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PUBLIC FINANCE AND PUBLIC INVESTMENTS IN THE CONTEXT OF INTENSIFICATION OF ECONOMIC DEVELOPMENT

The purpose of this article is to study the interdependence of the state, local governments, institutional investors and the level of foreign direct investment in Ukraine's economy in conditions of instability. The article examines the role of institutional investors and clarifies the main trends in attracting investment resources into the economy of Ukraine, taking into account the European integration vector, the state investment policy of Ukraine should include the main aspects of the main goals and objectives of the new generation investment policy, which takes into account the latest trends and needs of the world economy. In this context, it is especially important to establish the optimal ratio of foreign direct and domestic investment. In the context of European integration processes and ensuring investment security in Ukraine, it is necessary to protect domestic markets from monopolization by foreign investors by setting a limit on foreign direct investment in each sector.

Keywords: finance, public finance, investment, investment activity, investment climate, state

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ПУБЛІЧНІ ФІНАНСИ ТА ПУБЛІЧНІ ІНВЕСТИЦІЇ В КОНТЕКСТІ ІНТЕНСИФІКАЦІЇ ЕКОНОМІЧНОГО РОЗВИТКУ

Метою статті є дослідження взаємозалежності ролі держави, органів місцевого самоврядування, інституційних інвесторів та рівня прямих іноземних інвестицій в економіку України в умовах нестабільності. У статті проаналізовано роль інституційних інвесторів та з'ясовано основні тенденції залучення інвестиційних коштів в економіку України.

Методологічною основою дослідження є теоретичні положення економічної та фінансової наук, праці відомих вчених. Для вирішення дослідницьких завдань у роботі використано діалектичний метод наукового пізнання, методи емпіричного та теоретичного дослідження, зокрема, концептуально-логічний аналіз та системний підхід; статистичні методи групування, динамічних порівнянь, графічного зображення, методи формалізації та узагальнення.

В результаті проведеного дослідження встановлено, що інвестиційна діяльність вимагає регулювання інвестиційного процесу як на макроекономічному, так і на мікроекономічному рівнях. Підкреслено роль субрегіонального рівня державного управління у фінансуванні інвестиційної діяльності, узагальнено досвід європейських країн та можливі напрями його імплементації в Україні. Встановлено, що публічні органи влади як інвестори, визначають напрями спрямування власних фінансових ресурсів, окрім того, вони впливають на характер та місце розташування приватних інвестицій та якість життя загалом. Таким чином їх інвестиційний вибір визначає можливості економічного розвитку, адже державні інвестиції можуть сприяти зростанню та забезпечити належну інфраструктуру для стимулювання приватних інвестицій.

Основні виклики, з якими стикаються уряди європейських країн при здійсненні державних інвестиційних проєктів: якість управління, ефективність публічних інвестицій, потреба в збільшенні бюджетного фінансування інвестицій та інші.

Зважаючи на вектор європейської інтеграції, державна інвестиційна політика України має враховувати основні аспекти цілей та завдань інвестиційної політики нового покоління з урахуванням новітніх тенденцій та

потреб світової економіки. У цьому контексті особливого значення набуває визначення оптимального співвідношення прямих іноземних та внутрішніх інвестицій. З метою забезпечення інвестиційної безпеки в Україні необхідно захистити внутрішні ринки від монополізації іноземними інвесторами шляхом встановлення ліміту на прями іноземні інвестиції в кожен галузь економіки.

Ключові слова: фінанси, державні фінанси, інвестиції, інвестиційна діяльність, інвестиційний клімат, держава.

Introduction. Improving the investment climate and increasing the efficiency of investment processes are one of the main directions of public policy at the present stage.

Today, the volume of domestic financial resources is insufficient for the economic development of Ukraine. As a result, foreign investors are becoming more attractive. Ensuring sustainable economic growth is possible only on the basis of such components of economic potential as fiscal, budgetary, regional, monetary, institutional and innovation instruments. The decisive factor for growth is the mobilization of domestic savings into investment potential. Foreign investment at the same time serves as an auxiliary source of structural adjustment of the economy.

Theoretical background. The impact of public finances in general and public investment on economic growth is revealed in many studies. Robert J. Barro and Xavier Sala-I-Martin [8, p.645-646] examined the effects of fiscal policy on long-term growth. Balassa [1] establishes the relationship between public finance and economic development through aspects such as the budget deficit (or surplus), the size of the public sector and public investment. Susanna Martins & Francisco Jose Veiga [3, p. 579] analysed the impact of government size and the composition of government spending on economic development. Sharon J. Erenburg [9] based on empirical evaluation revealed the interdependence and impact of rising public investment spending on increasing private investment.

