

ECONOMIC SECURITY OF UKRAINE AND ENTITIES

UDC 351.863:332.055

DOI 10.26906/EIP.2019.2(73).1629

THE THREATS OF UKRAINE FINANCIAL SECURITY: IDENTIFICATION AND SYSTEMIZATION

Svitlana Onyshchenko, DSc in Economics, Associate Professor
Oleksandra Maslii, PhD in Economics,
Andrii Maksymenko,
Poltava National Technical Yuri Kondratyuk University

© Onyshchenko S., 2019

© Maslii O., 2019

© Maksymenko A., 2019

Стаття отримана редакцією 23.05.2019 р.

The article was received by editorial board on 23.05.2019

Introduction. The dynamics of the external environment associated with the globalization and the digitalization process of economic relations leads to necessity of the continuous wide-ranging monitoring of the risks, challenges and threats to financial security of Ukraine. Comprehensive analysis of trends in the development of the financial system of the state, timely response to negative changes, adaptation to new conditions, systematization of existing threats, counteract existing and elimination of possible risks on the basis of a preventive approach gain particular relevance in modern conditions and require introduction of modern tools and technologies for analysis, detection and control over the risks and threats to the financial security of the state.

Review of recent research sources and publications. Such scientists as: Varnalii Z.S., Baranovskyi O.I., Martyniuk V.P., Onyshchenko S.V., Karpinskyi B.A., Marynych T.O., Korolov M.I., Serebrianskyi D.M., Breus S.V. and others made a significant contribution to the study of threats to the financial security of the state, mechanisms for counteracting negative security factors, theoretical and methodological aspects of monitoring financial stability at the macro level, as well as the formation of conceptual foundations of financial security. However, despite the actualization of this issue, comprehensive research into the emergence, dissemination and systematization of threats to financial security of Ukraine using international experience in ensuring financial stability at the present stage has not yet been carried out.

Problem. In terms of providing financial security for Ukraine the purpose of this research is to investigate the preconditions for the emergence of modern trends, these trends themselves and the consequences of the threat's impact to the financial system on the economically secure existence of the national economy and the state as a whole.

Basic materials and research results. The efficiency of the financial system and its derivative institutions is crucial in the development and socioeconomic stability of the state. The main element of the country's financial security on the basis of a proactive approach and the prevention of the implementation of threats is the constant monitoring and control of risks to financial stability through the current and strategic analysis of indicators of financial system development. Trough the placement and use of internal and external financial resources at the state level an particulars, as well as the formation of state and local budgets, balance of payments, and others.

The financial security of the state is characterized by a set of indicators, each having a normative value established depending on the level of economic development. Order of the Ministry of Economic Development and Trade of Ukraine in 2013 approved guidelines for calculating the level of economic security, which singled out a group of indicators of financial security. They are indicators of problem

situations and developmental imbalances in their components: banking safety, security of the non-bank financial market, debt security, fiscal security, currency security, monetary security [2].

However, the importance and magnitude of the problem, significant changes in the financial system since the development of the latest methodological recommendations, the diverse content of the financial security itself and its provision require the formation of data and analytical framework for monitoring financial security indicators taking into account international experience. Table 1 and Figure 1 show the dynamics of the main indicators of economic development in Ukraine during 2014-2018 years, which determine the general trends of financial security.

Table 1

Main trends of economic development of Ukraine in 2014-2018 years

Indicators	2014 yr.	2015 yr.	2016 yr.	2017 yr.	2018 yr.
The state budget deficit, mln.UAH.	78052,8	45167,5	70130,2	47849,6	59247
State debt, mln.UAH.	1100564,0	1572180,2	1929758,7	2141674,4	2168627,1
- external	611697,1	1042719,6	1240028,7	1374995,5	1397217,8
- internal	488866,9	529460,6	689730,0	766678,9	771409,3
GDP, mln.UAH.	1566728,0	1979458,0	2383182,0	2982920,0	3558706,0
Inflation, %	124,9	143,3	112,4	113,7	109,8
The cost of bank loans, (in UAH), %	20,1	20,1	22,1	21,2	26,0
International reserves, billion dollars USA	7,5	13,3	15,5	18,8	20,8

As we can see from the figures, the financial system as a whole is in a rather difficult position because of excessive debt and inflationary pressure. However, after the events of 2014, inflation began to decrease from 124.9% in 2014 to 109.8% in 2018. This is a result of indicated normalization of prices and stabilization of market relations between business entities and households.

