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## **BUDGET BALANCING IN THE STATE STABILIZATION POLICY CONTEXT**

The article reveals the essence of the process of state budget balancing. The key problems connected with the state budget deficit are investigated. The state and dynamics of the Ukraine state budget are considered. The ways of overcoming the consequences of state budget imbalances are analyzed. It is proved that the fundamental measures to improve the balancing of the state budget of Ukraine include: improvement of legal support of the budget process, improving the transfer policy and improving the effectiveness of transfer payments, the rejection of the deficit financing concept, counteraction to the "dirty" money laundering, the introduction of strict regime of the budgetary funds economy etc.

**Key words:** stabilization policy, state budget, budget deficit, fiscal rules, budget balance, public debt, fiscal policy.

**Statement of the problem.** Structure and dynamics of the state budget is the main indicator of the financial condition of any state. Permanent deficit of the state budget creates problems associated with the inability of the state to ensure the effective implementation of its functions, as well as loss of confidence of international credit institutions and a further rise in the borrowed funds cost.

Today the majority of countries in the world have a deficiency of the state budget, and in Ukraine it has become a chronic problem that determines the relevance of the study.

**Analysis of recent researches and publications.** The issues of formation and maintenance of the stabilization policy of the state, the development of effective programs for the state budget balancing, the use of appropriate instrumentation are very relevant and widely reported in domestic and foreign scientific works. Recently, the problem of overcoming the budget deficit has become widespread and is in the research interests of a significant number of scientists. Among the representatives of western and Ukrainian economic thought, which investigated the issue, it should be

noted Yu. Petlenko and Ye. Mylovanova [1], John Stiglitz [2], A. Mashko [3], A. Danilenko [4], L. Balastik [6], V. Demianyshyn [7] A. Kolesnik [8] and others.

While there is no single opinion regarding the extent and the urgency of overcoming the state budget deficit, but researchers offered various ways and methods of dealing with this phenomenon. Also there is a tendency to a more thorough analysis of this problem in the aspect of deepening of the global economy debt processes in general and Ukraine in particular.

**The purpose** of this article is to investigate the influence of deficit of the state budget for the implementation of the stabilization policy.

*The main objectives* of the study are:

- disclosure of such economic phenomena as the state budget deficit;
- highlight the key problems associated with the deficit of the state budget;
- review of the status and dynamics of the Ukraine state budget;
- finding ways to overcome the unbalance of the state budget and elimination of the consequences of this phenomenon.

*The research object* is the provision of effective stabilization policy as a means of overcoming the negative processes and phenomena in the economy.

*The research subject* is the analysis of the budget deficit in the context of its impact on the implementation of government macroeconomic stabilization policy.

**Results.** State budget as an economic category reflects the real economic relations between the state and other economic actors about the accumulation and use of centralized cash resources of the country, is designed to perform the functions of the state by the distribution and redistribution of GDP.

The state budget as the main financial plan of the state is the monetary expression of the income and expenditure of the state for a certain period of time. The formation of the financial resources reflected in the budget revenues and their use – in its costs.

Budget revenues are formed by tax and non-tax and other revenues, which are made on an irrevocable basis, including transfers, gifts, grants, etc. Budget expenditures reflect the funds allocated for the financing of planned public programs and activities, except for funds designated for repayment of the principal amount of the state debt and refund of overpaid to the budget amounts.

Depending on the balance between revenues and expenditures the budget may be balanced or unbalanced, that is to have a deficit or surplus. Budget deficit occurs when the budget revenues do not cover its spending, the budget surplus is when revenues exceed the budget expenses.

Since the government, like everyone, has to pay its bills, it is necessary to reckon with budget constraints. There are two ways by which you can pay for your expenses: you can increase revenues or borrow money. Governments can also use

these two ways: they can increase revenues by raising taxes, or can deepen debt, issuing government bonds. Unlike other economic agents, the government has a third way – can issue money and use them to pay for goods and services that it buys.

