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FINANCIAL EUROPEAN INTEGRATION POLICY OF UKRAINE

Introduction. The transformation processes in the financial sector in the late 20th and early 21st centuries have become much more dynamic and regular due to the enhanced effect of the objective economic laws[1]. The economic laws in the financial space are less stable and correct for the development of a particular phenomenon. For instance, political or economic instability in a country affects the state of other economies integrated into the global economy. Therefore, globalisation processes co-exist with the integration associations of countries aimed to create a system to counteract the negative effects of globalisation[2]. This means that the logical structure of the financial space, on the one hand, makes the overall financial system integrated internally and, on the other hand, leads to a more asymmetric territorial, structural and functional organisation[3]. The latter determines the optimal mechanism of the national integration into the regional financial space which largely influences their successful addressing of the strategic objectives of countries’ economic development associated with diversification of sources of investments to their economies, reforms of social and economic system, covering budget shortfalls, repayment of internal and external debts, etc5. Ukraine cannot stand apart from these processes. Staying close to the most successful integration association — the European Union (EU) — is vital for the country’s political destiny. Both the government and the corporate sector in Ukraine are just beginning to understand that the ability to synchronise with the regional financial processes, to “embed” their internal plans and projects in the regional geostrategic

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[1] The objective nature of economic laws means that people do not create or abolish laws.

[2] Sytnik I. V. The Regional Integration Associations: Formation Prerequisites and Tasks / I.V. Sytnik // Problems and prospects of development of Southern and Eastern Europe countries cooperation as part of the Black Sea Economic Cooperation and GUAM: Collected scientific papers. — Sevastopol-Donetsk: The Donetsk National University, the Russian Independent Institute for Social Studies in Donetsk, 2009. — P. 856

[3] Stolyarchuk Ya. The New Global Finance Capital Accumulation Centres: Formation Factors and Impact on Financial Balance / Stolyarchuk Ya. // Ukrainian Securities Market. — 2008. — № 5–6. — P. 35-47.

context determines the level of economic development and creates conditions for an efficient financial market. Choosing the best mechanism for integrating Ukraine into the European financial area is a pressing issue of the contemporary economics.

The objective nature of integration processes in financial space has been studies by many foreign and local economists, including A. Abiad[4], O.V. Butorin[5], A.S. Halchynsky[6], A.G. Zuev[7], N.P. Ivanov[8], V.P. Kolesov[9], A. Mody[10], M.N. Osmova[11], I.V. Sytnik[12], V.Yu. Shevchenko[13], A.F. Shishkin[14], etc. Considerable attention to the research of the structurisation of the regional financial space is given in the works of the outstanding contemporary Ukrainian and Western scientists such as: G.N. Klymko[15], S.V. Kulpinsky[16], D.G. Lukianenko[17], A.S. Filipenko[18], O.B. Cherneha[19], Yu.V. Shishkov[20], etc. However, it should be noted that the level of integration in the financial space influences the development of a

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[4] Abiad A. International Finance and Income Convergence: Europe is Different / Abiad A., Leigh D., Mody A. — IMF Working paper. — 2007. — No.WP/07/94. — P. 36.

[5] Butorina O. V. International Currencies: Integration and Competition / Butorina O. V. — Moscow: Delovaya Literatura Publishing House, 2003. — P. 368.

[6] Halchynsky A. S. Economics: [coursebook] / A. S. Halchynsky, P. S. Yeshchenko. — Kyiv: Vyscha Shkola Publishing, 2007. — P. 503.

[7] Zuyev A. G. Globalisation: The Little Talked-About Aspects / A. G. Zuyev, L. A. Myasnikova // World Economy and International Relations. — 2004. — № 8. — P. 54-60.

[8] Ivanov N. P. Globalisation and Problems of Optimal Development Strategy / N. P. Ivanov // World Economy and International Relations. — 2000. — № 2. — P. 15-19.

[9] World Economy. Foreign Economies: Coursebook / [ed. V. P. Kolesov and M. N. Osmova]. — Moscow: Flinta Publishing: the Moscow Psychological and Social Institute, 2000. — P. 480.

[10] Mody A. Financial integration, capital mobility, and income convergence / A. Mody // Economic Policy. — 2009. - № 24. — P. 241-305.

[11] World Economy Globalisation: [coursebook: for economics students trained under M.V. Lomonosov Moscow State University system, Economics Department] / [Prof. M. N. Osmova et al.]; ed. M. N. Osmova, Doctor of Economics, Prof., A. V. Boichenko, Ph.D. (Economics), Associate Professor. — Moscow: INFRA-M, 2012. — P. 374.

[12] Sytnik I. V. The Regional Integration Associations: Formation Prerequisites and Tasks / I.V. Sytnik // Problems and prospects of development of Southern and Eastern Europe countries cooperation as part of the Black Sea Economic Cooperation and GUAM: Collected scientific papers. — 2009. — No.1. — P. 323-328.

[13] Shevchenko V. Yu. Internationalisation and Competitiveness of National Financial Systems / V.Yu. Shevchenko // Theoretical and Applied Economics Issues. — 2010. — № 21. — P. 89-95.

[14] Shishkin A. F. Economics: [coursebook for universities]: in 2 volumes. / Shishkin A. F. — [Rev. 2]. — Moscow: VLADOS Humanitarian Publishing Centre, 1996-1996. — Vol. 2. — 1996. — P. 352.

[15] Klymko G. N. Economic Integration of Capitalist Countries. A New Form of Inter-Imperialist Rivalry / Klymko G. N. — Kiev: Vyscha Shkola Publishing Association, 1985. — P. 134.

[16] Kulpinsky S. V. The EU states financial integration as a factor of Europe's economic development: thesis ... Ph. D. (Economics): 08.05.01 / Kulpinsky S. V. — Kyiv, 1999. — P. 209.

