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AUTONOMIZATION OF THE BUDGETARY SYSTEM AS A FUNDAMENTAL PREREQUISITE FOR SELF-GOVERNMENT OF TERRITORIAL COMMUNITIES IN DEMOCRATIC STATES AROUND THE WORLD

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Autonomization of the Budgetary System as a Fundamental Prerequisite for Self-Government of Territorial Communities in Democratic States around the World

Iaroslav IANUSHEVYCH[1], Tamara HUBANOVA[2]

Abstract

Decentralization of fiscal policy is a key factor in the formation of financial independence of local governments and strengthening the economic stability of regions in modern democratic states. Its relevance for Ukraine is determined by the need to strengthen the financial basis of territorial communities in the process of implementing administrative-territorial reform. The purpose of the study is to determine the decentralization of fiscal policy as a mandatory condition for obtaining an independent status of local communities; the object is the system of intergovernmental relations in democratic states. The methodological basis is comparative-legal and quantitative-analytical approaches, based on official statistical data Open Budget, World Bank Boost Data, the Ministry of Finance of Ukraine and the State Statistics Service. The results of the study showed that in 2018–2024 the share of income without transfers, tax revenues and own resources of communities increased, which confirms the increase in the level of fiscal autonomy. Legislative amendments to the Budget Code ensured the expansion of local revenue sources, the introduction of basic and reverse subsidy mechanisms and the strengthening of horizontal equalization. It was found that the Ukrainian model of fiscal decentralization is gradually approaching European practices, forming institutional prerequisites for the sustainable development of communities and strengthening their financial independence.

Keywords: fiscal decentralization; financial autonomy; local budgets; tax revenues; intergovernmental transfers; budget policy; social consequences; social participation.

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Introduction

In the current conditions of global transformation of public administration systems, fiscal policy decentralization acquires the status of a strategic tool for ensuring sustainable development of territories and increasing the financial capacity of local communities. Developed democratic states have proven that it is fiscal autonomy that is the key to real independence of municipalities, allowing them to independently determine the priorities of socio-economic development, manage income and expenses, and form their own tax policy in accordance with the needs of the population. At the same time, in countries with economies in transition, the decentralization process often faces challenges – from excessive centralization of budgetary powers to uneven tax base, which leads to regional imbalances and financial dependence of communities on the state budget. The problem of fiscal decentralization in Ukraine remains a key component of public administration reform. Since the adoption of the Law of Ukraine *"On Amendments to the Budget Code of Ukraine Regarding the Reform of Inter-Budgetary Relations"* (Verkhovna Council of Ukraine, 2014) there was a significant reformatting of the budget system aimed at transferring part of tax revenues to local budgets and introducing new mechanisms of horizontal equalization. However, despite the successes, the issue of real strengthening of the financial autonomy of communities, reducing their dependence on transfers and forming their own tax base remains open. Analysis of modern scientific research indicates a high interest in the problem of decentralization in financial, legal and economic contexts. Among the authors who study the role of decentralization in increasing the efficiency of local government, it is worth noting Boetti *et al*. (2012), Isufaj (2014), Psycharis *et al*. (2016), Abuselidze (2021), Onofrei *et al*. (2022), Miranda-Lescano *et al*. (2024), Iacuzzi *et al*. (2025). Their works substantiate that increasing the financial independence of municipalities contributes to both more efficient use of budget resources and the formation of local government accountability to citizens. At the same time, other authors (Guo *et al*., 2022; Miceikienė *et al*., 2021) highlight the risks of increasing debt burden and financial imbalances in the event of insufficient transparency of the resource redistribution system.

The issues of quantitative measurement of the level of fiscal autonomy of communities in the post-reform period, the impact of budget innovations on the structure of local budget revenues, as well as the relationship between tax revenues, transfers and own resources of territories remain unresolved. It is precisely the identification of these relationships that is critically important for understanding the effectiveness of decentralization policy and determining directions for further improvement of financial management.

The purpose of the work is to investigate the decentralization of fiscal policy as a prerequisite for obtaining and maintaining the independent status of local communities in modern democratic states of the world, to identify the main financial factors in the formation of real autonomy of territories, and to characterize the Ukrainian model of fiscal decentralization in the context of international trends.

Literature Review

The issue of fiscal policy decentralization attracts considerable attention from researchers in the context of local government financial autonomy and budget management efficiency. Early works of Boetti *et al*. (2012), Isufaj (2014) and Psycharis *et al*. (2016) laid the theoretical foundations of the relationship between decentralization and local government performance, emphasizing the role of fiscal autonomy as an indicator of governance effectiveness. Further research has confirmed that increasing fiscal autonomy contributes to the development of local communities and forms the financial responsibility of municipalities (Abuselidze, 2021; Onofrei *et al*., 2022; Miranda-Lescano *et al*., 2024; Iacuzzi *et al*., 2025). The European context demonstrates a variety of models of fiscal decentralization that provide a balance between fiscal autonomy and inter-budgetary equalization. The study by Vybíhal (2019) showed that the financial independence of municipalities in the Czech Republic and Slovakia depends largely on the structure of tax revenues and horizontal equalization mechanisms. Italian scholars Bucci *et al*. (2024) and Agasisti and Porcelli (2023) have shown that the effectiveness of decentralized budgets increases when management decisions regarding revenues and expenditures are consistent, while the experience of Greece shows the opposite – excessive centralization hinders the development of territories (Psycharis *et al*., 2016; Miranda-Lescano *et al*., 2024).

