



World Food Programme

wfp.org

Market Update - 6 (August - September 2015)

UKRAINE

Macro-Economic overview



Summary:

- Higher prices for agriculture inputs could negatively affect yield prospects for both spring and winter crops.
- The Government of Ukraine expects grain production will total 59 million tons, around 8% less than in 2014.
- Food basket is still around 40% more expensive in NGCA than national level, but showing improvements compared to previous period.
- Significant availability and choice of food items observed in NGCA. Supplies coming mainly from Russia, Belarus, Abkhazia and Hungary.
- Fresh produce continue to remain the most expensive food items.
- Key informant interviews in NGCAs show suppliers and service providers are interested in cash/voucher modalities.

Updated data from the State Statistics Committee shows that GDP declined during the first 6 months of 2015¹.

According to the estimation of National (Central) Bank of Ukraine in the third quarter of 2015 real GDP compared with the second quarter rose by 1%. But Central Bank downgraded the fall GDP of the country by the results of 2015 to 11.6% (compared to the previous forecast 9.5%). This is due to the lack of significant progress in restoring control over the conflict zone, revision of the forecast period in terms of trade for Ukraine in the downside, a significant decline in exports to Russia, tighter fiscal and monetary policy².

Major declines were registered for industrial outputs. Better year-on-year (YoY) performances in August of the metallurgical and extracting industries were due principally to the collapse of these industries in August 2014, due to the surge of hostilities at that time³. The same trend was registered for Luhansk and Donetsk.

The index of agricultural output for August and September declined by -11.1% YoY, due principally to declines in agricultural output by households, lower

crop yields, a reduction of fields to be sowed with crops, lower cattle breeding in the East, and a high statistical base in 2014. The government expects that the grain harvest will total 59 million tons in 2015, compared to 64 million tons in 2014 (-8%).

The 40% drop in the value of the hryvna, since the beginning of the year has boosted the cost of essential agricultural inputs, including fuel, mineral fertilizers, and plant-protection chemicals (herbicides, pesticides, and fungicides). The higher prices are likely to reduce the application rates for fertilizers and chemicals and, as a result, yield prospects of both winter and spring crops could be negatively affected⁴.

Inflation in 2015 peaked in April, due principally to the one-off effect of the currency depreciation. Most of the deflationary trends observed since then continued in August and September. Food prices and prices of apparel and footwear caused a small deceleration in price growth⁵. The rest of the price indexes saw little or no monthly changes.

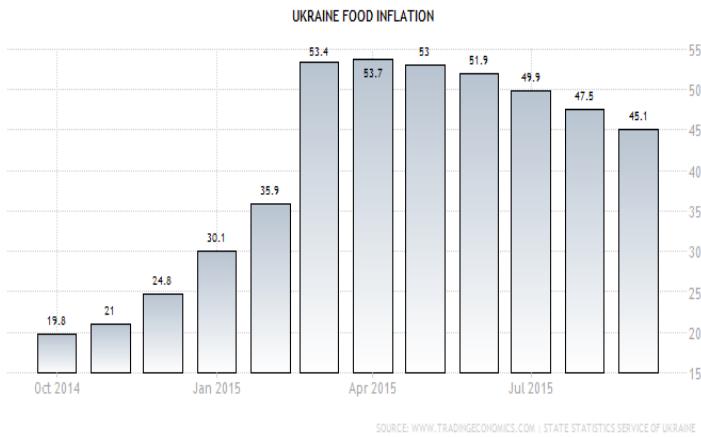
¹ State Statistical Service of Ukraine, *excluding Crimea

² <http://www.bank.gov.ua/doccatalog/document?id=22249640>

³ http://www.usubc.org/site/files/Ukr_Monthly_Ec_Report_September_2015.pdf

⁴ <http://www.fas.usda.gov/data/ukraine-crop-production-forecasts-201415>

⁵ http://www.usubc.org/site/files/Ukr_Monthly_Ec_Report_September_2015.pdf



represents real market exchange situation, the prices of goods and services in the hryvnia have reduced. It is expected that prices will continue the downwards trend with another 5-10% decrease in the next month.

Food Supply and Availability in NGCA

Recent reports from the Logistic Cluster indicate the current challenges in accessing the NGCA since July 2015. Approximately 16,000 metric tons of humanitarian cargo including food supplies are in the pipeline to be urgently delivered to NGCAs⁸.

Access to NGCA from Ukraine seems also to be hampered by destroyed or very bad conditions of the infrastructure (i.e. bridges and roads)⁹.

Findings from key informant interviews

WFP continues its market and price monitoring in NGCA through its third party monitoring¹⁰. From August 2015 onwards this includes also key informant interviews and focus group discussions with traders and shop owners. The majority of the interviewed key informants were wholesalers and retailers engaged in the food industry including fresh produce such as fruits and vegetables, meat, bread and cereals, fish and seafood products, sugar and sweets, dairy products as well as oils and fats.

The majority of the respondents reported a significant lower number of customers after the start of the hostilities. Lower demand and lower profitability were identified as the main reasons for this.

All the respondents reported Ukraine markets were their first source of supplies before the conflict. Imports (mainly from Russia, Belarus, Abkhazia and Hungary) remain the major share of the supply chain. However, in the recent months, supplies seem to have started to come also from local NGCA producers. Most of the food commodities are now widely available in the areas observed during August – September.

Respondents reported that this has serious implications *as fluctuation of the currencies (mainly Rubble and US Dollar) affect significantly retail prices*. The de-facto authorities (the Ministry of Social Policy and the Ministry of Income and Fees) were reported to be the two main entities to regulate market prices. Respondents were not confident that supply chains from Ukraine would resume in the following 6 months. All respondents stated that, if this situation will indeed continue to persist, strengthening current ties with importers from other countries would be their main strategy in the future.

