

moments of crisis to alleviate the suffering of the population and support each other on the road to recovery and peace.

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CONSEQUENCES OF THE SHADOW ECONOMY AND WAYS TO OVERCOME IT IN UKRAINE

Abstract. This article explores the essence of the shadow economy and its consequences for the economies of various countries worldwide, with a focus on Ukraine.
Hochschule Mittweida Ukraine Digital 2023, №2 Issue 2

The aim of the article is to investigate the shadow economy and its implications for Ukraine while outlining key directions for overcoming it based on the experience of foreign countries. The research employs methods of analysis, analogy, and comparison.

The essence of the shadow economy is examined as a complex socio-economic phenomenon globally and in Ukraine. The reasons for the emergence of the shadow economy in the state are analyzed, and factors contributing to economic shadowing are identified. Through empirical observation, a correlation is established between the level of corruption perception in the country and the extent of its economy operating in the "shadow."

Negative consequences of the shadow economy for Ukraine are identified, including reduced state budget revenues, increased corruption levels within government entities, weakened investment development, heightened economic disparities, and non-compliance with standards.

The article analyzes and recommends positive experiences from foreign countries regarding the main directions to overcome the shadow economy in Ukraine. These include reducing cash transactions or promoting a "cashless" economy domestically, curbing inflation rates, and improving tax legislation in Ukraine. The practical significance of the study lies in providing recommendations to overcome the shadow economy in Ukraine, aiming to increase state budget revenues, reduce corruption levels, enhance investment development, and improve the quality of public governance.

Keywords: shadow economy, corruption, factors of economic shadowing, public governance.

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НАСЛІДКИ ТІНЬОВОЇ ЕКОНОМІКИ ТА ШЛЯХИ ЇЇ ПОДОЛАННЯ В УКРАЇНІ

Анотація. У статті розглянуто сутність тіньової економіки і її наслідки для економіки у різних країнах світу і в Україні. Метою статті є дослідження тіньової економіки і її наслідки для України та окреслити основні напрямки її подолання з використанням досвіду зарубіжних країн. Для досягнення поставленої мети використано методи аналізу, аналогії та порівняння.

Досліджено сутності тіньової економіки, як складного соціально-економічного явища у світі і в Україні. Проаналізовано причини виникнення тіньової економіки в державі. Виокремлено чинники тінізації економіки. Шляхом емпіричного спостереження встановлено взаємозв'язок між рівнем сприйняття корупції в країні та рівнем економіки, що знаходиться в «тіні».

Виявлено негативні наслідки тіньової економіки для України: зменшення доходів державного бюджету, збільшення рівня корумпованості в системі державних органів, послаблення інвестиційного розвитку держави, посилення диспропорції в економіці країни, недотримання стандартів.

Проаналізовано і рекомендовано позитивний досвід зарубіжних країн, щодо

основних напрямків подолання тіньової економіки в державі: зменшення готівкового розрахунку або "cashless" у вітчизняній економіці, зменшення темпів інфляції, покращення податкового законодавства в Україні. Практична значимість дослідження полягає у наданні рекомендацій щодо подолання тіньової економіки в Україні з метою збільшення доходів державного бюджету, зменшення рівня корумпованості, посилення інвестиційного розвитку держави, покращення якості державного управління.

Ключові слова: тіньова економіка, корупція, чинники тінізації економіки, державне управління.

Problem statement. The shadow economy significantly affects all processes in society, both economic and social, in any country, regardless of its level of economic development. In all cases, this impact is negative. The presence of the shadow economy makes it impossible to conduct a comprehensive economic analysis at the macro and micro levels in the country. As a result, decision-making loses its effectiveness, and a parallel economy emerges within the state that is not subject to taxation. Disregarding and not addressing the shadow economy as an existing negative phenomenon in the country leads to subjective judgments and unreliable assessments of macroeconomic indicators in the country. The lack of efforts to combat the existence of the shadow economy leads to a violation of the economic security of the state, posing additional risks to Ukraine's existence, especially in times of military conflict.

