

# Macroeconomic instability: its causes and consequences for the economy of Ukraine

Natalia SKOROBOGATOVA\*

## Abstract

*The article deals with the concepts of appearance and elimination of macroeconomic instability, and the Keynesian approach for overcoming issues in Ukraine's macroeconomic instability. Based on the Ukraine Statistics Service and World Bank data, Ukraine's economy tendencies have been defined: the country has not reached the pre-crisis economic level. The article identifies the reasons of negative balance payments and budget deficit: a decrease in production value, negative trade balance, growth of foreign creditor's debt, currency instability, an increase in budget spending. The dynamics of income and expenditure within Ukraine budget has been analyzed, and also the destructiveness of existing approaches for the main financial documents has been grounded. Considering Ukraine's economic and political situation, the main causes of macroeconomic instability are systematized. Government-implemented approaches for overcoming the macroeconomic instability have been suggested. The article introduces an approach for minimizing the negative effects on businesses, based on the timely identification of macroeconomic risks in terms of internal and external management. The possible negative impacts in case the timely decisions are not implemented have been assessed.*

**Keywords:** macroeconomic instability, economic development, GDP, state budget, threats

## 1. Introduction

The issue of macroeconomic instability is one of the most crucial in contemporary macroeconomics. Understanding the causes and nature of macroeconomic stability is a necessary condition for the development of an economic policy based on macroeconomic balance, which implies the stabilization of prices and production and results in full employment. In addition, the implementation of economic policies aimed at mitigating cyclical development of the world economy, eliminating the consequences of economic

---

\* Natalia Skorobogatova is associate professor at National Technical University of Ukraine "Kyiv Polytechnic Institute"; e-mail: nskorobogatova@ukr.net.

recession, achieving a minimum level of unemployment, promoting the efficient allocation of productive forces and ensuring price stability constitute the main functions of the state. Macroeconomic balance has recently been influenced by many factors, caused by globalization processes, taking place in the world economy. These factors introduce new adjustments to existing theoretical approaches to the management of macroeconomic instability. Thus, a study of the timely identification of macroeconomic instability factors and investigation of the steps to prevent or minimize their negative consequences is milestone. But for the general economic problems, the economic situation in Ukraine is perplexed with the annexation of a part of its territory and military operations in the east.

The theoretical and methodological research base comprises scientific works, methodological investigations of the leading Ukrainian and foreign scientists, as well as the normative and legislative basis of the macroeconomic instability and equilibrium. The investigation of scientific problems was conducted by means of critical and scientific analyses, scientific generalization and systematization upon dealing with the nature and factors of macroeconomic instability, and mathematical statistics and graphic means on analyzing the dynamics of macroeconomic indicators of Ukraine's economy. The results of the study, conclusions and recommendations have been grounded based on the integrated approach.

## **2. Theoretical concepts of the macroeconomic balance management**

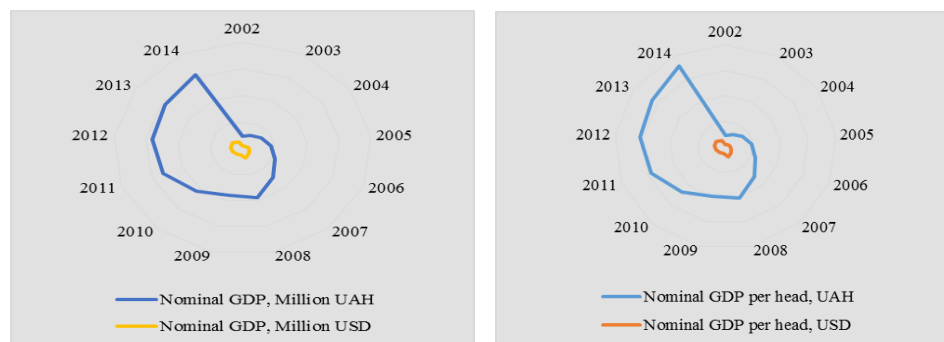
Causes, factors of impact and ways to overcome macroeconomic instability have always been of high interest for researchers, managers and practitioners. J. Keynes's concept is based on the principle that the market economy is unstable and incapable in terms of self-regulation; hence, it requires external influence and regulation by the state. It is the role of the state to ensure macroeconomic stability by controlling the aggregate demand, changing the size of government spending, tax rates, amount of money (Keynes, 2007). A. Lerner believes that the state can influence the level of employment by changing the size of government spending on procurement and the conditions to access credit resources or the taxation system in the country. An increase in government purchases, reduction of tax rates, cost-cutting of the money stock can boost production and economic processes in the country during the crisis. However, the increase in tax rates can also weaken the economic activity and prevent excessive production (Mankiw, 1999). B. Hanes expresses a similar opinion regarding government regulation of the economy: he considers the taxation system, amount of government purchases, transfers, subsidies etc. as determinants within the issue in question. These factors can have a stimulating effect in encouraging consumer demand and investment, which can accordingly be projected in the liquidity of firms and households. A. Melvin Okun stresses the need to implement economic policies in order to stimulate production and achieve full employment, overcome cyclical economic development and crises (Romer, 1996).