The budget deficit is the excess of budget expenditures over budget revenues.

If for a certain fiscal year budget revenues exceed expenses, then the amount of the difference there is a budget surplus, or excess.

The national debt is the total amount of debts of the state. The classic definition of public debt refers to government debt, excluding the debt of the region budgets, cities and other administrative-territorial units. But in some definitions, but the debt of the government, state debt includes the debt of the nationalized enterprises, as well as the amount of local budgets debt. Then, perhaps, more appropriate seems the term “national debt” instead of “public debt”.

Also determine net national debt, which is equal to the difference between total national debt and domestic debt.

The government balancing the state budget by the fiscal stabilization policy. So, the Ukrainian scientist Yu. Petlenko identifies the following features of the state fiscal policy [1, p. 29]:

1) the most important instrument of fiscal policy is the budget deficit as a result of the state financial activities consequently to its economic and social development;

2) financial activity of the state regarding the regulation of the budget deficit is manifested in interference in the economy, on the one hand through the implementation of the policy of budget revenues formation, on the other hand, as a mechanism to stimulate activities of economic entities;

3) state intervention in the economy affects macroeconomic equilibrium – the aggregate demand and supply, and also aim to reduce the negative impact of economic cycles on the stability of business activity.

At the same time, J. Stiglitz explored the fiscal policy through tax burden and the optimal structure of the tax system, which aims to improve the welfare of the population [2, p. 27-28].

Discretionary fiscal policy, which aims at effective use of public budget, always solves a difficult alternative: stabilization of the economy or balancing of the state budget. This becomes particularly acute if the fall in production caused by a deficiency of aggregate demand. On the one hand, to stop the decline in production, it is necessary to apply a stimulating fiscal policy. On the other hand, it will increase the budget balance, that is, sends the budget to the deficit.

Budget balancing can be carried out in the following ways:

1. Annually balanced budget.

The annual policy balancing the budget enhances the action of economic cycles, that is pro-cyclical. For example, unemployment is increasing (in the

recession) -> incomes decline, therefore -> decreases the tax base -> reduced budget revenues. In addition, growing budget expenditures (assistance to the unemployed, and the like) -> Have a deficit budget. If in these circumstances balancing the budget to prevent a deficit, -> will be necessary to increase taxes and/or reduce costs -> to worsen the already depressed state of the economy.

If on the contrary, have full employment and inflation, -> increases the tax base and budget costs are reduced -> occurs budget surplus. In these circumstances, balancing the budget will require reducing taxes and/or increasing costs -> and this will increase the inflation.

## 2. Cyclically balanced budget.

Cyclic balancing of the budget involves the simultaneous implementation of counter-cyclical government programs and balancing the budget, but not on an annual basis.

During the recession, the government lowers taxes and increases spending, while deliberately aggravating the budget deficit.

During ascent, the government acts on the contrary: it increases taxes and reduces spending, while deliberately increase its budget surplus.

But overall for the whole period of the economic cycle observed the budget balancing. However, the main problem is that economic cycles are not uniform in duration and depth. In addition, development stage and decline stage do not always pass for the same duration of time.

## 3. Functional finance.

Supporters of the functional finance system are seeking a balanced economy. The goal of a balanced budget pales into insignificance.

In their opinion, the state budget is not a matter of stabilization. The main thing is the economy balance. And it does not matter if this achieved by using the budget surplus or budget deficit. The government has a large, if not infinite, possibilities to finance the budget deficit.

Based on the concept of functional finance, the current fiscal policy allows the possibility of using an unbalanced budget. First of all it concerns the budget deficit. If the budget deficit is a necessary condition for the stabilization of the economy, on the one hand, the government consciously creating it; on the other, it provides for certain sources of funding.

The choice of rational relation between the individual sources of funding is an acute problem of fiscal policy. It is commonly accepted that the greatest threat to the economy is monetary emission. Its use as a source of funding budget deficits generates uncontrolled inflation, undermines incentives for long-term investment, devalues the savings of households, reproduce the budget deficit.

