

# ICPS newsletter<sup>®</sup>

## Consumer confidence remains very low

**In September 2006, the Consumer Confidence Index in Ukraine moved back up slightly, to 87.5. This is 2.6 points above the value registered during the previous poll, in June 2006. Despite a slight improvement in the evaluation of their current standing and in economic expectations compared to the previous poll, consumer confidence among Ukrainians remains extremely low**

The Index of Propensity to Consume, which indicates the readiness of consumers to make large household items, has been deteriorating steadily since April 2006. From June to September 2006, the index lost 1.9 points, slipping to 99.7. A value below the 100-mark for this index shows that the majority of Ukrainians did not think that now is generally a good time to make large household purchases. This deterioration in the propensity to consume is, apparently, related to Ukrainians' extremely pessimistic expectations of their personal financial

standing, which have hit a record low since 2000.

The Index of Economic Expectations (IEE) grew 3.3 points compared to the June value, to 83.3. Short-term economic expectations of Ukrainian consumers continue to be extremely pessimistic: this index stood at 74.8 in September 2006.

Despite the overall pessimistic economic expectations of Ukrainians, inflationary expectations have eased off. The Index of Inflationary Expectations (IIE) fell 8 points over June–September 2006, to 181.2—a record low since December 2004.

Ukrainian consumers appear to be responding to slower growth in consumer prices—especially, food prices—which have been slowing down throughout 2006. Expectations among Ukrainians of changes in unemployment have improved after declining since April 2006. The Index of Expected Changes in Unemployment (IECU) fell 7.2 points over June–September 2006, to 113.6. At the moment, expectations of changes in unemployment are close to the values registered in late 2005.

Consumer confidence in rural areas continues to deteriorate. The relevant CCI was 78.8 in September 2006, 3.4 points below the value registered in June 2006. The Index of the Current Situation (ICS) of rural consumers fell 5.9 points to 84.1, while their Index of Economic Expectations slipped 1.5 points to 75.4.

Consumer confidence among better-off Ukrainians has been deteriorating since the beginning of 2006. Over June–September 2006, the CCI of Ukrainians with above-average incomes shrank 4.5 points, to 98.8. A CCI value below the 100-mark shows that the majority of better-off Ukrainian consumers currently feel pessimistic. This is the first time the CCI for Ukrainians with above-average incomes has fallen below the 100-mark in the entire history of consumer confidence research in Ukraine. Such research has been conducted since September 2000. ■

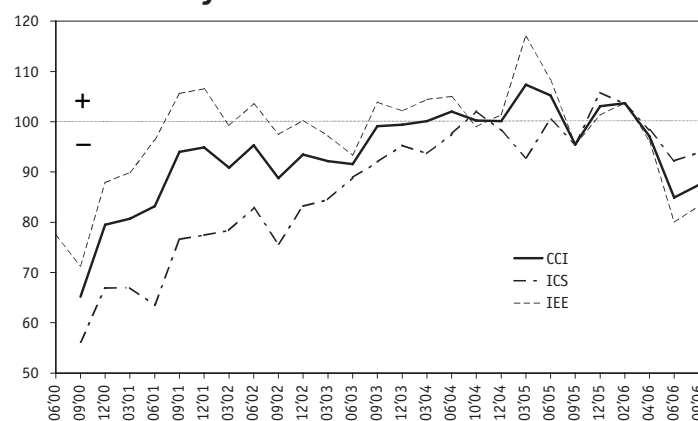
*For additional information about this survey, contact Yevhenia Akhtyrko by telephone at (380-44) 484-4403 or via e-mail at eakhtyrko@icps.kiev.ua.*

*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.*

### By the way...

- A roundtable called "EU–Ukraine Free Trade Agreement: Impact on the State Procurements Market" was held on 26 October 2006. ICPS specialist Oleh Myroshnychenko presented analytical materials for discussion.
- On 25 October 2006, ICPS economists met with officials from Moody's Investors Service, an international rating agency. Moody's expressed interest in the assessment of Ukraine's economic and political situation made by ICPS specialists.
- On 23 October 2006, ICPS specialists held a meeting with a group of state secretaries and representatives from leading think-tanks in Kyrgyzstan. This study tour to Ukraine was organized as part of the "Policy Development and Policy Analysis Issues: Kyrgyzstan" project of the Soros–Kyrgyzstan Foundation.
- Over 18–21 October 2006, ICPS specialist Oleh Myroshnychenko participated in a seminar in Warsaw on Polish experience in harmonizing national legislation and procedures for providing government support as part of the "Ukraine Heading Towards the EU" Stefan Batory Foundation's program.

### Consumer Confidence Index in Ukraine



Sources: GfK Ukraine, International Centre for Policy Studies

# Economists upgrade consensus forecast

On 13 October 2006, ICPS economists participated in the latest quarterly macroeconomic forecasting seminar organized by the Ministry of Economy with the support of the United Nations Development Program (UNDP) as part of the "Millennium Development Goals" project. Indicators for this consensus forecast are determined as the average value of all forecasts provided by participating economists from government, non-government and international organizations

Specialists upgraded their forecast for Ukraine's economic growth over 2006–2007 by a significant amount. According to this forecast, GDP will grow 5.6% in 2007, whereas in June 2006, the consensus team had expected the economy to grow only 4.2% in 2007.

The forecast for Ukraine's economic growth was upgraded because of more

rapid growth in investment, an improved trade balance and expectations of higher consumption.

Compared to June, the current forecast for FDI for 2006 has been raised US \$702mn, to US \$3.8bn.

