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20 years of Ukraine's independence.

Market oriented model of formation and development

The authors analyzed the twenty-year economic development of Ukraine in whole, and in its components. Introduced the impacts of the 1998's Russian and the 2008' global crises on the Ukrainian economy. They dealt with the Ukrainian-Hungarian economic and trade relations after the collapse of the Soviet Union.

Before 1990 Ukraine among the USSR republics was inferior only to Russian Federation in economic importance (GDP level), although the indicator of gross domestic product per capita exceeded the one of RSFR by 10 % in 1990 [3].

According to the World Bank data Ukraine's share in Soviet export accounted for 19,5% and 17% of all budgetary expenditure on welfare, science and state management in this period [3].

Researching the conditions and way of formation of Ukraine in the post-Soviet period, domestic and western analysts note extreme slowdown in conduct of reforms on the background of long-drawn inertness of economic processes.

Above all this is previous monetary system that preserved during first two years, based on ruble zone on finance, which gave access to cheap energy and loan resources of Russia. However, this situation did not provide necessary control over the money supply and inflation, the budget process development, the development of clear framework of national economic policy.

Ukraine, that has selected the way of gradual reform, was significantly inferior to Poland, the Czech Republic, Slovenia, Slovakia in terms of pace and results, which in 1994 were already out of the transformation crisis. Therefore Ukraine was recognized by the EU as a state with market economy only at the end of 2005, by the U.S. – at the beginning of 2006.

Developed by the Government "Fundamentals of national economic policy in 1993" clearly indicated a gradual transition to a socially oriented market economy for the first time and made this process focused.

However, the real socio-economic processes in a transition period were full of with administrative confusion with the manifestation of corruption violations, chaotic privatizations, a low tax compliance of business entities, issuing credit instruments to provide socially protected expenditure articles of the state.

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Virtually the entire period of formation and development of an independent Ukrainian state was characterized by stable trends of reconstructing national economy in the direction of deindustrialization, where the emphasis is in shifting from technology to commodity production and a disproportionate growth in the financial sector, which in its turn provoked the growth of commodity imports against the background of crisis of domestic commodity production.

Almost all used industrial capacity was created in the USSR with now obsolete technological base, and hence energy- and resource-intensive. Given that the market relations with Russia have changed the calculation formulas for energy resources provided by this state, making them expensive, prime cost structure of national production started to deform in an unprofitable way in favor of the resource component, competitive positions of Ukrainian exports shattered. Cosmetic measures on modernization of production did not significantly affect the state of the economy as a whole. The basis for exports became production with low added value.

The lack of sufficient entrepreneur flexibility in managing single companies as well as in macroeconomic scale, led to the loss of Ukraine's advantages in the field of electronics, providing in due time the Soviet defense industry, film production, home appliances, agricultural machinery, motor, aviation, automotive industries lost its highly skilled labor force.

There was not used world experience of organizing production for domestic and even international market, based on import element base, which provided solving the problems of employment, trade balance in transitional and developing countries.

Food industry turned out to be the most resistant to diseases of transformation and growth, it not only began to develop in a progressive technology base with the participation of transnational giants, but also reformed into the powerful domestic industrial complexes, which minimized expansion of import in the domestic market, formed stable flows of goods for export to near and far abroad countries.

Production structure formed in Ukraine during the Soviet period, has led to closer economic dependence on world economic processes that deepened the so-called transformational crisis in the country (1991-1996), embroiled in the global economic crisis of 1998-1999 and the global financial crisis (2008-2010 years). It reinforced negative interference of endogenous and exogenous factors of formation and development.

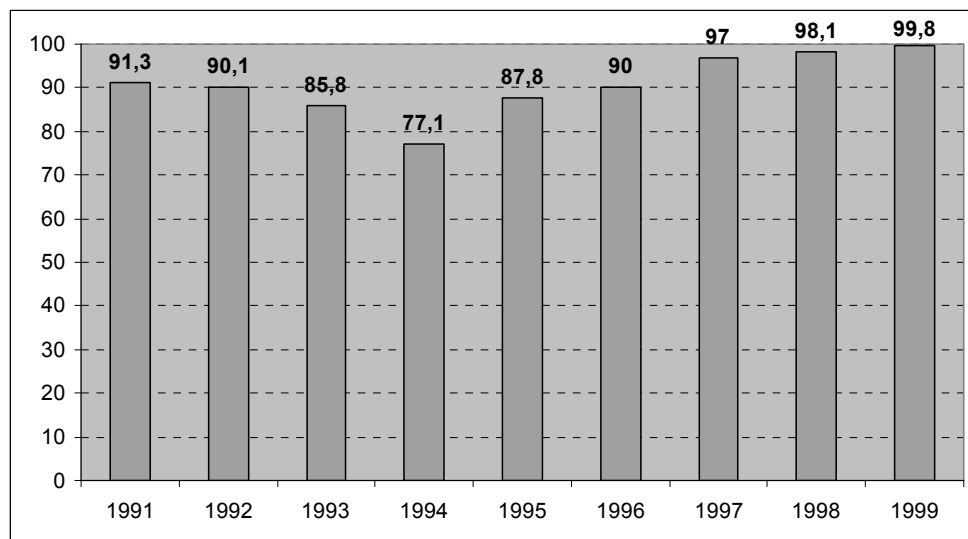
At the same time, this leverage of dependence worked positively during the period of 2000-2008 when conjuncture boom in the world markets of mining and metallurgical industries, chemical fertilizers and due to the active export has created a stable currency receipts in the Ukraine, contributed to strengthening the national currency - the hryvna.

It is appropriate to structure detailed analysis of the economic way of formation and development of Ukraine's independence by periods, which can be distinguished by characteristic features.

According to domestic and foreign analysts period from 1991 to 1999 is referred to as a crisis transformational recession, where the most intense destruction processes refer to 1991-1996, especially 1994.

Trends of gross domestic product (GDP) in Ukraine and its comparison in dynamics to previous year are presented in Picture 1.

As it can be seen from the graph of the deepest crisis processes took place in 1994, the average rate of decline in GDP in 1991-1994 was 14%. From 1995 to 1999, this figure has decreased by almost half, creating the preconditions for the resumption of economic growth.



Pic.1. GDP growth in Ukraine, in% to previous year [2].

The period in question (1991-1996) is characterized by a significant drop in price competitiveness in domestic and foreign markets, a sharp decrease of population and enterprises, the rapid decline in consumer and investment demand, rising prices for raw materials, fuel and energy resources against the backdrop of lack of energy-saving initiatives .