[17] Lukianenko D. G. The Global Economic Integration: [monograph] / Lukianenko D. G. — Kyiv: Vipol Publishing, 1996. — P. 138.

[18] Filipenko A. S. Economic Globalisation: Origins and Results / Filipenko A. S. — Moscow: Ekonomika Publishing, 2010. — P. 511.

[19] International Integration: coursebook / [ed. O. B. Cherneha]. — Donetsk: Don GKET, 2005. — P. 333.

[20] Shishkov Yu. V. Integration and Disintegration: Concept Update / Yu. V. Shishkov // World Economy and International Relations. — 1993. — № 10. — P. 50-68.

country's national financial market and the chances and/or necessity of its integration in the regional financial space that require further research.

Based on the above, the purpose of the study is to determine the optimal mechanism for Ukraine's integration into the European financial space taking into account the multi-level structure of this organisation that changes under the influence of objective economic laws and harmonisation of the economic interests of the parties to the international financial relations.

Global Financial Space Functioning Patterns. Financial space is formed through interweaving and integration of national capital of certain companies that is used for creating business units and developing forms of international relations and contacts between the capitals of various countries. This movement occurs under the laws of value, competition, concentration of individual ownership forms and capital, population, average rate of profit, marginal profitability and the basic law of capitalism which takes the form of a natural process of internationalisation. It takes place in the economic environment in the processes of internationalisation of circulation, production, capital, economic life and property.

Internationalisation of production is the objective basis of internationalisation of capital which enhances internationalisation of production leading to more active relations between countries[21]. This demonstrates an interdependent relationship between patterns of eco nomic and financial spaces based on the law of value and price internationalisation. International value is a sign of socially necessary labour time on a regional or global scale, i.e. it causes the formation of the financial space. National socially necessary labour time acts as individual labour time and works within a national financial space. Therefore, international value is formed as a mean value as a result of competition between countries and other parties to the international market relations. However, international value is not formed due to all goods produced in various countries but only the commodities exported to regional or global markets. Therefore, the degree of influence of national value on

[21] World Economy. Foreign Economies: Coursebook / [ed. V. P. Kolesov and M. N. Osmova]. — Moscow: Flinta Publishing: the Moscow Psychological and Social Institute, 2000. — P. 480.

international value depends on the share of individual countries in the total sales of certain goods on regional or global markets. Besides, most of the products sold at regional or global markets are produced in developed countries with higher performance than in that of countries with inefficient economies since international value of most types of products derives from national value which is formed in developed countries. This means that in less developed countries, unit of production cost is higher than international (socially necessary) labour cost and it has no equivalent in commodity exchange at regional or global markets. Therefore, developed countries have higher income from commodity exports which helps efficiently invest available financial resources in profitable areas through optimal allocation of capital formed in the interaction of the following laws: the law of value, the law of competition, the law of marginal profitability and the basic law of capitalism. We should mention about a widening gap in levels of economic development of certain countries due to the development of the exchange and capital internationalisation processes under the influence of trans- and multinational companies (TNC and MNC, respectively) and transnational banks (TNB). Monopolisation of the global market by the above companies (banks) leads to unequal exchange which causes a significant deviation of prices from international value. And monopoly profits are received both through high and low monopoly prices manipulated by monopolistic associations in developed countries when they trade with less developed countries based upon the law of monopoly prices. In particular, the prices of goods sold by monopolists significantly rise up from international value while purchasing prices of goods fall down. This causes a "transfer" of a large part of national wealth generated in countries with inefficient economies to highly developed countries which continues to widen a gap in levels of economic development[22]. Therefore, a key role in internationalisation of capital is played by TNCs and MNCs which transfer capital[23] causing the formation of another pattern — the so called transnationalisation. It promotes redistribution of

[22] Butorina O. V. International Currencies: Integration and Competition / Butorina O. V. — Moscow: Delovaya Literatura Publishing House, 2003. — P. 368.

[23] Shishkin A. F. Economics: [coursebook for universities]: in 2 volumes. / Shishkin A. F. — [Rev. 2]. — Moscow: VLADOS Humanitarian Publishing Centre, 1996-1996. — Vol. 2. — 1996. — P. 352.

markets and the world economy to the areas of financial exposure, firstly, due to enhanced efficiency of capital investment within a company, and, secondly, due to redistribution of production factors in the process in favour of capital, not labour.

It should be noted that the patterns of internationalisation and transnationalisation in the financial space are defined by the economic laws that change in the global financial space in general and its regional subsystems[24]. Besides, the concurrent development of the above laws, on the one hand, leads to a more efficient exchange of export goods by companies, especially by TNCs and MNCs, and, on the other hand, the deployment of available financial proceeds from trade thereby creating conditions for parallel development of the integration and globalisation patterns.

The integration pattern of regional subsystems of the global financial space leads to the formation of regional economic associations with a certain degree of coordination with countries' national interests. It is based on the institutionally-prepared system process of teaming up[25] of parties to integration grouping. They aim to improve both the efficiency of national economies (including the formation of a regional financial space and the introduction of single currency) and the final socio-economic performance of the whole association. However, non-integrated parties to economic and financial activity only care about their individual interests and are not committed to increase the efficiency of the entire group of partner countries of the global space that is formed under globalisation patterns. It does not directly influence the regional structures, but causes association of individual actors (international organisations) and players (markets).

Change in the economic laws within the regional subsystem of the global financial space is caused by strengthening of the comprehensive interdependence of producers in both national and international markets. Therefore, the conflict between individual and social labour which underpins the entire cost relationship system, including those that develop at the level of world economic relations,

[24] Shevchenko V. Yu. Internationalisation and Competitiveness of National Financial Systems / V.Yu. Shevchenko // Theoretical and Applied Economics Issues. — 2010. — № 21. — P. 89-95.

