“Don’t worry. Stay calm”

Main economic trends in September 2023

based on the results of the New Monthly Enterprises Survey, #NRES

Oksana Kuziakiv, Executive Director at the IER

Yevhen Anhel, Senior Research Fellow at the IER

Iryna Fedets, Senior Research Fellow at the IER

Anastasia Gulik, Research Fellow at the IER

Kyiv, October 11, 2023

ABOUT THE NEW RAPID ENTERPRISES SURVEY

Monthly survey

The recent data were collected on **September 18 - 29, 2023**

SAMPLE: 534 **enterprises** were surveyed in August

17 surveys have already been conducted (since May 2022)

Enterprises of all sizes

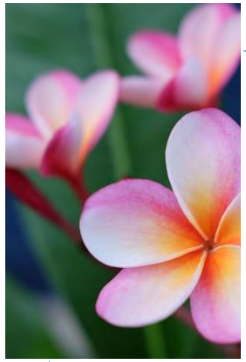
Sectors: **Industry +** (Retail, Agro)

Geography: **21 out of 27** regions of Ukraine

Main results 1

War-related risks are becoming a significant factor in the **business environment**

Business expectations in the short-term perspective remain **high, although** the pace of recovery in production has **slowed** somewhat



Businesses rely **on themselves** and need **more business-friendly regulatory policies**

Main results 2. Uncertainty

Uncertainty in the **6-month** perspective gradually **continues to decrease**

Uncertainty in the 3-month perspective **decreased slightly after three months of growth**

Uncertainty in the **2-year** perspective remains without changes

Main results 3: business activity, production, export indicators

6 months' expectations regarding enterprises' business activity and the overall economic environment **remained** quite **high and positive**

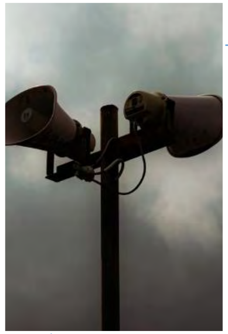
The share of enterprises operating **at almost full and at full capacity** decreased a bit (55% vs 57% in August),

BARI is high but has decreased

Production performance vs previous months **slightly improved, while 3-months expectations decreased**

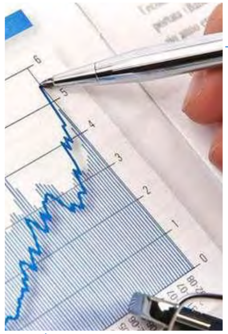
Rate of growth of export past performance and expectations **decreased**

Main results 4: impediments, economic policy



The “**dangerous to work**” reached the 2nd place on the List of impediments to doing business

The interruption **in electricity remains at 6th position on** the List of impediments to doing business



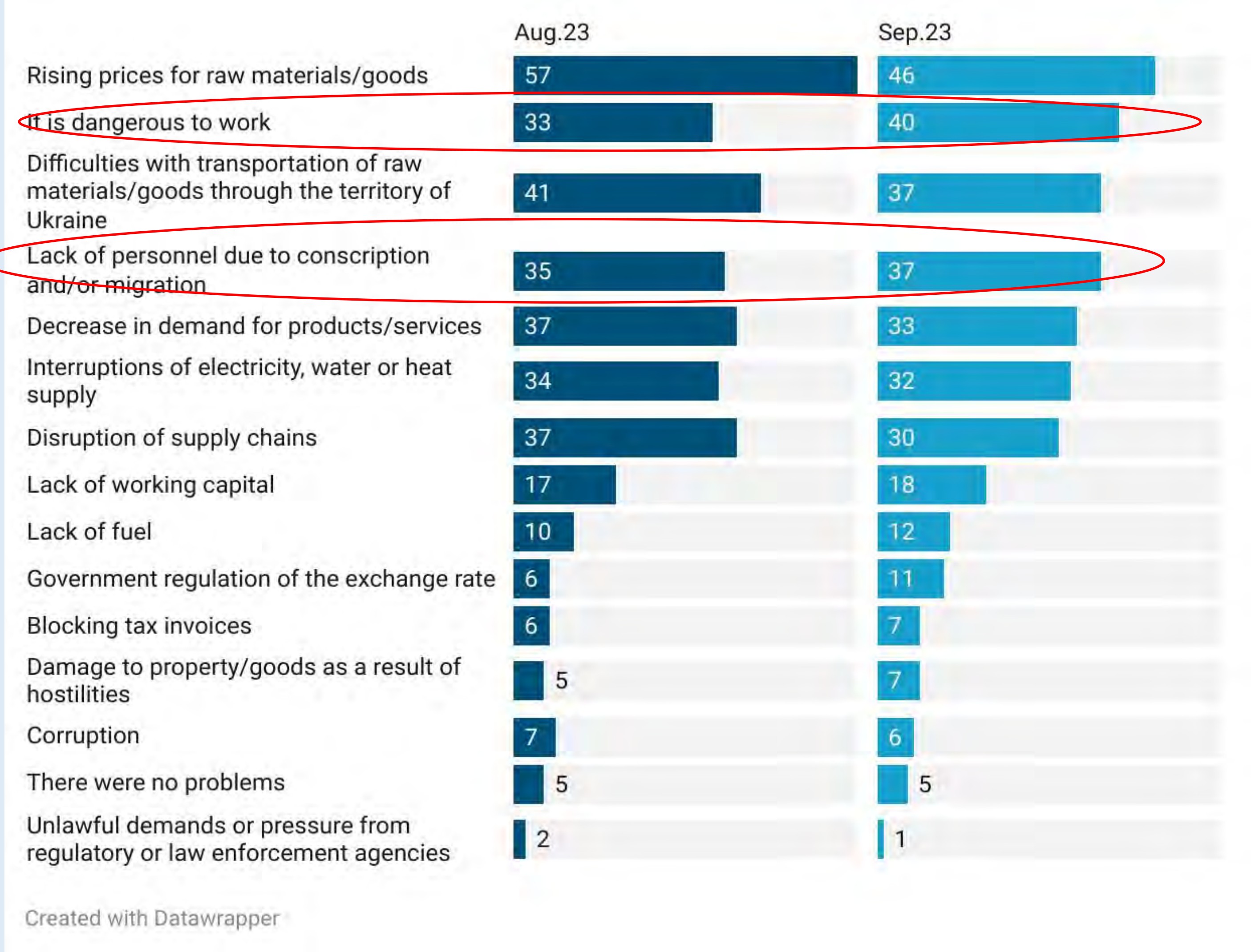
% of **uncertainty** in assessments of the **government’s economic policy decreased**, while **neutral assessments increased again**

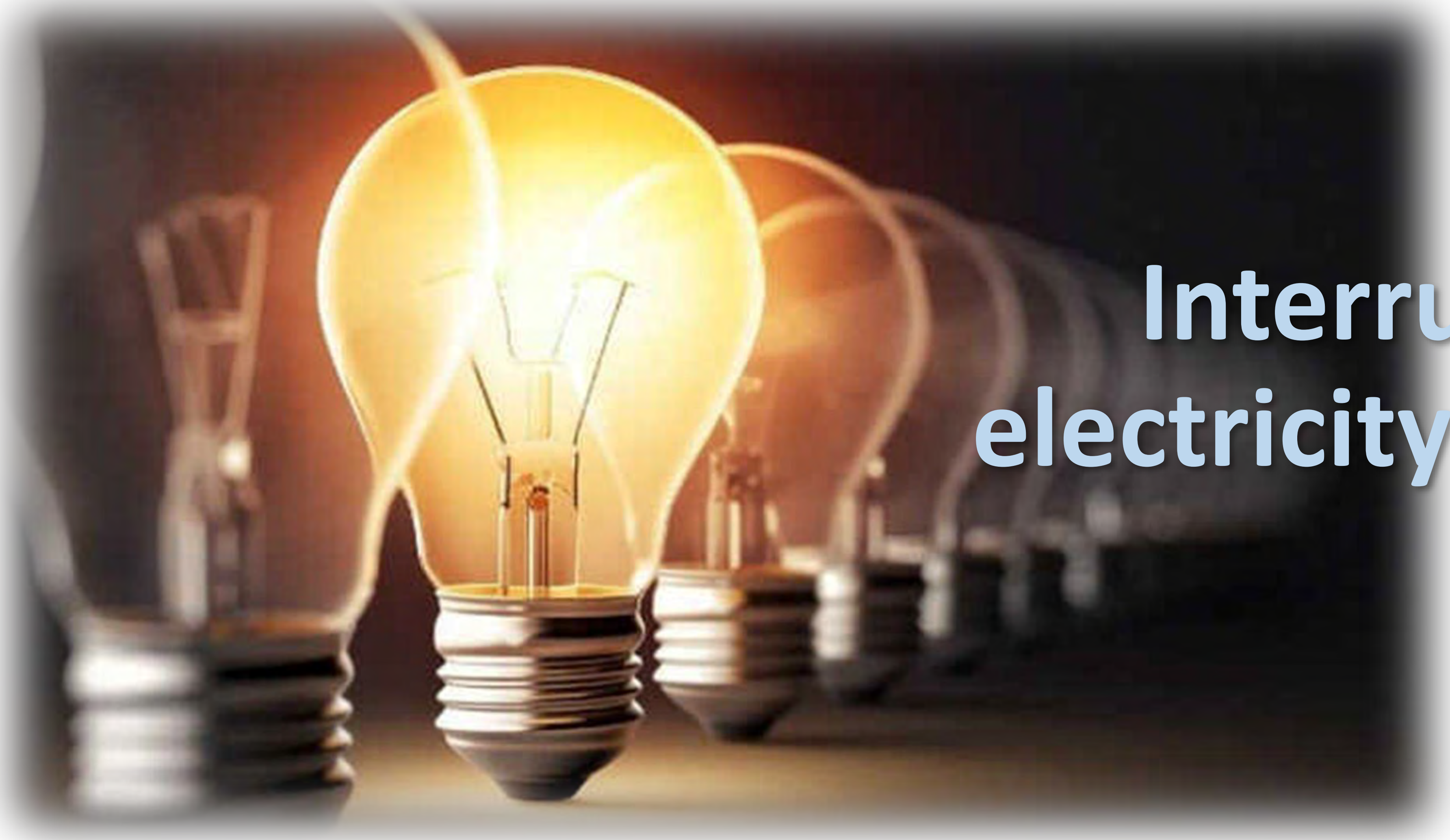
Impediments to doing business in wartime

The main impediments to doing business in wartime, % respondents

There are significant changes in list of impediments are observed in September compared to August 2023

- Despite holding the 1st place, the impediment **“rising prices for raw materials and goods”** has lost a quarter of its importance in September
- **NB! “It is dangerous to work”** holds the 2nd place, sharply moving up from the 6th and increasing in values from 33% to 40%.
- In September “**lack of personnel”** reached the **3rd** rank by moving up from the 5th in August and increasing the value from 35% to 37%
- **Problems with logistics** moved down from the 2nd to the **3rd** place for the first time in several months
- **“Electricity interruptions”**, despite the slight lowering of their value from 34% to 32%, **remained at the 6th place**
- **Corruption** and **pressure from law enforcement agencies** still are not significant problems