An opposite opinion is shared by representatives of the neoclassical school. They believe that the market economy is self-sufficient and able to establish economic balance using only such tools as free competition without any state intervention levers. In their view, the state has to decrease the degree of influence to the minimum in order to stimulate research, innovation and educational activities. Nowadays, representatives of the scientific area M. Friedman and I. Fischer believe the role of government lies in the determination of and compliance with laws of the money turnover in the country. Contemporary scientists combine thoughts of the neoclassical and Keynesian economic schools and try to integrate them in dealing with the existing economic contradictions. According to the basic concepts and essentials of the macroeconomic theory, the main reasons of the macroeconomic instability are represented with the help of the economic cycle phases, inflation and unemployment levels (Samuelson, 1992; Bazylevych, 2006).

### 3. Analysis of the macroeconomic situation in Ukraine

Macroeconomic instability has ambiguous effects on the economic and social development of a country, which is projected through the development of Gross Domestic Product (GDP), one of the most significant macroeconomic indicators. Graphical analysis of statistical data indicates a significant growth of Ukraine's GDP from 2002 to 2014 in terms of the national currency UAH and USD (Figure 1):

**Figure 1. Dynamics of Ukraine's GDP for 2002 - 2014**



a) GDP in Ukraine, 2002 – 2014  
Source: own representation<sup>1</sup>

b) GDP per capita in Ukraine, 2002 - 2014

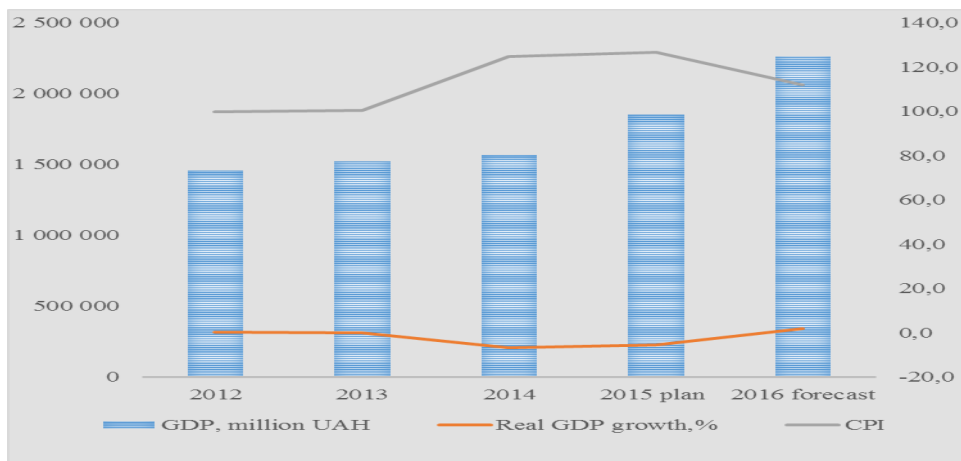
There are many factors influencing the GDP of a country. In Figure 1, we may observe identical scenarios in both the GDP and the GDP per capita: despite

<sup>1</sup> The graph is built on the basis of the data on GDP Ukraine and Ukraine's GDP per capita, retrieved from the official website of the World Bank (World Bank, 2002-2014) and the official website of the State Statistics Service of Ukraine (State Statistics Service of Ukraine, 2002-2014).

fluctuations taking place for more than 13 years, the GDP volume increased almost 7 times in terms of the UAH equivalent and 3 times in terms of the USD equivalent. It should be noted that the data on the GDP of Ukraine in terms of USD retrieved from the World Bank excludes any inaccuracies in identifying the trends through the long-term fixed rate policy, being implemented by the National Bank of Ukraine.

In the previous year, the nominal GDP of Ukraine continued to grow steadily. Yet, if we adjust the growth rate of nominal GDP for inflation, we can observe a decrease in the growth rate, which is clearly expressed within the 2014 - 2015 period, when the price index was equal to 124.9% and 126.7% respectively. Therefore, along with the growth of 3% in the nominal GDP in 2014 and almost 18% in 2015, the real GDP declined by 6.8% and 5.5% respectively over the period in question (see Figure 2). In addition, it should be noted that the analysis for 2012 - 2014 is based on data retrieved from the State Statistics Committee of Ukraine, the data for 2015 was retrieved from the Projections of the Cabinet of Ministers of Ukraine, and for 2016 – from the rates estimated on the basis of the State Budget of Ukraine for 2016.

