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REVISIÓN

Utilising Fiscal Instruments to Drive Economic Growth Effectively

Utilizar Los Instrumentos Fiscales Para Impulsar Eficazmente el Crecimiento Económico

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ABSTRACT

Introduction: in these times of contemporary crises, fiscal policy has a key role to play in the national resilience and economic stability. These challenges have become even more pressing due to Ukraine's ongoing war and need substantial financial means to recover.
Method: this study is a review of the effect tax revenues to budget income. It is grounded on literature sources and statistic data with more than thirty bibliographic references of academic papers, official reports and policy documents.
Results: the research emphasizes that during conflict there is the necessity to optimize existing financial resources as well as look for additional sources of revenue. This reinforces how such fiscal policies play to cultivate economic growth, stabilize finances and appropriately utilize the instruments of taxation. This shows trends of nation revenues and expenditures and acknowledge to the fact that taxation is one of the means of be-fitting financial demand as well as maintaining the economy stable.
Conclusions: fiscal reserves and tax instruments are needed under martial law for maintaining financial stability. But for the effective implementation of these the administrative structures need to be enhanced. Especially during the crisis, we need a balanced tax burden, a favourable business climate and new revenue sources.

Keywords: Budget Funds; Economic Growth; Financial Sustainability; Fiscal Policy; Tax Instruments; Tax Policy.

RESUMEN

Introducción: dadas las crisis contemporáneas, como los retos estructurales, políticos, financieros y sociales del país, es preciso aplicar una política fiscal eficaz para garantizar la resistencia y el desarrollo del país. La guerra en curso ha dificultado aún más las cosas, ya que las infraestructuras han quedado destruidas, las empresas han cerrado y la población se ve abocada a la emigración masiva. Todo ello requiere una gran cantidad de dinero para la recuperación.
Método: se evalúa el efecto de los ingresos fiscales en los ingresos presupuestarios mediante una investigación

analítica de las fuentes bibliográficas y los datos estadísticos.
Resultados: en el conflicto, la optimización de fuentes de ingresos propias y la exploración de nuevas fuentes de ingresos son de mayor importancia, y, por consiguiente, son necesarias determinadas características que debe tener la regulación fiscal en tal situación. This paper analyzes the role of the fiscal policy in promoting an efficient development economy and the efficiency of fiscal instruments in the growth and the resource finance optimization. Investigation shows how the state income and expenses circulate. Si, los resultados destacan además la conveniencia de los instrumentos fiscales para atender las necesidades financieras nacionales con hale stability economica.
Conclusiones: during the military law, mobilization of reserves of the fiscal and activation of the means of taxation are of great importance for providing stability of the financial and maintaining the activity of the economy. Sin embargo, su aplicación verseá obligada a encarar mayores exigencias en lo referente a estructuras organizativas y administración. Para los períodos de conflicto, es importante una buena presión fiscal, buen entorno empresarial y nuevas fuentes de ingresos para la financiación y el crecimiento económico.

Palabras clave: Política Fiscal; Política Tributaria; Instrumentos Fiscales; Sostenibilidad Financiera; Fondos Presupuestarios; Crecimiento Económico.

INTRODUCTION

Globally evident instability in the economy and geopolitics has highlighted the critical role of fiscal policy in strengthening national resilience and development. Financial, structural, political, and social crisis phenomena emphasise the importance of supplying the state budget with sufficient tax revenues. Effectively financed fiscal policy should spur revenue growth, rapidly distribute available resources, and efficiently allocate and use available resources. It facilitates trust in fiscal administration and brings forward fiscal mechanisms according to current conditions.

The full-scale invasion by the Russian Federation has brought severe challenges to Ukraine, including the destruction of social infrastructure, territorial occupation, business shutdowns, mass displacement of people, and significant logistical disruptions.The economy has exhausted itself trying to overcome these issues, requiring huge expenditure on recovery. In this regard, tax instruments in fiscal policy take centre stage as important elements of strategic economic management under martial law. Against the backdrop of conflict, building financial resources and developing economic diversification to reduce sectoral and regional vulnerabilities is of precedence. Hence, efficient resource utilisation and exploitation of new income sources have become imperative.

This study examines fiscal policy's role in accelerating effective economic development and discusses the challenges and opportunities in tax instruments. It aims to explore cost-effective and fiscally practical tools to stimulate economic growth, maximise financial resources, and support national recovery initiatives in wartime and peacetime.

