



Picture: FSLC Ukraine

UKRAINE Market Monitor Review January-June 2018

HIGHLIGHTS

- Ukrainian economy continued its gradual growth for the third year in a row with 3.1 percent GDP increase in the first quarter and estimation of 3.2 percent in the second quarter 2018. Positive dynamics are observed in all major branches of the economy.
- Consumer price inflation weakened to 9.9 percent in June 2018 year on year from 14.1 percent in January 2018, while food inflation fell down from 17.9 to 9.5 percent.
- Real salary in the country increased significantly during 2016-2018 reaching pre-crisis level of 2013.
- People with average salary in the country as of May 2018 could cover minimum costs of living for more than two persons, while average pension could cover only 0.75 of the costs.
- Elderly (especially with minimum pension) and unemployed people remain in socio-economic groups at high risk. In particular elderly people living alone and those living in couple are amongst the most vulnerable, as they cannot share expenditure with other members of HH.
- The actual food basket costs in Ukraine reached the highest historical level of UAH 996 in June 2018, which is 11.4 percent higher year on year.
- People with average salary in 2018 could buy more than 8 WFP monitored food baskets, while person with average pension can buy only 2.6. Terms of Trade for average salary in 2018 surpassed 2014 level, while average pension is 20 percent less.
- Analysis provided in the report indicate economic improvement in the country during 2017-2018, however some vulnerable groups of people could benefit less from such improvement than others.
- Internally displaced people (IDPs) could be among most vulnerable as they have special needs and face more challenges. Current socio-economic status of IDPs should be more analysed to understand how recent economic developments in the country reflect on them.

MACROECONOMIC ANALYSIS

In 2018 Ukraine's economy continued its gradual growth for the third year in a row after crisis of 2014-2015. Real Gross Domestic Product (GDP) of Ukraine in the first quarter of 2018 increased by 3.1 percent compared to same period in 2017 (**Graph 1**). GDP in the first quarter of 2018 compared with the previous quarter (seasonally adjusted) increased by 0.9 percent. [National Bank of Ukraine](#)¹ expects real GDP growth in the second quarter of 2018 at 3.2 percent.



The main driver of the economic growth was domestic consumer and investment demand, as in 2017.

Positive dynamics are observed in all major branches of the economy (**Table 1**). In January-May 2018 industrial production grew by 2.6 percent compared to same period in 2017. Main driver of the industrial production was energy sector² which increase by 4.2%, while mining industry rose by 2% and manufacturing industry by 2.4%. Meanwhile construction increased by 1.8% for same period of time.

Improved consumer confidence and the rather high rates of growth of real wages contributed to a steady increase in consumer demand. Retail trade turnover continues to grow third year in a row. Physical volume of retail trade turnover (in comparable prices) between January and June 2018 in Ukraine rose by 6.2 percent to compared same period previous year, after increase by 6.5% in 2017 and 4.3% in 2016.

Table 1. Change of economic indicators in 2018 compared to same period 2017, percent (%)

Industry Jan-May 18	Agriculture Jan-June 18	Retail Jan-June 18	Capital investment Q1 18
 ↑ 2.6	 ↑ 11.4	 ↑ 6.2	 ↑ 37.4

Agricultural production in January-June 2018 was 11.4 percent higher compared to same period 2017, however it is expected to slow down in the second half of the year (**Table 1**).

An important driver of economic growth was the increase in capital investment and was observed in the vast majority of activities. In particular, total capital investment grew in the first quarter of 2018 by 37.4 percent, while in industry by 46.3 percent. These are the highest rates for the last decade.

¹ National Bank of Ukraine, Inflation report for July 2018

² Supply of electricity, gas, steam and air conditioning

BALANCE OF TRADE

Growth in both export and import of goods slowed down in 2018 compared to previous year. Favorable external economic conditions impacted the dynamics of exports of goods in the first half 2018. On the other hand, the revival of domestic demand led to a growth of import. Nevertheless, according to [State Statistics Service of Ukraine](#) exports grew by 12.8% in nominal US dollar terms to USD 15.5 billion, but growing domestic demand boosted imports more strongly by 15.1%, to USD 16.9 billion in January-April of 2018. The trade deficit of goods widened to USD 1.4 billion, from USD 0.9 billion in the same period of 2017. Widening of the trade deficit of goods could be a risk for currency and price stability in the country.

CURRENCY EXCHANGE RATE

The revival of economic activity, rather high prices for Ukrainian exports, the growth of private money transfers and strict monetary policy have strengthened the Ukrainian hryvnia (UAH) to the US dollar (USD) and other.

