

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

## Economic climate in the enterprise sector in 2010 Q4 and forecasts for 2011 Q1

January 2011  
*synthesis*

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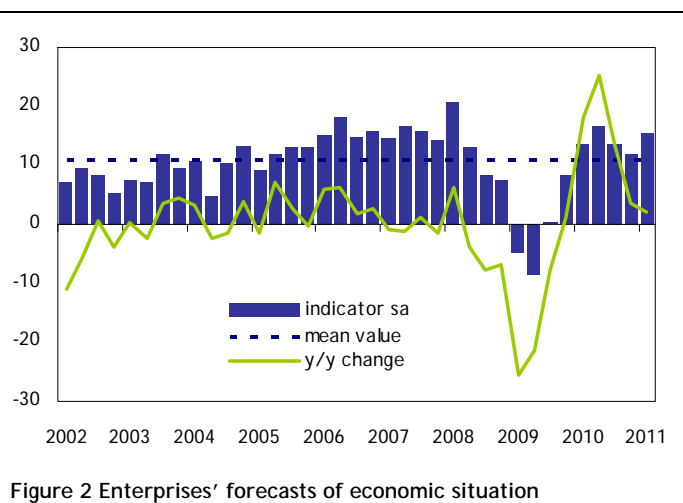
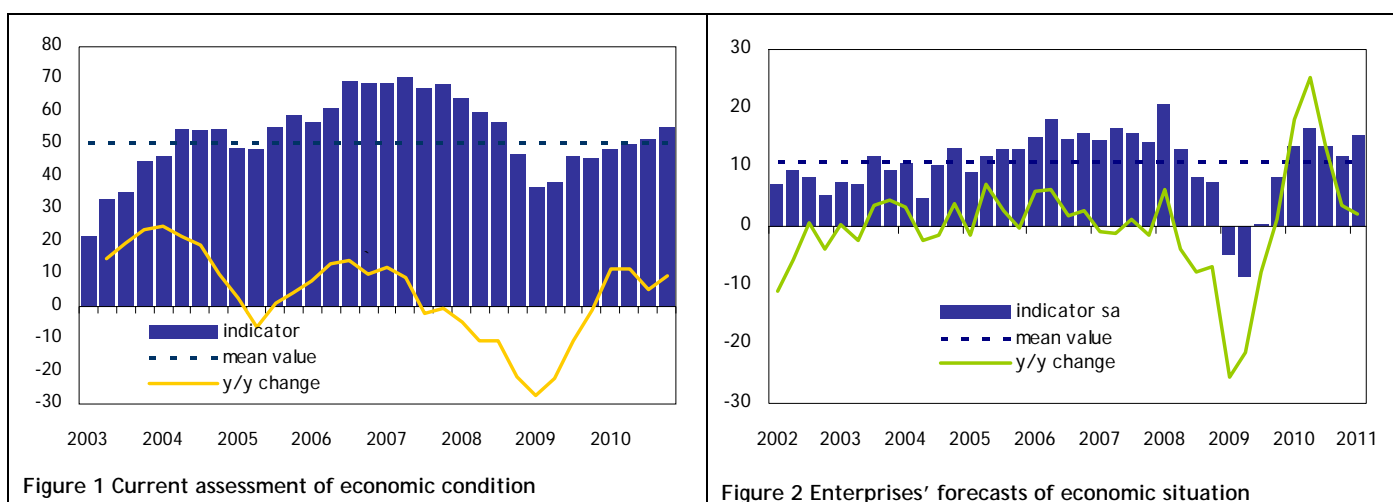
The report is based on the results of the NBP Quick Monitoring carried out in December 2010 on a sample of 1015 non-financial entities representing all sections of NACE-equivalent Polish Classification of Activity (excluding farming, fishing and forestry), both the public and non-public sectors, SMEs and large entities.

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In view of the results of the NBP Quick Monitoring and public statistics data, the following conclusions on the economic climate may be formulated.

At the end of 2010 the surveyed enterprises reported further significant improvement in sentiment despite the observed problems driven by changes in VAT rates.

Improvement was registered both in the assessment of the current situation as well as in the assessment of the future situation, in particular demand and orders. At the same time, further gradual rise in the investment activity was registered. Yet, rising optimism was not accompanied by any plans of wage or employment increase.



1. The end of 2010 brought further decline in demand barrier which resulted in a slight increase in the level of production capacity utilization and further fall in excessive inventories of finished goods in industry. At the same time, quarterly forecasts of demand and orders (formulated for the second half of 2010) were revised upwards. As a result of those positive signs, in 2011 Q1 enterprises tend to declare they are increasing production fairly more often than in the previous quarter (seasonally adjusted data). Production forecasts have improved mainly in the group of exporters. Companies focused on domestic market expect sales to decline slightly at the beginning of the year; they also anticipate the possibility of production decline. The sharpest falls in optimism were registered in construction also facing other problems.

