








# “Discretionary budget expenditure in the system of state regulation of the country’s socioeconomic development”

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| <b>AUTHORS</b>      | Mykhailo Kuzheliev  <a href="https://orcid.org/0000-0002-7895-7879">https://orcid.org/0000-0002-7895-7879</a><br>Ihor Rekunenکو  <a href="https://orcid.org/0000-0002-1558-629X">https://orcid.org/0000-0002-1558-629X</a><br>Alina Nechyporenکو  <a href="https://orcid.org/0000-0003-2494-1465">https://orcid.org/0000-0003-2494-1465</a><br>Guram Nemsadze  <a href="https://orcid.org/0000-0001-6508-8208">https://orcid.org/0000-0001-6508-8208</a> |
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Mykhailo Kuzheliev, Doctor of Economics, Professor, Director of the Scientific and Research Institute of Finance and Banking, University of the State Fiscal Service of Ukraine, Ukraine.

Ihor Rekunenکو, Doctor of Economics, Professor, Professor of the Department of Finance, Banking and Insurance, Sumy State University, Ukraine.

Alina Nechyporenko, Ph.D. in Economics, Senior Lecturer, Department of Finance named after L. L. Taranhul, University of the State Fiscal Service of Ukraine, Ukraine.

Guram Nemsadze, CFO of New Land Enterprises Milwaukee, WI, USA.

Mykhailo Kuzheliev (Ukraine), Ihor Rekunenکو (Ukraine),  
Alina Nechyporenko (Ukraine), Guram Nemsadze (USA)

# DISCRETIONARY BUDGET EXPENDITURE IN THE SYSTEM OF STATE REGULATION OF THE COUNTRY'S SOCIO-ECONOMIC DEVELOPMENT

## Abstract

The paper investigates discretionary budget expenditure and determines its role in the system of regulation of country's socio-economic development. In a very difficult political and socio-economic situation, Ukraine faces an urgent need to find a balance between the amount of functions performed by the state and the level of their financial support. The analysis of the State Budget of Ukraine expenditure according to the functional classification in 2014–2017 has been carried out. In particular, the discretionary budget expenditures (on state functions, economic activity, defense budget expenditures, budget expenditure on public order, security and judiciary; environmental protection, housing and utilities) are carefully analyzed. The purpose of the article is to study trends in financing discretionary budget expenditure and determine their impact on the socio-economic development of a country. Discretionary budget expenditures are the study object. It is determined that socio-economic development of a country requires government to apply progressive forms, methods and principles of expenditure management between the budget system levels. This need is due to the objective necessity to achieve sustainable development of economy and population welfare. The main problems that reduce budget discretionary expenditure effectiveness in the current conditions are investigated and the main directions to improve their financing are offered. The obtained results indicate the need to revise the funding of discretionary budget expenditures depending on the state policy priorities.

**Keywords** budget, budgetary policy, financing, functions of the state, discretionary expenditure

**JEL Classification** H50, H60

## INTRODUCTION

Budget as a tool for regulating socioeconomic processes through the function of managing its expenditure item affects quantitative and qualitative indicators of public life. The structure of expenditures in its meaning and economic essence must fully correspond to the development of the country's socio-economic relations and be forward-looking. If this condition is not satisfied, the country's economy and its social development are doomed to survival. In this context, the key task for the country's government is to create a system of public expenditure that could maximize the goal achievement for each item of public expenditure, for each budget program, at all levels of the budget system, transforming the budget mechanism into an effective instrument for implementing the socio-economic development strategy of the state. Through the system of state expenditures, the government stimulates business and economic activity, constrains unemployment, solves the problem of overcoming poverty, restricts the menacing differentiation of incomes, etc. (Rodionov, 2013, p. 76).

## 1. LITERATURE REVIEW

An assessment of studies shows that the issues of optimizing the functions of the state with financial resources for their implementation and determining the impact on the pace of socio-economic development of the country are underinvestigated and often do not come under scientists' scrutiny.

In particular, Koliada (2014) suggests that in recent years there has been an increase in the state's influence on the economic and political life of society. This manifests in increase in budget expenditure volumes. Therefore, fulfillment of legally defined functions of the state requires more funding for the corresponding budget programs. At the same time, the volume of budget revenues directly depends on development of the economy as a whole and industry in particular, which, in turn, requires budgetary investments to stimulate economic growth (Koliada, 2014).

