

ICPS newsletter

Pessimistic expectations of managers unjustified: Production increasing

The next issue of ICPS's Business Opinion Review, to be published this week, contains an analysis of business performance in the second and third quarters of 1999. The results of industry production in this period are the best since the financial crisis the previous autumn. According to a survey of 300 enterprise managers, conducted quarterly by ICPS experts as a part of its ongoing Business Opinion Survey project, increased production, sales, and profitability were recorded both in the second and third quarters. At the same time, the rate of increase in accounts receivable and accounts payable decreased. However, managers expected a significant decline in the rate of increase of production in the fourth quarter of 1999

Managers are dissatisfied with economic policy...

In the second and third quarters of 1999, managers were more pessimistic about improvement of overall economic conditions in the next six months. We again explain this by the reaction of businesses to the continued inconsistency of economic policy, and the lack of expectation of any improvement of the economic environment, especially before the presidential elections (see Figure 1).

Among the sectors of industry, during the third quarter management of food processing, printing, and construction materials enterprises were the most pessimistic about improvement in overall economic conditions in the next six months. Only 8.7 percent, 13.6 percent, and 16.1 percent of managers of these sectors, respectively, expected that overall economic conditions would improve. Management of enterprises in heavy industry were the most optimistic about changes in overall economic conditions in the next six months; 26.8 percent of them thought these conditions would be favourable for their businesses in the next six months.

...but production is growing...

In the second quarter of 1999, for the first time in the previous three quarters, the number of firms reporting increased production (46.9 percent) was greater than the number of firms reporting decreased production (26.4 percent). This positive fact implies that it took enterprises about 9 months to fully overcome the consequences of the financial crisis which broke out in autumn 1998.

The increased production trend was preserved during the third quarter of 1999, when we recorded the highest rate of increase

in production since the survey was launched. Managers of enterprises of all sizes and in all sectors reported increased production in the third quarter. The highest rate of increase in production was recorded in printing, wood processing, and food processing (see Figure 2).

Alongside the positive trend in production that was recorded

Figure 1. Index of change in overall economic conditions¹

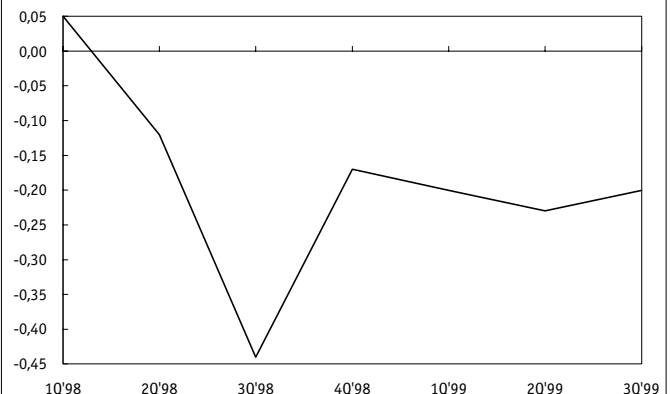
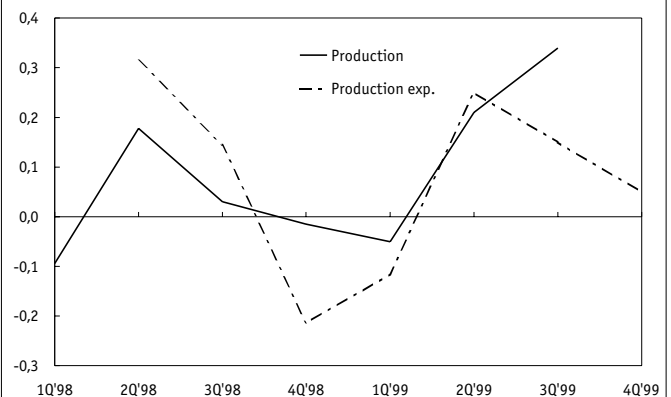


Figure 2. Production dynamics



¹ Index is calculated as the difference between the share of managers giving a positive answer and the share of those giving a negative answer.

during two quarters in a row, the dynamics of production expectations changed. Managers expected a significant decline in the rate of increase in production in the fourth quarter of 1999. Similar expectations were recorded in the second quarter, when managers predicted a decrease in the rate of production growth. However, the actual indicators of the third quarter were much better than expected. Obviously, enterprise managers demonstrated a careful pessimism before the presidential elections in predicting the performance of their businesses for the nearest future.

...in spite of excessive taxation and shortage of finances...

The rating of the majority of factors limiting production growth did not change over the second and third quarters of 1999. The exception was "excessive taxation" and "shortage of finances", which changed places in the rating during the second quarter. This was mostly due to the decreased rating for excessive taxation (compared to the first quarter, the number of businesses saying that excessive taxation limited production growth decreased by 12.3 percent). Obviously, this was the reaction of businesses to the decrease in their expenditures on complying with tax legislation, due to the elimination of the Chernobyl tax and the 10 percent tax on depreciation deductions.

