

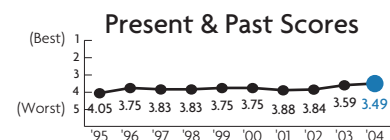


# UKRAINE

Rank: 117

Score: 3.49

Category: Mostly Unfree



## QUICK STUDY

### SCORES

Trade Policy	3
Fiscal Burden	3.9
Government Intervention	3
Monetary Policy	3
Foreign Investment	4
Banking and Finance	3
Wages and Prices	3
Property Rights	4
Regulation	4
Informal Market	4

**Population:** 49,093,000

**Total area:** 603,700 sq. km

**GDP:** \$48.4 billion

**GDP growth rate:** 9.1%

**GDP per capita:** \$986

**Major exports:** metals, minerals, electronics, chemicals, vegetables

**Exports of goods and services:** \$31.6 billion

**Major export trading partners:** Russia 17.8%, Turkey 6.9%, Italy 4.6%, Germany 4.2%, China 3.9%

**Major imports:** minerals, electronics, transport equipment, metals

**Imports of goods and services:** \$29.2 billion

**Major import trading partners:** Russia 37.2%, Turkmenistan 11.1%, Germany 9.8%, Poland 3.2%, US 2.8%

**Foreign direct investment (net):** \$671.6 million

2001 Data (in constant 1995 US dollars)

Ukraine's political system is gripped by maneuvering to succeed President Leonid Kuchma, who has ruled since 1995. The March 2002 parliamentary elections did not lead to the formation of a majority coalition, and the opposition remains divided between the center-right and left. Ukraine has become embroiled in corruption scandals. President Kuchma has been implicated in scandals involving the disappearance and death of Hrihory Gongadze, an investigative journalist, as well as the surreptitious taping of conversations in his office. Former Prime Minister Pavlo Lazarenko has been indicted for money laundering and corruption in both the United States and Switzerland. Ukraine depends almost entirely on energy imports from Russia, and the Kremlin has been using this dependence to gain political influence. However, there has been moderate progress on economic reforms, including land reform, price liberalization, and reducing barriers to trade, and tax reform is expected in 2003. Rising industrial outputs and falling inflation also have contributed to the recent improvement in GDP growth. Most Western observers are hoping for the formation of a pro-reform cabinet following presidential elections in 2004. Ukraine has expressed an interest in joining the European Union and has been an active member of the NATO Partnership for Peace program. In May 2002, it announced that it planned to move away from its position of neutrality and intends to apply formally to join NATO. Ukraine's monetary policy score is 1 point better this year. As a result, its overall score is 0.10 point better this year.



## TRADE POLICY

Score: **3—Stable** (moderate level of protectionism)

According to the World Bank, Ukraine's weighted average tariff rate in 1997 (the most recent year for which World Bank data are available) was 5.3 percent. Non-tariff barriers include non-transparent standards, cumbersome procedures for phytosanitary certification, and import licenses.



## FISCAL BURDEN OF GOVERNMENT

Score—Income Taxation: **4—Stable** (high tax rates)

Score—Corporate Taxation: **4—Stable** (high tax rates)

Score—Change in Government Expenditures: **3.5—Stable** (low increase)

Final Score: **3.9—Stable** (high cost of government)

Ukraine's top income tax rate is 40 percent. The top corporate tax rate is 30 percent. In May 2003, the parliament passed legislation that will replace the current progressive tax code with a 13 percent flat rate starting in 2004; because the cut-off date for any new policy changes is June 30, 2003, the 13 percent flat tax rate will be reflected in next year's *Index*. Government expenditures as a share of GDP increased less in 2001 (0.2 percentage point to 36.6 percent) than they did in 2000 (0.3 percentage point). On net, Ukraine's fiscal burden of government score is unchanged this year.



## GOVERNMENT INTERVENTION IN THE ECONOMY

Score: **3—Stable** (moderate level)

The World Bank reports that the government consumed 22.5 percent of GDP in 2001. In the same year, according to the International Monetary Fund, Ukraine received 9.62 percent of

its total revenues from state-owned enterprises and government ownership of property.



## MONETARY POLICY

Score: **3–Better** (moderate level of inflation)

Data from the International Monetary Fund's 2003 *World Economic Outlook* indicate that from 1993 to 2002, Ukraine's weighted average annual rate of inflation was 7.52 percent, down from the 18.88 percent from 1992 to 2001 reported in the 2003 *Index*. As a result, Ukraine's monetary policy score is 1 point better this year.



## CAPITAL FLOWS AND FOREIGN INVESTMENT

Score: **4–Stable** (high barriers)

Although foreign investment in most types of businesses is permitted, foreign investment is impeded by a number of formal and informal barriers. According to the U.S. Department of State, legislation passed in October 2001 "places a 20-year moratorium on land sales to foreigners, although foreigners are permitted to own land plots on which company facilities have been built." Apart from the general lack of transparency in Ukraine's privatization program, foreign investors may participate only in the privatization of "strategic" sectors, which include radio, television, radio, and insurance. Foreign equity shares in television, radio, and publishing companies are restricted to 30 percent. The International Monetary Fund reports that resident and non-resident foreign exchange accounts are subject to restrictions. Payments and transfers are subject to various licensing requirements and quantitative limits. Some capital transactions, including credit operations, are subject to controls and licenses.



## BANKING AND FINANCE

Score: **3–Stable** (moderate level of restrictions)

Ukraine's banking sector is underdeveloped and undercapitalized. The Economist Intelligence Unit reports that "total capitalization of the banking sector is less than US\$2bn, or roughly the size of one large bank in central Europe. Moreover, with around 150 registered banks, the sector remains excessively fragmented." The government owns two banks, and they are among the largest in the country. The Financial Action Task Force, an anti-money laundering watchdog organization, has kept Ukraine on its list of countries that are not doing enough to combat money laundering.



## WAGES AND PRICES

Score: **3–Stable** (moderate level of intervention)

The government controls some prices. According to the U.S. Department of State, "The cabinet of Ministers of Ukraine has price-setting authority with products, goods, and services in certain sectors. These lists include basic tariffs (e.g., electricity, telecommunications, transportation, utilities), and some crucial products such as sugar, grain, gas, oil, etc. Government regulated prices and tariffs may change as a result of changes in production and sale conditions." Ukraine has a minimum wage.



## PROPERTY RIGHTS

Score: **4–Stable** (low level of protection)

Protection of property is weak in Ukraine. According to the U.S. Department of State, "the Constitution provides for an independent judiciary; however, in practice, the judiciary is subject to considerable political interference from the executive branch and also suffers from corruption and inefficiency." In addition, "Organized crime is alleged to influence court decisions."



## REGULATION

Score: **4–Stable** (high level)

There are significant obstacles to doing business in Ukraine. The U.S. Department of State reports that "private investment (including U.S. investment) is greatly hampered by rampant corruption, overregulation, lack of transparency, high business taxes, and inconsistent application of local law.... The bureaucratic procedures for obtaining various permits, licenses, etc., are complex and unpredictable, burdensome and duplicative; they create confusion, significantly raise the cost of doing business in Ukraine, provide opportunities for corruption, and drive much activity into the burgeoning 'shadow' economy."



## INFORMAL MARKET

Score: **4–Stable** (high level of activity)

Transparency International's 2002 score for Ukraine is 2.4. Therefore, Ukraine's informal market score is 4 this year.