

Information on the condition of the enterprise sector, including the economic climate in 2009 Q3 and forecasts for 2009 Q4
synthesis

The report is based on the results of NBP quick monitoring carried out in September 2009 on a sample of 892 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:

2009 Q3 brought a strengthening of the improvement signals in the economic situation of the enterprise sector noted in the previous quarter. The growth was recorded in almost every surveyed area of activity. However, partial assessments of the economic situation continue to be diversified. Investment activity, demand, output and export forecast indicators vary close to their historical minimums. Employment forecast indicators remain at levels below the average but they still perform better than during the previous economic slowdown (2001-2002). Assessments of liquidity of enterprises as well as their repayment ability and profitability of foreign sales show historically positive level above the average. Despite another quarter of the significant improvement, low demand remains the main problem of the enterprise sector. The others are the volatility of the exchange rate, payment gridlocks and intense competition.

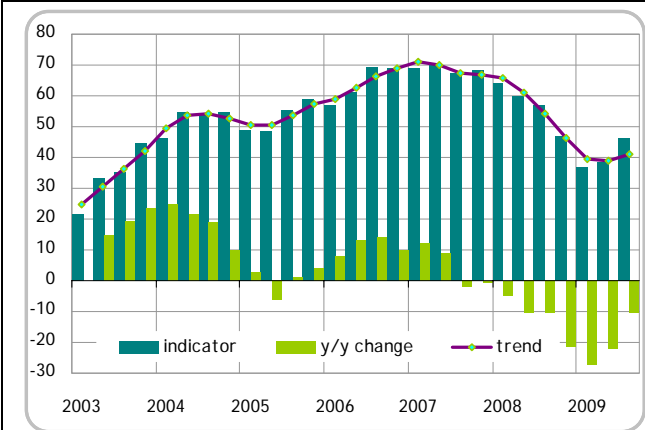


Fig. 1 Current economic condition indicator

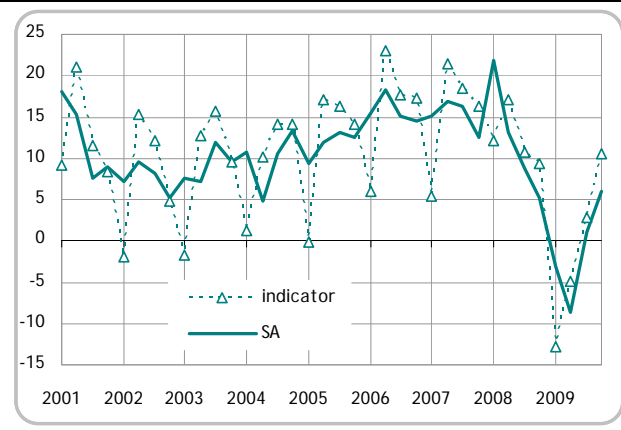


Fig. 2 Economic condition forecast indicator

1. For the second quarter in a row a demand barrier diminished and new orders and output forecast indicators for the next quarter improved. Optimism of assessments and forecasts was reported by exporters as well as by non-exporters. Producers of investment goods remain pessimistic. Demand improvement results in a drop in the excessive inventories of finished goods and in a growth of the capacity utilization. However, finding a buyer for produced goods still remains the most important and frequent problem for enterprises and (apart from *Construction*) the capacity utilization continues to be significant below the long-run average.