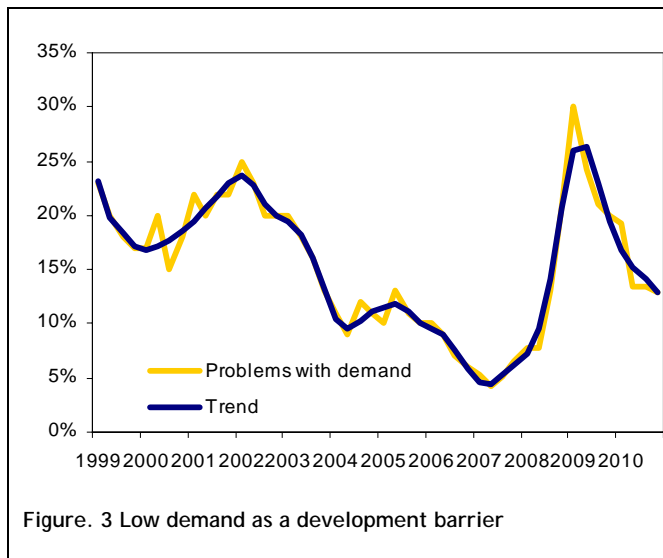


Figure. 3 Low demand as a development barrier

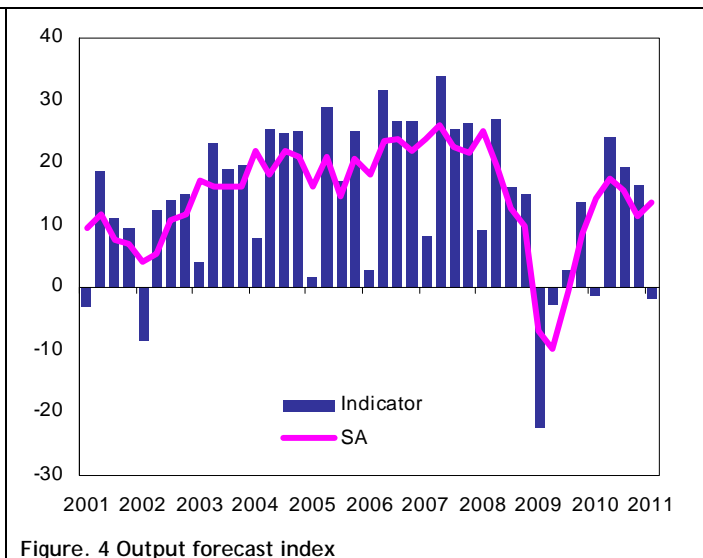


Figure. 4 Output forecast index

2. The rise in optimism in the group of exporters was accompanied by an improvement in the indices of foreign sales assessment and export forecasts, including, in particular, increasing growth in the number of export contracts concluded in 2010 Q4. A relatively weak zloty exchange rate allowed maintaining high sales profitability. This led to the strengthening of the advantage of exporters over non-exporters observed before the outbreak of the global financial crisis - differences between those groups in the levels of profitability<sup>1</sup>, production capacity utilization or investment activity increased.

