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THE CURRENT STATE AND PROBLEMS OF INVESTMENT ATTRACTION OF UKRAINE THROUGH THE PRISM OF THE WORLD RATINGS AND INDICATORS OF ITS SOCIO-ECONOMIC DEVELOPMENT

The necessity of using the combined method of investment attractiveness evaluation with the use of in-depth research of the country's rating positions together with the indicators of its current socio-economic status is suggested and proved. The rating of ease of doing business is investigated and the place of Ukraine according to separate components is analyzed. The position of the country in the rating of political and legal environment development and in the rating of innovations is considered. Comparison of Ukraine with world and Europe's indicators in the Index of Economic Freedom is conducted. An analysis of the volumes of foreign direct investment and export-import operations was carried out during the analysis of investment attractiveness of Ukraine. The macroeconomic and institutional factors for increase of Ukraine's social and economic development are revealed and a number of the most urgent tasks for implementation are offered.

Keywords: investment attractiveness, rating estimations, ease of doing business, economic freedom, direct foreign investments, export and import, GDP per capita.

Formulation of the problem. World ratings have always been an important catalyst of making a decision by a foreign investor about country's economy. The present days require the acceptance countries to create all the prerequisites to characterize their high investment attractiveness. However, it is not always possible to provide a complete description of the socio-economic development of the country and to elaborate individual positive changes during a certain period of time. It is also important to compare the dynamics of all indicators by rating agencies not only within one or two years, but also to take into account the economic development of the country during post-crisis periods, in particular over the last decade.

Analysis of recent research and publications. Researchers of the investment attractiveness of Ukraine were engaged by such scientists as D. Stechenko, A. Haidutskyi, O. Nosova, I. Hmarska and others. Also, some researchers have devoted their work to reviewing the positions of our country in world rankings, such as V. Dergachev, A. Maksimenko, O. Palamarchuk and others. But they all make general characteristics in their fields of research without combining with together – ranks, the main indicators of investment attractiveness, and socio-economic indices.

Allocation of previously unsettled parts of the general problem. Today arises the problem of an expanded and thorough analysis of the rating agencies' indicators dynamics to be combined with a research of the socio-economic development indicators of Ukraine according to the internal accounting of statistical data to determine the further directions of improvement.

The purpose of the article is to analyze Ukraine's position in international ratings, assess the main macroeconomic indicators of foreign economic activity and identify the strengths and weaknesses in forming a comprehensive assessment of the current state of country's socio-economic development, its investment attractiveness and future development prospects.

Presentation of the main research material. The problem of Ukraine's investment attractiveness was one of the most controversial and requiring a timely response to changes in the global economic system by all participants in the process of development of

the national economy. The first estimate of the synergistic effect's existence of the participant's interaction in the management system and government is the country's place in world rankings.

In our opinion, the rating that best describes economic development and the state of investment attractiveness of Ukraine is the Doing business rank; because it takes into account all possible aspects that would be interesting to a foreign investor.

According to the latest World Bank annual ratings Ukraine is ranked 71 among 190 economies in 2019 in the ease of doing business. Each year till now the rank of Ukraine improved from 149 in 2012 – the lowest one in 13 years (fig. 1). In 2019 Ukraine has score 68.25, which is 4.09 points below the regional average. From 2014 score of Ukraine increased on 6.73 points that also shows a positive trend [1].

Ukraine's geographical neighbors occupy higher positions in the ranking: Poland – 33, Hungary – 53, Slovakia – 42, Romania – 52, Moldova – 47. And in ranks our neighbors are Kyrgyz Republic and Greece [1]. It should be noted that for 2014–2018 Ukraine has risen in the ranking for 24 positions.

Ukraine has shown the greatest growth in the nominations for "international trade" and "fulfillment of contractual obligations". Also, indicators of "protection of minority investors" and "obtaining building permits" have improved significantly, which also contribute to attracting both internal and external investment capital to the economy of Ukraine (fig. 2).

