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**ASSESSMENT OF THE IMPACT OF RUSSIAN AGGRESSION ON THE
BUSINESS CLIMATE AND INVESTMENT ATTRACTIVENESS OF
UKRAINE**

**ОЦІНКА ВПЛИВУ РОСІЙСЬКОЇ АГРЕСІЇ НА БІЗНЕС-КЛІМАТ ТА
ІНВЕСТИЦІЙНУ ПРИВАБЛИВІСТЬ УКРАЇНИ**

***Summary.** The level of investment attractiveness of each country is an indicator of the success of economic policy at the macro and micro level. As a cumulative indicator, it is under the influence of direct and indirect factors. In addition, a characteristic feature of the possibility of attracting investments is the*

time to form a coherent policy of state bodies and private institutions, provided there are external positive influencing factors. At the same time, only one factor, even in the short term, is enough to significantly reduce the country's investment attractiveness for potential investors. The Ukrainian economy is in a state of deep destruction, which cannot be overcome without a favorable business climate. The events of the last 9 years had a significant impact on the economy of Ukraine. The conflict in the east of Ukraine, the annexation of Crimea, the full-scale invasion, as well as political and economic instability contributed to a reduction in the inflow of foreign investments. Since 2014, it has become difficult to insure foreign investments due to uncertainty and the impossibility of assessing potential risks and losses, which has led to a decrease in Ukraine's investment attractiveness. Currently, Ukraine cannot achieve sustainable economic development on its own, and that is why it needs significant attraction of foreign capital.

The article examines the essence of the concepts of "investment attractiveness" and "business climate". Factors that determine the country's investment attractiveness are considered in detail. The key trends of Ukraine's economic indicators, which have a direct impact on its investment image, are depicted. The place of Ukraine in the world ratings, in particular credit ratings, whose results determine the level of investment attractiveness and the state of the business climate, is considered. A comprehensive analysis was carried out, which made it possible to determine the current state of the business climate in Ukraine. Factors that have a positive and negative impact on the investment attractiveness of Ukraine have been identified.

Key words: *foreign investments, business climate, investment attractiveness, international ratings, competitiveness, credit ratings.*

Анотація. Рівень інвестиційної привабливості кожної країни є показником успішності економічної політики на макро- та мікрорівні. Як сукупний показник, він перебуває під дією факторів прямого та непрямого впливу. Крім того, характерною особливістю можливості залучення інвестицій є час формування злагодженої політики державних органів та приватних інституцій за умови наявності зовнішніх позитивних факторів впливу. Водночас лише одного чинника, навіть у короткостроковій перспективі, достатньо, щоб суттєво знизити інвестиційну привабливість країни для можливих вкладників коштів. Українська економіка перебуває у стані глибокої руйнації, яку неможливо подолати без сприятливого бізнес-клімату. Події останніх 9 років істотно вплинули на економіку України. Конфлікт на сході України, анексія Криму, повномасштабне вторгнення, а також політична та економічна нестабільність сприяли скороченню притоку іноземних інвестицій. З 2014 року іноземні інвестиції стало складно страхувати через невизначеність та неможливість оцінити потенційні ризики та збитки що призвело до зниження інвестиційної привабливості України. В даний час Україна не може самотійно досягти сталого економічного розвитку, а тому потребує значного залучення іноземного капіталу.

У статті досліджено сутності поняття «інвестиційна привабливість» та «бізнес-клімат». Детально розглянуті фактори, які визначають інвестиційну привабливість країни. Зображено ключові тенденції економічних показників України, які мають прямий вплив на її інвестиційний імідж. Розглянуто місце України у світових рейтингах, зокрема кредитних, на результатах яких визначають рівень інвестиційної привабливості та стан бізнес-клімату. Здійснений комплексний аналіз, який дозволив визначити

поточний стан бізнес-клімату в Україні. Виявлено фактори, які мають позитивний та негативний вплив на інвестиційну привабливість України.

