

NBP

Narodowy Bank Polski

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NBP Quick Monitoring Survey

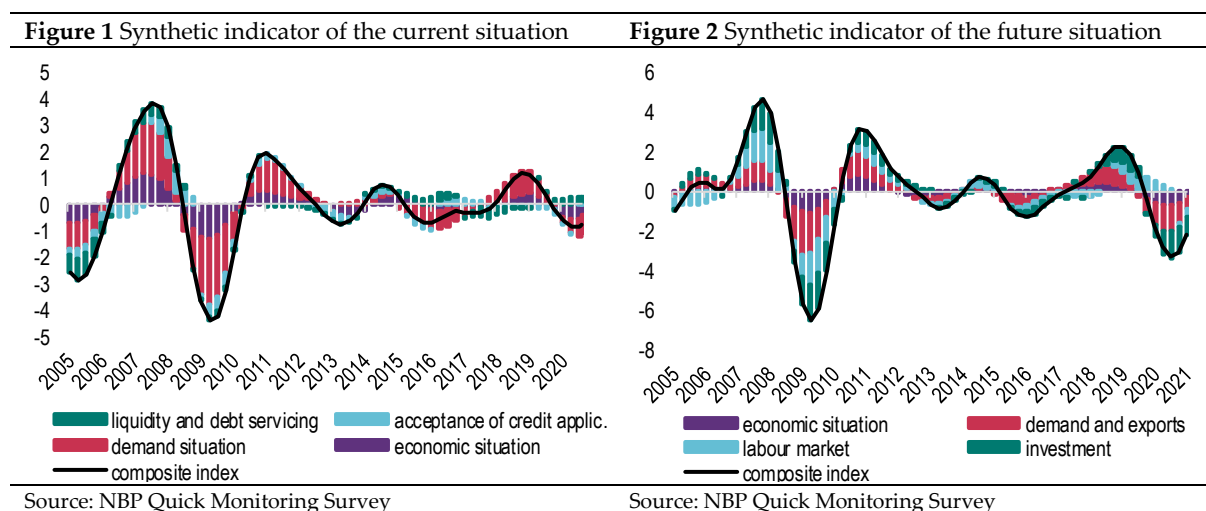
**Economic climate in the enterprise sector
Summary**

Economic Analysis Department

Warsaw, 2021

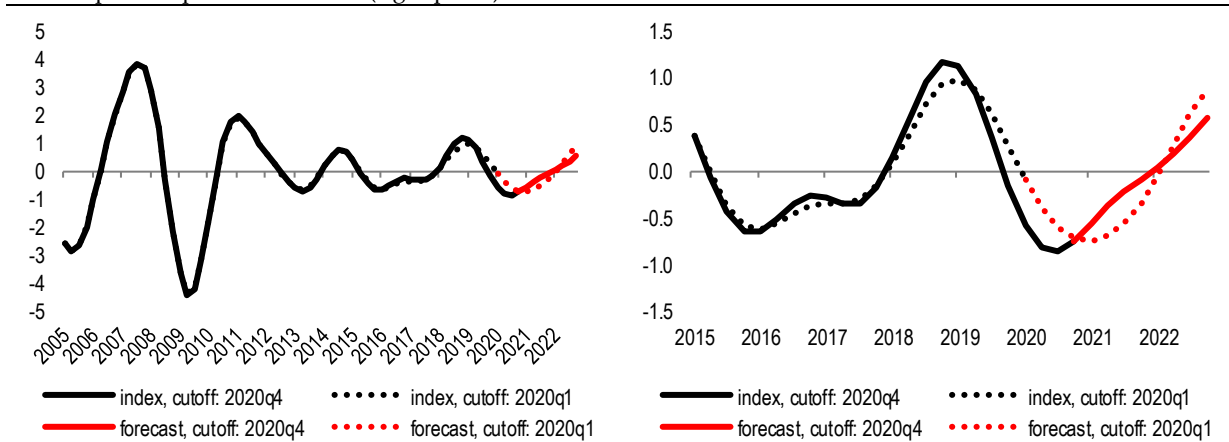
An overwhelming majority (around 70%) of companies questioned in the NBP Quick Monitoring Survey (SM NBP) assessed that they were at least moderately adversely affected by the COVID-19 pandemic throughout 2020, with around one-fifth of them being strongly negatively affected. Almost 1/3 of the respondents experienced the impact of the necessary anti-pandemic restrictions, with 8% experiencing a direct effect (mainly entities from the HoReCa sector) However, almost half of the respondents declared having used at least one of the financial support instruments – mostly from funds available under the financial shield of Polski Fundusz Rozwoju. These measures significantly mitigated the course of the crisis in the non-financial corporate sector as a whole, including considerably supporting its liquidity and stabilising the labour market. Despite a marked improvement in 2020 Q3 in many financial indicators and a stabilisation of qualitative assessments of the current situation of companies, the condition of the enterprise sector has not yet returned to pre-crisis levels, after the strong decline seen in 2020 Q2. Even though a vast majority of enterprises believe that the recovery in output levels will occur this year, investment activity will take longer to rebound. However, it should be noted that these assessments are characterised by high uncertainty – a significant proportion of the companies declare that they do not know when they will return to pre-crisis activity levels – and its main source is the risks related to the further course of the pandemic.

