

**MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
KYIV NATIONAL ECONOMIC UNIVERSITY
NAMED AFTER VADYM HETMAN**

**Faculty of International Economics and Management
Department of International Economics**

**BACHELOR DEGREE PROGRAM «INTERNATIONAL ECONOMICS»
FIELD OF KNOWLEDGE 05 Social and behavioral sciences
SPECIALTY 051 «Economy»**

Form of education full-time

BACHELOR THESIS

Title “International investment market of Central and Eastern Europe”

By Tetiana Stohniichuk

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KYIV 2023

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AGREED

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2023

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2023

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full-time forms of education

Bachelor Thesis

Title: “**International investment market of Central and Eastern Europe**”

**The title of the Bachelor’s thesis has been approved by the Rector’s Order
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Bachelor Thesis is based on:

Articles and works of domestic and foreign scientists and practitioners, World Bank Group, OECD Data, Eurostat Database Statistics at the National Bank of Ukraine, reports of rating agencies.

**Deadline for submitting the final version of Bachelor’s Thesis to the Academic Supervisor
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Plan of qualifying bachelor work

Plan of Bachelor Thesis and the terms of its submission to the Academic Supervisor

Chapter 1 THEORETICAL FOUNDATIONS OF THE INTERNATIONAL INVESTMENT MARKET

Chapter 2 ANALYSIS OF THE INTERNATIONAL INVESTMENT MARKET OF CENTRAL AND EASTERN EUROPE AND UKRAINE

Object of research:	Investment processes in the international investment market of Central and Eastern Europe.
Subject of research:	The theoretical-methodical and applied mechanisms of the functioning of the international investment market.
The purpose of the Thesis:	The analysis of international investment in the market of the countries of Central and Eastern Europe and Ukraine and forecasting the inflow of foreign investment into the economy of Ukraine.

Specific tasks applicant has to accomplish to meet the objective:

In Chapter 1:

1. To study the essence and main types of foreign direct investment activities.
2. To consider and compare the main theories which explain international investment flows.
3. To identify main indicators which can be used for evaluation of the international investment market.

In Chapter 2:

1. To research main trends of international investment market in CEE region and compare countries between each other.
2. To identify most important factors that impact investment attractiveness of CEE countries.
3. To study development trends and forecast future investment inflows for selected countries.
4. To characterise the state of international investment market of Ukraine.

5. To analyse the state and define prospects of foreign investment in the economy of Ukraine.

The task has been set

by the Academic Supervisor

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04. 01.2023

The task has been given to
Applicant

(Signature)

Stohniichuk Tetiana

(Name, Surname)

04. 01. 2023

Abstract

The qualifying bachelor's thesis contains 83 pages, 26 tables, 22 figures, a list of used sources of 45 titles, appendices.

“International investment market of Central and Eastern Europe”

The object of the research is investment processes in the international investment market of Central and Eastern Europe.

The subject of research work is the theoretical-methodical and applied mechanisms of the functioning of the international investment market.

The purpose of this work is the analysis of international investment in the market of the countries of Central and Eastern Europe and Ukraine and forecasting the inflow of foreign investment into the economy of Ukraine.

In order to achieve the set purpose, it is necessary to solve the following tasks:

1. To study the essence and main types of foreign direct investment activities.
2. To consider and compare the main theories which explain international investment flows.
3. To identify main indicators which can be used for evaluation of the international investment market.
4. To research main trends of international investment market in CEE region and compare countries between each other.
5. To identify most important factors that impact investment attractiveness of CEE countries.
6. To study development trends and forecast future investment inflows for selected countries.
7. To characterise the state of international investment market of Ukraine.
8. To analyse the state and define prospects of foreign investment in the economy of Ukraine.

Theoretic-methodical significance of the obtained results lies in the forecast of foreign investment inflows in CEE countries, particularly in Ukraine on the basis of research of mathematical relations between foreign direct investments and different

factors that influence investment attractiveness of this region. It was identified that depending on the size of economy and overall stability of a country, different factors should be taken into account to predict investment flows in Central and Eastern Europe. The choice of such factors should be based on conducted correlation analysis and selection of right factors that explain forecast model.

The year of completion of the qualifying bachelor thesis is 2023.

The year of research defence is 2023.

Keywords: investment, international investment market, foreign direct investment, investors, international investment position, investment incentives, investment attractiveness.

Academic supervisor's review
on the Bachelor Thesis
by the applicant of Kyiv National Economic University named after Vadym
Hetman
bachelor degree program "International economy"
Stohniichuk T.

Title **INTERNATIONAL INVESTMENT MARKET OF CENTRAL AND
EASTERN EUROPE**

- 1. Relevance of the research topic** modern global challenges affect international capital markets and as a result the movement of international investment is changing. Every country tries to attract investments for its growth. Attracting international investments from Central European countries is relevant for Ukraine in post-war reconstruction.
- 2. Positive aspects of the thesis:** In the first chapter the author explores theoretical foundations of the international investment market, classifies of international investments and systematizes the main indicators of the functioning of the international investment market. In the second chapter, the author carried out a comprehensive analysis of the international investment market of Central and Eastern Europe and Ukraine. The author independently systematized factors influencing the investment attractiveness of the CEE countries. The text of the thesis corresponds to the set goal and the determined research tasks. The tables, graphs, drawings and the list of used sources are executed in accordance with the established standards.
- 3. The author's independent ideas and conclusions, scientific novelty:** The author developed and substantiated a forecast model of the inflow of foreign direct investment into the Polish and Ukraine economy until 2025.
- 4. Practicality of the conclusions and recommendations:** The information presented in the thesis is relevant and can be used by foreign investors for foreign investment in promising sectors of Ukraine's economy.
- 5. Negative aspects of the paper:** Analyzing the state of investment in the economy of Ukraine, it is recommended to determine its risks.
- 6. Total result of the Bachelor Thesis and its approval for defence at Attestation Examination Commission:** The Thesis is highly appreciated and approved for defense at Attestation Examination Commission for 50 points.

Academic Supervisor:

PhD in Economics, Associate Professor
of the Department of International Economics of KNEU
"07" June 2023

Nataliya Moskalyuk

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INTRODUCTION

Actuality of theme. Foreign direct investments have a big impact on the economy of a country, because they provide job creation, ensure transfer of technologies and foreign capital, but also lead to the increasing of GDP. The actuality of the theme relates to the main factors influencing investment attractiveness of the Central and Eastern Europe countries and their FDI development trends. It helps to understand which parts of the economy should be improved and what problems should be eliminated in order to attract more foreign investments based on the experience and past performance of CEE countries. The results of the work may be used for Ukraine in the post-war recovery period as it identifies key factors that have a positive impact and lead to the increase of investment attractiveness in CEE countries.

Analysis of the latest research and publications. The question of economic essence and importance of foreign direct investment activities were researched by many foreign and national scientists including Lawrence J Gitman, Campbell R. McConell Brue Flynn, J.H. Dunning, I.Blank, Yaroslav Zhalylo, Stephen Herbert Hymer, Sazonets I.L., Fedorova V.A, Horodetsky A. and Voronina A. One of the latest conducted works is the work of Havryliuk O.V. in which the author states that the more countries are involved in foreign direct investments, the more they are internationalised as they share a pool of resources and can exchange technologies. Also, Yaroslav Zhalylo suggests that foreign investment is the way to reproduce national capital. However, any of mentioned scientists does not focus on the research of features of development of the foreign investment market of Central and Eastern Europe. That is why there is a need for further detailed research on performance trends, main characteristics of international investment market in CEE region and identifying factors that cause investment attractiveness to increase

The purpose and tasks of the research. The purpose of this work is the analysis of international investment in the market of the countries of Central and Eastern Europe and Ukraine and forecasting the inflow of foreign investment into the economy of Ukraine.

In order to achieve the set purpose, it is necessary to solve the following tasks:

1. To study the essence and main types of foreign direct investment activities.
2. To consider and compare the main theories which explain international investment flows.
3. To identify main indicators which can be used for evaluation of the international investment market.
4. To research main trends of international investment market in CEE region and compare countries between each other.
5. To identify most important factors that impact investment attractiveness of CEE countries.
6. To study development trends and forecast future investment inflows for selected countries.
7. To characterise the state of international investment market of Ukraine.
8. To analyse the state and define prospects of foreign investment in the economy of Ukraine.

The object of the research is investment processes in the international investment market of Central and Eastern Europe.

The subject of research work is the theoretical-methodical and applied mechanisms of the functioning of the international investment market.

Research methods. For solving set tasks in theoretical part of the work, article analysis, generalisation, synthesis and classification were used. In analytical part of the research analysis, comparison, calculations, modelling and forecasting methods were used.

Theoretic-methodical significance of the obtained results lies in the forecast of foreign investment inflows in CEE countries, particularly in Ukraine on the basis of research of mathematical relations between foreign direct investments and different factors that influence investment attractiveness of this region. It was identified that depending on the size of economy and overall stability of a country, different factors should be taken into account to predict investment flows in Central and Eastern Europe. The choice of such factors should be based on conducted correlation analysis and selection of right factors that explain forecast model.

The research information base used in theoretical part of the work consists of articles and works of domestic and foreign scientists and practitioners. In analytical part of the work statistical data from the World Bank Group, OECD Data, Eurostat Database Statistics at the National Bank of Ukraine, reports of rating agencies (Ease of doing business, Corruption Perceptions Index) are taken as a source of statistical data.

Structure of work. The work consists of an introduction, two chapters, conclusions, bibliography and appendices.

CHAPTER 1.

THEORETICAL FOUNDATIONS OF THE INTERNATIONAL INVESTMENT MARKET

1.1. The essence, subjects and classification of international investments

The development and improvement of the state of business entities and national economies, besides government expenditures, require additional sources to build up a successful and modern firm or country. The investment activities are one of the main ways to obtain new technologies, receive profits, access new markets and be competitive internationally. Nowadays, the investment activities play a crucial role on the micro- and macrolevels of the economy as they help to improve the efficiency of companies, implement new technologies, improve the society, lead to positive effects on the environment and grow the national economy. It is worth concluding that the more investments to the country are received, the better development is expected.

From Latin “to invest” means “to clothe, to dress”, so it is about improvement and accumulation. According to I. Blank, investment is the process of putting capital into the entity with the aim to increase its size and value. In his opinion, investment is the most widespread way of involvement of the accumulated capital into the economic process. Additionally, he notes that many economists suggest that investment can be done not only in the form of money, but also in the form of capital goods, financial instruments (securities) and non-material assets including intellectual property or goodwill.

Yaroslav Zhalylo thinks that investment is a concept that helps countries reproduce national capital, be competitive on the market and lead to the prosperity of the national economies. The state of the economy depends on how the economic system ensures the availability of investment resources which are results of the productivity of a business and national economy and the presence of economic mechanism ensuring efficiency and competitiveness in the market [1, p.178].

According to Horodetsky A. and Voronina A., investment is an economic category that includes the long-term involvement of capital into the enterprises with the goal to make profits [2].

Lawrence J Gitman suggests that investment is defined as any asset in which extra sources can be put to generate positive financial results [3, p.3].

American economists Campbell R. McConell and Brue Flynn note that people often confuse economic investment and financial investment. Financial investment is associated with buying economic assets (securities or property) with the hope to obtain the financial gain. The purpose of economic investment is to create and expand an enterprise buying newly created goods like equipment, factories and warehouses and for increasing productivity. Economists pay attention to investment in human capital, as it increases the efficiency and quality of the staff and hence, company success [4, p.521].

R. Dornbusch, S.Fischer, R. Startz explain investment as the activity of adding value to the existing capital through creating new production facilities influencing the value of capital stock (buildings, machines, inventories) [5, p.348].

According to the Ukrainian law “About investment activity”, investment is defined as all types of property and intellectual values invested in objects of business and other types of activity, as a result of which profit (income) is created and/or social and environmental effect is achieved. Investment can be done in the form of:

- cash, bank deposits, shares and other securities;
- movable and immovable property (houses, buildings, equipment and other material assets);
- property rights of intellectual property;
- property rights in the form of experience and copyrights;
- technological and commercial knowledge stored in the form of technological information;
- rights to use land, water, resources, houses, structures, equipment, as well as other property rights [6]. So, the concept of “investment” was researched by different scientists with different approaches summarised in Table 1.1.

Table 1.1 – Approaches to identifying the term “investment”

Author	Definition of investment	Key points
I.Blank	Investments are types of financial, material and other values that are invested by the investor in objects of entrepreneurial activity with the aim of extracting income (profit).	Investment can be done not only in the form of money, but also in the form of assets and financial instruments.
Yaroslav Zhalylo	Investment is an integral part of the reproduction of the national capital.	The prosperity of the economy depends on the ability of economic system to provide a country with original investment sources gained from the enterprises and national activities.
Horodetsky A., Voronina A.	Investment characterizes the long-term involvement of capital in objects of entrepreneurial activity with the aim to obtain profit.	Investment is an economic category.
Lawrence J Gitman	Investment is any asset into which funds can be placed with the expectation that it will generate positive income and/or preserve or increase its value.	Investment is preservation and growth of invested funds which gives rewards (or returns).
Campbell R. McConell, Brue Flynn	Investment is the devotion of resources to increase future output.	Make distinguishment between “financial investment” and “economic investment” and focus on the importance of investment into the human capital.
R. Dornbusch, S.Fischer, R. Startz	Investment is the flow of spending that adds to the physical stock of capital.	Investment adjusts the level of capital stock.

Source: developed by the author based on [1-5].

Summarizing the approaches of different economists to the definition of investment, it is necessary to conclude that investment is the expense on the activity of the enterprise or economy as a whole (which may be in the form of money, capital, assets,

etc.) with the aim to increase or preserve its value and make profits from the future economic activities.

However, there is a broader sense of investment when it comes to the investments made not inside one country, but also abroad or received from foreign countries. This is connected with the concept of international investment. A lot of scientists argue whether international investment is an economic category, certain values or capital, so it is necessary to research it from different perspectives which are summarised in Table 1.2.

Table 1.2 – Definition of the term of “international investment” by author [7-9]

Approach	Author	Definition of international investment
International investment as an economic category	Havryliuk O.V.	International investment is an economic category that reflects the deepening of the internationalization of economic life. In the basis of foreign investment there is a set of relations between economic subjects located on both sides of the border, regarding the realization of economic interests connecting them.
	Yegorov A. Y.	International investment is a specific institution of economic interaction between a firm producing goods (services) from one country and their consumers (firms, households) from another.
	Mahlaperidze A.S.	International investment is an economic category of extended reproduction.
International investment as a value	Sazonets I.L., Fedorova V.A.	Foreign investments are all types of values contributed by foreign investors to objects of investment activity on the territory of given state.
	Hovorushko T.A., Obushna N.I.	International investments are a set of monetary, property, intellectual and other values that are invested by foreign investors in objects of business and other types of activity with the aim of obtaining the benefit of profit (income) and/ or the achievement of economic, social, innovative and environmental effects.

Continuation of Table 1.2

1	2	3
International investment as capital	J.H. Dunning	International investments are investments which are carried out outside of the country but within the investor's company. They can consist of the combination of assets, capital, technological knowledge, access to markets and entrepreneurship.
	Vankovych L.Ia., Kovalchuk S.I.	International investment is a long-term contribution of capital which does not break the law in different fields of economy, infrastructure, social environment, environment protection both inside the country and abroad with the aim of developing of production, social sphere, entrepreneurship and profits.
	Hymer S.H.	International investments are the processes of receiving assets abroad, but the control stays within an international company-investor.

Source: developed by the author based on [7-9].

According to Havryliuk O.V., international investment is an economic category and it depends on the relationships between economic subjects in the field of their mutual economic interests which can be situated in different countries. If the countries are involved in the international investment processes, they are more internationalised, because they use a shared pool of different resources, technologies and can open new horizons for development [7].

Yegorov A.Y. defines international investment from the economic category perspective stating that international investment is an economic relationship between suppliers from one country and consumers which are located in another country.

Mahlaperidze A.S. assumes that international investment is economic category that forms both macro- and microlevels of the economies and it helps economy to grow and develop as it potentially increases the possibilities to expand both on national and international markets.

On the other hand, Sazonets I.L., Fedorova V.A., Hovorushko T.A. and Obushna N.I. define international investment concept through the value approach. It is

combination and contribution of different values that are invested by foreign investors into the business or other activities bringing positive impact not only on business activities, but also social, environmental and innovative spheres (for example, new technologies which help reduce carbon-dioxide emissions) [7].

J.H. Dunning researched the international investment a lot and defined international investment as investments done from abroad in the form of capital, assets, knowledge and access to markets. So, according to him, the investment flows are under the supervision of the investors [8].

Vankovych L.Ia. and Kovalchuk S.I. add that international investments should obey legislation, have positive impact on social sphere, production and environment.

Stephen Herbert Hymer was a Canadian economist who defines international investment as investments received from abroad. He described the main differences between FDI and portfolio investments focusing on control aspect [9, p.3].

Summarizing all the approaches for the definition of international investment by different scientists, we would explain it with # own definition. International investment is investment in the form of capital which is received from abroad from an international investor whose aim is to expand the economic activities and markets for the company through the process of investing into the country-recipient. The main aims to do that is to improve capabilities of the companies or countries to make profits, implement new tools and technologies, become a pioneer in the setting of new standards, approaches etc and gain access to new markets. However, at the same time all the investment flows should comply with the laws and do not harm any of the fields of the national economy. Based on this, the investment activity is the process of investing capital (in forms of money, assets, etc) with the aim to preserve or increase profits from future economic activities.

Talking about the influence of international investments on a national economy, we would conclude that among the most common advantages of international investment are the following merits:

- international investments make a country or business more developed and competitive among others, because without constant international investment flows states cannot be considered fully developed and prosperous;

- international investments lead to economic growth. If a country receives additional funds to build new factories, production facilities, it creates new opportunities for earning money through the production of different goods and services. In such a way, companies contribute to the GDP increase and economic growth;
- international investments create new job opportunities and at the same time may decrease the unemployment level in a country;
- international investments can lead to the development and improvement of human capital resources through knowledge transfer;
- international investments provide companies with the new equipment and technologies improving the efficiency and productivity of workers [10, p.262];
- if international investments are connected with the energy and environmental securities, they can decrease, for example the level of carbon-dioxide emissions preserving the good conditions of the environment.

However, there are also some limitations of the international investments:

- local businesses cannot often survive not being able to compete with big international companies coming to the market;
- due to international investment activities companies can set up in less developed countries where labour force is much cheaper than in developed countries and exploit human capital paying them less money;
- investments into another country with political instability may be risky and may lead to losses rather than to profits with losing the invested funds.

International investments are a huge part of the country economies, as they touch investors, financial and bank organisations. Having discussed both positive and negative sides of international investments which are realised on the international investment market, it is necessary to consider what investment market means itself and which place it takes on the financial market.

To start with, the financial market as a system of economic relations and a component of financial system consists of capital and money markets. Capital market is formed by the supply and demand of the medium- and long-term loan capital and in this

market, it is possible to trade not only in terms of money, but also with property rights when individuals and entities invest in factories and companies whose main interest is to control and manage company's activities. In this market, the long-term investments into fixed assets take place. Individuals and entities raise funds for the purchase of property or its construction; also, transactions for buying and selling financial instruments with maturity over one year are carried out – these all are the examples of investment activities. Companies form their financial resources by issuing shares and bonds – this is also an example of investment activity. So, it leads to the conclusion that investment market is a part of capital market, because it creates resources for the long-term investment processes.

Capital market acts as savings market, because when small amounts of money of individuals, enterprises and other entities are accumulated, they can be used as loans or investments into different objects and used by other participants (e.g., from insurance companies or pension funds). However, in our opinion the investment market may be considered as a part of money market as well (Figure 1.1), because money market covers buying, selling and borrowing of short-term securities, meaning when individuals or entities invest in treasury bills and commercial paper, it is also investing.

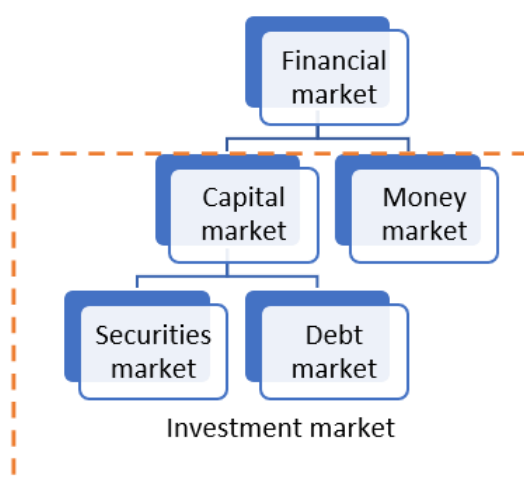


Figure 1.1 – The structure of the financial market

Source: developed by the author based on [13].

Companies take advantage of money market, because they raise funds to maintain working capital, banks use the money market to lend to other entities. So, since various forms of investment activities with different maturity circulate on the investment market,

we would conclude that investment market is an integral part of both capital and money market.

A lot of Ukrainian and foreign scientists studied investment market including Kobushko, I.M., Majorova, T.V. Peresada, A.A., Richard Hardy, D. R. Suchman. According to foreign economists, investment market is more understood as a stock market when the investments are mainly made for the buying and selling of stocks, shares etc. However, in Ukraine the stock market is a narrower concept as it is only a part of investment market. For example, Majorova, T.V. defines international investment market as an environment where socio-economic relations between economic entities arise regarding the purchase and sale of investment goods and the provision of investment services at set prices in all forms of investment. There should be some participants of the investment market (banks, investors, recipients). According to A.A. Peresada, investment market is an economic category that represents the balance of demand and supply for investments. The investment market is formed by a subject — an investor, i.e., a business entity in which demand for investments and investment goods arises. As can be noticed, like in any market there is demand, price, competitors on the market and supply of investments meaning that if demand exceeds supply, the price for investments will be higher and if the supply is lower than demand, then the investments will be cheaper. And if there is a surplus of investment flows in a given industry, it will be easier to get those investments as the price for them will be decreased [11].

