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2015

# Financial system of Ukraine

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# **FINANCIAL SYSTEM OF UKRAINE**

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**Accounting, banking and finance**

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## **Chapter 1 - Introduction**

In recent years, in connection with the transition to a market economy there are many deep changes in the economy of Ukraine. The main changes are the elaboration due to refinement, and sometimes a change of priorities, incentives and factors for the development of society and the country.

In the transition to market relations the role and importance of monetary and financial and credit levers up sharply. Development of the economy more depends on the rational construction of the financial system, received in the broad sense and is not reduced only to finance of the country.

Each sector of the economy of any country is permeated with a network of financial relationships, and finances of each element are only interconnected the financial system as a whole. Each link of finance certain way affects the reproduction process has its inherent function to it. For example, finance companies service material production. With their participation, created the GDP, which is distributed within enterprises and sectors of the economy. Through the state's budget mobilized resources in the main central fund of the state, and the redistribution of resources between sectors of the economy, economic regions, social groups of the population. Extra-budgetary special funds are strictly earmarked. Thus, the largest social Pension Fund of Ukraine raises funds for the payment of pensions to citizens of the country.

Thus, each part of the financial system is a particular section of financial relations, in which the funds are generated and used money resources. And knowledge of the characteristics of the financial system and its functioning is necessary for full alignment in the economy of any country and the making certain economic decisions.

The main aim of this work is a comprehensive studying of the nature and functions of finance in general and the study of the financial system of Ukraine, the principles of formation and functioning of some of its units.

In my thesis I want to:

- give a definition of finance and the financial system, their essence and functions.
- identify subsystems and links in the sphere of the financial system.
- understand the financial policy of the country and its components.

The object of study is the financial system of Ukraine as all members of the country's finances in the relationship links.

The subject of the study are specific economic relations arising from the development and functioning of the financial system of the state.

When writing work I used descriptive and analytical, graphical, economic and statistical methods of economic theory, analysis of documents.

Theoretical and methodological foundations served as textbooks and articles of domestic and foreign experts in the field of economics, electronic data from official websites.

Structurally it consists of an introduction, three big chapters, the first of which contains three sections, the second - four, the third - three, methodology chapter, conclusion and list of references.

## Chaprer 2 – Literature review

### 2.1 Theoretical Foundations of Finance

#### Nature and signs of Finance

On the question of the origin of the term "finance" there are different points of view. Some authors as M. Romanovsky argue that the term originated in XIII-XV centuries in the commercial cities of Italy and began to be used as a concept related to the system of monetary relations between the population and the state. Other authors argue that this concept was coined by the French scientist Jean Bodin, who in 1755 published work "Six books about the country." (М. Романовский Финансы: Учебник., –Юрайт, 2000)]

Transformation of views on the economic category of finance since the late XVII until the end of the XX century given in the S. Witte. He writes: "... the late XVII century, ... the word "finance" ... began to understand the totality of state property and general condition of the entire state economy. <...> Thus, the exact science of finance can be defined as the science of the best ways to meet the material needs of the state ". (Витте С.Ю. Конспект лекций о народном и государственном хозяйстве. 1997.)

In other words, the original concept of "finance" was considered only in connection with the formation and use of funds to meet public needs. Later this economic category received a special name - "public finances", which currently include state and local finances. The characteristic features of public finance are in the book M. Lychagin Financial Economics. 2005:

- cash nature of the relationship;
- gratuitous and irrevocable nature of the payments by economic entities and the population of the state and local budgets, as well as extra-budgetary funds;
- enforced by government bodies and local self-government form of monetary relations with businesses and the public;
- the relationship of redistribution has already distributed the gross national product in monetary form.

The development of large-scale commodity production led to the improvement of the methods, techniques of mobilization, using, distribution of funds between the various participants of the reproduction process. Particular importance in this process of acquiring the distribution of cash flow, separated from the movement of goods (various forms of credit,



distribution and redistribution of the cost of the gross national product between different participants, which is the sphere of financial relationships).

The scope of financial relations is also a system of money relations connected with the formation and using of income and expenditure (for example, the society is involved in the formation of centralized monetary funds by paying taxes).

‘The hallmark of financial relations is the fact that the process of redistribution of the gross national product is accompanied by the creation of various funds of funds with purposes.

- 1) Funds created at the state level, local government - centralized funds;
- 2) monetary funds set up at the level of economic entities - decentralized;
- 3) special funds of funds generated from revenue from various types of business entities (accumulated depreciation charges, debt on wages, payments to the budget and extrabudgetary funds, and so on).’ (Черник Д.Г. *Налоги в рыночной экономике. Финансы*, 1997)

It should be noted that the formation of these funds is strictly regulated, which is also another hallmark of financial relations.

Thus, finance as an economic category represent a system of distribution of monetary relations arising in the process of formation and use of funds of the subjects involved in the establishment of the gross national product.

Characteristics of Finance are:

- Distribution nature of the relationship, which is based on legal regulations or business ethics, associated with the movement of real money, regardless of the movement of value in the form of commodities;
- As usual, one-sided nature of cash flows;
- creation of centralized and decentralized funds.

