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IS THE INVESTMENT POLICY PRESENT IN UKRAINE?¹

The sources of financing of gross investments to the basic capital and the dynamics of their volume, structure, and distribution over the economic activity types are analyzed, and the insufficiency of their influence on the economics development level is indicated. A number of proposals as for the improvement of state's investment policy are given.

Keywords: investment policy, gross investments, pure investments, structure of gross investments, gross domestic product, rate of gross investments.

Investment in fixed capital is one of the most important factors of economic growth. In recent years, the economics of our countries shows congestion, manifested by slow GDP dynamics. Therefore, the analysis of the current status of investment in fixed assets, which is a reflection of the present investment policy, is one of the topics of economic research.

The economic literature defines the investment policy as a set of activities carried out by the state and enterprises in the form of establishment of the scope and structure of investments, determination of directions for their use and sources in view of the need to improve their technological level [1, p. 273]. It follows that there are two investment policies: governmental and that of the owners of private enterprises. Meanwhile the investment policy of the latter may not meet the national interests of economic development.

In foreign economic papers the investment in the economics are defined as gross fixed capital investment (gross investment) as a part of investments used to replenish the retiring fixed capital (due to depreciation) and net investment [2, p. 43]. Meanwhile, the Ukrainian statistics ignores this term generally accepted in the world. Gross investments in fixed assets are referred to simply as investments in fixed assets or capital investments.

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Obviously, in the future, if the investment in fixed assets can be considered gross investment, then we'll have to recognize also their division into depreciation component and net investment, but the national statistics does not even mention the net investment in fixed assets.

The cost-effectiveness of gross investment in fixed assets is primarily manifested in the GDP growth. However, the possibility of their increase depends on the GDP growth and the share of investment in fixed assets allocated upon its end use. This relationship is shown through the index of gross investment rate in fixed assets, which is calculated as a percentage of gross fixed capital investment and GDP ratio:

$$N = I/V \cdot 100$$

where N is the rate of gross investment in fixed assets; I is the gross investment in fixed assets; and V is the gross domestic product.

The higher the rate of gross investment in fixed assets, the more favorable are the conditions for economic development. In countries with high rates of economic development the rate of gross fixed capital investment is 30-40%, and in countries with average and low economic development rates is it 18-20% [2, p. 367]. However, the practical application of this formula requires certain clarifications on the input information. The total gross investments in fixed assets vary widely by source of funding, from businesses and organizations who are the manufacturers of GDP, and by state and local budgets. The total gross investment in capital assets includes the foreign direct investment, and the costs of individual developers, who generally are not associated with the distribution of annual GDP produced. In our opinion, upon calculation of gross investment rate in fixed assets, the numerator of this formula should include only investments made by the companies or received from state and local budgets.

The purpose of the article is to analyze the peculiarities of national investment policy based on the study of statistical data on gross fixed capital investment and GDP growth over the past 5 years.

The available statistical basis makes it possible to conduct a quite thorough analysis of the current state of the volume of gross fixed capital investments, their financing sources and uses of by economic and industrial activities.

The system of analytical calculations, above all, shall consider and analyze

the dynamics of the GDP and gross fixed capital investment (Table 1).

If the GDP growth is considered at current prices, the situation does not look bad: during 2007-2011 the GDP almost doubled. However, the recalculation at constant prices in 2007 showed that in fact during this period there was a decline in GDP due to inflation. According to the preliminary data of the State Statistics Service of Ukraine, during 2013 the GDP growth vs. the previous year was zero, and for the past five quarters there was a gradual decrease of the same. The government initially called the external factor, i.e. low world prices for metals and chemicals, and then high gas prices to be the cause of economic downturn, and eventually everyone started to talk about the lack of investment.

Table 1

Dynamics of GDP and gross fixed capital investment in 2007-2011*

Years	GDP				Gross investments in fixed assets		
	volumes (UAH mio)		volume indices (%)		Volumes (UAH mio)	volume indices (% max)	
	at current prices	at the prices of 2007	at current prices	at the prices of 2007	at current prices	2007	1990
2007	720731	720731	100.0	100.0	188486	100.0	87.7
2008	948056	737 336	130.7	102.3	233 081	123.7	85.4
2009	913345	628 516	126.7	87.2	51 777	80.5	50.0
2010	1082569	654 598	150.2	90.8	50 677	79.9	49.7
2011	1316600	688 596	182.7	93.5	209 130	110.9	60.8

* Calculated according to Statistical Yearbook Capital Investments in Ukraine in 2007-2011. - Kyiv: State Statistics Service of Ukraine, 2012 - P. 23.

The dynamics of gross fixed capital investment should be considered in the context of an investment boom associated with the development of infrastructure required for Euro 2012. During the 6-year period (from 2003 to 2008 inclusive) the gross investment in fixed capital increased almost 5 times². After 2008, as can be seen from Table 1, during the next two years, the annual gross investment declined sharply.