The author continues research on this subject in the monograph "Budget Strategy of Ukraine Development: Theory, Methodology, Practice" (2016) (in Ukrainian). He comprehensively analyzes theoretical and methodological principles of the budget strategy of Ukraine, considered trends and patterns of changes in the income-expenditure composition and structure of the consolidated budget of Ukraine. In particular, discretionary expenditure is analyzed and its role in social development is determined (Koliada, 2014).

The problem of financing discretionary budget expenditure is reflected in the collective monograph "Association agreement: from partnership to cooperation" (2018). The authors analyze the need for discretionary expenditure to ensure the fulfillment of state and local government functions for certain needs and extended reproduction (Dei & Rudenko, 2018).

Doroshenko (2015) conducted a rather interesting study on the formation of the expenditure item of the Ukraine's budget in the context of ensuring economic growth.

Rodionov (2013) paid attention to the need to assess the efficiency of public expenditure, in particular, he gave some examples of ineffective use

of budget funds and low level of budget expenditure. The author noted that socio-economic development requires the governments to apply progressive forms, methods and principles of expenditure control between the budgetary system levels. Therefore, measures were proposed to apply the criteria for assessing the expenditure effectiveness for each program, functions that should ensure the rational use of budget according to declared goal (Rodionov, 2013).

Some authors pay attention to the financing of certain types of discretionary budget expenditure. So, Steblianko (2016) emphasizes the need to improve the mechanism of the state structural policy based on budget expenditure for economic activity. He also points out that during the structural policy development the key is the consideration of the institutional features of the domestic economy, the economic cycle phase, and the financial standing (Steblianko, 2016).

Chernyshova (2017) analyzes defense expenditures in more detail. In particular, she considers the procedure for forming the state budget expenditure for the needs of the Armed Forces of Ukraine.

Key issues regarding the definition of the optimal amount of budget expenditures for financing the state functions in Ukraine require in-depth study. There is also a need for further theoretical substantiation and generalization of experience in practical use of new approaches to financing discretionary spending and determining their role in the system of state regulation of socio-economic development of a country.

## 2. RESEARCH OBJECTIVE

The purpose of the paper is to study trends in financing discretionary budget expenditure and to determine its impact on the country's socio-economic development.

## 3. RESEARCH METHOD

Basic provisions of economic theory and theory of finance make the theoretical and methodolog-

ical basis of the research. The paper uses a set of methods of scientific knowledge, which allowed to realize the conceptual unity of research. Among them are the following: methods of scientific abstraction, systemic and structural methods – to substantiate and develop the conceptual and categorical apparatus; statistical methods (grouping, comparison) – to analyze the trends of funding discretionary spending; methods of factor analysis and synthesis – to determine the main areas of improving the financing of discretionary budget expenditure.

## 4. RESULTS

In Ukraine, as in many developed countries, when trends in the development of fiscal policy are determined, all expenditures are divided into mandatory and discretionary ones. Thus, in the first case, spending is carried out on a regular basis and executed without any restrictions; in the second case, these are costs, which are provided by statute in relation to needs arising at a certain stage of the country development.

Mandatory expenditures are mainly social ones. They are calculated in accordance with the current legislation provisions, which in the future can be adjusted for a certain amount based on macroeconomic assumptions (Koliada, 2016, p. 180).

Discretionary expenditures are carried out in accordance with the current legislation based on annual allocations to the target budget, that is, the functions of the state, and therefore it is very difficult to predict their tendency in the long run. The amount of discretionary expenditure is established as a proportion of output or gross domestic product, or as a specified amount as monetary units.

For discretionary expenditures, which are reviewed and approved annually, it is necessary to use an effective financial control mechanism. This control is carried out for each budget classification item. Given that nowadays the Ukrainian economy is in a recession, the government needs to exercise strict control precisely for discretionary expenditure and reduce its volumes when carrying out budget consolidation.

Discretionary budget expenditure should include the following:

- budget spending on state functions;
- budget spending on economic activity;
- budget defense expenditure;
- budget spending on public order, security and judiciary;
- budget spending on the environmental protection;
- budget spending on housing and public utilities.

