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INTERNATIONAL RENAISSANCE FOUNDATION

ATLAS NETWORK

INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

Main economic trends in February 2023

(according to the results of The New Monthly Enterprises Survey, #NRES)

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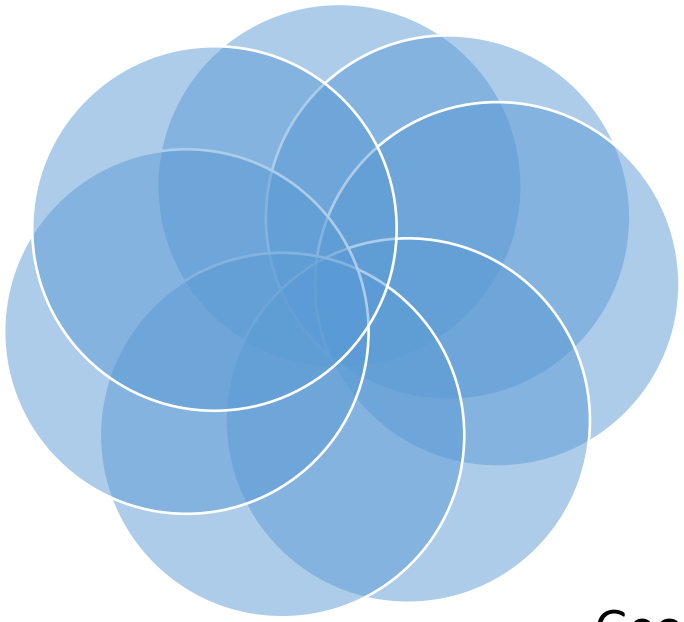
Kyiv, March 2023

ABOUT THE NEW MONTHLY SURVEY

Monthly survey

The recent data were collected on **February 13 – 28, 2023**

10 surveys have already been conducted (since May 2022)



Sample: **524 enterprises** were surveyed in **February**

Enterprises of all sizes

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

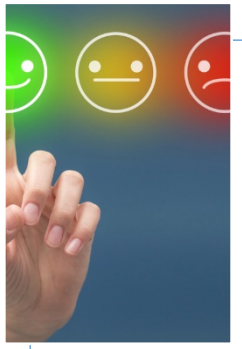
Geography: **22 out of 27** regions of Ukraine

Main results 1

Despite high long-term uncertainty, the enterprises' expectations significantly improved

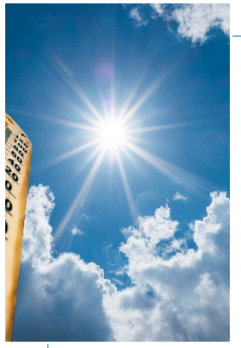
Main results 2

Assessments of the **current situation** (country, company) **have been improving for the third month in a row**



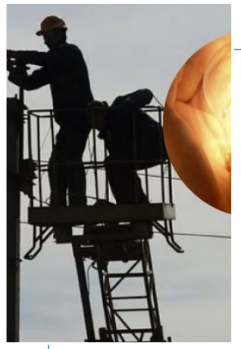
Expectations for 3 months (production, sales, demand) **have improved** significantly

The level of uncertainty in the 6- and 3-month perspective has been a bit **decreasing** for several months in a row



Six-month expectations improved for the third month in a row

Main results 3



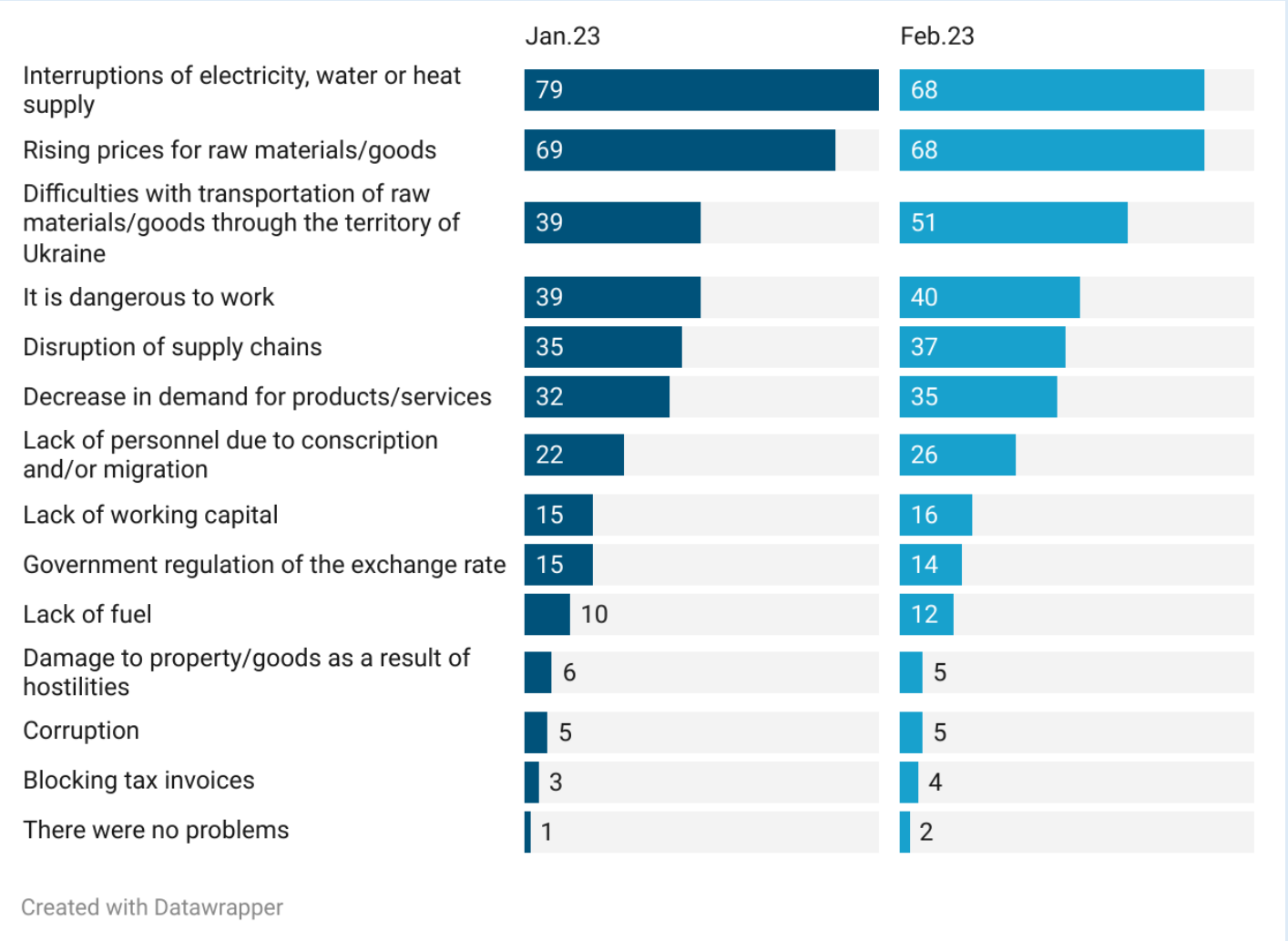
Interruptions in electricity, water, and heat supply, although remain one of the main problems, **have significantly decreased in importance**

Export activity remains **unchanged**

Assessments of the **government's economic policy have improved**

The main impediments to doing business in wartime, % respondents

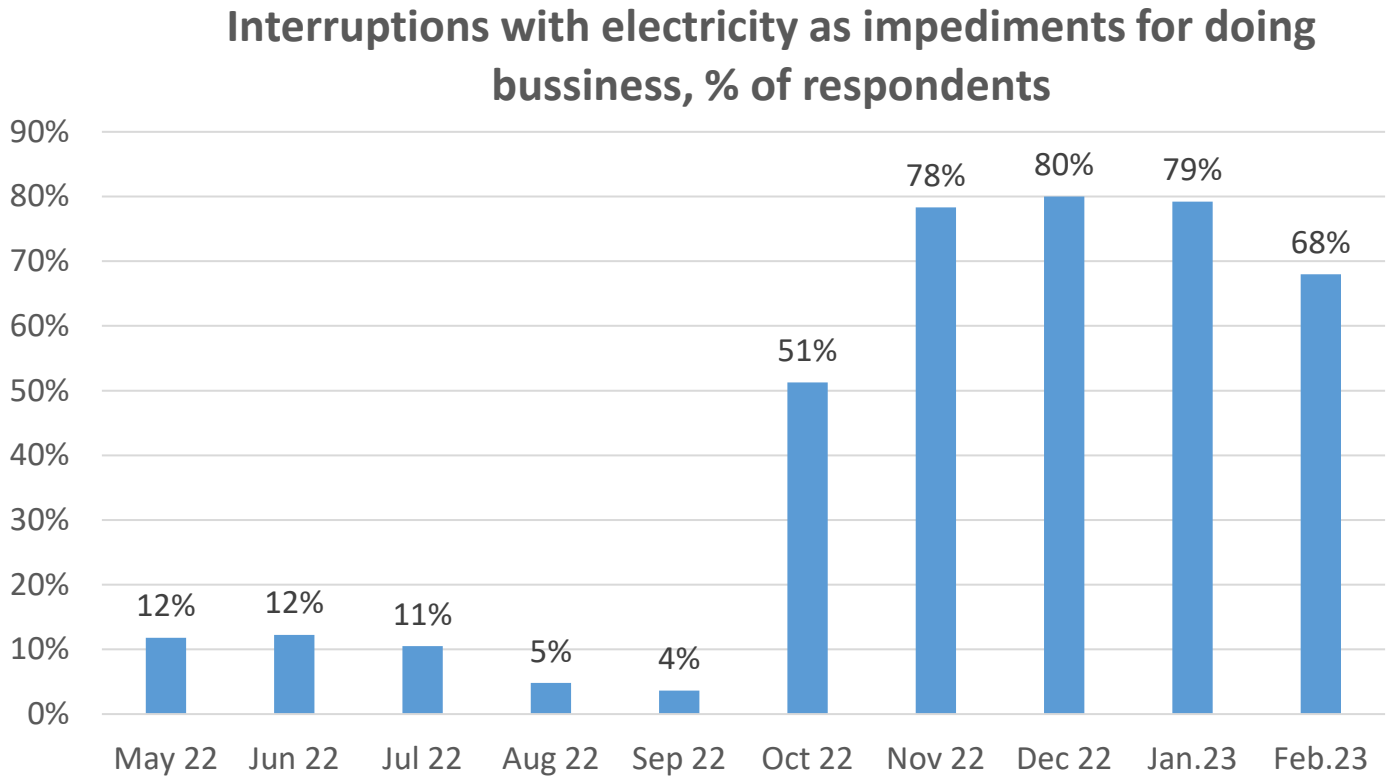
- The **negative impact of interruptions in electricity, water or heat supply has decreased**, but this problem still tops the list of obstacles along **with rising prices**
- These two obstacles shared the top spot in the February 2023 obstacle ranking
- **Difficulties with the transportation of raw materials** rose noticeably in the list of obstacles and took the third place
- % of respondents says that "**it is dangerous to work"** remained at the level of January 2023
- **The lack of working capital** continues to **gradually increase** in importance
- **Corruption** and the **blocking of tax invoices** are **rarely reported**



Interruptions in electricity

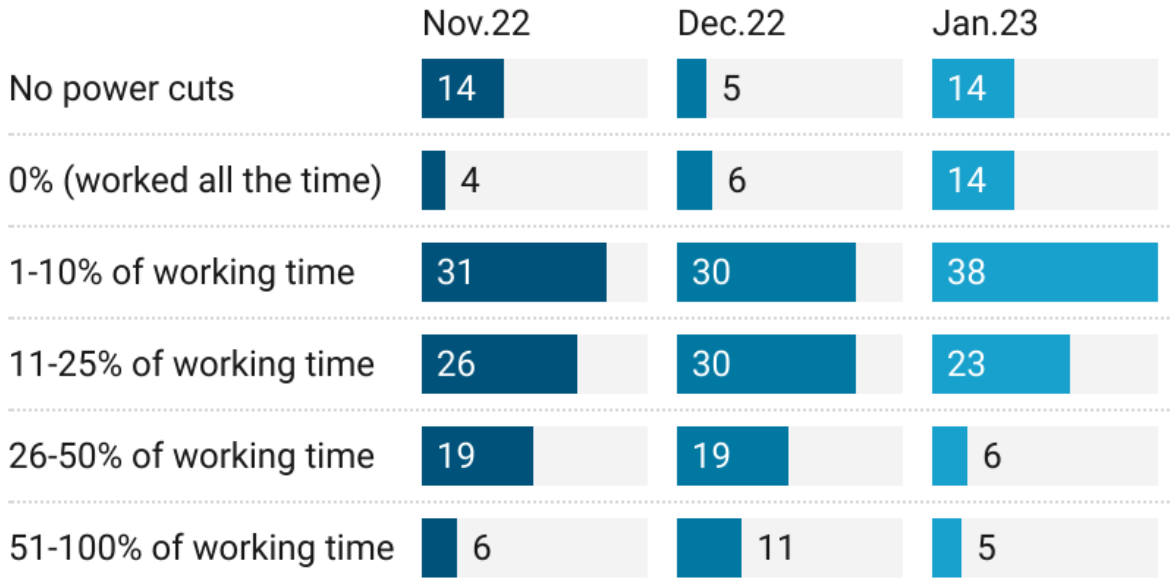
Interruptions in electricity topped the list of impediments for the 4th month in a row

