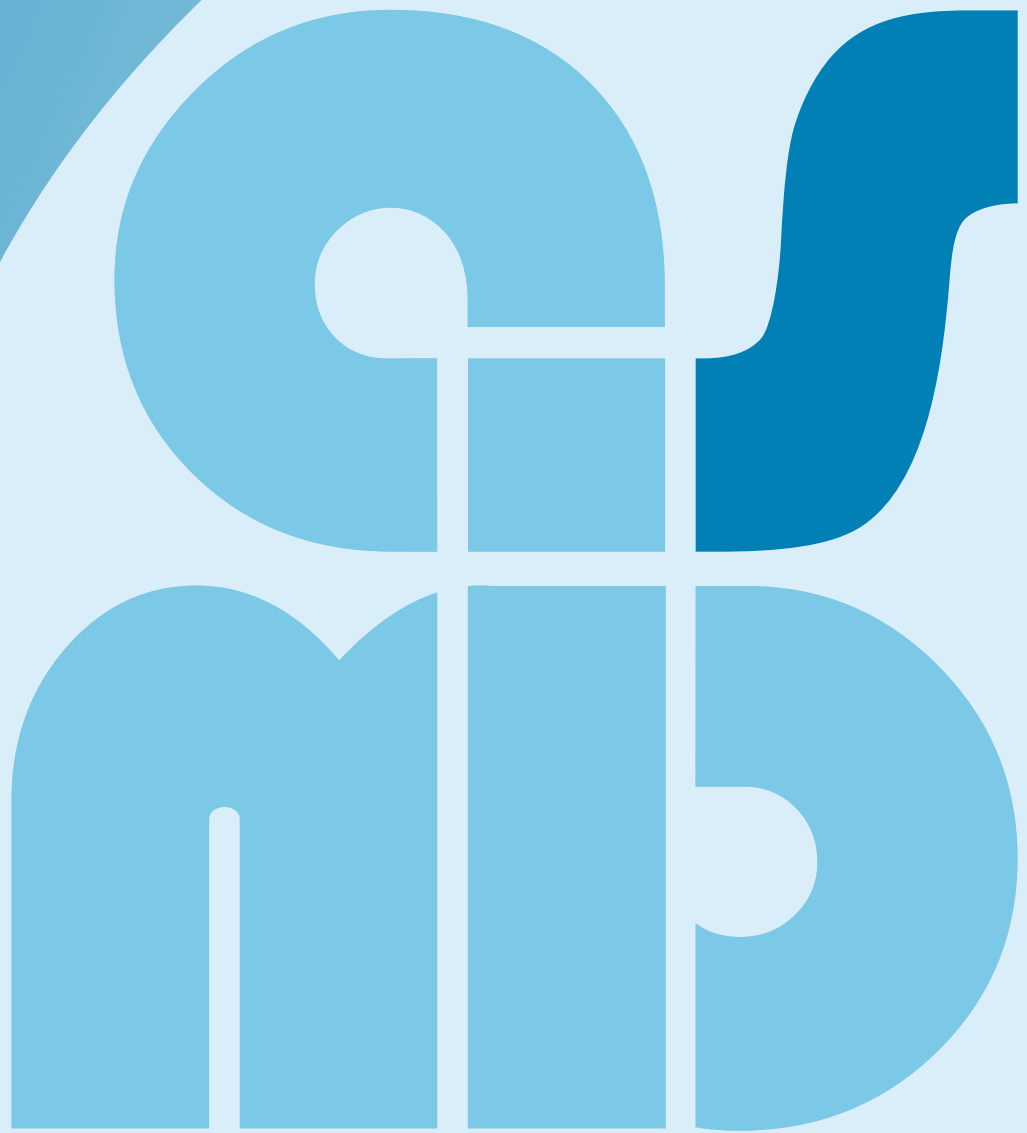


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Osipova Larysa

ANALYSIS OF SOME ASPECTS OF UKRAINE'S FISCAL POLICY DURING THE PANDEMIC

Annotation

The article analyses some aspects of Ukraine's fiscal policy during the pandemic. The development of the Ukrainian economy over the last eight years has been studied. The need to move to a tight fiscal policy is shown. It is emphasized that Ukraine's economy is vulnerable to risks (a large share of increasing foreign currency debt; exchange rate fluctuations, etc.). The analysis of forecasts on the economic development of the economy of Ukraine is carried out. It was emphasized that the main part of Ukraine's external financing will come from the new IMF program. It is shown that in the conditions of global instability and uncertainty the risks for this program are "very big".

The share of public expenditures of Ukraine in GDP is studied. It is shown that Ukraine redistributes a very large amount of GDP through the government. Gaps in the organization, management and oversight of Ukraine's tax and customs systems have been shown to undermine their justice, facilitate corruption and jeopardize public revenues.