Martynova and Shedko(1) propose a successful fiscal policy as the one that could ensure stability in the socio-economic situation in Ukraine and a basis for entering the world economy after a war time. Because of the taxation system, they are the most important instrument for financing budgetary expenses for numerous functions of the state. It is summed up and stressed with the need for a balanced tax system with the state at the same time with the taxpayer. Besides, they demand in terms of social justice and inspiring progressive social development, they suggest the tax regulation which contains organisational, legal, regulatory and control requirements regarding the standard of living of the population directed to achieve social justice.

Kryvonos examines the key components of fiscal policy instruments, emphasizing financial regulation and an optimal tax burden as fundamental drivers of sustainable economic growth.(2). This analysis shows that fiscal measures are strategically important to the extent that they can catalyse growth with a minimum tax burden.

Osadchuk considers Tax Instruments as a Factor in the Development of Territorial Communities.(3) In designing development strategies, he stresses the need for local self-government bodies to take into account their communities' peculiarities and difficulties. Osadchuk says that tax instruments play a key role in increasing regional economies, introducing entrepreneurship, and strengthening competitiveness.

Kriukova et al.(4) examine whether the role of the taxation system in achieving sustainable development goals is implemented. The study tackles the budgets of the national economy using an in-depth analysis of the structure and dynamics of state budget tax revenues. They suggest strategic improvements to the national tax system to align it with sustainable development principles and respond to current problems. Their findings offer important lessons about how taxation shapes economic and social progress and recommend strengthening the tax system to strengthen sustainable economic growth.

However, Ukraine is exposed to most severe challenges that social infrastructure destruction in general and occupation, closures of businesses, mass migration, and logistical disruptions that are the signs of a full scale invasion from the Russian Federation. These have exhausted the economy in their attempts to do so at great expense to the recovery. With respect to this, tax instruments of fiscal policy come into play as a very important part in conducting strategic economic management under martial law. Given an adverse environment of conflict, financial resources and economic diversification to minimize sectoral and regional vulnerabilities deserve precedence. As a result, resource utilisation and exploitation of new income sources have become important in an efficient fashion.

It seeks to determine the effectivity of the fiscal policy and tax instruments in executing the economic stability, national financial resources' optimal usage, and national recovery during conflict. A justification for the study is provided by the pressing need to address critical fiscal challenges and make recommendations that will enable the mobilization of resources to restore the economy and to ensure long term financial resilience.

METHOD

This paper follows a systematic review approach to determine the role and effectiveness of tax instruments in the fiscal policy. The research process involved:

Keywords: the keywords that were used search strategy were: fiscal policy; tax instruments; economic stability; budget revenues; change in financial sustainability; crisis management.

Sources & Databases: Literature on databases & sources were drawn from Scopus, Web of Science, Google Scholar, and by using national economic reports by choosing peer reviewed articles, government documents, policy papers.

Studies published in English and Ukrainian between the years of 2015–2024 were selected and included under the scope of research, focusing on fiscal policy in the context of crisis. Empirical data or clear fiscal policy framework free sources were excluded.

Secondly, it was based on N number of bibliographic references, empirical studies, official reports, and policy recommendations.

Data Analysis Techniques

Review: Role of tax instruments in the fiscal policy in the context of economic development and budget formation.

Emphasis on the systemization: Assessment of the fiscal measures taken under the martial law in terms of effectiveness to achieve financial stability and economic recovery.

State Revenues and Expenditures in Ukraine: Analyzed trends in order to determine the impact of taxation on a state budget structure.

Specifically, they identified key fiscal regulation strategies that should be applied to adaptation of taxation policies to the crisis conditions.

This review features these elements through the incorporation of such elements ensuring a total evaluation of the role of fiscal policy in economic recovery.