- In February 2023, **interruptions in electricity topped** the list of obstacles to doing business for the **fourth month** in a row
- % of respondents who reported **interruptions in electricity** as an obstacle to doing business dropped significantly from 79% in January to 68% in February 2023



Less enterprises experience power cuts

Impact of power cuts on enterprise operations (% of respondents)



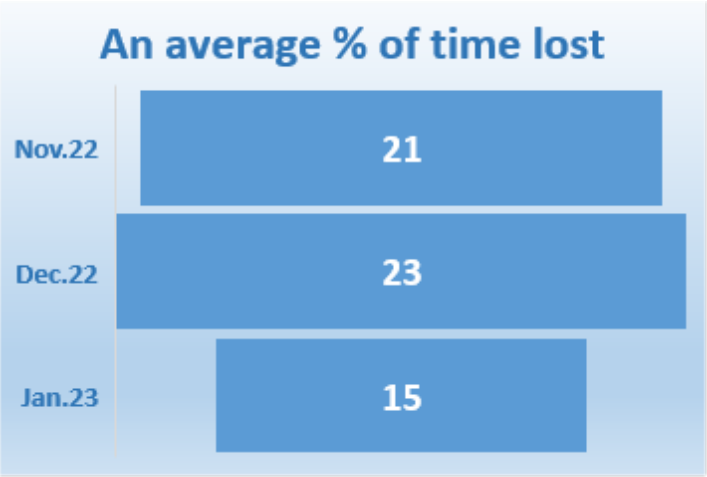
Source: IER #NRES • Created with Datawrapper

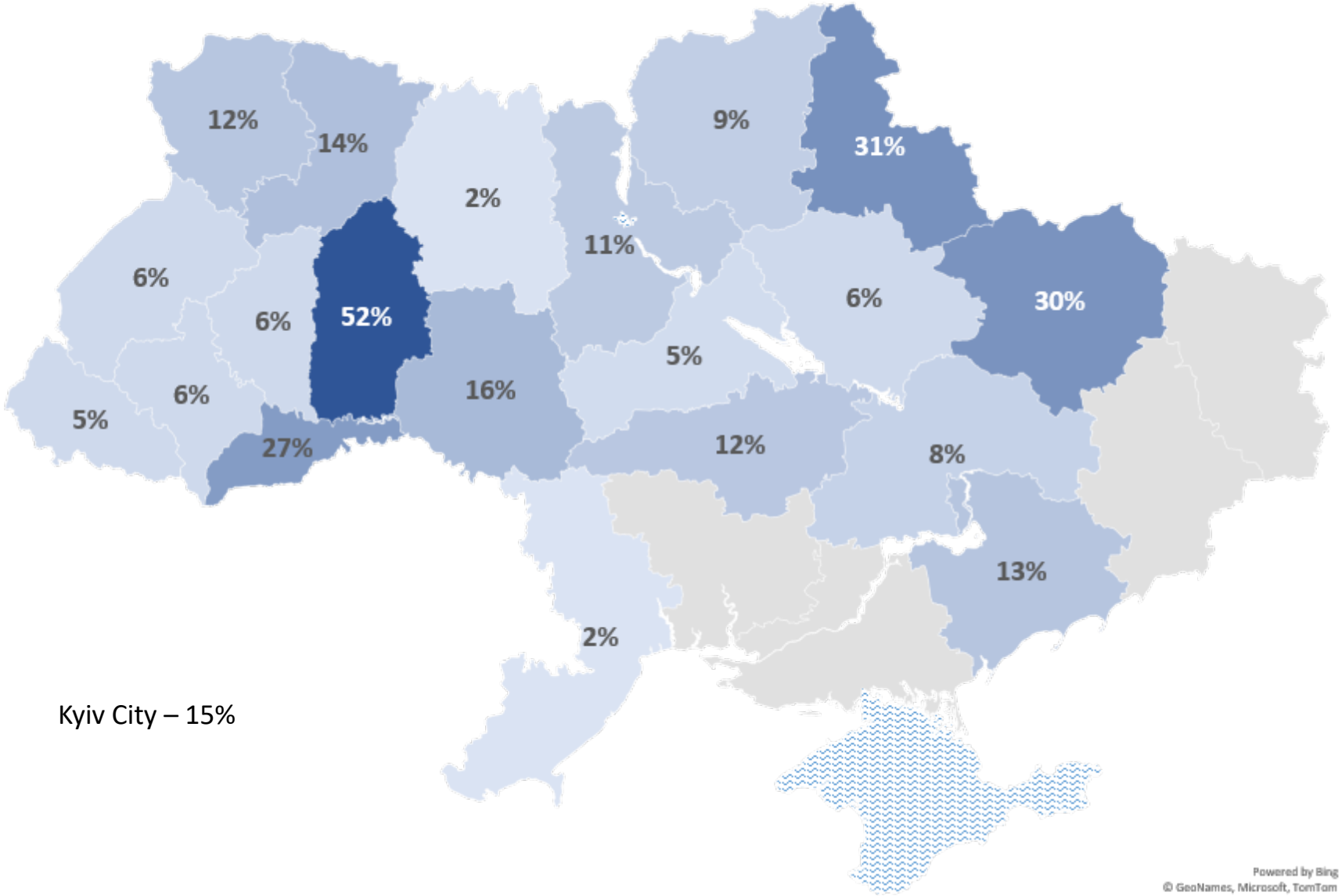
73% of enterprises suspended operations temporarily due to power cuts in January; this illustrates improvement of the situation at the beginning of 2023 (89% in December)

- 14% of enterprises did not experience power cuts (5% in December)
- 14% of enterprises worked all the time (6% in December)
- 38% of businesses stopped operations only for 1-10% of working time and 23% stopped for 11-25% of working time
- Only 5% of enterprises were not operational more than a half (51-100%) of working time (almost two times less than in December)

An average time of suspending work due to power cuts has decreased

- The enterprises lost **15 % of total working time in January** due to power cuts (23% in the previous month)
- There are differences between industries, enterprises of different sizes, and regions

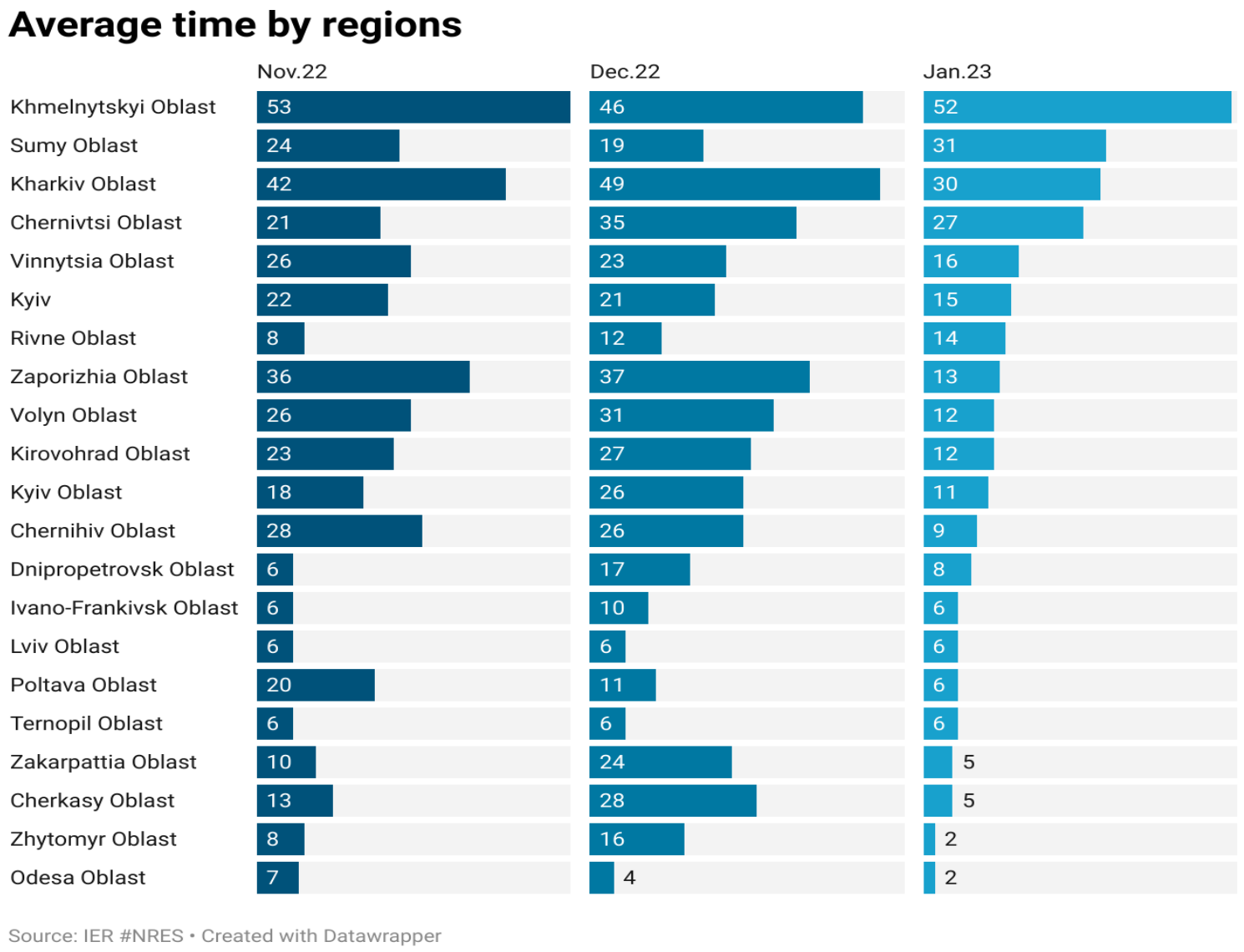




Kyiv City – 15%

An average time of suspending work due to power cuts has decreased

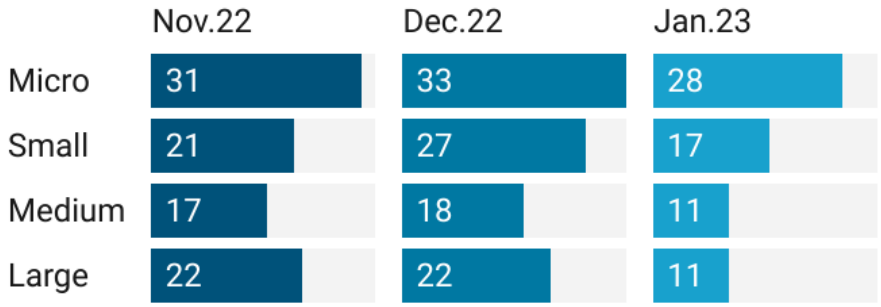
- The enterprises lost **15 % of total working time in January** due to power cuts (23% in the previous month)
- There are **differences** between **industries**, enterprises of different **size**, and **regions**
- Enterprises in **Khmelnytskyi, Sumy,** and **Kharkiv** regions experience **the largest time** losses due to power cuts



