



Foreign Investor Survey 2020

November 2020

2020 Foreign Survey: Key Facts

- **Online questionnaire powered by Info Sapiens**
- **October 26 - 30, 2020**
- **117 responses**
- **62% are direct investors**
- **74% are currently invested**

Highlights

Obstacles:

- “Lack of trust in judiciary” was named as the #1 obstacle to foreign investment for the first time in five years, while “widespread corruption”, the previous leader, moved to second place. The same obstacles were named by both portfolio and direct investors.
- Market monopolization and state capture by oligarchs is the #3 impediment, though strategic investors are also concerned about cumbersome and frequently changing legislation.

Investment climate:

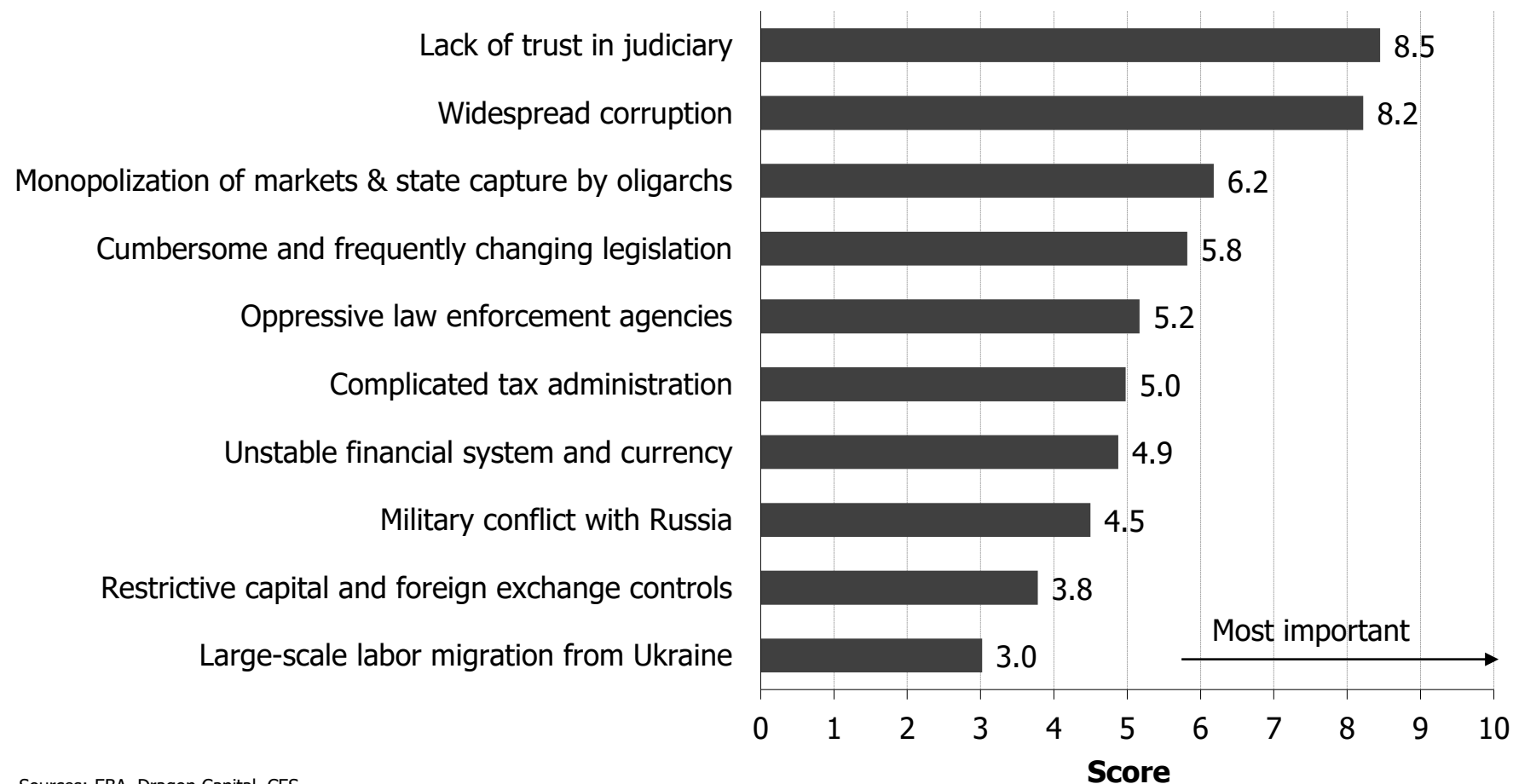
- 48% of foreign investors think that Ukraine became less attractive for investment, 42% consider the investment climate largely unchanged, and only 9% see improvements. The findings are consistent across both strategic and portfolio investors.

Key factors affecting investment climate:

- Effective fight against corruption is viewed as a top priority for improving the investment climate by all investors, followed by the relaunch of judiciary and appointment of credible reformers to top positions.
- Debt default is considered as the top threat to the investment climate, followed by a shift away from democratic values and change in geopolitical direction from west to east. Strategic investors also view loose fiscal and monetary policies threatening macro stability as an important negative factor, while portfolio investors consider authorities’ failure to reach agreement with the IMF on the next loan tranche as the second biggest threat after debt default.
- The investor community is resilient to a potential new lockdown. 47% of the strategic investors already working in Ukraine think that a repeat lockdown would not affect their investment plans, while 27% would reduce or stop investments.

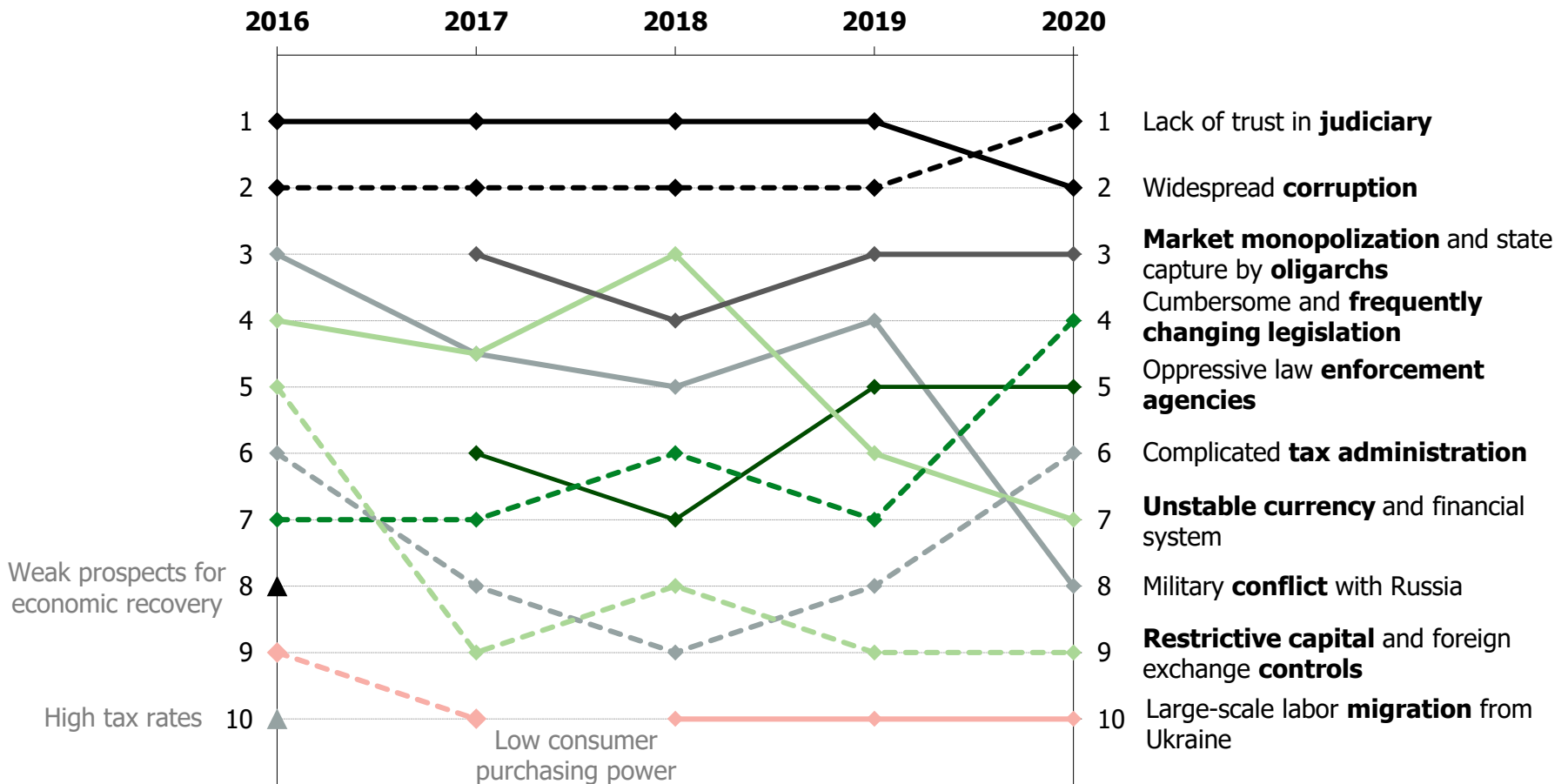
Obstacles to Foreign Investment: All Respondents

