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## **ANALYSIS OF THE FINANCIAL POLICY EFFICIENCY OF UKRAINE**

*One of the most important attributes of a modern state is public finances. The process of managing public finances is multilevel, has a complex structure and various forms of implementation. In this context, the financial policy of the state is an element that normalizes the process of managing public finances, determines its result orientation. The economic and social dynamics of the country, the development of the entrepreneurial initiative and, ultimately, the well-being of the population depend on the effectiveness of the use of financial policy instruments.*

*The problem of determining the effectiveness of the implementation of the financial policy of Ukraine in the light of current challenges requires additional research.*

*Financial policy is a key element of state socio-economic development policy. It can be defined as a set of purposeful measures in the field of public finances implemented by the competent public authorities in order to ensure the stable economic and social development of society.*

*According to the scientific approach, the viability of financial policy depends on the effective activity of the state at each stage, the correctness of the decisions taken. Its formation begins with a clear definition of goals and setting of reasonable tasks. On this basis, the choice of the type of financial policy is made - rigid or moderate regulation or a policy of minimum restrictions; discretionary or built-in stabilizers. On this basis, the directions of implementation are chosen (it is decided which tasks are provided by the means of monetary and which are the fiscal policies) and the instruments of implementation and ways of ensuring the coordination of their actions.*

**Keywords:** *financial policy, implementation of financial policy, tools of financial policy, crisis phenomena, fiscal and debt component of financial policy, indicators of effectiveness of implementation of measures of financial policy.*

**Topicality of the research.** One of the most important attributes of a modern state is public finance. The process of public finance management is multi-level with a complex structure and various forms of implementation. In this context, the financial policy of the State is an element that normalizes the process of management of public finances, determines its outcome orientation. It is the effectiveness of the use of financial policy instruments that determines the pace of economic and social dynamics of the country, the development of entrepreneurial initiative and, ultimately, the well-being of the population.

**Analysis of recent research and publications.** Various aspects of formation and implementation of financial policy are the object of research of many domestic and foreign scientists.

The team of authors [1] explores the problems of feasibility of preventive measures to reduce the likelihood of crisis phenomena in the financial sector. It is noted that the degree of state regulation in the context of the implementation of preventive measures significantly depends on the tools of financial policy.

The results of the research presented in [2] cause a significant academic interest. The authors analyzed the main components of the pre-crisis financial policy and identified the problematic elements determining the scale and direction of the crisis. An important conclusion of the study is the need to focus on the fiscal and debt components of financial policy.

The study [3] is devoted to similar problems. The authors indicate the degree of foreign currency debt influence on the optimality of monetary policy and point to the consequences for exchange rate regimes.

Questions of formation of effective financial policy as an instrument of realization of economic sovereignty of the State are considered in paper [4, p. 203–209]. The article outlines the general directions of strengthening the economic sovereignty of the State through the implementation of an effective financial policy.

**Highlighting unexplored parts of a common problem.** The problem of determining the effectiveness of the implementation of Ukraine's financial policy, taking into account modern challenges, requires additional research.

**Problem statement.** The purpose of the article is to analyze the main indicators characterizing the effectiveness of the financial policy of Ukraine.

**Presentation of the main material.** Financial policy is a key element of the state policy of socio-economic development. In our opinion, financial policy can be defined as a set of targeted measures in the

