



Picture: FSLC Ukraine

## UKRAINE Socio-Economic and Market Review 2018

### HIGHLIGHTS

- Ukraine's economy continued its gradual growth for the third year in a row after the crisis in 2014-2015. Ukraine's Gross Domestic Product accelerated to 3.3 percent compared to 2017, the highest rate since 2011.
- Remittances to Ukraine in first nine months 2018 increased by 22.7 percent over the same period of previous year, following an overall 23 percent growth rate in 2017.
- 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 December 2018 could cover minimum costs of living for three persons, while people with minimum pension or minimum unemployment payment cannot cover more than half of the needs of one person.
- Ukraine's economy is growing, but vulnerability and poverty rates remain high, especially in Donbas oblasts. The most vulnerable socio-demographic groups of people could be elderly people living alone or in couple, especially with minimum pension payment, as well as unemployed people, especially without breadwinner in the HH.
- Consumer price inflation weakened to 9.8 percent in December 2018 year on year from 13.7 percent in December 2017, while food inflation fell down from 17.7 to 7.8 percent. The actual food basket costs in Ukraine reached the highest historical level of UAH 1043 in December 2018, which is 13 percent higher year on year.
- People with average salary in 2018 could buy 9 WFP monitored food baskets, while person with average pension can buy 2.5 and with minimum pension only 1.5. Terms of Trade for average salary in 2018 surpassed 2014 level, while pension is 20-25 percent less.

**Methodological note:** Secondary data was used in the analysis. State Statistics Service of Ukraine was the source of data used in the report, unless it is cited differently.

## MACROECONOMIC ANALYSIS

In 2018, Ukraine's economy continued its gradual growth for the third year in a row after the crisis in 2014-2015. Ukraine's Gross Domestic Product (GDP) accelerated to 3.3 percent compared to 2017, which is the highest rate since 2011. GDP in the fourth quarter of 2018 compared with the previous quarter (seasonally adjusted) increased by 3.5 percent (**Graph 1**). GDP of Ukraine has shown twelve consecutive quarters of increase. After accelerating in 2018, real GDP growth is projected to decelerate to 2.5% in



2019, [according to National Bank of Ukraine estimations](#)<sup>1</sup>. The main constraints will be the tight monetary policy needed to return inflation to the target range, the restrained fiscal policy driven by the need to repay large amounts of public debt in 2019-2020 as well as the decline in grain crops after the record in the previous year and, accordingly, the negative contribution of agriculture to GDP growth.

Positive dynamics are observed in all major branches of the economy (**Table 1**). The main driver of the economic growth in 2018 was the domestic consumer demand and agriculture, while industry showed constrained results. Industrial production grew up by 1.1 percent in 2018 compared to 2017, including an increase of 2.1 percent in the extractive industry, 0.2 percent in the processing industry and 2.8 percent in the energy sector. Meanwhile, construction sector increased by 4.4 percent in 2018 compared to 2017. The steady expansion of consumer demand during last three years supported economic growth in all connected sectors. 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 for the third year in a row. Physical volume of retail trade turnover (in comparable prices) in 2018 in Ukraine rose by 6.1 percent over 2017, after having increase by 6.5 percent in 2017 and 4.3 percent in 2016. An important driver of economic growth was the increase in capital investment that was observed in the vast majority of activities. In particular, total capital investment grew in 2018 by 16.4 percent, while in industry by 22.2 percent, however, growth rates were falling down quarter by quarter during the year.

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

Industry 2018	Agriculture 2018	Retail 2018	Capital investment 2018
 ↑ 1.1	 ↑ 7.8	 ↑ 6.1	 ↑ 16.4

Agricultural production in 2018 was 7.8 percent higher compared to previous year. The driver of agriculture for last year as well as for last decade was crop production, which grew by 10.7 percent in 2018 due to the historical record of grain production in the country. On the other hand, livestock production has increased 0.3 percent only. Ukraine hits a historical record of grain and legumes production in 2018 with preliminary results of 69.8 million tons. While production of wheat and barley was lower by 6 and 11.3 percent respectively in 2018 over 2017 and maize harvest was 44.2 percent higher. These results were reached due to good weather conditions for maize with 41.7 percent of increase of its yield. Sunflower seeds production, another important crop for Ukrainian agriculture, has increased by 15.7 percent in 2018 when compared to previous year. Such harvest will be a good support for Ukrainian export

<sup>1</sup> National Bank of Ukraine, Inflation Report, January 2019

in 2019. On the other hand, perspectives of meat production in Ukraine has continued its downtrend with the exception of chicken meat. Meanwhile, milk production has reduced by 1.8 percent, while eggs production increased by 4.1 percent.

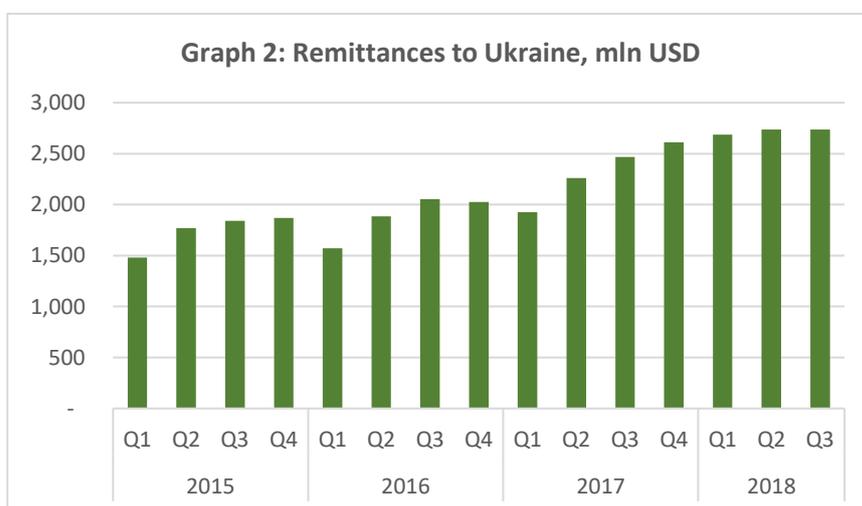
Estimations done based on the agriculture production indices during 1991-2018 showed that overall agriculture has almost reached 1990 level of production (2.5 percent lower) in 2018. However, livestock sector was estimated 47 percent lower in 2018 when compared to 1990, while crop production reached 39 percent higher level.

## BALANCE OF TRADE AND PAYMENT

Both export and import growth rates 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 (both consumer and investment) led to a growth of imports. Nevertheless, according to [State Statistics Service of Ukraine](#) exports grew by 9.4 percent in nominal US dollar terms reaching USD 47.4 billion, but growing domestic demand boosted imports more strongly by 15.2%, to USD 57.1 billion in 2018. The trade deficit of goods widened to USD 9.8 billion, from USD 6.3 billion in 2017. Widening of the trade deficit of goods could be a risk for currency and price stability in the country. On the other hand, balance of services remained positive with USD 6 billion surplus in 2018. The export of services increased by 10.6 percent in 2018 over previous year to USD 11.8 billion, while services imports grew up by 6 percent to USD 5.8 billion. The largest export services contributors were transport, IT and services for the processing of goods sectors.

According to [National Bank of Ukraine](#)<sup>2</sup>, the expansion of the foreign trade deficit and the increase in dividend payments revealed an increase in the current account deficit in 2018 to 3.6% of GDP, when compared with 2.2% of GDP in 2017. The role of the public sector grew at the end of the year, primarily due to the placement of Eurobonds and official financing. The inflow of capital to the private sector was secured by net foreign direct investments and debt borrowings from the real sector. Due to surplus of the consolidated balance of payments, international reserves as of the end of the year increased to 20.8 billion dollars equal to 3.4 months of import of the upcoming period.

At the same time, remittances play a key role restraining the expansion of the current account deficit. The amount of remittances to Ukraine increased significantly during 2015-2018. The growing trend can be seen on the **Graph 2**<sup>3</sup>. In first nine month of 2018, remittances increased by 22.7 percent over the same period in the previous year following an overall 23 percent growth rate in 2017 compared to 2016. Amount of money transfers in percentage to GDP for the first nine months of 2018 could be estimated at 9 percent<sup>4</sup>. Remittances support the purchasing power of the population and the growth of household incomes, thus balance external payment and support consumption in the country, as well as it is one of the main income sources for a number of Ukrainian households.



