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Restrictions of Financing the Budget Deficit of Ukraine

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ABSTRACT

The article deals with the need to minimize the impact of “withdrawal capital” to finance the budget deficit of Ukraine. It is proved that a large amount of “withdrawal capital” increases of the threat of inefficient provision of the balance of payments, does not encourage a close relationship of legal and illegal financial flows, does not allow to determine the actual destination of mobilized resources and their ability to finance the budget deficit. The fiscal policy as an instrument of redistribution of GDP in the short run is a macroeconomic stabilizer of counter inflation in the long period - stabilizer of legislative changes in the taxes and fiscal transfers to help vulnerable populations. The budget debt management policy should be seen as an activity of the state as the borrower and the guarantor of its obligations, including the coordination of objectives and methods to reduce the debt burden in the budget of Ukraine.

Keywords: State budget, budget deficit, public debt, fiscal policy, domestic government debt bonds.

1. INTRODUCTION

The specifics of financing the budget deficit of Ukraine according to national standards are not always optimal in terms of international level. These standards are the result of the selection of tools of regulation and implementation of fiscal policy, which based on objective economic laws and features of financial policy, should provide a set of measures for development. Along with this, there is the phenomenon of “withdrawal capital” as a source of threat to financing the budget deficit of Ukraine. That phenomenon of outflow of cash flows derived from the country bypass the standards of financial control and taxation. If the reality of outflow of financial flows does occur, then one can hardly speak of any stabilizing fiscal policy

and public debt management. One of the main challenges facing Ukraine is the mobilization of domestic financial resources. “Of withdrawal capital” is essentially the export of domestic savings and foreign currency. The most obvious unfavorable outcome of “withdrawal capital” is a revaluation of the currency. This fact alone may cause out-flow of financial flows from the country and increase the burden of external debt. Constantly referring to external borrowing, the government actually encourages “the withdrawal of capital”. When external power disappears completely debt servicing is transferred to the state budget. Then the government is faced with the alternative: either to strengthen the tax burden on producers or reduce expenditure side of the budget to finance the development programs of the national economy.

The problems of “withdrawal capital” that leads to the emergence of budget deficit and destabilizing fiscal policy were researched by our scientists (Yermoshenko, 2001; Yarova, 2005; Lutsyk, 2006; Medvedeva, 2012; Lukianenko, 2014) as well as by foreign scientists (Cuddington, 1986; Dooley, 1988; Kar and Freitas, 2011; Bancel and Mittoo, 2013). However, in their works there is no common view on methods of preventing scale of “withdrawal capital”, which is dangerous to efficiency of the distribution of budget spending and mobilization of budget revenues in the country.

2. LITERATURE REVIEW

To finance the budget debt the government of Ukraine often resorts to increase the money supply. This leads to an increase in the budget deficit and, consequently, to the aggravation of inflation. The depreciation of the national currency causes inflation, the effect of increasing the budget deficit. Thus, there is a vicious circle. On the one hand, inflation provokes withdrawal of considerable size of financial flows, and on the other - it is one of the incentives of inflation (Serebryansky et. al., 2011).

It is necessary to emphasize the features of the flow of “withdrawal capital” between the EU and developing countries. Thus, capital flows from European countries are investments that lead to the definition of financial incentives to use resources in response to their investment opportunities. Thus, the normal movement of capital comes from countries where there is an excess of capital to the countries where it is in short supply (Cuddington, 1986). That is the natural movement of capital in the EU has a relatively low profit margins and high propensity to savings in developing countries where there is a shortage of resources and investment rate of return is high. The movement in the opposite direction is a sign of “withdrawal capital”.

There are several reasons for “withdrawal the capital” from the country that are typical for Ukraine: macroeconomic instability, which is the result of disordered political environment, creating uncertainty about future rates of return on investment; high and uneven tax rates that encourage tax evasion and the withdrawal of capital abroad; lack of confidence in the domestic banking sector, which encourages retention of savings abroad; corruption and weak institutions for the protection of property rights which discourage the accumulation of assets in the country; opaque and corrupt privatization that allows managers of companies to dispose the assets and transfer them abroad (Dooley, 1988).

