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**PECULIARITIES OF REGULATION AND ACCOUNTING OF  
FOREIGN DIRECT INVESTMENT IN UKRAINE  
ОСОБЛИВОСТІ РЕГУЛЮВАННЯ ТА ОБЛІКУ ПРЯМИХ  
ІНОЗЕМНИХ ІНВЕСТИЦІЙ В УКРАЇНІ**

**Summary.** *The subject of the research is the relations regarding the formation, improvement and effective use of mechanisms and instruments for regulating the movement of foreign investment, in particular, the state policy in this area and accounting of foreign direct investment in Ukraine. Investments play a very important role in developing any country's economy, so their correct, scientifically-based interpretation is of great theoretical and practical importance. In the planned economy, the concept of "capital investment" was used, and with Ukraine's transition to market relations, with all their attributes, the concept of "investment" began to prevail in economic literature, business and everyday life. Capital can be invested not only in monetary form, but also in other forms, such as movable and immovable property (capital goods), various financial instruments (primarily securities) and intangible assets. The role of*

*investment is extremely important for the economy of any country. However, a prerequisite for the growth of the competitiveness of the national economy is the attraction of foreign investment. The research is based on the general scientific provisions of the systematic approach, descriptive, logical, expert, statistical analysis, as well as comparative methods of data processing and systematisation, works of foreign and domestic scientists, specialists related to the study of foreign investment, public issues in the field of investment policy, as well as improvement of tools and mechanisms for attracting foreign capital. The aim of the research is to examine the problems of attracting foreign investment and to identify the circumstances that Ukraine, while having a huge investment potential for foreign investors, still faces risks that are a barrier to attracting capital in the form of foreign investment into the Ukrainian economy. The research is based on the need to disclose the economic essence of investment activity, describe the state regulation of foreign investment, characterise the methods of stimulating and protecting foreign investment, analyse the current state and trends of direct investment in the Ukrainian economy, study the accounting of foreign direct investment in Ukraine, analyse strategic priorities and the effectiveness of attracting foreign investment in economic development.*

**Key words:** *investment, foreign investment, capital investment, financial instruments, direct investing.*

**Анотація.** *Предметом дослідження виступають відносини щодо формування, вдосконалення та ефективного використання механізмів та інструментів регулювання руху іноземних інвестицій, зокрема державна політика у сфері даних питань та облік прямих іноземних інвестицій в Україні. Інвестиції відіграють дуже важливу роль у розвитку економіки будь-якої держави, тому їх правильна науково-обґрунтована інтерпретація має велике теоретичне та практичне значення. За планової економіки, використовувалося поняття «капітальні вкладення», з*

переходом України на ринкові відносини, з усіма їх атрибутами, в економічній літературі, діловому та побутовому побуті стало переважати поняття «інвестиції». Інвестування капіталу може здійснюватися не лише у грошовій, але й інших формах — рухомого і нерухомого майна (капітальних товарів), різних фінансових інструментів (насамперед, цінних паперів), нематеріальних активів. Роль інвестицій вкрай важлива для економіки будь-якої країни, однак, необхідною умовою розвитку зростання конкурентоспроможності національної економіки є залучення іноземних інвестицій. Базою дослідження є загальнонаукові положення системного підходу, описовий, логічний, експертний, статистичний аналіз, а також, порівняльні методи обробки та систематизації даних, праці зарубіжних та вітчизняних вчених, фахівців, пов'язаних із вивченням іноземних інвестицій, питаннями державного характеру у сфері інвестиційної політики, а також удосконаленням інструментів та механізмів залучення іноземного капіталу. Метою дослідження є необхідність вивчення проблем залучення іноземних інвестицій, визначення також тих обставин, що Україна, володіючи величезним інвестиційним потенціалом для іноземних інвесторів, все ж має ризики, які є бар'єром для залучення капіталу у формі іноземних інвестицій в українську економіку. На основі дослідження зумовлено необхідність розкриття економічної сутності інвестиційної діяльності, опис державного регулювання іноземного інвестування, характеристика методів стимулювання і системи захисту іноземних інвестицій, проведення аналізу сучасного стану та тенденцій прямого інвестування в економіку України, дослідження обліку прямих іноземних інвестицій в Україні, аналіз стратегічних пріоритетів та ефективність залучення іноземних інвестицій у розвиток економіки.

