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Current Profile of Ukraine's Business Climate for the Introduction of Small Businesses During the War Period

Abstract

The article examines the conditions of the business climate of small business in Ukraine during the war. *The purpose of the study* is to determine the profile of the business climate and characterise the peculiarities of small business functioning during martial law, as well as to identify the main challenges for its operation. Particular attention is paid to the analysis of business climate transformations in the frontline regions. *Methodology.* In the course of the study, a set of general scientific and special methods was applied. In particular, the methods of analysis, synthesis and systematisation of factors influencing the business climate of small businesses were used. Statistical analysis of data from the State Statistics Service of Ukraine, the Ministry of Finance of Ukraine, the National Bank of Ukraine and the results of expert surveys allowed us to identify the dynamics of key performance indicators of small businesses in the period from 2019 to March 2025. The methods of comparative analysis are used to assess regional differences in the conditions for the functioning of small businesses. To gain a deeper understanding of trends in small business during the wartime period, the author conducted a study based on a comparison of the World Bank statistics on the business climate of European countries. *As a result of the study*, a profile of the current business climate for small businesses in Ukraine during the war was formed, the areas of necessary changes were summarised and critically assessed, and the key difficulties faced by the subjects in the context of the systemic crisis were identified. These challenges include rising energy costs, tight lending conditions, a shortage of qualified personnel, and a decline in the population's ability to pay. Particular attention is paid to the functioning of small businesses in regions close to the war zones (in particular, Kharkiv, Sumy, and Zaporizhzhia oblasts), where security risks significantly affect business activity. At the same time, a positive lever has been identified that partially mitigates the impact of the crisis: the flexibility and adaptation of small businesses. *Practical significance.* The findings of the study can be taken into account by public administration and local governments when creating programmes to support small businesses. The analytical findings can also serve as a basis for business planning in an unstable environment. *Value / Originality.* The originality of the work is due to the combination of empirical data from Ukrainian official sources with international business climate indicators (in particular, World Bank statistics), which allowed not only to study national peculiarities but also to identify comparative advantages and barriers to the development of small business under martial law, which significantly transformed the economic environment in Ukraine.

Keywords

small business, business climate, business expectations, martial law, regional differences, index

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1 Introduction

Since 2022, the full-scale military aggression against Ukraine has caused dramatic changes in the country's economic environment. Small businesses have been particularly vulnerable, with those in the frontline regions occupying an important niche in meeting the basic needs of the population. In the context of martial law, they faced numerous challenges, but despite the difficult conditions, a significant number of small businesses managed to adapt. These phenomena are of interest both to researchers of economic resilience and to government institutions that develop methods to promote the development of small businesses. The main objective of the study is to summarise the qualities of the current business climate for small businesses during the war in the format of a profile, as well as to identify the key factors that affect the functioning and survival in crisis conditions. Given the critical role of small businesses in ensuring socio-economic security at the local level, the study of the specifics of their functioning during the war is of particular relevance.

In general, the business climate can be viewed in two ways, both quantitatively (through indices, indicators) and qualitatively (through the assessment of key aspects that shape the business environment):

1. Quantitative assessment of the business climate. In this case, the business climate is calculated as an index that measures the conditions for doing business in specific countries or regions. Examples of indicators that quantitatively form a picture of the business climate are: Business Ready (World Bank Group), Business Confidence Index (Organisation for Economic Co-operation and Development), Global Competitiveness Index (World Bank Group), Index of Economic Freedom (The Heritage Foundation), Puls, Business Activity Expectations Index (National Bank of Ukraine).

2. Qualitative assessment of the business climate. In this context, the business climate is considered as a complex phenomenon that includes various factors that affect business activity. Given the complexity and comprehensiveness of this concept, the assessment methodology used and the interpretation of the results certainly affect the specifics of management decision-making by business and the state.