Ключові слова: *іноземні інвестиції, бізнес-клімат, інвестиційна привабливість, міжнародні рейтинги, конкурентоспроможність, кредитні рейтинги.*

Formulation of the problem. In the conditions of an unstable economic environment, caused mainly by the conflict in Ukraine, the search for ways to support and even grow the domestic economy is of particular interest. In the conditions of global transformations, Ukraine needs to attract significant foreign investments to ensure economic development, raise the standard of living, stimulate competition and business development, increase production and modernize existing enterprises.

Ukraine has taken certain steps to improve the investment climate. However, the overall situation remains unfavorable. The low investment attractiveness of Ukraine prevents the modernization of the economy, the implementation of urgent reforms, the exit from a deep systemic crisis and the overcoming of economic destruction. Improving the investment climate and increasing investment activity is a particularly urgent task at this stage of Ukraine's development.

Analysis of recent research and publications. Today, scientists are actively researching and discussing the business climate and investment attractiveness of Ukraine. The main regulatory legal acts that regulate investment activity are: Law of Ukraine "On Investment Activity" [1], Law of Ukraine "On stimulation of investment activity in priority sectors of economy in order to create new jobs" [2], Law of Ukraine "On Innovation activity" [3].

In recent years, a large number of scientific studies have been carried out on the investment attractiveness of the country. Kryhivska N. [4] and Chernyshova H. [4] outlined methods for assessing investment attractiveness at the country level and

their use in economic analysis; Shvets Yu., Burdylo O. [5] – from the point of view of the formation of the investment and business environment. Approaches to assessing the attractiveness of countries and regions were summarized.

Formulation purpose of article (problem). The purpose of the study is to carry out a micro- and macroeconomic analysis of the impact of Russian aggression on the business climate and investment attractiveness by evaluating the positions of Ukraine through the prism of national indicators and international ratings.

The main material. The full-scale invasion became a new factor influencing the level of business activity and the investment environment in Ukraine. The business climate and investment attractiveness are key factors in accelerating the investment movement at the macro level, which can be actively observed in modern realities. From the beginning of independence until today, the economy of Ukraine has gone through a difficult path. And if until February 24, 2022, the key problems were corruption, the difficulty of entering foreign markets, and the judicial system, then with the beginning of full-scale invasions came more global problems:

- constant missile danger;
- destroyed infrastructure;
- decrease in demand;
- lack of funding;
- complexity of risk insurance.

In order to quickly restore the economy, it is necessary to solve both old and new problems. The development of IT startups, promotion of exports, greening of production and expansion of value-added chains of goods will contribute to the economic development of Ukraine, which in turn will increase the investment attractiveness of the country. A high level of this indicator contributes to the attraction of investments in the country, improving the level of employment of the population and positively influencing the economic situation as a whole. That is why

the development of investment attractiveness in Ukraine is almost the most important task in the current economic situation.

In general, investment attractiveness is defined as the relationship between investment potential and risk, which shape it, and investment activity and climate, which influence it. There is a close relationship between these categories, because when an investor chooses an investment object, he is primarily interested in such characteristics as investment risk and potential.

Scientists divide indicators that determine the level of investment attractiveness of a country into three groups of factors that are decisive for investors:

- factors of direct influence on the level of investment potential (labour, geographical, consumer, financial, innovative, etc.);
- factors that determine the level of non-commercial investment risks (legislative, economic, political, social, environmental, etc.)
- investment activity (stimulation of direct and portfolio investments, focus on improving the investment climate, intensification of the introduction of production facilities) [6, p. 167].

Military aggression and a negative information background regarding an even greater escalation of war risks increase the negative impact on investment attractiveness, business climate and business expectations of both domestic entrepreneurs and foreign investors. This significantly increases financial risks, lowers borrowing costs, and weakens Ukraine's credit ratings. Such waves of information about the escalation of military aggression directly affect fluctuations in the demand for the hryvnia, the increase in the purchase of the most necessary goods and products. This, in turn, worsens the exchange rate dynamics and increases the inflationary pressure on the domestic market.

In 2014-2015, the frenetic demand for currency led to a reduction in the country's international reserves by 14.8 bln. USD. The increase in demand for the

currency in 2014-2015 led to the devaluation of the hryvnia from 7.99 UAH /USD (January 1, 2014) to 16.6 UAH /USD (January 1, 2015) and 25.5 UAH /USD (January 1, 2016). A similar situation developed after February 24, 2022. There was a devaluation from 27.3 UAH /USD (January 1, 2022) to 36.6 UAH /USD (January 1, 2023) [7].