Relevance of the chosen topic. Today, Ukraine strives for equality among European nations and the right to live by democratic values. Therefore, recognizing and highlighting the shadow economy's negative consequences and researching ways to overcome it becomes crucial.

Analysis of recent research and publications. Numerous Ukrainian and international scholars have delved into the theoretical and practical aspects of the shadow economy and the mechanisms of implementing state policies aimed at its de-shadowing.

In her research, I. V. Suprunova (Suprunova, 2021) notes that almost all countries worldwide grapple with the issue of economic processes being shadowed in the modern world. A high level of economic shadowing significantly impacts a country's image, the effectiveness of structural and institutional reforms, posing a real threat to the democratic development of the state. The moral consequences of the shadow economy are also negative, leading to distorted consciousness among people and an increase in its criminal repercussions.

Professor S. O. Koretska (Koretska, 2011) emphasizes in her studies that the "shadow" economy encompasses all types of legal production, including evasion from truthful statistical reporting, tax payments, and contributions to social development funds. The "shadow" economy, typically excluded from national statistics and not incorporated into the gross national product, hides its income from taxation.

Among foreign scholars, there exists an alternative view regarding the positive effects of the shadow economy up to an acceptable level. In his work, Wolf Schafer (Schafer W., 1984) asserts that the shadow sector can be classified as a market system where the coordination of supply and demand occurs almost frictionlessly.

Despite the conditionally positive aspects of the shadow economy mentioned, Professor S. V. Svirko and I. V. Suprunova (Svirko, Suprunova, 2020) underscore in their research that the shadow economy should be considered a threat to the budgetary security of the country. The evasion of official taxation by its subjects (both legal and natural persons), embezzlement of state property, or other direct and indirect means lead to a decrease in budgetary security in the country.

Purpose of the article. The aim of the article is to investigate the shadow economy and its implications for Ukraine, outlining key directions for overcoming it based on the experience of foreign countries.

To achieve the stated goal, the following tasks were addressed: exploring the essence of the shadow economy, examining the reasons for its emergence in the country, and determining the main directions for overcoming it by drawing on the experience of foreign countries.

Presentation of the main research material and results obtained. It is crucial to comprehend the concept and essence of the shadow economy before analyzing the researched problem. Even though the essence of the term "shadow economy" originated from ancient times, the problem itself becomes new for us in the context of market development, globalization, integration into the global economic space, and the state's economic policy towards private entrepreneurship and business in general.

Today, there are numerous interpretations of the definition of the "shadow economy. However, the economy needs more statistical data since it is not directly observed (T. Tyshchuk, 2023). The shadow economy serves as a unique indicator of the effectiveness of the state's economic policy.

The issue of the shadow economy is relevant for all countries worldwide, from the more developed ones to those still developing. For example, according to statistical data, the share of the shadow economy in the GDP of the United States, a country with one of the strongest economies globally, was 7.4% in 2021, while Ukraine's indicator was around 31% (O. Moshenets, 2022).

The shadow economy is a complex socio-economic phenomenon with a unique structure, scope, form, and hierarchy. It significantly impacts the economic situation of the population, businesses, private entrepreneurship, and the state as a whole.

Researchers and scholars often identify a range of reasons for the emergence of the shadow economy in a country, including economic, social, political, legal, historical, psychological, and socio-cultural factors (O. Kundytskyi, 2018, p. 75). However, in our opinion, all factors contributing to the emergence of the "shadow" economy can be grouped into three major categories:

1. Economic factors: high taxes, financial crises, imperfections in the privatization system.
2. Social factors: low living standards, high unemployment, low real wages.
3. Legal factors: imperfect regulatory legislation, corruption in state institutions and law enforcement structures, high bureaucratic levels, etc.

