

# ICPS newsletter®

## Economic modeling in preparing to negotiate an FTA with the EU

*The success and duration of negotiations between Ukraine and the EU over an agreement on a Free Trade Area depend on the degree to which interest groups understand possible impact of changing conditions of trade on the economy as a whole and on specific sectors and markets. The process of economic modeling and the results it provides are the kind of information that can be used to develop negotiating positions, to hold meaningful consultations with stakeholders, or to decide on what will be needed by way of policy measures. Under the "Free Trade Agreement between Ukraine and the EU: Analytical, methodological and informational support for negotiations" project, ICPS has published a report called "Economic modeling as a preliminary component in negotiating a Free Trade Area between Ukraine and the EU." The study provides econometric models of the sunflower seed and labor markets*

Today, Ukraine's Ministry of Economy has at its disposal several econometric models with which to analyze foreign trade policy. These include Calculated General Equilibrium or CGE models, which are used to assess the impact of signing this FTA agreement and the World Trade Organization membership agreement on Ukraine. Among others, they provide an assessment of expectations of change to overall well-being, sector output and employment in Ukraine.

Still, the potential for applying CGE models to assess the impact of liberalized trade in the next while is largely exhausted. Moreover, these models need to be updated using data from 2004–2006 and taking into account the customs duty rates that have come into effect since Ukraine joined the WTO.

This set of economic instruments can be expanded through the use of micro-modeling or applying econometric models of partial equilibrium—altogether nearly five main models. Moreover, these models are more easily updated and the results of this modeling are more understandable for a lay audience. Their drawbacks are that they are not universal, but rather that for every branch or market, it is necessary to establish a different comparison specification. The preparation of these models also requires that time be spent on preliminary situational analysis of the situation in each sector.

The ICPS report presents econometric models of goods and services markets:

the sunflower seed and sunflower oil market and the labor market in the services sector. These models describe the state of the market and provide an opportunity to analyze the impact of removing non-tariff EU barriers to trade or legislated changes on the market as a result of adapting Ukrainian laws to European ones. The authors of the study also present the principles of a communication campaign presenting the results of economic modeling.

*The full version of this study can be found at: <http://www.icps.com.ua/doc/Book.pdf>.*

*ICPS is undertaking the "Free Trade Agreement between Ukraine and the EU: Analytical, methodological and informational support for negotiations" project with funding from the Swedish International Development Agency (SIDA). The goal of the project is to support Ukraine's process of economic and trade integration with the European Union by providing analytical, methodological and informational support to central and local government bodies in Ukraine, the private sector and the media.*

*The Centre's partners in this project are the Ministry of Economy, the Ministry of Foreign Affairs, and the Secretariat of the Cabinet of Ministers. ■*

*For additional information, contact ICPS economist Oleksandr Zholud by phone at (38044) 272-1050 or via e-mail at [ozholud@icps.kiev.ua](mailto:ozholud@icps.kiev.ua).*

### The Top District in Kyiv

The International Centre for Policy Studies is carrying out its latest study into "The Top District in Kyiv."

The purpose of this study is to tap community opinion in each of the capital's 10 districts regarding the quality of services being provided to Kyivites in order to determine which district is the best according to this criterion; to compare the results with the results of the previous year's results; and to disseminate the results of this study to the city's communities.

In the course of this research, local residents are surveyed as to the quality of services they receive in eight areas: the operation of municipal public transit; the provision of community basic services; maintenance of streets and roadways; the work of medical and educational facilities; how the problems of individual residents are handled when they turn to district government offices; conditions for cultural and athletic activities; conditions for children to play; the distance from local residences to shops providing for basic needs, markets and pharmacies.

A total of 4,000 Kyiv residents were polled—400 from each of the 10 districts. The determination of the top district will be done by evaluating certain criteria for the quality of public services provided and calculating the integral value of a quantitative indicator, that is, rating the districts.

The results of this study and the top district in Kyiv will be announced at a press conference at the end of October 2008.

Last year, ICPS carried out a similar study. The result of the survey led to the Shevchenkivskiy District being declared the best in Kyiv. ■

*For further information, contact ICPS economist Ihor Shevliakov by phone at (38044) 484-4400 or via e-mail at [ishevliakov@icps.kiev.ua](mailto:ishevliakov@icps.kiev.ua).*

# Consumer mood begins to turn around

**At the end of Summer 2008, the mood among Ukrainian consumers finally began to turn around. Accordingly, the Consumer Confidence Index (CCI) rose 5.7pp to a position approaching neutral, 96.0. This indicates that the improvement in the consumer mood that began in June will likely continue and become predominantly optimistic in the next period. This assumption is supported by the Index of Propensity to Consume x5, which grew 9.2pp over July and August 2008, to 106.6, and shows that the majority of Ukrainian consumers are ready to make major purchases once again. Still, given the negative economic trends that have recently become widespread, their mood could sour again**

The Index of the Current Situation (ICS) also reached a nearly neutral position over the summer, growing 9.8pp to 98.5. In addition to the rise in the IPC, another component of this index also showed a significant shift: the index of personal financial standing. Although at 90.3 this index x1 continues to point to a predominantly pessimistic assessment among consumers, over July–August, it grew the most among all the components of the CCI, rising 10.4pp. Most likely, this is connected to the slight easing of inflationary pressures, which was reflected in a definite improvement in inflationary expectations among Ukrainians.