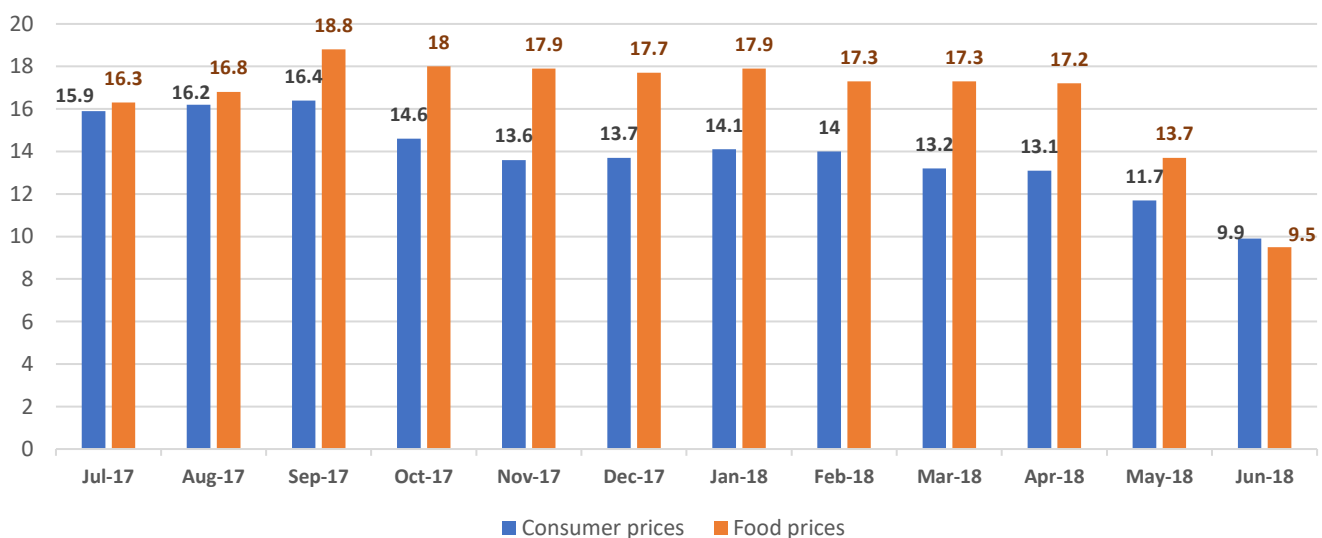
The Ukrainian currency after depreciating sharply against the USD in January 2018 up to 28.5 USD/UAH went back to 26.2 in March 2018. After strengthening, Ukrainian currency remained stable in April- June. According to [National Bank of Ukraine](#) report³, Ukrainian currency is appreciating owing to tightening monetary policy conditions and a favorable external environment (especially for steel prices, one of Ukraine's main exports). Growing migrant remittances might have an impact to the strengthening of the currency. Seasonal trends probably play the biggest role, however. The hryvnya has appreciated in spring and depreciated in autumn of each of the past three years. This could be due to seasonal economic cycles in the country, with higher demand in autumn and supply in spring.

Positive developments in the currency exchange market could have an impact on inflation trends in the country, as the strengthening of the hryvnia is reflected in the cost of imported component costs.

INFLATION RATE

In June 2018 consumer price inflation stood at 9.9 percent year on year, down from 11.7 percent in May and 13.1 percent in April (**Graph 2**). This is the lowest annual rate of inflation since September 2016. In month-on-month terms, prices were flat in June-May, following a 0.8% rise in April.

Graph 2: Consumer and food inflation in Ukraine, year on year



³ National Bank of Ukraine, Inflation report for July 2018

The decrease in annual inflation was mainly due to the rapid deceleration of food prices. As shown in **Graph 2**, food prices were a driver of inflation for the previous year, as food inflation was higher than consumer inflation in general. Only in June 2018 food inflation was recorded lower when compared to total consumer inflation. According to [National Bank of Ukraine](#), this was primarily due to the slowdown in the growth of raw material prices, including the expansion of the import supply, the reduction of world prices for individual food commodities and the strengthening of Ukrainian currency⁴.

At the same time, during the first half 2018 the pressure on prices continued to rise from further growth of production costs, in particular in wages, as well as a rapid recovery in consumer demand.

Food inflation was recorded at 9.5 percent in June 2018 year on year, while in May it was 13.7 percent and in April 17.2 percent (**Graph 2**). Decreasing of prices for fruits, vegetables and sugar had the largest impact on food inflation deceleration. At the same time, strong external demand for certain products (in particular, butter, eggs) and the expansion of export capacities of domestic enterprises drove prices up.

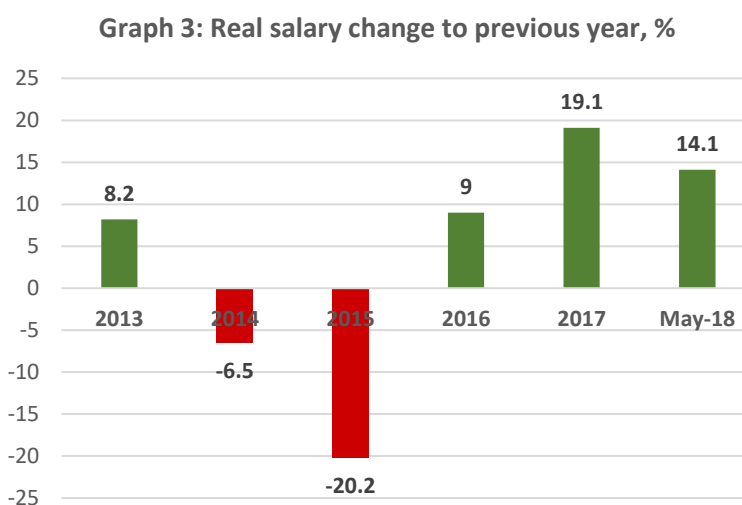
INCOME ANALYSIS

Sustained growth in consumer demand was supported by an increase in household incomes - wages, pension payments, remittances. The salary and social benefits play a major role in structure of income of the population in Ukraine. [Ministry of Social Policy of Ukraine](#)⁵ reported, that share of salary in the structure of household income for the first quarter of 2018 amounted to 49.8 percent. There is an increase in the share of wages in the structure of incomes, which in the 1st quarter of 2018 amounted to 49.8 percent against 48.2 percent in the corresponding period of the previous year. The second source meaningfully for population is social benefits with share of 35.9 percent.