Q1. Which of the following obstacles to investment in Ukrainian assets are the most important?



Sources: EBA, Dragon Capital, CES

Major Obstacles to Foreign Investment in Ukraine: 2016-2020



Sources: EBA, Dragon Capital, CES

Obstacles to Foreign Investment: Breakdown by Type of Investor

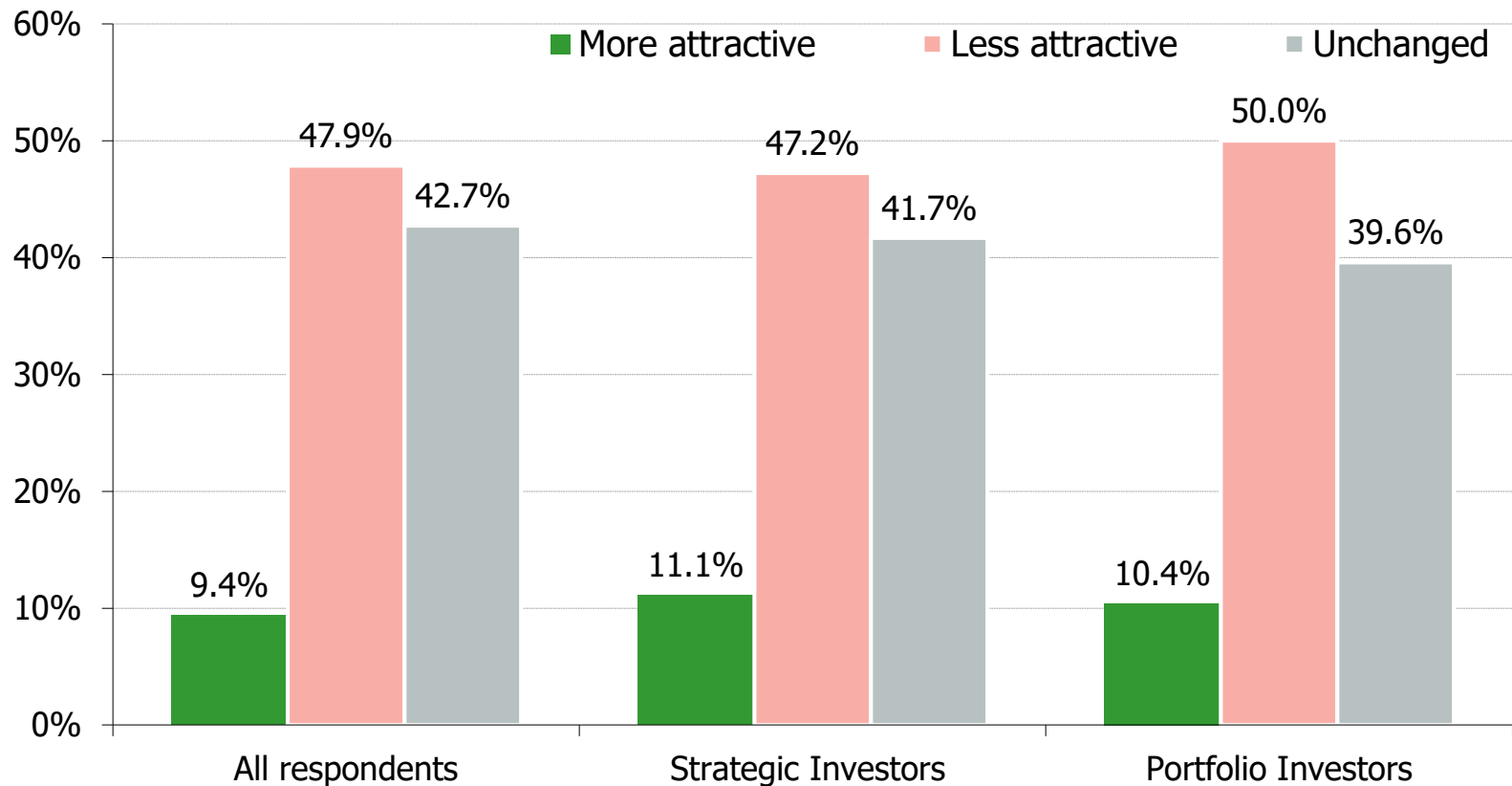
Q1. Which of the following obstacles to investment in Ukrainian assets are the most important?

	Rank		
	All respondents	Strategic investors	Portfolio investors
Lack of trust in judiciary	1	1	2
Widespread corruption	2	2	1
Monopolization of markets & state capture by oligarchs	3	4	3
Cumbersome and frequently changing legislation	4	3	4
Oppressive law enforcement agencies	5	7	5
Complicated tax administration	6	5	6
Unstable financial system and currency	7	6	8
Military conflict with Russia	8	8	7
Restrictive capital and foreign exchange controls	9	9	9
Large-scale labor migration from Ukraine	10	10	10

