

**ПОСОЛЬСТВО УКРАЇНИ
У СПОЛУЧЕНИХ ШТАТАХ
АМЕРИКИ**



**EMBASSY OF UKRAINE
TO THE UNITED STATES OF
AMERICA**

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MAY 10 2005

May 10, 2005

Mr. Joseph A. Spetrini
Acting Assistant Secretary
For Import Administration
U.S. Department of Commerce
Central Records Unit, Room 1870
14th Street and Constitution Avenue, NW
Washington DC 20230

DEPT. OF COMMERCE
ITA
IMPORT ADMINISTRATION

A - 823-812

Re.: change of circumstances review

Dear Mr. Spetrini,

Please find a translation of information provided by the Ministry of Economy of Ukraine for a review of Ukraine's status in the context of antidumping investigations due to circumstances that have changed.

Do not hesitate to contact me if you have any questions at 202 349 2960.

Respectfully submitted,

Yevgen V. Burkat

Chief of the Trade and Economic Mission

Enclosure: 37 pages

**Information on Market Status of
Economy of Ukraine
in the Context of
U.S. Antidumping Legislation**

April 2005

1. Level of Convertibility of the National Currency

The National Currency of Ukraine and its Convertibility

In accordance with Article 99 of the Constitution of Ukraine, the monetary unit of Ukraine is the hryvna. The hryvna was put in circulation on September 2, 1996 and is the only legal form of payment on the territory of Ukraine. All payments in Ukraine are effectuated in the national currency exclusively.

On September 24, 1996 Ukraine officially took obligations of Article VIII of the Statute of the International Monetary Fund (IMF). This means that the hryvna has an official status of a hard currency for current international transactions.

From March 19, 1999, the official exchange rate of the hryvna to the U.S. dollar is fixed in accordance with the information on the market rates of the interbank exchange market. All subjects of the exchange market have the same access to this information.

The official rate is used by residents and non-residents of Ukraine only for bookkeeping of transactions in foreign currencies and for calculations of customs payments.

The status of the Ukrainian currency as a hard currency for current transactions is proved by reports of the EBRD experts.

Positive Changes in the Sphere of Exchange Regulation

Recently a number of positive changes in the sphere of exchange regulation have taken place.

Particularly, a number of legal documents of the National Bank of Ukraine (NBU) aimed at further liberalization of the exchange market, ensuring of transparency and improvement of exchange transactions enforcement came into force.

So, since February 2001 the authorized banks are permitted to carry out foreign currencies purchase and sale transactions for their own funds in foreign currencies on international exchange markets if there are no liabilities in these currencies within the limit of an open currency position, in other words, they are permitted to carry out arbitrage operations on foreign markets freely in order to receive profits from exchange rates float.

In order to create conditions for hedging of currency risks for clients – subjects of economical activity, from January 2003, the NBU permitted banks on behalf and for the funds of their clients to carry out purchase and sale transactions of foreign currencies of the 1st group of the Classifier for foreign currencies of the 1st group

of the Classifier if there are no liabilities in these currencies either on international exchange markets or the interbank exchange market.

At the same time, taking into account tendency of the foreign policy of our country to the WTO accession, in order to approach international standards and conditions of functioning of the world exchange markets as well as to hedge currency risks arising while executing foreign economic contracts by residents, authorized banks are permitted to carry out purchase and sale transactions of foreign currencies of the 1st group of the Classifier for foreign currencies of the 1st group of the Classifier on “forward” basis on behalf and for the funds of their clients that are subjects of economical activity of Ukraine. And from October 24, 2003, such kind of transactions is allowed on the interbank exchange market of Ukraine.

In order to widen the frames of bank services that authorized banks render to their clients – natural persons, who are not subjects of economical activity of Ukraine, authorized banks are permitted, at the request of natural persons, to convert foreign hard currencies on their accounts into another foreign currency of the same group of currencies with simultaneous entering of the purchased currency in accounts.

In order to hedge banks’ currency risks in case of unfavorable market conditions and to extend market of bank metals, from September, 2003, authorized banks are permitted to purchase bank metals, provided there are no liabilities either on the interbank market of Ukraine or foreign markets, as well as to carry out transactions on “forward” basis on foreign markets in the amount of 50% of limits of a long (short) open currency position.

Some decisions were made by the NBU in effort to accelerate foreign economic payments by way of simplifying foreign currency purchase procedure (elimination of the requirement on verification of copies of customs declarations by custom authorities before submitting them to authorized banks in package of confirmatory documents; elimination of the requirement on making registers for purchase of a foreign currency that should be submitted to tax authorities for conformation in case of purchase of a foreign currency in the result of foreign transactions if a product has been already imported to the territory of Ukraine, in case of purchase of a foreign currency by insurers for payments to non-residents for services rendered to natural persons upon their departure from Ukraine for, for instance, business trips, tourist trips, studies).

Measures on liberalization of the interbank exchange market of Ukraine touched on its cash segment as well. Thus, from March, 2003, the requirement not to exceed 5% limit of deviation of a hryvna rate to foreign currencies rates from the official rate upon carrying out transactions of purchase and sale of a cash currency through cash registers and currency exchange outlets. The quota on purchase of

bank metals by natural persons through a cash register of an authorized bank was increased to 50,000 hryvnas.

The NBU eased its requirements on some transactions concerning credits in foreign currency. In particular, in order to improve terms and accelerate getting of long-term credits in foreign currency obtained by authorized banks from non-residents, the NBU eased the procedure of registration of credit agreements concluded for the period of more than 1 year. At the same time, natural persons were given the right to get credits in foreign currency from authorized banks and non-residents that will help to increase level of satisfaction of consumer wants. During years of 2003-2004 norms regulating transportation of currency through the custom border of Ukraine by natural persons and legal entities were improved: procedures of export of cash foreign currency and foreign currency transfer out of the territory of Ukraine were simplified for natural persons; the procedure of import of bank metal and bank notes of foreign countries was simplified for authorized banks.

In March, 2005, the regulation on obligatory sale of 50% of currency profit was eliminated by a joint decision of the Cabinet of Ministers of Ukraine and the National Bank of Ukraine.

Legislation on the National Bank of Ukraine and its Mission

Legal status, organizational structure and mission of the National Bank of Ukraine are determined by the Constitution of Ukraine and the Law of Ukraine “On the National Bank of Ukraine”.

In accordance with Article 99 of the Constitution of Ukraine, adopted in 1996, the main mission of the central bank of the State – the National Bank of Ukraine - is to guarantee stability of the monetary unit – the hryvna. As a part of its mission the National Bank helps to maintain stability of the banking system and, in frames of its power, to maintain price stability.

In accordance with the Law of Ukraine “On the National Bank of Ukraine”, the National Bank of Ukraine is the central bank of Ukraine, a special central organ of public administration, its emissive centre. It determines a system, procedures and forms of payments, fulfills banking regulation and control, determines procedures of carrying out transactions in foreign currency, etc. The National Bank of Ukraine ensures administration of gold and foreign currency reserves, is the keeper of gold reserves of the country. The National Bank of Ukraine sets forth rules of calculating of a bank-rate and other interest rates on its transactions, gives permits for banks foundation by way of their registration, issues licenses and permits, sets forth obligatory economic norms for banks, etc.

