



Market Update 10 (April – May 2016)

UKRAINE

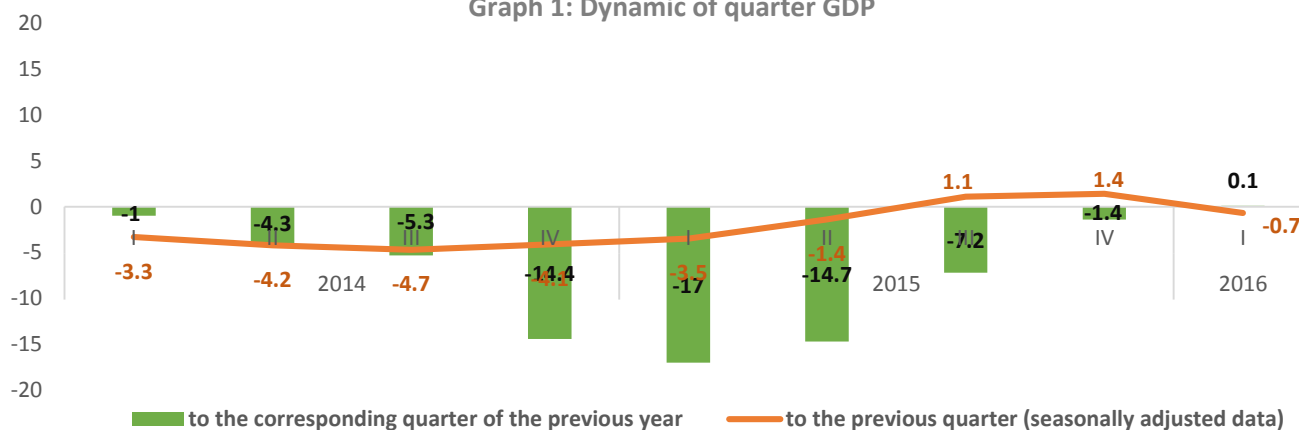
Summary:

- Latest quarterly data indicate a slow recovery of the Ukrainian economy. The agricultural sectors plays increasingly a central role in the Ukrainian economy.
- The main limiting factor for increasing food expenditure for households remains the increasing levels of tariffs for gas, electricity, heating and hot water.
- Information collected from focus group discussions in eastern Ukraine areas show that there are two major problems for people: lack of jobs due to the closure of enterprises and high food prices.
- Social benefits in the form of pensions, unemployment benefits, social payments to children and mother as well as IDPs remain the main household income sources.
- Significant gender differences according to the official information coming from State Statistics Service of Ukraine, the average salary in first quarter 2016 for male employee was 5,379 UAH compared to female – 3,966 UAH.
- Higher food basket values are registered in settlements situated closer to contact line.

Macro-Economic overview

Graph 1 shows a slow recovery of the Ukrainian economy. GDP in the first quarter of 2016 compared to the previous quarter (seasonally adjusted) was 99.3%, however when compared with first quarter of 2015 it shows an increase up by 0.1%. From the second half of the year the economy started to stabilize. Also unchanged is the forecast of National Bank of Ukraine of real GDP growth estimating a 1.1% growth during 2016.

Graph 1: Dynamic of quarter GDP



In the first quarter of 2016 compared to the same period in 2015, the index of industrial production was 103.7%. Industrial production index in April 2016 compared to March 2016 was 96.6% (seasonally adjusted - 100.0%) and compare to April 2015 - 103.5% (seasonally adjusted - 103.7%). The index of agricultural production in January-April 2016 compared with the corresponding period in 2015 was 98.3%. In May 2016 (y/y), agricultural production, for the first time since October 2015, grew by 0.1%. [According to the Ministry of Economic Development](#) and Trade of Ukraine, it is due to stabilization of egg production in households and growth of meat production (especially poultry) in agricultural enterprises¹.

