

*Ewa Matuszyńska**

NATIONAL AND REGIONAL BUSINESS EXPECTATIONS IN EUROPE

The paper analyzes business expectations as regards turnover, sales, employment, investment and general conditions of functioning in the EU member and candidate countries. There are substantial differences between those countries, regions of different level of development and enterprises of the manufacturing and service sectors.

Keywords: business expectations, EU member states, EU candidate countries, regional diversification in EU, business expectations in EU manufacturing sector and services

INTRODUCTION

Problem of expectations formulated by enterprises may be analyzed from at least two points of view. Firstly, expectations may be defined as a transmission channel of the impulses of economic policy and overlapping them, widely understood external disturbances (Kowalski 1998). Moreover, expectations are one of the most important elements of the decision-making function. They are reflected in changes (the absence of changes) of economic activity which leads to changes (the absence of changes) in the level of enterprises' development and, consequently, to changes or stagnation in the level of regional and national development. Due to this fact business expectations are the subject of studies related to regional convergence. Reducing differences in the level of regional development in the European Union is one of the main aims of its activities consuming a significant part of the budget.

Business expectations formulated by agents can be regarded as one of the elements that influence the accomplishment of the Community's objective, namely reducing spatial disproportion of development. This is possible when the following sequence of phenomena and activities is assumed:

**economic policy of the state (European Community) → expectations
→ decisions → activity → growth and development of enterprises →
level of national (regional) development → national (regional)
convergence (divergence)**

* Department of European Studies, Poznań University of Economics

Economic and social convergence is one of the objectives listed in article 2 of the Treaty on the European Union (2002). It is also a subject of XVII title of Treaty establishing the European Community (2000). "The Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas" (art.158). To accomplish this aim "Member States shall conduct their economic policies and shall coordinate them in such a way as, in addition, to attain the objectives set out in Article 158" (art.159).

Studies on economic convergence of regions and member states are based in a major part on the fundamental macroeconomic indicators. In order to define convergence (divergence) of the regions and member states, the most frequently used measures are: GDP per capita calculated with respect to purchasing power parity of particular national currencies (so-called purchasing power standard PPS) and the unemployment rate (Regions... 2002; Regions ...2003). Business cycles in the European countries and regions are also studied as regards convergence. Activities of the EU and its member states undertaken in order to coordinate the economic policy of a united Europe are reflected in frequently observed convergence of the business cycles of the member states and, as indicated by the current studies, in the convergence of regional business cycles (S.Barrio, J.J. de Lucio 2001; A. Belke, Jeans M. Heine 2001). Less frequent are more profound studies which define the convergence of factors influencing macroeconomic indicators (O'Leary 2001). The present comparative analysis of business expectations at the level of countries, regions and sectors may supplement this trend of research.

The phenomenon of spatial convergence and, in a static approach, of spatial differentiation, is very complex. Numerous empirical studies conducted in the member states and in the candidate countries, however, neither confirm the convergence nor the divergence hypotheses (Grzeszczak, 2001 p.13). The results of these studies are difficult to compare. They are relevant only when referred to a given period of time, territorial division defined and assumed and the subject of research. Obviously this does not mean that studies on spatial convergence should be discontinued. However, many authors stress that they are very difficult.

1. BUSINESS EXPECTATIONS

Tendencies of changes in economic variables anticipated by entrepreneurs are defined as expectations. These are views and beliefs formulated by enterprises about the future. The necessity to formulate expectations results from the uncertainty characterizing our environment. This is particularly difficult in periods of significant profound changes in politics, economy, social environment (Kowalski 2001). Expectations are one of the most important elements of decision making function reflected in the changes of economic activity. The accuracy of economic decisions, especially those of a long-term character, depends to a large extent on expectations, i.e. current assessments of how a given phenomenon will develop in the future.

Information on the forecasts of enterprises is obtained from direct studies on economic activity conducted by means of business surveys. "A business survey is a set of inter-related questionnaires which include questions concerning basic economic factors of market conditions. The studies may include different economic and social spheres characterized by a considerable share of economic entities, making independent economic decisions, operating in the market economy. Simple indicators, relating to a concrete question, are calculated as a difference or a quotient of positive and negative responses. Complex indicators, depending on the subject of studies, are created on the basis of appropriate simple indicators" (Kowalewski 2000).

There are three basic types (ways) of formulating expectations: extrapolation, adaptive and rational, widely discussed in the related literature (Belka 1992; Czaja 1996; Kowalski 2001). Extrapolation expectations are a simple projection of the tendencies in the current course of phenomena. Neither the knowledge of agents about their previous mistakes nor the experience are taken into account here. In the process of formulating expectations, static and passive nature of economic entities is assumed. On the other hand, adaptive expectations hypothesis according to which economic entities formulate their forecasts based on the course of phenomena in the past and simultaneously considering the previously made mistakes (inaccurate expectations) makes it possible for the economic entities to draw conclusions (to learn). According to this hypothesis the agents formulating their expectations respond to the new information in a delayed and evolutionary way. Expectations still have a passive and retrospective character.

