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Directions of expansion fiscal space in terms of financial instability

Annotation

The paper identifies substantial reasons, the principles, conditions and institutional mechanisms for expanding fiscal space as a reflection of the objective need for development and modernization of the financial system of Ukraine in the European integration. The basic directions of expanding fiscal space in the context of revenues based on innovations in tax legislation. By applying institutional approach, theoretical principles and practical recommendations to improve the sustainability of public finances in the process of expanding the fiscal space are grounded. The research outlines the political and institutional changes that can help expand the fiscal space, particularly as a result of administrative reform with the reduction of wasteful expenditure, tax reform, which has a stimulating effect, fiscal reform, which introduces new fiscal "rules". Attention is paid to the formation of fiscal space in Ukraine to macroeconomic stabilization and economic reform for economic growth. It is proved that due to the expansion of fiscal space in national economies new approaches to unification of formal and informal regulatory rules should be implemented both in scientific and in economic aspects.

Keywords

fiscal space, public finance, sustainability of public finances, fiscal policies, investments, institutional mechanism

1 Formulation of the problem

As was shown in the results of the study of the expansion of fiscal space in unstable financial systems, the path to the EU integration vector is through the use of flexible approaches to forming strategic imperatives, a combination of traditional and specific measures of fiscal policy, the definition of clear time frame in which these measures will maintain efficiency, changing the tools of fiscal policy according to changes in its space.

The concept of fiscal space is also important in terms of justification of synergistic effects of financial and management theories to find successful conclusions in scientific research. The limits of fiscal space and problems of its regulation were formulated by experts of the International Monetary Fund, and later - the World Bank in connection with the search for ways to increase financial resources (both internal and external) to facilitate the development objectives of countries with low GDP per capita and countries with emerging market. The development of functional and organizational subsystems of the Institute of Public Management in synchronous measurement will help improve its quality. This is particularly important in the decision-making situations with a particular combination of time of political and economic cycles when state supplies priorities without changing the logical sequence under the influence engagement teams with different goals and interests. In terms of the aggregate management operations within certain limits, the word "space" makes it possible to emphasize the concept of fiscal space for effective management of increasing the stability of public finances by the variety of options interaction of fiscal policy.

Thus, the concept of "fiscal space" originates not in the fiscal theory, but rather from the needs of the changing role of public finance in the conditions of global transformations.

2 Analysis of recent research and publications

The problem of stabilization and reduction public debt, which is one of the central problems of macroeconomic policies, especially exacerbated in

the current environment. In such a situation, the developed European countries began an urgent debate to expand fiscal space as a specific type of economic policies aimed at reducing the budget deficit and stabilizing and reducing public debt in the long run.

In the economic literature, fiscal space expansion (fiscal space) in terms of financial instability is paid significant attention and are general theoretical leakages primarily due to the evolution of concepts of public finance and fiscal policy, as reflected in the work of John. Akerlof, E. Atkinson, A. Bahnayi, R. Barro, John. Buchanan, Wagner, K. Wicksell, K. Arrow, F. Modigliani, R. Musgrave, Oleona M., R. Perotti, S. Rebelo, C. Rohosrera, N. Roubini, G. Tabellini, V. Tanzi, John. Tobin et al.

Among special works of national scholars on the problems of stability of public finances in the context of expanding fiscal space it is necessary to distinguish the works of T. Efimenko, S. Hasanova, Vladimir Kudryashov, V. Kozyuka, R. Balakin, R. Kopycha, L. Tarangul and others. However, the content and criteria of sustainability of public finances, mechanisms and conditions for expanding fiscal space are treated by both foreign and domestic scientists as very controversial, ranging from identification of stability of fiscal policy, fiscal consolidation to debt stability. The above mentioned makes it necessary to systematize theoretical approaches by the definition and conceptual foundations for a fiscal space and conditions for its expansion allowing for the national economy and public finances.

3 The purpose of the article

The purpose is to justify the theoretical base of expansion of fiscal space areas on the basis of public finances, their state in Ukraine during the economic reforms.

4 Main findings

Analysis of fiscal space - is, above all, the evaluation of areas of research that will contribute to their further development aimed at empowering, obtaining and using additional budgetary resources to achieve these

goals by Governments, in particular through ensuring sustainability of public finances.

Adequacy of assessment of fiscal space, particularly in the field of crisis management of budget process, allows within the parameters of sustainability in the medium and long term to determine the presence or absence of budgetary provision to raise additional funds for the purpose of economic development. The management problem of expanding fiscal space arises primarily when revenue is sufficient only to cover operating costs at the needs of "survival", and the government is faced with considerable difficulties in servicing budget deficit and does not have resources to invest in development projects. Limitations in domestic demand, underdevelopment of financial markets encourage to expand fiscal space through external borrowing, which are used primarily to finance the negative budget balance caused by consumption expenditure, rather than long-term investments. This leads to the growth of foreign debt, the cost of maintenance despite the fact that the fiscal pressure in the next budget period is not reduced, but increased. Accordingly, the risk of unsustainable financial situation is increasing, inflation surges, failure to service debt, the likelihood of default is increasing. This approach reduces the area of crisis management in the framework of the budget process where the potential tax is implemented solely in quantitative estimates forming the revenue part of the budget.

