In 2011 the size of the shadow economy of Ukraine is estimated to be not less than 34% of gross domestic product. Even though the importance of studying and taking steps to reduce the size of shadow sector has been clearly agreed, measures of the government in dealing with this challenge, unfortunately do not give effective results. Research analyses theoretical background for estimation shadow economy, presents economic circumstances for it in Ukraine, and aims to define main factors of the existence of large-scale shadow economy in Ukraine in order to identify the ways to reduce it.

**Key words:** shadow economy, informal employment, Ukraine