



Ukraine market analysis for effective WFP interventions

Macroeconomic review, food availability and affordability – summary report

July 2022

Background and objective

In response to the humanitarian crisis unfolding in Ukraine, the WFP Ukraine Country Office's Research, Assessment and Monitoring (RAM) Unit and the Kyiv School of Economics (KSE) has started the Ukraine market analysis project. The unprecedented nature of the crisis caused by the war, combined with the unique context of Ukraine – a middle income country serving as one of the world's bread baskets, now facing devastating destruction – challenges traditional approaches to humanitarian response and requires WFP to seek out solutions that effectively build on existing government systems, private and public institutional capacities and market infrastructure. While supporting vulnerable people directly with cash support or food transfers, WFP simultaneously seeks out innovative solutions to support market functioning and underpin food supply chains to ensure a sustainable response beyond the immediate life-saving phase. This project aims to highlight economic issues facing Ukraine and provide analysis to inform effective and appropriate interventions and programme design. This report is the first output from the project.

The overall objective of this report is to provide an overall understanding of the macroeconomic situation in Ukraine with special emphasis on food affordability, availability and accessibility against the backdrop of the war. Specifically, the report analyses and summarises six topics:

1. Macroeconomic indicators
2. Overview of the land market and impact of households/legal entities on food production
3. Government initiatives to secure food affordability and availability
4. Food affordability index
5. Changes of food prices since the start of the war
6. Logistics issues

Data and methodology

To get all the necessary information in place, data from different sources were used:

- Official data from the State Statistics Service of Ukraine (SSSU), the National Bank of Ukraine (NBU), the Ministry of Agrarian Policy and Food of Ukraine (MAPF);
- «Unofficial» (closed) data from state institutions and their representatives (e.g. their media interviews);
- Data from private companies: Food retail chains, Ukrposhta (Ukrainian post), mobile network operators.

A mixed methodology to get all necessary indicators was used:

- Desk research of available external reports and analytics (e.g. GDP estimates, rate of unemployment)
- In-house analysis and calculations (e.g. price changes, food affordability index, cost of transportation)

Analysis of the situation on country and oblast level was performed for some indicators. For the purposes of the food price analysis, oblasts were grouped by impact of the war:

- Regions that were not directly affected by the war (western and central part of Ukraine)
- Regions that were occupied and then liberated (northern part of Ukraine)
- Regions in close proximity to hostilities
- Fully or partly occupied regions that are heavily affected by the war (eastern and southern part of Ukraine)

Below are presented the key takeaways for each section. Detailed information on each section is presented in Annex 1 to this document.

Key takeaways

1. Macroeconomic indicators.

The estimates of GDP's decline are worsening as the war protracts. Last estimate from IMF predicts 45% decrease for the 2022Y. At the same time, the National Bank of Ukraine (NBU) believes that after the shock of the first two months of the war, a slight recovery of economic activity began.

The number of job vacancies from May 2022 is gradually increasing, but still remains three times lower than the pre-war level. Rough estimates show 5 million of job losses in comparison to 2021Y.

From the 24th of February the government fixed the official exchange rate and provided a critical import items list. Combined with other currency restrictions, this helped keep the consumer food prices index at a 22% Y-to-Y level (see also section 5).

While the exchange rate remains a threat to future food prices hike, in the present moment prices are rising because of increased transportation and logistics costs (see also section 6).

Food products trade balances for 2021Y shows that Ukraine could produce mostly all critical food categories by itself. Only fish, pasta and early vegetables used to be imported.

2. Overview of land market and impact of households/legal entities on food production.

Households and small farmers are an important part of Ukrainian food market. While big agriculture companies are producing food for internal consumption as well as for export (wheat, corn, sunflower oil, rye, millet etc.), households and small farmers are producing potatoes, vegetables, fruits and berries mostly for their own consumption and internal sales.

Because the crop areas and processing facilities are evenly distributed across Ukraine, the impact of the war on food production was proportional to the area covered by the fighting. Ukraine lost approximately 25% of the arable area comparing to 2021Y. But due to shortage of fuel, fertilizers and crop protection products, the government expect that the harvest this year will be around 35-40% less than previous year.

Even such a decrease will not impact the overall food products trade balances. Ukraine will be able to produce enough food for itself in 2022Y unless other shocks arise. But the problem of the Black Sea ports blockade could influence export-oriented agriculture companies and farmers at the end of the year. If they cannot sell their crops, they will be out of funds and unable to carry out a sowing campaign for the 2023Y.

3. Government initiatives to secure food affordability and availability.

After the start of the war, the government was focused on food affordability (in terms of food prices), food availability (in terms of food logistics) and securing sowing campaign 2022.

