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INTERNATIONAL RENAISSANCE FOUNDATION

ATLAS NETWORK

INSTITUTE FOR ECONOMIC RESEARCH AND POLICY CONSULTING

Main economic trends in January 2023

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

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Kyiv, February, 10 2023

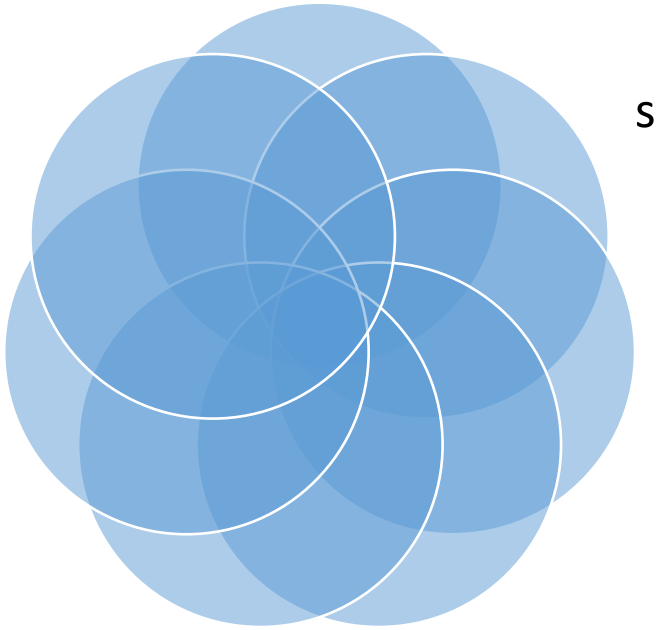
ABOUT THE NEW MONTHLY SURVEY

Monthly survey

The recent data were collected

On **January 16 – 31, 2023**

Sample: **573 enterprises** were surveyed in **January**



9 surveys have already been conducted (since May 2022)

Enterprises of all sizes

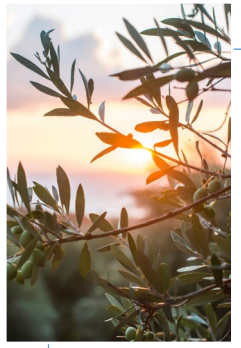
Sectors: **Industry +** (Retail, Agro)

Geography: **22 out of 27 r**egions of Ukraine

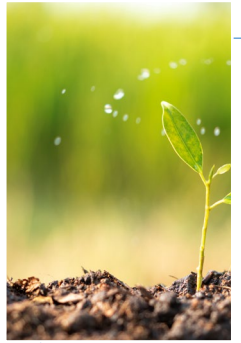
Main result 1

Business plans for **the next two years** remain **optimistic**, while **uncertainty** in the long term **has increased**.

Main results 2



Current situation assessments (country, firms) are i**mproving** for the second month in a row



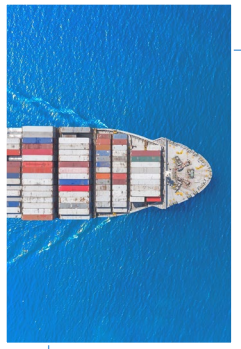
3 months' expectations (production, sale, demand) have **improved**

The **level of uncertainty** in the **6- and 3-month** perspectives continues to **decrease**

6 months' expectations have **improved** two months in a row

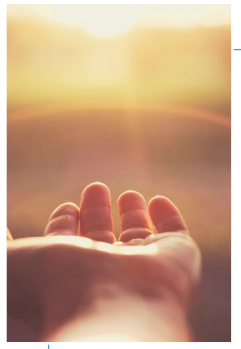
Main results 3

Interruptions in electricity, water, and heat supply remain the number one problem, with a slight decrease in percentages



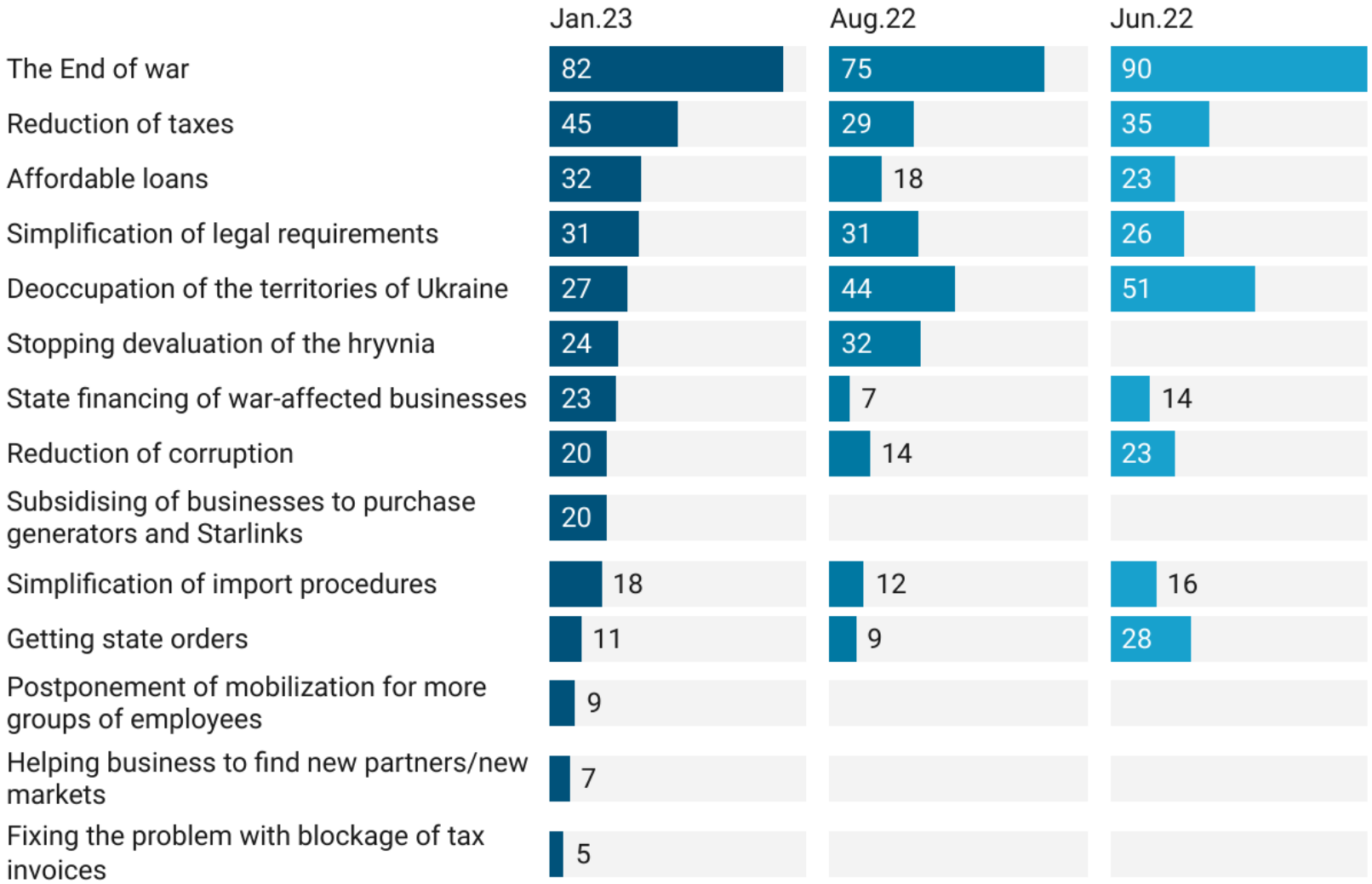
The **recovery of export activity** slightly **improved** after 4-months of stagnation,

Many **exporters still are not** able to reorient from the CIS markets and find new partners



Assessments of **state economic policy** have become less negative and more neutral

What business expect, % enterprises



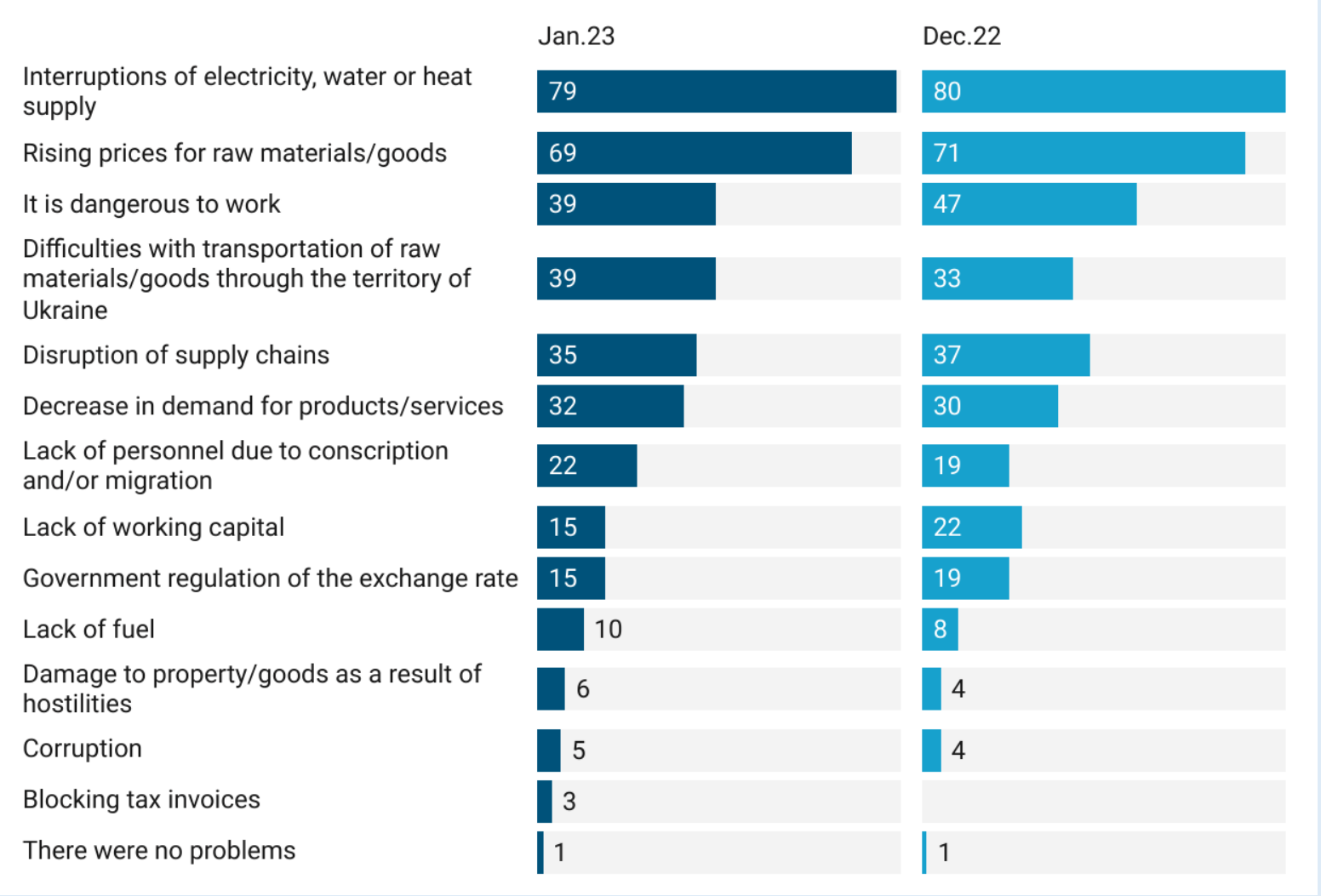
Source: IER #nres • Created with Datawrapper

No war is the main expectation of businesses

- In January, **the end of war** remained the main expectation of businesses: 82% of the respondents expect it
- **Reduction of taxes and excises** is an important step, which is expected by 45% of respondents
- About 1/3 consider it necessary to provide **affordable loans** for businesses and **simplify legal requirements** for doing business

