

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

# Economic climate in the enterprise sector in 2010 Q1 and forecasts for 2010 Q2

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April 2010  
*synthesis*

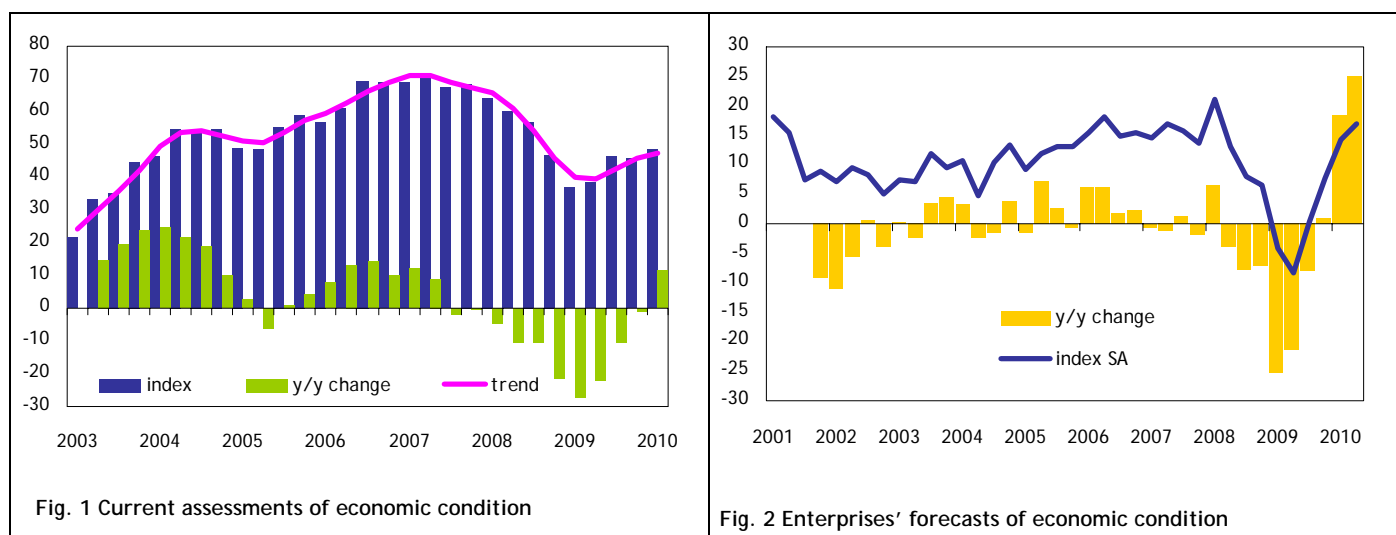
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The report is based on the results of NBP Quick Monitoring carried out in March 2010 on a sample of 1032 non-financial entities representing all sections of the NACE-equivalent Polish Classification of Activity (excluding farming, fishing and forestry), both the 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.

