



Foreign Investor Survey: Special Edition

April 2019

Highlights

Readiness to Invest:

- 88% are ready to invest, 20% think now is the optimal time to invest, 68% prefer to wait until after the parliamentary elections and formation of a new government.

Key steps by newly elected President:

- Demonstrate effective anticorruption efforts, appoint of credible reformers to key positions and take visible steps to separate politics and business interests and reduce the influence of oligarchs – all this would have the biggest positive impact on investment decisions by both direct and portfolio investors.
- A shift in Ukraine's geopolitical direction away from the west, attempts to undermine the anticorruption framework and NBU independence would have the biggest negative impact on investment decisions.
- Cooperation with the IMF remains a key factor. Quick agreement with the IMF on the next loan tranche would be an important positive signal for all foreign investors, while failure to reach a deal would be taken negatively.

Obstacles:

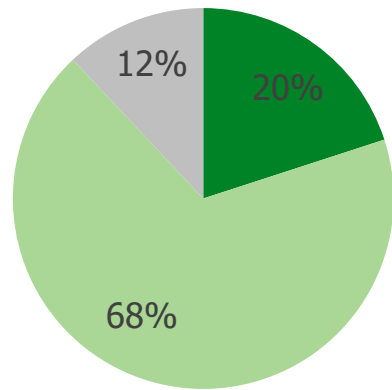
- Widespread corruption and lack of trust in judiciary remain the key obstacles to investment for the fourth consecutive year. Market monopolization and state capture by the oligarchs is the third most important obstacle.
- The top-3 obstacles are the same across portfolio and direct investors.
- Notably, the military conflict with Russia returned to #4, oppressive law enforcement agencies moved up to #5 in 2019 from #7 in 2018. Unstable currency and financial system moved down 3 spots, becoming the sixth most important obstacle.

2019 Special Edition Survey: Key Facts

- **Online questionnaire powered by Info Sapiens**
- **April 15 - 19, 2019**
- **75 responses**
- **63% are direct investors**
- **76% are currently invested**

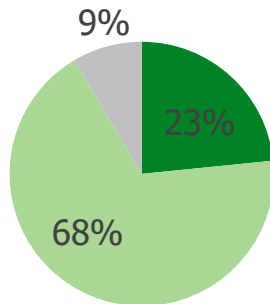
Q1. When do you think would be a better time to invest in Ukrainian assets?

All respondents

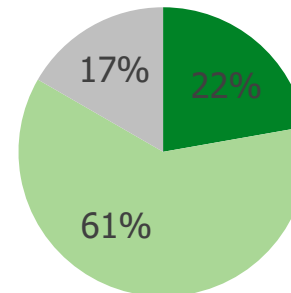


- After 2nd round of presidential elections on April 21, 2019
- After parliamentary elections and formation of new government
- No compelling investment opportunities in Ukraine in the nearest future

