

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** Despite Significant Ag Production Ukraine Ag Industry Struggled in 2022

**Country:** Ukraine

**Post:** Kyiv

**Report Category:** Agricultural Situation

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**Report Highlights:**

By early April 2023, many Ukrainian official agencies and private companies published their end-of-the-year results. This report provided valuable insight into wartime macroeconomic and agricultural developments. Although a worst-case scenario was avoided, the Ukrainian economy suffered significant damage. Although agricultural production in Ukraine remained significant, many producers declared substantial losses and are struggling to stay afloat. Total agricultural industry loss in 2022 reached billions of dollars, undermining the industry's resilience in 2023.

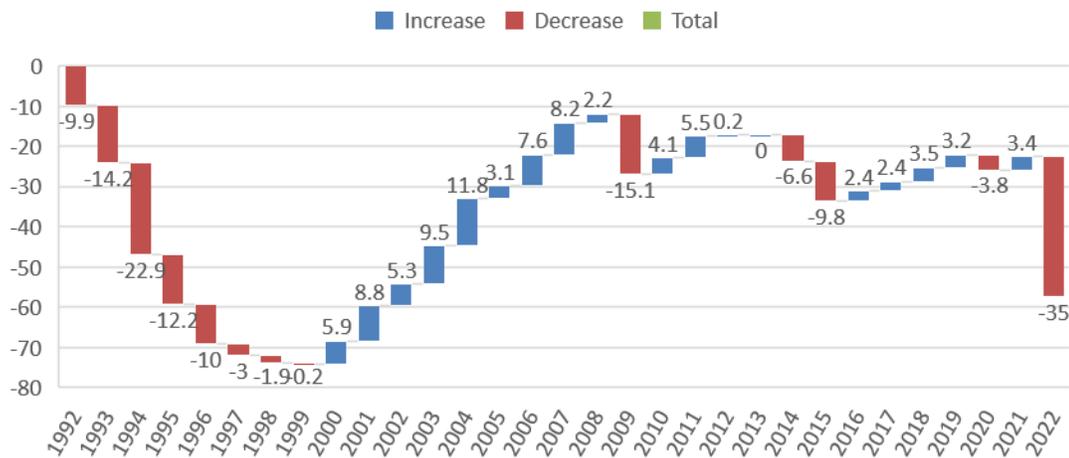
## Macroeconomic Developments

Although the Ukrainian government stopped statistical information publications following Russia’s full-scale invasion in February of 2022, a large number of official indicators remain available. They allow for some understanding of the main general economic trends as well as agricultural economic trends.

The real GDP data was published in late March, showing the deep dive that the Ukrainian economy took. The IMF preliminary 2023 data indicate almost a 35 percent GDP drop, while the Ukrainian government’s official data is a bit better at a 29.2 percent drop. Such a tremendous decrease throws the Ukrainian economy back to the situation in the early 2000s. Multiple negative economic trends complementing and amplifying one another resulted in such a drastic drop.

With Russia’s invasion, Ukraine has lost almost 20 percent of its territory, including a reduction in population and businesses. A significant share of the population immigrated from Ukraine to Europe and other countries. Many critical specialists were conscripted into the army. Inflation skyrocketed, undermining in-country consumption. The Ukrainian currency plummeted, causing a financial stall and credit slowdown. Lost access to Black Sea ports resulted in a logistical collapse, especially for bulk products and commodities. Eventual terms of trade deterioration resulted in major macroeconomic disbalances as foreign currency inflow decrease.

**Figure 1. Ukraine's Real Gross Domestic Product Change**



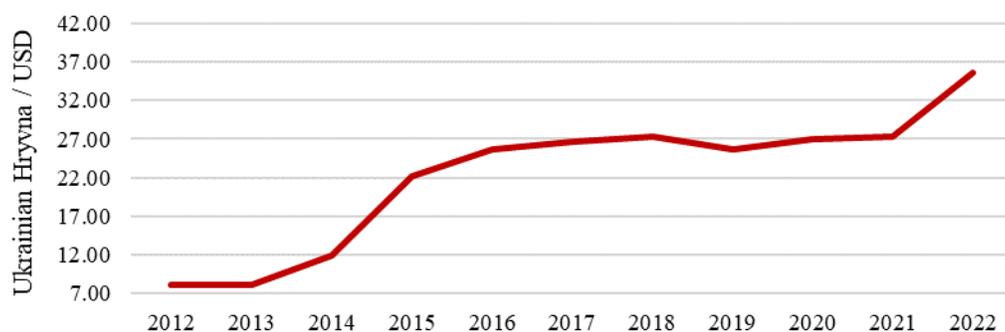
*Source: International Monetary Fund*

As the graph indicates, a massive post-soviet collapse in the 1990s and uneven reform pace combined with the world economic turbulences makes Ukraine’s economy one of the few that was not able to reach pre-collapse Soviet-time GDP indicators. Certainly, GDP composition changed greatly, and overall population well-being improved. The population was able to cushion the war crisis and maintained some consumption level using savings; IMF expects the economy to drop by a whopping 35