[25] Zuyev A. G. Globalisation: The Little Talked-About Aspects / A. G. Zuyev, L. A. Myasnikova // World Economy and International Relations. — 2004. — № 8. — P. 54-60.

gradually turns into a conflict between individual and international social labour which can be finally settled by functioning of the international value mechanism in regional or global spaces[26].

International value is implemented through the pricing mechanism in the above spaces under the changing objective economic laws. For example, internationalisation of circulation is expressed in internally necessary, stable and material relations of the objective economic laws that are simultaneously implemented in the economic and financial spaces. Therefore, systemic action of the laws of value, supply and demand, one price determines the formation of a single price for real economy objects and financial assets. This means that the integration and globalisation patterns can be different.

A unified pricing policy, in particular in the financial sector of the regional space, is implemented by businesses and/or financial institutions in the context of the regional financial space unification. The introduction of single regional currency by the integration grouping member states helped both avoid the risk of exchange rate fluctuations and reduce the price spread to other financial assets. Accordingly, the transaction cost reduction law ensures the transition from cutting costs related to the circulation of real economy objects to unifying prices for both real and financial sectors.

Function of the regional financial space also depends on the correct determination of the required money supply (in accordance with the laws of monetary circulation used by the supranational central bank). The supranational central bank has the exclusive right to allow national central banks issuing and ensuring stability of single regional currency.

Unstable currency cannot promote the standard of value, serve the basis of economic relations between individual producers, producers and customers, neither can it be a circulation and payment tool in the regional financial space. It cannot be a reliable social measure of individual costs incurred by producers. This

[26] Zuyev A. G. Globalisation: The Little Talked-About Aspects / A. G. Zuyev, L. A. Myasnikova // World Economy and International Relations. — 2004. — № 8. — P. 54-60.

undermines the force of commodity production and does not ensure single prices for goods in accordance with the law of one price. This mainly brings benefits not to those who produce socially necessary goods at lower costs but to speculators who use constant price fluctuations. Speculation is an essential feature of commodity production, but it is not a decisive one. It lies in the process of transformation of use value into price, in the separation of commercial and commercial capital and gains, s related to drivers of commodity production, fluctuations in supply and demand for individual products according to the law of supply and demand. Under certain conditions, it can be classified as one of the drivers of commodity production to stimulate them. However, the increase in speculative transactions has a negative impact on commodity production and monetary system since it leads to depreciation, excessive issue of money and inflation. Social wealth stops growing as its sources are undermined due to unfair income redistribution[27].

The global financial space is developed through setting a single price only for one type of financial assets — currency (determined in accordance with the law of supply and demand). It should be concluded that objective laws become stronger in the regional financial space.

Reduction of transaction costs within the global financial space, as opposed to the regional one, mainly occurs due to the development of information and computer technology[28]. Computerisation, electronic payments and credit cards, satellite and fiber-optic connections help virtually instantly transfer financial data, enter into agreements, transfer funds from/to accounts to any location across national borders. The technology, not the law of competition, update process gives new impetus to competitive struggle in the global financial space. It will benefit to the institutions that are willing to invest significant funds in new technologies and use them for creating new market tools, improving service quality and reduce

[27] Fundamentals of Economics: Political and Economic Aspects: coursebook / [ed. G. N. Klymko]. - [3rd ed. rev. and enlarged]. — Kyiv: Znannya-Pres Publishing, 2001. — P. 646.

[28] Abiad A. International Finance and Income Convergence: Europe is Different / Abiad A., Leigh D., Mody A. — IMF Working paper. — 2007. — No.WP/07/94. — P. 36.

transaction costs[29]. This is possible due to using two factors. First, multinational financial companies (banks) are constantly searching for profitable investing trends and are guided by the fact that profitability of transactions in financial markets of developing countries is significantly higher than that in mature markets, although the risks of such transactions are higher as well. Financial transactions in some countries and regions show the optimal return and risk levels ratio, therefore, competition in those segments of capital market is much higher. Second, consumers of financial resources: governments, transnational and local companies, require significant funding, and this demand is greater than supply. Borrowers compete for access to cheaper sources of capital. Accordingly, the global financial space demonstrate stronger effects of the competition law which regulates, on the one hand, competition between financial institutions and, on the other hand, competition between different sectors of financial space as the boundary between them is becoming increasingly blurred from customer's point of view. There are two possible scenarios in this situation. The first one is that to protect national financial institutions from foreign competition governments will take protectionist steps, and the second one is that effective functioning of financial markets will be achieved through international division of labour and capital as production factors, although some countries may become net importers of financial services[30]. This means that increased competition in the global financial space causes deregulated finan cial sector, namely: removal of interest rate restrictions, lower taxes

and extra fees for financial transactions, foreign banks' opening access to the national financial sector, enhanced privatisation and asset securitisation, etc. Deregulation also occurred due to the new financial toolkit that allows to bypass pre-existing rules and restrictions, as well as due to the emergence of offshore financial centres that are given preferential treatment.

Therefore, internationalisation creates conditions for concurrent action of integration and globalisation patterns in the financial space that are determined by

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[29] Ivanov N. P. Globalisation and Problems of Optimal Development Strategy / N. P. Ivanov // World Economy and International Relations. — 2000. — № 2. — P. 15-19.

[30] The Strategy of Economic Development in the Context of Globalisation: monograph / [ed. D. G. Lukianenko]. — Kyiv: KNEU Publishing, 2001. — P. 358.

individual or systemic effects of the economic laws. Increased effects of these laws make allow to define integration as a key pattern of the financial space. The latter, as a result of the formation of vertically organised system of regulation (supranational bodies → national bodies → businesses and financial actors), ensures unification of the national financial spaces in certain regions. This leads to the formation and development of the regional subsystem of the global financial space with distinct territorial borders and institutional organisation that create equal conditions for all financial actors in accordance with the functional aspect of the financial space structure.

