



**NBP**

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Narodowy Bank Polski

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No. 02/14 kwiecień 2014

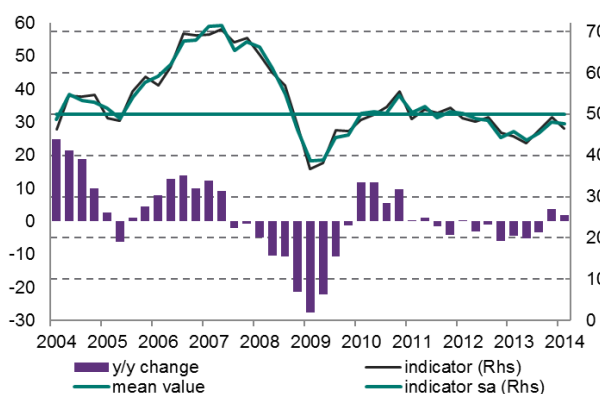
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# **NBP Quick Monitoring Survey**

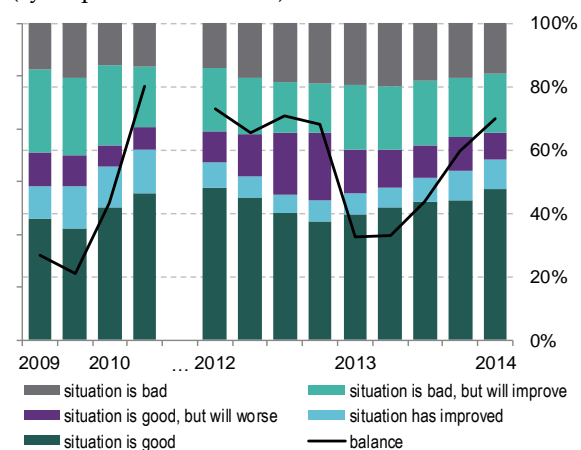
Economic climate in the enterprise sector in 2014 Q1 and forecasts for 2014 Q2

Situation in the enterprise sector slowly improves. The repercussions and unpredictable scope of the Ukrainian-Russian crisis may currently reduce optimism among entrepreneurs. The survey results seem to indicate that in spite of concerns stated by enterprises, the respondents involved in Eastern markets hope that the problem will be quickly obviated. For the remaining enterprises crisis seems to have no direct influence. This trend is confirmed by the higher level of optimism in forecasts that go beyond the horizon of the coming quarter.

**Figure 1** Current assessment of economic situation

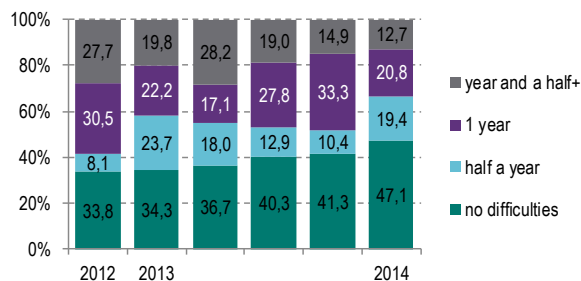


**Figure 2** Current, past and expected difficulties (cycle phase assessment)

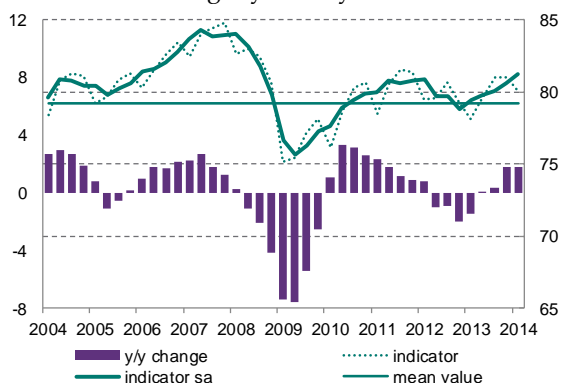


The concerns expressed by enterprises have materialised first of all in the form of downward revision of more general assessments, including the assessments of current economic condition and the forecasts of the situation for the coming quarter, as well as worsening of export forecasts. On the other hand, the degree of production capacity utilisation, production forecasts or investment plans, being more specific implementations and intentions of respondents indicate further, though still gradual, economic recovery.