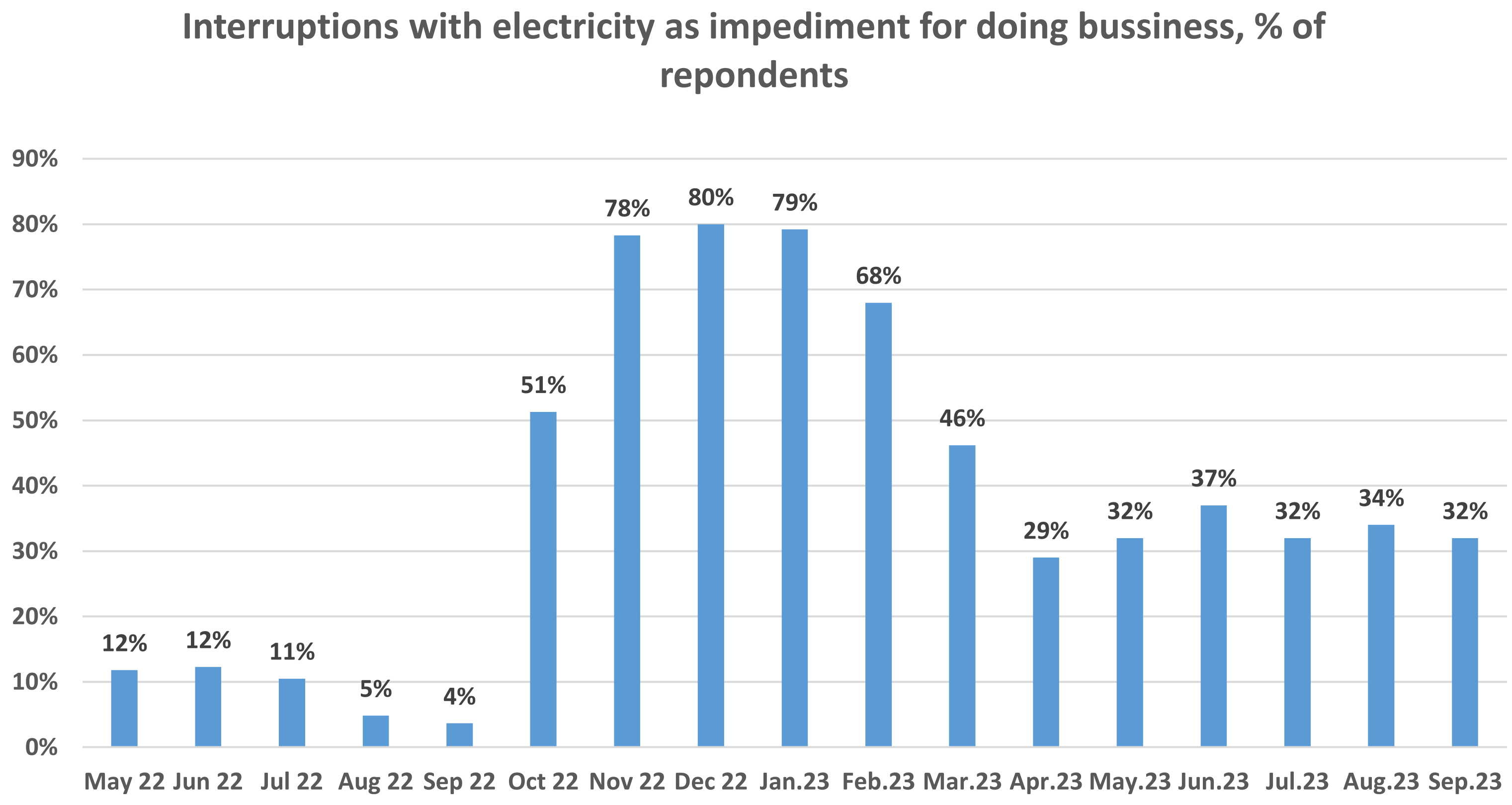


Interruptions of electricity remain a problem

”Electricity” still remains an impediment to doing business

- In September 2023, the percentage of the respondents who indicated **electricity and water supply as impediment to doing business slightly decreased**

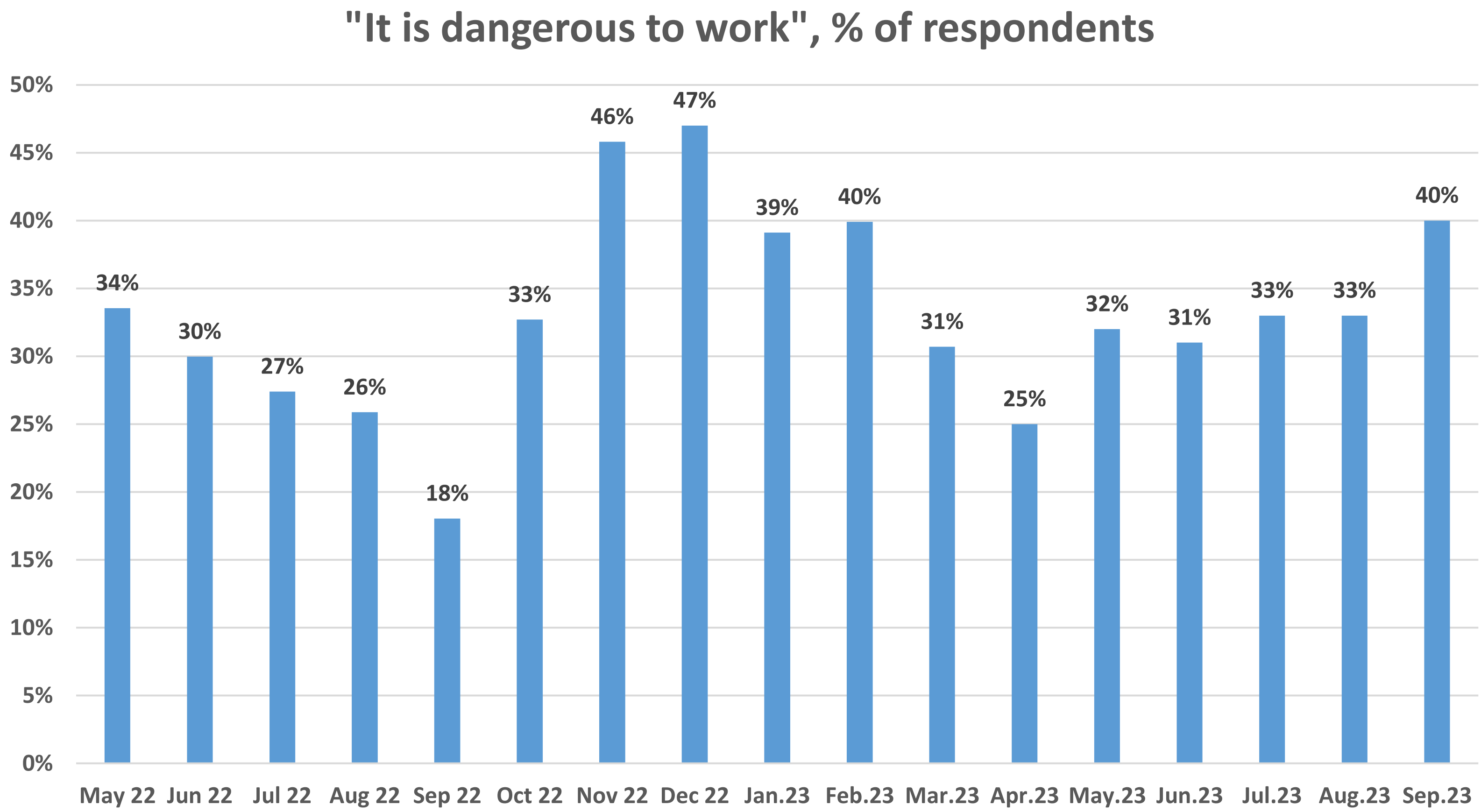
- In the list of obstacles, **interruptions in electricity remained at the 5th place**



“It is dangerous to work” became a more pressing problem

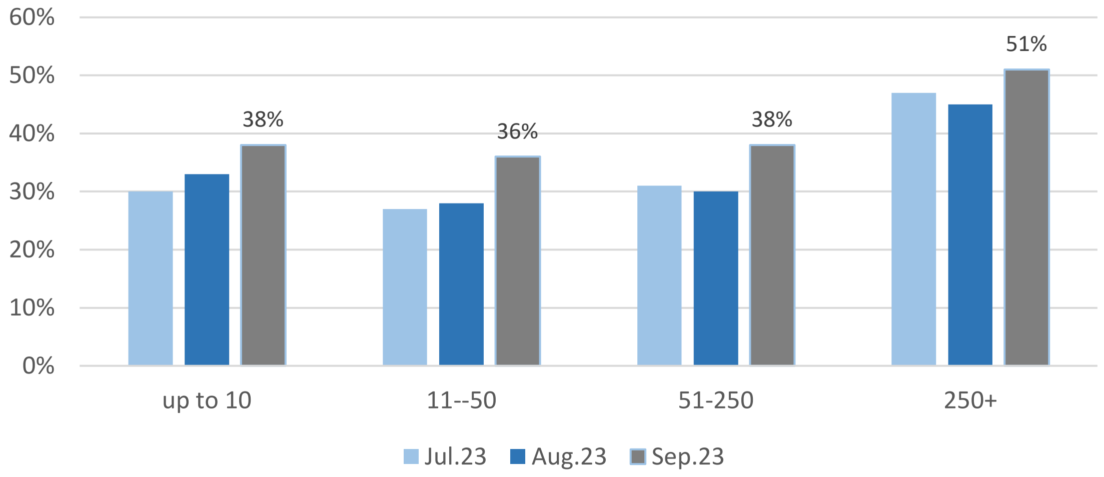
The importance of “it is dangerous to work” as an impediment to doing business increased

- In September 2023, the share of enterprises that reported that **it was dangerous to work** increased from 33% to 40%
- In the list of obstacles, “it is dangerous to work“ **moved from 6th to 2nd place**



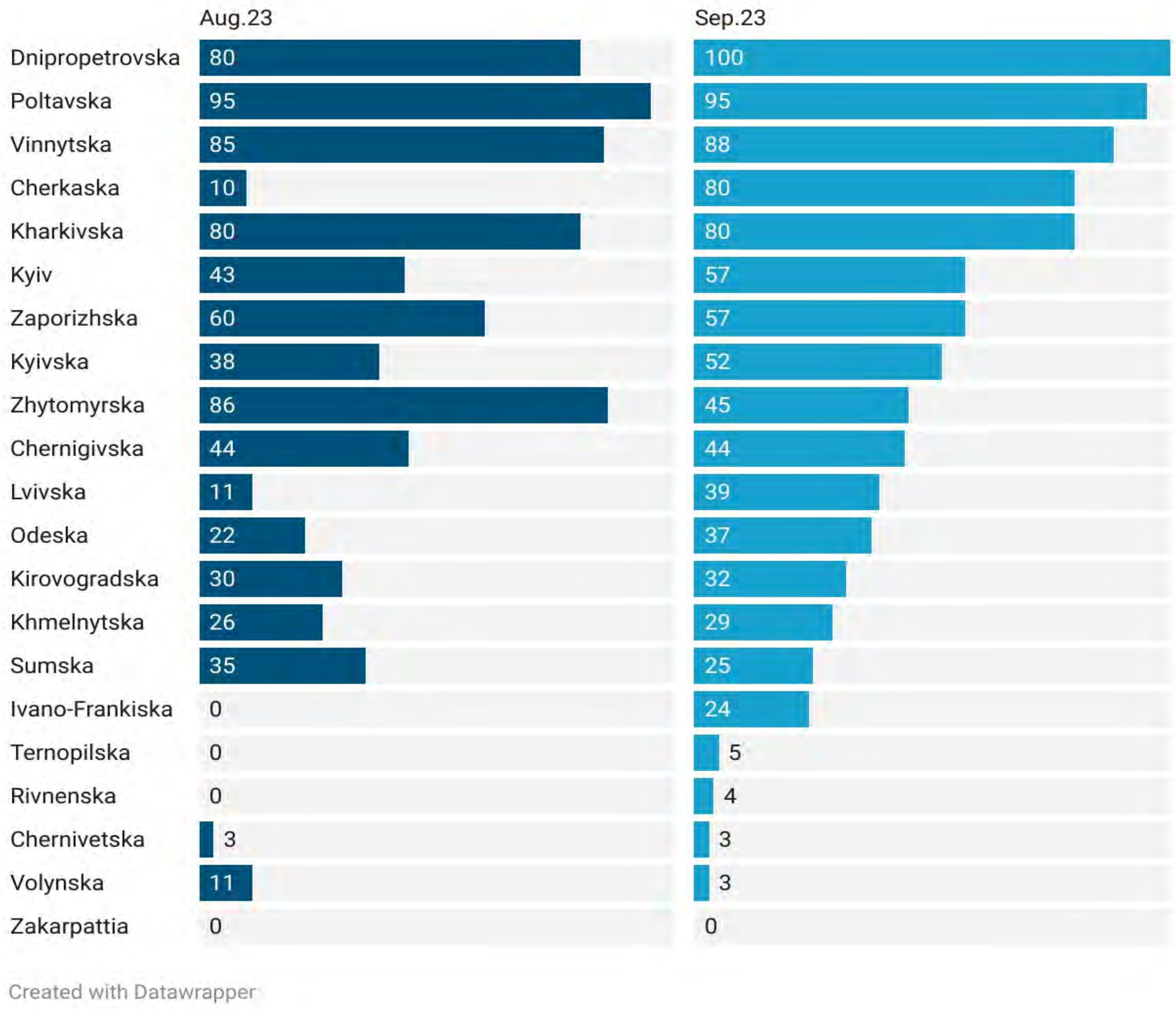
“It is dangerous to work” in different dimensions

