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THE FINANCIAL POLICY OF UKRAINE IN THE CONTEXT OF BUDGET PERFORMANCE

POLITYKA FINANSOWA UKRAINY W KONTEKŚCIE WYKONANIA BUDŻETU

ФИНАНСОВАЯ ПОЛИТИКА УКРАИНЫ В КОНТЕКСТЕ БЮДЖЕТНЫХ ПОКАЗАТЕЛЕЙ

Abstracts

The financial policy of the state determines its future. Financial prudence of public policy depends on many factors. These factors can have an economic, political, social, and even environmental sense. The economic analysis showed the need to regulate the main budget indicators in Ukraine. In this paper the main indicators of Ukraine's, Rivne's region and Rivne budget formation have been investigated. The best experience of development countries has been learned and the main improvement measures of budget formation have been ordered.

Keywords: financial policy, governance, economics, tools, efficiency, budget.

Streszczenie

Polityka finansowa państwa decyduje o jego przyszłości. Bogactwo porządku publicznego zależy od wielu czynników. Czynniki te mogą być ekonomiczne, polityczne, społeczne, a nawet charakter środowiskowy. Analiza ekonomiczna wykazała potrzebę regulacji głównych wskaźników budżetu na Ukrainie. W tym artykule przedstawiono główne wskaźniki budżetowe Ukrainy jako całości, a w szczególności regionu Równe badano. Najlepsze praktyki w zakresie rozwoju krajów badano, a główne działania na rzecz poprawy budżetu proponowanego w niniejszym artykule.

Słowa kluczowe: polityka fiskalna, zarządzanie, ekonomia, narzędzia, wydajność, budżet.

Аннотация

Финансовая политика государства определяет его будущее. Финансовое благополучие государственной политики зависит от многих факторов. Эти факторы могут иметь экономическую, политическую, социальную, и даже экологическую природу. Экономический анализ продемонстрировал необходимость регулирования основных показателей бюджета в Украине. В данной работе основные бюджетные

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показатели Украины в целом, Ровенской области в частности были исследованы. Лучший опыт стран в области развития был изучен и основные меры по совершенствованию формирования бюджета предложены в этой статье.

Ключевые слова: *финансовая политика, управление, экономика, инструменты, эффективность, бюджет.*

The adoption in 2010 of new Budget Code of Ukraine and Tax Code of Ukraine fundamentally have changed the tax system of Ukraine in general and administrative units in particular. We know that these innovations had not initially perceived positively, especially small businesses, which led to a series of protests. However, the last time checked the stability of the tax system and timely adoption of state and local budget before the budget period.

The international experts [1; 2; 3], exploring the possibility of adapting of Ukraine to the European Union's requirements, insist on the need to improve the public fiscal policy of Ukraine.

Budget is a plan for the consolidation and use of financial resources for tasks and functions delegated to the bodies of public administration, administration of the Autonomous Republic of Crimea and local self-government bodies in the respective budget period (art. 2 of the Budget Code). The budget comprises revenues and expenses compose budget funds. The local budget – is a set of economic relations, which is an instrument of distribution and redistribution of GDP and national income, thereby ensuring the establishment of the financial base of local authorities to meet economic and social needs.

There are numerous number of normative legal documents of government budget process in Ukraine, namely the Constitution of Ukraine, the Budget Code of Ukraine, the Tax Code of Ukraine, the Economic Code of Ukraine, Laws of Ukraine "On local government in Ukraine", "On local state administrations" "On state forecasting and elaboration of programs of economic and social development of Ukraine," Ukraine Decrees of the President, the Cabinet of Ministers of Ukraine, orders of ministries and other documents.

It was established, that the process of budget spending and its formation corresponds to a large number of government. In particular, this Parliament of Ukraine, the Cabinet of Ministers of Ukraine, Ministry of Finance of Ukraine,

Ministry of Economic Development and Trade of Ukraine, the Control and Revision Office of Ukraine, the State Treasury Service of Ukraine, State Fiscal Service of Ukraine, the State Financial Inspection of Ukraine, the Accounting Chamber and others. Since the management structure of the budget is rather cumbersome and complex, it does not deprive it of a number of shortcomings.

