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THEORETICAL POSTULATES OF INTERNATIONAL FINANCE

Abstract

The paper considers conceptual features of international finance as integral attribute for finance expansion and absorbtion of finance within national economy. The author investigates real factors that strengthen international finance, defines the limits of its functioning. Typological features of international finance are defined some of which are related to subsystem of economic basis and to superstructure.

Key words:

Finance, finance of international relations, harmonization of budget policy, international finance, international financial organizations, International Monetary Fund, national budget, taxes, world economy.

World economy is a complicated, appropriately structurized hierarchical system, which is constantly improving and gaining new features. The integrity of this system is ensured by extensive development of international division of labor, by level of socialization of production and labor cooperation. Increasing interweaving of national economies and their economic mechanisms lead to globalization of the world economy. It manifests itself in forming planetary information space, worldmar-

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ket of capital, goods, labor, and growing technogenic impact on natural environment through broadening and complicating relationships and interdependance of the states. Globalization is unique in its effect on actually all spheres of public activity.

At the same time, practice of world economic development demonstrates controversy, ambiguity and irregularity of economic processes, continuously changing concrete forms and methods of their realization and manifestation. Modern world economy is characterized by scientifically intensive technologically sophisticated products and by emerging so called «new economy», the essence of which lies in application of new knowledge that became independent factors of production. Moreover, knowledge has become not only an independent factor of production, but also the key factor within the whole system. The knowledge implies that digital information is changing the modern world and influences the increasing rate of this change. Therefore, we agree with Ukrainian economists Ye. Savelyev and V. Kurylyak who argued that «a new economy is production and application of new knowledge, transformating it into an independent factor of production which is a key factor within the system of production factors». A new economy is being developed by «old» laws which function in a new way under new conditions, and by new laws which speed up the development [17: 25-38].

The strategy of social development is based, first of all, on economic factors that are foremost determinant for the general nature of development. The economic development provided, first of all, the information industry in which computer and information technologies play the main role and therefore create preconditions for diversification of commodities assortment and computerization of other industries. In countries with highly developed economy these factors are less limited. Though the state regulates to some extent economic relations within a market economy of the state, economic factors can be better self-developed. The state is adjusting laws and acts which regulate economic activity. It also plays the main role in providing essential public goods and performs certain functions pertinent to current level of social development, i.e. antimonopoly regulation, protection of consumer's rights, pensions and social insurance, stimulation of certain markets, and regulation of foreign economy. It often acts as subject of economic activity. Therefore, the society deliberately strains some economic relationships and governs their development.

The main lever to control economic factors is finance. The finance situation indicates success or drawbacks of economy's transformation. Therefore, elaboration of effective methods of financial policy for international relations and their practical implementation compel us cardinally to change traditional views on finance, and make finance a key factor within the context of strategic objectives of Ukraine's economic development.

In modern economics there is no universally accepted concept on the essence of international finance and paradigms of their forms and nature within the world economy, which in its turn leads to varied interpretation of financial attributes. As a result, it is not easy to give practical recommendations on reforming or improving financial factors. That is why it is urgent to formulate principles of international finance theory.

The first step to thoroughly substantiate a certain economic category is to analyze it in accordance with the principle of historic approach, that is research of changes through which the interpretation of a particular economic category underwent in relevance to changes on micro- and macro-level on the scale of national economy, integrated economic unions, and world economy.

Finance is a category in historic progress acquiring new facets and shades. The term *finance* was introduced by French professor J. Boden in his book «*Six Books About Republic*» in 1577. The word *finance* comes from Latin *finis,* which means «end, completion, finish». The word indicated the termination of payment, final settlement of accounts. Henceforth, from the word *finis* the word *financia* was coined meaning cash, income, and cash payment. Actually, it was first used as far back as in the 13th century in Italy, particularly, in Florence, Venice, Genoa where commerce, cash and bank payments had been well developed.

On early stages of development of the state there was no distinction between state resources and resources that belonged to the head of the state. Monarchs disposed of state funds as of their own. When the Treasury had been completely separated from the monarch's property (16–17 centuries) such notions as public finances, state budget, state credit were introduced. As far as the state in its turn began to provide services to the people and pursue efficient economic policy, soon tax payers gradually deemed it mightful for the state to levy taxes. In the 19th century finance was understood as the area which in addition to state attributes included production segments, some markets, and international relations. In the 20th century the mentioned about factors were complimented with these of housekeeping.

The next step to comprehend the nature of finance is to clarify the subject of research.