It is important to note that the Ukrainian government has taken several steps over the past year to facilitate the ease of doing business. Some of these actions included: a new law on limited liability companies (LLCs) that liberalized corporate regulations for LLCs and increased protection of minority shareholders' rights; a new privatization law designed to streamline the process of selling 3,000 state companies, and better protect investors' rights; simplified procedures from the National Bank of Ukraine for companies to open and manage bank accounts; eased payment of dividends to foreign investors by allowing payment of a maximum amount of USD 7 million per month; and a new law to stop abusive practices by law enforcement agencies, including the State Fiscal Service's tax police, Prosecutor General's Office, and State Security Service during

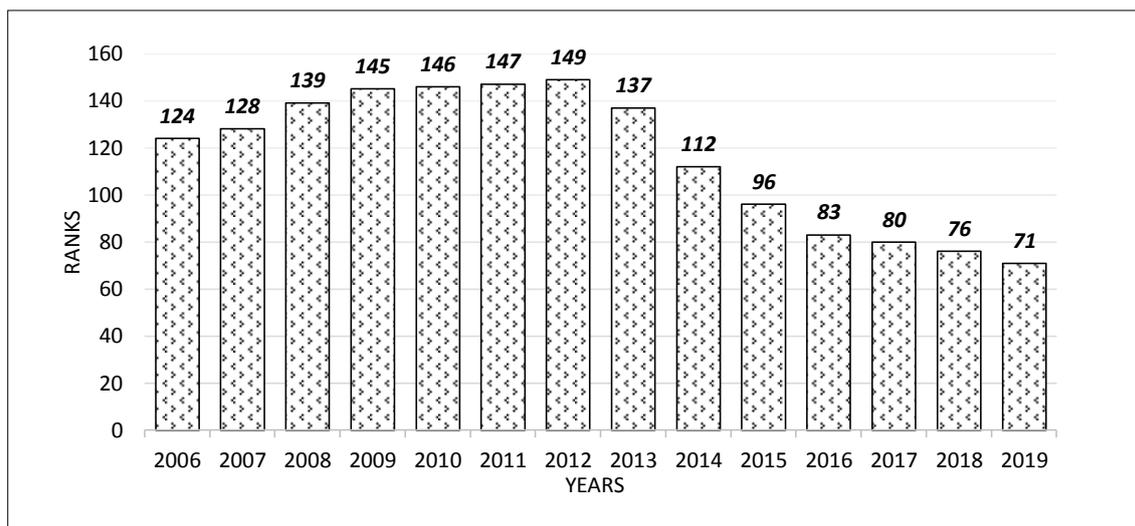


Fig. 1. Doing business rank of Ukraine in 2006–2019

Source: author's development according to the data [6]