Regarding the state budget deficit, its indicators differ from year to year, due to the inconsistent social policy, which for a long time tried to follow the European way, that included reducing social benefits and payments and intended to regulate subsidies, but had problems related to it, and also with the control system, the termination of unlawful benefits and the adequacy of calculations of social benefits and the number of those who need them.

Regarding the situation with the state debt, the slowdown of its rapid growth in 2018 against the background of the growth of real GDP of Ukraine compared to the opposite situation observed in 2015-2016 years, may be assessed as a positive (Figure 1). The greatest increase in the amount of 42.85% was in 2015, in 2016 the value of state debt of Ukraine increased by another 22.74%, then growth was stopped and external debt averaged 133 billion. UAH. which is 40% of the country's GDP.

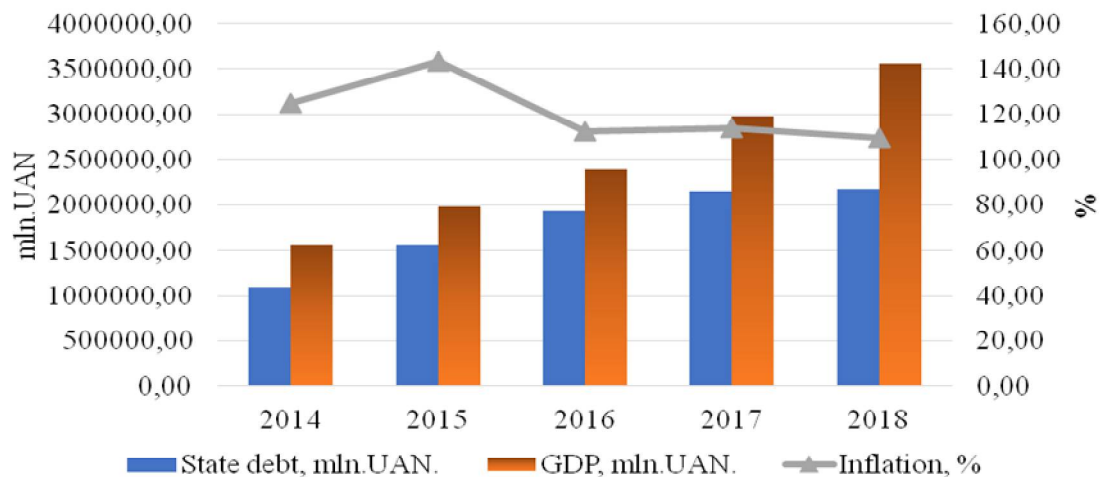


Fig. 1. Dynamics of the amount of the state debt of Ukraine in relation to real GDP in 2014-2018 years

Concerning «safety criterion» of a debt, in international practice, external state debt is considered as such if it does not exceed 60% of GDP, and according to expert judgments of the IMF, the threshold for low- and middle-income countries is 49.7% of GDP. Consequently, Ukraine's indicators in 2014 went through a critical threshold, and in 2015-2016 they had absolutely dangerous values – 131% and 121.7% respectively, indicating a real threat to Ukraine's financial security. The security of state debt is under considerable threat, as is financial independence through liability to creditors, although the positive moments are the gradual growth of official international reserves, which should ensure the credit status of Ukraine at the world level.

Current ratio of aggregate public debt servicing payments exceeds the limit of 16% twice. Figure 2 shows how the size of the state debt servicing itself in 2018 equated to its repayment in 2014, which indicates a steady increase in public debt against the backdrop of insignificant growth of the Ukrainian economy.

