



Fiscal Asymmetries of the Ukrainian Economy During the Global Pandemic Crisis: Economic Decline or Chance of Success

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The fiscal capabilities of the state affect the quality of the performance of its services. Therefore, it is quite natural for the government to make efforts to maximize budget revenues through the redistribution of financial resources, government borrowing, tax regulation etc. J. Schumpeter, a scientist, stressed in his work titled as "The theory of Economic Development" (1911) on the formation and use of public finances saying that every issue concerning the society and social aspects is, above all, a fiscal issue. Therefore, the provision of budgets at various levels has a rather deep essence in view of the prospects of regulatory processes and quality performance of its functions by the state.

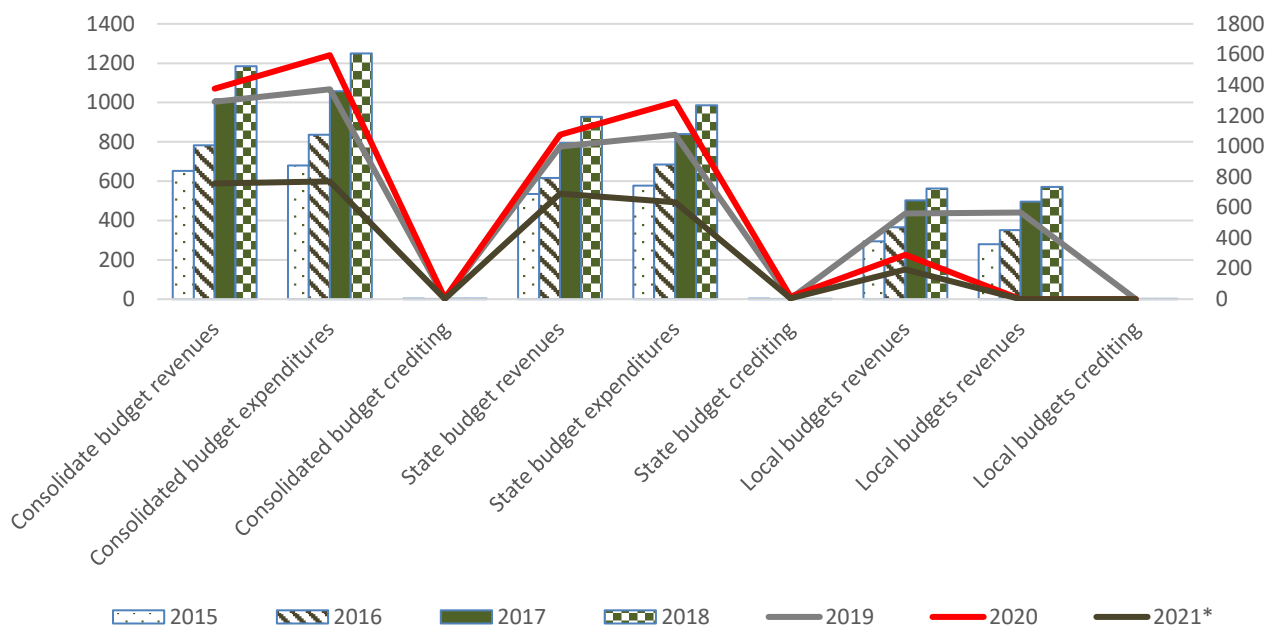
The most unexpected challenge of the early 2020s appeared to be the global COVID-19 pandemic, which marked the realization of new hazards and heightened anxiety of the humankind concerning their own safety. The large-scale crisis associated with the unknown virus has taken over the world and forced the economic systems of states to take care of their own national interests in the first place. Precautions, including full and partial lockdowns, have had a significant impact on all areas of human life in the global space. For almost two years, the world has been under incredible tension and getting used to the latest operating conditions, slowing down evolutionary processes. At the same time, it is difficult to objectively assess the losses associated with the phenomenon of the coronavirus disease, as measures aimed at regulating epidemiological issues continue to this day. Instead, the effects caused by the epidemic crisis have had a significant impact on the world economy, with the most vulnerable areas of public life outside the economy being health, culture, the arts, tourism, education, and so on.

