

**American University Kyiv**

A Capstone Project

**INVESTMENT MANAGEMENT STRATEGIES FOR UKRAINE IN  
WARTIME: NAVIGATING CHALLENGES AND LEVERAGING  
OPPORTUNITIES (FINANCIAL SECTOR OF THE ECONOMY)**

**СТРАТЕГІЇ УПРАВЛІННЯ ІНВЕСТИЦІЯМИ ДЛЯ УКРАЇНИ В  
УМОВАХ ВІЙНИ: ПОДОЛАННЯ ВИКЛИКІВ ТА ВИКОРИСТАННЯ  
МОЖЛИВОСТЕЙ (НА ПРИКЛАДІ ФІНАНСОВОГО СЕКТОРУ  
ЕКОНОМІКИ)**

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## TABLE OF CONTENTS

ABSTRACT.....	3
INTRODUCTION.....	4
CHAPTER 1. Literature review.....	7
CHAPTER 2. Methodology.....	9
CHAPTER 3. Analysis of the current state of investment climate in Ukraine.....	11
CHAPTER 4. Challenges of the financial sector of Ukraine during the wartime.....	16
CHAPTER 5. Opportunities for investment strategies in Ukraine during the wartime.....	20
CONCLUSION and DISCUSSION.....	27
REFERENCES.....	28

## ABSTRACT

Ukraine is currently in a state of war and major part of the government budget goes to security and defense sector. Around 20% of the expenditure is left for economic, social, infrastructure, and healthcare sectors. Investment strategy for Ukraine is needed to attract not only investments in the form of a financial aid, but also direct investments. The key to successful adaptation of the economy lies in the dimension of the long – term investment strategy needed for reconstruction and sustainable development.

Methods for data collection process included open – source data analysis of the National Bank of Ukraine, Ministry of Finance, UkraineInvest, World Bank. Collected data for Ukraine had been compared to peer countries to assess current state of investment climate of Ukraine. Methods such as correlation – regression analysis and economic – mathematical forecast had been used to assess efficiency and correlation between foreign direct investments and development of financial sector of Ukraine on the example GDP growth. FDI inflows to Ukraine have been compared to the nominal values of GDP in Ukraine resulted in regression coefficient of 5.7770 representing the estimated marginal effect of FDI to Ukraine on the GDP of Ukraine in this model. Correlation coefficient resulted in 0.4161, which indicated a moderate positive relationship between FDI inflows and GDP of Ukraine.

Results of analysis show that wartime conditions have accelerated the restructuring of the economy, fostering new sectors, partnerships and reforms which can become the ground for future growth. Furthermore, for a successful investment management strategy, it is essential to have a roadmap with clear directions and performance indicators.

Main factors for investment management strategies are supported by key directions outlined on the country level in the form of a framework and should be reflected in the following areas:

- Continuous financial assistance to Ukraine from developed countries, international organizations.
- Enhancing the cooperation between the National Bank of Ukraine and the government to support the real sector of the economy.
- Launching of international programs and projects for the reconstruction of the economy, focusing mainly on agriculture and agribusiness.

Keywords: investment strategy, foreign direct investments, macroeconomic outlook.

## INTRODUCTION

To add more, priority reform areas for Ukraine should be focused on, but not limited to:

1. Establishing a result-oriented and effective investment management framework. It should be created and established alongside both foreign and local investors, aiming to seek clarity and show effectiveness in short and long-term perspectives.
2. Integral vision, achievable and measurable goals, as well as strengthening positioning of institutions to promote investments. Existing Ukraine Investment Promotion Agency and UkraineInvest should set clear roadmap, resulting in a higher private sector engagement.
3. Creation of a new and competitive business environment aiming to attract new investments, especially during wartime. Ukraine should focus on reduction of the cost of doing business by improving the process of digitalization of opening the business.
4. Corruption is one of the main challenges and areas for improvement, which should become an integral part of the framework during reforms. The rule of law, alongside transparency and digitalization should become main instruments to mitigate corruption risks.
5. Management of capital investment projects in line with foreign direct investment strategy.
6. Acceleration of privatization process. This point became one of the most successful ways to attract investors, at least locally, when state owned enterprises were sold during wartime. By ensuring transparency and a clear process of competition, privatization could become a solid pillar to support government and obtain investments out of those enterprises, who perform poorly.

Successful foreign direct investment strategy requires updated framework, effective institutions, laws and regulations, business environment and related policies to attract foreign direct investment. Without doubt, the majority of countries seek to attract investments in various forms, like direct economic contribution, capital investments, export of technology and innovative sectors. A significant shift in the amount of foreign direct investment projects as well as national development has been observed by countries who established new foreign direct investment policies. Please see a comparison of the value of announced greenfield FDI projects, which are the largest segment in a global foreign direct investment in Figure 1.

Figure 1. Value of Greenfield Projects (2003 – 2023)



Source: Data from UNCTAD, World Investment Report 2023, Annex Table 14

Prior to the full – scale invasion, Ukraine struggled to attract investments, mainly due to various legislation issues, failure to protect rights of investors, corruption and lack of credible judicial system. Recent publications define internal and external factors which influence investment decisions both for local and foreign investors. External factors are mainly associated with:

1. Macroeconomic and geopolitical instability, which influences foreign trade, increase labor costs and increase business risks.
2. Changes in prices for raw materials. Mainly fluctuations of oil prices, metals and raw materials affect export earnings and foreign trade.
3. Changes in foreign regulation and trade agreements.

As for internal factors, it is worth mentioning inability to restore economic activity on the occupied territories of Ukraine. This became a challenge for Ukraine to manage and adjust the strategy on the country level in order to attract funds needed for a long – term goals in various sectors of economy.

Despite substantial number of analytical overviews and scientific studies related to investment strategies for Ukraine during the peacetime, there are limited research and proposal how to manage investment strategy during the wartime.

The purpose of the of the capstone project is to systematically analyze a current state of attraction of foreign investments in Ukraine, assess challenges of financial sector of the economy during a wartime, describe opportunities to strengthen the investment position during the wartime as well as provide recommendations.

It concludes analysis of current trends and correlation between FDI and GDP growth explaining the direct impact of foreign investment inflows on the state of the economy of Ukraine, as well as a stress-testing of FDI inflows during years 2025 and 2026.

This project contains practical recommendations for the government of Ukraine to assess key challenges of financial sector and foster investment attractiveness of the country.

## CHAPTER 1. LITERATURE REVIEW

Economy of Ukraine is highly dependent on external support and investments, both domestic and foreign, given the current budget deficit and the level of reserves which stood at the level of 36,6 billion USD as of October 2024 (National Bank of Ukraine. (2024, Q4). Vital importance for balancing expenditures related to servicing and timely repaying of the public debt, services and redeem of domestic government debt securities, services and repayment of the debt to the World Bank, European Investment Bank, European Union, as well meeting liabilities towards other international creditors, including International Monetary Fund, an investment framework for Ukraine becomes of extreme significance.