The economic expectations of Ukrainian consumers were somewhat lower than their overall mood and their assessments of the current situation the end of Summer 2008. The related Index (IEE) also grew, but only 3.0pp, to 94.3.

Among IEE components, the highest indicator, 97.4, and the highest growth, 5.9pp, were registered in the index of expectations of improvements in personal material standing, x2. This means that more and more consumers are expecting their personal incomes to grow in the next while. At the same time, another component—the index of expectations of economic growth over the next 5 years (x4)—shrank 0.5pp to 94.7. This means that long-term economic forecasts have slightly worsened among Ukrainian consumers and remain relatively negative. Still, the index x4 was the only component in the CCI that went down in Summer 2008. The reason for this could be the protracted political crisis and growing distrust of the country's politicians.

Over July–August 2008, the survey showed a definite improvement in inflationary expectations and expectations in the

unemployment situation among Ukrainian consumers. Moreover, the Index of Expected Changes in Unemployment (IECU) once again approached a neutral position, falling 4.1pp to 108.6. The fall in the Index of Inflationary Expectations (IIE) was less noticeable at 2.1pp, putting the index at 185.9. This indicates that the vast majority continues to expect inflation to accelerate.

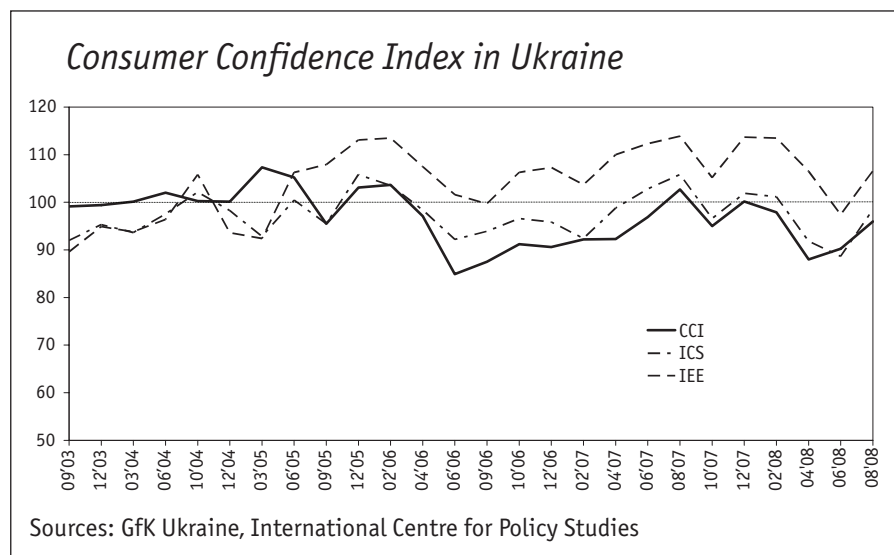
Consumers in the Western and Central regions of Ukraine continue to be the only ones that are generally optimistic. Moreover, their mood even improved slightly at the end of Summer 2008, inching up 0.1pp to 105.2 in the west

and rising 2.4pp to 106.0 in the center. Other than the Southern regions, where the CCI fell 7.5pp to 84, the consumer mood improved in the rest of Ukraine as well. The most noticeable improvement was in Northern regions, where it jumped 17.4pp to 91.2.

Urban consumers showed a definite improvement of mood over Summer 2008. Moreover, this was most evident in mid-sized cities, whose consumers continue to be the only consumer group to show optimism. Their CCI jumped 11.6pp to 106.9. In contrast to urbanites, rural consumers showed a worsening mood, declining 2.9pp to 91.8. Still, the most pessimistic of all are now consumers in major metropolitan areas, where a 4.8pp rise in their index still left it at 91.1.

The survey showed an improvement in the consumer mood across nearly all age and income groups at the end of Summer 2008. The exception was consumers with below-average incomes, whose CCI fell 4.7pp to 79.0. Young and better-off consumers, as usual, remain optimistic, with CCIs of 106.4 and 103.2. ■

*For additional information, contact the publication editor, Maksym Boroda by phone at (38044) 484-4400 or via e-mail at mboroda@icps.kiev.ua.*



**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.

**icps newsletter** editor: Olha Lvova (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/>