Financial relations are diverse. They are related to money relations that arise: between economic entities in the process of sale of products, services, purchase of inventory; between business entities and the parent organizations in the establishment of joint funds and their use; between business entities and the state, local governments in the formation of budgets and off-budget funds; within the economic entities in the formation and use of the trust funds of funds; between individual budget, off-budget funds; between citizens and the state, local governments in the formation of budgets and off-budget funds.

## **Sources of Financing**

The main material source of money income of the population, economic entities, state and local government is the national income.

The aggregate of money held by the population, economic entities, state, local governments are financial resources.

The sources of financial funds are:

1) at the level of economic entities: profit, depreciation, sale of securities, bank loans, interest, dividends on securities;

2) at the population level: salary, bonuses, wage supplements, social payments made by employers, travel expenses; income from business activities, to participate in the profits from transactions with personal property, from credit and financial operations; social transfers, including pensions, benefits, scholarships; consumer credit;

3) at the state level, local government: income from state and municipal enterprises, revenues from privatization of state and municipal property, revenues from foreign trade, tax revenues, state and municipal loans, issuance of money and the proceeds of the issue of securities.

‘Social-economic essence of Finance is in studying and answering the following questions: by whom or what this or that entity, citizen, state, local government forms its financial resources and how and in whose interests used these money funds’.  
(Михайлов Д.М. Мировой финансовый рынок: тенденции и инструменты. 2012)

## **Functions of Finance**

Since the main characteristic of financial relations is their distribution nature, and the main function of finance is the distribution function.

Finance services different stages of the distribution of the gross national product, participating in its initial allocation, and the redistribution.

Financial allocation method covers the different levels of economic management: national, regional, local. It is inherent in multiple layers, generating different types of distribution – farm, interlining, intersectoral, interterritorial.

‘In general, distribution finance function allows you to:

- create trust funds at the level of economic entities, the population of the state, local governments;

- carry out on-farm, interlining, intersectoral, interterritorial redistribution, as well as between industrial and non-industrial areas and social groups;

- create reserves at the level of an economic entity, state, as well as to the accumulation of citizens'. (Экономическая энциклопедия. Политическая экономия: т. 2 / Под ред. А.М. Румянцева. – М.: Советская энциклопедия, 1975.)

Along with the distribution to the main functions include finance and control functions. Distribution and control function are two sides of the same economic process.

The basis of the control function of the movement of financial resources. Based on the nature of the movement of society it has the ability to know how to add up the proportion in the distribution of funds as provided timeliness of financial resources at the disposal of economic entities.

There is a need for coordination in the implementation of the two functions are specified as if the control function is not implemented in practice, it is impossible to judge the effectiveness of the distribution function.

The distribution function is performed not spontaneously, but according to the law. Therefore, we can speak about a third of the finance function - regulating.

Regulatory function of finance is evident not only at the level of the state and economic entities, but also in the organization's own financial relationships in the hierarchy of its structure. (Хереманс, Д. Регулирование банковского и финансового рынков: Пер. с англ. / Д. Хереманс; пер. с англ. С. Партола, – М., 1996.)

## **2.2 The concept, structure and functions of the financial system**

### **Objectives and structure of the financial system.**

In its material content finance - it is the trust money funds represent the financial resources of the country. The main material source of funding is the national income.

Flow of financial resources through many channels of circulation in the social reproduction process forming the financial system of the state's economy.

In case of a market economy the main aim is to provide the financial system with the help of their specific methods and tools of macroeconomic stability, or in other words, the creation of the financial conditions under which the reproduction of the national product will be implemented with full employment and low inflation.

During the process of achieving this strategic objective financial system should perform the following tasks:

- To carry out an effective exchange of goods and services;
- To create capital in the money form appropriate to the needs of the economy;
- Contribute to the transformation needs real good.

For realization of the functions of the financial system should create and implement financial instruments, using of which would effectively allocate and reallocate financial flows in the country.

These tools could be the issuing (creation and putting into circulation) of banknotes and securities, various types of securities, the accumulation of savings (the opening of the various types of deposits), loans and so on.

For each country, based on the characteristics of its political and economic system, characterized by its own specific structure of the financial system.

When considering the financial system of a country usually distinguish two levels: micro and macro level.

The micro level of the financial system involves the study of financial institutions (organizations), the laws of financial markets and ways to manage both.

Macro level includes the study of large-scale financial processes such as, for example, objectives and methods of monetary and fiscal policy.

In modern economic literature as the financial system is most often understood as a set of financial institutions (intermediaries) and agencies monitoring and regulating their activities.

In case of transformation to a market economy, all the institutions of the financial system attaches great importance because they make a certain contribution to the economic development of the state. However, in institutions, where financial relations are governed by the rules are not consistent with the actions of the economic laws, or related financial institutions, they create preconditions or directly act on the deepening economic crisis. Currently, such institutions are institutions of bank lending, the state budget, as well as the current system of non-cash payments, both within the country and in settlements with foreign countries.

The financial system - a set of financial relationships. By the nature of their financial relationships are distribution, and the distribution of value is carried out primarily on the subjects. Subjects form a special purpose money funds, depending on the role they play in social production: whether direct its members, organize any insurance coverage or state regulation. It is the role of the subject in social production acts as a first objective criterion of classification of financial relations. Under present conditions the role and significance of the state in all countries increased, thereby increasing the cost to society and to its contents. Practice shows that modern market economy, the main reason for this trend is the change in the content of the state's functions in society.

