



THE ROLE OF THE LOCAL BUDGET IN STIMULATING INVESTMENT

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Abstract: *Considered mechanism for allocating funds among the budgets of different levels in Ukraine. To ensure the growth of budget revenues with the current stimulating effect of the regional economy, local authorities should make emphasis on the development and support of investment processes. Indisputable is the fact that some time later these steps will have a multiplier effect on economic performance results also on budget revenues. That's why state support of investment development should be come a major aspect of the issues of the budget balancing, which lays the socio-economic development of the region for the future.*

By the early 90's local governments didn't have budget autonomy: territorial budgets were approved centrally, their balance was provided by means of individual standards incomes formation, and "planned deficit" was covered by central grants. Such a system could function only in conditions of central planning and direct administrative subordination of regional and local authorities. But this mechanism did not provide the effective provision of budgetary services and balance of the budget system, because at the regional and local levels there were no incentives for prudent and rational usage of budgetary money and the budget deficit and the responsibility for its coverage was shifted on a higher level budget.

Since the beginning of market reforms the situation has changed. Local budgets have been given basic articles of the budget expenditure. However, the share of local budget revenues in the consolidated budget of Ukraine for the period from 1992 has been continuously decreasing and was significantly lower than costs. Thus, most local budgets were approved with a deficit, so the question of scientific approaches to balancing the budget in order to ensure stable proportions of social and economic development has become particularly actual. Now a day this question is also of the same importance.

In terms of defining the process of the budget balancing, the most extensive and comprehensive is the thought of B. Karpinskii and O.Gerasimenko, who offer a theoretical definition of region's and states financial system balance: "The balance of the financial system in the region is a purposeful development and implementation of the measures of financial regional policy to ensure consistency between the real content of regional budgets and expenditures for livelihood development of the area "[1, p. 77-81]

Now days unbalanced budgets are also characteristic for some regions of a country. Although many local budgets are approved being balanced, there is such a thing as a "hidden deficit". It means that the municipal authorities substantially undermine the amount of money needed to finance the

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costs of municipalities – in the expenditures there are funds which are not relevant to current needs of the area. For example, in 2010, expenditures on health care in the Chernivtsi region were to only 116.3 million UAH, and practically the entire amount of these funds was spent for the maintenance of medical institutions, rather than their development, renewal of the vehicle fleet of ambulance station. [3]

The principle of the budget balancing provides its formation in accordance with the costs approved by budget that are provided by the total amount of revenues and earnings to finance its deficit. In fact, the main methodological principle of the development of local budgets is the determination of the level of budget expenditures based on the projected revenues. In the current conditions in practice revenues became but it contradicts the generally accepted theory of budgeting, where the costs are primary. Thus, in Chernivtsi region in 2005 the local budget deficit amounted to 2.267 million UAH, in 2006 - 6.231 million, in 2007 - 9.091 million. Further increase in the budget deficit continued rapidly and in 2008 a plan of planned budget deficit of \$ 20.811 million was adopted. In 2010 the situation was not better - the amount of equalization was 95.394 million UAH, that was 36.4 million UAH more than in 2009 [4] The question of stabilization of the economy, reducing the level of region donations and ensuring the local budget balancing appears particularly acutely, on the background of the growing budget deficit and reducing of government revenues as a result of legal budgetary and tax spheres.

The budget balancing is a complex multifaceted process by which financial possibilities and the needs for budgetary resources of various authorities are organized. The main methods of achieving balance of the budget are: 1) increasing revenues, 2) cost-cutting budget, 3) borrowing money. If the budget balancing provides a set of measures with the help of the budget system reaches equilibrium, equality of income and expenses of separate budget can be achieved mechanically by reducing funding for certain categories of expenditure according to the projected revenues at the stage of budget planning. Thus, a similar method to achieve a balance is not always able to ensure the effectiveness of budget financing and needs of the region within budget.

Questions of increase in income also don't have definite answer. For the last few years the structure of local budget revenues in terms of revenue sources is almost constant: the lion's share accounts for tax revenues a special fund, official transfers and non-payments are also included.

In most countries of the world the main source of the budget revenues are the tax revenues. So in the USA, Japan, France and Sweden, the main budget revenue of all levels are their own taxes (local taxes), that indicates their real financial independence. In countries such as Germany, Austria, Netherlands and others the most important revenues are regulatory taxes. Thus, local tax revenues in local budgets of the developed countries range from 26% in Germany to 65% in the USA in the budgets of local government in Canada local taxes provide about 40% of the proceeds of municipal budgets [5, 170].