Keywords: *fiscal policy, public debt, surplus, state budget, external financing of public debt.*

Осіпова Лариса

АНАЛІЗ ОКРЕМИХ АСПЕКТІВ ФІСКАЛЬНОЇ ПОЛІТИКИ УКРАЇНИ В УМОВАХ ПАНДЕМІЇ

Анотація

В статті проведено аналіз окремих аспектів фіскальної політики України в умовах пандемії. Досліджено розвиток Української економіки за останні вісім років. Показана необхідність переходу до жорсткої фіскальної політики. Підкреслено, що економіка України є вразливою до ризиків (велика частка боргу в іноземній валюті, що збільшується; коливання обмінного курсу тощо). Проведено аналіз прогнозів щодо економічного розвитку економіки України. Підкреслено, що основна частина зовнішнього фінансування України відбуватиметься за рахунок нової програми МВФ. Показано, що в умовах глобальної нестабільності і невизначеності ризики для цієї програми є «дуже великими».

Досліджено частку державних видатків України у ВВП. Показано, що Україна перерозподіляє дуже великий обсяг ВВП через уряд. Доведено, що прогалини в організації, управлінні та нагляді за податковою і митною системами в Україні підривають їх справедливість, уможливають корупцію та ставлять під загрозу державні доходи.

Ключові слова: *фіскальна політика, державний борг, профіцит, Державний бюджет, зовнішнє фінансування державного боргу.*

Target setting

The main objective of the state is to balance budget revenues and expenditures, as a significant excess of expenditures over revenues leads to the economic crisis, rising public debt, budget deficits at all levels and more. Problems with budgeting in the context of the coronavirus pandemic, blocking economic activity in the country and the impact on the Ukrainian economy of numerous external shocks increase the existing threats to the stability of public finances in Ukraine.

The research objective

The main purpose of this work is to analyse some aspects of Ukraine's fiscal policy, identify problems in this area and their aggravation during the pandemic.

The statement of basic materials

During 2014-2016, Ukraine managed to eliminate the resistant quasi-fiscal deficit and overcome the economic crisis by introducing drastic structural reforms and serious fiscal consolidation to eliminate key macro-fiscal imbalances and reduce public debt (from 4.9% of GDP in 2014 to 1.8% in 2017).

By 2016, growth had resumed, inflation had fallen sharply, and international reserves had partially recovered. These changes were supported by the IMF's Extended Fund Facility, designed to support macroeconomic stabilisation and the anti-corruption reform program [1]. Balanced fiscal policy has kept the economy stable, but it has remained vulnerable due to slow growth (in the international comparison), political uncertainty, an imbalanced business climate, judicial and anti-corruption reforms. The IMF expressed concern about the continued vulnerability of Ukraine's economy to risks (a large share of foreign currency debt, which increases; exchange rate fluctuations that increase its vulnerability) and recommended implementing a tight fiscal policy to keep public debt under control (keeping the primary surplus at around 1,0-1,5% of GDP).

The recommended approach also included confrontation to the transition to populist policies, avoiding tax decreases and improving tax and customs administration [1]. The Ukrainian economy began to shrink before the COVID-2019 crisis. In the second half of 2019, economic growth in Ukraine began to slow down.

The appreciation of the national currency has negatively affected Ukraine's trade conditions, and the global economic slowdown has reduced prices for key export positions. At the same time, government spending declined, reflecting declining revenue and declining spending on housing subsidies. Industrial production began to decline, responding to declining demand and increasing competition. Starting from January 2020, Ukraine's GDP began to fall (by 0,5% compared to January 2019) [2]. In anticipation and response to COVID-19 and related economic uncertainty, the Government of Ukraine has revised the macroeconomic forecast for 2020 downwards, lowered expectations for GDP growth, increased inflation and unemployment forecasts, and suspended medium-term planning, limiting its time horizon to one year.

The Budget Code has been amended to suspend until January 1, 2021, the requirement for the government to develop a three-year budget declaration [3]. The forecasts of Ukrainian and international partners are lowering in the long-term perspective: - The latest Consensus forecast covers 2020-2021 [4], forecasting a significant current account deficit by 2021, in contradiction to the Ukrainian government's expected surplus of 1.7%. The IMF forecasts a much deeper decline for Ukraine in 2020 and a slow rise in 2021 with the resumption of economic growth (3.0%) in 2022. However, the IMF agrees with the expectations of maintaining the current account deficit and believes that the rise in unemployment will be more expressive and lasting.

