UDC 336.02

Onufriychuk O.P.,
postgraduate*,
State educational scientific institution
"Academy of financial management"

FISCAL SUSTAINABILITY AND ITS ENSURING IN FOREIGN COUNTRIES.

Defining the task. In order to reduce risks of financial crisis, many countries in different years took measures to improve the sustainability of public finances. For this the governments in the medium and long term, implemented the programs aimed at improving the fiscal (budget) balance of the general government. The consequences of the latest financial and economic crisis, the significant growth of the public debt in many countries of the world and the need, therefore, to increase the sustainability of public finances have provided an additional incentive for studying the available international experience on the ways and mechanisms to ensure the sustainability of the public finance sector.

The relevance of a comprehensive analysis of these aspects of the functioning of public finances is conditioned by a number of unresolved problems linked with the consequences of the global economic crisis of 2008-2009. Primarily the negative consequences are reflected in the reduction of budget revenues of several countries, including Ukraine. A significant imbalance has led to that it was necessary to involve resources of international financial organizations, private lenders, to avoid default, which formed an additional burden in ensuring the sustainability of public finances.

Analysis of recent investigations and publications. Several international organizations such as the European Commission, the World Bank, the International Monetary Fund, European Central Bank, the Council for Financial Stability, and the European Bank for Reconstruction and Development deal with the issues of assessment and ensuring the sustainability of public finances. The problem of the sustainability of public finances has been considered in the works of such foreign scientists as K. Borhnsayd , N. Dzhiamarioli , M. Kelly, K. Reinhart , R. Hemet and others. Among local scientists should be noted the scientific papers of V. Heyts , T. Yefymenko , A. Vlasyuk, V. Fedosov, S. Hasanov, V. Kudryashov, A. Danilenko , I. Lunina, V. Mishchenko , R. Balakin, RI Kopych.

As the number of scientific publications on issues of ensuring the sustainability of public finances in Ukraine is not numerous, and the topic of research is too narrow, a wide range of questions remains open for study and analysis in both the theoretical and practical aspects. In particular – the study of international experience in evaluating and ensuring the sustainability of public finances, the conduct of fiscal consolidation, the struggle with the consequences of the crisis phenomena, as well as reductions in the budget deficit and public debt. This direction of research is complex and multifaceted, therefore, requires thorough analysis, specification and improvement.

Defining the problem. The aim of the article is the analysis of foreign experience in the context of evaluating and ensuring the sustainability of public finances and the possibility of its use in Ukraine.

The main objectives of the article are:

- definition of the sustainability of public finances;
- analysis of the sustainability of public finances of foreign countries, in particular EU countries;
- assessment of the fiscal policy in the States of the Eurozone in crisis and post-crisis period;
- creation of offers on improvement of fiscal policy in Ukraine on the basis of the obtained results.

Object of research is the fiscal policy in the States of the Eurozone.

Subject of research is a mechanism for ensuring the sustainability of public finances in the EU.

Presentation of the basic material. The financial and economic crisis of 2008-2009 has led to significant deterioration of the financial situation in Ukraine and the States of the Eurozone, which resulted in the growth of budget deficit and public debt. A number of state extra-budgetary obligations, connected with the support of the financial sector, as well as financial and economic consequences of the ageing of the population has created additional problems in ensuring the sustainability of the state budget. To overcome the crisis the European governments had taken a number of measures: reducing the excessive deficits; reduction of public debt to a sustainable level; reorganization of the banking sector to reduce the strong interconnections between the government and institutions of the financial sector. These measures were accompanied by the pension and health reforms to alleviate the burden caused by the ageing of the population.

Fiscal sustainability of public finances is defined as the ability of the government to service its debt obligations in the long term. Namely, to conduct such a fiscal policy that will allow to use the current net of the budget balance in the future to meet the expenses of debt servicing [18 p. 54; 12, p. 18].

Research curator: Balakin R.L. – Ph.D. in Economics, docent.