If the reason for the creation of the state - the human desire for a division of labor, it is clear that the main task of the state that for which it was originally created: it must ensure the most efficient division of labor. It should create a system that provides a convenient and efficient division of labor with a low share of the costs of implementing trade. The share of the costs of implementing barter called distribution costs. The cost of treatment can include all unearned income arising from the production of goods before it was consumed.

The most famous and effective form of implementation of the system to ensure the division of labor, there is a system of barter with money - financial system.

The financial system is not just money alone. It includes the whole complex of relations associated with barter - it's the banks and issue scheme, and the mechanism of reproduction of money (credit system), also we can include online shopping and much more: all that contributes to the commodity circulation between the subjects of production.

The system of division of labor can be not only money, but also any other. If we can come up with a method by which the division of labor will be implemented more effectively than with money, then surely we can replace her monetary system. For example, in a state of war almost completely mobilized industry for military needs and introduces policy

management economies. It is clear that in such circumstances there is no place free commodity exchange and money plays a nominal role.

So, the mechanism of division of labor, which is used in the state depends on the specific situation in which the state is.

Various forms of implementation of the financial system in various ways to stimulate the development of technology, product quality, meeting the needs of consumers. Lets assume that the system creates a competitive environment that leads to technological advances, but does not allow a quantum leap in production volumes in a short time, and other system acts contrary - allows you to make a quick jump in a short time, but does not create a competitive environment. If we retarded or war-ravaged state, then we can apply a second version of the financial system on a fairly short period of time. After making the leap in production volumes, when the potential of the system "out of steam", we have to apply the first option for an indefinite period of history.

If we come up with any other system, providing a good division of labor, it may be quite acceptable. The only criterion for admissibility may just be as comfortable with the exchange of goods is carried out, how big are the costs arising from this, as it is stimulateing technological progress.

In any system, important any factor affecting on its stability. If we examine the specific good financial system, then we can find in it the weakest link. It can be, at first opinion, very little. If we work at it, we can break the weakest link in the chain, to destabilize the system and to achieve the destruction of the whole system.

In modern conditions the financial system consists of four units - the state budget, municipal finance, finances of state enterprises and special government funds. Together, they constitute a kind of financial base of social and economic activities of the state.

Different units of the financial system serve different types of financial distribution: on-farm - financial enterprises, interlining - financial enterprises, complexes, associations, intersectoral and interterritorial - state budget, extra-budgetary funds.

The main place in the financial system takes the state budget - the largest cash fund that the government uses to finance its activities.

At the state level, districts, urban areas, are operating the local authorities. Their activities are financed by local currency funds - local finances. As a rule, they are not part of the state budget, they are relatively independent.

In modern conditions in all countries there is a tendency of advanced growth of local finances compared with central government finances, reflecting the increasing role of local authorities in economical and political processes of society.

The constituent parts of local finance are: local budgets, local funds and special purpose finance municipal enterprises.

The local budget has the same structure as the center. It includes revenues and expenditures of local authorities, acting on the territory of the administrative units, authorities are taking it.

Local revenues generated by tax revenues, which are the property of local authorities, subsidies and grants from the central budget and municipal loans.

Local taxes are usually divided into several groups. The first group in all countries consists of taxes that are used only for the formation of the local budget. The second group reflects the specific tax system. A special group of taxes paid to the local budget consists of taxes on trade licenses.

Local authorities, controlling of their properties, receive additional funds in the budget.

The revenue part of local budgets is not enough to finance the activities of local authorities. Because their work is related not only to the performance of local problems, but also participation in the implementation of national programs, the government of the state budget allocates financial assistance in the form of subsidies and subventions. And subsidies and subventions - is a state subsidy to local budgets.

Even the budget is legally independent, however, getting from the central budget 30-40% of revenues, local authorities forced its activities to constantly take into account the decisions of the central government. Otherwise subsidies could be reduced or completely stopped.

Despite the ongoing privatization in many countries, the public sector in the economy continues to play a major role.

The main source of finance of public enterprises is determined by their relationship with the central government. On the one hand, they, like all businesses and companies in the country are required to pay taxes to the state and local budgets, on the other - receive subsidies from the central budget to finance its activities. In many countries, in order to finance the formation of state-owned enterprises, central government legally reduce their taxes (or completely free from taxes).

The main feature of public enterprises is their generally low profitability, although in some firms the production efficiency is not inferior to private enterprises.

Different levels of profitability are reflected in the formation of the financial state-owned enterprises. Those state-owned enterprises that are able to operate profitably, that is not only recover its costs of production, but also make a profit, have an independent, autonomous budget; in the central state or local budgets are fixed only the financial results of their activities. Those companies whose activities can not be defined in terms of efficiency (as produce socially significant products) are financed from the state budget are on budget financing. The state budget includes their income and expenses.

Special government funds - the most important element of the financial system of modern states. In essence, they are cash funds for special purposes.