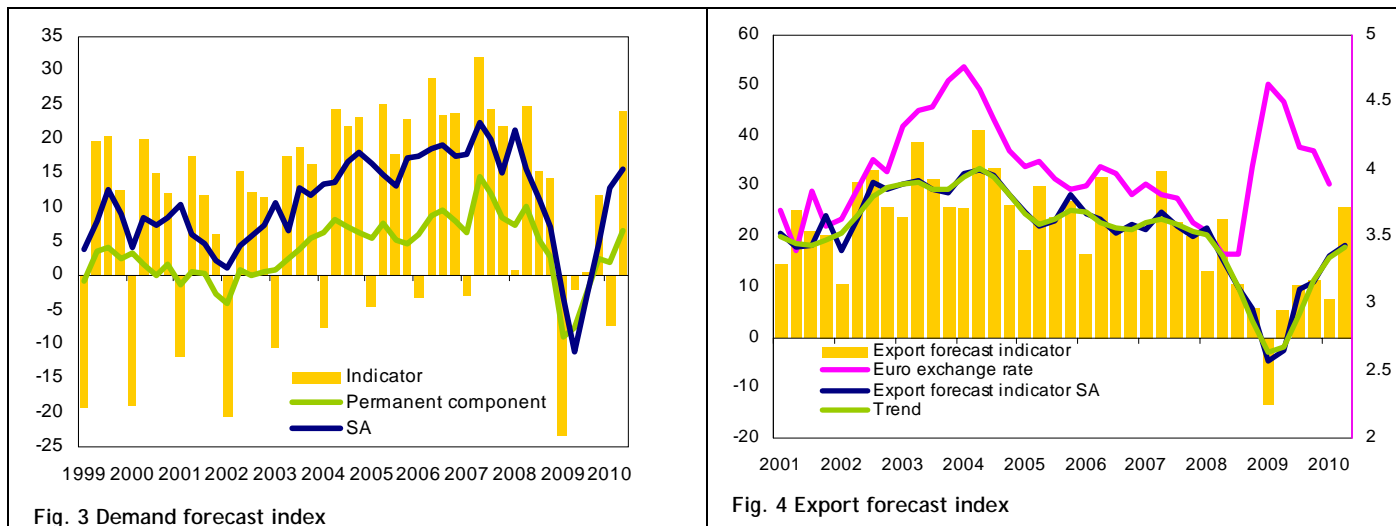
At the beginning of 2010 enterprises reported further improvement of their situation. Their forecasts and expectations, including primarily the forecasts of demand and exports, are characterised by growing optimism. This optimism finds reflection in a shrinking percentage of companies reducing their employment and a widening share of those raising their workforce levels. However, this has not as yet translated into investment plans of enterprises.

The rate of improvement in the enterprise sector remains low and the differentiation between particular sectors and classes is invariably high. Apart from meagre investment activity and weak internal demand, an additional negative influence on the improvement dynamics in 2010 Q1 was the severe winter, which most significantly affected the situation in construction. Despite gradual improvement, low demand remains the main problem of the enterprise sector, followed by exchange rate fluctuations and strong competition.