In the Ukraine's Investment Landscape report different strategies to attract foreign capital had been examined. Having analyzed the flow of foreign investments, it has been identified that a properly structured environment for investments has a direct correlation with key indicators of the economy which leads to creation of a ripple effect across various sectors of the economy (The Financial Analyst, 2024). However, due to globalization processes and market openness nowadays, foreign investors set high requirements for investment facilities and investment attractiveness of the countries they are going to invest in. These standards force countries to develop their own investment strategy either in the form of the framework or by focusing on investment strategies certain sectors of the economy (Kasianenko, V., 2020).

Having described the reality and perspectives, obstacles of limited resources of Ukraine have been outlined, which brings to the high level the problematic of funding sources. The framework to be addressed by the government to foreign investors should be formed under political, economic, legal and social factors (Serhieieva, O., 2015).

Various proposals which were addressed by National Investment Council with Ministry of Economy of Ukraine, UkraineInvest and USAID Competitive Economy Program, resulted in development of National Strategy for Ukraine, aiming to increase foreign direct investments. The strategy provides clear and precise, but what is more important time-bound, recommendations forcing more in various industries and methods, barriers and actions plans. Additionally, Rödl & Partner also outlined in their overview main sectors of the economy to become pioneering for investments after the war time, like food and agriculture, construction, mechanical engineering, light industry (Rödl & Partner, 2024).

Technology sector alongside agriculture and renewable energy, were also outlined as main potential zones for investments after the end of the war. Specifically, agricultural markets and such areas as crop production, livestock farming and food processing should be closely analyzed for their immense potential (Generis Global, 2024). In addition, despite the war, the government of Ukraine focuses on legislation updates aiming to mitigate and cover the level of risk and its perception of foreign investors who are actually successfully making new direct investments of tens of millions of dollars, even though new investors are limited.

The relevance of the topic of development and managing effectively investment framework for Ukraine, aiming to achieve sustainable recovery and transformation after the wartime, alongside with an investment strategy for financial sector as an integral part during the wartime.

## CHAPTER 2. METHODOLOGY

During the capstone project data quantitative and qualitative analysis, have been used to enable the studying process of investment strategies in Ukraine as well as development of investment framework during the war time alongside with potential of investment attractiveness after the war time have been investigated.

These methods have been used to explore challenges of the financial sector of Ukraine and opportunities for investment strategies in Ukraine during the wartime. Abovementioned methods included correlation – regression analysis and economic – mathematical forecast, stress-testing of the received results have been used to assess efficiency and correlation between foreign direct investments and development of financial sector of Ukraine. Evaluation of the relationship between foreign direct investment inflows and GDP growth of Ukraine helped to analyze economic impact on the financial sector during wartime and provided insights into potential policy recommendations.

Dependent variable included nominal GDP of Ukraine and foreign direct investment inflows have been taken as independent variable. Both variables calculated in million USD. Model Fit assessments have been used to test the results and the relationship between FDI inflows and GDP which has been proven to be statistically significant, as indicated by the F-statistic and p-value. Results received were as follows:  $R^2$  - 0.173, adjusted  $R^2$  – 0.134, F-statistic - 4.398 and p-value - 0.048. The normality test resulted in T-statistic - 0.932 and p-value - 0.122. As the result was greater than 0.05, residuals are approximately normally distributed.

Data has been collected from resources of investments framework developed for Ukraine alongside with European Commission, UkraineInvest, National Bank of Ukraine, Ministry of Finance, analytical reports of the World Bank, International Monetary Fund. Most recent scientific publications had been analyzed to explore trends, volumes and dynamics, compared with existing strategies of investments to Ukraine. This includes but is not limited to correlation and regression analysis of foreign direct investments and GDP growth, assessing of risk factors, which influence the investment climate in Ukraine.

Qualitative assessment of challenges and opportunities of investment strategies for Ukraine have been described and assessed in the capstone project. Current conditions of full-scale invasion and implementation of the martial law changed the approach of investments to Ukraine, taking into currency control regulation, legislation updates aiming to protect local

currency market from major outflows impacted the financial sector. According to recent estimates of the World Bank and the European Commission, reconstruction and rebuilding process of Ukraine has reached 349 billion US dollars. This brings the criticality of foreign direct investments in the financial sector to a high level of importance. Allocated financial resources in the form of direct financial aid or investments faced challenges, such as extremely high risk of non-repayment and the ability to repatriate capital from Ukraine in the nearest time until further legislation updates to be published by the National Bank of Ukraine.

### CHAPTER 3. ANALYSIS OF THE CURRENT STATE OF INVESTMENT CLIMATE IN UKRAINE

The process of attraction of foreign investments to Ukraine should take into account, that investors prefer either obtaining a profit with its further possibility of repatriation or achieving a social impact. Various features impact the classification process of investments, such as: period of investments, form of ownership, direct or portfolio. Foreign direct investment is a preferred option in comparison with portfolio investment, given their long – term impact. Peer analysis have been conducted to explore current state of investment climate in Ukraine as shown on the Table 1.

Table 1. Foreign direct investment data by country (2022-2023)

Country	FDI Stock (USD Billion)	Population (Million)	FDI per Capita (USD Thousand)
Czech Republic	202.6	10.5	19.3
Kazakhstan	170.0	19.0	8.9
Lithuania	25.0	2.8	8.9
Poland	260.0	38.0	6.8
Romania	100.0	19.0	5.3
Serbia	50.0	6.7	7.5
Slovakia	60.0	5.4	11.1
Tunisia	35.0	12.0	2.9
Turkey	200.0	85.0	2.4
Ireland	1,000.0	5.0	200.0
Ukraine	50.0	41.0	1.2

Source: Data from International Monetary Fund, Investment Monitor

Having analyzed operating factors, key findings could be outlined and are as follows:

- Ukraine has one of the largest populations in Europe, which is a competitive advantage for a foreign investor. However, low purchasing power provides a downward push related to market potential.
- Foreign Direct Investments are highly dependent on the level of governance, which includes regulatory framework and government effectiveness as key components of the stable business environment. This influences not only the quality of the regulation

itself, but also the level of public services, implementation of policies and credibility of the government to establish the rule of the law.

- Labour market is one of key aspects during analysis for investment attractiveness in Ukraine, given its high level of education and enrollment to universities and skilled population.

On the other hand, cost factors for investment attractiveness are key elements for decision making process for investors. Having several components like cheap labor force, cost of hiring the employee, income tax and social contribution rates, as well as average salary, bring Ukraine on a competitive position versus peer group of selected countries as shows on the Table 2. Cost of funding in Ukraine is higher, than in comparison to the peer group, given the sovereign credit rating of the country. Despite a flat corporate income tax, which stays on the level of 18% and is comparable to the peer group, the administration process of taxes is a subject for continuous improvement and became one of key issues which effect adversely the interest if investors.