In 2020 Q4, the synthetic indicator of the current situation¹ was still running at its lowest level since the global crisis of 2008-2010, although the trough was much shallower than in the above-mentioned period. The stabilisation of the current situation indicator at low levels results, in particular, from the lack of continued improvement in assessments of the current economic condition and the degree of capacity utilisation. So far, the coronavirus pandemic and the resulting restrictions on the free operation of the economy can still be perceived, from the perspective of non-financial corporations, as the source of short-term disruptions which amplify natural cyclical processes.



¹ A more detailed description of the indicator is included in the report *NBP Quick Monitoring*, No 03/19: https://www.nbp.pl/publikacje/koniunktura/raport_3_kw_2019.pdf.

Figure 3 Forecast of the synthetic indicator of the current situation* - in the period 2005-2022 (left panel) and in close-up in the period 2015-2021 (right panel)

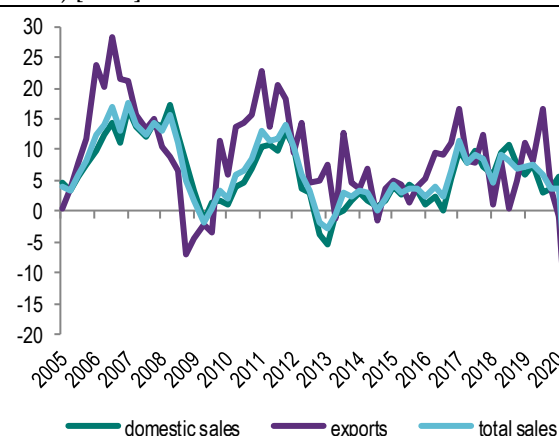


* The dotted line represents the index or forecast based on data up to and including 2020 Q1. The solid line marks the index or forecast based on data up to 2020 Q4.

