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MUTUAL INFLUENCE OF FISCAL AND MONETARY POLICY IN THE CONTEXT OF ENSURING MACRO-FINANCIAL STABILITY OF THE STATE

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Abstract
The article is devoted to clarifying the mutual influence of fiscal and monetary policy in the context of ensuring macro-financial stability of the state. The main objectives of financial policy functioning are considered. The research used both general scientific methods and special approaches, namely analysis and synthesis, induction and deduction, scientific abstraction, scientific generalization, graphic visualization, the combination of which made it possible to achieve the conceptual integrity of this scientific work. Its main goal is determined, which is to ensure the highest possible level of welfare of the population through the most efficient distribution of GDP between types and spheres of economic activity, territories, strata and population groups. Among the directions of financial policy, two main ones are highlighted: fiscal and monetary. The essence of macro-financial stability of the state and its dependence on financial and monetary policy, as well as their coordination and mutual coherence, are considered, based on which a model of the mutual influence of fiscal and monetary policy in the context of ensuring macro-financial stability of the state is proposed.

Keywords: *fiscal policy, monetary policy, fiscal instruments, financial relations, macro-financial stability, national economy, domestic economic system.*
JEL Codes: *E63, G32.*

Introduction

The country's economic system is a complex system that includes a large number of such components as companies, organizations, households, investors, etc., which together are aimed at outlining the ways of its development. However, one of the main elements of this system is the national bank and the country's government, which together form and implement the state's economic policy based on public opinion. The need for regulation and coordination is an essential aspect of the successful functioning and development of both developed world countries and those that are on the path of development and forced to reform the financial system. The specified reforms will be effective and successful, provided fiscal

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bodies and institutions implement policies aimed at supporting macro-financial stability and maintaining a transparent taxation system. During the implementation of reforms in the fiscal segment, in the majority of countries, as a result of the increased level of uncertainty, the interest rate increases significantly. Thus, in order to ensure macro-financial stability of the state, fiscal and monetary policies, which have mutual influence, must be coordinated. This state of affairs will lead to ensuring macro-financial stability and intensification of economic development.

The purpose of the article is to study the essence of fiscal and monetary policy, as well as their mutual influence in the context of ensuring macro-financial stability of the state.

Literature review

The research of mutual influence of fiscal and monetary policy is extremely relevant, especially in the current processes of turbulent development of the financial services market and macro-financial stability of the state. Scientists (Algozhina A., 2022; Fedyshyn M. et al., 2022) proposed a dynamic stochastic general equilibrium model of joint monetary and fiscal policy for a developing oil economy. The basis of the study by scientists (Nobrega W. et al., 2022; Zhavoronok A. et al., 2022) is the development of a model that aims to study the impact of managing the average maturity of public debt when the economy is faced with shocks to monetary policy. As a result of research by scientists (Shiou-Yen Chu, 2022), it was concluded that expansionary monetary and fiscal policy widens income inequality between households. The paper (Cochrane J., 2022) proposes a simple model with constant prices and target interest rates closed by a fiscal theory of the price level with long-term debt and fiscal and monetary policy rules. The article (Wu H. et al., 2022) examines the interaction and optimal combination of fiscal and monetary policy, when the model includes the monopoly of state enterprises and financial repression. The authors of the scientific work (Hülsewig O. et al., 2022) evaluated local forecasts to investigate how fiscal policy in the eurozone periphery responds to monetary policy shocks that lower government bond yields. The practical value of research (Xiaoshan Chen et al., 2022) lies in the analysis of a model in which fiscal and monetary policies obey the rules of targeting of different political bodies with potentially different target functions.

However, currently, based on the extremely difficult conditions of the functioning of the domestic economic system, a thorough study of fiscal and monetary policy as a mechanism for ensuring balance in the national financial system and macro-financial stability of the state appears extremely relevant and timely. The purpose of the article is to study the essence of fiscal and monetary policy, as well as their mutual influence in the context of ensuring macro-financial stability of the state.