The assumption that expectations are rational means that the entities, which forecast their future, want to minimize errors in their forecasts within the range determined by their own information and intellectual limitations. This means that people use all accessible information and do not make recurrent mistakes in their forecasts (Grabicz 2000).

Rational expectations are based on the model which concerns certain defined processes. The entities formulating their expectations are assumed to use all accessible information (which, however, does not mean full accessibility of information and complete knowledge), to analyze the economic policy of the government and they are able to choose a theoretical model explaining a given phenomenon in the best way. According to this approach "people know the structure of the model which adequately describes reality and formulate their expectations on this basis" (Belka 1992). This approach has three basic assumptions: 1/ information is a rare good, which means that economic entities will use it effectively, 2/ the process of formulating expectations depends mainly on the structure of the model used, 3/ facing competition economic entities use all possibilities to maximize their function of goal (Czaja 1996).

Critics of the theories of rational expectations argue that people make decisions on the basis of simple principles. Both the cost of the access to a complete information and the high complexity of economic growth models usually hinder their application.

Expectations formulated by economic entities are a result of a number of endogenous and exogenous factors relating to an enterprise. Exogenous factors are external as regards a decision-making entity, in the sense that this entity does not have a possibility to influence their development directly. These factors create a widely understood macroeconomic environment of this entity. They define the degree of market "imperative" which a given entity is subject to. Analyzing exogenous factors influencing expectations, three groups may be listed:

- factors of the widest range of influence – the same for all enterprises (and regions). e.g. for the EU member states these will be legal regulations in force in the European Union,

- exogenous factors of a smaller range are those resulting from a widely understood economic policy of a country, including regional policy,

- the third group of exogenous factors are those related to character and functioning of a given region. Here, the economic entities have greater, although still most frequently only indirect, possibilities to influence their course of development. These factors can be defined as exogenous factors of

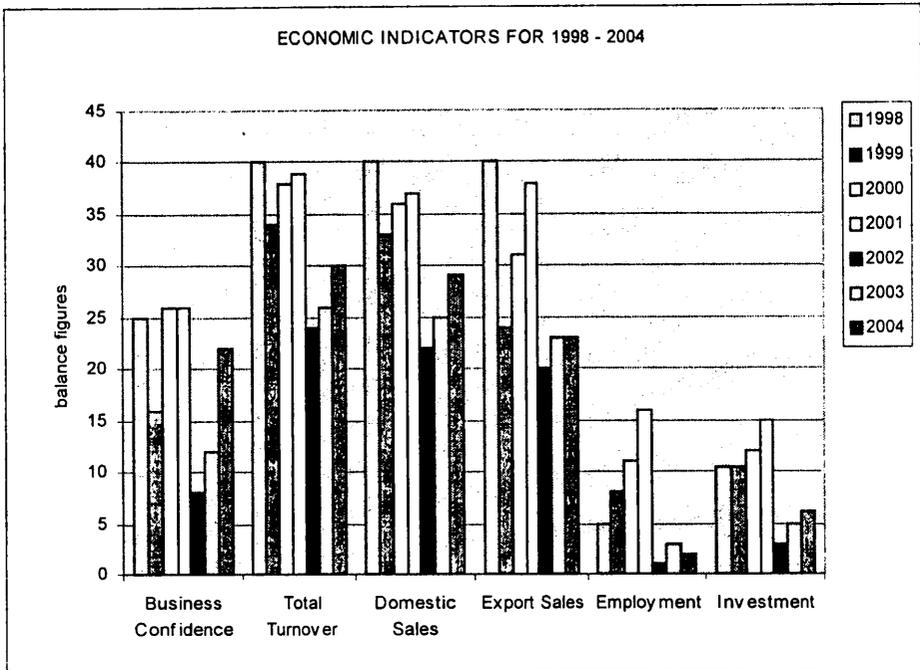
a regional, local scale. This group of factors to the highest extent, apart from endogenous factors – internal as regards an enterprise – can influence spatial differentiation of agents' expectations and their assessment of business climate. This group of factors includes e.g. level of regional development on national and supranational scale (groups of states, EU) and the factors which influence it, such as development of infrastructure, possibilities of developing regional markets, activity of regional and local authorities and their attitude towards enterprises, local and regional labour market, etc.

Expectations also depend on (which is more and more frequently highlighted) subjective factors, such as experience, psychological profile and the so-called "individual framework of knowledge" of a decision-making unit (Kowalski 1998).

1.2. Business Expectations for 2002, 2003 and 2004

Studies on enterprises' expectations on the European scale have been conducted for over 10 years among others by the European Chamber of Commerce and Industry in Brussels. This is an organization embracing 40 national Economic Chambers and 1600 Chambers of Commerce and Industry. The research led by the Eurochambre covers over 15 million enterprises. In recent years studies at the regional level were commenced. They are a significant element supplementing the knowledge on regional development of the Communities. The business survey, the same for all EU member and candidate countries, includes 12 questions concerning assessment of the current year against the background of the previous year as well as expectations in the sphere of total turnover, domestic sales, export sales, employment, investment and general business confidence in the next year. Over 100,000 of enterprises from 120 regions, including 83 regions from the member states and 37 from the candidate countries participated in the studies conducted in the years 2001-2003 (Eurochambres... 2003). Entrepreneurs were asked to give a qualitative response, i.e.: the current situation is better than the previous year, the same as the previous year, worse than the previous year, and the situation will be better, the same or worse than at present. Data obtained at the level of particular countries and regions were weighted according to national GDP value or when there were no relevant information by means of the size of employment (European Economic... 2001). The same research procedure applied in all the countries makes it possible to compare the results obtained.

