

Impact of global financial crisis on the economy of Ukraine

Vasyl Turko¹, Andriy Mukan²

1. Department of Finance, Lviv Polytechnic National University, UKRAINE, Lviv, S. Bandery street 12, E-mail: vvvvas22@mail.ru

2. Department of Finance, Lviv Polytechnic National University, UKRAINE, Lviv, S. Bandery street 12, E-mail: andrii.mukan@yandex.ua

The primary concern of this research is to examine the impact of the global financial crisis on the economy of Ukraine. The principal result of this research is to identify the main causes and levers of that influence. The study proposes a new way out of economic crisis in Ukraine.

Key words – financial crisis, economic crisis, external factors, internal factors, economic globalization.

I. Introduction

Having gained independence, Ukraine began to develop as a nation, and at the same time the economy started its development. That period was rich in events of economic and political nature in the world and in Ukraine in general. Ukraine was covered with deep crisis, accompanied by corruption and raiding. However, due to export-oriented sectors of the national economy - ferrous metallurgy, chemical industry, coal industry, the country managed to overcome the crisis. An important challenge facing Ukraine is the problem of long-term permanent economic growth, which escalated on the background of the global financial crisis of 2007-2008. Thus, the necessity of defining the ways of solving this problem is an important scientific task.

II. The main text

The crisis is cyclical and turns out in over-production of goods and capital. More goods are produced than the society can consume. In general, crisis inflict damage to economics and shows the power of self-regulatory mechanism of market economy [3].

Scientists conducted the research of crisis in the context of national economies, where statistics of 35 countries, related to their economic development, were grouped and summarized.

Looking on the crisis in the economy for more than a century, it should be noted:

- Number of critical events varies considerably, herewith the maximum number of crises falls on the periods of active "globalization";
- An average annual probability of crisis (0,213) and average duration of this process (about 3.5 years) are fixed.

The existence of clear dependence between the depth and duration of the crisis, when problems of economic recession and financial markets mutually overlap, are proved. The conclusions are expressed in two main aspects:

1. The degree of synchronization of economic crises of various types increases, namely in the credit crunch, stock picks and declines in real estate prices;

2. Degree of immersion of national economies in crisis also increases, it can be seen in gradual increase in the number of countries that suffer from the effects of each of the following crisis [2].

The global financial crisis occurred in 2007-2008 originated in the United States as a result of the collapse of the real estate market and the financial market as a whole. Then the crisis spread all over the world, dramatically affecting the domestic financial market. The main causes are shown in Figure 1.

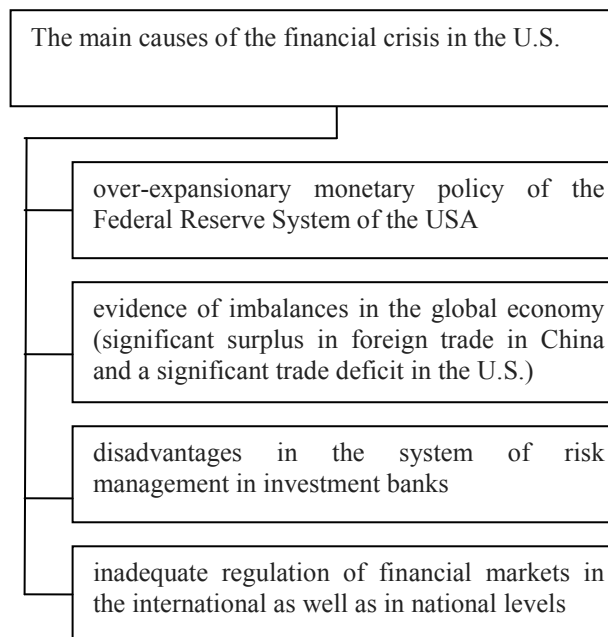


Fig. 1. Financial crisis 2008 in the U.S. main causes (based on the source[3])

Impact of financial crisis on the average official exchange rate is shown in Fig. 2.

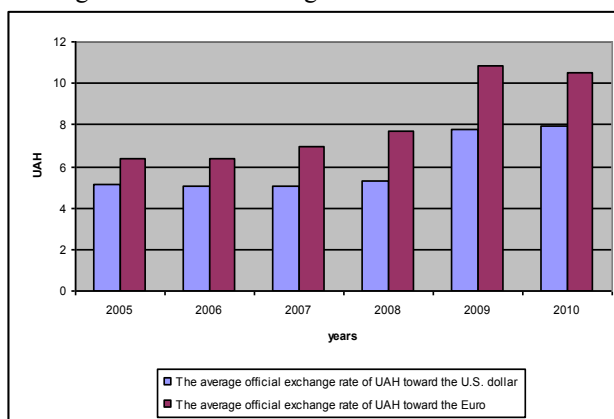


Fig. 2. Average official exchange rate period since 2005 till 2010 (UAH per U.S. dollar and UAH per Euro) (based on the source [4])

The average official exchange rate UAH toward the U.S. dollar in 2009 depreciated by 47.9 percent and

amounted to 7.79 UAH. / USD. International foreign exchange reserves in 2009 decreased by \$ 5 billion to 26.5 billion U.S. dollars, despite the fact that the International Monetary Fund in 2009 provided two tranches amounting to 6.1 billion U.S. dollars. [4].