An average time of suspending work due to power cuts

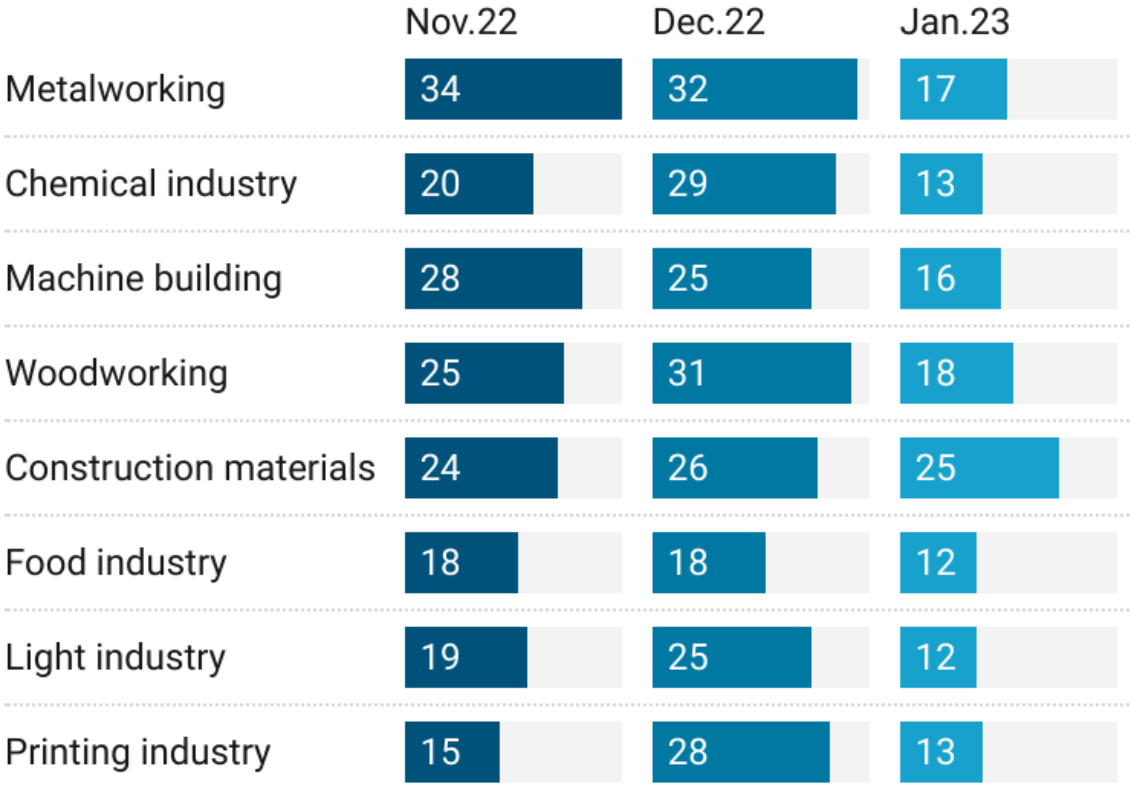
- The situation has **significantly improved in most industries** except manufacturing of construction materials
- **Micro** enterprises still suffer **the highest losses**

% of working time loss (by enterprise size)



Source: IER #NRES • Created with Datawrapper

% of working time loss (by industry)

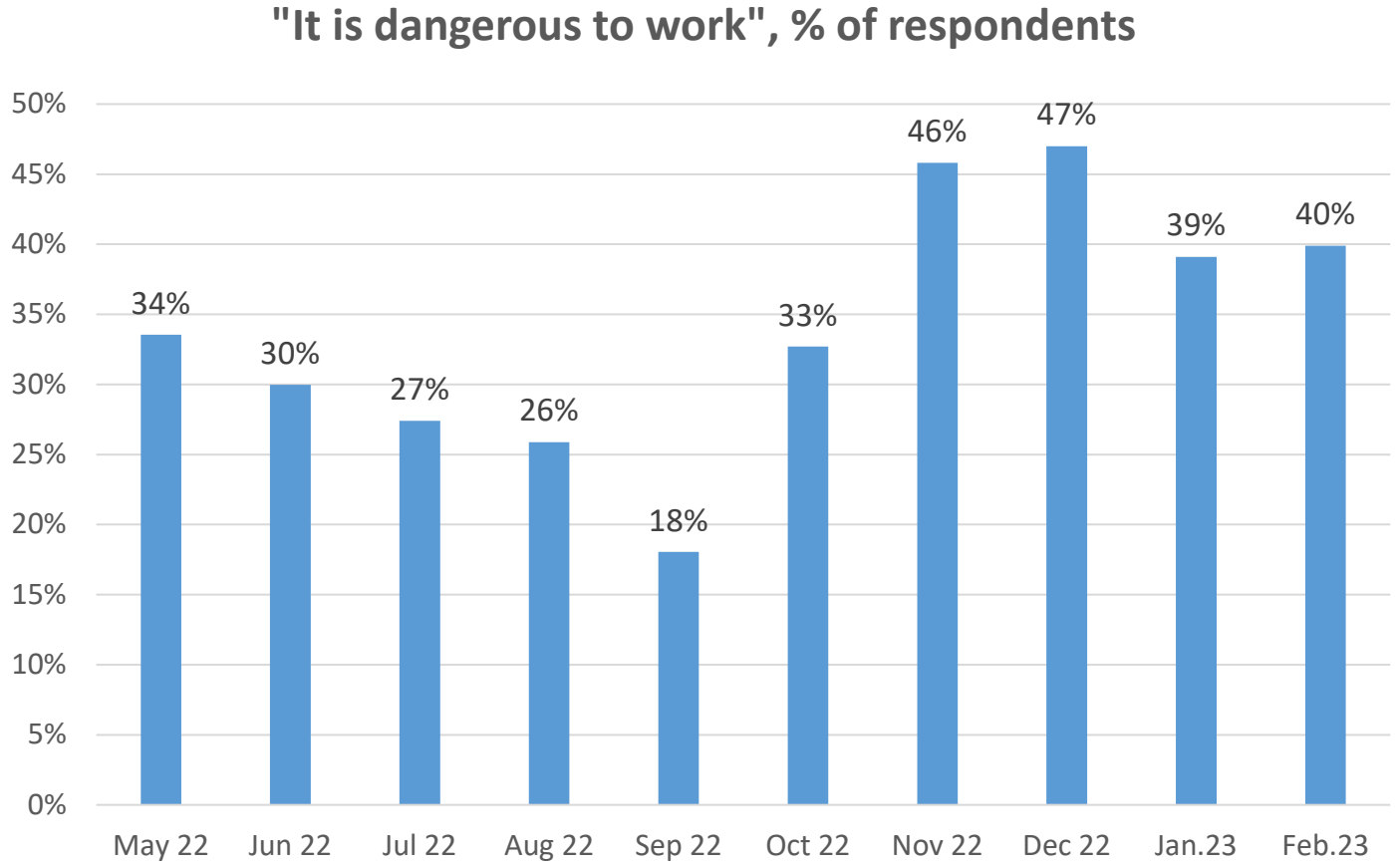


Source: IER #NRES • Created with Datawrapper

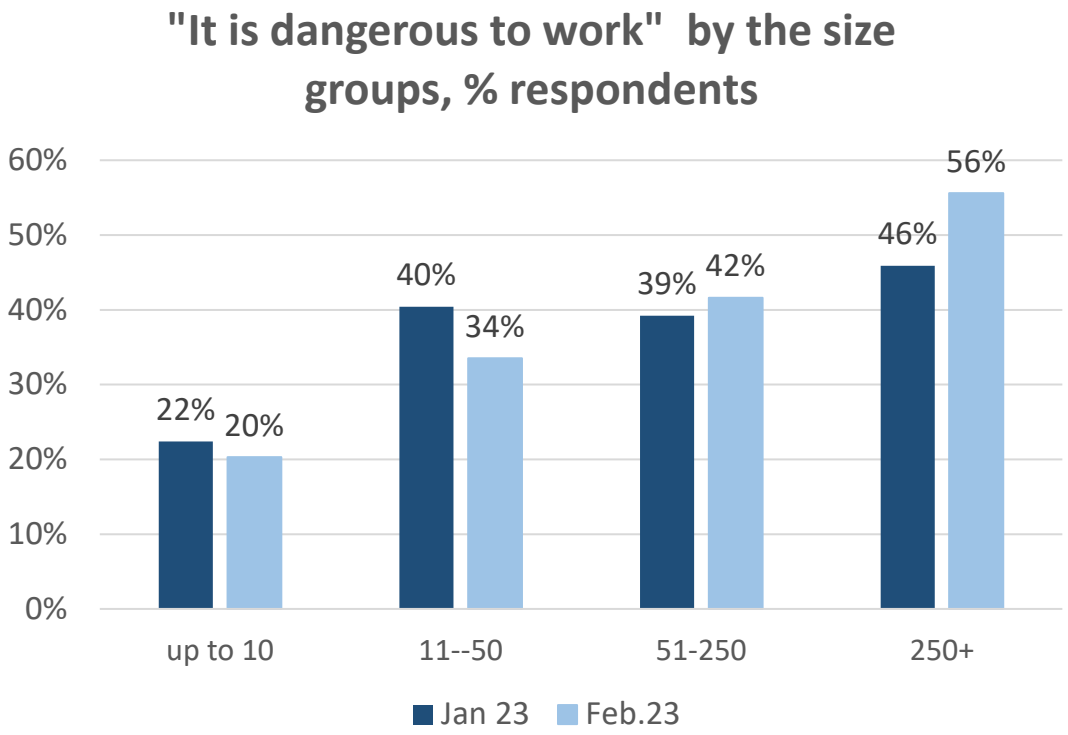
“It is dangerous to work”

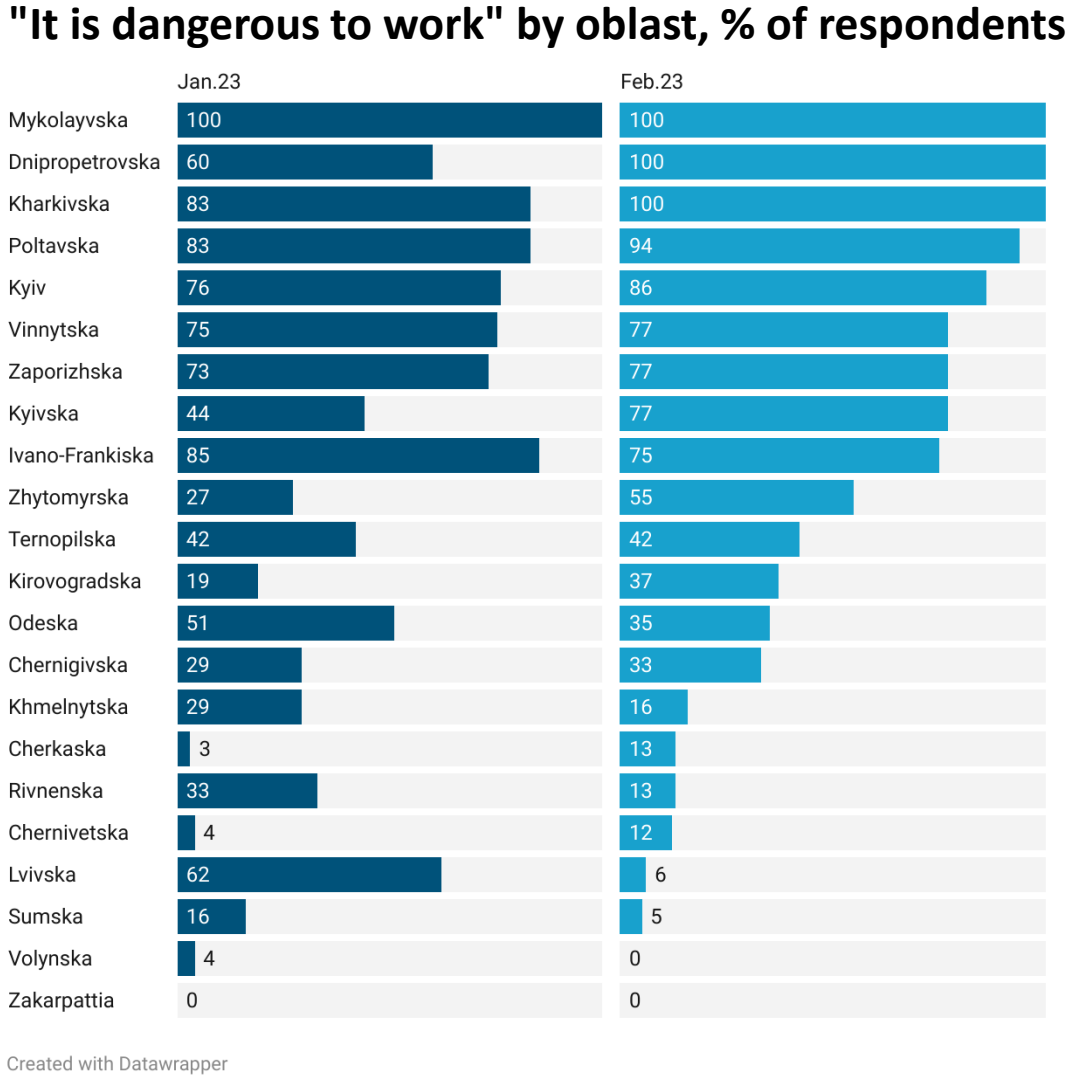
“It is dangerous to work“ lowered from the 3rd to the 4th position in the list of impediments

- In February 2023, the share of enterprises that reported that **it is dangerous to work remains** at the level of January.
- Despite this, “it is dangerous to work" **lowered from third to fourth place** in the list of impediments