As a result, there was formed non-optimal structure of the gross output of goods and services (Table 1).

Table 1

The share of intermediate consumption and GDP in the gross output of goods and services, % [2]

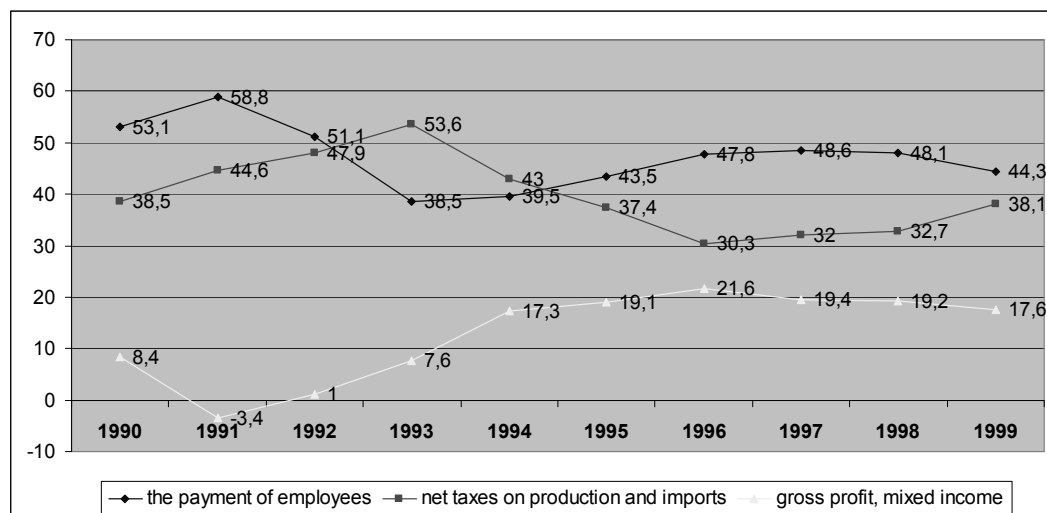
<i>Index</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
Intermediate consumption	52	53	55	61	58	56	57	57	56
GDP	48	47	45	39	42	44	43	43	44
Gross output	100	100	100	100	100	100	100	100	100

The growth of intermediate consumption limited the sources of capital formation and the final consumption generated by the production. In the structure of GDP, calculated by the categories of final consumption, the largest share has been taken by the final consumption of households (up to 54.7%), the percentage of gross fixed capital was low from 20.0% in 1991 to 19.3% in 1999 with the critically stable negative balance of exports and imports of goods and services, except for 1999 when it amounted to 5.5% of GDP. In this case, since 1996 the share of expenditure on general government was greater than the share of gross capital formation, and in previous years it was commensurable.

However, the structure of GDP by the end use category was not optimal in the baseline of 1990 as well.

The positive trajectory of changes in GDP since 1996, based on the created devaluation reserve in the previous period, the burst of the price competitiveness of Ukrainian economy on export-oriented industries (ferrous and nonferrous metallurgy) despite the use of outdated energy-intensive production base, characterized the start of the renewed economic growth.

These trends are confirmed by the analysis of the structure of GDP by income group in 1991-1999. (Pic. 2).

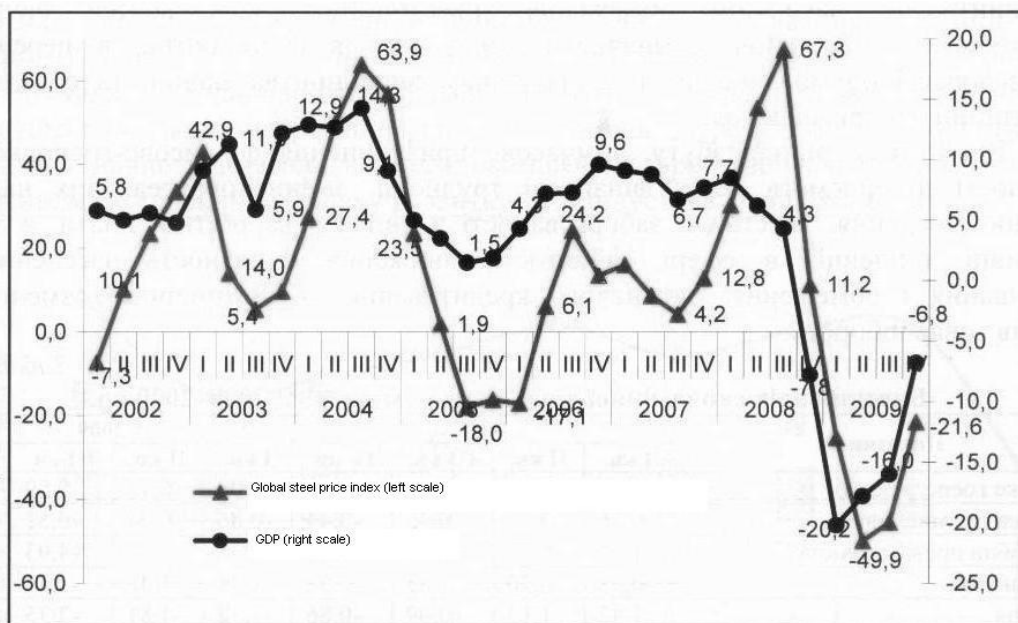


Pic. 2.
The Structure of GDP by income group, % [2].

On the background of a stable low tax forming base under the influence of hyperinflation affects the values of the other indicators fluctuation was observed as well. The statistical characteristics show considerably narrowed investment opportunities and potential renovation of business entities in this period.

On the wave of macroeconomic stabilization in Ukraine the period of economic growth - 2000-2008 - started. This period is characterized by high volatility of the parameters trajectory, but the dominant of the development did not stand out clearly. The ascending parts of the graph of the GDP dynamics correlated with a favorable ratio of the influence of the factors of exogenous and endogenous nature including the price in foreign markets of products industry.

This is eloquently demonstrated by the comparative dynamics of GDP and world prices for steel in this period (Pic. 3).



Pic. 3.

The dynamics of Ukraine's GDP and the world prices for steel in 2002-2008. [2].

For high-performance of the benefits of export success the contribution of growth in domestic consumption was added to the positive GDP dynamics. It was formed by credit boom and social benefits, which in turn provided the groundwork for the next economic recession in 2009.