The economy is determinant for any country's finance and credit activity, as it fosters realization of interests for every individual, every entity and country as a whole. Moreover, finance fosters economic incentives. The needs of an individual is a stimulus for economic activity, which ensures individual's participation in economic relationship. And since the economic interest ascertains the needs, this interest is also interpreted as economic incentives. Being a complex social phenomenon, finance has versatile conceptual features and manifestation. The most obvious feature is money. Money makes material contents of finance, its measurement and qualitative property. But not all monetary stock is finance. The difference lies, first of all, in objective historic need in mentioned category for the development of society. If money is a product of social labor division and commodity relations, finance is a product of development of power, particularly development of state.

With improving of a state system, expenditures on defense, protection of certain interests, social sphere, environmental protection, and economy rose sharply.

Considerable state expenditures raised budget revenues of different levels. The main source for budget replenishment became taxes. The tax is a financial cell that appeared long before such financial categories as budget, state credit, state debt, etc.

On the basis of taxes the complex structure of finance, especially state finance, is being developed. Finance effects the flows of net income in the form of money characterized by unequivalent exchange. In the sphere of finance area the law of value is restricted by legislative norms of net income distribution determined by social needs. Redistribution levers of net income supported by finance are much more efficient, they are not affected by law of value, and therefore, have more enhanced power. Besides, finance provides concerted interaction of unequivalent reallocation and system of economic incentives.

Theoretical knowledge on finance was accumulated in the 19th century. Professor V. A. Lebedyev generalized it in his work «Financial Law» noting that «since the end of the 17th century the word *finance* was perceived as aggregate state property and as a state of all national economy. This word is also used now to denote aggregate material means available in the state, i.e. its revenue, expenditures and debts» [10:5].

Consequently, V. A. Lebedyev relates the nature of finance, first of all, to obtaining material funds and their rational spending to perform the primary tasks.

Analyzing the term *finance* at the beginning of the 20th century, we can note, that some positive aspects of this category's study were not taken into consideration. It refers, first of all, to the study of economic phenomena in their interrelationship. Prof. I. Kh. Ozerov stressed the «necessity to research not only the ways, but how the ways in the aggregate make finance and effect other aspects of life» [15:15].

In Prof. S. V. Mocherny's opinion, to analyze constructively economic views on finance and to substantiate the concept of finance as a system, one should adhere to two basic principles: first, to interpret the notion of *«system»* as a dialectic category; second, to define clearly the key elements and subsystems within the integrated system on abstract and concrete levels [13:14].

The term *system* as a dialectic category means a certain number of elements with constant relations and links; and therefore, interacting takes place and as a result new properties and features which are not pertinent to some elements appear.

In command and administrative system the term *finance* to a great extent was related to the state system of public income and expenditure, and to enterprises of business activity.

The main conceptual definition of *finance* within its monetary system was prevailing of relationship in the following variations: economic, monetary, public, productive and specific relations forming the key perception of the category *finance*.

The text-book «Finance» edited by Russian scientist L. A. Drobozina states, that «finance conveys economic relations in connection with raising, allocation and spending of money funds in the process of distribution and redistribution of national income» [22:10]. Other Russian scientists and some Ukrainian researchers give almost similar definitions.

Prof. O. D. Vasylyk argues that «*finance* should be viewed as economic category that reflects integrated relations linked with creation, allocation and administration of financial resource funds» [6:5]. V. D. Bazylevytch and L. O. Balastryk share this viewpoint. They argue, that in modern interpretation *finance* is a system of economic relations established between economic subjects to pool, administer and employ monetary funds on the basis of distribution and redistribution of gross domestic product (GDP) [3:8].

If we focus on the whole process of extended reproduction, the accents will shift in definition of *finance*. «Economic Encyclopedia» says that *finance* is «integrated monetary relationship related to creation, mobilization, allocation of financial resources, and also relates to exchange, distribution, and redistribution of produced value of gross domestic product (GDP), and under some specific conditions, of national wealth» [8:796].

At present, science of finance in Ukraine is considerably influenced by finance theories of the developed countries. Moreover, economic processes in practice need effective organization of extended reproduction, the latter results in modern science-intensive and competitive goods. Current situation requires explanation of sharply increased financial functions of the state.

The analysis of modern foreign scientific literature proves that the term *finance* has two meanings:

- special separate science discipline that studies cash flows, state incomes and expenses, in this case the term «Public finance» is used;
- in other cases more general term «finance» or «business finances» is used.

So, Z. Body and Noble Prize Winner K. Merton in their text-book *Finance* state, that «*finance* is a science which studies distribution of insufficient money resources within time, and in conditions of uncertainty» [5:18].

