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“Weathering the Storm”

Main economic trends in January 2024

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

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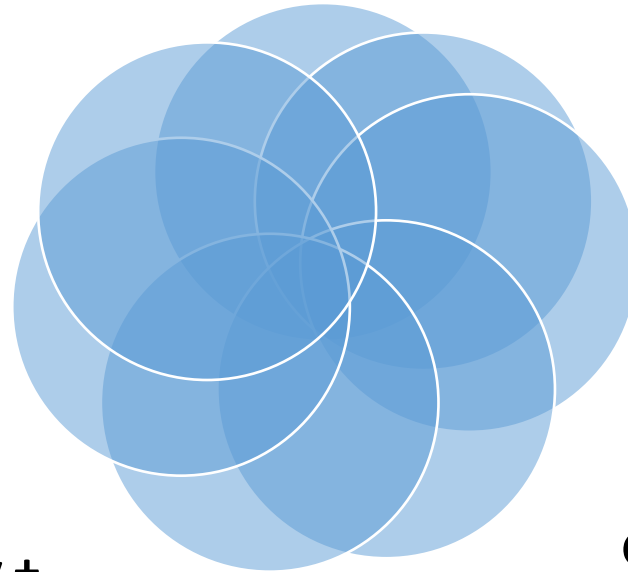
ABOUT THE NEW RAPID ENTERPRISES SURVEY

Monthly survey

The recent data were collected on **January 16 - 31, 2024**

21 surveys have already been conducted (since May 2022)

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

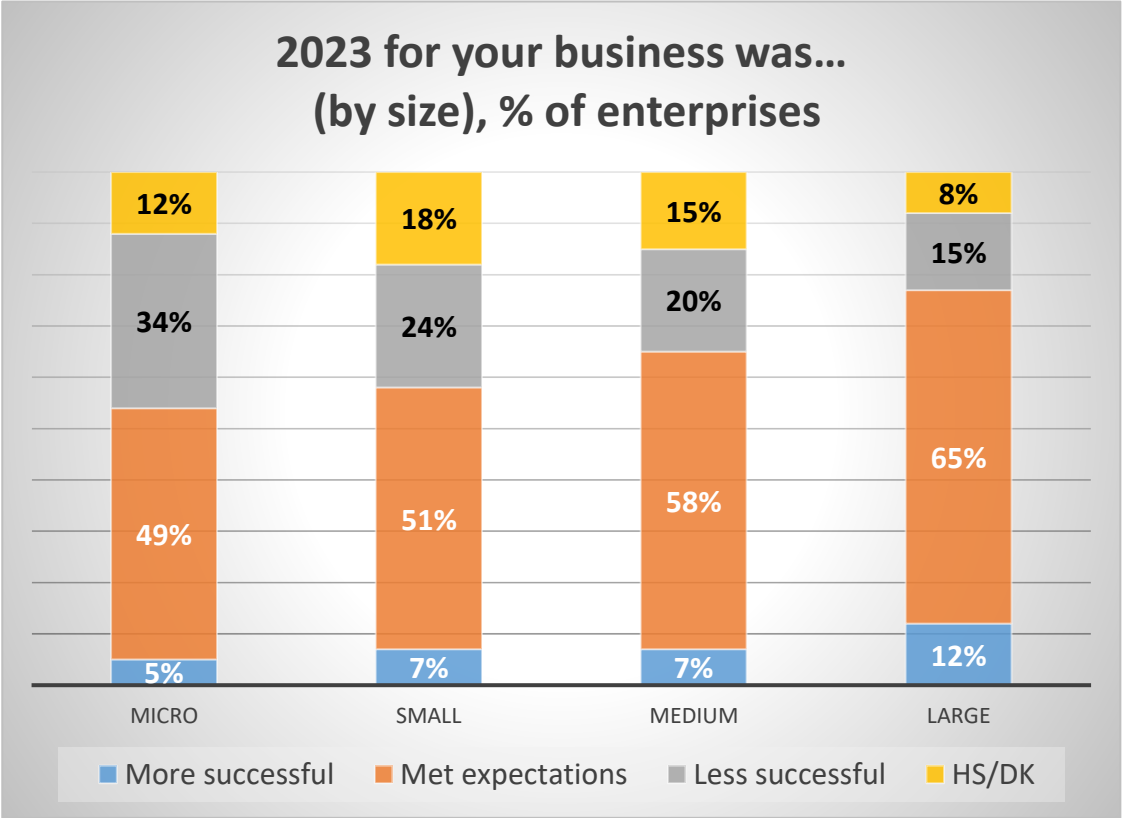
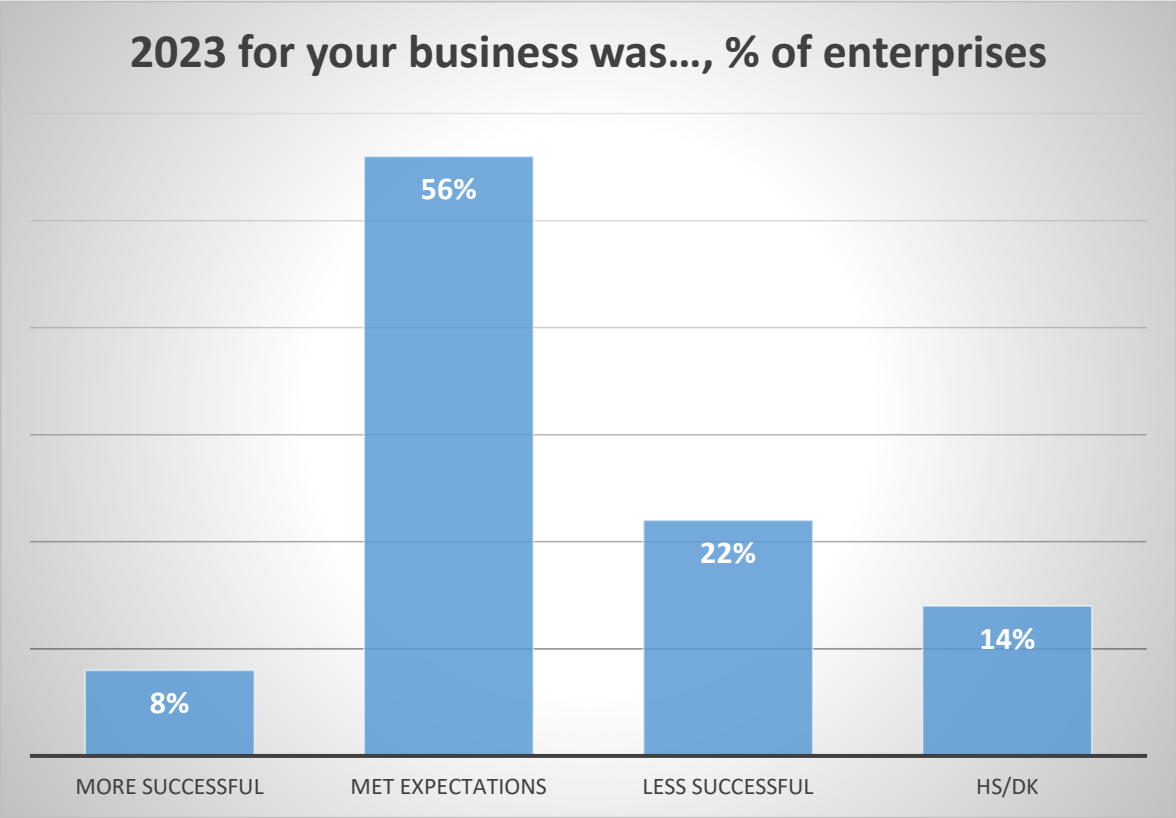


SAMPLE: 552 enterprises were surveyed in **January**

Enterprises of **all sizes**

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

The year 2023 for your business was...



Key messages



Long-term prospects are brightening, and uncertainty is diminishing, yet the current recovery is stalling due to business concerns regarding war, labor shortages, and demand challenges.

Main result 1: speed of recovery is slowdown



The Business Activity Recovery Index (BARI) is **positive**, but **less than** a month ago



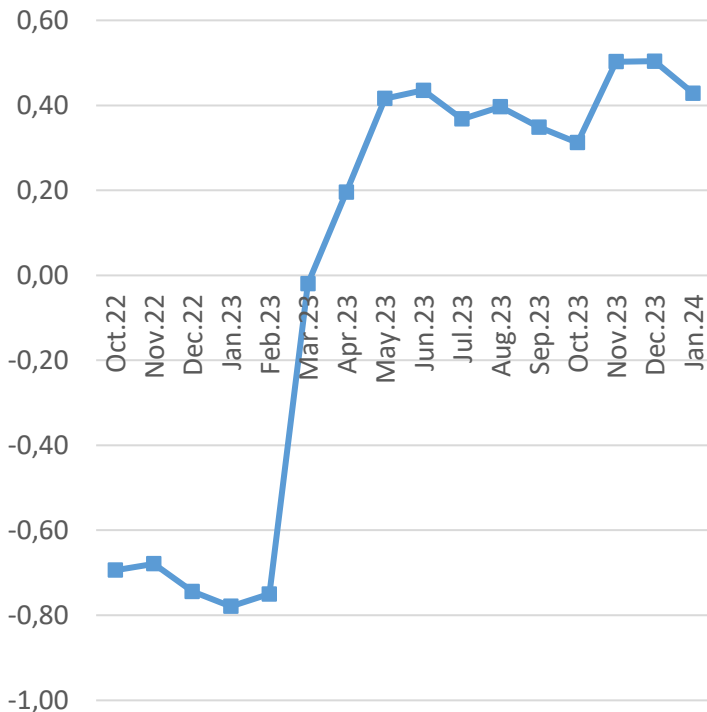
% of enterprises **operating at full capacity** have **no changes** for the third month in a row



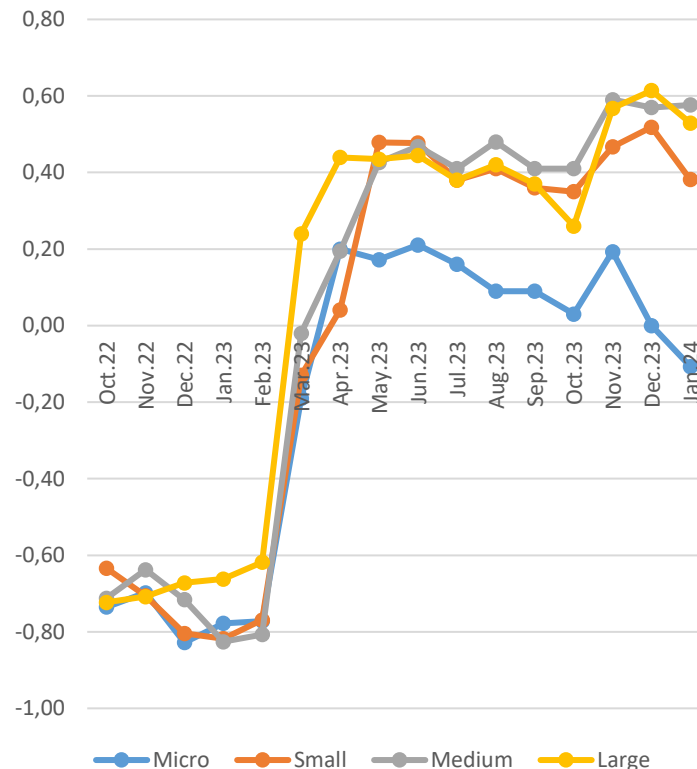
Industrial Confidence Indicator is positive, but the downward trend are observed two months in row.