Sources: EBA, Dragon Capital, CES

Change in Investment Climate

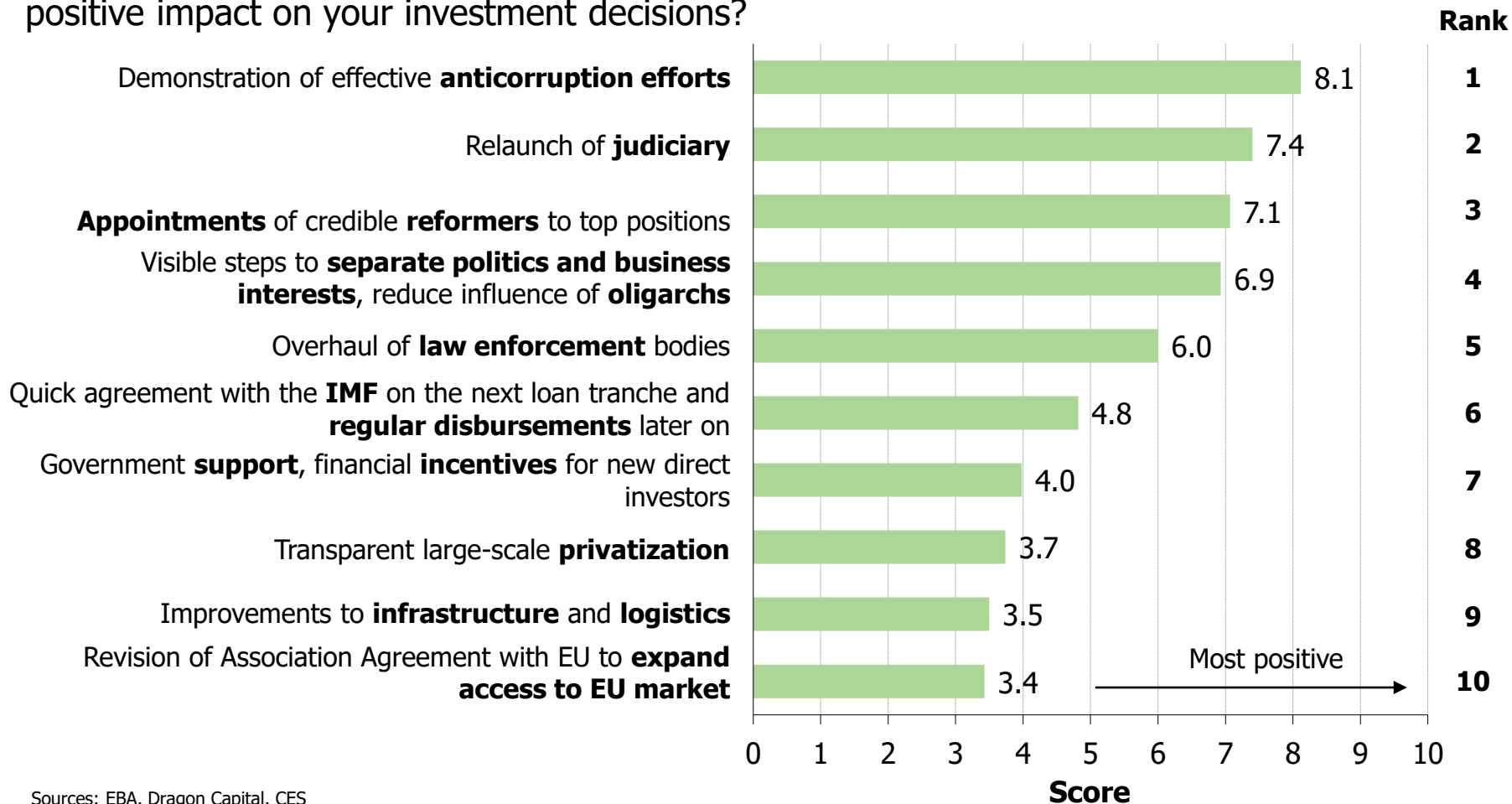
Q2. In which direction do you think Ukraine is moving in terms of investment attractiveness?



Sources: EBA, Dragon Capital, CES

Positive Impact on Investment Climate: All Respondents

Q3. Which of the following potential steps by Ukrainian authorities would have the biggest positive impact on your investment decisions?



Sources: EBA, Dragon Capital, CES

Positive Impact on Investment Climate: Breakdown by Investor Type

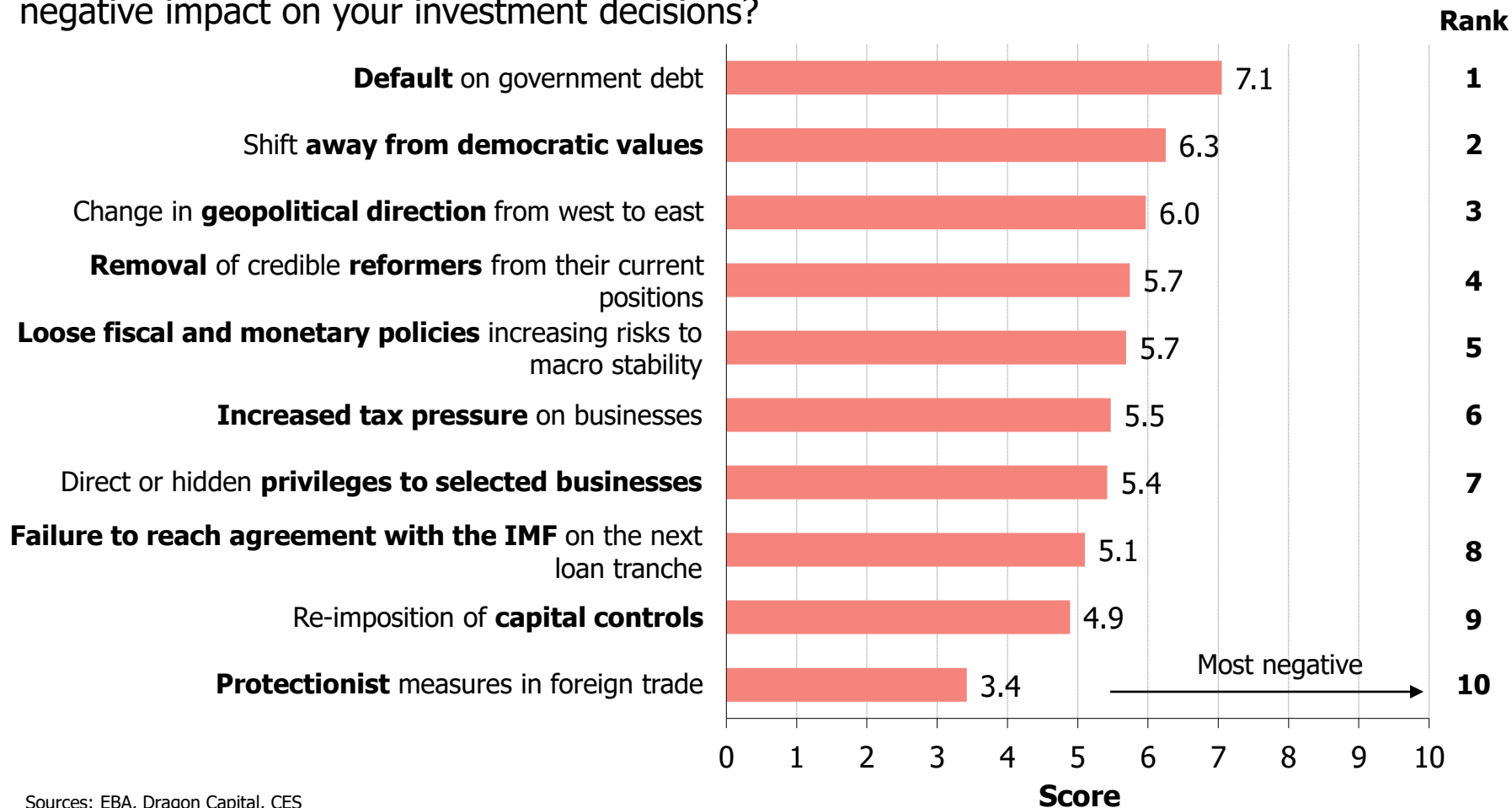
Q3. Which of the following potential steps by Ukrainian authorities would have the biggest positive impact on your investment decisions?

	Rank		
	All respondents	Strategic investors	Portfolio investors
Demonstration of effective anticorruption efforts	1	1	1
Relaunch of judiciary	2	2	4
Appointments of credible reformers to top positions	3	3	2
Visible steps to separate politics and business interests , reduce influence of oligarchs	4	4	3
Overhaul of law enforcement bodies	5	5	6
Quick agreement with the IMF on the next loan tranche and regular disbursements later on	6	7	5
Government support , financial incentives for new direct investors	7	6	8
Transparent large-scale privatization	8	8	8
Improvements to infrastructure and logistics	9	9	10
Revision of Association Agreement with EU to expand access to EU market	10	10	7

Sources: EBA, Dragon Capital, CES

Negative Impact on Investment Climate: All Respondents

Q4. Which of the following potential steps by Ukrainian authorities would have the biggest negative impact on your investment decisions?



