BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile

The total population of Ukraine is 42,386,403, excluding the Autonomous Republic of Crimea and Sevastopol, which were annexed by Russia in 2014 - the total population including those territories is 44,727,181. The Population growth rate is 0.04% (2018 est.). There is 0.86 male(s) per female (2017 est.). The ethnic groups repartition is the following: Ukrainian 77.8%, Russian 17.3%, Belorussian 0.6%, Moldovan 0.5%, Crimean Tatar 0.5%, Bulgarian 0.4%, Hungarian 0.3%, Romanian 0.3%, Polish 0.3%, Jewish 0.2%, other 1.8% (2001 est.).
69.4% of the population lives in urban areas; the rate of urbanisation is -0.33%.
(2015-20 est.). The densest settlements are in the eastern (Donbas) and western
regions; notable concentrations in and around major urban areas of Kyiv, Kharkiv
(2,957 million), Donetsk (919,000), Dnipropetrovs’k (960,000) and Odessa (1.01
million) (2018). People aged from 0 to 14 years account for 15.95% of the
population, people aged 15 to 24 years for 9.57%, people aged 25 to 54 for 44.03%
of the population, people aged 55 to 64 years for 13.96% of the population and
people over 65 represents 16.49% of the population (2018 est). The median age is
40.8 years (2018 est.). The average household size in 2017 was 2.5 people, 28% of
household only count 1 person, 18% 4 or 5 people and 3% 6 people or more.

Despite the fact that the government spends 6 percent of GDP on education — one
of the highest rates of public spending on education in the world — Ukrainian
schools often lack adequate facilities, modern equipment or quality textbooks a
2018 report of the World Bank says. Rural schools may sometimes lack indoor
restrooms, to speak nothing of their outdated classrooms.
According to the same report, unofficial payments are common in education. It is
not a secret that many schools collect money from parents for classroom
remodelling and flowers or gifts for teachers. Some parents also pay bribes to get
their children accepted to a school, for better grades, or for mandatory tutoring.
These practices adversely affect students’ understanding of fair competition and
the need to study.
Further, the teaching profession’s low social status and even lower salaries
demoralize hardworking men and women. A lack of opportunities for personal and
professional growth stifle creativity, dynamism and, ultimately, motivation.

According to a report of the State Statistics Service in Ukraine from 2014, among
the economically active population, 52.0 per cent have completed higher education
and 26.5 per cent have vocational education, whereas for the economically
inactive the corresponding indicators are equal to 31.7 per cent and 18.1 per cent.
In Ukraine, women are more highly educated in comparison to men. Among
women, the proportion of those who have completed higher education is equal to
49.8 per cent compared to 38.3 per cent of men. Among men, when compared to
women, the proportion of those who have completed vocational education is higher
– 29.8 per cent in contrast to 17.5 per cent. 5.8% of the labour force works in
agriculture, 26.5% works in industry and 67.8% in services (2014).

Purchasing Power
The Gross Domestic Product per capita in Ukraine was last recorded at USD 7,894.39 in 2017, when adjusted by purchasing power parity (PPP). The GDP per capita, in Ukraine, when adjusted by PPP is equivalent to 44 percent of the world’s average. GDP per capita PPP in Ukraine averaged USD 7,056.17 from 1990 until 2017, reaching an all-time high of USD 10,463.96 in 1990 and a record low of USD 4,451.55 in 1998.

Wages in Ukraine decreased to 9,161 UAH/Month in November from 9,218 UAH/Month in October of 2018. Wages in Ukraine averaged 2,124.17 UAH/Month from 1996 until 2018, reaching an all-time high of 9,218 UAH/Month in October of 2018 and a record low of 115 UAH/Month in January of 1996.

According to Kantar TNS CMeter analysts, in 2018, an average Ukrainian spent 240 USD monthly, which is 20% more than in the previous year. The cluster of those who only have enough money for nutrition has decreased by 22%, while the declared costs for the utilities have grown by 8%.

