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Diagnosis of the Financial Security of Ukraine based on an Analysis of Global Indexes and Positions in International Ratings

Abstract. Introduction. One method of expressing the level of economic security of Ukraine and its financial component may be through an analysis of the position of Ukraine in various international ratings. Since the recent large-scale study of the Ukraine's financial security was conducted at the national level in 2014, there is a need to re-diagnose the level of financial security now, in 2019. At the same time, as a basis for the formation of an expert opinion, it is proposed not to choose a cumbersome, methodological approach with a large number of calculations, but the rating positions of Ukraine obtained as a result of supranational studies by authoritative world organizations and funds of the level of development of economic systems of different countries of the world.

Purpose. The purpose of the study is to form a general idea of the financial image of Ukraine and the level of financial security of the state on the basis of assessing the position of the country in international ratings and identifying the dynamics of their changes and trends of deterioration or improvement.

Results. On the basis of the data of international indexes and ratings, from the standpoint of the stakeholder, an express assessment was made of the level of security of the financial component of the national economy of Ukraine. There is a tendency to improvement in the domestic financial system, which, however, is restrained by local and global financial factors, challenges, and risks. All of these are important in time to identify, prevent, and minimize through public administration in the financial sphere of the economy.

Conclusions. Provided that the diagnosis of the state of financial security is carried out by an external investor or a creditor who does not have a profound knowledge of the peculiarities of the functioning and development of the financial system of Ukraine and makes decisions based on international ratings of national economies, his idea of the financial image of our state will be negative. Therefore, at the state level, urgent measures should be taken to increase Ukraine's rating positions in world rankings and indices through qualitative transformation of the domestic financial system in the direction of improving the level of state financial security.

Keywords: financial security; financial security; rating; financial literacy; financial inclusion.

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Діагностика стану фінансової безпеки України на основі аналізу даних глобальних індексів та позицій у міжнародних рейтингах

Анотація. У статті обґрунтовано доцільність використання рейтингових оцінок країн світу, які присвоюються їм міжнародними та наднаціональними організаціями та фондами як інформаційний ресурс та аналітичний параметр під час оцінювання рівня фінансової безпеки держави. У роботі проаналізовано позиції України в авторитетних міжнародних рейтингах, оцінювання країн за якими базується на великому масиві економічних даних. Проведено дослідження структури окремих індексів і рейтингів, зокрема таких, як Індекс економічної свободи, рейтинг Doing Business, Індекс глобальної конкурентоспроможності, Глобальний індекс фінансових центрів, Індекс фінансової грамотності, Глобальний індекс інновацій, Індекс глобальної фінансової інклюзії (Global Findex). Визначено, які фінансові характеристики економік держав враховують міжнародні індекси та проведено аналіз їх значень для України. Виокремлено показники стану економічної свободи України у 2019 році, що характеризують рівень фінансової безпеки держави. Надано фаховий коментар скоринговим оцінкам процедурам оподаткування бізнесу та кредитування бізнесу, що характеризують стан податкової та грошово-кредитної складових фінансової безпеки держави у межах рейтингу Doing Business. проаналізовано позиції України у рейтингу глобальної конкурентоспроможності, що характеризують рівень її фінансової безпеки, станом на 2018 рік. Зроблено висновок щодо впливу рівня фінансової інклюзії та фінансової грамотності населення на стан фінансової макробезпеки. На основі даних міжнародних індексів і рейтингів, з позиції стейкхолдера надано експрес-оцінку рівню безпеки фінансової складової національної економіки України. Визначено проблемні аспекти забезпечення фінансової безпеки на державному рівні станом на середину 2019 року. Встановлено тенденцію до покращення рівня розвитку вітчизняної фінансової системи, яка, однак, стримується локальними й глобальними фінансовими факторами, викликами й ризиками, які важливо вчасно ідентифікувати, попереджувати та мінімізувати засобами державного управління фінансовою сферою економіки.

Ключові слова: фінансова безпека; рівень фінансової безпеки; рейтинг; фінансова грамотність; фінансова інклюзія.