Business Activity Recovery Index (BARI)* worsened

Balance between better/worse assessments comparing to the previous year



Business Activity Recovery Index (by size)



In January 2024 compared to December 2023, the **Business Activity Recovery Index (BARI)** is 0.43 (0.50 two months in a row) (at a scale from -1 till +1)

This happened due to changes in the % of better/the same answers:

- The share of enterprises reported that **their business activity is better than it was the previous year**, lowered from 63.6% in December to 56.0% in January
- **The share of those for whom nothing has changed** increased from 23.2% to 30.9%
- **The share of those for whom the situation is worse** has **no significant changes** (13.2% in December vs 13.1% in January)

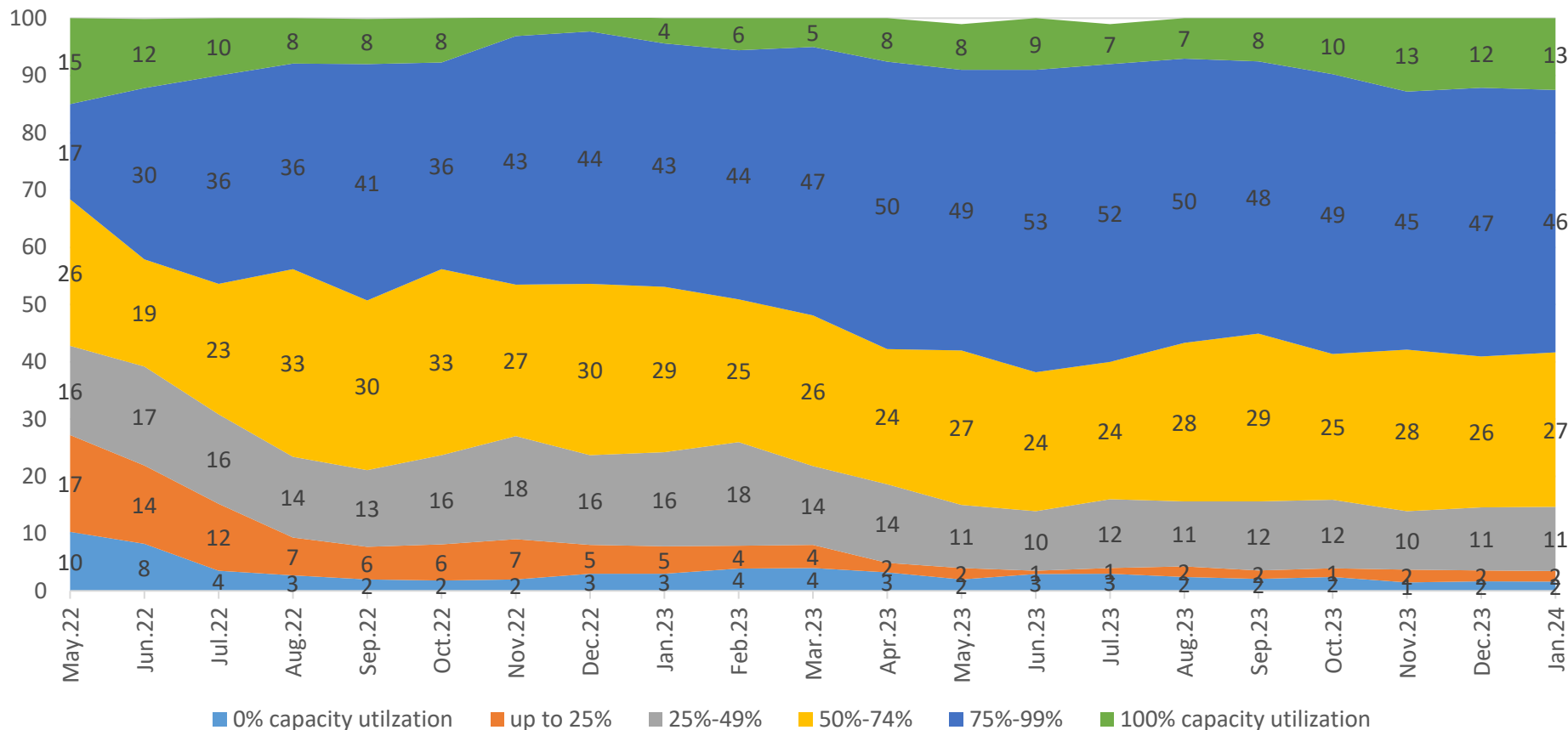
However, there are significant differences between size groups.

In January, the value of the BARI remains **the same** for **medium** enterprises and decreases for the rest of the size groups. Moreover, the value for **micro-enterprises** is negative.

*BARI is based on question when managers make a comparison of “how it is now” vs. “how it was a year ago

“Now” vs. “before February 24, 2022”: without significant changes

% of capacity utilization compared to "before February 24, 2022",
% of respondents

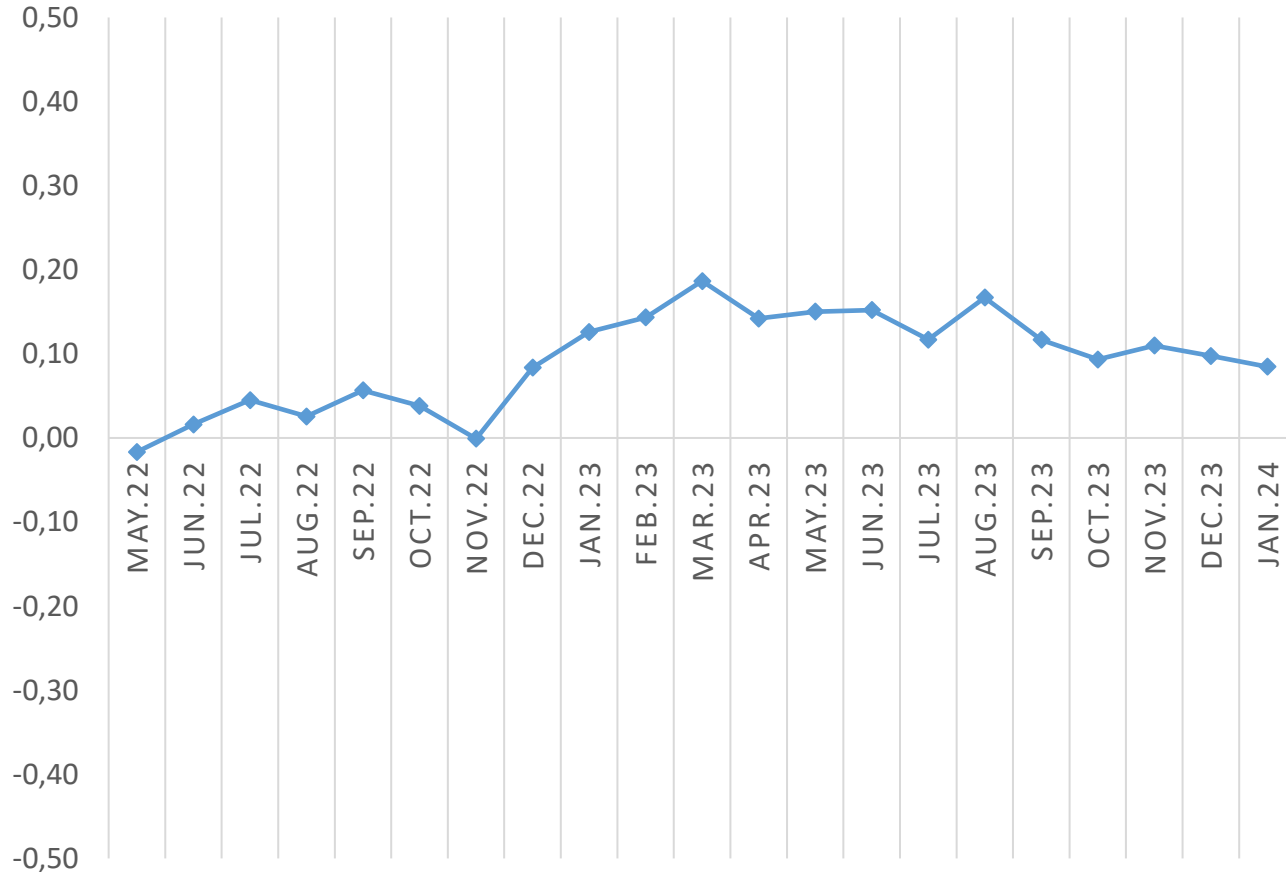


The results remained stable already several months in a row

- The share of enterprises working at **100% capacity** is **13%** (12% in December and 13% in November)
- % of enterprises that **do not operate at all** does not exceed 2% six months in a row

Industrial Confidence Indicator (ICI)*

INDUSTRIAL CONFIDENCE INDICATOR



The ICI remained without significant changes comparing to the previous month, however gradually lowering second month in a row.

In January 2024 compared to December 2023, the fluctuations of the components of ICI are the following:

- **The production expectation (PI) is 0.36** (component remained without significant changes already a fourth month in a row)
- Component **stocks of finished goods (SFG) increased a bit** (from -0.14 in December to -0.11 in January)
- Component **volume of new orders (VNO) lowered** (from -0.20 to -0.22)

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

The main results 2. Uncertainty has decreased



Uncertainty in the 6-month perspective has mostly **stayed the same** for expectations regarding the financial and economic situation at the enterprise.



Uncertainty in the 6-month perspective has **decreased** for expected changes in **the overall economic situation**.



