

More and more municipalities are working for sustainable global development. And through the 2030 Agenda adopted by the United Nations in September 2015, municipal engagement in cooperation for development and sustainability is gaining further importance. The Service Agency Communities in One World supports municipalities in localizing the SDGs through awareness-raising activities, networking and for aligning their local plans to the SDGs (Aligning and Monitoring) [2].

The current socio-economic situation in rural areas of Ukraine is characterized by problems that hinder their transition to Sustainable Development. The demographic and environmental situation is deteriorating, the destruction of social infrastructure is continuing, and the life expectancy of the rural population is decreasing. European integration processes of Ukraine actualize the issue of decentralization of power as a prerequisite for the transition of rural development to the principles of Sustainable Development. Increasing the level of autonomy of local budgets and efficiency of use of budgetary funds is possible due to the widespread introduction of the program-targeted method of compiling and executing local budgets; an increase in the share of local budget revenues in decentralization conditions will enhance the financial capacity of local budgets, but the availability of funding in the united territorial communities is not a guarantee of their successful development, provided they are limited in their decision to use these funds [3].

Therefore, ensuring the Sustainable Development of the territories involves coherence of the developed economic, environmental and development plans social life spheres locally based balancing the powers and responsibilities of local governments with to promote the effective use of the potential of these territories.

Literature

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DETERMINANTS OF COUNTRY RISK: AN EU EVIDENCE

There is no doubt that country risk is an important subject of study in research. But not only from the scientific perspective. All business transactions

involve some degree of risk. However, when trading transactions are carried out internationally, they pose additional risks that do not occur in domestic transactions. These additional risks, called country risks, usually include risks arising from different economic structures, policies, socio-political institutions, geographies and currencies of individual countries.

Bouchet et al. (2003) extended that the concept of country risk originated in a period when decolonization occurred and newly created countries experimented with new political autonomy. More and more companies took up opportunities abroad and gradually increased their presence in foreign markets. According to Nath (2008) the increase in the flow of capital to developing countries has led to an increase in the risk exposure of creditors and investors. As discussed by Damodaran (2003), investors in developing countries expect to be rewarded with higher returns, but they are clearly exposed to the political and economic turmoil that often characterizes these markets or market landscape. Country risk analysis is therefore extremely important for international lenders and investors.

The expansion of business across national borders requires the identification, assessment and analysis of the overall risk to which the economic subjects are exposed. Country risk analysis is the first step in the international portfolio building process. Asiri (2014) discusses that country risk is the result of political and economic factors, so it is very important to identify these factors. Kosmidou et al. (2008) provide a detailed analysis of specific statistical approaches in use for country risk analysis, as well as variables affecting country risk.

In general country risk is largely influenced by political factors. But as discussed by Hoskisson et al. (2000), in a business context, country risk has a negative impact on the performance of a company due to unexpected changes in significant variables. They relate to any potential or actual change in the political system, civil or external warfare. They are related to certain events, such as expropriation, devaluation, but also include any democratic development that may distort foreign trade. Such incidents have a wide range of negative impacts on businesses, ranging from loss of opportunity on the one hand to overall hedging of business assets on the other.

According to Leitner et al. (2015) at the empirical level, there is a long history of studies on individual risk factors. Political risk measures the effects of political stability on attracting foreign companies, the level of democracy on losses in international businesses and the effects of bureaucracy on attracting international business activities. Authors, Leitner and Meissner (2016) perceive political risk as a result of government interference in business operations. Miller (1992) argues that social insecurity may be a precursor to political insecurity. Teixeira et al. (2008) discuss the country risk is a measure linked to the likelihood of a country's failure and is caused by events that may

at least to some extent be under government control but are certainly not under the control of a private enterprise or individual. In quantitative terms, country risk is represented by the difference in return between risky and non-risky assets, which in turn depends on general liquidity conditions in international markets and the behaviour of international investors, the degree of risk aversion and the risks attributed to them by individual assets. Cosset et al. (1992) defined the country's risk as the probability that a country would not be able to generate enough foreign exchange to pay its debt to foreign creditors. They stressed the need to define country risk in a broader context that more perfectly represents the multidimensional nature of country risk.

Methodology and data

The main aim of the paper is to find similar EU countries from the perspective of risk and changes within them. We specify and test the significance of individual political and economic factors on the country's risk using an econometric model. We analyse all EU countries, specifically Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Greece, Netherlands, Ireland, Lithuania, Latvia, Luxembourg, Hungary, Malta, Germany, Poland, Portugal, Austria, Romania, Slovakia, Slovenia, United Kingdom, Spain, Sweden and Italy. We use individual political and economic indicators for the period 2005 to 2017 with annual frequency, using datasets of the World Bank, the International Monetary Fund, OECD, WITS, Eurostat and The Global Economy. We use longitudinal or so called panel data for twenty-eight EU countries and seventeen annual periods. The appropriate approach applied for the data structure is panel regression. That enables us to determine and select significant political and economic variables.