These funds are created to finance the implementation of emerging challenges. Because each country has its own specific objectives, so far there is no uniform classification of government funds. Moreover, their number and purpose of each country in the transition from one stage of development to another vary.

Government funds are different from each other depending on the period of validity, purpose of use, legal situation.

As a rule, the action of many funds is limited in time. After resolving a particular problem in a particular need for the fund is eliminated. Such funds are called temporary. Others are for a long time. They are called permanent.

Depending on the purpose to use of state special funds are divided into the following:

- Research;
- Economic;
- Social funds;
- Funds of personal and property insurance;
- Military funds;
- Investment funds.

The main part of the special fund is formed either from the state budget or from local budgets (local special funds). They are a source of direct state subsidies or deductions from tax income. Some funds (personal and property insurance) are formed by voluntary contributions from individuals and legal entities.



## **Public finances in the financial system**

Public finances are an important area of the financial system, designed to provide state funds necessary for the exercise of economic, social and political functions. On the economic essence of the public finances it is a monetary relations over the distribution and redistribution of the social product and the value of the national wealth associated with the formation of financial resources at the disposal of the state and its enterprises and the use of public funds for the expansion of production costs, meet the growing social and cultural needs of members society and the needs of national defense and control. The subjects of monetary relations in this area are the state (represented by the relevant structures of power), enterprises, associations, organizations, institutions and citizens.

The structure of public finances include: budgets of different levels of government, extra-budgetary funds, state credit, finances of state enterprises. Because of different functional purpose of these units the state has an impact on a wide range of economic and social processes, the solution of sectoral and territorial concerns.

An important role in the composition of public finances play a budgetary relationship, folding at the state and local levels. With budgetary relations at the disposal of government agencies mobilized a significant portion of the national income, redistribute financial method. The different levels budgets are the financial base of the activities of the government and management.

To perform common functions within the state formed state budget. Its resources are earmarked for the state target complex programs, ensuring public expenditure related to the functions and content of the armed forces and government.

In the system of budgetary relations in Ukraine regional budgets have a specific role. Accumulated finances are intended to perform their regional public functions.

The important place in the system of budgetary relations is assign to local budgets. Recently, they developed rapidly due to the increasing role and influence of local authorities: the local economy grow, expand and become more complecated functions of local authorities.

A separate unit in the composition of public finances form the extra-budgetary funds. For extra-budgetary funds include the social security fund, pension fund, employment fund, and other trust funds of state and regional purpose (innovation, protection of environment and so on).

A specific part of the public finances are the monetary relations that constitute the contents of the state loan. Government loans relations arise in connection with the

mobilization of temporarily free funds of enterprises, organizations and the public and their transfer for temporary use of public authorities to ensure the financing of public spending. Bringing the state temporarily free funds of legal entities and individuals is through the sale of bonds in the financial market, treasury bills and other government securities. The main forms of credit are loans and treasury loans.

With the help of state credit resources accumulated in the financial market to finance the needs of economic and social development. Government loans resources allow to cover the budget deficit in civilized way. By facilitating the outflow of money from circulation. (Ковалев В.В. Введение в финансовый менеджмент. / В.В. Ковалев. –М.: Финансы и статистика, 2009.)

### **Private small businesses as an integral part of the financial system**

Finance companies, organizations and institutions, as separate financial assets held by these entities, used by them to carry out their functions and tasks. For today's environment is characterized by a diversity of ownership forms, on the basis of which this unit is functioning in the financial system. It generated cash flows, reflecting the GDP created to be further redistribution through the budget system in industrial and social spheres, the sphere of households and others.

Finance companies are a system of economic relations, connected with the formation and using of funds and savings on general public purposes, financing costs of enterprises.

Distinguish finances commercial and non-profit organizations. For-profit organizations are enterprises with the main purpose of its activities is profit, unlike their budgetary organizations do not have such a goal, although under the ukrainian legislation of recent years, they have the right to engage entrepreneurial activities and other activities to generate additional revenue in order to better fulfill their functions.

Finance companies - initial link, the basis of the whole financial system, since they are directly linked with industrial production, which is created the national income, then distributes and redistributes through the financial system.

Features finance companies determined the legal form; ownership; level of activities; spheres of investment of companies capital.

Commercial organizations as the main purpose of their activities pursue profit. Commercial organizations are created through public partnerships and companies, production cooperatives, state and municipal unitary enterprises.

Business partnerships and companies - they are recognized as commercial organizations with a share (deposits) of founders registered capital.

Business partnerships can be created in the form of a general partnership or limited partnership.

Joint-stock company is a company whose charter capital is divided into a number of shares. JSC members (shareholders) are not liable for its obligations and bear the risk of losses associated with the activities of society, within the value of their shares. JSC can be opened and closed.

Limited Liability Company is founded by one or several persons, the authorized capital is divided into shares of certain constitutive documents. Members of the company are not liable for its obligations and bear the risk of losses associated with the activities of society, within the value of their contributions.

Additional Liability Company is founded by one or several persons, the authorized capital is divided into shares of certain constitutive documents. Members of the society jointly bear subsidiary liability for its obligations with their property in the same way for all the multiples of the value of contributions established by the constituent documents of the company.