**Ключові слова:** інвестиції, іноземні інвестиції, капітальні вкладення, інвестування капіталу, фінансові інструменти, пряме інвестування.

**Problem statement.** In recent years, the issue of attracting external capital to the Ukrainian economy has become relevant. Foreign investment is one of the most important conditions for the stabilisation and growth of the country's economy. Investments contribute to economic growth, ensure a favourable financial climate in the country, and are an additional source of investment in the national production of goods, works and services.

The economic recovery is largely driven by efficient investment activity, which is an important lever and facilitates the attraction of foreign investment. Ensuring a favourable investment climate in Ukraine is a matter of national importance, which determines the socio-economic dynamics, the effectiveness of participation in international economic processes, the country's innovative potential and the possibility of modernising the national economy on this basis.

**Analysis of recent research and publications.** The problem of attracting foreign investment into the domestic economy has existed for many years and continues to be important to day. Many scholars and practising economists study this issue, which is still relevant today: V. Fedorenko, Yu. Makohon, O. Sukhyi, V. Khudaverdieva, D.H. Lukianenko, A.M. Poruchnyk, Ya.M. Stoliarchuk [4; 5; 6; 7; 8; 9]. Despite the active work of foreign investors in the economy of Ukraine, the state has been losing competition to many countries in terms of the amount of foreign capital attracted. Although a large amount of aid is coming to Ukraine during the current military conflict, the problem of foreign investment is more relevant than ever in connection with the future reconstruction of Ukraine, as investments are crucial for financing economic growth and ensuring economic security and safety.

**Formulation of the article's goals (task statement).** The steady trend of development of interdependence of the international community, formation of the world market system, deepening of the international division of labour, globalisation of investment activity require the creation of various forms of international economic relations and mechanisms for regulation of monetary,

currency and other relations between states. One of such mechanisms is the state regulation of foreign investment.

**Summary of core material.** According to the regulatory and legal legislation of Ukraine, foreign investment is defined as an investment of foreign capital in a business entity on the territory of Ukraine in the form of civil rights objects owned by a foreign investor, unless such civil rights objects are withdrawn from circulation or restricted in circulation in Ukraine in accordance with the laws, including money, securities (in foreign and Ukrainian currency), other property, property rights that have a monetary value of exclusive rights to the results of intellectual activity (intellectual property), as well as services and information [5, p. 170].

Foreign investments can be defined as all types of property and intellectual property exported from the territory of one country and invested in the territory of another country to conduct business or other activities at their own risk in order to obtain income or other effect from the joint use of the invested capital by the parties.

The economic sense of attracting foreign investment is that it integrates new technologies, forms of production and business organisation into the national economy, which provide a fundamentally different and more significant economic effect compared to the capabilities of national entrepreneurship.

Until recently, the vast majority of foreign investments attracted to Ukraine were direct and credit investments. Moreover, credit investments, i.e., linked foreign commodity loans, the repayment of which is guaranteed by the state, prevailed. At the same time, foreign direct investment is the most profitable for the state, as the investor acts at their own risk, and the state's task is to create a favourable investment climate. In modern developed national economic systems, most foreign investments are attracted and placed through the stock market, i.e. through so-called financial (portfolio) investments.

The large-scale development of financial investment institutions at the national and international levels ensures an efficient flow of capital from less profitable to more profitable consumers, both domestically and internationally. Unfortunately, in Ukraine, financial investment instruments and the stock market are underdeveloped, and financial instability has been observed for many years, so the inflow of foreign capital through the stock market mechanism was unlikely in the short term [7, p. 18].

Today, most Ukrainian enterprises face the problem of attracting capital to modernise fixed assets. However, enterprises in need of investment resources are unable to obtain them, as both internal and external sources of financing are almost inaccessible to them. The former are expensive, while the latter are unavailable due to the unstable macroeconomic situation and martial law in the country, which raises concerns among foreign investors.