Problem statement. In the national scientific thought and in the applied plane, there are many approaches to assessing the level of security – national, economic, financial, etc. Financial crises, local and global, and their catastrophic consequences for economic systems, have shown the inability of specialists to anticipate the occurrence of negative financial trends and identify a low level of financial security at the macro level. Approved at the state level, methodological approaches to assessing the level of economic security are not used systematically, therefore it is impossible to follow in retrospect the level of state financial security. The author's positions as the founders of the security study on the recruitment, calculation and valuation of financial security indicators are often subjective, and there are no clear indications of analytical procedures and interpretation of results obtained in their process. They can be used in the complex, combining statistical, mathematical, and scoring models, however, only with the passage of a certain period of time, depending on the values of indicators of the state of the national economy, will it be clear how reliable the results of the evaluation were.

The method of expressing the level of economic security of the state and its financial component may be through the analysis of the rating position of Ukraine in various international ratings. They are built on the basis of large-scale statistical and analytical data, covering a long time interval. They are multicomponent, and – what is most important – they provide an opportunity for comparison of the values of the analyzed indicators of different research objects.

Since the large-scale study of the state of Ukraine's financial security conducted at the national level in 2014, there is a need to re-diagnose the level of financial security now, in 2019. At the same time, as a basis for the formation of an expert opinion, it is proposed to choose a not a cumbersome methodological approach with a large number of calculations, but the rating positions of Ukraine, obtained as a result of professional supranational studies by authoritative world organizations and funds of the level of development of economic systems of different countries of the world.

Analysis of the recent research and publications. The problem of ensuring the financial security of the state, including the assessment of its level, has long engaged a team of young scientists – N. Zachosova, N. Babina, O. Herasimenko, V. Zanora, A. Shevchenko [1; 2]. In the studies of N. Zachosova an attempt was made to use the index of economic freedom and its components to form a conclusion about the state of the economic component of national security [3], which tends to conclude that this indicator can be used to diagnose the country's financial security level. Traditional methods for determining the state of financial security at the macro level were studied by such specialists as O. Kovalenko [4], A. Pikhotsky [5], I.

Recunenکو, T. Bochkareva, S. Kononenko [6]. However, comprehensive research on the possibilities of using ratings of international organizations to diagnose the level of financial security of the country from the standpoint of stakeholders, for whom public information is often the only source of information about the state of the object of interest, now has not been previously found in the process of the analysis of professional scientific sources.

Formulation of the research aim. The purpose of the study is to form a general idea of the financial image of Ukraine and the level of financial security of the state on the basis of assessing the position of the country in international ratings, identifying the dynamics of their changes, trends of deterioration or improvement.

In order to achieve this goal in the process of scientific work, the following tasks were set: to define a set of ratings that are useful for forming a general idea of the state of financial security of a country, to conduct an analysis of Ukraine's rating positions and to make assumptions about factors which have caused the positive or negative evaluation of rating parameters, and to provide a general description of the state of financial security of the country, which will be based on the investigated indicators.

Presentation of the main research material. The index of economic freedom is a rather revealing indicator of financial security. It is determined by twelve parameters and gives an idea of the state of one hundred and eighty-six world economies. Therefore, it is not only an indicator for diagnosing the economic and financial potential of a particular country, but also a basis for comparing its indicators with the majority of states of the world. The integrated structure of the Economic Freedom Index involves the simultaneous consideration of several parameters that can be used to obtain an assessment of the level of financial security. In particular, the characteristics of the fiscal (tax) load, "fiscal health" (demonstrates the effectiveness of the organization and implementation of the state budget policy, including the work of the government with a budget deficit and public debt), monetary freedom (based on the principles of weighted monetary policy, price stability, controlled inflation, stable exchange rates) and financial freedom (characterizes the possibility of free use of banking and non-bank financial services, efficiency and transparency of regulation of the financial sector and the progress of the processes that occur in it) can be used as indicators of financial security at the macro level (fig. 1).

According to Fig. 1, it is possible to assess positively the state of the tax burden and the level of fiscal health. The indicator of financial freedom signals the limited capacity of financial system participants to use financial products and services and obstacles to decision-making in the realization of their own financial interests. In general, according to the Economic Liberties Index in 2019, Ukraine

occupies position 147 – between the Gambia (position 146) and Argentina (position 148). This is the last position of the 44 European countries, and Ukraine's

characteristics are worse than the average in the region and in the global plane.