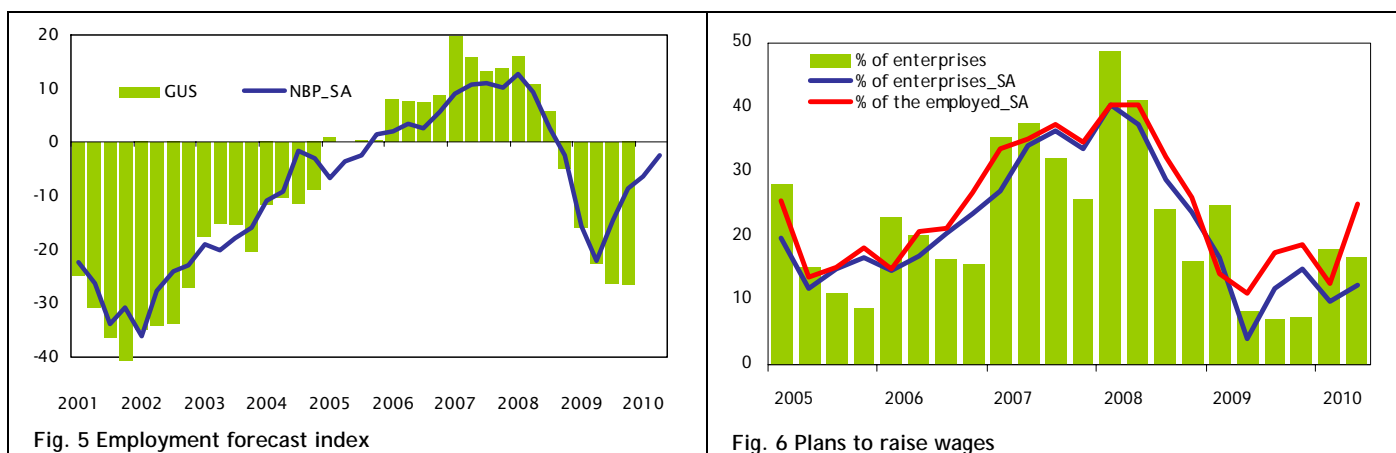


1. The scale of the observed improvement in demand remains small. A slight increase has been observed in the level of production capacity utilisation and a small reduction of demand barrier. Low demand remains the most important problem of the enterprise sector. However, the forecasts of demand and output are increasingly optimistic and their improvement is observed in the majority of sectors and classes. The problem of excessive inventories of finished goods is also diminishing.
2. The optimism of export forecasts is rising markedly. Situation in the group of exporters is improving and the profitability of foreign sales, despite zloty appreciation against the euro, remains high. Due to, among others, the exchange rate remaining favourable for exporters, but also, most probably, due to the

previously incurred losses on currency options, companies less frequently than in 2006-2008 recourse to financial instruments seeking protection against foreign exchange risk. Such methods are a lot more frequently used by large enterprises and by exporters purchasing in the foreign markets (exporters-importers). A significant situation improvement has been recorded in the group of enterprises which reported significant losses on derivatives one year earlier.



3. Enterprises report plans to lay off employees less and less frequently and intend to increase their workforce more and more often. Even so, the employment in the sector as a whole may still not grow in Q2. The increase in the forecasts of employment also translates into a widening share of enterprises planning to raise their wages. In Q2 payraises are to be more often introduced in large enterprises than in SMEs.



4. There are no signs of increased investment activity. The percentage of newly planned investments remains at a low level. However, the situation varies across the sample. An increase in new projects is currently observed in those groups of enterprises which limited their investments in the period when the consequences of

the crisis were intense. Another widening of the share of enterprises continuing their investment projects commenced in the earlier period should also be assessed as a positive development - the intention of resigning from the completion of investment projects is currently as rare as it was before the break of the financial crisis.

