

## **The investment policy of Ukraine**

*Stimulating the investment policy of Ukraine, it is necessary to pursue an effective policy to reduce taxes, inflation expectations, as well as to resolve the problem of a public debt and Russian's invasion.*

The deterioration of the financial results of enterprises against the background of reduced public funding, the war with the Russian Federation, limited and inefficient use of intangible assets, increasing of the share of overdue payable accounts, curtailment of emission activities due to the low investment attractiveness of domestic issuers led to the reduced investment activity.

Ten regions of Ukraine hostilities accounted for half of the country's GDP. The most important areas are: Kharkiv, Kyiv and Mariupol, which have made a very significant contribution to GDP. Many logistics chains were completely broken, many businesses were physically destroyed, some of them could not work during the war, and a lot of workers simply left. According to the Ministry of Economy, the losses would be from one third to one half of GDP. In our opinion, it could reach even up to 500 bln USD.

The Customs houses of Odessa did not function, which brought up to 20% of revenues. Kyiv customs also stopped, only the western direction was functioning. In the first days, the National Bank of Ukraine transferred a part of the income, state-owned banks paid dividends, and many companies paid taxes in advance. All this made it possible to reimburse VAT, make social payments and service the debt. The government was actively working with international partners (the IMF decided on RFI, the World Bank provided 700 mln USD, and the EU – 1.2 bln EUR), the debt problem was not a priority. The government has issued so-called wartime bonds. Almost 8 bln UAH was raised at the first auction and 7 bln UAH at the second one. They could be bought by foreign investors.

According to the State Statistics Service of Ukraine, the development of Ukraine's economy is related to the financial condition of economic entities that depends on the activity of their investment activities. Due to the global economic crisis, the purchasing power of Ukraine's population has significantly declined in recent years. The military conflict continues in eastern Ukraine, international economic relations are leading to an influx of cheap imports, so the share of unprofitable enterprises in Ukraine is significant.

This situation is associated with a low level of the capital investment by enterprises, and as a result, a high degree of depreciation of fixed assets of enterprises. In 2019 domestic enterprises produced products by fixed assets that were 58.1% worn out. It led to an increase in its material consumption, energy consumption, price, lag in terms of technology compared to products of the foreign enterprises in the domestic market. Declining corporate profits leads to a reduction in the investment activity, as most investments are made by domestic enterprises at

their own expense, while the share of investments by foreign investors is insignificant, which indicates the low investment attractiveness of Ukraine.

During 2017-2021 there was a negative trend in reducing of lending to enterprises by foreign investors and individuals for their needs in the technical re-equipment, technology modernization and others. This situation was associated with economic instability and high financial risks. And enterprises in these conditions also did not have their own funds in sufficient quantities to carry out the investment activity and ensure their sustainable development.

A low level of the profitability meant a decrease in income that was the main source of the investment. It led to a decrease in own funds that made the investment. The decrease in the investment, in turn, according to the logic of the chain reaction, led to negative processes in the innovation. Due to the insufficient investment in fixed assets, the innovation activity was very low. So the introduction of advanced technological processes, integrated mechanization and automation was insignificant, which negatively affected macrostability and caused deep structural distortions and asymmetries in a social and economic life.

Despite the difficult economic situation and declining of GDP, Ukraine was an active donor to the world economy, so the real inflow of foreign investment – about a third of the amounts that were contributed. The rest was offshore, the money of oligarchs from their foreign companies. In our opinion, the main factor for foreign investment was the regulatory and political turmoil of the country, the war in Ukraine, a macroeconomic slowdown, shutdown of a number of industrial enterprises, a rapid devaluation and inflation, declining consumption and the fact that investor protection remained unsatisfactory.

The deterioration of the financial results of enterprises against the background of reduced public funding, limited and inefficient use of intangible assets, increasing the share of overdue accounts payable, curtailment of issuance due to the low investment attractiveness of domestic issuers led to the reduced investment activity of domestic enterprises. The main problem of investment was the reduction of the demand for manufactured products. The solvency of the population deteriorated significantly that contributed to the reduction of consumer activity of most enterprises, as almost all of them were focused on the domestic market. While export-oriented industries were low value-added.

Domestic financial resources are insufficient for economic development and increasing the competitiveness of Ukraine's economy. There has been a negative trend of capital outflows, low purchasing power and the level of savings for many years. Therefore, there is a need to stimulate the investment process in the country in order to attract effectively external investment resources.

In order to increase the protection of the investment on March 16, 2000 the Parliament of Ukraine ratified the Washington Convention on the Procedure for Resolving Investment Disputes between States and Foreign Persons of 1965. According to the Law of Ukraine "On Investment Activity", the investment includes all types of the property and intellectual values that are invested in objects of entrepreneurial and other activities, as a result of which profit (income) or social effect is achieved.

A state regulation of the investment activity is carried out in order to implement economic, scientific, technical and social policy and includes management of public investment, as well as regulation of the investment activity and control over its implementation by all investors and participants. The Law of Ukraine “On the regime of foreign investment” establishes that foreign investment is values contributed by foreign investors into the investment activity in accordance with the laws of Ukraine in order to make a profit or achieve a social effect.

In order to stimulate the investment process, it is necessary to pursue an effective policy to reduce inflation and inflation expectations, as well as to resolve the problem of a public debt, to ensure the procedure for protecting the rights of owners and investors. That is to create such favourable conditions under which the international image of the country will increase, and the investor will be interested in working on the territory of Ukraine in the long run.

The optimal investment policy of the Ukrainian government should be conducted in the following main areas, such as: tax incentives for investment; the application of accelerated depreciation; creating favourable conditions for foreign investors after the war with the Russian Federation, supporting and encouraging innovation; stable working conditions for long-term investments, in which there will be no place for the forced withdrawal of the capital and arbitrariness of power.

### References

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