

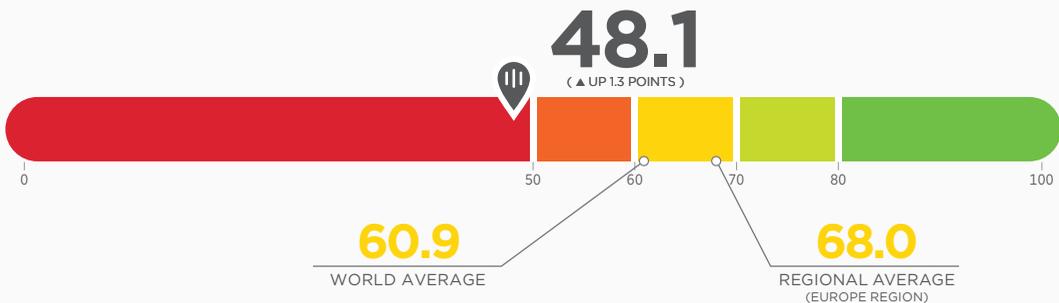
UKRAINE



Ukraine's economy has contracted deeply and remains very fragile. Ongoing disruptions of the country's productive and export capacities and significant capital outflows have put increasing pressure on the currency and reserves, severely undermining monetary stability. The overall soundness of fiscal policy has deteriorated substantially, and public deficits and debt have increased sharply. The rule of law remains fragile and is further undercut by judicial ineffectiveness.

A strong commitment to structural reforms to reduce corruption and open the economy further to Western investment and financial institutions will be crucial in helping to stabilize the economy. The government has launched a comprehensive set of reforms to restore growth, but progress is not yet evident.

ECONOMIC FREEDOM SCORE



NOTABLE SUCCESSES:
Trade Freedom and Tax Policy

CONCERNS:
Rule of Law, Government Spending,
and Investment Freedom

**OVERALL SCORE CHANGE
SINCE 2013:**
+1.8

FREEDOM TREND



QUICK FACTS

POPULATION:
42.7 million

GDP (PPP):
\$339.5 billion
-9.9% growth in 2015
5-year compound
annual growth -2.1%
\$7,971 per capita

UNEMPLOYMENT:
9.9%

INFLATION (CPI):
48.7%

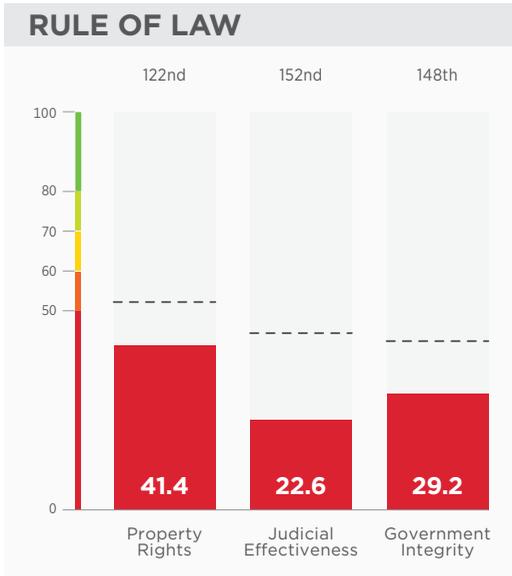
FDI INFLOW:
\$3.0 billion

PUBLIC DEBT:
80.2% of GDP

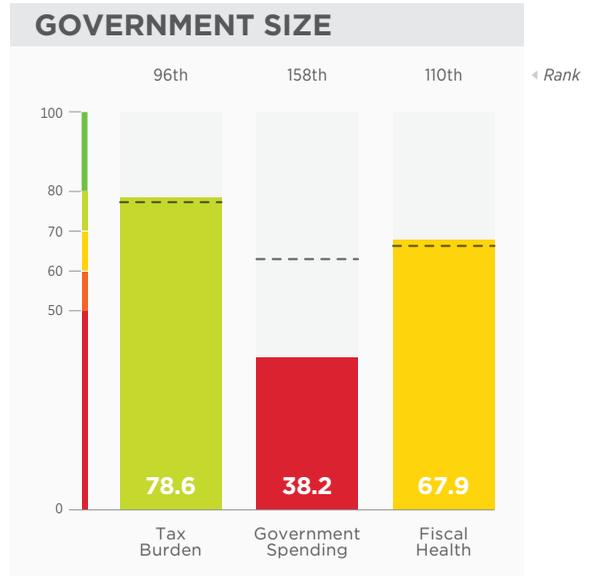
2015 data unless otherwise noted. Data compiled as of September 2016