In late 2006, the forecast for the hryvnia exchange rate was downgraded to

UAH 5.16/USD against UAH 5.12/USD expected in June.

Most economists at the seminar agreed that the key feature of 2007 will be conditions established to spur investment and innovation-based growth in output. ■

Greater detail on these quarterly macroeconomic forecasts can be found on the Economy Ministry website at [http://me.kmu.gov.ua/control/uk/publish/category/main?cat\\_id=73499](http://me.kmu.gov.ua/control/uk/publish/category/main?cat_id=73499) (in Ukrainian).

For additional information, contact Oleksiy Blinov by tel. at (380-44) 484-4403 or via e-mail at [oblinov@icps.kiev.ua](mailto:oblinov@icps.kiev.ua).

## Macroeconomic forecast for 2006–2007

Index	2006		2007	Index	2006		2007		
	Forecast	June 2006 forecast			Forecast	Forecast		June 2006 forecast	Forecast
<b>Real sector</b>	<b>(mn UAH)</b>			<b>External Sector</b>	<b>(% GDP)</b>				
Nominal GDP	499,687	487,672	↑	589,080	Current account balance	-0.9	-2.9	↑	-1.2
Consumption	399,988	394,872	↑	472,965	Export volumes	49.3	48.6	↑	47.5
private	304,313	299,026	↑	359,979	Import volumes	52.0	53.5	↓	50.5
public	94,550	97,990	↓	109,188	Revenue balance	-1.3	-1.2	↓	-1.1
Investment	111,945	112,288	↑	136,327	Official transfers (net)	3.1	3.2	↓	2.9
Gross accumulation of fixed capital	108,115	108,100	↑	125,769	Capital account balance	1.8	4.8	↓↓	2.2
private	94,921	93,322	↑	123,531	FDI	3.8	3.2	↑	3.1
public	16,404	15,044	↑	18,012	<b>Exchange rate</b>	<b>(UAH/USD)</b>			
Net export of goods and non-agency services	-11,273	-21,501	↑↑	-15,912	average	5.05	5.08	↓	5.12
Gross national savings	98,559	105,712	↓↓	117,555	YE	5.05	5.09	↓	5.16
<b>Real sector</b>	<b>(index, y-o-y)</b>			<b>Public finance</b>	<b>(mn UAH)</b>				
Real GDP	105.9	102.6	↑↑	105.6	Total revenues	169,344	160,022	↑	192,759
Consumption	110.6	105.8	↑	106.0	Total expenditures	181,360	173,327	↑	206,985
private	112.8	107.9	↑	107.6	Overall balance	-12,016	-13,305	↑	-14,226
public	104.6	101.9	↑↑	102.5	Privatization	1,286	3,212	↓↓	6,620
Investment	108.5	105.2	↑	108.9	<b>Public finance</b>	<b>(% GDP)</b>			
<b>Inflation</b>	<b>(index)</b>			<b>Money and credit</b>	<b>(% GDP)</b>				
GDP deflator, average, annual	111.6	112.2	↓	111.3	Total revenues	33.9	32.8	↑	32.7
CPI, average, annual	108.7	110.6	↓	109.7	Total expenditures	36.3	35.5	↑	35.1
Dec. on Dec.	109.5	111.5	↓	109.8	Overall balance	-2.4	-2.7	↑	-2.4
PPI, average, annual	110.1	110.6	↓	112.7	Privatization	0.3	0.7	↓↓	1.1
Dec. on Dec.	114.2	113.9	↑	111.9	<b>Money and credit</b>	<b>(mn USD)</b>			
<b>External Sector</b>	<b>(mn USD)</b>			Monetary base, YE	102,902	105,401	↓	128,441	
Current account balance	-855	-2,761	↑	-1,434	Dec. on Dec., %	24.3	27.4	↓	24.8
Export volumes	48,787	46,614	↑	54,662	Money supply (M3), YE	257,360	254,007	↑	334,578
Import volumes	51,427	51,348	↑	58,120	Dec. on Dec., %	32.6	30.9	↑	30.0
Revenue balance	-1,246	-1,108	↓	-1,264	Average weighted interest rate on commercial hryvnia loans, % pa	15.0	16.3	↓	13.5
Official transfers (net)	3,033	3,081	↓	3,287	NBU international reserves, mn USD	19,718	18,137	↑	21,081
Capital account balance	1,830	4,607	↓↓	2,541	<b>Social indicators</b>	<b>(% GDP)</b>			
FDI	3,793	3,091	↑	3,620	Population, millions	46.76	46.73	↑	46.48
					Average wage, UAH	1,034	1,005	↑	1,235
					Disposable household income, % change over previous year	13.3	7.7	↑	7.9

**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 your request to: [marketing@icps.kiev.ua](mailto:marketing@icps.kiev.ua).

**icps newsletter** editor: Olha Lvova ([olvova@icps.kiev.ua](mailto:olvova@icps.kiev.ua))

Phone: (380-44) 484-4400. Fax: (380-44) 484-4402

English text editor: L.A. Wolanskyj

Articles may be reprinted with ICPS consent.

The International Centre for Policy Studies is an independent research organization whose mandate is to promote the introduction of public policy concepts and practices in Ukraine. This is achieved by increasing the know-how of key government officials for policy choices, formulation and debate, and the awareness of the public-at-large of the benefits of policy.

Address: vul. Pymonenka 13A, Kyiv, Ukraine 04050

Web-site: <http://www.icps.com.ua/eng/>