Methodical approach

Within the scope of this scientific research, both general scientific methods and special approaches of analysis and synthesis were used to achieve the specified goal, the combination of which made it possible to achieve the conceptual integrity of this scientific work. The general provisions of the study of the mentioned issues are based on the theory of systems and system analysis, the theory of finance and economic methods. The system method, as well as the methods of induction and deduction, analysis and synthesis, were used by the authors to determine the main goals of financial policy, distinguish its main directions, and study the essence of fiscal and monetary policy. General scientific methods, as well as methods of scientific abstraction, have found their application in the study of the phenomenon of macro-financial stability and the influence exerted on it by both fiscal and monetary policies. The methods of scientific generalization, abstraction and synthesis made it possible to reveal the mutual influence of coordination of fiscal and monetary policy instruments in the context of ensuring macro-financial stability of the state. The method of

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graphic visualization made it possible to visually present the directions of financial policy implementation and the model of mutual influence of fiscal and monetary policy in the context of ensuring macro-financial stability of the state.

Results

Currently, the strategic direction of the country consists in overcoming the negative consequences of the crisis situation caused by a number of both internal and external destructive factors (primarily military operations conducted on the territory of the country), as well as the shortcomings of the implementation of economic policy, the unsatisfactory level and inefficiency of the process of regulating financial relations, the importance of which lies in strengthening the importance of financial policy as a relevant and effective instrument of state influence on processes in the socio-economic system. The efficiency, activity and targeting of the development of the socio-economic system of the state, the balance of financial, innovation-investment, economic, social and demographic processes and their adaptability and compliance with world trends significantly depend on the activity of the financial system and its elements, as well as the implementation of a balanced financial policy.

The concept of financial policy consists in the optimal and effective achievement of the main goal of the existence and functioning of the financial system - ensuring the highest possible level of welfare of the population through the most effective distribution of GDP between types and spheres of economic activity, territories, strata and population groups (Fig. 1). In addition, scientists highlight a number of other goals of financial policy, such as:

- reduction of the inflation rate and pace as the leading factor that most significantly affects the well-being of the population, enterprises and organizations, the state and threatens their existence and effective functioning;
- improvement of the standard of living of the population;
- leveling of the cyclicality of economic processes, above all, the use of financial policy as a tool aimed at overcoming and combating recession cycles;
- ensuring a permanent, uninterrupted process of reproduction of productive forces;
- ensuring an increase in the level of public goods and wealth.

Summarizing the above-mentioned goals, it should be noted that they are in one way or another connected with the leading goal of financial policy - ensuring a high level of welfare of citizens.

As for the areas of implementation of financial policy, fiscal and monetary policies are the main ones (Fig. 1).