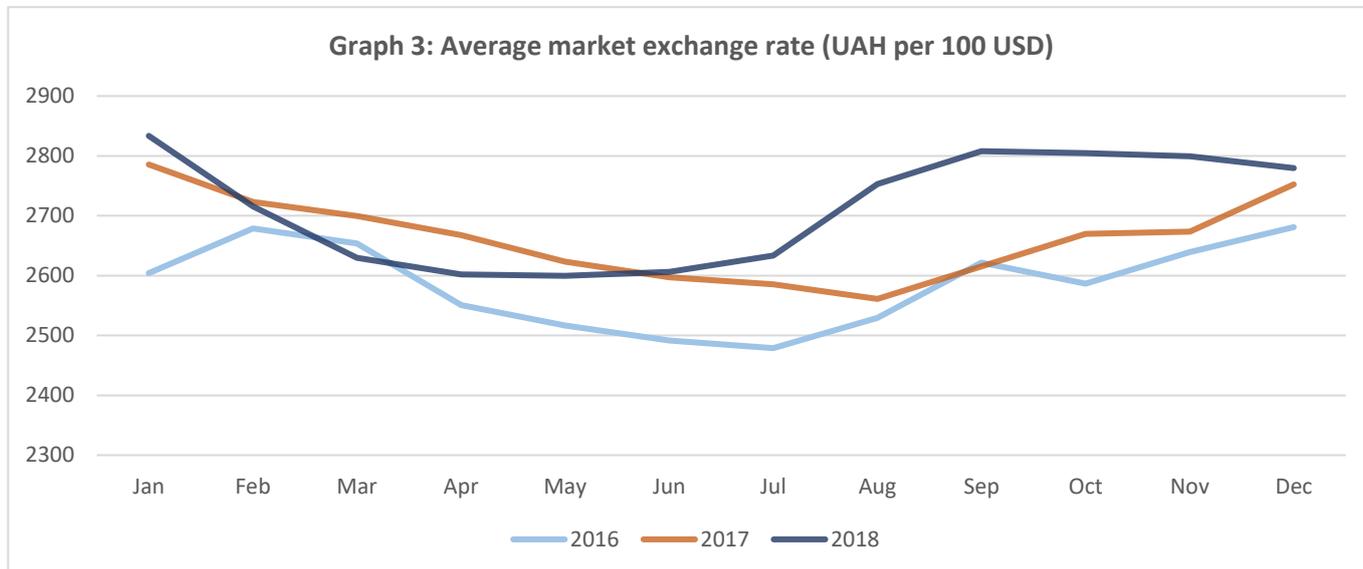
<sup>2</sup> National Bank of Ukraine, Inflation Report, January 2019

<sup>3</sup> External sector statistics of National Bank of Ukraine

<sup>4</sup> Average percentage of first three quarters of 2018

## CURRENCY EXCHANGE

Ukrainian currency was generally stable during 2018 with moderate fluctuation between 26 and 28 Ukrainian hryvnia (UAH) for one US dollar (USD). The fluctuations of the exchange rate were mainly due to the influence of seasonal factors. The hryvnia has appreciated in spring and depreciated in autumn of each of the past three years (**Graph 3**). Generally Ukrainian hryvnia strengthens during March-July period and weakens during autumn-winter season. This could be due to seasonal economic cycles in the country, with higher demand in autumn and supply in spring.



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](#) report<sup>5</sup>, 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. On the other hand, the hryvnia weakened in August-September 2018, however remained stable during October-December. The main factors that supported national currency in September-December 2018 could be high harvest of grains and favorable conditions on world commodity markets of agriproducts, as well as receiving a tranche from the International Monetary Fund (IMF), macroeconomic assistance from the World Bank and placement of Eurobonds.

Generally 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.

## PUBLIC FINANCE

The state budget revenues increased by 17 percent over 2017 reaching UAH 928.1 billion in 2018, while the state budget expenditures amounted to UAH 985.8 billion, which is 17.5 percent more than in 2017. The state budget deficit amounted to UAH 59.2 billion and according to [Ministry of Finance of Ukraine estimates](#)<sup>6</sup>, equal to about 1.7 percent of GDP, and it was less than the projected figure. The deficit of the public sector overall, according to the Ministry of Finance's preliminary assessment, amounted to about 2.2 percent of GDP.

The state and state-guaranteed debt, fell to 62 percent of GDP in 2018 from 72 percent a year before. The decline in governmental debt to GDP was primarily due to moderately high nominal GDP growth and a stable exchange

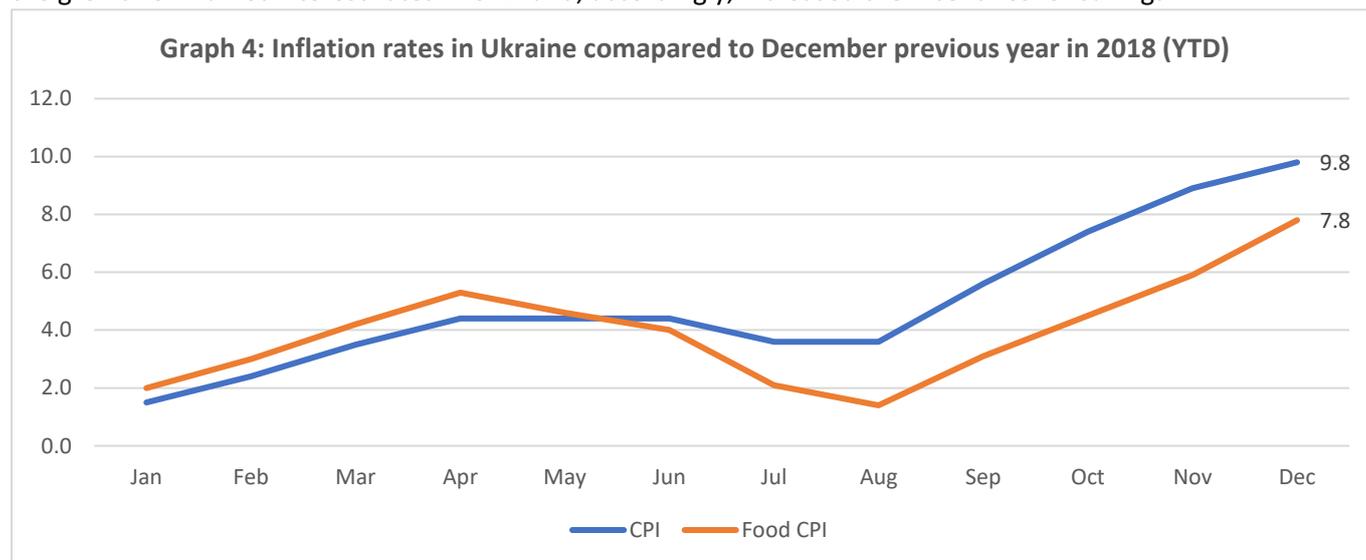
<sup>5</sup> National Bank of Ukraine, Inflation report for July 2018

<sup>6</sup> Ministry of Finance of Ukraine, Macroeconomic overview Report, February 2019

rate of Ukrainian currency. Meanwhile, absolute amount of state and state-guaranteed debt increased by 1.2 percent in 2018 over 2017 to UAH 2,168 billion. In the debt structure, external borrowing amounted to 64 percent.

## INFLATION

In 2018 Ukraine recorded the lowest level of consumer inflation in the past five years. Consumer inflation decelerated from 13.7 percent in 2017 to 9.8 percent in 2018. The decrease in annual inflation was mainly due to the deceleration of food prices as well as the tight monetary policy of the National Bank of Ukraine. Food prices were a driver of inflation for 2017, while in 2018 food inflation was recorded lower when compared to general consumer inflation rate. Food inflation was recorded at 7.8 percent rate in 2018. On the other hand, since October 2017, the [National Bank of Ukraine](#)<sup>7</sup> has raised the discount rate six times to the current 18 percent, which affected the growth of market interest rates in UAH and, accordingly, increased the incentives for savings.



As shown in the **Graph 4**, inflation rate in 2018 compared to December previous year increased significantly during September-December, while between May-August it was stable, even with slight decrease in July. Similar trend, however with deeper decrease during May-August 2018, could be observed with food inflation rate. In general, summer period is characterized with substantial reduction in price for new-season vegetables, and certain varieties of fruits. According to [National bank of Ukraine](#)<sup>8</sup>, the expansion of supply of certain types of products (fruits, milk, meat, etc.), as well as the reduction of world food prices, were additional factors of the slowdown of inflation. This affected a sharp deceleration in prices for raw food (to 3.3 percent y-o-y).

Utilities prices remained to be one of the main driver of inflation. In November 2018, prices for natural gas has increased by 22.9 percent and led to over 5 percent rise of utilities prices. Among others, price for water supply and sanitation grew up by around 20 percent in 2018. Overall prices for utilities hiked by 10.6 percent.

The growth of global oil prices has led to some fluctuations in the fuel market, although price growth slowed down by the end of the year till 9.1 percent y-o-y. On the other hand, prices for transport services has increased by 28.9 percent over the year.