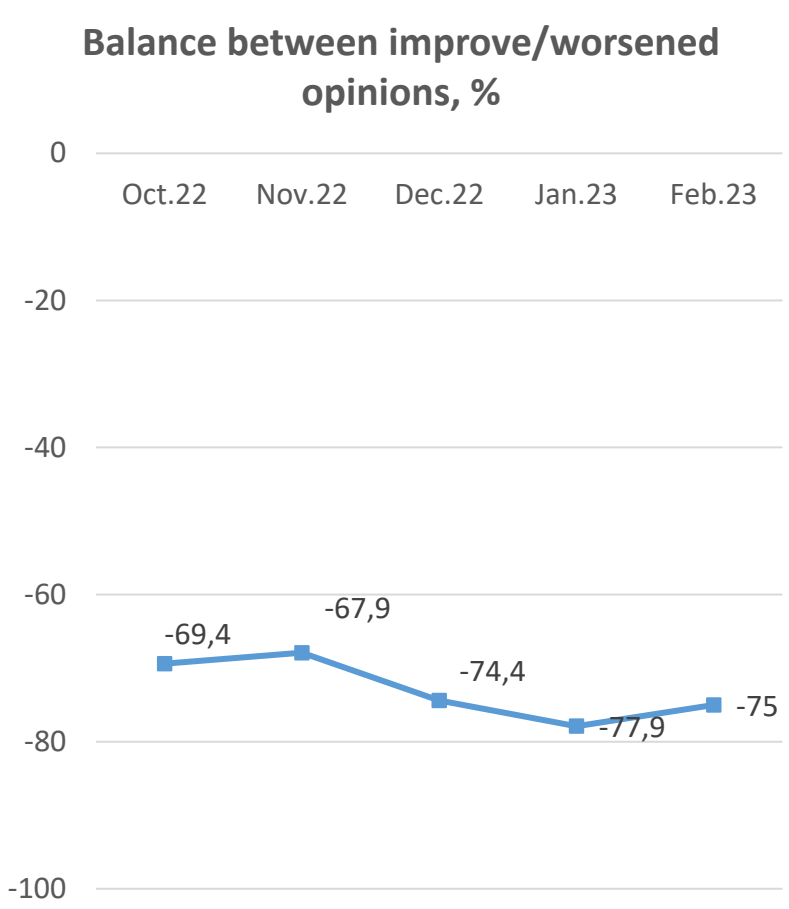
“It is dangerous to work” in different dimensions

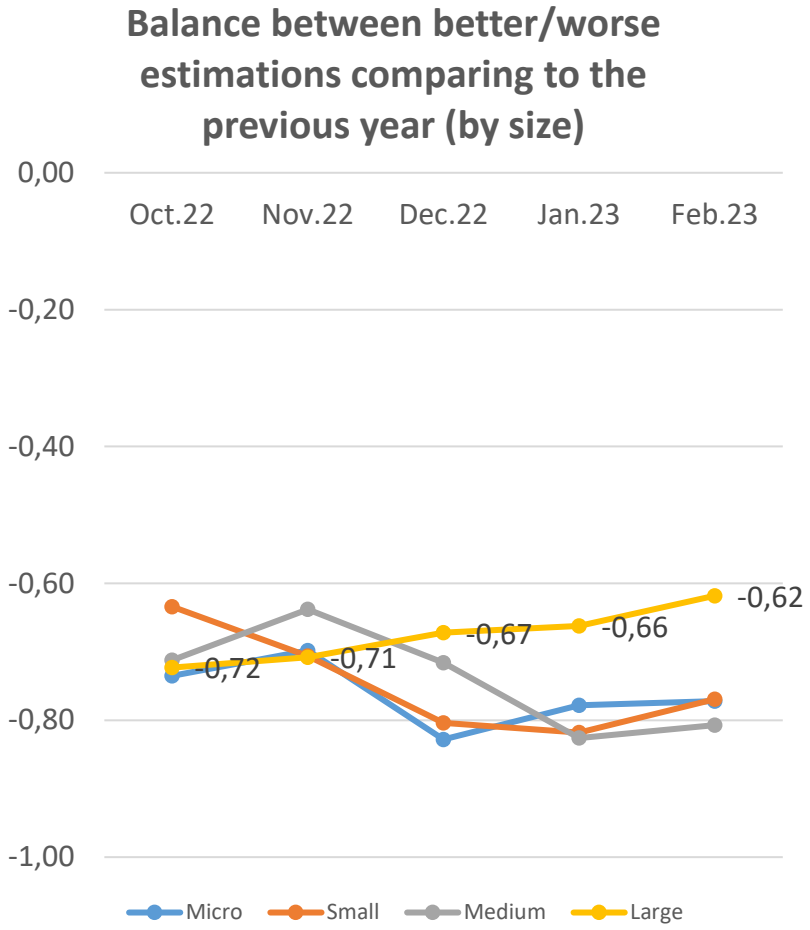




“February to February”: changes over the past year

The financial and economic situation at the enterprises compared to “what it was a year ago”





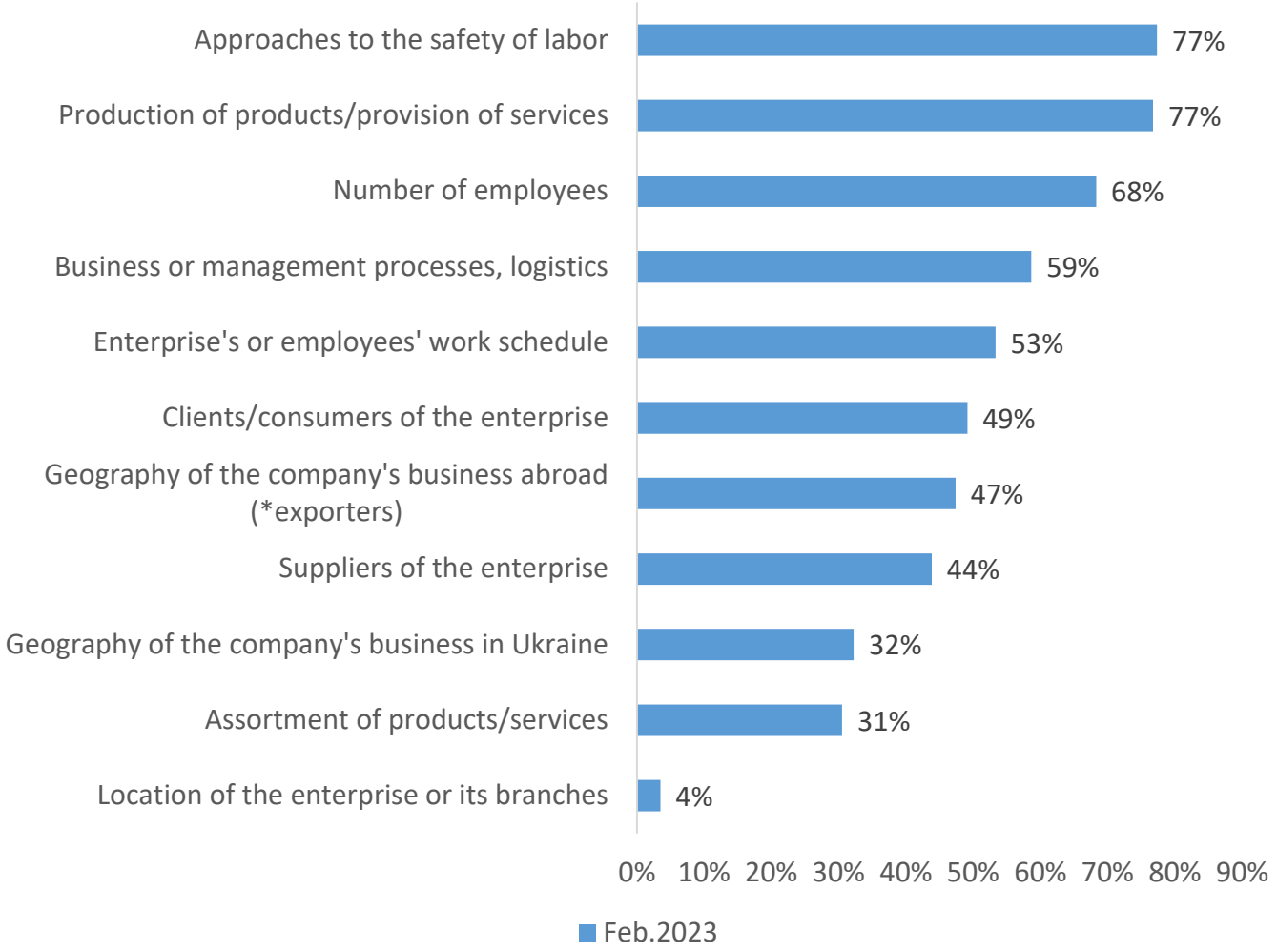
- The **financial and economic situation** of the enterprise compared to “**what it was a year ago**” is **deeply negative**
- The **large** company fill **better** than others
- **Medium** size enterprises are in the **worst** situation

Over the year, expenses increased while profits decreased

- Over the past year, **businesses have invested** heavily in their **uninterrupted operation** (generators, communications equipment) and **security** (relocation or employee safety expenditures). The balance indicators of these aspects are positive, reflecting the increase in these investments
- The balance for **other indictors (**the volumes of production and orders, the number of employees, and investments in development) **are negative** (% of decreased exceed % of increased)

As results, the financial situation at the enterprises is worsening, as **cost increase while profits decrease .**

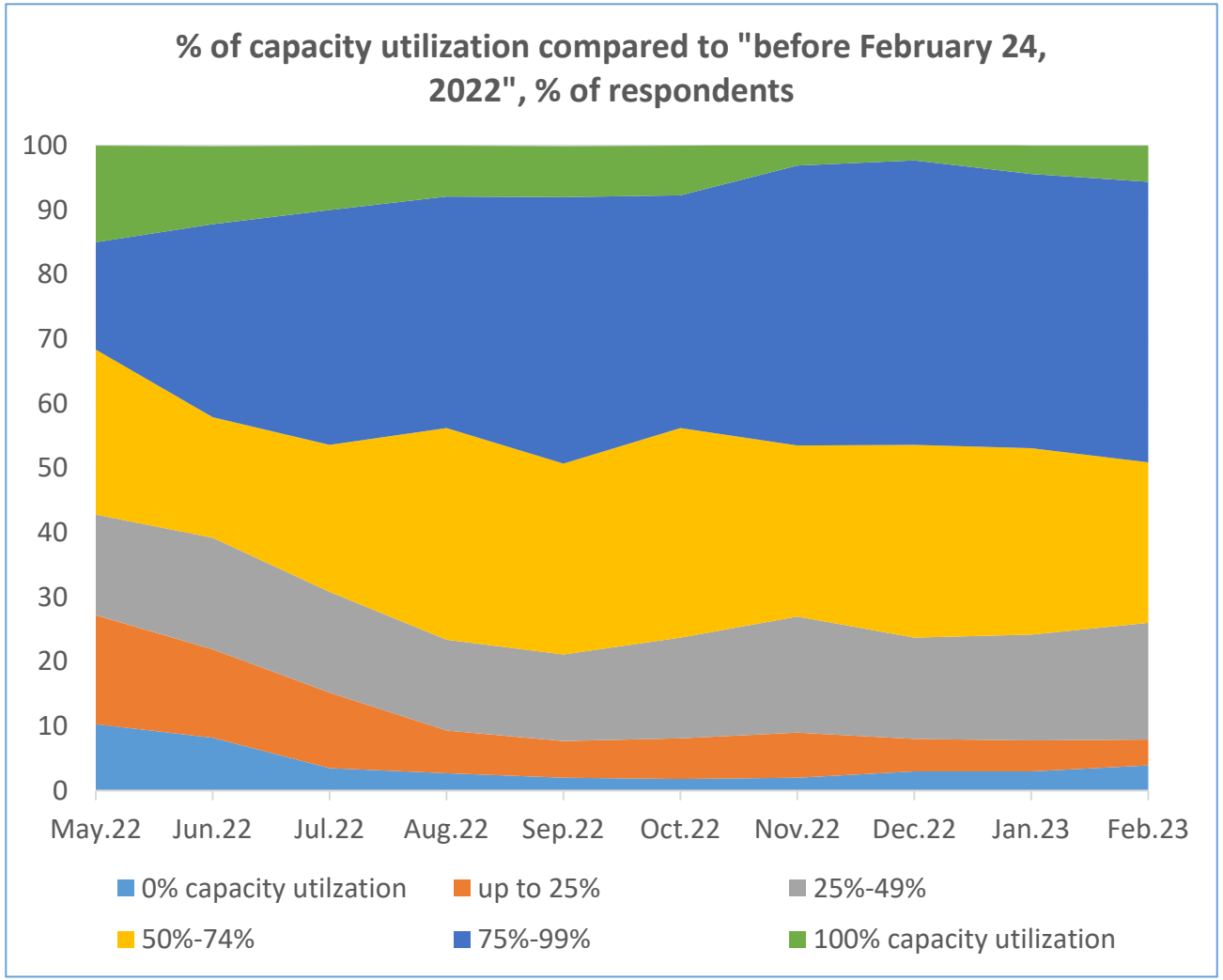
What has changed in enterprises over the last year



- Over the last year – from February 2022 to February 2023 – enterprises most often changed **approaches to labor organization** and **volumes of production or of service' provision**
- For **2/3** of the enterprises, **the number of employees** has **changed**
- Exporters often say that their **foreign markets** have **changed (47%)**
- Almost **half** of the enterprises respectively **changed customers** and/or **suppliers**

Tendencies and Expectations

Signal of recovery?