Business expectations for the years 1998-2004 in 15 EU member states clearly reveal the same tendencies of the changes in all six studied phenomena (Fig.1).



Balance figures is a difference between the share of positive and negative responses expressed in %. Such a definition (in short – expectations) is assumed, unless indicated otherwise, in the whole paper.

Fig. 1. Business Expectations for 1998-2004

Source: EES 2002, 2003 and 2004

In 2002 the unfavourable performance of the US economy and the terrorist attack of 11 September 2001 explained a rapid decline in optimism as regards all the expected indicators. The analyzed expectations can be divided into two groups between which there is the indicator concerning general value, i.e. business climate determined also as business confidence. The first group includes expectations of total turnover, exports and domestic sales. Despite a decline in value, expectations still remain at a fairly high level (20% and more). All the time entrepreneurs expect their enterprises to do well. Employment and investment indicators constitute another group of definitely lower values. Here it can be clearly seen that entrepreneurs are cautious about further activities, particularly as regards an increase of employment. Over the last three years expectations for employment has remained at a level below 5% which is connected with the size of unemployment in Europe.

According to a simultaneously conducted European Survey of Small and Medium-size Enterprises, the decline of expectations for 2002 was also visible in plans of SMEs concerning investment in new machinery and equipment (European Business ... 2003). At the beginning of the 21st century the indicator of optimism in European countries decreased to its level from 1997. The same tendency was observed as regards investment in advertising and, what is particularly unfavourable, in research and development. Firms of a different size, however, had very differentiated expectations. Medium-size firms were more optimistic than the small ones. 49% of the analyzed medium size enterprises expect an increase in turnover, 23% – an increase in employment. Enterprises operating for a period shorter than 10 years are more optimistic than those functioning for a longer period.

A relatively small increase in the expectations for 2003 and 2004 (decline in the case of employment indicator) is due to the still unstable economic situation in the USA and Japan and the political situation in the Middle East which can result in the rise of energy prices.

The studies conducted by Eurochambres analyzed in detail 14 EU member states and 10 candidate countries. The group of member states did not include France as the results of studies cover only one region Ile-de-France. Also information about business expectations in Lithuania and Latvia were not possible to obtain. However, Bulgaria and Romania – countries that will become the EU member later than the other candidate countries, were included in the studies.

For the years 2002, 2003 and 2004 expectations in the group of the current and the future member states differ considerably. Both groups are also internally differentiated (Tables 1 and 2). Average values of the all expectations in the group of candidate countries were much higher than those in the group of member states. The most visible difference concerns expectations for business climate in 2002. The average value of this indicator in the group of future EU members was over five times higher than that obtained for the group of the current EU members. Greater optimism of future member states is due to the results of structural reforms implemented for several years, a relatively high indicator of GDP growth and to a large extent a close date of accession into the EU. The situation was almost the same in 2003, however, the difference between both groups of countries was definitely smaller – 11.7% and 22.2% respectively.

Table 1
Business Expectations for 2002–2004

EU Member States	Turnover			Domestic Sales			Exports			Employment			Investments			Business Confidence		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
Austria	38	49	64	34	34	54	28	44	64	-20	-10	11	3	4	2	-33	18	40
Belgium	37	46	-	29	32	51	23	35	-	11	2	-	6	14	-	-24	-16	-
Denmark	45	48	68	42	49	55	42	19	31	-13	17	26	5	17	32	-14	48	65
Finland	45	58	60	42	50	47	42	53	46	-13	3	6	5	11	9	-14	7	38
Germany	0	-7	3	-	-	-	19	21	25	-13	-24	-23	-16	-23	-19	-4	-3	4
Greece	48	45	50	42	37	45	41	52	34	29	17	18	40	27	34	58	2	19
Ireland	2	62	49	15	53	42	26	31	23	-14	27	17	14	39	30	-13	4	2
Italy	10	9	13	10	8	13	18	25	20	8	7	5	17	18	18	18	19	18
Luxembourg	25	18	25	24	17	32	20	12	23	8	4	3	11	10	12	12	-1	-4
Holland	37	34	24	-	-	-	28	28	26	13	7	-6	4	2	0	21	18	11
Portugal	39	29	48	41	24	37	37	38	42	0	-4	-2	13	9	19	12	12	34
Spain	54	63	62	48	59	59	43	48	48	22	32	30	32	13	27	2	8	29
Sweden	32	49	41	28	40	33	30	26	37	9	19	4	7	17	12	46	16	50
United Kingdom	39	45	49	6	6	11	-5	-5	-0.3	13	14	15	7	10	11	24	32	36
\bar{x}	32.2	38.7	42.8	30.1	34.1	39.9	28.0	30.5	31.3	2.9	7.9	7.9	10.6	12.0	14.4	6.5	11.7	26.3
S_x	16.9	21.2	20.5	13.9	17.5	15.6	13.1	16.2	16.4	15.1	14.7	13.9	13.3	13.7	14.8	25.9	15.6	20.2
V_x	52.5	54.8	47.9	46.3	51.3	39.1	46.8	53.1	52.6	522.2	186.6	176.9	125.5	114.2	103.4	399.4	134.4	76.9

