

*Lobodina Z.M.,
PhD in Economics, Associate Professor,
Department of Finance named after S.I. Yuriy,
Ternopil National Economic University*

MECHANISM OF BUDGET FUNDS SPENDING IN THE CONTEXT OF THE SOCIO-ECONOMIC DEVELOPMENT OF THE STATE

Summary. The paper deals with the theoretical and practical principles of functioning of the mechanism of public budget spending. A scientific approach to interpreting the meanings of the terms: «budget funds spending» and «mechanism of budget funds spending» is proposed. Methods, forms, tools and instruments of the mechanism of budget funds spending are determined. The main problems of the budget funds management are highlighted. This allowed to determine the ways of improving the public budget policy in the context of increasing the budgetary provision for the execution of the state functions.

Keywords: budget funds, mechanism of budget funds spending, budget expenditures, budget outlays, state functions.

Introduction. An important prerequisite for the socio-economic development of Ukraine is the formation of the amount of budget funds, required for execution of the state functions, and their effective use. However, under the conditions of the financial crisis, intensified by military aggression in eastern Ukraine, a high level of the economy shadowing, public authorities corruption, inefficient public management and the antagonism between the unlimited growth of social needs and the limited resources, it is increasingly difficult to achieve specified goals. Thus, the search for efficient financial methods, forms, tools and instruments of the mechanism for implementing fiscal policy, related to the use of centralized monetary funds, is still relevant today.

Analysis and statement of the research problem. Among the important scientific works, dealing with the problem of budget funds spending and its impact on social and economic development, the researches of R. Barro, A. Wagner, O. Vasylyk, A. Wildavsky, V. Demyanyshyn, I. Zapatrina, I. Lunina, V. Oparin, K. Pavliuk, N. Savchuk, V. Fedosov, S. Yuriy should be singled out.

In the scientific works of Ukrainian researchers, the main attention is paid to the principles of functioning of the mechanism of public and local budget spending. However, for the execution of public and local authorities functions, not only budget expenditures but other costs are made. This leads to the use of other components of the public budget mechanism which are different from the expenditure components.

The purpose of the paper is scientific substantiation of the theoretical principles and analytical evaluation of the functioning of the mechanism of budget funds spending, determination of the key aspects of its development and its role in the regulation of social and economic processes.

Research results. One of the components of the budget mechanism of socio-economic development of the state is the mechanism of budget funds spending, used for execution of the state functions.

Budget funds spending should refer to public and local budget expenditures, planned and made according to legal regulations for the purpose of meeting the needs of public and local authorities to

allocate budgetary resources in order to fulfill their basic constitutional duty - to ensure the human rights and freedoms. The amount, structure and areas of budget funds spending depend on the activities and functions of the state.

It should be noted that in the Budget Code of Ukraine budget expenditures are defined as budget outlays (funds allocated to the implementation of the programs and activities according to certain budget), budgeting loans, debt repayment and allocation of budget funds to deposits, purchase of securities [1].

The mechanism of budget funds spending is offered to define it as a component of the budget mechanism of socio-economic development of the state; a set of financial forms, methods, tools, instruments, providing the allocation and use of the centralized monetary fund, budget functioning in general and the implementation of fiscal policy principles, aiming at ensuring socio-economic development of the state.

Budget funds are used by stages. All the stages are controlled over compliance with the budget legislation: the 1-st stage - planning expenditures of the public and local budgets (it involves the 1-st and the 2-nd steps of the public and local budgeting); the 2-nd stage - spending of the accumulated budget funds during implementation of the public and local budgets (this is the 3-d step of the budget process); the 3-d stage - making report on the public and local budget expenditures.

Budget funds are spent by means of the state budget mechanism components:

- methods: budget forecasting and planning, budget provision, operational management of budget funds, budget regulation, budget control, transfer method, etc.;
- forms: budget funding, budget lending, budget funds reservation, transfers;
- tools: outlays budget loans, budget reserve funds, transfers (interbudgetary - grants, subsidies; public transfers to individuals and legal entities) budget investments, expenditures, etc.;
- instruments: salary and other additional payments and compensations within the labor remuneration fund, financial standard of budget sufficiency, other rules and regulations, interest on public loans, limits, reserves, sanctions, etc.