RESULTS

Real rapid transformations of Ukraine's economy are caused by the financial, structural, political, social and conjunctural crises. With numerous difficulties, the task of the state budget now is to guarantee enough revenue in taxes. The primary concern is with respect to this issue and hence the effectiveness of fiscal policy comes to play. The operation of fiscal measures should boost growth in budgetary revenue, effective consumption of resources as well as equitable redistribution and enhance public confidence in fiscal administration and synchronize with contemporary economic needs.[(5)]

Fiscal policy comprises state measures to regulate the economic processes through tax burden and aid in public expenditure. The main objectives of the economy are to maintain employment rates, contain inflation, and smooth cyclical fluctuations in the economy. Fiscal policy is a strategic tool of macroeconomic indicators as it helps the economic system to be stabilized.[(6)] The state's income comes from tax revenues, indispensable for performing the broadest economic, defence, and social tasks. Ukraine's fiscal policy, therefore, must ensure the resilience of the social-economic system, contributing to the creation of the foundations for successful integration into the world economy.[(7)]

Fiscal policy has other objectives, such as socio-economic growth, stable economic cycles, controlling inflation, and creating employment. Solving these tasks is crucial for achieving long-term economic stability and growth. Monetary policy complements fiscal policy, supporting price stabilisation, providing liquidity, and promoting growth.[(8)]

Fiscal policy has many tax instruments that help determine the country's economic path. This means they have a substantial financial impact on state budget revenues, thus making the government dependent and unable to fund priority social, economic and infrastructural activities. The use of tax tools by the state enables states to raise enough resources to perform their obligations, like education, healthcare, social protection, and infrastructural development. In addition, a well-planned tax policy establishes incentives for entrepreneurship, investments and innovations in the business sector.

However, it is important to balance it. Overtaxing can hamper business activity, discourage investments, diminish competitiveness, and destroy the country's economic environment. Therefore, the effective use of tax instruments in fiscal policy requires and makes it necessary for a skewed one to persuade them to support growth and not drench economic activities with extra taxes.

Table 1. Tax Instruments of Fiscal Policy for Managing Effective State Economic Development

Tool	Features
Personal Income Tax (PIT)	Influences consumer activity and living standards. Reducing personal income tax rates can boost disposable income, thereby stimulating consumer spending and economic activity.
Corporate Income Tax (CIT)	Affects economic growth by incentivising or discouraging investments and entrepreneurship. Reduced rates can stimulate business expansion and job creation.
Value Added Tax (VAT)	Impacts production and consumption by influencing the price competitiveness of goods and services. Adjusting rates can promote domestic market growth.
Taxes on International Trade	This includes tariffs, import/export duties, and consular fees. It regulates foreign trade by encouraging or restricting trade and investment through tax barriers.
Rent Payment	It applies to the use of natural resources like subsoil, forests, and water. It encourages resource conservation and supports industries related to resource extraction.
Excise Tax	Affects consumption patterns of specific goods. Applied to domestic production, it influences consumer and producer behaviour, promoting sustainable practices.
Investment Incentives	Includes exemptions on VAT and import duties or tax holidays. Designed to boost sector-specific investments, innovation, and adoption of advanced technologies.

Source: compiled by the author based on [9,10,11,12,13]

Fiscal policy is taking centre stage in helping Ukraine address the economics of an ongoing conflict under martial law conditions. The economic fallout from the war has been offset by amendments to the Tax Code and a mini-tax reform.[14] Despite these measures, the effectiveness of fiscal instruments is constrained by market uncertainties and the inflexibility of conventional fiscal mechanisms during this period.

Meanwhile, the government took extraordinary measures to stabilise finances from February 24, 2022—including tapping into fiscal reserves and diverting funds from 2021 that made up National Bank of Ukraine revenues into the state budget. In addition, many enterprises pre-paid their taxes, providing temporary revenue to states in March 2022. However, fiscal reserves were spent quickly, and revenue execution was weak, with revenues falling to less than half prewar levels.[15,16]

Ukraine's economy has been strained in extremely challenging ways because of the war's multifaceted nature—destroyed infrastructure, mass migration, logistical hurdles, and widespread business closures—among others. These difficulties are particularly acute in combat zones and incur substantial recovery costs. Ukraine's GDP had contracted by 29,1 per cent by the end of 2022, showing the ruinous effects of military aggression.[17] This decline was not as severe as initially projected by the International Monetary Fund and the World Bank, which had anticipated the most substantial losses in the industry. In these circumstances, the need for fiscal policies tailored to the problems engendered by martial law and to help facilitate economic recovery is underscored.

