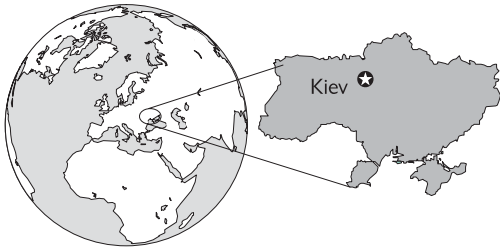


# UKRAINE



Rank: 133

Regional Rank: 39 of 41

Ukraine's economy is 51.1 percent free, according to our 2008 assessment, which makes it the world's 133rd freest economy. Its overall score is 0.6 percentage point lower than last year. Ukraine is ranked 39th out of 41 countries in the European region, and its overall score is much lower than the regional average.

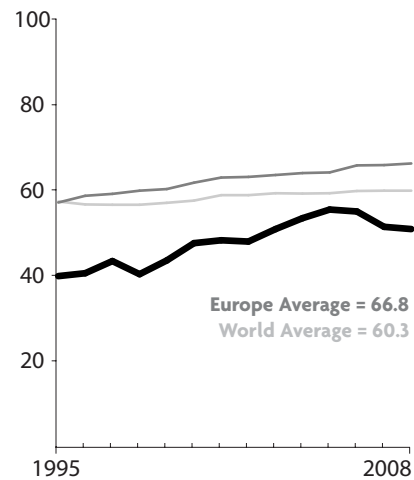
Ukraine scores moderately well in trade freedom and fiscal freedom. The average tariff rate is low, although complex regulations are significant. The top personal income and corporate tax rates are relatively low, and overall revenue from taxes is not high as a percentage of GDP.

Ukraine is very weak in business freedom, government size, monetary freedom, investment freedom, property rights, and freedom from corruption. Inflation is high, and government expenditures equal nearly two-fifths of GDP. While foreign investment is officially welcomed, corruption and regulations are deterrents to capital. The judiciary does not always enforce contracts and is tarnished with corruption. Corruption is a major problem throughout the civil service, and bureaucratic inefficiency makes many commercial operations difficult.

**BACKGROUND:** Ukraine gained its independence after the collapse of the Soviet Union in 1991. Promises of more market openness and economic reform after Ukraine's 2004 "Orange Revolution" have fallen short, and infighting between President Victor Yushchenko and Prime Minister Victor Yanukovich has generated instability. Prominent sectors of the economy include services, mining, metals, and manufacturing. The agricultural sector is strong but overregulated through quotas and tariffs on grain exports. Ukraine has benefited heavily from recent increases in the prices of metals. Despite lucrative opportunities for foreign direct investment, economic progress in the near term may be slowed by persistent corruption, steadily increasing gas prices, deteriorating infrastructure, and political uncertainty.

How Do We Measure Economic Freedom? See Chapter 4 (page 39) for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

## The economy is 51.1% free



## QUICK FACTS

**Population:** 471 million

**GDP (PPP):** \$322.4 billion

2.7% growth in 2005

7.3% 5-yr. comp. ann. growth

\$6,848 per capita

**Unemployment:** 3.2%

**Inflation (CPI):** 13.5%

**FDI (net flow):** \$7.5 billion

**Official Development Assistance:**

Multilateral: \$116.8 million

Bilateral: \$308.3 million (39.8% from the U.S.)

**External Debt:** \$33.3 billion

**Exports:** \$44.4 billion

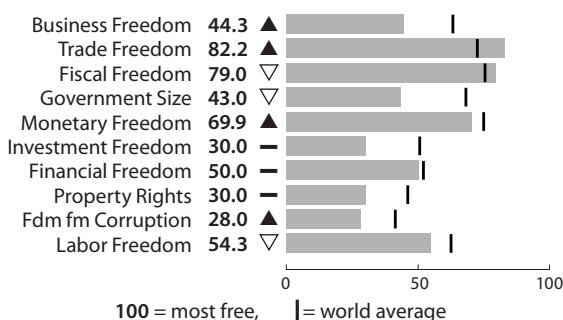
Primarily ferrous and nonferrous metals, fuel and petroleum products, chemicals, machinery and transport equipment, food products

**Imports:** \$43.7 billion

Primarily energy, machinery and equipment, chemicals

2005 data unless otherwise noted.