American professor C. Shope notes that «science on public finance covers and analyzes functioning of public finance with respect of money appropriation, social payments, and methods of financing these needs through taxes, loans, foreign aid, and currency issuance» [25:3]). In his book *Public Finance in Conditions of Democracy* S. Blankarte defines finance science as «economic analysis of public activity» [4:18]. French scientist financier P. M. Godmet notes that «the public finance is the public wealth expressed in money and credit at disposal of public bodies» [7:37].

English economist H. Dalton describes public finance as money income and expenditures of public bodies [23: 1–2]. German scientist H. Zimmerman defines *finance* as aggregated income and expenditure concentrated in budgets [27:19]. American scientist E. Taylor argues that *finance* is the process of forming and administrating money funds [26: 1–2].

The analysis shows that an important feature of western financial science is a clear distinction between private business and public finances, which have little in common concerning objectives, functions and outcomes. Consequently, in most cases foreign scientists view public finance through its fiscal function. In particular, H. Dalton says that «public finance is a science and serves as a meeting point of economics and politics studying income and expenditure of public bodies, and their mutual relevance. The latter is not necessarily equation, but the most acceptable under given conditions arithmetic ratio [22: 3–4].

From the viewpoint of foreign scientists, finance on micro-level is an immediate response of managing entities to their reached wealth and to the share appropriated by the state through taxes. Market concept of managing subjects' finance was perfectly characterized by Canadian scientists E. Nickbacht and A. Groppelli: «Finance is application of diverse economic technique and methods to achieve maximum prosperity in a company or total capital value invested into a business» [14:5].

Majority of scientists and theoretical financiers in the West in accordance with their philosophical views take a dubious attitude. By giving preference to subjects of financial phenomena, they focus on explanation of materialization of economic relationships via behaviourial motivation of people engaged in the sphere of segment structures of finance.

Since intermediate chains, i. e. separate subsystems arise, the system itself provides the integrity of some subsystems, elements and their links. The peculiarities of the system are in their integrity, well organized structure, integrated features and functions, self-movement, and common objective. Therefore, technical, economic, organizational, and factors of economic property function within finance as systems

The following four types of finance can be the distinguished factors of economic property: corporate finance, household finance, public finance and international finance. These financial subsystems are interrelated making a unique system of finance.

Prof. V. L. Andryushchenko has quite different approach to the concept of finance. In his monograph «Financial Thought of the West in the 20th Century (Theoretical concept and scientific problems of public finance) he builds up a concept of relationship which became «a bastion» of expense economy for public finance [1:86]. Lacking possibility to calculate the effectiveness of the latter, the concept was perceived as the theory of irrational spending of funds. Though, in author's opinion funds assigned for a certain purpose meant refusal to finance something else.

Nevertheless, the author's categorical attitude neither substantiates nor refutes the idea that finance really builds up and exists as specific relationship between people having both quantitative and qualitative features. Consequently, depending upon what is taken as the basis for analysis, either abstractions or real money funds will be the starting point.

Taking into account that finance makes up an essential institutional part of economic infrastructure, and its features (money expression, distribution and redistribution status) are characteristic to all spheres and links of economic process, finance is identified with cash flows which ensure the movement of gross domestic product on all stages of reproduction cycle: production, distribution, exchange, and consuming. Finance is not only the integrated link between producing and consuming of gross domestic product, but also is the key lever of constitutional influence of the state on distribution of aggregate social product and redistribution of gross domestic product. Therefore, finance is objectively the core of economic, social and international policy of any nation state. So, the basis of the structure of reproduction processes, as well as the superstructure, i.e. links of financial management depend on financial capacity. While building up monetary resources, the managing subjects are in specific relations with reproduction contragents. Depending upon what role they play in social reproduction – either they are direct producers, or only regulators of distributive levers – they would pertain either to basis or to superstructure. The basis of this framework is a financial structure, components of which are:

- relationships between businesses of different countries;
- country's relationships with governments and businesses of other countries;
- relationships of countries and businesses with international financial institutions and organizations.

American economist F. Mishkin gives interesting interpretation of a financial structure. He considers that a financial structure is composed of financial markets and their intermediates [24: 39–50, 157–161]. These compounds provide the nucleus of financial system and effect economic processes. The financial system ensures required conditions to re-allocate resources from some contragents of reproductive process to the others; it also encourages attraction of investments within a national economy, and as economist scholar M. I. Krupka notes «it nourishes sources of economic growth» [9:54].