As the assessment of the sustainability of public finances is a long-term, it is worth to trace the relationship between the level of debt and fiscal policies which pursued by the governments of European countries.

According to the report of the European Commission, the deterioration of the financial position and increasing public debt took place in the EU countries. Considering the demographic problem of the population ageing, the issues of financial sustainability is an acute political problem. It is multi-dimensional approach to the assessment of financial stability that will provide making rational, informed decisions for the Eurozone countries [13, p. 9].

Most EU member States fall under the significant potential risk of financial turmoil, but the degree of risk and time of happening are not equal for all countries. In some countries it has rather short and medium-term nature, while for others it is long-term [13, p. 83].

During the last years the risk of financial stress has decreased in almost all EU countries. While in 2009, almost two thirds of EU countries were above the threshold, in subsequent years, the short-term risk gradually has been reduced. In 2013, according to calculations of the European Commission most likely that only two countries have a high risk, namely Spain and Cyprus. These two countries fall under high risk in the medium term too, which indicates the need to reduce public debt to 60% of GDP. Regarding the long-term sustainability of the above-mentioned two countries, a high degree of risk is observed only in Cyprus, where the costs arising from the ageing of the population are very high, and in Spain there is the average level of risk by reducing such costs as a result of reforms in social security.

For other 22 member States: Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Spain, France, Italy, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Slovenia, Slovakia, Finland, Sweden and England there exist low risks associated with financial stress in the short term. Problems of ensuring the sustainability of public finances have medium - or long-term depending on the particular country [13, p. 35-38]. Note that the three European Union countries (Greece, Ireland, Portugal), who receive anti-crisis assistance in the framework of the adjustment programs of the IMF and the European Commission are not the object of the research in the report «the Fiscal sustainability» (2012) [13, p. 2].

In the medium term (2012 -2030 years) more than half of countries, including Belgium, Slovenia and the UK have a high risk of financial stress, in turn, Czech Republic, France, Italy, Lithuania, Luxembourg, Malta, Netherlands, Austria, Poland, Slovakia and Finland have slightly lower rates, but the risk of stress is also high enough. For the other member States - Bulgaria, Denmark, Germany, Estonia, Latvia, Hungary, Romania and Sweden medium-term risks are low. In Bulgaria, Latvia and Romania, this figure is due to low levels of debt, therefore, it is expected to improve the structural fiscal positions in 2014, with unchanged policies. For Hungary the improvent of the budgetary position is expected to be reached in 2014 [13, p. 39-41].

Regarding the long-term sustainability (2012-2060 years) for five of these 22 countries, in particular Belgium, Cyprus, Luxembourg, Slovenia and Slovakia high risk is expected mainly due to considerable pension payments in the future, that is significantly higher than the EU average. For Bulgaria, Denmark, the Czech Republic, Lithuania, Malta, Netherlands, Austria, Romania, Finland and the UK, where the pension expenditure is higher than the EU average, the predicted risk is medium, due to a better initial budgetary position. Germany, Estonia, France, Italy, Latvia, Hungary, Poland and Sweden have low risk level. Some of these countries have already achieved significant progress in the reform of the pension system (Denmark, Estonia, France, Italy, Latvia, Hungary, the Netherlands, Poland and Sweden) [13, p. 41-43] (table 1).

In the medium and long term due to the problems caused by the ageing of the population, occurred excess of the predicted expenditure on pensions, health care, etc. In general the EU plans to reduce the level of state debt by 4.75% of GDP to 2030 and to achieve the threshold of 60% (EU average) due to the Treaty on the functioning of the European Union. According to the expert services of the European Commission, by reducing the expenditure part the fiscal policy will be tighter, which will reduce the level of debt by 3% of GDP by 2014, and by 1.25% - after 2014 [11, p. 28].