Direct investors



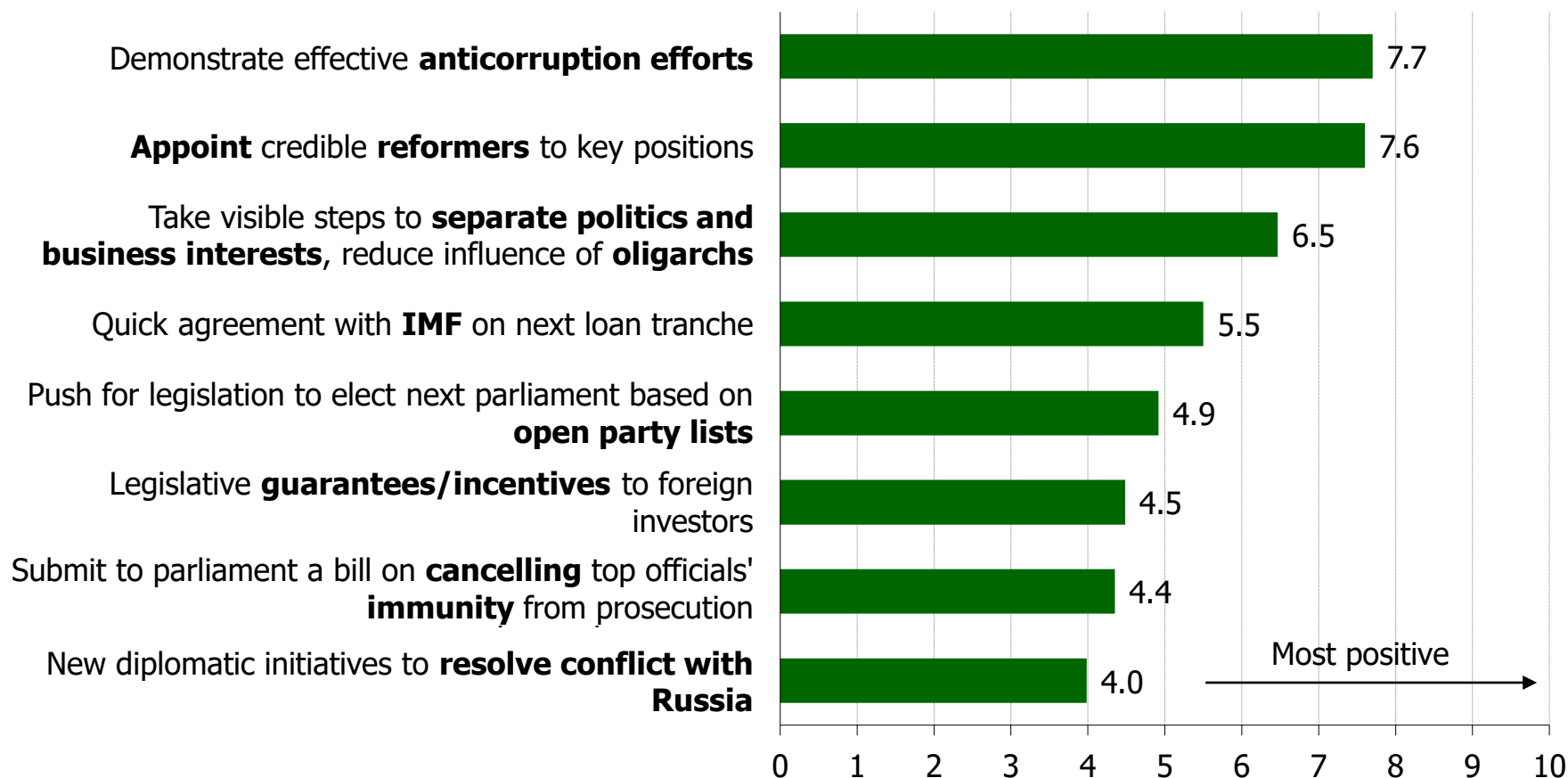
Portfolio investors



Sources: EBA, Dragon Capital, CES

Q2. Which of the following potential steps by Ukraine's next president in the next 3-6 months would have the biggest **POSITIVE** impact on your investment decisions

All respondents



Sources: EBA, Dragon Capital, CES

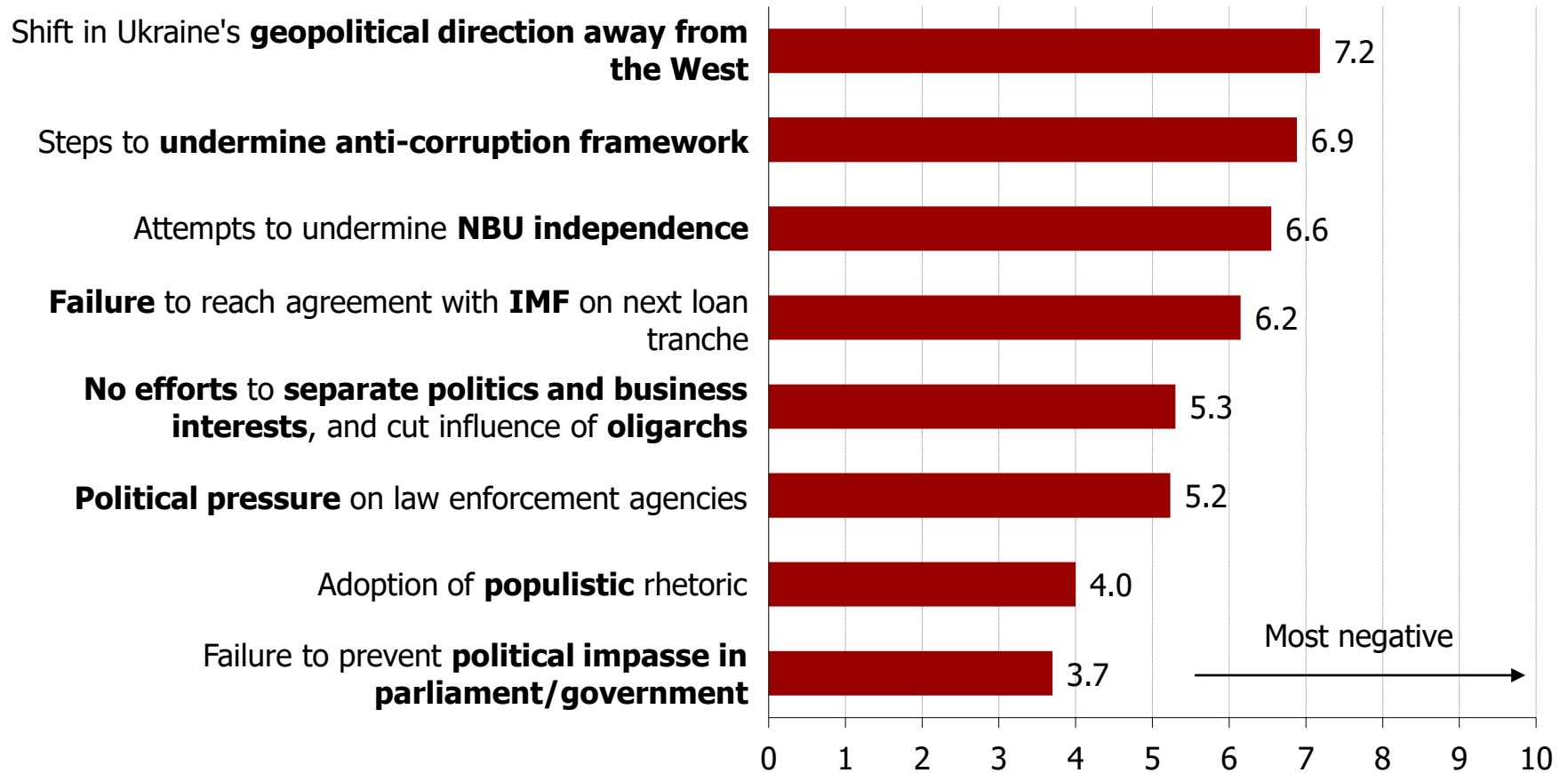
Q2. Which of the following potential steps by Ukraine's next president in the next 3-6 months would have the biggest **POSITIVE** impact on your investment decisions

| <u>By type of investor</u> | All respondents | Direct investors | Portfolio investors |
|--|------------------------|------------------|---------------------|
| Demonstrate effective anticorruption efforts | 7.7 | 7.8 | 7.0 |
| Appointment of credible reformers to key positions | 7.6 | 7.4 | 8.1 |
| Take visible steps to separate politics and business interests , reduce influence of oligarchs | 6.5 | 6.4 | 6.6 |
| Quick agreement with IMF on next loan tranche | 5.5 | 4.9 | 6.4 |
| Push for legislation to elect the next parliament based on open party lists | 4.9 | 4.7 | 4.9 |
| Legislative guarantees/incentives to foreign investors | 4.5 | 5.1 | 3.9 |
| Submit to parliament a bill on cancelling top officials' immunity from prosecution | 4.4 | 4.3 | 4.4 |
| New diplomatic initiatives to resolve the conflict with Russia | 4.0 | 4.4 | 3.8 |

