

# Ukraine 2014



**Total: 46.89**

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## Quick facts

Population:	42.78 million
Unemployment rate:	10.49 %
GDP:	130.66 billion \$
GDP growth rate:	-6.83 %
GDP per capita:	3055 \$

## Political Freedom

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### Free and Fair Elections : **5.71**

Elections in Ukraine are neither free nor fair. After the latest changes in electoral law half of the 450 members of the Verkhovna Rada (Supreme Council) are elected by proportional representation and half in single-member districts. Freedom House has raised concern that this gives President Yanukovich's Party of Regions a significant logistical advantage over other parties due to its ability to present candidates for every single member district. President Yanukovich recently appointed a close ally as head of the electoral commission without consulting the parliament, and the OSCE has reported numerous cases of electoral fraud, such as vote-buying and ballot-stuffing. Criminal charges against former PM Yulia Tymoshenko eliminated a serious competitor in the 2012 presidential race.

### Absence of Unconstitutional Veto Players : **3.33**

Oligarchs have a significant influence on politics. The decision not to adopt EU's trade agreement in November 2013 was clearly due to pressure from oligarchs and the Kremlin. Through its monopoly on the price of energy supplies to Ukraine, Gazprom (and consequently the Russian government) has the power to frequently interfere in Ukrainian politics. After the Ukraine halted negotiations with the EU, Russia lowered energy prices.

### Freedom of Press : **3.7**

The press is not free. Due to the ownership structure of media, highlighting failures of the government is not possible. Investigative journalists are dismissed from their newspapers and subjected to state-sponsored violence if they criticise politicians, according to Freedom House reports. Media freedoms secured by the Orange Revolution had since been abolished. In the World Press Freedom Index Ukraine ranks 127th out of 180, between Colombia and Afghanistan.

## Rule of Law

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### **Independence of the Judiciary : 2.42**

Ukraine scores low on the judiciary. As Freedom House noted in its 2013 report, the judiciary is “subject to intense political pressure and largely carries out the will of the executive”. Selective justice towards former government ministers (including ex-PM Tymoshenko) led to court decisions based on shallow evidence and subsequent unexpected presidential pardons. An appointment of Vyacheslav Ovcharenko to the Constitutional Court, by President Yanukovich, was observed as crony and as aimed to secure background support to planned future anti-democratic presidential decrees and legislation. The role of courts in a post-election re-composition of the parliament through stripping some MPs of their mandates was also suspicious. In its 2013 Progress Report, the EU warned at the “selective use of justice vis-a-vis opposition activists”, whose trials failed to meet the standards of fair, transparent and independent legal process.

### **Corruption : 2.5**

According to Transparency International's Corruption Perception Index 2013, Ukraine's score was 25. It was ranked 144 of 177, as the worst corrupt country on the European continent. Its CPI worsened as compared to 2012. According to Global Corruption Barometer 2013, the most corrupt sectors were judiciary (87%), police (84%) and public officials and civil servants (82%). Regarding police, 49% of the respondents or their close relatives had given them bribes during the previous 12 months, while 21% had bribed judges. In spring 2013, four anti-corruption laws were adopted, introducing registry of corruption suspects, severing the rules of asset declaration, slightly improving the position of whistle blowers and introducing corporate liability for corruption. Corruption among the highest echelons of government was among the prime motives for mass protests that had started in autumn 2013 and led, in February 2014, to ousting of President Viktor Yanukovich from power (Euromaidan Revolution). Two kilograms of gold were later found in his private premises as evidence of massive political corruption at the top. Large parts of the business sector were involved, sometimes in coordination with domestic or regional organized crime. Grand scale VAT fraud, misuse of public procurement and money laundering included some of the biggest domestic or foreign banks and companies. Political backing for the operations was secured by the President, his aides, or their family members.