Under the traditional approach, a prerequisite for expanding fiscal space is to ensure the handling of process of macroeconomic sustainability of public finances by the government, achieving some concrete progress in implementation of well-defined and clear public objectives of fiscal policy, restoration of internal and external confidence in the financial institutions of the country, its stability and liquidity. Thus, the problem of expanding fiscal space shows, as a rule, realizing the need to enhance the rigidity of fiscal policy. The use of measures to improve the sustainability of public finances should be value criteria. To this end, governments in the medium and long term time program implemented significant increase in the budget balance programs.

The problem of fiscal space becomes an entirely different context in the circumstances where the government creates fiscal targets in a favourable macroeconomic and institutional environment, conducts a balanced fiscal policy in the short term. It is important to create fiscal space for the increase of budget expenditures contributing to factors of long-term growth (quality of human capital, science, technology, innovation), to balance social justice regarding present and future generations (creation of sovereign wealth funds, funds of the national welfare, pension funds, and social insurance structural reforms, regional alignment, etc.). However, the regulation of fiscal space to attract adequate financial (budget) resources for certain terms should be made in compliance with the restrictions under the parameters of financial and fiscal security. Deviations from the criterion limit values are not allowed despite the fact that in this case additional resources are created to increase budget expenditures that promote long-term growth factors: the quality of human capital, science, technology, innovation [7].

The problem of expanding fiscal space arises primarily when revenue is only enough to cover current expenditures at the needs of "survival", and the government faces significant difficulties in financing the budget deficit and does not have resources to invest in development projects. Limitations in domestic demand, underdevelopment of financial markets encouraged to expand fiscal space through external borrowing, which are used primarily to finance the budget deficit caused by consumer spending rather than spending development. This leads to an increase in foreign debt, the cost of maintenance, with the fiscal stress in the next budget period not being reduced, but increased. Accordingly, the risk of unstable financial condition is enhanced, inflationary bursts, government's failure to service debt, the likelihood of default is increasing.

To expand the fiscal space governments in countries with low or middle-income countries usually use, external grants (aid). The first phase - is mostly grants non-governmental charity organizations, external grants to individual governments, technical assistance. The second are loans from international financial organizations, accompanied by internal macroeconomic stabilization measures agreed with the IMF. In the third phase, with renewed signs of macroeconomic stabilization and prerequisites for economic growth, there are possibilities for external borrowing on financial markets, interventions to increase revenues, changes in priorities and gradual rationalization of expenditures, increasing the share of domestic debt in total public debt.

Accordingly, fiscal space study at their first stage have been linked to possible ways to attract foreign financial assistance to countries with low income to provide essential social standards, modernization of public administration institutions.

Later research methodology of fiscal space was used for countries with emerging market, especially in Eastern Europe (including Ukraine) and Central Asia. These countries faced a common problem of economic growth against the backdrop of fiscal instability, budget deficits and large size of the public sector, weak public administration institutions [2].

J. Oster, A. Ghosh, J. Kim and M. Sidekick offered to determine fiscal space in 23 developed countries as the difference between the current level of public debt and its threshold level on the basis of "historical experience" of fiscal adjustment in a particular country. One of the key issues facing the modern globalized economy is concerned with the possibilities for fiscal manoeuvre country - the issue of fiscal space - and therefore the extent to which adjustments in fiscal policy needed to achieve or maintain debt sustainability [2].

Thus, the main internal threats to the stability of public finances is, in fact, fiscal imbalances space, which caused the formation of budget expenditures, increased debt burden, problems of intergovernmental relations, a low level of fiscal discipline. Of course, the threats that exist in other elements of the financial sector, violate the sustainability of public finances and influence the measures of fiscal consolidation. The external threats to fiscal consolidation we refer globalization crisis of economic processes, excessive consumption and the use of credit, leading to growth of external debt, a significant negative foreign trade balance, lack of regulation of foreign capital inflows, falling stock market indices around the world.

Considering the fiscal space expansion strategy in terms of European integration vector, it is advisable to pay attention to quite significant differences in dynamics of expanding fiscal space in EU countries.

In the post-crisis fiscal policy in the EU is primarily aimed at solving problems that arise in the process of expanding the fiscal space of the Union as a whole. This not only takes into account the peculiarities of each state fiscal space, but also introduced institutional mechanisms of approximation of the norms and guidelines of the EU. Thus, coordination of fiscal policies towards achieving common goals is enhanced and defined as "a deviation corridor" in the expanded fiscal space in some countries.

National fiscal space reflects a set of rules, procedures and institutions that shape fiscal policy at national level. At the same time they provide pan European requirements and recommendations aimed at improving fiscal discipline and maintaining the stability of public finances in each country.

