Transformation of the Fiscal Mechanism of the EU Member States and Ukraine During the Covid-19 Pandemic: from Consumption Supporting to Investment Stimulation

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Abstract: Faced with COVID-19, most countries have used the fiscal mechanism to mitigate the effects of the coronavirus crisis, which primarily involved supporting economic subjects and ensuring the required level of consumption. However, on the way to overcome the pandemic, it is necessary to use a fiscal mechanism to stimulate investment, which is an important prerequisite for economic recovery. Therefore, the purpose of the article is to determine the role of the fiscal mechanism in the context of the COVID-19 pandemic and justify its reorientation from supporting consumption to stimulating investment. In the course of the research, it was established that in modern conditions the fiscal mechanism acquires special significance, becoming a priority tool for the struggle of states against the consequences of the corona crisis, shifting the emphasis from the previous priority of the monetary mechanism. The impact of the fiscal mechanism in terms of budget revenues, budget expenditures, government loans, and guarantees on consumption and investment in EU member states and Ukraine were analyzed. As a result of the study, it was found that the COVID-19 pandemic, which has intensified all existing socio-economic problems of states, despite all its negatives, can become a springboard for qualitatively new investment development. At the same time, it is necessary not to change the design of the fiscal mechanism, but to reorient it to more efficient and adapted to new conditions investments in the development of green and digital economy, as well as strengthening the socio-economic stability of countries.

Key-Words: fiscal mechanism; fiscal policy; budget revenues; budget expenditures; government loans; government guarantees

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1 Introduction

For the successful implementation of fiscal policy in any country, a fiscal mechanism is formed, which allows making the most effective implementation of its tasks and ensure the fiscal interests of the state. The fiscal mechanism contains the means, forms, and methods by which the influence on the formation, distribution, and use of financial resources to conduct the fiscal policy, in particular, aimed at stimulating consumption and investment.

The global COVID-19 pandemic highlighted the critical role of the fiscal mechanism in maintaining the livelihoods of households and ensuring the functioning of economic entities. Restrictive measures taken by states as to the movement of people and social contacts have led to business closures, declining business activity, and labor markets contraction. The reduction in the number of jobs and falling incomes of economic entities against the background of extremely uncertain development prospects have led to a significant reduction in consumption and investment. If with the beginning of the pandemic the fiscal mechanism ensured the recovery of consumption, in the long run, it should promote the intensification of investment, which is an important prerequisite for sustainable economic development.

The purpose of the study is to consider the specifics of the transformation of the fiscal mechanism of EU member states and Ukraine during the COVID-19 pandemic, which included both support for consumption and increased investment.

Taking into account the importance of the fiscal mechanism in the regulation of socio-economic processes, its operation is based on a certain methodology, which consideration depends on the successful implementation of a specific goal of the study. This methodology covers methods of theoretical study and practical knowledge of the processes of formation, distribution and use of financial resources in order to implement fiscal policy aimed at maintaining consumption and / or intensifying investment activities during the COVID-19 pandemic. These methods are considered on an empirical, theoretical and theoretical-empirical level.

Empirical methods are directly related to the phenomena being studied and used at the stage of formation of a scientific hypothesis. The study used empirical methods such as description (fixation of historical aspects of the transformation of the fiscal mechanism in the COVID-19 pandemic), comparison (comparison of historical phenomena and processes that took place in the fiscal mechanism during the COVID-19 pandemic), observation (examination of peculiarities of historical facts characterizing the transformation of the fiscal mechanism during the COVID-19 pandemic).

Methods of theoretical level allow conducting logical research of the collected historical facts, to formulate concepts, judgments and to draw conclusions. The research was conducted using the following methods of theoretical level: historical (study of the specifics of the fiscal mechanism during the COVID-19 pandemic in chronological order), logical (production of new statements of those ones already installed about the use of the fiscal mechanism in the COVID-19 pandemic), argumentation (grounding of use of the fiscal mechanism to support consumption and/or increase investment through known historical facts due to the implementation of certain considerations).

Theoretical and empirical methods help to identify certain reliable facts and objective manifestations of reality in the study of processes. The following methods of theoretical and empirical level were used during the research: analysis and synthesis, induction and deduction, abstraction, generalization, analogy, concretization and classification.

The methods used in the study did not exclude the possibility, in some cases, of simply stating the facts in order to give the relevant reasoning of the necessary evidentiary force.

2 Problem Formulation

The formation and functioning of the fiscal mechanism are studied by Ukrainian scholars in fragments, and therefore the theory of the fiscal mechanism in the Ukrainian economic literature has not been properly developed. Thus, the concept of “fiscal mechanism” is rare; it is often identified with tax, budget, or budget and fiscal mechanisms, which we consider incorrect. Therefore, to clarify the essence of this term, it is necessary to consider two basic categories “fisc” and “mechanism”.

The very notion of “fisc” dates back to the Roman Empire. In the dictionary of foreign terms, the term “fiscus” (from the Latin fiscus) is interpreted as “state treasury” [1], although initially the word “fiscus” was associated with a basket, mostly where the money intended for issuance (transitional amounts, regardless of whether the money belonged to the state or an individual) were kept. Therefore, the word “fisc” began to denote any box office, any amount that could be issued immediately. In modern conditions, fisc is understood as the state treasury (budget) [2]. In addition, S. Honcharov and N. Kushnir define fisc as “a set of financial resources of the state in a centralized state” [3], while Yo. Zavadskyi, T. Osovska, and O. Yushkevych treat fisc as “the only national financial center” [4]. In our opinion, the fisc needs to be considered in terms of the components of the state budget - revenues (among which the leading role belongs to taxes and government borrowing) and costs (among which the priority is expenditures and budget credits).