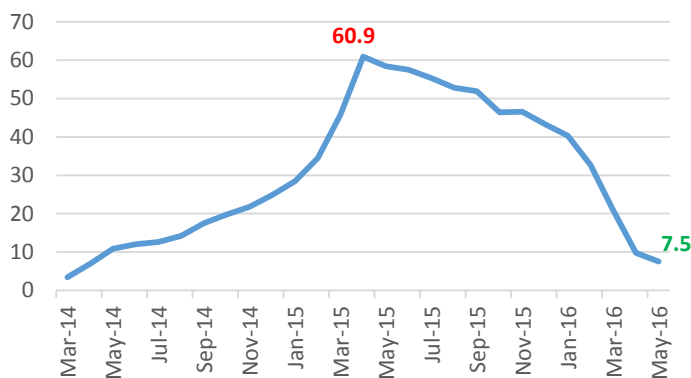
An important factor of the current stabilizing trend are the improvements in the external markets for Ukrainian producers supporting the current account balance in April return to surplus.

¹ Ministry of Economic Development of Ukraine, Report on Agriculture in May 2016

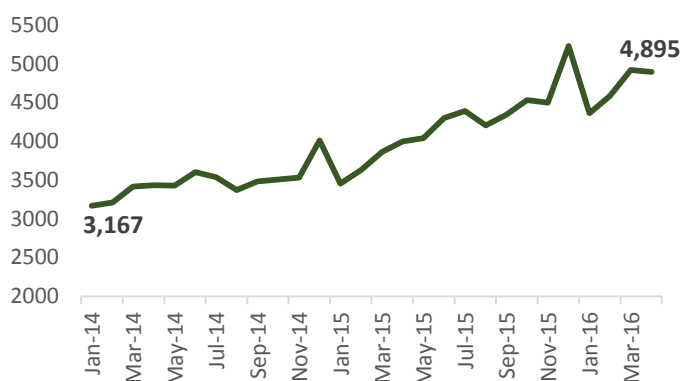
The price situation in the country also continues to improve. In May 2016, consumer inflation slowed to 7.5% in annual terms (**Graph 2**). Food inflation in May 2016 registered only at 3.3%, which is the lowest level since pre-conflict levels (February 2014). Food inflation remains on the same level starting from the beginning of 2016 (just 1% up compare to December 2015).

In monthly terms, consumer inflation registered 3.5% in April and 0.1% in May 2016. The relatively high monthly inflation in April happened due to a drastic increase of price of natural gas.

Graph 2: Inflation Dynamic during 2014-2016, year to year %



Graph 3: Average nominal salary, UAH



The weakening of inflationary pressures has led to rapid growth in real wages by 7.6% y/y. This information needs however to be contextualized as real wages declined by more than 25% during 2014-2015.

In April 2016 the average nominal salary (charged per one full-time employee) dropped by 0.5% m/m to 4,895 UAH (**Graph 3**). Nominal wage growth slowed down to 22.4% y/y. As presented in **Graph 3**, seasonal salary peaks usually happened in December, when employers typically pay wage debts and benefits for the year.

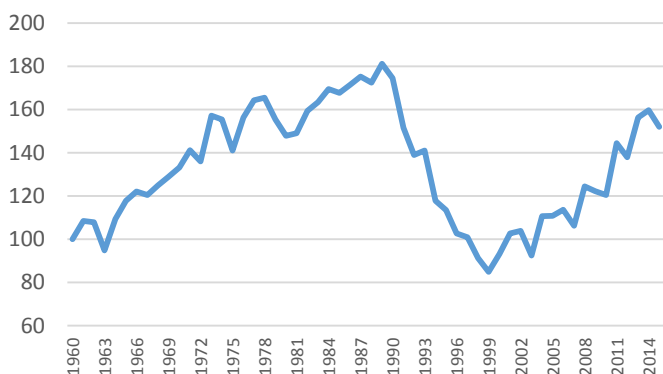
Nevertheless, the main limiting factor for increasing food expenditure for households remains the increasing levels of tariffs for gas, electricity, heating and hot water. The rise of tariffs reduces the available resources to purchase and redirect the cost for food to lower-price segments.