Sources: EBA, Dragon Capital, CES

Q3. Which of the following potential steps by Ukraine's next president in the next 3-6 months would have the biggest **NEGATIVE** impact on your investment decisions

All respondents



Sources: EBA, Dragon Capital, CES

Q3. Which of the following potential steps by Ukraine's next president in the next 3-6 months would have the biggest **NEGATIVE** impact on your investment decisions

| <u>By type of investor</u> | All respondents | Direct investors | Portfolio investors |
|---|------------------------|------------------|---------------------|
| Shift in Ukraine's geopolitical direction away from the West | 7.2 | 7.6 | 6.7 |
| Steps to undermine anti-corruption framework | 6.9 | 6.7 | 6.7 |
| Attempts to undermine NBU independence | 6.6 | 6.2 | 6.5 |
| Failure to reach agreement with IMF on next loan tranche | 6.2 | 5.9 | 6.5 |
| No efforts to separate politics and business interests , and cut influence of oligarchs | 5.3 | 5.4 | 5.7 |
| Political pressure on law enforcement agencies | 5.2 | 5.2 | 5.1 |
| Adoption of populistic rhetoric | 4.0 | 4.2 | 3.9 |
| Failure to prevent political impasse in parliament/government | 3.7 | 3.8 | 3.9 |

Sources: EBA, Dragon Capital, CES

Q4. Which of the following obstacles to investment in Ukrainian assets are the most important?

All respondents



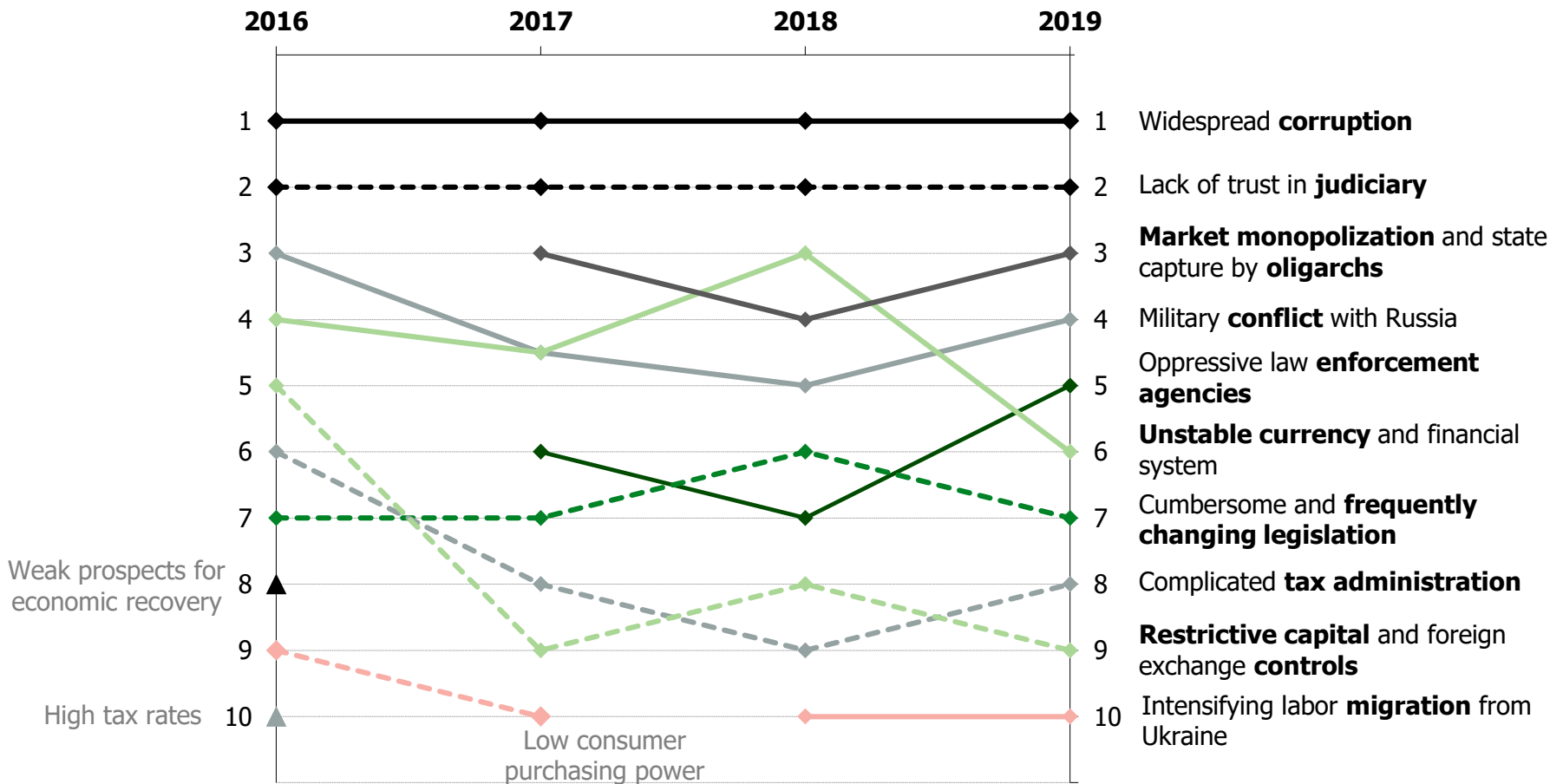
Sources: EBA, Dragon Capital, CES

Q4. Which of the following obstacles to investment in Ukrainian assets are the most important?

