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RISKS OF EUROPEAN INTEGRATION FOR FINANCIAL SECURITY OF UKRAINE

Abstract. The author investigates the stages of Ukraine's joining the European integration space and outlines the benefits of European integration for Ukraine. The article presents the classification of risks of European integration that generate threats to financial security of Ukraine. It has been stressed the need for effective economic and financial policies for ensuring financial security of the state was stressed.

Key words: European integration, financial security of the state, integration risks, globalization.

Ukraine has made a European choice as the main direction of its state policy, both internal and external, whose ultimate goal should be the full membership in the European Union. It should be emphasized that the European choice presupposes, above all, economic and social transformations. Moreover, Ukraine's aims and objectives include deep and qualitative transformations in all spheres of public life. This coincides with the EU accession criteria (Copenhagen criteria), according to which the right of the country to join the EU is recognized exceptionally on the condition of meeting these criteria: in the economic, political and legal spheres.

The current legal basis of relations between the EU and Ukraine is the Partnership and Cooperation Agreement (PCA) issued on 14 June 1994 (entered into force on 1 March 1998), which establishes the cooperation on a wide range of political, trade-economic and humanitarian issues. Concluding the PCA has allowed to establish a regular bilateral dialogue between Ukraine and the EU on political and sectoral levels, to implement trade regulations between the two parties on the principles of GATT / WTO, to define priorities of adaptation of Ukrainian legislature to the standards and norms of the European Community (*acquis communautaire*) in

priority sectors of Ukrainian economy. The way of Ukraine to European integration can be submitted through the stages, which are presented on the next table 1.

Table 1.

The stages of Ukraine's joining the European integration space*

Stages	Content
14 June 1994	The signing between Ukraine and the EU Agreement on partnership and cooperation (PCA) , which entered into force on the 1st of March 1998. <i>Advantages:</i> The agreement allowed establishing a regular bilateral dialogue between Ukraine and the EU on political and sectoral levels, to implement the streamlined trade regime between the two sides on the basis of the principles of the GATT/WTO, to determine the priorities of adaptation of Ukrainian legislation to the standards and norms of the European Community (acquis communautaire) in the priority sectors of the Ukrainian economy.
2007	started negotiations on the conclusion of the Association Agreement (AA) between Ukraine and the EU
5 February 2008	in Geneva, the President of Ukraine V.Yushchenko and General Director of the World Trade Organization (WTO) Pascal Lamy signed the Protocol on Ukraine's accession to the WTO (<i>preparatory work lasted 14 years</i>).
18 February 2008	It has been commenced negotiations regarding the establishment of deep and comprehensive free trade area between Ukraine and the EU.
9 September 2008	At the Paris Summit Ukraine and the EU reached political agreement on the conclusion of a future agreement in the format of the Association Agreement, which will be based on the principles of political association and economic integration.
19 December 2011	During the 15th Summit Ukraine - EU in Kiev, the parties announced the conclusion of negotiations on the future Association Agreement.
30 March 2012	The text of the future Agreement was initialed by the heads of negotiating teams of Ukraine and the EU.
<i>Signing of the Association Agreement</i>	
<i>The first stage</i> - March 21, 2014	the signing of the political part of the Agreement and the Final act of the Summit, which on behalf of Ukraine signed by the Prime Minister of Ukraine A. Yatsenyuk.
<i>The second stage</i> - June 27, 2014	the signing of the economic part of the Agreement – Sections III "Justice, freedom and security," IV "Trade and issues related to trade" V "Economic and sectoral cooperation" and VI "Financial cooperation and regulations regarding anti-fraud", which together with the remainder of the Transaction constitute a single document.
16 September 2014	The Verkhovna Rada of Ukraine and the European Parliament synchronously ratified the Association Agreement between Ukraine and the EU.

* compiled by the author.

The European Union and Ukraine started negotiations on the Association Agreement in 2007. After the accession of Ukraine to the World Trade Organization

on 18 February 2008, the negotiations were launched concerning the creation of the wide and comprehensive free trade area between Ukraine and the EU that paves the way for the liberalization of the movement of goods, capital and services as well as the broadened harmonization of non-tariff instruments of economic regulation.