**Figure 3** Envisaged date of termination of the slow-down period in the entire population – mid-term forecasts



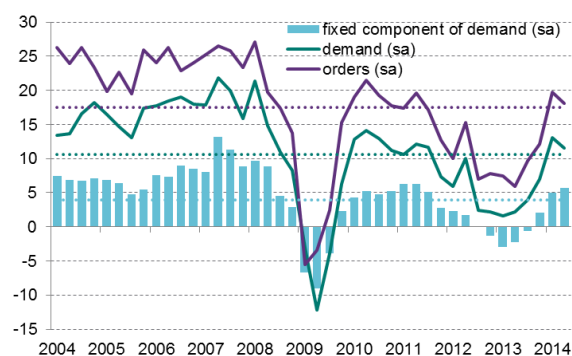
**Figure 4** Average level of production capacity utilisation and its changes year-to-year



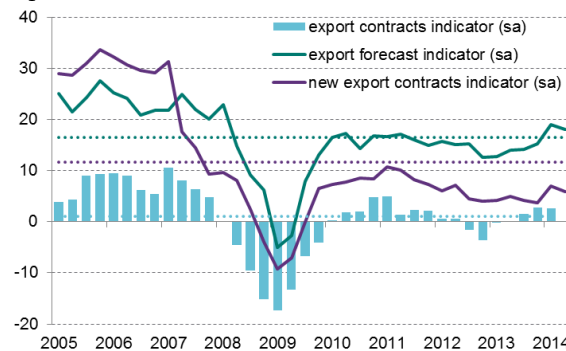
This is another consecutive quarter when difficulties with finding consumers for products offered by the surveyed enterprises have diminished. In spite of a slight decrease in forecasted demand and diminishing level of new orders, the expectations for Q2 are fairly optimistic. It stems from the rising

percentage of enterprises expecting a permanent increase in demand for their products and services – In this quarter the greatest number of such enterprises was observed if consider the past three years. On the other hand, this is another quarter in a row when the level of production forecasts has increased (albeit only slightly), which might indicate that the previously observed increase in demand has strengthened.

**Figure 5** Forecasts for aggregate demand, fixed demand and new orders



**Figure 6** Existing and new export contracts and export forecasts

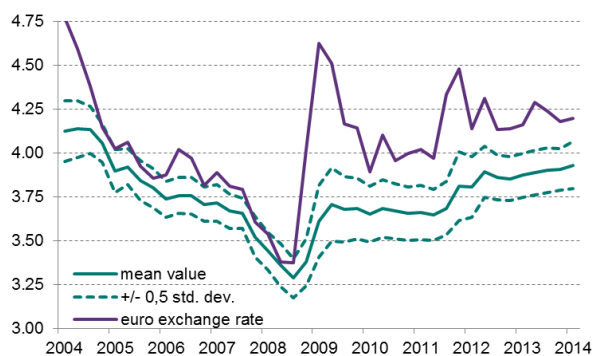


Exporters saw a slight worsening of the situation in 2014 Q1, along with a decrease in export margins, while the assessments of current demand continued to improve. Eastern markets-oriented exporters may be the first to experience the repercussions of the crisis. Apparently, some of them have actually corrected their assessments and lowered export forecasts. The uncertainty as regards the environment and future of an enterprise has increased among, i.a., food producers. On the other hand, the share of income from export in the total income of food producers is relatively low (*the majority* of food is produced for the domestic market) and only a small part of the sales reaches Russia and Ukraine. As a result food producers, similarly to the whole class of exporters, formulated more optimistic economic situation forecasts for the period exceeding the coming quarter. Moreover, the prospects for surveyed enterprises are also improved thanks to a slow recovery in the euro area.

