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IMPROVING THE PROCESS OF DETENALISATION OF THE NATIONAL ECONOMY

Objective. To identify directions for the detenalisation of the national economy based on an analysis of the current state of the shadow sector in various countries.

Methodology. The goal of the research is achieved by using general scientific and methodological techniques of economic science (analysis, synthesis, induction, deduction); economic and statistical methods (comparative analysis, grouping, factor analysis); economic and mathematical methods.

Thus, with the help of analysis, the level of shadow economy is being assessed. The comparative method makes it possible to describe the main approaches to detenalisation in various countries. Grouping is needed to determine the size of the shadow economy by region of the world and by the level of development of countries.

Result. The study reveals that, to date, there is no comprehensive approach at the global level to counteracting the shadow economy. Only individual manifestations of the shadow economy are combated, and measures are taken without regard to national specifics. This paper identifies and characterises the stages of the shadow economy. Measures aimed at reducing the shadow economy in the country have been presented.

Scientific novelty. The necessity of improving the process of detenalization of the national economy has been substantiated.

Practical relevance. The reduction of shadow activity will be facilitated by the optimization of tax legislation and the growth of the standard of living of the population. The study formed the priority measures to counteract the shadow economy.

Keywords: shadow sector, detenalisation of economy, tax evasion, macroeconomic indicators, developed countries, national market

Entry. The shadow economy is growing worldwide and may soon encompass an entire sector of the world's economies. Its existence has a negative impact on society.

Shadow activities are a threat to the economic security of countries. The scale of the shadow sector is so large that no country has yet been able to eradicate it completely. Given that the size of the shadow sector in Ukraine is 30-40%, the topic of the study is highly relevant.

Analysis of recent research and publications. The role and nature of shadow economic activities have been dealt with by foreign and domestic researchers, namely H. Vek, P. Gutmann A. Degtyarev, F. Schneider, G. Agarkov. Thus, in the book "Economic Security and Shadow Economy" Naumov Yu.G., Latov Yu.V. gives the definition of shadow economy according to different approaches [1]. Keith Hart concluded that in underdeveloped countries, the vast majority of residents are not involved in the formal economy in any way [2]. Kenneth Edward Boulding conducted scientific research into the causes and factors of the shadow economy [3]. Detenization issues are considered in the works of A. Zabulonov "Derivative financial instruments: theoretical approach with regard to market

realities", M. Makovetsky "Modern trends in the development of the world market" and others. [4].

Despite the large number of studies in this area, at present no general opinion has been formed to determine the directions of overcoming the shadow sector of the economy. Today there is no complete picture concerning what the corresponding sphere includes. Specific tools for overcoming its consequences are not defined.

Purpose of work: identification of directions for the detenalisation of national economies based on an analysis of the current state of the shadow sector in various countries.

Presentation of the main material. The shadow economy is a problem in all national economies. It is present to a greater or lesser extent in all economic relations, in developed and developing countries alike; in countries of varying degrees of democratisation. Some manifestations of the underground economy pose a threat to national security.

In order to determine the dynamics of macroeconomic processes more accurately and to assess the results of economic activity, the size of each country's shadow economy must be taken into account when managing its economy. It is known that the shadow economy manifests itself

in the form of corruption, money laundering and tax evasion [3]. Despite the fact that there are measures to combat these phenomena, people find new ways to evade them, seeking to get the maximum benefit for themselves.

The conditions for the formation of the shadow economy are conditioned by the general state of the economy of a particular country. Since the shadow economy affects such economic processes as investment, trade, and budget formation and distribution, it poses a significant threat to the economic security of each country, and the problem of determining its size is becoming global.

According to the IMF experts, the shadow economy includes all kinds of economic activities that are hidden from the official authorities for monetary, regulatory and institutional reasons [4]. In order to reduce it, it is necessary, first of all, to optimise the factors that influence the level of shadow transactions. The volume of the shadow economy is influenced by factors such as:

- * the economic situation in the country;
- * high level of taxation;
- * low standard of living of the population;
- * high unemployment rate;
- * Inefficiency of state institutions;
- * frequent crisis phenomena;
- * significant restrictions on doing business

[5].

The most significant damage is caused by the "shadow economy" as a result of revenue shortfalls at all levels of the budget.