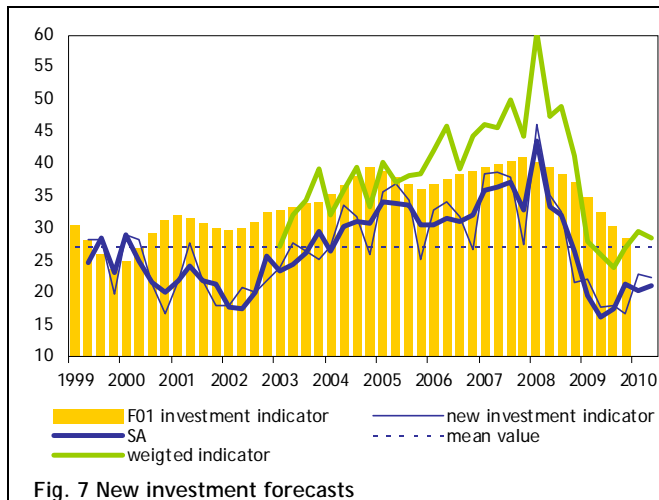


Fig. 7 New investment forecasts

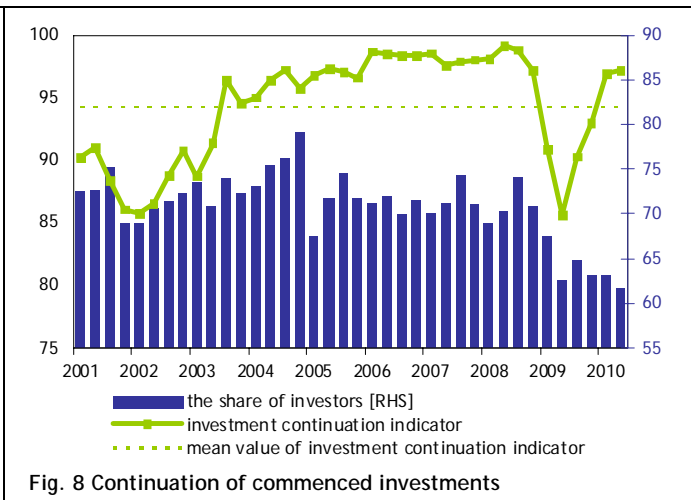


Fig. 8 Continuation of commenced investments

5. Weak investment activity is one of the reasons for a low interest on the part of enterprises in increasing their bank indebtedness. Borrowers allocate the obtained funds mainly to cover their current needs, while investments are more and more commonly financed from own funds. The availability of credit also stopped improving - in Q1 companies reported slightly greater difficulties in obtaining credit than at the end of 2009. According to respondents, more frequent refusals of credit were not rooted in the lack of creditworthiness and were independent of the condition of the company.

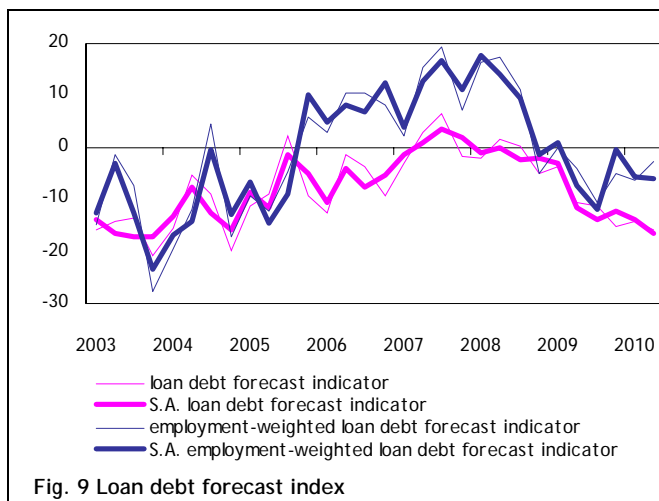


Fig. 9 Loan debt forecast index

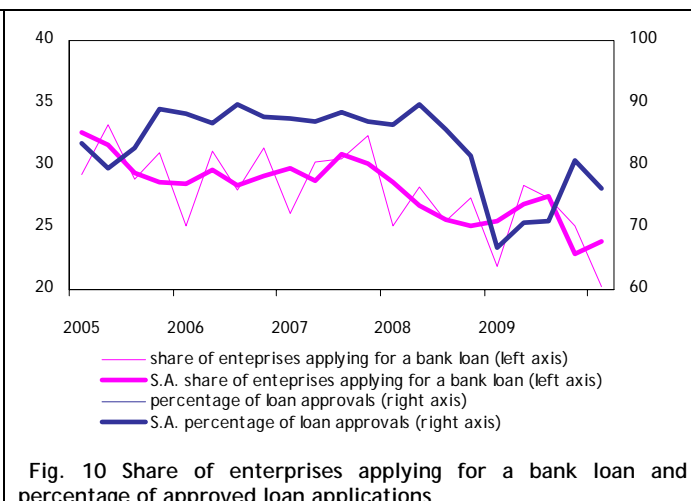


Fig. 10 Share of enterprises applying for a bank loan and percentage of approved loan applications

6. The liquidity level has remained high, just like the capacity to repay debts, both in case of bank indebtedness and trade liabilities. However, the situation varies greatly within the sample, with some classes experiencing liquidity deterioration. Difficulties

are most often reported by the smallest enterprises and the transport sector. The best liquidity situation is enjoyed by the largest enterprises, including power production and supply.