An important source of social support for the population in Ukraine are utility subsidies. As of 1 May 2016 [nearly 35% of households](#) received subsidies to pay for housing services (5.2 mln households)².

The number of registered unemployed in the State Employment Service from March 2016 decreased to 416,000, or 50,000 less than in the previous period. This led to a reduction of registered unemployed per 10 vacant work places (vacancies) up to 92 persons in May 2016. Despite positive changes in the labor market, situation remains difficult, especially in conflict areas

Major trends in agriculture sector of Ukraine³.

Graph 4: Indices of gross agricultural production for 1960-2015, %



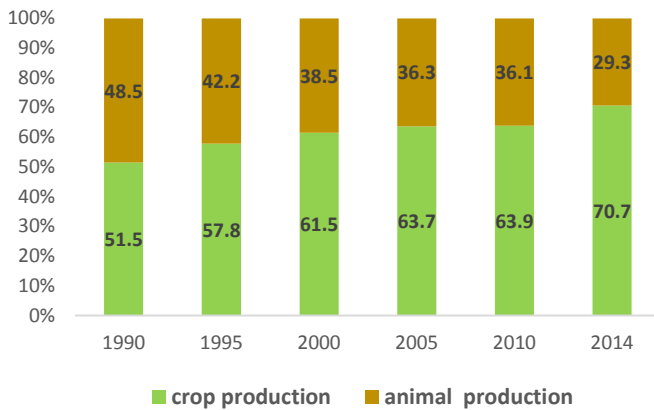
Agro sector during last few years became one of the biggest components of the Ukrainian economy. In fact the Ukrainian agricultural sector is on the way to meet its historical highest level of production, which was recorded in 1989 just before Soviet Union dissolution (see **Graph 4**).

Looking at the trend of production over the past decades same levels of performance could be expected in the next 5-7 years. This growing trend in the agriculture can be explained primarily due to increasing of labor productivity in the sector as well as improvements of profitability of most crops and animal production.

² *ibid*

³ WFP Ukraine is analysing both primary and secondary data available on the main agricultural sector developments in Ukraine. A report is expected to be released soon.

Graph 5: Gross production by main kinds of agricultural production, %



The agricultural growth correlates with change in the structure of gross agricultural production by types of agricultural holdings. Starting from 1990 and up to 2000 proportion of agricultural enterprises in gross agricultural production decreased each year (**Graph 6**). As aforementioned, this is due to the transition from state to private ownership. However, in the beginning of 2000s share of agricultural enterprises started to grow.

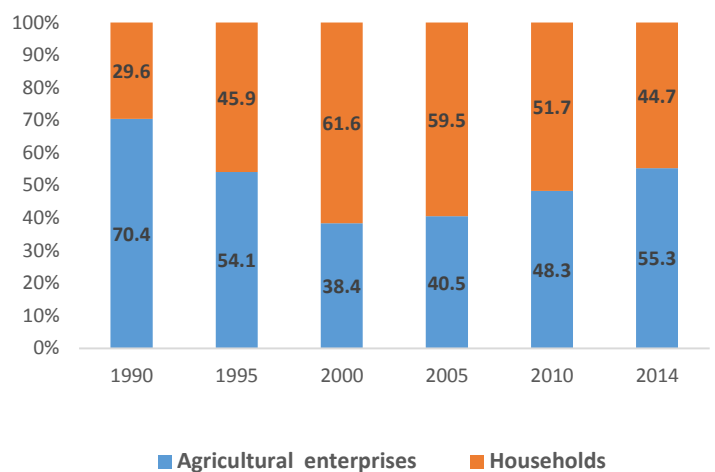
In the 2014, share of agricultural enterprises reached more than 55% compared to only 38% in 2000.