The model that we want to estimate takes the following form:

$$CR_{it} = \beta_0 + \beta_1 GDPpc_{it} + \beta_2 GFCF_{it} + \beta_3 CPI_{it} + \beta_4 UNEMPL_{it} + \beta_5 Debt_{it} + \beta_6 CuA_{it} + \beta_7 IIP_{it} + \beta_8 Ex_{it} + \beta_9 PSI_{it} + \beta_{10} COC_{it} + \beta_{11} IFI_{it} + \beta_{12} RLI_{it} + \mu_{it}$$

where *CR* stands for country risk expressed as a rating based on the ratings of the major rating agencies - Standard & Poor's, Fitch and Moody's. We have transformed the rating scale into numerical expression, assigning 20 to the best rating (highest quality) and 1 to the worst rating (very high probability of failure). There is a negative correlation between rating and country risk in the sense that when a country's risk decreases in the analysed country, it leads to a rating increase. This is important to avoid misinterpretations.

The explanatory variables in use are: gross domestic product per capita expressed in dollars (*GDPpc*); growth of gross domestic product, year-on-year change in percentage (*GDP*); gross national income per capita expressed in dollars (*GNIpc*); gross capital formation, year-on-year change in percentage (*GFCF*); consumer price index on annual basis and expressed in percentage

(*CPI*); unemployment rate as percentage of total workforce (*UNEMPL*); gross government debt expressed as percentage of GDP (*Debt*); balance of payments current account expressed as percentage of GDP (*CuA*); international investment position expressed as percentage of GDP (*IIP*); *EX* export growth rate expressed on year-on-year basis in percentage (*EX*); political stability index (*PSI*); corruption control index (*COC*); index of investment freedom (*IFI*); rule of law index (*RLI*); and random component.

The analysis will be based on an econometric model with the explanatory variables in the models being the same at the beginning, only the explained variable, the country's risk expressed by rating will be changed. In the first model (model M) Moody's rating as the country risk dependent variable is used. In the second (model SP) S&P is used and as the last initial model Fitch rating is used (model F).

As we mentioned, we are working with cross-sectional data for EU countries, where we also see how they change over time. When using panel data, we can generally consider two types of models, namely the fixed effect model and the random effect model. We applied the Hausman test and decided which model suited our conditions.

Table 1

Significance of explanatory variables in model M

	estim. β	p-value
GDPpc	2.881e ⁻⁰⁵	0.039 *
GFCF	7.967e ⁻⁰³	0.144
CPI	-0.140	0.020 *
UNEMPL	-0.102	0.011 *
DEBT	-0.079	<0.001 ***
CuA	0.041	0.078 .
IIP	0.013	0.010 **
EX	-8.834e ⁻⁰³	0.198
PSI	0.150	0.785
COC	-0.575	0.043 *
IFI	0.011	0.322
RLI	4.347	<0.001 ***
R²	0.782	
R² adj.	0.778	

Significance level: 0 '***' 0,001 '**' 0,01 '*' 0,05 '.' 0,1 ' ' 1

Source: calculated in R program.

In all three variants of the model, all assumptions put on the panel data models, so we eliminated model deficiencies by applying the robust Allerano

variation-variation matrix used in the fixed effect model. For the further evidence on Allerano matrix, see Croissant and Millo (2008).

Among the three models as the most appropriate for assessing country risk follows the first model (model. M) with the desired pointer credit rating by Moody's evaluation, by which we can explain about 78% of the total variability of the indicator. The other two models are able to explain the smaller percentage of the total variability of the indicator. They also show a smaller number of statistically significant variables compared to the first model. For this reason, only the first model (model M) is considered for our analysis.

According to our investigation, the GDP per capita, inflation, unemployment, gross government debt, current account balance, international investment position and political control index of corruption and the rule of law are the main factors influencing country risk.

Conclusion

We provide a detailed literature review of country risk, its definition and specific aspects. We also describe and test the significance of selected political and economic factors using panel data regression. We conclude the GDP per capita, inflation, unemployment, gross government debt, current account balance, international investment position and political control index of corruption and the rule of law are the main factors influencing country risk in our analysis.

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MODERNIZATION OF THE PROCESS OF FORMATION OF THE STATE BUDGET OF UKRAINE IN THE CONTEXT OF PROVIDING ECONOMIC SECURITY OF THE STATE

The social transformations of today determine the imperatives of formation of budgetary policy and the modernization of its instruments. The solution of current and strategic goals of socio-economic development depends to a large extent on effective management of public finances, which helps to ensure sustainable growth.

A significant indicator and criterion for the effectiveness of budget policy and organization of the budget process is budget security, which ensures a state of solvency and financial stability of public finances, enabling public authorities to perform their functions as efficiently as possible [1].

Budget security is a key component of a country's financial and economic security. Its primary role is determined by the objective necessity of the existence of the budget, its purpose to financially ensure the fulfillment of the state's functions and implementation of its economic strategy: redistribute part of the gross domestic product, regulate economic and social processes in the country while maintaining its economic sovereignty and macroeconomic stability.

Practice shows that in 2019 the formation of the State Budget was not qualitatively different from the usual one. The practice of budget changes (especially spending increases) continued without being tied to strategic priorities, as the medium-term budget resolution for 2018-2020 was not adopted by Parliament. Moreover, proposals for new expenditures submitted by parliamentarians are not always supported by appropriate sources of revenue. Therefore, the deficit is usually widened when making changes to the draft budget.