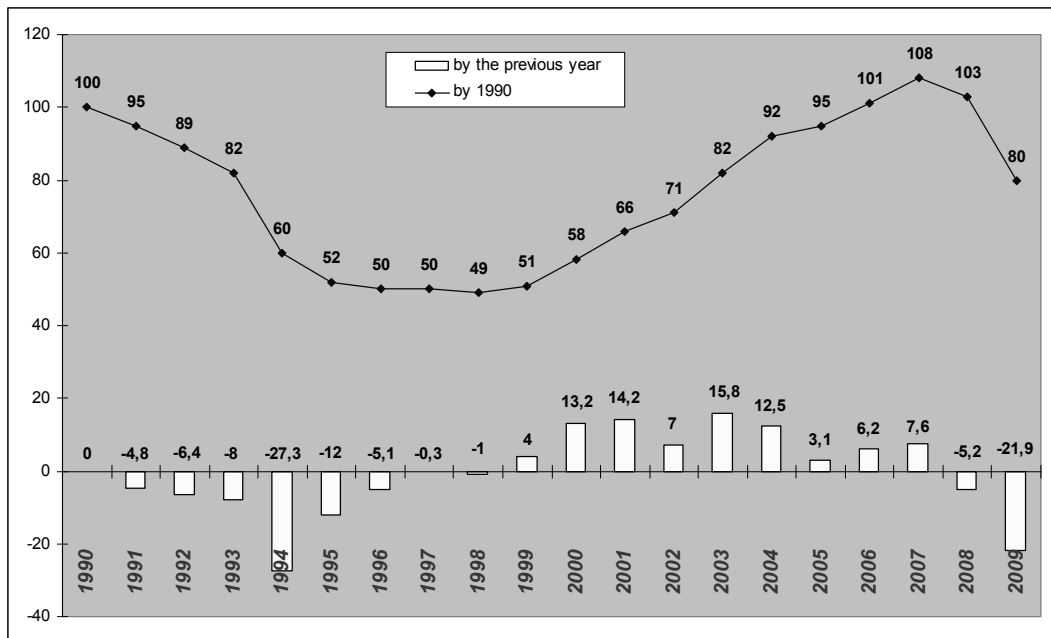
The favorable economic period of 2000-2008 did not experience investment changes which were necessary to create a base for sustainable growth, by forming the stabilization reserves and the immunity of the entire national economy to the global destructive influences, but on the contrary it reinforced the dependence on them with a multiplier of destructed internal factors.

In fact a model of consumption was established instead of setting the investment model that is more the organic for the market development way.

The desire to eliminate the substantial backlog of the pay level compared to the developed countries and the countries with economies in transition against the backdrop of the ongoing process of deindustrialization of the national economy has resulted in advancing the growth rate of its average values compared with the dynamics of GDP and productivity, which was strengthened by rising costs in the sector of general government. The deformation of the GDP structure by the income categories in this period reflected the weakening of the economic resilience to crisis and the effects of further economic development.

Analyzing the twenty-year economic path of Ukraine formation in terms of constitutional independence, we can deepen the findings about the state of the national economy and the potential development both in the whole and in its components.

Thus, the trend in industrial production in the whole in 1991-2010 years repeats the trends marked earlier in microeconomic analysis (Pic. 4).



Pic. 4.

The overall dynamics of industrial production in 1991-2009. [2].

In 1991-1994 the slump to 60% in industrial production by 1990 was observed.

Despite the positive trend recovery in subsequent periods, by 1999 the general decline of this indicator relating to the base in 1990 was 51%.

The development of the upward trend was halted and acquired the character of the collapse since mid-2008, when the apparent high vulnerability of the Ukrainian economy to the impact of the global financial crisis was clearly seen.

The deepening primitivisation of the production sector structure became apparent. The share of the metallurgical sector specializing in low processing stage products increased and almost doubled in 2010. At the same time the share of hi-fi products became almost three times less. The domestic light industry share in the market decreased in 100 times [2].

Industrial manufacturing focuses on export and thus stimulates import substitution of national market. Import of investment goods has become a norm for domestic industry needs satisfaction with new means of production.

Industry development policy didn't reflect the innovative principles of facilities and equipment reorganization which today corresponds only to the third and fourth technological modes.

Machine building complex of Ukraine, providing 26% of Ukrainian Soviet Socialist Republic industrial production in 1991, was influenced by destroying crisis processes more then other industries [2].

The reasons of this destructive effect were the withdrawal of Ukraine from the Soviet Union single machine building complex without simultaneous changes of vital functions characteristics by ingoing and outgoing flows and also the opening of country's domestic market for more powerful foreign producers with whom national manufacturers of similar goods couldn't compete.

There was investment activity only in mining and metals production sector motivated by keeping position in the international market. But the problem of production deep modernization hasn't been solved till nowadays and domestic products haven't become competitive.

According with professional estimation Ukraine owns high resource potential of known and unknown reserves reproducible by source of energy. There is more than of 3.5 % of explored world coal reserves, near 0.1% of oil, 0.7% of natural gas [2]. Almost 47% of Ukrainian needs in fuel and energy resources and in electricity completely are met by its own sources.

But the power-intensity of GDP exceeding the average level in the developed countries by 2.6 times is the most important argument for immediate innovative reforms in the sphere of energy recourses consumption.

The process of USSR economic complex disintegration and market reforms were "shock" for agricultural complex of Ukraine. Today the volume of agricultural output equals to 57% of 1990 only.

In fact agrarian sector began to feel advantages of market mechanisms only in the beginning of the third thousand when the processes of postcrisis revival were activated, although the volume of agricultural output in 2009 equals to 70% of 1990 [2]. But in comparison with construction industry (8.6 % of 1990) it is rather optimistic result.

Increasing global food crisis testifies to necessity of urgent innovative-investment reforms.

Appearance of Ukrainian agricultural goods in the international markets especially cereal group, oil-plant group and recycling products is a clear vector of modernization of this sector of national economy. Since 1994 till 2009 the volume of agricultural export has increased by 9.17 times [2].

Among the basic terms of national economy market positions strengthening and its social trend are the following: the development of competitive in the international markets goods, progressive poly-vendibility of manufacturing with high degree of recycling on the high effectiveness base and land use culture.