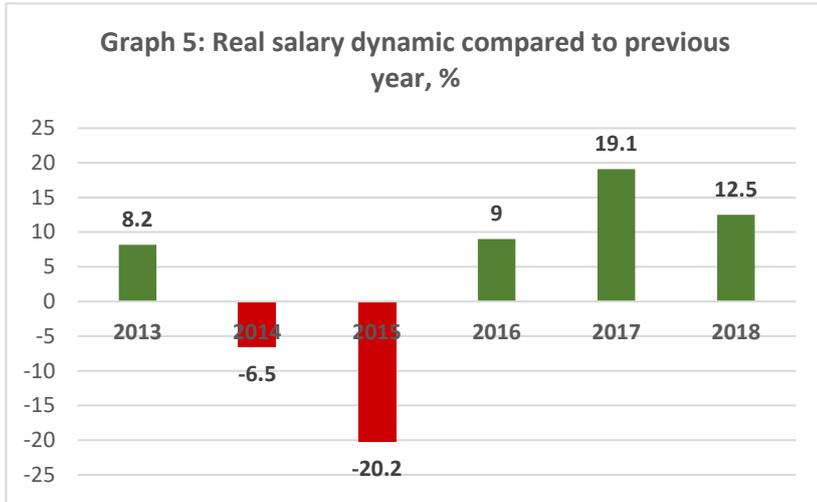
According to the National Bank of Ukraine forecast, consumer inflation will continue to slow down and reach 6.3 percent by the end of 2019.

<sup>7</sup> National Bank of Ukraine, Inflation Report, January 2019

<sup>8</sup> National Bank of Ukraine, Inflation Report, January 2019

## 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.

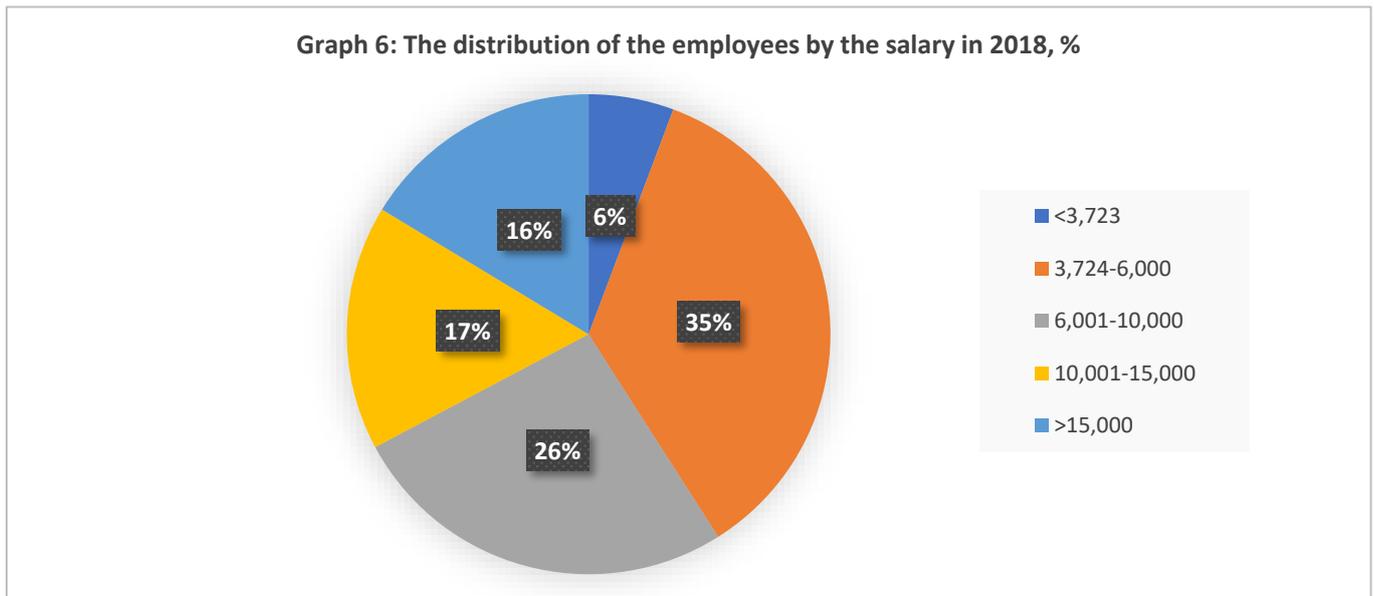


Nominal average salary in Ukraine reached UAH 10,573 in December 2018<sup>9</sup>, which is 20.5 percent higher compared to same month 2017, or 63 percent higher when compared to 2016. The main driver of such fast growth was a government decision to double minimal salary in the country from UAH 1,600 in to UAH 3,200 in January 2017 and increase it again in January 2018 to UAH 3,723.

Following nominal growth, real salary<sup>10</sup> had positive values in recent years.

Dynamic of real salary change indicates high rates of increase in 2016-2018, after a significant decrease during 2014-2015 (**Graph 5**). With estimated rate for 2018, real salary in 2018 could reach higher than pre-crisis level of 2013. High salary growth rates could be explained due to rising minimum salary as was highlighted above, as well as labor market competition through labor migration to the European Union.

There is an improvement in the distribution structure of employees by the size of their salary. While in March 2018 the share of workers who received minimum salary amounted to 7.9 percent, in December 2018 this share dropped to 6 percent. The share of employees who received from UAH 3,723 to UAH 6,000 was 44.1 percent in March while decreased to 35 percent in December (**Graph 6**). On the other hand, share of workers receiving salary exceeded UAH 10,000 was equal to 21.3 percent in March 2018 and it increased up to 33 percent in December. This improvement could be explained by both general uptrend of salary on labor market as well as additional surcharges and bonuses at the end of the year.

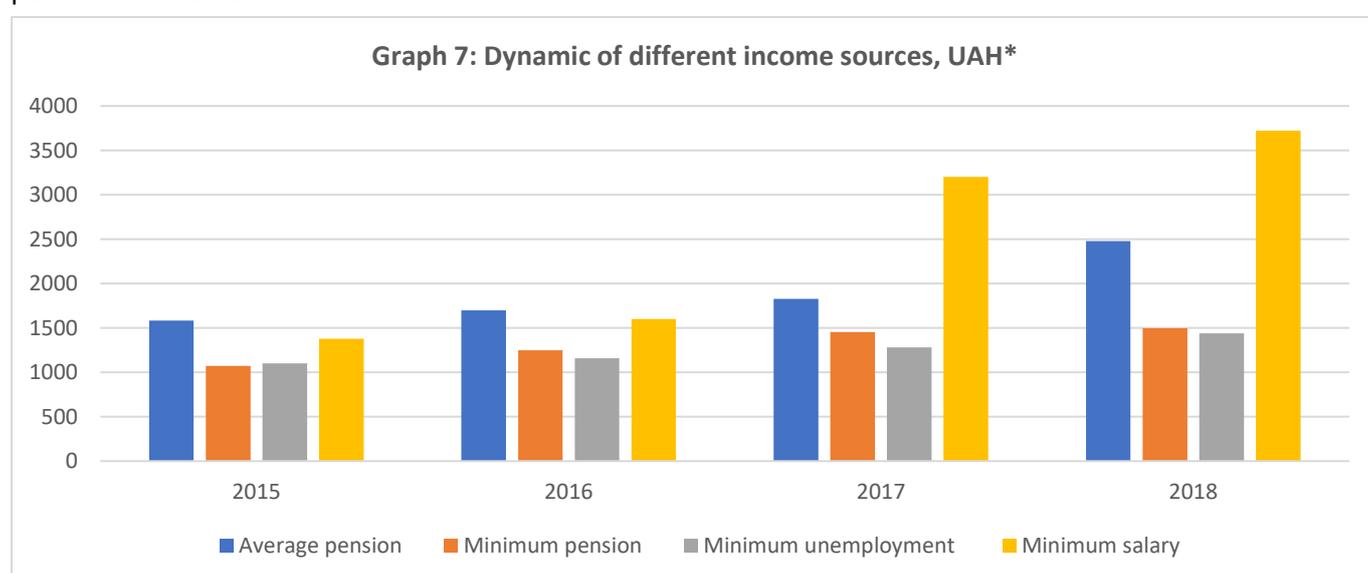


<sup>9</sup> Nominal salary includes actual tariff rates (salaries), bonuses, allowances, and other related payments, income tax

<sup>10</sup> Real salary is a salary adjusted for inflation. It is determined by dividing the index of the calculated nominal wage (excluding personal income tax and military fee) by the consumer price index for the same period.

