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SHAPOVAL Maryna,
Postgraduate student of Finance Department
of the Kyiv National University of Trade and Economics
19, Kyoto str., Kyiv, 02156, Ukraine

E-mail: rina.shapoval@gmail.com
ORCID ID: <https://orcid.org/0000-0001-9886-0153>

FISCAL MECHANISM FOR ECONOMIC REGULATION

The essence and significance of the budget mechanism in support of processes of economic development and social stability are highlighted. The main principles of functioning of the budget mechanism for economic regulation are determined. The analysis and estimation of dynamics of weight indicators of the redistribution of gross domestic product through the budget system of Ukraine in 2008–2017 have been made. The expediency of further development of the methodological principles of the budget policy of the country has been substantiated.

Keywords: budget, budget mechanism, fiscal policy, budget system, functional finance, economic growth.

Шаповал М. Бюджетный механизм регулирования экономики. Раскрыты сущность и роль бюджетного механизма в обеспечении процессов экономического развития и социальной стабильности. Детерминированы основные принципы функционирования бюджетного механизма регулирования экономики. Проведены анализ и оценка динамики удельного веса перераспределения валового внутреннего продукта через бюджетную систему Украины в 2008–2017 гг. Обоснована целесообразность дальнейшего развития методологических основ бюджетной политики государства.

Ключевые слова: бюджет, бюджетный механизм, бюджетная политика, бюджетная система, функциональные финансы, экономическое развитие.

Background. Sustained economic growth and the increase on its basis the level of public welfare is a priority task of realization of the state financial policy. The budget as a central element of the public finance system is historically one of the most important and most effective mechanisms for ensuring the endogenous development of the economy.

Well-considered and substantiated managerial decisions of financial institutions in the field of fiscal policy contribute to the growth of employment, business activity, and intensification of investment in the real economy. At the same time, it is necessary to form a balanced budget, gradually reduce the debt burden on the budget, to coordinate the social

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priorities of society development with the possibility of their financing without violating price and financial stability. Of particular importance is the issue of the permanent increase of the efficiency of budget expenses, optimization of expenditure powers in accordance with changes in the macroeconomic situation. The current budget priority is to improve the quality of human capital, which requires the allocation of sufficient appropriations for education, science, and innovation infrastructure. The question of configuring the model of decentralization of the budget system for strengthening the financial capacity of the territories and leveling up of inter-regional disproportions of socio-economic development remains open for discussion. In the context of institutional transformations, the problems of further development of theoretical and methodological principles of the budget mechanism for regulation of economic development are of particular relevance, in order to increase the effectiveness of its functioning.

Analysis of recent researches and publications. Problems of the budget mechanism regulating economic development were studied by foreign scientists: P. Arestis [1], A. Auerbach, Yu. Gorodnichenko [2], R. Barro, X. Sala-i-Martin [3], J. Buchanan, P. Masgrave [4], O. Jorda, A. Taylor [5], J. Stiglitz [6], U. Unal [7]. The specifics of the implementation of the regulatory potential of the budget mechanism in a transformational economy were thoroughly investigated by domestic scientists, in particular: T. Bogolib [8], V. Demyanyshyn [9], L. Lysyak [10], A. Mazaraki [11], V. Makohon [12], I. Chuhunov, M. Pasichnyi [13–14] and others. The variability and uncertainty of the economic environment cause necessitates of further fundamental and applied research in the realm of the implementing the regulatory function of the budget system in the context of the development of financial relations.

The **aim** of the article is to develop theoretical and methodological principles of the budget mechanism of regulation of the country's economy, taking into account the institutional transformations of the public finance system.

Materials and methods. The theoretical and methodological basis of the research is the scientific work of domestic and foreign scientists on the problem under consideration. Its multidimensional nature conditioned the use of a set of methods and approaches, which allowed to ensure the conceptual unity of the study. The dialectical, systemic and structural approaches, methods of analysis and synthesis, comparison, generalization, scientific abstraction were applied.

