

## FISCAL INSTRUMENTS OF BUDGET CONSOLIDATION: THE IMPACT OF TAX BASE EXPANSION AND RATE ADJUSTMENT ON REDUCING UKRAINE'S BUDGET DEFICIT

**HOLYNSKYY Yuriy**

*PhD in Economics, Associate Professor,*

*Associate Professor of the department of Financial Management*

*Ivan Franko National University of Lviv;*

*Doctoral student, M. Dolishniy Institute of Regional Research of National Academy of Sciences of Ukraine*

*ORCID ID: <https://orcid.org/0000-0003-2724-5027>*

**Abstract.** *The article examines the role of fiscal instruments, particularly the expansion of the tax base and changes in tax rates, in the process of budget consolidation in Ukraine. It analyzes the theoretical foundations and empirical evidence regarding the impact of these instruments on reducing the budget deficit in transitional and developing countries. Special attention is paid to the specific features of Ukraine's experience and the potential for applying these mechanisms to achieve fiscal stability.*

**Keywords:** *budget consolidation, tax base, tax rates, budget deficit, fiscal policy, Ukraine.*

The paper explores how fiscal instruments – particularly tax base expansion and tax rate adjustments – can contribute to effective budget consolidation in Ukraine. Against the backdrop of prolonged fiscal imbalances and the economic shocks caused by Russia's aggression, the study underscores the urgency of restoring macro-financial stability through evidence-based fiscal policy measures. Budget consolidation is interpreted as a set of actions aimed at reducing the budget deficit and stabilizing public debt, which are essential for sustaining investor confidence and long-term economic growth.

The article reviews theoretical and empirical research on fiscal consolidation in transition and developing economies. It highlights that expanding the tax base through better tax administration, reducing shadow economic activity, and eliminating inefficient tax exemptions can increase revenues without raising the burden on compliant taxpayers. Meanwhile, tax rate changes – though capable of boosting revenues in the short term – carry risks of discouraging investment and fueling informality if applied indiscriminately. Therefore, the study advocates a balanced approach that combines administrative improvements with targeted tax adjustments.

Ukraine's fiscal system faces deep structural challenges: a shadow economy exceeding 30% of GDP, numerous tax privileges, and inefficiencies in administration. Despite reforms that stabilized revenues before 2022, the full-scale war led to record deficits exceeding 20% of GDP. Under these conditions, traditional rate hikes are deemed less effective than systemic improvements in compliance and base broadening. The author identifies several key areas for action: (1) limiting non-transparent tax benefits, (2) digitalizing tax collection and analytics, and (3) combating corruption and tax evasion through risk-based audits and automation tools such as the VAT monitoring system (SMKOR).

Drawing on international experience – from the Baltic States' post-crisis fiscal reforms to Poland's digital VAT control systems and OECD best practices – the study concludes

that successful consolidation typically relies on comprehensive measures combining expenditure restraint with structural tax improvements. For Ukraine, fiscal consolidation should prioritize long-term sustainability over short-term revenue surges. The expansion of the tax base through formalization of economic activity and rationalization of tax privileges is presented as the most productive and socially equitable approach.

The article concludes that while increasing tax rates can temporarily boost revenues, Ukraine's focus should remain on strengthening administration and transparency to ensure resilient, inclusive fiscal consolidation. Rationalizing tax expenditures, improving institutional capacity, and designing a predictable, fair tax system will allow Ukraine to balance wartime fiscal needs with postwar economic recovery.

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