

ICPS newsletter[®]

2009: Time for Ukraine's gas sector to become European

The natural gas supply agreement signed between Ukraine and Russia for deliveries in 2009–2019 establishes a formula for calculating the price of imported gas. The switch to European prices is happening shock-style, but it is necessary, because world prices for energy are likely to be even higher in the upcoming years, says ICPS senior economist Ildar Gazizullin

Ukraine's energy policy is a flop

The gas conflict between Kyiv and Moscow once more reveals Russia's desire to increase its control over post-soviet countries in general and Ukraine's energy sector assets in particular. The situation in which Ukraine finds itself illustrates yet again the ineffectiveness of the country's domestic energy policy. Still, there were major differences between the two gas wars, in 2005–6 and in 2008–9.

The decline in oil prices that began in August 2008 and the global economic recession have radically shifted the positions of suppliers and consumers of resources. Russia's influence as an energy giant has weakened. 2008 may well be the last year that Moscow could throw its weight around by reminding the world

about how dependent it was on Russia. Although the decline in commodity prices on world markets is hurting Ukraine's economy especially, this end to the "special" gas relationship between Moscow and Kyiv will benefit the country.

The Government and business will improve energy policy

The external shock of a switch to new gas terms should force government and business alike to start acting on useful energy policy measures that, so far, have not been taken seriously. Ukraine has to reduce its energy consumption more actively, to attract investors to the extraction of hydrocarbons, and to improve the targeting of its social policies. This is a matter of strictly

domestic policy—which means that responsibility for lack of progress can no longer be blamed on an external enemy.

Ukraine will adapt to a European price

Ukrainian consumers are capable of paying the average European price for Russian gas. Ukraine's energy intensive businesses currently have power to spare, as they enjoyed super profits for a time. Meanwhile, rises in residential utility rates will not be as radical as earlier and a more effective social security policy should soften the negative impact of growing utility costs. However, Naftogaz is in no position to subsidize ordinary consumers any more and the material state of the country's households will inevitably grow worse. ■

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Consumers pessimism breaks all records

Ukraine has begun to feel the impact of the economic crisis. Confirmation of this is in the dynamic of consumer confidence among Ukrainians. At the end of 2008, their mood continued to worsen sharply, demonstrated by a 15.4pp drop to 53.9, the absolutely lowest level for all eight years that the Consumer Confidence Index (CCI) has been tracked. This means that a clear majority of Ukrainian consumers are feeling extremely pessimistic

In December 2008, the CCI survey revealed considerable decline in all the components of the Index. For instance, the Index of the Current Situation (ICS) fell 16.7pp to 56.0. Moreover, this dramatic decline in consumers' assessments of their own financial standing was far worse than the decline in their propensity to consume. This can be seen in the related indices x1 and x5, which stood at 50.7 and 61.2 at the start of winter. This trend has continued for a long time already and leads to the conclusion that, although their current material standing has grown worse, a significant number of Ukrainian consumers can still afford to make major purchases.

Given the start of an economic downturn in Ukraine, it is normal that the economic expectations of Ukrainians continue

to fall and are very pessimistic. At the end of 2008, economic expectations fell 14.6pp to 52.6. The most pessimistic of all are the short-term expectations of Ukraine's consumers: in December, the index for expectations of the development of the country's economy over the next year (x3) dropped a further 13.1pp, to 41.0.

Expectations of changes in personal material standing and medium-term prospects for Ukraine's economy were somewhat better, although also generally pessimistic. These indices x2 and x4 fell to 52.4 and 64.3. The relatively high indicator for expectations for the economy to develop over the next five years shows that most consumers do not expect the current crisis to last long.

Expectations regarding unemployment trends continued to worsen and have led to a new record. In December, the Index of Expectations of Changes in Unemployment (IECU) rose 21.8pp, reaching its highest-ever level since these surveys began. Given cutbacks in production, this is a fairly normal reaction. Inflationary expectations, by contrast, actually improved slightly, although they remain at a predictably high level. The Index of Inflationary Expectations (IIE) slipped 2.8pp to 183.7. This stabilization in expectations of inflation among consumers is connected primarily to the fact that these expectations have already stood near the maximum for some time.

Another reason could be a slight tapering off in the growth of prices for certain types of goods as demand for them declines in the face of a stagnating economy. Production cutbacks that are not accompanied by inflation are a new phenomenon for Ukraine and could establish a new model of consumer behavior for this country. ■

Consumer Confidence—a survey of consumer households and their opinions about the current economic situation and their own financial standing.

Consumer Confidence is a joint project of the International Centre for Policy Studies and GfK Ukraine.

As of January 2009, the consumer confidence survey will be conducted on a monthly basis.

The Consumer Confidence Index is the main indicator used around the world to determine trends on consumer markets. This indicator is also the basis for many companies who sell consumer goods and services to make business development plans.

Consumer Confidence was launched in July 2000 and is published in both Ukrainian and English. Subscribers include Ukrainian and foreign companies, diplomatic missions, Government offices, and post-secondary educational institutions.

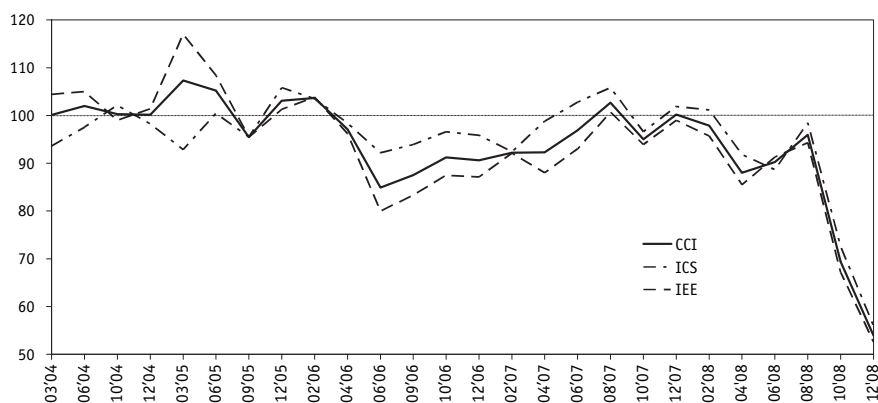
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CCI trends in Ukraine

Month, year	Consumer Confidence Index (CCI)	Index of Current Standing (ICS)	Index of Economic Expectations (IEE)
12'08	53.9	56.0	52.6
10'08	69.3	72.6	67.2
08'08	96.0	98.5	94.3
06'08	90.2	88.7	91.3
04'08	88.0	91.8	85.5
02'08	97.9	101.2	95.7
12'07	100.2	101.9	99.0
10'07	95.0	96.6	93.9
08'07	102.7	105.8	100.7
06'07	96.9	102.8	93.0
04'07	92.3	98.8	88.8
02'07	92.2	92.4	92.1
12'06	90.6	95.9	87.1
10'06	91.2	96.6	87.5
09'06	87.5	93.9	83.3
06'06	84.9	92.2	80.0
04'06	97.1	98.4	96.2
02'06	103.7	103.5	103.8
12'05	103.1	105.8	101.3
09'05	95.5	95.5	95.5
06'05	105.2	100.5	108.4
03'05	107.3	92.9	117.0
12'04	100.1	98.3	101.4
10'04	100.3	102.2	99.0
06'04	102.0	97.6	105.0

Sources: GfK Ukraine, International Centre for Policy Studies

Consumer Confidence Index in Ukraine



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