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### **Assessment of the State of Ukraine's Light Industry Market and Possible Paths to Its Recovery**

*Abstract:* Under prolonged economic and political instability, particularly due to the war, Ukraine's light industry market has undergone significant changes and challenges. The study aims to analyse the current state of the light industry market and identify ways for its recovery. The study employs economic and statistical analysis methods, systematisation, induction and deduction, and logical generalisation. The study methodology includes a combination of financial and statistical methods (to determine production capacity utilisation compared to the pre-war period, the proportion of industrial enterprises operating at near-full and full capacity, a systematisation method (to group the identified problems of Ukraine's light industry market) and a method of logical generalisation (to formulate recommendations for the sector's recovery). The study established that Ukraine's light industry market is experiencing a difficult period due to a combination of internal and external challenges: a decline in exports, a disrupted export-import balance (imports exceed exports by a factor of three), increased import levels, a shortage of skilled labour, and difficulties in obtaining state financial assistance. It was found that the main problems of the light industry market include export difficulties due to customs barriers, inequality within the domestic market, economic instability and limited access to credit, a rigid tax system, insufficient state support and localisation, issues in workforce training, a significant share of the shadow economy, and logistical and transportation problems. The study determined that to restore Ukraine's light industry market, a comprehensive set of measures must be implemented: the introduction of a temporary zero VAT rate for imported equipment and the implementation of a mechanism for using tax funds to invest in modernisation and innovation; initiating negotiations with the EU to eliminate import duties on textile products, which would help increase the export of Ukrainian goods to European markets. In addition, it was found that it is significant to support the domestic market through government programmes that ensure access to credit and adapt the tax system to martial law conditions.

*Keywords:* socio-economic sector, import and export of the light industry, logistical barriers, strict tax policy, financial instability, state support.

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### **Оцінка стану ринку легкої промисловості України і можливі шляхи його відновлення**

*Анотація:* В умовах тривалої економічної й політичної нестабільності, зокрема внаслідок війни, ринок легкої промисловості України зазнав значних змін і викликів. Дослідження спрямоване на аналіз поточного стану ринку легкої промисловості та визначення шляхів його відновлення. В дослідженні використані метод економіко-статистичного аналізу, методи систематизації, індукції

та дедукції, а також методи логічного узагальнення. В ході дослідження встановлено, що ринок легкої промисловості України переживає складний період через поєднання внутрішніх та зовнішніх викликів: зниження експорту, порушення співвідношення між експортом і імпортом (імпорт перевищує експорт в три рази), зростання рівню імпорту, нестачі кваліфікованих трудових ресурсів, складність отримання державної фінансової допомоги. Виявлено, що основними проблемами ринку легкої промисловості є складнощі з експортом через митні бар'єри, нерівність у внутрішньому ринку; фінансова нестабільність і обмежений доступ до кредитів, жорстка адаптація податкової системи, недостатня державна підтримка та локалізація, проблеми з підготовкою кадрів, значна частка тіньового сектору, логістичні та транспортні проблеми. У ході дослідження встановлено, що для відновлення ринку легкої промисловості України необхідно реалізувати комплекс заходів: введення тимчасової нульової ставки податку на додану вартість для імпортованого обладнання та запровадження механізму використання податкових коштів на інвестиції в модернізацію і впровадження інновацій; ініціювання переговорів з ЄС для обнулення ставок ввізного мита на текстильну продукцію, що допоможе збільшити експорт української продукції до європейських ринків. Крім того, було з'ясовано, що важливо підтримати внутрішній ринок шляхом державних програм, які забезпечать доступ до кредитів і адаптують податкову систему до умов воєнного стану.

*Ключові слова:* соціально-економічна галузь, імпорт та експорт легкої промисловості, логістичні бар'єри, жорстка податкова політика, фінансова нестабільність, державна підтримка.

