Investment Attractiveness of Ukraine and EU Support During Crisis Periods[1]

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Abstract. *The study of Ukraine's investment attractiveness during periods of crisis highlights the significant influence of external factors on the investment situation in the country, particularly regarding the inflow of Foreign Direct Investment (FDI). In the context of global and local crises such as the COVID-19 pandemic and Russia's military invasion, Ukraine's economic situation has experienced significant fluctuations, which have reflected on the investment climate. European Union countries play a key role in providing financial support, which is an important factor in stabilizing Ukraine's economy during this period. The aim of this research is to assess investment flows from EU countries and the investment attractiveness of Ukraine during crisis times. One of the key aspects of the study is analyzing the dynamics of FDI from EU countries. During the analyzed period, the volume of investments fluctuated significantly, indicating the instability of the investment environment. The largest investments in Ukraine come from the Netherlands and Germany, indicating the long-term interest of these countries in the Ukrainian market despite the crisis periods. Despite difficulties, 57% of companies already operating in Ukraine plan to continue their investments, and 79% are ready to contribute to the country's reconstruction after the war. This emphasizes the potential for economic recovery in the future, particularly due to international support. The methodology of the research includes both quantitative and qualitative methods of analysis, particularly statistical and comparative analysis. The practical value of the article lies in identifying the main factors affecting changes in the investment situation in Ukraine during crisis periods, as well as in developing recommendations to improve the investment climate. To enhance investment attractiveness and stabilize Ukraine's economy, it is crucial to continue reforms in the legal system, combat corruption, and improve the business climate through deregulation and simplification of administrative procedures. Additionally, Ukraine needs to actively work on infrastructure recovery plans, which will create new investment opportunities. The success of these measures depends on achieving stability and security, which form the basis for Ukraine's economic development in the future.*

Keywords: *investment climate, Foreign Direct Investment (FDI), EU countries, economic stability, crisis phenomena, political instability, war, business climate, deregulation.*

JEL Classification: *F21, F36*

1 Introduction

The investment attractiveness of a country is one of the key factors in its economic development and stability. For Ukraine, which has undergone a series of complex political and economic transformations, including armed conflicts and global economic crises, attracting investments is of particular importance. In this context, the European Union countries play a vital role as key financial partners, exerting significant influence on Ukraine's investment situation. Attracting foreign investments from EU countries is crucial for ensuring economic

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stability, developing infrastructure, and supporting the modernization of the Ukrainian economy.

The importance of investment flows as a factor of economic development and methods for assessing the investment climate have been explored by scholars such as Menshikov A.V., Kalabashkina Y.V., Zverev S.A. (2015), Tkalenko S., Derii Zh., Butenko N., Makedon H. (2022), Mykhailenko V.I., (2024), Huseva N., Némets O. (2023), Kostyrko L., Sieriebriak K., Sereda O., Zaitseva L.(2022), Demishev I., Voitko S. (2024), Tkachenko A.O. (2023), Lomachynska I.A. (2024), and others.

The relevance of this topic lies in analyzing changes in Ukraine’s investment attractiveness under the influence of various crisis phenomena that have occurred in recent years, such as the COVID-19 pandemic and Russia’s military invasion. This study allows us to determine how external economic partners, particularly EU countries, adapt their financial support strategies in times of instability. The scientific approach’s relevance is reflected in the need for a comprehensive analysis of the impact of economic and political factors on changes in Ukraine's investment situation, as well as identifying possible directions for optimizing cooperation with EU countries in the context of global and local crises.

The objective of the study is to assess the impact of financial support from EU countries on Ukraine’s investment attractiveness in times of crisis, as well as identify the key factors that influence changes in investment activity in the Ukrainian market during this period. To achieve this goal, it is necessary to analyze changes in the investment situation in Ukraine in recent years in the context of global and local crises, evaluate the role of EU countries in investment flows and financial support for the Ukrainian economy, and identify the main factors affecting Ukraine's investment attractiveness in conditions of economic and political instability.

The methodology of the research includes the use of both quantitative and qualitative methods of analysis, such as statistical analysis of foreign direct investment dynamics, comparative analysis of investment flows from different EU countries, and economic indicators that influence Ukraine's investment attractiveness. The research gradually examines changes in Ukraine’s investment environment, starting from the period of political instability and reaching peak values in 2019, followed by an analysis of crisis phenomena that led to capital outflows. The final stage of the research includes identifying the prospects for investment activity in Ukraine, considering external factors and the need for economic reforms.

