

NATIONAL BANK OF POLAND
MACROECONOMIC AND STRUCTURAL ANALYSES
DEPARTMENT

THE CONDITION OF
NON-FINANCIAL ENTERPRISES
IN THE THIRD QUARTER OF 2006

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The report is based on the results of NBP quick monitoring carried out in June 2006 on a sample of 835 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.

SUMMARY

In view of the results of NBP quick monitoring, surveys conducted by other research centres and macroeconomic data of the public statistics, the following conclusions may be drawn:

1. In line with both the assessments of situation in 2006 Q2 and the expectations of enterprises for 2006 Q3, the good economic climate will be sustained. The majority of core economic activity indices reached their historical highs or were slightly below the record levels.
2. The surveyed enterprises assess highly both the current and expected demand. In 2006 Q3, an increase in the portfolio of orders is expected. The plans of production growth clearly prevail over the intentions to reduce it. In 2006 Q2, the assessments of inventory volume also improved (the problem of excessive inventories decreased). At the same time the degree of capacity utilisation reached its highest level in the survey history.
3. Currently, the assessments of economic condition are the best in the survey history. The share of enterprises declaring significant difficulties hampering their development decreased. However, the companies signal increased onerousness of some barriers. At the end of Q2, in the opinion of the surveyed companies, high prices of raw materials, oil and a growth in energy costs became another important barrier (its significance moved from the fifth to the second place in the list of barriers). This type of difficulties were especially strongly felt by transport companies.
4. After a period of very high increases the surveyed companies expect a certain decrease in exports (in quarter-on-quarter terms), including a drop in the path of new orders. However, in view of the very good performance in the first half-year, this should mean only a slight decrease in the annual growth rate, which will be maintained at a very high level in 2006 Q3 as well. It is worth emphasising that exports profitability slightly improved in Q2. From the point of view of this profitability, the current exchange rate level, which is clearly above the threshold exchange rates ensuring export profitability, is also beneficial.
5. The economic condition forecasts for Q3 are also optimistic, although slightly weaker than in the record-breaking 2006 Q2. This slight deterioration of forecasts was recorded mainly in the SME sector, in the group of non-exporting importers and in transport. One of the more important reasons for this decrease are, in the opinion of companies, high prices of energy commodities.
6. Assessment of investment climate is positive in the sample. Nearly half of the surveyed enterprises regarded this climate as favouring investment, and subsequent 20% as neutral. Factors encouraging new investments include, among others, the improving economic

condition of enterprises and low prices of credit (currently, the interest rate barrier is at its historic low). In addition, investment can be favoured by the high level of capacity utilisation.

7. In spite of the above-described conditions, the declared investment activity of the surveyed enterprises can prove slightly lower than in 2006 Q2. The index of new investments decreased slightly in relation to the previous survey, although it remains at a high level. The forecast of investment activity deteriorated as well. One of the reasons for this situation is the decrease in the share of investors in the public sector, especially in the group of State Treasury companies, which can be connected with unstable workforce situation in some of these companies. The decrease in investments in State Treasury companies is also confirmed in the data for Q1 from the companies covered with the F-01 report. Thus, it should be highlighted that the index of new investments declared by private companies also remains stable. Especially high activity can be expected in the group of the largest private companies. It is also worth to emphasise that the percentage of companies planning new investments is increasing in the group of investment goods producers.
8. In 2006 Q2, the assessments of liquidity decreased slightly as compared to the previous quarter, remaining, however, close to their historic highs. A slight decrease was recorded in the percentage of companies repaying their loan debt on time, though it is still very high.
9. The forecasts of decreased debt prevailed in the sample over the expectations of growth in these liabilities. In the group of large enterprises, however, the forecasts suggest growth in the bank debt, while the scale of this growth can be even stronger than in the previous quarter. Thus, it can be expected that in 2006 Q3 the credit volume will increase in the whole economy (which is confirmed by the growth in the weighted credit activity index of 2.4 points).
10. Interest on both short- and long-term loans in the zloty continued to fall. In contrast, the interest rates on foreign currency loans increased. It should be emphasised that expectations of higher interest on zloty loans prevailed in the sample for the first time in five quarters, while the percentage of companies expecting a decrease in this interest dropped significantly.
11. Inflation expectations of the surveyed enterprises increased, both with regard to the CPI and PPI. Enterprises also forecast higher price rises of offered products as compared to the previous quarter, while the expected growth is also higher than in the corresponding period of the previous year. The scale of this increase will be the highest in the past six quarters. One of important reasons behind price rises are the growing prices of commodities and materials; mainly fuels and non-ferrous metals. The growth in these prices has a significant impact on the economic condition of nearly a half of the surveyed population; mainly by decreasing their profit margins. In Q3, wage increases can be another factor responsible for the growth in the prices of own products, as in the companies planning such increases the index of forecast price changes reached a significantly higher level than in the remaining enterprises.

12. The companies still plan to increase employment, although probably at a slightly slower rate than in Q2. Enterprises also signal a growing difficulty related to the lack of skilled workforce. It is one of the reasons for the scale of the planned rises being larger than in 2005 Q3 – the companies signalling difficulties related to finding employees forecast wage increases twice as often as other enterprises.
13. In the opinion of the surveyed enterprises, problems related to fluctuating or unfavourable exchange rate level diminished in 2006 Q2 (though these difficulties remained at the top of the list of barriers to development). Also, the share of unprofitable exports in the revenue of enterprises shrank down. In spite of some improvement in the area of export profitability, the forecasts of foreign sales deteriorated rather significantly, which can have resulted from the high reference base – macroeconomic data for Q1 point to a high export growth.
14. The results of the NBP's quick monitoring confirm a very good, the best in the survey history, condition of the *Construction* section. The forecasts of demand, orders and production are also very good, since they are among the most optimistic among the sections of the NACE-equivalent Polish Classification of Activities (PKD). However, some disturbing signals from this section should also be emphasised. Out of the factors hampering its development payment bottlenecks deserve greatest attention (one of the most serious factors as compared to other sections). In spite of significant improvement, certain limitations still persist in the access to finance in the construction industry (in Q2 17% of loan applications were reported to end in a refusal, 7% of which were caused by reasons other than the lack of creditworthiness), with the highest average interest as compared to other industries. In Q2 this industry also declared slight deterioration in the ability to repay bank loan debt as compared to Q1. Additionally, this industry faces the most serious problem, as compared to others, i.e. the deficit of labour – 18% of enterprises report problems finding skilled workforce.

Demand. Orders. Output

DEMAND

level of demand	<ul style="list-style-type: none"> Assessments of demand barrier at one of their lowest levels in the survey history. Insufficient demand moved from the third to the fourth place in the ranking of enterprise development barriers. Level of demand barriers in construction reached its record low. Demand barrier in the <i>Transport</i> section increased and is at its highest level in the past three years.
demand forecasts	<ul style="list-style-type: none"> Seasonally adjusted demand index approaches to the value from the previous month (it decreased slightly). The percentage of enterprises expecting a permanent demand growth has increased.

LEVEL OF DEMAND

Assessments of the demand level in 2006 Q2 were very good. The demand barrier index decreased (as compared to the previous quarter) by 0.8% and reached its lowest value in the survey history. In Q2, 8.9% of enterprises in the sample reported problems finding customers for their products. A decreasing trend of this index has been continuing for a year (cf. Fig. 1).

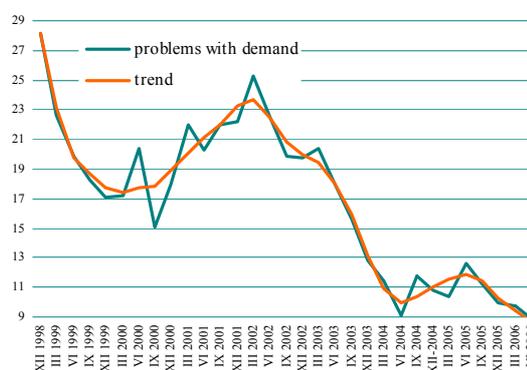


Fig. 1 Low demand as a barrier to growth (vertical axis shows the number of companies reporting problems finding customers for their products)

Problems with finding customers for the products offered by enterprises dropped from the third to the fourth place among the barriers hampering the development of the sector of non-financial enterprises.

The demand barrier clearly decreased in construction, where the level of index has been at its lowest level since the beginning of survey (6.1%). Currently, the percentage of companies reporting problems with demand is lower among construction companies than among other enterprises.

FORECASTS OF DEMAND

In 2006 Q3, can be expected a continuation of positive tendencies observed in the area of demand. This is evidenced by the index level: 18.0 points (taking into account seasonal fluctuations), which in spite of a slight decrease of 0.6 points in relation to the previous quarter is still very high. In addition, **there was an increase in the permanent component of the demand index, which is currently at 9.8 points, i.e. its highest level since 1999** (cf. Fig. 2).

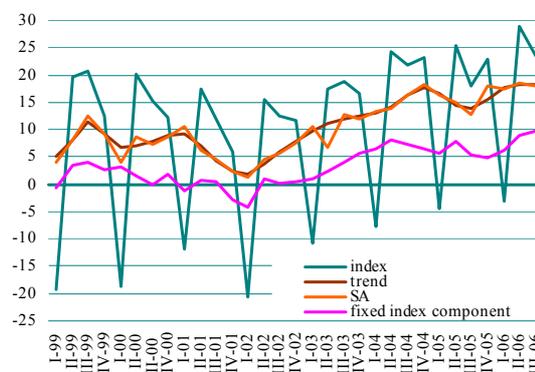


Fig. 2 Total forecast demand index (balance differences), fixed index component (balance of responses) and the trend of the total forecast demand index

CHANGES IN DEMAND – ANALYSIS ACROSS MAIN CATEGORIES

The opinions of enterprises on the demand barrier and forecasts of demand¹ suggest that:

- assessment of demand improved in the group of large and medium-sized enterprises, among the small companies the percentage of companies reporting problems with demand has practically not changed. The demand forecast index suggests further improvement in large companies and a slight decrease in the optimism of enterprises employing up to 50 people,
- the demand barrier weakened, first of all, among the companies manufacturing investment goods. In the group of other enterprises the decrease in the barrier was insignificant. Enterprises' expectations point to a further significant increase in demand, although among investment goods manufacturers there was a slight climate deterioration as compared to the previous quarter (cf. Fig. 13, Fig. 14),
- a further decrease in the demand barrier was reported in private enterprises – here enterprises reporting problems with demand account for 7.8% **and the percentage is currently nearly two times lower** than in state-owned enterprises (Fig. 12),
- forecasts for the private sector for Q3 deteriorated as compared to Q2, however, the index for this group of enterprises remains high (Fig. 11),
- slight decrease in optimism has been reported both in industry and *Construction* as well as in *Trade and repair*. However, all the indices remain high. The companies from the *Construction* section are especially optimistic with 58% of them expecting demand growth and none of the companies projecting a decrease in the demand for their products (cf. Fig. 7, Fig. 8, Fig. 9),
- the share of enterprises reporting problems with demand among transport companies increased by over 6 points,
- forecast demand index fell more deeply in the class of non-exporters than in the group of exporters, but it should be remembered that in the previous period both the indices had reached their record highs and the adjustment of expectations recorded in the last quarter did not cause any changes in the positive demand climate assessment in any of the above mentioned groups (Fig. 5),
- there was a deterioration in the **expectations of specialised exporters** with more than a 50% share of exports in revenues. In the group of other exporters the level of index improved slightly (Fig. 6).

¹ As revealed by the analysis of changes of the indices subject to the seasonal adjustment procedure X-11.

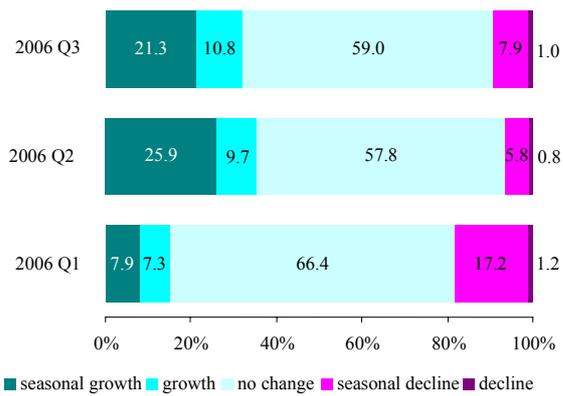


Fig. 3 Demand forecasts – structure of survey responses

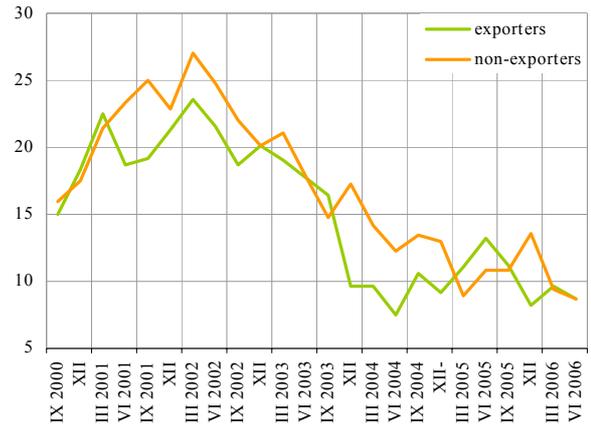


Fig. 4 Number of companies reporting problems finding customers for their products in the classes of exporters and non-exporters

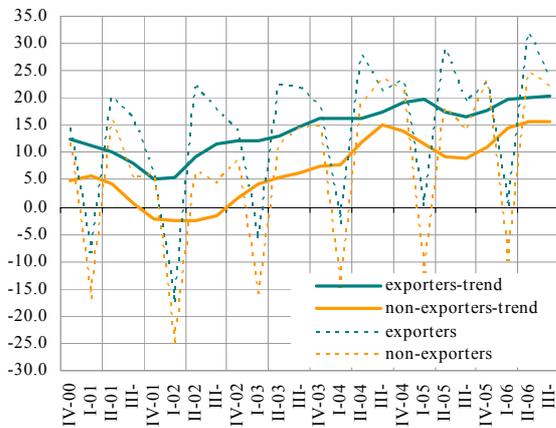


Fig. 5 Forecast demand indices (balance differences) for exporters and non-exporters

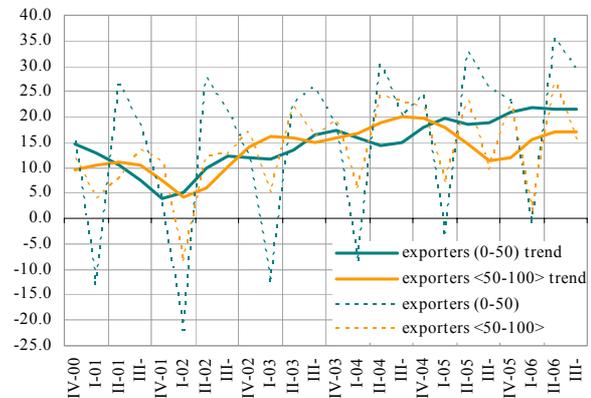


Fig. 6 Forecast demand indices (balance differences) for exporters with low (up to 50%) and high (from 50 to 100%) share of exports in total revenue

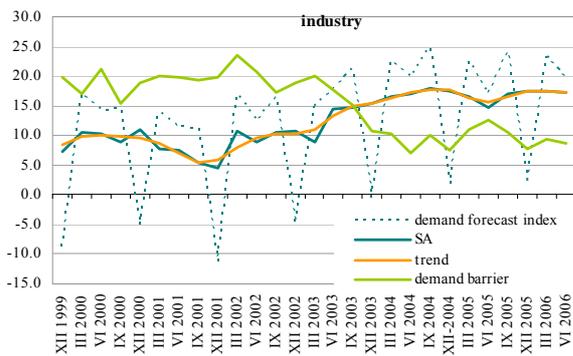


Fig. 7 Forecast demand indices (balance differences) and the number of companies reporting problems finding customers for their products in industry

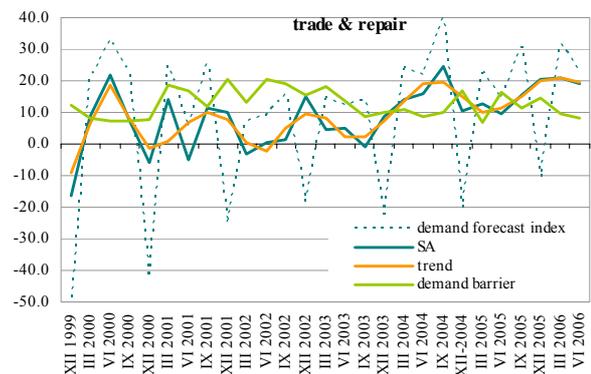


Fig. 8 Forecast demand indices (balance differences) and number of companies reporting problems finding customers for their products in trade

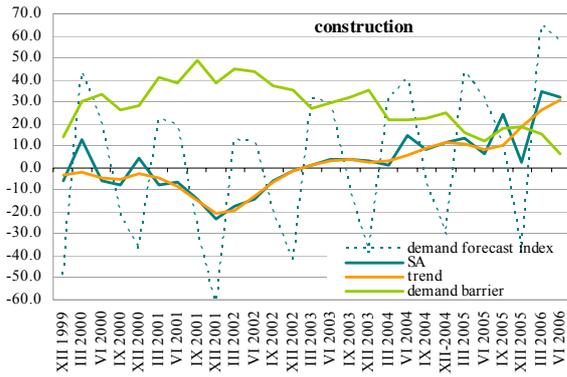


Fig. 9 Forecast demand indices (balance differences) and number of companies reporting problems finding customers for their products in construction

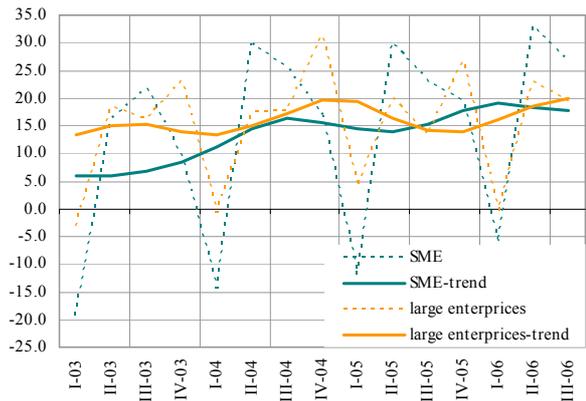


Fig. 10 Forecast demand indices (balance differences) in SMEs and large enterprises



Fig. 11 Forecast demand indices (balance differences) in the public and private sectors

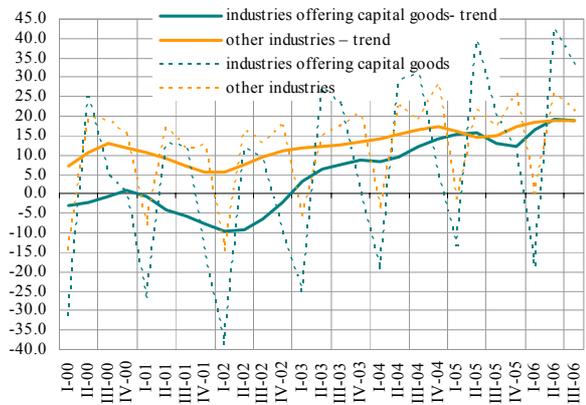


Fig. 13 Forecast demand indices (balance differences) in industries offering capital goods and in other industries

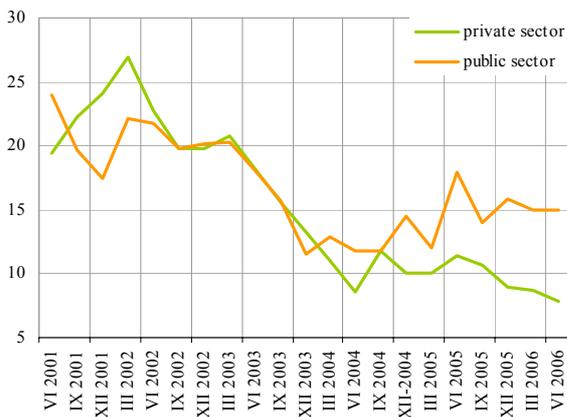


Fig. 12 Number of companies reporting problems finding customers for their products in the public and private sector

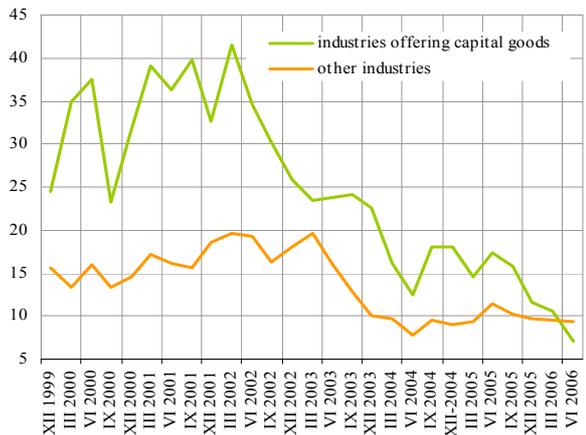


Fig. 14 Number of companies reporting problems finding customers for their products in industries offering capital goods and in other industries

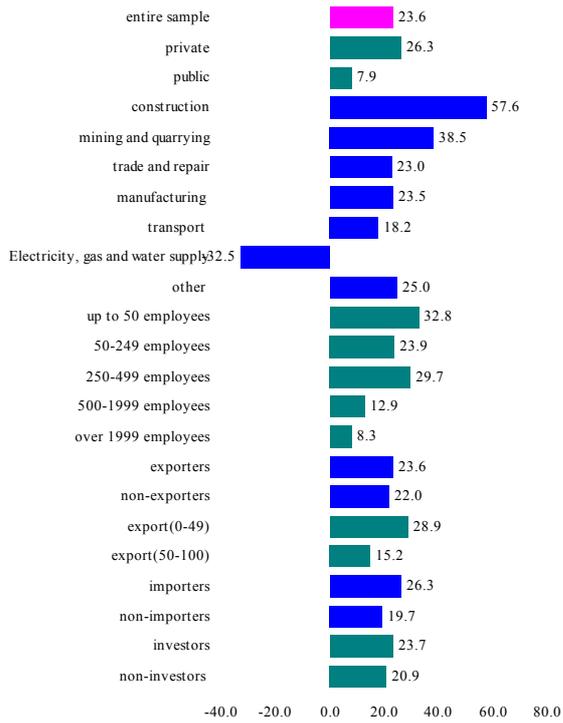


Fig. 15 Forecast demand indices (balance differences) in main classification categories – expectations for 2006 Q2

NEW ORDERS

forecasts of new orders	<ul style="list-style-type: none"> • Entrepreneurs expect a rise in the number of orders.
changes in main classification categories (areas of improvement)	<ul style="list-style-type: none"> • construction • investment goods producers
changes in main classification categories (areas of deterioration)	<ul style="list-style-type: none"> • trade and repair • private sector • exporters (especially specialised ones)

FORECASTS OF NEW ORDERS

For four quarters the index of new orders has been fluctuating around a high level of approx. 23 points. The percentage of enterprises expecting growth in the number of new orders was 35.3%, which is 2.4 percentage points higher than in the previous year, though slightly lower than in the previous survey, in which the index (also including the seasonally adjusted index) reached its record high (cf. Fig. 16).

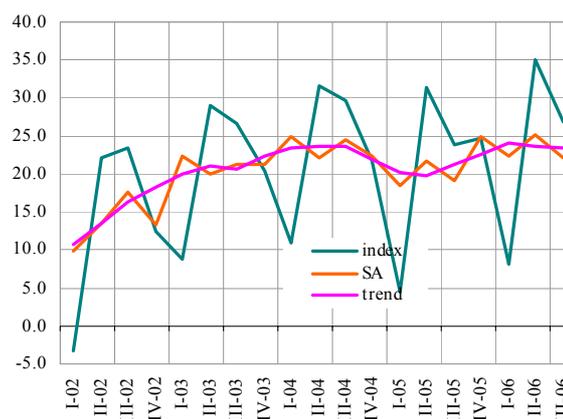


Fig. 16 Forecast new orders index (balance of responses) and trend of the index

CHANGES IN ORDERS – ANALYSIS ACCROSS MAIN CATEGORIES

Forecasts of new orders² differ depending on the type of business activity of enterprises. Among others, the observation of the surveyed classes revealed that:

- the highest growth in the number of new orders is expected by construction companies. The optimism of companies from the *Trade and repair* section and of industrial enterprises dropped (cf. Fig. 21, Fig. 22),
- the index of new orders increased slightly for manufacturers of investment goods (cf. Fig. 23),
- after significant decreases recorded in 2006 Q1 and Q2, the index of new orders for public-sector enterprises stabilised at the level close to the average value of this index. The index for the private sector decreased slightly, though it is still much higher than the index calculated for the public sector (cf. Fig. 24),
- the expectations with regard to the growth in the number of orders deteriorated in all the classes of employment size, the highest drop was recorded in small companies. For two periods the highest index has been observed in large companies (Fig. 25).
- In the breakdown into the classes of exporters and non-exporters, a higher drop was recorded in the group of exporters, especially the specialised ones (with more than a 50% share of exports in total revenue). The index for exporters has dropped from its historic high and exporters still display more optimism with regard to the growth in the number of new orders than other enterprises (cf. Fig. 19, Fig. 20).

² As revealed by the analysis of changes of the indices subject to the seasonal adjustment procedure X-11.

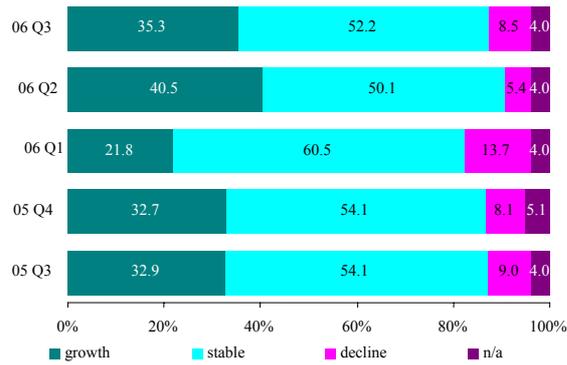


Fig. 17 Forecast number of new orders – structure of survey responses

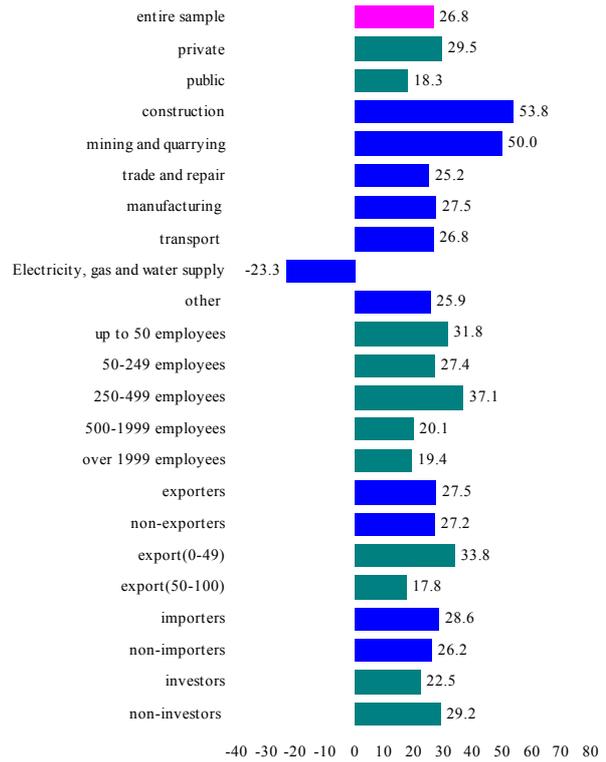


Fig. 18 Index of the forecast number of new orders (balance of responses) in main classification categories —expectations for 2006 Q2

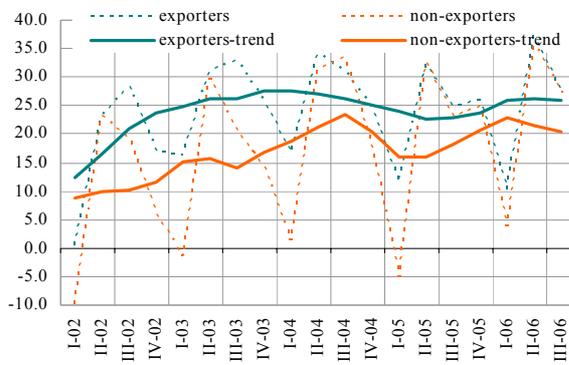


Fig. 19 Indices of the forecast number of new orders (balance of responses) in the classes of exporters and non-exporters

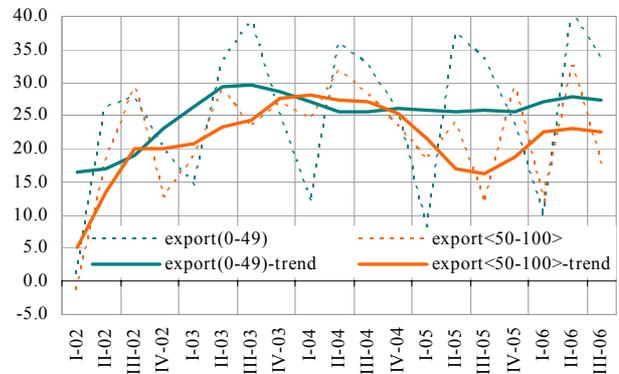


Fig. 20 Indices of the forecast number of new orders (balance of responses) in the classes of specialised exporters (above 50% share of exports in the revenue) and non-specialised exporters (up to 50% share of exports in the revenue)

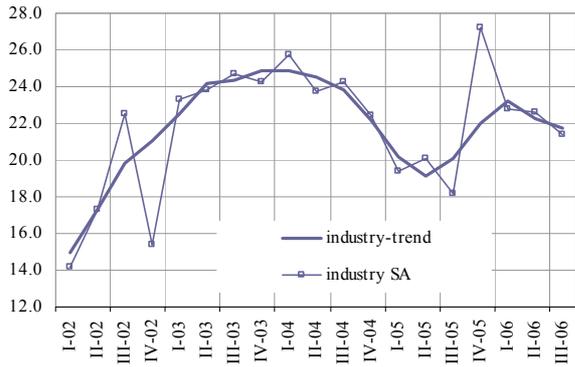


Fig. 21 Indices of the forecast number of new orders (balance of responses) in industry

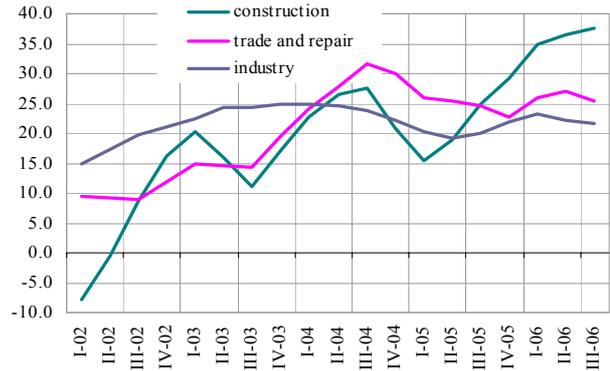


Fig. 22 Indices of the forecast number of new orders (balance of responses) in trade and construction

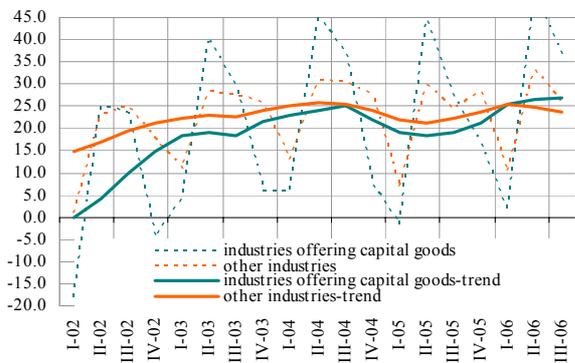


Fig. 23 Indices of the forecast number of new orders (balance of responses) in industries offering capital goods and other industries

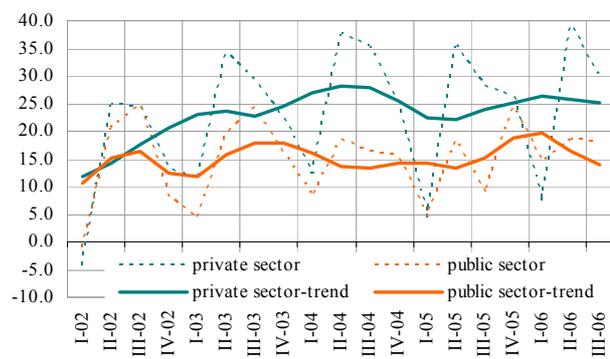


Fig. 24 Indices of the forecast number of new orders (balance of responses) in ownership groups

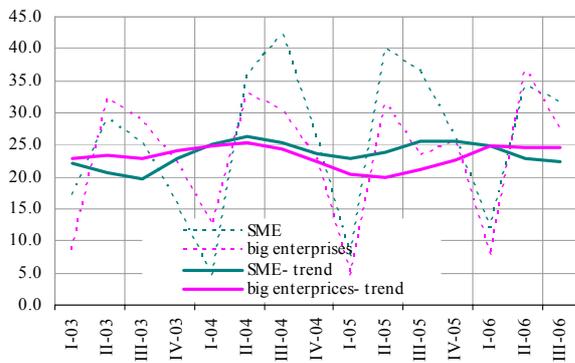


Fig. 25 Indices of the forecast number of new orders (balance of responses) in SMEs and large enterprises

OUTPUT

forecasts of output

- Entrepreneurs expect growth in output.
- A growing trend of the forecast output index is observed in large companies.
- The seasonally adjusted index hit its historical high

changes in main classification categories (areas of growth)

- trade
- non-specialised exporters
- large companies

FORECASTS OF OUTPUT

In Q3 the output of the surveyed enterprises can be still expected to grow quickly. The seasonally adjusted index of output forecasts remained at a high level of the previous quarter. The trend of the index has grown for the fourth subsequent quarter (Fig. 26). The decrease in the percentage of enterprises declaring increase in output in Q3 is seasonal in nature.



Fig. 26 Forecast output index (balance of responses) and trend of the index

CHANGES IN OUTPUT – ANALYSIS ACROSS MAIN CATEGORIES

The analysis of changes in the index of output forecasts³ across basic classification breakdowns reveals, among others, that:

- after reaching the highest historical level in 2006 Q2, the optimism of output forecasts dropped in the group of specialised exporters. In spite of the decrease, the index value for this group is still high. In turn, the expectations of non-specialised exporters improved (cf. Fig. 30). The index calculated on the basis of these enterprises' responses hit the highest level in the survey history. Despite the increase, the index for non-exporters is still below the index for exporters (Fig. 29).
- a growing trend of the expectations of *Trade and repair* enterprises has been sustained for a year. The index for this group reached its highest value since 2004 Q1 and is currently higher than in industry or *Construction* (Fig. 31, Fig. 32).
- forecast output indices for industry and the section *Construction* are still high, although the index calculated for construction companies recorded a slight decrease as compared to the previous quarter (cf. Fig. 31, Fig. 32).

³ As revealed by the analysis of changes of the indices subject to the seasonal adjustment procedure X-11.

- high production growth rate is expected by large companies. A growing trend of the index for this group of enterprises has been sustained for four quarters. At the same time the index for SMEs stabilised at the average level of the past two years (cf. Fig. 34).
- some improvement in the optimism of output forecasts has been recorded in the private sector, where the index reached its record high. Expectations in the group of public companies have stabilised (cf. Fig. 35).