To determine the role of discretionary budget expenditure in the system of state regulation of socio-economic development of the country, we will analyze the expenditure of the State Budget of Ukraine according to the functional classification in 2014–2017 (Table 1).

According to the Table 1 data, in 2017, the following expenditures were financed the best:

- in 2017, servicing the debt expenditure amounted to UAH 110.5 billion, which is UAH 14.7 billion, or 15.3% more than the same indicator in 2016;
- in 2017, defense expenditure amounted to UAH 74.4 billion, which is UAH 15.0 billion, or 25.0 3% more than in 2016;
- UAH 87.8 billion was allocated to public order, security and judiciary in 2017; expenditures increased by 16.1 billion UAH or 22.5% compared to 2016;
- in 2017, economic activity expenditure amounted to UAH 47.0 billion, which is UAH 15.6 billion, or 49.7% more than in 2016.

In 2017, there was an increase in the financing of items such as: nation-wide functions (excluding government debt servicing expenditure), housing and utilities, intellectual and physical development, health care, education.

**Table 1.** State budget expenditure according to the functional classification in 2014–2017, UAH bln

Source: Compiled by the authors according to the Ministry of Finance of Ukraine data (Ministry of Finance of Ukraine, 2019).

| Expenditure items  | 2014  | 2015  | 2016  | 2017  | 2017 vs. 2016     |                 |
|--|-------|-------|-------|-------|-------------------|-----------------|
|  |       |       |       |       | Absolute increase | Growth rates, % |
| National functions (excluding debt service expenditures) | 17.8  | 18.6  | 22.3  | 32.0  | 9.7               | 143.5           |
| Debt servicing   | 48.0  | 84.5  | 95.8  | 110.5 | 14.7              | 115.3           |
| Defense  | 27.4  | 52.0  | 59.4  | 74.4  | 15.0              | 125.3           |
| Public order, security and judiciary                     | 44.6  | 54.6  | 71.7  | 87.8  | 16.1              | 122.5           |
| Economic activity  | 34.4  | 37.1  | 31.4  | 47.0  | 15.6              | 149.7           |
| Environmental protection                                 | 2.6   | 4.1   | 4.8   | 4.7   | -0.1              | 97.9            |
| Housing and utilities                                    | 0.1   | 0.02  | 0.01  | 0.02  | 0.01              | 200.0           |
| Health protection  | 10.6  | 11.5  | 12.5  | 16.7  | 4.2               | 133.6           |
| Intellectual and physical development                    | 4.9   | 6.6   | 5.0   | 7.9   | 2.9               | 158.0           |
| Education  | 28.7  | 30.2  | 34.8  | 41.1  | 6.3               | 118.1           |
| Social protection and social support                     | 80.6  | 103.7 | 152.0 | 144.5 | -7.5              | 95.1            |
| Inter-budgetary transfers                                | 130.6 | 174.0 | 195.4 | 272.6 | 77.2              | 139.5           |
| Total  | 430.1 | 576.9 | 684.7 | 839.2 | 154.5             | 122.6           |

Expenditure items for which there is negative dynamics to reduce the amount of allocated funds are as follows:

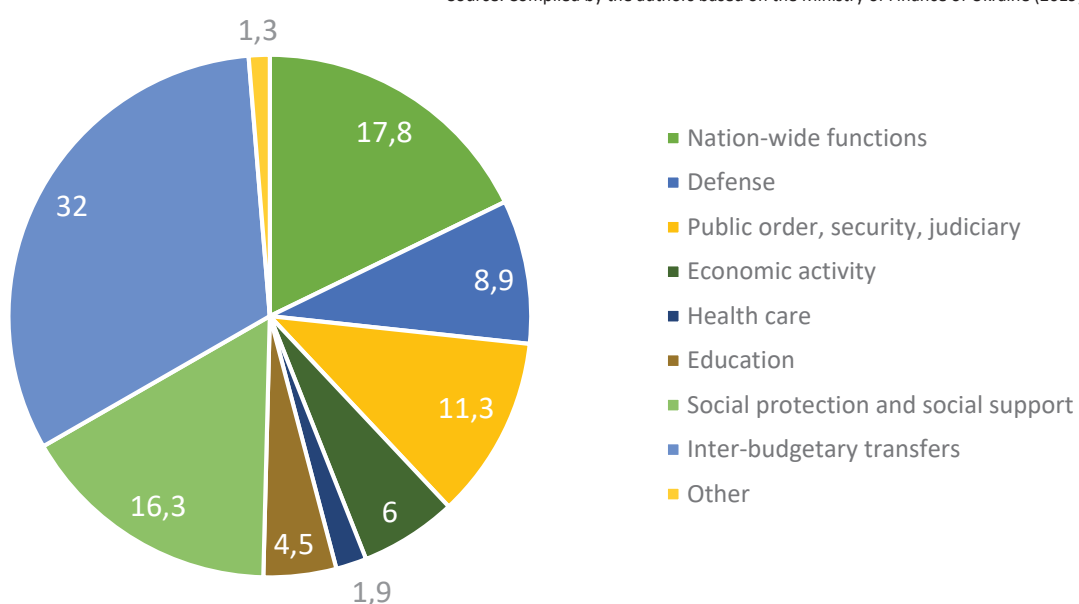
- spending on social protection and social support, which amounted to UAH 144.5 billion in 2017, which is 7.5 billion UAH, or 4.9% less than in 2016;
- in 2017, spending on the environmental protection decreased by UAH 0.1 billion, or by 2.1% compared to 2016 and amounted to UAH 4.7 billion.

Figure 1 shows the expenditure structure of the State Budget of Ukraine as of December 1, 2018.

A high proportion of social expenditure is positive for the society, because in the future it will result in solving socio-economic development and positive trends in society. However, the predominance of investment-related expenditure in the social expenditure structure is necessary (Nechyporenko, 2016, p. 86).

Next, we will examine in more detail the discretionary expenditure of the budget and determine

Source: Compiled by the authors based on the Ministry of Finance of Ukraine (2019) data.

**Figure 1.** Expenditure structure of the State Budget of Ukraine as of December 1, 2018, %

its role in the system of state regulation of the country's socio-economic development.

Among the priorities of financing the state functions, the consolidated budget expenditure on the state functions (higher levels of state administration, local self-government bodies, financial and fiscal activities, foreign policy activities, fundamental research, elections and referendums, servicing of internal and external debts) are important. During the years of Ukrainian independence, the share of this expenditure in the expenditure structure has undergone some changes. In particular, in 1992, expenditure for state functions was sixth in terms of budget financing; in 2000, it was first, and in 2007, it was ranked fifth. At the same time, the share of expenditure on state functions amounted to 6.3% of GDP in 2000, in 2007 it was 3.4% of GDP, in 2017 – 5.4% of GDP. When comparing domestic expenditure on national functions with similar indicators in the EU countries, then in 2011 their share was 6.8% of GDP in the EU-17, 6.6% of GDP in the EU-27, or, respectively, 13.8% and 13.5% in the budget expenditure structure according to functional classification (Koliada, 2016, p. 205).

Two groups of expenditure make the largest share in the expenditure structure of the consolidated budget of Ukraine on the nation-wide functions – on the highest state governing bodies, local authorities and local self-government, financial and foreign policy activities, and debt servicing. In 2007, their total share amounted to 76.6% in the expenditure structure on the nation-wide functions, and in 2017 it was more than 90%. At the same time, changes in the structure take place due to a reduction in the share of expenditure on higher government bodies, local authorities and local self-government, financial and foreign policy activities in favor of increasing the share of debt servicing expenditure.

During 2007–2017, in the structure of expenditure on nation-wide functions, expenditure on debt servicing recorded the highest growth rates. This testifies to the low efficiency of public debt management and a certain discrepancy between the volumes of budget resources that the state can accumulate at this stage of development and the volume of state functions, which state tries to finance at the expense of budgetary funds. As a result, the government is forced to pursue a debt financing policy for

the budget deficit. It should be noted that the advantage is given to the attraction of domestic debt obligations over external ones.

