

## SECTION 2. ECONOMY AND OPERATION OF NATIONAL ECONOMY

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### ANALYSIS OF TRENDS IN THE SHADOW ECONOMY OF UKRAINE FOR THE PERIOD OF 2010-2016

The shadow sector significantly affects all aspects of economic and investment operations, social processes which occur in society. Without accurate and complete estimates of the size of the shadow economy, it is impossible to implement an effective state economic policy and to predict the development of the economy.

Currently, there is no single, universally accepted definition of "shadow economy". After the research, the main approaches to the definition of the concept can be summarized that the shadow economy is illegal activities aimed at obtaining illegal profit or receiving undeclared income from legitimate economic activities, not subject to control by public authorities and not covered by official statistics.

The Ministry of Economic Development and Trade of Ukraine annually calculates an integral indicator of the share of the shadow sector in the national economy. This ratio is calculated by various methods, which take into account the discrepancies between the revenues and expenditures of the population, dynamics of cash in circulation and production volumes, energy use and production volumes, as well as the dynamics of prices of factors of production, finished products and profitability of production.

From 2010 to 2014, the level of shadow economy had a negative trend, but in 2015 the situation has improved.

Four methods of assessment of the level of the shadow economy showed a decrease of the level compared to the first quarter of 2015.

The state of the shadow economy characterizes certain global ratings, in which Ukraine takes one of the worst places.

The rank of Ukraine in some world ratings:

- 1) Economic Freedom Index 2016 (162 from 166);
- 2) Corruption Perceptions Index 2015 (130 from 167);

- 3) Doing Business 2016 (83 from 189);

- 4) World Competitiveness Report 2015-2016 (79 from 140);

- 5) Shadow Economy Index 1999-2007 (153 from 162).

Analysing the current state of the economy, we can identify the most significant factors causing the spread of processes of shadowing. The main reasons that were discovered are: reduction in the volume of lending to the corporate sector, the significant investment risks, the existence of smuggling, inefficient state regulation of the economy, inefficient tax administration, corruption, lack of effective control systems and penalties for informal employment and non-taxable wages, issue of the appropriateness of public procurement, imperfection of judicial and law enforcement system.

Although during 2015-2016 there was the tendency to reduce the informal sector, the scale of shadow economic relations in Ukraine is staying near to their critical level, which according to experts is 40%. Under these conditions, the adjustment levers of the economy are losing effectiveness, which threatens the effectiveness of the implementation of reforms.

Consequently, for the country, the priority is the process of legalization of the economy, which will be effective only in the case of creating stable favourable conditions for increasing economic activity in the formal economy through improving the investment and business climate in the country and developing an institutional environment.

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