It is worth noting the ambiguity of the role of the shadow sector in the development of society: it has not only negative but also positive effects. The positive consequences of the existence of the shadow sector in a country's economy include:

- * increasing the competitive advantage of enterprises by avoiding taxation;
- * generating additional income and reducing the real unemployment rate in the country.

The negative consequences, in turn, include:

- * damage to the state budget as well as to the national interests of the country's economic security; and
- * damage to the state budget as well as the national interests of the country and its economic security;
- * change in the structure of the economy; reduction in the effectiveness of macroeconomic

policy; deterioration of the investment climate, etc. [6].

The shadow economy is an integral part of the national economy, irrespective of the group to which the state belongs: developed, developing or transitional economies.

The main condition for a low level of shadow economy in developed countries is political and socio-economic stability. At the same time, the main reason for the development of the shadow economy in these countries is the excessive tax burden (on average, the citizens of Western Europe pay taxes in the amount of 40 to 50% of their monthly income) [6]. Another reason influencing the shadow economy in developed countries is the large number of laws and restrictions regulating economic activity. Also the size of the shadow economy depends on intensive flows of immigrants from other countries (e.g. in the US and in the EU countries).

It is worth noting that developed countries have developed effective state mechanisms to counteract the shadow economy and thus reduce shadow activities. For example, the use of the latest information technologies enables public services to monitor the cash flows of individuals and legal entities.

In developing countries, the shadow economy is influenced by political instability, weak government structures and corruption. Theft of public funds by public officials, bribery and corruption in public procurement are prevalent in these countries.

In many developing countries the underground economy is so developed that it is on a par with the size of the formal economy. The growth rate of industry in these countries is often inferior to that of the underground economy [7].

Countries in transition are characterised by rapid institutional changes, destruction of the established system of economic relations, rapidly changing legislation and tax systems, and the emergence of many small businesses. All these factors lead to an expansion of the shadow economy.

In some Eastern European countries, the scale of the shadow economy can be compared with that in Western Europe. In Poland, for example, the shadow economy accounted for 23.42% of GDP in 2017, while in Italy the figure is 26.5% of GDP [8].

It can be observed that the worse the economic situation in a country, the greater the size of the shadow sector, the more often there is evasion of state, including tax, controls. For many

people, being employed in the shadow economy is part of their everyday life.

The dynamics of the level of the shadow economy are graphically illustrated in Figure 1.

