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SITUATION ANALYSIS OF THE ECONOMIC DEVELOPMENT IN THE LUHANSK REGION UNDER HOSTILITIES IN EASTERN UKRAINE

The article studies a situation, in the economics of the Luhansk region during hostilities in eastern Ukraine. The main industrial enterprises which operate in various industries have been identified and the sales volumes of industrial products have been analyzed. The reasons for the decrease in production and sales of industrial products in the region have been established. We have considered the problems of food production in the Luhansk region in the bakery, milling and cereals, oil and fat, meat, dairy, brewery and alcohol-free beverages, feedstuff, and confectionery industries. The issues of the region's investment activity and the main reasons for the decline in its investment activity have been identified. We have analyzed the situation in the retail trade and identified changes in consumer prices for goods (services) and the main reasons for their rise.

Keywords: industrial enterprise, development, potential, investment activity, situation analysis.

Because of the hostilities taking place in the East of Ukraine, it is of particular importance and urgency to analyze the potential of industrial enterprises in the Donbass. This urgency is also stipulated by the fact that the majority of industrial enterprises remained in the territory not controlled by Ukraine. In the territory under Ukrainian control, a small share of such industries as the coal industry, production of building materials, food and light industry remained, including 4 large enterprises, 78 medium-sized and 427 small ones (including micro-enterprises). The main enterprises are concentrated in the cities of Severodonetsk, Rubizhne, Lysychansk, Kreminna, which share in the total volume of sold industrial products in the region is almost 50.0%.

The Lysychansk Oil Refinery private joint-stock company "LYNIK" is the basic enterprise for the production of coke, products of oil refining, metallurgical and finished metal products. "LYNIK" has completely stopped its production activities in 2012. The company's products are uncompetitive due to the import of petroleum products from Bulgaria, Romania, and Belarus to Ukraine.¹ At the same time, the enterprise is ready to launch the production of polypropylene (technical equipment, machinery, pipelines, etc. were repaired). The launch of polypropylene production will take place after the establishment of sustainable energy supply in the region. Since March 2017, the production activities of the public joint-stock company "Alchevsk Iron & Steel Works" stopped owing to the temporary cessation of the movement of goods through the confrontation line, which made it impossible to obtain raw materials and sell finished products.²

¹ Заблудська, І.В., Попова, І.А., Rogozjan, Ю.С., Васильчук, Н.О., Перепелюкова, О.В. (2015). Інтеграція українського суспільства в контексті викликів та загроз подій на Донбасі. *Вісник Східноукраїнського національного університету імені Володимира Даля*, 6 (223), 42–85.

² Офіційний сайт Луганської обласної державної адміністрації (2018). *Інформаційно-аналітична довідка щодо основних тенденцій економічного розвитку регіону* <http://loga.gov.ua/oda/press/news/economy/informaciyno_analitchna_dovidka_shchodo_osnovnih_tendenciy_ekonomichnogo_3> (2018, вересень, 27).

Almost all production of chemicals and chemical products are concentrated on the territory under Ukrainian control. The main enterprises are: private joint-stock company "Severodonetsk Association "Azot", "Rubizhne Pipe Plant" LLC, Scientific and Production Association "Skloplastyk" LLC, Scientific and Production Enterprise "Zarya" LLC.

The share in the structure of industrial products realization in the region is 12.7%. The main enterprises of this branch, which operate on the territory under Ukrainian control, are: "Popasna car repair plant" ALC, private joint-stock company Severodonetsk Research and Production Association "Impulse", Scientific and Production Enterprise "Microtherm" LLC, "Severodonetsk plant of chemical non-standardized equipment" LLC.

The companies, which operate in the territory under Ukrainian control in the field of textile production, production of clothes, leather, leather goods and other materials, are: Manufacturing and Trading Firm "Sharm" LLC (Lysychansk), Sole Trader Smaliy (Rubizhne), "Rubizhne hosiery manufactory" LLC, "Starobilsk garment factory" LLC, and other small enterprises that have a small impact on production volumes. Their share in the structure of the realization of industrial production in the region is 0.4%.

The main enterprise in the field of wood products manufacturing, paper production and printing, which produces 90.0% of the volume of marketable products is the private joint-stock company "Rubizhne cardboard tare plant". Its share in the structure of realization of industrial production is 19,3%.