As for the concept of “mechanism”, in financial science, as in other fields of science, there is still a debate about the understanding of its nature and characteristics as a relevant scientific category. Thus, in explanatory dictionaries, the term “mechanism” is considered from several positions [5; 6; 7]:

1. A mechanism as an internal device (system of links) of a machine, device, apparatus, or something that drives them into action.

2. Mechanism is a set of states and processes that make up a certain physical, chemical, physiological, psychological, etc. phenomenon.

3. Mechanism is a device that transmits or converts motion.

4. Mechanism as a system, a device that determines the order of any activity.

5. Mechanism as a method, mode.

In the scientific literature in determining the essence of the concept of “fiscal mechanism” is used one of the above approaches or a synthesis of several of them, which we have summarized and reflected in table 1.

Table 1. Approaches to the definition of the term "fiscal mechanism"*

Author(s)	Characteristics of the concept	Position to understand the content in explanatory dictionaries
Yu. Aleskerova	“The fiscal mechanism is defined goals and directions of development of budgetary and tax relations and methods of their implementation at the local level” [9].	2,3,5
V. Banton, V. Taranhul	“The fiscal mechanism is the optimal use of the multiplier effects of government spending and taxes to ensure the desired growth of real GDP, which provides for the organization of fiscal relations, justification of current measures to intervene in the formation and use of budget funds” [10].	2,3
T. Fursa, S. Synytsia	“The fiscal mechanism is a set of fiscal measures carried out by authorized state bodies, which are part of the overall economic strategy of the country, to finance the activities of the state and communities, as well as indirect funding to regulate the development of various sectors of the economy, designed to promote sustainable development of production and growth of national welfare” [11].	1,2
I. Kantsur	“The fiscal mechanism is a set of budget and tax mechanisms, which combines the distribution processes from tax payment to the use of financial resources of the state; a system of interconnected tools, which determine the optimal parameters of the formation of financial resources for different levels’ budgets and the maximum efficiency of their placement and use to ensure the socio-economic development of society” [12].	1,2,4
T. Litovchenko	“The fiscal mechanism is a set of economic and organizational, regulatory forms and methods of managing the fiscal activities of the state in the process of formation, distribution, and use of monetary resources to meet its needs” [13].	1,2,4,5
O. Sydorovych	“The fiscal mechanism is a set of organizational and legal norms, methods and forms of public administration mechanisms for revenue mobilization, their distribution and redistribution to achieve economic, social and environmental goals of state formation” [14].	1,2,4,5
S. Tkachiv	“The fiscal mechanism is a set of specially designed and legally established methods and levers for the use of financial resources” [15].	2,5
V. Tropina	“The fiscal mechanism is a set of economic, organizational, and legal forms and methods of managing the process of formation, distribution and use of centralized funds for the state to perform its functions - economic, social, political, ideological (spiritual), which in real life cannot be distinguished, how it is impossible to divide the fiscal mechanism into separate mechanisms in the specified directions” [16].	1,2,3,4,5
M. Vatahovych	“The fiscal mechanism is a set of budget and expenditure, and tax forms,	1,2

	tools and instruments for the formation, and use of centralized funds to finance the activities of the state and achieve its policy goals" [17].	
V. Zymovets	"The fiscal mechanism is the withdrawal and redistribution of revenues by the state in the framework of fiscal policy, which can be considered mainly in the dynamics – as part of the turnover of financial resources, but not in statics" [18].	2,3

**Source: Research by scientists*

In table 1 we have given a far from the complete list of definitions of the concept of "fiscal mechanism" available in the special literature. But, perhaps, these examples are enough to conclude that over the years of research, financial scientists have not only failed to form a common understanding of the fiscal mechanism, but also, conversely, introduced into scientific circulation a significant number of definitions of this concept, including almost all range of financial phenomena and processes.

Therefore, in our opinion, the fiscal mechanism should be considered as a set of fiscal means, forms, and methods of targeted state influence on the formation, distribution, and use of financial resources to implement fiscal policy, ensure qualitative changes in the socio-economic sphere and achieve balance in satisfaction of fiscal interests of all economic entities [8].

The impact of the fiscal mechanism on consumption and investment can be quantitative and qualitative. The quantitative impact of the fiscal mechanism is expressed through the volume and proportions of mobilization of financial resources to the state budget, and their distribution between individual territories, sectors of the national economy and segments of the population. Depending on changes in the ratio of financial resources at the state and local levels, the amount of budget revenues, the size of public procurement, the amount of budget funding is regulated the economic development, the impact is carried out on social production, socio-cultural development of society, its scientific and technological potential.

The qualitative impact of the fiscal mechanism is associated with the use of such methods of formation and use of financial resources, forms of organization of financial relations, which allow them to be considered as incentives for consumption and investment. At the same time, special means are used, the main of which include reduction of tax rates, conditions for granting tax benefits, setting the maximum size of the budget deficit, the maximum amount of public debt, conditions for granting budget loans and budget financing, etc.

Thus, the fiscal mechanism in the context of regulating consumption and investment can play a stimulating, deterrent, leveling, optimization, and integration role. The stimulating role is aimed at expanding consumption and investment and is realized through favorable taxation and active budget investment. The deterrent role, on the other hand, is aimed at creating barriers to the development of certain consumer or investment processes and is manifested through an increase in the tax burden and a reduction in budget investment.

The leveling role is manifested in the combination and maximum security of the interests of all economic entities through the establishment of optimal taxation and effective implementation of budget investment. The optimization role is to ensure the development of consumption and investment processes taking into account economic, social, cultural and environmental efficiency. The integrative role is related to the coordination of management decisions of various economic entities in the context of the strategy of socio-economic development of the state.