This share is likely to increase further with growth of real income of the people and increasing of economic efficiency of agricultural enterprises.

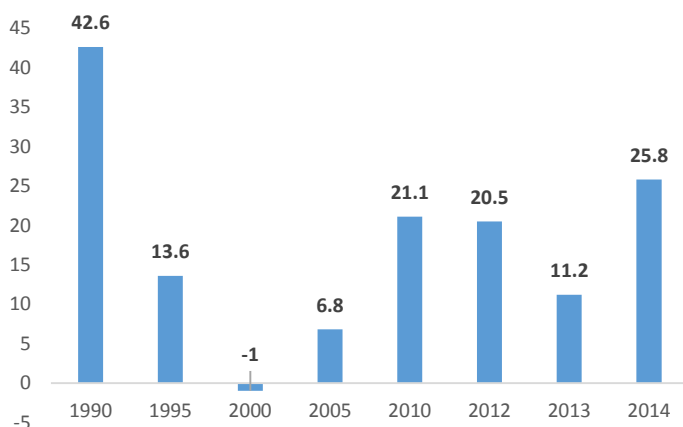
However, outputs of agriculture mainly depend on crop production, which covers more than 70% of gross agricultural production (**Graph 5**). Crop production is highly depending on weather conditions and have a wide range of harvest results from year to year. As shown in **Graph 5**, the tendency of growing the proportion of crop in gross agricultural production started in 1990s and continues now. Primarily, this dynamic is caused by transition from state to private ownership in the country and more economic incentives of some crops compared to animal production.

Another impetus for change in the sector could be the privatization of agricultural land.

Graph 6: Structure of gross agricultural production by types of agricultural holdings, %



Graph 7: Profitability level of agricultural production, %



Structural transformation and economic developments in the country brought agricultural production to the different profitability levels during last 25 years. In the 1990s profitability fell down due to inefficiency of state enterprises in the new environment.

With new investments in the sector and appearance of private big and medium agricultural producers and small farmers, agricultural sector significantly changed.

In the 2014 share of gross agricultural production of state agricultural enterprises was less than 1%.

Profitability levels of agricultural production started to grow from the beginning of 2000s. During last 5 years profitability ranged between 10-25%.

Due to fast and deep devaluation of Ukrainian hryvnia in 2014 - 2015 agricultural export got additional advantages in the global markets.

Social-Economic Issues in Donbas

Information collected from focus group discussions (FGDs) in NGCA and GCA areas show that there are two major problems for people: lack of jobs due to the closure of enterprises and high food prices. On the GCA side, the problems of the poor performance of social services are also added because of their heavy workload and high utility prices. In Donetsk and Luhansk the third most important problem is the complexity of crossing the border due to long queues at checkpoints, poor organization and interruptions in their work. Also in Buffer Zone (BZ) settlements, respondents often talk about the issue of security.

At present, in most of the settlements the main sources of work are trade, public sector, and small businesses. Moreover, in most cities (except Donetsk) respondents mentioned seasonal jobs in agriculture and construction. Mines and large industrial enterprises, which provided employment for a significant part of the population before the conflict, today are closed or operating at minimal capacity because of supply disruptions, problems with the markets and general economic uncertainty. The staff of such companies, in the opinion of respondents, was influenced the hardest, even though income has decreased in all groups.

Data collected in the first half of 2016 in the framework of the WFP Food Security Monitoring system indicate that for around two thirds of the households in both GCA and NGCA the main income sources are social benefits in the form of pensions, unemployment benefits, social payments to children and mother as well as IDPs (**Graph 8**). Only 22% of the HHs stated to have salary in the private sector as a main source of income and 17% - in stat sector. Small commerce or self-employed income is main just for 3% of HHs.

On average 60% of the HHs stated they have no second income source. This particularly for the population in the BZ means high dependency on social benefits.

