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Sustainable development of Ukrainian fiscal system as a security factor

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The outcome document of the United Nations summit for the adoption of UN Sustainability Development Goals (2015-2030) provided beacons for further investigations in the field of public governance adequacy grounded on postponed efficiency issues concerning recent developments in global economies and policies. Ukraine together with the international community is expected to adopt a post-2015 agenda and a new set of Sustainable Development Goals (SDGs) to replace the expiring UN Millennium Development Goals. Current highest grade national policy document is Strategy of Sustainable Development of Ukraine-2020 that also followed the track of elaboration long-run balanced goals and provides detalization to their further implementation. Among those common goals there are 8 key reforms directions:

- Authorities update and anti-corruption reform;
- Judicial reform, Decentralization and public management reform;
- Entrepreneurship deregulation and development;
- Law enforcement system reform, National security and defense system reform;
- Healthcare system reform;
- Healthcare system reform;
- Tax reform.

In other words, in measures of reforms theory by Victor Polterovych, there is a clear need for changing the social and economic institutes and transition period would certainly rely on resource, technological and institutional limitations as well as involve built-in mechanisms that should focus on institutes transformations and counteraction towards institutional traps. And there is no doubt concerning key role of fiscal system in ensuring fulfillment of mentioned agenda being a main source as an essential part of and public reform activities. That is also supported by Christine Lagarde thesis that development efforts must be approached flexibly where possible, policies must be tailored to the unique circumstances of individual countries, with room to adapt as the world evolves.

Taking into account recent development in Ukraine as mentioned in the Memorandum of Economic and Financial Policies between Ukraine and International Monetary Fund, domestic and external shocks as well as the escalation of the conflict in the East have taken a significant toll on the Ukrainian economy, affecting confidence and disrupting financial markets. That is why one of critical problems for Ukraine is simultaneous decrease in the share of state expenditures to GDP, and increase in real state expenditures due to economic growth.

According to the Memorandum of Economic and Financial Policies between the authorities of Ukraine and the IMF, restoration of macroeconomic and financial stability, maintaining the fiscal and external sustainability, creating the conditions for economic growth in the medium term are the main tasks for Ukraine. Therefore, it is necessary to carry out structural reforms, to improve significantly economic governance and business climate in order to restore the confidence of national and international investors, to mobilize domestic financial resources. The 2014 IMF Country Report on Ukraine highlights various economic and financial objectives that Ukraine needs to achieve in order to overcome economic development difficulties and financial risks. In 2014 the IMF downgraded Ukraine's GDP growth to 6.8 per cent and the current account deficit for 2014 was projected at the level of 2.5 per cent of GDP.

The IMF mission visited Kyiv during September 22 – October 2, had revised down growth projections for 2015 to -11 percent. Growth is expected to reach 2 percent in 2016, supported by recovering consumer and investor confidence, improved export performance, and a gradual easing of credit conditions. Forecasted real GDP growth is expected to be 2; 3.5; 5.5; 5.2; 5%% respectively in 2016-2020. It is expected decrease in CPI from 45.8% in 2015 to 5.0% in 2020 ,.

The Government of Ukraine jointly with the IMF identified the following key policy directions:

- flexible exchange rate policy and gradual increase of foreign exchange reserves of the National Bank under conditions of the prudent monetary policy aimed at reducing an inflation rate to less than 10%;
- restoration of the banking system sustainability and its ability to lend to the real economy and to sustain economic activity;
- fiscal consolidation aimed at recovery of public finances, achievement of an economically acceptable level of public debt and its' servicing;
- deep and ambitious structural reforms, deregulation and improvement of business climate to attract domestic and foreign investment and increase potential growth, public enterprises reformation, including National Joint Stock Company Naftogaz of Ukraine.

Reduction of an inflation rate along with stability of the exchange rate (at 24-25 UAH. for 1 USD.) will facilitate the restoration of positive business climate and predictability for business. Increase of price competitiveness will promote the high export rates (5-6% per year). However, the trade balance and current account balance will remain negative throughout the medium term (-1.8% and -3.4% of GDP in 2020) both caused by high import rates and growth of external public debt servicing.

Economic revival will become a basis for the stable fiscal sector income. At the same time, the planned public finance consolidation will contribute to the gradual reduction of general government deficit: overall balance will amount to 2.2% of GDP in 2020. It is expected an increase in the level of tax revenues to GDP ratio increased from 35.8% in 2016 to 36.3% in 2020, and expenditures, by contrast, will decrease from 43.4% to 42% respectively. It should be noted that termination of the direct state financial support for National Joint Stock Company Naftogaz of Ukraine is expected since 2017, which will facilitate the burden on the state budget.

To be noticed that Ukraine has inherited from the Soviet Union the economy heavily depended on public funds and the political decisions of the central Government. In the course of the history of Ukrainian political and economic reforms, industrial and regional policy objectives may have varied significantly but all Ukrainian Governments have continuously supported State-owned enterprises and producers in certain "priority sectors" (e.g. coal mining, steel, chemicals, aircraft manufacture, ship-building, etc.) in order to ensure their survival and viability in conditions of economic instability and growing international competition.

