National Bank of Ukraine

Business Outlook Survey **of Khmelnytskyi Oblast***

Q2 2023

*This survey only reflects the opinions of respondents in Khmelnytskyi oblast (top managers of companies) who were polled in Q2 2023, and does not represent NBU forecasts or estimates

A survey carried out in Khmelnytskyi oblast in Q2 2023 showed that, despite the restoration of the energy system, the gradual revival of domestic demand and the strengthening of the hryvnia exchange rate, respondents expected that the output of Ukrainian goods and services would remain unchanged. They had negative expectations for their companies' performance over the next 12 months. Inflation and depreciation expectations weakened, but remained strong.

The top managers of companies said they expected that over the next 12 months:

- **the output of Ukrainian goods and services would remain unchanged:** the balance of expectations was 0.0%, as in Q1 2023 (Figure 1). Across Ukraine, the balance of responses was 17.0%
- **prices for consumer goods and services would rise more slowly**: 60.0% of respondents expected the inflation rate not to exceed 15.0% (compared to 38.5% in the previous quarter and 46.6% across Ukraine). Respondents referred to military actions, production costs and the hryvnia exchange rate as **main inflation drivers** (Figure 2)
- **the domestic currency would depreciate at a slower pace:** a total of 66.7% of respondents (down from 75.0% in the previous quarter) expected the hryvnia to weaken against the U.S. dollar, the figure across Ukraine being 72.2%
- **the financial and economic standings of their companies would deteriorate:** the balance of expectations was (-6.7%), compared to (-8.3%) in the previous quarter and 9.6% across Ukraine (see Table)
- **total sales would increase at a faster pace:** the balance of responses was 26.7%, compared to 7.7% in Q1 2023. **External sales** were expected to remain unchanged: the balance of responses was 0.0%, up from (-50.0%) in Q1 2023. Overall, across Ukraine the balances of responses were 14.5% and 10.9% respectively
- **investment in construction and in machinery, equipment, and tools would increase markedly:** the balances of responses were 26.7% for each, compared to (-27.3%) and 7.7% in Q1 2023. Across Ukraine, the balances of responses were (-2.3%) and 4.5% respectively (see Table)
- **staff numbers would be cut**: the balance of responses was (-6.7%), compared to (-7.7%) in the previous quarter. Across Ukraine, the balance of responses was (-3.8%) (Figure 4)
- **purchase prices would increase more slowly that selling prices:** the balances of responses were 80.0% and 26.8% respectively, compared to 76.9% and 30.8% respectively in the previous quarter (Figure 6). Energy prices, raw material and supplies prices, and global prices (the impact of this factor was reported to have increased compared to the previous survey) were referred to as the main selling price drivers (Figure 7)
- **per-unit production costs would rise more rapidly:** the balance of responses was 60.0%, up from 30.8% in Q1 2023. At the same time, **wage costs per staff member would grow at a markedly slower pace:** the balance of responses was 21.4% (compared to 61.5% in the previous quarter) (Figures 4 and 6).

Respondents said that military actions and their consequences, high raw material and supplies prices, and energy prices were **the main drags on the ability of their companies to boost production** (Figure 5).

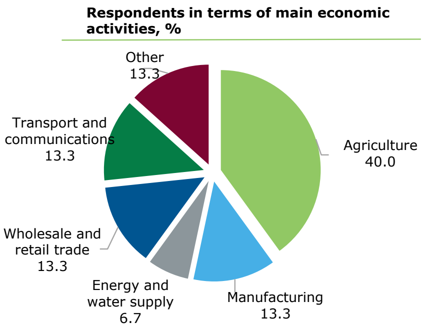
Respondents expected **a rise in their borrowing needs** in the near future (Figure 8). The share of respondents who planned to take out bank loans decreased to 33.3%. These respondents preferred domestic currency loans. Respondents said that lending conditions had tightened (Figure 9). Companies referred to high loan rates, the availability of other funding sources and strict collateral requirements as the main factors deterring them from taking out loans (Figure 10).