In the context of the current macroeconomic situation in Ukraine large amounts of “withdrawal capital” impose restrictions on economic growth, increase the danger of inefficient maintenance of payments, discourage a close relationship between legal and illegal financial flows, do not allow to determine the real purpose of attracted resources and their target ability to finance the budget deficit, cover public debt

and form a transparent fiscal policy. We can note that in the period of stagnation and decline of national economic the state uses a stimulating fiscal policy and its instruments are mostly increased government spending, tax cuts, increased transfers. Thus, in the developed countries the economy is by 2/3 adjustable due to discretionary fiscal policy and by 1/3 due to automatic stabilizers (Lutsyk, 2006).

However, long-term changes in the tax reform lead to slower tax revenue to the budget. In the conditions when tax reduction is complicated by needs of significant budget revenues, it is necessary to focus on components that reduce business transaction costs to pay taxes without affecting their own financial revenues. Solving these problems is fulfilled by improving the mechanism of compensation of VAT, innovations on the tax rate of the single social contribution to reduce the tax burden and transparency of schemes of preferential charging of producers, legalize their income, minimize corruption schemes and the level of shadowing in the real sector of the economy. The content of the tax changes should be moderate attitude towards lowering taxes, introduction of effective taxation mechanism in which taxes, serving as a source of budget resources should properly perform as socio-leveling, regulatory, and catalytic functions.

The purpose of research is to develop methodical approach to setting limits to of “withdrawal capital” and its threat to financing the budget deficit of the state.

3. MATERIALS AND METHODS

Formation of the methodical approach to setting limits to the of “withdrawal capital” and its threat to financing the state budget deficit, taking into account the instruments of fiscal policy and debt management, primarily focuses on budget analysis and allows to: identify the failure factors influence on budget allocations; identify deficiencies in spending money on inefficient, ineffective, inappropriate use of budget allocations; assess the cost-effectiveness of budget expenditures; ensure the completeness and timeliness of the plan of mobilizing revenue in the budget; improve the budget process and intergovernmental relations.

As for methods of increasing the budget debt suspension (extension, consolidation, conversion of debt), they should aim to: ensure balanced debt structure; active management of the market share of the budget debt; saving potential of debt refinancing by changing the conditions of the financial markets; performance of targets on the cost of servicing debt and the acceptable level of risk; retention of public sector debt at economically acceptable level.

Thus for effective debt management by setting limits on of “withdrawal capital” we consider it necessary to offer a methodical approach to estimation of total financial flows budgetary resources based on their speed, strength, stability, flow and the potential change in value over time. The rate of movement of financial flows is based on the fact that each cash flow coming in “fiscal capacity of the state” for a certain period or within that period is formed in the system and out of it. This period is determined:

- for incoming flows – as the time interval between the legal basis for the formation of financial input stream and conversion to budgetary resources with the loss of dynamic properties;
- for outgoing flows – as the time interval between the formation of the legal basis for the formation of financial flows and external debt made on the financial market.

The high speed of financial flows shows the high level of stability under budgetary resources. The rate of financial flows is due to its size, but the move is a reflection of its dynamic characteristics, i.e. the

transition from the initial state to the final state will indicate the performance of its obligations to international financial markets. Accordingly, the power of financial flows shows the amount of flow that goes from the initial state 1 to the final state 2 per unit of time:

$$v_{FF_j} = \frac{FF_j}{t_{1 \rightarrow 2}}, \quad (1)$$

where, FF_j – nominal amount of the j^{th} financial flows, UAH.;

$t_{1 \rightarrow 2}$ – the number of days for which the flow will move from state 1 to state 2, days.

The power of financial flow reflects the financial capacity of the state budget to form a certain amount of income for the relevant period $t_{1 \rightarrow 2}$ for incoming cash flows and ability to perform a certain amount of budgetary commitments for the period $t_{1 \rightarrow 2}$ for outgoing financial flows.

In assessing the stability of budgetary resources, it is necessary to calculate financial flow rate ratio (K_{FF}), defined as the ratio of the number of days required for budget allocations (t_0) while ensuring their proper use and proper functioning of the banking system and speed of financial flows:

$$K_{FF} = \frac{t_0}{t_{1 \rightarrow 2}}, \quad (2)$$

As a result of the calculation K_{FF} the level of stability of budgetary resources is determined, which range from absolutely stable to relatively stable. In order to ensure application implementation of quality characteristics of stability of budgetary resources we introduce “transformation ratio of financial flows” $k_{tr(\{j\})}$ which depending on the stability of budgetary resources may have margins of 1.0 (quite stable) to 0.5 (relatively unstable).