- no data

* own calculations

\bar{x} * - mean value, S_x * - standard deviation, V_x * - coefficient of variation

Source: EES 2002 - 2004

Table 2

Business Expectations for 2002 –2004

Future EU Member States	Turnover			Domestic Sales			Exports			Employment			Investment			Business Confidence		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
Bulgaria	54	60	61	48	44	51	48	51	54	28	26	42	40	44	51	56	44	51
Cyprus	47	43	58	32	37	56	23	17	32	20	20	33	29	27	38	28	20	46
Czech Republic	61	55	52	52	42	39	45	51	43	25	17	9	29	21	25	57	-11	-14
Estonia	63	53	67	45	57	52	45	30	47	18	25	33	36	25	35	12	20	11
Hungary	20	18	16	10	11	14	10	10	16	-10	-6	-12	13	7	6	7	15	11
Malta	23	21	40,5	11	10	39	26	24	19	8	5	12	19	19	32	7	12	37
Poland	19	42	48,6	19	38	45	34	42	42	-30	9	22	-4	29	38	24	0	17
Romania	77	84	77	69	69	67	73	57	68	30	24	-8	55	63	59	59	39	54
Slovakia	60	71	57	37	48	30	48	53	61	4	27	1	47	43	37	49	36	15
Slovenia	57	74	66	39	37	39	69	70	72	-10	-2	-3	27	32	17	56	47	45
\bar{x} *	48,1	52,1	54,3	36,2	39,3	43,2	42,1	40,5	45,4	8,30	14,5	12,8	29,1	31,0	33,8	35,50	22,2	27,2
S_x *	20,4	21,7	16,9	18,8	18,2	14,5	19,7	19,4	19,2	19,8	12,2	18,9	17,1	15,7	15,2	22,12	19,22	22,5
V_x *	42,4	41,7	31,1	52,0	46,2	33,6	46,7	47,9	42,0	238,4	84,1	147,7	58,6	50,6	45,4	62,30	86,56	82,7

- no data

* own calculations

 \bar{x} - mean value, S_x – standard deviation, V_x – coefficient of variation

Source: EES 2002 - 2004

A relatively small difference is also visible in the case of the year 2004 which is due to a very high growth of the average value of the expectations (more than twice as compared with the year 2003 and over four times as compared with the year 2002) in the member states and, simultaneously a decline in the value of this indicator in the group of the remaining countries. A decline of optimism in the candidate countries can be explained (similarly to the explanation of its growth in the previous years) by structural reforms, which in many cases did not bring the expected results. The current situation and the existing threats, apart from anticipated benefits connected with forthcoming accession of those countries to the European Union, caused a decline in the value of expectations for the future functioning of enterprises. This does not apply to Estonia, Hungary and Malta.

Apart from the indicator of business climate, there are significant differences between both groups of countries as regards employment and investment. Entrepreneurs from both groups have much more similar views on the volume of turnover and sales.

With the applied approach to calculating the value of expectations (the difference between positive and negative expectations) the same value of the indicator can be obtained when the share of positive, negative and neutral expectations is different, which indicates a necessity to analyse those particular responses also.

In the years under analysis, the mean value of all positive expectations in the candidate countries amounted to 47.2%, 45.8% and 46.2%, whereas in the member states – 35.7%, 37.6% and 39.9% (Tables 3 and 4). The values obtained for the group of member states account for 75.8%, 82.2% and 86.4% of the value of expectations indicator for the group of future EU members. In the case of negative expectations the proportions are reverse. The respective values in the member states amount to 121.9%, 120.9% and 105.5% of the values obtained for the future EU members. In the member states the share of enterprises which did not anticipate any changes remained virtually the same. Therefore, the share of positive expectations increased at the expense of negative expectations. However, in the candidate countries both positive and negative expectations decreased. At the same time the growth of neutral expectations is visible. With a fairly optimistic attitude to changes, one can clearly observe a wait-and-see attitude of a considerable part of enterprises.

Important information from the viewpoint of integration and cohesion processes is provided by coefficients of variation of the analyzed expectations reflecting internal differentiation in both groups of countries. Coefficients of variation, both in the group of candidate countries and current EU members

varied clearly (Tables 1 and 2). The biggest differences between members of the Community – although simultaneously decreasing, which must be indicated – are visible in expectations for employment, investments and business confidence. The countries were most convergent about expectations concerning domestic sales. High convergence of enterprises as to the anticipated positive changes in this factor, as well as exports and turnover is not translated therefore into similar convergence as to further development of enterprises in the context of investment and employment. The situation is similar in the group of candidate countries. Despite visible differences, however, these countries are more convergent than the member states as regards changes anticipated for all indicators.