percent. In 2023 most economic and financial institutions forecast a modest 2-3 percent GDP growth despite ongoing war and population outflow.

The widespread economic crisis resulted in an abrupt currency devaluation and depletion of foreign currency reserves. However, a constant inflow of foreign currency from foreign donors and institutions preserved the Ukrainian currency market from panic and consequent collapse. Although sharp, war-related currency drop is not totally unknown to the Ukrainian economy. Similar shocks were experienced and adsorbed during the 2008 world financial crisis and during early Russian aggression in 2014. In fact, the country uses a bi-currency system where the U.S. dollar is used as a means of savings and trade when local currency stability is shaken.

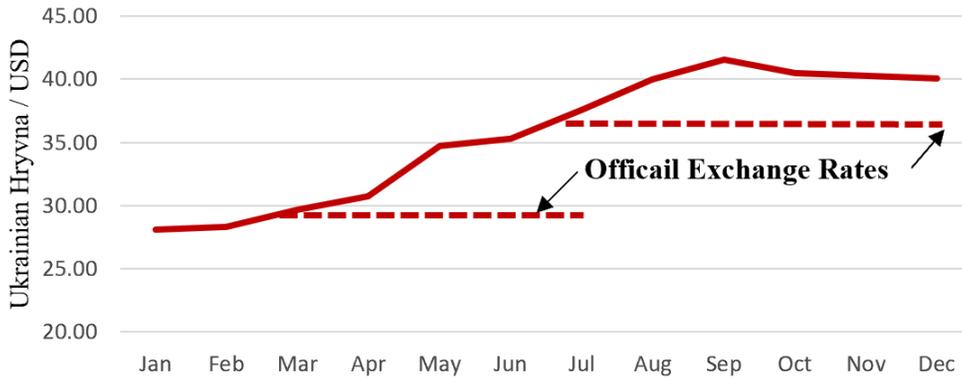
**Figure 2. Long-Term Currency Exchange Rate**



*Source: National Bank of Ukraine*

To avoid currency market panic, the National Bank of Ukraine had to establish a fixed exchange rate which was compulsory for all economic agents. Although non-market, this regulatory tool was necessary and positively impacted the macroeconomic situation in 2022. At the time of their introduction in February and July, the fixed rates matched the market rates. The initial fixed rate was introduced on February 24, 2022 and resulted in increased foreign currency reserves depletion due to a big difference with the market rate. In July 2022, the fixed rate was increased from 29.3 to 36.6 UAH/USD to reflect the market rate better.

**Figure 3. The 2022 Currency Exchange Rate and National Bank Fixed Rates**

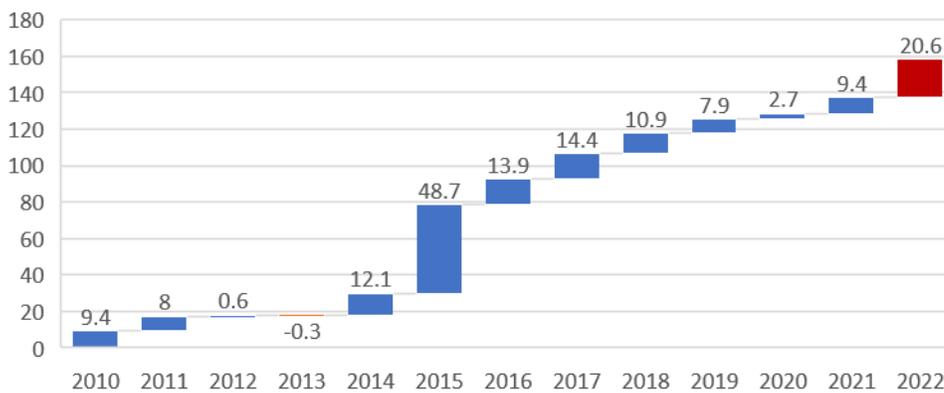


Source: National Bank of Ukraine

However, through the entire war period, the commercial exchange rate exceeded the fixed rates, thus imposing an indirect export tax of up to 12 percent (the highest discrepancy was recorded in September 2022) for all export, including agricultural ones. Simultaneously, the rate provided implicit import subsidies. All imported agricultural inputs, including fertilizers, veterinary drugs, and agricultural machinery, got subsidized. In early 2023, these market imbalances were reduced due to the market exchange rate drop, but they are still in place.