3 Problem Solution

3.1 The Impact of the Fiscal Mechanism on Consumption and Investment

The state forms a fiscal mechanism to implement fiscal policy. The fiscal mechanism influences consumption and investment to address the priorities of socio-economic development of the country and provides a consensus in meeting the fiscal interests of the state, enterprises, and households.

During the COVID-19 pandemic, the fiscal mechanism provided the basis for overcoming the crisis, due to the nature of the socio-economic shock and the health emergency with unprecedented real consequences [19]. The priority use of the fiscal mechanism to combat the consequences of the corona crisis is explained by the rapid achievement of the set tasks. Thus, there is a certain time lag between the emergence of the destabilizing phenomenon (pandemic COVID-2019 and the crisis caused by it) and its elimination through regulatory measures of the state. Moreover, the time lag of the monetary mechanism is usually longer than the fiscal, which is primarily due to the complexity of the transmission mechanism, through which the primary means are able to influence the set tasks [20].

Using the experience of previous years, states have used the proposals of J. M. Keynes on the use of the fiscal mechanism to stimulate consumption and later investment [21]. In particular, the following components of the fiscal mechanism were used:

1) budget revenues, due to the manipulation of which the tax burden on enterprises and households was reduced, which allowed to compensate for the losses of the latter and to restrain the sharp decline in production and consumption;

2) budget expenditures, through the manipulation of which the necessary health care financing was provided, state support was provided to the most affected enterprises and households, which prevented a radical decline in economic activity, more significant job losses, and more significant social costs;

3) government loans and guarantees, as well as the recapitalization of enterprises by the state, which managed to support the working capital of economic entities during the emergency period and ensure fewer bankruptcies.

In countries with developed market economies, in particular EU member states, all components of the fiscal mechanism have been fully used to reduce the negative socio-economic consequences of the COVID-19 pandemic. In emerging market economies, in particular, in Ukraine, only certain components of the fiscal mechanism were used. This situation is due to a number of factors: different levels of economic development of states and readiness to respond to this crisis; the potential of fiscal space and the sustainability of the public finance system; a speed of development, adoption of the corresponding system of measures; the level of development of health care systems in general and the public health care system and epidemiology in particular; the degree of rigidity of lockdown measures and social distancing; the level of development of medical science and production of medical goods and medical equipment in the country; human resources of the health care system and the development of the network of medical institutions; the difference between the demographic and gender-age structure of the population; the level of urbanization and population density in the country [22].

In addition, the use of certain components of the fiscal mechanism to combat the effects of the COVID-19 pandemic, according to IMF experts, should be determined by the stages of its deployment and course [23].

In the first stage of the outbreak of the epidemic and the lockdown of the economy, the fiscal mechanism was focused on priority budget financing of health care and state support to affected enterprises and households by reducing the tax burden and expanding budget transfers. That is, fiscal measures were mainly aimed at preventing a fall in consumption, rather than supporting investment.

In the second stage of the gradual opening of the economy in an uncertain epidemiological situation, the fiscal mechanism was aimed at adequate budget financing of health care and maintaining state support for certain needy enterprises and households. That is, fiscal measures were taken to increase consumption and gradually restore investment. However, the priority was to make public investments with the mass involvement of the liberated labor force in the implementation of such investments.

In the third stage of the pandemic containment, when the progress in vaccination is achieved, the state should direct the main efforts to economic recovery. The use of the fiscal mechanism will depend on the ability of states to make productive public investments and to continue measures to support needy enterprises and households, mainly through the provision of government loans and guarantees. That is, fiscal measures should focus not so much on supporting consumption as on stimulating investment.

Thus, in the context of the COVID-19 pandemic, the rapid and coordinated use of components of the fiscal mechanism in the EU, in particular through additional government expenditures and shortfalls, has helped households to maintain demand maintain demand at the appropriate level and to provide business entities with their business activities. The scale and effectiveness of fiscal measures varied across the EU members due to the different size of the fiscal space, the level of economic development and access to international credit.

3.2 Use of the Fiscal Mechanism in Terms of Budget Revenues to Combat the Effects of the COVID-19 Pandemic

The moment of an immediate outbreak of the pandemic and associated with it increased burden on health care required countries to respond quickly by imposing severe restrictions and securing support for economic entities. EU member states at this time actively manipulated taxes to prevent significant losses to businesses and falling household incomes, as shown in table 2.

Table 2. Measures within the revenue component of the fiscal mechanism to combat the effects of the COVID-19 pandemic in EU member states*