Sources: EBA, Dragon Capital, CES

Negative Impact on Investment Climate: Breakdown by Investor Type

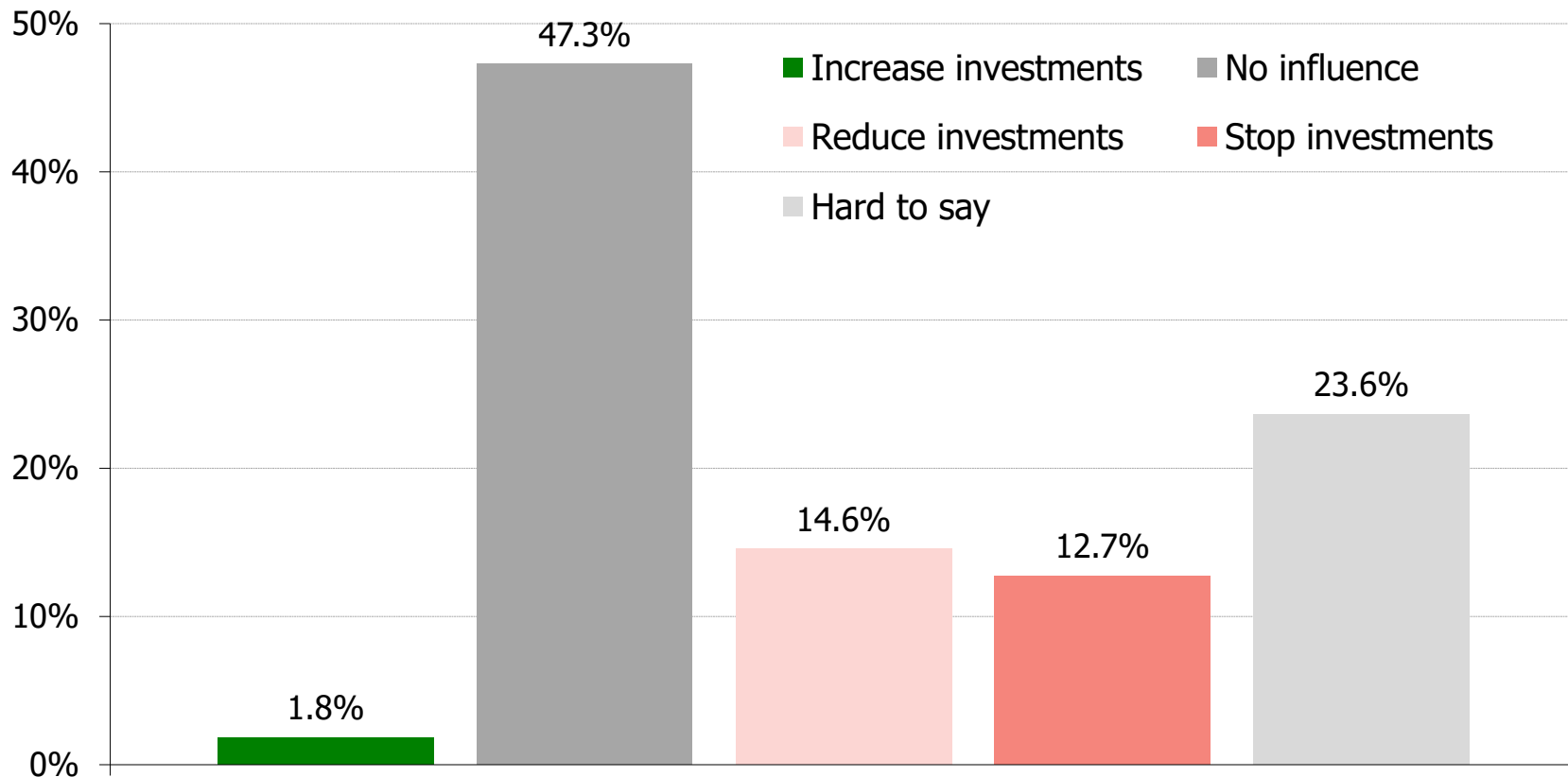
Q4. Which of the following potential steps by Ukrainian authorities would have the biggest negative impact on your investment decisions?

	Rank		
	All respondents	Strategic investors	Portfolio investors
Default on government debt	1	1	1
Shift away from democratic values	2	2	5
Change in geopolitical direction from west to east	3	4	4
Removal of credible reformers from their current positions	4	5	3
Loose fiscal and monetary policies increasing risks to macro stability	5	3	9
Increased tax pressure on businesses	6	6	7
Direct or hidden privileges to selected businesses	7	7	6
Failure to reach agreement with the IMF on the next loan tranche	8	9	2
Re-imposition of capital controls	9	8	8
Protectionist measures in foreign trade	10	10	10

Sources: EBA, Dragon Capital, CES

Impact of Potential New Lockdown on Investment Plans

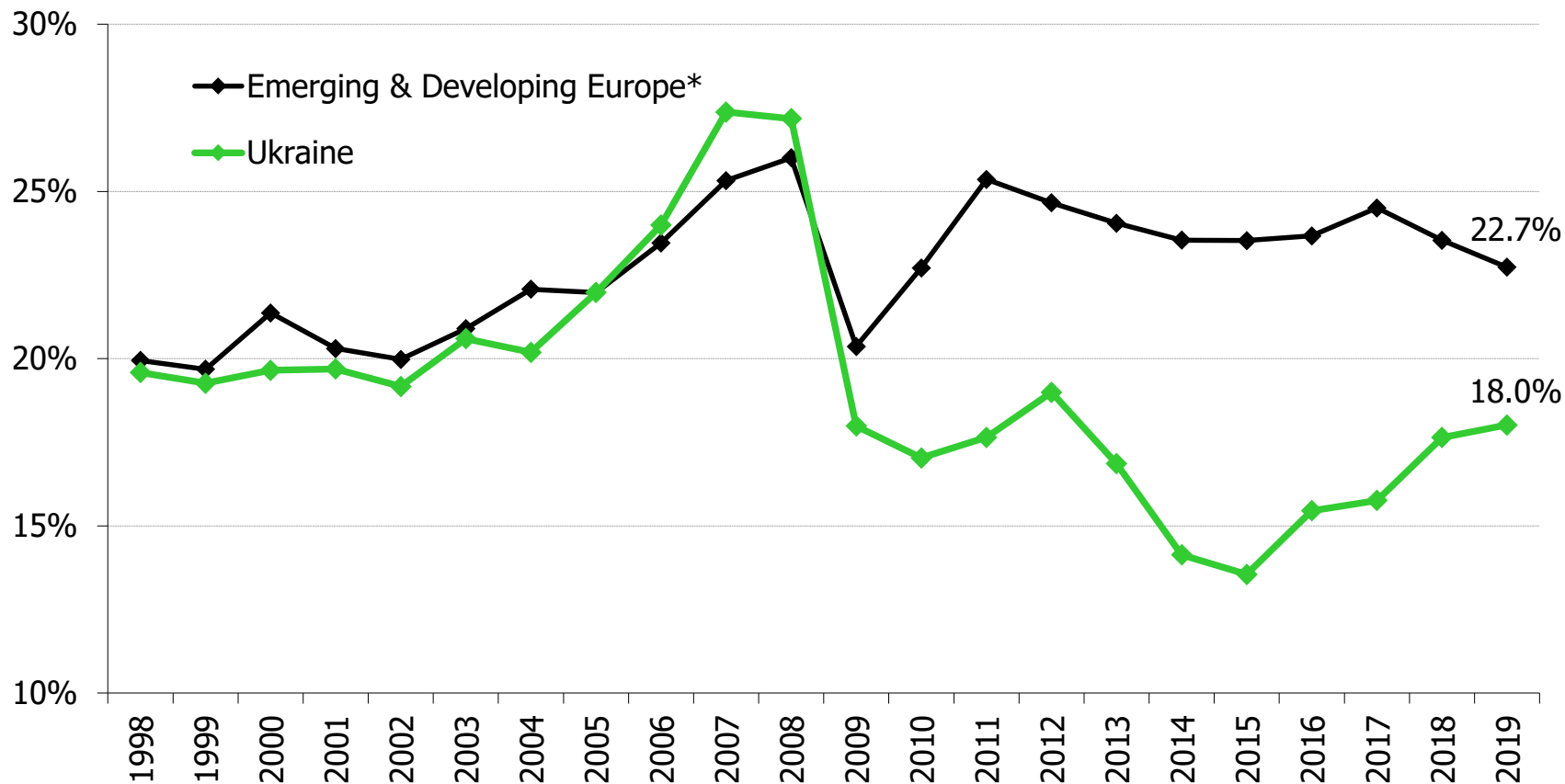
Q7. Would another lockdown influence your investment plans? (only current strategic investors were asked)



