



## UKRAINE Market Monitor Review 2017

### HIGHLIGHTS

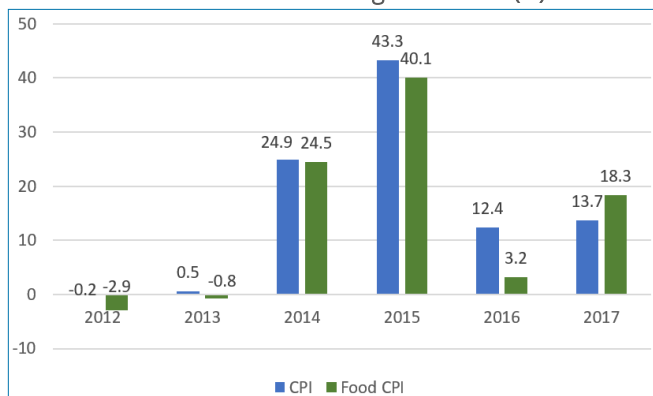
- The IMF reports Ukraine per capita income levels to have fallen by 14%, below the proposed threshold level for Low-Income Developing Countries (LIDC). The income decline reflects exceptional circumstances and is likely more transitory.
- Inflation in Ukraine in 2017 rose by 13.7 percent, which is much higher when compared to 2016 level of 12.4 percent, however lower when compared to the first years of crises 2014-2015.
- After food price stabilization in 2016, prices started to grow intensively in 2017. In annual terms, WFP monitored food basket costs increased by 24.9%
- According to the ALPS indicators in June-July the actual price surpassed the seasonally estimated one, indicating abnormal and thus concerning (stress) levels. Only at the end of 2017 food prices got back to the expected value, indicating a stabilization of markets. ALPS model forecasts A further slight increase of food basket costs the first quarter of 2018
- The prices of most of the food items increased between 15-30%. The largest increase of prices happened with pork and pork fat by 41% and 68% respectively, as well as some vegetables like carrot by 63% and beetroot by 71%. Among the most affected, also dairy products and cereals
- Difference between GCA and NGCA food basket cost narrowed to only 7% in September 2017 when in May 2017 it reached 35%. Prices in GCA grew sharply while in NGCA food prices were unstable and prone to spikes and rapid change
- Food availability analysis in 2017 shows that generally food was available in the markets of NGCA. beef, pork and pork fat were however scarcely available in NGCA

## MACROECONOMIC ANALYSIS

A recent [policy paper](#) by the International Monetary Fund (IMF) published in March 2018, reports Ukraine per capita income levels to have fallen by 14%, below the proposed threshold level for Low-Income Developing Countries (LIDC), which stands at \$2,330/year. The fall of income levels mainly reflects the impact of armed conflict. Ukraine's poverty levels, employment structure, life expectancy, and educational levels are similar to those of a typical emergency economy. Therefore, Ukraine was not included in the revised LIDC grouping. The income decline in Ukraine in fact reflects exceptional circumstances and is likely more transitory.

Inflation in Ukraine in 2017 rose by 13.7 percent, which is much higher when compared to 2016 level of 12.4 percent, however lower when compared to the first years of crises 2014-2015 (Chart 1).

Chart 1: Inflation in Ukraine during 2012-2017 (%)



Despite lower CPI indexes in 2016-2017 when compared to 2014-2015 levels, Ukraine is still far from reaching price stability of pre-crisis levels.

As shown in Chart 1, in 2016 food inflation was much lower compared to the CPI index, while food prices were the main driver of inflation in 2017. In 2016, the inflation was due mainly by rising prices of housing, water, electricity and gas (see [Ukraine Market Update Report #13](#)). Given that the major increase for utility prices happened already in 2016, food prices are responsible for the raising inflation of 2017.

Prices for alcoholic beverages and tobacco products increased in 2017 by 20.7% mainly due to an increase of indirect taxes.

The growth of prices (tariffs) for housing, water, electricity, gas and other fuels was 10.6% and is led mainly by the increase in the cost of maintenance and repair of housing by 47.6%, electricity by 28.1% and water supply by 20.2% as well as sewage by 15.1%. At the same time, heating tariffs (including hot water supply) and natural gas prices were

relatively stable with a 3.5% and a 1.2% rise respectively.

The increase in prices for transport in general by 16.7% is mainly caused by a 22.7% increase in fuel and lubricants, as well as by 24.9% in public road transport.