Thus, the total amount of financial flows according to budgetary resources with regard to their stability ($FF(K_{FF})$) in a given period is calculated as follows:

$$FF(K_{FF}) = \sum_{j=1}^N FF_j \cdot k_{tr(\{j\})}, \quad (3)$$

where, FF_j – nominal amount of the j^{th} state budget deficit, UAH.;

$k_{tr(\{j\})}$ – transformation ratio of the j^{th} financial flow, share units.

Gross Domestic Product and Budgetary Resources

Bringing the nominal budget deficit to reality is somewhat subjective process because in most cases it depends on the budget or potential state (evaluation purposes, availability of established methodologies and assessment procedures), or on the financial market, which sets its own rules for assessing the financial flow. In our research the reconciling of the nominal budget deficit to the actual use is based on the discount rate factor for the inflation rate, rate of return as alternative directions of formation of budget revenues (of the two values the biggest one is taken). This is because the majority of revenues provide budgetary allocations and inflation level avoids speculative expectations of gross domestic product that provides real value of budgetary resources.

Thus, it is important for these conditions to carry out a comparative analysis between actual and potential GDP levels. Since in the state of economic recession or depression, when GDP is below the potential level, state fiscal policy measures include reducing tax rates, increase of public spending, a policy of “cheap money” of National Bank of Ukraine. Conversely, when GDP is above potential level the following stabilizing measures as increasing tax rates, reducing public expenditure, a policy of “expensive money” of National Bank of Ukraine can be implemented. With the stabilization of the internal signals of threat of “withdrawal capital” the following measures are provided: the stability of the national currency, lending transparency of economic subjects, matching the inflow of financial resources to the pace of GDP growth, the need for financing public debt, demand for the products and ability to pay of consumers, energy market stability and change energy prices, changes in the tax burden. External signals determine price trends in the financial market, optimizing internal and external relations in the international markets for the development of investment processes in the country.

The increase of the budget debt through of “withdrawal capital” is a sign of reducing administrative impact on domestic savings (capital assets) of countries. This leads to the need to use a set of measures to establish the amount of borrowed funds, and hence the accumulation of financial risks in the private sector, instability and fiscal balance. However, the increase in external borrowing does not ensure adequate solvency of the state. So the policy of management of budget debt should be seen as an activity of the state as the borrower and the guarantor of the obligations of its subjects, including methods to reduce the debt burden in the budget and government action settlement with the National Bank of Ukraine.

Taking into account the significant amount of “withdrawal capital” through bank accounts transaction system, the domestic financial sector remains at a loss as financial resources that are potentially manageable financial intermediaries are lost. Accordingly, the profits of the financial sector and the speed of its development are declined, which causes high threat of budget deficit financing. Recipes to avoid this threat in Ukraine are famous, primarily it is a macroeconomic stabilization (or growth policy) aimed at increasing the actual volume of gross domestic product, increase of employment, taxes reduction, increase in government spending, the introduction of “cheap money” by NBU (“The banking system: challenges and prospects”, 2015). However, a significant need for critical budgetary expenditure with limited sources of income causes chronic budget deficit in Ukraine. It is believed that if the national economy has a balanced budget, during the depression and recession should pursue a policy of increasing the budget deficit.

We can note that the reducing the effectiveness of interest policy of the National Bank, which threatens the price and exchange rate stability and balance of payments as a whole is the fact that the previously withdrawal capital is often returned to the country in other ways. The flow of capital firstly can reduce dependence on the banking system of the National Bank, and secondly, can create market distortions, when demand and supply of financial resources, and therefore the price of them do not meet the domestic financial market regulation. In the conditions of “floating” exchange rate the reverse flow of capital creates upward pressure on the currency and the threat balance of payments and domestic price competitiveness.