Often the investment market is considered to be only a market of investments of goods (equipment, structure, property, raw materials etc) and investment services (work done by builders to construct new facilities). However, we should not forget that investment market – is also a complex of separate markets including the real estate market, the stock market (selling and buying of equity stock take place on this type of market), the monetary instrument investment market (market where short-term securities like treasury bills are traded) and bond market (market on which debt securities are traded). All of them have different objects of investment activities, but they all involve the process of transferring funds to obtain some assets. Investment market covers also gold market, because this market involves circulation of financial assets in the form of

gold, silvery, precious metals and also collections of artistic values and antiques. According to Moskvina S.P., the investment market in the general sense covers stock, bond, derivative, physical markets as their objects are traded on the investment market which are summarized on the Figure 1.2 [12, 13, p.61,65].

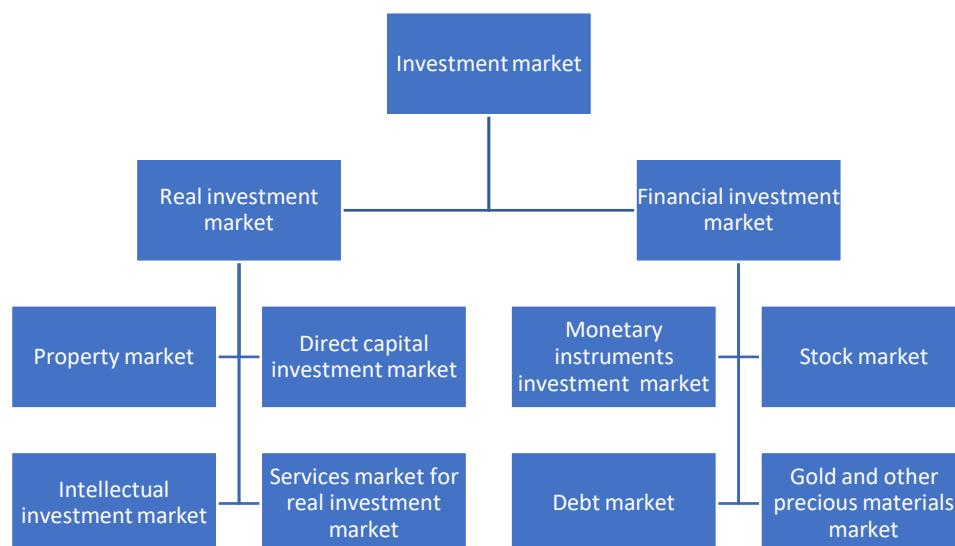


Figure 1.2 – The components of investment market

Source: developed by the author based on [12,13].

To sum up, the investment market is as a set of different markets (real investment market and financial investment market) which create and maintain economic relations between investors and sellers of investment objects.

In order to function properly, investment market should have favourable investment environment – conditions that simplify the market structure and have incentives for investors to invest exactly to that entity, not another one (for example, political stability in the country, financial security, not high tax levels, relationships with other countries). So, the investment environment are such conditions which influence on the preferences of an investor in the choice of investment region among others. Those conditions may be connected with political, social, financial, economic spheres, but from my point of view, the favourable indicators of investment environment vary from industry to industry.

Moreover, investment market is a complex mechanism and includes many participants which cooperate with each other in the investment activities. Those participants are:

- objects – according to Ukrainian law, object of investment activities can be any type of property, fixed assets, working capital, cash deposits, securities, scientific and technical products, intellectual property rights. Additionally, it can be in the form of enterprise or investment project;
- subjects – according to Ukrainian law they can be citizens, legal entities of Ukraine and foreign countries, and the state (investors, middlemen, brokers, state) [6];
- infrastructure of investment market – regulatory component (entities that create standards, policies to follow on the investment market (e.g., Cabinet of Ministers, National Bank of Ukraine), representatives of financial component (banks, audit firms, investment funds);
- government control and its regulation over the investment activities, because everything connected with investment activities should comply with the law.

It is necessary to study all the subjects of the investment market, as they cooperate between each and serve different functions. Generally, the investment market is divided into 2 sub-markets: the real investment market (for example, building new factories and roads, expanding production facilities, buying new technologies) and another one – the financial investment market (this includes the activities of buying financial securities). In simple words, an investment project can be defined as a set of various activities and plans associated with investment flows to achieve its economic goals (e.g., making profit).

We will focus and consider subjects of the investment market as a market of real investments; hence, the following subjects of the real investment market are:

1. Investors – they are the “buyers” of investments, because they make a decision to spend money to obtain some assets, values, ownership of equity to increase the value of their property, machinery etc. The examples of investors include individual investors such as citizens and non-citizens of the country who are ready to invest own money into the implementation of investment projects or to buy company’s shares. Institutional investors are subjects of investment market who are not individual investors, but they are organised as legal entities with the aim to get profit. However, they are not just investors, but can be considered also

as intermediary investors who support different entities in investing other people's money [14,15]. Government also plays a crucial role in the investment market as one of the functions it serves is being an investor on the behalf of local authorities which invest into different sectors like medical care, national army, infrastructure or education using government funds (Figure 1.3). Business angels is a type of investor who invests money into a new and growing company (it may turn out to be very profitable and successful, but also very risky).

Table 1.3 – Types of investors as a subject of real investment market

Type of investors	Example
Institutional investors	Joint stock companies, limited liability partnerships, sovereign wealth funds, insurance companies, national and foreign companies, banks, investment funds, TNCs, business angels
Individual investors	Individuals (citizens and non-citizens of a country)
Government investors	Local authorities

Source: developed by the author based on [14,15].

Additionally, we would like to focus on one of the key subjects of the investment market which is a transnational corporation (TNC). TNCs are the companies that operate on the global market in many countries and do not have centralised decision-making entity. These enterprises are involved in foreign direct investment, produce goods outside home country and participate in the international production. They act on a global market and strive for profit maximization, that is why after investing funds into the activity of an enterprise, they aim to preserve a huge control over its activities. From my perspective, TNCs stimulate a lot of new capital in form of international investment flows and create job opportunities leading to economy growth.

2. Sellers of the investment market – they are owners of the investment projects who create new business-plans and investment programmes for their implementation. Also, companies which specialize in the innovative, technological and project design spheres generate new ideas and sell them to the buyers in forms of investment flows.

3. Intermediaries of the investment market – are financial institutions that, play an important role in the investment activities, because they provide different

supportive services in the investment market for investors and sellers arranging contracts between parties. Financial intermediaries can assess risks associated with investments, they send funds from savers to investors, receiving funds from one customer for financing of another one. For example, banks receive money from individuals in deposits and then this deposited money can be used for people who want to take a loan. Particularly investment banks serve as an intermediary between buyers of investment activities and investment markets, because they help issue shares and go public. Consulting firms advise on whether it is profitable and safe. State funds support small business in the decision-making processes about investment activities or they provide companies with the loans for investments through banks. Investment funds facilitate the accumulation of capital of investors and help them diversify the investment portfolio. Investment exhibitions help sellers and buyers find each other regarding investment programmes and create cooperation [14,15].

The next point to research is to study the classification of investments as there are a lot of criteria to classify and distinguish investment activities which are summarized in Table 1.4.

Table 1.4 – Classification of investments by criterion.

Criterion for the classification of investments	Types of investments
By objects of investments	▪ real ▪ financial ▪ intellectual
By investment period	▪ short-term ▪ long-term
By the type of ownership	▪ private ▪ state ▪ foreign ▪ joint
By impact on economic development	▪ gross ▪ net

Continuation of Table 1.4

1	2
By regional characteristic	▪ internal ▪ external
By reproductive capacity	▪ new construction ▪ expansion ▪ reconstruction ▪ technical re-equipment
By source of funding	▪ at own expense ▪ with borrowed capital
By the level of risk	▪ risk-free ▪ low-risk ▪ medium-risk ▪ high-risk
By the nature of investor participation	▪ foreign direct ▪ foreign indirect (portfolio)
By type of integration of international cooperation	▪ vertical ▪ horizontal

Source: developed by the author based on [9,17].

By the objects of investments, the investment activities are classified as:

- real investment – means investing money/funds into real assets (equipment, property, machinery) in order to increase their value and gain positive outcome – profits. These investments will contribute to the production performance of a company, as they usually increase output of a company.
- financial investment – includes investing funds into different financial securities. This involves acquisition of a company's shares, investing in the derivatives. This type of investment activities does not contribute to the company's production processes.
- intellectual investment – is type of investing capital into the intellectual property in the form of patents, copyrights, licensing, know-hows etc. Also, it covers training for the staff. However, intellectual investment is often considered as a part of real investment as all these items contribute to the value of a company.

There is a distinguishment of the investment activities by investment period:

- short-term investments – investments for less than 1 year which include short-term deposits, corporate and government bonds with the duration of 1 year;
- long-term investments – investments for more than 1 year which usually involve investments into property, innovations and securities with the duration of more than 1 year.

According to the type of ownership, investments are divided into:

- private – investments done by individuals and non-state enterprises with private capital;
- state – investment activities done by central and local government authorities;
- foreign – investments done by individuals and legal units of other countries;
- joint – investment activities carried out by a nation's entity in the cooperation with entities of other states.

Investment activities on the macro-level are also classified as:

- gross investments – is the total amount of invested funds at a certain period. As a general practice, they include investments into the acquisition of new buildings and means of production;
- net investments – is defined as a sum of invested funds that is left after the deduction of depreciation costs of assets.

Moreover, investments are classified according to regional characteristic:

- internal investments – investments that are done for enterprises inside the country;
- external investments – investments are performed in the enterprises abroad in foreign countries.

Taking into account the reproductive capacity, investments are aimed at:

- new construction of an entity– it includes all the expenses that were spent on the construction of buildings and enterprises on the new territory. Usually, this type of investment activity is done in order to expand the size of operational activities of a company;

- expansion of the enterprise – in this case investment activity is done in order to build new, supplementary facilities for the existing entity or to construct new workshops in order to increase the capacity of the enterprise;
- reconstruction of the enterprise – investments are done in order to modify and upgrade the structure of an enterprise and its overall organisation according to modern requirements;
- technical re-equipment of the enterprise – investments are performed in order to renew or replace the equipment which is more modern and will help to facilitate the production and increase output.

Investments are also classified by the source of their funding:

- at own expense – means that investments were done with own funds, without borrowing of money;
- with borrowed capital – this involves the finding additional sources to perform investment activities (for example, loans).

Risk – is an important concept in the investment market as it is probable that expected returns may become financial losses instead of profit, that is why investments are classified according to the level of risk in:

- risk-free investments – risk of losing funds is absent, so the investor receives predicted profit;
- low-risk investments – the risk of losing funds is low;
- medium-risk investment – risk of this type investment is close to the average risk on a market;
- high -risk investment – the level of risk for this type of investment is higher than the average risk on a market.

By type of integration of international cooperation investments are divided into:

- horizontal – are investments abroad done within the same industry of production which are duplicated from the parent company's activities;
- vertical – investments into activities connected with the distribution or supply activities, but it also includes acquisition of other companies [9, 17].

In my opinion, the most important classification of investment activities is based on the nature of investor participation – how investors plan to control the entities in which they invested. So, the following classification is:

- foreign direct investments – investments made by individuals or companies from one country into the business activities of a company located in another country to obtain corporate rights. According to the United Nations (1999), FDI is explained as investment in enterprise located in one country but “effectively controlled” by residents of another country. So, it means that this type of investment involves the controlling positions of the investors [10].
- portfolio investment – it is an economic operation of buying shares, securities, derivatives of another country on the stock exchange. The investors in this case do not participate in the management processes and they do not have a controlling interest over that enterprise, but they aim at receiving quick profits.

Let’s compare these 2 types of investment describing their features to understand their main characteristics summarised in Table 1.5.

Table 1.5 – Comparative characteristic of foreign direct and portfolio investment

Feature to compare	FDI	Portfolio investment
The aim of investment	Receiving income from an enterprise activity; control over an enterprise; business expansion	Receiving the profits via dividends, which would be higher than interest rate for money deposited in a bank
The object of investment	Enterprise’s assets	Purchase of securities only
Control over an enterprise	Control over an enterprise is obtained	There is no control over an enterprise activity
Invested factors of production	They include money, material assets, methods of management, technologies	Financial activities in shares and bonds – so, no tangible assets
Time-period of investment	Long-term	Short-term and often speculative
Level of volatility	Stable	Unstable (as stock market is often volatile)

Continuation of Table 1.5

1	2	3
The impact of investment on the country-recipient	Direct and long-term impact on the economy of a country-recipient as it includes partial or full acquisition of enterprises, creation work places	Impact is low, but it can lead to destabilization of stock market of a country-recipient due to speculations
Access to the market	Enter and exit are relatively difficult	Enter and exit are relatively simple
Types of inflows	Technology, resources and knowledge transfer, access to new markets	Includes only capital inflows
Level of liquidity	Low, because it is hard liquidating assets	High, as they are easy to sell

Source: developed by the author based on [18].

Having analysed FDI and portfolio investment by different criteria, we found out that portfolio investments do not provide an investor with control over an enterprise. They are considered to act in the short-term perspective without significant influences on the national economy and economic growth unlike FDI which cause more positive impacts on the development of the national economy.

1.2. Characteristics of theories of international investment flows

Nowadays the volumes of international investment flows are not the same as in the past. The obvious fact is that economies started to grow and expand at the international arena. They began to be involved in the international investment market activities and investment flows increased over time. For example, the FDI inflows in 1970 worldwide amounted to \$12.36 billion, while in 2021 global FDI inflows were at the level of \$2.16 trillion.

In this section we will focus on the analysis of the FDI investment theories which describe the reasons and motivation for the investment of capital into foreign countries. If we are talking about portfolio investments, then the main theory of international investment flows here would be the portfolio investment theory. According to it, investors select areas to invest in taking into account the return and risk levels. The return rate should be maximized, while risk level should be minimized and in such a way it would be profitable to invest in securities. The concept of diversification is applicable to this theory and many investors tend to have investments in uncorrelated spheres to avoid financial losses.

If we talk about FDI investment theories, they are divided based on micro- and macroeconomic perspectives. Microeconomic theories explain from an enterprise perspective, so from an investor's perspective. However, macroeconomic theories are mainly focused on the country perspective – FDI flows are a part of a country balance of payment which is related to the whole country level. The main theories of international investment flows according to this approach are summarised on Figure 1.3.

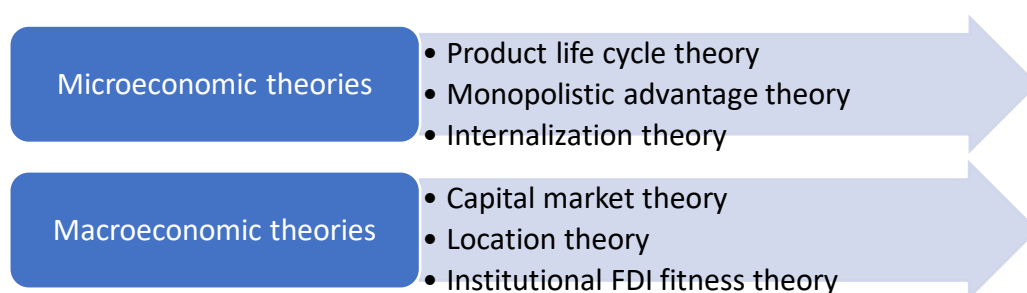


Figure 1.3. The overview of microeconomic and macroeconomic theories of international investment flows

Source: developed by the author based on [19-24].

After the 1960s, when globalisation took place on a global level and the world continued to recover after the World War II, countries started to receive more investments. Investments in that period were done from the US market to European countries and this can be explained through Vernon's product life cycle theory of trade. European countries had an increased demand for goods which were produced in the USA. The USA, having technology advantage, became an exporter. The basis of this theory lies

in the fact that firms (like products) pass four main stages: introduction, growth, maturity and decline (Table 1.6).

Table 1.6 – Characteristics of the stages of Vernon’s product life cycle theory

Name of the stage	Explanation of the stage
Introduction	A product is firstly introduced in domestic market. Then, a product is introduced to the foreign market, which has similar needs and demands like domestic market.
Growth	The demand for a product on a foreign market is increasing, thus a local company starts to expand its business to foreign countries (usually it is done in countries where the production is cheap). The exports from a domestic country tend to decrease, as the production facilities are situated abroad.
Maturity	At this stage product is in peak demand and growth. A product becomes fully standardised and it achieves the highest customer satisfaction abroad. However, the host country starts to rely on the production from subsidiary companies and face difficulties with competitors.
Decline	Production is concentrated in the developing countries and innovating country becomes an importer of the goods it invented, leading to the decrease in FDI flows.

Source: developed by the author based on [19, 20].

This theory implies that a company innovates technologies or products on a local market and when the demand for them on a foreign market arises, the company starts exporting innovations and products, building new production facilities and creating subsidiaries in a foreign country. However, during maturity and decline stages the host countries become the owners of those technologies and leading positions are shifted from innovating countries to host ones. So, in such a way, comparative advantages shift from one to other nations together with FDI flows which usually take place on growth and maturity stages. According to this theory, developing countries receive FDI, because the cost of production and wages of workers are lower than in developed countries and for innovating country it is advantageous to invest abroad [19].

The next popular microeconomic investment theory was developed by S. Hymer in 1960 called as monopolistic advantage theory. It implies that multinational enterprises and foreign direct investments exist only on imperfect market. On its basis, when a

company moves its business to a foreign country, it experiences high competition, as domestic firms have advantages in customer wishes, culture, language, legal issues and they are more informed about the economic situation in the country. To offset this competition, a company should have advanced technologies, trademarks, know-hows, strong brand names, good management skills or economies of scale which help increase production and brand awareness. Companies prefer FDI, because in such a way they can control resources and develop their business abroad. Firms get a certain degree of monopoly power compared with local businesses which often do not have modern technologies or developed economies of scales. That is why, TNCs prefer FDI than producing goods in a home country and exporting them abroad. On the other hand, the decision to invest depends on the political environment, the size of foreign economy and investment risks [20].

The developers of internalization theory – Buckley and Casson (1976) – assumed that firms transfer FDI in order to decrease transaction costs, because contracting and execution of contracts require additional expenses compared to the situation when company controls its facilities abroad using internal entities. Hence, company replaces external market with internal operations if the costs of internal operations are lower than on external market. Thus, FDI are invested in order to develop effective management control and financial system, to vertically integrate company's own departments in order to ensure that all activities conducted by intermediaries previously are performed by company itself. So, in my opinion, according to this theory, companies reduce dependency on external sources [21].

Let's take a look on the macroeconomic theories of the international investments. From this perspective, FDI are considered to be a part of national balance of payment as it is a type of capital flows with other countries. Generally, macroeconomic factors that influence on the ability to attract FDI consist of GDP, economic growth, etc. However, the first theory – capital market theory developed by Aliber (1970) – explains FDI taking into account currency strength. According to it, countries with strong currency look into FDI more than countries with weak currency to take advantage in market capitalization. Countries with weaker currencies attract more FDI than countries with strong currencies,

because the purchase power in a country with a weaker currency is higher and investors can buy more assets, establish cheaper production facilities for the same amount of money in the host country, while in domestic countries the same facilities would cost more [22].

It worth mentioning that according to this theory investors prefer FDI to portfolio investment and in Boddewyn's opinion (1985), countries with weak currency do not have developed and organized securities market, so they usually receive investments in the form of FDI. However, the limitations of this theory lie in the fact that it cannot explain investments between two developed countries with strong currencies and investments of developing countries to countries with strong currency [23].

Based on the location theory of FDI, corporations choose a location with the access to raw materials. The theory states that country possesses factors that can attract or discourage investments. In general, these factors are divided in two types: location advantages and labour advantages. Location advantages are associated with the easy access to natural resources and governmental policy regarding their usage. Hence, when the costs of raw materials in host country are high, FDI inflows decrease. Also, often companies choose countries as a destination for FDI which are geographically closely located. Another important factor of FDI – labour advantages – are described through the human capital. Based on the theory, FDI flows are directed to countries with cheaper labour force. However, human capital should be not only cheap, but also it should be qualified and efficient to produce higher output. Moreover, TNCs do not invest a lot in countries where the presence of trade unions is high [23].

FDI fitness theory (developed in 1998 by Wilhems and Witter) focuses on the ability of a country to attract, absorb and retain FDI. It explains why FDI flows are unequally distributed. For example, countries with a lot of natural resources may receive less FDI flows, while developing countries with fewer sources are more engaged in the FDI activities. Here a new concept of FDI fitness is introduced which concentrates on country determinants rather than firm or industry factors which stimulate firms to invest funds abroad. The four main country pillars (or institutions) include educational, social-cultural, market and government fitness.

Social-cultural determinants are the base for this theory being the oldest and the most difficult thing to change in the short-term period, as all nations have different perceptions about new businesses coming to their country. That is why companies send FDI to those regions where cultural and social life is similar to sending country.

The next level is taken by educational fitness which shapes human capital that will be used for business activities. Favourable environment for attracting FDI is created, because educational fitness helps to develop human capital in creativity, thinking, research and technology development. Even basic acts like speaking, hearing and understanding may be considered as vital. In my opinion, educational fitness improves the quality of human capital and in such a way attracts FDI inflows.

The third pillar - market FDI fitness – is constructed by different economic and financial factors. In this case financial (loan) and physical capital (equipment) are considered. If the market is well financially and physically developed, corporations start to make decisions about investment activities.

Government as a fourth pillar lies on top of the other institutions, as political stability is an important factor. If government pursues unfavourable policies, firms are discouraged from investing in country. Also, government should ensure low level of corruption, economic openness and transparency to attract foreign capital. In my opinion, all four pillars are interconnected. For example, educational fitness depends on government activities regarding education; government shapes markets, because it establishes certain regulations and without government control markets cannot function properly; human capital is influenced by educational and social-cultural pillars which in turn influences government factor connected with corruption and political stability [20].