The main obstacles to doing business in wartime

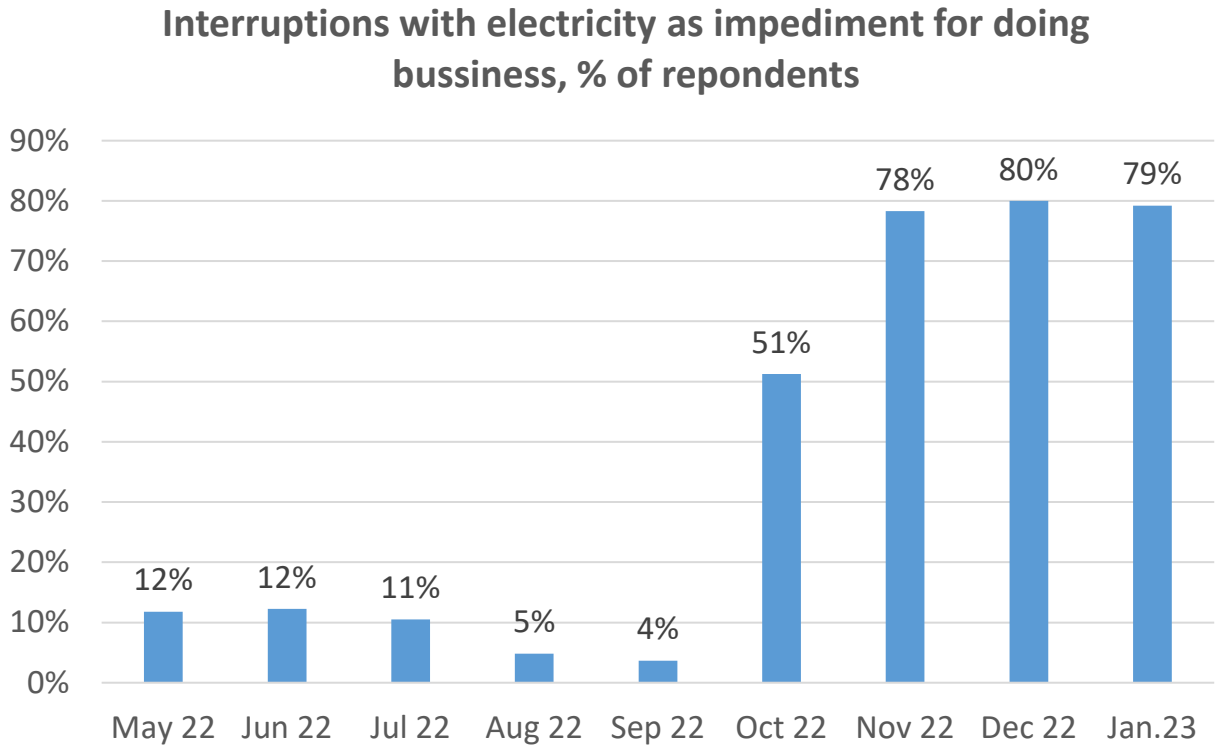
- The problem of **interruptions with electricity,** water or **heat supply** has been at the top of the list of obstacles for business for three months in a row
- **Rising prices** for raw materials and materials remain an acute problem
- A little more than 1/3 of the respondents say that **it is dangerous to work**. This is less than in November and December 2022
- **Labor shortage** is slowly increasing in January 2023, it was a problem for 22% of enterprises
- Corruption and the blocking of tax invoices are rarely reported



Electricity power cut

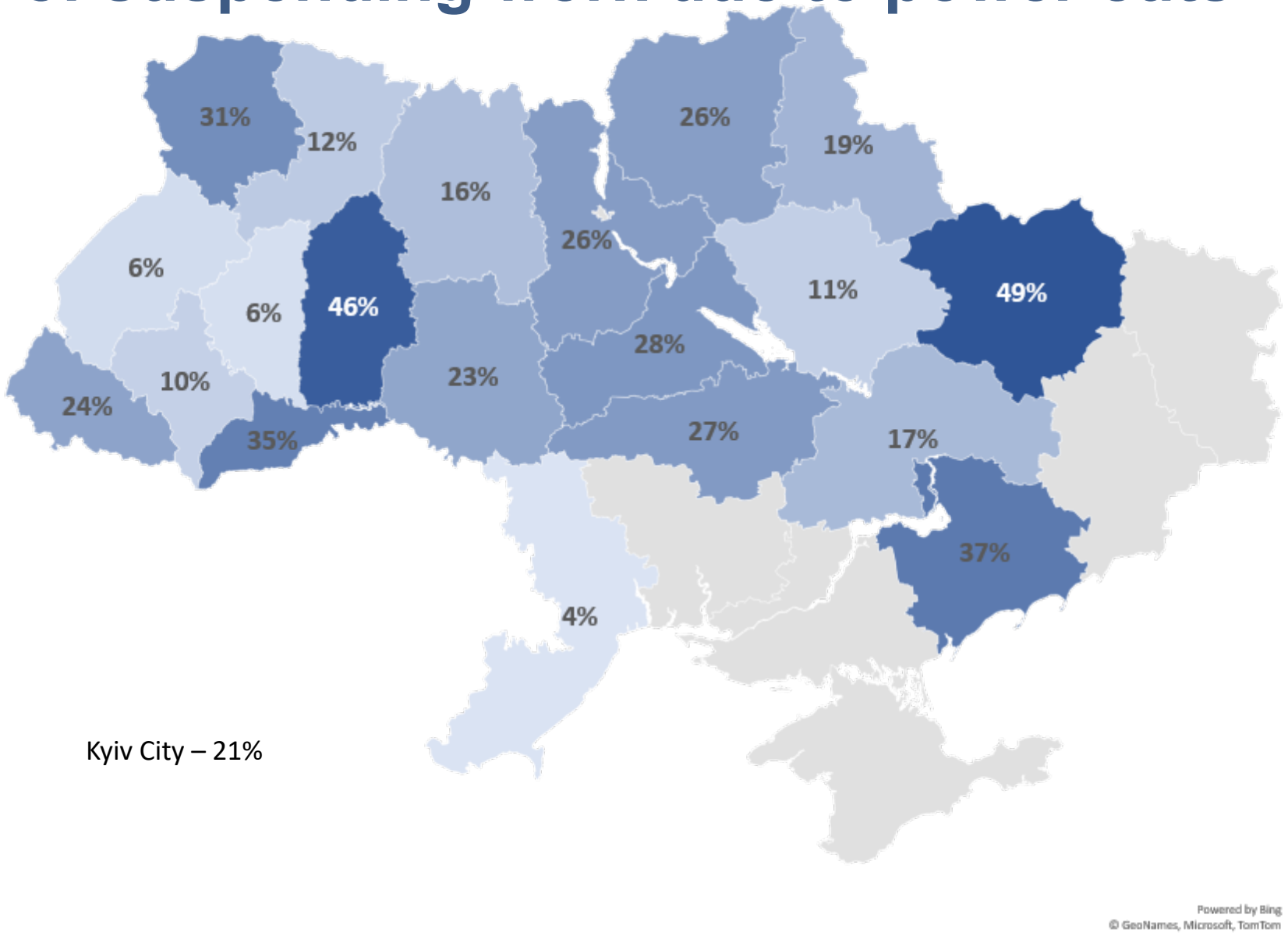
Interruptions with electricity are in top the list of obstacles for the third month in a row

- In January 2023, interruptions with electricity topped the list of obstacles to doing business for the third month in a row
- The % of respondents who reported power outages as an obstacle to doing business decreased slightly from 80% in December 2022 to 79% in November 2022



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

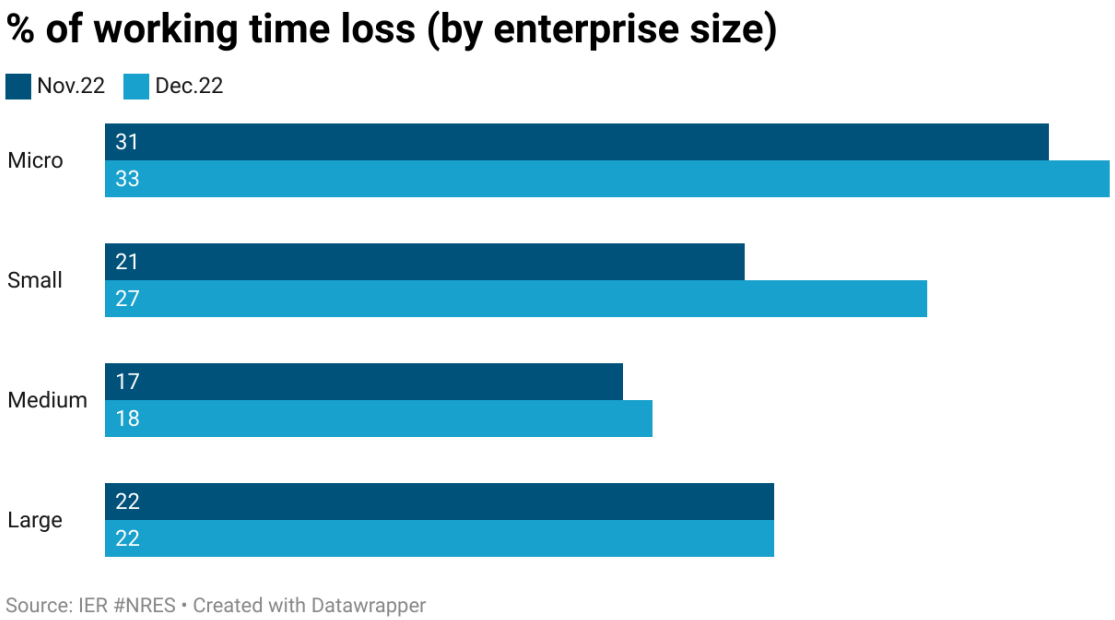
- The enterprises lost 23 **% of total working time in a month** was by due to power cuts (21% in the previous month)
- There are differences between industries, enterprises of different size, and regions

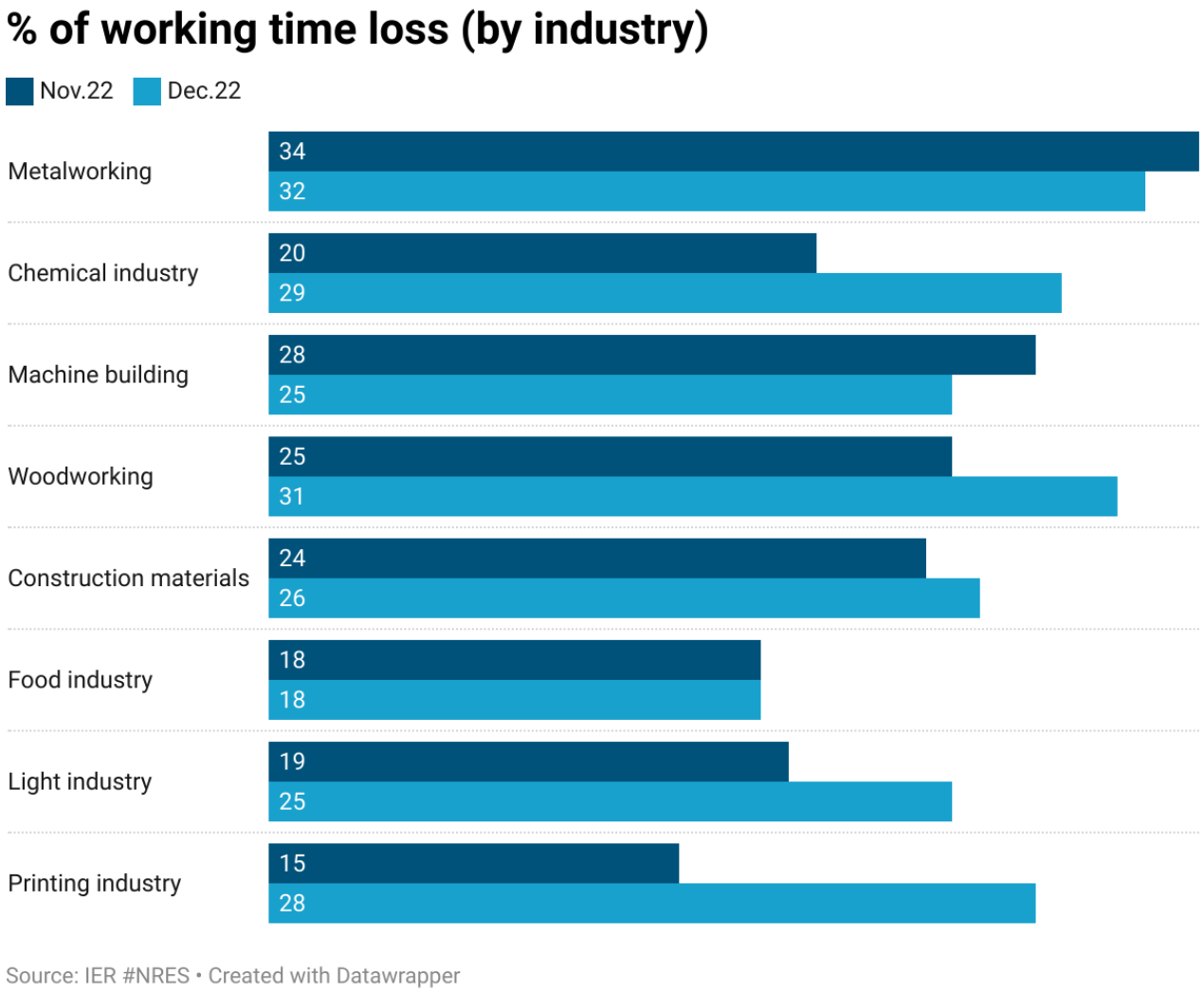


Kyiv City – 21%

An average time of suspending work due to power cuts

- Power cuts hit the **largest energy consuming industries** (metalworking, chemical industry, machine building)
- **Micro** enterprises suffer **the highest loss**



