

ppi 201502ZU4645

Esta publicación científica en formato digital es continuidad de la revista impresa  
ISSN-Versión Impresa 0798-1406 / ISSN-Versión on line 2542-3185 Depósito legal pp  
197402ZU34



# CUESTIONES POLÍTICAS

Instituto de Estudios Políticos y Derecho Público "Dr. Humberto J. La Roche"  
de la Facultad de Ciencias Jurídicas y Políticas de la Universidad del Zulia  
Maracaibo, Venezuela



Vol.41

Nº 78

Julio

Septiembre

2023

# The budgetary mechanism of the national economic development model: Political aspects

DOI: <https://doi.org/10.46398/cuestpol.4178.30>

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## Abstract

The main objective of the article was to study the legal and economic aspects of the formation of the budgetary mechanism of the national model of economic development. It is possible to ensure the dynamic processes of economic development of Ukraine only through effective regionalization, which significantly increases the requirements for the formation and use of the financial potential of the regions, which requires the development of strategic priorities for public financial management of the region as a whole. The research methodology involved the use of modern theoretical methods of analysis within the framework of dialectics. As a result of the analysis, the key aspects of the budgetary mechanism of the national model of economic development in Ukraine were characterized. It is concluded that, the study has a number of limitations in conducting a purely theoretical analysis. Further research should be devoted to the examination of digital technologies for the formation of the budget mechanism of the national model of economic development, among other aspects.

**Keywords:** budget; economic policy; regional development; economic development; legal frameworks.

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## El mecanismo presupuestario del modelo nacional de desarrollo económico: Aspectos políticos

### Resumen

El objetivo principal del artículo fue estudiar los aspectos legales y económicos de la formación del mecanismo presupuestario del modelo nacional de desarrollo económico. Es posible asegurar los procesos dinámicos de desarrollo económico de Ucrania solo a través de una regionalización efectiva, que aumenta significativamente los requerimientos para la formación y aprovechamiento del potencial financiero de las regiones, lo que requiere el desarrollo de prioridades estratégicas para la gestión financiera pública de la región en su conjunto. La metodología de investigación implicó el uso de modernos métodos teóricos de análisis en el marco de la dialéctica. Como resultado del análisis, se caracterizaron los aspectos clave del mecanismo presupuestario del modelo nacional de desarrollo económico en Ucrania. Se concluye que, el estudio tiene una serie de limitaciones al realizar un análisis puramente teórico. Se debe dedicar más investigación al examen de las tecnologías digitales para la formación del mecanismo presupuestario del modelo nacional de desarrollo económico, entre otros aspectos.

**Palabras clave:** presupuesto; política económica; desarrollo regional; desarrollo económico; marcos legales.

### Introduction

In modern conditions, the social function of the state is becoming increasingly important, which necessitates the search for effective mechanisms to ensure the development and growth of the welfare of the country's citizens. Considering that it is the budget that is the basis for the development of the economy, its implementation has become a priority for the government. In the process of forming the budget policy, it is necessary to determine the directions for the use of the budget in accordance with the tasks of the economic development of society.

The economic and social development of the country depends on its effectiveness. The formation and successful implementation of the budget policy are carried out with the help of its most dynamic component, as a budget mechanism. This is due to the implementation of economic changes, where the active use of the budget is a tool to influence the acceleration of economic development. In the context of the implementation of the new economic strategy, public authorities are faced with a number of problems, the objective causes of which are the economic crisis, a significant level

of shadow economy, and the dominance of obsolete equipment and technologies in the structure of production.

The subjective reasons include manifestations of corruption, a tendency to deviation in the public sector, an insufficient level of investment and economic activity of budgetary relations. In general, the budgetary mechanism is a set of forms and methods of organizing budgetary relations used by the state in the distribution and redistribution processes of GDP to regulate socio-economic development.

In the economic system of any region, the budget and the budgetary mechanism occupies a special place. The budget is one of the main instruments of the state, which, with the help of the budgetary mechanism, is used for state regulation of the economy, stimulating production and social processes. Through the budgetary mechanism, the budgetary policy of the state is implemented, aimed at providing financial resources for the needs of the economic and social development of the country and its regions. Thus, the budget mechanism can be defined as a set of organizational, methodological, legislative and regulatory provisions that ensure the functioning of the state budget system, as well as a set of methods, tools (procedures) and levers through which management decisions are implemented in the process of formation and use of centralized funds, funds of the state and its territorial administrative units or respective regions.

The budgetary mechanism reflects the economic relations existing in the budgetary system on the use of certain methods, tools, levers for the formation and implementation of an effective budgetary policy to ensure the socio-economic development of the regions and the state as a whole.