The capacity utilization remains at the almost same level for 4 months

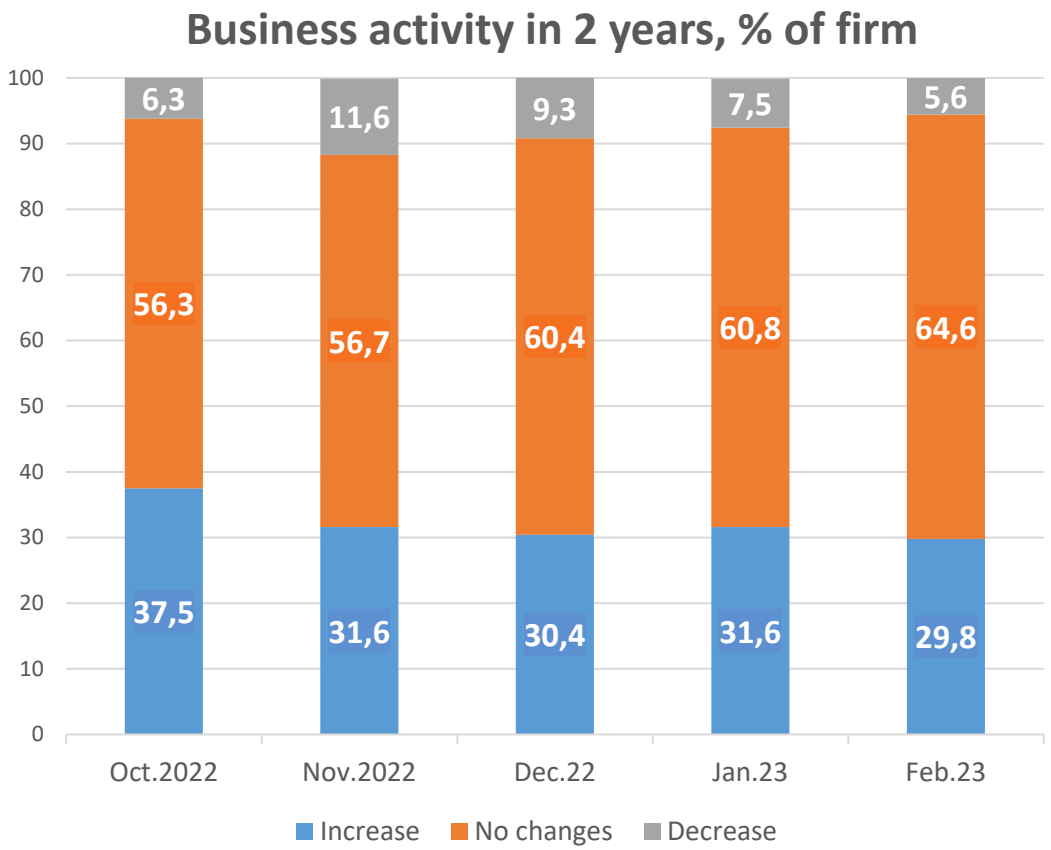
- **Only 4%** of surveyed enterprises **do not operate** (3% in January) and **only 4%** of enterprises operate **at less than 25% of capacity** (5% in January).
- The share of enterprises **operating almost at full capacity** (75%-99%) **remained** on the same level (44% in February vs 43% in January)

With only one exception:

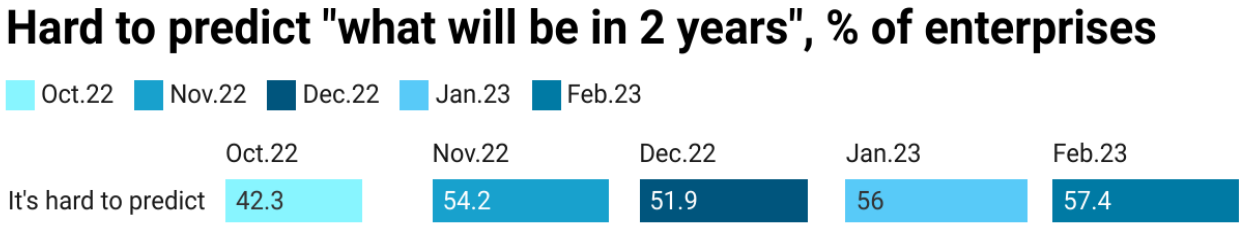
- **6%** of enterprises operating **at full capacity** (100% and more) vs 4% in January and 3% in December

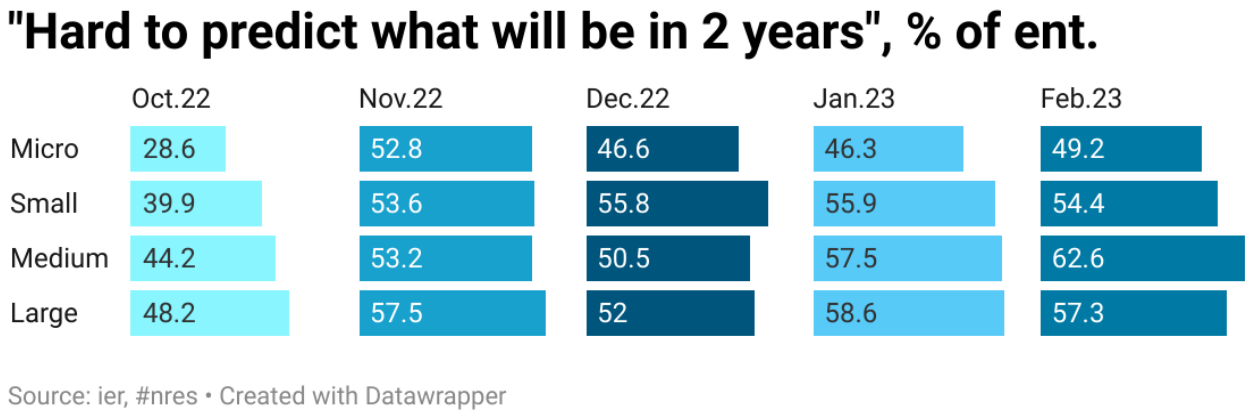
Expectations for two years: enterprise plans for expansion have no significant changes in the background of high uncertainty