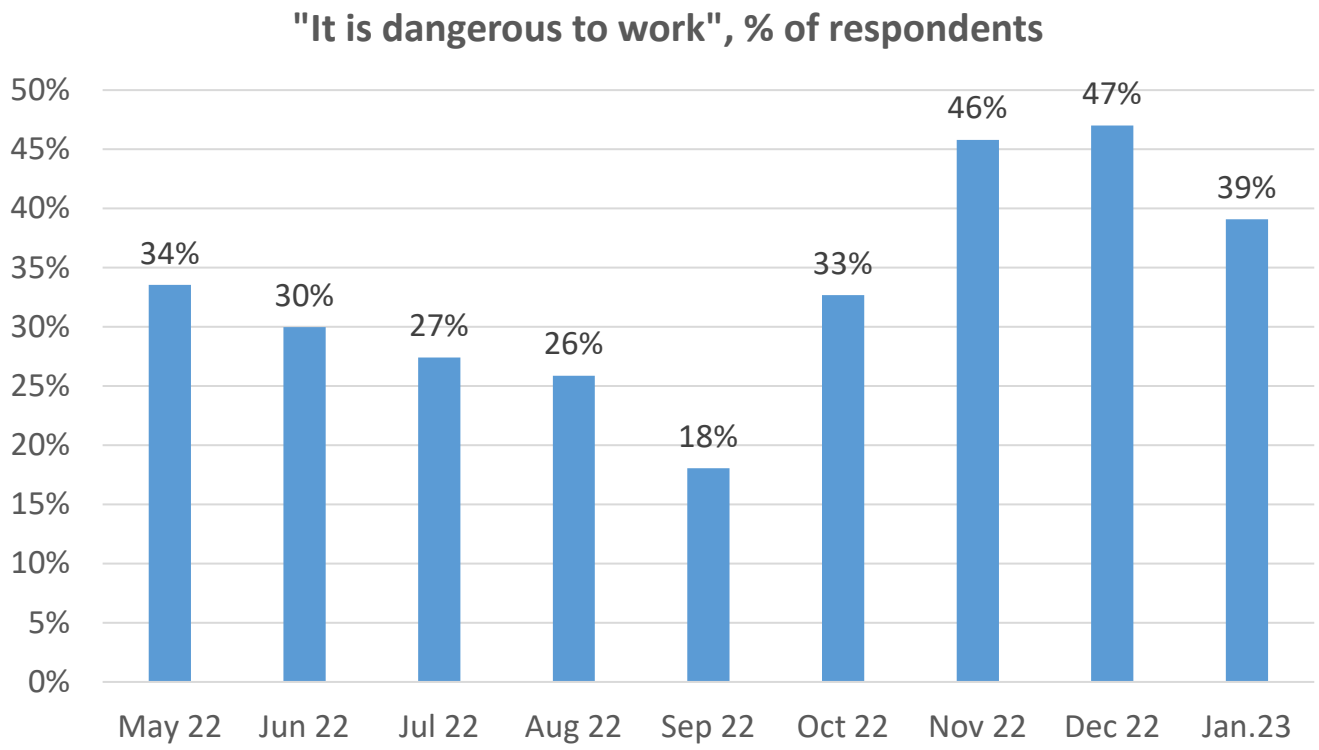


Dangerous of work

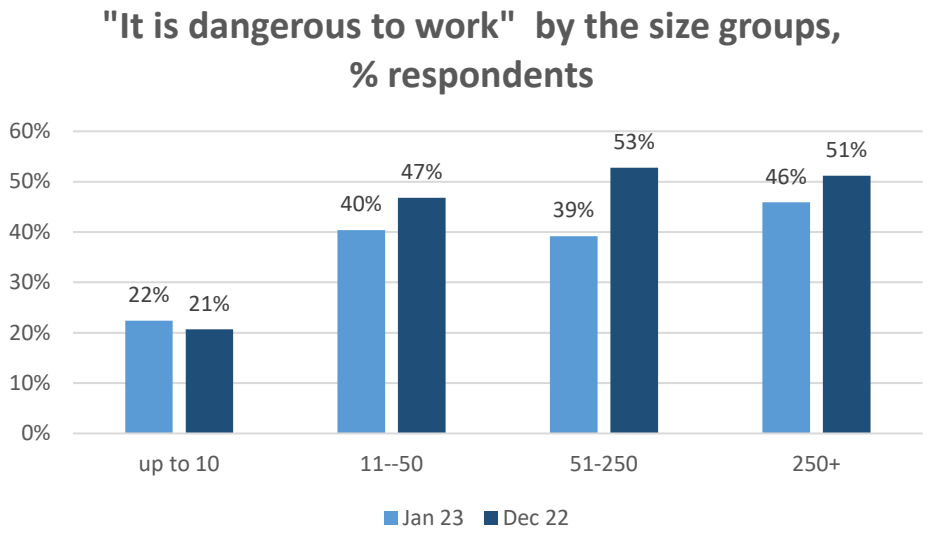
New Monthly Enterprises Survey #9, (01/2023)

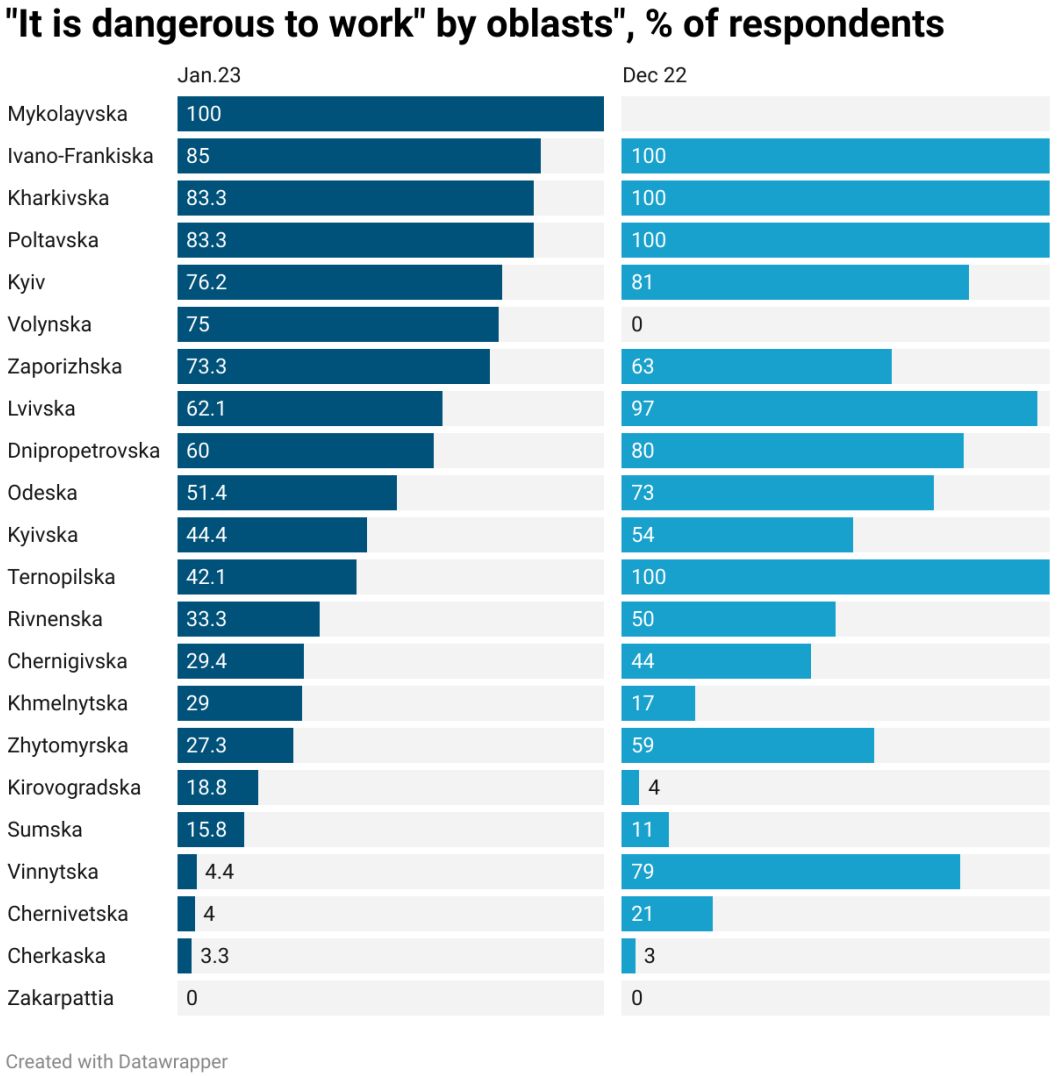
“It is dangerous to work" remains in the 3rd place of obstacles, however, a significant decrease of its importance was recorded

- In January 2023, the share of enterprises reported that it is dangerous to work has significantly decreased compared to December (from 47% till 39%)