2 Assessment of the Business Climate in European Countries Based on the BCI Index

Among the above-mentioned indices for quantifying the business climate, the Business Confidence Index (BCI) (Figure 1) is worth considering for several important reasons. The Business Confidence Index is an index based on surveys of enterprises that assesses

their expectations of economic changes, which allows it to reflect the real mood of business. It is an important indicator for assessing how entrepreneurs perceive the economic environment and whether they are willing to invest or expand their operations. All other indices can measure aspects of the business environment, but they do not focus directly on the sentiment of enterprises as the BCI does. The indicator allows tracking changes in the business environment in almost real time. It should be noted that business expectations and the business climate are closely interrelated, as the state of the business environment affects the forecasts and plans of companies.

Thus, the BCI rose from 2016 to 2018 to 101.54, and from 2020 to 2022 to 101.83. But in early 2024, the BCI dropped to 99.39. The decline in the BCI in 2018-2020 was driven by the economic crisis and economic recession caused by COVID-19. The decline in the BCI after 2022 can be explained by military operations in Ukraine (a sharp rise in energy prices, disruptions in the supply of key commodities (grain, metal, gas), and a general increase in geopolitical and economic uncertainty).

3 State and Dynamics of the Business Climate in Ukraine under Martial Law

As Ukraine's economy has undergone significant changes in recent years, including as a result of economic reforms, external factors and the military conflict, the Ukraine Business Confidence (UBC) score can fluctuate significantly (Figure 2).

Ukraine Business Confidence (UBC) in Ukraine increased to 101.8% in Q4 2024, up 1.2 points from 100.6% in the previous quarter. This increase was driven by a decrease in unfavourable opinions about the number of employees and construction costs, as well as more optimistic forecasts of increased investment in machinery, equipment and inventory. In addition, the positive assessment of total sales of own products remained unchanged. At the same time, expectations about the financial and economic situation of firms remain negative at -6.1 points. Business expectations regarding the need for external financing increased to 33.5%, up from 30.4% in Q3 2024. At the same time, the share of companies planning to use bank loans remained almost unchanged. Businesses continue to focus on loans in national currency. At the same time, respondents believe that the availability of bank resources has become more restrictive, and the main obstacles to attracting loans remain high interest rates, the availability of alternative financing options, and strict conditions on collateral. Comparing UBC's data for the fourth quarter of 2024 with last year's results, a slight increase of 0.2 points from 101.6 to 101.8 can be observed. At the same time, in 2024,

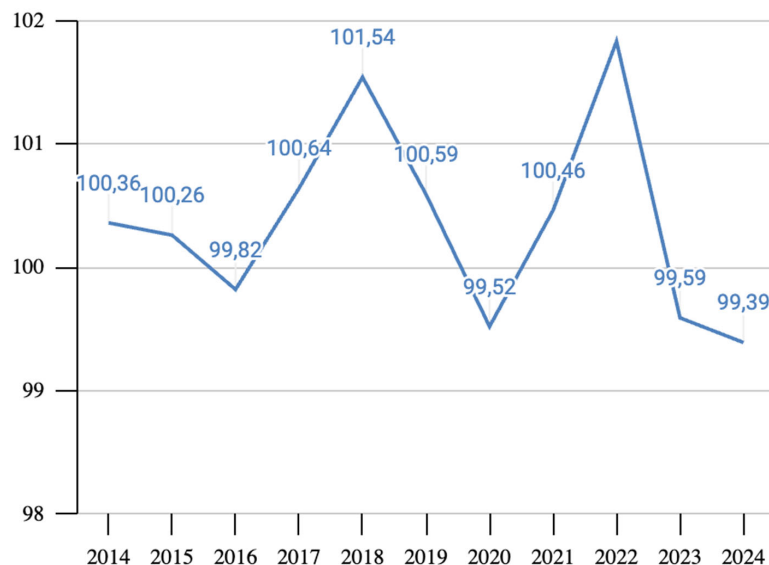


FIGURE 1 Business Climate Index (BCI), for the period from January 2014 to December 2024, as of January 1st