2 The Impact of Economic and Political Situation in Ukraine on FDI Balance Fluctuations from EU Countries

The dynamics of Foreign Direct Investments (FDI) are an important indicator of a country's economic stability and attractiveness to foreign investors. In times of global and local crises, political and economic transformations, external investment flows can fluctuate significantly, which, in turn, affects the development of the national economy. Ukraine, which has experienced periods of economic instability, armed conflict, and political reforms, is a vivid example of how internal factors can significantly alter the investment situation.

A positive FDI balance indicates a net capital inflow, reflecting an increase in investment attractiveness, while a negative balance indicates capital outflow, signaling potential economic or political risks (Figure 1).

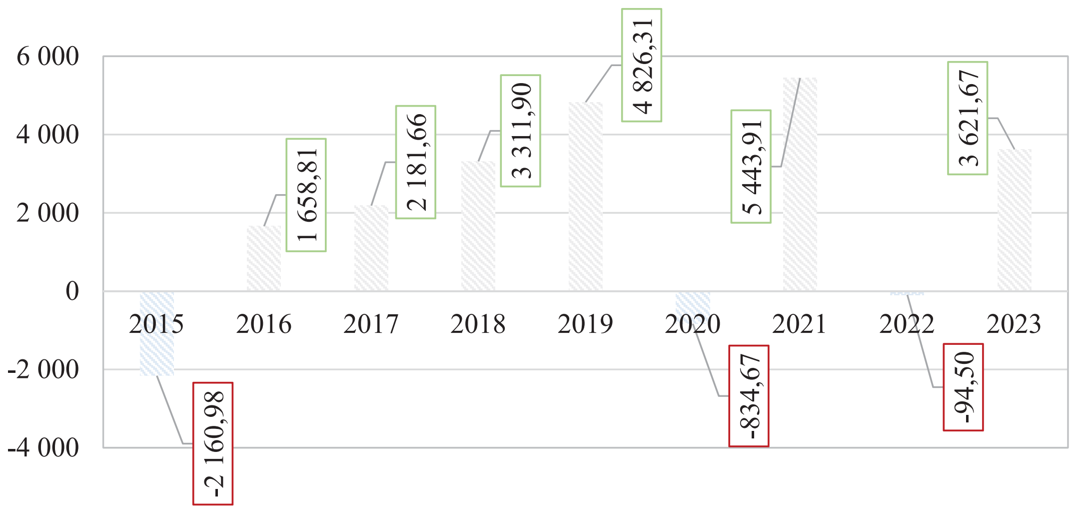

Figure 1 Dynamics of FDI Balance from EU Countries in 2015–2023 (million USD)

Source: NBU (2024)

During the analyzed period (2015–2023), the volume of FDI from the EU to Ukraine showed significant fluctuations, indicating instability in the investment environment and the influence of external factors.

In 2015, a net outflow of investments amounting to USD 2.16 billion was recorded, signaling a crisis in the economy and a lack of confidence from foreign investors. During this period, political and economic instability, caused by the beginning of the armed conflict in eastern Ukraine, contributed to the capital outflow. In 2016, the situation slightly improved, and total investments from the EU reached USD 1.65 billion, reflecting a growth of over 400 percentage points compared to the previous period, indicating some improvement in the investment climate and the start of stabilization processes (NBU, 2024).

In 2017, the inflow of investments increased to USD 2.18 billion, marking a growth of 31.5 percentage points compared to 2016. This was due to further stabilization of the economy and reforms that enhanced the attractiveness of foreign investment. In 2018, a significant increase in investments was observed, reaching USD 3.31 billion, which was 51.8% more than in 2017.

In 2019, the FDI balance from EU countries increased to USD 4.82 billion, representing the highest value for the analyzed period. This growth was 45.7 percentage points higher than in 2018. However, in 2020, a sharp decline was recorded, with the balance falling to USD -834.67 million (NBU, 2024), reflecting a net capital outflow. This decrease of 117.3 percentage points compared to the previous period was caused by the negative impact of the pandemic, which severely affected the global economy and exacerbated investor risks, as well as the spread of glocalization processes.

The largest growth during the analyzed period occurred in 2021 when the FDI balance amounted to USD 5.44 billion, indicating a significant recovery in interest in Ukraine in the post-pandemic economic recovery.

In 2022, the indicator once again decreased to USD -94.50 million, indicating capital outflow. The decline of 101.7 percentage points was related to the escalation of geopolitical risks due to the full-scale military invasion. This factor significantly affected the investment climate and led to a substantial reduction in investments. In 2023, the situation partially improved, with the FDI balance from EU countries reaching USD 3.62 billion (NBU, 2024). It should be noted that in this case, the growth of investments does not reflect an improvement in the investment climate or an increase in trust, but rather can be attributed to the increase in international financial support.