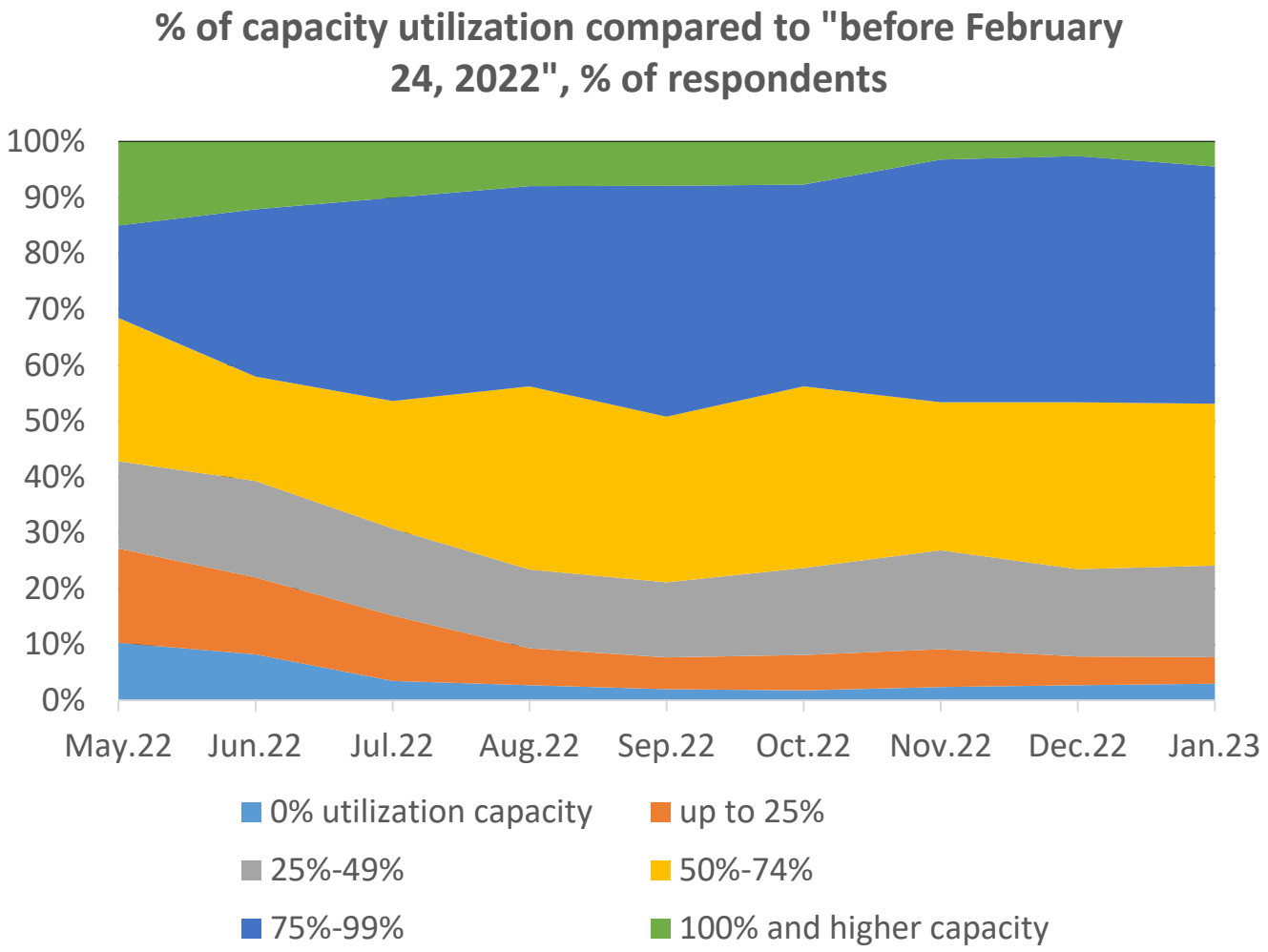
“It is dangerous to work” in different dimensions





Tendencies and Expectations

Business remains resilient, but recovery of production is not active



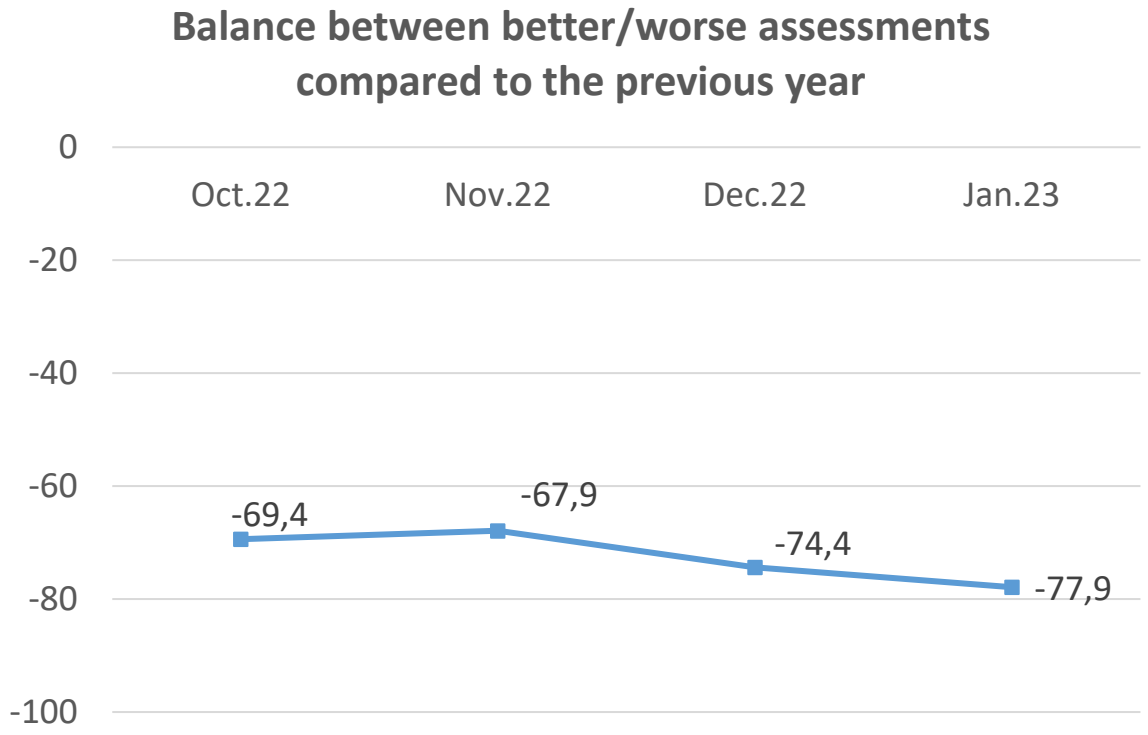
Positive:

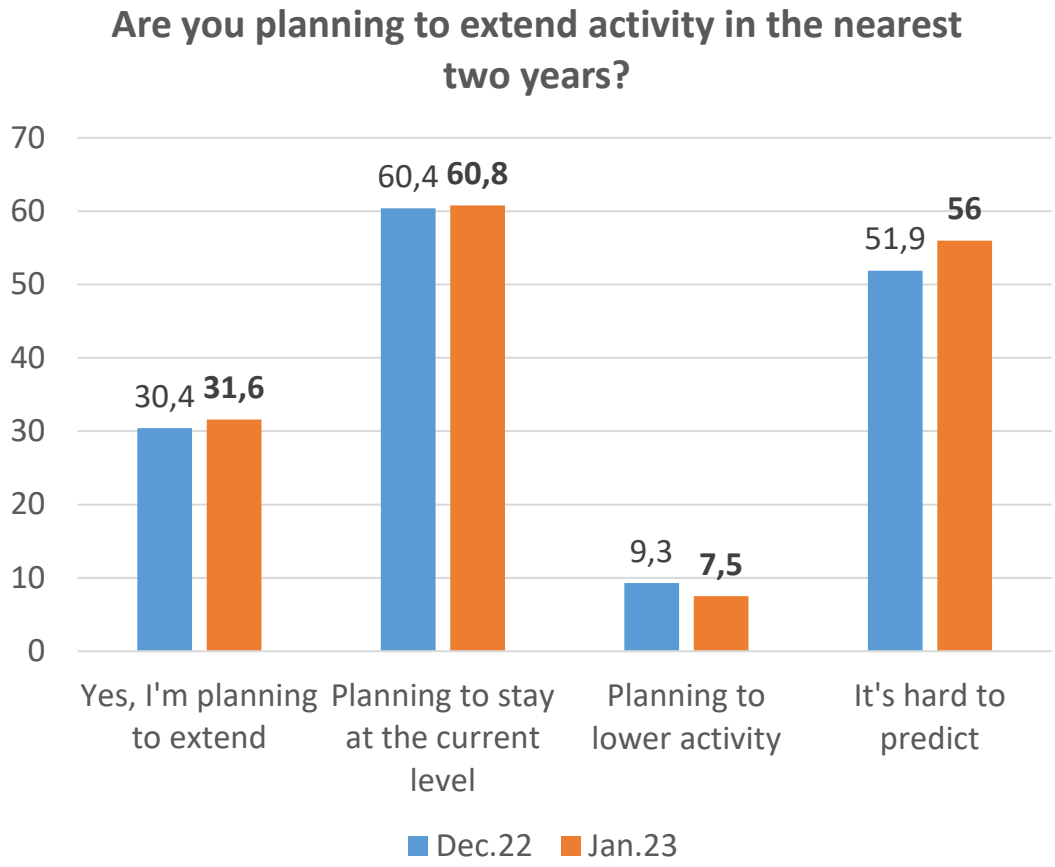
- In January, **businesses remained resilient** to the Russian terrorist attacks, but recovery of production was not active
- **Only 3%** of surveyed enterprises **do not operate** (3% in December) and **only 5%** of enterprises operate **at less than 25% of capacity** (5% in December).
- The share of enterprises **operating almost at full capacity** (75%-99%) **remained** on the same level (43% in January vs 44% in December)

Negative:

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

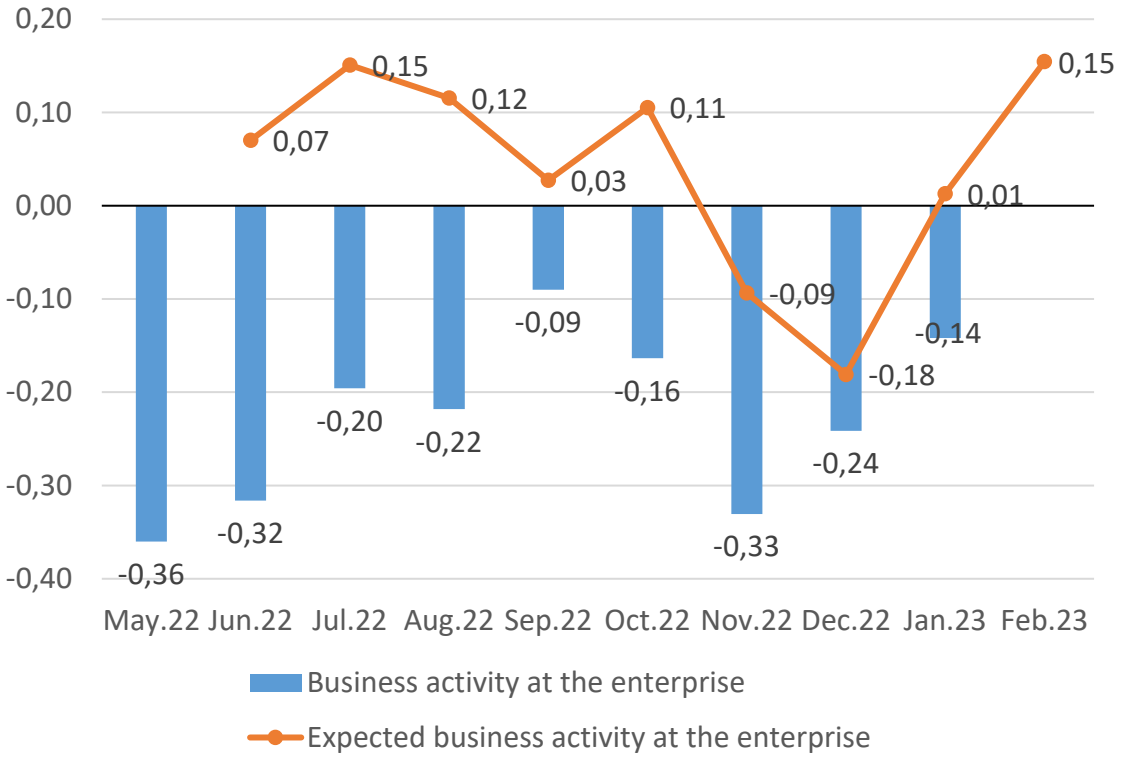
2-year expectations: remain optimistic, while uncertainty has increased