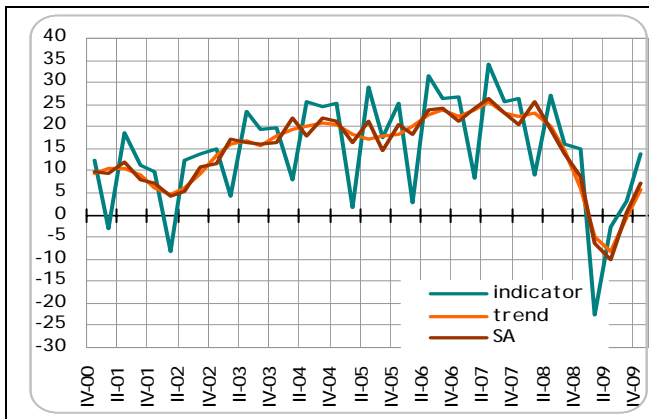


Fig. 3 Forecast output index

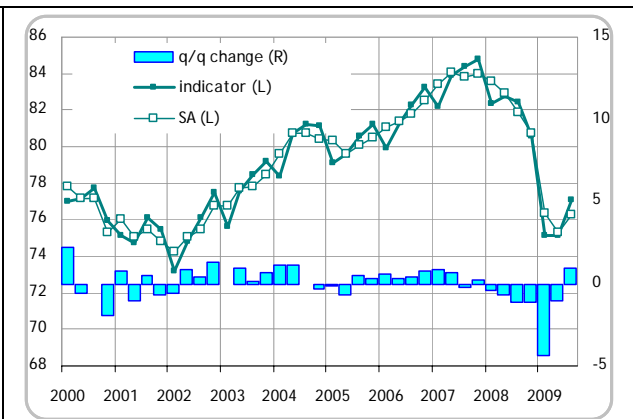


Fig. 4 Capacity utilization

- Export forecasts improved for the third quarter in a row. Nevertheless, finding a foreign customer is still difficult. In spite of a drop noted in the previous two quarters, high profitability of foreign sales, related to the favorable exchange rate of the Polish zloty (especially to the euro), acts as a counterbalance.

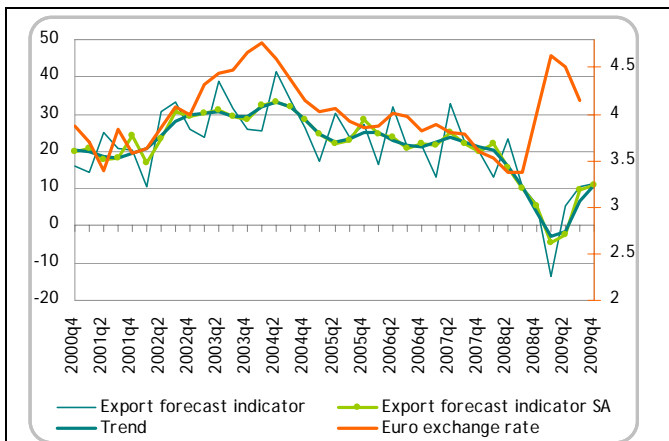


Fig. 5 Index of new export contracts and Euro exchange rate

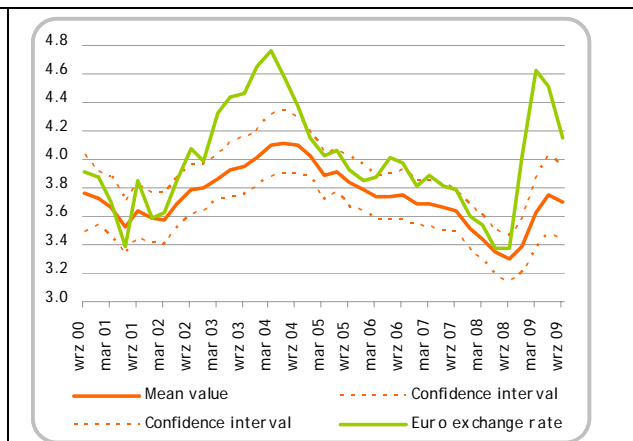


Fig. 6 Euro exchange rate at which export becomes unprofitable, together with the confidence range marked out by +/- of standard deviation. Additionally, the real level of Euro exchange rate is marked

- In Q4 employment forecast indicator improved on a quarterly basis. However, there are still more enterprises that plan to reduce rather than to increase employment. Reductions dominate in most analyzed groups of enterprises. The increase in employment is still mostly related to the increase in production. Though, there are fewer enterprises planning to increase employment, even in a group of those planning to increase production as compared to years 2004-2008.

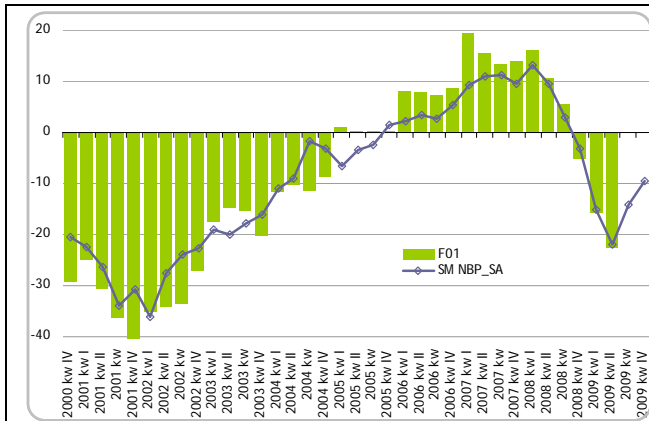


Fig. 1 Employment forecast indicator (proportion of responses: increase -decrease, seasonally adjusted) and F01 employment indicator (increase -decrease, changes at least 1%)