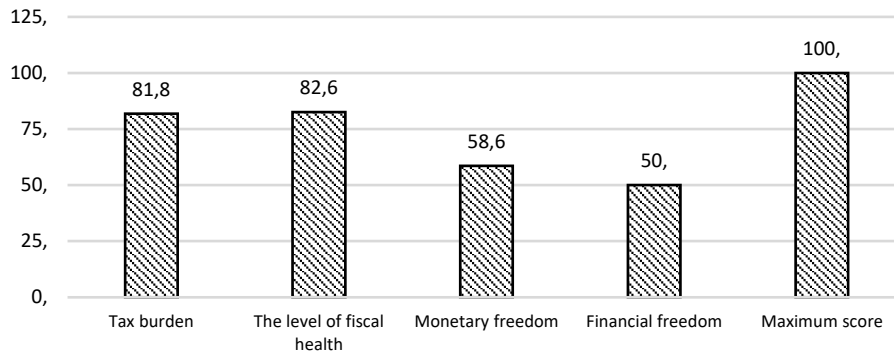


Figure 1 – Indicators of the state of economic freedom of Ukraine in 2019, which characterize the level of financial security of the state

Source: compiled by author based on data [7]

The second international rating, the details of which should be taken into account when forming the idea of the state of financial security of the country and its financial image in the global economic arena, is the Doing Business rating. Its assessment of the state's economy, namely the possibility of doing business in the economic conditions that are inherent in it, is based on eleven parameters. The indicators of the financial nature of origin can be attributed to the ability (simplicity, opportunity) for obtaining business loans (business credit security), the level of the payment of taxes (tax burden, as well as time expenses for the payment of taxes, the complexity of the implementation of taxation processes on business entities, etc.). Other parameters of assessment – the level of protection of minority investors, availability of commencement of entrepreneurial activity (own business), procedure and conditions of registration of ownership, etc. – have an indirect effect on the level of financial security of the state. In particular, they determine the conditions for doing business in the financial banking and non-banking sectors, characterizing the tendency of domestic investors to provide resources that can be used to cover domestic public debt, and signal

the opportunities for the small and medium development of business, whose representatives are active users of financial products and services and active taxpayers to state and local budgets.

Figs. 2 and 3 present scoring estimates of the financial characteristics of the Doing Business rating calculated for Ukraine. As of 2019, Ukraine occupies the 71st position of the 190 countries in this ranking. In the European and Central Asian region, to which international experts refer to our state, the assessment of the ease of conducting domestic business is lower than the average value.

In the analyzed period, the assessment of the procedure for business taxation was high. As for the assessment of the business lending procedure, in 2004 its value was critically low; in 2005-2009, a stable average rating of this indicator was maintained, and in 2013, its maximum value for Ukraine was fixed – 87.5 points out of 100 possible. In the last five years, the researched indicator remains at the level of 75 points, which signals the possibility of improving the state of monetary security of Ukraine in the long run. The International Monetary Fund is a global financial organization with participation in 189 countries of the world.

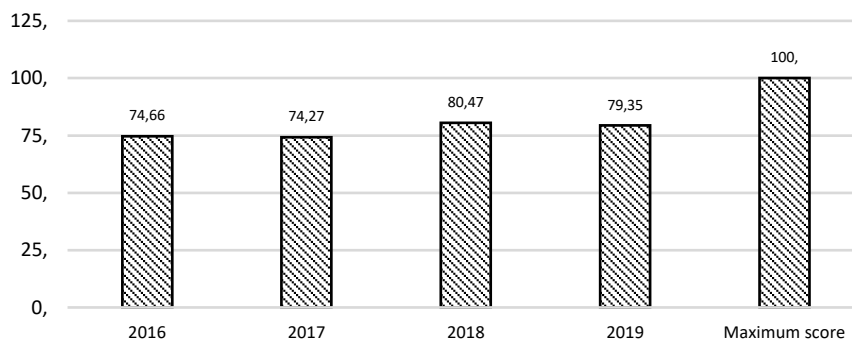


Figure 2 – Score assessments of business taxation that characterize the state of the tax component of the financial security of the state

