

FISCAL POLICY OF UKRAINE IN THE TRANSFORMATION PERIOD

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An important factor in regulating the market economy is fiscal policy. Fiscal policy is the use of taxes and government spending to achieve macroeconomic balance. By means of fiscal policy, macroeconomic stability and normal levels of unemployment through the development of production are achieved by reducing taxes and level of inflation and also increasing public investment.

Using various methods of fiscal policy depends from the condition in which the economy is. When there is growth at a high aggregate demand, which threatens explosion of inflation, the government increases tax rates and limiting government spending. Conversely, under conditions of recession or economic crisis tax rates are reduced and the state budget is growing. Conducting fiscal policy in Ukraine in transition to a market need for a simultaneous increase production and reduce inflation.

To date, fiscal policy in Ukraine enters a new dimension of development that somehow causes difficulties in its implementation. Primarily these difficulties associated with the need to harmonize national tax legislation with the EU legislation, the requirements of the IMF, the restoration business and investment activity, prevention of deterioration of living standards, etc. There is need to harmonize the fiscal interests of different economic sectors that have different target of the development.

One of the main problems that occurred today in society - it oppose any tax reforms, which would increase the tax burden. Providing high social standards requires a significant investment budget, which case can not be covered by tax revenues in Ukraine. Raising taxes will not lead to increase in budget revenues, rather will cause of the reduction of business and investment activity.

Other problem in fiscal policy in Ukraine is the lack of financial stimulus for innovation and investment. Despite the fact that the tax system of Ukraine was formed on the European model, much of their experience is not working in Ukraine. This is due not only to the features of the tax system formations' [1].

Also effective implementation of fiscal policy in Ukraine is complicated by the complexity of coordination with monetary policy, which aimed mainly at curbing inflation and maintaining exchange rate of the national currency - hryvnia. The main factor of inflation is an imbalance of supply and demand in the domestic market. Rapid growth of consumer demand affects acceleration of income.

There are the following types of fiscal policy: discretionary, stimulating, moderating and stabilizing. It depends on the state of the economy. This does not mean that the transition can use one of these fiscal policies. Considering the specificity of economy of Ukraine requires finding its own model of fiscal policy. Unlike other countries, the economy of Ukraine is characterized by certain features: an experience state-building in Ukraine, incompleteness and imperfection of public law; unstructured political system and government inefficiency in providing any evidence-based policy, including fiscal; incomplete privatization and its continuation is distracting the government and other authorities to perform the regulatory functions of the state to stabilize the economy; economic thinking is not a strong enough in the professional civil servants, lack of expertise in the use of instruments of state regulation of the economy makes its own fiscal policy ineffective; incomplete privatization processes, the formation of new organizational, legal and economic institutions that are unstable, which affects the stability and dynamics of financial relations between the state and business entities; stereotypes of "command-economic" thinking; the growth of inequality in the distribution of income and resources, which is reflected on the specifics of the fiscal policy in Ukraine.

Fiscal policy should take into account the current state of Ukraine's economy, which has the high level of poverty. Low income excludes the possibility of formation of savings. This leads to a limitation of the possibility of increasing the national capital stocks. It is a determining factor for the development of special economic zones, including fiscal. Firstly, for poverty reduction requires coherence in all areas of economic policy, including government and business entities. Second, to achieve efficiency policy measures required to enter the economy from poverty. This means that at the same time to increase the solvency of the population and find funds for investment capital accumulation. Fiscal policy must meet the requirements of openness, accessibility and awareness and targeting [2].

2013 year promises to be especially difficult for the Ukrainian economy. It is estimated that economic growth in 2013 will be about 1%, with further acceleration to 3% in 2014. The state must to carry out the implementation of structural reforms to ensure long-term economic growth. The emphasis should be placed on improving the business climate and competitive environment, attraction of investments and a job creation to improve the quality of life. It is important to continue reforms aimed at strengthening the financial sector to external shocks and improving the financial environment. In the area of policy fiscal efficiency of budget spending can be achieved by reduction of deficits are caused by non-compliance rates for gas and heat [3].