**Figure 7** Changes in margins on domestic and foreign sales

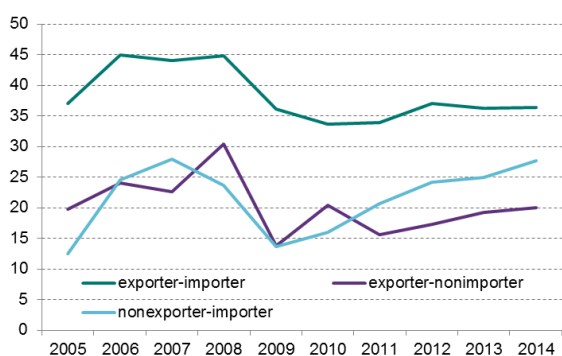


**Figure 8** Exchange rate of the euro, at which export becomes unprofitable versus the actual exchange rate of the euro

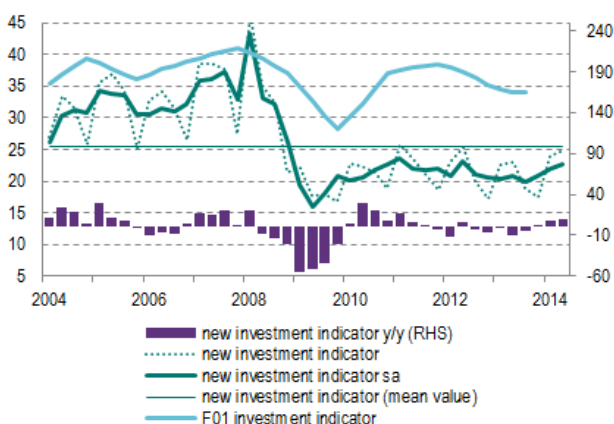


The optimistic assessments formulated by exporters could be lowered by fluctuations in the zloty exchange rate, stronger as a side-effect of the Ukrainian-Russian conflict. Increased uncertainty about the zloty developments may pose a problem first of all for enterprises that both export and import, due to bi-directional transactions and very rarely usage of natural hedging, as well as derivatives that protect enterprises against exchange rate risk. In 2014 Q1, the percentage of enterprises that used derivatives remained at the level observed the year before, reaching 35% of exporters who declared to remain active importers. In spite of fluctuations in the exchange rate of the Polish zloty, respondents continue to assess its level in very positive terms, which guarantees high profitability of export for them.

**Figure 9** Percentage of enterprises that protect themselves against exchange rate risk

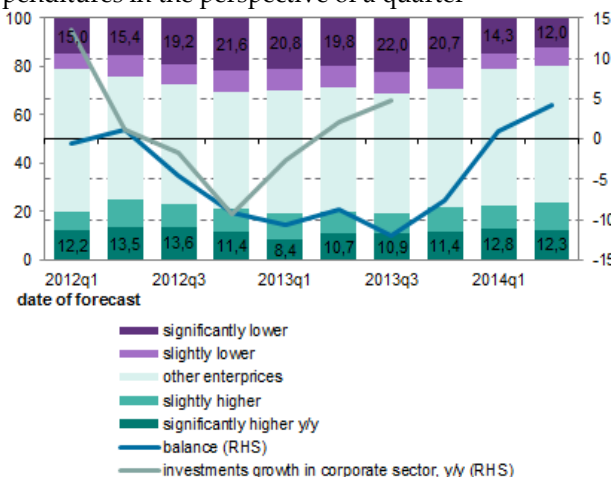


**Figure 10** Share of enterprises that plan to launch new investments within the perspective of the next quarter

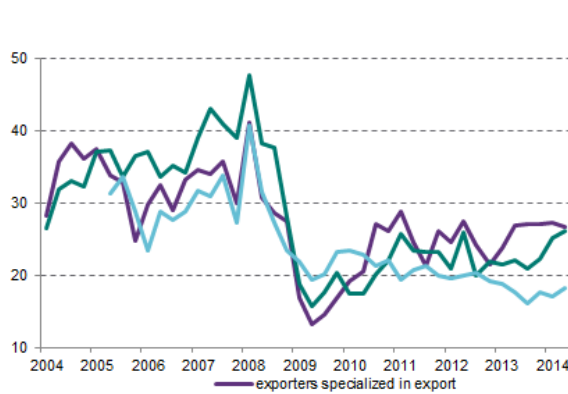


In 2014 Q2 respondents intend to begin more investment projects than it was observed in the previous quarter. Expenditures for fixed capital will be much lower than it was during the economic boom. Also the pace of improvement has already decreased compared to the previous quarter. Nevertheless, the number of recently undertaken decisions on launching new investment projects indicates that the assessments of both current and future economic situation are definitely optimistic.

**Figure 11** Planned change in the amount of total expenditures in the perspective of a quarter

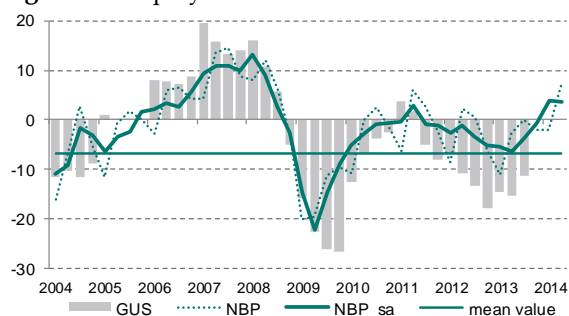


**Figure 12** New investments versus export activity

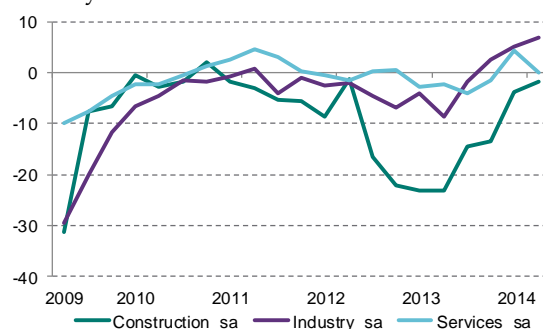


An increase in investments is still contemplated by exporters, among others. Conversely, a significant drop occurred among the largest enterprises in the sample. This might be a reaction to the Ukrainian-Russian crisis, since the share of enterprises identifying it as a barrier to development is higher than in other groups. However, taking into consideration a small size of the group and quite frequent and strong fluctuations of its forecast indicator, this drop does not need to forerun a permanent downward trend.