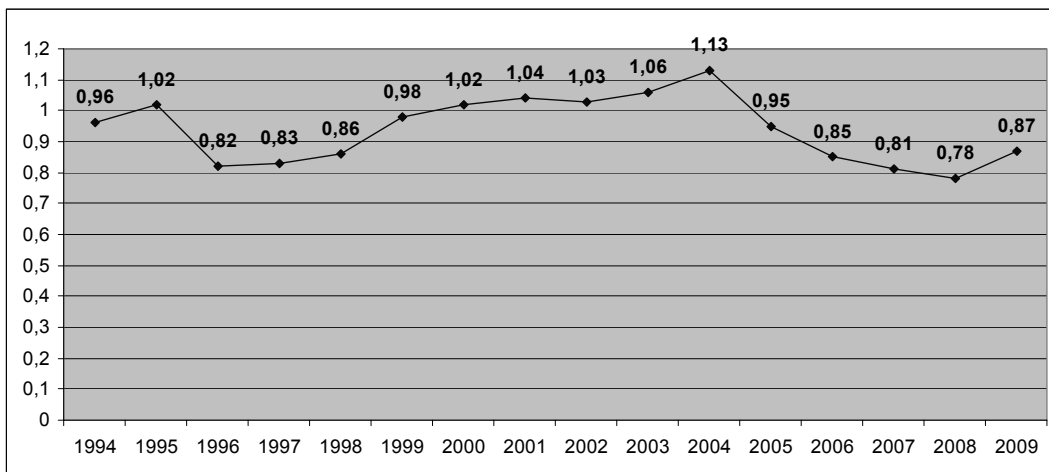
The choice of market vector of establishment and independence development has influenced on the indices of external economic activity which was liberalized, that in its turn has promoted Ukraine as a country with the high level of economy openness.

Gross indices of export and import has increased by multiplies during the last twenty years according with 1990. However reorientation of trade flows on the base of prolonged interior structural reforms has generated irrational model of specialization in international construction of foreign trade.

Ukrainian export consists of products of the first technological conversion (ferrous metals and ferrous metals goods group, agricultural goods). Import involves hi-fi products, consumer goods and energy recourses.

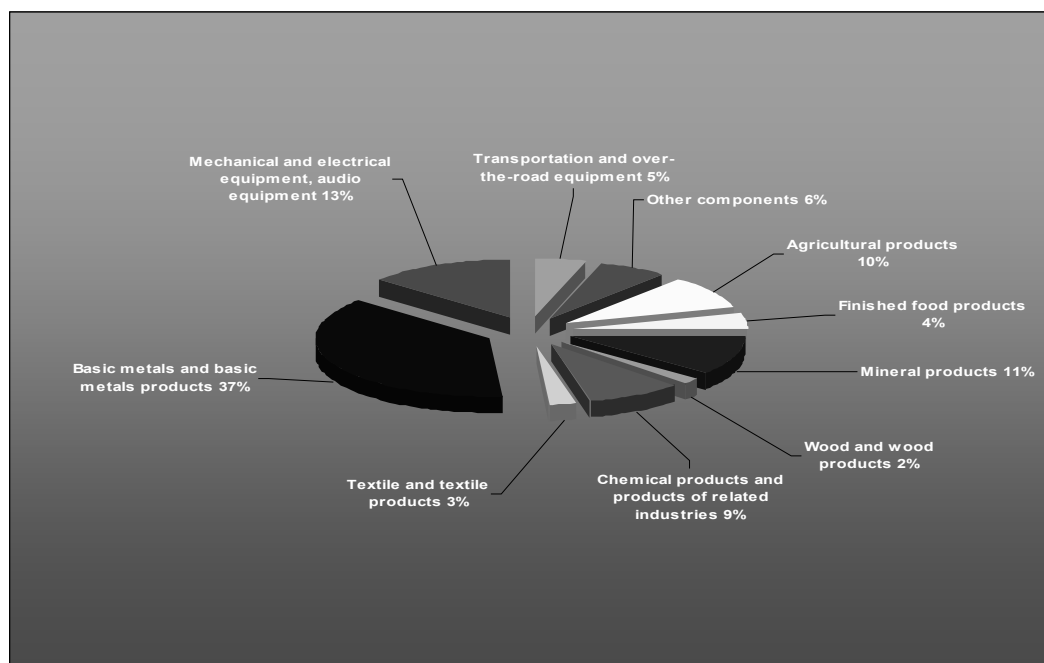
Geographical aspect of international trade structure estimation is representative. The basic export market is Russian Federation, countries members of CIS and Asia. Export is provided by European Union countries. Chronic deficit of trade balance of Ukraine confirms the necessity of radical economic and structural reforms which allow national economy to be flexible and synchronous to the state of domestic and international market.

The research of relative indices of export and import correlation enables to estimate the effectiveness of foreign economic policy in Ukraine during the considering period (pict.5).



Pic.5.
Dynamics of export-import coefficient in Ukraine during 1994-2009
[according with source 2, p. 44].

The average diagram of goods filling export flows in Ukraine during 1994-2009 can be shown as follows (pic. 6).



Pic. 6.

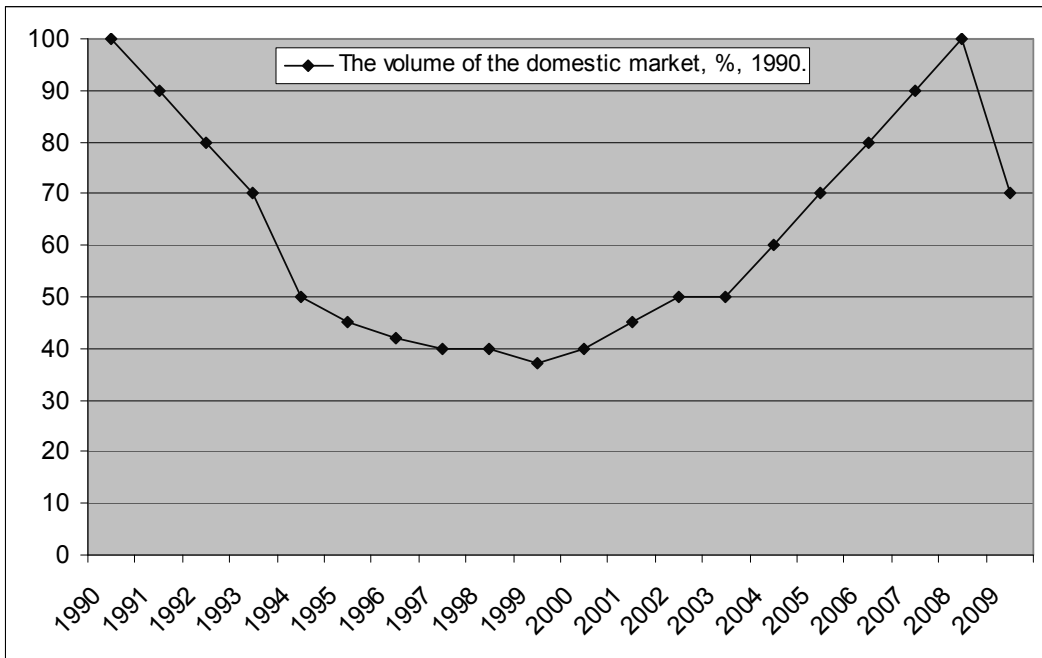
The average structure of goods filling export flows in Ukraine during 1994-2009 [according with source 2, p. 45].

