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TRENDS IN UKRAINE'S INVESTMENT ATTRACTIVENESS IN THE CONTEXT OF THE COVID-19 PANDEMIC

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ABSTRACT

The country's investment attractiveness is one of the determining factors in attracting investment into the economy. The study emphasizes the relevance of research in this area. The article considers the dynamics of foreign direct investment in Ukraine's economy as one of the determining indicators of investment attractiveness. The place of Ukraine in the "pandemic" period in the rankings of various world institutions whose activities are related to research in the field of investment is analyzed. Low ratings of Ukraine are established, the factors which have caused such results are defined. Despite the generally negative impact of the Covid-19 pandemic on the socio-economic system of the country, it was concluded that in such conditions, certain industries, including agriculture, construction, IT industry, transport, and logistics, have received prospects for their development. The article identifies positive trends in the institutional sphere, in particular, the adoption of a number of important bills that will facilitate business in Ukraine, resume cooperation with the International Monetary Fund, adoption of economic development programs, including the National Economic Strategy until 2030. This will stimulate investment in Ukraine's economy.

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Introduction. Integration and globalization taking place in the world economic system determine the exceptional importance of investment for the development of domestic enterprises, being one of the most important factors in their sustainable economic growth and competitiveness. Effective investment is the foundation for the development of both the economy of Ukraine and its individual regions, accelerates its integration into the European socio-economic area. On the other hand, attracting investment is directly related to the investment attractiveness of the country, which reflects the possible effects and benefits for potential investors, as well as the risks of loss of funds or loss of return on investment. Therefore, the study of factors that determine the investment attractiveness of the country is an urgent task.

Literature Review. Issues aimed at studying various characteristics of Ukraine's investment activity are the subject of research by a wide range of researchers.

Amerkhanova (2019) considered factors that ensure the investment attractiveness of Kazakhstan. The article highlights the problems in attracting investment and provides a set of measures to address them. Problems of low investment attractiveness in the Republic of Mali are covered in the article Kazakova, Badlaeva, Diallo & Keith (2021). The authors give the reasons for this situation and also formed a set of recommendations that will help improve the situation. The

issues of investment activity and increasing investment attractiveness in Poland are considered by Godlewska & Pilewicz (2020), Roszko-Wójtowicz & Grzelak (2021).

This area of research is also relevant for Ukrainian scientists. The article by Shushkova, Matviykyiv & Kolisnyk (2019) considers issues related to the formation of Ukraine's image and the macroeconomic factors that determine it. The factors that shape the investment climate, in particular, macroeconomic balance; level of infrastructure development; inflationary stability; openness of the economy; favorable legal framework and others. The authors conclude that at the time of the study in Ukraine there is an unfavorable investment climate, which is the result of deteriorating macroeconomic indicators, as well as suggestions for measures to improve it.

Bokhonko, Zhygalo & Slobodiuk (2020) considered the issue of determining the investment attractiveness of Ukraine in the context of the ability to attract foreign investment into the country's economy and determine its ratings in various international agencies. The authors calculated integrated assessments of the investment climate of Ukraine in the context of the SWOT-analysis and made proposals to improve the investment attractiveness level.

Zolotaryova (2020) considers the scheme of the process of investment attractiveness of the state, determines a set of determining factors influencing it, and a set of indicators to predict investment attractiveness.

Khaitetska (2020) examines the principles on which Ukraine's public policy should be based in the context of attracting foreign investment. The author presents the components of investment attractiveness, considers the dynamics of attracting foreign direct investment into the economy of Ukraine. According to the results of the research, a conclusion was made to increase Ukraine's investment attractiveness level.

Statistic data and issues of foreign direct investment in the context of the study of investment attractiveness are also considered in the articles Shtepenko & Zaburaeva (2019), Turpak, Hoshovska, Korolyova (2019), Bolgarova, Panevnyk (2019), Zalizniuk, Shchelkunov (2021)

The analysis allows us to conclude that there is some inconsistency in the conclusions of scholars on Ukraine's investment climate and investment attractiveness. This is due to the high dynamics of modern economic conditions, so in some periods of time, the indicators studied by scientists have different levels and different dynamics. Thus, the problem of analyzing investment attractiveness requires further study in accordance with current trends in economic development.

