FISCAL IMBALANCES AND THE REASONS OF THEIR OCCURRENCE

The article is devoted to the systematizing of characteristics of fiscal imbalances types, identifying the causes of their occurrence and finding ways to eliminate fiscal imbalances. The causes of the emergence of vertical and horizontal fiscal imbalances are determined. The negative consequences of intergovernmental transfers as a means of overcoming fiscal imbalances have been caused and the necessity of directing the policy of fiscal decentralization to the observance of national interests is established. The purpose of fiscal decentralization as the achievement of economic efficiency of the state policy, ensuring equalization of regional development and macroeconomic stability of the country in general is determined. The list of principles of fiscal decentralization is formed. The risks of introducing a system of fiscal decentralization have been identified. A number of problems faced by Ukraine in the process of fiscal decentralization have been formulated. The prospect of further research determined the formation of conceptual provisions of fiscal decentralization in Ukraine.

Keywords: Fiscal Imbalances, Vertical and Horizontal Fiscal Imbalances, Distribution of Revenues, Financial Equalization, Fiscal Decentralization

Introduction

The role and scale of public finance in the financial system of the country are determined, above all, the amount of funds necessary for implementation obligations that the government of different levels guaranteed the population.

The prospect of improving the budget systems is one of the main tasks of the development of the Ukrainian economy. In addition, reforms that are at the present stage aimed at overcoming geopolitical and economic instability, go beyond the macroeconomic stabilization of a country's region.

The challenges posed by external and internal threats, including the temporary loss of control over a part of the territory in recent years, and the increase in debt burden have deepened the unbalanced budgetary sphere.

The main trends characterizing the imbalance of national budgetary system, in our opinion, are:

– the high level of GDP redistribution through the fiscal system;
– increase in the deficit of the general government sector;
– reducing the share of capital expenditures and increasing current expenditures, in particular non-productive expenditures;
– deterioration of performance of the state functions of social protection and social security of citizens through the budget;
– relatively high costs of the state budget to balance the Pension Fund of Ukraine;
– a steady increase in the transfer dependence of local budgets on the state budget.

These trends exacerbate the problem of existing fiscal imbalances, which are manifested in inconsistencies between incomes and expenditures at all levels of government [1].

One of the directions of ensuring the stability of the region's economy development and reducing the gap between revenues and expenditures at the regional level is the ability of local authorities within the fiscal space to allocate rationally and efficiently both their own funds and funds earmarked from the state budget. Nevertheless, any region of Ukraine has its own geographical, demographic, social and economic peculiarities, which, together with the imperfect system of distribution of budgetary and tax powers, cause the emergence of fiscal imbalances.

Improving inter-budgetary relations in Ukraine in the context of reforming the budget process and budget policy should be considered as a factor in increasing the efficiency of functioning of the budget space, improving the work of all government levels, overcoming fiscal imbalances in order to increase the financial and economic stability of the regions’ functioning.
The presentation of main results

The distribution of revenues between the state and local budgets is one of the main elements of the budget space. The vertical distribution of government revenues between local governments is fundamental. It dominates the horizontal distribution, which usually plays an additional role.

In the theory of fiscal federalism, the vertical distribution concerns first of all all taxes and quasi-tax payments. According to S. Tibu, certain taxes that exist in a particular income system must be allocated between the state, municipalities and other territorial self-government authorities that are organizationally part of the vertical structure, in accordance with the tasks assigned to these authorities [2].

R. Masgrave and P. Masgrave share a similar view, emphasizing the fact that the distribution of income must be closely linked to the distribution of tasks in accordance with the levels of government, and such taxes should be allocated for separate structural units according to their structure and economic consequences [3].

All territorial units of local authorities of different levels should have their own income, which is distributed in accordance with the legislation and added to their budget, and the structure of which may be determined by the relevant local authority. Thus, the vertical distribution of government revenues reflects in a certain way the scale of decentralization of public tasks and finances, since it depends on the distribution of functions between levels of government.

Revenues, which receive a certain level of power, should allow him to finance the social needs assigned to him. In turn, this means that these revenues should be adequate to the needs and tasks of their funding. In theory, the principle of tasks adequacy, along with the subsidiarity principle, is the basis for qualitative structuring of local budget revenues sources. These principles have the consequence of the fundamental rule that any increase in the competences of local authorities requires an increase in the volume of public financial resources for their implementation.

Transfer of tasks and competencies to local authorities without proper sources of income contradicts the idea and role of territorial self-government. The transfer of financial resources and property without the right to make decisions on these resources should not be at all.

However, in practice, there is often a discrepancy between sources of income and the necessary expenditures that arise from the assigned tasks. Within the fiscal space, it is easier for local authorities at a certain level to finance their tasks at their own expense, which is a share of government revenue. The imbalance of revenues and expenditures between different levels of government is called the problem of non-compliance or vertical fiscal imbalance. Such imbalances typically occur as a result of the distribution of tax incomes between the central and local governments [4;5].

