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Opening up of the land market in Ukraine

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On July 1, the law of March 31, 2020 came into force, introducing for the first time in the history of independent Ukraine the possibility for owners of agricultural land to sell it. Until the end of 2023, only natural persons will be able to acquire land, with no more than 100 ha each, while from January 1, 2024, legal entities registered in the country will also be granted this right, and the concentration limit will be raised to 10,000 ha. Foreigners and companies in which they are shareholders will not be allowed to buy land unless it is approved by a nationwide referendum. The market will include 27 million ha of land owned by the public. The sale of state and municipal land will remain prohibited.

Commentary

- Over the past year and a half, the parliament has passed a number of acts required for the opening up of the market, despite objections voiced by the opposition, primarily by Yulia Tymoshenko's populist Batkivshchyna and the pro-Russian Opposition Platform – For Life, whose deputies tried to block the legislative process by filing several thousand amendments to the proposed drafts. As a result, the Verkhovna Rada adopted two documents crucial for the functioning of the market only recently. The first of those was in April and concerned amendments to the Land Code and in the latter was in May and concerned the law on auctions, which allows the conclusion of transactions through an electronic platform which will be launched on July 5). The land registration system (agricultural cadastre) has been undergoing the process of digitalisation for a year—it remains an open question how efficiently it will work. Nevertheless, the two-and-a-half-year transitional period before all the provisions of the document come into force gives the opportunity for possible corrections in laws and executive acts.

- Delays in legislation alongside uncertainty regarding the actual market behaviour will probably result in a low number of transactions in the first months. Moreover, experts have estimated that only 5-7% of land owners are ready to sell their land, which is mainly due to the low starting price of the land. Although it is not known how much a hectare of land will finally cost – this will become clear only after the auction – according to the law, its value cannot be less than the normative price, imposed top-down, which is set at around $1,000, depending on the region. According to forecasts, the average price will initially be $2,000-2,5000 and will gradually increase over the next few years (for comparison, the average price of a hectare of agricultural land in Poland is nearly $13,000). It seems that only the entry of legal entities to the market in 2024 will cause a significant increase in land value.

- The opening up of the land market is opposed by the vast majority of society. According to a survey published on June 2, 2021, 62% of respondents did not support free trade in agricultural land. Tymoshenko tried to take advantage of this mood by announcing that a referendum would be held to stop the reform in its tracks, but her initiative was rejected by the Central Election Commission on June 11. It seems that the land market issue will only lead to protests if gross violations in this area begin to transpire on a large scale in the coming months.
- In the long run, the introduction of a land market should yield positive changes for Ukraine's agricultural sector, which in recent years has become one of the most important branches of the economy and the main driver of exports ($22.2 billion in 2020, accounting for 45% of the total). According to various assessments, the full liberalisation of the market from 2024 could contribute to 1.5-3% of GDP growth. The ability to buy land should also lead to increased investment in more resource-intensive industries, such as horticulture and processing. In addition, land will be able to be used as collateral for loans, which in turn will make access to finance easier for small and medium-sized farms.