

# THE MAIN PROBLEMS OF MODERN UKRAINIAN ECONOMY

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## 1. Introduction

The modern economy is characterized by processes of globalization, integration, socialization and informatization, accompanied with increasing of the competition in national and international markets. Moreover, Ukrainian economy is characterized with the reduction of productive and consumer activity connecting with the internal political and economical situation in the country. It leads to the fact that domestic enterprises should adapt its activities to external conditions. This is the only way to maintain their competitive position in the domestic and foreign markets.

However, Ukrainian business has to accurately identify the main trends of the economy in which they operate. It could help to make a program to counter the adverse conditions of the situation and use the most favourable ones.

Analysis of researches and publications of the development of Ukraine economy are discovered not just individual writers but also specialized government institutions. For example, the National Institute for Strategic Studies annually publishes analytical transactions "About the development of the economy" [1]. Also, Ukrainian authors analyze the trends of specific industries, light and agricultural industries, banking, education, etc.

## 2. The main problems of Ukrainian economy

It should be noted that the study of contemporary problems of economy of Ukraine, occupies an important place in the works of Ukrainian scientists. But not only individual sectors of the Ukrainian economy analyzed but their problems and how to solve them.

It is important to examine trends in Ukraine's economy comprehensively, identify problems and their impacts on the competitiveness of domestic enterprises, and to consider the possible ways to overcome them.

**The main aim of this article** is the analysis of major trends of Ukraine's economy and key economic indicators (investment, exports and imports) and their influences on Ukrainian institutions and the ways of their adaptation.

**Tasks.** To analyze the influences on Ukrainian institutions of major trends of Ukraine's economy:

- economic instability;
- high level of inflation;
- change of the directions of foreign economic relations;
- irregular distribution of foreign investments in regions and economic branches.

Each of the selected trends are considered in details.

*Economic instability.* The modern economy of Ukraine is characterized with the political instability and as a result of social and economic crisis. The falling of real GDP since the second half of 2012, which following the results of the first quarter 2015 has already reached -17.2% in measure of a year, reflection the systemic and structural nature of the crisis, in which the national economy exist

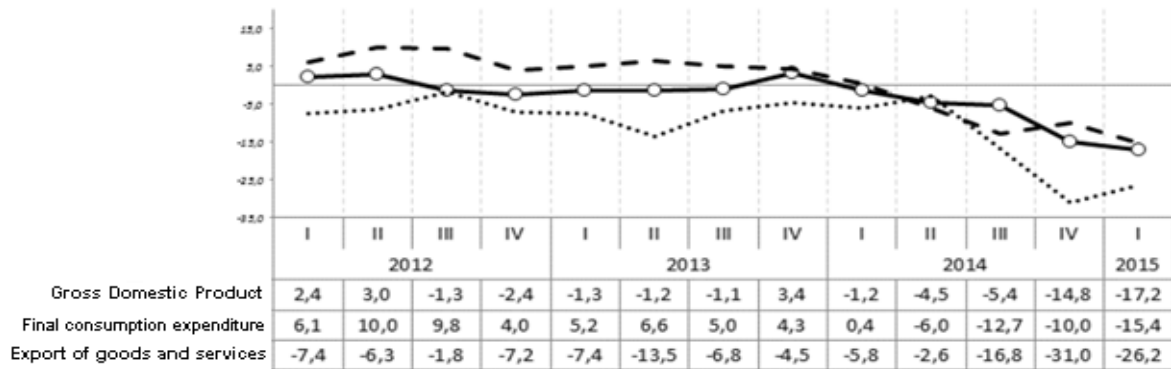
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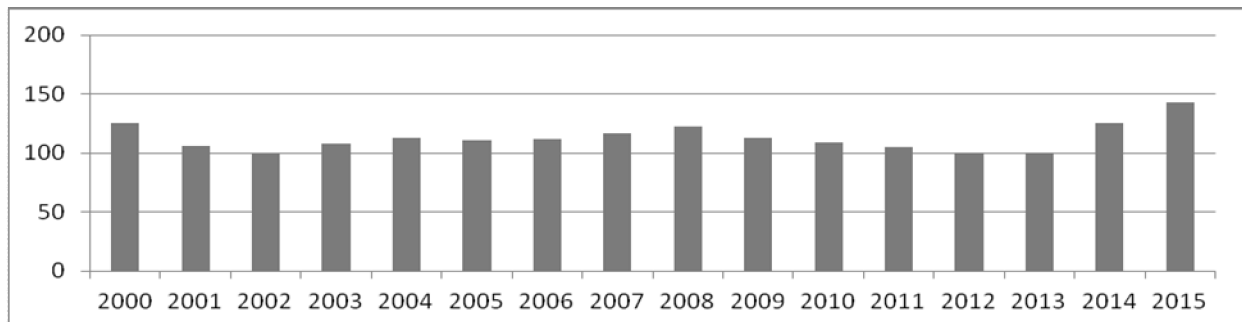
now (Fig. 1). The highest rates of real GDP in the first quarter 2015 is recorded in the construction (-35,3%), mining industry (-29.4%), processing industry (-25.6%), wholesale and retail trade (-24.8%) [1].