"It is dangerous to work" by the size groups, % respondents



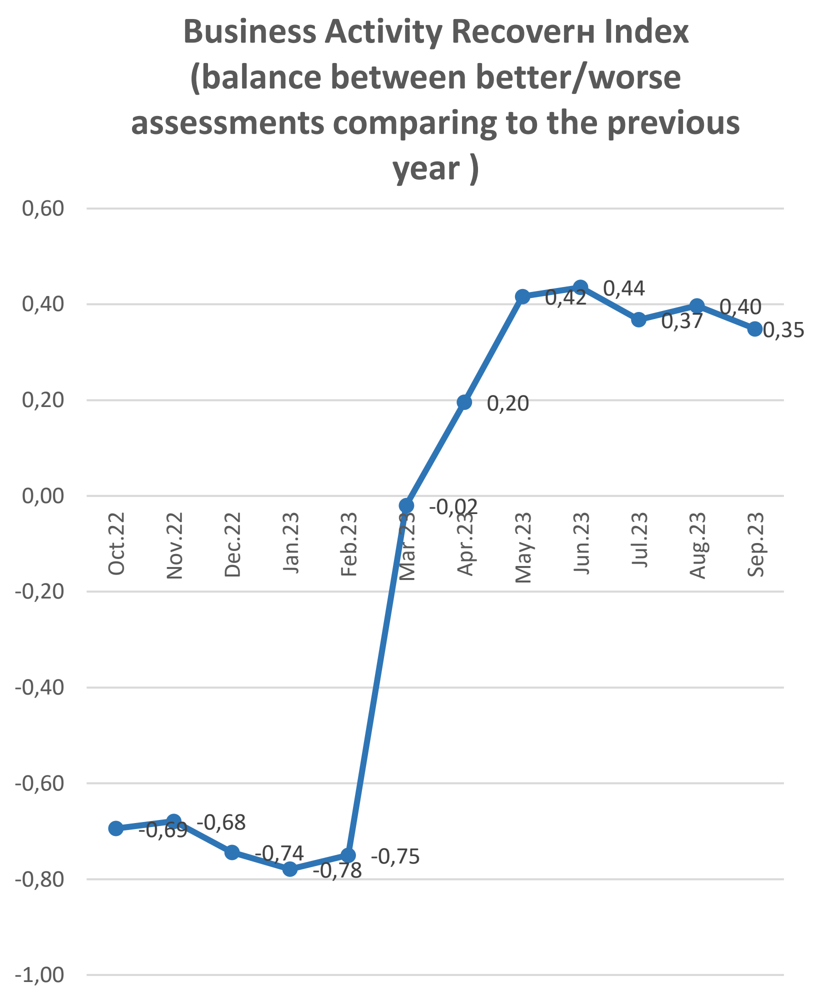
- % of enterprises that chose **“it is dangerous to work“** increased in spite of the size group
- 80+% of respondents in Kharkivska, Cherkaska, Vinnytska, Poltavska and Dnipropetrovska oblast consider insecure conditions as an impediment

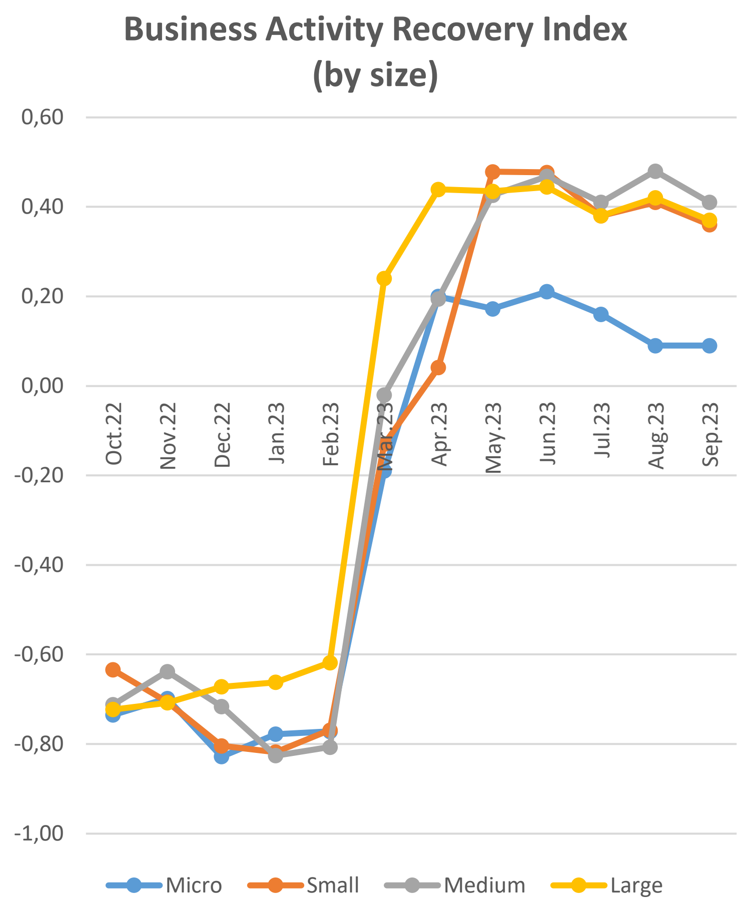
"It is dangerous to work" by oblast, % of respondents



Changes over the past year

Business Activity Recovery Index (compassion of “now” vs “how it was a year ago“)





In September, the **Business Activity Recovery Index** (BARI, yoy) remained relatively high but decreased compared to August 2023

<u>This happened:</u>

Due to the **decrease** in the share of **growing reported** enterprises (from 52% to 48%)

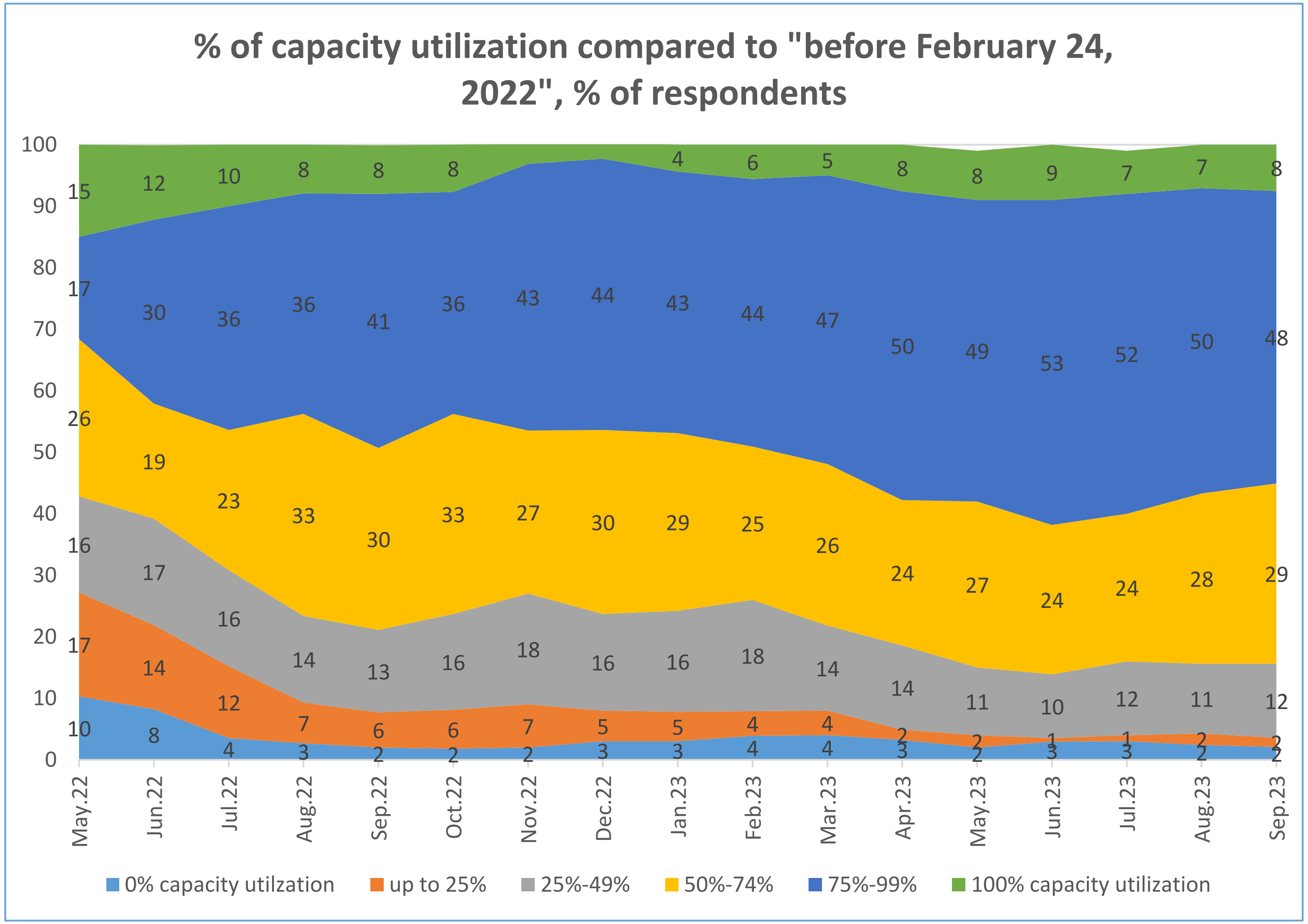
<u>At the same time:</u>

- There is no change in the share of drop reporters (13% vs 12% in August)
- The share of those for whom nothing has changed has increased (from 36% to 40%)

MICRO: In September vs. August, the value of the BARI for the micro business remained unchanged and worsened for other size groups

MOVING FORWARD TOGETHER
INTERNATIONAL RENAISSANCE FOUNDATION
ATLAS NETWORK
INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

“Now” vs. “before February 24, 2022”: the recovery of production is slowing down?



In September 2023 the trends slowdown in the recovery of production has been kept

- The share of enterprises working **at almost full** (75%-99%) and **full capacity** (100% and more) has been gradually lowering three months in a row (from 62% in June to 59% in July, 57% in August and 56% in September).