Threat of Change of the Price of Government Derivatives

The volume of the total flow of financial resources for the budget is determined by the guaranteed coverage level of public debt, in order to bring the nominal budget deficit to reality, taking into account:

- macroeconomic factors affecting the volume of financial flows: inflation, exchange rate, GDP growth, its volume, dynamics of money and so on;
- indicators of the development of financial market: NBU discount rate, the average market rate of return financial instruments, cost sources of financial assets (securities) for the CAPM, the outlook for some sectors of the financial market, and so on.

As asserted by foreign authors (Sharpe, 1964; Miller, Modigliani, 1991), CAMP appears to work rather well under actual conditions of the well-developed of financial market. According to this model the value of government securities for sources of financing of budgetary institutions and public companies, is calculates using the formula:

$$k_{vk} = Z + (\bar{k}_m - Z) \times \beta + e, \quad (4)$$

where, Z – is risk-free rate of return for government securities (in Ukraine, the rate of return on financial assets is calculated according to the stock market data);

\bar{k}_m – is average expected return of the market;

$(\bar{k}_m - Z)$ – is market risk premium;

β – is indicator risk of budgetary institutions and public companies by issuing government securities; ($\beta = 1$: government securities have average risk rate equal to the one, generally observed on the market; $\beta = -0,5$: the risk rate is half of the market risk, but the direction of dependence the return incomes of budgetary institutions and public companies is opposite to that of market);

e – is error reflecting unsystematic risk of budgetary institutions and public companies by issuing government securities (introduced to the formula as there a high probability that the actual return will differ from the expected one).

β – is a coefficient of government securities of the i^{th} budgetary institution and public company, calculated as a ratio of co-variation of return of government securities and market investment portfolio (m) to variation of income the market portfolio considering possible fluctuation of rates of return on risk-free for government securities:

$$\bar{\beta} = \frac{\sum_{t=1}^n ((k_i)_t - Z_t - \bar{k}_i + \bar{Z}) \times ((k_m)_t - Z_t - \frac{1}{n} \sum_{t=1}^n ((k_m)_t - Z_t))}{\sum_{t=1}^n ((k_m)_t - Z_t - \frac{1}{n} \sum_{t=1}^n ((k_m)_t - Z_t))^2}, \quad (5)$$

where, Z – is risk-free rate of return for government securities (in Ukraine, the rate of return on

where, $(k_i)_t$ – is the return of government securities of the i^{th} budgetary institution and public company at time t .

We can be proposing to include three more elements into the basic equation of pricing model for the financial market:

$$\bar{k}_i = Z + (\bar{k}_m - Z) \times \beta + x_1 + x_2 + x_3, \quad (6)$$

- where,
- x_1 – is additional risk premium of government securities for financing of small and medium-sized budgetary institutions (its introduction is conditioned by necessity to effective debt management by setting limit the budget and deficit instability of return for financing of small and medium-sized budgetary institutions), being to have higher risks under equal other conditions due to a number of economic factors;
 - x_2 – is additional risk premium for financing of closed public companies (compensation for shareholders of the risk of frozen government derivatives as well as uncertainty and the exchange of debt states to taxpayers for uncompensated VAT on government bonds);
 - x_3 – is additional risk premium of return for government securities of the country of EU. The features of the flows of “derivatives capital” of the country of EU: included into the formula only during assessment of discount rate in the scheme of equity financing by foreign investors in the developing countries). They are approximately equated with up to 5/6 of risk-free rate of government securities investments for the developing countries.

The usage of the modified model is expedient under conditions when during the retrospective period the market risk premium, estimated on the basis of the stock market data, is separable (or there are grounds to consider it to be understated as a result of understated data for \bar{k}_m calculation).

The usage of the modified model is expedient under conditions when during the retrospective period the market risk premium of government derivatives estimated on the basis of the critical recourses of presenting in the nomenclature of recourses of budgetary institutions and public companies (or there are grounds to consider they can be understated as a result of understated data for calculation). In the proposed model of the critical financial resource should to increase on the index of general inflation rate.

The policy of fixed exchange rate does not eliminate this risk because it is in the medium term is not effective and realistic and restricts the effectiveness of monetary policy. Therefore, the best option, in our opinion, is the creation of currency risk of insurance and derivatives market, its legal and institutional support.

