The paper analyzes premises of rent-seeking behaviour of economic actors on the banking service market in Ukraine. The authors determine essential economic consequences of rent-seeking behaviour in the national banking system and put forward some practical recommendations for improvement of governmental regulation of banking system as an important factor of strengthening of economic competitiveness and national security in Ukraine.

Keywords: rent-seeking behavior, banking service market, banking system of Ukraine, governmental regulation of banking system.

Problem setting. The effective operation of the banking service market, aimed at accumulation of cash flows and conversion of them into investment and lending instruments of real economy sector, is an important factor for sustainable and secure development of the national economic systems under conditions of new global challenges and disturbances. The problem stated is a highly topical one for transformation economies with mostly banking-oriented (Eurocontinental) financial systems. Underdevelopment of stock market in such economies transforms the banking sector into a top-priority segment of financial market, the most important mechanism for capital re-distribution and implementation of sustainable development objectives.

When analysing the development trends and inconsistent functioning of post-Soviet economies, modern researchers pay increasing attention to the phenomena of rental economy, where rental relations are brought from the margins to the mainstream of business activity, thus determining its primary objectives and results. Under these circumstances, identification of basic factors and socioeconomic consequences of rent-seeking behaviour of business entities on banking service market in Ukraine and development of practical recommendations for effective use of financial resources is an important task of economics and business practice, the solution of which will facilitate advanced modernization of the national economy, increase of its global competitiveness and strengthening of the national economic security.

Analysis of the previous research and publications. Complication of evolution mechanisms of modern economic systems, which are attended by revolutionary changes in correlation of production factors, heightens the researchers' interest to institutional fundamentals and non-economic factors of formation and distribution of rental income. The mentioned problems were reflected in works of representatives of neo-institutional theory – J. M. Buchanan, R. Coase, E. Krueger, D. North, A. Åslund, G. Tullock, R. R. Tollison et al. – who brought the problems of rent to a new level of theoretical summaries and practical recommendations. What is meant here is substantiation of the "rent-seeking theory" and analysis of rent-seeking behaviour as a certain demonstration of rental economy, where rental relations are brought from the margins to the mainstream of business activity, thus determining its primary objectives and results. Under these circumstances, identification of basic factors and socioeconomic consequences of rent-seeking behaviour of business entities on banking service market in Ukraine and development of practical recommendations for effective use of financial resources is an important task of economics and business practice, the solution of which will facilitate advanced modernization of the national economy, increase of its global competitiveness and strengthening of the national economic security.

At the same time, the financial globalization processes, attended by aggravation of international banking competition, strengthening of role of powerful transnational banks, structural changes on financial market, particularly, on the banking service market, as a result of consolidation of banking capital and implementation of innovative technologies are highlighted in the works of E. Ballarin [3], B. Weingast [4], D. F. Channon [6], L. S. Goldberg [8]. Certain aspects of their risky operations upon other economic taxpaying agents is the central issue of investigation for such researches as J. R. Barth, A. (P.) Prabha, Ph. Swagel [2], G. G. Kaufman [10], M. Labonte [14] et al.

Recognition of dual nature of rent-seeking behaviour of economic agents became a significant aspect of neo-institutional studies. Thus, E. Krueger proved that rent-seeking in competitive economy is a positive phenomenon, which leads to effective resource distribution [13]. The negative aspects of such activity are at the same time revealed under conditions of existence of non-market restrictions (for instance, state monopoly) and abatement of formal political and economic public institutions. In this context, the scientific researches held by G. Tullock, D. North, J. Wallis, S. Webb, B. Weingast come into notice, as they pay attention to the fact that "rent formation and restriction of competition may have either positive or negative consequences", and the resulting social losses from the rent-seeking behaviour are caused by diversion of essential resources to the struggle for getting it [29; 19]. A strong contribution into research of topical problems of production and appropriation of rental income as well as state regulation of these processes in transformation economies was made by the Ukrainian researches S. Arkhiereiev, V. Bazyevych, T. Haidai, A. Hrytsenko, A. Danylenko, V. Dementiev, B. Kvasniuk, O. Nosova, O. Pashkaver, P. Sabluk et al.