BACKGROUND: Ukraine gained independence after the Soviet Union collapsed in 1991. Pro-Euro-Atlantic members of parliament ousted President Victor Yanukovich in February 2014, and Petro Poroshenko was elected to replace him in May. Parliamentary elections in October 2014 led to a pro-European government under Prime Minister Arseniy Yatsenyuk of the center-right People's Front. In April 2016, Yatsenyuk resigned and was replaced by Volodymyr Groysman. Russia has illegally annexed the Crimea, and Russian-backed separatists continue to destabilize the eastern part of the country. The shaky Minsk II cease-fire agreement remains in effect but is violated daily by the Russian-backed separatists.

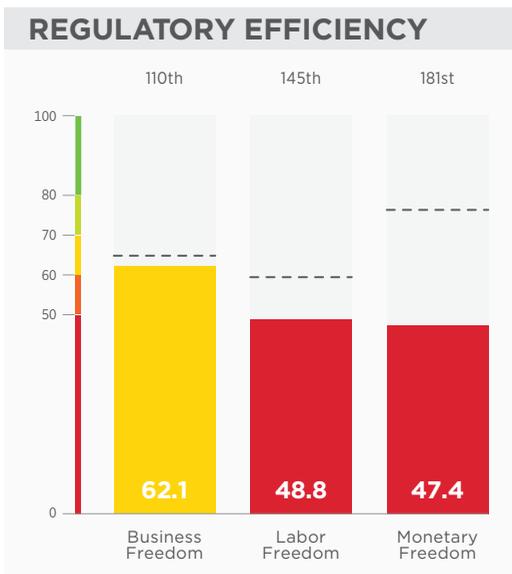
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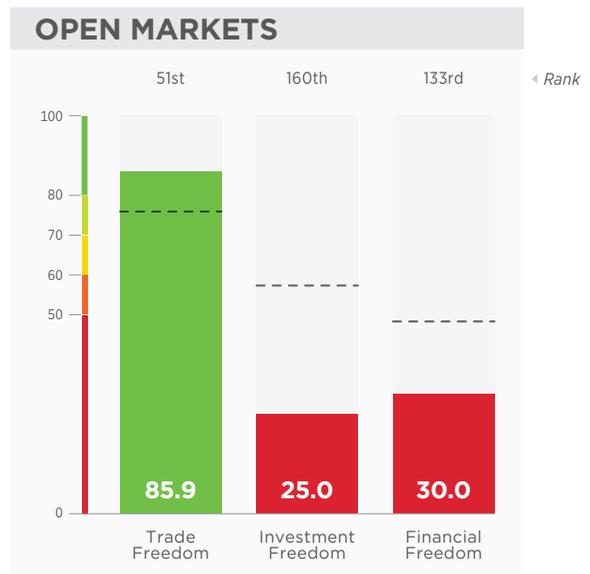
Under Ukrainian law, property rights are protected, and mortgages and liens are recorded. The government that took office in April 2016 succeeded in passing constitutional reforms of the judiciary, one of Ukraine's weakest and least trusted public institutions. The IMF has urged the government to tackle high-level corruption, but a new anticorruption bureau has met strong resistance from vested interests across the institutions of state and society.



The top individual income tax rate is 20 percent, and the top corporate tax rate is 18 percent. Other taxes include a value-added tax and a property tax. The overall tax burden equals 37.6 percent of total domestic income. Government spending has amounted to 45.4 percent of total output (GDP) over the past three years, and budget deficits have averaged 3.5 percent of GDP. Public debt is equivalent to 80.2 percent of GDP.



The business start-up process has been streamlined, but completion of licensing requirements is still time-consuming. Overall, political instability continues to compound regulatory uncertainty in commercial transactions. The labor code is outmoded and lacks flexibility. The government has initiated a comprehensive reform agenda for the energy sector that is aimed at establishing market pricing for gas and heating.



Trade is extremely important to Ukraine's economy; the value of exports and imports taken together equals 108 percent of GDP. The average applied tariff rate is 2.1 percent. Conflict with Russia interferes with trade and investment flows, and state-owned enterprises distort the economy. The primarily cash-based economy suffers from a lack of sufficient capitalization. The large number of nonperforming loans is a drag on the banking system.