

# ICPS newsletter®

## Downswing in consumer mood breaks more records

***Ukraine greeted 2009 with a thus-far unseen worsening in the consumer mood as the crisis in the country's economy deepened. In January 2009, the Consumer Confidence Index (CCI) fell a further 12.1pp over December 2008, to 41.8. This is a new record and the absolute lowest the Index has ever been since it began to be tracked. This level of the CCI indicates that more than three-quarters of Ukraine's consumers are feeling pessimistic***

As before, all components of the CCI are registering a negative response since the beginning of 2009. What is unusual in the January survey is that economic expectations among Ukrainians are more positive than their assessments of the current situation. Thus, the Index of the Current Situation (ICS) fell 15.5pp to 40.4, while the Index of Economic Expectations fell only 9.8pp, to 42.8. In general, this means that people are somewhat inclined to see the current economic situation as worse than what it will be later. In short, the economic crisis in the minds of considerable share of the population of Ukraine has bottomed out and they now expect a gradual improvement in the situation.

The biggest decline among the components of the CCI in January 2009 was the Index of Current Personal Financial Standing (x1), which dropped 16.2pp to 34.5. In other words, the material standing of most Ukrainians has seriously deteriorated in the last while. The fall in the propensity to consume is an equally clear indicator: this index

x5 dropped 14.9pp to 46.3. Thus, more than two thirds of those surveyed are no longer prepared to make major household purchases. This could signal a gradual depletion of the savings that Ukrainians had set aside during the period of economic growth.

The Index of Expected Changes in Personal Financial Standing (x2) shrank 13.6pp in January 2009, falling to 38.8. This means that Ukrainians assess their personal financial prospects extremely negatively. Nor are their expectations of the further development of the country's economy any more optimistic. The Index of Expected Economic Conditions in the Country over the Next Year (x3) fell 8.3pp to 32.7, while the Index of Expected Economic Conditions in the Country over the next 5 Years (x4) fell somewhat less, 7.5pp, to 56.8.

Another important indicator is the minor improvement in expectations of unemployment among Ukrainian consumers. At the beginning of 2009, the IECU shrank a mere 0.6pp to 164.6. Although this is one of the highest

indicators for the last eight years, such a minuscule rise as was registered in January could indicate that Ukrainians already expect a gradual stabilization in the economy rather than a serious worsening in the next while.

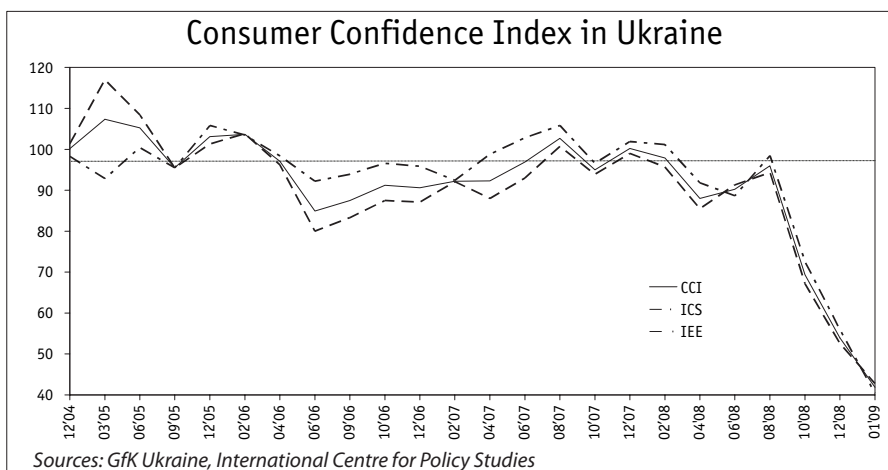
The Index of Inflationary Expectations (IIE) rose a modest 2.5pp to 186.2 at the beginning of 2009. This mild fluctuation in inflationary expectations can be explained as the result of contrary factors that cancel each other out. On one hand, the long-term devaluation of the hryvnia and its uncertain prospects have spurred inflation. On the other, the continuing fall in demand for most product categories has been reducing inflationary pressures in Ukraine. Still, the impact of the declining hryvnia relative to hard currencies in January 2009 has been stronger and has spurred inflationary expectations to grow somewhat. ■

**Consumer Confidence** is 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 postsecondary educational institutions.

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# A new Social Contract as a way out of the crisis

