

ICPS newsletter[®]

Political uncertainty worsens consumer confidence

In April 2006, the Consumer Confidence Index (CCI) in Ukraine was 97.1. This is 6.6 points below the value registered during the previous poll in February 2006. A CCI value below the 100-mark shows that negative consumer confidence prevails

Compared to February 2006, the number of Ukrainian consumers that have negative economic expectations increased: the Index of Economic Expectations (IEE) fell 7.6 points over two months, to 96.2. The Index of the Current Situation (ICS) slipped 5.1 points to 98.4. However, the overwhelming majority of Ukrainians thought that was a good time to purchase large household items: despite losing 6 points, the Index of Propensity to Consume was above the 100-mark in April 2006, at 107.5.

Indices

Consumer Confidence Index (CCI)	97.1 (-6.6)
Index of the Current Situation (ICS)	98.4 (-5.1)
Index of Economic Expectations (IEE)	96.2 (-7.6)
Index of Expected Changes in Unemployment (IECU)	116.3 (+4.7)
Index of Inflationary Expectations (IIE)	186.9 (+1.5)

Sources: GfK Ukraine, ICPS

After an improvement registered during two previous polls, expectations of changes in unemployment deteriorated again. The Index of Expected Changes in Unemployment (IECU) grew 4.7 points compared to February 2006, to 116.3. Inflationary expectations of Ukrainian consumers continue to be stably high: the Index of Inflationary Expectations (IIE) was 186.9 in April, 1.5 points above the value registered in February 2006.

In the opinion of ICPS specialists, consumer confidence in Ukraine deteriorated due to political uncertainty that has been prevailing in the country for more than half a year. Apparently, the outcome of the Verkhovna Rada elections did not foster an increase in optimistic expectations in any of the regions across the country. Delays with the formation of a Verkhovna Rada coalition and a new Government reinforced pessimistic economic expectations of Ukrainians.

Pessimistic consumer confidence prevails in Kyiv, Central and Eastern Ukraine. The CCI in

Kyiv fell 26 points to 95.3. The Index of Short-Term Economic Expectations plunged 41.7 points to 78.3. The lowest CCI was registered in Eastern Ukraine—86.8. However, compared to the previous poll, consumer confidence in eastern oblasts remained practically unchanged.

Consumer confidence among Ukrainians with below-average incomes deteriorated the most: the relevant CCI fell 10.7 points to 81.3—a record-low value since June 2004. Consumer confidence among young Ukrainians, aged 15–30, continues to be mostly optimistic; however, it deteriorated the most compared to the other two age groups. The relevant CCI was 102.8 in April, 9.5 points below the value registered in February 2006. ■

For additional information about this survey, please contact Yevhenia Akhtyrko by telephone at (380-44) 484-4403 or via e-mail at eahtyrko@icps.kiev.ua.

*If you would like to subscribe to the **consumer confidence** bulletin, with its detailed analysis of the Consumer Confidence Index in Ukraine, contact our Client Relations Manager Andriy Starynskiy by telephone at (380-44) 484-4410, or via e-mail at marketing@icps.kiev.ua.*

ICPS experts presented the “Public Consultations on an EU–Ukraine Free Trade Agreement” Project

On 26 May 2006, ICPS experts presented the “Public Consultations on an EU–Ukraine Free Trade Agreement” Project. The main goal of this project is to help the Ukrainian Government form a strong and balanced position for the negotiations on an EU–Ukraine Free Trade Agreement.

This project is very important for the Ukrainian Government. Recently, Ukraine and the European Union launched informal consultations on a free trade agreement. A group of independent experts from the CEPS (Brussels, Belgium), Institut für Weltwirtschaft (Kiel, Germany), and the ICPS studied possible options and the economic impact of this agreement. Experts made a conclusion that Ukraine will benefit the most from “deep free trade” that covers trade issues, regulatory policy and economic governance. Deep free trade will make it possible to modernize the economy, improve economic governance and will also bring Ukraine closer to European norms and standards.

During this presentation, Project Manager Olha Shumylo informed about project objectives and expected outputs, topics to be

discussed and deadlines for holding public consultations. It is expected that 15 consultations with stakeholders—representatives of Ukrainian businesses—will be held as part of this project in order to identify their positions on the feasibility and the impact of creating a free trade area with the EU. The results of these consultations will be used to prepare White Papers that will present positions of stakeholders on a free trade area with the EU and recommendations for the future negotiations.

The project is implemented by the International Centre for Policy Studies jointly with the Ministry of Economy of Ukraine and with the support of the Swedish International Development Agency (SIDA) and the Local Government and Public Service Reform Initiative (LGI) of the Open Society Institute (OSI).

The schedule of public consultations will be posted on the ICPS web-site later. For additional information, please contact Olha Shumylo by telephone at (380-44) 484-4400 or via e-mail at oshumylo@icps.kiev.ua.