Measures	Country
Temporary reduction of certain tax rates	Austria (VAT), Belgium (VAT, CIT, IIT, SSCs), Bulgaria (VAT), Croatia (CIT), Cyprus (VAT), Czechia (VAT), Estonia (VAT), France (VAT, CIT, SSCs. PT), Germany (VAT), Greece (VAT), Hungary (VAT, CIT), Italy (VAT, SSCs), Malta (VAT, CIT), Poland (CIT, IIT), Portugal (VAT), Spain (VAT)
Temporary increase in certain tax rates	Austria (IIT), Czechia (IIT)
Accelerated VAT refund	Hungary, Latvia
Installment / deferment of liabilities from certain taxes and social payments	Austria (VAT, CIT, IIT), Belgium (VAT, CIT, IIT, SSCs), Croatia (VAT), Cyprus (VAT), Czechia (VAT), Denmark (VAT), Finland (VAT), Germany (VAT, CIT, IIT), Greece (VAT), Hungary (VAT), Italy (VAT, SSCs), Latvia (VAT), Lithuania (CIT), Luxembourg (CIT, IIT), Malta (VAT), Netherlands (VAT), Poland (CIT, IIT, SSCs), Portugal (VAT), Romania (VAT, CIT, IIT), Slovenia (VAT, CIT, IIT), Spain (CIT, IIT), Sweden (VAT, CIT, IIT, SSCs)
Granting tax benefits	Austria (VAT, CIT), Belgium (VAT, CIT), Bulgaria (VAT), Croatia (VAT, CIT), Cyprus (VAT, CIT, IIT), Czechia (VAT, CIT, IIT), Denmark (CIT, IIT), Estonia (VAT), Finland (VAT, CIT), France (VAT, CIT, IIT), Germany (CIT, IIT), Greece (VAT, CIT, IIT), Hungary (VAT, CIT), Ireland (VAT, CIT, IIT), Italy (VAT, CIT), Latvia (VAT, CIT, IIT), Luxembourg (VAT, CIT, IIT), Malta (VAT), Netherlands (VAT), Poland (VAT, CIT, IIT), Portugal (VAT, CIT, IIT), Romania (VAT, IIT), Slovakia (VAT, CIT, IIT), Slovenia (VAT, CIT, IIT), Spain (VAT, CIT, IIT), Sweden (VAT)
Temporary suspension of collection of certain taxes and social payments	Croatia, Cyprus, France, Greece, Hungary, Poland, Slovenia
Postponement of tax reporting deadlines	Belgium (VAT, CIT), Bulgaria (CIT, IIT), Croatia (CIT, IIT), Cyprus (CIT, IIT), Denmark (CIT, IIT), Finland (CIT, IIT), Germany (CIT), Greece (VAT, CIT), Hungary (VAT), Ireland (IIT), Italy (CIT), Latvia (IIT), Lithuania (IIT), Luxembourg (CIT, IIT), Malta (CIT), Netherlands (CIT, IIT), Poland (CIT, IIT), Portugal (CIT), Slovenia (CIT)
Exemption from penalties for late payment of certain taxes	Belgium (VAT), Cyprus (VAT), Czechia (VAT, CIT, IIT), Estonia (VAT), Finland (VAT), Germany (VAT), Hungary (VAT, CIT), Latvia (VAT), Lithuania (CIT, IIT), Luxembourg (CIT, IIT), Portugal (VAT), Romania (VAT, CIT, IIT), Slovakia (VAT), Slovenia (VAT), Spain (CIT, IIT)
Reduction of advance payments of income taxes	Austria, Belgium, Czechia, Malta, Netherlands

**Source: Compiled by the authors based on [24; 25]*

Note: VAT – value added tax; CIT – corporate income tax; IIT – individual income tax; SSCs – Social security contributions; PT – property tax

In the EU member states, the fiscal mechanism in terms of budget revenues provided for the improvement of tax administration and the provision of tax breaks on certain taxes:

1) value-added tax: to support the most affected sectors of the economy (catering, tourism, culture, sports), and to reduce the cost of medicines and medical equipment to combat the pandemic;

2) corporate income tax: to prevent the deterioration of the financial condition of enterprises and increase their investment;

3) individual income tax: to compensate for the loss of household income and ensure their normal functioning.

As for Ukraine, the threat of loss of budgetary resources has led to insignificant use of the revenue component of the fiscal mechanism. Thus, tax breaks for businesses in response to the corona crisis included: increasing the annual income threshold for the simplified taxation system, deferment of tax audits and tax filing deadlines, abolishing tax fines and penalties for delaying tax payments, temporary exemption from real estate tax and the single social contribution. Payments by enterprises for the lease of state and communal property were halved, reduced by four times or to zero for the quarantine period. Individuals affected by the coronavirus were given the right to deduct the cost of purchasing drugs from the individual income tax base. Tax exemptions from VAT and import duties were provided for the production and supply of medical devices intended for the treatment and containment of COVID-19 infection. In 2021, small businesses were written off tax debts amounting to approximately 80 euros, and they were entitled to a tax holiday to pay a single tax until May 2021 [26; 27].

In the future, new priorities of the fiscal mechanism should appear in terms of budget revenues, which will contribute to progressive development, both on the way out of the crisis of the COVID-19 pandemic and in the post-coronary crisis perspective. Such priorities should include [28]:

1) a clear socially-oriented direction, freeing it from the dominance of the principles of neoliberalism and market fundamentalism of the past;

2) focus on neutralizing excess, in particular, the speculative income of enterprises that managed to take advantage of their technological advantages during the pandemic;

3) focus on the application of a stricter tax burden on those individuals who managed to get rich in the corona crisis;

4) synchronization with other countries, which is best done within large institutional structures, such as the EU or OECD.

In our opinion, the revenue component of the fiscal mechanism in the future should contribute not only to ensuring social equality, but also have a positive impact on investment. It should be noted that some EU member states, even during the deployment of the COVID-19 pandemic, took measures to stimulate investment. Thus, in Austria an investment premium was introduced, equal to 7% or 14% depending on the type of investment (in the form of a grant), awarded where the first stage of investments in depreciable assets was made between 1 August 2020 and 31 May 2021. Belgium has temporarily introduced the 25% capital investment deduction period for fixed assets acquired or constituted between 12 March and 31 December 2022. Belgium has also introduced a 20% tax credit is available to individuals who purchase shares in qualifying COVID-19 affected companies from March 14, 2020, and still possess those shares as at December 31 of the year of acquisition, subject to conditions. A similar measure is available for individuals who purchase shares in COVID-19 affected SMEs from 1 January to 31 August 2021; the total tax credit cannot exceed €100,000. In Hungary, from May 2020, the corporate income tax for the next four years has been abolished for companies that will direct their profits to the implementation of investment projects. In Slovenia investment incentive measures have been enhanced where new employment is generated in manufacturing, services, and R&D. Spain enhanced tax deductions from corporate income tax and individual income tax are available for investments made in the cultural sector [24; 25].