4. RESULTS AND DISCUSSION

Throughout the period of observation, budget deficit was mainly noted in Ukraine (except for some periods, such as in 2000 and 2002). Thus, the deficit is mainly formed by the state budget and ranged from 0.33% of GDP in 2001 to 5.73% of GDP in 2010 (Table 1).

We can indicate consistently high level of deficit in the period after the crisis of 2008-2009. From our point of view, it can be explained by attempts to use in this period countercyclical budgetary advantage when the economy, since 2012, began to be engaged into recession. Meanwhile, the model of stimulating consumption through increased fiscal burden was chosen wrong and it only exacerbated macroeconomic imbalances.

Table 1
Deficit of state, local and consolidated budget of Ukraine in 2000-2015

Period	<i>The deficit (surplus) of the state budget</i>		<i>The deficit (surplus) of the local budget</i>		<i>The deficit (surplus) of the consolidated budget</i>	
	<i>mln. UAH</i>	<i>% of GDP</i>	<i>mln. UAH</i>	<i>% of GDP</i>	<i>mln. UAH</i>	<i>% of GDP</i>
2000	-697.3	-0.41	-272	-0.16	-969.4	-0.57
2001	680.7	0.33	-87.3	-0.04	593.4	0.29
2002	-1119.4	-0.5	-516	-0.23	-1635.4	-0.72
2003	1043.1	0.39	-536.4	-0.2	506.7	0.19
2004	10223.5	2.96	792.5	0.23	11016	3.19
2005	7936.4	1.8	-139.3	-0.03	7797.1	1.77
2006	3776.6	0.69	-75.9	-0.01	3700.8	0.68
2007	9842.9	1.37	-2141.2	-0.3	7701.7	1.07
2008	12502	1.32	-1622.5	-0.17	14124.5	1.49
2009	35517.2	3.89	1740.9	0.19	37258.1	4.08
2010	64265.5	5.73	419.4	0.04	64684.9	5.77
2011	23557.6	1.75	-499.7	-0.04	23057.9	1.71
2012	53445.2	3.66	-2659.5	-0.18	50785.7	3.48
2013	64706.7	4.25	-1116.4	-0.07	63590.3	4.18
2014	78052.8	4.98	-6022.3	-0.38	72030.5	4.6
2015	45150.6	2.28	-14265.5	-0.72	30885.1	1.56

Source: National rating agency "Rurik", 2015

It should be noted that in the world practice the safer level of the budget deficit is its amount of not more than 3% of GDP (Lukyanenko and Sidorovich, 2014). The Maastricht Treaty of the EU fixed the corresponding rate. Approximately, at the same level the requirements imposed under the IMF loan are fixed. We can note that the Maastricht Treaty defines 5 criteria for countries aspiring to join the EU, the budget deficit should not exceed 3% of GDP; public debt should not exceed 60% of GDP; state for 2 years should participate in the European exchange rate mechanism and ensure the stability of the national currency to the euro; inflation should not exceed by more than 1.5 percentage points of the average level of the three EU member states with the most stable prices; long-term interest rates on government bonds should not exceed more than 2 points of the average level of the corresponding rates in the three countries with the lowest inflation; the independence of the central bank must be ensured (Contract about European Union, 1992; Treaty on the Functioning of the European Union, 2010).

Meanwhile, the problem of balancing public finances of Ukraine is not limited to the official budget deficit. The widespread practice of "hidden" deficit is caused by the accumulation of debts of budgetary institutions and public companies, as well as conversion of budgetary commitments concerning the public debt. In particular, in 2008 Ukraine introduced the practice of financing these obligations by issuing government securities. In particular, this applies to the capitalization of state banks, entering state in the capital of private banks and support by "Naftogaz of Ukraine" by exchanging their shares for treasury bonds (T-bills) and the exchange of debt states to taxpayers for uncompensated VAT on government bonds.

