

Analysis of the Current State of Investment Activity in Ukraine: Macro- and Micro-level

OLGA SHUMILO

Department of Marketing, Management and Entrepreneurship
V.N. Karazin Kharkiv National University
4 Svobody Sq., Kharkiv, 61022
UKRAINE

VITALINA BABENKO

International e-Commerce and Hotel & Restaurant Business Department
V.N. Karazin Kharkiv National University
4 Svobody Sq., Kharkiv, 61022
UKRAINE

OLENA OCHEREDKO

Department of Management and Entrepreneurship on Sea Transport
Azov Maritime Institute of National University "Odesa Maritime Academy"
8 Didrikhsona Str., Odesa, 65000
UKRAINE

NATALIIA NALYVAIKO

Department of Enterprise Economics
Ukrainian National Forestry University
103 Heneral Chuprynka Str., Lviv, 79057
UKRAINE

SOFIIA SUKHONIAK

Department of Enterprise Economics
Ukrainian National Forestry University
103 Heneral Chuprynka Str., Lviv, 79057
UKRAINE

HANNA FEDOROVA

V.N. Karazin Kharkiv National University
4 Svobody Sq., Kharkiv, 61022
UKRAINE

Abstract: The article deals with the essence and significance of investment activity at the macro- and micro-levels as the main factor of changes in the economy and interdependence of countries and enterprises. The article's authors prove that the development of investment processes in all areas of activity is a necessary condition for effective business organization. It is noted that the significance and essence of investments is reflected in their functions. The authors define functions of investments at the macro- and micro-levels. The authors consider variable factors of the macro- and microeconomic environment that affect investment processes in a particular industry. To determine the state of investment activity at the macro-level, the authors have conducted a research of foreign investment. The article discloses the dynamics of foreign direct investments in the economy of Ukraine and from the economy of Ukraine in other countries, their share in a total volume of foreign direct investment, the dynamics of capital investment and their share in the structure of GDP. The author studied and identified

major objects for investing in Ukraine. The article describes the role of domestic investments as the most active element of economic growth in the country. The article highlights modern obstacles to its development. Since Ukraine remains geographically, economically, and socially attractive country for investing at both macro- and micro-levels, the authors suggest to identify prior areas for improving its investment climate.

Key-words: Investments, Investment Activity, Analysis, Macro-level, Micro-level, Foreign direct investments.

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1 Introduction

Investment activity is the main factor of changes in the economy while business and social development of the country depends on the dynamics of investment activity and implementation of investment projects. The dynamics of investment activity affects the increase of production capacity and the solution of social issues. It provides positive changes in all sectors by accumulating free financial resources and directing them towards the implementation of economic projects in order to get profit.

Investment activity is an important element of global economic relations, which contributes to the interdependence of countries and enterprises alongside understanding its importance for handling international relations and determining goals for attracting investment. Proper investing contributes to the sustainable and efficient functioning of enterprises, which ensures development of entrepreneurship in the country together with exploring new industries and technologies. Obtaining a set of knowledge about investments and analysing the structure of modern investment market are important to regulate the country's investment activities at the macro- and micro-levels.

Under contemporary transformational economic conditions concerned with the escalation of competition between business organizations, it is important to do research of investment activity and investment attractiveness of enterprises becoming pivotal for investors in making investment decisions. Coordinating investments transferred from the macro-level to a regional one and from an industry level to a level of enterprise extends enterprises' investment opportunities, stimulates the increase of investments in the economy, and strengthens a state financial system [1].

A necessary condition for the effective organization of business is development of investment processes in all areas of activity.

Investments are defined as input of capital in all its forms aimed at achieving economic or extra-economic effects based on market principles and

connected with factors of time, risk, and liquidity [2]. According to T. Govorushko, investments are a set of monetary, property, intellectual, and other values that foreign investors spend for business and other activities (according to current legislation) in Ukraine in order to obtain benefits – profit (or income) and / or the achievement of economic, social, innovative, and environmental effects [3]. As the Law of Ukraine On Investment Activity states, investments are all types of property and intellectual values spent for objects of entrepreneurial and other types of activity creating a profit (income) [4].

The significance and nature of investments are reflected in functions they perform. For example, functions of investing at the macro-level include: ensuring a process of simple and extended reproduction of fixed assets; ensuring a process of formation and replenishment of non-fixed assets; the transfer of capital from one area to another through buying and selling of financial instruments; redistribution of capital between owners through the acquisition of shares and investments in assets of other enterprises. Functions of investment at the micro-level encompass: prevention of excessive moral and physical depreciation of fixed assets in all sectors of the national economy; expansion and development of highly efficient areas of activity; increasing the technical level of production, which means reducing the capacity of products and services provided; improving the quality and competitiveness of products; replenishment of non-fixed assets [5].