The last investment theory to consider is the eclectic paradigm (or the OLI paradigm hypothesis) developed by John H. Dunning in 1977. This model combines the previously discussed models like internalization theory, monopolistic advantage theory and location theory. The eclectic paradigm assumes that a company considers and uses 3 hypotheses to decide whether it will be beneficial to expand its business activities abroad or to choose between exporting and licensing activities. The three hypotheses include

ownership, location and internalization (OLI model) advantages and all of them should be fulfilled:

1. Ownership advantages – competitive advantages that a firm has over other companies in a foreign market taking into account the fact that it possesses special intangible assets such as brand names, trademarks, patents, know-hows, unique technologies – something special that gives a company the right to access foreign markets and have privilege over other firms.
2. Location advantages – benefits that a company has regarding location of business abroad. According to this criterion, a company sets up its business activities in a place where there is access to raw materials, cheap labour force, developed infrastructure, better transportation system and low taxes. Location advantages are the key factors that determine which country will become a host country for the international activities and foreign capital.
3. Internalization advantages – benefits that make market transactions more efficient without additional costs. This involves producing goods with own facilities, making transactions at a lower cost and being involved into foreign production rather than licensing and engaging suppliers or intermediaries. This hypothesis helps a company to decide whether it is advantageous to produce goods internally or make contacts with third parties [19,24].

Important thing to mention here is how Nayyar (2014) explained this paradigm: companies become engaged in FDI possessing Ownership advantages which they want to use in foreign Locations that will not bring positive results except of Internalization. The theory also introduces the concept of an “investment seeker” who is interested in satisfying four motives: resource-seeking FDI, market-seeking FDI, efficiency-seeking FDI and strategic asset-seeking summarized in Table 1.7 [20,23].

Table 1.7 – The overview of motives for investing by an investor’s purpose

Motive for an investor-seeker	Things an investor is interested in
Resource-seeking FDI	Access to natural resources, human capital especially at a lower cost than in domestic market and government incentives for investment activities

Continuation of Table 1.7

1	2
Market-seeking FDI	Access to new markets and customers, development of marketing policies, desire to adapt products to local needs, to remove barriers of different kinds
Efficiency-seeking FDI	Desire to increase efficiency through the economy of scale, to benefit from lower labour and production costs
Strategic asset seeking FDI	Desire to strength competitiveness on the international market and weaken competitors using marketing advantages

Source: developed by the author based on [23].

Having studied all main theories of international investment flows, we can conclude that decision to invest depends on a variety of factors. Those factors may touch not only determinants on a firm or industry level, but also country level which is more complicated, because different factors of political, economic, social, educational, financial spheres should be paid attention to.

1.3. The main indicators of the functioning of the international investment market

As it was defined previously, foreign direct investments are investments made from one country into the business activities of company located abroad to obtain corporate rights and satisfy the desire of control and management over that entity. In order to evaluate to what extent international investment market of a particular country is developed and whether it is attractive for foreign investors, it is important to study and evaluate different indicators which characterize the international investment market.

FDI stock is defined as accumulated amount of overall FDI at a given time, in other words, it summarizes the investments done from the date when FDI activities began till current year. Both inward (the accumulated amount of FDI invested in the host

country) and outward stock (the accumulated amount of FDI that was invested abroad by a domestic country) can be measured.

FDI stocks are comprised by FDI inflows and outflows. FDI inflows can be explained as the value of inward direct investments made by non-residents of the host country. Respectively, FDI outflows are the outward direct investments made by the residents of a given country abroad. From my point of view, if a country has high levels of FDI inflows, it has favourable investment environment especially if yearly inflows increase. If country has high FDI outflows, domestic companies establish enterprises abroad to expand their activities to international market and build a stronger brand. These indicators should be studied in order to compare countries between each other and spot main trends.

Consequently, balance of FDI is defined as the difference between received FDI (inward) and sent FDI (outward). For example, if balance of FDI is negative, it means that a country spends more funds to finance FDI for other countries than it receives FDI itself from international investment activities. In my opinion, such situation has unfavourable consequences on the national economy, because it may mean that a country is not attractive for foreign investors and the reason for that are different internal problems that discourage foreign investments. For instance, high level of corruption and government taxes, political instability or high wages are one of the main factors that investors consider before investing in foreign country.

If we talk about positive balance of FDI, it means that a country receives more FDI from non-residents of the country than it invests FDI to external countries. Such a situation is very beneficial for a country, it means that a country encourages international investments and economic growth is stimulated. If a country has positive balance of FDI, it attracts additional funds to finance its production activities. Production output may be increased, because FDI are made to buy or develop new technologies which increase the efficiency of an enterprise. Also, FDI inflows create new work places which can lead to the decrease in unemployment rate. Due to high investment inflows, countries become the owners of unique technologies.

The next important indicator to consider is the share of FDI as a percentage of GDP. This approach helps to compare the volume of FDI as a percentage of GDP. This indicator serves as a benchmark to compare the economies of different sizes. Generally, it is accepted, the higher share of FDI as a percentage of GDP, the more investments country receives. We can also assume that higher levels of FDI lead to the bigger volume of GDP, as the production input increases and economy is expanding.

Based on the previous indicator, we can also calculate the yearly growth of GDP and yearly growth of FDI and compare them. For example, in the situation when the yearly growth of GDP exceeds yearly growth of FDI flows, it means that FDI flows positively impact economic growth and they were efficiently used. However, if the yearly growth of FDI is bigger than yearly growth of GDP, it leads to the conclusion that FDI flows do not contribute to the economic growth of the country or those foreign direct investments were not effectively exploited.

International investment position also helps to evaluate and compare international investment markets of different countries. Eventually, the international investment position can be defined as a type of a balance sheet showing the sum of foreign assets held by domestic residents (domestic assets) and the sum of domestic assets held by non-residents of the country (domestic liabilities) recording the total value of assets at a point in time. Net international investment position can be calculated as the difference between domestic assets and domestic liabilities. If it is the surplus, then domestic assets exceed domestic liabilities and a country becomes a credit country. In an opposite situation of deficit, domestic liabilities are higher than domestic assets which makes country a debtor country – so dependent on assets held by non-residents.

As it was discussed before, FDI inflows tend to create new enterprises and thus, new job opportunities, so it is necessary to study the number of enterprises controlled by foreign affiliates. The more enterprises are created, the better economic growth and lower unemployment rate can be expected.

CHAPTER 2.

ANALYSIS OF THE INTERNATIONAL INVESTMENT MARKET OF CENTRAL AND EASTERN EUROPE AND UKRAINE

2.1. Current state and development trends of the CEE international investment market

All the mentioned indicators in the previous chapter will be used to study the international investment market of Central and Eastern Europe countries. So, it is important to define countries which belong to the Central and Eastern Europe region. However, there are different approaches to the classification of them.

According to EuroVoc, countries of the Central and Eastern Europe are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Czech Republic, Croatia, Georgia, Hungary, Moldova, Montenegro, North Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine [25].

According to International labour organisation, the CEE countries include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, the Republic of North Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine – so excluding Armenia, Azerbaijan, Belarus, North Macedonia and Russia (mainly former USSR countries).

Some sources state that only Poland, Czech Republic, Hungary, Slovakia, Romania and Bulgaria are the members of CEE countries, while in other sources Baltic countries are also included into this region. If we analyse countries of Central Europe, besides Slovenia, Slovakia, Poland and Hungary, also Austria, Germany and Switzerland are classified as Central Europe, thus, these three countries can be CEE countries as well.

To analyse the international investment market of CEE countries and define their main characteristics, let's focus on countries that are the members of the European Union and classify them according to date when they joined the EU:

1. As countries of the Central Europe, Austria (1995) and Germany (founder) are classified as countries which joined the European Union in the end of the twentieth century, so they are the earliest members compared with other countries of CEE region. Switzerland, which is also Central European country will be researched here, despite the fact that it does not belong to the European Union, it participates in the European Single Market and is the founding country of European Free Trade Association.

2. The second group of countries includes countries that joined the EU in 2004 are: Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia, Lithuania.

3. The third group covers countries which joined the EU after 2004: Romania and Bulgaria (2007), Croatia (2013) and Ukraine which is now in the status of a candidate.

One of the main features to investigate is the FDI inflows which countries received from 2017 to 2022 (Table 2.1), as it will help understand which countries receive more foreign investments or less.

Table 2.1 – The dynamics of inward FDI in CEE countries 2017-2022

Country	2017	2018	2019	2020	2021	2022	Growth 2022
Austria	14926	5512	4783	-9275	13526	2300	-488%
Czech Rep.	9518	11010	10109	9411	5805	2371	-145%
Estonia	1947	1516	3196	3467	188	1000	81%
Germany	48538	72053	52664	64442	31263	11039	-183%
Hungary	3514	6460	4448	7039	7492	570	-1214%
Latvia	744	961	927	1004	3320	335	-890%
Lithuania	1019	976	3022	3484	2773	756	-267%
Poland	12100	19176	17626	19154	37112	29203	-27%
Slovakia	4008	1643	2511	-2398	59	653	91%
Slovenia	896	1383	1463	219	1773	656	-170%
Switzerland	119136	-95712	-91207	-42187	12098	7194	-68%
Croatia	539	1203	397	136	569	1152	51%
Bulgaria	1814	1143	1835	3423	1496	2410	38%
Ukraine	3727	4732	6017	1006	7320	850	-761%
Romania	5950	7340	7370	3600	11740	9600	-22%
Total	228375	39397	25160	62526	136534	70089	-95%

Source: developed by the author based on [26].

In 2022 top-recipients of foreign investments are Switzerland, Germany, Poland, Romania and Czech Republic. However, as can be noticed FDI inflows in 2022 are much lower than in 2021 almost in the whole region excluding Estonia, Slovakia, Croatia and Bulgaria.

For many years Switzerland has been known as a country with political and economic stability and reliable banking system. Even despite the fact that Switzerland is not a member of the European Union, it continues to be a very attractive country for investments because of its transparency, developed infrastructure and capital markets. However, during 2018-2020 Switzerland experienced huge negative FDI inflows because of US tax reform in 2018 because of which US companies repatriated \$217 billion from foreign affiliates including Switzerland [27]. Covid-19 pandemic led to negative foreign inflows as well. Key industries for Switzerland include life sciences, ICT and advanced engineering and the biggest investors are from Netherlands and Luxembourg.

Germany is hosting one of the biggest amounts of investments in Europe. In 2022 it is on the 7th place in the number of projects into research and development. Its main sectors for investments are information and technology (28%), health and biotech (11%) and engineering (9%). Energy, logistics & transportation, aerospace, automotive, media, metal & steel, food, finance & insurance receive a lot of investments too. Main investors come from the USA (36%), the United Kingdom (13%) and China (12%).

Poland with the highest foreign investments in CEE in 2022 is considered to be one of the fast-growing economies in a region because of its openness, economic stability and geographic location. After joining the European Union, Polish economic growth accelerated largely and in 2021 GDP per capita is 70% higher than it was before membership in the EU. The majority of investments come to industry (in 2021 this sector was EUR 62.7 billion), financial and insurance services (EUR 37 billion), wholesale and retail trade plus vehicle repairs (EUR 29.2 billion) and real estate (EUR19.2 billion). Countries which invest in Poland are Germany, France, the USA, Netherlands, United Kingdom.

Czech Republic is also one of the largest FDI recipients in CEE region thanks to economic stability, high industrialisation and well-trained staff. The Czech Republic

ranked 5th globally in the list of 47 countries suitable for manufacturing. According to the Czech National Bank, the largest investors in the country are the Netherlands (23.5%), Luxembourg (16.8%), Germany (16%), Austria (14.9%), France (6.5%), and Cyprus (4.7%). Investments come to financial and insurance sector (28.3% of the total inward FDI stock), manufacturing (27.1%), wholesale and retail trade (12.2%), real estate (9.4%), and professional, scientific and technical activities (5.3%).

Romania received over \$45 billion investments from abroad during 2017-2022. The government does not differentiate investments due to source of capital and it welcomes all foreign investments. Due to the Covid-19 pandemic, Romanian economy declined by 3.9% in 2020. However, inward FDI rebounded from pandemic and increased by 63% in 2022. The USA as a main investor invests in IT, automotive, telecommunications, energy, services, manufacturing, healthcare and finance sectors as attractive.

If we analyse the CEE countries which receive the smallest amount of FDI during 2017-2022, they are Croatia (\$3996 million), Slovak Republic (\$6476 million), Slovenia (\$6390 million), and Latvia (\$7291 million). All of them joined the European Union in 2004 or later, however, foreign investments into them did not experience huge increase compared to figures before 2004.

Generally, Baltic countries are considered to have open economy, favourable tax environment, transparent legal system. However, in the 1st quarter 2022 inward foreign investments in Lithuania and Latvia decreased significantly, while Estonia faced the problem of negative foreign investments. During COVID-19 pandemic these countries experienced increase in FDI and managed to overcome the crisis. Industries which suffered a lot during that period are transportation, entertainment and recreation.

The main sectors of FDI inflows to Lithuania are for manufacturing and services (particularly financial and insurance services) which mainly come from Sweden (15%), Estonia (12%) and Hong Kong (21%). Talking about Latvia, its main investment sectors are professional, scientific and technical activities, financial and insurance activities, IT services and manufacturing. The largest part of investments come from Sweden (25%) and Estonia (10%). Finally, for Estonia the most attractive industries to invest in are

financial and insurance activities, whole sale and retail trade. It receives investments from Sweden (25%) and Finland (18%) [28].

We would conclude, that investors for Baltic region come from closely geographically located countries (like Finland and Sweden) and sectors of investing are mainly financial and insurance services, manufacturing and R&D (including IT).

After joining the EU in 2013, FDI inflows of Croatia in 2014 increased by 70% compared to the previous year. The country is becoming one of the popular destinations with steadily grown GDP per capita and good investment environment in general. Like other countries during global quarantine, FDI inflows in 2019-2020 decreased by 67% compared to 2018. Country receives foreign investments from financial intermediation (26%), manufacturing (18%) and trade (14%). The biggest investors are Netherlands (24%), Austria (21%), Germany and Hungary (16% in total).

Slovenia and Slovakia – countries which are now growing economies with the GDP growth of 8.2% and 3% respectively both faced positive changes in inward FDI volumes after becoming a member of the EU. Additionally, during 2020 their FDI inflows decreased significantly, but in 2022 the inflows recovered and became positive.

Hungary's central location in Europe and well-developed infrastructure made it the attractive destination for investments. During the period of 2014-2022, country received \$29.5 billion of foreign investment inflows facing negative inflows in 2014-2015 due to the introduction of new barriers in previously open markets and introduction of taxes in specific sectors. Foreign investments mainly come to automotive, software development, banking and life sciences sectors.

Austria is one the richest countries in Europe with high purchasing power and standards. Austria's FDI inflows during 2017-2022 amounted to \$31.77 billion have seen significant decreases in 2016 and 2020 with divestments of \$8.4 billion and \$9.2 billion respectively because of weak economic situation caused by pandemic. Despite consequences, Austria continues being an attractive destination for professional, scientific and technical activities, real estate, machinery, financial and insurance sectors.

Bulgaria as a developing country, member of the EU, had a huge growth of foreign investments in the early 2000s and reached the highest level in 2007 of \$12.4 billion.

From 2014 to 2022 there was 81% increase of FDI, so country has a huge potential for FDI growth. Its main sectors of investments are transport and logistics, information technologies and outsourcing of business processes coming mainly from Switzerland, Austria and Cyprus.

Let's analyse the FDI inflow stock for the region according to latest available data for 2018-2021 (Figure 2.1). As can be seen from the figure, the holders of biggest inward investment stock in the CEE region are Germany and Switzerland, while Slovenia, Latvia and Lithuania have the smallest inward investment stock. An interesting thing is that almost all countries have increasing investment stock, while Switzerland experiences stock decrease starting from 2019. One of the explanations for that is the withdrawal of capital in 2019-2020 and probably it was caused by the global pandemic.

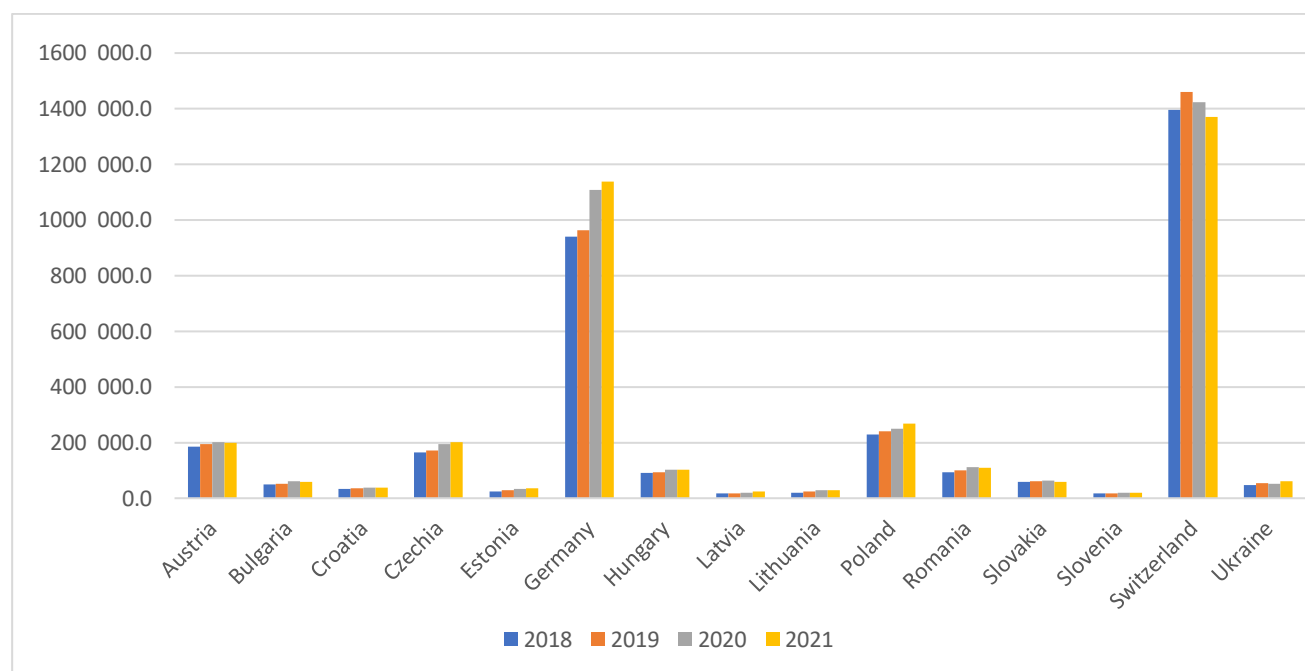


Figure 2.1 – Dynamics of FDI inflow stock 2018-2021 USD million [26]

It is necessary to analyse what amounts of funds are invested by CEE countries abroad. From 2017 to 2022 the total amount of investment outflows of the region is equal to \$754 million (Table 2.2). However, as can be noticed from the table, growth rate of FDI outflows in 2022 compared 2021 is negative in most of countries except for Hungary, Poland, Slovakia and Bulgaria, meaning that the rest of the countries experienced huge divestments and withdrew money from foreign institutions. We can assume that one of

the reasons for that is Russian invasion in Ukraine which caused numerous economic (high inflation, energy crisis, economic instability) and social problems in the region.

Table 2.2 - Dynamics of outward FDI in CEE countries 2017-2022 USD million

Country	2017	2018	2019	2020	2021	2022	Growth rate 2022
Austria	10679	5678	12633	6915	18434	60	-100%
Czech Republic	7557	8663	4128	2989	7733	2474	-68%
Estonia	888	45	1993	198	-535	907	-270%
Germany	85894	97056	151074	50510	165157	142788	-14%
Hungary	1220	3363	3180	4428	4014	4241	6%
Latvia	141	207	-103	264	2321	145	-94%
Lithuania	80	704	1746	2868	1323	366	-72%
Poland	1878	1239	1674	1151	1783	1988	11%
Slovakia	1323	291	43	347	389	432	11%
Slovenia	338	281	610	518	1303	336	-74%
Croatia	-833	290	91	467	1380	891	-35%
Bulgaria	496	924	829	437	928	990	7%
Switzerland	28337	65057	-47400	-40040	-71469	-23028	-68%
Romania	386	1500	1920	198	1340	390	-71%
Total	138383	185296	132421	31251	134104	132981	-1%

Source: developed by the author based on [26].

The top-sending countries of FDI abroad from 2017 to 2022 are Germany (\$938 billion) and Switzerland (\$88 billion). In 2022 Germany invested in Netherlands (\$41.8 billion), the USA (\$26.6 billion) and Luxembourg (\$20 billion). Germany's federal states registered 1,806 FDI projects (excluding M&A) in 2021. The total investment by German enterprises - €491 billion - was in manufacturing sector which led to the creation of 8 million jobs (4 million of them go to manufacturing sector). The second-biggest sector of German investments is financial and industry services totally amounted to \$349 billion. Return flows of funds from Russia amounted €3 billion were observed as a result of the scaling back of direct investment loans to Russian companies [29].

Talking about Switzerland, Swiss-based companies export not only produced goods, but also capital. During 2014-2018 had positive investment outflows amounted to \$269.5 billion. Starting from 2015 Switzerland has only negative investments outflows of \$182 billion. Investments were withdrawn from manufacturing, finance and insurance

and construction sectors in Cyprus (CHF 88 billion), Ireland (CHF 42 billion) and Luxembourg (CHF 19 billion) due corporate restructure and negative earnings.

Baltic countries together for the same period invested \$15.5 billion. The leader in the region is Lithuania (50%) which invests funds to Latvia (48%) and Netherlands (17%). The most attractive sectors where Lithuania invests funds are real estate (50%), whole sale and retail trade (28%). For Latvia the main destination for investments is finance and insurance sector amounted to 85%. At the same time, Estonia invests mostly in manufacturing, but in 2021 it had divestments in finance and insurance sector of \$1.77 billion. The data for the rest of CEE countries is summarized in Table 2.3.

