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INSTITUTIONAL TRANSFORMATIONS OF THE PUBLIC FINANCE SYSTEM

Abstract. The article reveals the role of the public finance system in macroeconomic stability, regulation of economic processes, and improving the level and quality of life of the population. The directions of institutional transformations of the public finance system are determined. The authors disclose the provisions on improving the efficiency of public financial resources, improving public debt management tools, developing the institutional environment of public-private partnership, criteria for allocating public financial resources in the unfavorable dynamics of budget revenues. The share of public debt in the GDP of the EU countries is analyzed and estimated. The article proposes provisions to increase the effectiveness of public financial control and audit, improve the system of public forecasting to ensure timely implementation of adequate financial and budgetary measures and respond to the socio-economic situation in the country, strengthening the strategic nature of public financial and budgetary forecasts. It is substantiated that in the conditions of institutional transformations of formation of budgetary indicators, their architectonics should be carried out proceeding from necessity: optimization of expenses of budgets of various levels; acceptance of new expenditure commitments is possible only if the comparative assessment of their effectiveness is higher than the current commitments, taking into account the timing and level of available financial resources for their implementation; continuous analysis and evaluation of expenditure commitments to determine inefficient costs. The article identifies the importance in the current conditions of development of the public finance system of continuous assessment of fiscal risks to ensure the stability and balance of the budget system; ensuring a sufficient level of flexibility of budget expenditures based on the macroeconomic situation in the country; improving the regulatory and methodological support of the budget process.

Keywords: public finance, budget system, public debt, fiscal policy, economic growth.

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ІНСТИТУЦІЙНІ ПЕРЕТВОРЕННЯ СИСТЕМИ ДЕРЖАВНИХ ФІНАНСІВ

Анотація. Розкрито роль системи державних фінансів у забезпеченні макроекономічної стабільності, регулюванні економічних процесів та підвищення рівня і якості життя населення. Визначено напрями інституційних перетворень системи державних фінансів. Розкрито положення щодо підвищення ефективності використання державних фінансових ресурсів, удосконалення інструментів управління державним боргом, розвитку інституційного середовища державно-приватного партнерства, критеріїв розподілу державних фінансових ресурсів за несприятливої динаміки бюджетних надходжень. Здійснено аналіз та оцінку частки державного боргу у валовому внутрішньому продукті країн ЄС. Запропоновано положення щодо підвищення дієвості державного фінансового контролю та аудиту, удосконалення системи державного прогнозування з метою забезпечення своєчасного здійснення адекватних фінансово-бюджетних заходів і реагування на соціально-економічну ситуацію у країні, посилення стратегічного характеру державних фінансово-бюджетних прогнозів. Обґрунтовано, що в умовах інституційних перетворень формування бюджетних показників, їхньої архітекtonіки має здійснюватися виходячи з необхідності: оптимізації видаткової частини бюджетів різних рівнів; прийняття нових видаткових зобов'язань можливе, лише якщо порівняльна оцінка їхньої ефективності є вищою від поточних зобов'язань з урахуванням термінів і рівня наявних фінансових ресурсів для їх реалізації; постійного проведення аналізу та оцінки видаткових зобов'язань з метою визначення неефективних витрат. Визначено важливість у сучасних умовах розвитку системи державних фінансів здійснення постійної оцінки фіскальних ризиків для забезпечення стійкості, стабільності та збалансованості бюджетної системи; забезпечення достатнього рівня гнучкості бюджетних витрат виходячи із макроекономічної ситуації у країні; удосконалення нормативно-методичного забезпечення бюджетного процесу.

Ключові слова: державні фінанси, бюджетна система, державний борг, фіскальна політика, економічне зростання.