Meanwhile unemployment rate decreased slightly. According to State Statistic Service of Ukraine the unemployment rate<sup>11</sup> among the economically active population aged 15-70 decreased slightly from 9.5 percent in 2017 to 8.8 percent in 2018. The highest unemployment rates were recorded for young people up to 24 years with 18.9 percent in 2017 and 17.9 percent for 2018. Minimum amount of unemployment benefits for people with pension insurance experience<sup>12</sup> did not change in 2018 and was amounted UAH 1,440<sup>13</sup>. However, only officially registered people as unemployed at the State Employment Service of Ukraine may receive assistance (323 thousand people in 2018), while total number of unemployed people in the country is estimated (ILO methodology) at 1,578 thousand people in 2018.

As shown in the **Graph 7**, average pension in 2015 was higher when compared to minimum salary level or minimum unemployment payment. However, starting from 2017 minimum salary increased significantly, while other income sources dynamics was lower. The introduction of pension reform in autumn 2017 increased average pension, while minimum pension increased moderately. On average between 2015-2018 minimum pension increased by 39 percent while average pension grew up by 57 percent. On the other hand, minimum salary was recorded 170 percent increase for the same period. The lowest dynamics was observed for unemployment payment with 31 percent of increase.



\*All figures are given at the end of the year

To achieve minimum standards of living, people should get income not less than actual subsistence level (minimum costs of living)<sup>14</sup>. In December 2018, actual average subsistence line reached highest level of UAH 3,385<sup>15</sup>.

<sup>11</sup> 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.

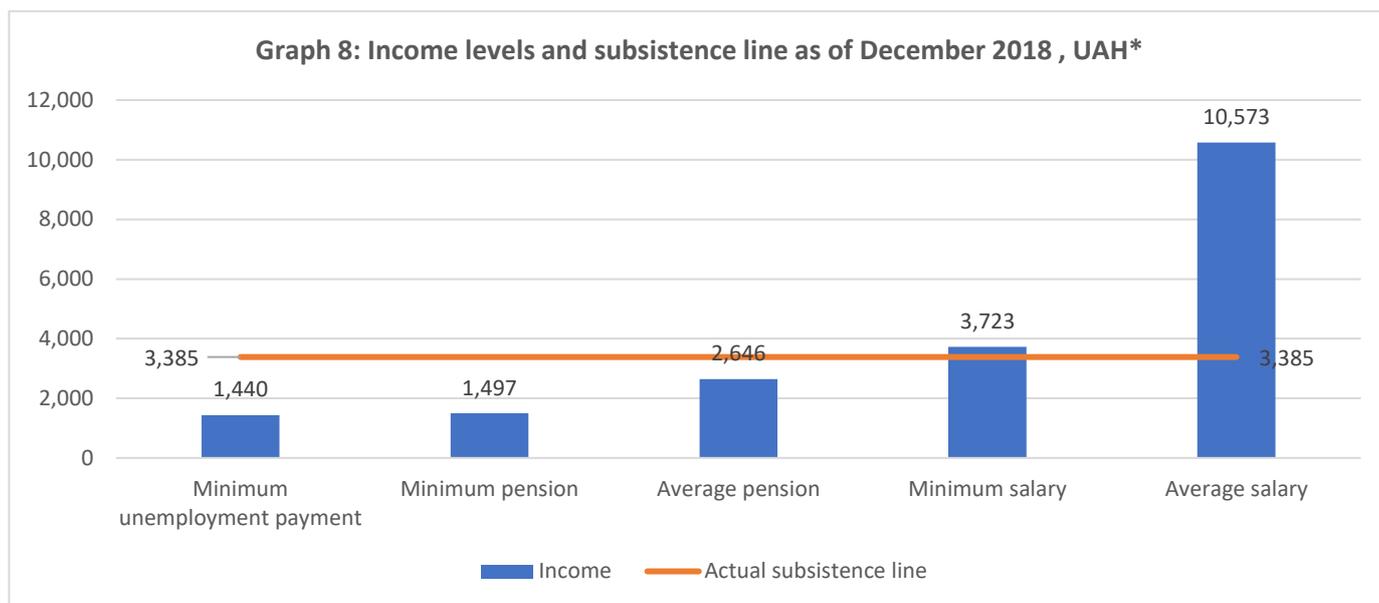
<sup>12</sup> Pension insurance experience is the period during which a person was subject to compulsory state pension insurance and for which monthly premiums paid in the amount not less than the minimum insurance contribution were paid.

<sup>13</sup> Ministry of Social Policy of Ukraine, Information on the main indicators of the standard of living of the population in January-December 2018

<sup>14</sup> 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.

<sup>15</sup> The actual subsistence level in prices of December 2018 per person per month was UAH 3,327 (including the amount of mandatory payments - UAH 3,885) according to Ministry of Social Policy of Ukraine

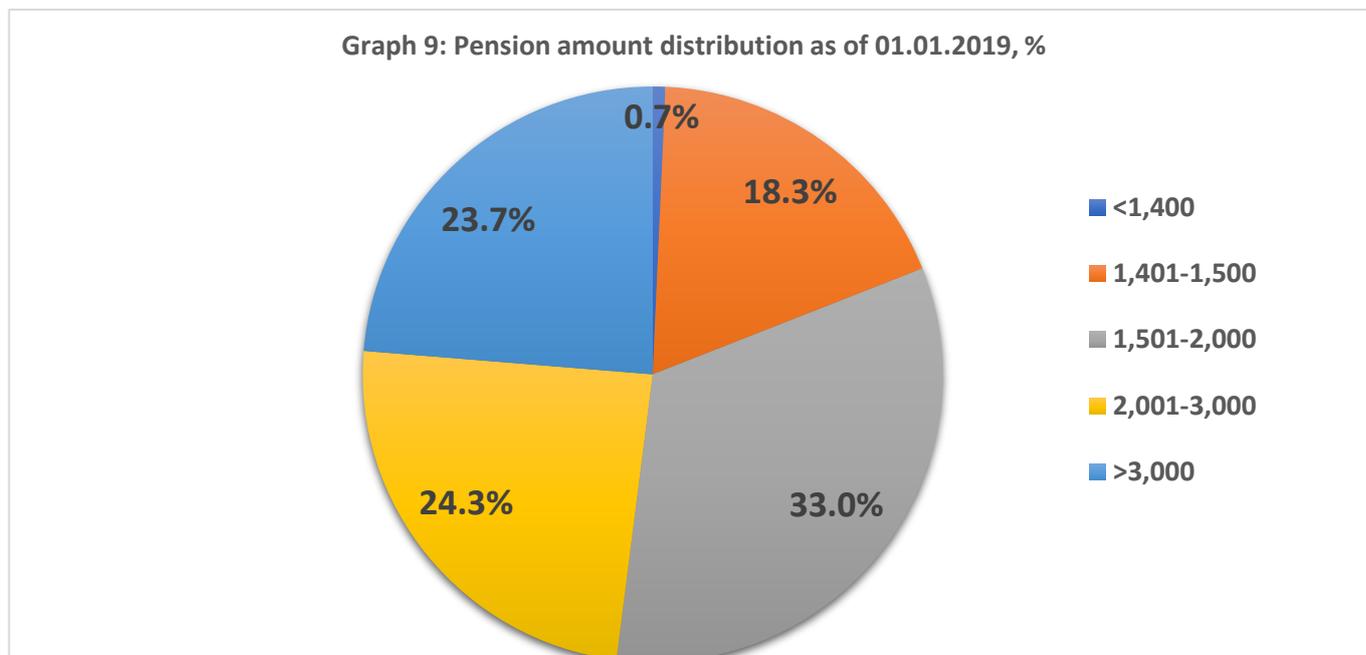
**Graph 8** represents main sources of income in 2018 compared to the actual subsistence line in the country: minimum salary level covers minimum costs of living (subsistence line) for one person<sup>16</sup>. Workers with average salary can cover the minimum for 3.1 persons<sup>17</sup>, which is close to the average household size in Ukraine.



\*Average and minimum pension reflect 1.01.2019 levels, minimum unemployment payment, minimum and average salary, actual subsistence line – December 2018. Salary includes actual tariff rates (salaries), bonuses, allowances, and other related payments, income tax

On the other hand, people with minimum pension or minimum unemployment payment cannot cover more than half of the needs.

According to [Pension Fund of Ukraine report](#), the share of pensioners receiving less than UAH 1,500 was recorded at 19 percent as of 1 January 2019<sup>18</sup>, while minimum pension amount was UAH 1,497 (**Graph 9**). On the other hand, share of pensioners received less than UAH 3,000 was accounted to 76.3 percent, when actual subsistence line for socio-demographic group of people who have lost their ability to work was UAH 2,856 as of December 2018. Thus, proportion of those pensioners who cannot cover their basic needs could be very high in the country.



