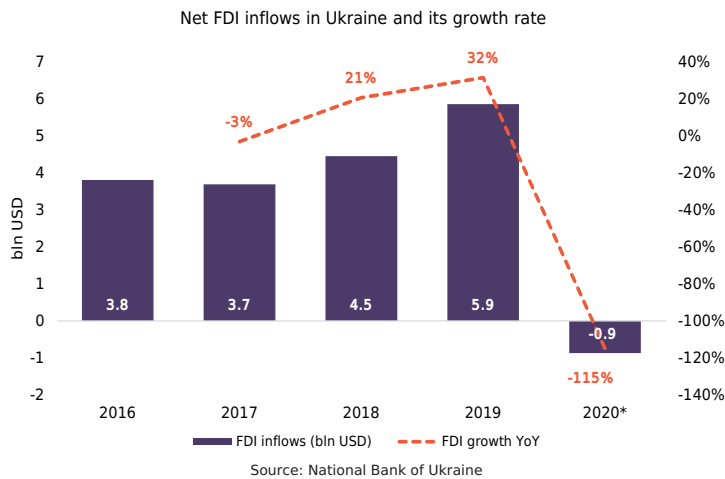


The COVID-19 pandemic and the subsequent Great Lockdown have affected investment flows all over the globe, especially in emerging markets. According to UNCTAD<sup>1</sup>, global Foreign Direct Investment (FDI) flows dropped by 35% in 2020, to \$1 trillion, from \$1.5 trillion in 2019. This is almost 20% below the 2009 levels after the global financial crisis. Moreover, the number of newly announced greenfield projects in developing countries declined by 42% in 2020 compared to 2019. To assess the impact of the crisis on the FDI flows in Ukraine, it is crucial to have a snapshot of the pre-crisis situation along with developments in 2020.

### General Observations



In 2019, FDI inflows in Ukraine amounted to \$5.9 bln, the highest figure throughout 2016-2020. Moreover, compared to 2018, FDI increased by 32%, which was also the highest over the period. Over the years 2016-2019, the share of reinvestment in FDI inflows gradually increased from 14% to 55%.

In 2020 however, Ukraine recorded negative FDI inflows of \$0.9bln, declining by approximately \$7 bln, or 115%, compared to the 2019 figure.

UNCTAD highlights two major projects initiated in Ukraine in 2020, despite the overall decline. An agreement has been signed with Chinese investors on building a \$1 bln 800 Mega-watt Donetsk onshore wind farm, while German Kostal started a \$170 mln project to produce automotive components.

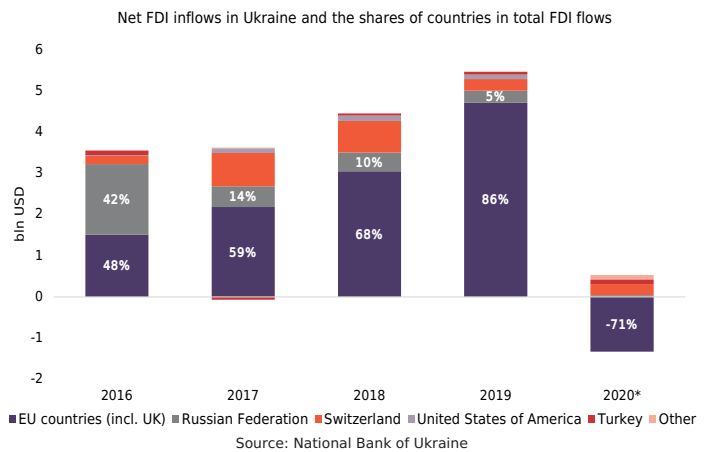
According to UNCTAD, in 2020, Ukraine initiated the provision of fiscal incentives such as tax exemptions, import duty exemptions, preferential land access, and construction of necessary infrastructure for large investment projects.

### FDI by Countries

From 2016 to 2019, the share of EU countries in yearly net FDI inflows has increased significantly, while investments from Russia witnessed a sharp drop during this period. More specifically, the share of the EU countries and Russia were 48% and 42%, respectively in 2016. However, in 2019 the share of the EU countries amounted to 86% of total flows, while Russia's share shrank to 5%.

It is noteworthy that in 2017 and 2018 Switzerland's share in total FDI flows increased significantly and amounted to 22% and 16% correspondingly, however, in 2019 it dropped back to 5%.

In 2020, due to the COVID-19 pandemic, net direct investment inflows from EU countries sharply decreased. Notably, FDI outflows by EU countries accounted for -71% of total FDI flows in 2020.