**Figure 13** Employment forecasts

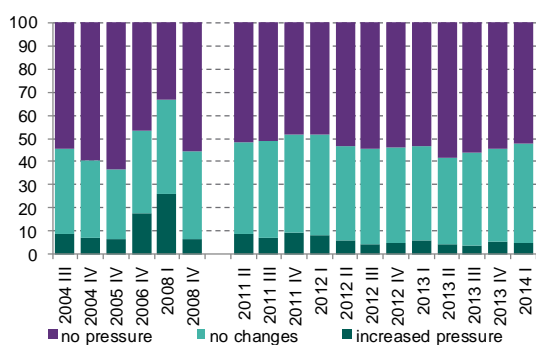


**Figure 14** Employment forecasts for construction, industry and services

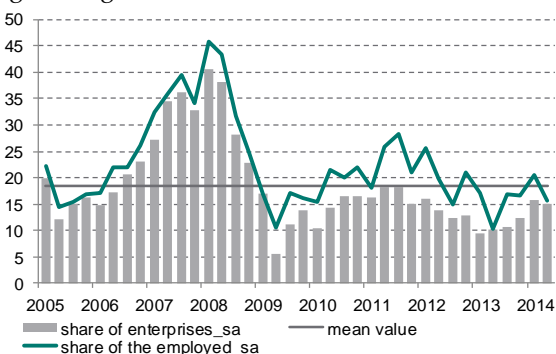


In 2014 Q2, an increase in employment may be expected, which is typical of this period. Admittedly, the seasonally adjusted data suggest a stabilisation of the forecast balance at the level observed in the previous quarter. Nonetheless, this way it will be a second quarter in a row that the balance remains explicitly positive. Stable indications result first of all from a worsening of forecasts for services and trade (although in the case of trade there will still be more enterprises to employ than dismiss employees). The percentage of enterprises that plan to increase the number of positions in the industrial sector remains upward. Also the prospects for the construction industry continue to improve, however, there will still be more enterprises to reduce employment than increase).

**Figure 15** Wage pressure

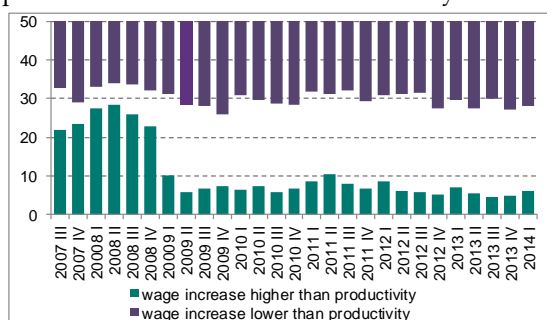


**Figure 16** The share of enterprises planning wage increases and the share of employees to receive higher wages

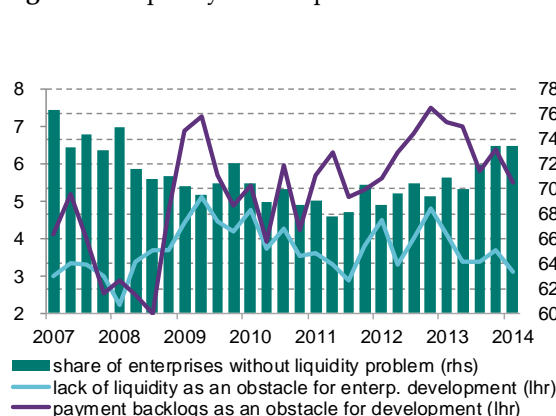


In spite of a gradual recovery in the labour market, for the time being there is no sign of rising employees' pressure on wage increases – only 5% of surveyed enterprises informed about such a phenomenon. Such an attitude is caused by increased unemployment rate and a low inflation level, as well as a visible enterprise orientation on cost optimisation, which continued since 2009. All these factors contribute to a situation in which there are fewer enterprises that plan to increase salaries in Q2. The average proposed increase will be lower than that of Q1. As a result, the growth of labour efficiency should continue to rise faster than wages.