Table 2. Labour market and tax data (2022-2023)

Country	Labor Force (Million)	Average Monthly Salary (USD)	Income Tax Rate (%)	Social Security Contributions (%)
Czech Republic	5.4	1,500	15–23	Employer: 24.8, Employee: 11
Kazakhstan	9.2	600	10	Employer: 11, Employee: 10
Lithuania	1.5	1,200	20–32	Employer: 1.77, Employee: 19.5
Poland	17.3	1,200	17–32	Employer: 20.48, Employee: 13.71

Romania	8.5	1,000	10	Employer: 2.25, Employee: 35
Serbia	3.2	700	10–15	Employer: 16.15, Employee: 19.9
Slovakia	2.7	1,200	19–25	Employer: 35.2, Employee: 13.4
Tunisia	4.1	400	0–35	Employer: 16.57, Employee: 9.18
Turkey	32.4	500	15–40	Employer: 20.5, Employee: 14
Ireland	2.5	3,500	20–40	Employer: 11.05, Employee: 4
Ukraine	16.5	500	18	Employer: 22, Employee: 1.5

Source: Data from World Bank, International Labour Organization (ILO), Eurostat

There are certain risks associated with investing in Ukraine which could be grouped in macroeconomic, war, political and corruption. As for macroeconomic risk, they are treated as significant, given vulnerable fiscal and monetary policies, tight currency control regulation, constant budget deficit. As shown on the Table 3, Ukraine has much higher level of the budget deficit as a percentage of the GDP, as well as 10 – year average inflation rate. However, recent studies show that the inflation rate is a statistically insignificant predictor of foreign direct investments. This could be explained that investors still have a certain amount of risk appetite to higher returns, despite the level of macroeconomic uncertainty.

Table 3. Inflation rate and budget deficits (2022 - 2023)

Country	Average Inflation Rate (10-Year) (%)	Budget Deficit (USD Billion)	Budget Deficit (% of GDP)
Czech Republic	3.2%	12.0	3.8%
Kazakhstan	8.2%	5.0	2.5%
Lithuania	1.6%	2.0	3.0%
Poland	2.5%	15.0	4.0%
Romania	3.1%	10.0	5.0%
Serbia	3.5%	3.0	3.5%
Slovakia	1.5%	4.0	4.5%
Tunisia	5.5%	3.5	6.0%
Turkey	11.0%	20.0	5.5%
Ireland	0.5%	2.5	0.7%
Ukraine	9.0%	8.0	15.6%

Source: Data from World Bank, Eurostat and OECD

Notwithstanding, political risk and current state of war bring caution for international investors, as well as corruption level with unreliable judicial system. Studies show that foreign direct investments flow tends to be greater in those countries, where there are more stable political institutions. On the other hand, the vulnerability level of investments to any kind of uncertainty sometimes is compensated partially with higher returns.

War conflict and any kind of military aggression is associated with lower levels of foreign direct investments. As shown in the Table 4, Ukraine has a zone for improvement related to peace and stability metrics, which could potentially lead to increased level of foreign direct investments as a share of GDP.

Table 4. Global peace index data (2023)

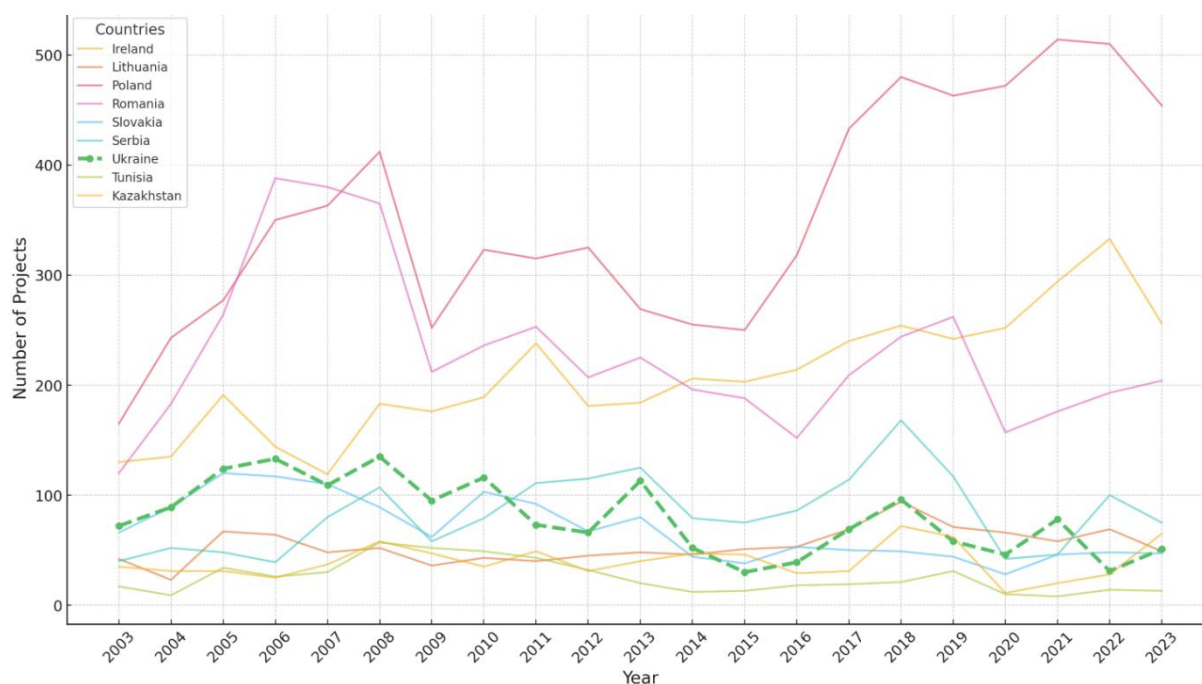
Country	GPI Score	Global Rank
Ireland	1.312	3
Czech Republic	1.379	12
Slovakia	1.578	26
Poland	1.634	29
Romania	1.649	31

Lithuania	1.671	36
Serbia	1.921	44
Kazakhstan	1.980	66
Tunisia	2.010	69
Turkey	2.800	147
Ukraine	3.043	157

Source: Data from Institute for Economics & Peace

Current state of the war has brought severe challenges for Ukraine to be addressed within a short period of time and having limited own resources. Within a peer group of countries selected for analysis, the trend for Ukraine shows opportunity for growth in terms of the number of greenfield projects.

Figure 2. Number of Greenfield Projects (2003 – 2023)



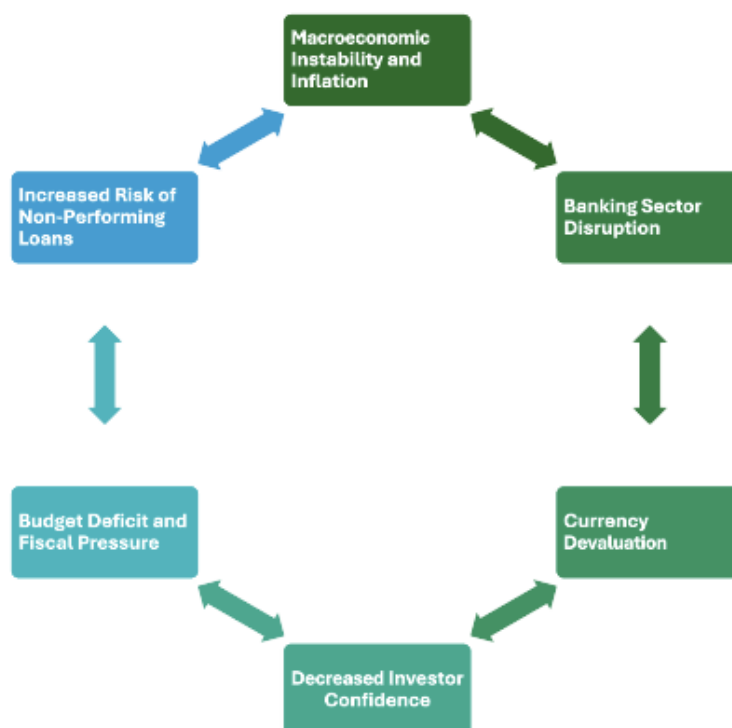
Source: Data from UNCTAD, World Investment Report 2023, Annex Table 17

Wartime conditions brought significant changes to the economy of Ukraine and require critical and in-depth analysis on the country level aiming to revise strategic priorities and investment strategy, as well. Given the current state of investment climate in Ukraine, key challenges of the financial sector should be outlined and addressed.