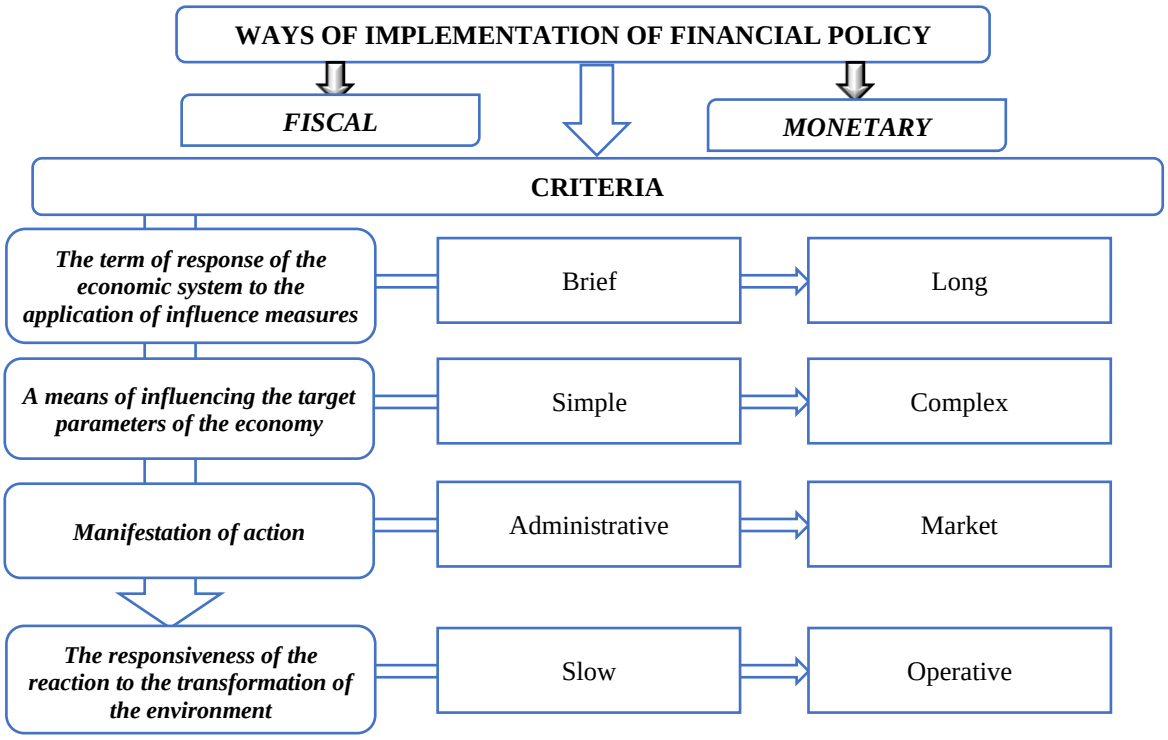

Figure 1. Directions of financial policy implementation

**Source: systematized by the authors.*

When considering the concept of fiscal policy, it should be noted that this is the activity of the state, which is aimed at changing its expenditures and tax revenues in order to increase the pace of production activity and its volumes, as well as the level of employment of the population.

Implementation of the fiscal function of taxes and fees is realized through the volume of state budget revenues. The analysis of the dynamics of tax revenues of the Consolidated Budget of Ukraine for 2019-2021 is presented in Fig. 2. It is worth noting the positive dynamics of tax revenues. In 2021, the increase in tax revenues amounted to UAH 383.48 billion compared to 2019 and UAH 317.12 billion compared to 2020. In percentage display, the figures are 105.7% and 133.9%, respectively. The increase in the actual amount of receipts was typical for all tax payments. In 2021, compared to 2020, customs revenues increased at the highest rate - 143.9%.

Based on the results of the analysis (Fig. 3), we note that tax revenues are growing from year to year and their share in the structure of Ukraine's GDP is increasing. Thus, their share increased from 29.1% in 2019 to 33.3% in 2021. In fact, a third of the entire GDP is tax revenue, which determines the need for constant improvement of Ukraine's tax policy.

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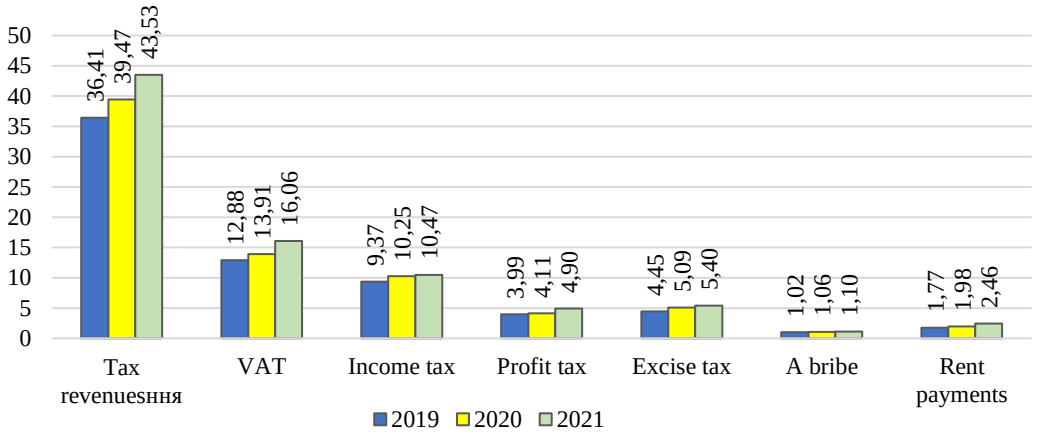

