

ICPS newsletter

In Ukraine, overall consumer confidence is negative

In June 2000, the Consumer Confidence Index in Ukraine totalled 64.0, out of a possible range from 0 to 200. This means that the majority of households in Ukraine assess their current financial position negatively rather than positively; they are also pessimistic about changes in their personal financial position and the country's economic condition in the future. Nevertheless, consumers' expectations for the future are more positive than their assessment of the current situation. The highest index was observed in Kyiv. These results, found during a survey of Ukraine's households, are published in the first issue of ICPS's Consumer Confidence newsletter

In June 2000, the Consumer Confidence Index in Ukraine totalled 64.0. This shows that the majority of Ukrainians assess their current financial position negatively; the majority is also pessimistic about changes in their personal financial position and conditions of the country's economy in the future.

Analysis of the index components shows that people's expectations are more positive than their assessment of the current situation (indices IEE and ICS,

respectively). The given situation, where the Index of Expected Changes in Personal Financial Position exceeds the Index of Current Personal Financial Position by 21 points, implies that people tend to underestimate their current financial position.

The very low Index of Propensity to Consume (25.9) indicates the extremely low propensity to consume of the Ukrainian population. To compare, in May this indicator in Russia was 75.3.

Consumer confidence survey is a joint project of the company GfK-USM and the International Centre for Policy Studies. The goal of the project is to survey the Ukrainian public and determine the Consumer Confidence Index (CCI). The survey is devised to discover changes in consumer behaviour and the influence of these changes on future spending and saving patterns.

In this way, the CCI plays a substantial role in economic forecasting, insofar as consumer behaviour influences the development of markets and economic processes. This index is most applicable when we see how it changes over a considerable period of time. Our study, therefore, will initially be limited, due to the lack of previous index data.

The indices demonstrate that the expectations of Ukraine's population regarding changes in their personal financial position are much better than their expectations regarding the development of the country's economy next year. This difference means that economic growth in the country in the nearest future will be demand-driven.

Finally, consumers demonstrated more optimism in their expectations regarding the country's economic development in the long run than in their assessment of short-run prospects. On the one hand, this data shows the positive attitude of the population to economic reforms, expecting that they will eventually result in changes for the better. On the other hand, this demonstrates low consumer confidence in the current economic policy.

The highest indices were observed in Kyiv and the Northern Region of the country. Kyiv residents have the highest income in the country, due to the large investments in the economy of the capital city and significant revenues to the city budget. Furthermore, Kyivites have an overall higher level of education and better access to information. In the Eastern Region, the comparatively high value of the index which assesses

How the Consumer Confidence Index is calculated

The CCI is determined through a random survey of the country's households; the survey includes 1,000 people aged from 15 to 59. To define the CCI, the respondents are asked the following questions:

- 1. How has the financial position of your family changed over the last six months?*
- 2. How do you think your family's financial position will change in the next six months?*
- 3. Speaking of the economic conditions in the country as a whole, do you think the next twelve months will be a good or bad time for the country's economy, or something else?*
- 4. And if we are to speak of the next five years, will they be for the country's economy a good or bad time?*
- 5. Speaking of large purchases for the home (such as furniture, refrigerators, household gadgets, TV sets), do you think it's generally a good or bad time to make those purchases now?*

With regard to each of these questions, the corresponding index is calculated:

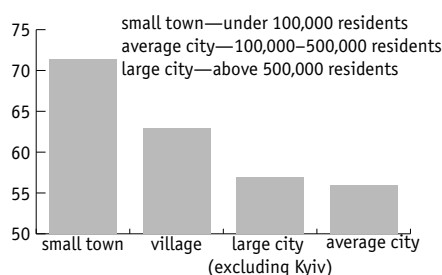
- index of current personal financial position (x1);*
- index of expected changes in personal financial position (x2);*
- index of expected economic conditions in the country within the nearest year (x3);*
- index of expected economic conditions in the country within the nearest 5 years (x4);*
- index of propensity to consume (x5).*

Indices are constructed in the following way: from the portion of positive answers the portion of negative answers is deducted, and to this difference 100 is added in order to eliminate the appearance of any negative values. On the basis of these five indices, three aggregated indices are calculated:

- consumer confidence index (CCI) – arithmetic average of indices x1–x5;*
- index of the current situation (ICS) – arithmetic average of indices x1 and x5;*
- index of economic expectations (IEE) – arithmetic average of indices x2, x3, and x4.*

current personal financial position is likely to reflect the economic revival that has been observed in those oblasts this year, particularly in industry. At the same time, pessimistic expectations regarding the development of the country's economy indicate that the residents of this region are not confident that this growth will be sustainable.