Source: NBP Quick Monitoring Survey Source: NBP Quick Monitoring Survey

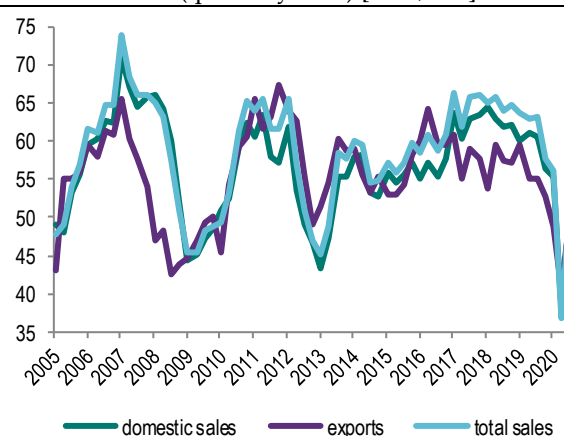
In 2020 Q3, despite a sharp rise in sales revenues in q/q terms, they did not return to their pre-pandemic levels. The financial performance of enterprises was markedly better than in the first half of 2020, although on a cumulative (year-to-date) basis in most cross-sections it was also still below the 2019 results. Like revenues, financial results were also highly varied at the individual level: better in the group of exporters, among others, and substantially worse in industries most affected by anti-epidemic restrictions. While there was a rise in the profitability ratio y/y for the whole sector, a decline was observed in Mining, Other service activities, Electricity, Arts, entertainment and recreation, Accommodation and catering and Real estate services.

Figure 4 Nominal growth of sales revenues (quarterly data) [in %]



Source: financial results, GUS data, NBP study

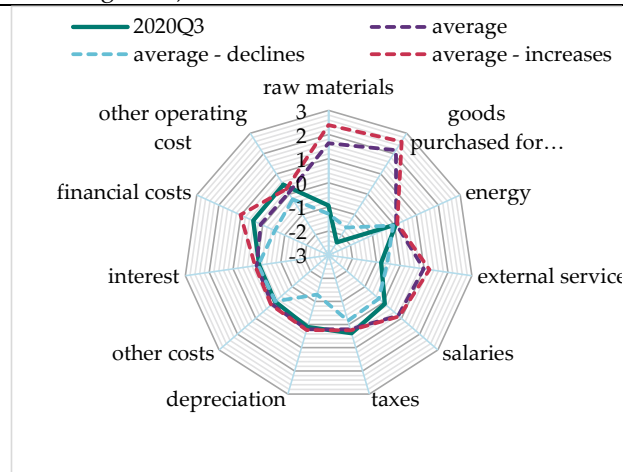
Figure 5 Percentage of firms observing y/y increase in sales revenues (quarterly data) [in %, s.a.]



Source: financial results, GUS data, NBP study

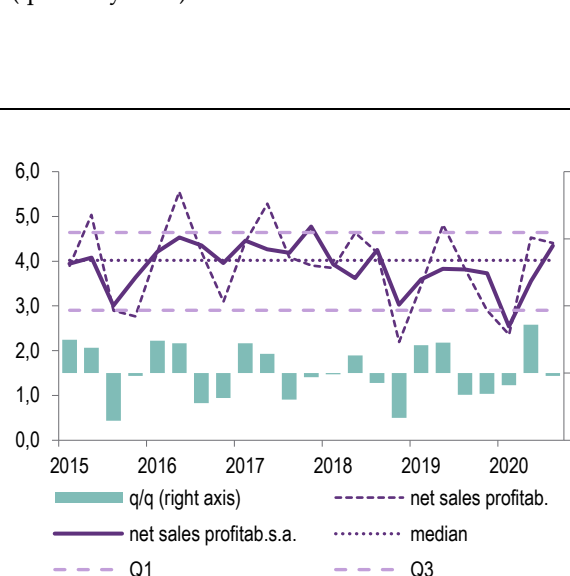
The improvement in companies' financial results in the face of falling revenues was mainly due to a marked reduction in the cost of external services and goods purchased for resale. State aid also had a positive impact.

Figure 6 Contribution of cost components (y/y, quarterly data) to changes in total costs (in pp.) – data for 2020 Q3 against the average for the years 2006-2020 (additionally, averages for periods of rising and declining costs).



