

Formation of the budgetary potential of regions in the conditions of financial decentralization

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The formation and development of the budget potential of regions in the context of financial decentralization is one of the most actual issues of modern budgetary policy in Ukraine. The decentralization reform launched in 2014 transformed radically the system of public finance management by delegating a significant portion of powers and resources to the local level. However, insufficiently developed theoretical and methodological foundations for the formation of regional budget potential create serious obstacles to the effective implementation of decentralization processes.

The purpose of this research is to develop both theoretical and methodological basis for the formation of the budgetary potential of regions under conditions of financial decentralization.

The budgetary potential of a region is an integral category synthesizing the totality of existing and potential financial resources, institutional capacities, and managerial competencies capable of being effectively mobilized and rationally applied to ensure balanced socio-economic development of the territory. This category is characterized by multidimensionality and includes not only quantitative parameters of financial flows but also qualitative characteristics of the institutional environment determining the efficiency of the processes of accumulation, distribution, and use of budgetary resources at the regional level [1, c. 320].

The formation of the budget potential of regions is determined by several factors that are the level of economic development (GRP per capita), the sectoral structure of the economy (the share of industry, agriculture, services), the demographic situation (number of population and their age structure), and the investment attractiveness of the territory [1, c. 321]. Because of the functioning of Ukrainian economy under martial law the formation of the budgetary potential of the regions is accompanied by a significant transformation in the action of these determinants and an intensification of spatial disparities in socio-economic development. In particular, the dynamics of Ukrainian economic development is unstable: after a sharp decline in 2022 a gradual recovery of national economy was observed (in 2023 real GDP growth amounted to about 5%) which positively affected the dynamics of gross regional product (GRP) in relatively safe regions (Lviv, Ivano-Frankivsk, Zakarpattia, Ternopil, Chernivtsi, Volyn, Rivne, Khmelnytskyi regions), whereas frontline territories (Donetsk, Luhansk, Kharkiv, Zaporizhzhia, Kherson, Sumy, and Mykolaiv regions) showed a significant reduction in economic activity (approximately 30–40% compared to 2021) which directly reflected on the differentiation of their budgetary potential. The sectoral structure of Ukrainian national economy under martial law has also undergone significant changes so the role of the service sector, first of all IT and logistics, has considerably increased with its share in the structure of gross value added in 2024 exceeding 60%, while the IT sector provides about 4–5% of GDP and remains one of the key service exporters (over 6 billion USD annually) [2-3]. At the same time the share of industry in the eastern regions has significantly decreased (from 20% in 2021 to 15–17% in 2023–2025) due to the loss of production capacities, destruction of infrastructure, and temporary occupation of part of the territories. Meanwhile, the agricultural sector retains a significant role, generating about 10–12% of GDP and over 50% of foreign exchange earnings from goods exports in 2023–2024, which partially offsets structural imbalances and supports the budgetary potential of regions. The demographic situation is unfavorable significantly complicated by the activation of migration processes (approximately 6 million people have left Ukraine due to the war) and the reduction of the total population (from 41 million in 2021 to almost 33 million in 2024, among them almost 5 million are internally displaced persons), which reduces the tax capacity of territories especially due to the decrease in the share of the economically active population (by 10–15%) and the increase in the number of pensioners (by 25%) [3].

However, the relocation of business to the central and western regions contributed to partially compensating for budget losses and forming new centers of economic activity. Thus, during 2022–2024 more than 800 enterprises were relocated under state programs, among them almost 80% renewed operations partly or totally in Lviv, Zakarpattia, Ivano-Frankivsk, Khmelnytskyi, and Vinnytsia regions, which led to an increase in the sales volume (by 15–25%) and tax revenues in these regions (by 20–30%) resulting in further strengthening of regional disparities in Ukrainian economy [2].

The above mentioned indicates that the formation of budgetary potential is associated with the imperfection of the intergovernmental transfer system which does not take into account the real fiscal potential of the territories, since the basic subsidy is distributed without considering the specifics of the economic development of the regions, which leads to ineffective use of budgetary resources. Also the limited fiscal powers of local authorities in the field of establishing and administering taxes and fees reduce the motivation of territorial communities to increase their own revenue base. The institutional capacity of local self-government bodies remains insufficient for effective management of budgetary potential. The lack of qualified personnel, absence of modern management technologies, and weak financial control mechanisms hinder the full implementation of opportunities provided by financial decentralization. The low level of financial transparency and limited public involvement in the budget process significantly reduce the efficiency of budgetary resource utilization [1, p. 318; 4]. The combination of this specified factors indicates the need to improve interbudgetary regulation mechanisms based on more flexible, differentiated approaches that take into account the real tax potential of territories, the level of their socio-economic development, security risks, and the institutional capacity of local self-government bodies.

The author proposes the directions for improvement that must include the following: stabilization of local budget revenue sources through the improvement of local taxation and expansion of access to extrabudgetary sources of financing; optimization of the interbudgetary transfer system based on a formula-based approach taking into account fiscal capacity; strengthening institutional capacity through staff training and the implementation of modern management technologies; increasing transparency through participatory budgeting and public oversight; stimulating local economic development by creating a favorable business environment and inter-territorial cooperation; enhancing digitalization of public financial management through the introduction of integrated e-governance systems, open budget data platforms, and automated revenue administration tools; improving strategic investment planning by developing regional investment portfolios, strengthening project management capacity, and expanding partnerships with international donors and development institutions [1, c. 318].

The implementation of the proposed measures in real economic policy in Ukraine will allow to increase the financial capacity of territorial communities, reduce interregional disparities in budget provision, and ensure more efficient use of public finances, and in the long run it will also contribute to enhancing the autonomy of local self-government and strengthening the overall financial stability of the state.

References

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