The National Bank Intervention in the Exchange Market for Currency Support

All the transactions of purchase and sale of currency are conducted on the interbank exchange market. The National Bank of Ukraine is one of the subjects of this market, the rest of the market participants are commercial banks.

The National Bank participates in the exchange market on the basis of co-operation with the International Monetary Fund. In accordance with the IMF Statute the objective of the co-operation (p. (iii) of Article I) is: “to support stability and regulation of the currency procedure of the countries-participants, and to prevent devaluation of a currency from competition”.

During the year of 2004 volume of currency sale transactions on the interbank market exceeded 77.7 billions of USD. At the same time NBU intervention reached 8 billions of USD, that means it didn't exceed 10,3% from the general volume of transactions. Thus, participation of the National Bank in currency purchase and sale transactions on the interbank exchange market does not, in any way, interfere with convertibility of the national currency.

Banking Reforms, Consolidation of the Banking System

The banking system of Ukraine was launched after the Verkhovna Rada of Ukraine adopted the Law of Ukraine “On Banks and Banking” in March, 1991. It is a two-level system that includes the National Bank of Ukraine and other banks of different types and forms of ownership.

In 2001 a new Law of Ukraine “On Banks and Banking” was put in force. As a result, legal norms and standards of the National Bank in regard to banks regulation and control were considerably renewed.

Banks in Ukraine are established in the form of joint stock companies, limited liability companies and cooperative banks by legal entities and natural persons. Banks have the right to accept deposits from legal entities and natural persons; open and keep current accounts of clients, invest the attracted values on their own terms and at their own risk; carry out money transfer and transactions with foreign currency values, etc.

In their activity banks are guided by the Constitution of Ukraine, the Laws of Ukraine “On the National Bank of Ukraine”, “On Banks and Banking”, the Ukrainian legislation on joint-stock companies and other types of business associations, other legislation acts of Ukraine, legal norms and standards of the National Bank of Ukraine and their Statutes.

In January 1998 the banking system of Ukraine switched to the International Accounting Standards.

There is no currency discrimination in Ukraine; the Ukrainian currency is fully convertible for current payments. The exchange rate of the hryvna is calculated on the basis of market exchange rates that were fixed in the result of interbank transactions.

The above mentioned facts lead to a conclusion about convertibility of the Ukrainian hryvna that is one of the prerequisites of a market economy existence in our country.

2. To what Extent Wages are Determined by Negotiations between Employers and Employees

There is a free labor market in Ukraine. The right of citizens to labor - that is the right to get a job and earn wages in the amount not less than the minimum wage fixed by the State – is guaranteed by the Constitution of Ukraine (Article 43). The State creates conditions for effective employment of the population, assists in employment, training and improvement of professional skills (Article 1 of the Labor Code of Ukraine).

Article 44 of the Constitution of Ukraine guarantees the Ukrainian citizens the right to strike in order to defend their economic and social interests. Nobody can be forced to participate or not to participate in a strike.

In order to defend their rights and interests, employees of Ukraine join trade unions.

Article 36 of the Constitution of Ukraine guarantees the citizens of Ukraine the right to participate in trade unions in order to defend their working, social and economic rights and interests.

Law of Ukraine # 1045-XIV “On Trade Unions, Their Rights and Guarantee of Activity” dated September 15, 1999, creates a due legislative base for trade unions activity.

The Law also guarantees trade unions independence (Article 12).

Trade unions in Ukraine are powerful organizations with a wide range of authorities. In particular, trade unions influence determination of amount of wages.

Trade unions carry on collective negotiations, conclude collective agreements, general, branch, regional, interbranch agreements on behalf of employees in accordance with the legislation in force. Along with it, employers, executive authorities, local autonomous bodies are obliged to participate in collective negotiations on conclusion of collective agreements (Article 20 of the Law).

After putting in force the Law of Ukraine “On Collective Agreements” in 1993 and adoption in 1995 of the Law of Ukraine “On Remuneration of Labor”, which was prepared with consideration of provisions of Conventions and Recommendations of the International Labor Organization and international experience, a transition from the centralized system of labor remuneration to an agreement based system and government guarantees of labor remuneration took place in Ukraine.

The State fixes the minimal wage for enterprises of all ownership forms and economic activity (Article 8 of the Law of Ukraine “On Remuneration”). The

minimum wage is fixed in the Law of Ukraine “On the State Budget of Ukraine” with consideration of suggestions worked out in the process of negotiations between trade unions representatives and owners or their authorized representatives who joint their efforts to carry out collective negotiations and conclude a general agreement (Article 10 of the Law of Ukraine “On Labor Remuneration”).

Since January 1, 2005, the minimum wage in Ukraine has been 262 hryvnas per month, and beginning from September 1, 2005 it will be increased up to 332 hryvnas per month.

In accordance with the effective legislation, the labor remuneration system based on collective agreements is considered to be the main mechanism of regulation of labour remuneration in out-of-the-budget sphere.

An agreement-based regulation of labor remuneration to employees of the Ukrainian enterprises is realized with the help of complex of agreements that are concluded on the State level (the general agreement), branch level (branch agreement), regional level (regional agreement) and industrial level (collective agreement) in accordance with the Law of Ukraine “On Collective Agreements”. While concluding agreements on all levels, the main topic of negotiations is development of a tariff system which lies in the basis of labor remuneration. The tariff system is used to fix wage levels and differentiate wage rates by profession, qualification and position.

Before concluding agreements the parties of agreements carry on collective talks. On April 2004 in Ukraine there was concluded a General Agreement between the Cabinet of Ministers of Ukraine, the All-Ukrainian Union of Organizations of Employers and Entrepreneurs and the All-Ukrainian Trade Unions and Professional Unions for the years of 2004-2005.

The aim of this Agreement is improvement of regulation of social and labor relationship on the basis of collective agreements, development of social partnership, realization of the Constitutional rights and guarantees for employees and employers.

Besides, 80 branch and 27 regional agreements were concluded. Norms and guarantees of labor remuneration, set forth in these agreements, determine labor remuneration guarantees on the level of the General Agreement as well as other guarantees, special for any particular branch.

The General Agreement sets forth the main accords on general raise in wages (for 2004-2005 not less than 25% annually), determines the minimum tariff for a worker of the I class (for 2004-2005 not less than 120% of the minimum wage amount), gives a list of types and minimum amounts of extra pays in addition to tariffs and wages to be used by enterprises.

Enterprises, organizations, institutions of all ownership forms and economic activity that use hired labor shall conclude collective agreements (Article 11 of the Labor Code of Ukraine).

Collective Agreement is concluded between an owner or his/her authorized representative on the one part and one or several trade unions or other representative bodies authorized by a working collective on the other part (Article 12 of the Labor Code of Ukraine).

Before concluding a collective agreement the parties carry on collective talks (Article 14 of the Labor Code of Ukraine).

