

BUDGET AND FINANCES

Nataliia Nosan, PhD in History

Cherkasy State Technological University, Ukraine

IDENTIFICATION OF CHALLENGES AND THREATS OF FINANCIAL SECURITY OF UKRAINE AS THE FIRST STAGE IN DEVELOPING OF ITS SUPPORT STRATEGY

The list of the main threats for the financial security of the state, that have a source of origin in the various functional components of its complex system – banking, budget, debt, monetary, currency, security of the non-banking financial sector is offered. Financial segments in which population and business structures distrust for the financial sector can be considered as a challenge to the financial security of the state are revealed. The main types of assets of the shadow financial sector of Ukraine are established. The results of surveys about the factors that hinder the expansion of the limits of the use of financial services, and therefore restrain the receipt of potential reserves to expand the boundaries of organized financial relations, are presented. A set of strategic benchmarks to eliminate the most critical threats to the financial sovereignty of the state in the long term is formed.

Keywords: state financial security, strategy, financial market, threat, challenge, risk.

Introduction. Increasing the level of competition in the field of financial services in international capital markets, the transformation of national and international models of regulation of financial sectors in the direction of the liberalization of financial relations, the expansion of the digital economy and the use of cryptographic and other trends in the development of the world financial system lead to the need to adapt the mechanisms of financial security of individual states to the new environment of their functioning. Any changes, even aimed at improving the financial conditions of management in local and global economic spaces, at the inception stage give rise to challenges for the stable development of systems that are accustomed to functioning in the conditions that preceded these changes. In addition, the established financial traditions in each individual country itself are the source of numerous threats to the state of national financial security, as they always contain subjective factors related to the realization of financial interests of certain categories of stakeholders. Special conditions in which the financial system of Ukraine operates – military actions on the territory of the state, political and economic crisis, loss of confidence in the national monetary unit and dependence on foreign capital and its donors – provoke the danger of losing by a country its financial sovereignty. In view of this, the development of a strategy for ensuring Ukraine's financial security is an extremely important task at the state level. In order for its provisions to be truly effective in addressing the problem of destabilization of the financial national financial system, the first stage in the process of forming this conceptual document should be to clearly specify the threats to Ukraine's financial security, according to which tactical actions on their prevention, avoidance, minimization, counteraction, etc.

Target setting. The purpose of the article is to identify the threats to the financial security of Ukraine within the various functional components of its system, as well as to specify their nature of origin, in particular, the establishment of which of them can be minimized through the use of instruments of state regulation of the financial sector and the activities of its participants, which need to be avoided complex reconstruction of the architecture of the domestic financial system and qualitative transformations of domestic financial services markets.

Analysis of recent research and publications. The topic of determining the list of threats to the financial security of the state is not new, and according to its results, numerous works have been published that should be mentioned in the context of this study. So, Kutsenko T.M. offers its own approaches to the

analysis and modeling of threats to the financial security of the state¹; Petrushevskaya V.V. classifies the threats to the country's financial security and provides suggestions on the formation of protective mechanisms for certain types of them²; Goryachkivskaya I.V., Kovalenko A.O. attract the attention of the scientific community to the issue of regulating the financial and economic security of economic entities as a means of minimizing the threats to the financial security of the state³; Perepelytsya M. O. studies the threats in the financial sphere for the national security of the state⁴; Dmitriev E. E. investigates the above-mentioned problem at the macro level and identifies contemporary international threats to the national economic and financial security of Ukraine⁵; Ishchenko V.V. cites in his publication an analysis of threats and risks for the tax component of ensuring financial security of Ukraine⁶; and Londar L.P. specifies the threats and indicators of the debt component of financial security of the country⁷. Zachosova N.V. stresses the fact that certain types of threats to the state of financial security of the state are formed in the financial market and arise because of problems with the level of economic security of its professional participants^{8,9,10}. Thus, threats to the financial security of the state can be considered from different positions, classified according to the various functional components of its system or by sources of origin. Therefore, despite all the efforts of Ukrainian researchers in solving the problem of specifying threats to the financial security of the state, this topic will not lose its relevance, given the volatility of the conditions under which the modern financial system functions, and the presence in financial relations of subjective factors that are not will allow this area of economic relations to become free of risks and dangers.

Research results and discussion. Strategic planning for ensuring the state's financial security in the future should begin with identifying the challenges, threats and dangers for the country's financial interests. This approach will allow you to identify the problem aspects of financial security management at the macro level and direct the main assets available to secure priorities, ensuring their targeted use.

We will identify the main threats and challenges for Ukraine's financial security in terms of the functional components of its system. One of the challenges for Ukraine's future banking security is the structure of the financial sector, which is characterized by a predominant share of private ownership and a high proportion of foreign capital. At the same time, its development is restrained by passivity in the use of credit resources. If the American financial system and the banking sector, in particular, encourage and stimulate citizens and businesses to use credit for various life-long purposes (for payment of tuition, acquisition of real and movable property, opening of their own business, meeting consumer needs, etc.), in Ukraine, despite such a range of credit services, their cost and terms of obtaining and using are barriers to their promotion. On the other hand, a low level of confidence in the banking and financial sector as a whole does not allow to secure a stable inflow of capital into the financial system, which leads to the need to search and use external sources of financial resources and maximize the threat of loss of financial sovereignty in the near future. Mistrust of the population and business to the financial sector as a threat

¹ Куценко, Т.М. (2013) Підходи до аналізу та моделювання загроз фінансової безпеки держави. *Вісник економіки транспорту і промисловості*, 42, 233-238.

² Петрушевська, В. В. (2013). Фінансова безпеки держави: класифікація загроз та формування захисних механізмів. *Економічний форум*, 4, 218-226.

³ Горячківська, І. В., Коваленко, А. О. (2017). Регулювання фінансово-економічної безпеки суб'єктів господарювання як засіб мінімізації загроз фінансовій безпеці держави. *Інвестиції: практика та досвід*, 24, 101-105.

⁴ Перепелиця, М. О. (2016). Національна безпека держави у фінансовій сфері: поняття й загрози існуванню. *Науковий вісник Херсонського державного університету. Серія : Юридичні науки*, 2 (2), 86-89.

⁵ Дмитрієв, Є. Є. (2013). Сучасні міжнародні загрози для національної економічної та фінансової безпеки України. *Проблеми і перспективи розвитку банківської системи України*, 37, 244-255.

⁶ Іщенко, В. В. (2012). Актуальні проблеми забезпечення фінансової безпеки України: аналіз загроз та ризиків податкової безпеки. *Наукові праці НДФІ*, 1, 143-149.

⁷ Лондар, Л. П. (2015). Борговий складник фінансової безпеки України: загрози та індикатори. *Стратегічні пріоритети*, 2, 70-78.

⁸ Зачосова, Н.В. (2016). Запровадження інституту фінансового омбудсмену в Україні : ймовірні наслідки для економічної безпеки фінансових установ. *Академічний огляд. Економіка та підприємництво*, 1 (44), 80-85.

⁹ Фурман, В.М., Зачосова Н.В. (2015). Особливості управління економічною безпекою сучасних страхових компаній як одного із видів фінансових установ. *Агросвіт*, 15, 20-26.

¹⁰ Зачосова, Н.В. (2010). Оцінювання рівня економічної безпеки компаній з управління активами. *Актуальні проблеми економіки*, 7, 111-119.

to the financial security of the state can be structured as follows (Fig. 1). Thus, the direction of one of the vectors of the strategy of ensuring financial security of the state for restoring the confidence of the population and economic structures to the financial sector, its professional participants and regulators, forming a worldview of confidence in the stability of the national currency will allow to intensify internal reserves of financing the needs of the economy without attracting excessive volume of external investments and various forms of financial assistance.

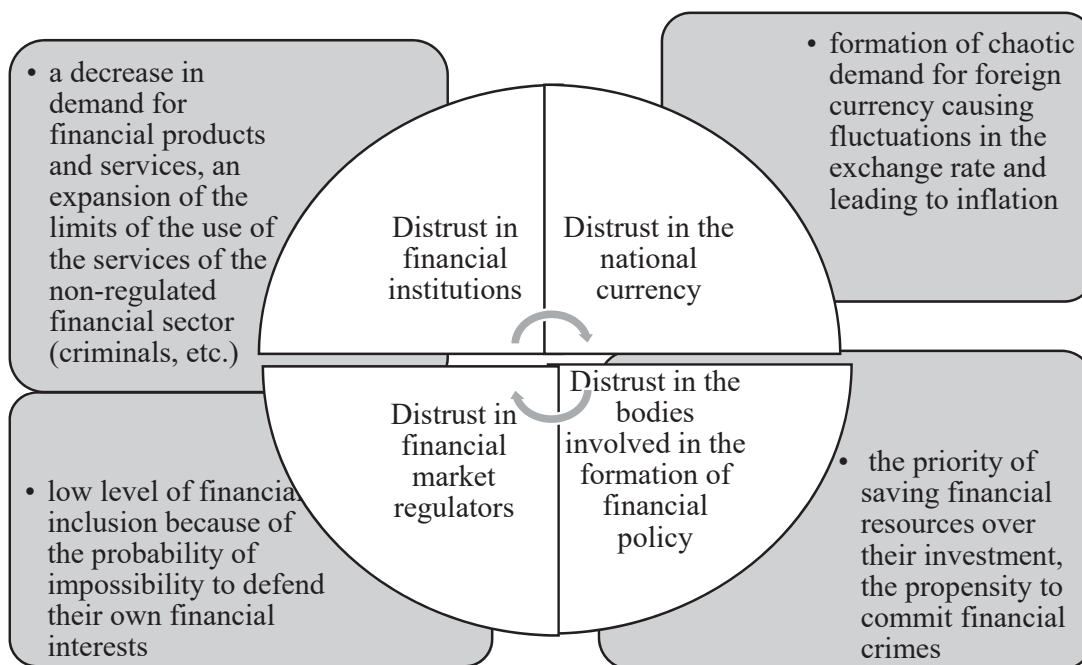


Fig. 1. Distrust of the financial sector as a challenge to financial security

Made by the author

As for the level of banking security and the security of the non-banking financial sector, cyberattacks are a significant threat. The experts have determined that over 100 financial sector companies in more than 40 countries of the world over the past five years have been subjected to cyberattacks, which are just the facts that companies are willing to accept and which are included in official statistics. The reasons for the low level of cyber defense are traditionally called insufficient number of qualified specialists in the field of information security, lack of tools and budget for the organization of protection, etc.¹. The financial sector is one of the top priority for attacks by intruders, since it not only brings together vast amounts of data and personal information, but is also a major economic and social system that can be paralyzed in the event of material damage to the mechanisms for implementing financial processes in the information and technical-technological planes. Thus, the second vector of Ukraine's financial security strategy should be recognized as support for initiatives to introduce cyber security mechanisms in the financial sector.

Despite the statements of experts that the level of the shadow economy in Ukraine is decreasing, and by mid-2019, is 30%, the shadow financial sector continues to exist (Fig. 2). Its presence means nothing more than a powerful financial reserve to stabilize the state of the domestic financial system. Therefore, the strategy of ensuring financial security of the state should be oriented to the task of withdrawal of financial resources from the shadow for their active and effective use in the organized financial market.

¹ Bitdefender (2018). *Top Security Challenges for the Financial Services Industry in 2018* <<https://www.bitdefender.com/files/News/CaseStudies/study/240/Bitdefender-Top-Security-Challenges-for-the-Financial-Whitepaper-EN-interactive.pdf>>. (2019, June, 10).

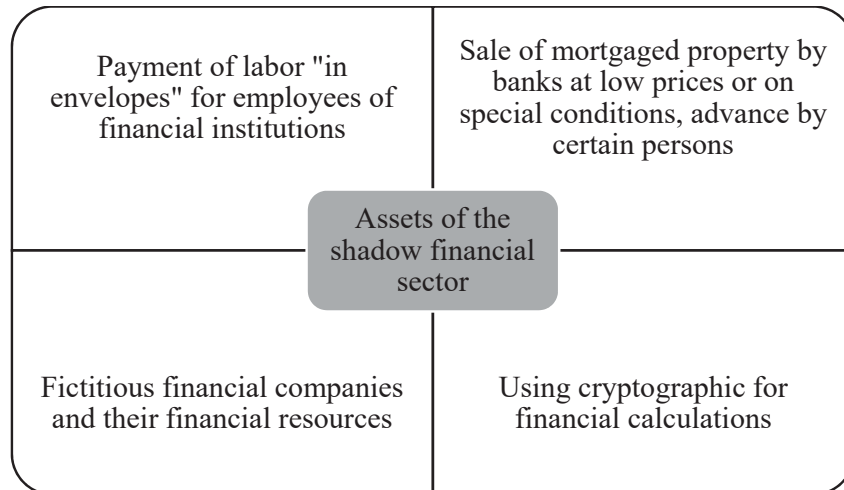


Fig. 2. The main types of assets of the shadow financial sector of Ukraine

Made by the author

Shadow banking exists all over the world. Most researchers point out that in the case of the rapid development of the shadow banking system in the long run, this could lead to a significant risk of systemic financial instability at the global level. The nature of the activities of shadow banks is that they do not serve the real sector of the economy and the population (their clients are traditional banks), but help grouping the capital received by banks in the form of derivative securities and alternative financial instruments. The rapid decline in the number of banks in Ukraine over the last five years is evidence of attempts by the national regulator of the banking sector – the National Bank of Ukraine – to clear the market from shady and ineffective banking institutions, whose activities could pose a threat to financial stability both for their clients and partners, and for all financial segment.

The topic of protecting consumer rights in the financial services sector, whose insufficient level was one of the key catalysts of the financial crisis, is an urgent and important for the whole world community. In European countries, the rights and freedoms of citizens, especially in terms of ensuring the rights of consumers of financial services, are indisputable and binding property of a developed legal community. Institutes and mechanisms of protection of financial rights and interests have long been enshrined in the norms of law and are implemented daily in practice. In June 2019, the National Bank of Ukraine created in its structure a special unit that will deal with the protection of the rights of consumers of financial services. This unit was created due to the lack of a law on the protection of consumers' rights in financial products and services in the state. Creation of similar units should also be initiated in the architecture of the National Commission, which carries out state regulation in the field of financial services markets. Thus, it will be possible to protect the financial interests of consumers of non-bank financial services. At the same time, one cannot but note some inconsistency in the actions of the regulator, because for a long time in the matter of protecting the rights of consumers of financial products and services, the idea of establishing a financial ombudsman was popular, which, however, has not been applied for a long time, despite the numerous models of this institution, offered by both theoretical specialists and practitioners.

At the moment, it is necessary to recognize the fact that the lack of financial literacy of a large part of the population limits the ability of financial service consumers to take effective and adequate decisions to manage their financial assets and often leads to unconscious financial risks. This circumstance is used in their own interest by individual credit organizations, using the intrusive advertising services of banks and other financial institutions.

Fig. 3 presents the results of a survey of 100 respondents aged 18 to 60 years, which was aimed at identifying the main reasons for the refusal of the population to use financial services. The sum of percentages give more than 100%, as respondents could choose not one of the proposed alternatives to answer the question of why they do not use financial services, but several.

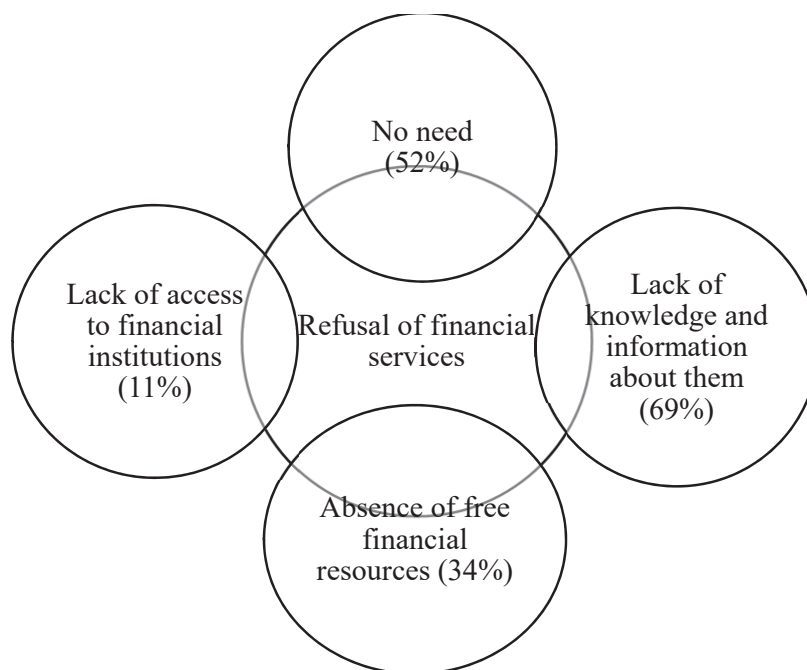


Fig. 3. Factors that prevent the expansion of the limits of the use of financial services

Made by the author according to the survey

According to our data, more than two thirds of respondents mentioned the lack of knowledge and information about financial services as the main reason for their lack of demand for financial services, which indicates a low level of financial literacy among Ukrainians. And although this problem has long been discussed in academic circles, recognized at the state level and accompanied by the development of action programs to correct the situation, the tangible result has not yet been achieved. Thus, there is a need to develop a national program to increase the level of financial literacy of the population, which will be implemented jointly by national regulators of financial services markets and institutions of higher and secondary education, as well as employment centers. For more effective activities in this area, it is necessary to study and discuss international experience in the development of national strategies for raising financial literacy, to develop effective national approaches to improving the awareness of the wide range of benefits of using individual financial products and services.

The main threats to Ukraine's fiscal security as of mid-2019 include: the imperfection of the legal framework for development, the procedure for consideration and approval of the budget in the event of abrupt changes in the economic or military situation; corruption, unreasonable sale of rights to state resources; instability of budget revenues; non-fulfillment of the financial (payment) discipline of taxpayers and bodies that mediate and control this process; mismanagement of budget funds; ineffective fiscal policies, including mismatches of budget expenditures with macroeconomic indicators, the desire to ensure the deficit of the state budget in contrast to the interests of economic development of regions, disproportions in the distribution of budget funds; lack of budgetary reserves or inappropriate use of them. It is worth noting that, unlike the banking and non-banking financial sectors, which provide fairly rational and realistic proposals for security, the assumptions for budgetary security are quite declarative. In particular, it is really necessary to direct efforts to overcome the budget deficit. However, it is difficult to offer effective methods and tools for this. This also applies to debt security. Ladyuk O.D. and Baranetska O. V. consider the main problems to maintain its proper level as: the imperfection of the regulatory and legal framework for the formation, use, servicing and repayment of the state debt of Ukraine, the absence of the law on the state external debt of Ukraine; the absence of an acceptable concept and effective mechanism for managing public debt; limited debt instruments for government borrowing; the imperfection of the mechanism for assessing the efficiency of the attraction and use of credit resources; insufficient financial

capacity of the country for debt repayment; lack of effective debt insurance practices¹. Effective proposals to calibrate measures to ensure a high level of debt security, we consider the formation of a program of development of the stock market, the creation of a single stock exchange, the completion of pension reform to accumulate internal financial resources and direct it in the form of investment in the financial sector. It is important to carry out a number of popularization measures aimed at disclosing the reserves of investment attractiveness of Ukraine's economy in the global capital market.