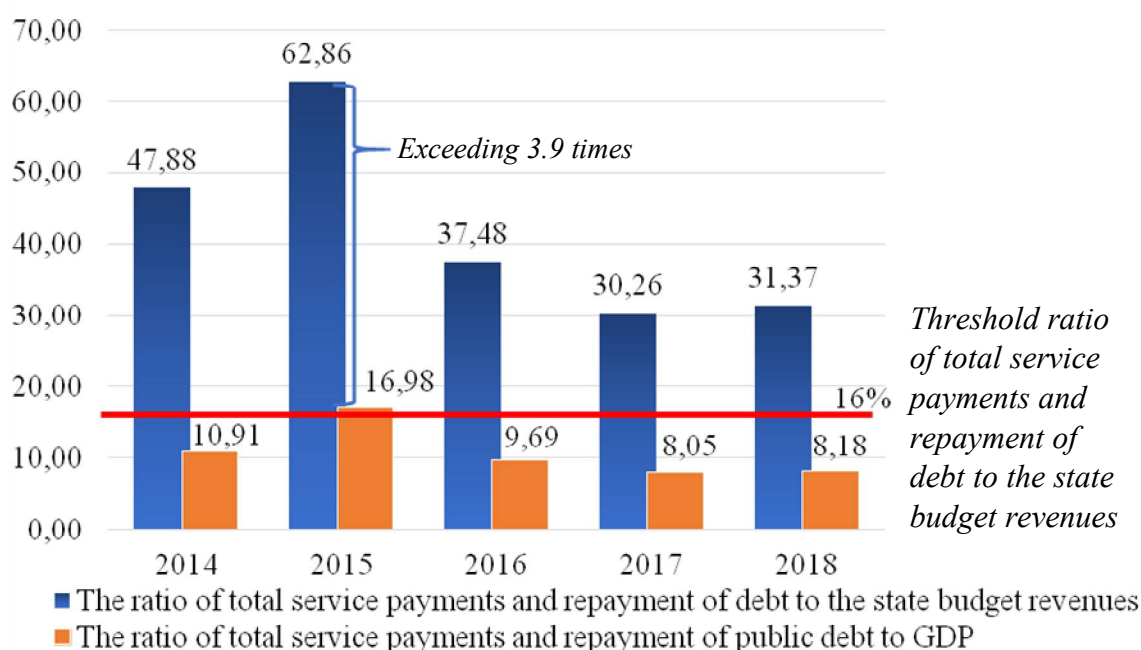


Fig. 2. Dynamics of indicators of the budget component of financial security of Ukraine in 2014-2018 years, %

Therefore, a «debt trap» appears and reduces the political independence of Ukraine on the world scene, worsens the macroeconomic situation and slows down the development of industries through the tax burden and international agreements.

The actual values of most banking safety indicators are beyond the limits of the permissible values, indicating the existence of real threats to financial security, despite the implementation of all reforms and restructure that have been implemented in this area. Some banks were liquidated, and the remaining ones still carry all the effects of capitalization and restructuring.

In addition, the share of assets of the five largest banks in the aggregate assets of the banking system is gradually approaching a critically 60%, rising from 51% in 2014 to 56% in 2018 at a normative value of 30%. Such dynamics indicate a potential threat of monopolization of the banking sector. The share of foreign capital in statutory contributions of banks is also unsatisfactory, amounting to 54-56% at a critical limit of 60%. However, the beginning of stabilization is proven by the dynamics of the indicator of return on assets of banks, which fell from -4.07% in 2014 to a critical value of -12.6% in 2016 and returns to normal in 2018, made a positive 1.69%.

Particular danger is caused by the share of overdue loans in their total amount, which currently is to more than a half of all loans granted. This is a consequence of a general distrust of the banking system after the reforms, because the growth of loans granted to residents does not correspond to the general economic development, which reduces the share of solvent clients in banks.

Overall, the results of a comprehensive analysis of indicators of financial security of Ukraine were found a significant number of negative factors of security that threaten the financial stability of the state (Table 2).