When forming the budgetary mechanism, the state should try to change it in accordance with the needs of the budgetary policy in force at that time, which will make it possible to fully realize its goals and objectives. In this process, it is also necessary to ensure the correlation between the constituent elements of the budgetary mechanism and public interests. All this and much more actualizes the choice of this research topic.

The main purpose of the article is to study the legal and economic aspects of the formation of the budgetary mechanism of the national model of economic development.

## **1. Materials and methods**

The research methodology is based on dialectical, systemic and institutional approaches, according to which the budgetary mechanism for the development of the state economy is considered inextricably linked and causal. In the process of research, general scientific and special scientific methods were used.

The interpretation of the main categories and concepts is based on the use of methods of analysis and synthesis, induction and deduction, abstraction, analogy, theoretical generalization and modeling. All this allows you to achieve the goal in the article.

## **2. Literature review**

According to most authors (Abramova *et al.*, 2021; Arefieva *et al.*, 2021; Burdenko, 2021), the problems of national security caused by external threats and internal structural transformation require a revision of strategic priorities of economic development in order to ensure stable inclusive state growth, to determine the main regions of budget policy on their own field by the solution of the settings presented largely depending on the field the validity and harmonization of methods, forms, tools, tools and levers of the budget mechanism chosen for the implementation of budget policy as a means of direct influence of state bodies and local self-government on socio-economic processes.

Scientists note (Derhaliuk *et al.*, 2021; Desiatniuk and Marchenko, 2021; Digdowiseiso, 2022) that the current state of economic development is characterized by the intensification of destructive processes caused by the economic crisis, military aggression in the east of the state, the beginnings of command and the administrative system, antagonism of the boundless growth of social needs and disabilities, a significant level of shading. Despite the fact that our country is recognized as a market economy in order to apply for the completion of market transformations, and the successful achievement of the results is not necessary.

According to scientists (Garafonova *et al.*, 2021; Graziano and Hartlapp, 2019), the formation and functioning of the budget mechanism of socio-economic development of the state is accompanied by a number of theoretical, methodological and organizational legal problems of the period of transformation, which negatively affect the rate of economic growth and level of social security.

The inconsistency of the requirements of the time and the inconsistency of certain methods, forms, tools and levers of the budget mechanism deepens the budget imbalance and complicates the implementation of the budget policy, the manifestations of the low efficiency of which are a significant accessibility of reducing public services, taxpayers, deficit and low efficiency of expenditure budget, constant increase in public debt, small amounts of investment in the budget, worsening budget discipline by participants in the budget process.

Despite a significant amount of scientific research on the mutual influence of the budget policy on the socio-economic development of society, there are many gaps in solving problems of improving the effectiveness of budget policy in the field of social development of the state. The insufficient theoretical substantiation of the grounds for the budget mechanism causes insufficient use of the budget mechanism in solving socio-economic problems.

### **3. Research Results and Discussions**

The mechanism for the formation of budgetary resources includes tax, loan, transfer, non-tax methods, and the mechanism for the use of budgetary resources - budgetary support. Budget forecasting and planning, budgetary regulation, budgetary control are common methods of both subsystems of the budgetary mechanism.

The instruments of the budgetary mechanism of the socio-economic development of the country reflect the specific form of cash flows. Any tool is a means of solving some problems or achieving a certain influence. The activity of monetary instruments is a determining factor in the effectiveness of the budget mechanism for the socio-economic development of the country.

The action of the mechanisms for the formation of budgetary resources is strengthened or weakened by such levers as: tax rates, fees, tax incentives, tax holidays, standards for transferring income to budgets of different levels, the amount of state duty, rent, fees for services of budgetary institutions, parts of net profit ( income) of state or communal unitary enterprises and their associations withdrawn to the relevant budget, fees for the placement of temporarily free funds, interest on the use of a budget loan, financial standards for budgetary security, conditions for borrowing, issuance of securities, other standards, incentives (Lysiak *et al.*, 2021; Mcquestin *et al.*, 2022).

The provision of interbudgetary transfers occurs as a result of the redistribution of GDP using a centralized fund of financial resources. Therefore, they are reflected in the expenditure side of the budget, from which they are provided and serve as an instrument for the mechanism for using budgetary resources (formed using tax, loan, non-tax methods).

At the same time, interbudgetary transfers are revenues of the budget received from them, and, therefore, they are related to the instruments of the mechanism for the formation of budgetary resources. Actually, therefore, the transfer method of accumulating interbudgetary transfers, along with such basic methods as tax and loan, to a certain extent plays an

important, albeit secondary, role (Melnychuk, 2015; Nikiforov *et al.*, 2022; Stryzhak *et al.*, 2022).

The effect of transfers as an instrument of the budgetary mechanism for the economic development of the state is strengthened or weakened by such financial levers as: financial standards for budgetary security (used to calculate medical, educational subventions), the normative value of the tax capacity index, at which a basic subsidy is provided to the local budget or transferred to the state budget subvention, equalization coefficient, conditions for the use of subventions.