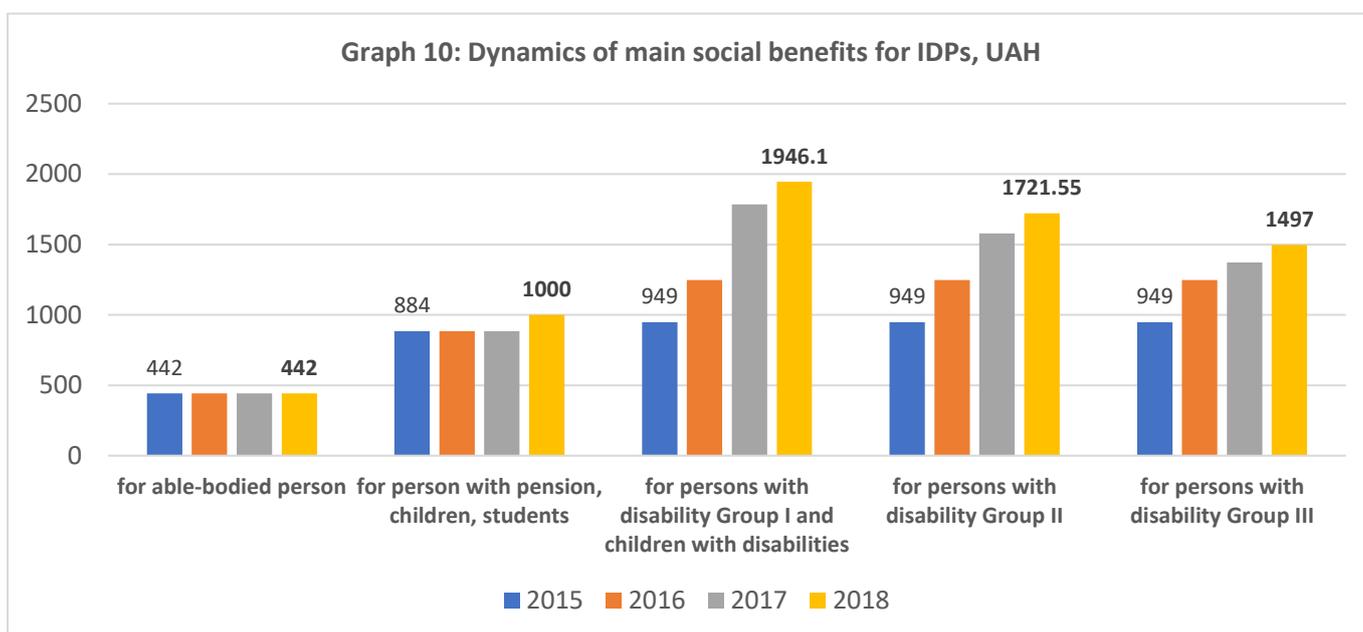
<sup>16</sup> Actual value is less, as salary value displayed includes income tax

<sup>17</sup> This value is approximate, as salary displayed includes income tax

<sup>18</sup> Report on average amount of retirement benefit of Pension Fund in Ukraine as of 1 January 2019

These findings indicate that the most vulnerable socio-demographic groups of people could be elderly people living alone or in couple, especially with minimum pension payment, as well as unemployed people, especially without breadwinner in the household. However, it should be taken into account government support of households with lack of income with subsidies for reimbursement for housing and utilities.

Internally displaced people (IDPs) could be among most vulnerable as they have special needs and face more challenges. According to [Ministry of Social Policy in Ukraine](#)<sup>19</sup>, as of September 13, 2018, the number of internally displaced people was almost 1 million 518 thousand people or 1 million 240 thousand families who have been forced to leave their homes. Among the total number of internally displaced people, 49 thousand are persons with disabilities, over 238 thousand are children. As shown on the **Graph 10**, the dynamic of main social benefits from the government for IDPs is very diverse. For able bodied people the amount of payment support did not change during 2015-2018, while the amount of cash assistance to the persons receiving pensions and children increased from UAH 884 up to UAH 1,000 in 2018. For IDPs with disabilities, payment increased every year. For persons with disability (Group 1<sup>20</sup>) and children with disabilities social benefits doubled from UAH 949 in 2015 to UAH 1946 in 2018. Lower rates of social benefits increase were observed for IDPs with disabilities Group 2 and 3 (**Graph 10**).



Given the limited resources available to support and taking into account the special needs of some socially vulnerable categories of IDPs, such distribution and dynamics of payments may be justified.

## SOCIO-ECONOMIC SITUATION IN DONBAS

Socio-economic situation in Donbas<sup>21</sup> 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 GCA<sup>22</sup> oblasts decreased significantly during 2014-2017, when compared to 2013 baseline. As show in the **Graph 11**, industry started slow recovery in Ukraine in 2016 and continued gradually in the following years. On the contrary, Donetsk and Luhansk oblasts experienced a decrease in 2017. The main reason for that contraction could be drop in production in extractive industries, which primary

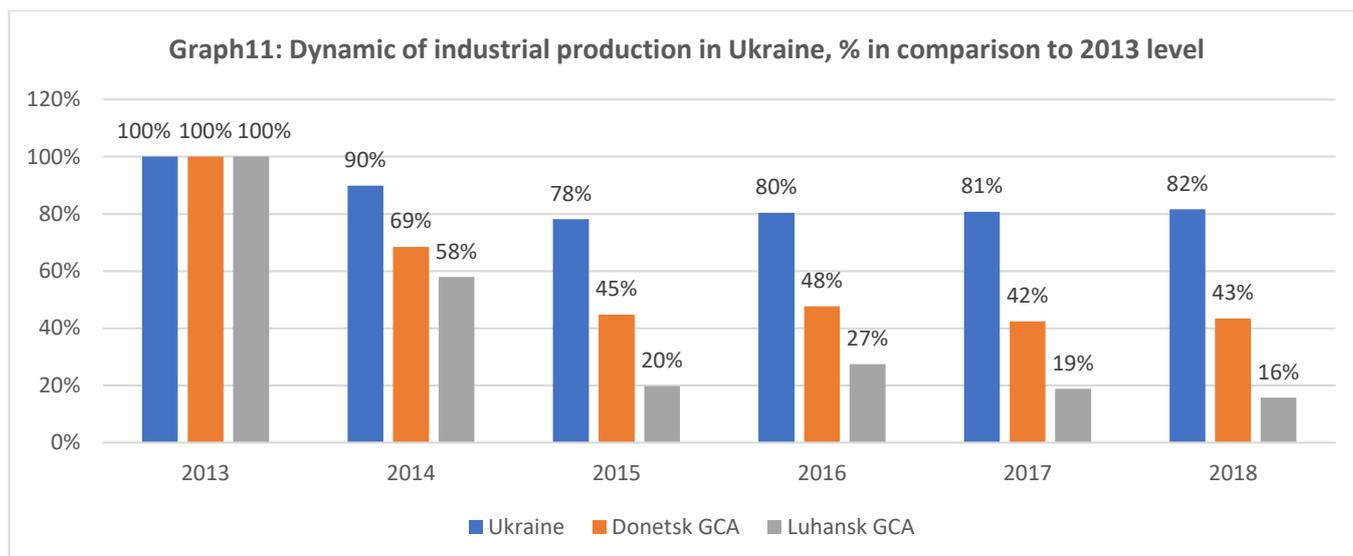
<sup>19</sup> Ministry of Social Policy of Ukraine report on Social protection of internally displaced persons

<sup>20</sup> Disability group is a degree of permanent or continuing disability. Group 1 includes people with inability to self-service

<sup>21</sup> In the report, Donbas means the Donetsk and Lugansk oblasts

<sup>22</sup> Government Controlled Area (GCA). Here and further all data for Donetsk and Luhansk oblasts reflects only GCA.

