THE MODERN ECONOMY OF UKRAINE: CHALLENGES AND PROSPECTS FOR DEVELOPMENT

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The problems of the modern economy of Ukraine are in the financial and economic and political instability in the country, which greatly reduces opportunities for economic development and investment attraction. Also restrictions have the considerable impact, which were introduced by the Russian Federation, for imports from Ukraine and the EU. The main problem of the modern development of Ukraine is fighting in the Donbass, which led to a reduction in industrial production. So today the problems of the modern economy are very important and they are requiring further examination.

In research the works are used in the field of local scientists on the problems and prospects of the Ukraine: I.V. Alekseev, O.I. Baranovsky, M.Dmytrenko, M. Danylyshyn, E.I. Boyko.

In the short term the global economy will grow at a relatively low rate of growth (3.6% in 2014 and 3.9% in 2015) and the deterioration in global financial markets. By increasing export turnover and intensification of US domestic consumption is the driver of the world economy with an expected growth rate of 2.8% in 2014. Geopolitical risks, the centers of which are Ukraine and the Middle East have a significant impact on the global financial system. Events in Ukraine create secondary effects for all CIS countries and their major trading partners. In case of further instability increases the risk of abuse of trade and financial ties in the region. Sector sanctions on Russia and geopolitical tensions will lead to a decline in investment activity in Russia, the collapse of investment projects and the withdrawal of foreign capital from the Russian market. Restrictions on imports introduced a Code of Ukraine, the EU and the US will face strong inflationary pressure on the economy of Russia. However, even effective implementation of import programs, which, according to Russian economists, could be a stimulant for the economy of Russia, will not achieve significant effects in the short term. As a result, a slowdown of economic growth of Russia to 1.3% in 2014 and 2.3% in 2015 is expected [1, p. 16-18].

In addition, the risks of fluctuations in world oil prices due to the exacerbation of conflicts in the Middle East will add Russia as a major oil exporter additional pressure on the federal budget. Slowing global economic growth and the pace of investment affects the expected fall in prices on world commodity markets. In particular, the slowdown in the Chinese economy and reduce demand for metals contributes to the further decline of the index of prices for metals and the expected high yields in countries exporting grain production and increase supply on world markets lead to falling prices for cereals.

As the European economy has not fully overcome the recessive tendencies and has a significant dependence on Russian gas, further escalation of the Russian-Ukrainian conflict, increasing sanctions against Russia and the EU on trade restrictions by the Russian Federation somewhat restraining economic recovery of the EU. However, EU governments provided support for some sectors of the real economy, affected by the Russian embargo in the amount of 125 million euros. The absence of alternative buyers of these funds will help to reduce the
number of products on the market, stabilize prices and compensate possible losses. Of point of view the decline in world prices for most commodities exchange factor of the expected low inflationary pressures in the euro area may be exacerbated in countries with high debt loads and low recovery.

Internal risks of the Ukraine’s economic development, are mainly related to: - the Donbas military actions that lead to layoffs in the region, worsening terms of external financing and increase budget expenditures to finance the security forces and the restoration of the destroyed infrastructure. Secondary effects of internal political and economic turmoil, the annexation of the Crimea and Donbas hostilities spread to most sectors of the national economy. Consequently existing imbalances deepen; the decline in GDP is accelerated, reducing of the volume of the industrial production, of construction works, foreign trade, and reduction in the development of the capital investment and so on. The reduction of the industrial production, which began in late 2012 leads to the country’s dependence on imported energy sources and the lack of compensation of the loss of Russian gas will force businesses to move to the austerity that significantly affect the volume of the production. This will impact not only on reducing budget and foreign exchange earnings, but also on the increase in unemployment, which adversely affect the economic growth in the short term.