To maintain equilibrium in fiscal policy and thus sustainable economic stabilisation, the notion is highlighted in the Ukraine Recovery Plan that revenue expenditure balance, or in other words, a balanced fiscal policy, is essential. Negotiating the economic challenge of conflict rests upon preventing excessive deficits or uncalled-for strain on fiscal systems. Boosting spending efficiency is a cornerstone of this recovery strategy, requiring strict financial regulation and strengthened auditing arrangements. These measures prevent resource mismanagement; State funds will not be used to fund nonproductive and unessential projects. Secondly, strengthening the tax and customs systems is essential to increasing reserves and promoting investment, economic progress, and society. Modernising tax infrastructure, combating corruption in customs operations, and tax and customs duties collection efficiency comprise critical reforms.[17,18]

Its transformation from a cost to a strategic management tool of the evolving fiscal landscape is especially pronounced under wartime conditions. To face these vulnerabilities of particular economic sectors and areas and risks of economic decline, this transformation requires strengthening financial resources and expanding the economic realm. The priority becomes the efficient utilisation of existing resources and exploration of innovating to new revenue streams. One example is expanding fiscal capacity based on unused resources or stimulating economic activity in underutilised areas.

Under such difficult conditions, the primary fiscal instruments, namely tax revenues and expenditures by the state (figures 1 and 2), grow in importance. However, because of elevated levels of uncertainty and heightened external risks, traditional fiscal policy instruments are less effective. This has, therefore, necessitated the state to adopt alternative financial management methods involving creative techniques aimed at maintaining financial stability and the rebirth of the economy during and after the conflict period.[16,19]

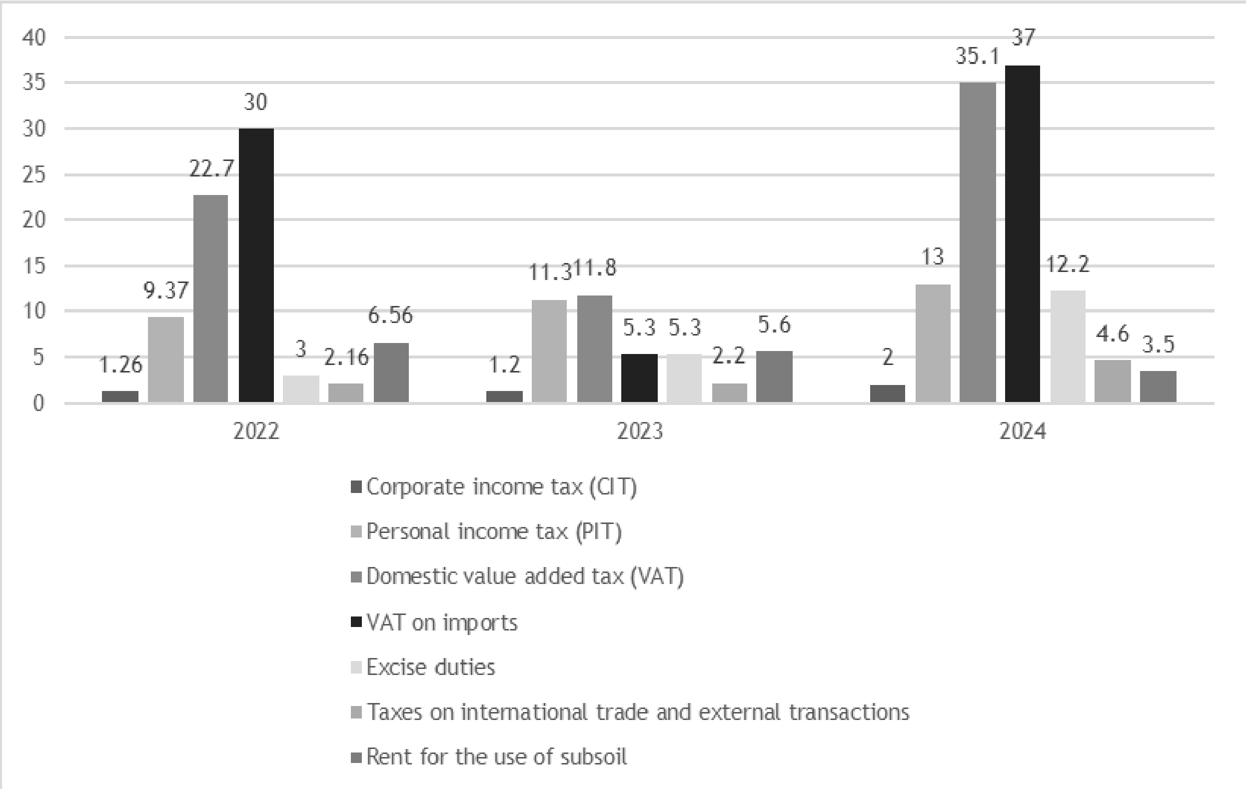

Figure 1. Dynamics of Ukraine's State Revenues in 2022-2024, billion UAH
Source: compiled by the author based on [20,21]