Thus, in the process of the budget balancing in order to maximize the meeting of the region needs, special attention should be paid to the increase of budget revenues, rather than artificially understate the amount of spending, bringing it closer to the amount of projected revenues. At the same time the increase of the tax burden on economic entities may have the reverse effect - the shadow economy may start growing, small enterprises will become a bankrupt and stop their activities rates of regional economic development will reduce.

The focus in the implementation of measures to stimulate investment should be given to areas that can provide a much greater share of budget revenues. Paradoxical, is the fact that the sphere of agriculture, logging, finance, transport and communications and some other areas provide a relatively small share of revenues. In the field of transportation and communication significant reduction in income due to the abolition of transportation fees is expected. And this fact will result in nothing more than reducing of funding of transport, increasing of intergovernmental transfers and enhancement of the level of subsidy in Chernivtsi region.

For example, unresolved payment and settlement relations with partners affect negatively financial-economic transport activities. At the end of 2009 the amount of accounts receivable in transport companies totaled 493.1 million UAH, payables - 527.5 million UAH. It should be noted that the amount of accounts receivable and payable during 2009 increased by 13.8 times and 8 times

similarly. At the end of 2009 customers of transport services had a debt before the producers of transport services 42.1 million UAH that is 1.7 times more than at the beginning of the year. [4]

In 2009, for the first time in several recent years there was reduction of all major indicators of transport work: the volume of freight and passenger transportation, freight and passenger operation in all modes of transport, financial and economic situation in some of the transport companies remained unstable, was payment and settlement relations with partners unregulated, investment activity of transport enterprises has been declining.

In recent years, most of the funds are allocated to non-productive sphere, to the social consumption funds which are used mainly for salaries and social benefits. There is a sharp decline in public investment in manufacturing industry - investment functions of the budget system are dying, budgets are converted to consumer ones. Expenditures of consolidated budget of the region are not aimed at restructuring the economy. Limited revenues, inefficient use of resources determines the ratio of revenues and expenditures. As a result we have low level of local budgets income per capita.

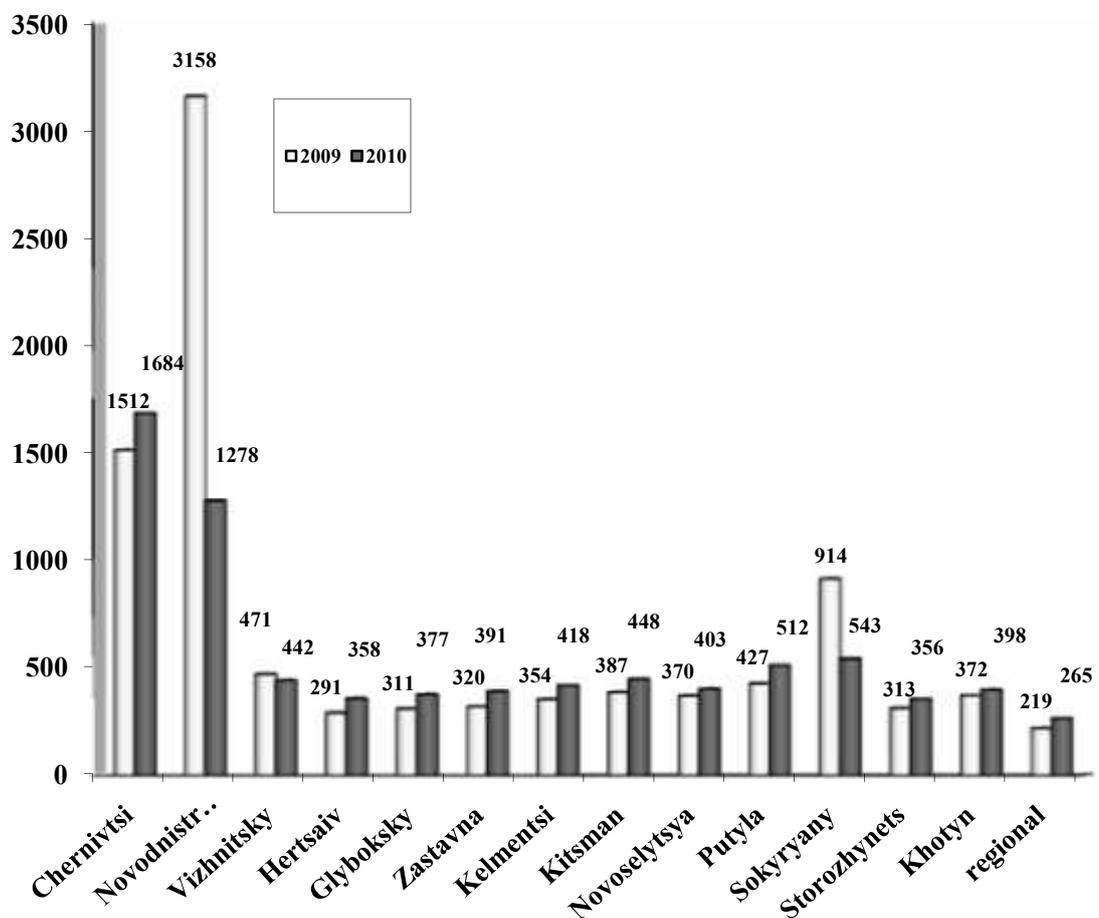


Fig. 1. The level of local regional budgets income per capita (UAH)

