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## Business Expectations of Enterprises in Ukraine Crisis

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## **BUSINESS EXPECTATIONS OF ENTERPRISES IN UKRAINE CRISIS**

### **Summary:**

*The assessment information to assess the current and future business activity, changes in economic situation. The expected production of goods and services in the next 12 months improved. In the second quarter of 2015, the inflationary expectations slackened. In Q2 2015, the negative assessments of the respondents on all aspects of the economic activity over the next 12 months became somewhat weaker. Enterprises reported again positive expectations about the increase in the next 12 months of both total sales and external sales. For the second quarter in a row the respondents have expected decreases in investment.*

### **Keywords:**

*Business activity, economic situation, crisis, agricultural and industrial enterprises, economic activity, small enterprises, financial and economic standing, investment, construction enterprises.*

## **Introduction**

In Ukraine should development of small and medium businesses. Formation and development of socially oriented entrepreneurship in our country is one of the components of the exit of Ukraine's economy out of crisis, how to enhance economic efficiency. Also, there is a need for study and practical application of economic levers of state in order to increase the effective functioning business. The main drawback of public policy is primarily a lack of sufficient scientific basis for economic reform and excessive politicization of process of their realization.

## **Main thesis**

In Q2 2015, the negative assessments on all aspects of the economic activity over the next 12 months became somewhat weaker. Expectations of sales growth became positive. Such expectations resulted in improvement of the Business Outlook Index (BOI) by 11,0 p.p. to 94,5%. BOI below 100% is marked for the fourth running quarter. The respondents had the most optimistic

forecasts about total sales and sales in the external market (the balance of expectations was 0,7% and 0,3% respectively) (Table 1). The sale growth is expected in agricultural and industrial enterprises.

The most pessimistic forecasts for the next 12 months are concerning construction investments and number of employees. Forecasting the decrease of construction investments and number of employees for six consecutive quarters. The lowest assessments were reported from “other” types of economic activity, transport and communication enterprises.

*Table 1. Assessments by Enterprise Top Managers of their current and future business activity and the economic situation in the country*

	Balance of responses , %				
	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Macroeconomic Expectations in the next 12 months					
Developments of the output of goods and services in Ukraine	-26,2	-44,8	-38,6	-57,2	-35,3
Growth in prices for goods and services in Ukraine	11,8	18,4	20,5	27,3	27,1
The UAH/USD exchange rate dynamics developments 1	48,4	75,1	76,8	83,1	67,2
Economic Activity of Enterprises: assessments as of the time of the survey					
Current financial and economic standing of their enterprises	-12,5	-8,2	-5,6	-15,6	-5,9
Current finished goods inventory balance as compared with the desirable	-3,3	-3,0	-4,2	-9,9	-11,4
Productive capacity resources at their own enterprises	31,3	32,2	32,0	26,9	17,5
Expectations of changes in the next twelve months					
Business outlook Index, %	101,5	93,2	96,1	83,5	94,5
Financial and economic standing	8,3	-5,7	-7,1	-21,5	-3,1
Total own product sale	10,7	-3,1	-1,5	-12,6	0,7
Investment in construction works	-6,6	-10,4	-6,7	-18,0	-9,2
Investment in machinery, Equipment and Number of employees	2,6	-3,4	2,8	-12,5	-5,6
	-7,4	-11,4	-6,9	-17,8	-10,2
Prices for goods or services	58,7	64,2	63,7	75,1	59,8

their enterprises sell					
Production unit cost	42,7	49,3	50,3	59,8	55,5
Expenditures per one employee	28,6	30,6	32,4	29,4	37,1
Financial conditions					
Assessments of lending terms rigidity	38,7	32,6	36,3	47,6	55,6
Enterprises' needs in borrowed funds in the nearest	17,6	14,1	23,0	26,6	29,0
Proportion of respondents which plan to take out bank loans, %	37,6	39,7	36,7	35,0	35,4
Proportion of respondents that mentioned difficulties with effecting transactions using funds in bank	9,8	10,3	14,4	18,9	15,7
Proportion of respondents monitoring the NBU activities, %	91,2	89,4	90,1	92,7	90,8

The lowest BOI was reported of “other” types of economic activity (83,6%), construction (84,8%) and small enterprises (83,9%). Positive expectations were again from agricultural enterprises (BOI -101,9%), manufacturing enterprises and energy and water supply enterprises (100,6%) which are big enterprises (102,1%).