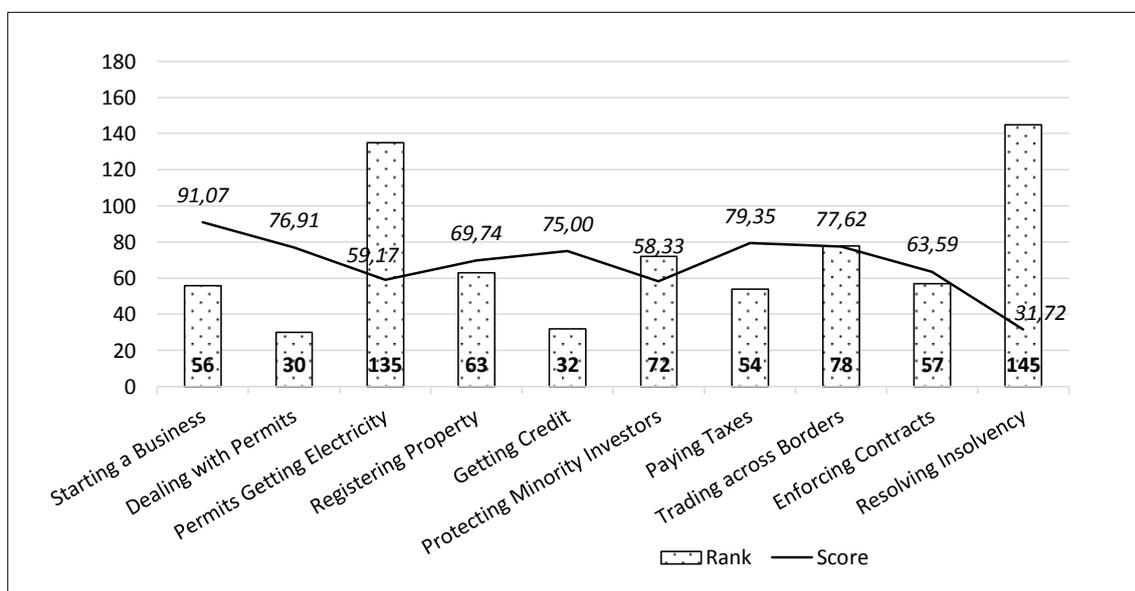


Fig. 2. Ease of doing business score and ranking of Ukraine in 2019

Source: author's development according to the data [1]

investigations of businesses [8; 9; 10; 14]. All these actions lead to such positive results as higher scores in next two rankings.

According to the ratings of political and legal environment development, Ukraine has improved its positions. Our country is entering the top 50 by rating the army's strength [14].

According to the Global Innovation Index in 2018, Ukraine has risen to seven positions and ranked 43rd among 126 countries. And in 2017, Ukraine occupied the highest position in the past 7 years – 50th place, ahead of Thailand and being behind Montenegro and Qatar. However, in the group below the average income, Ukraine took 2nd place after Vietnam, bypassing Mongolia, Moldova, Armenia and India. Compared to 2016, our country has risen by 6 points, which is due to a high coefficient of innovation efficiency, i.e. the ratio of innovation result to innovative resources [3].

The Heritage Foundation Index of Economic Freedom 2019 places Ukraine on 147th place in the world with a score is below the regional and world averages [2]. Ukraine has economy that are rated “mostly unfree”. Ukraine, which continues to experience political and security turmoil, remains the European region's least economically free economy (fig. 3).

Ukraine has improved its performance in some of the 12 categories – in particular, on business freedom, property rights, fiscal freedom, but is still listed in the “mostly non-free” economies of the world (fig. 4).

As noted above, Ukraine now is a rapidly developing country but ranks only 88th on the Human Development Index in 2018. Ukraine also has the lowest personal income and the one of the lowest GDP per capita in Europe. GDP per capita, in July-August 2018 increased to 23.506 thousand UAH, in real terms – by 3.3% by July-September 2017 [13].