In addition, the Nielsen consumer confidence index continued to grow, and in the third quarter of 2018 reached 64 points (+2 points compared to the second quarter).

Ukraine’s Households Disposable Income data was reported at 557,780,000 UAH mn in Jun 2018. This record represents an increase from the previous number of 481,577,000 UAH mn for Mar 2018.

Gini index was at 25.5 in 2015 and at 28.2 in 2009, Ukraine ranking 151st worldwide. According to the United Nations, despite the existing gender equality and women’s empowerment frameworks, Ukraine still faces challenges affecting the enjoyment of equal opportunities and rights by women in general and those facing compound discrimination in particular. The root causes can be found in patriarchal attitudes and stereotypes, but also in deeply rooted systemic gaps, which have not been addressed. These include weak rule of law, low capacity of the institutional mechanisms for gender equality and lack of political will. Some of the examples of systemic gender inequality in Ukraine include low level of participation by Ukrainian women in political and civic processes, especially in higher positions, patriarchal culture and deeply entrenched gender stereotypes, widespread gender-based violence, etc.

**Consumer Behaviour**

Price is the most important factor for Ukrainian consumers. In addition, they are greatly attracted to Western products, which are of higher quality than national products and are often difficult to obtain in the hinterland. The quality of after-sales service is a criteria which can set a foreign company apart, given that shops very rarely exchange defective goods. For this reason, consumers have a poor image of this aspect of sales in the country. According to a study published on the Baltic Journal of Economic Study, "highly rational, cautious, and demonstrative behaviours" can be observed in case of high consumer involvement in the buying process. "Rationally confident, comfortable, adaptive behaviour" can be observed in the case of low involvement.

According to Euromonitor International, low consumer confidence is affecting consumer-shopping habits. In 2018, Ukrainians were still reluctant to shop for groceries online because of trust issues. Many consumers were afraid that they would get products of lower quality if ordering online. Young consumers are driving substantial growth in internet retailing and young adults in online shopping. Mobile internet retailing showed dramatic double-digit growth in 2018, while continuing the long-term trend of shifting to “mobile first” internet use amongst the population. The development of the mobile internet infrastructure in Ukraine, driven by the expansion of 3G/LTE network coverage across the country, was a major influencing factor for the channel.

Locally produced promotional advertising is an effective method to inform Ukrainians about new products. Including the name of a Ukrainian or Russian distributor and local address on original packaging increases consumer confidence. Second-hand shopping is also growing in popularity.
Consumer Recourse to Credit

Although credit cards are commonly used in Ukraine, cash is more preferred among locals. Ukraine's household debt accounted for 5.8% of the country's Nominal GDP in Dec 2017, compared with the 6.8% in the previous year.

According to a report posted on the central bank's website, 62% of respondents (bank managers) predicted the growth of consumer loans. In the fourth quarter of 2018, the demand for loans from the public continued to increase. Consumer lending contributed to growth in the retail loan portfolio in the fourth quarter of 2018. The demand for respective loans was linked to an improvement in consumer confidence and a rise in spending on durable goods.

Growing Sectors

The economising trend has been very influential in consumer preferences in apparel and footwear. This has been successfully exploited by large international retailers such as LPP, Inditex and H&M, which can deliver cheap clothing and footwear in a variety of styles. Despite the strong competition, some Ukrainian clothing and footwear brands that were launched over the last five years have found their niche. Brands such as Staff, Urban Planet and Syndicate Original are well-known amongst young urban dwellers in Ukraine.

During the economic downturn, 2015-2016, Ukrainian consumers often refrained from purchasing electronics and appliances. The more economically successful 2018 was marked by significant growth in volume sales of such products. The constant increase in Omni channel sales was a major trend, which determined the development of the channel. The grey import of electronics was a significant problem in Ukraine in 2018. Many products reached Ukraine not through official brand dealers, but via independent importers, most of which operated in a grey area.