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### ***Abbreviations:***

*SMEs* are small and medium-sized enterprises,

*VAT* is value-added tax,

*WTO* is World Trade Organisation.

### **Introduction**

Amid the prolonged full-scale war that began in Ukraine in 2022, the light industry market, as an essential component of the national economy, has faced unprecedented challenges and problems. Traditionally, light industry has played a key role in the country's industrial structure, contributing a significant share of industrial output and numerous jobs supporting social stability. However, the war has caused large-scale infrastructure destruction, disruptions in resource supply, and a substantial decline in production capacity, all of which have significantly impacted the sector's operations. An analysis of the current state of Ukraine's light industry market under wartime conditions makes it possible to identify the main issues and challenges hindering recovery.

The functioning of the Ukrainian light industry market has attracted the attention of many domestic scholars. For example, L. E. Kasian (2018) analysed the industry's current state and identified the main obstacles to its development. Other researchers, such as T. V. Havrylenko and I. V. Brodiuk (2021), also examined the industry's challenges in the context of external economic factors. Meanwhile, V. O. Kharchenko and M. O. Sukhomlyn (2023) analysed the key factors influencing industry development, highlighting internal and external factors, including the investment climate, resource access, and innovation opportunities. In his study, L. Zinoruk (2021) explored the impact of branding on the performance of light industry enterprises, noting that a strong brand can significantly enhance product competitiveness in domestic and

international markets. Researchers such as L. M. Hanushchak-Yefymenko, M. S. Shkoda, and T. A. Kasumov (2023; 2024) investigated branding processes in European markets and their significance for Ukrainian manufacturers. In a scientific study by S. I. Serhiychuk, O. A. Ishchenko, and I. I. Dubynska (2020), SMEs' current state and development prospects in the light industry were analysed. Thus, recent academic research confirms the need to study the specific features of Ukraine's light industry market's development. Despite the considerable number of studies, the issue of recovery pathways for the light industry market remains underexplored and requires further research.

The study aims to provide a comprehensive assessment of the current state of Ukraine's light industry market by identifying the key problems that have arisen amid the ongoing war and developing recommendations for potential recovery strategies. In line with this aim, the study pursues the following objectives:

- analyse the light industry market in Ukraine under wartime and martial law conditions;
- identify the problems and obstacles to the further development of the light industry market in Ukraine;
- explore possible pathways for its recovery.

The study methodology includes a combination of economic and statistical methods (to determine production capacity utilisation compared to the pre-war period, the proportion of industrial enterprises operating at near-full and full capacity (75–99%, 100% and more), and the volume of the clothing market in Ukraine), a systematisation method (to group the identified problems of Ukraine's light industry market) and a method of logical generalisation (to formulate recommendations for the sector's recovery).

## Results

### Analysis of the Light Industry Market in Ukraine under Conditions of War and Martial Law

The light industry is one of the most critical socio-economic sectors in Ukraine, significantly impacting the country's economic and social development. Its core characteristic is its focus on the end consumer, making it a vital segment in the production of consumer goods.

The light industry encompasses the production of textiles, clothing, footwear, leather goods, and other everyday essentials for the population. As of 2020, it accounted for 5% of Ukraine's total budget revenues, underlining its importance to the state's financial framework (*Ukraine: Light industry, 2024*).

Moreover, the sector contributes 2.6% to Ukraine's merchandise exports, highlighting its role in international trade and its ability to compete in global markets.

Before the war, developing Ukraine's light industry experienced periods of both growth and decline. In 2008, the production volume in the sector reached almost 60% of the 1990 level. However, the global financial crisis led to a sharp decrease in output. Between 2008 and 2014, processed leather production fell by 68%, sweaters, pullovers, cardigans by 65.5%, and men's suits by 67%. Ukraine's accession to the WTO in 2008 failed to improve the situation, as the reduction in tariff protection of the domestic market further weakened production levels.

