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GOVERNMENT FINANCIAL MANAGEMENT POLICY IN UKRAINE

Below is a critical analysis of the state of government financial management, and management of the state budget in particular. The negative influence of state debt on fiscal and tax policy is described, the number of recommendations regarding improvement of its efficiency are presented.

Key words: state budget, state budget policy, taxes, state debt.

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ДЕРЖАВНА ПОЛІТИКА ФІНАНСОВОГО УПРАВЛІННЯ В УКРАЇНІ

У статті наведено критичний аналіз стану державного управління фінансами, зокрема державним бюджетом, показано негативний вплив державного боргу на бюджетно-податкову політику та надана низка рекомендацій щодо підвищення її ефективності.

Ключові слова: державний бюджет, державна бюджетна політика, податки, державний борг.

Since 90s of the last century Ukraine has been in a deep economic crisis caused by the absence of a clear strategy of development. The desire to be accepted by the European Community is forcing government to be guided by the advices of the foreign instructors in various kinds of reforms without real possibilities of economic development and raising living standards. This not only improves, but still deepens the economic crisis, which also intensifies the political crisis. All this harmfully affects the state of public finances.

According to the views of leading economists, fiscal policy has become the most vulnerable problem of modern economy. Analyzing the public financial management system, most of economists emphasize on the need of its deep real reforming, which should lie on the budget improvement by changing the paradigm of fiscal policy.

There is a critical analysis of modern approaches to the development of fiscal policy and some suggestions for its improvement in the article.

The problems of public finances are constantly discussed by Ukrainian scientists, such as V. Andrushchenko, O. Vasilik, V. Geyets, T. Kizyma, S. Klimov, A. Krysovaty, T. Merkulova, A. Moldovan, S. Uriy, etc. Underlining its weaknesses, they correctly stress the necessity of taking into account all factors that determine the directions of its activities and comply with social development laws.

A. Moldovan [1] underlines the importance of effective public resources management and notes that misbalances and problems in public finance provoke economic threats of national scale, especially when they reach a critical level. Other researchers analyze the possibility of adapting public finance to the European integration reforms, emphasizing their vulnerability and the need for real changes in fiscal policy. Some authors stress the need to identify "weaknesses" of the budgeting process and eliminate them to improve budget security.

According to our opinion, Ukraine has no system of strategic planning of state finances reform, which affects all other declared reforms in different sectors - health and education, municipal and so on. Therefore, they do not provide the expected results and are not supported by the majority of the population.

Of course, certain positive improvements in public financial management during the period of independence were made. This applies to Budget and Tax Codes. But they have a lot of inconsistencies and problems. Thus, some rules in Budget Code contradict the law of local self-government and its focus on building the effective budget system is not enough.

Despite some positive aspects introduced by the Tax Code, it did not create real conditions for budget profits replenishments and the needs of small and medium businesses are still not considered, as well as the population taxation remains imperfect.

With respect to proportional income tax rate, if we want to join the European community, their values, then we should follow the system of progressive taxation, according to which the main tax burden does not lie on the poor population. In addition, this system will contribute to levelling of real incomes, reducing their sharp stratification and, consequently, reducing the level of revolutionary sentiment. The approach to small business taxation, requires to be strengthening incentives to its exit from shadow and accelerating of its development.

In the stagnation of the economy it is essential to develop effective ways of demand increasing by reducing indirect taxes on consumer goods. According to statistics, over the past four years, the population started to buy goods by four times less. In many advanced economies there are differentiated tax rate from complete exemption to

high taxes on luxury goods. Without the development of domestic consumption there will be no real economic growth and certainly no increase in revenue.

Regarding the sources of the state budget we must say about proceeds from privatization of state property. Taking into account the sad experience of previous years, when the main objects of state property (about 56%) were sold at give-away prices without going through a competitive tender, we can hardly believe that privatization of public enterprises will bring enough money to the budget.

Confessing liberal model of economic development, which currently starts being refused by top market economies, such as the US, the government sells out the most significant state properties, which influence the budget formation, thus reducing the sources of the state budget.

Recently the deficiency type of fiscal policy became dominant when certain level of spending is declared and then the necessary revenues are determined. It's roots go back to the Soviet Union period, when Ukraine inherited the significant budget deficit, which it failed to overcome for all the years of independence, consequently, due to financial borrowing to cover budget deficit, public debt was continuously growing. Table 1 shows the dynamics of public debt growing during 2004–2017 years. As it is seen from the growing YoY rates (compared to the previous period), the highest growth rates relate to the last period which increases the economic insecurity of our country.

Table 1

Public and publicly guaranteed debt in 2004–2017 [2]

Years	Total debt (mln UAH)	YoY,%
2004	85400.0	-
2005	78100.0	91.5
2006	80500.0	103.1
2007	88800.0	110.3
2008	189400.0	213.3
2009	316885.0	167.3
2010	432235.0	136.4
2011	473122.0	109.5
2012	515511.0	109.0
2013	584114.0	113.3
2014	1100564.0	188.4
2015	1572180.0	142.9
2016	1929759.0	122.7
2017	2141674.0	111.0

The structure of government debt has a very significant role and is presented in the Table 2.