The high import dependence of the Ukrainian economy and exchange rate fluctuations became key factors in the growth of inflation both in 2014 and in 2022. The consumer price index (CPI) in 2014 was 24.9%, in 2015 it was a record 43.3%, and in 2022 the annual rate was 26.6% (Fig. 1). In 7 months of 2023 CPI was 4% [7].

The Russian invasion significantly worsened the business expectations of enterprises regarding development prospects. In the period of the 1st quarter 2014 - 1st quarter in 2015, the business expectations index, which is calculated by the National Bank of Ukraine (NBU), deteriorated to 83.5%.

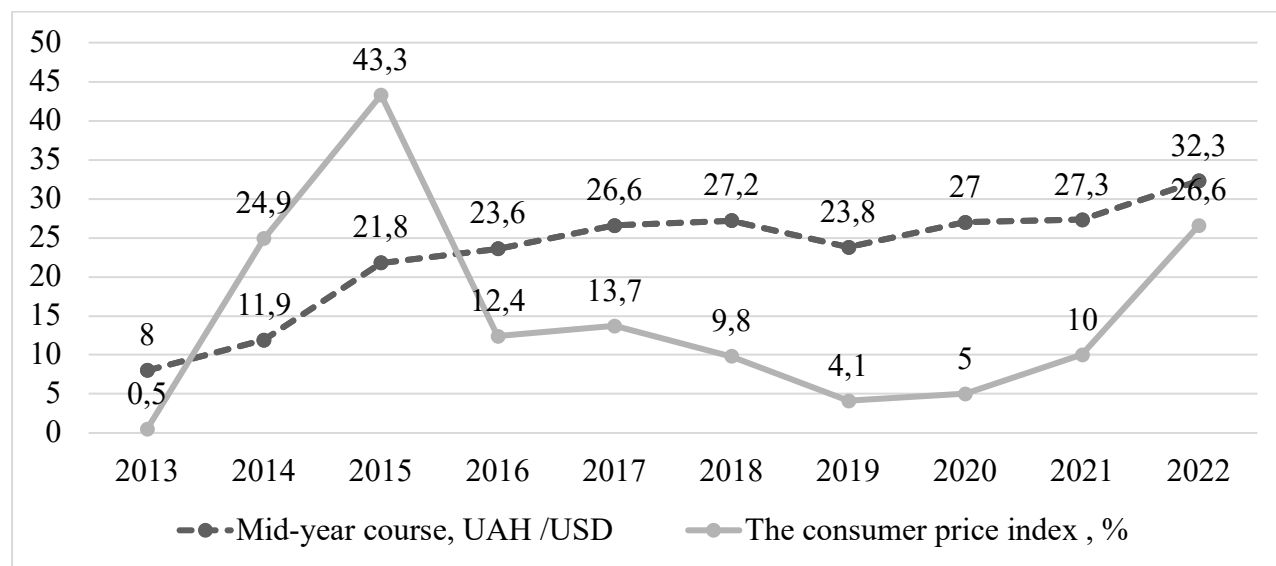


Fig. 1. Dynamics of the mid-year cours UAH /USD and the inflation rate

Source: developed by authors based on [7]

During 2016-2021 this indicator increased significantly, but due to a full-scale invasion, it reached its lowest level - 72.6%. The first two quarters of 2023 showed positive dynamics and IDO almost returned to the mark of 2021, which indicates good business expectations of enterprises in the next 12 months (Fig. 2) [8].

The increase in geopolitical threats leads to a decline in the competitiveness of the domestic economy on the global capital market. In modern conditions, not only is the inflow of foreign investments becoming more difficult, but also the motivation for the outflow of funds and capital from the Ukrainian economy is deepening.