Thus, to accelerate economic growth, Ukraine, together with the restoration of macroeconomic equilibrium, it is necessary to ensure the implementation of structural reforms. Ukrainian policy should not put the main

of copying experience, while achieving the goal by developing own concept, which can reach the required level of development in a much shorter period of time.

References:

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Chapter 6.2.

FISCAL, MONETARY AND PRICING POLICIES

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Introduction

Financial-economic mechanisms of modern states and their state regulation have increasingly become important for sustainable economic growth and high social standards of living. Crisis-recession phenomenon in European countries and the general instability in the global economy show that properly formed fiscal, monetary, inflation, credit and pricing policies significantly affect the macroeconomic situation of the country. Countries that pursue strategically calculated policy of debt load, with the appropriate fiscal burden of the economy that is balanced with the level of international competitiveness of the country, have stable condition of development, high social standards, lack of dissent, stable government institutions and competitive economy.

Fiscal policy provided by Ukraine is largely characterized as aggressive, focused on performance targets to raise funds of the budget and tight control of tax administration. Inefficient budget spending is observed: opaque tendering procedures, inefficient state-owned enterprises, "hand" and unbalanced allocation of social infrastructure etc. In addition, tax authorities often show "favoritism" and its double standards on businesses. This causes the decline of entrepreneurial activity among the population, the reluctance to show own income, leads to dominance of imports, so it is easier and safer to import than produce. Impact of fiscal policy on the economic conditions in Ukraine in 2011-2013 is limited by low investment activity, the lack of concessional lending of IMF, World Bank and European financial institutions, as well as the need to repay significant financial debt. Ukraine is a developing country, so 0.2% of GDP growth in 2012 (compared to 5.2% in 2011) is a sign of recession and slow down the socio-economic development. Despite this, the stability of the hryvnia was ensured by the National Bank of Ukraine in 2012. In particular, low rate of inflation was supported during this period in Ukraine: growth of CPI was 0.2% in 2012 (compared to 4.6% in 2011), and the base CPI – 0.8% (6, 9% in 2011). 2012 is characterized by large payments on public debt, the amount of which (7.8 billion dollars U.S., including IMF loans of about \$ 3.5 billion. U.S.) more than twice exceeded payments of 2011 (3.2 billion dollars. U.S.). Under such conditions the stabilizing role is played by international reserves. Despite the fact that there were no new loans from the IMF and complicated conditions of borrowing on international markets, the National Bank of Ukraine minimize the reduction of international reserves, the amount of which in 2012 fell by 7.2 billion dollars U.S. to 24.5 billion dollars. The dynamics of the money supply was adequate to macroeconomic situation. The increase of the monetary base by 6.4% in 2012, enhanced by multiplier money effect, provided money supply growth by 12.8% during this period. Forecasted dynamics of the currency market has maintained the price stability. Currency exchange rate for non-cash transactions fell by 0.29% – up to 8.052 UAH/USD in 2012. In the cash segment hryvnia was depreciated by 0.28% – up to 8.088 UAH/USD. Nevertheless, the negative balance of trade and larger scale of purchasing of dollars by the population of Ukraine compared to its sale, affect the medium and long term pricing, monetary and exchange rate policy [1,2].

Also the budget deficit of Ukraine may become problematic in the medium and long term, which is in forecasted framework, but during the last 1-1.5 years has been increasing. Thus, the budget deficit was 28.847 billion UAH in 2009, 52.752 billion UAH– in 2010, 23.557 billion UAH– in 2011, 53.387 billion UAH– in 2012 [3,4].

Thus, the deterioration in the external financial markets leads to a sharp increase of price for foreign loans for Ukraine. In some periods – during the escalation of the crisis in the euro area – rates of Ukrainian government debt securities were too high. The government can attract private foreign financing in more stable periods, but this source of credit cease to be reliable. This situation was reflected in the state debt. Last increase was observed in the period of 2008-2012 from 12% to 35% of GDP because of new debt that has substantially exceeded the unstable growth. According to experts, the growth of debt would continue in 2013 and, if changes in fiscal and economic policy were not implemented within coming years. The cutting of some budget articles may help to reduce deficit. In particular, to these belong the fighting corruption in public procurement (according to experts this help to save from 20 to 100 billion UAH), a sharp reduction in payments for special pensions for privileged officials. World Bank experts