Nominal average salary in Ukraine reached UAH 8,725 in May 2018⁶, which is 28 percent higher compared to May 2017 value, or 75 percent higher when compared to 2016. The main driver of such fast growth was a government decision to double minimal salary in the country from UAH 1,600 in to UAH 3,200 in January 2017, following increase in January 2018 to UAH 3,723.

Following nominal growth, real salary had positive values in recent years.

Dynamic of real salary change indicates high rates of increase in 2016-2018, after significant decrease during 2014-2015 (**Graph 3**). With current rate for May 2018, real salary in 2018 could reach higher than pre-crisis level of 2013.



There is an improvement in structure of distribution of employees by the size of their salary. In March 2018, share of workers who received minimum salary amounted to 7.9 percent, while for same month in 2017 it was 10.3 percent. The share of employees who received from UAH 3,723 to UAH 6,000 was 44.1 percent, over UAH 6,000–48 percent, while 21.3 percent exceeded UAH 10,000.

⁴ National Bank of Ukraine, Inflation report for July 2018

⁵ Ministry of Social Policy of Ukraine, Information on the main indicators of the standard of living of the population in May 2017

⁶ Nominal salary includes actual tariff rates (salaries), bonuses, allowances, and other related payments, income tax

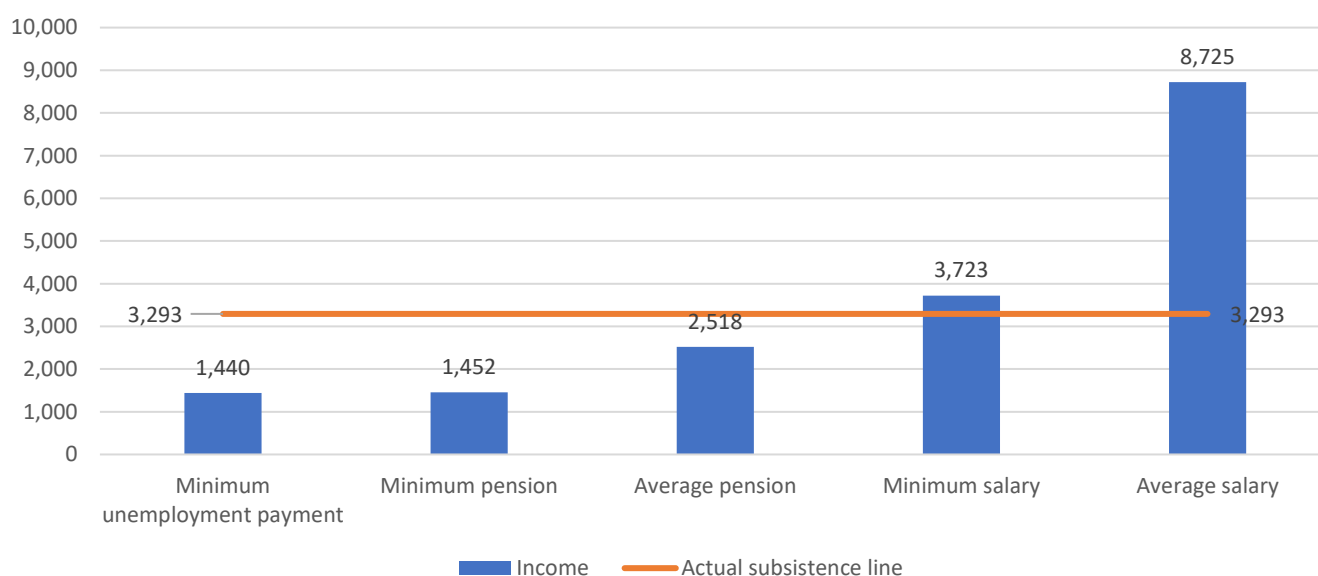
Meanwhile unemployment rate decreased slightly. According to State Statistic Service of Ukraine the unemployment rate⁷ among the economically active population aged 15-70 decreased slightly from 10.1 percent in the first quarter of 2017 to 9.7 percent in the first quarter of 2018. Minimum amount of unemployment benefits for people with pension insurance experience⁸ is UAH 1,440 as of May 2018⁹.

The introduction of pension reform in autumn 2017 increased average pension significantly, while minimum pension increased moderately. Minimum pension increased by 16 percent as of April 2018 when compared to same date 2017, however the average pension payments increased by 37 percent¹⁰. As of 1st of April 2018, minimum pension was UAH 1,452, while average reached UAH 2,518.

To achieve minimum standards of living, people should get income not less than actual subsistence level (minimum costs of living)¹¹. In May 2018, actual subsistence level reached highest level of UAH 3,293¹².