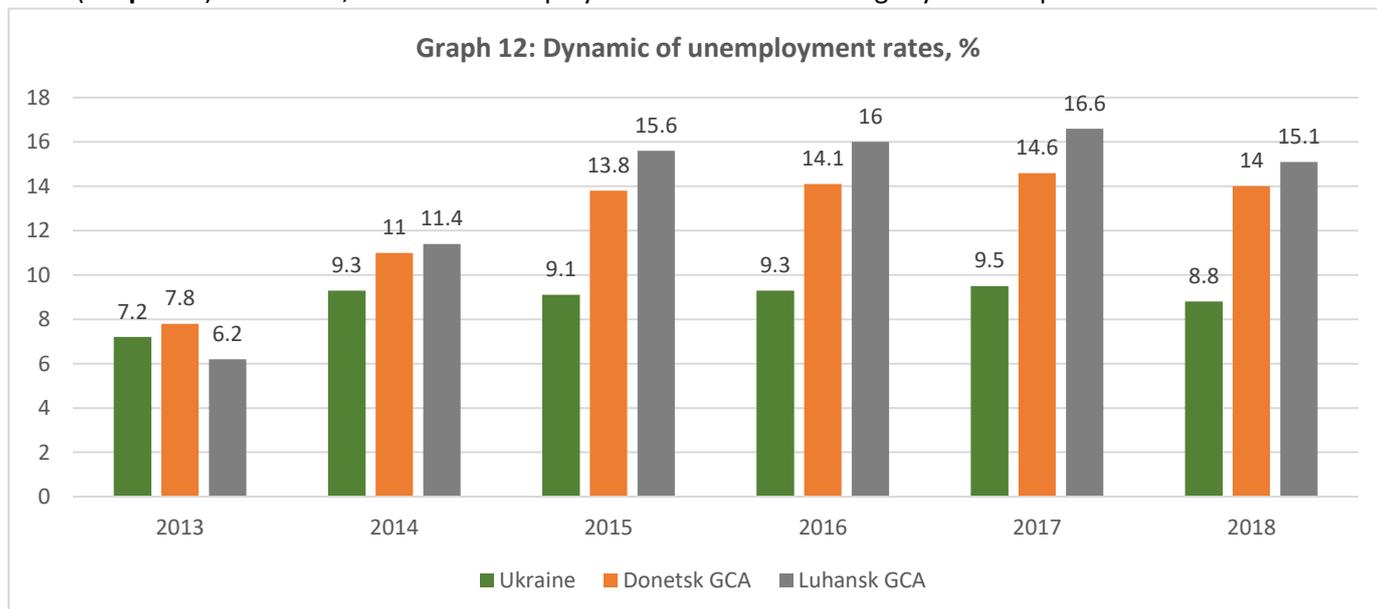
reflected impact of the disruption of production and logistics connections with non-governmental controlled areas of both oblasts at the beginning of 2017.



In 2018 industrial production rose in Donetsk oblast by 2.6 percent when compared to previous year, however it is equal only to 43 percent of 2013 baseline. In Luhansk oblast industrial production continued to drop with 17 percent rate year-on-year, reaching in 2018 approximately 16 percent of 2013 production level.

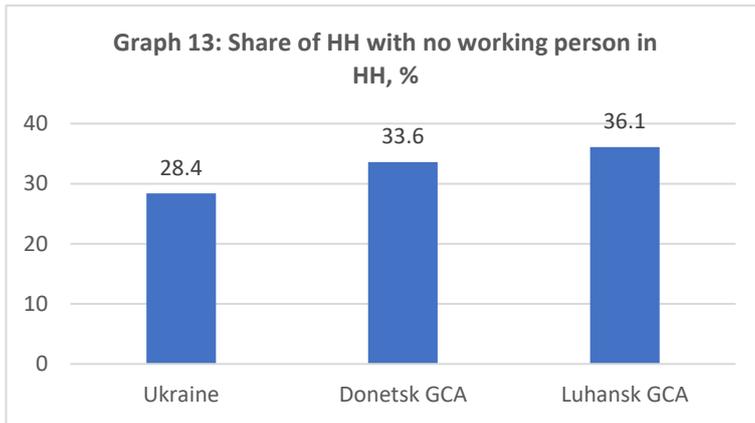
Despite a significant reduction in production, the share of Donetsk oblast in the structure sold industrial products in Ukraine for 2018 was amounted to 12.4 percent, while the share of Luhansk oblast was less than 1 percent.

Significant decrease in industrial production reduced employment opportunities in the region. Unemployment rate (ILO methodology<sup>23</sup>) increased in the country through 2013-2017 by 2-2.5 percent reaching 9.5 percent in 2017 (**Graph 12**). However, in 2018 unemployment rate reduced slightly to 8.8 percent. In Donetsk oblast



unemployment rate almost doubled between 2013 and 2017, while in Luhansk oblast it almost tripled (**Graph 12**). Unemployment rates in Donbas changed from close to the national average in 2013 to be the highest in the country in 2015-2018. After 2015, unemployment levels changed moderately in the country and in Donbas region. Slight improvement of the unemployment rates could be observed in Donetsk and Luhansk oblasts in 2018.

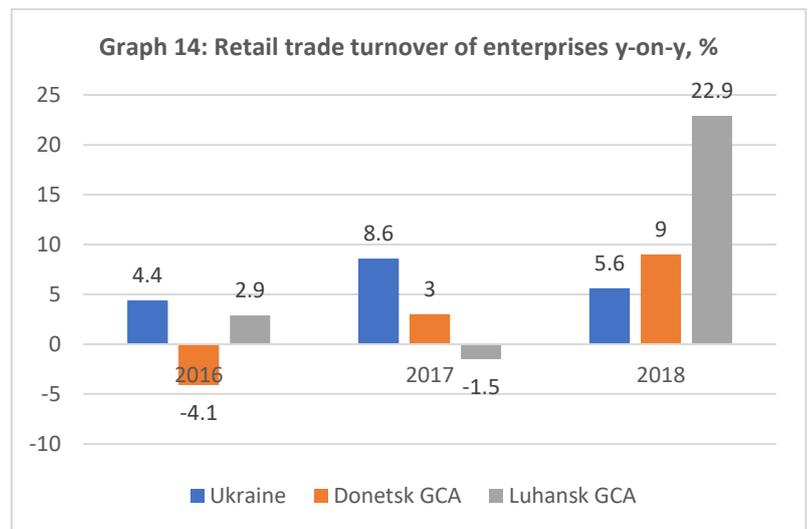
<sup>23</sup> ILO Unemployment Rate refers to the percentage of economically active people at the age of 15-70 years who are unemployed by ILO standard. Under the ILO approach, those who are considered as unemployed are either: 1. Out of work but are actively looking for a job or 2. Out of work and are waiting to start a new job in the next two weeks.



**Graph 13** presents the share of households with no working person in the household in 2017. Generally, in Ukraine 28.4 percent of households did not have any working person, while the share of those in Donetsk oblast was equal to 33.6 percent and Luhansk oblast to 36.1 percent. These findings indicate a higher proportion of households without breadwinner in the region. This situation could be explained by the high unemployment in the both oblasts, but also by the high proportion of elderly people living alone.

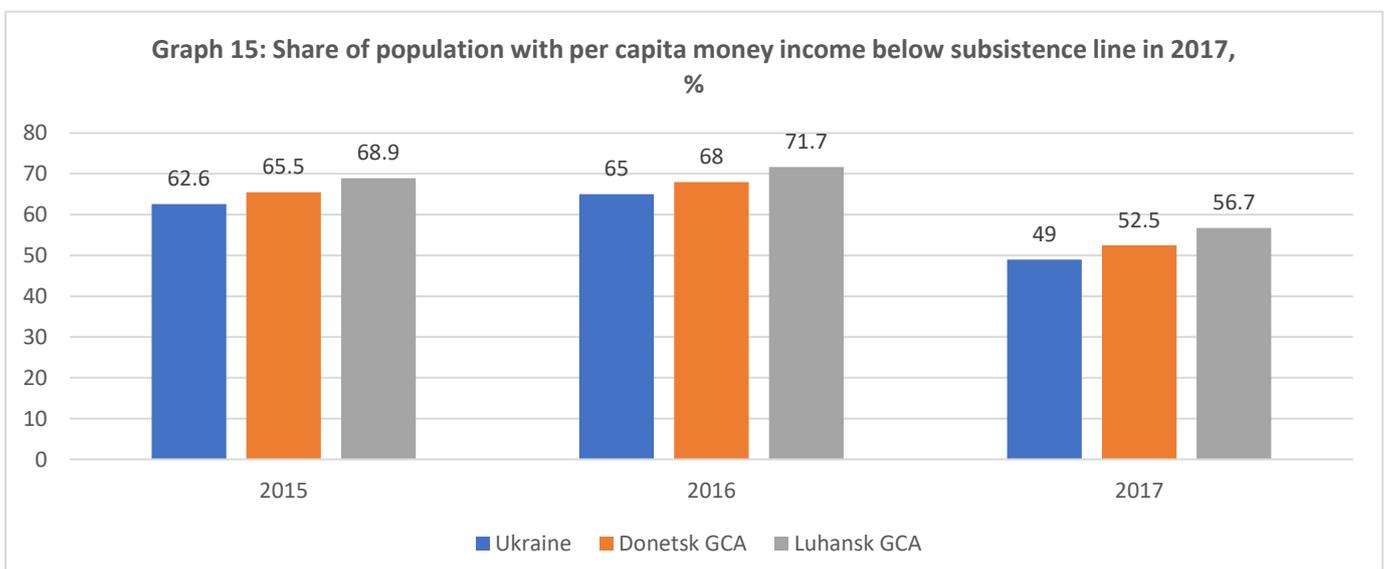
Negative dynamics in the retail sector of Donbas oblasts was observed during 2014-2015. Retail trade turnover of enterprises in Donetsk and Luhansk oblasts in 2016-2017 started to stabilize, while in the country it has recorded relatively strong growth (**Graph 14**).