## CHAPTER 4. CHALLENGES OF THE FINANCIAL SECTOR OF UKRAINE DURING THE WAR TIME

The beginning of 2022 brought several important changes to the financial sector of Ukraine, which were mostly driven by National Bank of Ukraine changes to foreign currency regulation and currency control restrictions. However, liberalization took place during the past 2 years and resulted in positive trends in the financial sector and the economy on the whole. On the other hand, it is important to mention key challenges of the financial sector of Ukraine. Here are the main six challenges outlined in Figure 3:

Figure 3. Challenges of the financial sector of Ukraine (2024)



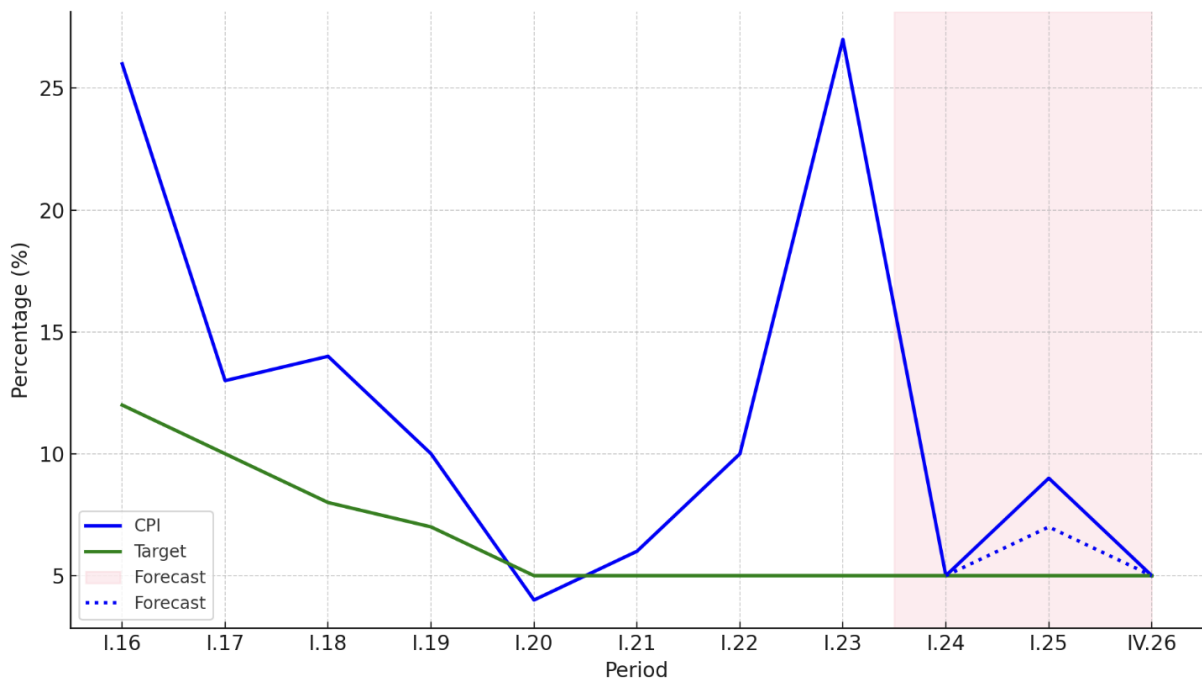
Source: National Bank of Ukraine inflation report, October 2024

Despite the full – scale invasion, the government of Ukraine and the National Bank of Ukraine aim to ensure financial and price stability. It is done in line with the interest–rate policy and exchange rate instruments. However, severe damage of main industry zones, challenges with export routes and agricultural lands being unavailable for operating due to occupation resulted in smaller than expected harvest of various crops. Subsequently, it had impact on

production costs of finished goods, including increase in labor costs, recent changes in the military tax to be set on the level of 5%, electricity outages and weakening of Ukrainian currency, which had effect on exchange rate.

As shown in Figure 4, forecasted inflation should start a declining process in the second first quarter of 2025, mainly driven by the prudent monetarily policy, improvement in the energy sector and increase in harvests.

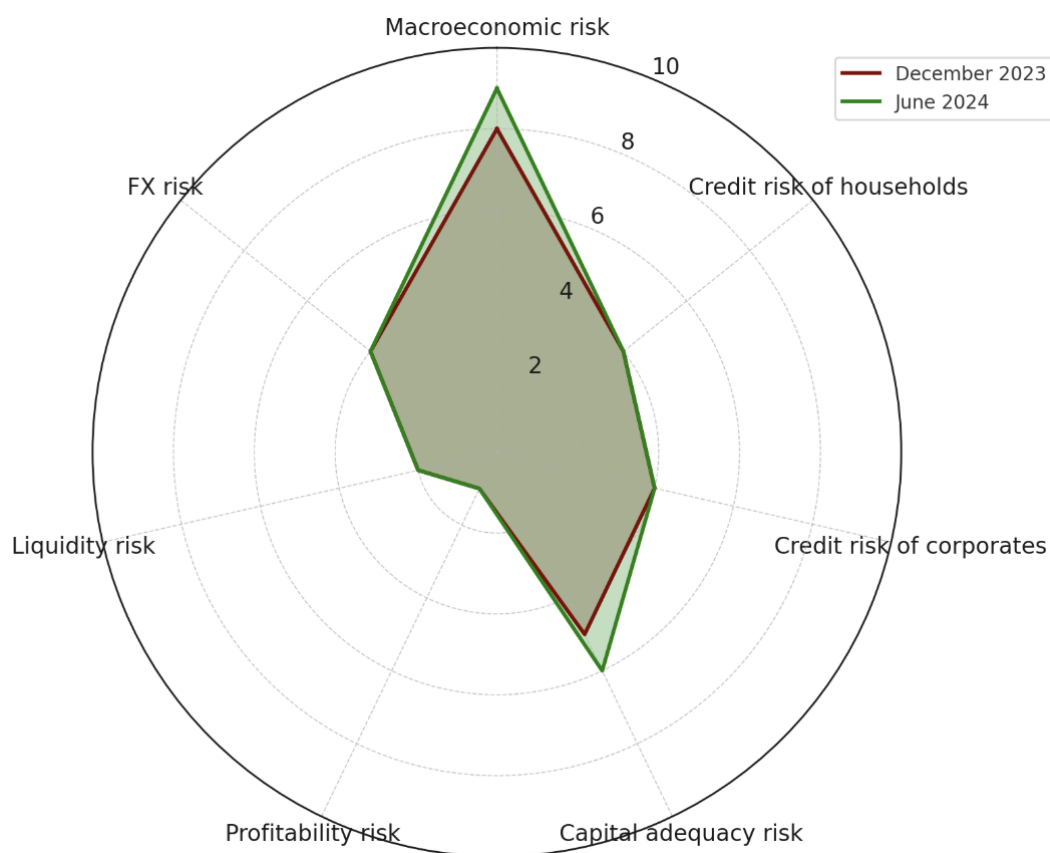
Figure 4. CPI change (end of period, % Y-o-Y) and inflation targets