<u>At the same time:</u>

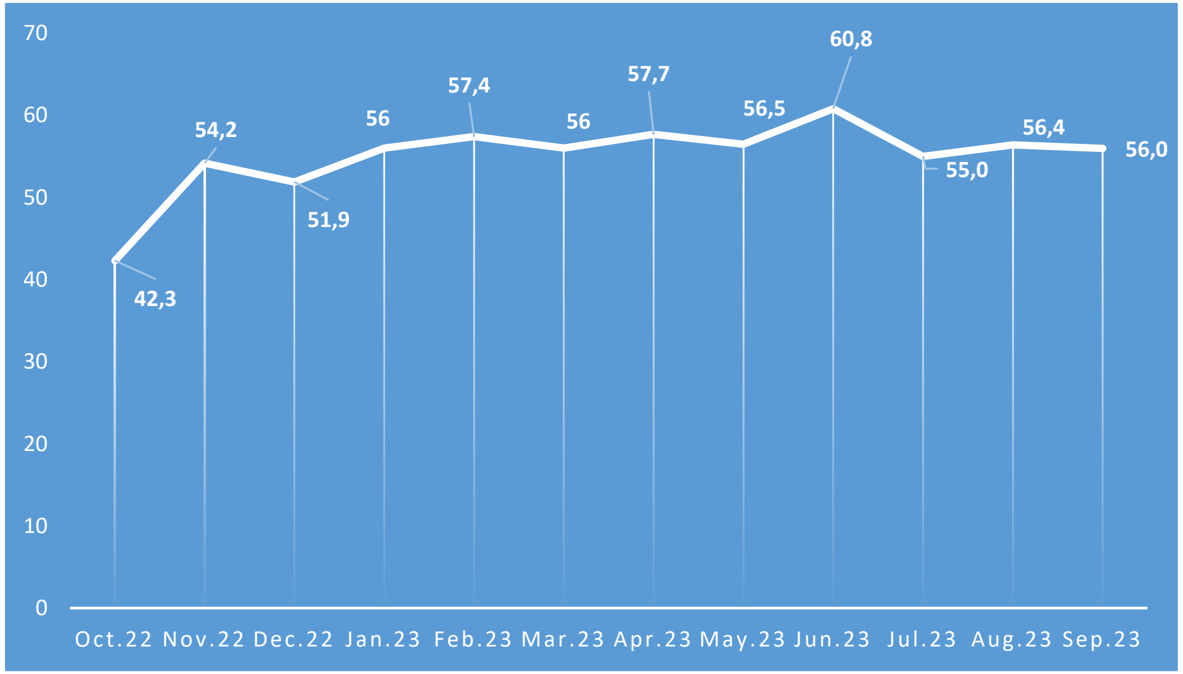
- both, % of enterprises operating at **full capacity** (100% or more) and % of enterprises that **do not operate at all** remain without changes (respectively 7% and 8% and 2% and 2%))

Future and Uncertainty

Long-term uncertainty remains high and without changes

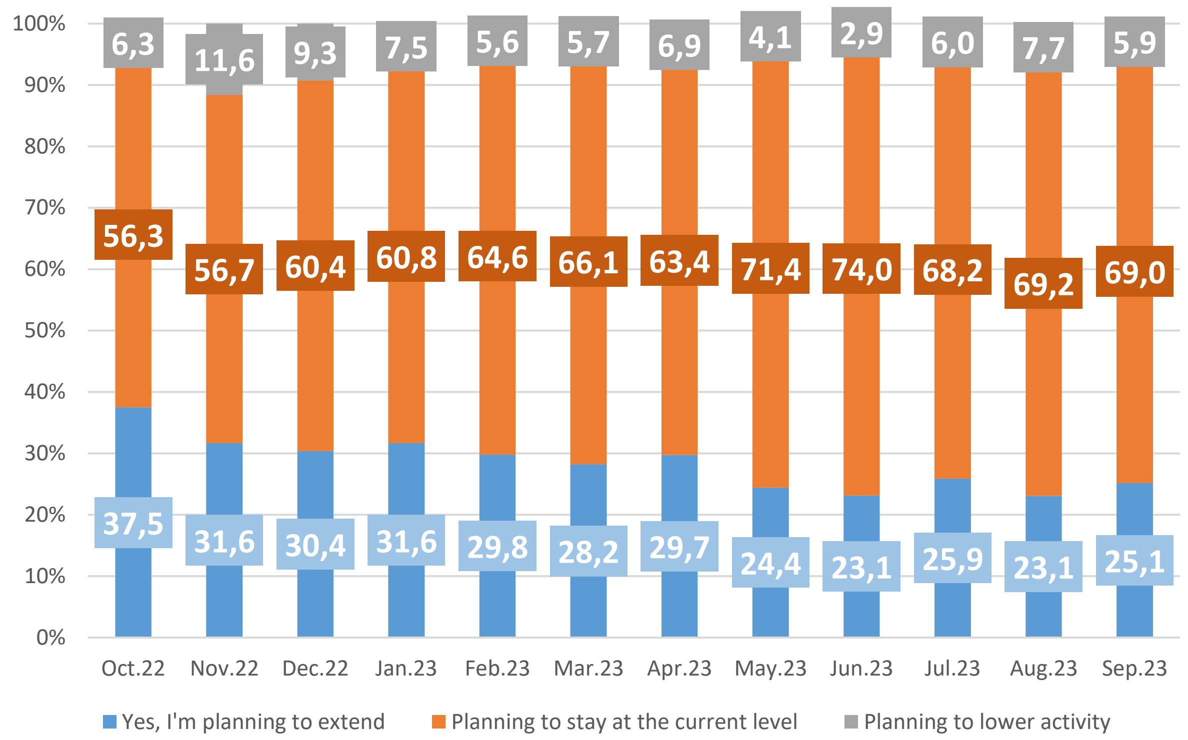
Uncertainty in the two-year perspective

“It is hard to predict what will be with the activities of our enterprise in 2 years“, % of answers



% of enterprises that have no idea about their plans for 2 years didn’t change

Expectations in the two-year perspective

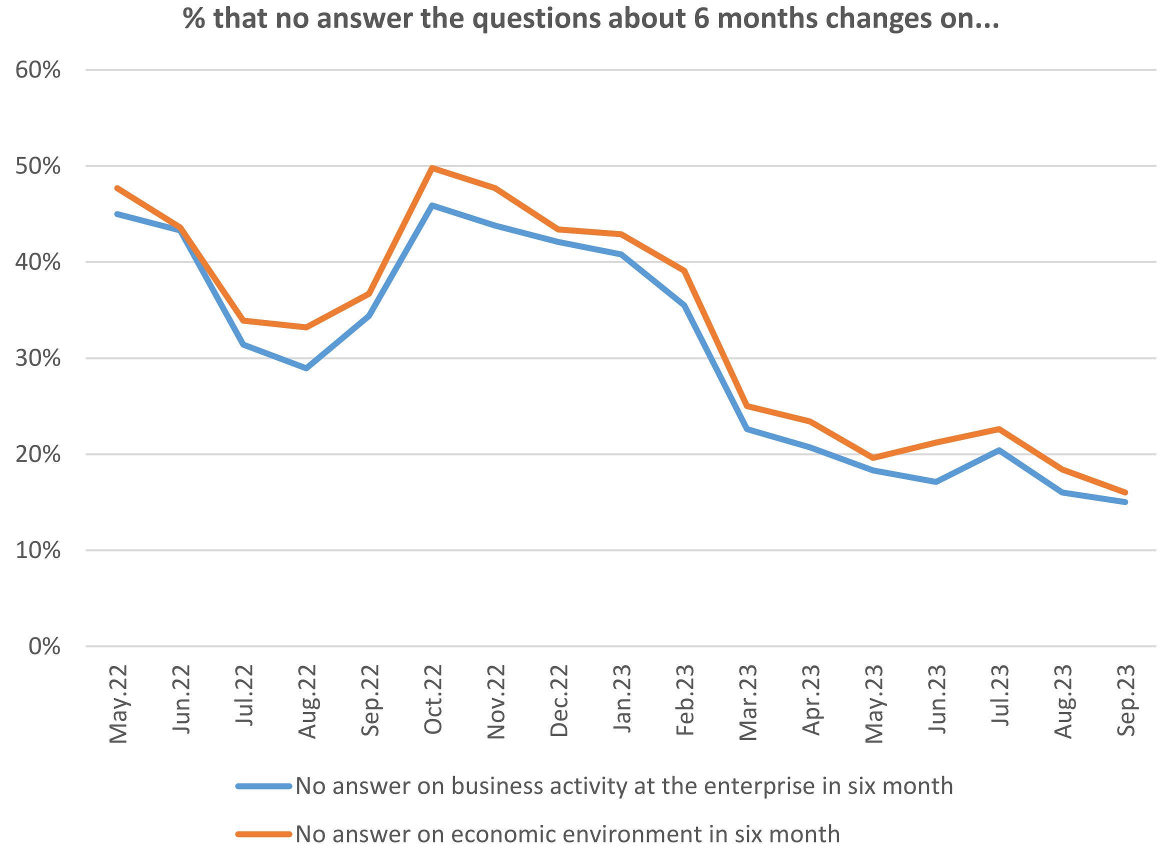


- *% of enterprises planning to extend activity in 2 years increased (from 23% to 25%)*
- *% of enterprises planning to lower activity decreased (from (7.7% to 5.9%)*

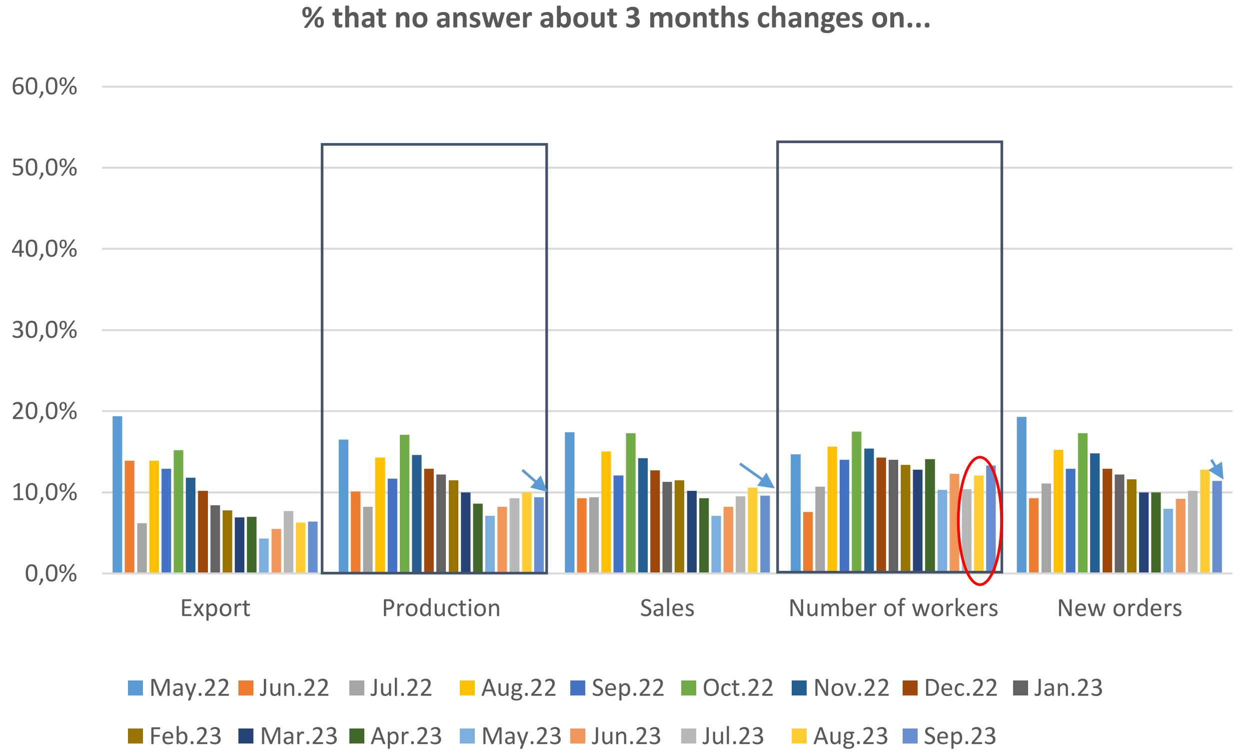
MOVING FORWARD TOGETHER
INTERNATIONAL RENAISSANCE FOUNDATION
ATLAS NETWORK
INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