In subsequent years, the industry remained unstable: a decline from 2014 to 2016 to 2004 levels, followed by growth in 2017–2018. The sector's response to economic challenges varied: textile and apparel production grew by 3.9% and 2.0%, respectively, in 2014, while tanning, bag production, and other segments dropped by 18.6%. Footwear and weaving production saw a consistent decline.

In 2018, the volume of industrial products sold in the light industry was 93% of the 2006 level, while in 2019–2020, negative trends re-emerged, causing Ukraine to fall behind Poland, Germany, and Italy in production indicators. By the end of 2023, Ukraine had 19,700 registered producers of clothing, footwear, textiles, and leather goods (*Research on textiles..., 2023*).

Analysing the recent dynamics of exports and imports (*Figure 1*) is necessary to better understand Ukraine's light industry market's current state.

An analysis of export and import dynamics over the past six years shows the sector is going through a difficult period. Export volumes declined from \$1.220 billion in 2018 to \$951.1 million in 2022, indicating a loss of competitiveness in international markets. The main reason is the full-scale war that began in February 2022. Other factors also impacted the sector. In 2020, the COVID–19 pandemic triggered a global economic crisis that negatively affected Ukraine's light industry. The pandemic led to job losses and disruptions in global supply chains, limiting export and import capabilities.

Imports continued to grow until 2021, reaching \$3.538 billion, indicating a high dependence of the domestic market on imported goods. This growth was due to the underdevelopment of domestic production and high demand for foreign products, particularly under the stable economic conditions before the war. However, in 2022, imports dropped to \$3.294 billion due to the financial crisis and logistical challenges brought on by the war. Still, import volumes remained significant, suggesting stable domestic demand for imported products.

Examining the capacity utilization of enterprises operating in Ukraine's light industry market (*Figure 2*) is also insightful.

Despite overall resilience during the full-scale war, in 2022, only 7% of enterprises operated at full capacity. This indicates constraints in achieving maximum productivity, primarily due to resource shortages and supply chain issues. A substantial portion of enterprises (32%) operated at 50–74% capacity, underlining the persistent challenges preventing full recovery. On a positive note, only 2% of enterprises ceased operations entirely, showing the sector's relative viability and adaptability even during wartime. Compared to other industrial sectors, light industry performed better in 2022, mainly due to its lower dependency on complex technologies and raw materials.

The situation improved in 2023 and 2024 as the market recovered from the initial shock and resumed operations. The following figure (*Figure 3*) presents the share of industrial enterprises operating at near-full or full capacity (75–99%, 100% or more), based on sectoral surveys, compared to the pre-war period.

Throughout the year, performance indicators improved gradually, especially in the second quarter, where the share of light industry enterprises operating at near or full capacity rose to 55%, reaching 61% by the end of the year. This demonstrates that the sector began to recover from the negative impacts of the conflict, supported by internal market stabilisation and restored production facilities. However, compared to the pre-war period, the sector still shows significant volatility, mainly due to unpredictable external factors and fluctuations in demand.

At the beginning of 2024, the light industry continued to show moderate growth, with 61% of enterprises operating at near or full capacity—an improvement over previous months but still below pre-war levels. The dynamic suggests that businesses continue to implement adaptation strategies but still require further support and investment to ensure stable growth and a return to pre-war production volumes.

Thus, the performance indicators of Ukraine's light industry remain relatively stable, thanks to the sector's flexibility, mainly due to the predominance of SMEs. These SMEs were able to respond swiftly to the outbreak of war, relocating and adapting to wartime realities. Most of the 2,000+ sector-specific enterprises in light industry continued operating under war conditions. Many adapted their production to meet defence needs, fulfilling orders for clothing and gear from local governments, volunteer organisations, and territorial communities (*Ukrainian Business...*, 2024).

Figure 4 presents the dynamics of the clothing market volume in Ukraine in millions of units.

