

ICPS newsletter[®]

Consumer Confidence: Index Hits Record Low for Last Two Years

In September 2005, the Consumer Confidence Index in Ukraine hit 95.5, 9.7 points below the value registered in the previous poll in June. This deterioration in consumer confidence was mainly the result of a steep increase in negative economic expectations among Ukrainians, in particular short-term expectations. The propensity to consume continued to grow. Consumer confidence deteriorated the most among residents of Kyiv and western oblasts. The highest inflationary expectations were registered among older Ukrainians

The political factor is affecting consumers

Confidence Index (CCI) in Ukraine dropped 9.7 points to 95.5—a record-low value for the last two years. The CCI dropped below the 100 mark for the first time since 2004, showing that negative consumer confidence prevails among Ukrainians today. According to ICPS, this sharp decline in consumer confidence was primarily the result of the Government's failure to meet the high expectations of Ukrainians formed in the afterglow of the Orange Revolution. Disenchantment grew more intense in early September as the political situation in Ukraine suddenly came to a boil, resulting in the dismissal of the Tymoshenko Government and an apparent split in the "Orange coalition."

The propensity to make major purchases has grown

In Q3'05, negative economic expectations increased substantially. The Index of Economic Expectations (IEE) was 95.5 in September 2005, 12.9 points below the value registered during the previous poll in June. Short-term economic expectations

Indices

Consumer Confidence Index (CCI)	95.5 (-9.7)
Index of the Current Situation (ICS)	95.5 (-5.0)
Index of Economic Expectations (IEE)	95.5 (-12.9)
Index of Expected Changes in Unemployment (IECU)	117.7 (+6.7)
Index of Inflationary Expectations (IIE)	187.2 (+5.0)

Sources: GfK-USM, ICPS

deteriorated the most: the relevant index x3 plunged 24.2 points during the quarter, to 86.6. Over this period, the Index of the Current Situation (ICS) slipped 5 points, to 95.5.

Despite the significant decline in economic expectations, the survey registered an increase in the propensity to make large household purchases: the relevant index x5 grew 1.6 points over Q3, to a new record high of 107.9. As before, the propensity to consume is growing due to rising personal incomes and high inflationary expectations among Ukrainians.

Expectations of inflation and unemployment have hit record levels

During Q3'05, the Index of Inflationary Expectations (IIE) climbed another 5 points, to 187.2—a record high for the last five years. Expectations of changes in unemployment deteriorated as well. In September, the Index of Expected Changes in Unemployment (IECU) grew to 117.7, a record high for the last two years. Consumer confidence declined the most in Western Ukraine, where the CCI lost 22.9 points, falling to 99.1 over the quarter. However, consumer confidence in this region is better than the national average. The worst consumer confidence was registered in Kyiv and eastern Ukraine. The CCI in Kyiv dropped 18.2 points to 87.5, the CCI in eastern Ukraine fell 7.2 points to 89.2. Consumer confidence fell across all ages and income groups. Currently, economic expectations among Ukrainians with average incomes are close to economic expectations among poor Ukrainian consumers. In September, the Index of Economic Expectations calculated for

Ukrainians with average incomes stood at 93.1 and for low-income Ukrainians—at 91.8. The highest inflationary expectations were registered among older Ukrainians: the relevant Index of Inflationary Expectations was 190.4—a record-high value for the last five years. Still, the poll did not register any significant differences among inflationary expectations of different income groups.

How the indices are calculated

In Ukraine, the Consumer Confidence Index is determined through a random survey of the country's population; the survey includes 1,000 people aged from 15 to 59. The people of this age make 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. Statistical deviation does not exceed 3.2%.

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

ICPS is provided with sociological data by GfK-USM—one of the leading Ukrainian market research companies. In 1998, the company joined the worldwide GfK research network, which includes 120 companies in 50 countries. ■

You can read in greater detail trends among Ukrainian consumers in **consumer confidence**, a quarterly report published by ICPS. If you would like to subscribe to **consumer confidence**, contact our client relations and marketing manager Andriy Starynskiy by phone at (380-44) 484-4410 or via e-mail at marketing@icps.kiev.ua. You can also order ICPS publications through the ICPS website, at <http://www.icps.kiev.ua/eng/subscribe/>.