According to the World Bank definition, vertical fiscal imbalance is the extent to which local governments rely on the revenues of the central government to ensure their own costs; it can be determined through intergovernmental transfers as a share of subnational expenditures [6]. The most effective from a fiscal point of view, taxes (income tax and consumption taxes) should be set at the national level, while less significant, for example, the property tax - at the local level.

Vertical fiscal imbalances mainly have three sources:
1. determining the structure of the distribution of revenues between the state and local budgets;
2. determining the structure of the distribution of funding expenditures between subnational and national government;
3. the distribution of controlling functions between levels of government in the fiscal area [7].

Proceeding from the above-mentioned reasons of occurrence of this type of imbalances they can be eliminated in several ways:
possible redistribution of the burden of providing social services between different territorial levels of government. Thus, the volume of services is brought into line with the financial revenues of a certain territorial level;

- the introduction of a level of government that has a fiscal imbalance additional taxes;

- the central authority transfers part of its taxes to the territorial level of government, which has such an imbalance [8].

Vertical fiscal imbalances in Ukraine are difficult to trace since there is no clear delineation of the functions and responsibilities of different levels of government in the provision of social services in the state. Financial management is carried out vertically in the so-called manual mode.

Unlike vertical fiscal imbalances, horizontal fiscal imbalances are associated with different financial capacities of the authorities of one territorial level and with equalization problems. In another words, horizontal fiscal imbalances arise because there are poor and rich territories [8].

It is emphasized the following main causes of the occurrence of horizontal imbalances:

- different possibilities of territories in the formation of the revenue part of the budgets, since the territories of one administrative level have different levels of economic development, and, accordingly, different tax base;

- different volumes of social services, since the volume of services is a function of such indicators as population size, number of groups of socially vulnerable population, number of pupils, etc.;

- the same social services in different territories may have different cost, for example, the cost of teaching children in small schools is higher per child than in fully-completed schools [9].

Thus, if vertical imbalances are a sphere of sole state responsibility, horizontal imbalances will also include the responsibility of local authorities to ensure maximum revenue through the development of territorial economic infrastructure. Of course, horizontal and vertical fiscal imbalances can be eliminated at higher tax rates within the respective territories. But it will be unfair to the population of these territories. Therefore, the state must overcome such imbalances within the framework of the financial equalization policy.

So, on the one hand, the removal of horizontal and vertical imbalances should be the basis of fiscal decentralization through a policy of financial equalization using intergovernmental transfers. On the other hand, intergovernmental transfers can reduce incentives for local governments to increase revenues, preventing them from benefiting from fiscal decentralization. This justifies the complexity of forming an effective fiscal policy in the conditions of decentralization of power. Taking into account the complex macroeconomic situation in Ukraine, it is expedient to focus the policy of fiscal decentralization on the observance of national interests [10].

Define the goal of fiscal decentralization to achieve the economic efficiency of state policy, ensuring equalization of regional development and macroeconomic stability of the country as a whole. Balancing and optimizing these aspects defines a single compromise approach to decentralization of fiscal activities.

Based on the research of scientific works, a methodology for fiscal decentralization is proposed based on the principles:

- efficient allocation of powers in the formation of revenues and expenditures at the central and local levels, in view of consolidating the sources of income for each level of budgets in the volumes necessary for financing expenditures;

- coordination of central government and local self-government interests in fiscal policy;

- responsibility of local self-government bodies for the volume of revenues and expenditures financing at the level of territorial entities;

- the unity of the budget system, despite the allocation of several levels of budgets and the pursuit of a single national goal;

- financial equalization of development of regions with minimization of intergovernmental transfers;
transparency of the results of budget and tax activities at the subnational and national levels [11].

Considering the situation with fiscal decentralization in Ukraine, it can be stated that it continues to be actively implemented at the basic level - in the territorial communities. This is absolutely consistent with the high level of political decentralization implemented at this territorial level. Instead, at the regional level incompleteness of political decentralization adequately reflects on the problems of introducing fiscal decentralization here.

It is worth pointing out that decentralization itself does not matter without realizing what form it takes, which tasks are assigned to one or another type of decentralization as a mechanism of state governance. As any systemic and complex management mechanism, decentralization has a significant potential for promoting the development of communities, regions and the country as a whole. At the same time, research is drawing attention to the risks (challenges) that decentralization involves.

First, there is no automatic guarantee that the increased political autonomy of local authorities leads to improved provision of public services.

Secondly, there is a widespread risk of capture the benefits of decentralization by local political elites, which may violate equity in the distribution of public services.

Thirdly, the technical capacity of local authorities to implement decentralized powers may be inappropriate.

Fourth, decentralization can affect the growth of interregional imbalances in the provision of public services.

Fifthly, decentralization creates macroeconomic risks by increasing the vulnerability of the financial state deficit and increasing the size of the public sector [12].