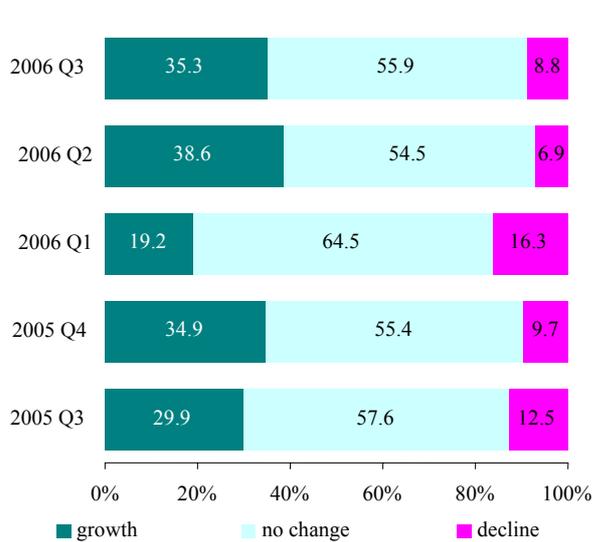


Fig. 27 Output forecasts — structure of survey responses

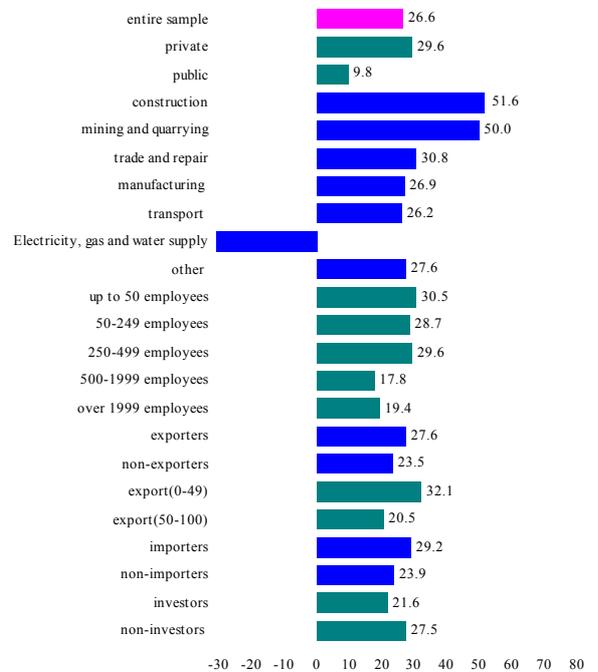


Fig. 28 Forecast output indices (balance of responses) in main classification categories — plans for 2006 Q2

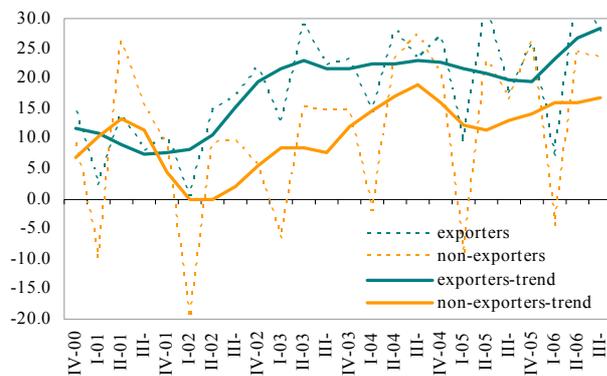


Fig. 29 Forecast output indices (balance of responses) in classes of exporters and non-exporters

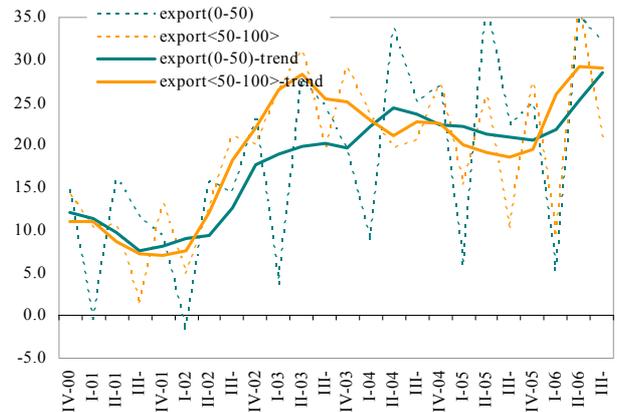


Fig. 30 Forecast output indices (balance of responses) in classes of exporters with low (up to 50%) and high (from 50 to 100%) share of exports in total revenue

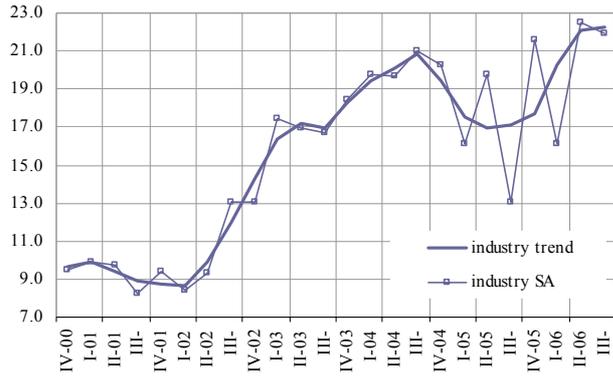


Fig. 31 Forecast output indices (balance of responses) in industry



Fig. 32 Forecast output indices (balance of responses) in trade and construction

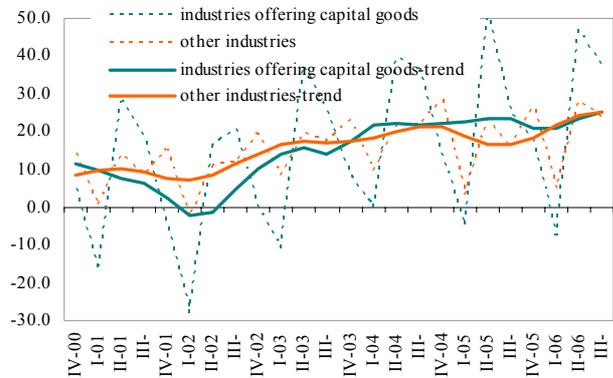


Fig. 33 Forecast output indices (balance of responses) in industries offering capital goods and other industries

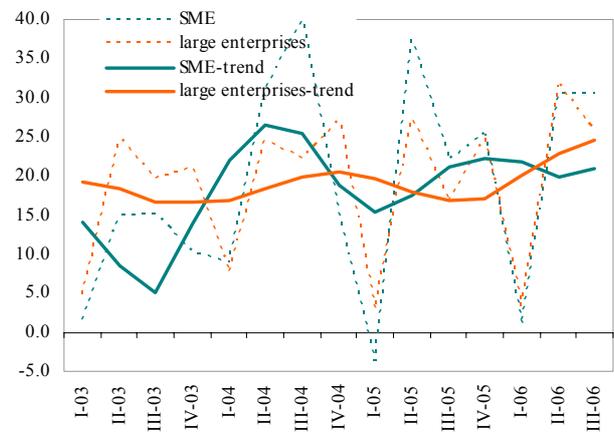


Fig. 34 Forecast output indices (balance of responses) in SMEs and large enterprises

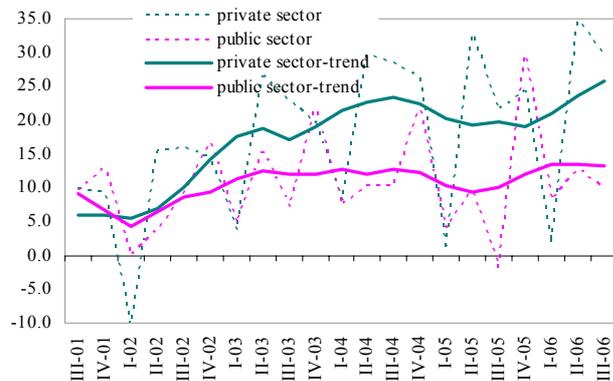


Fig. 35 Forecast output indices (balance of responses) by ownership sector

I.1. Economic condition

current developments	<ul style="list-style-type: none"> Raw index of the current assessment of economic condition (CAEC) reached the highest point in history.
areas of improvement	<ul style="list-style-type: none"> most of the analyses categories
areas of deterioration	<ul style="list-style-type: none"> mining, section <i>Other</i>⁴ comprising service companies micro-enterprises non-importing exporters companies not financed with loans
forecast condition	<ul style="list-style-type: none"> predominance of forecasts of condition improvement Index of economic condition forecasts (IECF) after a seasonal adjustment slightly decreased as compared to the previous quarter, however, it reached a higher value than in the corresponding period of the previous year.
areas of deterioration in the optimism of forecasts	<ul style="list-style-type: none"> non-exporting importers small enterprises (with up to 50 employees) mining, trade

CURRENT ASSESSMENTS OF ECONOMIC CONDITION

The surveyed **enterprises, according to their own assessment, are currently in the best situation since the beginning of the survey** – the index of the current assessment of economic condition of enterprises (CAEC) hit its historic high – cf. Fig. 36. Also slightly more respondents (than in the previous quarter) report a lack of larger problems hampering their further development (a rise of 0.6 points).

Improvement in the condition has been observed in the majority of analysed categories. The exceptions include mining, non-importing exporters and micro-enterprises (with up to 9 employees), where CAEC decrease has been recorded for the third consecutive quarter.

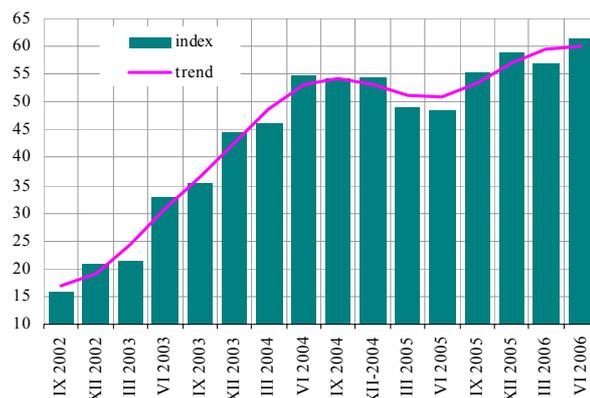


Fig. 36 Economic condition evaluation index (balance differences: the percentage of companies in good and very good condition minus the percentage of companies in poor, bad and very bad condition) and the trend of this index

⁴ The *Other* section comprises service enterprises from the following industries: *Other business activities, Real estate activities and Sewage and refuse disposal, sanitation and similar activities, Hotels and restaurants, Health and social work and Computer and related activities.*

These very optimistic assessments of economic condition found reflection in high values (often historically high) of partial indices of economic activity of enterprises, including especially the assessments and expectations related to demand and also employment forecasts⁵.

CHANGES IN SITUATION – ANALYSIS ACROSS MAIN CATEGORIES

The analysis of changes in the CAEC across basic classification breakdowns reveals, among others, that:

- in six out of eight sections of the NACE equivalent Polish Classification of Activities, a clear improvement in the economic condition was recorded as compared to the previous quarter and a corresponding period of the previous year. The strongest improvement of the CAEC was recorded in *Construction*, which is currently at the stage of fast development (Fig. 42).
- slight improvement in the situation was also recorded in *Transport* (Fig. 43), which is not fully consistent with the released information suggesting growing difficulties in this section. A certain explanation for the improvement of the CAEC in this industry is the analysis of the level of capacity utilisation and demand forecasts for Q2, which are signs that the high demand for the services of this industry has been sustained.
- decrease in the CAEC in mining has been recorded for the third consecutive quarter. This group of companies, however, still assesses their situation as good (the second best score out of the eight sections of the Polish Classification of Activities). The deterioration of situation (from the historically highest level) was also recorded in smaller service companies, classified in the *Other* category.
- importers selling their products in the domestic market also reported a clear improvement of economic condition, although a fairly large increase in the CAEC was also observed in the group of companies oriented exclusively at the domestic market (lack of exports or imports). The CAEC has decreased in the group of non-importing exporters for the third quarter in a row (Fig. 40),
- for the past three quarters the assessments of situation reported by the group of companies with a small share of exports in revenue have been better than those formulated by the group of companies specialising in exports (Fig. 41).
- both large enterprises, especially the largest entities, and the SME sector informed on the improvement in economic condition (Fig. 44). A slight decrease in the CAEC was recorded by micro-enterprises.
- improvement in economic condition was observed in both ownership sectors, apart from local government companies, where the CAEC remained at the level of the previous quarter (Fig. 45).

GROWTH BARRIERS

At the end of 2006 Q2, **the percentage of respondents declaring a lack of major problems hampering the development of the company** slightly increased (from 25.3% to 25.9%).

For the eighth consecutive quarter **the most frequently named growth barrier was the foreign exchange rate**. The problem was both its fluctuations and its level. The depreciation of the zloty observed in Q2 contributed to a slight alleviation of these difficulties – the percentage of respondents declaring the existence of the exchange rate barrier decreased by 2.3 percentage points as compared to the previous quarter. The problem of high prices of commodities and materials, including oil, gas and energy ranked second on the list. On the

⁵ Very good assessments of situation are consistent with the macroeconomic data: high growth rate of revenue from sales, production and exports as well as growing financial accumulation, improving liquidity indices and net earnings. In line with the data of the GUS F-01 report

following positions respondents put: strong competition (3rd place), low demand (4th place), changeability of regulations and taxes, unclear and complicated law (5th place), payment bottlenecks (6th place) and, **ranking so high for the first time, difficulties in finding skilled workforce** (7th place). The areas of intensified problems were presented in Table 1. The data included therein suggest that:

- the most burdensome barrier, i.e. the exchange rate, similarly as in the previous quarter is a problem reported mainly by exporters and borrowers,
- high prices of raw materials affect, first of all, transport enterprises (these difficulties intensified as compared to the previous quarter – the percentage of transport companies naming this barrier grew by 6 percentage points), and then *Manufacturing* (the percentage of companies declaring this barrier increased by 5 percentage points), exporters (similarly, the percentage of companies declaring the barrier of high prices grew by 5 percentage points) and large entities (also a 5-percentage-point increase in the share of such companies),
- the problem of competition is the most acute for *Construction* and *Transport* enterprises,
- a clear decrease in the demand barrier was recorded in *Construction*, while its intensification was observed in *Transport*.
- problems with collecting receivables were more often reported by construction enterprises, companies from the section *Electricity, gas and water supply*, small companies and the public sector, and also by non-importing exporters as well as non-exporting importers, i.e. those companies which are most exposed to the foreign exchange risk⁶.
- difficulties in finding skilled staff are most frequently reported by *Construction* companies.

FORECASTS OF ECONOMIC CONDITION

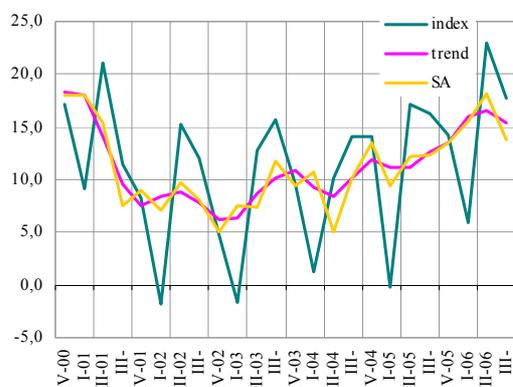


Fig. 37 Index of forecast economic condition of enterprises (balance difference) and the trend of this index

In 2006 Q3, a decrease was recorded in the index of economic condition forecasts (IECF) – both the seasonally adjusted and raw index. Despite that, the index remained at a very high level (higher than in the corresponding quarter of the previous year). **In 2006 Q3, it can be expected that a good economic condition of the sector of non-financial enterprises will be sustained** – cf. Fig. 37).

The largest problem for the enterprises which feared deterioration of their economic condition in 2006 Q2 were the persistently high

on the performance and outlays, the revenue from sales increased in 2005 Q1 by 12.4%, revenue from exports by 23.6%, net earnings by 9.4% and cash by 13%.

⁶ In the previous edition of the NBP's quick monitoring, enterprises were requested to provide information on adequate hedging against the exchange rate risk. The obtained responses reveal that these exporters and importers who do not hedge against this risk report problems with liquidity more frequently than enterprises which use such hedging. The company with a close fx position (which is exports covering imports) can be regarded as naturally protected against the exchange rate risk. An open fx position (imports without exports or exports without imports) indicates the lack of such protection.

prices of raw materials, fuels and energy (28% of companies expecting condition deterioration reported such concerns) as well as the fluctuating

and unfavourable, from the point of view of the surveyed enterprises, foreign exchange rate (25% of indications).

FORECASTS OF DEVELOPMENTS – ANALYSIS ACROSS MAIN CATEGORIES

The analysis of changes in the IECF across several basic classifications reveals, among others, that:

- a clear decrease in the optimism of forecasts in the group of non-exporting importers was recorded. The seasonally adjusted IECF decreased in this group by 17 percentage points as compared to the previous quarter and by 18 percentage points as compared to the corresponding period of the previous year. The decrease in optimism with regard to the future development of the condition was recorded in spite of the improvement in the assessment of current condition in this group (in Q2 the CAEC increased in this group to the highest level in the survey history). This phenomenon can be caused by the fluctuations of the zloty exchange rate observed over the past few months. In the remaining exports-imports classes the CAEC improved as compared to the corresponding period of the previous year, including a very clear improvement recorded in enterprises oriented at the domestic market (14 percentage points as compared to the corresponding period of the previous year) and a slight improvement in the group of non-importing exporters (1 percentage point) and exporters-importers (2.5 percentage points) – cf. Fig. 47,
- a decrease in the optimism of forecasts as compared to the previous quarter was recorded in six out of eight categories of the (NACE equivalent) Polish Classification of Activities, apart from *Mining and quarrying* and *Post and Telecommunication*. In the case of mining, the improvement is seasonal in nature, however, it can be noticed that the increase in optimism in this industry is weaker than in the two previous years. The strongest decrease in the IECF was recorded in the area of *Transport* (Fig. 49). However, as the forecasts in Q2 indicated a significant improvement in the condition in this category, this decrease can be interpreted as an adjustment of very good forecasts from 3 months before. The decrease of the IECF in *Transport* could also be influenced by the persistently high prices of fuels. A rather clear drop in the optimism of forecasts also was visible in *Trade and repair*. Both in *Transport* and in *Trade and repair* the economic condition forecast was maintained at a positive level.
- strong decrease in the optimism of forecasts was recorded in the SME sector (it was the strongest decrease since 2003). In large enterprises a slight downward adjustment of the IECF was observed, while the trend of the phenomenon is growing.

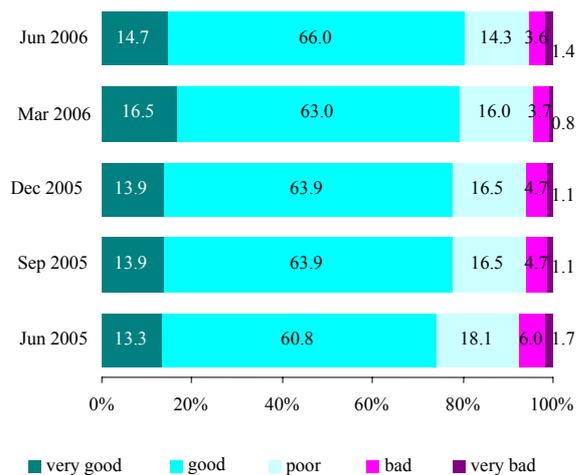


Fig. 38 Current evaluation of economic condition — structure of survey responses

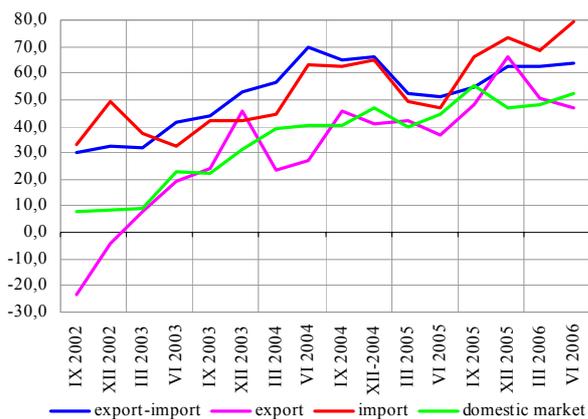


Fig. 40 Economic condition indices for importers, exporters, non-importers and non-exporters. Explanation of abbreviations: export - exporters-non-importers; import - importers not involved in exports; export import - exporters-importers; domestic market - non-exporters with a zero share of imports in costs

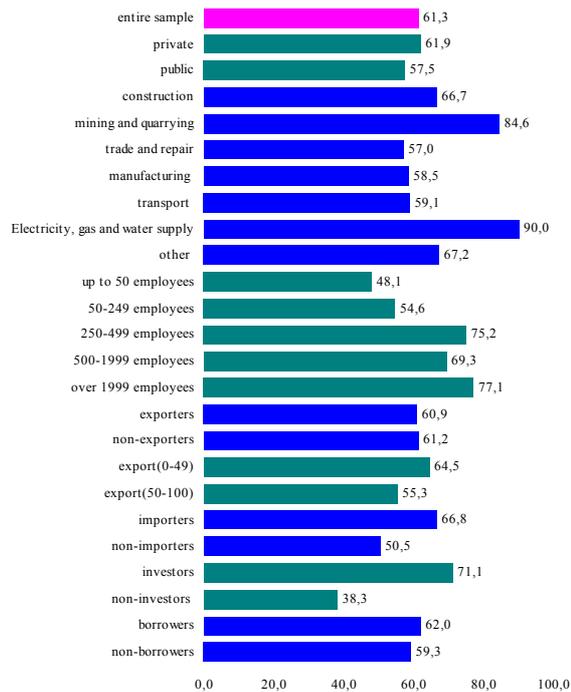


Fig. 39 Economic condition indices (balance of responses) for the classification by PKD (NACE) sections and other classes — June 2006 data

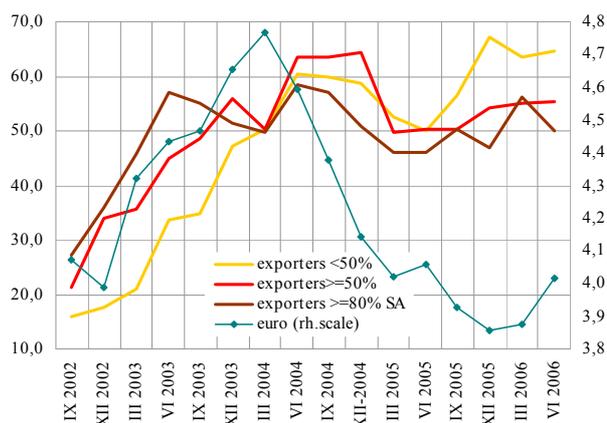


Fig. 41 Economic condition indices for exporters and against the background of euro exchange rate fluctuations against PLN. Explanation of abbreviations: Export<50% - exporters with less than 50% share of exports in revenue; export>=50% - exporters with at least 50% share of exports in revenue; export>=80% - exporters with at least 80% share of exports in total revenue (seasonally adjusted index); euro exchange rate - average monthly EUR/PLN exchange rate

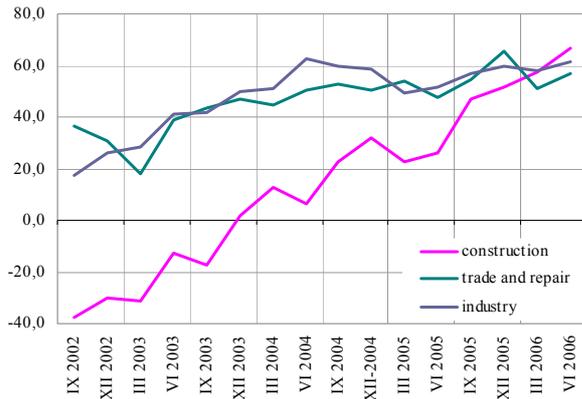


Fig. 42 Current condition evaluation index for industry, construction and trade and repair



Fig. 43 Current condition evaluation index for transport

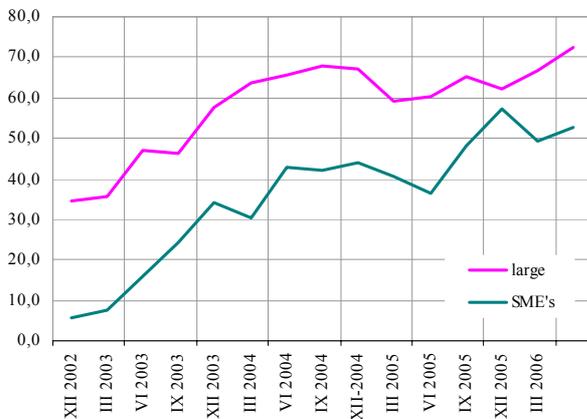


Fig. 44 Economic condition evaluation indices (balance differences) in SMEs and large enterprises

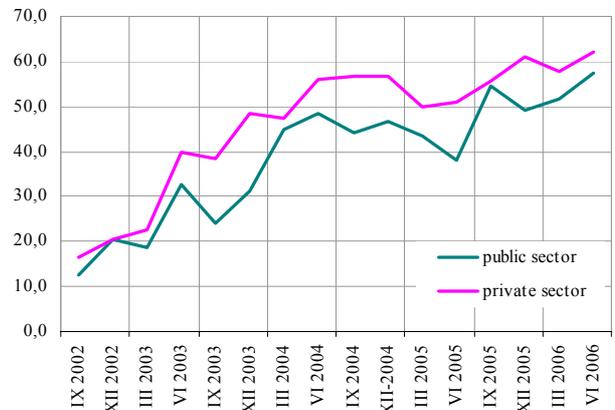


Fig. 45 Economic condition evaluation indices (balance differences) in ownership groups

Table 1 Areas where the most serious problems were observed

class	exchange rate	price increase (raw materials, fuels and energy)	competition	demand	regulations	payment bottlenecks	workforce deficits
ownership sector	public sector (18%)	—	—	public sector (15%)	—	public sector (9%)	private sector (6%)
PKD (NACE) section	manufacturing (22%)	transport (16%)	construction (15%)	transport (16%)	electricity, gas and water supply (17.5%)	electricity, gas and water supply (12.5%)	construction (18%)
	trade (15%)	manufacturing (13%)	transport (14%)	electricity, gas and water supply (6%)	construction (15%)	construction (12%)	mining (8%)
exports/imports	exporters (24%)	exporters (13%)	—	—	—	non-importing exporters (8.5%) non-exporting- importers (7%)	—
other classes	borrowers (19%) large enterprises (18%)	large enterprises (11%)	—	—	large enterprises (9%)	borrowers (7%) small enterprises (10%)	large enterprises (6%)

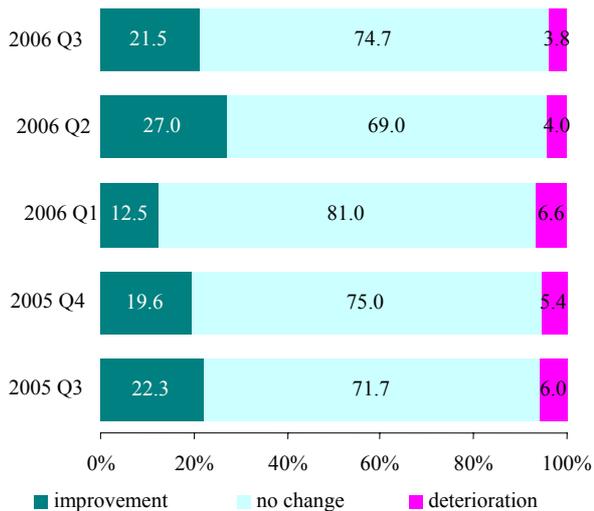


Fig. 46 Economic condition forecast – structure of responses

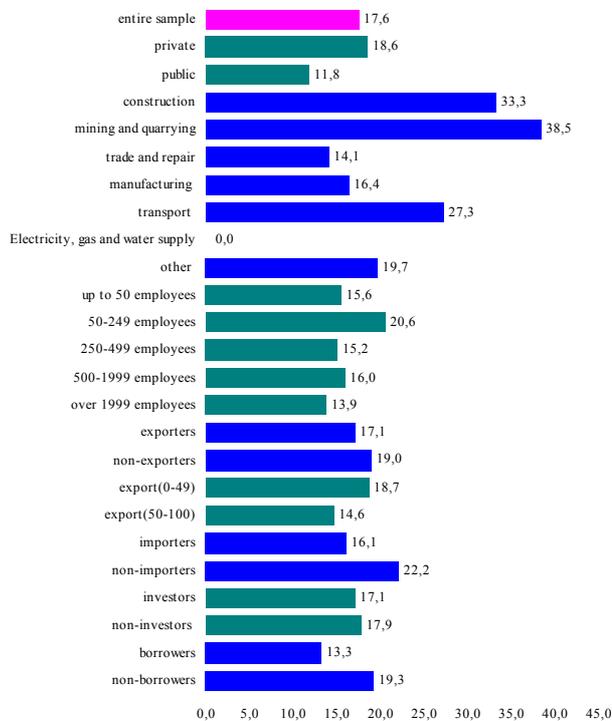


Fig. 48 Economic condition forecast (balance of responses) for the classification by PKD (NACE) sections and other classes — June 2006 data



Fig. 50 Index of forecast economic condition (balance differences) in SMEs and large enterprises

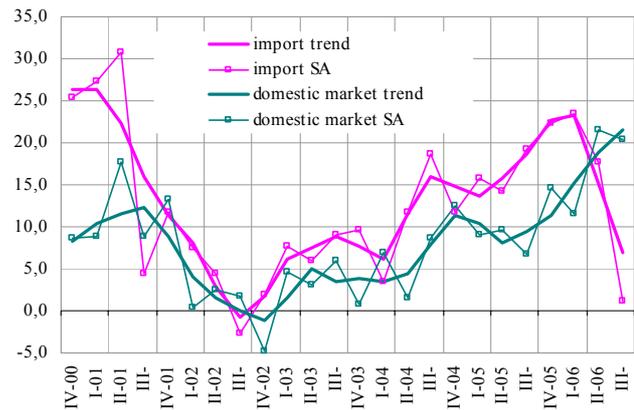


Fig. 47 Index of forecast economic situation (balance differences) in the classes of importers and firms operating on domestic market (no exports or imports)

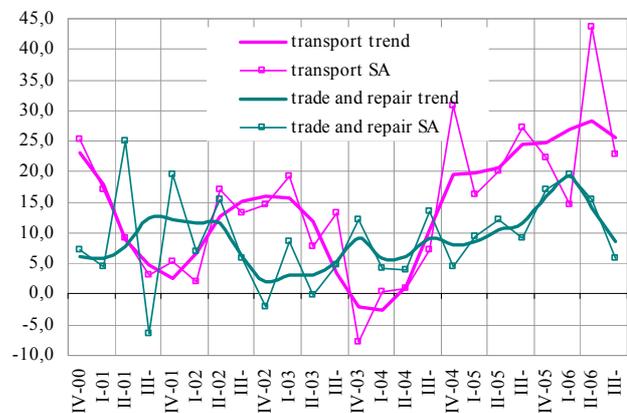


Fig. 49 Index of forecast economic condition (balance of responses) in transport and trade and repair

I.2. Employment

employment forecast

- In 2006 Q3, the surveyed enterprises still plan to increase employment. The index of seasonally adjusted forecasts suggests a slightly slower pace of growth than in the previous quarter, however, the scale of improvement will be still at one of its highest levels in the survey history.
- Since the beginning of 2006, the problem of workforce deficits has intensified. As compared to 2006 Q1, the percentage of companies indicating this barrier increased threefold and these difficulties moved to the 7th place on the list of 13 most serious problems related to the enterprises' operations.

areas of employment growth and decline

- Growth in employment is forecast by the majority of groups in the analysed classes, excluding *Mining and quarrying*, *Electricity, gas and water supply* and *Transport* as well as the State Treasury companies.
- The best forecasts are reported by *Construction* and companies with majority foreign capital.
- Employment index increased annually in nearly all the analysed classes, excluding the group of non-investors and the smallest companies.
- The most optimistic forecasts are formulated by enterprises in the best economic condition projecting growth in demand, output, exports and investment.
- In the classes of enterprises projecting stabilisation in their economic condition, demand, orders and investment, a slight predominance of employment increase forecasts over decrease forecasts was recorded.
- Since the beginning of 2006, enterprises have increasingly more often reported difficulties in recruiting or keeping appropriate employees in the company.

non-typical forms of employment

- 12% of enterprises intend to expand non-typical forms of employment, such as fixed-term contracts, part-time work, contracts for specific work, temporary work, etc.
- The companies with majority foreign capital will be most often flexible with employment

EMPLOYMENT FORECASTS

In 2006 Q3, the surveyed enterprises still plan to increase employment. The seasonally adjusted forecast index suggests a slightly slower pace of growth than in the previous quarter, however, the scale of improvement will be still at one of the highest levels in the survey history. After adjusting for the impact of seasonal factors, the predominance of the forecasts of employment growth over the forecasts of reduction in employment has been already recorded for the fourth consecutive quarter (a similar regularity applies to the trend of the phenomenon). Raw data inform on the growing predominance (up to 6.5 percentage points) of expectations of the growth in employment over its drop. The improvement in the employment forecasts index still mostly results from the tendency to limit the reduction of employment (the percentage of companies intending to reduce employment dropped by nearly 4 percentage points

over the year) than from the intensification of the process of recruiting new employees (growth in the percentage by 1 percentage point – Fig. 54). The analysis of unit data also confirms that in the following quarter more enterprises intend to increase than to reduce employment (cf. Table 2).

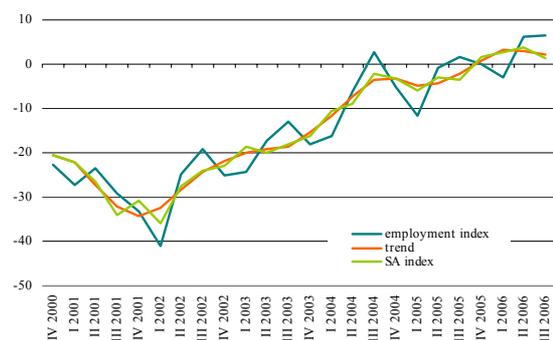


Fig. 51 Employment forecast index⁷ (balance of responses: "growth" and "decline")

⁷ Changes in employment in the surveyed enterprises are well correlated with forecasts (see Fig. 55). The ratio of correlation to variables representing the forecast and actually implemented changes in employment equals 0.79.

Since the beginning of 2006, the problem of deficit in skilled workforce has clearly intensified in the sample. **Enterprises increasingly often inform on the difficulties both recruiting appropriate persons and keeping the employed specialists**⁸. The percentage of companies informing on staff difficulties may still be rather low (5.3%), but in comparison to 2006 Q1 it increased threefold and these problems moved from the 13th to the 7th position on the list of most important barriers to enterprise activity⁹. The importance of the problem is confirmed by the fact that the percentage of enterprises pointing to this barrier is nearly two and a half times larger among the companies planning to increase employment than in the group of other companies.

EMPLOYMENT FORECASTS – ANALYSIS ACROSS MAIN CATEGORIES

As compared to the situation a year before in all the classes presented in Fig. 56 the **employment forecast index improved** (excluding a slight decrease in the index for non-investors and the smallest companies). The largest year-on-year improvement in the optimism of employment forecasts was identified in the group of local government enterprises.

A positive value of employment forecast index was recorded in the majority of main classifications, **the highest in Construction and in companies with majority foreign capital**. Reduction in employment can be expected in the following enterprises:

- enterprises from sections *Mining and quarrying, Electricity, gas and water supply* (in spite of a clear increase in the year-on-year index for these classes) and *Transport* enterprises,
- State Treasury companies,
- non-investors,
- large but not the largest enterprises (with 500 to 2000 employees).

Decrease in employment is forecast more often than growth by the enterprises:

- in a bad or very bad condition,
- expecting a fall in demand, output, orders,
- expecting a decrease in exports,
- displaying a low level of capacity utilisation,
- experiencing frequent problems with liquidity.

Since the end of 2004, *Transport* enterprises have forecast employment reduction. The employment index for this industry is improving, although it is still negative. Also in *Mining* and *Electricity, gas and water supply* the employment reduction forecasts are still stronger than the plans of growth. For the past five quarters, growth in the number of employees has been forecast in *Manufacturing* and *Trade and repair. Construction* and service enterprises from the *Other* section, although their expectations with regard to employment are seasonal in nature, show a clear growing tendency in employment. In the breakdown into ownership forms two clear

⁸ One of the enterprises informs, for example: “The enterprise begins to have problems with keeping required specialists, mainly engineers. They leave after 2-3 years, mainly because of the remuneration. We also lack welders, turners and locksmiths, as they go abroad.”. Other enterprise informs: “Intensifying wave of skilled staff emigration to other EU countries results in serious problems in the area of production. The situation worsens month by month...”.

⁹ It should be highlighted that the question about the barriers to enterprises’ operations is an open question.

tendencies can be observed: foreign companies have expected permanent growth in employment for nearly three years, while the State Treasury enterprises have continuously forecast its reduction.

SELECTED FACTORS AFFECTING EMPLOYMENT

Employment forecasts are strictly related to the company's current and forecast condition (Fig. 58 – Fig. 62). The predominance of employment growth forecasts over the forecasts of its reduction was again recorded in the group of enterprises assessing their situation as very good or good. The growth in employment is forecast in the enterprises expecting growth in demand, both permanent and seasonal, as well as increase in orders and output. With regard to the situation in the previous quarter, there was an improvement in the forecasts of enterprises in a stable condition, expecting to sustain its economic condition, demand and orders at an unchanged level. For the first time since 2000, i.e. since the appropriate analysis became possible, growth forecasts have clearly predominated over the employment reduction forecasts.

Growth in employment is also announced by the exporters who project growth or stabilisation of exports. Growth in employment is also favoured by having fully profitable exports (Fig. 63 – Fig. 65).

The changes in employment are to a large degree correlated with the investment implementation by enterprises (Fig. 67, Fig. 68). In the group of enterprises planning to increase investments (also in the form of new investments) a clear predominance of employment growth indications over its fall is reported. For those investors who intend to keep the existing scope of investment, the frequency of reported employment growth is slightly higher than the forecast fall. Reduction in employment is announced by non-investors.

There is also a dependence of plans related to the changes in employment and the degree of capacity utilisation. Low level of capacity utilisation results in more frequent employment reduction forecasts (Fig. 69).

The level of employment is also impacted by the company's liquidity. Long-term difficulties with settling payments are associated with the reduction in employment (Fig. 70), however, occasional problems with liquidity do not affect the optimism of employment forecasts.

FLEXIBLE FORMS OF EMPLOYMENT

Interest in non-typical forms of employment¹⁰ is growing – 12% of surveyed enterprises intend to extend them till the end of 2006 and 17% of companies have not decided yet (cf. Fig. 52).

¹⁰ I.e. other than full-time employment on a permanent contract basis.

Box 1 Untypical forms of performing work

In line with the labour law a typical form of providing work is the provision of work based on a full-time permanent employment contract. Other forms of employment are defined as untypical (special). In addition, employment contract forms are increasingly more often abandoned for the benefit of other forms of work provision, e.g. self-employment or manager contracts.

In the NBP's current monitoring edition a question was asked about the plans to increase flexible forms of employment, i.e. others than permanent full-time contract. Over 70% of entities do not currently have such plans and every 8th enterprise intends to extend such forms by the end of 2006¹¹.

Interest in such forms of employment varies; both in view of ownership forms and the nature of industry. Private enterprises are definitely more flexible; especially those with majority foreign capital. Among public companies, intentions to extend untypical forms of employment are the most frequent in local government entities. None of the state-owned enterprises which are legal persons plan to make their employment model more flexible. Most frequently the growth in untypical forms of employment is forecast in *Construction* (16%) and in *Transport* (14%), while most rarely – in enterprises from sections *Energy, gas, water supply* (3%) and *Mining* (8%).

Exporters tend to plan rendering employment forms more flexible more frequently than non-exporters, such plans are also favoured by the forecast growth in exports. Growth in investment activity as well as the expected increase in demand and output also contributes to extending untypical forms of employment. Declarations on introducing flexible forms of work do not seem to depend on the enterprise's condition. The same percentage of companies in a very good, good or poor condition intend to extend untypical forms of employment.

For the enterprises the possibility to use untypical forms of employment is rather an effect of difficulties with extending employment than the need to change the employment model. Untypical forms of employment are nearly 4 times more often preferred by the enterprises intending to increase employment than by other entities. At the same time flexible forms of employment will be extended nearly 2 times more often by the companies which (in the previous monitoring edition) reported staff deficits (especially the difficulties with finding skilled workforce).

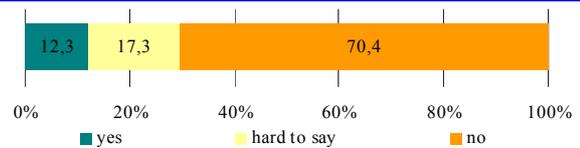


Fig. 52 Does the company plan to increase untypical forms of employment (i.e. other than full-time job on a permanent-contract basis) by the end of 2006?



Fig. 53 What untypical forms of employment will be extended till the end of 2006 (Chart – the percentage of positive answers, more than one answer was allowed, so the data do not add to a 100; data next to the chart are the percentages of the whole sample).

Fig. 53 shows which special forms of employment are intended to be developed by the surveyed enterprises. Most companies report fixed-time employment and employment on contracts for specific work. Self-employment will increase only slightly.

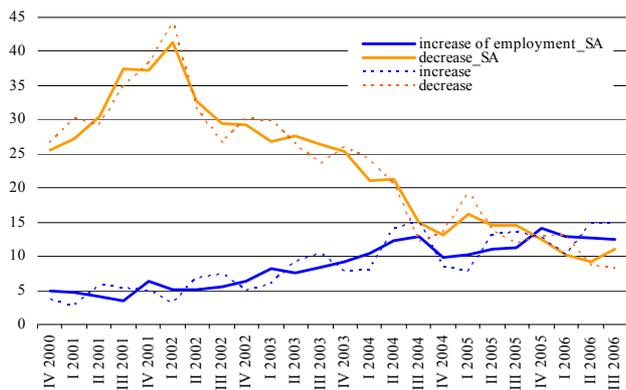


Fig. 54 Employment forecasts

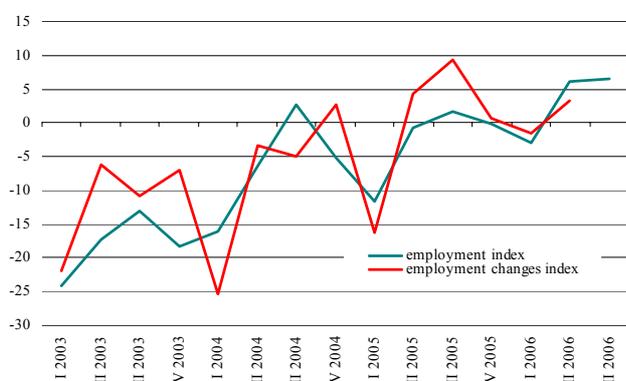


Fig. 55 Net balance of employment forecasts ("growth" minus "decline") and changes in employment (percentage of enterprises which recorded employment growth minus percentage of enterprises which recorded employment drop; employment changes below 1% are treated as "no change").