Sources: EBA, Dragon Capital, CES

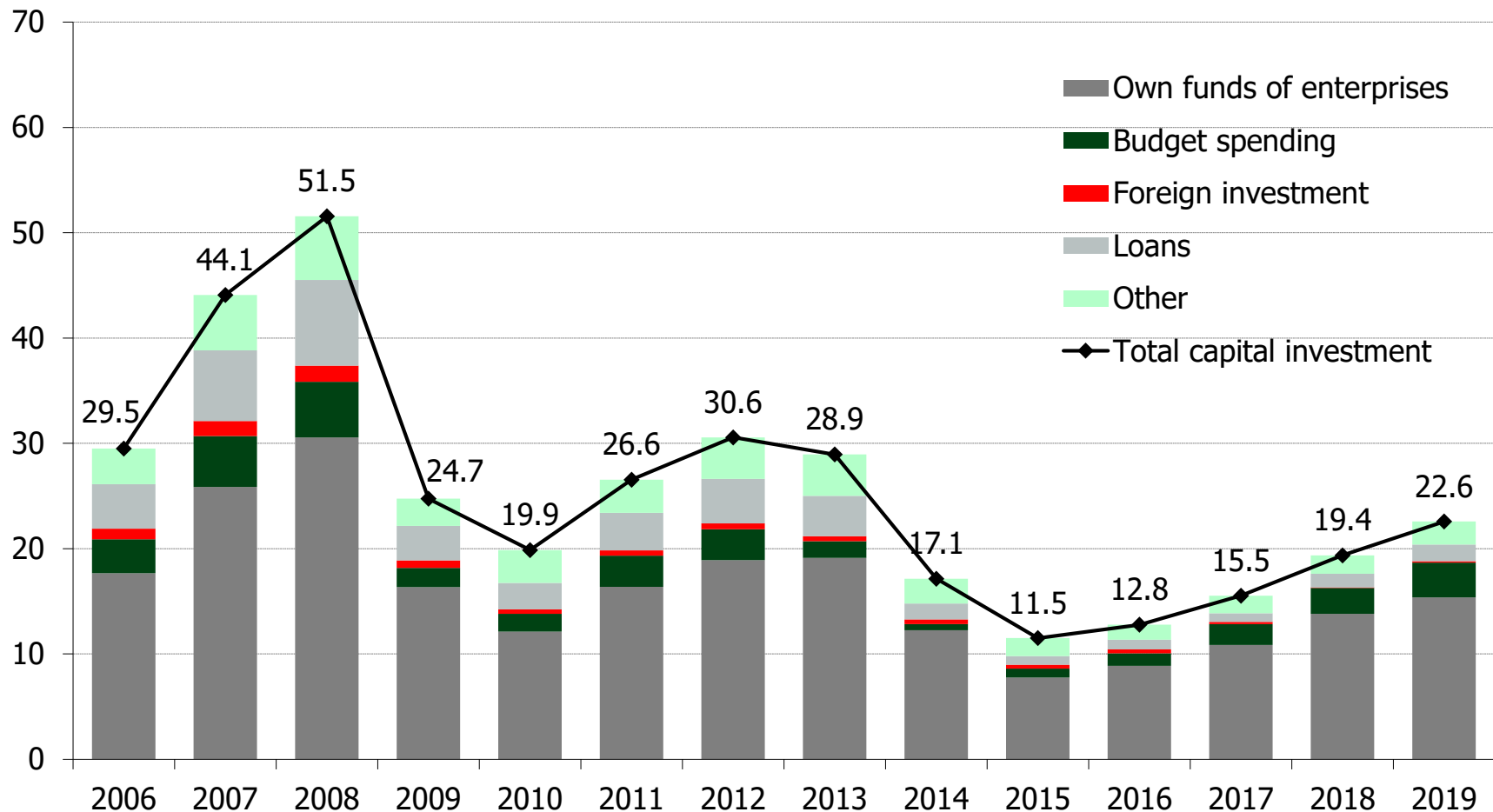
Investment in Ukraine: Key Facts

Gross Fixed Capital Formation (% of GDP)



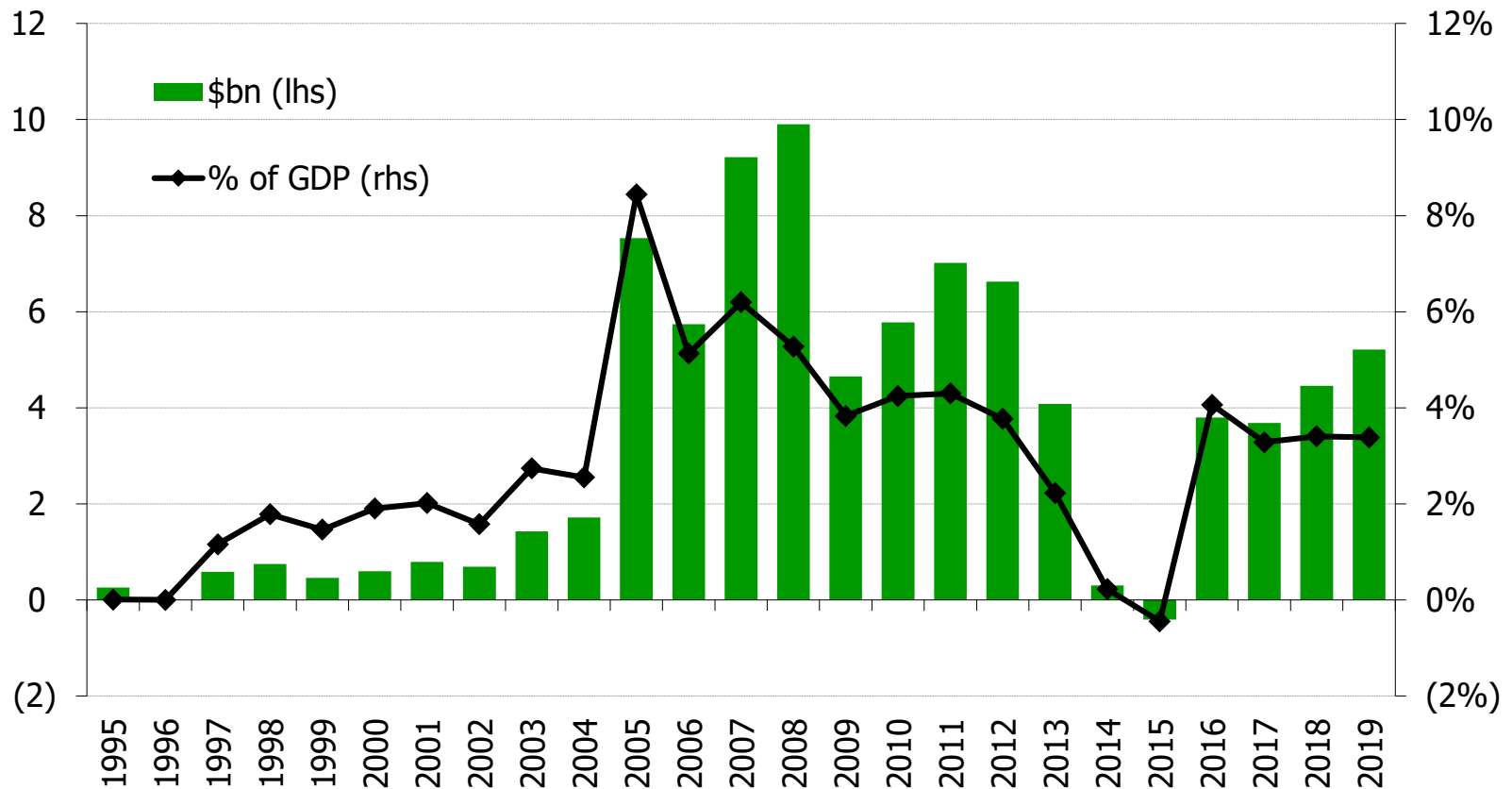
Notes: *Emerging & Developing Europe includes Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Moldova, Montenegro, North Macedonia, Poland, Romania, Russia, Serbia, Turkey and Ukraine; includes changes in inventories. Sources: IMF, SSS.