The impact of detected threats appears that there is no full compliance with actual indicators of optimal values in any sector of financial security, some values even exceed the critical level more than twice. However, almost all indicators have shown positive dynamic in 2017-2018, and some even returned to their normative values after the crisis in early 2014. But the lack of significant reforms in most important sectors of the economy, the ineffectiveness of newly created anti-corruption institutions, political instability, and the continuation of hostilities lead to an increase in the negative impact of existing threats to Ukraine's economic security and to national's security.

Table 2

Systematization of risks and threats to financial security of Ukraine in its components

Components of financial security	Identified risks and threats
Budget	Budgetary imbalances
	Inefficiency of the control system for revenue and expenditure of budget funds
	Excessive deficit of the state budget and insufficient and untimely filling of sources of its coverage
Debt	Lack of a well-grounded concept of public debt management
	Debt trap, which reduces political and economic independence of Ukraine on the international arena
	Over-saturation of the bonds of the internal state loan of the stock market, with insecurity of the required value and the ratio in the internal and external debt
Monetary	The imbalance in the cash market, the deterioration of the structure of payment facilities
	Growing accountability of the population, with less of its solvency
	The outflow of capital abroad, the shadowing of the economy, which reduces the effectiveness of economic development and reform
	Deceleration of economic development due to reduction of aggregate investment potential
Currency	Significant dollarization of the money supply, distrust of the national currency, increase of the specific time of cash circulation
Banking	Low level of credit and solvency of enterprises in the real sector of the economy
	The weakness of the domestic banking system, the lack of financial services and instruments, the prevalence of foreign capital in the banking sector, its policy of non-autonomy
	Insufficient liquidity of bank assets
	Risk credit policy of the commercial bank
	Monopolization of the market of banking services
Non-bank	Weak development of the infrastructure of the insurance market, a narrow range of insurance services and distrust of the population to commercial insurance
	Stock market non-competitiveness, underdeveloped market for derivative financial instruments, closure and instability of the system

Also, analyzing the international experience of monitoring the financial stability of the state, especially by comparing the methodology of the European Central Bank to determine the level of financial stability with methodological recommendations for calculating the level of economic security of Ukraine in the context of financial security, it is worth highlighting a number of key differences, the complex consideration of which in domestic practice will be revealed additional threats to financial security Ukraine (Table 3). The euro area financial system is more global than Ukrainian, but the indicators used in the appraisal are more adaptive and up-to-date to new economic trends and can present the dynamics of the growth of national financial stability.

Based on a brief analysis of key financial indicators according to the approach of the European Central Bank, it should be noted that the national method is sufficiently precise. None of the additional calculate

parameters does not deny, but they rather confirm the state of the elements of the financial system. The lack of extensive comparative analysis is the main disadvantage of the national methodology.

Table 3

Comparison of the key differences between the national and European approach to identifying financial security threats at the macro level

Methodical recommendations for calculating the level of economic security of Ukraine	Annual Review of the European Central Bank (ECB) financial stability of EU
Six elements of financial security: debt, budget, monetary, banking and non-banking sector, currency.	Four groups of zones of financial stability: banking, non-bank, macroeconomic and monetary, financial markets.
Normative approach.	Structural & dynamic, rating approach.
The basis of assessments are quantitative and qualitative internal indicators of the economy.	Application of expert indicators of financial system components.
Ignoring the stock market and the financial environment.	Particular attention to stock market instruments, in the structure of the components of stability.
Focusing on the national level of economic performance.	The comparative nature of all constituents between participating countries and other important economies.

The main difference between the Ukraine's national and European approach is the use of rating indicators, according to the ECB method, the credit rating of the euro area countries is assessed and compared with the average indicator in the EU, as well as the number of unsatisfactory loans. Table 4 compares the assessments of economic systems similar to Ukrainian.