Production cooperatives. Production cooperative (artel) is a voluntary association of citizens on the basis of membership for the joint production and other economic activities, based on their personal labor and other participation and association of its members' property shares. Production Co-operative has a number of financial features.

Production cooperative is different from the business entities because that is based on the voluntary association of citizens who are not individual entrepreneurs. Production cooperative - primarily of persons rather than capital. Profit in the production cooperative created their own labor of its members.

Share contribution may be money, securities, other property, including property rights, and other objects of civil rights. The contributions constitute mutual funds. At its core is the same as that of the authorized capital.

In addition to the mutual fund in the production cooperative in accordance with its articles of association may create other funds, including indivisible.

Indivisible funds - it's part of his property, which has a specific purpose, which is to be specified in the statute.

Unitary enterprise called commercial organization, not endowed with the ownership of the fixed assets of its owner. The size of the authorized fund of a unitary enterprise based on

the right of business, can not be less than the amount determined by the law of the state and municipal unitary enterprises.

The principles of the financial activities of commercial organizations are in constant development and improvement. The basic principles in the market economy at the present stage are as follows: self-financing, the financial independence of enterprises, interest and economic responsibility for the fulfillment of obligations to the state, suppliers, banks, a combination of financial planning and commercial calculation.

Non-profit organizations have a significant financial difference. Non-profit organization is not having as a main objective profit and does not distribute profits among the participants.

Legal entities are non-profit organizations may be created in the form of consumer cooperatives, public and religious organizations, foundations, institutions, charities and other forms provided for by law.

Consumer cooperative is a voluntary association of citizens and legal entities on the basis of membership in order to meet the material and other needs of the participants, carried out by combining its members' property shares.

Social and religious organizations are voluntary associations of citizens on the basis of common interests to meet the spiritual and other non-material needs.

Charitable Organizations: Charity Organization, a charitable foundation, charitable institution, charitable association (union).

For example in Japan for several reasons has developed a clear distinction between the spheres of application of capital: private - in the manufacturing sector, the public - in infrastructure. Therefore, in Japan, the public sector does not appear serious competitor in any of the areas of production, and its operation is substantially completely subordinated to the interests of private corporations. Many joint-stock companies and private limited companies State is the only or the main shareholder, but on average the share of the government in their capital is 38.3%. Among the main functions of state enterprises is not the function of participation in material production, which occupies an important place in the activities of the public sector leading countries of Western Europe. Main features of the regulation of public enterprises in Japan is that their work does not answer any one regulatory authority, but a hierarchy of hosts. In state-owned enterprises have a common supreme governor - Parliament.

## **The budget system as a key component of the financial system**

Central place in the financial system takes the state budget - the largest money fund that the government uses to finance its activities. At the expense of the state budget maintain the army, the police, a large part of health service, with its help the State affects the economic processes.

The budget as an economic category is a complex system of social and economic relations developing in a society in the process of formation, distribution and using of centralized financial resources generated at different levels of management of the economy and are intended to serve public needs.

Due to its special position state budget interacts with other parts of the financial system, providing them with the necessary assistance. It is made by transferring funds from the central state fund municipal financial funds, state enterprises and special government funds.

The state budget consists of two interrelated and complementary components: the profit and expenditure. The profitable part shows how the funds received for financing the activities of the state, which parts of society deduct most of their income for the maintenance of the state. The expenditure part shows for what purpose the government sent accumulated funds.

The structure of the budget expenditures and revenues and the share of the individual items in the state budget market economies are presented in Table 1.

In each country, the structure of the budget has its own characteristics. It is determined by the economic potential of the country, large-scale problems to be solved by the government at this stage of development, the role of government in the economy, the state of international relations and a number of other factors.

The need for the formation of centralized funds (state budget) is due, above all, the needs arising from the state in connection with their economic, political, national, environmental, foreign economic and other functions. Financial relations arising from the state to enterprises, institutions and the general public are called budgetary. It is inherent in the objective nature because historically and logically the funds generated are always in the hands of the state to carry out its direct functions - to ensure the existence of the state.

Budgetary relations - it is the production relations, so they are part of the basis of society. Any way, they express the relationship of specific groups of population, and here a budget is a philosophy and ideology of social development. As part of the financial relations,

the budget has the same characteristics as the finances in general, but at the same time is characterized by certain features:

- The budget is a special form of redistributive relations connected with a separate part of the national income in the state;

- Through the redistribution of the budget is carried out of the national income at all levels of the economy and all areas of the economy;

- The area of the budget allocation is central part in the composition of public finances.

As an economic category of the budget is associated with a number of other categories, among which we can see two levels:

- 1) gross national product, the aggregate national product, national income - the budget is a means of redistribution of these categories;

- 2) finances, profit, taxes, credit, wages, and other - the budget is the result of the distribution of these categories of manufacturing industry, spheres of activity and so on.

The essence of the state budget as an economic category is realized through its functions: distribution, control and function to ensure the existence of the State.