Research Methodology. During research we used the generalization method – to analyze previous research and identify the main trends in investment attractiveness; formalization method – to describe investment attractiveness using individual quantifiable indicators; system analysis method – for a comprehensive study of the problem of investment attractiveness, its relationship with the socio-economic development of the country, and the indicators that determine it.

Results and Discussions. Analysis of the previous studies allows us to conclude that the volume of foreign direct investment is one of the main indicators of the country's investment attractiveness. According to the MFU (2021) shown in Table 1, the volume of foreign direct investment into Ukraine has declined sharply over the past two years.

Table 1. The volume of the direct foreign investment into Ukraine

Year	2016	2017	2018	2019	2020	2021 (2 quarters)
Index Values, \$ mil.	3810	3692	4455	5860	-868	2836

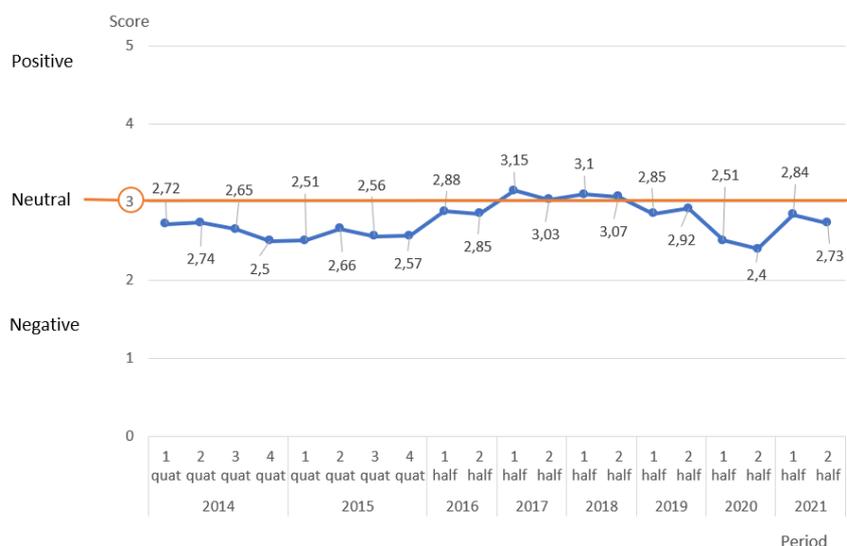
Source: developed using MFU, 2021

In 2020, for the first time, there was a negative balance of foreign direct investment, which is the result of exceeding their outflow over revenues. The main reason for this situation, according to analysts, is the consequences of the Covid-19 pandemic. According to UNCTAD (2021), in 2020 the world economy was reduced by \$ 0.6 trillion in investment. According to a survey conducted by the Kearney Global Business Policy Council (2021), only 57% of investors are optimistic about the three-year global economic outlook. However, on the other hand, in their opinion, the downward trend in foreign direct investment will not continue in the near future.

Ukraine's international ratings also had a negative impact on the outflow of investments from Ukraine. According to the information provided by the Ministry of Economy of Ukraine (2021) in the

analytical review "Ukraine's place in the World Bank's Doing Business ranking", in 2020 Ukraine ranked 64th among 190 countries, deteriorating performance in ensuring compliance with the contract's terms (down 6 positions) and tax environment (decrease by 11 positions). According to the Corruption Perceptions Index (CPI) (2021) in 2020, Ukraine ranked 117th among 180 countries. Although this value is better than in previous years, Ukraine still remains one of the worst post-Soviet European countries in this respect. According to the Index of Economic Freedom compiled by the Heritage Foundation (2021), Ukraine ranked 127th out of 178 countries and was classified as "mostly unfree". At the same time, according to the component of investment freedom, Ukraine scored only 35 points out of 100 possible. This indicates the weakness of the domestic judicial system and the lack of confidence in the legislation of Ukraine by foreign and domestic investors, which also restrained the inflow of capital. According to the Global Foreign Direct Investment Country Attractiveness Index, Ukraine ranked 58th in 2020, having the worst rating of post-Soviet countries, and was included in the category of countries with low attractiveness (Global Foreign Direct Investment Country Attractiveness Index, 2021).