Uncertainty in 3-month perspective decreased after three month of growth

Half-year horizon

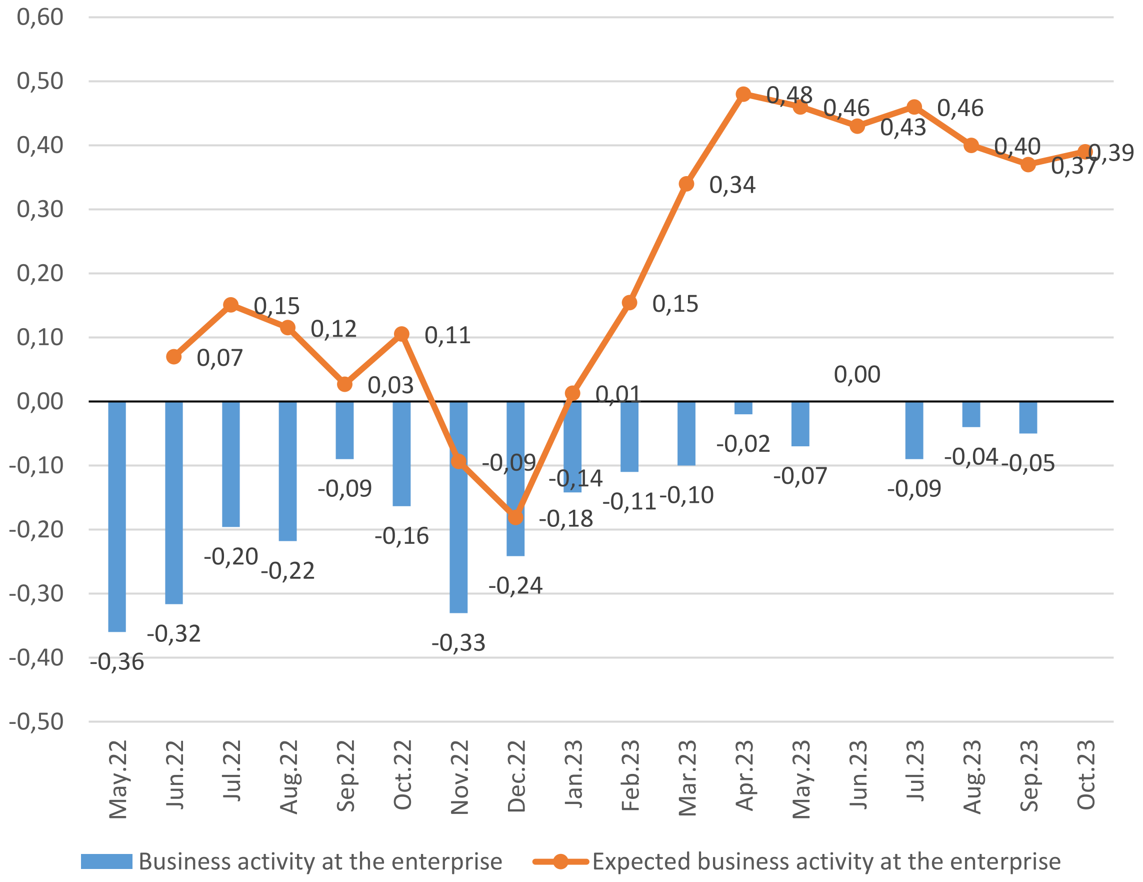


Three-month horizon

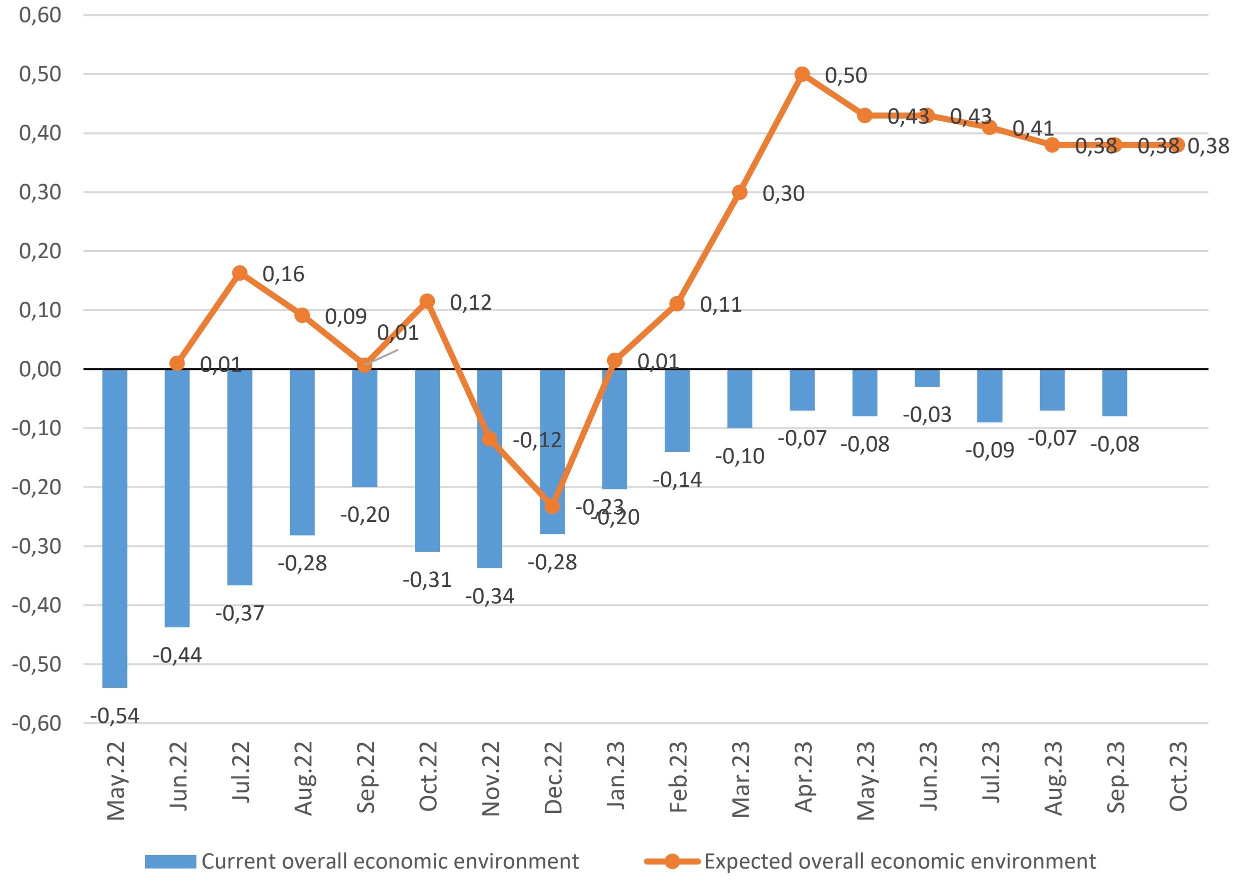


6 months perspective: expectations remains are still highly positive

Business activity at the enterprise

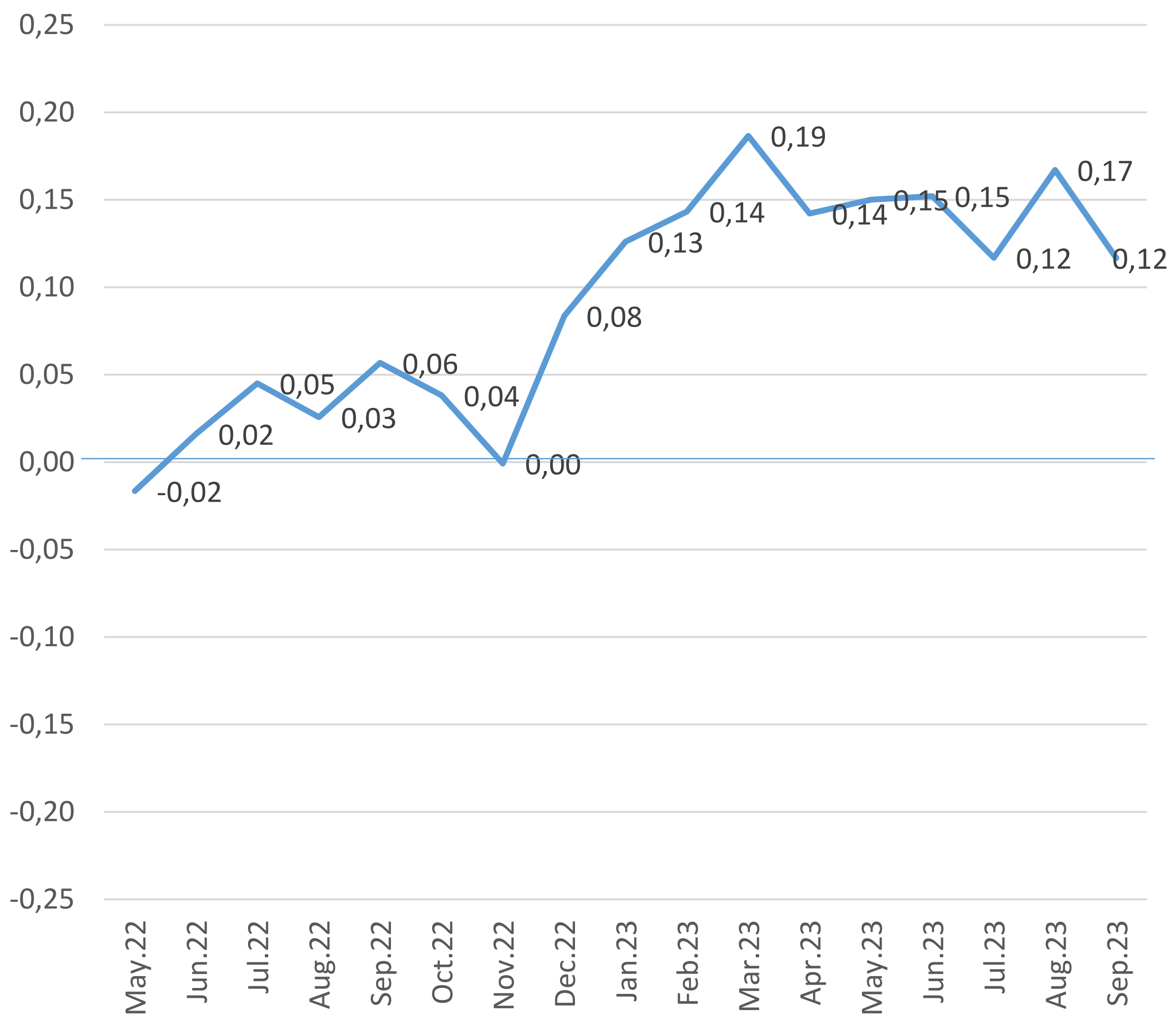


Overall economic environment in the country



Enterprises' past performances and expectations

Industrial Confidence Indicator (ICI)*



ICI has decreased in September compared to August (from 0.17 to 0.12)

