POLITICAL AND ECONOMIC CYCLES AND FISCAL FORECASTS IN THE MULTILEVEL SYSTEM: THE CASE OF UKRAINE

Abstract. This paper deals with the conditions and institutional framework for the accuracy of fiscal forecasts on the basis of studying the relationship between political conditions, the economic cycle and the existing reality. An interdisciplinary view is needed to achieve fiscal goals, effective public management and implementation of high-quality fiscal policy.

Keywords: Fiscal forecast, Tax estimates, Budget planning, Economic cycles.

A prerequisite for development is the possibility of predicting the future, the effectiveness of which depends on the reality and the validity of making managerial decisions. At the same time, an effective fiscal system, which is directly linked to the forecasting of tax revenues, is important for a stable socio-economic development of the country. Without a foreseeable forecasting stage, it is impossible to make a scientifically grounded perspective and medium-term fiscal policy of the country as a whole. Combination of biased tax forecasts and weak public management can lead to inefficient budget processes that determine the entire multilevel system.

Recent foreign contributions focusing on such issues as policy makers may be interested in reassessing fiscal revenues and underestimating expenditures [1-6]. The choice of a strategy depends on political goals, economic status and the ability to take into account voters' preferences. In addition, the problem of fiscal assessment is a problem of estimating economic growth [8].

In our country, as in other countries, developed and introduced a strategic approach to financial planning due to the need of Smart Governance implementation. Nowadays the budget revenue forecast develop for two next budget periods, not for three like earlier. However, there is still no normative acts regarding a clear fiscal forecasting scheme. That’s why in Ukraine we still have a lack of a substantiated correlation between the forecasted level of tax revenue, planned tax indicators for the upcoming period and the actual level of tax revenues (table 1).
Undoubtedly, estimating economic growth is crucial for tax estimation. The main problem is the inadequacy of the macroeconomic forecast (the error of the aggregate forecasts of the macroeconomic indicators varies from 5.3% to 43.3% for main components GDP). In addition, changes in tax law exert all sorts of behavioral effects with revenue consequences that are hard to quantify [7]. This situation complicated by the fact that independent experts are not involved in the estimation of fiscal forecast indicators. The problem of the fiscal forecasting, both at the state or local level, remains unresolved, despite the functioning of a wide range of research and scientific institutions.

We analyzed changes in the political arena, economic cycles, fiscal policy objectives and tax revenue forecasts of periods in reforming the tax system since independence of Ukraine (1991-1995 — the Tax System formation, 1996-2003 — adaptation the Tax System with the requirements of the Market Economy, 2004-2007, 2008-2009 — The Tax System Optimization, 2010-2015, 2016 till now — The Tax System Modernization) and we may conclude that at various stages of economic cycle and in different political conditions the forecast error varies. At the economic recession, the government is trying to overestimate the fiscal potential of the country. In addition, taking into account political preferences, it can be argued, for example, that in 2010, for the re-election and consolidation of political support of voters, the government (in which the majority holds by the government) significantly overestimate the level of tax revenues to conditionally increase social support. Certainly, in the process of setting up the budget, a government or parliament is tempted to manipulate the revenue forecast and to underestimate or overestimate revenues. Yet a sustained manipulation in one direction, which would show up in a significant bias of the forecasts, hardly affects rational agents’ beliefs and merely undermines the credibility of the official forecast.

Although, the political factor is not a direct factor in determining the budget revenue indicators, however, given the unpredictability of certain political decisions, and,

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**Table 1**

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<tbody>
<tr>
<td>RMSPE²</td>
<td>2.91</td>
<td>44.76</td>
<td>43.84</td>
<td>24.02</td>
<td>20.74</td>
<td>9.89</td>
<td>44.26</td>
<td>9.64</td>
<td>18.18</td>
<td>8.30</td>
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Source: own illustration

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therefore, the objective impossibility of timely react of their consequences, can lead to significant difficulties, often at the stage of the forecast indicators implementation. Therefore, political cycles should be taken into account when developing fiscal forecasts.

Thus, fiscal forecasting is a highly complex process. And since it is an instrument of increasing the competitiveness of territories and regions and regulation mechanism of intergovernmental fiscal relations and sustainable development of regions, therefore the budgetary frameworks should be effective for functioning multilevel system.

**References:**

ПОЛІТИКО-ЕКОНОМІЧНІ ЦИКЛИ ТА ФІСКАЛЬНІ ПЕРЕДБАЧЕННЯ В БАГАТОРІВНЕВИЙ СИСТЕМІ: УКРАЇНСЬКІ РЕАЛІЇ

Анотація: В даному документі розглядаються умови та інституціональні рамки для точності фіскальних припущень на основі вивчення взаємозв'язків між політичними умовами, економічним циклом та існуючою реальністю. Міждисциплінарна точка зору необхідна для досягнення фіскальних цілей, ефективного державного менеджменту та реалізації якісної фіскальної політики.

Ключові слова: фіскальний прогноз, податкові оцінки, бюджетне планування, економічні цикли.