

# NEWSLETTER

## UKRAINE

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### Further liberalisation of the farmland sales market in Ukraine

Ukraine continues undertaking major reforms even during wartime. The 01 January 2024 marked the start of the second phase of its two-phased design of the farmland sales market opening: Legal entities received a right to purchase farmland that was under the moratorium since 2001. Moreover, a cap on farmland accumulation per one beneficiary increased from 100 ha to 10,000 ha. The first phase started in July 2021 in a very limited format and then since 2022 under the hardships and insecurity of wartime. Nevertheless, the first assessments of the reform are quite optimistic and further liberalisation is expected to leverage Ukraine's agricultural resilience and recovery efforts.

#### Ukraine's comprehensive land reform in a nutshell

Almost 71% of Ukraine's territory (or 42.7 m ha, including the occupied territories) is agricultural land. 33 m ha is arable land, far exceeding 18 m ha in France, 12 m ha in Germany, and 11 m ha in Poland. Ukraine also has one third of the world's endowment of the most fertile black soils. Coupled with other important factors, Ukraine turned into an increasingly important global supplier of staple foods and an essential player in sustainably feeding a growing global population ([von Cramon-Taubadel and Nivievskiy, 2023](#)). A full-fledged farmland market in Ukraine, however, is yet emerging to facilitate further agricultural productivity growth. For more than three decades its rental farmland market has been the main channel of farmland transactions for agricultural producers and landowners. The market for sales and purchases has started off only in July 2021, and it was due to the ban (moratorium) on farmland sales that has been in place since 2001 ([KSE, 2021](#)). Since July 2021 in a very limited format, individuals could purchase farmland plots with a 100 ha ownership cap per individual, minimum price at normative monetary landvalue, preemptive purchase right for a tenant, foreigners and legal entities excluded, while state and communal farmland remained under the sales ban. The opening of the farmland sales market, however, was accompanied by an unprecedented and comprehensive land reform laws package developed and adopted from 2019-2021 to support an efficient and transparent farmland market functioning. This legislation package was aimed at preventing land raiding, decentralising land management and passing it over from the central state to local communities, introducing electronic land auctions and establishing tools for comprehensive land planning and use, creating the national infrastructure of

geospatial data, establishing institutions for supporting small farmers and empowering their capacity to compete for land (e.g. launching of the State Agrarian Registry and the Partial Credit Guarantees Fund in Agriculture; [KSE, 2021](#)).

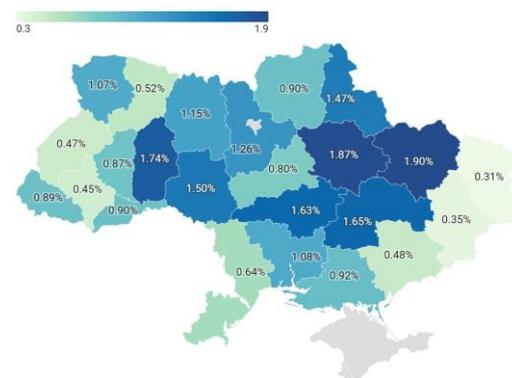
Almost 2 out of 2.5 years of the first phase were under the major shock of the Russian full-scale invasion, whereby almost 20% of Ukraine's farmland was occupied, almost a third of agricultural sector was ruined and agricultural producers suffered economic losses the second year in a row (Nivievskiy and Neyter, 2024: forthcoming in *Länderanalysen Ukraine*). So, a very limited first-phase format of the market on top of the war challenges effectively limited the overall expected benefits for the market.

#### The first phase of the farmland sales is encouraging

A total of 195,929 sales transactions were concluded between July 2021 and the end of 2023 with a total area of 432,200 ha. This means that 1.05% of all farmlands in Ukraine, or about 1.25% of Ukraine's controlled farmland were traded.