International rating agencies classify Ukraine as a country with a high economic and political risk, which makes it difficult to access the global capital market and complicates the attraction of foreign investment. Financial instability, high inflation and long-standing administrative regulation of economic relations have made Ukraine unattractive to foreign investors, but this is expected to change in the future.

The specific conditions of Ukraine's economy in transition require a revision of some established stereotypes about investment policy in general and state regulation of foreign investment in particular. The problem of foreign investment in terms of profitable attraction and placement of capital on a global scale is very relevant for transnational investment banks, funds and companies, as these structures redistribute huge financial resources through the global capital market. High political and economic stability, a developed stock market, confirmed by reputable international rating agencies and a high sovereign rating are one of the main conditions for attracting foreign investment to the country [9, p. 63].



In Ukraine, there is a disproportion between the volume of capital investments and the real sources of their financing, and the structure of capital investments does not meet the needs of the real sector of the economy. Foreign investment is not only a source of missing resources, but also new technologies and new management systems that are so necessary for Ukraine's transitional economy. While until recently, Ukraine has seen an increase in the volume of capital investment, it has now fallen sharply due to martial law.

Exerting a key influence on maintaining the economic condition of the state, foreign resources are concentrated mainly on export industries. Most often, foreign investors invest their capital in industries that are profitable for them personally, rather than those that require financial support. Investing in the economy of a foreign country provides the investor with the opportunity to enjoy a favourable tax regime and receive profits several times higher than they could receive in their own country.

This result of investment activity is achieved through the use of cheap resources and low-paid labour, which results in a decrease in the competitiveness of domestic goods. In this regard, it is important to highlight the qualities of the priority direction of investment activity of foreign capital in order to co-finance national projects aimed at increasing the competitiveness of domestic goods.

One of the sources of investment in the domestic economy is the privatisation of state and municipal property in favour of individuals and legal entities that may be buyers in the privatisation process in accordance with the law.

At present, the issue of the complexity of legal regulation of foreign investment remains relevant. In addition to legislative acts containing special rules, the analysed area of activity is regulated by international, constitutional, administrative, tax, customs, civil and land legislation.

The legal basis for the regulation of foreign investment in Ukraine is the Constitution of Ukraine, the Law "On Elimination of Discrimination in Taxation of Business Entities Established with the Use of Property and Funds of Domestic Origin", the Law "On Investment Activity in Ukraine, carried out in the form of capital investments" [1; 2].

The main goal of the incentive policy is to influence the direction, size and nature of investment flows. The basis for stimulating the attraction of foreign capital is the privatisation programs that have been carried out in the past and are currently being implemented in various groups of countries. There is a relationship between privatisation and the inflow of investment flows: privatisation can be used by a foreign investor as an expansion of sales markets, while state ownership retains the monopoly right to sell to state-owned enterprises; for a foreign investor and a national entrepreneur, privatisation is one of the macroeconomic factors that form the basis of a favourable investment climate [6, p. 352].

The main way to stimulate the inflow of direct investment is to provide various incentives. Through national treatment, foreign and domestic investors have equal rights to receive incentives.