The current situation on the job market leads to high competition for any new job openings and puts working people in a difficult position where they have to hold onto their jobs because of fear of unemployment. In several FGDs, respondents complained about employers taking advantage of the situation by cutting and delaying wages, with this situation particularly widespread in Donetsk.

In addition, in most FGDs respondents believe that more people have been looking for a job elsewhere during the last two years. More often those are men of working age, many of them have families or dependent relatives. Sometimes the whole families (usually of the young age) migrate as well, but many of them have returned already after failing to settle down in a new place. The majority of FGD respondents negatively assessed the general economic situation and do not see any prospects for improvement.

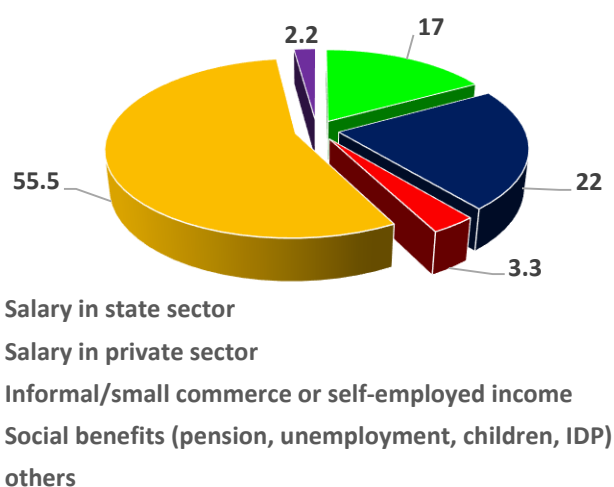
Gender analysis in Donbas

As for the gender-related dynamics of the job market, respondents of FGDs mostly believe that it is somewhat easier for men to find a job. The reason given in all the focus group discussions is that men can be hired for physical/manual labor at the construction or agricultural works.

It should be noted that in solely male groups this reason was given as the only one possible. However, in mixed groups whenever other reasons were mentioned (employers not hiring women with children or over a certain age) male participants would agree that such discriminating practices are widespread and give men additional advantage.

Female respondents in Luhansk said that in their city it is easier for women to find a job, as most available positions offer very small wages and men are not interested in those.

Graph 8: Main sources of income for HHs, %

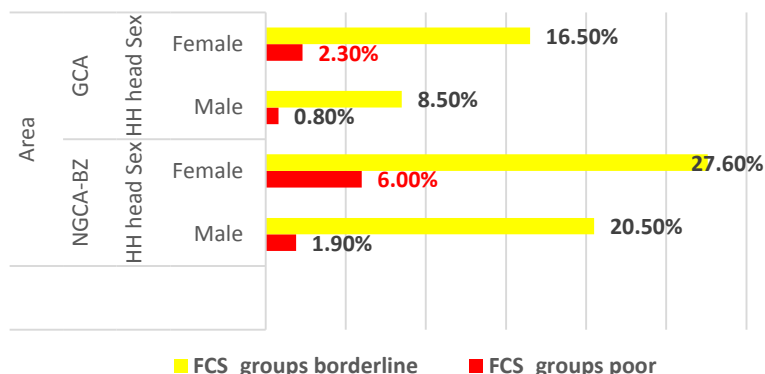


FGD Respondent: A (female)
Location: Luhansk

"Only a woman can afford to work for 2,000 – 4,000 rubles".

According to the official information coming from State Statistics Service of Ukraine, the average salary in first quarter 2016 for male employee was 5,379 UAH compared to female – 3,966 UAH. This might explain different levels of food consumption for female and male-headed households.

Graph 9: Women headed households with inadequate food consumption by geographical area



WFP Food Security Survey 2016 shows that women headed households particularly in NGCA and BZ suffer of food insecurity to a greater extent with 6% having poor and 27.6 % borderline food consumption levels (**Graph 9**).