Only 4 mines of the "Lysychansk coal" and 4 mines of the State Enterprise "Pervomaisk coal" are working on the territory under the control of the Ukrainian authorities. Their share in the structure of the realization of industrial production in the region is 7.4%. The electric power industry of the region's economy is represented by power generating enterprises: Luhansk power station, "DTEK Skhidenergo" LLC, SE "Severodonetsk TEC", block stations of the Rubizhne cardboard tare plant, Scientific and Production Enterprise "Zarya" LLC, which produce electricity for their own needs; power supply enterprises: "Luhansk energy association" LLC and Luhansk branch of the State Enterprise "Regional electric networks". Enterprises of the industry carry out their activities in the framework of the Wholesale Electricity Market of Ukraine.¹

As far as Luhansk power station and "DTEK Skhidenergo" LLC are situated in a combat zone a significant number of electric power lines are damaged (there are 20 air lines on the balance sheet of an enterprise, of which 8 - 110 kW and 12 - 220 kW. 12 lines are in working order: 7 lines - 220 kW and 5 lines - 110 kW. Currently, one 220 kW line and five 110 kW lines are in operation. There are 6 power units at the station, 2 of which are in operation with the delivery of 280 MW per day.

In January-July 2018 Luhansk branch of the State Enterprise "Regional electric networks" supplied to enterprises of the coal industry of the region and other consumers 98.2 million kWh of electricity for the amount of 202.5 million UAH; 4.4 million UAH was paid, the payment level is 2.2% (for the same period in 2017 it was 2.7%).

The decrease in volumes of production and sales of industrial products was stipulated by the following reasons: lack of budget financing for coal mining enterprises; low price for coal products of state-owned coal mining enterprises; isolation of the region from the United Energy System of Ukraine; noncompetitiveness of products because of the excessively high price of gas used as raw materials; energy and logistics problems. Consequently, the decrease of the index of industrial production, and thus the industrial potential of the Luhansk region, has happened because of the lack of production activity and permanent orders for products by the leading enterprises of the region.

¹ Офіційний сайт Луганської обласної державної адміністрації (2018). *Інформаційно-аналітична довідка щодо основних тенденцій економічного розвитку регіону* <http://loga.gov.ua/oda/press/news/economy/informaciyno_analitchna_dovidka_shchodo_osnovnih_tendenciy_ekonomichnogo_3> (2018, вересень, 27).

The production of food products in the Luhansk region is represented by 35 enterprises of large and medium business and 83 small enterprises in 8 sub-industries: bakery, milling and cereals, oil and fat, meat, dairy, brewery and alcohol-free beverages, feedstuff, and confectionery industries. Almost all types of food are produced for the needs of the population of the region, except for sugar, alcohol, alcoholic beverages, canned food, fish, and baby food products. For the enterprises of the food industry partial load of production capacities is typical for the next branches: the dairy industry - about 30%, bakery - 50%, oil production - 35%.

In order to increase the competitiveness of products in the domestic and foreign markets, a system for food safety management and a system for quality management implementation were implemented in accordance with the requirements of international standards (ISSO 9000 and 22000) at 9 enterprises of the food and processing industry: 3 oil and fat enterprises, and 6 others. 5 enterprises of the food and processing industry of the region are at the stage of implementation and application of the HACCP principles, in particular: 2 enterprises in the dairy industry, 1 enterprise in the brewery industry, 1 enterprise in fish industry, 1 enterprise in meat processing industry¹

The dairy industry is represented by four enterprises: private joint-stock company "Bilovodsk butter factory", private company "Prodgruppsservis", public joint-stock company "Starobilsk dairy plant", "Markivskiyi cheese factory" LLC, which production capacity is 135 thousand tons per year. The assortment of manufactured products consists of more than 90 items. Growth in the production of dairy products can be explained by reduced exports of dairy raw materials outside the region.

The oil and fat industry of the region is represented by 5 leading enterprises ("Svativsk Oil" LLC, "Agro Capital Group Ltd.", "Slobozhanskyi Foodstuffs Plant" LLC, "Starobilsk Food Products Plant" LLC, "Troitske Oil Press Factory" LLC) and more than 20 mini-manufactories, whose production capacities allow processing 390 thousand tons of raw materials. The current marketing year is characterized by a reduction in sunflower oil production due to a decrease in the gross harvest of sunflower seeds in 2017 and, accordingly, its processing.

In January-July 2018 the leading enterprises of the flour-milling and cereal industry ("Aidarskyi Pekar" LLC and "Aidar Milam" LLC) produced 15500 tons of flour. It is produced by 12.9% less products than in January-July 2017, because of the lower population purchasing power and, consequently, a decrease in demand.

The baking industry is represented by 50 enterprises with an annual capacity of 65.8 thousand tons. The assortment of products includes more than 300 bakery and confectionery products. One of the factors reducing production is the opening of mini bakeries in supermarkets, which gradually increase their production; also, bakery products are baked by small enterprises that operate on a single tax and do not report to the statistical authorities on production volumes. In rural areas, much of the population bakes bread at home (up to 10.0%). About 30% of bread needs is imported from Donetsk and Kharkiv regions.

