

Tetiana M. Bogolib¹

BALANCE AND STABILITY OF BUDGETARY SYSTEM UNDER THE CONDITIONS OF ECONOMIC CRISIS AND MILITARY CONFLICT IN THE EAST OF UKRAINE

The article explains the value of budgetary system in effective economic recovery, stable performance of social obligations of the state, essential support for national economy infrastructure; proves that balance and stability of budgetary system are secured by means of budgetary equilibrium and macroeconomic stability; offers a new paradigm for facilitation of stability and balance of budgetary system: transparency of budget, implementation of mid-term budget planning and forecasting, effectiveness of budgetary expenses, extension of the tax base for increased budget incomes, refusal from ungrounded expenses and unreasonable borrowings. Realization of this paradigm under economic crisis and military conflict will assure balance and stability of the budgetary system.

Keywords: budgetary system; stability; budgetary equilibrium; budget planning.

JEL: H69; H72.

Тетяна М. Боголіб

ЗБАЛАНСОВАНІСТЬ І СТІЙКІСТЬ БЮДЖЕТНОЇ СИСТЕМИ В УМОВАХ ЕКОНОМІЧНОЇ КРИЗИ І ВІЙСЬКОВОГО КОНФЛІКТУ НА СХОДІ УКРАЇНИ

У статті обґрунтовано значення бюджетної системи в ефективному відновленні економіки, стабільному виконанні соціальних зобов'язань держави, забезпеченні життєдіяльності інфраструктури національної економіки; доведено, що збалансованість і стійкість бюджетної системи забезпечуються шляхом бюджетної рівноваги та макроекономічної стабільності; запропоновано нову парадигму забезпечення стійкості та збалансованості бюджетної системи: прозорість бюджету, запровадження середньострокового бюджетного планування та прогнозування, ефективність бюджетних витрат, розширення податкової бази для збільшення джерел доходів бюджетів, відмову від необґрунтованих витрат та запозичень. Реалізація даної парадигми в умовах економічної кризи та військового конфлікту забезпечать збалансованість та стійкість бюджетної системи.

Ключові слова: бюджетна система; стійкість; бюджетна рівновага; бюджетне планування.

Табл. 1. Літ. 30.

Татьяна М. Боголиб

СБАЛАНСИРОВАННОСТЬ И УСТОЙЧИВОСТЬ БЮДЖЕТНОЙ СИСТЕМЫ В УСЛОВИЯХ ЭКОНОМИЧЕСКОГО КРИЗИСА И ВОЕННОГО КОНФЛИКТА НА ВОСТОКЕ УКРАИНЫ

В статье обусловлено значение бюджетной системы в эффективном восстановлении экономики, стабильном выполнении социальных обязательств государства, обеспечении жизнедеятельности инфраструктуры национальной экономики; доказано, что сбалансированность и устойчивость бюджетной системы обеспечиваются путем бюджетного равновесия и макроекономической стабильности; предложена новая парадигма обеспечения устойчивости и сбалансированности бюджетной системы: прозрачность бюджета, внедрение среднесрочного бюджетного планирования и прогнозирования, эффективность бюджетных расходов, расширение налоговой базы для увеличения источников доходов бюджетов, отказ от необоснованных расходов и займов. Реализация данной пара-

¹ Pereyaslav-Khmelnytskyi State Pedagogical University of Grygoriy Skovoroda, Ukraine.

дигмы в условиях экономического кризиса и военного конфликта обеспечат сбалансированность и устойчивость бюджетной системы.

Ключевые слова: бюджетная система; устойчивость; бюджетное равновесие; бюджетное планирование.

Problem statement. Budgetary system in general effectively contributes to the recovery of economy, stable performance of social obligations of the state, essential support for national economy infrastructure. In spite of inflation, devaluation of hryvna, growth of budget deficit, internal and external debts, the problem of debt restructuring, budget is still executed and budgetary system is functioning. It is an important task today to ensure the balance of budgetary system under the conditions of economic crisis and military conflict in the East of Ukraine. Budgetary system is the component of economic policy and shall be directed at the modernization of economy, creation of conditions for its competitiveness; long-term stable development, improvement of investment climate and achievement of definite results. This may be reached through ensuring budgetary system balance.