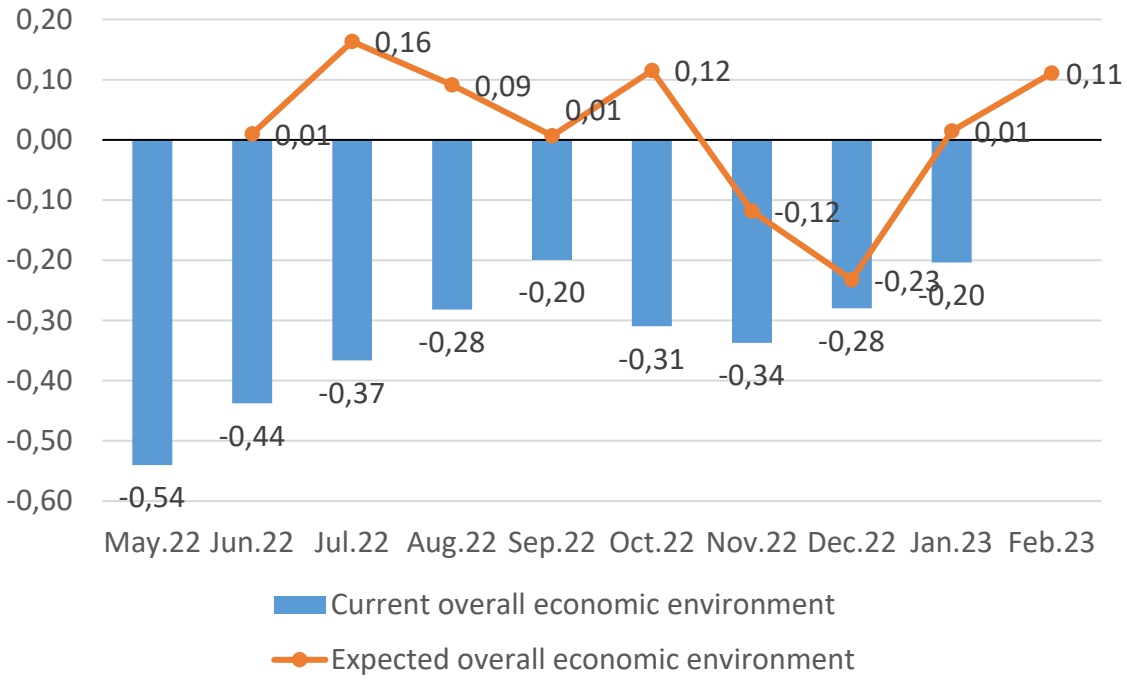


Half-year expectations: improvement for the second month in a row

Business activity at the enterprise

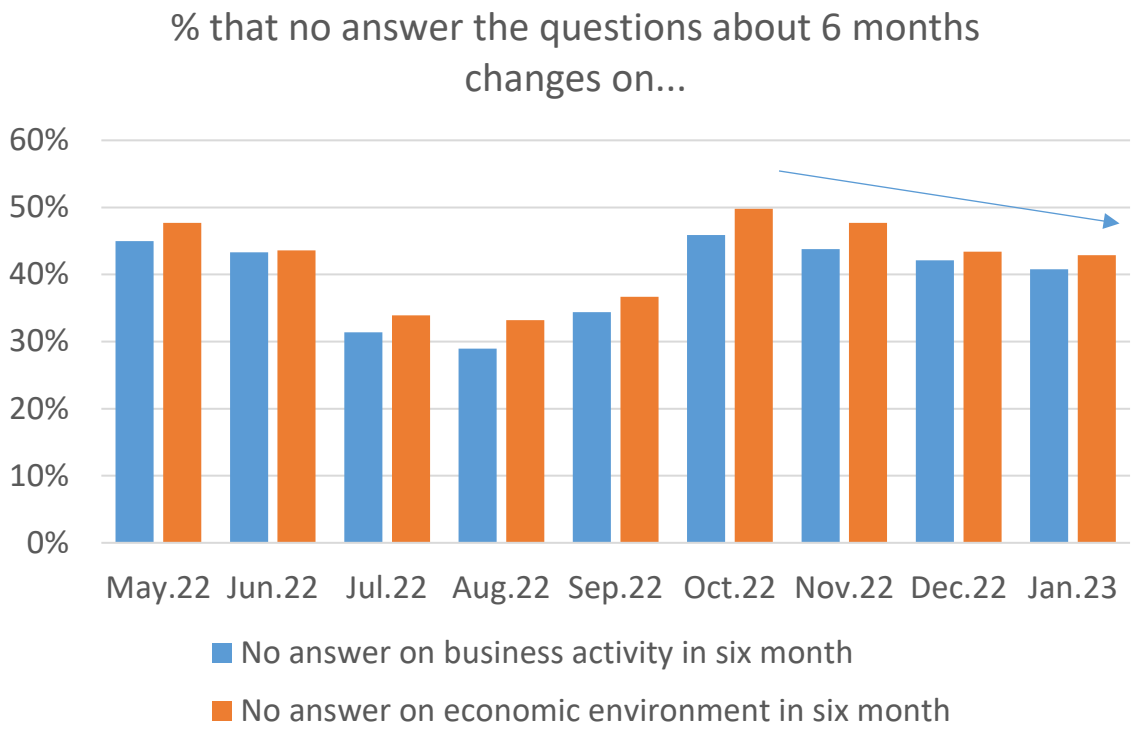


Overall economic situation in the country

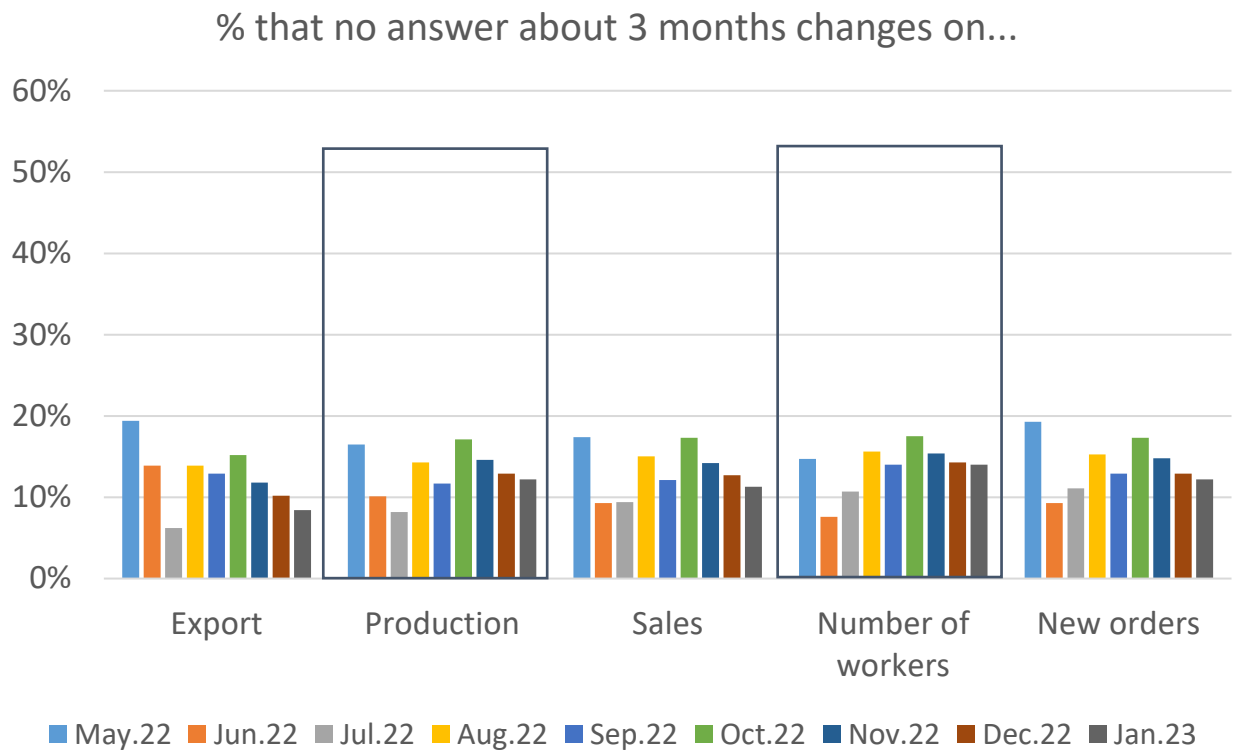


Uncertainty is gradually decreasing for the third month in a row

Half-year horizon

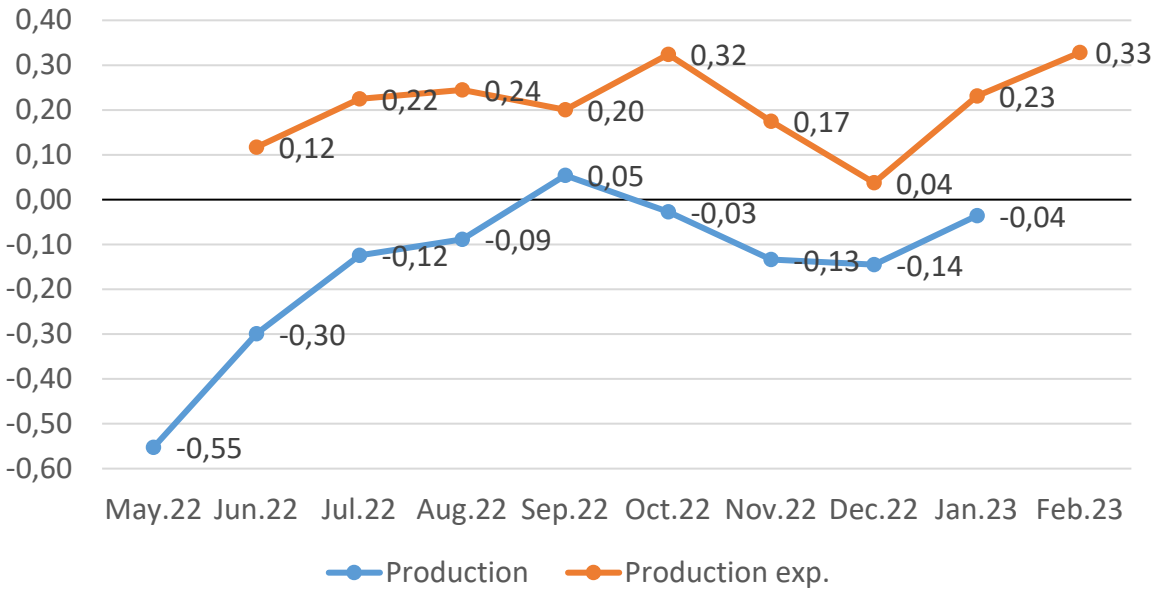


Three-month horizon

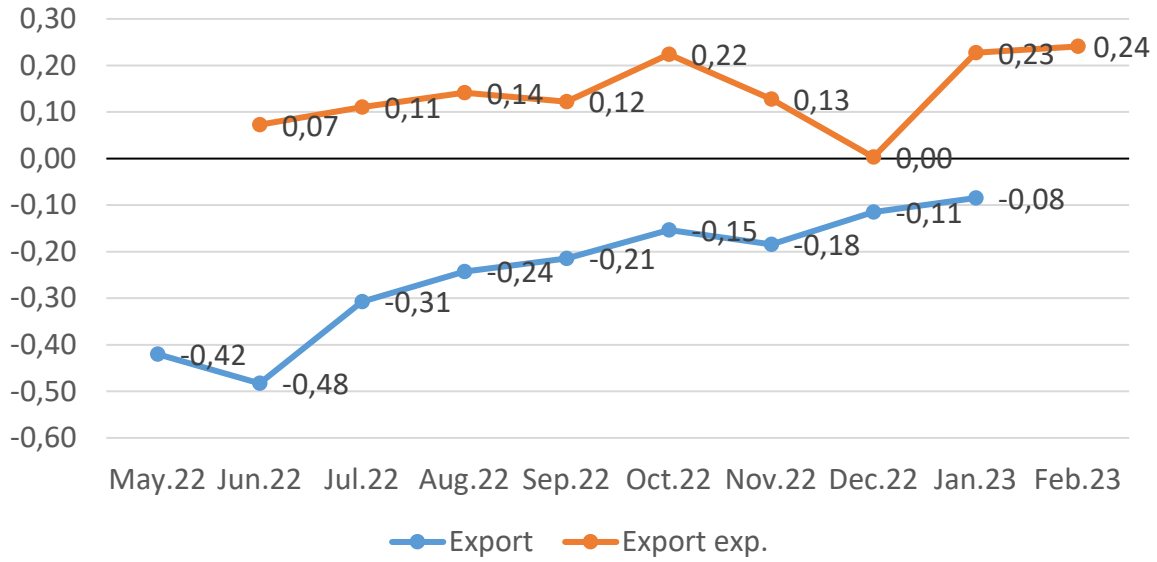


Production expectations are improving, exports remain unchanged

Production



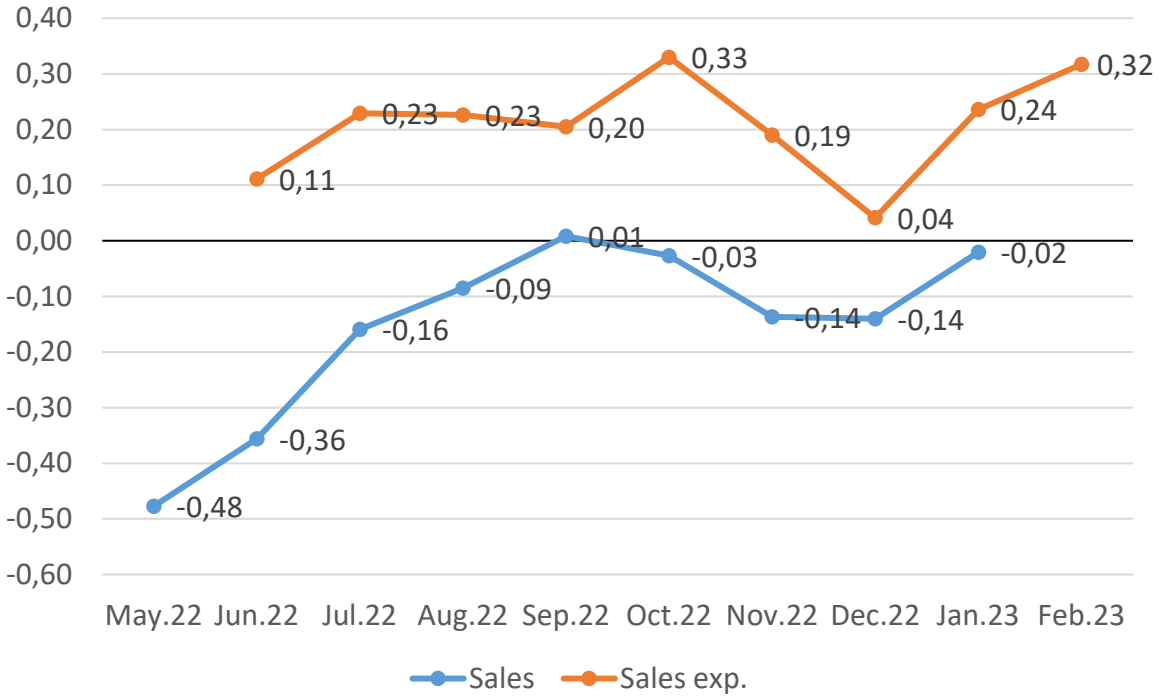
Export



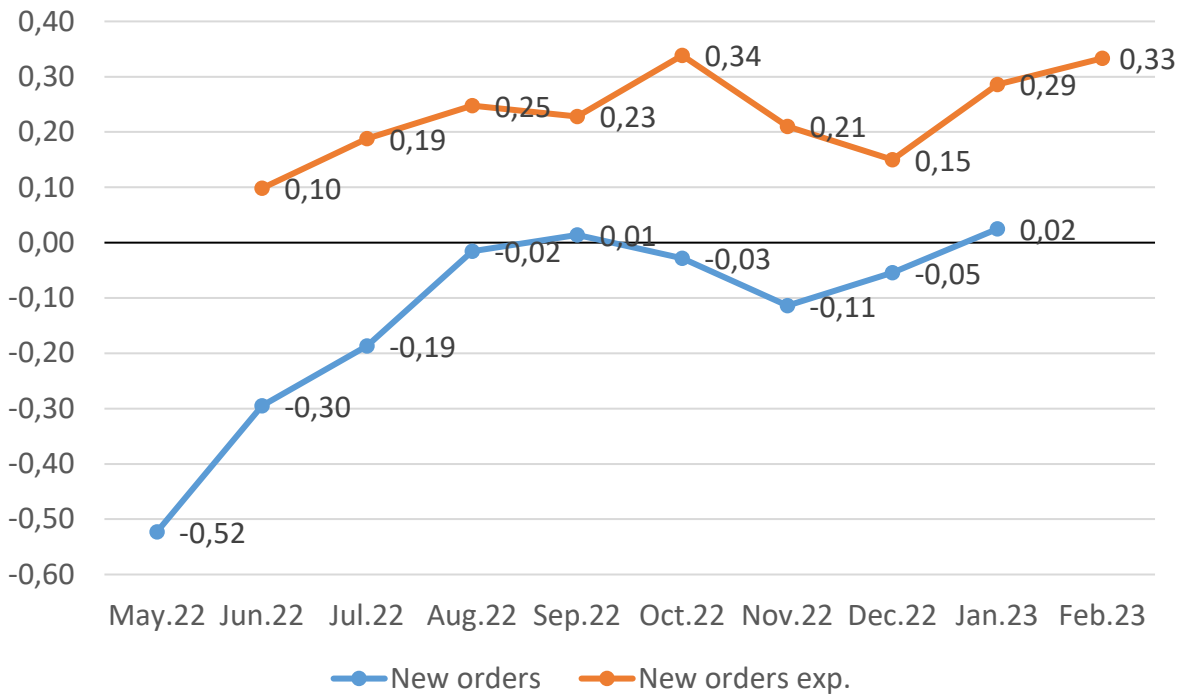
- In January compared to December, the share of enterprises that planned **production growth** in the next 3-4 months **increased** from 32% to 39%
- The share of enterprises that planned to reduce production **decreased** from 11.7% in December to 8.9% in January
