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## **FISCAL LEVERS TO ENHANCE NATIONAL ECONOMY RESILIENCE<sup>1</sup>**

Conceptual frameworks for middle- and long-term perspective of innovational economic development in Ukraine are formed on synergic basis of implementing strategic directions to transform state regulation in the conditions of uncertainty. Primarily a fundamental change in the understanding of sustainability is necessary: the priorities of sustainability according to the UN-2030 [10] program (long-term ability to maintain adaptability, durability) should be strengthened by the policy of resilience (resilience, elasticity – the ability to recover from deformations, social unrest caused by wars, conflicts, shocks, crises).

It makes sense to consider the features of the institutional space for managing change through public finance reforms aimed at improving the sustainability of the national economy. One of the key areas is the transformation of EU fiscal rules and their reforms perspectives in Ukraine. The other is medium-term budgetary planning as a financial mechanism for strategic management and necessary steps to implement it. The main strategic tasks and tools for improving program-target budgeting encompasses: neutralizing the multiplier effects of uncertainty which include strengthening the institutional space. No less important is taxation of virtual assets, implementation of CRS (Common Reporting Standard), OECD/G20 Project to address BEPS (Base Erosion and Profit Shifting), etc.

Moreover, ways of improving preferential policies based on the concept of tax expenses need to be explored. In order to increase the efficiency, stability and predictability of the tax system in the context of harmonizing legislation with EU standards the following steps are necessary: to implement the conceptual principles of tax expenses, strengthen the target nature of tax benefits; to implement EU practical approaches [4; 5; 9] to the publication of information on the impact of tax expenses on state tax revenues; to organize constant monitoring of tax benefits and activities of business entities that receive them in order to prevent legalization (laundering) of proceeds obtained by criminal means.

De-shadowing of the economy cannot be left without attention. Risk-oriented approach in combatting money laundering has to be implemented as well as FATF Standards [7].

Recently in September this year International Monetary Fund (IMF) staff and the Ukrainian authorities have reached staff-level agreement (SLA) on the Fifth Review of the 4-year Extended Fund Facility (EFF) Arrangement. Subject to approval by the IMF Executive Board, Ukraine would have access to about US\$ 1.1 billion (SDR Special drawing rights 834.8 million) [6].

Although in 2024 the authorities with the support of business managed to keep the national economy sustainable. The forecast is still pending as the situation on the frontline remains grave. Ongoing hostilities can mean that Ukraine will need new funding. This can be obtained from both efforts by Ukrainian government and donors' input. Performance under the IMF program has remained strong despite the war. Our country has fulfilled all the QPC (quantitative performance criteria), which were set for the end of June this year. Ukraine has also set policy projects and reached the structural benchmarks due for this review. Common grounds were found on the scope of eforms that will help to guarantee macroeconomic sustainability during the ongoing war.

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<sup>1</sup> Prepared in the framework of performing the project “Formation of the foundations of nationally rooted stability and security of the economic development of Ukraine in the conditions of the hybrid “peace-war” system” State registration number 0123U100965.

As of the October 1, 2024 the data prove that full-scale invasion of Russia inflicted grave damage on the national economy and its society. Nevertheless, real GDP grew by 4,5 % ( $\pm 1$  %) year to year [1] in the 9 months of 2024, and gross international reserves were adequate at 38,9 billion US dollars [3]. At the same time, the inflation rate increased to 8,6 % year-on-year in September [2]. That is due to adaptive capacity of enterprises and households, taking sensible political decisions as well as unwavering financial support from the allies.

Macroeconomic indicators in the world, emerging and developing Europe and in Ukraine proved to be better than expected, which led to an optimistic review of future prospects. Due to the stability of public finances and the socio-economic space, higher GDP growth rates, a long-term slowdown in inflation and the stability of the currency markets have been ensured in general. At the same time, rather high forecast risks remain due to extreme uncertainty, as well as climate changes and other emergencies [11].