Regional Financial Space Multi-Level Structure. The growing interest in determining the optimal mechanism for integration into the regional financial space led to a more detailed analysis of the space's organisational structure. According to the renowned Russian scientist Yu. V. Shyshkov, integration processes can occur at «organised» and «unorganized» levels. In some cases, «unorganized integration» grows wider that «organized integration », and the latter has to catch up with the former. This process has been taking place for several decades in Western Europe and is now reflected in the EU expansion. In other cases, the «organized integration» process is implemented beforehand in order to encourage «unorganized integration». This process often takes place in third world countries (especially in Africa)[31]. But the process of integration in the financial sector does not always occur within territorial boundaries.

We should review another methodological approach to the development of integration processes in the financial space in accordance with implementation actors (integrators). According to this approach, the implementation actors in the financial space integration process include businesses (micro-level integration) and states (macro-level integration).

There are both supporters and opponents of this approach among Ukrainian scientists. For example, D. G. Lukianenko and S. V. Kulpinsky agree that the

[31] Shishkov Yu. V. Integration and Disintegration: Concept Update / Yu. V. Shishkov // World Economy and International Relations. — 1993. — № 10. — P. 50-68.

integration process should be implemented at micro- and macro-level, yet they determine sublevels. They believe that micro-level integration can take place at two sublevels — vertical and horizontal. Horizontal integration occurs when companies producing similar or same-class products are merged to sell those products via a common distribution system. Vertical integration includes association of firms that operate in different production cycles[32]. However, G. N. Klymko says that this classification is not entirely correct since both types of integration actors perform the same function, i.e. intensify convergence of national economies being in close contact with each other.[33]

A. S. Filippenko goes even further is his conclusions pointing to three levels of integration by geographies. He believes that in terms of actor interaction integration process takes place at three levels, namely: micro-, macro- and regional levels[34]. However, according

to O. B. Cherneha, integration process occurs at four, not at three, levels, namely: micro-, meso-, macro- and megalevels[35].

At the microlevel, integration process can be seen in the interaction of businesses, firms, organisations and households. The high degree of internationalisation is caused by liberalisation of international relations that create conditions of deeper business transnationalisation. Convergence at the microlevel acts as a basis for integration and takes the form of microeconomic level transnationalisation elements. At the mesolevel, it is transformed in the interaction of regions, production units, industrial finance groups, research and production centres, certain sectors of economy, national market networks. This type of integration is based on business interaction and allows to formulate sectoral cooperation, to ensure convergence of market spaces, to increase mutual investments in key sectors of economy. It takes the form of transnationalisation of

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[32] Lukianenko D. G. The Global Economic Integration: [monograph] / Lukianenko D. G. — Kyiv: Vipol Publishing, 1996. — P. 138; Kulpinsky S. V. The EU states financial integration as a factor of Europe's economic development: thesis ... Ph. D. (Economics): 08.05.01 / Kulpinsky S. V. — Kyiv, 1999. — P. 209.

[33] Klymko G. N. Economic Integration of Capitalist Countries. A New Form of Inter-Imperialist Rivalry / Klymko G. N. — Kiev: Vyscha Shkola Publishing Association, 1985. — P. 134.

[34] Filipenko A. S. Economic Globalisation: Origins and Results / Filipenko A. S. — Moscow: Ekonomika Publishing, 2010. — P. 511.

[35] International Integration: coursebook / [ed. O. B. Cherneha]. — Donetsk: Don GKET, 2005. — P. 333.

mesoeconomic level elements. Integration at the macrolevel can be seen in the interaction of national and regional spaces, «convergence» of national economies at the micro- and mesolevels, cooperation of political sets. Integration at the macrolevel takes the form of regionalisation. As regards megaeconomic inte gration, it occurs as a system of the national and regional financial spaces relations regulated by international organisations.

O.B. Cherneha proposed a rather detailed classification. At the micro- and meso-economic integration levels, the same — transnational — forms can be seen. Division is only based on the business entities' activities. Besides, the megalevel is not a part of integration but the element of globalisation, therefore, there is no need to define this level. However, according to O. B. Cherneha, each level of integration processes creates the basis for the development of the other one, and will start to function as a single «organism» in a long-term perspective.

The second classification proposed by O. B. Cherneha includes the integration process levels classification by geographies[36]: 1) the global level which means stronger relationship and cooperation between countries across the world economy; 2) the regional level which means the formation of regional integration country groupings, and 3) the subregional level which means enhanced integration interaction of subregion's countries («parts» of the integration space in a certain region of the world).

Therefore, the methodological approaches to the development of integration processes in the financial space are the same as they are based on intensified interaction of financial actors. We are now going to review the specifics of integration processes in different geographic regions to determine the most integrated regional financial space.

Integration in the regional financial spaces leads to redisposition of financial environment and intensified activities of some of its subsystems. Therefore, a comprehensive analysis of the current changes in the integration processes taking place in the modern globalised world is very important for a more integrated

[36] International Integration: coursebook / [ed. O. B. Cherneha]. — Donetsk: Don GKET, 2005. — P. 333.

regional financial space and the formulation of the prospects of a new type of integration (Table 1).

Table 1. **Geographical Shares in Key Financial Indicators, %**

	Stock market capitalization			Foreign direct investment (FDI), net inflows			Portfolio investment, net inflows			Reserves, including gold		
	2000	2005	2010	2000	2005	2010	2000	2005	2010	2000	2005	2010
Europe and Central Asia	29,5	28,0	23,9	59,3	60,6	33,4	60,6	65,0	46,8	27,6	20,5	20,4
The European Union	26,4	23,5	18,7	57,2	56,5	26,9	59,1	62,6	47,6	21,2	12,4	11,0
Eurozone	16,9	14,7	11,2	44,7	36,4	24,6	30,3	61,3	44,3	15,1	7,6	6,6
North America	49,6	42,6	34,4	23,9	11,4	19,4	29,4	10,6	25,3	7,2	4,6	5,1
Southeast Asia	17,2	20,9	29,5	10,1	14,1	27,6	8,6	20,1	16,0	47,8	55,2	53,4
Latin America and the Caribbean	2,0	2,4	4,9	5,4	7,1	9,5	-0,1	1,3	5,5	7,2	5,5	6,1
Middle East and North Africa	0,7	3,3	2,2	0,7	4,3	5,1	0,6	0,8	0,1	6,4	9,0	10,5

Source: Stolyarchuk Ya. The New Global Finance Capital Accumulation Centres: Formation Factors and Impact on Financial Balance / Stolyarchuk Ya. // Ukrainian Securities Market. — 2008. — № 5–6. — P. 35-47; The official website of the World Bank [E-resource]. — Way of access: www.worldbank.org.