The most important requirements for expanding fiscal space states are: ensuring fiscal efficiency, the introduction of mandatory fiscal rules, effective medium-term budget planning, budget coordination of distinctions between different levels of government, the formation of the institute of independent fiscal advisers, ensuring long-term fiscal statistics and effective budget monitoring impartial macroeconomic and budget forecasting [6].

Expanding fiscal space in the post-crisis period is aimed at increasing in the revenue base of general government and/or reducing government spending. At the same time tax reforms are carried out and new mechanisms for financing the budget deficit (from the direction of attracting non-monetary resources) are introduced. Of particular importance for the economic crisis become limiting quasi-fiscal operations, including financial support from state banks. Also, domestic borrowing to finance the budget deficit is expanding, but not by attracting credits (direct or indirect) and the use of the mechanisms of government bonds. The important issue is the financing of fiscal imbalances from the proceeds of privatization. Do not rule out the possibilities of using foreign investment [5].

Measures towards expansion of fiscal space (within the objectives of fiscal policy) aimed to reduce costs, are considered a more appropriate mechanism compared to the model, which provides for reforming the tax system. Only if the proportion of taxes to GDP ratio is low, the last option is considered as acceptable. Reduced costs, though, are preferred because such measures are usually accompanied by reforms aimed at improving the efficiency of public services. However, it is often believed that changes to the tax system suggest efforts to stop structural reforms [1].

The reasons for expanding fiscal space in the EU in the post-crisis period is, on the one hand, failure to significantly reduce government spending, and on the other hand - narrowed revenue base. These phenomena are explained by many factors. Firstly, increased expenditures (on conditions for access to the use of debt funds) were possible, even at the lower level of revenue. Secondly, the expansion mechanisms of revenues (through changes to the tax system) become a more complicated way of funding compared to the involvement of resource allocation by government

debt. In addition, at the early stages of the post-crisis period, the possibility of increased revenues was limited by relatively low rates of economic growth in the EU and the introduction of more stringent tax regimes would be the factor of its suppression.

About one third of the Member States have introduced reforms in the direction of displacement from taxation of labour to the use of the tax base, which is less damaging to economic growth. In such cases, reducing the burden on labour combined with an increase in consumption taxes, property expansion and environmental components [4].

According to foreign experts, in the last five years in Europe the trend towards increasing the tax burden was observed. Governments have tried to use it to reduce budget deficits. But now in many countries instead of further increased tax, it began to decrease. As a result, the euro area level taxes relative to GDP in 2013 were stabilized and began to decline. Reducing the tax burden is aimed at accelerating economic growth [3].

Construction of methodological principles of fiscal space for further research primarily requires systematic study of institutional change both globally and nationally. Because of the diversified nature of economic environment, interaction of fiscal space components should be considered in the context of a combination of different concepts, since none of them allows you to define a set of restrictions on the macro and micro level, formal and informal motives in the behaviour of economic agents, factors of institutional evolution, etc. The stability of the main signs of economic rules and regulations is conditioned by dependence on the characteristics of the previous dynamic changes within the basic institutions of society. Within this kind of matrix, ratios measuring a range of possible trajectories of the further development of all components of the institutional environment are changing. The degree of conservativeness or innovativeness of fiscal rules depends on the particular economic and political cycles.

Evolution of fiscal space occurs simultaneously with updating of other institutional systems. For example, the interaction of fiscal and monetary policy measures within the stabilization of public finances in the crisis involves community organization and implementation of protective mechanisms against shocks in a dynamic environment. Fiscal space as a system of institutions is an innovative mechanism. It performs the function of information, at the same time norms and rules are being established, formal and informal economic activity and information about restrictions in various forms of the likelihood of the actions of some economic entities, creating opportunities for conscious decisions by other subjects.

In our opinion, the main factors are the evolution of fiscal space force changes in the relative prices of economic resources, generating demand for new institutions within which the efficiency of resource use may increase. However, the dynamics of fiscal rules by D. North can be justified by the features of the political processes of the market and the volume of transaction costs.

5 Conclusions

Summarizing, we can conclude that considering the

fiscal space expansion strategy in terms of the European integration vector and uncertainty of public finances, principles and challenges of international fiscal adjustment, it is appropriate to refer to the experience of the developed countries whose economies form a support structure of a modern system of global economic relations. In these countries, the concept of "effective government" that provides reasonable concerted action of the central executive authorities was embodied to expand fiscal space. It was the efforts of their governments, who have initiated legal international coordination of fiscal policy, contributed to the formation of international tax law, within which many national categories have been unified standards

and taxation.

In Ukraine formation of fiscal space is in two main interrelated aspects:

- to ensure the sustainability of public finances;
- wider opportunities to obtain and use additional budgetary resources to achieve the goals set by the Government, particularly in the area of fiscal adjustment.

Attempts to expand fiscal space in the 2014-2015 biennium by massive external borrowing has led to a rapid increase in public and publicly guaranteed debt, increase in the budget deficit, and budget expenditures on its maintenance.

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