Thus, government bonds were issued:

- in 2008 to increase the authorized capital of “Ukreximbank” and “Oschadbank” (worth 17.5 bln. UAH);
- in 2009 for the recapitalization of banks (23.3 bln. UAH) and increasing the authorized capital of “Naftogaz of Ukraine” - 43.2 bln. UAH;
- in 2010 to recapitalize “Ukreximbank” in the amount of 6.4 bln. UAH, for repayment of previous years of VAT refund – 16.4 bln. UAH, to increase the authorized capital of the State Mortgage Institution – 2.0 bln. UAH, the capitalization of “Naftogaz of Ukraine” – 7.4 bln. UAH;
- in 2011 to replenish the authorized capital of “Oschadbank” and the capitalization of “Rodovid Bank” and “Ukrigasbank” in the amount of 8.9 bln. UAH, the capitalization of “Naftogaz of Ukraine” – 12.5 bln. UAH, lending Agrarian Fund – 5 bln. UAH;
- in 2012 to replenish the authorized capital of JSC “Ukrhydroenergo” in the amount of 1.0 bln. UAH, the capitalization of “Naftogaz of Ukraine” – 6.0 bln. UAH, the Agrarian Fund loans – 2.6 bln. UAH;
- in 2013 for the capitalization of “Naftogaz of Ukraine” – 8.0 bln. UAH, for “Oschadbank” – 1.4 bln. UAH, for JSC “Ukrainian Danube Shipping Company” – 0.3 bln. UAH and the formation of PJSC “Agrarian Fund” – 5.0 bln. UAH;
- in 2014 for the capitalization of “Naftogaz of Ukraine” – 96.6 bln. UAH, an increase in the authorized capital of “Oschadbank” – 11.6 bln. UAH and for “Ukreximbank” – 5 bln. UAH, loans of Deposit Guarantee Fund of Individuals – 10.1 bln. UAH, granting subventions from the state budget to local budgets for payment for natural gas from “Naftogaz of Ukraine” and compensation for the difference in tariffs in the production of thermal energy for the population – 11.1 bln. UAH, VAT refund – 6.9 bln. UAH;
- in 2015 to increase the authorized capital of “Naftogaz of Ukraine” - 29.7 bln. UAH;
- in exchange for promissory notes issued by the Fund Deposit Guarantee – 41.5 bln. UAH, for additional capitalization of JSC “Ukrigasbank” – 3.8 bln. UAH.

Replenishment of statutory capital entities in the public sector at the expense of government bonds in the conditions of crisis is seemed acceptable. Moreover, the level of coverage guaranteed debt was quite low – 20% of GDP in 2008 (when legal restrictions were 60% of GDP). This practice led to a gradual accumulation of “hidden” of budget deficit (*Figure 1*), which with depressive tendencies in the economy led to increased burden of public debt to increase money supply in 2013-2014.

Under these conditions, the NBU forced step was the adoption of measures to sterilize the money supply growth, prompting public sector entities to purchase government bonds on the domestic market at a discount, which becomes speculative (40%). Domestic market realities in the economy forced to attract NBU to buy government bonds on the secondary market (share of issued government bonds owned by the National Bank increased from 48.3% in 2008 to 72% in March of 2016, and in certain periods exceeded 75%) (Banking system of Ukraine, 2016). Thus, the real burden of the budget deficit in Ukraine requires the use of instruments of government borrowing through the implementation of government securities.