As mentioned above, at the very beginning of the war the official exchange rate was fixed and import was limited. Only items from the 'critical import list' could be imported. Following that, a special taxation regime was implemented: some taxes have been reduced or eliminated. Control and monitoring of socially important products' prices were approved by law (see Annex 1 for the list of socially important products). This caused prices to rise moderately without panic in the market. These measures are not new for Ukraine. Previously, the government used similar tools to curb food prices increase during the pandemic of COVID-19.

Traditional supply chains faced a lot of problems since the war began: lack of fuel and rising prices, the sea ports blockade, lack of drivers, destruction or blocking of supermarkets and warehouses, long queues at the land border crossings. The government tried to solve these problems using informal initiatives. Several committees were established that constantly analyzed requests from food producers, importers, retail and logistics companies. Two web-portal were created:

- <https://prodsafety.org/> for management of humanitarian aid and search of freight carriers
- <https://dpss.creatio.com/> for matching food retailers and food producers (this was very helpful during March and April when familiar supply chains and food production were disrupted and halted).

A lot of government initiatives were aimed at securing the spring sowing campaign. Among the most important ones were: soft loans for farmers, reservation of conscripts, temporary suspension of legislative requirements and development of extensive storages. This made it possible to successfully complete the spring sowing campaign.

4. Food affordability index.

While an averaged food affordability index (FAI) has limited usability as it presents an average view, calculation of such an index for vulnerable populations can give a basic understanding of whether and how quickly the situation is worsening in terms of households affording foods.

Our calculations show that pensioners, who receive pension lower than the average level (approx. 4,000 UAH per month) do not have enough money to pay for food and non-food items. The situation is the same with the unemployed. These populations are forced to limit their consumption or rely on savings, help from relatives, neighbors, or from within their own households if feasible.

It is important to note that since the war began, hidden unemployment has appeared in the form of unpaid vacations, and partially paid idle time. This means that the officially registered number of unemployed will significantly underestimate the actual number of people without adequate employment.

5. Changes of food prices since the start of the war.

As mentioned above, the Ukrainian government undertook initiatives to control inflation and food prices during the first months of the war. The situation in March was very critical as the main warehouses of the national retail chains were located in the vicinity of Kyiv and, in a few weeks, were blocked or damaged due to hostilities. It took a few more weeks to connect freight carriers, food producers and national retail chains into new supply chains.

In one month, food prices increased by 12% on average. It worth to mention, that after shock of the first month, the situation in different oblasts of Ukraine developed in in different directions:

- Western and central regions of Ukraine quickly adapted (within a few weeks) to the situation and food prices there settled at levels below the national average.
- Regions that are in close proximity to hostilities (Odesa, Mykolaiv, Dnipro, Poltava) needed a little bit more time to adapt. Mykolaiv and Odesa, which were under direct threat of capturing, experienced substantially higher surges of food prices.
- Regions that were occupied and then liberated (Kyiv, Chernihiv, Sumy) experienced the biggest price spike in March. But after liberation, the situation stabilized in about one month and the subsequent price moves were consistent across other regions. Chernihiv and Sumy oblasts still experienced some problems due to infrastructure damages.
- Regions that were heavily affected by hostilities (Luhansk, Donetsk, Kharkiv, Kherson, Zaporizhia) show prices well above average. Data for Luhansk and Donetsk is no more available from official sources. In Kherson, prices went down thanks to the new harvest but still remain above average. Transportation costs to these areas are much higher compared to other regions of Ukraine.

In general, the fuel prices hike led to the food prices increase seen in May and lack of early vegetables led to the food prices increase experienced in June.

Our estimations show that two factors can influence further food prices increases (unless other shocks occur):

- reimposing of taxes that were otherwise lifted or reduced, and a return to a market-based exchange rate instead of the fixed rate.
- lifting the blockade of the Black Sea ports. It will significantly help Ukrainian economy, but at the same time negate the effect of overproduction that is currently leading to low prices for certain food items.

6. Logistics issues.

Maritime trade, which was the largest trade channel, and air trade, which was the fastest, are blocked from the very beginning of the war. Cross border land logistics are unable to compensate for the lack of maritime trade: different railway track size in Ukraine and EU makes railroad transportation difficult. Border crossing for trucks is a bottleneck. For example, on the Poland border, the queue is 25km long, although capacity is being extended.

Within Ukraine, logistics has become substantially more costly due to increase in fuel costs and longer routes as the result of damaged or closed roads and additional security checkpoints. Logistics to areas where heavy fighting takes place are either impossible or very complicated.

At the same time, there are no serious logistics issues for cities and towns that are not in close proximity to the hostilities. Our estimations show that transportation costs increased by two times between cities away from the fighting (comparing May and February 2022).