| <u>By type of investor</u> | All respondents | Direct investors | Portfolio investors |
|---|------------------------|------------------|---------------------|
| Widespread corruption | 8.3 | 8.1 | 8.4 |
| Lack of trust in judiciary | 8.2 | 8.2 | 8.0 |
| Markets monopolization & state capture by oligarchs | 6.5 | 6.0 | 7.1 |
| Military conflict with Russia | 5.6 | 5.7 | 5.8 |
| Oppressive law enforcement agencies | 5.3 | 5.0 | 5.9 |
| Unstable financial system and currency | 4.9 | 5.2 | 4.4 |
| Cumbersome and frequently changing legislation | 4.8 | 5.0 | 4.4 |
| Complicated tax administration | 4.2 | 4.6 | 3.8 |
| Restrictive capital and foreign exchange controls | 3.9 | 4.0 | 3.8 |
| Intensifying labor migration from Ukraine | 3.2 | 3.2 | 3.3 |

Sources: EBA, Dragon Capital, CES

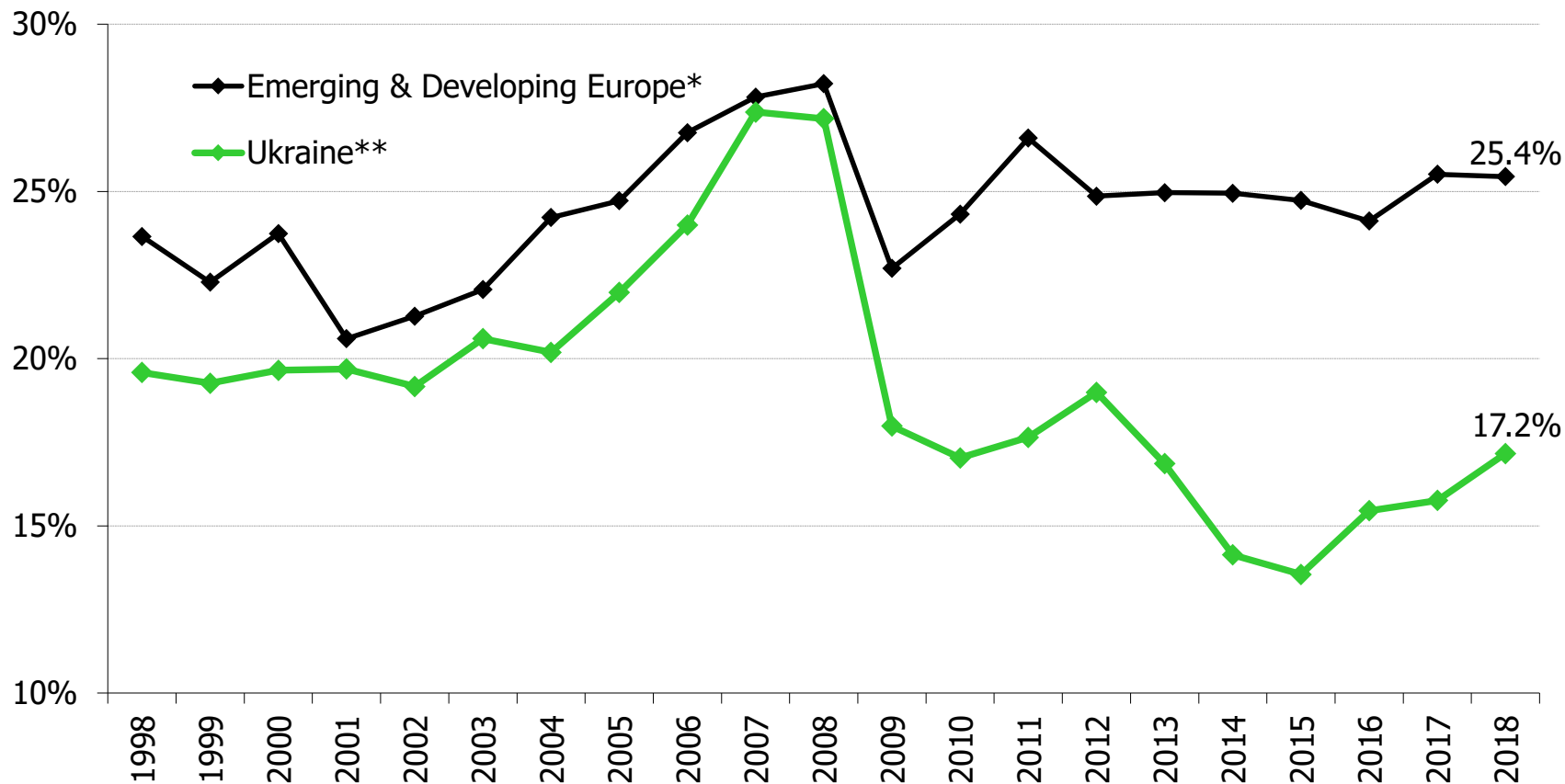
Major obstacles to foreign investment in Ukraine: 2016-2019