Being a relatively open economy, Ukraine was able to keep its prices under control. The Consumer Price Index (CPI) increased by over 20 percent, depressing consumption of some food products. The Ukrainian currency drop served an important role in the CPI increase.

**Figure 4. Consumer Price Index (Average for a Period)**

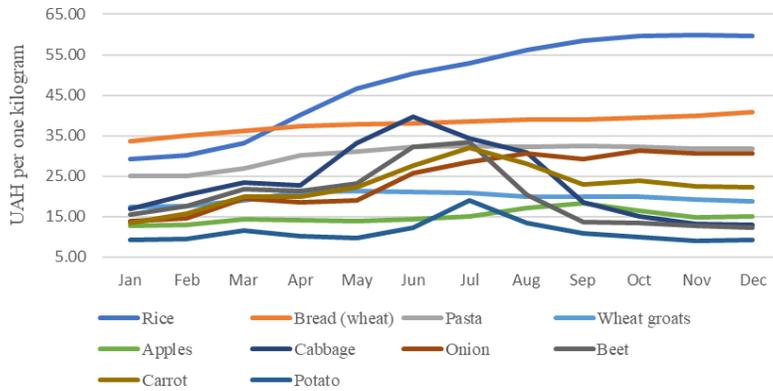


Source: State Statistics Service of Ukraine

Despite a significant overall CPI increase, food inflation remained high, predominately in the imported food products group (such as rice or fish) or products where the share of imported products or ingredients remained high (such as pork or sausages). The open nature of the Ukrainian economy

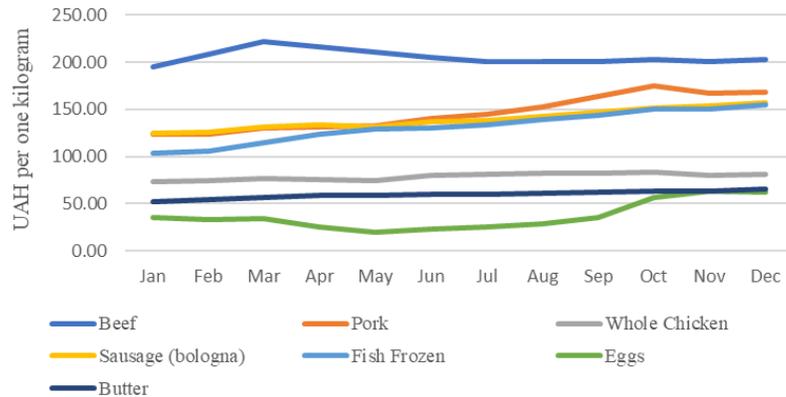
allowed for price arbitrage, and the exchange rate influence on prices was profound. The prices of domestically produced products, especially those with limited international trade, exhibited a modest increase, if any. Technically, almost all Ukrainian currency (UAH) denominated prices exhibited some growth in 2022. However, less affluent consumers could have adjusted their consumption patterns to maintain healthy food consumption levels.