In accordance with Article 15 of the Law of Ukraine “On Remuneration of Labor”, Article 97 of the Labor Code of Ukraine, in collective agreements enterprises can individually determine forms and systems of labor remuneration, labor norms, tariffs, job rates, scale of position wages, terms of payment and amounts of extra pays, bonuses and other compensations and guarantee payments in compliance with the Ukrainian legislation, general and branch (regional) agreements. If a collective agreement is not concluded by an enterprise, an owner or his/her representative should settle these issues with a primary trade union (or its representative) that represents interests of the majority of employees or, in the absence thereof, with other authorized representative organization.

Economic growth and further development of regulation of labour remuneration on the basis of collective agreements explain constant raise in wages in Ukraine. There is more than 20% raise in average monthly wages every year.

Rate of Growth of Average Monthly Wages in 2000-2003
(in hryvnas)

Year of 2000	Year of 2001	Year of 2002	Year of 2003
230	311	376	462

Rate of Growth of Average Monthly Wages in 2004-2005
(in hryvnas)

Period	Year of 2004	Year of 2005	Year of 2005 to 2004 in %
January	500.06	640,86	128,3
February	510.06		
March	545.07		
April	547.90		
May	554.96		

June	601.45		
July	607.97		
August	604.19		
September	630.82		
October	636.21		
November	644.27		
December	703.77		

Amount of average monthly wages in the year of 2004 (589.62 hryvnas) is 56,7 % bigger than its amount in 2002 (367.38 hryvnas).

Raise in wages takes place in all spheres of economic activity and in all regions.

**Raise in Average Monthly Wages in Different Spheres of Economic Activity
in 1995-2003
(in hryvnas)**

	2000	2001	2002	2003
Agriculture and related to it services	111	151	178	210
Forestry and related to it services	175	224	271	350
Fish industry	145	204	242	291
Industry	302	406	485	427
Building sector	260	362	427	546
Wholesale and retail including retail sale of consumer goods and their maintenance	225	284	330	394
Hotels and restaurants	178	235	286	340
Transportation and communication	335	460	573	635
Ground transportation	291	405	515	633
Water transportation	517	557	617	762
Air transportation	460	593	702	857
Supporting transportation services	423	591	730	851
Post office and communication	322	402	469	547
Financial sector	559	833	976	1 051
Operations with immovable property, rent and services for legal entities	277	373	437	527
Including researches and projects	303	420	470	570

State administration	337	396	495	577
Education	156	224	267	340
Health care and social security	139	183	223	279
Collective, public and individual services	163	211	247	299
including recreation and entertainment, culture and sport	135	182	219	277
In all:	930	930	1860	3720

In 2004 the highest level of wages was in the financial sector (1258 hryvnas), air transport (1232.16 hryvnas) and refinery industry (1173.50 hryvnas).

The lowest wage level is in agriculture. But in this sector there took place an increase of an average monthly wage by 66% in 2004 in comparison with 2002, and its amount now makes 295.12 hryvnas.

	Wage rate, in hryvnas	
	January 2005	Rate of wage growth from January 2004 to January 2005, in %
Total:	640.86	128.3
Agriculture and related to it services	295.74	145.5
Forestry and related to it services	534.99	135.1
Fish industry	415.46	133.4
Industry	821.26	125.6
Building sector	666.98	120.1
Wholesale and retail including retail sale of consumer goods and their maintenance	568.59	126.9
Hotels and restaurants	440.56	125.3
Transportation and communication	469.12	126.5
Ground transportation	908.32	117.6
Water transportation	786.49	109.1
Air transportation	757.77	116.2
Supporting transportation services	1358.12	146.1
Post office and communication	1056.21	122.3
Financial sector	883.11	120.1
Operations with immovable property, rent and services for legal entities	1262.55	110.6
Including researches and projects	702.44	122.4
State administration	807.63	125.9
Education	689.57	132.5
Health care and social security	465.94	134.4
Collective, public and individual services	402.01	137.3
including recreation and entertainment, culture and sport	460.64	143.6
	453.35	152.5

Rate of Growth of Average Monthly Wages by Regions in 1995-2003
(in hryvnas)

	An average per a staff member			
	2000	2001	2002	2003
Ukraine	230	311	376	462
The Autonomous Republic of Crimea	225	301	358	433
Regions:				
Vinnitsya	159	215	265	334
Volyn	150	201	253	319
Dnipropetrovsk	273	370	438	526
Donetsk	292	383	452	550
Zhytomyr	164	220	268	334
Zakarpattia	172	238	295	379
Zaporizhzhya	289	379	445	541
Ivano-Frankivsk	188	259	318	402
Kyiv	241	317	378	470
Kirovohrad	170	231	282	353
Luhansk	232	320	393	474
Lviv	196	272	339	419
Mykolayiv	227	327	398	470
Odesa	236	306	379	454
Poltava	220	292	354	437
Rivne	173	245	312	390
Sumy	194	259	307	379
Ternopil	135	190	237	304
Kharkiv	230	310	370	455
Kherson	173	233	289	356
Khmelnysky	156	211	258	323
Cherkasy	175	229	276	350
Chernivtsi	157	218	271	344
Chernihiv	177	235	277	342
City of Kyiv	405	549	643	761
City of Sevastopol	251	325	391	486

In 2004 the highest level of wages among regions was in the city of Kyiv (967.43 hryvnas), Donetsk region (711.50 hryvnas), Zaporizhzhya region (670.58 hryvnas) and Dnipropetrovsk region (666.58 hryvnas) that exceeded its average rate throughout Ukraine and cost of living for a working person.

	Wage(in hryvnas)	
	January 2005	Rate of wage growth from January 2004 to January 1005, in %
Ukraine	640.86	128.3
The Autonomous Republic of Crimea	575.97	122,4
Regions:		
Vinnitsya	456.40	130.7
Volyn	450.13	135.2
Dnipropetrovsk	771.09	135.0
Donetsk	784.69	128.4
Zhytomyr	460.78	130.8
Zakarpattia	502.16	130.7
Zaporizhzhya	721.51	123.9
Ivano-Frankivsk	555.46	130.5
Kyiv	651.70	126.7
Kirovohrad	488.34	133.9
Luhansk	642.87	128.1
Lviv	548.39	124.6
Mykolayiv	612.47	125.3
Odesa	640.02	130.7
Poltava	606.92	128.0
Rivne	561.07	135.1
Sumy	507.40	128.3
Ternopil	414.87	130.3
Kharkiv	596.08	121.0
Kherson	476.36	130.0
Khmelnitsky	454.21	131.1
Cherkasy	486.32	129.6
Chernivtsi	476.82	131.1
Chernihiv	454.65	130.2
City of Kyiv	1024.76	121.9
City of Sevastopol	630.85	122.2

In 2004 in all regions an average monthly wage was higher than the minimum living cost for a working person (in 2002 it was higher only in half regions).

There is a tendency for a steady decrease of level of wages arrears.

For instance, total amount of wages arrears to employees of enterprises, institutions and organizations of all forms of ownership and economic activity had reduced during 2002-2004 by 1545.4 millions of hryvnas or by 58.2%.

A portion of wages arrears in average monthly general wage fund throughout Ukraine was 49.9% in the beginning of 2002 and was reduced to 14% by the beginning of 2005.