Consequently, finance denotes relevant facets of reproduction process, each of which is being formed in the course of interaction of separate elements.

The key financial elements for technical and economic relationship of reproduction process are the following: provision with monetary funds, emphesising specialization and cooperation, combined production, its concentration, and automation.

Organizational and economic relations in reproduction require monetary provision for interaction between marketing and administration both on micro- and macro-level.

While analyzing finance functioning in regards of economic ownership we should note obligatory monetary provision of different branches of public reproduction and of appropriation objects. Depending on the level of monetary funds accumulation, finance is structurised as follows:

- centralized finances created on a state level (state budget, local budgets, pension fund, social insurance fund, Ukrainian Social Security fund for

Disabled, Family and Children's Aid Fund , funds of ministries and departments, etc.);

- decentralized finances, i.e. funds of enterprises and organizations (depreciation fund, wages fund, dividend fund, reserve fund, fund for economic incentives, etc.).

In the sphere of international finance besides national subjects as a nation state, companies, citizens, we may point out supranational subjects, i.e. international organizations and international financial institutions. Based on this relative division some authors interpret international finance in a narrow sense. They argue that international finance denotes only activity of international organizations and financial institutions.

Theory and acquired experience prove that during transformational processes finance is restructured not only by the sphere of their functions but by origin of subjects can be conventionally divided into national-state and international. So, national-state finance, as a rule, circulates within the boundaries of one country without involving foreign subjects, is based on the national law, and is considered only intra–national. It includes domestic interbank transfers, business settlements, intranational credits, etc.

International finance includes international and transnational monetary relations with characteristic foreign element. Moreover, international finance is not only the result of state relations as of unions of states. This type of finance implies cooperation with the aim of rational allocation of national forces to elaborate rational foreign economic and political decisions.

As a result, financial relations are realized in two dialectical forms: national-public and international finance. Though national-public is a primary form in respect to international, the latter can be viewed as a higher, more perfect, and better structurised form. But this statement is rather controversial. Indirect effects of economic, cultural, sports, and other relations within the world economic processes bring about objective existence of finance, which property as economic category is money. As practice shows, the growth of foreign economic relations of any country is based on a certain regional economic union the country belongs to. The experience of Western European integration, formation of the European Union, and introduction of «euro» point out that these processes are grounded on micro level in the form of mutually beneficial cooperation of particular companies, banks, financial and industrial groups, their joint investment projects, joint ventures, etc.

Intensifying activity of the European community and establishing of international relations aimed to solve global problems bring about the formation of principally new structure of economic, cultural, political, and other relations. But functioning of the traditional structure of finance will hamper the mentioned process.

As a cost intensive economic outcome, *finance* is a generalized integrated expression of value. The development of information technologies, as well as digitalization of economic operations provide an opportunity to make financial evaluations more precise and more accurate using more efficiently the mathematical technique. Reflecting the results of market competition, finance contributes more and more to settle social problems. It combines various economic interests which require regulation, that is a state's adjustment of economic processes via financial aggregates. Incidentally, in modern economic conditions any country, no matter how industrially developed it is, does not want to be a leader on the world market of all products it can potentially manufacture. Only those economic sectors are prioritized which could take real advantages on the world market. Absence of TV plants in the USA can be a firm proof for it. To avoid irrational employment of national resources during restructuring in Ukraine, it is urgent to form analoguous economic complexes, as well as to develop the mechanism for encouraging priority producers and improve the production structure. Therefore, one of the principal tasks of the government is a reasonable support of technological and export oriented productions. Foreign experience proves that in difficult economic conditions a powerful country can influence, though minimally, its industrial policy. The essence of this industrial policy consists in its promoting of financial attributes which meet the market conditions and requirements of a sovereign state, as well as its effective integration into the European Union and world community.

Having analyzed international economic processes, we can have a clear vision of how the world economy is being formed. Its interconnected elements are clearly represented by countries with different economies, different social and political systems. Aspiration of independent states to become members of various international economic unions shows that economic life is increasingly crossing the national boundaries – it is becoming trasnationalized.

Finance as a system of value relations is based on price utilization. Capital proportions are established and structurised on the basis of price. Prices on exports depend on the ratio of production cost, use consumer value of product, and prices changed by competitors. Production costs of the same product differ in different countries which essentially effects production profitability. Exporters and importers have different interests, and therefore their price formation on the world market varies. When forming the price, the exporter, apart from three mentioned factors, usually applies adjustment coefficient. The importer calculates contractual price with respect to particular environment applying various commercial, technical and economic adjustments. In addition, when forming the price, both exporters and importers are taking into account market monopolization, dumping, inflation, season, exchange rates, and other factors.