This decline is especially evident when compared to the investment in 1990. In 2007, when it was realized investment of Euro 2012, gross investments in fixed assets amounted to 87.7% of the level in 1990, and it

² Statistical Yearbook of Ukraine for 2010. - Kyiv: State Statistics Service of Ukraine, 2012 - P. 25

was not an investment in production infrastructure, and construction of airports, stadiums and hotels. After a decline in investment in fixed assets in the coming years, their volumes were 60.8% compared to 1990.

The main causes of underinvestment in Ukraine's economic development largely become clear when looking at the structure of funding sources in gross fixed capital investment (Table 2).

As the table shows, all investors are merged into 8 groups. Prominent among them are the values of funding investment from the state and local budgets. The dynamics of these indicators shows a trend of both an insignificant increase of investment from the state budget and a marked reduction of investment from local budgets. However it is safe to talk about the lack of investment because of the small number of firms remaining in state ownership and continuous deficit in the budget revenues of all levels.

Table 2

Sources of funding gross investment in fixed assets*

(%)

Funding sources	Years				
	2007	2008	2009	2010	2011
Total amount of gross investment	100.0	100.0	100.0	100.0	100.0
Including due to:					
state budget	5.6	5.0	4.4	6.3	7.5
local budgets	3.9	4.2	2.7	2.9	2.9
own funds of companies and organizations	56.5	56.7	63.3	55.7	54.0
bank loans and other borrowings	16.6	17.3	14.2	13.7	17.9
foreign investments	3.5	3.3	4.5	2.3	3.1
public investment in construction of own apartments	5.2	4.1	3.2	3.1	2.2
public investment in individual housing construction	4.5	5.0	3.6	10.7	7.2
other sources of funding	4.2	4.4	4.1	5.3	5.2

* Calculated according to Statistical Yearbook Capital Investments in Ukraine in 2007-2011. - Kyiv: State Statistics Service of Ukraine, 2012 - P. 24.

Much of the investment, more than a half of its total volume, came from own funds of enterprises and organizations. Is it a lot or a little for economic development? To find the answer to this question, it is necessary on the basis of these data (including investments through the budget) to find the performance standards of gross investment in fixed capital according to

this formula. Calculations have shown that such a rate was 17.2% - in 2007, 16.2% - in 2008, 11.7% - in 2009, 9.0% - in 2010 and 9.8% - in 2011, while in the countries with high rates of economic development it is 30-40%. Therefore, to ensure a high level of our economic development, we need to triple the investment in fixed assets. This is a real problem if we block the outflow channels offshore.

The second largest financing of gross investment in fixed assets is represented by bank loans and other borrowings. Given the clearly insufficient total gross investment in fixed capital, it is obvious that bank loans can not be considered sufficient for investment either.

The foreign investments made on favorable conditions for recipient countries are of great importance for the economies of less developed countries and countries with transition economies. So, the attraction of foreign investment is one of the most important areas of investment policies of governments of these countries. The dynamics of foreign investments in Ukraine, i.e. their small volume and a clear downward trend, shows that Ukraine has not created a favorable investment climate for foreign investors.

The amount of funds invested by population in the construction of their own apartments decreases from year to year. Perhaps this trend will continue in the future. Instead, the financial revenues from the public for private housing construction increase. It is about rich people of various levels, who invest in development of suburban areas with luxurious cottages with high fences, CCTV and guards. So the investments in this group of investors will no doubt continue to rise.

The impact of investment on economic development is mainly determined by the industry or production they are made to. Let's consider the structure of gross investment in fixed assets by sector (Table 3)

Analyzing the structure of investments shown in the table, we are not concerned with investments in the social sector. The object of analysis is only the structure of investments in productive economic activities, i.e. agriculture and industry. Unfortunately, our statistics does not offer precise data on investment in agriculture. They are presented together with investments in hunting and related services. Was not that combination of two completely unrelated economic activities invented to disguise the

volume of capital investments of the "elite" in hunting?³

Forestry is also one of the most important branches of production. Every year in Ukraine over 400 thousand hectares of the forest area are cut down⁴, and the annual investment in this sector are only 0.1% of total investment in fixed assets in all types of economic activities.