Nevertheless, in 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, while increase of demand from non-governmental control areas should be analysed.



Recent economic developments in the country had an impact on the poverty rates. Share of population with per capita money income below subsistence line in 2017 in Ukraine was equal to 49 percent. It is 16 percentage points lower from its peak of 65 percent in 2016 (**Graph 15**).

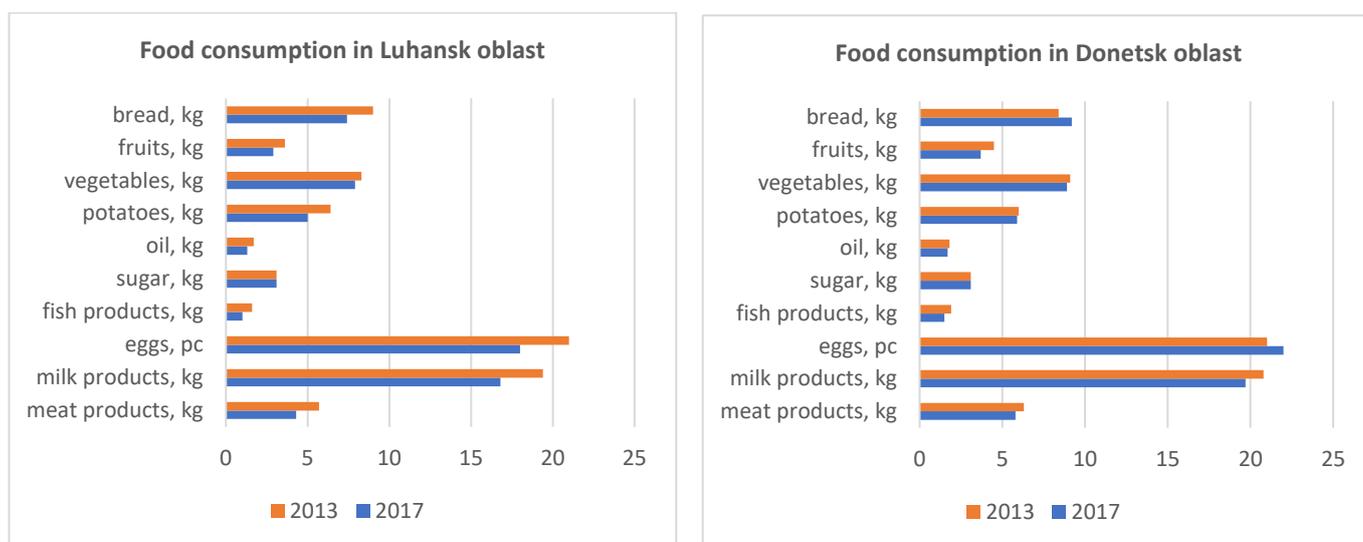
As shown in Graph, in 2016 situation slightly deteriorated, when compared to previous year, despite real income has already started to increase that year. While the data for 2018 is still not available, the expectations are very positive considering high rates of real salary change and increase of pension payments at the end of 2017. Share of population with per capita money income below subsistence line remained higher in Donetsk and Luhansk oblasts during 2015-2017, when compared to national average. In 2017, proportion of those



under subsistence line reached 52.5 percent in Donetsk oblast from 68 percent in 2016 and 56.7 percent in Luhansk oblast from 71.7 in 2016.

There is an improvement of major socio-economic indicators in the country including households' food consumption in 2017 when compared to 2015-2016. However, food consumption remains lower when compared to pre-crisis level. **Graph 16** presents food consumption per person per month in Luhansk and Donetsk oblast in 2017 when compared to pre-crisis 2013. Food consumption remained lower than pre-crisis level in both oblasts. In Donetsk oblast consumption of fruits, milk and meat products is significantly lower in 2017 over 2013, while consumption of bread and eggs has increased. Potatoes, oil and sugar consumption remained on almost the same level. Totally different situation is observed in Luhansk oblast where consumption of most of the food products has declined. The highest reduction of consumption has happened for eggs, milk and meat products, as well as potatoes and bread. The only product remained consumed on the same level was sugar.

**Graph 16: Food consumption dynamics in Donetsk and Luhansk oblasts in 2017 (per person per month)**



## FOOD BASKET ANALYSIS

**Graph 17** represents the dynamics of the costs of WFP monitored food basket<sup>24</sup> at national level and [Alert for Price Spikes analysis](#) (ALPS)<sup>25</sup>. 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 during 2018 reaching the highest historical level of UAH 1043 in December 2018, which is 13 percent higher year-on-year (**Graph 17**). Analysis of trend 2018 shows that after increasing in the first half of the year, food basket cost decreased during summer months. Between September-December 2018 food basket cost resumed slow growth. Generally, it is observed seasonal pattern of price decrease during summer during the last five years.

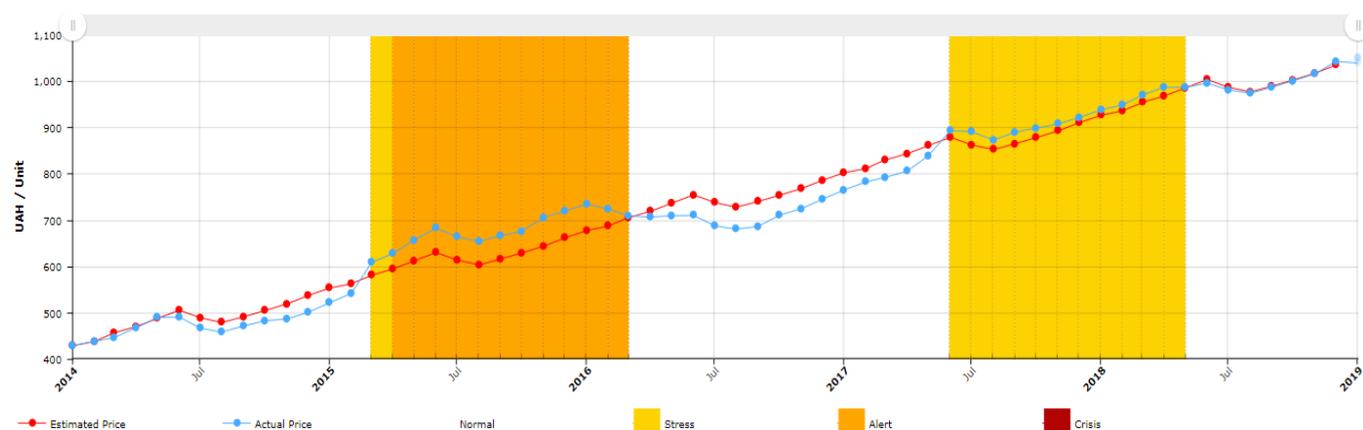
As shown in the **Graph 17**, according to ALPS indicators, in May-June 2017 blue line crossed red one, which indicated abnormal (not expected) level. ALPS generated stress (yellow color stripes) warning information during all previous

<sup>24</sup> WFP monitored Food Basket includes 23 main food commodities from the national food basket of Ukraine (which includes 45 items)

<sup>25</sup> 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.

months after May 2017 and up to May 2018. This deviation of actual value to expected came back to normal level in May 2018. During May-December 2018 actual value line was on the same levels as estimated.

**Graph 17: 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. Income levels increased significantly for the majority of the population, which brought increased demand on the food market. On the other hand, in 2018 was recorded lower production for some seasonal commodities, including cabbage, onion, beetroots.