The efficiency of budget expenditures on economic activity need to be carefully analyzed, the amount of financing of which has undergone the most significant changes over the years of Ukraine's independence. So in 2017, they moved from the first to the sixth place according to the budget expenditure priority in 1992. At the same time, their share in the expenditure structure of the consolidated budget decreased from 5.6% to about 2% of GDP, respectively. One can compare these figures with similar indicators of government expenditure in the euro zone and conclude that they are lower. In particular, in the EU-17 this figure is 4.0% of GDP, while in the EU-27 it amounts to 4.1%. Since Ukraine, after signing a EU association, will try to comply with generally accepted European standards, it is not necessary to reduce the total budget expenditure on economic activity, but only to optimize its structure (Koliada, 2014, p. 18).

Expenditure on the state economic activity are connected with the necessity of ensuring the proportional development of its economy. The need to regulate the development of the economy by the state in Ukraine is due to the following:

- insufficiency of financial resources for proper development of basic industries, agrarian sector of the economy in the market conditions;
- outdated resource base, which almost did not recover in the basic sectors of the economy for many years;
- the domestic economy dependence on the import of mineral and primary products;
- the need for state financial support for high-tech and newest manufacturing and resource-saving technologies;
- the imperfect mechanism for attracting domestic and foreign investments into the real sector of the economy;
- poor budget programs performance and ineffective use of state budget funds;



- the spread of the recessionary processes formed under the influence of the global financial and economic crisis (Kuzheliev & Zhytar, 2015, p. 159).

The functional classification of expenditure on the state's economic activity involves the division of spending into: general economic, trade and labor activities; agriculture, forestry and hunting, fisheries; fuel and energy complex; other industry and construction; transport; communication, telecommunications and informatics; other economy branches; fundamental and applied researches and developments in the economy sectors; other economic activity.

In Ukraine, among the main components of expenditure for economic activity, it is expedient to allocate three priority directions of budget funds spending: 1) agriculture, forestry and hunting, fish farming, 2) fuel and energy complex, and 3) transport. The amount of these expenditures is almost 80% of the total budget expenditure on economic activity. Therefore, it is this group of expenditure that needs to be optimized and the need to continue providing budget support in similar amounts.

In 2017, in terms of financing of expenditure for economic activity, road industry and agriculture have the top priority. All leading countries of the world have the practice of providing state support to agricultural production. In the EU countries, this area of budget spending is also a priority. In the context of worsening the world food problem, it is advisable for Ukraine to continue to provide state subsidies to agriculture, which will increase production volumes and accelerate the transition to European quality standards in this area.

Budget expenditure on economic activity is carried out through the following forms of financing:

- 1) budget investments (direct budgetary investments (capital investments) into objects of national standing, financing of national, state and international research and technical programs, financing of individual events);
- 2) budget lending;
- 3) grants and subsidies to the public sector and private enterprises (budget transfers).

Budget investments are aimed at creating or acquiring long-term assets in order to obtain a certain effect in the long term. Budget investments contribute to stabilizing the economy and ensure the use of investment resources in accordance with the needs of its structural adjustment (A. Doroshenko & O. Doroshenko, 2015, p. 27).

Public investment is carried out at the expense of state and local budgets, extrabudgetary funds and borrowed funds.

State programs of support for regional development and priority sectors of the economy, state programs of transport, road transport, communications, telecommunications and informatics development, and state investment programs are implemented at the expense of the state budget.

At the expense of local budgets, expenditure aimed at supporting communal property and financing of investment projects of local importance, in particular local programs of housing and utilities and improvement of settlements; financing of construction, reconstruction, repair and maintenance of roads of local importance, etc. is carried out.

Funding for national, state and interstate programs is based on the study and analysis of budgetary requests of spending units at different levels regarding the financial support for the implementation of certain measures of these programs in the planning period and in the future.

The reduction of investment in the Ukrainian economy in recent years results from a reduction in the financial capacity of most budgets of all levels and economic entities due to (Dei & Rudenko, 2018):

- slowing global economic growth down, which is a consequence of the global financial crisis;
- the national economy recession and the lack of effective anti-crisis measures for the government part;
- the state's inability to create favorable prerequisites for a significant increase in the attraction of investments to the vast majority of economy sectors;

- high risk of investment in a country where military operations are taking place, which results in a significant reduction of foreign investment;
- reduction of lending to the real sector of the economy;
- underdeveloped domestic stock market and mechanisms of capital accumulation in the securities market;
- the inheritance of the selective direction of investment policy from the previous governments, that is, giving preferences to business groups which are close to the higher political establishment and ineffective antimonopoly policy;
- an increase in the cost of construction and a lack of control over increasing efficiency of capital construction by the ordering Ministries.