On the 9 of September, 2008 at the Paris summit Ukraine and the EU reached a political agreement on concluding the future agreement in the form of an Association Agreement, which is based on the principles of political association and economic integration. During the 15th Ukraine - EU Summit in Kyiv, December 19, 2011, the parties announced the completion of negotiations on the future Association Agreement, on the 30th of March, 2012 the text of the future agreement was initialed by the heads of the negotiating teams of Ukraine and the EU. The signing of the Association Agreement between Ukraine and the EU had occurred in 2014.

Of course, there are a lot of positives in the Association of Ukraine with EU, among which: 1) The possibility of expanding trade with one of the largest and richest markets in the world (500 million consumers, a fifth of world gross product); The internationalization of entrepreneurship, – stimulation of economic growth; 2) The possibility of attracting foreign investment, as well as the resumption of lending from the IMF and other international financial institutions which provide loans under the lowest percentage in the world. During the years of independence Ukraine has received the biggest share of foreign direct investment from the EU, even more than from Russia or any other CIS countries; 3) The possibility of modernization of the economy according to the world's best standards.

On the other hand, Ukraine's access to international markets as well as forming an open economy also mean that the state economy should be internally stable, able to withstand the risks that accompany the processes of globalization and European integration. Unfortunately, the financial system of Ukraine in modern conditions is influenced by a number of threats, including the growing political instability, debt burden, imperfect fiscal policy, the shadow economy, a significant level of corruption in all levels of the financial system, the instability of the banking sector, etc. All these threats adversely affect the level of the state's financial security. In addition to these

there are also many integration risks for Ukraine, which could be altogether classified by the following features: 1) by the stage of the integration process - the *risks of entry* and the *risks of functioning* (or membership). Risks of entry and risks of functioning are closely related, the difference is due only to the integration phase; 2) by the level of coverage of economic agents - *unsystematic* (diversified) risks and *systematic* risk. *Unsystematic (diversified)* risks are risks related to the activities of individual countries, specified by their financial, economic, social, legal, political, environmental and other characteristics. *Systematic* risks depend on the specifics of the global economic environment functioning. Mostly they apply to all participants in the world economy (e.g., coverage of most countries of the global financial crisis); 3) for the period - *static risks* and *dynamic risks*. These risks reproduce the dependence of the uncertainty of the integration consequences from the period of time. Static risks are used to analyze during a year, and dynamic risks - over a longer period.

Separately we should notice risks of globalization. *Globalization* to the OECD's point of view [1] is the process by which markets and manufactures in different countries become increasingly interdependent due to dynamics of trade in goods, services, mobility of capital and technology. OECD among global risks chose such main groups: Systemic Financial Risks, Pandemics, Cyber Risks, Social Unrest, Anticipating Extreme Events. We can add to it problems of migration. Besides globalization concerns not only economic and financial markets, but also terrorism, crime, environmental degradation. All of these are systematic risks which relate to Ukraine as well. The global financial-economic crisis of 2008-2009, which had a negative impact on the socio-economic development of Ukraine demonstrated the vulnerability of the domestic financial system, its dependence on the external influence. In addition, during 2010-2015, Ukraine experienced an unprecedented combination of political, financial, economic and banking crises. The crisis of the banking system was accompanied by numerous defaults of financial institutions.

Under these conditions, the problem of protecting national interests in the financial sector and ensuring the financial security of the state is extremely important. As never before, the basic provisions of the Concept of national security in the

financial sector [2] (issued 15.08.2012) become relevant. Concept developers emphasized the need to solve the basic problem – the insufficient effective use of mechanisms aimed at neutralizing, minimizing the impact and eliminating the phenomena and factors that lead to the creation of external and internal threats to national security in the financial sector. One way of solving the determined problem is implementing structural reforms in the national economy and ensuring price and financial stability. What conclusions can we do out of this? There are such main factors that hinder the movement of Ukraine to EU. First, it is slowness of economic reforms, the absence of noticeable results of internal socio-economic transformations. Secondly, high levels of corruption and economic crime. Thirdly, there is a clear deficit of experienced specialists on European integration, especially among the political elite and civil servants of Ukraine.

So, in order to integrate into the EU, Ukraine should significantly change the process of implementing economic and financial policies. Actually need to abandon protectionist measures in the field of export-import operations, to legalize the shadow economy, to comply with the requirements for the protection of human rights. The biggest change needs to happen in the financial market. We need to change the tools for regulating the foreign exchange market and create conditions for the merger of our financial market with the globalized world. In practice, this can radically change the financial services market in the country and especially the banking system.

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