**Figure 2. Dynamics of the nominal and real GDPs and CPI of Ukraine for 2002 - 2014**

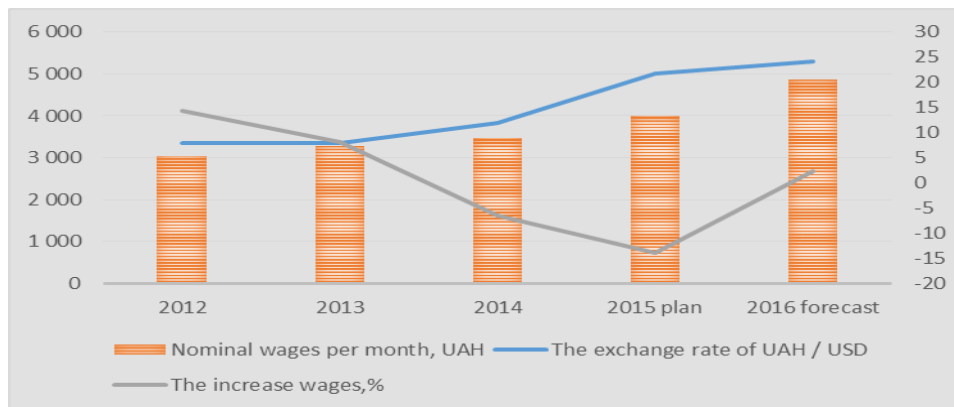


Source: own representation<sup>2</sup>

<sup>2</sup> The graph is built on the basis of the data on the GDP and CPI of Ukraine, retrieved from the official website of the State Statistics Service of Ukraine (State Statistics Service of Ukraine, 2012-2014) and from the State Budget of Ukraine (Verkhovna Rada of Ukraine, 2015-2016).

During the period in question, the nominal average wage in Ukraine demonstrated a tendency to a moderate growth, despite the difficult economic situation in the country – it grew by 32% within the period of 2012 - 2015. Currently, due to the impact of inflation, national currency is steadily depreciating, whereas the real wage growth is declining respectively (see Figure 3).

**Figure 3. Dynamics of average wages in Ukraine, 2012 - 2016**



Source: own representation<sup>3</sup>

Both external and internal factors impact the macroeconomic instability of Ukraine. Literature analysis (Danylyshyn, 2003; Miklos, 2012; Shevchenko, Zhuk and Yurchenko, 2015; Zhalilo, Belinsky and Pavlyuk, 2013) and statistical sources allow the identification of these impacts on the economy, and we consider it appropriate to elaborate on the following ones:

- absolute instability and uncertainty in the country's political, economic and social areas are the main factors of macroeconomic instability and default;
- a rather high degree of dependence of Ukraine's economy on the external environment: the world economic crisis and current problems of the European Community affect significantly the country's economic development;
- military operations in the east and the annexation of Crimea by the Russian Federation destabilize the socio-economic life in the country and lead to the reduction of production capacity, thus increasing the cost of financing military expenditures;
- reduction in the external demand for the country's export of metallurgical and chemical production by its major customers (Russia, Brazil, India, etc.) due to the economic problems in these countries;

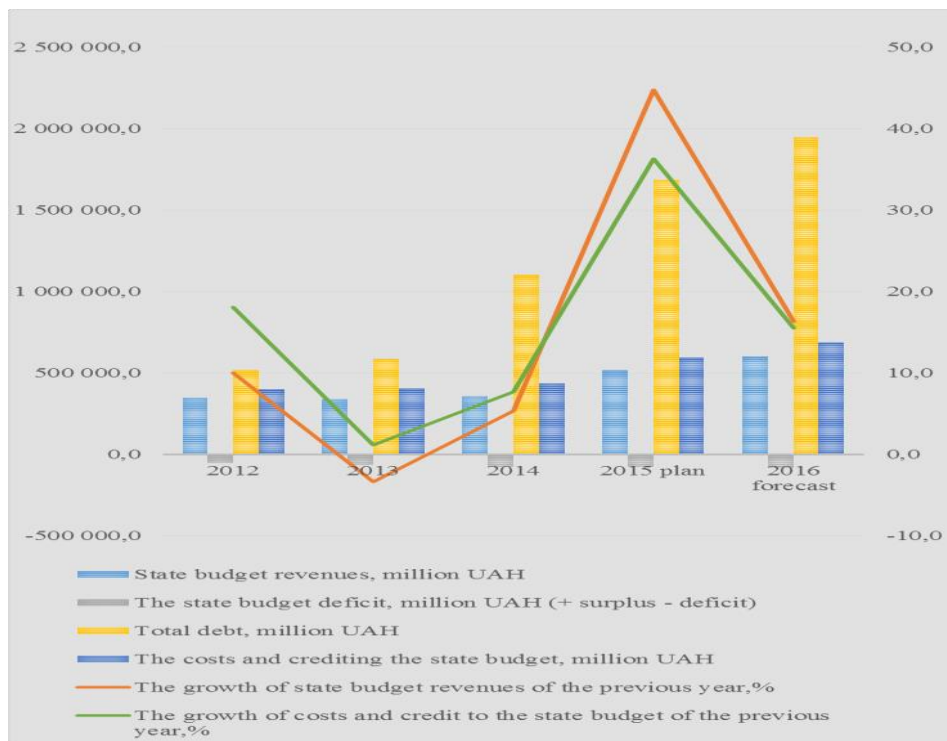
<sup>3</sup> The graph is built on the basis of the data on nominal and real wages and the exchange rate, retrieved from the official website of the State Statistics Service of Ukraine (State Statistics Service of Ukraine, 2012-2014) and from the State Budget of Ukraine (Verkhovna Rada of Ukraine, 2015-2016).