Ukraine has also developed measures to use the fiscal mechanism in terms of budget revenues for investment development, in particular, the Law of Ukraine “On state support of investment projects with significant investments in Ukraine” [29] was adopted. The latter provides for the following forms of support for significant investment projects:

1) exemption from payment of certain taxes and fees;

2) exemption from import duty of new machinery (equipment) and components to it, which are imported exclusively for the implementation of the investment project with significant investments for the implementation of a special investment agreement;

3) ensuring at the expense of the state, local budgets, and from other sources, not prohibited by law, the construction of related infrastructure facilities necessary for the implementation of an investment project with significant investments.

In addition, in the context of the COVID-19 pandemic, the revenue component of the fiscal mechanism is planned to be used for such investment purposes [30]:

− introduction of special economic zones of industrial-type with preferential tax regimes;

− introduction of effective incentives for the implementation of investment projects of innovative direction and acceleration of the creation of innovative products by innovative enterprises and organizations through the introduction of a 20% incremental tax credit for income tax;

− tax holidays for income tax for enterprises that develop intellectual property for 5 years, provided that they carry out such activities during the previous five years;

− introduction of tax holidays for small and medium enterprises involved in the implementation of projects for the production of energy saving equipment, provided by exemption from income tax for three years and the application of a reduced 50% tax rate over the next two years under the condition of funding of at least 30 % of the cost of projects by private enterprises.

In our opinion, during the COVID-19 pandemic, the revenue component of the fiscal mechanism should be flexible and adaptive with a rapid response to support the investment activity of households and businesses and ensure the sustainability of key macroeconomic indicators of socio-economic development of the state.

3.3 The Use of the Fiscal Mechanism in Terms of Budget Expenditures to Eliminate the Negative Effects of the Corona Crisis

Unprecedented quarantine measures aimed at the self-isolation of citizens, closure of service enterprises, banning sports and entertainment activities have undoubtedly affected the ability of economic entities to generate income. Therefore, due to the expenditure component of the fiscal mechanism in the EU member states, not only the priority financing of health care was carried out, but also the programs of state support of economic entities were introduced, adapted or expanded, which is shown in table 3.

Table 3. Measures within the cost component of the fiscal mechanism to combat the effects of the COVID-19 pandemic in EU member states*

Measures	Country
Providing state support to certain vulnerable groups of population	Bulgaria, Cyprus, France, Italy, Slovenia
Providing state support to families with children	Czechia, Germany, Hungary, Italy, Romania
Expanding the scope of state unemployment benefits	Austria, Belgium, France, Greece, Ireland, Latvia, Luxembourg, Malta, Spain
Providing transfers to cover fixed costs of enterprises	Austria, Ireland
Providing state support to enterprises that retain jobs	Austria, Bulgaria, Croatia, Cyprus, Czechia, Denmark, Estonia, Finland, France, Hungary, Ireland, Lithuania, Malta, Netherlands, Poland, Portugal, Slovakia, Slovenia, Sweden
Providing transfers for businesses that suffered losses during the pandemic	Austria, Belgium, Croatia, Cyprus, Czechia, Estonia, Ireland, Finland, France, Germany, Luxembourg, Netherlands, Slovakia, Sweden
Providing state compensation to citizens who lost income during the pandemic	Bulgaria, Czechia, Denmark, Estonia, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Malta, Slovakia, Slovenia
Temporary cancellation / deferment of utility bills	Lithuania, Poland, Romania
Temporary reduction of utility tariffs	Greece, Lithuania, Slovenia
Providing state aid to pay for utilities	Bulgaria, France
Temporary cancellation / reduction / deferment of rent for commercial premises	Belgium, Czechia, Greece, Ireland, Latvia, Romania, Spain
Providing state support to non-profit organizations	Austria, Estonia, Poland
Abolition of financial sanctions in case of delay in the execution of the state order	Belgium, Poland
State recapitalization of the share capital of enterprises in priority industries	Finland, Hungary, Latvia

**Source: Compiled by the authors based on [31]*

In the EU member states, the fiscal mechanism in terms of budget expenditures provided for the financing of health care, including the purchase of medicines, the equipment of hospitals, as well as financial and other incentives for medical staff. State support was also provided to households, which varied from country to country, but the main focus was on providing those who lost their jobs or experienced reduced working hours, and increasing cash benefits to the most socially vulnerable categories of the population (families with children, pensioners, veterans, low-income, etc.). In addition, state support was provided to enterprises and self-employed persons most affected by the pandemic, the affected sectors of the economy (air transport, agriculture, tourism, etc.), as well as exports in conditions where the pandemic disrupted international cooperation within value chains. In fact, the state used budget funds to compensate economic entities for the losses they suffered or lost income to maintain the appropriate level of consumption.