In our opinion, the corruption of state institutions and law enforcement is the critical factor contributing to the high level of the shadow economy in Ukraine. Let us examine this

reason in more detail. Through empirical observation, a correlation can be established between the level of corruption perception in a country and the level of the economy in the "shadow." For comparison, let us take several countries worldwide, using the Corruption Perceptions Index for the year 2019. The United Kingdom ranked 12th globally in the perception of corruption, Brazil 106th, Ukraine 126th, and Nigeria 146th (12). For 2019, the scale of the shadow sector of the economy in these countries was 10-12%, 17.2%, 28%, and 40-60%, respectively (J. Compton, 2019). The available data can be represented in the form of a diagram:

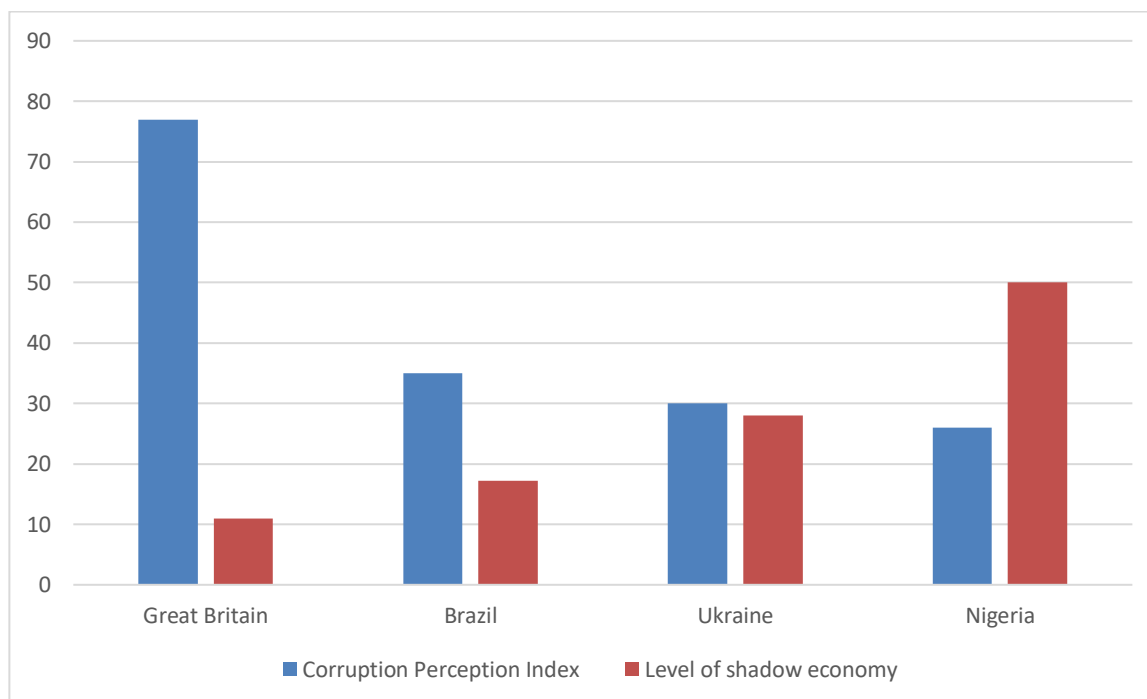


Fig. 1 Correlation between corruption perception indices and the level of the shadow economy in different countries

Source: compiled by the author on the basis of "General trends in the shadow economy (January-September 2021)", (2022)

Therefore, from Fig. 1, we can deduce a certain regularity: the higher the corruption perception index in a country, the lower the level of the shadow economy. The dependence between the level of corruption in state structures and the volume of the shadow economy is clear and inversely proportional.

In their research, the International Center for Advanced Studies identified factors contributing to the shadowing of the economy (A. Bochi, V. Povoroznyk, 2014, p. 4).

