

Varazdin Development and Entrepreneurship Agency
in cooperation with
Azerbaijan State University of Economics (UNEC)
University North
Faculty of Management University of Warsaw
Faculty of Law, Economics and Social Sciences Sale - Mohammed V University in Rabat



Economic and Social Development

37th International Scientific Conference on Economic and Social Development –
"Socio Economic Problems of Sustainable Development"

Book of Proceedings

Editors:

Muslim Ibrahimov, Ana Aleksic, Darko Dukic



Baku, 14-15 February 2019

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THE ELEMENTS OF THE MECHANISM OF BUDGETARY REGULATION AND STRATEGY OF BUDGET POLICY MANAGEMENT

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ABSTRACT

Purpose of the study - The study of the budget mechanism and its elements, the study of methods for the formation and expenditure of financial resources at all the levels of the budget system.

Methodology - Comparison, synthesis and evaluation.

Results of the study - One of the most important tasks of reforming of the budgetary system is the creation of an effective budgetary regulation mechanism at all its levels, taking into account the nature and features of intergovernmental fiscal interactions. The peculiarity of the processes of reforming of the state bodies and the system of relations in the financial and budgetary sphere predetermines the need for rational distribution of revenue powers between the levels of the budget system, filling the revenue sources of the budgets, whose main share is tax revenues, and attracting non-tax revenues to the budgets.

Keywords: *budgeting, budgetary policy, budget revenues and expenditures, state control*

1. INTRODUCTION

The Paper discusses the development of national economics and the mechanisms of its effective regulation by the state. Particular attention is paid to the study of the role of budgetary regulation of macroeconomic processes. The Paper also notes that effective budgetary regulation, in general, the most priority issue in the system of economic management mechanism of the economy. The normal development of the national economy is largely depends on orderly regulation by the state. So, even at the maximum level, the liberalization of the economy does not deny the participation of the state in the management of economic processes. The fact that each state has its own interests and priorities makes it necessary for the state to intervene in all areas of public life. But even this intervention itself must have certain limits. If the economy is too monopolized by the state, then the sense of responsibility of both individuals and economic entities decreases, and they would have no interest in achieving better results, since, the state is not able to evaluate everyone's work equally honestly and fairly. The system of state regulation of the national economy should, in general, determine the level of state influence on economic life. Without the presence of such a regulatory system, it is impossible to effectively coordinate activities for the formation of market relations.

2. PROBLEMS OF STATE REGULATION OF THE NATIONAL ECONOMY WITH THE HELP OF THE STATE BUDGET

With the formation of the economy of the republic in accordance with the principles of a market economy, the development of a diverse economy in our society, the creation on an equal basis of conditions for the activities of various forms of ownership, the privatization process has accelerated. In order to increase the effectiveness of the measures taken in connection with the development of the republic's economy, the state pays special attention to the regulation of economic development and its main component.

In the transition to a market economy, the role of the state in the economic revival of the republic, in establishing international relations, in the total volume of imports and exports and in the development of free enterprise is undeniable. In the modern world, in the conditions of the market orientation of the economy of the republic, a fundamental change of the management mechanism is needed. The transition to a market economy with a mixed economy transforms the state regulation of the economy into a specific management tool. In our conditions, i.e., in the period of formation of market relations on the part of the state management bodies with the help of programming, mechanisms of influence on the development of the national economy should be used in fullest extent. Budget regulation, in general, the most priority issue in the system of economic management mechanism of the economy. As we know, the budget system, being an important management mechanism in a market economy, is formed on the basis of state principles. Budget regulation in general is used to organize the activities of the economic system, to stimulate production and to improve the principles of separation. The scientific substantiation of its limits, analysis and management of factors and outcomes should be based on a number of methodological and practical features. Budgetary regulation has features inherent in each country. In a market economy, the tasks of managing the state budget, revenues and expenditures became even more complicated, and as a result, they faced serious social and economic problems. And therefore, the strategy of managing income and expenses should be worked out and evaluated from the prism of the most important economic and production problems. It is this approach that will enable the creation of a clearer picture of the complex nature and content of the budgets and budgets of the state budget, and, as a whole, the state budget. The budget system is being formed in accordance with the economic system and the political organization of each country. In general, there are "traditional", "performed" (or "executable") and "programmatic" budgetary systems. Traditional budgetary systems mainly provide a control over the implementation of the costs stipulated by law. In other words, the control function plays a leading role in this system. Support for economic activity is one of the current issues in the transition period. And, from this point of view, it is advisable to study the "performed" budget systems, which is also called an "executed" budget system. This budget system is made up as a working program. The executable budget systems have two elements: the classification per services; service-financial connection. The "programmatic", or "planning-program" budget system, unlike the earlier marked budget systems, additionally provides the use of the budget as a strategic program. Here, it is possible to analyze alternative service programs and select the best from a macroeconomic point of view. The basis of this budget system is a system analysis. In other words, if the performance of services is known to achieve any specific goals in the public sector, if attention is given to alternative approaches helping to achieve the goals, if the goals are long-term and if the performance of existing service programs is adequately evaluated, decisions related to the distribution of sources of funds will be more optimal. In general, the budget system expresses the combination of all types of budgets united in the budget of each country. The creation of a budgetary system and the organization of interconnections between its various links express budget construction. Budget construction reflects the mechanism by which the budget system is built. With traditional fiscal policy, it is very important to keep the state budget balance constantly. If the state wants to influence national income, then it must bring the supply and demand for labor to the level that can change the cumulative production. Due to the fact that it is impossible to achieve technical progress that affects the growth of cumulative production, population growth through fiscal policy, fulfilling traditional tasks and ensuring that taxes do not affect the level in economic activity financing of these services, a small but balanced fiscal policy is consistent with the requirements of traditional fiscal policy and theory. Issues of improving budget planning should be implemented in unity with issues of the public administration. The basic condition for the successful implementation of the program-target approach is the implementation of financial