Internal differentiation in both groups of countries is influenced to a larger extent by negative expectations which is clearly indicated by higher values of the dispersion indicator than in the group of positive indicators (Tables 3 and 4).

Table 3

Mean Positive and Negative Expectations in Member States
for 2002, 2003 and 2004

EU Member States	Positive expectations			Negative expectations		
	2002	2003	2004	2002	2003	2004
Austria	35.3	42.5	50.3	27.0	19.3	11.3
Belgium	-	40.0	-	-	21.2	-
Denmark	30.7	43.6	51.7	17.0	12.2	5.7
Finland	38.5	44.2	46.1	9.3	13.8	11.8
Germany	22.4	21.4	23.6	25.2	28.6	25.6
Greece	51.7	43.5	47.2	8.7	13.5	13.8
Ireland	34.8	50.2	40.8	31.2	14.2	13.6
Italy	26.3	26.5	28.1	12.8	12.2	13.4
Luxembourg	29.0	25.5	29.5	11.8	11.5	14.3
Holland	34.8	33.2	28.5	14.2	15.4	14.3
Portugal	40.5	33.2	42.2	16.8	15.2	12.4
Spain	45.0	49.0	51.2	11.5	10.2	8.6
Sweden	38.5	37.7	42.8	13.2	9.8	13.6
United Kingdom	34.2	34.8	36.3	20.2	17.8	16.0
—	35.5	37.5	39.9	16.8	15.3	13.4
\bar{x} *						
S_x *	7.7	8.8	9.7	7.1	5.0	4.5
V_x *	21.7	23.4	24.3	42.3	32.7	33.6

* - own calculations

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 \bar{x} - mean value, S_x - standard deviation, V_x - coefficient of variation

Source: EES 2002–2004

Table 4
Average Positive and Negative Expectations in Accession Countries
for 2002, 2003 and 2004

Future EU Member States	Positive expectations			Negative expectations		
	2002	2003	2004	2002	2003	2004
Bulgaria	53.2	53.8	58.4	7.7	9.0	6.6
Cyprus	42.8	40.3	51.1	13.0	13.0	7.3
Czech Republic	54.3	46.3	44.3	9.5	17.2	18.4
Estonia	45.8	41.7	50.3	9.3	6.7	9.5
Hungary	28.2	25.8	30.0	21.5	16.7	21.4
Malta	32.2	33.0	40.1	16.5	17.8	10.2
Poland	38.0	43.2	47.5	27.7	16.5	11.9
Romania	67.8	64.6	39.3	7.3	8.7	10.5
Slovakia	55.2	56.2	49.4	14.3	9.8	18.6
Slovenia	54.5	52.8	51.5	14.8	9.8	12.1
—	47.2	45.8	46.19	14.16	12.52	12.65
\bar{x} *						
S_x *	12.1	11.5	12.0	6.5	4.2	5.1
V_x *	25.66	25.1	25.9	45.8	33.6	40.3

* - own calculations

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 \bar{x} - mean value, S_x - standard deviation, V_x - coefficient of variation

Source: EES 2002 - 2004

2. POLAND

Studies conducted in Poland (within the framework of Eurochambres) are organized by the Polish Chamber of Commerce. 3,160 enterprises from all provinces participated in the studies covering the years 2002, 2003 and 2004. The structure of respondents was differentiated. The surveyed enterprises included manufacturing and services (different branches), small, medium-size and large enterprises, exporters and enterprises operating exclusively on the domestic market (Raport... 2002). The structure of the analyzed firms does not reflect precisely the structure of enterprises in Poland. Thus, information obtained do not fully characterize the state of the country's economy. However, an unquestionable advantage of the studies is (like in the case of other countries) the fact that the information is obtained directly from entrepreneurs, i.e. people who know the situation of their own firm very well and who individually estimate how external and internal conditions influence its performance and further growth.

In the analyzed period expectations were more and more optimistic, except those concerning the general investment climate. The research team who conducted the studies in 2002, supplemented later on by the analysis of further studies, presented the following conclusions:

1. **Turnover** – expectations of the Polish enterprises clearly improved. The share of negative expectations decreased from 26% to 11% and the share of positive expectations increased from 45% to 60% (Table 5).

Table 5

Business Expectations in Poland for 2002, 2003 and 2004

	Turnover		Domestic Sales		Exports		Employment		Investments		Business Confidence	
	+	-	+	-	+	-	+	-	+	-	+	-
2002	45	26	44	25	52	18	14	44	24	28	49	25
2003	56	65	53	15	50	8	30	21	43	14	27	27
2004	60	11	56	12	49	6	33	12	46	8	40	23

+ positive expectations

- negative expectations

Source: National Report. Poland. European Economic Survey 2003, Polish Chamber of Commerce, Warsaw 2002, EES 2004

2. **Domestic sales** – a change of expectations concerning domestic sales in the years 2002, 2003 and 2004 was similar to changes of expectations concerning turnover, both as regards positive and negative expectations. A high share of positive expectations in this case can be explained by entrepreneurs' hopes connected with implemented and planned anti-crisis measures, particularly in the sphere of labour law flexibility, restructuring of enterprises' debts to State Treasury, increasing stability, facilities for small and medium-size enterprises as regards tax policy and more effective functioning of administration;