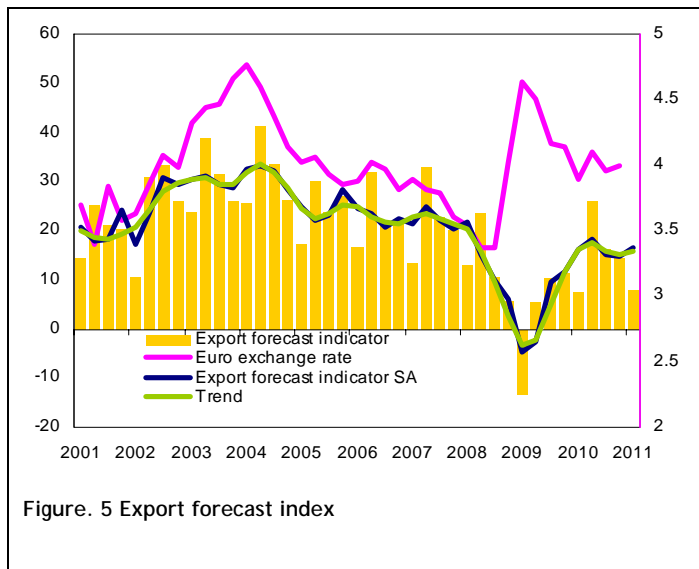


Figure. 5 Export forecast index

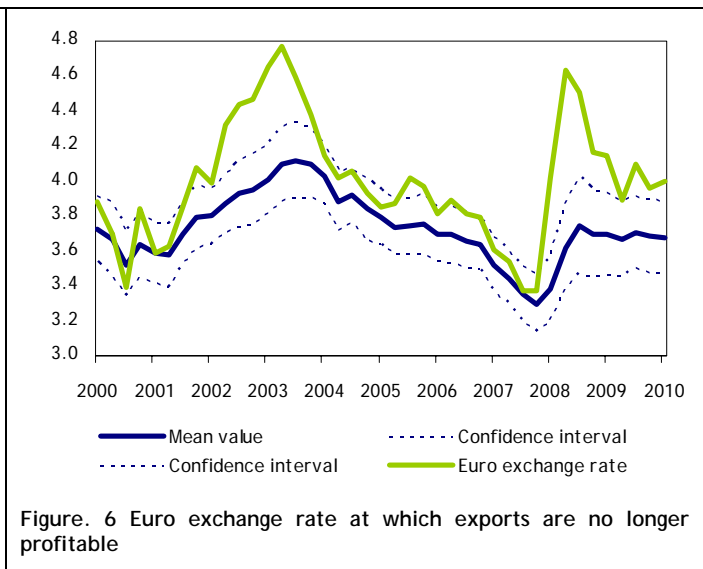
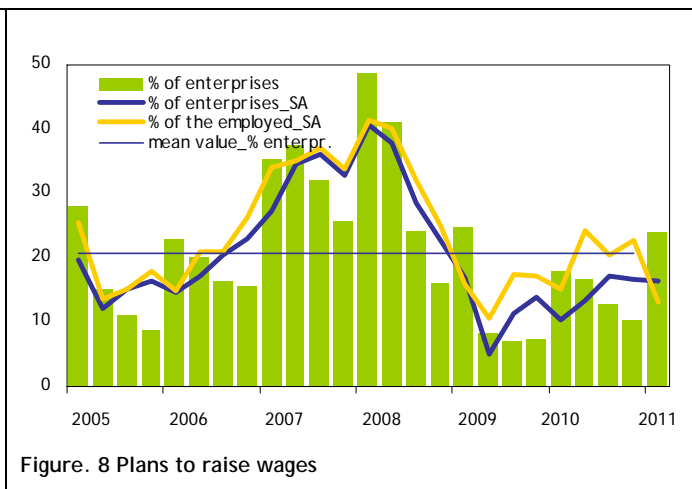
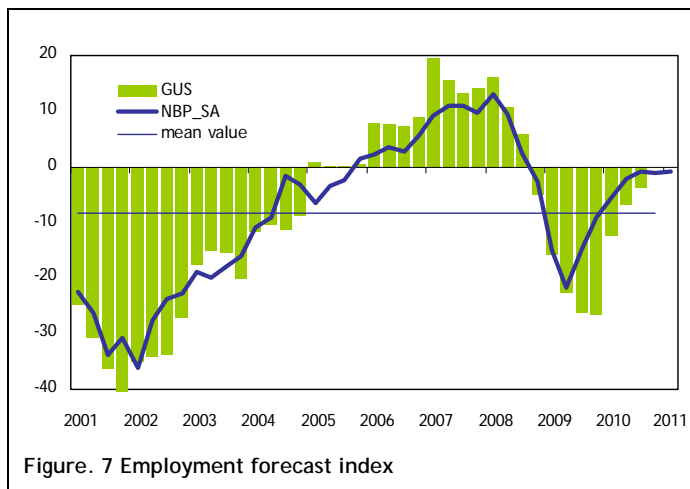


Figure. 6 Euro exchange rate at which exports are no longer profitable

3. The observed improvement in sentiment proved for the majority of the surveyed enterprises insufficient to take a decision to increase employment. Employment forecast index remained at the previous quarter's level, yet, above the long-term average. Companies with high capacity utilization as well as enterprises planning to

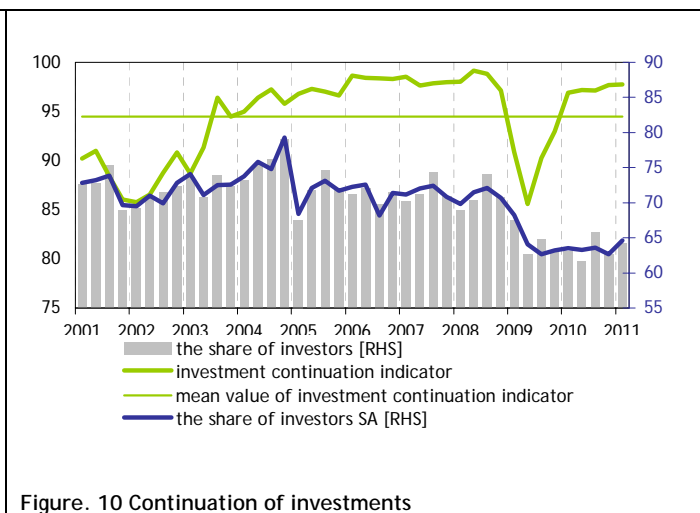
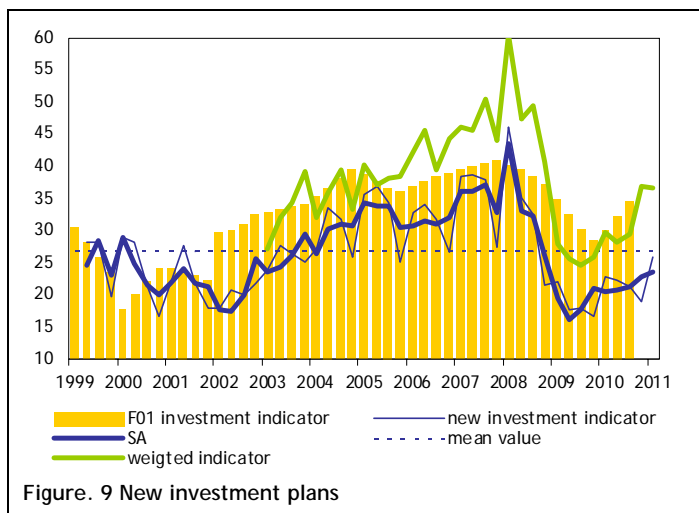
<sup>1</sup> As shown by F-01/I-01 data of the Central Statistical Office GUS.