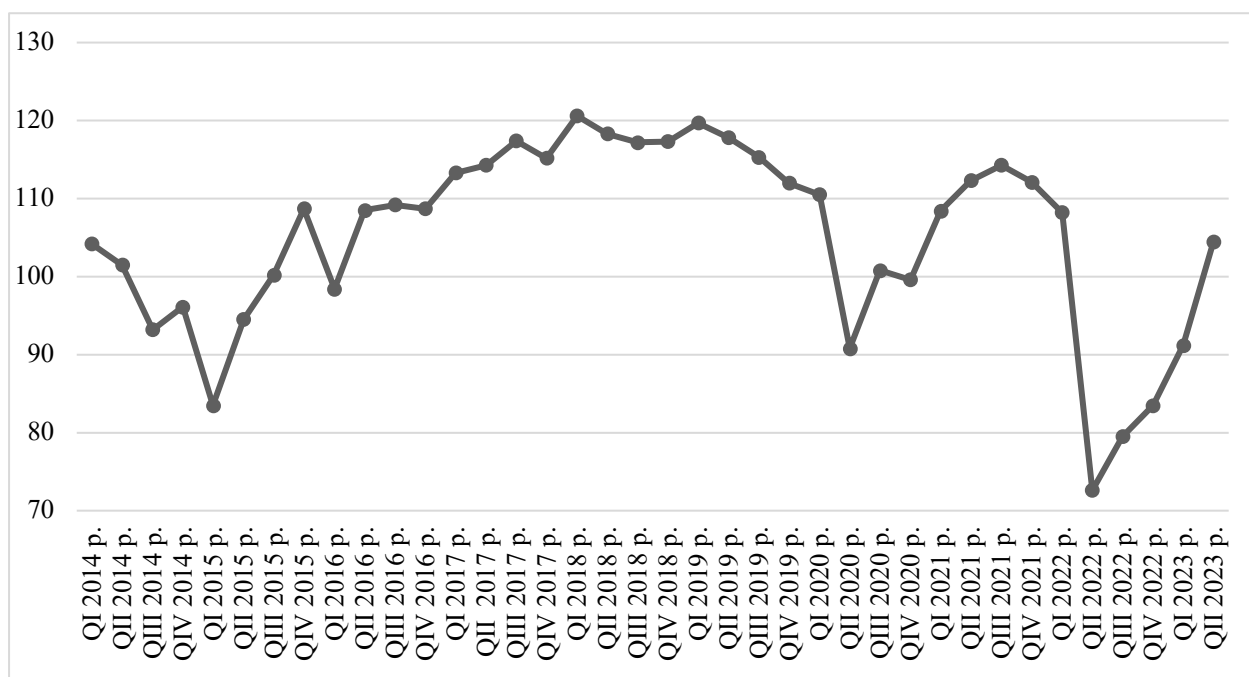


Fig. 2. Index of business expectations in Ukraine in 2014 - the first half of 2023, %

Source: developed by authors based on [8]

In the period 2014-2015 The NBU first introduced a partial, and later a full ban on the repatriation of dividends by non-residents. After the ban on the withdrawal of dividends was initially partially, and in 2019, completely canceled, this process has significantly intensified. In the period of 2016-2017, dividends and the amount of 2.5 billion dollars were repatriated from Ukraine. USA, in 2018-2021 – 13.5 billion dollars (Table 1). Under conditions of growing uncertainty caused by a full-

scale invasion and restrictions on the foreign exchange market, the NBU From February 24, 2022. does not publish forecasts regarding the withdrawal of dividends by non-residents, in order to avoid the formation of incorrect expectations. It is known that for the period of January-February 2022, dividends in the total amount of 461 million dollars were repatriated. USA [8].