The Ministry of Finance of Ukraine elaborates the draft law on the state budget of Ukraine for the respective year, a forecast for the figures of the consolidated budget of Ukraine, secures the execution of the state budget, controls compliance with the budget legislation at every stage of the budget process in terms of the state budget and the local budgets. Budget revenues are all tax revenues and other revenues which are irreversibly transferred to the budget and are collected in accordance to the legislation of Ukraine (including transfer payments, fees for administrative services, own revenues of public institutions), re-payment of loans to the budget, revenues from state (local) loans, revenues from the privatization of state property (for the state budget), return of budget funds from deposits, revenue from the sale (redemption) of stocks. Budget expenses are funds utilized for the implementation of programmes and measures included in the respective budget, loans granted from the budget, debt re-payment and transfer of budget funds to deposit accounts as well as the purchase of stocks.

The budget system of Ukraine consists of the state budget and local budgets. In this work the analysis of the main indicators of the state budget of Ukraine in 2011-2015 years in mln. hrn. has been done (table 1).

As the data in table 2 demonstrate, government revenue in Ukraine increased by 202363,2 mln. hrn or 64,3% in 2015 year in comparison to 2011 year. Most government revenue was made in 2015 – 516980,1 mln. hrn., and the lowest income – 314616,9 mln. hrn in 2011 year. The

largest share take tax revenues. Their share increased by 56.7% which in absolute terms amounted to 148365,8 mln. hrn in 2015 compared to 2011. In second place are domestic tax-

es on goods and services Their share increased by 47,2% which in absolute terms amounted to 76926,8 mln. hrn in 2015 compared to 2011.

Table 1. The Analysis of the Main Indicators of the State Budget of Ukraine in 2011-2015 years, mln. hrn.

The Source of Income	2011		2012		2013		2014		2015		The Absolute Deviation 2015 to 2011 (+,-)	The Relative Deviation, %
	Total	Including General Fund	Total	Including General Fund	Total	Including General Fund	Total	Including General Fund	Total	Including General Fund		
1	2	3	4	5	6	7	8	9	10	11	12	13
Total, mln. UAH	314616,9	265922,6	346053,9	289577,0	339226,9	291572,5	357084,2	310653,2	516980,1	491767,4	202363,2	164,3
Tax revenues, total	291605,0	243305,1	27476,2	234484,1	282777,1	24818,3	280178,3	266843,2	409970,8	409170,8	148365,8	156,7
Taxes on income, income taxes, taxes on the increase in market value	60898,9	60898,9	62376,1	61043,6	61883,5	61814,9	52587,7	52451,7	79506,3	79406,3	18607,4	130,6
Fees and charges for special use of natural resources	1907,4	1907,4	2296,2	2293,2	13860	13860	19036,1	19036,1	44678,9	44678,9	42771,5	2342
Domestic taxes on goods and services	163104,9	149492,3	176012,5	161846,4	163578,8	153528,9	183965,1	173147,1	240037,1	239331,7	76926,8	147,2
Taxes on international trade and external transactions	1777,4	9627,2	13186,5	10805,5	13342,5	1173,2	12608,8	1258,1	37667	37667	19893	211,9
Rent, charges for fuel and energy resources	2145,6	20604,6	17654,3	17654,3	5700,3	5700,3	5987,5	5987,5	6591,5	6591,5	-14554,1	31,2
Other taxes and fees	2774,2	774,7	3192,6	841,1	4412	2042	5993,1	4962,7	1495,3	1495,3	-1279,2	53,9
Non-tax revenues, total	49187,8	19636,1	68287,6	33603,6	72853,2	41664,5	68355,2	36730,8	95976,3	75527,4	46888,5	195,5
- income from property and entrepreneurship	17260,2	16426,7	32200,5	28435,9	33288,2	32632	28469,3	27240,4	67106,6	67103,2	49846,4	388,8
- administrative fees and charges, revenues from non-profit economic activities	2553,3	2109,9	5435,9	4198,9	5163,8	4136,5	5305,7	4232,9	4379,5	2752,6	1826,2	171,5
- other non-tax revenues	6017,4	1159,5	5950,1	968,8	5369,2	4896	12496,3	5257,5	6020,8	5671,4	3,4	100,1
- own revenues of budgetary institutions	23256,9	-	2470,1	-	29032	-	22083,9	-	18469,2	-	-4787,7	79,4
Revenues from capital transactions	517,7	184,2	1231,5	153	255,4	68,4	888,1	47,1	75,3	78,5	235,3	145,5
Official transfers	2718,6	2480,7	1342,5	113,7	1609,3	1469,2	2116	1952,6	3644,1	3644,1	925,5	134
Official transfers from governments of foreign countries	481,4	156,5	222,6	222,6	1529,2	251,1	5382,9	5079,5	4969,9	3346,3	2251,3	1032
Trust funds	206,4	-	254,5	-	202,7	-	161,7	-	1665,7	-	1459,3	807