Source: financial results, GUS data, NBP study

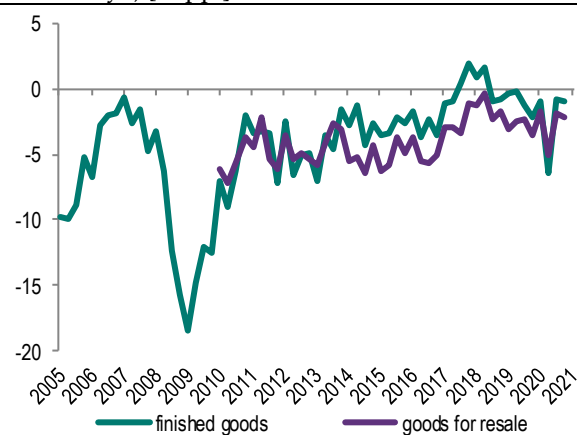
Figure 7 Net turnover profitability indicator (quarterly data)



Source: financial results, GUS data, NBP study

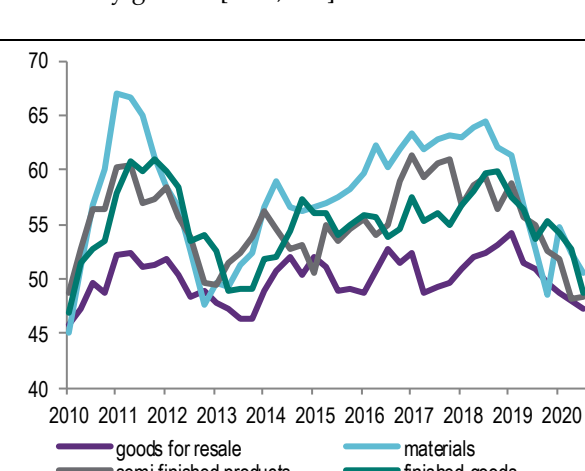
According to companies' declarations, there were no substantial mismatches between inventory level and company needs. In particular, despite the supply shocks caused by the COVID-19 pandemic, firms did not report problems related to supply chain disruptions.

Figure 8 Inventory shortage ratio (s.a., balance of responses: "too little inventory" – "too much inventory") [in pp.]



Source: NBP Quick Monitoring Survey

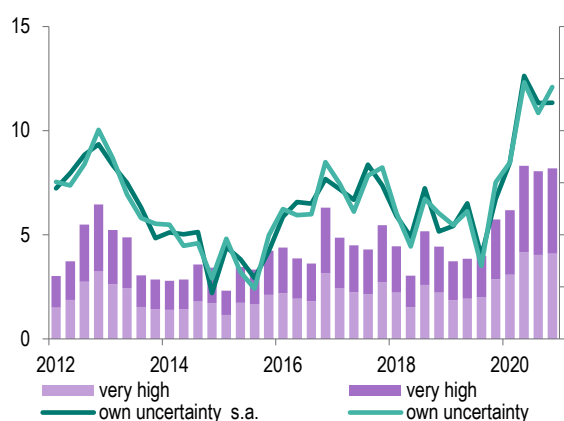
Figure 9 Percentage of firms observing annual inventory growth [in %, s.a.]



Source: NBP Quick Monitoring Survey

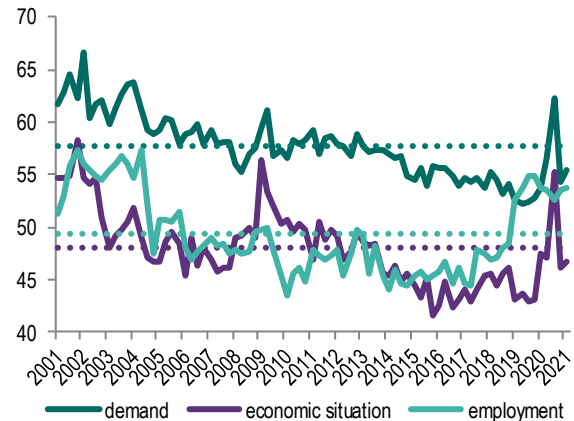
Measures of uncertainty as declared by firms have declined, yet remain at very high levels. There was virtually no change in the indices of heterogeneity of the forecasts of demand and economic situation, following a marked decline in 2020 Q3 to near-average levels. In contrast, employment forecasts remain highly diversified.