3. **Exports** – the value of expectations indicator concerning exports increased from 34% to 43%. However, it should be pointed out that still as much as over 40% of the respondents (which is a significant number) do not forecast any changes in the volume of exports. The resulting 43% was obtained due to a slight decline in positive expectations compared to the year 2002 and a substantial (threefold) decrease in the number of negative expectations. Therefore, it seems difficult to speak about a clear pro-export orientation of the Polish enterprises although the authors of

the report express such an opinion. Only in a small part of enterprises does the value of exports exceeds 50% of total sales;

4. **Employment** – a growing or persistently high level of unemployment is a problem for many European countries, including Poland. Although in the year 2004 33% of enterprises anticipated an increase of employment, at the same time as much as 12% intended to reduce it. Generally speaking, however, the situation anticipated for the year 2004 is more favourable than expectations for the previous years. This is certainly connected with the anticipated growth of investment. The growth of employment can be, however, hindered by still very high indirect costs of labour. Moreover, restructuring of the sensitive sectors of the Polish economy, resulting in a substantial loss of jobs, does not lead, at least at present, to the improvement of the situation.

5. **Investments** – as regards investment activity, entrepreneurs emphasize an unfavourable fact that the main source of finance is most frequently their own means. An alternative is commercial loan with high interest rate, inaccessible for many, particularly small and medium-size firms. Despite this, 46% of enterprises forecast the growth of investment. A considerable part of this investment, particularly in small enterprises, is financed from their own resources. Only medium size firms decide to apply for a loan more frequently than in the previous years. Pro-investment orientation of enterprises is probably influenced, among others, by the growing awareness of the consequences of Poland's integration with the European Union. Entrepreneurs are more and more aware that effectiveness of their activities on the common European market is closely connected with a necessity to invest. This is also extremely important for the economic growth of the whole country.

6. **Business confidence** – a disturbing, clearly visible decline of confidence in general conditions for economic activity observed in the year 2003 was stopped. Expectations for the year 2004 are again more optimistic (17.0%). Nevertheless, entrepreneurs complain about numerous barriers hindering the growth of firms and are waiting for concrete decisions of the government to improve the situation. Quite frequently one can also observe changing attitudes towards membership in the European Union. Although generally approved of the EU membership does not trigger such optimistic expectations as in the previous period when about one third of the firms believed that their situation would improve after accession. Expectations as regards general climate for enterprises are not simply changed into anticipated activities

in the field of investments, employment and expectations concerning the remaining magnitudes under discussion.

The picture obtained from Eurochambres studies is confirmed by research of expectations in small and medium size enterprises. Entrepreneurs in Poland, highlighting the most significant barriers hindering the growth of enterprises, quote the high costs of financing their activity, no access to the sources of financing and the negative influence of legislature (Europejski... 2002).

3. MANUFACTURING AND SERVICES

Very significant information for making economic decisions on a national and regional scale is the behaviour of agents from different economic sectors.

The comparison of expectations for the year 2002 in enterprises belonging to two sectors – manufacturing and services – was made for 10 member states (Table 6). The mean value of six analyzed indicators in the manufacturing sector amounted to 10.5%, whereas in the services sector it was twice as big and amounted to 20.7%. Mean values of expectations in the services are never negative. However, their range is significant and amounts from 36.5% in the case of turnover to 7.1% in the case of investment climate. The maximum value obtained by manufacturing enterprises amounts to 23.4% and concerns turnover, like in the sector of services. As regards employment the mean value of expectations in the manufacturing sector is negative. This is influenced above all by clearly pessimistic attitudes of entrepreneurs from Austria, Denmark, Germany and Finland. In those countries, apart from Denmark, the expectations in services sometimes assumed negative values.

A more positive attitude of enterprises from the service sector is observed in 7 of the analyzed countries. A slightly higher expectations' considered jointly in the manufacturing sector in Sweden falls within the limits of statistical error. Bigger differences are visible in Italy and in Germany. In Italy the values of all expectations in the services, apart from exports, are lower than in the manufacturing enterprises. A similar situation was observed in this country in the year 2001.

Table 6
Manufacturing and services expectations for 2002

EU MEMBER STATES	Turnover		Domestic Sales		Exports		Employment		Investments		Business Confidence	
	M	S	M	S	M	S	M	S	M	S	M	S
Austria	18	65	9	65	25	36	-23	-17	-7	15	-41	-24
Denmark	17	37	25	27	21	19	-21	15	-8	1	-38	-23
Finland	31	54	19	58	40	56	-22	-4	7	6	-15	-14
FRANCE (Ile - De France)	26,8	38,2	28,9	36,4	2,9	24,7	0,9	17,2	-13,3	8,8	-13	1,7
Germany	0	-2	-	-	19	-	-18	-9	-16	-17	-4	-4
Italy	11,8	7,6	11,4	7,6	15,1	24,2	11	4,5	17,7	16,3	20,7	17,6
Luxembourg	17,4	28,7	14,6	28,5	18,4	19,8	4,7	14,4	11,5	10,0	9,1	12,9
Holland	29	42	-	-	27	30	6	18	1	6	16	24
Sweden	33,2	30,9	28,1	29,8	29,8	29,5	6,8	10,9	9,8	5,2	46,5	45,8
Spain	49	58	39	53	44	46	7	31	22	37	-7	8
United Kingdom	28	43	-6	10	-13	0	4	15	1	9	13	27
\bar{x}^*	23,7	36,6	18,5	34,9	20,8	28,5	-1,4	8,6	3,1	8,8	-1,2	6,5