Table 1 shows that a slight increase from 2000 to 2010 of European and Central Asian shares (Eurasia) in terms of global net inflows of foreign direct investment and portfolio investment, and a simultaneous reduction in indicators such as stock market capitalisation (from 29.46% to 23.92%) and global currency reserves (from 27.6% to 20.4%) demonstrates by a rather high development level in the region. An equally impressive level of financial sector development can be observed in North America (before the financial crisis) and Southeast Asia (after the crisis), however, it should be pointed out that only the EU was able to reach the level of economic and monetary union having passed nearly all stages of economic integration. Therefore, the EU can be considered to be the most successful integration grouping that forms the integration core of the regional financial space.

Mechanism of Ukraine's Integration into the European Financial Space. The rapid development of the integration process in the European financial space and adaptation of such experience in Ukraine will promote sustainable economic growth and deeper cooperation in the financial sector. These changes must take place together with a comprehensive economic and financial reform in accordance with the Maastricht criteria, on the one hand, as a mandatory macrolevel financial integration and, on the other hand, as a benchmark of the effective economic and financial development in general. Let us in more detail study how Ukraine meets the Maastricht criteria to identify the chances for the achievement of the conditions required for the formation of the national financial space in accordance with European standards. One of the important financial space convergence criteria is to achieve a high level of price stability, i.e. inflation. High inflation has a negative impact on economic development in general, however, inflation cannot be completely avoided in market conditions. Therefore, we are looking at well-controlled, regulated inflation which can be only achieved due to regular and accurate prediction of inflation processes[37]. The dynamic instability of inflation (consumer price index, CPI) in Ukraine and the Member States, in the EU in general and in the eurozone, is shown in Fig. 1.

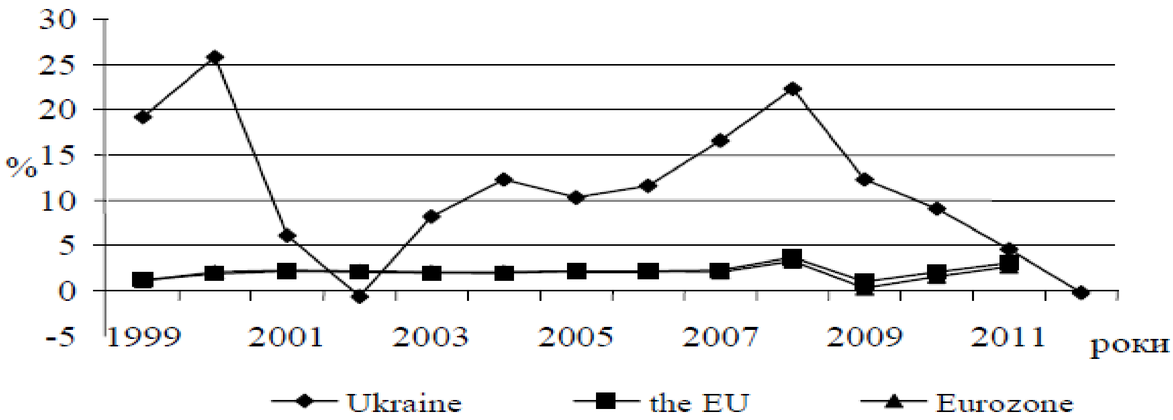

Fig. 1. Consumer price index in Ukraine from 1999 to 2012, %

Source: The official website of the State Statistics Committee of Ukraine [E-resource]. — Access mode: www.ukrstat.gov.ua; Europe in figures — Eurostat yearbook 2012. — Luxembourg: Office for Official Publications of the European Communities, 2012. — 692 p.; Europe in figures — Eurostat yearbook 2011. — Luxembourg: Office for Official Publications of the European Communities, 2011. — 692 p.; Mrlianova T. Harmonized indices of consumer prices in December 2009 / T. Mrlianova, C. Wirtz // Eurostat. Data in focus. — 2010. — № 2. — P. 1-6.

Fig. 1 shows that inflation in Ukraine only reduced to single digits before deflation years (2002 and 2012). It should be noted that from 2003 to 2009 it continues to increase the gap with the eurozone countries and the EU Member

[37] Kurylo O. B. The Effects of Inflation on the Economic Development of Ukraine / O. B. Kurylo, N. V. Kubynets // Scientific Bulletin of the Ukrainian National Forestry University. — 2008. — № 18.6. — P. 280-288.

States in general reaching 6.2% and 11.3% in 2009, respectively. However, the financial crisis has had a positive impact the CPI reduction in Ukraine from 2010 to 2012 (9.1% to -0.2%, respectively), and the CPI growth in the EU (from 2.1% in 2010 to 3.1% in 2011). This means that countries use different price stabilisation tools.