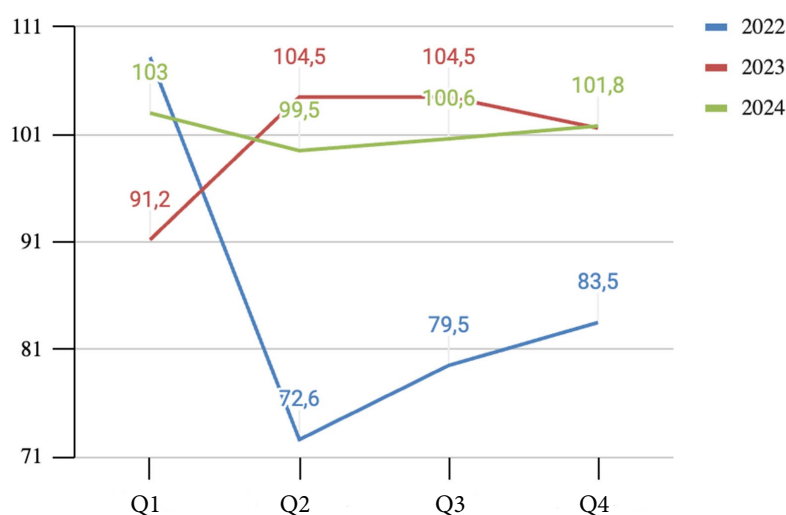


FIGURE 2 Ukraine Business Confidence, for the period 2022-2024

compared to 2023, the UBC indicator decreased the most for small businesses (by -2.8 points), which indicates the need for greater support for small businesses through affordable loans, financing programmes, tax incentives and other measures that will contribute to their sustainability and development. Since small businesses have limited access to credit and fewer financial reserves to overcome crisis situations, rising energy, logistics, and wage costs have a more painful impact on small businesses, as they have lower profit margins. At the same time, it is worth noting that the indicator of 2.8 points is not critically low, and small businesses will demonstrate a high ability to adapt to martial law.

An analysis of individual oblasts of Ukraine shows an increase in UBC in 2024 (Fig. 3), (National Bank

of Ukraine) compared to 2023 in Volyn Oblast by +36.9 units (from 87.7 to 124.7), as well as in Lviv Oblast by +17.9 units; Ternopil Oblast by +16 units; Khmelnytskyi Oblast by +16.6 units and Cherkasy Oblast by +14.9 units.

At the same time, the largest decrease in the level of the UBC indicator in 2024, compared to 2023 (Fig. 4), (National Bank of Ukraine) occurred in Ivano-Frankivsk Oblast by -23.9 units, in Mykolaiv Oblast by -20.9 units, and in Poltava Oblast by -10.1 units.

It is worth noting that the UBC in the frontline cities of Ukraine (Fig. 5), (National Bank of Ukraine), almost did not decrease in the period from 2023 to 2024, namely in Zaporizhzhia Oblast by -0.8 points from 91.8 to 91, but the decline in the index occurred

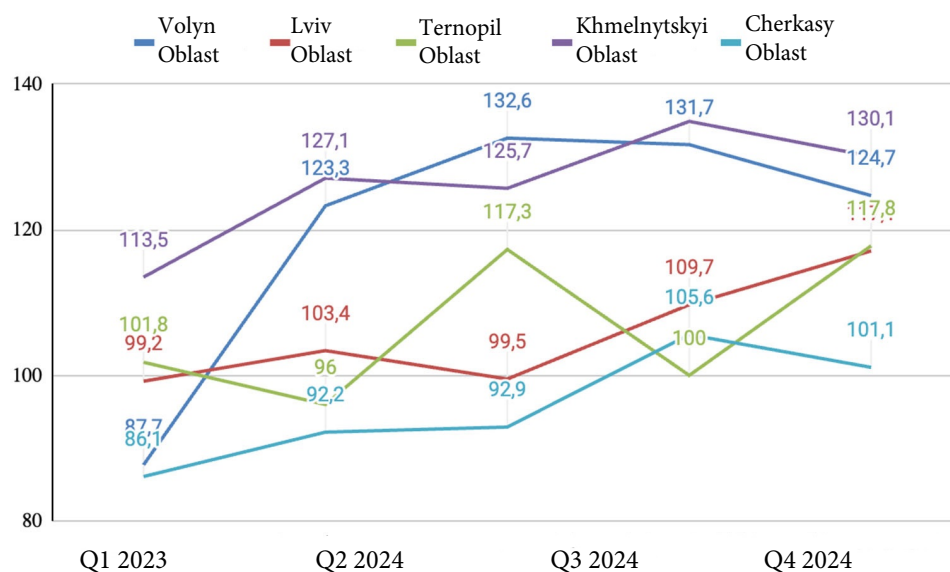


FIGURE 3 Ukraine Business Confidence of certain oblasts in the period from the Q4 of 2023 to the Q4 of 2024

