

# ICPS newsletter

## The middle class in Ukraine: size and behavior

***The middle class is an active consumer; its behavior in the market is more rational than that of the richest, who virtually do not have financial limits, and the poorest, who are concerned solely about basic needs satisfaction. In Ukraine, the middle class is just arising, though there are reasons to expect its dynamic growth in the nearest future. As rationality of their behavior makes predictable the volumes and the peculiarities of middle class demand, their values and lifestyle enable us to predict the future development of individual markets and of the economy in general***

The topic of the middle class as the basis of a stable society has ceased to be just a subject for theoretical discussions by economists and politicians—it has become vital for most companies. Making its contribution to the informational base for administrative decision-making, the International Centre for Policy Studies, together with the GfK-USM company and *New Marketing* magazine, have launched a new project, “Research on the Middle Class in Ukraine”. We seek to obtain answers to the following questions:

- Who belongs to the middle class in Ukraine and what is its size and composition?
- What does the middle class consume?
- Where do middle-class Ukrainians buy goods?
- What are the criteria for their choice?
- What choices does the middle class make in the labour and consumer markets?

- How does the middle class respond to advertising, what kind of advertising works best, how does it influence their consumer behavior?
- Is the middle class satisfied with the quality and price of goods offered in the market?
- What share of their income do middle-class Ukrainians tend to reserve for savings? And, finally,
- How do shifts in middle class behavior and numbers influence development of markets?

This project is targeted at companies operating in Ukraine that regard the middle class as their main clients. As part of the project, we plan to publish an annual research report which will include an analysis of the middle class in Ukraine and a prediction of its behavior in individual markets. In fact, on the basis of preliminary research we can already make certain conclusions about the features of the Ukrainian

middle class as a consumer group of considerable economic influence.

### Preliminary research results

Using the data of monthly surveys conducted by the GfK-USM company during the past three years, ICPS did preliminary research that aimed at a Ukraine-specific definition, according to certain criteria, of the group of people that is generally regarded as the middle class.

Researchers in different countries note that income levels cannot be viewed as the only criteria for ranking persons among the middle class. Instead, their behaviour in both the labour and consumer markets should be taken into consideration. Thus, besides welfare level, we can suggest the following criteria: education level, professional level and ability to find a job, consumption standards, self-identification as a middle class representative, and the ability to adapt to social transformation conditions.

At the first stage we selected respondents according to the following characteristics:

- Respondents with vocational, incomplete higher and higher education;
- Respondents who are not pensioners, registered unemployed, or unskilled workers;
- Respondents who identified their household material status as average or higher than average.

After this selection in a body corresponding to the 2002 survey, 24.5% of the respondents remained.

For identification of respondents' income levels, we applied an indirect method based on self-estimation of their level of lifestyle (from “poor” to “rich”) and respondents' opinions on the amount of income corresponding to certain lifestyles. Table 1 presents a

### *The middle class research methodology*

*Comprehensive research on the middle class and prediction of the development of individual markets where the middle class is the main consumer require the application of a series of different tools. We plan to collect initial information through a representative survey. Then we plan to use this collected information, along with data on the dynamics of individual market development and state statistical socio-economic indicators, to create an econometric model.*

*It enables us to define the factors that influence the size of the middle class in Ukraine, its incomes, expenditures on certain consumer goods, savings levels, etc. The correlations obtained can be used to predict the development of the Ukrainian middle class, shifts in its behavior, and consumption dynamics in individual markets where the middle class are the main consumers or will become so in the nearest future.*

division of the respondents according to income level, as estimated by us. Amounts of income for 2000 and 2001 were adjusted to account for inflation levels in the respective years.

As Table 1 shows, there is a clear tendency to reduction of the number of respondents with income levels lower than 450 hryvnias per month, while the number belonging to the average and upper-average middle class during recent years is steadily growing.