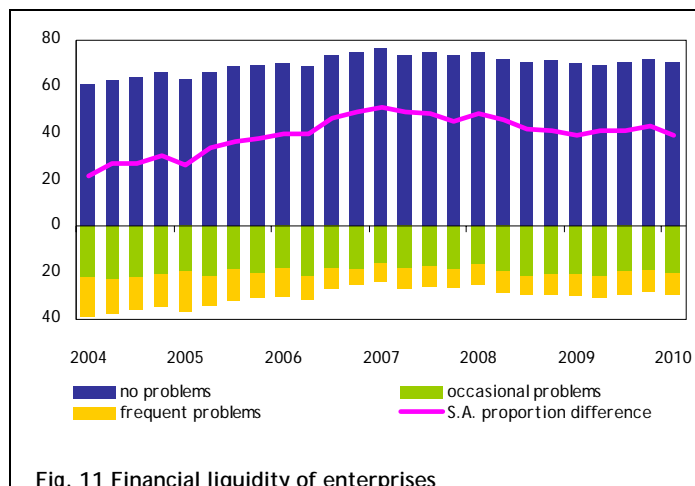


Fig. 11 Financial liquidity of enterprises

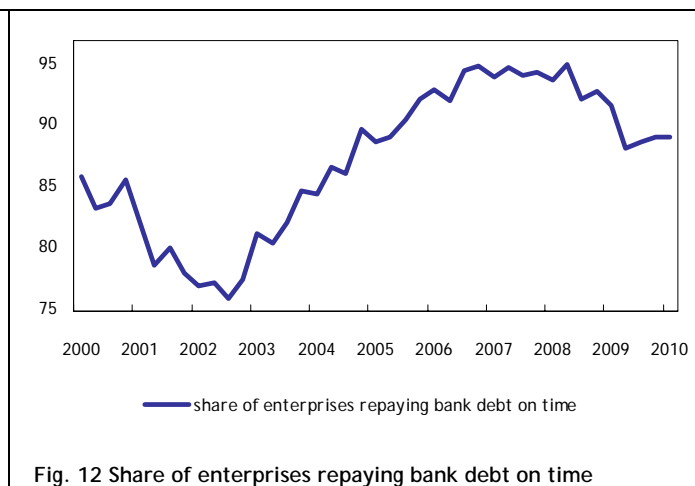


Fig. 12 Share of enterprises repaying bank debt on time

7. Inflation expectations of the surveyed enterprises have weakened markedly. This, however, has not translated into plans concerning the prices of goods and services offered by enterprises. A notable disparity in the sample is also observed for price forecasts. A slower growth rate of prices is, among others, reported by construction companies.
8. Construction companies did well in the period of intensified effects of the international financial crisis. This resulted, among others, from high sales margins and the accumulation of financial funds during the period of economic boom, which let construction withstand the period of weaker demand and lower availability of credit. This situation, however, was gradually deteriorating, and in 2010 Q1 it was further aggravated by the severe winter. In consequence, the condition of construction companies has markedly weakened. Nevertheless, it seems that some problems may be temporary in nature, which is indicated, among others, by an increase in investments planned in this section and these enterprises' expectations for situation improvement in Q2. On the other hand, situation has further improved in the manufacturing section, that is the group of companies which felt the effects of the international financial crisis most strongly. Improvement in this section is observed especially in the area of demand and output.

Tab. 1 Barriers to development

frequency of problems reported during the quarter:	low demand	exchange rates, incl. fluctuations	payment bottlenecks liquidity problems	growing competition	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	4.9 \ 21.2	5.4 \ 21.2	2.7 \ 17.5	1.0 \ 21.6	4.3 \ 17.2	0.9 \ 7.6
2008 Q1	7.8	17.7	4.9	6.7	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	5.1	7.8	16.9	4.5	4.3	1.8
2008 Q4	20.8	10.3	7.2	6.2	7.2	12.9	4.5	3.6
2009 Q1	30.0	14.4	9.4	7.3	10.0	11.5	4.9	6.3
2009 Q2	24.3	13.7	10.4	5.8	6.9	10.9	4.7	7.6
2009 Q3	21.3	11.5	8.6	8.5	7.6	6.1	5.0	4.5
2009 Q4	20.0	13.0	7.6	9.3	6.9	6.9	5.4	4.4
2010 Q1	19.3	13.3	9.2	9.0	7.6	4.7	4.2	3.3