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## ANALYSIS OF THE EXPERIENCE OF FISCAL EQUALIZATION IN EUROPEAN COUNTRIES

## АНАЛІЗ ДОСВІДУ СИСТЕМ ФІНАНСОВОГО ВИРІВНЮВАННЯ КРАЇН ЄВРОПИ

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**Abstract.** The mechanism of functioning of the most effective fiscal equalization systems of developed European countries (Germany, France, Sweden, and Spain) is analyzed in the article, its key features and components are determined. On the base of the analyses some measures that can help to improve fiscal equalization process in Ukraine are proposed.

**Keywords:** fiscal equalization, local budget, local government.

**Анотація.** У роботі проаналізовано механізм функціонування найбільш ефективних систем фінансового вирівнювання провідних країн Європи (Німеччини, Франції, Швеції, Іспанії), визначено їх ключові характеристики та елементи. На основі проведеного аналізу запропоновано заходи, які дозволять поліпшити систему фінансового вирівнювання в Україні.

**Ключові слова:** місцевий бюджет, органи місцевого самоврядування, фінансове вирівнювання.

**Introduction.** At the present stage of development Ukrainian economy is characterized by activation of transformation processes due to the necessity of its adaption to the challenges of globalization. The main object of fundamental reforms is financial sector, because of its importance in the process of accumulation and redistribution of financial resources generated by the national economy in accordance with the objectives and function of the government. In the structure of financial system the most problematic is sphere of local finances. The key problem of local finance is the necessity to ensure a sufficiently high level of financial independence of local budgets and establishing effective redistribution of financial resources between different sectors and economic agents. Thus, it's very important to analyze the experience of fiscal equalization systems in European countries with the aim to identify those features that can help to improve fiscal equalization in Ukraine that determines the urgency of the research.

**Key results of the research.** First of all it's necessary to highlight that fiscal equalization is a system of tools and measures, through which fiscal imbalances are eliminated by redistribution of financial resources in the budget system vertically and horizontally between administrative-territorial units [5]. The first programs of fiscal equalization

were emerged in the 1940s and 1950s in a number of federal countries, and nowadays most of developed and developing countries provides redistributive programs to reduce fiscal disparities between local communities.

It's important to identify that in world practice there are several methods of fiscal equalization such as: 1) revenue equalization – redistribution of financial resources with the aim to reduce imbalances in budget revenue capacity of the regions; 2) cost equalization – redistribution of financial resources with the aim to reduce imbalances in budget cost capacity for providing basic public services; 3) horizontal equalization – redistribution of financial resources between budgets of the same level; 4) vertical equalization – redistribution of financial resources between central and local budgets [1].

But from the perspective of implementation the most successful practice of fiscal equalization in Ukraine it's interesting to analyze vertical fiscal equalization schemes.

It should be noted that the main methods of vertical fiscal equalization are general and special transfers; contributions of the territories; distributed and transferred taxes and others [2].

Fiscal equalization system in Germany is based on the principle of fiscal federalism that is

characterized by clear separation of functions and powers between the federal government and lands, redistribution of income between the federal budget and the budgets of lands, a complex system of financial compensation. Financial equalization is carried out in four stages: vertical tax distribution; increase of tax capacity with the help of additional inflows as a share of some taxes (e.g. VAT); alignment according to the financial capacity indicator; additional payments in accordance with the objectives of land and in addition to this provision of the federal government financial assistance [6].

Fiscal equalization system in France is oriented on alignment of local budget revenues with the help of local taxes and alignment of budget costs as a compensation for the financing of additional social aims from local budgets. For the revenue equalization the common grant is used. The cost of delegated powers financing is compensated by some other special grants. The calculation of the size of basic grants is based on two indicators such as: tax capacity of local budgets – the sum of revenue from local direct taxes and tax burden that is calculated as real tax revenue to the tax capacity ratio.

Fiscal equalization in Sweden is built on the principle of self-financing and has two stages. The first stage is oriented on revenue equalization: regions with the level of tax capacity that is less than average level can get special subsidy, but regions with tax capacity that is higher than average level should pay this extra-revenue to the subsidy fund. The second stage is oriented on cost equalization, so regions that have no financial resources for financing some delegated powers can get some transfers for its financing [4].

In Spain distribution of total transfers is organized in three stages. Firstly, total resources for the distribution are estimated taking into account differences in funding costs and potential tax rev-

enues. Then, general amount of subsidies increases according to the increase in total tax revenues and social security contributions. Then, this obtained value is increased by the rate of growth of total expenditures of the central government and other autonomous government agencies.

Sources of funds, which are provided transfers to local governments may be formed by contributions from more affluent areas, revenues from certain taxes, total revenues of the central government [3].

**Conclusions.** Analyzing of foreign experience of fiscal equalization gives an opportunity to find out that there are very effective mechanisms of alignment of financial capacities of local governments in some countries. Some of the described measures can be implemented in Ukraine, among them: some transfers from central budget to local governments could be given only for investment purposes; fiscal capacity of local communities can be also increased by giving to them the opportunity to create additional local taxes; it also could be very effective measure to transform the system of fiscal equalization in Ukraine according to Sweden experience, it means according to the principle of self-financing, by creating special fund of subsidies with the main source of inflows from the extra-revenues (the share of revenue that is higher than the average level); besides the level of fiscal support from the central government should be less than 100% of the necessary amount that can stimulates local states to find out additional ways of financial resources accumulation or ensure more effective its allocation to more productive spheres; fiscal equalization should be realized in two directions – both for revenue and cost alignment. Thus, implementation of these measures could improve Ukrainian fiscal equalization system and increase the level of local communities financial independence.

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