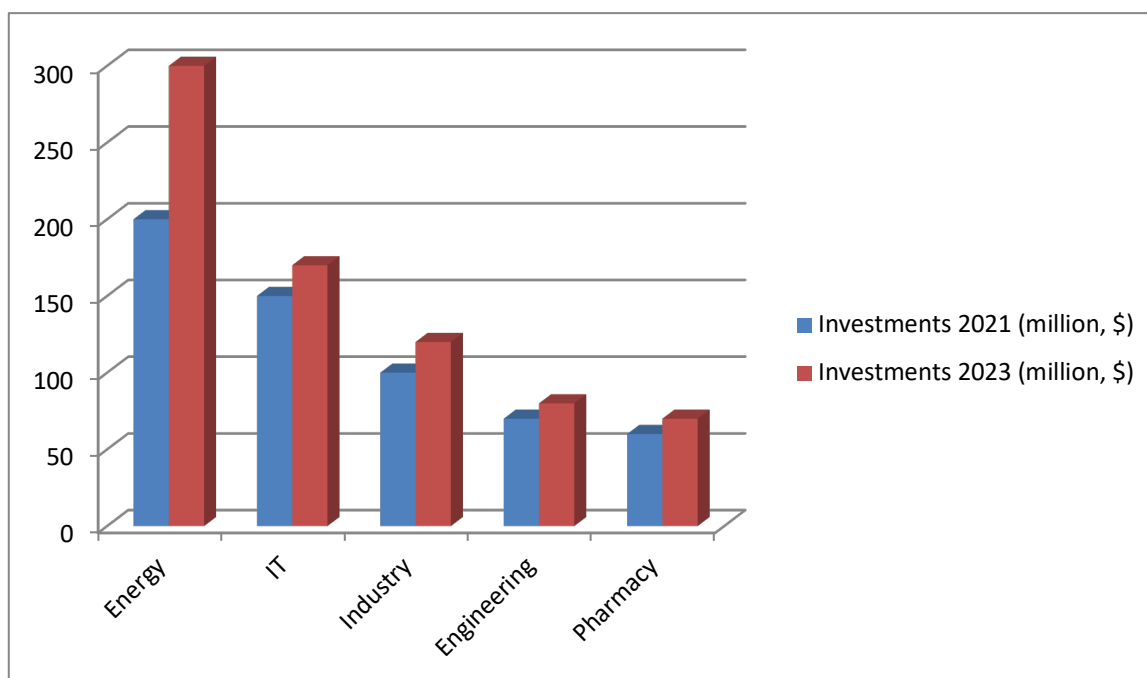
Developing countries, like other countries, follow the principle of national treatment. However, they can especially encourage foreign investment that has a positive impact on the balance of payments, such as investment in import-substituting and export-oriented industries, and tourism. In many third world countries, special or additional benefits are applied to investment projects that are particularly important for the development of the national economy, projects with advanced technology that is not available in the country, capital-intensive projects, projects in less developed regions of the country [8, p. 254]. The granting of special privileges is subject to specific conditions set out in the legislation regarding the nature of the technology, the number of local employees, the amount of investment, and the maximum prices for products



manufactured for the domestic market. An enterprise with foreign participation that meets these conditions is granted priority status and the right to receive additional benefits.

The current stage of global economic development shows that foreign direct investment is one of the factors of sustainable, high-quality and balanced economic development, as well as increasing the international competitiveness of most countries, including Ukraine. As a developing country aimed at structural changes in the economy, growth of national income, integration into the global economic space, Ukraine is largely interested in active inflow of foreign direct investment [4, p. 151].

The inflow of foreign capital to Ukraine can cause quite significant changes in employment and labour resources. As previously stated by the Ukrainian authorities, beneficial changes for the labour market in Ukraine are one of the most important expectations associated with FDI inflows, and it should not be forgotten that FDI inflows can lead to both scenarios, creating both positive and negative direct and indirect effects. Effects can occur in three dimensions: quantitative, qualitative and localised. Direct effects are most often felt in the short term, while indirect effects are felt in the long term. In Ukraine, the inflow of direct investment can cause a direct impact, which on average means creating new jobs, which the state needs at the current stage to retain the working population.



**Fig. 1. Investments by industry for 2021-2023**

*Source:* developed by the author

The global environment for international investment has changed dramatically with the imposition of martial law in Ukraine, which began while the world was still recovering from the pandemic. It has an impact far beyond the immediate area, triggering a cost-of-living crisis affecting billions of people around the world, with rising energy and food prices depressing real incomes and exacerbating debt stress. Investor uncertainty and risk aversion could put significant downward pressure on global direct investment in Ukraine. In order to get as much investment as possible, it is important not only to think about and increase it, but also to manage it well so that investors see a positive impact and good accounting for their money.

Investment activity in Ukraine is regulated by the Law "On Investment Activity" [1].