Dangerous trend is caused the problem the reduced consumption in the second quarter 2014. The real final consumption expenditure in the first quarter of 2015 is decreased with 15.4% compared to the same period in 2014. In 2012–2013 even in the fall of GDP were kept slight increasing in the final consumption expenditure. The traditional factor of negative dynamics of lowering of GDP is exports [2].



**Fig. 1. Dynamics of real GDP in Ukraine in 2012–2015, % to the previous period [2]**

*High level of inflation.* The whole economy is going through difficult times, the UAH lost about 70% against the dollar for the last two years, the inflation is very high [3].



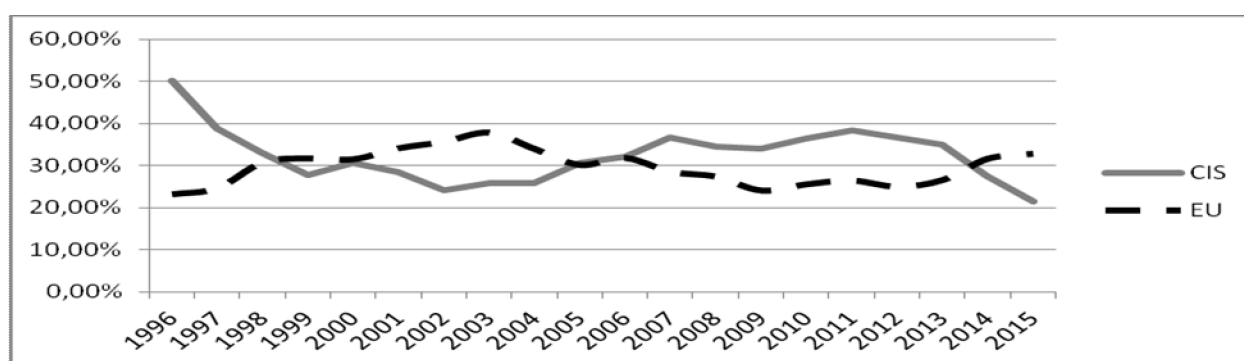
**Fig. 2. Dynamic of inflation in Ukraine in 2000–2015, %\***

\* Compiled by the authors on materials [4]

As we can see in Fig. 2, for the period 2013–2015 a significant increase in inflation was observed the maximum value in 2015. This is related to the political and macroeconomic instability in the country. The processes of inflation are negatively affected both the activities of the company (especially those who work with foreign raw materials) and the consumption in the country.

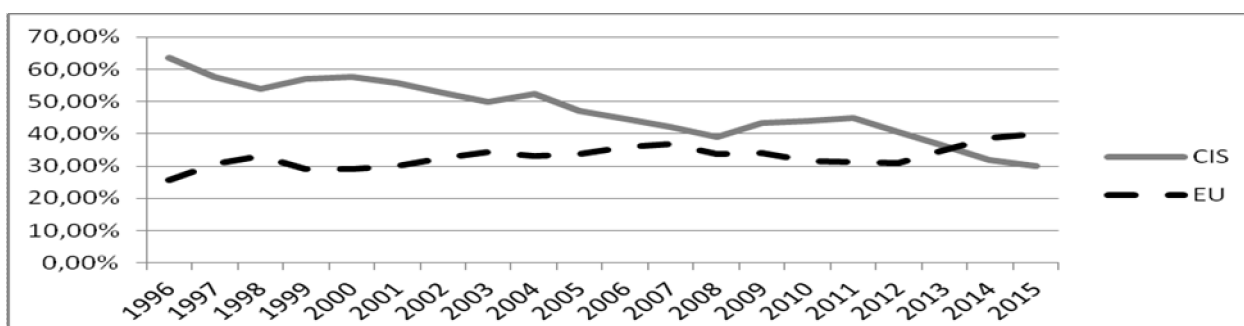
*Change of the directions of foreign economic relations.* Ukraine's economy is characterized by continuous improvement of production processes and the desire of companies to reach EU standards. This is due to the change of the priorities of economic cooperation and reorientation of the vector of trade relations with the CIS countries to the EU market. This is showed by the indicators on exports and imports. So during the period from 1996 to 2014, the export of goods to CIS countries decreased from 50.2% to 27.6%, and the import decreased from 28.5% to 18.9% at the same time. The export of goods to the European Union increased from 23.1% to 31.5%, while the import increased from 21.6% to 49.4% (Fig. 3 and Fig. 4).

