

# Chapter 14

## The Impact of Budget and Fiscal Policy on Entrepreneurial Activity and Country's Competitiveness: The Case of Ukraine

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### ABSTRACT

*Ukraine's economy, as compared to other European countries, is lagging behind. An unstable political situation, significant tax pressure, various administrative barriers, complexity of tax administration and with obtaining permits, technical regulation, certification and standardization, frequent sudden inspections by state control bodies, limited opportunities for the use of financial and credit resources, weakness of material, technical, financial, managerial, and personnel components of business entities – all these factors do not promote the entrepreneurial initiative in this country. The key precondition for raising the prosperity level and effective social and economic development is strengthening the competitiveness of the national economy through the coordinated work of the state and its budget and fiscal institutions. This study reveals the theory and the methodology of the formation and implementation of fiscal policy in Ukraine. Peculiarities in the development of the entrepreneurial environment in Ukraine are analyzed, and fiscal mechanisms are defined with the purpose of activating further entrepreneurship development.*

### INTRODUCTION

The key precondition for rising the levels of prosperity and overall socioeconomic development is strengthening of the competitiveness of the national economy through the coordinated work of the state and its fiscal institutions. Taxes are one of the most important elements of fiscal policy, without which

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the state cannot effectively perform its functions. Taxes also affect the development of entrepreneurial activity, the redistribution of gross domestic product, changes in the structure of demand and consumption, quality of life for general population in the country. Moreover, they determine the conditions for the national economy's interaction with the outside world.

Dynamic spread of economic globalization during the last decade, namely liberalization of international trade and capital movements, the growing role of information in the development of society and the spread of deregulation, all have led to the development of international trade, increase of the production factors' mobility and to free flows of capital between the states.

Contemporary processes of globalization are both the driving force and the result of the processes of cultural, political and, above all, economic integration. Economic integration is characterized by some essential features that in aggregate distinguish it from other forms of economic interaction between countries: interpenetration and interweaving of national production processes; wide development of international specialization and cooperation in production, science and technology on the basis of the most progressive forms of cooperation; deeper structural changes in the economies of the participating countries; the need for purposeful regulation of the integration process, development of well coordinated economic strategy and policy; regional character of spatial integration due to the fact all necessary prerequisites for this type of integration predominantly exist between the countries that already have close economic ties due to the factor of geographical proximity.

The result of these processes is the emergence of competition not only at the market of goods and services, but also within the tax environment. Inflexible and uncooperative behaviour of the states while establishing taxes, determining their composition, structure and mechanism of collection on their territory leads to the emergence of differences between the countries in terms of tax burden. Liberalizing tax laws, governments are trying to attract foreign investments, but at the same time, they prevent the outflow of the taxpayers abroad. The key result from these constant changes in countries' taxation policies is the emergence of international tax competition.

The main purpose of this study is to describe the theoretical basis and the methodology of the formation and implementation of budget and fiscal policies in Ukraine, so that to formulate the possible ways of improving the efficiency of the related regulation which, in turn, will lead to the increase of entrepreneurial activity and thus, higher country's competitiveness of Ukraine. To achieve this purpose, the following objectives should be complete: to analyse the results of budget and fiscal policies of Ukraine and its position in the selected international ratings; to reveal the instruments of budget and fiscal policies in Ukraine; to uncover the current and potential threats to local budgets' execution and fiscal decentralisation in Ukraine; to offer the ways of improving budgetary and fiscal policies in Ukraine and provide other related recommendations on the basis of the obtained data.

## **LITERATURE REVIEW**

There is no consensus among researchers concerning the definition of "tax competition". R. Teaser (2005), T. Field (2003), C. Pinto (2003) and D. Rohas (2006) all considered international tax competition in the broad sense and treated it as inconsistent tax-setting by an independent state, the use of low effective tax rates, and the reduction of tax burden in order to increase the competitiveness of national business, boost business activity in the country and attract foreign investments.

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