It is worth noting that non-competitive projects can be financed by bank loans and other borrowed funds (for example, targeted investment loans).

Budget transfers are unpaid and irrevocable payments from the budget. The state can send budget transfers to solve the following strategic tasks:

- activation of innovative development of the economy;
- reduction of resource and energy intensity of enterprises;
- increase of enterprises' ecological safety, etc.

In order to improve the management of budget expenditure on economic activity, it is advisable to take into account the leading world experience. In the EU countries, the evaluation of the effective state support programs for business has for many years been an integral part of the decision-making on spending public funds. But in Ukraine, such an analysis is either not conducted at all or is methodically imperfect (Dei & Rudenko, 2018).

There are many methods to assess the impact of state support programs for national economy ob-

jects on the achievement of structural policy objectives. The choice of these methods depends on many factors, such as the purpose of the support, the number of objects receiving it, and the availability of information to evaluate alternative scenarios. So, in the case of scientific and technological research support, state intervention should lead to an increase in private sector investment. If government support is received by an enterprise or industry that is in a difficult financial situation, it will prove to be effective if the support objects record improvement of the economic situation and strength their competitive position in the market. The developed countries experience shows that the rise is impossible in Ukraine without the technical re-equipment of industry with the further transition to an innovation-based development. A certain innovation model can be only formed based on the innovation policy concept, which involves the priority of innovation, increasing the enterprise innovation activity, accelerating scientific and technological progress, reducing the gap in the levels of economic and social development between regions (Steblianko, 2016, p. 52).

The volume and the level of defense expenditure are the most important indicators reflecting the state's desire to provide the necessary environment for the development of the armed forces and other military formations, and properly maintaining their combat readiness.

Expenditure on the state defense is unproductive, as it does not contribute to GDP growth, the development of productive forces. At the same time, the defense of the country is one of the most important functions of the state, due to the need to ensure its sovereignty, independence and territorial integrity, and the need to protect its interests at international scale. Therefore, the substantiation of the absolute amounts of spending on national defense and its structures is a matter of paramount importance.

At first sight, defense spending seems to be less productive than economic activity expenditure, but it is also able to provide social and political stability that is essential for economic growth. Reducing such expenditure may prove to be a negative factor for the country's economy (Dei & Rudenko, 2018).



Defense expenditure is the directing of funds for the state defense, including the support for the armed forces, the defense industry development, military research and their consequences removal.

According to the functional classification of budget spending, defense expenditure includes: military defense; civil defense; military assistance to foreign countries; military education; fundamental and applied research and development in the field of defense; other defense activities.

The budget expenditure for military defense includes the costs of armaments and military equipment procurement and the military bases maintenance. In addition, they it includes the cost of research in the field of defense and the payment of pensions to military servicemen. These costs are divided into three groups: direct, indirect (secondary) and hidden ones. Thus, direct defense expenditure covers expenses of defense ministries and other central executive bodies and represents a significant share of defense spending. Indirect (secondary) defense expenditures are costs associated with armed forces, rearmament, and the elimination of the aftermath of the war. Hidden defense expenditures are those belonging to defense spending, but are budgeted by civilian ministries and other central executive bodies (Chernyshova, Skurinevska, Cherevatyi, & Mushtuk, 2017, p. 198).

At the legislative level in Ukraine, the minimum amount of funds is set, which should be directed at financing the needs of the country's national defense – at least 3% of GDP annually. Defense expenditure is financed exclusively from the state budget in amounts that are annually determined by the law “On the State Budget of Ukraine” in accordance with the country's financial capabilities.

In 2014, the tendency appeared to increase financing needs of the defense establishment. Due to the difficult situation in the Eastern Ukraine, defense spending has been increased. In 2015, the National Security and Defense Council of Ukraine decided to increase the cost of security and defense in accordance with the new National Security and Defense Strategy and Military Doctrine. Total state budget expenditure on the security and defense sector should amount to at least 5% of GDP (Koliada, 2016, p. 207).