3 Trends in Investment Flows from EU Countries to Ukraine

Based on data from the European Commission (2024), the position of direct investments for each year from EU countries to Ukraine has been examined, focusing on the accumulated investment capital between 2013 and 2022 (Figure 2).

Since 2013, the largest volume of investments in Ukraine has come from the Netherlands, amounting to 8.625 million EUR. This volume slightly

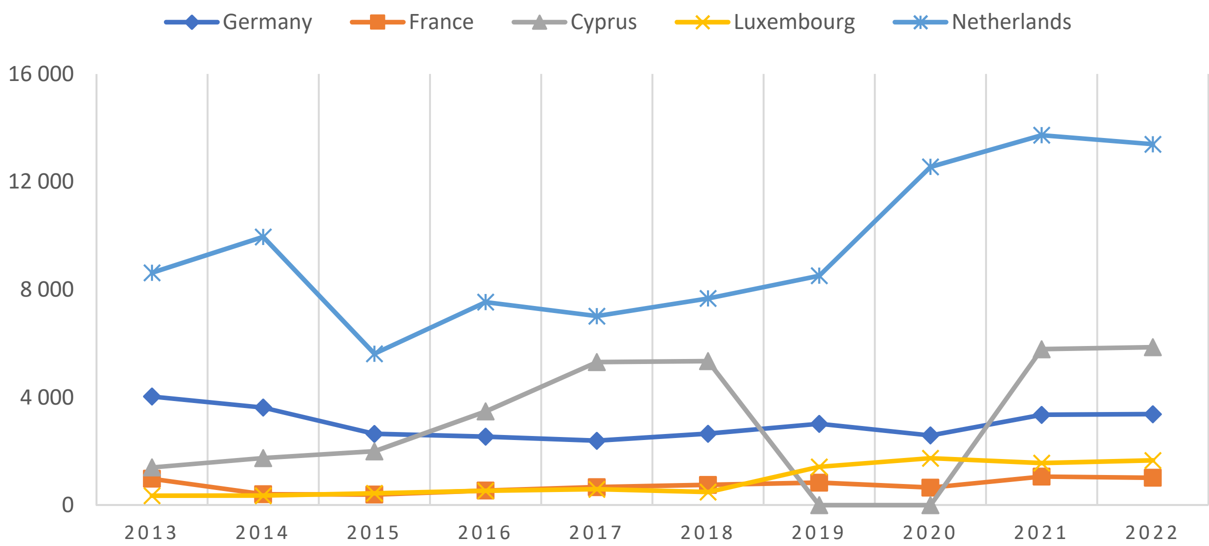

Figure 2 Dynamics of FDI from Major EU Investor Countries in Ukraine's Economy (2013–2022), million EUR

Source: Eurostat (2024)

decreased in 2014 to 9.957 million EUR, and from 2015 to 2016, there was a decline, reaching 7.535 million EUR in 2016. However, from 2017 onwards, investments from the Netherlands began to grow, peaking in 2022 at 13.392 million EUR (Eurostat, 2024). Over the 10-year period, investments from the Netherlands increased by 55.27 percentage points, demonstrating the country's long-term interest in supporting the Ukrainian economy.

Investments from Germany in 2013 amounted to 4.032 million EUR, but in subsequent years, the investment volume decreased significantly, reaching its lowest point in 2015 at 2.646 million EUR. Subsequently, there was a gradual increase, reaching 3.377 million EUR in 2022 (Eurostat, 2024). Although this value did not reach the 2013 level, a stable growth trend has been observed in recent years. The overall change over the 2013–2022 period showed a decrease of 16.24 percentage points.

Cyprus was also recognized as an investment partner during the analyzed years, although its investment activity was unstable. In 2013, the volume amounted to 1.040 million EUR, rising to 5.310 million EUR in 2017. However, in 2018, the investment volume decreased to 5.345 million EUR, and there was a sharp decline in 2019–2020. In 2021, recovery was observed, reaching 5.786 million EUR, and in 2022, it amounted to 5.862 million EUR, indicating stabilization after the crisis years (NBU, 2024). Over the period from 2013 to 2022, the overall change was an increase of 317.56 percentage points.

The indicators from France show the stability of investment flows, though the actual value is relatively small compared to other countries. The initial volume in 2013 was 980 thousand EUR, and by 2022, it had increased to 1.016 million EUR. The highest level was recorded in 2021, when the investment volume reached 1.061 million EUR. The increase in accumulated investments over the study period was 3.67 percentage points.