Regionally the outcome is quite diverse. This is an encouraging outcome that is quite close to the developed countries benchmark, where on average roughly 1% of the total agricultural land area is transacted annually, and in some periods this could go up to 5% on new markets ([Nivievskiy et al., 2016](#)).

Share of transacted area in total oblast area



Source: KSE Agrocenter demonstration and estimation based on the State GeoCadastral Data

At the same time, the war puts a sizable drag on farmland sales market development and its volume almost by a half. One might roughly extrapolate that a total of about 120,000 farmland sales transactions of a total area of ca. 355,000 ha did not materialise, thus making up UAH 12.4 bn (USD 325 m or 0.2% of Ukraine's GDP) of the war-induced losses. Another important outcome is that the transacted farmland remains in agricultural production.

### Cumulative market transactions and the effect of the war



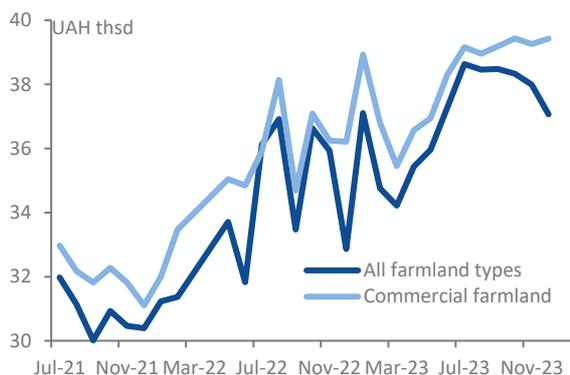
Source: KSE Agrocenter demonstration and estimation based on the State GeoCadaster Data

Farmland prices development is positive, especially with respect to the commercial farmland, i.e. the one that was under the moratorium and that is heavily used in commercial agriculture. There are indicators, however, that the normative land value (minimum price) restriction drives down the price registrations, and the real market price is much higher on average than the officially registered one. For 53.4% of transactions in 4Q2023, the registered farmland prices did not exceed the minimum price by more than 2%. At the same time, the estimated ratio of rental auction prices for communal farmland to the registered sales price was 1:5, suggesting that the actual market prices are at least twice as high as the registered ones.

### The second phase expectations and outlook

The expected economic benefits from opening the farmland market for legal entities lies in the range of 1-2.7% of GDP annually over the next three years ([Nivievskiy and Deininger, 2019](#)).

### Average farmland prices



Source: own estimate based on the State GeoCadaster Data

The result will depend on many factors, including the availability of financing and financial support for small farmers. Rural financing is of a particular interest using land as an additional asset/collateral for attracting loans and investments. That becomes especially important in

the current wartime period causing substantial collateral damage and dire financial conditions of agricultural producers. Currently, only a meagre share of agricultural loans is secured by farmland, which is way far below available benchmarks in the world, but its potential is not to underestimate. Under current registered farmland prices, the total farmland market capitalisation is equivalent to roughly USD 35.5 bn. This can potentially be converted into additional USD 12.4 bn of loans (under the current low liquidity risk ratio of 0.35), which is already way more than the current agricultural debt to banks of about USD 3.5 bn. Further liberalisation of the farmland market, beefing up market liquidity and accumulating necessary market statistics by the National Bank of Ukraine to increase the liquidity risk ratio of the farmland as a collateral, is expected to increase using farmland for financing as collateral and increase farmland market capitalisation that could be converted into more financing available for agricultural producers and landowners. It is capable to close the current agricultural financing gap of more than USD 20 bn for agricultural rebuilding, recovery and development ([Nivievskiy, 2023](#)). Further big pushes for liberalisation of Ukraine's farmland sales market should be expected on its way towards EU membership by complying with Chapter 4 'Free movement of capital' of the [EU acquis](#). In particular, this is related to the right of foreigners (EU citizens and legal entities) to buy Ukraine's farmland.

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Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus\*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

\*Advisory activities in Belarus are currently suspended.

### Editors

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