

Tetiana Zatonatska
Doctor of Sc., Associate Professor,
Department of Economic Cybernetics,
Taras Shevchenko National University of Kyiv,
Ukraine
tzatonat@ukr.net

Maksym Lavrentiev
Senior Researcher,
Financial and Economic Forecasting Department,
Science and Research Financial Institute
of the State Educational and Scientific Establishment
"Academy of Financial Management", Kyiv,
Ukraine
lmn2005@ukr.net

BUDGETARY POLICY OF UKRAINE IN THE CONTEXT OF EUROPEAN INTEGRATION PROCESSES

The public funding of priority economy sectors in Ukraine is considered compared with the EU countries. The recommendations on the definition of the state support priorities are elaborated.

The limited financial resources in the public sector of Ukraine on the one hand dictates the need for clearly defined priorities for their use, funding of which will ensure the achievement of strategic goals for the State development and the reduction of budget expenditures on the other hand.

In times of crisis the Policy of reduction of public expenditure was conducted in many EU countries, and in countries with the largest fiscal imbalances - even in the post-crisis period. As a consequence, the share of total government expenditure in GDP of 28 EU Member States has decreased from 50.6% of GDP in 2010 to 48.6% in 2013 and 48.1% in 2014 [1]. Among the EU Member States the general government expenditure in 2014 ranged from 34.9% of GDP in Lithuania and Romania to 58.7% of GDP in Finland, 57.2% in France and 57.0% in Denmark.

In Ukraine the share of expenditure of General management sector in GDP has increased from 46.9% in the 2009-2010 up to 47.1% in 2012 and only during 2013-2014 it began to decrease to 45.9 and 45.8% respectively [2], remaining above its average level in the post-socialist countries of the EU (41.6%).

Let's consider the structure of budget expenditures in Ukraine and compare it with the structure of budgetary expenditures in the EU countries. This analysis will highlight the priorities of the budgetary policies, which in their turn show the

importance of certain functions of the State in a market economy and the adequacy of actions of the State for their funding. The similarity of budget priorities in different countries with a market economy is a consequence of the similarity of functions that the State performs in these countries. While the significant differences in the budget priorities are likely to testify the implementation by the State in which such variations occur, not peculiar to it functions, its interventions in the spheres are not specific to the market economy.

The largest share in the consolidated budget of Ukraine and in the GDP is allocated on social protection and social security (9.2% of GDP or 26.8% of the total expenditures of the consolidated budget of Ukraine, on average for the period). The second priority of budget expenditures is the expenditures on education (6.9 and 20.2%, respectively). The expenditures on general public services occupy the third place in the structure of government expenditures (4.3% and 12.7%, respectively). Health care expenditures (4.0% and 11.7%, respectively) and economic affairs (3.6% or 10.4% respectively) are followed by.

Fig. 1 shows the priorities of government expenditures in Ukraine during the period of 2012-2014.