The Consumer Confidence Index of the rural population and of small-town residents exceeds the index observed in small and large cities (excluding Kyiv). Due to the traditional closeness to agriculture and lesser dependence on industry, households in the countryside and in towns adapt better to living in an economic recession. In other words, in the time of economic transformation, the rural population and residents of towns are able to better regulate their level of personal well-being and show individual initiative.



Last Week

ICPS distributing newest edition of the World Bank's *Transition* newsletter.

A new issue of the bulletin *Transformatsiia*—a Russian-language version of the World Bank's *Transition* newsletter, issued and distributed by ICPS under a contract with the World Bank—was published last week. The new issue contains articles on the following topics:

- non-payment cycle in Russia suffocates economic growth;
- EBRD and World Bank survey reveals intimate state–enterprise relationships;
- Croatia confronts vicious cycle of economic decline;
- Russian crisis hits the Baltics harder than expected;
- Russia's resilient collectives;
- agricultural reform in Russia, Central Europe, and China;
- China's infrastructure development;
- the transition process in Asia;
- corporate governance: lessons from reforming transition economies.

If you wish to receive the free bimonthly bulletin *Transformatsiia* on a regular basis, please send your information to the e-mail address: marketing@icps.kiev.ua or contact Oleksiy Blinov, ICPS marketing office, tel.: (380-44) 463-6337.

Consumer confidence in Ukraine, June 2000

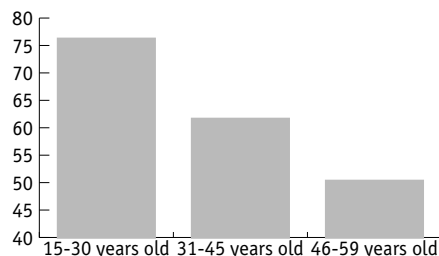
| | |
|--|-------------|
| Index of current personal financial position (x1) | 62.0 |
| Index of expected changes in personal financial position (x2) | 83.0 |
| Index of expected economic conditions in the country within the nearest year (x3) | 60.3 |
| Index of expected economic conditions in the country within the nearest 5 years (x4) | 89.0 |
| Index of propensity to consume (x5) | 25.9 |
| Consumer confidence index (CCI) | 64.0 |
| Index of the current situation (ICS) | 44.0 |
| Index of economic expectations (IEE) | 77.4 |

Indices by region

| Index | Kyiv | Northern | Western | Central | Southern | Eastern |
|-------|------|----------|---------|---------|----------|---------|
| CCI | 73.9 | 74.8 | 69.5 | 63.4 | 53.3 | 60.2 |
| ICS | 45.6 | 46.1 | 40.3 | 42.4 | 43.0 | 46.3 |
| IEE | 92.9 | 93.9 | 88.9 | 77.3 | 60.2 | 69.4 |

Overall, the significant difference between the CCI for small and large settlements is related to the difference in aspirations typical for their residents; in small towns and the countryside, it is traditionally lower than in large towns and cities.

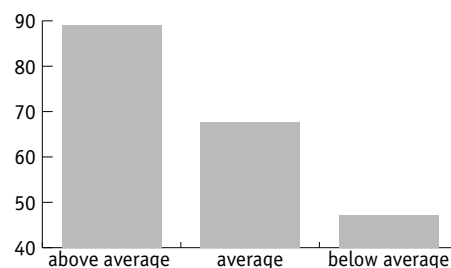
In Ukraine, young people are the ones who most easily become accustomed to new ways of living. At the same time, the population of middle age, which makes up the majority of the labour force and thereby should be the most active consumers, faces more difficulties in adjusting to new economic situations.



Here we can see the problem of structural mismatch that arises when the education and skills of the people in the labour force do not match the current demand. People of the middle-age group suffer more than the youth from such a mismatch, because at the beginning of the 1990s the majority of the latter had already completed their education and started their careers.

The consumer confidence index of the wealthy exceeds the index of households with average income by 21 points; and the CCI of the middle group exceeds the index of the low-income group by 20 points. This

difference results from a striking disparity in the way different income groups assess their current financial position (ICS).



Although the majority of the population with above-average income expects the improvement of their personal financial position in the nearest future, only insignificant numbers in this group believe that economic conditions in the country will improve within a year. This position is likely to indicate that the most enterprising stratum of the population is not satisfied with current conditions for business development. Moreover, the obtained results give us grounds to state that the consumer sentiments of this group are likely to depend on their personal activity and initiative, rather than on any changes in the country's economy. ■

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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.

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