To limit monetary emission in many countries, the Constitution stipulates the independence of the national issuing banks from the government. Furthermore, the amount of monetary emission is governed by the Parliament.

Painless sources of budget deficit financing do not exist. Therefore, effective can be only a prudent fiscal policy, according to which the state must continually adjust its costs in response to changes in income, and government loans be used only if they have the potential to create sources for their return.

It is essential that the share of the national debt owned by foreigners was moderate. If it is very large, for the country significantly increases the risk of default and are washed out financial resources of the national economy.

The global financial science ambiguously evaluate the effect of budget deficit on socioeconomic processes in society. Therefore, considering the socio-economic consequences of the budget deficit, it is necessary to consider various factors and ways of influence of the deficit on the economy, social sphere and social protection of population taking into account specific situations. Considering these approaches, the consequences can be positive, negative or absent.

What about the positive influence of budget deficit on the economy wrote J. M. Keynes. Developing the Keynes theory, neokeynesians argued about the need for a balanced budget in time, i.e. need to replace budget deficits during wars and crises by the active budget during economic upswings. Consequently, the budget deficit was considered an anti-crisis factor. "After World War II, Keynesian theory was used in almost all industrialized countries, with the result that the budget deficit became an important fiscal policy instrument, was used during the solution of diverse problems and took an important place in the theory of economic growth and cyclical theories of economic regulation" [3, p. 156].

Today the vast majority of theorists and practitioners of the world are inclined to think that the budget deficit has a negative impact on the socio-economic processes in society. The budget deficit is a cause of reduced efficiency of the tax system, weakening incentives to work, undermining the confidence of members of society in the future.

Since stabilization policy is reduced to the manipulation of the state budget and changes in the money supply, its implementation directly affects the size of the budget deficit and public debt.

The state budget deficit can be financed either through its monetization, or for the account of the loan from the population or from the rest of the world.

Because the monetization of public deficit means an increase in the money supply, contributes to the growth of national income, under certain conditions, this can eliminate the budget deficit.

After the exhaustion of the possibilities of reducing budget deficit through monetization of the public debt it is growing by the size of the budget deficit this year.

With a large public debt expenses on its maintenance that is the primary expenditure of the state budget significantly limit the ability of the government in fulfilling its core functions and in the conduct of stabilization policy.

Payments on the public debt may be the main or even the sole cause of the budget deficit, creating a vicious circle: state budget deficit → increase in the national debt → increase in debt service costs → state budget deficit.

The general state budget deficit reduced by the amount of interest payments on the national debt, called the primary deficit. In countries with large public debt, in the absence of the primary deficit often there is a general deficit of the state budget. This is the situation in Russia in 1999-2000.

The government in its activity is committed to a balanced allocation of costs and revenues. In order to achieve this, you need to have a clearly established system of budget management, which could ensure the efficient use of funds.

The budget deficit is a financial phenomenon, not necessarily related to the category of extraordinary events. In today's world no state, which in certain periods of its history are not experienced with the budget deficit.

In Ukrainian economic science, until recently, prevailed a purely negative view on the budget deficit. It was seen as a very negative feature typical for the developed countries budgets. Extremely negative consequences (financial, economic, social) of huge budget deficits require the implementation of a system of measures on its overcoming, carrying out an active fiscal policy, the use of internationally accepted methods of dealing with the deficit. Striving for balancing budget income and expenses by balancing the state budget today is one of the main tasks for the government.

In most countries of the world, including Ukraine, budget deficits became chronic, which contributes to the deepening of financial instability. They give impetus to inflation and diverts significant amounts of financial resources from the private sector. "Inability to control and withdrawal of the question of the budget scarcity constraint are the cause of the deterioration of financial discipline in the country and deepening of the financial irresponsibility of governments" [4, p. 95].