Table 2.3 – Sectors and destinations of outward FDI flows in 2021 [30]

Country	Destination of FDI outflows	Industries of FDI outflows
Austria	Poland (52.3%), Czech Republic (10.8%), Netherlands (9.4%)	Finance and insurance services (35%), manufacturing (29.5%), professional, scientific and technical activities (11.7%)
Czech Republic	United Kingdom (25%), Luxembourg (20%), Cyprus (16%)	Finance and insurance activities (63%), real estate (20%), professional, scientific and technical activities (9%)
Estonia	Lithuania (50%), Latvia (\$-1.74 billion)	Finance and insurance activities (\$-1.74 billion), manufacturing (\$0.2 billion)
Germany	Netherlands (27%), USA (17%), Luxembourg (13%),	Telecommunications and automotive sectors
Hungary	Switzerland (39%), Netherlands (35%)	Finance and insurance activities (4.6%), administrative and support services (21.5%)
Latvia	Lithuania (\$1.3 billion), Estonia (\$0.98 billion)	Finance and insurance activities (\$2.192 billion – 90%)
Lithuania	Latvia (45%), Netherlands (18%)	Real estate (53%), wholesale and retail trade (30%)
Poland	Norway (\$885 million), Sweden (\$602 million)	Manufacturing (\$2 billion), professional, scientific and technical activities (\$0.57 billion)

Continuation of Table 2.3

Slovakia	Czech Republic (\$151 million), Cyprus (\$83 million)	No data
Slovenia	Croatia (\$587 million), USA (\$133 million)	Manufacturing (\$714 million), finance and insurance activities (\$120 million)
Croatia	Slovenia (\$744 million), Czech Republic (\$37 million)	No data
Romania	Cyprus (\$526 million), Moldova (\$333 million)	Whole sale and retail trade
Switzerland	Ireland (\$-46 billion), Luxembourg (\$-20 billion), Germany (\$4.5 billion)	Manufacturing (\$17 billion), finance and insurance activities (\$-101 billion),

From the Figure 2.2 we can conclude that the biggest outward investment stock belongs to Germany and Switzerland. The stocks of Bulgaria, Croatia, Estonia, Lithuania, Romania, Slovakia and Slovenia vary from \$12 billion to \$42 billion which are relatively low compared to countries of Central Europe.

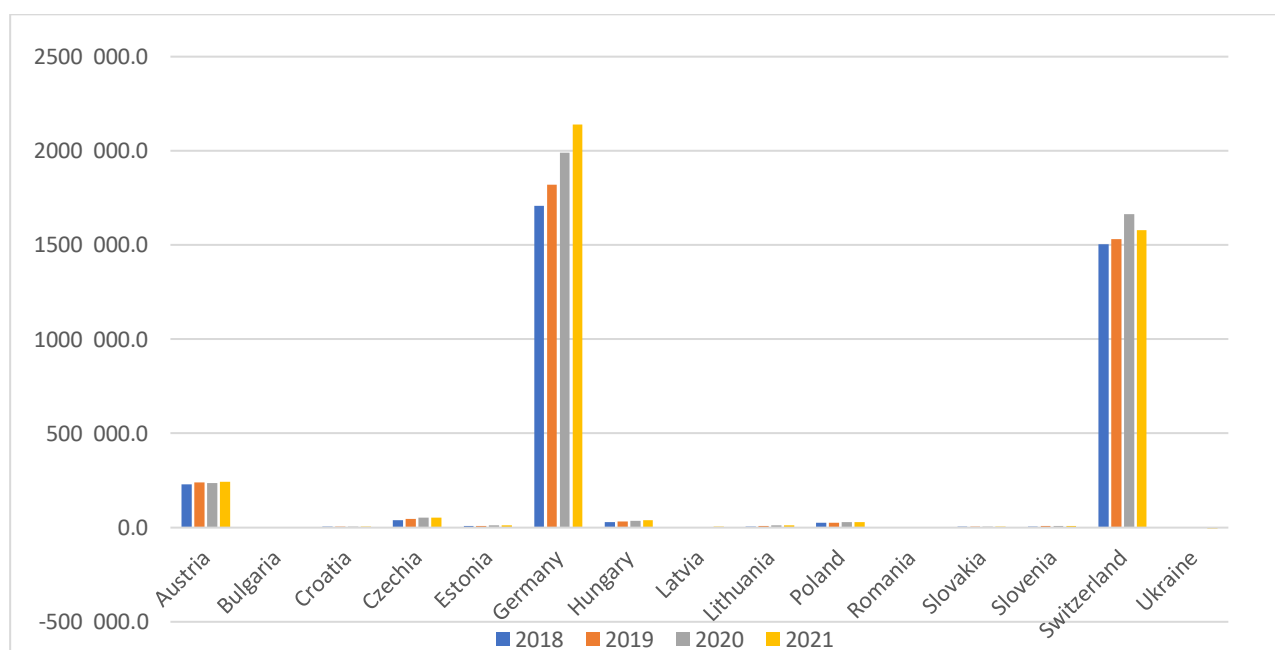


Figure 2.2 – Dynamics of FDI outflow stock 2018-2021 USD million [26]

Analysing the FDI balance (Table 2.4) will help us to understand what types of investment flows are dominant for each country on a yearly-basis. If investment balance is positive, country receives more foreign investments than it invests. At the same time, if this balance is negative, a country tends to send more investments abroad than receive them.

Table 2.4 – Dynamics of FDI Balance 2020-2022

Country	FDI Balance, USD million			Growth rate 2022, %
	2020	2021	2022	
Austria	-16190	-4908	1923	3.55
Czech Republic	6421	1316	7381	0.82
Estonia	3269	723	-598	2.21
Germany	5567	-118696	-131749	0.10
Hungary	2619	3545	4331	0.18
Latvia	740	998	1359	0.27
Lithuania	643	1475	1738	0.15
Poland	14124	27679	27215	-0.02
Slovakia	-2745	-330	2469	1.13
Slovenia	-298	470	1284	0.63
Switzerland	-10210	-16686	36341	1.46
Croatia	-331	-811	261	4.11
Romania	3296	-2949	11228	1.26
Bulgaria	2986	568	1420	0.60

Source: developed by the author based on [26].

During analysed period, countries including Czech Republic, Hungary, Latvia, Lithuania, Poland, and Bulgaria have positive investment balance – investment outflows are lower than inflows. Austria in 2022 changed its investment balance from export-oriented to import-oriented. On the other hand, Estonia and Germany have negative investment balance. Slovakia, Slovenia, Switzerland, Romania and Croatia tend to experience increase in inward investment, that is why their investment balance is positive in 2022.

Investment positions of countries help understand whether domestic assets are more owned by domestic country or foreign. We will calculate the net investment position (Table 2.5) by subtracting inward investment position from outward one. If the received value is negative, it means that non-residents own more domestic nation's assets compared to the amount of foreign assets owned by domestic country. If the result is

positive, domestic country owns more foreign assets than foreign nation owns domestic assets.

Table 2.5 – Net investment position of CEE countries 2020-2022 (Appendix A)

Country	Net investment position, USD million			Growth rate 2022/2020	Type of a country
	2020	2021	2022		
Austria	45676	46849	50571	10%	creditor
Czech Republic	-143957	-144996	-146974	2%	debtor
Estonia	-23814	-21530	-23129	-3%	debtor
Germany	856805	981202	1088317	21%	creditor
Hungary	-66065	-65113	-62573	-6%	debtor
Latvia	-18057	-18025	no data	0%	debtor
Lithuania	-18824	-19223	-21933	14%	debtor
Poland	-229756	-243793	-239651	4%	debtor
Slovakia	-58792	-53950	-51944	-13%	debtor
Slovenia	-11839	-11955	-12221	3%	debtor
Bulgaria	-15773	-13165	-10582	-6%	debtor
Croatia	-23767	-19660	-17473	-6%	debtor
Romania	-104262	-112900	-116780	-6%	debtor
Switzerland	334089	384686	314964	-6%	creditor

Source: developed by the author based on [26].

Having calculated net investment positions, we can conclude that only three countries in the region representing Central Europe – Austria, Germany and Switzerland - are country-creditors, so they own a lot of assets in foreign countries with the increasing trend. The rest of countries – Eastern Europe - are classified as countries whose more assets are owned by non-residents.

The next important aspect to research is the share of inward/outward investment flows as a percentage of GDP. Analysing 2022 results (Table 2.6), Hungary has the biggest FDI inflow compared to GDP (5%) and also Poland (4.24%). However, we can see that some countries including Austria, Germany and Estonia have much less this value and we can assume that they have high level of GDP compared with FDI or their FDI inflows are not so big. Additionally, Austria, Czech Republic, Croatia, Estonia and Germany has negative growth from 2018 to 2022 meaning that the share of FDI as a percentage of GDP declined significantly. Taking Germany as an example, FDI inflows

from 2018 to 2022 decreased 5 times. Nevertheless, Switzerland improved its position facing negative inflows during that period.

Table 2.6 – Dynamics of FDI inflows as a percentage of GDP 2018-2022

Country	FDI inflow as percentage of GDP					Growth 2022/2018
	2018	2019	2020	2021	2022	
Austria	1.21%	1.08%	-2.13%	2.81%	0.42%	-187.98%
Czech Republic	4.42%	4.00%	3.83%	3.21%	3.39%	-30.29%
Estonia	4.95%	10.28%	11.06%	0.50%	0.81%	-512.56%
Germany	1.81%	1.35%	1.44%	1.09%	0.27%	-568.34%
Hungary	4.02%	2.60%	4.48%	4.16%	5.09%	21.00%
Latvia	2.79%	2.70%	2.90%	8.35%	3.56%	21.70%
Lithuania	1.81%	5.52%	6.18%	4.21%	2.98%	39.14%
Poland	2.78%	2.24%	2.55%	4.34%	4.24%	34.45%
Slovakia	1.55%	2.37%	-2.25%	0.05%	2.56%	39.45%
Slovenia	2.55%	2.69%	0.41%	2.87%	2.60%	2.02%
Switzerland	-13.94%	-11.53%	-6.80%	-11.02%	1.65%	945.03%
Croatia	1.96%	0.65%	0.24%	0.83%	1.62%	-20.87%
Bulgaria	1.72%	2.66%	4.87%	1.78%	2.70%	36.37%
Romania	3.01%	2.94%	1.43%	4.11%	3.18%	5.22%

Source: developed by the author based on [26, 31].

In order to identify whether FDI inflows cause GDP growth, we can compare yearly FDI inflow growth with the yearly GDP growth. If the GDP yearly growth is bigger than yearly growth of FDI inflows it means that foreign investment has positive impact on the economic growth and those resources are effectively used. However, from the estimates we can conclude that 50% of countries in the region have higher yearly FDI inflow growth than their GDP yearly growth (including Czech Republic, Estonia, Hungary, Slovakia, Switzerland, Croatia, Bulgaria), so based on estimates, probably FDI do not contribute a lot to the GDP growth in these countries.

Also, let's make research on how big investment outflows of CEE countries are compared to GDP (Table 2.7). Generally speaking, foreign investment outflows do not represent a big share of GDP in the whole Central and Eastern Europe region – its average level is only 0.78% with the largest percentage of 3.5% for Germany and the smallest of 0.01% for Austria. Out of Baltic countries Estonia has the biggest share of more than 2%. The biggest decline can be noticed in Austria whose FDI outflows were significantly reduced in 2022. Also, Estonia and Switzerland tend to have increased share of outward foreign investments as of GDP during the analysed period.

Table 2.7 - Dynamics of FDI inflows as a percentage of GDP 2018-2022

Country	FDI outflow as percentage of GDP					Growth 2022/2018
	2018	2019	2020	2021	2022	
Austria	1.25%	2.84%	1.59%	3.83%	0.01%	-9872.29%
Czech Republic	3.48%	1.63%	1.22%	2.74%	0.85%	-308.33%
Estonia	0.14%	6.41%	0.63%	-1.43%	2.38%	93.96%
Germany	2.44%	3.88%	1.30%	3.87%	3.50%	30.33%
Hungary	2.09%	1.94%	2.82%	2.21%	2.52%	16.89%
Latvia	0.60%	-0.30%	0.76%	5.84%	0.34%	-74.16%
Lithuania	1.31%	3.19%	5.05%	1.99%	0.52%	-152.58%
Poland	0.21%	0.28%	0.19%	0.26%	0.29%	27.14%
Slovakia	0.27%	0.41%	0.33%	0.33%	0.38%	28.23%
Slovenia	0.52%	1.12%	0.96%	2.11%	0.54%	4.42%
Croatia	0.47%	0.15%	0.81%	2.00%	1.25%	62.46%
Bulgaria	1.39%	1.20%	0.62%	1.10%	1.11%	-25.21%
Switzerland	8.96%	-6.57%	-5.42%	-8.94%	-2.85%	414.22%
Romania	0.62%	0.76%	0.08%	0.47%	0.13%	-376.78%

Source: developed by the author based on [26, 31].

According to the latest data available (Figure 2.3), in 2020 in CEE countries there were 153.65 thousand of enterprises in total which are foreign-controlled (17% out of general number enterprises). Having calculated this value, biggest number of such enterprises belong to Estonia where the share of foreign-controlled enterprises is over 26% and as a result, it has the highest share of people employed on foreign enterprises of almost 40%.

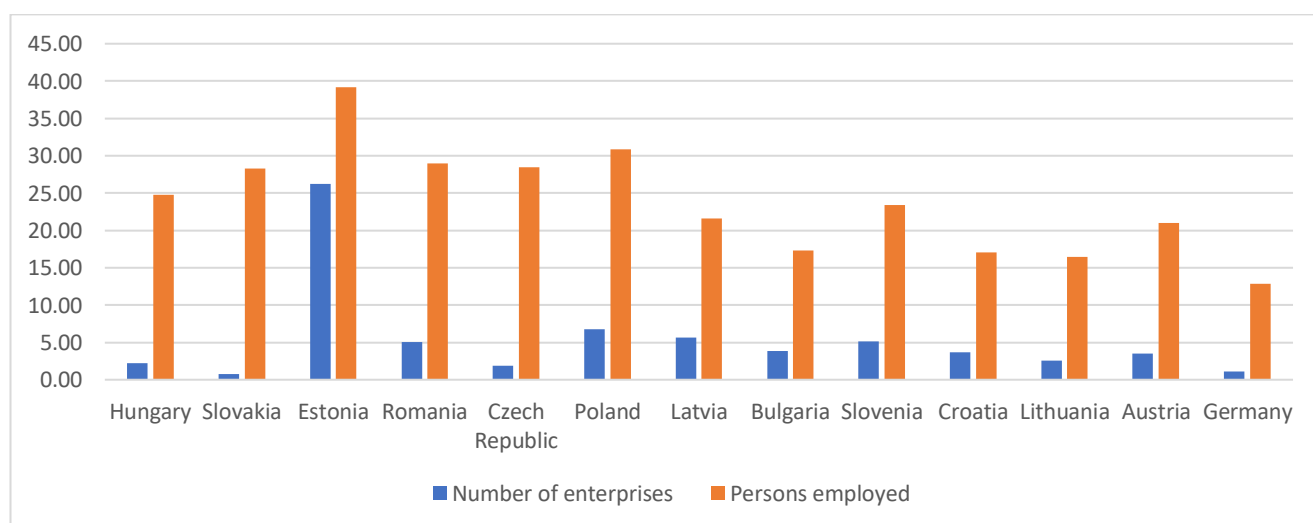


Figure 2.3 – The share of enterprises under foreign control 2020 (%) [33]

On the other hand, we can see that Slovakia and Germany have the smallest share of foreign-controlled enterprises. This leads to the fact that their business environment is mainly constructed from domestic enterprises and people are provided with jobs from local firms. However, 0.8% of enterprises which are foreign-controlled employ 28.3% people out of total employment, that is why I can conclude that those enterprises are huge and create a lot of job places.

2.2 Factors influencing the investment attractiveness of CEE countries

CEE countries have become a popular destination for foreign investments for the last 10 years and they will continue to attract more funds in future. The most common reasons for such trends are connected with the stable economic and political system, favourable tax environment and well-educated labour force in this region. However, in order to study more particular causes of high investment flows and investment attractiveness, we can divide CEE region into Central Europe and Eastern Europe countries and spot main differences.

Let's start with common cause which is applicable to most of countries. It is connected with low corporate income taxes in the region. The higher corporate income taxes are in the region, the less likely investors would like to start a business and invest knowing that it will be required to pay a lot of taxes leading to profit reduction.

If we analyse Figure 2.4, the highest corporate income tax is levied in Austria (24%) and Slovak Republic (21%) with the lowest in Hungary (9%) and Bulgaria (10%), so from my point of view the range of CIT is quite diverse, especially in Central Europe. In comparison with other European countries like Italy and Netherlands, the average CIT in CEE region is moderate and amounted to 17.2%.

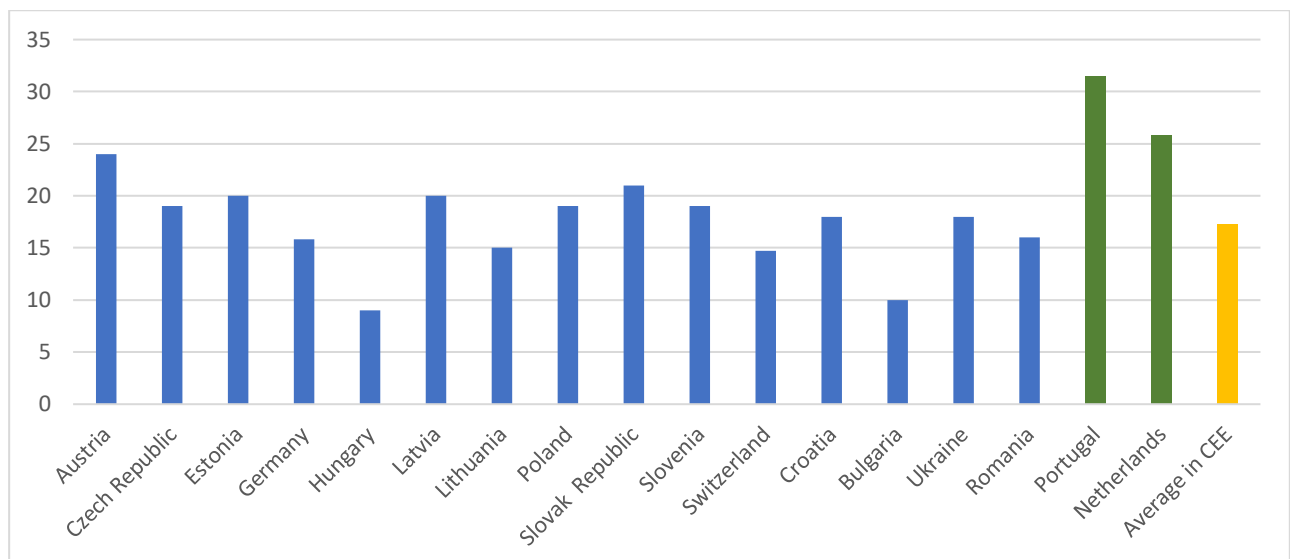


Figure 2.4. Corporate income tax rate by country 2022 [33]

Political stability is also an important factor influencing the decision to invest, as political uncertainty is connected with the possibility of war, protests and dissatisfaction with government authorities – all influence the economic stability (reduction of investments, higher production costs). According to Political stability index (Figure 2.5), countries with the most stable political environment are Switzerland, Czech Republic and Austria. Talking about Eastern Europe, Bulgaria, Poland and Romania have the lowest score of political stability, so it may jeopardise the investment attractiveness of the country.

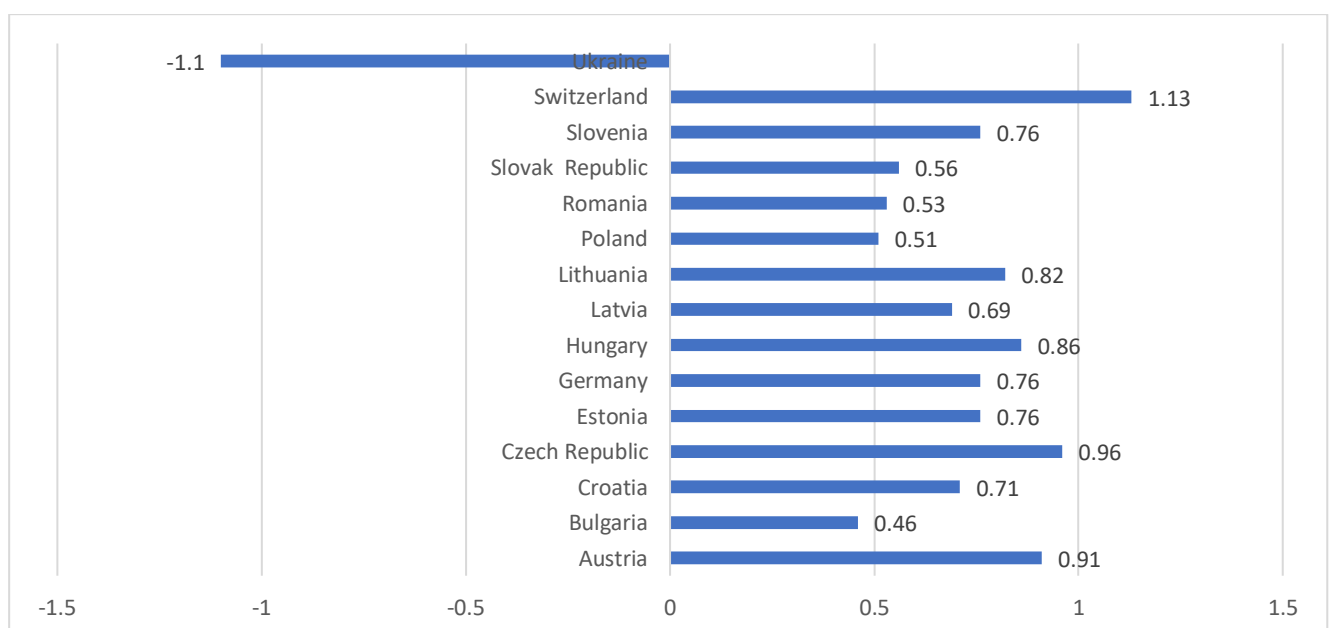


Figure 2.5 – Political stability index by score 2021 [31]

Additionally, as we can see, Ukraine has negative political stability score which, in my opinion, is a crucial factor nowadays, because since the war with Russia started, in 2022 Ukraine received only \$850 million of investments while in 2021 they were at the level of \$7.3 billion. That is why significant decrease can be noticed.

Corruption also should be taken into account when talking about factors influencing investment attractiveness (Figure 2.6). In some of the CEE countries it is quite high, while other countries are well-regulated and have policies which warn individuals and businesses of bribes. For that investigation we should analyse the Corruption Perceptions Index. The higher score of this index, the less corrupted country is and vice versa.