A study of the dynamics of state revenues shows the leading role of tax revenue indicators in replenishing Ukraine's budget. In February 2024, tax revenues reached 117,6 billion UAH, but again, with changes across categories. The decline of consumption taxes fell 29 per cent, the lowest level since 2023, as reduced VAT revenues from the domestic market were largely responsible. Nevertheless, corporate income tax revenues (34,7 billion UAH, 26,1 billion UAH from bank profit taxes — 50 per cent up on the previous year) were strong. The excise tax revenues totaled 12,6 billion UAH and retained importance. These trends suggest that it is essential to watch closely for the total taxation and to adjust adequately and rapidly the tax variables to keep consistency of economic stability and efficient budgeting function.

The expenditure side of state accounted for 158 billion UAH (-158 %) or 49 % of average monthly expenditures in 2023. Defence spending was the most reduced by a sharp drop from 112,1 billion UAH in 2023 to 65,2 billion UAH in 2024. The exception was social security expenditures, which were also relatively stable, but other sectors were also hit hard by the cuts.[22]

Overall, budgetary expenditure reductions indicate the possibility of shifting to a more conservative fiscal policy appropriate for resource constraints. However, this approach will require extensive supervision and resource spending optimisation to ensure budgets are allocated properly. In difficult circumstances, such measures are critical to maintaining financial stability and meeting the nation's economic and social needs.