Researchers pay special attention to the risks of decentralization. In particular, Guo *et al*. (2022) point to the likelihood of debt accumulation when tax powers are expanded, and Miceikienė *et al*. (2021) highlight the limitations of the fiscal autonomy of municipalities due to the centralized distribution of revenues in the Baltic countries. At the same time, Iacuzzi *et al*. (2025) have shown that fiscal autonomy can ensure long-term financial sustainability provided that fiscal risks are effectively managed. The Ukrainian context of fiscal decentralization is analyzed in Polova (2022), Kravchenko and Tkachenko (2025), and Kadziuk (2023), which emphasize the strengthening of the role of local governments in resource allocation and the need to adapt budget policy to European standards. The legislative framework and stages of reforming budget relations are reflected in the regulatory acts of the Verkhovna Rada of Ukraine (2010, 2014, 2019, 2020a, 2020b, 2020c, 2020d, 2022, 2024), which laid the foundation for the modern model of community financial autonomy.

Open sources of statistical data provided a practical basis for quantitative analysis of the effects of decentralization – Open Budget (n.d.), State Statistics Service of Ukraine (2024), Ministry of Finance of Ukraine (2024) and World Bank (2024), which allow us to track the dynamics of local budgets and transfers during

2018–2024. Generalizing the results of previous studies allows us to state that the decentralization of fiscal policy in most countries, in particular in Ukraine, is a key condition for the real financial independence of communities and increasing the efficiency of public finance management.

The issue of fiscal policy decentralization occupies a central place in modern scientific research, where it is considered as a factor in the formation of financial independence of communities and increasing the efficiency of public finance management. Classic works of Boetti *et al*. (2012), Isufaj (2014) and Psycharis *et al*. (2016) argued that fiscal autonomy directly affects local government productivity and the quality of public services. These findings were developed in later studies by Abuselidze (2021), Onofrei *et al*. (2022), Miranda-Lescano *et al*. (2024) and Iacuzzi *et al*. (2025), who proved that balanced decentralization contributes to sustainable regional development and reduces asymmetry between territories. Bucci *et al*. (2024) and Agasisti and Porcelli (2023) have demonstrated the effectiveness of a model in which municipalities have real tax powers and control over expenditures in Italy. Similarly, Vybíhal (2019) has shown that in the Czech Republic and Slovakia, the financial independence of communities is based on a partial redistribution of national taxes and a system of horizontal equalization. In contrast to these models, the experience of Greece (Psycharis *et al*., 2016) and Lithuania (Miceikienė *et al*., 2021) demonstrates that excessive centralization hinders the development of local finances and reduces the efficiency of budget management.

The negative aspects of decentralization are also reflected in Guo's *et al*. (2022) works, who note that the transfer of tax powers without proper control can lead to the accumulation of debts. In turn, Dick-Sagoe (2020) proved that in developing countries, decentralization increases the quality of public services, but requires an increase in municipal expenditures. In the context of legal support for decentralization processes, Kravchenko and Tkachenko (2025) revealed the evolution of the status of local government as a subject of public administration, while Polova (2022) emphasized inter-budgetary relations as a tool for the development of territorial communities. The practical aspect of implementing budget reform in Ukraine is disclosed in the materials of Kadziuk (2023) and reports of the Ministry of Finance of Ukraine (2024), which provide modern approaches to assessing the financial capacity of territorial communities. Open statistical databases Open Budget (n.d.), State Statistics Service of Ukraine (2024) and World Bank (2024) provide an empirical basis for quantitatively measuring the level of fiscal autonomy and monitoring the dynamics of local budgets.

A significant role in the formation of the legislative framework for fiscal decentralization was played by the regulatory acts of the Verkhovna Rada of Ukraine (2010, 2014, 2019, 2020a, 2020b, 2020c, 2020d, 2022, 2024), which introduced a new model of inter-budgetary relations, established the rules of horizontal equalization, the mechanism of basic and reverse subsidies, and expanded the sources of revenue of local budgets. At the same time, the concept of harmonization of budget legislation (Verkhovna Council of Ukraine, 2020a; 2020b) was a key step in convergence with European financial practices. Iacuzzi *et al*. (2025), Miranda-Lescano *et al*. (2024) and Onofrei *et al*. (2022) summarized the experience of nine European countries, confirming that a high level of fiscal autonomy is accompanied by increased accountability of local governments, but in the short term it may reduce budgetary stability. Comparing the results of these works with the Ukrainian context (Polova, 2022; Kadziuk, 2023; Verkhovna Council of Ukraine, 2024) shows that the domestic model of fiscal decentralization is gradually approaching the standards of EU countries, but still retains elements of vertical alignment.