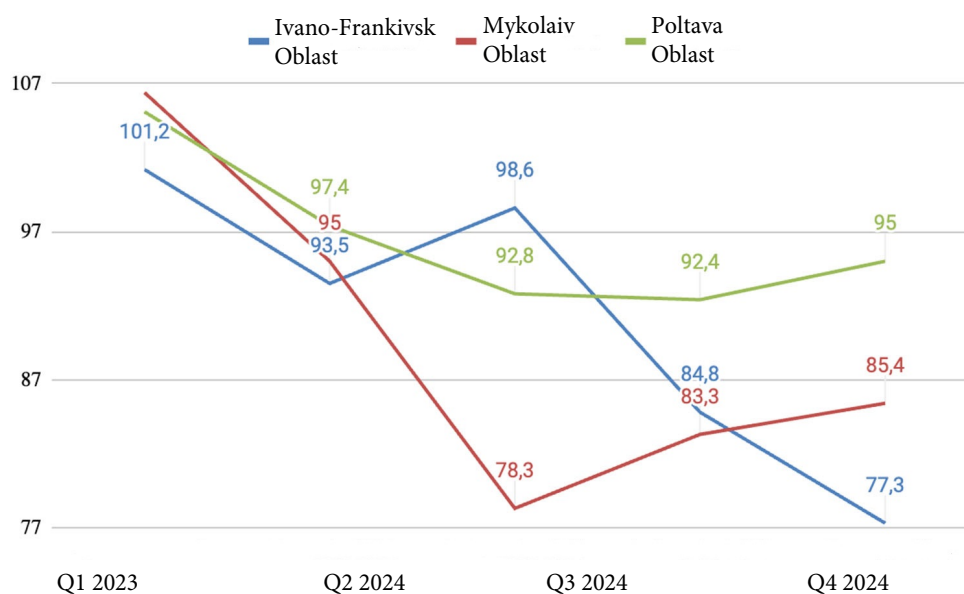


FIGURE 4 Ukraine Business Confidence of certain oblasts in the period from the Q4 of 2023 to the Q4 of 2024

in the Q4. In Sumy Oblast, the index increased by +0.1 points from 98.1 in 2023 to 98.2 in 2024. Kharkiv Oblast also saw an increase in the index by +10.6 points from 85.3 in 2023 to 95.8 in 2024.

The fact that the index of business expectations in the frontline oblasts has hardly decreased or even increased can be explained by the fact that business in these regions has already experienced a sharp decline at the beginning of the full-scale invasion, therefore, even a slight improvement in conditions can now be reflected in the positive dynamics of the index. However, businesses in these regions need support and government protection as much as ever.

Consider now the Business Activity Expectations Index (BAEI), for which, unlike the BCI, a value of 50 is considered neutral, and positive expectations occur when the index value exceeds this neutral level. The dynamics of the BAEI from 2019 to 2024 reflects the complex challenges (Fig. 6) faced by the Ukrainian economy: from the COVID-19 pandemic to military operations and energy crises. Despite periods of improvement, the index indicates that caution and uncertainty remain in business expectations about future business activity.

In 2019, the BAEI remained stable at a positive level, which reflected business confidence in macroeconomic