<u>Fluctuations of index component are the following:</u>

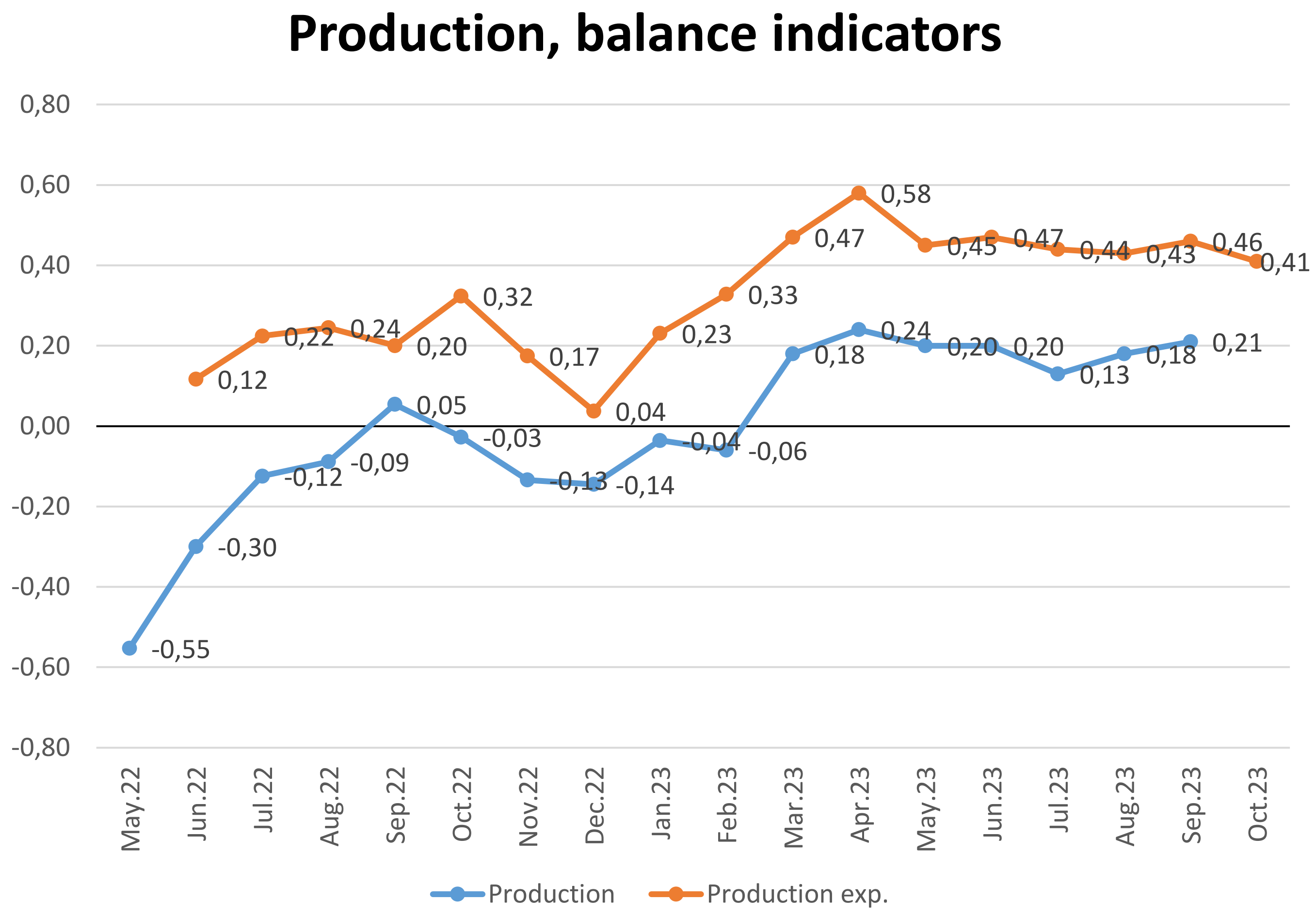
- **The production expectation (PI) decreased** from 0.46 to 0.41
- Component **stocks of finished goods (SFG) increased** from -0.18 to -0.10
- Component **volume of new orders (VNO) decreased** from -0.14 to -0.16

ICI= PI+VNO+(-SFG)/3

Production optimism has a bit decreased

In September vs. August (expectations)

- The share of enterprises **planning growth of production** in the next 3-4 months **decreased** (from 47.6% in August to 41.7% in September)
- The share of enterprises that **planning decrease** in production **remained without significant changes** (3.9% vs 2.9% in September)
- The share of enterprises that **planning to have no change in production** during the next three months **increased from** 48.5% to 55.4%

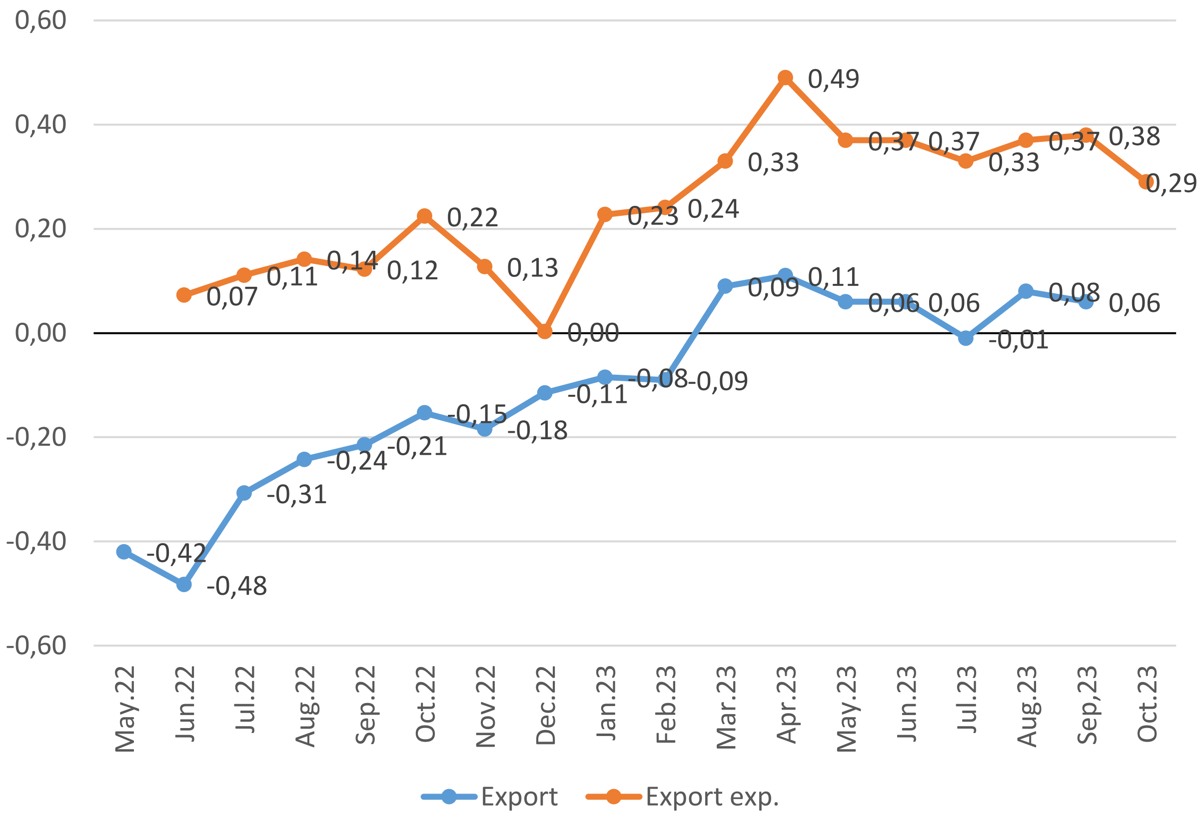


Export: worsened (a bit) past performance and expectations

<u>In September vs. August (past performance)</u>

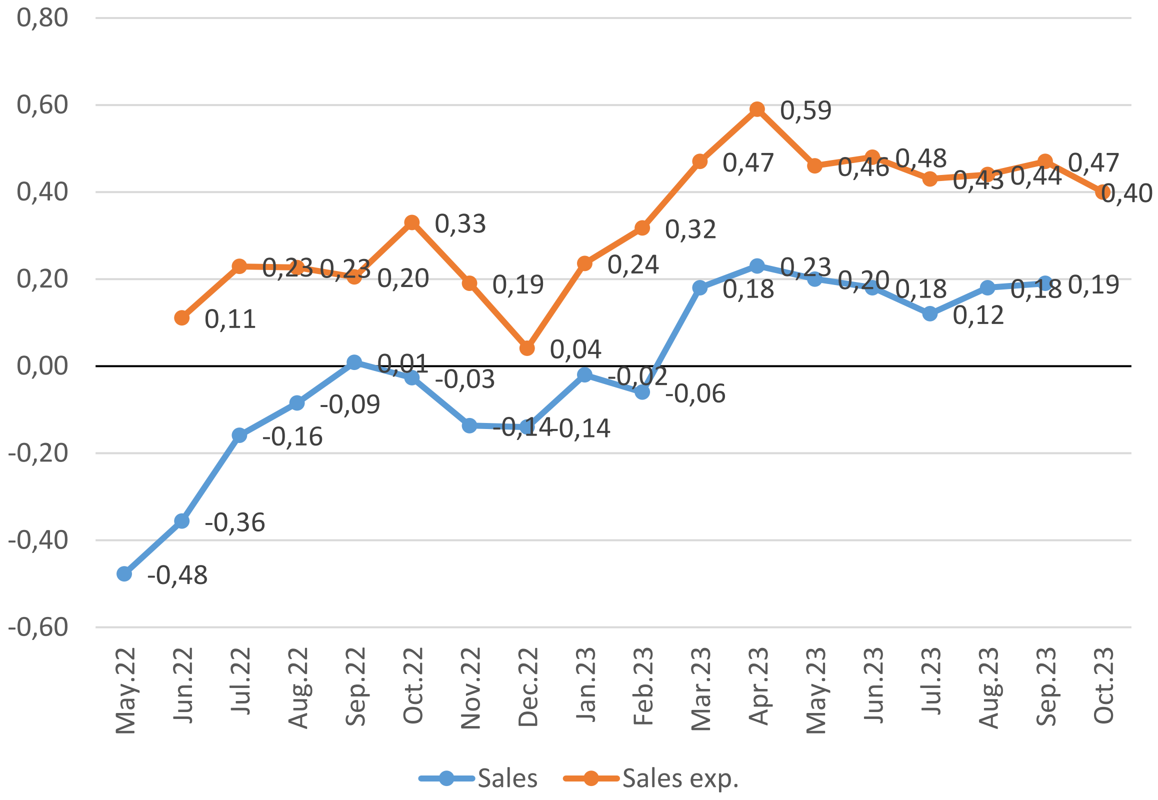
- The share of enterprises reporting **growth of export decreased** from 26.1% to 23.9%
- The share of enterprises informing **reducing export** also slightly decreased (from 21.0% in August to 19.9% in September)
- The share of enterprises that have no change in **export volumes** during the next three months **increased** from 52.9% to 56.2%

Export, balance indicators

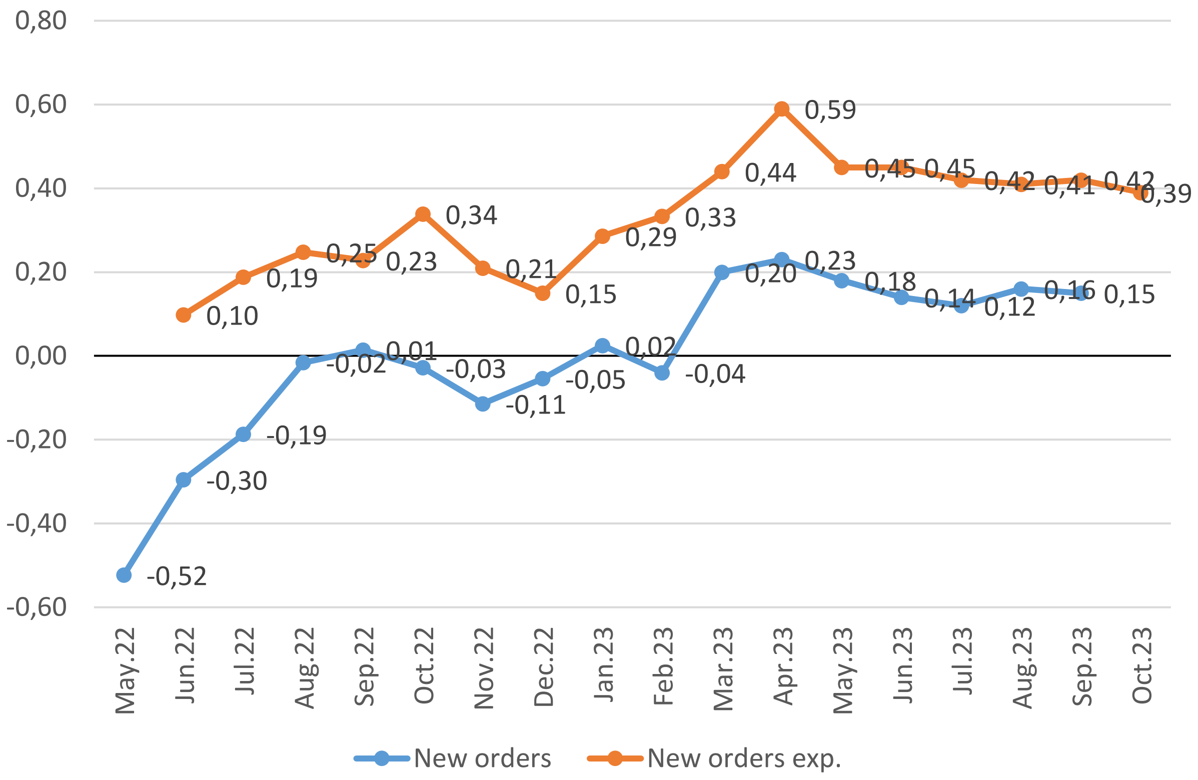


Sales and new orders: optimism is going to erase?