Literature review. Budget planning, budgetary equilibrium, deficit and profit were researched by Ukrainian scientists, such as V. Andrushchenko (2001), V. Demianyshyn (2007), N. Derkach and L. Hordeeva (1995), I. Liutiy (2005), I. Lunina (2006), Ts. Ohon (2003), S. Yuriy (2013), O. Zvarych (2011). Budgetary balance at different levels, as well as budgetary equilibrium, were researched by foreign scientists, such as M. Afanasiev and I. Krivogov (2006), Ch. Blankart (2000), W. Rodionova (1951), V. Sengachov (2007), Yu. Shvetsov (2005), T. Sorokina (2012), J. Soros (2010), J. Stiglits (1998), A. Wagner (1958). In spite of a great number of various studies, the issues of budgetary balance, budgetary equilibrium, the problem of achieving these balance and equilibrium under economic crisis and military actions in the East of Ukraine have not been researched.

Practical value of the results. The proposals expressed in this research may be used by the Ministry of Finance of Ukraine and regional authorities during the development of budgetary resolutions, budgetary planning, that will allow performing systematic work with the aim to expand the income base of the state and local budgets.

The aim of the research is the development of a new paradigm for ensuring the stability and budgetary balance.

Key research findings. Contemporary Ukrainian budgets are based in general on the tax basis and are characterized by the absence of equilibrium. This is especially relevant for the crisis phenomena. Recently this situation was also affected by the military conflict in the East of Ukraine. In accordance with S. Yuri (2013: 75): "Budget of the state as the public and economic institute reflecting the interests of all citizens, legal entities and the state from the fiscal point is characterized by the definite parameters, the main among them being income and expenses, which determine the budgetary amount as the financial plan on the balanced basis". Budget volumes on income and expenses, sources of taxable and non-taxable income, usage of funds are regulated by the annual laws on state budget, representing the main financial plans of the country.

Article 7 of the Budget Code of Ukraine (08.07.2010, # 2456-VI) determines the principles of budgetary system of Ukraine, the second point, i.e., the principle of ba-

lance of authorities for budget expenses shall coincide with the budget receipts for the corresponding budgetary period.

"In the process of balancing budget by means of comparing its income and expense parts, the balance is formed (budget condition), which is determined by the following indicators: the equilibrium of income and expenses (excess of income over expenses), budgetary deficit (excess of expenses over income)" (Yuri, 2010: 9).

In his work "State Finances in Democracy Conditions" Ch. Blankart (2000: 122) researched the general equilibrium of budget and grounded the hypothesis of general equilibrium of welfare, justifying the threshold level of welfare. The scientist concludes that state benefits shall be comparable with the possibilities of the state.

The indicator of equilibrium of income and expenses proves the budgetary balance, i.e., sufficiency of budgetary income sources for financing the state needs within the planning period. Equilibrium of budget income and expenses represents its natural condition, in which all planned expenses are supported with the corresponding income.

Reaching equilibrium is complicated by the fact that budgetary process subjects strive to receive as many allocations as possible and to pay as few taxes as possible.

Budgetary deficit and proficit are the constituents of the budget balance.

From the macroeconomic point of view, the deficit has bilateral nature:

- full employment budget (structural budget) is characterized by the balance at the actual level of state expenses and tax rates on condition of potential GDP value;
- partial employment budget (cyclic) represents budgetary income, expenses and final balance formed during the direct influence of the phase of business economic cycle (Yuri, 2013: 77).

Budgetary proficit is a rare phenomenon; approval of proficit budget is justified from the point of view of necessity to repay the state debt.

The world economic thought strives to develop the correct attitude to the problem of budgetary misbalance.

Conservative ideas about the inexpediency of state interference into the economy and obligatory balancing of the inconsiderable state budget became very popular. The world arena was occupied by the progressive liberal concepts of state regulation, in which the main role is played by the active state and social policy, and thus, budget became quite meaningful.

Annually balanced budget, the expenses of which correspond with the income on the 20th century, is considered to be the main purpose of developed capitalist countries.