Despite a significant amount of research, the problems of accurately measuring the level of fiscal autonomy of communities and assessing the impact of decentralization on the quality of public services remain unresolved. The long-term consequences of decentralization for the financial stability of local budgets under martial law and macroeconomic instability have also been insufficiently studied.

Methodology

The study of fiscal policy decentralization as a factor in the formation of the independent status of local communities was carried out by the author in 2024–2025 on the basis of systemic, legal and quantitative-analytical approaches. The methodological framework includes a legal comparative analysis of amendments to *the Budget Code of Ukraine* (Verkhovna Council of Ukraine, 2010) for 2014–2024, which allowed us to determine the sequence of legislative steps on fiscal decentralization and their impact on the financial autonomy of territorial communities. For the empirical part, *a revenue approach was used* to measure the level of fiscal autonomy of local budgets, which is based on assessing the ratio between the revenues of local and state budgets, as well as the structure of tax and transfer revenues (Miceikienė *et al*., 2021; Iacuzzi *et al*., 2025). The sample covered all 24 regions of Ukraine, taking into account local budget execution data submitted on the *Open platform Budget* (n.d.) for 2018–2024. Primary statistical data were obtained from official sources – *the State Statistics Service of Ukraine* (2024), *the Ministry of Finance of Ukraine* (2024) and *World Bank* (2024). Based on the World Bank's boost analysis tool, a sample of communities was formed and key indicators of financial autonomy were calculated.

Calculations were carried out according to a system of five indicators of financial autonomy (Table 1), which included: (1) the share of local budget revenues excluding transfers in the state budget, (2) the share of personal income tax in local budget revenues, (3) the share of tax revenues, (4) the share of own revenues (local taxes and fees), (5) the share of transfers in total local budget revenues.

Table 1. Community Financial Autonomy Indicator System for Fiscal Independence Analysis

Indicator	Direction of influence on financial autonomy (FA)
Share of local budget revenues excluding transfers in the consolidated state budget, %	Growth shows a trend towards increasing FA
Share of personal income tax transferred to the local community budget in total local budget revenues, %	Growth shows a trend towards increasing FA
Share of tax revenues to local budgets in total local budget revenues, %	Growth shows a trend towards increasing FA
Share of own revenues (local taxes and fees) in the revenue part of the general fund of the local budget, %	Growth shows a trend towards increasing FA
Share of local budget transfers in total local budget revenues, %	The reduction demonstrates a trend towards increasing financial autonomy

Source: created by the authors based on Miceikienė et al. (2021); Iacuzzi et al. (2025); Open Budget (n.d.); State Statistics Service of Ukraine (2024); Ministry of Finance of Ukraine (2024); World Bank (2024).

The methodology provided a quantitative assessment of the level of tax autonomy of communities and trends in the share of own revenues in the budget structure after the implementation of the budget reform. The results of the quantitative analysis were accompanied by a graphical visualization of the dynamics of indicators and a comparative analysis with international models of fiscal decentralization, which allowed interpreting the results in the broader context of democratic states.

Results

Fiscal decentralization in Ukraine has become a practical reality with the adoption of the Law of Ukraine No. 79-VIII On amendments this the Budget Code of Ukraine regarding the reform of interbudgetary relations (Verkhovna Rada of Ukraine, 2014). The law initiated the reform of intergovernmental relations and changed the fiscal rules for the redistribution of revenues between the state and local community budgets. The main changes concerned Article 64 of the Budget Code of Ukraine No. 2456-VI (Verkhovna Rada of Ukraine, 2010), which determined the composition of the general fund revenues of the budgets of rural, settlement and urban territorial communities. According to the legislative amendments to the Budget Code of Ukraine (Verkhovna Rada of Ukraine, 2010), the innovations provided for the transfer of 60% of the personal income tax (PIT) to local community budgets (except for the cities of Kyiv and Sevastopol) to strengthen the financial capacity of local self-government bodies (LSG). In addition, the payment to local budgets of: state duty; excise tax on retail sales of excisable goods as a source of budget replenishment; income tax of enterprises and financial institutions of municipal ownership; property tax and single tax, which are credited to the budgets of local governments; income from rent for the use of property complexes; rent for the use of subsoil; other income of communities (clause 16, part 1 of article 64) (Verkhovna Rada of Ukraine, 2014).