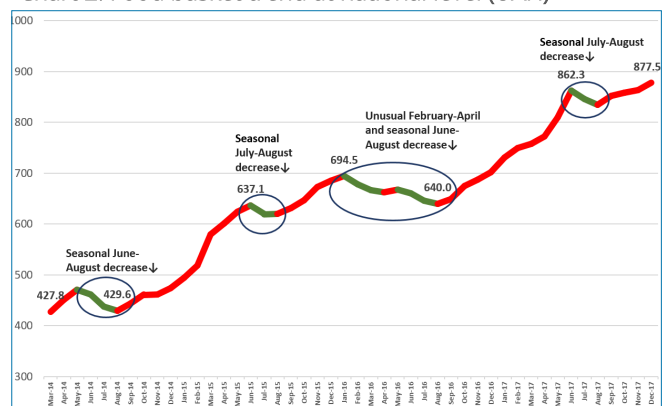
Prices for clothing and footwear (+0.9%), household items and home appliances (+3.1%), recreation and culture goods/services (+4.5%) were relatively stable during 2017.

Prices for education and healthcare raised by 14.9% and 7.5% respectively, while communication services increased by 9.1% in 2017.

## FOOD INFLATION

After food price stabilization in 2016, prices started to grow intensively in 2017. In annual terms, WFP monitored food basket costs increased by 24.9% in December 2017 compared to same period of 2016. As aforementioned, according to the State Statistic Service of Ukraine, food inflation during this period was 18.3%, while consumer price index reached 13.7%.

Chart 2: Food basket trend at national level (UAH)

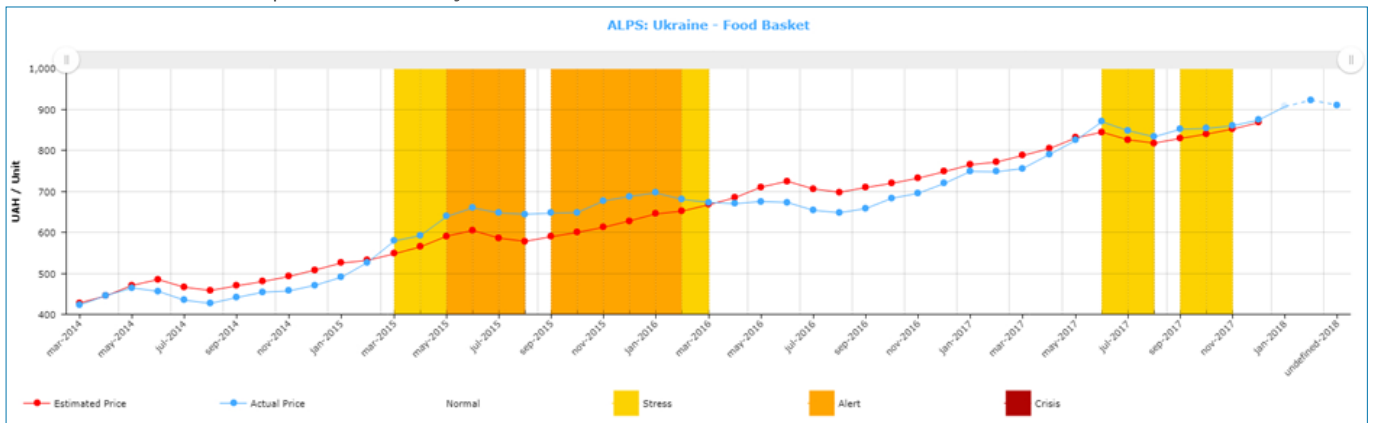


A trend analysis of the cost of the food basket in 2017 shows a similar behaviour of prices to 2015 crisis, when food prices grew rapidly during the whole year despite the seasonal decrease during July-August period (Chart 2).

Chart 3 represents the dynamics of the costs of WFP monitored food basket at national level and the [Alert for Price Spikes analysis](#) (ALPS). The ALPS indicator detects abnormally high levels of prices for food commodities at commodity and market level.

As shown in Chart 3, according to ALPS indicators in June-July the actual price surpassed the seasonally estimated one, indicating abnormal and thus concerning (stress) levels. Only at the end of 2017 food prices got back to the expected value, indicating a stabilization of markets. ALPS model forecasts A further slight increase of food basket

Chart 3: Alert for Price Spikes (ALPS) Analysis for national food basket



Source: WFP [Safety Nets Alert Platform \(SNAP\)](#)