Expectation for 2 years prospective



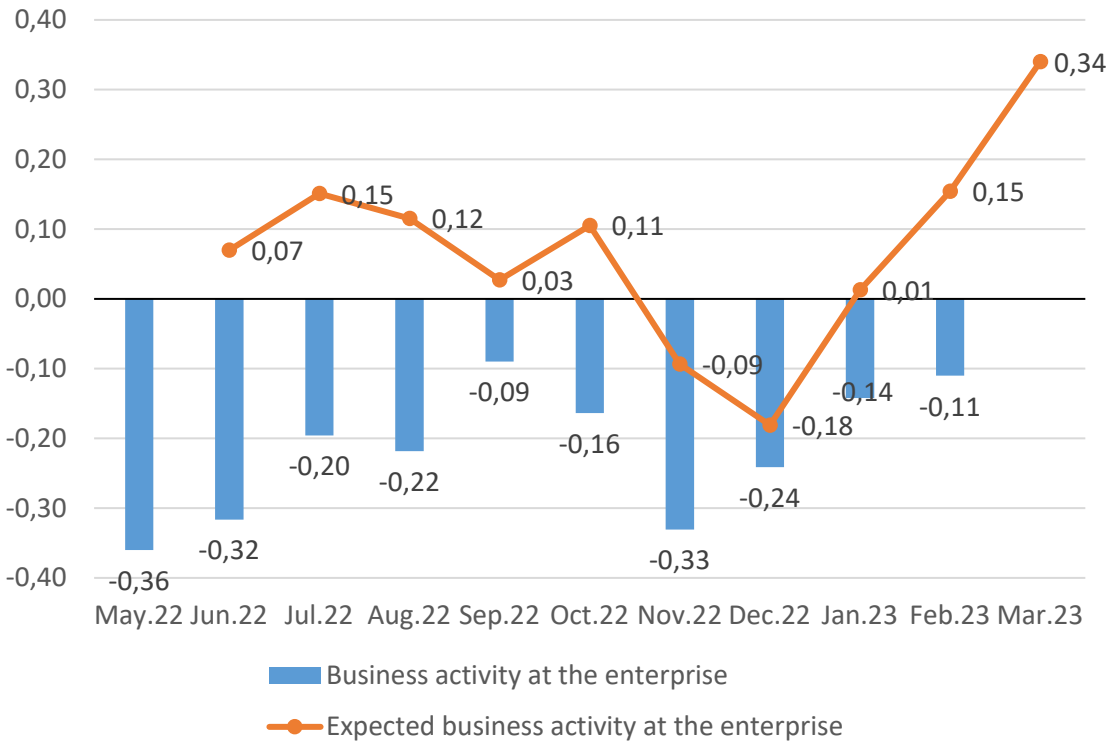
Uncertainty in 2 years prospective



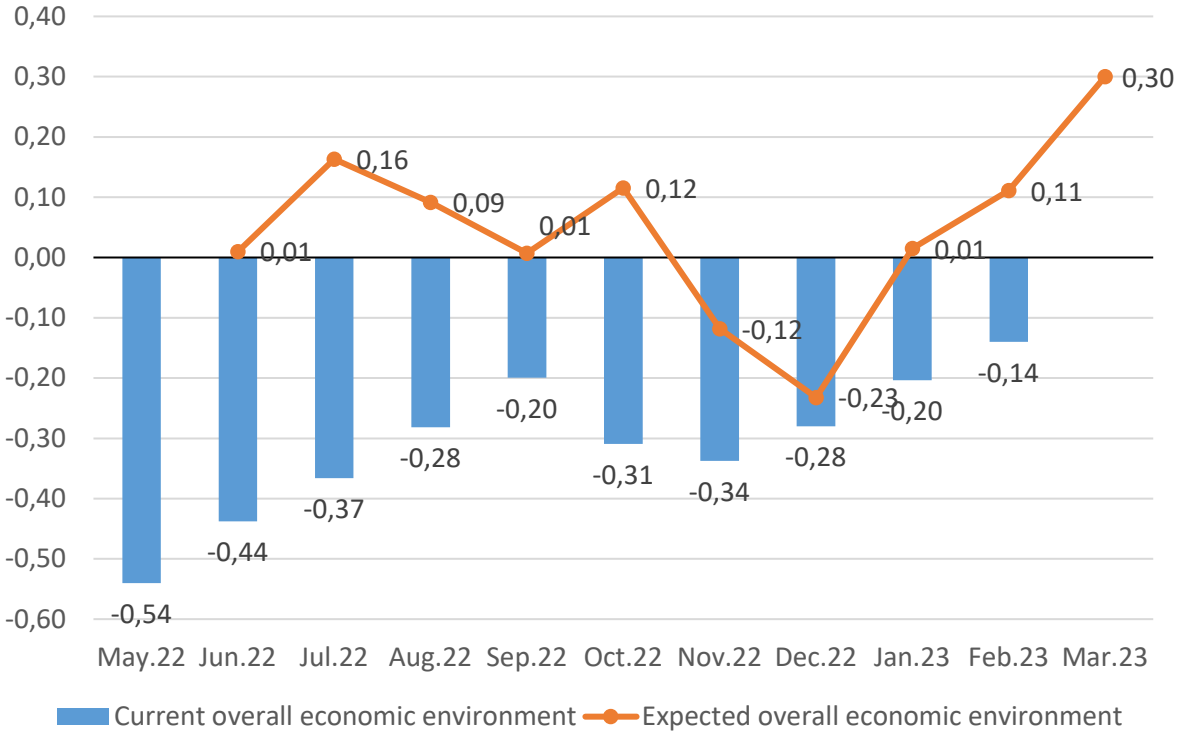


Half-year expectations: improvement for the 3 months in a row

Business activity at the enterprise

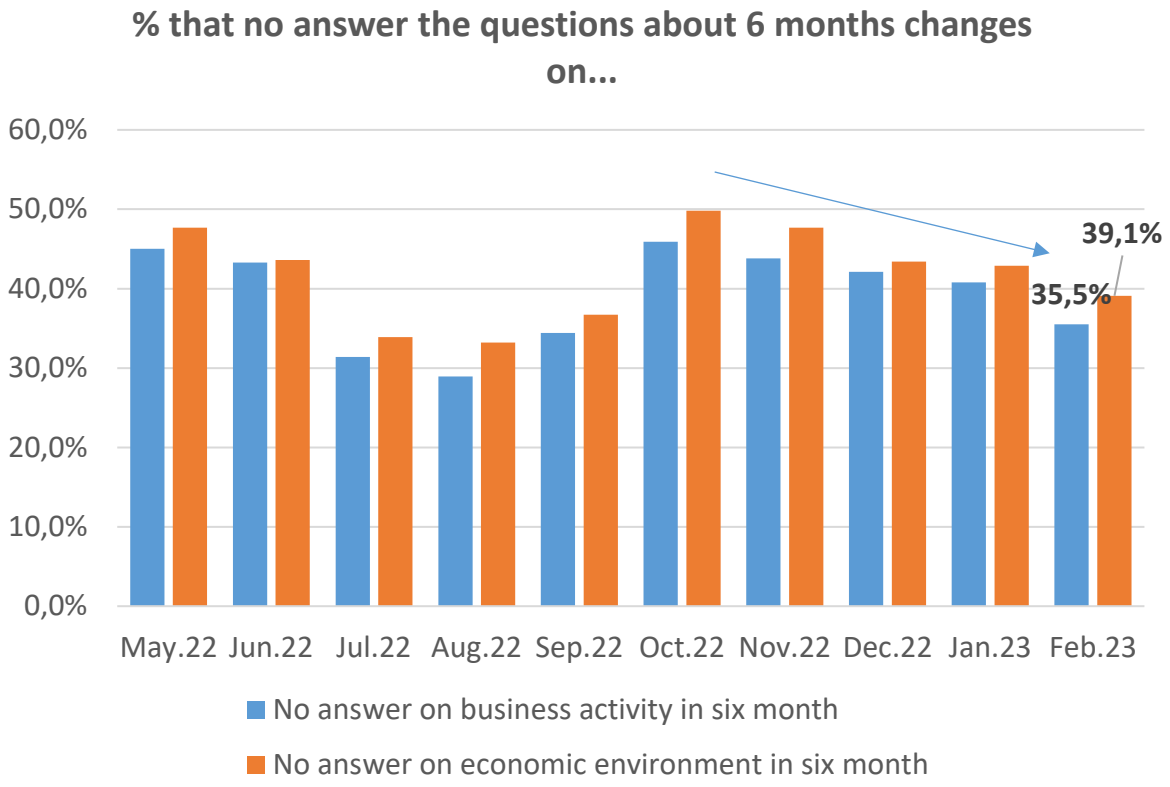


Overall economic situation in the country

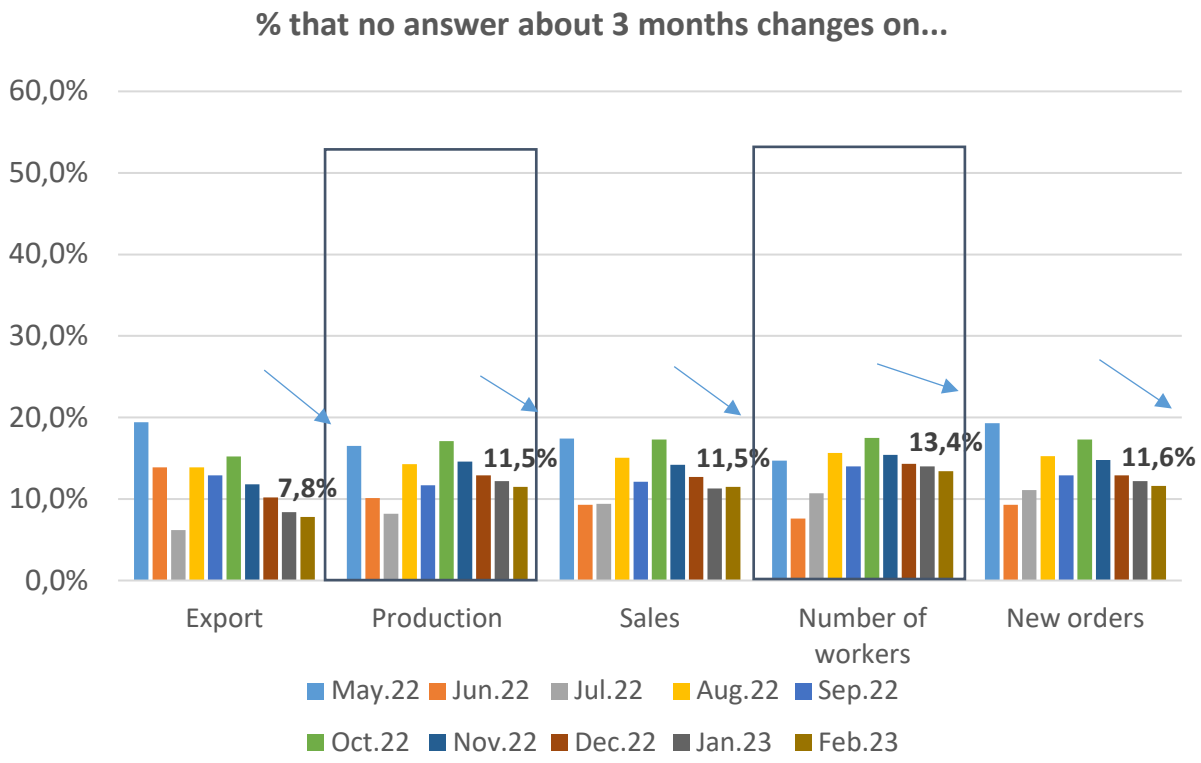


Uncertainty is gradually decreasing for the fourth month in a row

Half-year horizon

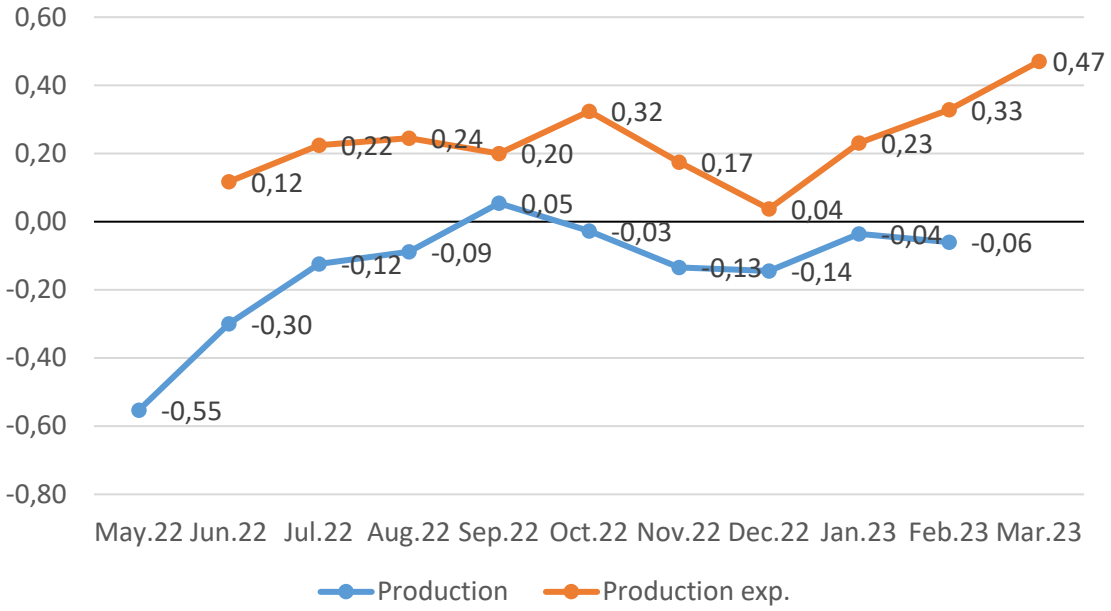


Three-month horizon

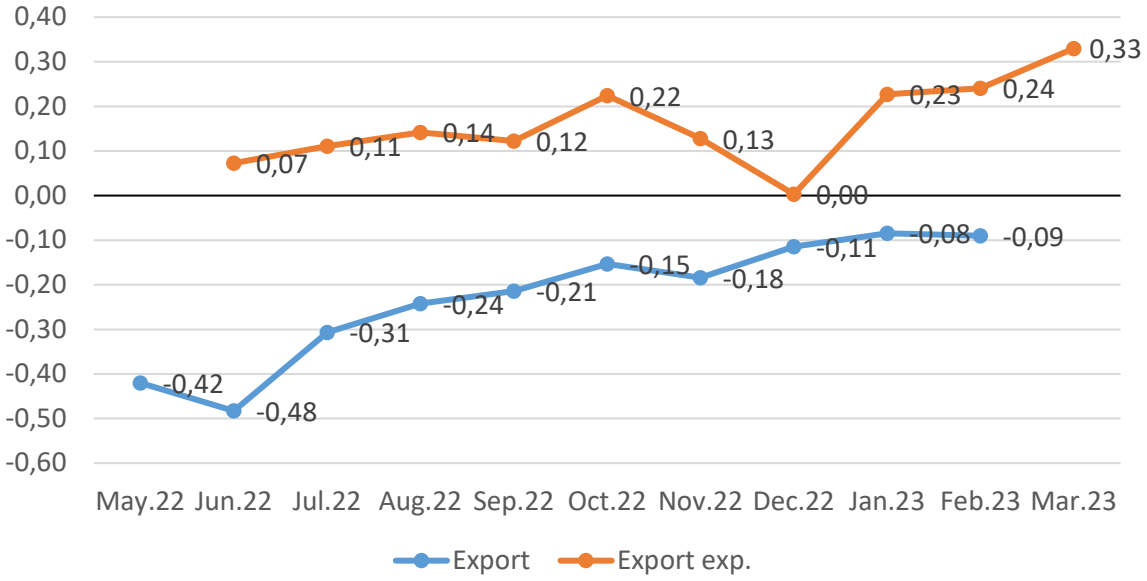


Expectations regarding production and exports have improved, current indicators are unchanged