Revenues from capital transactions had increased by 45,5 % and amounted to 753 million hrn in 2015 year. The fees and charges for special use of natural resources increased by 23 times. The official transfers from governments of foreign countries increased tenfold. The income from property and entrepreneurship had been risen in four times. The same taxes on international trade and external transactions, non-tax revenues doubled in 2015 year compared to 2011 year. Significantly decreased revenues of the own revenues of budgetary institutions, of other taxes and fees rent, of charges for fuel and energy resources – under 79,4 %, 53,9 %, 31,2 % in 2015 year relatively to data of 2011 year. The taxes on income, income taxes, taxes on the

increase in market value increased by 30 percent and amounted to 2015 year the amount 79.5 billion hrn.

The figure 1 represents the visual data on the dynamics of the budget of Ukraine for the general and special funds separately in the period from 2011 year to 2015 year.

In this work the mechanism of the public administration of the budget process has been investigated which is a system that is designed for the practical implementation of governance and achieve goals. Based on the analysis the structure of the polity, integral components of which are: methods, instruments, tools, policy, legal, regulatory and information provision. Here are three groups of bodies in the budget

management process: I. Legislative and executive power. II. Bodies operational management of the budget. III. The bodies of non-financial profile.

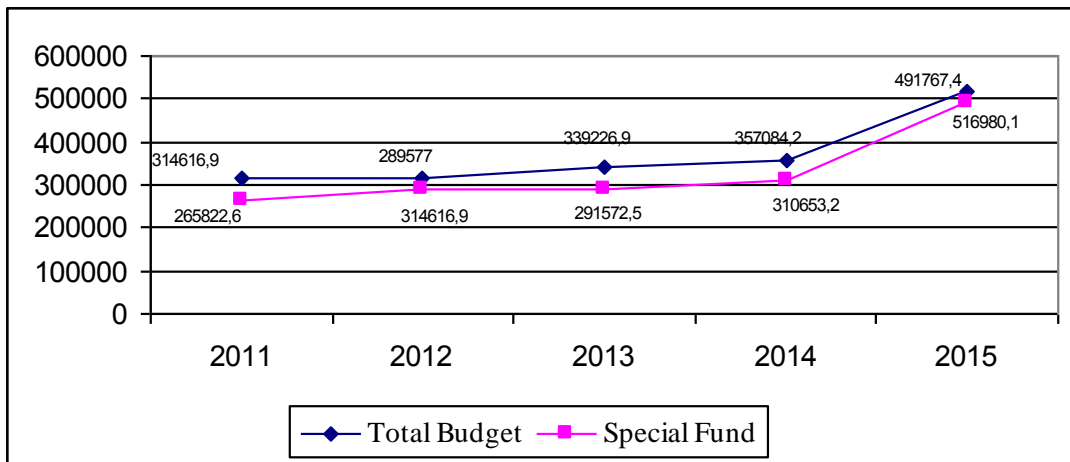


Figure 1. The Dynamics of the Budget of Ukraine in the Period 2011-2015 years, mln grn