Table 3

Structure of gross investment in fixed assets by sector*

(%)

Economic activity	Years				
	2007	2008	2009	2010	2011
Total gross investment	100.0	100.0	100.0	100.0	100.0
Agriculture, hunting and related services	5.0	7.1	6.1	7.1	7.6
Forestry and related services	0.1	0.1	0.1	0.1	0.6
Industry	34.1	32.9	38.0	34.2	36.2
Construction	4.8	5.3	3.5	2.9	3.4
Trade	9.4	10.6	9.3	6.9	7.3
Hotel and restaurant business	1.4	1.4	1.7	1.8	2.1
Transport and communications	16.8	14.0	16.2	17.0	16.5
Financing activities	2.2	2.0	2.2	1.7	1.3
Real estate	18.9	18.9	15.1	20.1	15.8
Public administration	0.8	0.8	0.6	0.8	0.8
Education	0.9	1.0	1.0	1.1	1.0
Health and social assistance	1.4	1.5	1.3	1.6	1.4
Other community and personal services	2.2	2.3	3.1	3.1	4.4

* Calculated according to Statistical Yearbook Capital Investments in Ukraine in 2007-2011. - Kyiv: State Statistics Service of Ukraine, 2012 - P. 29-30.

Most of the total investment in fixed assets is used by industry, while there is a slight tendency to their increase, but if you compare these volumes to investments in service activities, it will appear that they are not

³ By the way, the hunters for hays and wild ducks do not use the services requiring investment in the fixed assets.

⁴ Statistical Yearbook of Ukraine for 2011. - Kyiv: State Statistics Service Ukraine 2012, P. 186

as significant. For example, the investment in transport and communications, as well as real estate investments in total are nearly equal to investment in all industrial sectors.

Since investing in industry is important for economic development, let's consider the structure of gross investment in fixed assets by industry (Table 4).

Table 4

Structure of gross investment in fixed assets by industry (compared to the total volume)*

Industry	Years				
	2007	2008	2009	2010	2011
Total gross investment	100.0	100.0	100.0	100.0	100.0
Industry in general	34.1	32.9	38.0	34.2	36.2
Mining	6.4	7.2	9.2	10.4	11.8
Manufacturing**	23.8	21.3	23.3	22.7	19.7
Food, beverages and tobacco products	6.3	5.6	7.0	5.5	5.8
Light industry	0.25	0.19	0.22	0.30	0.25
Wood processing and production of wares, except furniture	0.07	0.09	0.09	0.08	0.06
Metallurgy and manufacture of fabricated metal products	6.0	4.5	4.4	3.4	2.9
Mechanical engineering	2.8	2.7	2.4	2.9	2.8
Manufacture of machinery and equipment	0.91	0.88	0.92	0.91	0.93
Manufacture of electrical, electronic and optical equipment	0.69	0.84	0.77	0.98	0.59
Production of vehicles and equipment	1.24	1.08	0.66	1.03	1.29
Production and distribution of electricity, gas and water	3.9	4.7	5.5	5.8	9.8

* Calculated according to *Statistical Yearbook Capital Investments in Ukraine in 2007-2011*. - Kyiv: State Statistics Service of Ukraine, 2012 - P. 33.

** Only the most high-profile examples of cuts and incredibly low levels of investment in certain types of manufacturing are included.

The statistics consolidated all types of industrial activities in 3 groups:

mining, manufacturing, production and distribution of electricity, gas and water. As shown in Table 4, the share of investment in the mining industry and in the production and distribution of electricity, gas and water (vs. the total investments) increased each year, while the investment in manufacturing industry decreased. The largest share of investment in the group of processing industry accounts for the production of food, beverages and tobacco products, but in recent years the revenues have declined significantly.

Some processing industries receive incredibly little investment. Due to its products the light industry is a particularly important sector for the domestic consumer market, but the average investment therein was only 0.25% of the total. Even less attractive is the situation with investment in wood industry. In woodworking and making ware of the same, except furniture, according to statistics, every year from 0.06% to 0.09% of total investments is made. Such wood is exported to the other countries, where it is used to produce furniture which we then buy. By the way, it is still unclear why the statistics contain data on wood industry investment without investment in furniture manufacturing, since it is also manufactured in our country.

Metal is main export potential of Ukraine, but steel works pass from hand to hand, and their owners do not increase, but rather reduce the investment every year. For example, 6% of total investments were made in metallurgy and manufacture of fabricated metal products in 2007, and only 2.9% in 2011.

The industries most deprived of investments are engineering, which has received about 3% of the total, including the manufacture of electrical, electronic and optical equipment, and the production of vehicles and equipment, which receives almost 1% of investment. The logic is very simple: why do we need to develop engineering, if all you need you can buy in South Korea, China or Japan?

Conclusions and recommendations

1. The growth rate of gross fixed capital investment and GDP for the period of 2007-2011 indicates a low rate or even stagnation in the economy.
2. The analysis of gross investment in fixed capital, sources of funding and direction by economic activity, including by industrial activity,

suggests that Ukraine has no investment policy at both the enterprise and organizational structures, and at the governmental level.

3. It would be appropriate for Parliament's session to discuss the status of investment policy in the country and adopt the Law of Ukraine on Investment Policy in Ukraine.

4. To control the investment in economy, it is required to improve the statistical reporting, in particular, to supplement it with information on net investment in fixed assets and restore the statistical reporting on performance of production fixed assets.

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