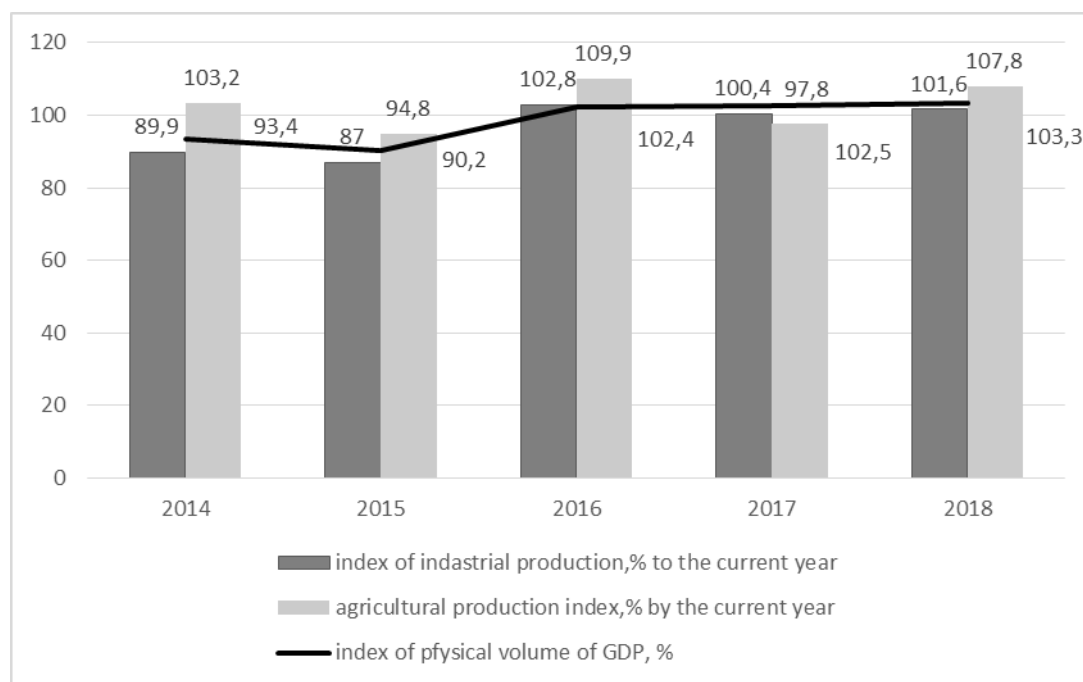
field of public finance implemented by the competent authorities in order to ensure stable economic and social development of a society.

According to the scientific approach outlined in [5], the effectiveness of financial policy depends on the efficiency of the State at each stage, the correctness of the decisions taken. Its formation begins with a clear-cut definition of goals and setting reasonable tasks. Based on this, the choice of the type of financial policy is made – strict or moderate regulation, or the policy of minimum restrictions; discretionary and built-in stabilizers. On this basis, the directions of implementation are chosen (which tasks are provided by means of monetary and fiscal policy) and the instruments of implementation, the ways to ensure coordination of their actions [5, p. 129].

The main indicators characterizing the degree of efficiency of the financial policy of the State should, in our opinion, contain the following elements: the dynamics of GDP, per capita included, indices of industrial and agricultural production.

These indicators, in turn, are detailed/supplemented by indicators of the budget system and funding sources. In addition, in some cases, it is reasonable to analyze a wider range of indicators that will determine the effectiveness of the country's financial policy.

According to the World Bank, the indicator of GDP per capita in Ukraine in 2017 concluded 85% of the level of 2014, in value terms it is 2639 USA \$. This is an extremely low figure, especially in comparison with our neighbors: Belarus – USA \$ 5280., Poland – USA \$ 12730., Romania – USA \$ 10000. Moldova – USA \$ 2200.



**Figure 1 – Dynamics of indicators of GDP volume index, indices of industrial and agricultural production**

Source: [6; 7; 8]

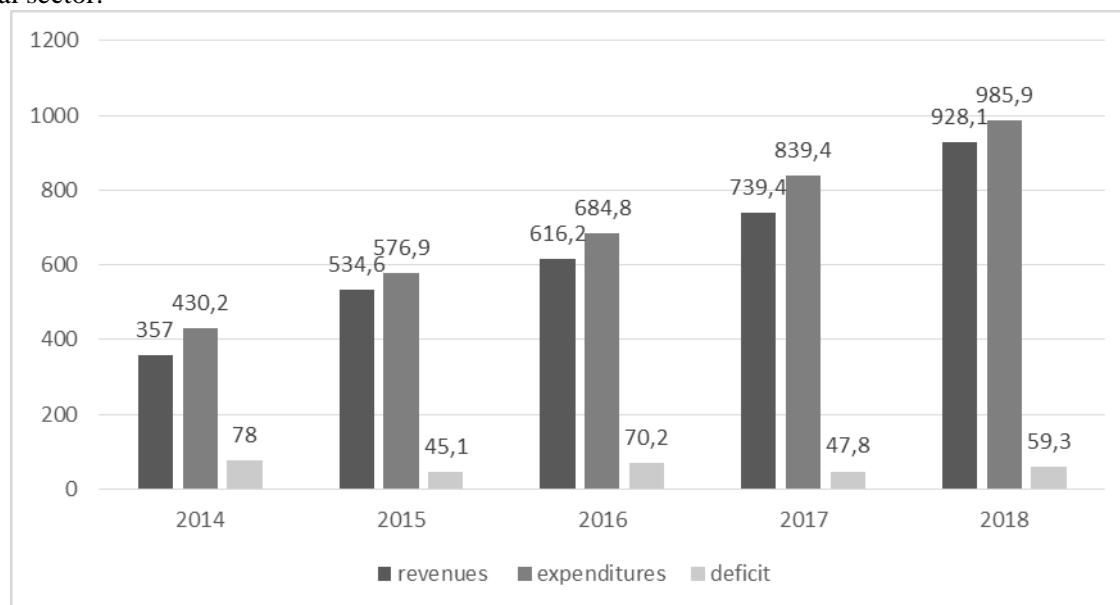
The data in Fig.1 show a moderate growth of GDP, starting from 2016. During 2014-2017 trade takes a significant share in the gross value added structure. Its share during this period ranged from 16.6 – 16.9%. The share of agriculture increased by 0.4 of gross product to 12.1%, industry increased by 2.2 gross product to 21.9%. Moreover, the share of the extractive industry increased most significantly during this period.