Table 1

Repatriation of dividends from Ukraine by non-residents, 2016-2022
billion USD

Year	Dividends, billion USD
2016	0,780
2017	1,881
2018	3,3
2019	3,5
2020	3,7
2021	10
2022	No data available

Source: developed by authors based on [8]

From the beginning of the XXI century, such a factor as the country's position in international ratings began to be actively taken into account in the macroeconomic analysis of investment attractiveness. All ratings by which investment attractiveness and business climate in the country can be assessed are divided into those compiled by research organizations and those compiled by international organizations of social and economic development. Today in the world there are more than 16 ratings based on various aspects of which the country's investment attractiveness can be determined, but the following ratings have the greatest impact on this indicator of Ukraine:

- Index of economic freedom, compiled by "The Wall Street Journal" and "The Heritage Foundation";
- Competitiveness rating developed by the Institute of Management Development;

- Global Competitiveness Index of the World Economic Forum in Davos;
- Investment attractiveness index compiled by the European Business Association;
- Credit ratings developed by Standard & Poor's, Moody's, Fitch Rating;
- International Business Compass of the Hamburg Institute of World Economy;
- Best Countries for Business from Forbes [9].

The index of investment attractiveness, which is formed by the European Business Association, is calculated by finding the arithmetic mean of 5 investment climate factors. The highest indicator is 5. In this rating, Ukraine has never managed to get such ratings as 4 or 5. Since 2012, the best indicator for Ukraine was 3.07 out of 5 in 2018 (Fig. 3). In 2022, the percentage of CEOs who consider the business climate in our country to be extremely unfavorable increased from 5% to 53%. Only 9% assess the current investment climate as neutral, and 4% consider it favorable [10]. EVA specialists claim that the unfavorable investment climate in Ukraine was primarily influenced by the full-scale invasion, other factors are called corruption and a weak judicial system.

In 2022, the dynamics of the investment climate index, which is also compiled by the European Business Association, worsened. Only 17% of CEOs believe that the business climate has not worsened, while 79% feel changes. Experts predict that by the end of 2023 it should improve, but not much [10].

In the absence of a favorable investment climate, the share of investors willing to invest money is gradually decreasing. According to EBA data, as of February 24, 2022, only 12% of investors consider it profitable to invest in Ukraine. Unfortunately, as of the beginning of 2023, this figure has not changed. Most of the world's leading companies are still not ready to invest in Ukraine. However, if we take into account those enterprises that have already done it, then the statistics are

much better. Among the 102 surveyed companies, 93% said they would continue to work in Ukraine in 2023. Also, more than half of these companies (53%) announced new investment projects in Ukraine during the war, which is extremely important in modern realities [10].

