

UKRAINE

Economic Freedom Score



World Rank: **155** Regional Rank: **43**

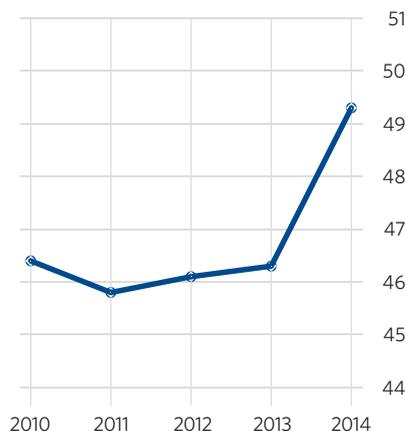
Ukraine's economic freedom score is 49.3, making its economy the 155th freest in the 2014 *Index*. Its score is 3.0 points higher than last year, with notable increases in five of the 10 economic freedoms including business freedom, control of public spending, and monetary freedom. Ukraine is ranked last out of 43 countries in the Europe region, and its overall score is lower than the world average.

Over the 20-year history of the *Index*, Ukraine's economic freedom score has advanced by over 9 points. Score increases in half of the 10 economic freedoms include particular gains in monetary stability and openness to global trade and more moderate progress in fiscal freedom and the elimination of corruption.

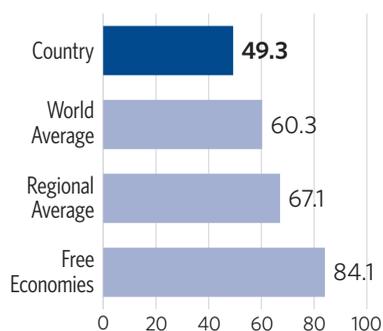
Nonetheless, Ukraine's economy remains "repressed." Deeper institutional reforms are critical for the achievement of more broadly based development. The inefficient legal framework remains highly vulnerable to political interference, and corruption further undermines the fragile rule of law.

BACKGROUND: Ukraine gained independence with the collapse of the Soviet Union in 1991. President Victor Yanukovich, in office since 2010, has pursued rapprochement with Russia, harassed the political opposition, and impeded press freedom. Ukraine joined the World Trade Organization in 2008 and the European Union's Eastern Partnership in 2009, and plans for closer cooperation with the EU have been proceeding despite Russian opposition. The government is trying to borrow \$4 billion in international capital markets, in part to help service \$3 billion owed to the International Monetary Fund and \$2 billion owed to Russia's VTO Bank. It also has allowed Chevron and Shell to prospect for gas in the Black Sea. Ukraine has well-developed agricultural and industrial sectors, but dependence on steel and steel-product exports makes it vulnerable to global financial turmoil and Russian pressure. Its geostrategic location provides a vital energy transit route from Russia to Western Europe.

Freedom Trend



Country Comparisons



Quick Facts

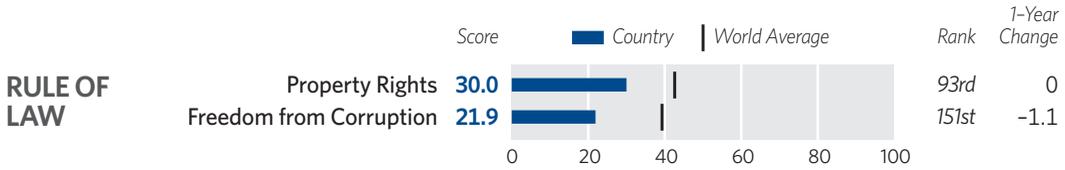
- Population:** 45.5 million
- GDP (PPP):** \$335.2 billion
- 0.2% growth in 2012
- 5-year compound annual growth -0.9%
- \$7,374 per capita
- Unemployment:** 8.0%
- Inflation (CPI):** 0.6%
- FDI Inflow:** \$7.8 billion
- Public Debt:** 37.4% of GDP

How Do We Measure Economic Freedom?

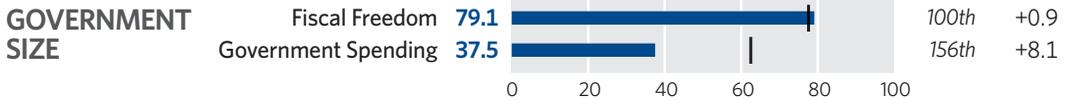
See page 471 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2012 data unless otherwise noted.
Data compiled as of September 2013.

THE TEN ECONOMIC FREEDOMS



Corruption, one of Ukraine’s most serious problems, continues to worsen. Business magnates benefit financially from their close association with top politicians. In 2012, a new law eliminated transparency requirements for public procurement. The judiciary is subject to intense political pressure and largely carries out the will of the executive branch. Contracts are not well enforced, and expropriation is always a possibility.



The top individual income tax rate is 17 percent, and the corporate tax rate was cut to 19 percent effective January 2013. Other taxes include a value-added tax (VAT) and a property tax. The overall tax burden equals 38 percent of gross domestic income. Public expenditures amount to 46 percent of GDP. Public debt is below 40 percent of gross domestic output. Government finances have been affected by the eurozone slowdown, pushing up deficits.



The business start-up process has been streamlined, but completing licensing requirements is still time-consuming and costs more than six times the level of average annual income. The labor code is outmoded and lacks flexibility. Massive and price-distorting government subsidies have resulted in domestic natural gas prices that are less than one-quarter of the importation cost.



The average tariff rate is 1.9 percent. Government procurement policies sometimes favor domestic firms. Many state-owned enterprises exist, and foreign investment in several sectors is restricted by the government. The weak financial system remains underdeveloped. Restructuring of the banking sector has proceeded slowly in the aftermath of the recent global financial crisis, which has resulted in bailouts and nationalization of several banks.

Long-Term Score Change (since 1995)

RULE OF LAW		GOVERNMENT SIZE		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+17.2	Business Freedom	+4.8	Trade Freedom	+31.2
Freedom from Corruption	+11.9	Government Spending	-9.5	Labor Freedom	-6.0	Investment Freedom	-30.0
				Monetary Freedom	+78.7	Financial Freedom	-20.0