Therefore, the high levels of inflation in Ukraine leads to a slowdown in economic growth, which impedes the effective development of both the national economy in general and the financial space in particular. We believe that low inflation can be maintained through a combined use of the following steps: 1) implementation of the inflation targeting system (monetary regime which sets a definite priority of inflation over any other objectives of monetary policy (including over the currency exchange priority) and increased accountability of the regulatory monetary authorities for the implementation of the inflation targets) which will be determined in accordance with the country's comprehensive development strategy, 2) effective, reliable and regular inflation forecasts which requires real statistical data and econometric models, and 3) more open and transparent decision making as to real and monetary policies by the central bank, government and parliament which will create the preconditions for maintaining low inflation, namely: coordination of the government's and central bank's measures used to reduce inflation, ensuring higher level of independence of the National Bank under the National Bank of Ukraine Act dated 20/05/1999, No. 679-XIV, improving the financial market, etc., and 4) the National Bank's and the Government's development of the unique strategy of price stability as a monetary policy instrument which requires coordinated actions of the two bodies, 5) increasing the role of the interest rate as a monetary policy instrument so that a well-regulated interest rate can ensure the effective policy management.

Reducing inflation is certainly related to the currency rates which must be predictable to maintain price stability, however, this task is complicated by the double standards of setting currency rates by the National Bank of Ukraine (NBU) in relation to major world currencies (US dollar and euro). On the one hand, the

Bank keeps the Ukrainian hryvnia to US dollar exchange rate unchanged from July 1, 2005 to 2006, which makes it dominant in both currency payments (formal and informal) and in private savings. On the other hand, hryvnia to single European currency fluctuations are actually not accompanied by any public reactions from business or people. This is in clear inconsistency with the social boom that was triggered in 2005-2006 by hryvnia revaluation. Significantly, the range of the latter was much smaller relative to US dollar and euro than the current pace of hryvnia appreciation and depreciation against the European currencies that are not included in the eurozone (Fig. 2).

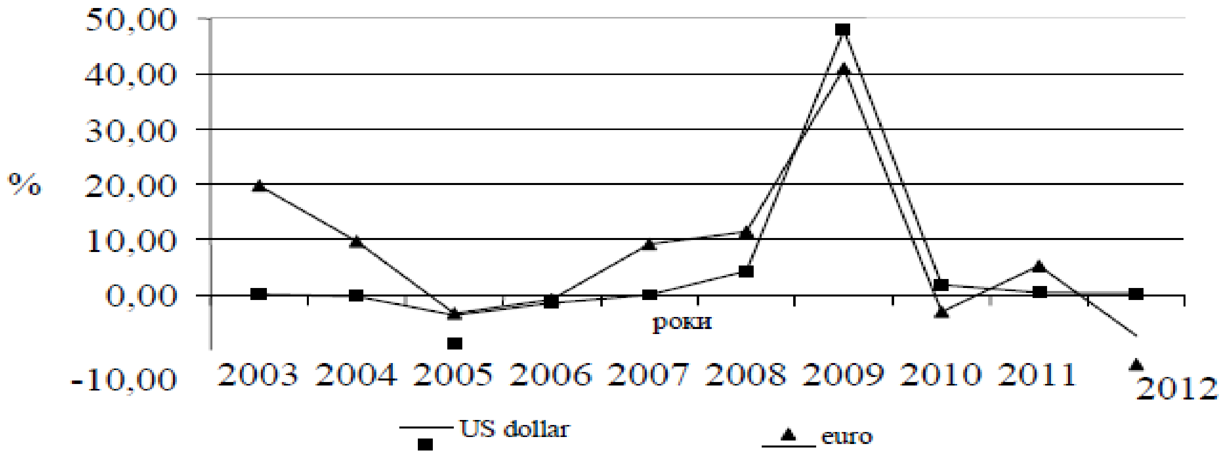

Fig. 2. Hryvnia to US dollar and euro devaluation or revaluation, %

Source: The official website of the National Bank of Ukraine [e-resource]. — Access mode: www.bank.gov.ua.

Hryvnia to single European currency exchange rates in 2005-2006 (in the pre-crisis period) confirmed the positive dynamics of consistency with the Maastricht criteria of «adherence to exchange rate fluctuation limits» for at least two consecutive years. This means that if the NBU does not control hryvnia to European currencies exchange rates, it will help create the economic and financial preconditions for the development of the national finacial space. However, a significant degree of financial openness of Ukraine made the country prone to financial shocks and led to accelerated depreciation in 2007-2009. The new challenges of the financial crisis lead to the development of the currency exchange policy to maintain fluctuations within certain limits and exclude the impact of internal (internal political and economic tension in the country) and external conflicts (uncertain «energy» relations with Russia)[38]. In the post-crisis period, the situation in the Ukrainian currency market became more stabilized due to strict regulation of the exchange rate which resulted in low devaluation or revaluation levels (euro in 2010 and 2012).

Adhering to the limits of the national currency exchange fluctuations will ensure both the development of the national financial space and the formation of a stable and predictable process of currency exchange setting which can be achieved by: 1) using flexible mechanisms which will increase confidence in the national currency, 2) ensuring transparency in the foreign exchange market (through better operation rules and procedures)[39], and 3) the development of macro-prudential supervision of the financial market, including stability risk monitoring and analysis for the financial sector and individual segments.

Exchange rates in Ukraine are set in accordance with the defined limits of the national currency exchange rate fluctuations established by the NBU and require another functional channel of communication with the banking system which will be ensured by the enhanced role of the interest rate policy in the monetary regulation system[40]. Its implementation will lead to the development of the steps of convergence of the national financial space with the third Maastricht criterion, i.e. convergence of long-term interest rates to achieve the greatest price stability. In the Ukrainian reality, this role is played by the NBU discount rate which does not have a long-term stability but is modified according to the need of maintaining price stability and promoting economic growth (Fig. 3).