Traditionally in Ukraine the fiscal sector is divided into general government operations, central government operations, the operations of the Pension Fund of Ukraine and social security funds. Fiscal consolidation should be aimed not only to ensure the smooth formation and execution of the state and local budgets in measures of transitive period towards decentralization, but also solving the problems of the general government sector as a whole. Therefore, tasks covering the whole sector should be set. In our opinion, they should include the following:

- definition of terms, conditions and ways to minimize expenditures and/or increase revenues, and balance the revenues and expenditures of the general government, as well as the conditions for mobilization and application of additional resources (sector deficit funding) in order to promote economic growth;
- achieving balanced ratios of such general government elements as the state budget, local budgets, the budgets of target state extra-budgetary funds;
- reduction of direct and indirect financial support to public financial and non-financial corporations (by expanding their own resource base) from the state budget and its gradual restriction.

Another institutional tension in Ukrainian sustainable development agenda is Association Agreement between the EU and Ukraine that envisages strengthening the cooperation in public financial policy conduction, coordination of fiscal rules, convergence of the regulatory environment in Ukraine and the EU. Cooperation in the field of public finance management is aimed at considering positive experience of reforming the fiscal system and limiting negative external and internal impacts. Among those challenges are:

- Security and Sovereinty threats:
- Slow down in emerging markets;
- Uncertainty diffusion from world top economies (EU as well);
- Corruption and Shadow Economy;
- Political Indetermination;
- Public Finance Policy ability to follow IMF Program

There are different approaches concerning solvation of mentioned problems, but those we consider as meaningful in public finance environment are connected with recommendations to introduce fiscal rules in Ukraine aimed at ensuring both short- and long-term adherence to a balanced state budget, and also to take measures aimed at ensuring effective and transparent procedures of budgeting and monitoring its implementation. The necessity to provide a framework for budgeting based on independent assessments of the macroeconomic development and tax revenues, as well as formation of independent institutions of economic evaluation studies on the macroeconomic development in order to provide open and transparent decision-making is elaborated.

The latest issues threatening fiscal stability and sustainability goals achievement in Ukraine aroused in a new Tax Code elaboration process that has to deal with budget deficit increasing outcomes features estimated in different way. Primarily, there is an essential need to comply with the following basic principles of reforming tax policy as a part of socio-economic strategy of the government, taking into account the balance between the external and internal factors:

- understandability, universality and equality. All institutional units should participate in public spending, depending on their income; investment, trade and economic decisions should be protected against the effects of their probable tax implications;
- certainty, justice, stability and convenience. The term, payment mode and the amount of taxes should be clearly set with constant decrease in costs of administering both the government and the economic agent; the tax system should be fair, free from any unsubstantiated benefits, progressive to such extent that the amount of tax payments be dependent on the payer's welfare; payment of taxes should be made at a time which is suitable to the taxpayer (in terms of minimizing the diversion of working capital) and the payment procedure should be fully understandable;
- taxpayers' rights inviolability, soundness of tax base formation. Consistency of various laws should foster investments, economic development, competitiveness and employment. The revenues of budgets of all levels should be increased by broadening the tax base, ie the tax system should include sources of tax revenues with calculation methods that are relatively simple in terms of time spent and unambiguous interpretation;
- tax revenues sufficiency and tax policy flexibility. The level of budget revenues should be sufficient to meet the financial needs of the state and taxation should respond adequately to changes in the financial position of institutional units.

Further reforming of tax regulation at the level of microeconomics stipulates for fiscal stability and fiscal consolidation taking into account the features of market mechanisms. This is especially relevant for direct and indirect taxes, which constitute the bulk of tax revenues in Ukraine.

The tax system developments are not the only thing that is to be carefully balanced in a measures of fiscal equilibrium before any tactical transformations are to be done. As it is stated in former Minister of Finance of Ukraine Olexandr Shlapak papers such issues as improving the strategic planning system of public finance, extension the use of results-based method in budget process, increasing the effectiveness of the medium-term budget planning, strategies of the public debt management and support to the fiscal transparency have gained particular importance under present circumstances. Thus, with a regard to fiscal challenges counteraction, emphasis is laid on restructuring state-owned monopolies, achieving economical levels of regulated tariffs, attracting extra-budgetary funds for infrastructural development, more efficient spending on social needs, stabilization of the pension system, changing the funding mechanisms for health and education, broadening the tax base and improving tax administration.

Summarizing the abovementioned, we propose following conclusions:

1. The need to strengthen the sustainability of general government in a transition period is essential to development agenda, in particular it could be achieved through fiscal consolidation program balancing.
2. Fiscal consolidation envisaging a fiscal reform for enhancing the sustainability of public finances, being a driver for institutional reforms;
3. In order to enhance the positive effects of fiscal consolidation on economic and social development of Ukraine, it is vital to continue IMF collaboration agenda, with simultaneous financial resource allocation to aim key reform potential ensuring institutional traps avoidance as a main built-in fiscal challenge resistance tool.

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