As for Ukraine, limited budget resources did not allow for the full financing of health care, and we can’t even speak about the state support to enterprises and households. Thus, in January and April 2021, entrepreneurs who ceased their activities due to quarantine were able to receive about 250 euros of one-time compensation from the state. Entrepreneurs were also given the right to receive assistance for children less than 10 years of age. Regarding the payment of unemployment benefits, the minimum amount of benefits for persons with and without the necessary insurance experience was increased. Temporary unemployment benefits were introduced for those who lost their jobs during the quarantine period, in the amount of 2/3 of the monthly salary, but not more than the minimum wage. One-time cash benefits were also provided to pensioners with low pensions in the amount of approximately 30 euros, the monthly pension for pensioners over the age of 80 was increased, and pensions were indexed to all categories of pensioners. Doctors and medical staff received a 300% salary increase for the treatment of patients with COVID-19. State insurance of health workers in case of disability related to COVID-19 was also introduced [27; 32].

In addition, in Ukraine in 2020 within the special fund of the state budget was established the Fund for the combat against acute respiratory disease COVID-19 caused by coronavirus SARS-CoV-2, and its consequences − a temporary budget program, the funds of which were to be used primarily to finance additional expenditures on health and social expenditures directly related to the COVID-19 epidemic [33]. However, a significant part of the budgetary resources of this Fund was not spent for its intended purpose, in particular for holding local elections, construction, and repair of roads, additional payments to police, etc. Some part of the Fund's budget resources was not allocated at all. Therefore, in 2021 such a Fund was not formed [34].

The question now is how long states will be able to compensate to economic entities its incurred costs and lost revenue. Those countries that have balanced public finances are likely to be able to afford this by leveling at the expense of public finances some compensation from reduced employment in general or the introduction of reduced working hours across the country. However, there are very few such countries (say, in the EU only the countries of Northern Europe, Germany, and some others can “afford” this). For most countries, including Ukraine, this can cause, on the one hand, a new wave of welfare losses, and thus − increasing social tensions, which will inevitably lead to a socio-political crisis. On the other hand, such a situation could lead to an even greater imbalance in public finances, which will already provoke a systemic economic and financial crisis [35].

In our opinion, the fiscal mechanism in terms of budget expenditures in the future should focus mainly on public investment and the reduction of unproductive expenditures. State support for enterprises and households at this stage should be more selective and aimed at helping viable economic entities which suffer from social distancing or whose preservation is critical to the country's economy.

3.4 The Role of the Fiscal Mechanism in Terms of Government Loans and Guarantees in Support of Economic Entities in the Context of the COVID-19 Pandemic

During the corona crisis, many small and medium-sized economic entities, as well as businesses and self-employed workers in the service sector, suffered heavy losses. Therefore, to ensure access to debt financing, EU member states have actively used the fiscal mechanism in terms of government loans and guarantees. Thus, in the spring of 2020 Austria, Denmark, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Spain, Sweden started or announced new government guarantee schemes that allow financially disadvantaged economic entities to continue having access to financial resources. Some countries − Croatia, the Czech Republic, Estonia, France, Germany, Greece, Italy, Latvia, Luxembourg, Portugal, Slovenia, Spain, and Sweden − provided government loans through banking institutions or development funds.

It should be noted that in many EU member states the provision of government loans and guarantees was aimed at stimulating investment. In particular, in Germany, syndicated lending with the participation of the state was carried out for medium and large enterprises that made investments, as well as state lending to newly created small and medium enterprises. In Spain and Romania, state guarantees were provided to self-employed workers and enterprises to make new investments to adapt, expand or upgrade production and service facilities, as well as to resume their economic activities. In Italy and Estonia, state guarantees were provided to enterprises solely to support employment, make investments or ensure the proper functioning. In Ireland, state guarantees were provided to start-ups. In France, innovative loans were provided for start-ups secured by state guarantees.

As for Ukraine, state loans to economic entities affected by the COVID-19 pandemic were not provided. However, state guarantees were provided for the implementation of investment projects. Thus, the State Agency of Motor Roads of Ukraine received state guarantees for financing construction, reconstruction, capital, and current average repairs of public roads of state importance. Commercial banks received government guarantees for loans for investment purposes, refinancing of debts of business entities on previously granted loans, and financing of working capital, except for overdrafts.

3.5 The Impact of the Fiscal Mechanism on the Intensification of Investment Processes of EU Member States and Ukraine

In the post-crisis period, the number of investment resources will be much smaller than in previous years, and so (reduced) indicators will be maintained for at least several years (business investment costs will recover quite carefully and will be significantly inferior to household consumption expenditures) [35]. Therefore, it will be more important and effective to use the fiscal mechanism to stimulate investment in certain “breakthrough” areas, the acceleration and strengthening of which will largely depend on the success of transformations (or reforms) in the most important areas of the economy.

In the EU, large-scale financial support for public investment and reforms that will make Member States' economies more resilient and better prepared for the future provides for the establishment of a Recovery and Resilience Fund [36]. Thanks to this Fund, it is planned to use significant resources of the EU budget to mobilize investment and pre-financial support in the crucial first years of post-crisis recovery.

The Recovery and Resilience Fund will provide € 723.8 billion (in 2020 prices) to support reforms and investment in the EU Member States, of which € 385.8 billion in loans and € 338 billion in grants [37]. This will help countries to overcome the socio-economic consequences of the corona crisis, to strengthen national economies, and better prepare for a green and digital future.

To receive money from the Recovery and Resilience Fund, EU countries must adopt and agree with the European Commission their National recovery and resilience plans. Moreover, the European Commission requires compliance with the targets − at least 37% of expenditures for the development of the green economy and at least 20% of expenditures for the development of the digital economy. In addition, the plans of EU member states require investment and reform in the following areas [37]:

1) power up clean technologies and renewables;
2) renovate energy efficiency of buildings;
3) recharge and refuel sustainable transport and chagrins stations;
4) connect roll-out of rapid broadband services;
5) modernise digitalisations of public administration;
6) scale-up data cloud capacities and sustainable processors;
7) reskill and upskill education and training to support digital skills.