Sources: EBA, Dragon Capital, CES

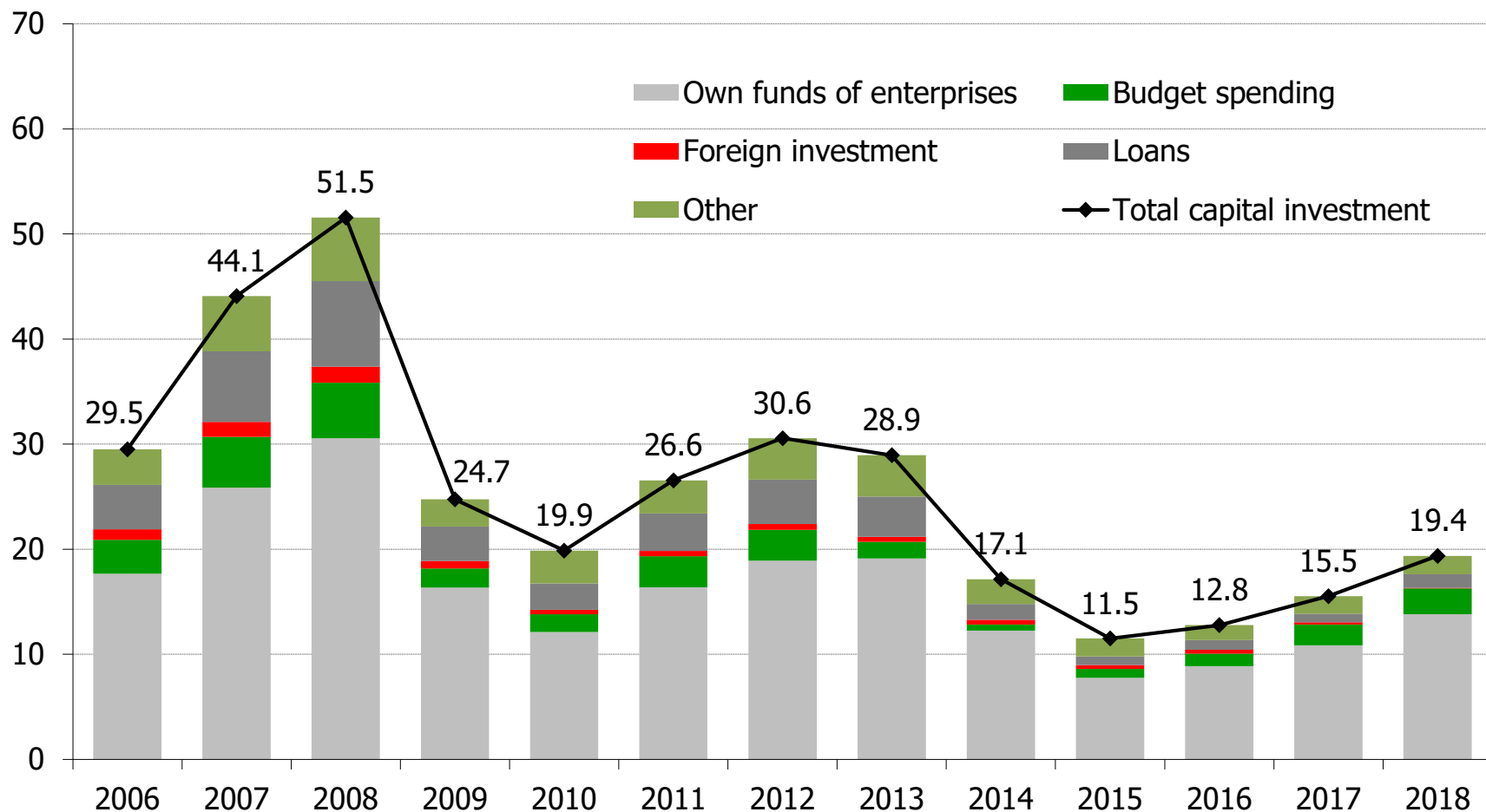
Investment in Ukraine: Key Facts

Gross fixed capital formation (% of GDP)



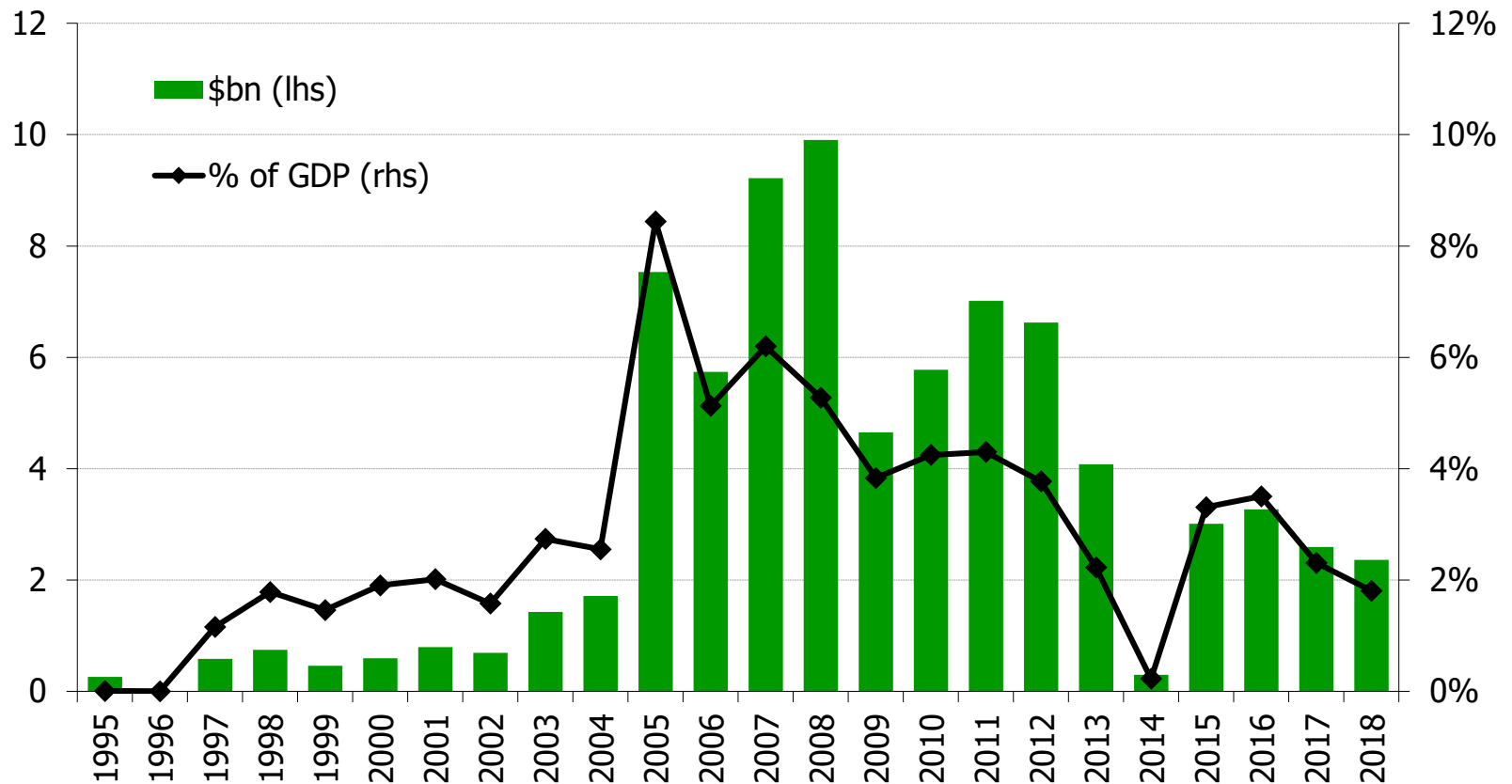
Notes: *Emerging & Developing Europe includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Kosovo, FYR Macedonia, Montenegro, Poland, Romania, Serbia and Turkey; **excluding changes in inventories. Sources: IMF, SSS.