Table 1: National Price trend of seasonal commodities, by commodity

Commodity	Current Month	Previous Period				% Change From the Previous Period				Direction of Change			
	Jul 2017	1 M	3 M	6 M	1 Yr	1 M	3 M	6 M	1 Yr	1 M (+/- 5%)	3 M (+/-10%)	6 M (+/-10%)	1 Yr (+/-10%)
Potatoes	9.11	13.51	10.66	7.18	6.44	-33%	-15%	27%	41%	▼	▼	▲	▲
Carrots	13.55	15.05	9.42	7.37	8.58	-10%	44%	84%	58%	▼	▲	▲	▲
Onions	11.48	14.14	12.94	6.87	7.45	-19%	-11%	67%	54%	▼	▼	▲	▲
Cabbage	11.91	17.25	9.58	5.83	4.71	-31%	24%	104%	153%	▼	▲	▲	▲
Beetroots	7.82	10.53	6.74	6.35	6.72	-26%	16%	23%	16%	▼	▲	▲	▲

Source: WFP [Safety Nets Alert Platform \(SNAP\)](#)

compared to 2016. The harvest for early season vegetables and fruits was delayed due to unfavourable weather conditions thus leading to higher prices compared to 2016.

As shown in Table 1, prices for main vegetable commodities decreased in July 2017 when compared to previous month, however all of them are much higher when compared to the same month of previous year.

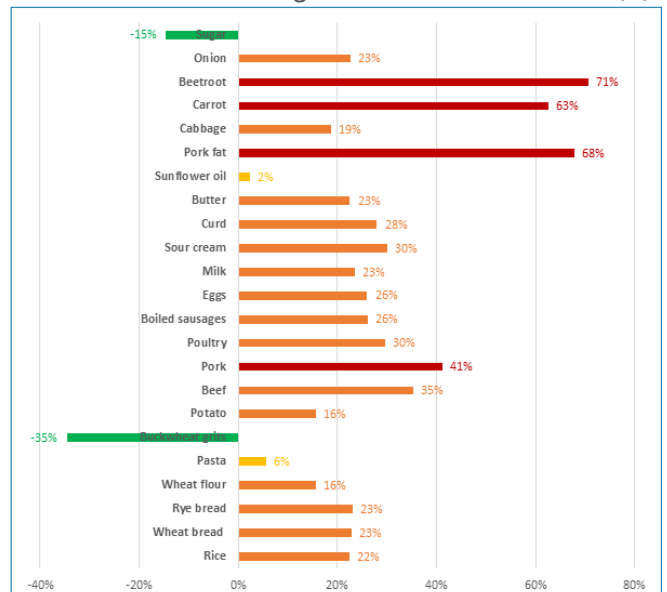
Expert indications show that harvest for early-season vegetables is lower when compared to previous year due to unfavourable weather conditions in spring and early summer. Rising prices for raw food accelerated from month to month during the spring of 2017. According to the [National Bank analysis](#), the increase in prices for meat and dairy products on the world market has intensified the export of domestic products. At the same time, the loss of part of the crop as a result of spring frosts and an increase in the supply of more expensive imported products was reflected in domestic prices for vegetables and fruits. As of November 1, 2017, open-air vegetable crops production in Ukraine fell by 1.3%.

### FOOD PRICE ANALYSIS BY COMMODITY

Dynamic of separate food commodity prices is very diverse.

There are few food commodities, where is observed very little price change when comparing December 2017 to the same period of 2016 (Chart 4). This group includes sunflower oil (+2%) and pasta (+6%).

Chart 4: Food Prices change from Dec2016 to Dec2017 (%)



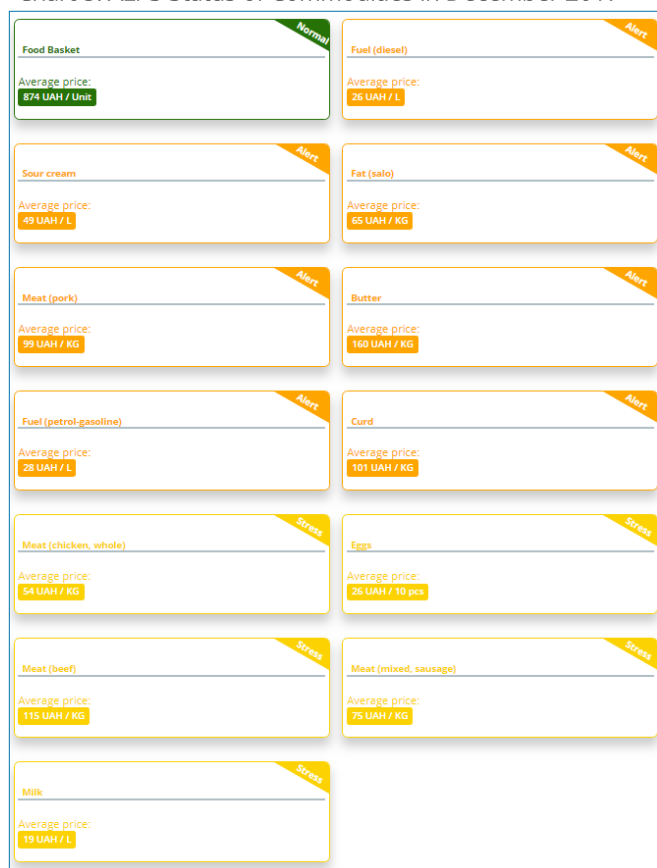
Source: WFP [Safety Nets Alert Platform \(SNAP\)](#)

