
Ukraine market analysis for effective WFP interventions

Summary technical report (food demand-and-supply balances and high-level macro analysis). August 2022

Background and objective

The war has pushed millions of people from their homes, creating the fastest-growing displacement crisis since the second world war. In response to the humanitarian crisis unfolding in Ukraine, the WFP Ukraine Country Office's Research, Assessment and Monitoring (RAM) Unit with help of Kyiv School of Economics (KSE) has started the Ukraine Market Monitoring and Analysis Project. This project aims to advise WFP's operation on economic issues facing Ukraine and provide analysis to inform effective and appropriate interventions and programme design.

In response to the humanitarian crisis unfolding in Ukraine, the WFP Ukraine Country Office's Research, Assessment and Monitoring (RAM) Unit with help of Kyiv School of Economics (KSE) has started the Ukraine Market Monitoring and 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 advise WFP's operation on 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 summarize main findings from the macroeconomic, supply chain and demand-and-supply balances analyses.

Key takeaways:

- The economic situation in Ukraine has worsened as the war protracted.
- After the shock of the first weeks of the war and the liberation of the northern regions, the supply chains normalized. Food can be delivered anywhere in the country where there is no fighting. At the same time, the closer the area is to the hostilities, the more expensive the transportation costs
- Ukraine could produce enough food to meet domestic demand. Moreover, a lot of food (potato, vegetables, fruits, poultry, pork) is produced by households.
- Despite of the economic shock the government successfully restrains prices on critical food items. At the same time projections shows that food CPI will hit 30% mark by the end of the 2022.
- Due to hostilities, shortage of fuel, fertilizers and crop protection products, the government expect that the harvest this year will be around 40% less than previous year.

- The sea ports blockade creates a huge risk for farmers and agriculture companies. If they cannot sell their crops, they will be out of funds and unable to carry out a sowing campaign for the 2023.
- Pensioners and the unemployed, especially those displaced and in close proximity to the hostilities, are forced to limit their consumption or rely on savings, help from relatives or neighbors. The situation is even more difficult for those who require medical treatment and do not have a household to grow food.

Detailed information could be found in separate reports on macroeconomic, price dynamics and food demand- and-supply balances analyses.

Overall macroeconomic situation

The National Bank of Ukraine (NBU) predicts a 35% decline in GDP in 2022. The official UAH/USD exchange rate was fixed at the very beginning of the war, but was dropped in July 2022 by 25%. The shadow market rate is 10% higher than official one. To avoid skyrocketing prices, the government abolished a number of taxes and introduced stricter price restrictions/controls on critical goods.

There were three price hikes in the period from February to August 2022:

- In March due to supply chain disruption and consumer shock
- In May due to rising fuel prices
- In the end of June due to the late spring and the shortage of early vegetables

In July and August prices on food items remain relatively low (except fish and other imported items), but the NBU predicts that the food CPI will grow by more than 30% by the end of the year.

Analyses of unemployment allowance and pensions reveal that the unemployed and 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 recommended items. The situation is even more difficult for those who require medical treatment and do not have a household to grow food.

Hence, inflation and unemployment are the major risk for food affordability from macroeconomic perspective.

Supply chains analysis

From the first days of the war 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.

National retail chains began to keep large stocks of storable food in their warehouses. The government has simplified food imports, but long waiting times at the border complicate and increase the cost of logistics.

Representatives of retail chains reports shifts in consumer behavior towards lower cost, longer life staples, particularly in areas affected by the war.

The inability to export food products by sea pushed domestic prices of these products down. This effect will persist until the issue of free export of products from seaports is resolved.

Disruption of supply chains and risks to safety were some of the key factors affecting households' safe access to food in areas close to the hostilities, in particular for foods not locally produced.

Food demand-and-supply analysis

Ukraine serves as one of the world's breadbaskets. It is the net exporter of the different food products, such as wheat, poultry, eggs, sunflower oil, corn, etc. The sea ports blockade leads to the situation when domestic supply of these products exceeds local demand with a large margin. This also keeps the prices of these products low inside Ukraine.

People in Ukraine are used to cultivate land and produce for their own household's consumption. A lot of food products are locally grown there. Examples of these products are potato, vegetables, fruits, poultry, etc. They are consumed in quantities substantially exceeding the government recommendations because of their affordability and availability.

The food demand-and-supply analysis revealed that we can identify three groups of products in the consumption pattern of Ukrainians:

- cheap affordable products (especially those grown in private households): potato, vegetables, locally grown fruits, wheat products, eggs, chicken etc. These products are consumed in quantities substantially exceeding the government recommendations.
- Affordable but not cheap domestically produced products: milk and dairy products, pork, cereals, sugar. These products are consumed in quantities that meet the government recommendations.
- Imported and expensive products: fish and fish products, imported fruits and vegetables. These products are consumed in smaller quantities than the government recommendations.

The government is taking multiple initiatives to remedy the situation, such as price controls or initiatives linking suppliers with retailers. However, people in vulnerable situations such as pensioners, unemployed, people with health needs or people living in proximity to ongoing hostilities are increasingly seeing their economic access to food under pressure as prices increase and damages affect functioning of markets in areas close to the frontline.