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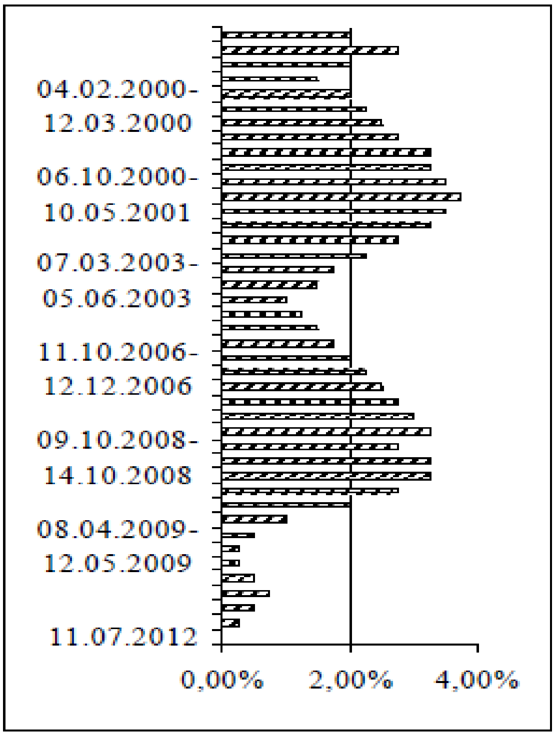
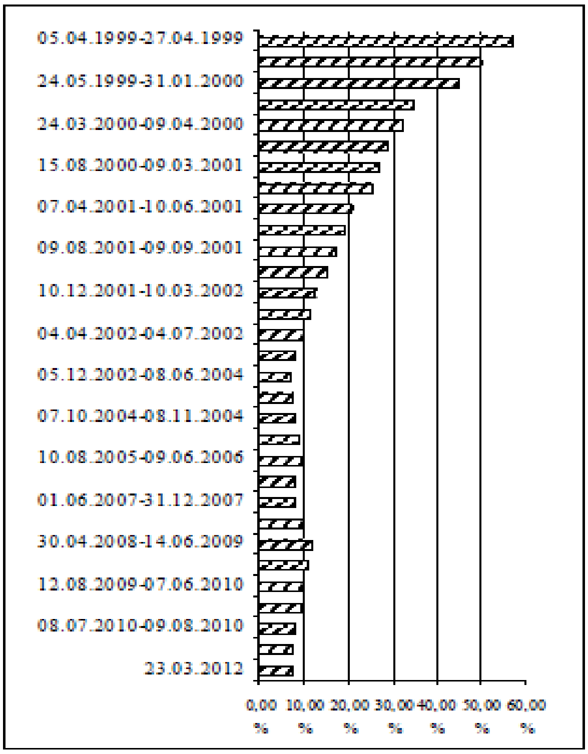
[38] Korablin S. O. The Currency Exchange Policy of Ukraine: Stabilisation Effects and Possible Prospects of Development / S. O. Korablin // Finance of Ukraine. — 2007. — № 9. — P. 112-150.

[39] The NBU Resolution «Basic Principles of Monetary Policy for 2010», No.10 dated 10/09/2009[Electronic resource]: according to the laws of Ukraine / the Verkhovna Rade (Parliament) of Ukraine. — Access mode: http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=v0010500-09.

[40] Bukovynsky S. A. The medium-term monetary strategy: issues of formation and implemenation in Ukraine / S. A. Bukovynsky, A. A. Grytsenko, T. O. Krychevsky // Finance of Ukraine. — 2008. — № 6. — P. 3-30.



a) Discount rate in the EU-27



b) Discount rate in Ukraine

Fig. 3. Discount rates in the EU and Ukraine in 1999-2009, %

Source: The official website of the National Bank of Ukraine [e-resource]. — Access mode: www.bank.gov.ua; Statistics Pocket Book. — Frankfurt am Main: European Central Bank. — 2013. — № 3. — 54 p.; Statistics Pocket Book. — Frankfurt am Main: European Central Bank. — 2010. — № 1. — P. 5

In particular, the central banks of major countries, namely: the European Central Bank (ECB), the Federal Reserve, the central banks of the UK, Switzerland, Canada, Japan, etc. reduced the base discount rates to record levels, however, the central banks of nearly all of these countries use other steps in addition to cutting base rates. To further stimulate their economies they purchase more assets. These central banks (excluding the ECB) announced of their intention to buy, together with government securities, the private sector assets to increase the money supply in their economies and to promote economic development since they lost their chances to cut discount rates. The developed countries are able to take these steps due to the development of the deflation process, rather than inflation like in Ukraine, as was mentioned above, so the measures to maintain price stability in the EU and Ukraine must be different. The NBU's policy up to June 14, 2008 was about increasing the discount rate, which led to a reduction in money supply. However, starting from the middle of June, the discount rates were reduced in two stages, and on March 23, 2012 it was 7.5%[41]. In the financial and economic crisis, it is unreasonable to expand the money supply in Ukraine as the increase in supply due to the reorientation of some of the export goods in the Ukrainian market will remain unmet. The solution to this problem will involve structural reforms and improving the business climate. Until it is done, any extra money will be allocated to the foreign exchange market, including through increased demand for imported products.

Therefore, the gap between the discount rates in Ukraine and the EU must be reduced gradually and the results must be used as an effective tool of monetary policy, taking into account the need to address the diametrically opposed problems (deflation in the EU and inflation in Ukraine). The process of convergence of the discount rate levels must take place hand in hand with reforms of the national economic space, in particular: 1) stabilising the banking system and increasing public confidence, which will help have the money returned to savings accounts, 2) a balanced selection of loan borrowers according to their solvency and credit reputation, 3) the use of restrictive and expansionary policies in setting the discount rate must comply with a comprehensive programme of price stability and real sector development.

The three monetary Maastricht criteria mentioned above are closely related with the budget indicator of the «government's financial stability», which includes a moderate deficit level in relation to GDP and the set public debt level (Table 2).