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The EU wants better policy towards economic migrants from third countries

There is an ongoing debate in the EU on labor migration from third countries. EU politicians and government officials are thinking how they might transform the flow of illegal migrants into a regulated source of sustainable economic growth in the Union. The first step should be harmonizing migration policy among EU members. If this is achieved, the impact on Ukrainians wanting to work in the EU will be positive

The European Union is witnessing lively debate around policy dealing with economic migration. On one hand, an uncontrolled quantity of migrants can bring with it social and economic threats to the societies of EU member states. On the other, cheap labor can foster sustainable economic growth across the Union.

In October 2005, Ewa Klampert, MEP from Germany, presented a report on economic migration to the European Parliament containing very progressive proposals for regulating economic migration. Ms. Klampert emphasized the positive side of economic migration and stressed "the need to adopt a common immigration policy in order to end the exploitation of (illegal) workers." Still, the European Parliament approved this draft with significant changes that eliminated such controversial points as introducing a system of open employment in the EU and residency permits for immigrants—along the line of "green cards"—and mass legalization of illegal migrant workers. As it happens, the European Parliament plays only an advisory role in migration issues.

The European Union understands that, given the aging population in EU member states, the economic migration of workers from third countries is a necessary condition for sustainable economic growth in the EU. According to European Commission data, 7–16% of EU GDP is generated by illegal migrants. Annual flows of illegal migrants are in the millions.

Although the European Union has been dealing with migration issues since 1999, so far there is still no common European policy on this matter. There are major differences regarding the rules of employment for foreign workers among member states. This creates significant administrative problems for both migrants looking for work in the European Union and for employers looking for labor abroad.

In January 2005, the European Commission published a Green Paper entitled "On an EU approach to managing economic migration" in order to spur open debate on what are the best ways to regulate the entry and residence of migrant workers. In June, the Council of

Ministers decided that a framework needed to be developed at the EU level to establish common principles while leaving individual countries the right to regulate migration.

At the moment, the debate concerns three unresolved issues:

- producing minimal standards for accepting migrants and increasing their inflow;
- determining degrees of flexibility in the admission of migrant workers, that is, accepting all migrant workers or only those professionals for whom there is an evident need in the EU;
- harmonizing immigration procedures and the social integration of migrant workers.

By the end of 2005, the Commission is to draft a "roadmap" that would establish a universal rights framework that would provide a minimum standard of protection of rights for migrant workers.

At the beginning of November 2005, the European Commission proposed introducing a green card system. Green cards—similar to those in the US—obtained in one EU country would allow a cardholder to work throughout EU territory, regardless of sector or employer. The green card would grant high-qualified workers permanent permission to work, while the system of temporary permits would accommodate low-end labor. This, in the Commission's opinion, will reduce the number of illegal migrants.

The result of the European debate on economic migration will inevitably affect Ukrainian citizens who work in the EU. The new EU policy promises to ease job searches for specific categories of specialists and to speed up employment procedures as a whole. According to the average of estimates from Ukrainian specialists, 1.5–2mn migrant workers in the EU are from Ukraine. The largest numbers of such workers are in Italy, Portugal, Spain, Poland, the Czech Republic, and Greece. ■

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The successful sale of KryvorizhStal should spur better government approaches

The sale of a 93.02% stake in KryvorizhStal, the country's largest steelworks, brought Ukraine unprecedented privatization revenues. But the Government's ability to make use of this money in a strategically effective manner raises many doubts.

Various organizations, ministers and political forces are offering proposals on where to allocate these revenues—from restructuring and reducing the country's external debt to buying back other privatized enterprises, sharing the windfall among the entire population, and developing science and high technology. But while everybody is making high-minded declarations, nobody is proposing a clear, high-quality plan.

A big problem in the current situation is that the country needs to deal with not just the task of spending a windfall, but also the task of introducing a qualitatively new approach to the effective spending of such revenues that matches the country's strategic goals. Ukraine's leadership needs switch from reactive thinking in response to the needs of the past to strategic, that is, forward-looking, thinking when planning government spending.

The challenge of using the revenues from the re-sale of KryvorizhStal could spur radical change in the approach to and the development of the Government's strategic planning system. Otherwise, these funds will not bring about any sustainable positive changes. What is more, there is a limited number of state assets that can be privatized—and, correspondingly, a limited number of chances for major breakthroughs in the country's socio-economic development.

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