Results. The budget mechanism acts as a system-building category of public finance, a deep examination of its essence and functions takes place in a complex way with the study of the concept of budget. If the budget is a significant factor in endogenous development, then the appropriate mechanism should be considered as a way of enhancing and targeting the process of expanded social reproduction. Historically, the budget was treated as the main financial plan of the state or a specific administrative-territorial unit,

a centralized fund of the corresponding resources, the monetary expression of the depiction of expenditures and incomes. At the present stage, the traditional functional approach to the disclosure of the economic content of the budget mechanism must be organically complemented by the institutional aspect of the system of public finances.

Improvement of the budget mechanism is in line with the overall development of the national economy. The potential of the budget as a tool for macroeconomic regulation directly depends on the conditions and output of production, the level of development of economic relations. According to domestic researchers, in the context of institutional reforms, fiscal policy acts as an adaptive superstructure of economic regulation, which ensures the adequacy of managerial measures for endogenous and exogenous changes in the environment [11]. Elements of the budget mechanism are responsible for the integrated implementation of financial policy in the key areas such as income; expenditures; inter-budgetary relations; managing budget deficits and public debt. These structural components are in multiple interactions. The quality of fiscal policy depends on way, balance and rationality of their combination, which is determined by its real ability to influence social and economic processes. Under certain circumstances, it is allowed to increase the budget deficit in order to stimulate aggregate demand and economic development. However, the budget deficit may be passive and caused by sharp cyclical fluctuations in the economy. For example, during the period of the global economic recession of 2008–2009, a significant imbalance between the budget and the public finance system was recorded, as the overall deterioration in the socio-economic situation led to a simultaneous reduction in business activity of business entities, a decrease in tax revenues and an increase in the level of budgetary expenditures [1]. The accumulated world experience in managing budget deficits shows that the desire to limit the deficit without taking into account the state of socio-economic development deepens structural imbalances in the country's financial system. The main directions of the fiscal policy in the sphere of regulating the budget deficit in the medium-term perspective are ensuring budget balance during the economic cycle, reducing the share of government debt in gross domestic product. In the context of the limited possibilities of attracting state loans, it is important to form the forecast indicators of the budget deficit, based on the principles of macroeconomic stability, sufficient level of substantiation of the volume and structure of sources of financing the budget deficit, and the priority of domestic borrowing [11]. Professor I. Chugunov notes that the main objective of the functioning of the budget mechanism is to ensure economic growth on the basis of institutional and investment development, optimal structural transformation, effective use of potential (in particular, natural resource and intellectual), as well as creation of favorable framework conditions for sustainable increase of scales of national production, including through the development of high-tech

industrial infrastructure, support, development and implementation of progressive technology [13]. In the context of deepening budgetary decentralization, the successful functioning of this mechanism is aimed at strengthening the financial basis of local self-government bodies, which requires a series of institutional changes in the budget system. It depends on the choice and implementation of methods of fiscal and tax regulation in the economy, the definition of long-term budgetary priorities and the use of the medium-term indicative planning system.

A general idea of the scale and significance of the budget mechanism and its role in regulating economic development can be formed by estimating the proportion of the redistribution of gross domestic product through the budget system (*table*). The budget architectonics of budget expenditures should provide the solution of the main tasks of social development, which involves taking into account the influence of budgetary expenditures on the effectiveness of economic transformations, mutual coherence and the substantiality of the necessary financial resources on the tasks performance of public administration and local government [12].

Table

Level of redistribution of gross domestic product through the budget system of Ukraine in 2008–2017, %

Year	Consolidated budget		State budget		Local budget	
	Share of income in GDP	Share of expenditures in GDP	Share of income in GDP	Share of expenditures in GDP	Share of income in GDP	Share of expenditures in GDP
2008	30.07	31.21	23.39	24.37	6.68	6.84
2009	28.82	32.46	22.14	25.60	6.68	5.86
2010	28.07	33.72	21.47	27.09	6.60	6.63
2011	29.54	30.90	23.32	24.72	6.22	6.18
2012	30.53	33.75	23.72	27.12	6.81	6.63
2013	29.08	33.22	22.28	26.50	6.80	6.72
2014	29.74	32.96	22.50	27.11	7.24	5.85
2015	32.79	34.19	26.89	29.01	5.90	5.18
2016	32.85	35.07	25.86	28.74	6.99	6.33
2017	34.09	35.43	26.60	28.14	7.49	7.29

Source: calculated by the author on the basis of reports from the State Treasury of Ukraine and data from the State Statistics Service of Ukraine [15; 16].