Table 2. **Ukrainian government budget deficit and public debt indicators**

<table>
<tr><th rowspan="3">Year</th><th colspan="6">State Budget Indicators State Budget Deficit</th><th colspan="2">State Budget Indicators State Budget Deficit</th></tr>
<tr><th>Income</th><th>Expenditure</th><th>Deficit (+) or surplus (-)</th><th>Income</th><th>Expenditure</th><th>Deficit (+) or surplus (-)</th><th rowspan="2">Public debt, Billion UAH</th><th rowspan="2">Public debt, percentage of GDP</th></tr>
<tr><th colspan="3">billion UAH percentage of GDP</th><th colspan="3">billion UAH percentage of GDP</th></tr>
<tr><td>2007</td><td>165,9</td><td>174,2</td><td>9,8</td><td>23,0</td><td>24,2</td><td>1,4</td><td>71,29</td><td>9,9</td></tr>
<tr><td>2008</td><td>231,6</td><td>241,4</td><td>12,5</td><td>24,4</td><td>25,5</td><td>1,3</td><td>130,68</td><td>13,8</td></tr>
<tr><td>2009</td><td>209,7</td><td>242,4</td><td>32,7</td><td>23,0</td><td>26,5</td><td>3,6</td><td>226,99</td><td>24,9</td></tr>
<tr><td>2010</td><td>240,6</td><td>303,5</td><td>64,2</td><td>22,2</td><td>28,0</td><td>5,9</td><td>323,47</td><td>29,9</td></tr>
</table>

[41] Theofficial website of the National Bank of Ukraine [e-resource]. — Access mode: www.bank.gov.ua.

Year	State Budget Indicators State Budget Deficit						State Budget Indicators State Budget Deficit	
	Income	Expenditure	Deficit (+) or surplus (-)	Income	Expenditure	Deficit (+) or surplus (-)	Public debt, Billion UAH	Public debt, percentage of GDP
	billion UAH percentage of GDP			billion UAH percentage of GDP				
2011	314,6	333,4	23,5	24,2	25,6	1,8	357,27	27,4
2012	346,1	395,7	53,4	24,6	28,1	3,8	371,21	26,3

Source: Ukrainian Budget Performance in 2007-2012. [Electronic resource]. — Access mode: www.minfin.gov.ua; Public and Publicly Guaranteed Debt in 2007-2012. [Electronic resource]. — Access mode: www.minfin.gov.ua; GDP in 2007-2012. [Electronic resource]. — Access mode: http://www.bank.gov.ua.

As shown in Table 3, from 2010 to 2012 public debt to GDP decreased by 3.6% and reached UAH 371.21 billion. This means that Ukraine demonstrated a positive trend in not exceeding the acceptable debt-to-GDP levels, which was disturbed by the financial crisis[42].

During the financial crisis, the state must strictly monitor the corporate sector to control systemic risks and avoid numerous bankruptcies which will cause contingent liabilities issues. It should be noted that Standard&Poors' experts report that the average level of Ukraine's public debt is one of the lowest among the transition countries, however, the government's contingent liabilities have reached alarming proportions. According to the agency's experts, the country's contingent liabilities related to the stability of the banking system are estimated at about 40% of GDP. This substantial increase in public debt raises the risk of hyperinflation and maintaining high interest rates, an essential attribute of high budget deficits[43].

Ukraine's budget deficit strain can be reduced by: 1) enhancing cooperation with the international financial institutions to attract additional financial resources, 2) preparing the plans for targeted use of funds to develop the real sector and not to maintain the consumer-debt development model which dominated in Ukraine before the financial crisis, 3) the development of the internal market of securities which will involve changes in the geographical structure of borrowings (increasing the domestic debt share) and creating effective conditions for the issuance and

[42] Heyets V. The macroeconomic assessment of Ukraine's monetary and currency exchange policy before and during the financial crisis / V. Heyets // Ukrainian Economy. — 2008. — № 2. — P. 5-23.

[43] Forkun I. V. The Public Debt Formation and Management During the Financial Crisis / I. V. Forkun, K. P. Khytra // Journal of the Khmelnitsky National University. — 2010. — № 2. — P. 195-199.

placement of securities (term, interest rates, etc.), 4) the government's initiation of restructuring of the corporate borrowers' external debts by way of extension of such debts for several years with the main creditor countries, 5) assignment of the investment grade sovereign credit rating to Ukraine will promote a more effective management of the receivables of both the state and corporate and municipal borrowers[44].

Therefore, we can conclude that the Ukrainian financial market development lags far behind the European monetary convergence criteria. This means that Ukraine's accession in the European financial space must be based on the fragmented integration model.

Conclusion. The global financial space and its regional subsystems are formed naturally as a result of the harmonisation of the economic interests of the parties to the international financial relations as well as the influence of the economic laws. They can be seen at the global and regional levels and are the objective market economy regulators. The dynamic development of the global financial space and its regional subsystems is supported by the internationalisation, integration and globalisation all of which form the key parameters of the global financial market, its structure and define the rules and norms of the financial interaction of various national economic actors.

The European regional subsystem of the global financial space with its core — the EU — is the most developed one and has intensified multi-level activities (micro-, macro- and supranational levels). Ukraine has also experienced a particularly positive and stimulating effect of the financial integration in the EU.

The formation of the prerequisites for a well-organised national financial space in Ukraine according to the Maastricht convergence criteria requires structural reforms of the real sector and a balanced financial policy. According to the economic and financial preconditions set for the formation and development of the national financial space, Ukraine should carry out its comprehensive

[44] Korneyev V. The Evolution and Prospects of the Financial Market of Ukraine / V. Korneyev // Economy of Ukraine. — 2007. — № 9. — P. 21-20.

modernisation. Therefore, the Ukrainian financial space development programme must be based on the evaluation of the economic and financial effects on the country's economic development, i.e. GDP. Besides, the macroeconomic prerequisites for the financial integration of Ukraine must be formed concurrently with the intensified activity of the microlevel integrators to facilitate its fragmented inclusion in the European financial space in the short term. Accordingly, the further research of this issue should be focused on the detailed development of the mechanism of Ukraine's microlevel integration into the European financial space.

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