M – manufacturing S – Services

\bar{x}^* – mean value, own calculations

Source: EES 2002, National results

The fact that service providing firms are generally more optimistic can be explained by growth-oriented attitudes of highly developed countries towards this sector of economic activity and frequently lower costs of job creation in this sector. In the EU countries the sector of services is the most dynamically developing sector as regards employment. In the period 1995-2001 services accounted for 57.5% of all jobs (Employment... 2001). The total share of people employed in services in all member countries in 2001 was 69.4%. Minimum and maximum values amounted to: 58.5% in Portugal and 76.7% in the Netherlands. At the same time in the EU candidate countries the mean value of the share of people employed in services for the whole group (except Malta) was 57.5%. Having excluded Cyprus where employment in services definitely differs from the value of this indicator for the remaining countries, the mean value of employment in services was 55.8%.

The difference in the significance of the services in the analyzed groups of countries, though not as big as in the case of employment, is also visible in its share in generating GVA (Gross Value Added). In the year 2000 this

share was 69.6% in the member states and in the ten candidate countries – 64.1% (Economic... 2001).

The absence of data for all the countries of Central Europe makes it impossible to carry out a more detailed analysis of expectations in the manufacturing and service sectors for the group of candidate countries. Nevertheless, even this fragmentary data shows that the situation in those countries as regards the analyzed range is completely different (Table 7). In all cases expectations in services are less optimistic than those of the manufacturing enterprises. This can result from the fact that in those countries industry is still playing a more important role than services. If this sector of activity is profoundly restructured prospects for its development will be favourable.

Table 7
Manufacturing and Services Expectations*

FUTURE EU MEMBER STATES	Manufacturing	Services
Slovenia 2000	53.5	32.0
Slovenia 2001	56.0	52.8
Bulgaria 2001	44.8	24.7
Czech Republic 2001	56.2	47.8
Czech Republic 2003	30.3	26.0
Hungary 2001	23.5	12.0

* Mean value of expectations for 6 analyzed economic indicators: turnover, domestic sales, exports, employment, investments, business confidence

Source: EES, National Results

A similar situation was observed in Poland. The values of three indicators for 2003 were as follows (Raport... 2003):

- total turnover: 56.0% – manufacturing, 32.5% – services
- domestic sales: 47.0% – manufacturing, 30.0% – services
- exports: 64.5% – manufacturing, 36.2% – services (only positive expectations)

3.1 Regional Diversification of Expectations for 2002, 2003 and 2004

Inequality and regional diversification of the European Union, as already mentioned, belong to most frequently discussed problems in the related literature. Among others this results from one of the objectives which is, according to the Treaty establishing the European Community, the reduction of disparities between the level of development of the various regions and

backwardness of the least favoured regions or island, including rural areas (Art.158). Studies conducted by Eurochambres compare expectations of the least developed regions with those of the remaining ones. The group of the least developed areas is made of 32 regions of the member states, Greece and Ireland. The minimum value of GDP per capita expressed in PPS in the year 2000 occurred in Extramadura region (Spain) and was 11006 which constituted less than 50% of the average value for the whole European Union (Regions... 2002).

In 2002 negative attitudes concerning business confidence in both groups of regions were the same and amounted to 22%. The share of positive expectations is bigger in the group of the least developed regions, i.e. 34% as compared to 30% in the remaining regions. Thus, this is the same situation which was observed when comparing better developed member countries with candidate countries of a lower level of development. Average positive expectations of the regions of a higher level of socio-economic development constituted 88.2% of the average of positive expectations in the poorer regions. Only in the case of anticipated employment for 2002 did both groups of regions reveal almost the same attitudes. However, expectations were low there and did not exceed 8%. Expectations for the year 2003 were less differentiated. The mean value of positive expectations in the richer EU regions accounted for 94% of the average value obtained for the poorer regions. This result was obtained with a general growth of positive expectations for both analyzed groups of areas. The difference between expectations concerning the year 2004 between both groups of regions increased again.

A similar approach, i.e. a division of regions according to the level of socio-economic development, was used to analyze spatial diversification of the expectations for 2002 in the group of services and manufacturing enterprises. Due to the availability of data the analysis covered regions from 12 EU countries (data for Greece concern expectations in the year 2001) including 23 under developed regions (absence of data for Ireland, Belgium and Portugal). The results obtained, similar to the values of indicators analyzed at the national level, show a more optimistic attitude to the development of enterprises in the service sector (Table 8). Mean values for all the expectations together in the group of poorly developed regions and the remaining ones amount respectively to: 20.5% and 17.5% in the sector of services and 16.3% and 8.8% in the manufacturing sector.