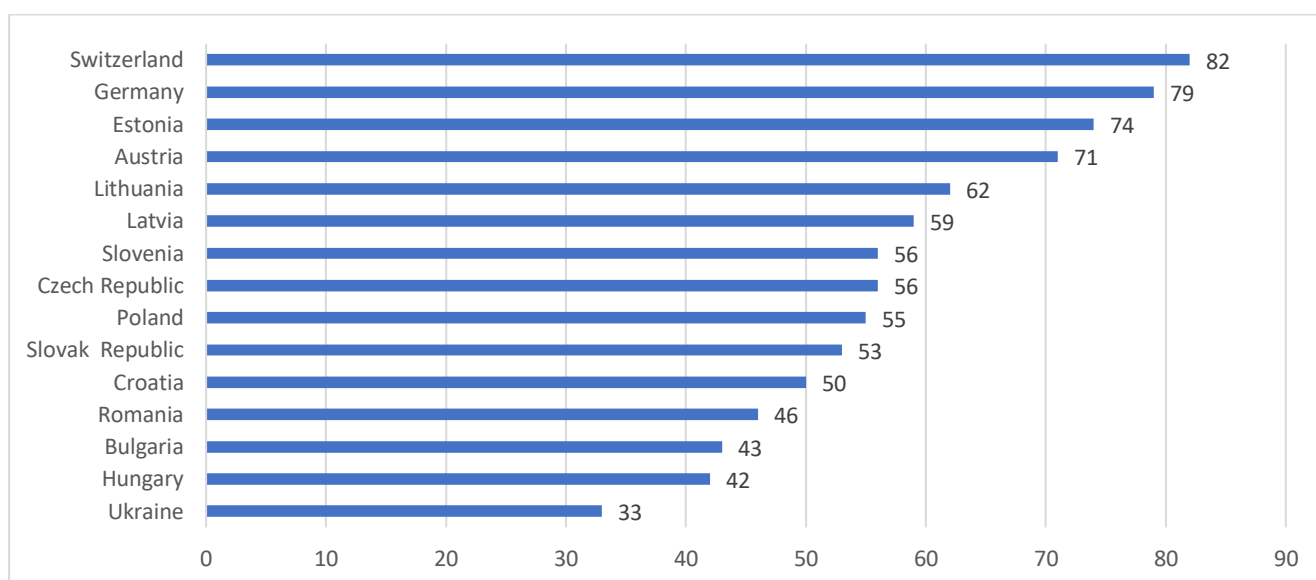


Figure 2.6 – Corruption Perceptions Index score 2022 [34]

According to the latest report, in 2022 the most corrupted countries are Ukraine, Hungary and Bulgaria. Hungary is considered to be most corrupted member in EU, because it lacks adequate government policies able to control corruption in public sector. Most likely investors will be discouraged to invest funds because of illegal schemes, unreliable partners and inability of government to protect businesses.

On the other hand, Central European and Baltic countries have the highest score in the region, because these economies are governed by criminal law and have sophisticated anti-corruption systems. For example, the Swiss anti-corruption system is very developed both on national and international levels and it has various instruments helping to identify, block and return assets of criminal origin.

Talking about financial factors, the level of national savings influences investment inflows, because the more unspent and saved capital a country has, the more potential of available resources it has which can be transformed and engaged in investment activities. Also, discount rate is another factor here. It depends reversely on money demand in the form of loans. The higher discount rate, the less investors are willing to take loans, because it will cost more to return loan and vice versa.

Next important factor impacting investment attractiveness is highly educated labour force. First of all, citizens of the country should be educated and have high education to be able to perform high-intellectual job. Secondly, it is important not just be a good specialist in specific sphere, but also language skills should be improved. That is why we can take a look on a percentage of people who have advanced education and also EF English Proficiency Index which ranks countries by English proficiency (Figure 2.7). The lower EF English Proficiency Index score, the more citizens can speak English on good level.

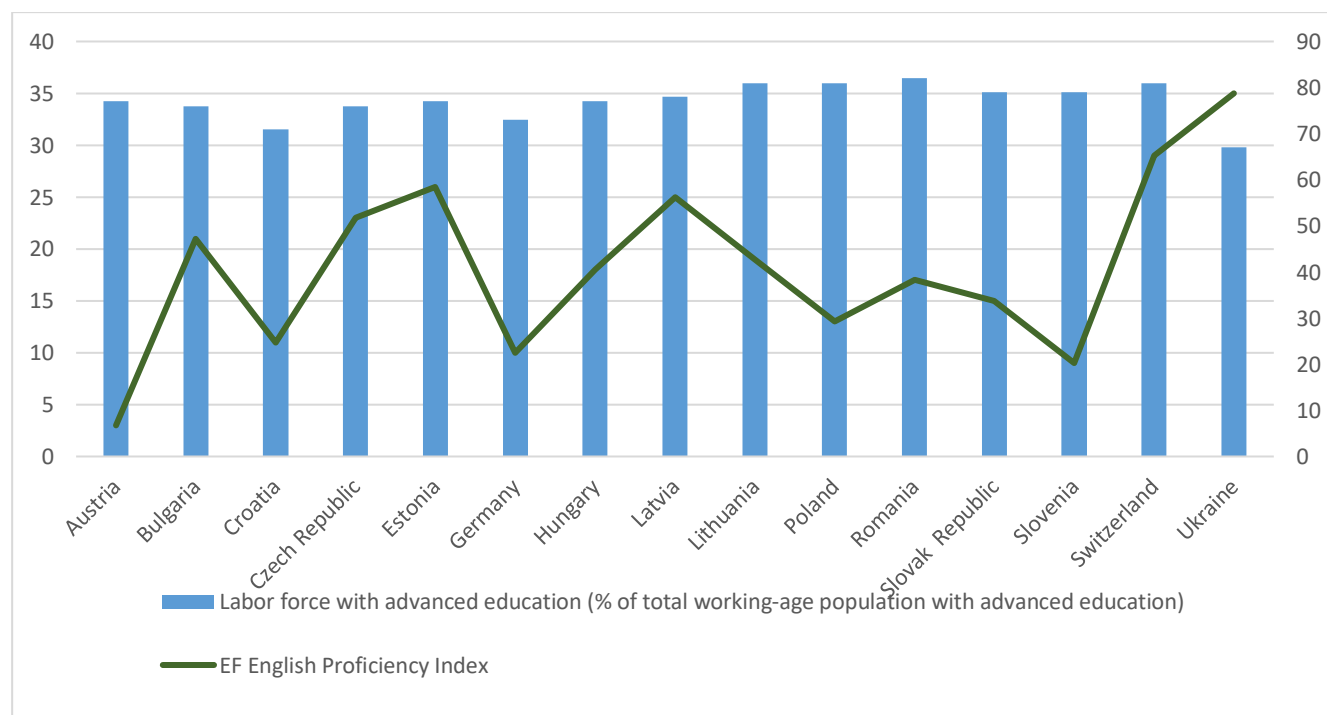


Figure 2.7 – Trends in education 2022 [31, 35]

As can be seen, all the CEE region countries have relatively similar percentage of labour force who have advanced education. The highest percentage goes to Romania, Poland, Lithuania and Switzerland (81-82%) and lowest for Ukraine (only 67%). Talking

about language skills, most of CEE countries have high proficiency of English skills. However, the interesting fact is that Austria, Germany, Croatia and Poland belong to the group of countries with very high proficiency English skills. Good level of English as well as any other additional foreign language give the investors insight that they can employ such people on foreign enterprises and they will be able to communicate with foreign colleagues. Ukraine in both aspects is on the last place compared to other countries in the region.

When investing abroad, investors also take into consideration innovation potential of the country which is evaluated by Global Innovation Index (Figure 2.8). This index shows to what extent economy is innovative and it describes innovation strengths and weaknesses.

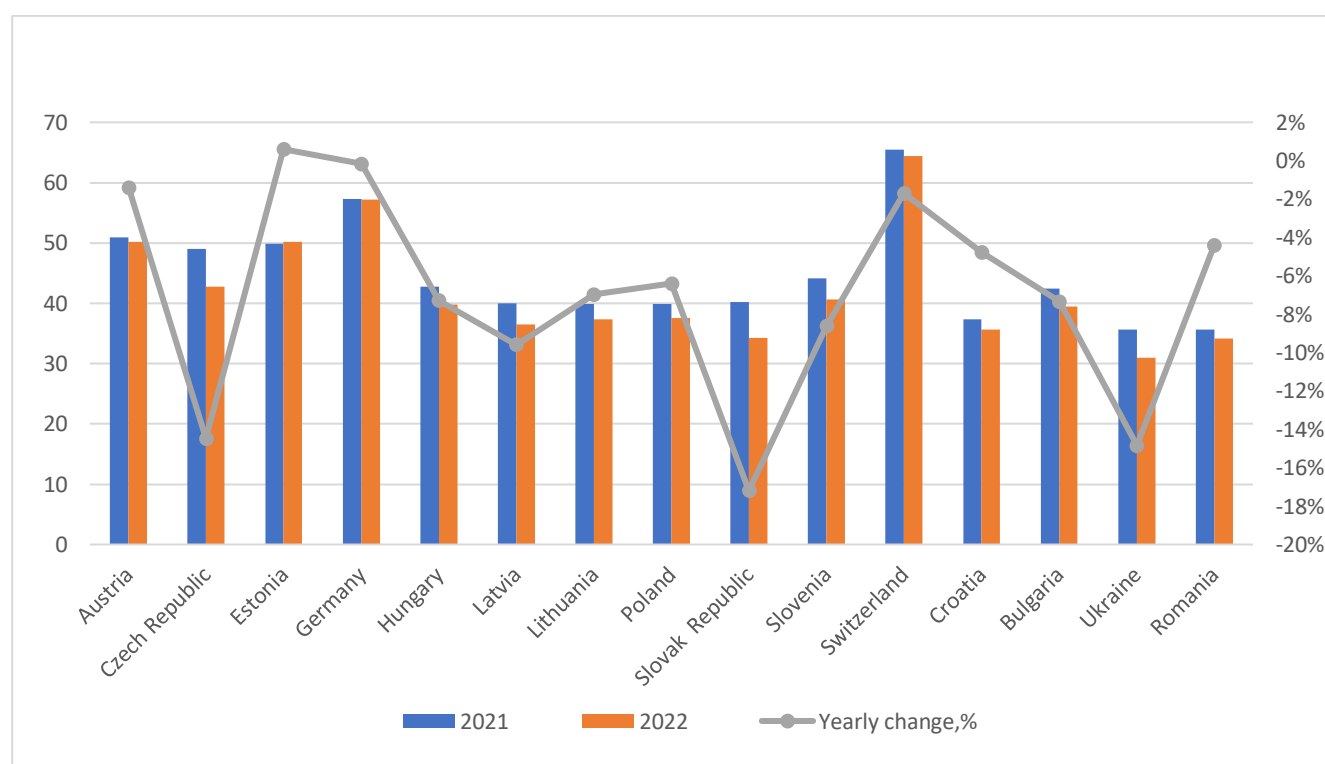


Figure 2.8 – Global Innovation Index Score 2021-2022 [36]

According to 2022 data, the most innovative countries are Switzerland (1st rank), Germany (8th rank) and Austria (17th rank). Least innovative countries are Ukraine (57th place) and Romania (49th place). The common tendency for region is decreased index score for each country in range from 1% to 15% in 2022 compared to 2021.

Now let's consider more country's specific factors influencing investment attractiveness starting from countries of Central Europe. The investment attractiveness of

Germany depends on many factors. Country is a leader in Europe in research and development activities spending 3.1% of GDP on this sector being the world fourth-largest economy. The country has various incentives for investors and there is no distinguishment between national and foreign investors which are equally treated in terms of protection of intellectual property. However, investment screening mechanism (2021) exists which provides national security grounds for Germany. In case of outward investments, German government ensures guarantees for investments made by German companies against political risks abroad [37].

Switzerland also has developed infrastructure, skilled staff, political stability. The country is the leader in research and development field (1st place in Global Innovation Index 2022) offering various partnerships in biotechnology and nanotechnology. Even despite not being the member of EU, it is attractive destination for foreign investors due to its favourable legal environment for investments and each of 26 cantons can suggest own investment policies. However, the country has high standards in terms of quality, packaging which may be warning factor for investors.

According to WIPO, Austria is on the third place of gross expenditures spent on R&D as a percentage of GDP (58%). It is a country with high level of economic stability and business-friendly economic environment being on the 27th place of Ease of Doing Business Index. Many worldwide companies set up CEE headquarters in Austria.

Baltic countries as a separate region have attracted foreign investments due to potential growth of these markets, low levels of corruption and tax rates and political stability. Moreover, governments are interested in keeping equal conditions both for local and foreign investors. For instance, Latvia offers efficient startup procedures when investors are able to open new business in 1 day. Also, Latvia suggested investment strategy called POLARIS Process according to which metalworking, IT, healthcare, green technologies and life sciences have unique selling points to foreign investors. Lithuania set up Free Economic Zones which give relief from corporate income tax for 6 years and a 50% discount for 10 next years. Also, there are various incentives for Research & Development [38].

Now let's analyse investment attractiveness for the rest of Eastern Europe countries. Czech Republic focuses a lot on digitalisation, new technologies, R&D, so it creates favourable environment for investing. According to Manufacturing Risk Index by Cushman & Wakefield, Czech Republic ranks 5th out of 47 countries as a good place for manufacturing due to low risk and adequate costs. Country offers a 40% covering costs for investment projects and full corporate tax relief for up to 10 years. Big focus is made on investments in the sphere of green and environmental stability technologies, and renewable sources of energy. Key sectors for investment opportunities are aerospace, automotive, advanced engineering, AI and life sciences [39].

Poland has become the most attractive destination for investments in Europe due to its central location, well-educated staff, large domestic market and various investments incentives. According to Ease of Doing business index, Poland takes 40th place above other CEE countries. Polish government supports new investments providing different grants and aids lasting to 2030 in which CIT exemptions are applied in the sphere of heavy industry, construction, trade, accounting, IT and R&D.

Besides domestic grants, grants from the European Union can be obtained for research and development focused on energy efficiency projects and renewable energy sources (for example, HORIZON 2020). Cost of building, salaries, equipment, intellectual property can be deducted from tax base. In my opinion, Real estate tax exemptions are also implied to land, buildings, infrastructure for new investments. However, if investors are non-EU residents, they are limited to have only a 49% ownership of companies in airport transport, radio, television broadcasting and transport operations sectors [40].

Bulgaria has been attractive for US and European countries for investments in IT, automotive sector and outsourcing and by 2026 it is expected to receive EUR 6.2 billion from the EU supportive program for the recovery from COVID-19 pandemic. Country does not imply any limits regarding foreign ownership. Nevertheless, regulatory and legislative systems discourage investments, because often investors face difficulties in obtaining permits, inefficient judicial system and frequent legislative changes.

Romania is an attractive destination for foreign investors due to relatively well-educated staff, natural sources and good location. Country treats all the investors equally and they can use free assistance of National Trade for foreign investors. Enterprises can be set up wholly foreign-owned, but they are obliged to be controlled by Supreme Defense Council not to cause national security problems. Nevertheless, enterprises ought to translate all the documents in Romanian, it is quite corrupted country with weak judicial system and recently implemented FDI screening procedures.

Probably the most attractive factor when investing in Hungary is corporate income taxes which are 9%. As a member of the EU, Hungary simplified the procedure for registering new businesses which now takes 1-2 days. Hungary Regional Aid which varies from 30% to 50% is available on the all territory except for Budapest. Also, investments are encouraged in industrial sector, warehousing, storage and variable tax incentives are available. Investments in security, energy, transportation, infrastructure, weapons, etc may be posed if a threat to national security exists [41].

The basic things which attract investors to invest in Slovak Republic are skilled labour force and investment incentives. Attracting foreign investments is one of the priorities of the Slovak Republic especially in less-developed regions besides health and underperforming education reforms. Low rates of public and private R&D investment and inefficient way of using EU aid funds negatively influence investment attractiveness.

It is projected that economic growth in Slovenia will slow down from 5% to 0.5% due to inflation in 2023. However, it is still attractive for investments due to language knowledge, employee's technical expertise and innovation potential. But the investment climate is distorted by high taxes, lack of transparency in public sector and high taxes.

Croatia receives foreign investments in financial services, manufacturing and real estate. In my opinion, it is one of the countries which created a lot of investment incentives. The fact is that government supports innovative ideas, R&D programmes. Investors are not obliged to pay taxes on dividends and also, tax exemptions are provided if earnings are reinvested. However, corruption in country, employee's high taxes and sometimes not clear regulatory system prevent from foreign investments.

Table 2.8 – Factors influencing investment attractiveness according to the type of a country

Type of factor	Central Europe	Eastern Europe
Factors which attract foreign investments	Leading positions in research and development field	Highly well-educated labour force
	Low levels of corruption	Low corporate income tax rates and low discount rates
	Sophisticated infrastructure and logistic system	Investment incentives and grants for foreign investors in different sectors of economy
	National savings	National savings
Factors which discourage foreign investments	High quality standards which should be followed by foreign investors	Weak judicial system and high corruption in public sector
	Strong competition on the market	High discount rates
	Investment screening procedures to minimize threats to national security	Limitations in ownerships in sectors connected with national security

Source: developed by the author based on [38-41]

All these factors are very important for investors as investments in corrupted or unregulated economies may lead to the loss of income as well as capital invested. Foreign investment flows faced a lot of obstacles during last decade: due to COVID-19 pandemic, Russian invasion in Ukraine which caused various negative impacts on countries of different levels of development. Unpredictable situations distort common trend, but having analysed main trends of foreign investment market in CEE, we can forecast future investment flows in the region.

2.3 Patterns of development and forecasting of investment flows of the CEE international investment market

CEE region is very attractive for investors from all over the world because of various favourable, social, economic and investment incentives factors. However, they can be preliminary divided into two sub-regions – Central Europe and Eastern Europe.

Austria, Germany and Switzerland are developed countries with high GDP, political stability, variety of technologies and innovations nowadays attract foreign investments. On the other hand, Eastern Europe countries with cheap labour force and low-income tax rates also encourage foreign investors to send capital. So, there is a need to compare the FDI growth in these 2 regions on example of Poland and Germany (Figure 2.9).

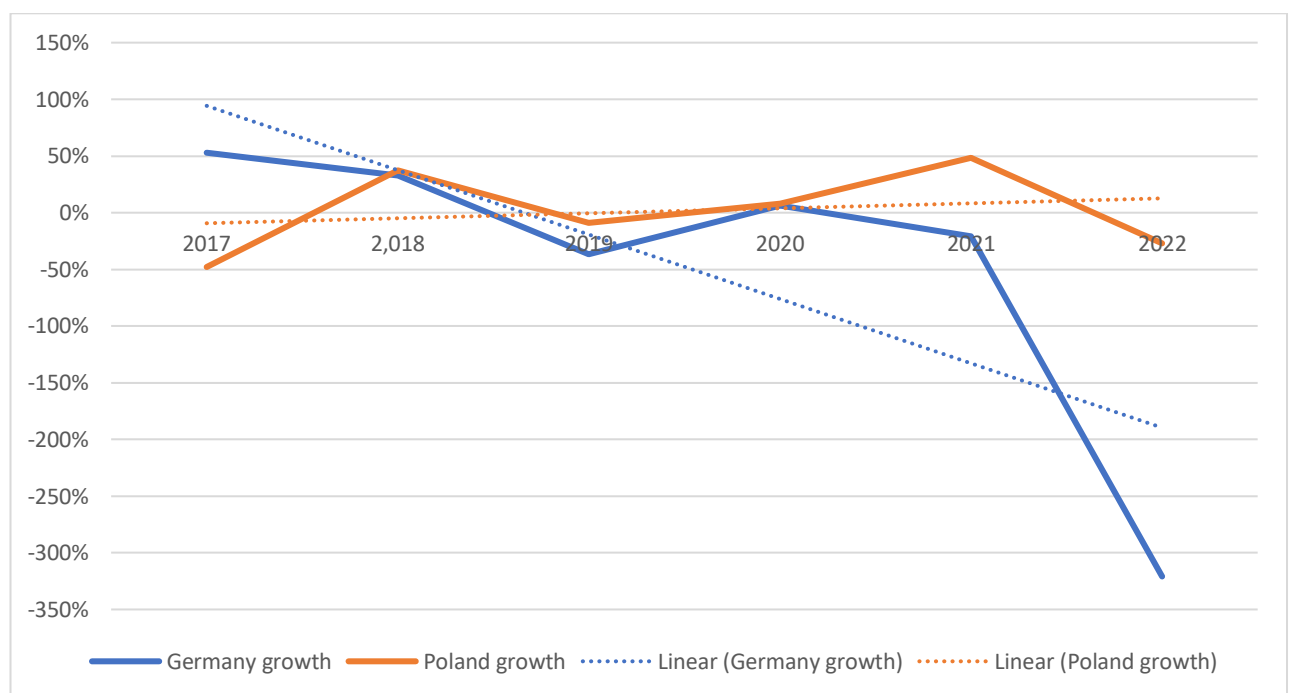


Figure 2.9 – FDI yearly growth (%) 2017-2022

Source: developed by author based on [26]

Based on the figure we can make a conclusion, that inward FDI in Poland is higher than it is in Germany. Moreover, the trend for FDI inflows in Germany is decreasing which is true evidence of decreased investments in Germany together with divestments. On the other hand, Poland is performing better and it has an increasing tendency meaning that Poland will continue to receive a lot of capital from abroad. The reason for that is potential

of the economy. In case of Germany, it is very developed country which already hosted a lot of investments and developed various sectors with new technologies and innovations, so its potential for further growth is much smaller than in developing countries. For example, Poland or Slovakia whose economy is much smaller than German, have more industries which are not fully developed, market share is easier to get as there is smaller competition and still many opportunities for investors exist.

In order to predict what investment flows will be in the future, it is necessary to build a model which can be used also for forecasting FDI inflows for Ukraine. We will focus on the analysis of Polish investment inflows as it is the leader in receiving foreign investments in CEE region and it has similar economic state as Ukraine has.

