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In summer consumer confidence falls: Ukrainians expect poor harvest and price rises

In June 2003, the Consumer Confidence Index (CCI) in Ukraine stood at 91.6 points (possible range 0 to 200), which was 0.6 points below the previous value, taken in March 2003. The survey reported further deterioration of economic expectations of Ukrainians, and a perceptible escalation of their inflationary expectations. For further information on household expectations see new issue of Consumer Confidence bulletin that will be published this week

During Q2'03, the CCI dropped by 0.6 points, following the downward trend commenced in early 2003. Over the quarter, the Index of Economic Expectations (IEE) lost 3.9 points, sliding down to 93.3, a value below that observed in June 2001. The worst decline hit the population's expectations regarding economic development in the next 12 months; the corresponding index dampened by 8.7 points, to 81.3, which was the lowest value in the past two years. There was also a bigger number of people expecting their personal financial situation to weaken over the next six months; the corresponding index downgraded by 4.8 points, to 101.1. The key reason for worsened economic expectations of Ukrainians was the price destabilisation in food markets in June, as well as the forecasts for a small harvest. These factors triggered an abrupt escalation of inflationary expectations; in June, the Index of Inflationary Expectations hit 184.7 points, which was 9.1 points above the March value, and the highest in the past two years.

Despite the downward IEE dynamic, the Index of the Current Situation (ICS) has been on the rise over the past three quarters in a row. During Q2'03, the ICS accrued an additional 4.4 points and hit a new record-high 88.9. This index improved largely thanks to a considerable increase in the Index of Propensity to Consume, which represents the desire of people to make large household purchases. Compared to March 2003, this index grew by 7.5 points, to 87.5.

In addition to increased optimistic expectations regarding the current situation, the survey revealed that expectations looked up with regard to economic development in the long run; over Q2'03, the corresponding index rose by 1.8 points, to 97.6. These facts testify to Ukrainians' belief that the crisis which erupted in June will be short-lived.

Consumer confidence fell the most in the agriculturally oriented Central region of Ukraine. In June, the Index of Economic Expectations in this region stood at 90.2 points and was the lowest of all the regions. Simultaneously, the index of short-term expectations in the Central region dived by 13.4, to 68.1.

The most pessimistic mood was witnessed in rural Ukraine. Over Q2'03, the corresponding CCI dropped by 7.2 points, to 85. The Index of Economic Expectations in rural areas slid down by 13.6 points, to 88.8; this was the lowest value over the past thirty months. In bigger settlements, the CCI increased.

The survey detected that the confidence of persons with below-average incomes sank. Over the quarter, the CCI in this group fell by 6.7 points, to 70.7. Inflationary expectations of the poor population were the highest in the entire history of the consumer confidence survey in Ukraine; the corresponding index stood at 190.6 points, which was 8.6 points above the value reported in March 2003. During April–June 2003, middle-aged (31–45 years old) and older (46–59 years old) consumers grew more pessimistic. At the same time, the share of middle-aged people pointing to a worsened current situation increased; the corresponding CCI lost 1.2 points and descended to 87.5. The middle-aged population proved to have the highest inflationary expectations; the corresponding index reached 188.3 in June 2003.■

Consumer Confidence is a joint project of International Centre for Policy Studies and Gfk-USM company. Research is carried out on regular basis since July 2000. If you wish to receive the Consumer Confidence bulletin, with a detailed analysis of the CCI index in Ukraine, please contact Maksym Korepanov at tel.: (38-044) 236-5464, or e-mail: marketing@icps.kiev.ua. You may also order ICPS publications through the centre's web-site, at http://www.icps.kiev.ua/eng/pub, or purchase any ICPS publication in our web-shop at http://www.icps.kiev.ua/store.

Regional policy centres are preparing to carry out sociological surveys under the supervision of ICPS and the Razumkov Centre

Participants of the program "Developing Capacity of Regional Policy Centres for Policy Analysis at the Local Level" visited Kyiv during 11–13 August in order to finalise preparations for carring out a series of surveys to support future research.

The Razumkov Centre (Ukrainian Centre for Economic and Political Studies, named after Oleksander Razumkov) is well-known for its sociological research carried out on a regular basis concerning issues that are vital for contemporary Ukraine. UCEPS experts held a seminar for representatives of regional policy centres, explaining the principles governing the centre when carrying out its own research. They also participated in designing the tools that will be used by program participants in their future surveys.

The next seminar, to be held at the end of September, will focus on strategic planning in the local development framework.■

The program "Developing Capacity of Regional Policy Centres for Policy Analysis at the Local Level" is implemented jointly by experts from ICPS and UCEPS, with support from the International Renaissance Foundation. For further information, please contact Volodymyr Hnat (vhnat@icps.kiev.ua), tel. (044) 239-1537.