The European Union has a budget to pay for policies carried out at European level (such as agriculture, assistance to poorer regions, trans-European networks, research, some overseas development aid) and for its administration, including a parliament, executive branch, and judiciary that are distinct from those of the member states. These arms administer the application of treaties, laws and agreements between the member states and their expenditure on common policies throughout the Union. According to the European Commission, 6% of expenditure is on administration, compared with 94% on policies [5] The EU also spends its budget by sustainable growth. This means that the annual percentage of increase in sales that is consistent with a defined financial policy.

The EU budget is used in areas where it makes sense to pool resources for the good of Europe as a whole, such as [6]:

- improving transport, energy and communications links between EU countries;
- protecting the environment Europe-wide;
- making the European economy more competitive globally;
- helping European scientists and researchers join forces across borders.

Each year the European Court of Auditors

gives its opinion on the reliability of the EU’s accounts and the legality and regularity of the underlying transactions in the form of a statement of assurance [7].

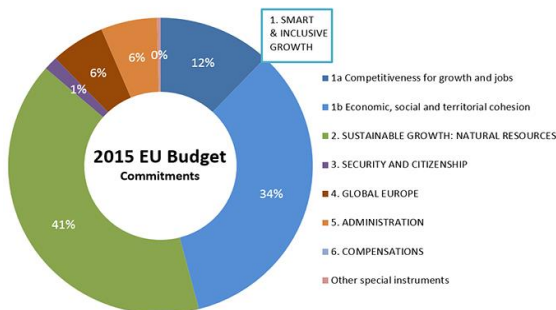


Figure 2. Budget of the European Union in 2015

According to the author’s mind, in Ukraine overdue changes in the tax system in accordance with the requirements of the European Union. This applies, above all, changing the proportions of tax sharing system between the state and local budgets. The proposed system of tax sharing between the state and local levels of government presented in table 2.

Table 2. The proposed system of tax sharing between the state and local levels of government, mln. hrn.

The Name of the Tax	Tax Sharing System	The Proposed System of Tax Sharing
The Value Added Tax	100% of funds received by the state budget	15% of the money left in the local budget. Following the example of Germany (44 %) and Russia (15 %)
The Profit Tax	100% of funds received by the state budget (excluding municipal property)	50% (Germany)
Income Tax	75% is in the city budget	85 %
Land Tax	75% of the money goes to the city budget	100 %
The Environmental Tax Resources	50%	100 %
Total	50% of the money goes to the state, 50% of local budgets	-

The reform of the budgetary system shall achieve the following goals [8]:

- local governments can elaborate and adopt their local budgets by themselves without having to wait for the adoption of the state budget;
- the Ministry of Finance does not impose revenue targets on the local budgets;
- local budgets have more revenue sources which are needed to finance the functions of the local self-government;
- the previous system of balance between the revenues and expenses of the local budgets is replaced by a totally different system securing horizontal compensation of tax-collection capacities of different territories depending on the income per capita;
- new types of budgetary transfers are introduced (education and health subventions, subventions for the education of high-skilled workers, basic and reverse subsidies);
- the calculation of the new types of budgetary transfers is set up in the legislation;
- municipalities are entitled to set tax rates by themselves within fixed limits set by law as well as to grant preferences regarding tax payment.

Thus, the state shall adopt legislation granting full-scale budgetary and financial independence to the local budgets. The Ministry of Finance only informs the local governments about the mechanism of draft budget calculation for the respective year and about calculation of expected budgetary transfers as well as methodic for their identification.