Throughout the analyzed period, the scale of GDP redistribution through the state budget significantly exceeded the corresponding indicator for the system of local budgets. Thus, the state budget revenues ranged from 21.47 % of GDP in 2010 to 26.89 % of GDP in 2015. As a result of the deepening of fiscal decentralization processes, this indicator was somewhat reduced, accompanied by a corresponding increase in the level of GDP redistribution through the system of local finances. The State Budget expenditures ranged from 24.37 % of GDP in 2008 to 29.01 % of GDP in 2015. On average, 23.82 % of GDP was redistributed through the revenue part of the state budget over the specified period, of which 26.84 % of GDP was spent on expenditures.

Local budget revenues without transfers accounted for 5.90 % of GDP in 2015 to 7.49 % of GDP in 2017; respectively, expenditures without transfers, from 5.18 % of GDP in 2015 to 7.29 % of GDP in 2017, which may indirectly indicate an increase in fiscal decentralization processes. In general, in 2008–2017, local budget revenues accounted for 6.74 % of GDP, while expenditures were 6.35 %. That is, the annual fluctuation of the indicators was moderate and quite predictable. These indicators were characterized by stability, even with significant institutional changes in the implementation of fiscal policy. The statistics show that about a third of the gross domestic product is redistributed through the public finance system in Ukraine. Adequate and effective operation of the methodical tools of fiscal policy can ensure economic growth in the long run. In order to implement the above, it is necessary to improve the quality of budget institutions, develop budgetary mechanisms, and adaptively change policy in accordance with economic cyclicity.

The high weight of the gross domestic product reallocation through the budget system is not the only criterion for the effectiveness of the functioning of the budget mechanism, but is characteristic of a specific group of countries with a high level of institutionalization of fiscal relations, in particular for such OECD participants as Denmark, Iceland, Norway, Finland, Sweden. A high level of fiscal decentralization and institutional traditions of self-organization of territorial communities are characteristic of all of these states. Thus, the level of fiscal decentralization in Denmark (62 %), Sweden (49 %), Finland (39 %) is the highest among OECD countries, and they are among the top 20 in terms of ease of doing business in the World Bank ranking. This allows to use efficiently financial resources by consolidating the connection between the demands of the territorial community (quite homogeneous) and the ways of satisfying them. The powerful role of the public finance system in redistributing GDP in this case is backed up by adequate institutional provision of administrative processes in the projected economic environment (for example, Sweden has adopted the practice of setting a ceiling for the next three years in nominal terms, which remains unchanged even at a certain level of inflation) [17].

The budget mechanism integrates heterogeneous organizational and economic forms of fiscal support for social development, in particular methodical tools for stimulation and restriction [14]. It is not identified with the budget process, it is not represented solely by the interaction of economic agents, it is not personified solely by formal and legally-regulated norms, rules and practices of mobilization and use of financial resources, but is amplified and complemented by informal and customary-traditional elements of the environment for the implementation of fiscal policy. The budget mechanism really represents the corresponding state or regional concept of sustainable development, reflects the direct orientation of public financial relations in solving global and regional-specific socio-economic problems. The budget execution of the role of the economic regulation tool

through the budget mechanism depends on non-economic factors, in particular the electoral expectations of the society. The experience of developed and emerging economies testifies about the need to eliminate the impact of the political cycle on the budget process by establishing rational institutional constraints on the key parameters of fiscal policy [9].

The current stage of development of domestic fiscal policy requires the formation of a fiscal mechanism that would provide favorable conditions for administering a sufficient amount of taxes, maximizing non-tax revenues and increasing the efficiency of the use of the relevant resources, which should be proof of the growth of quality of life and the level of public welfare.