increase production will indeed take on new employees, yet enterprises with less optimistic or just unfavourable outlook for sales declare further redundancies.

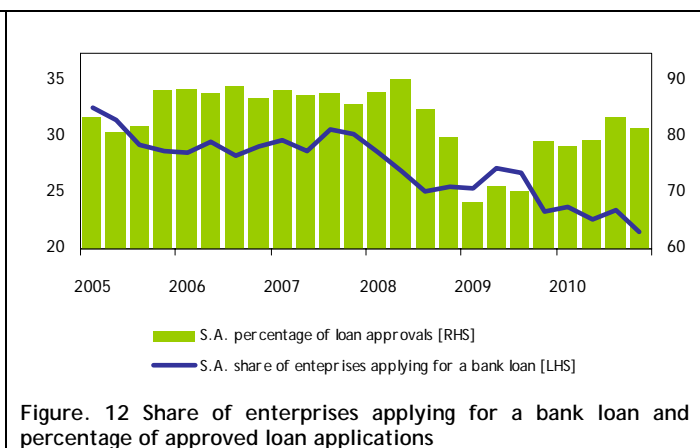
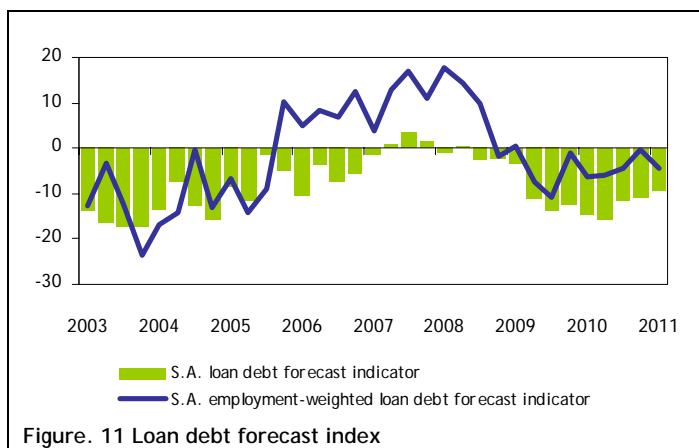


4. The number of enterprises planning to raise wages remains limited. The scale of wage increases (in seasonally adjusted terms) declined as compared with the previous quarter. Employment growth and wage increases are most often planned by foreign capital companies, the least frequently by public sector enterprises.
5. The year 2011 may be expected to bring further increase in investment activity in the enterprise sector. The biggest number of investment projects are still declared by large and very large enterprises; yet, certain recovery may also be observed in the sector of small and medium-sized enterprises. The scale of planned investment, including, in particular, measures increasing production potential will continue to be limited (plans to expand production potential tend to respond with a certain delay to the increase in the degree of production capacity utilization). The largest growth is reported in the share of enterprises planning to replace obsolete plant and machinery and carry out overhauls. A marked recovery in investment activity may be observed especially in the Manufacturing section, in the group of exporters and companies with foreign capital share<sup>2</sup>.

<sup>2</sup> All three groups are strongly interlinked.