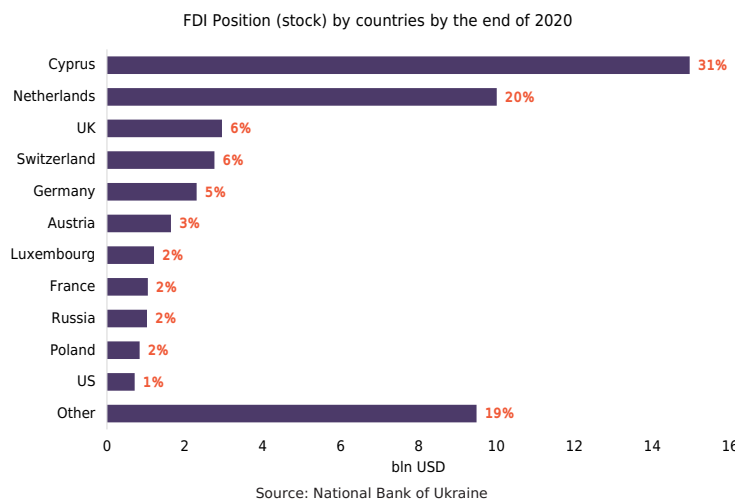


Looking at FDI positions, or stock of investments in the Ukrainian economy by countries, by the end of 2020, Cyprus was the biggest FDI partner of Ukraine in terms of accumulated FDI over time with a share of 31% in total FDI stock in Ukraine. Cyprus was followed by the Netherlands, which accumulated 20% of FDI stock.

It is worth noting that by the end of 2020 Ukraine's FDI stock was characterized by a lack of diversification, which is manifested by the fact that Cyprus and the Netherlands amounted to 51% of total FDI inflows.

Interestingly, by the end of 2020, the vast majority of the top 10 FDI partners of Ukraine were the EU states (excluding the UK, Russia, and Switzerland).

Only two of the neighboring countries of Ukraine (Poland and Russia) were found among the countries with the highest FDI stock by the end of 2020.



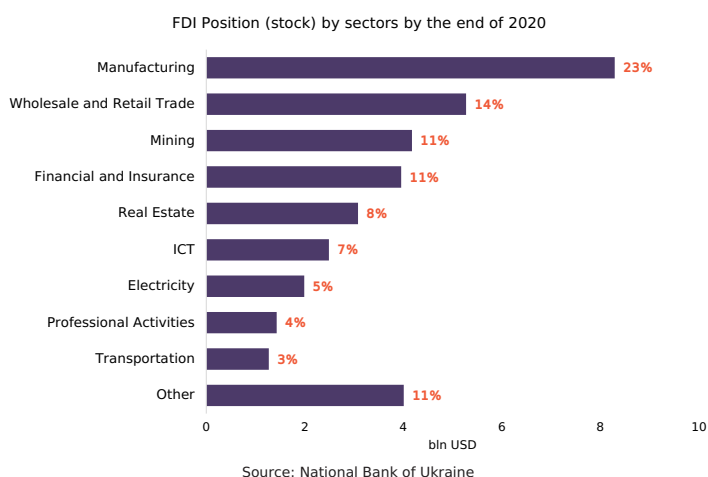
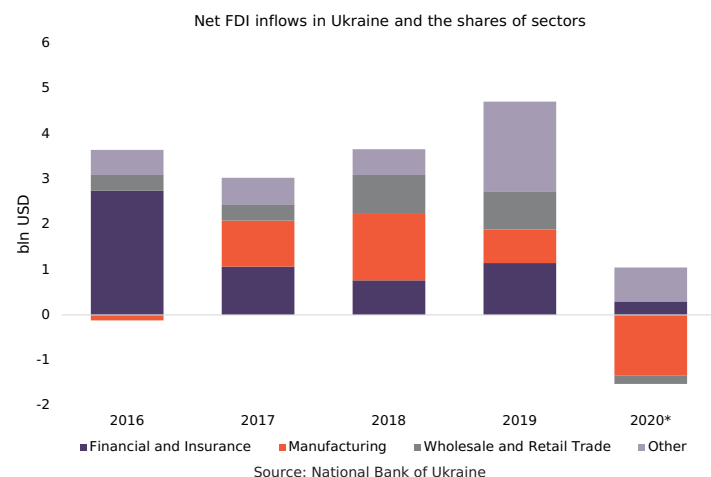
## FDI by Sectors

The analysis of net FDI inflows by sectors over the period of 2016-2020 reveals that the most FDI over this period was directed to the finance and insurance sector (53%), followed by mining (13%), wholesale and retail trade (6%) and manufacturing (2%). The share of other sectors amounted to 26%.

In 2020, due to the COVID-19 crises, net FDI inflows in every sector witnessed a sharp drop. The sector which declined the most, compared to the average of 2016-2019 was the manufacturing sector (273% decline), followed by mining (152% decline), wholesale and retail trade (130% decline) and finance and insurance (80% decline). Other sectors combined suffered an 18% decline.