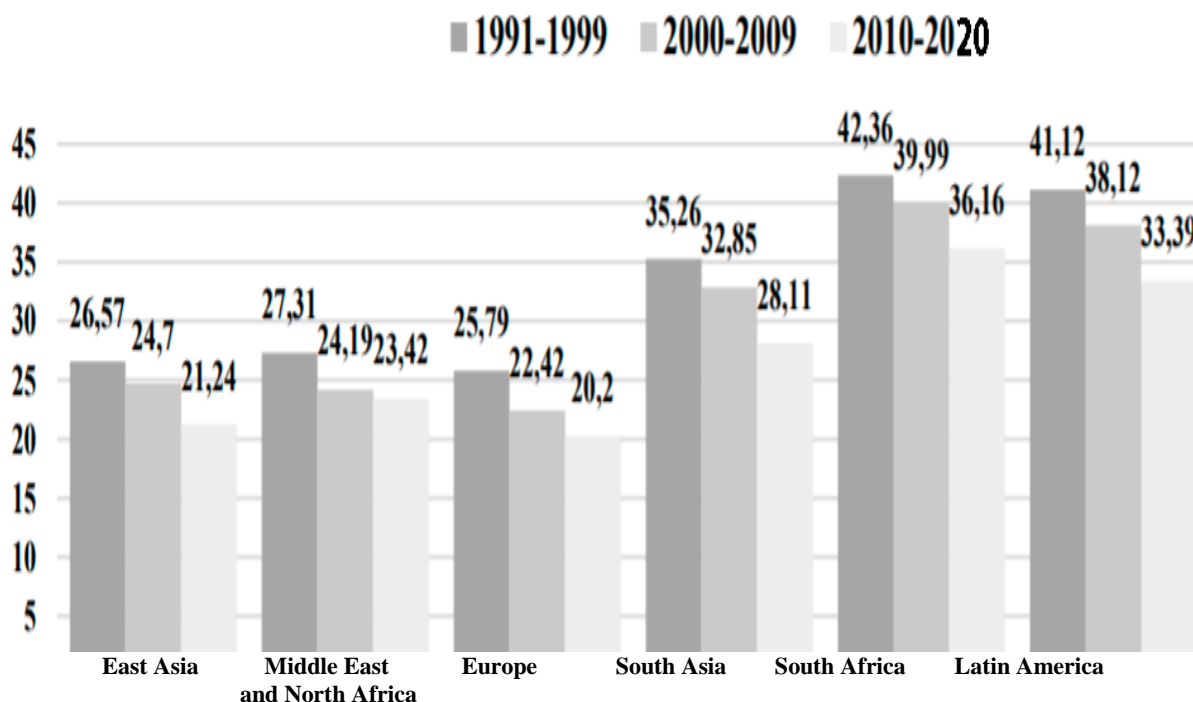


Figure 1 - Evolution of the shadow economy by region of the world [8]

From Figure 1, the following conclusions can be drawn: European countries have the lowest values of less than 20% of GDP, while the highest values are found in Africa and Latin America at over 36%. It is positive that in all groups of countries there is a significant reduction in the size of the shadow economy over time. Between 1991 and 2020, the shadow economy has fallen by 4-8% of GDP. This demonstrates the effectiveness of measures to detenalise national economies.

For the foreseeable future, in our view, the dynamics of the shadow economy will depend on a number of reasons.

On the one hand, the gradual liquidation of cash and the parallel automation of transactions make it easier to trace informal money flows and harder to circumvent the system. On the other hand, decentralised cryptocurrencies allow for financial transactions outside the control or competence of central authorities and regulators. The emergence of new technologies, such as 3D printing, should also be noted, allowing for the production of goods at home and potentially bypassing formal marketing channels and the tax

system. Taken together, the above factors suggest that the shadow economy will become even more difficult to monitor, measure, evaluate and potentially control.

The shadow market is often ahead of the legal market. Unbound by any formalities of legal norms, it rather reflects progressive tendencies in economic development, reacts faster to changes in market conditions, supply and demand dynamics, to price fluctuations, to innovations, it has fewer limitations.

A pattern should be noted that characterises the interaction of the shadow market with the official market: the less efficient the legal market is, the more favourable the conditions are for the shadow market; as the efficiency of the official market decreases, the flow of goods through the shadow market increases.

On the basis of trends, analysts have forecast the size of the shadow economy to 2025 as a percentage of GDP for the world as a whole. Figure 2. graphically illustrates the evolution of the level of the shadow economy worldwide.