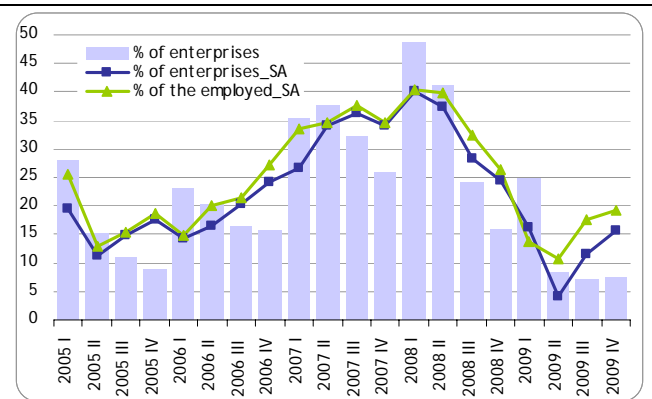


Fig. 2 Proportion of enterprises planning wage increases and proportion of employees benefiting from wage increases

4. Along with the improvement in employment forecasts, one can observe the increase of wage forecasts either. The percentage of the enterprises decreasing wages dropped, while those intending to increase wages rose. However, an increase in wages is planned mainly by the bigger enterprises.

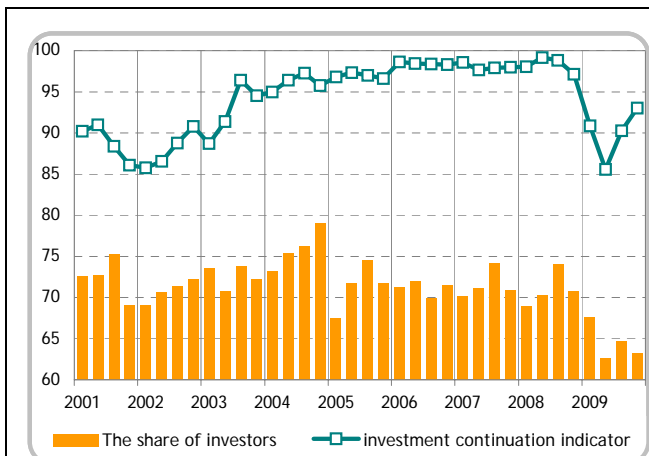


Fig. 3 Investment continuation indicator

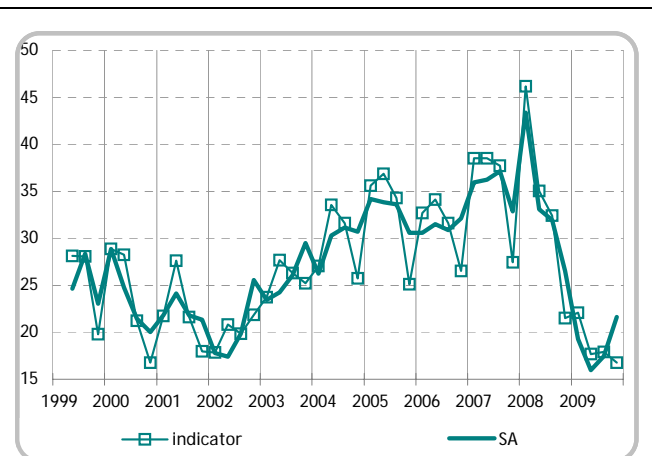


Fig. 4 New investment indicator

5. A slight improvement in the investment activity of the enterprise sector can be expected in Q4. Enterprises more often intend to start new investments and less frequently plan to terminate on-going ones. Nevertheless, investment plans stay at low levels as a result of a still low capacity utilization, uncertainty about the future demand and difficulties in gathering funds necessary to finance investments.