Budgetary balancing on the cyclic basis is positive in these ideas. Anti-recessionary enterprises under crisis are directed at the compensation of the lost tax payments due to production and rise in unemployment (increase of tax rates, decrease of state expenses).

There is the concept of balancing economy, but not budget. Theorists mention that state budget is the instrument for achievement and support of macroeconomic stability (Yuri, 2013: 79).

Budgetary policy under crisis and military conflict should ensure macroeconomic stability, which presupposes balanced budget, gradual decrease of budgetary deficit and expected inflation parameters.

To ensure budgetary balance, new obligations shall be accepted only on the basis of thorough assessment of their effectiveness and with the availability of resources for their guaranteed performance within the accepted budgetary limits.

Assessment of all expenditure obligations is of great significance. The example here is financing the budgetary deficit of NJSC "Naftogaz of Ukraine" (annually in the amount of 100–120 bln UAH), Pension Fund of Ukraine (annually – 30–40 bln UAH) (Key indices of the financial state..., minfin.gov.ua, 2015). Oil and gas companies of the world are not loss making and do not have deficit budgets. Simultaneously, private companies included in the structure of NJSC "Naftogaz of Ukraine" are profitable and annually pay dividends on shares. The other side of the shield is that managers of NJSC "Naftogaz of Ukraine", in spite of ineffectively managing the company, have very high salaries. There are no similar examples in other countries.

Law of Ukraine "On State Budget for 2015" (28.12.2014, # 80-VIII) was approved on December 28, 2014. Changes to the Law were introduced and the main parameters of budget 2015 were determined on February 16, 2015 (minfin.gov.ua).

Table 1. Main parameters of Budget-2015, bln UAH (minfin.gov.ua)

	2015 approved	2015 changes	Δ	%
Incomes	576	599	22.5	3.9
Expenses	628	664	35.7	5.7
Loans	11.7	11.2	-0.5	-
Deficit	63.7	76.3	12.6	-
GDP	1721	1850	-	-

The following additional expenses were determined: VAT income +11.8 bln UAH, rental payment for mineral resource use +9.1 bln UAH, income tax +2.5 bln UAH, import duty +2.1 bln UAH, rental payments for the transportation of gas, oil, ammonia +1.7 bln UAH, receipts from foreign governments and international organizations +1.3 bln UAH, consular fee +0.8 bln UAH, NBU funds –4.9 bln UAH, fee for currency purchase –1.9 bln UAH; total amount makes +22.5 bln UAH (minfin.gov.ua).

Additional expenses constitute 35.7 bln UAH, in particular: public debt management +21.5 bln UAH, aid to displaced persons from the ATO zone +2.9 bln UAH, increase of subsidies +12.5 bln UAH, child oncology, haemodialysis +0.4 bln UAH, review of expenses dependant on the exchange rate +1.3 bln UAH, financial support of agricultural sector +0.3 bln UAH, payment of overdue indebtedness to miners for 2014 +0.2 bln UAH, expenditures of local budgets +0.3 bln UAH, realization of the EU assistance programs +0.4 bln UAH, decrease of Pension Fund transfer –3.9 bln UAH, reforms in education +0.3 bln UAH, other decrease of expenses –0.2 bln UAH (minfin.gov.ua).

Analysis of the main and additional income and expenses confirms the misbalance of the budgetary system of Ukraine and the absence of sources for covering the budget deficit. In spite of the existent problems, budget 2015 is being executed. The IMF Mission is working in Ukraine and the question of debt restructuring for the amount 27 bln USD is opened. In spite of this fact, the IMF mission promises the next tranche of loan to Ukraine. Ukraine annually spends 100 mln UAH on the ATO.

War losses include more than 6 ths people, 2 mln displaced persons, destruction of 20% of current potential of Ukraine, in 2014 the receipts of the total budget of Ukraine decreased on 23 bln UAH: the ARC and Sevastopol – 9.8 bln UAH, Donetsk and Lugansk regions – 13.2 bln UAH, the amounts of social security contributions decreased on 13.2 bln UAH: the ARC and Sevastopol – 6.5 bln UAH, Donetsk and Lugansk regions – 6.7 bln UAH (Kremlin's black book. War of Russia against Ukraine, 2015: 4–5). In 2014 the GDP fall was 7.6%, the inflation index is 124.9%, the volume of international reserves of Ukraine as of 01.01.2015 was 7.5 bln USD fell by two-thirds (Kremlin's black book. War of Russia against Ukraine, 2015: 8).