Capital Investment in Ukraine: Financing (\$bn)



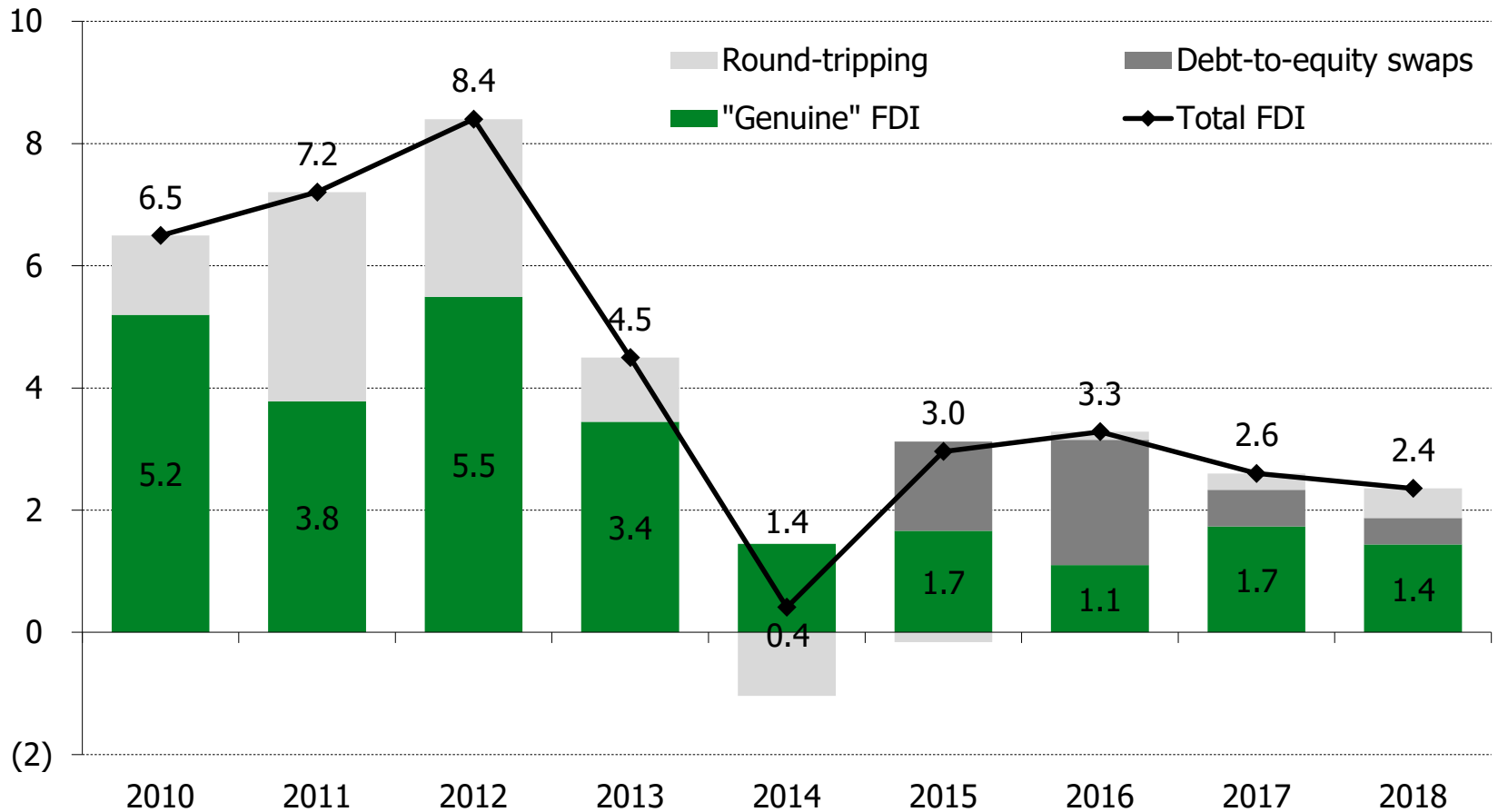
Source: SSS.