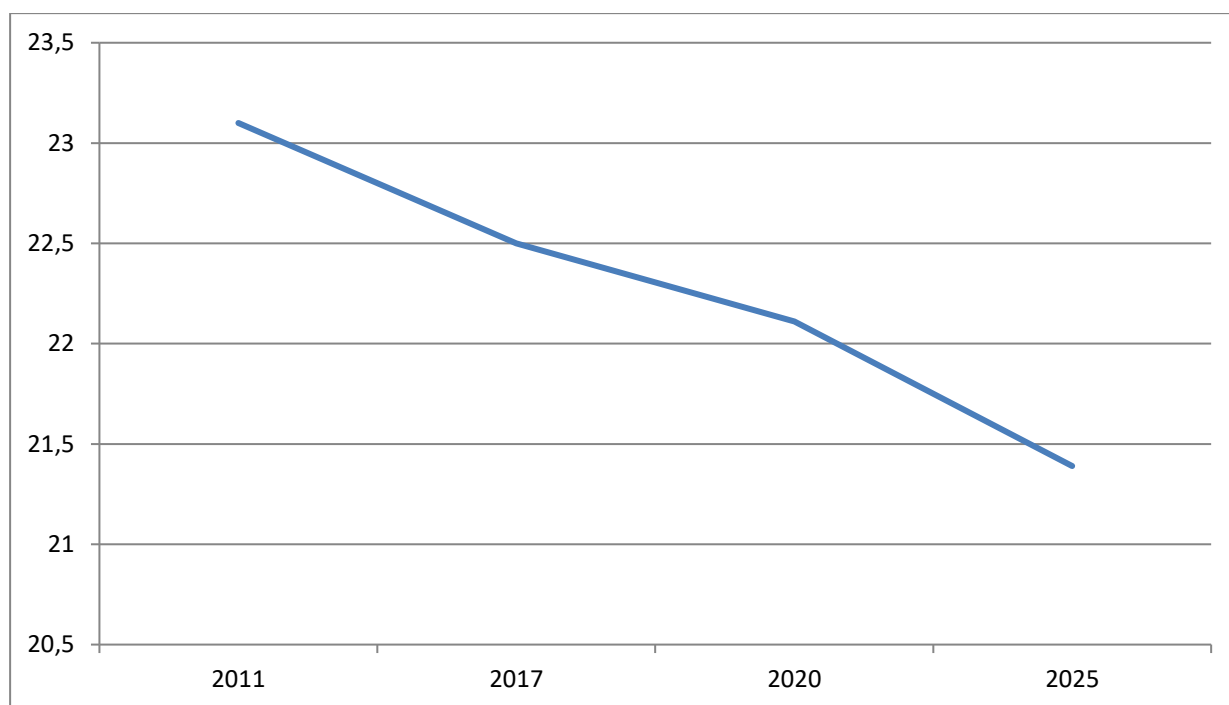


Figure 2 - Projection of the global shadow economy, % of GDP [9]

If current trends continue, the size of the shadow economy is expected to decrease globally from 23.1% of global GDP in 2011 to 21.39% in 2025.

Assuming that the volume and constituent elements of the shadow economy are largely dependent on the economic policies pursued by the state, and that its high rate of development causes considerable harm to social society, state authorities should focus their attention on raising the level of the shadow economy to a level that is not dangerous.

The level of economic development of a country is not always the main factor influencing the size of the underground economy. In some developing countries, such as Nigeria, the size of the shadow economy is larger than the official economy, while in some developed countries (the US and Japan) it is less than 10% of GDP. The experience of these countries may be useful in developing measures to combat the underground economy, which poses a significant threat to the economic security of each country [9].

The core element of the de-penalisation measures is to bring the informal part of the shadow economy out of the shadows. This will result in the payment of taxes by entrepreneurs, which should be perceived by them as socially important services that have been received from the state. That is why it is the task of the state to

create a favourable atmosphere for the conduct of legal business, namely, to simplify the mechanisms of administration by

- * an acceptable level of taxation;
- * conducting the activities of economic agents and their compliance with all contractual obligations;
- * providing guarantees for private property, etc.

Countries that do not reduce the share of the shadow economy in GDP should change their government policies and administration, reduce corruption, and increase per capita GDP in order to reduce the size of the shadow economy.

Since the shadow economy generates huge revenues, amounting to tens of billions of dollars, it is very difficult to give it up, since the revenues from any kind of activity diminish markedly after it leaves the shadows.

Shadow economic activity is accompanied not only by the large-scale withdrawal of resources from the official turnover, but also by the distortion of statistical, financial and tax reports. Huge resources are concentrated in the shadow turnover, which, if legalised, could become a reserve for economic growth.

The dynamics of the shadow sector of Ukraine's economy are shown in the figure below 3.

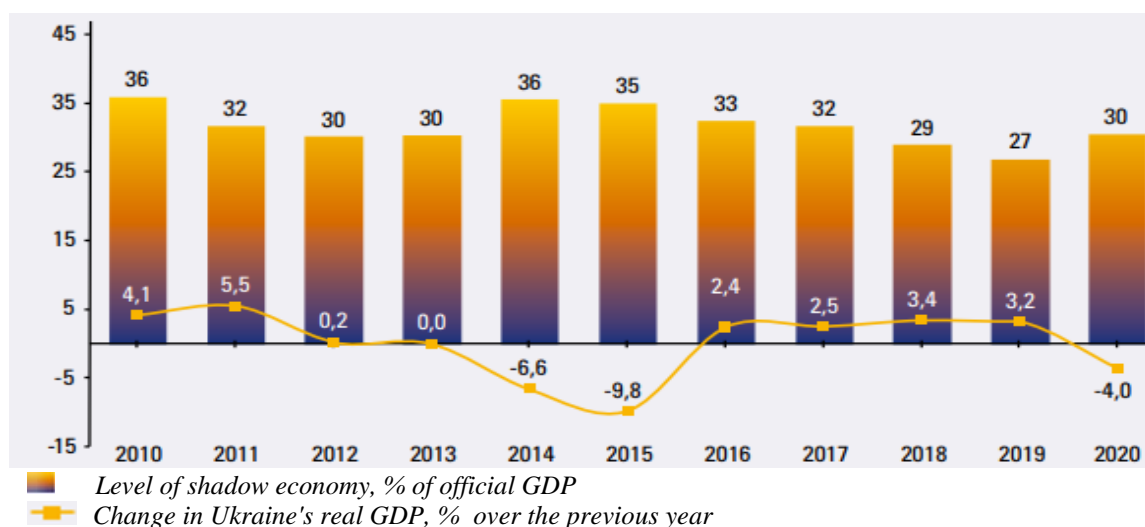


Figure 3 - Integral indicator of the level of shadow economy in Ukraine (in % of official GDP) and growth/decline rate of real GDP (in % of previous year) [10]