Figure 10 Assessment of uncertainty – balance index (in pp, an increase in the index means an increase in uncertainty) and the percentage of companies considering uncertainty as very high or high and the percentage of companies considering uncertainty as a barrier to development (in %)



Source: NBP Quick Monitoring Survey

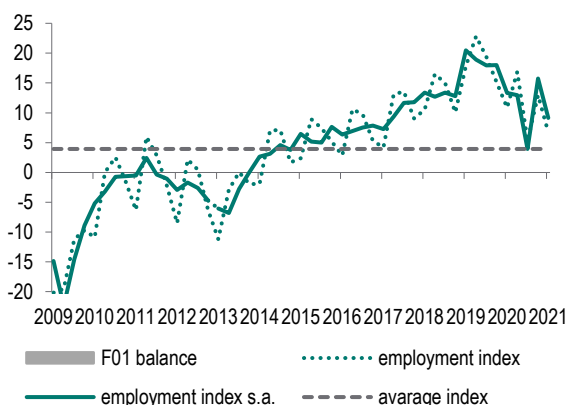
Figure 11 Heterogeneity of forecasts of demand, economic situation and employment [in pp., s.a.]



Source: NBP Quick Monitoring Survey

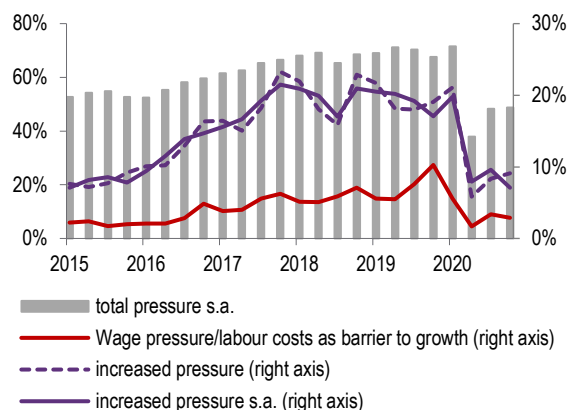
The marked improvement in the enterprise sector and the effects of aid programmes mean that while the labour market situation is deteriorating, the deterioration is rather mild. Even though the SM NBP respondents indicate a gradual decline in labour demand and weaker employment forecasts, these remain above the long-term average. However, there are industries which already in 2020 Q3 recorded double-digit declines, with forecasts markedly worse than average. The more difficult situation on the labour market also significantly reduces the intensity of employees' pressure on wage rises and, as a result, lowers the forecasts of wage growth.

Figure 12 Employment index – the difference between the percentage of companies expecting an increase and a decrease in employment – quarterly forecasts [in pp.]



Source: NBP Quick Monitoring Survey

Figure 13 Percentage of firms experiencing wage pressure; percentage of firms reporting wage pressure/high labour costs as a barrier to growth

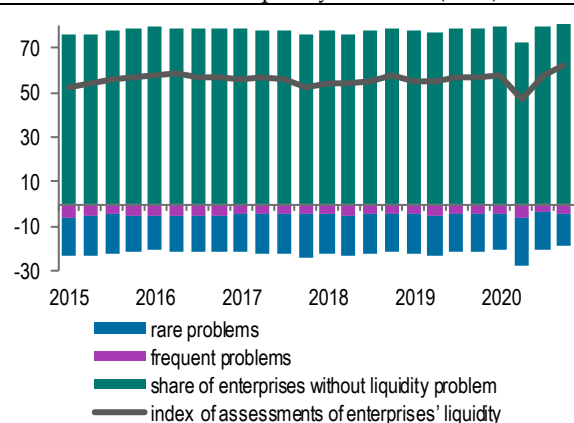


Source: NBP Quick Monitoring Survey

In 2020 Q3 the enterprise sector liquidity indices stabilised at very high levels, following several quarters of robust growth, and the percentage of liquid enterprises reached a historical high. The rise in cash liquidity