Due to the distribution function of the budget it is the concentration of funds in the hands of the state, and their continued use in order to meet social needs. Distribution and redistribution of funds occurs between sectors and spheres of activity, between the certain parts of population within the parts of the population, between certain types of services. As a result of the distribution and redistribution become the formation of the various funds of monetary resources - the state and local budgets, funds of social insurance, pensions, social protection, employment, innovation and the Chernobyl fund. Through the state budget affects not only the redistribution of the national income, but also for its production; accumulation of funds; the sphere of consumption; processes of demonopolization of the economy and the socialization of production.

It is essential that the contents of the distribution function of the budget is determined by the processes of redistribution of funds between the various departments of social production and parts of the population.

The control function is that the budget through the formation and use of money funds of the state reflects the economic processes in the structural units of the economy. In the formation of government revenue for the financial control carried out correct collection various taxes, mobilizing other sources of income in compliance with the established proportions between them, the determination of the tax base, forms of preferential tax

treatment, the timing of taking revenue. The budget funds is controlled the efficiency of their use – that they meet their intended purpose. Financial control is carried out on the production, distribution and consumption of the aggregate national product and national income, on proportions created in the process of redistribution national income.

The function of ensuring the existence of the state is committed to creating the material and financial base of the functioning of the state; the maintenance of the administration of the country, the presidential power, legislative and executive authorities, law enforcement, tax authorities.

Important meaning has the foreign economic activity: the content of the budget of diplomatic missions abroad, contributions to international organizations member of which the country is.

Under the state budget as a financial plan refers the budget plan of the movement of centralized part of the aggregate national product. It is the result of practical use of objective economic relations arising in society.

The state budget - is the economic relations between the state and the entities of all forms of property and individuals over the formation of a centralized money fund allocated for the implementation of national objectives and functions.

The state budget - is a special form of the state plan, which has the force of law and sets for the national economy as a whole, for all the structural units of social production relations budget appropriations from the budget and payments to the budget based on the tasks and activities of the State Planning Commission for economic and social development of the country. The state budget included in the total system of financial plans of the country.

Considering the budget as the main financial plan, it should be noted that it shows all the attributes of a financial plan: cash receipts or income (formation of money funds) on specific sources of income; cash costs (use of money funds) in specific areas and activities; the comparison of income and expenditures on the basis of balance calculations.

Preparation and execution of financial plans in their entirety determine the content of financial planning and the formation of the state budget execution - the content of the budget planning. They are an integral part of government planning and are based on common principles, objectives and goals of management in the market economy. In the market economy main objectives of financial planning are:

- 1) establishment of optimum proportions between centralized and decentralized financial management;

2) determination of the amount and sources of financial resources across sectors and individual enterprises and associations;

3) rational allocation of financial resources between production and non-production sphere, sectors of the economy, economic regions of the country;

4) promoting the most effective use of money funds;

5) the concentration of financial resources on the most important areas of economic development.

The budget system - a system based on economic relations and legal norms set of all kinds and parts of the state budget. The budget system is regulated by a number of laws. And in each country's laws are different.

Under the budget unit refers to the organization and principles of the budget system functioning on the basis of the current budget law; the structure of the budget system; the relationship between the individual links of the budget system.



## **2.3 - The financial system of Ukraine. Its features and actual problems**

### **Features of functioning of the financial system of Ukraine.**

Transition economy - the economy making the transition from one condition to another, in which there is a radical transformation of the entire social and economic system, transformation of property relations, institutions and management tools, objectives and resources of economic development.

The set of financial institutions, combining certain financial relations of the formation and using of appropriate centralized and decentralized money funds is a financial system of Ukraine.

The financial systems of countries with developed market economies include in its membership only the public finances. The financial system of Ukraine in its modern form differs substantially from the financial systems of foreign countries:

- in the allocation of financial resources, priority is given to nation-wide finance;
- financial performance of public enterprises is not entirely and not always associated with the principles of entrepreneurial activity;
- the non-state sector of the economy only began to develop;
- even didn't start a conversation about financial households in Ukraine.

Question essence of the financial system, both in the domestic literature and the world literature is debatable.

The financial system of the state - a set of separated but interconnected among themselves elements of financial relationships that arise in various fields of production and non-production activities in the process of cost allocation and reallocation of the gross domestic product and national income for the purpose of formation, distribution and use of financial resources to meet social needs and interests.

There are some principles in the basis of the construction of the financial system of Ukraine:

1. The principle of the division of financial resources for centralized and decentralized parts (the principle of democratic centralism).
2. The principle of autonomy (every link of the financial system is independent and different from the others).

3. The principle of unity (the elements of the financial system are closely linked to each other through a system of financial relations on the allocation and reallocation of financial resources).

4. The principle of functionality level.

5. Administrative-territorial principle.

Each link in the financial system has the specific feature:

1. The composition of financial relations;

2. The composition of the money funds;

3. The sources money funds and methods of accumulation funds;

4. Using of money funds;

5. The purpose of money funds;

6. The formation of money funds;

7. The distribution and use of the money funds;

8. The owner or manager of the money funds;

9. Role in the creation, distribution and redistribution of the gross domestic product and national income;

10. The distribution of the financial resources.

In the form in which it has developed, the financial system of Ukraine can be represented as follows:

Then look at the financial system of Ukraine:

- Finance areas of the economy (in the long term – company`s finance)

- National finance;

- Finance-governmental organizations;

- Finance of companies, areas of material production;

- Finance of institutions, organizations and non-productive sphere;

The budgetary system of Ukraine consists of:

- The system of state extra-budgetary funds;

- Finance of "Oranta"(Ukrainian national insurance company) - <http://www.oranta.ua>;

- State credit.

