

## THE CURRENT STATE OF THE SHADOW ECONOMY IN UKRAINE

**Introduction.** The spread in Ukraine a socio-economic phenomenon of the shadow economy, as well as volumes of production and financial resources that are traded in this area represent a significant obstacle to the sustainable economic development. A major problem is that the vast majority of transactions that can be attributed to the shadow, can be done in the legal regulatory framework, and prove the fact of shadow activities require considerable effort by public authorities.

Operation of the shadow economy, along with legal resulted in a significant reduction in the structure of budget revenues, the share of tax revenues that threatened the implementation of important state programs. Because of that shadow economy can not be fully reflected of the official statistics, development of special methods of accounting and estimates, and the amount of arrears to the budget that allow us to estimate the real scale of operations is the urgent task of the present stage of development.

### **Analysis of recent research and publications.**

Among the foreign scientists who were studying the shadow economy, it should be noted E. Feyha, G. Grossman, R. Gutmann, B. Rumer, L. Ronseka, E. Saterlenda, K. Hart, S. Golovnina, V. Ispravnikova, T. Koryahinu, Y. Kozlov, O.V. Krylov, in Lazovskoho, L. Nikiforov, A. Osipenko, A. Shokhin and others. Significant contribution to the understanding of the formation and development of the shadow economy in Ukraine have such native scholars as A. Bazyliuk, A. Baranovsky, V. Borodyuk, Z. Varnaliy, V. Volyk, J. Zhalilo, S. Kovalenko, V. Mandybura, O. Paskhaver, J. Prilipko, T. stranger, A. Revenko, O. Turchynov et al.

Economists are trying to figure out the nature and characteristics of the shadow economy, seeking the cause and ways to legalize and develop methods of calculating the shadow economy. Problematic issues at the present time should be considered such as: identifying factors that contribute to the development of shadow economic activities in the business, creating a data bank, which accumulates and classifies all types of shadow economic activities, information forms the basis for determining the real situation in the state, regions, allowing timely develop preventive measures and mechanisms for management of legalization of economic entities.

**Objective.** Consider the concept of “shadow

economy”, analyse the shadow economy in Ukraine and to consider its impact on Ukraine’s economy as a whole.

**Basic material.** Considering the problems of the shadow economy, especially, need to understand that it presents itself. The term “shadow economy” emerged in the development of organizational and legal measures to combat money laundering and capital of illicit origin [1].

O. Turchynov proposed by shadow economy aware of the economic activity that is not included and is not controlled by official government agencies, and (or) aims to generate income through the violation of the law [2, p. 11].

For Bazyliuk A., Volyk V.F. “Informal economy arises when the actions of government officials and state regulatory bodies, individuals or groups conflict with the objective economic laws” [3, p. 37].

Lamanova T. [4, p. 22] thinks that the informal economy is a set of relations between different individuals, groups, individuals, individuals and institutional units separate institutional units for production, distribution, redistribution, exchange and consumption of material goods and services, results which for one reason or another does not reflect the official statistics and the extent of which is not included in the macroeconomic indicators.

Golovnin S.D. This term the society understands the actual uncontrolled production, distribution, exchange and consumption of inventory and services [5, p. 40].

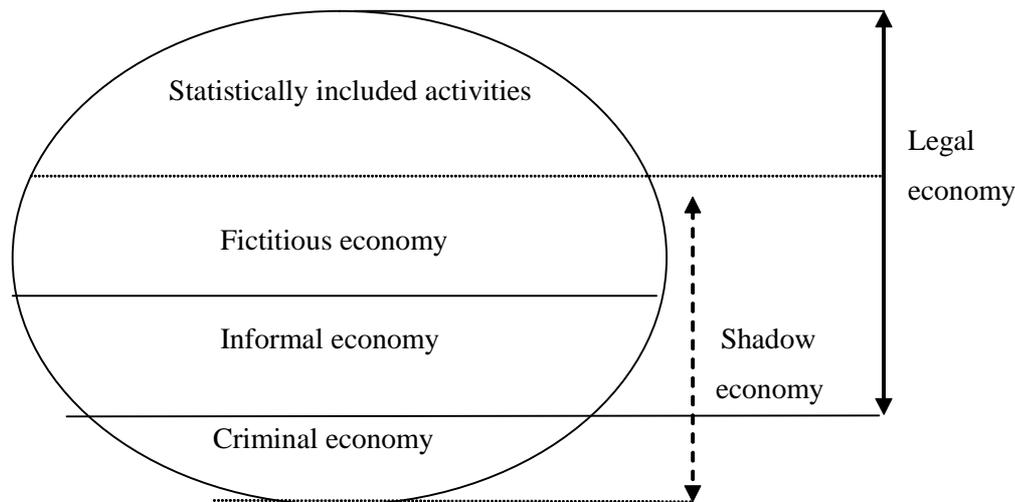
Lazovskyy V. [6, p. 62] characterizes the shadow economy as an underground, hidden from official records and control of economic activity.