The analysis of current conditions for export-import operations carried out by national managing subjects proves that the greatest impact on the development of foreign economic activity has legal environment. The latter is rather unstable in Ukraine. Most frequently are changed legal acts, and it makes a long term planning risky. Therefore, almost all industrialized countries, developing countries, and transition economies pursue market oriented policy, having various sectors of their economies open to international competition. In its turn, unique rules and norms are required to be in conformity with legal instruments of the WTO, which Ukraine wishes to join.

Regulations, agreements, laws adopted by international organizations, are essential for international finance. The Exchange Law adopted by Geneva Convention in 1930, Unified Rules regulating collection of payments № 322 and Unified Rules regulating documentary letters of credit №400, adopted by the International Chamber of Commerce, International rules «INCOTER MI–90», WTO laws on 400 pages complementing more than 22 000 pages of national Regulations which contain the list of specific requirements implemented by WTO member states, regulate the world trade.

Implementation of export duty is a significant instrument for price regulation in foreign economic relations enabling to sustain development of specific economies, provide them with basic raw materials and to impede uncontrolled export. The new Tariff of Ukraine (the Law of Ukraine «On Customs Tariff» of April 5, 2001) involves implementation of inclusive system of taxation of goods with the import duty and establishment of favorable environment for Ukraine, joining GATT/WTO and Convention on Harmonized System of Description and Coding of the Goods.

With fierce competition on foreign markets, Ukraine's goods and services are the object for antidumping measures resulting in denial for domestic manufacturers to access the most attractive markets. First of all, it refers to metallurgy and chemical industries. Since independence of Ukraine, antidumping measures hampering import of Ukrainian products on 64 items were applied in 24 countries [19:273].

Organization of international payments is crucial for finance of economic entity in terms of export-import operations with foreign partners. Financial stability, solvency and liquidity of economic entity depend on the form and method of payment. The documentary collection of payments and export-import bill had hardly ever been practiced in Ukraine.

Finance reflects complicated hierarchic structure which unity identifies subordination of single financial relations and categories revealing them. Being related to the system of economic relations in terms of method of economic management with its characteristic relations, forms and methods of controlling the process of production, distribution and consumption, finance in market relations are the key components of economic mechanism which determined economic processes both on national and on international levels. Consequently, international financial relations are a form of international economic relations. Their functioning and development are related to existence and operation of the whole complex of international relations on the globe.

However, functioning of international finance, unlike national , involves features associated with a considerable time gap in material and financial flows. Due to that fact the dynamic development of the world economy is achieved. Thus, the volume of financial operations on financial market in a day equals 1 USD billion, that is to say USD350–400 billion yearly. The analysis of single components of financial market shows that every year nearly USD20 billion circulates on the equity market alone. International credits equal about USD15 billion, international volume of financial resources, the so-called financial derivatives: deposits, futures – USD10 billion per year, direct foreign investments, for example USD50 billion in 2000.

Financial dominant takes on a special significance. Financial transactions are those core components that determine the tendencies in development of the modern world economy. By definition of the former federal chancellor of Germany, Doctor of Economic sciences G. Shmidt, not more than 1–2% of the overall volume of financial operations verify the real movement of goods and 98% are more of speculative nature. Moreover, global financial systems increasingly diverge from the real economy. The nominal value of derivative agreements reached the level of USD 50 billion, that is twice as much as the annual world revenue.

By the level of globalization the financial sphere nowadays leaves behind all spheres of real economy, and the spread of information technologies turned the world stock and exchange market into a single global financial environment at the same time changing the relevant value of resources giving priority to the most mobile ones – knowledge and finance. According to economist Lutsyshyn (Луцишин), the world financial sector became practically independent from the government control and regulation. Besides, the model of relationship of this sector with government regulators has been changed radically. The estimates show that less than 30% of the stock market of G7[1] countries is controlled by the government. The world financial market transfers around the world more than 3 billion dollars per month. 2 billion dollars of which is the money that is not controlled by the government or other official institutions. The private capital has more resources than central banks of some countries, even such as the USA. Not national governments, but private capital determines the situation on the world financial market [11].

Therefore, there arises an urgent necessity in theoretical background for international finance and their practical application in national economy of Ukraine.

Foreign economic activity as a necessary attribute for economic existence is essential for more objective expansion of the world economic relations. Accordingly, finance of foreign economic relations based on specific economic steps and relations evaluated in cost parameters are intermediary «cover» for international economic processes.