Components of the financial system of Ukraine are closely interrelated and interdependent. The financial status of each of its elements, on the one hand, depends and on the other - affect the financial condition of others.

Originally, the rising position in the financial system, finance companies occupy areas of material production because, basically, here creates a gross domestic product and national income - the main objects of the distribution and redistribution, the main source of financial resources.

Considering the fact that the distribution of national wealth, created product, national income, financial resources are among the elements of the financial system should not focus on the part of one of them (for example, national finance) due to the decrease of the other, which leads to undesirable economic, social and political consequences.

Finances of areas of the economy are divided into components of such features:

- By region;
- Methods of management;
- Type of ownership;
- Organizational forms of business entities.

Further subdivisions have its component and national finance, moreover, they are composed of elements selected for the sign of their functional purpose. In particular, they can differentiate for these attributes:

- The level of centralization (the central link, the national and local);
- Administrative-territorial division.

Thus, the budgetary system of Ukraine is consist of the State budget, the national budget of the Republic of Crimea and local budgets. The number corresponds to the number of budgets Soviets. In addition, management needs to add up the consolidated budget.

Budgets of Ukraine are central in the financial system of Ukraine, as a major tool in the hands of the state that distribut and redistribut the national wealth generated GDP, national income and financial resources.

An important concern is the system of state budget funds in Ukraine. The rapid development of 1992 increased centralization of the state in GDP, national income and financial resources. According to the purpose the state budget funds can be divided into: economic and social.

This component of the financial system of Ukraine looks bright regarding the participants in the creation of these funds, methods stimulating agents, sources of payment of fees,, managers and users of state budget funds.

Not less interesting for the study is the connection of system of the state budget funds of Ukraine with other elements of the financial system of Ukraine. First of all, it concerns the relationship with the budgetary system of Ukraine (the conclusion of the budget and the inclusion in the State Budget of Ukraine for income and expenditure without affecting the level of centralization, makes changes to the management of the process of formation, distribution and use of national financial resources, the ratio of income and expenditure) .

Particularly actual for Ukraine and its financial system have increased attention of government officials, academics and practitioners to finance households. Because this link of the financial system mainly represented by household budget it is the subject of serious research in the countries with developed market economies, but not studied in the Soviet literature composition and structure of income and expenditure budgets of households, the ratio of income and expenses is evidence, first of all, of the level of economic development state.

Excess of revenues over expenditures creates opportunities to save, but on the basis of freedom of choice to invest or to replenish the credit and insurance funds, or use the savings for entrepreneurial activities.

Further development of the financial system of Ukraine in general, and its component parts, is of interest to every citizen of the state, it deserves the attention of researchers, parliamentarians, members of the government.

### **Formation problems of market relations in the economy now in Ukraine.**

In the transition to a market economy, all the institutions of the financial system have great importance because they make a big contribution to the economic development of the state. However, in the institutions where financial relations are governed by the rules are not consistent with the actions of the economic laws, or related financial institutions, they create preconditions or directly act on the increasing economic crisis. Currently, such institutions are institutions of bank lending, the state budget, as well as the current system of non-cash payments, both within the country and in settlements with foreign countries.

After the collapse of the Soviet Union's administrative-command system in 1992 left a total nationalization of the economic sphere, monopolization and deformed structure of the economy with an extremely high degree of militarization, suppressed inflation and hidden

unemployment, total deficit of goods and services, the absence of economic motives for employment and the dominance of social dependency of the majority of the population.

The financial crisis makes it necessary to implement a series of urgent anti-crisis measures of administrative nature. We are talking about a reasonable restriction of export of currency, the capture of a full state control of alcohol production and wholesale trade in, and so on. However, the Ukrainian state faces a number of pressing issues of medium- and long-term regulation of transients on the creation of such vector of economic development, which in future will move from wild, spontaneously existing, uncivilized market to the "social market economy", that is, highly efficient and socially oriented market economy, successfully operating in developed countries of the West and the East.

The main among these problems - the primitive accumulation of capital. It led to deep social differentiation of the population: there was a layer of very rich people and, consequently, very poor. Therefore, the process of primitive accumulation of capital for urgent need of state regulation, what will make it a more civilized. The government should optimize the tax system. Gentle taxes on producers of goods and services should be combined with high taxes to speculators-dealers. Tax on individuals should not only replenish the budget revenues, but also help to mitigate the social differentiation, so the tax on individuals should be charged on a progressive scale, dramatically increasing with the growth of their incomes. The primary task of the state is to ensure the regular payment of pensions and public sector wages. Their months-long delay is not acceptable at all, since a significant portion of the population reject the brink of poverty and generate active opposition to market reforms.

One of the main factors of the crisis is the tax system. On the one hand, it does not provide the state budget sufficient and reliable income that generates the financial crisis of the state at the macro level, and on the other - undermine the financial base of business structures, what causes a crisis in the microeconomic environment. The current tax system satisfies neither the state nor the taxpayers.