According to the forecasts of the European Commission, if the fiscal and structural fiscal policy wouldn’t be radically changed, the public debt in the EU will remain high in the coming decades. Since the mid-2020s the increasing of debt is expected. However, appropriate actions have been identified by the European Commission in socio-economic strategy "Euro - 2020" in the spring of 2010 [19, p. 6]. In particular, the establishment of the budgetary rules to improve the financial situation in the future should gradually ensure the achievement by member States of their medium-term budgetary objectives and reduction of debt level below 60% before 2030.

Table 1

Sustainability of public finances of the member States of the EU in different time perspective.
*source: own elaboration based on [13]

Indicator	Low Risk	Medium Risk	High Risk
Short term (2012-2013)	Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, France, Italy, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Slovenia, Slovakia, Finland, Sweden, United Kingdom	-	Spain, Cyprus
Medium term (2012-2030)	Bulgaria, Denmark, Germany, Estonia, Latvia, Hungary, Romania, Sweden	Czech Republic, France, Italy, Lithuania, Luxembourg, Malta, Netherlands, Austria, Poland, Slovakia, Finland	Spain, Cyprus, Belgium, Slovenia, United Kingdom
Long term (2012-2060)	Germany, Estonia, France, Italy, Latvia, Hungary, Poland, Sweden	Bulgaria, Denmark, Czech Republic, Spain, Lithuania, Malta, the Netherlands, Austria, Romania, Finland, Great Britain	Belgium, Cyprus, Luxembourg, Slovenia, Slovakia

In the framework of studying the experience of other countries in improving the sustainability of public finances should also be considered the main activities and plans to enhance the ongoing fiscal policy implemented by the governments of several European countries in response to the financial and economic crisis in recent years. Indeed, the economic crisis has led to a decrease in budget revenues, and the need to combat consequences of the crisis forced the country to take additional measures from the expenditure and revenue parts of the budget to stimulate aggregate demand and support from the financial markets. This caused a significant decrease of the budget balance, the growth in the value of the state debt and ultimately forced to withdraw temporarily from following the legally accepted rules of fiscal policy.

EU countries in 2008 took a decision on the mitigation of the rules of the «Stability and Growth Pact» (hereinafter - SGP), the EU member States were temporarily allowed to go beyond the limit of public debt in 60% and the budget deficit at 3% of GDP [2, p. 9]. However, already in 2011, changes were made in the above regulatory document using legislative and normative acts of the so-called «Sixpack» (Sixpack) [3; 4; 5; 6; 7; 8].

At the end of 2011 only 10 of 27 countries have met the requirements by the set limit of deficit of the state budget (Fig. 1).

