

ICPS newsletter

In Ukraine, consumer confidence worsening

In September 2000, the Consumer Confidence Index in Ukraine totalled 65.2, out of a possible range from 0 to 200. In June, this indicator was 64.0. In comparison with June's results, the index of economic expectations dropped substantially—from 77.4 to 71.3. Meanwhile, the number of people who mentioned the improvement of their personal financial position over the last six months increased. These results, found during a survey of Ukraine's households, were published in the second issue of ICPS's Consumer Confidence newsletter last week. Consumer confidence survey is a joint project of the company GfK-USM and the International Centre for Policy Studies

Methodology modification

Please note that for this survey, the methodology was changed slightly. In particular, in question #5 the words "for you" were omitted. (The answers to this question are used for calculating the index of propensity to consume). The new version of this question reads as follows: "Speaking of large purchases for the home (such as furniture, refrigerator, household gadgets, TV set), do you think it's generally a good or bad time to make those purchases now?" This change makes the question less personalised: now the emphasis of the question is shifted from respondents' assessment of their personal financial position to their assessment of the overall situation in the consumer market. Furthermore, this modification makes the comparison of Ukrainian results with the results of similar surveys in other countries, where this version of the question is used, more correct.

In September, the Consumer Confidence Index (CCI) grew by 1.2 point compared to June. Usually, the index increase is evidence of improved consumer confidence. This time, however, the index increase was due more to the effect of technical factors than to the improvement of consumer

confidence. As noted above, in September the question for determining index x5 was revised. Changes in the formulation of this question certainly affected the value of index x5: in June it was 25.9, while in September this indicator totalled 45.8, showing an increase of almost 20 points.

Among indexes x1–x4, only the index of current personal financial position x1 increased in September. The decrease of indexes x2–x4, which determine the Index of Economic Expectations (IEE), is a worrisome sign, especially if index x1 was increasing. This disproportion demonstrates that consumers tend to assess their current financial situation and economic situation in the country predominately as two separate, not dependant, realities.

Index values

Index of current personal financial position (x1)	66.5 +4.5
Index of expected changes in personal financial position (x2)	76.1 -6.9
Index of expected economic conditions in the country within the nearest year (x3)	56.7 -3.6
Index of expected economic conditions in the country within the nearest 5 years (x4)	81.1 -7.9
Index of propensity to consume (x5)	45.8 +19.9
Consumer confidence index (CCI)	65.2 +1.2
Index of the current situation (ICS)	56.2 +12.2
Index of economic expectations (IEE)	71.3 -6.1

How consumer confidence index is calculated

In Ukraine, the CCI is determined through a random survey of the country's households; the survey includes 1,000 people aged from 15 to 59. Statistical deviation does not exceed 3.2%.

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, refrigerator, household gadgets, TV set), 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).

Indexes 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 indexes, three aggregated indices are calculated:

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

Index values range from 0 to 200. The index value equals 200 when the entire population positively assesses the economic situation. The index totals 100 when the shares of positive and negative assessments are equal. Indexes less than 100 indicate the prevalence of negative assessments.

Last week's events

ICPS launches a Russian-language version of newsletter on public administration problems. The first issue of a Russian-language version of the *Local Government Brief* was published last week. This is a quarterly newsletter of the Local Government and Public Service Reform Initiative (LGI), affiliated with the Open Society Institute, Budapest. The International Centre for Policy Studies prepares the Russian-language version of the newsletter with the financial support of LGI.

If you wish to receive this publication regularly, 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.

Next week's events

Ukrainians to study Polish experience in administrative reform. The International Centre for Policy Studies in cooperation with Poland's Institute of Public Affairs, will hold a seminar on "Administrative Reform in Ukraine in the Context of European Integration: Polish Experience" on 28 November, 2000. This seminar, with the participation of Polish public officials, is part of the Ukraine's European Choice: Polish Experience in Reforms project.

During this meeting, Ukrainian experts will learn about the Polish experience in implementing administrative reform, and about European standards introduced by the Polish government with PHARE support.