***Ukraine has failed to take advantage of the opportunities presented by the Orange Revolution: swift social renewal and much-needed political and economic reforms were not undertaken, writes ICPS Director of Policy Analysis and Security Viktor Chumak in a recent article for Ukrayinska Pravda, an on-line news service. Today, with its politicians all at loggerheads, Ukraine is one of the countries hardest hit by the world economic crisis. Those of Ukraine's citizens who care about the future of their country need to begin the process of putting together a new Social Contract, says Mr. Chumak***

## Political confrontation is debilitating

The flaws in the system of interrelations between the President, Government and Verkhovna Rada that were cobbled into the Constitution of late 2004 have resulted in a never-ending political crisis. In a situation where one election campaign follows another, political forces bent on confrontation rather than cooperation are generating democratic chaos rather than democratic government. As a result, the government apparatus is dysfunctional, ordinary citizens mistrust the judiciary and law enforcement systems, and new elections become the only non-violent way out of the endless conflicts.

In the long run, all participants in this political conflict will lose, because none of them will be able to carry out any of their election promises. Where there is a systemic economic crisis, however, this kind of political environment threatens to drive the country to catastrophe.

## Major parties feed the current situation

Among all the parties currently in the legislature, there is a kind of circle-game going on. None of them will lobby for measures that could democratize the political system and revive the link between parties and voters.

On the contrary, such negative phenomena as closed party lists, the buying of places on party lists, the imperative mandate in its current manifestation—which makes deputies little more than puppets in the hands of party leaders rather than responsible to their electorate—and the common practice of bringing to the legislature faceless individuals like secretaries and drivers are very convenient for party leaders and will thus likely continue.

## Populism prevents real change

Populism has now become the ideological base for every major party in Ukraine. During election campaigns, politicians focus mostly on those voters who want no more than a pension, a salary, money for babies, free housing and so on, from the state.

Those who are able to earn a living and take care of themselves and who expect the state to provide, not freebies, but quality services, a just court system, honest law enforcers, and a positive environment for doing business—all those things for which a modern state is normally formed—continue to be off the radar for most politicians and society as a whole.

The populism for which too many people are prepared to vote in every regular and snap election is the main obstacle to real change.

## A modern contract for modern challenges

The only way out is to build a state that can handle the challenges of civilization both today and tomorrow. One that can protect its citizens and support all their basic needs and interests.

This requires voters to become aware of themselves as citizens, that is, as those responsible for nation-building, and to put together a new agreement on the principles of interaction and common development, and the basis on which Ukrainian nationhood must be renewed.

Those of Ukraine's citizens who care about the future of their country need to begin the process of building a new nation, a nation of the Ukrainian people. This means a Social Contract that will become the foundation for a new Constitution of Ukraine, to be adopted by a special Founding Congress body elected by voters—in short, a Constitutional Assembly.

The establishment of a Founding Congress will be the outcome of running a campaign process: collecting voter signatures for a Social Contract and at the same time registering them as voters for the election of a Founding Congress.<sup>1</sup>

Should the majority of Ukraine's citizens who are eligible to vote sign such a Contract and draw funding in a legal and transparent manner, it will be possible to have an election of a Founding Congress with representatives of all international organizations to affirm such a Founding Congress as the legitimate action of nation-building by the people.

If Ukrainians hold such an election, they can obligate all government institutions to recognize the Founding Congress as the sole legitimate body in the state that will be empowered to draft the text of a new Constitution of Ukraine, legislation on electing popular representatives to representative bodies, and legislation recognizing the option of having independently governed territorial communities, and provide for a just, impartial judiciary.

During the course of the first year after the new Constitution and election legislation are adopted, Ukrainians will be able to hold elections to representative bodies at all levels in accordance with transparent, democratic procedures and standards. This will make it possible to bring to power politicians who will be responsible and accountable before their electorate, rather than the political business corporations Ukraine suffers from today. ■

*The complete article is published:*  
<http://pravda.com.ua/>.

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<sup>1</sup> This kind of Founding Congress or constituent has been part of world practice for some time. The people of various countries have used this nation-building mechanism at a turning point in their history, that is, at a time when it was necessary to "reboot" the country. In Italy, a Founding Congress in 1946 enshrined a Constitution for the country that abolished the monarchy. In Portugal, it brought down the Salazar dictatorship in 1976. Constitutions approved in Estonia (1990–1992) and Namibia (1990) enshrined declarations of independence; in Bulgaria (1991) and Rumania (1991–1992), they confirmed the collapse of communist regimes.