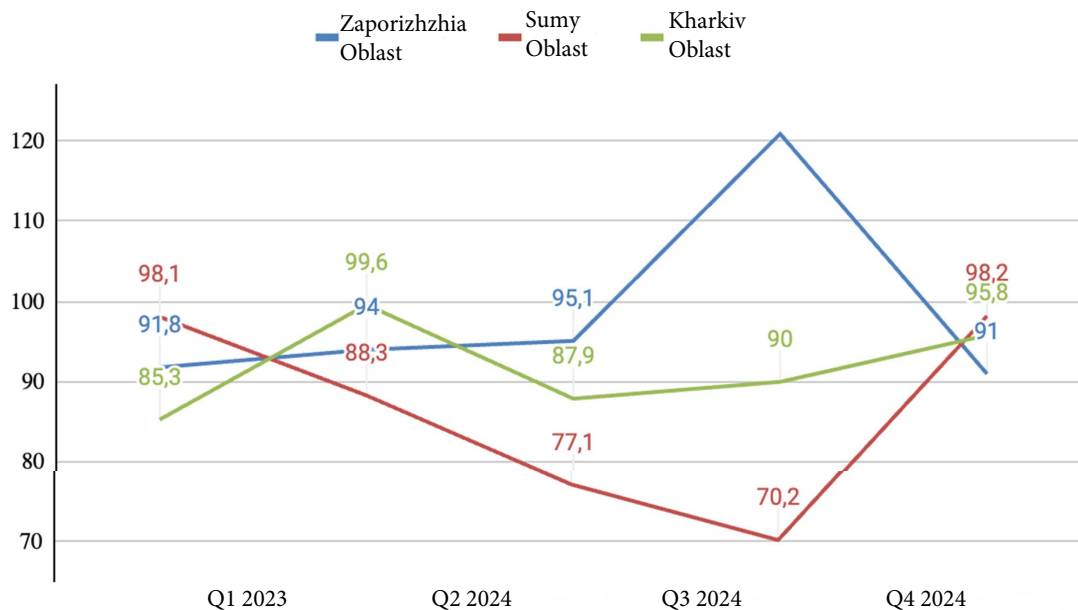


FIGURE 5 Dynamics of Ukraine Business Confidence in the frontline oblasts in the period from the Q1 of 2024 to the Q4 of 2024

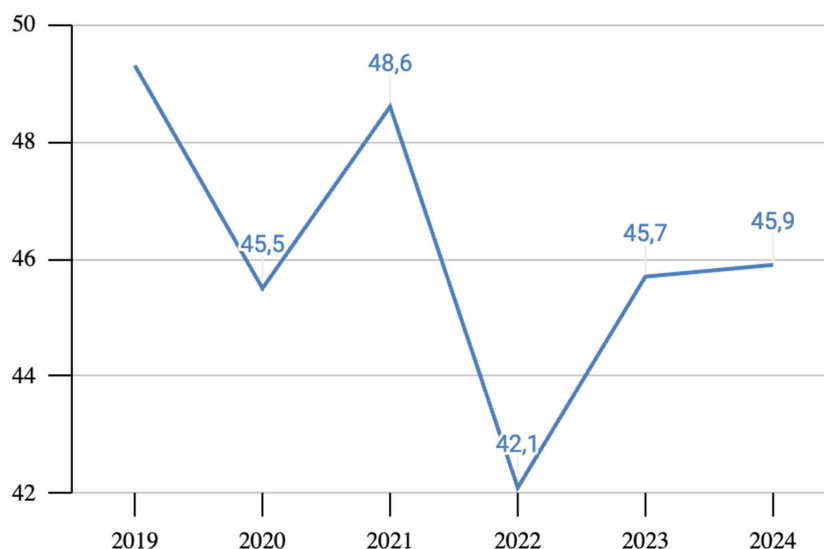


FIGURE 6 Business Activity Expectations Index in Ukraine, as of December 2019-2024

stability and gradual economic growth. In 2020, the COVID-19 pandemic hit Ukraine's economy hard. With the lifting of harsh quarantine measures and businesses adapting to the new environment, the BAEI showed an upward trend in 2021. Despite some optimism, the index remained close to the neutral level, indicating that businesses were cautious in their forecasts. The war in February 2022 caused a sharp drop in the index. In March-May 2022, the National Bank of Ukraine even suspended the calculation of the BAEI due to extreme conditions and the impossibility of conducting surveys. In 2023, as

businesses gradually adapted to the war and the economy partially recovered, the BAEI began to stabilise. However, the index remained below the neutral level of 50, indicating that cautiousness remained in assessments of economic prospects. In 2024, the BAEI gradually approached its equilibrium state. In October, it reached 49.4, indicating an easing of negative assessments of future business activity. Positive trends were driven by projected international financial support, increased consumer activity, and stabilisation of the energy sector. At the same time, the deterrents included increased attacks

on port infrastructure, threats of attacks on energy facilities, and rising energy, labour, and logistics costs. However, in December 2024, the BAEI decreased to 45.9 points, almost reaching the level of December 2023 (45.7 points). The main reasons for the deterioration in expectations were the worsening security situation, increased attacks on energy infrastructure, the financial burden on businesses and the shortage of highly qualified personnel.