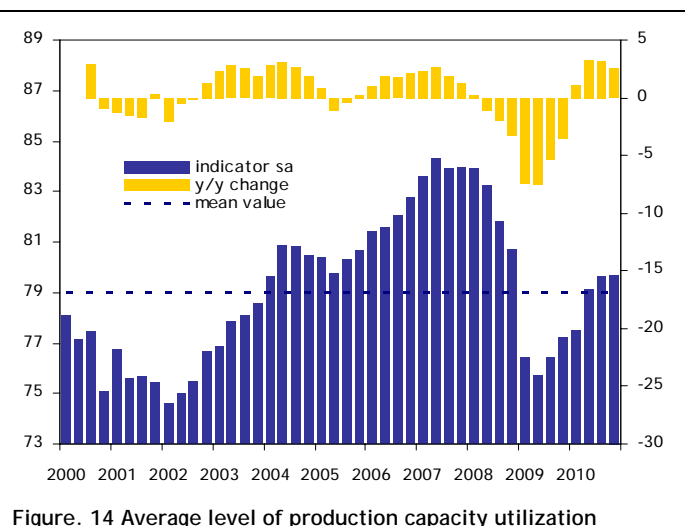
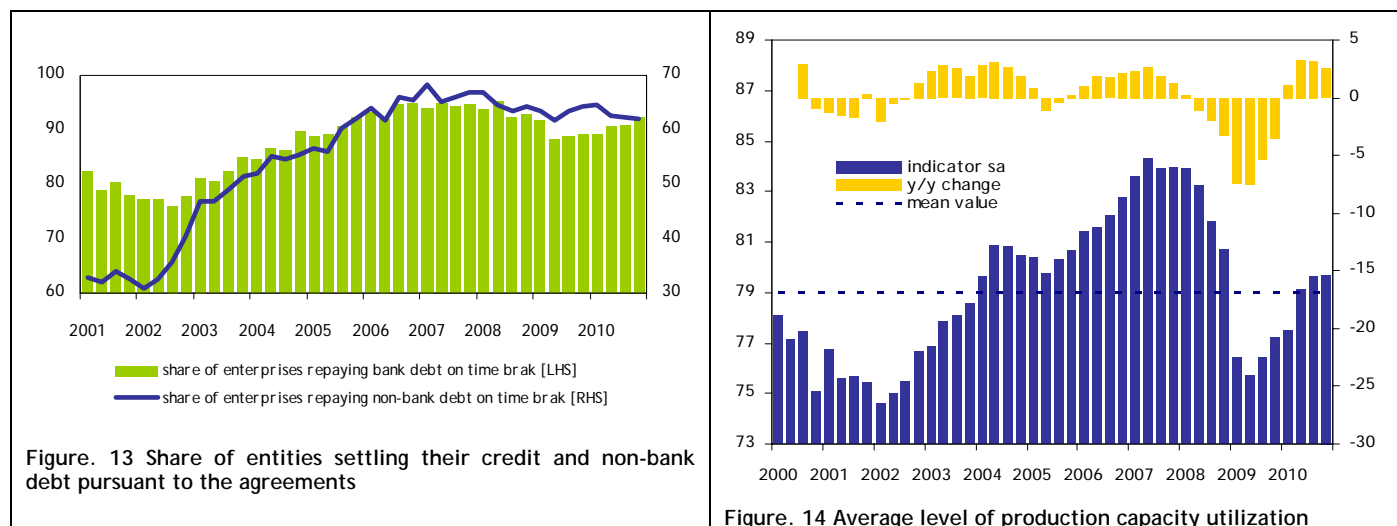


6. Interest on bank loans remained low, yet growing interest was registered by smaller enterprises and companies planning new investment projects. The share of approved loan applications, despite a slight deterioration, remained relatively high, which means that loan availability remained rather considerable. The price of this type of financing has remained at a fixed and low level for several quarters, yet, accompanied by increased concerns about its continuation in the coming months. The recovery in investment may be expected to bring growth in investment loans, especially in the case of major projects for the financing of which companies do not have enough own funds. Minor expenses will continue to be financed from own funds.



7. Liquidity continues to receive relatively positive assessments of enterprises (markedly better than in 2001-2003); yet, the number of companies affected by liquidity problems is growing very slowly, albeit continuously. Yet, for the time being this does not translate into deterioration in the timeliness of loan repayment. Bank debt service has been continuously improving during the past six quarters and is at present at one of the highest level in the survey history. Both low credit price as well as tougher loan granting conditions have a positive impact on the timeliness in the repayment of loan instalments - which, in turn, ensures positive selection of future

borrowers. It may be assumed that some enterprises repay their loan instalments at the expense of non-bank debt service. This may be observed mainly in the share of companies defaulting on timely payment of their trade liabilities; on the other hand, the effect in the form of prolonging debt repayment has not yet been felt.



8. One-time costs of introducing new VAT rates were assessed by enterprises as moderate (such an opinion was expressed by 89% of respondents); yet, this change led to major problems and growing concerns about inflation developments. As regards the transmission of the increase in VAT rates into prices, such plans are declared by approx. 53% of the surveyed enterprises, of which 39% of companies will do it as early as in January 2011. Majority of those companies will shift the burden of tax increase onto customers. Every third enterprise will not increase prices as a result of VAT rise which may justify the fact that decline in margins is the most frequently anticipated consequence of the introduction of new VAT rates. Concerns about negative consequences of the introduction of new VAT rates might have been one of the reasons of more frequent cost cuts effected in 2010 Q4.
9. 2011 Q1 is the third consecutive quarter expected by companies to bring CPI growth. Contrary to the previous quarter, in 2011 Q1 this is combined with considerably more frequently planned increases in the prices of goods and services offered by the surveyed enterprises. Yet, it should be noted that in line with the expectations the frequency of price increases is growing more than their average value.