Graph 4 represents main sources of income in 2018 compared to the actual subsistence line in the country. As you see in the graph, minimum salary level covers minimum costs of living (subsistence line) for one person¹³. Workers with average salary can cover the minimum for 2.6 persons¹⁴, which is close to average household size in Ukraine.

Graph 4: Monthly income levels and subsistence line May 2018 , UAH*



*Average and minimum pension reflect 1.04.2018 levels, minimum unemployment payment, minimum and average salary, actual subsistence line – May 2018. Salary includes actual tariff rates (salaries), bonuses, allowances, and other related payments, income tax

⁷ ILO Unemployment Rate refers to the percentage of economically active people who are unemployed by ILO standard. Under the ILO approach, those who are considered as unemployed are either: 1. Out of work but are actively looking for a job or 2. Out of work and are waiting to start a new job in the next two weeks.

⁸ Pension insurance experience is the period during which a person was subject to compulsory state pension insurance and for which monthly premiums paid in the amount not less than the minimum insurance contribution were paid.

⁹ Ministry of Social Policy of Ukraine, Information on the main indicators of the standard of living of the population in May 2018

¹⁰ Ministry of Social Policy of Ukraine, Information on the main indicators of the standards of living of the population in May 2018

¹¹ Subsistence level (minimum costs of living) is the cost value sufficient to ensure the normal functioning of the human body maintain its health dial food and a minimum set of non-food products and a minimum set of services required to meet basic social and cultural needs of the individual.

¹² The actual living wage in the prices of June 2018 per month per person was UAH 3,327 (including the amount of mandatory payments - UAH 3,818) according to Ministry of Social Policy of Ukraine

¹³ Actual value is less, as salary value displayed includes income tax

¹⁴ This value is approximate, as salary displayed includes income tax

On the other hand, people with minimum pension or minimum unemployment payment can cover only 44 percent of minimum costs of living, while average pension could cover 76 percent.

These findings indicate that elderly (especially with minimum pension) and unemployed people remain in socio-economic groups at highest risk. In particular elderly people living alone and those living in couple are amongst the most vulnerable, as they cannot share expenditure with other members of HH.

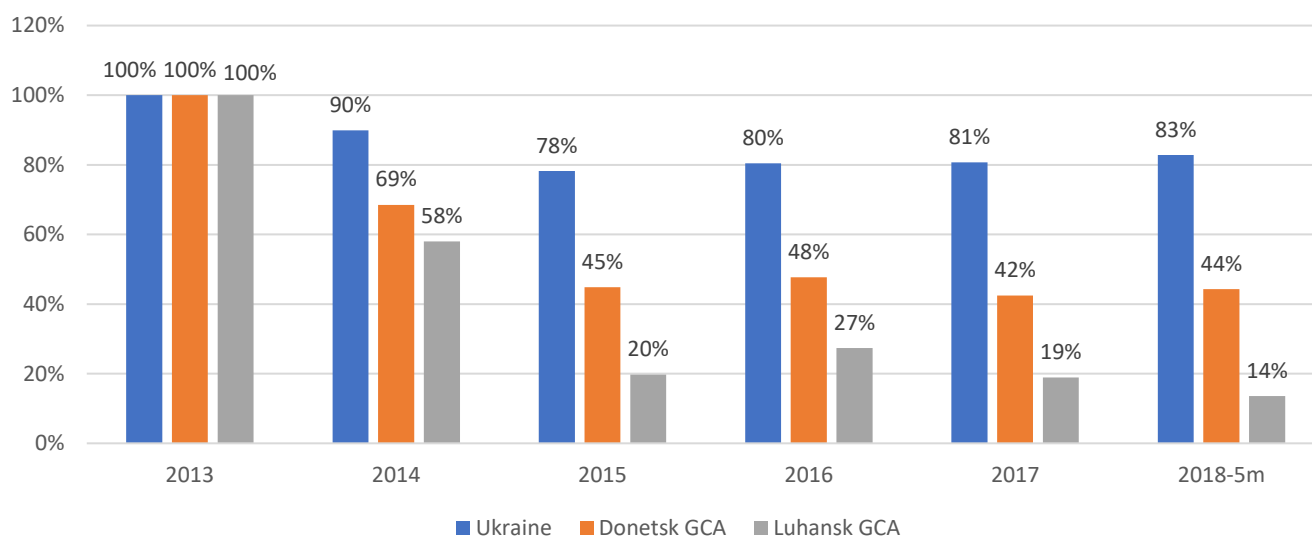
However, it should be taken into account government support of HHs with lack of income with subsidies for reimbursement for housing and utilities.

SOCIO-ECONOMIC SITUATION IN DONBAS

Socio-economic situation in Donbas¹⁵ has changed dramatically since the crisis began in 2014. Most indicators in the two oblasts of Donbas deteriorated in absolute terms and in relative terms of the average values for the country as a whole.

Industrial production in Donetsk and Luhansk GCA¹⁶ oblasts decreased significantly during 2014-2017, when compared to 2013 baseline. As show on the **Graph 5**, industry started slow recovery in Ukraine in 2016 and continued gradually in the following years. On the contrary, in Donetsk and Luhansk oblasts experienced its decrease in 2017.