Capital Investment in Ukraine: Financing Sources (\$bn)



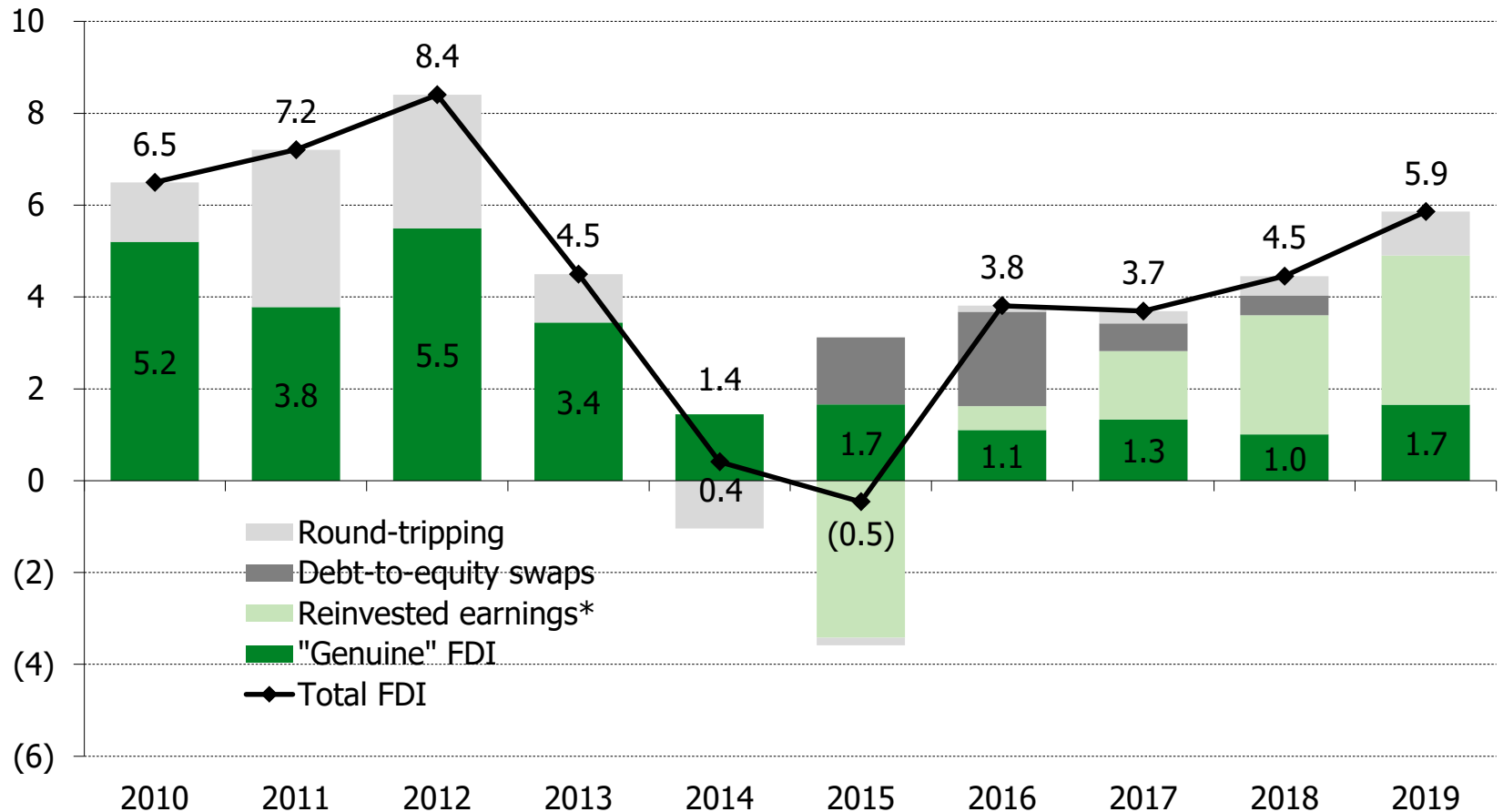
Source: SSS.