It is important to note that Law No. 79-VIII (Verkhovna Rada of Ukraine, 2014) changed the inter-budgetary relations by introducing basic and reverse subsidies, educational, medical and other types of subventions for the socio-economic development of territories, effectively establishing a new model for providing official transfers. In addition, the mechanism for ensuring financial justice of communities was changed by establishing rules and standards for providing basic and reverse subsidies. The introduced Horizontal Equalization Index of Tax Capacity is based on the population size of communities, and the volume of personal income tax revenues is compared with the average value for all consolidated budgets of united territorial communities. With a value of 0.9 – 1.1, the community does not receive a basic subsidy, with a value of less than 0.9, a basic subsidy is provided, with a value of more than 1.1, the community provides a reverse subsidy in the amount of 50% of the budget (Verkhovna Rada of Ukraine, 2014). Further legislative amendments to the Budget Code of Ukraine, introduced in accordance with Law No. 907-IX (Verkhovna Rada of Ukraine, 2020a) and Law No. 1081-IX (Verkhovna Rada of Ukraine, 2020b), were aimed at adapting the financial system to the new administrative-territorial structure. The innovations detailed the mechanisms for crediting rental payments, excise tax on fuel, and profit tax on municipally owned enterprises, and also specified the share of revenues to the budgets of territorial communities.

According to Law No. 907-IX (Verkhovna Rada of Ukraine, 2020a), it is envisaged to include in the revenues of the special fund of local budgets of communities 75% of funds from compensation for losses of agricultural and forestry production, 50% of monetary penalties for environmental damage, 25% of environmental tax. Important additions were the introduction of paragraphs 4.2 – 4.4 of Article 64 of the Budget Code of Ukraine, which regulated the partial inclusion of rent for the use of subsoil for the extraction of oil, gas, condensate (3-5%) and amber (30%) in local budgets (Verkhovna Rada of Ukraine, 2010). These changes were aimed at increasing the interest of local authorities in the development of resource industries (Verkhovna Rada of Ukraine, 2020a). Law No. 1081-IX (Verkhovna Rada of Ukraine, 2020b) determined the transfer of 13.44% of the excise tax on fuel produced in Ukraine to the general fund of local budgets. Other amendments, in particular Law No. 293-IX (Verkhovna Rada of

Ukraine, 2019), Law No. 2709-IX (Verkhovna Rada of Ukraine, 2022) and Law No. 3683-IX (Verkhovna Rada of Ukraine, 2024) expanded the financial base of communities by introducing new sources of revenue, such as a 10% share of rent for state agricultural land, administrative fees and fees for licensing activities. An analysis of the legal amendments to the Budget Code of Ukraine indicates a consistent increase in the level of financial independence of communities to promote socio-economic development. The amendments are consistent with the European concept of fiscal decentralization, which involves the transfer of own powers together with financial resources (Yermachenko *et al*., 2023; Sumets *et al*., 2023).

The dynamics of the revenue side of local community budgets demonstrates a faster growth in revenues without transfers from the government and EU countries, compared to the growth in total budget revenues in 2018-2024. Official transfers increased by 5.78% in 2018-2024. Overall, the revenue side of community budgets increased by 9.74% over six years, in particular, the volume of personal income tax revenues increased significantly – by 13.75% and total tax revenues – by 13.57%. The growth rate of local taxes and fees (property tax, single tax, parking fees and tourist fees) increased by 13.5% due to the granting of local self-government bodies the authority to determine the rates of local taxes and fees (Table 2).

Table 2. Dynamics of indicators of the revenue part of local community budgets in 2018-2024 (bn UAH)

Indicator	2018	2019	2020	2021	2022	2023	2024	Deviation (+/-), 2018-2024	Growth rate (%)
State budget, billion UAH	928.11	998.28	1076.02	1296.85	1787.40	2672.00	3122.71	2194.61	2.36
Budget revenues, billion UAH	46.20	58.56	92.24	396.36	401.40	475.60	496.02	449.82	9.74
Income without transfers, billion UAH	22.42	30.71	57.78	258.57	294.13	337.38	334.78	312.35	13.93
Tax revenues, billion UAH	20.60	28.21	53.08	239.05	278.48	308.84	300.12	279.52	13.57

Personal income tax, billion UAH	11.88	16.19	32.68	146.16	195.01	204.89	175.26	163.38	13.75
Local taxes and fees, billion UAH	6.70	9.41	15.82	72.61	67.45	80.97	97.39	90.69	13.53
Official transfers, billion UAH	23.78	27.85	34.46	137.79	107.27	138.21	161.25	137.47	5.78

Source: created by the authors based on Open Budget (n.d.), State Statistics Service of Ukraine (2024), Ministry of Finance of Ukraine (2024), World Bank (2024).

The calculation of growth rates was carried out relative to the base year 2018, which allows us to track the long-term dynamics of indicators in the period after the start of the fiscal reform.

To visualize changes in the structure of local budget revenues, a graph of revenue dynamics was constructed without taking into account official inter-budgetary transfers from the state budget, in particular basic and reverse subsidies, educational, medical, subventions for the socio-economic development of territories, environmental and infrastructure subventions, as well as other targeted transfers that do not form the communities' own revenue base (Figure 1).