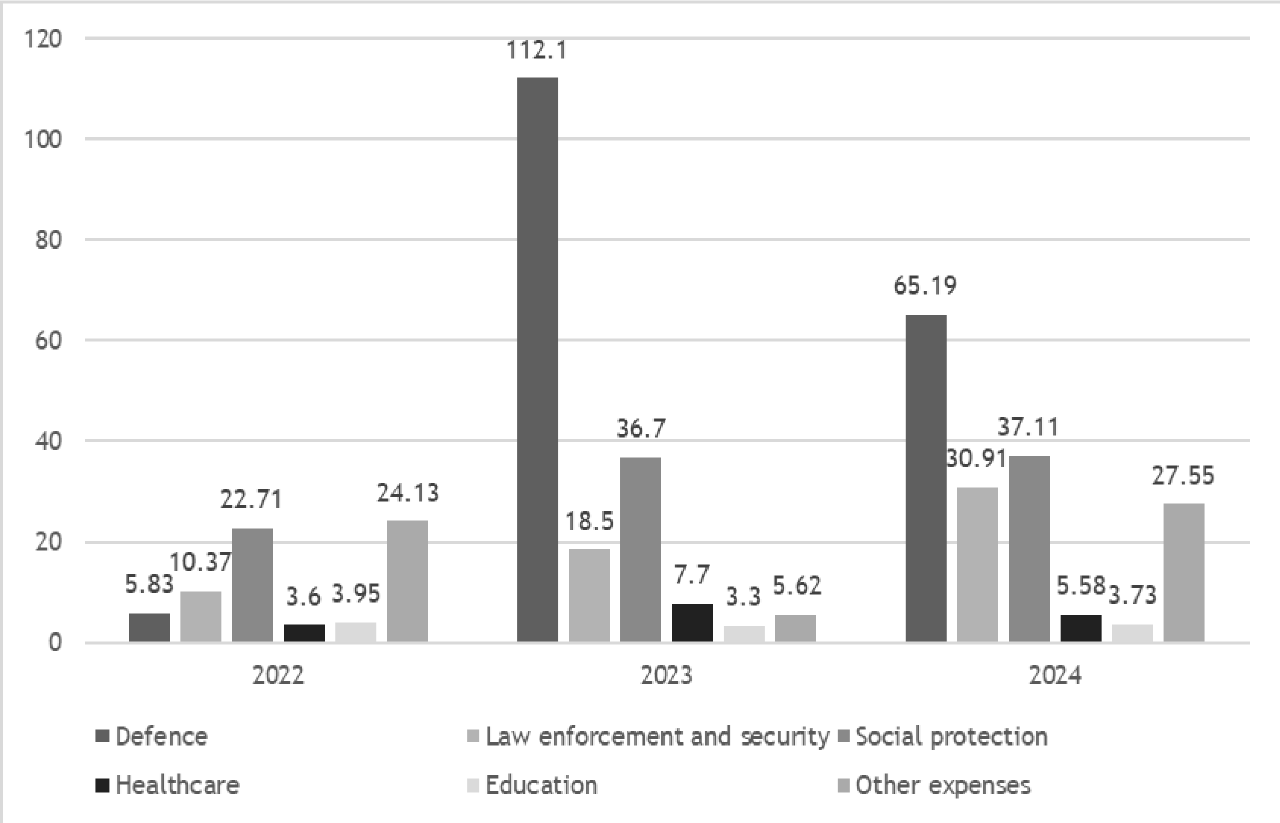

Figure 2. Dynamics of Ukraine's public expenditures, billion UAH
Source: compiled by the author based on [21]

Since the introduction of martial law, maintaining financial stability and supporting the country during the crisis has been a fundamental aspect of Ukraine's fiscal policy. The key strategy was mobilising and activating fiscal reserves to stimulate economic activity and obtain financial backing for the state. Thus, several critical measures were followed, including revised tax policies, maximum utilisation of the available resources, and efficient budget fund investment.[22] Furthermore, international grants led by voluntary contributions from citizens, businesses, and organisations became important sources of revenues, which helped outweigh the drop in tax revenues and ensure that the state finances remained in good shape.[23]

Fiscal policy has also emphasized access to financing instruments, focusing on critical areas such as defense and security, social expenditures, additional financial support for military personnel, and debt servicing. These initiatives have been central to keeping the financial system stable and ensuring that the public still trusts the country's management of its economic affairs during conflict.[24]

The National Bank of Ukraine has introduced fiscal regulatory changes to adapt to the unique challenges of martial law. Among these were tax incentives, adjusted tax rates, an enlargement of simple taxation of businesses, and further increases in social benefits for the population. Importance of excise tax revenues was still 12,6 billion UAH. Importance of excise tax revenues was still 12,6 billion UAH. These trends call for a close watch on total fiscal policy and do not hesitate in one stroke of a pen to adjust corresponding tax variable(s) in order to sustain the efficiency of economic stability as well as the quality of budgeting.

On the side of expenditure, state expenditures in 2024 decreased sharply to 158 billion UAH, or 49 per cent of average monthly expenditures in 2023. The most noticeable was a cut of defence spending, declining from 112,1 billion UAH in 2023 to 65,2 billion UAH in 2024.[25)]

The guarantee of Ukraine's national security and defence capability relies on fiscal policy. Implementing tax instruments and prevention measures to do this with financial resources is one of the critical tasks. It involves financing both the new initiatives (such as the 'e-Support' programme and aid for internally displaced persons) and the running of the social programmes that deliver benefits, subsidies and the like in the form of housing and utility payment (the programmes, in other words, that are the essential background of the system). These efforts prove the usefulness of fiscal policy in responding to the nation's urgency in ensuring recovery.

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Table 2. Tax Instruments and Precautionary Measures during Martial Law

Measures	Description
Exemption from liability in case of impossibility to fulfil an obligation	If a taxpayer cannot promptly fulfil his tax liability, he is exempt from liability, but only during martial law or war.
Moratorium on tax audits	Prohibition for any tax audit during martial law or war.
Suspension of deadlines stipulated by tax legislation	During the time within which martial law or war exists, deadlines for observance of tax legislation and the payment of taxes are suspended.
Extension of licences	Activities under specific licences are meanwhile automatically travelled during military law.
Exemption from sanctions for violation of requirements for using registrars	During martial law or war, taxpayers are exempted from sanctions for failure to meet the requirement to use payment transaction recorders.

Source: compiled by the author based on [26,27,28]

Though the tax changes brought in during martial law are necessary, they must first be implemented successfully; however, this will demand huge improvements in an organisational structure that will facilitate smooth administrative processes. Turnover taxes are an accumulative issue that can disproportionately affect goods of complex technological productivity. One way to solve this is to segregate unified tax rates dependent on the nature of economic activity or specific categories of goods.