With the exception of region's towns (Chernivtsi and Novodnistrovsk), districts have a low level of local budgets income per capita. In addition, in 2010 in many areas there is a tendency to decrease of this indicator compared to 2009. This factor is evidence of consumer use of local budgets in recent years, as planned under-spend in trying to compare it with the amount of planned income leads to a simple reproduction of the productive forces of the region, sometime to their decline. In this situation it is difficult to plan the governmental support for investments, directed to the future.

In recent years in Chernivtsi region as a whole in Ukraine, there is a tendency in which the share of investments in development the sectors of the economy at the expense of local budgets is small. The volume of development budget is insufficient to have a significant positive impact on socio-economic situation in the region. In addition, development expenditures are directed mainly for capital repairs

and other activities that are not related to investment activities and investment in investment is mainly residual, is unjustified and does not contribute to the creation of adequate conditions for improving the socio-economic potential of the region and creating conditions for replenishment of budget revenues in the future. Due to lack of financial resources the development of budgets in Ukraine didn't win the significant practical implementation. Implementation of budget development programs remains largely on paper. The only thing that local authorities expect is a part of investment subsidy that comes to the areas from the state budget. Thus, the dependence of local budgets of subsidized regions from the central government does not give any opportunities for making independent decisions in the field of investment in the economy [6, 35].

There is a need for a careful approach to the analysis of sources covering the budget deficit and avoiding practice of artificial reduction of planned expenditure of the budget for leveling them up with amount of projected revenue. Do not approach unilaterally to the concept of "balance" only from the quantitative side, as at often occurs in economic literature. Great importance for the functioning of the budget system is the quality of achieved balance in the budget. In economic literature the notion of budget quality as the ratio of the parameters of current and capital expenditures { 1,p.45} is used. However, this interpretation is too narrow and does not disclose the concept of the quality of the budget, which is embedded in its content.

Quality (rationality) balanced budget at any level of the budget system is characterized by a balanced ratio of planned income and expenditure. It allows to fulfill the budget without additional borrowing and thus ensures the full financing of the national economy, social and cultural events and institutions, government and management of public institutions and strengthening the national defense.

The main role in achieving high-quality balanced budgets of lower levels rests with the supreme government, as only it can use economic, monetary and fiscal policy for this purpose, while at the regional level authorities have much less opportunity and they originate in their actions of the opportunities that central management provides them with. That is why, only the supreme government of the country can build an effective policy of government loan and hence-to finance relatively painlessly the budget deficit.

The budget system of any country operates under unbalanced budgets of lower levels. To balance the budget system at the country level, the "overflow" of budgetary resources inside levels of the budget system is needed. However, the "overflow" of budgetary resources cannot be arbitrary. The mechanism of its implementation should be clearly worked out and adjusted. And for the reason of its analysis, we distinguish vertical and horizontal imbalance in the budget system.

Vertical imbalance in the budget system is embedded potentially in any of its models because of the differences of functions performed by different levels of government and discrepancy in responsibility-range of finance charges and tax collection capabilities at the local level. Rational distribution of functions according to levels plays a significant role in reducing of budget imbalances at lower levels of government.

Horizontal imbalance of the budget system objectively is due to various location of units as a result of their historical, geographical, economic, natural or other features. First of all, this imbalance is manifested in the differences in tax potential of the areas. At the same time various territorial and administrative units may have different amounts of needs in social services. In general, significant horizontal alignment of distinction is important especially in terms of social justice and equal living conditions. On the other hand, it has a nationwide economic impact as it also prevents economic losses associated with migration of population and capital. Therefore, the horizontal alignment of the budget system imbalance is realized in the national interests, and promotes the country.

Renewal of investment activities of domestic investors, which is observed in recent years, has no significant impact on sustainable economic development, and amounts of invested funds do not meet their needs. The structure of domestic investment of the region indicates the practical completeness of stimulating factors to their extension. The main source of investment, are still the companies' own funds. Investment processes in the region are the most promising source of socio-economic development of the region and have a multiplier effect to increase the revenue sources of local budgets.

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