Table 8

Expectations for 2002 in the Regions of Different Level of Socio-economic Development
According to Sectors (in %)*

	Turnover		Domestic Sales		Exports		Employment		Investments		Business Confidence	
	M	S	M	S	M	S	M.	S	M	S	M.	S
Under-developed regions	29.7	30.7	21.5	33.8	28.6	31.4	1.3	10.9	11.3	15.0	5.6	0.9
Remaining regions	21.7	28.1	16.8	27.7	19.0	26.6	-5.1	5.9	0.7	10.3	-0.6	6.5

M – Manufacturing

S – Services

* own calculations

Source: National Results... 2002

In the less developed regions there is a significant share of enterprises predicting a growth in turnover, sales and investment, above all in the services sector, despite a surprisingly low assessment of the improvement of general business confidence. Competition and low demand are regarded to be the main factors responsible for such a low assessment of the future (and the current) conditions of functioning. Moreover, frequently unclear legal regulations, high credit interest rate and, as a result, financial problems of firms are regarded as factors hindering growth.

4. REGIONS IN POLAND

Results of studies conducted in the Polish regions make it possible to formulate the following conclusions:

1. Business expectations are not clearly dependent on the level of socio-economic development of provinces expressed in the value of GDP per capita (Table 9).

2. In 2003 the mean value of expectations concerning general business confidence was negative and amounted to -0.25%. The lowest values of the indicator (-12%) were noted in Zachodnio-pomorskie and Pomorskie regions. Apart from these areas, negative and positive values of the indicator appear both in the most and the least developed regions. Enterprises in Opolskie and Lubuskie provinces expressed the most optimistic attitudes

towards business confidence in the future. In 2004 the value of the indicator, considerably increased.

3. Expectations for turnover, domestic sales, exports and investments were positive in all the regions. As regards the first three of the above-mentioned indicators they were considerably higher than for investments. Similar to enterprises in the regions of the member states and other candidate countries, Polish firms are extremely cautious about increasing employment. This is, among others, a result of the binding labour law regulations which hinder flexibility of the labour market. Nevertheless the situation is better than it used to be.

Table 9

Regional Expectations in Poland for 2003 and 2004

REGIONS*	Turnover		Domestic sales		Exports		Employment		Investments		Business confidence	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
Mazowieckie	31	51	48	48	48	43	10	22	32	38	-1	30
Śląskie	46	54	41	51	46	46	2	21	31	36	-4	22
Wielkopolskie	43	58	34	53	41	46	12	17	25	40	4	28
Dolnośląskie	43	45	43	37	38	48	-1	20	25	34	6	23
Zachodniopomorskie	26	55	29	47	27	23	3	16	17	35	-12	28
Pomorskie	39	45	30	41	51	47	0	21	13	42	-12	10
Łódzkie	41	61	34	56	33	45	6	27	22	43	-1	18
Lubuskie	53	57	46	51	50	44	31	21	43	42	8	24
Kujawsko-pomorskie	43	42	39	40	39	55	7	17	31	30	1	20
Małopolskie	28	28	27	25	34	36	10	21	4	32	1	7
Opolskie	51	43	42	54	37	30	10	18	28	42	11	23
Świętokrzyskie	29	39	27	38	36	42	14	33	28	40	3	13
Warmińsko-mazurskie	41	61	37	51	44	45	18	25	31	42	0	21
Podlaskie	50	53	44	45	29	55	33	23	35	37	-4	23
Podkarpackie	41	47	35	41	27	32	16	28	36	41	-7	3
Lubelskie	47	58	36	53	18	27	20	41	33	50	3	22
\bar{x} **	40,8	49,8	36,4	45,6	37,4	41,5	15,7	23,2	27,1	39,0	-0,25	19,8

*provinces according to decreasing value of GDP per capita in 2002

** - mean value, own calculations

Source: EES 2003 and 2004

4. For the majority of cases the values of expectations increased. This is particularly visible as regards general business confidence, which is most probably connected with Poland's accession into the European Union in mid-2004. A general growth in optimism, despite simultaneously declared fears, is also reflected in the mean values of the indicators under analysis.

FINAL REMARKS

The analysis of business expectations carried out in enterprises of 24 European countries for the years 2002–2004 reveals significant differences between the expectations formulated by entrepreneurs from the EU member states and those from the candidate countries. The future member states are much more optimistic. Significant differences appear above all in employment and investments although in this group of countries the indicators of expectations are lower than those concerning the value of turnover and sales. The EU candidates are also more consistent as regards the formulated expectations although they differ from each other. The internal differentiation of the analyzed groups is influenced above all by differences in the values of negative expectations.

Expectations formulated by service enterprises in the member states reveal a more optimistic attitude of this sector. A reverse situation is observed in the countries which have not yet entered the Community. Despite a definitely increasing role of the services in all the countries, the role of industry in the countries of Central and Eastern Europe is still different from that in the EU.

Although the analysis covered a three-year period, the results obtained should be interpreted as static. Such period is too short to point out tendencies, directions of changes, dynamics. It is necessary to conduct further long-term studies in order to define the process of changes in the business expectations in the European countries and regions and their economic sectors.

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