To protect local budget reserves that had earlier been funded from single tax receipts from individual entrepreneurs, the national turnover tax rate is proposed to be boosted by 2 % with a locally applicable rate. The range suggested for this rate, from 0,25 to 1,5 %, would be imposed by regional military civil administrations taking account of local peculiarities, financial requirements and the degree of impact on military works.

During wartime, effective fiscal policy includes strong tax incentives and a broad regulatory framework that should cover all entrepreneurs. These measures should facilitate the following:

- The relocation of production capacities from conflict zones.
- Essential equipment for acquisition.
- Furthermore, protection of production areas.
- Recovery in supply chains, distribution networks, just-in-time supply chains, and inventory control systems.

The practical recommendations of crisis management experts and state support measures are indispensable to achieving business resilience. The strategies presented herein will enliven the ability of organisations to respond to wartime situations, but they will also assist in the rebirth and prosperity of the nation's economy.[29]

DISCUSSION

Economic literature has been discussing since long about the role of fiscal policy in ensuring economic stability. With Martynova and Shedko [1] pointing out that an efficient financial policy is the key to maintaining Ukraine social and economic soundness and smoothing it into the world economy. Research by them shows that taxation constitutes a primary instrument for raising revenue needed to meet state functions. It also jibes with the findings of global studies that assert the single factor that could establish balanced tax policies is beneficial for social justice and lasting economic development.

In like fashion, Kryvonos[2] maintains that tax policy is eminent in financial stability and economic management. Tax measures should be able to promote the desired economic outcomes but would require addressing many different dimentions such as income distribution and sustainable development. Moreover, according to comparative research in EU economies, progressive taxation aids both the financial and social equality, thus serving as an argument for their strategic fiscal planning in Ukraine.

At the regional level, Osadchuk[3] explores the use of tax instruments in consideration that fiscal decentralization can boost economic potential and provoke local entrepreneurship. Empirical evidence, when business tax incentives are offered to small businesses in developing economies, has demonstrated that such incentives promote greater competitiveness in an economy and a region. While a one size fits all approach cannot be effective due to the fact that different territories have different specific challenges, they need tailored fiscal strategies.

We agree with Kriukova et al.[4] on the big role of taxation in state financial management, and the considerations above don't contradict their argument. However, our findings indicate it to be much more complex relationship between fiscal policy and economic growth. Similarly valuable is their analysis of Ukraine's tax system reform, but there is much to follow up to illuminate how taxation affects other economic and social outcomes. Economic incentives appear to be an important factor — compared to economies whose recovery is less impressive — for countries emerging from crises to have adaptive tax policies that balance revenue generation with economic incentives.

This discussion in general indicates that Ukraine's fiscal strategy alignment with international best practices needs to take into account the country's specific economic challenges. In such times of crisis, a flexible and well structured tax system is very important to sustain growth and financial stability.

CONCLUSIONS

In the context of crisis conditions, fiscal policy is very important to maintain economic stability. The results of the study confirm that tax instruments are important mechanisms for building the resilience of the financial sector, for supporting the economic growth and increasing revenue from the budget. Fiscal management can effectively help cushion from war's negative effects, facilitate recovery in war effected areas and promote macroeconomic stability. The evidence points to the need for the use of fiscal reserves mobilization and activating the tax instruments as the way through which an economy is sustainable during the crises. A well structured tax policy should give equal weight on revenue generation and incentive for business development where tax does not spoil investment and economic development. It is also important for long term recovery to expand fiscal space through innovative revenue sources. An analysis of comparative cases implies that flexible tax policies that change with country's dynamic economic conditions are beneficial for economy in date of the crisis. The importance of adapting taxation strategies to avoid impinging on Ukraine's fiscal stability at the expense of economic disruption is aptly shown by the evolving shape of the country's fiscal framework. The international experience shows that if a well thought out fiscal policy is to be used to build economic resilience, it shall encompass tax incentives, effective public expenditure and structural reforms. The conclusion points out that there is a need for a balanced, adaptive fiscal policy in a country that would secure financial and economic stability, boost growth as well as create room for resource allocation. These results are consistent with the broader discussion on fiscal policy in crisis management, and are applicable to both Ukraine and to other economies experiencing the same issues.

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