On the whole, the goods structure of imports outlines the formed model of international specialization of Ukraine despite the volatility of the trend of each component.

Ukraine imports are presented in the goods groups in which the biggest percentage belongs to mineral products (on the average 41,1% in the corresponding period).

The administrative control of “uncritical” goods imports, the optimization of prices for imported energy recourses, the stimulation of increase of competitiveness of export goods, the implementation of resource-saving technologies etc. are the instruments of regulating influence of the Ukrainian government on the international trade.

The development of the domestic market of Ukraine was uneven during the period of obtaining independence.



*Pic. 7.
The dynamics of Ukraine domestic market in 1991 – 2009
(in comparison with 1990), % [2].*

In 2010 Ukraine ranked 30th of 133 countries according to the criterion “the size of the domestic market” in the system of international comparisons, and according to the index of global competitiveness – 27th of 131 countries [2].

Meanwhile, Ukraine is inferior to European countries according to the index of the volume of the domestic market per capita, which is explained by a low level of a purchasing power. In accordance with the criterion in the same system of evaluation Ukraine holds only the 71st place.

The results of statistics research can give some cause for optimism. It was found indirectly in compliance with the share of domestic consumer goods in the structure of the whole retail turnover that the share was more than a half in 2000 – 2004 – 75.3 ÷ 74.4%, but at the end of 2008 it decreased to 63.1 %. But the character of tendencies allows us to draw a conclusion about the shift of national production to the production of export goods of light processing [2].

A high level of political turbulence, which accompanied the establishment of economic independence of Ukraine, influenced greatly the processes of the transformation of economic models which were being chosen. An export-oriented model had been formed by 2005. But then the national economic policy was aimed at the keeping of an import-oriented model of consumer capitalism which was based on internal borrowing. The global finance and economic crisis intensified its failure. A twenty-year way was a way of searching for a new experience of economic construction.

Ukraine is consequently improving its tax policy and a permanent search of an optimal variant is inherent in this way.

Over the last decade 3 types of special purpose fund duties have been abolished, rates of profit tax and VAT have been decreased, rates of individual income tax have been lowered, and the methods of their calculation have been changed. Offsetting debts with the budget, other forms of debt restructuring for business entities and unreasonable tax remissions have been abolished.

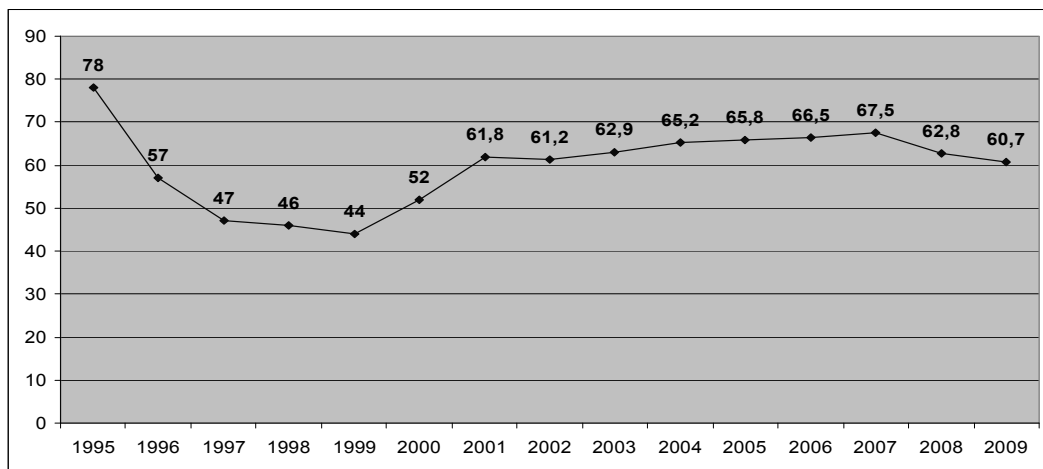
The process of the optimization of the structure of the Consolidated Budget of Ukraine relating to the sources of income generation is continuing. This fact was reflected in the Tax Code passed by the Verkhovna Rada in December 2010.

The increase of efficiency of tax administration provided the growth of Ukraine Consolidated Budget incomes to 31.5% GDP in 2009 (24.2% GDP in 1994 r.) [2].

The rationalization of distribution of budget money among important for the society fields reflected the emphases of the state policy in each period. In 2009 expenditures were maximal for the last decade – 33.6% GDP. The expenditures for social support of the population, formation of human capital, strengthening the public order, safety and judicial defense were higher [2].

The picture of economic analysis of the process of establishment as development will not be comprehensive if we do not add microeconomic issues.

The efficiency of Ukraine enterprise activity presented in the absolute indices and as the trajectory of their development over 20 years reflects dominants of the economic environment in full. These processes can be evaluated according to the index of percentage of profitable enterprises (picture 8).



Pic. 8.

The percentage of Ukraine profitable enterprises in 1992-2009 [made up under the data of the source 2, pp. 65, 66].

The financial performance of enterprises was the most vulnerable during the crisis in 1998, and it was especially become apparent in agriculture, transport, communication. [2].

The indices of direct and guaranteed government debt were decreased in a period of national economy recovery and it was 12.3% GDP at the end of 2007[2].

However, an intensive integration of corporate structures with the international market of loan capital was observed during this period. This integration was motivated by increasing investment appeal of Ukrainian corporations, quite a high activity of foreign investors, using more cheap international sources of credit resources by national enterprises.

A joint foreign debt of Ukraine was intensively growing due to the activity of the government, money-and-credit regulation, banks, non-financial institutions. It increased more than twice in 2003-2009 up to level 79.3% GDP [2]. This led to an extreme growth of financial risks and the creation of preconditions for a large-scale financial crisis.

The institutional structure of the Ukraine financial market was developing extremely slowly. Direct projection of the experience of Western countries without due regard to the national peculiarities of transformation processes did not favour a full-fledged participation of the financial sector in the formation of market relations.