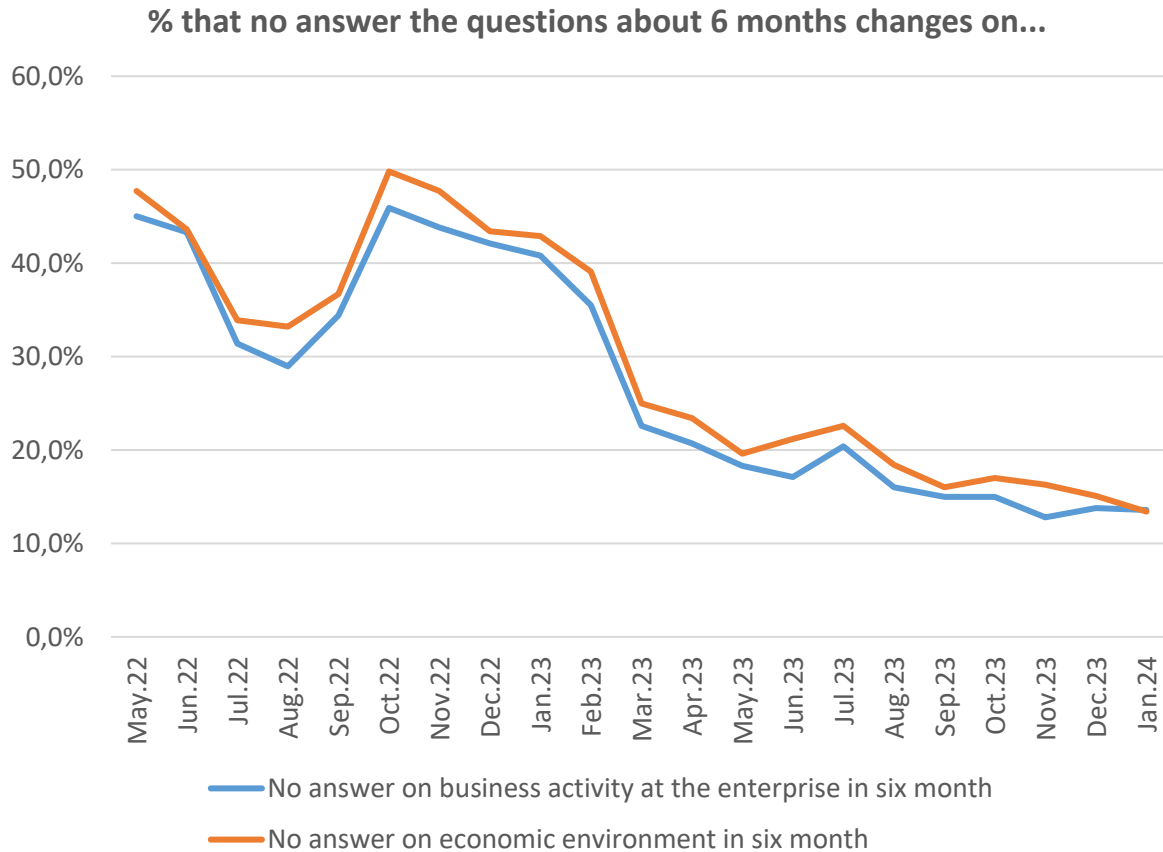
Uncertainty 3 months ahead has **eased** for **new orders**, and **the number of workers and** remains **low** for production and **increases for exports**.



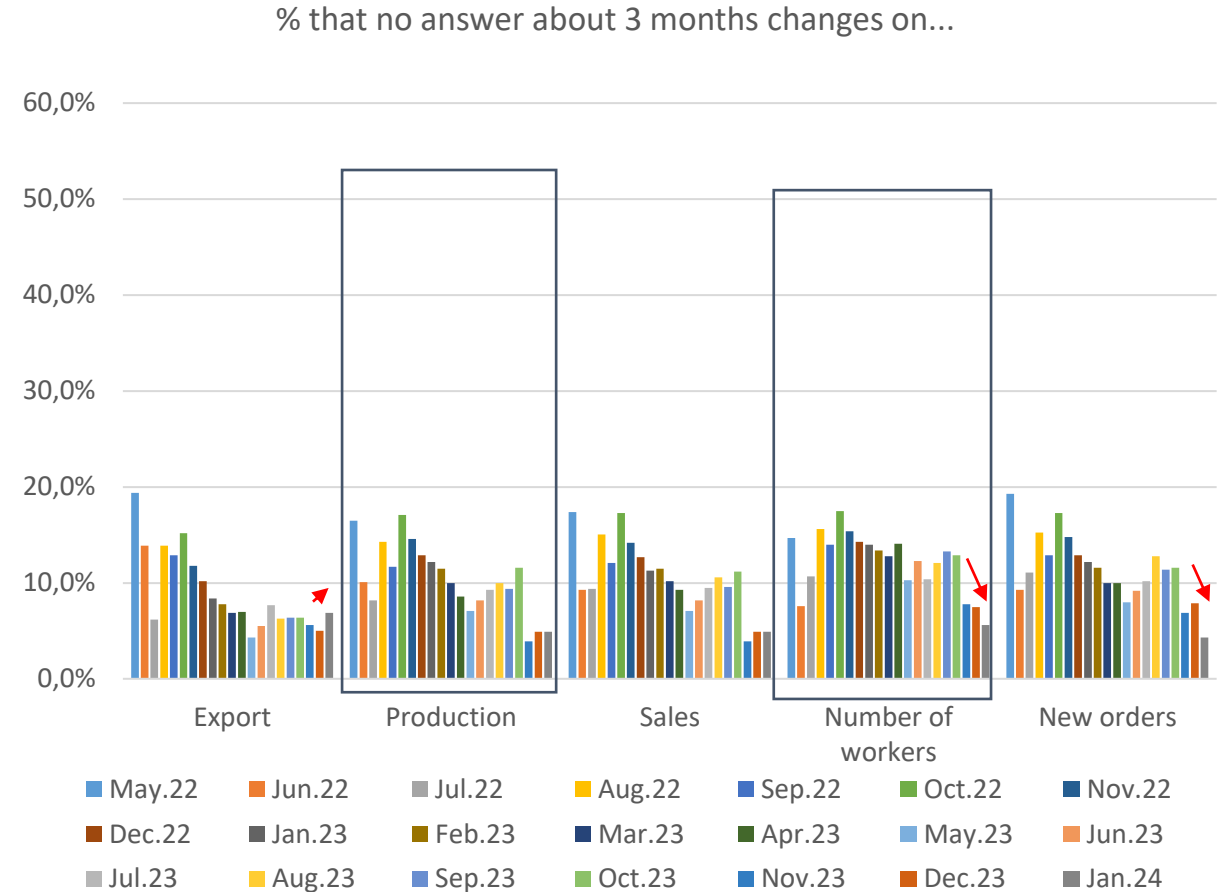
Uncertainty in the 2-year perspective has decreased

Uncertainty slightly decrease for business activity, new orders and number of workers

Half-year horizon



Three-month horizon

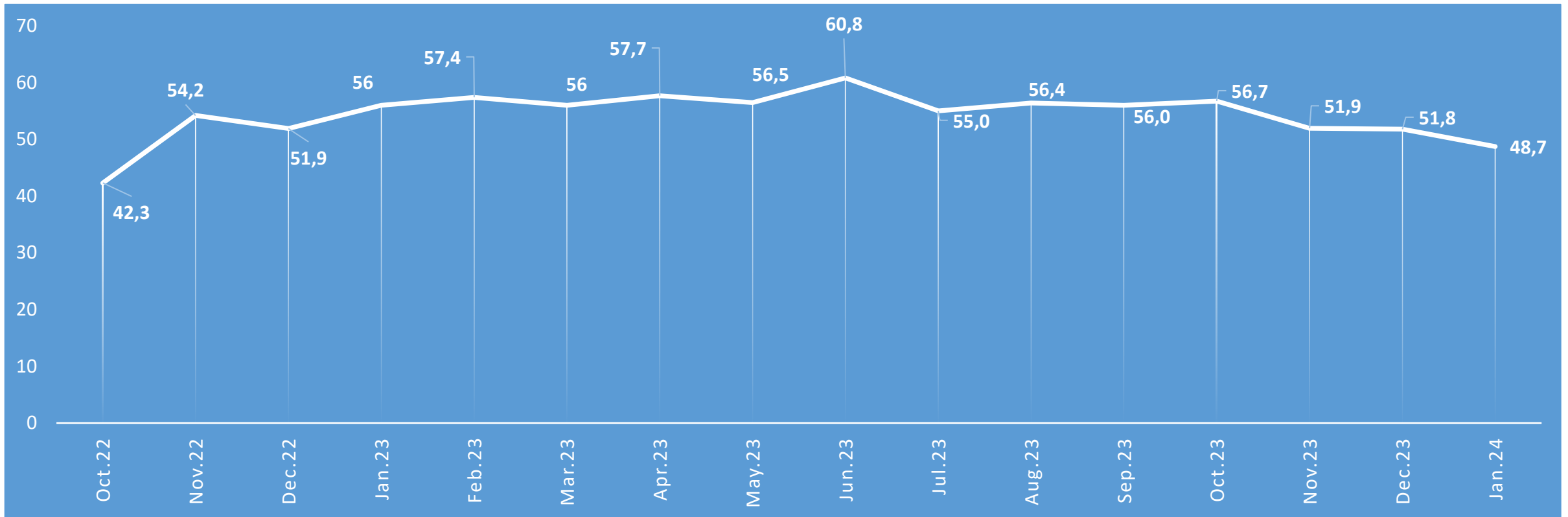


Long-term uncertainty decrease

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 is 49% (two month in a row it was 52%)