In terms of study of trends and controversies in development of modern banking service market as well as motives and stimuli of behaviour of its main agents, the scientific and analytical researches of scientists and practitioners of the last years are primarily dedicated to the criticism of hypertrophic development of financial sector and development of recommendations regarding strengthening of public regulation of activity of banking institutions in order to prevent repetition of the global financial crisis of 2007–2009. Thus, certain issues of post-crisis reformation of the global and national systems of banking control and supervision and, particularly, regulation of activity of banking institutions of systemic significance, prevention of impact of negative consequences of their risky operations upon other economic taxpaying agents is the central issue of investigation for such researches as J. R. Barth, A. (P.) Prabha, Ph. Swagel [2], G. G. Kaufman [10], M. Labonte [14] et al.

The Welfare Costs of Tariffs, Monopolies and Theft "The Welfare Costs of Tariffs, Monopolies and Theft" laid emphasis upon and analysed three types of rent-seeking behaviour of modern market economic agents, that are: (1) tariffs and quotas seeking by companies engaged in foreign economic activity; (2) seeking of monopolies formed through implementation of restrictive statutory acts; (3) misappropriation of rights of other persons [29].

Nevertheless, in spite of achievement of certain consensus regarding underestimation of institutional factors as an important reason for deep transformational fall in Ukraine and negative consequences of domination of counter-productive rent-seeking behaviour of economic agents in scientific community, the problems of rent-seeking activity of such economic agents on banking service market in Ukraine are still underdeveloped. Theoretic underdevelopment and controversial nature of the problems mentioned as well as their practical significance determined the choice of objective and tasks of the article presented, that are: research of the banking service market with due consideration of theoretic and methodologic novelties of neo-institutional theory and substantiation of strategic priorities of improvement of financial policy in the national economy on that basis.

Results. The banking service market in Ukraine is known to have undergone a complicated transition from command-administrative to market banking economy since early 1990s. However, the Ukrainian banks did not pursue the goal to ensure qualitative servicing of numerous customers at the initial stage, concentrating their efforts on servicing of a restricted range of customers. Rampant development of the Ukrainian banking service market started only in 2000s and was related to intensification of globalization processes, which resulted in active expansion of foreign banks, aggressive competition, extension of range of services offered based on implementation of innovations and marketing approaches to promotion of banking products.

A percentage of banking assets in GDP is illustrative in respect of dynamics of development of the banking service market in Ukraine as compared to other countries. In countries of Central and Eastern Europe the average value of this indicator made 91.3 % in 2008, 95.3 % in 2011, and reached 96.5 % as of the end of 2014. However, the highest percentage of banking assets in GDP in 2014 was observed in the Czech Republic (126 %) and Croatia (123 %). At the same time, economic recession and crisis phenomenon in the banking system resulted in reduction of this indicator from 98 % in 2008 to 86 % as of the end of 2014 in Ukraine (Table 1).

Table 1. Comparative characteristics of development dynamics of the banking service sector in Ukraine and countries of Central and Eastern Europe, 2008–2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Total assets in % of GDP</th>
<th>Total loans % of total deposits in % of GDP</th>
<th>Total deposits in % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>86/85/89</td>
<td>121/115/52</td>
<td>32/46/50</td>
</tr>
<tr>
<td>Hungary</td>
<td>123/124/100</td>
<td>138/133/107</td>
<td>42/45/40</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>108/115/126</td>
<td>81/79/54</td>
<td>67/73/81</td>
</tr>
<tr>
<td>Slovenia</td>
<td>116/126/100</td>
<td>166/155/101</td>
<td>41/45/43</td>
</tr>
<tr>
<td>Slovakia</td>
<td>90/81/81</td>
<td>60/83/56</td>
<td>52/60/62</td>
</tr>
<tr>
<td>Romania</td>
<td>65/70/61</td>
<td>124/111/86</td>
<td>31/36/37</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>100/98/104</td>
<td>120/106/87</td>
<td>32/67/78</td>
</tr>
<tr>
<td>Croatia</td>
<td>106/125/123</td>
<td>100/104/99</td>
<td>81/85/87</td>
</tr>
<tr>
<td>Serbia</td>
<td>65/88/85</td>
<td>122/126/111</td>
<td>43/42/43</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>85/85/96</td>
<td>109/118/66</td>
<td>58/50/58</td>
</tr>
<tr>
<td>Albania</td>
<td>77/86/84</td>
<td>62/61/55</td>
<td>76/71/76</td>
</tr>
<tr>
<td>Russia</td>
<td>68/75/109</td>
<td>112/90/40</td>
<td>61/47/61</td>
</tr>
<tr>
<td>Ukraine</td>
<td>98/81/86</td>
<td>219/163/64</td>
<td>44/37/44</td>
</tr>
</tbody>
</table>

Source: [21; 22].