Analysing recent years, clothing sales in Ukraine dropped significantly after 2019. The most substantial decline occurred in 2022 due to the full-scale war and economic hardships, which caused a sharp fall in consumer purchasing power and disrupted supply chains. A modest recovery began in 2023, and forecasts for 2024–2027 point to gradual but steady growth, indicating that the market is adapting to new conditions and consumer demand is rebounding.

Today, Ukraine's light industry market exhibits several defining features that shape its development and adaptation:

- *Resilience to shocks.* Despite significant challenges caused by the full-scale invasion, the sector remains resilient. Experts are confident that the light industry can survive and grow, as it did during the 2014 economic crisis.
- *Strong production capacity.* As of late 2023, 19,702 officially registered operators were in the industry, reflecting substantial industrial capacity.
- *Collaboration with international brands.* A large share of Ukraine's production is outsourced to well-known global brands, reflecting the high quality of Ukrainian goods and the trust of international companies.
- *Rapid specialist training.* Industry professionals, such as technologists and seamstresses, are trained relatively quickly due to effective programmes, allowing prompt adaptation to market needs.
- *Low labour costs.* Labour costs in Ukraine are significantly lower than in the EU, making Ukrainian production more economically attractive than European competitors.
- *Favorable geographic location.* Ukraine borders the EU and is closer to key industry competitors such as China, Vietnam, and India.
- *Production flexibility.* The presence of SMEs allows for small-batch production, which is advantageous for small and niche brands without their facilities.

In conclusion, Ukraine's light industry performance indicators point to a gradual recovery despite difficult economic conditions. The growing share of enterprises operating at or near full capacity shows that businesses are adapting to new challenges.

### **Problems and Obstacles to the Further Development of the Light Industry Market in Ukraine, as well as Possible Ways of Its Recovery**

Based on the information presented (*Table 1*), the author has systematised the main issues hindering the further recovery of the light industry market.

To restore the light industry market in Ukraine, many measures are worth implementing. Firstly, a temporary (10-year) zero VAT rate should be introduced at the legislative level for equipment imported from abroad that is not manufactured in Ukraine. This will help reduce the costs of acquiring modern technologies and equipment for production needs. For example, if a Ukrainian manufacturer wishes to implement advanced technologies to improve the quality of textile products, a VAT exemption on imported equipment will allow them to save a significant amount that can be redirected toward production modernisation and product enhancement (*Internal reserves..., 2023*).

Additionally, a mechanism that allows enterprises to use funds from profit tax for investment in recovery, modernisation, innovation, and energy-saving measures is worth introducing. In particular, companies could allocate part of their profits toward installing energy-efficient equipment, reducing energy costs and lessening environmental impact. For instance, textile factories could implement advanced raw material processing systems that reduce water and energy consumption, which would cut costs and raise environmental production standards.

Another critical step is initiating negotiations with the EU to amend the relevant regulations to eliminate import duties on knitwear and textile products when EUR-1 certificates are obtained. This would enable Ukrainian manufacturers to increase exports to European countries, which is crucial for the industry's growth. For example, if a Ukrainian company produces high-quality knitwear, eliminating duties on exports to the EU would open up new markets and ensure competitiveness in the European market (*Internal reserves..., 2023*).

Moreover, it is crucial to address the issue of insufficient domestic demand. The domestic market for the light industry has a potential volume of about UAH 200 billion annually. Domestically produced goods occupy only 15–25% of this market, resulting from unequal competition conditions. The situation worsened during the war, as imports exceeded exports by three times, while exports declined by 40%. Reviving production and filling the domestic market is essential for stabilising the industry. It is also necessary to support manufacturers through government programs that provide access to credit, adapt the tax system to martial law conditions, and promote participation in public procurement.

Specifically, adjustments to the National Bank of Ukraine's policy to improve access to credit resources and adapt the tax system to wartime conditions will help enterprises overcome financial difficulties. Support for localisation of production through state orders will also promote growth in domestic manufacturing.