The level of shadow economy in Ukraine for the period from 2010 to 2020 is in the range of 27-36% of official GDP. The size of the shadow sector depends on many economic, political and other factors. It can also be concluded that the dynamics of change in the volume of real GDP of

Ukraine and the level of shadow economy are not the same.

Detenationalisation of the economy at the national level should, in my opinion, take place in several stages, as shown in the figure below 4.

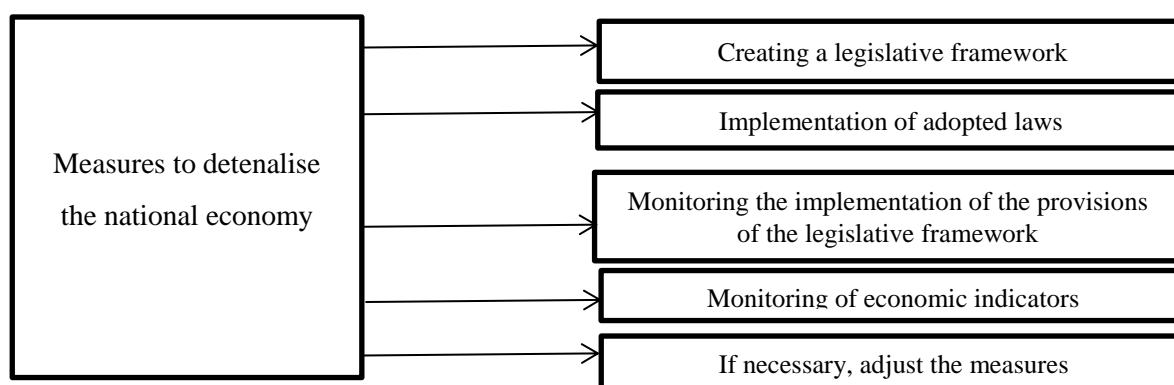


Figure 4 - Stages in the Detenationalisation of the National Economy

The first stage is the adoption of necessary legislation to detenationalise business and enable rapid reforms. The legislation should aim at creating a taxation system characterised by an easing of monetary policy and an increase in domestic demand. At this stage, we should envisage the creation of a favorable investment climate to stimulate the functioning and development of priority sectors of the economy.

The second stage envisages the launch of reforms and gradual systemic changes in the national economy.

The next stage is to start a continuous daily work to further monitor and improve the changes initiated in order to make them irreversible. The development and implementation of a national capital repatriation programme, taking into account international experience and the country's capabilities, will be appropriate.

As of today, there is no comprehensive approach at the global level to counteracting the shadow economy; only certain manifestations of it are being combated, and measures are taken without taking into account national specifics. It is obvious that the reduction of shadow turnover,

though an important task, cannot be accomplished by any means. Increasing administrative pressure on business, expanding the powers of agencies controlling economic activity, can significantly slow down economic growth.

Selective regulatory influence on economic entities is required. It is important to pay attention to the indicative function of the shadow economy, which consists in demonstrating the imperfection of certain mechanisms of state regulation of the economy. Illegal revenues, through the demand mechanism, create a kind of multiplier effect of increased income and tax revenues in related sectors where legal and illegal sectors of the economy interact.

The countries of the world should implement their national policies for the

detenalisation of the economy based on the following principles:

- the principle of promoting a change in the legal and business environment. It includes the policy on taxes and foreign economic activity of the country;
- the principle of a certain demarcation of capital;
- the principle of strengthening trust in power, which includes protecting the institution of private property, savings and capitals;
- the principle of establishing public control over the activities of the subjects. This regulation should be carried out on the basis of information received on economic offences, which will facilitate the choice of a business partner.