- dependence of the country's industrial production on the external demand and prices for metals in the world markets – a rapid decline in demand for steel products has affected the demand for and export of national products and, consequently, foreign currency revenues;
- trade balance deficit, caused by a continued excess of imports over exports in terms of goods and services; payments deficit, increase of external debt;
- the lack of innovative development in the country's industrial sector and in the non-production sphere has led to the almost complete physical and moral depreciation of production facilities and decline in the competitiveness of national products;
- reduction of national foreign exchange reserves, depreciation of national currency, which, in turn, has increased the cost to service the existing debt to foreign creditors, increased dependence on the IMF to obtain new credit loans;
- higher prices for gas for Ukraine in 2012 - 2014 increased the demand of the state for foreign currency in order to repay current gas payments has also led to the national currency depreciation;
- significant proportion of the shadow economy and authority's opacity, criminalization and politicization of the struggle aimed at the redistribution of property and spheres of influence continue to take place;
- excessive amount of bank loans issued to the public and business sectors in 2008, which still remains outstanding due to the lowering of living standards and increase of the ratio of business losses, led a large number of banks to bankruptcy, which consequently increases social tension.

The State Budget indicators may be regarded as a support to the factors influencing the macroeconomic situation in Ukraine. State Budget is one of the main documents regulating the public finances movement and defining the action plan for the next year (see Figure 4).

As a result of the data analysis in Figure 4, the budget spending features a similar upward trend despite the moderate growth in government revenues during 2012 - 2015. Such a tendency is rather sharply expressed in 2015: an increase of 44.8% in the budget revenue coincides with the growth by 33.6% in spending. Hence, the state budget of our country is always scarce, and the deficit is growing: from 53.4 billion UAH in 2012 to 76.0 billion UAH in 2015. Credit loans from the IMF and other international financial institutions stimulate either general or state budgets of Ukraine to grow: in 2015, the total debt amounted to 91.2% of the country's GDP for the respective year, i.e. almost all manufactured products have to be used to cover the debt repayment. The State budget for 2016 provides for the 5% reduction in the total debt and 9% reduction in the state debt (ratio of the debt to the annual GDP). The proportion of the budget deficit in 2016 is planned to account for 3.7% of the GDP (similarly to the ratio in 2012).

**Figure 4. Dynamics of indicators of income and costs of the State Budget of Ukraine, 2012 - 2016**



Source: own representation<sup>4</sup>

Unfortunately, the trend in the total debt growth is also characteristic for Ukraine's 2016 budget. Aimed at reducing the country's dependency on foreign borrowings, the preceding budget provides for a significant reduction in the government revenue growth (from 44.8% in 2015 to 16.3% in 2016) and expenditure (from 36.3% in 2015 to 15.5% in 2016). Such a jump is a significant step towards changing the economic policy of Ukraine in order to reduce the dependence on credit loans: yet, it is risky in terms of intensifying the social tension in society.

There is also a lingering growth regarding social standards, as the nominal minimum wage in recent years, living wage, minimum pension demonstrate a relatively slow increase (see Figure 5).

<sup>4</sup> The graph is built on the basis of the data on income, costs and crediting, retrieved from the official website of the State Statistics Service of Ukraine (State Statistics Service of Ukraine, 2012-2014) and the State Budget of Ukraine (Verkhovna Rada of Ukraine, 2015-2016).

**Figure 5. Dynamics of indicators of minimum wage, a living wage and minimum pension in Ukraine, 2012 - 2016**



Source: own representation<sup>5</sup>

In particular, the minimum wage, living wage and minimum pension increased by 36.6% during the period from 2012 to 2016 (Table 1). Only in 2014, there was no improvement in social standards, which is explained by the complex political and economic situation and the outbreak of the undeclared military actions on the territory of Ukraine.

Aiming at revitalizing the economic development in the country, the state must stimulate domestic demand through the increase in social standards that will lead to the growth in the population's effective demand.

Despite the observed growth of the nominal GDP of Ukraine, the real GDP of the country is getting contrastingly smaller: there was a decrease by 6.5% in

<sup>5</sup> The graph is built on the basis of the data on income, costs and crediting, retrieved from the official website of the State Statistics Service of Ukraine (State Statistics Service of Ukraine, 2012-2014) and from the State Budget of Ukraine (Verkhovna Rada of Ukraine, 2015-2016).



2014 and it is expected to fall by 14% in 2015 as compared to the previous period (see Figure 6). As far as the GDP does not include the financial results of businesses that were involved in its creation throughout the year, a thorough examination of the manufacturers' financial position is reasonable.