**Figure 5. Selected Staple Plant Food Prices in 2022**



Source: State Statistics Service of Ukraine

**Figure 6. Selected Animal Protein Prices in 2022**



Source: State Statistics Service of Ukraine

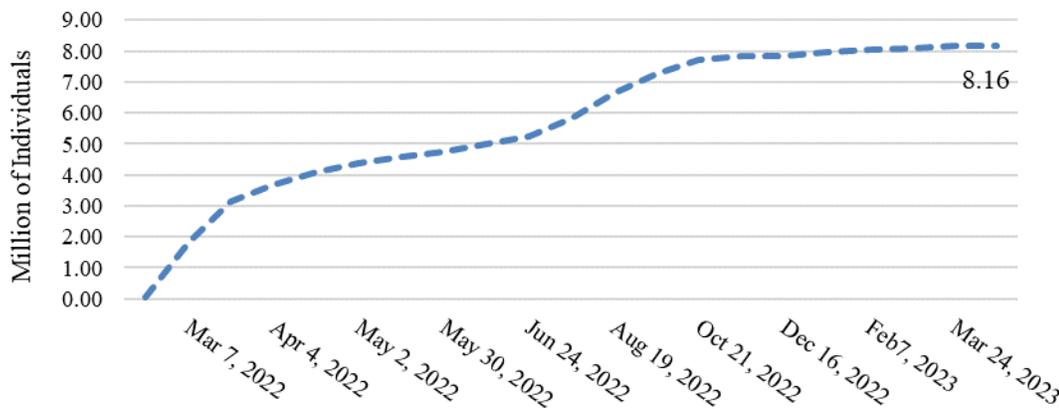
Although the momentum of Ukrainian agricultural production somewhat offsets food inflation in 2022, the inflationary potential for 2023 remains high. The agricultural industry will inevitably catch up, facing higher input costs and growth in non-agricultural product prices. FAS Kyiv estimates 17-18 percent CPI growth in 2023, with food inflation even higher than in 2022.

## Refuge Crisis

Ukraine’s pre-war statistics declared a population of 41.13 million. According to United Nations Refugee Agency (UNHCR), the country lost 20 percent of its population due to refugee migration to Europe. An unidentified number of Ukrainian citizens moved or were forcibly relocated to Russia. The UN authorities believe that their number exceeded 2.8 million as of April 2023. Accurate estimates of Ukrainian refugee numbers in Russia are complicated as Russia does not report on refugee returns and transit to other countries. Some Ukrainian refugees in Russia also have passports of self-proclaimed Donetsk and Lugansk People’s Republics, and some even have Russian passports. If verified, this increases the estimated population drop to almost a quarter of the pre-war population.

As territorial advances by the Russian army stopped, the population decreases somewhat leveled in late 2022 – early 2023. This way, the impact on 2023 economic indicators is not expected to be significant.

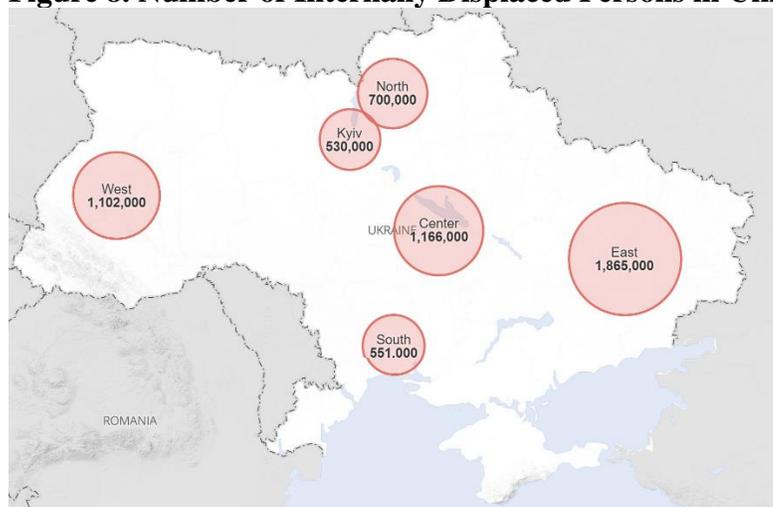
**Figure 7. Number of Refugees from Ukraine Recorded Across Europe**



Source: UN Refugee Agency (<https://data.unhcr.org/>)

Many Ukrainians lost their homes in northern, eastern, and southern Ukraine. The number of internally displaced persons has reached 5.9 million as of the end of January 2023, but this number is also leveling. Most relocated people lost their jobs, their incomes dropped, and their consumption level decreased as a result.

**Figure 8. Number of Internally Displaced Persons in Ukraine as of January 2023**



Source: UN Refugee Agency (<https://data.unhcr.org/>)

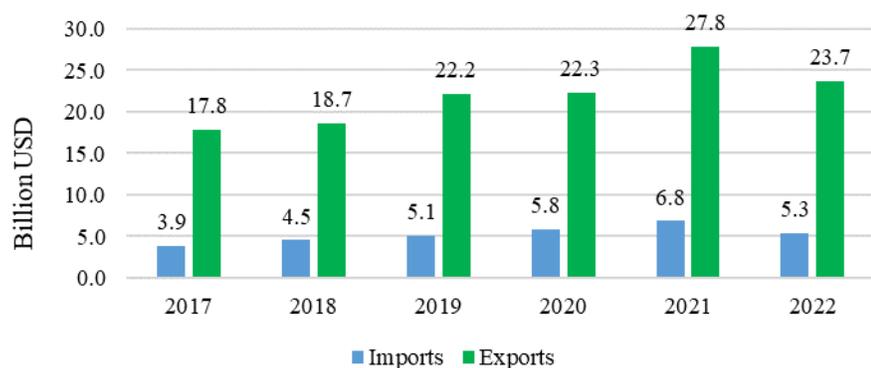
The increased number of refugees as well as a growing number of internally displaced persons have had a negative impact on Ukraine's economy in general and on in-country consumption and the import of food products in particular. The weights of each individual factor are difficult to estimate due to the lack of official data.

