

Economic Location Ukraine: A Guide for Companies in the Manufacturing Sector

Industrial Manufacturing Business Navigator

The Ukrainian economy offers a range of advantages for German investors from low production costs and a highly qualified workforce to strategic access to natural resources and an ideal geographic position between Europe and Asia. Following a hopefully imminent end to the war and subsequent stabilization, German companies will be able to capitalize on Ukraine's growth potential and pursue promising, forward-looking investments.

These opportunities include reducing dependencies on other international markets, supporting the green transformation, and contributing to the country's reconstruction. The KPMG guide German-Ukrainian KPMG Business Navigator outlines how German companies can successfully invest in the Ukrainian market and provides practical insights into key considerations along the way.

Ukraine as a Market of the Future: Strategic Opportunities in Reconstruction and EU Accession

On its path to transformation, the Ukrainian government, economy, and population face three core challenges:

1. Accession to the European Union (EU)
2. Reconstruction of the country
3. Addressing social challenges

Since June 2022, Ukraine has been an official EU candidate country, and its progress toward accession has been recognized internationally. The EU actively supports Ukraine's efforts to meet the necessary standards for membership. This process requires close cooperation between the public and private sectors as well as strong engagement from foreign investors and partners. The German Federal Government has already adopted a framework document with 15 measures aimed at promoting Ukraine's reconstruction.

To achieve its goals, the Ukrainian government works closely with international partners and financial institutions. Investments are being

encouraged through low capital costs, simplified guarantees, supported equity participation, and improved conditions for project financing. The economic opportunities associated with this transformation are comparable to those following German reunification, where long-term success was achieved despite enormous challenges. Ukraine now stands before a similar opportunity to build a sustainable economic recovery whereas foreign investment playing a crucial role.

Another important aspect of the reconstruction process concerns the resolution of social challenges resulting from the war. Ukraine not only faces the economic consequences of the conflict but also the social impact of mass displacement and destruction. Millions of internally displaced people need to be reintegrated, and many families have lost their homes and livelihoods. The Ukrainian government has already launched social integration programs to support vulnerable groups such as war veterans, internally displaced persons, and economically disadvantaged regions. These social measures are vital to ensuring that economic transformation goes hand in hand with social cohesion.

Promotion and Security: Support from the Government, Organizations, and KPMG

Since the EU enlargement in 2004, the Central and Eastern European (CEE) member states have made significant economic progress. Poland, for example, has increased its GDP per capita from 48% to 76% of the EU average. This convergence has led to a narrowing of the economic gap between the "new" and "old" EU members, with the economic weight of CEE countries rising from roughly 30% to 70% of the EU average.

For German companies, the improved trade relations with Eastern Europe and emerging markets create new opportunities for the export of Made in Germany products. Germany now exports more goods annually to Slovakia than to India, and in 2024, German companies generated more revenue with Polish partners than with clients in China.

Against this backdrop, Germany's central role in supporting Ukraine's EU accession and peace efforts becomes clear, both diplomatically and through economic, humanitarian, and military assistance.

To mitigate investment risks in Ukraine, various organizations provide specialized insurance options. These include the Multilateral Investment Guarantee Agency (MIGA), the investment guarantee program of the German Federal Ministry for Economic Affairs and Climate Action (BMWK), and the Ukrainian Export Credit Agency (ECA).

In this evolving environment, KPMG can effectively leverage its expertise and extensive experience. KPMG assists German companies in successfully investing across Central and Eastern Europe and in supporting Ukraine's reconstruction. Our international teams accompany German investors through every stage of their investment projects—ensuring informed decisions and sustainable growth.

Free Trade Agreements and Other Advantages: How German Companies Benefit

One key advantage for German businesses is the existing free trade agreement between the EU and Ukraine. Since 2017, Ukraine has been part of the Deep and Comprehensive Free Trade Area (DCFTA), allowing many products to be exported to the EU duty-free. This agreement facilitates trade, harmonizes regulations, and benefits German companies through reduced tariffs and streamlined administrative processes. The integration of the Ukrainian economy into the EU market creates a stable business environment that offers opportunities for all stakeholders.

Industrial Production in Ukraine: Cost Efficiency and Resource Strength

The industrial manufacturing sector in Ukraine offers attractive prospects for German companies. Notable advantages include:

- **Low production costs:** Competitive labor costs compared to Western markets.
- **Efficient supply chains:** Excellent connectivity with Europe, reducing logistics and transportation costs
- **Abundant resources:** Ukraine is a key supplier of steel, metals, and other industrial raw materials, resulting in lower material costs.
- **Government incentives:** Subsidies and tax benefits facilitate the establishment and expansion of production facilities.

Companies in mechanical engineering and the automotive sector, in particular, can benefit from the opportunities offered by industrial production in Ukraine. However, firms in other industries, such as electronics and textiles, can also take advantage of low labor costs, a corporate tax rate of 18% (compared to an average of 31% in Germany), and lower costs for electricity, gas, and fuel.

Moreover, businesses in other sectors, including the food industry and renewable energy, also benefit from reduced operating costs, tax incentives, and strong governmental support for sustainable projects.

Key Sectors of German-Ukrainian Cooperation

Ukraine is an ideal location for German companies seeking to expand production and distribution operations in Eastern Europe. This is reflected in the growing volume of foreign investment projects across industries such as automotive, chemical, packaging, metal construction, and pharmaceuticals. Other important sectors of the Ukrainian economy include:

- Engineering and industrial products
- Metal processing
- Aerospace
- Defense industry
- Conglomerates and trading companies
- Electrical engineering

To encourage investment, the Ukrainian government offers financial incentives not only for specialized industrial companies but also for independent producers in certain sectors and investment categories. These include agriculture and food production, renewable energy generation and distribution, large-scale investments exceeding EUR 12 million, as well as the production and sale of electric and biogas vehicles and related components such as engines, charging stations, and batteries.

Strategic Support from KPMG Across All Phases of Investment

KPMG provides companies with comprehensive expertise and years of experience in the field of industrial manufacturing, supporting them at every stage of their investment journey. To assess the Ukrainian market, KPMG compiles fundamental data and advises investors on potential subsidies, funding mechanisms, guarantees, and insurance options.

Once an investment decision has been made, KPMG experts conduct in-depth research and develop a detailed business plan including timelines and roadmaps. Our services also cover company formation, legal consulting, financing options, location planning, and construction aspects.

Beyond that, KPMG's support extends to core operational areas such as production, sales, logistics, procurement, human resources, accounting, and information technology. During the operational phase of a newly established subsidiary, KPMG continues to provide services in tax, advisory, and audit.

Conclusion: Investing in Ukraine Creates Significant Opportunities for German Manufacturing Companies

Despite the challenges posed by the ongoing war, Ukraine represents a high-potential market with substantial opportunities for German businesses. Supported by free trade agreements, government incentives, and a strategic approach to establishing production facilities, companies can benefit from Ukraine's low production costs, geographic proximity, and strong resource base.

Investing in Ukraine not only contributes to regional stabilization but also offers long-term, sustainable business opportunities for the industrial manufacturing sector.

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