The results of practical application of methods, forms, tools and instruments of mechanism of budget funds spending are shown in Fig 1 as the amount and structure of public and local budget expenditures.

During 2004-2016 the amount of budget funds spending increased by 9,7 times, to 1121,67 bln. UAH in 2016, the amount of GDP - by 6,7 times, to 2383,18 bln. UAH. The average growth rate of the public budget expenditures was 20,8% and exceeded the average GDP growth rate by 3,7%. A. Wildavsky, N. Caiden determined the reasons for the growth in public spending - constant increase in public authority powers, which is typical for public management. This leads to higher consumption of public goods in public sector than in the private sector [4].

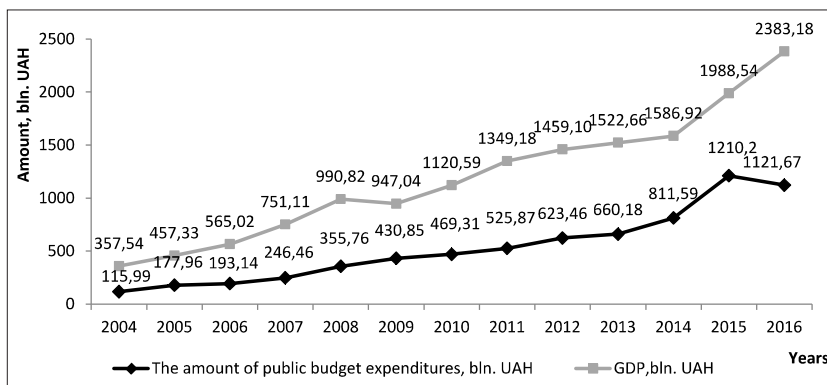


Fig. 1. Dynamics of spending the amount of budget funds and GDP during 2004-2016, (bln. UAH)

Created on the basis of source publications [2; 3]

There are some differences between the dynamics of the public budget spending and the dynamics of nominal GDP, as foreign borrowings are the sources of spending along with the accumulated budget revenues as a result of the GDP allocation in Ukraine.

Market transformations in Ukraine are accompanied by aggravation of such problems as: a high level of the National economy shadowing, constant fiscal imbalances, unequal distribution of income in society, the growth of public debt, inefficient use of labor, natural resources and geopolitical potential, etc. Therefore, the influence of the state on economic processes increases and its functions expand in order to meet the needs of society and minimize the negative impact of the factors that cause decrease in the socio-economic development.

Thus, this causes the change of state policy vectors, the absolute amount of the budget expenditures and their share in GDP increase (from 32,44% in 2004 to 47,07% in 2016). This occurred not only due to the increase in volume and share of the centralized GDP during allocation to the public and local budgets (from 25,6% in 2004 to 32,85% in 2016), which was accompanied by increased tax burden (from 17,66% to 27,31% correspondingly), but also due to the rapid growth in borrowing (particularly in 2009, 2014 and 2015). As a result public debt was steadily growing (by 24,4 times during 2004-2016, from 67,7 bln.UAH to 1650,8 bln. UAH).

In the economic literature there is no uniform approach to the optimal value of the share of the public budget expenditures in GDP. However, according to the experts of the World Bank I. Gill and M.

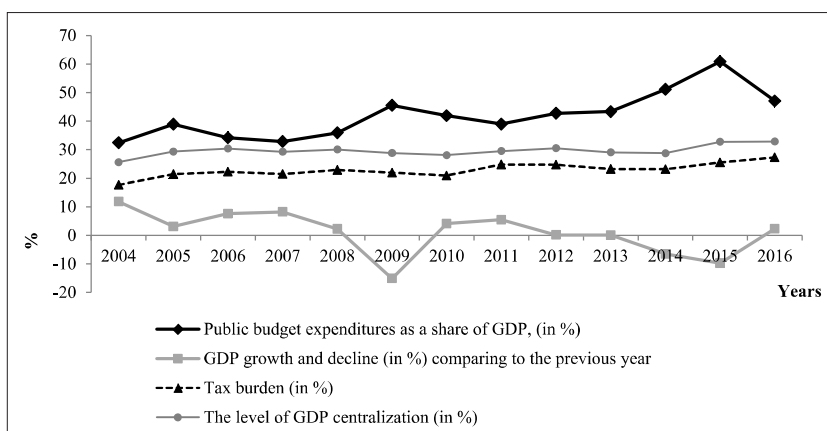


Fig. 2. Dynamics of public budget expenditures as a share of GDP, tax burden, the level of centralization and volume change of GDP during 2004-2016, %