It should be noted that during 2007–2013, annually, 9-14 billion UAH were allocated for the field of defense and security from the state budget. There was a tendency towards a general increase in the allocation of funds to this sector. The average annual increase in funding was about 9%. Since 2014, there has been a significant increase in defense and state financing. During 2014 and 2015, the increase in funding was 90% compared to the previous year. In four years, from 2013 to 2016, the total budget of the sector has increased fourfold, from UAH 14.8 billion up to UAH 61.8 billion. Thus, in 2016 the total expenditures of the state budget for defense amounted to 8.7% of all state budget spending, and they were 8.9% in 2017 (Ministry of Finance of Ukraine, 2019).

Thus, the financing of defense expenditure is conditioned by the need to protect the interests of the state at the international scale. The amount of defense spending is determined by the country's foreign policy, as well as the military doctrine of the state, based on the surrounding environment, and the ratio of various military blocks in the world. Over the past two decades, the issues on the search for optimal and effective mechanisms and tools for using defense expenditures for Ukraine to improve the military-technical and defense-industrial policy in order to ensure national security in the scientific environment have been raised repeatedly. Given the lack of funding for the defense sector during previous years, the immediate need for modernization and rearmament of the army due to the complex socio-political situation in the country and the innovative orientation of most products of the military-industrial complex enterprises, the growth of the consolidated budget expenditure on defense in the long-term period is projected.

Next, consider the costs on public order, security and judiciary. They are of particular importance in ensuring the internal security of the state, since both external and internal challenges have changed, as well as methods of conducting military operations. With that, the judiciary development in accordance with European and world standards is a major indicator of the civil society maturity and the democratic state establishment.

Budget expenditure on public order, security and judiciary is directed to financing areas such as:

- public security activities, crime prevention and state border protection;
- fire protection and rescue;
- judicial power;
- criminal-executive system and corrective measures;
- activities in the field of state security;
- supervision of observance of laws and representative functions in court;
- fundamental and applied research and development in the field of public order, security and judiciary;
- other activities in the field of public order, security and the judiciary.

In Ukraine, over the years of independence, expenditure on public order, security and judicial power did not belong to the priority areas of spending budget funds. Since 2000, this sphere ranks sixth stably by the volume of budget financing at the level of 2.6-2.7% of GDP. Only in 2014, it moved to the fifth place in the rating due to increased funding to 2.9% of GDP. As a comparison, in the EU-17 and EU-27 countries, this indicator is 1.9% and 1.8% of GDP respectively, or 3.7% and 3.9% in the structure of government expenditures in 2011 (Koliada, 2016, p. 209). In Ukraine, in 2017, the share of expenditure on public order, security and judicial power was 8.3% in the structure of consolidated budget spending.

Significantly exceeding the relative indicators of the financing of public functions aimed at ensuring public order, security and judiciary indicates that the process of building institutions of a democratic state has not yet been completed in Ukraine and there are risks (namely corruption, bureaucracy, etc.) for completing the necessary reforms.

In the structure of expenditures on public order, security and judicial power, the largest share is

spent on public security, crime prevention and state border protection. The share of this spending has a small range of fluctuations and from 2010 it has a tendency to decrease from 46.4 to 41.4%. The exception is 2014, when there was a significant increase in the share of these expenditures to 49.2%. It is expected that in the medium and long term, expenditure on public order, crime prevention and state border protection will increase due to the complex socio-political situation in the country and the need for reforms in this area (Koliada, 2016, p. 209).

It should be noted that in recent years, there is a stable trend towards a reduction in expenditure on fire protection and rescue in the structure of spending on public order, security and judicial power. At the same time, there is an increase in the share of expenditure on judicial power and law enforcement and representative capacities in court. We believe that such an optimization of the expenditure structure reflects the current trends in the development of society, which manifests itself in changing the priorities of financing certain components of expenditure on public order, security and judiciary.

In view of the above, one can forecast that the share of consolidated budget expenditure on public order, security and judiciary in the medium term will increase both in the structure of budget expenditure and in GDP percentage.

Budget expenditure on the environmental protection traditionally occupies the last place in Ukraine according to the priority of financing state functions. For the period from 2007 to 2017, the share of spending in this area was 0.2-0.4% of GDP, which is well below the same indicator in the euro zone countries (0.9% of GDP). In 2014, the share of environmental protection expenditure was 0.7% in the expenditure structure of the consolidated budget of Ukraine. As a comparison, this indicator in the EU-17 was 1.8%, while in the EU-27 it amounted to 1.7% in the government expenditure structure in 2011 (Koliada, 2016, p. 213).

