

# ICPS newsletter<sup>®</sup>

## Political Commentary: The presidential race continues

*The September issue of Political Commentary offers a review of the political situation in the run-up to the presidential election—the key event of 2004, and perhaps of the decade, for Ukraine. Through this publication, ICPS political analysts present key trends in Ukraine's international relations, political competition and economy. Special attention is paid to key government decisions during August and the results of public opinion polls. Here are some of the key points in this latest issue, hot off the presses*

### Foreign relations

Russia has been gaining concession after concession from President Kuchma and Premier Yanukovych, who are preparing for the presidential election. After Ukraine agreed to use the Odesa–Brody pipeline to transport Russian oil, Kyiv agreed to set the

rate for transit Russian gas.

For Ukraine, the benefit was the cancellation of the VAT on Russian fuels. Still, Ukraine has to agree to extensive integration into the Common Economic Area in return for this. The US is mostly thinking about maintaining Ukrainian

forces in Iraq. The EU is busy with internal problems.

### Political competition

Mr. Kuchma has been actively promoting Viktor Yanukovych. The joining of Administrative and business forces around the Premier has led to an exceptional number of abuses. At the start of the campaign, it was already clearly a fight to the finish, and the risk that the results will be tampered with is fairly high. Mr. Yanukovych's main opponent, Viktor Yushchenko, has found himself under increasing police pressure. He has been unable to compensate for the hostile stance of major television channels that are under the control of the Administration by travelling in person to the regions. Leftist candidates, who have the power to determine the winner, are not ready to support either of the front-runners.

### Government policy

The Government continues to orient state policy on short-term goals. Privatization has been breaking all records. Pensions and wages have been raised. Russia is pleased at its growing influence over Ukraine's energy market. Although this kind of policy-making is certainly not far-seeing, it has been bringing more voters into the Yanukovych camp. He has significantly reduced the gap between him and Mr. Yushchenko in the second round. Rapid economic growth has also played in favor of the Administration's candidate. ■

*For the bigger picture of the political situation in the country, read **political commentary**, which provides the international community with a monthly review of political trends and a forecast for further political developments in Ukraine. It gives an opportunity to better understand the level and direction of changes taking place in the country and simplifies evaluation of political risks by foreign investors. For subscription information, contact Maksym Korepanov by phone at (380-44) 236-5464, or via e-mail at [marketing@icps.kiev.ua](mailto:marketing@icps.kiev.ua). For back issues of the publication, visit the ICPS web-site at <http://www.icps.kiev.ua/eng/publications/pc.html>.*

Table 1. How Ukrainians would vote if the election were held next Sunday (relative to the day of the poll, %)

	January 2004	February 2004	March 2004	April 2004	May 2004	June 2004	July 2004	August 2004
Viktor Yushchenko	24	24	24	22	26	27	29	29
Viktor Yanukovych	10	7	12	16	17	18	19	24
Petro Symonenko	10	10	11	10	10	9	8,5	7
Oleksandr Moroz	5	5	7	5	5	5	7	6
Natalia Vitrenko	3	3	2	2	2	2	2	2
Others	8	1	0	1	–	2	1	10
Against everyone	7	5	6	4	5	6	6	2
Would not vote	6	5	7	6	6	5	5	–
Undecided	16	15	13	15	15	13	13	20

Table 2. How Ukrainians would vote in a run-off between Yushchenko and Yanukovych (%)

	February 2004	March 2004	April 2004	May 2004	June 2004	July 2004	August 2004
Viktor Yushchenko	40	39	36	37	40	40	38
Viktor Yanukovych	23	28	33	31	31	31	34
Against both	13	12	10	12	12	10	9
Undecided	17	13	14	13	10	12	12
Would not vote	8	7	7	7	7	6	8

Source: Democratic Initiatives Foundation

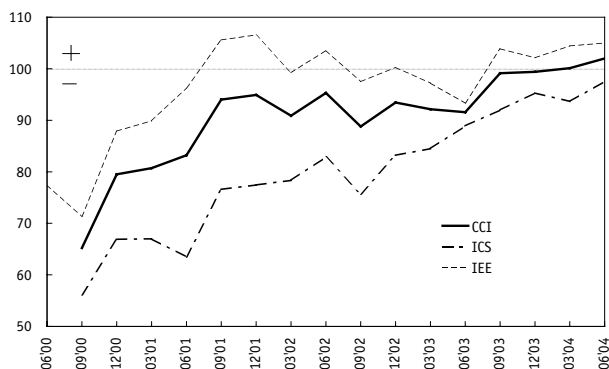
# Consumer Confidence: Optimists take the lead