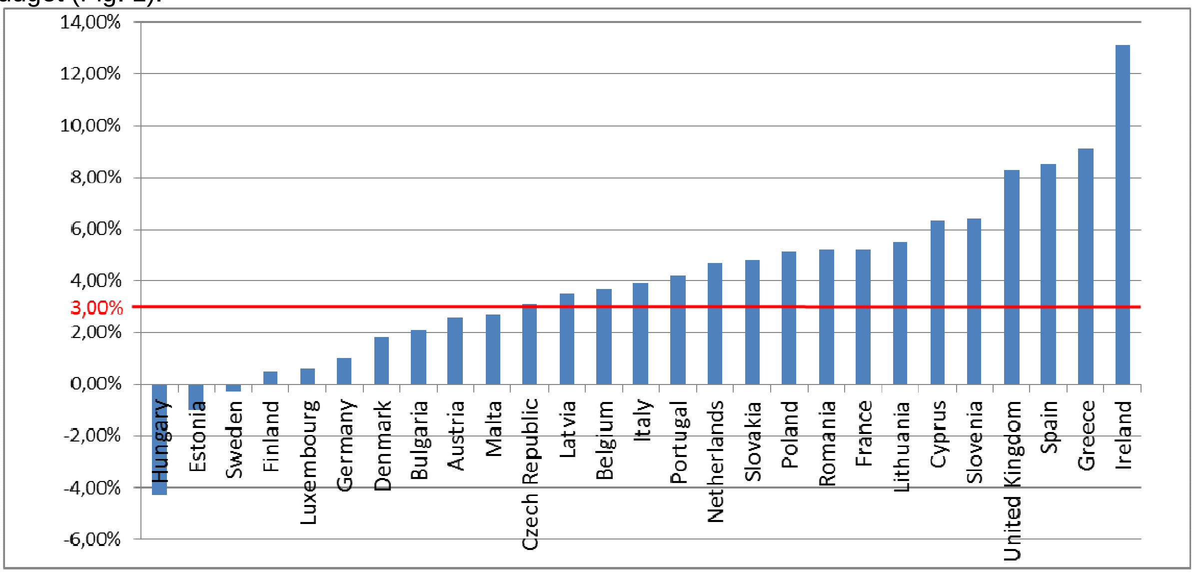

Figure 1. The level of the budget deficit in the EU Member States by the end of 2011 (% of GDP)
*source: own elaboration based on [15, p. 150]

Relative to the target indicator of public debt level (60% of GDP), we note that 13 EU countries have reached it (Fig. 2). Requirements established by the Treaty on the Functioning of the European Union concerning the budget deficit of the general government and the level of public debt have been reached only by 6 countries, namely Finland, Denmark, Sweden, Luxembourg, Bulgaria and Estonia [16, p. 10].

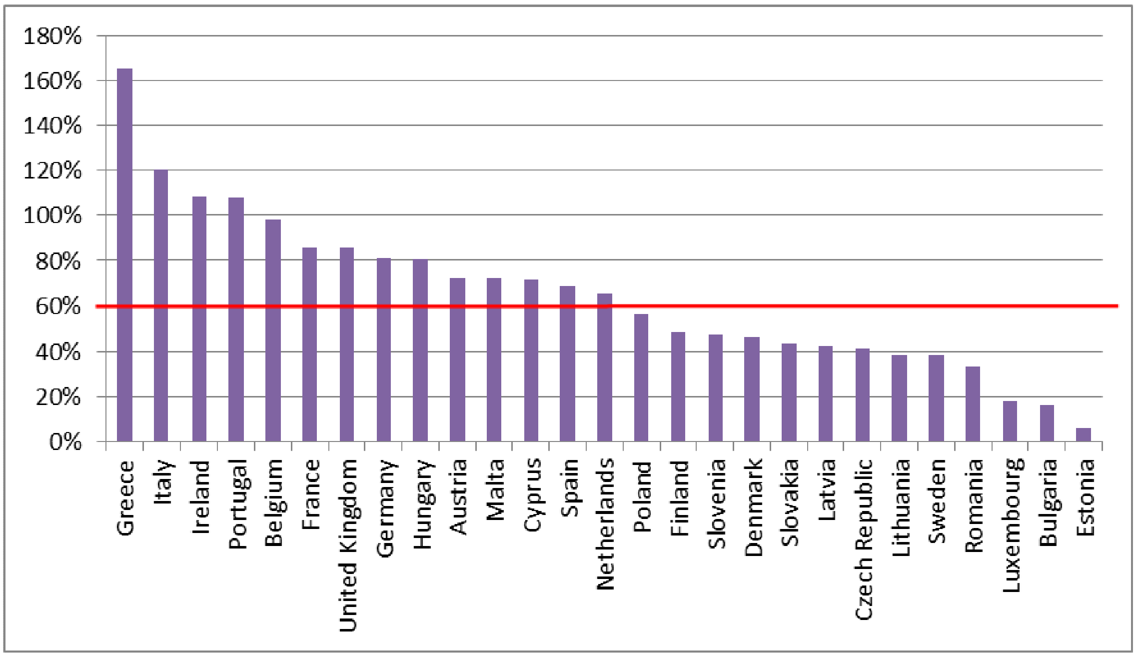

Figure 2. The level of the public debt of EU member states in terms of GDP at the end of 2011
*source: own elaboration based on [15, p. 150]

«Sixpack» has defined the set of procedures to reduce the state budget deficit and public debt, and introduced a new reporting document - report of the observance of SGP.