Ispravnikov V.A. determines the shadow economy as one that operates outside the legal framework [7, p. 8].

Almost all the authors are united in the fact that the shadow economy are outside the accounting and control, as well as legal support, and it can not agree.

However, experience has shown that the shadow economy is not only the various activities that are statistically accounted for and controlled by the state but also the fictitious economy. It may be perfectly legitimate form of activity, but organized so that to generate income, such activities prejudicial to the state (no return value added tax (VAT), salary payment in the banking structures in the form of shares, offsets, etc.).

Analysis of works devoted to the problems of the



**Fig. 1. The overall structure of economic activity**

shadow economy shows that most scientists define the shadow economy, as a set of overlooked, unregulated and illegal (hidden, not presented for taxation) activities to produce goods and services [2].

In our country, unlike the West, informal institutions, forms of shadow also be studied as the legal institutions of the economy. This is because domestic economic culture more and more law-abiding “mob” than the West.

Domestic economists Shevyakova O.Y. and Nikolaev M.I. considered the most comprehensive concept defined by Feyh: “shadow economy includes all economic activity, which for some reason not included in official statistics and does not fall in GDP” [1].

Important also is the problem of division of the shadow economy in some sectors. According to the American economist Blades to the shadow economy include:

1. production completely legal product that is hiding from the authorities because of reluctance to pay taxes;
2. production of illicit goods and services prohibited;
3. hidden income in kind.

The structure of economic activity taking into account the existence of the shadow of its forms can be shown schematically (Fig. 1) [4, p. 23].

According to the version of the System of National Accounts, recommended by the UN and Eurostat, the shadow economy refers to the economy:

1. “Hidden” — allowed by law, but not shown;
2. “Informal” — the activities of enterprises operating lawfully owned by households and ensure the activities of these farms;
3. “Illegal” — illegal production and distribution services.

In turn, senior fellow at the Institute of Macroeconomic Research under the Ministry of Economy and Trade Development Russia Tatiana Koryahina to the shadow economy include:

- 1). legal economic activity that is not counted in official statistics because of the small turnover;
- 2). legal economic activity, within which there is a violation of economic or criminal law;
- 3). illegal activity [9].

Hlinkina S.P. selects the fourth segment of the shadow economy — a false economy, that economy postscript, speculative transactions, bribery and all sorts of fraud.

The Russian sociologist and economist Radayev V.V. proposes the following classification of the informal economy by the degree of legality of business transactions:

- 1). legal (informal) economy — economic activity that does not violate any existing legal provisions or rights of other economic agents, which while not recorded in the accounts and contracts (natural production of households);
- 2). non-legal economy — economic activity that violates the rights of other economic agents, but not regulated by current legislation and is thus in non-legal areas;
- 3). semi legal economy — economic activity in their respective goals of the legislation, but occasionally goes beyond it, a “grey market” (they are associated with different ways of tax evasion);
- 4). illegal, criminal economy — economic activity is illegal and inherently violate the law. This “black markets” (drug trafficking, illicit manufacturing and trafficking in arms, a large smuggling, prostitution, human trafficking, racketeering and the use of force).

