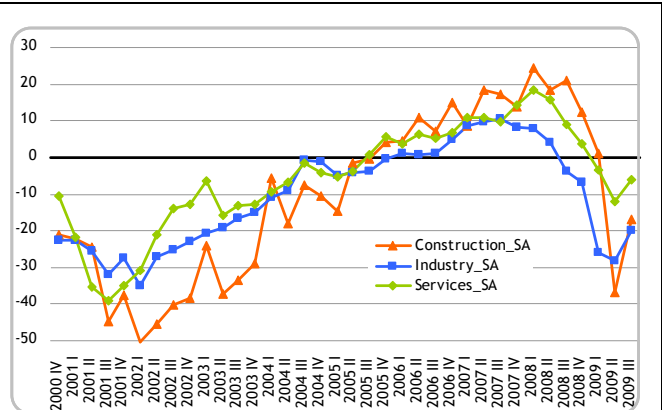


Fig. 12 Employment forecast indicator in the section Construction, Industry and Services

7. Slight improvement was also noted in wage forecasts, mainly due to much less frequently expected wage cuts than in the previous quarter.

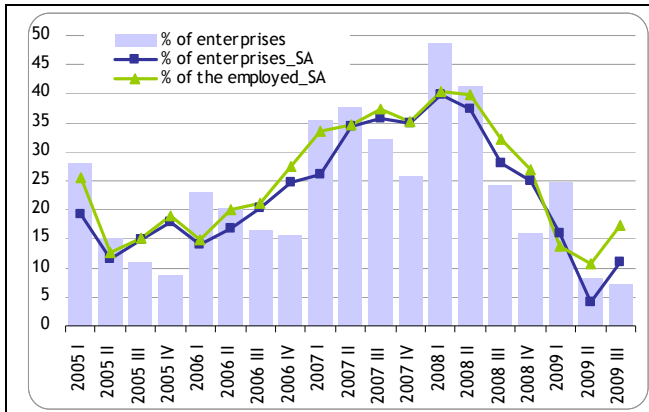


Fig. 13 Proportion of enterprises planning wage increases and proportion of employees benefiting from wage increases

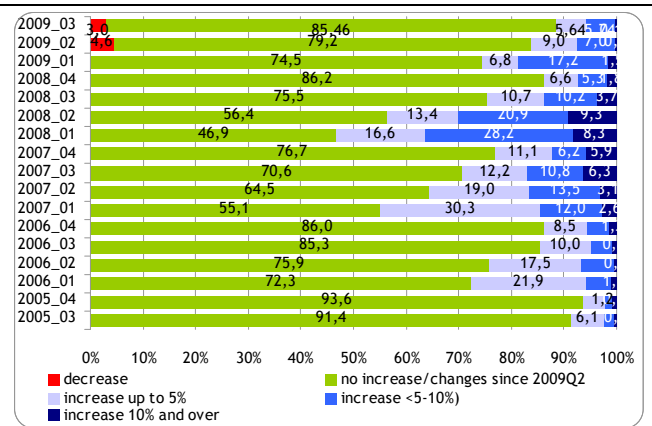


Fig. 14 Structure of planned wage changes (employment weighted data; questions about wage decreases were asked for the first time in the 2009 Q2 survey)

8. Investment activity in the enterprises sector remains very low, yet also this area recorded a slight improvement, translating primarily into lower number of companies which give up completing investment under construction. Interest in new investment projects increased only slightly and remained below the level observed in the years 2001-02. Low investment activity is observed not only in the case of enterprises in bad economic condition, but also companies in good condition, which may be connected with uncertainty about changes in the economic situation and increased cautiousness while planning expenditure during the economic slowdown.