Main result 3. Long- and medium expectations improved



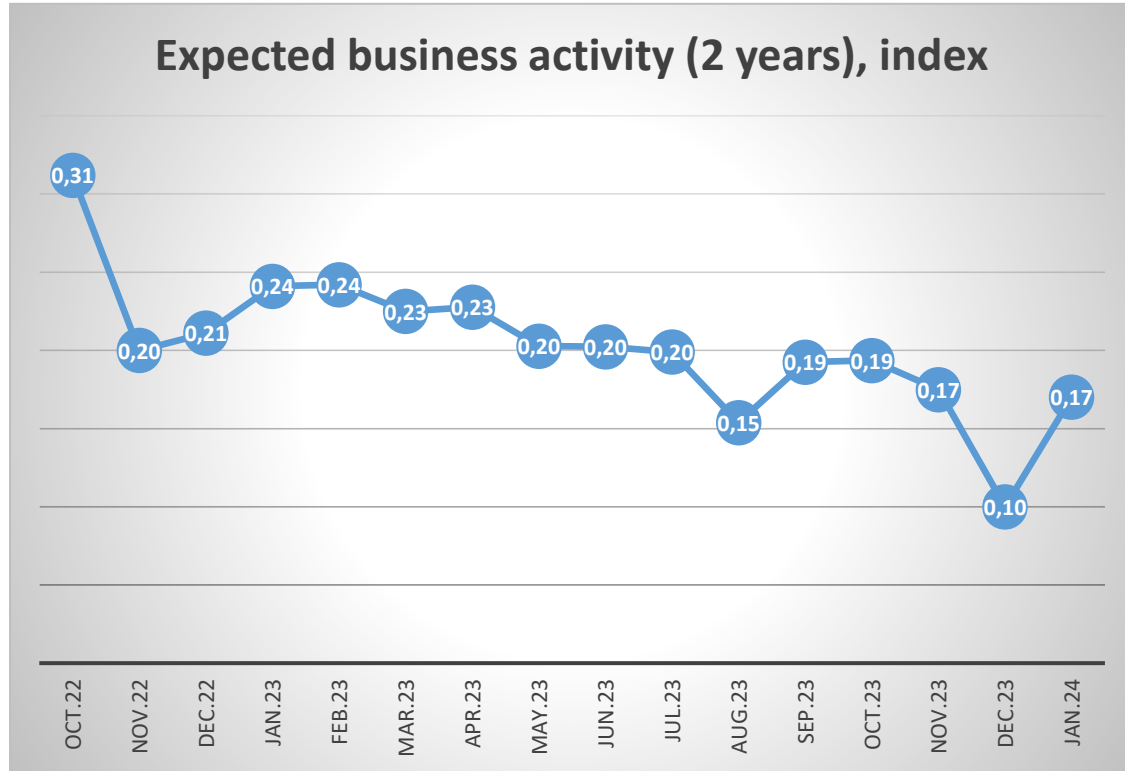
In January, the business expectations for the next **two years** return to November's position after lowering in December



6-month expectations regarding enterprises' business activity and the overall economic environment **improved a bit**

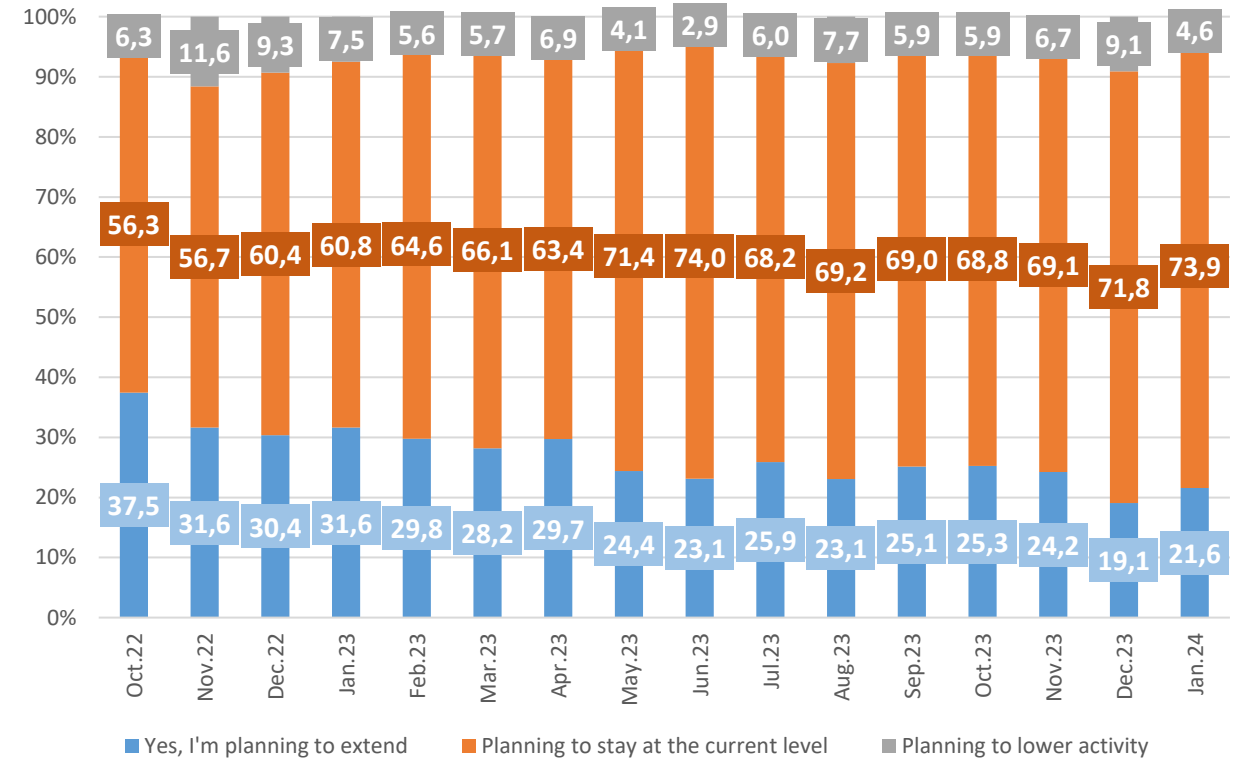
Long-term expectation improved

Index of expected changes in business activity



- The index of expected changes in 2 years perspective increased from 0.10 in December to 0.17 in January
- Scale from -1 (bad) till +1 (good)

Expectations in the two-year perspective



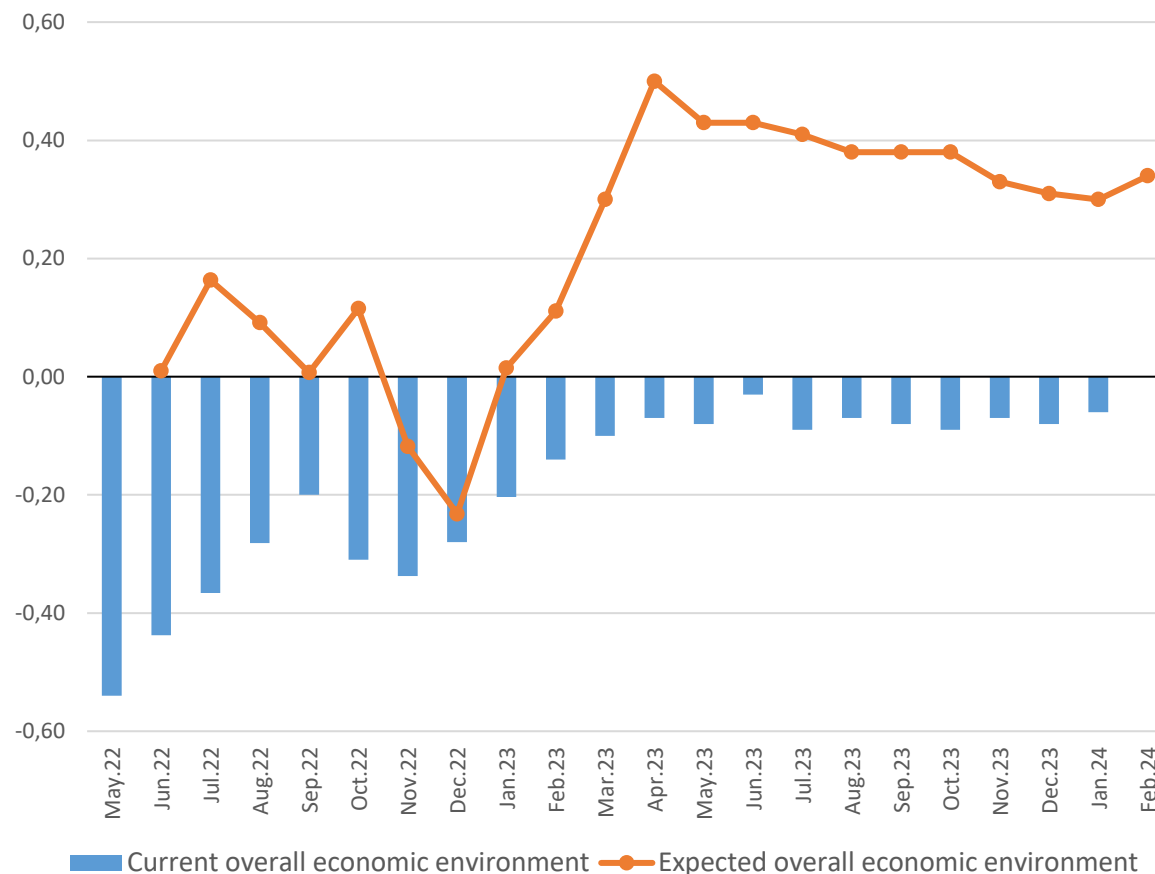
- % of enterprises that **plan to grow in 2 years** has **increased from 19.1% in December to 21.6% in January**
- % of enterprises planning to **lower business activity** **decreased from 9% to 4.6%**

6-months perspective: optimism increased

Business activity at the enterprise



Overall economic environment in the country



Main result 4: Past performance and expectations



Production performance of the enterprises in January 2024 vs. December 2023 significantly worsened.



3-months perspective **production expectations** do not change already the fourth month



Employment indicators lowering and business still have problems in finding workers.



The **export** performance of enterprises has worsened, but the **expectations** in the short term remain positive.

Past performance (January vs December)

- % of enterprises **increased** in production **lowered** from 34.4% in December to 23.2% in January
- % of enterprises **reduced** production **increase** from 16.8% to 23.2%