Investments from Luxembourg were much smaller compared to other countries, but in 2022, Luxembourg entered the top five investment partners. In 2013, the FDI volume was 351 thousand EUR. By 2021, it had grown to 1.562 million EUR. In 2022, there was a slight growth with a stagnation trend. The overall increase from 2013 to 2022 was 372.93 percentage points (NBU, 2024).

The analysis indicates that the Netherlands retains its position as the largest investor in Ukraine due to the stable and significant growth in investment volume throughout the entire analyzed period, reflecting trust in the Ukrainian market. Cyprus, despite fluctuations in investment dynamics, continues to be an important source of FDI, partly due to favorable tax conditions and reinvestments. Germany and France, on the other hand, show tendencies toward a decline or stagnation in investment activity, which may be linked to more conservative approaches to risks and the impact of economic and political factors, but remain among Ukraine's leading investment partners (Figure 3).

Analyzing the share of individual European countries in the total volume of EU investments in

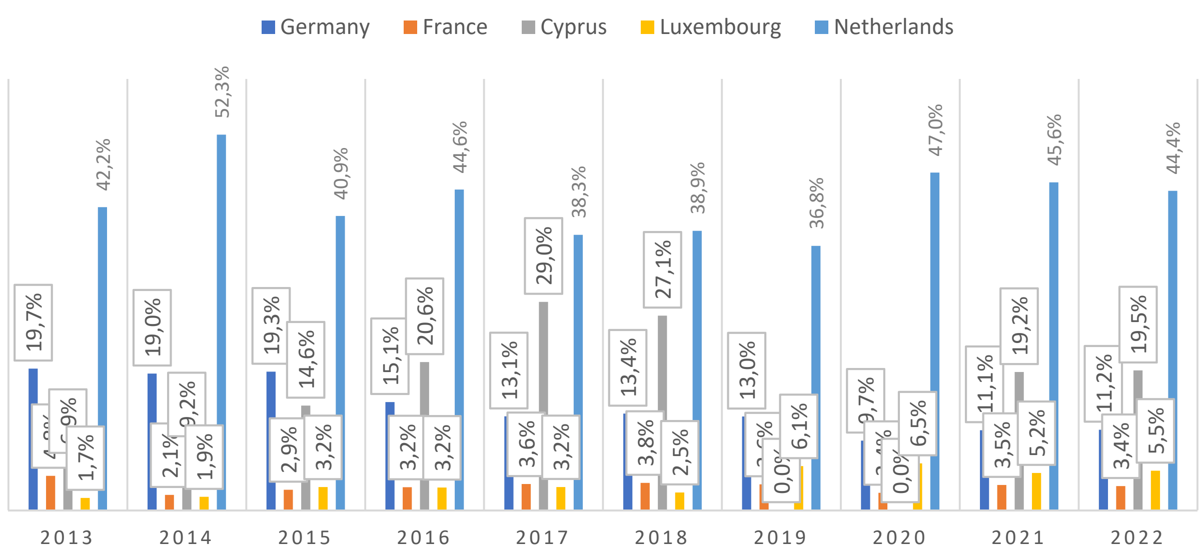

Figure 3 Share of Major EU Investor Countries in Total FDI from EU to Ukraine (2013–2022), %

Source: NBU (2024)

Ukraine during the 2013–2022 period, it can be noted that the Netherlands has been the largest investor throughout the entire period, holding over 40% of the total EU investment in Ukraine with minimal fluctuations. In 2013, its share was 42.17%, reaching a maximum of 52.26% in 2014. A slight decrease to 36.79% was recorded in 2019, but in 2020, the share of FDI from the Netherlands again increased to 46.98%. In 2022, the share remained significant, though slightly decreased to 44.45%.

The share of Germany was considerably smaller but remained significant throughout the analyzed period. In 2013, its share was 19.72%, gradually decreasing to 11.21% in 2022. Cyprus showed the greatest variability. In 2013, Cyprus' share was 6.87%, but it rose to a peak value of 29.00% in 2017. After that, there was a sharp decline, and in 2020, Cyprus' share in the total EU investment in Ukraine was not recorded. However, in 2021–2022, it stabilized at around 19%.

France's share remained relatively small and stable during the entire analyzed period, without significant fluctuations. In 2013, its share was 4.79%, gradually decreasing to 3.37% in 2022. Meanwhile, Luxembourg, throughout the entire period, had the smallest share of investments in Ukraine compared to other EU countries. However, in the 2019–2022 period, there was a gradual increase. In 2013, Luxembourg's share was 1.72%, and by 2022, it had risen to 5.51%.