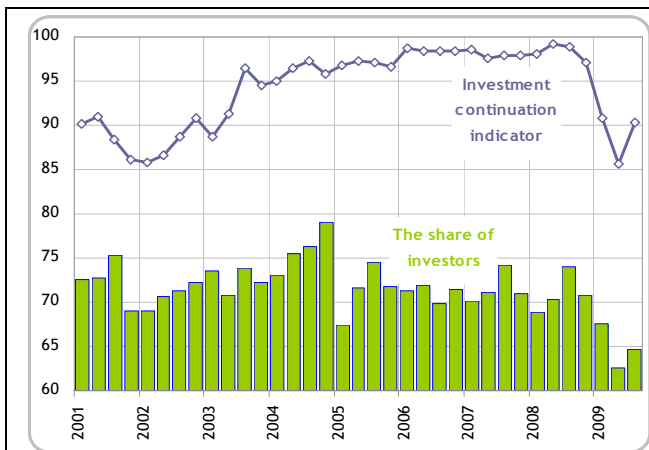


Fig. 15 Investment continuation indicator

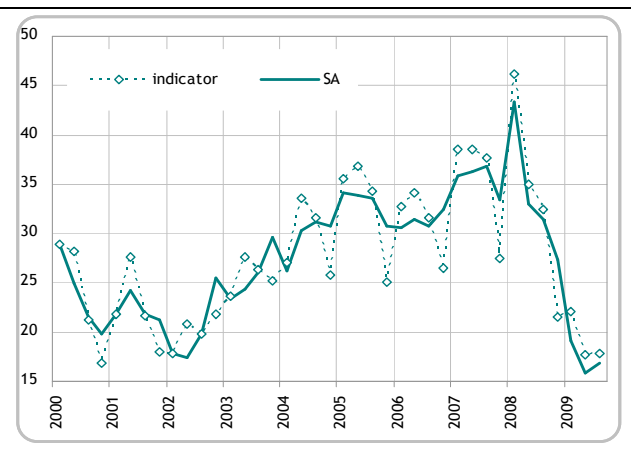


Fig. 16 New investment indicator

9. Assessments of liquidity and debt payment capacity, including capacity of timely bank debt payment deteriorated for another consecutive quarter. Also the period of payment of liabilities and receivables extended. Yet, the deterioration in liquidity and debt payment capacity is not dramatic, and current assessments are better than in the years 2001-02.

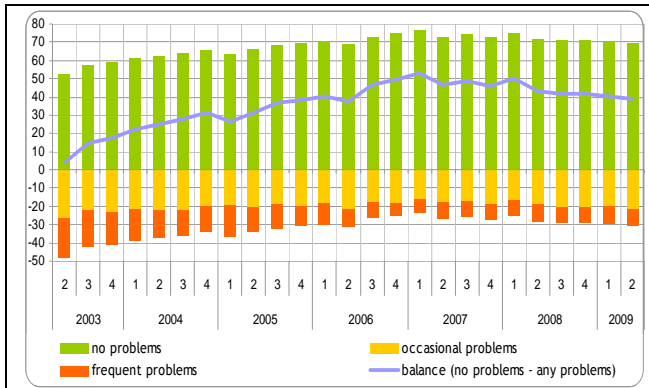


Fig. 17 Share of enterprises reporting problems with maintaining financial liquidity

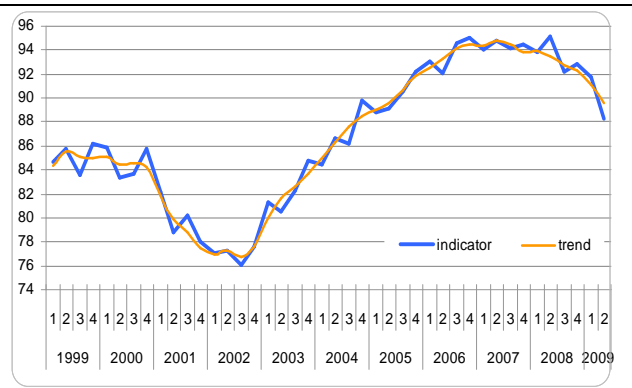


Fig. 18 Share of entities making loan repayments in accordance with loan contracts

10. The percentage of enterprises planning to increase debt by extending their bank credit decreased for another consecutive quarter despite slight improvement in loan availability.