Created on the basis of source publications [2; 3]

Raiser, the share of the public spending should not exceed 40% of GDP [5, p. 354]. In Ukraine these rules were observed during 2004-2008 and in 2011. As it is shown in Fig. 2, in this period there was real GDP growth. The maximum value of GDP growth was 11,8% in 2004 when the share of public budget spending in GDP was 32,44%, the level of GDP centralization to different budgets was the lowest (25,6%) and the tax burden was 17,66%.

As the share rate of public budget expenditures of GDP was about and over 40%, there was decline in economic growth and GDP decreased. Thus, due to this regularity, conclusion can be drawn that the increase in public expenditures has only to a certain extent positive impact on economic growth [6]. Therefore, public and

local authorities should not only increase the amount of public budget expenditures (this does not lead to quality improvement and accessibility of public goods and services), but introduce measures to make more efficient the use of budget funds, eliminate the corruption component while spending them, including public procurement, reduction of the tax burden; stimulate demand for domestic goods and services, improve the investment climate, change public budget expenditure structure in order to increase the share of investments into the budget, etc. This allows to prevent further growth in public debt, as the increase in public budget revenues, accumulated by borrowings, causes the growth of budget outlays on debt service and budget expenditures on its repayment.

Areas and structure of the public budget expenditures has always been a subject of debate among scientists and economists. Nowadays, redistribution of the budget funds between the spheres of the state activities, which ensure the execution of its functions, depends on the compromise agreement on the level of social benefits funding between the society and the state [7, p. 138].

Analysis of the data, presented in Table 1, shows that the greatest amount of budget funds was spent on operating activity (the average percentage was 70,82% during 2004-2016), less (20,64%) – on financial and the least (8,55%) – on investment activities. During 2004-2016 the share of public budget expenditures on operating activity reduced in the total amount of budget funds from 71,28% in 2004 to 68,66% in 2016 and on investment activity – from 17,91% to 6,52% with a simultaneous increase in expenditures on financial activity (from 10,81% to 24,82% correspondingly). It is difficult to assess unambiguously the effects of these changes in the context of their impact on the growth of National economy and people's welfare. During the periods when there was a decrease in expenditures on operating and investment activities and an increase in expenditures on financial activity of the state, there was a decline in real GDP and vice versa. This phenomenon can be explained by the fact that while conducting operating and investment activities, the state invests public funds into the development of National economy, while financial activity expenditures include a repayment of public debt and this does not provide for such investments, when dealing with foreign creditors.

Therefore, the state should revise its priorities in spending of budget funds in favor of

Structure of the public and local budget expenditures in Ukraine (in %)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<i>by the state activities</i>													
Operating activity	71,3	70,3	78,6	77,2	76,4	68,3	75,0	72,6	73,4	73,1	62,8	52,9	68,7
Investment activity	17,9	10,2	12,7	15,7	11,6	4,7	6,5	8,0	6,5	4,5	2,5	3,9	6,5
Financial activity	10,8	19,4	8,7	7,2	12,1	27,1	18,5	19,4	20,0	22,5	34,7	43,2	24,8
<i>by the state functions</i>													
Economic function	16,9	10,9	14,2	17,0	15,1	9,8	9,6	11,7	10,6	7,7	5,9	4,9	6,0
Social function	48,8	51,2	56,5	54,2	53,0	46,6	53,1	50,2	52,1	51,4	40,8	33,0	45,0
Defense function	5,3	3,4	3,3	3,8	3,3	2,2	2,4	2,5	2,3	2,3	3,4	4,3	5,3
Administrative function	29,0	34,6	26,0	25,0	28,6	41,4	34,9	35,5	35,0	38,6	49,9	57,8	43,7

Created on the basis of source publications [2; 3]

increasing the share of expenditures on operating and investment activities with its simultaneous reduction on financial activity. Budget investments execute stimulating function as their «main purpose ... is to develop infrastructure and this has a positive impact in general on the social and economic development of the state [8]».