In the Western discourse it is assumed that the basic principle of the construction of a budgetary mechanism is "conventional wisdom" [1], which is based on a number of logical theoretical and methodological provisions, in particular:

- budgetary regulation is an effective, historically justified and reasoned way of influencing the structure and volume of aggregate demand, as well as the level of economic (in particular, investment) activity of business;
- the main task of using the budget mechanism is to balance, stimulate and sustain economic development, whose success can be assessed on the basis of a specific system of indicators, for example, according to the methodology of the Stability and Growth Pact, which is applied in the EU and establishes institutional constraints on the critical size of the budget deficit and public debt of participating;
- it is expedient to permanently coordinate monetary (aimed at ensuring price stability and counteracting uncontrolled inflation processes) and fiscal policy in the context of the use of built-in automatic macroeconomic stabilizers.

The balance between the components of the budget mechanism of regulation and stimulation of social development is adaptively determined by the budget architectonics, the priorities of the national economic strategy and the phase of the economic cycle [13]. State regulation in the field of expenditures is a special subsystem of the budget mechanism, which is actively used in the context of the economic decline in order to restore the positive dynamics of national production. However, unjustified increase in budget expenditures, which provokes an increase in deficit and debt, reduces the recovery potential of the national economy. Therefore, in the conditions of decline and recession, in order to achieve positive dynamics of production of real gross domestic product, it seems expedient to rationalize measures in the area of budget expenditures planning in terms of their redistribution in favor of increasing the share of productive ones. The issue of assigning expenditures to a category of productive is one of the debates in financial science. We agree with R. J. Barro and X. Sala-i-Martin, that expenses for human capital, transport, energy and social infrastructure, security and public order, etc can be considered as productive [3].

The system of budgetary regulation of economic development can be based on the concept of functional finance in relation to ensuring financial stability of the budget system [10]. In developed and transformational economies, there is a practice of introducing institutional constraints not only on the budget deficit and public debt by volume and sources of coverage, but also in relation to the structural balance of social and investment components of public expenditures, taking into account obligations to the public. The concept of functional finance, proposed in the early 1940s by American economist AP Lerner, relies on the provisions for the development and implementation of national fiscal policy in accordance with the needs of society in technological progress under the influence of the innovation spiral [18]. Architectonics of functional finance integrates financial institutions, markets, specific products/services and appropriate organizational and economic infrastructure, based on regulatory fiscal rules and accounting systems. By its nature, functional finance is devoid of any ideology. It is assumed that financial functions are allocated rationally between the government, local authorities and economic actors [19].

In a series of works, Lerner consistently denied the doctrine of sound finance and argued that attempts by the government at any cost to ensure a balanced budget could lead to a critical imbalance of the national economic system at all levels and have extremely negative consequences for society. At the same time, the researcher did not call for a conscious imbalance of the budget mechanism, but stressed the need to rationalize the activities of all economic actors through the introduction of fiscal rules. These rules are derived from the function of fiscal policy, which is to ensure a high level of aggregate demand. It should be borne in mind that the increase in unemployment generally violates the macroeconomic equilibrium, and the calculation of the optimal level of public spending should be made taking into account the system of resource constraints and the probable lack of production capacity, which is reflected in the reduction of the aggregate supply in accordance with the production function 1:

$$Q = f(L, K, \tau), \quad (1)$$

where Q – the volume of the national supply for available resources;

L – the volume of attracted human capital resources;

K – the volume of attracted physical capital resources;

τ – the level of scientific and technological progress.

If the volumes of private savings, private investment demand and imports into the country are in some way determined by the real aggregate consumer demand, then in order to regulate the target level of consumer demand, a fiscal rule presented in the form of a balance macroeconomic model 2 may be applied:

$$G_{sp} - T = PS - Inv + I - Exp ,$$

$$\begin{cases} PS = f(AD_t) , \\ Inv = f(AD_t) , \\ I = f(AD_t) , \end{cases} \quad (2)$$

where G_{SP} – the amount of budget expenditures of a certain period;

T – tax receipts;

AD_t – target level of aggregate demand;

PS – volume of private savings;

Inv – volume of private investments;

I – import;

Exp – Export.