Another important aspect is optimising the production structure by considering the industry's innovative potential and prospects for market expansion. In this context, it is recommended to establish industrial technology parks and clusters and develop vertically integrated structures. Involving representatives of small and medium-sized businesses will increase adaptability to changing market conditions (*Hanushchak-Yefymenko et al., 2023; Shandrivska & Yunko, 2021*).



Finally, it is significant to strengthen the marketing and logistics departments of light industry enterprises. This will allow for better management of market strategies and effective product distribution, thereby positively influencing the sector's overall competitiveness.

### **Discussion**

Analysing the current state of Ukraine's light industry, it can be stated that the main problem remains the insufficient support from the state and the challenging economic conditions caused by the war. Despite the sector's resilience and ability to adapt, the key challenges continue to be high customs barriers, tax pressure, financial instability, a shortage of skilled personnel, and limited domestic demand. This raises the question: Are the proposed measures sufficient to overcome these difficulties, and can the light industry eventually become an economic driver for the country?

An important aspect for further research is the analysis of the effectiveness of the zero VAT rate on imported equipment and the mechanism for reinvesting corporate income tax into production modernisation. Will such measures truly facilitate a rapid recovery of production and enhance the competitiveness of Ukrainian enterprises? Furthermore, it is necessary to consider the creation of targeted state support programs to stimulate domestic demand and exports and to study the experience of other countries in developing light industries under crisis conditions. Another discussion area is the role of cluster initiatives and industrial technoparks in the market recovery process.

### **Conclusion**

*Thus*, even under wartime conditions, the sector has demonstrated its viability, adaptability, and capacity to swiftly launch new types of products, carry out relocation and recovery operations in de-occupied territories, and train and retrain workers in production facilities. It can even be argued that the light industry has a real chance of becoming an economic driver.

Based on the information presented, Ukraine's light industry market faces many serious challenges that hinder its recovery and development. The main problems identified during the research include high customs barriers, unequal competition conditions in the domestic market, financial instability, a rigid tax policy, insufficient state support, a lack of qualified personnel, a significant share of the shadow economy, and logistical and transportation difficulties.

To restore the light industry market, it is necessary to implement a comprehensive set of measures, including the introduction of a zero VAT rate on imported equipment, the development of mechanisms to support investment in modernisation and energy efficiency, and the initiation of negotiations with the EU to eliminate import duties on textile products. In addition, it is important to ensure support for manufacturers through government programmes, adjust National Bank policies to facilitate access to credit, and promote the localisation of production. Optimising the production structure, establishing industrial technology parks and clusters, and strengthening marketing and logistics departments are also key to enhancing the competitiveness and development of the industry.

### **Conflict of interest**

The author declares that there is no conflict of interest.

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## Appendix

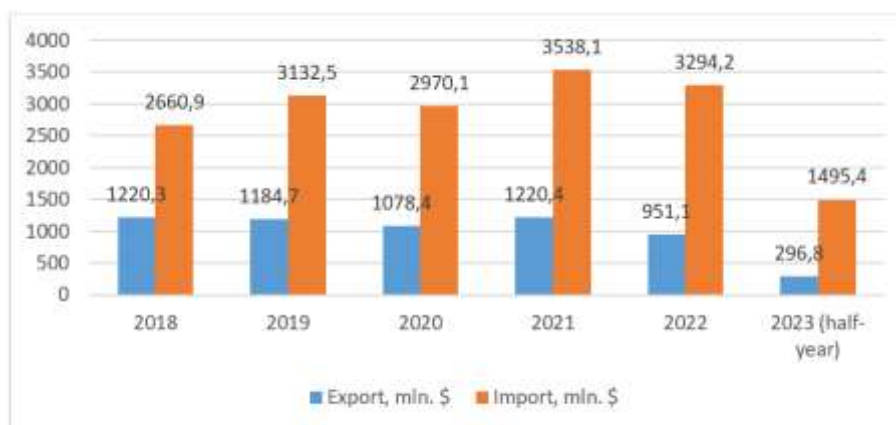


Figure 1. dynamics of light industry exports and imports in Ukraine for 2018–2023 (1st half of the year), mln. doll. USA (*Export of Ukrainian goods...*, 2022)