The main role of investments in the economy and their crucial importance not only for sustainable economic growth, but, above all, for innovative development, for the creation of new, high-tech industries and entire industries.

The expediency of this process is due to the fact that foreign investment contributes to the formation of its own market infrastructure, and additional investment prevents other enterprises and farms from emerging from the crisis, so the study of investment activity is practical and scientific.

In the current conditions, the state cannot independently invest in all spheres of the economy due to the lack of budget funds. In this regard, one of the most crucial modern scientific problems is the creation of economic conditions for foreign investment projects, given that recently they are significantly reduced.

Results and discussion. Total investment (public, private and household) in European countries averaged 22% of GDP in 2022 (Fig. 1). However, there is significant variation between countries, in particular from 12% in Greece to 27% in the Czech Republic and 30% in Turkey. Public investment in European countries remained relatively stable, from 2009 to 2022 on average within 3% of GDP. However, it should be noted that there are significant differences between the countries, related to both the level of their socio-economic development and the consequences of fiscal consolidation caused by the crisis in the country's economy.

Public investment of more than 5% of GDP in European countries is observed in Hungary, Norway, Estonia, Latvia and Cyprus, the lowest share - in Ireland and Spain, accompanied by more significant private investment. Note that in Italy, the Netherlands, Germany and Finland and Cyprus, households play an important role in investing.

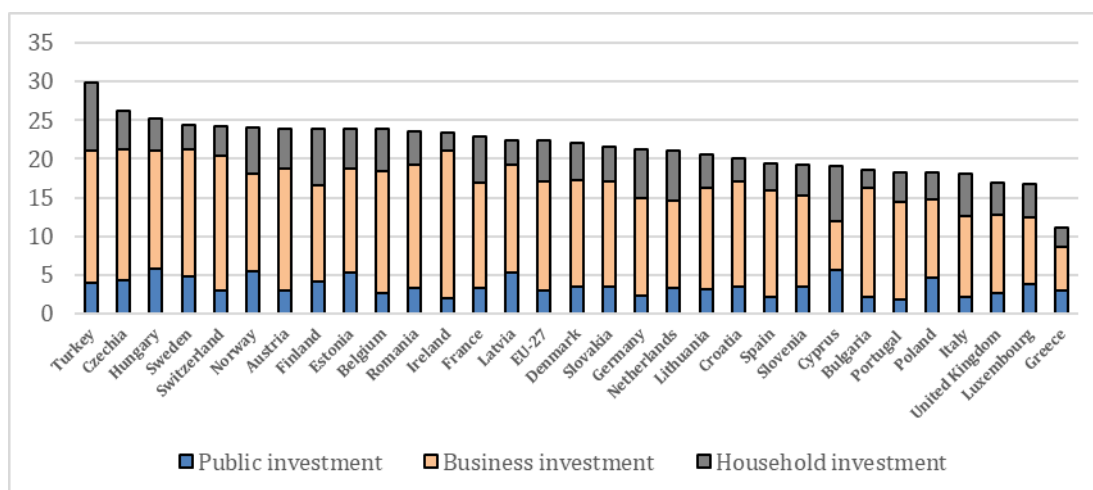


Fig. 1. Investment by institutional sectors in EU, % share of GDP, 2022

Source: own elaboration on the basis [Eurostat: <https://appsso.eurostat.ec.europa.eu/nui/show.do>]

By redistributing GDP, the state gets opportunities for budget investments. The ratio of government size, expressed in general budget expenditures in% to GDP and budget investment, shows that among the group of countries with a high level of redistribution of GDP, Norway, Sweden and Hungary stand out, where the level of public investment is higher than other countries (Fig. 2). Among the countries with an average level of public spending should be singled out Cyprus (5.8%), Estonia (5.3%) and Latvia (5.4%), which are also characterized by the allocation of more financial resources for investment purposes.