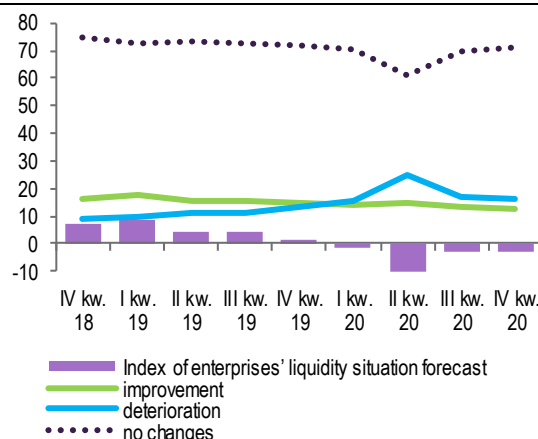
was prominent in large companies, with a workforce of over 500. The SM NBP survey suggests that in 2020 Q4 the percentage of firms which did not experience liquidity problems reached a historical high. In the presented forecasts of the liquidity situation for the next 12 months, the balance of assessments remains slightly negative, but significantly better than in the most difficult second quarter of 2020. In terms of the whole sector, the risk of bankruptcy has risen somewhat.

Figure 14 Assessments of enterprises' liquidity (balance) against the percentage of firms according to the assessment of the liquidity situation (in %)



Source: NBP Quick Monitoring Survey

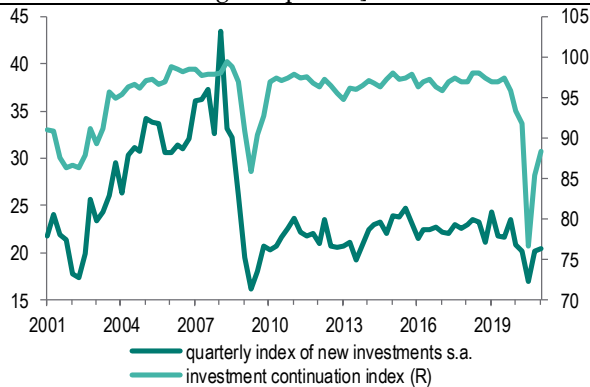
Figure 15 Forecast of enterprises' liquidity situation for the next 12 months [percentage of replies]



Source: NBP Quick Monitoring Survey

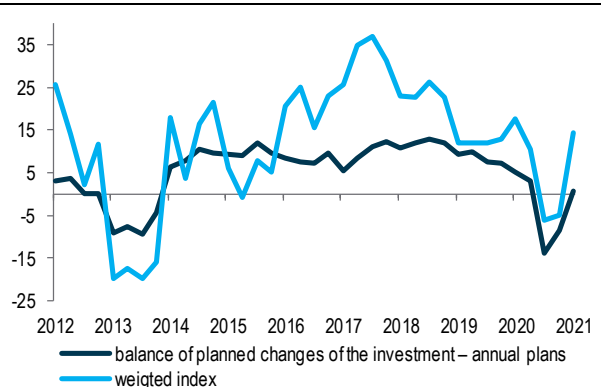
Along with the increase in economic activity in companies, there was a marked q/q improvement in investment sentiment, which, however, remains weaker than before the onset of the COVID-19 crisis. Yet the improvement is due to reducing the planned cutbacks to the scale of the previously implemented investments and the gradual launch of projects suspended during the initial stage of the pandemic rather than intentions to implement new projects. In light of companies' declarations, the level of outlays may even decline in annual terms in 2021 Q1, and the investment plans for the whole of the year 2021 assume the magnitude of these outlays will barely approach the previous year's level. The envisaged investment activity level is also highly differentiated – in 2021 the enterprises planning to increase this expenditure include mainly state-owned companies, large companies, exporters and industry. From the point of view of the competitiveness of the Polish economy, it is significant that exporters are markedly more interested in expanding capacity and introducing new technologies.