There are multiple interconnections between the elements of the given model, and the task of implementing a well-balanced fiscal policy is to develop an appropriate fiscal mechanism that could provide optimal proportions and maximize the scale of social production. The balance of model 2 depends not only on budgetary policy instruments, but also on its timeliness and coordination with mechanisms and levers of monetary regulation of the economy, first of all, the central bank discount rate. In the concept of functional finance, mechanisms of unconditional management and rationalization of the budget deficit are built, when the objective of fiscal policy becomes not an imperative balancing of the budget, but, on the one hand, the development of a tax policy favorable to the business environment and society as a whole, the intensification of consumer and investment demand, on the other hand, the improvement of the compositional structure of public expenditures, the increase of the burden of productive expenditures in terms of the cost of human development and the steady growth of the interests intellectual capital.

Under conditions of insufficient development of the institutional environment of the financial system, an alternative method to functional finances is used to balance the budget on an annual basis. The positive dynamics of macroeconomic indicators in the short and medium term is achieved by increasing the efficiency of budget expenditures in comparison with the fiscal impact of its revenues. Moreover, the higher the modulus is the difference between these indicators, the higher the effectiveness is shown. Support for sustainable economic growth through the use of the concept of annual budget balancing, without taking into account cyclical fluctuations in the long-term prospect, is impossible. In addition to classical budget levers, informal institutional tools should be used to change the model of social behavior in terms of financial responsibility and consciousness formation. The foreign experience of budget regulation measures should be systematized and taken into account in the development of domestic fiscal policy. However, copying measures that were previously implemented abroad is inappropriate. Successfully applied methods of budget regulation should serve not as a template, but as a strategic benchmark for national authorities.

Justification of the main principles of functioning of the budget mechanism requires the coordination of budgetary and social priorities of the country, the consolidation of the relationship and strengthening the effectiveness of institutional mechanisms of state financial regulation. Budget regulation in the form of designing and implementing productive expenditures determines the quality level and accessibility of public services in the spheres of education, science, health care, spiritual and physical development, social protection and population provision. However, the system of public finance in most modern economies is not a universal or sole source of social activity. In the context of functional finance, a logical combination of state and market models and financing methods of the indicated sphere, the deepening of the processes of demonopolization and the promotion of a free competitor is presented in order to increase the fiscal efficiency of budget expenditures and maximize the satisfaction of demand for such services in the society.

The Budget Code of Ukraine (Article 7) lays down ten basic principles for the construction of a budget system, the actions of which are subject to the budget mechanism. In particular, these are the principles of unity of the system, balance, independence, completeness, reasonableness, efficiency and effectiveness, subsidiarity, purposeful use of funds, fairness and impartiality, publicity and transparency [20]. This list is not exhaustive, it is expedient to supplement it with the principles of consistency, alternatives and flexibility as well as neutrality.

In order to ensure the validity and consistency of the functioning of the budget mechanism, it is important to improve the medium-term budget planning system. The main functional parameters and indicators of the budget mechanism should be determined not only for the next budget period but for at least two years following it. It allows not only to improve the quality of macroeconomic planning, but also to optimize the financial and economic activities of economic actors, increase the efficiency of management decisions in the field of public finances, improve the investment climate in the state, etc. The alternative and flexibility of functioning of the budget mechanism involves the formation of variable scenarios of budget policy, taking into account economic cyclicity. First, limit values should be set for indicators that are characterized by high annual volatility. Secondly, the budgetary mechanism should adapt to changes in the external economic environment and globalization trends of development. Implementation of fiscal adjustment should not reduce the effectiveness of the reproductive process and the value of public services provided by the budgetary sphere should be affordable and accessible to the public.

Comprehensive and efficient regulation of the economy requires the introduction of promising budget planning and forecasting with the consolidation of a system of effective indicators of implementation of the main directions of the chosen strategy. The system of strategic forecasting and planning as the basis for the selection of priority fiscal policy vectors is intended to provide structural modernization, increase of competitiveness and reorientation of the economy to predominantly endogenous factors of growth.