According to the EBA (2021), in 2020 the index of investment attractiveness of Ukraine was 2.4 points out of 5 possible, which is the lowest value since 2014 (Fig.1). At the same time, since 2017 there has been a negative tendency to reduce this indicator. This assessment (below 3 points) indicates the unfavorable Ukraine's investment climate.



*Fig.1. The investment attractiveness index dynamics
Source: developed by the authors using EBA, 2021 data*

In 2021, the economic situation improved, and the volume of investment in the first two quarters of this year reached almost fifty percent of this index value for 2019. The main investment inflows were provided by EU countries, but much of the investment is reinvestment. To some extent, this was facilitated by the stabilization of the Covid-19 incidence situation and the adoption of the law "On state support of investment projects with significant investments in Ukraine" (2021). It formalized the activities of investment managers ("investment nannies"), who will ensure the interaction of investors and government institutions on issues related to the preparation and implementation of investment projects. The introduction of a capital amnesty instrument was another positive aspect, which allows to withdraw domestic financial resources from the shadows and attract them as investments. This is reflected in the value of the index of investment attractiveness: in the first half of 2021, the value of the index increased to 2.84 points, which corresponds to the level of the first half of 2019 (i.e., before the pandemic). However, in the second half of the year the figure dropped to 2.73 points. One of the reasons may be the deteriorating political situation in the country and the low vaccination tempo.

According to the "Guidelines for calculating the level of economic security of Ukraine" (2013), satisfactory for investment security is the level of investment, at which the ratio between net annual growth of foreign direct investment in gross domestic product is 6 percent, with an optimal value of 7 percent. However, since 2007, the net inflow of foreign direct investment into the country's economy has not exceeded 6 percent.

Sustainable growth of the national economy is possible provided that the added value increases, which leads to the creation or renewal of fixed assets. This, in turn, necessitates significant capital investment.

The National Economic Strategy for the period up to 2030 (2021) identifies the task of attracting foreign direct investment as one of the main ones. In particular, it is noted that the "first stage is the formation of competitive conditions for business and investment, as well as restoring confidence in public institutions. This will allow us to win the competition for capital on the world market and, as a result, attract investment to modernize sectors of the economy" (p. 3). At the same time, the strategic benchmarks include an increase in the net inflow of foreign direct investment to at least \$15B per year starting in 2025.

Also important for ensuring the openness and transparency of foreign investors' business is the establishment of the Kyiv International Financial Center (KIFC), the main function of which is to guarantee investment protection for investors through legal protection under British law.

Ukraine continues the course of implementing the reform program, which, in particular, manifested itself in the adoption of the law on banking, the implementation of land reform, and the opening of the land market. Such actions by the government were crucial to unblocking cooperation with the International Monetary Fund, which is crucial for stabilizing the economy. The domestic currency remains relatively stable. These factors have a positive effect on improving the investment climate and, consequently, the attractiveness for foreign investors.

Among the negative trends that continue to negatively affect the formation of the investment climate in Ukraine, it is worth noting the prolongation of the Covid-19 pandemic. Despite the mass vaccination of the population, which began in 2021, it had a slow pace of this process. Quarantine restrictions and social distancing also had a negative impact on the investment cycle. This has forced many businesses to reduce or even cease economic activity, especially in the field of services, tourism, trade. In the autumn of this year, almost all Ukraine's regions were in the "red" zone, which significantly limited the activities of enterprises in these areas of the economy. The aggravation of the political situation in the country is also a deterrent.

At the same time, we agree with the opinion of P. Telyuk (2020) that the consequences of Covid-19 can have a long-term positive effect on the domestic investment market. Two of the most important sectors of the domestic economy: agriculture and IT remain quite attractive to investors. The first is crucial for food security, not only in Ukraine but also worldwide. Ukraine's geographical and climatic conditions, as well as its closeness to the EU's borders, are also favorable factors for investing in this sector of the economy. The main areas for investment can be primarily infrastructure facilities of agriculture: ports, elevators, equipment. Enterprises growing and processing agricultural products also may be interesting to foreign investors.