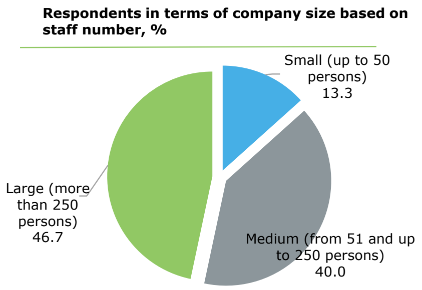
A total of 86.7% of respondents said that they **had encountered no difficulties in effecting transactions with funds deposited in bank accounts** (94.9% across Ukraine).

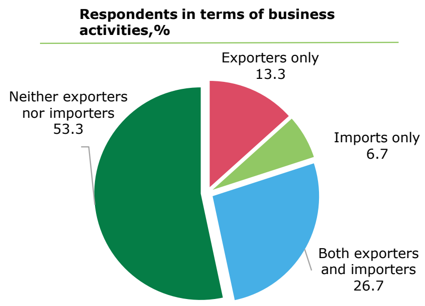
Assessments of financial and economic standings as of the time of the survey (Figure 3)

- **Companies assessed their current financial and economic standings as good:** the balance of responses was 6.7%, compared to 15.4% in the previous quarter. Respondents across Ukraine assessed the financial and economic standings of their companies as bad (-11.1%).
- **Finished goods stocks were assessed as higher than normal**: the balance of responses was 20.0%, compared to (-20.0%) in Q1 2023.
- **Companies had sufficient production capacity to meet any unexpected rise in demand**: the balance of responses was 13.3%, compared to 15.4% in the previous quarter.

Survey Details[1,2]

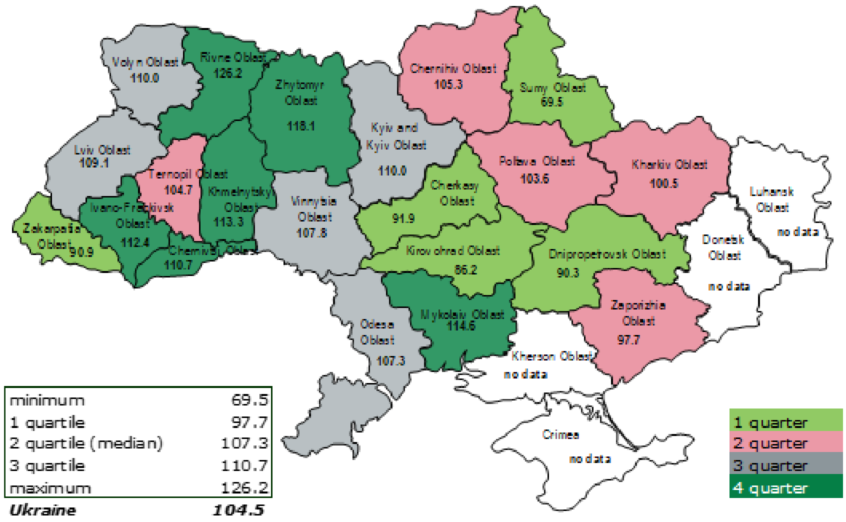






- Period: 2 May through 26 May 2023.
- A total of 15 companies were polled.
- A representative sample was generated on the basis of the agricultural sector.

Business Outlook Index for Next 12 Months in Terms of Oblasts[3], %



*a quartile is the value of the BOI where an ordered sample is divided into four equal-sized subgroups
**a median is the value of the BOI in the middle of an ordered sample where the sample is divided into two equal-sized subgroups

Table. The Business Outlook Index of Companies in Khmelnytskyi Oblast and Its Components

Expectations over next 12 months for	Balances of responses, %				
	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23
Financial and economic standings	-21.4	-42.9	-14.3	-8.3	-6.7
Total sales	-23.1	-14.3	7.1	7.7	26.7
Investment in construction	-57.1	-38.5	7.1	-27.3	26.7
Investment in machinery, equipment, and tools	-69.2	-7.1	7.1	7.7	26.7
Staff numbers	-21.4	-7.1	-14.3	-7.7	-6.7

[1] This sample was generated in proportion to the contribution of each oblast and each economic activity to Ukraine's gross value added.
[2] Data for totals and components may be subject to rounding effects.
[3] The business outlook index (BOI) is an aggregate indicator for expected business performance over the next 12 months. It is calculated using the balances of respondents' responses regarding changes in the financial and economic standings of their companies and future economic activity.