Index of change decreased from 0.21 to 0.05

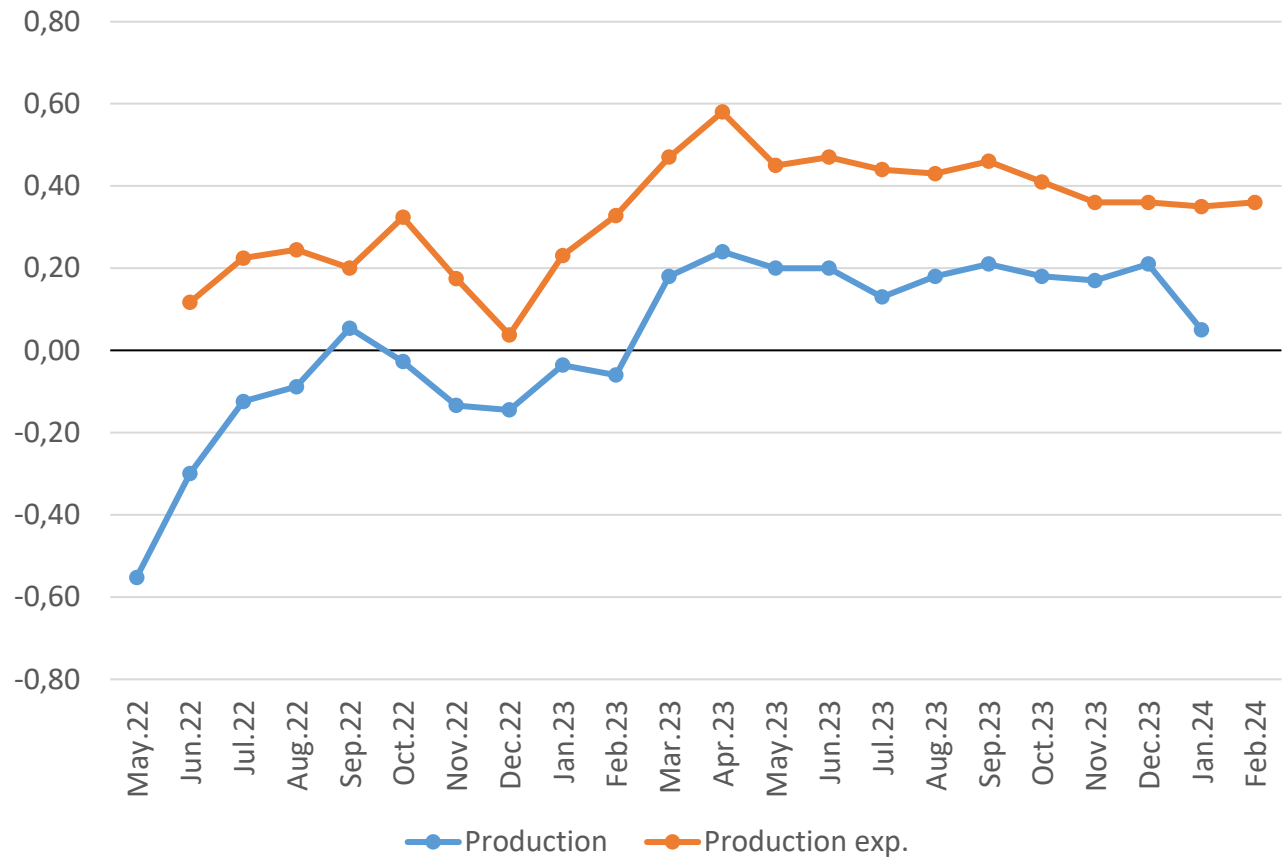
Expectations for 3 months

- % of enterprises planning a **production growth** in the next 3-4 months is 39.2% in January (38.5% in December).
- % of enterprises that **expected a decrease** remained without significant changes (4.8% in January vs 5.3% in December)

Index of expected production remained unchanged (0.36 vs 0.35 in previous month).

Production: worsened results, plans remain optimistic, but unchanged

Production, balance indicators



Export: worsened results, expectations without changes

Past performance (January vs December)

- % of enterprises reporting **growth of export decreased** from 31.1% in December to 18.8% in January
- % of enterprises informing **reducing export increased** from 20.1% in December to 34.2% in January

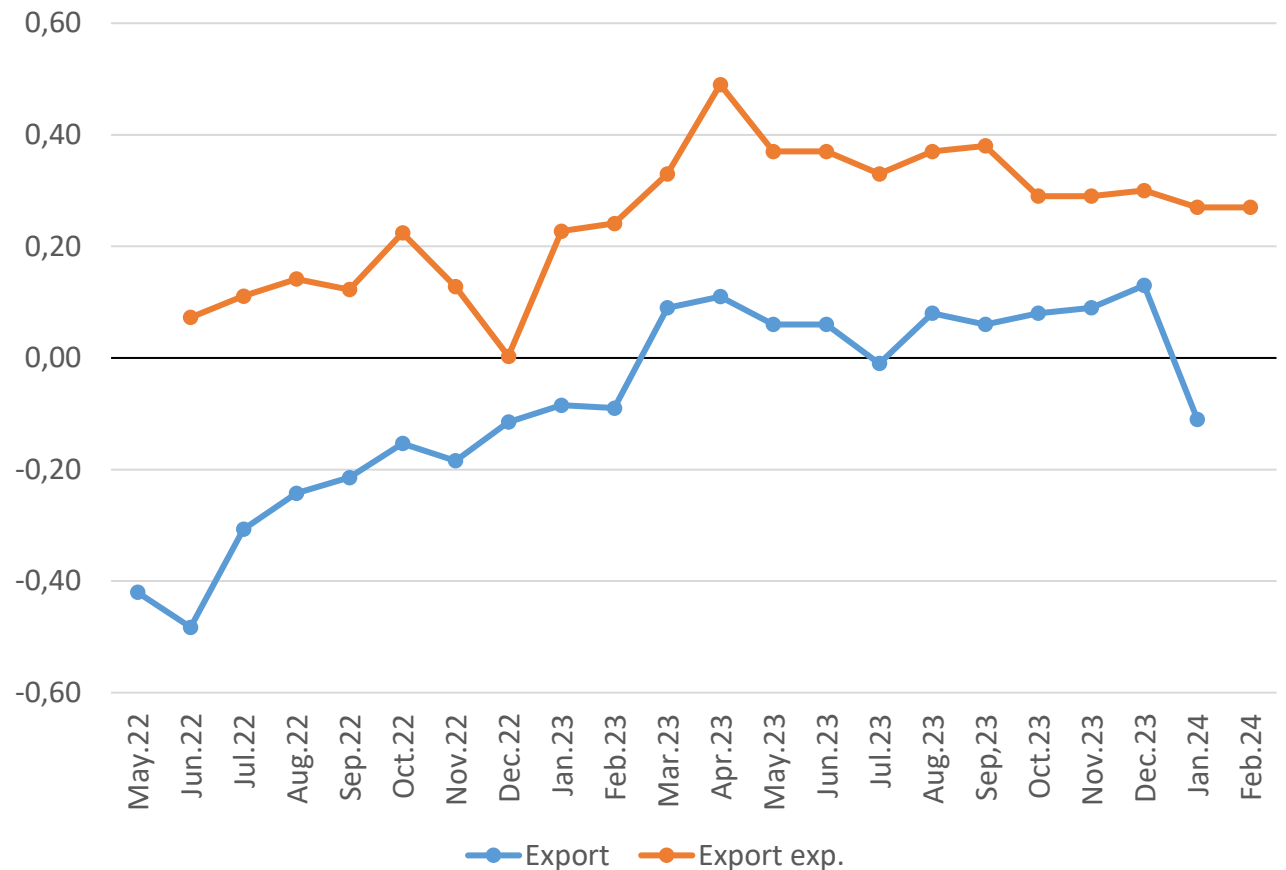
Index of changes lowered from 0.13 to -0.11

Expectations for 3 months:

- % of enterprises expecting **growth of export slightly decrease** from 31.2% in December to 28.9% in January
- % of enterprises planning **to reduce export** also decrease a bit (from 6.5 % in December to 5.0% in January)

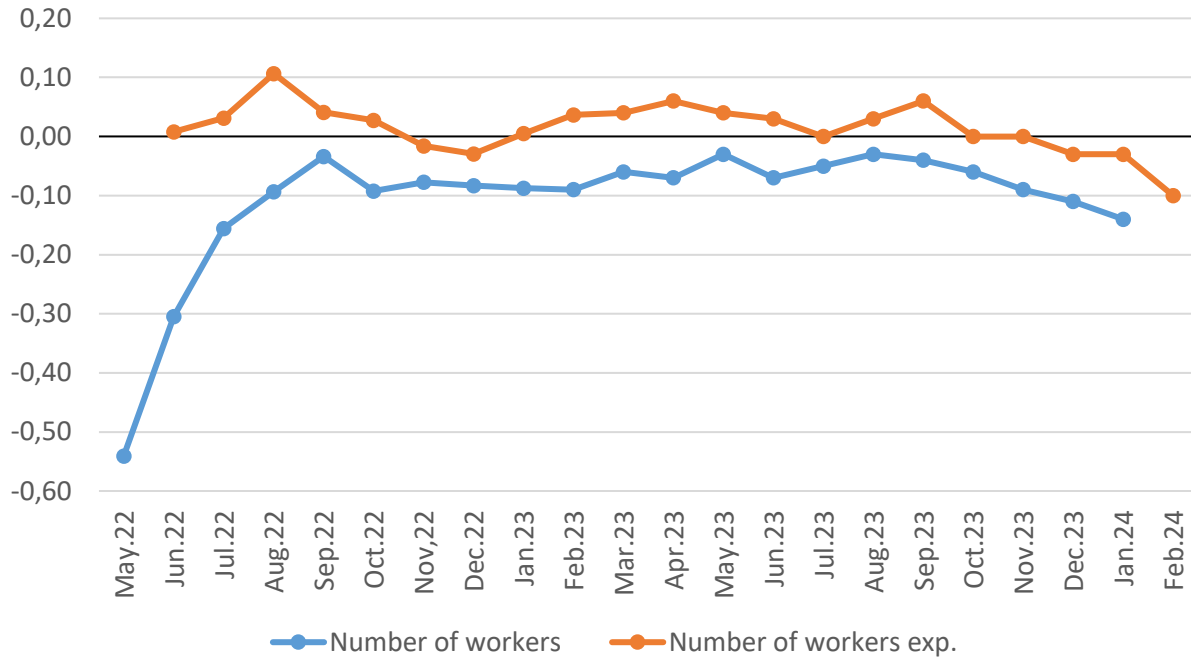
The index of expected export does not change and is 0.27 as it was in previous month