Report for the observance of the SGP shall be annual, and indicate the planned macroeconomic indicators of deficits and public debt for the planned year and for the next 3 years [20, p. 2]. For example, when a member country of the Covenant is not able to take measures to ensure the level of the deficit in the limits prescribed by the law, there will be 0.2% of GDP, which could be transformed into a penalty if you are not fulfilling the requirements. When submitting false data an additional fine shall be collected [4, p. 4-5].

As for a gross sovereign debt of a member country of the SGP, which it exceeds 60% of GDP, a new benchmark of debt reduction (debt brakes), has been introduced - reduction of the debt can be at a pace of 5% annually, compared with the average for the previous three years [8, p. 35].

In March 2012, the member States of the EU signed an additional regulating interstate agreement – «Agreement on stability, coordination and management of the economic and monetary union» or «Fiscal Compact» (Fiscal Compact), the participants of which are all members of the European Union, except the Czech Republic and the UK [14, p. 1-3]. This agreement partially duplicates the norms specified in the «Six Pack», but this is done with the purpose of strengthening the established rules at the expense of internal checks and controls - the implementation of norms in the national legislation of the member country. The agreement entered into force on 1 January 2013 for 16 countries. The main principles of the «Fiscal Pact» are:

1. Balanced budget rule. The budget of the General government should be balanced or in surplus. Annual structural deficit should not exceed 0.5% of GDP. Countries with the level of debt are much lower than 60% of GDP are allowed to reach the level of the structural deficit within 1% of GDP.
2. Rule of budget cuts. It is a duplicate rule as a balanced budget rule, based on Regulations that are in a Package of six, but operates as a separate regulator introduced into domestic legislation.
3. Automatic mechanism of correction. This mechanism is triggered in the case of non-compliance of two above mentioned rules.
4. Introduction of rules in national legislation. All three of the above mentioned rules must be implemented in national legislation.
5. Economic partnership program. A country in a mode of correction of the excessive deficit must submit to the Commission and the Council of economic partnership programme for the approval of the program of structural reform on sustainable reduction of the fiscal deficit in the long term. Implementation of the program and annual budget plans compatible with the program of reforms, are controlled by the Commission and the Council [21, p. 3].
6. Coordination of government debt issuance**.** Contract parties should report on their plans for borrowing in the capital market the Council of the European Union and the European Commission to improve coordination of planning national borrowings.
7. Implementation and coordination of the policy of improving competitiveness, employment and financial stability. Member States must take the necessary actions and measures for providing of competitiveness and employment promotion that will increase the sustainability of public finances and

strengthen financial stability. Such actions are coordinated with other EU countries and with the European Commission [22 p. 6-24].

Additionally the "Euro Plus Pact» was adopted which has defined more rigid fiscal policy [9, p. 3]. According to this document a number of changes must be made in the legislation of the member states:

- the abolition of wage indexation;
- the increase in the retirement age;
- the creation of a single European tax base of the corporate tax rate;
- the creation of the mechanism of a «debt reduction».

The abolition of wage indexation will allow EU countries to reduce real labor costs that actually enhance productivity and allow employers to hire more people. Thus, the employment will increase and the costs in the public sector will reduce.

The retirement age increase, as well as implementation of the “Scheme using targeted incentives for hiring workers in old age” will reduce the burden on the pension system and provide some protection from crises of sustainability of public finances in the medium and long term, associated with the ageing process.

As regards the further development of the EU countries, one should note the adoption of 2 fiscal regulations in May 2013 (twopack), which determine the creation of a fiscal union in the framework of the Economic and Monetary Union. These regulations are based on the principles on monitoring and evaluation of government budgets and on the ensuring the correction of the excessive deficit in the Euro area [10, p. 2].