In Ukraine, a number of unforeseen phenomena have been added to the global pandemic, which have made ambiguous adjustments to the government's plans, causing certain economic imbalances: large-scale fires, extreme floods - all these catastrophes shook Ukraine in 2020-2021 and continue to maneuver against the background of political and socio-economic crises, as well as the long Russian-Ukrainian war that has been going on for more than 8 years (since early 2014 till present). To settle or eliminate the consequences of these force majeure circumstances, the state uses all means available, which at the same time require significant funding. However, the quarantine introduced to stabilize the epidemiological situation in Ukraine has significantly reduced the use of potential opportunities. Thus, the need for additional financial resources is growing every day. This, in turn, leads to increased fiscalization of the budget, and the economic capacity of the national economy has shrunk significantly.

The processes outlined are accompanied by the corresponding fiscal asymmetries, and in the absence of a rational approach to the implementation of the decisions substantiated by the government, there arises a problem of the possibility to balance them effectively. Thus, individual incomes of citizens are rapidly decreasing, as evidenced by the declining solvency and consumer attitude of Ukrainians, rising tariffs and prices for basic foodstuffs, increasing fiscal pressure on taxpayers, and interest rates on loans from banks available in Ukraine fluctuating within 5% - 48% per annum [3 10, 11]. The corresponding dissonance is perceived by the society as illiterate, unsuccessful attempts of the authorities to "get out" of the situation at the

expense of citizens, without suppressing the personal interests of officials, first of all, the financial ones.

Considering asymmetries as the corresponding differences of the fiscal space in terms of a holistic system of the socio-economic mechanism inherent in the cyclical development in all spheres of the functioning of the society, in practice it is advisable to use them in the formation of the budget and fiscal policy to adjust the socio-economic situation, balance the levels of regional development, business regulation, change the quality of citizens' lives. The implementation of financial and economic regeneration requires a comprehensive approach of the authorities, focusing on the principles of protectionist policy, while the Ukrainian government, by implementing individual reforms of local character, does not provide effective crisis management, wasting time, and opportunities to solve the crisis quickly and painlessly. The consequence of unprofessional actions of the authorities was the negative development of the socio-economic situation in general, the correction of which requires significant financial resources, while the state of public finances is deteriorating every year (Figure 1.1).



2021* - data for January-July, 2021

Fig.1.1. Dynamics of revenues, expenditures and crediting of budgets of Ukraine of different levels from 2015 to 2021

Source: compiled by the author based on the data obtained from the reports of the Ministry of Finance of Ukraine [5, 6]

As a result, public finances have become one of the areas most affected by the pandemic, and Ukraine's economic system, similar to the world system in general, has suffered significant economic losses. Uncollected taxes appeared due to closing down a number of institutions, firms, organizations or other business structures or their total dissolution which have reduced the allowable resources by a number of times because they could not withstand the impact of harsh anti-epidemiological measures. Significant budget deficit, which in 2020 amounted to UAH 215.5 billion [8], the current legislation has planned to increase from UAH 247 billion to UAH 298.4 billion

[13]. The corona crisis has reduced budget revenues, while expenditures, on the other hand, have risen and continue to rise. Given this situation, the Ukrainian parliament adopted certain changes to the 2020 budget, which led to a decrease in revenues by UAH 120 billion. And although such changes reduced the plan of tax revenues by UAH 143 billion, budget expenditures still increased by UAH 82.4 billion, which led to increased fiscal pressure on taxpayers. Accordingly, the deficit in 2020 increased more than thrice: from UAH 96 billion to UAH 298 billion. In 2021, as of June 30, the government's debt continued to grow and amounted to UAH 2,514.36 billion. [6]. Therefore, it is easy to predict that in fact every fourth hryvnia of state budget expenditures is financed by attracting new debts (taking into account the redistribution of monetary resources among the budgets of local governments, the amount of financial aid will become even smaller).

Taking into account the amount of debt repayment and the need to finance the deficit, the general need of the government to attract debt financing in 2020 has almost doubled up to UAH 653 billion. The plan for external borrowing has increased from UAH 111 billion to UAH 242 billion, while the plan for domestic borrowing has increased from UAH 231 billion to UAH 372 billion [5].