Figure 2. Dynamics of tax revenues of the Consolidated Budget of Ukraine for 2019-2021, billion euros

**Source: compiled by the authors based on https://www.ukrstat.gov.ua/*

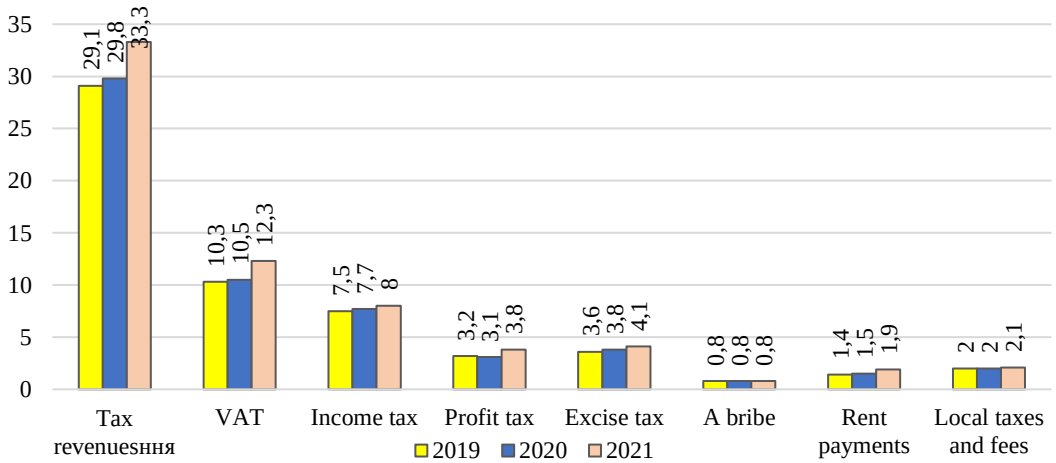

Figure 3. Dynamics of the share of tax revenues in the structure of the GDP of Ukraine in 2019-2021, %

**Source: compiled by the authors based on https://www.ukrstat.gov.ua/*

The concept of monetary policy is revealed as an activity of the state aimed at determining, establishing and maintaining stable prices through regulation of the money supply.

At the same time, it should be noted that measures and actions of both fiscal and monetary policy should be considered not as separate, unrelated, but as those that are very closely connected with each other, which must be taken into account not only in the manifestation their direct regulatory consequences, as well as in the context of a possible change in the implementation of the tools in the simultaneous sphere of money circulation regulation. Thus, an increase in budget expenditures with stable taxation leads to an increase in demand on the money market and an increase in the interest rate, which is an essential tool of monetary policy. While reducing the discount rate as a component of monetary policy leads, in turn, to an increase in the price of state loan bonds and an increase in demand for them, which gives the government the opportunity to increase their issuance and placement and thereby increase budget expenditures.

Therefore, under conditions of lack of stability in the financial system in the global dimension, the most urgent task is to introduce a really working fiscal and monetary policy, the implementation of which will contribute to achieving a stable position of the national economy.

Macrofinancial stability is generally understood as a situation in which monetary stability is achieved, there is confidence in financial institutions and organizations, the level of employment is close to natural, and there is no significant and sharp change in the price of financial assets. It can also be said that macro-financial stability is characterized by the ability to effectively allocate financial resources, risk management and the formation of favorable conditions and a favorable environment for the functioning of the economic system in a crisis period.