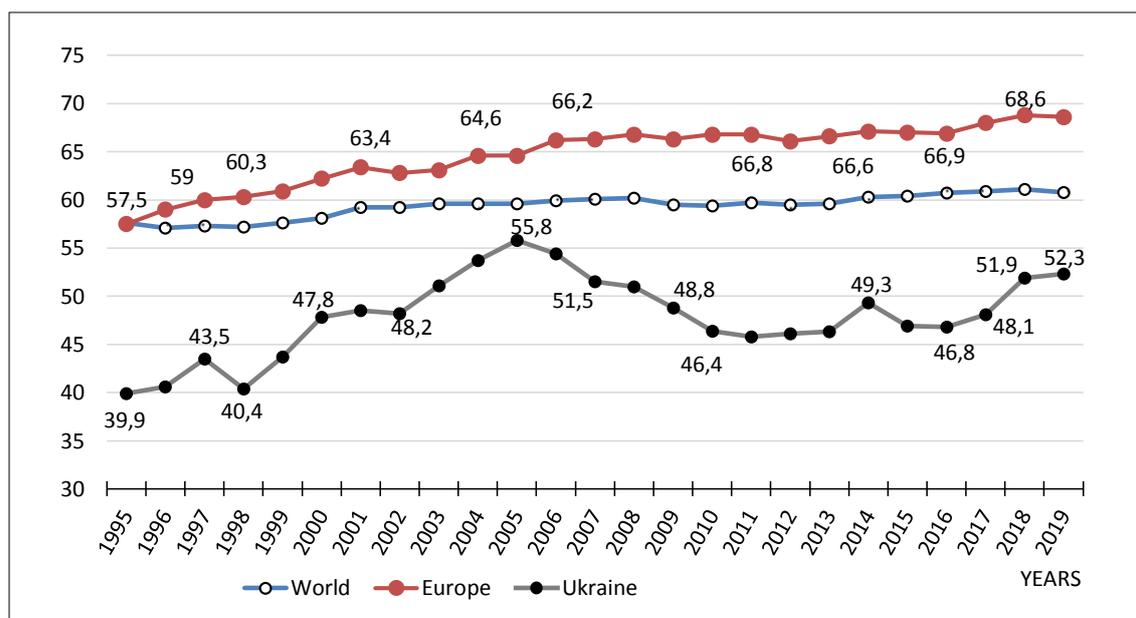


Fig. 3. Ukraine's Index of economic freedom in comparison with world and Europe's indexes in 1995–2019

Source: author's development according to the data [2]

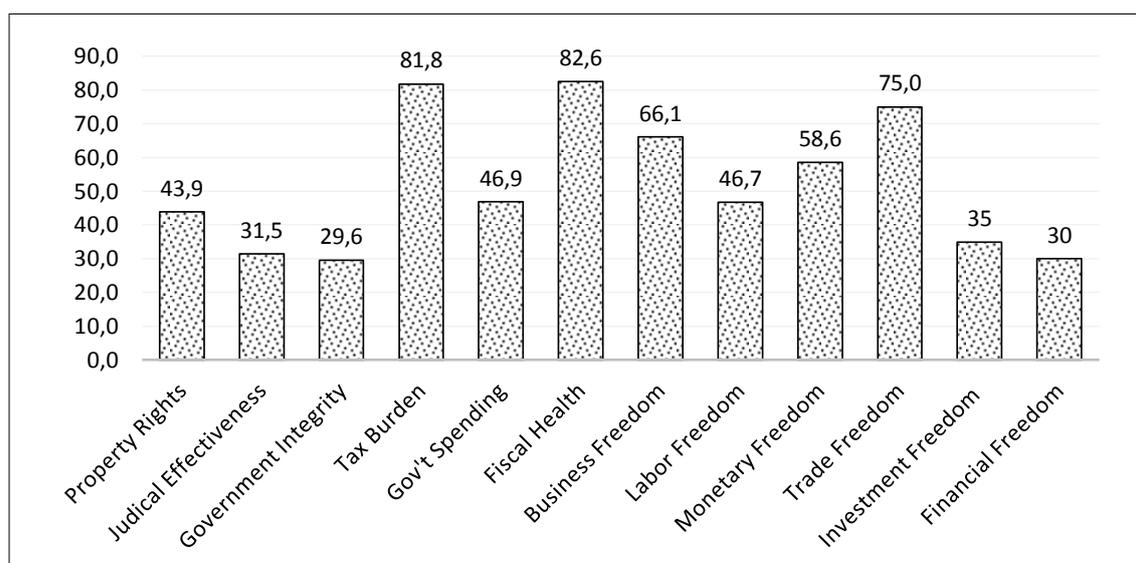


Fig. 4. Score of economic freedoms of Ukraine in 2019

Source: author's development according to the data [2]

For comparison, in Moldova the GDP per capita is 2,694.469 USD, and in Ukraine in October 2018 – 2,566.01 USD [7].