The wholesale purchase of grains and technical crops in the region is undertaken by "Nibulon" LLC, "Kernel Trade" LLC, "Cargill", "Serna", public joint-stock company "Agrarian Fund", and private joint-stock company "Agroton". There are 19 elevators in the region, which total capacity exceeds 753 thousand tons; 16 of them are 645,3 thousand tons. Load capacity of elevators is 62.0%. There are three transshipment points for grain and oil crops in the region: "Levada" point (Severodonetsk), with an overload capacity of 0.9 thousand tons per day; transshipment complex of "Nibulon" company (Svatove) with the capacity of 4 thousand tons per day; the point of "Krasnorichenske" LLC (Kreminskiyi district), with an overload capacity of 0,3 thousand tons per day.

¹ Офіційний сайт Луганської обласної державної адміністрації (2018). *Інформаційно-аналітична довідка щодо основних тенденцій економічного розвитку регіону* <http://loga.gov.ua/oda/press/news/economy/informaciyno_analitichna_dovidka_shchodo_osnovnih_tendenciy_ekonomichnogo_3> (2018, вересень, 27).

Because of the armed conflict in the territory of the region, the investment activity of foreign investors in all branches and spheres of economic activity has significantly decreased. This includes foreign investors from EU and CIS countries. Due to the complication of the technological and production process and the emergence of logistical problems, most enterprises engaged in attracting foreign investment substantially or completely reduced their activities in this direction. Mainly, an increase in the volume of foreign direct investment is explained by changes in the exchange rate of the hryvnia to the US dollar for the reporting period.

The development of the industrial potential of the region was negatively affected, first of all, by the anti-terrorist operation on the territory of the region from the beginning of 2014; as a result, the majority of industrial enterprises significantly or completely reduced production due to the complications of the technological and production process and the emergence of logistical problems¹.

In the territory controlled by the Ukrainian authorities, the industrial complex was actually deprived of industries as metallurgy, coke production, and petroleum refining products, machine building, and light industry. There is still a certain share of the enterprises of the coal industry, building materials industry, food and light industry, and almost all leading enterprises of the chemical industry, paper production and printing activities.²

Activation of the investment activity is one of the main conditions for the improvement and development of the regional economy, the driving force of its integration into the world economy through the renovation of fixed assets, the transfer of capital from one sphere to another, the transfer of technology, innovation and management experience.

The main reasons for the decline in investment activity are: the lack of a systemic approach to state and regional management of the investment sphere development, the reduce of the financial capacity of budgets of all levels; unfavorable investment climate (economic and financial instability, lack of capital markets development, weak development of the stock market, absence of a system which guarantees the investment protection); imperfect legislative framework, frequent changes, contradictions, incompleteness and ambiguity of the interpretation of current laws and regulations, the presence of a large number of departmental documents; absence of effective mechanisms of public-private partnership in investment; insufficient level of state support for investment activity; undeveloped investment instruments and investment market. The attraction of foreign investments into the region's economy is possible in case of stabilization of the economy and financial system, intensification of the European integration processes in Ukraine, support for sustainable social and economic development of the region and attractive business conditions.

In January-July 2018, retail commodity circulation (which included the retail commodity circulation of retail trade enterprises and data about estimated sales volumes on the markets and by individual-entrepreneurs) amounted UAH 4314.8 million, which in comparable prices makes 123.4% to January-July 2017. In January-July 2018, the commodity circulation of retail trade enterprises amounted UAH 2301.2 million, which in comparable prices makes 119.5% of January-July 2017. Consumer price index in the consumer market of Luhansk region in July 2018 was 103.5%, which is less than the national index by 0.1% (103.6% in Ukraine).

According to data released by the Main Department of Statistics in Luhansk region, in July 2018, prices for food and non-alcoholic beverages in the consumer market of the region declined by 1.2%. At the same time, food products fell in price by 1.3%, but prices for non-alcoholic

¹ Заблудська, І.В., Попова, І.А., Рогозян, Ю.С., Васильчук, Н.О., Перепелюкова, О.В. (2015). Інтеграція українського суспільства в контексті викликів та загроз подій на Донбасі. *Вісник Східноукраїнського національного університету імені Володимира Даля*, 6 (223), 42–85.