In the beginning three independent variables were taken to build an economic model for Poland: discount rate, GDP level and labour participation. The lower discount rate, the more investors would like to take cheap loans. GDP level tells us of the size of the economy and FDI, generally, lead to GDP increase as investments is one of the main components of GDP. The higher GDP, the higher investment demand in the region is, thus a lot of opportunities exist. And talking about labour participation, it also influences the investment inflows, because investments are done into the country which has a lot of labour force which can be used in enterprises of foreign origin. So, a country should have more human capital to function.

However, after taking correlation analysis, it was found out that GDP and labour force participation rate have positive correlation, meaning that with the increase of GDP and labour force participation rate, FDI inflows also increase and it is economically correct (Table 2.9). Talking about discount rate, which also has moderate positive correlation, the model with such indicators cannot be used anymore, because correlation between FDI and discount rate is not reversal as it should be. So, according to these calculations, discount rates positively influence the FDI inflows and they are increasing with the increase of discount rate which is completely wrong phenomenon.

Table 2.9 – The correlation analysis of selected indicators (Poland 2022)

Indicator	FDI	GDP	Labour force	Discount rate	Correlation explanation
FDI	1				
GDP	0.767028	1			Strong positive
Labour force participation	0.471626	0.281678843	1		Moderate positive
Discount rate	0.517503	0.28479796	0.368071	1	Moderate positive

Source: developed by the author based on [26, 31, 42].

It can be explained with the usage of economic models. Talking about Keynesian theory which states that investment flows depend on the discount rate, it is not applicable for developed economies like Central European countries, but also for Poland whose discount rates are low and they do not impact investment inflows. However, for Poland and other more developed countries the theory of permanent income developed by Milton Friedman should be used to explain the resulted correlation. According to it, demand for money – in the form of loans – depends on the long-term income level, thus, GDP level, but not discounts rates.

To predict investment inflows in Poland we should add another independent variable – the level of national savings which can be taken as a percentage of GDP (Table 2.10). Economic explanation for impact of this indicator on investment attractiveness is that the more country saves money, the more potential of available resources it has in the economy which can be further transferred and used for investment activities.

Table 2.10 – The correlation analysis of selected indicators

Indicator	FDI	GDP	Gross savings as % of GDP	Labour force participation	Correlation explanation
FDI	1				
GDP	0.7670	1			Strong positive
Gross savings as % of GDP	0.7270	0.72005	1		Strong positive
Labour force participation	0.4716	0.28168	0.485496	1	Moderate positive

Source: developed by the author based on [26,31].

All the indicators have positive correlation with FDI. If any of them increases, FDI inflows also should increase. To further continue with the model, let's use multiple regression function from Table 2.11. The main value to analyse here is R Square which equals to 68% and this allows us to use this set of independent variables.

Table 2.11 – Summary of the regression model (Poland 2022)

Regression Statistics	Value
Multiple R	0.826284
R Square	0.682746
Adjusted R Square	0.563775
Standard Error	5.946168
Observations	12

Source: developed by the author based on [26,31].

From Table 2.12 Significance F is at the level of 0.0215 which is less than 0.05 leading to the conclusion that this model is statistically significant and it can be used for further forecast.

Table 2.12 – ANOVA summary of the regression model (Poland 2022)

	df	SS	MS	F	Significance F
Regression	3	608.7172416	202.9057472	5.73878616	0.021523
Residual	8	282.855282	35.35691025		
Total	11	891.5725237			

Source: developed by the author based on [26,31].

The coefficients of a_0 , a_1 , a_2 and a_3 will be used to calculate the future FDI inflows in Poland for 2023-2025 period (Table 2.13). So, the equation for this model is:

$$FDI = a_0 + a_1 * x_1 + a_2 * x_2 + a_3 * x_3,$$

Where FDI – Foreign direct investment,

a_0 - intercept,

x_1 – level of GDP,

a_1 – coefficient for level of GDP,

x_2 – gross savings,

a_2 – coefficient for gross savings,

x_3 – labour force participation rate,

a_3 – coefficient for labour force participation rate.

Table 2.13 – Coefficients of multiple regression model (Poland 2022)

	Coefficients	Standard Error	t Stat	P-value
Intercept (a_0)	-288.415	262.0399639	-1.100651606	0.30306047
GDP (a_1)	0.066003	0.035672127	1.85027762	0.101433419
GS (a_2)	119.6594	155.5491763	0.769270456	0.46383741
Labour force participation (a_3)	4.31379	4.877573343	0.884413047	0.402270648

Source: developed by the author based on [26,31]

In order to forecast future FDI, it was necessary to find official data to make a model work correctly. The European Commission predicts that GDP growth in Poland will increase by 0.4% and 2.5% in 2023 and 2024 respectively, so this data was taken as valid for making forecast (Table 2.14).

Table 2.14 – Actual and forecasted data for FDI inflows in Poland 2011-2025

Year	Period	FDI, billion dollars	GDP, billion dollars	Gross savings as % of GDP	Labour force participation, %
2011	1	18.21	524.38	20.3%	55.5
2012	2	7.18	495.24	20.3%	55.9
2013	3	2.734	515.76	20.5%	55.9
2014	4	20.45	539.09	21.4%	56.2
2015	5	15.6	477.11	23.1%	56.3
2016	6	17.75	470.02	23.2%	56.2
2017	7	12	524.65	22.9%	56.4
2018	8	19.2	588.8	23.5%	56.3
2019	9	17.62	596.1	24.2%	56.2
2020	10	19.15	599.5	24.4%	56.1
2021	11	37.11	679.4	25.1%	57.2
2022	12	29.20	688.3	25.4%	55.7
2023	13	32.15	691.05	26.1%	56.51
2024	14	34.12	708.33	26.6%	56.56
2025	15	35.22	712.48	27.0%	56.62

Source: developed by the author based on [26,31]

Based on forecast for GDP of Poland we can assume and as calculated values show that inward foreign direct investment in Poland will continue to come with the increasing trend as it can be seen from Figure 2.10.

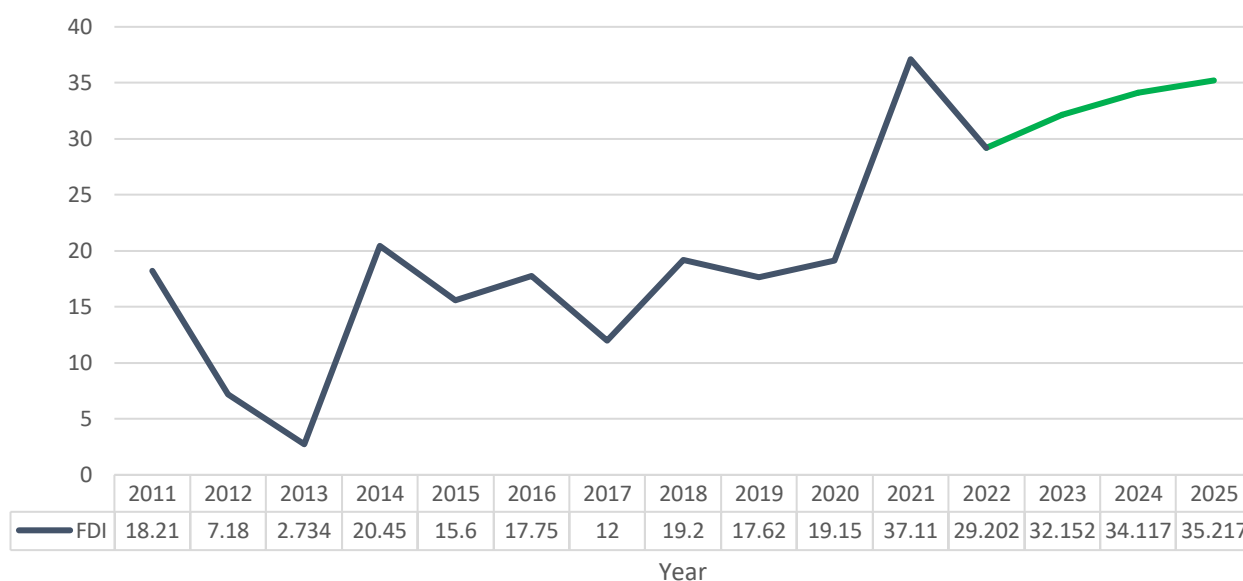


Figure 2.10 – Actual and predicted inward FDI in Poland USD billion 2011-2025

Source: developed by the author based on [26,31]

Predicted investment inflows help to understand what levels of FDI other countries can expect to have if they have similar economic situation as Poland has. Especially, such scenario may be applicable for countries which will become a member of the European Union. Poland is a great example of how quickly its economy can be transformed and rose in a short period of time together with raising foreign capital in the form of foreign investments.

2.4. Analysis of the state and prospects of foreign investment in the economy of Ukraine

Foreign direct investments are especially important for countries which are developing with transition economy and have potential for growth. Ukraine is classified as one of such countries as it has a lot of industries which need to be improved in order

to have developed economy. FDI is very promising way for Ukraine to rebuild Ukrainian economy with foreign capital, especially after Russian invasion which caused a lot of economic problems and led to decreased investment attractiveness to the country due to various reasons.

Ukraine is not a big recipient of foreign direct investments. During 2013-2022 it received \$31.6 billion of FDI inflows which is small amount compared to Poland that received over \$162 billion of investments for the same period (Figure 2.11).

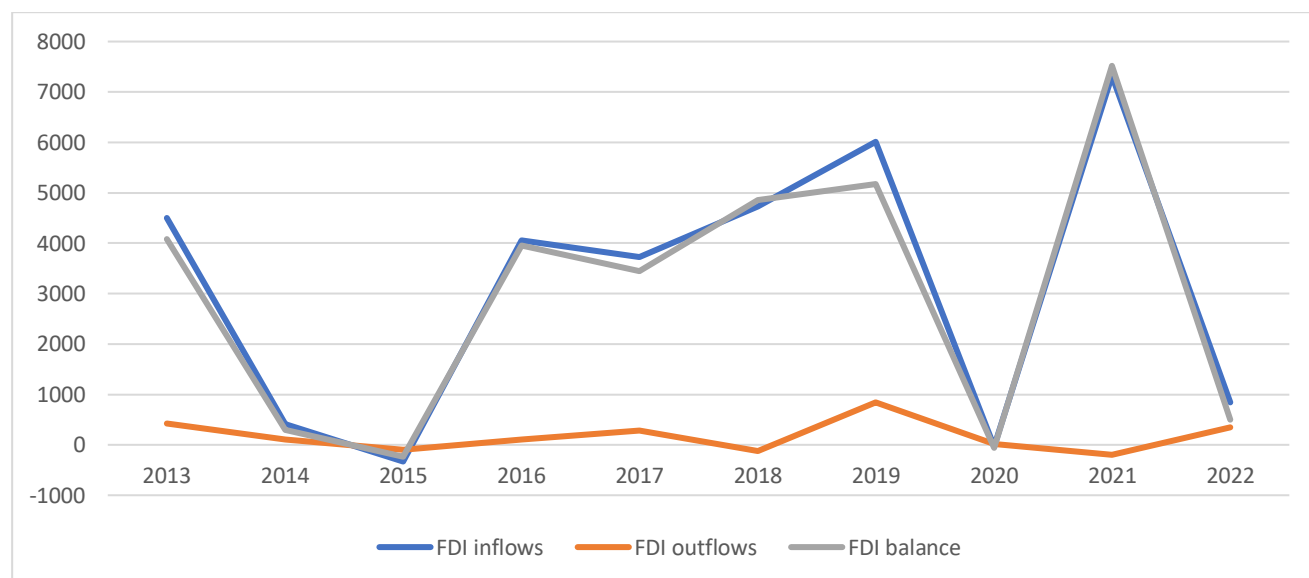


Figure 2.11 – Dynamics of FDI in Ukraine USD million 2013-2022 [31]

From Figure 2.11 we can see a growing trend for FDI inflows with 3 major sharp declines. The first decline happened in 2014 due to annexation of the Crimea and unstable political situation which resulted in the decrease of FDI inflows by 93% compared to 2013. The next decline occurred in 2019 when Covid-19 pandemic caused FDI inflows in Ukraine to drop by 170%, and investors started to withdraw capital or stopped their activities in Ukraine. The third case of reduction of foreign investments happened because of the war with Russia which influenced investment attractiveness of Ukraine a lot causing political instability, unfavourable economic situation and fast inflation growth leading to the decrease of FDI inflows by 92.3% in 2022.

During 2013-2022 foreign direct investment balance remains positive - Ukraine receives more investments than it itself invests abroad. Ukrainian FDI outflows are not on a high level and we can see slight growth during the selected period. So, during 2013-2022 Ukraine invested \$1.7 billion abroad. According to the latest available data for 2021,

top destinations of Ukrainian investments abroad are Cyprus (\$ 231 million), and Russia (\$46 million). In 2021 Ukraine withdrew capital from industry (\$1.4 billion), real estate (\$416 million), agriculture, fishery and forestry (\$103.7 million), but invested \$1.8 billion in professional, scientific and technical activity.

One of the trends in FDI inflows in Ukraine is unequal distribution of investments among different Ukrainian regions according to Figure 2.12. It may be caused by availability of natural resources, increased demand for specific products and more development infrastructure. The largest recipients of foreign investments are Kyiv and Dnipro region amounting together to 45% of received investments in 2021. Chernivtsi, Ternopil and Volyn regions receive the smallest number of foreign investments of 0.08%, 0.01% and 0.7% respectively also experiencing the process of divestments. Such unequal distribution in regions leads to various negative consequences. Regions of Ukraine may become unequally developed in terms of infrastructure, social-economic life of their citizens as well as enterprises. Moreover, it creates wider gap between development of regions, so it will be more difficult to make all the regions equally highly-developed and Ukraine still will need to increase investment attractiveness, especially in regions where investors do not invest a lot nowadays.

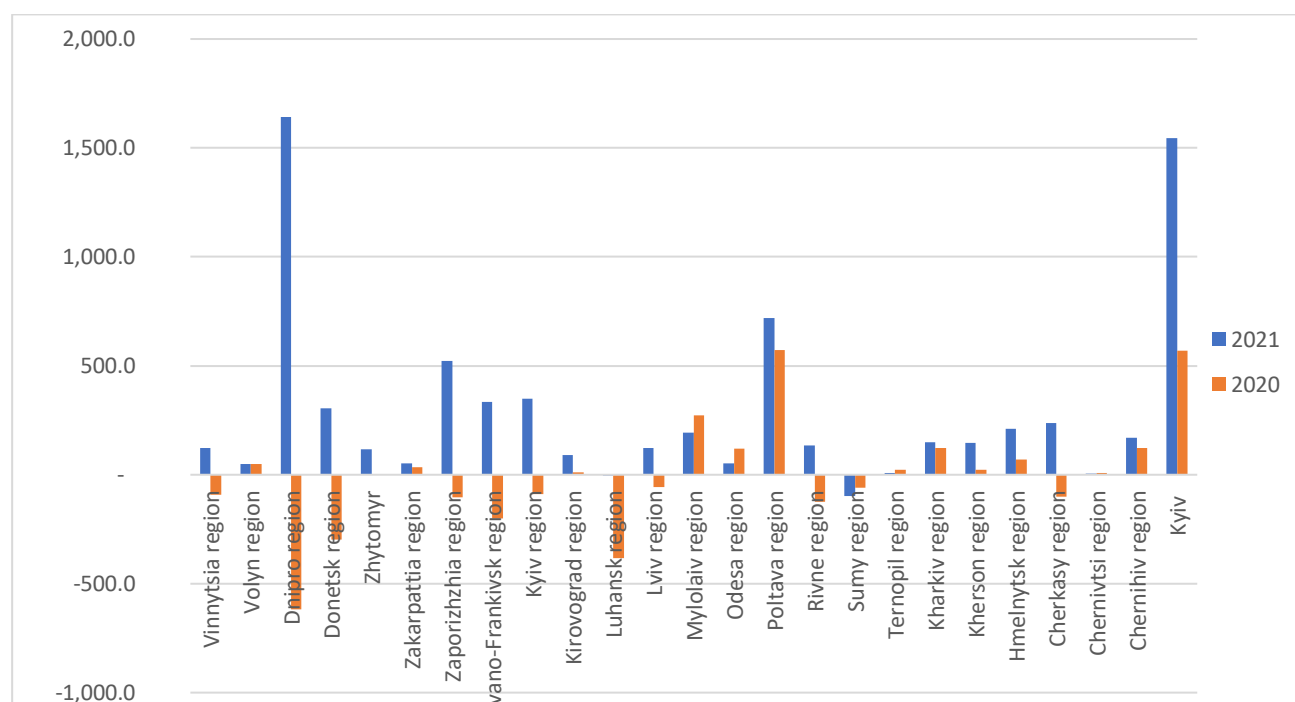


Figure 2.12 – Distribution of FDI inflows by region in Ukraine 2020-2021 USD million [43]

Talking about the origin of the highest FDI inflows according to the data of 2021, the largest senders of such investments are Cyprus, Netherlands, Germany, Switzerland, USA and UK (Figure 2.13).

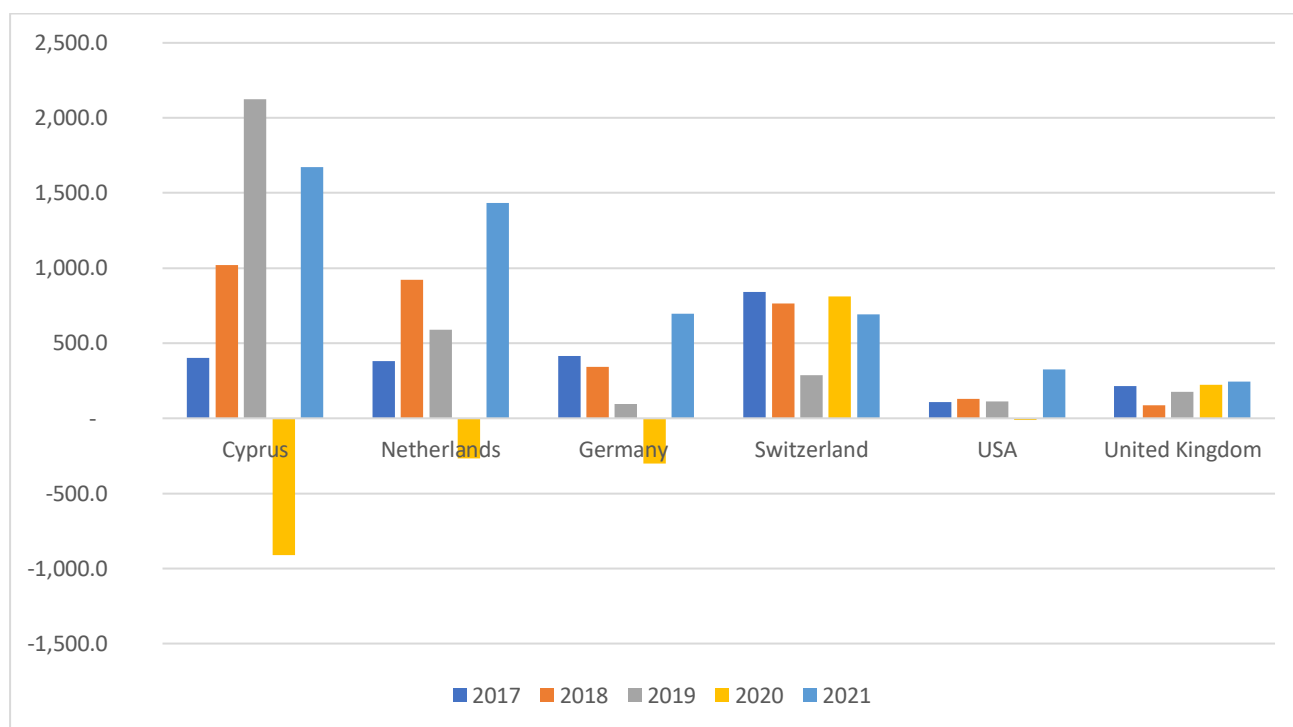


Figure 2.13 – Origin of TOP-6 FDI senders in Ukraine USD million 2017-2021 [43]

Cyprus has been the largest investor to Ukraine. Investment inflows from Cyprus is of Ukrainian or Russian origin. So, it leads to the conclusion, that Ukrainian or Russian investors register businesses in such tax heavens and then invest funds to Ukraine paying less taxes, thus, round tripping and recapitalization procedures are followed. The common thing for largest investors is either negative investment inflows or their reduction (except for Switzerland and UK) in 2020 due to global pandemic.

Talking about income from outward investment activities, in 2022 Ukraine received \$20 million – 5 times less than in 2021, while inward investment income was at the level of \$1.9 billion (Figure 2.14). The size of income which foreign investors receive from investing in Ukraine is much bigger compared to income that Ukraine receives, that is why negative balance of income from direct investment exists.

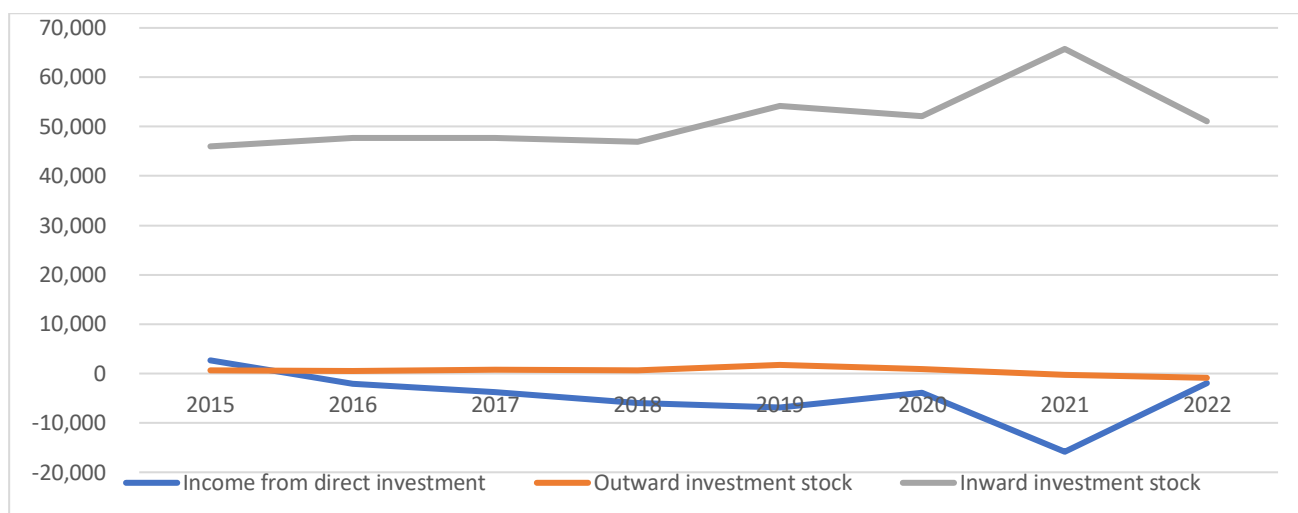


Figure 2.14 – Dynamics of FDI stock and FDI income in Ukraine USD million 2015-2022 [43]

Also, as can be seen, Ukraine has smaller outward investment stock than inward investment stock which had the increasing trend from 2015 to 2021, but in 2022 a decline can be noticed.