Albeit lighter, the gender differences influencing the food consumption levels can be observed also among the IDP population in GCA. 16.5% of IDP female-headed households were found to have inadequate food consumption levels compared to 13% among IDP male-headed households.

According to respondents of FGD in GCA and NGCA, the local authority in their settlements belongs to the leadership of the local and regional level (local deputies and the mayor, and the leaders of the republic or region respectively). In all the cities men on both levels mainly hold management positions. Women mostly work as clerks and deputies or supervise areas such as education, health or social policy.

Respondents consider such situation to be normal and explain it with traditions and habits. Respondents often pointed out that men have more authority and experience, so they can use power better than women for solving problems in such harsh times or that men would not listen to a woman in a position of power, would not follow her. Some male respondents also said that a man has better-developed leadership qualities and therefore is better adapted for this job than a woman is.

Male and female respondents have somewhat different views on the dynamics within their households as well. Men more often named themselves as the decision makers or described the process as arguing with their wives. While women mostly said that decisions are made collectively and every family member participates in the process.

FGD Respondent: B (Male)
Location: Donetsk
"Because of the unemployment I do most of the cooking. I've never done it before, but cleaning or washing dishes is not for me"

Both male and female respondents agreed their roles and activities have changed during the last years. If before the conflict the model of a family with male breadwinner and female housewife and caretaker was the most widespread (and is still seen as "natural", "normal" by many respondents), daily activities nowadays are shaped by the availability of work for any of the family members.

Men as usual work or are in search for a work, more often do the shopping than they used too, unemployed men may cook. However, only few men do cleaning and caring for the children or sick relatives rarely. More often men describe their participation in housekeeping as "helping" the women about the house. Women work or looking for a work and housekeeping (cleaning, grocery shopping, cooking) and caring for other family members.

FGD Respondent; C (Female)
Location: Bakhmut (Donetsk GCA)
"Woman always does everything while the man does nothing and pretends he's doing something"

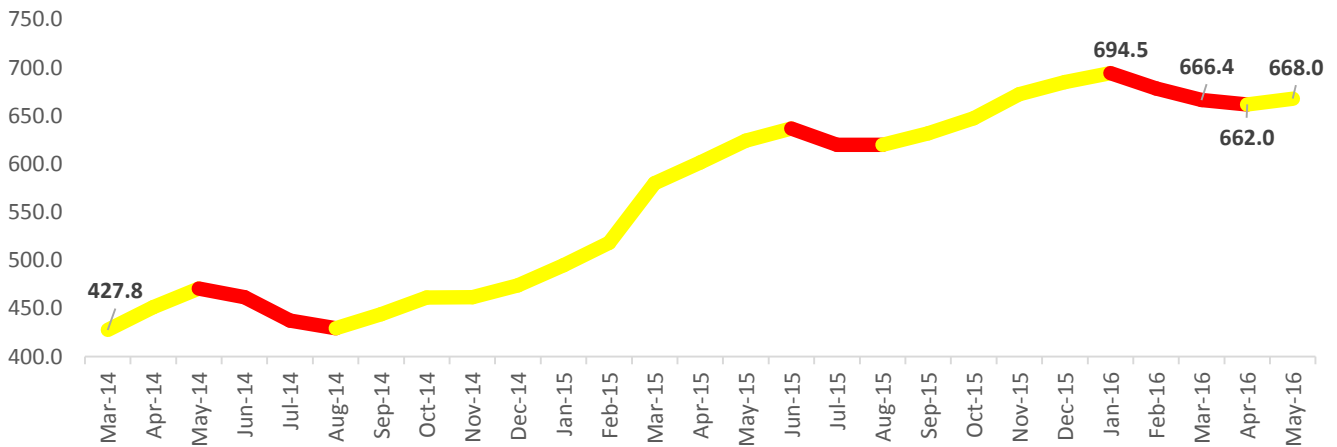
Food Basket Price Trend

Graph 10 represents dynamic of national value of food basket starting from the conflict in March 2014 up to May 2016. The value of food basket changed insignificant during last two months starting with 666.4 UAH in March and ending with 668 UAH in May. However, even comparing to the January 2016 value of food basket is lower by 4% in May.