Source: compiled by author based on data [8]

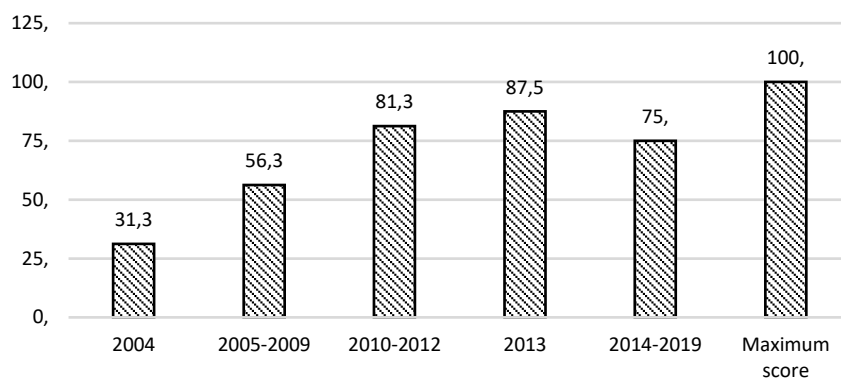


Figure 3 – Scoring assessments of business credit, characterizing the state of the monetary component of the financial security of the state

Source: compiled by author based on data [8]

This institution has access to a large number of statistical and analytical information on various financial aspects of the functioning of national economies and financial systems of different states. Periodic reports are published on Global Financial Stability, World Economic Outlook, and Fiscal Monitor. Thus, in a report published in April 2019 on issues of global financial stability, the experts identified the factors of financial vulnerability inherent in the economies of most countries. The report provides a new basis for a comprehensive assessment of the balance sheet vulnerability in various financial and non-financial sectors, and focuses on a number of specific vulnerability factors in emerging economies and emerging market countries. Among the main financial risks for global economic development in the future, experts note the debt of corporations in advanced economies, the relationship between sovereign structures and the financial sector in the euro zone, China's financial imbalances and potential secondary effects, fluctuating flows of portfolio investment in countries with emerging markets, the risk of housing prices, and so on. [9]. These risks and vulnerabilities can become a trigger for the onset of another financial crisis and should therefore be taken into account when developing policies, programs, and strategies for ensuring Ukraine's financial security at the national level.

The Global Competitiveness Index contains information on the competitiveness potential of 140 countries and is based on a large number of economic information, including financial data. In particular, experts estimate the level of inflation in the country, the volume of debt, and transparency of the budget. The condition of the state financial system is subject to a detailed assessment. Attention is drawn to the level of lending to the private sector, market capitalization, the size of insurance premiums, the reliability of banks, credit rupture, and the availability of regulatory capital in banking institutions. In 2018, Ukraine was in 83rd place with a score of 57 (from a maximum possible score of 100

points). The position of Ukraine on individual indicators of the rating, related to the level of its financial security, is shown in Fig. 4.

It should be noted that according to the indicators of the financial system, Ukraine ranks 117 out of 140; in terms of financial stability – 138th out of 140; on the reliability of banks – 135 out of 140; on dynamic arrears – 113th out of 139 possible [10].

It is regrettable to note that in the authoritative Global Financial Centers Index 25 [11], Ukraine and Kyiv are not mentioned at all, indicating that the state is unable to compete in capital markets and determine its current financial system directions of the global financial flows.

As we notice from Fig. 4, the financial system of Ukraine and the reliability of its banking sector received low ratings. Thus, it is necessary to take measures at the national level to optimize the state of banking safety and the security of the non-banking financial sector.

The Global Innovation Index in 2019 placed Ukraine at 47 of the 130 countries included in the rating (in 2018, Ukraine was 43rd place, the best result over the last eight years). The index also contains indicators that can be used to assess the level of public financial security. In particular are indicators for the availability of lending (91 out of 130 possible) and a portfolio of debts of microfinance institutions (79 out of 130 possible) [12].