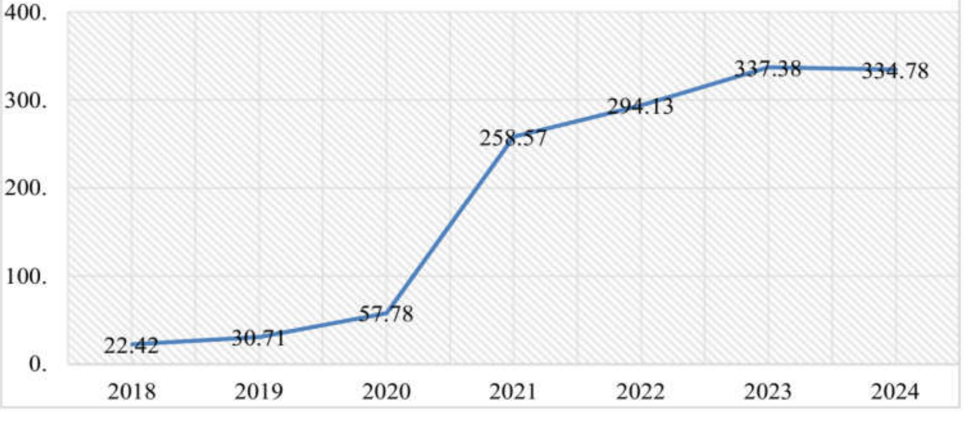

Figure 1. Dynamics of local budget revenues without transfers in 2018–2024, billion UAH

Source: created by the authors based on Open Budget (n.d.), State Statistics Service of Ukraine (2024), Ministry of Finance of Ukraine (2024).

The analysis of the dynamics of local budget revenues excluding official inter-budgetary transfers showed a steady trend towards an increase in the share of own revenues in the overall structure of community budgets. The correlation assessment between the indicators of revenues without transfers and total revenues of local budgets revealed a close direct relationship (r = 0.83), which indicates the dependence of financial autonomy on the efficiency of the tax base at the local level. Normalization of indicators using the min- max method allowed us to determine the fiscal autonomy index, which in 2024 was 0.78, which reflects a gradual transition from a transfer to a self-sufficient model of budget development. The forecast extrapolation for 2025–2027 shows that, if the current dynamics are maintained, the share of revenues without transfers may increase to 40%, ensuring a stable expansion of the communities' own financial potential and reducing dependence on state subsidies. The results obtained confirm the systemic nature of the consequences of fiscal decentralization – increasing the sustainability of local finances, strengthening tax discipline, and forming a new architecture of intergovernmental relations focused on the efficient use of resources and the responsibility of communities for their own socio-economic development.

To assess the level of tax autonomy of local budgets, a graphic visualization of the share of personal income tax in the structure of total revenues of local budgets was constructed (Figure 2).

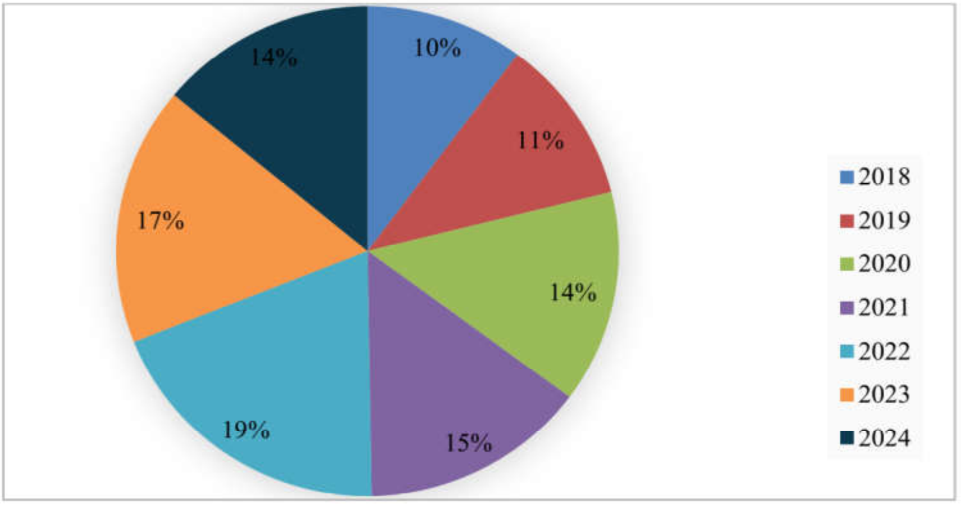

Figure 2. Share of personal income tax in total local budget revenues, %
Source: created by the author based on Open Budget (n.d.), World Bank (2024)

As can be seen from Figure 2, the share of personal income tax (PIT) in the structure of total local budget revenues increased from 25.7% in 2018 to 35.3% in 2024. This indicates a strengthening of the tax autonomy of communities and a decrease in their dependence on inter-budgetary transfers. The most significant growth occurred in 2020–2022 due to the implementation of the provisions of the Law of Ukraine No. 79-VIII (Verkhovna Council of Ukraine, 2014), which provided for the transfer of 60% of personal income tax to local budgets. Thus, tax revenues became a key factor in ensuring the financial independence of local authorities and confirming the effectiveness of fiscal decentralization.