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Introduction. The public finance system plays an important role in macroeconomic stability and regulation of economic processes. Effective management of public financial resources is a basic condition for improving the level and quality of life of the population, achieving strategic goals of socio-economic development of the country. Institutional transformations necessitate improving the quality of public financial management, transparency, and accountability, providing stability and balance the budget system. This highlights the issue: improving the system of state strategic planning based on dynamic modeling of socio-economic processes to determine areas of development and management decisions in this area; improving the efficiency of distribution of public financial resources, in particular in terms of public investment; full implementation of the medium-term planning system in the budget process; This highlights the issues: improving the quality of public financial control and audit; changing approaches to budget architecture in terms of costs; implementation of measures to minimize fiscal risks, in particular for economic entities of the public sector of the economy, state guarantees. The components of the public finance system should be mutually consistent with each other and aimed at creating appropriate conditions for deepening the interaction between the state and society.

Research analysis and problem statement. Many scholars reveal approaches to the development of the public finance system and its impact on the socio-economic development of the country. Jonathan Gruber notes that over the past twenty years, the field of public finance has

undergone significant changes, the role of government regulation in stimulating economic processes in both theoretical and methodological research [1]. Dong-Hyun Kim, Yi-Chen Wu, Shu-Chin Linc believe that effective government regulation helps increase productivity and accelerate economic growth, while government regulation does not promote economic growth if it exceeds a certain level of state capital [2]. According to J. Keynes, to achieve effective demand requires government intervention through the tools of public finance [3]. According to a study by U. M. Bergman, M. M. Hutchison, and S. E. Hougaard Jensen, the stability of public finances depends on the soundness of fiscal rules. Currently, the applied fiscal rules in the EU countries help to reduce the structural primary deficit. At the same time, the level of efficiency of public administration increases [4]. Countries with tighter fiscal rules have a higher level of fiscal balance (lower level of budget deficit, interest rates on government bonds, etc.) [5]. Fiscal rules serve as a guide for public administration, which contributes to the sequence of formation and implementation of fiscal policy [6]. Fiscal rules help reduce the pro-cyclicality of fiscal policy, while good governance is insufficient to reduce the pro-cyclicality of fiscal policy. However, good governance combined with sound fiscal rules is a powerful combination that helps countercyclical policies respond to changes in GDP [7].

Given the legacy of previous studies, while important issues in terms of institutional reforms is to develop new approaches to the development of the public finance management system, assessment of its impact on the socio-economic development, creation and implementation of an effective fiscal policy, substantiation of its priority tasks taking into account globalization.

Accordingly, the purpose of this study is to disclose provisions for improving the public financial management system. This involves solving the following tasks: defining provisions for improving the efficiency of public financial resources; improvement of public debt management tools; substantiation of the directions of development of the institutional environment of public-private partnership.

Research results. The development of the public finance system is a dynamic institutional process, which consists in the implementation of structural transformations of its components to ensure the effective accumulation and distribution of public financial resources following the priorities of the socio-economic development of the country. Important components of the public finance system in both developed countries and emerging countries are budget system, which consists of the budgets of different levels; state trust funds; financial entities in the public sector; state and municipal debt; public financial institutions. At the same time, it is worth noting that in different countries the share of the public sector in the economy ranges from 5% to 60% of GDP.

Important tools that affect the effectiveness of the public finance system are public financial control and audit. According to the Lima Declaration of Guidelines for the Audit of Public Finances, “the introduction of control is an integral part of the management of public financial resources, which ensures the responsible and accountable nature of this management. In addition to checking the legality and regularity of financial management, the submission of financial statements by the supreme body of public financial control should audit the effectiveness of public spending, which aims to verify the efficiency and cost-effectiveness of public administration” [8].

Currently, both in developed countries and emerging countries, several regulations have been adopted, which determine the mechanism of internal and external public financial control and audit. Besides, many elements of public audit need to be developed in emerging countries. The most important task is to develop new approaches to prevent violations of compliance of fiscal legislation, raising the validity of evaluating the effectiveness of the use of public funds. Accordingly, the level of efficiency of public finance management in terms of institutional changes primarily depends on the efficient allocation and use of public financial resources, which updates the application of new approaches to the organization of state financial control and auditing, clarification of forms, objects, methods, and tools.