1. Inefficiency of state regulation of the economy. This involves the imperfection of legislative and regulatory systems, a lack of business trust in the state, and a high level of bureaucratization. As a result, state management lacks proper influence and is replaced by corporate bureaucratic institutions, further increasing economic activity concealment.
2. Ineffectiveness of tax administration. One of the significant factors contributing to the growth of the shadow economy is the need for more understanding among economic entities about the tax system. Additionally, businesses are burdened with high tax rates, and there is a lack of appropriate punishment for those who

evade taxes. This situation leads businesses to hide their activities and move into the shadow economy.

3. Labor market issues. Ukraine has a prevalent system of informal employment. The statement pertains to the issue of an excessive tax burden and a substandard quality of life. The scheme is straightforward: employers cannot afford to employ workers officially due to the increasing mandatory taxes. Consequently, increasing prices of goods and services would make them less competitive in Ukraine, given the current standard of living and purchasing power.
4. Imperfections in the budgetary system. It is impossible to disagree with this statement since constant violations in the distribution of state revenues are recorded in the country.
5. Imperfections in the judicial and law enforcement system. This involves the absence of punishment for economic criminality, which breeds mistrust and stimulates concealment.

To assess the consequences of the presence of the shadow economy in Ukraine, let us take a closer look at its volumes. During a war, it is challenging to obtain accurate data for business statistics. Therefore, let us examine the scale of the shadow economy during the period 2019-2021.

According to the latest available data from the Ministry of Economy of Ukraine, we can analyze the dynamics of the shadow economy.

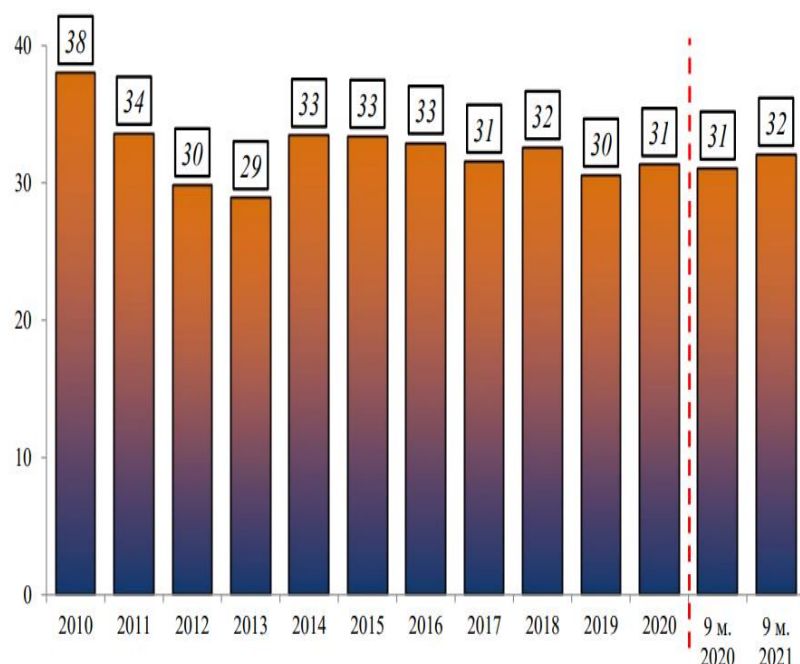


Fig. 2. Level of the shadow economy by the monetary method, % of official GDP

Source: compiled by the author on the basis of "General trends in the shadow economy (January-September 2021)", (2022)

Looking at Fig. 2, we can observe that in 2019, despite the onset of the pandemic and partial business closures, there was a tendency to decrease the volumes of the shadow economy. However, analyzing the experience of previous crises, an increase in the level of the shadow economy was expected, as businesses tend to reduce the risk of resource loss in times of significant uncertainty. As anticipated, there was a noticeable decline in business

and investment activity (both domestically and internationally). Economic losses increased significantly, leading to a shift towards a slight increase in shadow business activity in 2020-2021.

In Ukraine, around a quarter of the GDP is in the "shadow" economy, negatively impacting the country's overall economic performance. Addressing this phenomenon is crucial to building a strong economy.