Thus, in order to stabilize the domestic economy, the country needs to build a stable and effective financial system that can really work in any unforeseen situations due to quick response. One of the ways to implement the aforementioned is the consistency between fiscal and monetary policies, their goals and objectives, which are aimed at applying stricter control over inflationary processes and ensuring favorable conditions for the economic development of the country. First of all, this consists in maintaining such a level of budget deficit, at which it is possible not to apply the process of its financing by the central bank. In addition, in order to achieve macro-financial stability, it is necessary to eliminate the imbalance in the distribution of the public product and ensure its effective use. The basis of the coordinated and adjusted implementation of the fiscal and monetary policy should be the achievement of the equilibrium of its implementation, as a result of which the state will be able to accumulate the necessary amount of financial resources in order to fulfill the leading tasks of the development of the socio-economic system. At the same time, the tools of monetary policy will be aimed at macro-financial stability due to their compliance with the goals and objectives of financial policy.

As can be seen from the Fig. 4, the effectiveness of economic policy, and therefore an increase in the rate of real GDP, can be achieved at the expense of both monetary policy actions, namely: a decrease in the interest rate and an increase in the money supply, and fiscal policy actions – an increase in budget expenditures and a decrease level of taxation. At the same time, monetary policy actions such as an increase in the interest rate and a decrease in the money supply, as well as fiscal policy actions such as an increase in the level of taxation and a decrease in budget financing, can lead to economic restraint, which is associated with a decrease in the rate of real GDP. Also, in addition to the unity of the goals of influencing economic policy, the actions of fiscal and monetary policy are combined with each other mechanisms. This is manifested in the following way: an increase in budget expenditures under the sustainability of taxation will lead to an increase in demand on the money market and an increase in the interest rate, which is an essential tool of monetary policy. And we will have the opposite situation, a decrease in the level of the interest rate within the framework of monetary policy will affect the increase in the price of state loan bonds, increase the demand for them, which will give the government the opportunity to issue and place new loans and increase budget expenses due to this. This once again makes it possible to make sure that the actions of fiscal and monetary policy should be considered not as an alternative, but as an indivisible integrity.

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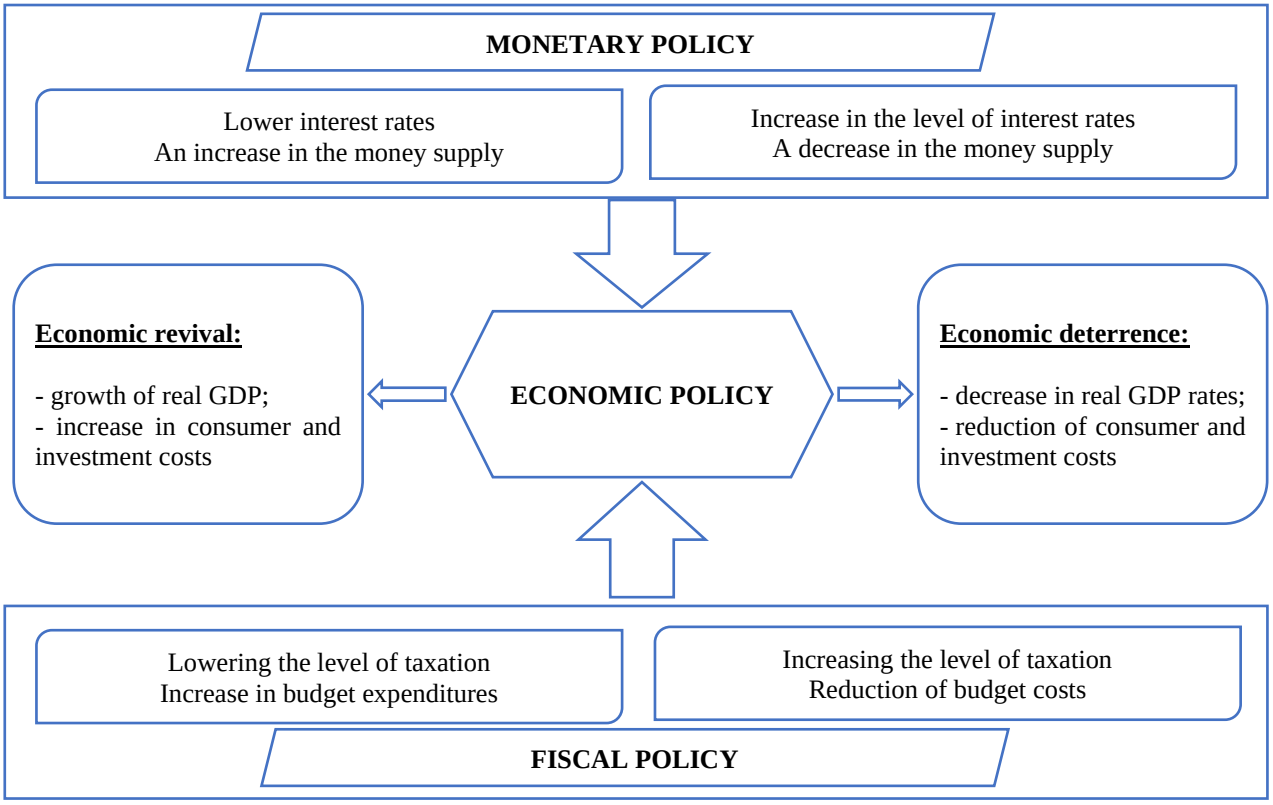