Buckwheat grids decreased by 35% and sugar by 15%.

The prices of most of the food items increased between 15-30%. Dairy products prices increased by 23-30% (milk and butter +23%, curd +28%, sour cream +30%). There is also relatively large increase of main cereal and roots prices, such as wheat bread and rye bread +23%, rice +22% and wheat flour +16%, while potato price grew by 16%. The largest increase of prices happened with pork and pork fat by 41% and 68% respectively, as well as some vegetables like carrot by 63% and beetroot by 71%.

The same ALPS indicator used above, run at commodity level, shows that protein-rich food, including dairy and meat, were found at different levels of alert. Chart 5 shows the commodity status as of December 2017.

Chart 5: ALPS Status of Commodities in December 2017



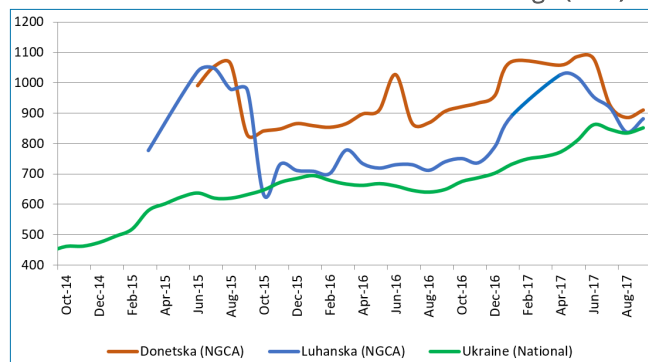
Source: WFP [Safety Nets Alert Platform \(SNAP\)](#)

## COMPARISON BETWEEN GCA AND NGCA

Prices in NGCA were higher when compared to GCA during 2015-2017, however fast price growing in GCA decreased the price gap between GCA and NGCA. In June 2017 the food basket costs difference reduced to 21 percent

between GCA and NGCA territories of Luhansk and Donetsk oblasts, while in May 2017, difference was recorded at 35 percent (Chart 6).

Chart 6: Food basket cost in NGCA vs. nat. average (UAH)



Difference between GCA and NGCA food basket cost narrowed to only 7% in September 2017 when in May 2017 it reached 35%. Prices in GCA grew sharply while in NGCA food prices were unstable and prone to spikes and rapid change. As shown on the Graph 5, food basket cost trend in GCA has a pronounced rising tendency without rapid changes, while in NGCA food basket value could grow and decreased by more than 20% during 2017.

As all prices are reported in Ukrainian hryvnia (UAH). The exchange rate dynamics of UAH and Russian rubbles (currency used in NGCA) could be one of the main reason for high volatility of prices in NGCA.

As shown in Chart 6, markets of Luhansk and Donetsk NGCA are not very well integrated as dynamic of prices is not correlated.

On the other hand, dynamics of prices on regional level show deep correlation of the price trends. However, the cost of the food basket in Donetsk GCA is higher compared to national level while Luhansk value is lower. In Donetsk GCA, the value of food basket in December 2017 was UAH 901, which is 3 percent higher when compared to national level, while in Luhansk GCA food basket costs reached UAH 846 or 3 percent lower. Data collection in NGCA terminated in October 2017 and therefore a comparison with national averages and GCA is not available beyond September 2017.

## FOOD AVAILABILITY IN NGCA

Food availability analysis in 2017 shows that generally food was available in the markets of NGCA. Cereal, dairy and eggs, and oil have been available on the markets in Luhansk and Donetsk NGCA during all year (Table 2). On the other hand, there are three commodities, which are scarcely

available or mostly not available on the market such as beef, pork and pork fat.

As showed in Table 2, there is not large changes in the availability during year, however chicken meat availability was improved during May-July 2017 when compared to previous months. On the other hand, availability of curd and rye bread slightly decrease during those months.