The structure of gross added value despite the increase in the share of industry cannot be considered optimal. In the era of Industry 4.0 as a result of new technologies advance (Internet of things, fully automated production) the structure of the economy is transformed in the direction of information and virtualization. Accordingly, the nature of financial policy is changing under the influence of block chain technologies and the new Fin Tech architecture.

That is why, an important goal of modern financial policy of Ukraine is to create prerequisites for improving the competitiveness of the domestic economy through the introduction of new technologies.

However, in 2017, the share of the information sector stated 4.4 % of gross value added, an increase of 0.6 % compared to 2014. The share of education generally decreased by 0.4 gross product to 5.1 %.

The above mentioned indicates the absence of a formed basis and prerequisites for the implementation of measures that will move our country to Industry 4.0, the introduction of advanced technologies in the financial sector.



**Figure 2 – Dynamics of individual indicators of the budget system, billion UAH**

Source: [9; 10]

The measures implemented within the framework of the financial policy during 2017-2018 allowed to significantly reduce the volume of the state budget deficit both in absolute terms and in relation to GDP (Fig. 2). At the same time, the growth of underfunding of the expenditure part of the budget in recent years is of great concern. For example, in 2018 the expenditures were financed by 95.3%, which is 1.1 percentage points less than in 2017. In addition, the costs of economic activity held only the sixth position by priority, and their volume is 1.8 times less than the cost of servicing the debt. This is the situation with education costs. That is, in this context, the budget priorities of financial policy are debatable.

The dynamics of the revenue part of the state budget in 2018 is largely due to the growth of tax revenues with the main role of VAT.

In our opinion, it is advisable to focus on the fact that during 2014-2018 the tax burden on business entities increased. This is evidenced by a number of indicators, in particular, the share of taxes in GDP. In 2014, its value was 13%, in 2018 – 15.9%. At the same time, the growth rate of VAT on goods produced in Ukraine was lower than the growth rate of VAT in general. This is quite a serious challenge in the implementation of financial policy due to the fact that the post-crisis growth of the profitability level of the real sector enterprises has stopped.