Reverse mode of the Odesa-Brody Pipeline is advantageous only in the short term

The question of using the Odesa–Brody Pipeline in the direction of Europe or in the reverse mode is intertwined with the economic and political interests of many countries, including some of the most powerful (United States, Russia, European Union). This demands that Ukraine take great pains in deliberating its decision. We believe that each alternative has its good points and bad points

From the economic point of view, the Brody–Odesa direction is more convenient in the short term. The main advantage of this option that the Russian side has already declared its willingness to fill the pipeline with petroleum (9 million tonnes per year). This would mean that Ukraine could receive revenues right away. At the same time, in order to use the pipeline in the Odesa–Brody direction, it would be necessary to extend it to the Polish city of Plock, which could take 2–3 years. Another problem in this direction is the lack of clear commitments on the part of petroleum suppliers and consumers.

However, the Odesa–Brody direction is much more attractive for the long term. Given the constant increase in the extraction of Caspian petroleum, much more could be transported in this direction than in the one proposed by Russia. The reserve capacity of the Druzhba Pipeline, which could be used to transport petroleum to Brody, is 9.6 million tonnes per year; while the total (carrying) capacity of the Odesa–Brody Pipeline is up to 14.5 million tonnes in the first stage, with prospects of expanding to 40 million tonnes.

From the political point of view, it would seem to be better to use the pipeline in the Odesa–Brody direction, since this project is supported by the USA; moreover, European countries are also interested in this option, which is really important for Ukraine, since it has aspirations of joining the European Union.

We believe that it would be best for Ukraine to combine the two alternatives, namely: in the next few years to transit petroleum in the Brody–Odesa direction, simultaneously building an additional pipeline to Plock, and then to switch to the Odesa–Brody direction. But this option, which would allow Ukraine to take advantage of all existing possibilities, would require clearly agreeing its position with the EU, Russia, and USA, as well as with the main suppliers of Caspian petroleum—Kazakhstan and Azerbaijan—since even temporary transit in the Brody–Odesa direction entails the risk that the EU and US would accept this as a sign of Ukraine's unreliability; then, the Caspian oil would get to Europe somehow else.■

Political events of the summer analysed in new ICPS periodical

Political Commentary has become a regular monthly publication. The second issue presents information on major trends in Ukraine's foreign and domestic policy, the course of political competition, and the latest ratings of Ukrainian politicians. Other materials include the results of ICPS special poll on whether GUUAM could turn into a coalition of US-ally states; the outcomes of the grain crisis for Viktor Yanukovych's government; why President Kuchma cannot stay in power after 2004; and wildcard politicians during the 2004 presidential election

After a period of poor relations with the West and a drift towards Russia during 2001–2003, Ukraine is rapidly renewing its dealings with the USA and the EU. Because of the increased interest on the part of Moscow, Washington, and Brussels in co-operating with Ukraine, it is currently in an extraordinarily advantageous position, and has the possibility to achieve its own goals in pursuing relations with these three key partners. In particular, Ukraine is in a particularly favourable situation to be able to ensure success for one of its largest projects—transporting Caspian petroleum to Western Europe via the Odesa-Brody Pipeline. Improving relations with the USA and the European Union is motivating Ukraine to carry out domestic economic and democratic reforms; at the same time, it is striving to achieve the status of an equal partner on joint projects with Russia.

Ukraine's domestic political situation has also been changing for the better with regard to conducting effective government policy. The re-orientation of the government coalition towards improving foreign relations and Ukraine's economic situation is a direct consequence of pressure from the opposition, which forced the executive government to change its means of conducting political competition. While the quality of these struggles on both sides remains inadequate, the conflicts between the government, which has the potential to push through necessary changes for the country, and the opposition, which controls their quality by means of severe criticism, serve as a source of progress for Ukraine towards the 2004 presidential election. Opposition politicians actually have better chances to win, especially Viktor Yuschenko. Meanwhile, the price jump on food products could cause the public distrust in Prime Minister Viktor Yanukovych and his executive, observable since the start of this year, to erode even further.

Under conditions of a favourable foreign policy situation and increased competition in domestic politics, Ukraine's state policy is performing better and is focusing more on national interests. Ukraine is continuing to struggle for progress in the largest markets, to move towards the WTO, and is trying to establish a free-trade zone with Russia. The new government's active position has prompted liberal reforms of the tax system and the social security system; and after a two-year hiatus, the privatisation of state enterprises has started up again. At the same time, the inconsistency of economic policy has permitted excess state interference in commodities markets, and in sectoral policy.

The improved quality of state policy has resulted in rapid economic growth that is almost double last year's level. Under such conditions, the government has successfuly payed out salaries to employees of budget agencies, and met payments on the foreign debt, while maintaining a budget surplus. Meantime, the positive foreign trade balance is preserving a stable hryvnia exchange rate. At the same time, there is a risk of increased inflation, which has been kept low by administrative interventions; as well as a risk of reduced growth rates, given the downturn in Ukraine's agricultural sector.■

Political Commentary is a joint project of International Centre for Policy Studies and Democratic Initiatives Foundation. The publication is free on ICPS web-site http://www.icps.kiev.ua/news/pcomm.html. For further information, please contact Yegor Sobolev tel.: 236-4477, e-mail esobolev@icps.kiev.ua.

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