Graph 5: Dynamic of industrial production in Ukraine, % in comparison to 2013 level



For first five months of 2018, industrial production rose in Donetsk oblast by 4.3 percent when compared to previous year, however it is equal only to 44 percent of 2013 baseline. In Luhansk oblast industrial production continued to drop, reaching approximately 14 percent of 2013 for first five month 2018.

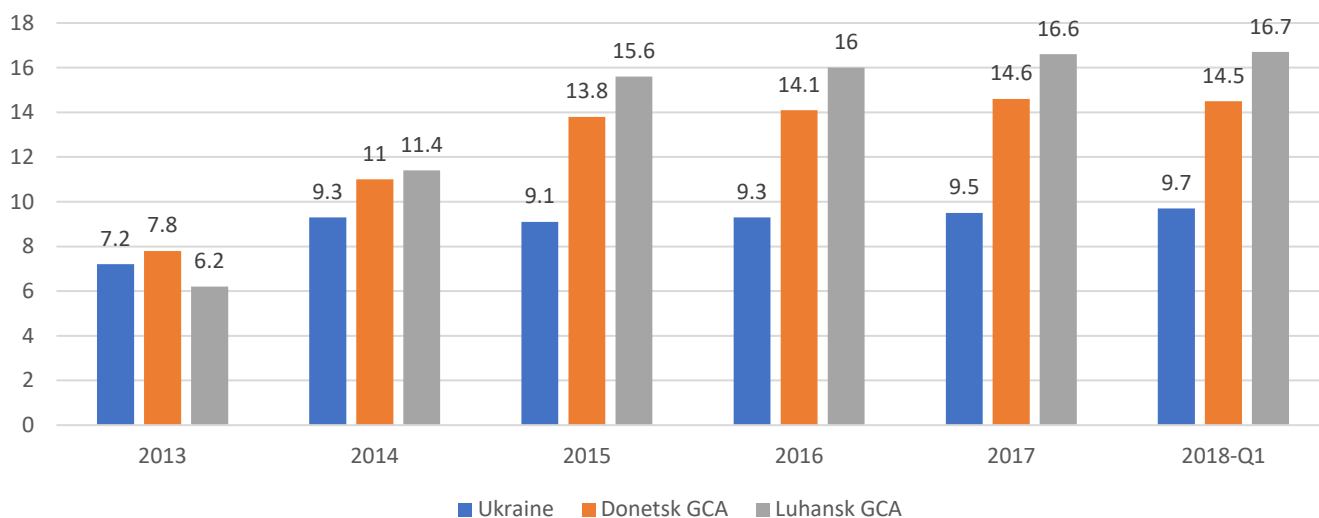
Despite a significant reduction in production, the share of Donetsk oblast in the structure sold industrial products in Ukraine for five months 2018 amounted to 12.8 percent, while share of Luhansk oblast was around 1 percent.

¹⁵ In the report, Donbas means the Donetsk and Lugansk oblasts

¹⁶ Government Controlled Area (GCA). Here and further all data for Donetsk and Luhansk oblasts reflects only GCA.

Significant decrease in industrial production reduced employment opportunities in the region. Unemployment rate (ILO methodology¹⁷) increased in the country through 2013-2018 by 2-2.5 percent reaching 9.7 percent in first

Graph 6: Dynamic of unemployment rates, %



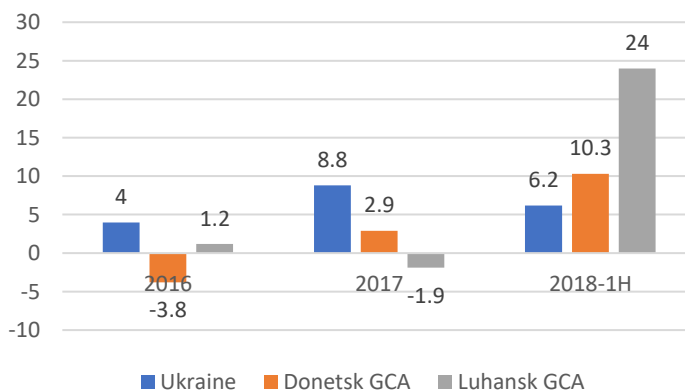
quarter 2018. In Donetsk oblast unemployment rate doubled for this period, while in Luhansk oblast it almost tripled (**Graph 6**). Unemployment rates in Donbas changed from close to the national average in 2013 to being highest in the country in 2015-2018. After 2015 unemployment levels changed moderately in the country and in the region.

Negative dynamics were observed in Donbas trade levels as well for 2014-2015. Retail trade turnover in Donetsk and Luhansk oblasts in 2016-2017 started to stabilize, while in the country it has recorded relatively strong growth (**Graph 7**).

Nevertheless, in first half 2018 retail trade turnover in Donbas oblasts jumped stronger than at national level.

Main driver could be fast income growth as well as improved consumer confidence that was observed in the country.