In terms of percentage of total loans, provided by the Ukrainian banks, in GDP (the ratio is often used as a market maturity indicator), it made 77 % as of the end of 2008, which was one of the highest values in Central and Eastern Europe (the highest value of this indicator was only observed in Slovenia – 85 %). However, the indicator value decreased to 64 % in Ukraine as of the beginning of 2015. It should be noted that, despite the descending trend, a high loan / deposit ratio is typical for the banking service market in Ukraine – it made 145 % as of the end of 2014. The value of this indicator is the highest in Central and Eastern Europe, and it reflects the low deposit base buildup rate of the Ukrainian banks and a high percentage of funds, raised due to foreign borrowings, in their loan portfolios. The volume of deposits raised on the banking service market in Ukraine is one of the lowest in Central and Eastern Europe. Considering the reduction in real GDP volume by 6.8 % as of the end of 2014, this indicator made 44 % of GDP in Ukraine, while it made 87 % in Slovenia and Croatia and 81 % in the Czech Republic.

It is important to note that the most pressing problems of development of modern Ukrainian banking service market are as follows: (1) limited lending capacity of the real economy sector as compared to the needs of innovation and investment development; (2) low public confidence in banks and entire banking system. What is meant here is the loss of social capital on the Ukrainian banking service market, caused by non-return of private deposits placed with the Savings Bank of the USSR in full; adverse conditions of development of the banking service sector in 1990–1998, strengthening of its unstable functioning during the global financial crisis of 2008–2009, exacerbation of the current banking crisis, which started in 2014; inadequate operation of the National Bank of Ukraine and the Deposit Insurance Fund and, in general, weak system of protection of interests of banking consumers, etc. With this in view, it can be mentioned that the institutional incompleteness of market relations on the Ukrainian banking service market, which is reflected in insufficient effectiveness of state regulation of the economy, encourages counter-productive rent-seeking behaviour of economic agents and result in significant public losses.

In this context, it can be mentioned that the analysis of works of national and foreign researchers allows to distinguish the following fundamental provisions of the rent-seeking theory in modern market economy:

1) rent-seeking behaviour of economic agents is related to the use of rare resources for the purpose of capturing of artificial transfer;

2) the rent-seeking process develops horizontally and vertically, creating three levels of competition for rent appropriation (between producers investing funds in acquisition of beneficial operating conditions for themselves; between officials and politicians in public and governmental authorities; between recipients of public subsidies, grants, loans, etc.);
4) rent-seeking activity of economic agents may be active in its nature, which is related to seizure of the privileged position and reduction of competition through the system of misappropriated privileges, or passive in its nature, being implemented in the state-formed regulation system;

5) rent-seeking in modern market economy is of a systemic nature, as successful specific rent-seeking behaviour of a certain individual transforms into a conscious strategy of the individual's rent-seeking activity and stimulates the formation of appropriate informal institutions at societal level in general;

6) redirection of political and economic interests of agents from formation of effective economic institutions to serving interest of special groups, seeking access to rental income, hinders market transformations in transition economies; replaces market competition with conspiracies and struggle between individuals and groups controlling rental resources; gives rise to the use of governmental authorities for blocking of progressive institutional reforms; promotes corruption, increases shadow capitals and reduces innovation incentives, etc. [5; 9; 15; 19; 28].

The practice of formation of the Ukrainian economy, which strengthens institutional imbalance on the banking service market, is an eloquent evidence hereof. The initial stage of formation of the mentioned market is known to be characterized with unregulated nature, lack of control and aborted regulatory support, which created prerequisites for ineffective rent-seeking behaviour of state banks and small-scale banking institutions created through re-incorporation (the so-called "pocket banks" or "agent banks"), which focused on serving the needs of their founders. Most of the newly incorporated banks had minor capital, post-privatization debts and doubtful customers and performed risky transactions. What is meant here is the focus on speculative gains on the currency market and transfer public loans as well as gains from arbitrage in commodity export. The loans provided by such financial intermediaries were mostly short-term ones, were not duly collateralized and were usually of a non-market nature of personal relations between the borrower and the lender [20].