This initiative taken by the authorities was supposed to have a positive effect on the country's domestic economy, but that did not happen. To objectively assess the overall burden of public debt, it is necessary to note the indicator of the primary budget deficit, which amounted to UAH 217.10 billion in Ukraine in 2020. Thus, the actual revenues were lower than planned, the ones gained from the value added tax on goods imported into the customs territory of Ukraine were lower by UAH 33.2 billion (22.3%), the ones gained from the rent for the use of mineral resources were lower by UAH 7.1 billion (39, 1%), the ones gained from personal income tax and levy were lower by UAH 2.2 billion (3.9%) and the ones gained from import duty were lower by UAH 0.9 billion (9.2%) [1]. At the same time, expenditures on social security were lower than expected by UAH 4.8 billion (2.9%) and subventions to local budgets were lower by UAH 1.1 billion (1.6%) [1]. Also, non-fulfillment of the planned indicators was contributed by the expenditures of the general fund, the amount of which amounted to UAH 51 billion (9.6%). In particular, the planned expenditures for the implementation of programs of state guarantees of medical care, measures to combat the spread of acute respiratory disease COVID-19 were not fulfilled in the amount of UAH 29.9 billion (30.4%) [1]. At the same time, there still exist problems concerning the receipt of mandatory payments, the collection of which is controlled by customs and tax authorities. According to the Accounting Chamber of Ukraine, the plan of revenues administered by the national customs service was not fulfilled in the amount of UAH 34 billion (21.4%) and those administered by the tax service - by UAH 1.7 billion (0.6%) [1].

A significant part of the Fund for combating COVID-19 Acute Respiratory Disease caused by the coronavirus SARS-CoV-2 and its effects was directed to cover the costs not related to the anti-pandemic measures. Thus, the Large Construction program was launched in Ukraine, and UAH 25.7 billion, or 38.7% of the Fund's total expenditures, was spent on road repairs. The obligation to finance COVID-19-related activities was placed on local budgets, which provided 2.1% (UAH 10.3 billion) of

their expenditures. This has resulted in a low supply of medicines and oxygen to hospitals or individual departments requalified as coronavirus care units, as well as in the absence of funding for surcharges to health workers in terms of combating the pandemic, which often affected the quality of their work.

In general, revenues to the general fund of local budgets increased by 5.4% compared to 2019, including revenues from personal income tax which increased by 7.4%. These incomes increased along with the increase of the minimum wage by UAH 642.3, or 15.4% in 2020 (from UAH 4,173 in 2019 to UAH 4,723 in 2020). In general, the level of revenue growth in 2020 (5.4%) was almost equal to the inflation rate (5.0%). Estimated losses of the native revenues of the general fund of local budgets in 2020 caused by the pandemic amounted to UAH 28.3 billion (Fig. 1.2.).

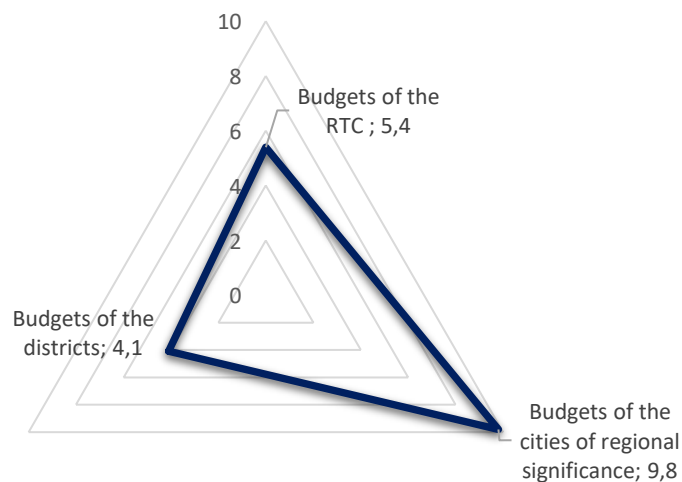


Fig.1.2. Loss of the native revenues of the general fund of local budgets of Ukraine in 2020 due to coronavirus disease COVID-19, UAH billion

Note: RTC – regional territorial community.

Source [7].

The amount of subventions from the state budget to the local budget planned by the government at the beginning of 2020 has not actually changed (the plan is UAH 138.3 billion, the actual implementation is UAH 138.6 billion). Thus, it should be noted that funds to local budgets to combat the pandemic were not allocated additionally from the state budget.