Threats to the monetary and financial component of Ukraine's financial security arise when monetary policy turns out to be ineffective and its goals and priorities are not met for objective or subjective reasons. In 2019, among the main threats in the monetary and credit spheres are recorded: destabilization of the national currency, inflation, lowering the purchasing power of the hryvnia, price instability, reducing the number and size of investment projects from other states and from domestic investors, rising prices for energy and other raw materials, outflow of capital in offshore areas and banking sectors of countries that care about banking secrecy and professional participants are characterized by high levels of goodwill.

The state of the currency security of Ukraine is largely determined by the pattern adopted by the state in the state. The current model of the floating exchange rate leads to its variability, the complexity of forecasting and prediction, sharp fluctuations, even within one day. Loss of control over the establishment of the exchange rate National Bank of Ukraine tries to compensate for currency interventions, however, the time lag arising between two exchange rate fluctuations creates a certain number of additional threats to currency security, for example, the realization of the population of the national currency by unofficial channels, the purchase of currency outside the banking sector.

It is worth noting that some of the threats identified by us and listed are objective and sometimes can not be minimized or leveled by the use of preventive mechanisms at the micro or macro level. Others are exposed to administrative mechanisms, therefore, measures of state regulatory intervention in the financial sector can and should be applied to them. In particular, at the state level, it is possible to increase the level of financial literacy of the population, to provide everyone with an access to the use of financial products and services through the establishment of obligations for financial institutions to expand their branch networks, reduce the cost of credit funds by reducing the amount of the discount rate, initiate the introduction of mechanisms comprehensive protection of the financial market and its participants from large-scale cyber attacks, etc. At the same time, the national regulators of financial services markets have no influence on the spread of cryophyte, the growth of uncontrolled financial transactions within the digital economy, financial behavior of the population and the risks associated with these aspects. In this context, when developing a national strategy for ensuring financial security of Ukraine, it is necessary to plan not only measures to prevent and respond to identified and promising challenges and threats, but also to identify sources of financing for the costs of compensating for losses caused by hazards, completely avoided which in the strategic perspective is not possible.

Conclusions. Investigation of the problems and features of identifying the challenges and threats to Ukraine's financial security as a first stage in developing its strategy of providing it has made it possible to formulate such a list of strategic guidelines for eliminating the most critical threats to the financial sovereignty of the state in the long run:

- 1) restoration of the confidence of the population and economic agents in the financial market in general, financial institutions and regulators of financial relations, popularize the national currency as a reliable means for financial savings and a promising investment resource;
- 2) launching a cyber security program for professional players in financial services markets and setting up a financial sector response center for cyberattacks;
- 3) continuing the implementation of measures to clear the financial market from fictitious and inefficient professional participants;
- 4) combating the shadow financial sector and developing measures to regulate crypto transactions and streamline financial flows within the digital economy;
- 5) realization of the national program of raising the level of financial literacy of the population for a period of one year at the initiative of national regulators of the financial market through the network of institutions of higher and secondary education and employment centers;

¹ Ладюк, О.Д., Баранецька, О. В. (2017). Проблеми забезпечення боргової безпеки України. *Ефективна економіка*, 7 <<http://www.economy.nayka.com.ua/?op=1&z=5698>>. (2019, June, 10).

6) transformation of the budget policy in the direction of reducing the budget deficit and its redistribution in the interests of the regions; taking measures to eliminate the corruption component at the stage of adoption of the state budget;

7) changing the paradigm of working with investors from the external vector to the domestic – the search for ways of activating domestic investors to balance the indicators of the level of debt security; implementation of the policy of transparency of the economy, first of all regarding the activities of state-owned objects in order to increase the level of investment attractiveness of the state in the international financial arena;

8) raising the level of investment activity of the population and economic entities by completing the pension reform, abolishing the taxation of investment profits and establishing mechanisms for guaranteeing investments and protecting the rights of investors.

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