As a result of repeated attacks of Russia on critical infrastructure as well as damage inflicted on the society of the war-torn country, namely a hard blow for labor market and worries in the society, the economists forecast 3 % growth in 2024. Risks to the prospects remain exceptionally high, as the war is thought to progress into 2025. As it is expected that the war will continue in 2025, prospectives are at really high risk. So, Real GDP growth is expected to reach around 2,5-3,5 %. By the end of 2024 inflation is expected to rise to about 9 % [11; 6] (taking into account IMF' refinings of statistical data). At the beginning of winter, it is essential to deal with the energy crisis. This requires strong joint efforts of Ukraine and our partners.

The Ukrainian authorities need to increase tax revenue in 2025 and beyond. This can help to increase fiscal stability by making space for essential spendings. The core of 2025 Budget is made of respecting debt sustainability objectives, financing constraints. It should be aimed at domestic revenue mobilization. To achieve this the government provides strong tax policy measures as well as essential efforts to get rid of loopholes that make tax evasion possible. What is more, improved compliance and combatting shadow economy in line with the National Revenue Strategy for 2024–2030 should be implemented. Reforms, especially in the sphere of customs are economically vital. Changes in Customs Code would fix the central role of the Finance Ministry in supervising customs activities. Meanwhile, financial aid from partners, which can be forecasted and timely obtained, remains essential to maintain economic sustainability. It is important to note that the adoption of this Strategy was one of the structural benchmarks in the context of the implementation of the Extended Fund Facility (EFF) Program with the IMF, and its timely completion, by the end of December 2023. The inclusion of such a benchmark in the IMF – Ukraine Memorandum was due to the need to create conditions for increasing domestic fiscal revenues. To achieve this, Ukraine will have to strengthen its capacity to collect tax and customs revenues.

The adoption of the Strategy is also closely related to the launch of the Ukraine Facility – the EU Financial Support Program for Ukraine [8]. According to this program, during 2024–2027, the EU will allocate 50 billion euros to finance the state budget, stimulate investment, as well as technical support in the implementation of the program. To receive the first tranche of financing under this Program in March 2024, Ukraine successfully implemented five indicators, including the adoption Strategy. The National Revenue Strategy for 2024–2030 is based on the principles of justice, honesty, integrity of the tax base and its gradual expansion, harmonization of tax and customs regulations with international standards. Action Plan has short-, medium- and long-term scale of well-defined steps: strengthening countermeasures against criminal offenses in the field of public finances, avoiding information asymmetry; improvement of fiscal revenues administration; approximation of Ukrainian legislation to EU standards; formation of a transparent tax base for the income of legal entities and individuals; fight against corruption; reforming the simplified taxation system, minimizing tax evasion, in particular by large businesses<sup>2</sup>.

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<sup>2</sup> Approved by the order of the Cabinet of Ministers of Ukraine dated 27.12.2023 № 1218.

At present attention is transferred onto the existing external commercial claims within the framework of restructuring, including the GDP warrants. They are to be viewed in connection with the program's strategy to restore debt sustainability. At the same time, the successful treatment of Ukraine's Eurobonds will free up resources for areas that have priority in spendings, delivering substantial debt relief.

In Ukraine fiscal space is stable and flexible, and reforms continue at a steady pace, despite the challenges associated with martial law. Therefore, consensus between authorities and business seems to be crucial in order to introduce necessary changes to the Tax Code successfully. Induced increase in tax load as well as reforms in the field of administrating obligatory payments and dues will provide an opportunity to make the funding of the Armed Forces of Ukraine better.

The Government's action plan for 2024 is: to promote the attraction of domestic and foreign investments, regardless of the forms of ownership; to participate in projects for the creation and production of defence products. The introduction of public-private partnership, amendments to the Tax Code of Ukraine regarding the creation of investment incentives will be provided, namely, attraction of investments for the purpose of effective and rational use of the available scientific potential, material and technical base as well as for commercialization of the results of scientific research, their implementation in the domestic and foreign markets ("Science.City")

In the conditions of the escalation of modern geopolitical conflicts, the global task for the state remains the consistent implementation of reforms aimed at ensuring macroeconomic stability, supporting the implementation of development goals and accelerating the EU membership. Regulation of the relations of economic agents in the state fiscal system is closely interconnected with the scale and pace of the country's development in a given period, based on the set tasks and goals. A crisis in the institutional interaction practice of the main economic regulators usually occurs in years of global and regional upheavals.

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