**Table 1. Key social indicators in Ukraine, 2012 - 2016**

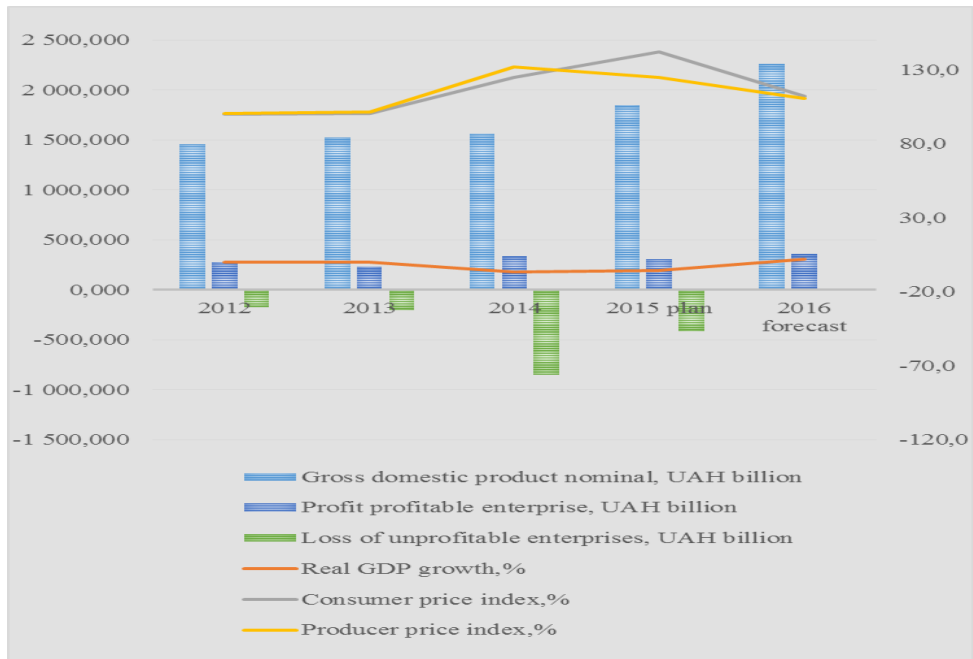
Indexes	2012	2013	2014	2015 plan	2016 forecast
Minimum wage, UAH	1 134,0	1 218,0	1 218,0	1 378,0	1 550,0
Increase in the minimum wage as compared to the previous year, %	12.9	7.4	0.0	13.1	12.5
Minimum pension, UAH	884,0	949,0	949,0	1 074,0	1 208,0
Increase in the minimum pension as compared to the previous year, %	10.5	7.4	0.0	13.2	12.5
Overall cost of living, UAH	1 095,0	1 176,0	1 176,0	1 330,0	1 496,0
Growth of the total subsistence level as compared to the previous year, %	14.9	7.4	0.0	13.1	12.5

Source: own representation<sup>6</sup>

As shown in Figure 6, in 2014, losses of unprofitable enterprises exceeded the income of profitable companies by 517.4 billion UAH for the first time; in 2015, this negative difference decreased to 109.2 billion UAH. If businesses neither take the necessary managerial measures nor implement the production reorientation program from the view of the current macroeconomic situation, the situation when losses are higher than income can occur.

One reason for the deterioration of financial results is the decline in sales of products (services) both in Ukraine and abroad and a decrease in the trade turnover with external partners. During the analyzed period, the value of net exports of goods and services reached a positive value of 4,620.7 million USD only in 2014. Yet, during the rest of the time, the volume of import exceeded the one of export, pointing out the country's insecurity in terms of its own production of goods and services and its dependence on the economic situation in external markets. However, the planned reduction of the negative difference between imports and exports represents the rethinking and transformation of the foreign trade balance structure.

<sup>6</sup> The calculation represented in the table is based on the data on nominal minimum wage, living wage, minimum pension, retrieved from the official website of the State Statistics Service of Ukraine (State Statistics Service of Ukraine, 2012-2014) and from the State Budget of Ukraine (Verkhovna Rada of Ukraine, 2015-2016).

**Figure 6. Dynamics of profits and losses in Ukraine, 2012 - 2016 years**

Source: own representation<sup>7</sup>

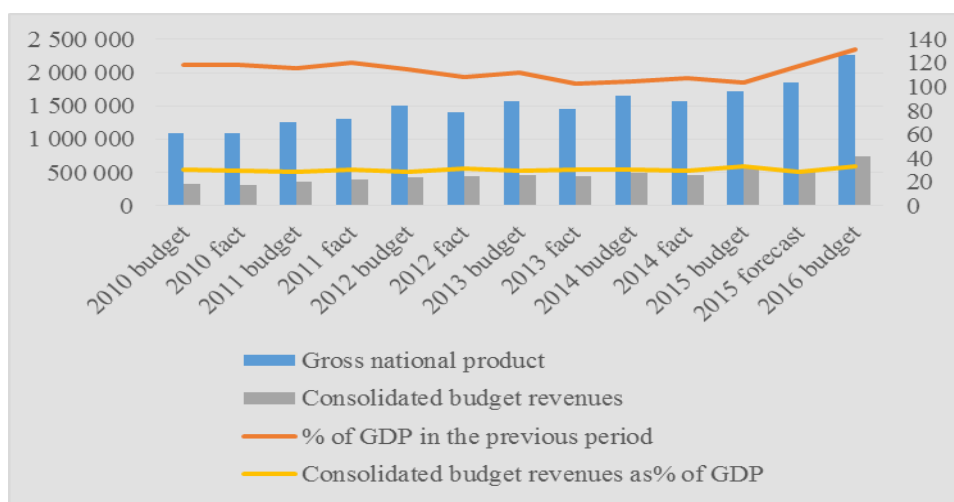
Yet, we should not focus only on the foreign trade turnover of the country and enterprises. Recovering the real economy, enhancing of processes and upgrade of the capital stock, production restructuring and implementation of innovative projects are crucial; these measures will help to increase population's effective demand and implement government contracts, which can lead to the increase in the inner demand for the production of domestic manufacturers. In the meanwhile, it is highly important to implement the import substitution policies: first of all, it should be done by increasing the competitiveness of domestic producers by improving the pricing and quality characteristics of products. It is recommended to choose engineering (agricultural machines, household appliances, etc.) as one of the main industries in the area under consideration.