The consequences of the shadow economy have a significant negative impact on Ukraine. Based on research, the following consequences can be noted (N. M. Kraus, K. M. Kraus, V. S. Shevchuk, A. O. Panchenko, 2020):

1. Reduction in state budget revenues. Non-payment of taxes, fines, and fees by businesses engaged in shadow activities leads to a deficit of funds in the country's state budget. As a result, there is a need for more funds for financing state structures, pension and subsidy payments, defense funding, and more.
2. Increase in corruption levels in state institutions. Since economic entities must conceal their shadow activities, the number of cases of bribes paid to state institutions to continue their entrepreneurial existence increases. Additionally, the increase in corruption and crime leads to a rise in nepotism within state structures.
3. Weakening of the state's investment development. Businesses involved in the shadow economy do not contribute to developing the country's scientific activities. The consequence of this phenomenon is the lag in the scientific and innovative activities of the country compared to developed countries.
4. Intensification of economic disparity in the country. Shadow business primarily develops in the service sector, creating economic disparities between the production and service sectors.
2. Non-compliance with standards. Businesses operating informally must adhere to legal and quality standards, benefiting society.

At the same time, it should be noted that the shadow economy positively impacts the well-being of individual economies and consumers. This is because the shadow economy emerges when the state, on its own, cannot satisfy societal demand. The state cannot keep up with the dynamic needs of society. Therefore, the shadow economy serves as a response by entrepreneurs and consumers to the state's inability to provide necessary goods. As the market system always tends towards equilibrium during a state or economic crisis, shadow economic activity is one of the instruments balancing supply and demand.

In times of significant economic recession, when the state cannot provide social assistance and protect the population from unemployment, the shadow sector provides protection and refuge for those who have lost their jobs. The informal sector allows this category of the population to generate income to ensure their well-being.

Combating corruption and improving the legal system are fundamental to overcoming Ukraine's shadow economy. For example, reforms in the judicial system, improvement of mechanisms for monitoring and supervising the activities of government structures, and the implementation of transparency in all areas of public administration are essential. One of the critical factors for improving the situation by de-shadowing the economy is increasing the population's income and improving the socio-economic status of citizens. Achieving this is possible through the development of the real sector of the economy and the creation of new jobs. One of the prerequisites for the increase in the shadow economy is the rise in

unemployment: the population lacks official jobs, and people must seek unofficial employment opportunities. Therefore, an effective way to overcome the shadow economy is to increase job opportunities and improve the quality of life for the population.

Analyzing the reasons and consequences of Ukraine's shadow economy, it can be concluded that the government should implement new legislative initiatives and regulate the activities of the shadow business. The Ukrainian government needs to take several measures to de-shadow the country's economy, from creating a more favorable environment for doing business to reducing corruption in government bodies.

Incorporating international experience into domestic realities is also crucial.

1. Reduction of cash transactions or "cashless" in the domestic economy. Ukraine should explore implementing a cashless economy, following the examples of the United States, Switzerland, South Korea, and Estonia. Ernst & Young conducted a study on the impact of "cashless" on the growth of the shadow economy. It was discovered that a 1% increase in card payments at terminals as a percentage of GDP leads to an average reduction of 0.037% in the passive shadow economy (Reducing the Shadow Economy through Electronic Payments, 2016). For Ukraine, in absolute terms, this represents significant funds. Reducing the volumes of the shadow economy, where cash resources operate, will contribute to the overall economic growth because non-cash funds will remain in the economy and fulfill their functional role.
1. The National Bank of Ukraine has already made initial statements regarding the potential transition to "cashless," noting that the spread of cashless payments will lead to payment transparency (National Bank of Ukraine, 2023). This is expected to stabilize the economy and promote economic growth.
2. Another path to de-shadowing the Ukrainian economy is to reduce inflation rates: Due to high inflationary expectations, the population tends to save money, and the demand for cash in banks increases.
3. Money that is not in circulation does not have the opportunity to work to benefit the economy and its development. The most effective measure in this case would be to reduce the amount of money in circulation.
4. Improvement of tax legislation. Ukraine's tax legislation is one of the most complex in the country's legal system. At the same time, there is a tendency towards its inefficiency and instability, and a quarter of the shadow economy as a percentage of the country's total GDP is a vivid example of this. Taxation is still regulated by sub-legal normative documents, resolutions of the Cabinet of Ministers, and decrees of the President of Ukraine. Ukraine's tax legislation should be transparent, clear, and unambiguous. This will increase domestic entrepreneurs' confidence in conducting business and enhance foreign investors' attraction. Businesses evade tax payments because they do not see the results of these revenues, and there needs to be more trust in government authorities in society.