Export, balance indicators

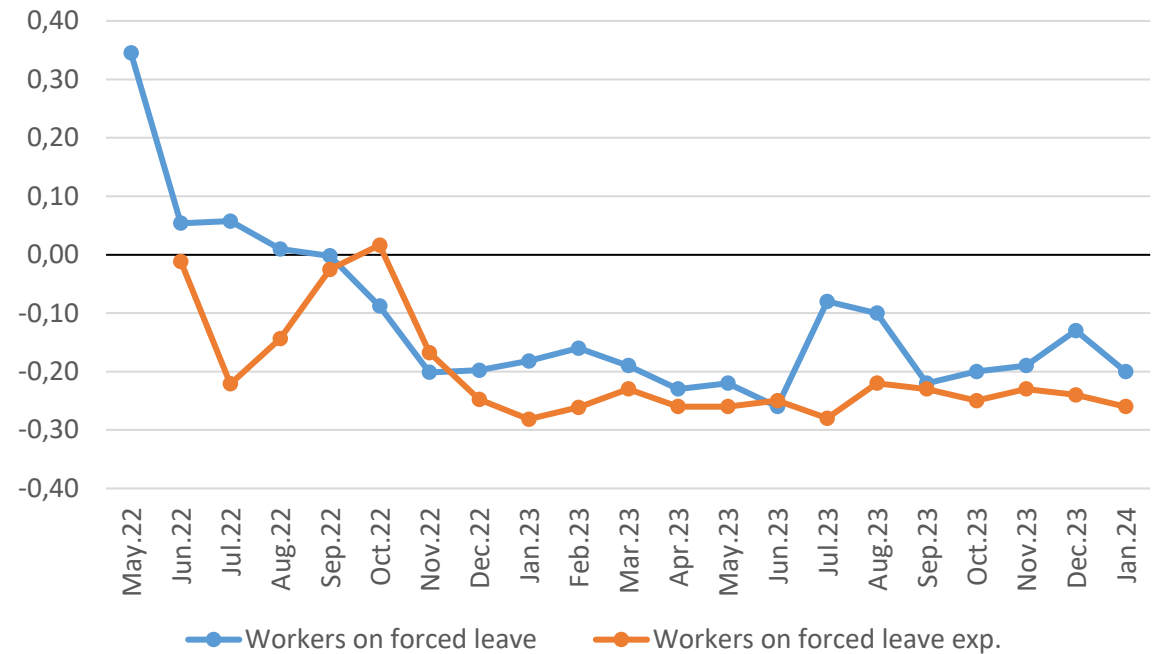


Employment: number of workers gradually decreasing

Number of workers



Number of workers on forced leave



Expectations for 3 months

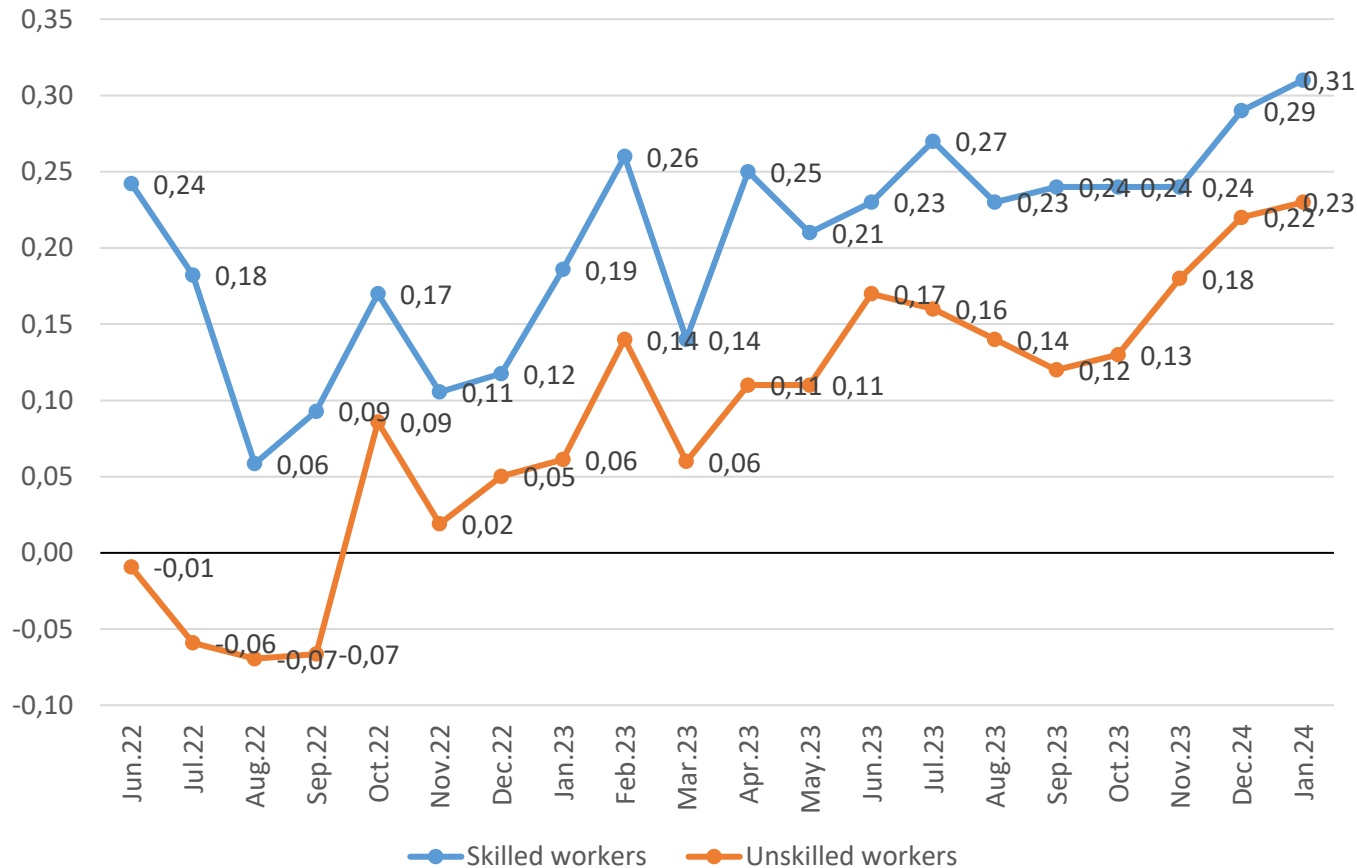
- % of enterprises **planning employment growth** in the next 3-4 month **decreased from 5.1% to 2.7%**
- % of enterprises **intending to reduce** the number of employees **increased from 6.7% in December to 11.5% in January**
- % of enterprises at which **no changes in employment are expected decreased from 88.3% to 85.8%**

Expectations for 3 months

- % of enterprises that **will increase the number of employees on forced leave slightly increased (1.1% vs 0.5% in December)**
- % of enterprises that **are going to reduce** employees on forced leave **decreased from 27.0% to 25.5%**
- **% unchanged is 73.3% (72.5% in December)**

Problems with finding skilled workers are increasing

Problems with finding workers



In January problems with finding skilled workers continue growth

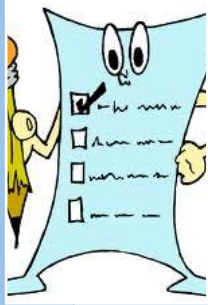
Skilled workers:

- % of those who reported that it is **more difficult** to find such workers **increased** (from 29.1% in December to 32.4% in January).
- % of those to whom it is **easier** to search for skilled workers **almost unchanged** (1.2% in January vs 1.8% in December)

Unskilled workers:

- % of those who report that it is **easy** to find them remained **without significant changes** (5.2% in December and 4.2% in January)
- % of those to whom this is **harder** increased (from 25.0% in December to 27.6% in January)

Main results 5: Impediments, economic policy



In January **1st place** in the list of impediments shares **“it is dangerous to work”** and **“rising prices”**



% of respondents for whom **“it is dangerous to work”** is an impediment lowered from 53% to 46%, however safety **remained at the 1st place in the list**



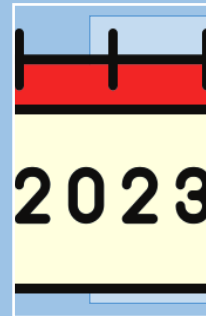
“Impediments to growth”: wars, labor shortages and low demand



The most expected events were the end of the war (86,8%) and the reduction of taxes (44,4%).



58% of enterprises neutrally assess the Government's economic policy



2023 for business mostly met **expectations**, however, for 22% of respondents, the past year was less successful than it was expected

Impediments to production growth

Quarterly, we use the list of obstacles to production growth from the long-term “Business Tendency Survey”*

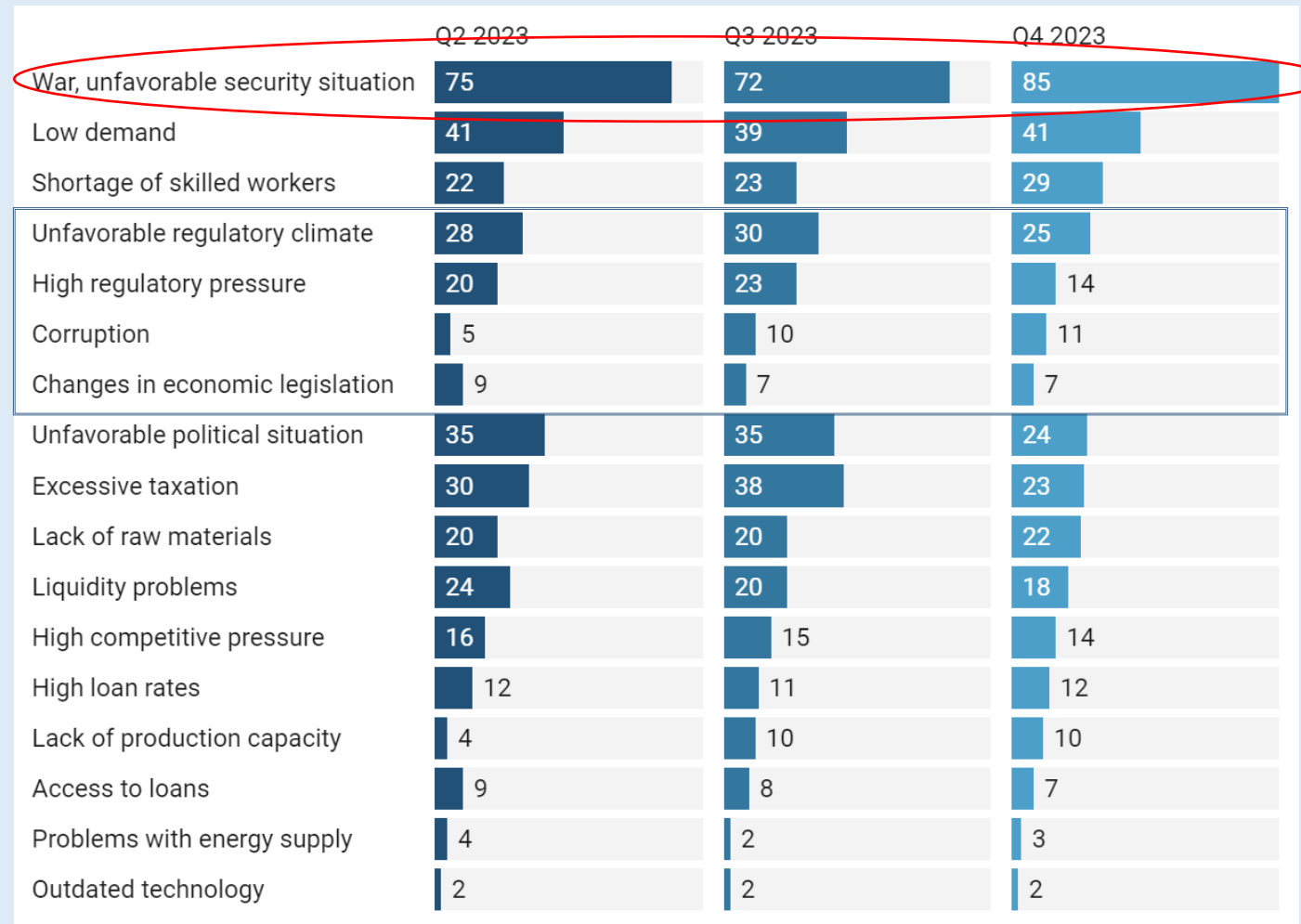
In January 2024, the **war and unfavorable security situation** was mentioned most often among the obstacles to production growth and more often than earlier**