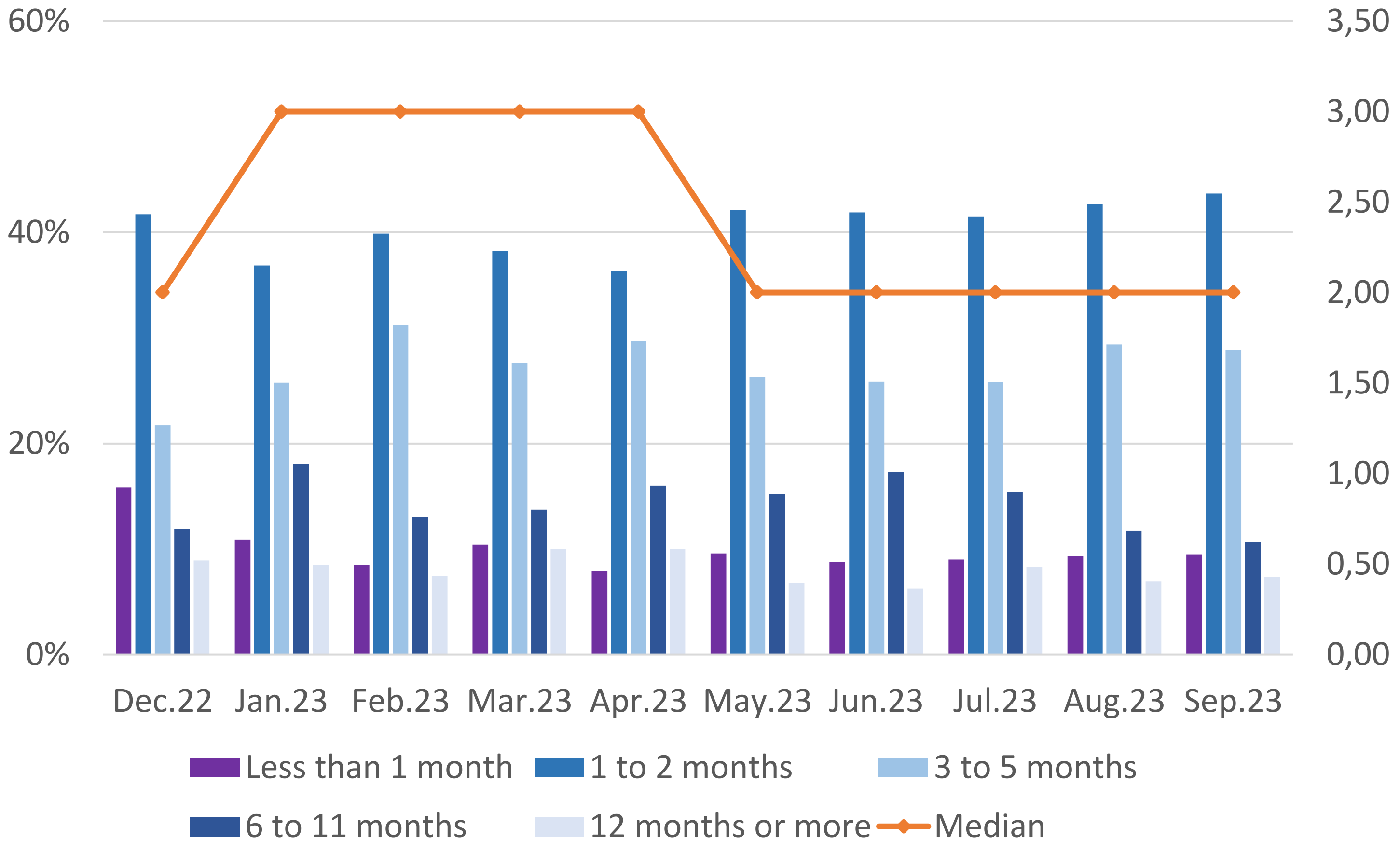
Sales



New orders



The volume of order book has not changed



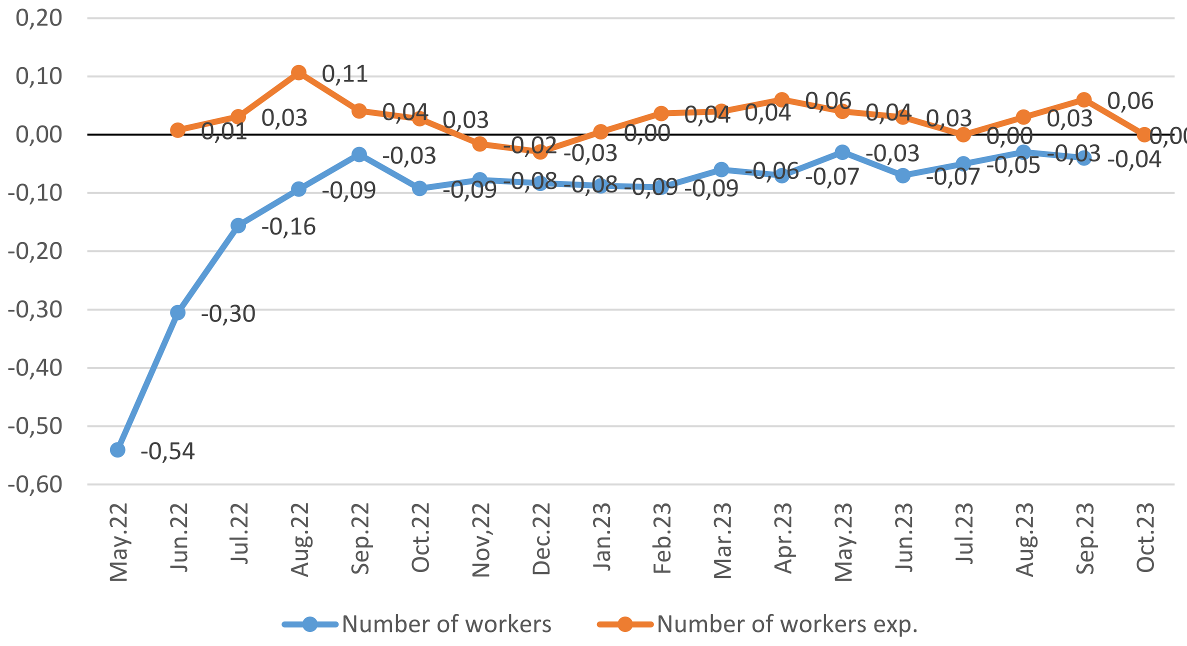
In September 2023, **the volume of order books** for the surveyed enterprises **remained** at the previous level

- **The average term for new orders remains at 2 months** (median) after declining from three months in January-April 2023
- **53% of enterprises have orders for up to 2 months.** The share has remained almost without changes since May 2023