Table 2

Structure of the state debt of Ukraine in 2009 -2017 GG, mln UAH [2]

Years	External debt	Domestic debt	debt Structure
2009	211751.7	105132.9	0.67 / 0.33
2010	276745.6	155489.8	0.64 / 0.36
2011	299413.9	173707.7	0.63 / 0.37
2012	308999.8	206510.7	0.59 / 0.41
2013	300025.4	284088.7	0.51 / 0.49
2014	611697.1	488866.9	0.55 / 0.45
2015	1042719.6	529460.6	0.66 / 0.34
2016	1240028.7	689730.0	0.64 / 0.36
2017	1374995.5	766678.9	0.64 / 0.36

As the table above shows, the external debt exceeds the domestic one in all the years and it is increased by 6 times during the period. That increasing was caused by devaluation of hryvna and growing borrowing from the IMF. As we think, this structure of public debt, with the advantage of external one, is very dangerous. Although in dollar terms such abrupt changes are not so obvious, we should not forget that for paying for the external debts there are less and less foreign incomes, and debt burden becomes higher as nearly 65% of public debt borrowings should be returned in foreign currencies. In the structure of external debt of Ukraine in 2017, 71.4% of debt consists of US dollars, but in common about 98.9% of debt is in foreign currency (table 3).

The structure of the debt would be less threatening if it prevailed in the domestic currency. Looking for "cheap" money Ukraine hit the "trap" of the IMF with its requirements about changing in social policy, pension legislation, tariffs for gas and others. By the way, if you follow the IMF demands to raise once again the level of gas prices, the state budget could not stand the growing size of subsidies, which will reach about 71 billion UAH in 2018.

Table 3

The currency structure of the gross external debt of Ukraine in 2017 [3]

	Currency	%	Eq. mln. USD
USD	U.S. dollar	71.4	83236.6
EUR	Euro	12.7	14805.4
XDZ	SDR	12.0	13989.4
RUB	Russian ruble	1.9	2215.0
UAH	Ukrainian hryvnia	1.1	1282.4

By the end of 2018 Ministry of Finance forecasts growing of state debt limit size by 2.3 times.

Nowadays the US Federal Reserve began increasing interest rates and if this policy will be followed by the Bank of Japan, China, the UK, the situation in the debt markets will deteriorate quickly. Investments would be impossible, the risk of not only corporate, but also sovereign defaults would grow.

The IMF analysts are concerned about the situation in developing countries. They believe that about 40% of low-income countries today are influenced by negative financial trends.

Ukraine, which has not come out from the previous financial crisis and has public debt for the January 1, 2018 in the amount of 2.14 trillion USD, will be one of the first to enter the danger zone. Our country has an open economy that depends on prices for raw materials export, energy, fertilizers, etc., is very susceptible to external shocks.

There is a perception in government circles that Ukraine will not survive without external borrowing. Indeed, given the huge external debt, the repayment of which in 2018 will reach 175.7 billion USD, it seems necessary to adhere to IMF terms to get the next tranche and to send it to repay part of the debt. But, according to our view, this is the way to abyss. The debts continue to accumulate, the lack of development of economy is not going to help in paying for it in the future. Even if Ukraine's GDP will grow, its growing will be absorbed by debts.

It is not possible to rely on foreign investment. Statistics show that amount of domestic capital investment is on average 3-7 times higher than external. Even during the most attractive investment climate of 2008 when capital investments reached about 272.1 billion UAH. (51.7 billion Dollars), foreign investments accounted for only 3% of this amount. In addition, foreign investors come mainly to the financial and insurance sectors due to the NBU capitalization of the banking system.

At the same time, a significant part of internal resources stays useless, which our population prefer to save in foreign currency because of uncertainty in maintaining. According to cautious estimates of experts their size can reach almost half of all hryvna cash [4]. This can be a powerful source of investment in the economy, if a reliable and effective mechanism for their involvement is developed and implemented.

The situation with the formation and using of budgetary funds does not become clear. The practice of discussing of the draft budget and tax proposals with scientists, analysts, journalists, which was started in the early 90's is depreciated. This could help to avoid many mistakes in fiscal policy and could deprive it of the influence of certain political groups' preferences.

It seems that there are struggles against violators of budgetary discipline, corruption in public procurement, etc. in Ukraine, but the real consequences of this struggle are not seen.

So summarizing the above we can propose next steps for improvement of fiscal policy in Ukraine:

1. It is necessary to develop medium and long-term forecasts of the budget and tax policy, based on forecasts of socio-economic development and expose them to a broad discussion of scientists with illumination in the media.

2. As leading specialists recommend, it is important to set the boundaries of the debt burden to the state budget with clear responsibility for its violation.

3. It is necessary to reduce the debt dependence on foreign loans, including from the IMF, relying more on the internal sources.

4. To utilize provided financing for purposes of economic development rather than on current needs.

5. To demand from foreign creditors to revise the dysfunctional restructuring of public debt.

6. To go over from proportional to progressive practice of income tax.

7. Finally – to change the policy of privatization of state enterprises abandoning, the effective sale of objects that will fill the state treasury.

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