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Economic impact of Ukraine-EU Association Agreement: quantitative estimates CGE model

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Methodology

- Computable general equilibrium (CGE) model of Ukraine's economy
- Features:
 - Models industries with perfect and imperfect competition
 - Assumes absolute mobility of production factors
 - Models behavior of different categories of households (215 clusters)
- Base year: 2012

Scenarios

Scenario 1: autonomous trade preferences by EU

- Unilateral import tariff elimination for Ukrainian goods by EU

Scenario 2: implementation of EU-Ukraine Deep and Comprehensive Free Trade Area (DCFTA) Agreement:

- Mutual elimination of most of import tariffs
- Reduction of non-tariff barriers
- Improved procedures of customs clearance in Ukraine

Scenario 3: implementation of EU-Ukraine DCFTA as well as unilateral cancellation of FTA by Russia

Macroeconomic results

long-run outcomes, % cumulative

	Scenario 1	Scenario 2	Scenario 3
Δ GDP	1.5	14.1	9.5
Δ import	0.2	10.4	4.8
Δ export	0.2	11.1	5.1
Δ wages of unskilled labor	1.9	11.9	6.9
Δ wages of skilled labor	1.6	12.4	7.7
Δ return on capital	0.3	-1.3	-0.4
Reallocations of unskilled labor	3.0	3.8	2.8
Reallocations of skilled labor	1.2	2.1	1.7
Reallocations of fixed capital	0.3	0.0	0.1
Δ fixed capital	1.5	20.5	15.0

Impact on production of selected industries

long-run outcomes, % cumulative

	Scenario 1	Scenario 2	Scenario 3
Agriculture	9.2	42.8	43.7
Food production	1.3	15.2	5.3
Light industry	by 4 times	by 2 times	by 3 times
Steel industry	-10.1	-7.3	-10.1
Manufacture of electrical equipment	-0.5	29.4	-6.3
Manufacture of transport equipment	-25.3	-10.7	-48.3
Wholesale and retail trade	0.4	12.5	7.5

Impact on consumption of households

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long-run outcomes, % cumulative

	Scenario 1	Scenario 2	Scenario 3
Rural households	0.8	11.1	5.9
Urban households	0.7	11.9	8.0
Poor households	0.4	8.9	3.7
Non-poor households	1.1	13.3	8.9
Households with skilled labor	0.6	11.1	7.5
Households with unskilled labor	1.0	11.6	5.3
Households of more than 3 persons	0.1	7.3	3.5
Households of 3 persons or less	0.9	12.1	7.1

Conclusions

- Research based on new data (2012 as base year for calculations) and actual parameters of DCFTA with EU confirmed that this direction of regional integration will influence positively on the development of the Ukrainian economy.
- Calculations show that cumulative GDP will increase by 14.1% in long-run due to implementation of DCFTA.
- Impact of unilateral cancellation of FTA regime by Russia is negative, but can be fully compensated by gains due to DCFTA implementation.
- Autonomous trade preferences, which are not supplemented by liberalization of Ukrainian internal market and legislative harmonization to European norms, have very moderate impact on the economy.
- All categories of households will gain from DCFTA, however, these gains will be distributed unequally.

Thank you!

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