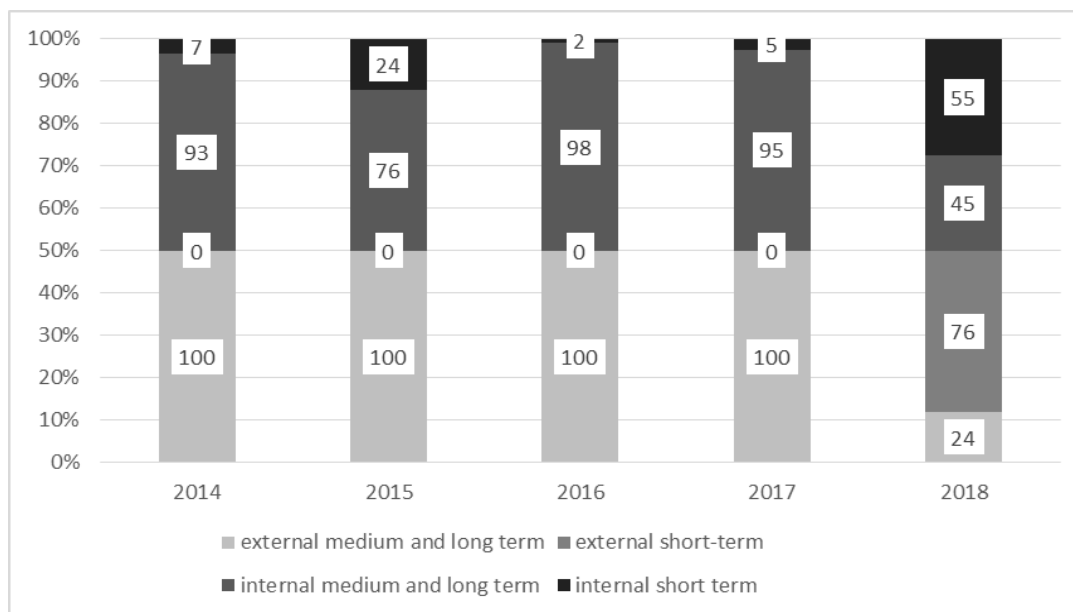
Thus, in the third quarter of 2017, EBITDA margin was slowly declining after more than two years of growth. The growth rate of operating profit decreased significantly from 50% p/p for 6 months of 2017 to 1% p/p for January – June 2018 [11, p. 13].

The above shows that it is not necessary to count on profit as a significant source of financing of innovation and investment activities in the framework of the implementation of financial policy in the short term.

It is advisable to agree with [4] that with an ineffective financial policy of financing measures to solve current and long-term problems is carried out by increasing the volume of public debt, and this, in turn, increases the burden on the public finance sector to a critical level.

Data analysis in Fig.3 indicates the change in 2018 of the urgent structure of financing of the state budget of Ukraine in the direction of the predominance of short-term borrowings from both internal and external sources.

In addition, the borrowings of 2018 were carried out due to the unfavorable conditions of the world financial market. This, in particular, affected interest rates on loans. Thus, if in 2016 the government issued Eurobonds under guarantees at the rate of 1.71%, in September 2017 the next issue was placed with a yield of 7.375%, in November 2018 the rate ranged from 8.994% (5-year) to 9.75% (10-year). On the other hand, NAC Naftogaz even at a yield of 10.9% could not place Eurobonds in the amount of 0.5-1.0 billion dollars.



**Figure 3 – Financing of the state budget of Ukraine by type of debt obligation in 2014 – 2018**

Source: [11, p. 11]

In addition, the borrowings of 2018 were carried out due to the unfavorable conditions of the world financial market. This, in particular, affected interest rates on loans. Thus, if in 2016 the government issued Eurobonds under guarantees at the rate of 1.71%, in September 2017 the next issue was placed with a yield of 7.375%, in November 2018 the rate ranged from 8.994% (5-year) to 9.75% (10-year). On the other hand, NAC Naftogaz even at a yield of 10.9% could not place Eurobonds in the amount of 0.5-1.0 billion dollars.

This indicates a significant increase in the interest rate and, accordingly, the value of Eurobonds.

The vulnerability to interest rate risks rises and creates uncertainty in public financial management [11, p. 11].

In this case, the costs of repayment and servicing of public loans and performance of obligations under guarantees limit the possibility of ensuring sustainable and stable development of the country [4, p. 208].