Figure 1

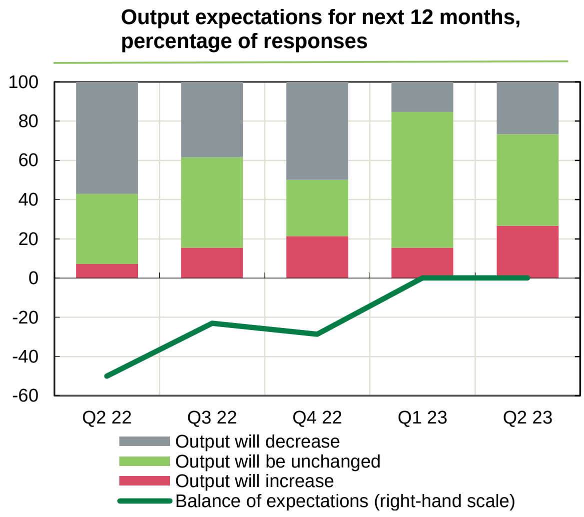


Figure 2

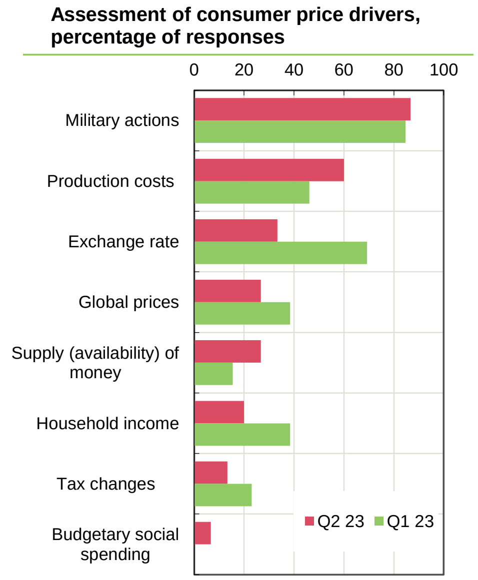


Figure 3

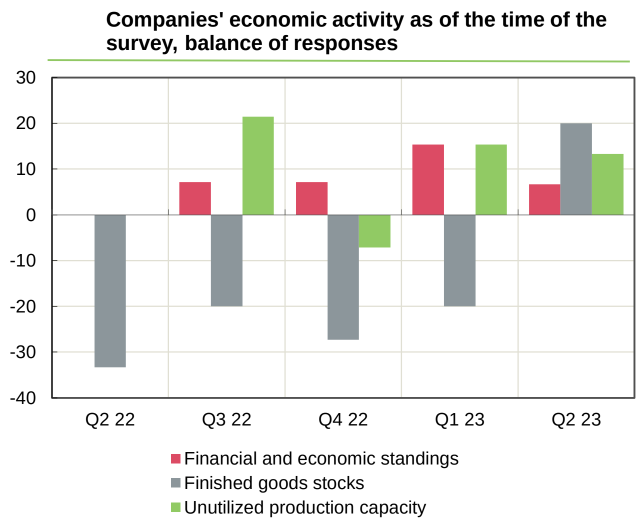


Figure 4

Figure 5

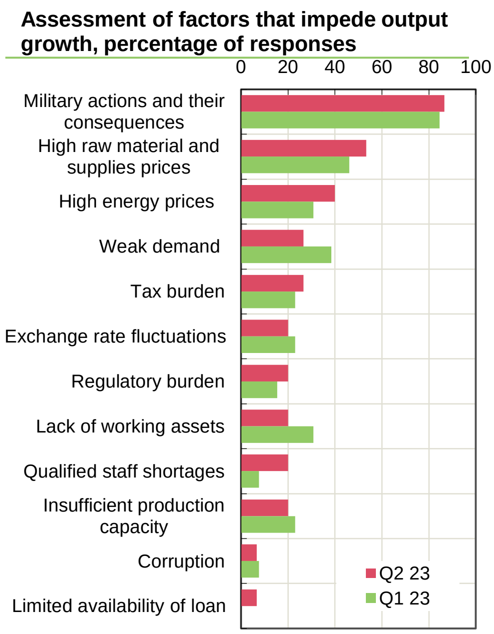


Figure 6

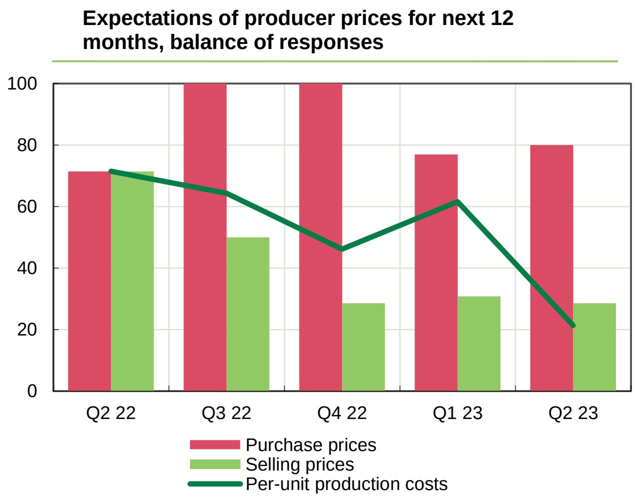


Figure 7

Assessment of selling price drivers, percentage of responses

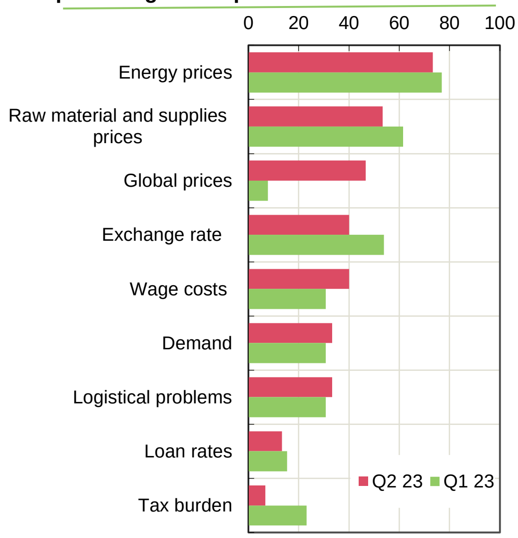


Figure 8