Conclusions and further research. Thus, the analysis gives the opportunity to make such conclusions:

1. The problem of ensuring the sustainability of public finances in foreign countries received a substantial important practical value. An effective tool to ensure the sustainability of public finances in the EU is a fiscal policy that should be based on promotion of budget revenues and reduction of expenses for social sphere. These vectors of regulation are provided by a series of fiscal rules defined in the regulations and resolutions of the European Parliament.

For Ukraine the implementation of such fiscal mechanisms of regulation as the rule of budget balance, the rule of debt reduction and automatic mechanism of correction of the budget policy will make a step forward on the way to improve the sustainability of the public finance system.

2. Introduction in Ukraine the monitoring of the dynamics of indicators of the sustainability of public finances will determine not only the amount of fiscal gaps (and their accounting in relation to GDP), but also the reasons of their formation. Calculations of changes in indicators of short-, medium - and long-term perspective will provide an opportunity to identify meaningful benchmarks for achieving the required primary balance of the operations sector of the general state governance for a certain period. The obtained results will be used for development of specific measures aimed at the achievement of these targets and determination of volumes and structure of financial resources needed for their implementation [1, p. 36].

3. To solve the problems of the sustainability of public finances and ensure sustainable development of Ukraine, it is advisable to establish its own system of assessment of the sustainability of public finances, similar to the existing in the EU countries. It is necessary to take into account the peculiarities of the financial and economic system of our country. For the introduction of a unified system of evaluation of the sustainability of public finances in Ukraine the problem of creation of the information base, organization of data collecting and its processing should be solved - to make the changes into requirements for the development and publishing appropriate statistical indicators of development of the public finance system, as well as methodological support for their evaluation.

References

1. Gasanov S. S., Kudryashov V. P., Balakin R. L. Formation of the financial sustainability indicator system of the general public managment sector. Gasanov S. // Finance of Ukraine. – 2012. - №9. – p. 18 – 37.
2. Communication from the Commission to the European Council. A European Recovery Plan. COM (2008) 800 final. – Brussels. – 26.11.2008. – PP. 1–19.
3. Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States // Official Journal of the European Union. – L 306. – 23.11.2011. – PP. 41-47.
4. Council Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area // Official Journal of the European Union. – L 306. – 23.11.2011. – PP. -1-7.
5. Council Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area // Official Journal of the European Union. – L 306. – 23.11.2011. – PP. 12-24.
6. Council Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies // Official Journal of the European Union. – L 306. – 23.11.2011. – PP. 25-32.

7. Council Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances // Official Journal of the European Union. – L 306. – 23.11.2011. – PP. 33-40.

8. Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure // Official Journal of the European Union. – L 306. – 23.11.2011. – PP. 33-40.

9. Cover note from the General secretariat of the European Council to Delegation. Consultations. – Brussels. – 20.04.2011. – PP. 1- 38 [Electronic resource]. – Access mode: http://www.consilium.europa.eu/uedocs/cms_Data/ docs/pressdata/en/ec/120296.pdf/

10. European Commission. 'Two-Pack' enters into force, completing budgetary surveillance cycle and further improving economic governance for the euro area. MEMO (2013) 457. Europa. 27 may 2013.– 27.05.2013. – PP. 1-5 [Electronic resource]. – Access mode: http://europa.eu/rapid/press-release_MEMO-13-457_en.htm

11. European Commission. Ensuring sound public finances: Fiscal Sustainability Report 2012. Memo (2012) 1001 . Europa. 18 December 2012. – Brussels. – 18.12.2012. – PP. 27-38 [Electronic resource]. – Access mode: http://europa.eu/rapid/press-release_MEMO-12-1001_ en.htm#footnote-2

12. European Commission. Public Finance in EMU 2012// European Economy.-2012.- №4 – 329 p.; Public Finance Sustainability [Electronic resource]. – Access mode: http://ec.europa.eu/europe2020/pdf/themes/03_public_ finance_ sustainability.pdf