Source: National Bank of Ukraine inflation report, October 2024

To add more, macroeconomic risk remains still the biggest one for the financial sector and is a key challenge on the country level to be addressed. The ratio of debt to GDP and state budget deficit remain high, current account deficit of the balance of payments results in increase of the public debt relative to the GDP, as well. On the other hand, such risks as credit risk of households, corporates, liquidity and profitability remain unchanged. As shown on the financial sector risk map in Figure 5, there were only two main changes related to capital adequacy and macroeconomic risks.

Figure 5. Financial sector risk map

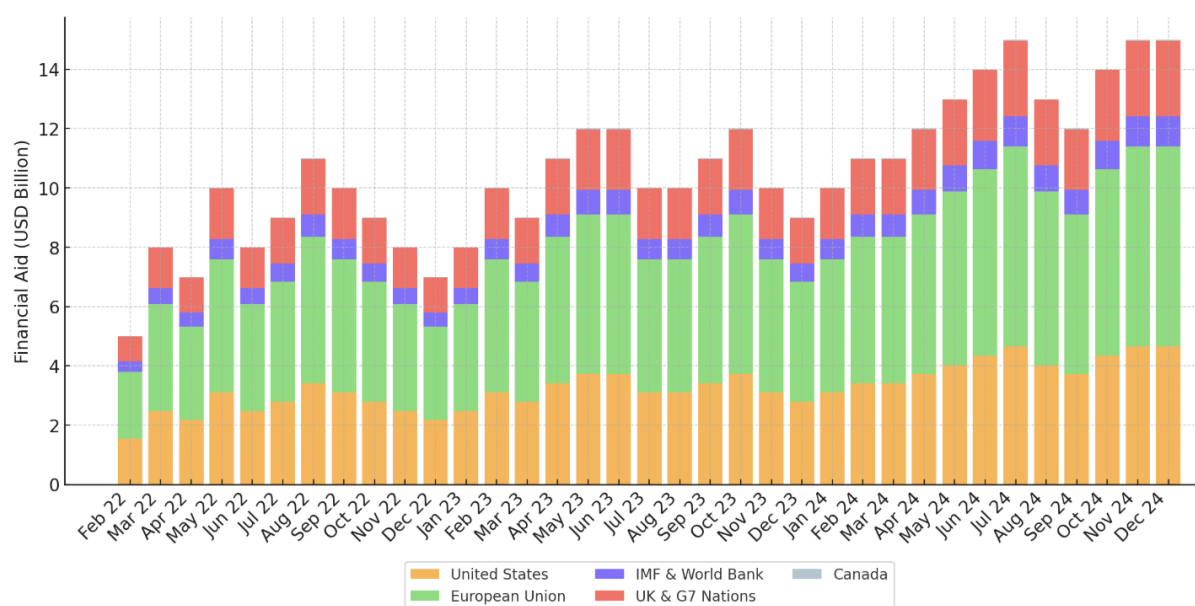


Source: National Bank of Ukraine financial stability report, June 2024

Despite the banking sector is highly liquid for the last two years, this risk should also be highlighted. Non-performing loans have increased since the beginning of the war and require significant efforts from the regulator and the government to address them. In addition, it is highly unluckily, that a non-performing loan will restore to performing. For the two-thirds of non – performing loans in Ukraine only interest is being repaid. Given the low collateral coverage rates bring more instability and uncertainty, as the longer the loan is being non – performing, the less likely it is to recover in future. In Ukraine the most common types of collaterals are real estate and equipment and taking into consideration liquidity risk of this collateral, only 35% of gross non-performing loans are covered.

Notwithstanding, it is important to mention international support from partners, including the United States and European Union, IMF and the World Bank, UK and G7 partners. On the Figure 6 the dynamics of financial aid by main contributors is shown.

Figure 6. Financial support aid to Ukraine by countries (February 2022 – December 2024)



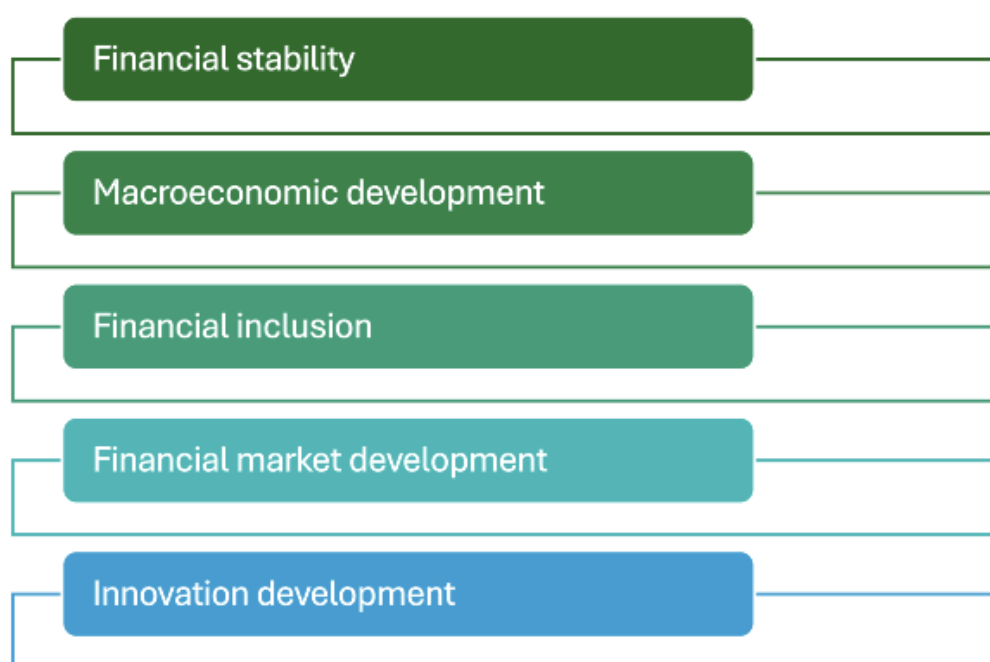
Source: Kiel Institute, Ukraine Support Tracker

International support from partners remains the key driver of macroeconomic stability. However, the regularity of such inflows puts this a risk – factor for Ukraine. For the 2024 international assistance will remain the main source of capital inflows for Ukraine. These inflows will cover the current account deficit and capital inflows to the private sector are still moderate due to high security risks.