In 2018, home and garden specialist retailers in Ukraine exhibited a positive performance in retail current value terms. At the same time, many Ukrainians still could not afford to buy high-end products and were mostly concerned to get the lowest possible price when shopping for home, furniture and gardening items.

Consumers Associations

Central Union of Consumer Associations of Ukraine, Non-profit organization of Ukraine that serves as a representative and protects interests of consumer associations, societies and their members in respective state and international organizations.

State Service of Ukraine on Food Safety and Consumers Protection (SSUFSCP), State agency

IMPORTING & DISTRIBUTING

Import Procedures

There are three import procedures: customs control, customs formalities and the payment of taxes, where applicable. Several documents are requested, depending on the imported goods: customs declaration, declaration of the value of the goods, business and transport documents, certificates of control, origin and compliance.
These documents must be submitted within 10 days after the arrival of the products at their destination.

The European Union and Ukraine signed a Partnership and Cooperation Agreement, which entered into force on 1 March 1998. Goods from EU member states receive preferential treatment. Ukraine has been a member of the World Trade Organization (WTO) since 16 May 2008.

The import duty is based on the CIF value of the goods. Tariff information can be found by HS code or through word search in the EU Market Access Database.

Items subject to import controls include: Certain plant protection products, CFCs, blank and fingerprint monitoring, weapons and other items generally subject to prohibition or licensing requirements. These can be temporary or permanent. Ukraine generally follows international practice in these areas. Pre-shipment inspection is prevalent in some cases of manufactured goods to be imported. Exporters should check with their agents for the latest legislative changes.

For more information on customs, please visit the Ukrainian Customs website.

**Specific Import Procedures**

Products imported on transit, including the vehicles transporting them, should be registered with customs authorities up until their exit from the country. Import licenses are required for certain goods. Furthermore, for some goods, product certification is a prerequisite for an import license. The listing of products which are subject to obligatory certification is available here. Since 1 January 2012, Ukraine maintains a list of products which require a Declaration of Conformity.

**Distribution channels**

According to the Ukrainian State Statistics Service, Ukraine’s retail trade turnover in 2015 was UAH 1.032 billion (US$47.2 billion), a 19.8 percent drop compared to 2014. Independent retailers account for around 20 percent of total retail sales, while outdoor markets account for around 30 percent. Less than half of the overall retail market is controlled by chains, reflecting the considerable development opportunities that remain in Ukrainian retail. Retail superstore chains are available in the main Ukrainian cities and primarily specialise in Fast Moving Consumer Goods (FMCG), consumer electronics, Do-it-Yourself (DIY), automotive parts and accessories, cosmetics and toiletries, pharmaceuticals and health care goods.

The major international retailers in the Ukrainian retail FMCG market are Metro Group, Auchan, Rewe Group (Billa), and Spar. The top four national FMCG retailers in the market are the Fozzy Group, ATB Market, Retail Group, and Furshet. Regionally, the top retailers include: Tavria V and Kopeika in southern Ukraine; and Pakko, Barvinok, and Kolibris in western Ukraine. The most popular FMCG outlet formats that opened in Ukraine in the recent years were discounters, corner shops, and supermarkets. Domestic retailer Fozzy continues to expand its number of retail outlets in Ukraine. In mid-2016 the group launched a new discount retail outlet 'Thrash' and by the end of the year had 30 stores in cities including Kiev, Mykolaiv, Odessa and Rivne. Further new openings are expected in 2017. Within the category of consumer electronics and household appliance chains - currently, the largest household appliances and electronics market players are Fox Trot, Eldorado, and Comfy. These chain operators sell most of the consumer electronics and household appliances through their retail outlets located throughout Ukraine. “Do-It-Yourself” chains - The national chain Epicenter remains the leading DIY player, with a market share of more than 47 percent. The only foreign player in the market is Leroy Merlin (part of Groupe Adeo), which operates three stores in Kiev. Branded Apparel and Footwear - Multiple national premium fashion outlet chains sell branded
clothing and footwear including Argo, Top Brand, Helen Marlen Group, and Melon Fashion Group, Intertop is a Ukrainian chain for branded footwear.