## **Trade in Agricultural and Related Products**

### **Exports**

Being one of the world's largest agricultural producers, Ukraine was an important part of the world market. Despite all logistical challenges, Ukraine's exports remained significant in 2022, with a 15 percent drop. The imports declined more notably. Consumption drops associated with population migration, declining disposable incomes, high inflation, and war-related economic downturn resulted in decreased imports. Currency devaluation probably played the most important role, causing imports to decline by 22 percent.

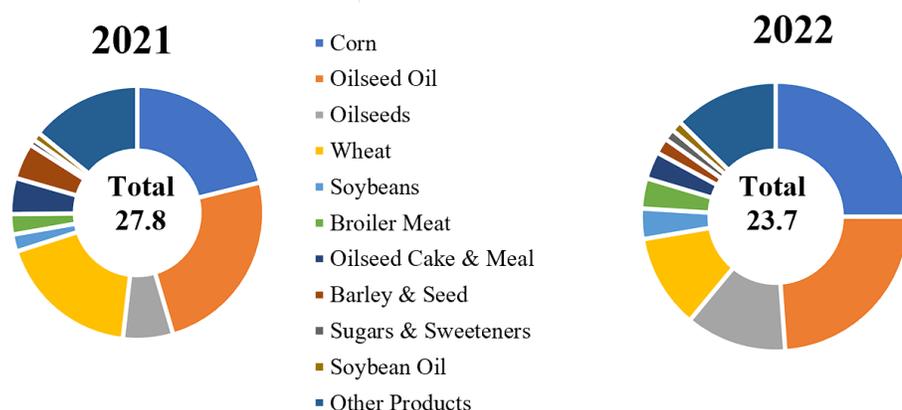
**Figure 9. Ukraine's Trade in Agricultural and Related Products**



Source: Trade Data Monitor

The export decline was uneven for different product groups. Bulk commodities suffered the most, as many traditional sea routes were blocked. The introduction of the EU “solidarity lanes” in spring and the UN Black Sea Grains Initiative (BSGI) in the summer only partially resolved the situation. Increased inputs and logistics costs led to an increased share of the higher value-added products (such as vegetable oil, oilseeds, or poultry) in Ukrainian exports. The trend is expected to persist in 2023. Although Ukraine’s agricultural exports decreased in 2022, the situation is better than can be expected in the war-torn country.

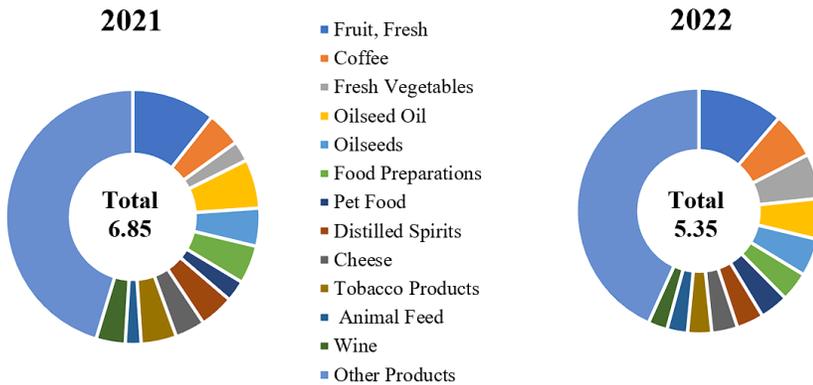
**Figure 10. Export of Agricultural Products by Group, Billion USD**



Source: Trade Data Monitor

Imports composition also changed as different agricultural import groups have shown different behavior. The import of inputs for further processing and luxury product groups declined following the domestic processing drop and general war-time consumption structure change. Consumption expectedly shifted to cheaper products. Several product groups were considered necessities by the consumers, and their imports remained strong or even increased. The latter was the case for fresh fruits, animal feeds, and pork products.