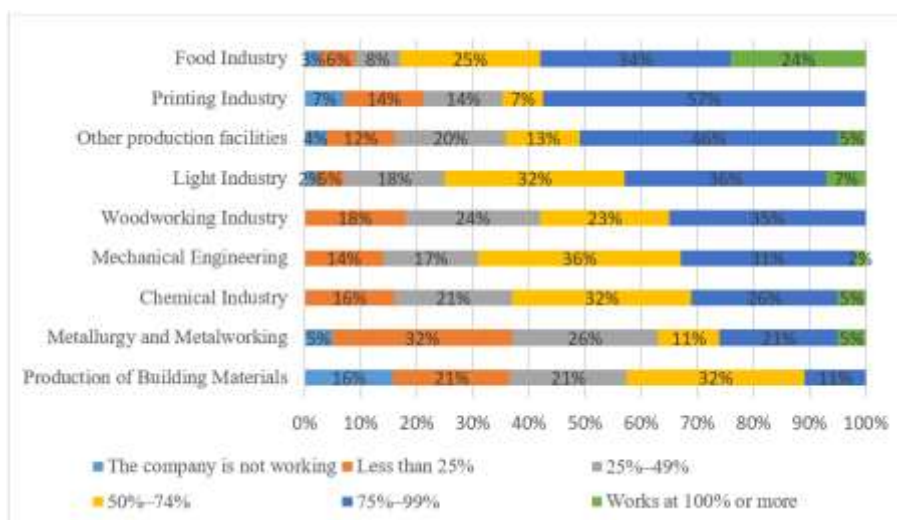


Figure 2. Capacity utilisation, compared to the pre-war period, % of enterprises in 2022 (*Ukrainian business...*, 2022)

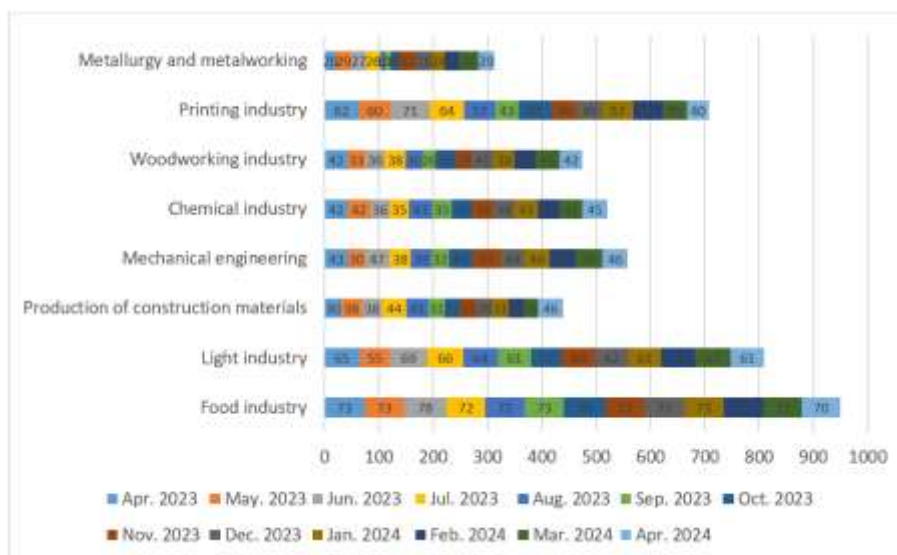


Figure 3. Share of industrial enterprises operating at almost full and full capacity (75-99%, 100% or more) compared to the pre-war period, % of respondents by industry (*Ukrainian business...*, 2024)