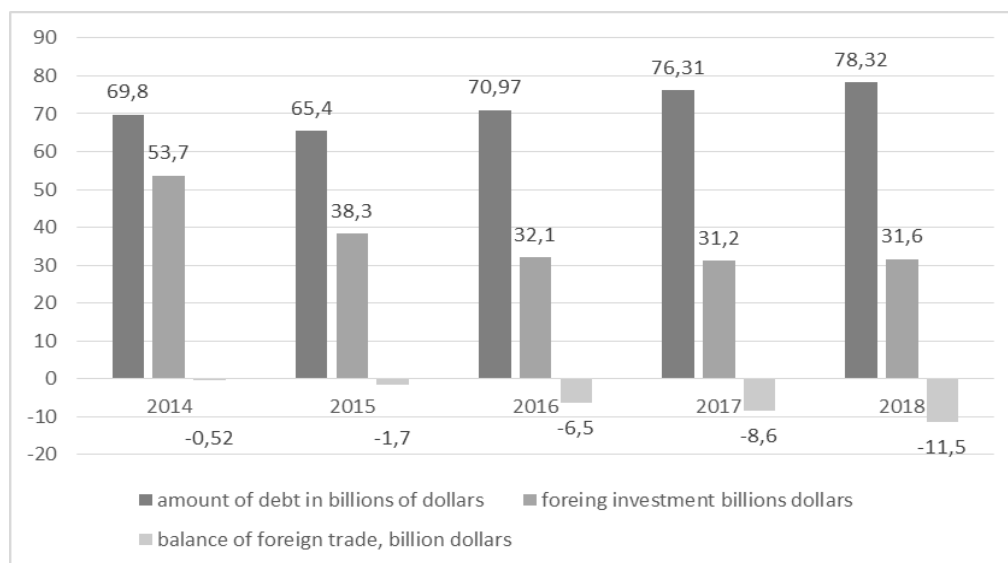
For example, in 2019, the planned payments for debt repayment will amount to UAH 460.9 billion, in 2020 – UAH 310.6 billion, in 2021 – UAH 240.5 billion, in 2022 – UAH 194.6 billion, in 2023 – UAH 203.4 billion [11, p. 10; 12].

The data in Fig. 4 shows that today there is no need to rely on the potential of foreign trade and foreign investment. During the period under review, the volume balance of foreign trade increased by almost USA \$ 11 billion. The volume of foreign investments during 2014–2018 decreased by 41.1%, which, in our opinion, indicates not only the influence of objective factors (military actions in the East of the country), but also subjective ones. The lack of real measures on import substitution at the same time with a low degree of favorability of the business environment leads to the growth of import volume and lack of interest from foreign investors.

In this context, it is advisable to agree with [11, p. 10] that in the medium term it is expected that the current account deficit will remain close to 2.5 – 3% of GDP.

For the sake of economic transformation in the financial system of Ukraine, the Ukrainian government has made a number of important decisions, in particular on the directions of the budgetary policy for 2018–2020. The main directions of the budgetary policy for 2018–2020 are based on the provisions of the Program of activities of the Cabinet of Ministers of Ukraine, the Coalition agreement, the Mid-term plan of priority actions of the Government until 2020, the Sustainable Development Strategy "Ukraine 2020", the programs of cooperation with international financial organizations. Considering the achievement of macroeconomic stability in 2015–2017 and the first signs of growth of gross domestic product in Ukraine, for the first time a medium-term budgeting for three years is introduced. The transition to medium-term budgeting implies increased budgetary discipline and the introduction of an effective mechanism for managing budgetary resources. This will help ensure financial stability and strengthen economic growth in the medium term. This document defines the main objective of fiscal policy to stabilize public finances by gradually reducing the government budget deficit and reducing government debt relative to gross domestic product in the face of

risks caused by the sharp increase in external debt payments in the coming years and the dependence of the national debt on exchange rate fluctuations.



**Figure 4 – Dynamics of individual indicators characterizing the international economic cooperation of Ukraine**

Source: [9; 11;12; 13; 14]

The main principles underlying the 2018–2020 budget policy are:

- Creating a favorable investment climate and maintaining macroeconomic stability, in particular the continuation of fiscal consolidation to accelerate economic growth;
- implementation of public administration reform, decentralization and transformation of public finances;
- development of human capital through reforms of the health and education system, provision of state social support;
- Establishing the rule of law, combating corruption by supporting the effective functioning of anti-corruption institutions, ensuring equal access to justice and effective protection of property rights;
- ensuring the security and defense of the state, in particular the protection of its sovereignty and territorial integrity.

In order to accomplish these tasks, it is necessary to make structural transformations in the economy, in particular:

- to increase the efficiency of the use of budgetary funds by strengthening the link between budgetary allocations with strategic priorities of the state and assessing the efficiency and appropriateness of expenditures;
- to implement health care reform, which is based on the principle of financing the service and guarantees the population access to quality health care;
- deepen education reform;
- create a fair system of social protection through pension reform, pensions modernization, increased accountability and accountability in the benefits system to ensure maximum targeting, transparency and proximity to the provision of appropriate social services to the population;
- to increase the remuneration of the employees of the budgetary sector and the private sector, to take measures to shade wages;
- create a favorable business environment to increase investment in innovation, agribusiness and other sectors that produce value added in Ukraine, as well as the growth of small and medium-sized businesses;
- integrate the economies of Ukraine and the EU by implementing the trade and economic provisions of the Association Agreement between Ukraine and the European Union, in particular the provisions on the Free Trade Area (DCFTA) [16].