discipline in the implementation of adopted budgets. The main problem for the successful application for result-based budgeting is the difficulty of determining the socio-economic results of the activities of state enterprises, as well as a lack of unified system of goals and indicators, imperfection of the accounting system and of information national security. As it is known, fiscal policy is a regulatory system associated with government spending and taxes. State expenditures refer to expenditures for the maintenance of the institute of statehood, as well as for the purchase of certain goods and services by the state. It can be different types of contracts, for example, the construction of schools, health facilities and cultural facilities, and the purchase of imported goods, military equipment at the expense of the state budget. The main distinguishing feature of all these orders is that the state itself is their consumer. Usually, government contracts are made up of two kinds: less or more stable. Government spending plays an important role in the socio-economic development of society. Therefore, the issues of increasing the efficiency of government spending, their regulatory role in ensuring socio-economic development, the formation of a new quality of economic growth is very relevant/important. Much has been said about the need for systemic changes in the budget process. But, due to various reasons, this problem still remains unsolved. At the same time, it can be said that certain steps have been taken to revise the restructuring of the public sector. The essence of the new approach to the budget process is simple and clear: the costs are not for the sake of costs, but the costs for the sake of achieving concrete results. To achieve this goal, we consider it necessary to solve the following tasks:

- Optimization of the network of budgetary organizations. This is the restructuring and introduction of new forms of financing of budgetary organizations.
- The solution of this task is certainly more complicated and requires the implementation of certain innovations in the current budget legislation. The Ministry of Finance should systematically address this issue;
- Development and use of results-based financing methods.

The decline in GDP in the economies of the newly independent states, the spread of the process of national reproduction, the breakdown of ties between production and financial systems, the deterioration of the socio-economic position of the population is due to these reasons (1). Sometimes, the regulatory role of the state in the economy is associated with its role in production and the level of the share of state ownership. Such an assessment in terms of the role of the state in the monetary system and the effective use of public finances is wrong. This is because the role of the state in the economy is not adequate to the level of state ownership over the means of production. Here, the main thing is the level of national income in the form of public finance. The analysis shows that, in the developed countries of the world, the share of government growth in GDP does not decrease, but develops at an increasing rate. This figure is 30% in the USA, 60% in Denmark, 54.6% in France, 53.7% in Belgium. In a developing market economy, there is no alternative to increasing government spending in GDP and saving strategies. A policy of reducing this government spending itself will result in general reduction of all expenditures, including vital items of expenditure. It is clear that a decrease in capital investments in high-tech projects from the state, budget allocations for the maintenance of the infrastructure providing basic funds will lead to deterioration in the prospects for economic development. At the same time, the decrease in the state sector engaged employees' real wages will cause a decline in labor productivity of those working in this sector and the emergence of social conflicts. It is necessary to take into account that it is difficult to estimate and measure the majority of budget expenditures at market rates. Produced products cannot be quickly realized (sold). In general, non-production state expenditures can be costly for a country's economy. In the modern conditions, new elements are constantly being added to the state financial mechanism that requires the appropriate settlement and control tools.