**The new issue of Consumer Confidence, which came out last week, provides the latest reading of the mood in Ukraine's households. In Q2'04, the Consumer Confidence Index (CCI) rose another 1.9 points, reaching 102 in June. The main factor behind improving consumer confidence was an increase in positive expectations among Ukrainians regarding their financial standing. Optimistic expectations prevail in Kyiv and in southern and eastern oblasts. Consumer confidence in the countryside, however, has been deteriorating for two quarters in a row. The overall improvement in the confidence of Ukraine's consumers is mostly due to more positive economic expectations among those with below-average incomes and older Ukrainians**

During Q2'04, Ukraine's Consumer Confidence Index continued improving. In June, the Index stood at 102, having grown 1.9 points quarter-on-quarter. It is possible to say that, since the beginning of the year, Ukraine's CCI has stabilized above the 100-mark. This testifies that the share of individuals with positive consumer confidence is higher than the share of those with negative confidence.

Consumer confidence improved mainly thanks to an increase in positive assessments of current personal standing and not because of more positive economic expectations among Ukrainians: the Index of the Current Situation (ICS) climbed 3.9 points during the quarter, to 97.6, while the Index of Economic Expectations (IEE) rose only 0.6 point to 105.0. The ICS reached a new record-high value, while the IEE still has not broken the record set in December 2001, then it was 106.6 points.

Figure 1. Consumer Confidence Index in Ukraine



Source: GfK-USM, International Centre for Policy Studies

Inflationary expectations have gone down among Ukrainians for two consecutive quarters. In Q2'04, the Index of Inflationary Expectations (IIE) dropped 8.8 points, to 169.5. Ukraine's unemployment expectations also continue to improve: during the quarter, the Index of Expected Changes in Unemployment (IECU) slipped 2 points to a new record low of 112.6, 7.4 points below the value registered in June 2003.

Optimistic expectations were observed in Kyiv and in eastern and southern regions. Polls have been registering positive expectations in eastern oblasts since September 2003. At the same time, all regions with optimistic consumer confidence also showed rising expectations of inflation. This appears to show that residents of these regions think that inflation will not make much of a difference to income growth and a continuing economic upswing.

Consumer confidence has continued to deteriorate in the countryside for the second quarter in a row. In June, the CCI in rural areas was 92.3, 3.5 points down from the previous level. Consumer confidence in rural areas worsen due to growing negative economic expectations: the rural IEE slid 6.1 points to 97.3. At the same time, inflationary expectations in the countryside have eased a lot: the IIE in the countryside fell 10.7 points during the quarter, to 167.1. This seems to show that rural residents link their expectations of a comparatively good crop to lower buyer prices for agricultural products, which will cut into profits.

In large cities, positive expectations have prevailed for four consecutive quarters. In June, their CCI stood at 112.6 points. At the same time, residents of large cities showed the worst expectations of inflation: during the quarter, their IIE inched up 0.6 point to 173.9.

During the previous quarter, consumer confidence improved most among citizens with below-average incomes. Their CCI rose 3.6 points to a new record-high 80.2. Lower inflationary expectations among below-average income consumers appears to have contributed to their improved consumer confidence.

During Q2'04, the IIE calculated for this income group shrank 19.9 points to a new record-low 162.6. Improved consumer confidence among low-income citizens appears to reflect more intensive Government activity in the social sphere, such as plans to raise pensions for different groups, to pay out wage arrears and so on. ■

Consumer Confidence is a joint project of the International Centre for Policy Studies and GfK-USM. If you wish to receive the monthly Consumer Confidence bulletin, with a detailed analysis of the dynamics of the Consumer Confidence Index in Ukraine, contact Maksym Korepanov at (380-44) 236-5464 or e-mail [marketing@icps.kiev.ua](mailto:marketing@icps.kiev.ua). You can also fill out a subscription form on ICPS's web-site: <http://www.icps.kiev.ua/eng/subscribe/>.

## How the consumer index is calculated

In Ukraine, the CCI is determined through a random survey of the country's population; the survey includes 1,000 people aged from 15 to 59. This age group makes up 61.3% of the Ukrainian population, and they are the most active consumers. The survey sample is representative by gender and age, and it also accounts for the type and size of settlement. The margin of error is 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 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, do you think it's generally a good or bad time to make those purchases now?

**icps newsletter** is a weekly publication of the International Centre for Policy Studies, delivered by electronic mail.

To be included in the distribution list, contact the ICPS publications department at [marketing@icps.kiev.ua](mailto:marketing@icps.kiev.ua) or call (380-44) 236-5464.

**icps newsletter** editor Yevhen Shulha ([shulha@icps.kiev.ua](mailto:shulha@icps.kiev.ua)). Phone: (380-44) 236-4477.

English text editor L.A. Wolanskyj. Articles may be reprinted with ICPS consent. **icps newsletter** on the web: <http://newsletter.icps.kiev.ua>