Table 2 Forecast changes in the employment level in 2006 Q2 vs. 2006 Q3 forecasts — figures in lines add up to 100%, except for the last column, which presents the share of the class in the overall figure (the sample is limited to the enterprises participating in both surveys)

2006 Q2					
	2006 Q1	no change	decrease	increase	total
no change		83.8	5.3	10.8	77.8
decrease		53.2	43.6	3.2	8.6
increase		46.5	6.1	47.5	13.7
total		76.1	8.7	15.2	100.0

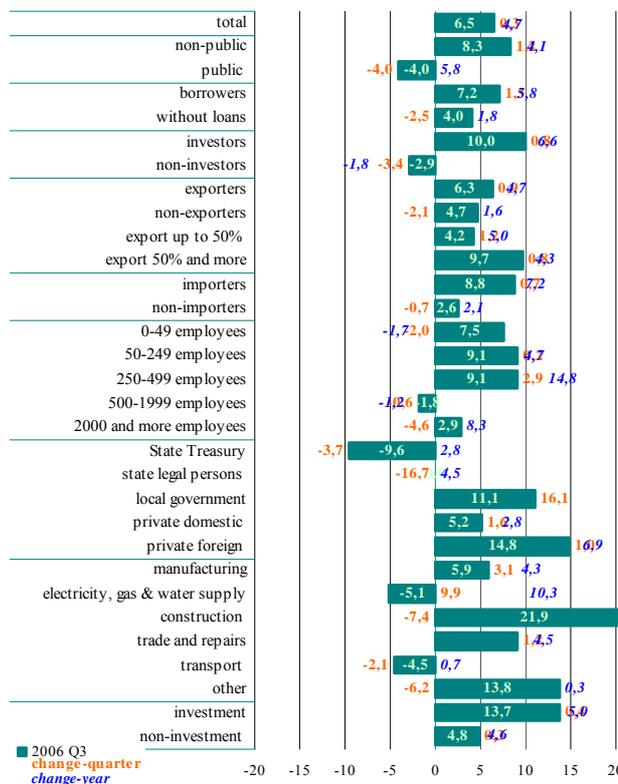


Fig. 56 Balance of employment forecasts ("growth" - "decline") – and change against the previous quarter and the previous year. Negative figures mean higher number of employment drop forecasts over employment growth forecasts.

¹¹ We do not have comparable information on the current scale of untypical forms of employment. In the NBP's annual survey for 2004, enterprises were asked about one of the forms of flexible employment, namely half-time employment. 15% of companies intended to extend it in this period, out of which the majority intended to put such plans into life in the future and only 5% of all the companies were already increasing such form of employment in 2004.

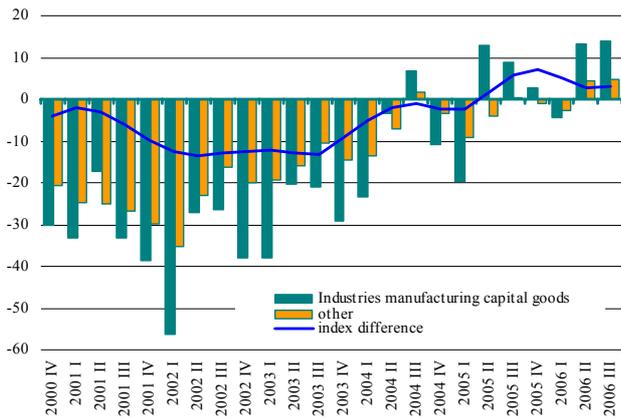


Fig. 57 Employment index (“growth” - “decline”) in industries manufacturing capital goods and in other industries

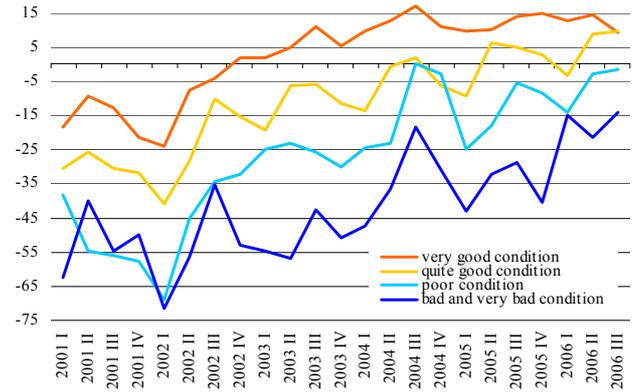


Fig. 58 Interdependence between the employment forecast and the company economic condition (percentage of responses in classes by company condition)

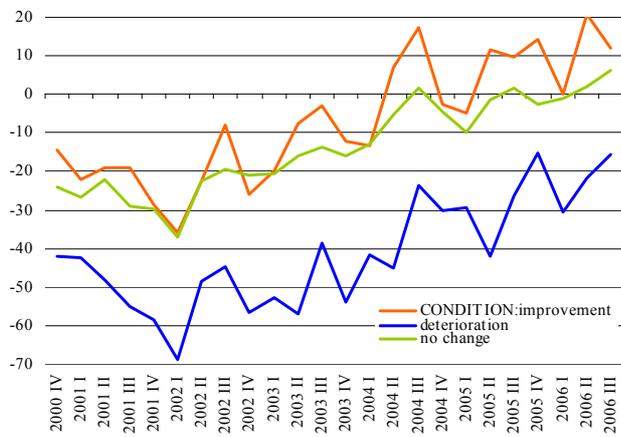


Fig. 59 Employment index vs. forecast changes in the economic condition (percentage of responses in classes by company condition forecasts)

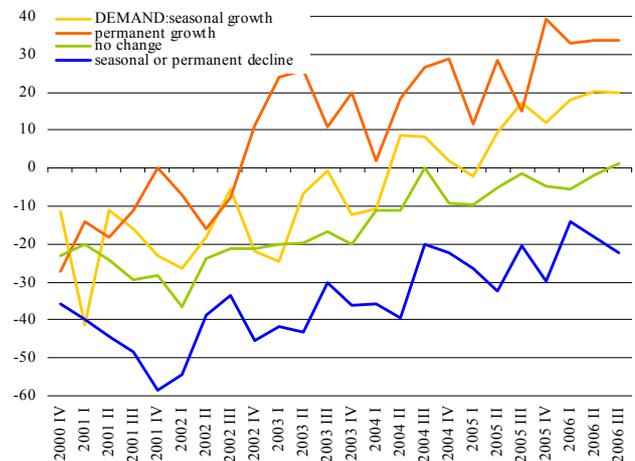


Fig. 60 Employment index vs. forecast changes in demand (percentage of responses in classes by demand)

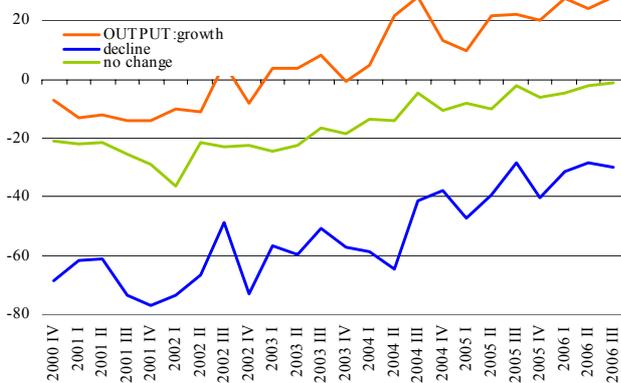


Fig. 61 Employment index vs. forecast changes in output — scale of business activity (percentage of responses in classes by output)

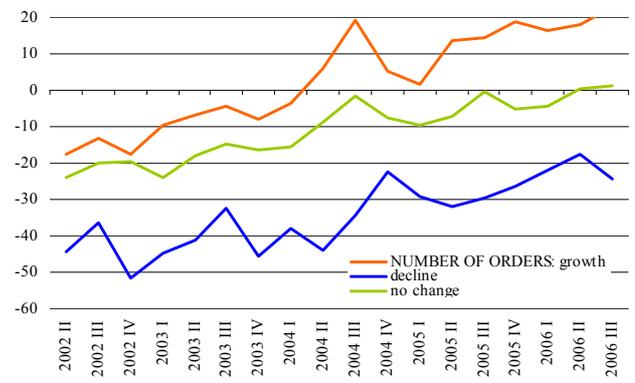


Fig. 62 Employment index vs. forecast changes in the number of orders (percentage of responses in classes by orders)

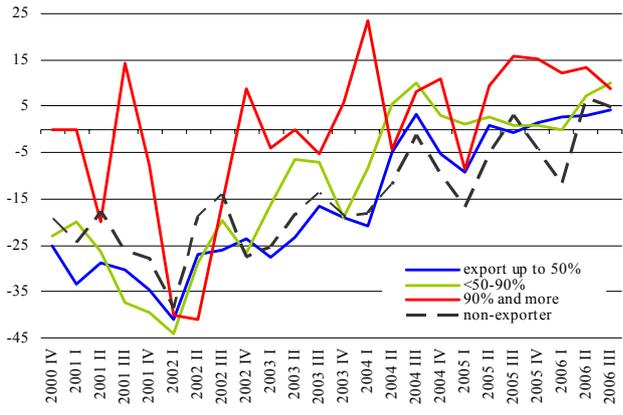


Fig. 63 Employment index vs. the share of revenue from exports in total revenue (percentages of responses in classes by export)

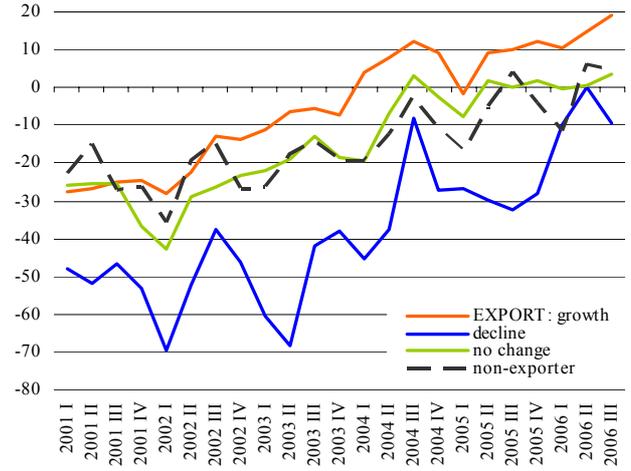


Fig. 64 Employment index vs. export forecasts (percentage of responses in classes by export)

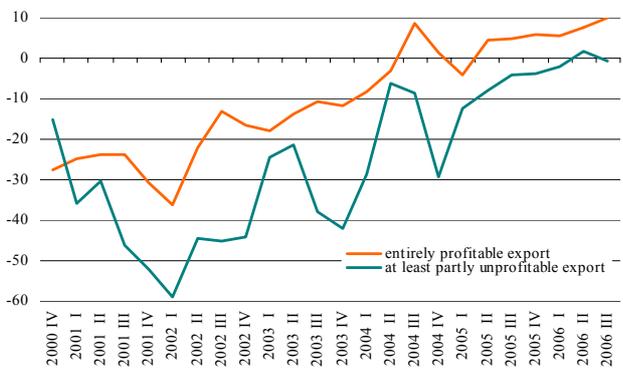


Fig. 65 Employment index vs. export profitability (percentage of responses in classes by export profitability, only refers to exporters)

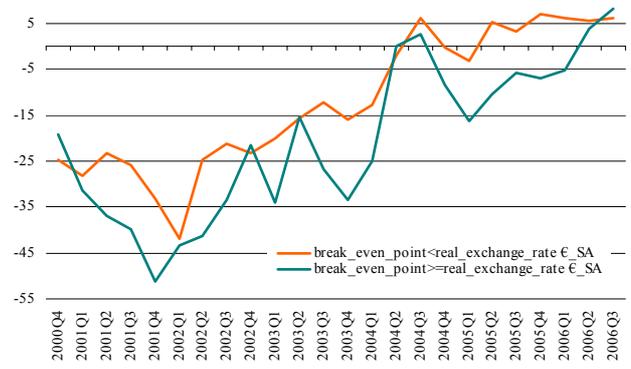


Fig. 66 Employment index vs. declarations that exchange rate has crossed the threshold of export profitability (only exporters)

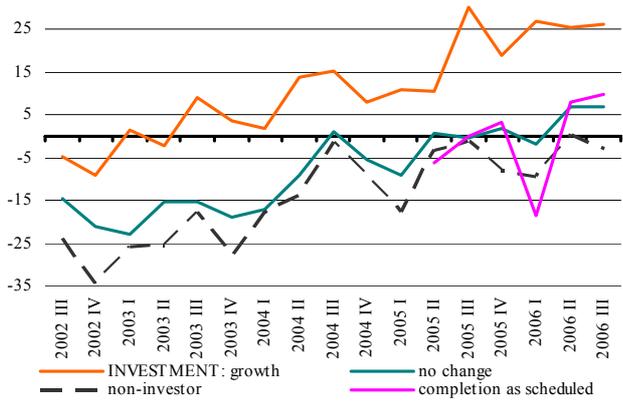


Fig. 67 Employment index vs. forecast continuation of investments (percentage of responses in classes by investment). Cases of abandonment or reduction of investment projects in progress are scare, and consequently, should be interpreted with caution

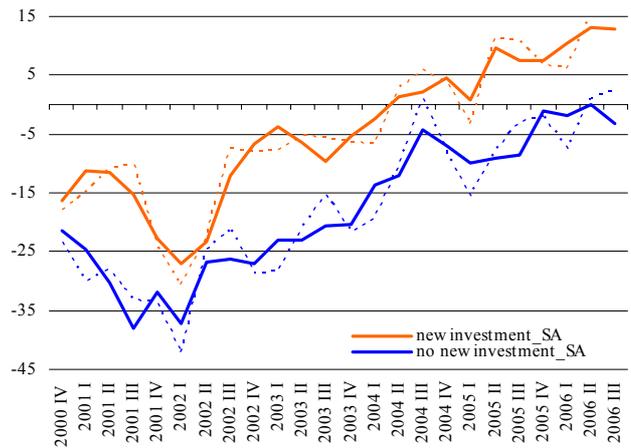


Fig. 68 Employment index vs. new investment forecasts (percentage of responses in classes by investment)

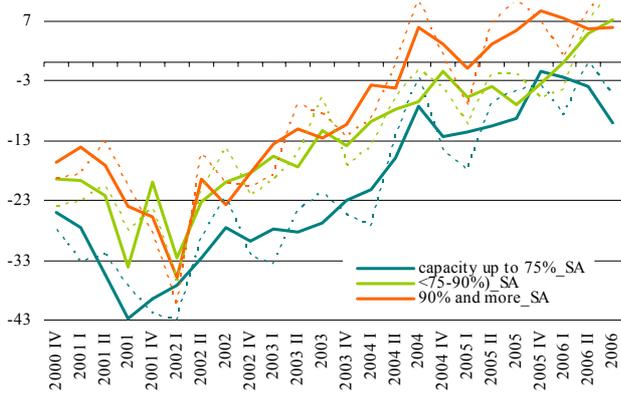


Fig. 69 Employment index vs. degree of capacity utilisation (percentage of responses by capacity)

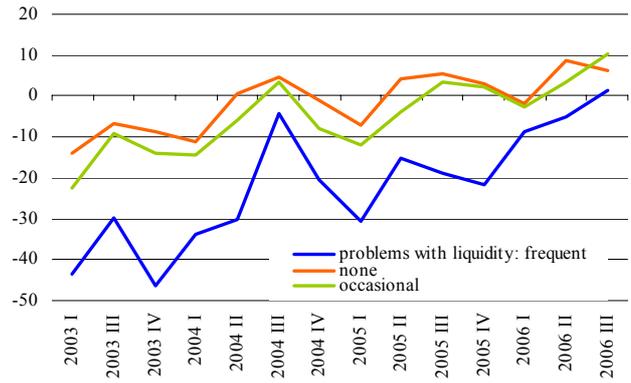


Fig. 70 Employment index vs. problems with liquidity (percentage of responses in classes)

1.3. Wages

forecasts of wages

The percentage of enterprises intending to increase their wages in 2006 Q3 is larger than in 2005 Q3.

- Plans to increase remuneration are most often reported by *Construction* companies and state legal persons.

amount of pay rises

- median 5% against 4% previously and 4.5% one year before (with regard to those companies which will increase wages)
- average in these enterprises which intend to carry out wage increases at 5.6% (against 4.7% previously and 5.1% in the previous year) and 0.9% with regard to the entire sample (0.9% previously and 0.6% in the previous year)
- average per 1 employee (i.e. weighted by employment) at 3.8%. i.e. the level of the previous quarter (3.7%) and less than in the previous year (4.3%)

FORECASTS OF WAGE INCREASES

In 2006 Q3, 16.5% of companies plan to increase wages (in quarter-on-quarter terms).

After taking into account the size of the enterprise, measured with the number of employees, it can be assessed that **wage increases will cover nearly 15% of employees.** It is clearly more than in the corresponding quarter of 2005.

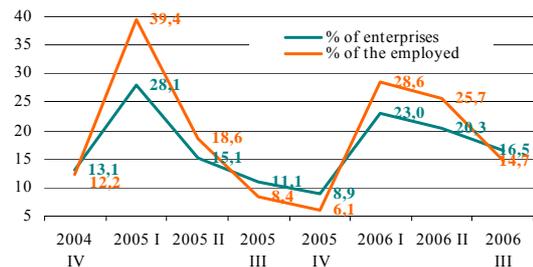


Fig. 71 Planned wage increases (% of the employed represents responses weighted by the employment level)

SELECTED FACTORS AFFECTING WAGE INCREASES¹²

The plans to increase wages are frequent in the companies in a good or very good condition. It should be noticed, however, that enterprises in the best condition carry out wage increases in Q1 and therefore the percentage of forecasts in this group fell the most in relation to the previous periods (Fig. 73). More prone to raise employees' salaries are those enterprises which project increase in output, growth in demand and orders, including export orders, and increase in investments (both commenced and new). Wage increases are also connected with the plans to increase employment (Fig. 75) – the enterprises planning to increase employment will raise wages more than twice as frequently as those which are going to reduce employment. In 2006 Q3, wage rises are most often planned by *Construction* companies (28%), which also project the highest growth in employment, and most rarely by the local government entities.

Wage rises are caused, among others, by staff problems. The entities which have difficulties finding skilled employees intend to increase wages twice as often as other companies. Among the barriers indicated by enterprises there appeared a sign of wage pressure (1% of companies indicated this problem). However, these pressures have not been effective, so far. Almost none of the companies which recorded such problems plan to increase wages in the upcoming quarter.

FORECAST WAGE INCREASES

The median of wage growth projections in the enterprises which plan this type of rises in 2006 Q3 is 5% (in quarter-on-quarter terms), which is higher than in the previous quarter. An average rise per 1 employee in the companies which plan such a rise remained at a level similar to the previous quarter. In the entire sample the average wage increase will land at the level from the previous quarter.

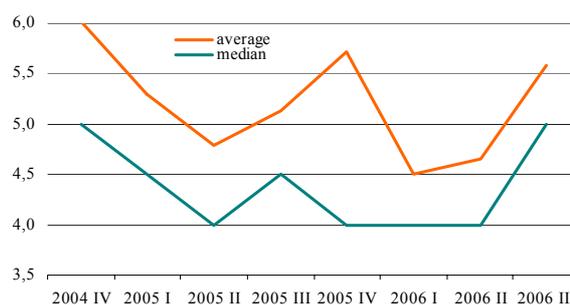


Fig. 72 Average and median of the planned wage increases (for those enterprises which have such plans; data for 2004 Q4 refer to the effected wage increases and not to the planned ones)

¹² It should be emphasised that the data on the planned wage rises have only been collected in terms of the NBP's quick monitoring since 2004 Q4 and thus little can be said as yet on the basis of these data about wage growth tendencies.

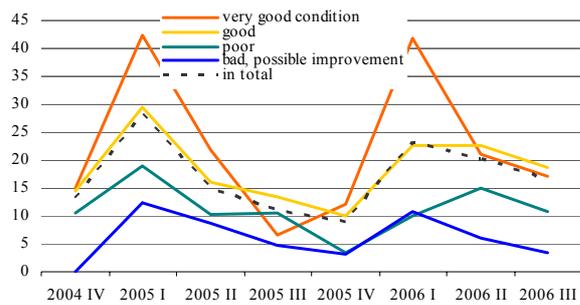


Fig. 73 Planned wage increases vs. economic condition of enterprise (% of responses in a given class)

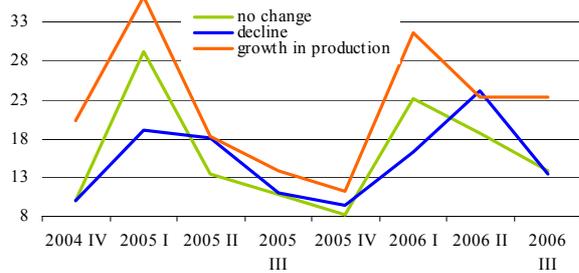


Fig. 74 Planned wage increases and production forecasts (% of responses in a given class)

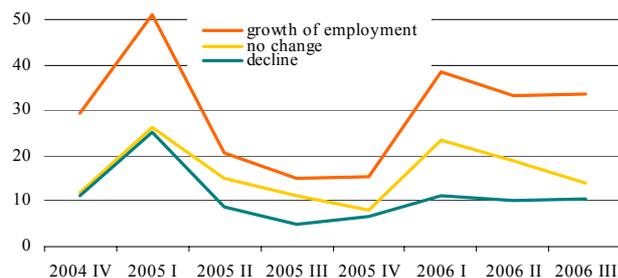


Fig. 75 Planned wage increases and the employment forecasts (% of responses in a given class)

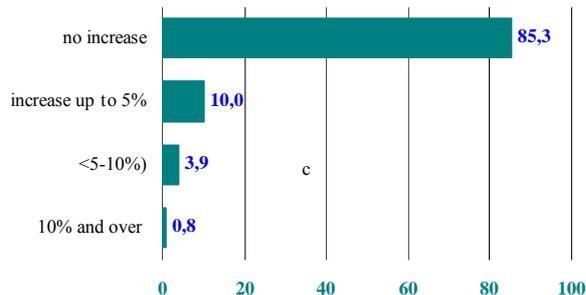


Fig. 76 Distribution of planned wage increases (data weighted by the employment level)

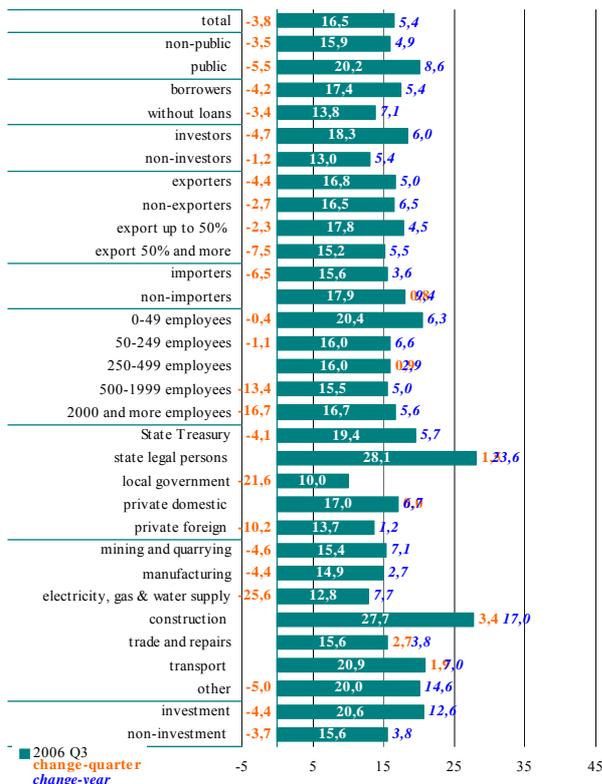


Fig. 77 Planned wage increases (% of enterprises planning to carry out wage increases in classes) and change as compared to the previous quarter and year

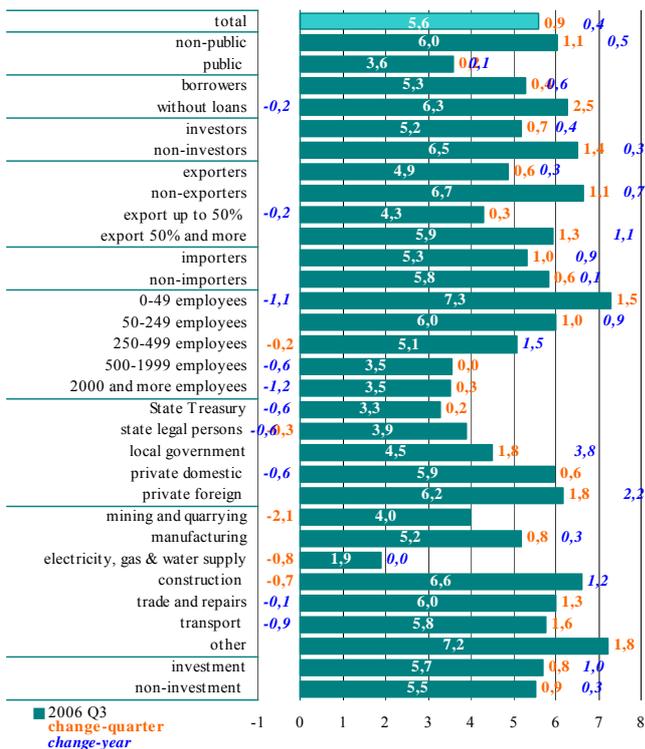


Fig. 78 Figures of planned wage increases (average in a given class for these enterprises which plan to increase wages) and change as compared to the previous quarter and year

I.4. Investments

investment climate	<ul style="list-style-type: none"> • Respondents positively assessed investment climate in the country. • The best assessments of the climate were recorded in the private sector, in large enterprises, in <i>Construction</i>, in the units manufacturing investment goods, while poorer assessments were, among others, observed among exporters. • The companies assessing the investment climate positively more frequently forecast the commencement of new investments in the country. • Enterprises planning investments abroad assessed investment climate in the country more favourably than other entities. • 18% of surveyed enterprises were considering the possibility of investing abroad within next 12 months.
forecast of economic activity	<ul style="list-style-type: none"> • Decrease was recorded in the investment activity index in 2006 Q3, including also the index weighted by employment
areas of change in investment activity	<ul style="list-style-type: none"> • Decrease in the investment activity index was observed in the majority of categories – mainly in the public companies, the largest ones, in <i>Transport</i>, <i>Construction</i> and <i>Other</i> sections and in enterprises manufacturing investment goods.
continued investments	<ul style="list-style-type: none"> • High inclination to continue commenced investments has been sustained.

GENERAL ASSESSMENT OF INVESTMENT CLIMATE AND FOREIGN INVESTMENTS

This survey edition initiated the monitoring of domestic **investment climate**. Based on the opinions of surveyed enterprises, it is **currently perceived positively**, as at the end of 2006 Q2 such opinions were shared by **nearly 50% of respondents**, while approx. 30% of companies assessed investment climate as neutral and 20% of assessments were negative (Fig. 79).

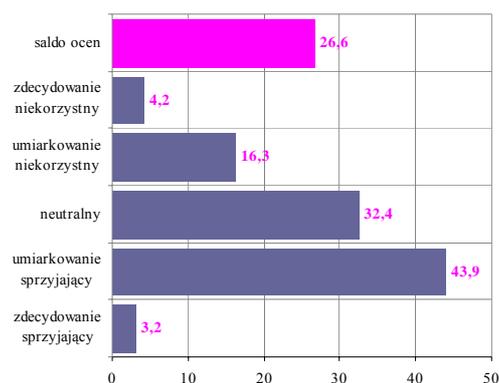


Fig. 79 Assessment of investment climate

Climate for domestic investments was more favourably assessed by (Fig. 87):

- investing enterprises,
- private companies, especially those with majority foreign capital,
- large enterprises, especially the largest ones,
- enterprises from sections *Construction*, *Other* and *Mining*, with *Construction* clearly distancing other groups in its assessment of climate.
- enterprises manufacturing investment goods (a large predominance of optimism in this group over the assessments of companies manufacturing non-investment goods).

Worse assessments of climate were formulated by exporters (investment climate index for this group was 25 points, against 30 points in the group of non-exporters), including especially companies indicating the problem of unprofitable exports. It can be concluded then that **the climate was negatively affected by the path**

of foreign exchange rates. This conclusion is consistent with the ranking of barriers to the business activity of the surveyed enterprises.

Assessment of investment climate **was connected with the economic condition of the enterprise** – generally speaking, the better the self-assessment of the enterprise, the more favourable its perception of investment climate. This dependence was observed, among others, in the case of assessing the current and forecast economic condition, forecasts of demand and output, forecast employment or assessment of servicing liabilities.

The perception of investment climate affected enterprises' investment plans. The enterprises **positively assessing the conditions for investing more frequently reported plans to commence new investments** (Fig. 86). The climate was definitely the least favourably assessed by enterprises which had to limit or even abandon their commenced investment projects.

Interest in investing abroad should be assessed as fairly high. In total, **18% of the surveyed enterprises were considering the possibility of investing abroad within the next 12 months** (Fig. 83). Although the majority of enterprises in this group (66%, and 12% of the entire sample), did not yet have specific plans but had not finally excluded foreign investments. Other enterprises either planned to invest within one year (21% in the analysed group and 4% of the entire sample) or had just carried out (13%) investments abroad. The foreign investments forecast for the coming year are **in the most part direct investments**.

Enterprises planning to invest abroad assessed the investment climate in Poland even more favourably than other enterprises (Fig. 85). This was because climate assessment was positively correlated with the assessment of economic condition of enterprises. However, it has to be pointed out that the group of enterprises which assessed investment climate as definitely unfavourable recorded the highest percentage of enterprises which do not exclude the possibility of investing abroad, even though they do not have specific plans yet (the percentage of undecided respondents was 18% in that group, Fig. 84).

The decisions to invest abroad were most frequently communicated by **the largest** enterprises (11% of such companies plan to or have already carried out investment projects abroad), exporters, importers and enterprises from the **Transport** section. Greater interest in investing abroad was declared by private than state-owned enterprises, but the public sector is marked by **high activity of enterprises being state legal persons** (9% of such companies either plan or have already carried out investment projects abroad).

Enterprises planning to invest abroad (in total, however, they account for a small share of the sample) were marked with their higher investment activity and relatively more frequently reported plans to commence new investments in 2006 Q3.

FORECAST OF INVESTMENT ACTIVITY

The investment activity index¹³ in the sample recorded a quarter-on-quarter decline in 2006 Q3 (Fig. 80). In comparison to the previous quarter, a fall was observed both in the raw and seasonally-adjusted index and in the index trend. The drop in the index resulted from a drop in the share of enterprises reporting intentions to complete their investments as scheduled, a decline in the share of enterprises planning to increase their investment and a rise in the share of non-investing enterprises (Fig. 89).

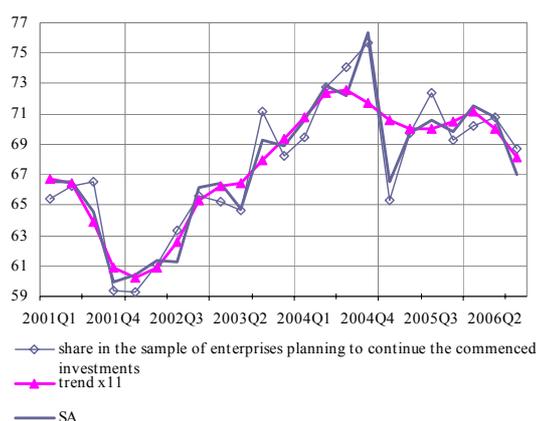


Fig. 80 Investment activity index – sample share of enterprises planning to continue commenced investments (investors completing investments as scheduled were also included here). Full sample

A fall was also recorder in the activity index weighted by employment size (Fig. 88). The weighted index for ownership sectors indicates that the deterioration of forecasts in the private sector occurred in the group of large enterprises, while the large enterprises of the public sector retained a high level of optimism close to the record-breaking level recorded in the previous quarter (Fig. 93).

However, the positive, **very high assessment of the possibilities to continue the commenced investments¹⁴** has remained unchanged (Fig. 90). The continuation of commenced investments was announced by over 98% of the surveyed investors – similarly to the preceding quarter. Most investors in this group will continue their commenced projects without any greater modifications (77% of investors), while 14% of investors (i.e. 1.2 percentage points less than in the last quarter) envisage investment expansion in relation to their previous plans. Just below 7% of enterprises in 2006 Q3 will complete their investments in progress as scheduled (i.e. 1.7 percentage point less than in the previous quarter). There were only scarce declarations of intentions to reduce or abandon the currently implemented projects (1.6% of investors and 1% of the sample).

INVESTMENT ACTIVITY – ANALYSIS ACROSS MAIN CATEGORIES

The fall in the seasonally-adjusted index of activity in 2006 Q3 was recorded by all the surveyed groups of enterprises apart from the section *Electricity, gas and water supply* and local government enterprises (Fig. 99). The forecasts of investment activity **have deteriorated:**

- **in the public sector**, particularly in enterprises being state legal persons. **In the public sector this has been the second consecutive quarter of decline in the activity index.** In the private sector the deterioration of forecasts was significantly weaker than in the public sector. This picture, however, is different once the size of the enterprise is accounted for in the sector analysis (as it was already mentioned

¹³ The investment activity index is calculated as the sample's share of enterprises anticipating the continuation of commenced investments.

¹⁴ The investment continuation index is calculated as the sample share of investing enterprises anticipating the continuation of commenced investments.

above). Nevertheless, the performance of the public sector, particularly its deterioration in Q3, did not have any significant impact on the behaviour of the activity index at the sample level, due to the modest and shrinking share of the public sector in the sample (in Q2 the share of public enterprises in the sample was below 16%). As a result, the path of the activity index for the sample as a whole was very close to its path for the private sector and was running only slightly higher (Fig. 92).

- in the group of **the largest** enterprises employing over 2000 people. This group, however, retained its leading position in terms of investment activity assessment.
- in *Transport, Construction* and the section *Other*
- in enterprises **producing investment goods**.

NEW INVESTMENTS IN Q3

The new investment index (measured as the sample's share of enterprises intending to commence new investment within a quarter) **remained high** in 2006 Q3, **although slightly below its value in the preceding quarter** (Fig. 81).

There was a more pronounced drop in the index of new investments weighted by employment size (Fig. 100), which should be interpreted as reduced interest in embarking on new investment projects on the part of larger enterprises. Thus, there occurred a **correction in the optimism of large enterprises**, which in the first half of 2006 recorded a record high level of the new investment index. In spite of weakened optimism of large enterprises the weighted index remains above the unweighted index, which indicates that new investments were relatively more frequently announced by large entities.

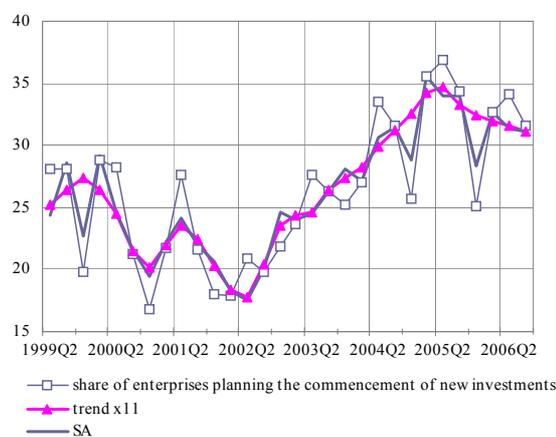


Fig. 81 New investment index – share of enterprises planning the commencement of new investments within a quarter

NEW INVESTMENTS – ANALYSIS ACROSS MAIN CATEGORIES

The analysis of the index of new investments in selected breakdowns reveals that:

- The share of investors planning to commence new investments in 2006 Q3, in seasonally adjusted terms, **increased**, among others, **in the following categories** (Fig. 111): in *Mining*, in enterprises from the section *Other*, in enterprises employing between 249 and 500 people and in enterprises with majority foreign capital. In turn, a drop in the index of new investments was recorded by the largest enterprises, by public enterprises, especially State Treasury ones, local government entities (the assessment of their activity remains high), enterprises with unprofitable exports, and in classification by activity profile – by energy enterprises (this industry, however, still has a high level of the new investment index) and *Transport*

enterprises. One of the reasons behind the drop in the activity of State Treasury enterprises may be the current political situation and difficulties in the functioning of the management boards of these companies.

- Public enterprises still reported the commencement of new investment projects more often than private entities (40% and 30%, respectively, Fig. 102). **However, the prospects of embarking on new investments in the public sector deteriorated markedly, especially in the case of large enterprises,** which is reflected in a drop of the weighted index in 2006 Q3 (Fig. 103). In turn, **in the private sector the index of new investment stabilised at the pre-accession level. On the other hand, the activity of large private enterprises remained very high.** The propensity of large enterprises to embark on new investment projects was even slightly higher than in the second half of 2004.
- The trend of the new investment index in enterprises producing investment goods has been rising since the end of 2005, which is a good sign for future investment (Fig. 107).
- Since the survey study was started, the plans to commence new investment have been more often reported by exporters, especially non-specialised ones, than by non-exporters (Fig. 105, Fig. 106).
- **Plans for new investment have been correlated in the sample with the assessment of economic condition.** Similarly as in the previous years, the commencement of new investment within a quarter was most frequently announced by companies in at least a good economic condition (34% of such companies reported the commencement of new investment, Fig. 109), which did not have problems with financial liquidity. Additionally, higher activity has been also displayed by enterprises planning to increase their employment and wages.
- The percentage of new investors was similar in enterprises facing the demand barrier and in companies not experiencing problems with a market for their products. The activity level of these two groups of enterprises became equal in the second half of 2005.
- **Investment plans for 2006 Q3 were only slightly correlated with the degree of capacity utilisation** (Fig. 111). A slightly higher percentage of enterprises planning to commence new investment projects was recorded in the group of enterprises using their capacities in 60-80%, i.e. those possessing some capacity reserves. In the remaining groups, i.e. both among the companies with considerable spare capacities and the companies with almost full capacity utilisation, new investment is planned by approx. 30% of enterprises.

SOURCES OF NEW INVESTMENT FUNDING

Since the survey study began, i.e. since 1999 Q2, the majority of companies have invariably declared to be funding **new investments from own funds**.¹⁵ However, the predominance of this source of finance has decreased significantly (to the lowest level since 2002). In 2006 Q3, 38% of investors were intending to cover their investment expenditure with own funds (a drop of over 6 percentage points q/q, Fig. 82). Bank loans remain at the second place (the most important source for 35% of investors, a quarter-on-quarter rise of 2 percentage points), followed by non-bank external funds and other sources (18% and approx. 8% of investors, respectively).

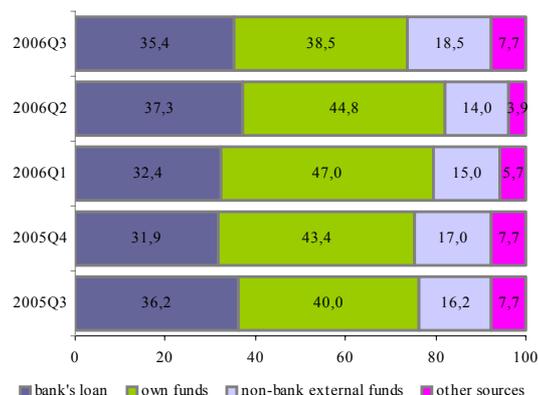


Fig. 82 Main source of financing newly planned investments. Sub-group of investors.