Speaking about improving and transparency of Ukraine's tax system, it is impossible not to touch upon corruption. Currently, corruption in government authorities remains one of the urgent problems for Ukrainian governance. The perception of corruption in Ukraine remains relatively low. This problem remains relevant for both domestic businesses and foreign investors.

The main directions for combating corruption that the state should undertake include:

1. It ensures transparency in the functioning of all instances of the judiciary, from regional courts to the Constitutional Court of Ukraine.
2. Transparent and effective operation of the Unified State Register of Declarations. Electronic declaration is currently the primary method for monitoring the administrative apparatus. The discipline of declarants in the managerial circle will increase the efficiency and cleanliness of government work and enhance society's trust.

Achieving transparency in the tax system and combating corruption requires comprehensive reforms in legislative and institutional frameworks. This includes simplifying tax legislation, ensuring stability, and implementing effective anti-corruption measures. The state's commitment to transparency, accountability, and the rule of law will contribute to a more favorable business environment and attract domestic and international investments.

Ensuring the effective functioning of institutions to combat corruption to increase control over corrupt entities.

Conclusions. Analyzing the shadow economy in Ukraine, it can be concluded that the leading causes of shadowing are corruption of state authorities, bureaucratization of the state apparatus, ineffective tax policy, complex tax legislation, and economic crisis. One of the main determinants of shadow economy formation is not so much high taxes as the inefficient use of budget funds.

International experience can be helpful in the domestic economy. It is essential to understand that Ukraine is actively integrating into the global economic environment, so it is suitable to adopt foreign experience and adapt it to domestic realities. The government's priority measures to counter the shadow economy should be the fight against corruption. Unfortunately, corruption is a significant hindrance to both socio-economic and political development. The state is obliged to do everything possible to reduce corruption in state structures at all levels.

The rich experience of Western countries provides grounds to believe that the shadow economy can be fought and the situation controlled. An effective taxation system, coordination of law enforcement and security agencies, proper functioning of institutions to control and audit economic and entrepreneurial activities, trust in government and courts, and transparent and understandable tax legislation will help combat the scale of the shadow economy.

In general, economic shadowing is characteristic of all states, both with a more developed economy and a less developed one. The main question lies in its scale and methods of combating. The Ukrainian government should take stringent measures to reduce the share of shadowing and stabilize the economy.

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UKRAINIAN BANKING SYSTEM OVERVIEW: CURRENT STATE AND DEVELOPMENT PROSPECTS

Abstract. The article examines the structure of the banking system of Ukraine. The dynamics of the number of banks and branches were analyzed. A reduction in the number of banks and the number of their operating divisions has been revealed for the period from the beginning of 2015 to the present.

The main reason for the reduction in the number of operating banks was the process of reforming the banking sector of the Ukrainian economy. The result of the introduced reforms was the «cleansing» of the sector from insolvent and captive banks and an increase in the level of its financial stability. The increased stability of the banking system as a result of the National Bank of Ukraine's reforms is evidenced by its resilience and ability to perform its functions during martial law.

According to the results of the study, the following reasons for the reduction in the number of bank divisions in Ukraine are substantiated: reduction in the number of banks, reduction of costs in the post-crisis period, and an increase in the level of digitalization. Pandemic restrictions and martial law also influenced the growth of digitalization.