One of the priorities of the state tax policy for 2018–2020 is to ensure the stability of the tax system, in particular to improve efficiency and facilitate tax administration while minimizing opportunities for abuse.

The new Budget Resolution 2018–2020 should be the first step in changing budgetary approaches and responsibilities. Meanwhile, economic experts see the activities of the Ministry of Finance as both positive

and negative aspects, including the traditional coverage of the state budget deficit with new borrowings and the inability to waive income tax [17].

An important task of the state's financial policy is to create a financial market that will be the main mechanism for converting savings into investments, redistribution of capital and ensuring transparency of financial flows. For this purpose it is necessary to considerably increase the efficiency of the state financial policy in the development of the securities market, commodity market, the market of collective investments, supervision and control over investing of pension accumulations [18].

In addition, the high level of budget deficits and public debt remains unresolved. As a result of the increase in Ukraine's debt, the state budget expenditures on public debt servicing have increased significantly. An increase in budget expenditures for debt repayment leads to a further increase in the budget deficit.

Another negative factor affecting the state of the budgetary and financial system is the intensification of inflationary processes in the economy, especially in connection with higher wages and pensions. At the end of 2017, inflation reached 13.7%, which was higher than the NBU inflation benchmark, which was  $8 \pm 2\%$ . According to World Bank forecasts, inflation in Ukraine is 9.9% in 2018, inflation will slow to 7.3% in 2019 and 6.5% in 2020. An increase in the NBU discount rate from 12.5% in May 2017 to 18% in September 2018 contributed to a 9% inflation rate [19].

**Conclusions.** The results of the analysis indicate the low efficiency of the state financial policy at the present stage

Priority measures, the implementation of which will enhance the effectiveness of financial policy, should include the formation of adequate institutional prerequisites, an important role among which is given to regulatory support [15].

Also, the proposals formulated in [16] are rather sustainable. According to them, the priority directions of financial policy for the medium term should be: improving the efficiency of financial and budgetary planning and forecasting, improving the mechanisms of currency regulation, strengthening the relationship of financial regulation with the cyclical nature of economic development, ensuring macroeconomic balance [16, P. 16].

The prospects for further research is to determine the optimal level of public debt in the context of the implementation of financial policy objectives.

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### **АНАЛІЗ ЕФЕКТИВНОСТІ РЕАЛІЗАЦІЇ ФІНАНСОВОЇ ПОЛІТИКИ УКРАЇНИ**

Одним із найважливіших атрибутів сучасної держави є суспільні фінанси. Процес управління суспільними фінансами є багаторівневим, має складну структуру й різні форми реалізації. У даному контексті, фінансова політика держави є елементом, який унормовує процес управління суспільними фінансами, визначає його результаторієнтованість. Саме від ефективності використання інструментарію фінансової політики залежать темпи економічної та соціальної динаміки країни, розвиток підприємницької ініціативи та, у кінцевому результаті, добробут населення.

Проблематика визначення ефективності реалізації фінансової політики України із урахуванням сучасних викликів потребує додаткового дослідження.

Фінансова політика є ключовим елементом державної політики соціально-економічного розвитку. Тут можна визначити як сукупність цілеспрямованих заходів у сфері суспільних фінансів, яку реалізують компетентні органи державної влади з метою забезпечення стабільного економічного та соціального розвитку суспільства.

Згідно з науковим підходом, дієздатність фінансової політики залежить від ефективної діяльності держави на кожному етапі, правильності ухвалених рішень. Її формування починається з чіткого визначення цілей і постановки обґрунтованих завдань. Виходячи з цього, здійснюється вибір типу фінансової політики – жорстка чи помірна регламентація, або політика мінімальних обмежень; дискреційна або вбудованих стабілізаторів. На цій основі обираються напрями реалізації (вирішується, які завдання забезпечуються засобами монетарної, а які – фінансової політики) і інструменти реалізації та способи забезпечення скоординованості їх дій.

**Ключові слова:** фінансова політика, реалізація фінансової політики, інструментарій фінансової політики, кризові явища, фінансова та боргова складова фінансової політики, показники ефективності реалізації заходів фінансової політики.

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