A decrease of wages arrears was caused by improvement in current wage payment. For instance, a portion of wages arrears in wages payments for work performed in the corresponding year has a strong tendency for decrease. In particular, the amount of the above mentioned arrears in the beginning of 2002 made 1,5 billions of hryvnas and in the beginning of 2005 it made 0,5 billions of hryvnas or was reduced by 66.7%.

Arrears in wages that are paid from the budget funds were paid off almost completely during 2002-2004. For instance, in the beginning of 2002 the amount of this kind of arrears made 7,7 millions of hryvnas, in the beginning of 2005 it was reduced by 77.9% and now makes 1,7 millions of hryvnas. This kind of arrears arises mostly because of either late transfer of funds from budgets of different levels for payment of a current wage or employees can not receive their wages due to their absence from work on the day of wage payment. Besides, arrears in wages that are paid from the budget funds arise from arrears in additional payments for work in zones of radioactive contamination, which are effectuated from funds of the Fund for Elimination of Consequences of the Accident on the Chernobyl Nuclear Station.

In 2005 an analysis of dependence of wages arrears upon sources of their origin was implemented. In accordance to statistics data of the State Statistics Committee for March 01, 2005, arrears in wages made 1282.6 millions of hryvnas. From the sum total of the arrears 382.1 millions of hryvnas or 29.8% belong to the enterprises - debtors which are in the process of restoration of their paying capacity or in the process of acknowledgement them debtors; 205.3 millions of hryvnas or 16% belong to economically inactive enterprises, i.e. enterprise that held up their production and economic activity before 2004; 695.2 millions of hryvnas or 54.2% belong to economically active enterprises.

The bigger portion of arrears falls at defense industry enterprises (379.2 millions of hryvnas or 29.6%), agriculture (338.7 millions of hryvnas or 26.4%), extraction industry (182.1 millions of hryvnas or 14.2%), building sector (125.6 millions of hryvnas or 9.8%), transport and communication (76.7 millions of hryvnas or 6%).

The above mentioned facts prove that wages are not regulated or fixed by the State and positive changes have been taking place in a social sphere recently.

3. To what Extent Joint Ventures and Other Investments of Foreign Companies are Allowed in Ukraine

One of the most important tasks of foreign economic activity of Ukraine is increase of foreign investments, especially into key industries, in order to provide for structural reconstruction of the economy, modernization and technical improvement of a production process.

Ukraine has certain advantages for investors, namely: its geopolitical location, capacious consumer market, skilled and cheap labour, presence of basic industrial infrastructure, presence of attractive objects for privatization, great potential for economic growth – all these components together enable increase of investments. One of the most important components of the investment climate is a legislative base.

Today Ukraine has a legislative base for investment activity. The main laws that regulate this activity are the Law of Ukraine “On Investment Activity”, “On the Regime of Foreign Investments”, “On Elimination of Tax Discrimination Subjects of Economic Activity Established on Domestic Funds with Use of Domestic Property”, “On Protection of Foreign Investments in Ukraine”, “On Institutions of Mutual Investments”.

Today Ukraine has 69 signed bilateral agreements on promotion and mutual protection of investments. Agreements on mutual recognition of work results from the conformity assessment were concluded with 16 countries.

The Budget code, the Land Code, the Customs Code, the Economic Code, the Civil Code and the Criminal Code were adopted. The work is underway on a draft of the Tax Code which will help to create conditions for further integration of Ukraine into the world community and adaptation of the Ukrainian tax legislation to the legislation of the European Union.

Articles 7 and 8 of Law of Ukraine #93 dated March 19, 1996 “On the Regime of Foreign Investments” set forth the national regime of investment and other economic activity on the territory of Ukraine for foreign investors.

The legislation of Ukraine determines wide range of guarantees of investments protection. Foreign investments in Ukraine cannot be nationalized. The State structures do not have the right to requisition of foreign investments, excluding rescue operations in cases of force-majeur. The above mentioned requisition can be realized by special decisions of the State structures authorized by the Cabinet of Ministers of Ukraine.

Decisions on requisitions of foreign investments and terms of compensation may be appealed in court.

If a foreign investor stops investment activity in Ukraine, he/she is guaranteed the return of his/her investments in natural form or in currency of investments without repayment of dues and investment income in the monetary or commodity form. The State also guarantees free and immediate transfer overseas of profits and other foreign currency values that were legally received in the result of foreign investment activity.

Foreign investors can make investments in Ukraine in foreign or national currency, in form of any movable or immovable property with property rights, in shares, bonds, securities, intellectual property rights including copyright, authoring, know-how, etc.

Foreign investments can be made in any statute-permitted objects of investing. Foreign investors choose a way of investing: by way of establishing a legal entity that belongs to a foreign investor entirely or partially, or by way of concluding contracts on mutual investment activity with Ukrainian enterprises.

Among foreign investors that took part in the Ukrainian privatization are Dutch company Damen (privatization of Mykolayiv Shipyard "Okean"), Swiss concern Wicor Holding AG (privatization of Malynsk Paper Mill), German company Dyckerhoff Zement International GmbH (privatization of Volyntsement), Slovak company Vychodoslovenske Energeticke Zavody S.P. (privatization of OJSC "Sevastopolenergo", OJSC "Kyrovogradoblenergo", OJSC "Khersonoblenergo"), American company AES Washington Holdings B.V. (privatization of OJSC "Kyivoblenergo" and OJSC "Rivneoblenergo").

In order to eliminate obstacles on the way of attracting foreign investments for the development of the communication sector and according to the Law of Ukraine "On Peculiarities of Privatization of OJSC "Ukrtelecom" dated July 13, 2000, the Law of Ukraine "On Communication" was amended that helped to remove some restrictions concerning a portion of foreign capital in a statute fund of joint-stock communication and broadcasting companies.

In accordance with Law of Ukraine #1379-IV dated December 11, 2003 "On News Agencies" a portion of foreign investments in a statute fund of news agencies was increased from 30 to 35%.

Gradual liberalization of tax policy has influenced positively the process of foreign investing into the economy of Ukraine.

Rate of Growth of Foreign Investments in Economy of Ukraine in 1998-2004

	01.01.98	01.01.99	01.01.00	01.01.01	01.01.02	01.01.03	01.01.04	01.01.05
Total	2063.6	2810.7	3281.8	3875.0	4555.3	5471.8	6794.4	8353.9
Growth, in millions of USD	625.4	747.1	471.1	593.2	680.3	916.5	1322.6	1559.5
in % to the corresponding period	115.5	119.5	63.1	125.9	114.7	134.7	144.3	117.9
Per head, in USD	41	56	66	79	94	114	140	177

Total volume of direct foreign investments into the economy of Ukraine by January 1, 2005 was 8353.9 millions of USD.

Main Countries - Investors in Economy of Ukraine in 2001-2004

	Volume of investments, in millions of USD			
	01.01.2002	01.01.2003	01.01.2004	01.01.2005
USA	777.5	890.6	1060.2	1153.7
Cyprus	493.0	672.1	901.9	1035.6
Great Britain	414.2	534.0	701.2	895.9
Germany	250.5	317.7	451.6	631.6
The Netherlands	374.1	396.3	459.9	548.3
The British Virgin Islands	275.2	346.1	367.5	543.8
Russian Federation	315.5	323.2	388.6	457.5
Switzerland	224.0	272.2	321.6	411.3
Austria	144.4	214.3	252.4	345.6
Poland	69.3	98.1	152.7	192.3

Industrial enterprises have obtained more than 50 % of total foreign investments – 3824 m USD.