**Typical types of shadow activities in the area of entrepreneurship, the level of shadowing**

№ п/п	Typical types of informal activities, evaluation criteria	The level of shadow, %	Scope of manifestation in the business sector
1.	Illegal activity in numbers employed in unregistered facilities	75,3	Individual entrepreneurship
	in numbers employed in unregistered facilities	62,3	Small business structure in number of employed persons 5.1
2.	Evasion of taxes from established norms and standards, the total tax	10-50	61.3% of registered businesses
3.	Keeping corrupt government and regulatory bodies (the share of profits to be transferred informally to representatives of corrupt organizations)	8-50	67.4% of the number of registered businesses
4.	Maintenance of criminal groups from income businesses	5-20	Business structures, which operate illegally
5.	Theft of state and collective property as % of total registered crimes	27,8	Almost every second the business object (of tested) reported embezzlement
6.	Violation of the law in transactions with cash, financial and credit operations	5,9	Business structures, specializing in providing financial and credit services including: violations of foreign exchange transactions
7.	Violation of rules of trade and illegal trading activities, fraud buyers and customers	6,3	Business structures in the area of trade

Sources of income as one of the constituent elements of the shadow economy (“underground” and “informal”) are the various levels and different and may change under the influence of various factors [1].

Shadow economy in Ukraine is the result of a systemic economic crisis that has arisen due to lack of methods of market reforms. The spread of the shadow economy in Ukraine was held at the destruction of existing distribution relationships and building new ones, which significantly raised the established balance of interests of economy, parity of its individual areas, effective management motivation [9].

Based on review of economic research, publications, focusing on quantitative measurement of the level of shadow economy, we can conclude that in practice are mainly used valuation methods that are likely in nature.

According to research Ortynsky V.L. observed the shadow of the next level in various business areas of Ukraine (Tab. 1) [10].

According to the Ministry of Economy, the level of shadow economy of Ukraine on the basis of the second quarter of 2009 is 36% of official GDP [11].

Shadow economy of Ukraine in terms of financial and economic crisis has become a total character and estimated individual experts and researchers of up to 60%

of GDP, which represents nowadays a real threat to national security. This informed the scientists of NAS of Ukraine in the national report “Socio-economic situation in Ukraine: Implications for People and the State”.

Most experts believe that 25-50% of the turnover of private enterprises are not reflected in documents of accounting (shadow turnover). The level of the shadow depends on what kind of enterprise, “who stands behind it” and so on. Most small businesses “shadow” can reach 80-90%.

According to independent experts, the most common types of informal activities: optimization of taxes, prostitution, drug trafficking, illegal migrant labour, gambling. In the shadow of the common species are also illegal return value added tax, wages “in envelopes”.

Very high levels of corruption in areas that carry energy supply, land allocation for construction, operation of commercial real estate (rental) and privatization of state property. Here there is a significant gap between market and “sales” prices for “goods” and therefore the possibility of obtaining super-profits that are the source of bribery and “kickbacks” [12].

The share of “shadow” in the domestic economy is 45.4% of the size of official GDP. The absolute amount of unaccounted GDP, which created the invisible workers

in 2009, is 420 billion. The study also identified other parameters of the underground Ukrainian economy. Some of them have special value, as this is published.

Analysis of official statistics showed that most shaded sector of Ukrainian economy among the legitimate activities of the study, was trade — the level of shadow here reaches 50% of the size of official GDP, which is formed in this sector.

Officially, workers counter and cash register set up for the first 6 months of 2009, 64 billion. value added (GDP), respectively, “traders invisible front” brought the shadow economy of Ukraine about 32 billion.

The next level of shadow sectors are construction and real estate. It covered 37% of the darkness. In monetary terms it is about 7.4 billion USD.

Third and fourth place is occupied by the financial sector and agriculture. In these areas 27% of hidden activities. However, in absolute terms financiers far ahead of farmers. The first brought the shadow of GDP in the first half of 10 billion USD., While others — only 4,4 billion USD.

In the fifth processing industry — in the “shadow” is more than one fifth of official GDP generated by this sector. And since this is the largest segment of the domestic economy (18.6% of GDP), then its contribution to the shadow also very significant — 16.3 billion.

For much of the domestic business partial or complete translation of the shadow also turned out to be the only way to avoid bankruptcy. Shadow business is not burdened with excessive debt burden, is not subject to the tax burden and not subject to bureaucratic obstacles. Due to this he was much resistance crisis. As long as accountable to the state economy rapidly declined, the informal sector has not changed much in absolute terms, but even the official GDP increased markedly [13].

To date, very urgent need to identify and calculate the level of shadow economy.

To further improve the calculation of shadow economy and the provisions of the order of the Ministry of Economy of Ukraine № 123 of Ministry of Economy of Ukraine from 18.02.2009 approved the guidelines calculate the level of shadow economy. These Guidelines are designed to assess the level of shadow economy in the national economy in general and in specific types of economic activity through indirect calculations at the macroeconomic level, the cost of goods (and services) that intentionally or lowered entities in statistical reporting.