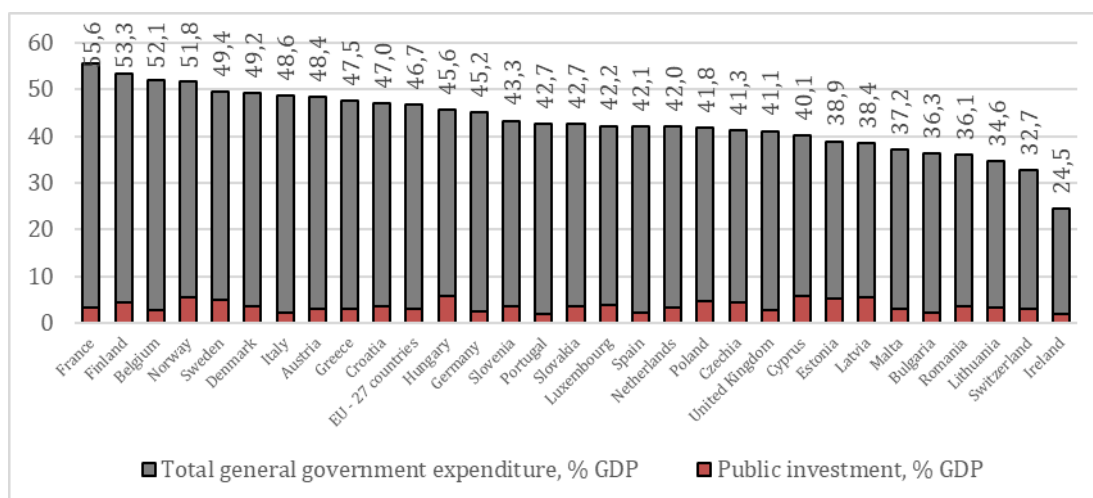


Fig. 2. Public finance and public investment as % share of GDP, 2022

Source: own elaboration on the basis [Eurostat: <https://appsso.eurostat.ec.europa.eu/nui/show.do>]

Public authorities, as investors, determine the direction of their own financial resources; in addition, they affect the nature and location of private investment and quality of life in general. Thus, their investment choice determines the opportunities for economic development, as public investment can promote growth and provide the appropriate infrastructure to stimulate private investment.

The main challenges faced by European governments in the implementation of public investment projects: the quality of management, efficiency of public investment, the need to increase budget funding for investment and others (Fig. 3).

Challenges of public investment	Insufficient investment by local governments causes gaps in infrastructure
	Climate change and population growth require significant updating of the infrastructure
	The impact of public investment on economic growth depends significantly on the quality of governance
	National, regional and local authorities need to increase investment efficiency
	The low level of institutional quality reduces the level of efficiency of public investment

Fig. 1. Challenges of public investment based on the experience of European countries

Source: Organisation for Economic Cooperation and Development URL: <http://www.oecd.org/gov/public-investment.htm>

Local governments play a significant role in financing economic development by making appropriate investments in EU countries. At the same time, there are obvious differences among countries both in the amount of directed investments and in key areas of investment. This is largely due to the size of the subregional government, their powers, as well as key benchmarks for their development and the country as a whole. Note that in federal countries, subnational governments are key investors in economic development. Poland, Lithuania, the Czech Republic and Romania should be singled out among the unitary countries.

In general, the level of the ratio of subregional expenditures and funding in% to GDP in 2022 can be divided into three groups of countries (Chart 4):

- 1 quadrant - countries with a significant amount of subregional costs and a significant share of investment (Denmark, Sweden, Finland);
- 2nd quadrant - countries whose subregional level is lower than the EU average, but make a significant share of investment in GDP (Poland, Czech Republic, Romania, etc.);
- 3 quadrant - (Cyprus, Malta and federal countries, as the subregional level of local self-government is taken into account, and the main share of investments is made at the regional level).

It should also be noted that all EU countries with a significant size of the subregional level are powerful investors in regional development, as none of the countries fell into the 4th quadrant.

It is important for the implementation of the European experience of investing at the expense of public finances in Ukraine to determine the direction of financial resources. According to the results of financed investments, we will single them out:

- Albania - infrastructure projects, in particular related to the construction and reconstruction of local roads and public spaces, as well as the reform of the water and sewerage sector;
- Bulgaria - local investments are directed to housing and utilities, including water supply and sewerage systems; a significant share falls on economic expenditures, including transport and utilities; education (construction and maintenance of school infrastructure).
- Croatia - investments are mainly directed to general services and infrastructure in education;
- Poland - local public investment is a significant share of economic costs, environmental support, recreation and culture [Progress Report by the OECD Investment Committee, 2019].