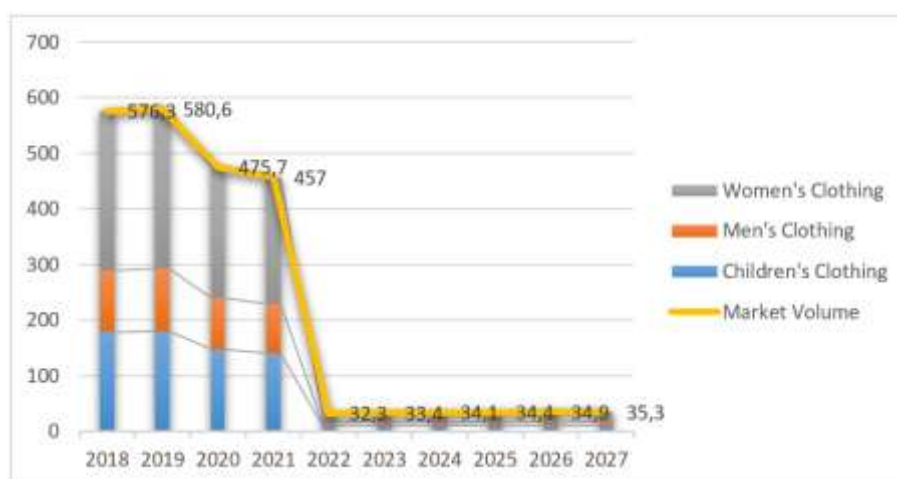


Figure 4. Volume of the clothing market in Ukraine in millions of units. (*Apparel – Ukraine*, 2022)

Table 1. Problems of the Ukrainian light industry market identified (*Internal reserves...*, 2023; *Shandrivska & Yunko*, 2021)

No	Problem	Description
1	Export difficulties due to customs barriers	The presence of high import duties on knitwear and textile products prevents an increase in exports. Insufficient support in the form of EUR–1 certificates and changes in EU customs regulations make it difficult to enter European markets.
2	Inequality in the domestic market	Low level of domestic products on the domestic market (15–25%) due to unequal competition conditions and a high level of import dependence. Military challenges have exacerbated this problem, in particular, the significant excess of imports over exports.

3	Financial instability and limited access to credit	The unstable economic situation and limited access to credit resources make it difficult to modernize production facilities and implement investment projects.
4	Strict adaptation of the tax system	A strict tax policy under martial law does not contribute to the effective functioning of light industry enterprises, which requires correction.
5	Insufficient government support and localisation	The lack of sufficient participation in government orders and incomplete implementation of product sales mechanisms leads to weak support for domestic producers.
6	Problems with training	The lack of qualified personnel for the light industrial sector, due to the significant migration of women and the mobilisation of men, limits opportunities for modernisation and the introduction of new technologies.
7	A significant share of the shadow sector	Smuggling of goods is a serious problem. According to the reports of the three main importers of finished products to Ukraine—China, Turkey and Poland, in 2017, products worth 1,079.1 million were imported from their territory, while according to the state Statistics Service of Ukraine—only 4 483.3 million. This means that the Ukrainian market received unaccounted-for imports of knitwear, home textiles, clothing and footwear in the amount of 5 596 million. Budget losses for the year only from these exporting countries amounted to UAH 5.3 billion.
8	Logistics and transport problems, including those related to border closures; transfer of a significant part of logistics operations to an online format	Logistics and transport problems, in particular related to the closure of borders due to political and economic circumstances, as well as the need to transfer a significant part of logistics operations to an online format, significantly hinder the development of light industry. This includes difficulties in obtaining raw materials, delays in the delivery of finished products to consumers, increased transportation costs due to the need to find alternative routes, as well as restrictions on physical access to international markets, which reduces the competitiveness of Ukrainian producers on the world stage.