The 2nd, 3rd, 4th and 5th places, respectively were taken by **low demand, shortage of skilled workers** (increased in January), **unfavorable regulatory climate***** (decrease of *high regulatory pressure* in January), and **unfavorable political situation** (also decreased)

In January 2024, % of respondents claimed that excessive taxation decreased by 1.6 times compared to August 2023. In January 2024

* The last wave of the Business Tendency Survey of Enterprises before the full-scale russian invasion was conducted in February 2022

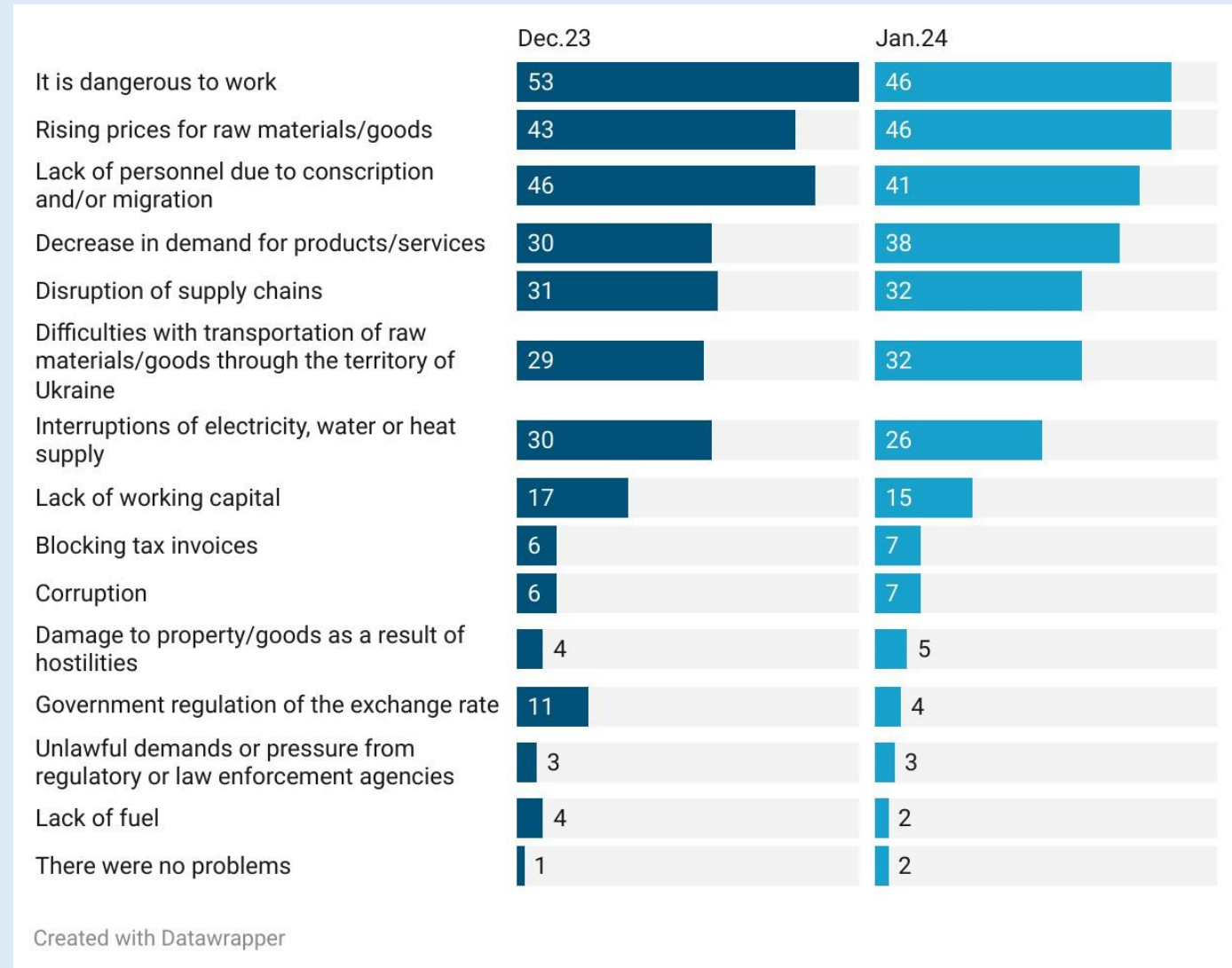
***The regulatory climate is a combined indicator consisting of “high regulatory pressure”, “changes in legislation”, and “corruption”



The main impediments to doing business in wartime, % respondents

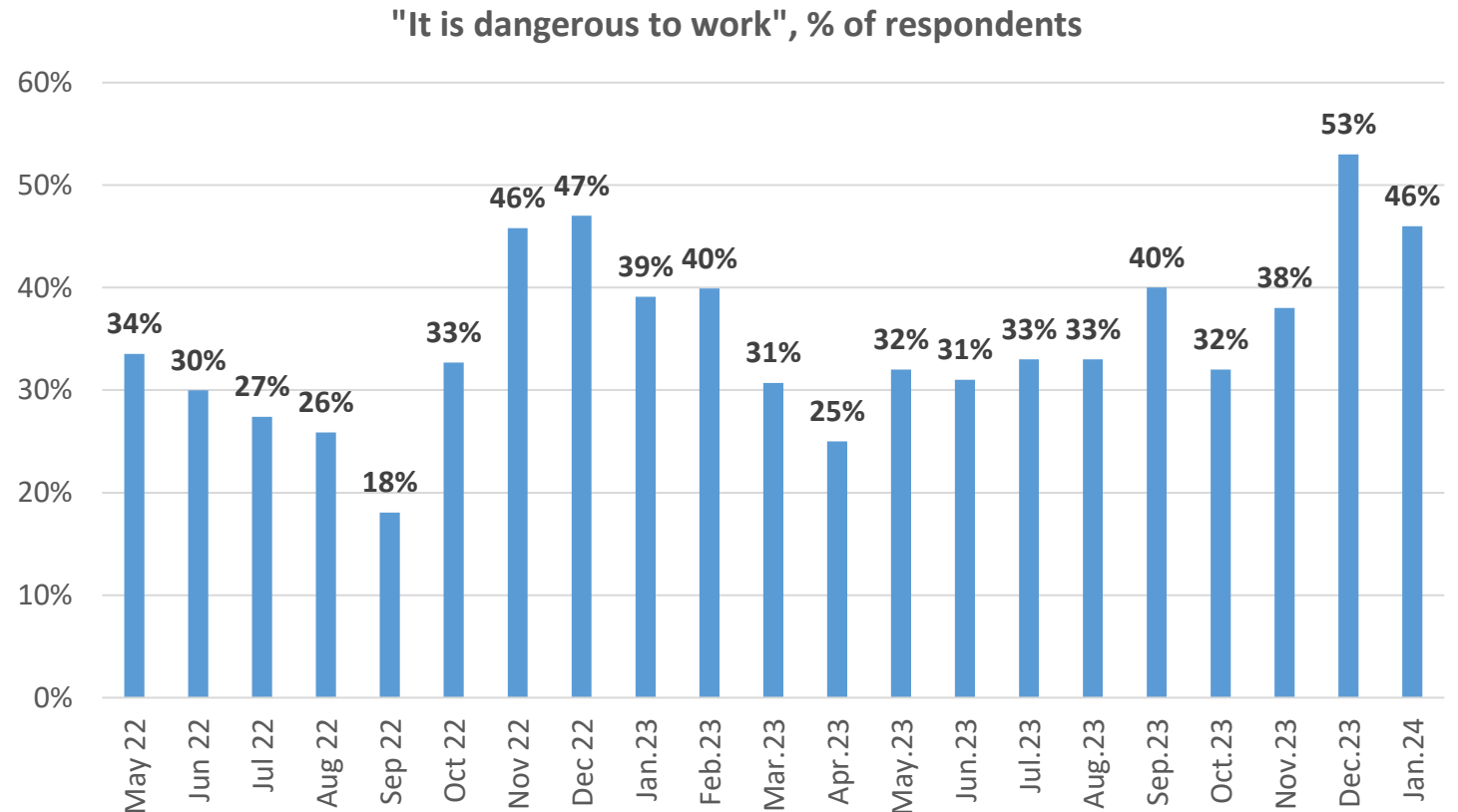
There are several significant changes in the list of impediments in January 2024 compared to December 2023

- The “it is dangerous to work” impediment in spite of lowering the value from 53% to 46% remained in the 1st place in the list
- The impediment “rising prices for raw materials and goods” after increasing the value from 43% to 46% moved from the 3rd place in the list and again appeared in the 1st place
- “Lack of personnel” decreased its value from 46% to 41% and moved from the 2nd place to the 3rd place
- “Electricity interruptions” decreased its value from 30% to 26% and moved from the 5th to the 7th place
- Corruption and pressure by law enforcement agencies are not significant problems



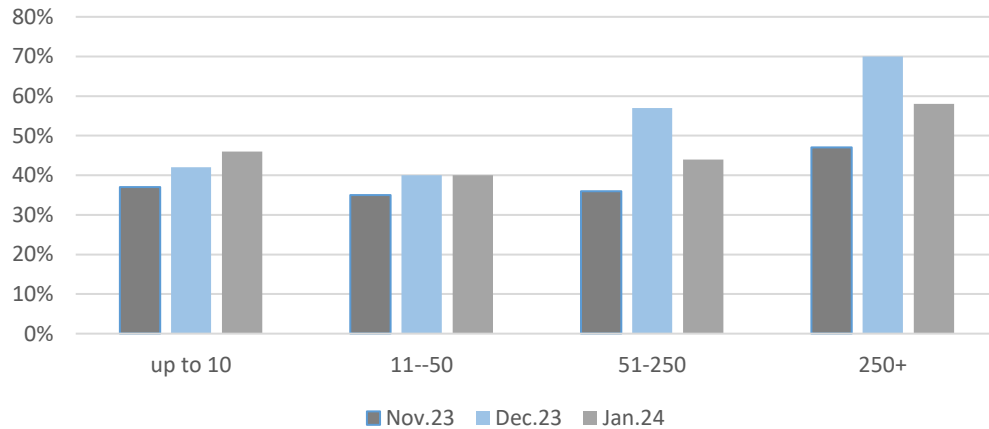
“It is dangerous to work” remained top-1 impediment to doing business