Joining the opinion of the IMF analysts – GDP per capita is not precise enough to compare living standards. Therefore, it is proposed to focus on the GDP per capita by purchasing power parity, since this indicator is an amendment to the exchange rate, on the difference in prices for the same types of products. According to IMF estimates, GDP per capita, based on purchasing power parity in Ukraine, is much higher – 9 210 USD. Neighbors in the ranking are Bulgaria (9 230 USD) and Gabon (9 030 USD) [3].

Positive changes are also observed in the indicator of real GDP of Ukraine. In the third quarter of 2018, in comparison with the same period last year,

the figure increased by 2.8%, compared to the second quarter of this year – by 0.4% [13; 14]. However, the IMF believes that a high level of corruption in Ukraine impedes the growth of gross domestic product (GDP) by almost 2% a year [9; 10].

In our opinion, the analysis of macroeconomic indicators will not be full for all pictures given to foreign investors without export-import components.

The EU and Ukraine have provisionally applied their Deep and Comprehensive Free Trade Agreement (DCFTA) since 1 January 2016. In 2018 Ukraine's exports and imports to the EU (EU-28) increased by more than 50% (table 1).

Till now the EU is Ukraine's largest trading partner, accounting almost 49% of export and 35% of Ukrainian import [4; 12]. The main Ukraine

exports are raw materials (iron, steel, mining products, agricultural products), chemical products and machinery. The main EU exports to Ukraine include machinery and transport equipment, chemicals, and manufactured goods.

The combined value of exports and imports is equal to 102.2 percent of GDP [2; 7]. The average applied tariff rate is 2.5 percent. As of June 30, 2018, according to the WTO, Ukraine had 143 non-tariff measures in force. Ongoing conflict with Russia undercuts trade and investment flows, and state-owned enterprises distort the economy. Despite the large number of trade agreements (with 46 countries), Ukraine imports more goods than exports (fig. 5). The balance of trade in goods in recent years remains negative (-9,801.1 million USD in 2018) [2].

For analysis of the current state of Ukraine’s investment attractiveness are especially needed the indicators of foreign direct investment (FDI) inflow. In 2017–2018 foreign investors invested the most in financial and insurance activities (9 months of 2018, 995 million dollars or more than 58% of all investments), as well as wholesale and retail trade, repair of motor vehicles [13]. In 2018, investments came in the sphere of scientific and technical activity.

The negative point is that Russia is still the investor (34.6% of the total volume). The positive thing is that the largest investors in Ukraine have become quite new, such as the Netherlands (USD 285 million in the first half of 2018), Austria (97 million), France (83 million), as well as regular partners – Poland (77 million) and Great Britain (69 million dollars) [9].

Needed to mention that foreign direct investment remains low and net FDI in 2017 equal to only 2 percent of GDP. In previous years, Ukraine’s FDI growth was driven partly by additional capitalization (especially from Russia) recapitalization of domes-

tic banks when banks conducted operations of converting debt into equity. According to the National Bank of Ukraine, net inflow of FDI to Ukraine in 2017 was USD 2.3 billion or 2.1 percent of GDP (USD 1.8 billion excluding banks recapitalization), falling from USD 3.4 billion in 2016 and bringing the total FDI stock to USD 39.1 billion [13].

The most significant constraints on FDI remain the business climate and corruption. Foreign investors cite corruption in the judiciary, poor infrastructure, powerful vested interests, and weak protection of property rights as some of the major challenges to doing business. Increasing labor migration abroad, particularly to the EU, is reducing Ukraine’s labor force.

For solving these problems, the Ukrainian government implemented a number of reforms to improve the business environment. Over the past four years, the government has established transparent government procurement through the “Pro-Zorro” and established new institutions to prevent and investigate corruption, including the National Anti-Corruption Bureau of Ukraine (NABU) and the Special Anti-Corruption Prosecutor’s Office (SAP). In 2017, the government passed a law to improve regulation of law enforcement agencies’ investigations of businesses after companies complained of harassment. In 2018 a law was passed on promoting the attraction of foreign investments.