Below we can see the dynamics of the Ukraine budget deficit for 2008-2016 years (table 1):

The dynamics of the Ukraine state budget in 2008 – 2016 years

Year	Revenue		Expenditure		Lending		Balance	
	mln UAH	% GDP	mln UAH	% GDP	mln UAH	% GDP	mln UAH	% GDP
2008	231686,3	24.44%	241454,5	25.47%	2732,5	0.29%	-12500,7	-1.32%
2009	209700,3	22.96%	242437,2	26.54%	2780,3	0.30%	-35517,2	-3.89%
2010	240615,2	22.23%	303588,7	28.04%	1292,0	0.12%	-64265,5	-5.94%
2011	314616,9	23.90%	333459,5	25.33%	4715,0	0.36%	-23557,6	-1.79%
2012	346054,0	24.56%	395681,5	28.08%	3817,7	0.27%	-53445,2	-3.79%
2013	339180,3	23.31%	403403,2	27.73%	484,7	0.03%	-64707,6	-4.45%
2014	357084,2	22.79%	430217,8	27.46%	4919,3	0.31%	-78052,8	-4.98%
2015	534694,8	27.01%	576911,4	29.14%	2950,9	0.15%	-45167,5	-2.28%
2016	616274,8	25.86%	684743,4	28.73%	1661,6	0.07%	-70130,2	-2.94%

Source: [5].

The rapid elimination of the budget deficit, not accompanied by real steps towards stabilization of the economy, will only complicate the already difficult financial situation in the country, creates unnecessary obstacles in the way of decent exit from the crisis.

"The reason of financial policy inefficiency in Ukraine during the whole period of independence is the lack of clearly defined and articulated goals of social development, goals and strategic objectives for the long term, which led to uncertainty of role of the state, especially in relation to the content and instruments of this policy" [6, p. 22]. An important step in the struggle to reduce the budget deficit in Ukraine is to develop an optimal model of fiscal rules, which would meet the criteria of clarity of definition, transparency, adequacy, consistency, simplicity, flexibility, mandatory execution, and support from other areas of economic policy.

According to fiscal rules each year in the process of drafting, review, approval and execution of the budget, it is advisable to carry out complex tactical actions associated with balancing the budget, reducing the budget deficit.

Deficit financing of national economy can be justified only under the condition that the rate of GDP growth will outpace the growth in state and local budgets and the costs of servicing the public debt. In the world practice one of the most important methods of dealing with the deficit is the fiscal rules have been widely used in connection with the trend towards decentralization of the budget system in order to avoid macroeconomic and financial instability. Fiscal rules depends on the needs of the budget system in resources. They are severely restricted at all levels of the budget process and institutional characteristics of the country. They acquire the shape of legislative norms, budget process procedures and marginal indicators [7, p. 122]:

- *The balanced budget rules.* Among the rules of a balanced budget the central place is occupied by the "golden rule" of public finance, which implies a balanced

budget of revenues and expenditures, i.e. the budget deficit may not exceed the total volume of state investments (Japan, Germany, USA), the cyclical budget balance (Denmark, Netherlands, Switzerland) and setting a limit on the size ratio of budget deficit to GDP of the country (European Union countries).

- *Regulations on state borrowing.* Among the rules regarding restrictions and prohibitions of government borrowing are the following: the prohibition of internal state borrowings (used in countries with underdeveloped financial markets, for example, in Indonesia), the prohibition of government borrowing from the Central Bank (the European Union, Japan, USA) and size limits of government borrowing to last year's volumes of the countries budget deficit (Brazil, Egypt, Morocco).

- *Debt and reserve rules.* Debt rules require the establishment of limits on the size of the ratio of public debt to GDP, and the reserve — associated with the formation of special funds to prevent financial crises, when the need arises to support the social benefits of a reduction in revenue of the state budget.

If fiscal policy is focused on extending the state sector of the national economy, it should increase fiscal spending and taxes, creating a stimulant effect. When fiscal policy is aimed at supporting the private sector, it should reduce taxes and limit budget spending, which is fast enough to reduce inflation.

