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Special Features of the Ukrainian Fiscal Policy Transmission Mechanism under Increasing Macroeconomic Instability

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Abstract

The paper describes the key features of functioning of the post-communist economies, which determine the specificity, essential to transmission mechanisms of economic policy. The analysis reveals existing significant influence of institutional factors on the efficiency of fiscal policy transmission mechanism in transition economies. The authors prove a heavy dependence of efficiency of fiscal policy transmission mechanism in Ukrainian economy from institutional factors such as management of government expenditures, consumers' expectations and the level of fiscal decentralization.

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1. Introduction

Modern post-communist economies develop under strong globalization pressure, which is attended by increase in structural interdependence of national economies and integration of their key sectors into 'interdependent comprehensive whole, which functions in real time', as claimed by Castells (2000). These processes exercise a contradictory influence upon transformations of global and national economies. Thus a necessity to rethink economic theory and practice is indispensable to the future economic development of transition economies, as well as to an effective enhancement of economic policy, aimed to support an improved integration of countries into global economic environment.

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It is essential to take into account the fact that globalization generates considerable threats and risks for post-communist countries which operate under unfavorable conditions of permanent increase in global economic instability. Additionally transition economies suffer from accelerated entering into structures of formed macroeconomic interdependences and interrelations.

Peculiar way of development of the transformation economies is supplemented by:

- Structural reconstruction of national economic systems and destruction of existing productive and commercial links.
- Strong external economic liberalization which causes more external than internal pressure on national commodity producers. Thus, possibilities of their rapid adaptation to the global competitive environment are limited.
- Accelerated liberalization of monetary and financial sectors which forms preconditions for capital outflow from real sector to more flexible monetary and stock sectors.
- Undermining national self-sufficiency in ensuring economic development, reducing capabilities of national governmental for economic regulation and achieving the goals of commonwealth.
- Expansion of internal and external risks related to the escalating prevalence of international capital and overwhelming unsustainable global economic development (Grazhevskaya, 2008).

Consequences of the fiscal impulses and their spread in post-communist economies demonstrate the distinctive features which were explored in vast sources of theoretical and empirical economic literature.

The basic underlying ideas were already put forward and developed by Agenor et al. (2000), Gavin and Perotti (1997), Alesina et al. (2008), Aslund (2012) Ilzetzki (2007), Radionova and Alimpiiev (2011) et al. The institutional side of fiscal policy transmission mechanism in transition and low-income economies was highlighted by Mauro (1998), King (1997), Stein (1998), Slukhai (2002).

2. Material and method

Though economic theory explores some of the aspects of macroeconomic instability and proposes certain policy tools for advanced market economies, there exists a lack of theoretical and methodological approaches to explain the macroeconomic deviations in transition economies. Nevertheless some of traditional macroeconomic models could be adapted for the investigation of low-income and/or transition economies, such as e.g. Ukrainian economy. For instance, we applied several consequences from Mundell-Fleming model to the case of Ukrainian economy as a small open economy.

The paper widely uses comparative method with a help of which the peculiarities of fiscal policy transmission mechanism in transition economies were revealed. Such peculiarities differ significantly from those detected in the advanced economies. The study demonstrates that the consequences of similar fiscal impulses in developed and developing or/and transition economies are often opposite.

While considering the consequences of government spending and taxation we applied causal method, developed on the basis of a number of logical chains. By using logical method and comparative analysis, the authors made an attempt to reveal the distinctiveness of transmission of the fiscal impulses in transition economies which has allowed formulating general principles of taxation, expenditures, and management of government debt in Ukrainian economy.

When applying statistical analysis to reveal distinctive features of Ukrainian economy we used a number of time series from 2000 to 2012, such as: the volume of the costs of detected offenses and inefficient use of public funds, Consumer Expectation Index, public spending of State and Consolidated budgets, State and local budgets expenditure share in GDP, and intergovernmental transfers. The empirical basis of the study consists of the number of reports and statistical issues of governmental organizations and research institutes. The detailed statistical analysis outlines the key trends of Ukrainian public finances for the period of 2000 – 2012 and highlights some of the specific features of the Ukrainian fiscal policy transmission mechanism.

Some resolutions of The Verkhovna Rada of Ukraine and Ukrainian government were analyzed to reveal the distortions in implementation of national fiscal policy.

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