The analysis of FDI position by sectors, or a historical stock of FDI in a given sector of the Ukrainian economy, reveals that by the end of 2020, manufacturing had the highest share of 23%, followed by wholesale and retail trade (14%). Mining had the third-highest share of 11%, followed closely by the finance and insurance sector (11%).

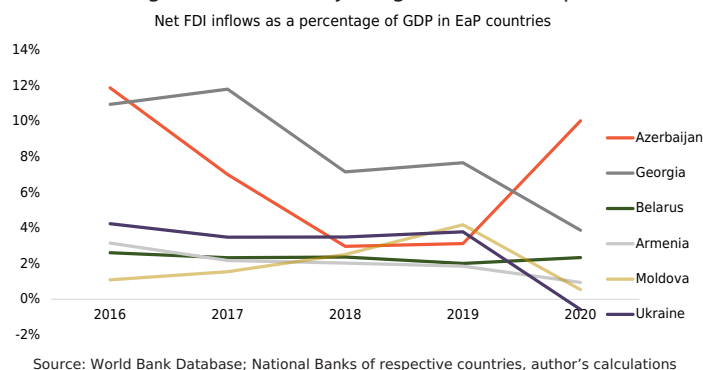
It is worth noting that the four sectors with the highest shares (manufacturing, wholesale and retail trade, mining, and finance and insurance) amount to 59% of FDI stock by the end of 2020 in Ukraine. These sectors were also four sectors with the highest FDI flows in the period of 2016-2020. Notably, the manufacturing sector's share in net FDI inflows in 2016-2020 was 2%, while it still had the largest FDI stock by the end of 2020. This is explained by a large amount of outflow in the sector in 2020.



Based on the World Bank database, Ukraine was characterized with the lowest figures of Net FDI inflows as a percentage of GDP amongst EaP countries in 2020 and was the only one with a negative ratio (-0.4%). However, over the period of 2016-2019, Ukraine averaged a ratio of 3.8%, which is only lower when compared to Georgian and Azerbaijan figures over the period.

In 2020, compared to 2019, Georgia's figure decreased by 3.8 percentage points and amounted to 3.9%. Azerbaijan had the highest share of Net FDI inflows in GDP in 2020 (10%) after 2016, which is 6.9 percentage points higher than its figure in 2019. This could be explained by the relative resilience of FDI, as well as the drop in GDP recorded in 2020.

Armenia's figure in 2020 amounted to 1%, a decrease of 0.9 percentage points, compared to 2019. Moldova faced a drop from the highest by 3.6 percentage points and amounted to 0.5%. For Belarus, the figure showed more stable performance, averaging 2.3% over the period of 2016-2020.



## Conclusion

The year 2020 has been one of the worst in terms of FDI globally due to the COVID-19 pandemic. Ukraine was no exception, registering a negative FDI inflow in 2020. Based on the Ukrainian economy performing stronger than expected in 2020, this drop in FDI is hoped to be temporary. Globally, UNCTAD expects an increase of 10-15% in 2021 compared to 2020, staying approximately 25% lower than the 2019 level. The organization expects that FDI figures return to pre-pandemic levels in 2022.

The significance of FDI flows for the development of the country is indisputable. After the post-crisis recovery starts, investors will be looking to direct their funds to lucrative investment options, thus, it is of paramount importance that Ukraine positions itself as an attractive market.

1 United Nations Conference on Trade and Development - World Investment Report 2021.

2 Data for Belarus in 2010-2011 and for Moldova in 2010 is not available.

3 Corruption Perception Index was not taken into consideration due to the fact that it is based on scores, rather than ranks.

\* FDI data for 2020 is preliminary

| Basic Economic Indicators       | 2016   | 2017   | 2018   | 2019   | 2020  |
|---------------------------------|--------|--------|--------|--------|-------|
| Nominal GDP (bln hryvnia)       | 2,385  | 2,984  | 3,561  | 3,975  | 4 194 |
| GDP per Capita (USD, PPP)       | 11,148 | 11,871 | 12,629 | 13,341 | -     |
| GDP Real Growth (%)             | 2.4%   | 2.5%   | 3.4%   | 3.2%   | -4.0% |
| Yearly inflation (%)            | 13.9%  | 14.4%  | 10.9%  | 7.9%   | 2.6%  |
| Exchange rate (hryvnia/USD)     | 25.7   | 26.7   | 27.3   | 25.7   | 27.2  |
| FDI (BOP net inflows) (bln USD) | 3.8    | 3.7    | 4.5    | 5.9    | -0.9  |
| Unemployment Rate (%)           | 9.7%   | 9.9%   | 9.1%   | 8.6%   | -     |
| Gross external Debt (bln USD)   | 112.5  | 115.5  | 114.7  | 121.7  | 125.7 |