

CHAPTER 5. ANALYSIS OF UKRAINE'S BUDGET SYSTEM IN WARTIME AND POST-WAR PERIODS

5.1. Understanding the essence of the state budget and budget deficit

State budget plays an important role in the state finances. It ensures distribution of financial resources inside the country, performs a social function, is the source of financing defense, security of the country, development of important for the society spheres, such as education, medical care, public order, culture, and administrative services.

According to the Budget Code of Ukraine “Budget is a plan of formation and usage of financial resources to ensure the tasks and functions carried out by the state authorities, the authorities of the Autonomous Republic of Crimea, and the local self-government bodies during the budget period” [1].

In general in the scientific literature there different definitions of the budget deficit. Ukrainian scientist Fedosov O. pointed out that budget is a system of regulated relationships between the state and legal entities or persons concerning the allocation and redistribution of GDP. The purpose of the budgetary process is the formation and utilization of the state budget fund, ensuring the fulfilment of functions of the state [2].

Lyutyy I. notes that the budget can be characterized as a system of financial relations that arise between the state and physical or legal entities. The state budget is a centralized fund of financial resources that provide funding for the state apparatus, armed forces, the fulfilment of key state functions, and is also an important instrument of state economic regulation, which influences the economic situation, and helps to mitigate crises [3].

With the aim to activate the influence of state budget on the social and economic development of the state there should be taken measures for the increase the effectiveness of budget management, providing the balancing of the budget, effective usage of expenditures, improvement of transfers between state and local budgets and financial control of the budget expenditures [4].

State budget is the biggest centralized financial fund, its administrator is the government of the country. State budget gives the possibility to distribute the financial resources to the most important spheres with the aim of social and economic development [5].

Important element of budget policy is timely reaction on the economic cycles, preventing the economic crises, maintaining the limits of budget deficit and government debt. The priority has the questions of middle-term and long-term budget planning. The formation of long-term strategy and defining its main goals is crucial.

Though, in the conditions of limited budgetary funds, there is a need to define the priority spheres of financing for the fulfilment of the state functions and social and economic development of the country [4].

Budget is formed from the expenditures and income parts.

Budget Code of Ukraine defines income as all tax, no-tax and other income, which are received on a non-payable basis and defined by the legislation of Ukraine.

They include also transfers, payments for the administrative services, own income of state entities [1], as well as cost from government borrowings, financial resources received from the privatization of state ownership, return of budget costs from the deposits [6].

According to the Budget Code, budget expenditures are the resources, which are allocated for the implementation of the budget programs, which are specified by budget. It is important to pay attention, that expenditures do not include: repayment of government debt, giving loans, depositing resources on the accounts, buying securities.

State expenditures are an important element of state regulation, as far as determine the spheres of usage the financial resources with taking into consideration the priority spheres of development of the country. Important element is distribution of budget costs and formation of the optimal structure of the state budget. Prognosing and planning of state expenditures, their regulation has an important role for the increase of effectiveness and efficiency of budget resources [4].

Stable economic development of the state requires not only the regulation of the amount of state expenditures, but formation of the optimal structure of the state budget.

In the process of planning the expenditures, it is important to take into consideration the phase of the economic cycle, data about the previous expenditures, indicators of social and economic development of the state.

The budget income according to the Budget Code of Ukraine includes:

1. tax income – established by the law national taxes. Also, local taxes.
2. non-tax income: income from ownership and business activity, administrative fees and charges, own income of state institutions;
3. income from the operations with capital;
4. transfers are funds received on non-repayable basis from other bodies of state power, local self-government, other states, or international organizations.

Expenditures and credits of budget are classified the following way:

1. budget programs;
2. the primary manager of budget funds (departmental classification of expenditures and budget financing);
3. functions.

According to the economic classification budget expenditures are classified on current capital expenditures [1].

Deficit/surplus of the state budget – it is the difference between the state expenditures and tax income, that also equals the difference of change the amount of government debt. If the government debt is absent and income exceed budget expenditures, in this case the budget is in the surplus. But such a situation is rather rare and countries usually try to balance the budget, when the expenditures equal to income [7].

Enzo Croce addressed in his research the issues surrounding the assessment of the state budget balance, as measuring the balance raises three different types of questions: the basis of measurement, defining the scope of the public sector to be covered, and the relevant time horizon. The quantitative indicator of the fiscal balance can vary depending on the chosen concept [8].

For a thorough analysis of the budget deficit, it is important to note the duality of the state of the government budget, namely the structural and cyclical states of the government budget deficit. Structural and cyclical deficits of the government budget are two different concepts used to analyze budgetary indicators and determine potential directions of fiscal policy. The structural deficit reflects the fundamental budget deficit that exists independently of the current state of the economy. It is associated with basic budgetary policy and includes consistent budget imbalances that are not dependent on fluctuations in economic activity. The structural deficit requires long-term changes in budget policy, such as tax system reform, changes in government spending, or social programs.

Formula for the structural deficit has the following view:

$$D_p^b = Y_p \times t - G \quad (5.1)$$

where, Y_p – potential GDP;

t – aggregated rate of taxation,

$Y_p \times t$ – income of budget for full employment,

G – budget expenditures.