Table 4

States credit rating as of the end of 2018

Country	S&P	Moody's	Fitch	TE
Ukraine	B-	Caa1	B-	21
Poland	A-	A2	A-	71
Spain	A-	Baa1	A-	68
Belarus	B	B3	B	26
Georgia	BB-	Ba2	BB	43
Argentina	B	B2	B	31

Ukraine has problems with its credit rating, it is worse than most similar economies such as Belarus, Argentina and Georgia, and is far behind the similar social-demographic indicators of Spain and Poland, which leads to a rise in the cost of servicing state debt. That is why the problem of debt security is a key factor, since the country's place in these ratings is largely determined by the investment attractiveness of a country. High level of investment attractiveness has a positive impact on domestic countering threats to financial security.

At the next stage of the European methodology, the political stability of individual countries is considered, which shows the effectiveness of the adopted reforms and the attractiveness of the country's economy for foreign and domestic investors (Table 5).

Table 5

The rating of political stability of countries

Country	2014 yr.	2015 yr.	2016 yr.	2017 yr.	2018 yr.
GLOBAL AVERAGES	73	73	70	71	72
Ukraine	57	56	55	53	55
Poland	81	81	79	78	80
Spain	75	75	77	78	78
Argentina	61	62	67	70	71

Low indicators of political stability mean slowdown of economic development, low attractiveness of financial instruments and budgetary imbalance caused by increased costs for ensuring national stability and counteraction to foreign political aggressive countries.

General macroeconomic indicators confirm calculations by both methods. Ukraine's economy is gradually returning to its pre-crisis figures in 2014. The low debt integrated assessment is confirmed by the unsatisfactory Ukrainian credit rating on the international level, complemented by an indicator of political stability.

There are uncertain additional risks to the national financial system to be stated. Those were formed through payment systems on the Internet and electronic financial markets. The state has no instruments of influence in this area and takes a waiting strategy, which leads to increasing number of credit card frauds and the use of Internet payments for the washing of dirty money. And that is just one of the examples of threats not affected by the outdated method of calculating the level of economic security of Ukraine.

Therefore, the present state of affairs can be much worse, taking into account all the new factors of globalization and digitization of the state financial system, which do not belong to classical risks. That is why we need innovative reforms that will be able to localize or eliminate the classical and existing problems, and deal with new information and technological threats, in the first place acting preventively before their appearance.

Conclusions. According to the results of the evaluation of the dynamics of the values of the financial security indicators of Ukraine, the systemic deviations of most of them from the threshold values were detected. The situations in the debt, money and credit markets and non-bank financial market are particularly dangerous. A large amount of long-term accumulated internal structural imbalances in the financial system have been negatively affecting the Ukraine's economic development and therefore are catalysts for additional threats acquired, that is especially evident in times of crisis.

Comprehensive analysis of the current trends in the development of the Ukraine's financial system confirms that the key ways of counteracting the threats and risks to the country's financial security should be the following: updating and extension of the national method for assessing and identifying threats, ensuring the dynamic development of analytical capacities in the state control system, creating special information, updating the list of indicators and qualitative enrichment of the analytical system for identifying threats by dynamic and rating indicators. The use of the comparative method and rating indicators in the process of systematization of threats to financial security might ensure the actual development of the monitoring system. At the same time, the assessment of foreign experience in overcoming negative phenomena and its usage will be possible in the financial system of Ukraine.

Another important mechanism is the improvement of internal and external financial institutions that can effectively influence the financial security of the system, stimulate economic development and promote business activity through its own effective activities. The second important direction is the continuation of the chosen policy of stabilization and the application of classical instruments of influence with adjusting to new research and using current regulation based on the results of continuous monitoring of the financial system.

Countering the threats to financial security is a common goal for almost all countries, and therefore Ukraine should pay attention to the active measures that the European Union applies to its weaker members and the mechanisms for countering threats in other developed countries. That is why the tools for identifying and preventing threats to Ukraine's financial security should be expanded and adapted to the new economic environment.