Talking about the structure of FDI inflows in Ukraine. For the period of 2017-2022, the largest share of FDI comes to reinvestment of income (55%) - that non-distributed dividends of investors were retained by affiliates and reinvested (Figure 2.15). Also, foreign investments in Ukraine come in the form of equity instruments other than income reinvested and the smallest amount come in the form of debt instruments. It includes borrowing and lending of funds between investors and affiliates. All the three components were significantly reduced in 2022, but their shares remain the same.

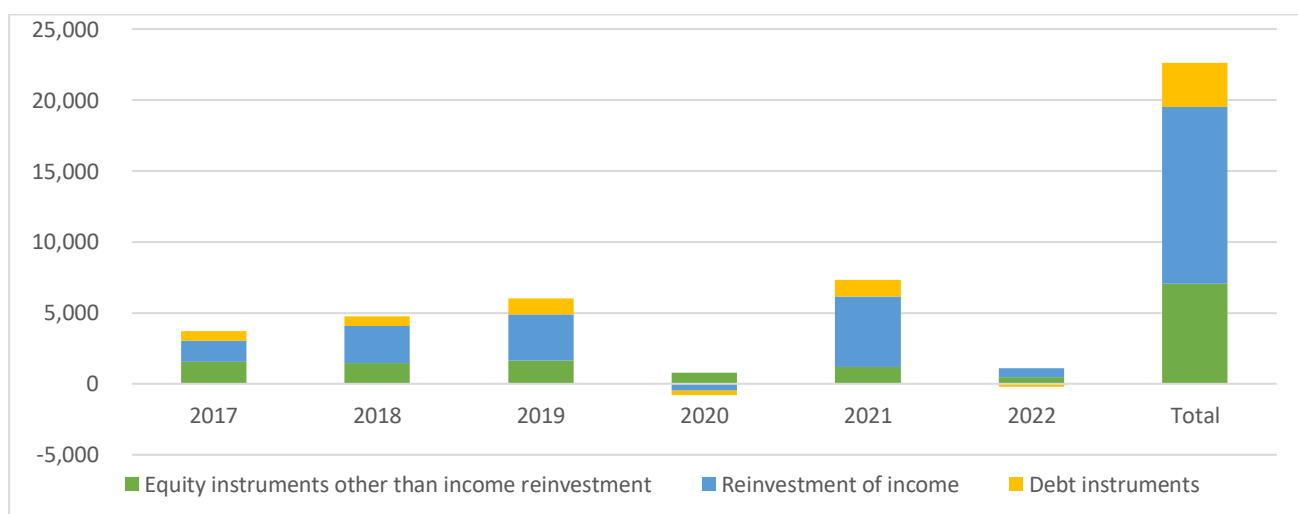


Figure 2.15 – Structure of FDI inflows in Ukraine USD million 2017-2022 [43]

According to Figure 2.16, the biggest part of FDI inflows goes to industry which is approximately amounted to 56% (\$4 billion) of overall FDI (almost 43% goes to mining and quarry development and 46% goes to processing industry (this covers various industries including food, wood, chemicals, pharmaceutical and metallurgical production)). On the second place is agriculture, forestry and fisheries sectors. Ukraine has been known as one of the largest producers of agricultural products and exporters on the global level. Agricultural sector of Ukraine is very attractive for foreign investors because of high quality of natural resources, cheap land rent, high share of exports and cheap labour. In the future Ukrainian government plans to improve efficiency of agriculture producers, adapting seed sector regulation and removing other barriers.

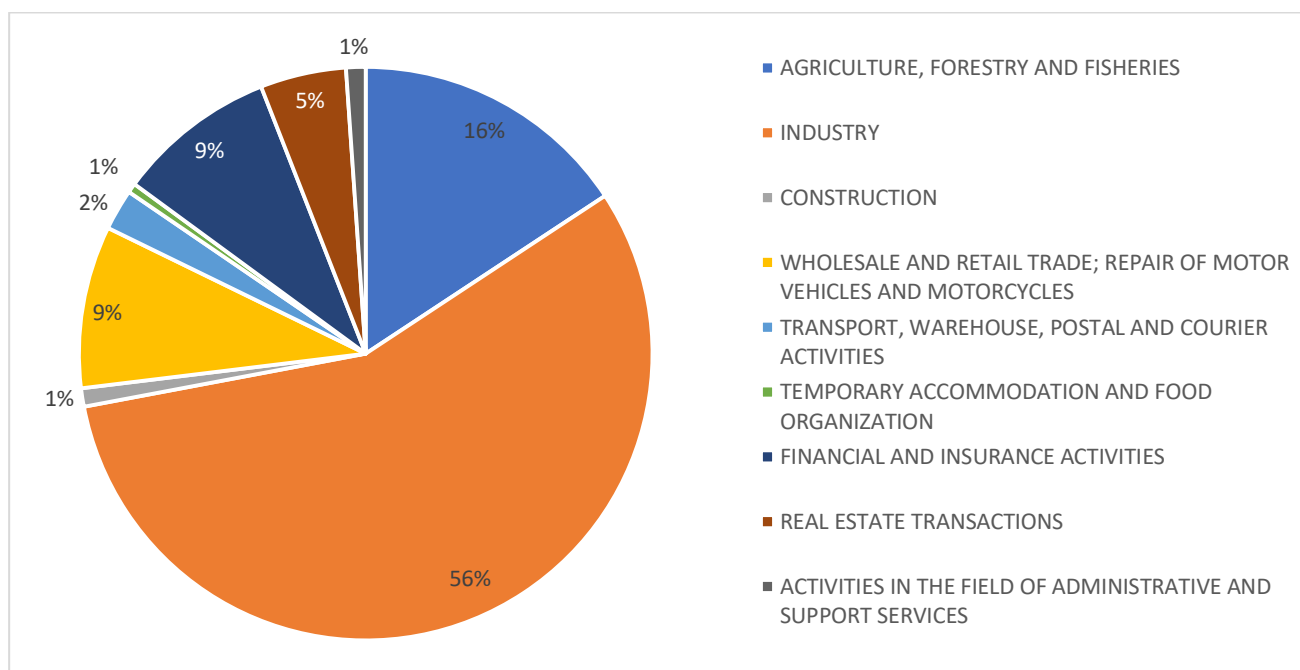


Figure 2.16 – Distribution of FDI inflows in Ukraine by sector of economy 2022 (%) [43]

Among the industries which receive the smallest number of foreign investments are activities in the field of administrative and support services, temporary accommodation and food organization, construction, transport, warehouse, postal and courier activities. In order to improve investment attractiveness of transport and infrastructure sectors, the Verkhovna Rada of Ukraine adopted the Concession Law which will help to regulate rules for the transfer of state and municipal property for business use. Such initiative will attract more investors and renew infrastructure.

However, since the war with Russia started, all sectors lost investment attractiveness, as investors do not consider Ukraine as a safe place. The uncertainty exists, because it is insecure to set up enterprises, build new facilities, conduct economic activity in the country where war occurs as it may lead to financial losses.

Nowadays the main factor which discourages foreign direct investments in Ukraine is military conflict with Russia. But before the war started Ukraine had various problems. Lack of security for foreign investors together with fast growth of inflation, thus, higher production costs discourage investors from pooling funds. According to the Investor Survey conducted by Dragon Capital in 2020. From Figure 2.17, the most important factors influencing Ukrainian investment attractiveness are listed on the figure according to its importance.

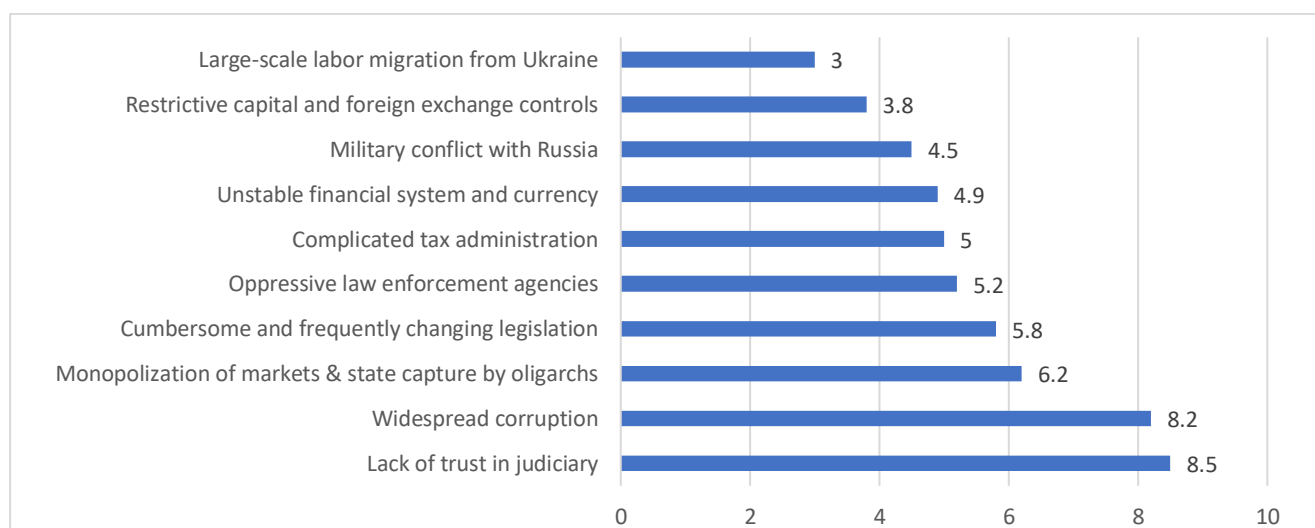


Figure 2.17 – Factors influencing investment attractiveness of Ukraine by score 2020 [44]

Additional crucial factor here is privatization. Foreign investor cannot own gas transmission system, electricity grids, and various plants and factories and some publishing activities so, generally privatization process is difficult as most of such enterprises are owned by state.

However, a good example of how quickly economy of the country can be reconstructed and boosted lies with the experience of Poland which joined European Union in 2004 and experienced significant increase of foreign investment inflows afterwards. The total FDI inward stock in 2005 was amounted to 75 billion euros mainly

coming from France, Netherlands and Germany and FDI inflows increased by 49% in 2006 compared to 2005.

Nowadays Ukraine has similar economic model as Poland had before becoming a member of the European Union and it experiences the stage of crisis in the economy. If we analyse yearly growth rate of FDI inflows in Germany, as a representative of Central Europe, and Poland – as a part of Eastern Europe – from Figure 2.18 we can see that yearly growth for Germany has more declines, sharp changes and overall decreasing trend. At the same time, Poland's investment inflows are more stable and have increasing trend. Based, on that we can conclude, Ukraine like Poland has a huge potential for growth and development and restoration after the war with Russia especially when it joins the EU. Also, investments are mainly directed in developing countries which have more potential for growth rather than in developed countries which already depleted that potential.

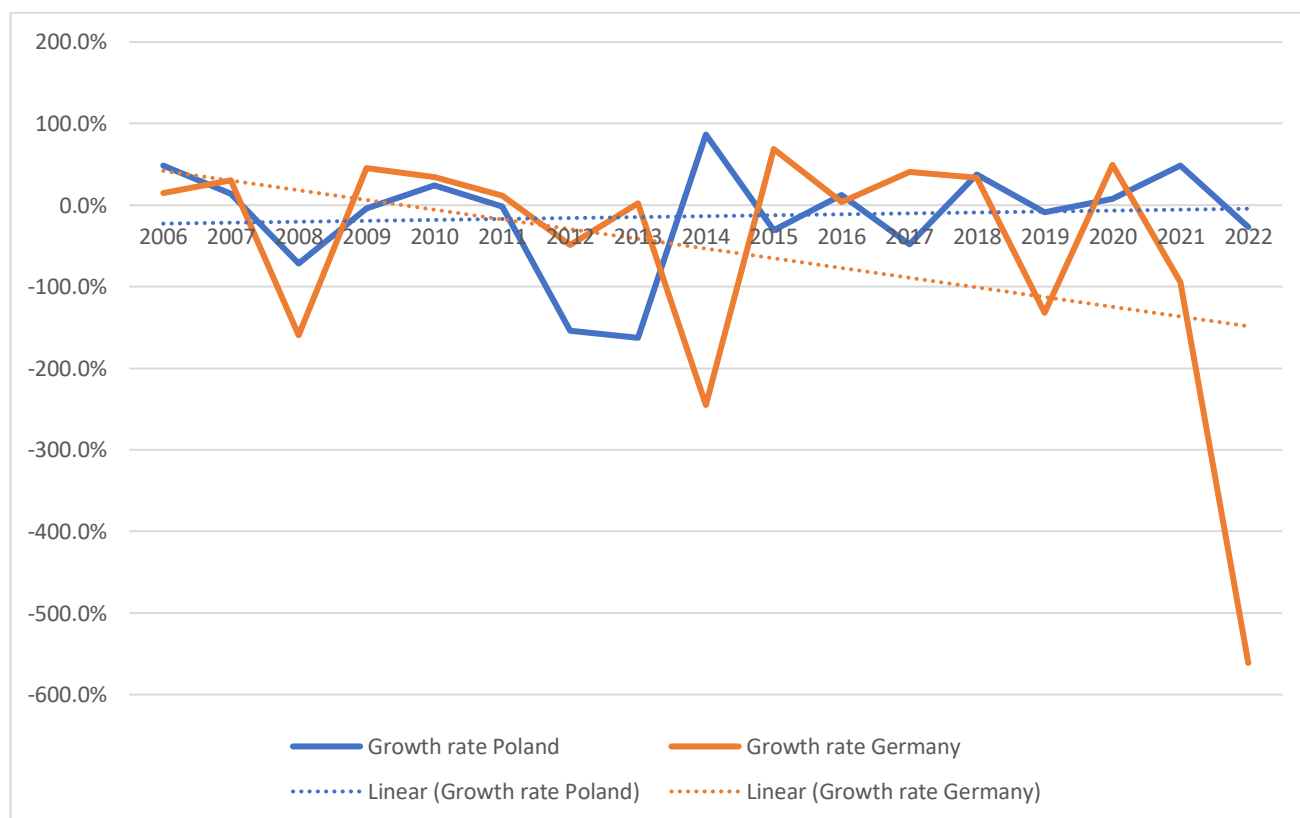


Figure 2.18 – Dynamics of yearly growth rate of FDI inflows 2005-2022

Source: developed by the author based on [26,31].

In order to achieve such high level of FDI inflow Ukraine should eliminate or minimize factors that negatively influence foreign investment inflows – corruption. By

Corruption Perception Index Ukraine ranks 116th place out of 180. Untrustworthiness to government and law, lack of transparency and not clear political stability discourages inward FDI. In developed countries especially Scandinavian and Central European countries criminal law and punishments for corruption exist. For that reason, ProZorro.Sale was set up to provide investors with full transparency and eliminate risks associated with corruption. Summing up, Ukrainian government should work more towards ensuring security and transparency, building reliability and eliminating shadow economy to attract foreign funds in private and public sectors [34].

Privatization is another big issue which discourages investments. It is forbidden for foreign investors to own agricultural land. However, Ukrainian government takes actions to allow foreign investors to own such land. That is why it decided to simplify privatization and make possible to investors to have land privately-owned. In 2018 it was planned that foreign investors will have a chance to own agricultural land through conducted referendums starting from 2024.

Taking experience of other CEE countries, especially Baltic region, Ukrainian investment attractiveness can be improved with the unified treatment of national and foreign investors, so that their rights should be equal and barriers should not be extended for foreign investors.

There should be more tax incentives in sectors which suffered a lot from Russian invasion, including energy, construction, agricultural and various forms of industry sectors. In such a way these industries will be restored not only with Ukrainian government's support but also with foreign capital. The benefits of foreign capital include also transfer of technologies and innovations. For this purpose, partnerships with different countries were established to rebuilt Ukraine. For example, partnership with Denmark including government and private Danish companies is aimed at rebuilding Mykolaiv region with the focus on water supply, green transition, shipping, transportation and infrastructure based on Danish know-hows and great experience. United Kingdom will help to rebuild Kyiv region mainly in infrastructure area.

Among other factors that should be improved are judicial system, legislation and general law, because foreign investors in Ukraine feel unsafe and unprotected and

Ukraine cannot provide them with strict laws and remedies which could protect rights of foreign investors.

Also, financial stability of the country influences economic attractiveness, as without growing economy, stable currency, but high discount rates investors are not interested in investments. However, it will be possible to recover Ukrainian economy when the war is finished and economy of Ukraine will be able to ensure economic stability with own sources.

On other hand, Ukraine has a lot of advantages which allow it to attract foreign investments. According to the latest data for Ease of Doing Business 2020, Ukraine placed 64th rank (7 ranks up from 2019) – the best performance of the economy – and it improved 6 pillars out of 10 (especially “Starting a business” and “Dealing with construction permits”) [31].

In Global innovation Index 2022 Ukraine places 57th place and among its strength are Software Spending as a percentage of GDP, Females employed with advanced degrees and Government funding of secondary education as a percentage of GDP, Electricity output and Environmental performance. However, Ukraine also has some weaknesses including Political and operational stability, Joint venture deals, Investment and Market sophistication. Ukraine continues to digitalize public sector to make it transparent for foreign investors [36].

Also, Ukrainian government offers several investment incentives including tax reliefs (customs duties for imported equipment, income tax relief and land tax exemption or reduction). If it is necessary for investment project, Ukrainian government can secure land and construction of infrastructure. Additionally, special agency UkraineInvest for supporting investors exists ensuring support, advocacy and expertise for foreign investors. One more attractive factor is skilled labour: according to World Education ranking, Ukraine is on the 42nd place ahead of Italy, Saudi Arabia and Bulgaria and according to Global Competitiveness Index Ukraine places the 3rd place in Skilled Human Capital score among other CEE countries.

Based on assessment conducted by the Government of Ukraine, the World Bank Group, the UN and the European Commission, because of Russian invasion, Ukraine will

require \$411 billion for restoration. According to RDNA 2, in 2023 it will be necessary to have investments of \$14 billion for primary reconstruction. The most suffered sectors which will require foreign investments are transportation (22%), real estate (17%), energy (11%), social protection (10%), demining (9%) and agriculture (7%). Ukraine should also attract funds in IT sector which is mostly export-oriented and grew 4.2 times during 2015-2021. Donetsk, Kharkiv, Luhansk and Kherson regions will require the most of investments [45].

In the future countries will consider Ukraine as a good place not only to invest funds, but also participate in the recovery of Ukraine in post-war conditions. For example, it was predicted that FDI from Poland in Ukraine may rise up to \$30 billion till the end of 2025 with focus on energy, construction and financial sector. Moreover, Ukraine is working towards establishing partnerships with international entities to attract foreign capital. One of such initiatives is called as Ukraine Recovery Plan which describes the needs and required number of funds for rebuilding Ukraine in variety of sectors.

In order to predict future inward FDI we should use 3 independent variables such as GDP level, labour force participation rate and discount rate. The third component is used instead of national savings which were taken into account while making forecast for Poland for which Milton Friedman's theory of permanent income is applicable. Contrary to Poland, Ukraine experiences crisis both in economic and social spheres. State of Ukrainian economy corresponds to Keynesian theory according to which demand on money in the form of loans highly depend on discount rate. The simple explanation here is that the more expensive loans a country provides, the less investors would like to buy money for high price, especially if Ukraine is in crisis.

As the correlation analysis reveals from Table 2.15, GDP level and labour force participation rate have positive correlation meaning that with their increase, FDI inflows will also increase. Talking about discount rate, it has negative correlation. In this case if discount rate increases, the size of foreign investment should decrease and vice versa.

Table 2.15 – The correlation analysis of independent variables (Ukraine 2022)

Indicator	FDI, USD billion	GDP, USD billion	Discount rate, %	Labour participation rate	Correlation explanation
FDI, USD billion	1				
GDP, USD billion	0.486	1			Moderate positive
Discount rate, %	-0.716	-0.52106	1		Strong negative
Labour participation rate	0.175	-0.27248	-0.223	1	Weak positive

Source: developed by the author based on [31,43].

From Table 2.16, R Square is equal to almost 0.54 which allows us to use this set of variables as it is more than 0.5.

Table 2.16 - Summary of the regression model (Ukraine 2022)

Regression Statistics	
Multiple R	0.733104
R Square	0.537441
Adjusted R Square	0.363982
Standard Error	2.19775
Observations	12

Source: developed by the author based on [31,43].

Significance F is amounted to 0.08 (Table 2.17) as taken indicators often have ups and downs. For example, in 2021 Ukraine received \$7.3 billion of FDI, while in 2022 only \$850 million which is 8.5 times lower. However, we can use this model because its correlation is correct for all the indicators.

Table 2.17 - ANOVA summary of the regression model (Ukraine 2022)

	df	SS	MS	F	Significance F
Regression	3	44.89633	14.96544	3.098367	0.089265
Residual	8	38.64085	4.830106		
Total	11	83.53717			

Source: developed by the author based on [31,43].

The coefficients for x_0 , x_1 , x_2 and x_3 will be used for the calculation of future FDI inflows in Ukraine (Table 2.18). With the increase of 1 unit of GDF and labour force participation rate, foreign investments will increase by 0.02 and 0.06. With the increase of discount rate by 1 unit, FDI inflows will decrease by 0.27. Logical assumptions were proved practically. So, the equation for this model is as follows:

$$FDI = a_0 + a_1 * x_1 + a_2 * x_2 + a_3 * x_3,$$

Where FDI – Foreign direct investment,

a_0 - intercept,

x_1 – level of GDP,

a_1 – coefficient for level of GDP,

x_2 – discount rate,

a_2 – coefficient for discount rate,

x_3 – labour force participation rate,

a_3 – coefficient for labour force participation rate.