Today, the existence of humanity requires so many resources that go beyond the capabilities of our planet. Therefore, fundamentally new steps are needed, the transition to a concept of development that will solve social, financial, fuel, and climate problems comprehensively. This solution is the concept of a green economy, i.e. an economy with low carbon emissions, efficient use of natural resources, which satisfies the interests of society as much as possible. The concept of a green economy envisages economic growth combined with environmental sustainability; as such an economy creates jobs, stimulates economic progress and at the same time reduces such significant risks as the effects of climate change and growing water scarcity [38].

Taking into account all given above, at the current stage of the COVID-19 pandemic, many EU member states will use the fiscal mechanism to invest in the development of the green economy, as shown in table 4.

EU member states will implement measures to develop a “green” economy mainly through the costly component of the fiscal mechanism through public investment, as well as through the provision of state guarantees and loans. However, some EU member states will use the revenue component of the fiscal mechanism for the development of the “green” economy through the introduction of “green” taxation. Thus, Cyprus announces the introduction of a carbon tax on fuel, the gradual introduction of a water tax, and a waste disposal tax; Austria plans to introduce preferential tax rates for low- or zero-emission products in combination with targeted tax benefits for businesses and households in need; Denmark will temporarily increase tax deductions for companies investing in technology and software to facilitate their transition to new business models with lower greenhouse gas emissions.

Table 4. Measures to develop the green economy in EU member states, which will be implemented through the fiscal mechanism*

Measures	Country
Energy efficient reconstruction of buildings	All EU countries
Development of renewable energy sources	All EU countries
Biodiversity support and ecosystem protection	Bulgaria, Czechia, Italy, Ireland, Hungary, Slovakia, Slovenia, Poland, Portugal, Romania,
Modernization of the railway	Austria, Belgium, Croatia, Czechia, Ireland, Italy, France, Hungary, Latvia, Poland, Slovakia, Slovenia, Sweden
Development of cycling infrastructure	Belgium, Czechia, Denmark, Greece, Hungary, Latvia, Slovakia
Promoting the transition to environmentally friendly transport	Austria, Belgium, Bulgaria, Croatia, Czechia, Cyprus, Denmark, Finland, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Slovakia, Sweden

*Source: Compiled by the authors based on [37]

Ukraine, focusing on EU member states, also plans to take measures to develop a "green" economy in 2022-2024. Thus, due to the fiscal mechanism in terms of budget expenditures, the following measures are envisaged [39]:

1) achieving “good” water status, in particular the protection of settlements, agricultural lands, and estates from the harmful effects of water; water supply to low-water regions; measurement of water quality indicators;

2) preservation and restoration of natural ecosystems by ensuring sustainable development and rational use of nature;

3) waste management, including radioactive waste management, prevention, and adaptation to climate change;

4) increase energy efficiency and energy saving in the residential sector, in particular, equipping consumers with energy metering devices, insulation and thermal modernization of buildings and premises, equipping with thermal boilers, etc.

The situation caused by the COVID-19 pandemic required economic entities to work and learn in real time. Due to quarantine measures, many companies and institutions were forced to transfer employees to remote work, which required new technological solutions - the development of IT infrastructure, security systems, communications, electronic task setting, and tracking their implementation. And at the same time, there was a need to train staff on how to use it all and adapt to change.

The way out of the existing turbulence on the trajectory of sustainable growth will be accompanied by shocks for countries that have not created the technological preconditions for a new rise in time. Under the new conditions, the country will also benefit from digital innovations, in which all components of the economy develop, interact, improve and grow [40]. Therefore, in the context of the COVID-19 pandemic, many EU countries will use the fiscal mechanism to invest in the development of the digital economy, which is shown in table 5.

Ukraine, following the example of EU member states, also plans to take measures to develop the digital economy in 2022-2024. Thus, it is envisaged to use the expenditure component of the fiscal mechanism for the implementation of the following measures [39]:

1) providing general secondary education institutions with modern educational equipment and updating the material and technical base (purchase of school buses, computer equipment, and multimedia equipment, modern furniture, educational and methodical literature, means of protection of participants in the educational process during quarantine, equipping physical culture and sports premises);

2) ensuring the transferring of the most popular public services into electronic form;

3) introduction of electronic interaction between electronic registers and optimization of registers;

4) ensuring reliable protection of information in public electronic registers and creating an

effective system for combating cyber threats, ensuring the protection of personal data in accordance to European requirements;

5) development of Internet access networks, creation of conditions for fourth and fifth generation mobile technologies;

6) ensuring access of social infrastructure institutions, local governments, and citizens to high-speed Internet;

7) creating conditions for the development of IT business and other sectors of the creative economy;

8) ensuring the availability of digital literacy training through the development of existing and introduction of new learning tools.

Table 5. Measures to develop the digital economy in the EU member states, which will be implemented through the fiscal mechanism*

Measures	Country
Digitalization of education	Austria, Belgium, Croatia, Czechia, Cyprus, Ireland, Finland, France, Greece, Poland, Portugal, Slovakia, Spain
Digitalization of health care	Cyprus, Finland, Luxembourg, Malta, Poland, Portugal, Slovenia,
Digitalization of public administration	Belgium, Bulgaria, Croatia, Czechia, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Lithuania, Luxembourg, Malta, Poland, Slovakia, Spain
Digitalization of business entities	Bulgaria, Czechia, Denmark, Ireland, Italy, Latvia, Finland, France, Greece, Poland, Portugal, Slovakia, Slovenia, Spain
Development of digital skills of the population	Bulgaria, Latvia, Poland, Slovakia, Slovenia, Spain
Providing high-speed Internet access	Austria, Bulgaria, Croatia, Czechia, Cyprus, Denmark, Finland, France, Greece, Italy, Latvia, Lithuania, Poland,
Improving the security of digital infrastructure	Belgium, Finland, Luxembourg,
Support for innovation in digital infrastructure	Austria, Finland, Germany, Lithuania, Poland,

**Source: Compiled by the authors based on [37]*

As the effects of the COVID-19 pandemic are overcome, the need to use the fiscal mechanism to enhance socio-economic sustainability will objectively increase.