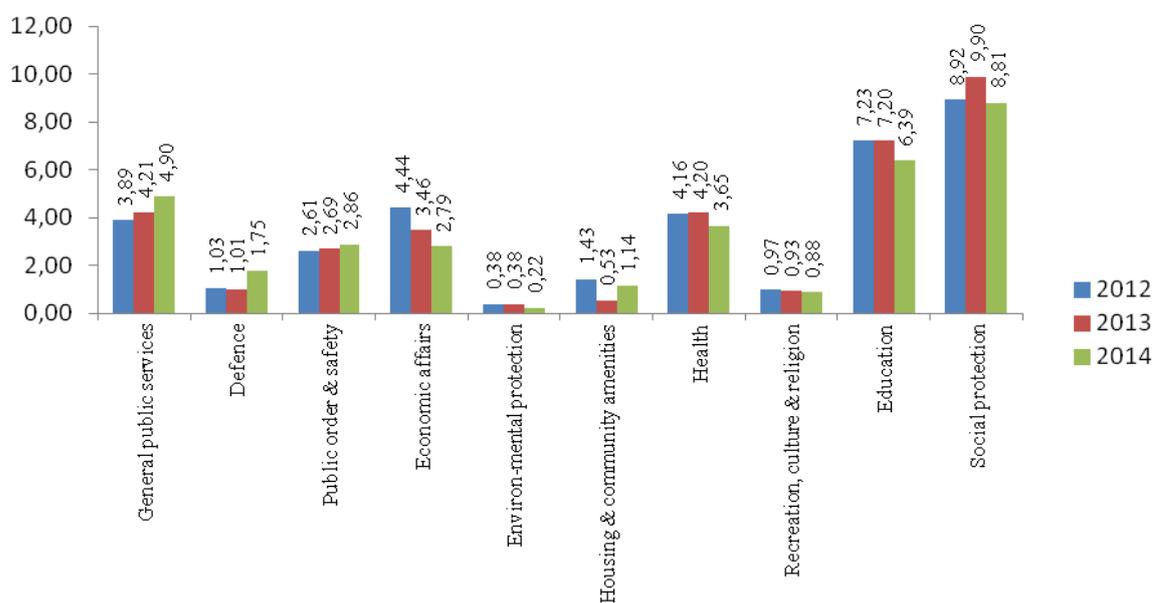


Fig. 1. The expenditures of the consolidated budget of Ukraine for the principal functions in 2012-2014, % of GDP

Compiled according to: Reports of the State Treasury Service of Ukraine on the implementation of the Consolidated Budget of Ukraine during the period of 2012-2014.

Retrieved from <http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=146477>

Priorities of the budgetary policy in Ukraine are little different from the priorities of government expenditures in the EU. Having analyzed the available statistical information concerning the expenditures of the principal functions in 2013 in 28 countries of the EU, we note that most of the expenditures were directed on performing such functions as social protection and social security (19.6% of GDP), as well as health care (7.2% of GDP). The other priorities of government expenditures were the expenditures on general public services (6.8% of GDP), education (5.0% of GDP) and economic affairs (4.3% of GDP).

Figure 2 shows the distribution of general government expenditures on the principal functions in the EU during the period of 2012-2013.

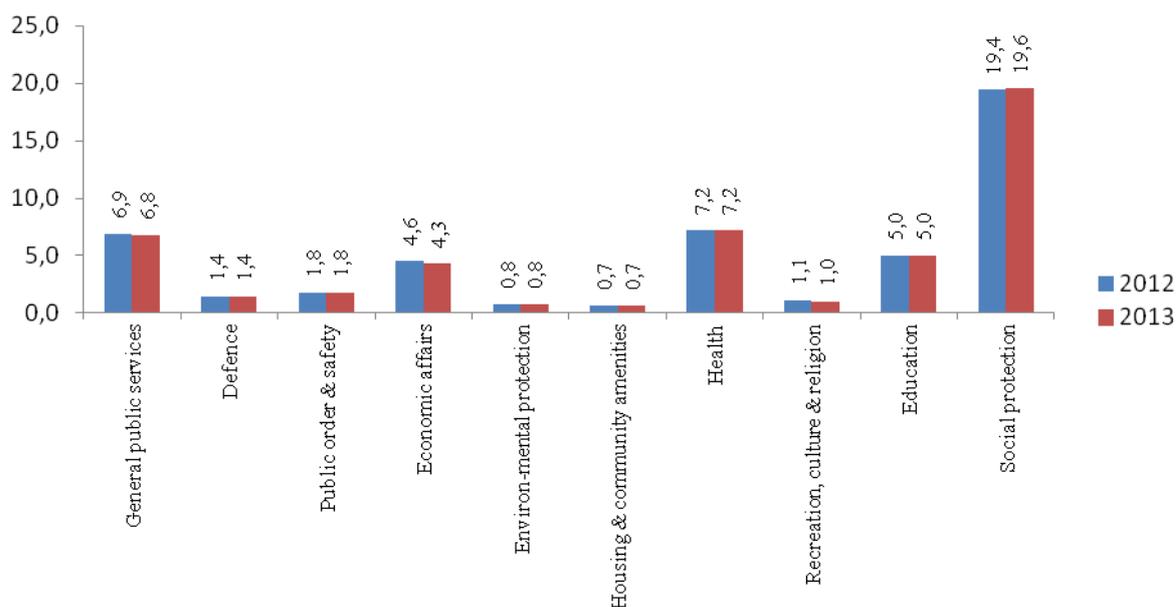


Figure 2. Distribution of general government expenditures on the principal functions in the 28 EU countries during the period of 2012-2013, % of GDP