Realization of the financial international relations is made as a movement of money flows from one country to another during the production process due to the movement of the resources in the capital circulation and as a movement of the temporarily free capital with the help of the world financial market.

The characteristic feature of the finances of international relations is a possibility for the state to lack governing the economy as a controlling and regulatoral party.

Hence, finance of foreign economic relations serves as the basis of economic relations evolving in the process of formation and, the use of incomes and funds in foreign and national currency in Ukraine's economy. Finance of foreign relations is distinguished by the analysis entailing relations emerging on the basis of formation

[1] Though G8 de-jure exists, G7 retains its de-facto influance in the world financial environment.

and use of incomes and funds raised from foreign economic activity of the entities on the world market.

More active participation of Ukraine in the world economic processes objectively determines the existence of adequate financial mechanism which, in its turn, will either stimulate development of foreign economic activity or hamper it.

The state, territorial, branch-wise and trans-industrial structures of management, industrial associations, enterprises of different forms of ownership and other business structures can be the subjects of that kind of activity. Presently there are 85.000 enterprises, 52.000 of which, namely 61% of the total number, are privatized. More than 13.000 of business entities are involved in international economic relations. This is explained by inability of the majority of enterprises to adapt to high instability of the foreign market.

It is imperative to use the instruments of currency adjustment to regulate relations between subjects of foreign economic activity in terms of export, import and rendering services. Finance of foreign economic relations is used in the form of currency exchange, hryvnia and international means of settlement. They serve for economic relations between these business entities in the process of formation and application of both centralized and decentralized funds. That sort of relations depends on active support of the state.

Finance of foreign economic relations is indispensable part of public finance. Its integrity is reflected in consolidated financial statement of financial resources and expenditures of Ukraine. Thus, income from foreign economic activity in 1992 was practically 0.2%, in 1993 – 1.3%, 1994 – 0.9%, 1995 – 1.1%, 1996 –1.0%, 1997 – 1.1%, 1998 – 1.3%, 1998 – 1.3%, 1999 – 1.2%, 2000 – 1.3%, 2001 – 1.4%, correspondingly. In 1993 costs were estimated as 0.8%, in 1994 – 0.4%, 1995 – 0.3%, 1996 – 0.3%, 1997 – 0.4% , 1998 – 0.5%, 1999 – 0.5%, 2000 – 0.7%, 2001 – 0.8%. According to preliminary estimates, Ukraine's export in 2002 increased by several points[2].

Finance of foreign economic relations reflects economic relations originating from the change in form of ownership. Immediate turnover of funds in the process of production and consumption leads to transfer of its value distributed in money or materialized form from one proprietor to another.

Finance of foreign economic relations plays the following roles: formation of revenues and funds in foreign currency and hryvnias; their application, control of formation, and use of the relevant resources.

The control function of finance in foreign relations is shown in the process of formation and use of incomes and funds. It is realized in circulation of monetary funds. Monetary and financial mechanism is the instrument for realization of economic interests through distribution and redistribution of results of foreign economic operations. Finance of foreign economic relations allows to define, compare and es-

[2] Author used the data of State Committee of Statistics.

timate the costs and results of economic operations that are carried out on internal and foreign markets.

In compliance with the current situation and forecast for the nearest future, there will be no sharp increase in financial resources from foreign economic activity. Only on the assumption of economic independence, production of competitive products, information of potential partners provided, Ukraine's enterprises will be able to take proper place on the foreign market, join the functioning system of relations with pertinent principles and intrinsic logics of development.

Thus, finance of foreign economic relations is an aggregate of economic relations causing the formation and application of finance and state funds, sectoral, intersectoral, territorial structures of management, industrial associations and other business structures in foreign, national currency, other means of settlement. This is one of the aspects of international finance.

The essence of another aspect lies in providing for vital functions of international organizations as well as performing by them certain tasks to achieve a certain objective.

The role of international organizations grows continuously in modern international relations. As a result of objective tendencies in the development of humankind, the number of problems increases and none of the countries is able to resolve them by itself without cooperation with other countries through functional activity of international organizations. It would be wrong, although, to confine the role of international organizations only to guaranteeing interrelations between the countries. The subject of their functioning consists of solving current and further problems of cooperation.

The important feature of international organizations is permanent competent bodies with proper functions and regulations. They are created, as a rule, on the basis of multilateral international treaty supplemented with agreements on different issues that determine the objective, their task, structure and concept, membership, rights and responsibilities of their members, work procedure.