Today, Ukraine has not only some problems and not enough socio-economic development for investment attractiveness as it has to be in well developed countries with sufficient amount of FDI, but also it has some sectors of economy that are very profitable and could help to raise the Ukraine’s economy. For example, large amount of local IT outsourcing companies serves clients worldwide. The Ukrainian IT industry comprises more than 500 outsourcing companies. Ukraine’s IT sector employs close to

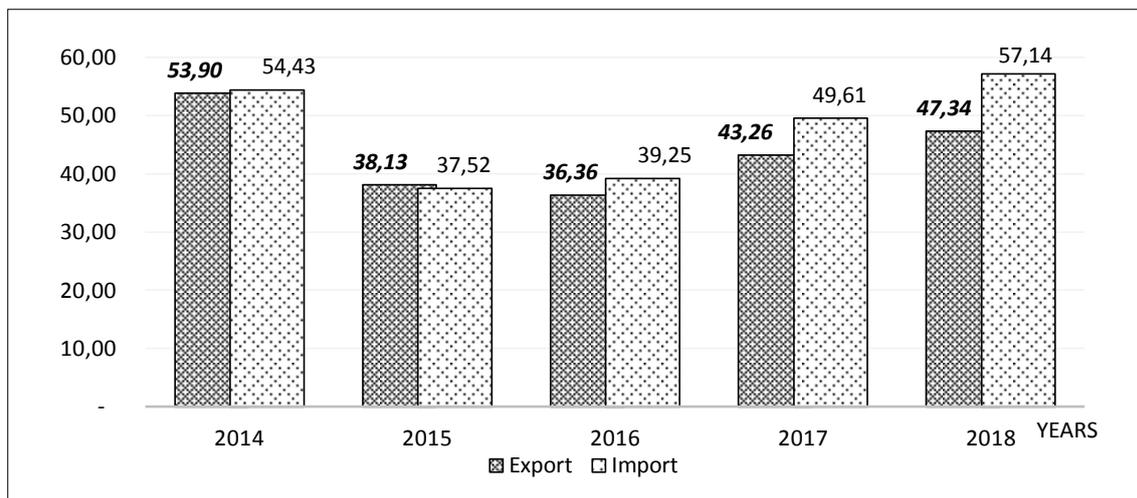


Fig. 5. Ukraine’s foreign trade in goods in 2014–2018, billion USD

Source: author’s development according to the data [3; 9; 13]

Table 1

Results of signing DCFTA for Ukraine in 2018, thousand USD

Indicator	Years		Growth	
	2015	2018	thousand USD	%
Export	13,015,209.50	20,158,484.95	7,143,275.45	54.88%
Import	15,330,120.90	23,182,713.66	7,852,592.76	51.22%

Source: author’s development according to the data [12; 13]

100,000 workers, including 50,000 software developers. More than 100 multinational tech companies have R&D labs in Ukraine.

According to A.T. Kearney Global Services Location Index, Ukraine ranks 24th among the best outsourcing locations, and is among the top 20 offshore services locations in EMEA, according to Gartner. In the first six months of 2017, the volume of export of computer and information services reached \$1.256 billion, which is an 18.3% increase compared to the same period in 2016 [11]. The IT industry ranks third in the export structure of Ukraine after agricultural industry and metallurgy.

Thus, Ukraine has a strong investment potential, which is not yet sufficiently developed. The global financial crises and the political and military events of the last decade in Ukraine did not contribute much to the increase of investment attractiveness, but Ukraine succeeded in achieving sufficiently high results in carrying out reforms to improve the socio-economic development of the country.

Conclusions. Taking into account all the analyzed data on international rating positions and their components, some basic indicators of social and economic development of Ukraine, we also identified the main and related problems.