Performing its functions at the macro-level, investments are the basis for: implementing a policy of expanded reproduction; accelerating scientific and technological progress, improving quality, and ensuring the competitiveness of domestic products; structural rearrangement of social production and balanced development of all sectors of the national economy; creating a necessary raw material base for an industry; civil engineering, development of health care, culture, higher and secondary school, as well as solving other social problems; mitigating or solving a problem of unemployment; environmental protection; ensuring the defence capabilities of the state; solving many other problems [6].

At the micro-level, investments ensure development of production and its technical level, provide the competitiveness of enterprises products, function as the basis for the acquisition of shares and investments in assets of other enterprises, ensure the stability of the financial condition of an enterprise, and increase its value.

At the same time, the macroeconomic environment is affected by variable factors, which encourage or restrain investing in the national economy. Primarily, such factors include economic, institutional and political, international economic and political, socio-cultural and demographic ones. Thus, the factors of the macro-environment are variable factors, which generally stipulate investing in the national economy.

On the contrary, the microeconomic investment environment reflects the state of economic and other variable factors that promote or hinder investing in a specific sector of the economy in a particular region or market. As you can see, the microeconomic environment is represented by variable factors affecting investment processes in a particular area of a region [6].

Consequently, investments at the macro- and micro-levels have a great influence on development of enterprises and countries in general, where foreign investments play a significant role, which consists in ensuring an international collaboration and a sufficient social effect.

Issues of the investment activity are highlighted in the scientific papers of both national and foreign researchers, namely V. Berens, A. Galchynskyi, L. Gitman, J. Honko, I. Blank, I. Burlaka, A. Ivashchenko, I. Dorosh, O. Mertens, A. Pidlisetskyi, Y. Tkachenko, T. Khachaturov, I. Chunytska, V. Shevchuk, A. Peresada, A. Filipenko, J. Gitman, Michael D. Joehnk and others. Despite the considerable contribution of the above-mentioned scientists, a problem regarding external and internal investment activities requires further examination in terms of current tendencies of economic development.

2 Problem Formulation

Analysing the state of investment activity at the macro-level, the authors have realized to study foreign investments because they provide an

opportunity to accumulate international capital flows and to ensure the economic growth by directing free resources towards development of various sectors of countries' economies. Attracting foreign investments in the country's economy and improving its investment climate are one of the government's priorities. Hence, their implementation contributes to the country's development under the recent transformational realities.

The purpose of the article is to research investment activities of Ukraine at the macro- and micro-levels under contemporary business conditions.

To accomplish the determined goal, the article's authors have applied a complex of synthesis, analysis, and logics methods in the process of theoretical and empirical research. As a result, the authors have substantiated the essence of investments and their importance embodied in functions investments perform at the macro- and micro-levels. The authors have indicated factors influencing macro- and micro-economic investment environments, major objects for investing in Ukraine, and prior directions for enhancing investment climate in the country. To disclose information for making decisions regarding enhancing investment activities through combining synthesis and analysis methods, the authors have examined statistical indicators of volumes and dynamics of foreign direct investments in the economy of Ukraine and from the economy of Ukraine in other countries. Applying the graphical method, the authors present shares of such countries in a total volume of foreign direct investments. Drawing on the graphical method, the authors show the structure of foreign direct investments in the economy of Ukraine by countries, as well as the dynamics of capital investment volumes and their shares in the structure of GDP during 2011-2020.

3 Problem Solution

A volume of foreign direct investments in the economy of Ukraine for the period 2011–2020 is presented in Figure 1. As can be seen from Fig. 1, the uneven inflow of investments is caused by political and economic reasons during the decade and by the impact of the Covid-19 pandemic in 2020.

Table 1. Volumes of foreign direct investments in Ukraine

Year	Foreign direct investments, in USD millions	Absolute increase, in USD millions	Growth rate, % (compared to the previous year)
2011	7207	–	–
2012	8401	1194	16.6

2013	4499	-3902	-46.4
2014	410	-4089	-90.9
2015	-458	-868	-211.7
2016	3810	4268	931.9
2017	3692	-118	-4.1
2018	4455	763	20.6
2019	5860	1405	27.5
2020	-868	-5728	-97.74

Source: [8].