However, the dynamics of the revenue side of community budgets demonstrates the significant importance of transfers in the revenue structure, the volumes of which exceed the volumes of local taxes and fees. In 2018-2024, the volume of subsidies and subventions to local budgets increased significantly (by UAH 40.48 billion and UAH 79.19 billion, respectively). Individual communities received reverse subsidies from other communities, the volumes of which remained stable in 2018-2024. Subventions from local budgets to other budgets increased by UAH 16.54 billion. In contrast, grants and receipts under EU assistance programs played practically no significant role in financing the budgets of the territories (Table 3).

Table 3. Dynamics of official transfers to local community budgets in 2018-2024 (bn UAH)

Transfers	2018	2019	2020	2021	2022	2023	2024	Deviation (+/-), 2018-2024
Subsidies from the state budget to local budgets	1.90	2.68	3.80	14.29	15.20	43.76	42.37	40.48
Subsidies from the state budget to local budgets	17.52	20.17	24.62	97.94	83.82	77.64	96.70	79.19
Subsidies from local budgets to other local budgets	2.19	2.25	1.57	3.80	3.40	2.16	2.16	-0.03
Subsidies from local budgets to other local budgets	2.17	2.74	4.46	21.73	4.79	14.51	18.71	16.54
Grants (gifts) received by budgets of all levels	0.01	0.02	0.01	0.03	0.06	0.09	0.85	0.84

Proceeds from aid programs of the European Union, foreign governments, international organizations, donor institutions	0.00	0.00	0.00	0.00	0.00	0.06	0.45	0.45
Transfers	23.78	27.85	34.46	137.79	107.27	138.21	161.25	137.47

Source: created by the author based on Open Budget (n.d.), State Statistics Service of Ukraine (2024), Ministry of Finance of Ukraine (2024), World Bank (2024).

As a result of legislative changes and reforms, the share of community budget revenues without transfers in the state budget increased by 8.3% in 2018-2024, especially the indicator increased in 2021-2022 immediately after the reform of the administrative structure. The positive dynamics of financial autonomy was influenced by the increase in the share of personal income tax in the total revenues of local budgets by 9.62%. The share of tax revenues of communities increased by 15.93%, in particular due to the increase in the share of local taxes and fees by 5.13%. At the same time, the level of dependence of communities on central government transfers decreased, as the share of transfers in budget revenues decreased by 18.96% (Table 4).

Table 4. Dynamics of indicators of financial autonomy of communities in 2018-2024

Autonomy indicator	2018	2019	2020	2021	2022	2023	2024	Deviation (+/-), 2018-2024
Share of local budget revenues excluding transfers in the state budget, %	2.42	3.08	5.37	19.94	16.46	12.63	10.72	8.30
Share of personal income tax transferred to the local community budget in total local budget revenues, %	25.71	27.64	35.43	36.87	48.58	43.08	35.33	9.62

Share of tax revenues to local budgets in total local budget revenues, %	44.58	48.18	57.55	60.31	69.38	64.94	60.51	15.93
Share of own revenues (local taxes and fees) in the revenue part of the general fund of the local budget, %	14.50	16.07	17.15	18.32	16.80	17.02	19.63	5.13
Share of local budget transfers in total local budget revenues, %	51.47	47.56	37.36	34.76	26.72	29.06	32.51	-18.96

Source: created by the author based on Open Budget (n.d.), State Statistics Service of Ukraine (2024), Ministry of Finance of Ukraine (2024), World Bank (2024).

Thus, financial autonomy indicators confirm the effectiveness of the decentralization reform and the growth of the tax capacity of local budgets during 2018–2024.

International practice of fiscal policy decentralization demonstrates that the success of processes depends on the level of tax autonomy and transparency of mechanisms for redistributing financial resources between the state and local budgets. As shown in Table 6, different countries apply their own models of fiscal decentralization that combine fiscal autonomy of municipalities and control over the efficiency of expenditures (see Table 5).

Table 5. International models of fiscal decentralization and the level of financial autonomy of municipalities

Country	Main mechanisms of fiscal decentralization	Share of local revenues in national revenues, %	Key legislative or institutional instruments	Features of autonomy
Italy	Tax powers of municipalities; control over expenditures	35–40	Legislative delegation of financial autonomy; concerted decision-making on revenue and expenditure	High fiscal autonomy; efficient cost management (Bucci *et al.*, 2024; Agasisti & Porcelli, 2023)