Expect the deterioration of financial and economic standing of their enterprises for the fourth quarter in a row.

However, in Q2 2015 the negative balance of assessments decreased considerably. The balance of expectations is “minus” 3,1% (in Q1 2015 - (-21,5%).

The enterprises of all types of economic activity regardless the size and line of business in creased their assessments. At the same time the most optimistic are the assessments from manufacturing and agricultural enterprises (the balances of responses are 8,4% and 6,7% respectively), the most pessimistic - the enterprises of “other” types of economic activity (the balance of expectations – (-15,8%) and energy and water supply enterprises (-15,0%). Enterprises reported again positive expectations about the increase in the next 12 months of both total sales and external sales: the balances of expectations 0,7% and 0,3% (in Q1 2015 – (-12,6%) and (-14,1%) respectively).

The most optimistic total and external sales forecasts were still given from agricultural enterprises (balance expectations made 22,3% and 40,7% respectively). The enterprises from manufacturing and mining and energy and water supply enterprises also expect the increase of sales. The optimistic expectations of these types of economic activity were due to hopes for a steady demand for the products over the next 12 months. They were also in line with the expectations of enterprises financial and economic standing.

For the second quarter in a row the respondents have expected decreases in investment and forecast investment decrease in expenditures on both construction and equipment to reduce in the next 12 months. At the same time the negative assessments dropped quarter-on-quarter - the balances of expectations are respectively (-9,2%) and (-5,6%) (in Q1 2015 - (-8,0%) and (-12,5%). Respondents from most types of economic activity improved their assessments of future investments quarter-on-quarter.

The most pessimistic expectations about the future investments in construction were reported by the enterprises of “other” types of economic activity (the balance of expectations is (-18,3%), with regard to the investment in equipment and instruments, the most pessimistic expectations are reported by respondents from construction enterprises.

Among the factors hampering the production growth the most often were mentioned:

- political instability (mentioned by 55,7%);
- significant fluctuations of the UAH exchange rate (55,6%);
- excessively high prices for energy, raw materials and supplies (referred to by 49,0% and 47,7%).

High energy prices were most often reported as a burden of agricultural and mining enterprises. For three quarters in a row, the respondents have been more confident about growth of the need for borrowed funds in the nearest future - the balance of responses 29,0% (in Q1 2015 -26,6%). The highest borrowing needs are at energy and water supply enterprises (the balance of responses - 36,4%), the lowest at construction enterprises.

In the second quarter of 2015, the inflationary expectations slackened. More than half of respondents (50,6 %) forecast consumer prices rise within the range of 15,1 % to 30 %. They expect that the consumer prices will rise by an average of 27,1 % over the next 12 months (in the first quarter 2015 -27,3 %). The highest inflationary expectations were shown by the respondents from mining industry, small enterprises and those not engaged in export and import operations. By regions, they are enterprises in Chernivtsi, Ivano-Frankivsk, Zhytomyr and Khmelnytsk oblasts.

Main restraining factors when attracting new loans reported are the excessively high loan interest rate (66,7%), significant fluctuations of the UAH exchange rate (33,0%) and excessively high requirements for the collateral (28,9%). In addition, construction and “other” types of economic activity reported as restraining factors “other funding sources availability”, transport enterprises - “uncertainty in the ability to repay debt timely”, energy and water supply enterprises - “excessively complicated document execution procedure”. Proportion who mentioned difficulties in executing transactions using funds in bank accounts, decreased to 15,7% (in Q1 2015 -from 18,9%). Most often difficulties were reported from energy and water supply (24,4%), “other” types of economic activity (19,4%) and trade enterprises (19,1%).

## **Conclusions**

So business development will boost economic restructuring Ukraine, creation of new jobs, ensuring quick payback rapid response to changes in demand. That business, creating the appropriate market environment flexibly adapts to changes in market conditions, able to satisfy not only the domestic but also in international markets, the overcoming of sectoral and regional monopolies, increased competition, introduction of scientific and technological progress allows expand the scope of employment, create new employment opportunities, can significantly strengthen the economic base of regions, positive impact on economic development. Consequently, in the Ukraine at the present stage the problem of creating market infrastructure not only lost its relevance, but rather becomes more acute.