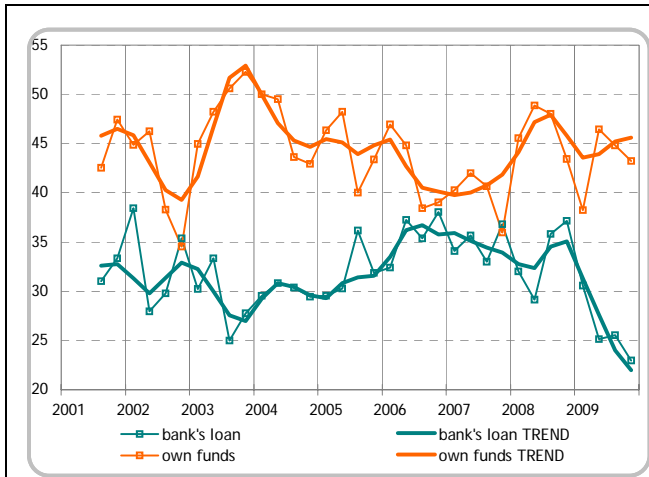


Fig. 5 The share of investors financing development from external sources - bank's loans, own funds. Sub-group of investors planning new ventures

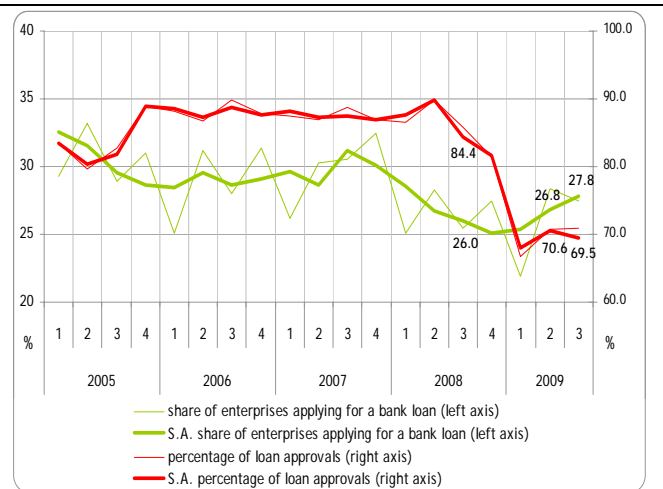


Fig. 6 Share of enterprises applying for a bank loan in 2009Q3 and the percentage of loan approvals.

6. The difficulties in obtaining loans by enterprises do not diminish. In Q3 the loan rejection stayed at a high level of ca. 30%, being one of the factor influencing a drop to the historical minimum of the percentage of the enterprises that declare financing new investments out of a bank credit. The lack of creditworthiness and collateral remains the most often reason for loan refusal. Nevertheless, even enterprises in an outstanding financial situation find difficulties in obtaining bank loans. As in the previous survey, the difficulties in obtaining loans are mostly recorded by small enterprises while the biggest ones perform much better.

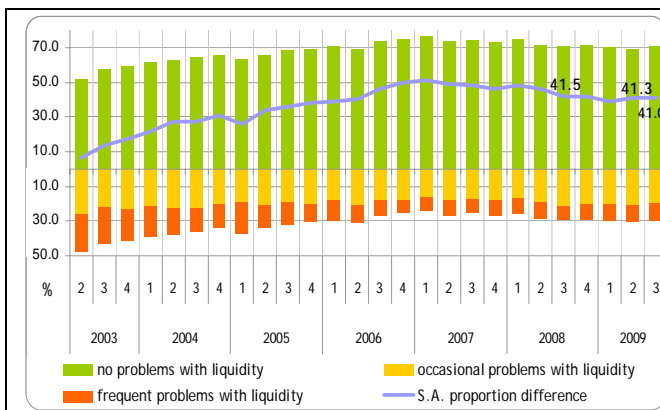


Fig. 7 Financial liquidity of enterprises

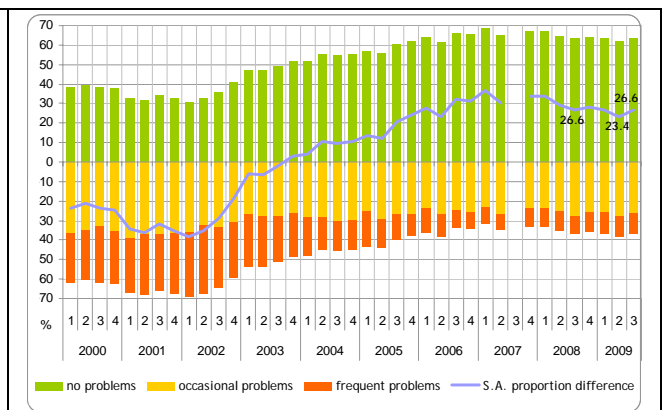


Fig. 8 Enterprises' problems with non-bank debt repayment

7. The enterprise sector continues to keep relatively high assessment of liquidity and repayment ability. Scope of difficulties in making bank and non-bank debt repayments in accordance with contracts slightly shrank as compared to the previous quarter and stays below its long-run average. When the global financial crisis started the enterprises sector was harvesting profits. As a result of reduced investment activity and widespread actions pointed at cutting down the costs these prof-

its have not disappeared. In consequence, 2009 Q2 showed double-digit annual growth rate of liquid assets of the enterprise sector¹.