Net FDI inflow to Ukraine



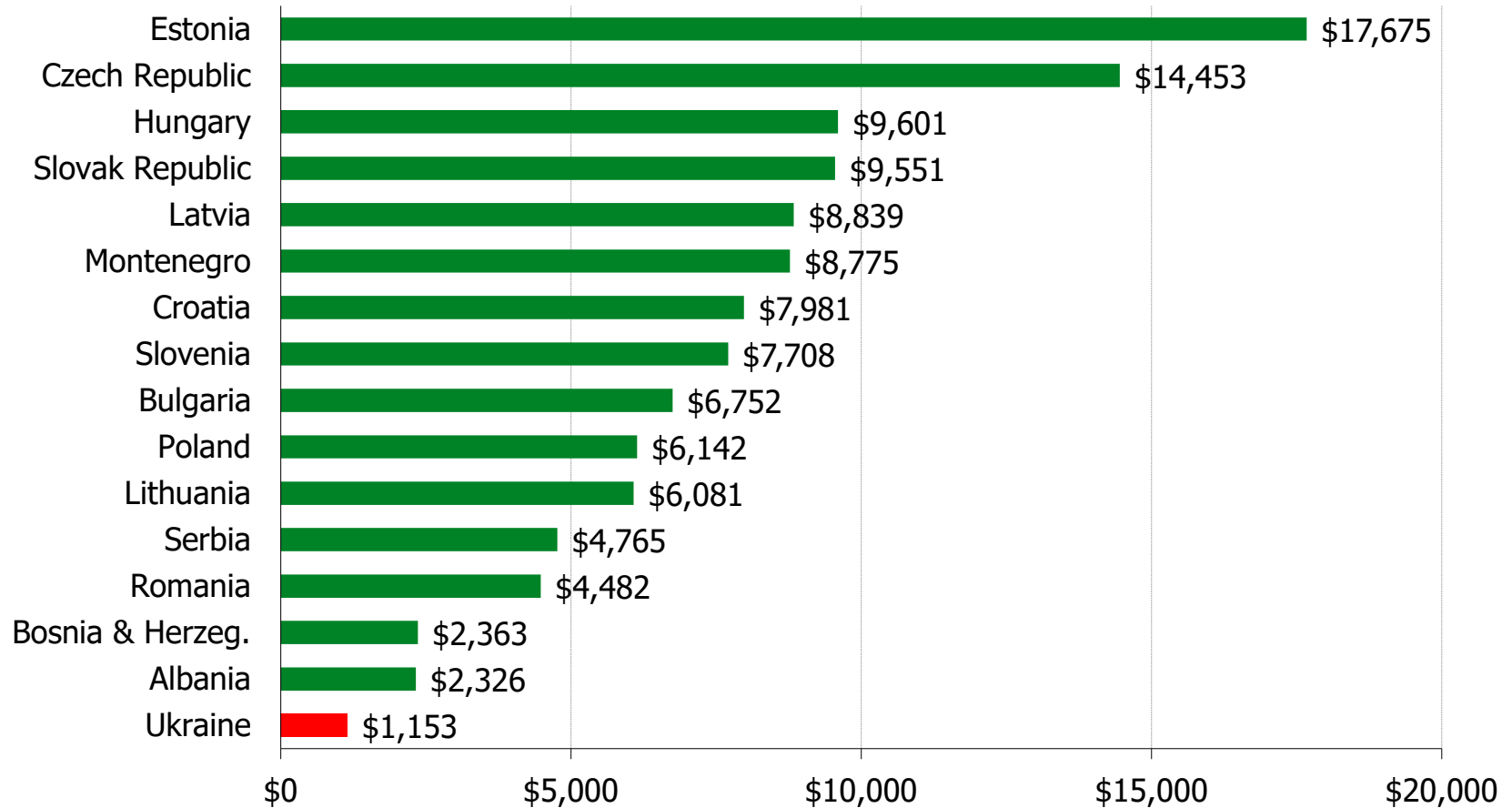
Source: NBU

FDI Inflows to Ukraine: Breakdown (\$bn)