These trends require manufacturers to improve product quality to European standards and high demands of consumer markets. It is necessary to develop comprehensively all sectors of the economy, but it is necessary reasonable selection of leading, strategic industry, changes which facilitate the development and related areas.



**Fig. 3. Dynamic of exports in Ukraine in 1996–2015, %\***

\* Compiled by the authors on materials [5]

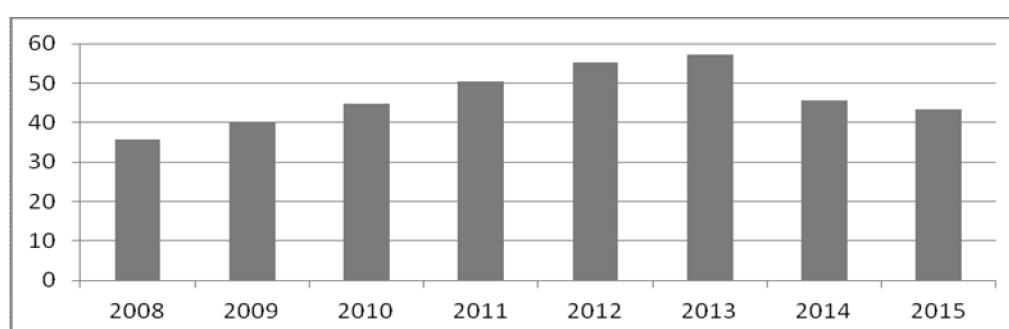


**Fig. 4. Dynamic of imports in Ukraine in 1996–2015, %\***

\* Compiled by the authors on materials [5]

*The irregular distribution of foreign investments in regions and sectors.*

According to the State Statistics Service in 2015 it was invested 3763,7 million USD and removed 891.3 million USD direct investment (equity) from Ukraine's economy by foreign investors. The reduction of capital due to revaluation, losses and reclassifications, according to the State Statistics Service, during this period of 5245,8 million USD is showed in Fig. 5. As we can see at Fig. 5, the volume of direct foreign investments for the period from 2008 to 2015 had reached the maximum amount in 2013 year. There is a downward trend in FDI after 2013 year. From 2013 to 2015 this indicator decreased to from 57,1 to 43,4 billion USD (-13,7 billions of dollars for period).



**Fig. 5. Dynamic of foreign direct investment in Ukraine in 2008–2015, billion USD\***

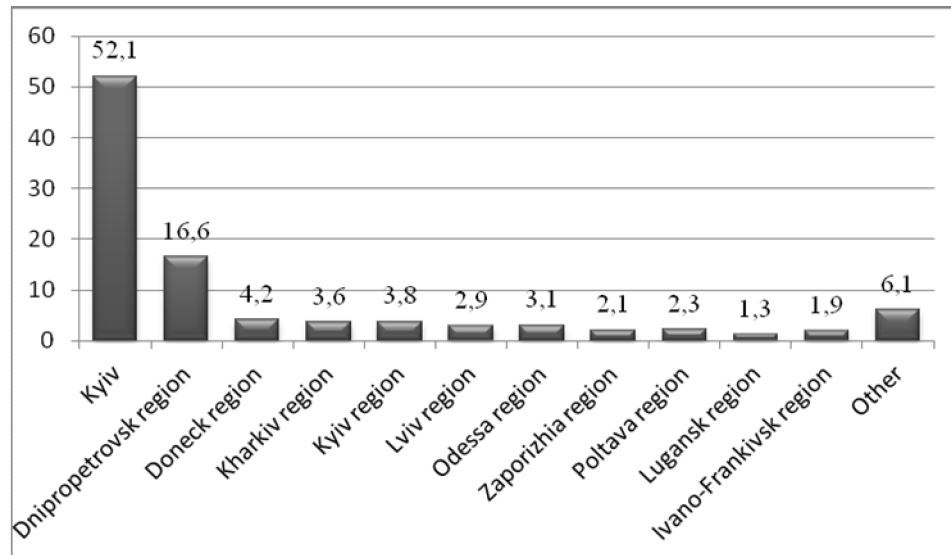
\* Compiled by the authors on materials [6]

The volume of attracted investments from the start of direct foreign investment to Ukraine in 2015 is amounted to 43371,4 million USD. Investments directed to already developed areas of economic activity.