Czech Republic	High share of local taxes, subsidies, grants	30–35	Laws on local budgets and taxes	A balanced model with transparent transfers (Vybíhal, 2019)
Slovakia	Distribution of national tax revenue between communities	28–32	Tax Code and Horizontal Alignment System	Financial independence is based on a share of national taxes (Vybíhal, 2019)
Greece	High dependence on central government transfers	15–20	Legislatively limited powers of local authorities	Low fiscal autonomy (Psycharis *et al.*, 2016)
Lithuania	Centralized distribution of income and rent payments	25–30	Local budgets are coordinated by the central level	Medium level of autonomy; dependence on state resources (Miceikienė *et al.*, 2021)
Ukraine	60% of personal income tax is credited to local budgets; basic and reverse subsidies	30–33	Law No. 79-VIII (Verkhovna Council of Ukraine, 2014) and further changes 2019–2024.	Growth of financial autonomy after the 2020 administrative reform

Source: created by the author based on Bucci et al. (2024); Agassisti & Porcelli (2023); Vybíhal (2019); Psycharis et al. (2016); Miceikienė et al. (2021); Verkhovna Council of Ukraine (2014)

Comparative analysis (Table 1) confirms that in countries with high tax autonomy – Italy, the Czech Republic, Slovakia – communities have real financial independence due to decentralized tax powers and revenue equalization mechanisms. At the same time, countries with predominantly centralized models (Greece, Lithuania) demonstrate a lower level of fiscal autonomy. The Ukrainian model of decentralization is approaching European standards due to successive changes in the Budget Code and an increase in the share of communities' own revenues.

The acquisition of independent status of communities in a democratic state requires the formation of financial prerequisites for the autonomous activities of local governments. Such conditions primarily include the decentralization of fiscal policy and the legislative consolidation of new rules of inter-budgetary relations regarding the formation, distribution and use of financial resources (Polova, 2022). The growth of financial independence when territories acquire independent status is confirmed by the reduction in the share of transfers from local budgets relative to their revenues.

Decentralization of fiscal policy has become not only a mechanism for redistributing budget resources, but also a systemic factor in the formation of a new architecture of public administration. Its introduction in Ukraine has led to a significant transformation of the budget system, which has manifested itself in the redistribution of powers between levels of government, the strengthening of local government institutions, and the growth of the role of local budgets in the national economy. Among the systemic consequences, the following can be distinguished:

- institutional changes related to the formation of a stable system of local government bodies with their own financial powers;
- structural changes in intergovernmental relations, which ensured the transition from a subsidiary to a partnership model of interaction between the state and communities;
- economic effects in the form of increased fiscal capacity of territories, increased investment attractiveness, and strengthened financial discipline;
- social consequences, manifested in improved quality of public services, greater citizen involvement in the budget process, and enhanced local accountability.

The systemic consequences and results of fiscal decentralization in Ukraine are presented in Tables 1 and 6.

Table 6. Systemic consequences and results of fiscal decentralization in Ukraine

Direction of change	Systemic consequences	Results (2018–2024)
Financial and economic	Strengthening the tax base of communities, increasing the share of own revenues, reducing transfer dependence	The share of revenues excluding transfers increased by 13.9%, tax revenues by 13.6%, local taxes by 13.5%; the share of transfers decreased by 18.96%
Institutional	Formation of a sustainable system of financial self-government	Over 1,450 capable territorial communities with their own budgets and financial departments have been created
Legal	Harmonization of legislation with European standards, implementation of subsidiarity principles	have been made to the Budget Code (2014–2024), and the mechanism of basic and reverse subsidies has been established.

Social	Increasing the accountability of the authorities to citizens, transparency of the budget process	*Open* portals introduced *Budget* and *Boost Data,* increased the share of communities publishing budgets to 87%
Territorial and administrative	Transition to a polycentric governance model, strengthening the financial independence of regions	In 2021–2024, the share of local budgets in the consolidated state budget increased by 8.3%
European integration	Harmonization of national financial policy with EU practices	Ukraine has come close to the models of Italy, the Czech Republic, and Slovakia in terms of fiscal autonomy indicators

Source: created by the author based on Open data Budget (n.d.), State Statistics Service of Ukraine (2024), Ministry of Finance of Ukraine (2024), World Bank (2024), Boetti et al. (2012), Bucci et al. (2024), Vybíhal (2019), Psycharis et al. (2016), Miceikienė et al. (2021), Verkhovna Council of Ukraine (2014), Bondarenko et al. (2022)

Thus, fiscal decentralization in Ukraine has caused not only financial, but also deep systemic shifts in the administrative and institutional structure of the state. Its consequence was the creation of a new model of interaction between the state and local levels, where communities act as active development actors. The results of 2018–2024 indicate:

- increase in the share of local budgets in national finances to 10.7%;
- stable increase in own tax revenues and the share of personal income tax in community income;
- gradual decline in the role of transfers as the main source of financing;
- building the institutional capacity of communities for independent budget planning and control.

In a systemic dimension, decentralization has created a basis for strengthening the financial stability of regions, expanding the social participation of citizens in decision-making, and forming financially responsible local government. It has become a catalyst for Ukraine's integration into the European space of good governance and has established a strategic direction for the development of public finances based on the principles of subsidiarity, transparency, and efficiency.