Expectations of borrowing needs and intentions to take out corporate loans in the near future, percentage of responses

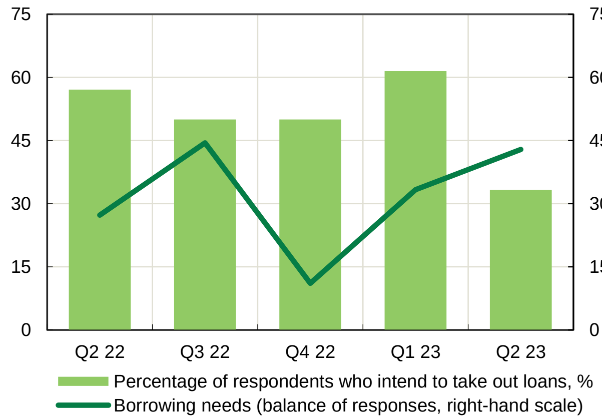
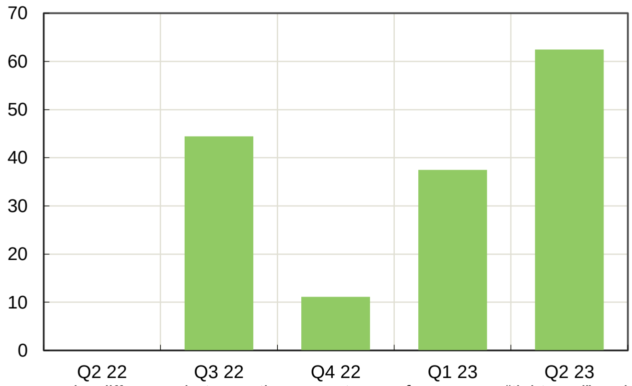


Figure 9

Expectations of lending conditions for next 12 months, balance of responses*



*The difference between the percentages of responses “tightened” and “eased”

Figure 10

Assessment of factors that could deter companies from taking out loans, percentage of responses