It is important to change the approaches to government forecasting to ensure the timely implementation of adequate financial and budgetary measures and respond to the socio-economic situation in the country. There is a need to strengthen the strategic nature of state financial and

budgetary forecasts. The effectiveness of the process of improving the management mechanisms of the public finance system, the development of the public strategic planning system, and the full introduction of medium-term planning focused on achieving specific results into the budget process depends on the realism of forecasts.

It is advisable to note that the medium-term budget planning, currently successfully used both in developed countries and in some emerging countries, providing an opportunity to stimulate economic growth, improve the efficiency of public debt management mechanism. In the case of medium-term budget planning, the budget for the next budget period is a component of the annually updated budget and is shifted by one year of the multi-year budget plan, which helps ensure consistency of fiscal policy and predictability of public financial resources. This approach allows the application of a clearly defined and transparent procedure for adjusting budgetary parameters following the objectives of the socio-economic development of the country, contributes to a more accurate prediction of the likely amount of public financial resources.

For full implementation in the budget process of medium-term planning important tasks are the development of realistic macroeconomic and budget forecasts; legislative legitimacy of financial and budgetary rules, according to which the development and implementation of medium-term budget plans will be carried out; substantiation of approaches to monitoring and estimating the amount of expenditure commitments in the medium term. The development of realistic macroeconomic and budget forecasts based on a set of sound and agreed assumptions will provide a solid basis for medium-term budget planning for both budget revenues and expenditures. When developing medium-term plans, it is important to determine the procedure for developing scenario conditions for the development of the budget system based on well-founded forecast indicators, mechanisms for their refinement and adjustment. To this end, there is an objective need to implement effective automation tools that will improve modern processes of financial and budgetary forecasting and planning, ensure information interaction of public administration and local government with public and private sector entities, citizens; development of economic and mathematical model of financial and budgetary planning, which takes into account indicators and trends of socio-economic development of the country, changes in legislation in the field of public finance and allows for factor analysis of deviations from actual indicators.

In the conditions of formation institutional changes of budget indicators, their architectonics should be based on the need: Optimization of expenditures of different levels and efficiency of public financial resources; acceptance of new expenditure commitments is possible only if the comparative assessment of their effectiveness is higher than the current commitments, taking into account the timing and level of available financial resources for their implementation; continuous analysis and evaluation of expenditure commitments to determine inefficient costs; substantiation of the limit indicators both in relation to the expenditure part of the budget in terms of economic and functional classification and in relation to the budget deficit and public debt; ensuring a sufficient level of flexibility of budget expenditures based on the macroeconomic situation in the country; substantiation of criteria for the allocation of public financial resources in clarifying the objectives of fiscal policy or in the case of optimization of budget expenditures at different levels with unfavorable dynamics of budget revenues; improving the regulatory and methodological support of the budget process; conducting a continuous assessment of fiscal risks to ensure the stability and balance of the budget system and their use in the budget planning process.

Given the transformational changes, it is advisable to pay close attention to capital investment to ensure the economic development of the country, to this end, it is advisable to develop the institutional environment of public-private partnership, increase investment policy and improve the decision-making mechanism for public capital investments and guarantees. In particular, currently in emerging countries, the costs of public capital investments are mostly determined separately from current expenditures, which does not allow to concentrate budget funds at a sufficient level on the priority tasks of the socio-economic development of the country. Based on the fact that capital investments have a strategic nature, investment and innovation programs will be more reasonable if they are integrated into medium-term budget planning. At the same time,

important tasks are to improve the capital expenditure management mechanism, revise the criteria for preliminary identification of investment projects, and their subsequent selection, based on the investment opportunities of the budget, the goals, and objectives of programs of socio-economic development of territories.

The development of the institutional environment of public-private partnership involves: defining a common approach to developing a mechanism for effective interaction between public administration, the private sector, and civil society institutions; substantiation of priority directions of this partnership and its features in separate branches of economy; the clear division of powers between the state administration and improve their institutional capacity for public-private partnership.