Over 6,000 businesses are engaged in selling pharmaceuticals. Pharmaceuticals are sold through about 20,000 private and state-owned pharmacies and pharmacy retail points. About 20-30 percent of pharmacies are publicly owned. Many regions and municipalities have been looking to expand or launch so-called 'social pharmacies', which stock essential medicines and charge little or no mark-up.

**Distribution market players**

Since 1991, when Ukraine declared independence from Russia, the retail industry has grown, with a dozen chains nationwide and a few strong regional players. Some retailers operate diverse chains of stores that differ by size and brand. According to the Ukrainian Statistics Agency, in 2016, there were:

- 10,507 grocery stores of less than 120m2
- 2841 specialty food stores
- 2663 convenience stores, from 120m2 to 400m2
- 1533 supermarkets, from 400m2 to 2500m2
- 160 Hypermarkets, over 2500m2

**Retail Sector Organisations**

_Ukrainian Retail Association_

**OPERATING A BUSINESS**

Type of companies

**Tovarystvo z Obmezenoyu Vidpovidalnistyu ou TVO (Private Limited Company)**

- **Number of partners:** Minimum: 1. Max: 10
- **Capital (max/min):** Minimum: 100 times the minimum wage at the date of registration
- **Shareholders and liability:** Limited to the value of their contribution.

**Vidkryte akstionerne tovarystvo(Joint-stock company)**

- **Number of partners:** Minimum 2
- **Capital (max/min):** Minimum: 1250 times the minimum wage at the date of registration
- **Shareholders and liability:** Limited to the value of their contribution.
Limited joint-stock partnership

Number of partners: Minimum 2. No maximum
Capital (max/min): No minimum capital requirement.

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Source: Doing Business.

Cost of Labour

Minimum Wage

Average Wage

Social Contributions
Social Security Contributions Paid By Employers: 22%
Social Security Contributions Paid By Employees: 0%

Intellectual Property

National Organisations
The State Department of Intellectual Property. Since 1993, Ukraine has promulgated 5 laws relating to intellectual property rights in order to protect inventions, industrial designs, trademarks, industrial equipment and author's copyright against any fraud. Software and video recordings can obtain exclusive rights in conformity with articles 18 and 19 of the law protecting intellectual property rights in Ukraine. There is not yet any law against transgressions or counterfeiting on trademarks. According to the Ukrainian Patent Office, there are no statistics relating to the piracy of books, video recordings or computer software, although duplicate copies of videos, cassettes or CDs are largely and easily available in the stores and in the streets of big urban conglomerations.

Ukraine is legally committed to protecting intellectual property, but the enforcement of this protection is inadequate. Ukraine is a member of the World Intellectual Property Organization. The country is also a member of the Paris Convention (industrial property) and the Universal Convention for authors' copyright. In 1995, Ukraine adhered to the Berne Convention. Ukraine is also a member of the International Convention for authors' copyright, and of the Madrid Agreement (registration of trademarks) and the Patent Co-operation Treaty.

In an effort to improve enforcement of the protection of intellectual property rights, Ukraine agreed to an IPR Action Plan in 2010. Thus far, there has not been much progress.
TAX RATES

Consumption Taxes

**Nature of the Tax**
Podatok Na dodanu Vartist (PDV) (Value Added Tax)

**Tax Rate**
20%

**Reduced Tax Rate**
A 7% VAT applies to supplies of pharmaceuticals and healthcare products. Exports, international transportation services, and processing and repairs of imported movable property that is subsequently exported from Ukraine are zero-rated.
Until 31 May 2020 a zero-excise rate is applied to ethyl alcohol used for producing disinfectants (COVID-19 measure).