The lobbying of interests of certain economic agents and obtaining of beneficial operating conditions by separate business entities or groups of entities, distribution of public subsidies in their favour as well as other circumstances became considerable in their scale [11]. Rent-seeking activity of commercial banks within this period was stimulated with significant transaction costs for deposit funding and loan granting, as: (1) the depositors did not have any absolute confidence in security of their savings; (2) information on borrowers could be improper. The strengthening instability of the Ukrainian banking system, reflected in the banking crises of 1998, 2004, 2008–2009, 2014–2015, was a consequence of ineffectiveness of institutional system, which made mutation of the transplanted formal institutions and application of informal relations, established in a time of administrative-command economy, possible.

Considering the adverse endogenous and exogenous factors of modern development of the national economy (economic slowdown, strengthening of political instability, annexation of Crimea, military actions in the Eastern Ukraine, rapid inflation at the rate of 45 % per annum, three-time devaluation of the national currency, rising deficit of the national public budget and public debt), the researchers and practicing experts believe that ineffectiveness of the national legislation and regulatory mechanisms of banking activity, which creates conditions for counter-productive rent-seeking behaviour of economic agents of the banking service market, is one of the main reasons for current crisis of the banking system of Ukraine.

Thus, O. Dziubliuk and V. Rudan turned attention to actual lack of proper regulation of two main directions of banking activity in Ukraine that are lending and foreign exchange transactions. The thing is that the currency relations in the national economy are now regulated by the Decree of the Cabinet of Ministers of Ukraine "On Currency Regulation and Currency Control" dated February 19, 1993, which provides for a limited range of currency relations. At the same time, a single Regulation of the National Bank "On Lending" was revoked in the lending sphere of Ukraine in 2004 [7]. In the absence of an effective statutory regulation of currency relations, the level of loan dollarization in the Ukrainian economy increased from 42.2 % in 2004 to 59.1 % in 2008, and the level of deposit dollarization – from 36.5 % to 49.9 % in 2009 [24]. Thus, as of the end of 2015, the percentage of foreign currency loans in the loan portfolio of the Ukrainian banks, which were mostly provided in 2008–2009 for purchase and construction of real estate, still remains high and makes about 55 %.

The lack of effectiveness and non-transparency of mechanisms for provision of refinancing loans and control over the intended use thereof should be taken into account as well. As the Head of the National Bank of Ukraine says, considerable financial damage to the national economy was brought with the rent-seeking behaviour of oligarchic business groups, which reflects in non-transparent ownership structure, large volume of loans provided to the related parties, existence of numerous banks, which apply criminal corruption schemes to extract funds from the country, etc. [25].

Inability of the Ukrainian banking system to effectively perform its key functions due to extension of the rent-seeking behaviour of economic agents raises a number of negative socio-economic consequences, including:

- existence of financial institutions, which do not perform and are not intended to perform the financial intermediation function and pose significant systemic risks to the economy;
- insufficiency or complete lack of guarantees of rights to provision of financial services consumers' interests;
- low standards in banking solvency and liquidity management, which resulted in insolvency and bankruptcy of numerous banks in 2014–2015 (including one bank of systemic significance);
- loss of funds by the affected depositors and customers and, consequently, outflow of deposits from bank accounts and further decrease of confidence level;
- increase of the percentage of non-performing loans in total bank loan portfolio, which, in its turn (through significant contributions to reserves), leads to a negative financial result of the banking system activity, etc [7; 12; 17; 18; 26].

Thus, the accumulated imbalances in the banking activity under unfavourable economic and political conditions found their reflection in the banks' failure to fulfil their obligations to customers. Over the past two years, the number of licensed banking institutions in Ukraine decreased by 60 and made 120 as of the beginning of 2016 (with 40 of them being the banks with foreign capital), whereas it made 184 (with 53 of them with foreign capital) as of the beginning of 2009, 176 (with 55 of them with foreign capital) in 2011, 180 (with 49 of them with foreign capital) in 2014 (Fig. 1). Only in 2015, the regulator forced market exit of 33 insolvent banks (including those, which breached the law on money laundering and terrorism financing).
Note: Since 2013, the list of licensed banks incorporates one remedial bank.