Based on the results of the study, it is proposed to focus further scientific and practical developments on improving the system for assessing the financial autonomy of communities, developing a digital platform for monitoring local finances, and harmonizing the provisions of the Budget Code of Ukraine with European standards. It is advisable to provide for the introduction of indicators of the fiscal capacity of communities, improving the mechanism of basic and reverse subsidies, and expanding the territories' own tax base. Particular attention should be paid to the development of analytical tools for forecasting budget risks and the introduction of artificial intelligence technologies to increase the transparency and efficiency of public finance management. The implementation period of the proposals is 2025–2027, which will ensure the transition to a stable model of fiscal decentralization, adapted to European Union standards and focused on strengthening the financial independence of local communities.

Discussion

The results of the study confirm that the decentralization of fiscal policy in Ukraine has become a real factor in the formation of financial autonomy of local communities, but its effectiveness remains dependent on the balance between own tax revenues and inter-budgetary transfers. The identified increase in the share of tax revenues, in particular personal income tax (PIT), in the structure of local budgets indicates a gradual transition from formal to actual autonomy of communities, which confirms the hypothesis of the study about the need for financial decentralization as a condition for the real independence of territories. The results obtained are consistent with the conclusions of Boetti *et al*. (2012) and Onofrei *et al*. (2022), who indicate that fiscal autonomy increases the efficiency of resource allocation and the quality of management decisions at the local level. At the same time, in some aspects the Ukrainian experience contradicts the findings of Guo *et al*. (2022) and Psycharis *et al*. (2016), who warn that increasing autonomy can lead to deepening debt risks and uneven development of regions. In contrast to Southern European countries, where excessive decentralization has weakened fiscal stability (Miranda-Lescano *et al*., 2024), the Ukrainian model demonstrates more harmonious development thanks to the horizontal equalization mechanism and a balanced system of basic and reverse subsidies.

At the same time, Miceikienė's *et al*. (2021) thesis is confirmed that even with the growth of local budgets' own revenues, the level of dependence on transfers does not disappear completely – especially in communities with low tax potential. This indicates the need for further improvement of resource redistribution mechanisms to avoid increasing regional disparities. The experience of Italy (Bucci *et al*., 2024; Agasisti & Porcelli, 2023) demonstrates that the effectiveness of fiscal decentralization is achieved only if tax autonomy is combined with high accountability of local authorities, transparent spending rules and control over the results of budget activities – factors that are only gradually becoming systemic in Ukraine. A comparison with the models of the Czech Republic and Slovakia (Vybíhal, 2019) shows that it is the stability of the share of local taxes and partial delegation of state tax revenues that ensure the long-term financial independence of municipalities. In Ukraine, similar dynamics are observed after the administrative-territorial reform of 2020, however, stability in the growth of the share of own revenues in total revenues has not yet been achieved.

Thus, the results of the study support the hypothesis that the gradual expansion of local government tax powers and transparent redistribution of resources between levels of the budget system are key conditions for real decentralization. However, unlike most European countries, the Ukrainian model still remains mixed – with the dominance of vertical alignment and insufficient diversification of revenue sources. This limits the long-term sustainability of fiscal autonomy.

Further research should be aimed at identifying the links between the level of fiscal autonomy and the quality of public services, developing new indicators of the effectiveness of intergovernmental transfers, and assessing the impact of digitalization of the budget process on the transparency and accountability of local finances. This will not only theoretically broaden the understanding of the role of fiscal decentralization, but also form practical recommendations for increasing the financial sustainability of Ukrainian communities in the context of European governance standards.

Conclusion

The study has proven that fiscal policy decentralization is not only an administrative tool for redistributing resources, but also a fundamental factor in strengthening the financial independence of territorial communities. Unlike previous periods, the current model of budgetary relations in Ukraine demonstrates a gradual transition from a centralized to a mixed system, in which the role of local taxes is increasing and the dependence of communities on state transfers is decreasing. It has been established that the key indicator of real autonomy is not the volume of transfers received, but the stability of the share of own revenues in the general budget of the community, in particular personal income tax. The novelty of the study lies in the combination of a legal analysis of changes in budget legislation with a quantitative assessment of the dynamics of fiscal autonomy based on the revenue approach, which made it possible to substantiate the effectiveness of the gradual reforms of 2018–2024. The practical significance of the results lies in the possibility of using the system of proposed indicators (Table 1) to monitor the financial capacity of communities and adjust inter-budgetary policy at the regional level. At the same time, limitations of the study were identified – the lack of comparative data for individual territorial communities, differences in the structure of local budgets and the impact of martial law on budget dynamics. Despite these limitations, the results confirm the feasibility of further strengthening the tax powers of local authorities, improving horizontal equalization mechanisms and expanding the base of own revenues. A promising direction for further scientific studies is the study of the relationship between the level of fiscal autonomy, socio-economic stability of territories and the quality of public services in the context of European standards of financial decentralization.

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