- From 56.3% to 51.7% decreased the share of enterprises that plan to maintain production volumes in the coming months at the previous level

Expectations regarding sales and new orders for 3 months are positive

Sales



New orders

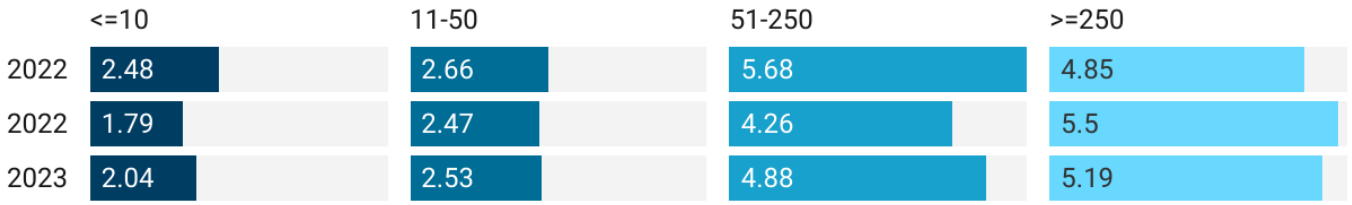


The order book increased again

Order book, an average months

Source: IER #nres • Created with Datawrapper

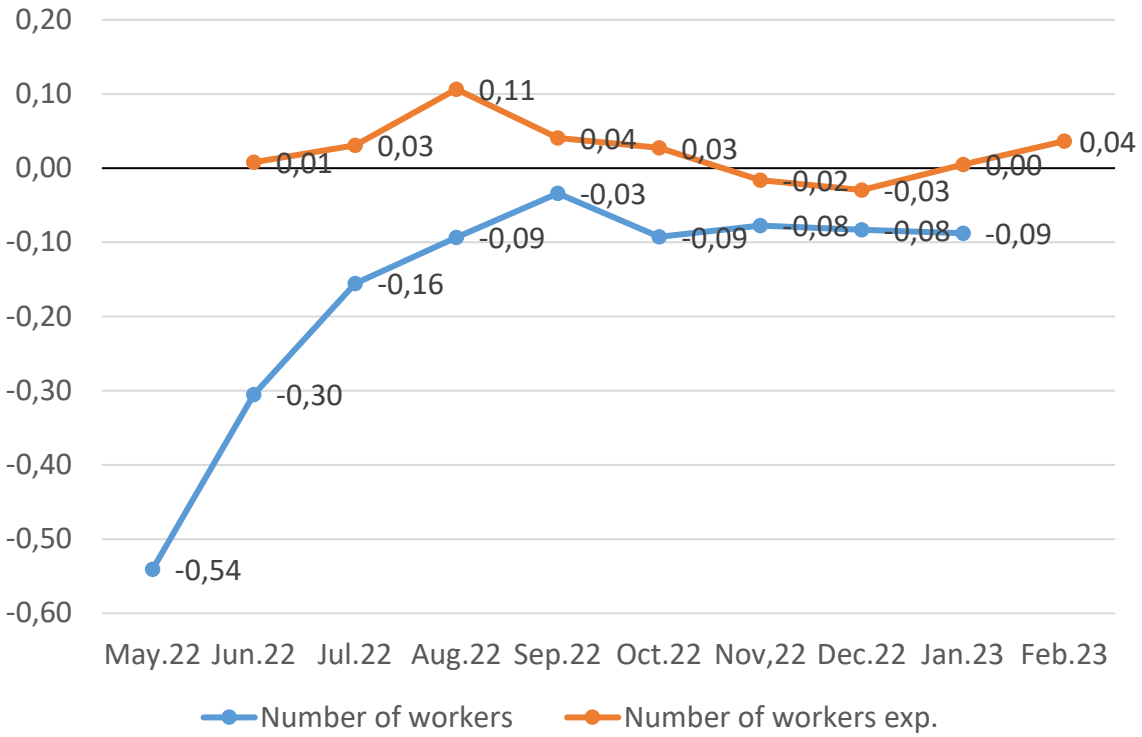
Order books by size of enterprises, an average months



Source: IER #nres • Created with Datawrapper

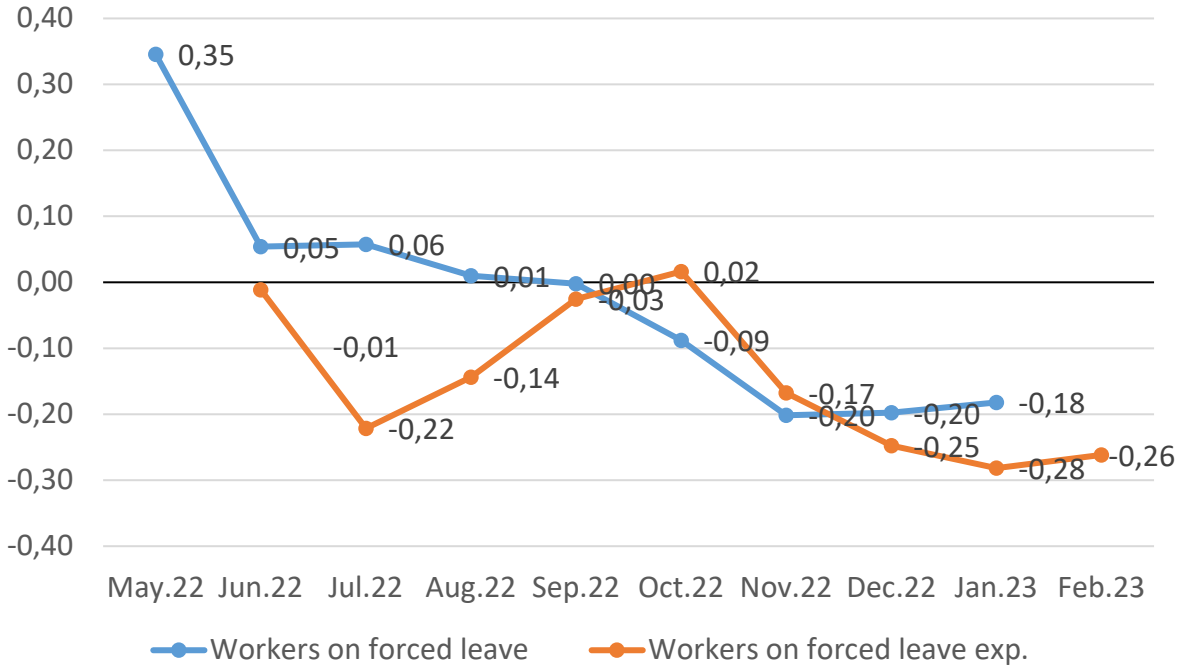
A slight increase in the number of employees is expected

Number of workers



- % of enterprises that are planning employment **growth** has slightly **increased** from 4.9% to 5.7%,
- % of enterprises are going to **decrease** the number of workers **dropped** from 5.3% to 3,3%.
- % of enterprises with **no expected changes** in employment slightly **increased** from 89.7% to 91.0%