The most important international financial organization is the International Monetary Fund. Ukraine joined this influential organization in 1992. By the beginning of 2000, 182 countries were members of the IMF. To perform its functions the IMF, as other organizations, requires funds, the sources of which are made by payments of country-members, and also activity of the organizations themselves.

On the terms to join the IMF, the entrance fee for Ukraine was 665 mln. of Special Drawing Rights (SDR). Since 1998, because of quota's growth by 50%, Ukraine's payment has reached 997.3 mln. (SDR). According to the resolution of IMF Council of Directors (№ 47–5) our state pays 22.7% of its signed due in SDR or in currency of the other country-members selected by the managerial director of the IMF. The rest of the signed due is paid in Ukraine's currency.

The importance of the IMF is to keep up stability in international currency relations to further the economic growth, development of national trade and to ensure high level of employment and income. At the same time the stability is based on trust in the sphere of currency relations between states and international cooperation to reduce misbalance of payments.

To achieve the set goal the IMF has worked out «The Code of Conduct», which was later changed, but its basis as special features of currency exchange rate of country-members, convertibility of currencies, ways of payment for current operations remained unchanged. To perform its functions the IMF regularly analyzes economic, financial and currency policy of the world countries.

So, having certain monetary resources and information, the IMF can affect both international and national economic development of different countries.

Separate international organizations mostly gather information and publish statistics data.

Finance of international organizations has a developed institutional structure. Some of them cover the whole world; the others are somewhat geographically limited.

The last aspect of international finance is based on intermediary economic relations of the countries in regards of rising and spending mutual funds for supranational regulation of economic processes.

First of all, it concerns the European Union which has its own budget. From the very beginning of the EU existence, the task was set to coordinate and unify national budgets. The levers of such process have become as follows:

- unification of budget documentation and statistic indexes;
- leveling of the share of budget income in GDP;
- coordination of budget policy
- harmonization of budget structure;
- coordination of tax system and tax policy.

The governing institutions of the EU are: The Council of the European Union, the European Commission, the European Parliament and the European Court of Justice.

In early 1960s the European Commission worked out the programme of harmonization of national budgets which foresaw certain actions: to work out recommendations on the budget statistics unification and budget structure widening, comparing and analyzing budgets, working out harmonization methodology for budget policy, etc. It was supposed to give the unified classification of central and regional budgets, to unify the budget period, to forecast long-term budgets for 3–5 years so that on its basis to coordinate financing objects of social infrastructure. In 1980s the EEC had other tasks: to reduce the inflation rate, to reach the stable rate of economic growth, to reduce the rate of unemployment, to stabilize the balance of payments. According to them, the European Commission has defined the main directions in the budget policy: to reduce the state budget deficit; to increase the portion of budget funds which are intended for investments; to retrain the labor force, to reduce production costs; to intensify monitoring the use of funds for social expenditures.

We should point out that harmonization of the budget policy is a process with internal contradictions. On the one hand, formally the autonomy of some countries in budget regulation was reduced: countries are required to give projects of their budgets and reports on their fulfillment to the EU Parliament; to inform the EU authorities about certain budget undertakings. On the other hand, the economic mechanisms of the country-members are autonomous though interrelated; states are on different level of economic development, different internal social and political situations that cause conflict of interests both in budget policy and in economic policy on the whole.

Integration processes taking place nowadays led to creation of customs union, unification of taxes, credit and financial policy in the EU countries, introduction of common currency, and increase in number of country-members from 6 to 12. At the moment, all countries of Europe are trying to become EU members after the socialist system collapsed. According to Article 199 of the Rome Treaty the EU should have common budget as it is the main financial base for integration activities. It involves all branches of economic activity of the EU. By its nature the budget characterizes the financial situation in the EU.

The core of the monetary policy of the European Union in the end of the 20th and the beginning of the 21st century included the following: first, to synchronize functioning of the tax systems of member states; and second, to introduce common currency – the Euro. The Euro issuer is the European Central Bank. The single currency was introduced in two stages.

The first stage lasted from January 1, 1999 till January 1, 2002 when the Euro was used for clearing settlement along with national currencies. The management entities had the right to choose between those currencies. And of January 1, 1999, the Euro was to be used for inter-bank transactions, for operations on financial markets, and for emission of public securities.

The second stage lasted from January 1, 2002 till July 1, 2002 when national currencies of the EU member states were replaced in full in all spheres of clearing settlements. The Euro banknotes and coins were in circulation, and were used alongside with national banknotes, the latter of July 1, 2002 lost the status of legal payment medium.