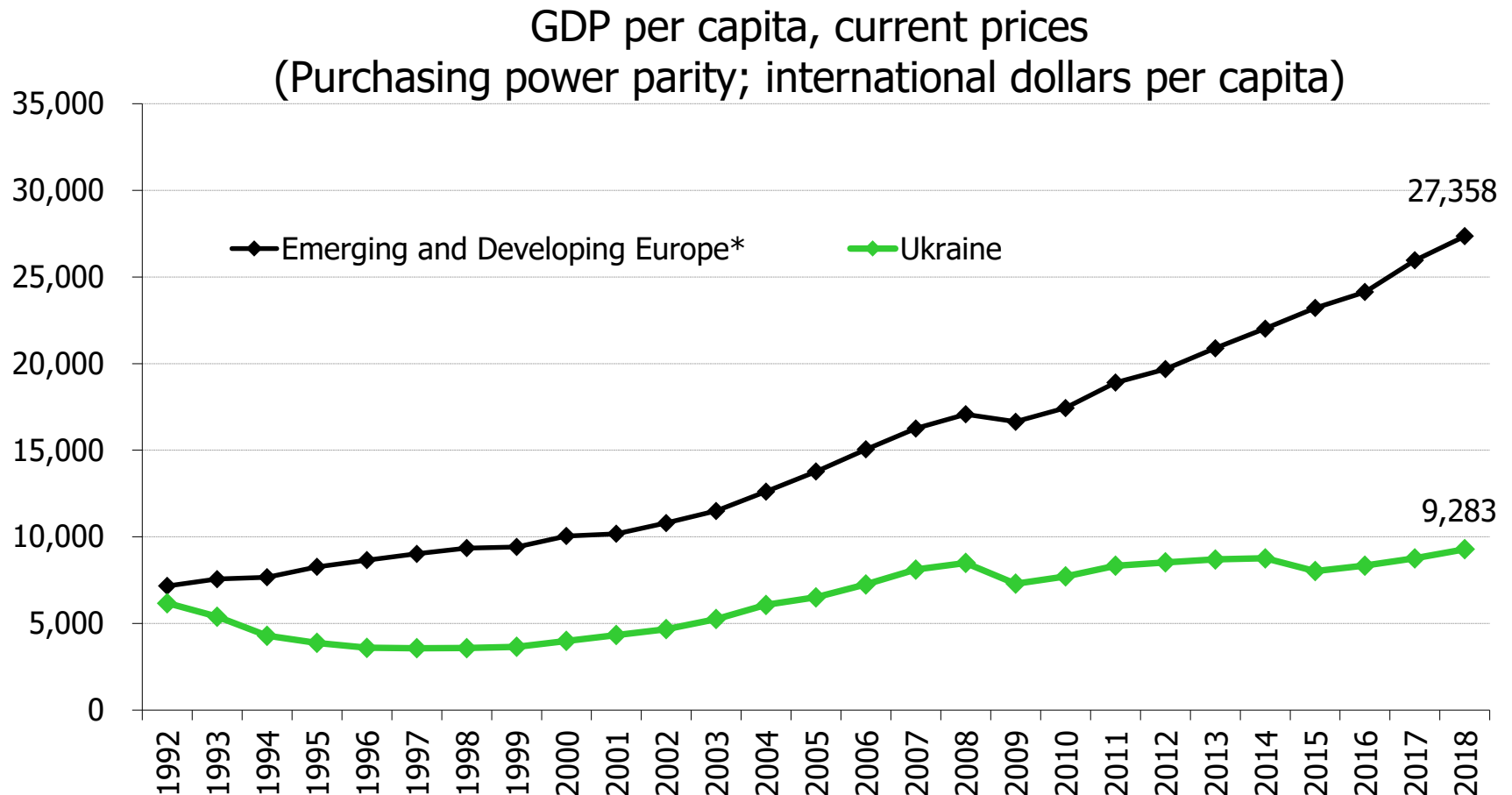
Source: NBU

FDI stock per capita



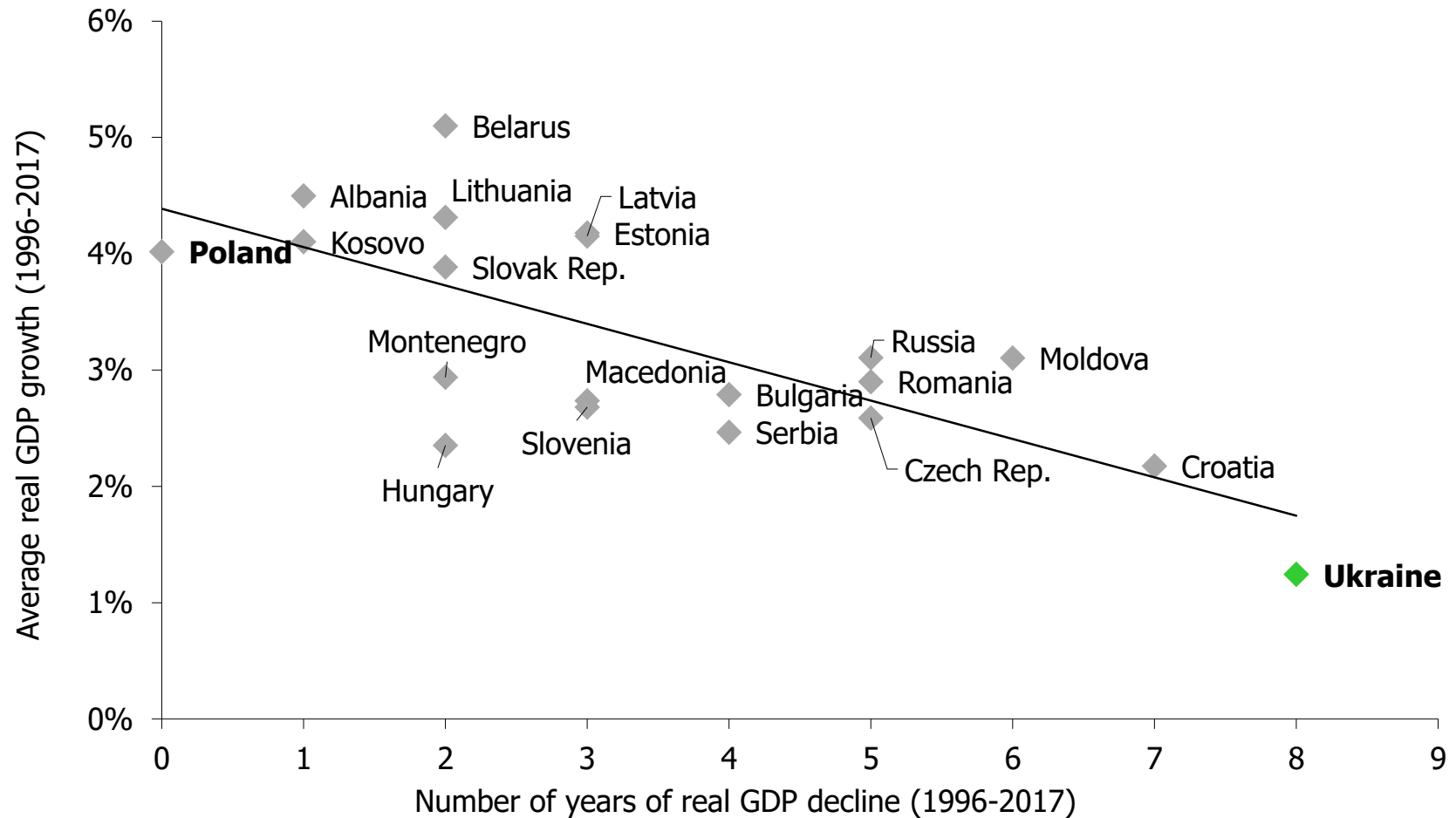
Note: as of end-2017. Source: UNCTAD

GDP per capita based on purchasing power parity (PPP)



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

Importance of sustainable economic growth



Note: 2001-2017 data for Montenegro and Kosovo, 1999-2017 data for Serbia. Source: IMF.

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