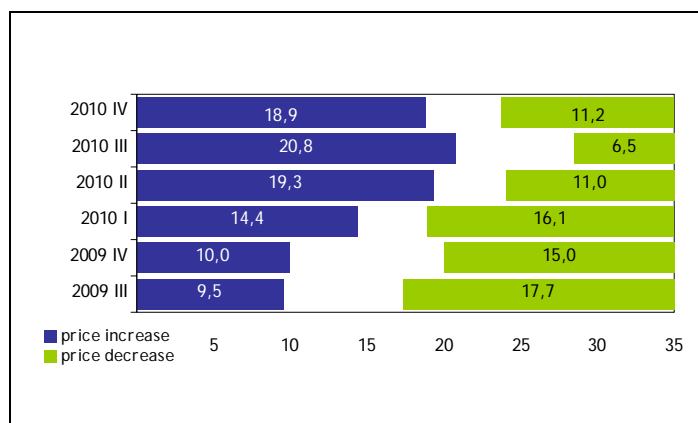


Figure. 15 Actual changes of products/services offered by enterprises

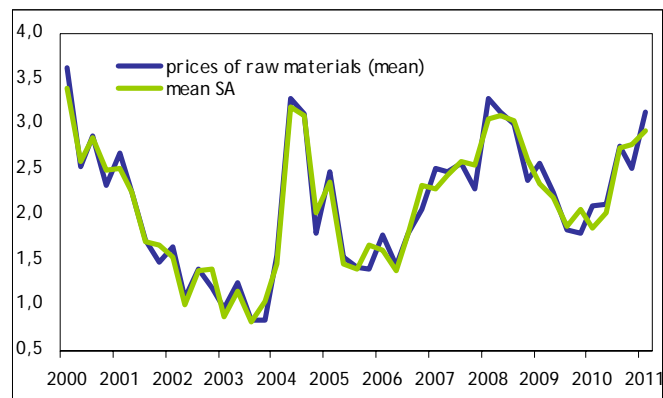


Figure. 16 Quarterly forecasts of prices increases of commodities/raw materials used by enterprises

## 1. Growth barriers - selected problems

Table. 1 Growth barriers<sup>3</sup> (moments when the indices display the maximum value in the whole history of the study have been signalled out in the table)

frequency of problems reported during the quarter:	low demand	foreign exchange rates, including fluctuations	increases in the prices of commodities and raw materials	strong and growing competition	payment bottlenecks, liquidity problems	unclear legal regulations, changes in legal regulations	absence of investment, problems connected with the investment process
minimum and maximum value in the history of quick monitoring survey studies	4.3 \ 30.0	8.6 \ 26.8	2.7 \ 17.5	5.4 \ 21.2	4.9 \ 21.2	4.2 \ 17.2	0 \ 4.9
2008 Q1	7.8	17.7	14.7	6.7	4.9	6.1	4.9
2008 Q2	7.8	15.5	17.5	5.7	5.7	5.0	2.1
2008 Q3	13.1	16.6	16.9	7.8	5.1	4.3	2.7
2008 Q4	20.8	10.3	7.2	6.2	7.2	4.5	
2009 Q1	30.0	14.4	10.0	7.3	9.4	4.9	3.7
2009 Q2	24.3	13.7	6.9	5.8	10.4	4,7	2.4
2009 Q3	21.3	11.5	7.6	8.5	8.6	5.0	2.3
2009 Q4	20.0	13.0	6.9	9.3	7.6	5.4	1.3
2010 Q1	19.3	13.3	7.6	9.0	9.2	4.2	1.7
2010 Q2	13.5	10.4	7.6	6.8	6.1	4.3	3.0
2010 Q3	13.5	10.1	9.2	6.1	8.8	7.9	2.6
2010 Q4	12.9	9.4	8.7	7.0	7.0	6.8	3.9

<sup>3</sup> Growth barrier indices have been determined based on the share of enterprises which report the occurrence of a particular type of problem in the number of all the enterprises taking part in the survey (including companies that did not answer the question about development barriers).

## Questionnaire:

1. Give the number of persons employed in the enterprise as of 01 December 2010:
2. The enterprise anticipates the demand for its products in 2011 Q1 as compared with the previous quarter to:
  - a. increase considerably - mainly as a result of growing demand for the enterprise's product in this period (seasonal growth), typical for the enterprise
  - b. increase considerably - mainly as a result of the observed sustainable growth in demand for the enterprise's products
  - c. remain unchanged or will change only slightly
  - d. decline - yet, the phenomenon is seasonal in nature and is observed always in the same period
  - e. decline - as a result of the constantly observed fall in the demand for the enterprise's products
3. In 2011 Q1 the enterprise expects:
  - a. an increase in the number of orders
  - b. a fall in the number of orders
  - c. a similar number of orders to be maintained
  - d. not applicable
4. Does the enterprises expect 2011 Q1 to bring significant changes in:
  - a. the level of production
    - (1) increase
    - (2) no changes
    - (3) decrease
  - b. the level of employment
    - (1) increase
    - (2) no changes
    - (3) decrease
  - c. investment programmes commenced before the date of completing the survey and currently conducted
    - (1) renouncement
    - (2) reduction
    - (3) no changes {investment will be continued}
    - (4) increase
    - (5) not applicable {absence of investment}
    - (6) completion according to the schedule
5. Does the enterprise plan in 2011 Q1 to:



- a. commence major investments financed largely by bank credit
  - b. commence major investments financed largely by own funds
  - c. commence major investments financed largely by non-bank external sources
  - d. commence major investments financed in another way
  - e. the enterprise does not plan to undertake such actions
6. Does the enterprise plan in the entire 2011 to commence investments which are important from its point of view?
- a. yes
  - b. no, the enterprise possesses sufficient production potential
  - c. no, the enterprise has difficulties to finance investments
  - d. no, the forecasted demand for the enterprise's products is too low or will decrease
  - e. no, the costs of the investment would be too high
  - f. no, the enterprise does not plan investment for other reasons than the mentioned above
7. What is the main purpose of investments planned for 2011 ?:
- a. increase of the production potential
  - b. modernization of technology - decrease of production costs
  - c. replacement or overhaul of the assets used, overhaul of factory or/and office premises
  - d. other purposes
8. How does the enterprises assess the scale of outlays for investments planned for 2011?
- a. outlays will be considerably higher than in 2010
  - b. outlays will be slightly higher than in 2010
  - c. outlays will be comparable
  - d. outlays will be slightly lower than in 2010
  - e. outlays will be considerably lower than in 2010
9. What is the degree of production capacity utilization in the enterprise? (in %):
10. What is the current level of particular categories of inventories in the enterprise?
- a - too high b - sufficient c - too low d - not applicable*
- a. stock of finished goods
  - b. stock of products
  - c. stock of intermediate products and work in progress
  - d. stock of materials
11. Were in 2010 Q4 costs in the enterprise reduced/optimised [YES/NO]?

12. Were there any changes in the gross profit margin on the sale of the main product/group of products and/or services offered by the enterprise on the domestic market or on the foreign market change in 2010 Q4 as compared to 2009 Q4?

- a. the margin increased considerably
- b. the margin increased slightly
- c. the margin did not change
- d. the margin fell slightly
- e. the margin fell considerably
- f. not applicable

13. Did the prices of the main product/group of products and/or services offered by the enterprise change in 2010 Q4 as compared with the previous quarter?

- a. increase
- b. no change
- c. decrease

14. The enterprise expects:

- a. the prices of sold goods and services in 2011 Q1 (as compared to 31 December 2010) to rise/fall by ...%
- b. the prices of commodities and materials purchased by the enterprise in 2011 Q1 (as compared to 31 December 2010) to rise/fall by ...%
- c. In October 2010 the CPI (inflation) amounted to 2.8% in year-over-year terms. In the opinion of the enterprise, within the coming 12 months the prices:
  - (1) will grow faster than up to now
  - (2) will grow at the same pace
  - (3) will grow at a slower pace
  - (4) will remain unchanged
  - (5) will fall
  - (6) I do not know

15. Please specify (in %), to which extent changes in VAT rates (including costs of the whole operation) will be translated into prices of products and services offered by the enterprise?:

*0 - change in VAT will not be translated into prices, 100% - totally translated into prices*

16. When, in connection with the changes in VAT rates, does the enterprise plan to change the prices of its products and services?:

- a. changes in VAT have already been accounted for in prices or prices will be changed already in 2010
- b. in January 2011
- c. in subsequent months of 2011

- d. the enterprise has not yet decided about the date for the change of the prices of its goods and services
  - e. the enterprise does not plan to change its prices in connection with VAT changes
17. How does the enterprise assess one-off adjustment costs connected with the introduction of new VAT rates?
- a. the company will virtually not incur any costs
  - b. the company will incur insignificant one-off costs
  - c. the company will incur significant one-off costs
18. Does the enterprise expect any significant negative effects triggered off directly by the introduction of new VAT rates?: [YES / NO]
- a. fall in sales
  - b. fall in margin
  - c. fall in liquidity
19. As regards loan debt service:
- a. the enterprise does not have problems with loan debt service and does not anticipate such problems in the coming quarter
  - b. the enterprise does not have problems with loan debt service but expects such problems to arise in the coming quarter
  - c. the enterprises faces such problems but expects their scale will go down in the coming quarter
  - d. the enterprises faces such problems and does not expect the situation to improve
  - e. the enterprise does not resort to loans
20. Did the enterprise have any problems with timely settlement of its non-banking liabilities in 2010 Q4?:
- a. no, never
  - b. yes, occasionally
  - c. yes, often
21. Did the enterprise have any problems to maintain liquidity in 2010 Q4?:
- a. often
  - b. occasionally
  - c. did not have any problems
22. How does the enterprise assess the value of funds and other monetary assets as compared with its current needs?:
- a. funds are sufficient to meet its current needs
  - b. funds are insufficient to meet its current needs