What are the main issues that need to be addressed in the transition period? It - privatization, macroeconomic stabilization, promotion of entrepreneurship, liberalization of foreign economic relations and social policy aimed at protecting low-income individuals.

### **The main directions of development of the financial system of Ukraine.**

Currently particularly we can see disadvantages of financial policy, constraining economical and social development of our country. These include: the dogmatic (non-creative) nature of fiscal policy and its inability to respond quickly to changing conditions of

our country, to find the right ways to solve pressing problems; the lack of strategic development concept.

The purpose of the concept of financial policy, developed under present conditions, is to achieve a higher standard of living on the basis of economic development, all-round increase efficiency in production.

The new financial strategy should be developed taking into account the different forms of property, development of market relations, the full functioning of the market for goods, labor and capital. The main methods of financial impact on the economic and social sectors of society should be: taxation, maneuvering of financial resources, financing, financial markets and others. The world experience proves the flexibility and effectiveness of such practices.

Evidence of the crisis in finance are the huge deficit of the state budget; increasing emission of money and concomitant inflation; the growth of domestic and external public debt; the large number of unprofitable and low-profit enterprises; significant amounts of non-productive costs and losses in the economy; the growth of construction in progress. The crisis manifested in the sphere of public finance, and in finance companies and organizations.

An important task is the restructuring of the economy: a significant reduction in the production of weapons and a decline in the share of total production of heavy industries. Manufacture of weapons diverts civil industries large mass of fixed assets, raw materials and energy.

Urgent task of economic recovery and Finance is ordering monetary circulation; recovery of the hryvnia.

The great importance for the economic recovery and expand on this basis, the financial capacity of the country has in its economy to attract foreign investment.

In accordance with the radical changes of financial policy rebuilt the financial mechanism. The purpose of the restructuring of the financial mechanism - to enhance its impact on the effectiveness of social production based on the development of market relations, to ensure more efficient use of financial resources. The basis of the restructuring of the financial mechanism laid fundamentally new approaches to the organization of financial relationships in the economy, ensure the full development of economic initiative and the responsibility of businesses, organizations, regions of the country for the final results.

### **Chapter 3 - Methodology**

Methods of research - a way that allows to meet the challenges of projects to achieve the goal of the study. Many special scientific problems require special research methods. They represent a certain set of methods, research methods, knowledge of the principles that apply in a particular science. This methods I used to write my thesis:

- literature analysis - study of published by local and foreign authors of the subject;
- studying and generalization of domestic and foreign practices;
- comparison of the studied data and facts of financial system;
- theoretical analysis and synthesis. Analysis - a technique based on the process of decomposition of the object into its component parts. Synthesis of compound is obtained in the analysis of parts into a whole. As a result of the synthesis of the connection is the knowledge gained from the use of the analysis in a single system.;
- concretization and idealization - It is a mental creation of the concepts of objects that do not exist in nature, but for which there are prototypes in the real world.;
- induction and deduction - Induction - the conclusion by reasoning "part" to "general." The inference from the facts to a general hypothesis. The deductive method is based on the conclusions obtained in the reasoning from the general to the particular. That is, new knowledge about the subject is obtained by studying the properties of objects of this class.;
- classification
- generalization - set general properties and attributes of objects;
- historical method - It involves tracking history in all its fullness and diversity, synthesis of the empirical material and the establishment on this basis of a common historical pattern. But the same pattern can be identified without referring directly to the real history.

The subject of the study are specific economic relations arising from the development and functioning of the financial system of the state.

When writing work I used descriptive and analytical, graphical, economic and statistical methods of economic theory, analysis of documents.

Theoretical and methodological foundations served as textbooks and articles of domestic and foreign experts in the field of economics, electronic data from official websites.

## Chapter 4 - Conclusion

Finance express economic social relations. It is an essential element of social reproduction at all levels of management. The financial system is the collection of financial relations associated with the distribution and redistribution of the social product. Fiscal policy plays a crucial role in achieving the goals by the state government. The financial policy defines the main directions of using of finances. Through the fiscal policy implemented more efficient using of financial resources, to achieve a higher standard of living.

As shown the analysis of the main parameters currently valid in Ukraine's financial system, in its basic characteristics, it is consistent with the generally accepted in economics and international practice ideas: the financial system of Ukraine - a complex of bodies and institutions (links) that are associated with the accumulation , redistribution and use of centralized and decentralized funds of funds.

In this work It was:

- given the definition of finances, the financial system, their spirit and their functions;
- illuminated structure of the financial system of Ukraine.
- marked features of the financial system of Ukraine.
- identified disadvantages and problems of the financial system of Ukraine.
- viewed main directions of development.

During the search, the information I have learned a lot of scientific literature about the subject and I read a lot of analytical articles from official sources. Nowadays, the economic and financial situation in Ukraine looks rather optimistic, but in fact, official sources did not show the main distinguishing features of fiscal policy from the policies of the former Soviet Union - a direct political dependence and lack of connection with the real economic situation, as well as the appalling terrible corruption at all levels.

My work provides general information about the financial system, the current situation in the country, as well as the features and drawbacks. All information is taken from official sources and books.



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