Graph 7: Retail trade turnover change y-on-y, %



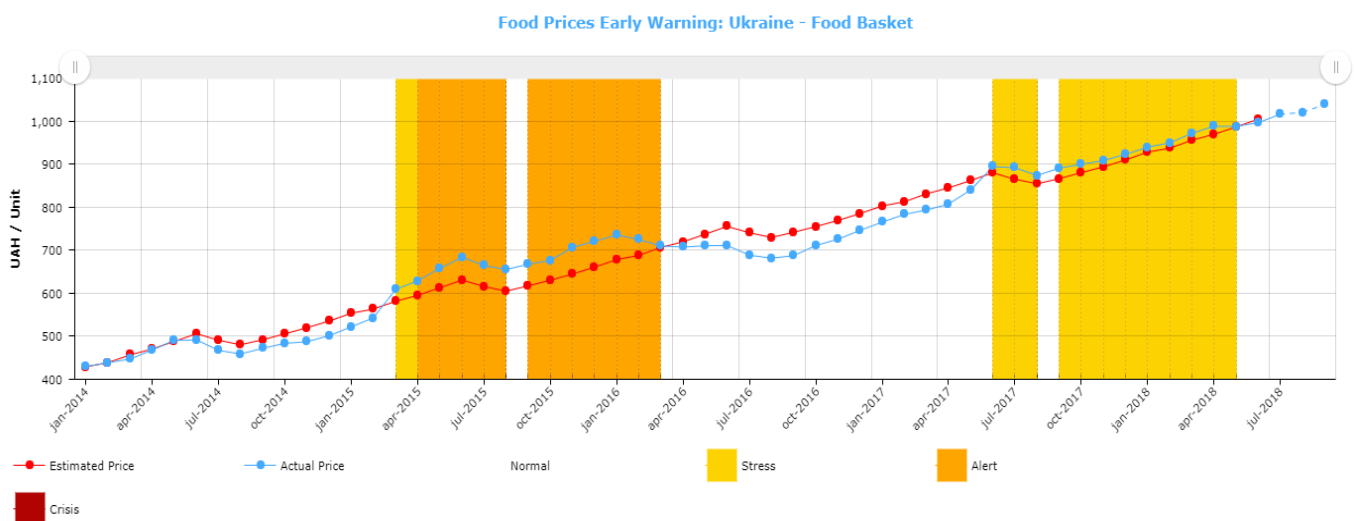
¹⁷ ILO Unemployment Rate refers to the percentage of economically active people at the age of 15-70 years who are unemployed by ILO standard. Under the ILO approach, those who are considered as unemployed are either: 1. Out of work but are actively looking for a job or 2. Out of work and are waiting to start a new job in the next two weeks.

FOOD BASKET ANALYSIS

Graph 8 represents the dynamics of the costs of WFP monitored food basket¹⁸ at national level and [Alert for Price Spikes analysis](#) (ALPS)¹⁹. ALPS detects abnormally high levels of prices for food commodities and indicates the number of markets experiencing high food prices in a country. Blue line indicates actual dynamics of food basket value and red line displays an estimated expected value corresponding to historical data. Dotted blue line shows possible movement of the price for next three months.

The actual food basket costs in Ukraine increased significantly between June 2017-June 2018 reached the highest historical level of UAH 996 in June 2018, which is 11.4 percent higher year on year (**Graph 8**). However, analysis of trend 2018 shows that food basket costs started to slow down already in May, while last year it was experienced spike of prices during May-June period. As shown on the **Graph 8**, according to ALPS indicators in May-June 2017 blue line crossed red one, which indicated abnormal (not expected) level. ALPS generated stress (yellow color stripes) warning information during all previous months after May 2017 and up to May 2018. This deviation of actual value to expected came back to normal level in May 2018.

Graph 8: ALPS Food Basket analysis



The early detection of price alerts and price crises and the understanding of the underlying reasons can trigger preparedness measures and contingency planning as well as programme adjustments.

Number of different reasons and factors could explain 2017-2018 food inflation from both demand and supply sides. As was mentioned early the income levels increased significantly for the majority of the population, which brought increased demand on the food market. On the other hand, 2017 recorded lower supply for some seasonal commodities. On the contrary, introduction of new harvest in 2018, the expansion of the import supply and the reduction of world prices for individual food commodities could bring a difference for 2018 trend.

On the regional level, the highest prices are found in Kyiv city and Kyivska oblast. Food basket costs in Kyiv city in June 2018 was UAH 1,165 which is 17 percent higher when compared to national average. Main driver for prices in Kyiv city might be higher demand pushed by highest income levels in the country. For example, average salary in

¹⁸ WFP monitored Food Basket includes 23 main food commodities from the national food basket of Ukraine (which includes 45 items)