Analysing the impact of the financial crisis on the economy of Ukraine, it is necessary to single out the following causes of this influence (Table 1).

TABLE 1
THE MAIN CAUSES OF THE GLOBAL FINANCIAL-ECONOMIC
CRISIS ON THE ECONOMY OF UKRAINE

Causes	Characteristic
high level of integration of Ukraine into the global economy	dependence of about 60% of Ukraine's GDP on exports, virtually the same - on imports, contributing to tangible response to the global economic processes
artificial increase UAH exchange rate from the level of 5.05 to 4.85 UAH / USD on May 2008	increasing UAH exchange rate automatically weakened the position of Ukrainian exporters amid clear signs of worsening financial crisis and they are automatically promoted further growth of trade deficit
raider capturing in the banking system	panic among investors and impulse for the fall banks confidence
non-residents funds outflows from Ukraine	growth of the U.S. dollar

The impact of global economic crisis on Ukraine was caused by the number of internal and external factors to which the economy was not ready.

TABLE 2
EXTERNAL AND INTERNAL FACTORS
OF THE FINANCIAL CRISIS OF UKRAINE

External factors
1. Dramatically external funding was reduced, an influx of cheap foreign borrowing was ceased. Credit sources provide a significant measure of economic growth in recent years, increased demand, especially consumer.
2. Domestic demand decreased due to the decline in consumer lending and deceleration of the flow of the investments and fixed assets.
3. In autumn 2008 there was a sharp decline in external demand for export goods.
4. Increase in pressure on the budget system, which required the authorities of certain measures to maintain the stability of public finances.
Internal factors
1. Lack of industrial development and technological capacity of the national economy over the years of economic growth.
2. Operation of outdated economic structure, which is characterized by large number of energy-intensive industries, assets high wear, low technological level. The result of that is heavy dependence on foreign energy supplies and prices for them, low competitiveness of domestic producers and a high proportion of exports of raw materials.[1]

Analysis of Ukrainian scientists and research of economists showed that the main ways out from the economic and financial crisis for Ukraine are:

1. Ensuring the stability of the national currency, exchange rate of UAH toward the dollar in particular.

2. Custom control over the flow of informal imports into the country that it should be strengthened, which, in addition to non-payment of customs duties and other taxes, causes the re-exportation of foreign currency from the country.

3. Increasing customer confidence in banking institutions in order to prevent the crisis in the banking sector.

At the present stage, the NBU should provide an access to refinancing and to all without exception banking institutions. This may be an alternative interbank lending.

4. Introducing stringent measures to reduce negative trade balance.

5. Improvement of involvement in the investment sphere of personal savings.

6. Providing financial support for small businesses and increasing responsibility for tax violations.

7 Stimulating innovation [3].

Conclusions

This article analyzes the impact of global financial crisis on the economy of Ukraine, the main causes of this effect and ways are out of the crisis.

This issue requires further investigation since crises inherent cyclical manner and each cycle is different and new and they are not always predictable in their characteristics and properties.

References

- [1] S.A. Bukovynskyj, "Finansova kryza v Ukraini: vplyv na rozvytok ekonomiky ta deiaki zakhody z dosiahnennia finansovoi stabilizatsii" ["The financial crisis in Ukraine: the impact on the economy and certain measures to achieve financial stabilization"], *Finansy v Ukraini – Finance of Ukraine*, pp. 10-30, № 11, 2010.
- [2] O. Pyltjaj, "Finansova kryza ta derzhavno-pryvatne partnerstvo" ["Financial Crisis and Public-Private Partnership"], *ukrppp.com*. [Online]. Available: http://www.ukrppp.com/images/stories/Crisis_and_PP_PP_2010.pdf [Accessed: Oct. 17, 2013].
- [3] Z.K. Shmigelska, "Kryza v Ukraini: kharakterystyka, naslidky, propozyzii" ["Crisis in Ukraine: characteristics, outcomes, proposals"], *archive.nbu.gov.ua*. [Online]. Available: http://archive.nbu.gov.ua/portal/soc_gum/VUbsNbU/2011_3/VU_BSNBU12_p3-p5.pdf [Accessed: Oct. 17, 2013].
- [4] Analytical portal "World economy" [Online]. Available: <http://www.ereport.ru> [Accessed: Oct. 17, 2013].