Thus, in 2012–2013, the volume of foreign direct investments in the country's economy decreased. In 2014–2015, there was a critical decline caused by the war in eastern Ukraine. Growth rates in 2015 and 2016 years amounted to -90.9% and -211.7%, respectively. The situation began to improve in 2016, when the growth rate of foreign direct investments amounted to 939.9%. After a significant recovery in the investment market, there was a drop in volume in 2017. After the positive dynamics for the next two years in 2020 under an influence of the Covid-19 pandemic, there was a significant decrease in level of investing in the economy. The absolute growth of investments was -5728 USD millions and the growth rate was -97.74%.

Analysing the dynamics of foreign direct investments in the economy of Ukraine and from the

economy of Ukraine in other foreign countries shows that there is the considerable amount of investments from other countries in comparison with direct investments from Ukraine. Thus, over the researched period from 2011 to 2020 (Fig. 1), the largest amount of foreign direct investments came to Ukraine in 2011 and 2012. After a period of recession in 2014–2015, the country's investment market began to rise and, in 2019, they increased significantly. Nevertheless, in 2020, they reached the negative value as the economic and political situation changed under an influence of the pandemic. It represents the distrust of both foreign and national investors to opportunities for stable business activity and improving the investment climate in Ukraine.

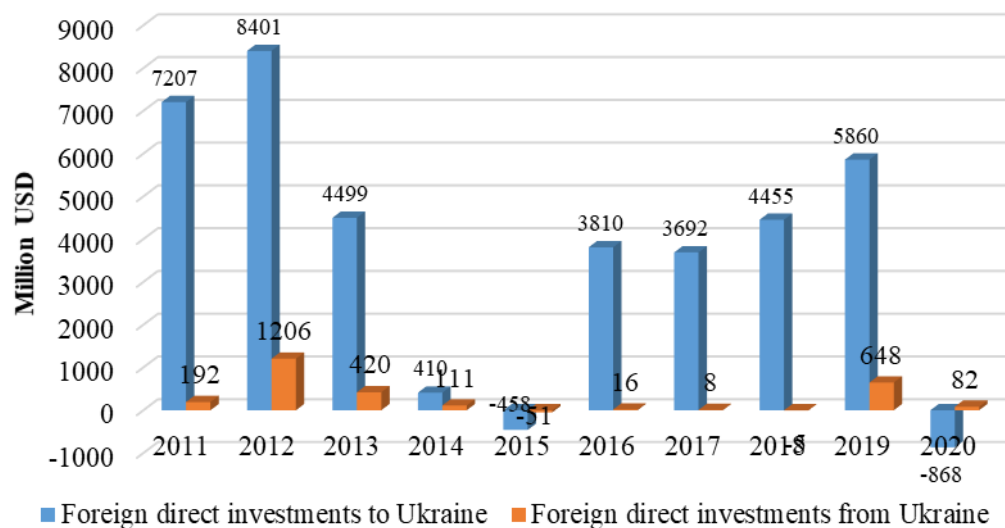


Fig. 1: Foreign direct investments in the economy of Ukraine (from Ukraine) during 2011–2020.

Source: [8].

A list of countries that invest the largest amounts of investments in the economy of Ukraine and their share in a total amount of foreign direct investments are shown in Table 2.

Drawing on results of the suggested research, the article's authors may observe that the structure of

foreign direct investments has changed over the proposed period. For example, the largest amount of investments was introduced to Ukraine by Cyprus. However, in 2020, investment inflows decreased by 2.2% in comparison with 2018. The next country in this ranking, according to the introduction of direct

investments in the country, is the Netherlands. The share of investments of the Netherlands is growing steadily during the whole research period and it

finally reached 23.2% in 2020 compared to previous periods, when the share was 20.2% and 18.0% in 2018 and in 2015, respectively.

Table 2. The structure of foreign direct investments in the economy of Ukraine by countries, %

Country	2015	2018	2020
Netherlands	18	20.2	23.2
Cyprus	31.2	28	29
Germany	5.5	5.3	5.1
United Kingdom	5.6	6.1	5.8
France	3.5	2.3	2.4
Austria	3.5	3.2	3.4
Switzerland	3.6	4.8	4.8
Italy	0.5	0.6	0.8
Poland	1.8	2.0	2.2
USA	2.0	1.6	2.8
Russian Federation	4.2	2.5	2.0
Other countries of the world	20.6	23.4	19.5
Total	100.0	100.0	100.0

Source: [11].