## UKRAINE'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 44.3%

The overall freedom to start, operate, and close a business is limited by Ukraine's regulatory environment. Starting a business takes an average of 27 days, compared to the world average of 43 days. Obtaining a business license takes more than the world average of 19 procedures and 234 days, and costs are high. Bankruptcy proceedings are relatively straightforward.

### TRADE FREEDOM — 82.2%

Ukraine's weighted average tariff rate was 3.9 percent in 2002. Some export restrictions, service market access barriers, import taxes and fees, import licensing requirements, restrictive sanitary and phytosanitary regulations, complex standards and certification regulations, non-transparent government procurement, and weak enforcement of intellectual property rights add to the cost of trade. An additional 10 percentage points is deducted from Ukraine's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 79%

Ukraine has low tax rates. The top income tax rate changed from a flat 13 percent to 15 percent in January 2007, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT), a land tax, and a vehicle tax. In the most recent year, overall tax revenue as a percentage of GDP was 35.4 percent.

### GOVERNMENT SIZE — 43%

Total government expenditures, including consumption and transfer payments, are high. In the most recent year, government spending equaled 43.6 percent of GDP. The government has privatized over 80 percent of its public enterprises, but the economy is still shackled by government intervention in the private sector.

### MONETARY FREEDOM — 69.9%

Inflation is high, averaging 10.1 percent between 2004 and 2006. Relatively unstable prices explain most of the monetary freedom score. The executive branch can establish high minimum prices for goods and services, and the government influences prices through regulation and state-owned enterprises and utilities. An additional 10 percentage points is deducted from Ukraine's monetary freedom score to account for policies that distort domestic prices.

### INVESTMENT FREEDOM — 30%

The laws provide equal treatment with some restrictions in publishing, broadcasting, energy, and insurance. Foreign investment in weapons manufacturing and alcoholic spirits is prohibited. Complex regulations and corruption are major deterrents. Contracts are not always honored by the legal system. The current government is unwilling to continue its predecessor's re-examination of old, allegedly tainted privatization deals. Resident and non-resident foreign exchange accounts are subject to restrictions and government approval in some cases. Payments and transfers are subject to various requirements and quantitative limits. Some capital transactions are subject to controls and licenses.

### FINANCIAL FREEDOM — 50%

Financial regulation and supervision are weak, although central bank policies and regulatory improvements have increased banking soundness. Banks may offer a wide range of services. Most of the 166 licensed banks as of January 2007 are very small. Two banks are state-owned, and the 10 largest banks account for over half of net assets. Foreign bank branches are not permitted, but 100 foreign-owned subsidiaries operate on par with domestic banks. The insurance sector is small, and foreign insurers are subject to more restrictions than domestic insurers. Capital markets are underdeveloped and poorly regulated but have been growing. Poor corporate governance weakens stock market transparency.

### PROPERTY RIGHTS — 30%

Protection of property is weak. The judiciary is subject to executive branch and criminal pressure, and corruption is significant. Contracts are not well enforced, and expropriation is possible. A number of initiatives to develop a mortgage market have resulted in a strong increase in the number of mortgages and laid the legislative and administrative groundwork for a functioning market. Ukraine is a major trans-shipment point, storage location, and market for illegal optical media produced in Russia and elsewhere.

### FREEDOM FROM CORRUPTION — 28%

Corruption is perceived as widespread. Ukraine ranks 99th out of 163 countries in Transparency International's Corruption Perceptions Index for 2006. Corruption pervades all levels of society and government and all spheres of economic activity. Low public-sector salaries fuel corruption in local administrative bodies such as the highway police and tax administration as well as in the education system.

### LABOR FREEDOM — 54.3%

Inflexible employment regulations hinder overall productivity growth and employment opportunities. The non-salary cost of employing a worker is very high, and the rigidity of hiring and firing a worker creates a risk aversion for companies that would otherwise employ more people and grow.