As reported in the previous [Market Update 9](#)⁴, the decrease is unusual for winter-spring months in comparison to the last couple of years, when prices fell during summer months.

Despite minor changes in the value of the food basket over the reference period, there were significant variations in the prices of individual commodities.

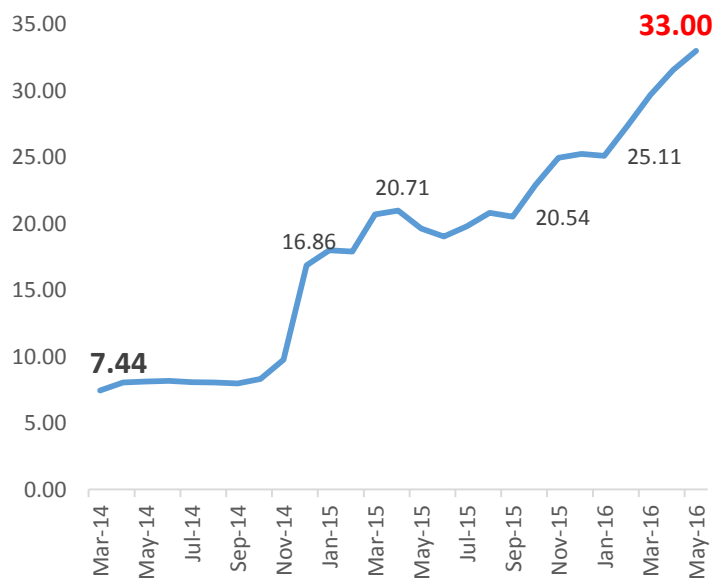
Graph 10: Ukraine (National) value of food basket, UAH



For the last two months the largest increase of prices happened for buckwheat (+ 11%) and potatoes (+ 8%). On the other hand, prices fell for sugar (-6%), pork fat (-4%) and eggs (-5%). Although in May compared to April the price of eggs increased, that could signal the end of a downtrend for this commodity. Among the vegetables, the price of cabbage decreased during this period by 32%. On the other hand, prices for beetroot and carrot increased by 22% before new harvest season.

Despite the apparent stabilization of prices for many commodities, the largest growing dynamics in recent months has happened in buckwheat prices. As you can see from the **Graph 11**, prices for buckwheat have kept increasing for the last 2 years (since 2014). From the beginning of the year, this increase was calculated to reach up to 32% and it keeps growing. The main reason for the price increase is reduction of the production of the commodity hence less availability on the country market. During recent 5 years (2011-2015) gross production of buckwheat grain in the country decreased from 281 to 128 thousand tons. Primary this was due to reduction of more than a half 54.2% of the area cultivated with buckwheat. Albeit slightly prices are foreseen to start decreasing soon after the new harvest period around August – September 2016.