8. More than a half of the surveyed entities notified a cost reduction realized in 3Q. In three out of four cases such a change is declared to be sustained into a period of the economic revival. Cost reductions were slightly more often related to the production and sales areas than to the employment. As such decisions were observed frequently among enterprises with a decreasing profitability, it may mean that these actions were insufficient to improve the financial situation of an enterprise in a short-run. In a short run, the price increases proved to raise the profitability more effectively. However, in a group of exporters such a move resulted in higher profit margins less frequently, which is related to their dependence on the exchange rate of the polish zloty².

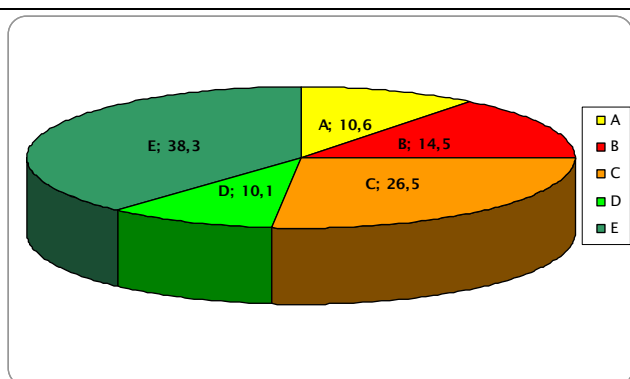


Fig. 9 Assessments of the current economic situation of the enterprise

- A - the enterprise expects difficulties in the future
- B - the enterprise has been dealing with difficulties and there are no prospects for any soon improvement
- C - the enterprise has been dealing with difficulties and they will be soon brought to an end
- D - the enterprise has already dealt with difficulties
- E - the enterprise has not been affected by any difficulties

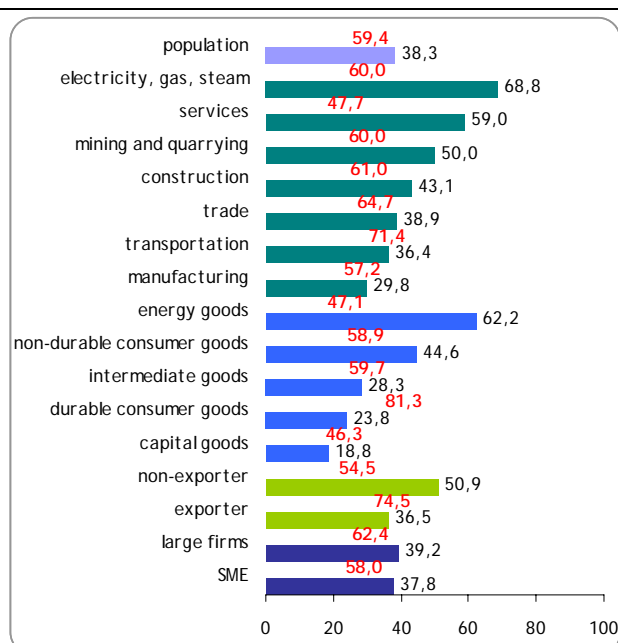


Fig. 10 Share of enterprises not affected by the crisis in basic sub-groups (bars) and share of enterprises affected by the crisis that have already dealt with difficulties or will do it soon (red font).

9. Severity of the economic slowdown brought to Poland after financial turmoil broke out differs across the branches and the degree of export dependence. The half of enterprises declares to have been affected by the effects of the global crisis, while 10% of them expect to be affected soon. The most severe difficulties are declared in manufacturing (mainly exporters), transport and trade and by the producers of

¹ According to F-01/I-01 GUS data for 2009Q2 liquid assets of enterprises employing at least 50 workers grew by 19% on an annual basis.

² See previous reports.

investment goods. Among enterprises which were affected by the effects of the global crisis most entities expect an improvement soon or have already overcome encountered difficulties. Pessimistic assessment of the future situation is declared by 25% of enterprises, especially by the producers of investment goods. Significant (38%) group of entities, especially in power engineering industry, services and mining, does not suffer from any serious difficulties and expect no such problems in the future.