In terms of the investment capital outflow due to the lack of security guarantees for investors and a high degree of the risk the worldwide trend of the reduction of the bank lending is an additional factor of the inhibition of the economic development of Ukraine. Generally, lending standards are influenced by internal and external factors that are extremely negative for Ukraine. The massive outflow of deposits (in the first half of 2014 the outflow of resident deposits amounted to 39 billion USD in the same period last year), significant domestic imbalances of the banks and impeded access to world financial markets do not allow to predict the lower rates on loans and their availability for small and medium businesses. In this regard, the expected decline in the construction industry in Ukraine this year by 12%, taking into account the low comparative base last year, is quite natural, but in 2015 we can expect a significant growth rate in view of the need to rebuild the destroyed buildings in the Donbas and the statistical effect base. In international trade some short-term positive effects achieved as a result of the devaluation of the national currency, are offset with falling export enterprises located in areas where military operations are conducted, and with mutual sanctions by Russia and Ukraine. By the end of the year we should expect deepening of these trends. Thus, in January-May 2014 the positive effect of reducing imports by 18% partly is offset with falling exports more than 5% [2, p.44-45].

In terms of forced economic isolation of the Donbas, which provides a quarter of all exports, even the effect of the devaluation of the currency did not intensify activities of the exporters. The ban exports of a number of Ukrainian goods to the Russian market, which formed a fifth part of total exports, require producers to shift to other markets. Exhausted international reserves, increased demand for foreign currency as a result of panic of the population due to the uncertainty of the outcome of the course of hostilities in the Donbas, minimize trade relations with Russia and the falling of the export earnings will lead to a significant devaluation of the currency. These circumstances create additional pressure on the exchange rate channel through expectations. Under the conditions prevailing in the domestic economy, the use of the National Bank of the administrative measures, including temporary restrictions on the sale and purchase of foreign exchange gain control over export earnings return to Ukraine, the mandatory sale of most of the others, can create conditions for strengthening rate UAH in the short term. The refusal from the administrative instruments of the regulation the foreign exchange market is appropriate only in case of the stabilization of the situation in the South East of Ukraine.

An additional factor for the strengthening of the position of the national currency and the reduction of the amplitude of fluctuations will be expected the next tranche from the IMF and the traditional exports of grain to world markets and, in particular, to the EU in view of the provision of trade preferences. The expected high level of inflation, although will significantly affect the
level of real income and expenditure of the population, can be seen as an additional incentive for business development of Ukrainian producers. In terms of the reduction in imports this factor can serve as the economic crisis in the medium term. In the current geopolitical and economic conditions, the driver of economic growth can become the agricultural sector given the prospects for expanding the geography of export sales. Owing to the opening of the European market for Ukrainian goods and the elimination of import duties we may expect the growth in exports of agricultural products to the EU. At least one third of agricultural producers manufacture products certified in Europe, in general, it concerns poultry. It is likely to assume that certified according to European standards products are competitive in other regions of the world [3].

In addition, the expected high grain yield even at low world prices allow producers to increase exports and increase the flow of foreign exchange earnings in the current year and the signing of association with the EU will add additional incentives to exporters regarding duty-free within quota. The difficult situation with budget revenues against the backdrop of falling economic development is intensified with political risks and significant costs for conducting ATO. Despite the construction of the state budget on more realistic macroeconomic indexes unlike previous years optimistic budgets that every year deepened the budget deficit, and the regime of austerity, up to the end of the current year we should expect the deepening of the budget deficit due to lower tax revenues.

The indicators of the budget implementation indicate that the amount of consolidated budget in the first half of 2014 increased by 6.4% compared to the same period last year, but this growth is formed only by advance payments of NBU which are transferred by the National Bank of Ukraine according to the Law of Ukraine "About National Bank of Ukraine" and actually means the release of the money in the amount that almost meets the annual plan, as well as reducing VAT reimbursement in cash more than a quarter. The state budget revenues through income taxes, VAT and excise tax show a significant decline. Therefore, without the stabilization of the situation in the East, the improvement of the activity of enterprises and the improvement of the consumer confidence of the population to continue the positive trend of filling the budget in the second half of this year will be extremely difficult. In addition, because of the devaluation, a significant increase in both the public debt and the cost of its maintenance was. Given the increased geopolitical risks around Ukraine for investors should not anticipate lower interest rates on debt service that the conditions expectations high level of budget deficit is additional pressure on the state budget. Increasing real interest rates increases the costs of servicing outstanding debt and increases the cost of capital, which in turn leads to a fall in GDP. To adjust existing risks is necessary to change the principles of fiscal policy. It is important to maintain the constant control and timely intervention to implement fiscal adjustment in order to avoid increasing high levels of external and domestic public debt particularly in condition of the low level of state budget revenues.

References