Consequently, the introduction of decentralization should be made taking into account the need to create the influence of maximally promoting the development of different administrative and territorial units and minimizing the risks accompanying this process.

Basic principles of the reform of fiscal decentralization in Ukraine are defined by a number of legal documents, including the Program of the Government, the Strategy for Sustainable Development "Ukraine - 2020" and others. In 2017 was adopted the "Strategy for the reform of the public finance management system for 2017-2020" [12].

But with the development of a decentralized model of public finance management, Ukraine faces a number of challenges:

- initiated transformation processes within the limits of public finances are taking into account, as well as under the influence of previous practice and experience of building, organization, management of the central budget system;
- the process of improving the tax, budget, pension, customs systems and other components of public finances was aimed solely at solving those problems that accumulated in separate parts of the financial system and did not take into account the reach of the achievement of socio-economic growth;
- lack of an integrated approach to local self-government reform, which should include constitutional, administrative, territorial and budget reforms;
- inconsistency of the pace of implementation of the decentralization of the expenditure and revenue component of the reform;
- the fragmentation and inconsistency of the development of the whole set of components of the organizational structure of local finances, as well as the systematic failure of the initiated reforms in the field of public finances [13].

Conclusions and Prospects for the Further Research

Thus, as a result of the study, the characteristics of fiscal imbalances types (vertical fiscal imbalances and horizontal fiscal imbalances) and the reasons for their occurrence are systematized.
The necessity of directing the policy of fiscal decentralization to the observance of national interests is proved. The purpose of fiscal decentralization as the achievement of economic efficiency of the state policy, ensuring equalization of regional development and macroeconomic stability of the country in general is determined.

The list of principles of fiscal decentralization is formed: effective distribution of powers in the formation of revenues and expenditures at the central and local levels; coordination of central government and local self-government interests in fiscal policy; responsibility of local self-government bodies for the volume of revenues and expenditures financing at the level of territorial entities; the unity of the budget system; financial equalization of development of regions with minimization of intergovernmental transfers; transparency of the results of budget and tax activities at the sub-national and national levels.

The risks of introducing a system of fiscal decentralization have also been identified. In addition, a number of problems faced by Ukraine in the process of fiscal decentralization have been identified.

Taking into account all aspects of this research prospects of further research we see a thorough analysis of the peculiarities of functioning of the Ukrainian public finance management system in order to improve the model of fiscal decentralization and determine the priority directions of its development.

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ФІСКАЛЬНІ ДИСБАЛАНСИ ТА ПРИЧИНІ ЇХ ВИНИКНЕННЯ

Стаття присвячена систематизації характеристик типів бюджетних дисбалансів, виявленню причин їх виникнення та пошуку шляхів усунення фіскального дисбалансу. Визначені причини виникнення вертикального та горизонтального фіскального дисбалансу. Виявлені негативні наслідки міжбюджетних трансфертів як засобу подолання фіскального дисбалансу та встановлення необхідності політики фіскальної децентралізації на дотримання національних інтересів. Визначена мета фіскальної децентралізації для досягнення економічної ефективності державної політики, забезпечення вирівнювання регіонального розвитку та макроекономічної стабільності країни в цілому. Сформований перелік принципів фіскальної децентралізації. Виявлені ризики впровадження системи фіскальної децентралізації. Сформульований ряд проблем, з якими стикається Україна у процесі фіскальної децентралізації. Визначені перспективи подальшого дослідження формування концептуальних положень фіскальної децентралізації в Україні.

Ключові слова: фіскальний дисбаланс, вертикально і горизонтально-фіскальний дисбаланс, розподіл доходів, фінансове вирівнювання, фіскальна децентралізація

Юлія Савченко
ФІСКАЛЬНІ ДИСБАЛАНСИ І ПРИЧИНИ ЇХ ВОЗНИКНОВЕННЯ

Стаття посвячена систематизації характеристик типів бюджетних дисбалансів, інтерес до причин їх виникнення і пошуку шляхів усунення фіскального дисбаланса. Опреділені причини виникнення вертикального і горизонтального фіскального дисбаланса. Виявлені негативні наслідки міжбюджетних трансфертів як засобу подолання фіскального дисбаланса і установлення необхідності політики фіскальної децентралізації на дотримання національних інтересів. Опреділена цель фіскальної децентралізації для досягнення економічної ефективності державної політики, забезпечення вирівнювання регіонального розвитку та макроекономічної стабільності страны в цілому. Сформован перелік принципів фіскальної децентралізації. Сформульований ряд проблем, з якими стикається Україна в процесе фіскальної децентралізації. Опреділені перспективи дальнішого дослідження формування концептуальних положень фіскальної децентралізації в Україні.

Ключові слова: фіскальний дисбаланс, вертикально і горизонтально-фіскальний дисбаланс, розподіл доходів, фінансове вирівнювання, фіскальна децентралізація