Quick self-repayment enterprises are the most attractive for investments. Thus, investments in wholesale and trade mediation made up 1389.3 m USD (15.6% of total investments) and investments in food industry and agriculture products processing made up 1123.7 m USD (13.5%).

Investments in machine-building enterprises made up 676.4 m USD (8.1%); transportation and telecommunication – 629.6 m USD (7.5%); chemical and oil-refinery industries – 471.9 m USD (5.6%); metallurgy and metal processing – 425.4

m USD (5.1%); financial organizations – 687.5 m USD (8.2%) and organizations dealing with operations with real estate, renting and providing services to juridical persons – 589.2 m USD (7.1%).

**Direct Foreign Investments in Ukraine's Economy
According to Kinds of Economic Activities
in 2001 – 2004**

	Volumes of investments (m USD)				per cent of total volume
	01.01.2002	01.01.2003	01.01.2004	01.01.2005	01.01.2005
Total	4555.3	5471.8	6794.4	8353.9	100.0
INDUSTRY	2443.6	2821.5	3394.1	3824.0	45.8
Processing Industry	2206.9	2545.9	3159.7	3615.1	43.3
Food industry and agriculture products processing	808.0	862.0	1006.5	1123.7	13.5
Chemical and oil-refinery industries (manufacturing of chemical, gum and plastic products)	197.2	262.0	318.1	471.9	5.6
Metallurgy and metal processing	237.6	293.3	452.9	425.4	5.1
Machine-building (manufacturing of machines, electrical, transport and electronic equipment)	423.9	473.2	603.4	676.4	8.1
WHOLESALE AND RETAIL, TRADE IN TRANSPORTATION MEANS AND REPAIR SERVICES	769.2	940.1	1134.2	1567.5	18.8
Wholesale and trade mediation	640.6	802.2	985.4	1389.3	16.6
HOTELS AND RESTAURANTS	117.6	161.6	187.1	257.6	3.1
TRANSPORTATION AND TELECOMMUNICATION	308.8	396.3	531.5	629.6	7.5
FINANCIAL ACTIVITIES	355.2	420.6	504.3	687.5	8.2
OPERATIONS WITH REAL ESTATE, RENTING AND SERVICES O JURIDICAL PERSONS	177.5	239.9	392.4	589.2	7.1

Adoption of the Program of Development of Investment Activities for 2002-2010 (Regulation of the Cabinet of Ministers of Ukraine #1801 of December 28, 2001) and the “Investment Image of Ukraine” Program (Regulation of the Cabinet of Ministers of Ukraine #477-p of August 17, 2002) were extraordinarily important for improvement of investment climate in Ukraine and acceleration of investment activities.

Regulation of the Cabinet of Ministers of Ukraine #500 of April 15, 2004 “On Establishing the Commission on Promotion of Pre-Trial Settlement of Disputes between Investors and Executive Authorities” was issued in order to improve the

situation in this sphere. Respective organizational work is being conducted. Such commissions have been established in all regions of Ukraine.

Regulation of the Cabinet of Ministers of Ukraine #1438 of November 28, 2004 “On Addition to the List of Objects which are Allowed to be Granted on Concession” has been issued.

Regulation of the Cabinet of Ministers of Ukraine #155 of February 11, 2004 has determined principal concept approaches to improvement of efficiency of management of state corporate rights.

The State Commission on Securities and Stock Market has approved the Recommendations for Optimum Corporate Management of Joint Stock Companies of Ukraine and the Principles of Corporate Management; a sample statute of an open joint stock company; Regulation on Common Meetings of Stockholders of an Open Joint Stock Company; Regulation on Supervisory Board of an Open Joint Stock Company; Regulation on Auditing Commission of an Open Joint Stock Company; Regulation on a Board of an Open Joint Stock Company and Regulation on Management Executives of an Open Joint Stock Company. Amendments to the Regulation on the Order of Registration of Issuing Stocks of an Open Joint Stock Company under Change of Nominal Value and a Number of Stocks without Change of the Authorized Fund have been worked out.

4. To what Extent the State Exercises Control over Production Means in the Country

Not less than 50% of Ukraine's GDP falls on private sector since 1996. Share of private sector in GDP makes 65% since 2002 (the 2004 EBRR Report on Transition Economies).

According to the data provided by the State Committee on Statistics of Ukraine, share of private companies in export of goods from Ukraine was over 91% in 2004. Share of public and public-and-corporate enterprises did not exceed 8.5%.

State Guarantees for Protection of Private Property in Ukraine

The Constitution of Ukraine guarantees firmness of the right to private property. Article 41 of the Principal Law of Ukraine says that nobody can be deprived of the right to private property. All laws and by-laws cannot contradict the Constitution of Ukraine.

Coercive alienation of private property objects can be applied for social needs exclusively in accordance with legal rules under complete prior reimbursement. Coercive alienation of private objects under subsequent reimbursement is allowed under martial law or in state of emergency only.

Property can be forfeited in cases and order provided by laws exclusively by court decision.

Commercial and Civil Codes of Ukraine and the Law of Ukraine "On Property" also regulate property protection.

Draft Law of Ukraine "On Amending the Commercial Code of Ukraine" has been worked out in order to prevent collisions of norms of the Civil and the Commercial Codes of Ukraine. This Draft Law is aimed to eliminate discrepancies between these codes. This Draft Law was submitted to the Verkhovna Rada of Ukraine for consideration. It was adopted in the first reading on February

Privatization

State property privatization is the most important component of market transformation of Ukraine's economy. Privatization is an effective tool of development of structural, sectoral, investment, antimonopoly-competitive, budget, foreign economic and social policies.

Non-state economy sector has been established throughout the period of property reformation. About 96 thousand objects have changed their property forms: 11 thousand 163 joint stock companies were established, 79 thousand 422 small objects have been privatized.

In 2004 privatized enterprises manufactured products for 221 billion UAH. That is by 15.8% more than in 2003.

According to the data provided by State Property Fund of Ukraine, 1236 state property objects were privatized in 2004. The state budget obtained 9599.1 m UAH as a result of it.

Participation of Foreign Investors in Privatization

Foreign investors directly take part in privatization from 1992 - from the very beginning of it

A few examples:

- French “Lafarge” JSC bought a share holding of “Mykolayivcement” Open JSC at tender in 1998 and at a stock exchange in 1999. Final share of the French company makes up 69%
- Dutch Damen Shipping Group bought 78% of the “Ocean” Mykolayiv Ship-building Works in 2000
- Swiss Wicor Holding AG bought 25% of shares of Malyn Paper-mill in 1998 and 24.7% in 2000
- German Dyckerhoff Zement International Gmbh bought 45.3% of shares of “Volyncement” in 2000
- With the participation of an adviser of Credit Suisse First Boston (Europe) Limited regional energy supplying companies were sold in 2000:

Slovak Vychodoslovenske Energeticke Zavody S.P bought 70% of shares of Sevastopolblenergo JSC, 51% of Kirovogradblenergo KSC, 65% of Khersonoblenergo JSC and 75.56% of Zhytomyroblenergo JSC.