The level of shadow economy in Ukraine is different in areas and regions.

To calculate the shadow economy using different methods. Most appropriate for determining the shadow economy in the current statistical base are the following methods: «spending — retail turnover,» the financial,

monetary, electric. The method of loss firms is used to assess the minimum and maximum ratios, within which is the level of shadow economy [14].

**Conclusions.** Shadow economy — is just as important as it is a controversial issue. Argue how the composition and volume of the shadow economy. According to different estimates of informal sector occupies 40 — 60% of Ukraine’s economy.

In Ukraine at official meetings today remains an acute problem of corruption, drug trafficking, prostitution, illegal manufacturing and sales, fictitious contracts and transactions. State of the country’s economy remains imperfect. Unstable legislation discourages entrepreneurs from legalizing their activities and forced to go in the “shadow”. Shadow economy in Ukraine — it is not a solitary phenomenon, but the result of a systemic crisis of the economy.

In all countries with market economic structure has been, is and probably always will be examined. It is just that the crime: the scale of the phenomenon can be reduced, but eliminated entirely — almost impossible.

It should be noted that in the fight against the “shadow” should make a list of regulatory changes in existing legislation, taking into account its own and international experience. Of great importance is the consistency in international law and state regulation of economy, because most subjects the shadow economy are differences in the legislation of countries for profit. Equally important is the consistency within the country — between different government agencies. Compatible, purposeful and timely actions will ensure effective action on reducing the shadow economy. It is not just legalize the shadow economy, to increase the effectiveness of state regulation in general. As for “hidden”, allowed the economy, it should reduce taxes, simplify licensing. At the same time not be allowed permissiveness, reduce penalties and soften the administrative and criminal responsibility to avoid, proliferation of criminal sector.

The implementation of these and other measures will enable some extent localized shadow economic activities, to return at least the least criminal of the shadow economy in the direction of normal development. All this will contribute to the efficient handling of macro-, micro-level, forming a positive image of our country in the eyes of the world commonwealth and affect the flow of foreign investment is needed for structural adjustment and economic complex of economic growth in Ukraine. It is not just legalize the shadow economy, to increase the effectiveness of state regulation in general.

Today, the important task of economists is to develop and improve methods of identifying and calculating the level of shadow through which you can and will fight the “shadow” in the economy.

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### **Spornyak S. O., Khrypun T. V. The Current State of the Shadow Economy in Ukraine**

The article describes the problems of the shadow economy in Ukraine as well as the nature of the concept “shadow economy”. The current state of the shadow economy in Ukraine has been analysed. Calculation methods of the shadow economy level are presented as well. The shadow economy impact on the economy of Ukraine has been discovered.

*Key words:* shadow economy, twilight level of shadow economy, shadow sector.

### **Спорняк С. О., Хрипун Т. В. Сучасний стан тіньової економіки в Україні**

У статті досліджено види й форми вияву економічної діяльності в сфері підприємництва України. Розкрито суть поняття „тіньова економіка”, проаналізовано сучасний стан тіньової економіки в Україні. Дослідження підтверджують, що сучасна тіньова економіка має широкомасштабний характер упродовження в усі сфери економічної діяльності. Розглянуто наявні методи розрахунку рівня тіньової економіки та виявлено її вплив на економіку України.

*Ключові слова:* тіньова економіка, види тіньової діяльності, рівень тінізації, тіньовий сектор, методи оцінки рівня тінізації, детінізація економіки.

### **Спорняк С. А., Хрипун Т. В. Современное состояние теневой экономики в Украине**

В статье исследовались виды и формы проявления экономической деятельности в сфере предпринимательства Украины. Раскрыта суть понятия «теневая экономика», проанализировано современное состояние теневой экономики в Украине. Исследования подтверждают, что современная теневая экономика имеет широкомасштабный характер внедрения во все сферы экономической деятельности. Рассмотрены существующие методы расчета уровня теневой экономики и выявлены ее влияние на экономику Украины.

*Ключевые слова:* теневая экономика, виды теневой деятельности, уровень тенизации, теневой сектор, методы оценки уровня тенизации, детенизация экономики.

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