However, this situation did not last. Due to the absence of further efforts of the government to reduce the tax burden, business reaction to the abovementioned steps did not last long. Therefore, in the third quarter of 1999, excessive taxation again became the most important factor limiting production growth.

...due to domestic demand...

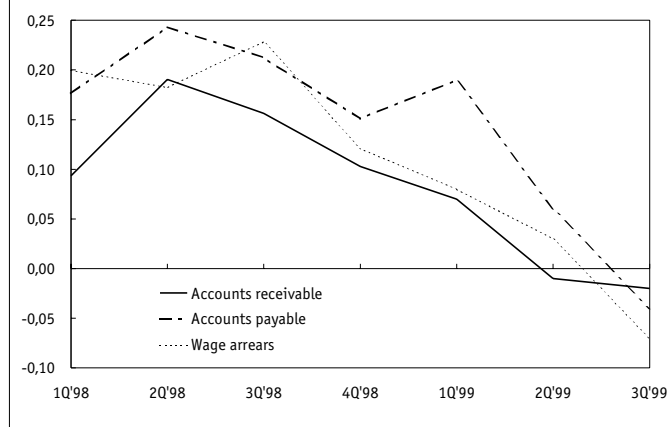
In the second and third quarters, we recorded some increase in domestic demand for the production output of industrial enterprises. This increase was recorded at enterprises in all sectors. In particular, fewer respondents reported a decline in domestic demand for the output of their firms (57.1 percent in the first quarter, 37.6 percent in the second quarter, and 34.5 percent in the third quarter). The decreased number of managers who considered shortage of demand to be an impediment to production growth confirms the tend to increased domestic demand.

Despite these positive developments, the problem of shortage of demand remains very painful for businesses. The number of firms reporting increased demand is smaller than the number of those who reported decreased demand (10.1 percent and 37.6 percent in the second quarter, respectively, and 11.6 percent and 34.5 percent in the third quarter, respectively). Managers expect that during the fourth quarter of 1999 the rate of increase in production will be slower than in the third quarter. Therefore, it is likely that the rate of increase in sales will also be slower than in the second and third quarters.

...and decreased barter transactions and arrears...

During the second and third quarters, both the share of barter

Figure 3. Dynamics of arrears



in the total number of transactions and the number of firms reporting barter transactions decreased. Managers of enterprises in all sectors of industry expected further decreases in the fourth quarter in the share of all barter transactions.

The rate of increase of different types of arrears started to decrease since the second quarter of 1999 (see Figure 3). Decreased accounts receivable were recorded for the first time in the second quarter; this happened again in the third quarter. The rate of increase in accounts payable decreased in the second quarter. Decreased accounts payable were recorded for the first time in the third quarter, i.e., the number of firms reporting decreased accounts payable (30.2 percent) exceeded the number of firms reporting an increase in this indicator (25.2 percent).

The dynamics of wage arrears recorded in the second and third quarters were as follows:

- for the first time since the survey was launched, the number of firms reporting a decrease in wage arrears (25.5 percent) was smaller than the number of firms reporting an increase (34.5 percent);
- the number of enterprises reporting no wage arrears increased from 27.3 percent in the second quarter to 32.4 percent in the third.

The average term of wage arrears during the second and third quarters was 5 months. The printing and food processing sectors were in the best position, with wage arrears of 3.2 and 3.7 months, respectively, while the longest term was in the construction materials sector (7.7 months). Enterprise managers expected that these trends would be preserved in the fourth quarter.

For further information, please, contact Ms. Oksana Kuziakiv, project coordinator, tel.: (380-44) 463-5968, e-mail: OKuziakiv@icps.kiev.ua.

ICPS Newsletter is a weekly publication of the International Centre for Policy Studies delivered by electronic mail.

To be included in the distribution list mail to: marketing@icps.kiev.ua.

ICPS Newsletter is published by the ICPS Publications Group. ICPS Publications director Hlib Vyshlinsky (hlib@icps.kiev.ua) ICPS Newsletter editor Yevhenia Yehorova (ee@icps.kiev.ua) Phone (380-44) 463-6337 English text editor D. (Ksenia) Ovcharenko. Articles may be reprinted with ICPS consent.

The International Centre for Policy Studies is an independent non-profit research organisation with the objective of improving the Ukrainian policy development process. This is achieved by increasing the know-how of key government officials for policy choices, formulation, and debate, and the awareness of the public-at-large of the benefits of policy.

Director of ICPS is Vira Nanivska. Address: 8/5 Voloska Street, Kyiv 04070, Ukraine Phone (380-44) 462-4937/38/58 Fax (380-44) 463-5970 Web-site: <http://www.icps.kiev.ua>