Budget support is a method of the budgetary mechanism of the socio-economic development of the state, through which cash flows in the form of budget financing, budget lending, financing for debt and active operations, associated with the implementation of budget expenditures of the appropriate level in order to meet the needs of public authorities and local self-government in budgetary resources for the proper performance of the functions assigned to them.

The main instrument of the budget mechanism for the socio-economic development of the state, used in the process of financing for debt and active operations, are budget expenditures, and the levers are the terms of repayment of loans, the purchase of securities.

When studying modern realities and conducting an analytical assessment of the practice of forming and using budgetary resources, it is advisable to use such methods of empirical research as observation, measurement, description, comparison, experiment, and expert assessments. For example, correlation and regression analysis can be used to identify links and dependencies between indicators of the volume of gross domestic product, the volume of budget expenditures on the operating, investment and financial activities of the state.

The modern realities of the organization of budgetary relations and the results of their changes due to the administrative-territorial, budgetary, tax reforms indicate that the significant problems that arise in this area are largely due to conceptual uncertainty in the system of institutions of society and require research in the context of institutional changes in budget management. That is why, using the institutional approach to the study of the budgetary mechanism of the socio-economic development of the state, first of all, it is advisable to determine the use of the term itself.

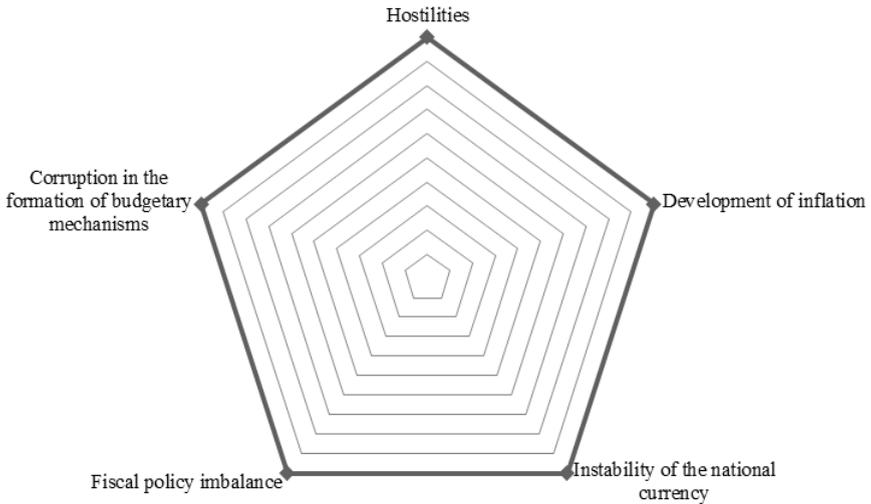
It is expedient to formulate fiscal rules by: determining the general purpose of introducing a fiscal rule; setting deadlines for achieving the goals set to monitor the effectiveness of fiscal restrictions; determination of the legal act regulating the application of this rule; detailing the entities that must comply with fiscal rules, and the objects in relation to which it applies; setting limits for specific benchmarks; determination of the

conditions for deviations from the restrictions established by the fiscal rule; a clear definition of the stage of the budget process at which the rule applies; determination of the subjects of control over the application of the fiscal rule; development of sanctions for violation of the fiscal rule.

Considering the functioning of the budgetary mechanism of the socio-economic development of the state through the prism of the theory of institutionalism, we summarize what happens in the institutional environment in the process of interaction between participants in the budgetary process based on certain established norms, rules, restrictions, and standards for managing budgetary resources. The above gives grounds to consider a harmoniously developed institutional environment as an important direction for overcoming the contradictions of the functioning of this mechanism.

The effectiveness of budget policy as an imperative dominant of the system of state regulation of socio-economic development depends on the targeted choice, consistency and effectiveness of methods, forms, tools and levers of the budget mechanism for the socio-economic development of the state. The need to solve such tasks of state policy: a gradual transition from a consumer to an innovation-investment model of economic development, intensification of investment activity, improvement of the business climate, reorientation of production potential to create competitive industrial and agricultural industries, overcoming the technical gap, pursuing a policy of promoting products of Ukrainian manufacturers to foreign markets, the development of human capital by strengthening the social orientation of the budget, increasing consumer demand requires a revision of the principles for the formation and functioning of the budgetary mechanism for the socio-economic development of the state.

The main threats to the implementation of the budgetary mechanism for the development of the national economy are presented in Fig.1.