## CHAPTER 5. OPPORTUNITIES FOR INVESTMENT STRATEGIES IN UKRAINE DURING THE WARTIME

Despite the significant disruption in the macroeconomy caused by the war, Ukraine remains an area of potential opportunity for strategic investors willing to navigate risk and focus on long-term gains. Wartime conditions have accelerated the restructuring of the economy, fostering new sectors, partnerships and reforms which can become the ground for future growth. Hence, for investment management strategy, it is essential to have a roadmap with clear directions and performance indicators. In the Figure 7, strategic directions for Ukraine have been summarized aiming to create conditions for sustainable growth in financial sector and further attraction of foreign investments during the integration to the competitive international space.

Figure 7. Strategic directions for Ukrainian financial sector development for 2025



Source: Ministry of Finance, NBU

As for clear goals for each strategic direction, they include effective regulation of the financial sector and improvement of supervision approaches, transparency of the financial sector, increasing of the quality of the governance and risk management. As highlighted in the section related to challenges of the financial sector of Ukraine, macroeconomic stability and

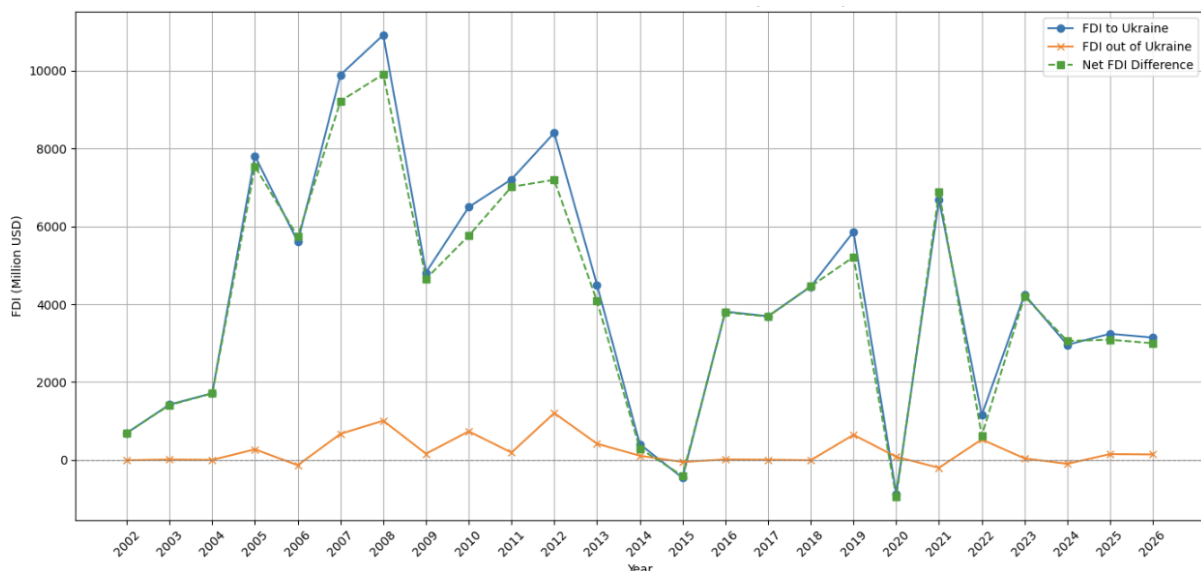
development is one of key factors which bring uncertainty in terms of investment strategy. Hence, ensuring stability of finances, support of lending to the economy, protection of rights of investors and creation of conditions to attract long – term financing of the economy became main strategic directions in this area.

During the wartime, economy of Ukraine has two main roles: support of the military end ensuring the functioning of the economy on the whole, However, this stability of each direction and the prospects of the economy are highly dependent on recovery of large critical infrastructure objects, transportation of export goods, energy supply and attraction of international funds to Ukraine. Main favorable factors supporting these directions outlined on the country level remain as follows:

- Continuous financial assistance to Ukraine from developed countries, international organizations which provide a basis for sustainable recovery and development.
- Enhancing the cooperation between the National Bank of Ukraine and the government to support the real sector of the economy.
- Improvement of well-being of citizens, increasing the resilience to hostile attacks, which will have a positive impact and foster expectations of recovery.

Having analyzed historical data related to foreign direct investments in Ukraine starting from the year 2002, using economic – mathematical forecast for 2025 – 2026 the following results have been visualized in the Figure 8.

Figure 8. Foreign direct investments in Ukraine (2002 – projections 2026)



Source: Ministry of Finance, National Bank of Ukraine, own calculations

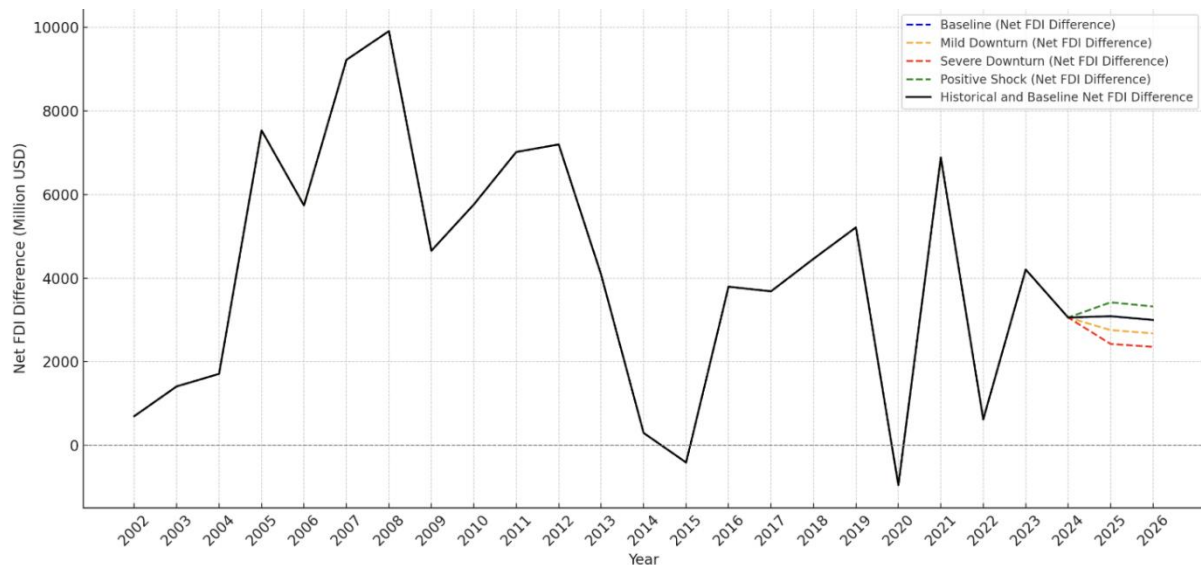
Despite the positive trend observed in 2023 and during 2024, the option to perform stress-testing of this forecast for the next 2 years is proposed. Having described several key

risks and challenges related to financial sector of Ukraine, the following three scenarios are proposed:

1. Scenario 1 (Mild Downturn): a 10% reduction in forecasted FDI to Ukraine and a 5% increase in FDI out of Ukraine.
2. Scenario 2 (Severe Downturn): a 20% reduction in forecasted FDI to Ukraine and a 10% increase in FDI out of Ukraine.
3. Scenario 3 (Positive Shock): a 10% increase in forecasted FDI to Ukraine and a 5% reduction in FDI out of Ukraine.