The directions of detenalisation of the economy are shown in the figure below 5

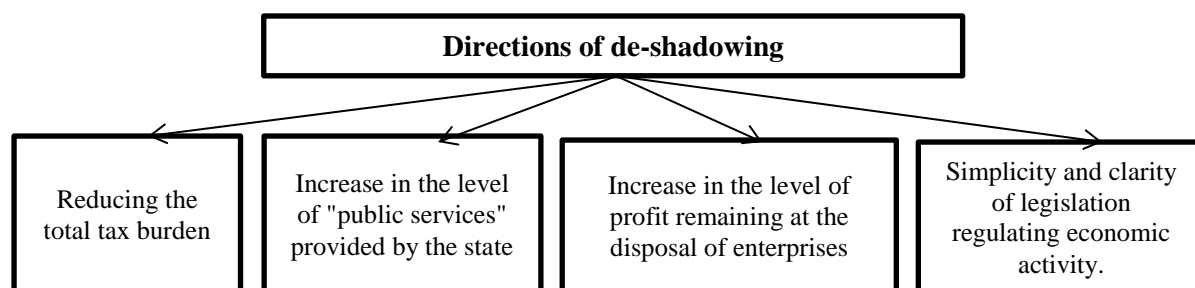


Figure 5 - Main directions of the detenalisation of the economy

So far, the shadow economy has adapted to the economic situation and is therefore able to compete with the official one

Measures aimed at reducing the level of the 'shadow economy' in a country can be divided into three groups

- 1) measures that address the factors that make it difficult to carry out official activities;
- 2) measures increasing the cost of underground activities and increasing the risk of economic crimes
- 3) measures that create additional bonuses for official activities.

Сбалансированный комплекс научно обоснованных экономических и административных мер с учетом национальной специфики может обеспечить уменьшение теневого сектора и, как следствие, дать позитивный импульс устойчивому развитию экономики.

Меры по снижению уровня теневого сектора экономики, рекомендованные для страны в целом, также могут быть

применены и реализованы на региональном уровне.

Discussion of results. Drawing on the experience of countries which have successfully curbed shadow business to within 10-25% of GDP. in order to detenalise the Ukrainian economy, we propose:

- 1) a general amnesty for shadow capitals (except for those of corrupt origin);
- 2) in case of legalisation of capitals of unknown origin tax rates should be as low as possible (0 per cent - max 5 per cent). After the deadline for submitting a "zero declaration" has passed, on the contrary, the rate should be as high as possible;
- 3) create favourable tax conditions for investors with amnestied financial capital;
- 4) to use additional preferences for foreign capital when it returns to the country;
- 5) legislatively guarantee that those who have benefited from tax amnesty will not be subject to any government prosecution;

6) introduce a tax on the withdrawn capital;

7) introduce economic incentives for businesses (it should be economically viable to operate legally and transparently)

8) establish a transparent administration of business with minimal human influence

9) encourage by law non-cash payments and gradually narrow the scope of cash circulation.

Detenalisation in itself is not an end in itself. It is a tool for the full economic development of the state.

Conclusion. The above measures to reduce underground activities, when taken together, will help to reduce a significant part of it, stabilise the economy, and improve the economic structure of the country.

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IMPROVING THE PROCESS OF DETENALISATION OF THE NATIONAL ECONOMY

The volume and constituent elements of the shadow economy depend on the economic policy of the state. A high level of shadow economy is very detrimental to society. The article examines the causes of the shadow economy and makes proposals for improving the process of detenalisation. If current trends continue, the size of the shadow economy at the global level in 2025 will amount to 21.39% of global GDP.

Shadow economic activity is accompanied by large-scale withdrawal of resources from the official turnover, as well as distortion of statistical, financial and tax reporting. Huge resources are concentrated in the shadow turnover, which, if legalised, could become a reserve for economic growth.

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A pattern has been identified that characterises the interaction of the shadow market with the official market: the less efficient the legal market is, the more favourable the conditions are for the shadow market; as the efficiency of the official market decreases, the flow of goods through the shadow market increases.

Ukraine's tax system in its current form hinders the development of the domestic economy. Optimisation of tax legislation and an increase in the standard of living of the population will help to reduce shadow activity. This points to the priority of economic measures to counteract the shadow economy. On the basis of the analysis of experience of the countries, which successfully restrain the shadow business in the range of 10-25% of GDP the measures on detenalization of the national economy are proposed.

Keywords: shadow sector, detenalisation of economy, tax evasion, macroeconomic indicators, developed countries, national market

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