Respondent A: Chief Food Technologist
Oblast: Donetsk
Market Location: Zugres

Sales have declined. Earlier we delivered our products to Luhansk, as well as to the cities of Donetsk region that remained on the other side of the demarcation line (Volnovakha, Mariupol). Now trade with these territories is impossible.

⁶ <http://www.tradingeconomics.com/ukraine/food-inflation>

⁷ State Statistics Service of Ukraine, *excluding Crimea

⁸ <http://www.logcluster.org/document/ukraine-situation-update-5-october-2015>

⁹ <http://www.logcluster.org/map/ukraine-access-constraints-map-10-september-2015>

¹⁰ Please refer to attachment 1 for further details on location where quantitative and qualitative information was collected.

There seems to be a *high degree of readiness from markets in NGCA to accommodate possible increase in consumer demand*. Respondents reported to be able to provide extra supplies needed within 1 - 2 weeks. However a combination of insecurity, current low profit margins, high taxes and reduced available capital and liquidity from the banks seems to be a serious challenge to possible increase of demand in the markets.

Respondents were also asked if they had had any previous experience with cash/voucher programs. None of the respondents reported to have operated through these modalities in the past. The majority of the respondents expressed interest in collaborating with the humanitarian actors in implementing such modalities.

Reliability of timely payments was identified by all respondents as the major concern in implementing such modalities. Price inflation and exchange rates fluctuations were some other major challenges reported.

Respondent B: Wholesaler
Oblast: Luhansk, Artemivskiy
Market Location: Bozhenka Str.

Prices are regulated at the state level. In order to increase the value of these products, we should write an explanation of our intention to increase prices. Further, we carry these documents to the Ministry of Income and Fees and within 10 days the answer will be given.

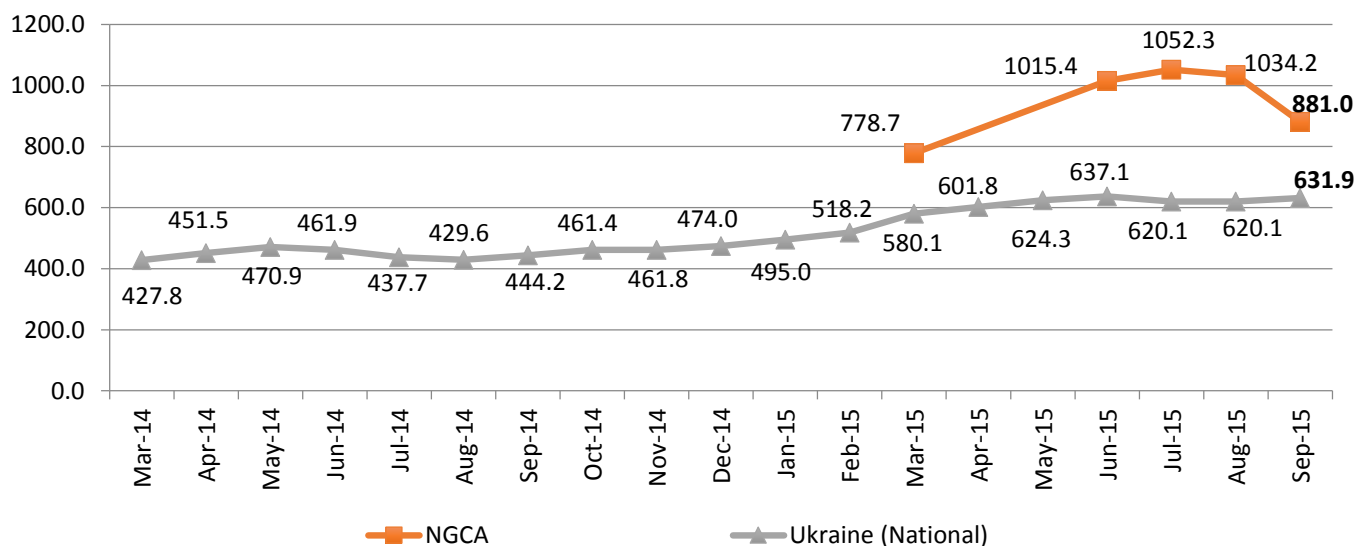
Respondent C: Procurement Manager
Oblast: Donetsk
Market Location: Shevchenko Blvd.

It is important to understand the mechanisms of the voucher program for retailers. The program may be interesting for supermarkets if it brings additional income and increase turnover.
Advance payments should be transferred to the trading company for registered vouchers and then reimbursed proportionately.
I believe that if such a voucher program starts it will be implemented through the First Republic Supermarket chain due to support by the authorities and a large network.

Food Commodity Price Trend

Graph 1 below represents the price development of a full food basket for national and NGCA regions.

Graph 1: Comparison of Food Basket (full) cost (NGCA compared to National Average)



The price of the full food basket at national level increased slightly (2%) during the month of September reaching 631.9 hryvna. The value of food basket in Donetsk GCA as of September 2015 reached 687.5 hryvna or 8.7% higher compared to the national level. In Luhansk GCA the value of food basket reached 596.9 hryvna, or 6% lower than the national and 13% lower than Donetsk GCA. Important to note that the national price has stabilized over the last 6 months, but there are no signs of a decrease of prices.

Significant decrease of food prices were observed during August – September particularly in Donetsk NGCA where Rubble has been adopted as the official currency by the authorities¹¹. The favourable exchange rates decreased the overall cost of food basket in NGCA (Donetsk and Luhansk NGCA). Food prices however remain around 40% higher than national levels.

¹¹ The exchange rate used for the purpose of this report is 1 UAH = 2.65 RUB, the actual rate at the time of the price data collection for September.

Attachment 1: Map of observed markets and Key informants interviews