As shown on the Figure 9, in case of major escalation of geopolitical tensions and war assuming a 20% reduction in FDI to Ukraine and a 10% increase in FDI outflows will subsequently lead to net FDI difference sharply drop to 2,165 million USD in 2025 and 1,944 million USD in 2026 respectively.

Figure 9. Net FDI difference stress – test model (projections for 2025 – 2026)



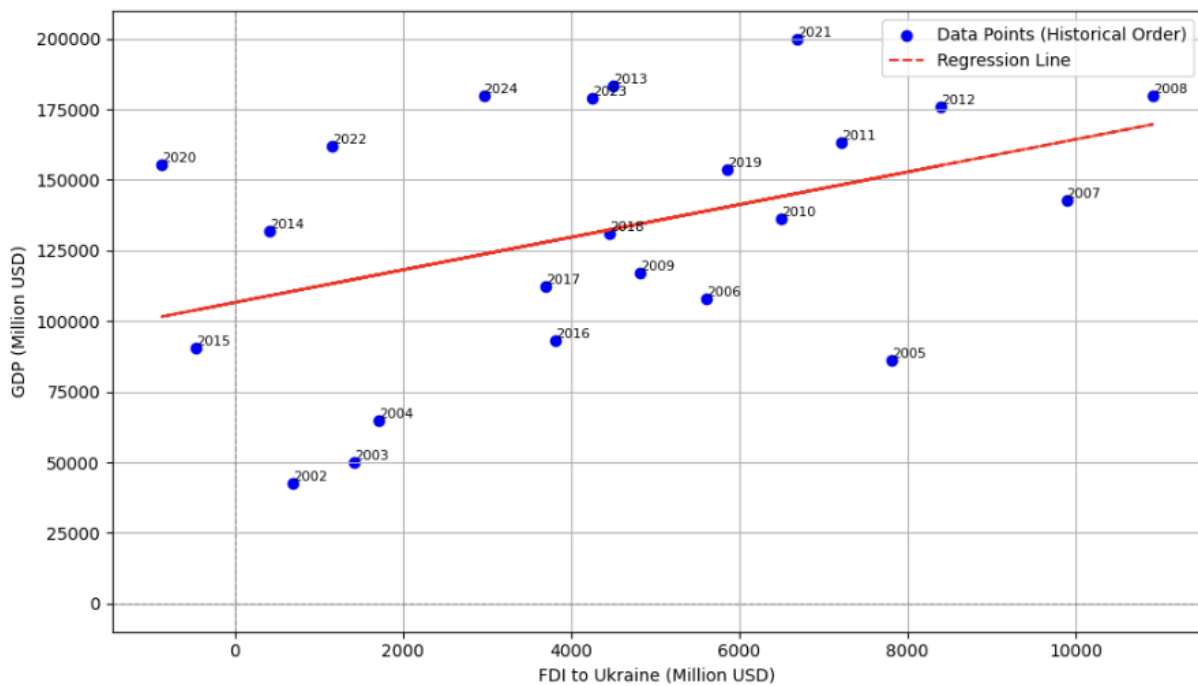
Source: Ministry of Finance, National Bank of Ukraine, own calculations

However, the baseline forecast from a linear regression model which is based on historical data for the period of 2002–2024, net FDI difference is projected to remain positive and stable around 3,089 million USD in 2025 and 2,999 million USD in 2026. In case of a Scenario 3, assuming a 10% increase in FDI to Ukraine and a 5% reduction in FDI outflows, driven by improved investor confidence due to the ceasefire and end of the war conflict, successful reforms and reconstruction, stabilization of the geopolitical situation, net FDI

difference is going to improve to around 3,496 million USD in 2025 and 3,446 million USD in 2026.

Subsequently, the data for FDI inflows to Ukraine has been compared to the nominal values of GDP in Ukraine and provides the following insights: regression coefficient of 5.7770 represents the estimated marginal effect of FDI to Ukraine on the GDP of Ukraine in this model. It provides the overview, that for every additional 1 million USD of FDI inflow to Ukraine, the model predicts that GDP increases by approximately 5.7770 million USD. This coefficient quantifies the direct impact of foreign investment inflows on the state of the economy of Ukraine. As shown in Figure 10, regression coefficient 5.7770 has a positive multiplier effect, where FDI contributes significantly to GDP growth by boosting economic activities like job creation, infrastructure development, and technology transfers.

Figure 10. Regression analysis of FDI to Ukraine and nominal GDP (2002 – 2023)



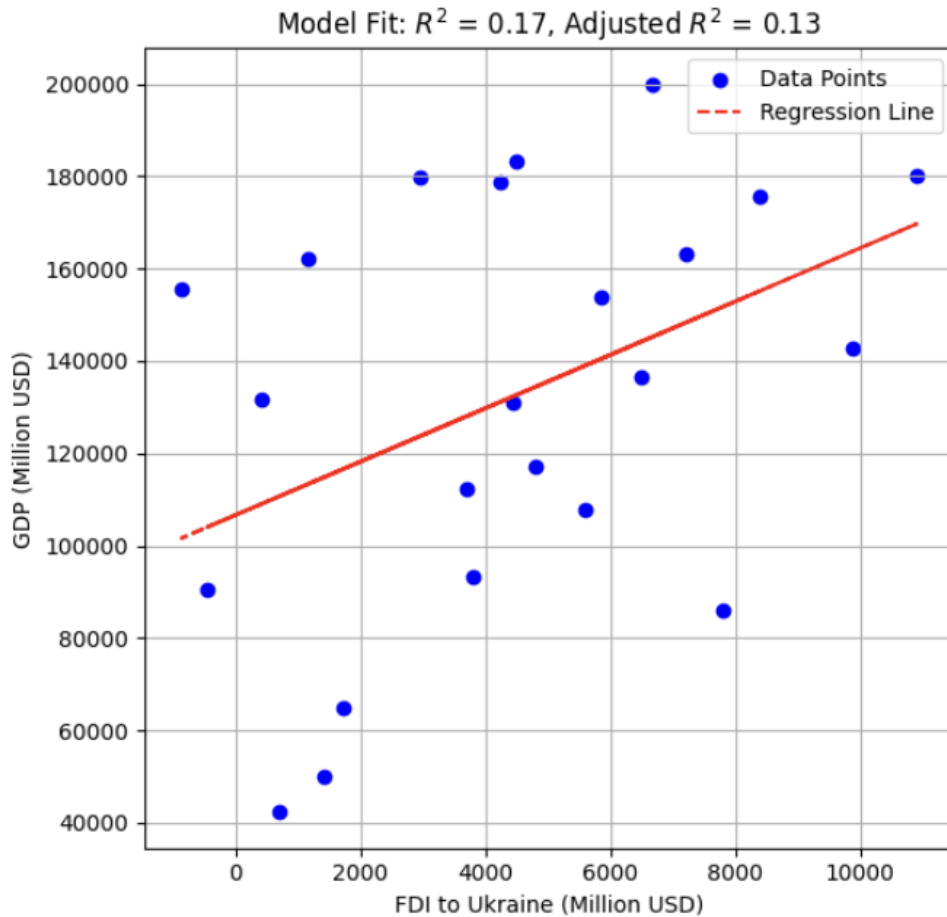
Source: Ministry of Finance, National Bank of Ukraine, own calculations

Correlation coefficient resulted in 0.4161, which indicated indicates a moderate positive relationship between FDI inflows and GDP of Ukraine. Without a doubt, while FDI is an important factor for GDP growth, there are other variables, such as exports proceeds, fiscal policies, legislation updates which also play a significant role.