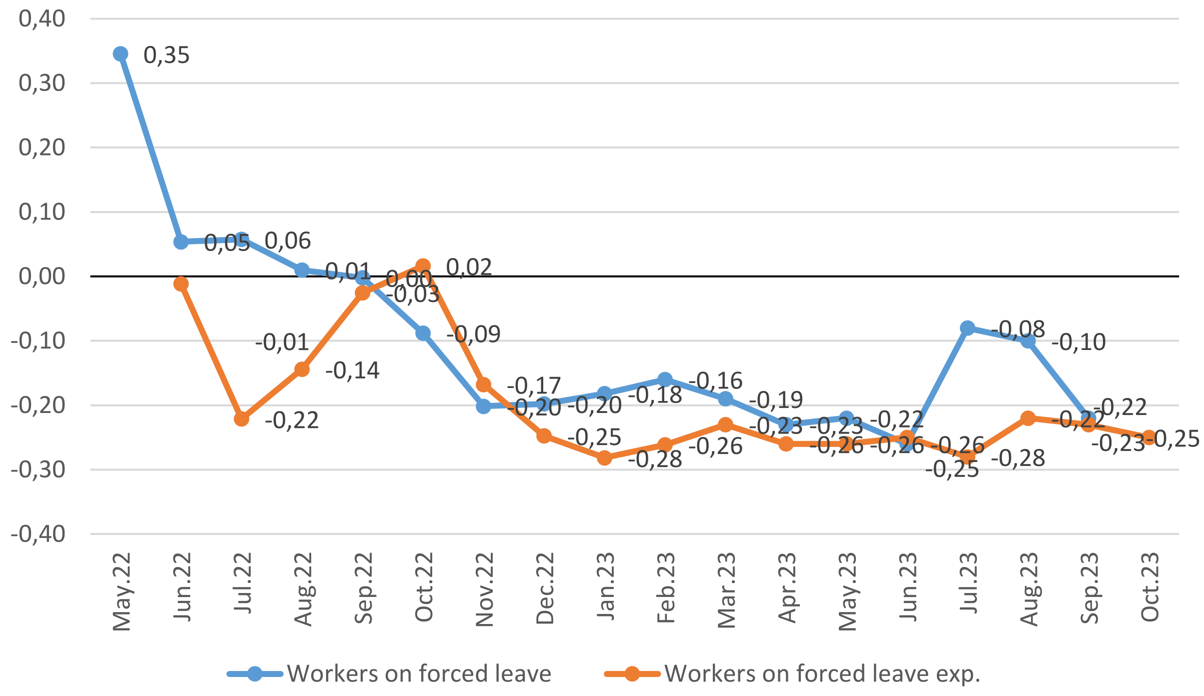
Employment and labor market

Employment: lowering of the number of workers is observed

Number of workers



Number of workers on forced leave

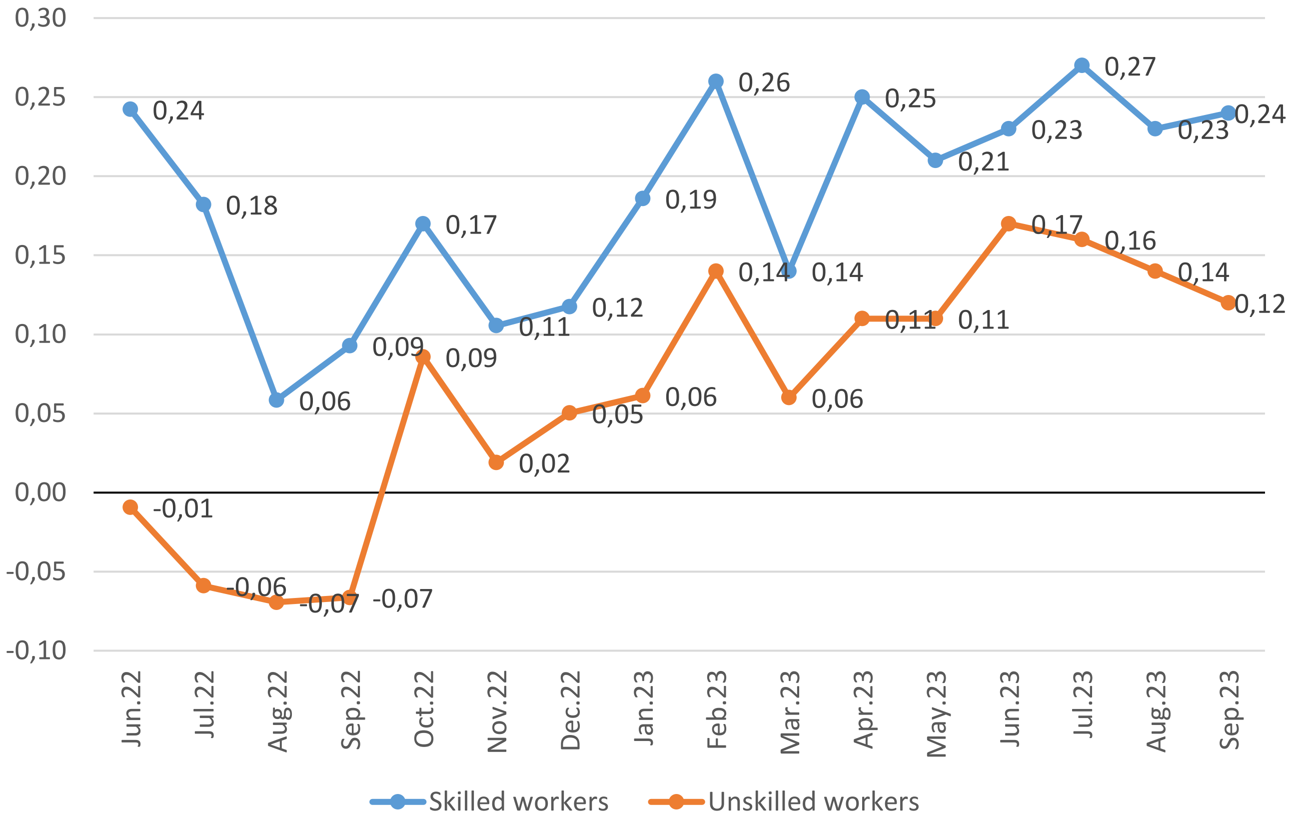


- % of enterprises **planning employment growth** in the next 3-4 month **lowered** (from 7.0% in August to 3% in September)
- % of enterprises **intending to reduce** the number of employees **almost unchanged** (2.3% in August and 3.0% in September)
- % of enterprises at which **no changes in employment are expected increased** from 90.7% to 94.0%

- % of enterprises that **will increase the number of employees on forced leave slightly decrease** from 1.3% to 0.7%
- % of enterprises that **are going to reduce** employees on forced leave **increased from** 24.6% in August to 26.9% in September
- **% unchanged slightly decreased from** 73.6% to 72.3%

Problems in finding unskilled workers are decreasing

Problems with finding workers



In September, **the problems with finding unskilled** workers **are decreasing** already several month in a row, while **difficulties with finding unskilled workers almost unchanged**

Skilled workers:

- **%** of those who reported that it is **more difficult** to find such workers **almost unchanged** (25.4% vs 25.7%). **As wells as** % of those to whom it is **easier** to search for skilled workers (1.2% in August and 1.5% in September)

Unskilled workers:

- % of those who report that it **is easy** to find them **increased a bit** (4.4% in August and 5.7% in September) **while** % of those to whom this is **harder almost unchanged** (17.6% in August and 18.0% in September)

Assessments of government's economic policy

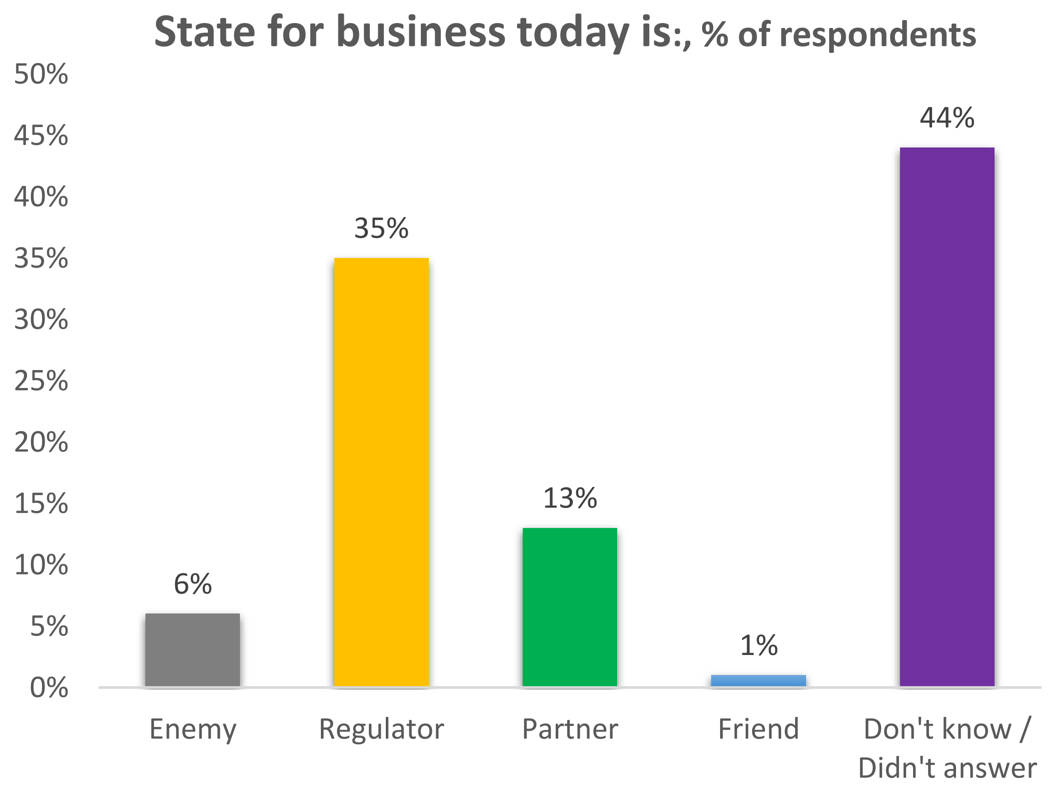
% of uncertainty in assessments of Government's economic policy decreased

	May.22	June.22	July.22	Aug.22	Sep.22	Oct.22	Nov.22	Dec.22	Jan.23	Feb.23	Mar.23	Apr.23	May.23	Jun.23	Jul.23	Aug.23	Sep.23
Positively	19	16	10	10	10	16	23	21	21	24	20	13	16	16	10	8	8
Neutrally	42	39	50	51	57	48	46	49	53	56	56	61	60	57	54	51	57
Negatively	11	23	22	28	22	21	21	18	15	11	11	11	11	15	17	14	15
Don't know / Didn't answer	28	22	18	12	11	14	11	11	12	9	12	14	13	12	18	27	20

Created with Datawrapper

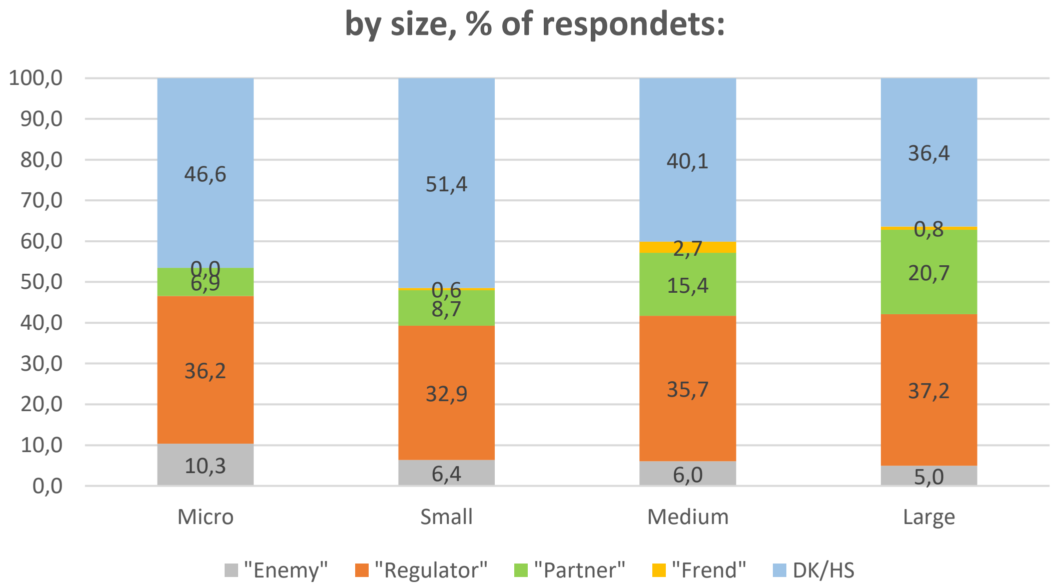
- In September 2023, the share of **positive assessments** of government policy on business support **has remained unchanged (8%, as it was in August) and remains at the lowest level since the beginning of this survey**
- **% of neutral assessments** of the government policy on business support **increased** after four month of decreasing (from 51% to 57%)
- **The share of the undecided respondents decreased** from 27% in August to 20% in September

Respondents are puzzled about defining the role of the State (Government) in Ukraine in doing business



New Monthly Enterprises Survey, #17, (09/2023)

- Almost half of the respondents (44%) couldn't define the role of the state in Ukraine for doing business
- 35% consider the state as "regulator"
- Only 1% of respondents consider the state as a "friend"



New monthly enterprise survey. Methodology

The need for comprehensive information on the economic situation is crucial for economic policy in wartime. The Institute for Economic Research and Policy Consulting conducts a monthly enterprise survey using the **Business Tendency Survey** approach to quickly collect information on the current economic state at the enterprise level. The methodology is designed to assess the situation from the “base level”: the judgments and expectations of key economic agents such as entrepreneurs and business managers.

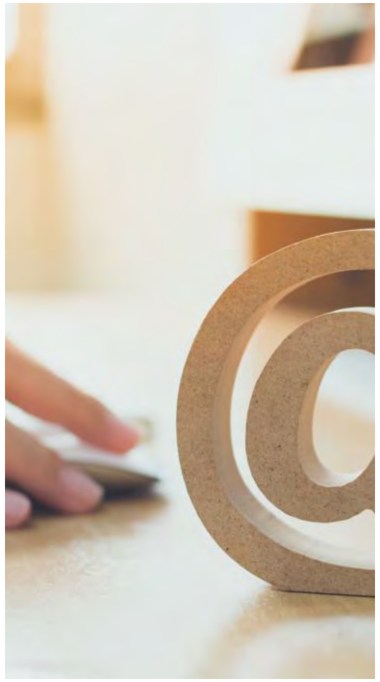
The monthly survey consists of two parts: the regular one and the special one. Respondents will regularly answer questions on the changes in key activity indicators and short-term forecasts for future changes in the same indicators: output (production), sales, exports, debt, new orders, employment, etc. We will also focus on estimates and expectations of the changes in the business climate and business activity at the enterprise in the next six months.

The special part of the Monthly survey provides information on specific topics. A special part examines the enterprises' problems, the war's impact on production volumes, export activity, basic business needs, and the assessment of government policy.

This survey uses a panel sample that includes **500+ enterprises located in 21 of 27 regions of Ukraine**, including Vinnytsya, Volyn, Dnipropetrovsk, Zhytomyr, Zakarpattya, Zaporizhzhia, Ivano-Frankivsk, Kyiv, Kirovohrad, Lviv, Odesa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Khmelnytskyy, Cherkasy, Chernivtsi and Chernihiv regions and the Kyiv city.

The field stage of the 17-th wave lasted from September 18 to September 29, 2023. The enterprise managers compared the work results in September 2023 with August 2023, assessed the indicators at the time of the survey (September 2023), and gave forecasts for the next two, three, or six months, depending on the question. In certain issues (where indicated), the work results were compared with the pre-war period (before February 24, 2022).

Our contacts



website:	www.ier.com.ua
e-mail:	rubanik@ier.kyiv.ua kuziakiv@ier.kyiv.ua
Facebook:	https://www.facebook.com/IER.Kyiv/
Twitter (in English only):	https://twitter.com/IER_Kyiv

MOVING FORWARD TOGETHER

INTERNATIONAL RENAISSANCE FOUNDATION

ATLAS NETWORK

INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING