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### **Formation of Conceptual Bases for State Financial Security Supply: Strategic and Tactical Actions**

**Abstract.** *Introduction. The mechanism for ensuring financial security is an important component of managing the long-term development of the national economy. With a low level of financial security it is impossible to maintain a state of financial independence, economic stability and sustainable economic development on a national scale. In the beginning of 2019, the state of Ukraine's national security is characterized by the destructive effect of a number of financial threats to the economic system, among which particularly vulnerable in financial aspect are: the debt dependence on donor states, the corruption of the financial system management mechanism, the growth of the shadow economy, the recession of the banking sector systems, etc. In view of this, scientific research aimed at improving the methodological support for monitoring the financial condition of the national economy is relevant.*

**Purpose.** *The purpose of the study is to provide scientific substantiation of the essence of financial security of Ukraine, to make an analysis of the impact of internal and external threats on its level as of the beginning of 2019.*

**Results.** *The article analyzes the essence of the financial security of the country and proposes a list of its components. This vision of the essence of financial security of the state is substantiated. The external and internal threats to the financial security of the state as of the beginning of 2019 are identified. The main elements of the provision of financial security of the state are specified. Priority measures for strengthening the state of financial security of Ukraine in the strategic perspective are noted.*

**Conclusions.** *The analysis of the problematic aspects of providing financial security in Ukraine shows that in today's economic conditions, the domestic authorities need to critically re-evaluate the government's actions in managing the financial system and implement a series of reforms in the debt, budget, foreign exchange, foreign economic and monetary spheres. The Ukrainian government should stop the mass exodus of capital, reduce and prevent the development of the shadow financial sector, and also eliminate the excessive external debt and the deficit in the state budget. Implementation of the proposed measures in the form of the Strategy for ensuring financial security of the state will strengthen the Ukrainian economy.*

**Keywords:** *security, national security; financial security; financial security criteria; threats; level of financial security.*

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### **Формування концептуальних основ забезпечення фінансової безпеки держави: стратегічні та тактичні дії**

**Анотація.** *У роботі проаналізовано сутність фінансової безпеки країни, запропоновано перелік її складових, таких як бюджетна безпека, інформаційна безпека, боргова безпека, фондова безпека, безпека бізнес сектору, валютна безпека, банківська безпека, інвестиційна безпека, безпека грошового ринку, податкова безпека. Визначено основні умови забезпечення фінансової безпеки, такі як: ефективність фінансової системи, незалежність фінансової системи, конкурентоспроможність фінансової системи. Структуровано напрями діяльності щодо забезпечення фінансової безпеки країни на різних рівнях управлінського механізму. Обґрунтовано бачення сутності фінансової безпеки держави*

як стану економіки, для забезпечення якого створюються стійкі та науково обґрунтовані методи нейтралізації негативного впливу внутрішніх і зовнішніх загроз. Виявлено зовнішні та внутрішні загрози рівню фінансової безпеки держави станом на початок 2019 року, до переліку яких віднесено: недосконалу структуру фінансово-бюджетної системи, неефективність системи контролю за витратами бюджетних коштів, невчасне прийняття Державного бюджету; непродуману грошово-кредитну політику держави; неефективність функціонування податкової системи, масове ухилення від сплати податків; надмірний дефіцит Державного бюджету та переважно емісійне його покриття; зростання обсягів «тіньової» економіки, підвищення рівня її криміналізації, нерозвиненість сучасної фінансової інфраструктури; зростання зовнішньої заборгованості; нераціональне використання іноземних кредитів; нерегульований приплив в Україну іноземного капіталу. Конкретизовано основні елементи забезпечення фінансової безпеки держави та запропоновано до їх складу включати тільки ті структурні блоки, які характеризують фінансові процеси та суміжні з ними явища. Визначено основні проблеми забезпечення фінансової безпеки України станом на початок 2019 року, які потребують першочергового вирішення у межах безпеки орієнтованого управління національною економікою. Зазначено пріоритетні заходи для зміцнення стану фінансової безпеки України у стратегічній перспективі.

**Ключові слова:** безпека; національна безпека; фінансова безпека; критерії фінансової безпеки; загрози; рівень фінансової безпеки.

**Problem statement.** The mechanism for ensuring financial security is an important component of managing the long-term development of the national economy. With a low level of financial security it is impossible to maintain a state of financial independence, economic stability and sustainable economic development of the state as a whole. In the beginning of 2019, the state of Ukraine's national security is characterized by a destructive effect of a number of financial threats to the economic system, among which particularly vulnerable in financial aspect are: the debt dependence on donor states, the corruption of the financial system management mechanism, the growth of the shadow economy, the recession of the banking sector systems, etc. In view of this, scientific research aimed at improving the methodological support for monitoring the financial condition of the national economy; timely identification of internal and external threats of the financial nature of origin with the aim of early detection of the tendency to spread crisis phenomena in the economic system; control over the implementation of measures for the formation of the financial security system and the evaluation of the results obtained through the use of financial instruments are actual. These and other vectors of the study of problems of security science form the theoretical and methodological basis for the prevention of crisis phenomena in the economy in order to ensure financial stability and financial sovereignty at the micro and macro levels.

**Analysis of the recent research and publications.** Methodological and applied problems in ensuring an adequate level of financial security are increasingly attracting the attention of domestic and foreign scholars, and in recent years have become the subject of research both in monographic works [1] and in the professional publications of such scholars as V. Mihaylyuk [2], U. Vladychyn, I. Skomorovych, S. Lobozyńska [3], A. Józef, A. Bukhtiarova, S. Chorna, O. Iastremska, T. Bolgar [4], S. Khalatur, G. Pavlova, K. Zhylenko [5], G. Blakyta, T. Ganushchak [6], M. Kurylo, A. Klochko, D. Zhuravlov, H. Javadov [7] and others [8-10]. A large number of scientific studies, which specify the nature of origin and the components of the financial security supply mechanism for macro and micro economic economic

systems, prove that the number of problems in security-oriented management remains significant, and therefore the chosen scientific topic is relevant.

**Formulation of the research aim.** The purpose of the study is to provide scientific substantiation for the essence of financial security of Ukraine and to make an analysis of the impact of internal and external threats on its level as of the beginning of 2019. To achieve this goal in the process of scientific work, the following tasks were set: to analyze modern approaches to the content of the category "financial security of the state"; to identify the main components and levels of ensuring the financial security of the state; to identify the threats affecting the state of financial security of the country; and to consider ways to increase the level of financial security of Ukraine.

**Presentation of the main research material.** In accordance with the Law of Ukraine "On National Security of Ukraine", national security is considered as "the protection of state sovereignty, territorial integrity, the democratic constitutional system and other national interests of Ukraine from real and potential threats" [11]. The most important task for state power structures of any modern country is to preserve and strengthen the condition of its economic security, especially in the context of the need to respect the vector of sustainable development and the trend towards economic and financial globalization. An analysis of theoretical approaches to the definition of the category "financial security" makes it possible to speak about the differences in the opinions of scholars regarding the content essence of this concept. In the field of security science nowadays dominate three vectors of its identification in the scientific plane. The first approach is based on the concept of "defend", the second on the concept of "state", and the third is concerned with the notion of stability. As advocates of the first approach, under the financial security of the state we propose to understand an important component of the economic security of the state, based on the independence, efficiency and competitiveness of the financial and credit sector of Ukraine, which is reflected through the balance of finances, sufficient liquidity of assets and the availability of the necessary monetary and gold reserves, and the

degree of protection of financial interests at all levels of financial relations, which are characterized by a balance and the presence of a tested mechanism of financial regulation and self-regulation [13].

A large number of researchers of the problems of economic and financial security pay attention to the fact that financial security is the main component of economic security of the country, because finances are the basis of the economy. We agree that financial security is a solid foundation and an important component of the country's economic security. And its level in the first place depends on the volumes of financial resources that are necessary for the implementation of administrative, social, and economic functions of power structures. Without financial security, the state cannot be considered financially independent.

Currently, there is no single approach to structuring the architecture of the financial security system. A specific set of components is proposed by each researcher in the field of security science, taking into account his own vision, but the main elements are: the budget sphere and state regulation of financial markets; non-bank financial services; the stock market; the monetary sphere; and insurance. From the standpoint of a functional approach, financial security is divided into budget; tax debt; currency exchange rate and monetary security; security of the banking system and stock and insurance markets; the security of the investment and innovation components of the economy (Fig. 1).

Absolutely all elements of the financial system of the state are interdependent. Therefore, the stabilization of one of them will have a positive effect in the future on all other functional subsystems.

Management actions at each level of the economic system are important for ensuring the financial security of the state and its financial stability and financial sovereignty (Fig. 2).

The level of financial security of Ukraine is characterized by the level of formation of state and local budgets, as well as the condition of the balance of payments and the ratio of the volumes of cash flows in the official and shadow economy.

In general, internal threats are factors, events or phenomena that are in view of the state authorities and to which they have significant regulatory influence. External threats are such factors, events or phenomena that the state does not have significant influence in the face of power structures. Therefore it is necessary to take into account the possible consequences of these threats to the macroeconomic system in the implementation of security-oriented financial policies.

At the beginning of 2019, internal threats to Ukraine's financial security include: ineffective regulation of the financial sector; insufficient level of gold and foreign exchange reserves; the reduction of both investment and innovation activity; the imperfection of the tax system and tax evasion; the budget deficit; shadowing and criminalizing the economy and in particular the financial

sector; the critical condition of the state securities market; a high level of corruption; an illegal outflow of capital from the country; a low level of stock market activity; large amounts of public debt; underdevelopment of the financial and insurance markets; a low level of capitalization of the banking system, etc.

However, in the modern world, the financial security of the country is more destabilized by external threats, the emergence of which is caused by such factors as: rapid processes of internationalization and globalization of the world economy and financial space; limited access to foreign financial markets; increased competition between states in the financial sector; the dependence of the national economy on international loans; and the emergence of threatening crisis trends in the global financial system. To specific external threats to Ukraine's financial security at the beginning of 2019, experts attribute: active integration of international financial organizations into the national financial and credit sector; ineffective use of external loans, various forms and types of external financial assistance; financial dependence of the national economy on external sources of financing; an increase in the volume of foreign capital in the shadow economy sector of the country; growth of external debt of the country, etc.

Each of these threats affects the level of financial security of the state, and attempts to neutralize them can be carried out by a variety of methods, which in the future can give radically different effects to the functioning and development of the national financial system.

Summarizing the results of the conducted research, it can be stated that priority measures to strengthen the near future financial security of Ukraine in the managerial plane should include:

- a comprehensive approach to reforming the budget process at the state and local levels and levels of intergovernmental fiscal relations, with respect to increasing the level of efficiency of budget expenditures due to the application of programmatic objectives of financial activity, orientation of the budget system to achieve specific strategic goals;
- developing a strategy to reduce budget deficits by increasing the revenue potential;
- reducing external debt by direct reduction of net external borrowings and repayment of long-term borrowings of the real sector of the economy;
- ensuring the needs for economic growth by developing and implementing a balanced monetary policy, stabilizing the national monetary unit and reducing inflation;
- suspending capital outflow from the country;
- optimizing the structure of gold and foreign exchange reserves by increasing their share of gold;
- creating suitable conditions for the functioning and development of the securities market;
- clearly defining the rights and obligations of issuers and investors by developing an effective system of state regulation of the capital market, strengthening control over compliance with legislation and preventing fraud.



Figure 1 – Components of the system of financial security of the state

Source: compiled by authors

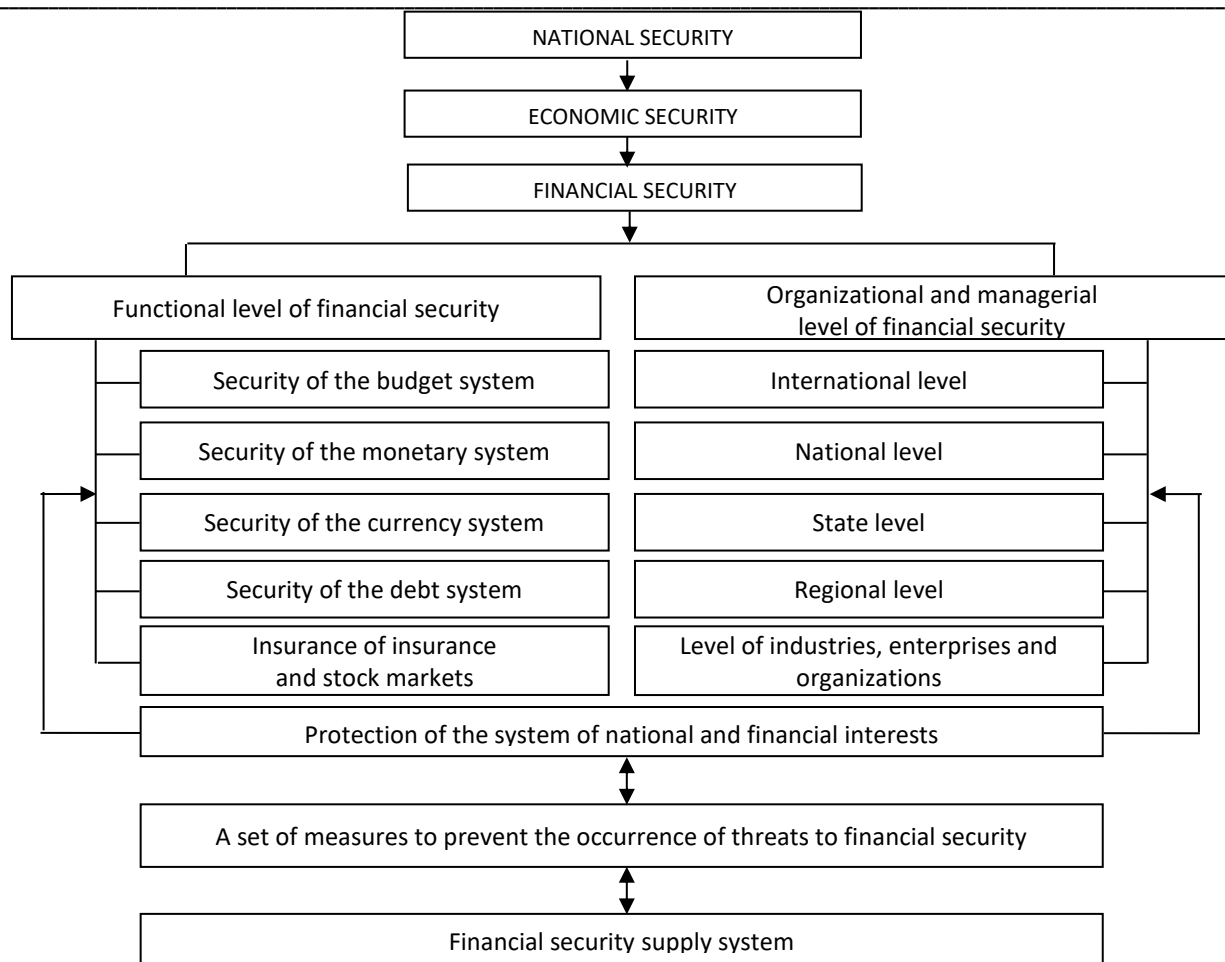


Figure 2 – Activities on ensuring the country's security and its levels

Source: compiled by authors

The priority in strengthening Ukraine's financial security is the reformation of the budget system, which is why it is necessary to regulate the process of the annual adoption of the state budget, to regulate the procedure for its preparation and to provide for liability for violation of the budget process.