- c. funds exceed its current needs
23. What was the average time (in days) in 2010 Q4 of :
- a. payment of trade liabilities
  - b. collection of trade receivables
  - c. delays in the payment of trade liabilities
  - d. delays in the collection of trade receivables
24. As planned by the enterprise, by the end of March 2011 bank debt as compared to the status as of 31 December 2010: |
- a. will increase considerably
  - b. will increase insignificantly
  - c. will remain unchanged
  - d. will decrease insignificantly
  - e. will decrease significantly
  - f. not applicable (the enterprise does not resort to bank loans)
25. Was the enterprise refused a bank loan in 2010 Q4?:
- a. yes, due to the lack (deterioration) of credit worthiness
  - b. yes, since the enterprise did not have sufficient collaterals
  - c. yes, for other reasons than the ones listed in points a) and b)
  - d. no, the enterprise was granted a loan in 2010 Q4
  - e. no, the enterprise did not apply for a loan in 2010 Q4
26. If the enterprise applied for a bank loan in 2010 Q4, what was its purpose (notwithstanding whether the loan was granted or no)?:
- a. financing of stock and working capital
  - b. financing of fixed assets (investment)
  - c. other purposes
  - d. not applicable - the enterprise did not apply for a bank loan
27. Please specify the average interest rate for bank loans charged on the enterprise's debt in 2010 Q4 (please specify the total rate i.e. reference rate for the loan /WIBOR, LIBOR, EURIBOR, etc./ increased by a margin):
- a. in the case of a short-term loan in PLN (less than 1 year)
  - b. in the case of a long-term loan in PLN (more than 1 year)
  - c. in the case of a short-term loan in foreign currency (less than 1 year)
  - d. in the case of a long-term loan in foreign currency (more than 1 year)
28. As regards the current price of bank loan, the enterprise expects that by the end of March 2011:
- a. interest rate (i.e. prices at which the enterprise may obtain a bank loan) will decline

- b. interest rate will increase
- c. interest rate will not change
- d. the enterprise does not resort to bank loan

29-a. Please specify the share of export income in the total income (in %):

29-b. Please specify what percentage (in %) of export income constitutes non-profitable exports (non-profitable understood as price\*rate not covering production costs and other costs connected with the export of goods)? If all the export sales are profitable, please enter 0:

30. Did the number of export contracts in 2010 Q4 as compared with the previous quarter:

- a. increase considerably
- b. fall considerably
- c. remain largely unchanged

31. The enterprise expects the volume of exports in 2011 Q1 as compared with the previous quarter to:

- a. increase
- b. fall
- c. remain at a comparable level

32. As compared to the previous quarter the enterprise expects in 2011 Q1:

- a. the number of new export contracts to increase
- b. a similar number of export contracts to be concluded
- c. the number of new export contracts to fall

33. What is the threshold level of the foreign exchange rate at which exports are unprofitable (in PLN)?

- a. for USD
- b. for EUR

34. What is the share of supply imports in the costs of the enterprise's operations (in %)?  
In the case when there are no imports, please enter 0:

35-a. Will wages in the enterprise change in 2011 Q1?:

- a. yes, there are plans to increase average wages
- b. yes, there are plans to decrease average wages
- c. no

35-b. If so, how will the average wage change (in %)?

36. Please assess the relation of the growth of wages to labour productivity (as measured by the value added per 1 employee) in the enterprise in 2010 (changes in relation to the previous quarter):

- a. wages increased more than labour productivity (also when labour productivity did not increase)
- b. wages increased to a similar degree as labour productivity
- c. wages increased to a lesser degree than labour productivity
- d. wages did not increase, while labour productivity grew
- e. neither wages nor labour productivity grew

37. How does the enterprises assess its current financial condition, excluding seasonal fluctuations typical for this period?:

- a. very good
- b. rather good
- c. poor
- d. bad (there are real chances for the company to survive, to improve its condition)
- e. very bad (the company's liquidation or bankruptcy should be reckoned with)

38. Does the enterprise anticipate any major changes in its financial condition?:

- a. yet, its condition will improve
- b. yet, its condition will worsen
- c. not, the company's condition will not change significantly

39. Please give a brief outline of problems (approx. 10 sentences) which are of particular importance for the financial condition of the enterprise in the nearest future (half a year period). Please present those issues which impact the volume of output (possibility of increasing the output or the reasons for reducing the scale of activity), liquidity of the enterprise, bank loan debt and export profitability. In the case when the enterprise does not face any major difficulties and does not anticipate to encounter them in the given period, please enter "no problems".