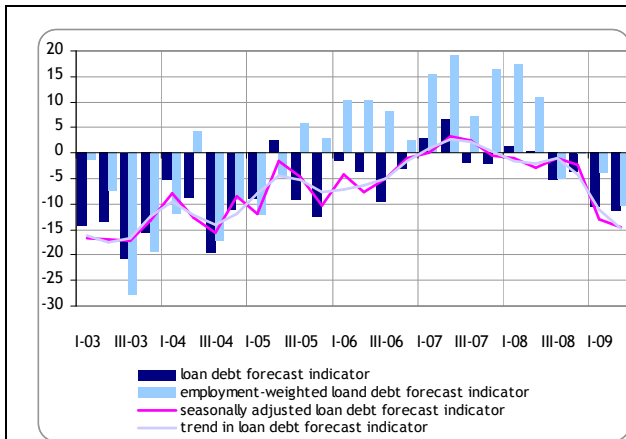


Fig. 19 Loan debt forecast indicator

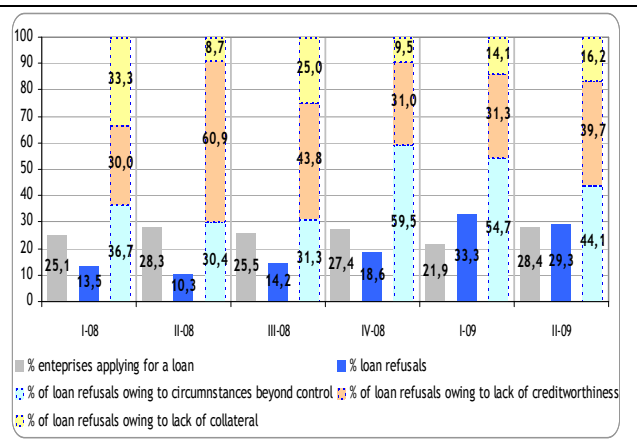


Fig. 20 Share of enterprises applying for a loan and percentage of enterprises refused the loan (in the sample of enterprises applying for a loan)

11. The number of loan refusals was lower than in the previous quarter with higher number of enterprises applying for a loan. Yet, the number of enterprises which faced a loan refusal for reasons unrelated to their economic condition (i.e. due to unfavourable assessment of the business sector's situation) diminished. On the other hand, the number of loan refusals resulting from the lack of creditworthiness and the lack of relevant collateral increased. Problems with obtaining a loan are often faced by enterprises which have already been refused bank financing. This may be one of the reasons why problems with obtaining a loan are increasingly often considered as a growth barrier for the enterprise sector.

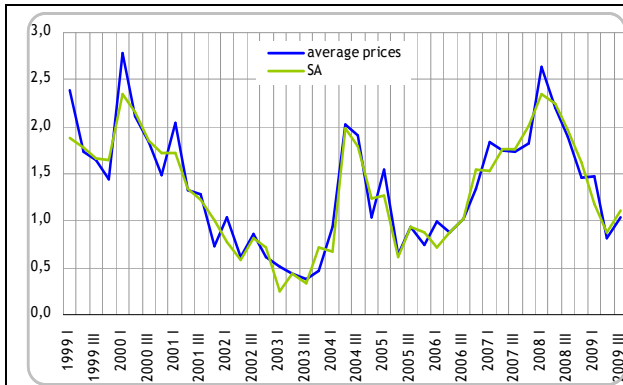


Fig. 21 Average expectations of quarter-on-quarter rise in prices of products and services offered by enterprises

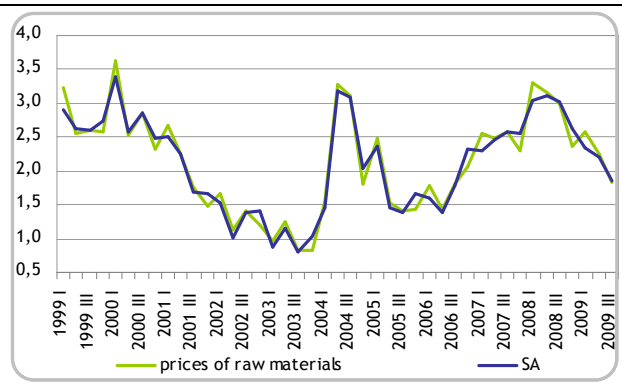


Fig. 22 Average expectations of quarter-on-quarter rise in prices of raw materials used by enterprises

12. Along with stronger signs of economic recovery, the number of enterprises planning to decrease prices diminished considerably (in the last half-year period this number was the highest in the survey history). As a result, after five quarters of decline, the average of planned price changes increased slightly. The intention to decrease prices is less frequently announced by domestic market oriented enterprises; consequently, in this group the drop in the number of enterprises planning price decreases was deeper than in the group of exporters. These developments were accompanied by a further decline in the forecasted growth rate of prices of commodities and raw materials and weakening inflationary expectations. Thus, price growth was not only the effect of the expected cost increase.