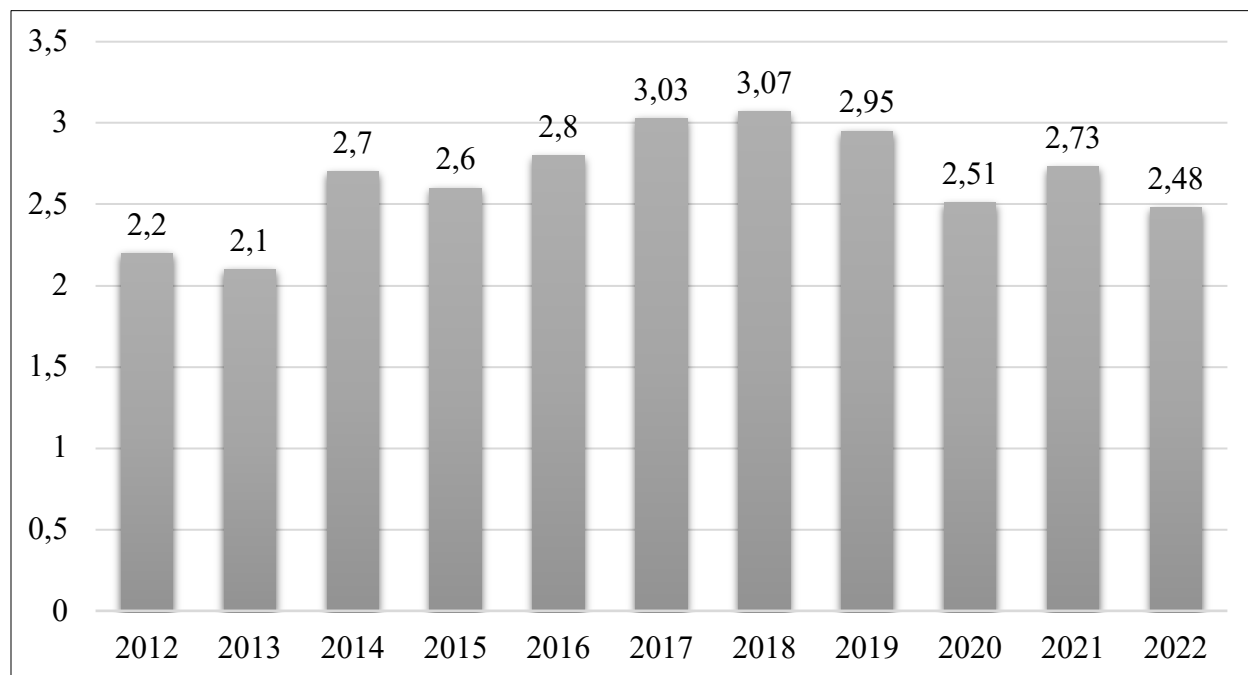


Fig. 3. Dynamics of changes in the investment attractiveness index of Ukraine, 2012-2022

Source: developed by authors based on [10]

No less important for assessing Ukraine's investment attractiveness is the credit rating, which is a conditional expression of the rating object's creditworthiness.

The presence of a credit rating is an indicator of an open financial market and is very often used at the macro level in negotiations with foreign investors. Ukraine cooperates with the three most famous rating agencies in the world (Moody's, Standard&Poor's and Fitch Ratings) and with the Japanese agency "Rating and Investment Information". Indicators in the ratings are denoted by letters from A (best value) to D (default) [7].

The negative dynamics of Ukraine's credit ratings has become an indicator of the country's growing risks. In 2014, Standard & Poor's, Moody's and Fitch Ratings

downgraded Ukraine's credit ratings to the default class with a low probability of growth due to the start of the war in the east, which predicted the continuation of negative dynamics for the next 12 months. Positive assessments were restored only at the end of 2015 [11].

With the start of the full-scale invasion, Ukraine's credit ratings deteriorated sharply. If in 2016-2021 all forecasts for the following periods were positive and stable, then in 2022 and 2023 they are mostly negative. Today, according to all ratings, Ukraine is in class "C", which is a class of significant risk.

The international rating agency Standard & Poor's lowered Ukraine's credit ratings from "CCC+" in 2022 to "CCC" with negative forecasts, which indicates a possible downgrade in the next 12 months (Table 2).

Table 2

Rating of Ukraine by credit rating agencies, 2012-2022

Year	Standard & Poor`s (S&P)	Moody`s	Fitch Rating
	Long-term liability rating	Sovereign rating of the country	Long-term issuer default rating
2012	B (negative)	B3 (negative)	B (negative)
2013	B- (negative)	Caa1 (negative)	B- (negative)
2014	CCC- (stable)	Caa2 (negative)	B- (negative)
2015	B- (stable)	Caa3 (stable)	CCC (rating not assigned)
2016	B- (stable)	Caa3 (stable)	B- (stable)
2017	B- (stable)	Caa2 (positive)	B- (stable)
2018	B- (stable)	Caa1 (stable)	B- (stable)
2019	B (stable)	Caa1 (positive)	B (positive)
2020	B (stable)	B3 (stable)	B (positive)
2021	B (positive)	B3 (stable)	B (positive)
2022	CCC+ (stable)	Caa3 (negative)	CCC- (rating not assigned)
2023	CCC (negative)	Ca (negative)	CCC- (rating not assigned)

Source: developed by authors based on [7]

Back in 2021, one of the key tasks of the National Economic Strategy of Ukraine 2030 was to attract FDI by creating a competitive business climate and

creating an attractive investment environment. Starting from 2025, Ukraine was supposed to reach the level of 15 billion dollars. US foreign direct investment per year [12]. It is worth noting that even in such a difficult situation that has arisen, with a large number of negative factors that reduce investment attractiveness, it is necessary to continue to follow the implementation of the goals of this strategy, because in Ukraine there are many factors that positively affect its business climate, in particular, the candidate status in the European Union (Fig. 4).