In addition to fiscal rules in the preparation and execution of the state budget, it is advisable to carry out complex tactical actions related to the reduction of budget deficits [8, p. 108]:

- improvement of legal support of the budget process, make the necessary changes in the laws and legal acts which would ensure the balancing of the state budget at all stages of the budget process;

- improvement of the transfer policy and improving the effectiveness of transfer payments, in particular the reduction of payments to unproductive branches of national economy;

- the rejection of the deficit financing concept (a situation in which expenses exceed planned revenues funded from additional received income and attracted budgetary sources);

- counteraction to "dirty" money laundering, better state program support of the national economy deshadowing and strengthening of managers responsibility at all levels of government for misuse of budgetary funds;

- the introduction of strict regime of budgetary funds economy, in particular reducing the cost of public administration, elimination of unjustified and ineffective economic and social benefits and the like.

**Conclusions and recommendations for further research.** In summary, we can conclude that the impact of budgetary processes on the economic situation in the country is a fundamental milestone in the definition and conduct of macroeconomic



stabilization policy. The classic lines of reducing the budget deficit is to increase revenue and decrease expenditure, internal and external borrowing. However, you should consider the positive and negative aspects of each of them and to produce in each of these tools effective measures to stimulate the reduction of the budget deficit.

The fundamental measures to improve the balancing of the Ukraine state budget include the following: improvement of legal support of the budget process, the use of advanced technologies, budget planning and management, improving transfer policy and improving the effectiveness of transfer payments, finding the reserves to increase the revenue of the state budget, the rejection of the deficit financing concept, counteraction to the "dirty" money laundering, the introduction of strict regime of budgetary funds economy and the like.

Chronic state budget deficit is a significant threat to the economy, because it delays the financial resources of the state for the servicing and repayment of public debt. On the other hand, it requires a fixed financing of a certain amount of government spending to maintain the priority sectors of the economy and the target level of employment, even if it leads to the budget deficit deepening. The search for optimal strategies for balancing the budget under these conditions is the basis for further research.

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**Збалансування бюджету в контексті стабілізаційної політики держави**

У статті розкрито сутність процесу збалансування державного бюджету. Досліджені ключові проблеми, пов'язані із дефіцитом державного бюджету. Розглянуті стан та динаміка державного бюджету України. Проаналізовані шляхи подолання наслідків розбалансування бюджету держави. Обґрунтовано, що до основоположних заходів покращення процесу збалансування державного бюджету України можна віднести: удосконалення нормативно-правового забезпечення бюджетного процесу, удосконалення трансфертної політики та підвищення ефективності трансфертних платежів, відмова від концепції дефіцитного фінансування, протидія відмиванню «брудних» грошей, запровадження жорсткого режиму економії бюджетних коштів тощо.

**Ключові слова:** стабілізаційна політика, державний бюджет, дефіцит бюджету, фіскальні правила, збалансованість бюджету, державний борг, фіскальна політика.

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**Сбалансирование бюджета в контексте стабилизационной политики государства**

В статье раскрыта сущность процесса сбалансирования государственного бюджета. Исследованы ключевые проблемы, связанные с дефицитом государственного бюджета. Рассмотрены состояние и динамика государственного бюджета Украины. Проанализированы пути преодоления последствий разбалансировки бюджета государства. Обосновано, что к основополагающим мероприятиям по улучшению процесса сбалансирования государственного бюджета Украины можно отнести: усовершенствование нормативно-правового обеспечения бюджетного процесса, усовершенствование трансфертной политики и повышение эффективности трансфертных платежей, отказ от концепции дефицитного финансирования, противодействие отмыванию «грязных» денег, введение жесткого режима экономии бюджетных средств и т.д.

**Ключевые слова:** стабилизационная политика, государственный бюджет, дефицит бюджета, фискальные правила, сбалансированность бюджета, государственный долг, фискальная политика.