The tendencies concerning the sources of funding new investment observed in the sample indicate that **the significance of own funds is decreasing and the importance of bank loans is rising** (Fig. 112).¹⁶ This tendency has been observed in the sample since the end of 2003. In this period, the percentage of investors declaring bank loans as their main source of funding new investments has increased from 25% to 38%. In 2006 Q3 the share of investors intending to fund new investments with loans was almost equal to the share of investors financing their investment projects by themselves.

DIFFERENCES IN INVESTMENT FINANCING – ANALYSIS ACROSS MAIN CATEGORIES

The analysis of data in selected categories reveals that:

- **the interest in loans** measured with the share of investors declaring that they would be funding new investment from this source was **higher in the private sector** than in the public one (the share of investors financing new investment with a loan in the two sectors accounts for 38% and 23%, respectively, Fig. 114) and **is rising in both of them**. In the private sector, **loans outstripped own funds as the main source of funding investments** (38% and 34%, respectively). In contrast, public enterprises still declared the use of own funds to finance new investment (55% of investors of the public sector intended to finance investments with their own funds).
- **Enterprises planning to finance new investments with bank loans tended to have a more favourable assessment of the investment climate** in Poland than enterprises funding their investments in a different way (Fig. 113).

¹⁵ Considerable financial capacities of enterprises can be attested to by the banking statistics data, which reveal that deposits of enterprises are growing at a nominal rate of 20% y/y.

¹⁶ The rise in the level of loans to enterprises is also confirmed in the data of banking statistics. In May 2005 the level of debt on loans with maturities of over one year rose in nominal terms by 10% y/y.

- The so far available data suggest that bank loans were more often the basic source of funding new investment for SMEs (with up to 250 employees) than for large enterprises. The significance of bank loans has been rising steadily in both these sectors (Fig. 116, Fig. 117).
- In 2006 Q3, **in contrast to the previous quarter, bank loans incurred to finance new investments will be more often used by enterprises assessing their economic condition favourably** than by weaker entities (the shares of 37% and 29%, respectively, of investors funding their investment with loans). The trend of this phenomenon, however, indicates that the significance of loans in funding investments is rising faster in the group of enterprises in a worse economic condition than in the group of enterprises with positive self-assessment (Fig. 118).
- The importance of loans in financing investments was similar irrespectively of the problems with maintaining financial liquidity. Enterprises experiencing payment problems more frequently resorted to non-bank external funds.

ASSESSMENT OF INVESTMENT CLIMATE AND PLANS FOR INVESTING ABROAD

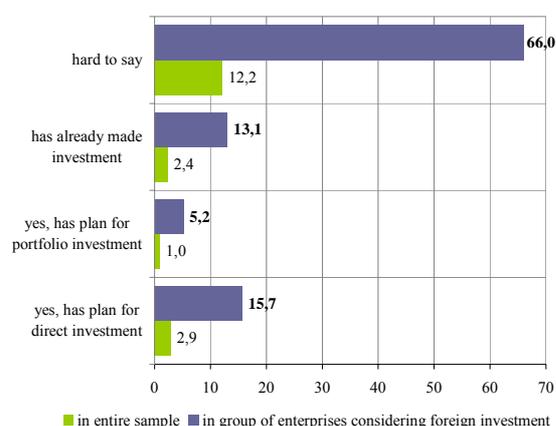


Fig. 83 Plans for investing abroad over next 12 months in sub-group of enterprises which were considering foreign investment (approx. 18% of the sample) and in the entire sample (including those enterprises which ruled out the possibility of investing abroad over next 12 months)

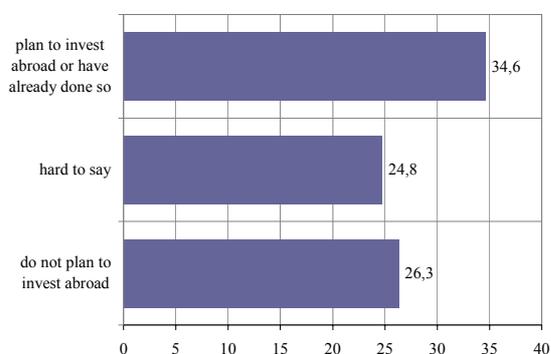


Fig. 85 Net balance of assessments of current domestic investment climate (positive minus negative) vs. plans for investing abroad over one year

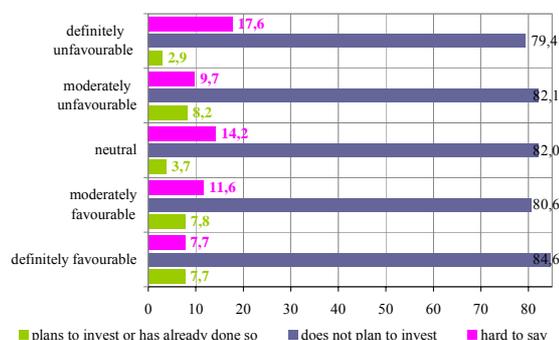


Fig. 84 Assessment of current domestic investment climate vs. plans for investing abroad

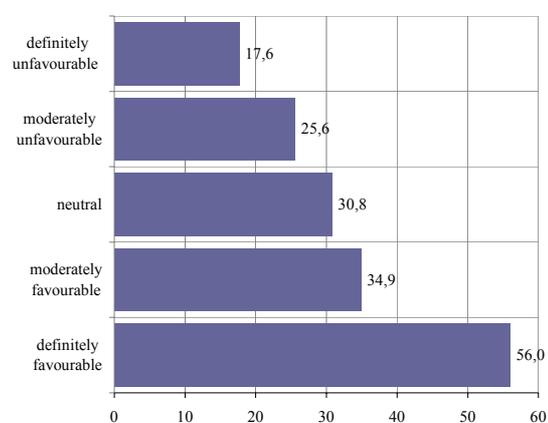


Fig. 86 Net balance of assessments of current domestic investment climate (positive minus negative) vs. share of enterprises planning to commence new investments in 2006 Q3

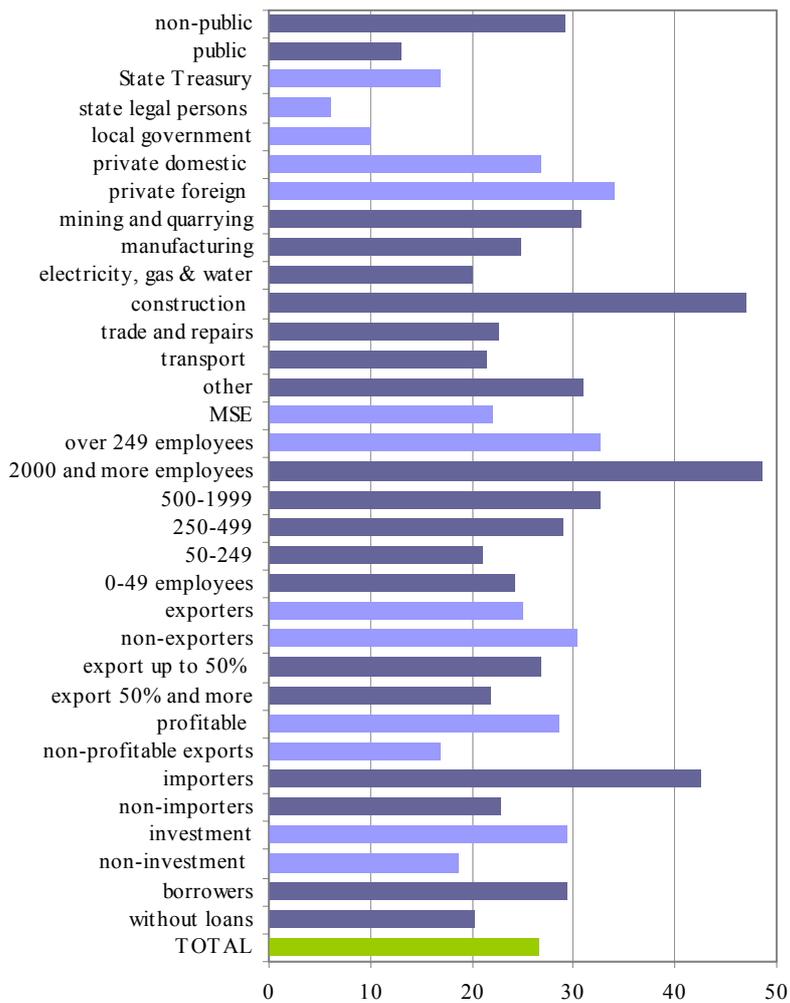


Fig. 87 Assessment of current domestic investment climate in selected categories

INVESTMENT ACTIVITY INDEX AND CONTINUATION OF COMMENCED INVESTMENT PROJECTS

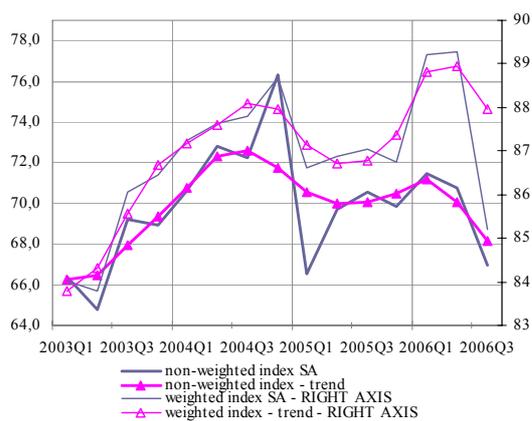


Fig. 88 Investment activity index weighted by employment (trend and seasonally adjusted index) – share of enterprises expecting to continue commenced investments (including investors completing their investments as scheduled). Full sample

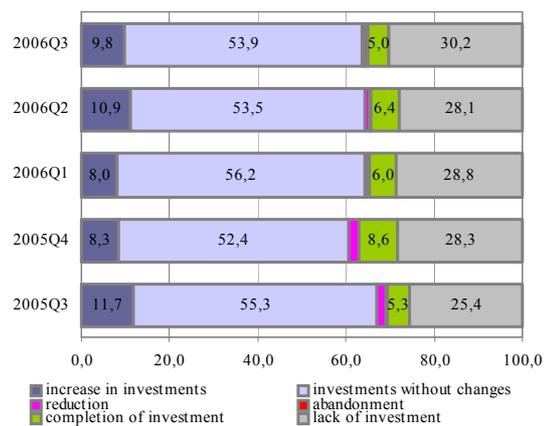


Fig. 89 Expected level of commenced investments. % of responses in the sample

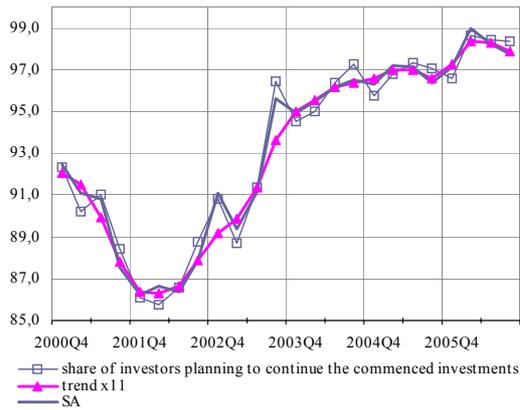


Fig. 90 Investment continuation index in group of investors – share of investors planning to continue commenced investments (investors completing investments as scheduled are also included here). Sub-group of investors

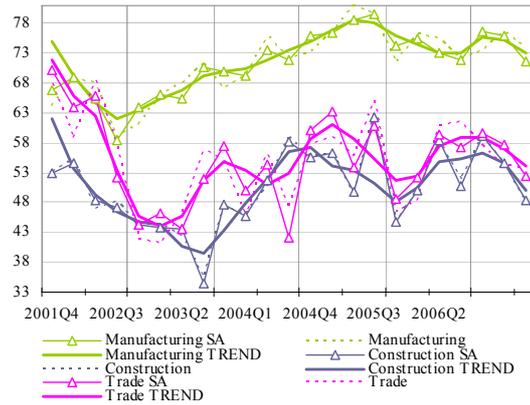


Fig. 91 Investment activity index (sample share of enterprises planning to continue commenced investments) in Manufacturing, Trade and Construction

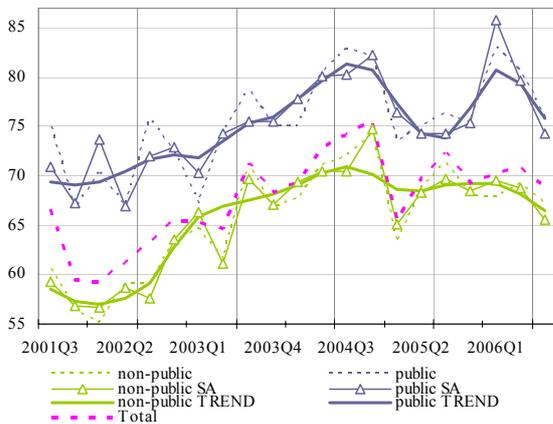


Fig. 92 Investment activity index (sample share of enterprises planning to continue commenced investments) broken down by ownership sector

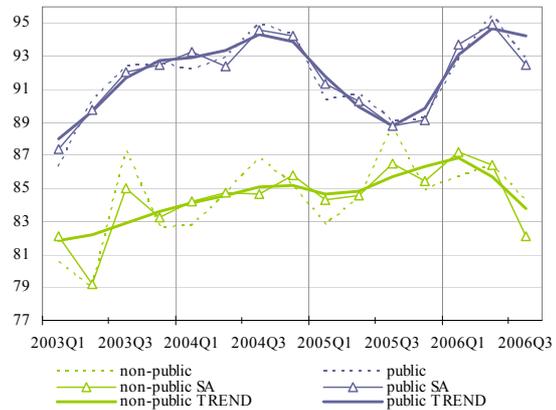


Fig. 93 Investment activity index (sample share of enterprises planning to continue commenced investments) weighted by employment broken down by ownership sector

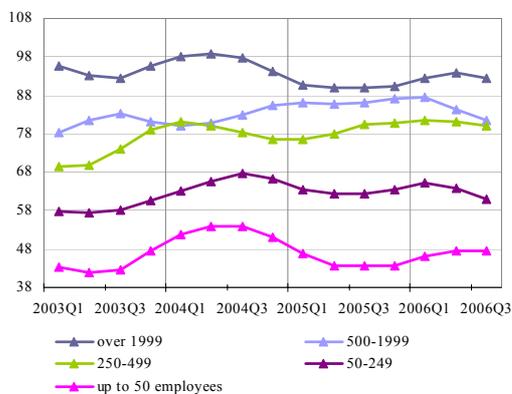


Fig. 94 Investment activity index (sample share of enterprises planning to continue commenced investments) in classes of employment size (trend obtained using the x11 method)

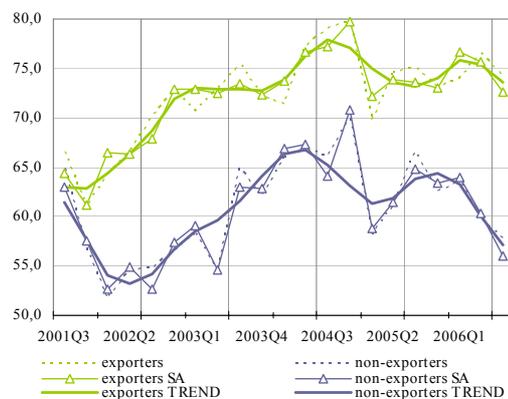


Fig. 95 Investment activity index (sample share of enterprises planning to continue commenced investments) in classes of exporters and non-exporters

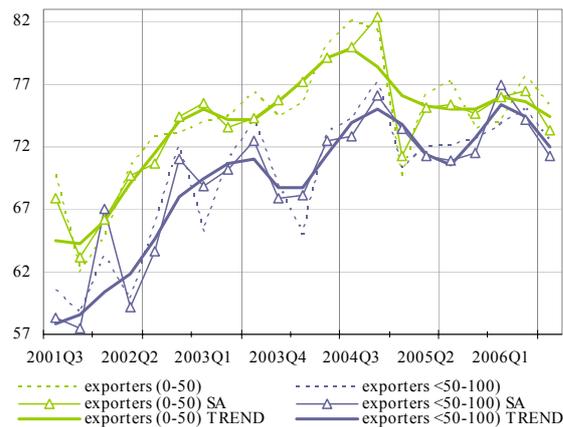


Fig. 96 Investment activity index (sample share of enterprises planning to continue commenced investments) and the share of exports in revenue

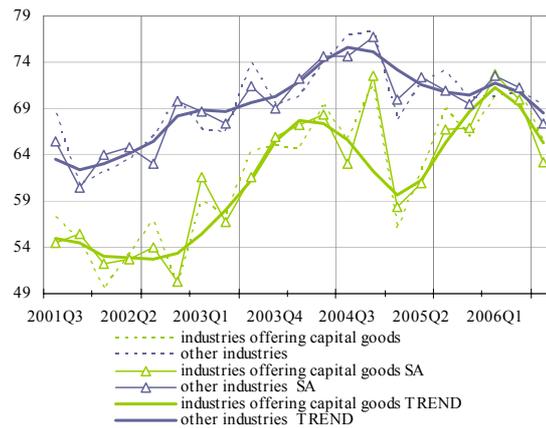


Fig. 97 Investment activity index (sample share of enterprises planning to continue commenced investments) in industries offering capital goods and in other industries

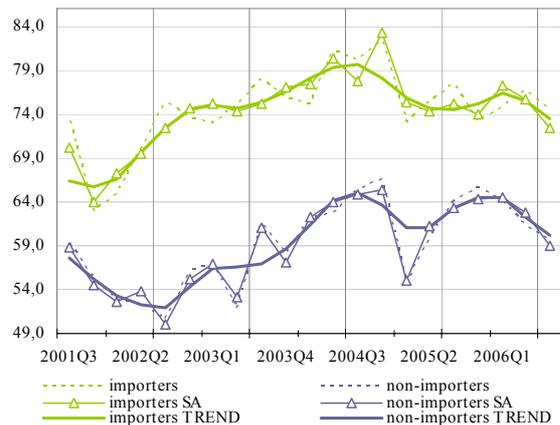


Fig. 98 Investment activity index (sample share of enterprises planning to continue commenced investments) in classes of importers and non-importers

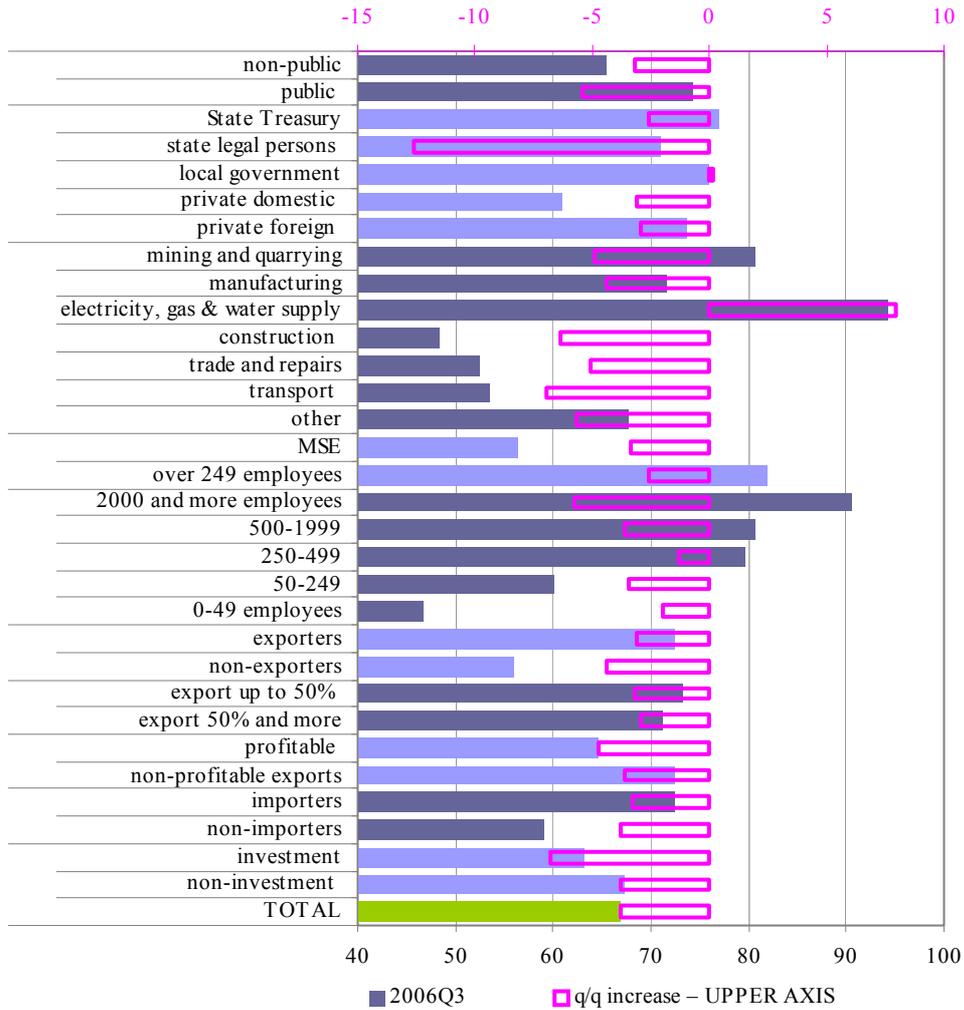


Fig. 99 Investment activity index SA (sample share of enterprises planning to continue commenced investments) in main classifications categories

NEW INVESTMENTS

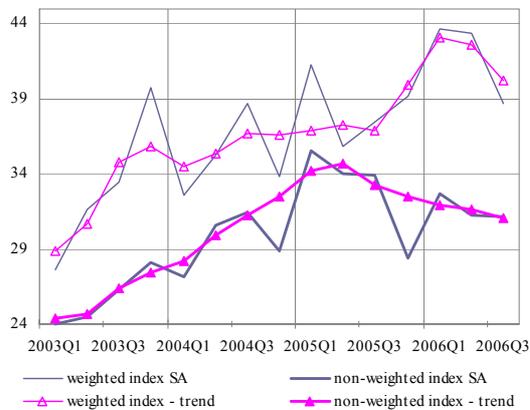


Fig. 100 New investment index (share of enterprises planning the commencement of new investments over a quarter) weighted by employment size. Trend and seasonally adjusted series

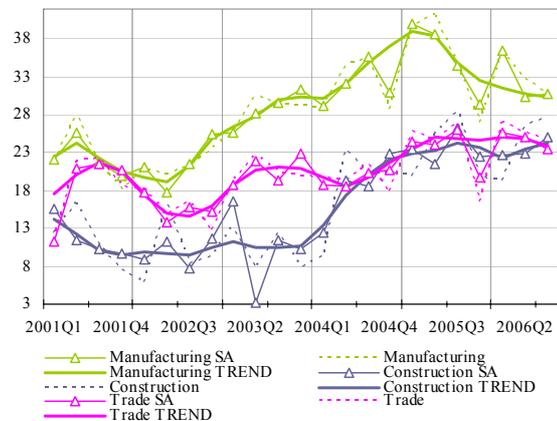


Fig. 101 New investment index (share of enterprises planning the commencement of new investments over a quarter) in Manufacturing, Trade and Construction

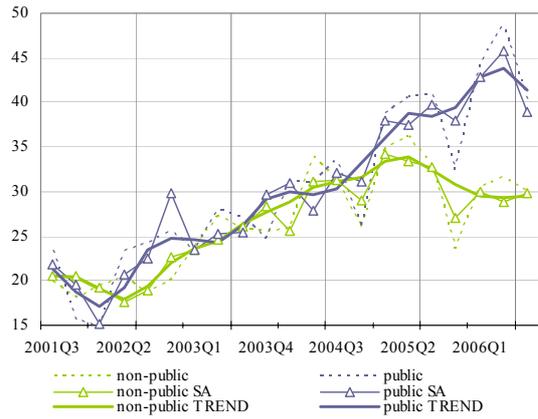


Fig. 102 New investment index (share of enterprises planning the commencement of new investments over a quarter) broken down by ownership sector

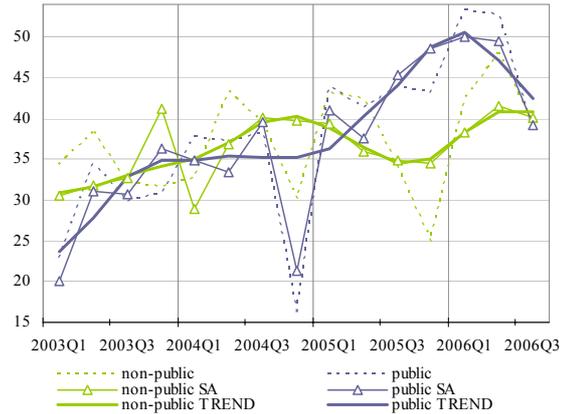


Fig. 103 New investment index (share of enterprises planning the commencement of new investments over a quarter) weighted by employment broken down by ownership sector

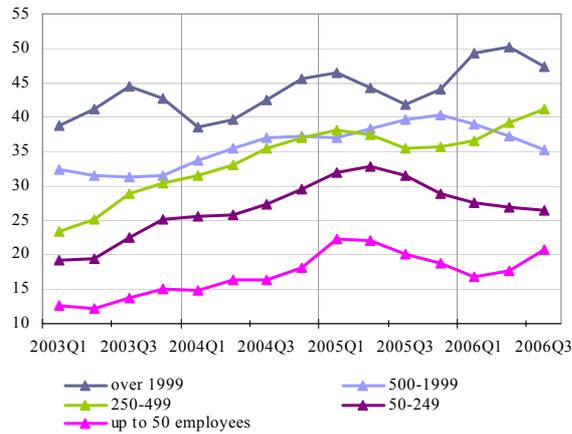


Fig. 104 New investment index (share of enterprises planning the commencement of new investments over a quarter) in the classes of employment size (trend obtained using the x11 method)

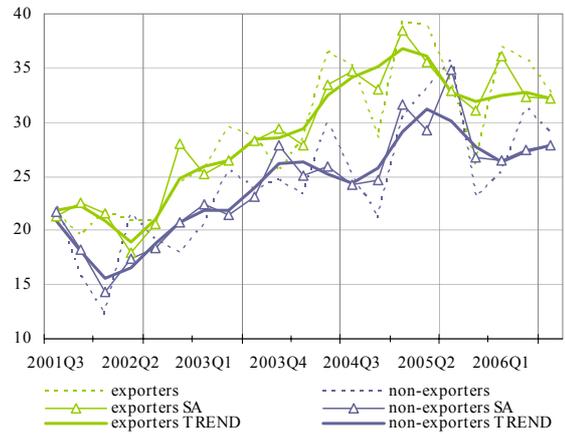


Fig. 105 New investment index (share of enterprises planning the commencement of new investments over a quarter) in the classes of exporters and non-exporters

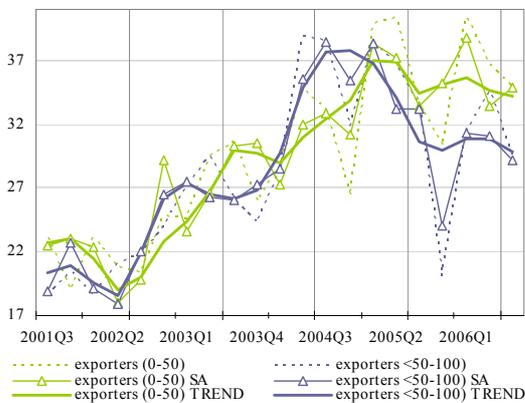


Fig. 106 New investment index (share of enterprises planning the commencement of new investments over a quarter) and the share of exports in revenue

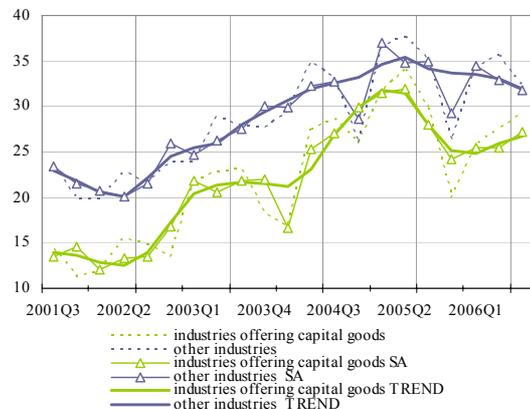


Fig. 107 New investment index (share of enterprises planning the commencement of new investments over a quarter) in industries offering capital goods and in other industries

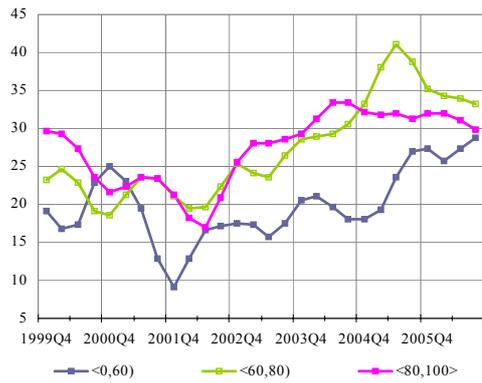


Fig. 108 New investment index (share of enterprises planning the commencement of new investments over a quarter) in classes of capacity utilisation (trend x11)

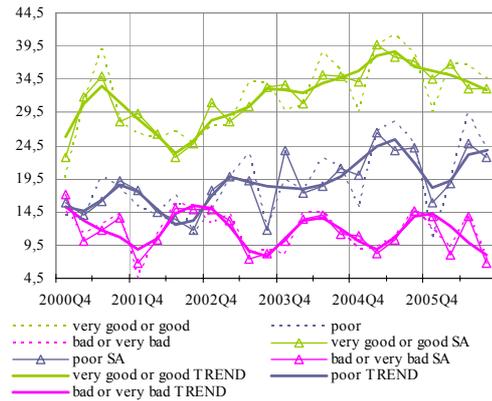


Fig. 109 New investment index (share of enterprises planning the commencement of new investments over a quarter) in classes of economic condition assessment

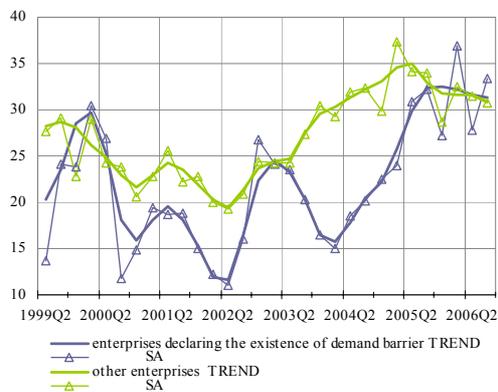


Fig. 110 Share of enterprises planning new investments over a quarter among the enterprises informing on the existence of demand barrier and in the remaining group of examined entities (trend and seasonally adjusted series). Identification of demand barrier based on the results of an open question

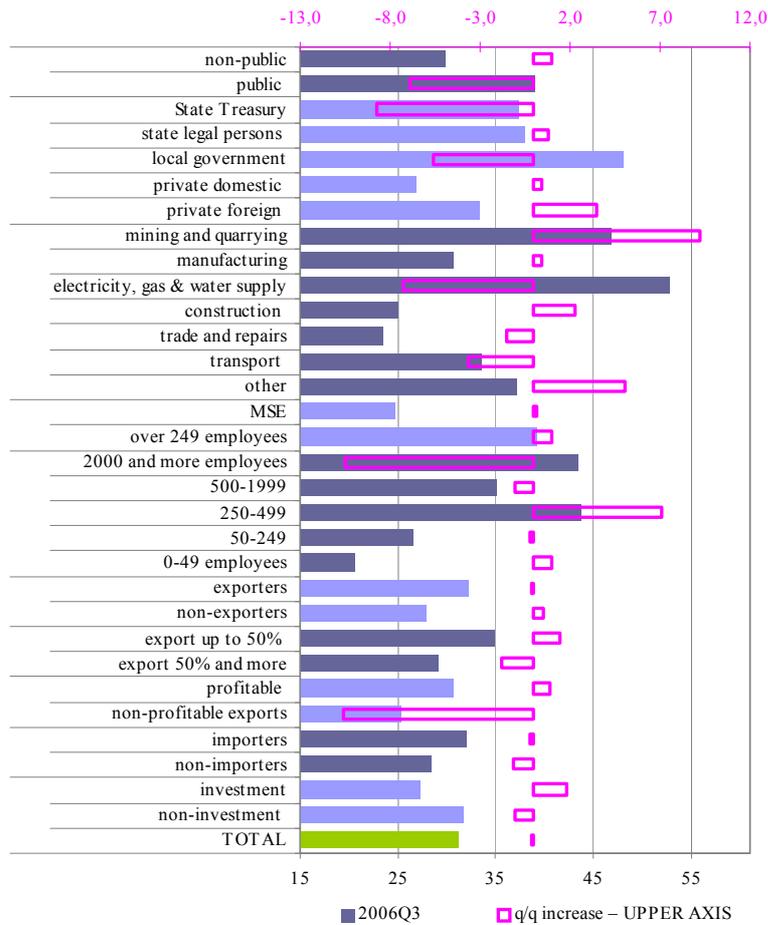


Fig. 111 New investment index (share of enterprises planning the commencement of new investments over a quarter, SA) in main classifications categories

INVESTMENT FINANCING

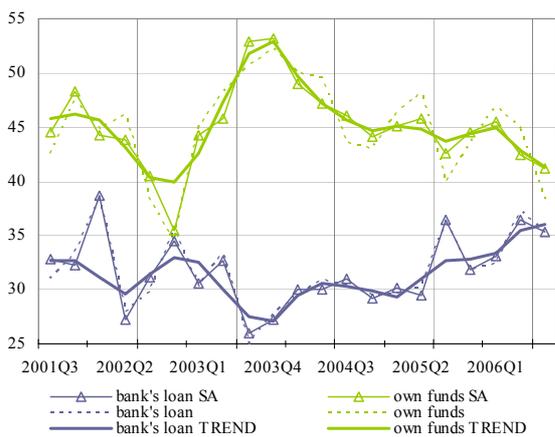


Fig. 112 Share of investors financing their investments from selected sources – bank loans, own funds. Sub-group of investors planning new investments

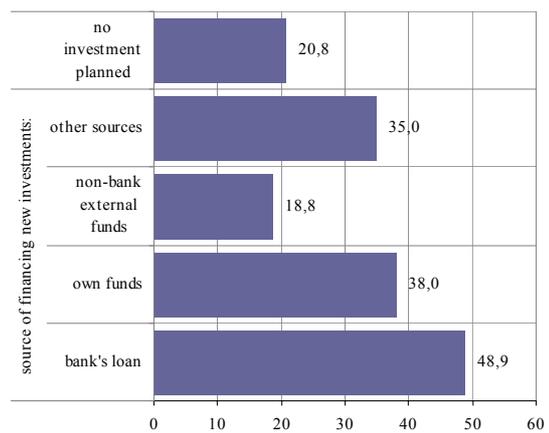


Fig. 113 Net balance of assessments of investment climate vs. main source of new investment funding

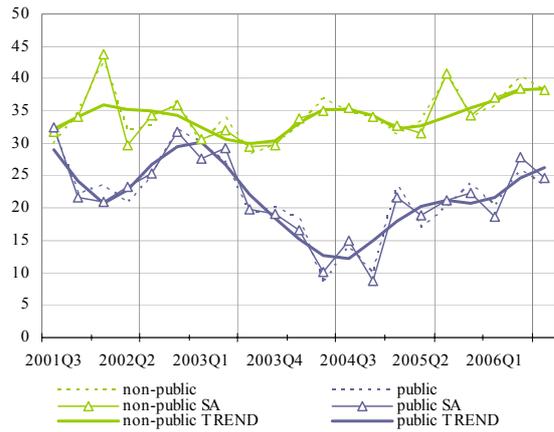


Fig. 114 Share of investors funding new investment with bank loans broken down by ownership sector

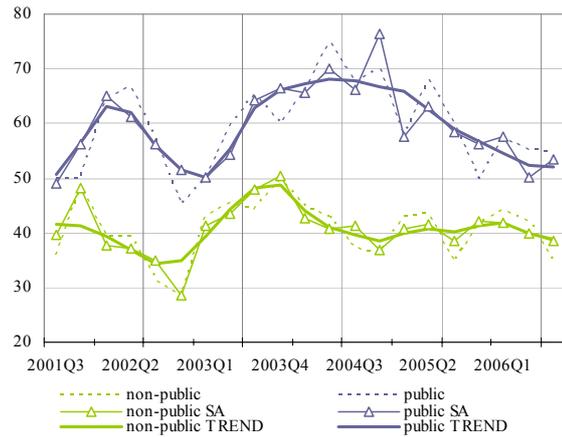


Fig. 115 Share of investors funding new investment with own funds broken down by ownership sector

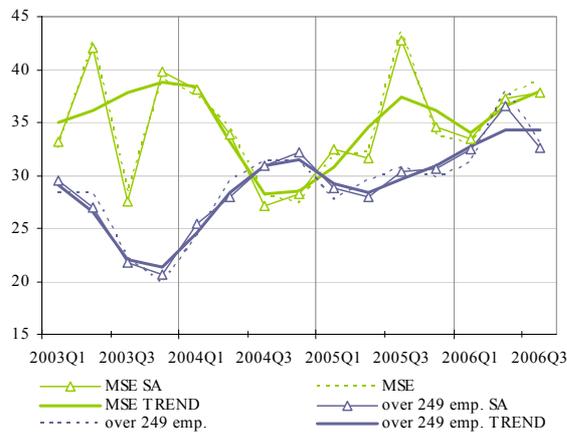


Fig. 116 Share of investors funding new investment with bank loans in sectors of large enterprises and SMEs

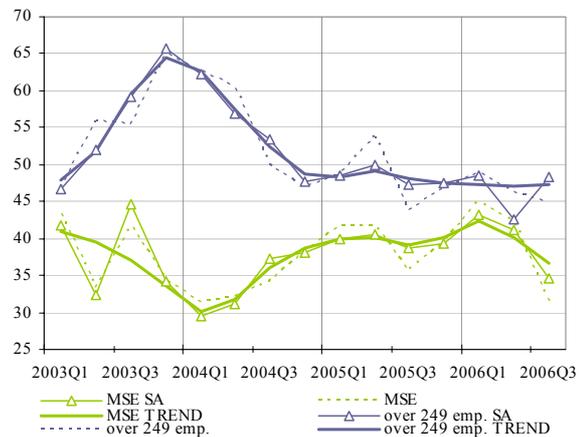


Fig. 117 Share of investors funding new investment with own funds in sectors of large enterprises and SMEs

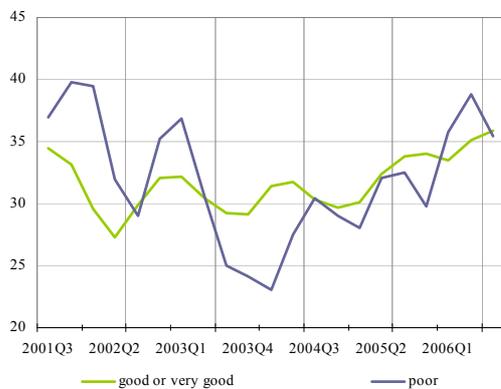


Fig. 118 Share of investors funding new investment with bank loans vs. assessment of economic condition (trend)

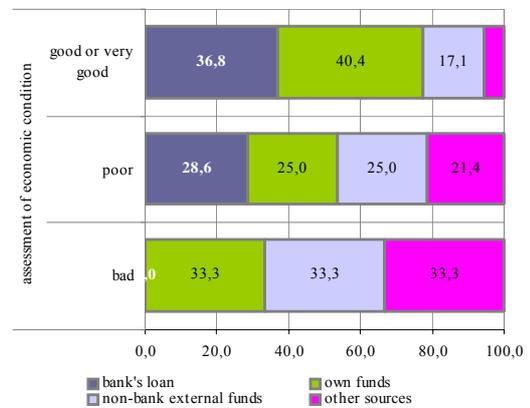


Fig. 119 Main source of financing newly planned investments vs. assessment of economic condition. Sub-group of investors

1.5. Inventories of finished goods in industry

level of inventories	<ul style="list-style-type: none"> • The level of inventories was most often assessed by the enterprises as appropriate. • Among the enterprises whose inventories deviated from the desired level predominated the cases of excessive inventories, hence the balance of inventory assessment was negative. • In 2006 Q2 the index of inventories increased approaching the record highs from the first half of 2004. • Improvement was also recorded in the weighted index.
changes in main classification categories	<ul style="list-style-type: none"> • The index of inventories increased, in seasonally adjusted terms, in most of the analysed groups. • A clear rise in the index of inventories was recorded in the public sector, in the group of non-exporters, non-importers, in the SME sector, particularly the smallest enterprises employing fewer than 50 workers. The growth in the index of inventories indicates that these groups experienced inventory shortages.