To carry out detailed monitoring of the public budget expenditures, their structure should be deeply analyzed according to the functions of the public and local authorities. It is the optimization of the composition and structure of these expenditures that is one of the determining factors of the fiscal policy efficiency.

To execute the state social function, budget funds at different levels are spent on education, health care, social protection, intellectual and physical development, housing and utility services, environmental protection. Budget funds are spent on defense in order to execute the defense function, on economic activities to execute the economic function. Administrative function is executed when expenditures are provided on public administration, public order, security and judicial authorities, repayment of loans, public deposits, securities purchase, etc.

Studying the structure of the public budget spending in terms of the state functions, we should mention that from 2004 to 2013 the significance of social function increased as most budget funds were spent on its execution (the share of expenditures increased from 48,76% to 51,44%). The share of budget expenditures on execution of administrative function in the total amount of the public budget expenditures also increased from 28,99% to 38,61%. Simultaneously, the share of the public budget spending on the execution of economic and defense functions decreased from 16,92% to 7,7% and from 5,34% to 2,25% respectively.

However, since 2014 the structure of budget funds spending changes: the share of public and local budget expenditures in Ukraine decreases on execution of social function (to 44,96%) and economic function (to 6,03%) in 2016. But, the share of public and local budget expenditures increases in 2016 on execution of:

- defense function (to 5,29%) due to the necessity of improving National defense capability in accordance with launching anti-terrorist operation in eastern Ukraine;
- administrative function (to 43,71%) due to increased spending on nationwide governance, public order, security, judiciary authorities, and significant expenditure increase on repayment of growing public debt, caused by the need to search sources of financing the State budget deficit, active transactions, conducted by the Ministry of Finance of Ukraine related to the change in the volume of deposits and securities, used for liquidity management, etc.

Comparing the change in real GDP and the structure of the public budget spending, we should note that the expenditure

share on execution of the economic function, unlike other functions, correlates with growth / decrease in GDP. As the budget expenditure share on execution of social and / or administrative functions increases when the share of expenditures on execution of economic function decreases, there is a deformation in the expenditure structure, because «... the gap between the need for financial resources, required to finance public goods and real opportunity for their mobilization inside the country increases [9, p. 292]».

Having analyzed the amount of budget expenditures on execution of public functions in GDP, we can emphasize on the following trends: during 2004-2016 most of the centralized GDP as public revenues were aimed at execution of social function (average of 67,99% of GDP); economic function (average of 14,52% of GDP), defense function (average of 4,76% of GDP). Regarding the expenditures on the administrative function of the state, during certain periods their share in GDP has grown rapidly, and in 2015 it even exceeded the level of centralization of GDP due to the significant increase in expenditures on public debt repayment with the simultaneous increase in the amount of foreign loans.

Therefore, in order to reduce the size of existing public debt, prevent its growth in the future and reduce the tax burden, it is useful to take into account the share of budget expenditures, which is covered by its revenues when determining the amount of budget expenditures on execution of social function. If this share reduces at the certain stage of economic cycle, there is a necessity to use such a component of the state regulation of economy as deficit financing, and allocate the raised financial resources only to the execution of the economic function, that is, to invest in the National economy. However, to prevent the excessive state intervention in investment processes and reduce the activity of private investors, R. De la Fuente offers to invest in GDP the optimal amount of budget share, which is of 2% [10]. In Ukraine, in some periods, the share of budget investments in GDP exceeded the percentage of 2%. However, it shouldn't be unambiguously defined as a negative phenomenon, because, as T. Paentko rightly said «... such excess indicates the presence of institutional deformations. ... It can be caused by ineffective funding programs (uneven funding, underfunding) redistribution of the budget funds in favor of the informal sector of economy, etc. [9, p. 289]».

Conclusions. In conclusion, we should note that optimal combination of all components of the mechanism of budget funds spending enables the state to execute efficiently its functions, ensuring the development of the National economy, accessibility and quality of public services to the population, and to solve the main social problems, etc.