U.S. AES Washington Holdings B.V. bought 75%+1 of shares of Kyivoblenergo JSC and 75.56% of Rivneoblenergo.

Austrian Florhof Handels und Beteiligung GmbH bought 76.18% of shares of Skloplastyk OJSC in 2003.

- Austrian Reiffeisen Investment Aktiengesellschaft bought 53.86% of shares of Rivneazot OJSC in 2003.

Land Market

The Land Code of Ukraine adopted by the Verkhovna Rada of Ukraine on October 25, 2001 has created conditions for land market formation. With the purpose of the Land Code implementation 38 Draft Laws of Ukraine have been worked out. Most of them have become already laws (“On the Organization of the Use of Land”, “On the

Order of Apportionment of Land to Owners of Land Shares”, “On Lands Protection”, “On Mortgage”, “On Farm”, “On Lands Assessment” and others).

Main results of land reform are overthrow of state monopoly on land which existed for over 70 years, ensuring the right of citizens to land, performing monetary assessment of rural lands and so on. All these factors enable regulation of land relations in the country by economic means in contrast to administrative ones. As for today, share of private lands in total area of lands makes up 50.6% (as for January 1, 2002 – 49.4%; in 1990 all lands belonged to the state).

6.79 million citizens have got certificates for the right to a land share. 5.08 million people (74.7% of total owners of certificates for the right to a land share) have got state acts for the right to land property. Insufficient funding remains the main problem of registration and issuing of state acts for the right to land property. The Agreement between the Government of Ukraine and the World Bank on 195 m USD Credit was ratified in order to accelerate issuance of the state acts.

Laws on Bankruptcy and Efficiency of its Observance

The Law of Ukraine “On Restoration of Solvency of a Debtor or Recognition Him a Bankrupt” established new for Ukraine relations in bankruptcy sphere. It came into effect on January 1, 2000.

Increase of a number of application of procedures aimed at restoration of solvency of indebted enterprises (readjustment procedures, agreements of lawsuit, fulfillment of all obligations to creditors) but not liquidation procedures is a positive result of observing the above law.

In 2001-2004 bankruptcy action was brought against 32 thousand and 17 enterprises. In 2004 commercial courts of Ukraine tried 11 thousand 764 bankruptcy cases. It makes 66% of a number of cases tried throughout the previous year (17 thousand 958). As for early 2004, there were 10 thousand and 53 cases not tried. It makes up 102% of a number of cases not tried as for beginning of the previous year (9 thousand 856).

Eight thousand 636 cases were settled in 2004. It makes 109% as compared with the previous year (7 thousand 904 cases were settled in 2003). As for the end of 2004, there were 10 thousand 755 cases not tried. It makes 107% as compared with the end of 2003 (there were 10 thousand and 54 cases not tried).

In 2002-2004 commercial courts withdrew actions against 60 enterprises due to completion of readjustment procedure and 1 thousand and 7 enterprises due to agreements of lawsuit.

In 2004 bankruptcy cases against 7 thousand 158 enterprises (including 101 state enterprises and 10 enterprises with share of state property exceeding 25%) were settled with confirmation of liquidator’s report and liquidation balance. The number of settled cases increased 1.2 times as compared with 2003 (there were 5, 955 cases).

Total number of cases in which courts took decisions on bankruptcy is 7,502. It makes 124% as compared with 2003 (6,059 cases).

The budget obtained 143 m 662,750 UAH as the result of application of bankruptcy procedures.

5. Level of State Control over Allocation of Resources, Prices and Production Volumes of Enterprises

Fundamentals of Economic Activities in Ukraine

The Commercial Code of Ukraine adopted on January 16, 2003 came into effect on January 1, 2004. The Code provides legal fundamentals of economic activities which are based upon a variety of entities of various property forms.

This Code is aimed to ensure the rise of business activities, development of entrepreneurship and respectively improvement of efficiency of social production, its social orientation in accordance with requirements of the Constitution of Ukraine, strengthening of social economic order in Ukraine's economic system and promotion of its harmonization with other economic systems.

The Commercial Code of Ukraine determines a wide range of subjects which can carry out economic activities:

Economic organizations – juridical persons established in accordance with the Civil Code of Ukraine, private, state, municipal enterprises, economic partnerships, production cooperatives, enterprises of mixed property form and other juridical persons which carry out economic activities and are registered in accordance with laws;

- citizens of Ukraine, foreigners and stateless persons which economic activities and are registered as entrepreneurs in accordance with laws.

The Commercial Code contains provisions which regulate both economic commercial (entrepreneurship) and non-commercial (nonprofit) activities.

According to Article 32 of the Commercial Code of Ukraine, entrepreneurship is independent, initiative, systematic, performed at own peril economic activities carried out by business entities (businessmen) with the purpose of achievement of economic and social results and obtaining profits.

Article 43 of the Commercial Code guarantees freedom of entrepreneur activities: “Entrepreneurs have the right to perform without any limitations any business activities not prohibited by laws.”

Principles of business activities are provided by Article 44 of the Commercial Code of Ukraine:

- free choice of kinds of business activities by businessmen;
- independent development of programs of activities by businessmen; free choice of suppliers and consumers of manufactured products; use of material,

technical, financial and other resources utilization of which is not restricted by laws; pricing of products and services according to laws;

- free hiring of staff by businessmen;
- commercial planning and commercial risk;
- free use of profits after paying taxes, duties and other payments envisaged by laws;
- independent foreign economic activities; free use of due share of free currency profits.

With the purpose of improvement of the system of state registration of business entities the Verkhovna Rada of Ukraine adopted fundamentally new Law of Ukraine “On State Registration of Juridical and Physical Persons – Entrepreneurs” on May 15, 2003. It came into effect on July 1, 2004. This Law has ensured creation of simple, efficient and transparent system of state registration of juridical and physical persons – entrepreneurs.

This Law covers state registration of all juridical persons irrespective of their organizational and legal, property and subordination forms and registration of all physical persons – entrepreneurs.

Term of state registration of a juridical person does not exceed 3 working days from the date of receipt of respective documents. Term of registration of a physical person does not exceed 2 working days.

The Unified State Register of Juridical and Physical Persons – Entrepreneurs has been created in accordance with this Law. Information contained in this Register is open and available both to authorities and business entities. It allows accelerating business activities and creating conditions for improvement of transparent business in Ukraine due to simplification of search for business partners and control over their juridical and financial standing. It will enable third persons to trace history of activities of registered entities especially LLCs and to combat illicit (fictitious) activities of business entities.

As for April 1, 2005, the Register contains information on over 70% of all business entities.

Existing restrictions for business activities are insignificant. According to Article 4 of the Law of Ukraine “On Entrepreneurship”, activities concerned with circulation of drugs, psychotropic substances, their analogues and precursors; manufacturing and selling of weapons and ammunition; amber extraction; guarding of certain extremely important state property objects; criminal, forensic medical, forensic psychiatric examinations and developing, testing, manufacturing and operation of carrier rockets including space launches of them with any purpose can be performed by state enterprises and organizations only. Pawn operations can be performed also by unlimited partnerships.