**Figure 11. Imports of Agricultural Products by Group, Billion USD**



Source: Trade Data Monitor

United States exports to Ukraine are diversified and rely on a large number of product groups. The total agricultural and seafood export contraction (BICO categories definitions are used) is comparable to Ukraine’s overall consumer market contraction at 30 percent.

**Figure 12. The U.S. Agricultural and Seafood Exports to Ukraine, millions of USD**



Source: Trade Data Monitor

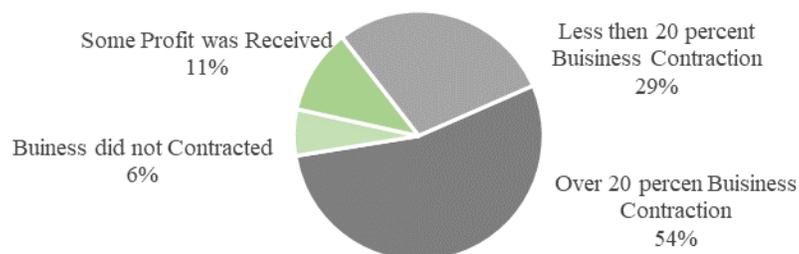
As expected, the cheaper products categories contracted the least. The two major U.S. exports to Ukraine: oilseeds for planting and seafood products, contracted by approximately 20 percent. Planting oilseeds is much in demand due to Ukrainian farmers’ shift toward higher margin - less bulky crops. Logistics restrictions remain in place in 2023, and farmers are squeezing every penny from each exported ton. U.S. seafood, with hake and pollock being the major export categories, is cheaper than many competitive kinds of seafood. This way, they remain in demand by the population and governmental institutions.

The vast majority of other exports, including premium distilled spirits, food preparations, and other planting seeds, suffered a larger trade drop. The only U.S. export that exhibited significant growth was canned food, which is expected for the country in war.

### **Business Results, Expectations, and Corporate Reporting**

The Kyiv-based European Business Association (EBA), which unites predominately large and middle-size businesses with European investments, conducted a member survey to measure the companies' performance in 2022. Fifty-four percent of all responders continue full-scale operations in Ukraine, while 46 percent maintain scaled-down activities. Some had to limit activities geographically, some companies closed selected offices, and some moved operations online.

**Figure 13. The 2022 Business Operations Results of EBA Members  
(January 2023 survey)**



*Source: The European Business Association*

According to the survey, 83 percent of the respondents declared a loss in 2022. The number of companies whose activities were influenced by Russian air attacks increased from 47 percent in October of 2022 to 89 percent in January of 2023. Interruption of energy supplies was named the major business problem, followed by telephone and internet connection problems, conscription of employees, and restrictions on employees' travel abroad.

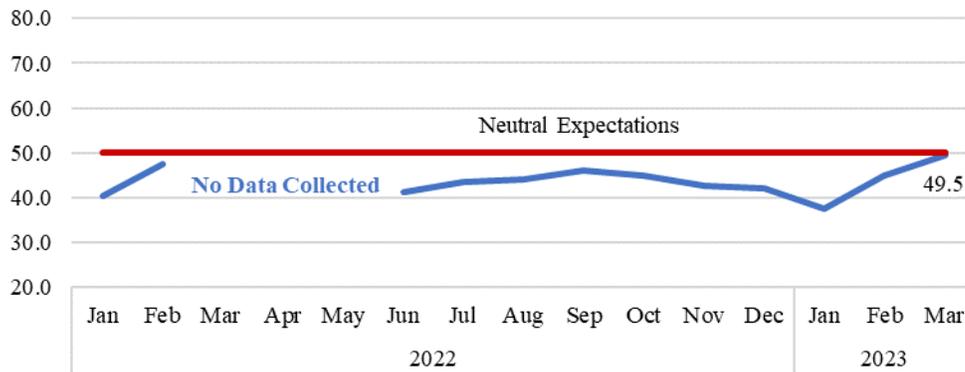
Almost 90 percent of respondents had their employees conscripted, and almost 40 percent of the businesses reported critically important employees conscripted. The latter category includes predominantly IT specialists, engineers, and other critical technical workers.

Reported business losses remain high: 32 percent report less than USD 1 million loss, 36 percent declare USD 1-10 million loss, and 16 percent of European companies lost over USD 10 million each. Most companies expect some stabilization in 2023.

The National Bank of Ukraine (NBU) also conducts business surveys that include a wider selection of companies with Ukrainian and foreign capital. The NBU's business Activity Expectation Index (BAEI) remained depressed throughout the entire 2022, with some neutral expectations only in March of 2023.