- In January 2024, the share of enterprises that reported that **it was dangerous to work** decreased from 53% to 46%
- **In spite of lowering the value, in the list of obstacles, “it is dangerous to work” remained at the 1st place**



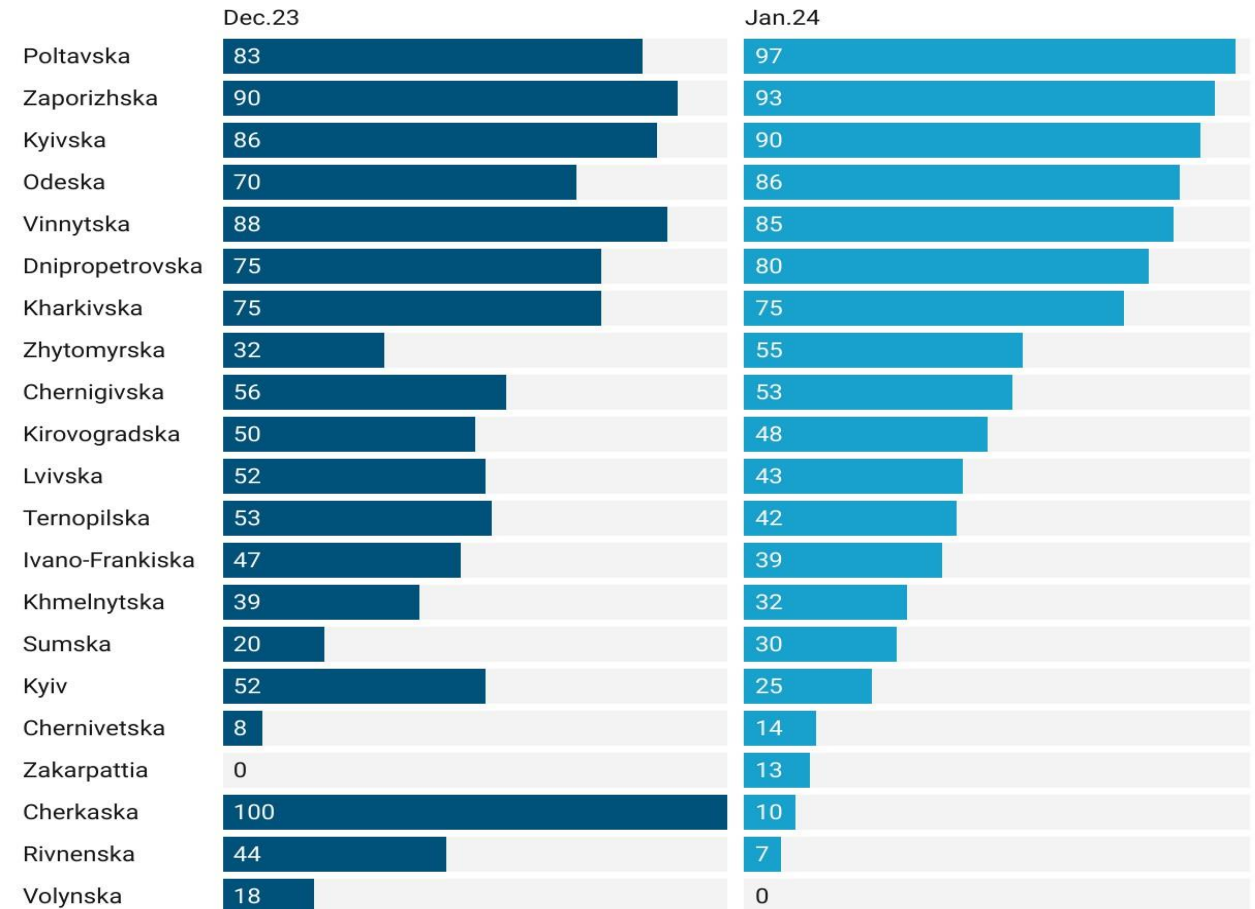
“It is dangerous to work” in different dimensions

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



- % of enterprises that chose “it is dangerous to work” increased for micro business and lowered for medium and large. However, % remained the highest for large business
- 80+% of respondents in Dnipropetrovska, Vinnytska, Odeska, Kyivska, Zaporizhska, and Poltavaska oblast consider insecure conditions as an impediment

“It is dangerous to work” by oblast, % of respondents



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More than half of enterprises neutrally assess the Government's economic policy



Created with Datawrapper

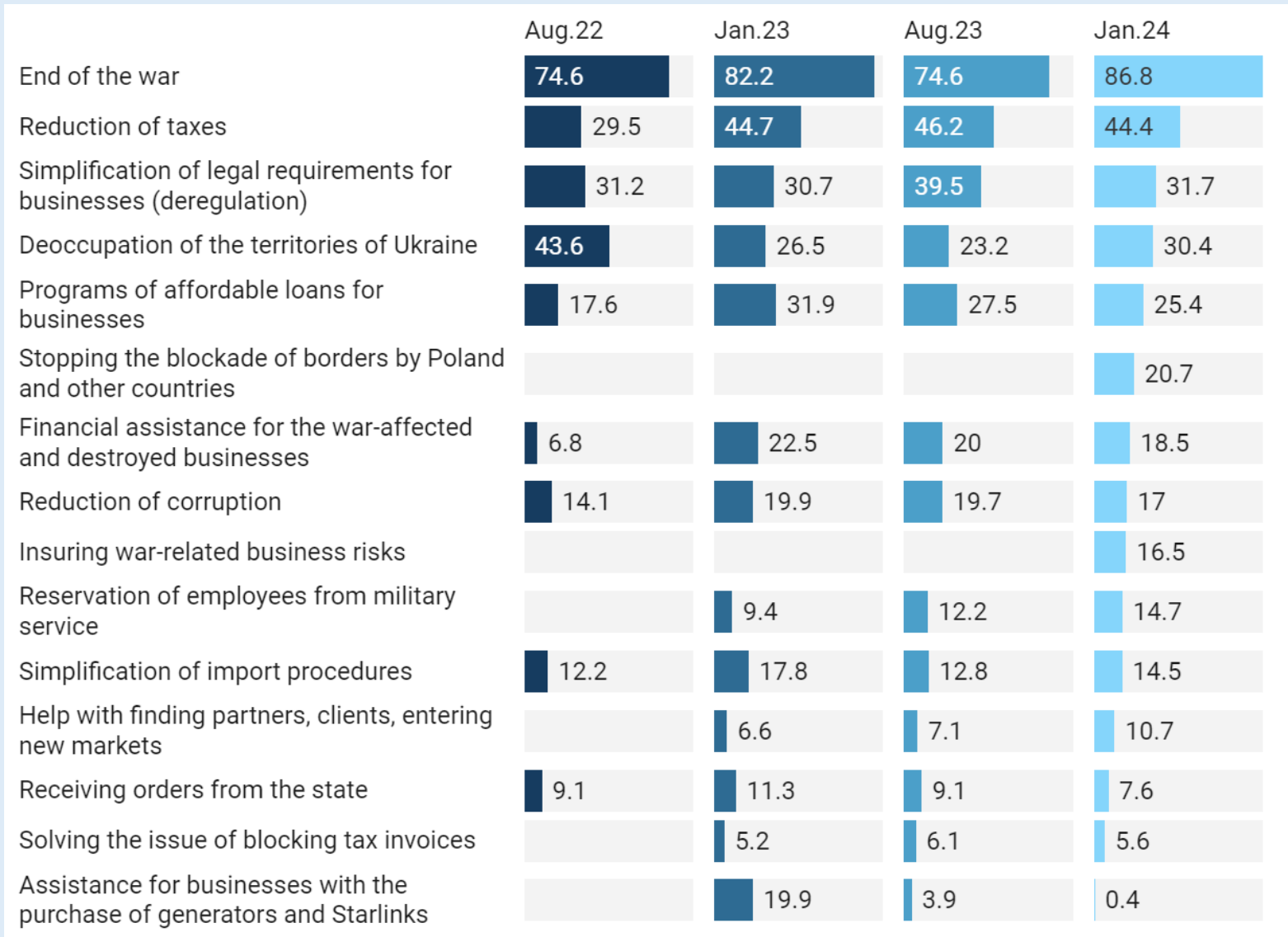
- The share of **positive assessments** of the government's policy on business is 8% and it **remained without significant changes** for six month in a row
- The share of **neutral assessments** of the government's policy on business support is **58%, as it was in December**
- The share of **negative assessments is 18% (19% in December)**

Expected events: end of the war, deregulation, deoccupation

The main expectation of business is the end of the war

– in January 2024 compared to August 2023, the share of enterprises expecting the end of the war increased

- % of respondents for whom the expected event would be the deoccupation of TOT **has increased**
- **Lifting the blockade** of the western borders is an expected event for **1/5 of the surveyed enterprises**
- % of respondents for whom the expected event was the **simplification of legislative requirements decreased** compared to August 2023



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.

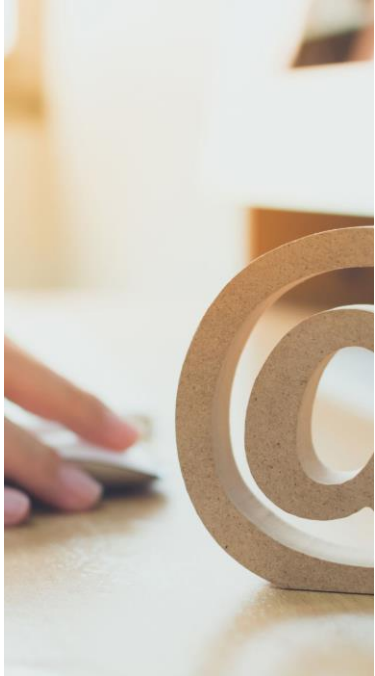
The monthly survey consists of two parts: the regular one and the special one. Respondents will regularly answer questions on the changes in key activity indicators and short-term forecasts for future changes in the same indicators: output (production), sales, exports, debt, new orders, employment, etc. 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, Zakarpattia, Zaporizhzhia, Ivano-Frankivsk, Kyiv, Kirovohrad, Lviv, Odesa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Khmelnytsky, Cherkasy, Chernivtsi and Chernihiv regions and the Kyiv city.

The field stage of the 21-th wave lasted from January 16 to January 31, 2024. The enterprise managers compared the work results in January 2024 with December 2023, assessed the indicators at the time of the survey (January 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).

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