

# ICPS newsletter<sup>®</sup>

## Eurointegration: What awaits Ukraine's labor market?

*Ukraine and the EU have begun talks on an Agreement to set up a Free Trade Area (FTA). Today, there are already results of various assessments of such an agreement in terms of its impact on Ukraine's economy and various sectors. However, there is little information about the likely changes on the labor market with the liberalization of trade and the adoption of European standards. On 28 March, the Federation of Ukrainian Trade Unions (FUTU) and the International Centre for Policy Studies (ICPS) held a roundtable on the topic, "How will Ukraine's economic integration with the EU in the context of a Free Trade Area affect the social sphere?" ICPS specialists presented the results of a study into the likely impact of liberalized trade with the EU on Ukraine's labor market*

### The labor market: a shortage of workers

Ever since Ukraine's economy began to grow in 2000, the country's labor market has shown a tendency towards less joblessness and growing employment. Strong competition for workers has led to rapidly rising salaries in the private sector.

The domestic labor market already shows signs of a shortage of skilled labor. There is a particular lack of trade specialists and engineers. According to State Employment Service data, 57% of all vacancies at the beginning of 2008 were for people in these areas. At the same time, demand for unqualified workers will also grow in future as the services sector continues to expand.

### How will an FTA affect the labor market?

An agreement on a deep FTA between the EU and Ukraine will have a many-sided impact on the economy because the issue is not just a matter of lowering customs duties but also about changing the business climate, institutions, regulations and standards. First of all, the labor market will feel the impact of the adaptation of Ukrainian legislation to European standards in four ways:

- 1. The investment climate.** Better conditions for doing business and greater volumes of investment in Ukraine should change the shape of the country's economy and increase productivity. This will likely have the greatest direct impact on employment, joblessness and wages.
- 2. Policy on competition and state aid.** Instituting European procedures and priorities in providing state support means a gradual shift from financial assistance to individual companies and branches to regional and horizontal state aid. These changes will limit the support given to industrial enterprises, yet they could also ensure more effective support for underdeveloped regions, the creation of new jobs, and incentives for innovative activity and environmental protection.
- 3. The movement of labor and undertaking economic activity.** A liberalized visa policy, the recognition of diplomas and qualifications, and the coordination of social security could become factors that will encourage additional investment, greater educational potential, and higher social standards. At the same time, one negative consequence for Ukraine could be a new brain drain and a possible shortage of workers in certain areas of the economy.
- 4. Labor protection.** The likely changes encompass a broad spectrum of issues: hiring, maintaining and firing workers. The result of instituting European standards could be an improvement in the protection of the rights of hired workers, on one hand, and the growing cost of labor, on the other.

### Research results are ambiguous

The issue of the impact of liberalized trade, especially an FTA, on Ukraine's labor market remains relatively unresearched. Moreover, the scale and direction of available assessments of the impact of liberalized trade on Ukraine's economy and its various branches differ. The main reason behind this is the various scenarios for Ukraine's integration into the single EU market and different assumptions regarding the shape of its trade policies.

Studies of the labor market show that, firstly, the impact of changes to import duties will be insignificant. The lowering of these tariffs over 2000–2004 in preparation for accession to the World Trade Organization was barely felt by the labor market. Secondly, liberalizing trade with the EU will likely have a positive impact for the steel industry, textiles and machine-building, while affecting farming, extraction and transport negatively. Still, because structural changes in the economy will be slow, structural unemployment will be marginal, while the share of the informal labor market will shrink, especially in the service sector.

Given the nascent state of Ukraine's labor market and the experience of liberalizing trade in Latin America and the CEE countries, the main changes to the labor market are yet to come. These countries were at a similar level to Ukraine in terms of economic development and in the structure of their economies—heavily oriented towards agriculture and industry—and they were also liberalizing trade with developed economies. There are also differences, of course: a deep Free Trade Area between Ukraine and the EU involves more than simply lowering tariffs, such as was the case with

Chile or Mexico, and it does not mean complete economic integration, as was the case with the EU-10. It's time for new studies of Ukraine's labor market. ■

*The results of this discussion will be used by FUTU in developing a common position across unions and other interest groups regarding the agreement in order to present this to the Government and to have this position taken into account during negotiations with the EU.*

*The event took place as part of the "The Agreement on a Free Trade Area between the EU and Ukraine: Analytical,*

*methodological and informational support for negotiations" project. The purpose of this project is to foster the process of Ukraine's economic and trade integration with the European Union. The Centre's partners in this project, which is funded by the Swedish Agency for International Development (SIDA), are the Ministry of Economy, the Ministry of Foreign Affairs, and the Secretariat of the Cabinet of Ministers.*

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## High inflation sours consumer mood

***Ukrainian consumers ushered in the New Year with a new wave of pessimism. Over January–February, the Consumer Confidence Index (CCI) fell 2.3 points to 97.9. This means that, despite a slight improvement at the end of 2007, the consumer mood is once again predominantly pessimistic***

The Index of Current Situation in February 2008 slipped 0.8. However, at 101.2, it indicates Ukrainians currently are slightly more inclined to assess their current situation as positive. At the same time, one of its components, the Index of Current Personal Financial Standing x1 fell 1.3 points, to 88.8, while another component, the Index of Propensity to Consume x5 slipped only 0.2 points, remaining at its high level of 113.5 at the beginning of 2008.

Over January–February, the Index of Economic Expectations also went down—3.3 points to 95.7. This decline was mostly due to consumer pessimism about short-term and mid-term economic prospects in Ukraine: the indices of expected economic conditions in the country over the next year (x3) and for the next 5 years (x4) dropped 8.5 points to 88.1 and 3.1 points to 97.1. Meanwhile, the Index of Expected Changes in Personal Financial Standing x2 continued the slight growth that began at the end of 2007, inching up 1.6 points to 101.9 in February 2008.

Inflationary expectations hit a five-year high in the first two months of 2008, rising 7.4 points to 190.1. Expectations of changes in unemployment also grew worse among Ukrainian consumers, although they remain relatively low. This index grew 5.2 points to 115.6.

Against a background of growing pessimism about the country's economy, the negative consumer mood is due to high expectations of inflation among Ukrainians. According to Derzhkomstat, inflation was already at 5.7% over January–February.

Since the start of 2008, the consumer mood has grown worse across half the country. Only the South improved noticeably, rising 7.7 points to 98.6, while the East improved marginally, inching up 0.5 points to 91.1. Nevertheless, pessimism dominates in most of the country, with the exception of the West and Kyiv, whose residents are traditionally the most optimistic.

The consumer mood worsened and was largely pessimistic in all kinds of settlements. The most negative mood

was seen among those who live in mid-sized cities. Their CCI fell 5.5 points to 94.2. The consumer mood appears to have grown worse in all age and income groups as well in February 2008.

The exception was older Ukrainians, whose CCI inched up 2.2 points to 90.6. With this worsening in consumer confidence, only the young and the better-off remain optimistic. Their CCIs were 104.5 and 105.5 in early 2008. ■

**consumer confidence** is a joint project of the International Centre for Policy Studies and GfK–USM — one of the leading companies which surveys the Ukrainian market.

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If you would like to subscribe to the **Consumer Confidence bulletin**, which provides a detailed quarterly analysis of the CCI in Ukraine, contact our client relations and marketing manager Andriy Starynsky by telephone at (38044) 484-4410 or via e-mail at [astarynsky@icps.kiev.ua](mailto:astarynsky@icps.kiev.ua). You can also order ICPS publications through the ICPS website, at <http://www.icps.com.ua/eng/subscribe/>.

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