Figure 4. Model of the mutual influence of fiscal and monetary policy in the context of ensuring macro-financial stability of the state

**Source: systematized by the authors.*

Therefore, the formation of strategic directions for ensuring macro-financial stability of the state requires a thorough understanding and evaluation of the results of the mutual influence and interaction of the tools of both monetary and fiscal policy. The current period of development of the domestic economic system is characterized by a permanent increase in the state budget deficit, a high level of risks in the financial sphere and a decrease in production volumes as a result of its significant decline against the background of military operations and political instability. Currently, the parallel influence of a large number of various external and internal factors, which interfere with the effective implementation of financial and socio-economic activities, is being monitored.

Conclusions

The conducted research shows that only an effective combination of fiscal and monetary policy tools can lead to macro-financial stability of the state. Overcoming the consequences of crisis phenomena caused by permanent economic and political instability and military actions on the territory of the country requires strategic calculations and the formation of program documents for the country's development with the development of actions aimed at preserving, and in the future, increasing the well-being of the citizens of Ukraine, modernization of the types and spheres of economic activity, development of innovation-investment, educational, scientific activities, overcoming difficulties for conducting business activities in leading spheres for the state, protection of domestic goods in the domestic market and their promotion to foreign markets, increasing the level of competitiveness of domestic

enterprises and spheres of activity. Based on the above, fiscal policy should implement effective and efficient redistribution of domestic resources and wealth, forming motivational aspects to ensure sustainable development. At the same time, monetary policy should be aimed at maintaining financial stability by reducing inflation rates, increasing the level of employment, maintaining the stability of the national currency and the financial market. Making timely and effective decisions in the socio-economic and political spheres in the presence of a clear plan of action will allow solving the problems and complexities of the domestic economic system and obtaining significant results.

Thus, in order to ensure the macro-financial stability of the state, it is necessary to direct efforts to: increasing financing of the development of the economic system and its modernization, increasing the deposit activity of banks, minimizing the cost of borrowed money for current budget needs, reducing the level and rates of inflation, achieving an inflation-free increase in the volume of money in GDP of the state, the development of an effective mechanism for the coordination of fiscal and monetary policy, the only leading goal of which will be the focus on the economic development of the state.

The authors consider modeling and evaluation of the peculiarities of the mutual influence of fiscal and monetary policy on stimulating the country's economic growth as a perspective for further research.

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