A transformation crisis and hyperinflation, Ukraine economy demonetization in the first half of 1990th deteriorated significantly the state of national financial institutions.

National institutional players did not hold a constructive position in the national financial market even in the periods between crises, avoiding an investment trend of credit resources.

In spite of the fact that the presence of banks total assets in the structure of the corporate finance sector reached 90% at the end of 2009 [2], the segment of investment banking remained undeveloped. The growth of foreign bank capital share weakened the state influence on the optimization of the resource support of national economy development, the elimination of sectoral and regional disproportions.

The weakness of a parbank system, a high level of dollarization of the economy, the deformation of a credit model towards mortgages and consumer credits, the underdevelopment of the Stock Exchange, the usage of debt instruments for financing a budget deficit and bank recapitalization, multiple decrease of money resource offer, an imperfect money-and-credit policy led to the investment potential diminution of the country.

The monetary regulation didn't take into account actual needs of the money-and-credit market.

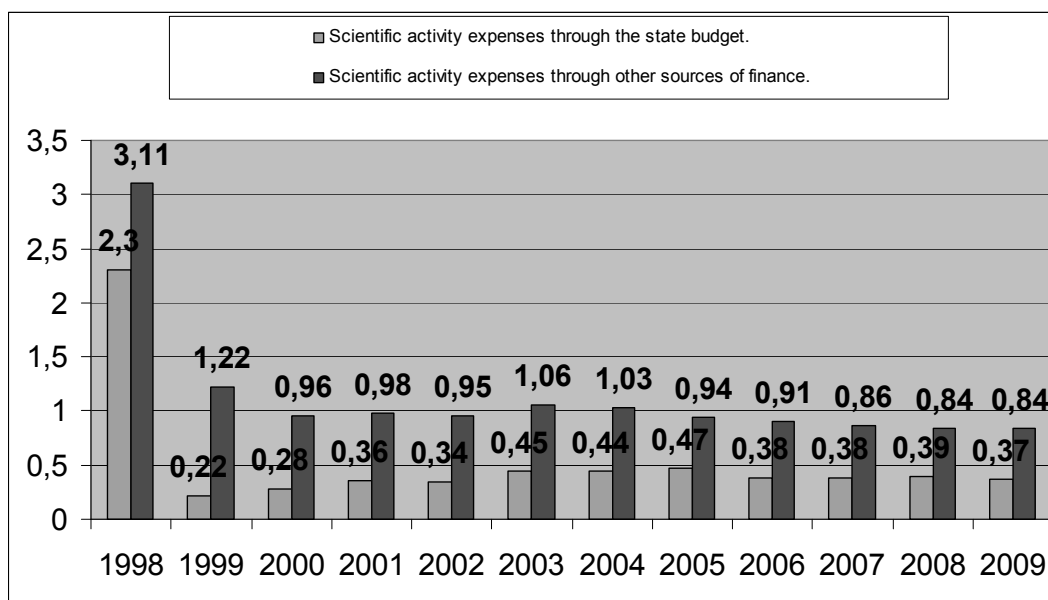
The operation of the mechanism of the usage of an emission resource of Ukraine is more dependent on the influence of external factors.

Ukraine has survived two monetary reforms: from rouble accounting before introduction of money substitutes – coupon-karbovanets, to national currency – hryvnia (1996). The formation of an independent international monetary policy for Ukraine is a permanent process, consisting of gaining of new knowledge, experience, mistakes and their elimination. An exchange rate policy, a currency regulation and control system, a policy on gold and currency stock management of the National Bank of Ukraine, which are closely connected with monetary and credit policy of Ukraine have been founded. Just a high correlation of processes in the national monetary and currency segments of the financial market have conditioned hryvnia

fluctuation – from devaluation to revaluation and vice-versa, increasing with growth of resource dependence from the external capital markets (especially in 2005-2008), continuation of economy dollarization, growth of actual inflation and further development of black economic relations.

Modern strategies of development are based on innovation factors of economic growth. For the developed countries the percentage index of the enterprises that actively implement innovations is about 70-80% [1]. By the end of 2009 this index was only 25% of that of 1991.

A significant decrease of an innovation component in the investments reflects the general negative tendency of the irrational structural institutional changes in science and technology sphere, its effectiveness which is observed in trend of science-intensiveness index of GDP (pic. 9). Even in the most favorable economic periods in comparison with 1990 this index was almost three times less.



Pic. 9.

The dynamics of science-intensiveness index of GDP, % [2].

Ukraine reached its full investment activity in a period of revival economic growth (1999-2007). However the index of investments in basic capital was about 87,7% by 1990. [2]. Further crisis economic shocks considerably slowed down investment processes, especially in machine building.

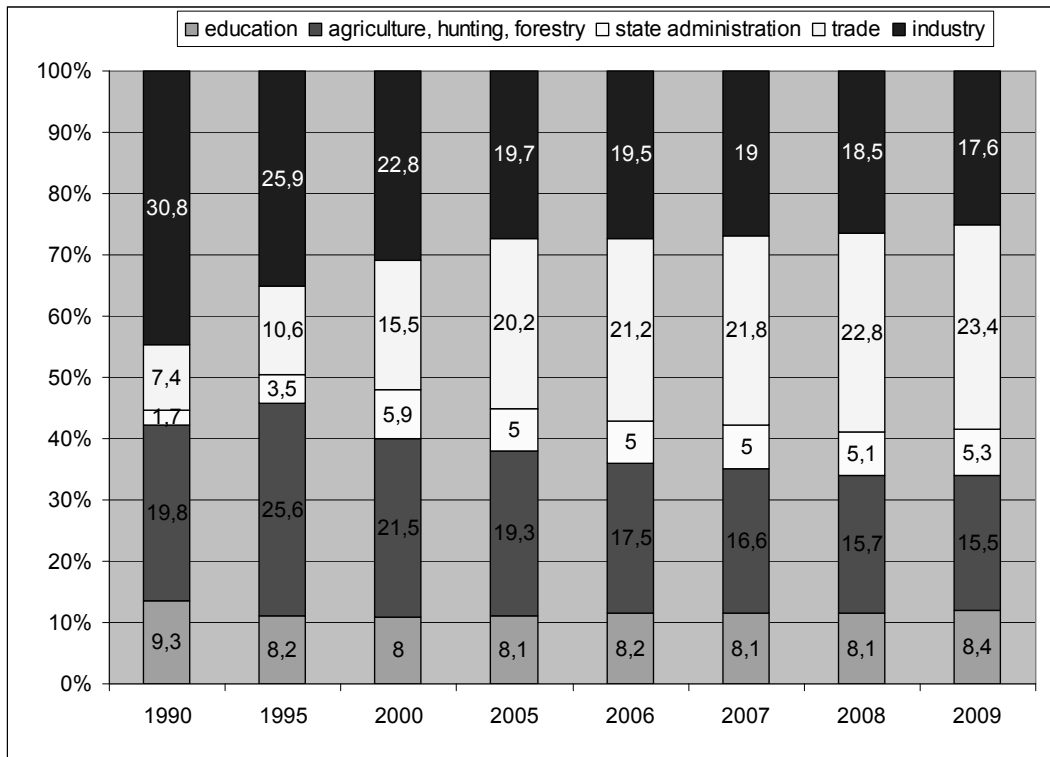
The share of credit resource in the invested capital is traditionally low (from 1,7% in 2000 to 14,2% in 2009) and is even lower than share of budget resource (from 7,1% in 2000 to 15,2% in 2009) [2].

