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SHADOW ECONOMY IN UKRAINE AND THE WAYS OF OVERCOMING IT

Today in the context of the requirements and challenges of the XXI century most acute and complex problems of the new Ukrainian government is to pull solving the economy out of the shadow and to beat the criminalization of social life.

These problems directly depends on the formation of civil society and the rule of law, a socially oriented national economy and a sustainable economic development according to modern European social standards of living of the population [1].

Shadow economy is an economic activity that is not reflected in the accounting and reporting of business; it is not included and is not controlled by public authorities and is aimed at obtaining uncontrollable income by means of violating the law, from which the state does not receive tax revenues.

The growth of shadow economy leads to structural deformations and instability of socio-economic development, hinders the process of nation-building, democratization and European integration of Ukraine. The growth of shadow economy also has negative consequences, leading to a reduction in governmental revenues, what creates a serious shortfall in the state budget. Currently, the deficit of state budget is one of the urgent problems of economic development of Ukraine.

Any activity in «shadow economy» is a crime. Since the size of shadow economy in different countries is different, then the definition of the «shadow» depends on the functioning of economic systems. Expert assessment of this indicator in Ukraine, depending on the method, ranged from 20 % to 60 %. According to the State Statistics Committee of Ukraine it is estimated to 20 %, according to reports of the Ministry of Economic Development and Trade of Ukraine — 50 % of GDP [2].

Therefore, methodological and methodical approaches to the evaluation of shadow economy and proposals for its significant reduction become especially important [3]. Shadow economy has various expressions, which can be divided into two groups. The first group

includes those economic activities that are directly related or are the acts qualified as crimes under the laws of Ukraine. This group includes activities related to drugs, weapon traffic, as well as crimes containing elements of corruption. The second group includes activities that can be called conditionally legitimate, since by their nature these activities are outside of the legal field. This activity is «shady businesses». One of the main reasons why entrepreneurs are forced to «hide in shadows» is intolerance of tax burden and efforts to overcome various administrative barriers arising in business.

The real limiting of the spread of shadow economy can occur only if the harmonization of social relations based on the elimination of contradictions happens. The main reduction of shadow economy lies in the process of sustainable economic growth. The strategy of overcoming the negative consequences of shadow economy must be comprehensive; it has to combine political, economic, legal, and organizational reinforcing activities.

Of paramount importance are enabling the environment for legal economic activity and the formation of «economic confidence» based on maximization of interests of all businesses and segments of the population [4].

According to the Law of Ukraine «On National Security of Ukraine» shadow economy is supposed to be overcome by means of tax reform, improvement of financial and credit sector and blocking the outflow of capital abroad [5]. The next step in overcoming shadow economy is a serious reform of law enforcement, judicial and administrative-territorial structure, and fundamental reform of local government, which will lead to a significant improvement of the current legislation.

Another important condition for overcoming the informal sector is the establishment of the conditions for entrepreneurship (especially small and average enterprises), the removal of restrictions on it.

It is also necessary to soften and differentiate the sanctions and penalties for relatively harmless offenses. It is necessary to establish the legal, organizational and personnel work to raise the level of professionalism, civility of public administration and strengthen its liability for negligence, and abnormal expression related to all forms of business ownership, which is a legal framework of relations of civil servants and entrepreneurs.

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UKRAINIAN BANKING SYSTEM VULNERABILITIES

Ukrainian banking system had suffered from the recent financial crises and even though it had seen some forms of success, there are still pressing issues such as the devaluing of the national currency and diminishing capital entering the country.

One of the major issues the country is facing is the repayments of the due debts that are estimated to total over 60 billion dollars solely for the next year. If the currency devalues too much Ukraine would have to resort to accepting a loan from the IMF.

The positive moment is that the country's amount of foreign currency debt has gone down. Nevertheless, the loans are still subject to fluctuations of hryvnia —vulnerabilities are still present. If hryvnia becomes weaker the currency cost of maintaining or servicing foreign currency would rise. That could increase loan default rates.

There has been five-fold increase in non-performing loans. Experts say it could even be as much as ten-fold. Ukraine's external imbalances are becoming increasingly unsustainable. Reserves could fall to \$11-\$12 billion by the end of 2014. The reserve depletion shows Ukraine is «increasingly running out of ammunition to maintain even a sub-optimal status quo[1]», as it said in a recent IMF note.

The International Monetary Fund offered the minimum which is to be the same as three month of imports. It is the level of the current