ASSESSMENTS OF INVENTORIES OF FINISHED GOODS

Enterprises most often assessed the volume of their inventories of finished goods as appropriate in relation to their needs (this opinion was expressed by 79% of the sample, which represents a quarter-on-quarter growth of 2.6 percentage points, Fig. 122). In the remaining group, where the inventories deviated from the desired level, the cases of excessive inventories were the majority, and so the balance of inventory assessments remains at a slightly negative level (Fig. 120). 12% of the surveyed enterprises described their inventory level as excessive (a q/q drop of 4 percentage points), while 9% of respondents classified it as insufficient (drop of 2 percentage points on a q/q basis).

In 2006 Q2 the index of inventories increased, including the seasonally adjusted index, pointing to a clear **improvement in the matching of the level of inventories to the needs of enterprises**. The value of the index of inventories **has already approached the record highs recorded in the first half of 2004**, when the assessment of the level of inventories proved the most favourable in the survey history. The trend of the index has grown for the fourth consecutive quarter.

The assessment of the level of inventories was less favourable in large enterprises. Although 2006 Q2 brought improvement in the index of inventories weighted by the level of employment (Fig. 121), the path of **the index trend indicates that the problem of excessive inventories has been aggravating among large enterprises since the beginning of 2005**.

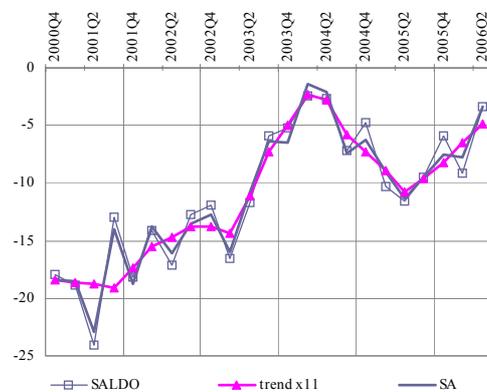


Fig. 120 Finished goods index (difference of balances = too low – too high) in industry (without Electricity, gas and water supply)

CHANGES IN INVENTORY LEVEL – ANALYSIS ACROSS MAIN CATEGORIES

In 2006 Q2 the rise in the seasonally adjusted index of inventories was recorded by almost all the analysed groups of enterprises. The analysis of the changes in the index of inventories in selected breakdowns reveals that:

- the highest **growth** in the index of inventories was recorded in the **public sector, in the group of non-exporters, non-importers, in the SME sector**, particularly the smallest enterprises **employing fewer than 50 workers, but also in the largest companies**. The growth in the index of inventories in these groups (with the exception of the largest entities) **indicates the appearance of inventory shortage** (Fig. 130). The problem of inventory shortage in the public and SME sectors has resurfaced for the first time since 2004 (Fig. 123, Fig. 124).
- the inventory shortages have persisted in mining since the beginning of 2004.
- large enterprises tend to maintain higher levels of inventories in relation to their needs than other entities.
- the only group which recorded a drop in the index of inventories over the past quarter were investment goods manufacturers (Fig. 128).
- **excessive inventories were more frequently reported by exporters than by entities selling their products in the domestic market only** (in the group of exporters 13% of enterprises informed on excessive inventories, compared with less than 2% among non-exporters). **However, a higher level of inventories is a permanent characteristic of this population of exporters**. Higher inventories maintained by exporters may, among others, result from the fact that inventories in this group of enterprises play the role of a buffer facilitating faster adjustment to changes in the volume of demand. In the group of non-exporting enterprises (non-exporters accounted for approx. 13% of the sample) the index of inventories has remained positive since the beginning of 2004, which points to the predominance of enterprises signalling the lack of sufficient inventories (Fig. 125). Over the last quarter the problem of insufficient inventories in the group of non-exporters has further intensified.
- enterprises with not fully profitable exports tended to report excessive inventory levels more frequently than exporters achieving full profitability of exports (enterprises declaring excessive inventory levels accounted for 17% and 11%, respectively, in these two groups, Fig. 126). It should be emphasised that since mid-2005 the problem of excessive inventories in the group of exporters reporting unprofitable exports has been diminishing dynamically.
- the problem of excessive inventories is connected with the occurrence of the demand barrier (Fig. 129). Enterprises informing on problems with selling their products reported excessive inventories more frequently. However, a slightly negative balance of assessments has been also maintained by enterprises not encountering the demand barrier at all.

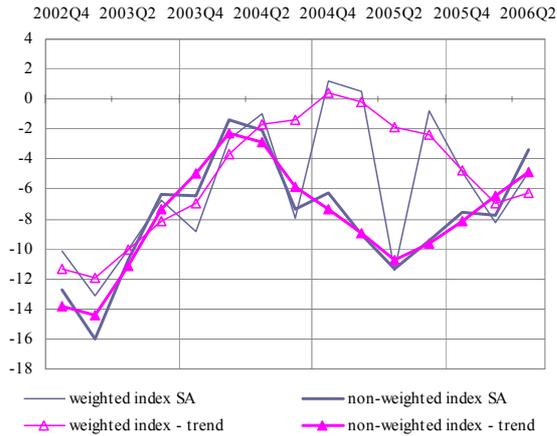


Fig. 121 Finished goods index (difference of balances = too low – too high) weighted by employment (industry without *Electricity, gas and water supply*)

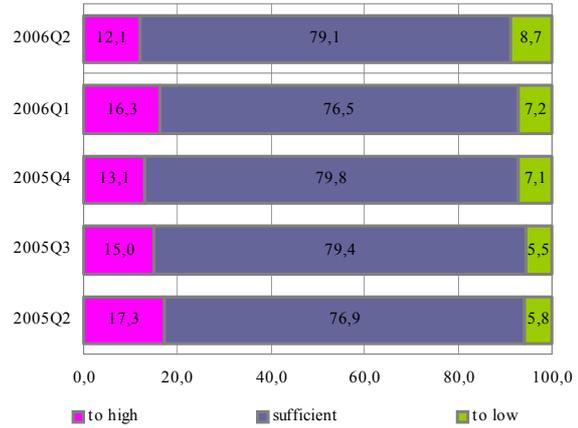


Fig. 122 Assessment of finished goods inventory level – structure of responses (industry without *Electricity, gas and water supply*)

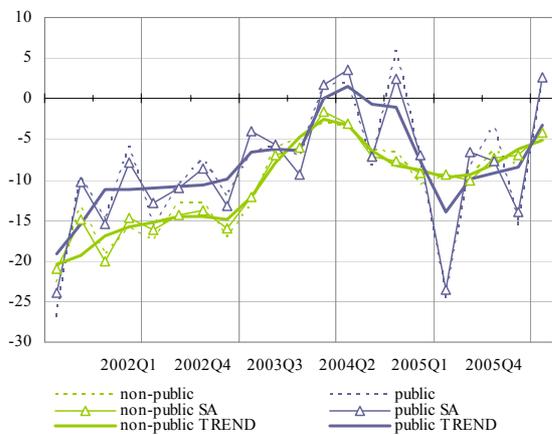


Fig. 123 Finished goods index broken down by ownership sectors (industry without *Electricity, gas and water supply*).

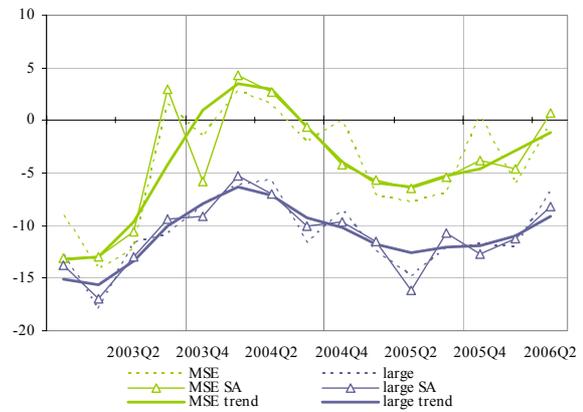


Fig. 124 Finished goods index in classes of employment size (chart shows variable trend obtained using x11m method, industry without *Electricity, gas and water supply*)

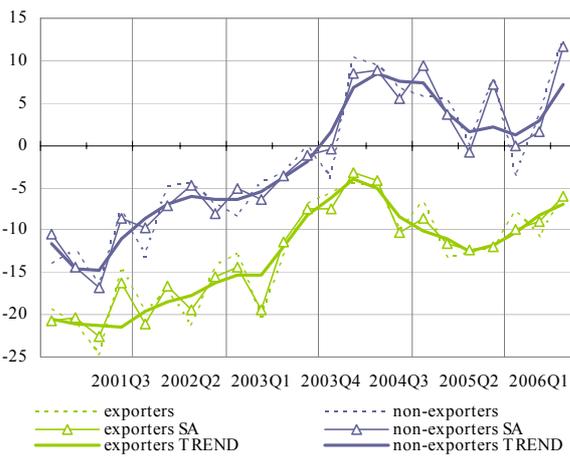


Fig. 125 Finished goods index in classes of exporters and non-exporters (industry without *Electricity, gas and water supply*)

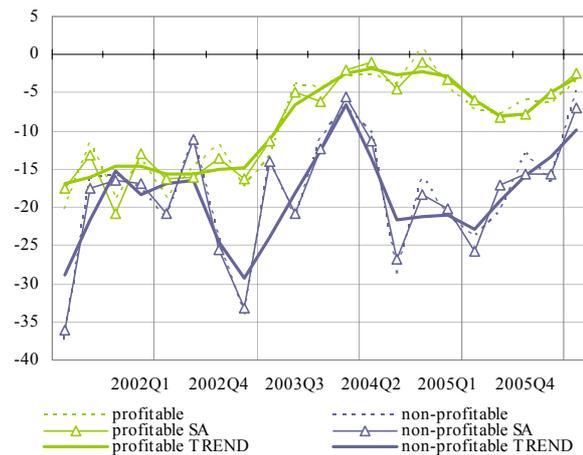


Fig. 126 Assessment of the level of finished goods inventories and profitability of exports (seasonally adjusted index and trend). Industrial enterprises (without *Electricity, gas and water supply*)

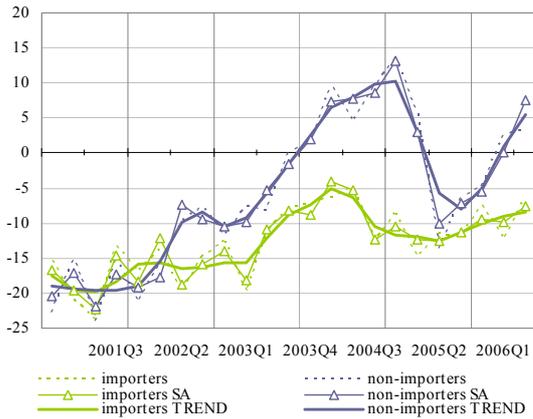


Fig. 127 Finished goods index in classes of importers and non-importers (industry without *Electricity, gas and water supply*)

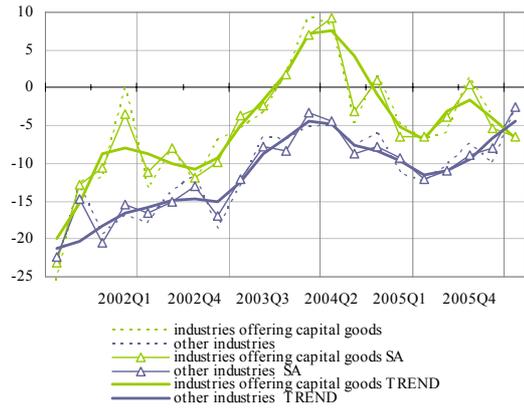


Fig. 128 Finished goods index in industries offering capital goods and in other industries (industry without *Electricity, gas and water supply*)

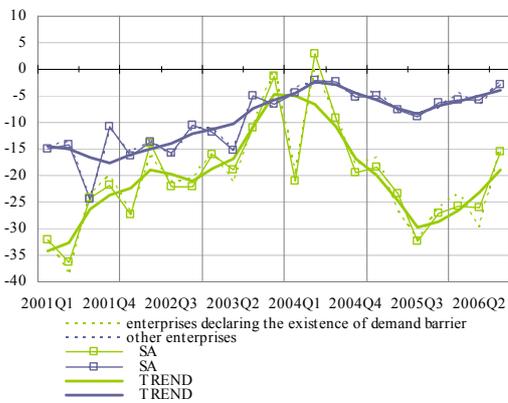


Fig. 129 Finished goods index in group of enterprises affected by the demand barrier and the remaining group of examined businesses (industry without *Electricity, gas and water supply*)

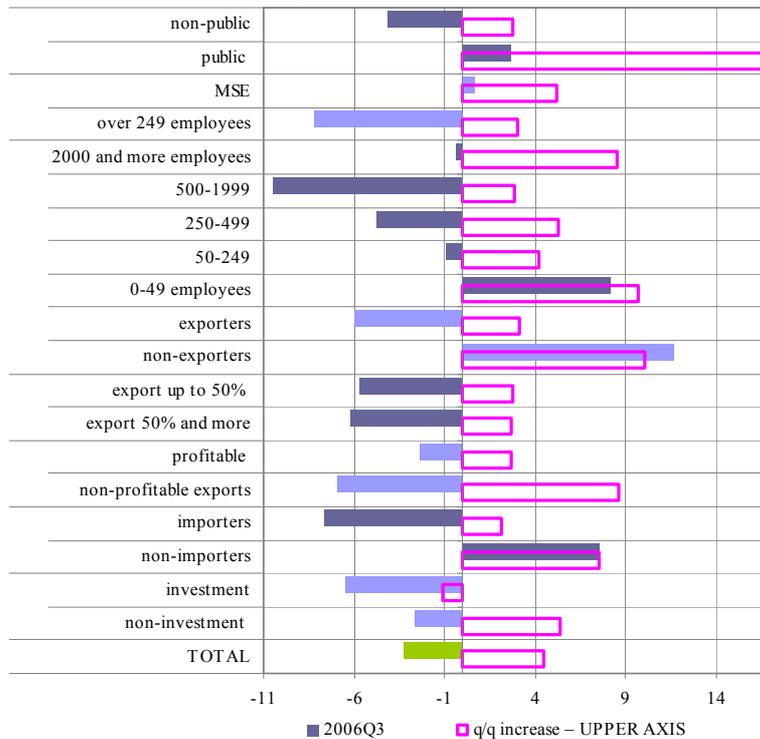


Fig. 130 Finished goods index in main classifications (industry without *Electricity, gas and water supply*)

I.6. Capacity utilisation

current developments	<ul style="list-style-type: none"> The seasonally adjusted index pointed to a rise in the level of capacity utilisation up to its absolute high in the survey history.
areas of high capacity utilisation	<ul style="list-style-type: none"> construction companies with foreign capital participation specialised exporters the largest enterprises in the sample (with more than 2000 employees)
areas of low capacity utilisation	<ul style="list-style-type: none"> <i>Electricity, gas and water supply</i> local government companies the smallest enterprises in the sample (with up to 50 employees) non-exporters

LEVEL OF CAPACITY UTILISATION

At the end of 2006 Q2 the **seasonally adjusted level of capacity utilisation rose by 0.2 percentage point in relation to Q1, reaching the level of 81.3%, i.e. the highest point in the survey history** – cf. Fig. 131.

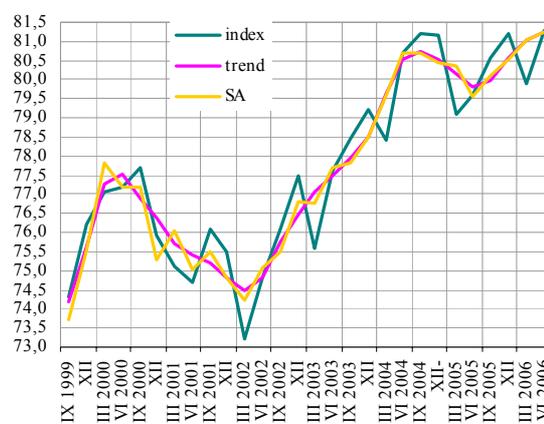


Fig. 131 Average capacity utilisation level and index trend

The mean and median of the distribution (raw data) were 81.3% and 85%, respectively (cf. Fig. 132), and the average capacity utilisation weighted by the level of employment was 84.4%. Raw data reveal that the surge in the activity of the surveyed enterprises as measured with the level of capacity utilisation, which is typical of this period, was more significant than in the corresponding period of 2005.

CHANGES IN CAPACITY UTILISATION – ANALYSIS ACROSS MAIN CATEGORIES

The analysis of the level of capacity utilisation in basic classification breakdowns points to the increased utilisation of production capacities in most of the surveyed classes.

- In PKD (NACE) sections **a clear growth in the level of capacity utilisation was recorded in dynamically developing construction** (up to its highest level in history) and in transport (cf. Fig. 138). In the latter section the growth in capacity utilisation is consistent with the strong improvement in demand which was suggested by this section's forecasts for Q2. Additionally, a slight growth in capacity utilisation was also recorded in manufacturing. In turn, the data for *Mining and quarrying* and *Electricity, gas and water supply* suggest a small drop in the level of capacity utilisation.
- Capacity utilisation rose both in the group of exporters and non-exporters (cf. Fig. 134). In contrast, a slight drop was recorded in the group of non-exporting importers. This drop may have resulted from increased production potential in this sector (in the previous quarter this group forecast a surge in employment).

- The rise in capacity utilisation occurred both in the private and public sector. As regards forms of ownership, capacity utilisation has been growing at the fastest rate in local government companies (cf. Fig. 137).
- There has been a clear rise in the level of capacity utilisation in the SME sector, including especially small enterprises, with a minor drop in this index in large and the largest enterprises (employing more than 500 people) – cf. Fig. 139.

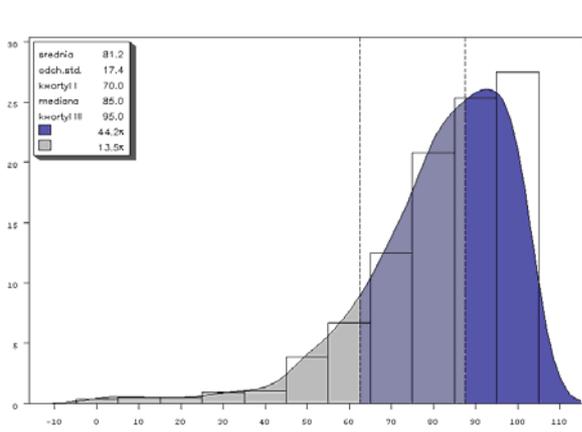


Fig. 132 Distribution of capacity utilisation in 2006 Q2

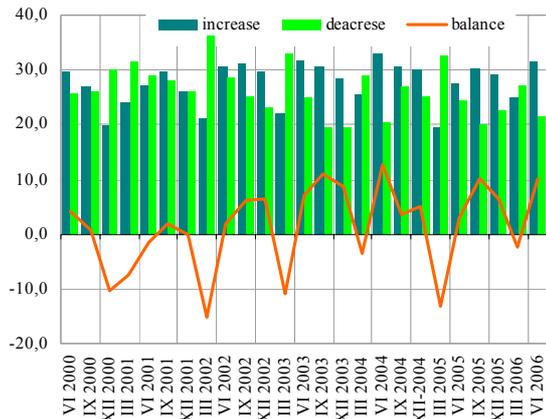


Fig. 133 Changes in level of capacity utilisation at unit level (dark green bars – increase as compared to previous quarter, light green bars – decrease, red line balance – increase minus decrease)

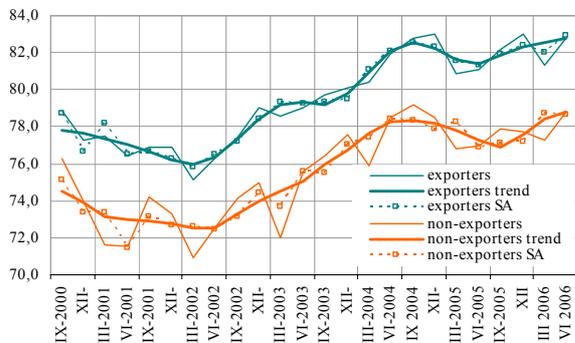


Fig. 134 Average capacity utilisation level in classes of exporters and non-exporters

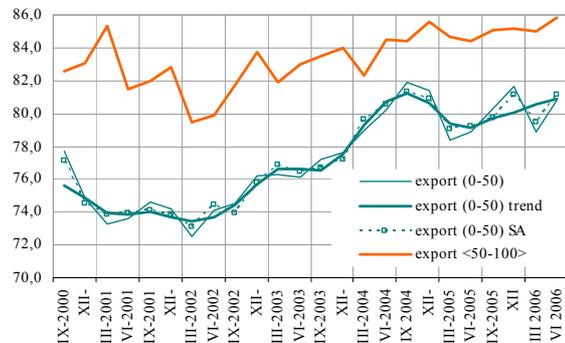


Fig. 135 Average capacity utilisation level in class of specialised exporters (with over 50% share of exports in revenue – export >50) and non-specialised exporters (with less than 50% share of exports in revenue)

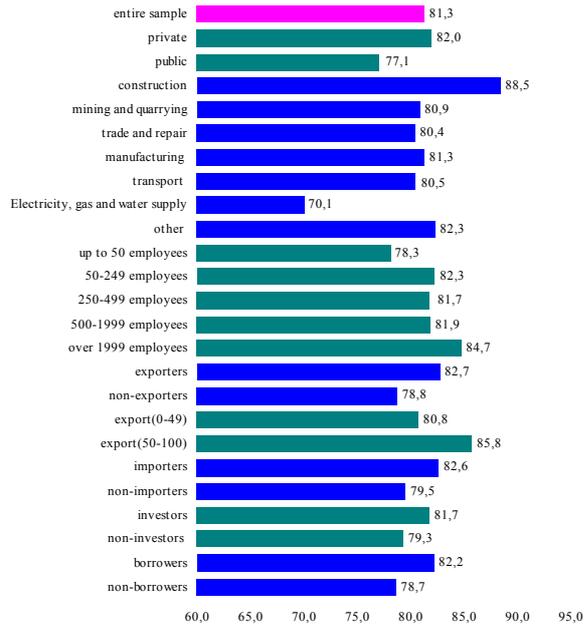


Fig. 136 Average capacity utilisation level across main classifications – data for 2006 Q2

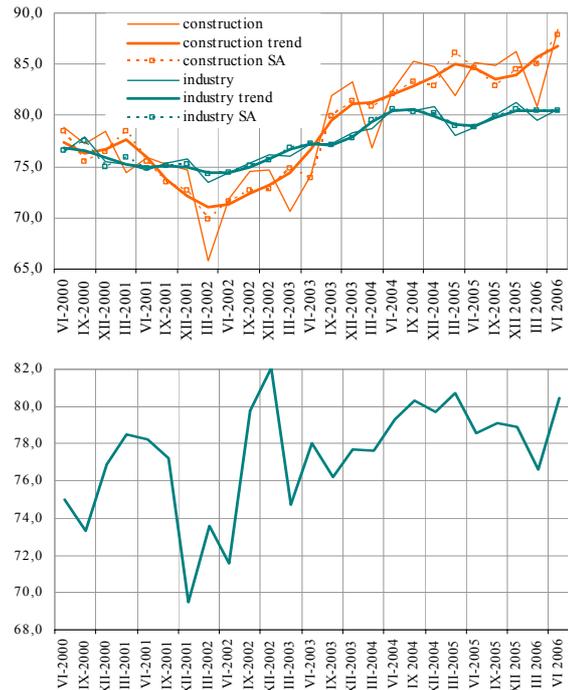


Fig. 138 Average capacity utilisation level in construction, industry (above) and transport (below)

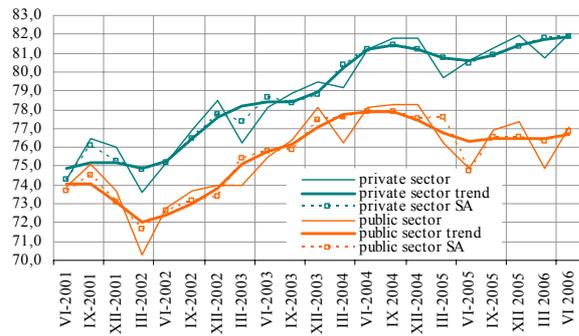


Fig. 137 Average capacity utilisation level by ownership sector

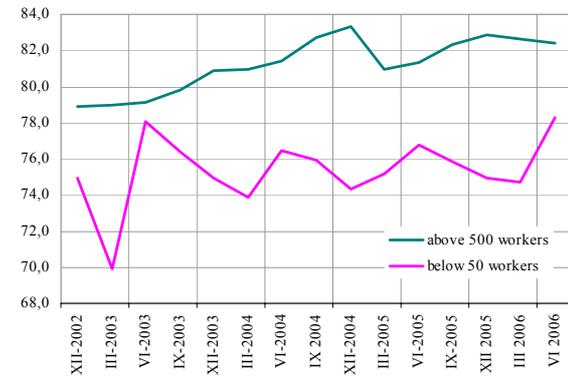


Fig. 139 Average capacity utilisation level in classes of enterprise size (size measured with number of employees)

I.7. Bank loans

bank indebtedness forecasts	<ul style="list-style-type: none"> The differences in the forecasts of debt between large and small enterprises are deepening: large companies will be increasing their indebtedness, while the small ones plan to reduce it.
bank indebtedness forecasts – analysis across main categories	<ul style="list-style-type: none"> Plans for increasing bank loan debt prevailed among enterprises in a very good economic condition, planning to increase their investment and employment size. Larger debt is also envisaged by enterprises from sections <i>Other</i> and <i>Mining and quarrying</i>. Debt reductions are announced by enterprises in a bad economic condition.
bank loan availability	<ul style="list-style-type: none"> In 2006 Q2, the percentage of enterprises applying for a loan in the sample rose in relation to the previous quarter. In 2006 Q2, more problems with obtaining a bank loan (in comparison to the previous quarter) were mainly reported by enterprises from sections <i>Construction</i>, <i>Trade</i>, by public sector enterprises and also by the SME sector and enterprises employing more than 2000 people.
bank loans as a source of financing operating activity	<ul style="list-style-type: none"> The structure of sources of financing operating activity remains stable. In 2006 Q2 enterprises in a good and poor economic condition and those experiencing occasional liquidity problems had the largest share of loans in funding their operating activity.

BANK LOAN FORECAST

In 2006 Q3 the seasonally adjusted index of the balance of bank loan forecasts (for the whole sample) was negative and fell in relation to the previous quarter. In turn, the index of **the balance of bank indebtedness forecasts weighted by employment size has been growing for another quarter in a row. This may indicate that the bank indebtedness of enterprises will be rising**¹⁷ (in the last quarter this index reached the highest level in the survey history) (Fig. 140).

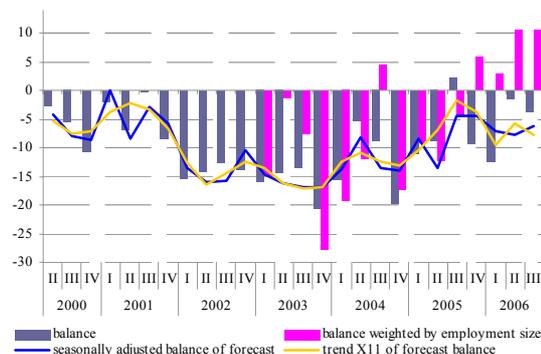


Fig. 140 Bank loan debt forecast index (balance of the difference: debt increase – debt decrease, population of borrowers=100)

¹⁷ The direction of changes of the balance weighted by employment is consistent with the results of the analysis of banking statistics data. The quarter-on-quarter growth in total loan debt of enterprises suggests that this category has been rising since January 2006.

LOAN DEBT FORECASTS – ANALYSIS ACROSS MAIN CATEGORIES

The analysis of bank loan forecasts in basic breakdowns indicates that plans to increase debt prevailed:

- in large enterprises employing more than 500 people,
- in sections *Mining and quarrying* and *Other*,

In turn, plans for deeper reduction of bank indebtedness were mainly reported by:

- non-investment companies,
- enterprises from sections *Electricity, gas and water supply* and *Manufacturing*,
- and large enterprises, with between 250 and 2000 employees.

In the remaining classes the forecasts of loan debt reduction were only slightly more frequent than the plans for increasing bank indebtedness.

SELECTED FACTORS AFFECTING DEBT LEVEL

In the sample **plans to increase bank indebtedness were announced by enterprises in a very good economic condition**. Such intensions were also voiced by **enterprises expecting:**

- **the commencement of new investment projects** (Fig. 146),
- **an increase in the employment level**,
- **a drop in interest rates** (Fig. 149).

Large enterprises not experiencing problems with financial liquidity also intend to increase their bank indebtedness (the balance of data weighted by employment) – Fig. 147.

BANK LOAN AVAILABILITY

In 2006 Q2, the percentage of enterprises applying for a bank loan increased markedly in relation to the previous quarter. At the same time, the share of enterprises which had been refused a bank loan edged up. The main cause of bank loan refusals were factors outside the enterprise's control. Less frequently, i.e. in only 3% of enterprises, loans were not granted because of the company's lack of creditworthiness (Fig. 141).

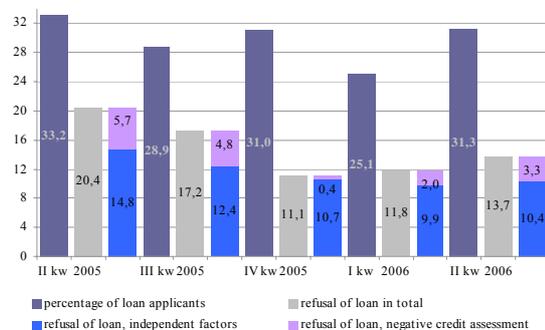


Fig. 141 Share of enterprises in the sample applying for a loan, percentage of enterprises which were refused and reasons for the refusal.

In 2006 Q2 loans were most often sought by the largest enterprises – over 34%, and the least frequently by the smallest companies – approx. 27% of the class. In the other classes the percentages of enterprises seeking a bank loan were very similar. Similarly to the previous quarter the smallest percentage of loan refusals was recorded in the class of enterprises employing between 500 and 2000 people. Bank loans were most often refused to enterprises with up to 50 employees (Fig. 150). In 2006 Q2, as previously, **banks did not refuse to grant a loan to any enterprise assessing its economic condition as very good** (Fig. 151).

Banks most often refused to grant loans to enterprises in a bad economic condition (according to their own assessment) and to companies experiencing problems with timely repayment of loan liabilities. In these classes of enterprises, over 66% of companies reported this problem. Experiencing frequent problems with financial liquidity was another serious impediment to receiving a bank loan (almost 37% of enterprises which reported such problems were refused a loan) – Fig. 151.

More frequently than in the previous quarter loan refusals were experienced by enterprises from sections *Construction* and *Trade* (Fig. 151). The significant rise in bank loan refusals also applied to non-importers (Fig. 154).

BANK LOANS AS A SOURCE OF FINANCING OPERATING ACTIVITY

Own funds have remained the fundamental source of financing operating activity. In the whole of the analysed period they accounted for over 50% and at the end of 2006 Q2 their share was 53%. Another important source of current funding were accounts payable. At the end of 2006 Q2 these funds accounted for 21.5% of all funds used for financing operating activity of enterprises. **Bank loans remained the third most important source**

of financing current needs of enterprises. At the end of Q2, their share in the structure of sources of finance amounted to approx. 13% (Fig. 142).

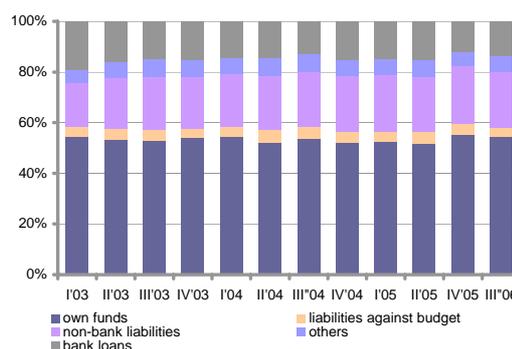


Fig. 142 Structure of sources of funding operating activity

The results of analysis in selected breakdowns indicate that funding operating activity is correlated with the economic condition of the enterprise. The better a given company assesses its economic condition, the larger share of own funds in financing its operating activity. In 2006 Q2 bank loans accounted for 10% of the funds needed by enterprises in the best condition, and for 16% in the case of companies in a bad situation.

The worse the situation of enterprises the greater significance of accounts payables and liabilities towards the budget, the Social Insurance Institution (ZUS) (Fig. 155). In the class of enterprises voicing frequent problems with financial liquidity, the liabilities towards the budget, the Social Insurance Institution (ZUS), accounted for nearly 9%, while accounts payable exceeded own funds used for financing operating activity. Enterprises with occasional liquidity problems tended to finance their operating activity with bank loans at the largest scale – at the end of 2006 Q2 they accounted for approx. 20% (Fig. 156).

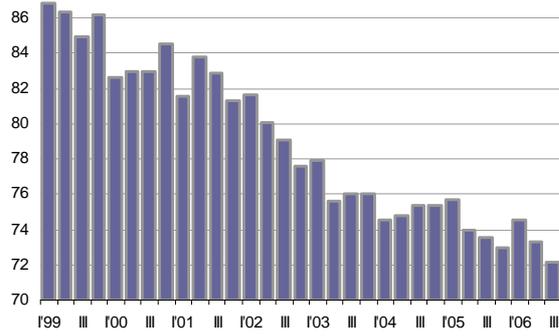


Fig. 143 Share of borrowers in the sample

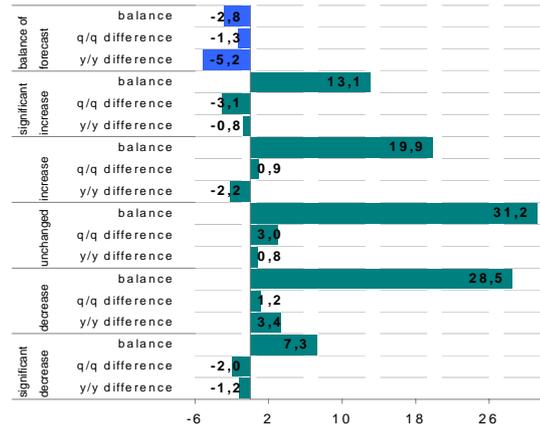


Fig. 144 Planned changes of loan indebtedness in the forthcoming quarter (population of borrowers=100)

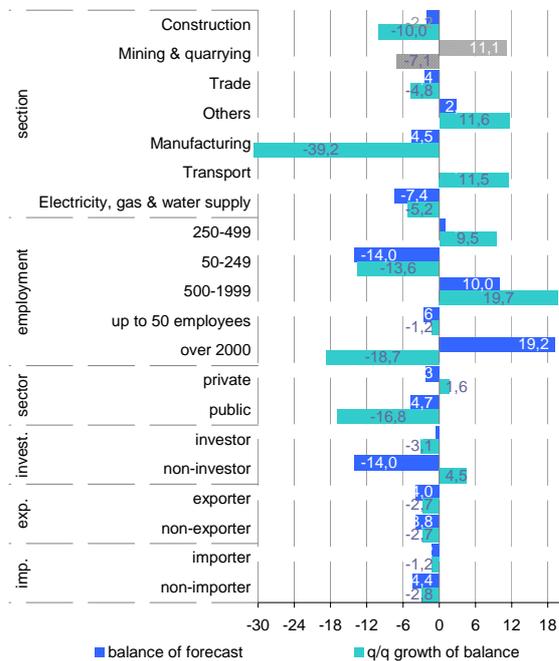


Fig. 145 Bank indebtedness forecast for the forthcoming quarter across main classes. The balance of forecast (difference between forecast of debt increase and decrease). The classes underrepresented in the sample are marked in grey.