Industrial enterprises are concentrated 30.6% of total direct investment in Ukraine, financial institutions and insurance 27.3%.

The top ten investor countries, accounting for 83.0% of total direct investment, are: Cyprus – 11744,9 mln, Netherlands – 5610,7 million, Germany – 5414,3 USD, Russian Federation – 3392,1 million, Austria – 2402,4 mln, United Kingdom – 1852,5 million, Virgin Islands (UK) – 1798,9 USD, France – 1528,1 million, Switzerland – 1364,2 million USD and Italy – 972,4 million USD.

The main ten regions of foreign investments: Dnipropetrovsk, Donetsk, Kharkiv, Kyiv, Luhansk, Lviv, Odessa, Zaporozhye, Poltava, Ivano-Frankivsk region and city Kyiv received the most total foreign investments – 93.9 per cent of all foreign direct investment. The leader in attracting investment is Kyiv, and among regions is Dnipropetrovsk (Fig. 6).



**Fig. 6. Regional structure of distribution of foreign direct investment in Ukraine in 2015, %\***

\* Compiled by the authors on materials [6]

This direction of foreign direct investment and capital investment in the regional context is not conducive to equitable social and economic development of regions and further increase the gap in their development.

### 3. The main directions of the actions to overcome economic problems

As we can see, identified trends have more negative consequences for the functioning of the Ukrainian enterprises. To reduce the negative impact of these trends are necessary the steps of the enterprises and the state. We considered the main directions of the actions for achieving this goal.

**Tab. 1. Areas of action of the State and enterprises to overcome the negative effects of economic problems in Ukraine**

Economic problems	The direction of acts of the state	The direction of acts of the enterprise
Economic instability	<ul style="list-style-type: none"> <li>– overcoming political instability;</li> <li>– economic reforms;</li> <li>– development of measures to stabilize the economy;</li> </ul>	<ul style="list-style-type: none"> <li>– analysis of environmental factors;</li> <li>– development of measures to minimize the negative impact of the external environment of enterprises;</li> </ul>
High inflation	<ul style="list-style-type: none"> <li>– prevention of additional emission;</li> <li>– implementation of measures to strengthen the national currency</li> </ul>	<ul style="list-style-type: none"> <li>– forecasting of inflation;</li> <li>– transition to local raw materials or pay in national currency</li> </ul>
Changing foreign economic relations	<ul style="list-style-type: none"> <li>– development of measures implementing EU standards;</li> <li>– adaptation of legislation to EU standards;</li> <li>– encouraging businesses to transition to new quality standards;</li> </ul>	<ul style="list-style-type: none"> <li>– development of measures harmonizing quality of products to EU standards;</li> <li>– implementation of quality management systems (ISO);</li> </ul>

Continued the Tab. 1

The irregular distribution of foreign investments by region and industry sector	<ul style="list-style-type: none"> <li>– development of measures to attract investments to the country;</li> <li>– creating a favorable investment climate;</li> <li>– formation of investment attractiveness of the regions that have the least amount of foreign investment;</li> </ul>	<ul style="list-style-type: none"> <li>– searching for foreign investors;</li> <li>– improvement of the company was to bring it to a level that would ensure investor interest</li> </ul>
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Thus, as a result of joint actions and state it is possible to overcome the negative effects of major trends characteristic for Ukraine's economy.

#### 4. Conclusions

The modern economy of Ukraine combines both: global trends such as the impact of globalization and integration processes, and its own peculiarities due to political and social factors. The specific features of Ukrainian economy include economic instability (caused by the political and social crisis), high inflation, changing foreign economic relations (shift vector from the CIS countries to the EU), the irregular distribution of foreign investments by regions and industry sector (in combination with reduced total investments in the country).

However, all these problems of the present stage of development of Ukraine can be solved with the active participation of government and enterprise management, as well as their active cooperation.

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#### Summary

In this article the dynamics of the economy indicators such as gross domestic product, exports and imports, foreign direct investment and inflation were analyzed. The negative trends in the economy of Ukraine were highlighted on the base of this analysis. Also, it was suggested directions for resolution of outstanding issues for state and enterprises.

**Keywords:** problems of Ukrainian economy; economic instability; foreign investments; inflation; foreign direct investment.

**JEL classification:** A100

**UD classification:** 330.3

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