13. European Commission. Fiscal Sustainability Report 2012// European Economy. – 2012 - №8 – 204 p. [Electronic resource]. – Access mode: http://ec.europa.eu/economy_finance/publications/european_economy/2012/fiscal-sustainability-report_en.htm

14. European Commission. Public Finance in EMU 2012// European Economy.-2012.- №4 – 329 p.; Public Finance Sustainability [Electronic resource]. – Access mode: http://ec.europa.eu/europe2020/pdf/themes/03_public_ finance_ sustainability.pdf

15. European Commission. Spring forecast 2013 - The EU economy: adjustment continues// European Economy.-2012.- №4 – 329 p. [Electronic resource]. – Access mode: http://ec.europa.eu/economy_finance/publications/ european_economy/2013/pdf/ee2_en.pdf

16. Fiscal compact enters into force 21/12/2012// European Council. Press 551, Nr. 18019/12. – Brussels. – 21.12.2012. – PP. 1-4 [Electronic resource]. – Access mode:http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/134543.pdf

17. General Government Data: Revenue, Expenditure, Balances and Gross Debt (Part II: Tables by series). European Commission 1 May 2012. .– 31.08.2012. – PP. 1-38 [Electronic resource]. – Access mode: http://ec.europa.eu/economy_finance/db_indicators/gen_gov_data/documents/2012/spring2012_country_en.pdf

18. Giammarioli, N. et al., "Assessing fiscal soundness: theory and practice" //Occasional Paper Series No 56. – ECB. - Frankfurt am Main. - March 2007, 378 P.

19. Official website Europe-2020 [Electronic resource] – Access mode: http://ec.europa.eu/europe2020/ index_en.htm

20. Stability and convergence programmes are prepared by Member States to present their medium term budgetary strategy. European Commission. Economic and financial affairs [Electronic resource] – Access mode: http://ec.europa.eu/economy_finance/sgp/convergence/

21. Statement by the euro area heads of state or government// European Council – Brussels. – 09.12.2011. – PP. 1-7 [Electronic resource]. – Access mode:http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/126658

22. Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG). European Council. 2 March 2012. – Brussels. – 17.08.2012. – PP. 1-35 [Electronic resource] – Access mode: http://european-council.europa.eu/eurozone-governance/treaty-on-stability

Abstract

Onufriichuk O. P. FISCAL SUSTAINABILITY AND ITS ENSURING IN FOREIGN COUNTRIES

The aim of the article is the analysis of foreign experience in the context of evaluating and ensuring the sustainability of public finances and the possibility of its use in Ukraine.

A variety of general scientific and special methods is used in this study. Methods of logic, analysis and synthesis are used in conducting specification of methods to assess the sustainability of public finances. Induction and deduction are used in the study of the role and essence of the instruments of state influence on public finances. Method of theoretical generalization is applied by the clarification and definition of the economic content of the fiscal sustainability. When looking for the directions of the improvement of the national system of public finance used the method of analogy and system approach. In addition to the above-mentioned methods, in the study of different economic indicators were also used methods of statistical analysis, structuring, comparisons of surveillance and groupings that led to the creation of tables and diagrams presented in the article.

The results of the implementation of this work are: the study of concept of "fiscal sustainability"; assessment of sustainability of public finances in the euro area; the analysis mechanism to provide fiscal sustainability in the EU; make recommendations to ensure fiscal sustainability in Ukraine.

Scientific novelty of the results is that in the article, on the basis of the survey of current trends and directions of fiscal policy in the Euro zone countries was carried out its first analysis of the fiscal sustainability of the EU member States according to the degree of risk in different term.

The scientific-practical recommendations on the use of the European integration experience for ensuring the sustainability of the national system of public finance have been developed.

The practical significance of the research is that its results can be used in the improvement of fiscal legislation of Ukraine.

Keywords: sustainability of public finance, fiscal sustainability, budget deficit, government debt, fiscal policy, debt brake.