The increase in the fiscal component of public finances, as shown by statistics, clearly exacerbates the reduction in business activity. Not only did the weakening of the lockdown in 2021 not help the positive socio-economic development of all regions, but also allowed Ukrainian citizens who lost their jobs to migrate abroad in search of work, as well as to move with their entire families on a permanent residence basis.

In general, the theory suggests several ways to finance the budget deficit, which can be done through internal or external borrowing, privatization and emission. In case of Ukrainian anti-crisis public administration, cooperation with the International Monetary Fund, after the implementation of the personnel policy of the National Bank

of Ukraine, was questioned [4], in addition, the fact of crediting the consolidated budget in 2020 amounted to minus UAH 1.3 billion [2]. Another tool for financing public debt may be privatization, which is currently not carried out in Ukraine, and the measures taken by the authorities regarding the land market raise a lot of questions from both professionals and the society. And finally, the banal printing of the national currency, which is the most likely, although one of the most dangerous ways to solve the socio-economic problem in the country today. The "equivalence theorem" developed and presented by D. Ricardo proves an identical influence of financing the budget deficit both by increasing taxes and by borrowing funds on the behavior of the economic agent; a similar effect happens with the dynamics of social product production. The deficit, formed due to tax arrears, is financed by obtaining government loans [9]. However, the scientist himself insists on the priority of fiscal rather than debt channels of budget financing, which contribute to the misuse of private savings, corruption, outflow of capital abroad, etc. In general, this is exactly what has been happening in Ukraine for a long time.

Thus, taking into account all existing and probable threats and risks, the state must clearly define the specific measures of anti-crisis management, create platforms for public discussion involving experts on problematic issues. The critical epidemiological circumstances that have gripped the world today and a number of other destabilizing factors that do not depend on, or rather depend on, human influence, show that the familiar rules of management developed earlier have reached their limits. Attempts made by governments to stabilize the situation are successful in some countries and fail in others, yet, it is clear that each of them, regardless of the level of socio-economic significance and political influence, must act in the interests of their own state and therefore on the basis of economic nationalism.

With regard to Ukrainian peculiarities, without diminishing the positive effects of the principle of fiscal decentralization, state regulation of the relevant processes, and especially in atypical situations threatening the national economy, should be carried out in a centralized and coordinated manner. Redistribution of available (frankly insufficient) funds, introduction of effective tax tools, starting from preferences and ending with new reasonable payments with a clear mechanism for their collection and, most importantly, use - should become key tasks of public policy in Ukraine. The fiscal area, which covers the relevant revenues and expenditures of the state, should become a priority link in the formation of effective development strategies in terms of financial, social, economic, environmental, military security, etc. Ukraine should not lose its status as an independent and equitable player on a parity basis of partnership relations on the geopolitical and geoeconomic map of the world. One of the largest countries on the European continent, located in its central part, with a strong historical and cultural heritage, should not avoid the obligation to make individual informed decisions in the political, economic and social spheres, otherwise it is placed under the risk of being absorbed by other, more aggressive states without preservation of formal sovereignty. It is possible that while the world recovers from pandemic stress, Ukraine will use its own chances to reset and restore its state ambitions. The modern world is too vulnerable to unpredictable challenges, usually related to the functioning and life of humans themselves. The egocentric nature of its evolution acquires maximum advantages,

therefore, the rational distribution and redistribution of financial resources, directed towards development is impossible without effective differences. In order to effectively equalize fiscal asymmetries and maintain the socio-economic balance of the state, governments are forced to act based on the needs of their own citizens, yet, take into account the interests of other countries, sometimes even the remote ones. The change in the vector of world geoeconomic development must be shifted from the standpoint of competition towards cooperation and partnership, because today the world must consolidate to address mutual threats related to natural disasters, ecology, global warming, pandemic, etc., and not waste time on spreading terrorism, aggression, fake information, etc. Ukraine, which finds itself within the vortex of all the events, cannot stay aside from the existing problems, it must maximize its efforts to combat both the consequences and the causes of their occurrence, developing its own economic priorities, meeting social needs by balancing fiscal asymmetries.

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