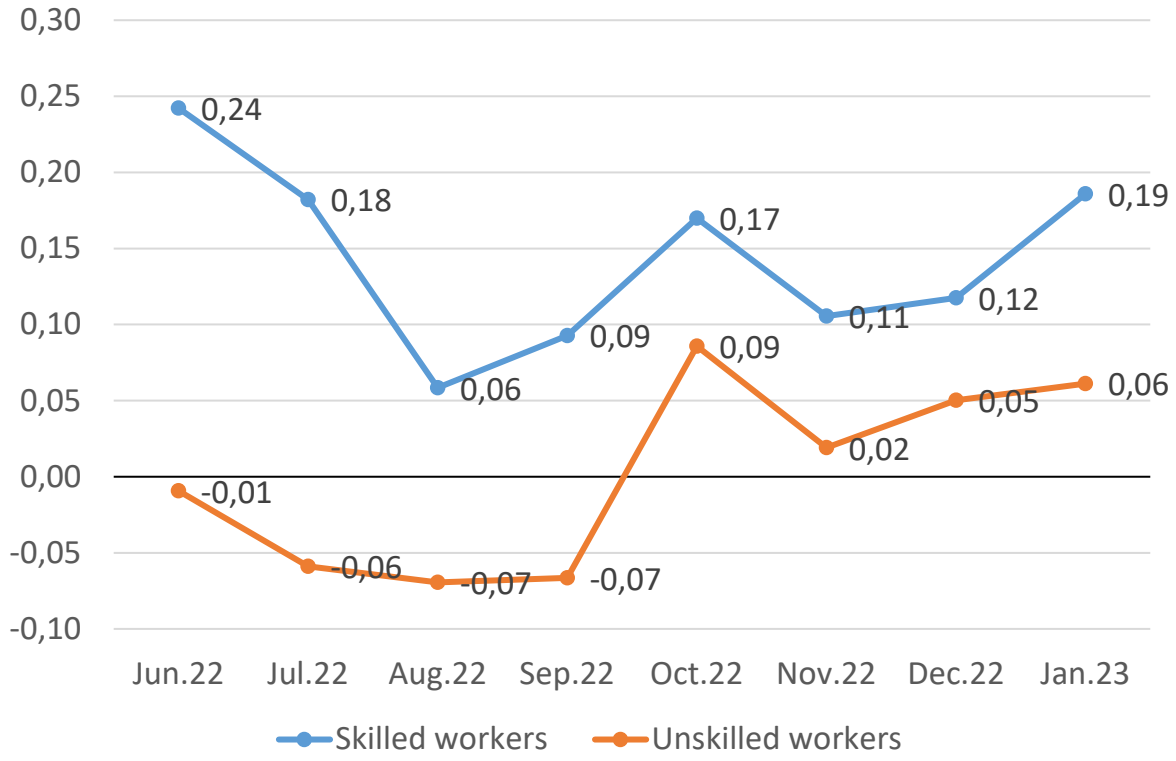
Number of workers on forced leave



- % of enterprises that will **increase** the number of workers on forced leave **increased** from 1.7% to 2.3%.
- % of enterprises are going to **decrease** workers on forced leave **lowered** from 30.3% to 28.3%.
- No changes % are increased from 68% to 69.4%

Labor market: moderate acvitization is expected

Problems in finding workers



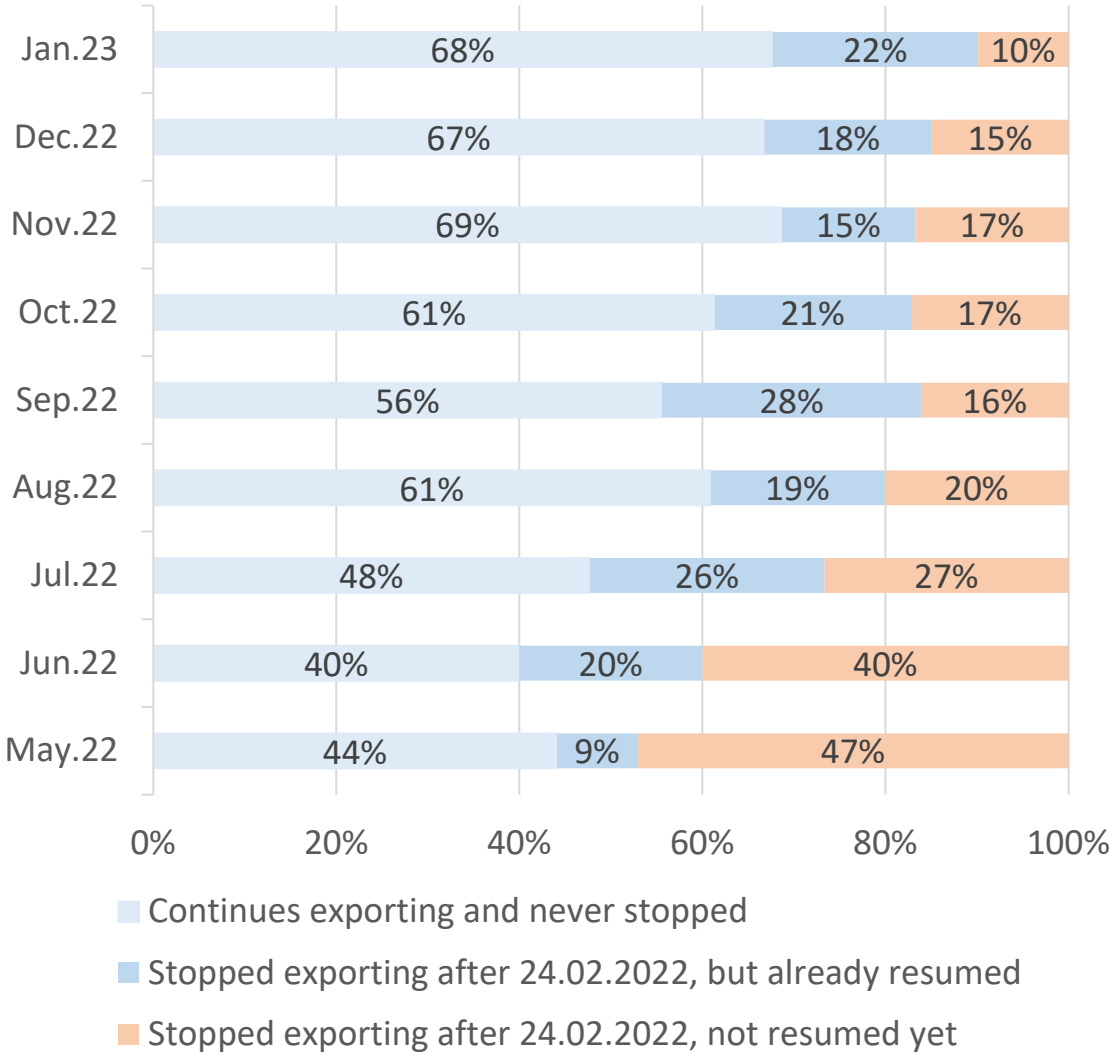
Against the background of expectations for growth in production and a slight increase in employment,

- difficulties in **finding skilled workers** have **increased** somewhat (although they remain small),
- difficulties in **finding unskilled workers** have r**emained** practically **unchanged**

Export is recovering, but there a “vulnerable group” of former exporters that will not able to recovering

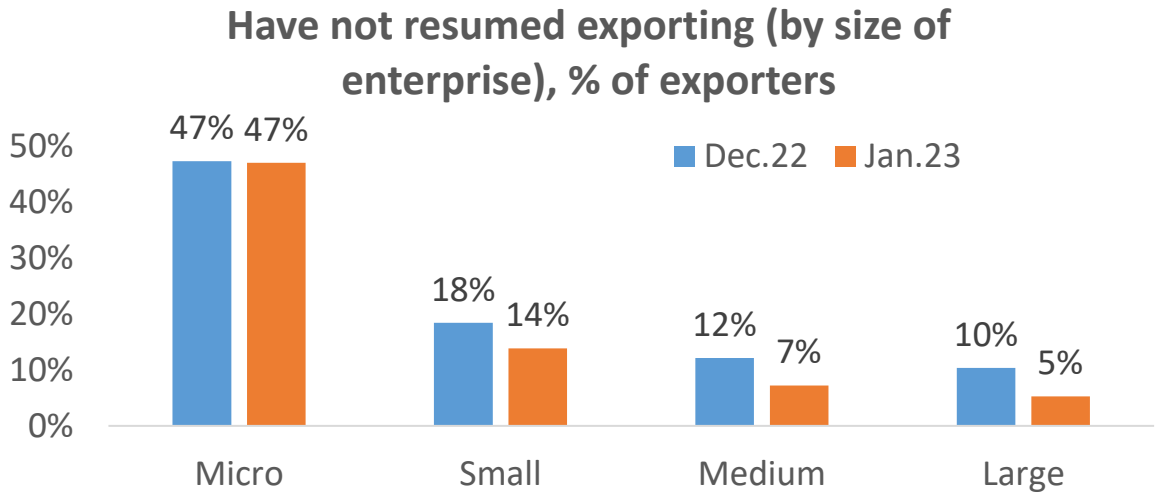
New Monthly Enterprises Survey #9, (01/2023)