As shown in Figure 11, in order to perform testing of results, Model Fit assessments have been used to compute  $R^2$  and adjusted  $R^2$ . Approximately 17.3% of the variability in GDP

is explained by foreign direct investment inflows to Ukraine. On the other hand, there are other risk factors, as shown in Figure 5 previously, which could contribute to GDP. They include, but are not limited to export proceeds, government spending and macroeconomic conditions.

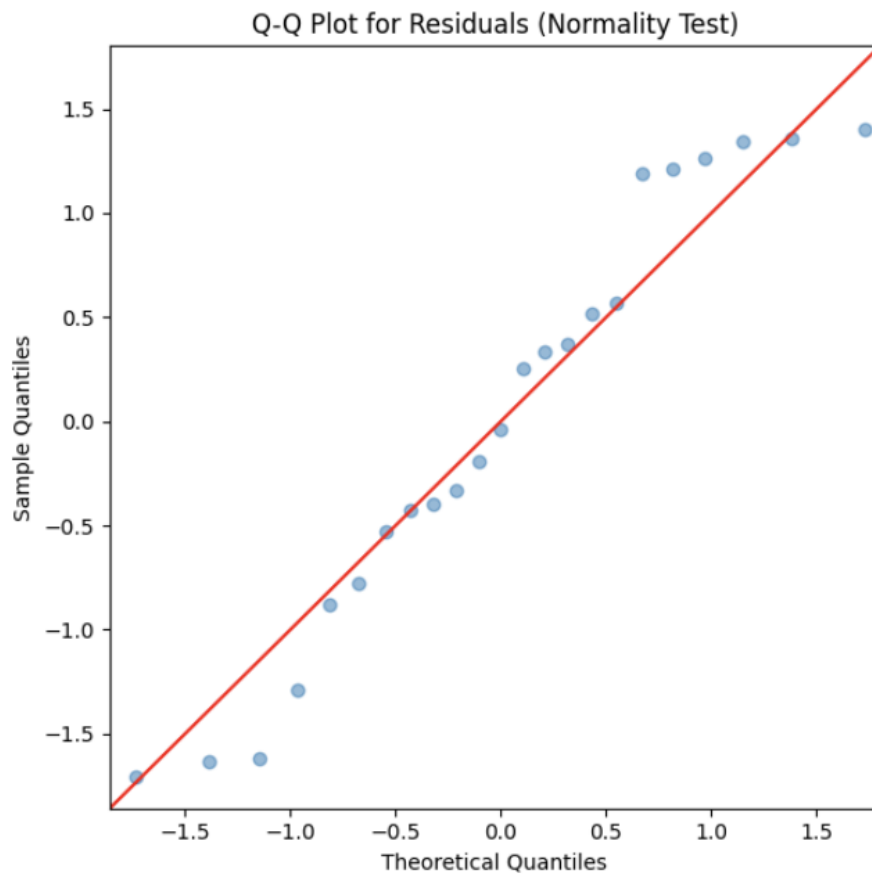
Figure 11. Model Fit assessments of FDI to Ukraine and nominal GDP (2002 – 2023)



Source: Own calculations

The normality test of Shapiro-Wilk resulted in T-statistic - 0.932, a value which measures how closely the residuals follow a normal distribution. P-value - 0.122 supports the validity of the regression model. In this case  $p \geq 0.05$ , which means, that fail to reject Null Hypothesis. As shown in Figure 12, the residuals do not significantly deviate from normality, which means there is no significant evidence to conclude that the residuals deviate from normality. The residuals are approximately normally distributed.

Figure 12. Q-Q plot of Shapiro-Wilk test



Source: Own calculations

As shown in the Figure 13, priority areas for the Ukrainian government to attract international programs and projects for the reconstructions of economy should be focused on agriculture and agribusiness as a key contributor to export proceeds of the country, renewable energy and green technologies, defense and security sector, technology and IT services, financial services and insurances.

Figure 13: Priority areas for attracting international programs and projects



Source: National Bank of Ukraine inflation report, October 2024

There are still significant risks remaining in these areas, including macroeconomic instability, increased volatility in harvest volumes, changes to the tariffs and taxation mechanisms, inflation hikes which exceed the threshold. However, having a roadmap with clear directions and performance indicators on the country level should be the main mitigator of such risks, securing internal and external investors by creating conditions for sustainable growth in financial sector and further attraction of foreign investments during the integration to the competitive international space.

## CONCLUSION AND DISCUSSION

Ukraine, amidst the unprecedented challenges posed by a full-scale war, remains a country with immense investment potential. The war challenges brought significant changes to the economic priorities and dynamics.

The financial sector of Ukraine has been affected by macroeconomic instability, currency control regulation, capital controls and risks associated with military conflict. Factors of vulnerability such as corruption, inefficiencies in governance and unreliable judicial system, which deter foreign investors have arisen. Damages to critical infrastructure, disruptions and outages in electricity supply, reduced export capacity added to the complexity of managing the economy during wartime.

The restructuring of Ukraine's economy under wartime conditions has fostered new partnerships and opened opportunities for growth in specific sectors. Agriculture, renewable energy, technology, and defense have been outlined as priority areas for investment, aligning with global trends toward sustainability and innovation.

Assistance from the United States, the European Union and international organizations such as the International Monetary Fund and the World Bank has provided critical support for stabilizing macroeconomic development.

The analysis of this project highlights the key role of FDI in economic recovery of Ukraine. Regression analysis shows a positive correlation between FDI inflows and GDP growth, with every additional 1 million USD in the form FDI contributing significantly to economic output. Multiplier effect of FDI could also lead to job creation, infrastructure development, and technology transfer.

The project provides actionable recommendations for Ukraine in terms of long – term objectives:

- **Enhancing cooperation:** strengthen the collaboration between the National Bank of Ukraine and the government to implement reforms and support the real economy.
- **Promoting digital transformation:** accelerate the digitalization of government services, particularly in areas such as tax administration and business registration. This will enhance efficiency and reduce bureaucratic hurdles.
- **Encouraging Greenfield Investments** by prioritizing projects in key sectors aiming to create new jobs and stimulate economic growth.
- **Focusing on reconstruction:** direct investments in rebuilding critical infrastructure, including transportation networks, energy systems, and industrial facilities.

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