² Кулицький, С. (2015) Втрати економічного потенціалу Донбасу: оцінки та шляхи відновлення. *Україна: події, факти, коментарі*, 22, 39–60. <<http://nbuviap.gov.ua/images/ukraine/2015/ukr22.pdf>> (2018, вересень, 27).

beverages increased by 0.5%. The price of sugar increased the most (by 3.8%). The reason for the increased sugar prices is an increased demand in the preservation season.¹

During July 2018, bread and bakery products continued to go up (by 0.8%). The increase in the cost of bread was influenced by the rise of flour prices, which is its main ingredient, and takes about 40% in the structure of the cost of bread. The increase in export prices for grain is the main reason for the rise of flour prices; therefore, the price of pasta has also increased (by 1.6%). Meat and meat products became more expensive by 0.4%, fish and fish products - by 0.1%. At the same time, the vegetables have most fallen in price (by 11.6%). The harvesting of fruits and vegetables by local producers and the corresponding increase in revenues in the consumer markets of the region have helped to reduce the cost of these products. Milk became cheaper by 5.0%, chicken eggs by 4.3%, fruit by 4.2%, cheese and soft cheese (cottage cheese) by 0.7%, sunflower oil by 0.5%, butter by 0.1%. Prices for alcoholic beverages and tobacco products rose by 1.7%, including tobacco products - by 2.9%, alcoholic beverages by 0.1%.

Prices (tariffs) for housing, water, electricity, gas, and other fuels increased by 3.3% due to the rise in prices for maintenance of houses and adjoining territories by 71.2%. Services of restaurants and hotels increased in price by 0.6%. Prices in the field of communication have risen by 0.4%, mainly due to the rise of the Internet price by 1.4%. Rest and culture have risen in price by 0.4%. Household items, household appliances and the current maintenance of housing, education, various goods, and services have become more expensive by 0.1%. Prices for transport, in general, remained at the level of the previous month. At the same time, clothes and footwear fell by 1.3% (including footwear - by 2.7%, clothing - by 0.4%) and health care - by 0.3%.

According to the monitoring of the average consumer prices for goods (services) in July 2018, the average retail price for A-95 gasoline was 29.68 UAH per liter (average for Ukraine - 29.26 UAH per liter) and it has increased compared to December 2017 by 4.5% (in Ukraine - by 4.0%). In July 2018, diesel fuel cost 27.66 UAH per liter (in Ukraine - 27.08 UAH per liter) and compared with December 2017 it went up by 6.2% (in Ukraine - by 5.8%). The increase in fuel prices during this period is caused by the increase in oil prices and currency fluctuations (excise taxes on fuel are set in Euros).

The volume of services sold to consumers by service enterprises in the first quarter of 2018 amounted to UAH 815.2 million, which is 4.0% more than in the same period of 2017 (the first quarter of 2017 - UAH 783.6 million).

According to data released by the Main Department of Statistics in Luhansk region, the largest share in the volume of delivered services belonged to telecommunications (59.4%), warehousing and auxiliary transport activities (6.5%), services of truck transport and transportation of goods (5.2%), leasing and exploitation of own or leased real estate (3.4%), activities in the spheres of architecture and engineering, provision of technical consulting services (3.1%). The volume of services sold to the population amounted to 474.9 million UAH, which is 10.4% more than this indicator in 2017. The share of such services amounted to 58.3% of the total volume of sold services.²

The increase in the total volume of sold services at market prices in the first quarter of 2018 was affected by the increase in the cost of services, the growth of the minimum wage and the prices for resources (materials) and utilities.

The main reasons for the rise in prices of goods are: reduction of supply of certain types of goods due to adverse weather conditions in the first half of the year; the unstable situation

¹ Офіційний сайт Державної служби статистики України (2018). *Регіональна статистика* <<http://www.ukrstat.gov.ua>> (2018, вересень, 26).

² Офіційний сайт Луганської обласної державної адміністрації (2018). *Інформаційно-аналітична довідка щодо основних тенденцій економічного розвитку регіону* <http://loga.gov.ua/oda/press/news/economy/informaciyno_analitichna_dovidka_shchodo_osnovnih_tendenciy_ekonomichnogo_3> (2018, вересень, 27).

in animal husbandry, the growth of world prices and external demand for domestic foods (in particular, meat and dairy groups); the reduce of local production of meat in the domestic market and increase in the volume of export of the product; the rise of prices for fuels and lubricants with a corresponding increase in logistics costs; currency fluctuations of the hryvnia exchange rate, which lead to a change in the price of imported products.

In order to attract additional food resources to the consumer market of the region, its more full and varied repletion and satisfaction of consumers' needs with agricultural food and products of its processing, fairs with the participation of direct local producers are held. Thus, from the beginning of this year, 525 food fairs were held in the districts and cities of the region, in which 1.9 thousand tons of local agricultural products were sold to the amount of 43.8 million UAH.

Thus, undertaken situation analysis of the development of the Luhansk region's economics during hostilities in eastern Ukraine suggests the existence of an ambiguous economic situation, which is observed in general in the East of Ukraine, demonstrates the presence of both positive and negative trends in the development of the economy. These processes are certainly influenced by hostilities, as well as other exogenous and endogenous factors.

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