The priority vector for increasing the level of financial security at the moment is the reduction of external public debt by repaying loans and minimizing the further attraction of foreign funds and defining a clear program for using public finances and improving the cost effectiveness. It is also necessary to develop a program for reducing the budget deficit by increasing the domestic income potential and eliminating the hidden deficit.

Strengthening the financial security system will contribute to the improvement of monetary policy by preserving economic growth through the liberalization of the nature of monetary and credit relations rather than targeting them to reduce inflation, as well as overcoming the shortage of payment means and the share of cash in the money supply, which, in turn, will suspend the increase of the shadow economy.

One of the most important measures to ensure the financial sovereignty of the state is to stop the outflow of

domestic capital abroad. Experts in the field of economics estimate the outflow of capital annually in the amount of 3-5 billion dollars. In order to minimize this phenomenon, it is necessary to create a qualitatively new system of control of international settlements of Ukrainian residents and to improve the regulatory framework for the export of Ukrainian capital.

Further solving the problem of debt dependence and instability of the financial security of Ukraine will depend on well-balanced and reasonable actions taken in the field of state borrowing and public debt management [12].

Since the possibility of reducing the debt burden on Ukraine's economy through restructuring has its limits within the framework of state policy, power structures need to gradually shift from re-issuance of payments to strategic management of public debt, so it is worth making radical changes in the policy of government borrowing. The situation when 84% of loans are directed to financing the budget deficit and only 2% for investment projects is unacceptable from the point of view of the need to ensure sustainable economic growth of the country's economy.

To a large extent, on Ukraine's financial security has a negative impact the spread of the shadow sector, which, according to expert estimates, has reached about 60% of

GDP. According to the "Intellectual Prospect" Foundation and the Center for Social Expertise of the Institute of Sociology of the National Academy of Sciences of Ukraine, 45% of Ukrainians are currently working in the "shadow" economy. In general, the total shadow capital of Ukrainians is about 40 billion dollars.

Also, corruption has a significant impact on Ukraine's financial security. It permeates all branches of state power. The excitement of domestic officials was felt not only by Ukrainian citizens but also by foreign investors. Corruption negatively affects the international image of Ukraine and impedes the inflow of foreign investment. Thus, according to an expert survey conducted by the Razumkov Center, about 80% of foreign experts called the corruption of the authorities a negative factor for economic development. Evaluating the situation, about 80% of the polled experts believe that in the first place foreign business in Ukraine is hampered by the corruption of officials.

Implementation of all of the above measures to stabilize the state of financial security of the country at operational and strategic levels requires balanced and integrated interaction through all branches of

government, which will ensure the economic growth of Ukraine in the long run.

**Conclusions.** The analysis of the problematic aspects of providing financial security in Ukraine shows that in today's economic conditions, the domestic authorities need to critically re-evaluate the government's actions in managing the financial system and implement a series of reforms in debt, budget, foreign exchange, foreign economic and monetary spheres. The Ukrainian government should stop the mass exodus of capital, reduce and prevent the development of the shadow financial sector, and also eliminate excessive volumes of external debt and the state budget deficit. Implementation of the proposed measures in the form of the Strategy for ensuring financial security of the state will strengthen the Ukrainian economy, but only if there is a total support at the legislative, executive and power levels, however. It is also necessary to review and improve the current rules and legal framework in the field of financial security as soon as possible. In the long term, it is necessary to develop a Concept of financial security of the state, taking into account financial needs and interests of all regions of Ukraine. This would contribute to the provision of economic security at the national level.

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