When analyzing the 2010 - 2016 (the forecast) period, a gradual increase in revenues in the state and local budgets of Ukraine has to be emphasised. During this period, the revenues of the state budget vary between 21.6 % and 27.4 %, but the actual size of the state budget revenue is below the budget one. The local

<sup>7</sup> The graph is built on the basis of the data of profits and losses, retrieved from the official website of the State Statistics Service of Ukraine (State Statistics Service of Ukraine, 2012-2014) and from the State Budget of Ukraine (Verkhovna Rada of Ukraine, 2015-2016).

budgets income in Ukraine is floating between 5.2% and 7.4 % of the consolidated budget. The increase in the share of state and local budgets has been planned for 2016. However, when comparing the size of the GDP growth and growth of the consolidated budget, we can see that GDP growth exceeds the rate of growth of budget revenues (see Figure 7). This trend indicates the potential formation of Ukraine's economy at the expense of the corresponding increase in the GDP compared with the growth of consolidated budget.

**Figure 7. Dynamics of the state and local budgets of Ukraine (budget, actual), 2010 - 2016**



Source: own representation<sup>8</sup>

The value added tax has the largest share in the state budget of Ukraine - up to 30% of consolidated revenues and 10% of the GDP. The excise tax can be rightfully regarded as the second in the grading scale, for it ranges from 15% to 20% in consolidated revenues and accounts for 5% of GDP. Despite the fact that the rate of corporate income tax decreased from 25% (in 2010) to 18% (since 2014) during the period in question, the absolute value of revenues has increased during 2010 - 2013 due to this tax; since 2014, a decrease of income tax transfers to the budget can be observed. This trend is caused by the decrease in the number of profitable companies and the volume of their activities gained during 2014 - 2015. The share of contributions to the budget of the National Bank of Ukraine

<sup>8</sup> The graph is built on the basis of the data of state and local budgets, retrieved from the official website of the State Statistics Service of Ukraine (State Statistics Service of Ukraine, 2010-2014) and from the State Budget of Ukraine (Verkhovna Rada of Ukraine, 2015-2016).

has increased during this period, largely because of the NBU's operations, but not mainly because of the impact of businesses itself.

Thus, the gap between the income and expenses of consolidated budget caused the increase in costs to repay and service the public debt and a high dependence on external borrowing, which lead to the increased macroeconomic instability of the state. Therefore, we consider it necessary to implement measures aimed at the gradual strengthening of the investment potential of Ukraine's financial system in terms of its fiscal policy, taking into account the needs for recovery of the real sector and support of the national manufacturer by mobilizing domestic sources of development and application of public funding mechanisms, based on the mechanisms of state-private partnership.

Taking into account the specific nature of the macroeconomic instability, we believe that the establishment of macroeconomic equilibrium in the country is impossible without the state's active intervention. In particular, the major risk factors of macroeconomic equilibrium have been systematized, their possible negative consequences have been assessed and the ways for their neutralization have been defined (Table 2).

**Table 2. Factors of the macroeconomic equilibrium and state's measures for minimizing their influence**

<b>Factors of the macroeconomic instability in Ukraine</b>	<b>Possible negative outcomes</b>	<b>Suggested ways of overcoming the negative outcomes</b>
<b>Instability and uncertainty in the political, economic and social spheres</b>	Decline in country's production, population's welfare, increase of the state's indebtedness to creditors, growth of tensions in society	Development of a clear strategy for socio-economic development, taking into account the requirements of major creditors and involving public administrators, researchers, practitioners etc.
<b>Lack of strategy for supporting domestic producers</b>	Trade deficit due to the continued excess of imports over exports of goods and services; balance of payments deficit; increase of the service costs of external debt and growing dependence on creditors	Implementation and dissemination of activities aimed at promoting the support of the national producers by domestic consumers
<b>High degree of the Ukrainian economy's dependence on the outside world</b>	Rapid and lasting reduction in the demand for goods produced by the main export-oriented branches of the Ukrainian economy; decrease in the foreign exchange earnings to the	Reorientation of the basic economic sectors towards the internal market needs; market channels' diversification for national products

	country; reduction of the national currency reserves	
<b>Military actions in the east and the annexation of Crimea by the Russian Federation</b>	Strengthening of social tensions; depopulation and decrease in production volumes; decline of country's investment attractiveness and decrease of the capital outflow; extra government spending	Increased diplomatic activities at the international level aimed at the peaceful regulation of the current situation
<b>Controversial policy of the National Bank of Ukraine</b>	Depreciation of the national currency; instability of the banking sector; lack of effective credit financing to the manufacturing sector; decrease of the effective demand	Improvement of the monetary policy by means of the advanced technologies and through the global experience, active participation of the international financial institutions' representatives
<b>Absence of the innovation development in the industrial and non-production sectors in the country</b>	Obsolescence of production facilities; decrease in national producers' competitiveness in the domestic and foreign markets	State support and promotion of the innovation development through the establishment of scientific and technological parks and by providing tax benefits and guarantees
<b>Insecurity of the own natural resources</b>	Dependence on the resource suppliers, gas dependence on the Russian Federation, in particular; increase in the amount of debt to the foreign suppliers and depreciation of the national currency	Diversification of energy suppliers; implementation of energy saving technologies and manufacturing
<b>Excessive amount of loans provided by banks to the business and private sectors of Ukraine by 2008</b>	Non-repayment of the credit loans due to losses in the population welfare and defaults in the business sector, bankruptcy in the banking sector	Banks testing on the level of their solvency and reliability; implementation of the restructuring and bankruptcy mechanisms, state support of the system banks