The EU budget finances activities ranging from developing rural areas and conserving the environment to protecting external borders and promoting human rights. The Commission, the Council and Parliament all have a say in determining the size of the budget and how it is allocated. But it is the Commission that is responsible for spending. The EU countries and the Commission share responsibility for about 80% of the budget [9].

The budget is decided jointly by the Commission, the Council and Parliament. The Commission submits a draft to the Council and Parliament for their consideration. They can make changes; if they disagree, they have to work out a compromise. Each year's budget sets out the amounts agreed in advance according to a plan known as the multiannual financial framework. This enables the EU to plan its funding programmes effectively for several years in advance. The current framework runs from 2014 to 2020.

The ultimate responsibility for allocating the budget lies with the Commission. However, national governments manage about 80% of EU funds. Where undue payments have been made, the Commission works with the EU countries concerned to recover the money to ensure transparency, organisations and companies that receive EU funding are on public record. When the project budget planning for the year has been developed, it is necessary to do a financial plan for the five-year period.

The changes to tax legislation in Ukraine in 2016 year generally alleviate some pressure for

business, seek to de-shadow the economy and increase taxes for the richer Ukrainians. Although the Finance Ministry unveiled its draft tax reform at the beginning of December, members of parliament mounted a fierce opposition to that draft. As a result, the Ministry and the parliament spent the past days trying to reconcile their positions for a “compromise” version of the draft law [10].

The key changes that were finally adopted do not augur any disruptive change, but give reasons for cautious optimism [10].

- The *payroll tax* (officially called “*single contribution to the social fund*” in Ukrainian), which used to be among the highest in the world, *has been almost halved*: from an average of 41% to 22%. This sharp reduction is supposed to stimulate companies to pay official salaries rather than just hand over money to their employees “in envelopes” (still a rampant practice in Ukraine), and thus slowly bring the economy out of the shadow.

- Despite palpable resistance in the Rada, there’s a visible progress on gradually *eliminating the current VAT tax breaks for agri-producers*. As a compromise between the government and lobbyists in the Rada, a share of VAT will now be retained by producers (e.g., 15% in case of crop and 50%/85% for livestock), while the remainder is to be paid to the state budget. As agriculture is increasingly taking a more sizeable share of Ukraine’s economy and exports, agri-producers will contribute more to the state budget next year.

- The government has picked some low-hanging fruit to boost the state revenues. There is a *big increase in the excise duties* for alcohol (by 50%) and tobacco (by 40%). Fixed taxes have been introduced for luxury cars (costing over 40 000 USD) and large houses (over 300 sq. metres). Also, local authorities were allowed to impose higher property taxes: up to 3% of the minimum salary per 1 sq. m. (about 40 UAH)

above certain limits. The latter measures will primarily affect the richer Ukrainians, but the success of revenue-collection will ultimately depend on the law-enforcement.

- In line with its commitments to establish the Deep and Comprehensive Free Trade Area with the EU, *Ukraine has eliminated the special import duties* (5-10%, introduced in 2015 to improve the country’s balance of payments) starting from 1 January 2016. This will make most imported goods cheaper for Ukrainians and improve competition [10].

Conclusions. It is necessary that financial planning system in Ukraine includes several parts: a promising financial forecasting and long-term investment program and medium-term five-year financial plan and annual budgets of the respective administrative units. It is necessary in the planning of budget indicators should apply program-target method.

The EU Budget contributes to implementing the EU policies that are intended to improve the lives of Europeans as well as to have a positive influence in the world. Through a joint coordinated effort of both member states and the EU institutions, the EU Budget also finances projects covering a wide range of fields, from employment, regional development, research and education to environment, humanitarian aid and many others. In order to be able to finance such welfare-increasing activities, all member states contribute to the common EU budget. The allocated money is then spent on areas of common interest thanks to the coordination and collaboration of the member states and the EU institutions.

The introduction of complex organizational and economic measures, which have been offered in this work can significantly increase the amount of revenue of the state budget of Ukraine. This will effectively implement spending by developed promising areas of funding.

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