According to Article 63 of the Commercial Code of Ukraine, enterprises are divided into small, medium and large depending on the number of persons employed and their gross revenue.

Small enterprises (irrespective of property form) are enterprises in which average number of employees throughout a financial year does not exceed 50 persons and gross revenue from sales of products (works, services) throughout this period does not exceed a sum tantamount to 500,000 euros according to average annual euro/hryvna rate of exchange established by the National Bank of Ukraine.

Large enterprises are enterprises in which average number of employees throughout a financial year exceeds 50 persons and gross revenue from sales of products (works, services) throughout this period exceeds a sum tantamount to 500,000 euros according to average annual euro/ hryvna rate of exchange established by the National Bank of Ukraine.

All other enterprises are considered medium.

As for today, 3 million 43 thousand small entrepreneurship subjects have been registered in Ukraine – there are 272.7 thousand small enterprises (it is by 25.2% more than in 2000) and 2 million 770 thousand physical persons – subjects of entrepreneurship activities.

Besides, a number of agricultural enterprises (farms) increased almost 3 times as much.

According to annual analysis of small enterprises activities carried out by the State Committee of Statistics of Ukraine, the middle class is gradually being formed in Ukraine mainly due to development of small entrepreneurship. More and more able-bodied citizens launch own businesses or work at small enterprises of various property forms (hired employees).

In 2003 rate of growth of a number of small enterprises made up 158% as compared with 1998. Rate of growth of a number of persons employed at small enterprises made up 129%. Rate of growth of products (works, services) manufactured at small enterprises or provided by them in current prices almost doubled (192%).

Main Indices of Small Enterprises Development in 2000-2003				
	2000	2001	2002	2003
Number of small enterprises	217930	233607	253791	272741
% of previous period	110.6	107.2	108.6	107.5
Number of enterprises per 10,000 persons	44	48	53	57

% of total number of enterprises - subjects of entrepreneurship	82.8	83.6	84.5	85.7
Volumes of products (works, services) in prices of respective years without VAT and excise duties (millions UAH).	19432.7	23304.3	25787.6	33802.2

Pricing

Ukraine's economy functions under conditions of market pricing. Economic entities have infeasible right to fix prices according to demand and supply of goods on a market. Role of the Government in market pricing mechanism is restricted by antimonopoly laws and monitoring of protection of consumers' rights.

State regulation of pricing is carried out in accordance with the Law of Ukraine "On Prices and Pricing" #507-XII of March 20, 1992; Regulations of the Cabinet of Ministers "On Establishing Powers of Executive Authorities and Executive Bodies of City Councils for Prices (Tariffs) Regulation" of December 25, 1996; "On the Rules of State Regulation of Prices (Tariffs) for Production and Technical Goods, Consumer Goods, Works and Services of Monopolies" #135 of May 22, 1995 and "On Improvement of the Pricing Order" # 1998 of December 18, 1998.

Market-oriented laws on prices and pricing policy have been worked out in order to contribute to maximize profits of business entities.

Prices and tariffs for products and services which are subject to state regulation are as follows: economically and socially important goods and services and those produced or provided by natural and artificial monopolies (tariffs for public utilities and electric energy for individual consumption; prices for fuel and energy resources for individual consumption; tariffs for transportation etc.).

Such practice is adequate to monopoly legislation of most market economy countries.

More than 90% of prices in Ukraine are fixed without interference of the state.

The EBRD experts appreciated successes of Ukraine in pricing. According to the 2003 Report of the EBRD, index of a level of prices liberalization in Ukraine equals 3 (maximum is 4+). It proves a significant progress in prices liberalization and rejection of non-market pricing.

Banking System in Ukraine

Banking System in Ukraine has two levels and consists of the National Bank of Ukraine and banks of various kinds and property forms.

The National Bank of Ukraine is a central bank which pursues unified state monetary and credit policy in order to ensure stability of the national currency.

Banks are established as joint stock (or share) companies by juridical and physical persons. Banks open deposit and non-deposit accounts for enterprises, institutions, organizations and individuals; grant credits to business entities and individuals, put up capital in securities; form cash reserves and other assets; provide cash and accounting services to economic entities; perform currency and other banking operations.

Indices	2000	2001	2002	2003	2004	2005	
						Jan.	Feb.
Number of banks according to the Register (as for the end of years)	195	189	182	179	182	185	182
Registered throughout the year	1	3	5	5	7	3	-
Number of banks which have a license of the National Bank of Ukraine for performing banking operations and provide accounting (as for the end of years)	154	153	157	157	160	160	161
Organizational and legal form of activities:							
- joint stock companies:	137	136	136	133	132	132	133
open	99	95	94	94	92	92	92
state	2	2	2	2	2	2	2
close	38	41	42	39	40	40	41
- limited companies	17	17	20	24	28	28	28
- cooperative	-	-	1	-	-	-	-
Banks with foreign capital:							
- number of banks	31	21	20	19	19	19	19
<i>With 100% foreign capital</i>	7	6	7	7	7	7	7
- authorized capital (millions UAH)	725	946	1046	1152	1630	1650	1650
<i>With 100% foreign capital (millions UAH)</i>	225	265	365	414	689	689	689
Number of banks which have a license of the National Bank of Ukraine for performing currency operations (as for the end of years)	149	149	153	156	158	159	159
Number of other financial and credit institutions which have got a license for performing banking operations	1	1	1	1	1	1	1
Authorized capital of active banks (millions UAH)	3666	4576	6003	8116	11605	1727	1929
Number of banks excluded from the State Register within the period	9	9	12	8	4	-	-

Main Indices of Activities of Banks of Ukraine

(millions UAH.)

No.	Indices	Date						
		01.01.2001	01.01.2002	01.01.2003	01.01.2004	2005		
						01.01	02.01.	03.01.
1.	<i>Number of registered banks</i>	195	189	182	179	182	185	185
2.	Excluded from the State Banks Register	9	9	12	8	4	0	0
3.	<i>Number of banks at the stage of in liquidation</i>	38	35	24	20	20	20	20
4.	<i>Number of active banks</i>	153	152	157	158	160	161	161
4.1	With foreign capital	22	21	20	19	19	19	19

4.1.1	With 100% foreign capital	7	6	7	7	7	7	7
5.	Share of foreign capital in authorized capital of banks (%)	13.3	12.5	13.7	11.3	9.6	9.5	9.5
	ASSETS							
1.	General assets (not adjusted for reserves for active operations)	39866	50785	67774	105539	141497	140329	146709
1.1	Net assets (adjusted for reserves for active operations)	37129	47 591	63896	100234	134348	133047	139296
2.	Highly liquid assets	8270	7744	9043	16043	23595	23720	25878
3.	Credit portfolio	23637	32097	46736	73442	97197	94943	98875
3.1	Assets granted to business entities	18216	26564	38189	57957	72875	71887	74198
3.2	Credits granted to physical persons	941	1373	3255	8879	14599	14258	14678
4.	Long-term credits	3309	5683	10690	28136	45531	45921	47252
4.1	Long-term credits to business entities	2761	5125	9698	23239	34693	34637	35568
5.	Problem credits (outstanding and doubtful)	2679	1863	2113	2500	3145	3276	3400
6.	Capital put up in securities	2175	4390	4402	6534	8157	8963	8994

Modern credit and banking system has been established in Ukraine. It ensures exercising of rights of subjects of economic activities to carry out independent business activities.

