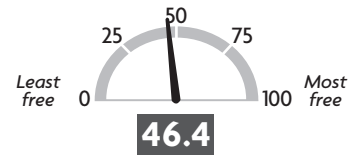


UKRAINE

Economic Freedom Score



World Rank: **162**

Regional Rank: **43**

Ukraine's economic freedom score is 46.4, making its economy the 162nd freest in the 2010 *Index*. Its score is 2.4 points lower than last year, reflecting reduced scores in six of the 10 economic freedoms. Ukraine is ranked 43rd out of 43 countries in the Europe region, and its overall score is lower than the world average.

Ukraine has undertaken some significant structural reforms to strengthen its economic base and has achieved annual growth of 5 percent over the past five years. Positive steps have included implementation of competitive tax rates and membership in the World Trade Organization after a 14-year accession process.

In its transition to greater economic freedom, however, Ukraine lags behind other European countries, particularly in creating an entrepreneurial environment and eradicating corruption. Progress in privatization and attracting foreign investment has been slow. Regulatory and legal frameworks remain burdensome and inefficient. Bureaucratic hurdles make many commercial operations and business formation challenging. The judicial system lacks independence and capacity, and legal procedures are commonly subject to corruption.

BACKGROUND: Independent since the collapse of the Soviet Union in 1991, Ukraine has rich agricultural lands and significant natural resources and is an important route for oil and gas pipelines between Russia and Western Europe. In January 2009, Russia cut off gas supplies to Ukraine. A deal was reached, but relations remain tense. Because of political infighting between Prime Minister Yulia Tymoshenko and President Victor Yushchenko, promises of economic reform, better governance, and anti-corruption efforts made after the 2004 "Orange Revolution" remain unfulfilled. The recent economic crisis triggered a significant recession and an expected GDP contraction of 10 percent in 2009. A NATO Membership Action Plan is blocked by Russian, German, and French reservations. Ukraine has joined the World Trade Organization and the European Union's Eastern Partnership, but EU accession in the near term is unlikely.

Country's Score Over Time



Quick Facts

Population: 46.3 million

GDP (PPP): \$336.4 billion

2.1% growth in 2008

5.0% 5-year compound annual growth

\$7,271 per capita

Unemployment: 3%

Inflation (CPI): 25.2%

FDI Inflow: \$10.7 billion

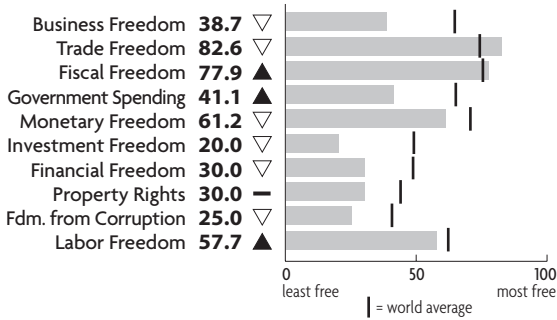
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

UKRAINE'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 38.7

The overall freedom to start, operate, and close a business is limited by Ukraine's regulatory environment. Starting a business takes 27 days, compared to the world average of 35 days. Obtaining a business license takes more than the world average of 18 procedures and 218 days, and costs are high. Bankruptcy is time-consuming and costly.

TRADE FREEDOM — 82.6

Ukraine's weighted average tariff rate was 3.7 percent in 2008. Ukraine is making progress in liberalizing its trade regime, but some export restrictions, services market access barriers, import taxes and fees, import licensing requirements, non-transparent government procurement, complex standards and certification regulations, burdensome customs procedures, and weak enforcement of intellectual property rights still add to the cost of trade. Ten points were deducted from Ukraine's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 77.9

Ukraine has relatively low tax rates. The top income tax rate is 15 percent, and the standard corporate tax rate is 25 percent. Insurance companies and agriculture profits are subject to special rates. Other taxes include a value-added tax (VAT), a property tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 36.9 percent.

GOVERNMENT SPENDING — 41.1

Total government expenditures, including consumption and transfer payments, are high. In the most recent year, government spending equaled 44.3 percent of GDP. Despite widespread privatization, the economy remains shackled by government intervention in the private sector.

MONETARY FREEDOM — 61.2

Inflation has been extremely high, averaging 20.7 percent between 2006 and 2008. The executive branch can set minimum prices for goods and services, and the government influences prices through regulation and state-owned enterprises and utilities. Ten points were deducted from Ukraine's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 20

The laws provide equal treatment for foreign investors, but certain sectors are restricted or barred. Burdensome bureaucracy and regulations are the primary deterrents to investment. Contracts are not always upheld by the legal system, and privatization has slowed. Resident and non-resident foreign exchange accounts may be subject to restrictions and government approval. Payments and transfers are subject to various requirements and quantitative limits. Some capital transactions are subject to controls and licenses. Foreign investors may not own farmland.

FINANCIAL FREEDOM — 30

Ukraine's financial system remains weak and underdeveloped. Restructuring of banking has proceeded slowly, and the more than 150 small banks often suffer from insufficient capital. Two banks are state-owned, and the 10 largest banks account for over half of net assets. Since passage of amendments on banking activity in 2006 and accession to the World Trade Organization in May 2008, foreign banks and insurance companies have been permitted to open branch offices. Reflecting the lack of efficiency and depth in the financial system, the development of a domestic capital market is still at a rudimentary stage. A liquidity crisis and an increase in non-performing loans related to the global financial crisis have led to a large bailout package from the International Monetary Fund. The government has also taken controlling stakes in three of five banks in financial trouble and has been considering nationalization of the others.

PROPERTY RIGHTS — 30

Protection of property rights 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. Initiatives to develop a mortgage market have resulted in a strong increase in the number of mortgages and have laid the legislative and administrative groundwork for a functioning real estate market. Ukraine is a major transshipment point, storage location, and market for illegal optical media produced in Russia and elsewhere.

FREEDOM FROM CORRUPTION — 25

Corruption is perceived as widespread. Ukraine ranks 134th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, a drop from 2007. Corruption pervades all levels of society and government and all spheres of economic activity and is a major obstacle to foreign investment. 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 — 57.7

Ukraine's labor regulations are relatively rigid. The non-salary cost of employing a worker is very high, and dismissing an employee is difficult.