Graph 11: Average Buckwheat Price, kg/UAH

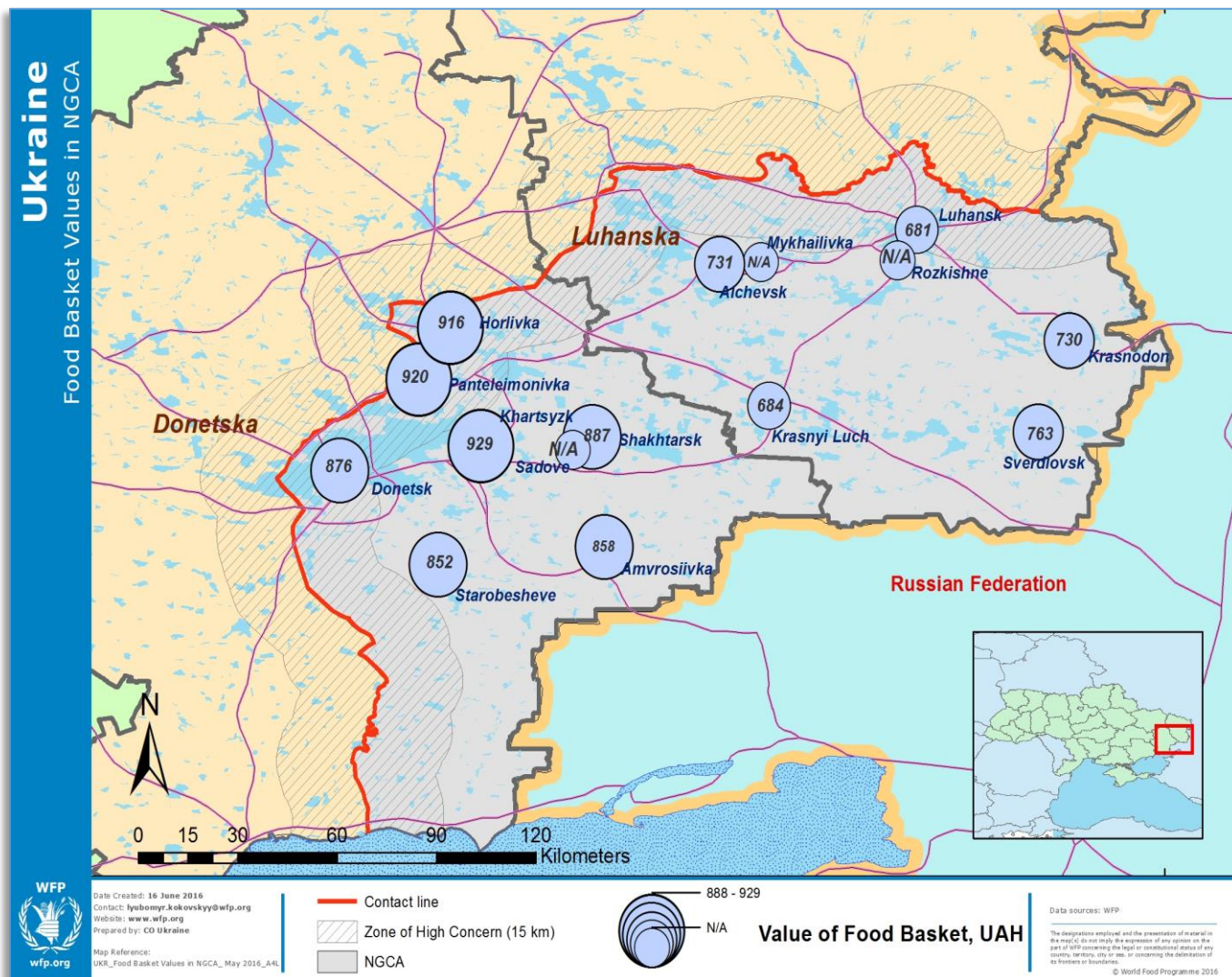


The difference in cost of food basket between the GCA and NGCA remains at 24%. Moreover, difference of cost of food basket between Luhansk and Donetsk NGCA is more than 25%. In addition, food basket value in Luhansk NGCA is more unstable, however lower when compare to Donetsk NGCA.

⁴ WFP Ukraine CO Market Update 9

Differences happened also within Donetsk NGCA and Luhansk NGCA on settlement level (**see Map 1**). Range between maximum and minimum food basket value in Donetsk NGCA counted for around 9% and in case of Luhansk NGCA – 12%. It seems that lower food basket values in Donetsk NGCA happened to be in settlements located close to Russian border as well as in Donetsk city.

The higher values are in settlements situated closer to contact line. On the other hand, lowest food basket value in Luhansk NGCA was recorded in Luhansk city, but further geographical patterns were not found.



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