To ensure macroeconomic stability and create conditions for dynamic economic development in terms of institutional transformations, it is advisable to improve the tools of public debt management, its structure, repayment and servicing payments, justification of financial and economic security. In particular, in the context of institutional transformations, the share of public debt in GDP is growing in both developed countries and emerging countries. Among the surveyed countries, the smallest share of public debt in GDP is observed in Estonia, Luxembourg, Bulgaria, Romania, Latvia, and Lithuania. The largest share is observed in Greece, Italy, Belgium, Portugal, France (*Table*).

Table

The share of public debt in GDP, %

Country	2009—2011	2012—2014	2015—2017	2018—2019
EU (28 countries)	78,53	85,90	83,60	79,85
Belgium	101,33	105,77	103,93	99,20
Bulgaria	14,77	20,30	26,87	21,35
Czech Republic	36,93	43,87	37,17	31,70
Denmark	42,97	44,40	37,60	33,55
Germany	78,40	78,50	68,87	60,85
Estonia	6,63	10,20	9,83	8,40
Ireland	86,20	114,73	72,73	61,15
Greece	148,33	171,97	176,87	178,90
Spain	61,23	94,27	99,03	96,55
France	85,37	92,97	97,30	98,10
Croatia	56,97	78,67	80,97	73,95
Italy	118,50	131,47	134,73	134,80
Cyprus	58,87	97,83	101,60	98,05
Latvia	42,97	41,43	39,17	37,05
Lithuania	33,83	39,70	40,47	35,05
Luxembourg	18,43	22,80	21,47	21,55
Hungary	79,87	77,60	74,87	68,25
Malta	68,43	66,53	54,60	44,35
Netherlands	59,23	67,23	61,13	50,50
Austria	81,67	82,40	82,03	72,20
Poland	52,60	53,63	52,07	47,40
Portugal	100,80	131,10	129,60	119,85
Romania	28,47	37,93	36,73	34,95
Slovenia	39,77	67,97	78,47	68,25
Slovakia	40,30	53,33	51,73	48,70
Finland	45,57	56,53	62,70	59,50
Sweden	38,77	41,03	42,30	36,95
United Kingdom	72,67	84,53	86,63	85,55

Note: [9; 10].

To reduce the share of public debt in GDP, to establish its volume at an economically secure level, it is advisable to review the decision-making algorithm for attracting new government loans

and justify the procedure for their comprehensive examination. This will include assessment of borrowing costs, risks impact on the parameters of financial and economic security; development of a risk matrix for the management of public and guaranteed public debt; improving the existing institutional structure of public and municipal debt management.

Conclusions. Institutional transformations of the public finance system in a recession involve the adaptation of a set of mechanisms of financial and budgetary regulation to the conditions of the financial and economic environment, taking into account economic cyclicity, which will optimize the composition and structure of public financial resources to strengthen the impact of public finances development of countries. At the same time, institutional transformations of the public finance system should take place in stages, taking into account economic and socio-political factors with the implementation of prudential financial and budgetary policy. The proposed approaches to the transformation of the public finance system are based on the definition of provisions for improving the efficiency of public financial resources, improving public debt management tools, developing the institutional environment of public-private partnership.

Improving the efficiency of the public finance system in terms of institutional transformations necessitates the coordination of its components based on the development of public strategic planning and full implementation in the budget process of medium-term planning, transparency and realism of public financial resources, their reasonable allocation. The development of the public finance system should be based on the principles of systematic research of financial and economic phenomena and processes. Important is the realism of the expected macroeconomic parameters underlying state planning. Decision-making on the management of public financial resources should be based on the results of monitoring and evaluation of the effectiveness and efficiency of government programs, investment, and innovation projects, as well as based on strategic modeling of socio-economic processes. The importance of capital investments to ensure the socio-economic development of the country and the limited public financial resources raise the issue of developing new approaches to public investment planning, establishing clear criteria for pre-identification of investment and innovation projects, and their further selection, which will focus resources level of economic return.

The importance of further research on these issues is due to the feasibility of forming and implementing public financial policy, which will meet both the tactical and strategic objectives of socio-economic development of developed countries and emerging countries.

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