Fig. 1. Change in structural composition of the Ukrainian banking institutions, 2005–2016

Source: [23].

Therewith, the global position of the Ukrainian banks according to their level of soundness has changed little, if at all, since 2009 subject to the WEF Global Competitiveness Index. The dynamics of this indicator is unfavourable: particularly, the Ukrainian banks take the 140th position among the banking institutions of 140 countries represented in the rating of 2015–2016 (Fig. 2).

Fig. 2. Position of Ukraine in the WEF Global Competitiveness Index according to soundness of its banks

Source: [27].

It is important to note that freeze of payments on deposits and depreciation of deposits due to high inflation rate led to a catastrophic decline in confidence in the national banks, deposit outflow and flow of such funds to the currency market. Particularly, the maximum guaranteed deposit amount to be returned to individual depositors in case that the NBU declares the banking institution insolvent makes only UAH 200,000 in Ukraine. The individual or corporate depositors, the amount of funds of which on bank accounts exceeds UAH 200,000, may get a refund only in the process of liquidation of the banking institution and sale of its assets. However, as practice shows, the possibility of a return, even partial, of funds on bank deposits in the process of sale of assets of the bank under liquidation is rather remote. It was the customers’ desire to preserve their own savings under conditions of high confidence in the banking system, instability of the national currency and high inflation expectations, which resulted in significant outflow of deposits from bank accounts. Only in 2014, the depositors withdrew nearly UAH 126 billion from bank deposits, and the deposit outflow reached UAH 20 billion for 10 months of 2015 [25].

The increase in non-performing loans volume, the percentage of which in total loan portfolio set the record and increased during 2014–2015 by 13.5 % (from 7.7 % as of the beginning of 2014 to 21.2 % as of the end of 2015) or by 19.9 % as compared to 2008 (from 1.3 %) (Fig. 3) was an eloquent evidence of the crisis of the banking system of Ukraine. The decrease in real personal income under conditions of considerable devaluation of the national currency...
caused significant difficulties in servicing of credit obligations (especially the currency ones) by the borrowers, which, in its turn, facilitated the increase in past-due debt. Particularly, the non-performing bank loans volume increased by 188.2 % (UAH 132.08 billion) during 2014 and eleven months of 2015 and made UAH 202,257 million as of 01.12.2015. Moreover, according to the data provided by international organizations, the percentage of past-due debt made 40.0 % of total loans provided by the banks (considering the exclusion of restructured non-performing loans by the national regulator). It should be also noted that the highest percentage of non-performing loans in total bank loan portfolio made 11.2 % as of the beginning of 2011 or 42.0 % according to international estimates. The deterioration in the quality of loans and other assets and final formation of active operations reserves since the beginning of 2014 revealed insufficiency of equity and regulatory capital of the banks and made negative impact upon financial results of the banks [26]. Hence, the losses of the Ukrainian banks made UAH 57.28 billion, the return on assets made 5.12 % and the return on capital made 47.78 % as of 01.12.2015 [23].

Note: * – insolvent banks excluded.

Fig. 3. Past-due debt percentage in total loan portfolio, %

Source: [21; 22; 23].

Conclusion & Discussion. Consideration of theoretical and methodological novelties of institutionalism in terms of understanding of nature and developmental patterns of modern rental relations allow to depart from a narrow natural-resource interpretation of rent and comprehend the complexity and poly-structural nature of the banking service market reformation in the post-Soviet economies. In this context, the dynamic activity of the Ukrainian state towards transformation of modern fragmentary regulation of rental relations into a comprehensive rental policy, aimed at prevention of counter-productive and stimulation of productive rent-seeking behaviour of economic agents, should become one of the priorities of post-crisis modernization of the Ukrainian economy. As V. Bazylevych and V. Osetskyy notes, providing institutional conditions for sustainable economic growth may be possible as a result of institutional intensification, strengthening of cooperation and complementarity of all types of institutions that will promote increasing confidence in the economic agents [1]. The following steps, implemented by the regulator in 2014–2015, became essential in this regard:

1) stress-testing of the largest banks, which served as a basis for development of relevant capitalization programs and restructuring plans;
2) increase of required minimum amount of statutory capital to UAH 500 million for new banks and approval of schedule for bringing the statutory capital of operating banks in line with new requirements within 10 years;
3) improvement of procedure for market exit of banks and procedure for monitoring of the related parties in line with implementation of strict procedures for disclosure of bank ultimate beneficiary owners;
4) implementation of legislative initiatives for strengthening of liability of bank owners and management for accounting abuses and causing banks to go bankrupt;
5) implementation of a supervisory institution to monitor the use of funds, raised from the NBU, by banking institutions and disclosure of information on refinancing loans in terms of certain banking institutions;
6) development of a Comprehensive program for development of the Ukrainian financial sector until 2020, within the three stages of which (clearance, reboot and creating conditions for long-term sustainable development of financial sector) it is planned to implement a set of measures aimed at ensuring stability and dynamic development of financial sector, development of institutional capacity of regulators and increased protection of consumers’ rights [25; 26].

At the same time, the limitation of scope of counter-productive rent-seeking behaviour of economic agents on the Ukrainian banking service market requires significant institutional changes aimed at restoration of confidence in the banking institutions, reduction of inflationary expectations of economic agents, currency market stabilization, stimulation of funding of the banking system through increase of the state-guaranteed deposit amount to be returned for individuals and implementation of minimum guaranteed deposit amounts for businesses, adjustment of mechanisms for issue of stabilization loans in terms of development of clear criteria and requirements to the banks.
eligible to get refinancing loans, strengthening responsibility of banking institutions for improper use thereof, ensuring priority access to such loans for the banks, which finance strategic development programs, increase of soundness of the Ukrainian banks and responsibility of their founders for the bank performance through statutory formalization of the institution of guarantor of financial stability, restoration of economy financing, and refocusing of banks on active transactions with real economy agents through financing of innovative investment projects.

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ПЕРЕДУМОВИ ТА ЕКОНОМІЧНІ НАСЛІДКИ ПОШУКУ РЕНТИ НА РІВНІ БАНКОВСЬКИХ УСЛУГ В УКРАЇНІ

У статті досліджено основні передумови рентоорієнтованої поведінки суб'єктів ринку банківських послуг в Україні. Розкрито економічні наслідки пошуку ренти в національній банківській системі. Обґрунтовано практичні рекомендації щодо вдосконалення державного регулювання банківської системи як важливого чинника забезпечення конкуруючої здатності та національної безпеки України.

Ключові слова: рентоорієнтована поведінка; ринок банківських послуг; банківська система України; державне регулювання банківської системи.

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ПРЕДПОСЫЛКИ И ЭКОНОМИЧЕСКИЕ ПОСЛЕДСТВИЯ ПОИСКА РЕНТИ НА РЫНКЕ БАНКОВСКИХ УСЛУГ В УКРАИНЕ

В статье исследованы основные предпосылки рентоориентированного поведения субъектов рынка банковских услуг в Украине. Раскрыты экономические последствия поиска ренты в национальной банковской системе. Обоснованы практические рекомендации по совершенствованию государственного регулирования банковской системы как важного фактора обеспечения конкурентоспособности и национальной безопасности Украины.

Ключевые слова: рентоориентированное поведение; рынок банковских услуг; банковская система Украины; государственное регулирование банковской системы.
THE BUDGET CLASSIFICATION AS THE BASIS OF THE USAGE OF THE METHOD OF ACCRUAL IN THE PUBLIC SECTOR

Components of the budget classification of Ukraine, which are used for accounting and administration of budgets of different levels, have been investigated. The five-level hierarchy of normative documents in accordance with international practice has been proposed. The analysis of the budget classification of Ukraine and of that one, which has been developed in accordance with the IMF GFSM 2001, has been done as the basis for implementation of the method of accrual in the public sector. Proposals on the improvement of the budget classification and the method of accrual have been made.

Keywords: budget; budget classification; method of accrual.

Formulation of the problem in general and its connection with important scientific (practical) tasks. Successful functioning of the economy of any country contributes to optimal ensuring of formation and fulfillment of budget, the important components of which are classification of income and expenses and usage of the method of accrual. The structure of income reflects tax public policy, expenditures – priority directions of investment of money. Accounting in the public sector is under control of the state (the Ministry of Finance of Ukraine, hereinafter – the MFU), which provides general methodological guidance for its onliness, ensuring uniformity and comparability.