In 2020, the Ukrainian government intends to increase the deficit to 7,5% of GDP through the new significant borrowing. In April 2020, the Law on the State Budget was amended to include the revenue deficit and the new charge to expenditures in connection with COVID-19 [3]. (*Table 1*)

Table 1. Amendments to the Law on the State Budget for 2020 related to the pandemic COVID-19 (April 2020)

	A thousand hryvnias				% of GDP		
	Initial	Updated	Difference (a thousand hryvnia)	Difference (%)	Initial	Updated	Difference
Income	1 095 580 446	975 833 650	-119 746 796	-10.9	27.5	24.5	-3
Expenses	1 199 231 214	1 281 624 506	82 393 292	6.9	30.1	32.2	2.1
Borrowing	-7 375 047	-7 386 547	-11.500	0.2	-0.2	-0.2	0
Deficit	96 275 720	298 404 308	202 128 588	209.9	2.4	7.5	5.1

Concluded by the author on the basis [3]

The government will meet about half of the new financing needs through additional foreign loans, and the rest will be borrowed on the domestic market (with the growth of public debt to 59,9% of GDP).

The macro-fiscal likelihood of new deficit financing plans depends on the prospects for cooperation with the IMF. The main hope is that the bulk of Ukraine's external financing will come from a new IMF program agreed by the IMF Executive Board in June 2020 following Ukraine's necessary preliminary actions (including land reform and changes to banking legislation to prevent bank denationalisation). Further implementation of the program also depends on a number of structural guidelines that reflect the continuation of reforms, as the IMF believes that the risks to this program are "very high", both in conditions of global instability and uncertainty about the direction of economic policy in Ukraine. Interruptions in cooperation with the IMF could dramatically increase Ukraine's borrowing costs, which will immediately undermine the long-term sustainability of debt. There are alternative options for financing the deficit, but none of the existing projections analyses the potential macro-fiscal consequences of such scenarios, including those leading to inflationary pressures.

The increase in health care spending in 2020 in response to the COVID-19 pandemic will support recovery, but the timing and scale of this effect are difficult to calculate. It is expected that a significant part of the new expenditures, approved in the form of changes to the state budget in April 2020, will be directed to health care. This includes an increase in allocations to the National Health Service of Ukraine (UAH 15,8 billion or about 0,4% of GDP) and a potentially significant expenditure item in the form of a new Fund to Combat COVID-19 (UAH 64,7 billion or 1,6% of GDP), which is expected to provide additional expenditures on medical care, as well as additional social protection measures.

These investments will help to boost confidence, stimulate consumption by strengthening financial protection and minimizing the impact of the epidemic on the health of the employed population in Ukraine. However, the macro-fiscal benefit from these additional expenditures and its possible time effect cannot be quantified without further research.

The share of Ukrainian public expenditures in GDP is high compared to other countries (11th place in the world in 2012 with a share of 48,97%), so further increase in tax rates is impractical. Even after a significant reduction in spending in 2019, they were still 41,51% of GDP - much above the average for developed countries. In 2020, the share of the public sector of the economy in Ukraine is expected to grow again, reaching 47,41% of GDP. The share

of government revenues in GDP has also traditionally been very high, and - unlike most developed and developing countries - the government did not expect to reduce it in 2020. Even though Ukraine redistributes a very large amount of GDP through the government, public institutions remain weak, and the population does not trust them. In the absence of a significant improvement in the quality of public services, a further increase in tax rates to expand the total budget is not recommended for Ukraine. Both now and in the long-term perspective, a key potential source of additional fiscal space to expand overall expenditures is to improve tax and customs administration, which the IMF has called "Ukraine's Achilles' heel of the fiscal system" [1]. Gaps in the organization, management and supervision of the tax and customs systems undermine their justice, facilitate corruption, and jeopardize public revenues.

In 2014, the government announced structural reforms in this sector, including functional reorganization, improved auditing, and more efficient fundraising processes. In 2015-2018, there were significant improvements in revenue management (especially in the administration of value-added tax (VAT)). The functional reorganization of the fiscal service has accelerated significantly during 2019-2020, including changes in service structure, transparency of procedures, tax and custom collection processes to improve efficiency, facilitate compliance and reduce fraud. Unfortunately, these changes coincided with the rapid appreciation of the hryvnia (which hit customs revenues and VAT), the political struggle against the tobacco industry (which slowed down the collection of excise duties) and, more recently, the onset of the COVID-19 pandemic crisis, which reduces the effect of improved governance on income levels.

Summary

Expanding the overall fiscal space through additional debt or new taxes would be very risky for Ukraine's macro-fiscal stability. Although the country has now recovered from the 2014-2015 financial crisis, significantly reduced debt and restored market access through painful reforms, the economy has not grown fast enough to develop sufficient resilience and remains too vulnerable to changes in external market conditions. In the longer term, the key potential sources of additional fiscal space are economic growth through a better business climate and stronger human capital, and improved tax and customs administration. The unfolding COVID-19 crisis will affect Ukraine's most vulnerable points - trade and exchange rate terms. Therefore, the government needs to prepare again for the adjustment of macro-fiscal parameters as soon as the global economy stabilises, which is likely to include fiscal consolidation. Therefore, it is extremely important to use temporary access to crisis-related borrowing to ensure economic recovery and growth in the long-term perspective.

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