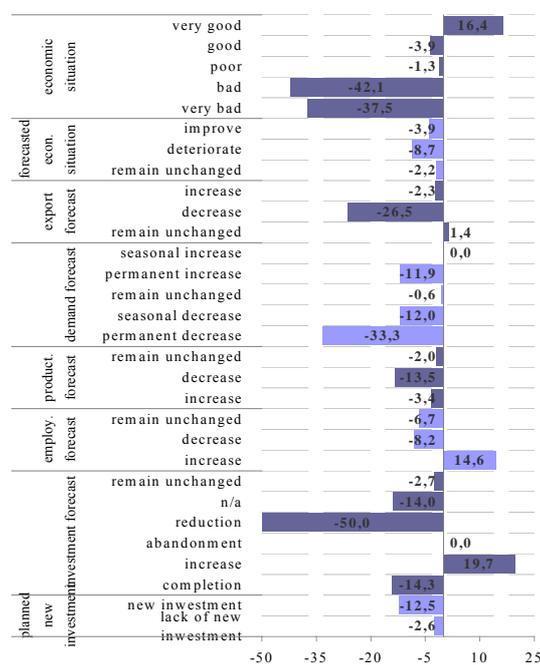


Fig. 146 Elements of enterprises' economic condition assessments and forecasts vs. expected bank loan indebtedness in the forthcoming quarter. The balance is calculated as the percentage of forecast increases and decreases in the classes of responses

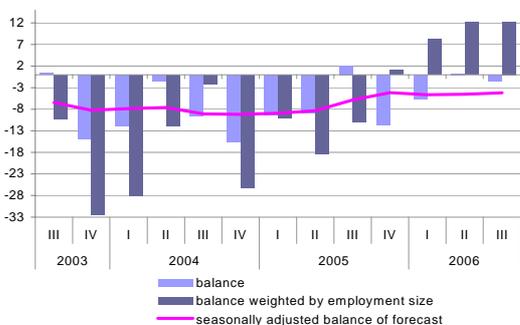


Fig. 147 Balance of bank loan indebtedness forecast among enterprises without liquidity problems (balance of the difference: debt increase – debt decrease, population of borrowers=100)

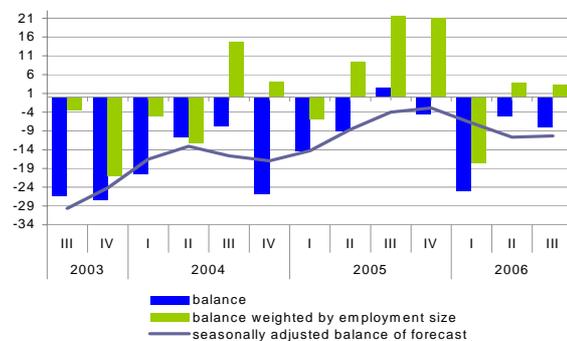


Fig. 148 Balance of bank loan indebtedness forecast among enterprises with liquidity problems (balance of the difference: debt increase - debt decrease, population of borrowers=100)

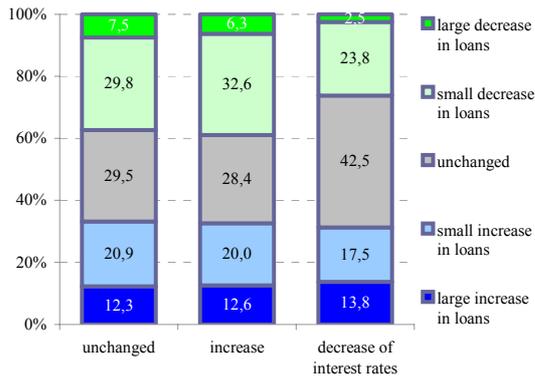


Fig. 149 Planned change in level of debt in the light of expected changes of interest rates in the forthcoming quarter

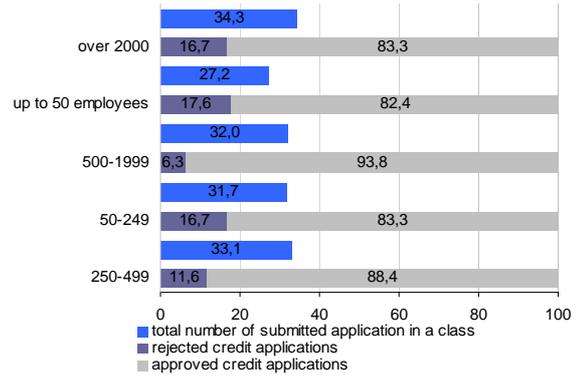


Fig. 150 Percentage of enterprises (by classes of employment size) applying for a loan in 2006 Q2 (% share in the class) and percentage of approved and rejected loan applications in these classes (shares sum up to 100)

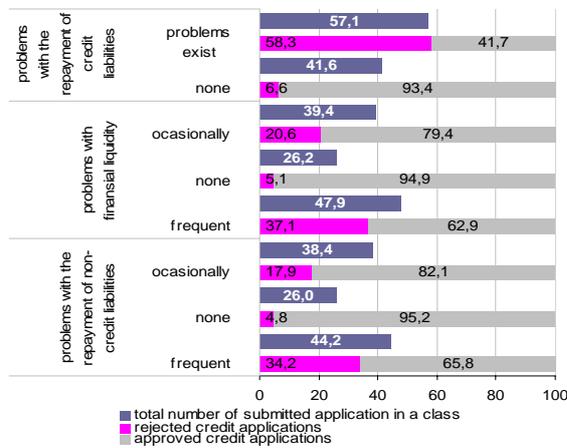


Fig. 151 Percentage of enterprises (by class according to selected elements of economic condition assessments) applying for a loan in 2006 Q2 (% share in a class) and the share of approved and rejected loan applications in these classes (shares sum up to 100)

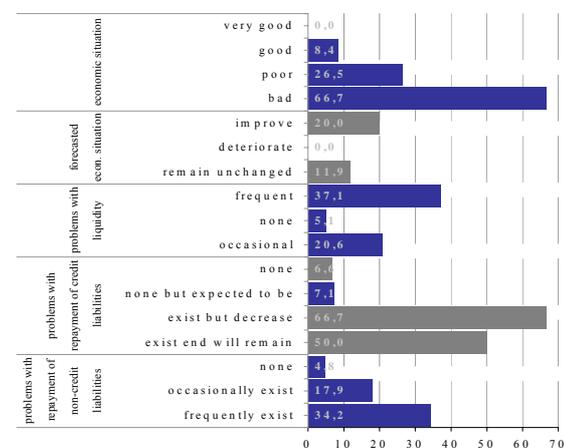


Fig. 152 Share of enterprises in the sample which were refused a loan in 2005 Q3 and selected elements of economic condition assessment

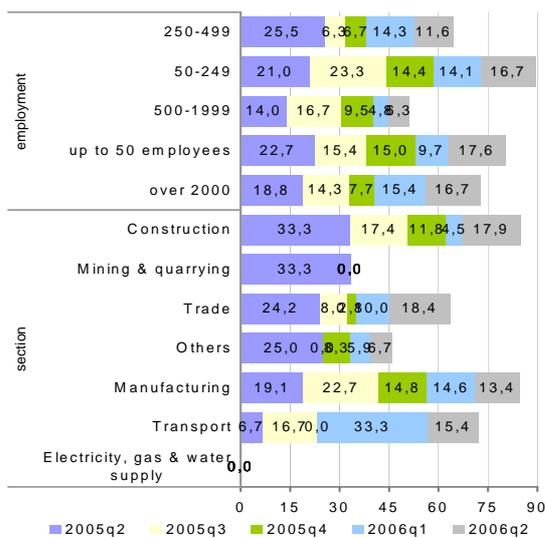


Fig. 153 Percentage of enterprises in classes by PKD (NACE) section and employment size which were refused a loan in subsequent quarters (percentages of enterprises in each class do not add to 100)

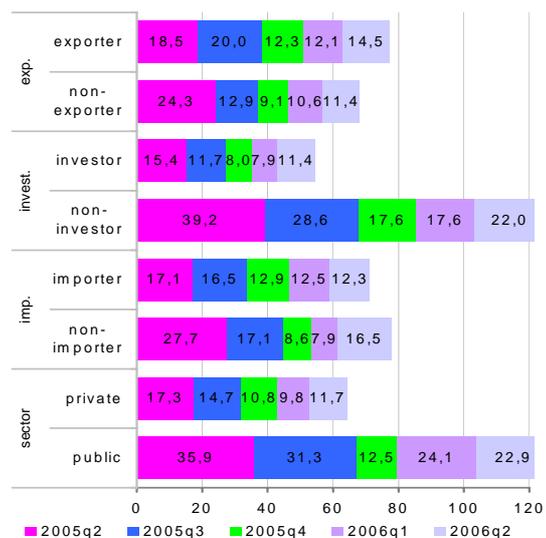


Fig. 154 Percentage of enterprises in selected classifications of enterprises which were refused a loan in subsequent quarters (percentages of enterprises in each class do not add to 100)

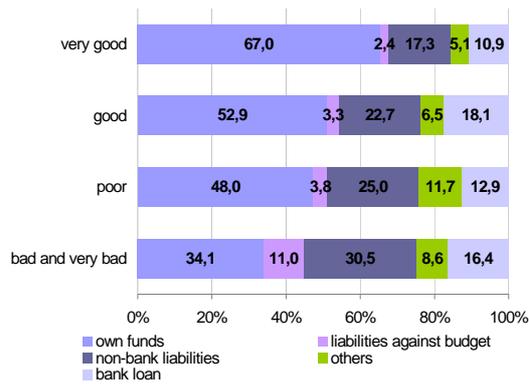


Fig. 155 Assessment of economic condition vs. structure of sources of funding operating activity

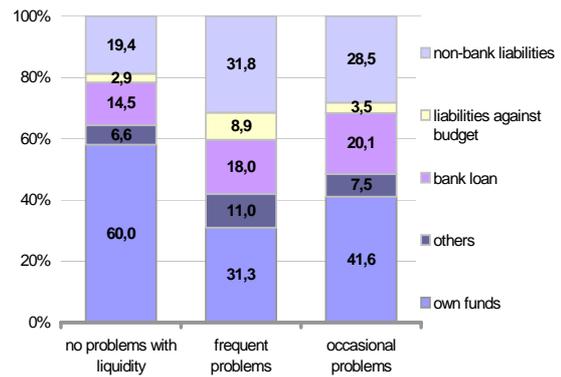


Fig. 156 Liquidity problems vs. structure of sources of funding operating activity

I.8. Bank loan interest rates

current developments	<ul style="list-style-type: none"> Interest rates on PLN loans (both short- and long-term ones) are decreasing. Interest rates on foreign currency loans (both short- and long-term ones) are increasing.
changes in interest charged on loans in main categories	<ul style="list-style-type: none"> The cheapest loans are obtained by the largest enterprises (but also by enterprises employing between 250 and 2000 workers), enterprises from sections <i>Electricity, gas and water supply</i> and <i>Manufacturing</i>. The better the economic condition of the enterprise, the lower cost of credit it has to bear.
interest rate forecasts	<ul style="list-style-type: none"> Among enterprises expecting changes in the interest charged on bank loans, for the first time for 5 quarters the forecasts of growth in the price of credit have prevailed over the forecasts of its reduction (however, most enterprises – i.e. approx. 67% of borrowers – envisage no changes in the interest on bank loans in the perspective of one quarter).

ZLOTY LOAN INTEREST RATES

In 2006 Q2 the interest rates on PLN loans have continued their downward trend for the sixth quarter in a row. The average interest rate on short-term loans amounted to 6.0% (Fig. 157), and the interest rate on long-term zloty loans averaged 5.6% (Fig. 159).

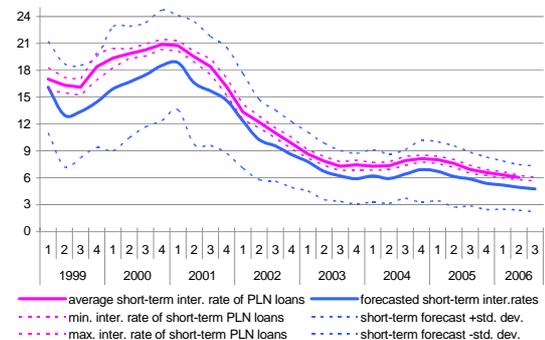


Fig. 157 Interest on short-term PLN loans, band of minimum and maximum interest rates as well as forecast of interest rates within fluctuation band (average forecast interest rate on zloty short-term loan +/- standard deviation)

FOREIGN CURRENCY LOAN INTEREST RATES

Average interest rate on short-term foreign currency loans increased in the last quarter. It is currently at the level last recorded in the middle of 2003. In 2006 Q2 the average interest rate on this category of loans was 4.2% (Fig. 160). A similar trend is observed in interest rates charged on long-term foreign currency loans, which have been growing for three consecutive quarters now. At the moment, the average interest rate on long-term foreign currency loans has reached the level from the turn of 2003 and 2004 and amounts to 4.5% (Fig. 161).

CHANGES IN INTEREST RATES ON ZLOTY LOANS – ANALYSIS ACROSS MAIN CATEGORIES

In 2006 Q2 the average interest rate on short-term loans fell down in comparison to the corresponding period of the previous year in all the analysed classes of enterprises (Table 3). The cheapest short-term loans were granted to the largest enterprises (employing over 2000 people). The relatively highest interest was charged on short-term loans granted to enterprises with up to 50 employees and also to companies from the section *Construction* and non-investors.

Also long-term loans were most cheaply available to the largest enterprises, companies from the section *Electricity, gas and water supply* and public sector entities. In turn, the smallest companies (with up to 50 employees), enterprises from sections *Construction, Transport* and *Mining and quarrying* obtained long-term zloty loans at the highest cost. In 2006 Q2 the average interest rate on long-term loans only rose in the section *Mining and quarrying*.

A clear negative dependence is visible between the economic condition of the company and the price of bank credit. In 2006 Q2 the interest charged on loans to enterprises assessing their economic condition as very good fell to its lowest level in the survey history, i.e. 5.2%. There was also a marked decline in the interest on loans granted to enterprises in a very bad economic condition yet anticipating improvement, which averaged 7%. By contrast, the interest on loans to companies in a bad economic condition which do not anticipate any improvement increased over the past quarter and is about 5 percentage points above the average interest rate for the whole sample (Fig. 163).

INTEREST RATE FORECAST

For the first time in five quarters **the conviction that interest rates will rise in the perspective of one quarter has prevailed in the sample** (Fig. 158). In 2006 Q2 the percentage of enterprises forecasting further interest rate reductions decreased substantially, from 42% in 2006 Q1 to 15%. In turn, the percentage of enterprises anticipating growth in interest charged on bank loans rose from 7% to 17% (Fig. 164).

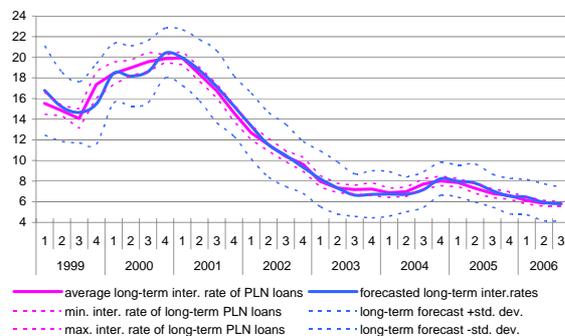


Fig. 159 Interest on long-term PLN loans, the band of minimum and maximum interest rates as well as the forecast of interest rates within fluctuation band (average forecast interest rate on long-term zloty loan +/- standard deviation).

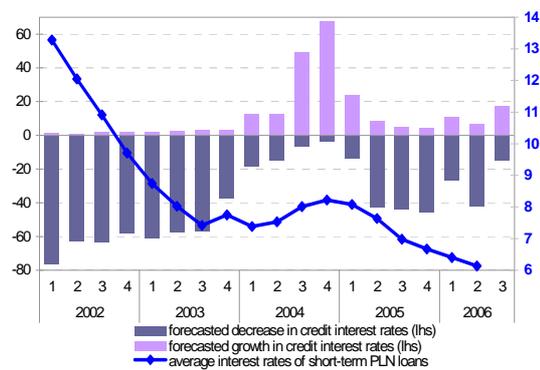


Fig. 158 Forecast changes in bank loan interest rates and average interest rates on short term PLN loans

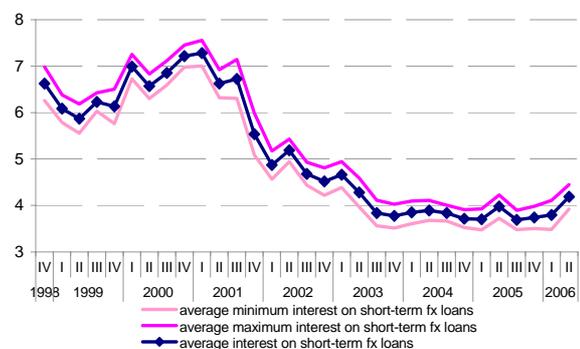


Fig. 160 Interest on short-term foreign currency loans within band of minimum and maximum average interest rate charged on the loan

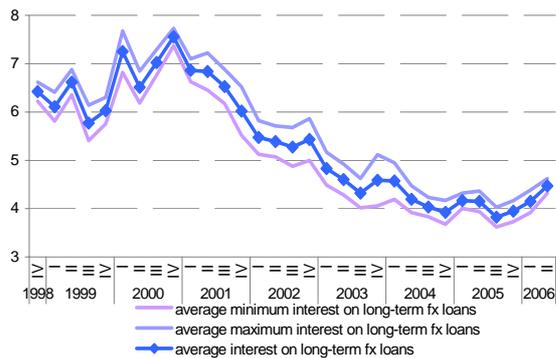


Fig. 161 Interest on long-term foreign currency loans within band of minimum and maximum average interest rate charged on the loan

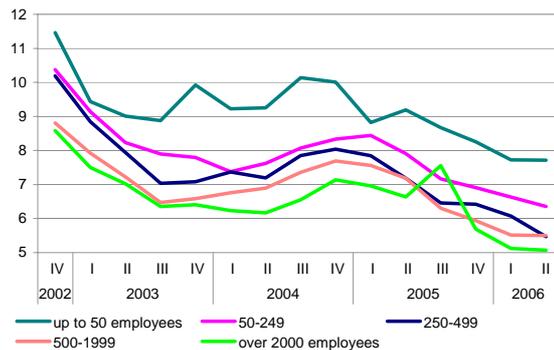


Fig. 162 Interest charged on short-term PLN loans vs. employment size

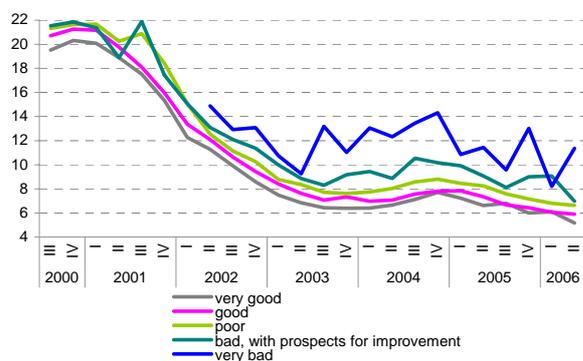


Fig. 163 Average interest rates on short-term loans vs. assessment of enterprise's economic situation

	interest of short term loans	y/y change in interest on short-term loans	interest on long-term loans	y/y change in interest on long-term loans
250-499	5,39	83,42	5,63	86,61
50-249	6,21	86,66	6,19	84,36
500-1999	5,09	80,75	5,05	86,44
up to 50 employees	7,59	87,53	6,27	61,17
over 2000	5,55	73,40	5,58	104,20
private	5,93	84,91	5,83	82,84
public	5,58	82,65	5,51	91,66
Construction	7,06	88,54	7,22	85,49
Mining & quarrying	5,93	83,00	5,19	80,18
Trade	6,01	88,06	6,05	76,57
Others	6,09	81,91	5,82	82,47
Manufacturing	5,69	82,43	5,61	84,89
Transport	6,10	91,32	5,75	89,49
Electricity, gas & water supply	4,68	82,01	4,73	91,59
importer	5,54	83,47	5,56	80,80
non-importer	6,40	84,73	6,06	88,82
investor	5,64	83,74	5,54	85,00
non-investor	6,50	82,81	6,32	81,99
exporter	5,73	84,80	5,57	80,31
non-exporter	6,32	84,86	6,10	89,20

Table 3 Average interest on PLN loans in main classes of enterprises in 2005 Q4. Change of interest as compared to the corresponding quarter of the previous year

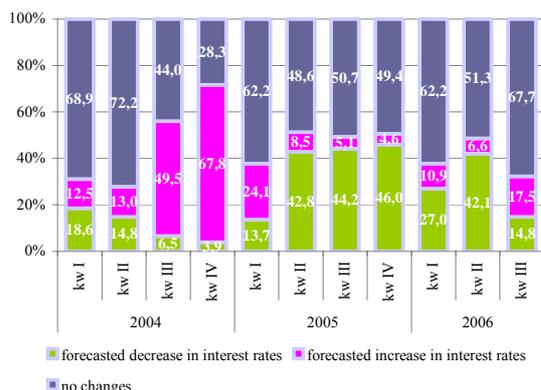


Fig. 164 Expected changes of interest on loans within the forthcoming quarter

I.9. Financial liquidity of enterprises

financial liquidity

- The percentage of enterprises experiencing problems with liquidity has increased slightly, but remains low.
- The percentage of enterprises timely settling their loan debt and non-bank debt liabilities remains high (slightly lower than in the previous quarter). The trends of both the indices suggest further improvement.

changes in liquidity in main categories

- Enterprises from the section *Electricity, gas and water supply* and large enterprises (employing over 2000 people) displayed the highest financial liquidity.
- Relatively most problems with timely settlement of loan debt liabilities are experienced by enterprises from the SME sector and from the section *Construction*.

FINANCIAL LIQUIDITY ASSESSMENTS

Despite a small, one-point drop in relation to the previous quarter, **the percentage of enterprises declaring no liquidity problems remained at a very high level.** In 2006 Q2 approx. 69% of respondents declared satisfactory financial liquidity (Fig. 165).

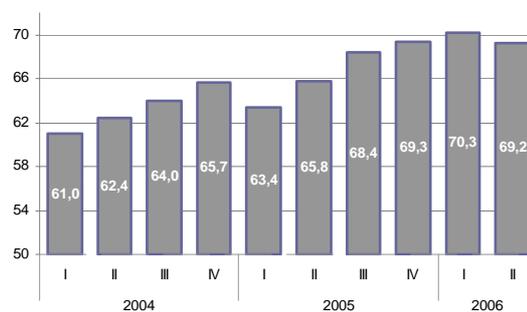


Fig. 165 Percentage share of enterprises without liquidity problems

CHANGES IN LIQUIDITY – ANALYSIS ACROSS MAIN CATEGORIES

The least frequent problems with maintaining liquidity were reported by enterprises from sections *Electricity, gas and water supply* and *Other*. This problem was the most frequently reported by companies from the section *Construction*. In this class the percentage of enterprises reporting the problem of insufficient financial liquidity has risen for the second consecutive quarter (Fig. 169).

The negative correlation between the occurrence of financial liquidity problems and the size of the enterprise persists. The smaller the entity, the more often it suffers from insufficient financial liquidity. However, 2006 Q2 marked **a fall in the percentage of the smallest enterprises reporting liquidity problems.** In contrast, there was an increase in the percentage of medium-sized enterprises (employing between 50 and 250 people) experiencing this problem. In neither of the classes the percentage of companies without liquidity problems has yet exceeded 60% of the population (Fig. 173).

Lack of liquidity problems has been the most frequently reported by enterprises assessing their economic situation as good or very good (among the companies assessing their condition as very good no liquidity problems have always been reported by approx. 95% and among those assessing their condition as good – by about 70%).

In 2006 Q2, more than 80% of companies in the class of investors reported no liquidity problems. Among non-investors more than 60% of enterprises had sufficient liquidity (Fig. 170).

Since 2005 Q3 the percentages of enterprises declaring no liquidity problems have been similar in the classification by the share of imports and exports in total revenue (both among importers and non-importers, and among exporters and non-exporters) – at the end of 2006 Q2 they oscillated at around 70% in all classes (Fig. 171).

BANK INDEBTEDNESS SERVICING

2006 Q2 saw a slight decline in the percentage of enterprises timely settling their bank loan liabilities in relation to the previous quarter, even though the percentage was still higher than in the corresponding quarter of the preceding year (the trend of the index indicates further improvement) – Fig. 166.

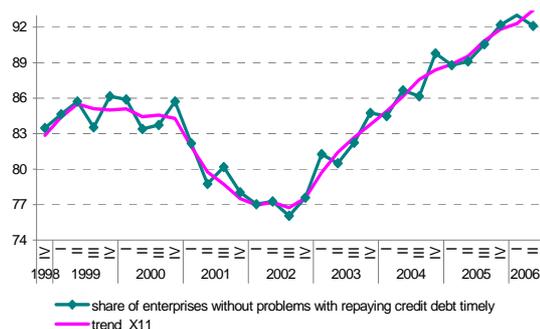


Fig. 166 Share of enterprises repaying bank loan on time

BANK LOAN SERVICING – ANALYSIS ACROSS MAIN CATEGORIES

In 2006 Q2 the percentage of enterprises settling their liabilities towards banks on time was relatively stable. In the last quarter, the least frequent problems with timely settlement of loan debt liabilities were reported by:

- enterprises employing between 250 and 2000 people – Fig. 178,
- enterprises from sections *Electricity, gas and water supply* and *Mining and quarrying* – Fig. 175,
- investors (Fig. 179).
- public enterprises (this class saw a significant improvement in bank indebtedness servicing as compared to the preceding quarter) – Fig. 179.

Among the enterprises classified by the share of revenue from imports and exports in total revenue, the percentages of companies timely settling their loan debt liabilities are similar. Deterioration in the timely settlement of liabilities towards banks was visible among non-investors and in the section *Construction* (Fig. 175).

NON-BANK DEBT SERVICING

In 2006 Q2 net balance of the percentage of non-bank debt servicing decreased in relation to the preceding quarter. In year-on-year terms there has been a substantial increase in the sample's percentage of enterprises declaring improvement in their non-bank debt servicing (the trend of this index also points to its further improvement) (Fig. 167).

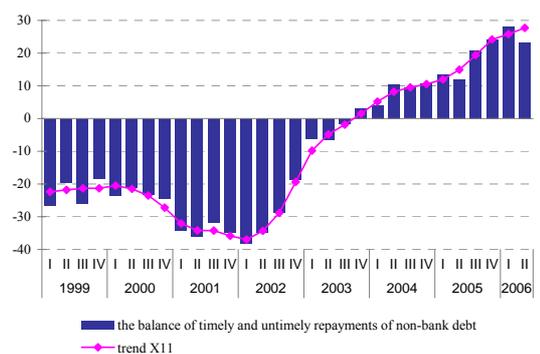


Fig. 167 Balance of timely and untimely repayment of non-bank liabilities in the sample

NON-BANK DEBT SERVICING – ANALYSIS ACROSS MAIN CATEGORIES

The analysis of the capacity of non-bank servicing in basic breakdowns suggests that:

- the timeliness of settling liabilities is increasing in the majority of the surveyed categories (Fig. 181 – Fig. 184),

- the biggest share of enterprises settling their non-bank liabilities on time was recorded in the section *Electricity, gas and water supply* and among large enterprises (employing more than 500 people). In these classes the percentage of enterprises grew in relation to the preceding quarter.
- in 2006 Q1 the largest percentage of enterprises declaring problems with timely settlement of liabilities was recorded in the section *Construction*, in medium-sized enterprises (employing between 50 and 250 employees) and non-investors. In 2006 Q2 sections *Transport* and *Construction* saw a rise in the number of companies reporting problems with timely settlement of receivables.

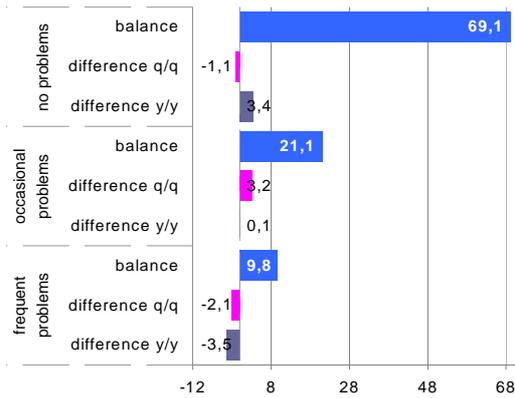


Fig. 168 Problems with liquidity in 2006 Q2 and change of this category as compared to the previous quarter and corresponding quarter of the previous year

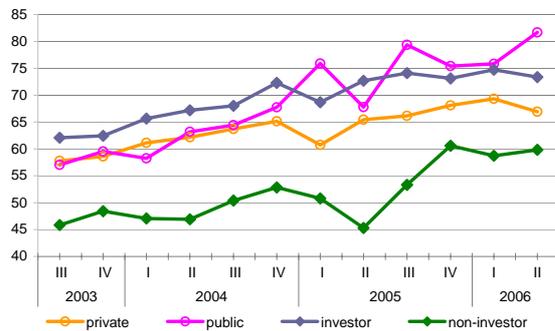


Fig. 170 Percentage of enterprises without liquidity problems by sector and in classes of investors and non-investors

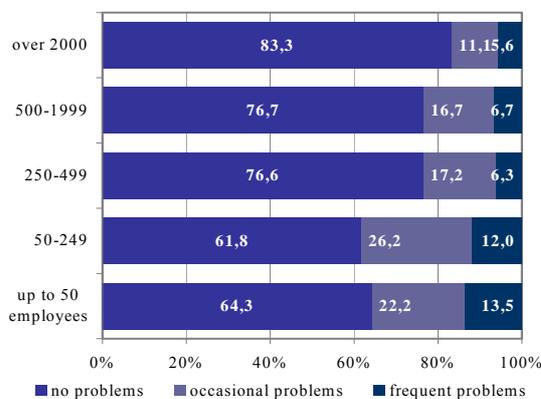


Fig. 172 Frequency of problems with liquidity in the light of enterprise size in the previous quarter

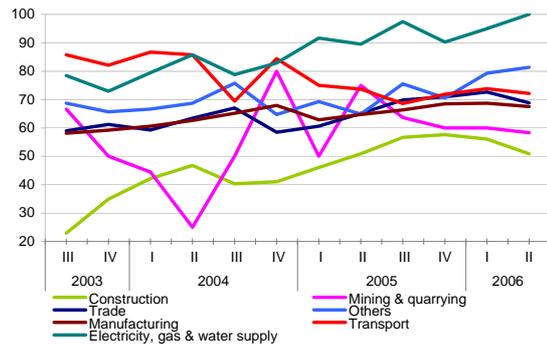


Fig. 169 Percentage of enterprises without liquidity problems in PKD (NACE) sections

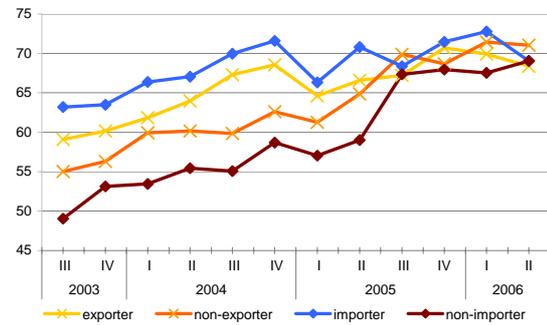


Fig. 171 Percentage of enterprises without liquidity problems by the share of import and export revenue in total revenue

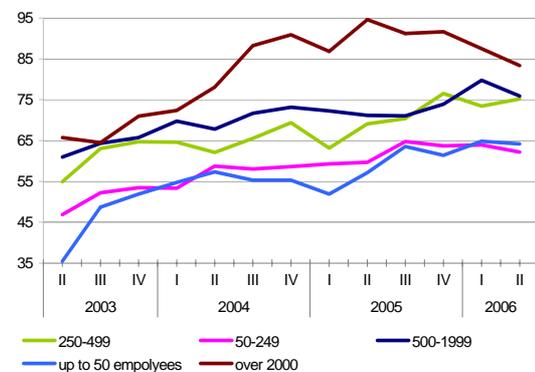


Fig. 173 Percentage share of enterprises without liquidity problems vs. size of employment

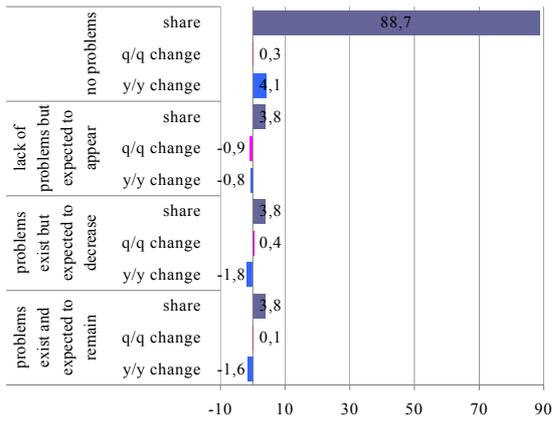


Fig. 174 Degree of timeliness of loan debt repayments and change as compared to the previous quarter and corresponding quarter of the previous year

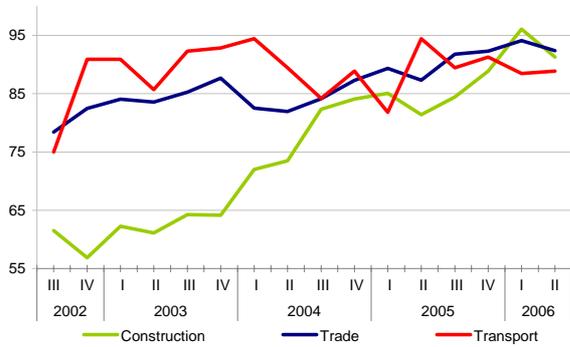


Fig. 176 Percentage share of enterprises without problems with repayment of loan liabilities in PKD (NACE) sections

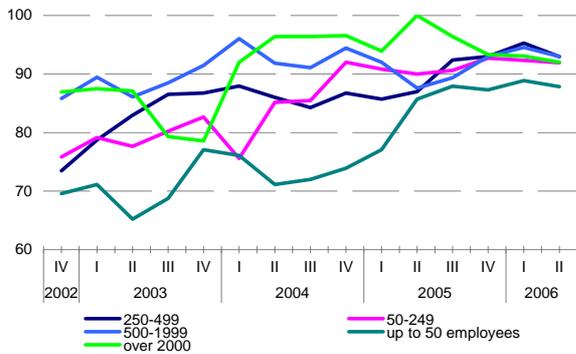


Fig. 178 Percentage share of enterprises repaying loan liabilities on time vs. size of enterprise

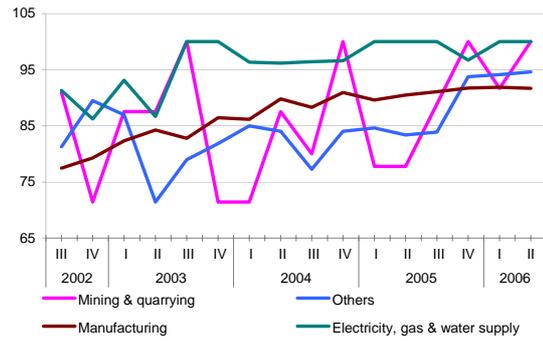


Fig. 175 Percentage share of enterprises without problems with repayment of loan liabilities in PKD (NACE) sections

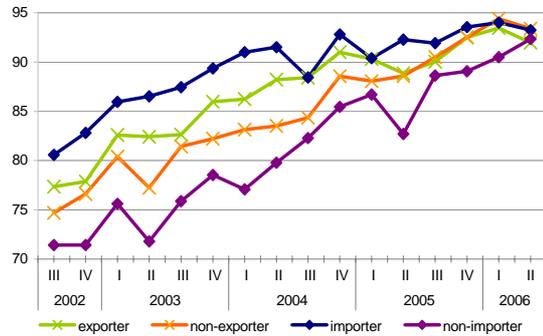


Fig. 177 Percentage share of enterprises without problems with repayment of loan liabilities in groups of exporters and importers

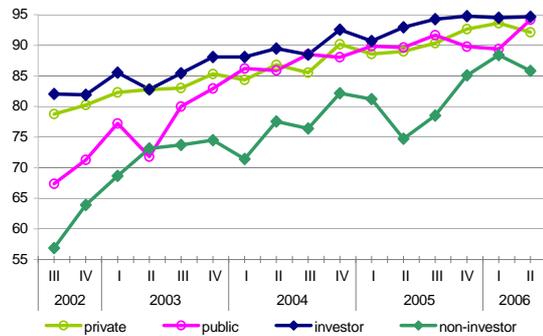


Fig. 179 Percentage share of enterprises without problems with repayment of loan liabilities by group of investors and non-investors and by sector

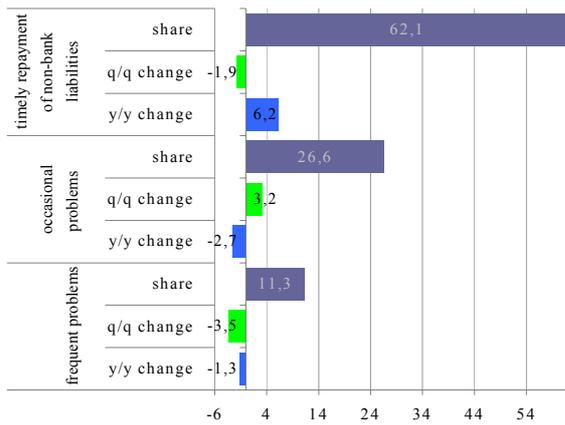


Fig. 180 Degree of timely non-loan debt repayment, change as compared to the previous quarter and to the corresponding quarter of the previous year

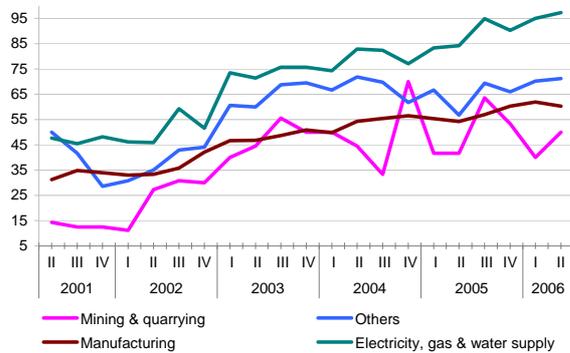


Fig. 181 Share of enterprises without problems with repayment of non-bank liabilities in PKD (NACE) sections

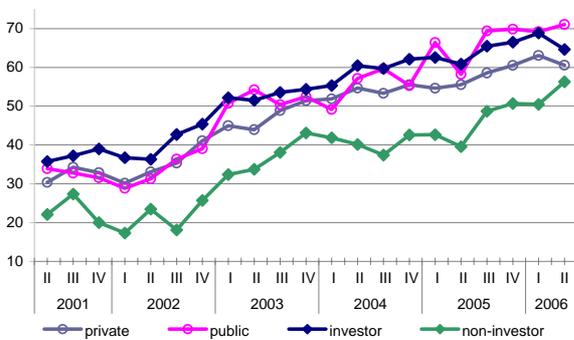


Fig. 183 Share of enterprises without problems with repayment of non-bank liabilities in groups of investors and in public and private sectors



Fig. 182 Share of enterprises without problems with repayment of non-bank liabilities in PKD (NACE) sections

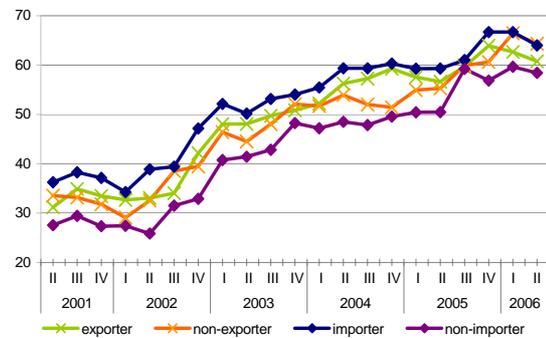


Fig. 184 Share of enterprises without problems with repayment of non-bank liabilities in groups of importers and exporters

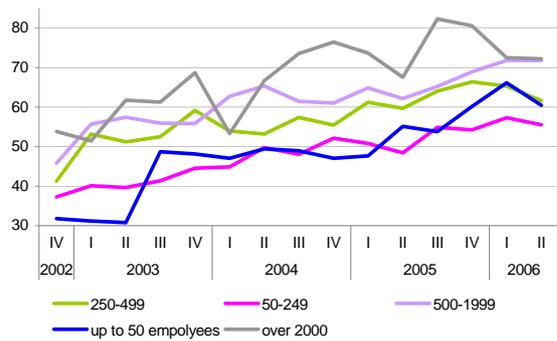


Fig. 185 Share of enterprises without problems with repayment of non-bank liabilities vs. employment size

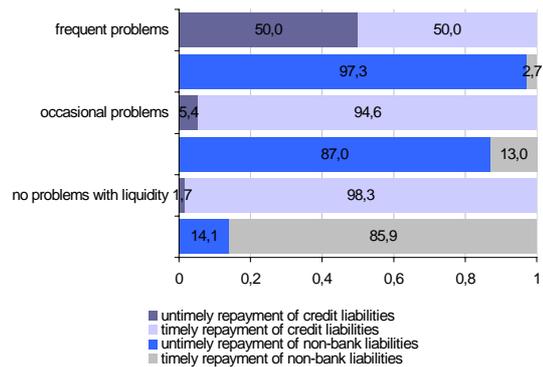


Fig. 186 Problems with liquidity w 2006 Q1 vs. frequency of problems with timely repayment of a loan and non-bank liabilities as well as lack of such problems

I.10. Prices

CPI and PPI forecasts	<ul style="list-style-type: none"> • Inflation expectations increased.
forecast prices of raw materials used for production	<ul style="list-style-type: none"> • Enterprises expect a rise in the growth rate of prices of raw materials in quarter-on-quarter terms and at the same time plan larger increases in the prices of goods than those in the previous quarter.
forecast prices of own products	<ul style="list-style-type: none"> • There is a continued tendency of smaller companies to plan larger increases of the prices of own products. • The expectations for the growth rate of prices of own products increased in relation to the corresponding period of the previous year.
inflation as one of growth barriers	<ul style="list-style-type: none"> • The problem of rising costs of operating activity (prices of raw materials, fuels, energy and gas) ranked second among barriers to enterprise growth (it was reported by every tenth enterprise).