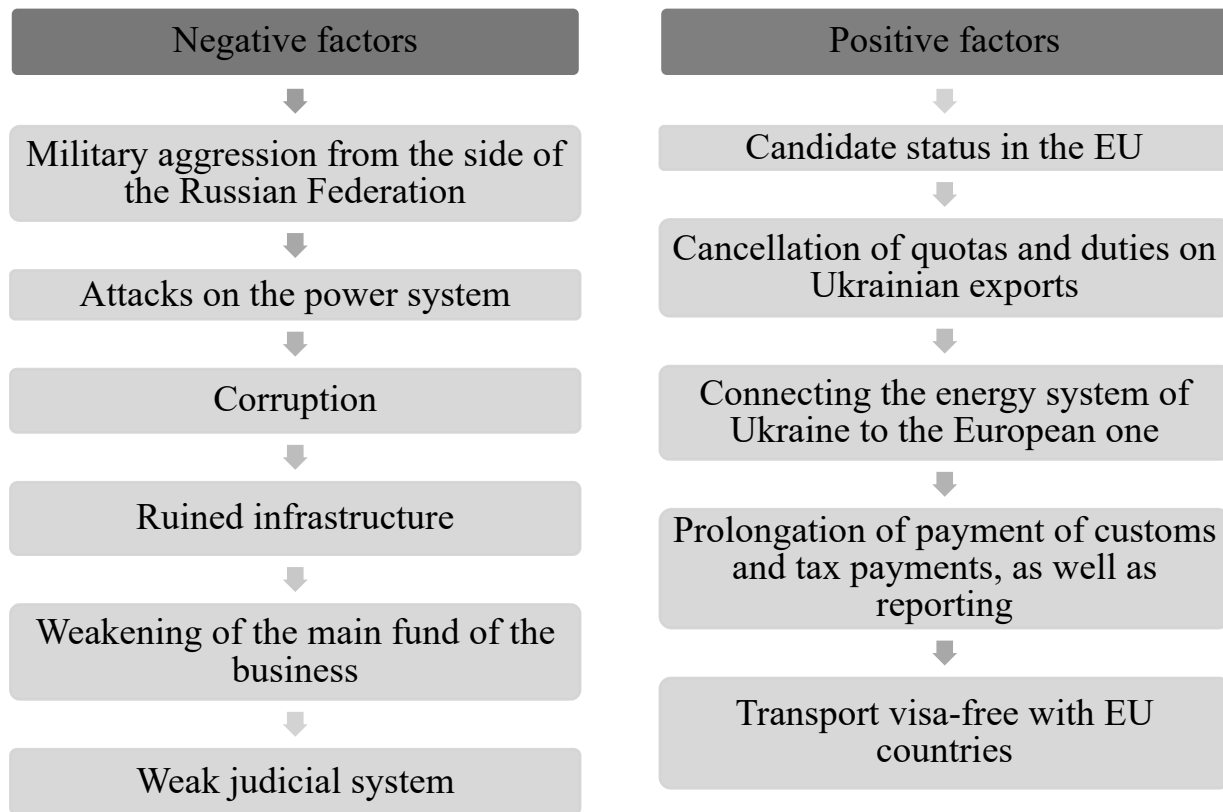


Fig. 4. Factors influencing Ukraine's investment attractiveness

Source: developed by the author

Conclusions and prospects for further research. In general, the business climate and investment attractiveness are extremely important factors in ensuring the movement of foreign investments. Ukraine has come a long way in building its investment attractiveness, but a full-scale invasion has significantly changed Ukraine's position.

To determine the country's investment attractiveness and business climate, experts use international ratings and indexes, the key ones of which are the economic freedom index, competitiveness rating, investment attractiveness index, and credit ratings. In 2022-2023, some publications in their ratings did not analyze Ukraine due to the impossibility of fully collecting the required data. In other ratings, Ukraine has significantly weakened its position, in particular, in the credit ratings of Moody's, Standard&Poor's and Fitch Ratings, it is in the class of significant risk, which negatively affects its investment attractiveness. In addition, if we do not take into account the war, other factors that prevent Ukraine from moving forward are corruption, a weak judicial system and a high tax rate. Positive aspects include the status of a candidate for the EU, visa-free transport and the abolition of quotas and duties on Ukrainian exports.

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