Production



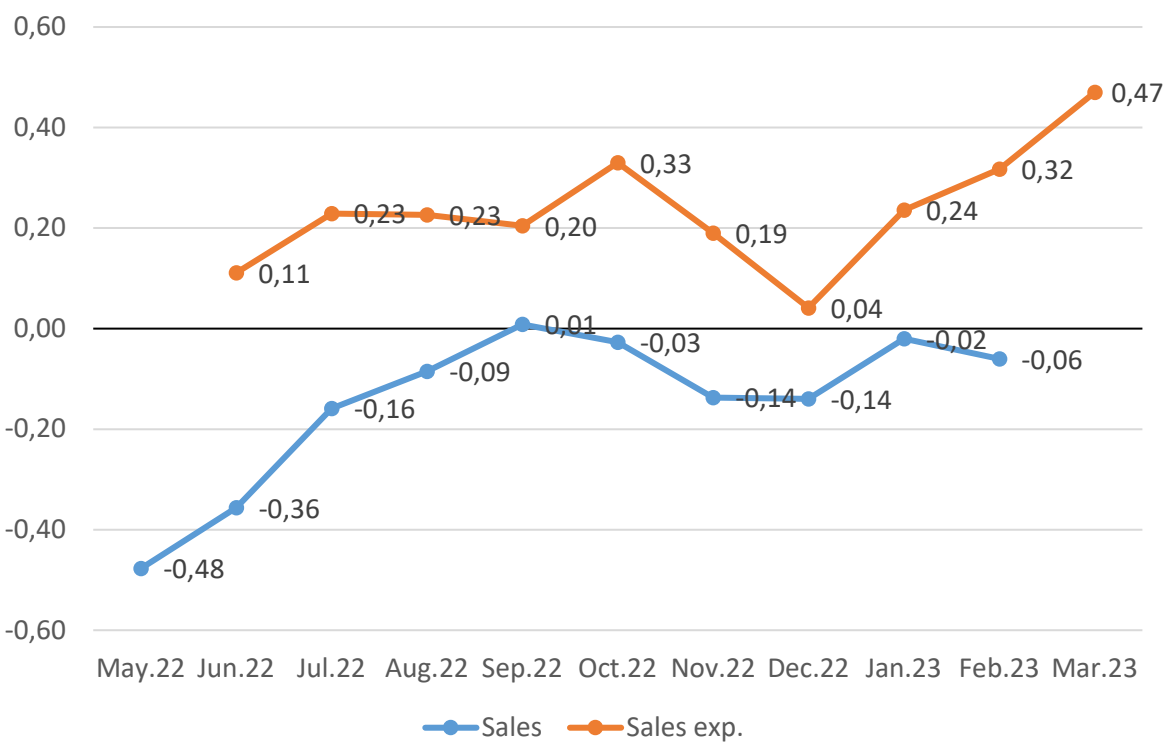
Export



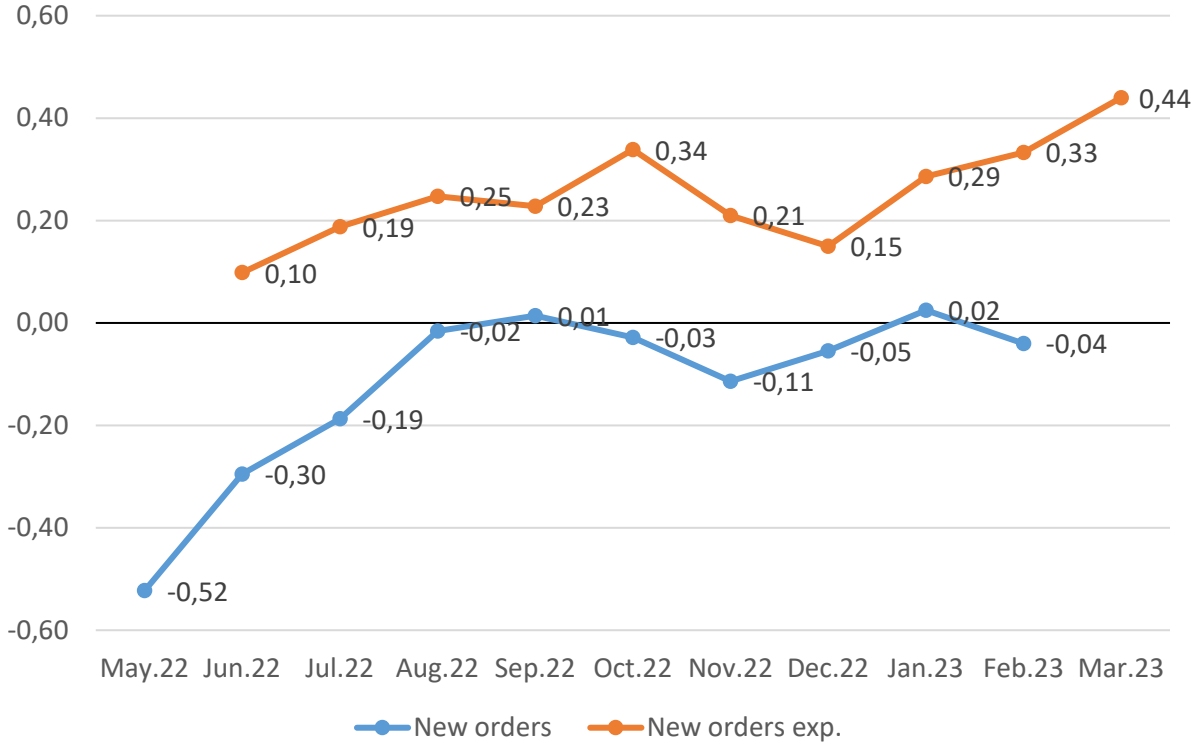
- In February, compared to January, the share of enterprises that **planned production growth** in the next 3-4 months **increased** from 39% to 49.1%
- The share of enterprises that **planned to reduce production decreased** from 8.9% in January to 5.0% in February
- From 51.7% to 45.9%, **decreased** the share of enterprises that plan to **maintain production volumes** in the coming months **at the previous level**

Sales and new orders: Current figures have slightly deteriorated, expectations are improving for the third month in a row

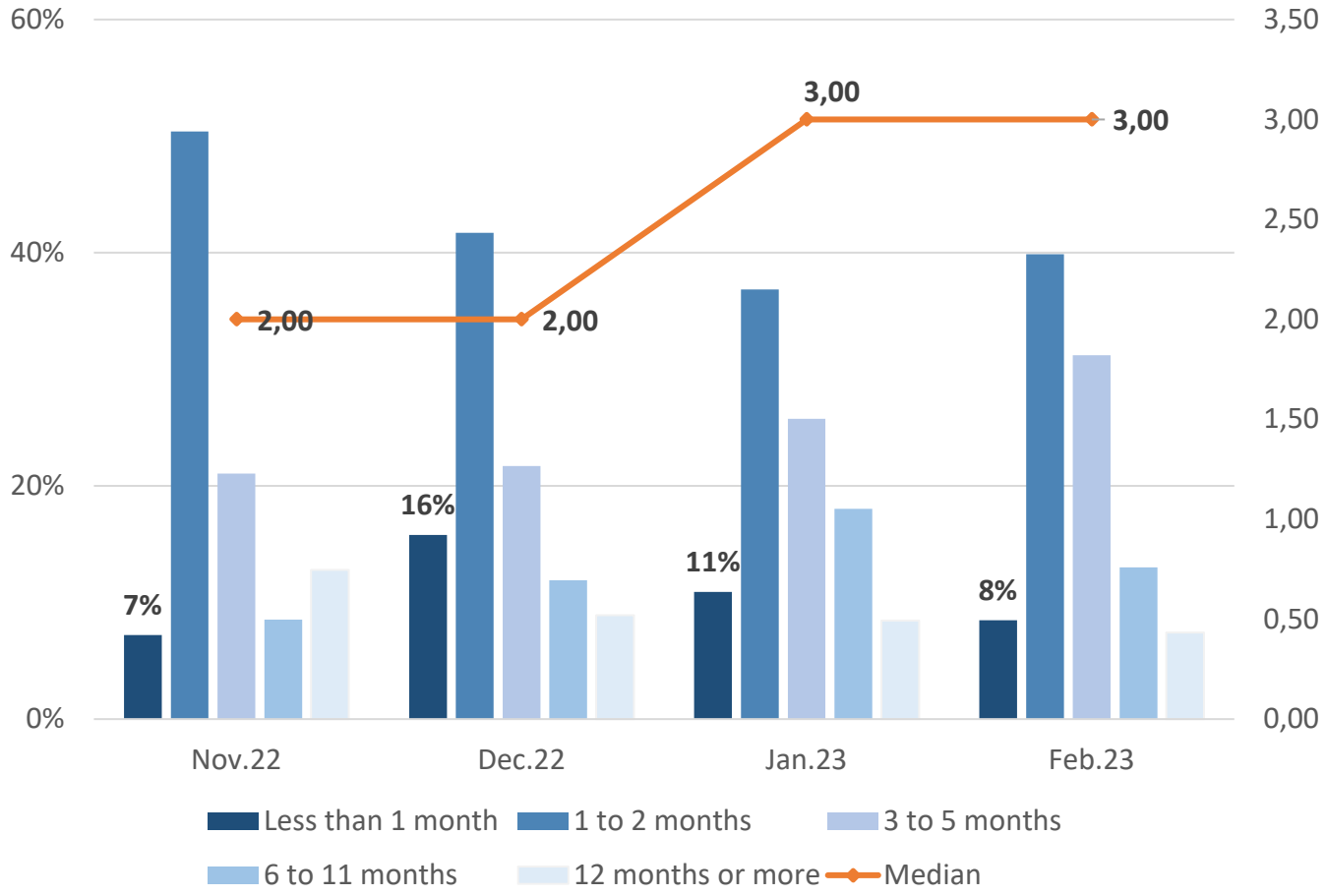
Sales



New orders



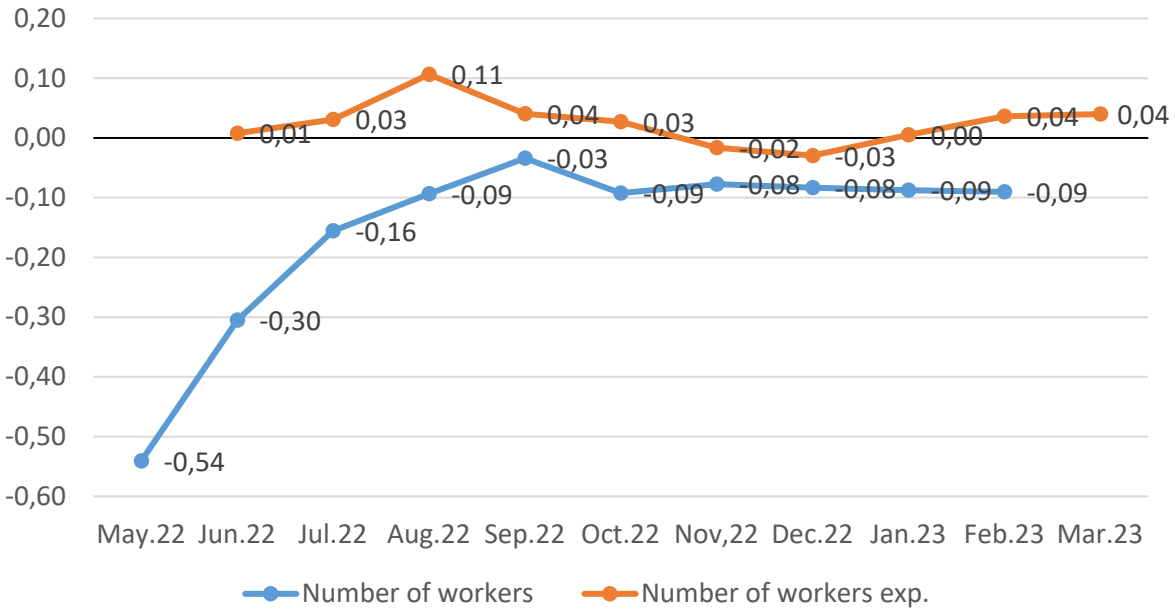
The term of having orders is longer than in 2022



- In February 2023, enterprises **had orders** for an average of **3 months** (median)
- This is **the same level as in January**, but **more than in November-December 2022**, when the average term was **2 months**
- The share of enterprises that have orders for the period of **up to one month decreased** from 16% in December 2022 to 8% in February 2023

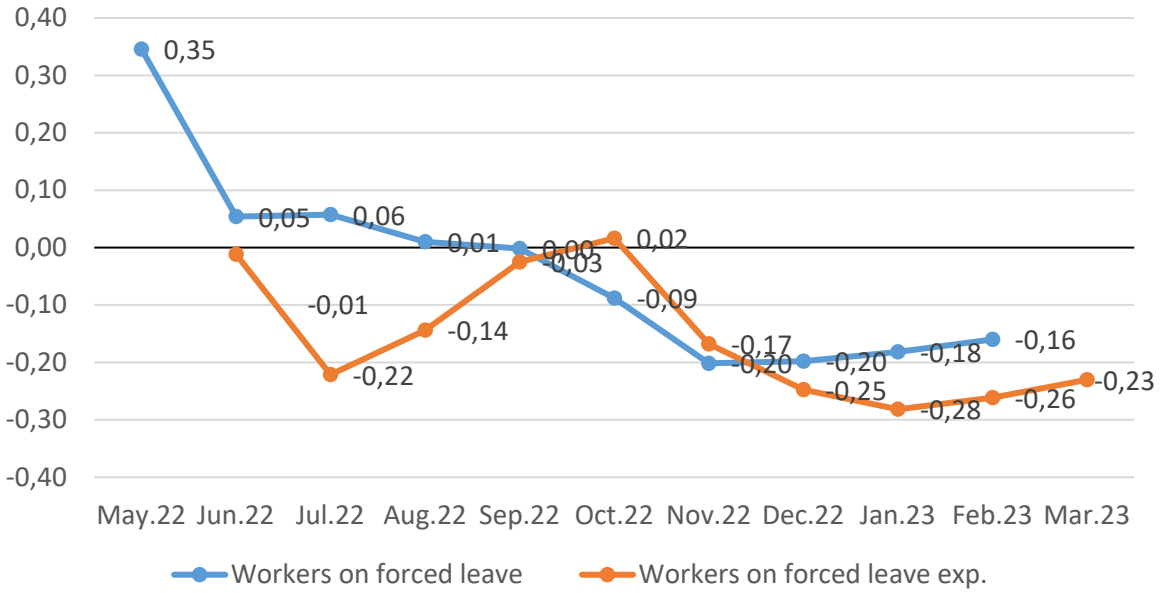
Employment expectation: without significant changes

Number of workers



- % of enterprises that **plan employment growth increased slightly** from 5.7% to 6.4%.
- % of enterprises **intending to reduce the number of employees increased slightly**, from 3.3% to 4.2%.
- % of enterprises at which **no changes in employment are expected decreased slightly**, from 91.0% to 89.4%