## Protection of Human Rights : 5.87

In 2013, the human rights` situation in Ukraine was deteriorating. Even though some steps in the right direction were taken, e.g. instruments established to prevent ill treatment and abuse in custody, at least declarative steps made towards more children`s and Romany rights and the situation regarding freedom of religion maintained as quite satisfactory, there were numerous reasons for alert. Reversal of the burden of proof and refusal to include gender identity and sexual orientation into the anti-discrimination legislation were worrisome. Citizens` right to access to information was a dead letter. The discriminative auditing or other prohibiting measures against foreign-funded or other NGOs added to the anyway restrictive environment for their work. When mass anti-government rallies began in autumn 2013, limits to public gathering and cases of excessive use of force or police brutality gradually increased. Violence against political opponents became a norm. During the Euromaidan Revolution, government forces even shot at the protesters. Besides corruption and turning their back on the EU as such, unwillingness of the authorities to respect the European standards of human rights was among major motives for the regime change in February 2014. Following the change, the war has started. Russia annexed Crimea. The move was coupled with mass violation of civic, political and human rights. Foreign backed separatist rebels in eastern Ukraine have also been violators on a grand scale, including multiple war crimes. Overall human rights situation throughout the country went well below any usual peace time standards.

## Economic Freedom

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### Security of Property Rights : 4.26

Private property is not well secured in the Ukraine. Main problems arise from the low level of judiciary independence which is a direct result of the influence of political elites (and business elites connected to them) over the judiciary. The influence of offices of the state monopoly of force are particularly strong. In that environment legal proceedings of the courts are partial and politicized, and corruption and nepotism are present. Court procedures are numerous and long, delaying the effective access to justice. Property rights in the field of agricultural land are not clarified and pose a problem in creation and functioning of the land market.

### Size of Government: Expenditures, Taxes, and Enterprises : 5.83

Public expenditures in the Ukraine are high for a country from the Commonwealth of Independent States (CIS) and more comparable to the European average, reaching 45.3% of GDP. These expenditures are financed not only by high taxes but also with significant budget deficits, standing at 4.5% of GDP. The political situation (most notably the conflict in the Donbas region) seem to give excuse to financing public sector through deficit, however high deficits have been recorded even before the current crisis. Stagnant economy which has not reached its pre-crisis output level from 2009 has experienced new wave of recession in 2014. This has led to a sharp increase in

public debt, from 19.6% in 2009 to 71.2% of GDP in 2014. The state of public finance made the government postpone envisaged decrease in tax rates for the Vat and corporate tax. High taxes are necessary to finance public expenditures – although corporate tax is 18% and general personal income tax 15% high social contribution lead to the overall tax wedge on labour between 35.4% and 41.3%. There is small progression in the personal income for high earners, but the tax rate increase is low (only 2 pp). Although large scale privatization process has been implemented, there are still companies in competitive markets owned by the state which rely on government subsidies for their investment and even daily operations.

## **Regulation of Credit, Labour, and Business : 4.65**

Business regulation in the Ukraine is overall oriented towards entrepreneurial activities. However, major problems remain in the field of administrative requirements and high bureaucracy cost associated with it, which hinder economic activities and foster widespread corruption. Obtaining a construction permit is very expensive, as well as getting electricity which also burdened with lengthy procedures. Compliance with tax procedures is also burdensome due to complicated procedures and high number of payments. However, starting a business is easy and inexpensive, while there are few licensing restrictions. Labour market regulations are a mixture of flexible (working hours) and rigid rules (redundancy regulations). Severance pay is not set high, and is not increasing with the respect to years of tenure, encouraging employment. The minimum wage is not set high to the average, however the high tax wedge makes labour expensive.

## **Freedom to Trade Internationally : 8.62**

The Ukrainian economy is included in the international market, further enhanced with its accession to the World Trade Organization (WTO) in 2008. In fact, the main trigger of long lasted political tensions was a trade agreement with the EU. The Stability and Association Agreement (SAA) was finally signed in March 2014 which is expected to further liberalize trade flows between the Ukraine and the EU. This has effectively put on hold the joining of the Ukraine to the Eurasian Customs Union (EACU). Its main trade partners are the EU and countries of the Commonwealth of Independent States (CIS). Tariffs on imported goods are low (accept for certain agriculture or heavy industry products). However, regulatory trade barriers in the field of certification and standardization activities pose a significant burden on free trade. Import and export documentation procedures are also a hindrance due to their long timeframe. The strong depreciation of the currency took place due to armed conflicts in the Donbas region and economic slowdown, lead the National bank of Ukraine to impose new capital controls in order to maintain *hryvnya* stability.