As of Q1 2025, the following factors had a favourable impact on the dynamics of the BAEI: increased domestic demand, expanded production and increased supply of goods. At the same time, the development was constrained by the following phenomena: shelling of critical infrastructure, rising costs of wages, heating and electricity, labour shortages and inflationary processes.

Consider in more detail the conditions for running a small business (Ministry of Finance of Ukraine). Thus, in 2024, 64.1% of small businesses reported satisfactory financial and economic conditions of their enterprises, and 28.3% reported poor conditions. At the end of 2024, 61.8% of small businesses expected an increase in unit costs, while 2.8% expected a decrease in costs. In addition, 53% of respondents expect an increase in labour costs for employees in 2025, while 43.8% believe that these costs will remain unchanged. In addition to the hostilities and their consequences, 25.1% of small businesses complained about excessive tax pressure, 40.8% about inflated prices for inputs, and 21.1% about a lack of working capital. A survey of small businesses has revealed that 88.7% of respondents anticipate an increase in product prices. Furthermore, 72.7% of small enterprises are planning to increase prices for their own products. Among the most significant factors driving up prices for small businesses' products are: excessive energy tariffs (for 64.6% of respondents); prices for raw materials (for 57.8% of respondents); hryvnia devaluation (57.4% of respondents); excessive tax pressure (24.7%); and logistical problems (26.9%). Furthermore, 25.6% of small businesses surveyed anticipate an escalation in the necessity to borrow funds for financial purposes, while 70.5% of respondents believe that this need will increase. Only 3.8% of survey respondents foresee a decline in the demand for external funding. Only 5% of small businesses expect to use borrowed funds from abroad. In 2024, the conditions for obtaining a bank loan did not change for 84.2% of small businesses, while for 12.3% the conditions became more stringent, and only 3.5% noted an easing of lending conditions. Small businesses in the frontline regions did not experience any easing of lending at all. For example, in Zaporizhzhia

Oblast, 100% of respondents indicated that lending conditions had not changed compared to 2023, and in Kharkiv and Sumy oblasts, 60% of respondents indicated that lending conditions had not changed, while 40% emphasised stricter conditions for obtaining a loan. In particular, 48.4% of respondents noted high loan rates, 28.3% of respondents emphasised excessive collateral requirements, and 21.1% of respondents considered the loan application procedure to be too complicated.

5 Conclusions

The study showed that a fundamentally new profile of the business climate in Ukraine has emerged. Since 2022, European countries have seen a deterioration in the business climate, largely due to the economic consequences of a full-scale war in Ukraine. Rising energy costs, inflationary pressures and uncertainty on Europe's eastern borders have created new challenges for the European business environment. This has confirmed the transnational nature of the war's impact on economic stability and the need for joint anti-crisis approaches.

The martial law situation in Ukraine has revealed a number of systemic threats to the stable operation of such enterprises: security, rising energy costs, shortage of skilled personnel, physical destruction of infrastructure in the frontline regions, as well as a general decline in effective demand for products, hryvnia devaluation and tight credit conditions.

The business climate for small businesses in Ukraine in 2024 remained challenging and tense due to financial difficulties, rising costs and problems with access to credit. The business environment is being tested for resilience and adaptability. There is a high level of uncertainty due to the ongoing hostilities, hryvnia devaluation and inflationary expectations, which has forced businesses to be cautious in their planning. Expected cost increases and tax pressure may further complicate the situation for businesses in 2025. At the same time, the research findings point to the ability of small businesses to adapt to new realities. Thus, in crisis conditions, the entities continue to play an important role in meeting the basic needs of the population. These research findings have both theoretical and practical value, and can serve as a basis for the formation of a state policy to support small businesses in the frontline regions of Ukraine amid profound social and economic changes. A promising area for further research is the substantiation of scenarios for restoring the business climate in the post-war period.

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