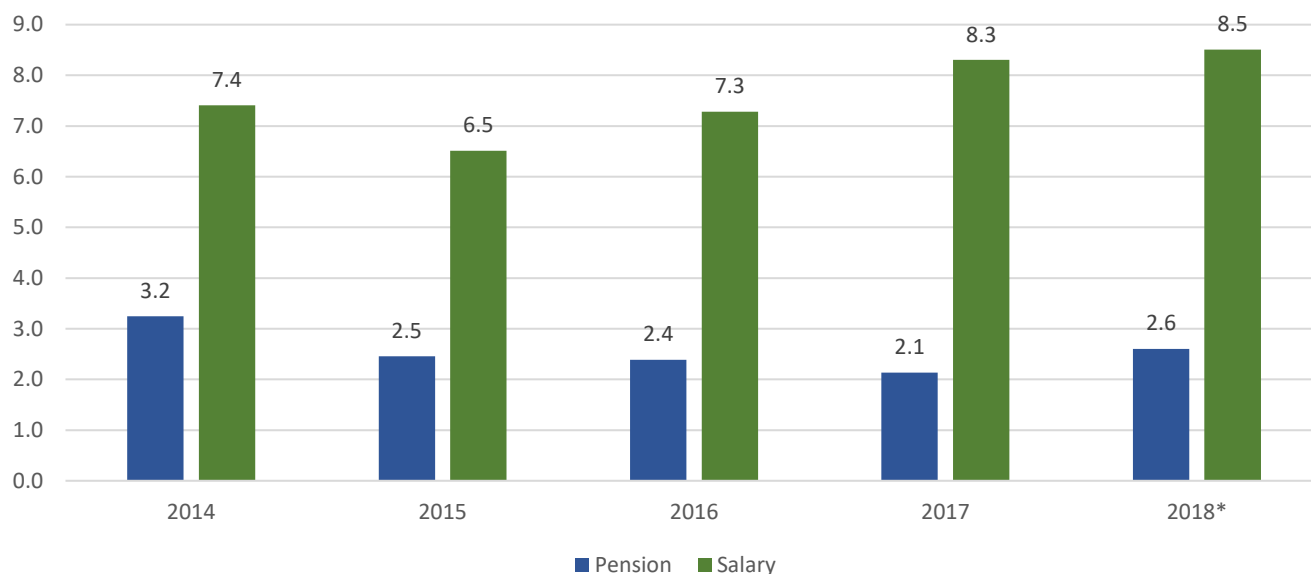
¹⁹ Alert for Price Spikes (ALPS) detects abnormally high levels of local food prices for selected staple commodities and indicates the number of markets experiencing high food prices in a country. Depending on the deviation from expected price ALPS can generate timely warning information on food price dynamics that enables the users to prepare and act appropriately and in sufficient time to reduce harm to households that are most likely vulnerable to abnormal food price fluctuations.

the city in June 2018 was 52 percent higher than average in the country. Food basket costs were found higher than national average in Cherkas'ka, Odes'ka, Zakarpats'ka oblasts and also eastern Donets'ka and Luhans'ka oblasts.

For estimation of purchasing power of different income sources, Terms of trade (ToT)²⁰ would be useful analysis to do. In this exercise ToT is done with the comparison of average salary and pension as a ratio to food basket value.

As shown on the **Graph 9**, ToT decreased for average salary and pension in 2015 when compared to 2014. However, in 2016 ToT started to increase for salary income reaching 8.5 value in 2018, while for average pension it continued to decrease during 2016-2017. A person with average salary in 2018 could buy 8.5 food baskets²¹, while a person with average pension can only buy 2.6 food baskets. ToT value in 2018 for average salary is the highest for researched period, while for average pension it is 20 percent lower when compared to 2014 value.

Graph 9: Terms of trade for Food basket compared to income sources



**Average salary for January-May 2018 was used; average pension is reflected as of 1.04.2018*

Comparison of January-February 2014 to January-February 2018 values suggest ToT for average salary to be higher than pre-conflict levels.

ToT analysis confirm elderly people living alone or those living in couple to be amongst most vulnerable as was indicated above. In particular elderly people with minimum pension.

FOOD PRICE ANALYSIS

Food inflation indicated that prices increased during the last 12 months, however trends of separate food commodity prices are very diverse. As shown on the **Graph 10**, most of the food prices increase. Generally, price trends are similar for food commodities in same food group. Meat products on average increased by 15-20 percent with highest rate of 22 percent for beef and 21 percent for whole chicken, while sausage price went up by 19 percent and pork by 15 percent. Relatively smaller rates were recorded for dairy products, with 18 percent price spike for butter following 14 percent for milk and 13 percent for curd.

²⁰ Terms of trade (ToT) is the ratio of the price of the primary income relative to the price of the primary expenditure good (e.g. food basket). As the ToT rises, the relative welfare or purchasing power of the livelihoods group increases; conversely, decreasing ToT indicates higher levels of vulnerability for the group of interest.