State debt as of the end of 2014 reached 945 bln UAH and during the 3 months of 2015 reached 1 trln 176 bln UAH (this volume was planned by the end of 2015), constituting 76% of GDP (www.rbc.ua).

Tax load increased. Correlation of debt, inflation and devaluation are interconnected.

There are serious problems in the banking sector. 54 banks terminated their activities. This has undermined the banking system and the balance of budgetary system. During the last year, people withdrew from the banks over 80 bln USD, and the store at home 100 bln USD (Gontareva, 2015). These amounts are quite large in comparison with the amounts of loans taken. Therefore, borrowers refuse debts restructuring.

Ukrainian government signed the four-year program of support for Ukraine by the International Monetary Fund for the total amount 40 bln USD, 10.5 bln USD in 2015.

The USA provided 2 bln USD, the EU – 2.4 bln USD, the World Bank – 2 bln USD, China – 2.4 bln USD and other countries provided approximately 2 bln USD, not taking into account the contributions of the European Investment Bank and the European Bank of Reconstruction and Development (Key indices of the financial state....., minfin.gov.ua, 2015).

Ukraine's further development presupposes structural reforms, economy modernization, stimulation of knowledge economy, attraction of internal and external investments, and creation of comfortable conditions for entrepreneurship. Social obligations and financial discipline are also very important factors. The main factor though is the balance of budgetary system, in particular, introduction of budgetary rules, which will make budgetary policy independent of internal shocks and would ensure macroeconomic stability and stable economic development (Geyets, 2015: 24).

Addressing the issue of budgetary system balance shall be complex, based on the new paradigm of balanced and stable budgetary system. Important factors include the use of financial resources, implementation of mid- and long-term planning, development of budgetary strategy, as well as strict rules in state programs and restriction (Bauman, 2014: 8).

Resources shall be allocated on most promising directions and the aims shall be achieved not by means of increasing expenses, but through increasing the effectiveness of resources use, application of new rules, technologies, approaches and mechanisms (Soros, 2010: 56).

Predictability of taxation policy, quality of tax administration work, formation of tax culture, increase in non-cash operations, form the basis for a balanced budgetary system.

It is of great importance to keep the state debt on the level, safe for Ukrainian economy.

In Ukraine, the need for financial resources exceeds possibilities; therefore, possible risks shall be minimized. Under economic crisis and military conflict, any solution not secured financially will have negative consequences. The principle of reasonable conservatism shall form the basis for effective management of finances.

It is impossible to reach any strategic aim without long-term balance and stability of budgetary system.

The quality of formation and execution of budget should be increased. The main allocators shall manage the existent budget and not justify their needs in budgetary appropriations. Improvement of requirements and justification of budgetary appropriations shall be in the center of attention. Budget should be transparent and open. There should be portal of budgetary system containing constantly updated information on the formation and execution of budget.

Responsibility of regional authorities for tax regulation shall be increased and the functioning of tax system in the oil and gas sector shall be improved.

Important activities shall include actions on stability and balance of regional budgets by means of extending the powers of regions, decreasing the volumes of inter-budget transfers, performing decentralization of local self-governance bodies and local budgets. Law of Ukraine "On Basics of State Regional Policy" (5.02.2015, # 156) considerably broadens the powers of regions, sources of budget filling, favours the creation of the three-level budgetary system: state budget, regional budget, community budget, this would promote the realization of the reverse principle of budgetary financing. Realization of this Law will help overcome disproportions in regional development.

Under economic crisis and military conflict in the East of Ukraine, the economy shall be as liberal as possible and financial policy shall be conservative. This combination will help to achieve success. The analysis shows that some regions have sufficient potential for economic growth and consequently for the increase of income parts in their budgets.

We will consider Ternopil Region as an example. In 2010–2014 Ternopil region was subsidized, but emigrants from this region sent to their relatives annually around 6–10 bln USD through banks. Within this period investments in residential development constituted 4–5 bln USD annually (Key indices of the financial state..., min-fin.gov.ua, 2015).