The practice of investment entities, based on their own resource, closely connects the investment activity and the real effectiveness of their activity, which in its turn

reflects the influence of exogenous factors, strengthened by a multiplier of the internal management.

Unfortunately, Ukrainian labor market evolution preserved the following problems caused by the transformational crisis: unemployment, imbalance of demand and supply, irrational structure and low employment, distorted mechanism of a labor service market, development of informal employment sector, moving of able-bodied population from industrial sector to trade and service sector.

Official statistics confirms these structural changes (Pic.10).



*Pic.10
Dynamics of employment structure in some fields of economic activity
in 1990-2009, % [2].*

For twenty-year period of independence high volatility of net remuneration and working efficiency indices reflected the peculiarities of the labor market establishment in Ukraine. Thus, the decrease of output in Ukraine was accompanied by wage cut and not by unemployment increase (up to 2004), as it is observed in the developed capitalist countries during depressions.

At the same time during the revival of economic growth the dynamics of net remuneration index started to outrun growth rates of GDP and working efficiency (1999-2007).

This created a precedent for the lead of improvement of population social standard, increase of its potential paying capacity binding that showed itself in jump in inflation, import substitution of commodity supply, increase of consumer and mortgage credit with banking sector assistance. The structure of GDP according to income groups moved more towards advantage of final consumer expenditures with decrease of share of capital accumulation and investments in economic development.

The choice of independent development by Ukraine in 1991 was based on well-defined change of the political model and transition to the market economy.

Market modernization of property relations took place in several stages:

1992 – 1996 – the beginning of privatization, the completion of small privatization;

1997 – 1998 – the completion of mass privatization with use of privatization certificates;

1999 – 2004 – the period of intensive privatization including individual privatization of large-scale entities, the beginning of privatization processes crisis;

2005 – 2009 – deepening of privatization process crisis [2].

The depth of privatization process can be estimated effectively though the dynamics of indices of state sector share in the economy, the data on which has been published since 2005.

In 2008 in whole the state sector in the economy took 9.0% versus 12.2 % in 2005. The state owned 1.0% of enterprises (in 2004 – 4.2%), 16.4 % of fixed cost assets (in 2004 – 31.5%), full-time workers – 15.3% versus 19.9% in 2004. [2]. Thus, for the twenty-year period of Ukraine's independence an economic model based on dominating private property and market principles has been formed. The fundamentals of command economy have been broken.

With land reform adoption in 1994 peasants got free for private use 26.5 million hectares of agricultural land.

In the 1990s the framework of the market infrastructure and institutes, the legislation base were formed; the economic functions of the state, insuring openness of the Ukrainian economy, were created. The transformation economic model was substituted with the market model of economic development; orientation for Euro-integration course with optimization of partnership economic relations in the post-Soviet (Euro-Asian) area was strengthened.

The reserves for not only acceleration but also for increasing quality of privatization processes are investment motivation of the population, development of the sphere of institutional investors and stock market in Ukraine as a whole, regulatory reforms, which will be able to lead Ukraine to the worthy place in the World Bank's rating "Conditions for business conducting". In 2010 according to this criterion Ukraine was given 142-th place out of 183 countries.

The stage of capturing Ukraine by the wave of financial and economic crisis (the end of 2008 – 2010) requires special analysis, though the long-term systemic antagonisms, threatening the country's macroeconomic equilibrium had been accumulated much earlier, in the period of renewed economic growth.

Since the middle of 2005 Ukraine felt strong competitive pressure of other exporters (especially China) on foreign markets and decrease of demand for Ukrainian goods, loss of price advantages over imported goods due to hryvnia's revaluation and intensive import substitution in the structure of internal retail goods

turnover, which started growing faster than GDP. As a result, the steady negative balance in external trade of goods was formed; investment demand and volumes of capital investment decreased due to increase of the number of inefficient owners. The end consumer expenses were growing, supported by increased social payments and available possibilities of consumer and mortgage crediting.

Macroeconomic imbalance was growing; in the end of 2007 it resulted in the formation of negative balance of payment, increase of external debt, including private debt.

Lag effect of Ukraine's economic achievements during favorable period (till 2007) for some time (till the 4th quarter of 2008) prevented the national economy from immersion into global crisis which had covered leading countries of the world, though practically all spheres of the economic activity started experiencing destabilization impulses from the beginning of the year.

In the 4th quarter of 2008, the peak of the crisis became apparent in the decrease of the GDP growth rates by 3.5 times, negative balance of the current account on the level of 7.2 % of GDP, increase of the gross external debt up to 100 billion \$ [10].

Inflationary trends, which had arisen before, increased significantly.

The powerful multiplier of the world crisis influence on the national economy was the stimulating monetary policy of the state, expansion of bank crediting, formed on the foreign capital.

Realized instability of the economic growth in this period results from its nature – generating due to coincidence of the factors of external and internal nature in favorable combination, while its quality was not provided with large-scale internal reforms.

By that time Ukraine had practically used all the possibilities of the industrial 'inheritance' of the USSR and faced strict conditions of energy carriers import, the volume of it is estimated as critical at the basic energy intensity of the production. The country required radical reconstruction of the economic development model. Systemic modernization of the production according to the scientifically grounded model of production priorities, managerial model at all the levels of business activity on the bases of strategic orientation, balanced development of all the spheres of the economic activity on the bases of inter-branch technological relations, increase of their efficiency, were the bases of the development of a new fundamental construction of the development model, based on the pluralism of interests of owners and the principles of social partnership.