REFERENCES:

1. The Law of Ukraine (2018, 21 June). *On the national security of Ukraine* (Working Paper No. 2469-VIII). Retrieved from: <http://zakon.rada.gov.ua/laws/show/2469-19>.
2. The Ministry of Economic Development and Trade of Ukraine (2013, 29 October). *On approval of methodological recommendations for calculating the level of economic security of Ukraine* (Working Paper No 1277). Retrieved from: <http://me.kmu.gov.ua/>

3. Baranovskyi, O. I. (2000). *Financial Security in Ukraine (assessment, methodology and mechanism for maintenance)*. Kyiv: Institute for Economic Forecasting of Ukrainian National Academy of Sciences (in Ukr.).
4. Onyshchenko, S. & Puhach, A. (2015). *Threats to economic security of Ukraine: essence, evaluation and prevention mechanism*. Poltava: PoltNTU (in Ukr.).
5. Martyniuk, V., Zvoliak, Y. & Baranetska, O. (2016). *Finansova bezpeka [Financial security]*. Ternopil: Vector (in Ukr.).
6. State Statistics Service of Ukraine (2019). *Statistical information*. Retrieved from <http://www.ukrstat.gov.ua> (in Ukr.).
7. The World Bank (2019). *Indicators*. Retrieved from <http://www.worldbank.org>
8. Varnalii, Z., Buhai, T. & Onyshchenko, S. (2014) *The budget process in Ukraine: state and problems of institutional support*. Poltava: PoltNTU (in Ukr.).
9. Sukhorukov, A. I. (2005), *Problemy finansovoi bezpeky Ukrainy [Issues of financial security of Ukraine]*. Kyiv: NIPMB (in Ukr.).
10. Puhach, A. (2015). Simulation threats economic security of the national economy in terms of their timely detection and prediction. *Economics and Region*, 3 (70), 103 – 109. Retrieved from <http://reposit.pntu.edu.ua/handle/PoltNTU/2924> (in Ukr.).
11. Cable, V. (1995). What Is International Economic Security? *International Affairs*, 71(2), 305-324. doi: <http://dx.doi.org/10.2307/2623436>
12. Zubrylina, V. (2014). Fiscal decentralization: assessment of the level and directions of expansion. *Economic space: collection of sciences works*, 91, 94-109. (in Ukr.).

УДК 351.863:332.055

Онищенко Світлана Володимирівна, доктор економічних наук, доцент. **Маслій Олександра Анатоліївна**, кандидат економічних наук, доцент. **Максименко Андрій Петрович**. Полтавський національний технічний університет імені Юрія Кондратюка. **Загрози фінансовій безпеці України: ідентифікація та систематизація**. Обґрунтовано місце моніторингу й контролю ризиків фінансової стабільності держави в системі забезпечення фінансової безпеки держави. Розглянуто інструментарій ідентифікації загроз фінансовій безпеці України через поточний і стратегічний аналіз показників розвитку фінансової системи. Проаналізовано тенденції економічного розвитку держави в контексті виявлення джерел загроз її фінансовій стабільності. Проведено динамічний аналіз фактичних значень індикаторів фінансової безпеки України в цілому та за окремими її складовими. Виявлено загрози фінансовій безпеці України на основі порівняльного й трендового аналізу. Досліджено причини критичного стану боргової, банківської та грошово-кредитної безпеки в структурі фінансової й виявлено передумов виникнення системних загроз. Проведено систематизацію ризиків і загроз фінансовій безпеці України за її складовими. Узагальнено вплив системних загроз у фінансовій сфері на економічну безпеку держави. Проаналізовано міжнародний досвід моніторингу фінансової стабільності держави. Надано порівняльну характеристику національного та європейського підходів до виявлення загроз фінансовій безпеці на макрорівні. Визначено додаткові загрози фінансовій безпеці України з використанням рейтингових показників за методикою Європейського центрального банку. Доведено, що оновлення переліку індикаторів і якісне збагачення аналітичної системи ідентифікації загроз динамічними та рейтинговими показниками дозволить виявити додаткові загрози фінансовій безпеці Україні. Виділено додаткові ризики для національної фінансової системи, пов'язані з глобалізацією й діджиталізацією державної фінансової системи, що не враховуються чинними методичними рекомендаціями щодо розрахунку рівня економічної безпеки України. Доведено, що в умовах динамічного розвитку міжнародного економічного співробітництва державна політика має формуватися на основі запобігання та раннього виявлення загроз.