Net FDI in Ukraine



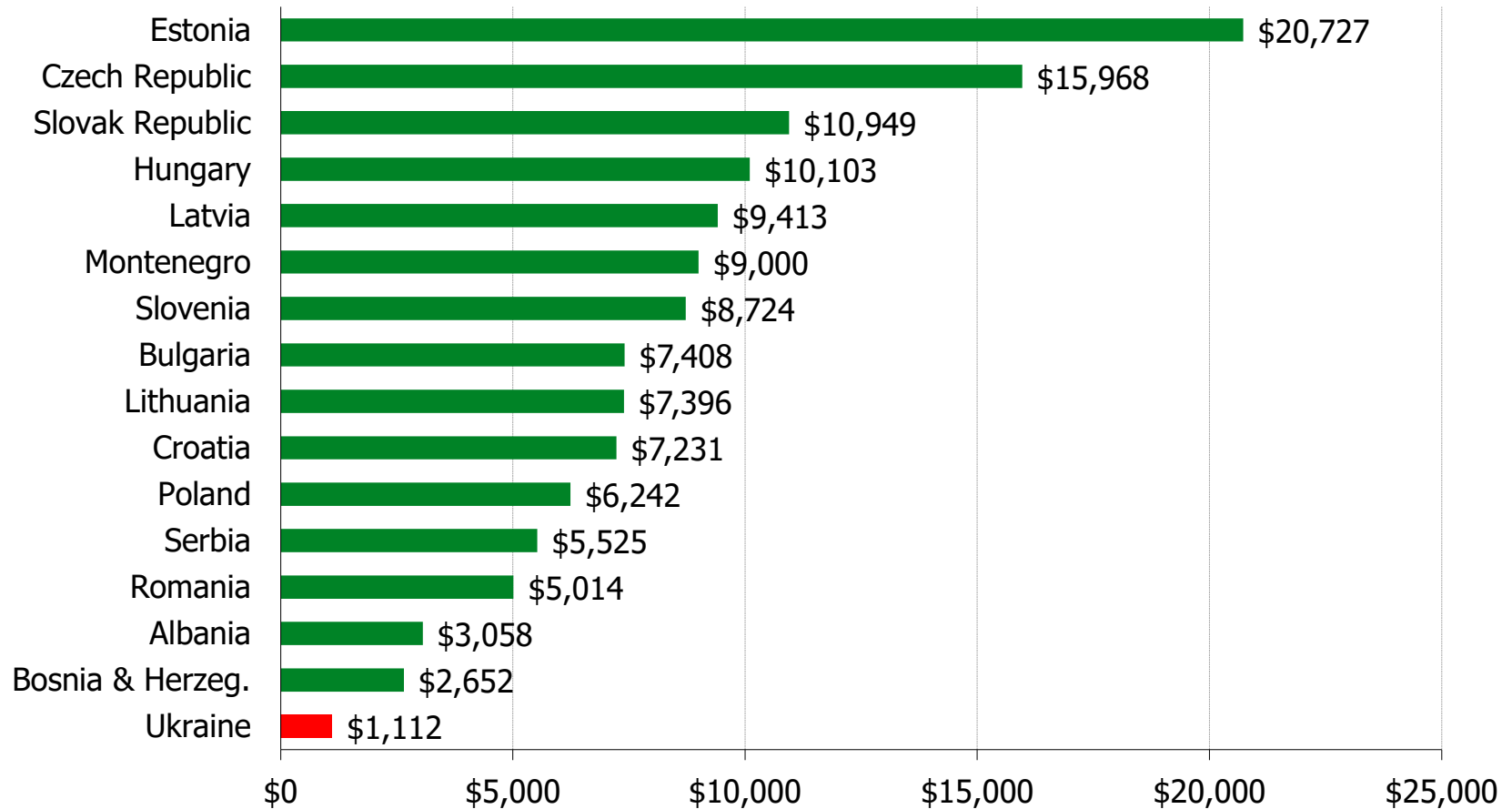
Note: includes reinvested earnings of direct investors since 2015, according to new methodology introduced in 2020. Source: NBU

FDI in Ukraine: Breakdown (\$bn)



Note: *Added to FDI data since 2015, according to new methodology introduced in 2020. Source: NBU

FDI Stock per Capita



Note: as of end-2019. Source: UNCTAD

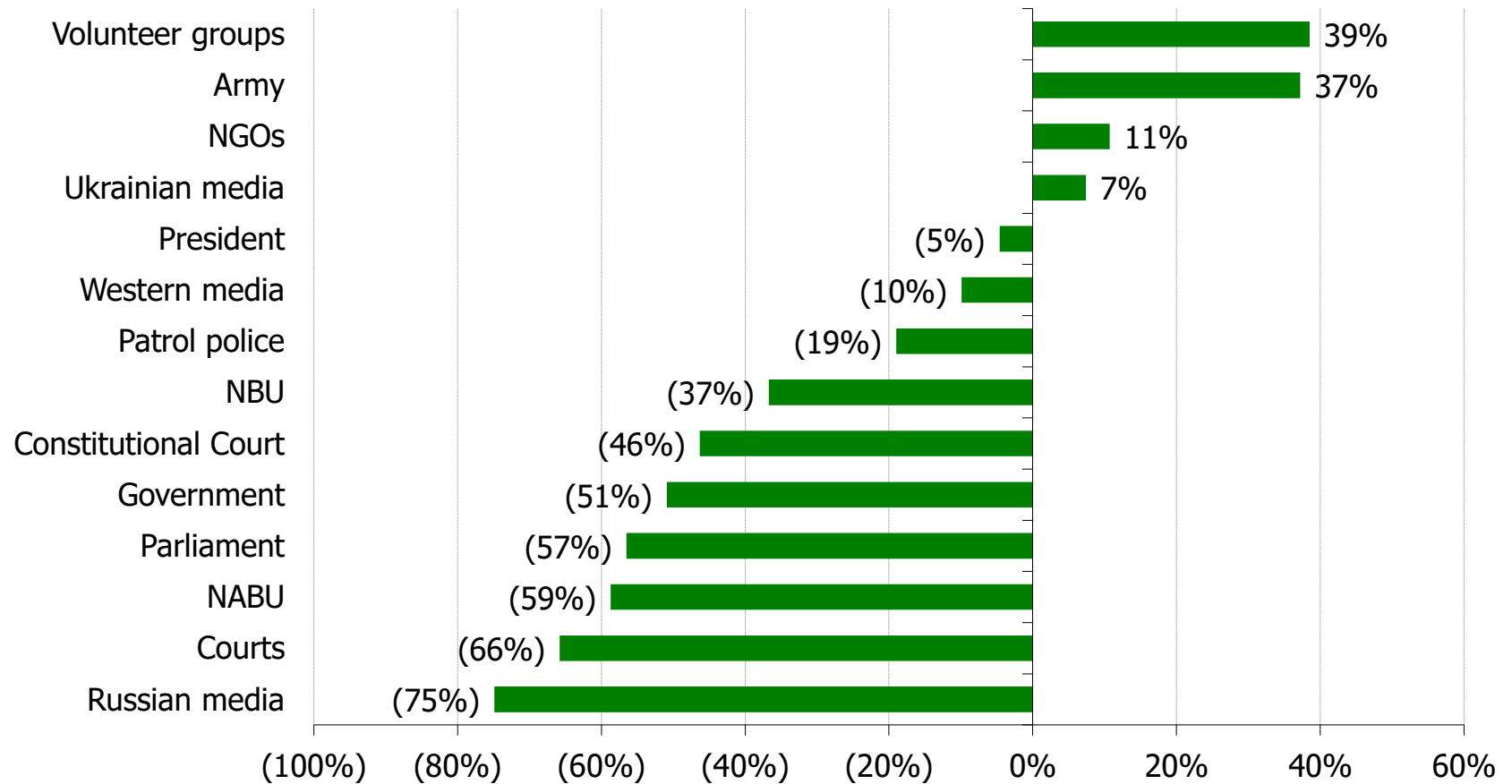
Corruption and Rule of Law Rankings: Ukraine vs. Peers

Position in the rankings

Country	Corruption Perception Index	Country	Rule of Law Index
Poland	41	Poland	28
Croatia	63	Romania	32
Belarus	66	Croatia	39
Hungary	70	Bulgaria	53
Romania	70	Kosovo	54
Bulgaria	74	North Macedonia	58
Serbia	91	Hungary	60
Turkey	91	Bosnia and Herzegovina	64
Bosnia and Herzegovina	101	Belarus	68
Kosovo	101	Ukraine	72
Albania	106	Serbia	75
North Macedonia	106	Albania	78
Moldova	120	Moldova	82
Ukraine	126	Russia	94
Russia	137	Turkey	107