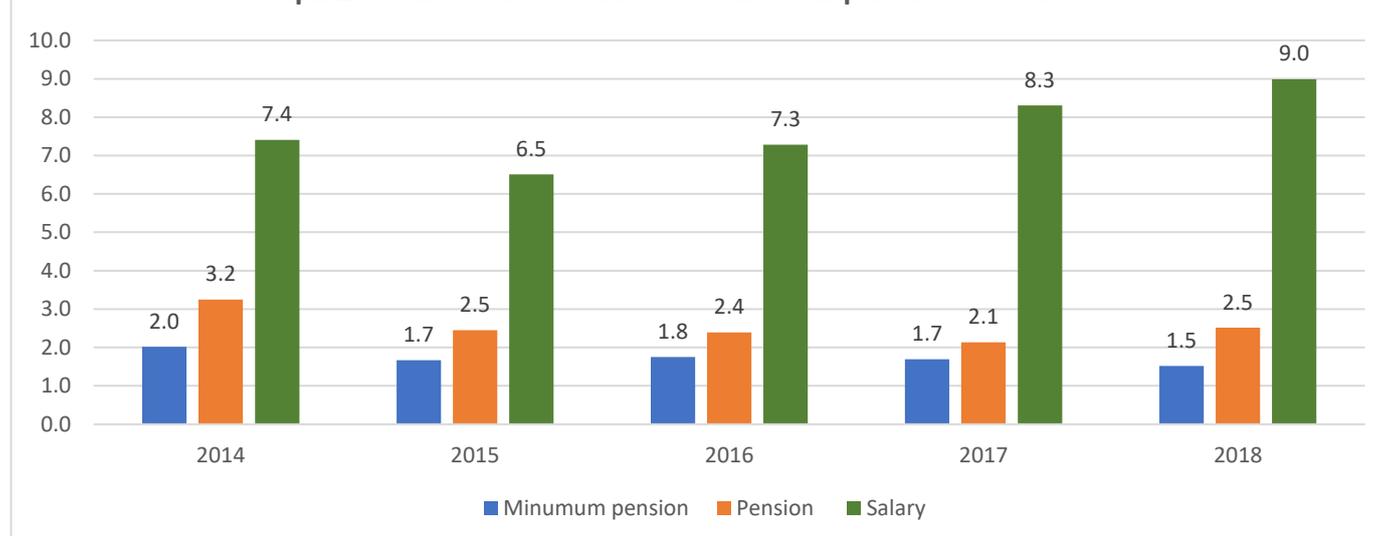
Generally, food markets in Ukraine are well integrated. At regional level, the highest prices are found in Kyiv city and Kyivska oblast. Food basket costs in Kyiv city in December 2018 was UAH 1,165 which is 11.7 percent higher when compared to national average. Main driver for prices in Kyiv city might be higher demand pushed by highest income levels in the country. For example, average salary in the city in December 2018 was 56.5 percent higher than average in the country. On the other hand, food basket cost was higher when compared to national average in Donetsk and Luhansk by 3 and 2 percent respectively.

For estimation of purchasing power of different income sources, Terms of trade (ToT)<sup>26</sup> was calculated comparing average salary and pension as a ratio to food basket value. As shown in the **Graph 18**, ToT decreased for average salary and pension in 2015 when compared to 2014. However, in 2016 ToT started to increase for salary income reaching 9 ratio level in 2018, while for average pension it continued to decrease during 2016-2017. A person with average salary in 2018 could buy 9 food baskets<sup>27</sup>, while a person with average pension can only buy 2.5 food baskets. ToT value in 2018 for average salary is the highest for researched period, while for average pension it is 22 percent lower when compared to 2014 value. Similar situation could be observed with minimum pension, where purchasing power fell down by 25 percent between 2014 and 2018.

<sup>26</sup> 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.

<sup>27</sup> Actual value is less, as salary value reported by SSSU includes income tax

**Graph 18: Term of trade for Food basket compared to income source**



\*Average salary for year was used; pension is reflected as of 1.01.2019

Comparison of January-February 2014<sup>28</sup> 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

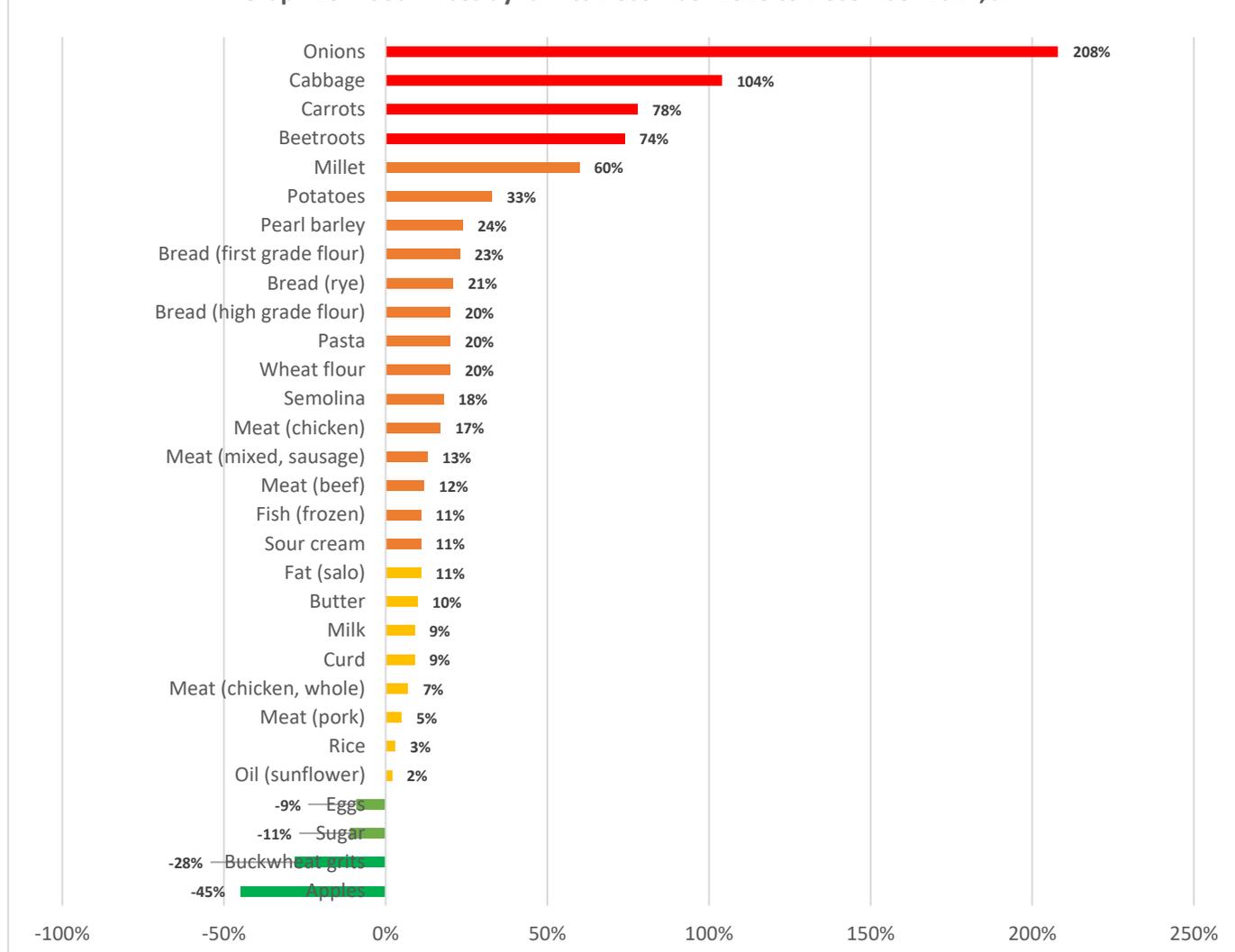
Food inflation indicated that food prices increased during the last 12 months, however trends of separate food commodity prices are very diverse **Graph 19 (next page)**. Generally, price trends are similar for food commodities in same food group. Meat products on average increased by 10-15 percent with highest rate of 17 percent for chicken fillet, while price for whole chicken increased by 7 percent. At the same time, beef and sausage prices went up by 12 and 13 percent respectively, while pork by 5 percent. Relatively smaller rates were recorded for dairy products, with 11 percent price spike for sour cream following 10 percent for butter and 9 percent for milk and curd. Falling production trend during last few years for several animal commodities reduced supply on the market and this could be one of the main reasons for price rising of dairy and meat products. The exception could be chicken production, where price is more dependent on export opportunities for local producers.

There are a few food commodities that observed large increase or decrease of prices. The group with the largest increase includes millet and some fresh products. Prices for vegetables had experience high increase in December 2018 over the same month 2017. Price for onion was 208 percent higher in December 2018 over the same month of 2017, while cabbage price increase was recorded at 104 percent. Prices for carrots and beetroots were higher by 78 and 74 percent respectively. Along with increased demand on the market in 2018, the reason for price increase for some vegetables could be lower production. Volume of production of onions in 2018 year-on-year reduced by 10 percent, cabbage by 4 percent and beetroot by 2 percent.

Prices for a number of staple commodities had experienced relatively high changes and are even higher than general food inflation rate. Price of wheat flour, bread and pasta increased by 20 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.

<sup>28</sup> January-February 2014 could be considered as pre-crisis period

**Graph 19: Food Prices dynamics December 2018 to December 2017, %**



Commodities with the largest decrease in prices include buckwheat and apples. The high harvest of apples in 2018 has contributed to a 45 percent of reduction of its price. Prices for buckwheat continued to decrease dramatically for the second year in a row reaching the lowest price since December 2014. In December 2018, price for buckwheat was 28 percent lower when compared to a year ago and 53 percent lower when compared to June 2016. Large price decrease happened also for sugar and eggs with 11 and 9 percent rates respectively.

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