Better global market prices for the major Ukrainian products, improved logistics, a better situation in the energy sector, and the improvement of consumer demand positively impacted the expectations of Ukrainian businesses.

**Figure 14. Business Activity Expectation Index**



Source: National Bank of Ukraine

### Economic Loss Evaluation

According to the Kyiv School of Economics (KSE) [impact evaluation](#), Ukraine’s direct war-caused loss due to infrastructure damage amounted to UAH 1.8 trillion (USD 63 billion) as of March 24, 2023. A joint estimate by the Ministry of Economy of Ukraine and KSE evaluates overall economic losses due to the war (taking into account both direct losses as calculated by the KSE project and indirect losses in the form of GDP decline, investment outflow, labor force lost, additional defense, and social support costs, etc.) between USD \$543 billion to \$600 billion.

FAS Kyiv has collected some agricultural and related financial data reported by different Ukrainian businesses in April of 2023 and corporate reports published on corporate websites. The numbers prove astronomically high war costs.

### Agricultural Producers Declare Losses

Although agricultural production in Ukraine remained significant, many producers declared substantial losses and are struggling to stay afloat.

**Figure 15. Net Profit/Loss of Selected Ukrainian Agricultural Producers**



Source: Open Data Bot, National Bank of Ukraine, latifundist.com, FAS-Kyiv projections

**Kernel Holding S.A.** is the world’s largest sunflower oil producer, with eight percent of the world market share. This Warsaw Stock Exchange-placed company (WSE ticker: KER) is also Ukraine’s largest grain exporter and producer of grains and oilseeds. According to its 2021/22 report, the company declared USD 41 million loss - a significant drop in comparison with USD 553 million in profit in the previous financial year. The company lost access to some of its assets in Southern Ukraine and was unable to use Mykolaiv seaport for sunflowers oil exports. In January 2023, Kernel acquired an oil terminal in the port of Pivdennyi (Odesa Oblast) to compensate for the lost access to its old export hub. The company’s revenues in 2022 FY dropped by 5 percent to USD 5.3 billion. In April of 2023, the company decided to [withdraw](#) its shares from trading on the regulated market operated by the Warsaw Stock Exchange.

Ukraine’s largest poultry producer – **MHP S.A.**, published its [annual 2022 report](#) in April of 2023. The report stated that the company suffered a direct war-related USD 69 million loss. Despite increased export prices that help to offset export volume drop, the company declared over USD 230 million loss in 2022 after USD 393 million profit in 2021. The company re-directed significant poultry volumes from domestic to foreign markets and significantly increased sales of its crop division. Increased production and sales of sunflower oil combined with the strong performance of MHP’s European poultry facilities helped the MHP group to make it through 2022. The company’s performance remains robust as no production or storage facilities were lost due to warfare, but the MHP’s board of directors withheld from making any forecasts for 2023.

A subsidiary of Chicago-based **Archer Daniels Midland (ADM) - ADM Trading Ukraine** reported a massive revenue drop of UAH13,7 billion (USD 384 million) to UAH 25,1 billion (USD 705 million), which resulted in a notable UAH 1.6 billion (USD 45 million) loss. In 2021 the company reported UAH 375 million (USD 13.7 million) profit. The company continued to operate its oil-crushing facility in Chornomorsk and port grain elevator in Odessa. According to company management, it lost control over two facilities in occupied territories (as of December 2022). The company operated six elevators situated

in southern and central Ukraine. After the war started, ADM-Ukraine re-routed its exports through the railways. ADM also resumed grain exports through the Black Sea “grain corridor” when it opened at the end of July 2022.

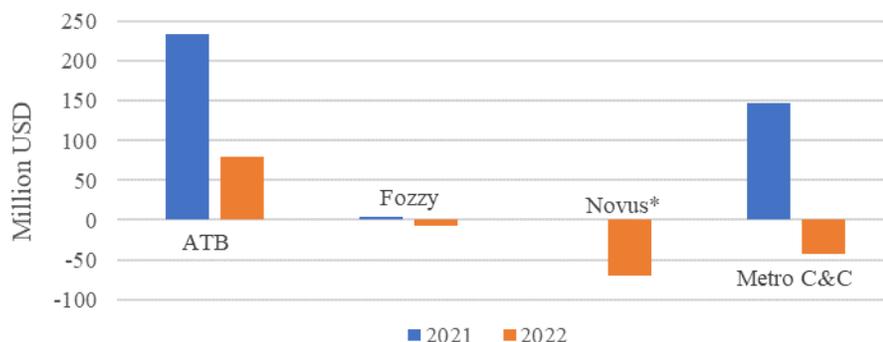
Another international trade giant – Swiss/Dutch-based Bunge Ltd., had to absorb the loss of its Ukrainian subsidiary – Suntrade S.E. / **Bunge Ukraine**. Its revenue dropped by UAH 20 Billion (USD 562 Million) to UAH 13.6 billion (USD 382 million), generating a net loss of UAH 1.8 billion (USD 51 million). In 2021 Bunge Ukraine was number two in the Ukrainian market of sunflower oil crush. After the war started, the company was not able to operate its Mykolaiv port-based oil extraction and grain export facilities as Mykolaiv port remains outside of the “grain deal” that allows limited grain exports. The company’s in-land elevators and another oil-crushing facility in Dnipro remained operational.