Road traffic participants need a proper safety policy: the Ministry of Transport is ready to take the initiative

In May 2006, a Green Paper called "On government policy of traffic safety" was discussed. According to a policy analysis group from the Ministry of Transport and Communications that prepared this Green Paper as part of the "Setting up Ten Policy Analysis Groups under Ukraine's Executive Bodies" Project, the safety issue is one of the main government policy priorities. First of all, it makes sense to begin activities in this area from managerial changes—that is, from setting up a body responsible for traffic safety and dividing functions of administrating and inspecting between two bodies: the Ministry of Internal Affairs and the Ministry of Transport and Communications

Today, road safety in Ukraine is not satisfactory: there are high death and injury rates on the roads, as well as a low level of discipline among traffic participants. Motor transport accounts for the highest number of fatalities—more than 7,000 cases annually. The highway death toll in Ukraine is several times higher than the average European indicator. Every year, thousands of Ukrainians become crippled for the rest of their lives and need ongoing assistance from the government and the society. In addition to human sufferings, deaths also result in economic losses: losses for the state resulting from traffic accidents are estimated at 1.4–3.5% of GDP. For Ukraine, this high rate of road accidents also has a negative political impact. Superficial attitude to human life and health does not suit the country that positions itself as a European and democratic state.

Road safety is negatively affected by many factors. These include underfinancing and, as a result, the corresponding state of motor roads; imperfect management of traffic safety; corruption within the police and road police bodies and, as a result, formalities affecting annual maintenance inspections; inappropriate system and, as a result, the level of training for beginning drivers that

does not meet requirements of contemporary road traffic; worn-out state of buses and trucks engaged in domestic transportations; reduced number of specialists engaged in organizing traffic safety; underdeveloped market of insurance services in this area; low level of driving culture; road infrastructure lagging behind the rapid growth of car fleet; and imperfect system of administrative responsibility for violating traffic rules.

However, it makes sense to begin improving the policy of traffic safety with eliminating managerial and organizational problems. Firstly, Ukraine does not have a central body responsible for traffic safety. The Highway Safety Council under the Cabinet of Ministers that was set up on the initiative of the Ministry of Transport cannot be viewed as a central body, as it is an advisory structure; therefore, its decisions are mere recommendations. It makes sense to set up a leading central executive body that would manage and coordinate activities in the area of traffic safety at the government level and also would be responsible for this issue.

Secondly, functions of inspecting and administrating are combined in one body—the Road Patrol and Inspection Service. This agency issues permits, carries out technical

supervision and simultaneously fulfills overseeing functions. Can the Road Patrol and Inspection Service effectively fulfill all these functions? Experience and practice show that the answer is negative. This combination creates incentives for distorting statistics—for example, according to the official data, only 1% of traffic accidents in Ukraine happens due to technical condition of vehicles, whereas this indicator is as high as 10–15% in Europe—and destroys incentives for enhancing road safety, specifically through improving the quality of maintenance inspection. European experience testifies to the fact that maintenance inspections must be carried out by independent certified companies.

Specialists of the Ministry of Transport are convinced that the solution of managerial and organizational problems will significantly improve the policy of traffic safety. By developing a public policy paper to improve traffic safety, the Ministry of Transport and Communications, which once lost the powers of a body that develops the policy of traffic safety, is now taking up the initiative. ■

The "Setting up 10 Policy Analysis Groups (PAGs) under Ukraine's Executive Bodies" Project is being implemented by the International Centre for Policy Studies. The project is being financed by the Center for Facilitating the Institutional Development of the Civil Service under the Main Administration of the Civil Service.

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Higher fares for train travel an unavoidable reality

As of 12 June 2006, UkrZaliznytsia, the state railway company, is raising rates for passenger fares 50%, with the exception of suburban trains. This move is part of a widespread review of regulated fares for community services of various kinds. Any assessment of this decision and its impact needs to focus on two criteria: economic efficiency and social permissibility, says economist of the ICPS Borys Bordiuh.

Passenger carriage on UkrZaliznytsia has been completely unprofitable for years and the announced increases will only reduce annual losses from this kind of service by UAH 0.5bn to UAH 1.9bn. Given that any service should at least cover its basic delivery costs and gradually move away from the practice of cross-subsidization, the current rise in rates for railway passenger

is both necessary and far from final. According to statements by Transport and Communications Minister Viktor Bondar, the Government plans to continue to gradually raise passenger fares to get the system running in the black over the next three years.

Increasing fares for passenger services will have a negative impact on their accessibility to poorer groups of the population. Still, social security for poor Ukrainians must be provided by way of targeted assistance. According to the ICPS expert, uncontrolled subsidization for both well-off Ukrainians and socially vulnerable groups alike through low fares is a faulty approach. As a result, poor and socially vulnerable Ukrainians will lose the most, as funds intended to provide them with social assistance through rate subsidies benefit rather wealthy citizens.

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