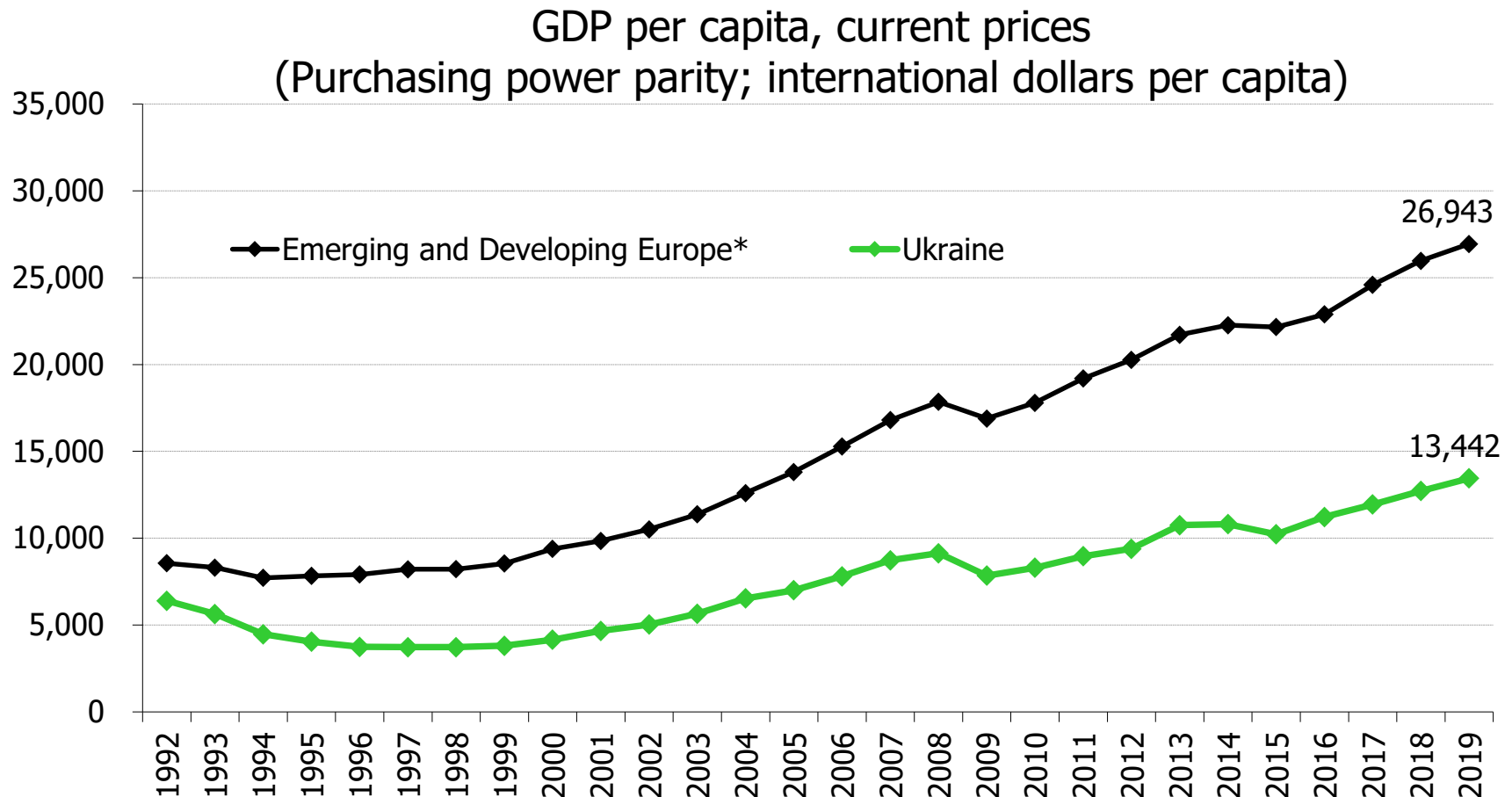
Note: higher position is better. Source: WJP Rule of Law Index, Transparency International Corruption Perception Index.

Popular Trust in Institutions



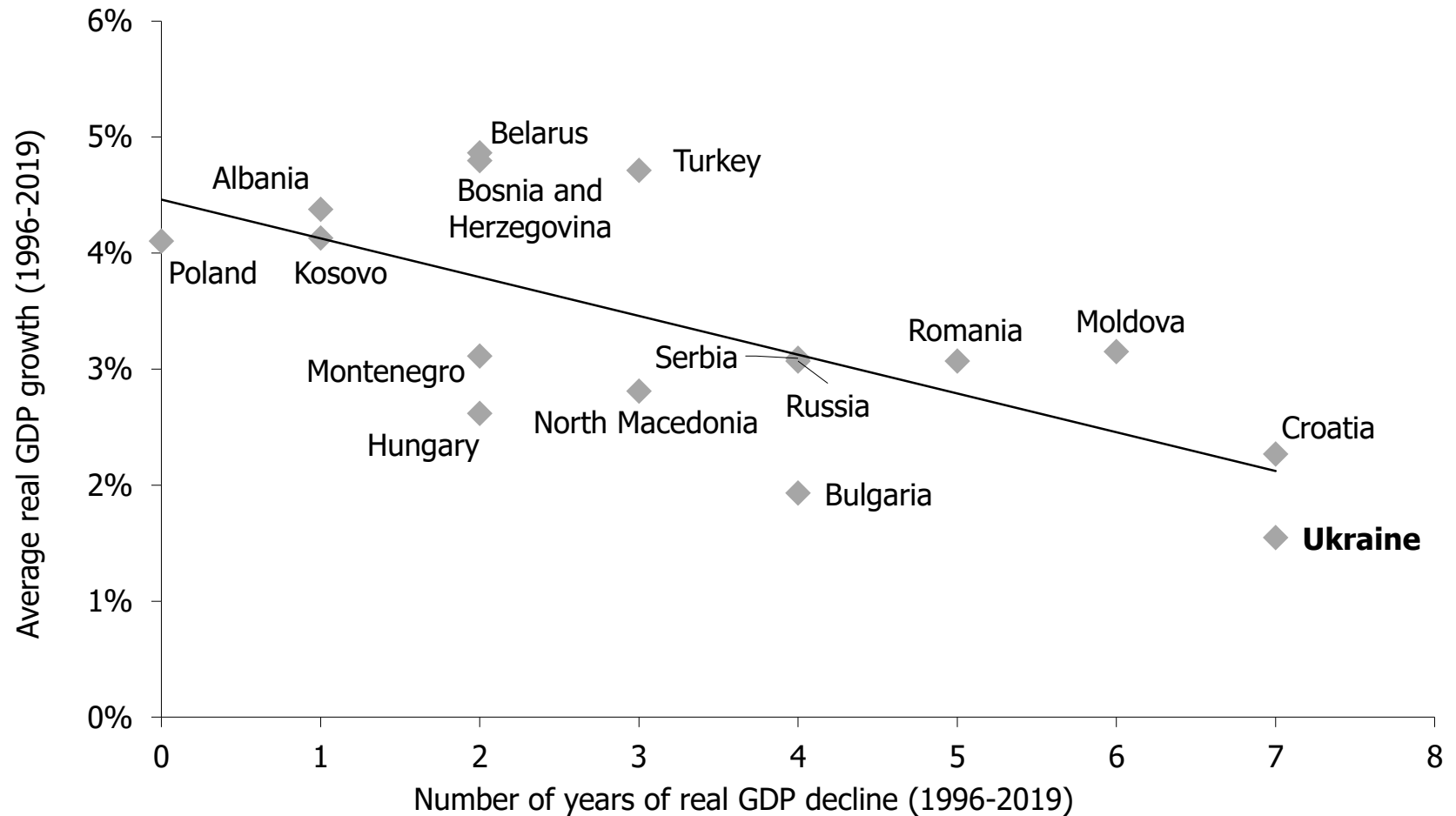
Note: difference between the percentage of respondents who trust the institution and percentage of those who don't. Source: Razumkov Center July 2020 survey.

GDP per Capita Based on Purchasing Power Parity (PPP)



Notes: *Emerging & Developing Europe includes Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, Moldova, Montenegro, North Macedonia, Poland, Romania, Russia, Serbia, Turkey and Ukraine. Source: IMF

Importance of Sustainable Economic Growth



Note: 2001-2019 data for Montenegro and Kosovo, 1999-2019 data for Serbia. Source: IMF.

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