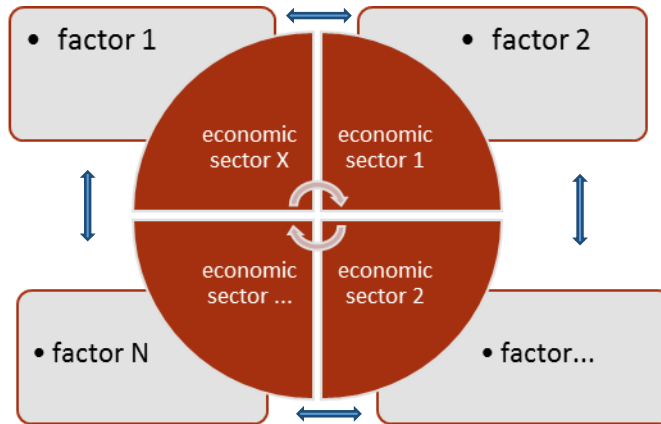
Source: own representation

It should be noted that each of the selected factors is non-linear, therefore, it is difficult to determine the final effects of a particular factor's influence. The mechanisms of instability factors' influence over the state's economy can be represented with the help of the figure below (Figure 8).

The outcomes of macroeconomic instability are projected onto the domestic producers and consumers in Ukraine, in particular. We believe that the results appear at the micro level. In particular, statistics directly indicates this fact. The number of enterprises comprises 37,800, and the amount of the negative profits

has increased almost 4 times. In the meanwhile, the population of Ukraine has decreased by 3.65 million inhabitants for the past 10 years, and the average wage equals less than \$ USA 200 today. USA. Thus, we believe that the macroeconomic entities in question (the business sector and the households) should be well-prepared for the possible negative effects of macroeconomic instability.

**Figure 8. Influence of the instability factors over the state's economy**



*Source:* own representation

Aiming at ensuring the stability in the market, under the conditions of macroeconomic instability, we consider it necessary for the businesses to develop economically reasonable management policies to identify risk factors and uncertainties, which already affect or may affect their activities. The specific nature of the activity each company conducts makes it impossible to develop a unified system of factors for the business sector. Therefore, we consider it necessary for the managers of each company to identify the risks in their own company, given its operation characteristics and strategic objectives have been set by the owners. However, in order to minimize the negative impact of all the risk factors, it is recommended for them to be distributed as follows (Table 3).

Households, in their turn, being the least secure macroeconomic entity, should define their own strategy for preventing the negative effects of macroeconomic instability over their well-being, by taking into account the current degree of security and the initially set goals. In any case, the best measure is to diversify the sources of the received income and saving mechanisms. In the current economic situation, we believe that diversification is the most appropriate means to minimize risks, as it considers entity's both objective factors and subjective advantages.

**Table 3. Matrix of the enterprise risk identification and management**

	<b>Types of risk</b>	<b>Outcomes</b>	<b>Notes</b>
<b>Macrolevel</b>			
Uncontrolled	Risks arising at the macro level, which are not controlled by the company managers	The company must clearly define the possible negative consequences of the risk exposure by using both quantitative and qualitative assessment measures	The company should develop a system of measures to prepare for their possible appearance and minimize their negative impact
Controlled	Risks arising at the macro level, the source (development process) of their functioning may, however, be regulated by the the company management	The company must clearly define the possible negative consequences of the risk exposure by using both quantitative and qualitative assessment measures	The company should develop a system of measures to prevent their effects and prepare for their possible appearance, and minimize their negative impact, at worst.
<b>Microlevel</b>			
Uncontrolled	Risks arising at the micro-level, which are uncontrollable by the company management (for example, relations with suppliers, customers etc.)	The company must clearly define the possible negative consequences of the risk exposure by using both quantitative and qualitative assessment measures	The company should develop a system of measures to prepare for their possible appearance and minimize their negative impact
Controlled	Risks arising at the micro-level, the source (development process) of which may be controllable by the company management (eg production processes, personnel management etc.)	The company must clearly define the possible negative consequences of the risk exposure by using both quantitative and qualitative assessment measures	The company should develop a system of measures to prevent their effects and prepare for their possible appearance, and minimize their negative impact, at worst.