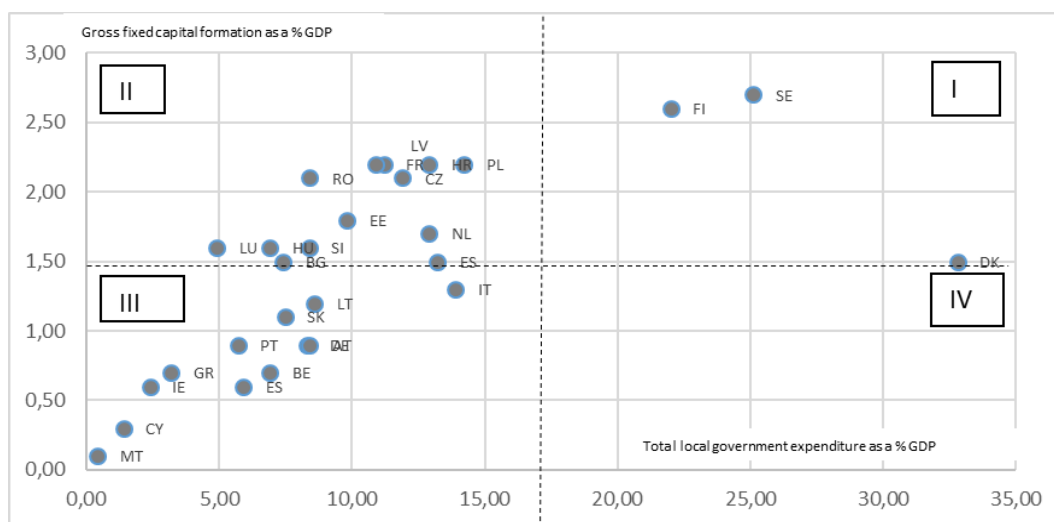


Fig 4. The ratio of total costs and investment costs in% to GDP in 2022

Source: own elaboration on the basis [Eurostat: <https://appsso.eurostat.ec.europa.eu/nui/show.do>]

For comparison, in Ukraine in 2019-2022, the vast majority of subregional investments were directed to "solid" infrastructure, including educational, health and road repair facilities. At the same time, we note a small number of investment projects of direct economic orientation.

Among the reasons for the low level of functioning of local authorities as investors are the following:

- 1) incomplete reform of administrative and financial decentralization;
- 2) different level of financial, personnel and institutional capacity of the united territorial communities;
- 3) lack of effective tools for attracting financial resources (the practice of inter-municipal cooperation is not developed, local loan instruments are allowed only for cities of regional importance, etc.);
- 4) a significant level of deterioration of infrastructure, primarily social, which requires priority modernization.
- 5) the impact of COVID -19 and others [2, p. 247-248].

According to OECD calculations, in order to reach the level of current development of neighbouring countries, in the ten-year period it is necessary to double GDP annually by 2025. This in turn requires an increase in investment by an average of 2 times per year. Obviously, there is an urgent structural adjustment of the economy, the focus on the production of products with high added value.

Ukraine can be considered an investment-attractive country for investment, based on the following factors [5, p. 155]:

- 1) the presence of high natural resource potential;
- 2) cultural kinship with other European and North American countries;
- 3) high level of education of the population and proper professional training;
- 4) a large consumer market, catching up with the market of highly developed countries.

The dynamics of investments in Ukraine shows that investments come to the country, and their volume increases every year, but they are still not enough to reach the level of development of European countries.

The peculiarity of investment activity in Ukraine is that it occurs under conditions of economic crisis and war, growing deficit of financial resources and a number of socio-economic problems.

Conclusions. Taking into account the European integration vector, the state investment policy of Ukraine should include the basic aspects of the main goals and objectives of the investment policy of the new generation, which takes into account the latest trends and needs of the world economy. First of all, the state investment policy in Ukraine should include measures related to the development of the real sector of the economy. In this context, it is especially important to establish the optimal ratio of foreign direct and domestic investment. In the context of European integration processes and ensuring investment security in Ukraine, it is necessary to protect domestic markets from monopolization by foreign investors by setting a limit on foreign direct investment in each sector.

It is also worth noting that the Russian invasion of Ukraine is a serious economic shock of uncertain duration. The war in Ukraine causes enormous economic losses to Ukraine as well as to the countries of Europe and the whole world.

The war, in addition to large human losses and the humanitarian crisis, led to a deepening of financial instability, a decline in economic growth, acceleration of inflation, an increase in prices for food products, fuel, other strategic types of products, and the reconfiguration of the global supply chain in the country's logistics services.

The task at the state level is the liberalization of tax and customs policy and the development of logistics for military purposes. For this purpose, an agreement has already been signed with the EU, which allowed Ukrainian companies to provide transport services without permits.

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