With the results of the Financial Literacy Index, Ukraine ranks last with 30 countries in the Organization for Economic Cooperation and Development [13, c.11]. The indicator is complex, and combines the parameters of evaluating the financial relation (the desire or reluctance to think about the financial future, careless attitude to money, and thoughtless spending), financial behavior (propensity to make informed financial decisions), and financial knowledge (the ability to explain the essence and significance of individual financial terms and concepts). In general, the financial literacy rate of the population of Ukraine is 55%.

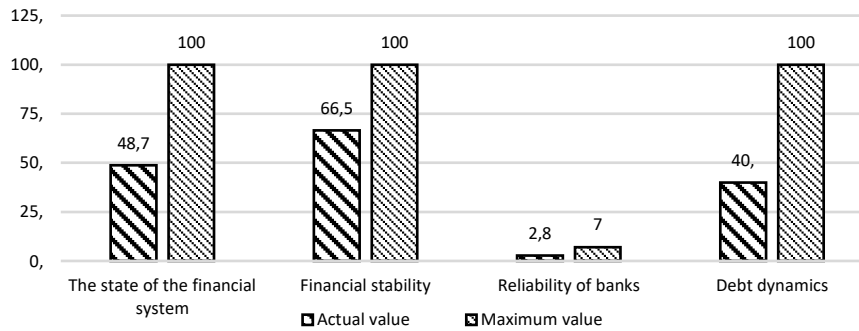


Figure 4 – Ukraine's position in the global competitiveness rating in 2018, which characterizes the level of its financial security

Source: compiled by author based on data [10]

In the context of studying the level of financial literacy it is necessary to provide data on the state of financial inclusion, since only a financially aware citizen can become an active participant in the financial system of the country, and therefore, provide it with the receipt of financial resources to stabilize the state's financial security and further economic development. The Global Financial Index (Global Findex) provides an assessment of the level of financial inclusion in 159 economies around the world. In 2017, the rating position of the state on the basis of

financial inclusion was based on the parameter of the number of open-ended population of settlement accounts. For Ukraine, the value of this indicator was 63% (Fig. 5). Thus, almost half of the adult population of the state remains outside the financial system, does not use financial products and services, does not realize own financial interests and does not invest in assets in the financial sector, which now has a severe need of investment.

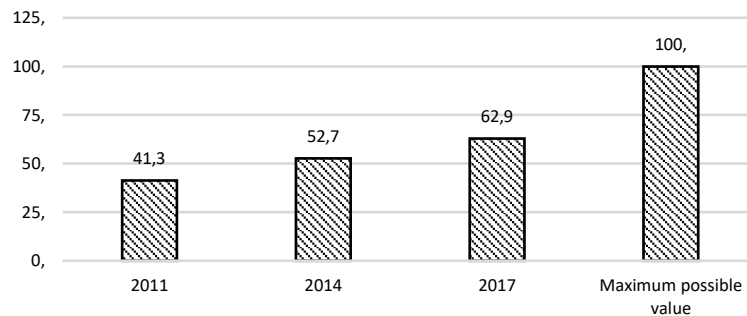


Figure 5 – The level of financial inclusion in Ukraine, %

Source: compiled by author based on data [14]

Conclusions. The analysis of Ukraine's position in a number of international ratings allows us to draw the following conclusions regarding the state of its financial security at the macro level.

In general, although the Ukraine's rating on the basis of global economic indexes is extremely low, the state of security of the financial component of the national economy of Ukraine is on the border between satisfactory and critical values. In particular, such financial indicators of the state of Ukraine's economic freedom as tax burden and fiscal health, as well as the Doing Business rating indicators, such as business lending and business taxation, which are tending to improve, should be positively evaluated. At the same time, the unsatisfactory state of the domestic financial system is traced; the assessment of

the reliability of banks, and therefore the banking system as a whole, only marginally exceeds the minimum possible value. Thus, provided that the diagnosis of the state of financial security is carried out by an external investor or a creditor who does not have a deep knowledge of the peculiarities of the functioning and development of the financial system of Ukraine and makes decisions on the basis of international ratings of national economies, he will provide his idea of the financial image of our state, which is negative for financial decisions. Therefore, at the state level, urgent measures should be taken to increase Ukraine's rating positions in world rankings through qualitative transformation of the domestic financial system in the direction of improving the level of financial security of the state.

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