PPI AND CPI FORECASTS

The forecasts of enterprises for 2006 Q3 (based on the index of PPI growth¹⁸) point to **an increased growth rate of producer prices in industry** – cf. Fig. 187. Similarly, the forecasts of the annual growth rate of the prices of consumer goods and services (based on the index of inflation growth¹⁹) indicate a possibility that the rate growth of these prices will step up (cf. Fig. 188).

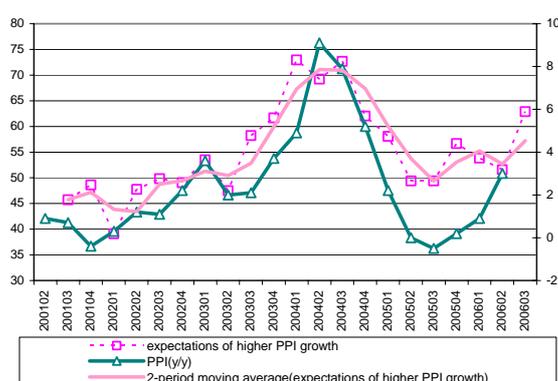


Fig. 187 Index of PPI growth (percentage of respondents expecting higher PPI growth than in the previous quarter) vs. PPI (right-hand axis)

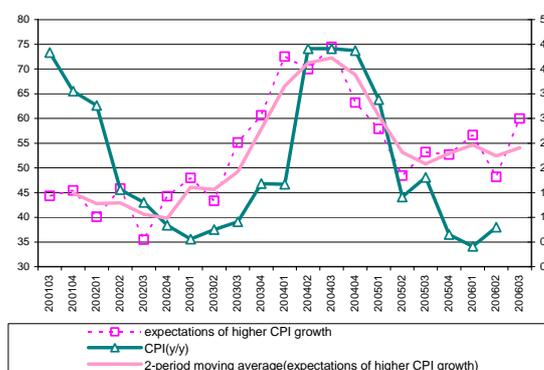


Fig. 188 Index of inflation growth (percentage of respondents expecting high CPI growth than in the previous quarter) vs. CPI (right-hand axis)

Source: NBP monitoring and GUS

¹⁸ The index of PPI growth (WW PPI) was calculated as the percentage of enterprises forecasting a greater increase of the PPI in the current than in the previous quarter.

¹⁹ The index of inflation growth (WWI) (analogically to WW PPI) was calculated as the percentage of enterprises forecasting a higher inflation in the current than in the previous period.

FORECAST PRICES OF OWN PRODUCTS

In 2006 Q3 enterprises plan higher increases in the prices of their products and services than in Q2 (also in seasonally adjusted terms) – it is expected that prices in Q3 will rise by 1%, on average (cf. Fig. 189). This is primarily the result of higher (than in the previous quarter) expected price increases of raw materials. It is also worth pointing out that the forecast product price increase is higher than in the corresponding period of the previous year and in 2002-2003.

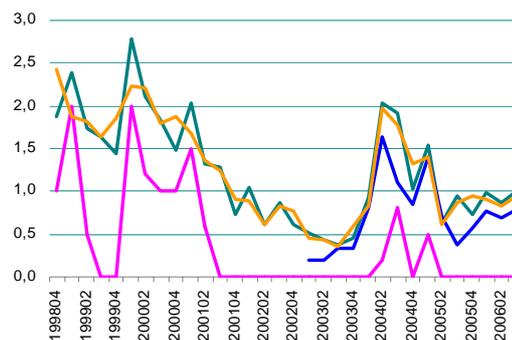


Fig. 189 Average expectations of quarter-on-quarter rise in prices of products and services offered by enterprises (green line), seasonally adjusted average (yellow line), average weighted by company size (blue line) and median of these expectations (pink line)

Price increases are planned by 45.2% of respondents, i.e. 4 percentage points fewer than in the previous quarter (cf. Fig. 195)²⁰. The rising trend of this variable should also be emphasised.

FORECAST PRICES OF OWN PRODUCTS – ANALYSIS ACROSS MAIN CATEGORIES

The analysis of the forecast changes in the prices quoted for finished goods and services in different categories reveals that:

- the percentage of companies intending to raise their prices is larger:
 - in the group of entities planning to increase wages than among the remaining companies,
 - in the group of non-importers as compared to importers,
 - among enterprises positively assessing their future economic condition than in companies declaring poor economic standing; also the scale of these increases is considerably larger in the former group of companies (1.5% compared to 0.5%),
- price increases are most often anticipated by enterprises from sections *Construction* and *Trade and repairs*,
- over the last two quarters there has been a steep rise in the propensity to increase prices in the group of exporters (index of forecast prices in this group of companies has risen in this period by 11.4 points up to 39.2 points),
- the index of net price increases (calculated as the difference between the percentage of enterprises forecasting higher increases of their product prices than prices of raw materials and the percentage of entities whose planned product price increases will not cover the expected changes in the prices of raw

²⁰ This percentage is calculated as the quotient of the responses of enterprises forecasting growth in the prices charged for their goods and services and the size of the group of enterprises which responded to the given question (with the ratio of "no answer" ranging within 10-15% in different quarters).

materials) reaches, throughout the reviewed period, significantly higher values in the group of companies forecasting improvement in their economic condition (cf. Fig. 194).

FACTORS AFFECTING PRICE CHANGES

According to expectations of enterprises, their prices will be mostly affected by changes in the prices of raw materials used for production. Decisive majority of enterprises (82%) which do not anticipate growth in raw material prices do not intend to raise their own prices, either (cf. Table 4). In case of an expected rise in commodity prices, as much as 62% of enterprises declare that they will carry over such price increases into the prices of their products (while 35% of enterprises claim that they will abstain from increasing their prices in such a situation).

In a survey administered in June 2006, enterprises were asked to assess to what extent their economic condition was influenced by the rising **prices of oil and other fuels and non-ferrous metals**. 43.3% of the surveyed sample assessed that the cost of the mentioned raw materials had a slight contribution to their costs. Among the enterprises for which the contribution of costs of non-ferrous metals and fuels in their total costs was significant (47% of the surveyed population), the most common result of these price movements was a drop in margins, but not as large as to result in losing the entire profit from sales (48.8% of companies declaring a significant share of the above-mentioned commodities in costs). However, 11% of enterprises informed that their margin had dropped so much that the company started to make a loss. Every fourth company compensated the rise in raw material prices by cuts in their payroll fund (reducing employment, cutting on wages, resigning from bonus payments etc.). Almost 18% of respondents decided to increase the prices of their products so as to compensate for raw material price growth. Approx. 10% of enterprises reduced other costs (administrative costs, costs of renovations and external services). In approx. 7% of cases the rise in the prices of raw materials (fuels, non-ferrous metals) was an incentive for enterprises to reorganise, introduce technological innovations or increase labour productivity (cf. Fig. 202).

In the coming quarter wage growth will be an important reason behind an increase in the prices of offered products (cf. Fig. 197). For the first time in five years the index of price change forecasts in the group of companies planning to increase their wages exceeded (by over 8 points) the level recorded in the companies intending to leave their wages unchanged.

FORECAST PRICES OF RAW MATERIALS AND MATERIALS

In 2006 Q3 a slight drop in the growth rate of prices of materials and raw materials can be expected. Half of the enterprises expect that price changes will not exceed 0.8% (q/q), while the average evaluation amounts to 1.8%. Thus the growth rate of these prices remains higher than in 2002-2003 (cf. Fig. 192), but still lower than in the period from 2004 Q2 through 2005 Q1.

In the survey, the enterprises were requested to indicate the main barriers which may have an adverse impact on their economic condition in the next six months.

The problem of rising costs of activities (prices of raw materials, materials, fuels) **ranked at the second place among the barriers** which may adversely affect the growth of the enterprise. The average forecast growth for the prices of materials in companies reporting the above problem is twice as high as the average for the whole population, and, for the first time since 2005 Q1, these enterprises are planning significantly higher

increases of own product prices than the remaining companies (cf. Table 6). This means that the group of entities which is most strongly affected by the rise in the cost of operating activity is no longer able to abstain from carrying this rise over onto the customers of their products and services.

In the group of enterprises declaring that the cost of fuels and non-ferrous metals constitute a significant contribution to the company's operating expenses the forecast increase in the prices of raw material, and also in the prices of own products, is markedly higher than in the remaining companies (cf. Fig. 203, Fig. 204).

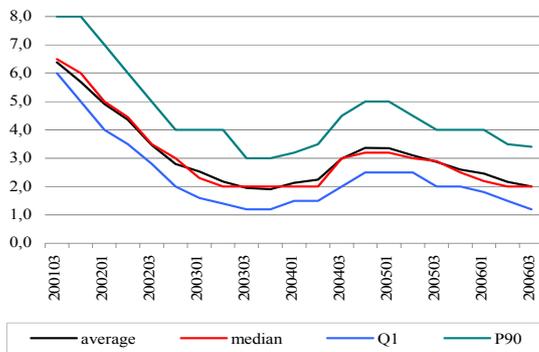


Fig. 190 Expectations of price growth of consumer goods and services in the next 12 months – average, median, 1st quartile, 90th centile

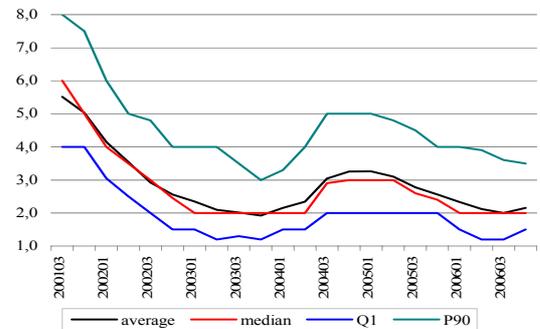


Fig. 191 Expectations of growth of producer prices in industry in the next 12 months - average, median, 1st quartile, 90th centile



Fig. 192 Average expectations of quarterly increase in prices of raw materials and materials used by enterprises (green line) and median of these expectations (pink line)

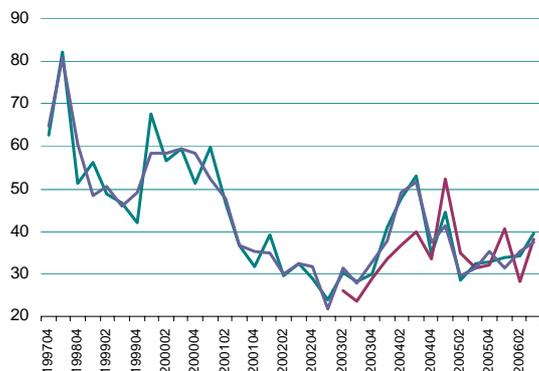


Fig. 193 Index (balance) of forecasts of price changes of goods and services (green line), seasonally adjusted index (blue line) and index weighted by employment size in the enterprise (maroon line)

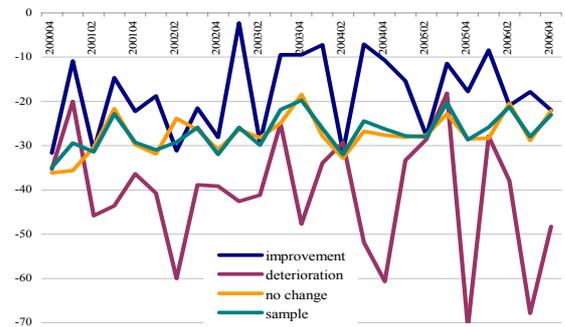


Fig. 194 Difference between the percentage of enterprises forecasting higher increases of prices of goods than prices of materials and raw materials and the percentage of entities whose planned increases of prices of goods will not match the expected changes in the prices of materials in the whole population and in division by forecast change of economic condition



Fig. 195 Percentage of enterprises planning to increase prices of offered goods and services – green line and trend (obtained by x11 method) – pink line

Table 4 Projections of changes in the prices of purchased raw materials and materials in 2006 Q3 vs. projections of changes in the prices of sold goods and services (%)

changes in prices of materials	changes in prices of goods		
	decrease	no change	increase
decrease	55.6	27.8	16.7
no change	6.2	81.9	11.9
increase	3.6	34.9	61.6

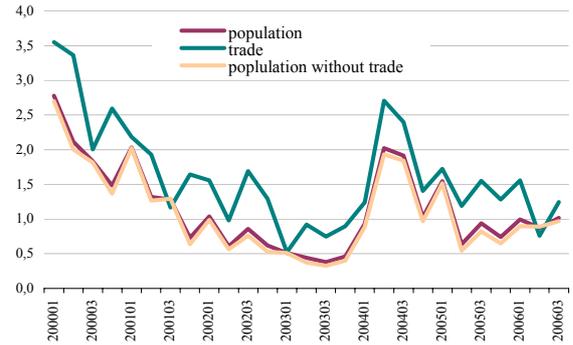


Fig. 196 Average expectations of the quarterly increase in the prices of goods and services sold by enterprises in the whole population in the section *Trade and repairs* and in the population after excluding the section *Trade and repairs*

Table 5 Forecasts of changes in prices of sold goods and services in 2006 Q3 in different categories (%)

	changes of prices		
	decrease	no change	increase
section			
Construction	1.6	37.1	61.3
Mining & quarrying	9.1	45.5	45.5
Wholesale and retail trade	6.8	35.6	57.6
Post and telecommunication	0.0	0.0	100.0
Other	1.9	51.9	46.2
Manufacturing	6.7	52.3	41.0
Transport	8.1	51.4	40.5
Electricity, gas and water supply	0.0	75.0	25.0
employment			
up to 50 employees	10.9	46.2	42.9
from 50 to 249	3.5	49.8	46.7
from 250 to 499	9.6	48.0	42.4
from 500 to 1999	4.3	51.8	43.9
over 2000	0.0	51.6	48.4
import			
importer	6.5	49.8	43.7
non-importer	5.3	48.6	46.1
export			
exporter	5.8	49.1	45.1
non-exporter	6.0	48.6	45.4

Table 6 Average expectations of price growth of goods and services and prices of materials and raw materials in groups of enterprises constructed on the basis of the occurrence of the problem of high costs of activity, inflation as a barrier to growth

time of filling out the survey	average forecast of price growth	costs of activity, inflation – barrier to growth	
		no	yes
December 2004	goods and services	1.6	1.5
	materials and raw materials	2.2	3.6
March 2005	goods and services	0.6	0.7
	materials and raw materials	1.5	2.7
June 2005	goods and services	0.9	0.7
	materials and raw materials	1.4	2.1
September 2005	goods and services	0.7	1.1
	materials and raw materials	1.3	2.4
December 2005	goods and services	0.9	1.0
	materials and raw materials	1.6	3.1
March 2006	goods and services	0.9	0.9
	materials and raw materials	1.3	3.2
June 2006	goods and services	0,9	1,6
	materials and raw materials	1,6	3,1

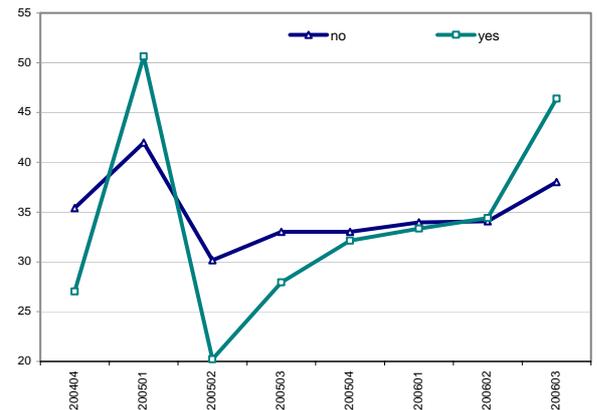


Fig. 197 Index of forecast changes of prices of goods and services in division by forecast change of wages in enterprises (yes = increase in wages, no = constant wages)

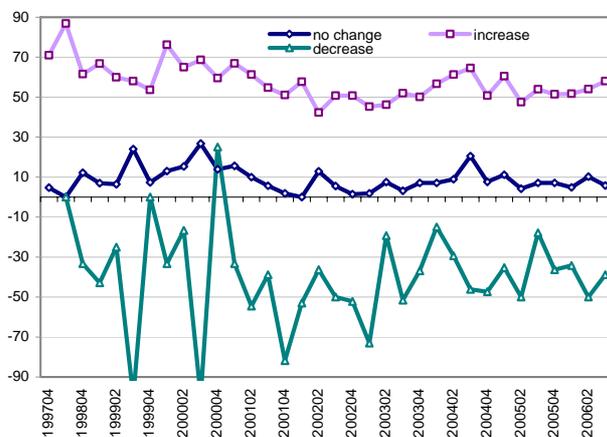


Fig. 198 Index of changes in prices of goods and services vs. enterprises' forecast of changes in prices of purchased raw materials and materials

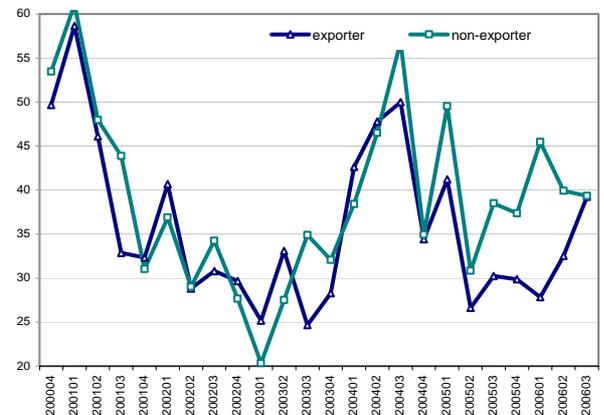


Fig. 199 Index of forecast changes of prices of goods and services in division into exporters and non-exporters

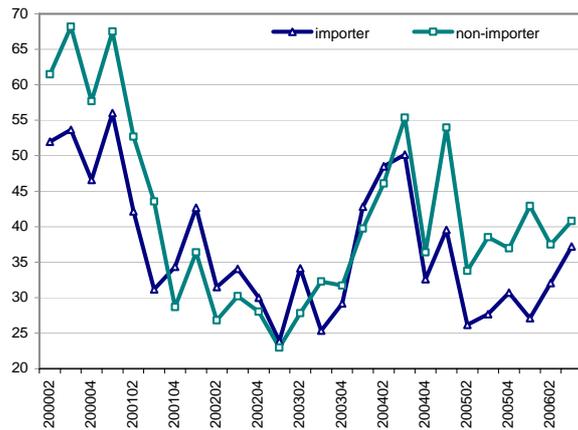


Fig. 200 Index of forecast changes of prices of goods and services in division into importers and non-importers

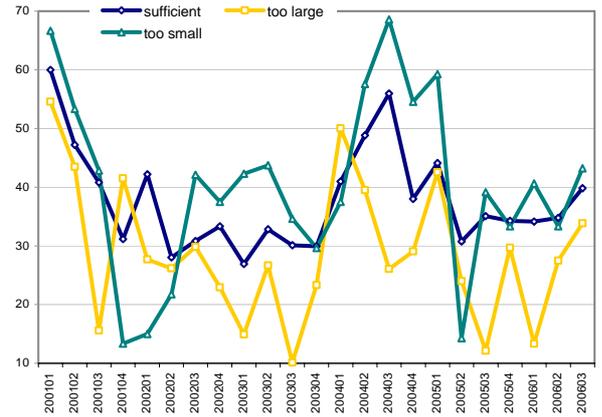


Fig. 201 Index of forecast changes of process of goods and services in division by level of inventories of finished goods in the enterprise

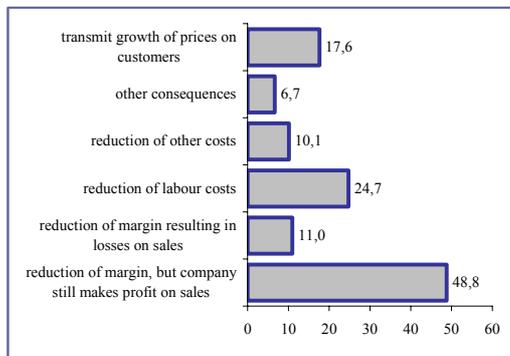


Fig. 202 Consequences of the growth in prices of commodities (non-ferrous metals, crude oil and other fuels), which was not matched by the growth of prices of offered goods and services in the group of enterprises for which the contribution of oil and other fuel prices in cost of activity is significant

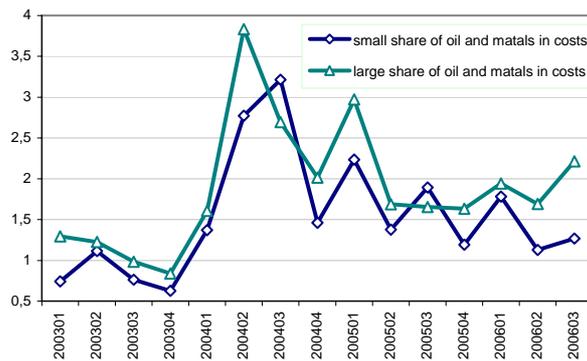


Fig. 203 Average forecast growth of prices of materials and raw materials in groups of enterprises constructed on the basis of the share of fuel and non-ferrous prices (significant or insignificant share) in operating costs of the enterprise

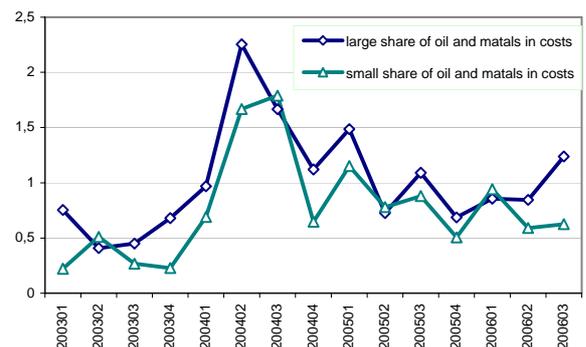


Fig. 204 Average forecast growth of prices of goods and services in groups of enterprises constructed on the basis of the share of costs of fuels and non-ferrous metals (significant or insignificant share) in operating costs of the enterprises

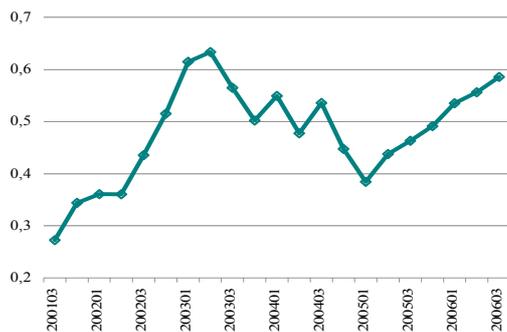


Fig. 205 Index of volatility of growth forecasts of prices of consumer goods and services (CPI) in the next 12 months



Fig. 206 Index of growth forecast volatility of producer prices in industry (PPI) in the next 12 months

FIXED COSTS

current developments

- Significant drop in fixed costs
- This drop was primarily the result of the rise in the level of production capacity utilisation.

changes in main classification categories – areas of steep decline

- public sector
- *Mining and quarrying*
- non-importing exporters and non-exporting importers

changes in main classification categories – areas of growth

- small enterprises (with up to 50 employees)
- the largest enterprises (with more than 2000 employees)
- exporters-importers
- non-specialised exporters

At the end of 2006 Q2 the average distribution of **the contribution of fixed costs to total costs dropped in relation to Q1** by 0.8 percentage point, reaching the level of 35.9% of total costs – one of the lowest values in history (a lower level was only recorded in 2004 Q1).



Fig. 207 Average share of fixed costs in total costs and index trend

CHANGES IN FIXED COSTS – ANALYSIS ACROSS MAIN CATEGORIES

The analysis of changes in the share of fixed costs in total costs in main classifications leads to the following conclusions:

- a stronger decline in fixed cost was recorded in the public sector and slightly weaker in the private sector, which is consistent with the observed path of the level of capacity utilisation in these two groups,
- there was a significant drop of fixed costs in mining, quite big in *Trade* and rather small in other sections. As regards *Trade*, the trend of the relationship of fixed costs to total costs was flat throughout the survey horizon. By contrast, in the case of *Mining and quarrying* a clear falling trend has been observed since 2003. Also in the case of *Manufacturing* the share of fixed costs in total costs displays a falling tendency. This fall has been observed virtually since the beginning of the survey (since 2000).
- a rise in fixed costs was recorded in the largest companies (employing 2000 and more people). The rise in fixed costs was also seen in small enterprises (with up to 50 workers), even though this group recorded increased capacity utilisation. Among small companies the highest growth in costs was observed in transport and construction (by contrast to large enterprises from these sections, where fixed costs decreased). Other classes of companies (with employment in the range of 50-1999 workers) reported a drop in fixed costs.
- The fixed costs drop was observed both in the group of borrowers and companies not using loans as a source of finance. At the same time, in the group of borrowers there was certain deceleration in the rise of fixed costs observed in 2004-2005.

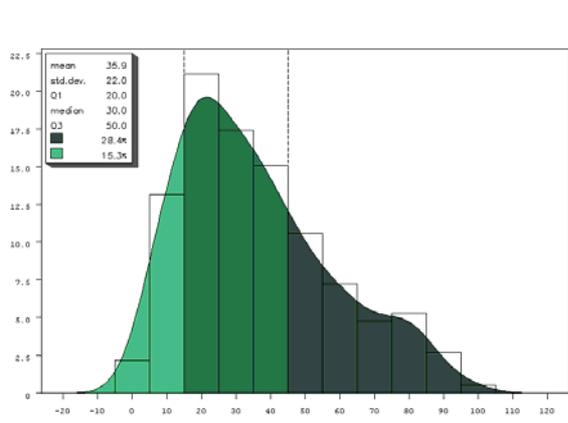


Fig. 208 Distribution of share of fixed costs in total costs in Q2 2006

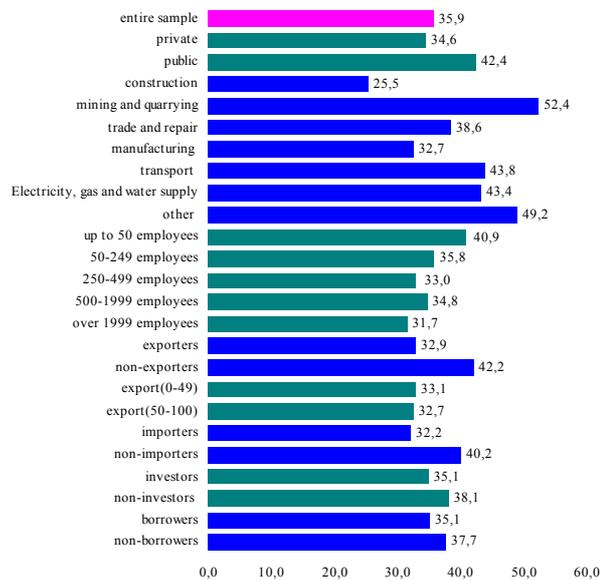


Fig. 209 Average contribution of fixed costs in total costs in basic classifications - data for Q2 2006.

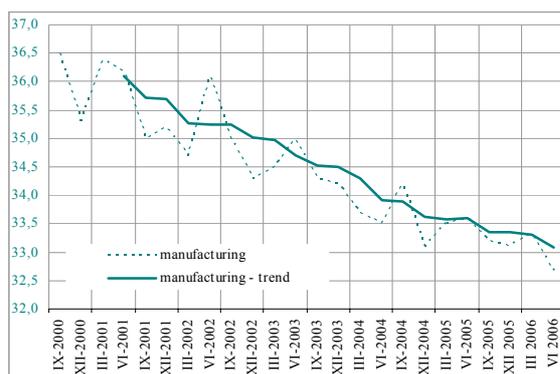


Fig. 210 Average share of fixed costs in total costs in section *Manufacturing*

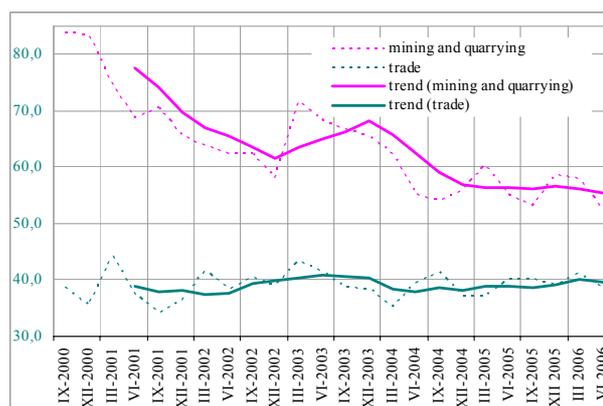


Fig. 211 Average share of fixed costs in total costs in sections *Trade and repairs* and *Mining and quarrying*

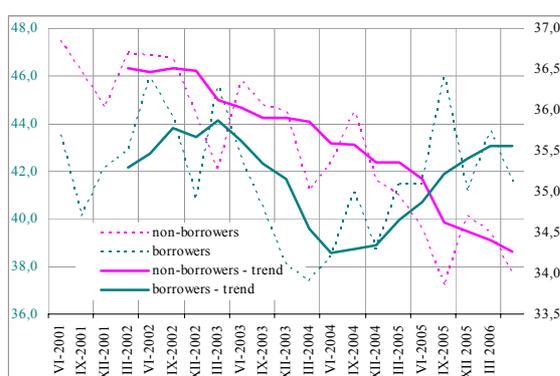


Fig. 212 Average share of fixed costs in total costs in group of borrowers and companies not using loans

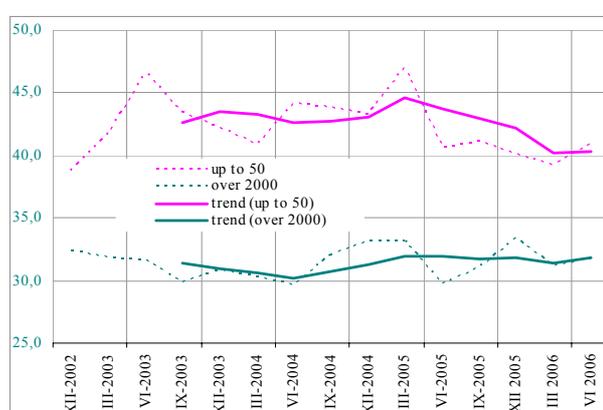


Fig. 213 Average share of fixed costs in total costs in group of smallest enterprises (with up to 50 employees) and largest (over 2000 employees) in the sample

1.11. Exchange rate

- PLN/EUR and PLN/USD exchange rates remain above the threshold of export profitability.
- The ratio of enterprises declaring that the exchange rate (PLN/EUR) declined below their break-even point (minimum value in terms of export profitability) decreased.
- The PLN/USD exchange rate remains at the lower borderline at which imported products may be pushing out domestic output.
- The current quarter is yet another surveyed period when the exchange rate problem ranked first among barriers which over the next 6 months may be adversely affecting the company's economic condition – this problem is reported by almost 17% of respondents. At the same time it is clear that this percentage shrank in relation to the previous quarter.

EXCHANGE RATE ENSURING PROFITABILITY OF EXPORTS AND DOMESTIC OUTPUT

Due to the weakening of the zloty against the euro in 2006 Q2 (mainly in June) the exchange rate (PLN/EUR) moved away from the average threshold exchange rate of export profitability and remains at the border of the range marked out by one standard deviation (cf. Fig. 214). **This means that at the current level of the exchange rate export sales is profitable for the majority of enterprises settling in this currency.**

In June 2006 the zloty appreciated against the dollar in relation to March 2006. As a result, **the nominal exchange rate (PLN/USD) remains in the range marked out by one standard deviation for this rate, which indicates that some enterprises operate below the threshold of profitability of exports settled in this currency.**

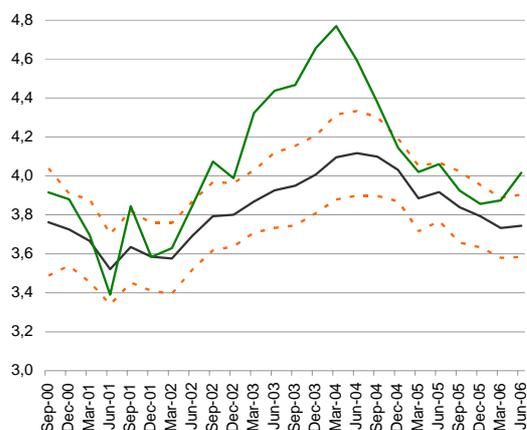


Fig. 214 Euro exchange rate at which export becomes unprofitable (black line), together with confidence range marked out by +/- 1/2 of standard deviation (red dashed lines). Additionally, nominal euro exchange rate is marked (green line)



Fig. 215 Dollar exchange rate at which export becomes unprofitable (black line), together with confidence range marked out by +/- 1/2 of standard deviation (red dashed lines). Additionally, nominal dollar exchange rate is marked (green line)

As a result of the June depreciation of the zloty in relation to the euro there was a drop in the percentage of exporters for whom the threshold exchange rate of profitable exports exceeded the actual rate of this currency – in June 2006 such exporters accounted for 9.3% (compared to 26.2% in the preceding quarter). In turn, the slight appreciation of the zloty against the dollar in Q2 resulted in a slight increase in the share of enterprises for which the threshold exchange rate of profitable exports exceeded the nominal exchange rate of these currencies by 7.2 percentage points reaching the level of 24.2% - cf. Fig. 220.

Fig. 216 and Fig. 217 indicate that the nominal exchange rate (PLN/EUR) remains just above the borderline at which imported products may be driving out domestic output due to their more attractive prices, while the PLN/USD exchange rate has fallen below this threshold. Thus, imports (settled in USD) may currently pose a certain threat for some domestic producers.

FLUCTUATIONS OF THE EXCHANGE RATE AS A BARRIER TO GROWTH

In the survey, enterprises were requested to indicate the main barriers which may have an adverse impact on the economic condition of the company over the next six months. **In 2006 Q2 for yet another period (seventh time in a row), the exchange rate was the most important (most frequently named) problem signalled by respondents – such declarations were made by 16.6% of the surveyed enterprises (2.3 percentage points less than in the previous survey).**

In 2006 Q2 the problem of the exchange rate was reported mainly by companies that were exporters and importers at the same time (25.8% of the group). In the class of exporters the percentage of respondents declaring that the situation in the foreign exchange market poses a threat to their growth continues at a high level, while the corresponding percentage among companies offering their products only in the domestic market and among importers remains very low. It should also be emphasised that most often the above problem is reported by importing exporters. This may mean that, despite the possibility of offsetting the risk connected with

exchange rate fluctuations by balancing revenue and costs denominated in foreign currencies, it will be much harder for the enterprises to hedge against this risk or that it is more expensive than in the group of exporters who declare not to be using imports (see

Table 7).

Enterprises reporting the exchange rate as a barrier to growth:

- assess their (current and future) economic condition more pessimistically,
- less optimistically forecast the rise in the volume of exports and new export contracts as well as the growth of output in the coming quarter (the index of forecasts of output²¹ is almost two times lower in the group of enterprises naming the exchange rate as a growth barrier than in other companies, it nevertheless remains positive, which suggests increased output in the coming quarter in both groups).

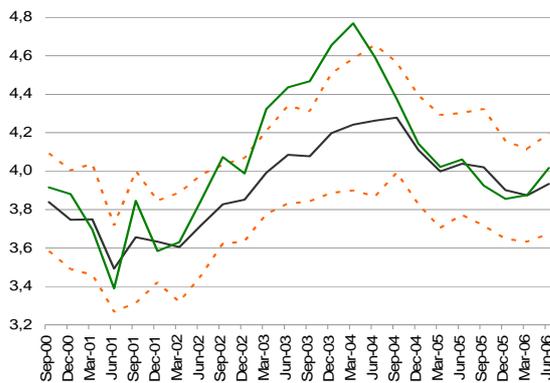


Fig. 216 Euro exchange rate that is unprofitable due to higher competitiveness of goods (black line) along with confidentiality range marked out by one standard deviation (dashed red line). Additionally, nominal euro exchange rate is indicated (green line)

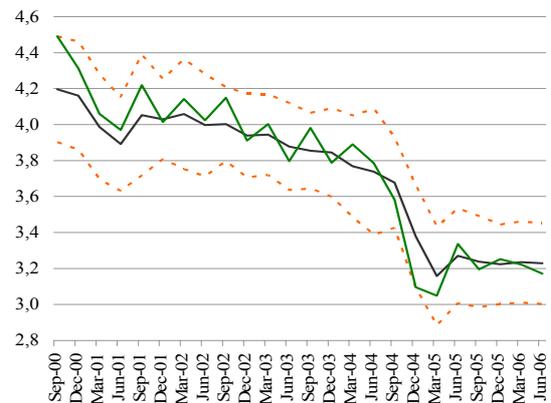


Fig. 217 Dollar exchange rate that is unprofitable due to higher competitiveness of imported goods (black line) along with confidentiality range (dashed red line). Additionally, nominal dollar exchange rate is indicated (green line)

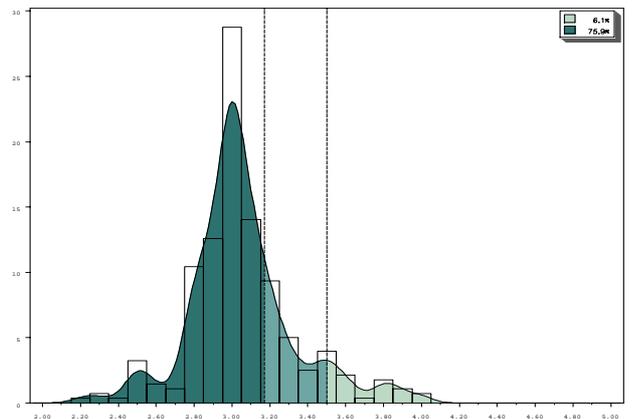
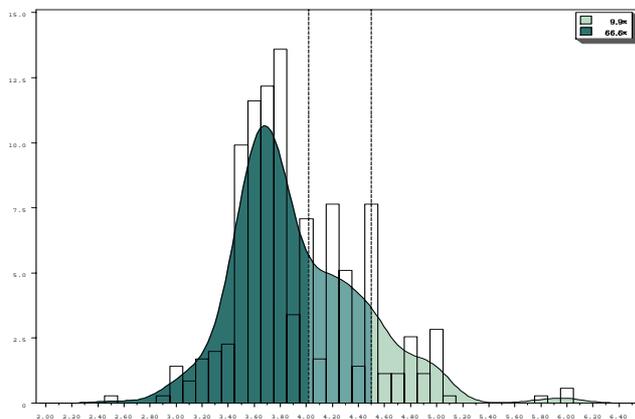


Fig. 218 Summary, in form of distributions, of responses of surveyed enterprises related to exchange rate level at which export becomes unprofitable. Figure on the left informs on euro exchange rate and figure on the right refers to dollar exchange rate. Dashed line (first one on the left) in the figure shows the level of average monthly exchange rates (of dollar and euro, respectively) as at the end of June 2006

²¹ The index of output forecasts is calculated as the difference between the percentage of companies planning to increase their production and the percentage of those expecting a drop in their output level.