Ключові слова: фінансова безпека, економічна безпека держави, ризик, загроза, індикатор загрози, фінансова система, фінансова стабільність, забезпечення фінансової безпеки.

UDC 351.863:332.055

Onyshchenko Svitlana, DSc in Economics, Associate Professor. **Maslii Oleksandra**, PhD in Economics, Associate Professor. **Maksymenko Andrii**. Poltava National Technical Yuri Kondratyuk University. **The Threats of Ukraine Financial Security: Identification and Systemization**. Place of monitoring and control of risks of financial stability of the state in the system of ensuring financial security of the state was substantiated. Methods of identifying threats to Ukraine's financial security through the current and strategic analysis of financial system development indicators were considered. Tendencies of economic development of Ukraine in the context of revealing sources of threats to financial stability of the state were analyzed. Dynamic analysis of the actual values of the financial security indicators of Ukraine as a whole and its separate components had been carried out. Threats to Ukraine's financial security were identified based on comparative and trend analysis. Reasons for the critical state of debt, banking and monetary security in the financial structure and the preconditions for the emergence of systemic threats had been investigated. Systematization of risks and threats to Ukraine's financial security by its components had been carried out. Influence of systemic threats in the financial sphere on the economic security of the state was generalized. International experience of monitoring financial stability of the state was analyzed. Additional risks to the national financial system are associated with the globalization and digitization of the state financial system that are not taken into account by valid methodological recommendations for calculating the level of economic security of Ukraine were highlighted.

Key words: financial security, state economic security, risk, threat, threat indicator, financial system, financial stability.

УДК 351.863:332.055

Онищенко Светлана Владимировна, доктор экономических наук, доцент. **Маслий Александра Анатольевна**, кандидат экономических наук, доцент. **Максименко Андрей Петрович**. Полтавский национальный технический университет имени Юрия Кондратюка. **Угрозы финансовой безопасности Украины: идентификация и классификация**. Обосновано место мониторинга и контроля рисков финансовой стабильности государства в системе обеспечения финансовой безопасности государства. Рассмотрен инструментарий идентификации угроз финансовой безопасности Украины через текущий и стратегический анализ показателей развития финансовой системы. Проанализированы тенденции экономического развития Украины в контексте выявления источников угроз финансовой стабильности государства. Проведен динамический анализ фактических значений индикаторов экономической безопасности Украины в целом и по отдельным ее составляющим. Выявлены угрозы финансовой безопасности Украины на основе сравнительного и трендового анализа. Исследованы причины критического состояния долговой, банковской и денежно-кредитной безопасности в структуре финансовой, и выявлены предпосылки возникновения системных угроз. Проведена систематизация рисков и угроз финансовой безопасности Украины по ее составляющим. Осуществлен обзор влияния системных угроз в финансовой сфере на экономическую безопасность государства. Проанализирован международный опыт мониторинга финансовой стабильности государства. Представлена сравнительная характеристика национального и европейского подходов к выявлению угроз финансовой безопасности на макроуровне. Выявлены дополнительные угрозы финансовой безопасности Украины с использованием рейтинговых показателей по методике Европейского центрального банка. Доказано, что обновление перечня индикаторов и качественное обогащение аналитической системы идентификации угроз динамическими и рейтинговыми показателями позволят выявить дополнительные угрозы финансовой безопасности Украины. Выделены дополнительные риски для национальной финансовой системы, связанные с глобализацией и диджитализацией государственной системы, не учитываемые действующими методическими рекомендациями по расчету уровня экономической безопасности Украины. Доказано, что в условиях динамичного развития международного экономического сотрудничества государственная политика должна формироваться на основе предотвращения и раннего выявления угроз.

Ключевые слова: финансовая безопасность, экономическая безопасность государства, риск, угроза, индикатор угрозы, финансовая система, финансовая стабильность, обеспечение финансовой безопасности.