**Figure 17** Assessment of an increase in wages compared to the increase of labour efficiency

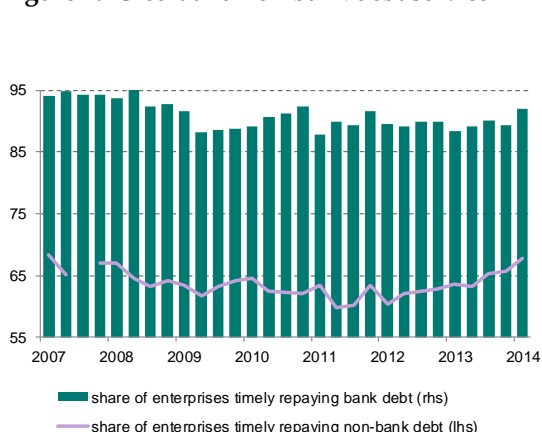


**Figure 18** Liquidity of enterprises

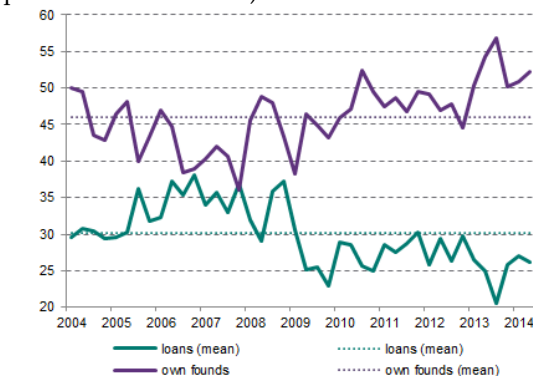


Similarly to the previous quarter, enterprises have positively assessed their liquidity situation. The respondents have also informed about an increase in their ability to repay debts owed to banks and other entities. It was another quarter when an increase in liquidity has been noticed among construction enterprises.

**Figure 19** Credit and non-bank debt service



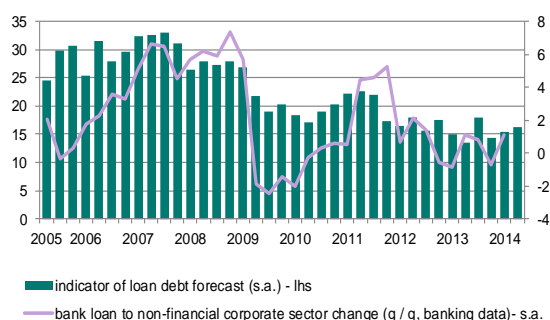
**Figure 20** Financing of new investments with own funds and bank loans (a subgroup of investors who plan new investments)



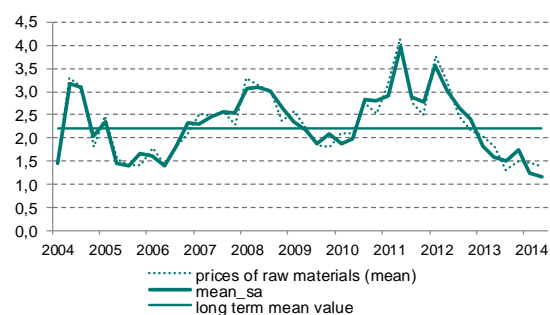
The interest in loans expressed by enterprises has remained relatively low. It is particularly visible in the case of investment loans. Enterprises that plan new projects will use investment loans two times less frequently than their own funds. The low propensity of companies to borrow results, among oth-

ers, from still quite small in terms of scale, production capacity enhancement and growing own funds at the disposal of enterprises. On the other hand, difficulties with access to loans and the cost of a loan currently do not constitute any serious barrier to development. It is worth noticing that the nominal price of money has never been lower in the post-transformation period. Bank refusals to grant credit also affect only a small group nowadays (about 10% of the applicant borrowers). An additional facility, although reserved for the SME sector only, are *de minimis* guarantees, owing to which the level of security required by banks constitutes less of a problem for the enterprises applying for a loan. In spite of favourable conditions, the percentage of enterprises that use loans gradually decreases.

**Figure 21** Demand for loans



**Figure 22** Quarterly forecasts of price increases of raw materials



There is no visible increase in the inflationary pressures among the surveyed enterprises. Neither do the respondents expect increases in the prices of raw materials and other materials used for production, nor do they expect an increase in the prices of consumer goods. As a result, the propensity of surveyed companies to increase prices and the scale of changes have remained at a similar level as in the previous quarter