Among the main ways of improving fiscal policy in the context of improving the budgetary provisions for execution of the state functions are: eliminating conflicts between fiscal policy priorities – simultaneous stimulation of investments and innovations into the budget and increase in the public budget expenditures on the execution of social function with the simultaneous decrease in expenditures on economic activity; while determining the amount of budget expenditures on the execution of social function it is necessary to take into account the budget expenditure share, which is covered by its revenues, and when there is a need for deficit financing – to allocate the raised funds for the execution of the economic function; restructuring of public budget in order to increase the expenditures on investment and operational activities with the simultaneous decrease in expenditures on financial activity; increasing efficiency of the accumulated budget funds spending, elimination of corruption component in their spending, reducing the tax burden, stimulating demand for goods and services of domestic production, improving the investment climate, etc.

References:

1. Бюджетний кодекс України № 2456-VI від 08.07.2010 р. [Електронний ресурс]. – Режим доступу : <http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi>.
2. Звітність про виконання бюджетів. Державна казначейська служба України // [Електронний ресурс]. – Режим доступу : <http://www.treasury.gov.ua>.
3. Звітність Державної служби статистики України [Електронний ресурс]. – Режим доступу : <http://www.ukrstat.gov.ua>.
4. Wildavsky A. The New Politics of the Budgetary Process / 3rd ed. / A. Wildavsky, N. Caiden. – Washington, DC : Longman, 1997. – 367 p.
5. Gill I. Golden Growth : Restoring the Lustre of the European Economic Model / Gill I. and Raiser M. – The World Bank, 2012. – 514 p. [Електронний ресурс]. – Режим доступу : <http://documents.worldbank.org/curated/en/539371468036253854/pdf/681680PUB0EPI004019020120Box367902B.pdf>.
6. Barro R. J. Government Spending in a Simple Model of Endogenous Growth / R. J. Barro // The Journal of Political Economy. – 1990. – Vol. 98, No. 5, Part 2: The Problem of Development [Електронний ресурс]. – Режим доступу : http://dash.harvard.edu/bitstream/handle/1/3451296/Barro_Government_Spending.pdf?sequence=4.
7. Савчук Н. В. Бюджетні пріоритети України у контексті суспільного вибору : монографія / Н. В. Савчук. – К. : КНЕУ, 2014. – 325 [3] с.
8. Easterly W. Fiscal Policy and Economic Growth: an Empirical Investigation / Easterly W., Rebelo S. // Journal of monetary economics. – 1993. – № 32 (3). – P. 47–58.
9. Фінансова інфраструктура України: стан, проблеми та перспективи розвитку : монографія / [В. Опарін, В. Федосов, С. Львовичкін та ін.] ; за заг. ред. В. Опаріна, В. Федосова. – К. : КНЕУ, 2016. — 695 [1] с.
10. De la Fuente R. A fiscal policy and growths in the OECD / De la Fuente R. // CEPR Discussion paper London. – 2007. – № 1775. – [Електронний ресурс]. – Режим доступу : www.ecopapers.repec.org/RAS/pde52.htm.

Лободіна З.М. Механізм використання бюджетних коштів в контексті забезпечення соціально-економічного розвитку держави

Анотація. У статті розглянуто засади функціонування механізму використання бюджетних коштів. Акцентовано увагу на ключових аспектах його ролі у регулюванні соціально-економічних процесів. Запропоновано науковий підхід до трактування сутності дефініцій «використання бюджетних коштів» та «механізм використання бюджетних коштів». Виокремлено методи, форми, інструменти, важелі механізму використання бюджетних коштів. Обґрунтовано шляхи удосконалення бюджетної політики держави в контексті покращення бюджетного забезпечення її функцій.

Ключові слова: бюджетні кошти, механізм використання бюджетних коштів, витрати бюджету, видатки бюджету, функції держави.

Лободина З.Н. Механизм использования бюджетных средств в контексте обеспечения социально-экономического развития государства

Аннотация. В статье рассмотрены основы функционирования механизма использования бюджетных средств. Акцентировано внимание на ключевых аспектах его роли в регулировании социально-экономических процессов. Предложено научный подход к трактовке сущности дефиниций «использование бюджетных средств» и «механизм использования бюджетных средств». Выделены методы, формы, инструменты, рычаги механизма использования бюджетных средств. Обоснованы пути совершенствования бюджетной политики государства в контексте улучшения бюджетного обеспечения его функций.

Ключевые слова: бюджетные средства, механизм использования бюджетных средств, издержки бюджета, расходы бюджета, функции государства.