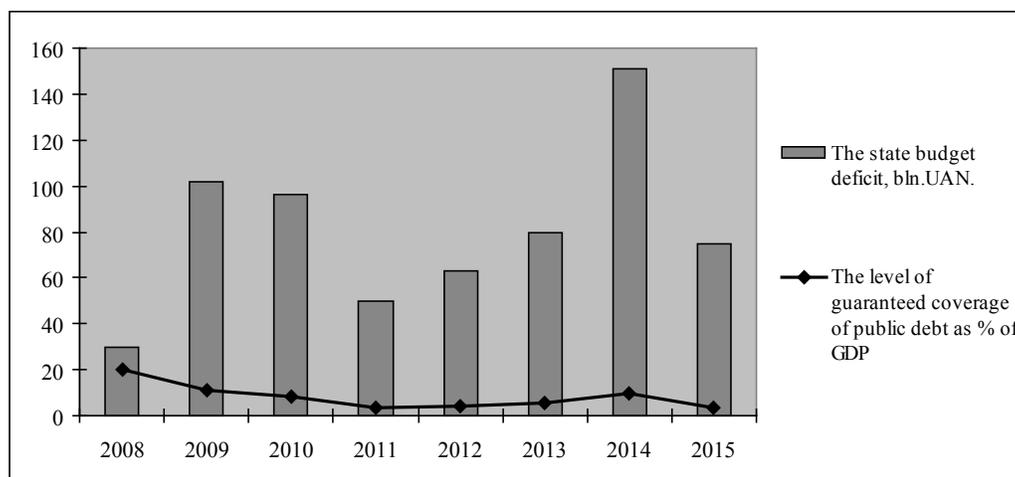


Figure 1: “Hidden“ budget deficit for the period of 2008-2015, bln. UAH
Source: National rating agency “Rurik”, 2015

Currently, securities issued 99.5% of internal and 51.3% external direct public debt. In 2015 the debt on bonds of domestic government loan accounted 505.3 bln. UAH and government external bonds – 17.3 bln. USD. State guaranteed domestic debt also included 16.7 billion UAH of the debt on the bonds: the State Mortgage Institution – 6.2 bln. UAH, NJSC “Naftogaz of Ukraine” – 4.8 bln. UAH and Ukravtodor – 4.4 bln. UAH. Also in Ukraine treasury bonds were released in local and foreign currency, which provided some income to the state budget (according to the Ministry of Finance in 2015 for the debt of the state treasury liabilities amounted to 98.6 mln. UAH), but they could not be implemented in the planned volume (Financial market in Ukraine, 2016).

In 2015 the state introduced derivatives as securities as part of restructuring the external public debt placed on the international stock markets. Ukraine must prove its actions to implement commitments, subject to certain indicators of Ukraine’s GDP, as well as other benefits. For example, in the form of direct loans from international financial institutions (14.0 bln.USD at the beginning of 2016) and the individual states (1.4 bln. USD) generated 44.8% of the external debt of Ukraine. The major institutional creditors of Ukraine are the IMF (the debt is 5.3 bln. USD), the World Bank (5.2 bln. USD), EU (2.4 bln. USD), EBRD (0.58 bln. USD), the European investment bank (0.5 bln. USD). Among major sovereign creditors are Russia (605.9 mln. USD), Canada (288.1 mln. USD) and Japan (233.7 mln. USD). The government also guaranteed foreign loans from international financial institutions of 5.9 bln. USD (of which 5.3 bln. USD – from IMF), 2.8 bln. USD of loans from financial investors from different countries (including 1.6 bln. USD – from China) (Financial market in Ukraine, 2016).

Thus, cooperation with international financial institutions should be seen not only as a source of deficit financing, but also as an important structural factor that can give a significant impetus to meet the challenges of a strategic nature. In particular, the agreement with the IMF on mechanism of EFF provides substantial changes in the direction of sound public finances and the foundation of macroeconomic stability. This credit, particularly from international financial organizations in Ukraine are more effective compared to borrowing in the form of bonds, because they have dedicated purpose or require reforms. However, to realize this potential Ukraine shall provide targeted character and efficiency of expenditure of received credit. Currently, significant shortcomings of project implementation provided by the international

financial institutions (excluding IMF loans, which have a clear allocation) are the flaws in the management and control of their implementation, including procurement, poor planning and other.

5. CONCLUSION

Summarizing the above facts, it should be noted that “of withdrawal capital” from the country can be quite realistic, as the accumulation of “hidden” deficit washes real financial resources from the financial system of the country; such resources should be aimed at the development and implementation of measures under the policy of management of public debt and at solving the problem of fraud in the foreign market. Particularly, note the need to restructure the revenue and expenditure of the state budget, the final elimination of its deficit, reducing the absolute size of public debt and its share of GDP. The methodical approach to the evaluation of total financial flows of budgetary resources is based on their speed, strength, stability, flow and the potential change in value over time will ensure efficient debt management from setting limits on “of withdrawal capital”.

Implementation of monetary policy based on inflation targeting, certain regulatory mechanisms of credit support and flexible exchange rate regimes have become the main levers of stabilization of the real economy of the state. Among this, the implementation of national fiscal policies of the management of public debt in Ukraine should be a top priority of the country in the long term, and its instruments should be considered in the context of a much broader range of tasks of state finances.

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