Surveys of the recent years show the importance of balancing budgetary system from the regional level to the state level.

Key requirements to budgetary expenses include correct setting of priorities, as well as consideration of specific economic situation. Ineffective expenses are unacceptable. It is important to motivate local authorities to extend their income sources and implement effective state fiscal equalization. Local budgets shall treat property tax as their stable and growing source of income.

Embezzlement of public funds negatively influences the balance of the budgetary system. It also threatens national security.

Loss of industrial Donbass requires the solution of several macroproblems. Industrial enterprises situated in Donbass exported their products abroad, ensured

trade balance and stable currency inflow. From the date of military actions beginning all economic systems are to a certain degree misbalanced. The most serious misbalances are experienced by state companies and organizations, among which the Pension Fund of Ukraine, NJSC "Naftogaz of Ukraine" and Ukrzaliznytsia (state railway system).

These companies and organizations function ineffectively receiving at the same time large subsidies from the budget. The amount of subsidies for these companies is approximately 200 bln UAH annually, which negatively influences the state budget and leads to the misbalance of budgetary system and loss of its stability. Such negative influence on the budgetary sphere decelerates the economic development and preserves considerable differentiation between regions regarding social and economic development. The dynamics of debt obligations grows and budgetary expenses for the state debt management increase.

Conclusions. Ukraine is in a difficult economic situation, under military conflict in the east of the country, the economy continues to fall, inflation and hryvnia devaluation are rising; prices for energy resources are also rising; investment activity has slowed down; the real sector is facing the deficit of own investment resources, rising costs and the gap between profitability and interest rates on loans; uncertainty at global financial markets as well as political instability are also growing. All this affects stability and balance of the budget. Therefore, we need a new paradigm on stability and equilibrium of the budgetary system.

The first task, considering the current situation with fiscal policy, is that slowdown in economic growth should not lead to a decrease in government spending and further deterioration of the general economic situation. It is important to ensure the planned expenditures financing.

The second objective is improving the efficiency of budget spending. Particularly ineffective now is government procurement. To improve the efficiency of budget funds use it is necessary to implement certain budgeting techniques. Government programs shall become a real instrument for concentration of budgetary resources in priority areas, and for achievement of the goals set.

The third objective is a balanced and reasonable tax policy, which should not only perform its fiscal function – to maximize budget revenues, but should also stimulate economic activity and investment.

The fourth objective is to balance the budget of vital public enterprises as Ukrzaliznytsia, Naftogaz, and Pension Fund. Public companies must fill the state budget, but not receive huge subsidies (3 mentioned above companies receive subsidies in the amount of 200 bln UAH per year which is almost a half of the budget).

The fifth objective is to ensure realistic budgetary obligations, not endangering budget stability, under any changes in external economic environment.

The sixth objective is the transition to the budgeting principle. Any new requirements should be laid in the program budgets of the sectors and not generated in the course of their implementation without specifying sources.

The seventh objective is the transition to the program budgeting principle. New requirements should be laid down in the program budgets of sectors and not generated in the course of their implementation without specifying sources.

The eighth objective is to ensure the balance and sustainability of local budgets.

An important factor in improving the sustainability of the state budgetary system is the balance of its local budgets. To achieve this balance, it is necessary to work on the identification of available reserves and additional revenue sources. It is necessary to conduct the audit of subsidies' effectiveness.

Considering the economic crisis and the armed conflict in the East there should be a moratorium on new tax incentives.

Gradual introduction of property tax for individuals will contribute to the increase in revenues for local budgets. To do this it is necessary to change the course and use the experience of the EU countries.

The ninth objective is to prevent a dangerous increase in the debt burden of the regions through enhanced monitoring of the subjects who have reached a dangerous point – 50% of the debt in the amount of tax and non-tax revenues. In preparing the budget plan the deficit should be limited, and there should be strict control by the Accounting Chamber.

Approval of local budgets with unrealistic amounts of tax and non-tax revenues and intergovernmental transfers result in the growth of public debt, so there appears the imbalance in local budgets.

A comprehensive solution of the outlined objectives will provide the balance and stability of the budget system under the current economic crisis and military conflict.

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