Identifying the objects of accounting for transactions with foreign investments allows us to consider the features and directions of improving the process of their accounting reflection more substantively and objectively.

There are several options for accounting for the receipt of foreign investments by a company. Contributions to the authorised capital by a non-resident founder are made by contributing non-current assets, inventories, cash and cash equivalents to the authorised capital. Accounting for the share of foreign investments in the formation of the authorised capital in cash in foreign currency is reflected in the debit of account 46 "Unpaid capital" and credit of subaccount 401 "Authorised capital". The crediting of investments to the account is accounted for by debiting subaccount 312 "Current accounts in foreign currency" and crediting account 46 "Paid-in capital". As of the date of crediting, the exchange rate difference should be recorded (debit to subaccount 974 "Losses from non-operating exchange rate differences" or credit to subaccount 744 "Income from non-operating exchange rate differences"). Contribution of shares of non-resident founders by fixed assets is reflected in the accounting by debiting subaccount 152 "Acquisition (production) of fixed assets" and crediting account 46 "Unpaid capital" and by debiting account 10 "Fixed assets" and crediting subaccount 152 "Acquisition (production) of fixed assets".

Thus, the debit of account 46 "Unpaid capital" reflects the debt of foreign founders of the company on contributions to the authorised capital, and the credit – repayment of this debt. Analytical accounting is maintained by type of outstanding unpaid shares (for joint stock companies) and by each founder (member) of the company.

Foreign investments, including contributions to the authorised capital of an enterprise with foreign investments, are valued in a foreign convertible currency and Ukrainian currency. At the same time, investments of Ukrainian partners are valued in Ukrainian currency and a foreign convertible currency.

Termination of investment activities in foreign currency is possible as a result of: withdrawal of a foreign investor from the company; alienation of

corporate rights (including shares); termination of activities (liquidation of the company).

If we consider the receipt of foreign investment in an enterprise in the form of targeted financing, then in accounting it will be reflected in the debit of subaccount 377 "Settlements with other debtors" and in the credit of account 48 "Targeted financing and targeted receipts", by debiting account 31 "Bank accounts" and crediting subaccount 377 "Settlements with other debtors", by debiting account 48 "Targeted financing and targeted receipts" and crediting subaccount 718 "Income from gratuitously received current assets" (income recognition for targeted financing amounts).

Thus, a clear understanding of the identification of accounting objects for transactions with foreign investments is required.

**Conclusions and prospects for further research.** In order to achieve the goal of attracting foreign investment, it is aimed to create appropriate conditions for attracting foreign investors. These conditions include an open investment policy. Legal regulation of any social relations arises after the establishment of key concepts. Among these are the definitions of "investment", "investment activity" and "foreign investment". At the stage of economic development of the state, foreign investments are an effective way to restore the national economy. In addition, they are seen as a source of additional financing for various sectors of the economy, as well as the introduction of new production and management technologies.

Fiscal policy measures should depend on the exposure to war-related risks, the pandemic situation and the strength of the economic recovery. Due to large-scale and necessary fiscal expansion in many countries during the pandemic, debt has reached record highs, and state authorities are more exposed than ever to the risk of rising interest rates. The need for consolidation should not prevent governments from prioritising spending to support world peace and vulnerable groups, including refugees, those affected by the commodity price

spike, and those affected by war. If fiscal space is available and monetary policy space is limited at the national level, it may be appropriate to expand fiscal support depending on the extent of the contraction in aggregate demand. However, this support should be provided in a way that avoids exacerbating existing supply and demand imbalances and price pressures. With more limited fiscal space, state authorities will have to walk a difficult line between fiscal consolidation and prioritising essential spending. In addition, the authorities should be vigilant about the vulnerability of the private sector to rising interest rates.

Beyond the immediate challenges of the pandemic and martial law, policymakers should not lose sight of long-term goals. The disruptions caused by the pandemic have highlighted the effectiveness of new approaches to work. State authorities should seek to make use of positive structural changes wherever possible, embrace digital transformation, and equip employees with new tools and skills to carry out these tasks.

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