Figure 16 Quarterly index of new investments [% of firms planning new investment in the quarter] and due to continuation of investments launched previously [% of investors declaring the scheduled implementation of the investments in progress within the quarter] the rate of continued started investments [% of investors declaring planned started investments during the quarter].



Source: NBP Quick Monitoring Survey

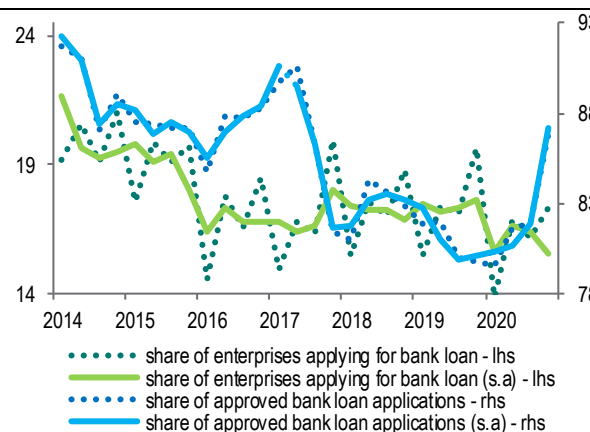
Figure 17 Planned change in the scale of the investment during the year, [balance of changes, in pp., s.a., employment weighted index]



Source: NBP Quick Monitoring Survey

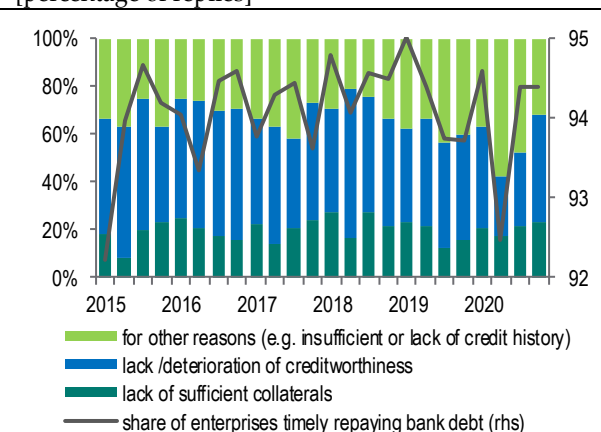
The pace of growth in short-term debt resulting from loans declined sharply, and the rise in long-term debt was markedly smaller than in the previous quarters. Decreasing debt growth was observed both among large companies and small and medium-sized ones. According to the declarations of the surveyed firms, interest in bank loans was also very small in 2020 Q4 – a mere 15% of the respondents were seeking a loan, with 88% of the requests being granted. The declared current capacity of the surveyed companies to service bank debt on time remained high, yet the forecasts for the coming year show an increase in the percentage of entities anticipating a deterioration in the quality of service of credit obligations.

Figure 18 Percentage of filed and approved loan applications



Source: NBP Quick Monitoring Survey

Figure 19 Declared debt service against the structure of reasons for refusing bank loan applications [percentage of replies]



Source: NBP Quick Monitoring Survey

Technical notes:

1. The study is based on two data sources: the NBP Quick Monitoring Survey as well as Reports on income, costs, financial results and investment outlays on fixed assets (hereinafter referred to as GUS Reports).
2. NBP Quick Monitoring Surveys have been conducted without interruption since the end of 1997. The latest survey took place in December 2020. 2,621 entities selected from all over the country participated in the survey, representing: all the NACE sections apart from agriculture, forestry and fisheries; both ownership sectors; the SME sector and large entities. The micro enterprise sector is under-represented.
3. Enterprises are obliged to submit the GUS Reports at the end of each quarter. The reporting obligation applies to enterprises employing more than 49 persons as at the end of the preceding year. The number of enterprises covered by the survey as at the end of September 2020 was 17,392. The following are subject to the reporting obligation: all NACE sections apart from the financial sector and agriculture, forestry and fisheries.
4. The full version of the report in Polish is available on the NBP website: http://www.nbp.pl/home.aspx?c=/ascx/koniunktura_prezentacja.ascx