Source: own representation

#### 4. Conclusions

Hence, in order to reduce the negative impact of macroeconomic instability in the economy, we consider it necessary to adhere to the following principles when working on a strategy for crisis recovery and economic development. As the present economic and political situation in Ukraine is unpredictable, it causes a slump in the foreign investments into the country with the IMF still being virtually the only remaining donor. All things equal, it is important to define the potentially attractive fields for the foreign investors: the severe crisis hampers all economic fields to be equally attractive at the same time: it is important to identify priority centers for recovery and development, which will become the engines of the crisis recovery and ensure a long-term growth. Given the current state of development and potential for the future of such fields as agriculture, partly chemical, metallurgical, machine-building industry, these should constitute basic sectors of the economy to pay special attention to, as well as innovative and fast-growing industries. The latter include the sphere of IT technologies with the sufficient amount of qualified specialists in Ukraine, who are currently looking for better opportunities in the foreign markets mainly due to the poor wage levels in Ukraine.

At the same time, it is crucial to identify new field brands or conduct a rebranding of existing trade marks, in order to develop them as an image of Ukraine's economy in the international market, taking into account the current requirements and tendencies of the world economy development.

A complete rethinking of the foreign partners' current requirements in the areas is necessary because of the inner changes either among the foreign trading partners or on the list of export trade products. Moreover, it is of paramount importance to reorient the thinking of population: among officials, businessmen and the general public. At the moment, traditional export-oriented branches of economy are being exploited. These fields feature the use of obsolete technologies and worn-out equipment, which causes a backlog on the country's economy development: normally, science and education are the victims of unequal distribution of financial resources due to the lack of funds in the state budget. The lack of prioritisation in terms of innovation drives the country to a standstill. In contrast to the Soviet tradition, it is important to invest into the spheres of science and education during the crisis, not to cut funding to patch budget holes. Scientific research proves that economic growth in developed countries is determined by the successful development of fundamental sciences. In the modern world, it is impossible to achieve adequate competitiveness in the international market unless the country works with a high-tech product.

Because of the military aggression from the neighbouring country, there is an urgent need for Ukraine to invest in the defense industry: there is a need to protect the country, deterring the enemy and maining the country's integrity. In this respect, it is important not to ask for or buy weapons, but to develop and



produce its own. Currently, almost half of the country's economy works to support the defense complex: once again, it presupposes the implementation of high technology, without which it is impossible to produce state-of-art weapons, and create opportunities for their export in future. Yet, all the proposed solutions are impossible to achieve in practice without establishing a political certainty in the country and developing a strategy for further economic growth.

As the final results of macroeconomic instability are being manifested in the business sector and households, we consider it necessary to introduce a risk management system into the general enterprise management policy, which can be based on distinguishing risks as external and internal, uncontrolled and controlled, as viewed from the management's and owners' perspectives. The scheme of risks identification will enable to promptly develop measures to minimize their negative consequences. For households, income source and investment areas diversification can be considered as the main way to reduce the impacts of macroeconomic instability and uncertainty. Thus, we believe that the solution proposed will assist in managing the macroeconomic instability at the state level and in minimizing its negative impact on the micro level.

## References

- Bazylevych, V., Bazylevych, K. and Balastryk, L. (2006), *Macroeconomics*, Kyiv: Knowledge.
- Danylyshyn, B. (2003), *The strategic directions of sustainable development of Ukraine*, Kyiv: RVPS National Academy of Sciences.
- Keynes, J. (2007), *The General Theory of Employment, Interest and Money*, Moscow: Eksmo.
- Mankiw, N. G. (1999), *Macroeconomics*, New York: Worth Publishers.
- National Institute of Strategic (2012), *Research Materials roundtable report "Prospects of Ukraine's economy amid the global economic turbulence"*, Kyiv, retrieved from <http://ucluster.org/blog/2012/11/kruglijj-stil-perspektivi-ekonomiki-ukraini-v-umova>
- Miklos, I. (2012), *The path to prosperity is through Ukraine economic freedom*, Kyiv: European truth, retrieved from [http://www.euointegration.com.ua/articles/2015/07/16/7035976/view\\_print](http://www.euointegration.com.ua/articles/2015/07/16/7035976/view_print)
- Romer, D. (1996), *Advanced macroeconomics*, New York: McGraw – Hill Companies.
- Samuelson, P. (1992), *Economics: in 2 t.* Moscow: IHL Alhon, VNYYSY.
- Shevchenko, O., Zhuk, V. and Yurchenko, C. (2015), *The region's economy in 2015: new realities and opportunities in terms of reforms initiated (analytical report)*, Kyiv: NISS.

- Skripnichenko, M. (2012), *Factors macroeconomic instability in the system model of economic development: collective monograph*, Kyiv: NAS of Ukraine, Institute of Economics and Forecasting.
- Smith, M. (2013), *Pocket guide to cultural assessment*, London: Routledge.
- Verkhovna Rada (2015), *The Law of Ukraine On the State Budget of Ukraine for 2016*, 25.12, № 928-VIII retrieved from <http://zakon2.rada.gov.ua/laws/show/928-19>
- World Bank (2015), *World Development Indicators (2005-2014)*, retrieved from [http://data.worldbank.org/country/ukraine#cp\\_wdi](http://data.worldbank.org/country/ukraine#cp_wdi)
- Zhalilo, J., Belinsky, Y. and Pavlyuk, A. (2013), *Prospects of Ukraine's economy in the global macroeconomic instability analytical report*, Kyiv: NISS.