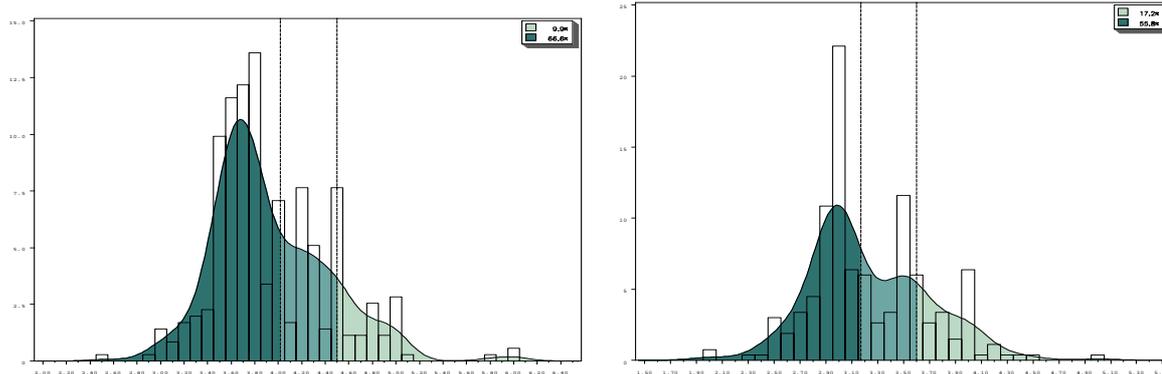


Fig. 219 Summary, in form of distributions, of responses concerning the exchange rate level at which (according to the respondents) problems with selling own products may arise, due to greater attractiveness (lower prices) of imported goods. Diagram on the left informs on the euro exchange rate, diagram on the right refers to the dollar exchange rate. Dashed line (first one on the left) marks out the average monthly foreign exchange rates (of euro and dollar, respectively) as at end of June 2006

Table 7 Foreign exchange rate as a barrier to growth in the classes of enterprises classified as exporters, importers or operating only in the domestic market (percentages)

enterprises	time of filling out the survey	is exchange rate a barrier to growth?	
		no	yes
exporters and importers	March 2005	56.8	43.2
	June 2005	70.8	29.2
	September 2005	68.2	31.8
	December 2005	67.4	32.6
	March 2006	71.8	28.2
	June 2006	74.2	25.8
only exporters	March 2005	72.5	27.5
	June 2005	76.7	23.3
	September 2005	71.6	28.4
	December 2005	76.8	23.2
	March 2006	70.6	29.4
	June 2006	78.7	21.3
only importers	March 2005	86.4	13.6
	June 2005	88.3	11.7
	September 2005	92.6	7.4
	December 2005	98.1	1.9
	March 2006	94.4	5.6
	June 2006	95.6	4.4
domestic market	March 2005	92.5	7.5
	June 2005	93.1	6.9
	September 2005	96.8	3.2
	December 2005	95.8	4.2
	March 2006	97.7	2.3
	June 2006	96.0	4.0

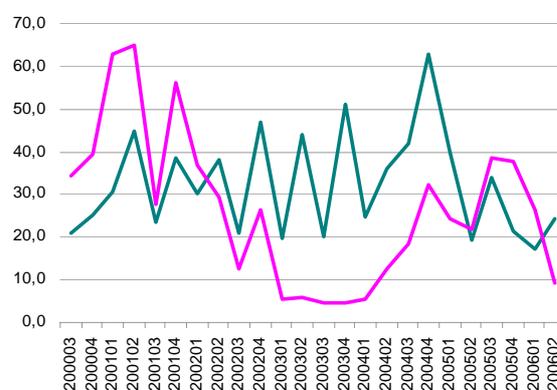


Fig. 220 Share of businesses for which threshold exchange rate of profitable export increased above nominal dollar exchange rate (green line) and euro exchange rate (pink line)

I.12. Exports. Imports

exports – current developments	<ul style="list-style-type: none"> The percentage of exporters in the sample stabilises. There was a slight increase in the percentage of highly specialised exporters (whose revenue from exports exceed 80% of total revenue) – the ratio hit its high level in the survey history. Slight increase was recorded in the share of exports in total revenue.
profitability of exports	<ul style="list-style-type: none"> A drop was recorded in the percentage of respondents reporting non-profitable exports. There was a slight improvement in export profitability – a drop in the share of unprofitable exports in revenue from exports (down to the level of 7.3%).
export forecasts	<ul style="list-style-type: none"> The index of export forecasts dropped (q/q) to the extent that points to a continuation of the high growth rate in year-on-year terms. The index of the number of newly concluded export contracts decreased. The analysis of export forecasts points to deterioration in the optimism in the majority of the analysed categories.
imports	<ul style="list-style-type: none"> Both the share of input imports in costs and the percentage of entities using input imports recorded a slight drop.

EXPORT ACTIVITY

In 2006 Q2 the percentage of companies carrying out export activity remained unchanged in relation to the previous quarter (at 63.8% of the surveyed population). At the same time the average share of exports in the revenue of the surveyed enterprises (exporters) decreased slightly – by 0.8 percentage point (to the level of 40.3% /cf. Fig. 226/).

The surveys also revealed that more enterprises increased the share of their exports in revenue (24.5%) than reduced this relationship (23.9%). Despite a small drop in 2006 Q2, the percentage of companies whose revenue from exports exceed 80% of total costs remains at one of the highest levels in the survey history (cf. Fig. 225).

PROFITABILITY OF EXPORTS

2006 Q2 saw a slight improvement in export profitability – the share of unprofitable exports in revenue shrank down a bit²²Fig. 221Fig. 221. The average value of this share was 7.3% – i.e. 0.8 percentage point less than in the previous quarter. There was also a drop in the percentage of entities reporting unprofitable foreign sales – from 24.5% to 22.7% (see Fig. 228).



Fig. 221 Share of unprofitable exports in export sales revenue of enterprises (distribution average; data in %) – green line and nominal euro exchange rate (pink line, right-hand axis)

²² Unprofitability calculated as the price*exchange rate not covering production costs and other costs related to exports.

The data for 2006 Q2 show that the share of unprofitable exports rose only in the group of the smallest exporters (i.e. such companies where the share of export revenue in total revenue does not exceed 20%). The other classes recorded a drop in the share of unprofitable exports in the revenue from foreign sales (Fig. 229).

EXPORT FORECASTS

In 2006 Q3 the surveyed enterprises tend to forecast the volume of export sales less optimistically than in Q2. **The seasonally adjusted index of export forecasts rose** by 4 percentage points (in quarter-on-quarter terms) to the level of 20.4% (cf. Fig. 222).

In Q3 a drop in the growth rate of exports (q/q) may be expected – cf. Fig. 223). This is a consequence of the similarity of the directions of changes in the index of export forecasts and in the quarterly export growth. However, considering the very good performance in the first half of the year, it may be expected that in Q3 the annual growth of exports will continue at a high level.

The possibility of the growth rate of exports proving lower than in Q2 is also confirmed by the forecasts of new export contracts. The index of new export contacts dropped by 4 percentage points (in quarter-on-quarter terms).

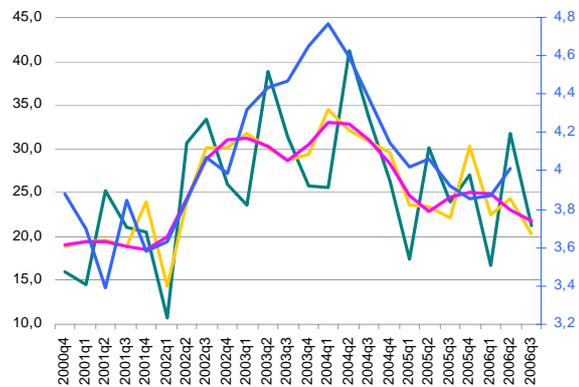


Fig. 222 Index (balance of responses) of export forecasts (green line), seasonally adjusted index (yellow line) and the trend (obtained using the x11 method) – pink line. Additionally, nominal euro exchange rate was marked (blue line)

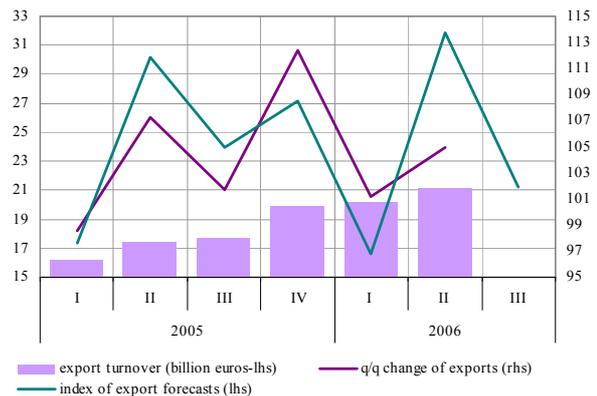


Fig. 223 Index of export forecasts (NBP monitoring) and value of exports (EUR million) and its quarter-on-quarter changes in 2005-2006

Source: NBP monitoring and GUS statistics

The deepest plunge in the optimism of export forecast was recorded by enterprises from sections *Manufacture of machinery and equipment not elsewhere classified* and *Wholesale trade and commission trade, except of motor vehicles and motorcycles*, companies employing between 250 and 499 workers and non-investing enterprises (cf. Fig. 231). It should also be emphasised that the percentage of entities expecting a decline in exports rose significantly in the group of the companies which reported a drop in the number of export contracts in 2006 Q2.

IMPORTS

At the end of 2006 Q2 63.8% of respondents used input imports (i.e. 1.3 percentage point fewer in quarter-on-quarter terms and 0.4 percentage point fewer than in the corresponding period of the previous year). This percentage, however, remains at one of its highest levels since 2000. **The average share of input imports in the cost of operating activity of enterprises dropped by 1.2 percentage point (q/q)** (reaching 18.9%), though its level was still high (Fig. 224).

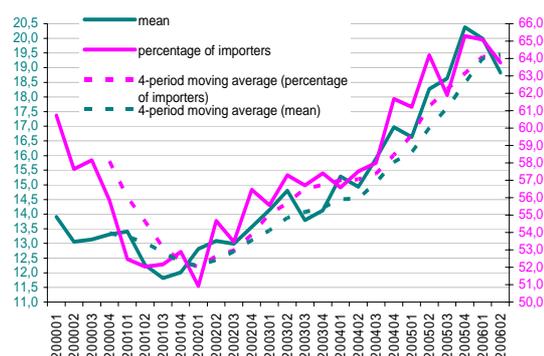


Fig. 224 Average share of input imports in costs (left-hand axis – green line) and percentage of respondents using imports (right-hand axis – pink line)

CHANGES IN IMPORT ABSORPTION – ANALYSIS ACROSS MAIN CATEGORIES

The analysis of the shifts in the share of input imports in costs (calculated as the difference between this share in June 2006 and March 2006) reveals that the thus computed index has fallen down in most of the examined classifications (cf. Fig. 233). The greatest quarterly drop in the share of imports in costs was recorded by enterprises employing fewer than 50 people, companies using loans, exporters whose share of exports in total revenue did not exceed 50% and by companies from sections *Mining and quarrying* and *Other*. The largest increase was recorded in sections *Post and telecommunications* and *Trade and repairs* and by enterprises employing between 250 and 499 people.

The analysis reveals that over the recent years a significant increase in imports has been recorded by:

- exporters,
- the smallest enterprises (with up to 50 employees) and companies employing between 250 and 499 people,
- trade, sections *Manufacturing* and *Construction* (though in case of the latter group the share of imports is still very low),
- the private sector.

Moreover, it was observed that changes of import absorption in the group of companies not involved in exports were minimal, similarly as in the public sector and in the section *Transport*, which groups, however, are characterised by a low share of imports in costs.

CHARACTERISTICS OF THE POPULATION OF EXPORTERS AND IMPORTERS

The populations of importers and exporters overlap to a large extent — over 85% of importers are exporters at the same time. The characteristics of these two groups are therefore very similar. In general, exporters and importers are characterised by:

- higher utilisation of production capacities than other enterprises,
- a lower share of fixed costs in total costs,
- a higher percentage of companies planning to increase demand and output (accompanied with better forecasts of employment growth),

- greater investment activity,
- less optimistic assessments of the current and future economic condition.

A feature that clearly distinguishes the group of exporters from the rest of the surveyed population is a high, and still displaying a slight rising tendency, share of input imports in costs (Fig. 234).

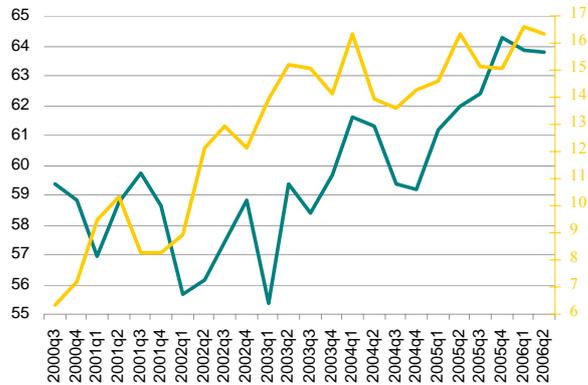


Fig. 225 Percentage of exporters in the sample (green line) and percentage of businesses whose export volume exceeds 80% of its total revenue (yellow line – right axis)

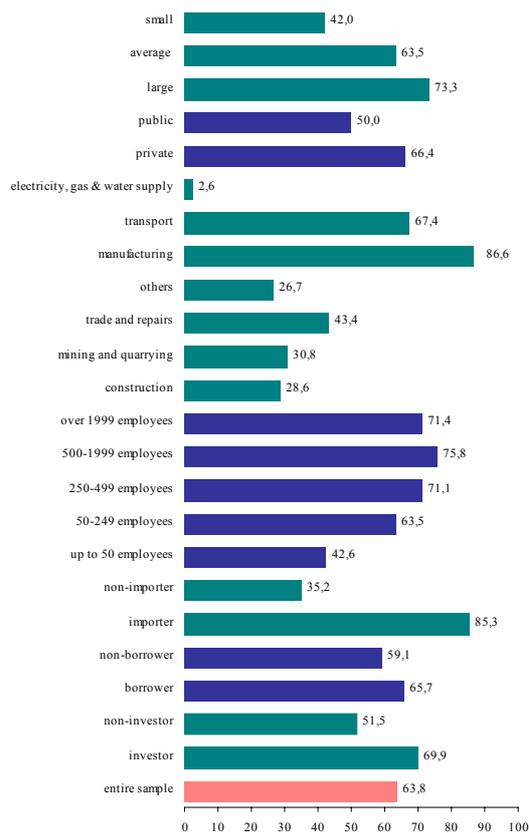


Fig. 227 Percentage of exporters in 2006 Q2 in main classifications

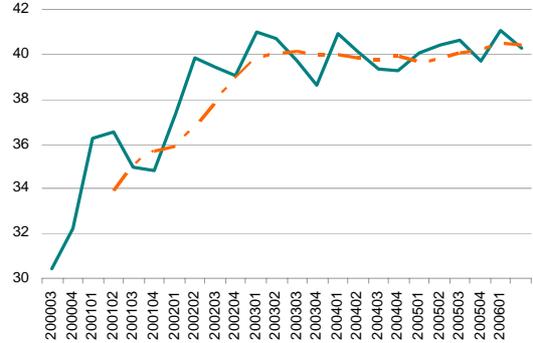
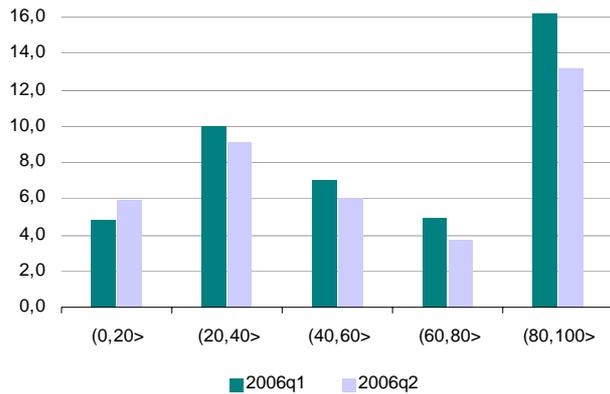


Fig. 226 Share of exports in total revenue in group of exporters – green line and trend (obtained by 4-period moving average method) – red line (data in %)



Fig. 228 Percentage of businesses reporting unprofitable exports (green line) and nominal euro exchange rate (pink line, right-hand axis) and dollar exchange rate (yellow line, right-hand axis)



time of filling out the survey	class of exporter size				
	(0,20>	(20,40>	(40,60>	(60,80>	(80,100>
March 2006	37.3	17.2	15.8	13.2	16.6
June 2006	40.5	15.5	13.6	14.1	16.3

Fig. 229 Share of unprofitable exports in groups of enterprises based on the share of revenue from exports in their total revenue (vertical axis shows share of unprofitable exports in revenue from exports) – upper figure; table presents percentages of enterprises in each of examined classes in 2006 Q2 and 2006 Q1

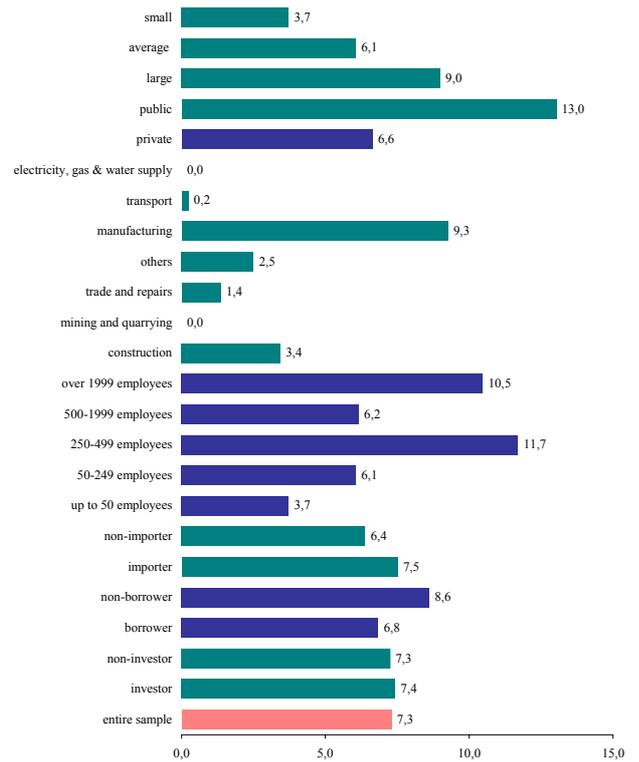


Fig. 230 Share of unprofitable exports in revenue from exports in main classifications in 2006 Q2

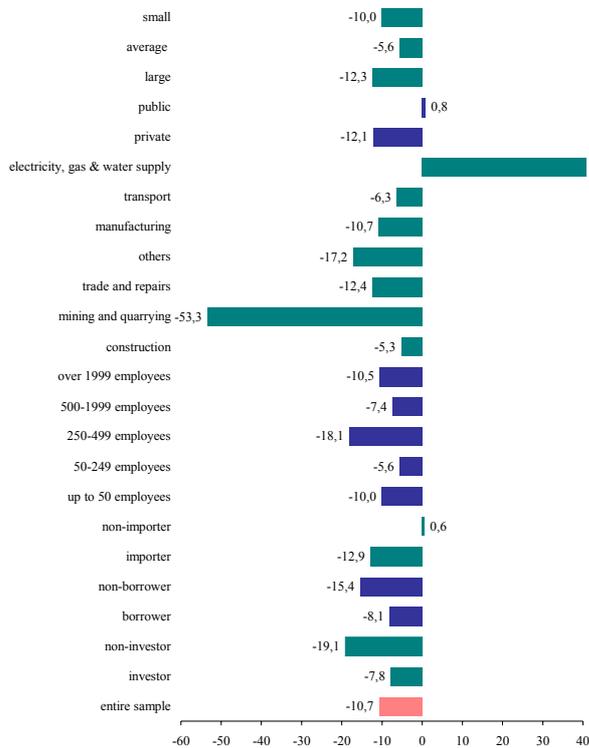


Fig. 231 Difference between the index of export forecasts in 2006 Q3 and 2006 Q2 in main classifications



Fig. 232 Index (balance of responses) of forecasts of new export contracts (green line), nominal euro exchange rate (pink line)

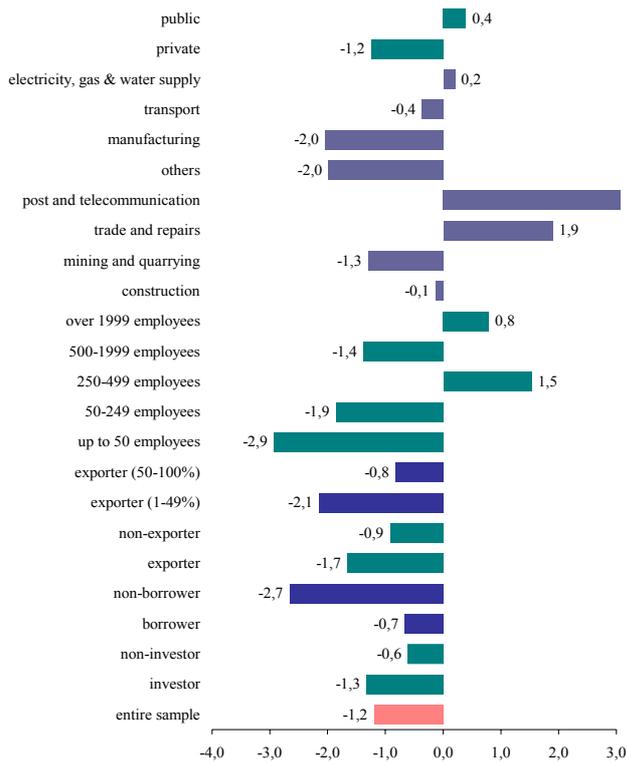


Fig. 233 Change in share of input imports in costs in main classifications (difference between share of input imports in costs in 2006 Q2 and 2006 Q1)

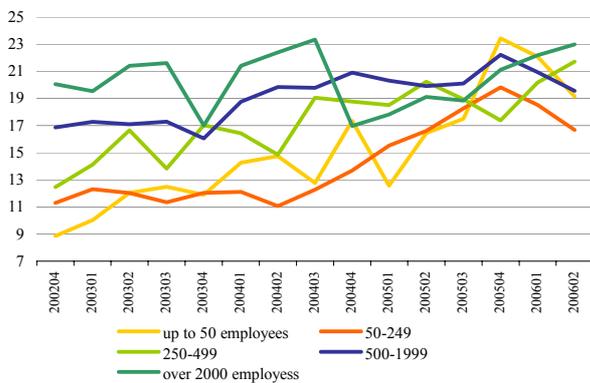


Fig. 235 Share of input imports in costs in classes of enterprise size measured by employment level

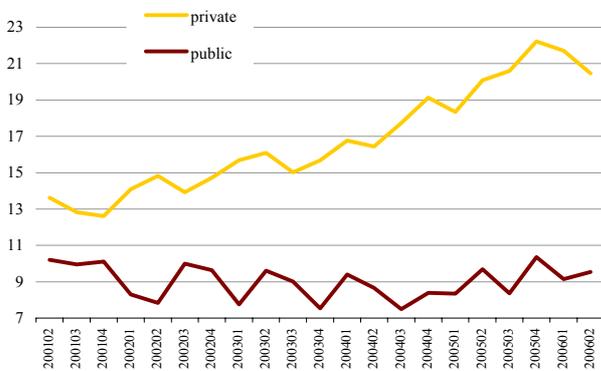


Fig. 237 Share of input imports in costs in ownership sectors

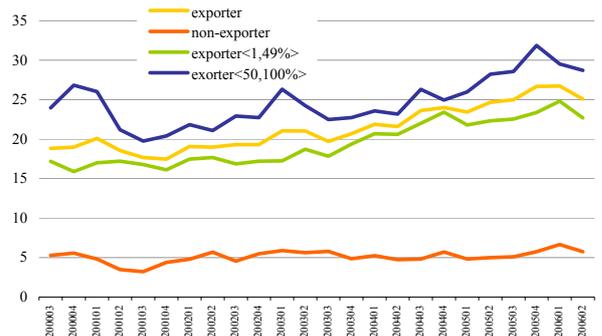


Fig. 234 Share of input imports in costs in classes of export activity

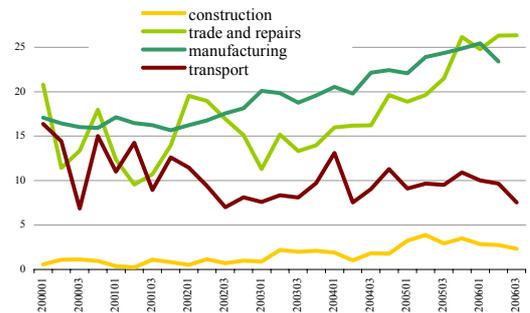


Fig. 236 Share of input imports in costs in PKD (NACE) sections

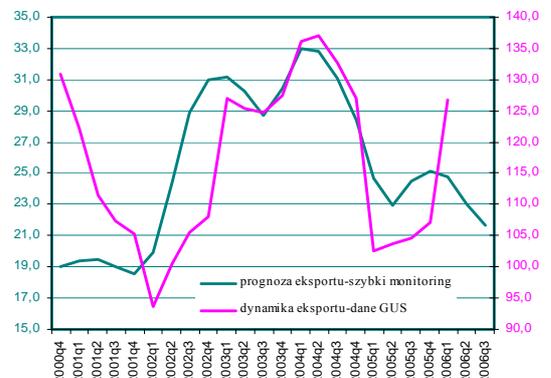


Fig. 238 Index of export forecasts vs. changes in revenue from exports (q/q)
Source: NBP monitoring and GUS F-01 reports

I.13. Growth barriers — selected problems

Table 8 Barriers to growth²³ (instances when indices assumed their highest values in the survey period are bolded in the below table)

frequency of problems reported in:	exchange rates, incl. fluctuations	high prices of commodities, fuels and energy	strong competition	low demand	changes in tax rates changes in regulations	debt collection, payment bottlenecks	shortage of skilled employees	competitive imports, lack of market protection	lack of liquidity	political and economic uncertainty	high taxes
highest values in survey history	26.8	13.4	21.2	28.2	17.2	20.0	5.3	9.7	15.1	-	11.7
2004 Q3	9.8	11.6	7.1	9.1	9.9	9.6		2.0	4.2	2.5 (EU)	3.6
2004 Q4	14.6	13.4	9.3	11.8	5.1	11.4		1.6	4.8		4.0
2005 Q1	24.2	13.1	9.6	10.8	7.5	8.5		3.3	5.4		4.6
2005 Q2	26.8	7.4	11.4	10.4	4.5	7.2		4.3	6.7		2.9
2005 Q3	19.8	3.6	13.6	12.6	5.4	7.3		4.9	7.6		2.1
2005 Q4	20.1	11.1	11.3	11.2	7.7	7.0		4.4	4.8		3.1
2006 Q1	21.4	9.0	10.6	10.0	6.8	5.3	1.8	4.3	5.3		1.8
2006 Q2	18.9	6.4	9.8	9.7	7.0	5.3	3.0	4.8	4.6	5.7	3.1
2006 Q3	16.6	10.5	9.9	8.9	8.6	6.1	5.3	4.4	3.5	3.2	3.0

²³ The growth barrier indices have been defined on the basis of the share of the enterprises reporting the existence of a given type of problem in the overall number of enterprises participating in the survey (including companies which did not provide any answer to the question about growth barriers).

ANNEX I – METHODOLOGICAL REMARKS

1. The document has been prepared mainly on the basis of economic climate forecasts and qualitative indicators of the condition of enterprises. It presents the anticipations of enterprises surveyed by the NBP and also the econometric forecasts of selected time series for July-September 2006.
2. In June 2006, the NBP survey was administered to 835 entities selected from the whole territory of Poland.
3. The monitoring involved enterprises from the non-financial sector representing all sections of the PKD (NACE-equivalent Polish Classification of Activities), private and public sectors as well as enterprises from the SME sector and large entities.
4. Due to the predominance of large enterprises in the sample, justified by strong concentration of macroeconomic phenomena, the results of the survey should be interpreted cautiously.
5. The analysis makes use of the following classification breakdowns:
 - PKD activity classes (the PKD classification has been somewhat modified: the *Transport, storage and communication* section has been broken down into two groups: the first contains the division *Postal services and telecommunications* and the second, which we called *Transport*, includes all the remaining divisions of the section),
 - ownership sectors: public sector, private sector and five forms of ownership,
 - employment level classes(1): from 1 to 49 employees, from 50 to 249 employees, from 250 to 499 employees, from 500 to 1,999 employees and over 2,000 employees.
 - employment level classes(2): the SME sector (small and medium-sized enterprises with up to 249 employees) and large enterprises (with 250 and more employees),
 - the purpose of products offered by enterprises: enterprises selling investment goods (PKD divisions: 29, 30, 33, 34, 35 and 45 – construction) and other enterprises.
6. The text also includes indices of economic climate. Many of the economic climate indices have been calculated as the difference between the percentage of favourable and unfavourable responses as regards the condition of the enterprises. The indices assume values in the range of +100 to –100. Negative values should be interpreted as a deterioration of the economic climate, while positive values – as its improvement.
7. Where no information is provided below a table or figure indicating the source of data, the source is understood to be the NBP's monitoring.
8. The present edition of the survey does not contain the presentation of CPI and PPI price forecasts, calculated on the basis of the average expectations of enterprises. Instead, indices used have been calculated on the basis of the percentage of enterprises anticipating prices to grow higher than expected in the previous survey. The reason behind this change was a low effectiveness of these indices for forecasting purposes – the average of expectations is delayed in relation to the CPI and PPI. The newly introduced indices have proved to be leading in relation to those inflation measures.

NBP MONITORING SURVEY

FORECASTS FOR 2006 Q3

PKD-NACE (5 characters):

Form of ownership (3 characters):

Is the company an exporter (does it sell its products abroad)? [yes/no]

1. Indicate the number of employees in the company as at 1 June 2006:

2. The company forecasts that in 2006 Q3 the demand for its products as compared to 2006 Q2:

- a. will increase substantially – mainly as result of the typical for the period (seasonal) increase in the demand for the company's products
- b. will increase substantially – mainly as a result of a steady growth in the demand for the company's products
- c. will remain unchanged or will undergo slight changes
- d. will decrease substantially – which is a seasonal phenomenon, always observed in the period
- e. will decrease substantially – as a result of a permanent decline in the demand for the company's products

3. In 2006 Q3 the company anticipates:

- a. an increased number of orders
- b. a decreased number of orders
- c. the same number of orders
- d. not applicable

4. Does the company anticipate any significant changes in the period from July to September 2006, regarding:

- a. the level of output (increase / decrease / no change)
- b. the level of employment (increase / no change / decrease)
- c. investment projects launched before the date of filling out this form and currently underway (withdrawal / reduction / no change {investment will be continued} / increase / not applicable {lack of investment}) / completion as planned)

5. In 2006 Q3, does the company plan:

- a. to launch major investments financed mainly with bank loans
- b. to launch major investments financed mainly with company own funds
- c. to launch major investments financed mainly with external non-bank assets
- d. to launch major investments financed in a different way
- e. the company does not plan such activities

6. In the company's assessment, the current investment climate in Poland is:

- a. definitely favourable
- b. moderately favourable
- c. as neutral
- d. moderately unfavourable
- e. definitely unfavourable

7. Does the company intend to invest abroad in the next 12 months?
- yes, the company is mainly planning direct investment
 - yes, the company is mainly planning portfolio investment
 - no, the company has recently made such investment
 - no, the company has not invested abroad and does not plan such investment
 - it is difficult to say
8. What is the level of production capacity utilisation in the company (%)?
9. What is the level of inventory of finished products in the company?
- too high
 - sufficient
 - too low
 - not applicable
10. The company anticipates that:
- the prices charged for its goods and services in 2006 Q3 (as compared to the level as at 30 June 2006) will increase (decrease) by ...%
 - the input prices of purchased raw materials and materials in 2006 Q3 (as compared to: see above) will increase (decrease) by ...%
 - the increase in prices of consumer goods and services (CPI) in 2006 Q3 will be ... %
 - the increase in producer prices in industry (PPI) in 2006 Q3 will be ...%
 - the increase in the CPI over the next 12 months will be ...%
 - the increase in the PPI over the next 12 months will be ...%
11. State what share (in %) of the operating costs of the company is represented by the costs of commodities?
- non-ferrous metals
 - crude oil, fuels (petroleum, natural gas)
12. If the company, despite the commodity price growth observed in 2006 (non-ferrous metals, oil and other fuels), has not raised (and does not intend to raise) the prices of its own products in the scale that would compensate for the rise in costs, what would be the consequences of this decision (please chose two most important results and rank then according to their importance)?
- the margin has been reduced, but the company still makes a profit on sales
 - the margin has been reduced and the company started to make a loss on sales
 - cost of labour has been reduced (drop in employment, wage and bonus cuts, lack of pay rises etc.)
 - other costs (than costs of labour) have been reduced, indicate what
 - other consequences (e.g. reorganisation, technological changes, increased inventories), indicate what
 - not applicable – the mentioned costs of commodities account for a relatively small share in the company's costs
 - not applicable – so far introduced (or planned) changes have fully compensated (will fully compensate) for the rise in the cost of commodities
13. What is the share of fixed costs in total costs (%)?
14. With regard to bank indebtedness servicing:
- the company faces no problems with debt servicing and does not anticipate such problems in the next quarter
 - the company faces no such problems but anticipates that they may appear in the next quarter
 - the company has been facing such problems but anticipates their decrease in the next quarter
 - the company has been facing such problems and does not anticipate any improvement of this situation
 - the company does not use any bank loans

15. Did the company face any problems with timely payment of non-bank liabilities in the 2006 Q2?

- a. no, never
- b. yes, occasionally
- c. yes, frequently

16. Did the company face any problems in maintaining its financial liquidity in 2006 Q2? [frequently / occasionally / never]?:

17. In accordance with the company plans for the period to the end of August 2006, the amount of bank loans outstanding as compared to 30 June 2006:

- a. will increase substantially
- b. will increase slightly
- c. will show no change
- d. will decrease slightly
- e. will decrease substantially
- f. not applicable (the company does not use any bank loans)

18. If the company was refused a loan in 2006 Q2, what was the main reason for that?:

- a. lack of (or deterioration in) creditworthiness
- b. reasons connected with factors beyond the company's control
- c. not applicable – the company applied for a loan in Q2 but was not refused it
- d. not applicable – the company did not apply for a loan in Q2

19. What is the structure of financing operating activity of the company (%):

- a. bank loan denominated in the zloty
- b. foreign currency bank loan
- c. foreign loan
- d. company's own funds and assets
- e. liabilities to the budget, the Social Insurance Institution (ZUS)
- f. accounts payable
- g. other sources

20. Please state the minimum and maximum interest rate for bank loans calculated on the company's outstanding amount in 2006 Q2 (please indicate the total rate, i.e. the reference rate for the loan /WIBOR, LIBOR, EURIBOR, etc./ increased by the margin):

- a. for a short-term loan in the zloty (up to one year) – minimum
- b. for a short-term loan in the zloty (up to one year) – maximum
- c. for a long-term loan in the zloty (over one year) – minimum
- d. for a long-term zloty loan (over one year) – maximum
- e. for a short-term foreign currency loan (up to one year) – minimum
- f. for a short-term foreign currency loan (up to one year) – maximum
- g. for a long-term foreign currency loan (over one year) – minimum
- h. for a long-term foreign currency loan (over one year) – maximum

21. As compared to the present bank loan price, the company anticipates that by the end of September 2006:

- a. there will be a decrease in interest rates (i.e. the price at which the company can obtain a loan)
- b. there will be an increase in interest rates
- c. the interest rates will not change
- d. the company does not use bank loans

22. Please state the anticipated interest rate at which the company will be able to draw a bank loan (in the zloty) at the end of 2006 Q3:

- a. for a short-term loan (up to one year)
- b. for a long-term loan (over one year)

23-a. Please state the share of export sales revenue in total revenue (%):

23-b. If export sales are not fully profitable, please state what percentage of revenue from exports accounts for unprofitable exports ('unprofitable' understood as price*exchange rate that does not cover input costs and other costs related to the export of goods)? If the total export sales are profitable, please enter 0:

24. Did the number of export contracts in 2006 Q2, as compared to 2006 Q1:

- a. increase substantially
- b. decrease substantially
- c. remained basically unchanged

25. The company expects that the volume of exports in 2006 Q3, as compared to the previous quarter:

- a. will increase
- b. will decrease
- c. will remain at a comparable level

26. Does the company expect in 2006 Q3:

- a. a substantial increase in the number of export contracts
- b. a slight increase in the number of export contracts
- c. the number of concluded contracts to be similar as in other years in the same period
- d. a slight decrease in the number of new export contracts
- e. a substantial decrease in the number of new export contracts

27. What is the threshold level of the foreign exchange rate at which exports will become (is) unprofitable (in the zloty):

- a. of USD
- b. of the euro

28. At what exchange rate may there arise problems with selling finished goods, as the prices of similar imported goods will be substantially lower than the prices offered by the company:

- a. of USD
- b. of the euro

29. What is the share of input imports in the company's general expense? (%)

If the company obtains its supplies solely in the domestic market, please enter 0:

30. How does the company assess its current economic condition, excluding seasonal fluctuations typical of this period?:

- a. very good
- b. good
- c. poor
- d. bad (there are real chances for the company to survive and improve its condition)
- e. bad (liquidation or bankruptcy should be taken into consideration)

31. Does the company anticipate any major changes in its economic condition in the period from July to September 2006?

- a. yes, the condition will improve**
- b. yes, the condition will deteriorate**
- c. no, the condition of the company will not change much**

32-a. Is the company planning to increase wages in 2006 Q3 in relation to the previous quarter? [yes/no]

32-b. If so, by what percentage will the average wage increase?

33. Does the company plan to increase unconventional (i.e. different than full time job on a permanent-contract basis) forms of employment (such as fixed-term contracts, contracts for the time of performing a specific task, part-time jobs, temporary employment, odd work, home working, teleworking, borrowing employees, working on demand, self-employment, contracts of mandate, contracts for specific work, management contracts and others)?

- a. yes, please state the forms of employment used**
- b. no**
- c. it is difficult to say**

34. Please state briefly (in approx. 10 sentences) the problems which may prove crucial in the near future (six months) for the economic standing of the company. Special attention should be paid to the issues that impact the output volume (possibility of its increase or, alternatively, reasons for reducing the company's scope of activity), liquidity of the company, its outstanding loans and profitability of its exports. If the company does not encounter any major difficulties, nor does it expect them to occur in the above-mentioned period, please enter "no problems":