The initial euro exchange rate was set in ratio of 1 euro is equal to 1 ecu on December 31, 1998. Since January 1, 1999, the payment unit of the European Community had been cancelled.

But Ukraine faces great challenges on its way to integrate into global economic environment, and the major challenge among them is the state of national economy. Though all branches of power in Ukraine boast about some positive macroeconomic achievements gained since 2000, the real state of economy needs to be better.

The budget of the EU is drafted in euro and calculated on 1 of February. Taxes are the major income of the budget. The tax policy is a part of the budget policy. At the same time taxes independently effect the economy of the state. They are the state's part of national income and main source of state financial resources.

In the market economy taxes are the key lever of economic and social policy of the state. Types and size of taxes paid by the countries are set up in accordance with the law of the Union, and these taxes flow directly to the EU Treasury.

When characterizing the development of tax systems in the EU countries, we should note that it was much more complicated than expected. The reason is the difference between countries in the tax level. So, the share of taxes in GNP from 30.5% in Spain to 46.5% in Luxembourg and 51.4% in Denmark. The share of direct taxes in total sum of income is 15.5% in Greece, 38.6% in Great Britain; of indirect taxes is from 19.5% in Spain up to 44.9% in Denmark. There is a huge difference in the structure of indirect taxes. So, value-added tax share is from 22% in Greece and Denmark to 10% in Luxembourg. The considerable difference is connected with payments to the social insurance funds–from 55% in Germany to 4.9% in Denmark.

However, during the evolution period the EU countries have come to some certain general conclusions as for the budget policy. So, too high tax share in GDP is as undesirable as too low. It should not exceed 50%. It demonstrates in all countries the tendency to increase the part of GDP, which is mobilized by the state for its own use by means of tax system. For instance, in Switzerland the part of GDP increased by 26.9 points, in France by 9.7, in Italy by 3.8, in Great Britain by 8.6, in Germany by 9.8. In Ukraine the government mobilized for its own use more than 55% of all budget income through taxation. In different countries different factors influence this process. However, the general rule is that market economy needs state interference into the processes of GDP distribution in order to speed up economic growth and social security for different strata of population.

In general, the tax harmonization includes not only bringing the tax system to a common denominator, e.g. to unify tax structure, tax mechanism, tax rates, but also coordinated tax policy of the countries to solve market conjuncture and long-term structural problems. Harmonized tax policy means that the autonomous use of tax instruments by certain EU countries has to be monitored by the EU, which determines tax policy for each member in accordance with the interests of all partners. Besides, tax unification requires the radical reform of national tax systems.

So, on the level of the European Union optimization of taxation lies in search of appropriate balance between specific and universal taxes, partially of value added tax and excise tax from the point of their fiscal and market correction value.

The expenditures of the budget include estimates of expenses of all EU institutions. They concentrate over 95% of overall EU financial resources, which sources are 2.5–3% of the funds of the EU countries' national budgets and 20% of their gold and US dollar reserves. The estimate of the European Commission includes all budget funds: the CAP Fund, European Regional Development Fund, European Social Fund, and expenses for scientific, technical and industrial policies of the EU.

According to Article 200 of Rome Treaty, the EU budget revenue should be formed from the financial endowments of member-countries. It was the first case in the history of the union when own financial base was founded. Starting from 1971, the EU budget is formed not only of states' endowments, but also from other resources in the form of tax on agricultural products imported from other countries; import tax on industrial products to the region; value added tax. From 1979 a part of this tax in the EU budget is used as the union's own resources. The part of VAT deducted to the EU budget from countries is fixed annually. The mentioned part of the tax must not exceed 1%.

Entrance to the European Union is a desirable and urgent task for Ukraine. The order and mechanism of integration should be worked out by joint efforts. In 1996 Ukraine was recognized by the EU as the country with transition economy, which gave Ukrainian entrepreneurs preferential terms on the EU markets. Ukraine also enjoys the status of most favored nation.

The immediate problems to be solved for the successful integration of Ukraine into the world financial environment are the restructurization of the enterprise's finances, of tax, budget and credit systems, and of non-banking financial institutions into unified structures to meet the international requirements.

Thus, the aspects of financial relations in international economic relations analyzed above make up the concept of *International Finance*. Due to international character of finance the interstate financial resources are redistributed. The latter are created and employed on the world market to meet common needs effectively. This certainly does not embrace all aspects of this category, but, the deeper and wider the society defines and employs economic categories, the greater social and economic effect it brings.

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