Ukraine-based agricultural producer and trader **Nibulon JSC** probably suffered the most and is now struggling to stay afloat. The company’s revenue dropped from UAH 40.6 billion (USD 1.49 billion) in 2021 to UAH 15.2 billion (USD 0.43 million) in 2022. This Mykolaiv-based company lost access to 25.5 thousand hectares out of the company’s 76.5 thousand hectares of arable lands. The company was unable to use its main export hub in Mykolaiv seaport. In addition, the company’s founder Oleksii Vadaturskyi was killed in a missile strike in Mykolaiv. The 2022 net loss amounted to UAH 10 billion (USD 280 million). Although the company’s recently acquired terminal in Izmail river port somewhat lifted the burden, the company announced a technical default in the fall of 2022. The Nibulon’s debt is estimated to reach USD 573 million to 26 Western and Ukrainian banks, investors, and international institutions.

### Retail and HORECA Declares Record-High Losses

Both sales and profits of the major Ukrainian food retailers decreased significantly in 2022. Only those focusing on the lower market segment were modestly successful.

**Figure 16. Net Profit/Loss of Selected Ukrainian Retailers**



Source: Open Data Bot, National Bank of Ukraine, FAS-Kyiv projections;

\*No financial data for 2021 is available for Novus Ukraine

According to Open Data Bot and the Ukrainian Council of Shopping Centers data published in March and April, the Ukrainian retail industry took a heavy hit in 2022. Almost all major retail chains declared heavy losses. Ukraine's largest retailer – the “**ATB**” **Corporation**, contracted its annual profit by UAH 5.5 billion (USD 157 million) but managed to stay profitable at UAH 2.8 billion (USD 79 million). ATB focuses on the lowest market segment, which expanded significantly in 2022 due to the disposable income drop. Ukraine's second-largest retailer – **the Fozzy Group** - declared a loss of UAH 234.9 (USD 6.6 Million). Profit of its flagship *Silpo Chain* (Silpo LLC.) contracted by UAH 5.6 billion (USD 157 million), turning into a whopping 7.4 billion (USD 208 million) loss. Silpo focused on middle-income and upper-middle-income consumers and witnessed a significant contraction in both the number of consumers and the average check. Fozzy's other retail chains that focused on lower-income consumers, wholesale buyers, and non-food businesses somewhat cushioned the blow. Despite the loss, Fozzy continues its operations in Ukraine and is looking for alternative ways to expand its business in Eastern Europe. Poland may be the most probable next expansion point. The company may need to attract significant external financing for its expansion plans.

Lithuanian-Ukrainian BT-Invest JSC (**Novus Supermarkets**) declared UAH 2.5 billion (USD 70 million) loss, closely followed by German discounter – **Metro Cash and Carry** with UAH 1.5 billion (USD 42 million) loss. All Ukrainian retailers had to review their assortment, compensating for the loss of suppliers on occupied territories, consumer base shrinkage, and plummeting disposable incomes. Many of them lost control over their stores in Eastern and Southern Ukraine; some stores were completely destroyed by the Russian army and had to be written off.

**McDonald's Ukraine Ltd.**, the largest fast-food chain in Ukraine, reported a net loss of UAH 2.042 billion (USD 57 million) in 2022, a drastic decrease from UAH 1.011 billion (USD 37 million) profit in 2021. The company's 2022 turnover dropped to UAH 30.4 billion (USD 85 million) after closing all its restaurants on February 24, 2022, and consequent partial reopening in September 2022. The company resumed operations in Kyiv and later in western and southern Ukraine. The reopening process is not over as of April 2023. New establishments are planned to be reopened in central Ukraine.

#### **Attachments:**

No Attachments.