We are introducing the idea of the "upper middle class" assuming that the Ukrainian middle class is not homogeneous, and thus there is a necessity to single out certain groups in it. To do this, we applied an additional criterion—an objective estimation of their material situation according to the possession of certain consumer durables (expensive goods indicative of the middle class, or luxuries). Using regressive analysis, we defined eight such goods: a mobile telephone, microwave oven, personal computer, video camera-recorder, an apartment residence bought by the family, automatic laundry machine, a VCR, and an automobile. On the basis of the number of expensive goods indicative of the middle class possessed by a household, we estimated household material situation indexes, which allow us to single out the groups of respondents with different levels of these indicators. The division of respondents into three groups—"not middle class", "middle class", and "upper middle class"—is shown in Table 2.

As Table 2 shows, according to our calculations the overall number of middle and upper middle class representatives in Ukraine make up about 15–19% of the population, and is growing at a rate of more than 2% annually.

## Main conclusions

On the basis of a full analysis of the preliminary data,<sup>1</sup> we can make the following brief conclusions:

<sup>1</sup>The complete version of middle class research materials can be accessed on the ICPS' web-site: [http://www.icps.com.ua/projects/eng/middle\\_class](http://www.icps.com.ua/projects/eng/middle_class)

	Income level (UAH monthly)	2000	2001	2002
High income	5,001+	1.4	1.3	1.5
Above average	1,701-5,000	4.9	3.2	5.8
Average	801-1,700	14.0	16.9	15.3
Below average	451-800	26.3	26.2	34.0
Low	226-450	32.5	29.1	27.4
	100-225	15.4	20.1	13.6
	0-99	50.4	3.2	2.4
Total	—	100.0	100.0	100.0

Source: GFK-USM; calculations by ICPS

	2000	2001	2002
Not middle class	85.1	82.6	80.5
Middle class	11.2	13.1	14.7
Upper middle class	3.7	4.3	4.8
Total	100.0	100.0	100.0

Source: GFK-USM; calculations by ICPS

- The majority of the Ukrainian middle class lives in cities with a population over 100,000 (54%); the fact that the number of middle-class representatives who live in villages and small towns is also quite large (38%) deserves attention as well;
- 65% of middle-class representatives are of the age when people are the most active in the labour market—they are from 20 to 39 years old;
- 53% middle class representatives have incomes from 601 to 1,500 hryvnias monthly, and 22% have monthly incomes over 1,500 hryvnias;
- the share of savings of middle- and upper-middle-class representatives makes up 36% and 69%, respectively, while expenditures on food of respondents whom we do not regard as middle class constitute a bigger share in the structure of their expenses (35%), and their savings are rather small (16%).

As to the possession of luxuries and expensive goods by the Ukrainian middle class, we can make the

conclusion that the share of respondents possessing these items is not big, even for the upper middle class. For instance, only one-third of them have a mobile phone, almost half of them do not have a car or a washing machine, and 70% do not have a microwave oven. Obviously, this can be explained by the fact that in Ukraine the middle class began to form only recently, and its representatives are buying these "necessities" bit by bit. It is certainly evidence of the potential growth of such markets as household appliances, mobile communications, real estate, etc.■

*The International Centre for Policy Studies continues its research on the Ukrainian middle class. More information on the preliminary research results can be accessed on the ICPS web-site: [http://www.icps.com.ua/projects/eng/middle\\_class](http://www.icps.com.ua/projects/eng/middle_class). For additional information regarding the research, please contact Maksym Mashliakivsky at [mmax@icps.kiev.ua](mailto:mmax@icps.kiev.ua), tel. (38-044) 236-5464.*

*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](mailto:marketing@icps.kiev.ua). *ICPS Newsletter* is published by the ICPS Publications Group. *ICPS Newsletter* editor Yevhen Shulha ([shulha@icps.kiev.ua](mailto:shulha@icps.kiev.ua)) Phone: (380-44) 236-4477 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 whose mandate is to promote the introduction of public policy concepts and practices in Ukraine. 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. Address: 13-a Pymonenko Street, Kyiv 04050, Ukraine Phone (380-44) 236-4377, 236-4477, Fax (380-44) 236-4668 Web-site: <http://www.icps.kiev.ua>