Germany, Switzerland, and the United Kingdom are the most prominent among the investor countries owing to a significant amount of direct investments. For example, the share of direct investment from Germany decreased slightly. In 2020, it reached 5.1%, which is half of its total in 2015. The share of Swiss investments increased to 4.8%. The United

Kingdom invested in Ukraine's economy in 2020: its share in total investments was 5.8%. France, Austria, and Poland are similar in the number of direct investments in the Ukrainian economy (Fig. 2). In 2020, the lowest amount of investments came from the Russian Federation and Italy: their shares amounted to 2.0% and 0.8%, respectively.

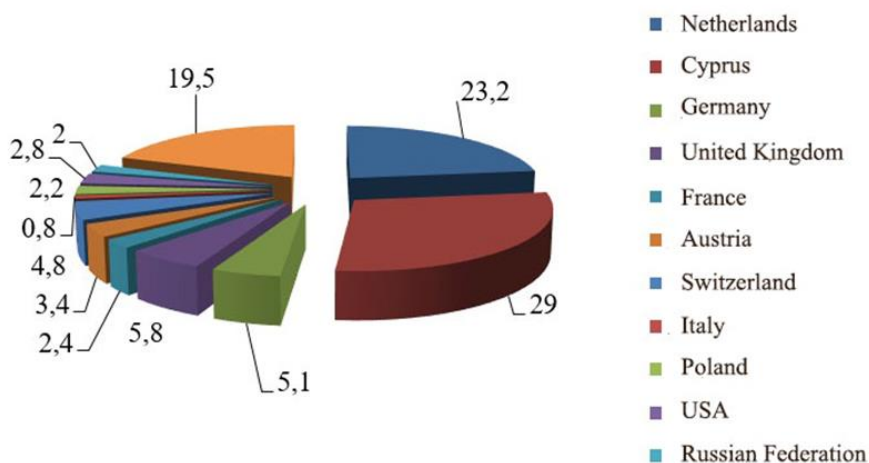


Fig. 2: The structure of foreign direct investments in Ukraine's economy grouped by countries of origin in 2020.

Source: [11].

Nowadays, foreign direct investments are the stable source of capital. From the point of view of predictability and financial stability of the state, it is better to stimulate the attraction of foreign direct investments. Such measure is one of directions for

the integration of the Ukrainian economy into the global economic environment.

According to a majority of definitions, making foreign direct investments primarily means earning long-term profits and exercising control over an object of investments on the part of a foreign

investor. Direct investments are the main measure for creating transnational corporations in Ukraine and in the world. Hence, it is possible and expedient to consider these processes as interrelated and reciprocally stipulated phenomena [9].

Activation of investment activity and growth of investment resources are impossible without the growth of gross domestic product.

It is worth mentioning that real GDP of Ukraine has been increasing over the period of research and in the current year. For instance, in 2021, the real GDP of Ukraine incremented by 3.4%, compared to declining by 3.8% in 2020.

Stable consumer demand, the growth of post-crisis investment volumes, and a record harvest of

crops have fostered an economic recovery. Simultaneously, economic revival has been slower than expected. Reasons are as follows: the dramatic price increase for fuel and its deficit; an influence of small harvests of 2020; a slower recovery of a service sector; restricted capacities of certain manufacturing sectors; more significant losses from the pandemic; drastic fiscal consolidation [10].

Over the past years, the share of foreign investments in the structure of Ukraine's GDP has been relatively insignificant and fluctuated within 3–5%. This confirms the difficulty of attracting financial resources from abroad to the national economy.