The Ukrainian scientist Yuriy S. in his studies provides the following approach to calculating the deficit. Formula for the actual deficit has the following view:

$$D^b = Y \times t - G \quad (5.2)$$

де Y – actual GDP,

$Y \times t$ actual income of the budget.

The author notes, that the state, when structural deficit exceeds the actual one is the cyclical deficit, and it is calculated with the following formula [9]:

$$D_c^b = D^b - D_p^b \quad (5.3)$$

The cyclical deficit results from fluctuations in the economic cycle. During economic downturns, tax revenues decrease due to reduced income of individuals and company profits, while government expenditures may increase due to higher social support costs, leading to a temporary increase in the deficit. Conversely, during an

economic boom, the cyclical deficit can turn into a surplus as increased incomes boost tax revenues, and the need for social support decreases.

For a comprehensive analysis of fiscal policy, it's important to consider both these concepts. Managing the structural deficit sustainably ensures financial stability and a healthy foundation for the economy, while flexible responses to cyclical changes help avoid deep recessions and excessive overheating of the economy.

With the aim to cover the budget deficit, state attract resources using two channels- inflation and non-inflation. The description is presented in the Table 5.1. It's important to balance these methods, as excessive reliance on inflationary financing can destabilize the economy, while non-inflationary methods have their limits and impacts on future fiscal flexibility and economic health.

Table 5.1. Sources of financing the budget deficit

Character	Essence
Inflationary	Monetization of the deficit including: <ul style="list-style-type: none"> - receiving loans from the central bank; - buying state securities by the central bank
Non-inflationary	Internal government borrowings External government borrowings Income from privatization Other income

Source: composed by authors based on [1, 9]

The budget deficit is a part of state budget policy in various countries worldwide, even in developed ones. It is a rather complex phenomenon with different consequences. It can have a somewhat positive stimulating effect on the economy, but only in small amounts [4]. However, primarily, the budget deficit has negative implications and leads to a reduction in spending on the state's social functions in the future, as well as a decrease in capital expenditures. Additionally, the budget deficit leads to government borrowing and an increase in national debt. In some cases, chronic government deficits can result in default.

A budget deficit is an integral part of the modern fiscal policy of states worldwide, including developed countries. It is a complex phenomenon with ambiguous consequences. While a budget deficit can have a positive stimulatory

effect on the economy in small amounts, it predominantly leads to negative outcomes such as reduced spending on social functions of the state in the future and decreased capital expenditures. Budget deficits also result in increased public borrowing and rising national debt. In some cases, chronic government deficits can lead to default. Therefore, managing the budget deficit is crucial for a stable economy, responsible fiscal policy, and the welfare of the population.

5.2. Analysis of the expenditures of the state budget of Ukraine

For many years, the budget system of Ukraine has been characterized by instability and constant reforms, budget deficits, a significant amount of national debt, and imperfections in intergovernmental relations (Figure 5.1). In 2014-2015, after a major budget crisis triggered by military actions in the east, reforms in the budgetary system and relations began.

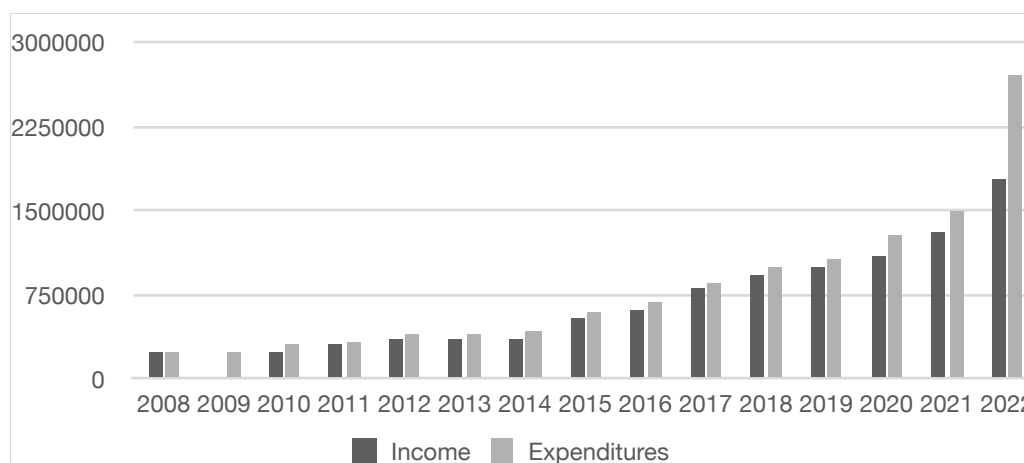


Figure 5.1. Amount of budget income and expenditure, million UAH

Source: developed by authors based on the data [10]

They included gradually reducing the share of government spending in GDP, implementing medium-term budgeting, improving program-based budgeting methods, maintaining a relatively low budget deficit using fiscal rules, and effectively implementing decentralization reforms. These reforms elevated Ukraine's budgetary relations to a qualitatively new level of efficiency and transparency. However, they were significantly undermined by the pandemic and full-scale war. The shift in