The IT industry has also received a strong impetus for the development of an effective online business. According to the NBU (2021) data, in 2019, \$544M were invested in IT business, and in 2020 - \$571M, which is the highest value in recent years. At the same time, 62 percent of the total amount was attracted by four companies with Ukrainian roots - GitLab, Creatio, Restream and airSlate. The average profit of Ukrainian IT businesses working with foreign clients increased by 29 percent over the year (Forbes, 2021), the Ukrainian IT sector has favorable conditions for government regulation, more favorable geographical location compared to Asian countries, young age of employees involved, which also makes this business attractive to investors. Growing investment in the IT industry is a global trend. According to experts Gartner (2021), in 2022 the industry will spend \$ 4.5T, which is 5.5 percent more than in 2021. At the same time, the growth rate of costs will decrease (from 9.5 percent to 5.5 percent). In 2023, IT companies are expected to receive about \$ 30B in revenue from the sale of products and services that did not exist before the pandemic.

Another promising area for investment will be logistics companies, especially in the supply of retail goods. As a result of the pandemic, the population was limited in its ability to make retail purchases. The development of business trade will also be a positive factor for the development of this area of economic activity.

The government's decisions to reform the domestic health care system will boost investor interest in the pharmaceutical industry, especially as the U.S. attempts to develop pharmaceutical supply chains that have been heavily dependent on China in recent years.

The construction business and companies providing related services, in particular, the supply of auto parts, will be promising for investment. This is especially relevant for the regions of Western Ukraine.

The energy sector is important for the development of the national economy, in particular enterprises operating in the field of renewable energy, but the inflow of funds here is largely hampered by regulatory constraints. The global decline in prices for traditional energy sources, such as oil and gas, also has a negative impact on investment in this area.

Investments in the defense and aerospace sectors are expected to grow, given the loss of dependence on Russian enterprises.

The banking system is important for the functioning of the domestic economy. Although there are currently no major banking concentrations in Ukraine, smaller Internet banks may be of interest to foreign investors. In 2019, \$ 1.1B was invested in the financial system opposite \$ 211M in 2020. Changes in regulatory policy regarding legislative acts aimed at facilitating investment attraction and introduction of new financial instruments, in particular, the Law of Ukraine "On Capital Markets and Organized Commodity Markets", will also help raise funds.

Ukraine has also adopted the "Strategy of the Financial Sector of Ukraine until 2025" (2021), which prioritizes are "the creation of conditions for sustainable growth of the financial sector of Ukraine, its competitiveness in terms of integration into the global financial space, which will meet consumer needs for quality and available financial services; reducing the cost and extending the maturity of financial resources for the state and enterprises; increasing the competitiveness of Ukraine's economy as a whole" (p. 15).

Among the weaknesses in the direction of investment is the tourism industry, including the hotel business, which reflects the global trend of declining investment due to the pandemic. Also, the lack of interest from investors will be observed for commercial retailers.

Conclusions. The following conclusions can be drawn from the results of the analysis. The issue of research related to determining investment attractiveness is relevant to the current state of economic development. The current level of investment attractiveness of Ukraine for foreign investors is quite low, due to the high level of corruption in the country, low efficiency of public administration, a weak judiciary, and, consequently, low level of trust in it. These factors led to low ratings of Ukraine in international indices that reflect investment attractiveness and investment climate. These are important for investors in the context of investment risk assessment. The Covid-19 pandemic had an additional negative impact, as a result of which many domestic enterprises, especially those engaged in trade, tourism, services, ceased or significantly reduced their activities. At the same time, in the conditions of the pandemic, the agricultural sector, the market of the IT industry, and the construction industry are potentially attractive for investors, and they have received additional opportunities to expand their business. The development of these industries can lead to the increased investment attractiveness of Ukraine and increase the volume of foreign direct investment in the domestic economy. Trends in 2021 confirm this conclusion. Prospects for further research are the development of tools for assessing the level of investment attractiveness.

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