The overcoming of crisis was outlined in the middle of 2010. According to the year results, GDP grew 4.2%, volumes of manufacturing by 11.2 %, in January 2011 – 9.7 %, exports – by 29.6%, direct foreign investments at the beginning of 2011 grew to 44.7 billion dollars, gold and foreign exchange reserves of the NBU reached pre-crisis level [10].

During the crisis 2009 the collapse of inflation was prevented; it was stopped at the average annual index 9.1%; active substitution of imports with domestic goods on the domestic food market is being stimulated; export of goods potential is expanding; radical reforms in regulatory and fiscal spheres are being carried out; economic and political vectors of the foreign policy of Ukraine, instruments of the game on the foreign goods markets are defined.

Program documents, developed under the direction of V. Yanukovich, outlined the main directions and instruments of the country's moving towards stable growth till 2013. They are:

- in the sphere of stabilization of the state budget – strengthening financial and fiscal discipline; normalization of public purchases and state support of the enterprises according to the standards of the EU and WTO; optimization of the quantity of state special purpose and budget programs; strengthening of financial control of efficient use of the budget funds; creation of legislative base and mechanism of national debt management; conducting state borrowing;
- in the sphere of state expenditure efficiency improvement – increase of the quality of capital budgeting at the expense of middle-term investment planning at the projects, selected during estimation on the level of the main managers of budget funds; functional structuring of responsibility and authority in investment process, integrated into the budget process; creation of database about the state of public assets and influence of investment on them; legal definition of criteria and principals of distribution of investment subventions; filling the fund of the future generations at the expense of unplanned revenues, including the ones from privatization, which must ensure financing of priority investment projects and social reforms; improvement of methodology and legislative bases of investment projects estimation;
- in the sphere of public finance transparency provision - legislative definition of responsibilities and obligations of the state and public administration bodies, quasi-fiscal functions, monthly information about fulfillment of state budget and off-budget funds in mass media, including the Internet, expansion of the content of this information, including the data about the state of public financial assets and obligations, non-finance assets, state of the public sector in general, implementation of anticorruption mechanisms;
- in the sphere of improvement of public finance management - implementation of state forecasting, long-term and medium-term planning on the basis of a new legislative framework, comprehensive usage of program-target method (PTM) of Budgeting for the budgets of all levels, introduction of a monitoring system and evaluation of their effectiveness, an integrated system of public finance management based on advanced information systems and technologies, introduction of EU standards of internal audit, increasing supervisory role of the Ministry of Finance of Ukraine in the field of income generation and cost efficiency of financial and economic activities of enterprises of the public sector, an inventory of objects of state property;

The process of executing the program includes three phases, the first of which is being implemented consistently. Indicators of success of the Program are defined as: - reducing the state budget deficit (excluding recapitalization) to the target 5.3% of GDP in 2010 (actual -5.5%). In future not less than by 1% of GDP and bring it to the level of 2% of GDP in 2013-2014. Stabilization of public debt before the end of 2014 at no more than 45% of GDP, increasing the share capital of the consolidated budget by 4% of GDP in 2011 and not less than 5% of GDP since 2012 [1]. Ongoing reform of the

tax system is a painful and complicated process, but it will provide the ultimate strengthening of the international competitive position of domestic business, harmonizes the legal tax base with the EU legislation, establishment of tax equality to restore fair competition in Ukrainian economy, reducing the depth of social inequality, reducing part of the shadow economy [1]. Improvement and development of the financial sector, reform of intergovernmental relations will allow, among other global economic changes, substantially increase the investment attractiveness of Ukraine in all industries and sectors of national economy, fill with the resources, tools, and achievements of innovation and investment market model of sustainable economic growth and development. Hungarian experience of radical market-oriented economic reforms since 1987 is very valuable for Ukraine. When changing the political system in 1990, Hungary avoided the transformation crisis, although the transition period took 14 years.

Sound macroeconomic policies, strong foreign direct investment allowed it to maintain the proportionality of national economic development and create a sustainable market model of industrial-agricultural independent state. Characteristic of this model are signs of duality - the complete liberalization of foreign capital inflows and significant competitive pressure on domestic business - created for the national economy not only benefits but also the complexity of the transition period, influenced the foreign policies of the country, so that geographical and commodity structure of exports have changed. By the end of 2000 share of agricultural exports fell by half, while engineering products have become prevalent in the foreign trade of Hungary [14]. As well as Ukraine, Hungary has built export-oriented model of economic growth (since 2004 as a full EU member), and it also had some difficulties of normalization of the current balance of payments surplus which in the last five years was achieved only in 2009. [14]. Hungary exports mostly to EU countries (79% of the total in 2009) [14]. While exports to Ukraine amounted to only 1.5%, volume of imports from Ukraine in the same period made up 0.9% [14].

Ukrainian-Hungarian economic relations since the collapse of the Soviet Union actually were built up again, because there was a change of production specialization and cooperation in trade relations. In the structure of Ukrainian imports of Hungarian origin, the most important part belongs to pharmaceuticals («Eric», «Gedeon Richter), medical equipment and devices, primarily diagnostic, processing industry and mechanical engineering. Tourism occupies a special place in bilateral relations. Areas of mutual investments in the chemical, engineering, packaging, food industry are being developed, there progresses development of banking network in Ukraine (OTP Bank - Hungarian Saving Bank), joint ventures (there already are 1030 in Ukraine), cross-border cooperation, agriculture, transportation, logistics, transit development and introduction of high technology, energy [14]. The legal base of bilateral relations and cooperation is more than 40 major agreements between the governments of Ukraine and Hungary, where the priorities are the following areas:

- Fundamental research on a number of problems of natural, social and humane sciences;
- New energy-saving technologies in industries such as metallurgy;
- Environmental protection and sustainable development;
- High technology diagnosis and treatment of common and complex illnesses;

- Technology of cultivation and crop protection, microbiology;
- Information technology [14].

In February 2009, in Kiev at the 7th Session of Ukrainian-Hungarian Commission 20 joint scientific projects were approved. Not less effectively develops cooperation between Ukraine and Hungary in the field of education, under which the exchange of information, research and teaching materials, students and teachers is carried out, a joint program for development and coordination is conducted.

Despite the turmoil caused by the global financial and economic crises (2008-2010), Ukrainian exports to Hungary increased in comparison with 2009 up to 117.8% (860,084,300 US dollars), while imports from Hungary - 179.1% (1,214,630,600 US dollars) [14].

Hungary is an important economic partner of Ukraine and occupies 13th place in the foreign trade among other countries, including the volume of trade in services.

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