**Other Consumption Taxes**
Excise duties are levied on alcohol, alcoholic beverages, beer, tobacco and tobacco products, cars, car bodies, motorbikes, electricity, liquefied gas, petrol, diesel fuel, other fuel material, and electric power.
A vehicle tax of UAH 25,000 is charged on owners of passenger cars with an average market value exceeding 375 minimal salaries (i.e. UAH 1,771,125 for 2020) and less than five years old.

Corporate Taxes

**Company Tax**
18%

**Tax Rate For Foreign Companies**
A company is deemed to be resident in Ukraine for tax purposes if it was incorporated in Ukraine.
Permanent establishment is defined - in accordance with OECD’s model - as a fixed place of business through which the business activity of a non-resident company is wholly or partly carried out in Ukraine (it includes a place of management, affiliate, office, server, etc.).
For details concerning the tax measures taken in order to address the impact of the COVID-19 crisis, please consult the following link.

**Capital Gains Taxation**
Capital gains are treated as ordinary income and taxed at the standard corporate tax rate.

**Main Allowable Deductions and Tax Credits**
Most expenses incurred relative to the activities of the company are deductible for tax purposes. Assets with a value greater than UAH 6,000 and a useful life of more than one year are subject to depreciation. Depreciation is determined monthly based on different depreciation calculation methods (linear, decreasing, variable, exceptional). Goodwill cannot be amortised for tax purposes.

Organisational and start-up expenses are fully deductible and are not subject to a cap. Interest is also deductible (restrictions apply to interest paid to non-residents) as are fines and penalties (except for those paid to companies that do not pay corporation tax or are subject to a 0% tax rate). Taxes, with the exception of withholding taxes and non-recoverable VAT, are deductible. The obligatory Ukrainian social security insurance contributions paid by the employers are deductible. R&D expenses are also deductible.

Donations to charities are only deductible up to 70% and are capped at 4% of the previous year’s taxable income. This rate is raised to 8% for donations to NGOs involved in sport and physical culture. Donations made to combat the COVID-19 epidemic will be fully deductible for tax purposes for the year 2020.

Tax losses can be carried forward without any restrictions. The carryback of losses is not permitted.

From 2020, resident companies would increase taxable basis for corporate income tax by 30% of the value of goods, works and services sold to residents of low tax jurisdictions and foreign companies having special legal forms.

**Other Corporate Taxes**
A property tax is levied at rates varying between 1% and 5% based on the type and use of the land. Legal persons (including non-residents) who own residential or non-residential property are subject to a property tax equivalent to 1.5% of the minimum wage that applies in the accounting year. A surcharge of UAH 25,000 is added to real estate above certain surface limitations (300 m² for apartments and 500 m² for houses).

Social security contributions payable by the employer amount to 22% of the salary and are capped at the minimum cost of living multiplied by 25 (an amount which is equivalent to 15 times the annual base salary, UAH 70,845 per month in 2020).

A state duty is imposed on the transfer of real estate and vehicle. A local transport tax of UAH 25,000 is charged on owners of passenger cars with an average market value exceeding 375 minimal salaries (i.e. UAH 1,771,125 for 2020) and less than five years old.

Companies that discharges contaminants into the environment or disposes of waste are subject to an environmental tax, whose rate varies according to the level of contamination. Companies engaged in extracting mineral resources are subject to a specific taxation.

Further taxes may be levied at the discretion of the local authorities.
Consult Doing Business Website, to obtain a summary of the taxes and mandatory contributions.

Double Taxation Treaties

Countries With Whom a Double Taxation Treaty Have Been Signed
See the list of tax treaties signed by Ukraine

Withholding Taxes
Dividends: 15%; Interest: 5% (paid to non-residents on loans made to Ukrainian residents from qualifying Eurobond issuance proceeds)/15%; Royalties: 15%. These rates may be lower under a tax treaty.