Compiled according to: General government expenditure by function (COFOG) / Eurostat. Retrieved from <http://ec.europa.eu/eurostat/web/government-finance-statistics/data/main-tables>

The comparative analysis shows that in Ukraine the arrangement of the principle budget priorities is not very different from their arrangement in the EU, with the exception of expenditures on education and health care, that in Ukraine occupy the second and fourth positions, while in the EU-28 it is on the contrary. But differences in the quantitative value of the share of GDP allocated to the implementation of the State principal functions are greater. In particular, in Ukraine, in comparison with the EU-28, despite the same position in the system of priorities, a smaller percentage of GDP is allocated on implementation of general public services and on national economic affairs.

Let's analyze the structure of public expenditures on economic affairs in Ukraine and in the EU countries.

It should be noted that the majority of EU governments do not refuse the state support for certain types of economic affairs, although such support, as it is shown in Fig. 2, tends to decrease. Almost half of the funds allocated on the "economic affairs" - are the expenditures on transport, which accounted for 2.0% of GDP (Fig. 3). The second and the third priorities of the expenditures on economic affairs were the expenditures on the general economic, commercial and labor affairs, as well as on R&D Economic affairs (1.0 and 0.4% of GDP, respectively). 0.3% of GDP was allocated on the expenditures on agriculture, forestry, fishing and hunting, as well as on Fuel and Energy.

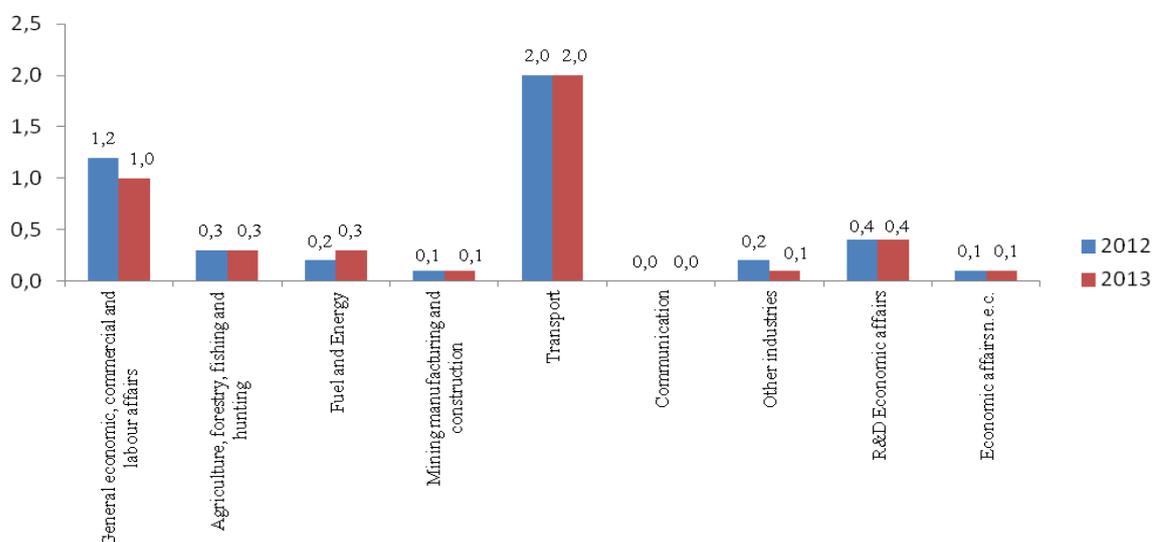


Fig. 3. Distribution of general government expenditures on economic affairs in the 28 EU countries during the period of 2012-2013,% of GDP

Compiled according to: General government expenditure by function (COFOG) / Eurostat. Retrieved from <http://ec.europa.eu/eurostat/web/government-finance-statistics/data/database>

As noted, transportation is the priority of state support of economic affairs in the EU.

In 2013 among the 28 EU countries the most of funds in this area was directed to Hungary and Romania (3.7% of GDP), the Czech Republic (3.3%), Croatia (3.2%), and the least - to Cyprus (0.8% of GDP), Malta (0.9%), Lithuania (1.3%), Ireland (1.5%).