Conclusion. In today's context, attention paid to the functional purpose of the budget mechanism as a component of the system of financial regulation of the economy is increasing. The use of tools and levers of the budget mechanism aims to achieve long-term macroeconomic stability and support the processes of economic development of the country. Effectiveness of budget policy measures depends on the overall level of their validity and compliance with the stage of the economic cycle, the degree of coordination with other components of state financial policy, the quality of the institutional environment and the model of socio-economic development of the state. The substantiation of the basic principles of functioning of the budget mechanism requires harmonious coordination of budgetary and social priorities of the country, consolidation of interconnection and strengthening of the efficiency of adaptive regulatory mechanisms of the country's financial policy. It is important to introduce a promising budget planning with the fixing of the limit values of the main weighting budget indicators relative to the gross domestic product. In order to increase budget efficiency, it is significant to conduct a comprehensive assessment of the impact of budget expenditures on the dynamics of the aggregate of social and economic indicators, and to develop the budget for subsequent budget periods, based on the results of this assessment. The budget deficit management system should take into account the basic principles of functional finance to achieve the financial sustainability of the budget system.

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Шаповал М. Бюджетний механізм регулювання економіки.

Постановка проблеми. Економічне зростання та підвищення рівня суспільного добробуту є пріоритетною задачею реалізації державної фінансової політики. Обґрунтовані управлінські рішення фінансових інституцій у сфері бюджетної політики сприяють зростанню рівня зайнятості, підвищенню ділової активності, інтен-

сифікації інвестицій у реальний сектор економіки. Актуальною є проблематика подальшого розвитку теоретико-методологічних засад бюджетного механізму регулювання економічного розвитку задля підвищення результативності його функціонування.

Аналіз останніх досліджень і публікацій показав, що мінливість та невизначеність економічного середовища обумовлює необхідність подальших фундаментальних та прикладних досліджень у царині реалізації бюджетною системою її регулюючої функції в умовах розвитку фінансових відносин.

Метою статті є дослідження та розвиток теоретичних і методологічних засад бюджетного механізму регулювання економіки країни, враховуючи інституційні перетворення системи публічних фінансів.

Матеріали та методи. Теоретичною та методологічною основою дослідження є наукові праці вітчизняних та зарубіжних вчених з проблеми, що розглядається. Застосовано діалектичний, системний та структурний підходи, методи аналізу і синтезу, порівняння, узагальнення, наукового абстрагування.

Результати дослідження. Бюджетний механізм виступає системотворчою категорією публічних фінансів, глибинний розгляд його суті та функцій відбувається комплексно із дослідженням поняття бюджету.

Основні функціональні параметри та індикатори бюджетного механізму мають визначатися не лише на наступний бюджетний період, а принаймні на два роки, що слідує за ним. Це дозволяє поліпшити якість макроекономічного планування та оптимізувати фінансово-господарську діяльність економічних суб'єктів, мінімізувати вплив політичного циклу на публічні фінанси, поліпшити інвестиційний клімат в державі.

Комплексне та ефективне регулювання економіки вимагає запровадження перспективного бюджетного планування та прогнозування із закріпленням системи однозначних результативних показників реалізації основних напрямів обраної стратегії. Система стратегічного прогнозування і планування як основа обрання пріоритетних векторів бюджетної політики покликана забезпечити структурну модернізацію, підвищення конкурентоспроможності та переорієнтацію економіки на переважно ендогенні чинники зростання.

Висновки. В сучасних умовах зростає увага до функціонального призначення бюджету як інструменту фінансового регулювання економіки. Використання інструментів і важелів бюджетного механізму має на меті досягнення довгострокової макроекономічної стабільності та підтримку процесів економічного розвитку країни. Результативність заходів бюджетної політики залежить від загального рівня їх обґрунтованості й відповідності стадії економічного циклу, ступеню координації з іншими складовими державної фінансової політики, якості інституційного середовища та моделі соціально-економічного розвитку держави. Важливим є запровадження перспективного бюджетного планування із закріпленням граничних значень основних вагових бюджетних показників відносно валового внутрішнього продукту. З метою підвищення бюджетної ефективності важливим є проведення комплексного оцінювання впливу видатків бюджету на динаміку сукупності соціальних і економічних індикаторів, розробка бюджету на наступні бюджетні періоди, ґрунтуючись на результатах даної оцінки. Система регулювання дефіциту бюджету має враховувати основні засади функціональних фінансів щодо досягнення фінансової стійкості бюджетної системи.

Ключові слова: бюджет, бюджетний механізм, бюджетна політика, бюджетна система, функціональні фінанси, економічний розвиток.