At this stage, state finances must again be transformed from the category of distribution into the category of reproduction. Government finances do not simply fulfill the function of government provision. It is also an effective element of reproduction processes (4). Integration to the global financial market requires the development of the mechanism of adaptation and of mechanisms for the protection of national interests in the field of state finances. Long-term definition of the concept of a budget strategy is a very difficult issue. In the world practice, there are no long-term financial forecasts. There are a number of objective reasons related to the nature of financial and budgetary processes.

3. METHODOLOGICAL AND PRACTICAL FEATURES OF THE BUDGETARY REGULATION

Economic theory's history knows no purely financial patterns/laws that would allow predicting the financial and economic situation for a quarter of a century. But this does not mean that there is no scientific basis and no impartial need for long-term forecasting. The forecasts of the budget sphere are essentially based on the connection of the budget strategy with the laws of general reproduction and economic growth. The dependence of the dynamics of budget revenues on the overall dynamics of GDP and on business activity reflects the determination of the sphere to common economic laws, which are the first methodological principle. As noted, there is an objective relationship between the level of GDP that reflects the scale of the reproduction process and the amount of financial resources of the state that serves this process. The second methodological principle is the dependence of economic dynamic on the typology of budget strategy and on real budget proportions. This principle is essentially crucial for long-term budget forecasting. The budget strategy should not only passively reflect market processes, but, on the contrary, have to form common economic limits. The third methodological principle is forecasting on the basis of the internal intensity of budgetary relations and the internal factors of the budgetary tax system of budgetary dynamics. This means that the projected budget-tax potential and proportions depend on the use of the internal resources of the existing budget system. The fourth methodological principle is a socio-political accounting of forecasting. In our opinion, the basis of the financial system and the restructuring of the budgetary regulation should constitute the following principles:

- Creating a stable system of financial relations;
- Restructuring should be holistic/complex character and should ensure close links between all elements (financial infrastructure, government finances, insurance organizations, pension funds and other financial institutions) of the financial system;
- Limited resources makes it necessary to use the principle of centralization of financial resources;
- The restructuring of the financial system should mainly be carried out at the expense of internal sources. Foreign loans and investments should play a supporting role.

In our opinion, in the condition of integration, a systemic update of the tax mechanism for improving budgetary relations is one of the factors creating conditions for economic growth. For these purposes, it is advisable to take the following measures:

- The expansion of the tax base by coverage of the "shadow" sector ("shadow economy") of the economy;
- Reducing the tax burden for the real sector of the economy;
- Standardization of tax legislation and tax reports;
- Gradual decrease and differentiation of rates for profits and for VAT;
- Differentiation of income tax for individual sectors of the economy.

4. CONCLUSION

The implementation of the correct fiscal policy can lead to an increase in budget revenues, and a decrease in budget expenditures. To achieve a positive balance (surplus), a number of reforms and programs should be prepared within the framework of the budgetary system. Macroeconomic indicators, directing fiscal policy, reflects the achievement of faster economic growth, the identification of additional sources of budget revenues, an increase in direct participation and influence of the budget, increased financial discipline and transparency, reduced poverty, improved application targeted social assistance and the creation of financial conditions for the development of entrepreneurship and regions. One of the main goals in the budget policy is improving the well-being of the population, increasing incomes and the level of employment, turning the state budget into the main financial source as well as into an economic tool for managing the economy and stimulate its dynamic development (2). One of the primary steps taken to increase the volume of the budget and in general to improve the budget process is to increase control over budget expenditures. Because the lack of proper control over budget expenditures can lead to the growth of corruption opportunities, the legalization of a large amount of illegal incomes, and even to more monopolization. As a result, the state budget revenues will decrease, and in general the economic entity called the budget process will begin to bear a formal character. Thus, in order to achieve progressive movements in the development of economy, the development of effective mechanisms for the implementation of these tasks in the field of fiscal management is of strategic importance. Conducting this control will lead to the concentration of state revenues in the state budget, and this in turn will lead to a reduction in poverty, the continuation of structural reforms in the economy, an increase in budget revenues, ensuring social and investment orientation of budget expenditures, transparency and effective management of expenditures. And in the future, conducting a successful budget/fiscal policy will ultimately have a positive effect on the development of the state from an economic point of view.

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