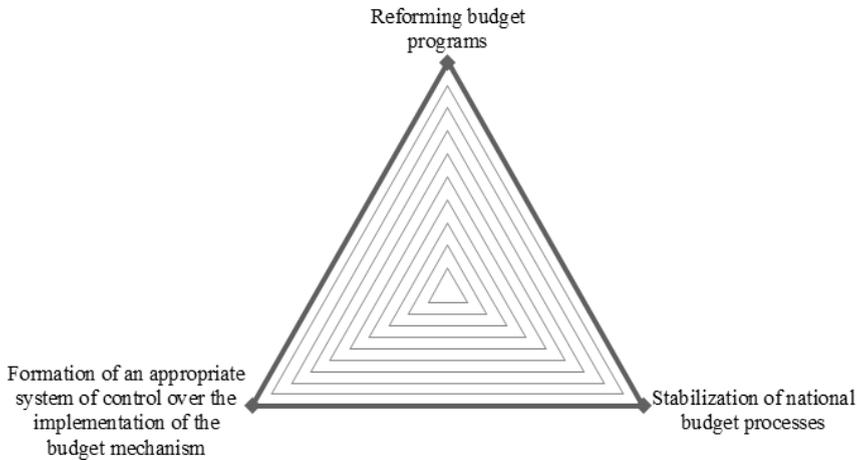


**Figure 1. The main threats to the implementation of the budgetary mechanism for the development of the national economy. Formed by authors.**

The effectiveness of the functioning of the budgetary mechanism for the socio-economic development of the state is an external manifestation of the influence of financial methods, forms, tools and levers of this mechanism on distribution processes and is determined by a set of indicators characterizing the degree of achievement of established goals. Therefore, it is possible to single out a positive, negative and zero result of the functioning of the budget mechanism.

The effectiveness of the functioning of the budgetary mechanism of the socio-economic development of the state shows whether it was possible to achieve the greatest results with the least expenditure of resources and can be low or high. It is also worth noting that not always a positive result of the practical application of the financial methods, forms, tools and levers chosen for the implementation of the budget policy indicates the high efficiency of the budgetary mechanism for the socio-economic development of the state, while a negative result unambiguously confirms the inefficiency of this mechanism.

The main measures to improve the effective budget mechanism for the development of the economy are presented in Fig. 2.



**Figure 2. The main measures to improve the effective budget mechanism for the development of the economy. Formed by authors.**

Thus, examining the relationship between the budget deficit, tax, state and local debts, we can state that the negative consequences of using the tax method of forming budget resources, which turned out to be in the growth of tax debt, led to an increase in the budget deficit.

At the same time, the borrowing method is used to provide budgetary support for the functions of state authorities and local self-government and cover the state budget deficit, which leads to an increase in the debt burden due to the growth of state and local debt and the costs of state and local budgets for its maintenance. Solving the problems associated with the use of tax and borrowing methods for the formation of budgetary resources requires the use of balanced approaches to improve the tax and debt policies of the state.

## Conclusions

The leading role in the regulation of distribution relations related to the formation and use of budgetary resources, which results in quantitative and qualitative changes in economic phenomena and processes, is assigned to the budgetary mechanism, the clarification of the influence of which, in our opinion, is impossible without studying the conceptual foundations economic development of the state, economic essence, purpose, immanent functions of the budget as an instrument of state regulation

The formation of the budget is associated with the need to distribute a part of the cost of the gross domestic product, which the state centralizes to ensure the fulfillment of the functions assigned to it. Thus, society pays the state for the performance of its functions, this payment takes the form of taxes.

Economic processes are influenced by specific financial methods, forms, instruments, levers for the formation and use of budgetary resources. The choice of these elements occurs in the process of developing and implementing the budget policy (the conscious (subjective) activity of people to use objectively existing budgetary relations), and their combination forms the composition of the state budget mechanism. In foreign and domestic financial theory, we find a significant list and characteristics of methods, forms, tools, levers (tools) of the budgetary mechanism that are successfully used in financial practice and evolve with the development of budgetary relations.

Summing up, it should be noted that the impact of the budget on the economic development of the state is considered an axiom that the implementation of budget policy and its successful implementation can be ensured through the practical application of financial methods, forms, tools and levers of the budget mechanism. Justification of ways to improve the efficiency of the implementation of budgetary policy, in our opinion, is impossible without disclosing the conceptual foundations for the formation and functioning of the budgetary mechanism for the economic development of the state.

A harmonious combination of methods, forms, tools and levers of mechanisms for the formation and use of budgetary resources provides holistic architectonics of the budgetary mechanism for the economic development of the state. Through financial methods, forms, tools and levers of the mechanism for the formation of budgetary resources, the system of distribution and redistribution processes is regulated, a centralized fund of monetary resources is formed in the amounts necessary for the state to perform its functions.

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# CUESTIONES POLÍTICAS

Vol.41 N° 78

*Esta revista fue editada en formato digital y publicada en julio de 2023, por el **Fondo Editorial Serbiluz**, Universidad del Zulia. Maracaibo-Venezuela*

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