A significant difference in the proportion of expenditures on transport in the GDP in different countries is due to the presence or absence of subsidies for public transport and classification of public transport companies.

We note that countries with developed economy and countries with developing economy have different priorities in the development of transport infrastructure. Construction of infrastructure, improving of networks and renewal of rolling stock are the key points for many Central and Eastern European countries. The countries with developed economy, where there are extensive transport networks, prefer to improve efficiency and security of infrastructure and to minimize its negative impact on the environment (noise reduction, reduction of CO₂ emissions).

Let's consider the second-largest direction of state support in the expenditures of economic affairs - the expenditures on the general economic, commercial and labor affairs of GDP.

The largest share of these expenditures in 2013 was observed in such countries as Greece (11.1% of GDP) and Slovenia (10.8%), the smallest - in Italy (0.2% of GDP) and Lithuania (0.1%). A significant share of the expenditures on the general economic, commercial and labor affairs in Greece and Slovenia in 2013 is mainly due to the one-time support of financial institutions. In Slovenia such significant amount of expenditures was the result of capital infusions into banks in the total amount of 3.6 bln. of Euro or 10.1% of GDP. Excluding capital expenditures of banks the expenditures on economic activity have increased by 0.4 percentage points of GDP [3].

Another significant share of the expenditures of economic affairs is the expenditures on agriculture, forestry, fishing and hunting. The largest share of these expenditures in 2013 was observed in such countries as Croatia (1.0% of GDP), Bulgaria (0.9% of GDP) and Lithuania (0.9% of GDP), the smallest - in the UK, Greece and Belgium (0.1% of GDP).

Analyzing the distribution of expenditures of the consolidated budget of Ukraine on economic affairs during the period of 2012-2014 we observe the tendency to decrease both in absolute values (from 62.4 billion of Hryvnas in 2012 up to 43.6 billion of Hryvnas) and in percentage of GDP (from 4.4% in 2012 up to 2.8% in 2014). In 2014, the share of expenditures on economic affairs was lower than the share of the expenditures on public order and safety, which during the period of 2012-2014 gradually grew up (from 2.6% in 2012 up to 2.9% in 2014) [4].

During this period, the principal amount of the expenditures of economic activity was divided into three areas: agriculture, forestry, fishing and hunting (13.5% of the consolidated budget expenditures on economic affairs, on average for the period); Fuel and Energy (26.6% of the consolidated budget expenditures on economic activity, on average for the period); transport (35.0% of the consolidated budget expenditures on economic activity, on average for the period). Their total share in the consolidated budget expenditures on economic affairs was 75.1% on average for the period of 2012-2014. At the same time there was a decrease of the expenditures

share on Fuel and Energy (from 1.2% of GDP in 2012 up to 0.6% in 2014), as well as on agriculture, forestry, fishing and hunting (from 0.5% of GDP in 2012 up to 0.4% in 2014). The share of transport expenditures remained stable at the level of 1.2% of GDP in 2012-2014, but their share of the consolidated budget expenditures on economic affairs gradually increased from 26.8% in 2012 up to 43.0% in 2014 (see. Fig. 4).