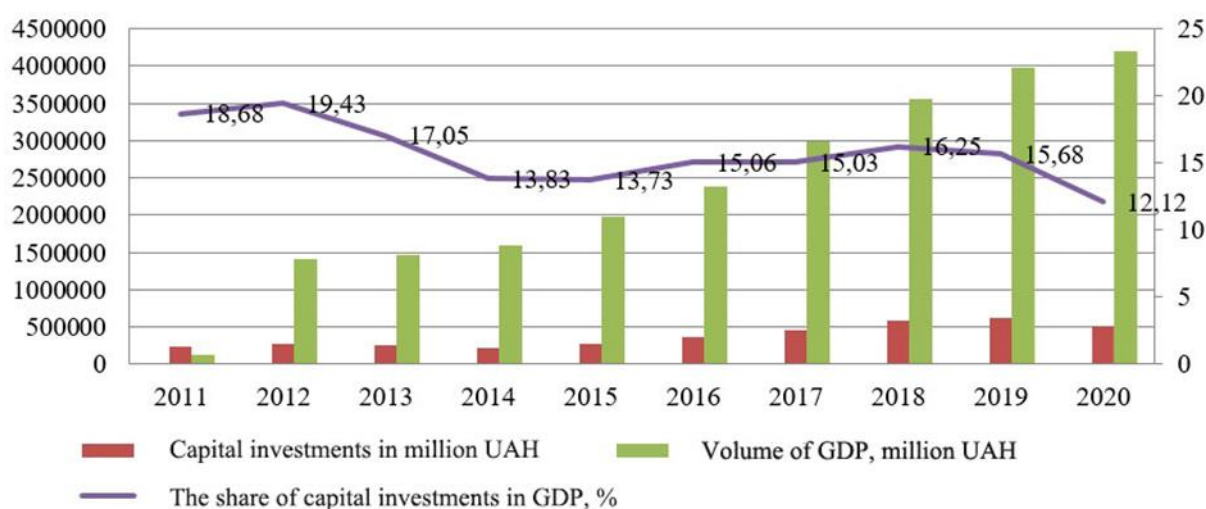


Fig. 3: Dynamics of capital investment volumes and their share in the structure of GDP during 2011-2020.

Source: [11].

As can be seen from Fig. 3, GDP of the country has been increasing during the whole period of research. Such tendency has not been inherent to volumes of capital investments in the country's economy because they have not been tending to increase. The share of capital investments in GDP changes in conformity with changes in capital investment volumes. Figure 3 shows that this indicator achieved the largest amount in 2012 and in 2018: its value accounted for 19.43% and 16.25%, respectively. This fact confirms that the country was in the phase of economic growth. The indicator of the

share of capital investments in GDP achieved the lowest value in 2015 because the country's economy was considerably affected by a political situation in Ukraine.

In 2020, the index showed a slight decreasing trend affected by the epidemic situation caused by COVID-19.

Unfortunately, capital investments in the economy are reducing in Ukraine. In 2020, the level of gross fixed capital formation to GDP was only 12.8%, which became a historic minimum since the early 2000s (Fig. 4).

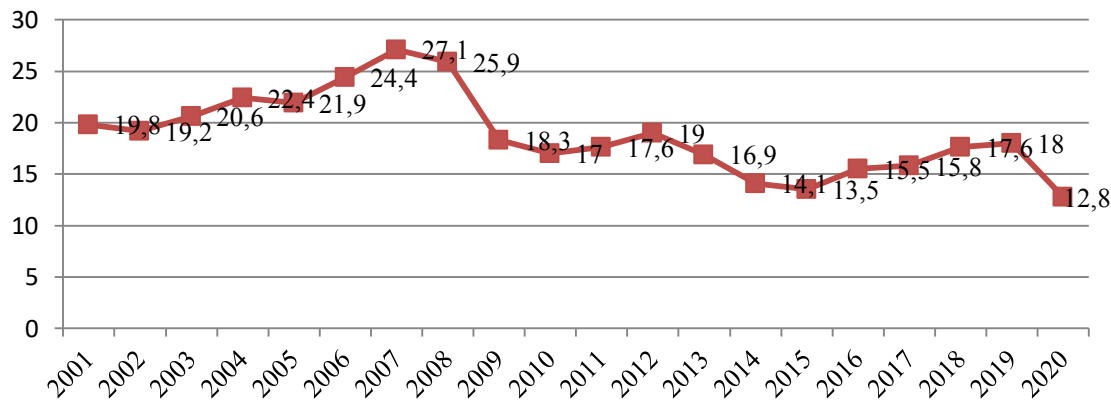


Fig. 4: Gross fixed capital formation in Ukraine in 2001-2020, % of GDP.

Source: [11].

In Ukraine, the volume of investments utilization in fixed assets in relation to the general budget indicates that more than half of the total volume in

2020 was made at the expense of internal resources (Table 3).

Table 3. Volumes of investments utilization in fixed assets compared to the general budget of Ukraine in 2020

Investments	Capital investments, in UAH billions	In % of the general budget
Including at the expense of:		
funds from state budgets	36512490	8.7
funds from local budgets	43558332	10.4
own funds of enterprises and organizations	279330400	66.5
bank loans and other loans	27894481	6.7
funds of investment companies, funds, etc.	4256154	1.01
funds of foreign investors	1729174	0.4
funds of the population for housing construction	20590878	4.9
other sources of funding	5964753	0.1
Total	419836662	100

Source: [11].