Table 2.18 - Coefficients of multiple regression model (Ukraine 2022)

Indicator	Coefficients	Standard Error	t Stat	P-value
Intercept (a_0)	1.317526	14.56703	0.090446	0.930157
GDP, billion dollars (a_1)	0.015313	0.023693	0.646305	0.536178
Discount rate, % (a_2)	-0.26944	0.144981	-1.85842	0.100173
Labour participation rate (a_3)	0.064924	0.1879	0.345525	0.738609

Source: developed by the author based on [31,43].

After applying multiple regression model calculated FDI inflows are likely to increase in 2023 as it was calculated according to Table 2.19. The data used to forecast future inward FDI in Ukraine was based on the forecast for Ukrainian GDP and discount rates for 2023-2025 provided by the National Bank of Ukraine. According to it, discount rate is likely to decrease to 21%. At the same time, it is projected that GDP in Ukraine will amount to 1% growth.

Table 2.19 - Actual and forecasted data for FDI inflows in Ukraine 2011-2025

Year	Period	FDI, USD billion	GDP, USD billion	Discount rate, %	Labour participation rate, %
2011	1	7.21	169.33	7.3	64.3
2012	2	7.18	182.59	7.15	64.6
2013	3	4.51	190.5	7.5	65
2014	4	0.85	133.5	14	62.4
2015	5	-0.30	91.03	22	62.4
2016	6	4.13	93.36	14	62.1
2017	7	3.70	112.09	14.5	62
2018	8	4.70	130.89	18	62.6
2019	9	6.02	153.88	13.5	56.3
2020	10	1.00	156.62	11	55.1
2021	11	7.30	200.09	6.5	54.6
2022	12	0.85	178	25	54.5
2023	13	1.901345	179.78	21	53.74
2024	14	2.73856	186.0723	18	52.70
2025	15	2.856322	198.167	18	51.66

Source: developed by the author based on [31,43].

This is the approximate forecast for future investment inflows in Ukraine and it is difficult to predict what the GDP and discount rates will be in the future as Ukraine stays in crisis and war conditions.

Future inward FDI also depends on strong currency, favourable business environment, lowered inflation and availability of new investment incentives developed by government.

However, according to the result of constructed model (Figure 2.19), in 2023 Ukraine is likely to attract more investments with 55% growth compared to 2022 and their value will increase over time as the country will require sufficient funds to be rebuilt in the post-war period.

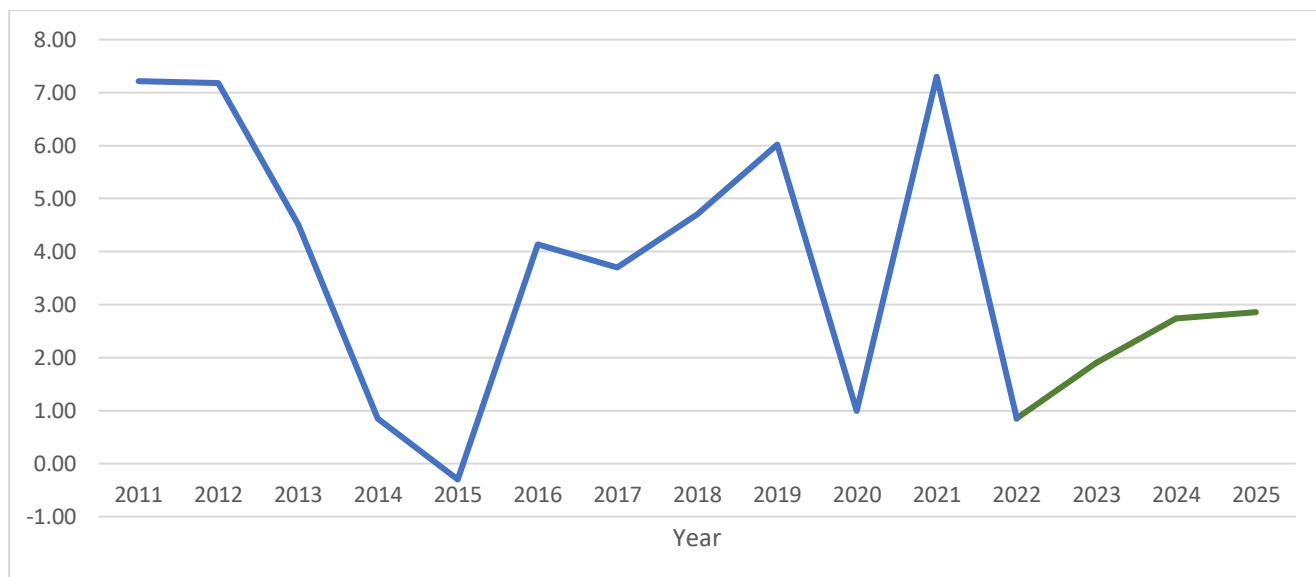


Figure 2.19 - Actual and forecasted inward FDI flows in Ukraine 2011-2025
USD billion

Source: developed by the author based on [31,43.]

Moreover, many more factors influence investment supply of Ukraine, however, the main trigger, in my opinion, which stops investors from sending capital in Ukraine is war with Russia. However, after becoming a member of the European Union, and reducing the effects of negative factors by Ukrainian government by creating favourable investment environment for foreign investments, the investment attractiveness of Ukraine for foreign investors will increase and investors will feel stability and security in the region.

CONCLUSIONS

In the theoretical part of the research topic the essence of international investments as well as international investment market and their classification were considered. Also, the main microeconomic and macroeconomic theories that explain international investment inflows were researched. Indicators that are used to evaluate international investment market include foreign direct investment stock, foreign direct investment flows, international investment position, FDI as a percentage of GDP and FDI yearly growth.

The main purpose of the second chapter was the analysis of current and development trends of international investment market of countries of Central and Eastern Europe as well as making future forecast of foreign investment flows based on data from past 10 years.

In 2022 the largest recipients of foreign direct investments are Switzerland, Germany, Poland, Romania and Czech Republic. If we analyse the CEE countries which receive the smallest amount of FDI during 2014-2022, they are Croatia, Slovak Republic, Latvia and Slovenia. The common trend applicable for investment inflows of the whole CEE region is the reduction of FDI inflows in 2020 due to COVID-19 pandemic and in 2022 which is caused by energy crisis and high inflation rates.

The main sectors which are the most attractive for foreign investors include information and technology, financial and insurance sectors, wholesale and retail trade, IT, energy, professional, scientific and technical activities and research and development sectors. Mainly, the origin of foreign investments in the region are the USA, Germany, the United Kingdom, Hong Kong and Scandinavian countries.

Joining of international institutions such as the European Union lead to increase of FDI inflows in the economy. Membership of Croatia and Poland of the EU is a bright example of how fast FDI inflows raise (FDI inflows of Croatia increased by 70% after joining the EU).

The holders of biggest inward investment stock in the CEE region are Germany and Switzerland. Slovenia, Latvia and Lithuania have the smallest inward investment

stock. All countries have experience increasing of inward investment stock except for Switzerland.

From 2016 to 2022 the total amount of investment outflows of the region is equal to \$1.19 trillion. It was found out that the top-sending countries of FDI abroad in CEE region from 2016 to 2022 are Germany, Switzerland and among Baltic countries Lithuania invests the most capital. Destinations of outward investments of taken countries are Netherlands, Latvia, Lithuania, Czech Republic, Cyprus in manufacturing, financial and insurance services, professional, scientific and technical sectors of economy.

Having analysed international investment positions, Austria, Germany and Switzerland all representing the Central Europe are creditor countries meaning that they own more foreign assets than foreign nations own their domestic assets.

Talking about FDI volume as a percentage of GDP, Hungary has the biggest FDI inflow compared to GDP (5%) together with Poland (4.24%). At the same time, this share for Austria, Germany and Estonia is the smallest and varies from 0.27% to 0.81%.

However, if we analyse foreign investment outflows as a percentage of GDP, selected countries do not have a big share of GDP in the whole Central and Eastern Europe region – its average level is only 0.78% with the highest percentage of 3.5% for Germany and the smallest of 0.01% for Austria. So, we can conclude that only countries of Central Europe are the biggest outward investors.

Among the most important factors that lead to the increase of investment attractiveness of the CEE region are low level of corruption, highly-skilled labour force, the level of national savings and high level of GDP (such indicators are crucial for Central Europe, thus for very developed countries). If we are talking about Eastern Europe where more countries are developing, then, low discount rates, low corporate income tax, skilled and low-paid labour force influence the increase of investment attractiveness. However, there are also factors which lead to the decrease of investment attractiveness including high corruption, political instability, absence of investment incentives and high discount rates.

Also, we can conclude that yearly growth of FDI in developing countries with transition economy (Eastern Europe) is higher than in developed such as Austria,

Germany and Switzerland, because they have a bigger potential for development and growth.

In order to predict future inward FDI, the correlation analysis was conducted. Poland has been selected as a country which has high level of foreign investments and is an example of how quickly investments can be increased after joining the European Union. It was researched that level of GDP, labour force participation rate and gross savings as a percentage of GDP influence its inward FDI.

Additionally, it was proved on the example of statistical data for Poland that discount rates do not influence the increase of foreign investment inflows in developed countries or countries which do not experience crisis in the economy. It can be explained with the theory of permanent income developed by Milton Friedman.

A big part of the research was dedicated to the analysis of the international investment market of Ukraine as it is necessary to evaluate it and spot factors that negatively or positively influence the investment attractiveness of Ukraine and based on that give recommendations. To forecast future FDI inflows, GDP level, labour force participation rate and discount rate were tested and selected as factors that lead to the increase of inward FDI in Ukraine.

Having analysed FDI trends of Ukraine, inward foreign investments are quite low compared to other CEE countries and 3 main declines happened in 2015, 2020 and 2022. Also, there is unequal distribution of foreign investments in regions of Ukraine. The largest recipients of foreign investments are Kyiv and Dnipro region, while Chernivtsi, Ternopil and Volyn regions receive the smallest number of foreign investments.

Ukraine receives the most of invested capital from Cyprus, Netherlands, Germany, Switzerland, USA and UK in such industries as industry, agriculture, forestry and fisheries sectors, whole sale and retail trade and financial services.

Moreover, it was analysed that nowadays the main factor which discourages foreign direct investments in Ukraine is military conflict with Russia. However, insufficient judiciary system, high level of corruption, political instability and lack of effective investment policy also discourage foreign investments.

In order to forecast FDI inflows for Ukraine for 2023-2025 period, three independent variables including GDP level, labour force participation rate and discount rate were taken as factors which influence inward FDI in Ukraine. According to calculations, in 2023 Ukraine can expect \$1.9 billion (55% increase compared to 2022) in foreign investments with further increasing trend in the future.

In our opinion, Ukrainian government should pay attention to these negative factors and take actions in order to improve its investment attractiveness. There should be a review of judicial system and strong control over corruption in the public sectors. Additionally, foreign investment incentives should be created which will discourage foreign investors to expand to Ukrainian market.

During the war period investors do not feel safe in Ukraine, however, after the war is finished there will be many sectors which will require a lot of foreign capital including transportation, real estate, energy, demining and agriculture.

Taking into account that main macroeconomic factors influencing investment attractiveness of Ukraine were analysed, given topic has great prospects of development in the future. In particular, the investigation may relate to more detailed research of factors influencing the investment attractiveness of particular sectors of economy which are the most developed and competitive in Ukraine nowadays or have a huge potential for growth. Such an analysis should focus not only on theoretical side of the topic and statistical data, but also aim to develop a methodology which will necessarily result in practical application.

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APPENDIXES

Appendix A. Dynamics of inward and outward investment position [26]

Country	Outward investment position, USD million			Inward investment position, USD million		
	2020	2021	2022	2020	2021	2022
Austria	258,515	266,301	260,814	212,840	219,452	210,243
Czech Republic	51,283	55,472	55,705	195,240	200,468	202,679
Estonia	10,246	12,139	13,282	34,060	33,670	36,410
Germany	2,023,648	2,118,898	2,176,703	1,166,844	1,137,696	1,088,386
Hungary	36,063	39,674	41,681	102,128	104,788	104,254
Latvia	2,571	6,019	6,096	20,628	24,043	-
Lithuania	10,588	11,482	12,113	29,412	30,705	34,046
Poland	27,830	28,123	30,189	257,586	271,915	269,840
Slovakia	5,503	5,419	5,428	64,295	59,369	57,373
Slovenia	8,610	8,881	8,881	20,449	20,836	21,102
Switzerland	1,518,150	1,423,046	1,351,798	1,184,061	1,038,359	1,036,834

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FOREIGN INVESTMENT OF THE CEE COUNTRIES IN THE POST-WAR RECOVERY OF THE ECONOMY OF UKRAINE

In modern world, the foreign direct investments play a crucial role in the developing and growing national economy, because they provide technology transfers from developed countries to developing ones which are the host countries to many FDI flows. FDI increase the competency of countries which create or obtain technologies and know-hows. Additionally, foreign direct investments boost economic growth, as with the appearing of technologies, production becomes enhanced and thus, the production output increases in volumes. FDI have a positive impact not only on business environment but they also create new job opportunities reducing unemployment level.

According to World Investment Report 2022, the global FDI inflows amounted to \$1.6 trillion. If we compare this figure with data for 2002, then the global FDI increased by 112% from that period. The main recipients of FDI are the United States (\$86 billion), Ireland (\$37 billion) and Great Britain (\$36 billion). However, we will focus on the studying of the FDI flows on the Central and Eastern Europe countries which are the members of the European Union and Ukraine as the

member of CEE region and a candidate to the EU. The region includes the following countries of Central Europe like Germany, Austria, Switzerland (which is not EU member) and the countries of Eastern part of Europe - Baltic countries, Poland, Slovenia, Slovakia, Hungary, Czech Republic, Romania, Bulgaria, Croatia and Ukraine. Since recently, this region is considered to be one of the main destinations of foreign investments.

Let's analyse the key trends of FDI flows in CEE. It is important to mention that Poland is the largest recipient of foreign investments in this region with a GDP of \$716.3bn in 2022 due to its stable politic and economic environment. The country promotes technological development and is the place where a lot of start-up companies are established. Polish businesses are stick to implementing eco-conscious business activities, that is why the country heavily invests in renewable energy and it's the most attractive fields for investments are tech, manufacturing and IT sector.

Romania also hosts high levels of FDI which in 2021 amounted to \$11.74 billion. It has a lot of fossil resources and is mostly energy-independent country. It has a huge potential for the development in automotive and electronic assembly industry and it managed to recover from the pandemic.

So, the main recipients of FDI are Poland (\$29.462 billion), Romania (\$8.61 billion), Hungary (\$3.562 billion) and Czech Republic (\$2.840 billion). If we talk about the countries which receive less foreign investments, they are Lithuania (\$487 million) and Slovenia (\$339 million). Important thing to mention here is that foreign investments in all CEE countries were decreased due to Covid-19 and due to Russian invasion in Ukraine [3].

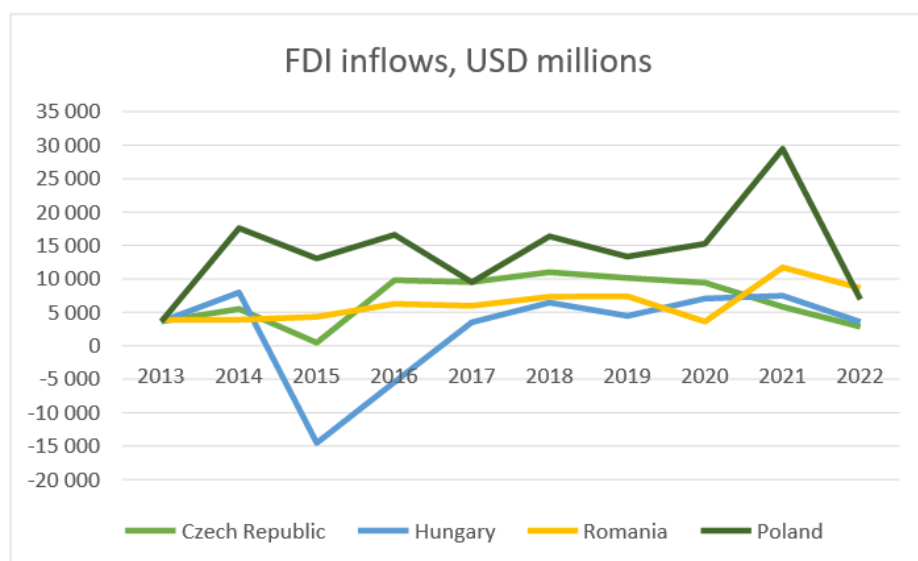


Figure 1. FDI inflows in selected countries 2013-2022 [1]

There are a few reasons why investors decide to invest in these economies. First of all, countries like Poland and Hungary require less labour costs than developed countries. Over the last 10 years they replaced Spain and Portugal as the location for cheap labour, that it is why it is profitable for investors to set up companies in there where costs will be lowered due to cheaper labour wages [2].

Secondly, countries of the CEE region have favourable tax environment then countries of Western Europe as they require lower corporate income taxes. For instance, the corporate income

tax in Slovenia is amounted to 19%, in Hungary – 9%, while in more advanced economies like Spain - 25% and Italy – 24%. So, the difference is obvious.

Additionally, investors pool FDI funds into the countries of CEE, because the general level of quality and professionalism of workers in those countries is high and very competitive with the good level of English compared to other emerging and developing countries. Because of that, CEE countries have huge potential to develop and host new activities.

The main industries for FDI in Central and Eastern Europe are technology, automotive sector, logistics, construction and IT industry.

In 2021 Ukraine hosted \$7.95 billion of foreign direct investments mainly in steel, information and communication technology, pharmaceuticals and agricultural sectors. However, because of the Russian military invasion, Ukraine faced divestments and decreased number of foreign investments amounted only to \$850 million. Such situation causes bad consequences on the Ukrainian economy, including decreased investments, low level of investment attractiveness, reduced levels of trade and exports with other countries and thus, overall decreased GDP and economic growth.

Russian invasion has a negative impact generally for the whole CEE region. As can be seen from the graph (Figure 1), foreign direct investments were reduced in 2022 for a lot of countries because of high inflation, increased prices for energy resources and overall geopolitical instability. In Latvia and Slovenia FDI inflows decreased significantly and Bulgaria and Estonia experienced negative FDI inflows [4].

What will be the levels of FDI inflows in Ukraine and CEE region in general? In my opinion, after the war is finished, Ukraine will be considered a very attractive place to invest in, especially in infrastructure, construction, agriculture – industries which suffered a lot. A lot of funds should be attracted to the research and development and IT sectors.

In order to recover to the pre-war conditions, Ukraine may use the approaches of other countries such as Poland. After becoming the member of the European Union in 2008, the FDI inflows to Poland increased from \$12.28 billion in 2008 to \$29.46 billion, because countries started to invest in different sectors and in such a way, Poland is now one of the fast-growing countries. So, it is necessary to say that Ukraine has a candidate status to the EU and when it becomes a member of the alliance, a lot of countries will consider it as investment-attractive and with the help of FDI, Ukraine will have a chance recover to the pre-war conditions and achieve the results of fast-growing economies.

From my point of view, after the war is finished, CEE countries also will face positive changes in the FDI inflows. The situation with increased prices will be stabilised, the inflation rate will be at the pre-war level, investors will have certainty about the investment climate and in 2023 the situation will start to be controlled. The business operations in those countries will be easier and cheaper to conduct, so they become main destinations for FDI and will have more foreign investments.

To sum up, in 2022 Ukraine and CEE region faced the problem of decreased foreign investments from abroad. A lot of investors seized the business activities because of high inflation, energy crisis and the war in general. However, the FDI flows will be increased to Ukraine and other Central and Eastern Europe countries, because markets will be stabilised and Ukraine will have many sectors to invest in and develop, particularly in manufacturing, infrastructure and construction.

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**КАФЕДРА МІЖНАРОДНИХ ФІНАНСІВ
ПЛАТФОРМА
«МІЖНАРОДНА ФІНАНСОВА ПІДТРИМКА ЕКОНОМІЧНОЇ РОЗБУДОВИ
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МІЖНАРОДНІ ІНВЕСТИЦІЇ ТА РОЗВИТОК СПЕЦІАЛЬНИХ ЕКОНОМІЧНИХ ЗОН ЯК ОДИН З НАПРЯМКІВ ВІДНОВЛЕННЯ ЕКОНОМІКИ УКРАЇНИ

Економічне зростання та добробут країни визначається багатьма екзогенними та ендогенними чинниками, які у постійній взаємодії визначають стан та перспективи розвитку економічної системи. Важливе місце у даній системі факторів економічного розвитку національної економіки займають міжнародні інвестиції, які становлять основу відкритої ринкової економіки, де певні обсяги капіталу, що перебувають у володінні фізичних, юридичних осіб, а також органів державної влади, шукають найкращих сфер вкладення задля провадження економічної діяльності і, відповідно, отримання прибутку, що в результаті сприяє покращенню добробуту населення. Враховуючи наявну соціально-економічну та військово-політичну ситуацію в Україні та об'єктивні фактори розвитку української економіки, запровадження більш рішучої політики розвитку спеціальних економічних зон, разом з оптимальними правовими та кон'юнктурними умовами щодо надходження закордонного капіталу в основні галузі економіки України може стати одним з перспективних напрямків відновлення економічної системи України у післявоєнний час, а також у короткостроковій перспективі, тим самим стимулюючи виробництво високоякісної продукції та надання послуг, що будуть реалізовані як на внутрішньому, так і на зовнішньому ринках.

Міжнародні інвестиції, гранти, матеріально-технічна допомога та довгострокові кредити від країн-партнерів з початку повномасштабного вторгнення РФ зіграли важливу роль у підтримці макроекономічного фронту України. Згідно з оперативною оцінкою Державної служби статистики, реальний валовий внутрішній продукт України за підсумками