Ukraine needs to develop its capital markets, privatize state-owned enterprises, and improve

both its legal framework and the rule of law. Ukrainian law protects property rights. The government reduced fees for construction permits in 2018. Enforcement of contracts yet is time-consuming and costly. The judiciary is susceptible to political pressure and fraught with corruption and bribes, and public confidence in its effectiveness is weakened as a result. Criminal penalties for corruption are not implemented effectively, and corruption remains endemic.

The business start-up process has been streamlined, but completion of licensing requirements is still time-consuming. Overall, political instability continues to compound regulatory uncertainty in commercial transactions. The labor code is outdated and lacks flexibility.

From the above, one can make the following conclusions. Increasing investment attractiveness and socio-economic competitiveness of Ukraine are possible in implementing further qualitative internal reforms. In particular, it is necessary to implement the existing human and innovative potential, complete the process of judicial reform, continue to create favorable conditions for small and medium businesses, and open the land market, which will significantly improve the investment attractiveness of the agricultural sector of the country and will ensure the GDP growth.

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СУЧАСНИЙ СТАН ТА ПРОБЛЕМИ ІНВЕСТИЦІЙНОЇ ПРИВАБЛИВОСТІ УКРАЇНИ ЧЕРЕЗ ПРИЗМУ СВІТОВИХ РЕЙТИНГІВ ТА ПОКАЗНИКІВ ЇЇ СОЦІАЛЬНО-ЕКОНОМІЧНОГО РОЗВИТКУ

Анотація

У статті запропоновано та доведено необхідність використання комбінованого методу оцінювання інвестиційної привабливості з використанням глибокого дослідження рейтингових позицій країни разом з показниками її сучасного соціально-економічного стану. Досліджено рейтинг легкості ведення бізнесу, проаналізовано місце України за окремими складовими. Розглянуто позиції країни в рейтингу розвитку політичного та правового середовища, а також в інноваційному рейтингу. Здійснено порівняння показників України зі світовими та європейськими в Індексі економічної свободи. Під час дослідження інвестиційної привабливості України здійснено аналіз показників обсягу прямих іноземних інвестицій та експортно-імпортних операцій. Виявлено макроекономічні та інституційні фактори підвищення соціально-економічного розвитку України, запропоновано низку найактуальніших завдань до виконання. **Ключові слова:** інвестиційна привабливість, рейтингові оцінки, легкість ведення бізнесу, економічна свобода, прями іноземні інвестиції, експорт та імпорт, ВВП на особу.

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СОВРЕМЕННОЕ СОСТОЯНИЕ И ПРОБЛЕМЫ ИНВЕСТИЦИОННОЙ ПРИВЛЕКАТЕЛЬНОСТИ УКРАИНЫ ЧЕРЕЗ ПРИЗМУ МИРОВЫХ РЕЙТИНГОВ И ПОКАЗАТЕЛЕЙ ЕЕ СОЦИАЛЬНО-ЭКОНОМИЧЕСКОГО РАЗВИТИЯ

Резюме

В статье предложена и доказана необходимость использования комбинированного метода оценивания инвестиционной привлекательности с использованием глубинного исследования рейтинговых позиций страны вместе с показателями ее современного социально-экономического состояния. Исследован рейтинг легкости ведения бизнеса, проанализировано место Украины по отдельным составляющим. Рассмотрены позиции страны в рейтинге развития политической и правовой среды, а также в инновационном рейтинге. Осуществлено сравнение показателей Украины с мировыми и европейскими в Индексе экономической свободы. При исследовании инвестиционной привлекательности Украины осуществлен анализ показателей объема прямых иностранных инвестиций и экспортно-импортных операций. Выявлены макроекономические и институциональные факторы повышения социально-экономического развития Украины, предложен ряд самых актуальных задач к выполнению.

Ключевые слова: инвестиционная привлекательность, рейтинговые оценки, легкость ведения бизнеса, экономическая свобода, прямые иностранные инвестиции, экспорт и импорт, ВВП на человека.