According to the "Strategy for modernization of the system of accounting in the public sector for 2007-2015 years" (hereinafter – the "Strategy") [1], subjects of the public sector are: the MFU, administrators of budgetary funds, the State Treasury Service of Ukraine and funds of obligatory state social and pension insurance. The definition of common approaches to accounting for all subjects of the public sector provides adjustment of both accounting and control of budgetary funds flow during the whole chain. That is from the source of income to the final recipient.

Analysis of recent research and publications on the problem that is under consideration. In economic literature a significant contribution to the theoretical research of budgetary classification of income and expenses, and also to their accounting, which is built on the legal framework for subjects of public sector, has been done by famous economists, namely: M.H. Bielow, M.T. Bilukha, V.V. Burtsev, L.V. Hizatulina, R.T. Dzhokhdah, T.I. Yefimenko, S.O. Lysiuk, L.H. Lvynska, M.H. Mykhailova, S.V. Svirko, N.I. Sukhko, I.B. Stefaniuk, O.O. Chechulina, V.M. Fedosov and others. Analysis of their publications indicates the absence of proposals on improving the system of legal regulation in Ukraine, the budget classification in accordance with the IMF GFSM 2001 and the method of accounting.

Unsolved aspects of the general problem. Reform of administration of public finances and reconstruction of accounting and reporting, which is connected with it, causes the need to make changes in the system of legal regulation in Ukraine. That is, its improvement on the basis of international practice and distribution on relevant hierarchic levels. Today there is the transformation of the national accounting system, whose main objective is to ensure transparency of accounting and reporting in general in order to increase the efficiency of budget expenses and quality of administration of the budget process. In order to fulfill this task, it is important to follow harmonization of accounting rules and procedures concerning all economic categories, which must be classified according to the IMF GFSM 2001 p. [2]. At this stage of reforming, arose the necessity to change both the budget classification and also the accounting methodology and their integration. This will let to move to the medium-term financial planning and budgeting, which is result-oriented.

The budget classification in Ukraine, which is the basis of accounting, is a grouping of income, expenses and sources of funding budget deficits at all levels of the budget system, types of the state debt and state assets.

In the process of reforming of accounting it is provided the usage of developed and approved National (Regulations) Standards of Accounting in the Public Sector (hereinafter – N(R)SAPS) [3] on the basis of International Financial Reporting Standards for the Public Sector (hereinafter – IFRS) [4], based on the method of accrual. The research of local, scientific and methodological support of the usage of the method of recognition of income and expenses in accounting of the public sector of Ukraine shows that it is almost absent in legislation and in practice. Especially it touches upon such terms as "cash method", "method of accrual", "modified cash method", "modified method of accrual". Analysis of the current regulatory framework shows that only certain documents (the "Regulation on organization of accounting and reporting on implementation of the state and local budgets in the bodies of the State Treasury Service of Ukraine") [5], "The Budget Code of Ukraine" (hereinafter – BCU) [6], the Decree of the Cabinet of Ministers of Ukraine [1]) mention the use of the cash method and accordingly the accrual method. Nevertheless, they do not indicate the mechanism of implementation of these methods.

The goal of this article is to improve the legislative base, the budget classification in accordance with the requirements of the IMF GFSM 2001 and substantiation of the method of accrual for accounting in the public sector.

Presentation of the basic material of the research with full justification of scientific results. A key position in the public sector belongs to the budget process, which according to the BCU [6] consists of the following stages: drafting budgets; consideration of the draft and adoption of the law on the state budget for the certain year (local budget decision); implementation of the budget, including making amendments to the law on the state budget (local budget decision); preparation and review of the report on the implementation of the budget and making decision on its implementation. The MFU as the major participant in the budget process determines the overall level of budget income, expenses and loans and evaluates the volume of its financing for drafting the project of the state budget for the next year.

The budget expenditure is formed considering indicators, which have been included by major administrators of budget funds to budget requests. The MFU analyze budget requests in order to detect the compliance to purpose, to priority, and to efficient use of budget funds. The decision on the inclusion of the budget request to the draft of the state budget is made basing on the results of this analysis.