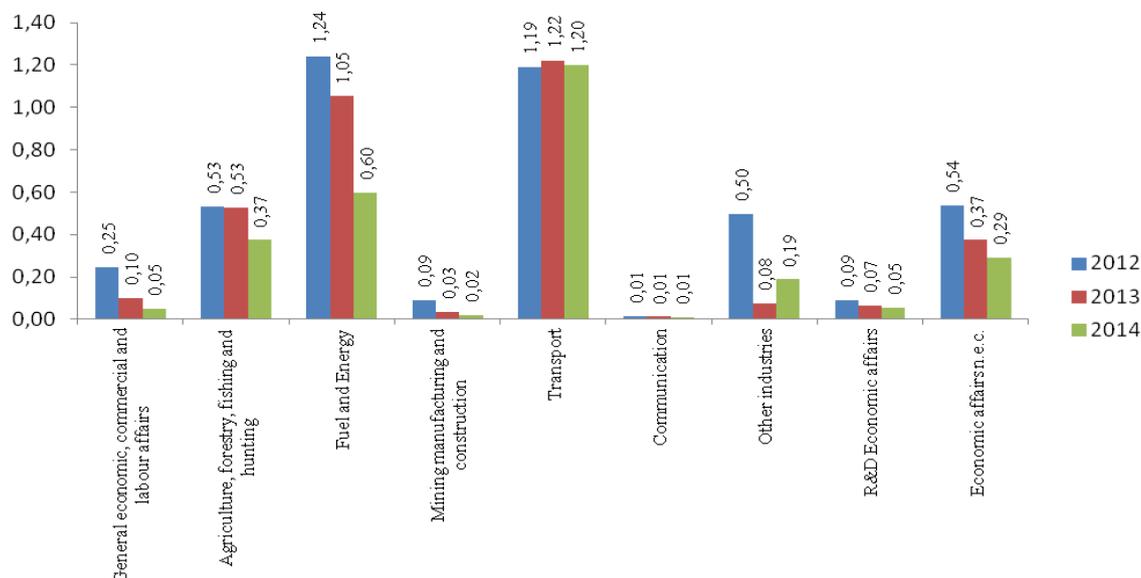


Fig. 4. Expenditures of the consolidated budget of Ukraine on economic affairs in 2012-2014, % of GDP

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Considering the expenditures of transport, we note that almost all of them were spent on the support of public road (92.5% of transport expenditures on average for the period 2012-2014). As for the cost of the Fuel and Energy, their principle share was allocated on supporting the coal industry and other industries of solid fuels production (89.5% of the expenditures of Fuel and Energy, on average for the period 2012-2014.). In case of expenditures on agriculture, forestry, fishing and hunting the principle share constitute the expenditures on agriculture support (89.4% of expenditures on agriculture, forestry, fishing and hunting, on average over the period 2012-2014).

Comparing the expenditures of budgets economic affairs of the EU countries and Ukraine mention the following their differences. First of all, it is a priority of government expenditures on Fuel and Energy in Ukraine unlike the development of transport in the EU-28 (the second priority of the State support of economic affairs in Ukraine). Secondly, it is not significant expenditures on the general economic,

commercial and labor activities and on R&D Economic affairs in Ukraine, which are the government priorities in the EU.

The share of the consolidated budget expenditures on support of the Fuel and Energy in Ukraine as a percentage of GDP in 3.7-5 times exceeds its value in the EU countries. As noted above, the basic expenditures on support of Fuel and Energy were allocated on restructuring of coal and peat industry; on partially covering the expenditures of cost of finished marketable coal products; on state support for the construction of coal and peat extraction enterprises and their retooling.

The direct budgetary funds for the development of the coal industry (along with its indirect forms of support) have been allocated during the years of Ukrainian state existence, although their share tends to decrease. However, because of the nature of the provision and use (unlimited terms of public financial support for the industry, that do not encourage to solve its basic problems; the lack of effective control of public funds, leading to their misuse and theft) the State support has not led to radical changes in the development of coal industry.

In addition, a significant problem of the Fuel and Energy complex functioning is the high energy consumption and low efficiency of energy recourses usage. In order to solve this problem, it is necessary to implement effective instruments for governmental stimulation of economic entities and population of Ukraine for energy saving. These measures combined with the cessation of the practice of embezzlement of budget funds will allow reducing the government support for the coal industry and directing free financial resources for fundamental and applied researches and developments in the fields of economy allowing to rebuild them on the basis of innovation.

It should be noted that important role in the implementation of post-crisis strategy for Ukraine's development and modernization of the real sector plays the development of the transport industry for which at present is allocated almost half as much of the share of consolidated budget expenditures (as a percentage of GDP) than in the EU countries. Given that a large part of the transport infrastructure in Ukraine needs urgent renovation or complete reconstruction, and in the eastern regions of the country has undergone significant damages and destructions from the military operations, the expenditures on transport infrastructure in the coming years should be the first priority in the structure of public expenditures on economic development.

In summary, we note that in times of economic crisis and significant budget deficit, it is important to identify a limited number of priority directions of the allocation of government economic expenditures and namely on the development of strategically important for the country's economic sectors (transport industry, agriculture, Fuel and Energy complex in the direction of energy saving and reduction of energy consumption), and to eliminate their theft and to ensure their effective use. This will

create the preconditions for reducing the state burden on the economy while increasing the volume and improving the quality of public goods, financed by the budgetary funds.

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