In the context of the European countries transition to the sustainable development concept, which envisages the rational use of natural resources and providing a modern and future generation with

a safe and healthy environment, such an amount of financing for environmental protection is justified and necessary. As Ukraine integrates into the European space and tries to meet established standards and requirements, the budget expenditure on environmental protection will increase in the long run.

Certain steps in this direction have already been made by the government. Since 2012, in the expenditure structure of the consolidated budget of Ukraine on environmental protection, spending on protection and rational use of natural resources prevail.

Given the tense situation in the sphere of public finances of Ukraine and the need for budget consolidation, it is expected that in the medium to long term, the share of environmental protection expenditure will remain at the current level. Growth of spending on protection and rational use of natural resources will take place due to changes in priorities and reorientation of budget expenditure to finance activities in the field of environmental protection.

Budget expenditure on housing and utilities in Ukraine ranks last in terms of funding state functions. Despite the stable location in the rating of budgetary priorities, expenditure on housing and utilities has a clear-cut trend towards reducing budget financing from 0.8% of GDP in 2007 to 0.5% in 2013. The year 2012 was an exception, when Ukraine held a Euro-2012 football tournament, then the amount of funding increased to 1.4% of GDP. In 2014, there was an increase in expenditure for this type of financing to 1.1% of GDP. Given the financial and industrial condition of housing and utility sector and the quality of their services rendered to the population, there is no sufficient reason to indicate the adequacy of budget financing of this sphere and the efficiency of spending of budget funds. As a comparison, the share of expenditure on housing and communal utilities in the euro zone countries amounted to

0.9% of GDP or 1.8% and 1.7% in 2011 respectively for EU-17 and EU-27 in the budget expenditure structure (Koliada, 2016, p. 211).

A similar trend of transformations in Ukraine is explained both by financing this direction of activity of the state according to the residual principle and by reducing the volume of housing construction by means of state or local budgets, increasing the volume of private (privatized) housing, increasing tariffs for utilities to increase the share of their coverage at the expense of consumers' funds, the introduction of the public-private partnership principle in providing services in the housing and utility sector.

Considering discretionary budget expenditure and analyzing the latest trends in its financing, the following directions to improve this process are proposed:

- increase in state expenditure on investment programs and innovative development of the country;
- use of budget expenditure on strategically important spheres of life of the population and reduction of ineffective budget expenditure;
- optimization of volumes and structure of expenditure on economic activity, which will promote increase in efficient use of state financial resources;
- developing a system for assessing budget expenditure efficiency due to focusing the fiscal policy on achieving the results of specific budget-defined programs identified by the relevant budget;
- developing a clear concept of budget planning based on real macroeconomic indicators to determine the required amount of funding for discretionary budget expenditure.

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## CONCLUSION

Budget expenditure is a powerful financial instrument of the state economic policy, through which the allocation of financial resources, the structure of social production, the level of prices, employment of the population, etc. are influenced. The differentiation of expenditures by types is carried out in the

modern system of budget accounting of many countries of the world, including Ukraine, where expenditures are divided into mandatory and discretionary. Over the years of independent Ukraine, significant changes have taken place in the state priorities. Thus, according to the functional classification, the expenditure structure of the consolidated budget of Ukraine corresponds to the tendencies in the developed European countries. It also reflects the internal transformation of the essence and role of the country of general well-being.

Currently, in the context of budget decentralization, the government of Ukraine faces the problem of planning and forecasting budgetary expenditures, in particular discretionary ones, by reconciling the state's obligations with available financial resources, revision of the expenditure structure, which depends on the priorities of the state policy, the degree and form of state participation in the economy. It is discretionary spending that has a significant impact on the regulation of the country's socio-economic development. Therefore, the country must concentrate the limited financial resources to fulfill the inherent basic functions. Budget policy (in terms of determining the amount of budget expenditure) should be based on the analysis and evaluation of the effective state's participation in various spheres of economic activity and minimize the distribution of budgetary resources in those areas where the state participation is ineffective or optional.

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