Participants will discuss the following questions:

- administrative reform in Poland;
- role of European standards in reform implementation;
- allocation of technical assistance for implementing administrative reform;
- role of non-government organisations and independent experts in developing and implementing programs of administrative reform;
- public participation in discussing administrative reform implementation in Poland.

For an invitation to the seminar, please contact Andrii Bega (e-mail: abega@icps.kiev.ua), tel.: (380-44) 463-5967.

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New indexes demonstrate expectations for inflation and unemployment

The September survey also included two new questions. The answers to the first question provide input to calculate the Index of Expected Changes in Unemployment (IECU), while the answers to the second one help us to determine the Index of Inflationary Expectations (IEE). While analysing the indexes of expected changes in unemployment and inflationary expectations, we can get a better explanation as to why certain changes in the Consumer Confidence Index occurred.

To determine the Index of Expected Changes in Unemployment (IECU) and the Index of Inflationary Expectations (IEE), the respondents are asked the following two questions:

1. Do you think that within next 12 months the number of unemployed (people who do not have job and are looking for it) will increase, will remain roughly the same, or will decrease?
2. Do you think that the prices for major consumer goods and services will change in the next 1-2 months?

In September, the IECU in Ukraine totalled 147.6. The survey revealed that 54.3% of residents believe that unemployment will increase; 29.3% of respondents suppose that it will be roughly the same as now; and 6.7% of those surveyed believe it will decrease. The IEE totalled 176.0. This value shows that the majority of the population expects prices to increase. In particular, 39.5% of residents believe that in the nearest 1-2 months, the prices for major consumer goods and services will be increasing at a higher than the one now; 43.5% of respondents suppose that prices will increase at the same rate as now; 7% of respondents expect prices to increase at a lower rate than now; and finally, 4.3% of residents anticipate that prices will remain unchanged.

Among the indexes x2-x4, index x4, which determines consumers' expectations regarding development of the country's economy in the nearest 5 years, decreased the most—from 89.0 to 81.1. This drop signifies the relatively low level of consumer confidence in Ukraine's current economic policy. The government, therefore, did not put enough effort in persuading citizens in the seriousness of their intentions to reform the economy and to improve the economic situation. In Ukraine, as in any democratic society, politics is a competition between ideas originated by the government and the opposition. The government, therefore, needs to implement an effective information policy. In particular, government goals should be explained to the citizens in a way so that the majority would be able to understand and support the reform initiatives of the government.

In September, the Consumer Confidence Indexes observed in different regions of the country became more even. In June, the difference between the highest and the lowest value of CCI totalled 21.5, while in September the highest value exceeded the lowest one only by 10.8 points.

Consumer confidence improved the most in the South. In this region, only the index of expected economic conditions in the country within the nearest year changed negatively (x3), dropping by 7.8 points. The South was the only region where the index of expected changes in personal financial position (x2) and the index of expected economic conditions in the country within the nearest 5 years (x4) increased. The improvement of consumer confidence in this region was undoubtedly thanks to this year's successful holiday season, bringing changes that

positively affected the wellbeing of the population.

Expectations regarding development of the country's economy within the nearest year (index x3) improved only among the residents of the Eastern region. The growing optimism is probably caused by an economic revival which has been observed over the last year in the mining and in metallurgical industry. It should be noted that in this region, the index of propensity to consume x5 increased the most.

In comparison with June, consumer confidence of rural residents experienced the most negative changes. The expectations of countryside people particularly deteriorated, with the index of economic expectations of this group decreasing by 11.3 points. Rural residents make up the population group whose consumer confidence resulted in an overall decrease of the index x3 (in all other types of settlements, this index increased).

We explain the pessimistic expectations of rural residents mainly by their frustration with land reform. Particularly, last summer a lot of people faced the problem of legal uncertainty around the issue of land plot privatisation.

Unlike the countryside, consumer confidence in large cities improved, with positive changes in all indexes observed for this group. This improvement of consumer confidence probably resulted from the overall industrial growth in the country and the reduction of pension and wage arrears. ■

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