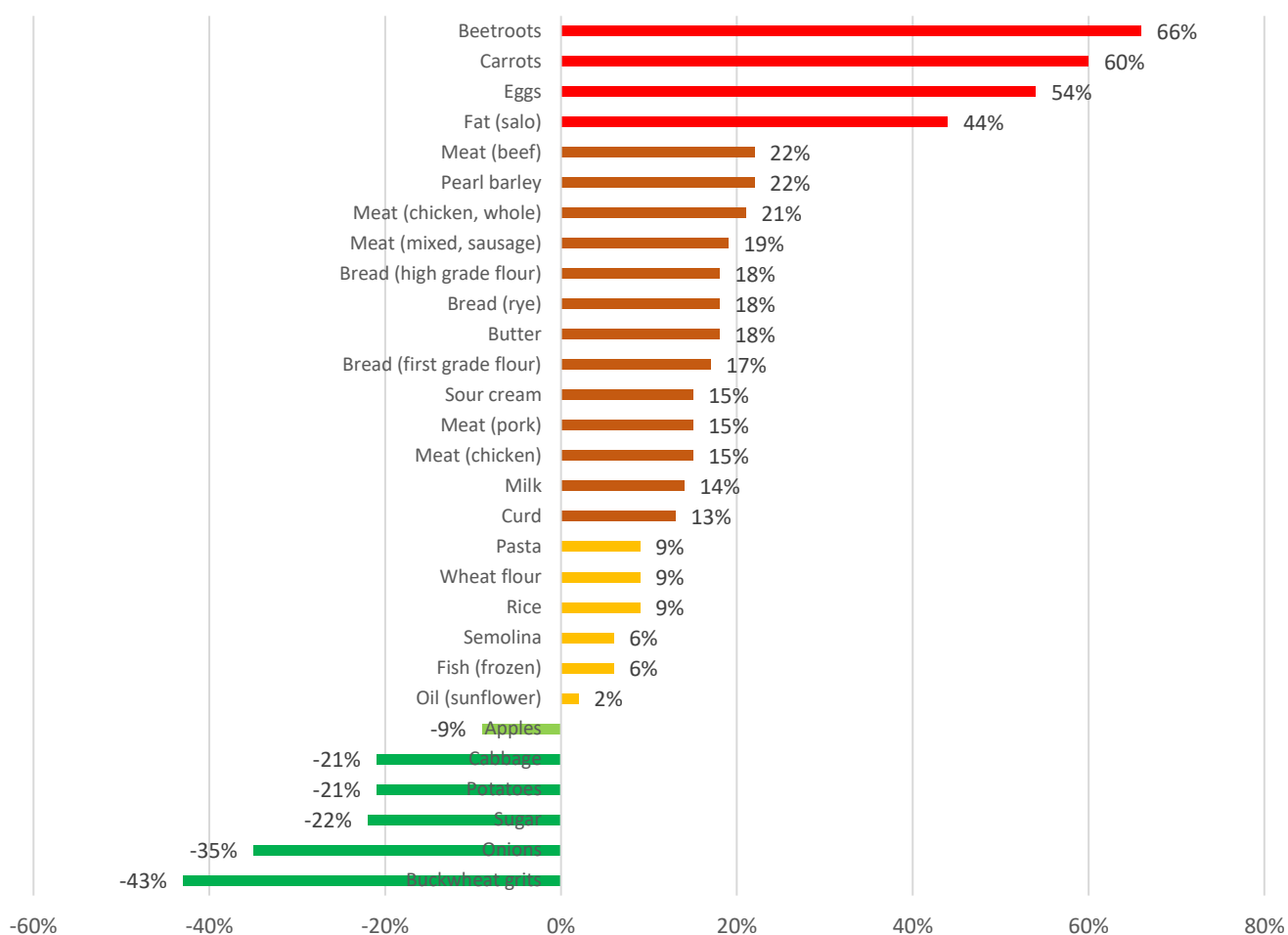
²¹ Actual value is less, as salary value reported by SSSU includes income tax

There are a few food commodities that observed large increase or decrease of prices. The group with largest increase includes eggs (54 percent) and pork fat (44 percent). Egg prices grew at a higher rate, primarily due to increased exports in the previous months.

Falling trend during last few years for number of animal production commodities reduced supply on the market and could be one of the main reasons for price rising for dairy and meat products. The exception could be chicken production, where price is more dependent on export opportunities for local producers.

Prices for most of the staple commodities had experienced relatively small changes and are in line with general food inflation rate. Wheat flour, rice and pasta increased by 9 percent. Despite small increase of wheat flour, bread on average rose by 18 percent. Sunflower oil price rose by 2 percent, while semolina by 6 percent. Price for frozen fish did not change much as a large share is imported and tied closely with currency exchange rate dynamic.

Graph 10: Food Prices dynamics June 2018 to June 2017, %



Commodities with the largest decrease in prices include buckwheat and sugar. Prices for buckwheat continued to decrease dramatically second year in a row reaching lowest price since December 2014. In June 2018 price for buckwheat was 43 percent lower when compared to year ago and 59 percent lower when compared to June 2016. Large price decrease happened also for sugar with 22 percent rate.

Freshly produced commodities had different price trends (**Table 2**). For some commodities prices are lower than last year nevertheless new harvest was not still on the market (e.g. onions and cabbage), and prices are higher than a month or three months ago. For some others, prices are higher than a year, or six months, three months or a month ago. This trend occurred with carrot and beetroot. On the other hand, introduction of the new harvest for potato brought price 21 percent lower than it was a year ago.

Table 2: National price trend of seasonal commodities as of June 2018, by commodity

Commodity	Current Month	Previous Period				% Change From the Previous Period				Direction of Change			
		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	8.30	7.20	7.29	5.76	10.51	15%	14%	44%	-21%	▲	▲	▲	▼
Carrots	22.34	13.59	10.81	6.58	13.99	64%	107%	240%	60%	▲	▲	▲	▲
Onions	7.62	6.53	6.24	5.38	11.64	17%	22%	42%	-35%	▲	▲	▲	▼
Cabbage	11.45	12.32	7.42	4.24	14.41	-7%	54%	170%	-21%	▼	▲	▲	▼
Beetroots	15.13	12.42	10.75	6.15	9.14	22%	41%	146%	66%	▲	▲	▲	▲

At the same time, June could be considered as an off-season for most of the vegetables and new harvest might make a difference already in July.



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