State pricing policy is based upon free pricing by subjects of economic activities.

Thus, enterprises in Ukraine are independent economic subjects which pursue independent pricing and marketing policies under conditions of free foreign economic activities and no direct interference of authorities.

6. Other Factors

Macroeconomic Indices

In 2002-2004 economic growth went on in Ukraine. Real GDP growth in 2002 made up 5.2%, in 2003 – 9.6%, and in 2004 – 12.1%.

GDP

	Nominal GDP (millions UAH)	Real GDP Index
2002	225810	105.2
2003	267344	109.6
2004	345943	112.1
Jan.2005	24278	106.5*
Feb.2005	50064	105.5*

* % of respective period of the previous year

Positive dynamics of both foreign and domestic demand contributed to significant acceleration of investment process. Thus, the highest growth of accumulation of fixed capital took place in 2003 (22.5% against 3.4% in 2002). Growth of investment and innovative activities was ensured mainly by growth of enterprises' own capital and preservation and in some spheres strengthening of scientific and technical potential.

With the purpose of creation of conditions for use of additional capital not only for consuming but strengthening future state of the national economy a number of basic laws on innovative activities have been adopted. Legal framework of functioning of venture capital market and carrying out pension and tax legislation reforms has been created. The Law of Ukraine "On Mortgage", The Civil and the Commercial Codes came into effect. Intensive inflow of direct foreign investments proves the improvement of investment attractiveness of Ukraine's economy. In 2003 DFI growth made up 1.3 billion USD against 0.9 billion USD in 2002.

Active social policy aimed at improvement of common weal resulted in growth of real salaries (in 2002 by 20%, in 2003 by 16.7% (gross)) and simultaneous decrease of unemployment level (from 10.1% in 2002 down to 9.1% in 2003). Growth of solvent demand took place due to: (1) pursuance by the Government of Ukraine of active policy of increasing minimum salary (it made up 140 hryvnas at the beginning of 2002 and 205 hryvnas at the end of 2003); (2) carrying out a pension reform (the Law of Ukraine "On Obligatory State Pension Insurance" was adopted, pensions increased).

Industry developed stably. In 2003 growth of industrial production made up 15.8% against 7% in 2002. It was caused by growth of production of competitive goods, first of all, in metallurgy, machine-building, chemical and petrochemical industries. At the same time, rapid growth of production took place in manufacturing of consumer goods and investment orientated merchandise.

In 2004 the highest economic growth over last few years was observed. GDP growth made up 12.1%. This production rise was accompanied by significant growth of foreign trade and increase of profits of all economic entities.

Favorable state of foreign markets was the principal factor of foreign trade growth. Significant demand and high global prices for the most important export-oriented goods (metals, chemical products, machines and equipment) caused significant exports growth (by 40.8% according to balance of payment methodology). Imports growth (by 27.9%) was caused by both economic growth (domestic consuming) and pricing (significant rise of oil prices on global markets). In general, in 2004 export of goods and services increased by 37.2% and import by 26%. Positive trade balance made up 4.9 billion USD.

Growth of industrial production was backed by high foreign demand for export-oriented products (metallurgy and chemical industry production totally increased by 12.6%) as well by intensive growth of production of goods of investment sector (machine-building and production of non-metal mineral goods increased by 26.7%). Real growth of industrial production made up 12.5%.

Stimulating fiscal and active social policies of the Government of Ukraine contributed greatly to economic growth in 2004. Reforming of tax system via decreasing tax rates aimed at growth of own capital of enterprises and gains of physical persons resulted in acceleration of investment activities (gross growth of accumulation of fixed capital made up 10.2%) and growth of individual profits (growth of real individual profits made up about 17.9%). These results were supported by active measures of the Government of Ukraine on growth of solvent demand (minimum salary reached 237 hryvnas, official salaries of persons employed in certain budget spheres and of civil servants increased, pensions and scholarships grew, target surcharges to pensions were introduced). At the same time, direct foreign investments increased by 1.6 billion USD.

Rapid development of all spheres of economic activities, pursuance of policy aimed at growth of labor potential of population and improvement of its efficiency positively influenced reduction of unemployment down to 7.8% of economically active 15-70 years old people against 9.1% in 2003.

Barter Transactions and Mutual Payments of Enterprises

In 2000-2004 stable positive trend towards decrease of barterization level of Ukraine's economy was observed in Ukraine. In 2004 share of barter products made up 0.9% of total products against 17.1% in 2000.

2001	2002	2003	2004
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7.9	4.1	1.9	0.9
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State of Negotiations on Ukraine's Accession to the WTO

14 meetings of the Working Party on Consideration of Ukraine's Application for the WTO Accession were held. Two of them took place in 2004. Last meeting was held on March 22, 2005. The Draft Report was considered at this meeting. Materials of the Draft Report provided by ministries and institutions enabled to settle a number of issues raised by the WTO member-countries. 70% of the Draft Report is agreed. Some additional information and explanations regarding certain issues has to be provided.

The Working Party has taken a decision to hold informal meeting of the Working Party in June of 2005 and the next regular meeting in September of 2005. Multilateral meetings on Sanitary and Phytosanitary Measures, TBT, agriculture issues and a few bilateral negotiations on access to markets of goods and services have to be held before July 2005 in order to settle problem issues of system nature and complete all bilateral talks.

Thirty bilateral protocols on access to markets of goods and services have been signed: with Mexico, Uruguay, New Zealand, Canada, Southern Korea, Slovenia, Latvia, Georgia, India, Hungary, the EU, Czech Republic, Slovakia, Bulgaria, Cuba, Israel, Poland, Estonia, Brazil, Thailand, Switzerland, Malaysia, Paraguay, Lithuania, Argentina, Sri Lanka, Turkey, Honduras, Dominican Republic and Mongolia.

Negotiations on access to markets of goods and services with Romania and Morocco have been completed (official confirmation of acceptance of tariff obligations and positions of access to market of services have been obtained).

More than 95% of consolidated tariff proposals of Ukraine have been agreed.

Recognition by the WTO members of the Draft Report as a basic document for further work on its final drawing up and adoption is the principal success of bilateral negotiations on Ukraine's accession to the WTO. The second edition of the Draft Report was drawn up and delivered to the WTO members in April of 2005.

Combating Corruption

Ukraine successfully implements the Plan of Actions on Combating Corruption and Organized Crime.

In 1999 Ukraine signed the Civil and the Criminal Conventions on Combating Corruption worked out by the European Council in 1999.

In December of 2003 Ukraine signed the UN Convention against Corruption at the High Level Political Conference in Merida (Mexico).

As for today, much attention is paid to harmonization of the national anticorruption legislation with international legal standards provided by the above Conventions.

Main normative and legal acts regulating combating corruption in Ukraine are the Criminal Code of Ukraine (came into effect on September 1, 2001 and amended on February 27, 2005) and the Law of Ukraine “On Combating Corruption” (amended on March 15, 2003).