Funds of economic entities remain the main source for financing of capital investments in 2020. They were directed to the renewal of production capital assets, their modernization, technical re-equipment, and reconstruction. The main sources of financing of the investment activity comprise personal funds of enterprises and organizations (66.5%), funds of local budgets (10.4%), as well as loans from banks and other loans (6.7%).

Investments play the extremely important role at the micro-level. Government investments are the most active element of economic growth in the country. However, in Ukraine, the domestic investment market has a number of obstacles to its development.

Capital investments from internal reserves of the state, corporations, and a set of households in

the country should become the main source for the growth of the domestic economy. In case of remaining inside the country, they must work for the national economy.

We can identify the main objects for investment in Ukraine. They are as follows:

- agriculture and related industrial processing and infrastructure (ports, elevators, and equipment) that will continue to enhance;
- the IT sector, which has favourable conditions from the standpoint of government regulation, young workforce, and favourable geographical location. Opportunities for foreign investors are created in this area to acquire small and medium-sized Ukrainian companies;

- logistics and construction of logistics infrastructure are also attractive objects for purchase, especially for supply of retail goods;

- the pharmaceutical industry, for which investment attractiveness is growing amid attempts to reform the health care system; Ukrainian enterprises are becoming objects for acquisition for global companies;

- investments in infrastructure, where objects for acquisition will be presented by companies engaged in construction and delivery of related services;

- production of parts for small and medium equipment [12].

Industries being potential but not sufficiently determined for investing in Ukraine are: the energy sector with uncertain regulatory environment; defence and aerospace industries that need government reforms; the banking sector; large-scale privatization, which contemplates that success of M&A investments will be uncertain, taking into account complex legal and economic environments of state-owned companies [7].

Ukraine remains a geographically, economically, and socially attractive country for investments at both the macro- and micro-levels. The following objectives can be identified as priority areas for improving the investment climate in the country [14]:

- improvement of legislation in the field of investment activities;

- simplification of the taxation system and ensuring transparency;

- development of a mechanism for government stimulation of investment projects;

- concentration of available resources in prior fields of the economy and their further transformation into investments;

- the change in the legal and regulatory framework of Ukraine in accordance with EU requirements aimed at efficient and stable functioning of the economy;

- implementation of a state program which will promote the national stock market;

- systematizing knowledge about the investment basics and clients' understanding of risks and benefits of using financial instruments;

- creation of investment infrastructure, as well as providing guarantees for investors;

- maintaining control over a level of risks;

- guaranteeing the level playing field (equal conditions of doing business) to an investor and

predictability of cooperation with the government;

- in order to stimulate national investment activities, it will be helpful to ensure benefits related to the usage of the developed investment projects for small and medium-sized businesses;

- improvement of infrastructure and introduction of new technologies, particularly energy saving ones.

4 Conclusion

Having done the research, the authors have ascertained that, over the past period, a volume of foreign direct investments in the Ukrainian economy and a capital investment share in the structure of its GDP have been tending to reduce. The internal investment market also requires internal investors to be encouraged to explore new opportunities for the economic growth. Agricultural production, the IT sector, logistics, construction, and the pharmaceutical industry are the main objects for investing in the economy.

Under contemporary conditions of economic development, examining investment activities at the macro- and micro-levels in Ukraine and evaluating their results conduce to making well-considered investment decisions, as well as open up new opportunities for domestic and foreign investors regarding investing and managing investment activity in compliance with transformations of an economic environment.

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Contribution of individual authors to the creation of a scientific article (ghostwriting policy)

Olga Shumilo has prepared the literature review in Section 1, selected research methodology in Section 2, and performed computations for volumes of foreign direct investments in Ukraine for Section 3.

Vitalina Babenko has formulated the research idea and goals in Section 2 and summarized data on structure of foreign direct investments in the economy of Ukraine by countries for Section 3.

Olena Ocheredko has created figures for visualization of research in Section 3 and outlined the conclusion.

Nataliia Nalyvaiko has analysed the dynamics of capital investment volumes and their share in the structure of GDP during 2011–2020 for Section 3.

Sofia Sukhoniak has examined amounts of gross fixed capital formation in Ukraine in 2001–2020 for Section 3.

Hanna Fedorova has indicated volumes of investments utilization in fixed assets compared to the general budget of Ukraine in 2020 for Section 3.

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