The analysis of FDI balance from EU countries to Ukraine from 2015 to 2023 indicates the volatility of the investment climate influenced by political, economic, and external factors, including the pandemic and military conflict. After a capital outflow in 2015, investment activity gradually recovered, reaching a peak in 2019, but the crises of 2020 and 2022 led to a decline in investment attractiveness. The Netherlands and Cyprus remain the largest investors, with the Netherlands demonstrating stability, while Cyprus shows volatility due to dependence on reinvestments. Germany maintains moderate involvement, while France and Luxembourg show stagnation. Overall, the structure of direct investments reflects the strategic priorities of European partners and their willingness to support the Ukrainian market under crisis conditions.

4 Investment Climate in Ukraine

In 2023, the investment attractiveness index of Ukraine decreased to 2.44 points out of 5 possible, which indicates a slight deterioration in the investment climate compared to the previous year. According to the analytical report of the European Business Association, the majority of respondents (84%) still consider the investment climate unfavorable, but positive changes are nonetheless taking place. Specifically, the number of those who assess the situation as "very unfavorable" decreased from 37% to 24%. Moreover, the number of businessmen who believe that new investments in Ukraine can be profitable nearly doubled, from 17% to 32% (EBA, 2024).

Despite the war, 57% of companies already operating in Ukraine plan to invest in the country during the conflict, and 79% are ready to participate in the recovery process. This indicates long-term prospects for investors who remain in Ukraine, even under challenging conditions (EBA, 2024).

Among the positive changes, business leaders note Ukraine's candidate status for EU membership, deregulation initiatives, and the digitalization of public services, which gives hope for improving business conditions in the future. The main negative factors hindering investment development remain Russia's military aggression, corruption, and the weakness of the judiciary system.

To improve investment attractiveness and stabilize the investment climate in Ukraine, a number of recommendations can be proposed.

Future investment flows from both European countries and others will depend on resolving further issues related to strengthening the legal system and reducing corruption. Ukraine needs to strengthen its fight against corruption, reform the judiciary to ensure transparency and effectiveness of justice, which will give investors greater confidence in the protection of their rights.

It is important to develop support programs for investors already working in Ukraine, as well as stimulate new investments, particularly in sectors that are critical to the economy, such as infrastructure, energy, agriculture, and post-war recovery. The creation of special economic zones and tax incentives for investors may become an effective tool.

The development and support of initiatives aimed at deregulating business processes, simplifying administrative procedures, reducing bureaucracy, and simplifying tax administration will improve the business climate and reduce barriers for investors.

Ukraine must continue to work on strengthening its reputation on the international stage, particularly through progress on the path to EU integration. The measures listed above can increase the level of trust among international investors.

Given the destruction caused by the war, Ukraine must actively work on creating plans for economic recovery, which include supporting infrastructure projects, particularly in the restoration of housing, roads, bridges, and other key infrastructure. This will not only promote economic growth but also provide new opportunities for investments.

Achieving stability and security in the country, as well as creating conditions for economic recovery after the war, is the key to Ukraine's economic development.

5 Conclusions

As a result of the conducted research, it was found that the investment attractiveness of Ukraine is heavily dependent on political, economic, and external factors, including crisis phenomena such as the COVID-19 pandemic and the full-scale military invasion by Russia. Fluctuations in investment flows from EU countries indicate significant instability in Ukraine's investment environment, which undergoes serious changes during periods of economic and political instability. The dynamics of foreign direct investments from EU countries in Ukraine show that despite the crisis periods, EU countries continue to remain important financial partners for Ukraine. For example, the Netherlands, despite fluctuations in investment activity, demonstrates stable growth in investments, signaling trust in the Ukrainian market. At the same time, investments from Germany and France show a tendency to decline or stagnate, which can be explained by more conservative approaches to risks and economic factors.

The analysis of Ukraine's investment climate indicates the importance of continuing reforms in the legal system, fighting corruption, and improving the business climate. To attract investments, it is necessary to create favorable conditions for investors through deregulation initiatives, simplification of administrative procedures, and reduction of bureaucracy. Additionally, it is important to develop support programs for companies already operating in Ukraine, as well as ensure stability and security, which will serve as the foundation for economic recovery after the war.

In conclusion, while Ukraine faces significant challenges in the short term, its long-term investment prospects are promising. The combination of EU integration, legal reforms, infrastructure development, and continued international support offers a pathway for stabilizing the investment climate and attracting foreign capital. However, for these prospects to materialize, the country must continue to focus on improving governance, reducing corruption, and ensuring economic and political stability.

Thus, the successful restoration of investment activity in Ukraine is possible through comprehensive reforms aimed at improving investment attractiveness and creating a favorable environment for business.

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