No significant differences in the food availability in Donetsk and Luhansk NGCA were identified. However, a slightly higher availability of some commodities in Donetsk NGCA compare to Luhansk NGCA was recorded.

Table 2: Food availability in NGCA during January-July 2017

Month	Jan-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Cabbage	WAV	WAV	WAV	WAV	WAV	WAV	WAV
Sour cream	AV	AV	AV	AV	AV	AV	AV
Wheat flour (1st grade)	AV	AV	AV	AV	AV	AV	AV
Meat (beef)	MNA	MNA	MNA	MNA	MNA	MNA	MNA
Fuel (diesel)	WAV	AV	AV	AV	AV	AV	AV
Milk	AV	AV	AV	AV	AV	AV	AV
Pasta	AV	AV	AV	AV	AV	AV	AV
Meat (pork)	SAV	SAV	SAV	SAV	MNA	SAV	SAV
Sugar	AV	AV	AV	AV	AV	AV	AV
Beetroots	WAV	WAV	WAV	SAV	WAV	WAV	WAV
Carrots	WAV	WAV	SAV	SAV	WAV	WAV	WAV
Curd	AV	WAV	WAV	WAV	WAV	WAV	WAV
Meat chicken	WAV	WAV	AV	AV	AV	AV	WAV
Bread (wheat)	AV	AV	AV	AV	AV	AV	AV
Eggs	AV	AV	AV	AV	AV	AV	AV
Butter	AV	AV	AV	AV	AV	AV	AV
Onions	WAV	WAV	WAV	WAV	WAV	WAV	WAV
Rice	AV	AV	AV	AV	AV	AV	AV
Fat (salo)	MNA	MNA	MNA	MNA	MNA	MNA	MNA
Bread (rye)	AV	AV	WAV	WAV	WAV	WAV	WAV
Oil (sunflower)	AV	AV	AV	AV	AV	AV	AV
sausages	AV	AV	AV	AV	AV	AV	AV
Potatoes	WAV	WAV	WAV	WAV	WAV	WAV	WAV
Buckwheat grits	AV	AV	AV	AV	AV	AV	AV

Source: WFP [Safety Nets Alert Platform \(SNAP\)](#)

As was reported in the WFP Market Update Report #13, there were no major issues with availability related to the supply chains as compared to 2014 and partially 2015. WFP key informant interviews indicated that the main reasons for the lower availability of some commodities could be lack of demand and a declining purchasing power.

It is also worth highlighting that there is a major difference between the availability of food commodities in urban and rural settlements. In most of the urban settlements almost all commodities are available on the market. This holds true especially for larger cities such as Donetsk and Luhansk. The situation is reported to be worse in rural settlements where commodities such as fresh meat and vegetables are considerably less available.

## METHODOLOGY

The Ukraine Market Monitor Review 2017 uses market information that is collected on monthly basis by WFP field monitors in NGCA and by the State Statistic Service of Ukraine in the rest of the country.

The report is based on the analyses produced by the [Safety Nets Alert Platform \(SNAP\)](#). Through automated analysis, the SNAP platform analyzes trends of main food and non-food commodities, minimum food basket, providing an indication of how much the markets are integrated in the country. In addition SNAP produces an early warning indicator (ALPS) with a 3-month forecast for each relevant commodity and at subnational level. Food and non-food prices are analyzed against previous periods. Availability is also assessed.

The classification of the availability is based on the monthly averages. A commodity is classified as **Available** when it is found available on every visit in the key market of a specific governorate; **Widely Available** when for only one visit the availability is not full; **Sporadically Available** when in at least half of the visits, the item is recorded as rare in the market; a commodity is **Mostly Not Available** when it was found only in rare cases in a governorate during the analyzed month; finally a item is classified as **Not Available** when it is not found in any market of a governorate at all.

The Alert for Price Spikes (ALPS) is a WFP-developed indicator calculated as follows  $ALPS = (Price_{it} - Season_{it}) / \sigma_{\epsilon}$ . It is computed for each month ( $t$ ) by dividing the difference between the observed and estimated seasonal price of a commodity ( $i$ ) by the standard deviation of the error term ( $\sigma_{\epsilon}$ ).

Situation on a given market :	ALPS thresholds :
Normal	ALPS < 0.25
Stress	0.25 ≤ ALPS < 1
Alert	1 ≤ ALPS < 2
Crisis	ALPS ≥ 2

The minimum food basket monitored by WFP contains 23 food commodities from the national food basket of Ukraine. The quantities are adjusted against the survival caloric intake needs.



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