Export: recovery of export activity has resumed after stagnation

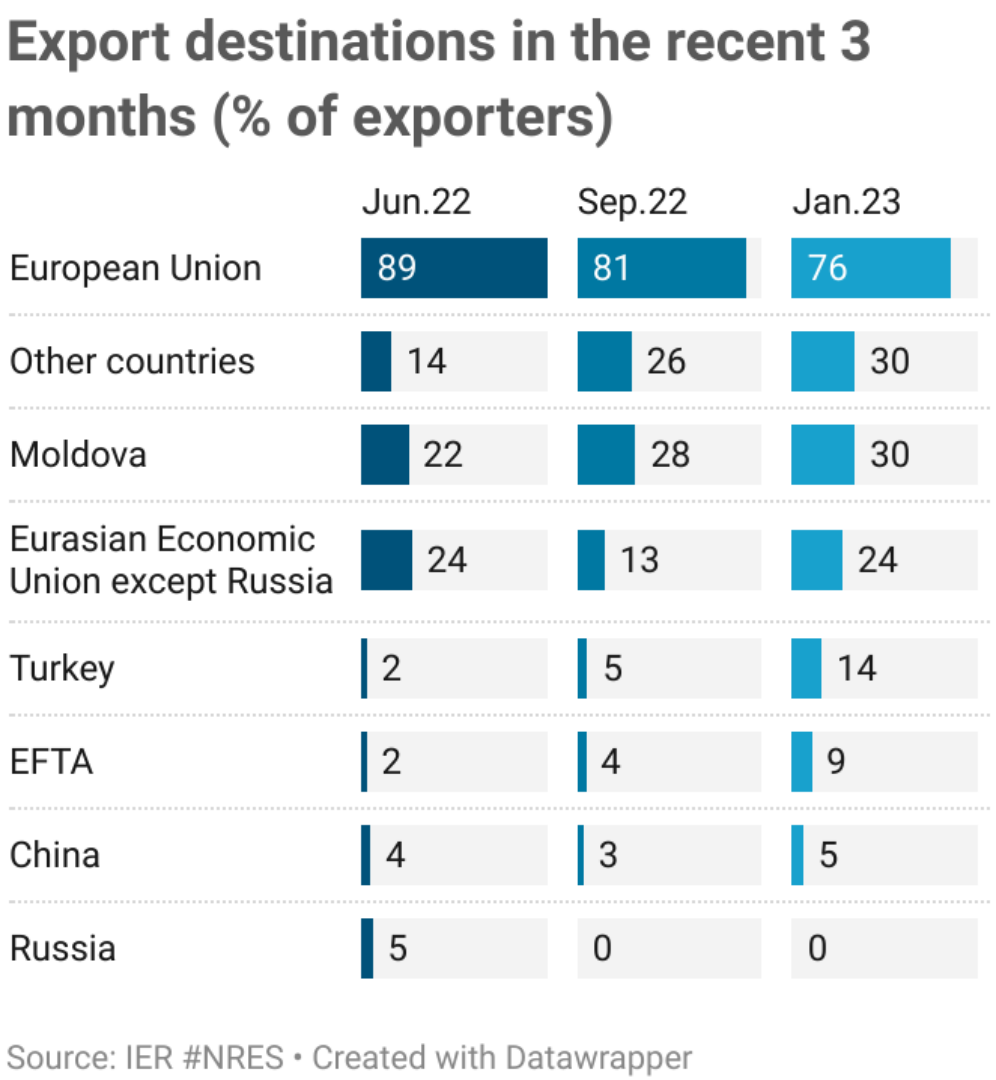


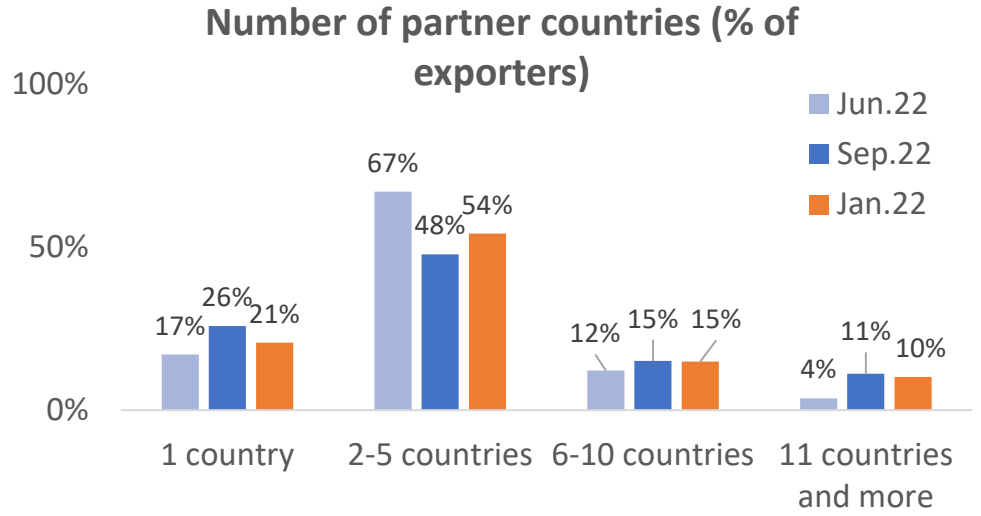
58% of respondents were exporters as of the beginning of 2022

- The **recovery** of export activity **slightly improved**: the % of enterprises that stopped exporting after February 24 and **could not resume** has decreased to a **lowest 10%**
- **Microbusiness** still faces **more challenges** - 47% of enterprises have not yet resumed exporting, also **no improvements** in January contrary to other businesses
- % of enterprises that **want to start exporting** for the first time remains low - **only 2%** of respondents in January (1% in November and 1% in December)



Geography of Ukrainian exporters' partners



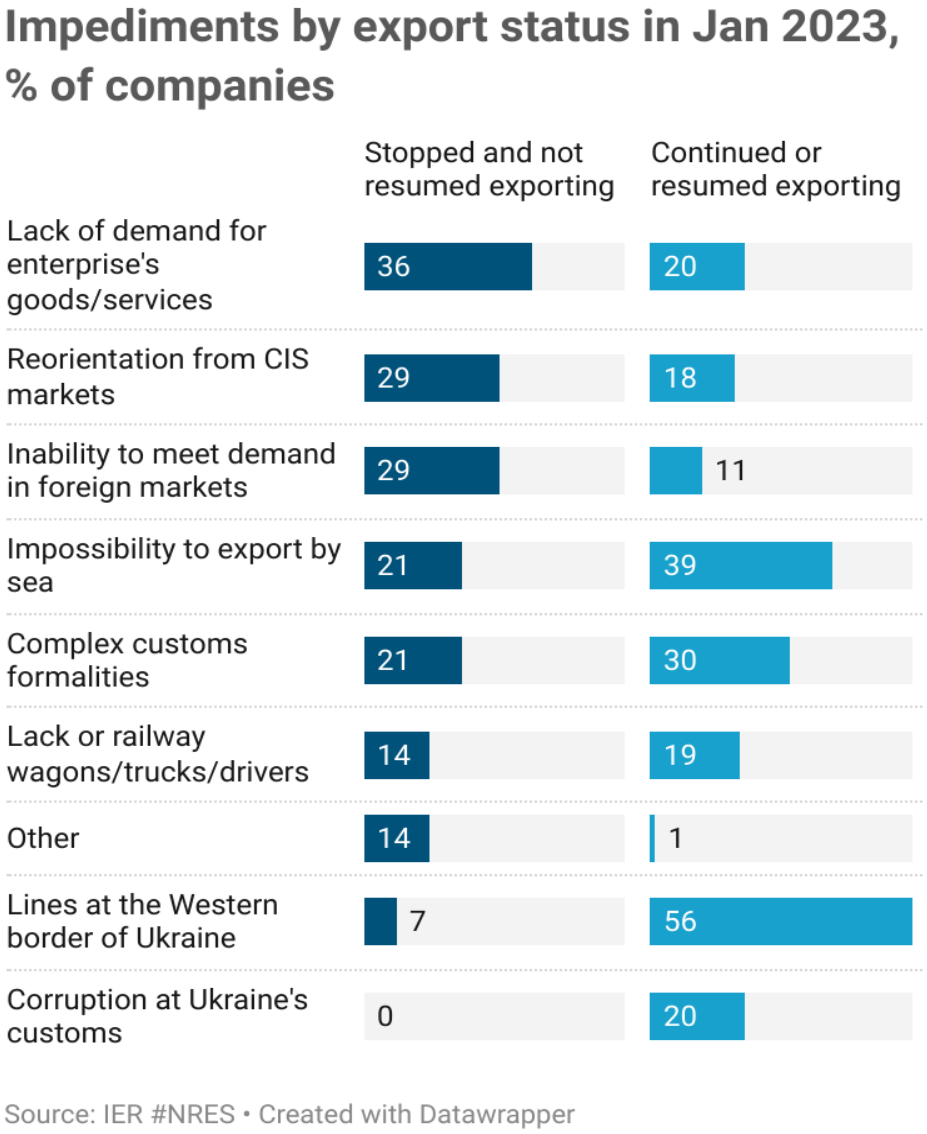


- The **European Union** remains the **main** export **destination** for Ukrainian business (76% of respondents in September)
- The **importance of other destinations** is also **increasing**, in particular, Turkey (14%) and Moldova (30%)
- **Trade** with the countries of the **Eurasian Economic Union** has **recovered** (24% in January vs 13% in September and 24% in June)
- Most exporters have "**narrow" export geography**. Every second company exports to 2-5 countries, and every fifth company exports to only one

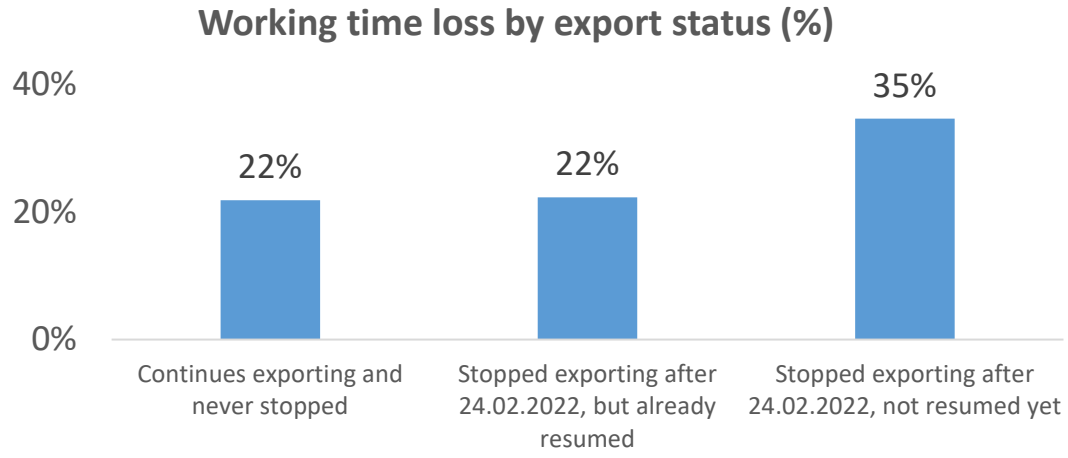
The war impact on export activity (impediments to exports)

- **Logistics issues** still **predominate** among the main obstacles for exporters: lines at the western borders, a sea blockade, and a lack of railway wagons/trucks/drivers
- The **problem of lines** has become only slightly **less urgent** than in September (from 60% in September to 54% in January).
- Problems related to **customs** work remain **urgent**: complex **customs formalities** as top-3 impediment, **corruption** already top-5
- The **corruption** at Ukraine's customs has become **4 times more urgent** January than in May
- Business has become more likely to experience the **problem of meeting demand** in foreign markets, possibly because of combination of growing demand and power outages

Why companies are not able to resume exporting

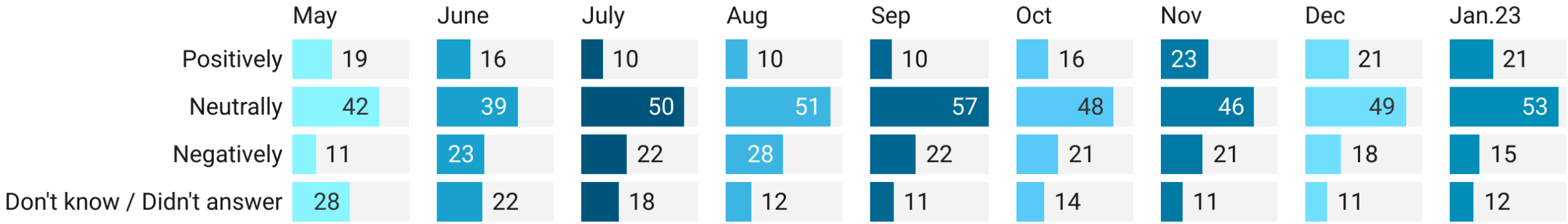


- **Lack of demand** is the **main impediment** for companies that have not resumed exporting yet
- Almost one third of non-active exporters suffer from **reorientation from CIS markets** and **inability to meet demand** in foreign markets
- **Logistics** and **customs-related issues** are the **least significant** impediments for non-active exporters
- Companies that suffer from **higher time losses** due to electricity outages are **less likely to resume exporting**



Assessment of the Government policy

Neutral assessments of state business support prevail



- As before, business mostly neutrally assesses the state policy on business support: 53% of respondents made such assessments
- This share has slightly increased compared to the previous month
- At the same time, the share of negative assessments slightly decreased: 15% in January 2023 compared to 18% in December 2022.
- The frequency of positive assessments has not changed: 21%. But for the third month in a row it has been higher than in June-October 2022

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.

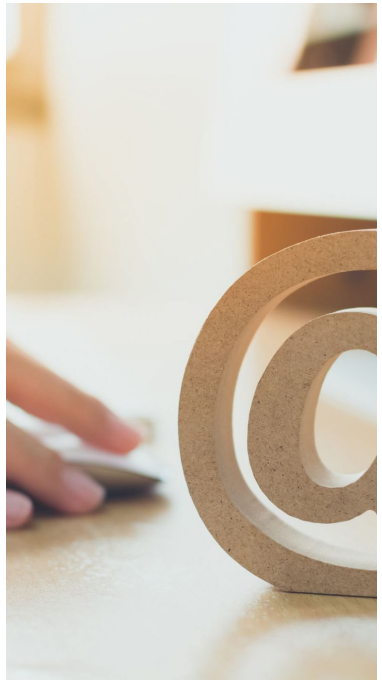
The monthly survey consists of two parts: the regular one and the special one. Respondents will regularly answer questions on the changes in key activity indicators and short-term forecasts for future changes in the same indicators: output (production), sales, exports, debt, new orders, employment, etc. 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, Zaporizhzhya, 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 ninth wave lasted from January 16 to 31, 2023. The enterprise managers compared the work results in January 2023 with December 2022, 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).

Contacts



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