The key areas of use of the fiscal mechanism in the post-pandemic period should be [27]:

1) investments in the field of human capital development to increase the level of education and improve the health of the population;

2) investments in promoting the redirection of labor and capital to promising industries that have received impetus for development in a pandemic;

3) investment in improving the social protection system through the rational use of funds (to prevent the spread of poverty and growing inequality);

4) investment in tax reforms, including through the coordination of efforts at the global level;

5) investments in reducing the vulnerability of debt positions and strengthening debt transparency.

Therefore, EU member states will use the fiscal mechanism to implement the following measures: expanding the social safety net, improving the quality and expanding the range of public services, modernizing infrastructure, and maintaining debt sustainability, as shown in table 6.

Ukraine, focusing on EU member states, also envisages measures to strengthen socio-economic stability in 2022-2024. Thus, it is planned to use the fiscal mechanism in terms of budget expenditures for the implementation of the following measures [39]:

1) implementation of reforms that will contribute to the creation of an effective and perfect system of social support and pensions in the medium term;

2) ensuring quality, modern and affordable secondary education, building a safe and inclusive education system, creating a modern system of professional (vocational) education, and ensuring the quality of higher education;

3) restoration of the status of Ukrainian science as the main tool of technological development of the state and creation of a new system of management and financing of science;

4) ensuring universal access of citizens to the guaranteed package of necessary medical services

and medicines;

5) creation of conditions for the realization of innovative researches and development of new competitive aviation technologies, maintenance of effective use of space potential, and increase of its influence on the decision of actual problems which realization and implementation will allow to provide profitable serial production of high-tech techniques in Ukraine, to develop samples of new competitive models of aircraft and other equipment, as well as promote its export to foreign markets;

6) formation of a properly functioning judiciary, increasing the efficiency of judicial institutions, implementation of European standards, and best international practices.

Table 6. Measures to strengthen socio-economic sustainability in EU member states, which will be implemented through the fiscal mechanism*

Measures	Country
Improving the business environment	Austria, Bulgaria, Croatia, Czechia, Greece, Italy, Portugal, Slovakia, Spain
Support for employment and social inclusion	Austria, Belgium, Croatia, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Slovenia, Spain
Improving the efficiency of public administration	Bulgaria, Croatia, Cyprus, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Romania, Spain
Reorganization of the justice system	Bulgaria, Croatia, Cyprus, Greece, Italy, Romania, Slovakia
Carrying out pension reform	Austria, Malta, Romania, Slovakia, Slovenia, Spain
Expanding access to preschool education	Austria, Croatia, Cyprus, Germany, Greece, Slovakia
Support for research and innovation	Austria, Belgium, Bulgaria, Croatia, Denmark, Finland, Lithuania, Slovenia
Healthcare modernization	Bulgaria, Czechia, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Romania, Poland, Slovakia, Slovenia
Housing	Germany, Italy, Latvia, Luxembourg, Portugal, Romania, Slovenia
Modernization of education	Bulgaria, Czechia, Cyprus, Germany, Ireland, Latvia, Lithuania, Malta, Portugal, Romania,
Strengthening social protection	Bulgaria, Italy, Latvia, Lithuania, Slovakia

**Source: Compiled by the authors based on [37]*

Thus, in the future, in the EU member states and Ukraine, the fiscal mechanism should ensure adequate financing of the medical and educational spheres, as well as the development of green and digital infrastructure. Such investments are likely to promote social integration, increase the overall productivity of the economy, and strengthen resilience to new climatic conditions and future pandemics.

4 Conclusions

The COVID-19 pandemic caused the biggest drop in economic activity since World War II. Significant weakening of the monetary mechanism has led to the active use of the fiscal mechanism to combat the effects of the corona crisis. EU member states and Ukraine gave priority to direct and indirect fiscal support for private income and employment, which limited the fall in consumption and gave impetus to increased investment.

Although at the stage of the pandemic deployment, the fiscal mechanism of the states focused on providing emergency assistance to enterprises and households to maintain a sufficient level of consumption, in the future it should be refocused on stimulating investment and ensuring post-crisis recovery. States need to give priority to fiscal measures that stimulate the labor market and recapitalize enterprises, by harmonizing the revenue and expenditure components of the fiscal mechanism to develop a green and digital economy, as well as to achieve socio-economic sustainability.

In general, the fiscal mechanism in the context of the corona crisis should facilitate the transition to a new stage of development of the world economic relations system, for which priorities should be solving urgent problems of today: improving climate conditions, sustainable growth on a digital technological basis, overcoming income inequality of economic entities, guaranteeing social justice and welfare of the majority of citizens.

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Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

Victoriia Rudenko proposed the idea of the article and wrote subparagraphs 2, 3.2 and 3.5.

Halyna Pohrishchuk provided general supervision of the study and wrote the introductory and concluding part of the article.

Olena Moskvichova was responsible for the analytical part of the article and wrote subparagraph 3.3 and 3.4.

Mykhailo Bilyi was responsible for the metodologycal part of the article and wrote subparagraph 3.1.