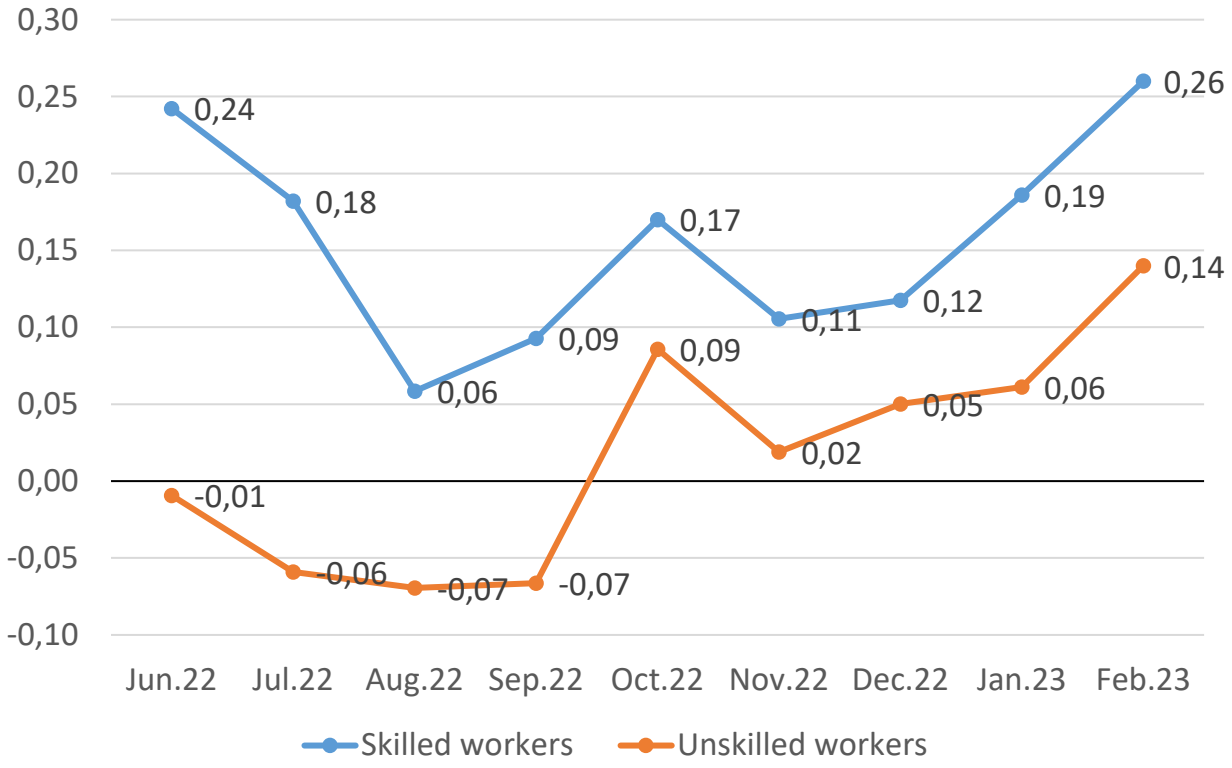
Number of workers on forced leave



- % of enterprises that **will increase the number of workers on forced leave is** 2.9% (**it was** 2.3%)
- The percentage of enterprises that **are going to lay off** workers on forced leave **decreased** from 28.3% to 26.4%.
- % of **unchanged slightly increased**, from 69.4% to 70.7%

Labor market: increased difficulties is signal of festering recover or…?

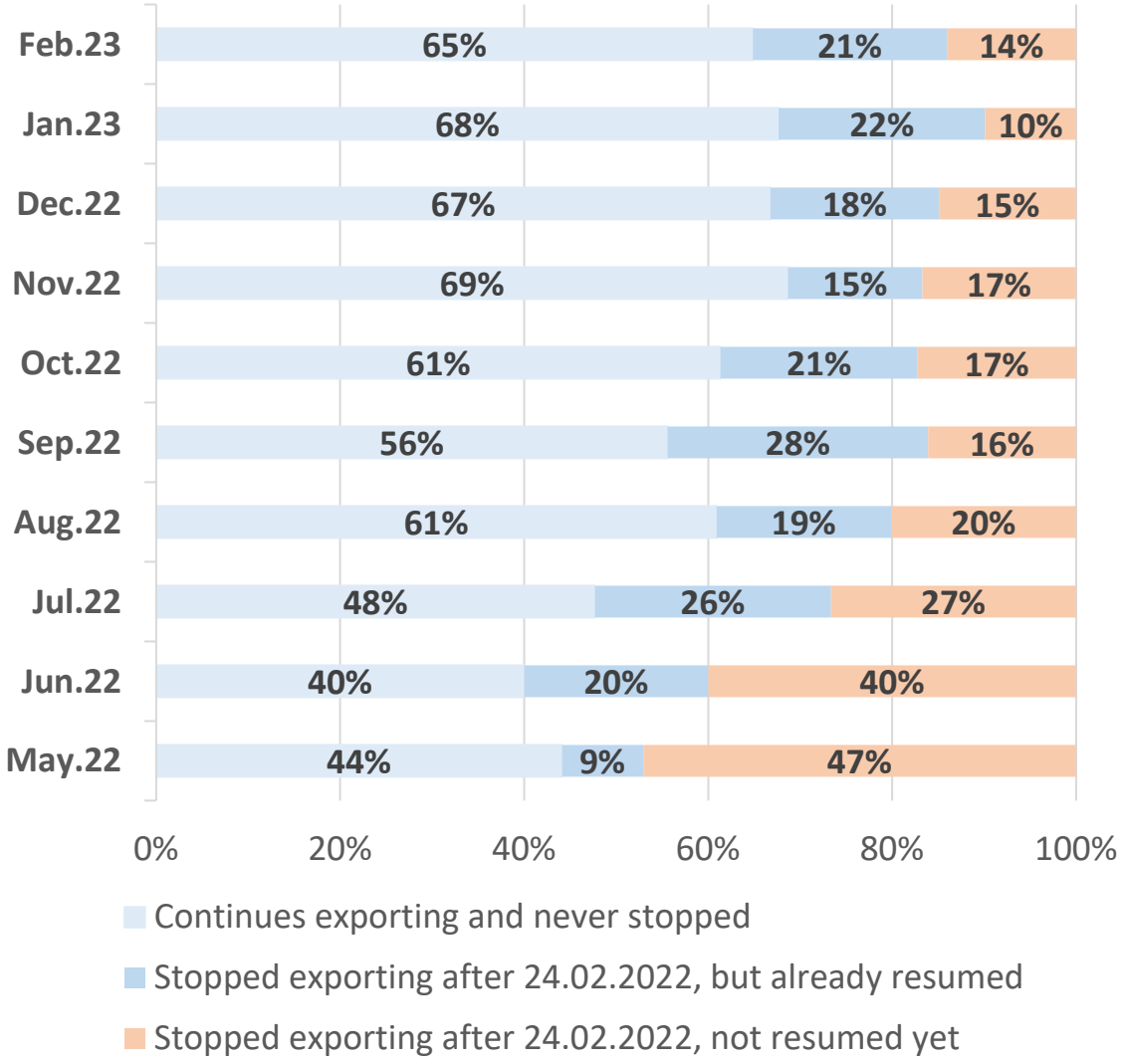
Problems in finding workers



Difficulties in finding both qualified and unqualified workers have increased.

- % of those who find it **more difficult** to find skilled workers **increased** from 20.9% to 27.0%,
- % of those who find it **easier** to find skilled workers is no change (2.2% vs 2% in January).
- % of those who find it **difficult to find** unskilled workers **increased** from 11.2% to 18.8%,
- % of those who find it **easier to find** unskilled workers increased from 5.9% to 6.8%.

Export: recovery of export activity has deteriorated again



60% of respondents were exporters as of the beginning of 2023

- The **recovery** of export activity **slowed down**: the % of enterprises that stopped exporting after 24 February 2022 and **could not resume** has increased to 14**%**
- **Microbusiness** still faces **more challenges** - 39% of enterprises have not yet resumed exporting; also, small businesses report deterioration
- % of enterprises that **want to start exporting** for the first time remains low - **only 2%** of respondents in February (also 1-2% in the previous months)

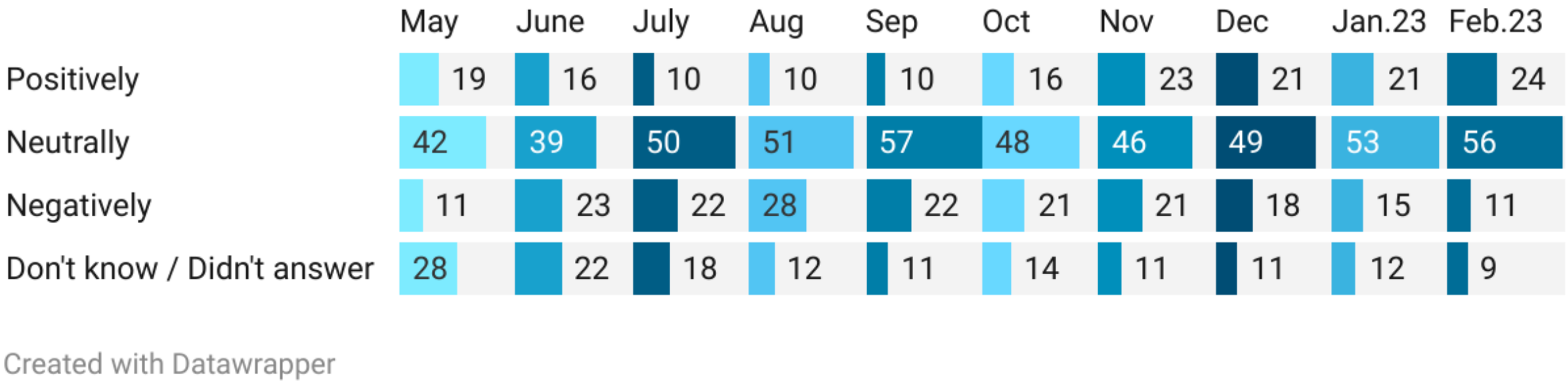
Have not resumed exporting (by size of enterprise), % of exporters

	Sep.22	Oct.22	Nov.22	Dec.22	Jan.23	Feb.23
Micro	50	46	32	47	47	39
Small	21	9	18	18	14	24
Medium	15	19	17	12	7	9
Large	9	15	12	10	5	8

Source: IER #NRES • Created with Datawrapper

Assessments of government's policy

Assessments of the government's economic policy have improved



- In February 2023, **positive assessments** of the government's policy on business support **increased, while negative assessments decreased**
- The frequency of **positive assessments** increased from 21% in January to 24% in February 2023, and the frequency of **the negative ones** decreased from 15% to 11%
- As before, business **mostly neutrally assesses** the government's policy on business support: 56% of respondents made such assessments

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.

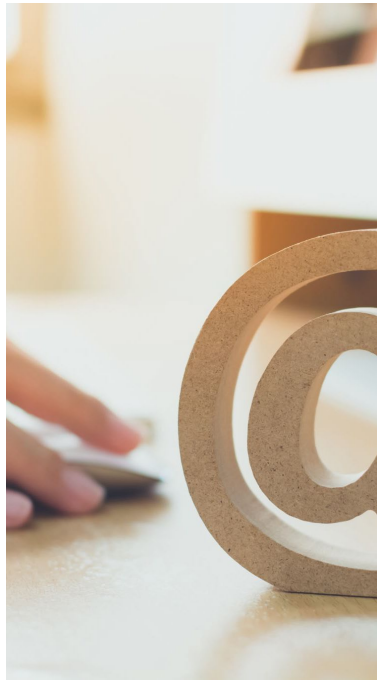
The monthly survey consists of two parts: the regular one and the special one. Respondents will regularly answer questions on the changes in key activity indicators and short-term forecasts for future changes in the same indicators: output (production), sales, exports, debt, new orders, employment, etc. 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 22 of 27 regions of Ukraine**, including Vinnytsya, Volyn, Dnipropetrovsk, Zhytomyr, Zakarpattya, Zaporizhzhia, Ivano-Frankivsk, Kyiv, Kirovohrad, Lviv, Mykolayv, Odesa, Poltava, Rivne, Sumy, Ternopil, Kharkiv, Khmelnytskyy, Cherkasy, Chernivtsi and Chernihiv regions and the Kyiv city.

The field stage of the tenth wave lasted from February 13 to February 28, 2023. The enterprise managers compared the work results in February 2023 with January 2023, assessed the indicators at the time of the survey (February 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).

Contacts



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